Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 36th year of service to the investing public of South Africa

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In the week of a public uproar because Tourism Minister Lindiwe Sisulu is planning to spend a billion of our hard-earned Rands to sponsor an English soccer team, it has also emerged that Eskom is being forced to pay top dollar for all the emergency diesel it is burning...seemingly with the connivance of the ANC Government.

Furthermore, citizens action group Outa has been forced to go to court to try to get details of the agreement struck between the Government and Karpowerships which could cost the country R200-billion and lock us in for the next 20 years.

And all of this is happening at a time when the ANC has thrown municipal ratepayers of this country to the wolves as it fights to gain control of our towns and cities....presumably so that the incompetence and plundering might continue unabated!

If to you it sounds ominously like a corrupt political party which knows its days are rapidly running out, scrambling to steal as much money as it can before it is ignominiously booted out of power, then the likelihood is you are correct. But seemingly a leadership that is punch-drunk with power does not understand that criminally-structured contracts can be overturned by the courts once honest politicals regain power and sanity returns to the country.

But for now we have to thank the tireless journalists who are constantly uncovering ANC plunder. Without them it would likely all have continued mostly un-noticed until South Africa was a completely failed state. At least now, at five minutes to midnight, we still have the democratic power of the ballot box to empower gatvol ordinary citizens to kick out the thieves at the next election....while there is still some capacity to resurrect the old South Africa where things usually worked!

Small consolation though that most of the world is in a similar political mess. For context note that the 2023 Edelman Trust Barometer which annually surveys what the nations of the world think about the people that govern them, globally only 51% of respondents trust their governments while in South Africa that figure is a mere 22 percent. Amazingly 62 percent of the global public trust business and that figure is the same in this country.

Well why wouldn't they when stories emerge like the latest Eskom horror that it is being forced to buy most of its diesel fuel from PetroSA at a current contact price of R23.51 per litre when Engen is happy to supply at R20.36 per litre, Astron at R20.28 per litre and Shell at R20.22 per litre. Meanwhile, lobby group Organisation Undoing Tax Abuse (Outa) says it is taking the energy regulator to court over licences granted to Turkish company Karpowership. It wants to force the regulator to provide a "complete, unredacted record" of its decisions to award generation licences to the company.

The latter comes at a time when there is mounting anxiety that the real purpose of the ANC's proposal to declare a State of Disaster over our electricity supply situation in order to ram through the Karpowerships deal about which powerful rumours are circulating about potential kick-backs to Minerals and Energy Minister Gwede Mantashe and others in political high places.

So we have veteran journalist Ed Stoddard to thank for drawing our attention to an estimate by the global accountancy and consultancy firm PwC that the South African economy could have grown by close to 7% in 2022 were it not for the curse of load shedding. That means power shortages cost the economy about five percentage points in lost gross domestic product.

PwC has long held the view that load shedding's toll on the economy is harsher than is widely presumed, and this makes sense. An industrialised economy needs a reliable supply of power. Without it, things fall apart. “Load shedding on 208 days reduced real GDP growth by up to five percentage points in 2022,” PwC said in its latest South African Economic Outlook report. “… economic growth could again have been close to 7% last year were it not for load shedding.”

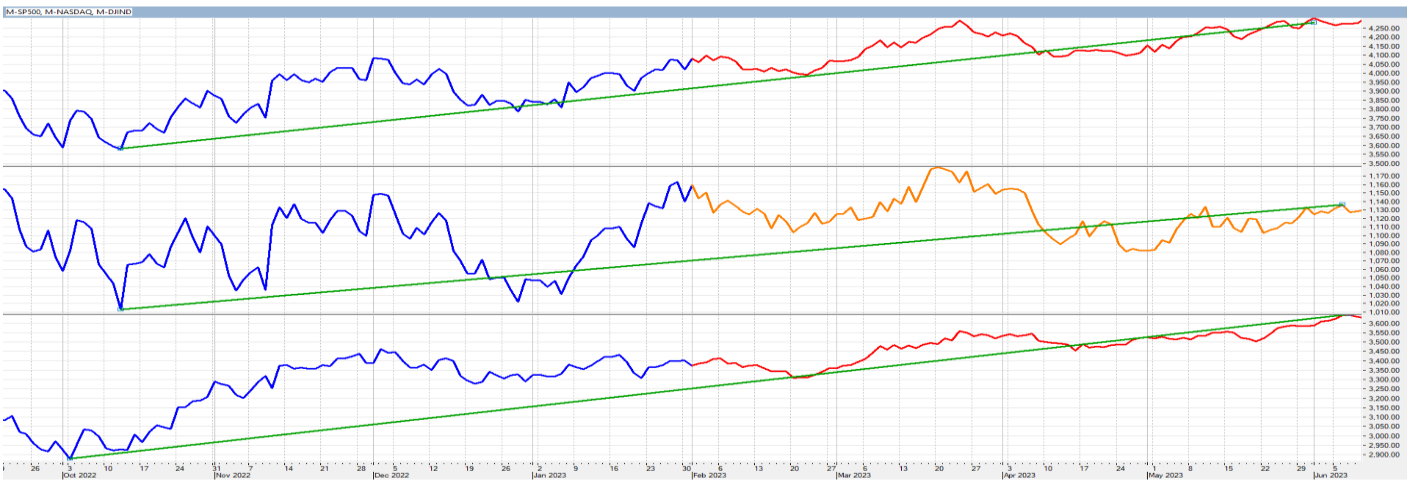
And it is happening at a very bad time for South Africa because one of the principal engines driving world economic growth, the USA, is starting to sputter. Retail purchases have fallen in three of the past four months. Spending on services, including rent, haircuts and the bulk of bills, was flat in December, after adjusting for inflation; the worst monthly reading in nearly a year. Sales of existing homes in the U.S. fell last year to their lowest level since 2014 as mortgage rates rose. The auto industry posted its worst sales year in more than a decade.

It's a stark turnaround from the second half of 2020, when Americans lifted the economy out of a pandemic downturn, helping the U.S. avoid what many economists worried would be a prolonged slump. Consumers snapped up exercise bikes, televisions and laptop computers for schoolchildren during lockdowns. When restrictions were lifted, they rushed back to their favourite restaurants and travel destinations.

That is why market watchers have been more closely tuned than usual for this week's monthly report of the US Federal Reserve hoping that Jay Powell and his colleagues would not pour cold water on the recent share market rally. Markets were expecting the Fed to raise the prime lending rate by 25 basis points, bringing it to a new target range of 4.5 to 4.75 percent. And that is precisely what happened, marking the first ‘normal-sized’ hike since March 2022, when the central bank began its big anti-inflation push.

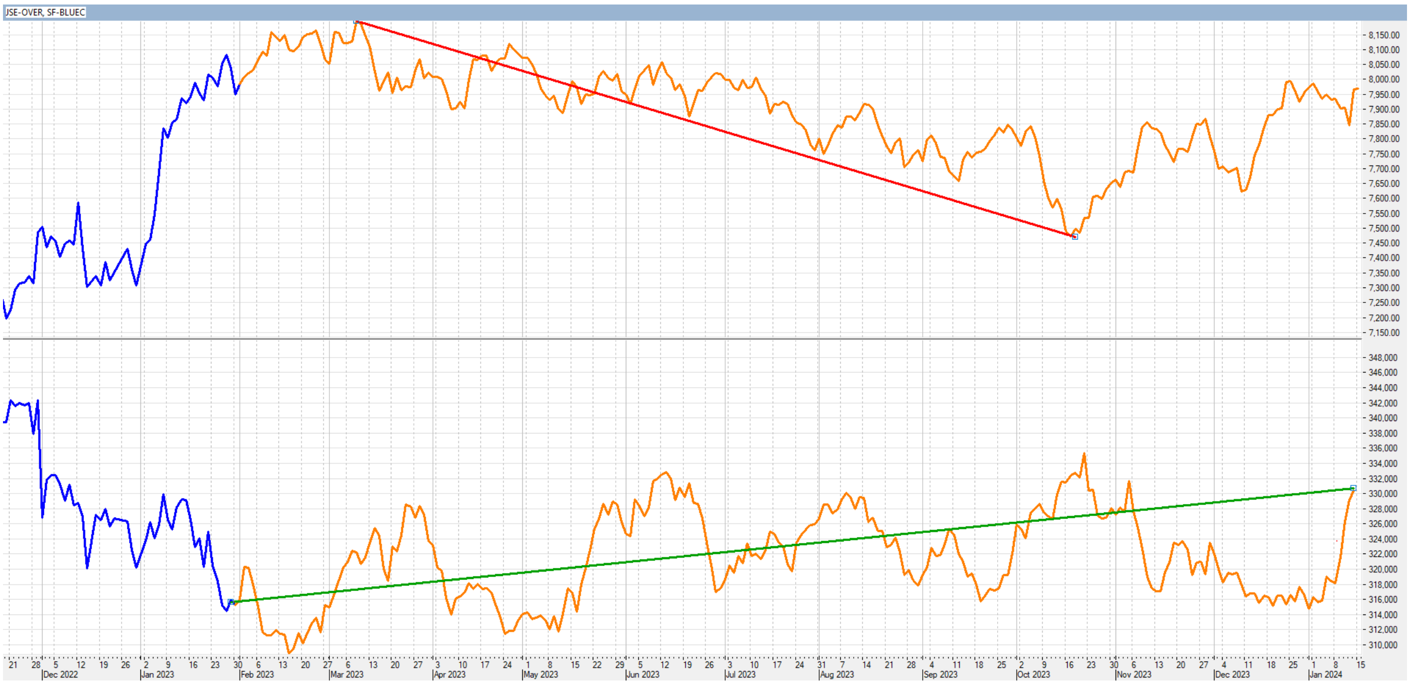
Investors had thus been watching far more acutely than usual for the announcement by the Fed's Federal Open Market Committee for signs of an approaching slowdown, or even a pause, in interest rate increases. The key word is “ongoing” — as in, whether the committee still feels that “ongoing increases” in interest rates are necessary given signs in recent data that inflation is cooling which could be taken as a signal to buy.

As a result of this growing US investor optimism, the three major US stock indexes have been rising since last October because statistics have been showing that wages have been moderating despite the fact that hiring has remained strong. So this week's data was enough to push the S&P 500 Top graph) to a two-month high, as investors anticipated the Fed might ease up on rate increases. Sequentially the three trend lines indicate that the S&P500 Index has been rising at blistering compound 32.6 percent, the Nasdaq (second graph) at compound 19.4 percent and the blue chip Dow Jones Industrial Index at 41.8 percent:



Moreover, as you can see in the above graphs, ShareFinder, projects that the gains are likely to continue at least until June.

Sadly, the same optimism is not evident in South Africa. While sentiment in the US underscores that investors are returning in droves to value-investing as evidenced by the significant outperformance of the Dow which is widely seen as a proxy for old Blue Chips, here my topmost graph suggests that the JSE All Share Index is likely to fall at compound 14 percent from now until mid-October. The good news, reinforcing the fact that investors are returning to the core concept of value investing, the ShareFinder Blue Chip Index is projected to rise steadily at compound five percent:



But that trend towards quality is even more emphasised when one turns to the Prospects Portfolio, below, which is rising at compound 15.9 percent (Red long term trend line) and, though a retraction is envisaged between April and July, the overall trend remains strongly upwards. Far more importantly, however, moving to the same scale as the three US markets, the green trend line suggests continuing gains at compound 28.5 percent which, together with an average dividend yield of 3.2 percent suggests a total return for the year ahead of 31.7 percent:

Real quality is always the greatest investment winner.

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These are the shares ShareFinder thinks will be the greatest winners in the year ahead:

Name	Close	3 Month Price Gro...	5 Year Price Gro...	Dividend Growth	Grade	Risk	Total Return	Rating	Strategy	Likely Date
ANGLOPLAT	1,283.93	-41.87	29.07	283.69	9,495.7	88.48	52.44	Very cheap.	Wait - pending buy.	11/12/2023
LIBERTY2D	4.64	-4.71	-11.69	275.53	3,368.1	-21.29	-4.34	Costly.	Wait - pending sell.	11/10/2023
REINET	330.00	54.53	5.02	182.95	1,613.9	-17.82	6.43	Fair.	Buy! Buy! Buy!	17/05/2023
ANGLO	718.92	167.70	20.35	83.21	4,903.9	10.43	29.03	Fair.	Wait - pending buy.	28/07/2023
EXXARO	220.91	30.39	9.24	77.41	1,264.5	-2.31	23.96	Fair.	Sell! Sell! Sell!	02/01/2024
ARM	283.90	40.84	18.32	70.28	743.4	31.37	29.59	Fair.	Wait - pending buy.	21/08/2023
ANGGOLD	360.98	403.64	22.51	66.73	881.0	65.63	23.35	Fair.	Sell.	27/07/2023
MUSTEK	16.20	33.58	22.44	49.63	571.3	-11.31	27.13	Fair.	Wait - pending buy.	11/01/2024
CASTLEVU	6.10	120.10	4.05	45.08	1,484.3	-90.19	11.39	Costly.	Wait - pending buy.	16/01/2024
KAAPAGRI	41.30	10.35	-4.45	40.17	603.7	26.68	-0.38	Fair.	Wait - pending buy.	01/01/2024

The month ahead:

New York's SP500: I correctly predicted the market would peak this week and now I see a brief retraction until the 23rd before the next month-long upsurge occurs.

Nasdaq: Similarly with The S&P500, I correctly predicted a hesitation which should be the start of a decline until the 21st followed by a recovery trend until March 21 ahead of weakness until late August.

London's Footsie: I correctly predicted the start of a decline which I expect to last until February 22 ahead of a long recovery until October.

France's Cac 40: I correctly predicted a decline until mid-February followed by a long recovery which I continue to expect will last to the end of June.

Hong Kong's Hangsen: I correctly predicted the beginning of a decline likely to last until late April before the next long recovery begins.

Japan's Nikkei: I correctly predicted an interim market peak within a protracted decline which began last August and is likely to last until late April before the next long but volatile recovery trend begins.

Australia's All Ordinaries: I correctly predicted that the gains would last until the end of February.Now I foresee declines until the 14th ahead of further gains to late-March when I expect another brief decline. From mid-April I see fairly steady gains until late August.

JSE Top 40 Index: I correctly predicted the gains which I still see lasting until early-March before a long decline sets in.

ShareFinder JSE Blue Chip Index: The nearly year-long Blue Chip bear phase is nearing its end and from mid-February I see the beginning of a long but volatile recovery.

Rand/Dollar: I correctly argued that the interim strength would be short-lived because I see a further four weeks of weakness from the 9th to March 6. Thereafter, however I expect a strengthening Rand until mid-May followed by three weeks of fresh weakness and then gains all the way to November.

Rand/Euro: I correctly predicted weakness which I still expect to last until late March ahead of an extended period of gains to year-end.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.87 percent. For the past 12 months it has been 94.75 percent.

PwC estimates rolling blackouts knocked up to five percentage points off SA’s 2022 GDP growth

By Ed Stoddard

Talk about a shocker. Global accountancy and consultancy firm PwC estimates that the South African economy could have grown by close to 7% in 2022 were it not for the curse of load shedding. That means power shortages cost the economy about five percentage points in lost gross domestic product (GDP).

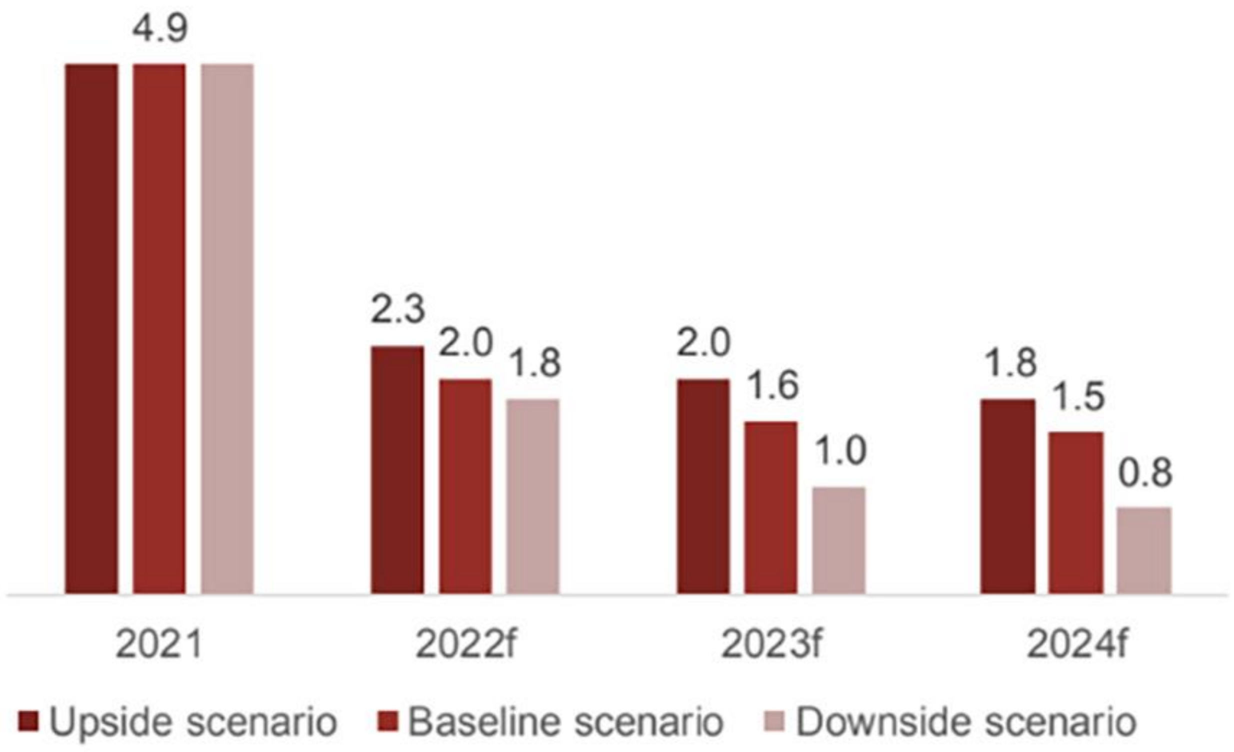
PwC has long held the view that load shedding’s toll on the economy is harsher than is widely presumed, and this makes sense. An industrialised economy needs a reliable supply of power. Without it, things fall apart.

“Load shedding on 208 days reduced real GDP growth by up to five percentage points in 2022,” PwC said in its latest South African Economic Outlook report. “… economic growth could again have been close to 7% last year were it not for load shedding.”

Or “potential” economic growth could have been close to 7%.

“We previously estimated that South Africa lost 2.9 percentage points of real GDP growth in 2021 due to the adverse effect of load shedding, based on an estimated 2,521GWh of power outages.

Figure 9: Real GDP growth (%) scenarios



Source: Pwc

"We estimated that the cost of load shedding was R50/kWh — this is roughly half of the modelled total effect of the cost of unserved energy. Given that the economy grew by 4.9% that year, our estimate suggests the country's potential economic growth was at least 7% in 2021.

"This includes the base effects from the deep 2020 recession where the economy contracted by 6.4%," the report says.

Stifled by a failing state

Potential growth of 7% may seem like a rapid pace for an economy that is literally strewn with so many potholes, but that is the point: the economy has a lot going for it, but it's constrained by a failing state.

One way to look at it — and this is not a point explicitly made by PwC — is that load shedding is an indicator of an economy that is trying to grow, but simply can't at the rate it should because of the power crisis (as well as other features of state failure).

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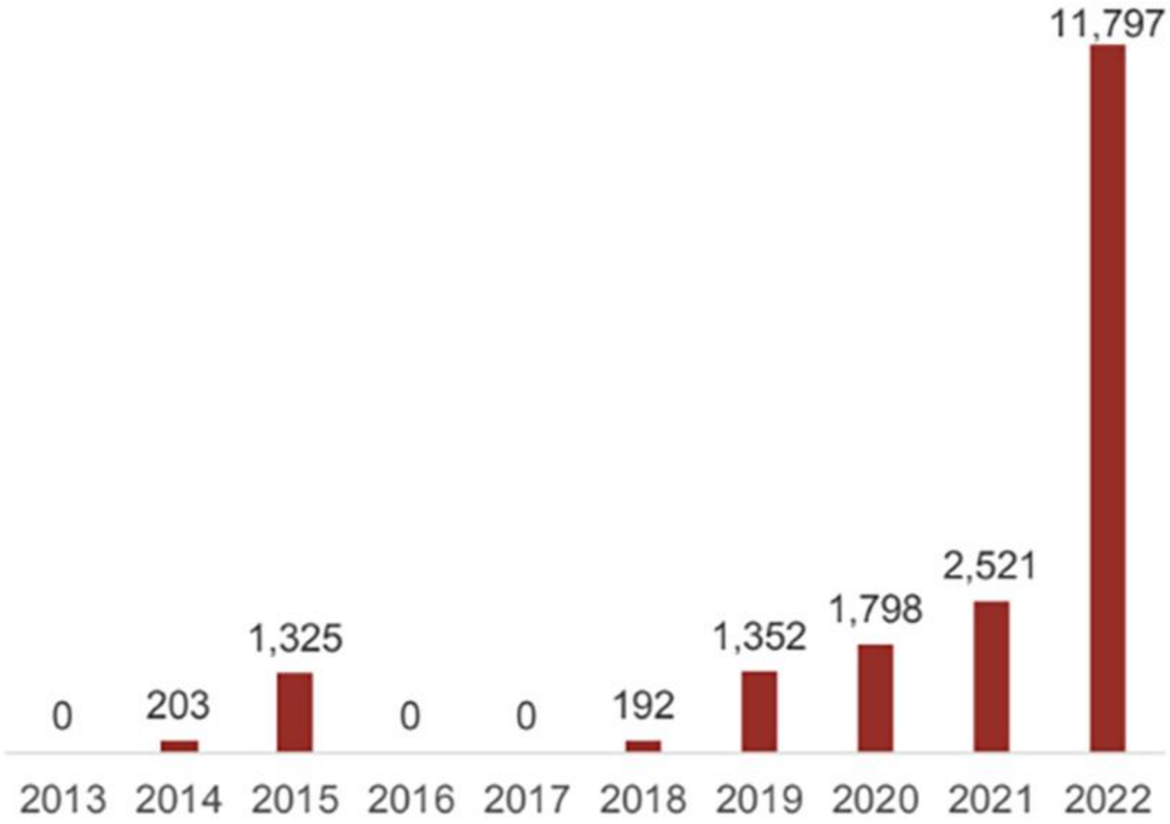
Figure 8: Electricity load-shedding (GWh)



Sources: Council for Scientific and Industrial Research (CSIR), EskomSePush

Source: Pwc

Eskom held up reasonably well during the Great Lockdown of 2020, when the economy was melting down and all but essential businesses were closed. But it has been unable to meet the spurt in demand that has coincided with the subsequent rebound.

PwC also notes that measuring the impact of load shedding is a moving target and involves factors that are also positive.

Solar panel boom benefit

“Behavioural change has seen the South African public adapt to and mitigate the impact of load shedding. For example, in 2022, the country imported more than R5bn worth of solar panels — up from around R4bn in the preceding year.

“We estimate that these panels will provide an additional 2,000 MW of generating capacity in 2023,” the report says.

“Put differently, based on varying usage patterns, these off-grid solar panels could be saving the rest of the country from an additional stage of load shedding at any given time.

“Furthermore, load shedding has increasingly been implemented outside normal business hours and on weekends, thereby reducing the impact of power cuts on the production side of the economy. As such, we are of the view that the R50/kWh estimate applied previously is probably too high in the current circumstances,” it says.

So the impact may be less in future — but still extremely high.

Other estimates, by contrast, seem to have underestimated the toll extracted by rolling blackouts and are now catching up.

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The South African Reserve Bank, for example, said last week that load shedding would deduct as much as two percentage points off economic growth in 2023, compared to its previous estimate of 0.6 percentage points.

PwC admits that its model is not painting the whole picture.

"… our calculations do not capture the economic pain experienced by, for example, small businesses, non-governmental organisations and the majority of households who cannot afford off-grid alternatives.

"The reduced impact of power cuts on GDP is being driven by the adaptability of large companies and wealthy households."

The bottom line is that its impact is massive; getting an accurate estimate of it is a work in progress — and its overall effect is only being diluted by a scramble for renewable energy by companies and households that can absorb the costs of alternative, cleaner power sources to replace or supplement Eskom.

So if you know someone who has made the switch to solar panels, buy them a Bells. They are doing their bit. **DM/BM**

The International Monetary Fund (IMF) this week raised its growth forecasts for the global economy slightly for 2023 to 2.9% from 2.7% in its October World Economic Outlook report. Perplexingly, it also raised its forecast for South African growth by 0.1 percentage point to 1.2% – a forecast that seems barely credible.

BeyondWords

The driving forces behind the upward revision for global gross domestic product (GDP) growth are China's reopening and the ebbing of worldwide inflation pressures.

"China's sudden reopening paves the way for a rapid rebound in activity. And global financial conditions have improved as inflation pressures started to abate. This, and a weakening of the US dollar from its November high, provided some modest relief to emerging and developing countries," the Washington-based lender said.

"Accordingly, we have slightly increased our 2022 and 2023 growth forecasts. Global growth will slow from 3.4% in 2022 to 2.9% in 2023, then rebound to 3.1% in 2024," it said.

The forecast of global growth of 2.9% for 2023 is an improvement on the previous one of 2.7%, but the 2024 prediction of 3.1% is a slight reduction from 3.2% previously.

What really stands out for a South African audience is the upward revision for 2023 growth against the backdrop of record levels of rolling blackouts. Quite frankly, this seems barely credible.

The IMF noted that growth is expected to halve this year compared with 2022, “reflecting weaker external demand, power shortages, and structural constraints”. But it still raised its projection for South African growth to 1.2% from 1.1% previously.

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
		Estimate	Projections		Difference from October 2022 WEO Projections 1/		Estimate	Projections	
	2021	2022	2023	2024	2023	2024	2022	2023	2024
World Output	**6.2**	**3.4**	**2.9**	**3.1**	**0.2**	**–0.1**	**1.9**	**3.2**	**3.0**
Advanced Economies	**5.4**	**2.7**	**1.2**	**1.4**	**0.1**	**–0.2**	**1.3**	**1.1**	**1.6**
United States	5.9	2.0	1.4	1.0	0.4	–0.2	0.7	1.0	1.3
Euro Area	5.3	3.5	0.7	1.6	0.2	–0.2	1.9	0.5	2.1
Germany	2.6	1.9	0.1	1.4	0.4	–0.1	1.4	0.0	2.3
France	6.8	2.6	0.7	1.6	0.0	0.0	0.5	0.9	1.8
Italy	6.7	3.9	0.6	0.9	0.8	–0.4	2.1	0.1	1.0
Spain	5.5	5.2	1.1	2.4	–0.1	–0.2	2.1	1.3	2.8
Japan	2.1	1.4	1.8	0.9	0.2	–0.4	1.7	1.0	1.0
United Kingdom	7.6	4.1	–0.6	0.9	–0.9	0.3	0.4	–0.5	1.8
Canada	5.0	3.5	1.5	1.5	0.0	–0.1	2.3	1.2	1.9
Other Advanced Economies 3/	5.3	2.8	2.0	2.4	–0.3	–0.2	1.4	2.1	2.2
Emerging Market and Developing Economies	**6.7**	**3.9**	**4.0**	**4.2**	**0.3**	**–0.1**	**2.5**	**5.0**	**4.1**
Emerging and Developing Asia	7.4	4.3	5.3	5.2	0.4	0.0	3.4	6.2	4.9
China	8.4	3.0	5.2	4.5	0.8	0.0	2.9	5.9	4.1
India 4/	8.7	6.8	6.1	6.8	0.0	0.0	4.3	7.0	7.1
Emerging and Developing Europe	6.9	0.7	1.5	2.6	0.9	0.1	–2.0	3.5	2.8
Russia	4.7	–2.2	0.3	2.1	2.6	0.6	–4.1	1.0	2.0
Latin America and the Caribbean	7.0	3.9	1.8	2.1	0.1	–0.3	2.6	1.9	1.9
Brazil	5.0	3.1	1.2	1.5	0.2	–0.4	2.8	0.8	2.2
Mexico	4.7	3.1	1.7	1.6	0.5	–0.2	3.7	1.1	1.9
Middle East and Central Asia	4.5	5.3	3.2	3.7	–0.4	0.2	...	...	...
Saudi Arabia	3.2	8.7	2.6	3.4	–1.1	0.5	4.6	2.7	3.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1	0.1	0.0	...	...	...
Nigeria	3.6	3.0	3.2	2.9	0.2	0.0	2.6	3.1	2.9
South Africa	4.9	2.6	1.2	1.3	0.1	0.0	3.0	0.5	1.8
Memorandum									
World Growth Based on Market Exchange Rates	6.0	3.1	2.4	2.5	0.3	–0.1	1.7	2.5	2.5
European Union	5.5	3.7	0.7	1.8	0.0	–0.3	1.8	1.2	2.0
ASEAN-5 5/	3.8	5.2	4.3	4.7	–0.2	–0.2	3.7	5.7	4.0
Middle East and North Africa	4.1	5.4	3.2	3.5	–0.4	0.2	...	...	...
Emerging Market and Middle-Income Economies	7.0	3.8	4.0	4.1	0.4	0.0	2.5	5.0	4.1
Low-Income Developing Countries	4.1	4.9	4.9	5.6	0.0	0.1	...	...	...
World Trade Volume (goods and services) 6/	**10.4**	**5.4**	**2.4**	**3.4**	**–0.1**	**–0.3**	**...**	**...**	**...**
Advanced Economies	9.4	6.6	2.3	2.7	0.0	–0.4	...	...	...
Emerging Market and Developing Economies	12.1	3.4	2.6	4.6	–0.3	0.0	...	...	...
Commodity Prices									
Oil 7/	65.8	39.8	–16.2	–7.1	–3.3	–0.9	11.2	–9.8	–5.9
Nonfuel (average based on world commodity import weights)	26.4	7.0	–6.3	–0.4	–0.1	0.3	–2.0	1.4	–0.2
World Consumer Prices 8/	**4.7**	**8.8**	**6.6**	**4.3**	**0.1**	**0.2**	**9.2**	**5.0**	**3.5**
Advanced Economies 9/	3.1	7.3	4.6	2.6	0.2	0.2	7.8	3.1	2.3
Emerging Market and Developing Economies 8/	5.9	9.9	8.1	5.5	0.0	0.2	10.4	6.6	4.5

This stands in stark contrast to the 0.3% forecast made recently by the South African Reserve Bank, which pointedly said that the “scale of load shedding” would shave as much as 2 percentage points off growth in 2023.

Global accountancy firm PwC said this week that the load shedding toll on economic growth last year might have been as much as 5 percentage points.

On behalf of a friend, this correspondent would like to ask what the IMF staff in Pretoria is smoking, because it must be pretty good.

Still, China's improved prospects – and those of global growth more generally – bode well for the prices of the commodities South Africa produces and exports, such as iron ore and platinum group metals. That can certainly support South Africa's economic growth profile.

But unless such prices go to the moon, they can hardly compensate in a significant way on the GDP front for the crippling impact of rolling blackouts and the other gaping potholes opened by South Africa's failing state.

If the South African Reserve Bank, which often overshoots on its growth projections, has pegged 0.3%, expect South Africa's economy to fall well short this year of the IMF's forecast. **DM/BM**