Our Weekly Paid Newsletter

Richard Cluver Predicts

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

Volume: 36 - Issue: 6 **10 February 2023**

As I listened this week to Ukrainian President Volodymyr Zelenskyy addressing the British house of Parliament on the plight of his troops fighting to defend the lives of their families in the face of naked Russian aggression, I was overcome by deep shame that my country refuses to condemn this tragedy. I hope I speak for all of my readers when I express my own indignation!

SA Federation of Trade Unions general secretary Zwelinzima Vavi was on TV this week once again repeating his bleat for a new wealth tax to fund a R140-billion Basic Income Grant for the poor. One has to wonder in which dream world he spends his thinking time?

Quick calculation suggests that Vavi thinks it is possible to load an additional R40 000 per head annually onto the current tax burden of South Africa's wealthy. By any stretch of the imagination it is a ridiculous ask and, fortunately, tax chief Edward Kieswetter believes taxes need to be lowered, rather than increased!

Hopefully Finance Minister Enoch Godogwana, whose end of February budget speech is by now probably already virtually cast in stone, is also smart enough to turn a deaf ear to such demands from the left. After all South Africa already enjoys the dubious record of having the world's greatest percentage of wealth transfer from a shrinking tax base to one of the world's fastest-growing poverty groups….this latter the single greatest proof that ANC economic thinking has failed our people!

Vavi's argument is based on a widely-held assumption that South Africa's wealthiest ten percent own 86 percent of total wealth, that the top one percent own 55 percent and, furthermore, that the top 0.01 percent numbering just 3,560 individual taxpayers, owns about 15 percent of household wealth: greater than the share of wealth owned by the bottom 90 percent of the population which numbers 32-million individuals.

Though SARS supremo Edward Kieswetter might salivate at the thought of such a tax at a time when he has been complaining that tax collection will come in lower this fiscal year as worsening power cuts and an elevated cost of living combine to hollow out the tax base and heighten the temptation to withhold taxes, Kieswetter clearly understands that the ranks of those 3 560 are shrinking fast. People who collect such numbers – though I have found it difficult to verify the figures – claim South Africa has lost a million taxpayers in the past five years.

Personal experience seems to confirm that because most of us have a growing list of friends who have gone, while data from New World Wealth and Henley & Partners suggests more than half our wealthy have already gone: approximately 4 500 HNWIs over the past decade. HNWIs are defined as individuals who have a wealth of R15.7 million or more, this includes all their assets such as property, cash, equities, and business interests less liabilities.

AfrAsia Bank recently reported that although South Africa remains home to over twice as many dollar millionaires as any other African country, the number fell by 1 900 between 2020 and 2021 and, by last August had fallen by a further 1 500 to 35 000. The majority of these individuals are leaving for the UK, Australia, and the US but Portugal, Switzerland, Israel, Mauritius, New Zealand, the USA, Canada, Monaco, and Malta also feature high on the list.

The cost to South Africa, says Kieswetter, is a loss of approximately R1.2 billion in income tax as well as consumer, fuel levy, and excise duty spend. But contrast that to the loss through uncollected duty on cigarette sales which, curiously, SARS seems unwilling to chase after. Rumour has it, because the ANC directly benefits!

This means that SARS will see a drop in the number of top earners for the fiscal year. However Kieswetter dismissed these high emigration figures this week saying that the data at hand is not reflecting any significant impact on tax collections.

Speaking in a PSG Think Big webinar on Tuesday Kieswetter said that just more than 6,000 people emigrated from South Africa in 2022, with smaller numbers seen at the top end of the earnings bracket. However, if you do a cigarette-box calculation on that figure, assuming a statistical family of 4.5 people and multiply by five years you still get an alarming 135 000 people who, if they are able to jump through immigration hoops imposed by the leading settler destinations, are likely to be our best-educated and wealthiest.

It's a terrifying loss of talent and, based upon estimates that every skilled person is responsible for the livelihood of or creates jobs for 20 others, the impact number rises to 2.7-million South Africans. It's a loss we simply cannot afford. Happening at a time when GDP growth is at a global low, we need all the bright sparks we can get and we need a government that is mindful of means to incentivize them rather than offer a "good riddance" kick up the backside as they go.

So I found it particularly encouraging that Kieswetter recognizes the need to lighten the tax burden on the few who are keeping the economy afloat. Instead he argued this week that SARS can offset any losses from capital flight by turning non-compliant taxpayers back home into honest citizens who pay their dues.

Kieswetter said that this does not mean that the revenue service is pushing for higher taxes – on the contrary, he said that the tax burden on South African taxpayers should be lighter. "SARS is of the view that the compliance dividend means that there is no need to raise taxes," he said.

The collective mindset between SARS and the National Treasury is that authorities need to improve the administration competence (ie, get better at collecting the taxes that are already due) and not add to the burden on taxpayers, he said.

But back to cigarettes; just think of the lost revenue from illegal cigarette sales. Authoritative estimates are that 70 percent of South African cigarette sales are illegal…that's R20-billion lost. The Government is suggesting that the Basic Income Grant be set at R663 which suggests that the lost tobacco tax could support 30-million families for a month…….half our population!

Meanwhile

If you ever wonder what will be the next big thing to change your life forever, it's time to start thinking artificial intelligence. It is something that our folk at ShareFinder International are very familiar with. For the past 20 years we have monitored the remarkable predictive accuracy of the AI system we developed to predict the future market direction of shares in all the major global markets. The results, as published at the end of this column every week, continue to defy belief with their astounding accuracy.

Now AI is coming to dominate every aspect of our lives. This week:

- Google revealed its answer to ChatGPT: an “experimental conversational AI service” called Bard that’s currently in testing mode.
- Microsoft (which invested in ChatGPT) announced its own surprise event in order to “share some progress on a few exciting projects.”
- Chinese tech giant Baidu confirmed it’s on track to introduce its AI chatbot, known as “Ernie Bot” in English, in March.

Green Technology

European heads of government are currently meeting in Brussels to decide if and how the European Commission will respond to America’s Inflation Reduction Act. Europe’s leaders will decide on almost half a trillion dollars in new green subsidies—going to anything from hydrogen to smart grids; from green cement to electric cars.

In preparation of that meeting, Germany and France—Europe’s two largest economies—sent their economy ministers, Robert Habeck and Bruno Le Maire, on a joint trip to Washington and last Friday, European Commission President Ursula von der Leyen presented her proposed Green Deal Industrial Plan. The most eye-popping element is some $440-billion in proposed subsidies for net-zero investments and other green innovations. The net-zero portion, at €372 billion ($398 billion), matches quite closely the $369 billion the US foresees for similar subsidies. In her speech at Davos in January, von der Leyen made no secret about her Green Deal being Europe’s answer to America’s subsidies.

The Wall Street Journal notes that the corporate incentives are quite odd because, at the same time as Europe and the U.S. are getting ready to hand out hundreds of billions in subsidies, America’s president is talking about a corporate minimum tax. The reason for this apparent dissonance, according to observers, is that green technologies are seen as crucial for competing in the 21st century’s global economy.

“Leaders in the U.S. got a wake-up call,” said Geert Noels, CEO of European wealth advisory firm Econopolis, and the author of Climate Shock. “Many in the U.S. started to see that Europe has taken the lead in terms of climate technology. And this matters because the climate race will be a crucial part of geo-economic competition. So it matters where knowhow and R&D are based.”

The Commission’s proposal has an even more explicit geostrategic element. The “Critical Raw Materials Act” would “bring together raw material ‘consumers’ and resource-rich countries to ensure global security of supply through a competitive and diversified industrial base.” Europe wants to pursue its policy of “strategic independence” from the U.S., setting up trade agreements with countries such as China.

It all points to the fact that the subsidies race is about more than meeting “net-zero” targets to save the planet from excessive climate change. Few still have doubts that industrial policy is back in the world’s largest “free market” economies. And the Green Deal Industrial Plan, like the Inflation Reduction Act, are crucial parts of it. Green enthusiasts may accept that bargain since it advances their cause.

What’s also clear is that western companies that are flexible about their R&D centres and manufacturing locations will have an embarrassment of riches in terms of government support in the next few years. For those leading such pragmatic global companies, that is only good news. But for those who are free market absolutists, the next few years may be harder to watch.

The month ahead:

New York's SP500: I correctly predicted the market would see a brief retraction until the 23rd before the next month-long upsurge occurs and I continue to see that decline.

Nasdaq: Similarly with The S&P500, I correctly predicted a decline which I still expect will last until the 21st followed by a recovery trend until March 21 ahead of weakness until late April.

London's Footsie: I wrongly predicted the start of a decline which I expected to last until February 22 ahead of a long recovery until October. Now I see a weak to sideways trend until the 22nd.

France's Cac 40: I correctly predicted a decline which I still expect to last until the 17th 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 which I still expect 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 start of 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: I correctly predicted declines as **t**he nearly year-long Blue Chip bear phase is nearing its end. From the 14th I see the beginning of a long but VERY volatile recovery until mid-October.

Rand/Dollar: I correctly predicted weakness until early-March followed by gains all the way to November.

Rand/Euro: I correctly predicted weakness which I still expect to last until early April followed by a six-week respite. But I do not see recovery starting until early June.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.88 percent. For the past 12 months it has been 94.57 percent.

 ©2023 ShareFinder International
Published by ShareFinder International
http://www.sharefinderpro.com
richard@rcis.co.za