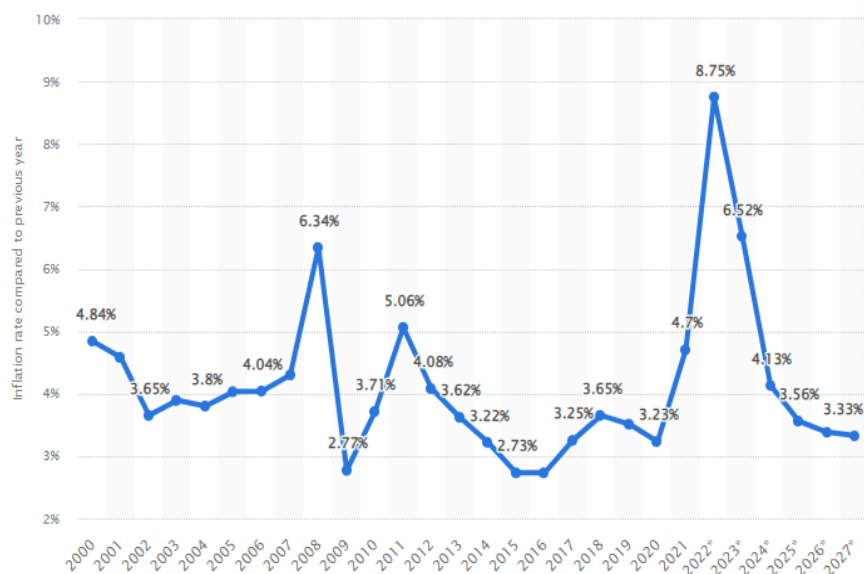




As I start this column, I have just completed a somewhat gloomy April edition of my Prospects monthly newsletter in which I have attempted to probe whether the investment world is close to a turning point in the war against inflation.

The graph on the right is an attempt by advisory group Statista to predict the likely trajectory of global inflation through to 2027 with, as you can see, the optimistic view that it actually peaked last year and is now in steep decline to a projected 3.3 percent by 2027.

The problem, however, is that while wealthy Western Nations are winning the war against what is in fact an insidious tax which hurts the poor worst of all, developing nations like South Africa are not. Worst of all, since developing nations in general earn their keep by exporting raw materials to the developed world, any economic slow-down radically affects the export earnings of countries like South Africa.



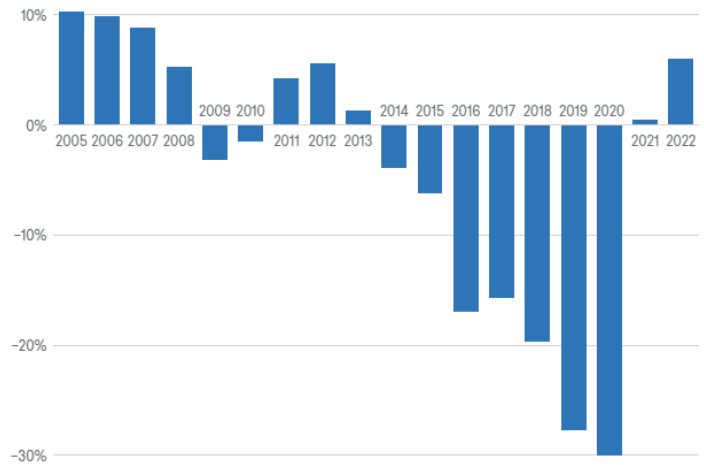
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Furthermore, when they fall under the control of socialist-thinking governments who simply cannot grasp the inevitable in-built inefficiencies of make-work policies when, as in South Africa, they also control many of the means of production such as the power utility and its -badly maintained electricity distribution systems as well as dysfunctional railway systems and pot-holed highways which collectively make it impossible to get those raw materials to the harbour, you have a formula for disaster. Add in the Post Office that has just gone into liquidation and a disconnect between the people you purport to represent as legislators together with ever-increasing personal greed epitomized in "our time to eat" policies which favour corruption and, you have a perfect formula to destroy any economy. Finally, once you have borrowed to the hilt on the international markets, there is nothing left to eat but the imaginary wealth of the few entrepreneurs who have not yet fled your shores?

If you think I am writing about South Africa, actually I am writing about Venezuela, once on a per-capita basis the fourth wealthiest nation on earth where in recent years inflation has skyrocketed, shortages of food and other basic necessities abound, and its citizens are increasingly fleeing the country. Venezuela, home to the world's largest oil reserves, is a case study in the perils of political mismanagement; proof that even the richest nations can collapse if they are not properly managed.

In Venezuela's case, annual inflation skyrocketed to just over 130,000 percent in 2018, and though it has slowed in recent years, it remained at 234 percent in 2022. It is a salutary story of particular importance because here in South Africa, political pundits fear we are headed in the same direction. While it is abundantly clear that the ruling African National Congress long ago ran out of ideas about how to create economic growth, it is far from clear that they will lose the coming 2024 general election.

Though poll results make it clear the ANC will probably find it impossible to achieve an outright majority – it seems they could get 40 percent - there appears to be an increasing probability that an alliance with Julius Malema's EFF will allow them to hold onto the reins of power. But at what cost for wherever Malema's men have joined in municipal coalitions, the price has normally been control of municipal finances? And since the EFF stands for the nationalisation of the Reserve Bank and all privately-owned property, the International Monetary Fund graph on the right tracking Venezuela's recent economic history makes obligatory consideration.



Source: International Monetary Fund.

COUNCIL OF
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This is what we are likely to get if Julius gains control!

Over the last decade, Venezuelan President Nicolas Maduro and his allies have violated basic tenets of democracy to maintain power. This includes restricting internet access and arbitrarily prosecuting and detaining political opponents and critics: does this sound like Zimbabwe? These, coupled with international sanctions and the COVID-19 pandemic fuelled a devastating humanitarian crisis, with severe shortages of basic goods such as food, drinking water, fuel, and medical supplies. As a consequence, a November 2022 survey showed that 50 percent of Venezuela's 28 million residents live in poverty (though that is down from 65 percent the year before) and more than seven million Venezuelan refugees have fled to neighbouring countries and beyond since 2014.

Recently South Africa's government debt had begun to decline following a wave of austerity measures conducted by the Ramaphosa administration. That might sound admirable but the reality is that Treasury has run out of international lenders. The graph on the right courtesy of the SA Reserve Bank tracks government borrowing since 2004. Inevitably, however, that austerity has led to the recent wave of strikes which all but guarantee that borrowing will be on the rise once more.....not to mention the massive R254-billion Eskom bailout and the ominous moves to exonerate the power utility from reporting corruption and mismanaged spending for the next three years.

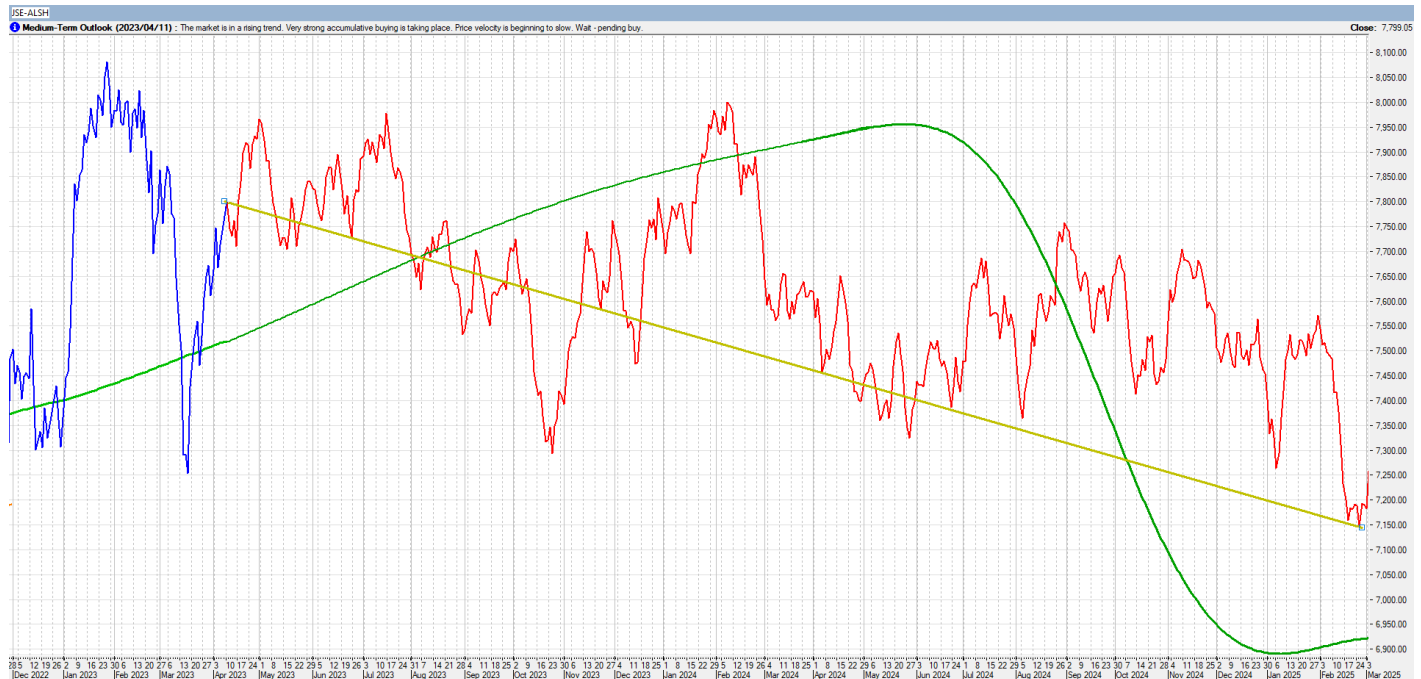


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Is the latter in an effort to create what former CEO Ander de Ruyter named a "feeding trough for the ANC" to fund its next year election campaign...just asking? According to Business Tech, the African National Congress (ANC) spent more than R1-billion on campaigning for the 2021 municipal elections. Just to fund his own 2017 election campaign, Cyril Ramaphosa has admitted that it cost R300-million. Given that it is very likely make or break for the ANC, a billion Rands will likely be chicken feed this time around. But the party is broke. It cannot even pay its own staff salaries. So one can only guess at what corruption lies in store for the immediate future as the party seeks to fund next year's election!

That is why our investment markets are so uncertain these days. It's nearly impossible to predict an economy run by idiots. It is even worse when the idiots think it is OK to plunder state assets to fund their retention of power.

So what does ShareFinder project for the JSE in such circumstances? Well, pushing its artificial intelligence resource far into the future is always a risky business, but for what it is worth, here is the picture: That yellow trend line suggests an annual average decline of the JSE All Share Index at compound 4.6 percent from now until March 2025.....in other words, ShareFinder is not optimistic about the post-election period either....and we have all been witness lately to the chaos of political party coalitions in our municipalities.



The month ahead:

New York's SP500: I correctly predicted declines until April 13 ahead of gains until early July when I see the next retraction until early September.

Nasdaq: I correctly predicted weakness which I now see being played out in at best a sideways trend until early September when I see the beginning of a long-term rising trend for the rest of the year.

London's Footsie: I correctly predicted the current recovery represented the start of long-term gains until the end of the year. Within it, however, I sense weakness from the end of April to the end of May and a second phase of weakness from mid-June to early-September.

France's Cac 40: I correctly predicted the end of March would see the start of gains. Now, however, there is a confusing picture for the next month with a high probability of a reversal to early-May ahead of gains until mid-July.

Hong Kong's Hangsen: I correctly predicted that the current gain was likely to have been temporary and now I foresee declines to the end of May before a long recovery starts.

Japan's Nikkei: I correctly forecast a retraction which I see lasting until early May before the next long but volatile recovery trend begins and is likely to last until the end of the year.

Australia's All Ordinaries: I correctly predicted a brief retraction ahead of a long recovery to early June which should mark the start of a 5-month decline.

JSE Top 40 Index: I correctly predicted a very brief interim recovery until early-May ahead of a long decline to late-October.

ShareFinder JSE Blue Chip Index: I correctly warned that the current brief recovery was a chimera. Now I see it ending this week ahead of a decline to mid-May ahead of a year-long recovery.

Rand/Dollar: I correctly predicted the start of a recovery which I expect to last until late May followed by another month of weakness and then continuing recovery until the New Year.

Rand/Euro: I misinterpreted my own graphs with this one because ShareFinder was predicting **weakness** until April 18 followed by gains until May 18 followed by weakness until mid-June 4 ahead of a long recovery until next February.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.91 percent. For the past 12 months it has been 93.66 percent

JUSTICE MALALA:

South Africa's better angels are holding the line

Civil society organisations are the ones making things work when the government can't, or won't

BL PREMIUM

There *is* something in our beleaguered country that works — and works beautifully. It is that mass of community groups, NGOs such as Section 27, trade unions, business bodies such as Business Leadership South Africa, charities such as Gift of the Givers, faith-based groups, and professional associations such as the South African Institute of Chartered Accountants (Saica). It is our civil society.

If there is anything that is feisty, that shoots straight, that refuses to be cowed in this country of ours, it is civil society. Every day, you have some or other group marching, petitioning and litigating. If it weren't for our vigilant, diverse, vibrant civil society organisations, South Africa would have collapsed years ago.

Take last week. Finance minister Enoch Godongwana rushed to grant Eskom exemptions from reporting malfeasance and lax oversight at the utility. Civil society organisations saw his move for exactly what it was — an attempt to sweep corruption under the carpet — and made a huge stink. Within days Godongwana had backtracked.

Then there's the issue of pit latrines. Our lazy and incompetent government has failed to provide sanitation — the most basic of services — to all schools for 29 years. It is the work of NGOs that forced Angie Motshekga, the very basic education minister, to make some noises about acting. If they did not exist, and if they were not as feisty as they are, we would have Motshekga sitting in her office doing sweet bugger all.

We all know the problem of pit latrines can be fixed in no time. Motshekga knows it too. Just give the challenge to Gift of the Givers and the whole thing will be sorted out. It is this knowledge, and the sterling work of the NGOs that litigated against her to get some modicum of justice for the families of children who have died in pit latrines, that stopped the minister twiddling her thumbs and stirred her into action.

In the area of holding the powerful to account, in the upholding of the constitution, it is no longer our government that is in the vanguard

While members of the cabinet seem to be either dozing or posting pictures of themselves cutting ribbons, civil society organisations are doing the real work South Africa needs.

This week, the Helen Suzman Foundation is challenging home affairs minister Aaron Motsoaledi's decision to terminate Zimbabwean exemption permits. If the minister's decision is upheld, permits will expire on June 30, with profound economic and political consequences for the region. No-one cares about the poor and oppressed people of Zimbabwe. Our government supports the country's repressive regime. Only the NGOs speak for Zimbabweans.

Meanwhile, former SAA board member and "chartered accountant" Yakhe Kwinana has been fined R6.1m and barred from membership of Saica after a disciplinary hearing.

You will remember Kwinana: the Zondo commission report said she probably received "corrupt payments" that "were made in exchange for decisions, in which Ms Kwinana was involved, that benefited the entity that made the payments".

If it were not for Saica, she would not be facing any kind of sanction. Even with clear evidence against her, the law enforcement agencies have sat on their hands.

So here is the thing, and I think it is important. Over the past 30 years we have outsourced a lot in South Africa. To avoid a collapsing public health-care system, the middle class has moved to the private sector. To avoid crime, we have private security. We now have generators instead of electricity supplied by Eskom.

In the area of holding the powerful to account, in the upholding of the constitution, it is no longer our government that is in the vanguard. Civil society is at the forefront of representing the people.

While the government has made empty promises, civil society organisations have gone to court to compel the same government to do its job, provide power — and build toilets. In almost every battle they have taken on, these organisations have won.

We have a poor government but we have a vibrant, imaginative, powerful civil society backed up by a people-centred constitution. These civil society victories are deeply meaningful. They say to every South African: the power is in your hands. They remind us of the expression “We, the people”.

This is something to celebrate.

AFTER THE BELL

with Tim Cohen

Jo'burg's dodgy loan shows the wheels are coming off the ANC/EFF alliance road test

O politics! What a misanthrope you are. There is an old quote often wrongly, as it happens, attributed to Groucho Marx, who did say it but wasn't the first to do so. **Politics is the art of looking for trouble, finding it everywhere, diagnosing it wrongly, and applying unsuitable remedies.** The quote actually belongs to a British publisher Ernest Benn, who was the uncle of a Labour Party politician Tony Benn, who should know; he did plenty of that.

So, **on the topic of looking for trouble, we got a fabulous insight into government finances this long weekend**, and we know it was genuine because it was completely inadvertent. What happened was that the new mayor of Johannesburg, soon (apparently) to become one of SA's "smart cities" within the next decade or so, went on television for the first time.

In case you haven't been following it, the new mayor is Thapelo Amad, who is one of three councillors from the Islamic Al Jama-ah party, which got less than 1% of the vote in the 2021 local government elections. **The reason Amad got in is that, as we have seen across a whole range of very important municipalities, the ANC and EFF have a new plan.**

The new plan is to ally with each other and other smaller parties to oust DA mayors. But rather than fight about whether the ANC or the EFF will get the right to vote one of its members in as mayor, the parties have agreed to instead nominate one of the representatives from one of the small parties. The smaller the better.

So, the DA's estimable Mpho Phalatse was relieved of the position of Johannesburg mayor, and Amad was elected to the seat in January. Amad appeared on to SABC2 this weekend to answer questions about the parlous state of Johannesburg, which is pretty obvious to everyone. He was clearly on the defensive from the start, and in an effort to demonstrate that the council was actually doing something, **he said he had "secured" a R9.5-billion loan for the city on very favourable terms.**

Very little information was provided about the loan, least of all the funder, but Amad said it was a "financing package" and the interest rate would be 2% for the first five years, and then the remainder of the loan would be paid over the next 15 years.

I asked my podcast colleague Mark Barnes who, as a merchant banker, deals with money all the time and has some experience with government finances what he would do if he was offered a loan on these terms. He said **(listen below, or wherever you get your podcasts)** he would pick up the phone and call the police.

Anyone offering a loan at a 2% interest rate when the benchmark interest rate is 7.75% is obviously working a con. Amad was completely, obviously, embarrassingly out of his depth. But it gets worse. Over the weekend, reporters phoned the ANC to ask whether they had heard anything about this loan, and the party said, **no** but just because its chosen leader in the city had apparently agreed to a dodgy loan was not sufficient to make the party withdraw its support for Amad. EFF leader Julius Malama used the incident as the basis for a lecture on **"seeking validation from those who wish us failure"**, saying one or two mistakes don't indicate "personal instability". There are systems involved here for raising money, so, he implied, rogue loans are unlikely.

Well, he is right about that. Loan proposals emanate from the city's treasury department, and there are a host of checks even before the loan gets voted on by the council. So there was never any real danger

"Richard Cluver Predicts"

April 14, 2023

Page 7 ©2023 ShareFinder International

Published by ShareFinder International

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Amad's dodgy loan would ever get approved, although we have seen some shockers at the local government level.

Two things really get me about this loan. First, **it's just amazing to me how fast dicey financiers can get into the mayor's office.** And they are obviously sufficiently convincing to transform the city's most important official into an enthusiastic proponent. It's incredible.

The second thing is the cynicism of the loan proposal. We don't know much about the terms, but we do know - because Amad is such a babe in the woods that he openly revealed it - that those first five years would be at the very low interest rate of 2%. So presumably, the remaining 15 years of the loan would be at a very high interest rate, but he didn't mention how much. The point is that the initial low interest rate is obviously designed to match the typical period of political office of the city officials concerned. Essentially, future administrations would have to bear the brunt of the loan terms, **but in the interim, the existing politicians would have lots of lolly to play with for 'service delivery'.**

And there is another problem. **The ANC/EFF alliance has now sprung a leak an entire three months into its existence,** because one of the other members of the coalition, Gayton McKenzie's Patriotic Alliance, tweeted that Amad's presentation was "embarrassing". **"We cannot continue defending such stupidity,"** he said, saying the party "must fix our mistake soonest".

Well, now this is a problem because the maths of the council is really tight. There are 270 members of the council, so the magic number - the votes required to run things - is 135. Amad was voted in with 138 votes. The ANC and the EFF together only have 120 votes, so they need McKenzie's eight votes, and also the three votes from Al Jama-ah. And **even then they are a bit short,** so they still need the votes of a couple of seven one-vote parties.

So without McKenzie, Amad's prospects start looking a bit doubtful. Looking at it from the other side, the slate is equally tight, with the DA and all the parties in what Action Alliance's Herman Mashaba calls the "rainbow coalition" only have a total of 129 votes. **So neither grouping is going to have it easy.**

But what the incident demonstrates is the risks involved in the ANC and the EFF's grand new plan to control councils from behind the curtain. It turns out, mayors do have responsibilities, and influence, and their own agendas. **Leadership does carry weight. It means something.** Which is why leaders are so often the focus of the media. **The ANC/EFF plan essentially bypasses this crucial responsibility and scorns accountability and functionality.**

Good investing,

Tim Cohen