



# Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

Our Weekly Paid Newsletter



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**I am in a pessimistic mood today because it is getting close to crunch time for most investors in so many ways. So if you are feeling good maybe give this column a miss! But it does get better.....**

For the majority of readers of this column who live in South Africa – or at least for those not fortunate enough to live in DA-governed municipalities – it’s an ongoing issue of crumbling infrastructure and haphazard service delivery which underlies their pessimism. But the global picture is just as troubling, ranging from monetary collapse to incipient signs of a new cold war.

And locally it is now getting worse because informed commentators are warning us that critical events like last year’s July riots are again a very real possibility because ANC politicians, who have never demonstrated much ability to efficiently administer the country, are now entirely distracted by the leadership race towards the year-end party election meeting and a very real war within its leadership.

Personally, I have always taken comfort in the fact that South Africa has, despite its problems, always had centres of excellence where I could invest my savings and these in turn have allowed me the security of being able to buy quality services. But when businesses like Pick N Pay publicly confess that they are struggling to insure shops in many municipalities because of ineffective fire protection and uncertain water supplies even if their fire departments are capable, then the firm foundations upon which my portfolios are built, are crumbling.

And that is no isolated example; South Africa’s largest poultry producer Astral Foods has been forced to spend an un-necessary fortune on ensuring water supplies for its processing plant in Standerton because the Lekwa municipality cannot. Clover Dairies is another which gave up hope of ever being able to run its factory in Lichtenburg because the Ditsobotla Municipality was totally unable to provide services. And these are just the most obvious cases.

Now, with the release of the final Zondo Commission report, our severely-challenged prosecuting authority which has to date failed to put a single high profile politician behind bars, is facing threats of the country being rendered ungovernable if it moves against those Zondo has named.

Most South Africans are, furthermore, trapped. Even if they wanted to follow children who have emigrated to better-managed countries, the great majority of ordinary folk cannot because a Rand that was worth R3.52 to the US dollar when the ANC assumed power in South Africa, now stands at R15.86 and has left them too poor to live elsewhere.....a loss of more than three quarters of its 1994 value. My graph tells the story more eloquently than I can:



It gets worse. Most countries which prioritize the needs of their ordinary citizens do not have a punitive tax system which punishes folk who need to prudently tend their investments. Everyone understands that there is a natural cycle in business which can be highly profitable to investors who have the wisdom to back start-ups when they are just beginning their profits rise. But inevitably there comes a time when such businesses mature and profits slow...or their operating environments change as the case of Chinese tech company Tencent which has just disclosed a 51 percent profit plunge because Chinese antitrust authorities recently got interested and not only started to block mergers but also fined the company for dozens of mergers it made years ago. They have also insisted that Tencent allow competitors into its operating environment.

Now, as most South African investors well know, our Naspers/Prosus conglomerates own 28.9 percent of Tencent which, until recently was providing them with untold riches. But this week the latter have told their shareholders that their core headline earnings for the year are expected to be down 14%-21%. Investors have, furthermore, long anticipated this slow-down of one of the world's topmost money machines. My graph below tells the story of Naspers' decline since February 2021 which, at its worst on May 6 this year saw the shares down 62 percent from a peak value of R3 834.86 to a recent low of R1 459.71.

The technical signs urging investors to sell came back in May last year when the price fell below the green support line which had long underpinned the shares with an annual compound 17.5 percent growth rate. However, the average South African investor was sitting with such enormous historic capital gains that selling at that point was simply unthinkable because the tax man would likely collect more than they stood to lose if the shares fell further....or so they thought!



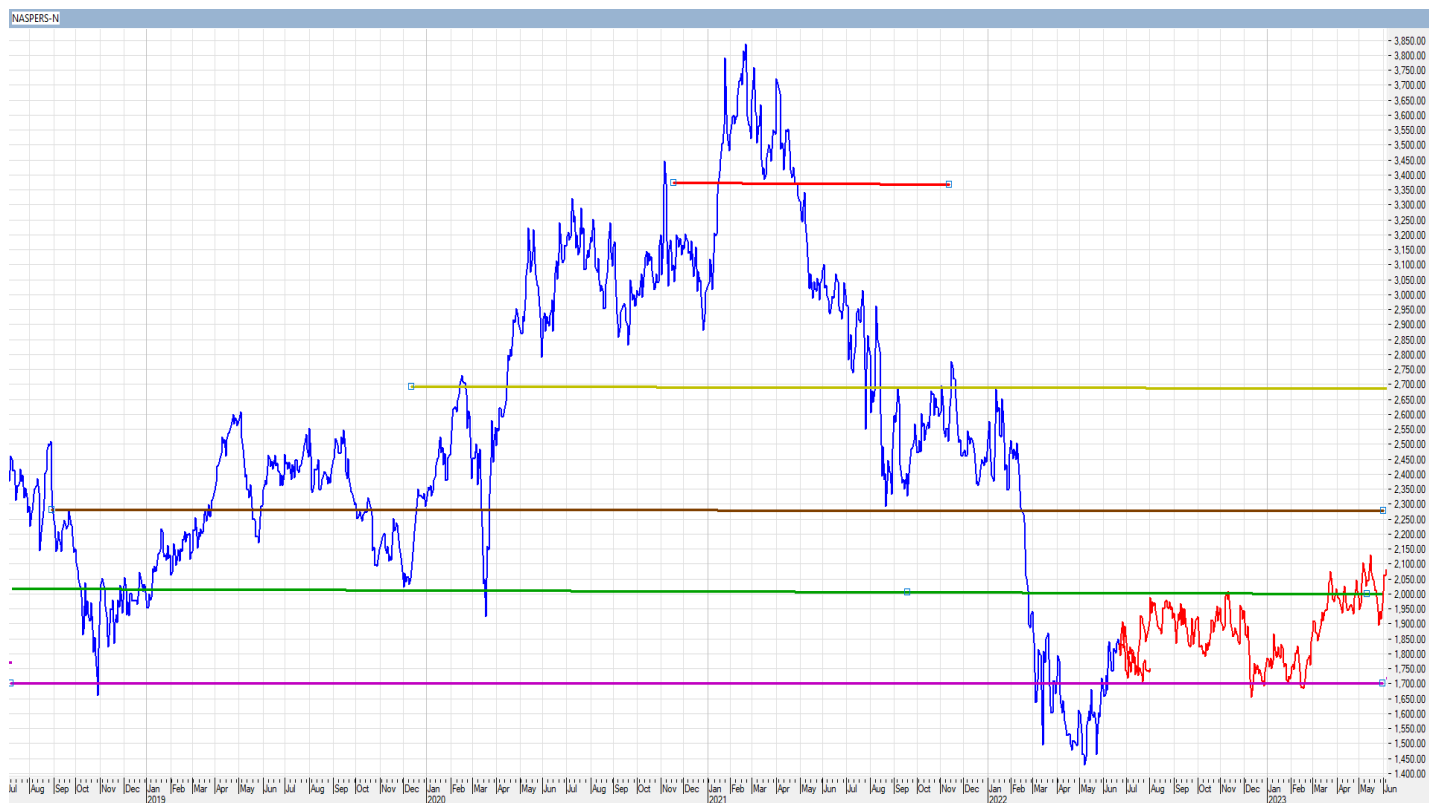
At that point the shares were standing at R3 123.88. If you take the example of the Prospects Portfolio which so many of you faithfully emulate, I bought Naspers in March 2011 at R357.14 and sold half our holdings in 2017 at R3 036 when I first sensed trouble ahead so I was able to lock in a profit at close to the peak price.

But it was an unpopular move because of the capital gains tax consideration and many chose to ignore that transaction in mirroring it into their own portfolios. However, let's for the purposes of illustrating the punitive effects of Capital Gains Tax, assume that some smart investors got the message about Naspers and decided to sell at their peak price of R3 888 on January 5 2021. Their gain per share would have been R3 530.86 and so, assuming the shares were held in their own name as distinct from a company or a trust, they faced CGT at 18 percent. The Tax Man would thus have collected R635.55 per share. I have marked that position with a red trend line on the following graph and it clearly shows that it would not have been too harsh a price to pay considering the carnage that was to follow.

Now I have currently penciled in a sale of a portion of the Prospects Portfolio holdings in Naspers at a cheeky R2 000 based upon ShareFinder's current projection that the shares will get there in the next few weeks considering the huge buying that is currently taking place. A consensus of fund managers thinks that the upside of Naspers is currently 47.2 percent which could take the shares to R2 690.21 so there should be adequate room for Prospects Portfolio followers to get out at R2 000 and, amid a sea of red, Naspers shares were continuing their climb this week, trading at R1 854 when last I looked – the highest they have been since the April low of R1 421.74.

A sale at R2 000 would thus trigger a CGT cost of R295.71 for those who bought the shares at R357.14. So, in the Naspers graph below I have drawn in a red line which illustrates the CGT cost if investors had sold at the peak in February 2021. Below that, the yellow trend line marks the level that fund managers think the shares could peak at in the foreseeable future. The green line represents the sales figure I have penciled in and the purple line shows the post-CGT consequence of a R2 000 sale.

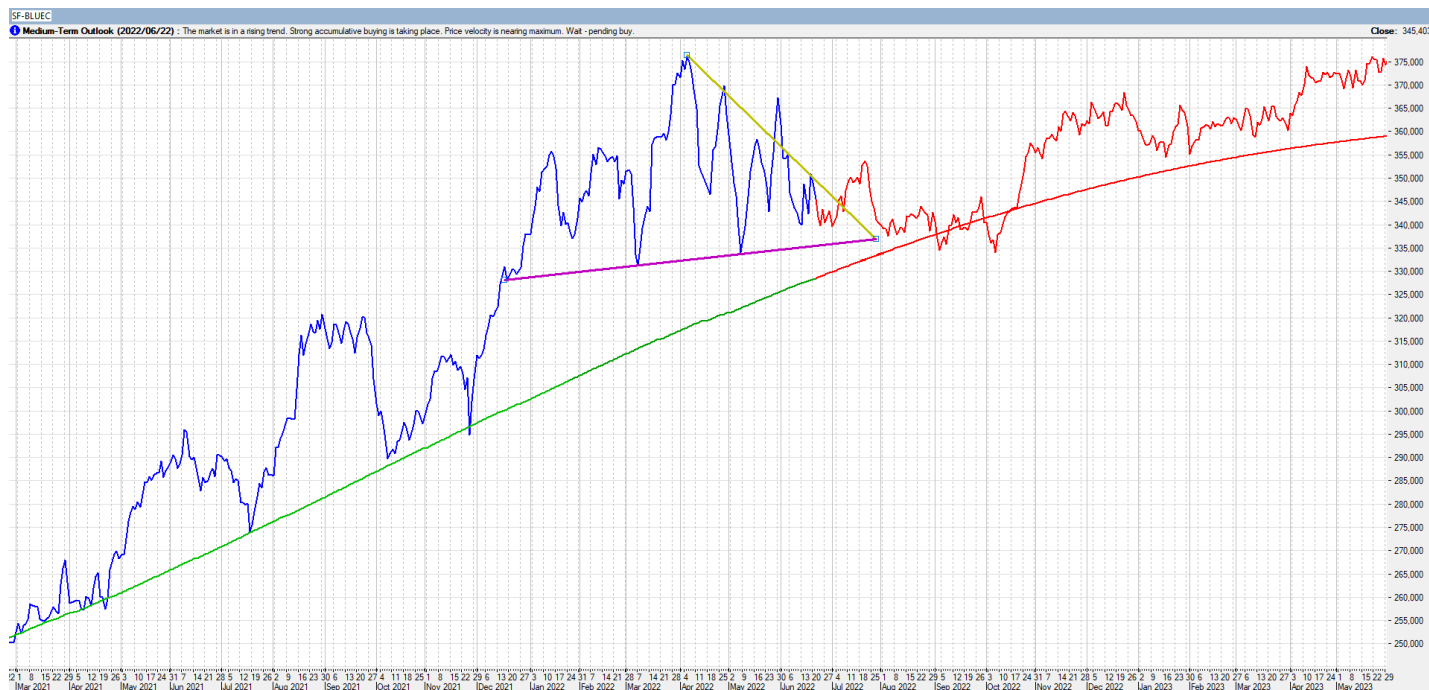
Finally, the brown line shows the consequence of a R2 690.21 sale if, a **big if** I think under current circumstances, the shares were to recover to that level. However, a change from the current pessimistic circumstances surrounding the outlook for world peace involving Chinese Premier Xi Jinping who, like Cyril Ramaphosa is having to make many political concessions right now because he too is seeking re-election, might just clinch such an upward surge. (According to former diplomat and author Roger Garside, the Chinese president Xi's opponents are also taking advantage of the country's internal troubles to undermine him.) Furthermore that yellow line is a critical resistance level which, if breached on the up-side, would likely see both Naspers, Prosus and Tencent restored to something like their old vigor.



It's a gamble which I am personally prepared to take because I am at heart an optimist. And in that vein I sense that a South Africa that is thoroughly fed up with the ANC will over the next two years steadily replace the ruling party from most municipalities with a coalition of Ramaphosa-orientated reformers in a grand coalition with the DA. Ahead of that I like to think that Ramaphosa will, once he is sure of his re-instatement until 2024, move swiftly to remove dinosaurs like Gwede Mantashe and Lindiwe Sisulu and accelerate reform in this country. It is, after all, South Africa's only hope of ending unemployment and the only course that could offer Ramaphosa a better legacy than his current one of being seen as weak and ineffectual...or worse!

If you think that is too optimistic by a country mile then please take time to study my last graph which gives us the latest position of the ShareFinder Blue Chip Index. Against a background of world markets which are in a serious bear trend which has seen New York shares lose over 21 percent, our Blue Chips are down a mere eight percent currently.

More importantly, pay attention to ShareFinder's artificial intelligence projections in red which, both in the medium and long-term projections, see steady gains in the future. Even more important, the medium-term red projection is pictured to break upwards out of the confines of a pennant, traced out in mauve and yellow, on around July 6 which suggests there will be steady gains in the future.



As most readers fully understand, ShareFinder is very seldom wrong and it has become my very strong guide whenever the news is dark and ominous.

Finally, if I am being optimistic, let me dream of a new leadership in South Africa which recognizes the vital value of investor friendliness and so either scraps Capital Gains Taxation in its entirety – it yields little revenue anyway – or at least falls into line with progressive countries around the world which only level the tax if the proceeds of the sale of investments are NOT re-invested. I do hope shadow Minister of Finance Geordin Hill-Lewis is listening!

## The month ahead:

**New York's SP500:** I correctly predicted the start of a short recovery which I hoped would last until the end of the month. Now I see a short retreat before the recovery resumes but it is likely to be followed by gains until mid August.

**Nasdaq:** I correctly predicted continued declines with little letup in the next 12 months.

**London's Footsie:** I correctly predicted a brief recovery which should last until the end of July. Overall, however the dominant trend remains down into the New Year.

**France's Cac 40:** I correctly predicted a downward trend. Now I see a brief recovery until the end of August ahead of longer-term declines until the New Year.

**Hong Kong's Hangsen:** I correctly predicted the brief recovery was over until early-July. Longer-term I see gains until the end of September before global uncertainty begins to bite once more taking the market down until next April

**Japan's Nikkei:** I correctly predicted declines. In the interim I now see a recovery until mid-July ahead of the next downward slide until the end of September.

**Australia's All Ordinaries:** I correctly predicted declines which I now expect to last until January. However, in the medium-term I now see a sideways trend until the end of October.

**JSE Top 40 Index:** I correctly predicted the start of sporadic gains until the end of October ahead of declines for the rest of the year.

**ShareFinder JSE Blue Chip Index:** I correctly projected the end of the decline ahead of a brief recovery until mid-July and then another decline until the first second week of September. However I do not see the bottom until early October.

**Rand/Dollar:** I correctly predicted short-term weakness to mid-June followed by another last-gasp recovery until the end of the month ahead of weakness until the first week of August when further gains seem likely.

**Rand/Euro:** I correctly predicted a second phase of weakness which I still expect to last until the end of July ahead of three months of gains.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.7 percent. For the past 12 months it has been 94.94 percent.***

# ***Why China's Xi Jinping's damage control is all about heading off a crisis***

**By Frederick Kempe**

**For President Xi Jinping, dispatching his special envoy to Europe for a three-week charm tour was just one of many acts of high-stakes damage control ahead of the 20<sup>th</sup> Chinese Communist Party Congress this autumn.**

Xi's economy is dangerously slowing, financing for his Belt and Road Initiative has tanked, his Zero Covid policy is flailing, and his continued support of Russian President Vladimir Putin hangs like a cloud over his claim of being the world's premier national sovereignty champion as Russia's war on Ukraine grinds on.

Few China watchers believe Xi's hold on power faces any serious challenge, but that's hard to rule out entirely given how many recent mistakes he's made. So, Xi's taking no chances ahead of one of his party's most important gatherings, a meeting designed to assure his continued rule and his place in history.

European business leaders understood that as the context for their recent meetings with Wu Hongbo, the special representative of the Chinese government for European affairs and former UN Undersecretary General. His message was a similar one at every stop: Belgium, Cyprus, the Czech Republic, France, Hungary, Germany, and Italy.

"The Chinese want to change the tone of the story, to control the damage," said one European business leader who asked to remain anonymous due to his Chinese business interests. "They understand they have gone too far."

The businessman described Wu, with his fluent and fluid English, as one of the smoothest, most open, and intellectually nimble Chinese officials he's met. At every stop, Wu conceded China had "made mistakes," from its handling of Covid-19, to its "wolf warrior" diplomacy, to its economic mismanagement.

His trip came as concerns in China have grown about "losing Europe" in the wake of Putin's invasion of Ukraine.

The public mood has shifted sufficiently to have Finland and Sweden knocking on NATO's door, and the European Union this week embracing the prospect of Ukraine's membership candidacy. Wu's visit was also something of a mop-up operation following a failed visit by Chinese official Huo Yuzhen to eight central and east European countries. In Poland, he was refused a meeting with government officials.

Germans and their political leaders — Europe's most significant target for Chinese diplomats and business — are raising new questions about everything from investment guarantees for German business in China to specific projects like VW's factory in Xinjian province, home of human rights abuses against the primarily Muslim Uyghur population.

Though Wu addressed Putin's war in Ukraine only indirectly, his message was designed to reassure Europeans that they are preferred partners, as opposed to the United States. His bottom line: China will always be China, a country of growing significance and economic opportunities for Europe.

Yet lost ground in Europe is just one of many gathering problems President Xi faces [ahead of his party congress](#), which will determine the country's economic, foreign policy and domestic agenda for years to come.

The party congress is likely to provide Xi a third term, a move that follows a 2018 decision to scrap term limits. What's more likely to reveal the extent of Xi's power, [writes](#) Michael Cunningham of the Heritage

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Foundation, is whether he can put his allies in key central bodies, primarily the Politburo and the Politburo Standing Committee, as retirement norms ensure considerable turnover.

However the Congress turns out, there is growing talk among China experts about whether we are entering a period of “Peak Xi” or even “Peak China.” There’s growing evidence that he and the country he represents (and his approach has been to make the two inseparable) [have reached the height of their influence and reputation](#).

Nothing will determine the outcome more than how Xi manages China’s economy, which is the foundation for the country’s far-reaching global influence as well as the Communist party’s domestic legitimacy.

Former Australian Prime Minister Kevin Rudd, one of the keenest China-watchers anywhere, sees China’s economic prospects weakening due to a chain of factors. They include at least 10 Chinese property developer defaults, and Xi’s crackdown on **China’s technology sector, which has cost it \$2 trillion in market capitalization of its 10 biggest tech companies over the past year.**

Moreover, Putin’s invasion of Ukraine has sent energy and commodity prices soaring and has snarled supply chains, “terrible news for the world’s largest manufacturer, exporter and energy-consuming economy,” Rudd wrote recently in The Wall Street Journal. Add to this Xi’s insistence on China’s Zero Covid strategy, which led to mass lockdowns.

Rudd concludes that this combination of factors is enough to make Xi miss his 5.5% growth target and perhaps even grow more slowly this year than the United States. “For Mr. Xi, failing to reach the target would be politically disastrous,” writes Rudd.

Xi’s damage control on the economic front has included fiscal and monetary stimulus and infrastructure spending to grow domestic demand. **A recent meeting of the Politburo also suggested some coming relief from the regulatory crackdown on China’s tech sector.**

Yet none of that will be enough to reverse Xi’s cardinal sin, and that was his dramatic pivot to stronger state and party controls.

Writing in Foreign Affairs, the Atlantic Council’s Daniel H. Rosen, who is a founding partner of Rhodium Group, argues, “China cannot have both today’s statism and yesterday’s strong growth rates. It will have to choose.”

[Adds](#) Craig Singleton this week in Foreign Policy, “China’s fizzling economic miracle may soon undercut the (Communist party’s) ability to wage a sustained struggle for geostrategic dominance.”

There’s not much time left for damage control before Xi opens his party Congress in the Great Hall of the People. He’s likely to get the vote he wants, but that won’t solve the larger problem. It has been his leadership and decision-making that have generated China’s challenges, and he’ll have to correct course if he is to restore economic growth at home, revive his international momentum and avoid “Peak Xi.”

— [Frederick Kempe](#) is the President and Chief Executive Officer of the Atlantic Council.