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

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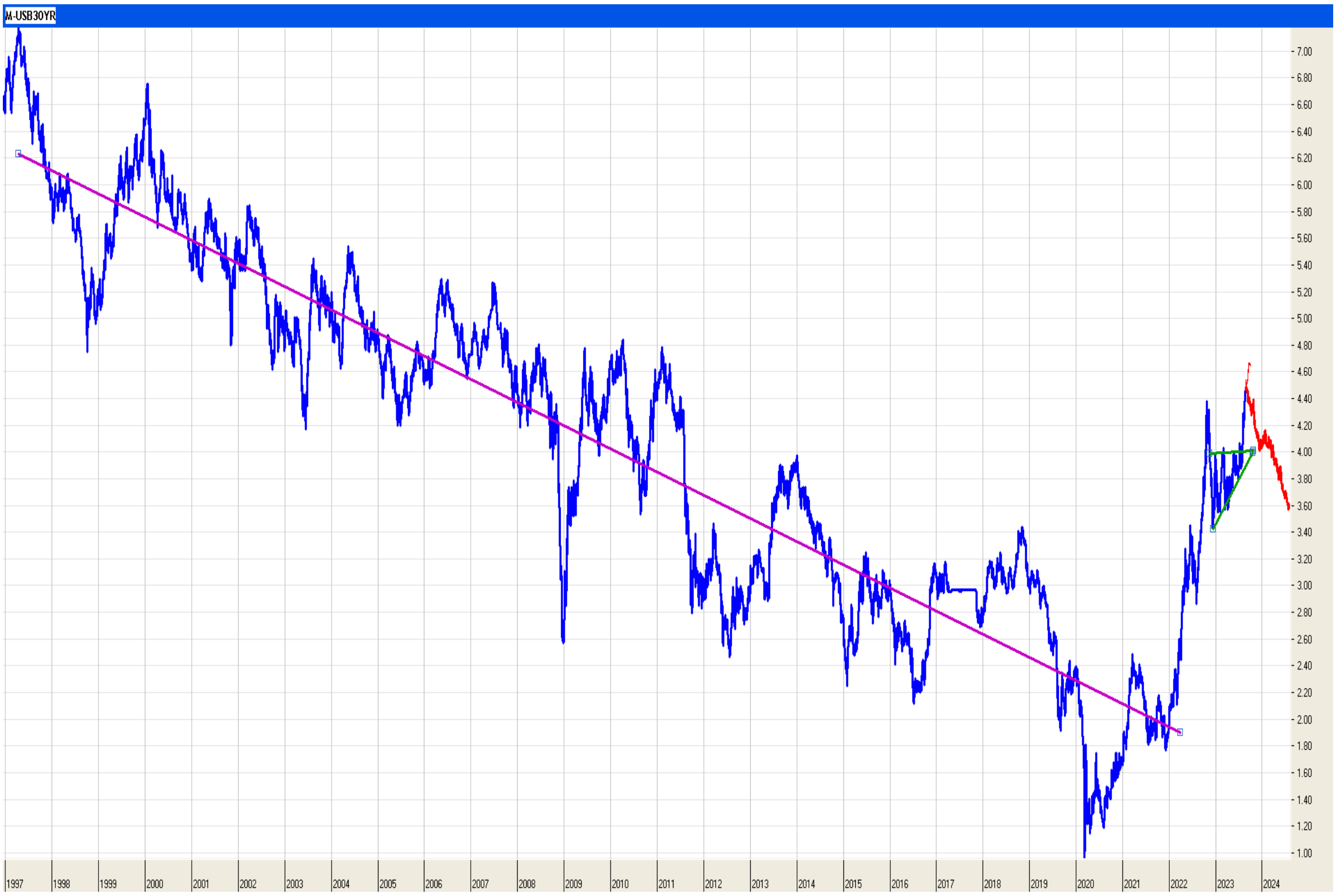
Last week I took the temperature of global investors' attitude to the fight against inflation which, until a few weeks ago, seemed likely to be all over bar the shouting. Even now the majority are, according to a straw poll, thinking that interest rate decreases are merely postponed to 2024. So let's start with an updated version of last week's graph:

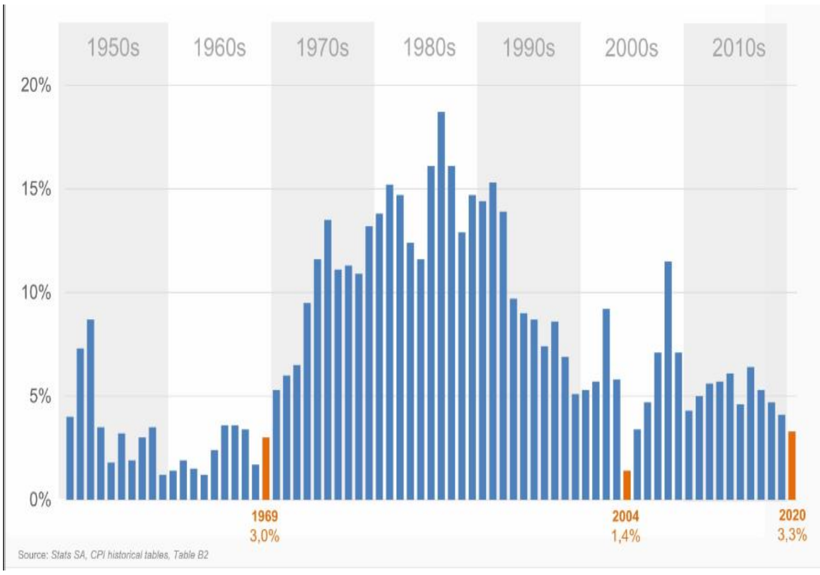


So, noting that US long bond yields have continued their recent sharp rise as is evident in my latest version of the graph I published last week, I have stepped back in time to give readers a quarter-century view of what happened to US long bond rates in the aftermath of the US central bank effort to rescue the Thai Baht in the late 1990s: when money-printing began again in earnest once the world had put behind it the agonizing memories of the Volcker war on inflation.

Few today remember how severely the world suffered in the late 1970s and early 1980s when inflation surged globally, reaching a South African all time high of 20.70 percent in January of 1986.

Younger readers might have forgotten how bad things became in the 1970s when South Africa, victim of what the US Fed was doing, effectively caught the inflation contagion, so note the graph on the right illustrating how inflation soared in this country – and for that matter for emerging economies as a whole.

While the events have traditionally been blamed on the "Oil Crisis" when OPEC began flexing its muscles, globally prices of everyday commodities had begun creeping up slowly at first because the US Federal Reserve had resorted to the printing press to fund the Vietnam War and President Nixon's "Great Society."

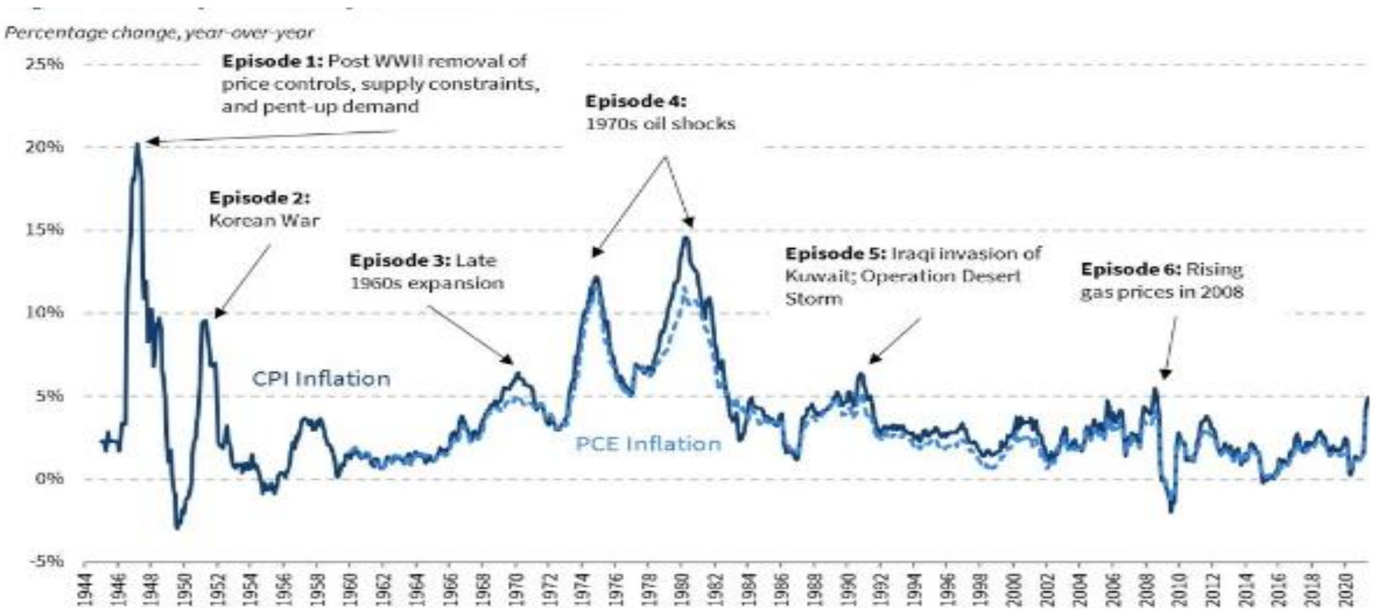


As inflation began to bite, Nixon temporarily froze prices in the early 1970s, but that just postponed the pain. When his controls were lifted, prices bounced even higher. His successor Gerald Ford then declared inflation "Public Enemy Number One." When President Jimmy Carter took office he called inflation "…the nation's most pressing domestic problem." But despite the tough talk from the White House, prices kept climbing.

Ultimately, it took a crackdown by Fed chairman Paul Volcker to break the cycle of rising prices and wages. Volcker slammed the brakes on the economy by raising interest rates to 20%!

By 1983, inflation had retreated to just over 3%. But it had been a painful correction. In the US alone nearly 4-million people lost jobs in back-to-back recessions. Elsewhere in the world, things were worse.

Here, courtesy of the US Federal Reserve is a graphic history of that nation's inflation experiences since the end of World War 2:



So, hopefully, readers now have a little context for present events, noting that in the late 1990s when Far Eastern economies seemed in danger of collapse as the contagion spread of the collapse of the Thai Baht. The US was the only nation with the financial muscle to rescue Thailand and what was known as the "Rim of Fire" region.

Happily, however, things never really got out of hand to the degree that they did after the oil crisis, but now the US inflation rate is again approaching the levels prevailing at the time of the Thai experience which, back then in the late 1990s was when “Quantative Easing” began: a euphemism for printing money. The world was flooded by cheap dollars and, as my opening graph illustrates, US long bond yields began falling from a peak of 7.14 percent all the way down to a Covid 19 low of 0.96 percent on March 10 2020.

That time the world got away with its lack of monetary discipline because the Chinese miracle happened and a flood of cheap consumer goods was pulling down prices everywhere and masking the US monetary folly.

So let’s blow up my first graph to examine the latest position, noting that the yellow line of ShareFinder’s AI-powered short-term projection currently suggests that the long bond rate could peak at around 4.66 percent in the US in late September while, by next June if the red medium-term projection is to be believed, it could be back to 3.65 percent.

The upward spike of US bonds has been a principal driver of share market declines led by New York’s S&P500 Index but, with the likely ending of the bond yield surge during late September if ShareFinder is correct, a share market recovery also seems likely. ShareFinder thinks that the JSE will similarly respond, but is likely to take a little longer. As my final graph suggests, local recovery is only likely to begin at the end of October:

The month ahead:

New York's SP500: I correctly predicted a retreat which I still expect it to last at least until mid-September within an overall long-term recovery.

Nasdaq: I correctly warned of declines and now the market is bouncing along the bottom with an almost unrelenting recovery well into the New Year now in sight. However, short-term analysis sees the decline continuing to the end of September.

London's Footsie: The current recovery came sooner than I expected but short-term analysis suggests that it will not last long. In the longer-term the signs are for very modest gains to year end.

France's Cac 40: I correctly warned that a down-turn is under way again and is likely to last well into the New Year.

Hong Kong's Hangsen: The modest recovery I anticipated is now becoming increasingly likely until late November ahead of a seasonal decline to late January. At best, however the New Year seems likely to offer a sideways trend.

Japan's Nikkei: I correctly warned of considerable volatility within a modestly rising medium-term trend which essentially goes nowhere to the end of the year when a longer-term decline seems likely. Overall I see weakness at least until mid-January.

Australia's All Ordinaries: I correctly warned of weakness which I still expect to last until late-September. A recovery is likely to begin then until late November.

JSE Top 40 Index: I correctly warned of a declining trend until the end of October....amid much volatility.

ShareFinder JSE Blue Chip Index: I correctly predicted a declining trend with gains starting at the end of the month until mid-November ahead of a two-month correction and then further gains well into the New Year.

Rand/Dollar: I did not anticipate the current weakness but still anticipate gains from month-end to the end of February.

Rand/Euro: I wrongly expected the recovery would continue. Now I see losses to year-end.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.96 percent. For the past 12 months it has been 90.94 percent.

FORTUNE

CEO DAILY

by PETER VANHAM

What will be the world's future reserve currency?

That question is more relevant than it has been in years due to inflation and high interest rates in the U.S. and Europe, the crash of digital currencies, and the depreciation of emerging market currencies from the renminbi to the rupee. But depending on whether you're in Jackson Hole or Johannesburg this week (or on one of our podcasts), the answer might be very different.

Over in the Rocky Mountains, the yearly Jackson Hole symposium mostly welcomes those rooting for the greenback: Western central bankers. At the heart of their discussions lies the question of whether "higher-for-longer" interest rates are the right strategy to protect their currencies, or whether it's time to pause, or even reverse course, given the risk of a recession. The likelihood of the dollar staying the world's reserve currency will depend on getting that balance right.

On the other hand, participants at the annual BRICS summit in Johannesburg have a different outlook. The BRICS summit gathers the leaders of the world's leading "emerging markets," including South Africa, China, India, Brazil, and Russia (although Russian President Vladimir Putin is not attending). And the leader of the bloc's international development bank, Dilma Roussef, left no doubt about their intentions: They want to reduce their reliance on the dollar–and introduce BRICS currencies for international payments and loans.

Amid this geoeconomic bickering, Jeremy Allaire, the CEO of cryptocurrency firm Circle, sees a third way. "There's been this dollar hegemony, but that's very much under threat right now," particularly from China, he said on our latest *Leadership Next* podcast, out this week. But according to Allaire, the future isn't so much with the physical greenback or yuan. "The competition over money is becoming a technological competition," he said.

Allaire believes the future lies in so-called stablecoins that track the value of existing currencies, in which his company specializes. He says the challenge for the U.S. is to "establish a federal regulatory regime for…digital dollars, that are provided by private companies." The end game, he says, is that "everyone in the world, who uses one of these [stablecoins], understands what these are, that they can be treated like the equivalent of cash in the balance sheet."

SA's imminent oil and gas boom – Lorimer shares latest facts on nation's untapped treasure

by Alec Hogg

An edited version of DA Shadow Minister James Lorimer's keynote address to the conference celebrating the 10th anniversary of BizNews.

I sit on the Mineral Resources and Energy Portfolio Committee in Parliament. What the DA did was to divide the portfolio in two, realising that energy was as much as one person could humanly take. So that's been given to a colleague of mine, which is why I'm probably relatively more relaxed than I would otherwise be if Eskom was my problem. My problem, however, is when stuff is in the ground – all the mineral resources, and oil and gas that's in the ground.

At the end of April this year, I wrote an article about the largely unreported goings-on in the oil and gas industries in South Africa and its neighbours. It's an extraordinary story, which, as I've said, has not received the media attention that it should have. I'm going to start by recapping what I said there. The main takeaway from the story was that South Africa has a significant oil and gas industry under development. There is huge potential. And if we play our cards right – and by we, I'm largely talking about the government – we could have a resource find on our hands that will echo the great resources finds in the past, like the Kimberley Diamonds field, the Witwatersrand Goldfields, the Witbank coalfields, and the Bushveld Igneous complex. That's an optimistic, even wildly optimistic take. But then I do rub shoulders with miners, and miners are always optimists. But I think if you listen to this, you may agree with me.

So the first piece of evidence is provided by the offshore discoveries on the Namibian coast, the southern Namibian territorial waters just kilometres away from South African territorial waters, and part of the same Orange Basin geological feature. Just over a year ago, both TOTAL and Shell, what are called super majors, the biggest of the oil companies with the most sophisticated offshore drilling capabilities, have sunk multiple successful oil and gas wells. Total has two rigs drilling its first well. The Venus has been appraised by a well drilled 13 kilometres from the first but in the same field and, according to a source, has lived up to its considerable expectations. That shows the field isn't small. It is producing at the same rate that the second wave is producing at the same rate as the first field. CEO Patrick Pouyanne says Namibia is a priority for the company. He says the appraisal drilling on the Venus find was very positive. He said, "I can tell you the oil column is very big." The company aims to start flow testing offshore Namibia this month and in September; at the end of September, we're expecting a comprehensive update from Total. Probably Shell will give one at the same time about exactly how much they reckon they've found.

Read more: SA oil and gas: Prepare to meet thy boom – Mosa Mabuza, State's chief geologist

So onto Shell, which has drilled not far away. It's calling its successful wells after the great and famous African diamonds. So far it's drilled the Graff, the La Rona, the Jonker and the Lesedi, and the Cullinan well is being drilled right now. Shell's CEO says the company has drilled four exploration wells and an appraisal in a short period. And just as an indication of how good these efforts have been, when you're looking for oil offshore, you usually have a success ratio of maybe one in ten. Both these companies have hit every time they've drilled. It's a good sign. So there's a reason that Namibia is currently considered one of the two hottest offshore oil drilling destinations in the world. All of this seems to support the belief and the early estimates that the oil field we're talking about contains some 5 billion barrels of oil. That's wonderful news for Namibia. And one prediction I found gobsmacking was that in about ten years, the Namibian government's receipts from oil and gas will be about the same as those of Norway. If progress continues at the rate that it is now, both Venus and Graff will be producing oil and gas by 2028.

So that's Namibia. What about us? Well, the good news is, through a quirk of the sea border, the closest landfall to the wells is actually South Africa, because the sea border goes in as an angle following the line of the Orange River. So where they're drilling, you go to the nearest shoreline, and that would be around Oranjemund. The key thing, though, is that they are in the same geological feature, the Orange Basin. Now, the Orange Basin stretches all the way down the coast to south of Cape Town, and there's a sort of sub-basin there as well. Serious geologists tell us that there's a very strong chance of finding oil all the way down the basin. That means in South African waters, in considerable quantities too.

So TOTAL has exploration rights in this area down south, stretching from Saldanha to far south of Cape Town. And it's so confident that there is oil there that it is intending to drill what they call a wildcat oil well sometime next year, south of Cape Town. They reckon they're going to find oil. And when I say confident, bear in mind that these wells, which are incredibly technically complicated, can be a couple of hundred kilometres offshore and over a couple of kilometres of water, cost about half a billion rand to sink just one. So when those guys are guessing, you better be certain that they know what they're talking about. But it is a big gamble unless you have that expectation that you're going to find something profitable.

So rough expectations for the total West Coast oil fields are something around 10 billion barrels of oil. And listen to this one: 50 trillion cubic feet of gas. The best way to deal with the oil when it's that far out at sea is to put it directly onto a tanker and take it to whatever oil refinery in the world is most appropriate. What happens to the gas, though? The best thing to do is probably to pipe it to shore. It is technically complicated and expensive to put gas onto a tanker to carry it around the world. Profitable, but complicated. But once you have it on shore, if you're going to use it onshore, the best way to use it is to make electricity.

So there's a strong possibility that there will be onshore gas available in southern Namibia and, in a couple of years, perhaps South Africa too. Wouldn't that be nice to have gas-fired electricity at port? Not as or arrangement or litter. The one thing I find difficult to get my head around is how to quantify gas. What's a trillion cubic feet? Consider Mossgas, which you'll remember was set up in the 1980s to make liquid fuel out of the shallow gas fields off the coast of Mossel Bay. It produced tens of thousands of barrels of fuel a day on 1 trillion cubic feet for more than 20 years.

Read more: SA's offshore oil potential exposed by neighbour's Norwegian scale strikes

So, we're talking 50 trillion cubic feet off the West Coast. Put it another way, 1 trillion cubic feet of gas could create a thousand megawatts of electricity for 25 years. That's the West Coast. Let's move to the discoveries that have actually been made in South African waters further off Mossel Bay. They call it the Paddavissie fairway, the Brulpadda and Luiperd discoveries by TOTAL. These are currently going through the process of obtaining production licences and are estimated to contain combined reserves of 3 to 4 trillion cubic feet of gas and a billion barrels of oil.

Dr Phindile Masangane, the chief executive at the Petroleum Agency of South Africa (which licenses oil and gas drilling), has said that development of the Southern Cape Field alone could contribute up to $457 million per year to South Africa's government revenues. These aren't the only offshore oil resources that oil companies are interested in off the East Coast. An Italian major oil company was interested in looking but gave up on their acreage after challenges by green groups. They found easier opportunities in Mozambique, so they moved off.

The charge is sometimes made that big international oil companies will exploit our resources and take all the profits overseas. But that's not true. Roughly 60% of the earnings from a barrel of oil go to the government through taxes, royalties, and state ownership. This would be a substantial addition to state revenues, especially needed since South Africa's finances are in a terrible state.

Offshore is a great story, but fewer people know about onshore gas. Companies like Renergen and Kinetico have been successful, with the latter drilling 40 holes and finding gas in every single one. This gas is payable and relatively shallow. It has a potential life of 12 to 30 years, with another 5 trillion cubic feet expected. The location of their resource is close to South Africa's power-producing heartland, making it easy to transport and use.

Then there's shale gas, very controversial and with large estimated reserves. It's unlikely to happen quickly, with commercial viability still 6 to 7 years away. The ten-year delay has allowed us to observe fracking in the United States and set proper safety standards.

Read more: SA's third big Jackpot: First Diamonds, then Gold, now it's Oil from West Coast, Karoo – Lorimer

The potential of our oil and gas fields could be threatened by two possible issues. First, if the government mishandles the legislation again, as it did in 2014. The Upstream Petroleum Development Act is currently before Parliament, and its passage will be crucial. The second potential threat is from Big Green, internationally funded anti-development groups that often challenge drilling or seismic applications.

South Africans must decide whether they want development or not. If so, it can be boosted by South Africa's mineral endowments, including fossil fuels. Renewable energy is with us to stay, but fossil fuels still have a major role to play in energy worldwide. The demand for minerals for renewable energy is much greater than the current mining industry can supply. There's also concern about China's global leadership in processing these minerals, leading to a need for diversification.

I propose a fanciful idea: what if we had loads of cheap power in ten years, thanks to our oil and gas energy endowment? Could we not become a destination not just for mining the minerals but also for refining them and adding even more to our economy? The world will be primarily powered by fossil fuels for a long time to come, and South Africa should seize on the endowments we've been given to create a better future for our countrymen.

The game is worth playing. We should play it.

Edited transcript of GG Alcock's keynote address to the one day conference celebrating the 10th BizNews anniversary

I grew up in mud huts in a Zulu village in a place called Msinga in KwaZulu-Natal. People often asked me, "Where is my Msinga?" and I would struggle to explain where it was. Now I just say it's right next to Nkandla, so you get an idea.

I moved from Msinga to Johannesburg, known as *indawo lapho izindonga ziduma*, which means the place where the walls thunder. I moved there with only a backpack and very few material possessions, having grown up incredibly poor in a Zulu village – we washed in the river, having lots of running water. My mother, now in her eighties, still lives in the mud huts and refuses to change her life.

I was a capitalist and deep down, I realised there was no glory in poverty. So I moved to Johannesburg. My only real friends were IFP warriors or ANC comrades, as I was a political activist who had grown up among the Zulu people. When I moved to Johannesburg, I didn't even know what entrepreneurship was. I realised that my value lay in access to places that were invisible and inaccessible to others, such as the townships and rural areas of South Africa.

In that access, there was a huge richness, and part of my life has been not only running a successful business focused on the townships but realising that there's a massive economy in these places. Often we are surrounded by doomsday images like rows of shacks next to fancy houses or narratives of poverty and inequality. However, these are not true for the majority of people.

A recent headline in The Daily Maverick angered me. It read, "Cash Crunch, Consumers Turn to Alcohol and Clothing," explaining the growth in alcohol and clothing businesses, yet failing to recognise that there may be an economy where people have money to afford these luxuries. Such narratives lead us to believe that individual stories of poverty represent the whole population.

Let me shatter some misconceptions. People might believe that 80% of households in South Africa live in informal dwellings, with an average household size of six. However, only 12% of households live in informal dwellings, and over 86% of households live in formal dwellings.

This is significant because if you visit the average township, whether it’s Khayelitsha, Soshanguve, or Mdantsane, you’ll see an extraordinary transformation. People have gone from a basic structure to a double-storey or have extended their homes. It represents a broader economic picture that we should be more aware of and should be portrayed accurately in our media and perceptions.

If you go to the average township today, you’ll find that most houses are impressive formal structures. Visit a place like Orange Farm in the Vaal, and you’ll see an astonishing transformation from rows of shacks ten years ago to double-storey and beautiful houses now. This transformation in housing, without any formal home loans or credit, has largely been achieved through what I call “brick by brick home loans” or informal savings like amasociety or stokvel savings.

People in townships invest in their homes, spending on things like elaborate ceilings. A company called PG Bison, part of KAP, specialises in decorative wood furnishings and has seen growth in the township markets. The trend of stainless steel or chrome gutters, although seemingly functionless, also illustrates this investment in home improvement.

I once took a group from Shoprite into Soweto and showed them these trends. In one house, we found chrome gutters with the imprint of Louis Vuitton. The lady in the house, who was unemployed, still had these designer gutters. We should celebrate this transformation, as the majority of people are living in formal houses, representing a significant change in the socio-economic landscape.

According to the South African General Household Survey, only 12% of households live in informal dwellings, and the same percentage live on the breadline. While it is not acceptable for 12% to live in shacks, we must acknowledge that over 88% are not, and we should recognise the remarkable transformation they’ve made in their environments.

A common misconception is the belief in large household sizes. In fact, the average household in South Africa is 3.3 people. Astonishingly, 23% of households are one-person households, with 18% being two-person households, and 17% being three-person households. This trend towards smaller households is important as it means more disposable income and spending on personal comfort. It creates a massive sector of back room or room rentals, reflecting a substantial shift in living arrangements.

Overall, these observations highlight the growth and evolution within the townships, a transformation that is often overlooked or underestimated. It reveals a more nuanced picture of South African society, with individual investment in homes and lifestyles signifying economic empowerment for a substantial part of the population. It’s a dramatic difference that we should recognise and incorporate into our understanding of the contemporary South African landscape.

If you look at Scandinavia, particularly Sweden, around 30 years ago, a company named IKEA built a massive business around flatpack furniture designed for one-person households in small formal dwellings. The demographic situation in our country today is no different from Sweden’s three decades ago. We have a large number of people living in formal small spaces and small households.

What do these smaller households, consisting of one or two persons, do? They spend more on items like electronics and personal care and less on staples. During a session with an executive from one of South Africa’s biggest retailers, the executive observed that people are buying smaller pack sizes of staples like rice, flour, and sugar, moving from ten and 12.5 kg down to 5 kg. The conclusion drawn was that people must be struggling economically.

I posed a question: Is this shift because of the economy, or simply because smaller households don't require large pack sizes? The executive was unaware of the number of one or two-person households. Imagine shaping business decisions around misconceptions and headlines, assuming everyone is living in large households and struggling financially. While I'm not denying that some are struggling, we must understand that the majority are under budget pressure, not income pressure.

My wife, for example, complains about the rising price of rotisserie chicken at Woolworths; that is budget pressure, not income pressure. The UCT Liberty Institute's research pointed out that there are 3.4 million black middle-class individuals in South Africa, a million more than the white middle class. Their report titled "Thriving versus Striving" emphasised thriving, not merely getting by. We have a significant young population in smaller households, doing relatively well, and there's more income out there than we realise.

Despite dubious unemployment figures, one of the first big sectors is backroom rental, generating 20 billion rand a year. Why is this rental so significant? It's connected to one and two-person households. The most stolen product in South Africa's ports, according to the insurance industry, is not staple food but hair extensions, indicating a growth in the personal care sector.

There's a massive sector of beauty and personal care worth R10 billion, earned by salons in hair extensions, and R25 billion a year in Spaza rental. The Spaza sector is a R160 billion a year industry, with 70% of the shops owned by Somalis, Ethiopians, Bangladeshis, and Pakistanis. They rent the properties from South Africans, a fact often overlooked.

Further, we have R50 billion in fast food across about 45,000 outlets, R110 billion earned by 45,000 licensed taverns and shebeens, and R60 billion a year in the taxi industry, which alone accounts for R50 billion a year.

In townships, one of the first businesses to be started, often by the unemployed, is car washes. What does this indicate? There are 10 million net-financed, generally uninsured cars on our roads. At the time I wrote "Kasinomics Revolution," it was about 40% of the cars on our roads.

We now observe traffic jams in townships, and the emergence of car washes there tells us something significant about the nature of the vehicles on the roads. These are not bakkies that people are using to transport others. Consider that you don't find car washes in Lagos.

I read a recent article that stated most of the Uber drivers are working within what's known as the 'Kasi mechanics sector. Within this sector, there are about 80,000 highly efficient businesses, including Kasi mechanics and panel beaters, servicing the taxi industry and the informally financed car sector.

Over and above that, there are many more examples of economic growth. There's R44 billion in stokvel savings. My brother works on an extraordinary rural development project in KZN with goats. They have about 7 million goats owned by rural households, and they sell 2 million of these a year at an average cost of one and a half thousand rand. This amounts to R3 billion rand earned by rural households, primarily women.

In downtown Cape Town, at the top deck Taxi Rank or other main taxi ranks, you'll find posters that advertise things like 'Find lost lover', 'Penis enlargement' (you can see I've been looking at them) and then they say 'Credit – blacklist not important. Bring three month's bank statements and three months payslips.'

It's a curious reflection of our society, where a job is equated to a payslip. Without a payslip, you essentially don't exist. However, there is a massive informal sector thriving beneath the surface.

I spoke to a woman who sells various food and drink items, turning over R3 500 a day, with a profit of about R1 500. She's building a house in Meadowlands, selling various goods including Amagwinya (vetkoek). When I asked if she had a job, she said, *"Ja, sebenza nam sebenzi,"* a play on words meaning she works but doesn't have formal employment. She sees herself as a worker, not employed in the traditional sense.

We’ve created a society focused on payslip earners, but we ignore the rise of entrepreneurial hustle. There’s an incredible growth of independent business people. Who supports them? Who helps them grow? Traditional lending is often unavailable to them. I interviewed a young lady who rents out backrooms in Soweto, earning a substantial income. She was denied a bank loan for building, but quickly approved for a vehicle loan.

We should be celebrating these industrious individuals. The revolution is happening among entrepreneurs, not in soup kitchens. Whether it’s a business like Capitec or Shoprite investing in banking and wholesale, there’s a recognition of the size of sectors like Spaza. If traditional businesses can’t beat them, they should at least supply them.

This is where the opportunities are. If the businesses you invest in or manage aren’t invested in these environments, they should be. Without a strategy for this sector, you will be left behind.

I truly believe that this is not only an opportunity; it’s where this massive sector exists. In my book, I described my journey into a world inhabited by tribes of survivors, pioneers, traders, hustlers, and various business entities. Go among them and give them respect, for they are the future.