Our Weekly Paid Newsletter

Richard Cluver Predicts

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

Volume: 37 - Issue: 29

02 August 2024

Three of us went for lunch this week at a restaurant where I live in Kloof, KZN, and the cost, with a decent tip included, was way less than two beers in a craft brewery in the US a week before.

Indeed it was only a tenth of the price of a snack lunch for two in Maplewood New Jersey last Sunday. And, given that the costs of groceries in both countries are not hugely different, the only real reason why service items are so radically more expensive in the US has to do with property rentals and minimum wage legislation.

So, to underscore that fact, an average house in Maplewood, New Jersey, costs $871 414. In Kloof it is R2.5-million. Converting the latter figure to Dollars says that a three-bedroom brick-built home in Kloof costs $137 363 or just one sixth of the price of a cardboard home in the US.

There again, the minimum hourly wage in Maplewood is $15.13 compared with R27.58 an hour in South Africa. Converting at R18.2042 to the US Dollar means that restaurant staff in Kloof earn around $1.52 an hour or almost exactly one tenth of their US counterparts.

Comparing earning power thus completely explains the massive price differentials which, in a nutshell, tells you why even our very wealthy wince when they offer their credit cards for anything in overseas countries. That's why the often jokingly-referred-to Big Mac Index is actually a valuable tool because it compares the purchasing power parity of nations.

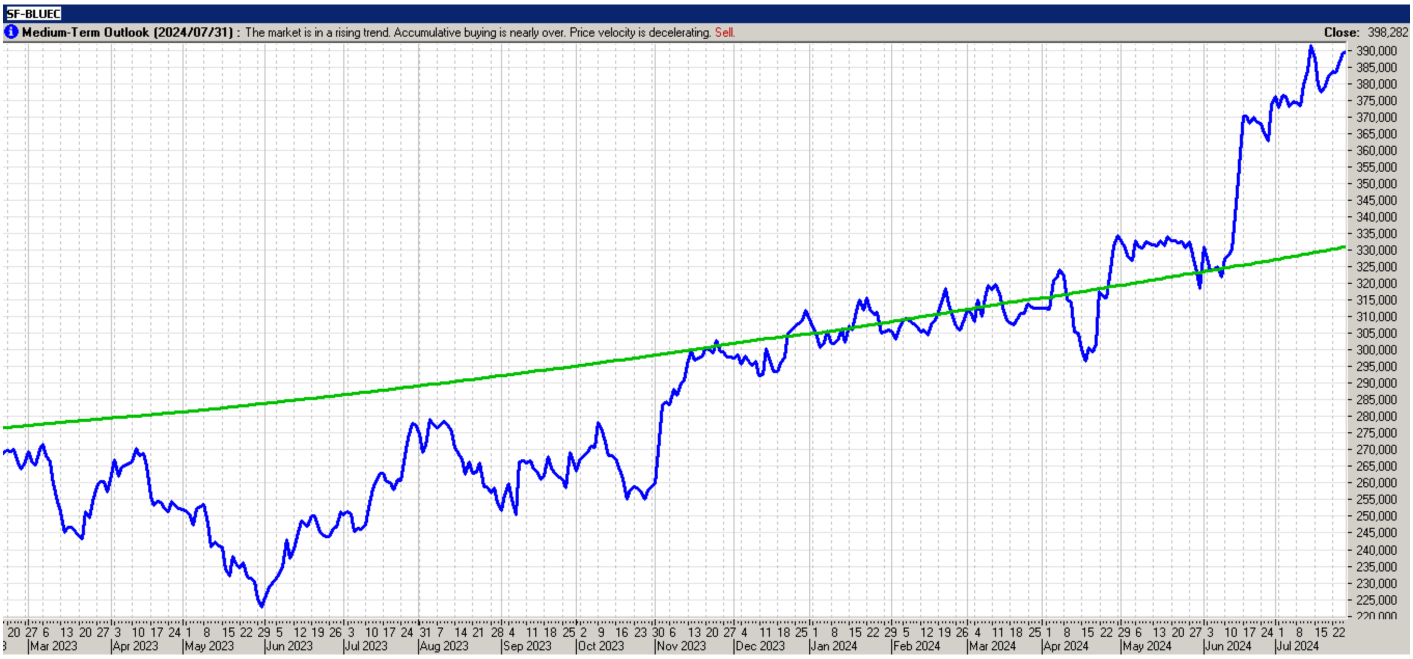
A Big Mac burger in South Africa currently costs R51.90 compared with US$5.69. Thus, when The Economist did its annual Big Mac Index update in January this year when the Rand/$ exchange rate was R19.19 compared with the current R18.2042, the implication was that the Rand was 52.5 percent undervalued.

Well, as a regular visitor to the US, I would be more than delighted if the differential were only half. But that aside, the fact that labour in the US costs ten times more than the minimum in South Africa is actually a huge indictment against those who administer South Africa.

Since the value to ourselves of being able to land South African produce duty-free in the US nets us only $2.7-billion annually should have all of us hanging our heads in shame. Clearly we have only ourselves to blame for having the world's worst unemployment rate!

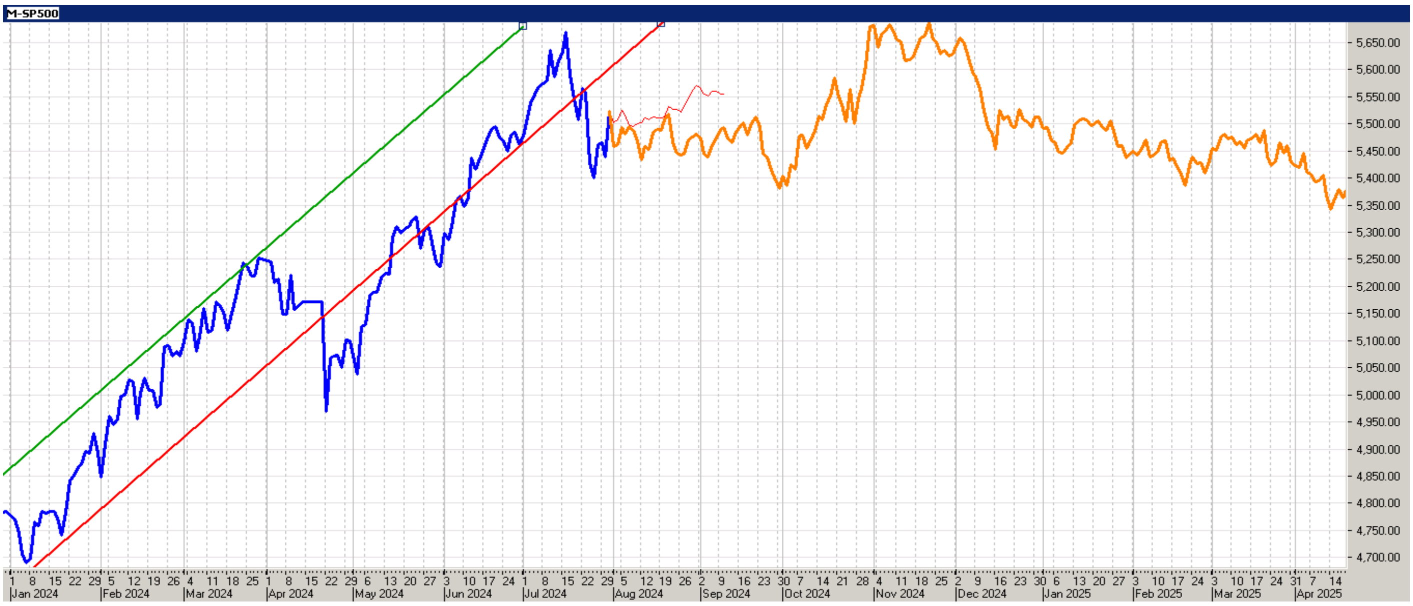
Well if South African entrepreneurs have not yet woken up to the opportunities we have long enjoyed with the Agoa treaty, investors certainly have and, given that the reality of our new government of national unity is beginning to show us that there are now a few business minds in the Cabinet, might our economy not be far behind?

Just in case you did not notice what I have been telling readers for over a year now, ShareFinder long ago predicted a positive change in government and a resurgence of our economy. That is why the ShareFinder Blue Chip Index turned positive more than a year ago as the smart money began figuratively filling its boots with good quality local shares. Here is the graph:

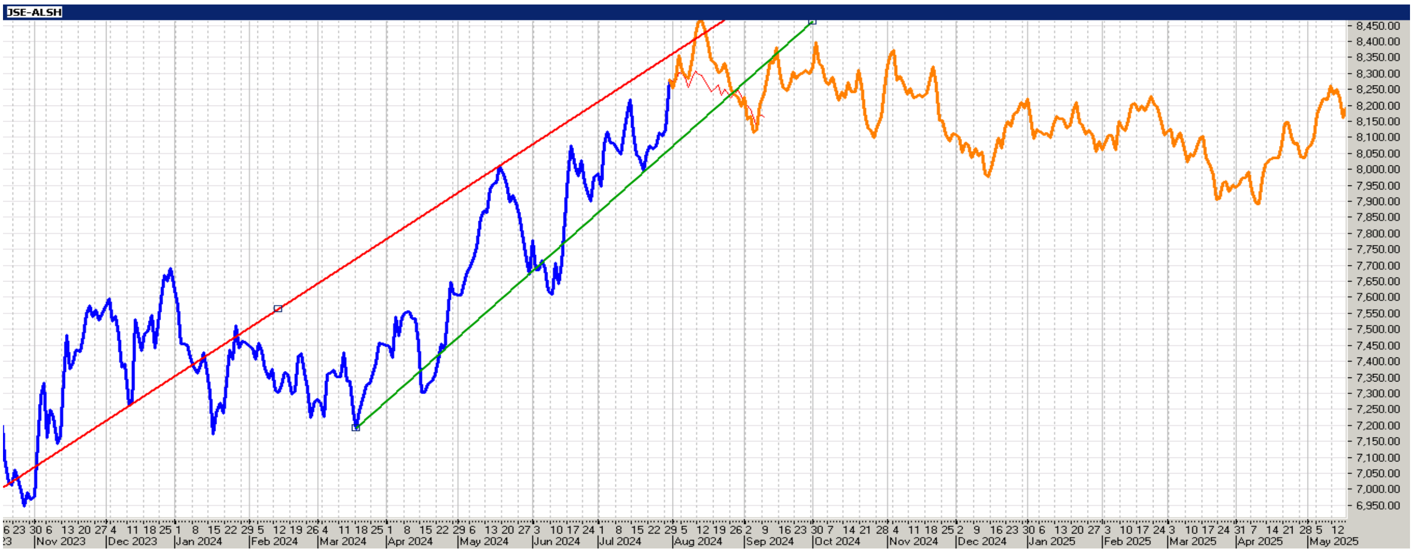


Compare that with the next graph of New York's S&P500 Index which, until Joe Biden announced he was out of the running and with that took away Donald Trump's "Senility" trump card (pun intended) "The Donald" is no longer such a certainty for the next US presidency. That casts doubts on whether Trump era tax cuts will be maintained in the future, making US commerce and industry that little bit less attractive in the immediate future:

Note accordingly, ShareFinder's projections following the downward break-out in mid-July see Wall Street not doing particularly well in the next year.



Meanwhile, the JSE All Share Index still has a way to go, but ShareFinder also sees negativity ahead from mid-August:



The ShareFinder Blue Chip Index is also sensing choppy waters ahead which could be understandable if the US economy is slowing

But the graph above is open to interpretation. Note that it is only the Medium Term (red) projection that is negative for the year ahead. Ultimately the most reliable projection to read is the green one that turns yellow in projection. It analyses long-term cycles going back half a century to give it a solid foundation.

Furthermore, the (purple) short-term projection is also positive until mid-September (though it also thinks the mid-September to mid-November period could see weakness).

All in all, in my experience such graph contradictions have anticipated some currently unexpected event which excites local optimism. So we will just have to wait and see!

Published by ShareFinder International
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The month ahead:

New York's SP500: I correctly predicted weakness followed by a sideways trend until mid-September which might have a lot to do with political and economic uncertainty in the US.

Nasdaq: I also correctly predicted declines likely until early September and then a volatile recovery to the end of November. But next year looks downward for a long time.

London's Footsie: I also correctly predicted a brief recovery which I now see lasting only until mid-month which presages a lengthy decline well into the New Year.

France's Cac 40: I correctly predicted a recovery which I now see lasting to early September ahead of a long decline into the New Year when a sustained recovery seems likely.

HongKong's Hangsen: I correctly predicted that the market would bottom around now followed by gains which I now see lasting to the end of November.

Japan's Nikkei: I correctly saw declines until month-end followed by the gains which have now started and are likely to continue to the end of November.

Australia's All Ordinaries: I correctly forecast gains to a month-end peak followed by fresh weakness until October.

JSE Top 40 Index: I correctly called gains into mid-August followed by volatile declines for the next seven months.

ShareFinder JSE Blue Chip Index: I wrongly predicted a modest sideways to declining trend to mid-September before growth resumes. Now I see the gains continuing until mid-August ahead of a four-week-long decline and then a brief final upsurge.

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

Rand/Euro: I correctly warned that a brief recovery was likely within an overall weakening trend to year-end. I currently see gains continuing for a week or two, but most of August will be weak followed by a fortnight of gains in early September. Overall though I see weakness until mid-November.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.39 percent. For the past 12 months it has been 95.74 percent.