Our Weekly Paid Newsletter

Richard Cluver Predicts

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

Volume: 36 - Issue: 21

26 May 2023

People who know about such stuff tell us that Irish Setters are the aristocrats of the canine world and I can attest to that fact because, on meeting you these large animals customarily proffer their right paw to be shaken in a confident man-to-man sign of equality.

I am very familiar with that because a setter named Riley was first in my office at 7.30 every morning for most of his 15-year life and until this Monday he would lie beside my desk until I closed up each evening at 6. But as I write this column today, that space is bare and we are all somewhat bereft.

RIP Riley!

So if something is missing from this column today, please understand that my support system has been diminished. But it has at least served as a distraction from the depressing steady-deterioration of our local economic scene for which we can only blame President Ramaphosa whose latest in a long stream of own goals has been to tell us he is appointing a commission of enquiry to find out what was loaded onto a Russian freighter in Simonstown harbour last December.

Surely, if you are in charge of a country all you need to do is phone your military chiefs and ask…..ah but of course they are in Moscow talking about combat readiness while Ramaphosa insists we are neutral about Russia's invasion of the Ukraine.

Alternatively Ramaphosa could phone the US Ambassador who could probably offer him high-resolution satellite photographs of the cargo and, presumably show him the Denel, markings on the crates! US Secretary of State Janet Yellen told Ramaphosa of America's suspicions in January and our President has apparently done nothing until now. Like most unpleasant things under his control, he presumably thought if he did nothing the problem might go away.

Well you don't mess with the US Government and hope nothing will happen! Meanwhile, market watchers tell us some $9-billion has fled our shores as our economy melts down and a reader survey *by the Daily Maverick* received 579 responses with most (341) saying they were experiencing load shedding for between 10 and 12 hours a day. However, Gwede Mantashe still asserts that burning more coal can save the day and the Mayor of Durban is staking his chair on a proposal that a nuclear power station can be built in the city in time to save our local economy.

Someday a latter day Monty Python might make a movie about all of this and the world might have a good laugh at such far-fetched humour! But at least today we can move away to blame someone other than the ANC leaders for our latest woes, to the US where history is repeating itself. For context I have reproduced the August 2013 front page of my Prospects newsletter with a ShareFinder projection graph of the S&P500

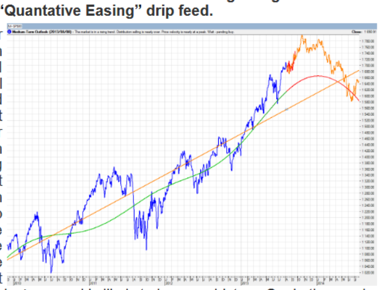
PROSPECTS

The Richard Cluver Investment Newsletter in continuous publication since 1987

RICHARD CLUVER INVESTMENT SERVICES

August 2013

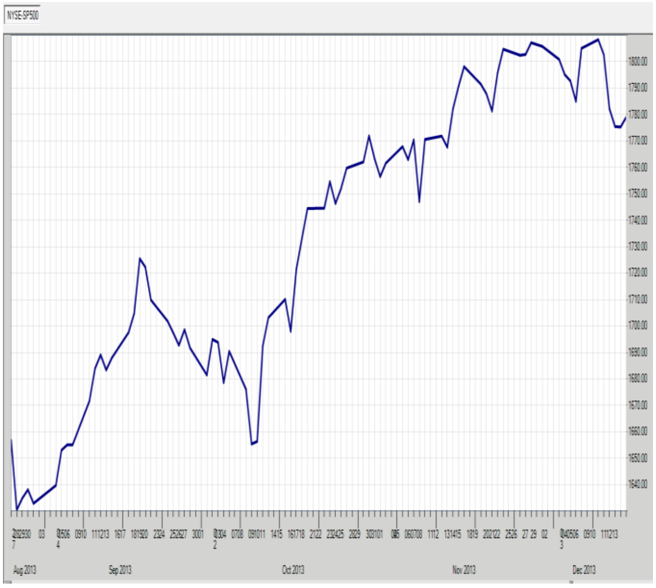
Right across the investment world there is now clearly a mood of indecision in the wake of repeated statements from the US Federal Reserve that it is beginning to wean the economy off its $80-billion a month"Quantative Easing" drip feed.



For months ShareFinder's Fourier cycle projection system has been predicting that the consequence will be a decline of Wall Street's principal index, the S&P500 which is depicted on the right. When this peak first appeared on my charts early this year I had no explanation for it other than the realistic view that, having run long and hard for many months, the market was probably overdue for a correction to allow corporate results to catch up with investors' expectations. Now we have a concrete explanation for the predicted phenomenon: investors are always nervous and in indecision; at times when it is becoming clear that today's normal is likely to become history. So, in the words of the Wall Street Journal this week,"The dollar is stumbling as investors begin to question the relative strength of the U.S. economic recovery, which had powered a rally in the greenback in the first half of 2013. The WSJ Dollar Index, a gauge of the dollar's exchange rate against seven of the world's most heavily traded currencies, is down 4% in the past month and hit a seven-week low on Friday. Before the selloff, which began after the dollar hit a three-year high in early July, the U.S. currency was up 8.3% for the year."

graph projecting a major reversal of Wall Street for October of that year because our software expected the US Congress to deadlock over a proposal to raise the Government debt ceiling. And exactly that happened!

I was in the US that October to witness at first hand government departments shutting down because there was no money to pay staff salaries and, although I was cruising the Caribbean for most of the crisis period and communication was difficult, I could sense that investors were in panic mode. I thus expected the bottom to fall out of the US market and accordingly in the heat of the moment allowed myself to ignore ShareFinder's projection of a rapid November recovery. However, I did advise local investors not to do any serious selling and noted that the local Prospects Portfolio had reached a new all-time high of R1 961 602. I added that, though it was likely that more upsets lay ahead, medium-term projection was suggesting that the portfolio would continue gaining in value to end the year worth around R2.1-million.



In fact it actually rose to a December interim peak of R2.256-million and, though it was in decline from April to October of 2014, it ended that following year at R2.6-million. Meanwhile, the US Government went into a partial shutdown on October 1, 2013, with about 800,000 Federal employees being put on temporary leave while Treasury Secretary Jack Lew told the world that the debt ceiling would need to be raised by October 17.

We now know that congressmen took the economy to the brink as both sides extracted the concessions they needed. But they were not prepared to destroy the economy and by October 9 the word on the street was that a settlement would soon be reached. Wall Street did exactly what ShareFinder had predicted at the time as the US Federal Reserve began cranking up the money printing presses to bolster the US economy and, as the graph above right illustrates, on October 16, the Senate passed the [Continuing Appropriations Act, 2014], which suspended the debt ceiling until February 7, 2014 and thus ending the crisis.

Back then the total US national debt was $15 738-trillion when it represented 99 percent of US GDP. Since then the Fed's printing presses have taken that number to $31.42 trillion representing 123 percent of GDP.

So this week, US investors were again beginning to panic because once more there has been no sign of progress in talks between Congress and the White House over raising the debt ceiling by next Wednesday to avoid another default by the government.

Since Monday the S&P500 has fallen 1.42 percent, the Dow 0.7% and ShareFinder predicts that decline will continue until mid-July, up-ending markets all over the world because global economists now fear that politics will exacerbate the already heightened recessionary outlook.

The contagion is now spreading to the previously bullish Asia Pacific region while, in the US short-dated Treasury bills are hovering around 20-year highs on concerns that America could default in the coming weeks, while rating agency Fitch placed US sovereign debt on ratings watch, a similar move to that taken in October 2013, when the US last flirted with breaching its debt ceiling.

The month ahead:

New York's SP500: I correctly warned that a brief retraction was under way and I now expect it to continue on down until July.

Nasdaq: I correctly predicted weakness which I now expect it to continue on down until July.

London's Footsie: I correctly predicted brief weakness which I expect to last until July and a second phase of weakness from August to November.

France's Cac 40: I correctly predicted further losses until about now ahead of gains until at least mid-June though there is an outside possibility of further gains until June 21. But then it is likely to be downward well into the New Year.

Hong Kong's Hangsen: Happily the signs now agree on continued gains until September ahead of later weakness to the end of the year.

Japan's Nikkei: I correctly predicted gains but now I see a reversal until well into the New Year.

Australia's All Ordinaries: I correctly predicted a brief retraction which I now expect to last until the second week of June ahead of a recovery lasting to the end of July when a long period of weakness is likely.

JSE Top 40 Index: A fortnight ago I predicted a long volatile decline to late October but last week wrongly changed that view to gains until early July before the next plunge until late October. Now, although there is a probability of a brief recovery, the longer-term trend is likely to be downward until at least October.

ShareFinder JSE Blue Chip Index: I optimistically sensed the end of declines ahead of a recovery to mid-July and I am still expecting that but delayed until around June 5.

Rand/Dollar: I wrongly predicted further short-term weakness until early June ahead of a long recovery until mid-November. So this week's recovery confounded me. However I still expect weakness from now until June 7.

Rand/Euro: I wrongly saw further losses which I believe have merely been postponed. Now I do not foresee protracted gains until mid-July. Interim gains are however likely between June 6 and 14.

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 92.75 percent