Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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I am growing deeply concerned.....maybe even feeling an unaccustomed sense of panic. The Government's medium-term budget is just weeks away now and every signal is that it will uncover a massive deficit of, by the most conservative estimates I have seen, at least R50-billion and by my own analysis something of the order of three times that figure.....yet we are hearing NOTHING reassuring from our leaders!

Treasury has met with the Cabinet and explained that severe belt-tightening is desperately-needed but there is absolutely no evidence that our business-illiterate leaders are able to comprehend either the magnitude of the problem or what needs to be done.

Government is borrowing two-billion Rands a day from reluctant lenders who are consequently pushing-up interest rates to world-record levels: a sign that they are forcefully turning off the taps. And they have abandoned our share market!

It is almost too late to turn the tide that is sweeping South Africa towards a failed state situation and the everyday experience of ordinary citizens is that we have a political party that is in power but totally unable to control even its own public servants.

Failed infrastructure is the every-day experience of all of us now and just re-directing State resources to getting that right could immediately set the nation on a better growth path. That would, of course presuppose that Government would use a proper tender process to appoint competent private sector companies to do the work rather that ANC cadres whose inflated tenders are designed to facilitate "donations" to the party and to powerful politicians.

Meanwhile, as the graph from Trading Economics illustrates on the right, we are having to pay ever-higher rates of interest to borrow the money we need to fund our day-to-day running costs as a nation. Back in the halcyon days of January 2015 when Treasury first raised the debt warning flag, we were having to pay 6.3879 percent while as recently as the end of May we were paying 11.27 percent; a differential which in simple terms says that international lenders believe the risk of South Africa defaulting on its debts has doubled in the intervening years.

Only a handful of basket-case economies pay higher borrowing rates than we do and the effect ripples down to every South African who has a mortgage or hire purchase debt, imposing a massive hidden tax with the result that we now have the distinction of being the most highly taxed nation in the world with, if you read my explanation in The Investor this week, our top taxpayers paying an effective 65 percent.

Compare the 11.27 percent our government is now paying on its debts with the red mean of US long bond rates of 2.7 percent in my second graph and you might grasp what a global borrowing pariah we have recently become. The graph illustrates how US long-bond yields have recently rocketed as investors have grasped the fact that the war on inflation is likely

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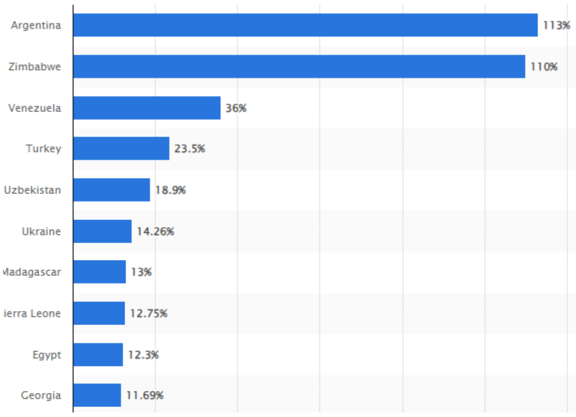
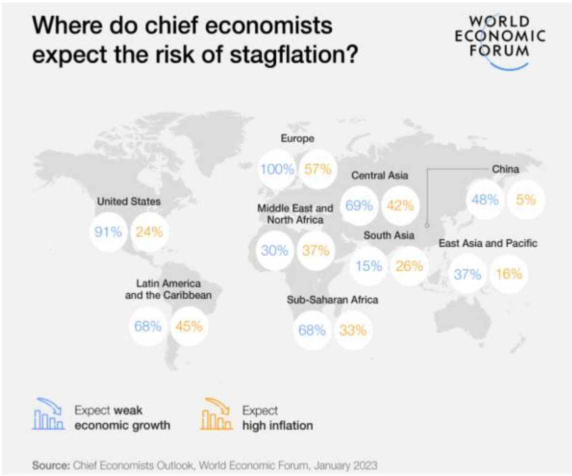
to last longer and inflict far more damage on global economies than was first feared. This week's 4.66 percent peak is the highest since the brief 4.7 percent summit of the 2011 "Sub-Prime" crisis and there is no suggestion that it is likely to ease off any day soon.

The top graphic on this page illustrates what pariah borrowers are paying to raise loans on the international market. Only ten nations are paying more than we do!

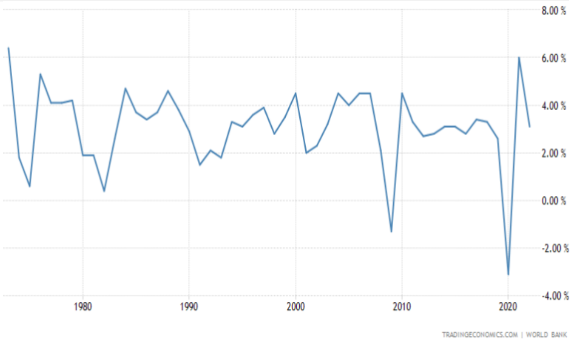


Times are tough in the monetary world globally with bond yields continuing to hover around 30-year highs as the fight against inflation continues to dig into an extended period of trench warfare rather than the quick skirmish the optimists were hoping for. Recession is now facing many leading nations and real hardship faces ordinary folk everywhere. Thus South Africa is appallingly badly placed as, begging bowl in hand, it continues to arrogantly dictate on issues like the war in Ukraine to donors including the US which almost entirely funds our AIDS retrovirals and, through preferential trade agreements, assists our steadily-weakening international export efforts.

Meanwhile, the World Economic Forum graphic on the right highlights the fact that most economists expect the deadliest economic malady of "stagflation" will engulf their nations in the immediate future. That means hardship for ordinary people everywhere, soaring commodity prices and flagging economic growth.



But if the world fears declining growth, the actual figures supplied by the OECD look like vigorous economic health relative to our SA growth rate. OECD economists predict the global average will "slow-down," to 3% this year. That figure, if you consider the global GDP graph on the right has been the approximate average for the whole planet for the past half century. Compare that with South Africa's expected outlook of 0.3% and you will understand how very badly we are doing.



Thirty years of ANC economic policy has bequeathed us the 14th lowest **current** economic growth rate in the world though we are in some good company considering the International Monetary Fund table on the right. Note, however, a total of 43 mostly small economies did not contribute comparable data including most of the tax havens, great swathes of Africa, Caribbean and Pacific island nations and war-torn nations like Syria. So we have something to be thankful for!

Country	Value
Ukraine	-3
Sri Lanka	-3
Equatorial Guinea	-1.8
Estonia	-1.2
Chile	-1
Yemen	-0.5
Sweden	-0.5
Czech Republic	-0.5
United Kingdom	-0.3
Lithuania	-0.3
Germany	-0.1
Finland	0
Denmark	0
South Africa	0.1

But what really bothers me is that if belt-tightening is the best our administrators can think of offering us when there are any number of growth strategies we could still pick from if we do not leave it too late, then we should really worry that the Government is doing nothing to prepare ordinary folk for what's coming.

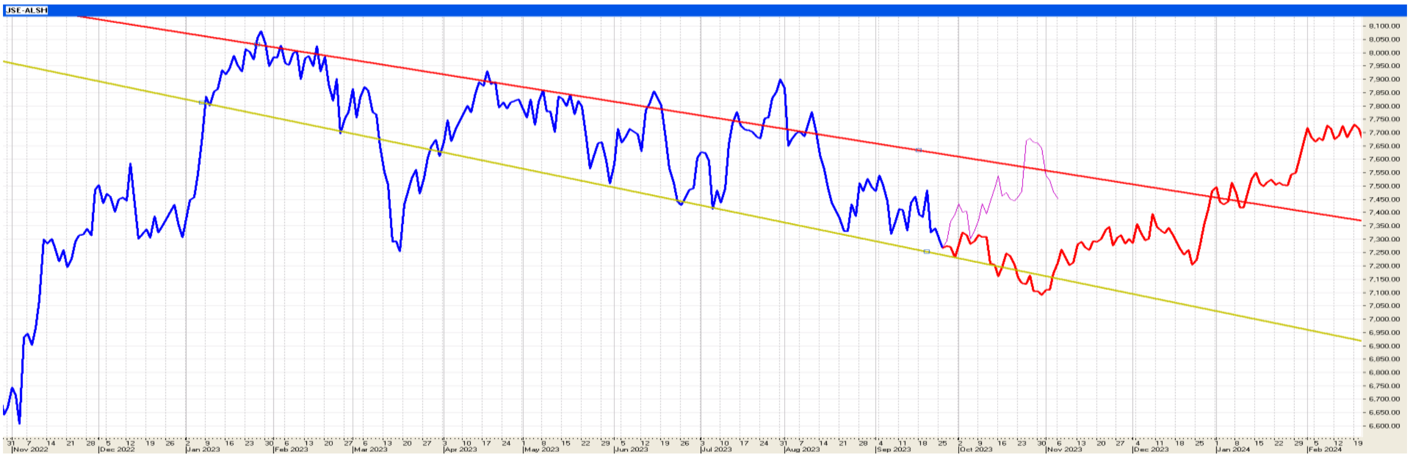
We have heard nothing of the necessary softening-up process which would prepare our vast army of unemployed folk for the uncomfortable fact that the emergency social relief system that was implemented during the Covid pandemic simply cannot be continued. There is NO money left to pay for it!

Nothing is being done to warn them that the National Health plan is simply a hoped-for panacea for a failed health service and nothing is happening to suggest that the runaway costs of one of the world's most expensive civil services are to be contained.

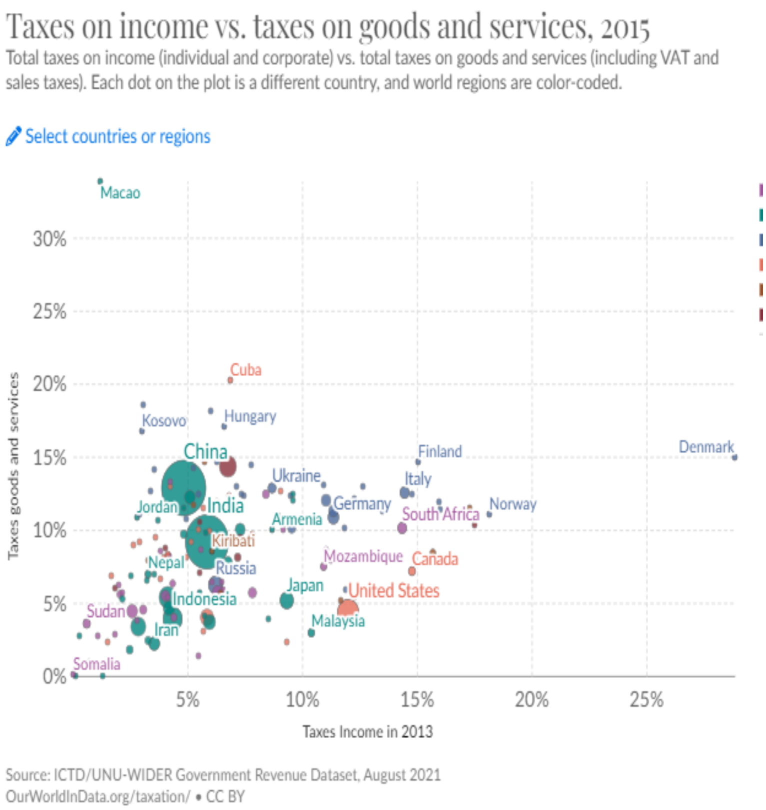
While thousands are being retrenched in the private sector what about our civil service which analysts claim is the world's best paid? Here too, what does one make of an IMF survey which this month rated Durban Harbour the worst performing in the world? Are our civil servants by extension the laziest or the most incompetent........it has to be one or the other?

And the outlook for investment on the JSE is equally pessimistic – at least in the short-term with the All Share Index declining by a mean rate of 7.6 percent annually as traced out by the red trend line in the following graph. Furthermore, the bears whose selling activities are responsible for the lower (yellow) trend line, obviously believe - because it is falling at an even steeper 10 percent - that it is going to get much worse.

But at least ShareFinder's AI projection in red sees a recovery starting at the end of October while the light mauve short-term projection sees some immediate gains:



Now our gross underperformance as a nation is, if we were to believe the politicians, because "White monopoly capital" has a stranglehold on the economy and is siphoning off all the wealth for itself at the expense of the majority. Actually, according to independent British research organisation Our World in Data, only a handful of socialist countries take more in direct taxation than the ANC government extracts from wealthy South Africans – those who pay income tax.



Denmark, Norway, Finland and Canada take more income tax from their wealthy citizens and all of these governments give back massively to their people who, by other polling measures are judged to be the world's happiest people. This last graphic thus compares the taxes extracted from the wealthy few relative to the tax take from VAT and other broad-based sources which represent a tax on everyone in the country.

Meanwhile, this week I took a morbidly optimistic view from the following article by Justice Malala in the latest Financial Mail whose contacts clearly believe the ANC will be gone in a few months. Still I fear what might replace them. For a while what we need is some seriously capitalistic thinking to give us job-creation and growth which might in turn enable us to be proud of ourselves again.....and don't overlook the piece by Standard Bank's Mamokete Lijane which explains our debt crisis far better than I.

Back in May 1992 the late, great journalist and author Shaun Johnson wrote a column about what apartheid leaders and their apparatchiks were up to in the dying days of apartheid.

"If you stand on a street corner in Pretoria late at night, I am sure you can hear the sounds of shredders shredding. Of assets being stripped. Of pockets being stuffed," he wrote.

Johnson, a great South African, should be here now to witness a new yet similar kind of frenzy. This time, it's the liberators of our country, the ANC and its allies and its leagues, who are stuffing their pockets and stripping our assets. Like hyenas, like kleptocrats before the masses rise and resist, the party's leaders in places big and small are filling their boots with poor taxpayers' money.

There is no clearer sign that the ANC's leaders are now frenziedly looting — ahead of a guaranteed loss at the polls in Gauteng — than the first two paragraphs of the Sunday Times's [front-page report] this week. It was succinct and devastating: "A tollgate cashier, a receptionist and a person with a grade 11 have been appointed to the board of the Joburg Property Company (JPC), an entity that oversees the city's 30,700-odd properties, worth about R8.7bn.

"These are some of the city appointees said to be personally and politically connected to Joburg's mayoral committee member for economic development, Nomoya Mnisi. Some belong to her ANC branch in Soweto, while others are members of her party zone in the west of Joburg."

Eight weeks ago, ActionSA laid criminal complaints against Mnisi after it emerged that this ANC youth leaguer and MMC had allegedly ordered the acting CFO of the JPC, Sipho Mzobe, to pay for an ANC Youth League event in Sandton. The event cost nearly R900,000. Mzobe refused to comply with the order, bless him.

Mnisi's actions are not isolated. Last week Gauteng's economic development MEC, Tasneem Motara, appointed the well-known Gupta stooge David Des van Rooyen to the board of the Gauteng Enterprise Propeller (GEP), a government entity. Van Rooyen was given two advisers he did not know from a bar of soap by the Guptas on his first day as finance minister. He is heavily implicated in the Zondo commission report.

Gauteng premier Panyaza Lesufi chaired the meeting that approved the appointment of Van Rooyen and Papa Leshabane, another individual heavily implicated in state capture corruption by the Zondo commission, to the board of the Gauteng Tourism Authority. Van Rooyen will help manage the more than R400m in loans issued to SMEs by the GEP.

The scandals detailed here have drawn no comment from the ANC's top structures. President Cyril Ramaphosa, who in December 2015 threatened to resign as deputy president after then president Jacob Zuma's appointment of Van Rooyen as finance minister, has said nothing about the appointment of the same Van Rooyen to a critical body of his "new dawn" administration. The ANC's leaders in Gauteng and in Joburg have not been asked to suspend Mnisi over the very serious allegations against her. It's business as usual.

These are the dying days of the ANC in Gauteng. All serious polls indicate that the party will suffer a bloody nose in the 2024 elections. So, the comrades are now no longer merely corrupt by fiddling here and there with tenders. As Mnisi's actions show, they are brazenly looting. We are in the stages that Johnson wrote about back in 1992: minutes of meetings and all records of malfeasance are being shredded, and board appointments are being made exclusively to ensure that government entities can transfer money to individuals who will pass it on to corrupt leaders as quickly as possible.

The appointments to the JPC show that the party does not even care that it will be caught with its hand so deep in the cookie jar. They are looting in broad daylight because they believe that none of us will do anything about it.

That is not true. The job for all South Africans now is to agitate as much as they possibly can to ensure that the institutions of accountability survive this lot and that, after next year's elections, tenders are investigated, dodgy *appointments are probed, and crooked politicians are brought to trial. They must not get away with it.*

The month ahead:

New York's SP500: I correctly predicted the retreat but the recovery I was hoping for has now been delayed until + - October 12/13.

Nasdaq: Similarly the recovery of the Nasdaq has been delayed but is likely to begin shortly with a booster around October 10 that should start a long-term recovery well into the New Year.

London's Footsie: The gains I predicted also ended sooner than I expected and now I see declines until early December. But that recovery is likely to be short-lived.

France's Cac 40: I correctly predicted that the down-turn that began at the end of July was likely to last well into the New Year and I still hold that view.

Hong Kong's Hangsen: I correctly predicted a modest recovery but it lasted less than I expected. In the short-term the weakness is likely to continue but pressure is building up for a two-month recovery.

Japan's Nikkei: I correctly warned of a long-term weakening trend which I still expect to last until the end of November ahead of a month-long recovery. Overall, however, the odds are for a long-term decline.

Australia's All Ordinaries: I correctly warned of weakness but the tide is now turning in favour of a two-month recovery.

JSE Top 40 Index: Like the rest of the JSE the Topi has been in decline since late January and I do not anticipate a turn-around until the end of October. Then I currently see gains until mid-February.

ShareFinder JSE Blue Chip Index: I correctly predicted a brief decline followed by gains starting around now and lasting until mid-November.

Rand/Dollar: I correctly predicted interim weakness which is now likely over with gains probable until late November when about five weeks of weakness are likely.

Rand/Euro: I correctly predicted a recovery but that is now over and the latest phase of weakness is likely to last until late-December.

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 90.58 percent.

MAMOKETE LIJANE: Debt bomb makes SA's unpleasant choices a lot worse

By MAMOKETE LIJANE

The debate over fiscal policy, already heated, is bound to escalate as we approach the announcement of the National Treasury's medium-term budget policy statement.

The medium-term budget will be one of the most important yet, which is not to say the previous ones were not important. It is just that every year that we fail to arrest the fiscal deterioration makes the question of debt even more important. If we again fail to deal decisively with the national debt issue, 2024 will be even more important than this year, and this year is already critical.

The state of our fiscus, best summarised by the size and growth of our national debt, is perilous. IMF data shows that SA has had the second-highest escalation of debt to GDP of all the large emerging markets in the past five years, and will have the same rank in the coming five. Only China in my subset of large emerging markets with market access is expected to see debt grow faster than SA.

This debt dynamic has created a toxic mix for rates, the rand and domestic assets in general. Moreover, the state’s ability to respond to crises big and small is now severely constrained. The pall of uncertainty is palpable, and the erosion of service delivery obvious. On the current trajectory, SA debt is exploding. How do we get out of this?

The theory of debt dynamics holds that to stabilise debt a country must run a primary balance — that is, revenue less non-interest expenditure equal to the difference between its real interest rate and its real growth rate. SA’s real long bond rate is about 5% and its real growth rate about 1%. Without a shift in growth and interest rates, government must thus run a primary surplus of about 4% of GDP to stabilise debt.

The Treasury managed a tiny 0.1% of GDP primary surplus in 2022, the first surplus since 2009. We forecast that the state could record a primary deficit of more than 1% of GDP in 2023, five percentage points lower than the debt stabilisation level. Debt will continue to balloon, deepening concerns about fiscal sustainability. We can’t carry on this way.

Cheap funding

Policymakers must deliver some combination of policies that put the country on a different debt path. A functional policy approach will raise real growth rates (structural reform) and/or increase the primary balance (austerity) and/or lower real interest rates (cheap and plentiful funding). Any combination of these with the correct level of intensity will do. The more of one, the less of another will be needed.

If you widen and hasten growth-enhancing reforms you can get away with less austerity. If you get cheap funding from somewhere, say the IMF, you can be slow on reform and not do as much austerity. What you cannot do is to carry on with business as usual. As time passes the problems deepen and become ever more difficult to solve.

SA has been on a reform path since the start of the current administration. However, reform breadth has been narrow, momentum disappointingly slow, and benefits are expected to accrue only slowly over the coming years. Getting the primary balance higher — what some will term austerity — is key.

I do not expect primary surpluses of 4% of GDP as suggested by my simple analysis. However, I believe a material surplus is a necessary step to proving that the state is serious about containing the debt problem. If the state fails to cut expenditure and broaden and/or hasten growth-enhancing reforms, SA will find itself with unpleasant choices.

These include watching a further collapse of service delivery and worsening economic and welfare outcomes for citizens, and having to go cap in hand to the IMF for financial support. Whatever policy decisions are taken in the coming weeks and months must be assessed in this light.

• *Lijane is global markets strategist at Standard Bank CIB.*