Our Weekly Paid Newsletter
Richard Cluver Predicts
In our 36th year of service to the investing public of South Africa

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A new authoritative voice has been added this week to the rising concern about where President Ramaphosa and his executive are leading South Africa. The SA Reserve Bank is pulling no punches in its latest bi-annual Financial Stability Review warning us of worse sanctions than those which ended Apartheid!

"Since the release of the November 2022 FSR, two new risks have been added to the RVM [Risks and Vulnerability Matrix], namely (i) capital outflows and declining market depth and liquidity; and (ii) secondary sanctions amid heightened geopolitical polarisation," the FSR said. "The risk of secondary or indirect sanctions being imposed on South Africa if its neutral stance on the Russia-Ukraine war is perceived as unconvincing has increased since the previous FSR…

"Should this risk materialise, the South African financial system will not be able to function if it is not able to make international payments in USD and it could lead to a sudden stop to capital inflows and increased outflows," the FSR warned.

So, even the normally supportive central bank now thinks the ANC's refusal to listen to the West's warnings about its stance on Russia is cause for panic. I think that the majority of thinking South Africans believe it will be game over for our economy if the Government persists with its reckless embrace of Vladimir Putin and allows him to come here in August.

Daily Maverick journalist Tim Cohen spelled out this week what sanctions could mean, noting that, "Over 90% of South Africa's international payments are processed by the Society for Worldwide Interbank Financial Telecommunication system, or Swift.

"Exclusion from Swift would make such payments impossible, the FSR's lead author, Herco Steyn, was quoted by Bloomberg as saying. That would make it almost impossible to import things like oil and portable electronics and wheat and lots of other things that South Africa's economy and society need but don't produce.

So, it's kind of a big deal. And then there is Agoa!

Cohen further noted the FSR's comment that, "There is a risk that South Africa's favourable access to the US market in terms of the African Growth and Opportunity Act (Agoa) may not be renewed when it expires in 2025, which will have severe consequences for corporates and industries which have benefitted from this agreement since its inception in 2000."

I was in the trenches of financial journalism when South Africa was put under sanctions in September 1985 and I shudder to think that the ANC is prepared to even momentarily flirt with such a threat. They need to take to heart, furthermore, that it was little to do with their own internal terrorism and everything to do with those sanctions which ultimately brought about their own unbanning, the release of Nelson Mandela, reconciliation and the total disappearance of the then seemingly invincible National Party.

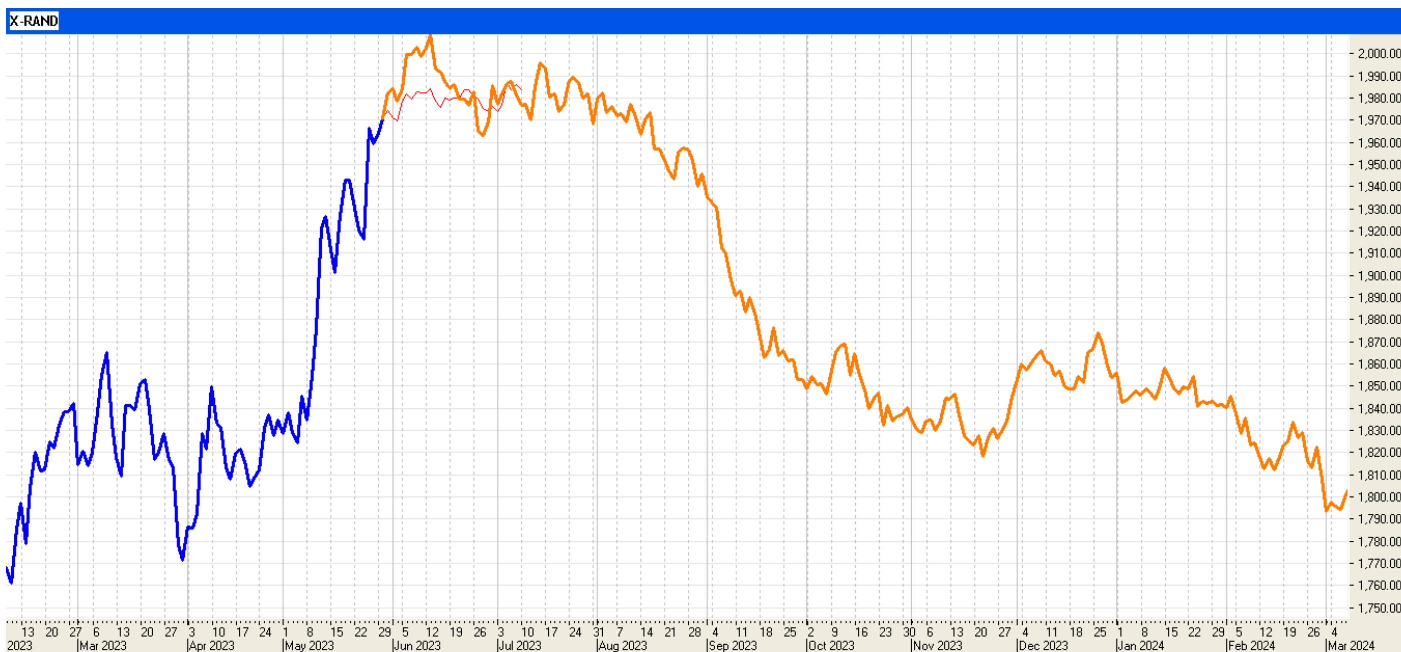
Having destroyed nearly every functional public service that they inherited in 1994 and delivered our people the world's highest unemployment rate, how long can they imagine they could last if we were forced to endure such sanctions once again?

Fortunately, ShareFinder's artificial intelligence system today offers us a different opinion. In the following graph I am showing you the Rand/Dollar exchange graph dating back to 1990 when the Nats were still in power with a red trend line in place to make it clear that in relative terms we have been in worse places in

recent years: from May 2001 to January 2003, then it got nearly as bad from August 2008 until December. Again, we were in deep trouble in the closing months of 2015 and through the start of Covid in 2020.

Overall that red trend line represents a compound annual average loss of Rand value at 6.55 percent a year which can be explained by the differential between our inflation rate and that of the USA which in turn gives us something of a trading edge in our export markets but simultaneously encourages corporate inefficiency.

Also notice the tiny orange trace at the extreme right of the currency graph which I am now going to expand so that you can clearly see what it is telling us:



As you can see ShareFinder's usually extremely reliable projection system predicts that the Rand is expected to weaken to R20 around June 13 before going into nearly continuous recovery which could see it at R17.93 at the end of February.

Now let's talk about economic history and note that at times when global inflation is rising and central banks have in the past reacted, as they are obliged to, by pushing up interest rates. Not surprisingly, capital has flowed from the developing world to the perceived strength of the US economy. This in turn usually pushes up the value of the Dollar following which overseas investors have tended to switch out of shares into bonds

at the perceived peak of interest rates because at that stage bonds offer the potential for big capital gains once inflation is contained and interest rates begin falling once more. So note in the following graph what has been happening to Wall Street Blue Chips since the war on inflation began and interest rates began rising:

So ShareFinder thinks that the Wall Street decline is nearly over and that Blue Chips will soon follow the rest of the market upwards. Since, furthermore, what happens on Wall Street is normally magnified on all the world's share markets. So here is the projection for SA Blue Chips noting the outlook for almost immediate recovery beginning:

So here is the thing; ShareFinder clearly thinks that our local markets will behave exactly as all other developing nations will be doing and so, if as is usually the case, when this international cycle begins to unwind, foreign investors with their pockets full of the gains they have made from bond market interest rate

declines, will begin to salivate about the yields being offered by ours and other Developing World share markets. And here South Africa is in pole position because our market has seldom been as cheap... not even in the dark days of the 1980's sanctions!

To put that into perspective New York shares are standing at a dividend yield of 3.3 percent while Australian shares average a yield of 4.8 and ours are at an average of 7.9 percent.

To put that into language everyone can understand, if you are a foreign investor, you stand to make nearly twice as much by buying South African shares than by buying Australian. Furthermore, if the Rand should simultaneously strengthen you might get an additional 25 percent kicker once you repatriate your pounds, euros and dollars!

Now let us consider politics and human nature! At the end of the day, I like to think that, as one South Africa's wealthiest people, Cyril Ramaphosa has also taken a huge share market knock under the combined nose dive of the share market and the Rand. I am also sure he also understands that further Rand value losses will devastate him personally.....and those of his fellow ANC leaders who have become disgustingly wealthy during their 29 years in power.

Nothing, in my experience more intently focuses a man's mind than the rapid loss of his wealth.

I accordingly believe it inevitable that the ANC will shortly right turn away from its pro-Russia foolishness....and that is what the foregoing ShareFinder's projection graphs are telling us this week.

Now I know a little about investment markets but not much about politics, but here is what I think: The DA Inkatha election pact is winning both parties numerous by-election victories and as a result it is increasingly likely the ANC will lose at least two more provinces at next year's election. I also think that in the light of an almost weekly string of political disasters for which they have been demonstrably solely responsible, the ANC will be lucky if they even achieve the 40 percent poll they have recently been expecting. They are on the way out and they know it. That is why their leaders have been scurrying around lately trying to convince everybody that it is someone else's fault…like De Ruyter at Eskom.

The intelligent among their ranks know they will soon no longer be in control of Parliament. That means the gravy train that has enriched so many Cadres and impoverished the majority of South Africans, will be over in the next few months.

It's cold out there when you have actually got to work for a living; when you can no longer expect party loyalty to fund your desperate need for a Range Rover and a cupboard full of Gucci handbags for your wife!

I think Ramaphosa thus knows that if he stays on he will be branded as the leader who presided over the demise of the ANC. The rising anger of the comrades is already palpable and so I think it is highly probable that Ramaphosa will step aside before the election, leaving the ambitious but unknown quantity, Paul Mashatile, to lead an even more divided ANC; very likely into the benches of the opposition and, ultimately, oblivion.

Mashatile is reportedly an extremely ambitions man. With a reported net worth north of R80-million and no occupational record outside of politics, he is surely not ready for inevitable oblivion. Already he is making all the right placatory noises in his whirlwind South African journey and I suspect he is just as actively trying to persuade his colleagues that courting Russia is a disastrous road to go down....and equally, the steadily-diminishing value of his own millions must be keeping Mashatile awake at night.

Nobody has ever explained where Mashatile got all that money but the Press has reported, he got it by tapping ANC funding. On May 8 2021 the Mail and Guardian reported that "*President Cyril Ramaphosa has closed his taps to Luthuli House after it was alleged that treasurer general Paul Mashatile and Deputy President David Mabuza pocketed funds intended for the party coffers.*

“*Two sources with intimate knowledge of the matter told the* Mail & Guardian *that the two senior politicians received at least $2-million from donors but the money failed to make it into the Luthuli House bank account.”*

I have not been able to find any retraction by the mail and Guardian, but if there is any truth to the story, I would be doubly anxious about losing that money if I were he. But then, what do I know? I have never really understood politics.

But I do understand how to connect dots!

The month ahead:

New York’s SP500: Contrary to my prediction Wall Street turned upwards this week but I do not expect it to last. From Monday until mid-July I now expect losses.

Nasdaq: I wrongly predicted weakness. Now I expect gains to continue until mid-June before falling to mid-July.

London’s Footsie: I correctly predicted brief weakness which I still expect to last until July but I also expect a brief upward spurt within that trend from Monday until June 16.

France’s Cac 40: I correctly predicted further losses with within them the possibility of brief gains which I now expect to be over by Monday. Thereafter I foresee continued losses 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 the reversal I expected was very brief and now I see a very volatile upward trend to the end of the year.

Australia’s All Ordinaries: I correctly predicted a recovery which I now expect will be over by June 8 followed by declines until the end of October.

JSE Top 40 Index: I correctly predicted a brief recovery, but the longer-term trend remains the likelihood of a downward trend 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 correctly predicted further short-term weakness until around June 13 ahead of a long recovery until mid-November.

Rand/Euro: I correctly predicted further losses until around June 20 before the recovery begins.

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 92.39 percent

FORTUNE

CEO DAILY

by PETER VANHAM

Good morning, Peter Vanham here in Geneva, filling in for Alan.

Walking a tight rope is not without its risks. But for the right reward, anyone may give it a try.

The geopolitical high wire American business leaders are tiptoeing today runs between Hiroshima and Shanghai. In Hiroshima last week, G7 leaders gathered to agree on a China "de-risking and diversifying" strategy. Yet some of the U.S.'s most powerful business leaders are visiting Shanghai this week to protect and expand their Chinese business interests.

The case of Elon Musk visiting his Shanghai Tesla plant is the most straightforward: China is Tesla's second largest market; its factory there is the electric carmaker's largest production hub. Tesla already cut its prices this winter to protect its market share in China; letting China's foreign minister politicize Musk's visit is another price to pay.

Jamie Dimon, CEO of JPMorgan, has similar reasons to straddle Sino-American tensions. A few months ago, he was helping Washington contain a domestic banking crisis. Today, he is in Shanghai, convening a conference. That JPMorgan earned approval to fully own its Chinese mutual fund earlier this year—unlocking a multi-trillion dollar market in the process—is a likely reason to prominently gather there.

Then, there is perhaps an even more mundane factor in American business leaders deciding to overtly retrace Henry Kissinger's China visit: it's been a while since they were last there. (By the way, Kissinger, at 100, is one of the speakers at Dimon's Shanghai conference today, albeit virtually.) This spring marks the first time in three and a half years that China is somewhat accessible to foreign visitors. Even my former employer, the World Economic Forum, is returning to China in less than a month for its annual China summit.

Such visits may not halt the "de-risking" on both sides, especially when it comes to sectors related to national security,

like advanced semiconductors, and as relations between political leaders remain frigid. But the thaw that President Joe Biden alluded to in Hiroshima may indeed materialize for business leaders who can pull off the China-U.S. balancing act—with profits as a reward.

More news below.

Peter Vanham