Our Weekly Paid Newsletter

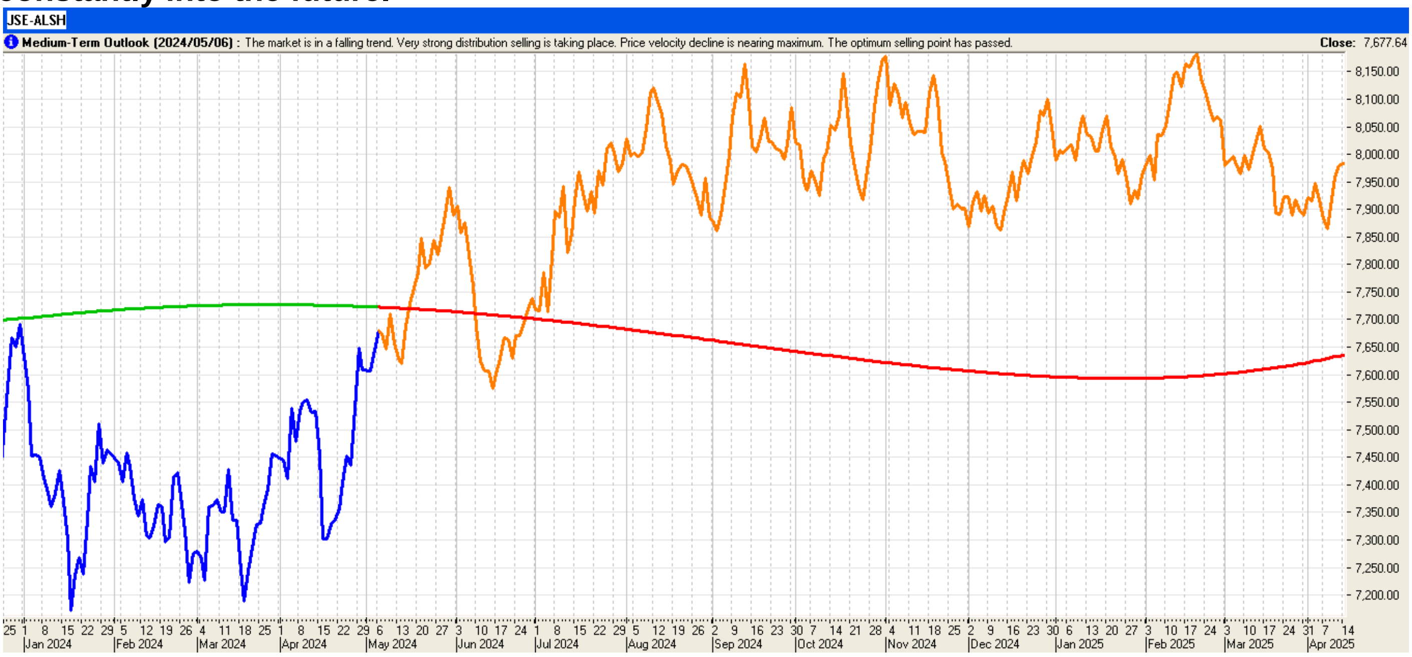
Richard Cluver Predicts

In our 37th year of service to the investing public of South Africa

Volume: 37 - Issue: 17

10 May 2024

With the general election less than three weeks away and the polls offering increasingly confusing predictions of the outcome, ShareFinder has been unwavering in its projection of a market decline right after the vote-count ends. But after June 14, by when a new government needs to be installed in Parliament, ShareFinder senses market gains almost constantly into the future.

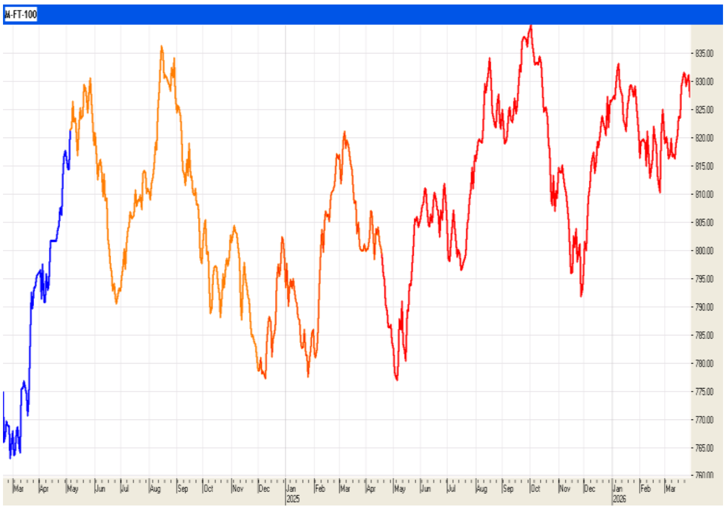


Indeed, when I push the software to project the market far into the future, ShareFinder sees the All Share Index continuing upward until January 2026 at a time when most overseas markets are being projected to decline.

In sharp contrast, in my second graph on the right, ShareFinder sees New York's Standard and Poors 500 Index - arguably the world's most representative index of global business outlook - continuing to rise until late October (about the time of the pending US election) and then going into a downward spiral at least until mid-May next year.

Published by ShareFinder International
http://www.sharefinderpro.com
richard@rcis.co.za

Britain's FT 100 Index on the right is projected to peak on August 15 ahead of a plunge until early December but real long-term recovery appears unlikely in ShareFinder's view until early May next year. But even then it appears likely to be a short and sharp period of alternating recovery and loss for the next two years.



And the rest of the world looks similarly, either pessimistic or at best uncertain as befits an era of global economic uncertainty where government debt is threatening to overwhelm ordinary folk everywhere and localised wars between nuclear-armed combatants threaten horrible outcomes for the human race everywhere while global warming adds even more uncertainty.

It is, furthermore, important to note that the indicator which I regard as probably the most accurate arbeiter of investor optimism/pessimism – US 30-year long bond yields on the right – remains in a negative mode as the upward-trending channel makes very clear. Happily, however, ShareFinder is also optimistic about this bond trend, projecting it to begin reversing downwards right after the SA election and to break through the confines of that trend channel by early July.

Such an event could, of course, strongly underpin a positive future for the JSE since, globally, South Africans are among the world's most interest rate confounded people because our prime rate of 11.75 is only exceeded by a handful of basket case economies like Argentina (40.5%) Egypt (26.8%) Malawi (24%) Turkey (21.7%) Mozambique (17.25) Angola (18%) and Nigeria (18.75%).

Thus the South African share market projection stands out for the optimism it is offering us and one that should give solace to most readers.

Meanwhile, if you want a graphic illustration of one small thing which for me has come to typify the ineptitude of South Africa's current administration - which is the prime reason why international investors are fleeing our shores - let me offer you a photograph which I took this week in central Durban. It pictures the clock tower of Durban's central post office, a listed heritage building and famous for the fact that as a Anglo Boer War newspaper correspondent, future British Prime Minister Winston Churchill addressed an assembled crowd from the steps of this building following his escape from Boer custody.

Note the wild fig tree growing out of the base of the clock and the destruction it has done to the face of the clock when it has been whipped by strong winds.

Published by ShareFinder International
http://www.sharefinderpro.com
richard@rcis.co.za

The tree has been a talking point in Durban for at least the past five years with everyone wondering if it will ever be removed. It is a small sign of so many which exemplify why few South Africans trust ANC government promises any more.

There have been many promises about Durban's clock tower but we have long become accustomed to NO ACTION!

Let us back track then to an **Independent on Line** newspaper report dated March 4 2020 which noted that SA Post Office spokesperson Johan Kruger saying that*: "The Durban Post Office building is due for a major refurbishment. The process was initiated last year when a specialist company was appointed to manage the entire process.*

"A complete assessment of the site, including the clock tower, roof, banking hall, electricity and more, was concluded and presented to Sapo management. The green light has been given to consultants to initiate the tender process for the refurbishment."

He added that the building "has been earmarked by the minister of communications as one of three smart offices nationally. During the total process, the Heritage Council is part and parcel of the project and will watch over the process up to the point of completion".

Amafa head of Built Environment Ros Deveraux was quoted in the article as stating, *"The fig tree would not have been able to take hold had the building been maintained," she said, adding that the trees could compromise the supports for the bells.*

"Should these compromised supports give way, the damage will be enormous," said Deveraux. While some maintenance issues require the approval of the heritage authority, according to Amafa, general maintenance such as cleaning gutters and downpipes, basic roof maintenance, removing pigeons and pigeon guano which can cause damage to stone, replacement of broken light fittings were required to be done by the owner of the heritage building as part of the general upkeep.

"Neglect of basic maintenance will lead to much more severe damage to the building," Deveraux said, adding that Pietermaritzburg Post Office was suffering from similar neglect.

So what has happened in the past five years? As the picture on the right illustrates, when that report was published, the tree was quite small and the clock face was still intact!

According to eThekwini Municipality, the building is owned by the Department of Public Works and would have been leased to the Post Office.

To Durbanites, this little pictorial saga is representative of the neglect and decay that surrounds everything in ANC government hands. Nobody seems to care when historic monuments decay. Indeed they seem to care even less when the lights go out and sewage streams down Durban streets.

Well we all have a chance to do something about it on May 29.

Meanwhile, readers have been expressing serious concern over recent reports of how many international majors are planning to abandon South Africa. And of course it is an issue that should be giving all of us cause for considerable concern....not the least the ANC government which has been notably silent!

South African investors are, of course, long used to the ANC's attitude of extractive contempt for business which, when mixed with a high degree of incompetence, has left the people who actually create jobs - and provide the taxes which allow its budget consuming social wage structure - floundering without help from government. So nobody should be surprised when international majors decide their money can be more profitably employed elsewhere.

That's the reality, and as a result most investment advisers have for long suggested that people who do not balance their portfolios with a goodly dose of overseas exposure are risking losing considerably. And I could not agree more. It would be foolish in the extreme not to include foreign diversification just as the smart investor ensures he amply spreads his local investments.

That's why I created the record-performing overseas virtual portfolios for my monthly Prospects newsletter while represents precisely that view. They were created to complement my JSE Prospects Portfolio in which I hone in on what to best do with the money one devotes to South Africa.

Now it is true that big corporates are very mindful of their public image and that they spend considerably to keep local politicians on their side, but one should never forget that the prime business of business is to make money for its shareholders and so when internationals with up to a century of local investment decide to pack up and go, that is a clarion call no government can afford to ignore.

Hopefully, the ANC is paying attention. But then it has a wider audience to cater for than just local business and so, while every responsible government owes it to its electorate to educate its citizens to their maximum potential so that everyone is equipped to maximise their own earning potential, if the ANC's devoted section of the electorate tells it that it would prefer to be pastoral tribalists, then that is what government must do.

Thus, though I very much doubt that the average South African would like to be a subsistence farmer struggling to feed himself on land confiscated from those who previously worked it productively and profitably - if I am wrong and that the ANC knows that its electorate prefers poverty to material progress - then it is correct to follow its present policies.

Of course, if the consequence of that approach is that every single nation's most valuable asset, its educated youth, accordingly opts to emigrate to countries which do strive to create an enabling environment for the businesses which alone can create long-term economic growth, that is what governments like the ANC must be happy with. What politician after all wants smart educated people criticising his failures?

I, however, and scores of South Africans like myself, desire a little more for those of my children who have elected to stay and work for a better economic outlook. That is why I spend so much of my time looking for South Africa's most profitable opportunities for myself and for others like me and why I hope that the departure of Shell and other corporates like it will shock the ANC into some positive action……but going on their past record I don't believe their leaders actually know what to do to stem the tide!

That's why I hope South Africans will send the ANC packing on May 29 – so that the pent up potential of SA can at last be unleashed. However, I am too much of a realist to expect that. What I do expect is that some form of grand coalition will result which will result in some genuine ability being injected into the next Cabinet…just enough to get the ball rolling.

And that is what ShareFinder's JSE projections seem to be predicting!

The month ahead:

New York's SP500: I correctly predicted gains which I expected to continue to the end of May followed by a dip until June 18 and then more gains to July 23 followed by weakness to late September.

Nasdaq: I also correctly predicted a recovery which I see lasting to the end of July ahead of a long decline well into the New Year.

London's Footsie: I also correctly predicted gains which are topping now ahead of a drop from about May 27 for around six weeks month to late June and another six weeks of recovery to a mid-August peak followed by a long down- trend into the New Year.

France's Cac 40: I correctly predicted the start of gains to mid-September and then losses to year-end.

Hong Kong's Hangsen: I correctly predicted the start of an extended recovery well into the New Year.

Japan's Nikkei: I correctly saw the end of weakness ahead of an extended recovery until November.

Australia's All Ordinaries: I correctly predicted a recovery to a volatile toppy period from early August to early November when I foresee the start of a long decline.

JSE Top 40 Index: I correctly predicted the start of a volatile recovery until early June when it is likely to interupted by a brief retreat to June 14 followed by gains until a volatile three months at the top and then a longish decline starting in early November.

ShareFinder JSE Blue Chip Index: I correctly predicted gains within a very volatile long-term recovery until mid-October. In the interim I foresaw a brief drop starting now until the 17th and then gains until it reaches a volatile top lasting about two months and then a six-week decline to mid-September and then a two-week surge to a year peak on in early October.

Rand/Dollar: I correctly predicted brief weakness within a long-term recovery trend well into the New Year.

Rand/Euro: I correctly warned of weakness until early July followed by two months of gains and then further weakness to year-end.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.26 percent. For the past 12 months it has been 93.66 percent.

When even big business calls it quits on South Africa, we have to accept that the economic outlook is poor.

By Ivo Vegter of The Daily Friend

Small businesses are fragile. They're vulnerable to all sorts of unanticipated headwinds, and don't have deep balance sheets to ride out stormy economic weather.

Big businesses, on the other hand, are robust. They have deep pockets. Their planning horizons stretch years, if not decades, into the future. Unlike small fry, the big fish are able to cosy up to governments, both to win lucrative tenders and to sway laws and regulation in their own favour and against their competitors. They're the 'cronies' in 'crony-capitalism', and the 'capitalism' in 'state-capitalism'.

Large companies aren't supposed to just get out of a country because the going has been a little tough, lately. They're supposed to be able to look to the long-term upsides of perseverance.

Unless, of course, there are no long-term upsides. Then they become canaries in the coal mine, indicating that the future is bleak.

BHP

It is with considerable foreboding, then, that we need to digest the news of major multinational companies upping and leaving South Africa.

The BHP Group, a large multinational mining and petroleum company, *made a takeover offer for its rival*, Anglo American, on condition that the latter first ditches its South African platinum and iron ore businesses.

That the grand old man of South African mining would be worth acquiring only if it ditched major South African businesses tells you all you need to know about the state of the economy 30 years into ANC rule.

One investment analyst told *News24*: ‘Look at Kumba, it has suffered significant rail issues among other challenges. How valuable is a mine if you may not be able to rail your production to the port? BHP wants to predominantly be in tier-1 mining jurisdictions, and South Africa unfortunately does not currently qualify as one.’

Another said: ‘…the bigger picture might be that they just don’t want South Africa. This should be a wake-up call for us.’

Shell

Hot on the heels of this news, *City Press broke tidings* (from unnamed ‘insiders’) that Shell, the oil and gas major, has also had it with South Africa, and will announce its plans to leave South Africa this week.

Having fallen out with its black economic empowerment partner, Thebe Investments – founded by Nelson Mandela, Beyers Naude, Walter Sisulu, Enos Mabuza and Vusi Khanyile – the company confirmed that after 120 years, *it will exit its downstream business in South Africa*, which encompasses refining, transporting and selling fuel through some 700 service stations.

Leaving the country would cost many thousands of jobs and billions in economic activity.

Bonang Mohale, a former chairman of Shell Oil Products South Africa and former vice president of Shell South Africa Upstream BV, who also once headed Business Leadership South Africa, and is now Chancellor of the University of the Free State, Professor of Practice at the Johannesburg Business School (JBS), Chairman of both the Bidvest Group and SBV Services, and a member of the Community of Chairmen in the World Economic Forum, did not hold back.

He told *City Press* that the ‘truly sad, tragic and regrettable’ move reflected low confidence among business leaders ‘due to the challenging economic environment’.

‘The writing was already on the wall when all four of the major refineries stopped operating’, he told the paper, ‘mainly due a persistent lack of regulatory certainty and policy stability’.

He said other international corporations, some of them household names, were also in ‘a rush to leave South Africa’, adding: ‘This is just the latest in a trend of companies ditching South Africa, primarily because of self-inflicted harm and the own goals we continue to score. All the economic indicators demonstrate, beyond any shadow of a doubt, that the country’s in very deep trouble.’

Volkswagen

Besides the BHP offer for Anglo, he pointed to Volkswagen as another example.

Despite the government’s automotive industry ‘master plan’, which is the jewel in its industrial policy portfolio, the company’s brand chief, Thomas Schäefer, on a visit to the country late last year, expressed concern about the future of the company’s South African operations, and poured cold water on the prospect of building electric vehicles in South Africa.

He told *Reuters*: ‘Eventually you have to say, why are we building cars in a less competitive factory somewhere far away from the real market where the consumption is? I’m very worried about it … We’re not in the business of charity.’

An exit for Volkswagen would pour on the misery for South Africa's automotive manufacturing ambitions. The current ANC 'master plan' was prompted by the departure of another global giant, General Motors, which pulled out of South Africa in 2017 after more than 90 years.

Decline

These stories add to a broader trend of decline in South African mining and manufacturing, and in South African business in general.

We saw *in a recent column on industrial policy* that the country's manufacturing output as a share of GDP has shrunk from 21% of GDP in 1994 to 12% of GDP in 2022.

In 2023, it was reported that mining output *fell further below pre-pandemic levels.* And those pre-pandemic levels already signified *an industry in decline.*

The number of companies listed on the JSE Stock Exchange is another indicator. Out of 586 companies at its post-democracy peak in 1998, the exchange lost 60% of its listings by 2022, to end that year on 237. Per capita, *the chart looks even worse*, having declined from 14.9 listings per million people in 1998 (and 21.5 in 1988), to a mere 4.5 per million in 2020.

Forecast

That large companies are giving up on South Africa can be interpreted as an economic weather forecast.

It tells us that they do not believe there will be a change of government in 2024, and that the ANC will continue to govern, albeit perhaps as the leading party in a coalition.

It tells us that they do not believe that there will be a substantial improvement in South Africa's economic policies, no improvement in its investability, no improvement in its infrastructure, transport and utility challenges, and no improvement in its business climate. On the contrary, they likely expect these to get worse.

It tells us that they do not foresee any of this changing in the foreseeable future, and perhaps not even after the next election in 2029.

That big names are getting out of South Africa suggests we're in for many stormy years ahead.

We don't have much time left to make a dramatic improvement in the country's management. If things don't change soon, South Africa will simply sink into obscurity as just another hopeless backwater where only the brave or foolish do business, or worse, become a case study of economic failure alongside some of our best struggle allies. We can't run a country on memories of liberation and dreams of rainbows alone.

Ivo Vegter is a freelance journalist, columnist and speaker who loves debunking myths and misconceptions, and addresses topics from the perspective of individual liberty and free markets.