



Our Weekly Paid Newsletter

# Richard Cluver Predicts

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



Volume: 36 - Issue: 16

21 April 2023

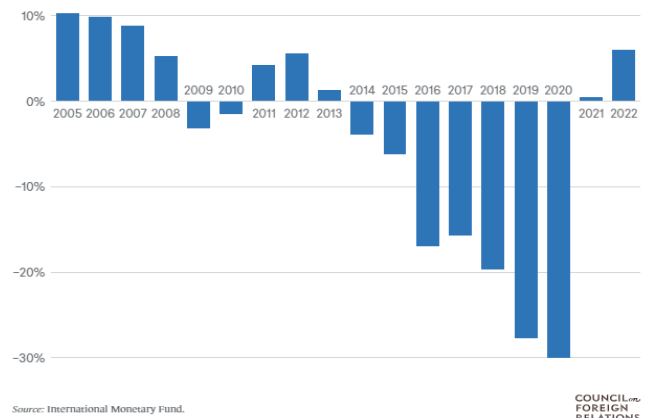
**One of the more startling stories to emerge from the IMF spring meetings in Washington this past week was the observation that, “....not a single dollar of sovereign loans has gone to Africa this past 12 months.”**

Let’s pause for that fact to sink in. Last week I wrote in this column that, “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.



Now, here from the IMF is the confirmation that the ANC has almost run out of road. Of course it still enjoys the benefit of “Captive” lenders like our insurance and pension fund giants which have a statutory obligation to buy our sovereign debt with which to guarantee the promises they make to pensioners. But the writing is clearly on the wall. After all, as I also wrote last week, who would want to take up the paper of a country which is facing the imminent likelihood of being governed by a coalition between a party which has been labelled as a “Criminal syndicate masquerading as a political party and a radical policy flip-flopper transformer in the shape of Julius Malema’s EFF 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, readers will no doubt also recall the IMF graph on the right which I published last week which tracked Venezuela’s recent economic history and which overseas observers are now suggesting could mirror South Africa’s future if such a political alignment should occur.



It gets worse. According to a United Nations Development Programme report, 24 of the 54 lower-income countries at high risk of debt distress are in Africa, including the two biggest economies on the continent, Nigeria and Egypt. The report blamed vulnerabilities on primary balance deficits—how much a government spends versus how much it collects in taxes.

Now for the next shock. We have I am sure all noted the recent declining value of the Rand relative to the US Dollar and the British Pound, but how many have compared that with other investment rates to show how quickly South Africans are being impoverished. The red trend line in the topmost graph of the composite on the right illustrates a compound annual average Rand loss rate of 19 percent against the Dollar and in the lower graph 10.4 percent against the Pound.

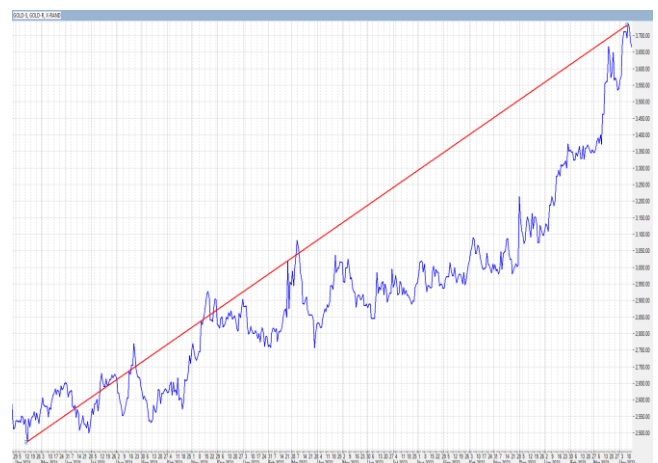
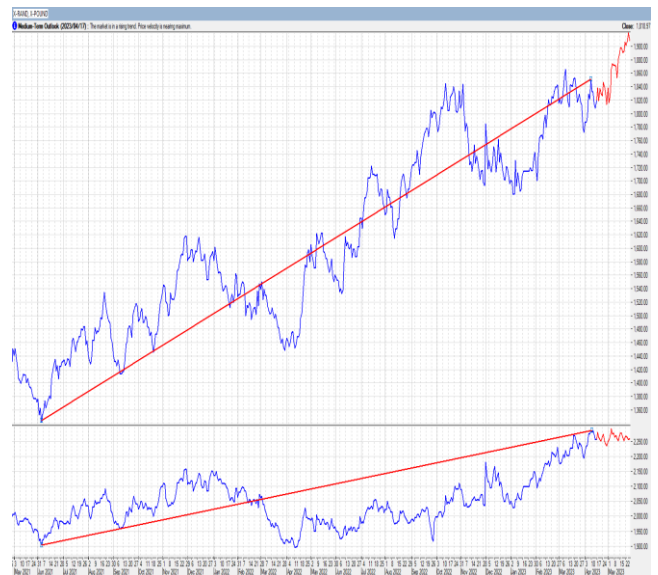
To put that currency erosion to an example even the simplest labourer can understand, at 19 percent annually that means that within 46 months the current value of the rand will have halved again...to R40 to the US Dollar: that is why our elderly when visiting children who have emigrated to the US, Australia and Britain now find it nearly impossible to overnight in anything but a B&B!

These are, of course, very uncertain times for investors: indeed they are even more testing for wage-earners and simple folk who keep their life savings in savings accounts and stokvels and in times of uncertainty, the smart money moves into gold bullion. So it is informative to consider what has happened to the Rand price of gold since its interim low in April 2021. The next graph on the right tells you the whole story: Gold has been gaining at a compound annual average rate of 23 percent. That's right, the price is doubling every 38 months!

So, if you wanted a heady ride, what about DRD Gold which, as my penultimate graph illustrates, has grown at an astounding compound annual average rate of 305 percent since last September? Adding in a dividend yield of 3.05 seems almost irrelevant with such numbers but it does take the Total Return to 308.5 percent which must be nearly a record these days.

However, Anglo Gold is even better. It has been climbing at compound annual 375 percent as you can see in my last graph. Adding the dividend yield of 1.65 percent to that figure is perhaps really irrelevant, but for continuity lets note that here the Total Return is 376.65 percent.

Now that is a figure I have seldom seen in my entire life! However, lest you should think of jumping in now, gold mining shares have probably nearly completed their run. Relative to long-term growth shares on the JSE they are expensive on a yield basis and technical analysis suggests that a retraction could be imminent.



# The month ahead:

**New York's SP500:** I correctly predicted gains until early July when I see the next retraction until early September. However, a brief retraction is now likely until April 27.

**Nasdaq:** I correctly predicted weakness which I now see being played out in at best a volatile sideways trend until early September when I see the beginning of a long-term rising trend well into the New Year.

**London's Footsie:** I correctly predicted that the current recovery represented the start of long-term gains until the end of the year. Within it, however, I correctly sensed brief weakness which I expect to last until May 19 and a second phase of weakness from mid-June to early-September.

**France's Cac 40:** I correctly warned of a high probability of a reversal to early-May which is likely to begin today ahead of fresh gains starting around May 9 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 mid-May before a long recovery starts.

**Japan's Nikkei:** The retraction I forecast has been delayed until now and should last 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 starting around the 24<sup>th</sup> and lasting 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. But it should now be over ahead of a long decline to late-October.

**ShareFinder JSE Blue Chip Index:** I correctly warned of a decline to mid-May which has just begun. It will probably be over by the 27<sup>th</sup> because there are strong long-term upward pressures mounting for gains until the end of June when a two-month decline is likely ahead of gains until mid-February.

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

**Rand/Euro:** I correctly warned of gains until May 18 followed by weakness until early June ahead of a long recovery until next March.

**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**

# AFTER THE BELL

with Tim Cohen

## The disturbing fear of the electorate that lies behind the Electoral Act

President Cyril Ramaphosa has now signed amendments to the Electoral Act, which technically allow independent candidates to stand in the 2024 election. **Except for all practical purposes, it doesn't.**

**The Electoral Act is a fabulous demonstration of incumbent bias** - or to put it another way, how existing systems resist change. But in a style not atypical of the existing government, it's been done in a way that's so ham-fisted and preposterous that the chances it will be overturned by the courts must be extremely high.

The reasons why this is the case are technical but trust me, **they display a kind of cunning duplicitousness that just makes your blood boil.** And the significance of this is important because for once, the battle is not between parties within parliament; it's effectively a battle between civil society and all parties in parliament collectively.

Allow me to explain. (Full disclosure, I was assisted here by Daryl Swanepoel, the CEO of the Inclusive Society Institute; the facts are his, but the opinions are mine). Essentially, the legislation seems to be an attempt to pretend to adhere to the Constitutional Court's instruction to allow independent candidates to stand - a requirement first investigated almost a decade ago - but **actually it tries to prevent independent candidates from standing. It's all very self-serving.**

There are two main problems with the legislation: **it's unequal in its application, and it's heavily weighted against participation.** Internationally, independent candidates have never really done well in proportional representation elections. But despite the small threat, large parties have decided they just don't want the competition, so **along with the innate bias against independent candidates, they make it even more difficult.**

Just to demonstrate the cynicism involved here, consider this: The draft legislation required independent candidates to present to the IEC about half the number of signatures required to get elected. In the 2019 election, about 17.5-million people voted, so that means you would need 43 500 votes to get a seat. **So you would need around 22 000 signatures just to get on the ballot.**

But there was a problem here: the existing legislation at the time only required political parties to have 1 000 signatures to get onto the ballot. **Civil society organisations argued the new requirements were unfair.** So what did the politicians do? They didn't decrease the number required for independents to the then-existing level for parties; they increased the number of signatures political parties now require to the newly-established level required for independents.

This number was reduced slightly from the original legislation, I presume to allow politicians to claim, disingenuously as it happens, that they are listening to civil society's complaints. **Hence, the number was reduced to around 30% of the votes required to get a seat, so call it 14 000 signatures.**

Do the maths here. Let's assume you, as a potential independent candidate, went out and canvassed potential voters to try and get their support (and this is just to get on the ballot). They would probably ask you about your policies and your history and your opinions and so on. So let's assume you spend about ten

minutes on average with everyone who eventually signs your application, and allows you to make a copy of their ID.

**Working eight hours a day, getting those signatures would take roughly ten months to get.** Obviously there might be quicker ways to do it, but the legality is not clear. You could ask people to submit their support by email. But we don't know whether the IEC will accept electronic signatures. It normally does not because of the danger of fraud, so you will need physical signatures.

**The problems for potential independent candidates don't end there.** You can stand as an independent in all provinces, but you can only stand on the provincial list. That means, to get elected, you will need the required number of votes in one of the regions; you cannot add your support from all provinces into a single tally. In other words, if you stand in all provinces and get 10 000 votes in each province, that would be 90 000 votes in total. Normally that would be sufficient, but in fact, you have to get at least 43 000 votes in one of the provinces to actually get elected.

The situation is different if you are, say, a small political party: then your votes do accumulate. So if you get 10 000 votes in each province, you will get two seats in parliament; **its transparently unequal.**

And, ladies and gentlemen, it doesn't end there. Let's say you do stand in all provinces, and you get 10 000 votes in each province; 90 000 votes in total. In terms of this legislation, you are not elected. So what happens to those votes? If I understand it correctly, they get allocated proportionally to the other parties.

**And who does that benefit? Surprise! It benefits the larger parties** to a disproportionate extent because a proportional distribution cannot be fair unless all the remaining parties win the same proportion of the vote. There are other problems too because, as usual, the public participation aspect of the legislation was inadequate, and the civil society contributions **were largely ignored.**

**You could argue that this is not a particularly important issue in the grand scheme of problems faced by South Africa.** How many independent candidates are likely to stand and get elected? In the best of circumstances, call it ten, maybe twenty? That's really not going to shift the needle.

**But I would argue the opposite. By weighting the legislation against independents in such a cynical and transparent manner, it illustrates something very dark about our political system.** And that darkness is fear. It is the fear that is a consequence of the failure to live up to the standards of representation required by our society. And it illustrates a perennial truth: when politicians feel their position is under threat, they shift the goalposts. If they weren't under threat, they wouldn't bother. **But the very fact they have demonstrates they are.**

Good investing,

Tim Cohen