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 shocked a large number of readers last Friday with my deep dive into pessimism about South Africa's grossly mismanaged economy. But, after a week of reflection I have seen nothing to improve on that view and am very glad that a year ago I changed my investment strategy to favour shares with a heavy overseas earnings component.

Indeed, this week our woes mounted further with the avian influenza outbreak decimating our poultry farms, another massive fuel price hike promising a further big cost of living ripple and, on top of that**,** increasing global acceptance that higher interest rates are here to stay for as long as it takes to kill off inflation.

As evidence of the "higher for longer" interest burden, local banks are inevitably reporting an upward spike in reneged mortgage debt payments. This is a critical issue because fear of losing their homes means that for most folk the last payment they renege on is their mortgage. Many South Africans have demonstrably burned through their cash reserves and their frustration is mounting. Who in these circumstances would want to be in charge of the ANC election campaign in the face of massive losses in KZN this week. Even in the remote fastnesses of the second most populated province of SA, recognition of Government failure is now very palpable!

Meanwhile, because few South Africans seem to pay much attention to US politics, most readers will likely be unaware of an even more worrying new development: that the US might soon end, through its Pepfar (*US President's Emergency Plan for Aids Relief*). Pepfar is the principal funder of our anti-AIDS retroviral campaign which enables millions of our citizens to function economically. If the pending loss of the Agoa trade benefit is not bad enough, this could be a real social crisis!

South Africans seemed blissfully unaware this week that the AIDS campaign in this country is US-funded and that it might dry up suddenly because the US Congress gridlocked over that issue this week. It was one of the other casualties of a deal worked out last weekend to avert a debt-ceiling shut-down for the Federal government; the most attention-gathering concession being an agreement to end further funding of the Ukraine war which must be the biggest boost to a bankrupt Russia so far this year.

Worse, the Pepfar project which is credited with saving 25-million lives in Africa, has for many years also provided services for cervical cancer victims because the disease is linked to HIV infections in women. The incidence rate of cervical cancer in South Africa is reported between 22.8 and 27 per 100 000 women as compared to the global average of 15.8 and, annually, there are some 5 743 new cases reported with 3 027 associated deaths.

The national estimate of HIV prevalence in South Africans of all ages is 14.0% translating to an estimated 7.92-million people living with HIV.

Given the parlous state of our health services and the catastrophic budget shortfall predicted for the November 1 mid-term budget speech, one can only speculate pessimistically about what lies ahead of us.

The collapse of pension payments this past month has rammed home to even the simplest of South Africans the catastrophic incompetence of the ANC government. But, ironically there might be a positive outcome! Already Ramaphosa's administration has moved strongly in the direction of privatising over 700 cash-guzzling State-owned enterprises.

Though he obviously dare not openly declare privatisation as a policy because that would outrage his tripartite alliance partners who would see it as a direct attempt to reduce the manpower headcount: something which was, for example, directly countermanded in de Ruyter's days at Eskom, it is likely the ONLY way government will be able to balance its books.

The process Ramaphosa has consequently been forced to adopt; of moving the administration of State owned enterprises into the Presidency, looks clumsy and unworkable to most observers, particularly since as part of that process Eskom now appears destined to fall under the control of Gwede Mantashe who is widely linked to the "coal mafia." However, as an interim measure it is perhaps a move in the right direction.

The reality is that, at a cost of R478.5-billion, the SOEs are totally unaffordable and, given that the global experience is that such companies are seldom cost-efficient in State hands, the best of them, such as our Atomic Energy Commission, Denel and many others could, efficiently-run in private hands, prove to be very valuable assets for the country, particularly as job-creators!

Labour's concerns about job-losses within such organisations only really makes sense inasmuch as the SOEs have frequently been used as job-creators for unemployable political allies which, in large measure explains why they are so inefficiently-run.

All of which has had me pondering all week about whether it would be possible to privatise other politically-run organisations like municipalities, the majority of which are now totally dysfunctional and a constant source of service-delivery protests, ineffectual rates collection and, in a large number of cases, subject to court-sanctioned rates boycotts?

If you doubt the possibility of such privatisation, do note that there are a growing number of privately-owned mini cities and towns in South Africa which not only offer world-class amenities to their residents and occupants, but are also huge profit-generators: Think the V&A Waterfront in Cape Town and the hundreds of gated communities and retirement complexes throughout the country, not to mention our thousands of shopping malls.

In Durban, ten ratepayers' organisations are currently seeking court legitimacy to justify their rates boycotts because the city has recorded R427-million in fruitless expenditure and their members do not believe they are getting value for money. Imagine if Durban were to be listed on the Johannesburg Stock exchange and every property-owner were to be issued with share certificates in direct proportion to the market value of their properties. Such share-holders might arguably then be very keen on installing professional managers to turn their holdings into dividend-yielders.

And don't think that only the wealthy would benefit from such a scheme. Currently, according to Minister of Human Settlements Mmamoloko Kubayi, the average amount spent by the government to build RDP houses has increased from R196 887 to R255 364 per house and the recipients are very happy to sell them on to an enthusiastic market. It might surprise readers that there is a red-hot market for such houses with average selling prices of around R320 000 each. The law prohibits the sale of an RDP house before the lapse of an 8-year occupancy agreement without the permission of the Department of Housing, but thereafter the occupants are free to sell them provided they are the holders of the title deeds.

Similarly, trade union opposition to the sale of important infrastructure items like Eskom, the railways, our harbours and our highways might melt away if every South African citizen were allocated shares in a pre-listing issue, perhaps proportional on a graduated basis to the taxes people pay; a process which was accepted in principal by the major political players when it was originally contemplated as part of the enfranchisement process that was being considered in the previous century.

In the hands of government such an exercise would, from past experience of ANC efficiency, take years, even decades to effect, but the folk who handle stock exchange listings on behalf of private companies currently manage it in months!

All it needs is buy-in from the major forces in politics and my reading of the current situation is that the Government has completely run out of road. It cannot raise any meaningful further debt in the world market and, in a practical sense it is technically bankrupt. Accordingly, privatisation with a suitable politically-sanitised name should surely be an attractive option, particularly with an election coming up. It should be a cost-effective – even a very cash-generative - alternative to the nightmare we are currently watching as most of these institutions rapidly implode upon themselves!

If I were leading the DA's 'Moonshot Pact' I would make privatisation my major campaign platform. Consider for a moment that if Boris Johnson was able to sell the totally disastrous idea of Brexit to the British electorate, how hard would it be for silver-tongued politicians to offer South Africans a revolutionary way out of our current municipal and national catastrophic collapse in return for a system which could put an annual cash dividend into the pocket of every citizen?

If you doubt the cash in your pocket statement, pause to Google Alaska where every **resident** gets an annual royalty cheque from the Government (note you do not even need to be a citizen). Alaskan residents have been receiving annual dividend payments from the state's Permanent Fund for 41 years, and the latest payout of $3,284 is one of the largest in history. That sum equates to R63 605 at this week's dollar/rand exchange rate.

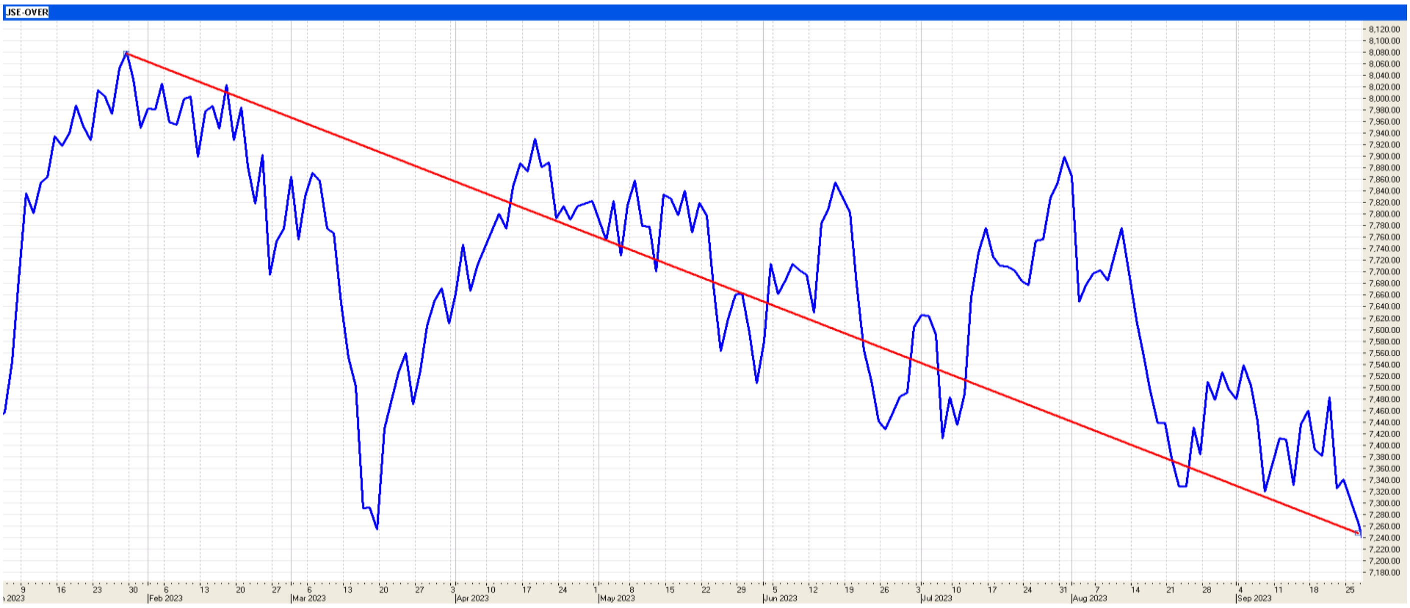
That's a monthly figure over ten times greater than the current R510 a month social relief grant that South Africans will be receiving this month, up from R500 last month and it should clearly dispel any doubts that our public would decline the idea!

The Alaskan payments stem from the royalties the government receives from mining companies operating in the territory because the US authorities correctly recognise that minerals in the ground are the assets of territorial residents.

Meanwhile, to return to every-day reality, US long bond yields rose even further this week to 4.86 percent as my following graph illustrates (the first time since August 2007):

That green trend line is rising at an eye-watering compound annual rate of 73.3 percent and, note the red ShareFinder AI short-term projection, for now there appears little chance of any slow-down. As a consequence, South African long bonds were this week yielding 11.005 percent which will increase the pressure on our Reserve Bank to further increase the Repo Rate and pile further hardship on South Africans who are burdened with debt!

Hardly surprisingly, the JSE has consequently continued its steep bearish descent at a compound annual rate of 15.1 percent as delineated by the red trend line on my last graph:



The month ahead:

New York's SP500: I correctly predicted the retreat and continue to expect a recovery to begin around the 11th.

Nasdaq: I predicted a brief recovery with a booster around October 10 which should start a long-term recovery well into the New Year. Now I only expect the next up-surge to happen around the 12th.

London's Footsie: I predicted declines until early December but short-term pressure has been building for another very brief up-surge. Long-term however, the expectation is for very volatile declines well into the new year.

France's Cac 40: I correctly predicted that the down-turn was likely to last well into the New Year and I still hold that view. However, there is short-term pressure for a brief recovery now until early-November.

Hong Kong's Hangsen: I correctly predicted that in the short-term the weakness is likely to continue but noted that pressure is building up for a two-month recovery which could begin around the 10th.

Japan's Nikkei: I correctly warned of a long-term weakening trend which I expect to last until next May. Within that I now expect a brief recovery starting this week until year-end.

Australia's All Ordinaries: I correctly warned of weakness which now seems unlikely to end before early November.

JSE Top 40 Index: Like the rest of the JSE the Topi has been in decline since late January and I still 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 gains until mid-November followed by declines to mind-January.

Rand/Dollar: I correctly predicted interim weakness until the middle of this month and see gains beginning between the 10th and the 17th lasting possibly until March.

Rand/Euro: I correctly warned that the recovery was over but I do not expect this weakness to last much beyond October 16 followed by a long recovery until March.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.97 percent. For the past 12 months it has been 90.76 percent.