

FOREIGN TRADE

GENERAL

1990

JSE in third spot for '89

3/24/90

NEIL YORKE SMITH

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GOLD and politics were the driving forces behind the rise in the JSE in 1989 — generating the third best stock market performance in the world last year, the Financial Times reported yesterday.

The report said in the last two months of the year "the coincidence of a rising gold price and improving political prospects boosted the Financial Times actuary index for SA by 25,8% in dollar terms".

This ensured the increase for the year as a whole reached 68%, generating the world's third best stock market performance, after Mexico and Austria, the report said.

It said local stockbrokers were predicting further growth for 1990.

"For the first time in years foreign buyers were a major factor in the market, reversing yet another trend."

The report said foreigners became "net purchasers of equity in significant amounts for the first time since before the currency crisis of mid-1985."

"Most brokers agree that this reflects a shift in political perceptions of SA, prompted by the removal last August of a president with a poor international image..." the report said. "The influence of foreigners in gilt markets was, if anything, even more pronounced."

FIM 5/1/90

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(74)

POST OFFICE

Getting the message

SA's first commercial electronic trading networks are likely to be up and running early this year. FIM 5/1/90 (2/2) (74)

The Post Office has outlined conditions for companies that wish to operate these services and is expected to begin issuing licences once these requirements are finalised in the next few months.

The introduction of electronic networks that can store and forward simple business messages sent between subscribers will be a major step towards more efficient and cheaper paperless trading. Retailers, financial institutions and the public sector, spurred by the success in Europe and the US of what has become known as electronic data interchange, have already shown interest in using local trading networks.

Postmaster-General Johan de Villiers cleared the way for the introduction of these services late in August by relaxing regulations that virtually prohibited companies from receiving and rerouting electronic information on behalf of customers.

The licences required to operate these trading networks will almost certainly stipulate that the services run on the Post Office's electronic message handling system when it comes on line at the end of the year. Licenceholders will initially be allowed to run their services on the Post Office's Saponet-P data-communications network.

Draft copies of the proposed licence conditions have been sent to the National Data Communications Consultative Committee and two long-time electronic trading proponents, the SA Numbering Association and

the Organisation for the Simplification of International Trade Procedures.

The three organisations have been requested to comment on the proposed licence conditions by the end of the month. The Post Office will then put together formal regulations for companies wishing to operate electronic trading networks.

Frontrunners in the queue for licences are likely to be local IBM agent ISM and ICL SA. IBM in the US and ICL in the UK have made substantial investments in electronic trading network services.

The Numbering Association, which represents many retailers and their suppliers, has already drawn up its own specifications for relaying electronic messages such as orders, invoices and statements. After conducting a series of pilot projects last year, the association called for tenders for the supply of an electronic trading service for its members. The association is to decide next month whether to go ahead with the project.

Easing exports

FIM 5/1/90 (2/2) (74)

Representatives from the organisation pushing to simplify trade procedures and facilitate trade between local and international companies were on the Department of Trade & Industry's committee investigating the use of electronic trading networks in the public sector. Other members of the committee included representatives from the Reserve Bank, SA Transport Services, the Commission for Administration and the Department of Customs & Excise. The investigation, which focused on the potential impact of electronic trading on imports and exports, was completed late last year and its findings are soon to be presented to the Public Services Commission. ■

Gyrations in capital market rates 74

THE fall in long-term interest rates in the capital market yesterday sharply contradicted the upward pressure on short-term rates in the money market.

Wild gyrations in capital market rates saw the yields on Eskom's Loan 168 fall back to 15,25% by late yesterday afternoon in a quick about-turn from Wednesday's high of 15,68% on the weaker gold price.

Dealers said the weaker financial rand, coupled with the initial hardening in rates on the drop in the gold price, represented a buying opportunity for foreigners who had not yet got in on the act. Foreign buying in a market where there was a significant shortage of stock had forced rates lower in defiance of the softer gold price.

Estimates of foreign buying are difficult to make, however, as some of the buying takes place directly between foreigners and primary issuers of stock.

GRETA STEYN

Bullish sentiment was further underpinned by a belief the gold price had bottomed at the \$395 level and the movement in the metal's price had been exaggerated by the thin festive season market.

Bullish sentiment in the capital market was not matched in the money market, however. The market shortage — the banks' debt to the Reserve Bank — reached a new record of close to R5bn.

The scramble for cash puts intense pressure on banks' margins by pushing rates on call deposits close to the prime overdraft rate of 22%. *6 Day 5/11/90*

The Reserve Bank's assistance in the form of a R500m repurchase agreement was welcome, but some senior bankers are said to have asked the Bank for more help.

Industrial index leaps 46 points

(74)

JSE hits new high as world markets soar

B/day 5/1/90

MERVYN HARRIS

THE JSE industrial index surged 46 points yesterday, surpassing its August high of 2 838 and closing at a record 2 853 as institutional investors went on a buying spree amid an acute shortage of quality scrip.

The strength of leading industrials was also helped by the climb of Wall Street and London to record highs which, however, have been luring investment demand away from gold.

But a steep drop in the dollar from DM1,7352 to DM1,6820 on central bank intervention encouraged fresh gold buying by European traders who had been sidelined by the currency's recent gains.

After being fixed at a six-week low of \$394,95 in London yesterday morning and slipping to touch \$393,50, gold rebounded to close in London at \$395,75.

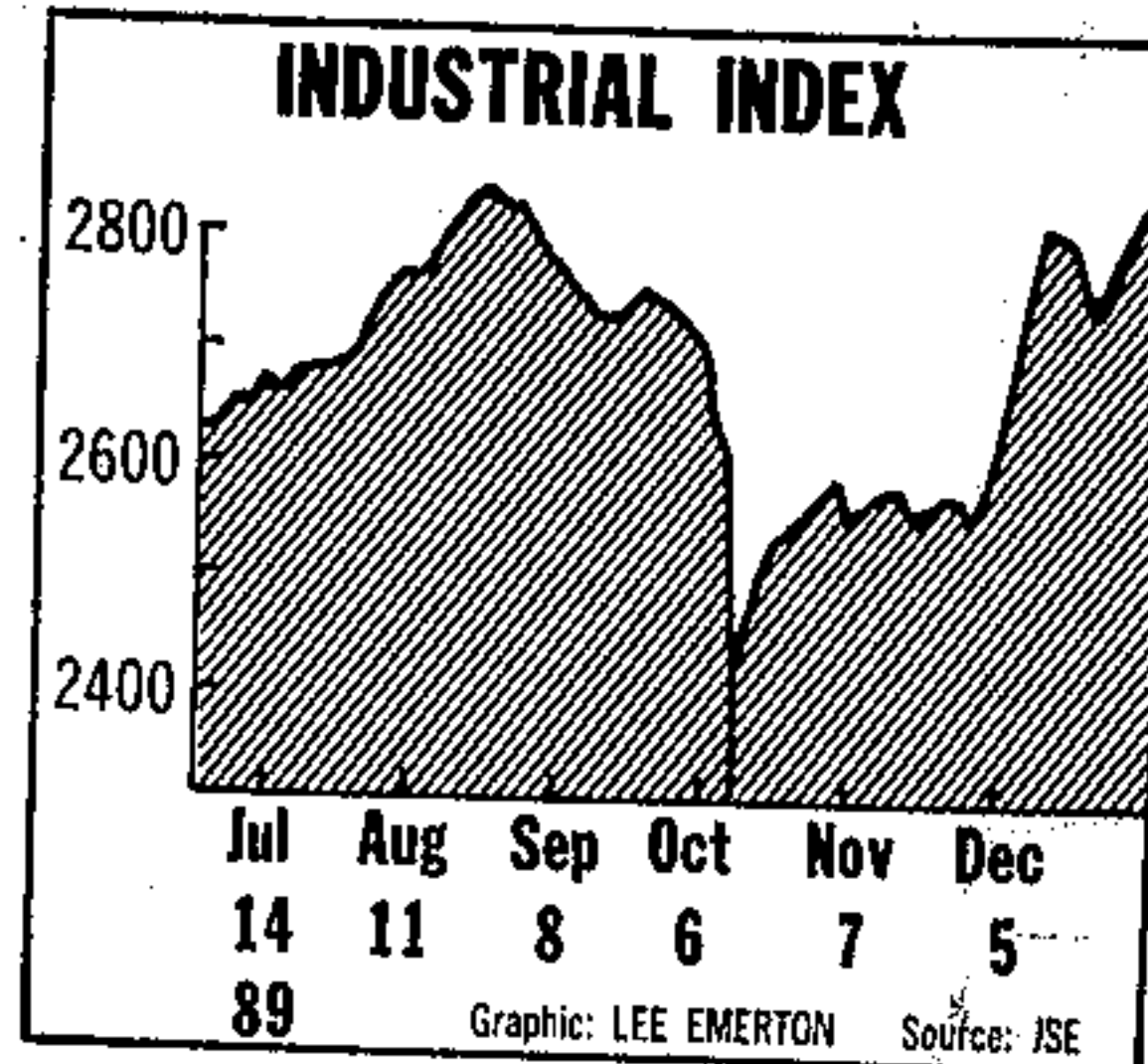
There were mixed views among analysts on speculation that Russia was selling gold. January was traditionally the month in which the Soviets sold precious metals, but they seldom offloaded to the extent that prices were severely depressed.

Some analysts believed the Russians were holding off sales to give more credibility to the rouble.

The psychological resistance barrier was the near-term target for gold, but US dealers noted a lot of back-and-forth trading. While sentiment was upbeat on the hope that the \$30 downward correction had run out of steam, chart watchers cautioned that the market could slump on disappointment the longer gold remained below \$400.

Buoyed by strong Japanese demand, platinum recovered from an oversold position to close \$13,50 higher in London at \$484. Silver firmed from \$5,16 to \$5,23.

The turnaround of precious metals enabled the JSE all gold index to recover an



early six-point decline and post a two-point gain to 2 019. With De Beers, Anglos and Minorco extending their gains to their highest levels in three weeks, the overall index spurred 36 points to 3 023.

Prices of currency-linked stocks were boosted by a weaker finrand, which fell from R3,5550 to R3,5875 to the dollar.

The sharp decline in the finrand was ascribed by currency dealers to supply and demand factors after the currency's surge at the end of last year in a very illiquid market, which pushed up the discount on the commercial rand to 26,75%.

A lot of finrands became available through foreign investors' sales of SA shares. But demand this week was not as strong as during last week's illiquid market, and the currency consequently weakened. The commercial rand rallied yesterday from its softer opening levels to close slightly firmer against the dollar at R2,5688 from Wednesday's R2,5752.

The dollar's sharp decline was attributed to surprise intervention by European central banks, reports AP-Dow Jones.

Decline in interest rates buoy markets

Start 5/11/90

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By Neil Behrmann

LONDON — Wall Street and London surged to record highs at the start of the new year in the wake of a rush to buy shares in thin trading conditions.

Wall Street boomed because the market tends to rise early in the new year and once shares began to gain, futures-related programme trading gave the market an additional boost.

At 2 800, the Dow Jones index is at almost four times the level seen in the bear market nadir of mid-1982.

Encouraged by Wall Street, London's FTSE index jumped to a record of around 2 470 — 30 points above the previous peak seen in mid-1987.

In trading over the last few days shares on both Wall Street and London have declined from the top, but remain above previous records.

Both the US and UK economies are expected to weaken in coming months and shares have surged because investors expect interest rates to fall.

The big question is whether the soaring markets are already anticipating a decline in rates. Since returns are well below those of long- and short-term interest rates, the chances are that the markets have already done so.

Markets these days, however, appear to be liquidity driven.

The weight of money has enabled equity markets to shrug off the 1987 crash and the brief trauma of October 1989.

Old-fashioned analyst

Equity markets are back to their all-time highs, even though real interest rates are punitive.

For the old-fashioned analyst, high P/E ratios, low dividend yields, punishing interest rates and a slowdown in earnings growth are amber lights for the stock market.

Yet markets are not concerned because participants believe that liquidity will keep shares buoyant.

In its latest survey of financial markets, for example, Morgan Guaranty contends that cross-border (foreign) holdings of bonds and stocks have tripled since 1983 to a total of \$1 800 billion at the end of 1988. Of this an estimated 32 percent is invested in equities.

As sizeable as it might sound, foreign equity holdings of \$573 billion only account for a fraction of the \$11 000 billion of world market capitalisation, a number undreamt of a dec-

World Markets	
Performance of key stock markets in 1989	
Percent increase ▲	1988 close 1989 close
Market closes as of last Friday of year	
Brussels	New York
▲ 16% 5565.56 6476.39	▲ 27% 2168.57 2753.20
Frankfurt	Paris
▲ 35% 549.86 740.90	▲ 27% 1,576* 1995.7
Hong Kong	Sydney
▲ 6% 2687.44 2836.57	▲ 4% 2476.2 2584.4
London	Tokyo
▲ 35% 1793.1 2422.7	▲ 29% 30,243.66 38,915.87
Milan	Zurich
▲ 17% 589.72 687.44	▲ 18% 524.4 619.4

MARKETS Frankfurt: FAZ 100. London: Financial Times-Stock Exchange 100-share index. Milan: BCI. Paris: Paris CAC 40. New York: Dow Jones Industrial Average. Tokyo: Nikkei. Zurich: Swiss Credit Bank. Brussels and Sydney: general index.
*Rounded

AP/T. Dean Caple

trade alone will exceed the entire present turnover of exchanges.

Those funds shift from one investment medium to another and the movements explain why the South African gold share market surged by about 50 percent in the six weeks before Christmas, even though shares were and are now even more overvalued in relation to the gold price, cost increases and other important criteria.

The market capitalisation of all gold shares worldwide is only \$55 billion, a tiny sum when compared with global investments.

Is the weight-of-money argument a guarantee against bear markets? For the answer examine what happened in the crash of 1987 and last October. Markets cannot cope with a change in sentiment.

Since the numbers are so much larger, it is virtually impossible to manage a gigantic wave of selling. Systems barely function under the strain and the market makers who are on the receiving end are forced to lower prices drastically.

Swift and terrible

The inevitable result is stock market crashes, unprecedented in scale and speed.

The late 1980s point the way for the nineties. Bear markets in a hi-tech market are likely to be swift and terrible. Long-term investors will just have to get used to 30 to 40 percent declines in investment values over a period of days and weeks, compared with months and years in previous decades.

For those who are wise or lucky to be on the sidelines, there will be plenty of opportunities. Given the quantity of funds in the investment pool, market recoveries are likely to be swift and profitable. Events of the past two years are an excellent example.

In the eighties, Japanese institutions were the main motor in international bond markets. Now the signs point to a sharp increase in equity investment from Japan.

"Japan has become the world's largest source of cross-border investment and is likely to remain so for some time," says Morgan Guaranty.

"By the end of 1988, its residents had accumulated net external assets of more than \$290 billion, up from less than \$30 billion at the start of the 1980s.

"Total foreign assets are growing 10 to 20 percent annually," says the bank.

ade ago.

This sea change in the supply of funds available for investment is related to the ageing of Western and Japanese populations. Accumulation of savings rises most rapidly for people aged 50 to 65.

Projections show that a growing proportion of the populace will be entering that age band in the next two to three decades.

Assuming only a one-percent rise in the aggregate savings ratio of major industrialised nations, international equities trade will rise to \$2 000 billion in the mid-1990s, estimates Salomon Brothers.

By the turn of the century gross equity flows will be around \$4000 billion and could reach \$13 000 billion in twenty years' time. This implies that international equities

Delete SYMONS

Worst is over for interest rates

By Dr AZAR JAMMINE,
chief economist,
Econometrix

OUTLOOK 90

No single factor has played a more significant role in cooling off the South African economy in recent months than the high level of interest rates which has prevailed over the past year.

The boomlet experienced by the economy in 1988 and the first half of 1989 took place mainly as a result of people's willingness to borrow to buy homes, appliances, TV sets and the like. However, interest rates hovering around 20 percent for most of the year have sapped the ability of the man-in-the-street to keep borrowing and spending the way he was doing at the beginning of the year.

Indeed the major fear among consumers and home owners alike at present is that interest rates might rise still further.

The good news is that it is unlikely that they will do so, the bad news is that one should not expect rates to fall too far in the year ahead.

To understand the rationale for this prognosis one needs to examine the main determinants of interest rate movements in South Africa.

The country needs to accumulate sufficient foreign exchange reserves with which to repay the large amount of foreign debt falling due next year and manipulation of the level of interest rates is one of the key policy variables which can be used to influence the amount of foreign exchange available.

Three main factors influence the country's ability to accumulate foreign exchange reserves. These are the level of overseas interest rates, the gold price and the level of domestic economic activity.

The level of overseas interest rates is a vital determinant of our domestic interest rate structure because the gap between domestic and overseas interest rates affects the extent to which capital flows in or out of the country, thereby influencing the amount of foreign exchange which the country possesses.

At present, overseas interest rates are high, as the world's leading nations try to prevent their inflation rates from rising further. As a consequence, South Africa's rates have to remain high.

However, there are signs that overseas rates might start coming down gradually in the year ahead as overseas inflationary pressures begin to recede. So pressure on South Africa's rates to remain high might also begin to recede.

The gold price is an important variable in the interest rate equation as it is the country's biggest single earner of foreign exchange. When its price falls, the country has to earn its foreign exchange from elsewhere, either by increasing its non-gold exports or by

reducing its imports.

Conversely, when the gold price rises, the imperative to keep interest rates high diminishes, since the increased foreign exchange earnings from gold remove the need to earn that foreign exchange by keeping imports down.

Therefore, with the outlook for a rising gold price looking quite positive, upward pressure on interest rates should recede from this source as well.

The third determinant of interest rates, the overall level of demand in the economy, also points to a reduction in rates.

With people increasingly feeling the pinch of the high rates of the past year, the demand for credit is beginning to tail off significantly and with it the overall level of economic activity.

As a consequence imports are already beginning to decline significantly and so the imperative to keep interest rates high so as to depress the demand for imports is not as acute as it was a few months ago.

The scene is therefore set for a decline in interest rates.

However, the new Governor of the Reserve Bank, Chris Stals, has committed himself to keeping interest rates above the inflation rate in his fight to bring inflation down in the long term. But inflation will not come down sharply in the year ahead as too much money has been created out of thin air over the past two years to allow for a sharp fall.

Therefore, Stals will not allow overdraft and mortgage rates to decline below 18 percent or 19 percent in the year ahead. So although the worst may be over in regard to rising interest rates, there is little cause for rejoicing.

Syfrets fund manager warns on an overly bullish stance on gold

SYFRETS warns against an overly bullish stance on gold in its latest quarterly bulletin, Unit Trust Matters.

Syfrets unit trust manager Anthony Gibson says despite the dramatic events in Eastern Europe, the international outlook is unlikely to spur the gold price to unusually high levels.

Gibson says two main factors, coupled to technical considerations, were dominant in breaking the two-year downtrend in the bullion price.

These were the mini-crash on various equity markets and the overwhelming speed at which historic barriers have been removed within Eastern Europe.

Gibson says that while the improve-

LIZ ROUSE

ment in the bullion price reflects a degree of concern over recent world events, the international environment remains sufficiently stable for Syfrets' investment managers to caution against overly optimistic expectations of further dramatic increases.

On the industrial market Syfrets is equally prudent. The industrial index has noticeably lagged the mining indices as investors have taken a more cautious view of the fundamentals facing the sector, says Gibson.

High interest rates and slowing economic growth do suggest a sharp slow-

down in profit growth from this sector. However, investors have adopted a more positive view on inflation.

Capital market rates have also fallen sharply during the past quarter. This movement, again accentuated by overseas buying of SA bonds, reflects the improved outlook for a lower inflation rate in response to the more appropriate fiscal and monetary policies.

The net effect on the economic climate, however, is likely to make it tougher.

Syfrets Growth Fund topped up its gold and mining financial portfolio in the December quarter and substantially increased its holdings in the Rembrandt

group. However, the percentage liquidity remained at 12% — R21,7m cash out of total assets of R188,7m.

Holdings in Dries, Vaal Reefs, Keeley and Rusplats were increased while 277 000 Gencor shares were acquired. More Midwits were bought.

The Sasol holding was increased slightly as were the Tiger Oats, Mobile and Trencor holdings. The Rem Beher holding was raised to 450 600 (168 600) shares and the Remgro holding increased to 335 300 (323 600) shares.

Industrials made up 55% in the December quarter (52% in the September quarter), while total mining shares declined to 39% (42%) of the total portfolio.

B/D/Day 5/1/90

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Medium term looks good ⁷⁴ Norwich

Own Correspondent

CAPE TOWN — The Norwich NBS unit trust managers are among those who expect gold to rise again following this week's dip in the price.

"It has not fallen below any technical support level," MD of the management company John Bowman said yesterday. "Despite a correction we are still confident that it is in an upward trend."

And the fund managers' view of the JSE is positive, in the medium term. They have reduced liquidity from 30,9% at the end of September to 14,9% at December 31.

Bowman said that although the cautious view the managers were taking in the third quarter of 1989 was justified on technical grounds, "sentiment — based largely on a better gold price and improved political perceptions (particularly by overseas investors) — is now the driving force in the market.

"Provided the gold price holds, and it does seem reasonable to expect this to happen, sentiment will probably remain positive."

During the past quarter the fund reduced liquidity by increasing its stake, or taking new holdings, in Of-sil, Driefontein and Vaal Reefs.

It subsequently added to existing holdings in the mining, financial and industrial sectors. New holdings were opened in Powertech and Vansa. *BIDAM 5/11/90*

At the end of the quarter the top five share holdings were in Messina, NBS, Sunbop, Unitrans and Waltons. The only sale was the fund's stake in Vansa.

In anticipation of a fall in interest rates, the fund bought Eskom long dated stock "in view of the good rates prevailing at the time".

The all-in return, of capital plus interest, from the Norwich NBS unit trust during the year to December was 41,6%.

JSE industrial index soars to new record high of 2853⁽⁷⁴⁾

Finance Staff

Bullish sentiment on international equity markets spilled over into the local market with the industrial index on the Johannesburg Stock Exchange rising to a record high.

Overseas demand, reinforced by strong local institutional demand pushed the JSE overall index up by

36 points to 3 023 at the close while the industrial index soared by 46 points to a record high of 2 853.

Strong gains were recorded in companies listed on international stock markets and this buoyancy has spilled over into the JSE.

According to local analysts the situation is exacerbated by the short-

age of good scrip, particularly gold shares, with the index holding very firm above the 2 000-mark level.

The index closed at 2 019, two points up on the day, as a recovery in the platinum price to \$484, boosted the gold price to a close of \$396,50 in London yesterday. In Hong Kong this morning the metal rose by \$3,10 to

an opening of \$397,75.

A weaker financial rand — it fell from R3,555 to R3,588 per dollar — boosted prices of so-called rand hedge stocks and blue chip stocks in particular benefited from both local and renewed foreign interest.

Anglo American, Minorco and De Beers were among the top movers.

SKW 5/11/90

Market feels gold is on way to \$450

THE gold share market is expecting a gold price of up to \$450 after the renewed flurry of buying on the JSE on Friday, when uncertainty over events in Eastern Europe sent tremors through financial markets.

Share prices in Japan, London and on Wall Street came under pressure as news that Soviet leader Mikhail Gorbachev had cancelled January meetings with foreign leaders raised questions about his political standing and sparked a gold price rally.

Buying of gold by pessimistic investors lifted the metal to a high of \$407,55 in New York on Friday. It eased to close \$7,75 up at \$406,50 after falling to a six-week low of \$394 in mid-week. The metal closed at \$404,65 in Hong Kong on Saturday.

Analysts noted that gold's rally and skidding share prices underscored the sensitivity of markets to political events in Eastern Europe. Moves towards freedom in the Soviet bloc and hopes of trading opportunities encouraged recent strength in shares, but any real threat to the Soviet leader would throw markets into confusion.

Gold's rise was also technically driven and traders said it marked a fundamental move upwards from an oversold position. Silver and platinum were also firmer.

The flurry of buying on the JSE came while many market players were still on holiday. "Back to school and back to the market will see increased activity and higher prices this week," a dealer said.

Meaningful orders are building up in all sectors and the market should be further underpinned by the shortage of stocks, especially in industrials which surged to boost the index 39 points to scale a fresh

MERVYN HARRIS

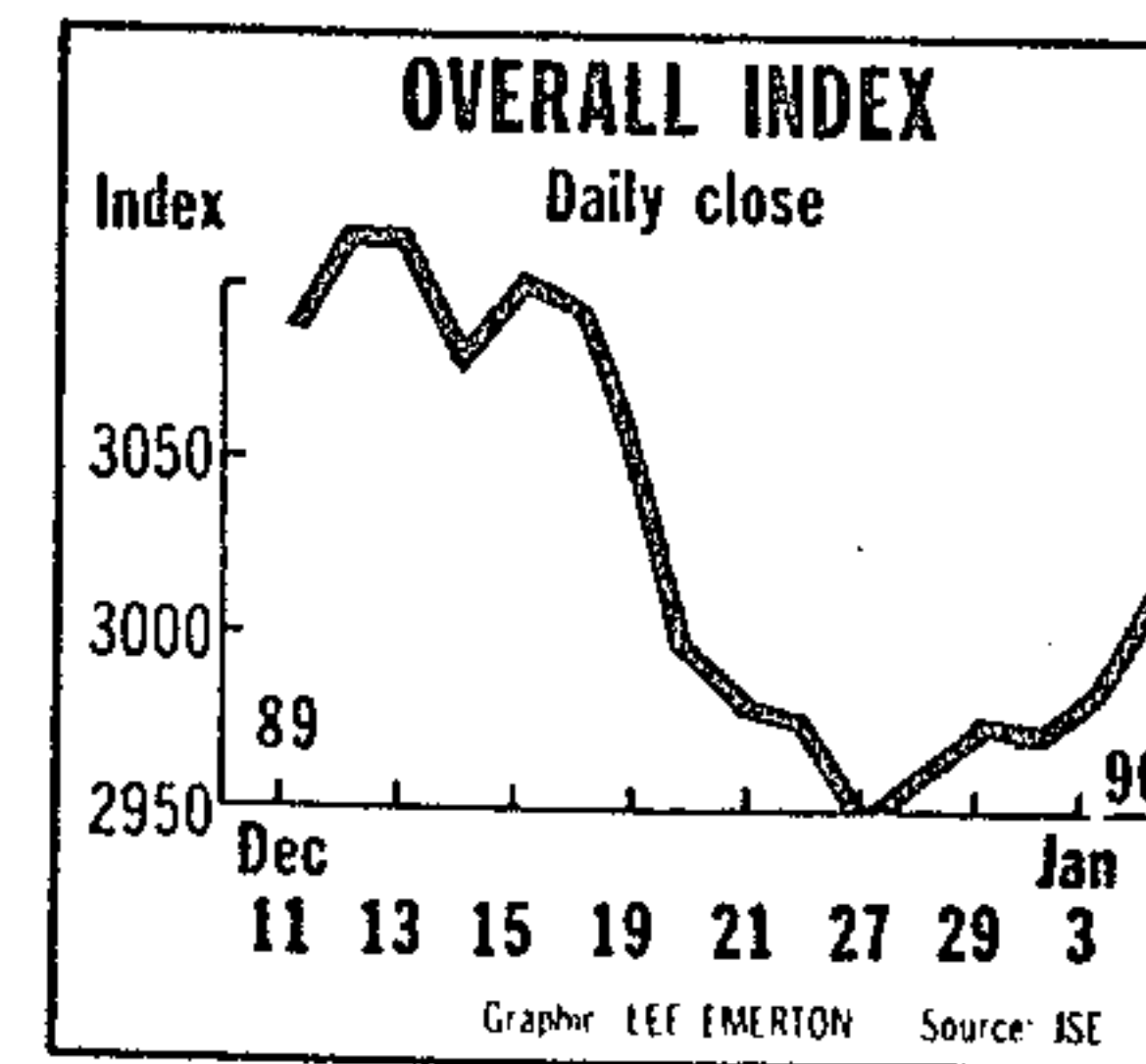
peak of 2 892.

Industrials were upstaged, however, by the mining troika of Anglos, De Beers and Minorco, which suggests the market senses something is brewing in the group.

Anglos shot up 4,3%, or R5, to hit a record R120 while De Beers shrugged off lower CSO diamond sales in 1989 to edge up 15c to R65,15. Minorco gained more than 6% on the week to R60,50.

The surge helped lift the JSE overall index 67 points to 3 090, which is less than 1% off its all-time high of 3 119 reached on December 12.

Analysts cautioned that, while gold shares are discounting a higher gold price in dollar terms, the rand gold price, currently at R1 028, has not appreciated sufficiently to spur gold mine profitability.



Long-term Eskom yields slip below 15 percent

By Sven Lünsche

For the first time in almost two-and-a-half years, yields on long-term Eskom stock fell below the 15 percent level on Friday.

And dealers expect the downward trend in the key Eskom E168 rate, which on Friday touched 14,98 percent, to continue.

The already bullish sentiment on the capital market was boosted on Friday when the gold price rose above the \$400 level and some long-term stocks gained up to 30 percentage points.

The E168 ended the day at 15,07 percent, compared with Thursday's close of 15,25 percent and Wednesday's 15,68 percent.

Rates hardened early last week and dealers said that mainly foreign buyers used this opportunity to re-enter the market.

Foreigners returned to the market in force in late trading on Thursday, aided by the weaker financial rand. The return of the gold price above the \$400 level further buoyed foreign investment on Friday.

Dealers said that investors were chasing a limited amount of paper, which further exacerbated the situation.

Local institutions remained on the sidelines.

But analysts expect that foreigners will continue to drive a bull market over the next few weeks.

"After a couple of weeks of absence, foreign investors have returned to the local market and have caused the rates to continue the decline which began towards the end of last year," says Paul

Eysink of Holcom Futures.

He believes that, barring a few short-lived upward adjustments in the rate, the downward trend should continue for at least the next six months.

Another dealer was more specific, arguing that the yields on the E168 could drop to as much as 14,50 percent over the next two weeks.

On the other end of the interest rate scale, however, sentiment has been predominantly bearish.

On the money market rates have been rising as a result of an acute shortage of around R5 billion last week, despite a R500 million repurchase agreement by the Reserve Bank.

Yields on short-term gilts in the capital market have also been falling last week.

JSE overall index sets a new record

B/Day 9/1/90

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THE forceful re-emergence of institutional buyers on Diagonal Street yesterday gave further upward impetus to spiralling share prices, pushing the JSE overall index to a new record.

In hectic trading, the index chalked up a gain of 96 points or 3,1% to sweep past its previous high of 3 119 set on December 13, scaling a fresh peak of 3 186.

The rally, led by gold and mining-house shares, spread to all other sectors of the market with the industrial index posting a gain of 41 points or 1,4% to reach a new high of 2 933.

The strong rise in share prices came amid a shortage of scrip and a weaker finrand, to help boost the JSE all-gold index 107 points (5,1%) to 2 202, coming within a whisker of its 2 260 December 13 peak.

"Investors are discounting a higher gold price, and as long as the trend is bullish share prices will move to higher ground," a dealer said.

The market should also be buoyed by the weight of institutional funds — estimated by some analysts at R32bn — seeking an

MERVYN HARRIS

investment outlet this year. With the scrapping of prescribed asset requirements, more of this money is expected to find its way into the equity market.

Furthermore, most of the big disinvestments of the last couple of years seem to be out of the way, and it is unlikely that large amounts of cash will be drained off for large rights issues such as the Gencor offer and the Iscor flotation.

Rampant bullish sentiment was undimmed as gold traded in a narrow range above \$400 when Japanese and Swiss traders turned sellers and Australian producers offered some gold.

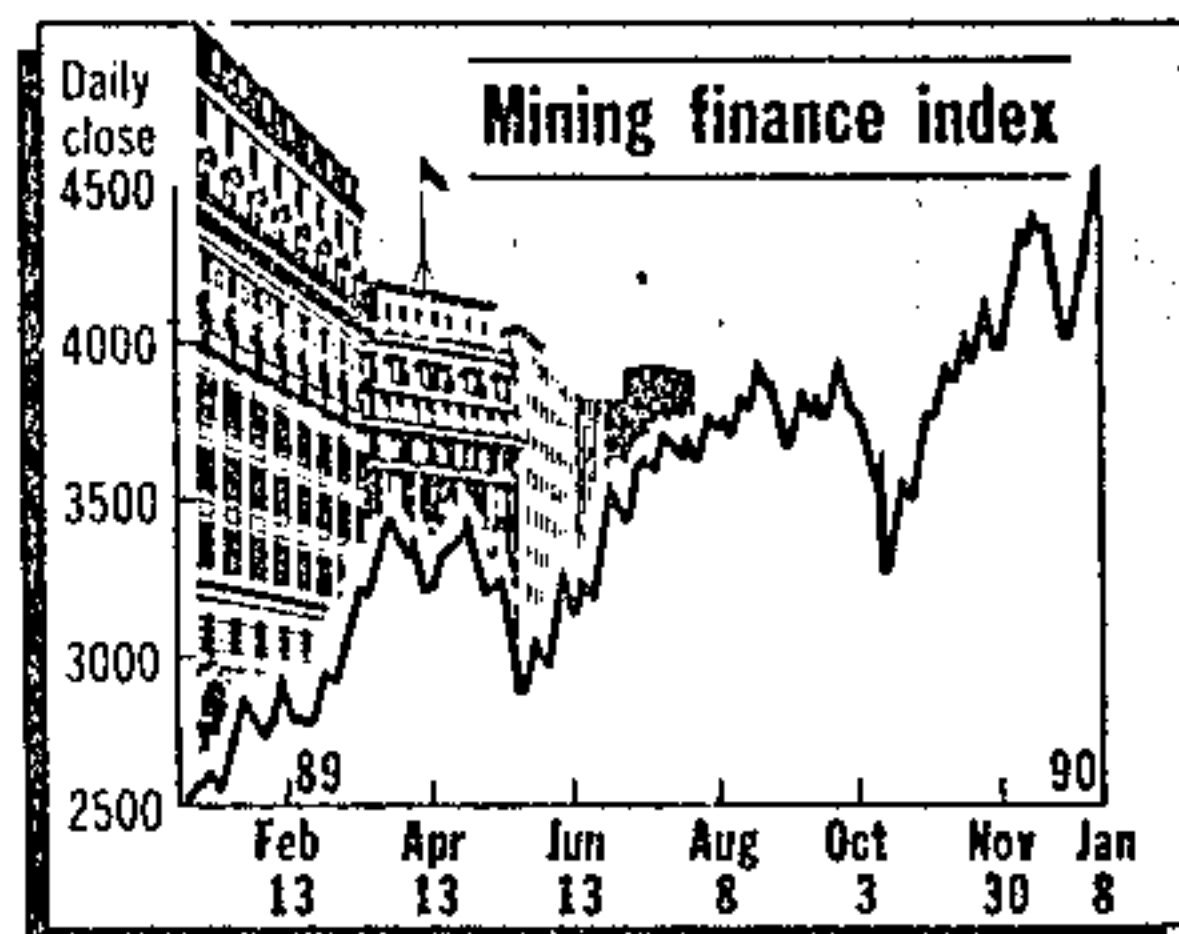
Profit-taking placed gold under a modicum of pressure, and the metal eased 10c to close in London at \$404,65 despite the dollar falling on news of prime rate cuts to 10% from 10,5% by major US banks.

The dollar was also hit by the mark, which resumed its upward swing after a round of technical adjustments last week. The US currency fell from DM 1,6923 to DM 1,6685.

The rand closed marginally firmer against the dollar but eased against most other leading currencies. It closed at R2,5422 from Friday's R2,5478 to the dollar while the finrand weakened by 5c to R3,6000.

Analysts said gold might be suffering from slack demand after surging last week on fresh worries about possible political instability in the Soviet Union.

There was still some nervousness on financial markets, but a small rally on the Tokyo stock market provided some relief yesterday.



Graph: FRUNA KRISCH Source: JSE

● See Page 5

Stronger rand may knock hedge stocks

By IAIN MCKENZIE
Head of research,
Davis, Borkum Hare

OUTLOOK 90

The trend of a weak rand since Rubicon has had several important consequences, the most obvious being economic.

Within the sphere of equity investment, the conversion of income generated in harder currencies into weak rands has enhanced the earnings of some companies.

The market has consistently afforded a higher rating to these companies' shares and has loosely termed them "rand hedges".

In the front rank of these rand hedges have been those groups with subsidiaries or operations in harder currency countries, whose earnings have benefited from both a favourable currency conversion into rands and the fact that their activities abroad often operate in more buoyant economies than ours.

The obvious examples that fall within this category are De Beers, FSI, Liberty, Plate Glass, Richemont and, to a lesser extent, Amic and Barlows.

The second category of companies with a rand hedge element is composed of the high export content companies — most noticeably, the precious metal and commodity producers, but also including some industrial companies such as the paper makers, the steel manufacturers, sugar producers and some of the fishing companies.

The weak rand has meant that for the past five years our exports have been consistently competitive, encouraging companies into export markets, many for the first time.

Weaker rand

The weakening of the rand provided some cushion to profit declines when prices were falling, while often boosting the value of exports when prices were stationary or rising.

The hedge that a weak currency provided for exporters and companies with subsidiaries abroad was matched by the difficulties of the importers. These faced cost increases on imported components and products, commensurate with the weakening currency.

The motor industry is the prime example, as are any of the high technology industries. These adverse terms of trade encouraged the growth of the import replacement industry. For investment purposes, the resulting profits from these activities have been less easily accessible than for rand hedge shares.

The important question now, considering the rand has shown some strength over the past few weeks, with a rising gold price and a slightly more optimistic political outlook, is whether this short-term trend will be sustained?



depends to a large degree on those same forces which caused it to rise in the first place. These were the improvement in the gold price and better political prospects.

In both cases, this more optimistic phase has only recently developed. Both of these trends would probably have to prove themselves sustainable before the strength in the rand itself could be regarded as permanent.

Second, can we afford a stronger currency with the prospect of high debt repayments next year and the need to maintain large balance of payments surpluses to raise the necessary foreign currency?

Again, much depends on the gold price and political events easing the repayment schedule.

The most optimistic scenario is for a higher gold price, a scrapping of the debt rescheduling agreements and for SA to return to its previous status as a highly rated borrower.

Even if this does happen, is the considerable effort which has gone into building up an export base all for naught, with our exports rendered uncompetitive by an overvalued currency?

Probably not, since the authorities are aware that we have made some of the transition to an export-based economy and will want to preserve that by keeping the currency competitive. This process could perhaps entail the merging of the commercial and financial rands.

Third, some shares have recently weakened because of investor perceptions that with the rand strengthening, profits will be adversely impacted.

Currencies

Currencies which have been weak against the rand have been the dollar and sterling. The D-mark and yen have either strengthened or remained neutral.

Most major exporters will, as a result of the diversity of destinations for their products, end up selling into a basket of currencies against which the rand may not have been quite as strong as

ing companies into export markets, many for the first time.

Weaker rand

The weakening of the rand provided some cushion to profit declines when prices were falling, while often boosting the value of exports when prices were stationary or rising.

The hedge that a weak currency provided for exporters and companies with subsidiaries abroad was matched by the difficulties of the importers. These faced cost increases on imported components and products, commensurate with the weakening currency.

The motor industry is the prime example, as are any of the high technology industries. These adverse terms of trade encouraged the growth of the import replacement industry. For investment purposes, the resulting profits from these activities have been less easily accessible than for rand hedge shares.

The important question now, considering the rand has shown some strength over the past few weeks, with a rising gold price and a slightly more optimistic political outlook, is whether this short-term trend will be sustained?

If it is, then the conventional thought of the last four years, of favouring shares which will give the full benefit of a weak currency, will be contradicted. In this case, holdings of rand hedges should be lightened or switched.

Rather, investment should be directed to local industries and importers, which are either currency "neutral" or will benefit from the stronger rand.

However, to call the end of this weakening currency period and, consequently, the end of the relative advantage of rand hedge shares, would be premature and a brave measure.

First, whether the recent strengthening in the rand is only a short-term aberration in a longer-term cycle or not,

higher gold price, debt rescheduling agreements and for SA to return to its previous status as a highly rated borrower.

Even if this does happen, is the considerable effort which has gone into building up an export base all for nought, with our exports rendered uncompetitive by an overvalued currency?

Probably not, since the authorities are aware that we have made some of the transition to an export-based economy and will want to preserve that by keeping the currency competitive. This process could perhaps entail the merging of the commercial and financial rands.

Third, some shares have recently weakened because of investor perceptions that with the rand strengthening, profits will be adversely impacted.

Currencies

Currencies which have been weak against the rand have been the dollar and sterling. The D-mark and yen have either strengthened or remained neutral.

Most major exporters will, as a result of the diversity of destinations for their products, end up selling into a basket of currencies against which the rand may not have been quite as strong as against individual currencies. This would lessen, or remove the adverse impact on their rand revenues.

Fourth, there is the often quoted difference between the domestic inflation rate and those of our major trading partners. The recent strengthening will help reduce our own rate of price increase, but the differential will still mean that our currency will remain relatively weak.

Our GDP growth rate for next year is generally forecast to be about one percent, which is below that forecast for most of our major trading partners. As a result it is reasonable to expect a higher rate of real profit growth from companies with operations abroad than for local ones.

In addition, those companies which do have a wide geographic spread are also usually in the more efficient and productive category of enterprises quoted on the JSE, from which a higher rate of profit growth can be expected.

Although rand hedges have some way to go before they lose their attraction to investors, the change that could be occurring is the necessity to pick more carefully between the stocks offered.

This is because the buffer effect of a weak currency on falling product prices will not be experienced if the rand remains stable or rises.

Prices of some commodities, base metals and other products appear to have begun to turn down and the resulting vulnerability to a decline in revenues could be accentuated by a stronger currency.

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JSE records tumble in frantic rush for shares

Star 9/11/90

74

By Magnus Heystek,
Finance Editor

An unprecedented buying spree, which had many seasoned brokers shaking their heads in disbelief, boosted two key sectors of the JSE to record highs yesterday.

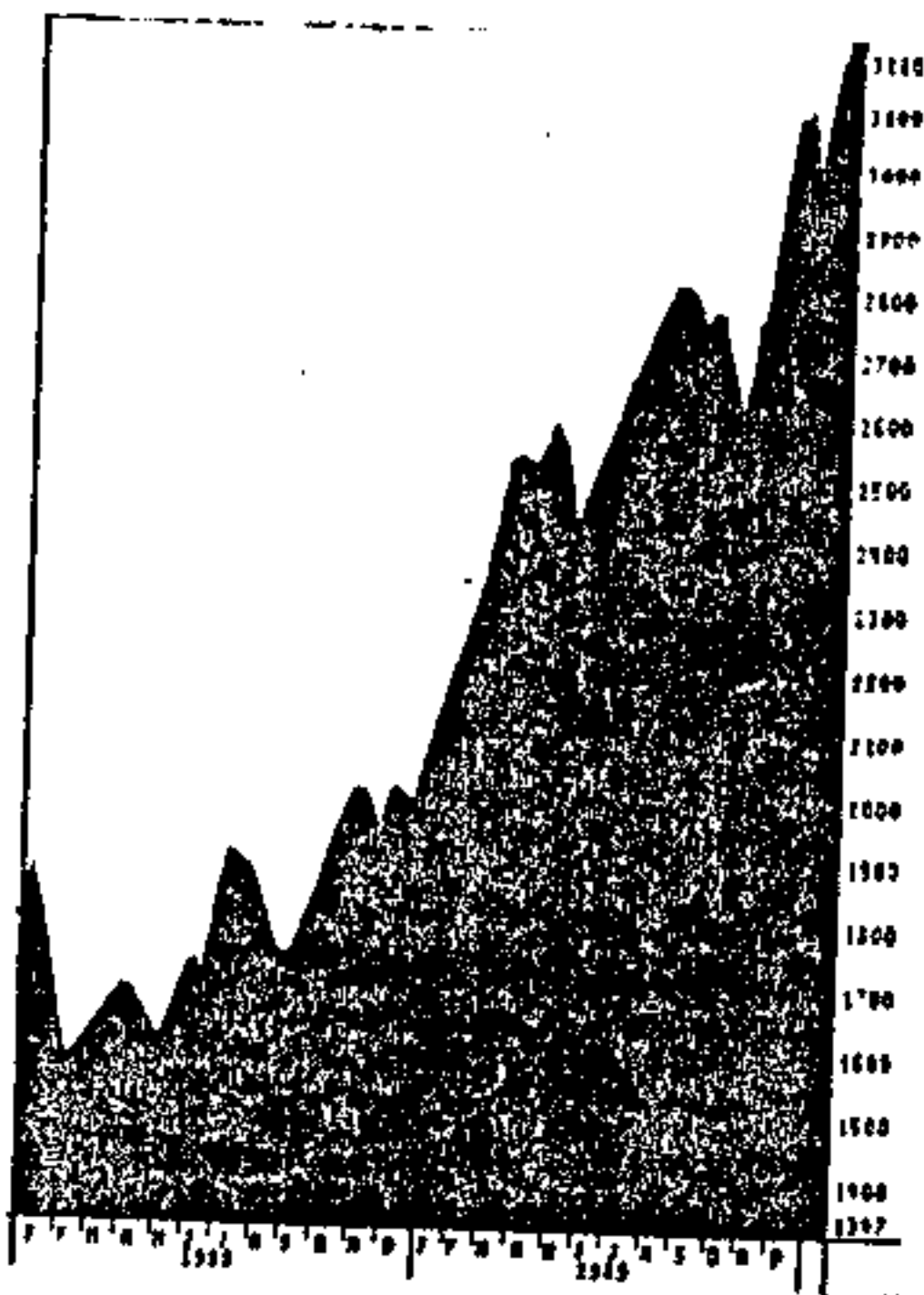
Smaller investors and institutions alike were involved in a frenzied scramble for gold and gold-related shares, while persistent overseas buying exacerbated the already acute shortage of scrip, boosting share prices further.

The overall index soared 100 points (3,23 percent) to an all-time high of 3190, while the industrial index continued its record-setting performance of recent days, rising by 39 points to yet another high of 2931.

It looks set to breach the landmark 3 000-barrier within days, analysts say.

The gold share market was extremely bullish, with investors, fresh from the Christmas break, involved in a scramble for blue chips and marginals alike.

The gold index rocketed 108 points (5,1 percent) to 2203 — the largest single-day rise in recent



The Overall index hits all-time high of 3190. Source: Wen software.

history — largely in belated response to Friday afternoon's sharp rise in the gold price to \$405 in London.

Despite dropping back over the weekend and yesterday morning in Hong Kong, the price held firm above \$400 and was fixed in London yesterday at \$403,75 in the morning and at \$404,60 in the afternoon.

After threatening to drop below the crucial \$390 level at one stage last week, gold has made a rapid turnabout to above \$400, a rise considered very bullish by technical followers of the gold price.

Analysts are convinced that the current bull market on the JSE has some way to go before a much-needed correction.

Says Mike Brown, economic consultant at Frankel, Kruger, Vinderine: "The market is currently driven by the high levels of liquidity enjoyed by financial institutions, while private investors are looking across the valley of a downturn in the economy this year.

"The behaviour of share prices indicates that a considerable re-rating of South African shares is currently taking place and that investors are now prepared to accept lower earnings and dividend yields than in the past.

"This is boosting share prices to unprecedented levels and is likely to do so for the foreseeable future," he says.

Some of the positive factors influencing the market are the perception of a better-managed economy, with a possible slow-

down in the rise of interest rates and inflation in the offing, an improved political scenario and a huge weight of investable funds.

But, cautions Johnny Solms, analyst at Mechiel du Toit, "the market is currently very volatile and a sudden drop in the gold price will remove much of the euphoria.

"A drop in overseas markets could also have a negative effect on the local market."

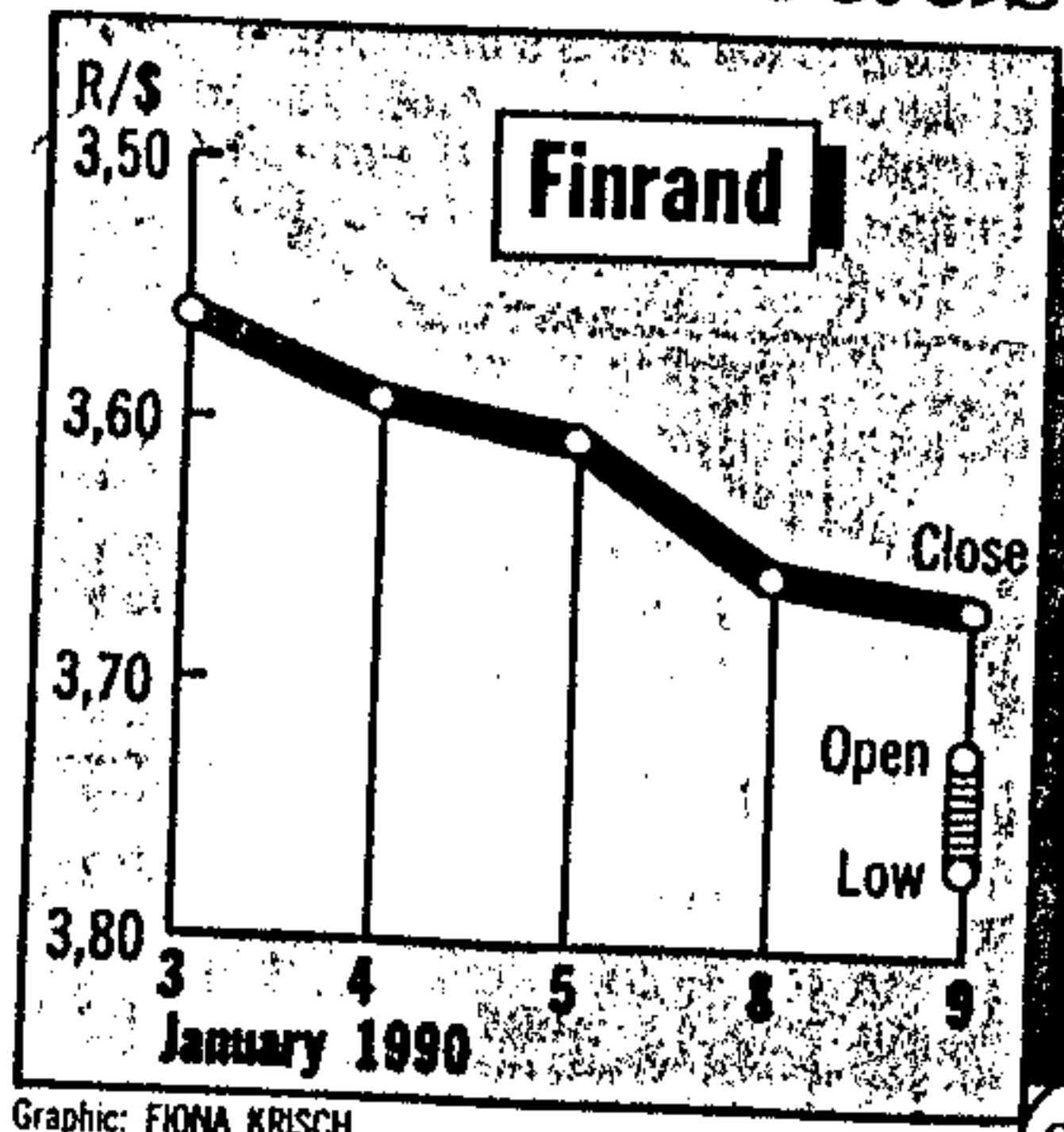
Marginal gold mines recorded extremely strong gains across the board yesterday and investors are discounting a gold price of around \$450.

Should this not be forthcoming in the next couple of months, it could again lead to a sharp drop in prices.

Most gold analysts are expecting good quarterly reports from South African gold mines in the next number of days. But if the quarterly report of Goldfields is anything to go by, they might be in for a slight disappointment.

Gold mines in the GFSA fold in most instances battled to increase profits in the face of a steady rand-gold price and rising costs.

Finrand causes JSE flutter



Graphic: FIONA KRISCH

MERVYN HARRIS **74**

A VOLATILE finrand and profit-taking hit mining shares on the JSE yesterday, after recent sharp gains, as nervousness crept in towards the close of trading on the failure of gold to penetrate to higher levels.

But continued demand for scarce blue chips pushed the industrial index up 34 points to post a new high of 2 967, with Iscor the pacesetter in heavy trading. The shares jumped 4,8%, or 13c, to 283c after touching 285c. *Bl Day 10/11/90*

The overall index was marginally off its record high as the all gold and mining financial indices gave up early gains to close about 1,5% lower.

The major reason for the turnaround was the fluctuations in the finrand, which

To Page 2

Finrand *Bl Day 10/11/90*

weakened sharply on strong selling from an opening R3,7175 (\$0,2690) to R3,7736 (\$0,2650) before climbing back to close at R3,6630 (\$0,2730) on heavy buying from Europe.

The decline came on rumours that off-shore operators were taking capital profits on gilts, but the downturn was reversed by renewed buying.

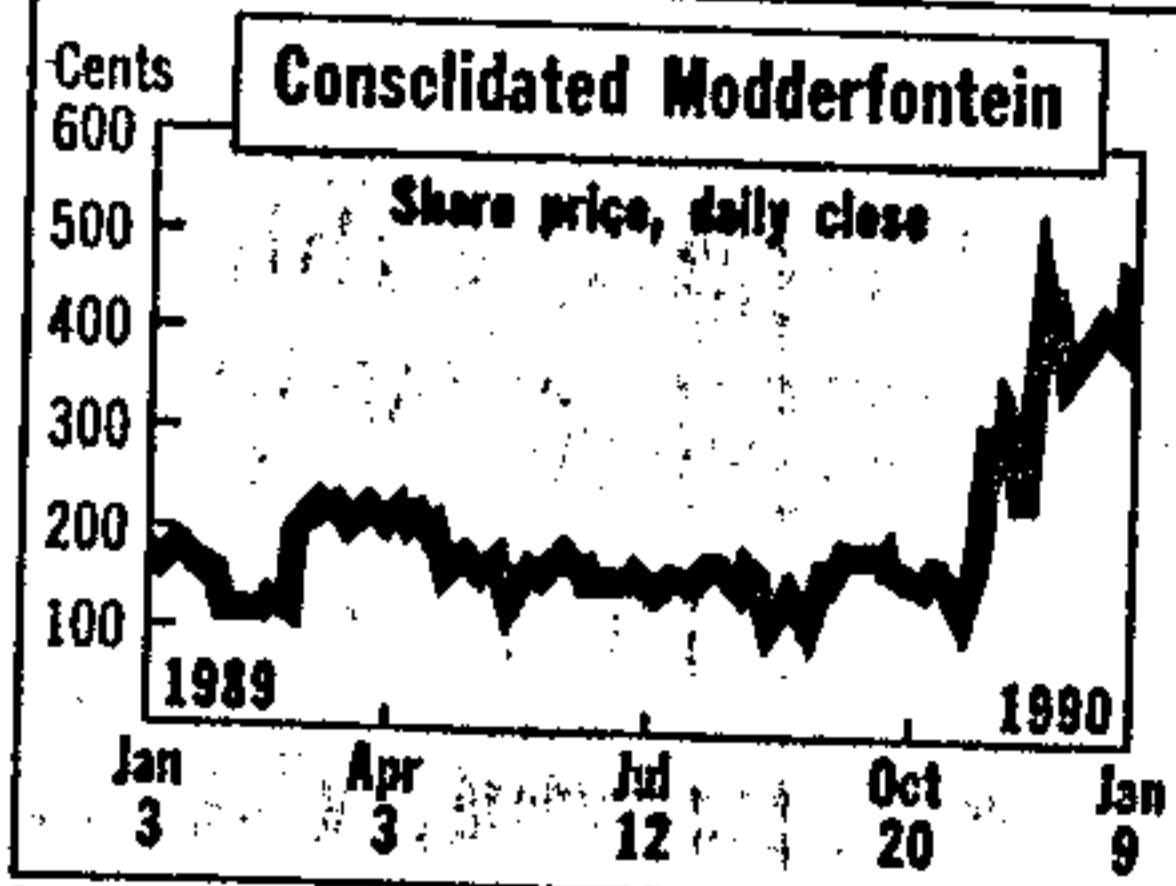
Gold remained stuck in a narrow range

and closed 80c lower in London at \$403,85. Analysts reckoned traders were delaying new commitments until Friday's US producer price data for December, expected to reflect inflationary pressure from strong crude oil prices.

Japanese buying of gold, a key factor in the recent rally, has subsided after the yen dropped sharply against the dollar.

See Page 7

From Page 1



Graphic: FIONA KRISCH Source: ISE *31 Jan 10/11/90*

Shine put back into Cons Modder

REINIE BOOYSEN *74*

THE time may not be quite ripe for Consolidated Modderfontein shareholders to go out and buy a bottle of champagne — but if the mine maintains its performance in the December quarter there may yet be cause for celebration.

Cons Modder suffered numerous setbacks last year while chairman Loucas Pouroulis fought to save his platinum empire from crumbling.

After selling his platinum mine to Rand Mines in September last year at a substantial discount, Pouroulis tried to revive his faltering gold mines and the results of that effort are starting to come through at Cons Modder.

In the December quarter last year — just when the trouble at Lefkochrysos Platinum started to brew — Cons Modder made a R3m loss before capex.

For the first three quarters of last year the mine was hardly able to cover its substantial interest payments on debt of about R40m.

But in October last year Pouroulis himself went underground daily in search of gold.

The result was a distributable profit of R5.5m in the December quarter, and hope that the mine may repay its debt in about two years, and hopefully start paying dividends again.

The mine last paid dividends of 90c a share in the year to June 1987.

The results, published today, show that Cons Modder is reducing the tonnage milled, and successfully concentrating on finding higher grade ore. The rise in yield

□ To Page 2

Cons Modder *31 Jan 10/11/90*

from 3,56g/t to 5,84g/t lifted gold production from 591kg to 724kg despite a 42 000 ton drop in mill throughput.

This, along with a better gold price, boosted revenue from R18,6m to R23,8m. With costs slightly lower, at R16,7m (R17m), operating profit rose from R1,6m to R7m.

Two notable improvements in development results were recorded:

- On the Black Reef at Cons Modder's No 1 Circular Shaft the payable metres rose from 46 to 88, the average channel width rose from 111cm to 213cm, the average grade rose from 5,5g/t to 7,7g/t, and centimetre grams per ton rose from 615 to 1 647.

74 □ From Page 1

- On the Kimberley Reef at the Springs No 1 Shaft payable metres also rose from 198m to 244m, and a rise in grade from 12,5g/t to 16,2g/t boosted centimetre grams per ton from 877 to 1 134.

Cons Modder's share price started surging upwards in October from about 200c a share to about 480c yesterday. Dealers said yesterday there was strong buying from abroad — particularly London, where the share was also listed.

Analysts said the rise in the share price was not entirely justified by the warming of the gold price late last year — although it may have been more rational in view of today's results.

High risk, high rewards in options trading

Finance Staff

The attraction of options trading (and also futures and forwards) as compared with the underlying securities activity of the market is that the uncertainty and volatility is increased.

In the past, people trading in these markets (financial, produce or commodity) had to carry all of the risk.

The development of a futures, forwards and options market reflects the desire to hedge that risk by transferring it from those unwilling to bear it (the hedgers) to those more willing to assume it (the speculators) through the use of derivative instruments such as options, futures and forwards.

Although the purpose of some derivative contracts is solely related to delivery, the emphasis of the more popular derivative contracts are not on the underlying assets themselves but in the way these contracts adjust the assets' risk/reward characteristics.

In anticipation of the new traded options market, stockbrokers Davis Borkum Hare has compiled a basic trading manual to help investors prepare and educate themselves.

These are the more general terms which investors will need to become familiar with before venturing into this market:

A **FUTURE** is an **OBLIGATION**

Trading in options on the JSE is expected to commence this year and promises to be an exciting new avenue for investment and risk management.

to buy or sell a standard quantity of a specified asset at a future date and at a price that is agreed between the parties at origination of the contract.

An **OPTION** is a **RIGHT** to buy or sell a standard quantity of a specified asset at a future date and at a price agreed between the parties at origination of the contract.

A **FORWARD** is an **OBLIGATION** to buy or sell a specified quality and quantity of an asset at a future date and at a price agreed between the parties at the origination of the contract.

The essential differences between the way these different instruments work are as follows:

A purchase of a future or forward contract implies an obligation. A purchase of an option only implies a right.

This means that the option is a one-sided contract in that the purchaser of the contract is not required to perform on the contract if he does not wish to.

The futures or forwards contract holder however is obliged to perform on his contract by ei-

ther closing out his position by taking an equal and opposite contract or by delivery in the specified manner as set out in the contract.

Forward contracts are different to futures in that delivery is always assumed whereas with futures, only approximately 5 percent of contracts are delivered. This is because investors normally close out the contract before expiration. Options like futures are normally closed out before delivery.

When setting up a futures contract the broker handling the deal will require a cash deposit (or margin as it is called) from both the buyer and the seller.

However with an option, only the seller, otherwise known as the writer, need place margin as the buyer has already paid his premium to the writer. Forward contracts do not normally require margin.

With a forward contract, payments are not made at origination or during the term of the contract but are made at maturity of the contract.

Futures contracts are normally "marked to market" daily. This means that their value is recalculated daily and adjustments in terms of payments are made from buyer to seller or vice versa.

Options contracts are paid for up front and any profit or loss on the contract is paid on maturity or exercise of the contract. Option writers will pay margin as and when required throughout the life of the contract.

Future and option contracts are normally standardised in form with respect to expiry dates and prices and volume transacted per trade, whereas a forward contract is normally customised to the circumstances of the individual trade. The consequence of this is that one can have a secondary market on options and futures but not on forwards.

It is possible to emulate a widely based equity portfolio by holding the nominal value of the portfolio in stock index futures or call options on that particular index, and the balance in a short term money market instrument. This strategy (referred to as the synthetic portfolio) has the following advantages:

- Lower transaction costs;
- Easier way to change exposure to the market and,
- The ability to trade in large amounts without moving the price.

JSE FIRM INVADES FUTURES SCREEN TRADING

LESLEY LAMBERT

CAPE TOWN — Futures dealers were surprised yesterday to see a JSE stockbroker add its name to the list of financial institutions quoting futures prices on the Reuters screen — especially since the JSE has restricted its members from doing so.

Impatient from waiting for the JSE's go-ahead once derivative markets were formalised, Mechiel du Toit, Solms & Co found a way to become the first to break into the banking domain of screen-traded futures.

The stockbroker has established a closed corporation called MDT Futures Trading, with one futures trader as the principal member and set up a cross-guarantee agreement with a Cape-based financial institution in which each party undertakes to guarantee the other's transactions without actually investing any capital in the other's business.

To win the final approval of the SA Futures Exchange (Safex), MDT had to pay a R250 000 guarantee, kept by the Safex Trust as client security.

Another JSE stockbroker, J D Anderson, is understood to have linked up with the Allied Bank and applied for screen trading rights.

While some dealers welcomed the entry of a stockbroker into their territory, others said it would encourage a flood of similar operations in a small derivatives market already served by a disproportionately large community of dealers and brokers.

A newly established Screen Traders Association is expected to discuss the issue at a meeting in Johannesburg today. The JSE could not be reached for comment.

restricted

Mother fight

10/11/90

Gold up as Russia lifts jewellery price

9/21/90
Finance Staff

Gold rose to \$412.40 in New York last night after closing in London at \$408.75 and opened nearly \$6 higher in Hong Kong today amid speculation that the Soviet Union will eventually introduce a gold standard.

The bullion price rally, which brought it back to the level reached in mid-December, followed reports that the Soviet Union was doubling the price of gold jewellery in a desperate effort to cool buying stemming from political and economic uncertainties in Eastern Europe.

Analysts said the continued drop in Wall Street stock prices also ignited a flight to hard assets such as gold, Reuter reports. The Dow Jones industrial average ended with a loss of 15 points yesterday.

Neil Behrmann, The Star's financial representative in London, reports that people in the USSR, fearful of rampant inflation and erosion of savings, have been queuing up to buy gold.

They were prepared to pay more than \$2,000 an ounce for their gold, analysts said. It is preferable to hold hard assets at any price when there is a possibility of a substantial devaluation of the rouble.

According to some estimates about 460 billion roubles are in savings ac-

counts earning only two to three percent a year.

Following a visit to the Soviet Union by Federal Reserve Board chairman Alan Greenspan and Fed governor Wayne Angell, a growing band of economists and officials believe the USSR will be forced to issue a new rouble which is at least partly backed by gold.

Angell told Forbes Magazine that his advice to the USSR was: Go on a gold standard and make the rouble competitive with the hardest currencies in the world. He added that such an event would not have a significant impact on the international price of gold.

Soviet gold exports are estimated at 250 tons.

Yet if the rouble were converted into gold, it would become true money and Soviet citizens would be prepared to hold it rather than go on a buying spree. Similarly to the creation of a new currency in post-war Germany, shortages would soon disappear and people would be prepared to work for money that is worth something.

Whether the Soviet Union accepts the advice or not, the announcement of the local price increase coupled with uncertainty about the nation's political and economic crisis, were sufficient to generate buying of gold.

Gold may aid Boymans' recovery

Boyman 11/11/90

74

BOYMANS share price slipped to 165c in December, the lowest level this counter has traded at since 1987. However, it has since recovered to reach 180c.

The share's recent poor performance suggests results for the 14 months ended February 1990 may be short of budgeted figures. However, this group controls some well-known retailing chains which should respond rapidly to an improvement in economic conditions.

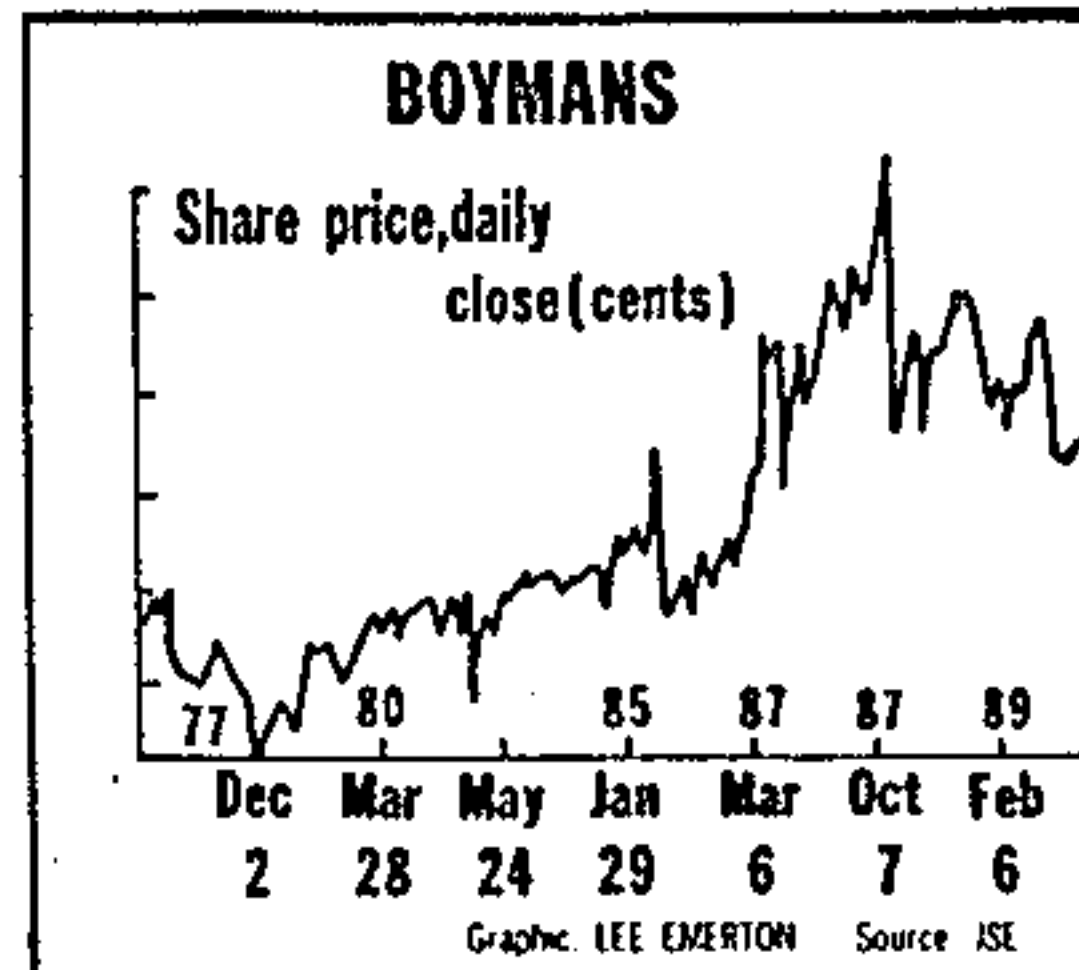
Boymans is primarily involved in the retailing of family clothing through its Levisons, Deans, Cyrils, Woolfsons, John Orr's and John Scott outlets.

Earnings have come under pressure recently from the decline in consumer spending. High interest rates have also been a headache for Boymans as long-term interest-bearing debt jumped to R23,7m at June 1989, which compares with R2,9m in December, 1986.

The majority of this debt bears interest at rates which are closely linked to movements in the prime rate. Interest payments during the past few years have soared to R3,2m for the 12 months to end-December 1988, compared with only R949 000 during financial 1986. This trend was repeated during the latest interim period as interest payments rose to R2,3m for the first half of 1989, compared with R1,4m for the corresponding period of 1988.

Joint MD Hymie Regenbaum points out that "the additional debt was for the acquisition of 12 Uniewinkels department stores plus the two John Orr's department stores which have boosted group turnover from R47m in 1986 to

ANALYSIS STEPHEN RICHTER



R132m in 1988". He said Boymans should reach sales of R160m for the 12 months ended-December 1989.

The directors are positive Boymans can perform well despite the heavy debt burden, provided all operating divisions work at satisfactory levels. That does not appear to be the case for this financial year, which will cover the 14 months to end February, 1990.

At the interim stage, Boymans was confident the economic environment existing at that time would permit the group to produce real earnings growth for the rest of financial 1990. However, management indicates that sales during the six months to December 1989 were disappointing.

Its John Scott chain was hit by a decline in consumer spending in the

Western Transvaal mining towns.

There was a tendency by consumers to spend cautiously. For Boymans to maintain market share, it had to join its competitors with special promotions, which reduced group profitability.

Although investors seem justified in avoiding Boymans shares for the time being, a more optimistic long-term picture emerges when considering the recent performance of the gold price. Assuming bullion maintains its uptrend, thereby increasing optimism and profitability for the mining industry, this should have a direct and positive impact on consumer spending at the same John Scott outlets which have been performing poorly recently.

Interest rates are also expected to decline in the not too distant future, and this will translate into lower interest payments, helping to ease the pressure on Boymans bottom line. Management is making a serious effort to bring down debt levels by cutting stocks, watching debtors and planning no expansion until economic conditions improve.

Once consumers gain more confidence to spend, Boymans should benefit almost immediately as its retail outlets are highly regarded by its loyal customers who place emphasis on quality.

It appears the group may struggle to equal the 38,4c earned in 1988, even though the current financial year contains an additional two months.

Given that NAV was in excess of 220c at the end of the previous financial year, the shares would appear to offer value for patient investors.

Crackerjack performance by unit trusts

74
25
13/11/90
Stew

MOST investors in unit trusts have just had an extremely rewarding year. Only the most unlucky will not have received a return of more than 40 percent on their units in 1989.

Figures prepared by the University of Pretoria show that five unit trusts — UAL, Old Mutual, Momentum, Standard Gold and Old Mutual Mining — provided their unit holders with returns of more than 50 percent if the reinvestment of dividend distributions is taken into account. Another 13 provided returns of between 40 percent and 50 percent.

Altogether more than 75 percent of the equity and specialist unit trusts increased the value of their investors' holdings by 40 per-

DEREK TOMMEY

cent or more.

While the unit trusts were not creating instant wealth — they came pretty close to doing so.

UAL was the top runner in the equity trusts, showing a 56,16 percent growth. UAL also deserves to be commended for bettering the overall market increase of 55,5 percent. No other trusts managed this feat.

Standard Gold was the bright star in the specialist trusts with a total return of 56,5 percent.

Even the income funds were able to show fairly high returns, though they invest most of their money in fixed interest stocks.

Senbank Gilt had a growth in income payments and capital appreciation of 25,19 percent while Senbank High Yield showed a return of 23,79 — in both cases attractive figures.

However, it must be said that measured against the recent past, 1989 was an exceptional year for investors.

Depending on which yardstick one uses, the JSE came either second or third in the world for capital appreciation last year. And what happens on the JSE has a direct effect on the unit trusts.

The returns received by long-term investors in units also show that the 1989 figures were something out of the ordinary. Nonetheless, those who have held units for seven years or more are showing highly acceptable average annual returns.

The average annual return in the past three years from Old Mutual units has been 23,41 percent. But if you had held them for the past seven years you would have had an average return of 27,49 percent, and if you had held them for

12 years the average return would have been 30,7 percent — more than double the inflation rate in this period.

Holdings of GuardBank units have been similarly rewarded. The average annual return from GuardBank units in this 12 year period has been 30,52 percent — the same as the All Share index.

The specialist funds have also looked after their long-term unit holders. Those who have held UAL Mining and Resources units for the past 12 years have received an average annual return of 27,12 percent while Sanlam Industrial has shown an annual return of 26,19 percent in this period.

Several factors combined to make 1989 a bull year on the JSE. The sliding value of the rand in 1988, coupled with a sharp improvement in economic activity overseas, boosted South Africa's exports and the earnings of any company with foreign interests.

Then, just as the industrial and non-gold mining boom showed signs of slackening, the price of gold, which had been heavily oversold, started to recover. This, plus an improvement in foreign investor sentiment towards South Africa, sent gold shares into orbit. The visible result was a 58 percent rise in the gold share index in less than three months.

On top of this, signs that the Government is actually doing something about curbing inflation and creating a strong base for greater economic expansion in say a year's time has also led to heavy buying of some of the major industrial stocks.

Looking further into 1990, there seems a good chance that the share market will remain strong. The Government's anti-inflationary measures should ensure that

the export industries remain competitive and prosperous. Although there are signs of an economic downturn overseas, demand for South African goods is still expected to remain strong.

Gold price

The price of gold is also expected to gently firm as the year wears on, helping the local gold mining industry. Consumer demand for jewellery — the factor that determines the strength of the diamond market — now seems to be the major determinant of the gold price.

In the past few years consumers have quite happily accepted 10 percent to 15 percent increases a year in diamond prices; so it is to be expected that they will not jib at similar increases in the diamond price and put a floor under the metal at between \$440 to \$460 an ounce.

Finally, there is a dark horse which must be considered — foreign investment interest. If this continues to strengthen as it has in the past month or so, the South African economy will receive a very healthy boost later this year.

It could even lead to foreign creditors deciding not to take payment of the \$2,5 billion (R6,25 billion) loans due to be repaid this year and roll them over instead.

Were this to happen it would leave South Africa with a firm rand, healthy balance of payments and substantial foreign exchange reserves — all of which could open the door to a major jump in the economy.

This does not seem to be the time for investors to take profits in their units. Instead, it would appear that this is still the time to buy.

by **JULIE WALKER**

S/Times 14/1/90

79 74

Gold out of the bear pit

OLD Mutual has turned bullish on the gold price.

Assistant general manager of investments Rob Lee says gold has broken out of its two-year bear trend and should head higher this year.

Its prospects are buoyed by the potential for lower American interest rates and events in Eastern Europe.

Mr Lee says that further falls in US prime rates are likely as the Federal Reserve Bank acts quickly to prevent the onset of a recession.

"Not only should lower rates be good for gold, but the traumatic changes in government in Eastern Europe will also provide support," he says.

ROUBLE

Another plus factor is Russia, which could build up its gold reserves as a precursor to making the rouble fully convertible. It would mean lower Soviet gold sales and a fall in the supply reaching the market.

Having broken the technical bear trend, gold looks historically cheap, particularly in terms of major currencies, such as the yen and mark.

Mr Lee says the markets are signalling a fundamental change in prospects for gold — a trend he believes will remain intact.

SA can expect four or five new gold mines to be announced in the next few years. But Mr Lee says the authorities must make urgent reforms to gold-mining taxation to ensure a reversal of the falling trend in SA output.

Gold is a leading foreign-currency earner and employer, and new mines will be encouraged by a more favourable tax system.

Gold is a leading foreign-currency earner and employer, and new mines will be encouraged by a more favourable tax system.

INDUSTRIALS

Mr Lee believes that industrial shares could face a major test around mid-year as corporate profit growth slows.

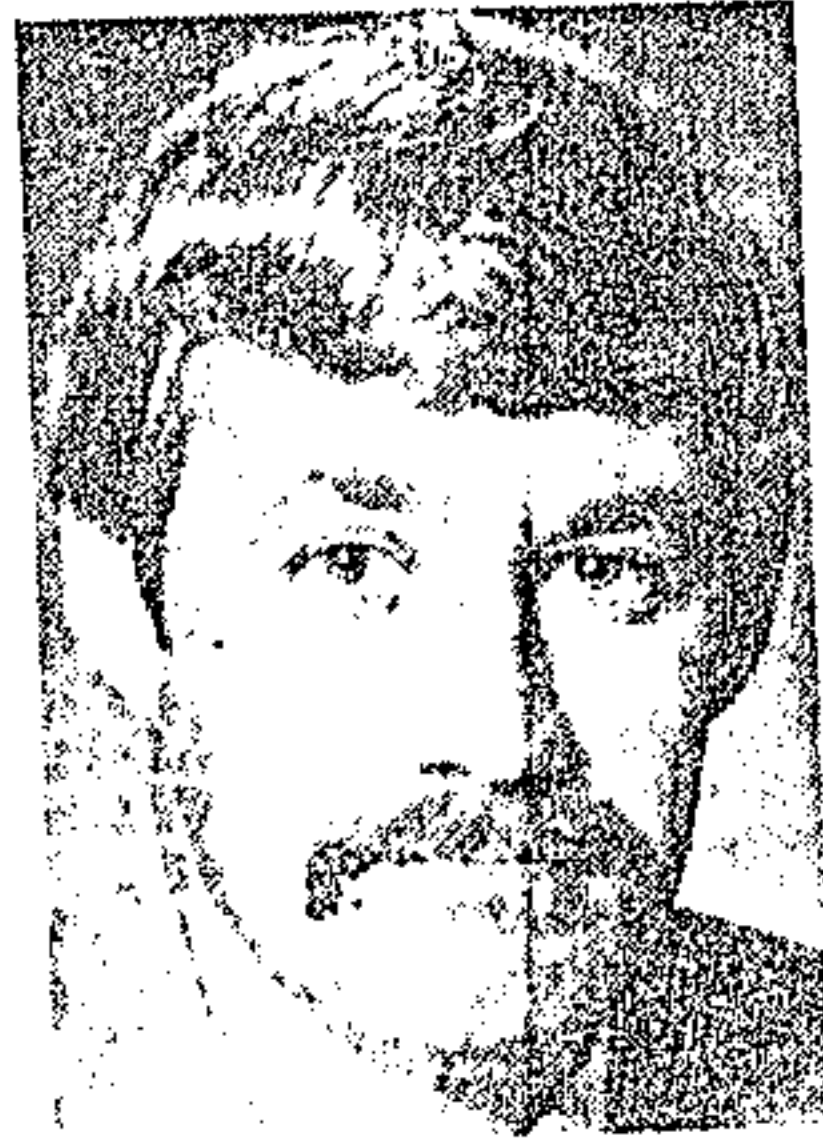
"When the trend changes, the move is usually more dramatic than forecast and the shares could soon reflect the lack of growth in the economy as the authorities impose financial restraint."

However, continued positive political developments could increase foreign interest in SA's markets and offset the impact of falls in corporate profits.

The strong financial rand held back some share prices early in the new year, but this should be seen as reflecting the improved foreign view towards SA.

Short-term interest rates are more likely to rise than to fall if they move in the next few months. There may be some decline after June, but given foreign debt repayments and the low level of SA's reserves, any fall will be limited.

Mr Lee says it is possible to be bullish about world growth in the 1990s. But in



ROB LEE ... gold cheap in the major currencies

the short term, interest rates will rise, so there is almost the same contradiction in world equity markets as in SA.

He regards the US trade and Budget deficits as time bombs which are not being tackled effectively. Another risk area is the Tokyo market, which displayed the jit-

ters last week in reaction to internal politics in the Soviet Union.

But if the markets are right in forecasting a soft landing with low growth cooling inflation, but no recession, followed by resumed growth, Mr Lee says shares are not expensive.

He does not believe that major tax cuts are likely in Barend du Plessis' Budget. Government spending needs to be pruned heavily before cuts are possible, and although defence spending is down, more is required.

Further tax reform is likely.

High interest rates and falling earnings will preclude many new listings this year, and no major privatisation issues are likely.

Mr Lee expects more rights issues from gold producers and from the banking sector.

"Overall, there is plenty of cash underpinning the market and disinvestment has slowed."

JSE professional traders keep cool under pressure

By Derek Tommey

74

Local investors will be closely watching the performance of both the Tokyo and New York exchanges in the next few days after the sharp fall in share prices on these markets.

But professional investors have no intention of doing much else at this stage. *Share 15/11/90*

They certainly will not let themselves be panicked into a repeat of their October 1987 performance when the JSE all-market index plunged from 2804 to 2261 — a drop of almost 20 percent —

in four trading days.

It would require much worse news than has been seen so far before anything like this happened, a leading professional said last night.

The Dow Jones industrial average fell 71,46 points on Friday to 2 689,21 points. This was a fall of 2,6 percent and the steepest decline since its 190,58-point drop on October 13 last year.

Traders in New York gave two reasons for the sharp fall. One was the jump in the production price index in December of 0,7 percent instead of the 0,5 percent

expected. In November the index dropped 0,1 percent.

The other was the sharp fall in Japanese share prices.

A local dealer said that if the drop in the Japanese market was going to affect the JSE, it should have done so on Friday. Despite what happened in Japan the JSE all-share index closed the day only eight points down at 3224.

This small decline occurred when the finrand was rising sharply, which must have helped depress share prices.

Friday's calm on the JSE reflects

the growing unconcern with which the professionals view the increasing volatility of prices in New York and elsewhere.

"People are realising that with the introduction of computers the method of trading has changed," a trader said.

They are aware that when computers are programmed to sell at fixed prices, as is so often the case today, the result is often heavy and uncontrolled selling — and good profits for those have the nerve to buy on such occasions.

SA defies softer trend as gold tests new high

MERVYN HARRIS

DIAGONAL Street yesterday defied the softer trend on global stock markets to post fresh peaks in most sectors as gold tested new highs in Europe before retreating in early New York dealings.

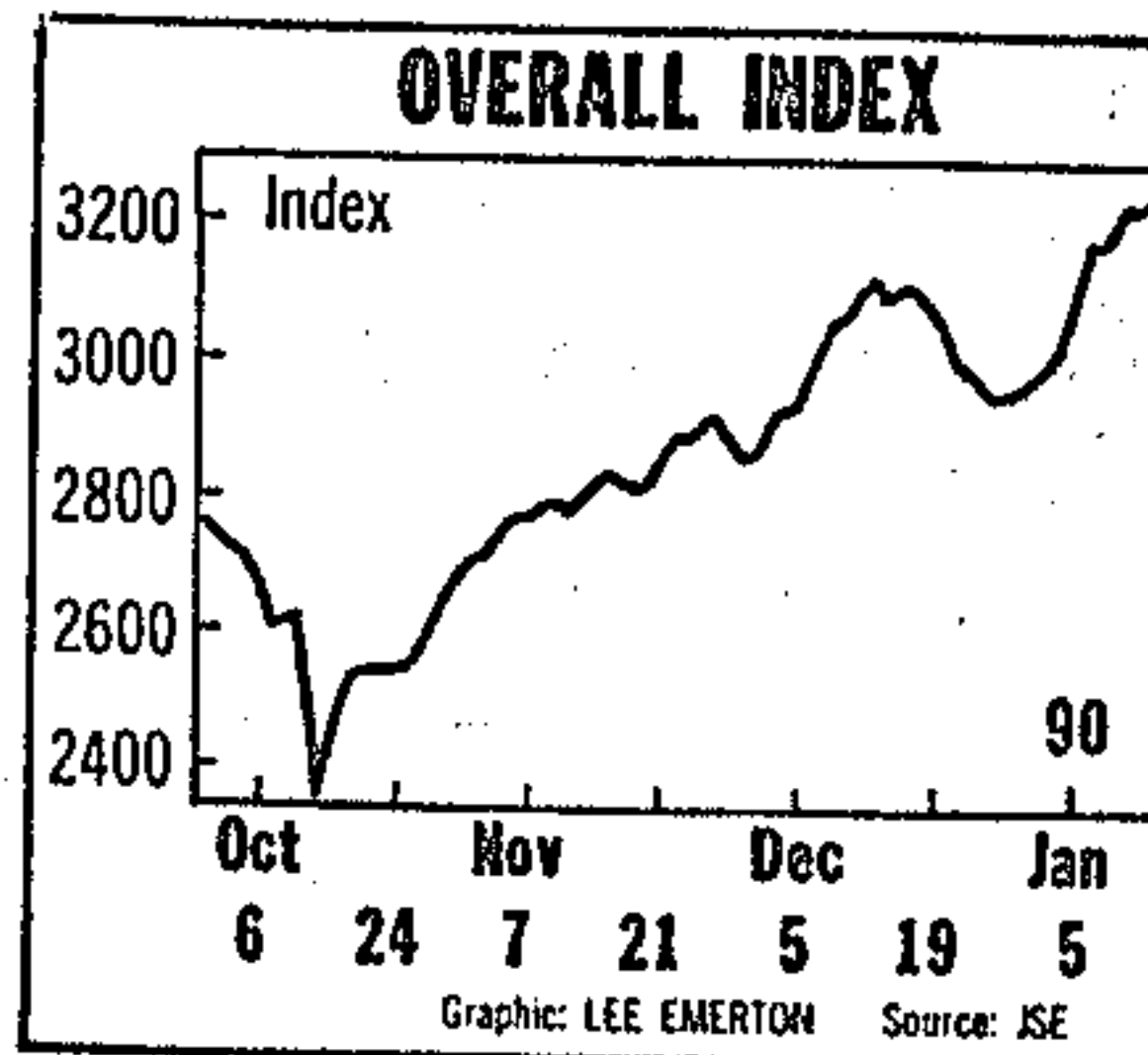
Gold surged to \$416.75 to approach its highest level of \$418.25 in London since December 1988. It fell back to close at \$411.75 on profit taking and a firmer dollar.

Dealers said profit taking was inevitable when the metal encountered resistance at the higher levels on a lack of follow through buying in thin conditions.

Dealers detected a measure of caution on the JSE with the closure of the Tokyo Stock Exchange, the US bond market and some major banks for a public holiday, adding to the uncertainty.

While Wall Street opened slightly lower to end Friday's headlong fall, analysts said it could be vulnerable to any further weakness on the Tokyo Stock Exchange where the slide helped set off selling waves on other stock markets.

A barrage of US economic data due for



release this week, including US trade figures and the consumer price index, will keep financial markets on edge.

The firm trend on the JSE came despite continued strength in the financial investment currency which rose from R3,4200 (\$0,2923) to R3,3650 (\$0,2971) to the dollar. □AP-DJ reports that the dollar ended at 1,6965 marks from the previous close of 1,6785.

Aid to Africa 'could benefit SA'

THE increasing funds being allocated by international aid organisations for infrastructural development in Third World countries offered SA's building and construction sectors many new opportunities.

This was the view of Saffo research manager Paresb Pandya who said aid programmes amounted to many billions of dollars.

The World Bank alone had budgeted \$21.4bn for it in the current fiscal year.

Aid recipients include southern African countries where SA has a distinct geographical advantage as a foreign supplier and business partner.

Pandya said the most serious obstacle to Third World development was lack of foreign exchange.

It was this, rather than politics, that stood in the way of a major improvement

ZILLA EFRAT

in SA's business with southern Africa, he said. BID 161119

On average, imports account for about 40% of the costs of infrastructural development projects and aid programmes aim to circumvent foreign exchange shortages. Aid from the World Bank may only be used to finance imports.

Pandya said SA businessmen lacked information on these aid programmes and were thus unaware of the possibilities they offered.

He said he was researching what these projects could offer SA.

His research would also examine the procedures to follow in order to be included as a potential supplier of services and goods in the programmes.

New container ships ply Europe-SA route

THE Italian line Lloyd Triestino has invested \$115m in an expansion programme to improve shipping links between Europe and southern Africa, a spokesman said yesterday.

The first of two new container ships, the Nuova Africa, is due to arrive in Cape Town today.

"The Nuova Africa and her sister, the Nuova Europa, which undertakes her maiden voyage in April, are the first replacement ships on the southern Africa/Europe container service since

BENJAMIN COCKRAM

it was introduced in 1976," he said.

The new ships have five shipboard cranes which will allow them to work cargo in ports like East London that are not equipped with container cranes.

Asked whether this marked investment increase in SA trade meant that Lloyd Triestino expected a more favourable political climate for trade in the near future, Rovatti said his company was not concerned with the politics of the countries it dealt with.

Futures exam programme under way

THE SA Futures Industry Association (Safia) said yesterday its examination programme was well under way, with 62 out of 74 candidates having passed the first leg, the Junior Certificate Examination.

The examinations, a requirement of the Financial Markets Control Act, will become mandatory for all would-be futures operators by the time the SA Futures Exchange (Safex) starts operating later this year.

Safia said 37 candidates had obtained a distinction — 80% or more. A few of the failures had written the exam as a “trial run” and had not read any of the course material. 310 cm 18 1190

ROBERT GENTLE

Certain well-established players have argued it is time-consuming, expensive and unnecessary to impose examinations on people who have been trading successfully in futures and options for many years.

(74)
Safia's response has been that experienced players should have no trouble passing.

(5) (5)
A member of the examinations board and co-author of the course material, Hans Falkena, will be giving a detailed lecture on the Ordinary Certificate Examination on January 23 at the JSE.

SA futures market gains momentum

BUSINESS DAY, Friday, January 19 1990

7

TURNOVER in share-related futures contracts exceeded total turnover on the JSE for two days running last week, according to statistics released by Rand Merchant Bank, the official futures clearer.

On January 9 and 10, the value of contracts traded in All Share, Gold and Industrial futures totalled R168m and R147m respectively, compared with total JSE turnover of R119m and R124m.

Futures traders expressed satisfaction at the figures, which they said showed the increasing importance of the still informal market months

ROBERT GENTLE

ahead of the opening of the formal SA Futures Exchange (Safex).

"As time goes on, I think we shall find futures activity regularly exceeding total JSE activity," said a trader from National Futures & Options.

A trader at Greenwich Futures said that while the figures were good, this was by no means a record month. But futures activity was now more stable and appeared to be regularly tracking the JSE.

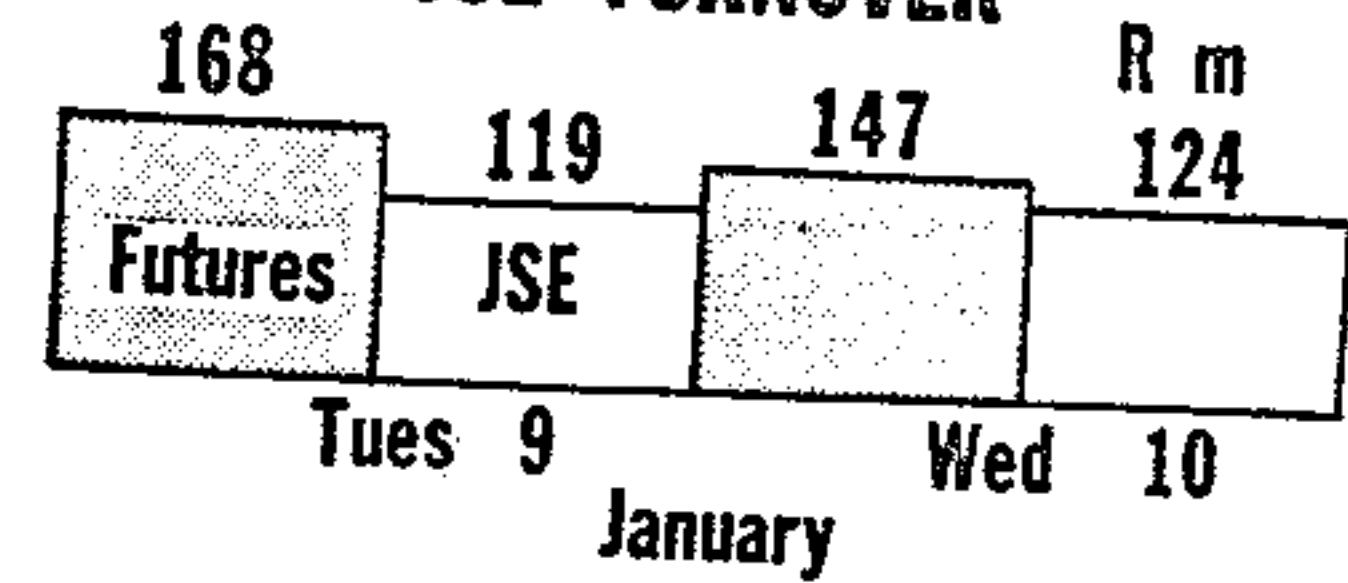
Finansbank assistant GM Stuart Yates called the figures encouraging, but said the link with the JSE should be put in perspective — it was probably the most illiquid stock market in the world. It traded only about 5% of its market capitalisation annually, compared to about 55% in London and 70% in New York.

Futures activity in those centres was often five to ten times that of the underlying stock markets — a phenomenon of the tail wagging the dog.

"We've come a long way, but we're far from that situation," said a Rand Merchant Bank spokesman.

SHARE FUTURES TURNOVER

VS
JSE TURNOVER

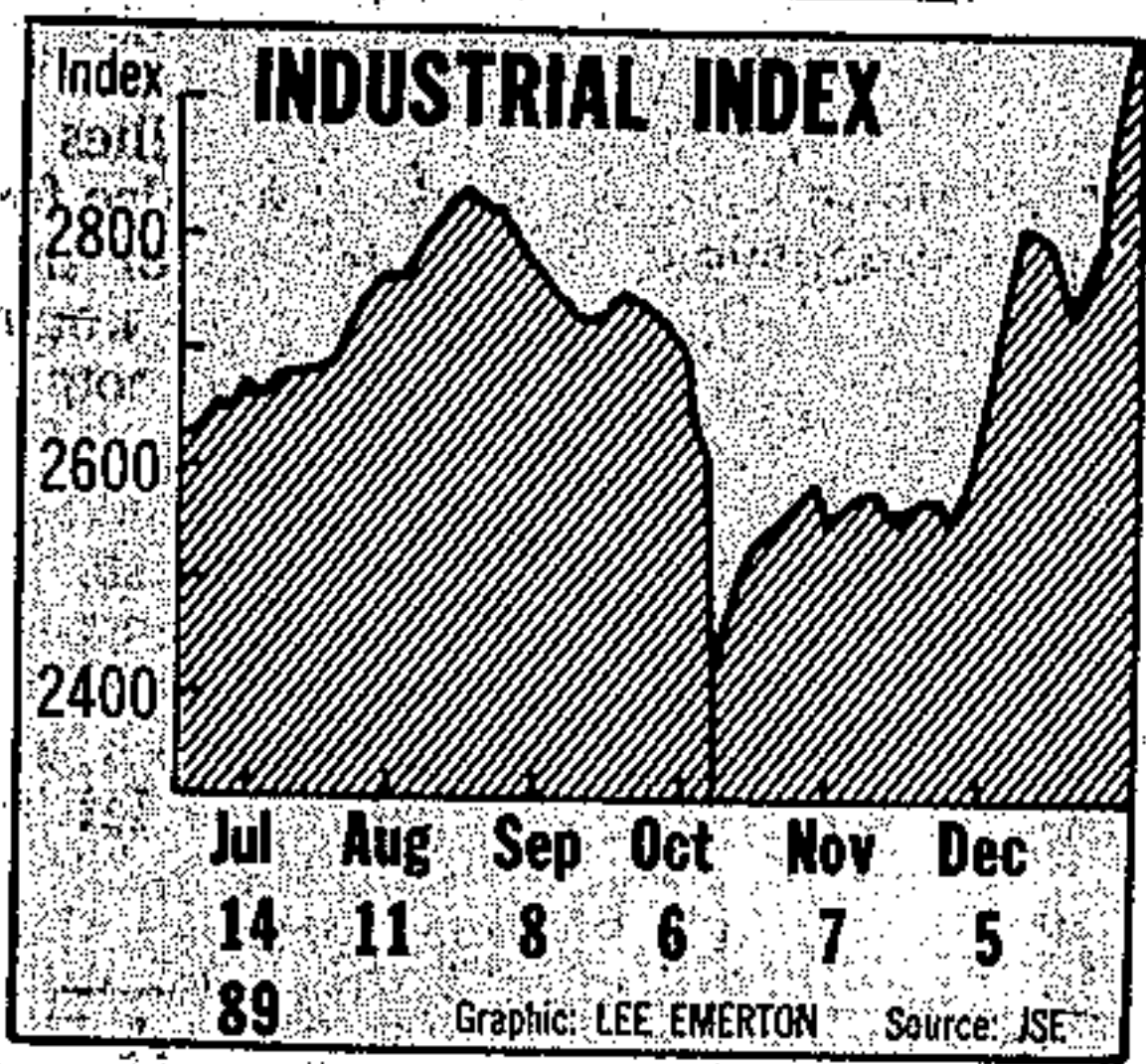


Graphic: LEE EMERTON

DATER

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74



Global stock market slide hits JSE prices

MERVYN HARRIS

SLIDING global stock markets hit sentiment on the JSE yesterday to send share prices broadly lower for the second successive day. *19/11/90*

The 17-point decline in the overall index to 3196 came despite the favourable factors of a weaker firrand and a firmer gold price as buyers withdrew to the sidelines.

"Fundamentals in our market are different to those of other stock markets but sentiment plays an important part in investment decisions and we are being affected by the weakness overseas," said Maurice Fisher of stockbrokers Frankel Kruger Vinderine.

"The underlying feeling remains bullish but the market is looking tired and could be in need of a breather after the sharp recent rally," he added.

Precious metal prices in New York were moving in line with the gyrations of a volatile Wall Street which opened lower, recovered losses and then sagged again.

The litany of falling stock markets saw Tokyo and London ease further yesterday with the FTSE closing 37 points off at 2336.9. Analysts said collapsing bond

To Page 2

Stock market

prices had made equities look overvalued at a time when Wall Street and Tokyo jitters had sapped investor confidence. *19/11/90*

"Traders are just getting out of the way and buyers are cancelling. The domino effect, where every market seems to follow the other, is back in fashion," a dealer at Shearson Lehman Hutton International in London said.

74

From Page 1

Gold closed \$4 higher in London yesterday at \$413.85 but dealers said the metal showed little sign of leaving its \$410 to \$420 trading range. Early gains on Comex futures, where anxious investors were reported to be buying gold as a precaution, appeared to have little effect on spot prices which were trading lower.

● See Page 5

... of ... but the answers are the same

Syndicate for futures market gets go-ahead

ROBERT GENTLE

AN advertisement in last week's Financial Mail inviting prospective speculators to form a syndicate to play the futures markets has been given the all-clear by the authorities — but with a health warning attached.

Safia (SA Futures Industry Association) and the office of the Registrar of Unit Trusts, which examined the advertisement, said members of the public should make all necessary inquiries before committing themselves to the plan.

If they felt they had not been fairly dealt with, their only recourse at the moment would be the courts.

This was because the Financial Markets Control Act, designed with a degree of consumer protection, had not yet been fully promulgated.

Only once the formal futures market in the form of Safex (SA Futures Exchange) starts operating later this year will the Act have the necessary teeth to rule on such advertisements.

"The public should be aware that in the present informal futures market, neither Safia nor Safex has jurisdiction over futures and options syndicates," Safia MD Brenda Greyling said.

74

Things looking good for a soft landing

THE economy looks healthy in spite of the consolidation that is taking place.

Prime overdraft rate has been 21% for several months and the tax burden is much higher than a year ago, so there appears hardly any reason for cheer. But the overall numbers suggest an underlying strength that should prevent an unduly harsh adjustment.

Confidence in the economy remains supportive, and is certainly higher than in the mid-1980s. Part of the reason is political, but an important factor is economic.

Company interest bills have risen since 1987 when prime averaged 12.5%, but gearing has been reduced and operating policies have remained lean. Profits therefore remain respectable.

With no state of panic in boardrooms, companies are not cutting back heavily on hiring, fixed investment or buying company cars, and business travel remains strong. The rate of expansion may have slowed, but so far there are no recessionary conditions.

A positive business attitude has an im-

portant bearing on consumers. Although their financial burden has increased in terms of greater borrowings, higher interest bills and average tax rates, the fundamental support underpinning consumers has not come unstuck. That fundamental support is employment growth and real wages.

It would appear that employment is still rising. Certain sectors have been cutting back, but others have continued to expand their workforces. The general buoyancy in the economy, the scarcity of certain skills, and the activities of trade unions have all helped to keep wages ahead of the official inflation rate.

These trends have greatly assisted in maintaining growth in retail sales volumes. Some areas, such as used cars, have been hit hard by the financial measures of the past few years, and others are no longer growing as fast as they used to. But overall retail sales are still climbing, if at a slowing rate.

Unless something dramatic happens to

REX
Cees Bruggemans
reviews the local and world scene



undermine boardroom or consumer confidence, it is difficult to see what can jeopardise either of these areas of spending in the coming year. Their respective growth performances may slow down even further under the weight of high interest rates, but it seems unlikely that the plug will be pulled out of the bathtub.

Indeed, the worst part of any adjustment may already be reflected in the available economic numbers.

The biggest risk of recession usually lies in overlarge stocks and overoptimistic expansion plans of private businesses. As the economy weakens, many com-

panies find themselves on the wrong side of the track, triggering a stampede to cut back, thereby intensifying the downturn.

However, the risk of catching managements offside in this business cycle appears to be small. Everybody was hammered so badly in the previous downturn that discipline has not flagged. With interest rates starting their cyclical rise in early 1988, and widespread fear of an imminent recession from early 1989, companies were highly sensitive to any signs of adversity.

Forewarned being forearmed, it was only natural to expect prudent manage-

ment positions. In the process, an early but more gradual and self-fulfilling business adjustment assisted the slowdown in the economy late last year.

We therefore find a distinct destocking phenomenon from the second quarter of 1989, which came through visibly in off-beat manufacturing and wholesaling performances in the second half of the year.

That was the bad news. The good news may be that most of the bad news may have been absorbed. There may not be much more pruning to do on stocks and any serious contraction in spending and activity may be avoided in the coming year.

Non-gold export prices in dollar terms have been declining since early last year, and softness here may be expected to continue because there is nothing on the international horizon to promise otherwise.

Export volumes grew by an excellent 12% last year. This strength is unlikely to be repeated this year, but it is still to be

hoped that a respectable growth in export volumes will be achieved.

All these features suggest that the economy is not ready to fall off a cliff. Indeed, as the financial restructuring proceeds, it may increasingly gain the benefit of two positives: improved financials and the beginning of the next recovery phase.

One should not be overhasty in welcoming these two positives because it will probably take all of 1990 to get there. But as the year unwinds we should see a considerable slowing in money-supply growth and reported inflation, and some recovery in the net foreign reserves.

This will probably be achieved without too much of a slump in the domestic economy, not least because the world will probably continue to underwrite a fairly good export performance.

With financial restructuring well in hand, and the world economy doing fairly well in the early 1990s, there is no reason why SA's economy should not handle its foreign debt commitments, simultaneously enjoying a new recovery phase. Politics, of course, remains a dimen-

sion in which both good and bad events can have a determining influence on the economy's performance, and it remains to be seen which of the two will have the upper hand in the coming year.

One barometer is that international investors have of late been shaking their bodies and stamping their feet. JSE share indices continue to perform strongly, and capital market rates have eased significantly.

The financial rand has strengthened, reducing its discount relative to the commercial unit. All of this is unlikely to have taken place if the forces of darkness were about to descend on us.

So circumstance dictates an upbeat analysis and a pleasurable view of our near future, even in the midst of policy discipline that must be making life miserable for some of us.

It is not the exception but the overall picture that should guide us in our assessment, and on that score things look pretty good.

Star 22/1/90

Political sentiment lifts gold

Star Bureau

LONDON - Rumours of Nelson Mandela's imminent release have boosted both share prices and the rand and chartists say gold could go through the roof.

Some experts have expressed fears about the effects of the rebel cricket tour, saying this could threaten the hope of an early end to the State of Emergency.

But business people are nevertheless enthusing over prospects for South African shares, which have doubled on average over the past year in local terms and have made larger gains in Sterling because of the Pound's rise.

Mr Rob Weinberg, from stockbroker James Capel, said: "There is a vast dam holding back a vast amount of international money waiting to invest in South Africa if the right sort of political climate emerges.

"Prices could well go substantially higher if a release date for Mandela is announced at the state opening of Parliament on February 2 and if the State of Emergency is removed, as many expect."

In the meantime, Richard Lake, at the World Stock Market Analysis, sees the price of gold consolidating earlier gains at the present \$408 an ounce.

He believes the price could rise to \$460 and possibly \$500 this year.

Gold opened at \$409 in Hong Kong this morning, after closing at \$410,25 in New York on Friday.



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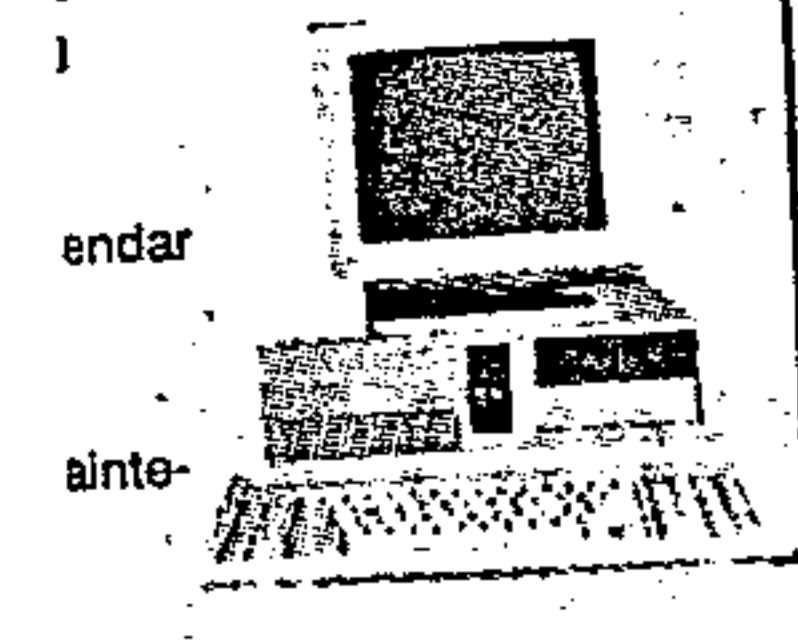


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iscount prices

World stock markets crumbling

By Neil Behrmann
LONDON — While the JSE appears to be basking in splendid isolation, global equities are crumbling.

Tokyo, London, New York and other international exchanges continued to slide last week.

Most markets showed a slight recovery on Friday, but indices are already five to 10 percent below record heights seen soon after the New Year.

All the gains of London since the beginning of December have been wiped out. *Jan 22/1190*

The euphoria at the start of the Nineties has turned towards despondancy, with market makers and investors chewing their nails.

As so often happens at market peaks, clear warning signals were ignored for months.

Short-term interest rates surged in 1989, so that sterling rates reached 15 percent, Swiss francs 10 percent, Deutschmarks and dollars around 8.25 percent.

In 1989 the bond markets ignored these bearish signals, taking the view that inflation had been conquered.

Instead, the disease has been persistent and in the past few weeks, Japanese, US, West German and UK bonds have crashed.

With bond markets weakening and leading economies slowing down, there is not a single sound economic reason to

back up equity markets. Average dividend yields in Tokyo are still under a half a percent, while New York, Frankfurt and Johannesburg have been trading on average dividend yields of under 4 percent.

A small minority of investors believed such returns were unsustainable against the return of stagflation — stubborn inflation and slower growth.

Somewhat late in the day, leading US investment bank Goldman Sachs, has advised pension funds and other institutions to raise radically the cash holdings of their portfolios.

The new target is 20 percent cash on a spread of investments containing equities and bonds.

Thankfully, Wall Street has only partially reacted to this advice. There is nothing worse than a herd of panicky fund managers who aren't sufficiently wise or experienced to sell into strength.

Johannesburg has been ignoring international events in the belief that a buoyant gold price and considerable liquidity of institutions will keep pulling equity prices upwards.

Indeed, the weight of international money enabled equity markets to shrug off the 1987 crash and the brief trauma of October last year.

Morgan Guaranty says cross-border (foreign holdings) of bonds and stocks have tripled since 1983 to a total of \$1 800 billion at the end of 1988.

Of this, an estimated 32 percent is invested in equities. Total world market capitalisation headed by Tokyo is \$10.5 billion.

Yet, as is once again beginning to be evident, it is a myth to believe that the so-called weight of money can prevent equity prices from falling.

Since the numbers are so much larger, it is virtually impossible to manage a wave of selling

when sentiment changes. London got a taste of this on Thursday, when Japanese investors, already suffering huge losses on their bond positions, sold gilts.

In mid-1984, a poor translation in the Japanese financial daily, *Nihon Keizai Shimbun*, set off a run on the Continental Bank of Illinois and a collapse of the international bond market.

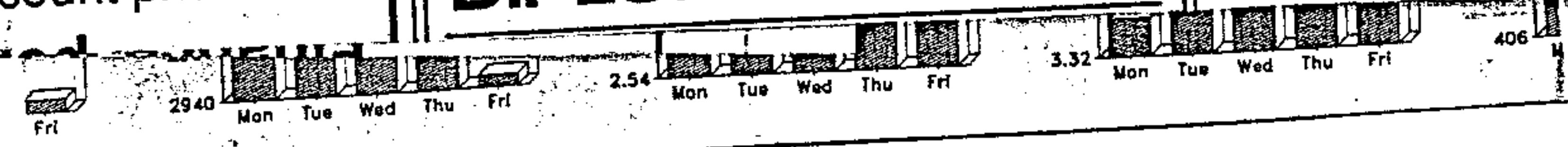
Five days ahead of the 1987 crash, Japanese fund managers triggered a slump in US Treasury bonds and set the stage for that terrible global stock market slump.

Once again, insomniac London traders are tuning their radios in the early hours of the morning to determine events in Japan.

Tokyo, one of the most unpredictable markets, with P/E ratios of around 60, compared with 20 earlier in the decade, has been churning.

Investors worldwide are praying that this market will hold.

PC SOFTWARE SUPPORT DIPLOMA COURSE



Trade specialists aim to offer one-stop consultancy

PROMPTED by the growing need to maximise SA's exports and manage its imports more effectively, Price Waterhouse has formed a subsidiary which specialises in international trade.

Price Waterhouse partner Chris Frame says: "International trade is SA's lifeblood and cannot be conducted in a haphazard or ad hoc fashion when the country's prosperity is at stake."

The new company, P W International Trade Consultancy, will provide a one-

ZILLA EFRAT

stop foreign trade service, concentrating on strategic planning and implementing functional controls for companies involved in trade.

Frame says because of the urgent need for skilled management of imports and exports, the company will also conduct training programmes and seminars on various aspects of international trade for all levels of manage-

ment.

He says a positive turnaround in international attitudes to SA will mean that capital flight will be replaced by capital inflow.

Capital inflow will need to be very carefully managed, as will the increased acceptance of SA exports resulting from a change in attitudes.

Frame will concentrate on international tax and foreign exchange matters.

B/P/W 23/1/90

74 150 157

Trade maze guide

By Ian Smith

THE dramatic increase in non-gold exports has attracted the attention of accounting and management consulting firm Price Waterhouse.

It has established a subsidiary, PW International Trade Consultancy, to guide companies through the maze of regulations governing trade between SA and its foreign buyers and suppliers.

Price Waterhouse partner Chris Frame says the intention is to provide more than advice.

"We will help implement plans that we formulate. International trade is SA's lifeblood. With the country's prosperity at stake, it cannot be conducted in a haphazard way."

Initially, the new company

will have the services of three experts. Mr Frame will concentrate on international tax and foreign exchange; former Barlow Rand group taxation manager Bob Cole will handle international finance, export incentives, surcharges and structural adjustment programmes; and John Busuttill will advise on shipping, forwarding, freight and customs and excise.

(74) Seminars

The company will also run training programmes and seminars on international trade for all levels of management.

Mr Frame says: "A turnaround in international attitudes towards SA will mean that capital flight will be replaced by a cash inflow."

Political sentiment lifts JSE

~~12~~ Finance Staff (74)
Initial fears that the JSE would crumble yesterday amid Monday's three percent slide on Wall Street were dispelled by large-scale foreign investment on the stock market. *Ster 24/11/90*

Over the last few months foreign investors have pushed up the JSE to new record highs, while local institutions remained on the sidelines as gold failed to break through the \$420 mark.

Non-resident purchases of local stocks, in particular mining shares, have intensified lately, fuelled by reports of the imminent release of Nelson Mandela.

Political sentiment had already improved since President FW de Klerk took office and tentatively moved on the path to reform, but the release of Mandela could unleash a new flood of foreign investments, say local analysts.

That is not to say the JSE will be immune from international stock market movements, but it certainly will be sheltered to some extent by the prospect of meaningful reform.

This, in addition to a gold price above

\$400 and the discount offered to foreigners through the financial rand, will keep the JSE moving up although at a more moderate pace than in recent weeks, argues one stockbroker ~~(S)~~ ~~(S)~~

Not all analysts agree though. "The JSE will not escape the repercussions of the sharp drop this week in the Dow Jones and a downward correction could be expected," says Syfrets Unit Trust manager Anthony Gibson.

"We expect this to go on for about two months, unless the gold market should run, in which case our market would run counter to the current international trend," he adds.

GOLD shares made a sharp about-turn at noon yesterday on perceptions of an improving gold price. A report of the imminent release of jailed ANC leader Nelson Mandela helped fuel aggressive buying.

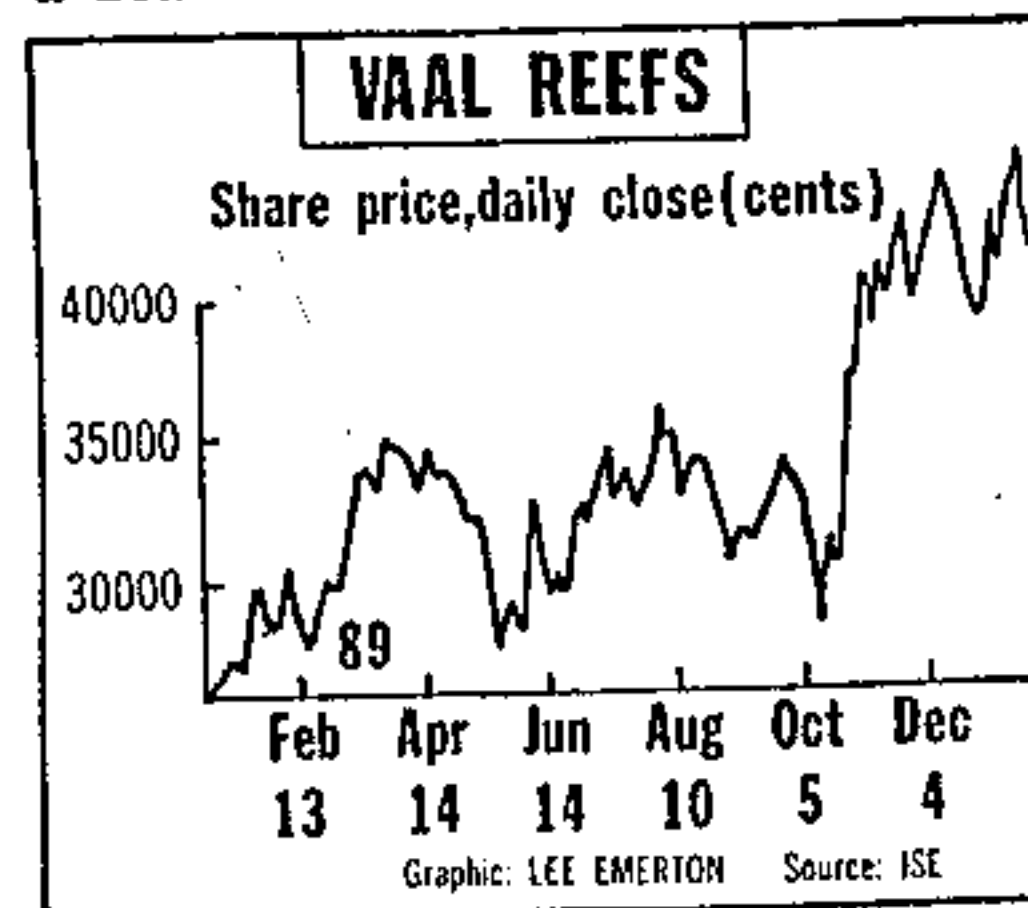
The market opened softer but heavyweight and other selected gold shares held up well on a combination of a weak finrand and initial buying from the Continent.

Buying picked up later and some dealers described demand for golds from overseas and local investors as "aggressive". The Mandela news caused a sharp rally in the finrand investment currency but shares held on to their gains.

After easing four points to 2 050, the JSE all gold index climbed to 2 092, a gain of 38 points on the day, enabling the overall index to turn around from a 13-point fall and close six points up at 3 114.

Leading industrials came off their lows but the index fell 18 points to 2 897 on nervousness over the slide on global stock markets.

"The gold market has had a correction and could be on its way again but I do not think we have seen the end of weakness among quality industrials," a dealer said.



Dealers reported indications of a good market in SA shares overseas. This was reflected in ASA — a company with assets consisting largely of SA gold shares — which rose on Wall Street on Monday as the Dow Jones plummeted 77 points, its 10th largest one-day fall in history.

Gold rose nearly \$3 to a London morning fix of \$408,60 on fresh buying sparked by a weaker dollar and concern over further falls on Wall Street. A firmer silver market aided the trend.

Star performer on the gold board was STILFONTEIN, which surged 25% or 475c to a new high of R23,50, more than double its May low of R11. The company paid a 200c interim and is cum dividend with a final of 130c. The shares are mainly favoured by overseas investors.

Heavyweight VAAL REEFS

DIAGONAL STREET

Foreigners (74) prompt surge in SA golds

closed R11 up at R425, but off a high of R427, and DRIES recovered early losses to end 125c up at R54,50. Lightweight golds, which had suffered most in the recent downturn, made the largest gains.

BLYVOOR climbed 13% or 150c to R13; HARMONY, which reported substantially improved December quarterly results, maintained its up-trend with a rise of 10,3% or 375c to R40,25, while LORAINÉ jumped 6,9% or 85c to R13,25.

Mining holding leader AMGOLD rose 700c to R372, but JOHNNIES continued to lose ground in the mining house sector. The shares eased 100c to R50m, for a decline of 18% from its peak, a week ago, of R61.

ANGLOS eased 75c to R128,75 but CHARTER came off its bottom with a gain of 110c to R26,35. Diamond leader DE BEERS was weaker, in line with Wall Street's slump. The shares closed 25c off at R62,25.

SASOL was the most actively traded leading industrial, but the price declined 25c to R13. SA BREWS recovered a 50c loss to close unchanged at R30.

Retailers and wholesalers was the only firm sector on the industrial board as EDGARS rose 200c to a fresh peak of R32. This is almost double its 12-month low of R16,50 in April.

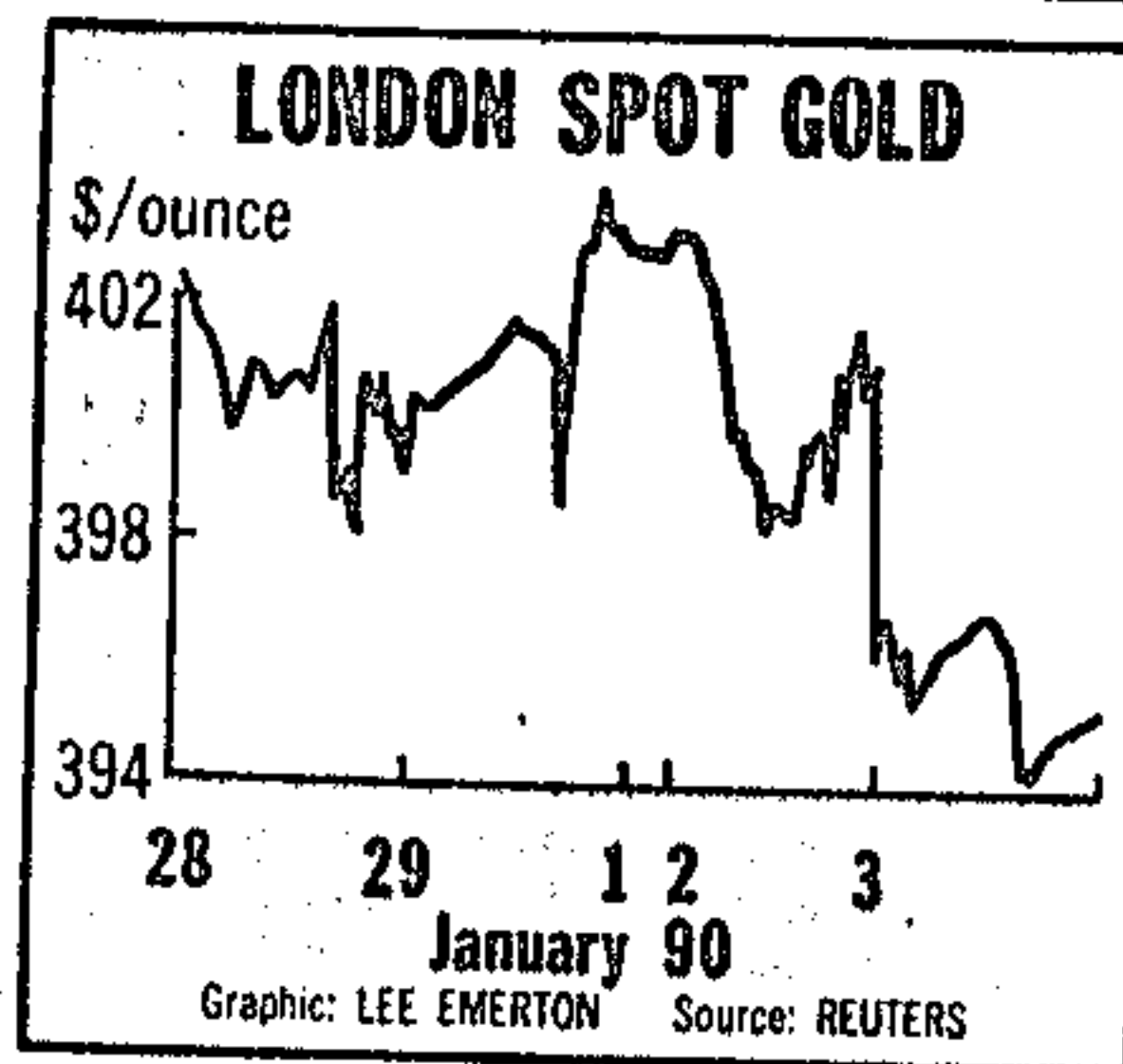
CONSOL rose 45c to a new high of R18,25, placing the shares on a historical dividend yield of 1,8%. The rise came on news that its tyre manufacturer Tycon (formerly Goodyear) has merged with Tredcor to form a tyre giant.

Troubled INBOARD came off its low of 20c on a 5c rise to 25c on evidence to the Supreme Court that the group's financial position is strong despite strains on cash flow.

MUTUAL & FEDERAL was the bright spot in the insurance sector on a rise of 75c to a fresh peak of R14. SANTAM firmed 10c to 280c.

SAAMBOU, up 4c to 100c, was the only share to show a rise in a weak bank sector. ALLIED fell 6c to 130c while UBS continued its decline from last Thursday's peak of 665c. The price eased 15c to 620c.

MERVYN HARRIS



Gold clings to key level of \$395 in US

(A) 74 MERVYN HARRIS

GOLD was clinging to the key support level of \$395 in New York last night as a combination of factors put renewed pressure on the metal. *By cm4/11 90*

Tracking the easier trend in New York, gold was fixed at a six-week low of \$395 in London yesterday afternoon and closed at \$395.50 against a stronger dollar and the record rise of Wall Street which, dealers said, might have prompted portfolio managers to tighten up on gold holdings.

US analysts said gold was being driven down by weakness in the white metals of platinum and silver. They said the selling began as early as last week with the trading off of silver options.

Silver was trading in New York at \$5.16, off 3 cents, while January platinum on Nymex was at \$468, down from Tuesday's \$474.20. Platinum was under pressure from a sharp fall in mid-December US vehicle sales, down 21.3% from a year ago.

US analysts said the car selling rate for December 10 through 20, reported on Tuesday, was about 6.2-million units compared with 5.5-million in early December. A year ago the rate was 8.2-million units.

On the JSE, share prices were telling a slightly different story.

The all gold index eased 11 points to 2 017, but renewed strength of Dow stock De Beers and associates Anglos and Minorco enabled the overall index to close 13 points up at 2 987.

© See market report

Futures brokers do brisk trade on JSE

24/11/90

FUTURES brokers did brisk trade in local futures contracts yesterday after it became apparent that the JSE was not about to mirror the massive fall on Wall Street the day before.

Traders said all share, gold and industrial futures contracts had been marked sharply down at about 8am in anticipation of the JSE opening sharply down in sympathy with Wall Street's huge fall the day before (74).

In the event, the JSE opened only slightly lower then quickly stabilised, aided by an initially weaker firrand and a firmer gold price (232).

Futures consequently shot right back up again, cancelling out earlier falls and creating huge swings

ROBERT GENTLE

which exceeded 100 points — or R10 000 on a standard lot of 10 contracts.

Greenwich Futures and Holcom Futures in Johannesburg, as well as SA Futures and Options in Cape Town, all reported active morning trade.

A Greenwich trader described it as a rerun of the volatility of the previous week when the JSE bucked the trend of the falling Nikkei index in Tokyo and caused huge swings in local futures contracts.



B/Dam 24/1/90

232 74

'SA market least liquid of top exchanges'

ROBERT GENTLE

THE JSE has confirmed its ranking as the least liquid of the world's significant stock markets by trading a mere 5,5% of its total market capitalisation for 1989.

The figure, which compares with 4,4% for the previous year, is based on the total value of shares traded and the average market capitalisation of the JSE at the start and end of 1989.

It comes despite an 84% leap — from R11,2bn in 1988 to R20,7bn in 1989 — in the total value of shares traded.

Acknowledging the figures, JSE president Tony Norton says the JSE is the least liquid of the world's significant stock markets.

The next worst in terms of liquidity, he says, is Brussels (18%) and Stockholm (19%).

London and New York are known to trade in excess of 50% of total market capitalisation.

Norton ascribes the plight of the JSE

to high Marketable Securities Tax (MST), lack of clarity on the issue of income versus capital and double taxation of dividends.

"These factors have been identified by the Margo Commission and the government is working on them," Norton says.

He adds that the low liquidity means the cost of capital on the JSE is unnecessarily high.

Norton says the JSE's Traded Options Market, scheduled to open by the end of March, will help the liquidity of the underlying market.

"But it will be a palliative, not a cure. The tax is the problem," he says.

The low liquidity has meant that daily turnover in share related futures often outstrips total daily turnover on the JSE itself.

Gold shares gain upper hand

By Jabulani Sikhakhane

star 24/1/90

After substantially underperforming the industrial index, gold shares have now gained the upper hand and analysts expect this trend to continue for the foreseeable future.

In its latest newsletter, stock-broking firm, Senekal, Mouton & Kitshoff Inc., says gold shares are driven by sentiment, which is currently very positive and is likely to remain so as long as the gold price holds firm.

South African gold shares are also far cheaper on a dividend yield basis to a foreign investor buying at the financial rand discount and receiving dividends through the commercial rand. This has led to increased buying pressure from foreigners.

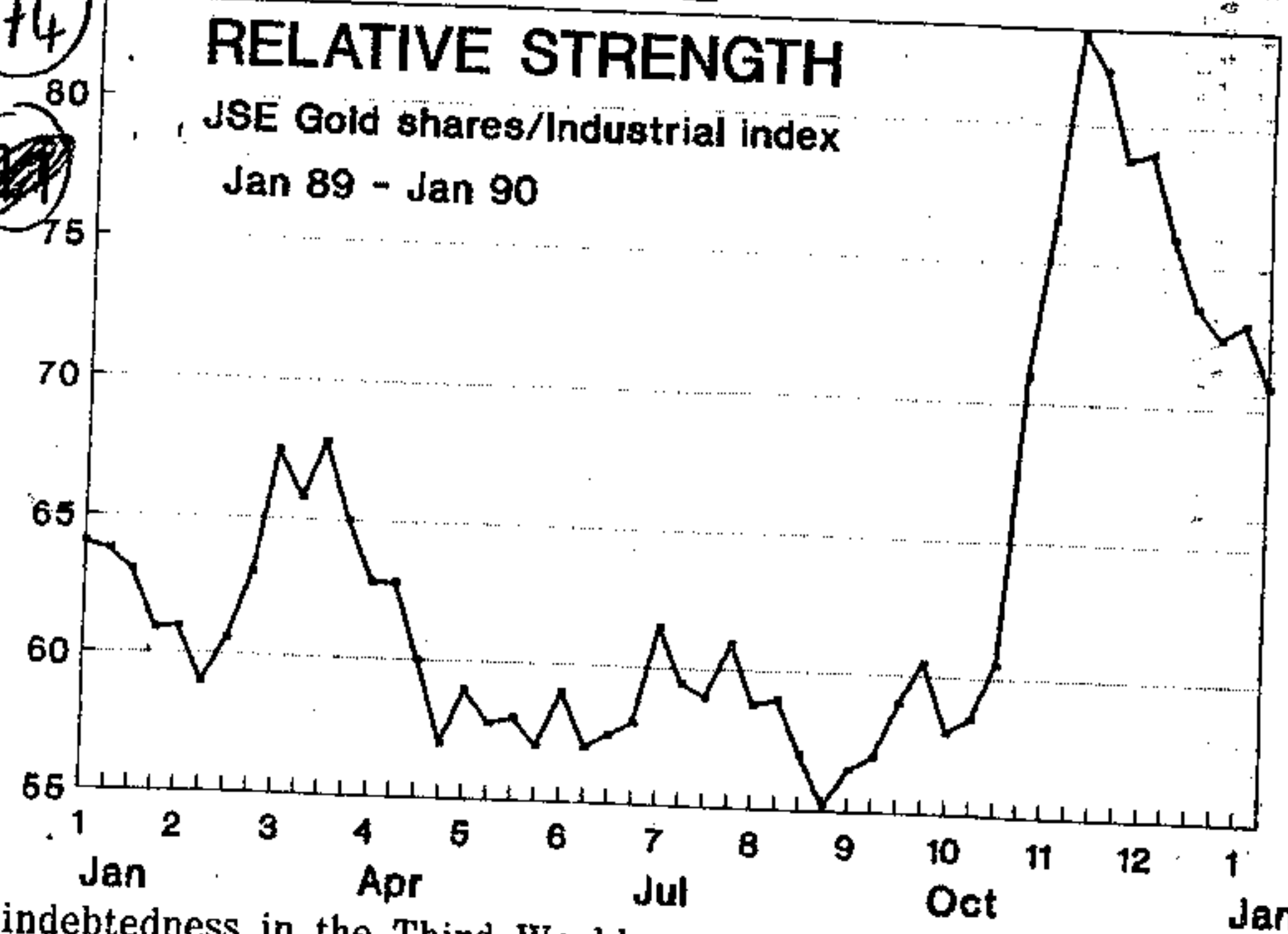
The report says gold has broken out of the bear phase which lasted for two years and now seems to be consolidating above \$400 and it would not be surprising if it breaches the \$500 level within the next 12 to 18 months.

The turnaround in the bullion price was caused by the nervousness in the international stock markets reflected by the mini-crash on Wall Street in October 1989, the reaction to continued uncertainty in Russia and Eastern Europe and the weaker dollar falling below the DM.

Other factors were the potential threat of continued high levels of

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indebtedness in the Third World and US to the stability of the financial system; declining gold supplies to the world bullion markets due to substantially lower levels of forward sales by gold producers and the drying up of gold loans.

These fundamentals, coupled with the decrease in dishoarding of gold by Western world banks and the fact that short-term insurers in Japan are now allowed to hold 3 percent of their assets in gold, are likely to continue having a beneficial effect on the gold price for the foreseeable future.

The report says that although the gold index will outperform the industrial index for the foreseeable

future, industrial shares are not likely to decline significantly.

It says blue chip companies generally have low levels of debt making them less vulnerable to high interest rates and the benefits of a higher gold price are likely to cushion the effect of the restrictive economic measures.

The fact that senior management has previous experience of coping with any downturn and is therefore well prepared to protect profitability as far as possible, coupled with a continued shortage of quality scrip on offer, should provide some cushion, the report said.

Bearish markets are unlikely to hold back gold

Yesterdays surge in the gold price to above \$420 an ounce confirmed that the metal is likely to benefit from the current state of uncertainty in world equity markets.

Jittery world stock markets have prompted gold watchers to fear a repeat of the October 1987 maxi-crash and the October 1989 mini-crash, when gold shares plunged in line with industrial share markets.

When gold entered the 1990s by bursting through the \$400 mark for the first time in two years, investors climbed into gold shares with scant regard for the prices they were paying — prices which were already discounting gold at \$440.

An aura of euphoria was prevalent, with widespread predictions that gold was on its way to \$450 and even \$500 and beyond.

James Capel's Robert Weinberg, after having forecast gold at \$300 two months previously, experienced a complete about-face, suggesting, instead, that gold was on its way to \$450.

Such fickleness encapsulated the stance of many investors the world over.

Too many bulls invariably spoil the market broth and it was therefore inevitable that those who bought lower down would take advantage of the bull run and sell into strength. Simultaneously, countries like Russia, needing to generate foreign exchange, saw the market's buoyancy as a selling opportunity.

The resultant correction to \$406 removed some of the bullish froth and this, together with Wall Street recent sharp two-day decline (from 27536 to 26975 on the Dow) and Tokyo's similar weakness, added to the JSE gold market's already nervous undertone.

Hence, the gold share index fell from

Diagonal Street

Dr ISSY BACHER



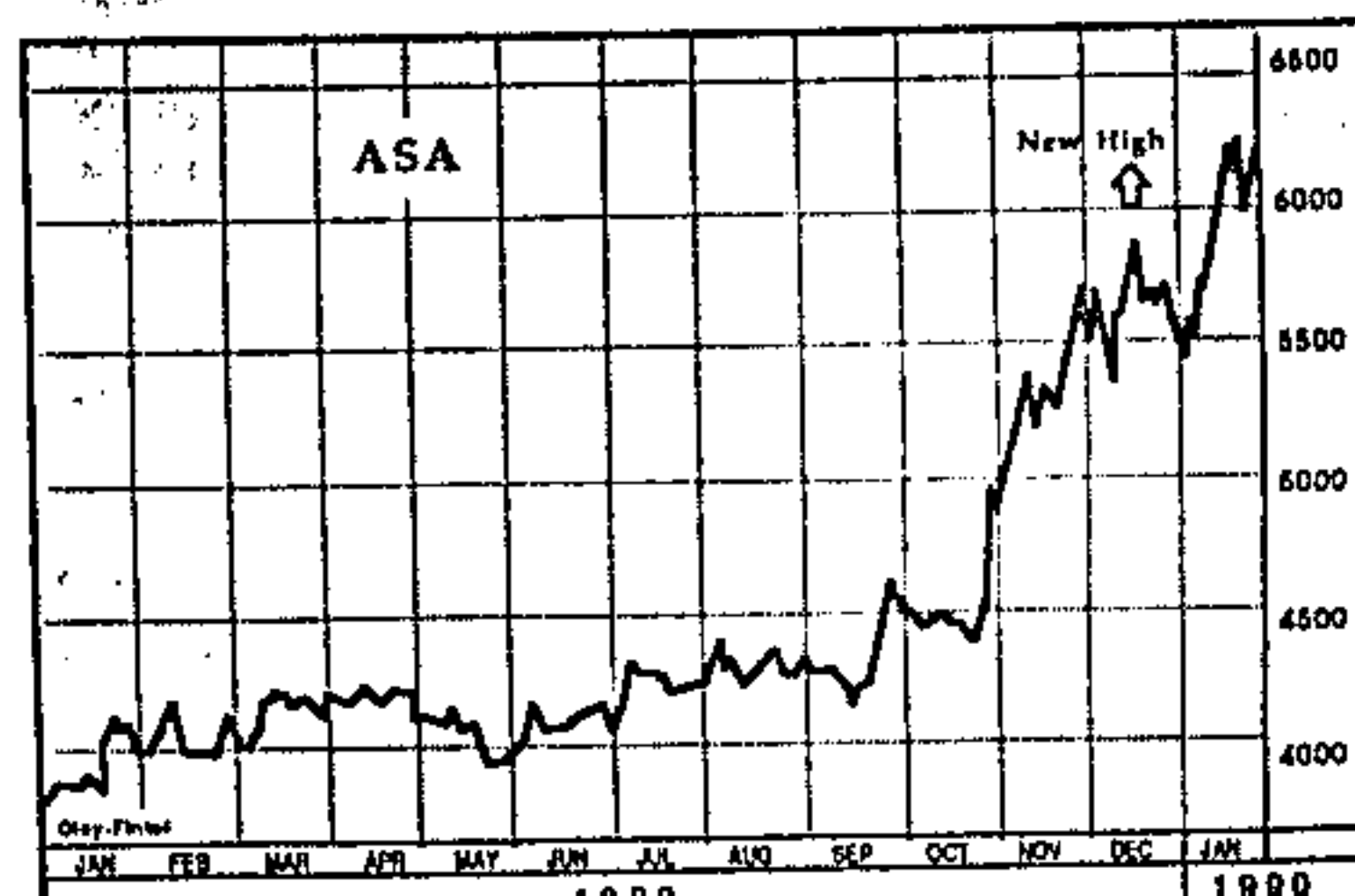
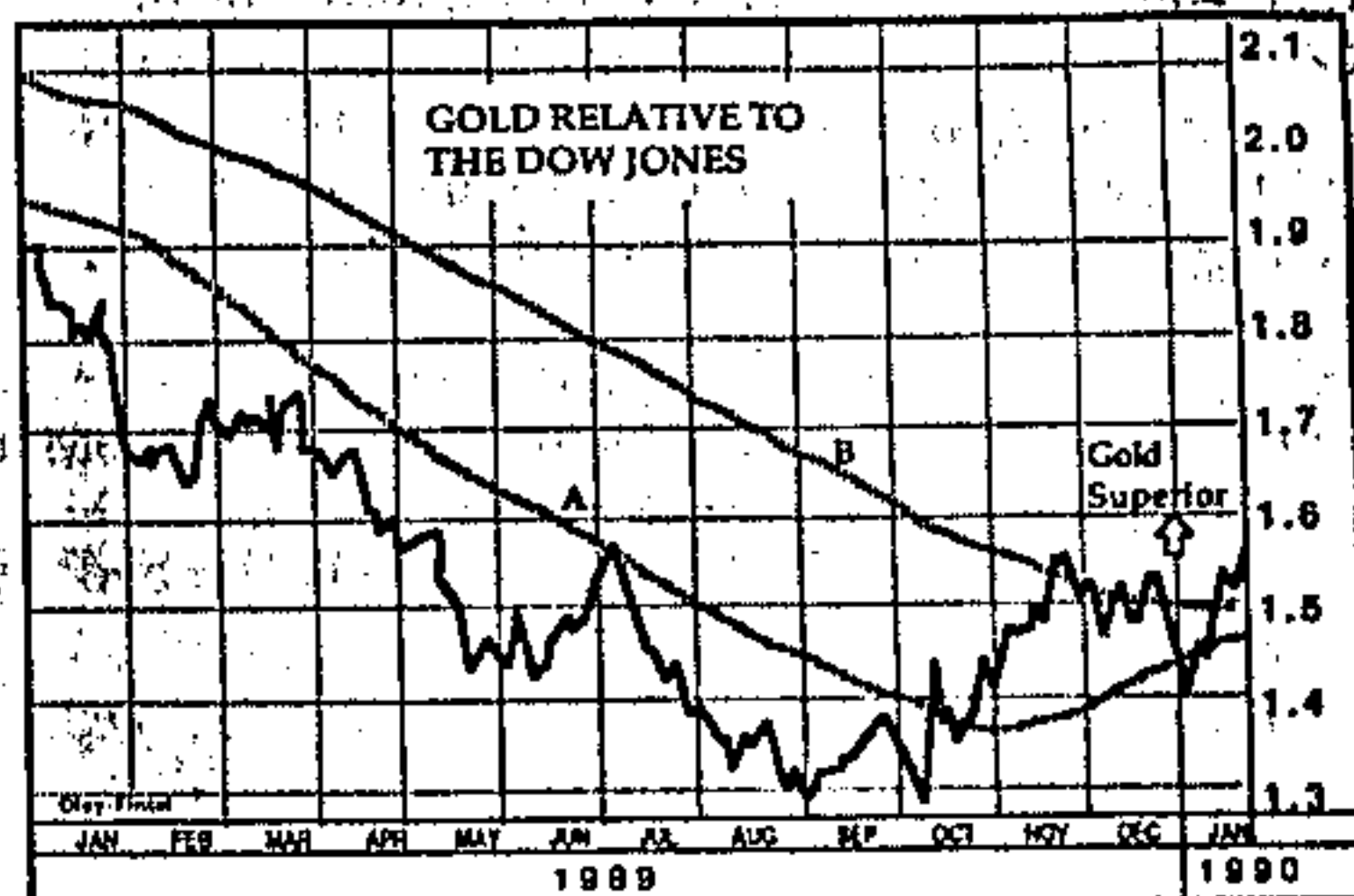
2230 to 2054 in the same period. What can be expected in the near future? The answers lie in the two accompanying graphs.

The first measures the strength of the Dow Jones industrial average relative to the gold price. For the two years subsequent to the October 1987 crash, gold steadily lost strength against the Dow. In the past three months, however, the relationship has altered; gold is gradually getting the upper hand.

The stippled line A measures the short term relative strength and B the long term relative strength. When A crosses B, the graph will denote that gold has conclusively overcome the strength of the Dow, indicating that global investment funds are flowing from industrial equities into the precious metal. This should occur in the next few days.

The second graph, that of ASA (the NYSE-listed US investment trust whose portfolio comprises largely South African gold shares), is strongly positive. Following the creation of an extended base, the share broke up in September last year and, with the exception of some minor corrections, has been advancing ever since.

International investment funds are clearly favouring gold shares, with an encouraging preference for those located in South Africa. Gold and gold shares are unlikely to be influenced by bearish world markets and are now a superior investment.



Bullion and gold shares shoot upward

Star 25/11/90 74

By Sven Lünsche

The gold price surged to its highest level in over a year yesterday, boosting gold share prices on the JSE by 6,7 percent.

Gold closed in London at \$420,75 and reached an early high of \$423 in New York before falling back to a close of \$417,50.

The gold price reflected the movements of international stock markets. As investors sold their shares in London and New York, after the sharp fall in Tokyo yesterday, money was poured into bullion, which traditionally is a safe haven in times of financial uncertainty.

However, in late trading, most stockmarkets staged a substantial recovery — the Tokyo Stock Exchange gained about 1,5 percent in early trading today — and gold fell back.

Nevertheless, the decline came too late to affect trading on the JSE and by the close the all-gold index had put on a massive 140 points at 2232.

The industrial index firmed 26 points to 2923 and the overall index 80 points to 3194. Shares traded surged to R215 million from R129 million on Tuesday.

● See Page 22.

Recovery takes the steam out of gold

~~72~~ MERVYN HARRIS 74

A MODEST recovery in global stock markets took the steam out of gold yesterday as traders took profits after the metal's sharp run-up to a 13-month high.

Gold closed \$6,25 down in London at \$415 but dealers said another upward move could be expected soon.

Uncertainty over the short-term direction of world bond and equity markets was reflected in the retreat of UK shares in late trading yesterday. Wall Street first rose and then fell back as investors remained hesitant on taking new positions.

On the JSE, mining shares drifted lower on a combination of the lower gold price and continued strength in the finrand investment currency. Dealers said some profit-taking was to be expected after steep gains on Wednesday but the undertone remained strong.

The JSE overall index ended 35 points down at 3 159 on a 39-point fall in the all gold index to 2 193 and a marginal one-point decline in the industrial index to 2 922. *down 261190*

The dollar traded in a tight range on European foreign exchange markets yesterday but analysts said its direction remained bearish ahead of today's US fourth-quarter GNP and December durable goods orders figures.

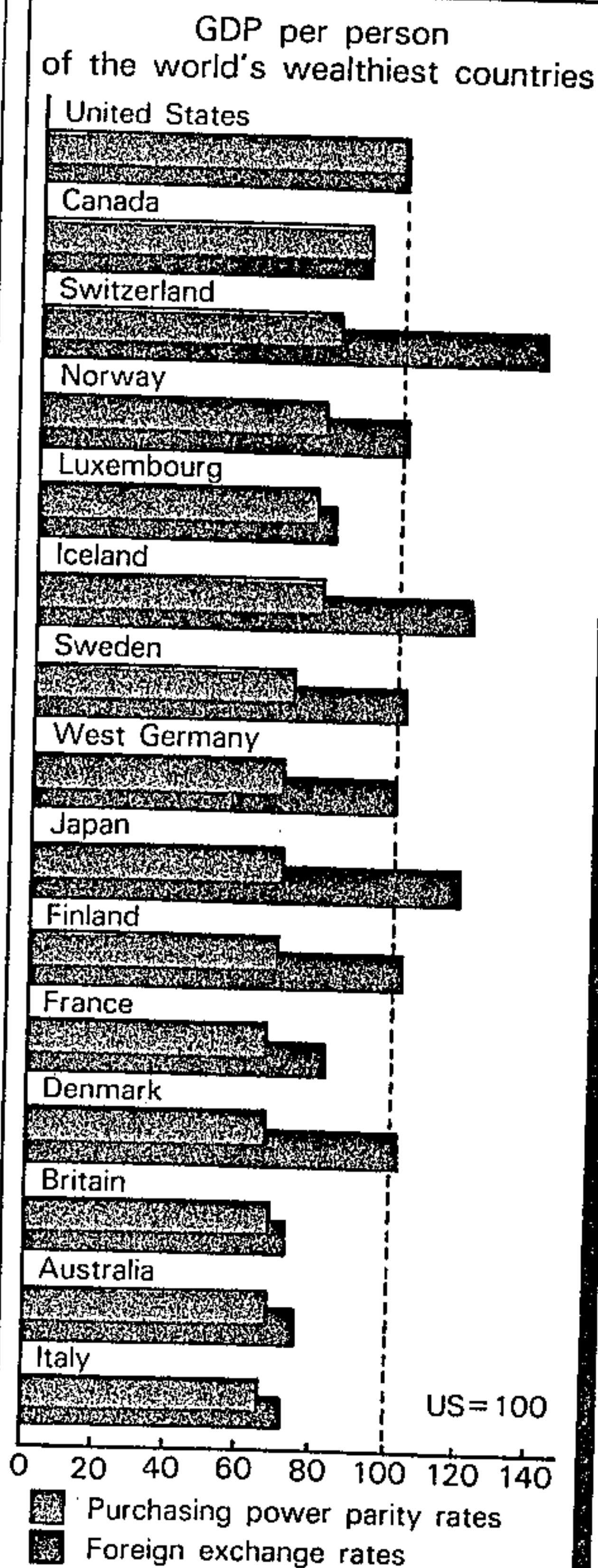
The US currency ended slightly firmer against the rand at R2,5603 against the previous R2,5558, but weakened against the finrand to R3,2950 (\$0,3034) from R3,3250 (\$0,3007).

PURCHASING POWER FM 26/1/90

Computing wealth

Per capita GDP is probably the best way to measure a nation's prosperity. Normally this is computed by using exchange rates to compare countries. But for diverse political, economic and social reasons, the buying power of a currency on foreign exchanges is often very different at home (74)

Comparing prosperity



Figures are for 1988, OECD countries only
Source: Organisation for Economic Cooperation and Development

So economists have devised purchasing power parity rates, which take into account varying prices of similar goods in different countries.

Using these rates to calculate GDP per capita, OECD figures show that Japan, that economic powerhouse, is ranked as only the ninth wealthiest country in 1988 (see graph). The yen buys much more on exchange markets, where it is one of the world's strongest currencies, than it does in Japan, where the cost of living is extremely high.

After parity-rate adjustments, Americans had the world's highest standard of living with Canada a close second. Using exchange rates, however, the US ranked eighth, tied with West Germany, with Canada 10th.

SA's undervalued rand

South Africans also enjoy a higher standard of living than the rand's exchange rate indicates. In 1988, GDP per capita was R5 771 (or US\$2 539) but, using the parity rate (as calculated by the FM because the OECD list does not include SA) this rose to \$2 809, putting SA in the same league as Turkey and South Korea. These figures include the four independent states.

"The rand trades below its parity value mainly as a result of political factors," says the SA Chamber of Business's Keith Lockwood.

He adds, "The difference between the official exchange rate and the parity rate is essentially a political tax South Africans must pay."

For instance, in 1988 \$1 cost R2,27 but R2,05 bought as much in SA as \$1 in the US. This means that SA pays more than it should for imports — fuelling inflation and driving up the cost of doing business here.

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Bank warns of hard times

THAT 1989 passed without major casualties does not mean that the worst is now over, and 1990 will "almost certainly" be a difficult year, the Standard Bank warns.

It says in its latest monthly review that 1990 will be characterised by debt repayments possibly as high as \$2,4bn, while gold and foreign exchange reserves are "totally inadequate" to meet anticipated capital outflows.

As a result, the continued generation of substantial surpluses on the current account of the balance of payments will be "crucial".

"But this must be achieved at a time of somewhat slower world economic growth and weaker global commodity prices: non-gold exports are therefore unlikely to maintain the upward momentum recorded in 1989.

"In the absence of a further substantial jump in the gold price, import volumes must fall still further. This can be achieved only if domestic spending is kept under a tight rein and the current slowing of domestic activity is sus-

SYLVIA DU PLESSIS

tained," it says.

It says there are also good domestic reasons for continuing to restrict growth in domestic demand, with last year's continued rapid growth of credit demand and money supply being cause for "considerable" concern.

While the Reserve Bank is determined to bring these problems under control, the consistent maintenance of positive real interest rates is vital if this is to be achieved. This implies that interest rates will remain high.

It says the burden of high mortgage rates will continue to be felt.

However, the medium-term prospects of lower inflation and sustainable improved economic growth will be also "greatly enhanced".

Standard says long-term economic growth performance will also be "significantly improved" if political and economic dynamics, which have recently emerged, continue to move in a positive direction.

The four 'rights' that spell success

180 74

S. Times 28/1/90

COMPETITION, rising costs and a rapidly changing, sophisticated international trading market will be among the challenges facing the forwarding and clearing industry in the 1990s.

In this scenario the efficient management of the movement of goods is fast becoming the most strategic tool for importers and exporters.

It seems that the maxim to success in this decade is summed up in the four 'rights': Get the right goods to the right place at the right time at the right price.

To achieve these goals requires knowledge, expertise and experience to orchestrate the movement of diverse cargoes nationally and internationally. Ideally, the clearing and forwarding agent's expertise is an extension of the client's shipping department.

Resources

The growing need for the cost-effective application of resources, especially those tied up in stock, has made importers realise the strategic advantages to be gained from door-to-door control of the transport chain.

Out of the popular Japanese management system just in time (JIT), there is growing recognition that systematic, planned deliveries eliminate the need for large stock and storage facilities.

Renfreight Forwarding SA divisional general manager Eddie Stead says that with the international Lep network of facilities and services available in Europe, America, Asia and Australasia, Renfreight has developed its own door-to-door freight management system.

"This service is tailored to satisfy the growing need for

By Robyn Chalmers

cost effectiveness, passing on the potential benefits of JIT management techniques to clients."

Uniserv deputy chairman Barry Saxton predicts that the days of the company warehouse are rapidly ending. He says demand for the courier and express parcel services has to be seen in the context of the dramatic changes in distribution that have swept the world.

"The sight of a packed warehouse, once a token of a prosperous company, is now evidence of costly and inefficient stock holding. It represents capital tied up and dormant.

Breed

"No company can afford not to alter its distribution patterns to move with JIT management requirements that call for faster stock movement. Necessity now dictates that stock levels remain flexible to respond quickly to market demand

"The way to gain that flexibility is not to store bulk in a warehouse at enormous cost, but to have faster transport methods — express delivery by courier."

Mr Saxton says SA is seeing a new breed of distributor. What was regarded as cheap transport by standards of a decade ago is now recognised as expensive because of its harmful effect on the company's investment in stock.

"Faster movement of goods is recognised as the most important way to contain costs and maintain productivity — as well as improving customer services."

Speed, as always, in the movement, clearing and delivery of goods is critical in this industry. As Mr Saxton points out, goods in transit essentially represent dor-

mant resources, and it is here that computerisation has come into its own.

The development of the EDI systems in the 1990s will bring about great changes in the international forwarding industry. EDI is aimed at the standardisation of documentation, processable through an international computer network.

Closer

Mr Stead says the benefits of automation are simplification and speed in the entire documentation process, which will turn the clearing industry into a paperless operation.

"Ideally, information covering a particular transaction will be entered at the supplier station and electronically transferred as required around the globe.

"The real benefit of the EDI programme is the closer link it will provide with the client. Through our systems, we will be able to track and direct the movement of goods from point of supply to destination at the press of a key and with no duplication or errors in data capture."

Quality

However, the structural change and growing export sector, driven by current government policy, offer the biggest challenge of this decade.

The freight industry in SA has traditionally focused more on import clearing than export forwarding.

This came about because of the historical imbalance in numbers between importers and exporters and the diverse and complex range of tertiary import commodities compared with exports which have tended to be homogenous primary products.

Mr Stead believes the pre-occupation with import clearing is set to change.



EDDIE STEAD ... closer links forged with clients

"Exporters are realising that reliability in quality and delivery are the key needs to be satisfied when competing on international markets. This is stimulating demand for professional forwarding."

Handling, storage, documentation and shipping of goods for export to sophisticated international markets demand specialist transport and warehousing logistics.

Mr Stead says the professional transport and warehousing services offered by the forwarding agent save exporters time, money and hassles, allowing them to concentrate on their primary

business. With thousands of square metres of general and specialised warehousing throughout SA ports, Renfreight is investing large sums in the development of facilities.

A total of R10-million is being spent on what will be the largest and most sophisticated warehousing facility at Richards Bay.

In Durban, specialised warehousing facilities have been developed to meet the needs of general and specific industries, including forest products, steel and chemicals.

From customs clearing agent to all-rounder

By Robyn Chalmers

THE successful freight forwarder is one who has navigated the change from being a traditional customs clearing agent, says Grindrod executive director Johan du Plessis.

The clearing agent was purely responsible for the clearance of goods through customs and delivery to the client. But the international freight forwarder manages cargo from source to destination across international borders and through a maze of transport modes.

Dr Du Plessis believes that the industry in SA will continue to be dominated by imports because the handling of bulk mineral exports and the perishable deepsea exports fall outside the forwarder's domain.

The fact that SA is not yet a recognised manufacturing export nation could be a factor in the short term while plants moved from abroad into decentralised areas come into full production. They will first satisfy SA's needs before expanding into

exports.

He believes that in this expansion lies the opportunity for SA to become a manufactured goods exporter in line with Singapore, Taiwan and Korea.

"One of the greatest challenges facing the SA freight forwarder in the 1990s will be the ability to adapt to the electronic era.

"It will be imperative for forwarders, carriers and customs departments to completely computerise their operations and provide added value to their products.

"A large part of such added value will have to be in technology. Computerisation in all areas will be vital to the industry's survival."

Paperless

Successful forwarders are continually improving their computer programmes and systems to ensure maximum efficiency.

"The day of the paperless society is upon us," says Dr Du Plessis. Only organisations which have the ability to invest in and use to the full the software and hardware will succeed.

The result will be a more flexible and productive service and a vast increase in productivity for the forwarder.

Dr Du Plessis says the single largest opportunity on SA's horizon is the dissolution of borders in Europe in 1992.

"This will effectively form the largest and most powerful trading bloc in the industrial world. Unless there are major changes in attitude, a single European parliament is likely to be less friendly to SA."

If that happens, SA forwarders will have to position themselves in Europe to ensure continued trade after 1992."

Conglomerates

The scrapping of European frontiers will eliminate individual customs border posts and cargo will move freely. The SA forwarder will have to ensure that agents are linked into an inter-European hub-and-spoke distribution network.

Another major development in anticipation of 1992 will be the formation of conglomerates to control the entire transport chain.

Such conglomerates are being formed in Europe.

eeniging area. It should be supported by a national domestic distribution network to enable the forwarder to funnel domestic cargo from all the main centres into Africa.

This turntable could be used to supplement the forwarder's international agency network to ensure that these markets are effectively served as the whole region moves closer together in an economic bloc.

Dr Du Plessis says there could be changes in the international attitude to SA because of political change here. A relaxation of sanctions could help the airfreight industry, an example being the resumption of direct flights between the US and SA.

They control shipping lines, airlines, transport companies, freight forwarders and warehousing units.

Dr Du Plessis believes major airlines will continue to be under pressure from integrated carriers. He expects an increase in mergers and takeovers among airlines.

Forwarders and airlines will have to come up with a combined answer to the integrated carrier problem.

Some airlines have introduced small parcel services which could to some degree compete with the integrated carriers. But they rely heavily on a joint venture between appointed forwarders and the carrier.

Strengths

One of the major trends will be to develop markets and areas of trade, allowing forwarders to continue in business.

Dr Du Plessis says the single largest area of potential growth is the Far East, China in particular, followed by Eastern Europe.

All of these areas are expanding their own industrial strengths and seeking markets.

"Through the opening of export turntables in selected international ports on a global front the SA forwarder, with his relatively small volumes, will be able to effectively serve new existing markets."

Dr du Plessis says a strong requirement for an export turntable exists in the Pretoria-Witwatersrand-Ver-

Sugar price set to hit a 10-year peak

ALL the fundamentals are in place for the sugar price to rise to its highest in the past 10 years.

However, it is uncertain how the price will perform this year, says Lindsay Williams, chief trader at Holcom Futures.

Mr Williams says stocks are in a critical position.

Peak

As a percentage of consumption, stocks were between 28% and 29% at the beginning of last year and have probably declined to about 27%.

It is much the same as in 1981-82 when the sugar price rose to a peak of US45c a pound. The highest price was US65c/lb in 1970.

Mr Williams says: "But prices remain up to three times lower than then. In spite of the critical shortages last year, the price peaked at US15,38c/lb and by December had dropped to US12,78c/lb. The price has continued its marked up-and-down fluctuations.

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SI Times 28/11/90

By Don Robertson

"All that is needed to send the market flying is one very large purchase. This was evidenced early last year when Mexico made a 350 000-ton purchase and the price rose US1,2c/lb in a day."

Mr Williams says the inability of Third World or lesser-developed countries to pay for sugar is keeping the price down. Every time the price moves above a certain level, demand dries up.

"The question is whether this will happen again this year."

These subjects will be dealt with by Helmut Ahlfeld, chief executive of international sugar statistician FO Licht, when he visits SA next month as the guest of Holcom.

The SA Sugar Journal, quoting the Czarnikow Sugar Review, says that although the sugar crop in 1989-90 is

expected to increase to 107-million tons from 105,9-million in the previous season, consumption is expected to reach 109,5-million tons in 1990.

As a result, there is every prospect of a further draw-down this year.

"By the end of last August, carryover levels as a percentage of consumption had returned to those of 1980-81."

It is predicted that tight world sugar supplies could occur in the third quarter of 1990.

Weather

Russia imported about 2-million tons of sugar last year, and is expected to be a major buyer this year. Imports by China are also expected to increase this year, and India should require large tonnages.

Brazil, usually a large exporter, is likely to reduce its

sales on the free market because of bad weather and the need for sugar to convert into ethanol to power cars.

Poor weather conditions have also affected American and Mexican crops.

An editorial in the SA Sugar Journal says export prices have risen sharply from those ruling in the mid-1980s and earnings are expected to remain strong for some time. There is also the possibility that domestic demand will increase.

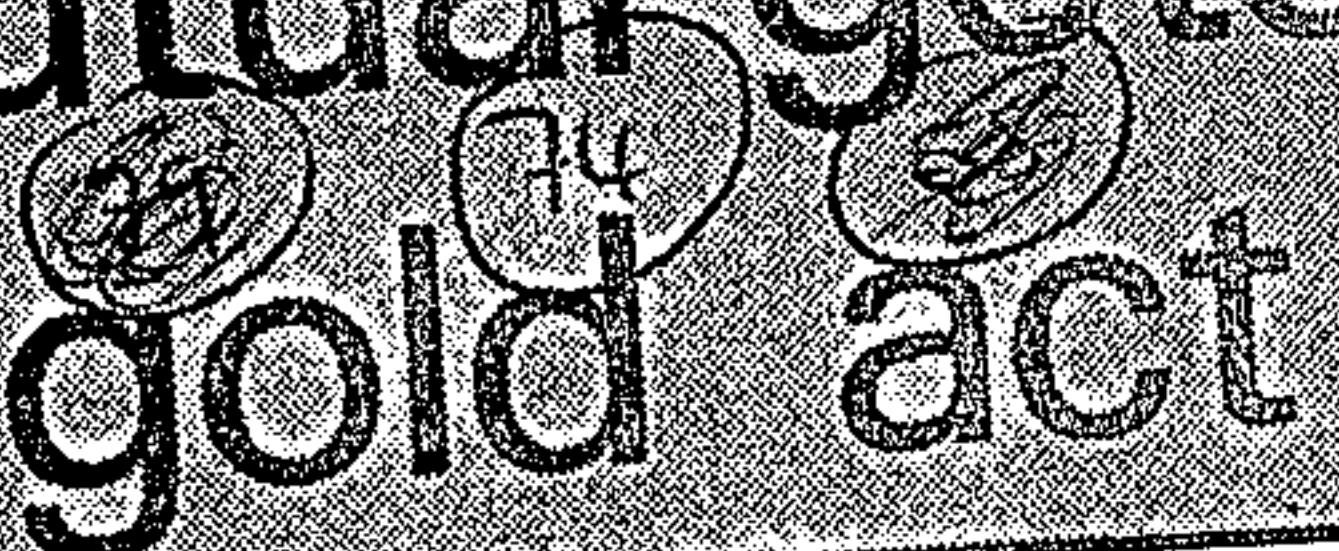
"The possibility of deregulation and of expansion linked to the industry's proposals regarding ethanol production suggest an exciting prospect for a dynamic new era in the '90s."

The prospects for a bumper season in SA are good. Rainfall in the five main growing areas in the second half of last year was well above the same time in the previous year.

outperformed them at times. Don't beat cash.

Old Mutual gets in on gold act

S/Tues 28/1/90



GOING for gold is the Old Mutual's policy.

It has launched a unit trust which will comprise only gold shares, mining houses and gold-related assets.

Fund manager Marco Celotti says the gold fund has been launched to fill a market gap.

The timing of the fund is right for several reasons:

- The political situation in SA is improving.
- Foreign investment is returning.
- The gold price has turned the corner.
- SA gold shares offer better investment opportunities than do American or Australian mines, especially to foreigners through the financial rand mechanism.

CAREFUL

Mr Celotti says much must happen before the finrand can be abolished, and that it is simplistic to call for its demise now. He believes that the fiscal authorities which previously abolished then reinstated the finrand will be more careful next time.

The intention is to remain fairly fully invested. Mr Celotti says people who opt for the fund have already made a decision on gold's prospects, and do not need a fund manager to decide to remain 25% liquid.

But they do need to invest through a mutual fund because top-quality golds are too expensive to be bought



MARCO CELOTTI ... too early to abolish the finrand

individually.

He concedes that the fund's unit price will follow the gold price over the longer term. But the challenge lies in optimising the fund's performance through ups and downs.

Old Mutual is cautiously optimistic about gold in dollar terms. Positive factors include a weaker dollar in the medium term, the growth in world gold production peaking in the 1990s, developments in Eastern Europe, the decrease in gold loans and forward sales, and strong demand from jewellers and other industries.

Clouding the horizon are continued positive real interest rates and a neutral view on world inflation.

The fund will be open for investors at the published unit price from February 5.

The minimum initial lump sum investment is R1 000, and minimum monthly investment R100.

Investors in other Old Mutual unit trusts can switch between the four funds at a reduced initial charge as market conditions and personal needs dictate.

Income will be distributed in August and February. About 65% of the portfolio will be invested directly in gold shares, 20% in mining houses, 5% in exploration and 5% in other gold-related assets.

Liquidity will be kept close to the statutory minimum of 5%.

Rande

THE life of Winkelhaak gold mine in the Evander field will be lengthened well into the 21st century by the installation of a sub-vertical shaft.

Winkels is the oldest Evander mine, the largest and safest. It is also one of the lowest-cost gold producers in SA. It rates blue-chip status on the JSE, the price climbing to R124 this week.

The shaft, whose cost is estimated at R700-million in January 1990 money

All set for drive into Europe

5/ Times 28/1/90

74

THE liberalised European Economic Community market has been the most important strategic planning subject for the past two years at the Kuehne & Nagel International Forwarding Organisation.

Developments in Europe, which will constitute the largest internal market in the world, will have a profound effect on the forwarding industry, affecting trade with all other parts of the world.

KN chief executive Gunter Venth says that in 1988 his company initiated a European development programme which will involve investments in Europe of more than 400-million marks by 1992-93.

Collapse

Mr Venth says KN, one of the world's largest freight forwarders with 400 offices in 60 countries, has bought or set up joint ventures with companies in Italy, Spain, Britain, the Netherlands, European Free Trade Association nations and others which are particularly involved in the distribution of cargo.

"The collapse of the centralised systems of the Iron Curtain countries and the liberalisation of their markets put a completely new aspect on these developments.

"German companies traditionally had strong ties with their Eastern neighbours. No doubt, they will be re-established in the next few years."

Mr Venth believes that freight rates are likely to drop with the introduction of EEC transport market liberalisation. Forwarders and transport companies wishing

By Robyn Chalmers

to attain long-term competitiveness must more than ever try to offer services in line with real-market conditions.

Mr Venth says all industrial regions are subject to a rapid development and refinement process of logistic systems. Concurrently, there are ever-increasing demands on the performance of the forwarding and transport industries.

Monitor

"This general trend particularly manifests itself in the reduction of all warehousing stocks associated with the JIT (just in time) system and distribution sectors.

"Additional factors are playing a vital role in growing demands on delivery speed, reliability and punctuality.

"The basic condition for the realisation of such aims is an efficient information system accompanying the transport chain. KN SA has plans in place for a satellite linkage with its major foreign operations."

KN has separate divisions. One of the most developed in SA is the airfreight division, which goes under the name of Knair.

KN director Alfons Tellian says more emphasis is put on customer consultation than sales. Knair helps to form an awareness of products suitable to an individual shipper's requirements.

In particular, international express door-to-door services provide facilities for JIT shipments as well as urgent samples and documents.

"Because SA is heavily import-oriented, the main task

of forwarding agents in this market is to promote that business.

"In this manner, the SA consignee, being the freight payer in most instances, appoints an agent to collect from an overseas supplier, make the necessary transport arrangement and monitor the shipment all the way to his premises."

The hub of the seafreight operation is controlled and managed worldwide under the corporate identity of Blue Anchor Line (BAL).

BAL is an integrated non-vessel operating common carrier (NVOCC) service handling the control and management of seafreight imports and exports from consolidations (small parcels) through to project cargo movements.

Speed

Sales and marketing general manager Richard Adamson says that in 36 years in SA, KN has concentrated on developments in import and export trading links with all major partners, including Western Europe, Mediterranean countries, America and the Far East.

Among the specialist services of KN, the project shipping division produces large freight volumes, turnover and profits.

The services of KN projects involve the complete management of the movement of capital equipment, including machinery and complete industrial manufacturing complexes from the point of origin to destination.

At present, KN Projects SA, in conjunction with KN-owned offices abroad, is involved in handling project shipments for Sasol and other synthetic fuel projects, Majuba power station and the Sasol polypropylene plant.

Reform prospects enlivening the JSE

Star 29/11/90

74 (200/11)

Nothing seems to enliven a stockmarket more than the prospect of political reform.

The collapse of communism in Eastern Europe sent the West German stockmarket, whose companies are presumed to be the beneficiaries of this change, into fits of desire and up a quarter since October.

The subsequent political unrest in Russia has barely trimmed West German share prices.

By the same measure, the prospect that apartheid might end peacefully has sent South African shares up by 35 percent since the worldwide mini-crash last October.

In 1989 the JSE delivered a total return of 60 percent to dollar investors.

Politics is not the only reason. A 12 percent rise in the gold price since the beginning of October has given South African shares an added boost.

Gold shares account for around one-third of the JSE's capitalisation. The rand has also stiffened.

If the gold price runs to past form, it should remain strong for at least another year and so underpin the stockmarket.

Gold fans point out that every bull market in gold has seen the price rise by 55 to 60 percent (measured from trough to peak).

Furthermore, every bull market in gold, with the exception of the rally from June 1982 to February 1983 (which took the gold price from \$295 to \$508), has lasted at least two years.

Arrant alchemy, say some cynics. Yet there are two further reasons why history might repeat itself.

The first is that some of the newer mines in America and Australia have sold virtually all their production forward (at low prices) to pay for development costs.

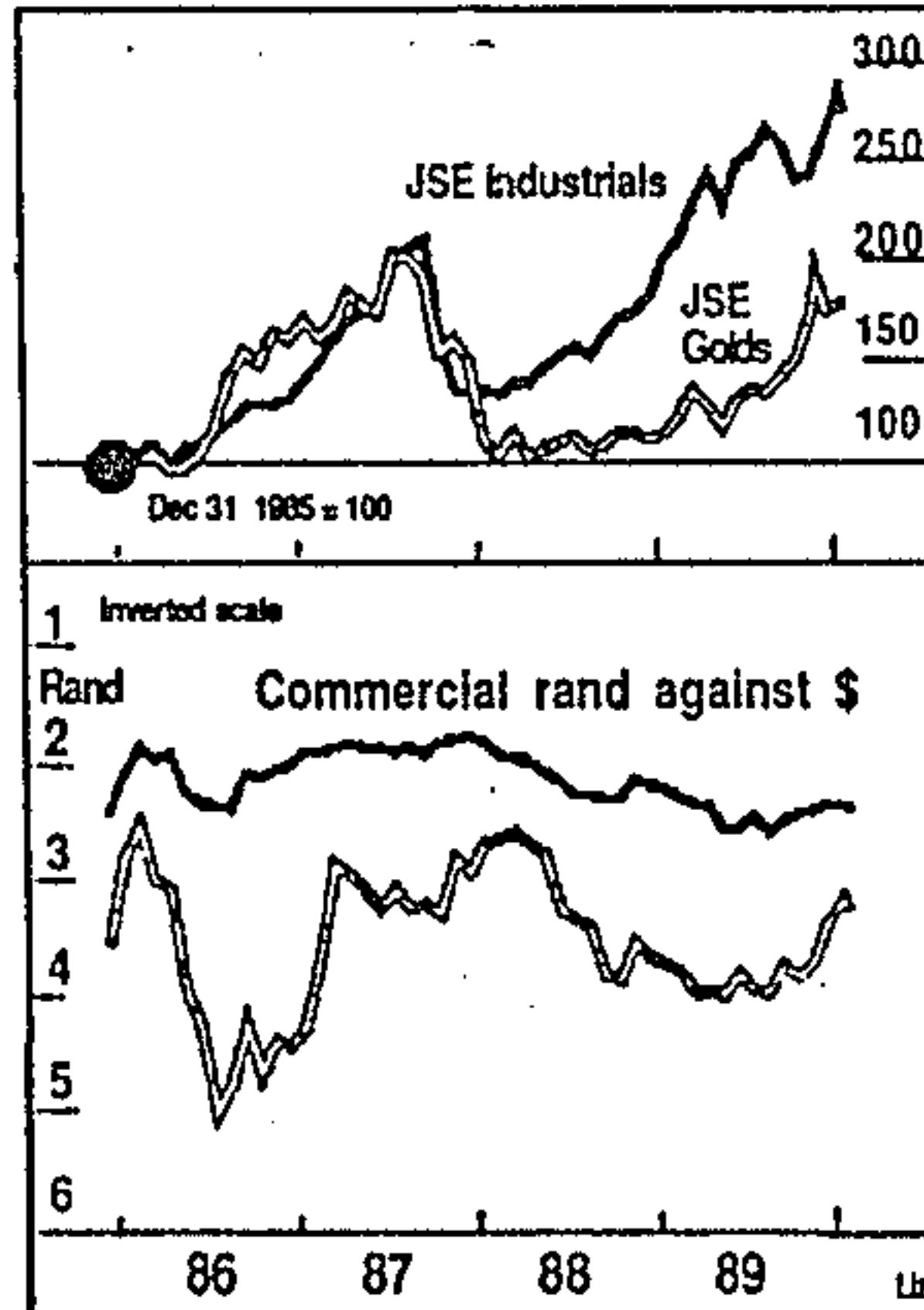
A lot of these mines were optimistic and are not now producing gold in the volumes they expected.

To fulfil their contracts they are having to buy gold from the market; there is an increasing risk of default.

The second argument is that gold usually does well when the financial world starts to lose confidence in paper investments and politicians.

The present nervousness of the world's stock and bond markets, the evident rickety-ness of America's banking system, and the unrest in the Soviet Union provide classic props for the price of gold.

The optimism about political change in South Africa is about to be tested. President FW de Klerk is due to outline his plans at the state opening of



Parliament on February 2.

International investors expect him to announce that the ANC will no longer be a banned organisation. Nelson Mandela, the ANC's figurehead, could then be released from prison, where he has spent the past quarter century. That might lead to talks about power-sharing.

If Mr de Klerk disappoints foreign investors, the stockmarket will not be the only financial market to suffer.

The recovery in the stockmarket and the buoyant performance of South African government bonds, where yields have fallen from around 17.5 percent last July to 15.3 percent last week, have lured in foreigners.

They put around R2 billion into the bond market last year. This infusion of cash has helped narrow the discount between the financial rand and the commercial rand.

The financial rate is lower than the commercial rate to encourage foreigners to invest and not to sell. Interest and dividends are paid at the commercial rate.

A rush out of South African shares would put the financial rand under pressure. This, in turn, might prompt foreigners who bought South African government bonds in July to cash in their gains.

These investors bought the bonds for their high yield (over 25 percent in dollar terms) are now enjoying a rand capital gain of around 10 percent and a 10 percent currency gain.

The less attractive South Africa becomes to foreign investors, the bleaker its economic prospects.

Since it froze repayments on its some short-term debts in 1985, it has attracted hardly any foreign capital. In order to make interest and principal payments on its foreign debts, South Africa has been forced to run a trade surplus.

This, in turn, has meant keeping domestic demand on a short leash. Real growth last year was around one percent.

Although turnover in South African shares is booming — on several days this year the JSE has traded R200 million-worth of shares, with the rest of the world probably handling the same again — comparatively few shares are free to change hands.

While the New York Stock Exchange has an annual turnover roughly equal to its market capitalisation, annual turnover in South African shares is only about 25 percent of the market's \$120 billion capitalisation.

This is low, largely because South African mining finance and trading houses, such as Anglo American, own so many shares in other companies.

These shares are undervalued in the owners' balance sheets, making them unwilling to sell them and thus incur a hefty bill for capital gains tax.

But capital gains tax looks likely to be abolished in the March Budget.

In the short run, abolishing the tax on shares that have been held for, say, more than five years should release more shares onto the market, since the mining-finance houses might rush to sell.

In the long run the change should improve the stockmarket's liquidity.

Last year the main foreign buyers of South African shares were continental European investors.

If Mr de Klerk says what the British and Americans want to hear, they may also plunge into the market. They might do better by buying industrial companies, rather than their traditional investments, gold mines.

Compared with other stockmarkets, shares in South African industrial companies still look cheap. The stockmarket as a whole trades on a prospective P/E ratio of nine times brokers' forecasts of this year's earnings.

Industrial companies, such as South African Breweries, are even cheaper, at five times prospective earnings.

The average P/E ratio for the world's stockmarkets (excluding Japan, where the P/E ratio is 50) is around 14.

If South Africa becomes less of an international pariah, its economy and trade should take off as it once again becomes eligible for foreign credit. Industrial companies have most to gain. — The Economist.

Gold set for rally this week

By Neil Behrmann

LONDON — Option writers and other professional dealers could precipitate a sharp rally in gold prices in the coming week, say dealers. *star 29/11/90*

Professionals trade gold, other commodities and currencies within determined ranges. Hedge and trading strategies are based on the peaks and troughs, or \$395 to \$420 in the case of gold.

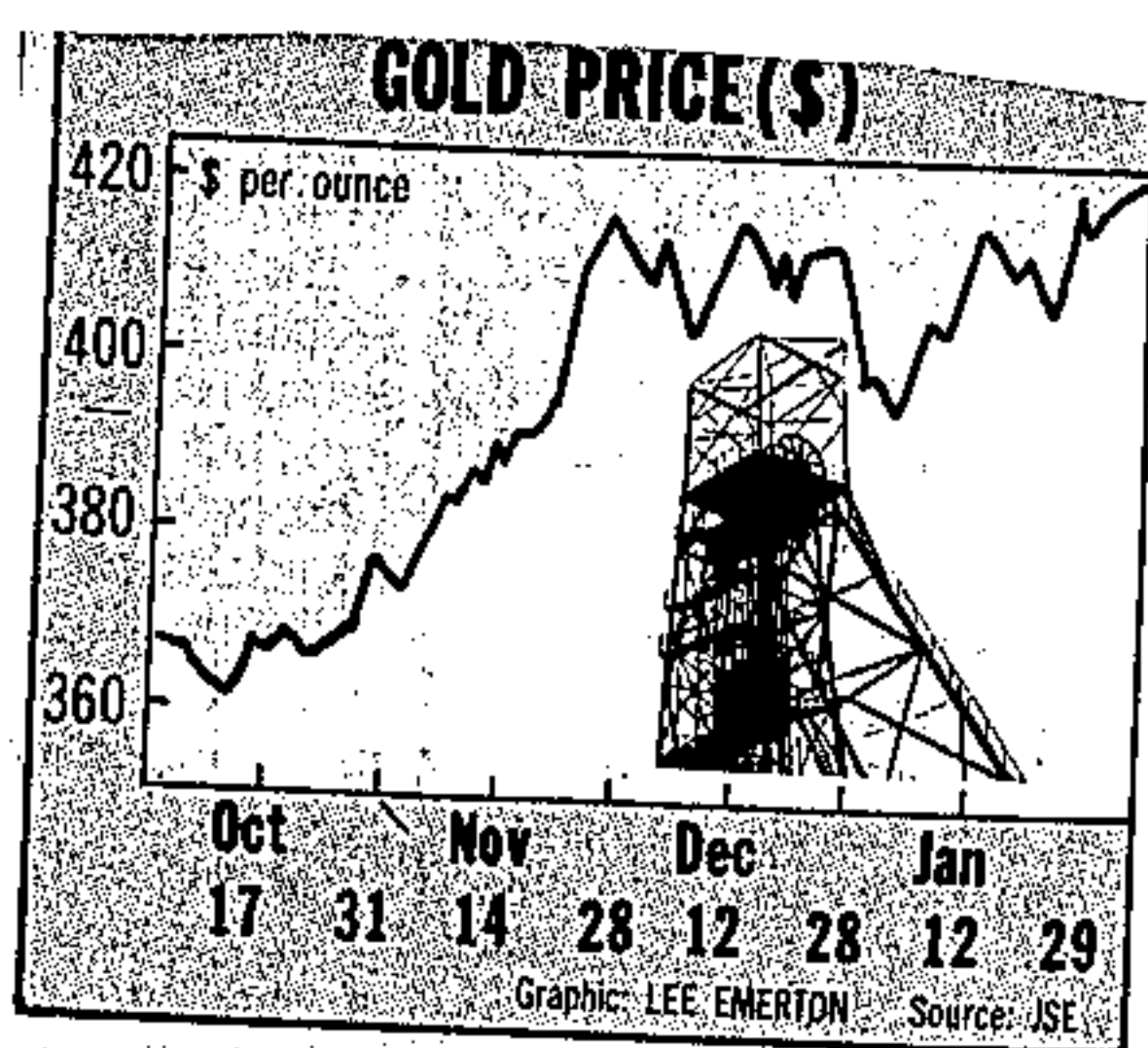
Dealers believe that many professionals wrote call options at \$420 to \$425, so they are technically bears at the price. If gold rises towards \$425, the option writers could well be forced to cover their positions and fuel a further price increase.

To be sure Middle Eastern speculators fueled the rally last week when they covered bear positions.

Dealers say that the demand from investors absorbed an increase in producer sales last week. Now that the sales are out of the way, gold could rise further.

Gold is also being affected by volatility in the currency and stock markets and worries about the political situation in the Soviet Union and South Africa.

Gold rose by \$4 in late trading on New York on Friday, closing at \$420.25, amid hopes by dealers that the metal will now settle above the crucial \$420 level.



Hopes for gold keep market on the boil

(74) **MERVYN HARRIS** (279)
 DIAGONAL Street remained on the boil yesterday on perceptions that the gold price is set to break fresh ground above \$420, although the fall of the metal as the market was closing took some of the shine off mining shares.

Gold touched a high of \$422,50 in Europe but slipped back to below \$417 in New York in a resumption of its recent trading pattern of rising in the Far East and Europe and coming down on profit-taking in the US. *Monday 30/11/90*

The metal was earlier supported by dollar weakness in topping important resistance at \$420, but fell prey to bouts of profit taking on speculative selling after the European spot gold options expired without fanfare.

The market is now gearing for this week's flow of economic reports, including tomorrow's leading US economic indicators for December and Friday's US jobs report for January.

Gold's decline wiped some of the gains off the JSE all gold index, which closed 23 points up at 2 235 after surging to a high of 2 249. Prices were, however, supported by a weaker finrand, which retreated from R3,2950 to R3,3450.

But the positive mood of the market was reflected in strength in De Beers, mining financials and leading industrials, which boosted the overall index 39 points to 3 217 to take the index within a whisker of its closing peak of 3-239 two weeks ago.

Dealers said some institutional investors were on the sidelines in the hope of picking up stock at lower levels but the strength of the market undertone suggested there would not be much selling.

Europe 1992 and outlook for SA

TANIA LEVY

EUROPE 1992 would put pressure on SA manufactured exports, but demand for local raw materials might well improve, says Syfrets research analyst Hugh Broadhurst.

Reviewing changes in the latest edition of the Syfrets bulletin, Money Matters, Broadhurst said SA businesses would have to position themselves to grasp the opportunities of Europe 1992.

He said the larger European market would increase trade, but lower costs and barriers to trade within the EC would lead to community members preferring to source internally.

Among changes already taking place in Europe were the standardising or abolition of barriers at common borders such as quotas, rules of origin, currency control and taxes.

Broadhurst said other ideas being debated were a monetary union, one central European bank and a single European stat-

ute standardising company taxes.

International companies expected the formation of a single market in Europe to affect their activities, he said.

Toyota, for example, had invested \$1bn in the UK to qualify as a European manufacturer, while other companies outside the EC had quickly formed alliances with, or taken over, European companies. Nestle took over Rowntree.

Within the EC, companies were merging to achieve mass production and distribution and to ensure representation across Europe, as with Siemens and GEC taking control of Plessey.

There were important political implications for SA in Europe 1992, Broadhurst said.

Voting in the European Council of Ministers would be by majority and SA's traditional allies might be outvoted.

SI/DAW 3/11/90

Randex and its managers being 'misunderstood'

Blom 31/1/90

ANALYSIS
BARRY SERGEANT

INVESTORS who bought Randex shares on October 16 last year had gained 168% on their investment by last night.

But management at Randex, the JSE- and London-listed mineral rights participation company, feels the company is misunderstood. It says its business is seen as complicated; it seems to be in business only to incur expenditure; and it never aims to pay a dividend.

Moreover, most agreements that the company makes with other parties seem to be extraordinarily complex, such as the recent profit-sharing deal made with Winkelhaak Gold Mine.

Overall, Randex's unconventional approach to business is overshadowed by the simple philosophy that Randex is in business to *add value* for shareholders. Buyers of the share look to participate in new mining developments and for capital appreciation, which has already been considerable.

The counter's market value today is about R460m. This rates it by far the most valuable counter of 11 listed in the mining financial exploration sector. Freddev rates second with a capitalisation of about R290m, followed by Lydex at R174m, Barnex at R147m, PGA at R97m, and the others all less than R50m. The sector's total capitalisation is some R1,3bn.

At a presentation to analysts this week Randex director Mike Saner explained some of the key features of Randex's business, and some of the areas where extensive borehole tests are being conducted.

Major projects include:

- Evander area mineral rights — Winkelhaak No 6 Sub-vertical shaft;
- Lucas block minerals (adjacent to the Stilfontein and Buffelsfontein mines);
- Weltevreden Mines (off the Vaal Reefs area, and west of Orkney);
- Freegold (the proposed lease extension to President Brand mine);
- Peritus/Erfdeel North (east of Ondaalsrus), and Vermeulenskraal Noord (west of Virginia);
- Burnstone Project (between Balfour and Greylingstad);
- Fochville (a large area south of the

Western Ultra Deep Levels Mineral Rights area); and
 Leeudoringstad (west of the Fochville project).

The latter five projects are absorbing some 90% of current expenditure: R9,2m for the six months to December 31. Investments were valued on that date at R33m (cost: R7,7m); mineral rights at R68m; mining assets at R6m; and R11,5m in cash was on hand.

On January 24 Randex and Winkelhaak announced the commencement of a R701,5m project to mine about 21-million tons of ore averaging 5,7 g/t in the eastern portion of the Winkelhaak mine. Randex contributed some 7,2-million tons at an average yield of 6,9 g/t to

the project; in consideration it will receive 30% of pre-tax profits from its area.

The timing of the deal, as to when Randex first starts participating in these profits, is complex. Winkelhaak (managed by Genmin) will outlay the capex for the venture. When Winkelhaak has recovered its capex, by writing profits off against tax, Randex will rank for participation.

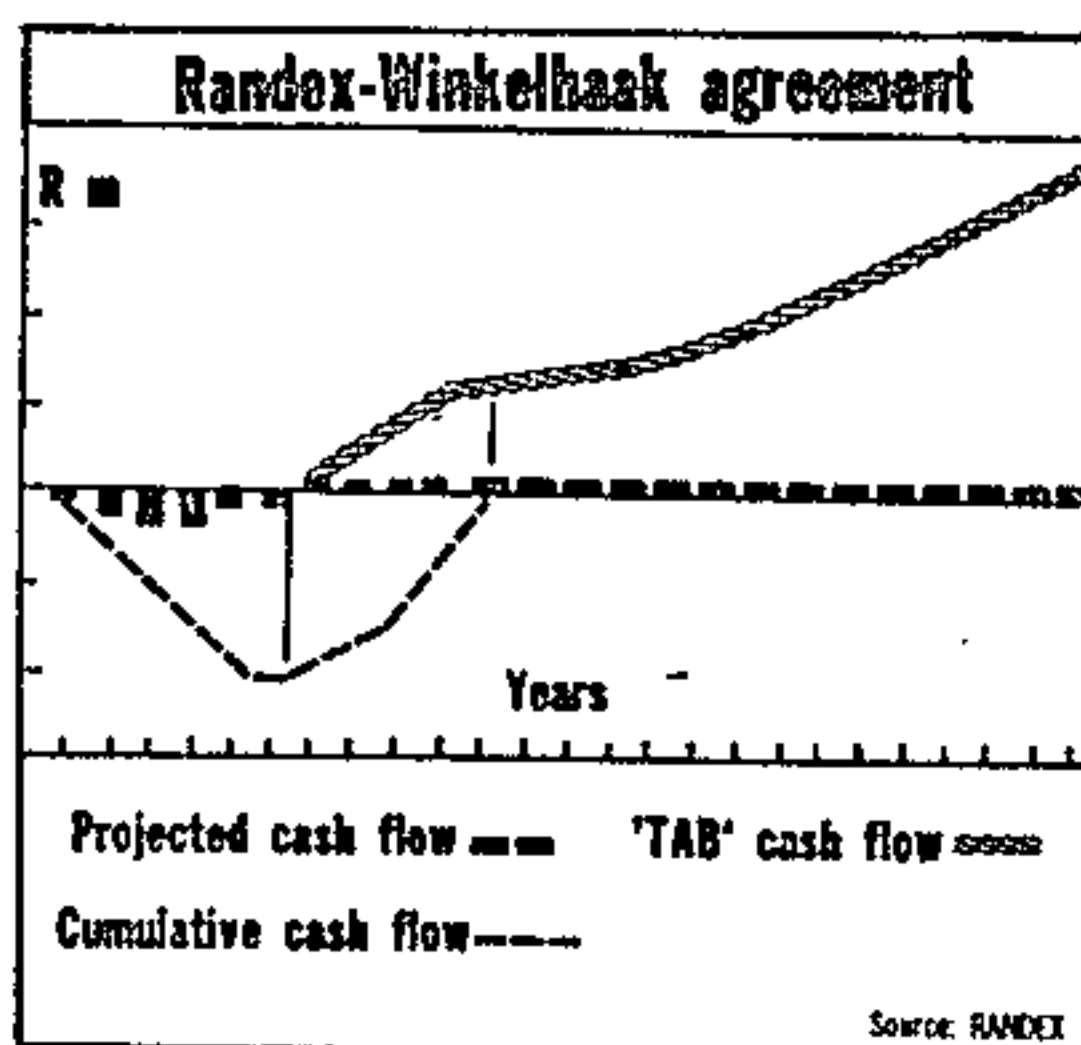
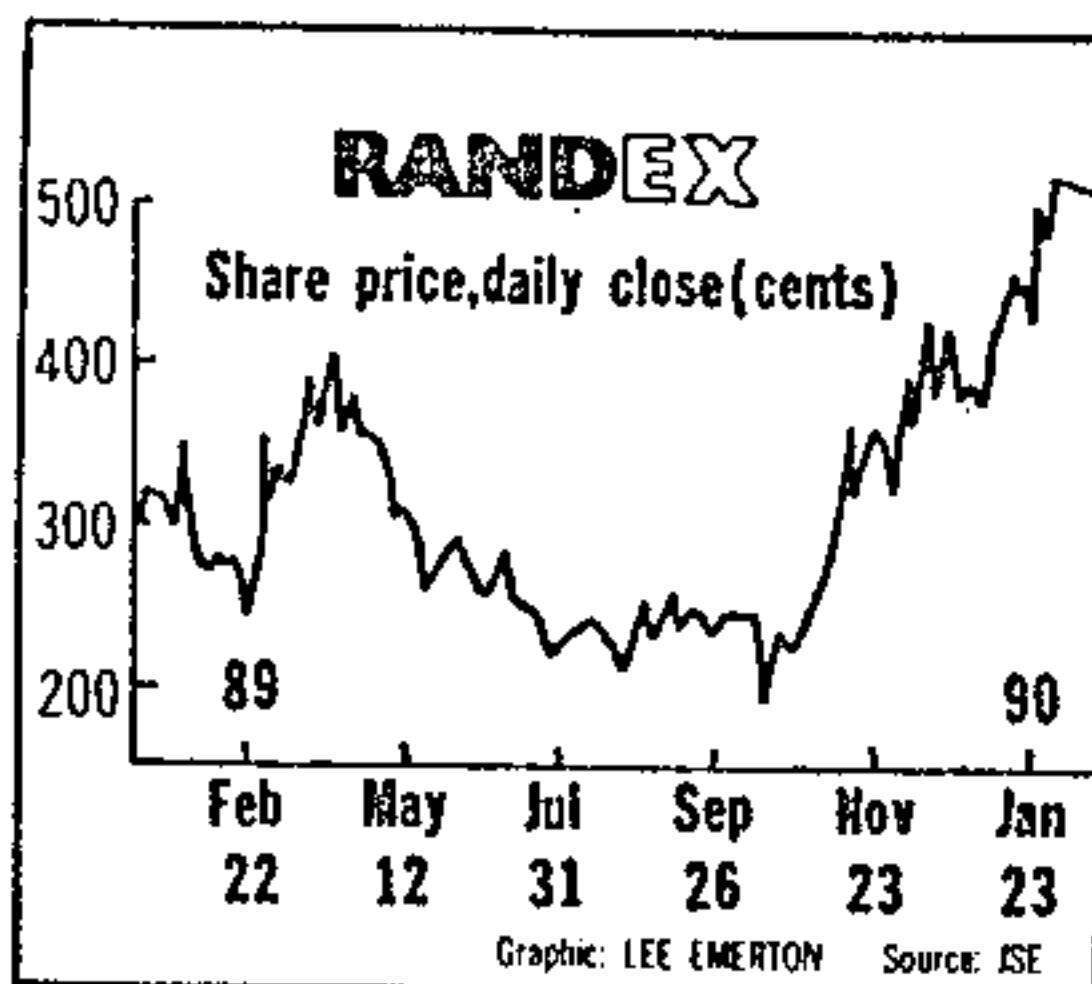
There is no fixed time scale. While the estimate of when new ore will first be milled can be made with some accuracy, it is impossible to say what level of profits Winkelhaak will generate. In turn, in this uncertain environment, it cannot be said accurately when the new tranche of capex (in the Randex area) will be fully redeemed.

Winkelhaak, which produced 3 080 kgs of gold in the December quarter, is highly rated by prominent gold analysts. In particular, its management has benefited from Gencor's new-found policy of decentralisation, independence, goal-orientation and leanness.

The Winkelhaak development should be seen as a distinctly bullish point for Randex shareholders — and will probably ensure that it maintains its high rating. Randex's main exposure to mining houses is, of course, to the Genmin group. It also has connections with JCI, Rand Mines, Anglo American, and others.

Most of Randex's current activity falls in what it defines as the "target confirmation and ore reserve definition" stages, which are closest to maturity. The remainder fall into "the generative and target testing stages". While it is impossible to rate Randex accurately, its main objectives should ensure that it retains its rating.

These objectives include the active management of a diversified portfolio of mineral rights; recognition of the different economic and business cycles affecting exploration business, and tradeability in its shares. Despite the enormous gains in the share price in the past few months, investors should look to Randex exclusively as a long-term investment — five years and beyond.



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74

COMPANIES

Value of US assets in unit trusts reaches record level

ASSETS held in unit trusts by more than 30-million Americans rose to a record level at end-December when their value reached \$1 000bn.

This dwarfs SA's 32 funds, which manage assets worth in excess of R6,6bn held by 570 000 investors.

According to the Investment Company Institute, the national association of American unit trusts, the \$1 000bn in

JACQUES MAGLIOLO

assets are held by more than 3 000 stocks-and-bonds funds worth \$557bn, and money market funds worth \$447bn. This represents a tenfold increase compared to a decade ago.

The UK industry reported it had, at end-September 1989, 1 318 unit trusts

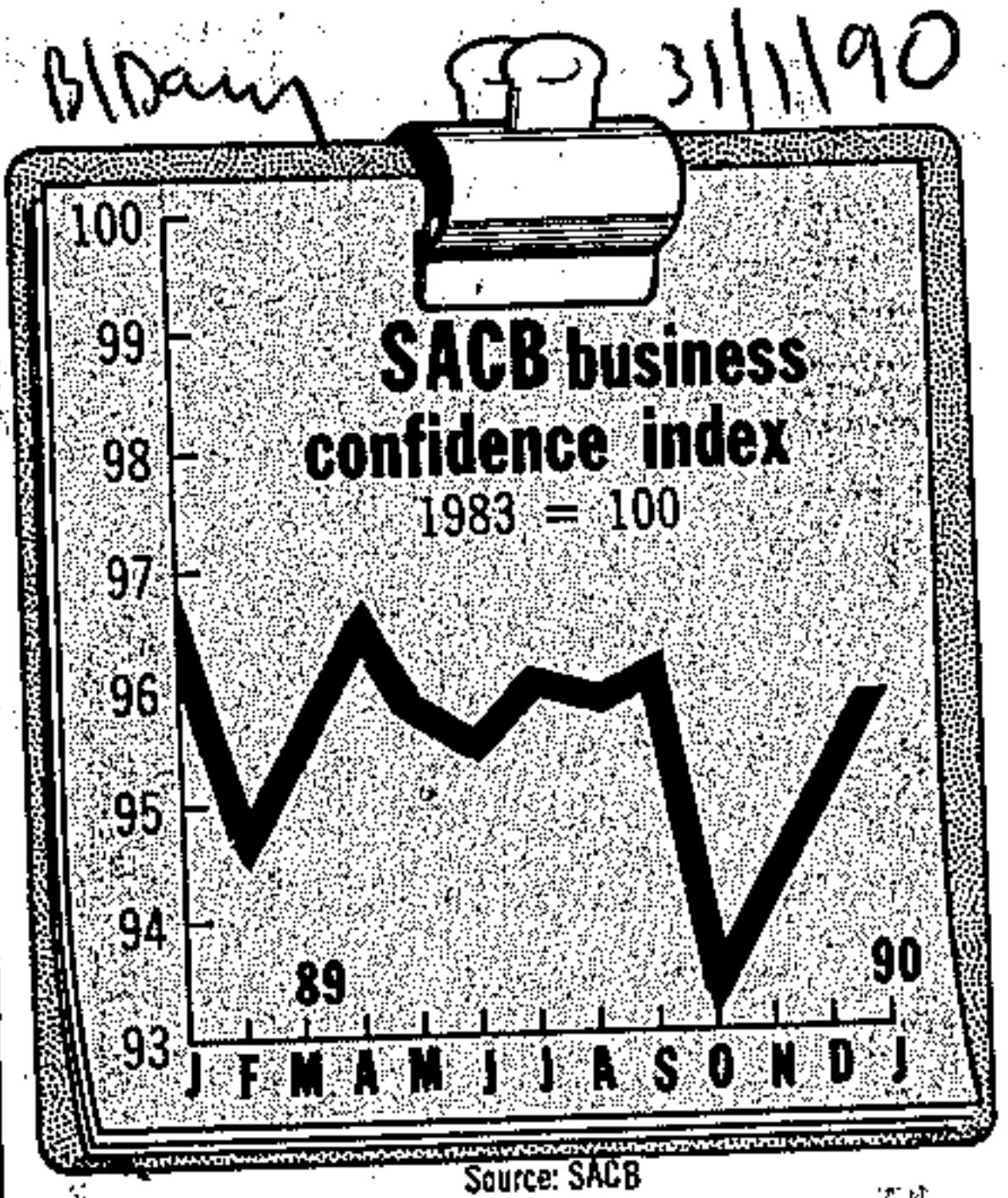
with assets valued at £56bn and managed for 4,9-million account-holders.

Institute president David Silver said the industry developed a wider range of portfolios designed to meet diverse needs of investors, which benefited the small investors by providing access to investment opportunities they could not have on their own.

One such benefit is the use of mutual

funds which rocketed with the advent of the money market funds (not allowed in SA). Silver said mutual fund assets were less than \$500m in 1940; exceeding \$10bn in 1958; and increasing to \$46bn by 1975. The figure for 1989 was not provided.

Despite the October 1987 market crash, the US mutual fund industry's assets rebounded to new highs and were expected to continue in this manner.



Outlook good for mood of business

SYLVIA DU PLESSIS ⁷⁴

BUSINESS confidence, buoyed over the past two months by developments on the JSE and a higher gold price, is unlikely to drop to the low levels of the 1985/'86 economic downswing, the SA Chamber of Business (SACB) believes.

The chamber says in its latest report on business sentiment that businessmen are now better equipped to handle the economic situation. Improved management of

□ To Page 2

Business mood ^{B/Dam 3/1/90}

stock levels, gearing ratios and cash flows will help reduce its impact on this sector.

Its business confidence index (BCI) for December and January — measured via the movements of 16 economic indicators — registered a 0.3-point improvement to 95.9 in the face of a continued slowdown.

According to the SACB, further resilience in the business mood will depend partly on political developments.

"Government's adherence to its stated policies will assist in reducing the level of uncertainty, and thereby act to stabilise business confidence.

"It should be noted that, to the extent it is supported by political developments, business confidence remains vulnerable and much will depend on political rhetoric being supported by concrete action."

Economic policy is likely to remain tight for most of 1990, it warns.

"As a result, interest rates will probably remain at current levels until around mid-year before starting to decline, although

⁷⁴ □ From Page 1

much will depend on the fiscal policy approach adopted in the Budget and on the degree to which this serves to reinforce or counteract monetary policy.

"It is likely that, to the extent that the economy has a 'soft landing', it will be of a longer duration."

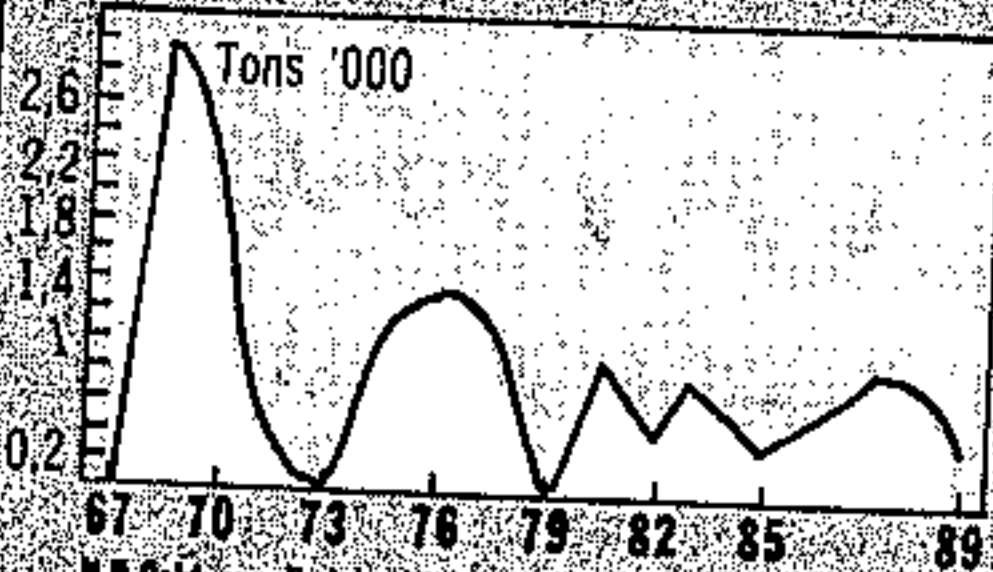
But while economic growth is "almost certain" to be lower in real terms this year than in 1989, positive growth is nevertheless expected in certain sectors.

Positive factors influencing the BCI, other than an increase in the dollar price of gold and a firmer JSE overall market index, were increases in seasonally adjusted real retail sales and exports, and a drop in unemployment.

However, these were offset by declines in merchandise imports, motor cars sold, new companies registered, the volume of manufacturing production, and building plans passed. Increases in inflation and the number of insolvencies of individuals also had a negative impact.

Bl Day 2/2/90

Estimated global excess of gold in bar form



N.B. Gold supplied by Western world producers. Common sales and refining of scrap, but not accounted for by fabrication, net additions to reserves or identified private purchases.

Low gold stocks may boost price

MERVYN HARRIS

(79)

THE overhang of gold on bullion markets is now approaching critically low levels, which could result in a substantial rise in the price of the metal as an absolute net shortage is reached.

This is the main thrust of a study by Phil Ward, mining advisor to stockbrokers Frankel, Kruger, Vinderine. His research is based on supply and demand of gold from the time of the closure of the International Gold Pool in 1968 until now.

The study shows that gold overhanging the market, after allowing for all new net additions and sales, has a significant bearing on the metal's price movements.

When the gold window was closed in 1968, the overhang had soared to 3 000 tons after the metal was bought by international speculators at \$35 an ounce. This declined over the next five years to the level where there was no overhang as gold was absorbed by bullion markets.

The next overhang of about 1 300 tons began to be formed as gold breached the mythical \$70 an ounce in 1974 after the oil crisis.

In mid-1978, the shortage was again acute and gold went through \$200, rising above \$300 in 1979 as the surplus declined to a zero sum.

In January 1980, when the Russians invaded Afghanistan, the gold price's surge to its record peak of \$850 was only coincidental as the crucial move of the metal to \$300 had occurred six months earlier.

Since then the overhang has taken longer to decline with an average excess of about 900 tons.

According to Ward's research, the overhang has declined from 898 tons at the end of 1987 to an estimated 376 tons at the start of 1990.

"The effect of an approaching shortfall should be reflected in firm price levels in the short to medium term.

"Failing deliberate intervention from whatever source, I see gold rising to the levels of 10 years ago when the metal averaged \$614 an ounce."

UK business bullish on SA, says Worrall

BIDM 2/290

HAROLD FRIDJHON

BRITISH business leaders are showing a more positive attitude to SA and generally indicating greater interest in the situation here, says DP co-leader Denis Worrall.

He returned this week from a brief overseas tour with Alan Denny and Johan Brummer of stockbrokers Andrew Forbes & Co. Meetings were held with top financiers and portfolio managers in the UK and Europe.

In their discussions Worrall gave an overview of the SA political scene, and found a "most encouraging" change in attitudes abroad since his previous visit, although expectations were "a little unrealistic".

In a telephonic interview yesterday, Worrall pointed out that during their stay in London everything appeared to be going for SA; the gold price had been rising and rumours about the release of Nelson Mandela were persistent.

Denny said expectations about change in SA were high and his big fear was that President de Klerk's speech today might be another "Rubicon" let-down. Worrall, however, disagreed, saying De Klerk had "the ability and power to say what he wanted to say".

The two Forbes men were surprised by

74 (3-11)
the positive attitudes of the people they met. Brokers were very interested in SA equities, particularly those in the Gencor group under Derek Keys's leadership. Although there was no immediate urge to buy, holders of SA shares showed no desire to sell. The major UK concern appeared to be fear of a right-wing backlash.

The British hesitancy to re-invest in SA did not carry across the channel, said Denny. Bankers and investment managers in Germany and Switzerland, acting on behalf of private investors, were very interested in the high positive returns available through financial rand investments.

Risk ratios (74)

Risk management in the financial markets is a key issue still to be resolved before any licences can be granted for the bond, futures and options markets. To get things moving, the Financial Markets Advisory Board called together a cross section of the self-regulatory bodies last week.

Representatives from the SA Futures Exchange (Safex), Bond Market Association (BMA), the JSE, key institutions and Clearing Bankers Association attended. The results will be reported to the Financial Markets Advisory Board, chaired by Japie Jacobs.

Says Hennie van Greuning, appointed this week Registrar Banks and Building Societies as from March 1: "We attempted to look at financial markets holistically and, at the same time, prevent duplication of risk management between regulators."

This also becomes necessary with various financial bodies which find themselves risk takers in the financial markets.

"Ultimately, most of the risk managers who are members of the BMA and Safex (such as banks, discount houses and so on) are regulated by the Reserve Bank or the Registrar of Financial Institutions," says Van Greuning. "The JSE is self-regulatory under its own Act, but as a member of the BMA is a risk manager and we want to synchronise the way financial markets are developing.

"Our aim is to find a risk weighted percentage (the ratio of capital held against an

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instrument) that all agree on. To do this, we decided to look at the risk factor in the individual instrument rather than simply place an automatic limit on an organisation," he says.

This is in line with international trends. Regulators will look at giving credit to those mechanisms and guarantees that reduce risks inherent in the instruments already in place in self-regulatory markets.

Safex is to report back on Friday on the residual risk borne by various participants dealing in futures and options. The risk on the futures market will finally be held by the clearing member who, in turn, is responsible to the guarantor. But a member still has a risk of his own.

Says Safex Clearing Company CEO Stuart Rees: "We hope to show that, through

the margining requirements and other factors, inherent trading risk can be reduced."

The success of the futures market depends on the willingness of the banks and financial institutions to guarantee clearing operations. It remains to be seen which banks will commit themselves.

In addition, Safex and the other markets are to look at getting insurance to further reduce the residual risk for the futures markets, probably through Lloyd's of London. "We have to demonstrate the risk is low to qualify for a lower premium."

□ The R2m investment for the development of the floor announced by the Bank last November is to go into a joint company to be formed by Safex and the BMA who will put in the further R1,5m needed, within the next month or two. ■

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74

Prosperous decade for world share markets report

LATEST available unit trust figures, released by the University of Pretoria, prove that the world's share markets have had, on average, one of the most prosperous decades "in a very long time".

A university report said markets seemed to reach a peak in the last quarter of 1989, when share prices fell during a "mini crash" in October. However, the price of gold and gold shares increased and long-term interest rates

JACQUES MAGLILO

dropped suddenly, helping the market to correct itself in only 12 weeks.

The all-share index climbed 36% to 3 119 from 2 338. The JSE share price rose 66% to end-December, making it the third most successful stock exchange in the world after Mexico (86%) and Austria (76%).

During the last quarter of 1989, the JSE All Gold Index climbed above the

2 000 mark for the first time since the October 1987 crash, reaching a peak of 2 260 on December 13. A return (including dividends) of almost 25% was achieved for the quarter.

The Standard Bank's Gold Fund took advantage of the upswing in gold price to achieve a 20% quarterly increase and 56,5% rise for the year.

Old Mutual will introduce the second Gold Fund on Monday.

Old Mutual fund manager Mike

Harper expects an inflow of at least R30m within the next six to 12 months.

The income funds were also affected last year by a drop in long-term interest rates to 15,25% from 17%.

The total market value of 13 general funds rose by 8,9% to R5,1bn in the fourth quarter of 1989. The asset value represents an increase of 55,5% over 1988.

The market value of the 10 specialist equity funds rose by 8,8% to R1,2bn.

Reform moves raise hopes of major sanctions relief

SOUTH Africa's business community is expecting a significant reduction in sanctions following State President F W de Klerk's historic policy statement yesterday.

In hectic trading on the Johannesburg Stock Exchange buoyant share prices reflected the mood of optimism that swept the country yesterday.

But more fundamental economic changes are expected to emerge from the speech, which many economists described "as the first step in ending our international economic isolation".

Reports that US President George Bush would seek a mandate from the US Congress to reduce sanctions, buoyed trading on the JSE.

Prices surge

Stockmarket dealers said one effect of Mr de Klerk's moves may be that economic sanctions against South Africa will be eased, resulting in improved trading prospects for South African companies.

Prices on the stockmarket surged to record highs yesterday as the overall index climbed by 2,7 percent, or 86 points, to close at 3280.

Both local institutions and foreign investors pursued industrial shares in particular — the JSE industrial index closed the day 3,2 percent or 98 points up at 3031.

South African gold and industrial shares also surged on British and European share markets.

Mr Les Boyd, president of the SA Cham-

STAR
3/2/90
(74)
FINANCE STAFF

ber of Business, said: "Mr de Klerk has gone much further than expected. These steps should significantly enhance South Africa's business image. We hope this new approach will see a lifting of punitive sanctions."

The chairman of Anglo American Corporation, Mr Gavin Relly, said: "We would hope that these acts of courage and statesmanship on the part of President de Klerk will create matching acts of courage and statesmanship both within South Africa's borders and beyond."

Dr Carl Hahn, the international chairman of the motor giant Volkswagen, who is on a visit to Johannesburg, said: "The announcement will contribute greatly towards bringing South Africa back into the mainstream of the international business community."

Reserve Bank Governor Dr Chris Stals said the historic speech had greatly improved prospects for the South African economy.

"Most foreign banks will take their lead from their country's politicians, but short-term trade credits will be more easily accessible," Dr Stals said.

He also expected significantly reduced foreign debt repayments as a result of improved political sentiments, with the possibility that as much as R3 billion of this year's total R7 billion debt could be rolled over.

© See PAGE 13

End to isolation now in sight — foreign bankers

By Neil Behrmann

LONDON — The end to South Africa's economic and financial isolation is now well within sight, say foreign bankers, businessmen and brokers.

Yet medium- and long-term direct investment and foreign capital will not begin pouring in until the Government's negotiations with its black opposition is well under way.

As expected, the foreign financial and business community's response to President FW De Klerk's remarkable address was overwhelmingly positive.

They do believe, however, that the Group Areas Act should be removed.

Ideas of nationalism

Black politicians should also abandon their ideas of nationalism, they say.

South African shares boomed in London.

Gold shares jumped by 5 percent on Friday, and brokers were receiving orders for leading industrial counters.

Inquiries for industrials began towards the end of last year and the interest in these shares illustrates the significant change in sentiment about South Africa.

It has been many years since foreigners were remotely interested in SA industrials.

"South African shares are

being re-rated," says Albert Lovell, of Smith New Court.

"Although the gold shares seem overvalued from an historic point of view, purchases will continue, particularly if the gold price continues to firm."

On the day's trade, the financial rand jumped to a peak of 30.2 US cents from Thursday's close of 29.50c and closed at around 30c.

The discount on the commercial rand is currently 24 percent, compared with 35 percent last September.

Foreigners who bought Eskom stock through the financial rand market have seen their capital appreciate by 30 percent over the period, while receiving interest of nine percent.

"Of more importance to the South African economy, however, is the movement of long-term funds.

Swiss and London bankers say that trade finance has been freely available, but that while the foreign debt remains in place, bankers will not lend medium- and long-term finance to South Africa.

"President De Klerk's measures far exceeded my expectations," says a Swiss banker.

"There is no doubt that the path is set towards a better South Africa, yet don't expect a stam-

pede of bankers anxious to lend to South Africa."

A London banker says: "US and UK bankers will be more inhibited than their Swiss and West German counterparts."

"But the road to a democratic South Africa is now open and the trickle of funds will eventually broaden into a stream."

Bankers are clearly impressed with the manner in which the South African economy has managed to grow, despite a relatively low gold price and the outflow of foreign capital.

South Africa has reduced its foreign debt from around \$24 billion in 1986 to \$19 billion — about 25 percent of gross domestic product (GDP).

This compares with Australia's foreign debt of \$83 billion — equivalent to 32 percent of GDP.

Bankers in London say that South Africa pays its debt on the spot.

As a result provisions against this debt are a mere 5 percent, compared with provisions of 50 to 60 percent on South American debt.

But South Africa needs direct foreign investment rather than loan capital, they say.

"I believe that it is better for South Africa to rely less on bankers and reduce its foreign

borrowings below \$10 billion," says a London banker.

"The country will then be in an exceedingly strong position. Direct investment from foreign companies will be far more beneficial," he maintains.

There is little doubt that overseas companies will take advantage of the Southern African market, given the growth potential, the banker says.

Italian businessmen, for example, have already expressed interest.

Focus of attention

Involvement by West Germany is likely to be less marked, says Rudolf Gruber of the South African Foundation in Bonn. Its focus of attention is now investment in East Germany, he says.

South African trade with the UK remained buoyant last year, says Tim Bird, deputy director of the UK SA Trade Association.

Imports from South Africa rose to £885 million from £804 million in 1988, while British exports to SA dipped three percent to £1,04 billion.

"Everything that we could have hoped for has been announced," he says.

"We are now looking to negotiations which will lead to a non-racial democratic future."

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Bond market bullish after F W's speech

NO VISIBLE response to President F W de Klerk's address came from the debt-strapped money market on Friday, but the bond market went bull and gave promise that foreign buying would follow through this week.

Indeed money market traders said on Friday they could not recall when last there was no trade at all in assets. The dealing desks were concentrating on negotiating rollovers of deposits at the going rate of 20,5%.

In contrast, the bond market recorded a turnover of about R2,2bn with yields showing a spread of 25 points from an opening low of 15,12%, a high of 15,45% and a 15,19/20% close. Dealers were a little disturbed by the buying ahead of

the presidential speech. Some suggested the theme of its contents might have been leaked, but others attributed this buying to "intelligent foresight".



IN THE MONEY MARKETS

Harold
Fridjhon

Friday's closing price is significant because it reflects not only confirmation of the bullish trend, but also well-founded expectations of new offshore orders coming into the market during the course of this week.

For the money market there can be no optimistic expectations at present. At best there is the hope that the return flow of banknotes will ease the banks' position by about R1bn; at worst the banks are threatened by the redemption of the RSA 11,5% 1990 on February 15 which will deprive them of about R1,5bn worth of liquid assets.

And liquid assets are very rare and precious. Between all the banks they hold about R4,3bn in surplus liquid assets which they can discount at the Reserve Bank at rates between 18-18,30%, according to the quality of these assets. Last week, when the banks' total debt averaged about R5,35bn, at least R1bn was borrowed from the central bank against prescribed securities at rates of 21,5%, or even higher depending on penalties.

Reserve Bank governor Chris Stals has made it clear to bankers he will not relax his strait-jacket policy, certainly until bank advances have been materially reduced.

But profits were made in the bond market on Friday; those who bought at 15,45% and sold towards the close did well. But if sellers, which did not include recent overseas buyers, sold short they are in for a drubbing.

Mixed response 74

There was little reaction in the money market to F W de Klerk's reform speech. Short rates did soften this week — call dropping to 20,25% on Tuesday — but this was seasonal as month-end pressures relaxed.

Pressure is expected to build up again. Helped by a tax outflow, the February month-end shortage could be R5,5bn. "With reduced liquid assets, people will be bidding up for call money far earlier in the cycle," says a dealer. "Call will rise, perhaps over 21,50%, as the shortage increases. More banks will pay the 2,75 percentage point penalty to the authorities."

Liquidity may stay tight until May, when the new fiscal year starts.

Spin-off from the political pronouncements came mainly in gilts, equities and futures. Gilt rates moved sharply down on Friday. However, many jobbers had discounted positive news to some extent, says a trader. The Eskom 168 fell from 15,34% on Thursday to 15,16% when the speech became available on Reuters at 10h15.

Seasoned foreign investors also got in early. "The knowledgeable anticipated what would happen to the finrand and geared themselves up." He adds that some corporates in London have been taking straight finrand positions.

On Monday, overseas buying, especially of E168 and Sats SVO4, built up, reports a dealer — with interest from private investors in Europe but not portfolio managers and institutional funds.

Many local investors took longer to respond. "People had waited 40 years," says a dealer, "so there was caution amid a lot of optimism. They were prepared to have a punt, but hedged with derivatives."

A dealer expects "a small amount of profit-taking from overseas investors," but says most, especially the Germans and Swiss, may wait until the gilts mature. Many bought when the finrand was US24c, so stand to get a huge return. In six years they can recoup their capital, reckons one. Returns are now around 18%.

A broker says foreign interest in equities has come from people who have shown no interest since the mid-Seventies. "Equities are getting a total rerating from private investors," she says, "though brokers buying on their behalf do not see the SA equity market as value at this stage."

The JSE Industrial and overall indices hit all-time highs (see Fox) and share index

FIM 912190

FIM 912190

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futures responded actively.

Greenwich Futures' Stewart Penn says speculative futures buying started last Thursday afternoon, though there was little on offer. Friday brought large orders, the March All Share showing 184 deals for 3 952 contracts. "By Tuesday equity index futures had absorbed the jump and consolidated at higher levels," he says.

Turnover of futures has increased generally and, on February 1, totalled R100,3m, compared to JSE turnover of R81,9m. On February 2, futures totalled R184,1m and the JSE R201,5m, while Monday saw R196,6m compared to R152,9m on the JSE.

The futures market is looking for its biggest close-out yet next month. Open interest on the March All Share is over 12 000 contracts. That, plus the All Gold, Industrial and Dollar-Gold, makes nearly 18 000 contracts to be closed out on March 15.

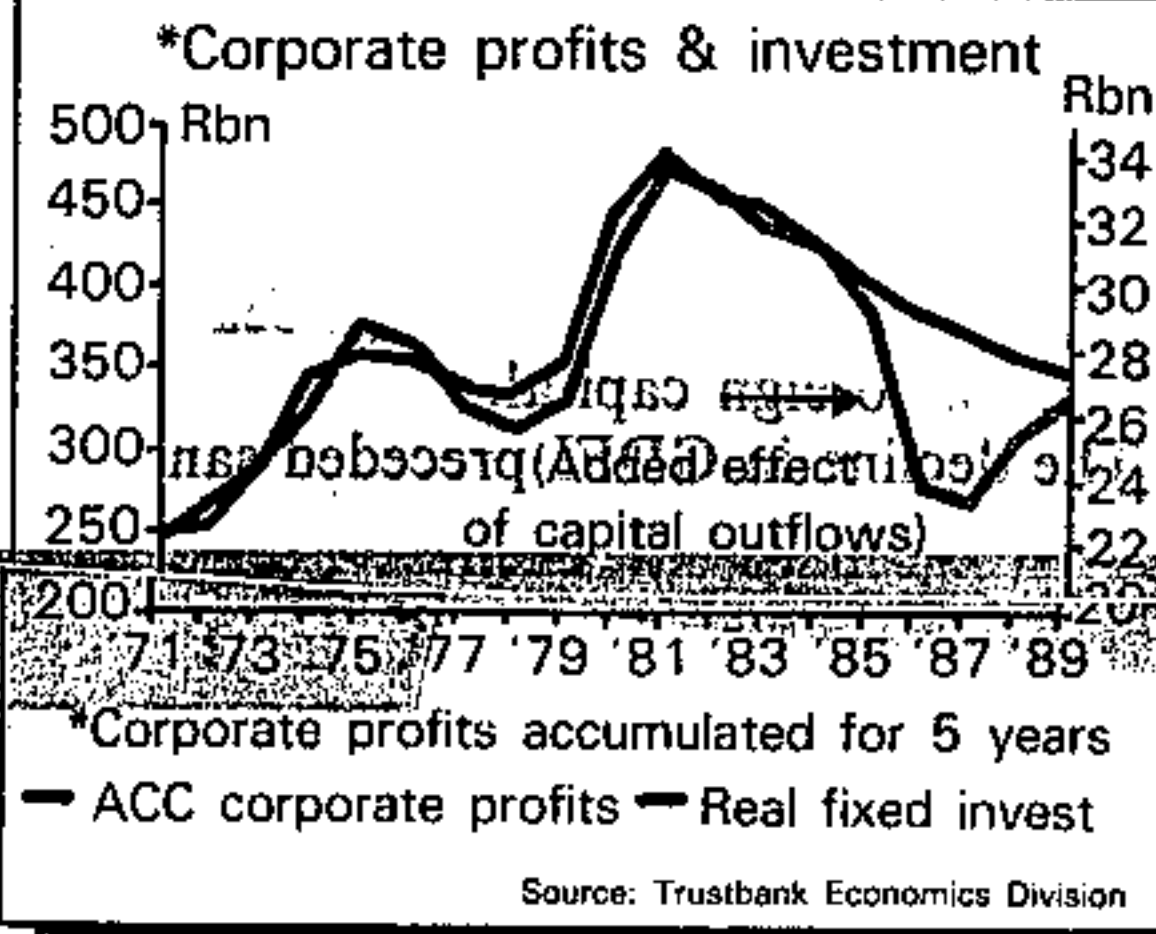
□ With an inverse yield curve, rates on Tuesday were as follows: call varied from 19,50% to 20,25%; six-month money 18,50%-19,70%; and one-year 17,50%-19,15%. ■

FIM 9/2/90

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Battle of the bulge



to curb spending growth at the first sign of its resurgence because of fears that demand for imports will deplete reserves and make it impossible for us to meet debt obligations. With funds flowing in on capital account, the economic cycle can be allowed to take its natural upwards leg, while its downward one will not be intensified and prolonged.

An attempt may be made to hold down the commercial rand for a while to allow the gap with the financial unit to close. It is known that, though there is no plan to abolish the financial rand, Reserve Bank Governor Chris Stals would like to see the two move together (FM February 2).

But, if things persist in going right, sooner or later the commercial unit will rise. This will relieve pressure from imported inflation and increase the benefits of the recent strengthening of the currency.

There is, of course, a snag: the impetus inflows of foreign funds will give to growth in money supply. Unless monetary policy keeps a tight rein on domestic credit growth, money supply — already growing at unacceptably high levels (M3, the broadest aggregate, grew 21,83% in the 12 months to December) — will grow even faster.

As Bank chief economist Jaap Meijer observes: "In the Fifties and Sixties we had large inflows of foreign capital without undue inflation. So it can be done." But this would be so only if monetary policy countered the liquidity flowing in.

It must be inflationary if growth in money supply far outstrips that of GDP. Capital inflows will increase GDP growth but not anywhere near present money growth.

What Meijer calls a "realistically firm" monetary policy will be essential. He says: "If interest rates are pitched high enough to encourage savings and foreign borrowing you could have a non-inflationary environment and a sound BoP."

was still wider than at any other time since the three years after the 1976 Soweto riots. "The downward bulge," says Barnardt, "could be ascribed to the additional effects of capital outflows." A return of capital flows could induce a bulge in the other direction and give the chance to recover some of SA's lost productive potential.

Since the start of the Eighties the trend has generally been down. However, there was a huge decline after the introduction of credit sanctions in 1985. Recent research by Trust Bank economist Nick Barnardt gives some indication of the impact of capital outflows on GDFI in those years. He analyses the relationship between corporate profits and GDFI, and how it was seriously distorted between 1985-1987 (see graph). "While many factors affect GDFI," he says, "the closest correlation is with corporate profits. Statistics from 1971 show they move in tandem. But, from the start of 1984 to the end of 1987, they diverged sharply, GDFI declining at a far steeper rate than cumulative corporate profits." Since then the gap has narrowed, with a recovery in GDFI. But, by the end of 1989, it

Estimates of potential GDP growth, in a speech by the late Governor Gerhard de Kock in May, were:

- With a net outflow of capital equal to about 4% of GDP during the next 10 years, as in the past four years, average GDP growth would be limited to about 2%;
- With no net inflow or outflow, 3%;
- With a net inflow of about 4%, 4%-5%.

So anything more than 5% remains in the realms of our wildest dreams.

The most important consequence of renewed capital inflows will be to stimulate real capital investment (or GDFI), which generates wealth. This is desperately needed after more than four years of exclusion from world credit markets and large-scale withdrawal of foreign capital.

The decline in GDFI preceded sanctions.

ECONOMIC SCENARIOS

FIM 9/2/90

Best case

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Since President F W de Klerk breached the probability barrier, with his momentous speech on Friday, all things seem possible. Having lived for most of the 42 years since the NP came to power with a political policy devised in the Dark Ages, and an economic dispensation designed to reverse rather than promote development from the Third to the First World, South Africans are slowly adjusting to the thought that, just maybe, everything won't go wrong.

Much must still be accomplished. The path to prosperity is strewn with booby traps. But, apart from the domestic implications of government's new policy, the doors of the international economic community, slammed in 1985, may just be prised open.

In case this should happen, it is as well to look at best-case as well as worst-case scenarios — of which we have had our fill in recent years. We need a clear idea of what a return, or partial return, to normality will mean for economic growth: what it can achieve — and what it can't.

Roll-overs of debt and possible negotiation of new debt will reduce anxiety about the BoP and the need for a surplus on current account. Policy-makers will not feel obliged

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Fund chief sees JSE share value doubling

By Robyn Chalmers

A SUDDEN reversal of foreign sentiment towards SA could double the market value of shares listed on the JSE.

Peter du Toit, managing director of the new Momentum Asset Trust, says it would open up major business opportunities for SA.

But he queries whether fund managers and markets are up to the new challenges.

"With the delay in privatisation, the decline in the issue of long-term bonds and slowing disinvestment, the appropriation of funds to effective means of investment is going

to be difficult, given the growing confidence."

Capital outflows have declined steadily since the first quarter of 1989. The Reserve Bank Quarterly Bulletin shows a decline in capital outflows from R1,8-billion in the first quarter of last year to R244-million in the third.

President De Klerk's speech last week has induced foreign investors to look at SA with cautious interest.

Mr Du Toit says that although foreign organisations have not responded immedi-

ately to the new political climate in SA, they are certainly viewing its prospects with greater optimism.

In terms of world market capitalisation last year, Japan took pole position with 37%, followed by America with 32% and Europe with 20,1%.

The market value of SA shares made up 1,3% of the world total.

The Pacific Rim, including Australia, Hong Kong, Taipei and South Korea, represented 7,3% of world markets, and Canada 2,3%.

Mr Du Toit says that because of increasing concentration of money in trust

companies, pension funds and insurance companies, fund managers of international securities portfolios are the new intermediaries in recycling global imbalances.

It is estimated that fund managers dealt in worldwide securities worth \$20-trillion in 1989.

Mr Du Toit says Japan alone accounts for investment outflows of \$100-billion a year.

"There must be major business opportunities here, but are the managers up to the challenge? The 1987 crash was a warning of how financial shocks can be transmit-



PETER DU TOIT... new role for fund managers

ted around the world.

"If investment capital is securely committed to long-term opportunities, it is a stabilising force. The danger that exists is the build-up of mobile international funds."

M-factor likely to inspire bullish sentiment

Bl Day 12/2/90

MERVYN HARRIS

THE Mandela factor is expected to inspire fresh waves of bullish sentiment on financial markets today.

Stockbrokers Fergusson Bros, Hall, Stewart & Co chairman Paul Ferguson said yesterday: "I think Mandela's release will be very positive and will create even further overseas interest in our market."

Foreign interest should also be reflected in stronger finrand investment.

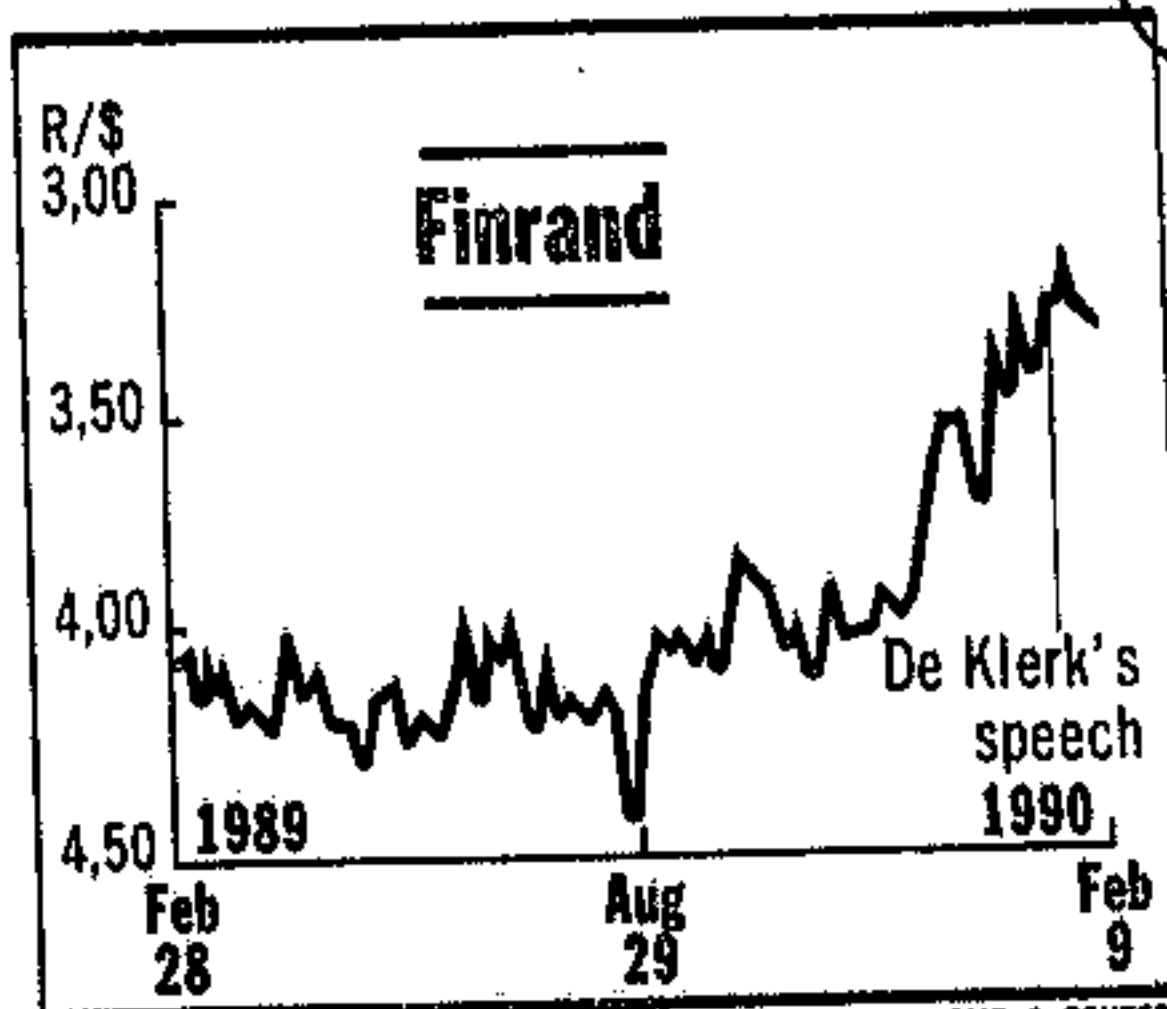
"Markets have discounted some of the effects of his release, but not all of it."

In reaction to President F W de Klerk's reform initiatives at the opening of Parliament, the finrand surged from R3,4100 (\$0,2932) to the dollar to R3,1200 (\$0,3205) before retreating to close on Friday at R3,3400 (\$0,2994).

The upward re-rating of SA shares in the wake of De Klerk's speech resulted in big gains for blue chip industrial shares.

But foreign investment pouring into JSE equities could exacerbate the problem of suitable investment outlets for the burgeoning cash flows of local institutions.

Overseas demand has lifted blue chip industrial shares to levels which make them less attractive to local institutions on a p/e and dividend yield basis. Investment through the finrand means yields for foreigners are about 20% higher than in Johannesburg and p/e ratios 20% lower.



Graphic: FIONA KRISCH Source: SMB & REUTERS

The weight of institutional funds seeking investment outlets this year is estimated at R32bn and much of this is expected to find its way into the equity market.

Fedlife assistant GM equities David Crowe said some of the overseas institutions which piled into blue chip stocks had not previously been in the JSE or had not been there for some time.

"While overseas investors concentrated on blue chips listed on foreign markets, most of the buying of industrials by local institutions over the last few weeks is believed to be from private portfolio managers who were given almost R1bn of Sats pension funds to invest."

Sats's pension fund was not previously involved in equities and the move to private fund managers was made in an effort to reduce the huge actuarial deficit by achieving better investment returns.

Crowe said: "We have now reached the situation where we have a large differential in value between blue chip and second line industrials. This is mainly because of the lack of marketability of second-liners."

Some of the smaller- to medium-sized institutions had already expressed an interest in second-liners. But the gap between such shares and blue chips would not be narrowed until the larger institutions switched strategy, he said.

Enthusiasm for gold shares could be tempered today by gold failing twice last week to rally through its \$425,60 high. It closed in New York on Friday at \$416 and in Hong Kong on Saturday at \$416,95.

Analysts had expected gold to firm on the inflationary implications of the 1,8% rise in January US producer prices but the dollar's flat performance quashed buying of gold as currency dealers focused on the increase of 0,1% after food and energy prices were excluded from PPI figures.

The lower gold price and worries over finrand movements prompted profit taking across most sectors of the market on Friday, to send share prices broadly lower after the sharp gains earlier in the week.

Economists see many different benefits coming

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LIZ ROUSE

THE release of Nelson Mandela was welcomed from every point of view for SA's economy, said Anglo American group senior economic consultant Aubrey Dickman. Hopefully it would lead to the lifting of restrictions and sanctions and the creation of a state of stability essential to long-term planning of a sound economy.

Economist Louis Geldenhuys said businessmen should not be naive in thinking the economy would go into a boom in the short-term but the outlook in the longer term was positive.

However, if negotiations succeeded in creating political confidence, business would see this as positive, resulting in investments in new ventures in the short term. *SDM 12/2/90*

An immediate relaxation of the authorities' current tight monetary policy or any significant tax relief in the coming budget should not be expected.

But the disappearance of sanctions would have an important impact on exports, which would automatically lift the domestic sector, although international economies were stagnant.

If government continued putting its house in order, SA's balance of payments and foreign reserves would improve, to put SA in an under-borrowed position when international economies begin an uptrend in about 18 months.

Executive director of UAL Merchant Bank Alister Colquhoun agreed with Geldenhuys's optimism about SA's ability to raise new foreign funds to improve growth rate, or in the short term to roll over current debts.

The most important immediate issue would be the ending of sanctions, which would strengthen the rand. That would have a negative impact on local equity prices.

Colquhoun questioned the extent to which recent foreign buying of SA equities stemmed from short-term market operators or from genuine investors. He therefore did not foresee a rush of funds into SA through equities.

He said if government had taken strong measures to right the political situation — "playing wild cards" — the man in the street should derive some financial relief from the Budget.

Rand Merchant Bank chief economist Rudolph Gouws said most important to the situation was the disappearance of all sanctions, which would allow SA to roll over its outside debt.

Gouws said financial markets would react positively this week.

Overseas panic at M-factor

Prices tumble as jitters rub off on the JSE

SHOCK waves through the JSE on the Mandela factor gathered momentum yesterday to take the tumble in the overall index to 7,5% since the ANC leader's release at the weekend.

Panic selling of SA shares by US investors in New York on Tuesday night, in the wake of Nelson Mandela's tough stance on nationalisation and negotiations, rubbed off on local investors.

Renewed selling from the US through London ahead of Wall Street's opening last night accentuated the declines.

Dealers said the stampede out of shares caused sharp, swift falls in prices not seen since the October crashes of 1987 and 1989. Despondency was deepened by a weaker gold price, which touched a low of \$413 at one stage in London.

Gold shares bore the brunt of the selloff and the all gold index tumbled 108 points or 5,3% to close at 1 921, but off its low of 1 899 as the newly formed Old Mutual Gold Fund was believed to be mopping up stock coming out of the US.

The index has now shed 11,5% since Monday, while the 84-point or 2,6% slump in the industrial index to 3 051 took its decline to 4%. The overall index yesterday fell 123 points or 3,8% to 3 091.

UAL executive director Alister Colquhoun said: "US investors are known to be jumpy but the panic selling seen yesterday does not seem to be justified.

"While the falls have been heavier than expected, the question is whether these are actual sales or jobbers taking short positions in anticipation of further declines when Wall Street opens."

Jannie Mouton, of stockbrokers Senekal, Mouton & Kitshoff, said: "Overseas investors tend to panic more quickly than local investors and they have been large sellers

MERVYN HARRIS

of our shares. The market has been very sensitive to Mandela's comments... but it should be realised that he is engaged in a power struggle within the ANC. When everybody is in a negative mood, it could present a buying opportunity, and I would not be surprised to see foreigners back in our market once things settle down."

Another dealer said: "Intense worldwide media coverage has created the perception that SA is on the way to becoming the last outpost of communism. This has frightened overseas investors, particularly from the US, who have been transformed from aggressive buyers of gold shares into panic sellers."

With the market's decline through several technical resistance levels, chartists are now projecting that the all gold index could now go down to 1 700 points.

However, perceptions of tension in SA helped platinum reverse an early downward trend to close \$2 higher in London at \$520. The rise spilled over to gold, which trimmed losses in late trading to close at \$417, a decline of \$1,50 on the day.

ROBERT GENTLE reports that a major trend reversal occurred in the futures market yesterday when all share futures sank to a 19-point discount to the underlying spot index, and premiums on all gold and industrial index futures narrowed considerably.

For much of this year, index futures have been trading at hefty premiums — as high as 200 points — to their underlying spot indices as they rode the bullish climate created by President F W de Klerk's political initiatives.

The new tendency was definitely down-

To Page 2

Prices tumble

wards, traders said, and unless there were positive political developments soon, remaining future/spot premiums could reverse into discount.

"The bloodbath continues," said a trader from Holcom Futures, commenting on a day of panic selling made worse by lunch-time statements by Mandela.

Mandela had told the BBC that government installations were legitimate targets

for the ANC, and that civilians could be caught in the crossfire.

The remarks sent the market into an almost 100-point nosedive. "There wasn't a buyer in sight," said a trader from National Futures & Options.

Traders said they expected futures to open even lower today.

● Comment: Page 8

MOST CONTRACTS SHOW GOOD TRADING VOLUMES

THE local futures market has had a good run with most of the contracts it has introduced over the years, though the bulk of the business is still in the index futures.

The All-Share Index future has been the most successful, routinely trading three to five times the volumes of the next successful contract, the Gold Index future.

The Industrial Index future is also a promising performer, and has been picking up of late.

One contract that did

not make it was the Kruggerand future — now deceased — while the fate of the Nombi (Notional Medium-date Bond Future) is looking increasingly precarious.

Dead

Trade in the contract, the only one deliverable in actual stock, has been virtually nil.

Says one trader: "It's dead but it won't lie down."

Cape Investment Bank's Pam Davies in-

cludes among the possible reasons for the Nombi's failure the fact that it is deliverable, possibly too complex and was introduced at the wrong time.

The timing argument found a wide echo in the industry, where the feeling is that the market should get used to the instruments it already has instead of rushing in with new shiny models whose time may not yet have come.

Indeed, contracts that theoretically should suc-

ceed (like the Nombi) often do not, while those that would perhaps flop overseas (like the E-168) prove roaring successes here.

View

Another contract that has done well since its inception barely three months ago is the dollar-gold.

Says a National Futures & Options trader: "Every South African ultimately takes a view on the gold price."

Blpca 15/2/90

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(74)

SA set to take its place among the top world centres



TONY NORTON

SA WILL join the ranks of the world's leading financial centres in early April when, barring any unforeseen problems, a formal local Traded Options Market (TOM) on JSE equities and indices starts operating.

"Formal" and "traded" are the key words here, for options on equities have been part of the SA financial landscape for years, but always on an informal or over-the-counter (OTC) basis.

This meant that deals were — and still are — done on a back-to-back basis between the writer and seller of the option. Buyer A

may thus buy an option on say, De Beers, from Seller B, who fixes a price.

However, this option not being standardised, it hardly ever trades and invariably lies in Buyer A's bottom drawer. (It may even be forgotten, as a certain bank making headlines of late has shown).

Beware

The option is not backed by any market guarantees — indeed, it may not even be worth the paper it is written on. The rule of the game is therefore *Caveat emptor* — the buyer beware.

Other problems with the present informal market is

lack of liquidity (stemming from the lack of tradeability) with attendant side effects of lack of price dissemination and limited price discovery.

Indeed, the essentially private nature of these options contracts means accurate statistics are to all intents and purposes non-existent.

In the absence of these basic criteria of price efficiency, it is no surprise that most OTC options are expensive, with premiums as high as 20% of the spot price of the underlying equity.

Risk-averse option writers, therefore, sell their options at strike prices far

out-of-the-money — that is, exercising them immediately would not be profitable.

So the option holder is invariably reduced to waiting until the expiry date in order to realise any gain.

TOM will change all this by interposing itself between buyer and seller like any exchange, essentially rendering the contracting parties anonymous.

Guarantee

It will have its own clearing system which would guarantee performance. Holders of the options could then trade them in the market, safe in the knowledge

that there will be no default.

Constantly adjusted prices will be displayed for all to see, giving a more accurate picture of the dynamics of the market.

Finally, and perhaps most importantly, holders of the options could cash them in at any time by simply closing out their positions — taking out an equal and offsetting option — instead of wearily hanging on until expiry.

Although full details are unavailable at the time of going to Press, it is a safe bet that TOM will initially operate only on the blue-chip stocks (Anglo, Barlows, De Beers ...) and the

main indices (All-Share, Gold and Industrial).

Settlement will almost certainly be in cash, though there has been talk of at least one deliverable — possibly De Beers.

JSE president Tony Norton says once the systems are up and running, they can be loaded with virtually any share or index. "Initially, we are looking at less than a thousand transactions a day," he says.

He believes TOM will mirror the experience of every other formal traded options market in the world and help increase the liquidity of the underlying stock market.

Safex clause opposed

B/Day 16 12/90
A NUMBER of leading banks which intend becoming SA Futures Exchange (Safex) clearing members oppose a draft rule requiring clearing members to pay R3m to help other members that may default.

Spokesmen from Volkskas and First National Bank (FNB) strongly opposed the rule yesterday. Safex said Standard Bank had given its support, but only under certain conditions.

The argument against the rule is twofold: firstly, the banks would have to bale out firms over whose financial operations they had no direct control; secondly, it was unnecessarily costly and would increase clearing costs.

The rule, still in draft stage and scheduled to be approved next month, works on joint liability.

Any shortfall after a defaulting member's assets have been liquidated

(74) (88)
ROBERT GENTLE

shall fall on all remaining members.

"We are not in favour of it," said Volkskas Merchant Bank senior GM Jan de Kock. "We cannot, at this stage, agree to any additional liability to that which we may create ourselves."

FNB group treasurer Ken Russell said clearers should be strong enough in their own right.

Russell said Allied and Nedbank were also "unhappy" about the ruling. Neither could be reached for comment.

Safex assistant GM Mike Henegan rebutted the lack-of-control argument by saying members had to approve membership anyway.

He said there was an element of overkill in the rules, but it was prudent with a new market and could be reduced later.

9/10/90 15/2/90

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New era as Safex draws near

THE JSE will cease to be the only exchange in the country by mid-year, when the long-awaited SA Futures Exchange (Safex) comes on stream after a delay of almost 18 months.

The formal derivatives market will finally have arrived, catapulting SA into the company of countries from Europe to North America that operate futures exchanges alongside their stock exchanges.

Safex will be housed in the recently opened JSE annexe and will offer players a dual floor-screen trading system.

In a nutshell, the exchange (which includes its clearing house) will interpose itself between buyers and sellers in the market, rendering the parties anonymous and guaranteeing contract performance.

Regulated

Trades will be matched — or cleared — and the entire process regulated by strict rules having the force of law under the Financial Markets Control Act.

The clearing role now done by Rand Merchant Bank (RMB), pioneer of the informal market, will fall to Safex's official clearing house Safcom.

RMB will then be just one of a whole string of clearing members.

Institutions that have already indicated their intention of becoming clearing members include RMB, Finanskas, Volkskas, Standard and First National Bank.

Clearing membership will be via the purchase of a "seat" on the exchange and a share stake in Safcom. Monopolistic tendencies will be curtailed by the "ten percent rule" which limits the maximum number of seats to 10% of those in issue.

Safex rules state an applicant for clearing membership shall have and

maintain at all times a minimum net financial worth of R20m "or such other sum as may be determined by the executive committee from time to time".

Clearing members may enter into contracts with or on behalf of clients or with other members and will collect margin on a gross basis (ie, both long and short positions must post margin).

Responsibility will flow upwards to the clearing house — ie clients pay both initial and variation to clearing members, who deposit it with the clearing house so that at any moment all trades in the system are adequately financed.

To further shore up the structure, clearing members have to provide, maintain and keep in force a suretyship to the clearing house of not less than R10m.

Finally, if a clearing member defaults, the clearing house will be entitled to call upon all other clearing members to contribute up to R3m each.

The exchange will also cater for non-clearing members — broking members who may enter into contracts with other members and with or on behalf of clients.

In case of default, the net flow of responsibility is from client to broking member to clearing member and ultimately to the clearing house itself, which guarantees performance.

A comparison with other

exchanges in the world shows that Safex is heavily protected — some would say too heavily — against default.

The total capital backing dwarfs that of other exchanges, margins are high and risk management is extremely conservative. The system is designed to withstand a default rate of 20% (against an international average of 5%) and market swings in excess of those of the October '87 crash.

Says Finanskas assistant GM Stuart Yates: "We are more than adequately covered."

Cover

He has done some number crunching showing that 20 SA clearing members could safely cover an equally divided market holding 3.2-million open positions.

To put that in context, the sum of open positions for the four largest international contracts (the CME Eurodollar, the CBOT Treasury Bond, the CME S&P 500 and Comex Gold) at January 15th 1990 was only 1.2-million.

The solid capital base of Safex means clearing membership will obviously be restricted to the more financially secure firms.

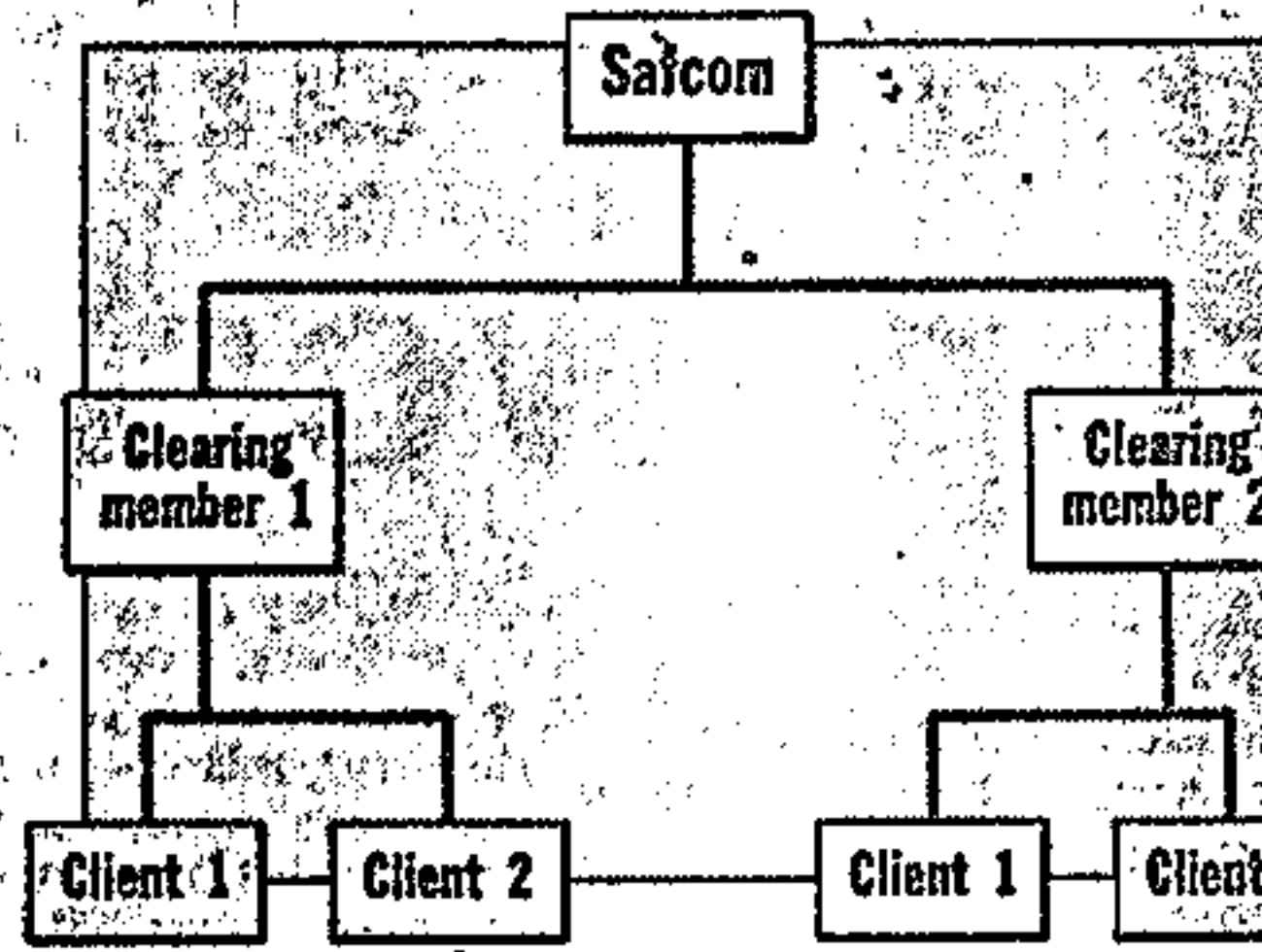
Nevertheless, Yates says ultimate success as a clearer will depend not on financial clout but on technical expertise, competitive pricing and service to clients.

Clearers will vary the amount of margin they charge as a function of how they assess the creditworthiness of their clients.

In any case, Safex (a non-profit body) says it will progressively bring down dealing costs as turnover rises so that breakeven is always maintained.

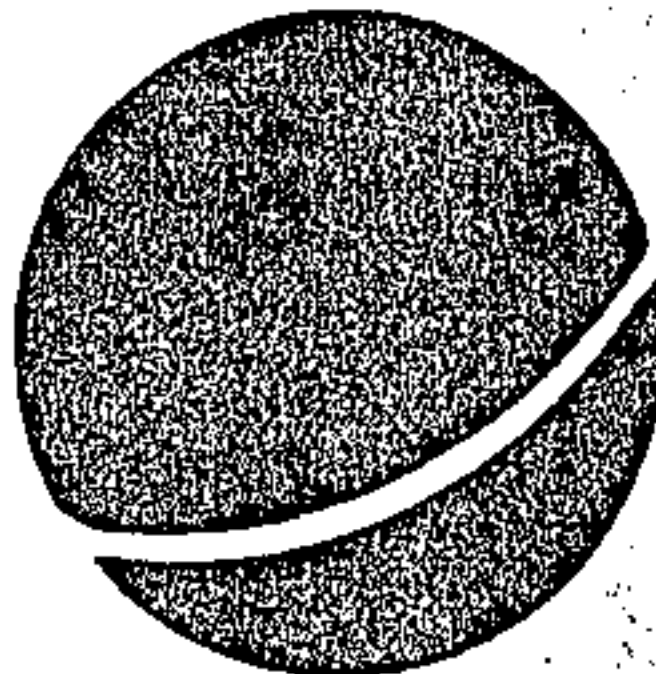
The most optimistic market estimates speak of a tenfold rise in turnover over a period of two years.

Even if that figure should prove only half correct, the financial landscape appears set for interesting times.

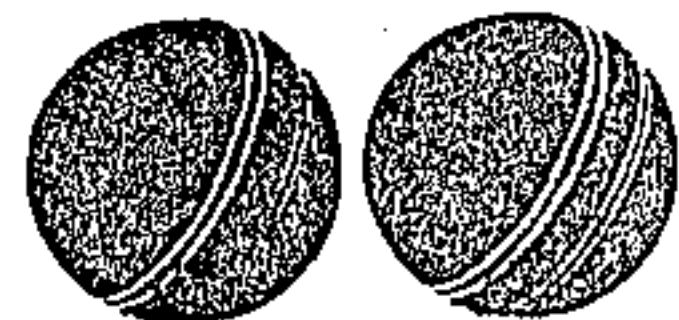


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Market buzzwords

UNDERSTANDING the key buzzwords:

BMA — Bond Market Association.

CBOT — Chicago Board of Trade.

CME — Chicago Mercantile Exchange.

CFTC — Commodity Futures Trading Commission.

LIFFE — London International Financial Futures Exchange.

LFOX — London Futures

and Options Exchange.

SAFIA — SA Futures Industry Association.

SAFEX — SA Futures Exchange.

SAFCOM — SAFEX clearing company.

SFE — Sydney Futures Exchange.

SOFFEX — Swiss Options and Financial Futures Exchange.

NYMEX — New York Mercantile Exchange.

NZFE — New Zealand Futures Exchange.

The advent of derivative instruments has and will change all the rules of

Deposit taking

Clpers 18/2/90

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Foreigners exploit SA differences

THE now famous speech by Nelson Mandela delivered in Cape Town a few hours after his release from prison seems to have given some local and overseas investors the jitters.

The Johannesburg Stock Exchange took a severe pounding as foreign investors, especially Americans, panicked when they heard that he still supports the ANC policy on nationalisation of the mines, etc.

Tuesday saw some heavy selling in New York and on Wednesday local investors followed suit by piling out of gold shares. The result was the biggest sell-off since the October crashes of 1987 and 1989.

By Thursday there were signs that things were calming down and buyers returned, causing the prices of some better quality shares to improve.

I have serious doubts if Mandela's pronouncements were the real cause of the market sell-off. In fact, the prices started to drop well before his speech and many shrewd operators are saying the share market, especially golds, was looking for a reason to drop.

Mandela's speech provided that reason in good measure. Foreign investors have been buying SA gold shares for some time now and

the truth of the matter is that they are showing fat profits at present prices.

The JSE's gold index has been rising steadily since October due to their aggressive buying and even at current prices is at very high levels - so why blame Mandela's speech?

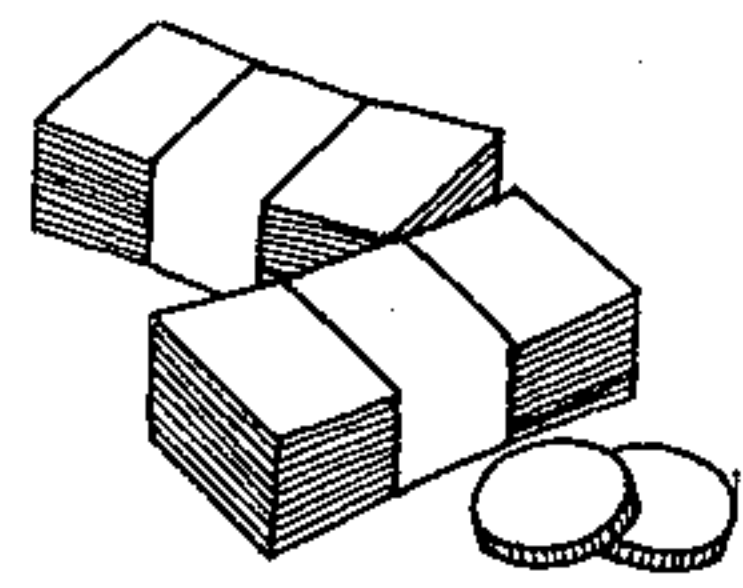
One must always remember that foreign operators are experienced. They came into our markets last year simply because they were seeing a fast buck.

This brings me to an important point.

South Africans have many differences which will need a long time to resolve. But do we have to create conditions which enable foreigners, who do not give a damn about what is happening here, to make millions of dollars by exploiting these differences?

I have in the past referred to competitors of ours, such as the Australians and Americans, who have been pushing us out of coal and other markets by convincing our customers that supplies from this country will be interrupted as a result of sanctions or civil war among South Africans.

Such foreign businessmen must be made to understand that this picnic which they have been enjoying at our expense will now come to an end.



MONEY TALK

74

Turmoil in the markets, but there's hope

THE world's major capital and stock markets in the past six weeks have resembled a champion marathon runner suffering from cramps.

Is another 1987 coming? In the 1987 crash, there was deep-seated unhappiness in the US capital market about too little visible progress being made in dealing with the large US trade deficit.

Fixed-income investors feared an eventual loss of confidence among foreign suppliers of capital, a crash of the dollar and a resurgence of inflation.

Investors forced up long bond yields from a relatively low 7% to more than 10% in a matter of months. This re-rating caught the US stock market off-balance and, after public recriminations between the US and German finance ministers, it also adjusted spectacularly, triggering a wave of stock-market collapses.

It did not matter that the fundamentals had not deteriorated beyond redemption; that policymakers were doing the right things; and that what was needed was patience.

Instead, the market's view of risk caused panic withdrawal, and the dominoes fell one by one. We could well be in the throes of a similar movement at this very moment.

There are differences, however, making a repeat of the 1987 experience no foregone conclusion.

It is not the US capital market but the European and Japanese ones that are leading the current movement. Although

investors may see rising risk, encouraging withdrawal, the fundamentals have not deteriorated beyond redemption, nor are they about to do so.

Economic policies in the major countries are not negligent. Vigorous policy action is being taken to deal with the trends that are making investors so nervous. However, as in 1987, that may not prevent an old-fashioned panic and another global whirlwind.

The new year opened with boundless confidence worldwide, politically and economically. But prices had been falling and yields rising in the key European and Japanese capital markets since the beginning of 1989 — explosively so towards the end of the year.

Indeed, it had become so bad that the US capital market changed direction in sympathy. Its 30-year yields eased steadily last year, at first to 8% and then even to 7.8%, only to suddenly turn up around Christmas. What was going on?

There seems to have been a major increase in inflationary expectations, in addition to rising fears of inadequate policy action. Japan and Germany enjoyed negative inflation rates of -1% in 1988 because of unconstrained domestic conditions, strong currencies and a collapse in the oil price from \$25 to \$8 a barrel.

Both countries registered strong economic performances in 1987-1988. This caused overheated domestic conditions. In addition, the dollar rebounded by 25%,



pushing up German and Japanese import costs, and the oil price recovered to \$20.

In addition, Germany and Japan introduced once-off sales tax changes in 1988-89, lifting prices further. Inflation in both countries kicked up from -1% to +3% in three years.

Similar deteriorations occurred in Britain, its inflation rising from 3% to nearly 8%, and in the US it increased from 1% to 4.5%.

A four-percentage point increase in inflation begs for punishment from long bond investors. These investors actually reacted slowly at first, believing that policymakers were serious in containing the inflation threat.

The sales tax and higher interest rates overstated inflation by more than 1%, and the less volatile US "core" inflation rate (ex-food and energy) had not fallen below 4% since 1983 and appeared stable.

With a slowing economy, there was no reason to fear a resurgence of inflation soon. However, since August 1989 a rather sensitive threshold seems to have been

crossed, one between subdued inflationary expectations and rampant ones.

Deep suspicion was taking hold, starting in Germany and the UK, then in Japan. Eventually the US was contaminated as well, fear sweeping the globe and investors becoming cautious, and foreign buying partially drying up in the US.

Strong German growth was underpinned by West European integration, domestic investment euphoria, consumer tax cuts, and likely East-European re-integration. This allowed the huge metal workers union to demand an effective 12% wage increase, and the disintegration of East Germany in recent weeks suggested inflationary consequences.

It made 3% inflation a distinct understatement compared with what could still be coming down the pipe. The UK was trapped in a similar vice, focused on 9% wage growth and sterling depreciation.

In Japan, strong economic growth was firing wage demands and imports.

Too-low interest rates encouraged a huge capital outflow to higher-yielding foreign investments, weakening the yen and boosting imported inflation.

This was made worse by a political scandal and tense trade relations with the US, preventing a tight monetary policy and thereby giving the impression of impasse and a price spiral out of control. From early January 1990, these impressions worsened considerably, encouraging the capital markets to continue their furious retreat.

Japanese long yields reached 6.8%, Germany's went to 8.6%, the US to 8.6% and the UK to 10.2%, up to double as much from four years ago. In addition, a rumour regarding Mr Gorbachev's imminent demise hit the Japanese stock market especially hard.

US companies were coming through with poor results because of the slowing economy, further undermining Wall Street's confidence.

Lastly, European and Japanese interest rates appear set to go higher, while US rates may not fall further as policymakers appear determined to deal with inflation, further undermining share investor confidence everywhere. This is all starting to look rather fearful.

However, before concluding that a repeat of 1987 is inevitable, there are some saving graces.

The stock markets are not being caught by surprise. There is healthy scepticism and much agonising about what it all

means, suggesting a gradual re-rating rather than a panic.

Moreover, the capital markets may be excessively fearful, as they were in 1987, suggesting heavily oversold positions. Overheating is being dealt with vigorously in Germany and the UK, and will be shortly so in Japan after today's general election, through tighter monetary policies.

This has strengthened currencies, it is reversing imported inflation, and oil is unlikely to move much above \$20. Those sales tax changes will shortly drop out of inflation rates.

Mr Gorbachev appears to have

strengthened his hand, and poor US corporate results may cease as the economy rebounds.

Recent capital- and stock-market fearfulness seems to have largely bypassed the precious metals and currency markets. The stock markets suggested a rebound from late January.

Gold shares, however, have been voting with their feet, rising in dollars, sterling and rands, but that may merely be a political re-rating of South African gold mines.

Perhaps the apprehensiveness of recent months has been an overreaction, being merely a re-rating of key markets.

The 1987 experience does not have to be repeated as investors absorb fearful impressions along with policy actions meant to stop the rot.

Winning Way check list

Business Times Reporter

THE authors of The Winning Way have developed a check-up service for companies facing the challenges of the 1990s.

Antony Ball and Stephen Asbury believe the decade will be characterised by change, and that successful organisations will be those with a strategy to anticipate and adapt to new environments and opportunities.

They have used their research into SA's winning companies to develop a diagnostic analysis of the fitness of an organisation — the Winning Way Check-Up.

Things to be discovered include:

● Is the strategic process appropriate to the organisation and its stage in the life cycle?

● Is strategy accorded sufficient priority in terms of time and top-level commitment?

● Is the extent of strategic information and involvement or management a sufficient base for setting strategy?

● Is the dormant strategy being used and put into action?

Mr Asbury says the Check-Up is appropriate for any organisation because the scope of the exercise is flexible, according to the needs of the executive team.

WIDE ANGLE ON ADVERTISING AND

EVEN though SA's gold shares were hammered after foreigners took fright, there is still room for optimism.

What happens if the gold mines are nationalised? I remember speaking to a Canadian stockbroker who came to work in SA in 1986. His view was that if the mines became State-owned, the gold price (\$350 at the time) would fall to \$100.

I expressed my surprise at his forecast. "Oh, there will be stability of supply," he told me. My view was that the opposite would be true.

PANIC

Does our market now suffer for the next several years until a new constitution arrives and shareholders are bought out by the Government for a nominal sum? Will gold shares never again boom as the metal's price climbs?

There was bound to be early panic — witness the sharp falls in share prices. Not to be overlooked is the fact that golds were overpriced in relation to their dividend yield. An opportunity to take profits arose.

Golden lining

SITmes 18/2/90

It is ironic that just as the world sees the light of gold, the ANC's nationalisation policy regains the light of day.

My view is that golds will regain their buoyancy when the fire has died down a little.

Warburg Securities of London conservatively expects gold to average \$425 this year. In the short term it is on its way to the next chart target of \$440, although there will "inevitably be short-term setbacks" along the way.

Warburg says the outlook for gold is more positive than for some time. Middle East buying, the prospect of more demand from Taiwan and the burgeoning jewellery market in Japan are positive factors, as are the decline in gold loans and forward sales.

The securities firm was spot-on in its view dated February 1: "In South Africa the expected release of Nelson Mandela ... should see further overseas demand for those (SA) shares although investors should watch events

carefully and be prepared for a setback after the honeymoon."

Kathy Pott, economist at AFC Investments, expects no fireworks from gold. She believes that developments in Germany could cause a reversal in the mark's strength. The corollary could be a dollar rally matched by a drop in gold.

CURRENCY

However, Mrs Pott believes that the dollar is in a long-term bear trend, such that any interruption in gold's uptrend is likely to prove short-lived.

She expects Russia to sell more gold to pay for imports, since oil exports are down and Russia lacks a convertible currency.

SA may be able to slow gold sales if foreign loans are again forthcoming because of Mr Mandela's release, but these are early days.

The order of the day has been to buy on rumour, sell on news.

JSE denies stalling new exchange

THE JSE has refuted suggestions that it is obstructing the start-up of the SA Futures Exchange (Safex), which wants to start clearing in the futures market by April 2.

The JSE, which will operate as one of the exchange's many clearing members, is unhappy with certain aspects of its draft rules and wants more time to study them.

The broad thrust of an interview given by JSE chairman Peter Redman and president Tony Norton on Friday was that while they wanted to see Safex operating soon, the process could not be rushed.

"You cannot start a formal futures market on a half-cocked basis," said Norton, adding that the JSE had a great respect for the issue of risk in public markets.

The two men were reacting to com-

ROBERT GENTLE

ments made in private by other futures market participants that the JSE was being "obstructive".

This followed a Safex general meeting last Wednesday at which the JSE was particularly firm in its opposition to certain aspects of the draft rules and asked for more time to consider them.

The meeting was consequently adjourned and the rules are now set to be approved at another meeting early in March, after the JSE and other parties have had the time to put their objections in writing.

Norton said banks were also against cer-

To Page 2

New exchange

tain aspects of the rules, particularly the question of joint liability guarantees to help bale out defaulting members.

Certain futures sources accused the JSE of having a hidden agenda because it was about to allow its own brokers to trade equity futures on behalf of clients.

Trading on this informal floor, which is next to the JSE's main trading floor, is expected to commence this week.

Asked to comment on the apparent inconsistency, Redman said some of the guidelines under which JSE brokers would be trading on this floor had not been adequately addressed in Safex's own rules.

The informal floor was purely an inter-

im measure, Redman said, as JSE brokers were "clamouring" to start trading futures for clients and could not wait any longer. It would be "closed down" once Safex came on stream.

Meanwhile Safex said it was pressing ahead with plans to start operating by April 2, possibly ahead of the granting of a formal license by the Registrar of Financial Institutions.

Norton and Redman said the only way the JSE would go along with this was if the draft Safex rules were acceptable to all members and the Registrar was informed in advance.

From Page 1

Drexel disaster gives Safex food for thought

BIDAY 20/2/90

74

Drexel Burnham Lambert's demise this week — defaulting on over \$100m in loans — has brought into focus the issue of risk and default in SA's new futures market.

The SA Futures Exchange (Safex), which intends to start operating in April, is putting the final touches to a system of financial guarantees aimed at preventing a Drexel-type default here.

Admittedly, Drexel's was not a true futures default, but the distinction is academic as Drexel traded futures and was a clearing member of International Commodity Clearing House (ICCH).

To put that statement in context, SA companies — mostly banks — will operate as clearing members of Safex just as Drexel did with ICCH.

Drexel cleared its trades through ICCH. Similarly, SA companies will clear their trades through Safex — actually Safex's clearing house Safcom.

Sustainable

The stakes are high because Safex is effectively interposing itself between buyers and sellers in the market, rendering the parties anonymous and guaranteeing all trades.

One defaulting clearing member (like Drexel) is often sustainable, as its exposure (open contract positions) is passed on to the clearing house, which guarantees performance.

However, a string of defaulting clearing members can bring down the whole clearing house, which would then not be able to meet its contractual obligations.

This would wreck the integrity of the Exchange. Thousands if not millions of futures contracts in the market place would be transformed into worthless paper.

It is the ultimate nightmare scenario,

ANALYSIS ROBERT GENTLE

which explains why Safex is going to great lengths to reduce the likelihood of default. All well and good, except some banks feel Safex is going too far.

To be a clearing member, Safex draft rules insist on a net financial worth of R20m and the maintenance of a R10m suretyship.

Within that R10m is a R3m joint liability guarantee which would be used to bale out any other clearing member that may default. It is this joint liability that has some banks seeing red.

They object to having to bale out members over whom they have no control, and say the cost of holding this capital will have to be passed on to clients in the form of higher charges.

FNB Group Treasurer Ken Russell, echoes Volkskas's view: "We are not comfortable with it. Clearing members should be strong enough in their own right."

In the light of the other strict conditions of net worth and suretyship, Russell calls the R3m joint guarantee "overkill to the n'th degree".

Safex Assistant GM Mike Henegan rebuts the arguments thus: clearing members have control over other members as they have to approve his membership to start with.

Moreover, Safex continues to monitor the exposure and risk of all clearing members, and can jack up the R10m suretyship at any time.

On higher costs, Henegan says banks would not be physically out of pocket by R10m (or whatever higher cost is imposed) but only by the 0.5% required by the Reserve Bank liquidity regulations.

Thus the cost of holding R10m would only be R50 000 plus the interest foregone on having to keep it available.

Henegan admits to a degree of overkill, but says it is the prudent way to start out in a new market. "These levels can always come down later as volumes pick up," he says.

Finansbank Assistant GM Stuart Yates says: "Finansbank believes clearing members should jointly and severally back the clearing house. Most international exchanges have some sort of joint guarantee system."

SA Futures Industry Association (Safia) MD Brenda Greyling says: "Joint guarantees are the norm in virtually all international futures exchanges."

Exposure

How such a joint guarantee system might work is illustrated by the way in which the London Clearing House (LCH), a division of the ICCH, is currently handling the Drexel default.

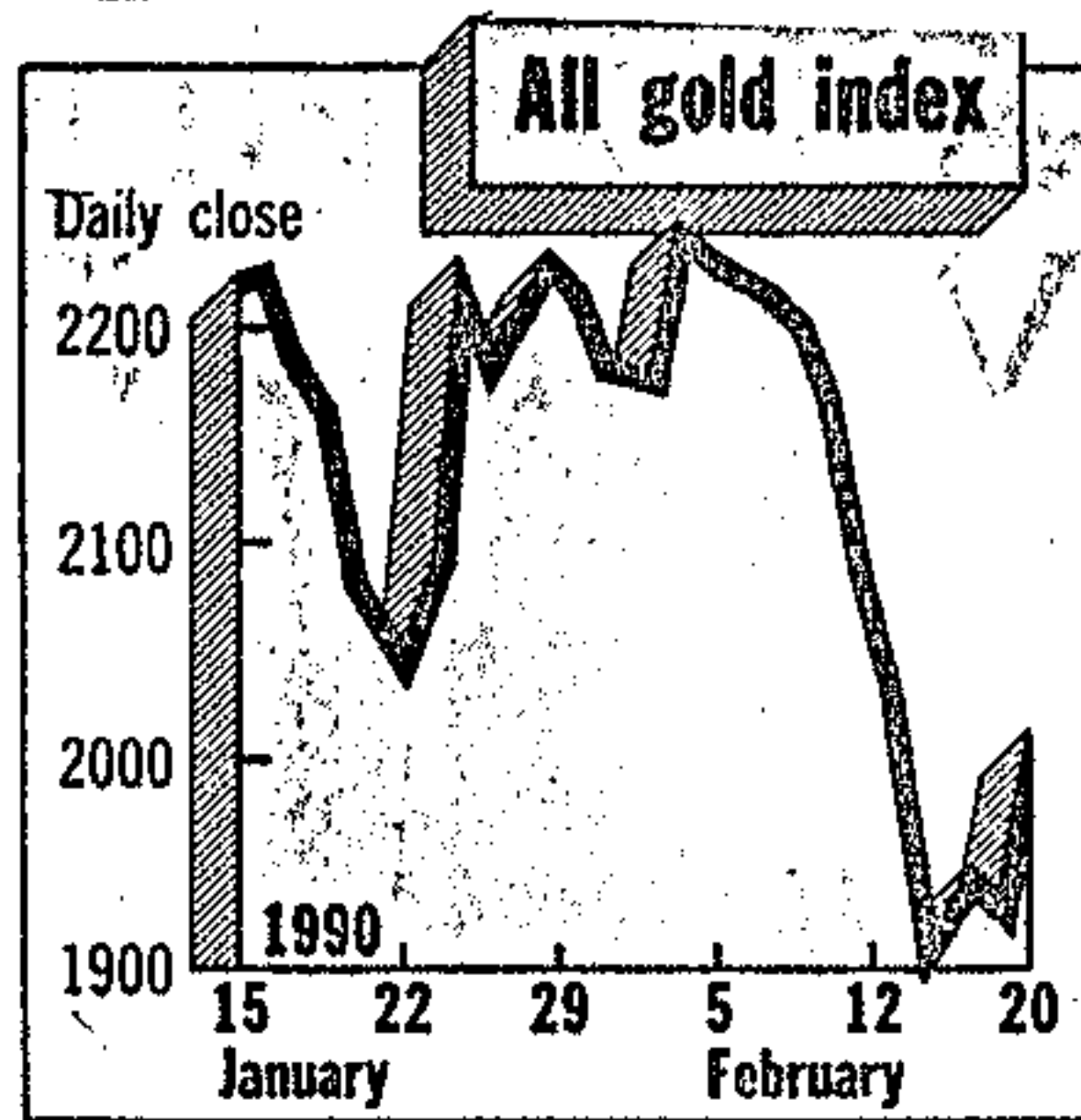
LCH, which clears for exchanges like the London Financial Futures Exchange, and the London Futures and Options Exchange, now carries Drexel's exposure.

LCH MD David Hardy, speaking in Friday's (16th Feb) Financial Times, says the LCH will try to arrange the transfer of Drexel's open positions to other clearing house members (ie, they are helping shoulder the burden).

He declares himself "totally satisfied that the default of Drexel will not adversely affect LCH's financial position".

It is this state of affairs — a financially sound clearing house that can take a default in its stride — that Safex is aiming for.

Just how far it will actually get should be known later this week when the joint liability issue is expected to be resolved.



Graphic: FIOKA KRISCH. Source: JSE

Gold and JSE stock resume bull trend

OLD 2112190 MERVYN HARRIS

DIAGONAL Street resumed its uptrend yesterday as gold again flirted with the \$420 level against the background of an easier dollar and renewed weakness in global financial markets. (H) (P)

Leading shares across all sectors registered their strongest surge since the euphoria evoked by President F W de Klerk's reform initiatives was unwound by comments of ANC leader Nelson Mandela.

Led by JSE flagship De Beers, the overall index closed 2% up at 3 203 with the all gold index climbing almost 4% to 2 013 despite a further firming in the finrand investment currency to R3,4650 (\$0,2886) from R3,4950 (\$0,2861) to the dollar.

The gold price touched a high of \$420,90 on widespread buying interest in the Far East and Switzerland.

Gold closed more than \$3 higher in London at \$419,85 as the market awaited the release later today of US consumer price data for January. Platinum firmed nearly \$6 to close at \$527,50, but silver closed unchanged at \$5,34.

The dollar closed softer at DM1,6750, but above earlier lows, while the weaker yen saw it rally to 145,35 yen from the previous 144,55 yen.

Worries about the slump in world bond markets and possible interest rate hikes weighed on stock markets. West German shares plunged 2,5%, but London came off session lows for the FTSE 100 to end 20,1 down at 2 277,0.

On Wall Street, the Dow Jones tumbled more than 45 points to breach the key level of 2 600.

● Market report Page 6

'No big changes without talks'

Mandela in move to allay business fears

CHARLENE SMITH

NELSON Mandela proffered an olive branch to the business community yesterday when he said the ANC would make no drastic changes to any sector of the economy without full discussions with the private sector.

Referring to the issue of the restructuring of the economy, he said: "We are very keen not to do anything without proper discussion with those interested and involved."

Last week financial markets reacted sharply to comments by Mandela indicating he was in favour of the nationalisation of banks and mines.

In an exclusive interview with Business Day, Mandela disclosed he would be meeting one of the "most important businessmen in the country", probably before leaving for Lusaka on Monday. He declined to name the businessman.

Anglo American spokesman James Duncan said although company chairman Gavin Relly had expressed an interest in meeting Mandela, no meeting had been arranged. He knew of no plans for any meeting between Mandela and Harry Oppenheimer.

Mandela said: "We would welcome a debate among the business community on the issue of nationalisation.

"This is an extremely important matter,

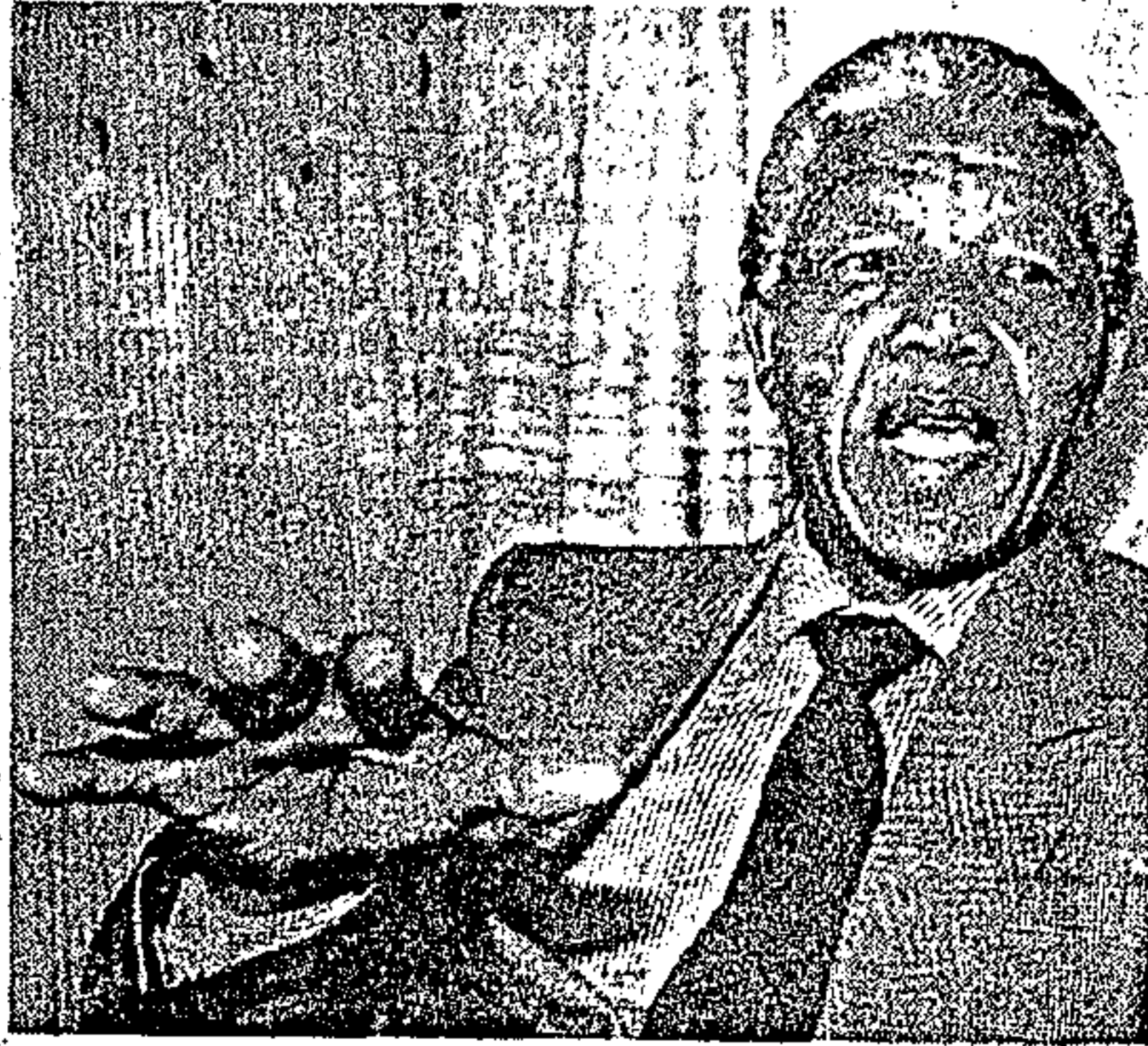
and in any democratic situation a free expression of opinions is absolutely vital. I also expect compromises from both sides."

However, Mandela made it clear sanctions must remain in place.

"What we set out to achieve we are far from achieving and there is nothing that has happened that has required us to review this decision," he said.

He had not telephoned British Prime Minister Margaret Thatcher to discuss the sanctions issue, as he was waiting for permission from Lusaka to do so.

However, if Lusaka gave him the go-ahead he would intervene and ask Thatch-



Mandela at yesterday's interview. Picture: ROBERT BOTHA.

□ To Page 2

Business fears

er and other world leaders to maintain sanctions. He indicated that he anticipated a breakthrough in the negotiation process which would lead to "some agreement about meeting the preconditions to create an atmosphere conducive to peace". He believed the ANC and government were on the verge of meeting such preconditions.

Preconditions in terms of the Harare Declaration that government still had to meet included the lifting of the state of emergency, the release of all political prisoners and detainees, the removal of troops from townships, and the removal of security legislation that inhibited free political activity, for instance the Internal Security Act.

"Once that stage is completed we will start on the more important questions of addressing the basic demands of the ANC and other sections of the liberation movement. And the basic demand is that of one-person-one-vote in a unitary state."

Mandela said this demand would, in terms of the Harare Declaration, lead to a constituent assembly to discuss a new constitution.

He said the ANC had called for the total dismantling of apartheid in all its forms.

"In this we include the question of the

proper distribution of the land. We have demanded that the land be returned to those who work it. We don't say the land must be returned to its owners; we say the land must be returned to those who work it. That can be subject to different interpretations.

"We are concerned with the principle of an equitable distribution of the land, and what will be done with specific farmers is a question to be determined at the time by the people themselves."

He said the land issue was a top priority. The ANC leader met a string of visitors throughout the day.

Among them were traditional Tembu leaders from Transkei and Bishop Barnabas Lekhanyane of the Zionist Christian Church, as well as Swedish and US diplomats and journalists.

Today he meets Chief Tlidlmane Pillane from the Rustenburg area, and five other chiefs. Meetings with veterans of Umkhonto we Sizwe and then member chiefs of the Congress of Traditional Leaders of SA (Contralesa) will follow.

The ANC regards the role of traditional chiefs, and in particular of Contralesa, as being of central importance to any negotiation process and to a future dispensation for SA.

Safex members deadlocked on liability issue

THE contentious issue of joint liability among SA Futures Exchange (Safex) clearing members remained unresolved yesterday despite a marathon all-day meeting, at senior level, of interested parties.

Safex CE Stuart Rees and the head of Safex's legal team, Bob Powers, spent four hours in the morning discussing the issue with banks, including First National, Standard, TrustBank, Volkskas and Nedbank.

Rees and Powers heard recommendations on how the joint liability issue may be resolved, then retired to an executive committee meeting at Safex to discuss them.

However, by the time the meeting ended in the evening, the two sides were still no nearer a solution. *BIDAM 22/2190*

ROBERT GENTLE

Rees said the banks had recommended that the joint liability issue be dropped, but with the option of it being revisited in six months' time. *(74)*

Safex's executive committee, on the other hand, would like to see joint liability remain in place, though with the option of it being revisited in six months' time.

The issue will now go to the next Safex general meeting on March 7, which is the exchange's supreme decision making body.

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SA will have to make itself an acceptable trade partner

B/D 23/7/90



74



TO BECOME an economic success story, SA must deprive its neighbours of an enemy. Only then can formal economic co-operation or even closer ties be discussed openly.

Once SA is in principle acceptable as a partner, the process must be taken still further — we must be able to convince our potential partners that any structure for regional co-operation or economic integration will not lead to undue domination by the largest and most developed economy in the region.

The argument often raised by academics, as well as politicians concerned with narrow local interests, is the so-called "polarisation effect" of economic development.

The argument advanced is that industrial and investment resources tend to be attracted by the most developed country, leading to an ever growing imbalance in development and trading patterns.

This fear is real, and the view is held by many, but it is a poor argument against greater economic co-operation between SA and its neighbours, or against the creation of a fairly comprehensive southern African economic community.

Create

Natural polarisation is desirable for the sake of efficiency. If it is overdone the laws of economics will make sure it is reversed.

Europe and the US provide many examples for that. Moreover, it is quite possible to create structures within economic communities to level the advantages and disadvantages of various regions.

I have great hope for our region of the continent. Co-operation may have been stymied by antagonism and suspicion, but strong infrastructural links remain, and trade between SA and its neighbours has been growing rapidly on the basis of pragmatism.

Durable organisational structures already exist in the region which could provide the vehicles for growing co-operation and economic integration of southern Africa.

The Southern African Development Co-ordination Conference (SADCC) is a potential vehicle for broadened regional co-operation or even integration.

Economic communities ought to

HENRI DE VILLIERS

grow organically, bit by bit. In the short-term it would probably be a mistake to aim for a complex, EC type, association for southern Africa, even if SA were to join as a driving force.

Full integration is a stage of development which the EC is only now aiming at, after more than 30 years of hard effort. This does not mean, however, that SADCC cannot be developed beyond its existing objectives and structures.

A possible vehicle for greater regional development co-operation and for furthering progress towards a southern African economic community is the Development Bank of Southern Africa. It could clearly become a regional development bank serving not only SA and the states contained in it, but the region as a whole.

At this stage the Development Bank is involved in only a few projects outside greater SA, and its role as a development financing and co-ordination agency for the whole region awaits a change in SA's acceptability to its neighbours.

In the medium to long term I see its role as supporting a body like SADCC, or even a more developed community structure.

A fair amount of integration of the economies of southern Africa is not only desirable but absolutely necessary. I also believe it is possible, quite obviously not in the short-term, but gradually over time.

The EC had to overcome many obstacles to reach the position it has today.

The idea of a common market and the de-emphasis of narrow national interests has not always been popular, nor was the path of the EC free of spectacular failures. But by now all members believe they are benefiting, and a crowd of outsiders is knocking at the EC's door eager to be allowed in.

The position the EC expects to reach in 1992 is a manifestation of a new wave of economic/political philosophies: It reflects the acceptance of growing inter-dependence amongst nations.

Protectionist sentiments are still alive, even in the EC, but not for the reasons that were used primarily to

justify it in the past.

National self-sufficiency is now regarded as neither desirable nor feasible. This makes a mockery of much of SA's past economic philosophies, as much as those of SADCC.

These new world trends will eventually force us in southern Africa to think beyond present ideological barriers and national frontiers.

It is a fact that black southern Africa's and SA's policies have led to both areas losing out dramatically in terms of their share in world trade and investment, and therefore growth.

This represents both a challenge and an opportunity, initially mainly for SA as the major regional economic and political power as well as the main obstacle. We must:

- push internal reform so that we can live in peace with our neighbours and become an acceptable partner.
- be instrumental in establishing a new order in southern Africa, free from fear of either military or economic domination.

Obviously this cannot take place overnight — it will have to be an evolutionary process. Most obstacles can be overcome, even past enmities.

Conflicts

Europe's communal differences, which found expression in two World Wars and many earlier conflicts, were far greater than southern Africa's differences.

Without the help of SA, no association which goes beyond that currently provided for by SADCC would be viable in the region. With unreserved and positive backing from SA, however, the process could be taken further.

The next decade promises to be critical for the prosperity of southern Africa. We must now attempt to build a new era of peace and economic prosperity.

I can only hope that the solution of the next decade will flow from southern Africa being able to reconcile differences, leading to the gradual emergence of a new economic power block that can serve as a catalyst for the improvement in the economic fortunes of other countries in sub-equatorial Africa.

This is an edited excerpt from an address by De Villiers to the Frankel Kruger Vanderine Investment conference in Johannesburg this week.

RICHARD ROLFE**in LONDON**

IN spite of a few other trivial events like the collapse of Churn'em and Burn'em and the opening of the Guinness trial, the gyrations of SA gold shares have been the talk of the market here.

SA shareholders have been insulated to some extent by the fall of the financial rand. But for those abroad, the price movements have been savage.

The Financial Times gold-share index in London hit a peak of 378,5 on February 2. That was in the wake of President De Klerk's move to unban the ANC, which generated a wave of favourable sentiment and the view that SA investment would once again become internationally acceptable.

STERILE

But six days later, the FT gold index had collapsed to 288,3 — a fall of nearly a quarter.

The glass which had looked half full now seemed a half empty poisoned chalice.

The reason for the \$6-billion difference was the threat of nationalisation of the gold mines.

Nelson Mandela has impressed most people with his demeanour since leaving prison. But his views on nationalisation have come as a great disappointment to the investment community.

Mandela's poisoned chalice upsets golds

People are not concerned about the prospect of redistribution of wealth in SA, which is inevitable, but about the sterility of the thinking behind the nationalisation threat.

Ian Lamont writes in Yorkton Natural Resources' newsletter: "Mr Mandela presents an impressive, statesmanlike image but, alas, it sounds as though he was incarcerated 27 years ago in the middle of a speech and on release has simply carried on where he left off."

Mr Lamont makes a generous concession, however: "This may not be entirely his own fault."

Most of the evidence is that nationalisation is bad news for any economy. It reduces management's capacity to manage and results in over-manning and uncommercial decision taking. Its tendency is towards inefficiency and impoverishment.

It is possible Mr Mandela has spent time studying the French economy, where na-

tionalisation works surprisingly well in sectors such as banking and insurance and several others.

But most of the rest of the nationalised world — especially Eastern Europe — is dismantling state control as quickly as possible.

The latest developments in the SA stock market illustrate another effect of nationalisation — it is a big turn-off for foreign investors. SA cannot reach its growth potential without access to foreign capital. But no sane foreign investor will put money into industries which face confiscation.

GOOSE

Indeed, the threat of nationalising the gold mines seems aimed perversely at the foreign investors who own large chunks of the mines' shares.

Because the Government levies a 70%-plus lease and tax rate on the gold mines, as well as a withholding tax on dividends to foreign investors, the industry is arguably de facto nationalised to a great extent.

If the object of attack is to be the relatively meagre amount of profit flowing to shareholders through dividends, then it really is killing the goose.

For this reason, argues Mr Lamont's equally outspoken colleague, Peter Miller: "Very simply, Mr Mandela's speeches to date have done more to harm the economic strength of a future South Africa than years of vindictive sanctions."

His chilling conclusion: "It is fast becoming impossible to envisage a political and economic scenario for a flourishing mining industry in South Africa in the latter half of the 1990s."

I have to say that there are other, more positive views on Mr Mandela's conduct.

On this score, the argument is that he understands perfectly well the need to discard the ANC's nationalisation garbage. Indeed, Mr Mandela, as he hinted to his friend Richard Maponya, may by now be a good card-carrying Uncle Tom capitalist.

But he needs to establish his credentials with the

ANC's collective leadership, many of whom cling to the ideological wreckage of their departed friends and backers in Eastern Europe — not least, the Great Conductor, Nicolae Ceaucescu.

POKER

It should come as no surprise, says Rob Weinberg, of James Capel, that Mr Mandela at this stage is restating traditional ANC policy: "No poker player would disclose his hand before the betting starts."

His argument is that SA gold shares should now be bought. If investors were really convinced about the demise of the SA mining industry, the gold price would have soared after Mr Mandela's comments, says Mr Weinberg.

"We suspect that most of the selling has been domestic," he concludes.

SA investors have been getting nervous about the level of gold share yields.

"Doubtless many were stunned by the concept of the new South Africa put forward by Mr Mandela when a

few days previously, they had not even been allowed to look at his picture, let alone read his words."

One certainty is that the cycle of euphoria and despair (which is really only our old friends, greed and fear) will continue.

But I incline to agree with Anglo American chairman Gavin Relly: investors have had a bumpy ride, in the past, in a bad cause. In future, it will be bumpy in a good, or at least a better, cause.

THIS, I am afraid, is my final column for Business Times.

In the three years since David Carte first enquired as to what I was doing (not a lot, at the time), the highlights have been Minorco's bid for Consolidated Gold Fields and the steady flow of SA entrepreneurs to the UK.

I doubt whether there will be anything quite like the Cons Gold clash again, although a long shot could be that a buccaneer such as James Goldsmith will have a go at De Beers.

As to the flow of entrepre-



neurs, it has slowed down recently. People are waiting to see what happens next.

It could become a flood, or it may start to reverse itself as some SA businessmen over here return home.

My own connection with the world of SA publishing will if anything be increasing. From March 1, I will join Hugh Murray, publisher and part owner with Times Media of Leadership and The Executive magazines, and an old friend from Financial Mail days, to cover the European scene.



Politics emerges as big market mover

MANDELA-watching is taking precedence over money supply and other figure watching in the markets as politics emerges as one of the major market movers.

Volatility in the gilts market — a factor in options pricing — has more than doubled to above 9 from 4, reflecting the importance of foreign investors. Overseas buyers who had been bullish on SA's political situation now hold about R6bn of gilts.

A spin-off of the activity generated by the foreign participation is that the options market has to adjust to a new trading environment. Participants have become wary of writing options and prices have soared.

First National treasurer Ken Russell said: "There was a time when a five-point move in the spot rates was considered fairly excessive. These days, a 25-point move either way is nothing out of the ordinary."

Trying to predict movements of gilts rates on the basis of SA econom-

GRETA STEYN

ic fundamentals was a futile exercise, as political perceptions of foreigners had become a vital element. ~~If~~ foreigners start getting out "we've got trouble".

Belief

The financial rand market has calmed down.

"The realisation has taken hold that a new government will not nationalise everything in sight," Russell said. *May 27 1990*

However, the market is discounting a new economic order in SA with more emphasis on state control and less on free markets. With the violent swings over, the investment currency has lost about 3% in the past week. It closed at R3,59 yesterday, mainly on creation of financial rands in London as foreigners sell SA equities. They have largely retreated from gilts.

Standard Merchant Bank treasurer Chris Kenny said the finrand no longer feared nationalisation — but there was a belief that "some kind of redistribution of wealth" would take place.

The fundamentals that should determine the finrand's level, such as equity sentiment, had become important again. Quite apart from politics, Kenny said, a view that SA golds had been over-priced in terms of the gold price could also account for the generation of finrands in London.

The commercial rand has so far seen only positive spin-offs from political developments. Dollars continue to flow into the market in the form of foreign trade finance. Yesterday the rand hardly weakened against the dollar, in spite of the twin bearish factors of the US currency's strength on foreign markets and gold's weakness. It closed marginally weaker at R2,5450 from Friday's R2,5410 and gained on the crosses.

Next upswing may be long, strong — bank

SYLVIA DU PLESSIS

THE upswing commencing in 1992 could well be SA's longest and strongest economic recovery in more than 20 years, if political factors and foreign economic relations improve sufficiently, says TrustBank.

But despite the promise of a return to financial stability in the early 1990s and to sustained economic growth thereafter, at least two risk factors need to be taken into account.

The bank says in its latest economic review that one danger is rising unemployment, likely to accompany the 1990/91 economic downturn.

"Judging by past experience, and seen in the context of political uncertainty and rising expectations, this could produce a renewed cycle of unrest and violence on both extremes of the political spectrum — with highly negative economic effects," it warns.

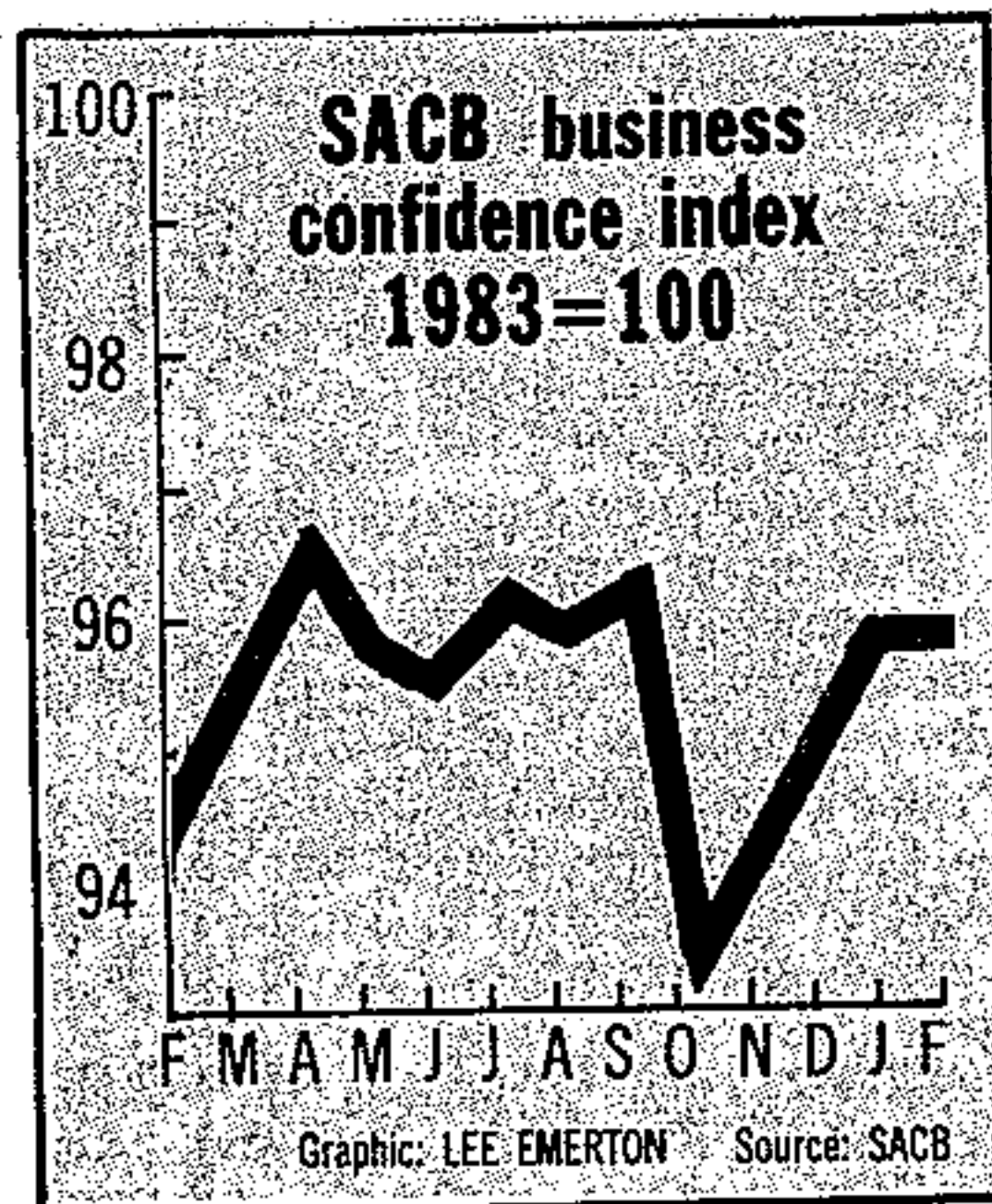
It expects the dollar to maintain a weak undertone for most of 1990, bringing a rising gold price in its wake and further reducing the likelihood of higher European interest rates.

International trends are expected to help improve SA's financial position over the next 18 months. This includes the prospect of rising Japanese interest rates during the year in response to an overheated economy and rising inflationary pressures.

"With US interest rates falling and Japanese rates rising, 1990 could well witness a considerable appreciation of the yen against the dollar. Full cover on the yen/dollar leg of planned forex purchases up to a year ahead would appear to be a highly commendable strategy for the relevant SA importers."

Meanwhile, Die Afrikaanse Handelssinstituuat said in a statement released yesterday that the SA economy was cooling down more rapidly than evidenced earlier.

The organisation said its view was that the consolidation phase of the economy would take greater effect in the coming months, but while this year would be tough for the business sector, there were positive factors and the economy would start to improve in 1991.



B109 28/2/90

Business sentiment 'unmoved' by politics

74

SYLVIA DU PLESSIS

POLITICAL developments in February — among the “most important in decades” — failed to alter business sentiment, the SA Chamber of Business (SACB) reports.

Its business confidence index, measured by movements of economic indicators, also did not respond to clear indications of a slowdown in many sectors of the economy and remained intact at its previous level of 95,9.

The chamber says while the JSE expressed disappointment at talk of nationalisation by registering sharp falls in share prices, the market recovered to an extent when it became evident the ANC's economic policy was negotiable.

According to the SACB, the “skittish” reaction of overseas investors to political pronouncements last month and the drop in share prices on the Tokyo stock exchange stress the underlying instability on world financial markets.

But while the uncertainty this created could inhibit a large-scale flow of foreign funds into SA, there are also “increasing signs” international creditors are willing to roll over portions of SA's foreign debt.

This, with a promising trade balance in January, suggests the country will be able to meet its foreign debt obligations

without the need for any further restrictive measures.

The SACB says signs are that the real economy remains in a gradual decline, but relatively large machinery and equipment imports reflect a generally positive outlook of businessmen.

“These factors, together with the more favourable attitude towards SA internationally, suggest an even softer landing than initially anticipated is still possible,” it says.

It says lower tax rates should assist the economy in being more competitive internationally and encourage further business activity, thereby resulting in an increase in tax revenue.

In focus

Euphoria over President F W de Klerk's decisive moves to break the political logjam, and concern over ANC veteran Nelson Mandela's references to nationalisation, apparently cancelled each other out in February.

The SA Chamber of Business index of confidence registered 95,9 — the same as December-January. It points out "the debate over the future economic system has already got under way and is gaining some prominence. It serves to stress the overriding importance of a sound economy for the future welfare of all."

Positive inputs in the month came from the London dollar price of gold, the rand/dollar exchange rate, a real increase in merchandise imports, the recovery in the JSE overall index and a fractional increase in real retail sales.

Negative influences were the small CPI increase and rise in the BA rate, the decline in the number of new cars sold, a fall in building plans passed (seasonally adjusted) and a decrease in value of exports.

With business confidence relatively stable, despite clear indications of a slowdown in many sectors of the economy, the outlook is promising. "Positive political factors and a relatively favourable Budget" could see confidence take off. ■

Europe 1992: threat or opp

See #13190 (74)

Central Merchant Bank has spelt out a warning that the whole future of South Africa's trade relations with its main overseas buyers and suppliers may hinge on the speed of progress in both the political and economic arenas. **MICHAEL CHESTER** explains why.

Businessmen all around the world are showing great interest as the member nations of the European Community (EC) lay out blueprints for an operation called "Europe 1992". As pieces of the master plan emerge, the response of outsiders varies from admiration to nervous jitters.

The aim of the operation is the total integration of all trade and financial markets inside the EC in the next two years — and the creation of the largest single trading bloc on earth.

The planners visualise a new economic giant that will dwarf the United States and Japan, which in recent years have appeared to be the main contenders for world economic dominance.

"Europe 1992" is seen as the ultimate realisation of the dreams of a United Europe shared by enthusiasts ever since the Treaty of Rome created the embryo of the EC way back in 1958.

To date, the economic muscles of the EC have had to be flexed on an individual count — West Germany, Britain, France, Italy, Belgium, Holland, Luxembourg, Denmark, Ireland, Greece, Spain and Portugal.

The respect — or perhaps alarm — of global trade competitors has climbed to new levels now that EC planners can display the size of the muscles to be flexed in unison once "Europe 1992" makes its debut as a single economic unit.

The EC begins to look like a salesman's paradise, with a combined population soaring to a staggering 325 million, compared with the 246 million boasted by the United States and the 123 million total in Japan.

What concerns most outsiders, however, is how "Europe 1992" intends to shape its trade policies. That

has yet to be spelt out.

South Africa is interested more than most. What may be at stake is the future of what has long been South Africa's largest overseas trade route, with combined exports and imports running at a phenomenal R32 billion a year at a last count, taken in 1988.

Even sanctions and political wrath have failed to dislodge Western Europe as South Africa's No 1 overseas market.

The scale of trade expansion through the 1980s is shown in the accompanying graphics.

Global exporters have listened with alarm to speculation of a possible scenario that "Europe 1992" will turn out to be "Fortress Europe", setting up obstacles to trade intruders and preferring to rely on internal trade making the most of its own considerable potential.

In South Africa, because of the sheer dimensions of its trade with the EC, such talk has chilled businessmen to the marrow.

Researchers at Central Merchant Bank have weighed the alternatives and comes out siding with predictions that in fact the Europeans will vote to promote free trade with non-member countries on the outside.

Even then, though, they add that it can be expected that they may sprinkle around a few measures to ensure protection of their collective internal market — particularly as an umbrella for those regions nervous about exposure of traditional industries to the blasts of open competition from outside.

And there are pessimists who still persist with gloom.

"A United Europe after 1992 can become an even more important trading partner to South Africa — if politicians and entrepreneurs accept the new challenges."

Even if "Fortress Europe" emerges as a false alarm, they ask, will "Europe 1992" be forced by a majority vote to keep sanctions in place and even increase pressures for the isolation of South Africa — at least until if or when a New South Africa emerges?

Will South Africa be singled out in a special exclusion clause?

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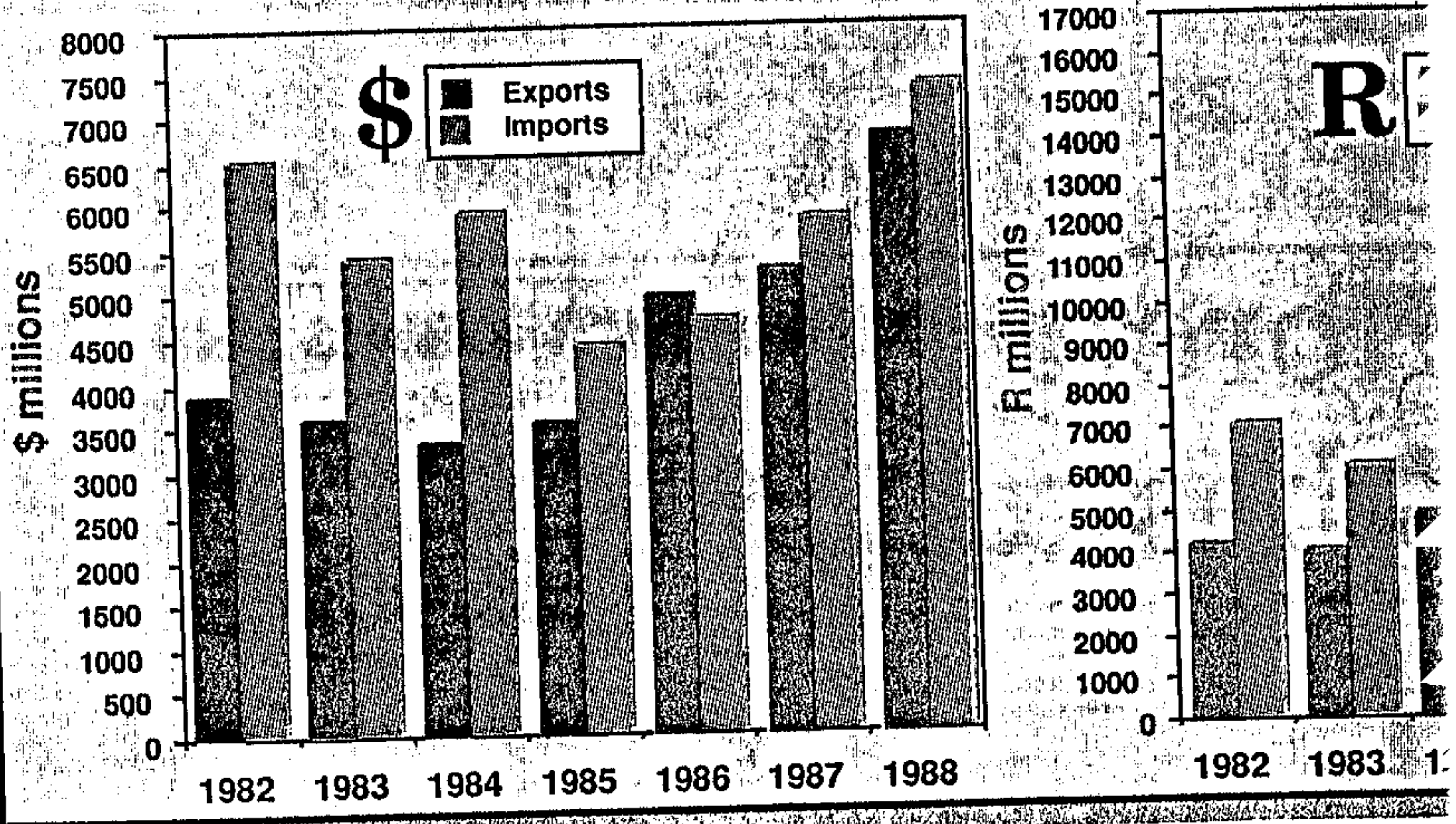
Pessimists are countered mists such as Mr Ron Haywood, Director-General of the Sber of Business, whose lists outnumber the con's regard vast trade opportunities no on the horizon.

"The potential for making roads with our exports into tremendous, especially in our political climate," he says.

"But it is vital that we ta with forward planning now going to have a chance of success. All sides agree that South Africa needs to give a fresh urgent issue — and lay out guidelines in readiness for the birth of a new giant.

Researchers at Central Merchant Bank feel the favourable created by State President and the release of Mr Nelson

SOUTH AFRICA'S TRADE WITH

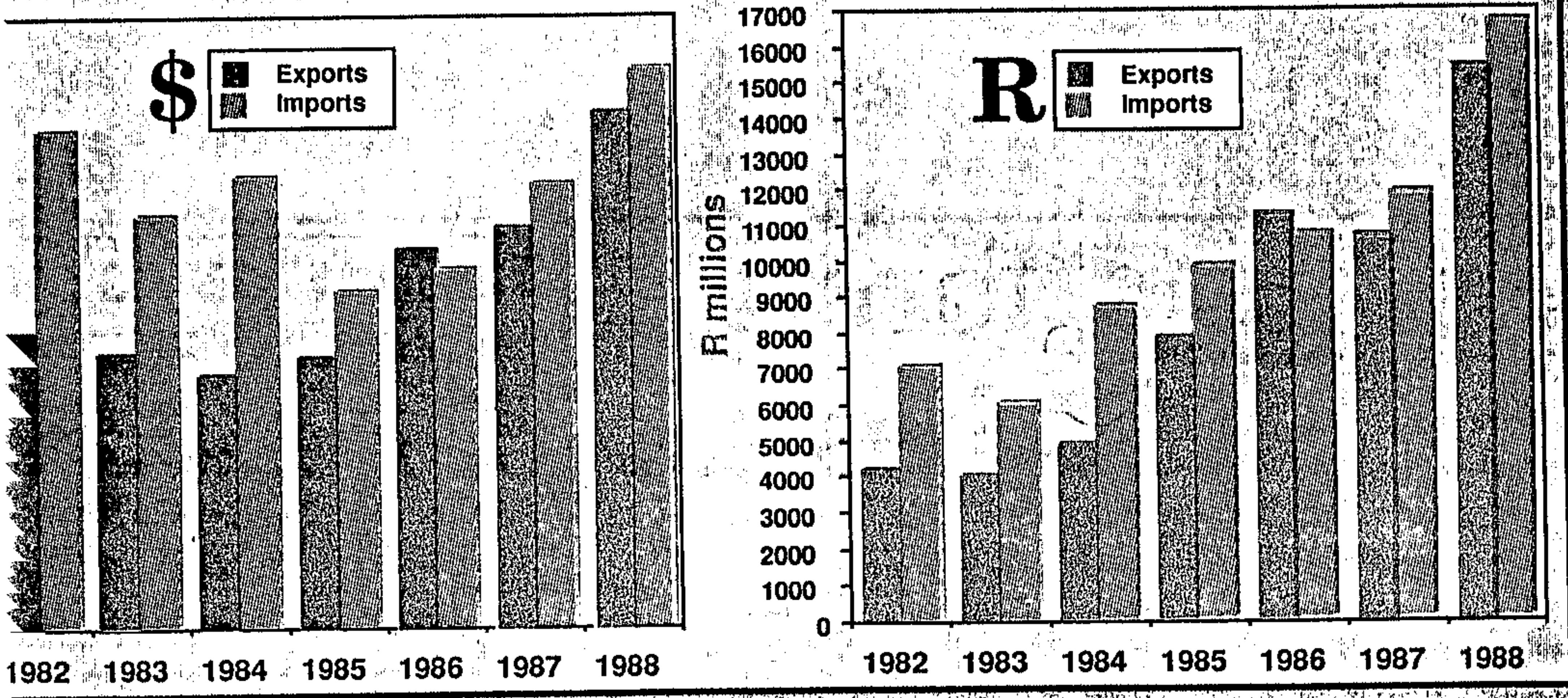


The Central Merchant Bank tracks the surge in South African trade with the European Community through the Eighties. In 1988, exports and imports stood higher than in 1982. A weakening rand exchange rate has caused political turmoil of 1985.

1992: threat or opportunity?

See #13190 (74)

SOUTH AFRICA'S TRADE WITH THE EC



Central Merchant Bank tracks the surge in South African trade with the European Community through the Eighties. In US dollar terms, after the trough caused by the sanctions of 1985, exports and imports stood higher in 1988 than in 1982. A weakening rand exchange rate has added to the boost when counted in rand terms.

...s yet to be spelt out. South Africa is interested more than most. What may be at stake is the future of what has long been South Africa's largest overseas trade route, with combined exports and imports running at a phenomenal \$2 billion a year at a last count, taken in 1988. Even sanctions and political wrath have failed to dislodge Western Europe as South Africa's No 1 overseas market. The scale of trade expansion throughout the 1980s is shown in the accompanying graphics. Global exporters have listened with alarm to speculation of a possible scenario that "Europe 1992" will turn it to be "Fortress Europe", setting up obstacles to trade intruders and referring to rely on internal trade making the most of its own considerable potential. In South Africa, because of the sheer dimensions of its trade with the EC, such talk has chilled businessmen to the marrow. Researchers at Central Merchant Bank have weighed the alternatives and come out siding with predictions that in fact the Europeans will vote to promote free trade with non-member countries on the outside.

Even then, though, they add that it can be expected that they may sprinkle around a few measures to ensure protection of their collective internal market — particularly as an umbrella for those regions nervous about exposure of traditional industries to the blasts of open competition from outside.

And there are pessimists who still persist with gloom.

"A United Europe after 1992 can become an even more important trading partner to South Africa — if politicians and entrepreneurs accept the new challenges."

Even if "Fortress Europe" emerges as a false alarm, they ask, will "Europe 1992" be forced by a majority vote to keep sanctions in place and even increase pressures for the isolation of South Africa — at least until if or when a New South Africa emerges? Will South Africa be singled out in a special exclusion clause?

The pessimists are quick to point out that Mrs Margaret Thatcher could hardly claim title as Pied Piper to the EC as a whole when she signalled that Britain was ready to lift sanctions in response to recent political events.

But there are still sharp divisions of opinion about the outlook for South Africa when the new United Europe comes out of the maternity ward.

Pessimists are countered by optimists such as Mr Ron Haywood, Deputy Director-General of the SA Chamber of Business, whose lists of pro's outnumber the con's regarding what vast trade opportunities now waver on the horizon.

"The potential for making new inroads with our exports into Europe is tremendous, especially in our new political climate," he says.

"But it is vital that we take action with forward planning now if we are going to have a chance of success."

All sides agree that South Africa needs to give a fresh urgency to the entire issue — and lay out strategies in readiness for the birth of the new giant.

Researchers at Central Merchant Bank feel the favourable climate created by State President de Klerk and the release of Mr Nelson Mande-

la, plus the support of Mrs Thatcher for the abolition of sanctions, points to the possibility of a more moderate attitude towards South Africa by Europe beyond 1992.

"However," they caution, "member countries' attitudes will be determined mainly by political developments in South Africa up to 1992."

"Not only will South African politicians play a vital role in determining a United Europe's attitude towards South Africa, but businessmen and entrepreneurs can begin to ensure a future market in Europe by starting to increase the competitiveness of their products now.

"An important duty rests on the South African authorities during this period to create a healthy domestic economic climate that will be beneficial in improving their competitiveness.

"A United Europe after 1992 can become an even more important trading partner to South Africa — if politicians and entrepreneurs accept the new challenges.

"The establishment of a United Europe in 1992 demands immediate purposeful action by businessmen and the Government," the researchers conclude.

B/D ay 8/3/90



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Slowdown may last to 1991 but strong recovery forecast

ECONOMIC slowdown in SA could extend well into 1991, but afterwards SA may face its longest and strongest economic recovery in more than 20 years, according to TrustBank's latest economic report.

With reduced inflation, lower interest rates, healthier foreign reserves and an improved foreign debt position, SA should be ideally placed to enter a renewed economic upswing in 1992.

Risk factors like political and foreign economic developments, the international economy and risks inherent in domestic economic policy, could change the picture, the report confirmed.

SA's financial situation had begun improving from the end of 1989, boosted by positive developments like a lower dollar and higher gold price, as well as by cuts in domestic spending and imports.

Foreign reserves improvements indicated SA was spending within its financial means for the first time in two years, the report said, reducing potential for inflation "as evidenced by the

NEIL YORKE SMITH

stronger rand exchange rate, the declining rate of increase in import prices and the recently lower trend in the producer price inflation rate".

These developments were "merely the beginning of a protracted period of improvement in SA's financial environment", while continued economic slowdown during the next 18 months implied import declines and a widening surplus on the current account of the balance of payments (BoP), it said.

Barring an unexpected drop in the gold price the current account surplus should exceed R7bn this year and approach R9bn next year, it said, to exceed net foreign debt repayments.

Resultant net BoP surpluses and rising foreign reserves would keep the rand exchange rate stable and precede declining inflation and interest rates.

Lower rates were expected to commence around mid-1990 and continue throughout 1991, it said.

The consumer price inflation rate was expected to fall to 13% by the fourth quarter of 1990 and reach 10% by the end of 1991, the report said. This would be accompanied by increased foreign reserves which would widen scope for lower interest rates.

"We foresee the prime rate declining to about 19% by December and about 16% by December 1991," the report added.

The report emphasised risks were prevalent in the above scenario.

Rising unemployment was likely to accompany the 1990/1991 downturn, it said, which could result in renewed unrest and violence, with negative economic effects.

There was also risk of renewed deterioration of international financial trends, especially a stronger US dollar and a lower gold price.

This was unlikely as the US economy was set for a period of low growth.

The dollar was expected to remain weak for most of 1990.

High noon for Board of Trade

Trade & Industry Minister Kent Durr's announcement last week of "two urgent investigations" into tariff policy is a shot across the bow of the Board of Trade & Industry (BTI).

It could ultimately mean the end of the road for the BTI. The twin investigations will look at the current tariff policy, administered by the board and the board's "mission and functions."

A number of commentators, including the *FM*, have questioned the efficacy of the board and have called for it to be abandoned. More recently, the board has been involved in a public row on trade policy with Durr's Department of Trade & Industry (*Business* March 2).

In view of the policy differences between the two bodies, the announcement could be interpreted as a ministerial slapdown for board chairman Lawrence McCrystal's independent policy stance.

This week McCrystal was not available for comment. However, Stef Naude, the department's director-general, was adamant McCrystal's policy difference is not with him, but with "the Cabinet."

McCrystal believes that industrial growth, exports, job creation and beneficiation of SA's raw minerals can best be achieved by a series of structural adjustment programmes for selected industries. But Naude insists government must move away from interfering with industry, adding that the adjustment programmes would require "hundreds" of bureaucrats to administer.

By launching the twin investigations, Durr is freezing McCrystal's adjustment programmes. This follows the announcement

last September of the General Export Incentive Scheme, which took away the export incentive component of the programmes. The tariff investigation will put the programmes' tariff proposals on ice, thus undermining its implementation.

Does this mean the end of McCrystal's tariff policy, and, by extension, the BTI?

Superficially, this may seem so, but the debate has many hidden elements. Durr's statement has a footnote: "Other initiatives that are equally aimed at the restructuring of basic aspects of economic policy can be expected."

Barlow Rand director John Hall says, historically, SA's tariff policy has been aimed at promoting import substitution. This has led to severe distortions.

"The system of protective tariffs forced taxpayers to subsidise certain non-competitive industries on an ongoing basis," he says. "And, when these industries became even less efficient, the protection was merely increased."

The question is: should the focus of tariff policy change?

"What one should now look at," Hall says, "is a combination of 'limited period' establishment tariffs (allowing industry to establish itself and become globally competitive) and anti-dumping formula tariffs, which should be capable of rapid introduction."

He proposes that the SA Chamber of Business should play a larger role in tariff policy. "The board now adds its own interpretation to policy changes suggested by the private sector. This could lead to distortions and delays. The chamber could help determine tariff policy by allowing its industry members to launch and finance their own investigations into proposed structural changes in their areas of operation."

There is a precedent. Last year, the stainless steel industry funded a R240 000 "pipeline" investigation, requested by the board.

"The chamber's credibility will ensure

that special pleadings by vested interest groups will not distort national policy, while the board and the department could retain their supervisory roles," Hall says.

Ron Haywood, the chamber's deputy executive director, says tariff policy should be reviewed continually. "The Uruguay round of Gatt talks, Europe 1992 and the changes in eastern Europe are a few of the issues that necessitate a relook at SA's tariff policy. The chamber is prepared to assist with the investigations." *Arnold van Huyssteen*

SAA F/M 9/3/90

The longest night

When 250 passengers boarded SA Airway's late night flight on February 28 in Johannesburg, they thought they were headed for Cape Town. Instead, they entered the twilight zone.

Thirteen hours and thousands of air miles later, they finally landed in Cape Town, after side trips to Port Elizabeth and back to Johannesburg.

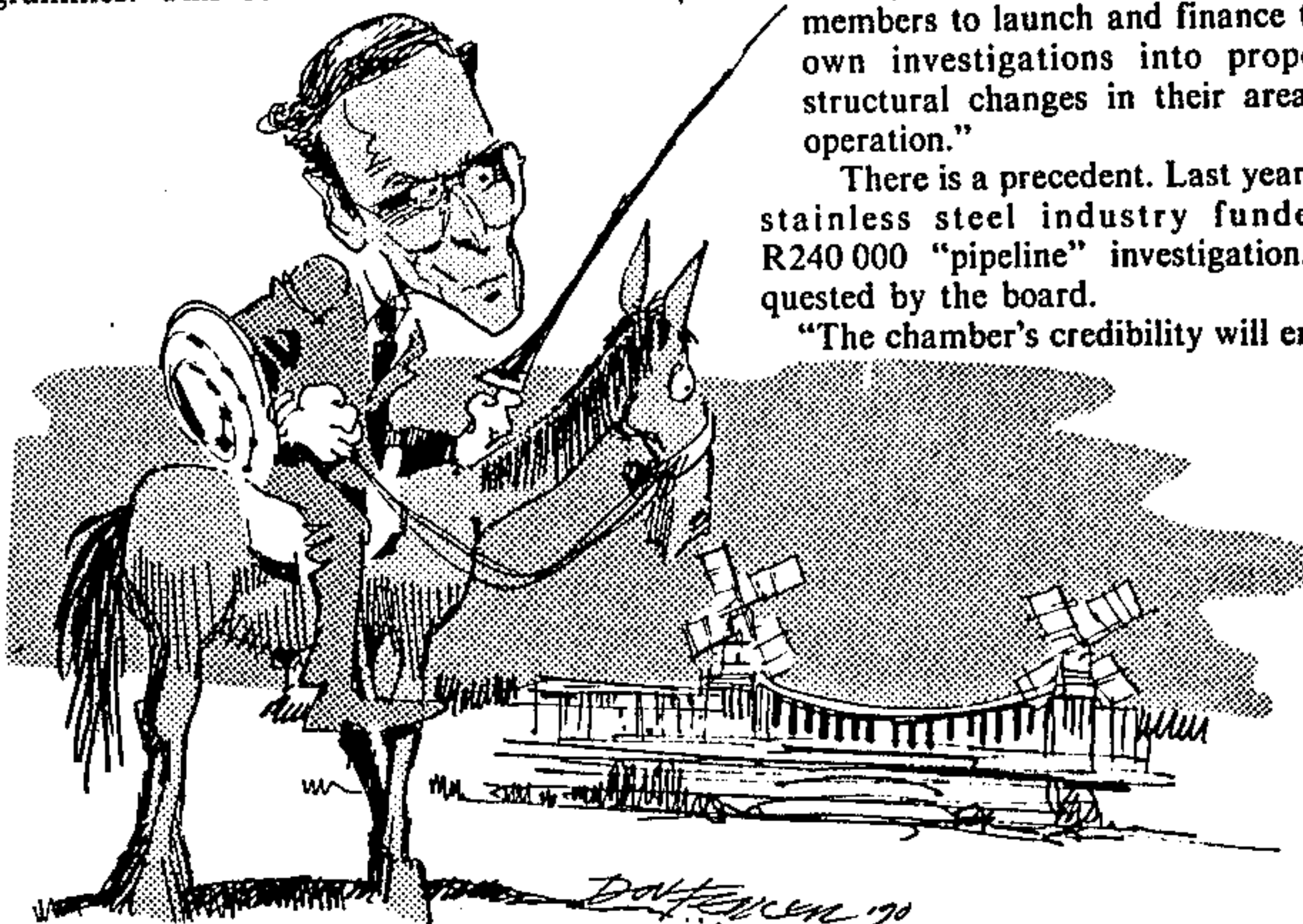
The flight, plagued by bad weather and inadequate landing facilities, was enough of a nightmare all round to prompt SAA into cancelling its late night flights in and out of D F Malan Airport until further notice. People with late night bookings will be accommodated on other flights.

The bizarre ordeal highlights the take-it-or-leave-it attitude so common to monopolies — government has not allowed other airlines to compete with SAA on the Cape Town-Johannesburg service.

According to accounts from two passengers aboard the flight, there was no cabin service because it was a cut-rate flight, so passengers went for hours without refreshments. There were a number of young children on board and one mother ran out of nappies for her baby. When a passenger with the flu asked for a blanket, she was told there were none left and was offered a tablet instead. The blankets were only for mothers with children, a flight attendant said. Desperate smokers, cooped up for six hours in one stretch, resorted to smoking in the toilets. The cabin crew reprimanded them.

The airline says the "problem" was aggravated by the closure of D F Malan's main runway for repairs. A second runway, not equipped with an instrument landing system, couldn't be used because of the bad weather.

"As the weather is too unpredictable at this time of year, it has been decided to cancel all late night flights to avoid a repetition of the problem," SAA says.



Rules row may delay Safex

THE chances of Safex (SA Futures Exchange) starting operations on its target date of April 2 suffered a setback this week when two key sections of the exchange's draft rules failed to get the unanimous support of members.

A vote at a Safex general meeting on Wednesday gave the thumbs up to all the other proposed rules, but turned down these two. *BIDM 9/13/90*

The first is the issue of joint liability — a contentious one among banks — which would have obliged clearing members to put up a maximum of R3m each to bail out any defaulting member.

The second would have obliged clearing members to guarantee the trades of any non-clearing member that had exceeded its trading limit. However, further debate on this point is expected.

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ROBERT GENTLE

Safex assistant GM Mike Henegan expressed disappointment at the opposition to these two rules, especially the one on joint liability.

"We would be the first futures exchange in the world not to have some sort of joint guarantee system among clearing members," he said.

As for the question of trading limits, it would mean trades could not be matched until all trading had ended for the day.

Henegan said that although the office of the Registrar of Financial Institutions had agreed to allow Safex to start operating on April 2, even without a licence, the question now was how.

A senior source close to Safex, who de-

□ To Page 2

Safex *BIDM 9/13/90*

clined to be named, said Safex was now exposed to the type of danger that led the Hong Kong futures exchange to default after the 1987 crash.

In that scenario, the clearing house was unable to guarantee the trades of its clearing members.

Firstcorp vice-president Greg Grigora-

74 □ From Page 1
tos dismissed the argument that the two guarantee issues, particularly that of joint liability, would damage the market.

"Clearing members should be strong enough on their own. At the end of the day, if market participants are satisfied with the integrity and financial strength of the market, they will deal in it," he said.

Culture shocks face the world village

CORPORATE culture is gaining renewed prominence in organisations across the globe.

The removal of international trade barriers, the arrival of foreign competitors and the growing globalisation of markets have forced businesses into new strategic positions.

The University of SA's Martin Nasser, currently a visiting professor at the Wharton School of the University of Philadelphia, says a key question for both US and SA businessmen has become how to get, keep and gain market share.

The answer, he says, is to become more competitive and this often means completely overhauling the organisation in order to move towards optimisation. At the core of

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S/Times 11/3/90

this renewal is the issue of corporate culture.

"The starting point of culture is the mission — the direction determiner for the business. A clearly formulated mission and vision not only ensures that management knows where it is headed, but, if well articulated, also acts as a rallying point for the total organisation.

"Ironically, the mission statement despite its vital contribution often becomes no more than a paper document. Its inability to come alive is

often the result of inappropriate structures, such as job descriptions, hierarchy and protocol, all of which describe how people must behave in a company."

In this regard, Professor Nasser says delayering an organisation by removing excess managers or workers means the remaining individuals' jobs are enriched and expanded.

One result of such delayering could be the unleashing of entrepreneurial thinking and creativity.

Professor Nasser says that the de-

gree of lateral thinking that has emerged and the benefits that have been recorded have caused a storm of enthusiasm for the entrepreneurial concept in business in America.

In addition, the culture of a company must stress recognition and reward patterns as the standard annual salary increase or a bonus are no longer relevant.

"Changing the culture is not a simple process. But since it has proved to be the key to some of the most successful national and international turnarounds, it rightly demands the chief executive's prime attention.

"The combination of elements in shifting culture — mission, structure, delayering, entrepreneurship, recognition and rewards — will, if harnessed correctly, ensure a substantial competitive edge."

Hansard
13/3/90

would geographically speaking be part of Lesotho should the normal contour of the mountain be followed as the international border as proposed by Lesotho. In terms of the above-mentioned agreement the triangle has always been RSA territory.

- (b) The difference of opinion will again receive attention as soon as talks can be held with the new Minister of Foreign Affairs of Lesotho to discuss the matter.
- (c) The following steps have already been taken or are now envisaged:
- (i) On 30 June 1989 a Joint Commission of Enquiry visited the area. After completion of the enquiry the officials involved in the Commission came to the conclusion that the matter would have to be resolved at Government level. Lesotho consequently requested that the matter be referred to me and Colonel Thaabe Letsie of the Military Council of Lesotho for consideration.
- (ii) The Department of Foreign Affairs has on various occasions since then tried to further the discussions.
- (iii) At the beginning of 1990 it was once again suggested that a meeting be arranged in Lesotho as soon as possible after the opening of the RSA parliament. In February it was proposed to Lesotho that the Deputy Minister of Foreign Affairs visit Lesotho for this purpose on 26 or 28 March 1990. Because of the changes in the Military and Ministers' Councils of Lesotho soon afterwards and specifically the retirement of Colonel Thaabe Letsie as Minister of Foreign Affairs, Lesotho's reaction is at present being awaited as to when a meeting with the

HOUSE OF ASSEMBLY

new Minister of Foreign Affairs can take place.

(2) Falls away.

Compulsory transferable pension scheme

*11. Mrs C H CHARLEWOOD asked the Minister of National Health and Population Development: *Hansard 13/3/90*

Whether any consideration has been given to the establishment of a compulsory transferable pension scheme; if so, (a) what consideration, (b) when and (c) with what result; if not, why not?

B422E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

Yes,

- (a) the matter was investigated by various committees over a number of years,
- (b) over the period as from December 1964 to February 1987,
- (c) no positive results could be achieved because of opposition to such a scheme from various bodies and/or organisations.

Distribution of free condoms

*12. Mrs C H CHARLEWOOD asked the Minister of National Health and Population Development:

- (1) Whether funds are allocated by the State for the distribution of free condoms; if not, why not; if so, what funds; *74*
- (2) whether there are any (a) surcharges and/or (b) duties on imported condoms; if so, what surcharges and/or duties;
- (3) whether, in view of the increasing number of cases of Aids, she will take steps to have such surcharges and/or duties withdrawn; if so, (a) what steps and (b) when; if not, why not?

Hansard 13/3/90 B423E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

- (1) Yes, for the purchase of 21 000 000 condoms.
- (2) (a) and (b) yes,
— surcharge: 20%
— import duties: 25%

- general sales tax: 13%
— provincial handling fee: 8%

- (3) (a) and (b) yes, the matter has already been discussed with the State Tender Board and with Customs and Excise of the Department of Finance, but is to be placed on the agenda for discussion again.

Robben Island: prisoners on hunger strike

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Whether any prisoners held on Robben Island have been on a hunger strike since 1 January 1990; if so, (a) how many prisoners are involved, (b) when did they (i) start and (ii) end their hunger strike, (c) what were the stated reasons for the hunger strike and (d) what action was taken by the authorities to end it? *Hansard 13/3/90*

B424E

The MINISTER OF JUSTICE:

Yes.

- (a) The numbers varied from 303 to 344.
- (b) (i) 26 February 1990.
(ii) 8 March 1990.
- (c) The prisoners offered a large number of complaints and demands as reasons for the hunger strike. These varied from complaints about privileges and classification to demands for release.
- (d) The authorities acted consistently in terms of internationally accepted practices. These varied from the application of the Declaration of Tokyo to discussions and my request to the acting Judge-President of the Supreme Court of the Cape of Good Hope, The Honourable Judge M R de Kock, to deal with the complaints of the concerned prisoners. Judge De Kock's report has now been received and is presently being studied. I also refer the honourable member to a press statement issued by my office last night.

Black pupils: technical education

*14. Mr K M ANDREW asked the Minister of Education: *Hansard 13/3/90*

Whether his Department provides technical education for Black pupils at secondary school level; if not, why not; if so, (a) what technical education, (b) where, (c) how many pupils can be catered for and (d) how many pupils are enrolled for technical education at secondary school level? *Hansard 13/3/90*

B425E

The MINISTER OF EDUCATION:

- (a) Education for the technical field of study. Pupils who follow the technical field of study have to take Technical Drawing as well as at least one technical subject (Woodworking, Welding and Metalwork, Electrician work, Electronics, Fitting and Turning, Motor Mechanics, Motor Body Repairing, Plumbing and Sheeting Metalworking, Bricklaying and Plastering).
- (b) At comprehensive schools countrywide located in the different regions as follows:
- | | |
|--------------------|----|
| Diamond Fields | 2 |
| Highveld | 15 |
| Johannesburg | 12 |
| Cape | 7 |
| Natal | 2 |
| Northern Transvaal | 3 |
| Orange-Vaal | 4 |
| Orange Free State | 4 |
- (c) Workshops are designed to accommodate 100 pupils per field of study. With the existing facilities technical education can be provided to approximately 22 500 pupils at 49 schools.
- (d) 9 313 pupils in Std 6-10.

Registrar of Reporting Organizations

*15. Mr D J DALLING asked the Minister of Justice: *Hansard 13/3/90*

- (1) Whether he has appointed a Registrar of Reporting Organizations and Persons in terms of section 2 of the Disclosure of Foreign Funding Act, No 26 of 1989; if so, what (a) is his name and (b) are his qualifications; *252*
- (2) whether the Registrar of Reporting Organizations and Persons has submitted a report in terms of section 7(1) of the said Act; if not, (a) why not and (b) when is it anticipated that the report will be completed?

B426E

HOUSE OF ASSEMBLY

Hansard
13/3/90

would geographically speaking be part of Lesotho should the normal contour of the mountain be followed as the international border as proposed by Lesotho. In terms of the above-mentioned agreement the triangle has always been RSA territory.

(b) The difference of opinion will again receive attention as soon as talks can be held with the new Minister of Foreign Affairs of Lesotho to discuss the matter.

(c) The following steps have already been taken or are now envisaged:

(i) On 30 June 1989 a Joint Commission of Enquiry visited the area. After completion of the enquiry the officials involved in the Commission came to the conclusion that the matter would have to be resolved at Government level. Lesotho consequently requested that the matter be referred to me and Colonel Thaabe Letsie of the Military Council of Lesotho for consideration.

(ii) The Department of Foreign Affairs has on various occasions since then tried to further the discussions.

(iii) At the beginning of 1990 it was once again suggested that a meeting be arranged in Lesotho as soon as possible after the opening of the RSA parliament. In February it was proposed to Lesotho that the Deputy Minister of Foreign Affairs visit Lesotho for this purpose on 26 or 28 March 1990. Because of the changes in the Military and Ministers' Councils of Lesotho soon afterwards and specifically the retirement of Colonel Thaabe Letsie as Minister of Foreign Affairs, Lesotho's reaction is at present being awaited as to when a meeting with the

new Minister of Foreign Affairs can take place.

(2) Falls away.

Compulsory transferable pension scheme

*11. Mrs C H CHARLEWOOD asked the Minister of National Health and Population Development: Hansard 13/3/90

Whether any consideration has been given to the establishment of a compulsory transferable pension scheme; if so, (a) what consideration, (b) when and (c) with what result; if not, why not?

B422E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

Yes,

(a) the matter was investigated by various committees over a number of years,

(b) over the period as from December 1964 to February 1987,

(c) no positive results could be achieved because of opposition to such a scheme from various bodies and/or organisations.

Distribution of free condoms

*12. Mrs C H CHARLEWOOD asked the Minister of National Health and Population Development:

(1) Whether funds are allocated by the State for the distribution of free condoms; if not, why not; if so, what funds;

(2) whether there are any (a) surcharges and/or (b) duties on imported condoms; if so, what surcharges and/or duties;

(3) whether, in view of the increasing number of cases of Aids, she will take steps to have such surcharges and/or duties withdrawn; if so, (a) what steps and (b) when; if not, why not?

Hansard 13/3/90 B423E
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B426E

Devious routes (74)

Exactly who bought SA's R57,9bn exports and sold its R44,5bn imports in 1989 is not known. As a result of international sanctions, trade is frequently routed through countries where SA's policies are less controversial, to avoid identifying the source or destination of goods and commodities.

But official figures from our trading partners show the major industrialised countries still play a vital role.

West Germany remained top trading partner in 1989, with imports and exports marginally down from 1988 to just below US\$5bn. Based on annualised estimates to September, second largest was probably Japan, at about \$3,9bn (1988: \$3,8bn).

Trade with the US, which headed the list until 1986, was about \$3,3bn, up on 1988's \$3,1bn. Also worth about \$3,3bn was Italy, 33% up on 1988's \$2,5bn and whose trade has shown the most rapid growth. Trade with the UK was valued at \$3,2bn, about the same as the previous year.

The Republic of China (Taiwan) does not make figures available. But IMF statistics show a climb between 1982-1988 from \$400m to \$1,2bn. "Exports," says SA Chamber of Business trade secretary Bess Robertson, "were mainly base metals and

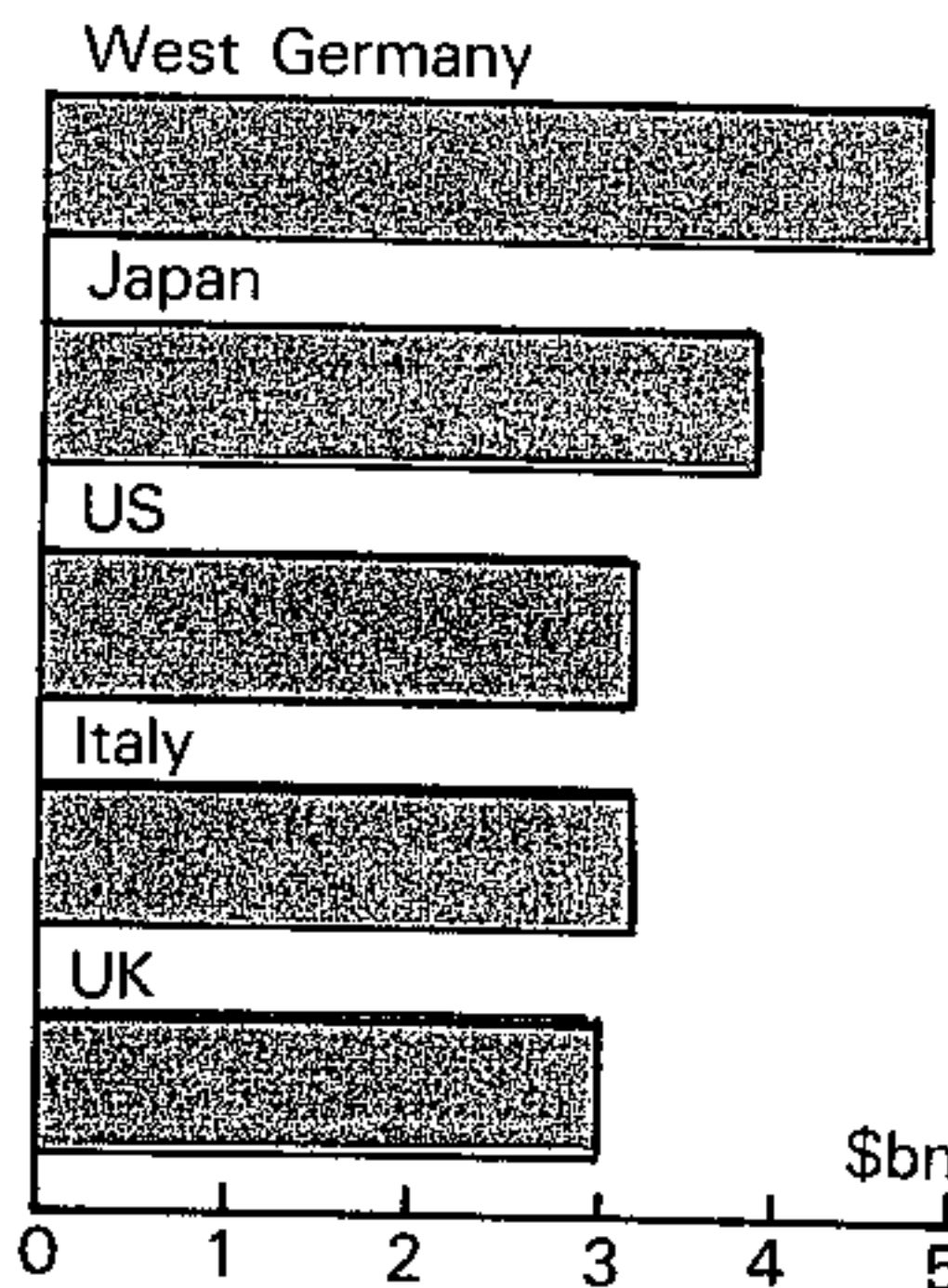
minerals, while major imports were machinery and electronics."

Says Safto economist Bruce Donald: "Africa has provided other markets, particularly for manufactured goods such as mining equipment and chemicals, through to consumables." The main African markets are Zaire, Zimbabwe, Malawi, Zambia, Ivory Coast, Mozambique and Mauritius.

However, most trade is still with the UK,

In business

SA trade 1989



Europe, Japan and the US. Their official 1989 statistics on imports and exports show:

- West Germany: -2,2% to \$3,3bn and -2% to \$1,7bn;
- Japan: -5% to \$1,9bn and +5% to \$2bn;
- US: no change at \$1,7bn and \$1,6bn;
- UK: slight fall in imports to \$3,2bn and a slight rise in exports to \$1,5bn; and
- Italy: +12% and +27,3%.

The composition of exports and imports to various countries is not available.

"Unclassified exports, including gold, remain the major category, amounting to \$9,3bn compared to \$8,7bn in 1988," says Donald.

Most imports fell into the category which includes machinery and mechanical appliances, electrical equipment, TV and image and sound recorders and reproducers. This was worth \$5,1bn (\$4,6bn).

SA jewellers set to take on world

W/EMR643 17/3/90 74

By TREVOR WALKER
Business Staff

SOUTH Africa, the world's largest producer of gold and diamonds, has given its jewellery industry free rein to tackle the rest of the world's jewellery manufacturers head on.

And, in Cape Town, where the industry started, there was much jubilation following the latest moves in yesterday's national budget.

Cape Town's largest jewellery manufacturer, Oboler and Son's executive manager Mr Peter Gross, said retail prices could fall by up to 16 percent if the full R37 million concession announced by Finance Minister Mr Barend du Plessis in his budget was passed on to the consumer.

Mr Du Plessis abolished the long-standing excise duty on jewellery which included imitation jewellery.

Mr Gross said the duty was introduced in the mid-1970s and rose from around 10 percent to a peak of 35 percent and the abolition of the present 20 percent

duty was a sensible move.

He said it was likely that it would improve the local market both in demand for jewellery and productivity within the industry.

A strong local market would lead to increased exports and he hoped the benefits of the abolition of the duty would be passed on to the consumer.

Professor John Morris of the Department of Accounting at the University of Cape Town said at Sanlam's post budget discussion this week that in these changing times it had to be realised that it was the poor who worked for the rich and it was demand for the product they produced that led to increased employment.

Mr Du Plessis said in his speech the reimposition of the excise duty would be considered if after three years the results proved to be unsatisfactory.

He said he had decided to remove the duty to promote job creation, the expansion of the industry and promote the beneficiation of South African mining products.

Mr Gross said jewellery manu-

facturers had had to add 20 percent to the price of their products to pay the duty to the State.

It applied to the highest price of any one range of articles produced and discounts, rebates and so forth within the trade had to reflect the 20 percent tax at the highest price.

"If we were to give the jewellery away we still had to pay 20 percent on a fictitious price."

The Reserve Bank recently announced that the jewellery trade would be allowed to buy gold from commercial banks rather than order from Pretoria, but industry sources said this had not worked and if Mr Du Plessis were to re-evaluate the whole question of bullion purchases by the trade then the country's competitive position would be materially improved.

Gold could be bought cheaper in Italy than in Cape Town and it was only the fear of smuggling and asset escape that had forced the authorities to maintain a premium on the working of the country's largest and most famous export.

Sentex oils way to savings

SIGNIFICANT foreign exchange savings and good export potential could be achieved by a South African-developed synthetic lubricant for the textile industry.

Named Sentex, the yarn lubricant has been developed by the Senfluid division of Karbochem in co-operation with local industry. It provides an alternative for expensive synthetic imports and locally made mineral-based lubricants.

According to Senfluid product manager Casper Pretorius, the three major benefits of Sentex are its stain-free qualities, local production and cost effectiveness.

Business Times Reporter

"With these benefits we can aim at gaining a major share of the local yarn lubricant market, worth about R3-million a year.

"Export possibilities are also being investigated so that Sentex can emulate other Senfluid oil-free products that are creating major interest in environmentally-conscious Europe."

Sentex is substantially diluted before it is applied to textile raw materials to significantly reduce fly-waste and static, which can cause costly problems for

textile manufacturers.

Mr Pretorius sees many application possibilities opening up within the textile industry, including carpet-weaving and the lubrication of various pieces of machinery.

Applications in other industries will also be investigated, he says.

"Senfluid is confident that the price advantage over imported synthetic yarn lubricants will work in our product's favour.

"Its stain-free characteristics should also make it very competitive with SA mineral-based lubricants that cannot offer the same non-stain advantage."

5/1/81
18/3/80
comes

74

Anglo starts big UK campaign

20/3/90 The Star Bureau (74) (20)

LONDON — Anglo American has spent an estimated R250 000 on the first two advertisements in what is to be an extensive publicity campaign in the British press.

Anglo says the advertisements, which appeared in The Times and Guardian yesterday, are aimed at encouraging "healthy debate" about investment opportunities and political change in the "new South Africa".

It has also published a booklet, "Shaping a future South Africa — a Citizen's Guide", which readers can receive free on request.

Anglo believes the cost is modest for what is essentially the most visible public campaign yet for political dialogue by a South African group.

As an employer of 300 000 people, the company believes its views on a range of issues can make a contribution to the debate. And, as a business, it is striving to point out what it sees as the

folly of wholesale nationalisation and one-party politics.

The Times ad, different from the one in the Guardian and the more hard-hitting of the two, quotes sections of the ANC's Freedom Charter referring to work, food and houses for all.

Anglo points out that South Africa's growth rate is only 2 percent, while inflation runs at 15 percent. Sixty percent of the population is under 20 years of age.

"If these people are to have the jobs, houses and education they rightfully expect in the future, a huge economic recovery must take place," says the ad. "It will not happen if South Africa merely substitutes one State-controlled, interventionist society for another.

"Any new constitution, we believe, must not only offer freedom of opportunity to all South Africans, it must welcome and encourage free enterprise and wealth creation. It must retain and attract foreign investment."

Economists worried by low fixed investment

74

B1 Day 22/3/90
NEIL YORKE SMITH

HIGH interest rates, poor tax structures and restrictive government policy contributed to the low rate of growth in SA's capital assets last year, economists said in interviews yesterday.

Gross domestic fixed investment in SA increased by 4% in real terms to R26,37bn last year, less than half the 8,6% increase during 1988.

This rate of increase was inadequate if SA was to fulfil its underlying long-term growth potential, they said.

JCI economist Ronnie Bethlehem said productive fixed investment, which created jobs, improved output and stimulated growth, was vital if the economy was to strengthen in the long term.

"A country which reduces fixed investment spending is effectively eating its seed-corn," he said. This would weaken its basis for growth, he added.

Nedbank economist Edward Osborn was disappointed at the low rate of increase in growth in capital formation.

"However, it is encouraging to see relatively large increases in investment in the mining (6,7%) and manufacturing (14,9%) sectors."

Many manufacturing concerns were already operating at high levels of capacity and needed capital investment to improve production, he said.

Bethlehem said the problem was that SA, which did not generate sufficient domestic saving to finance capital formation, was denied access to foreign capital by financial sanctions.

SA Chamber of Business economist Bill Lacey said the low rate of growth did not augur well for job creation facilities.

Those interviewed attributed low growth in fixed investment spending to

high interest rates, poor tax structures and restrictive government policy, including the import surcharge and the loan levy.

Osborn said government had been trying to consolidate the economy and protect the balance of payments.

Econometrix's Azar Jammine said existing tax structures encouraged mal-investment.

"Because of tax structures many firms are chasing paper assets, investing in areas they would otherwise avoid and not looking at long-term projects."

The long-term implications were that the production of goods and services would become more difficult as SA's capital resources were eroded, he said.

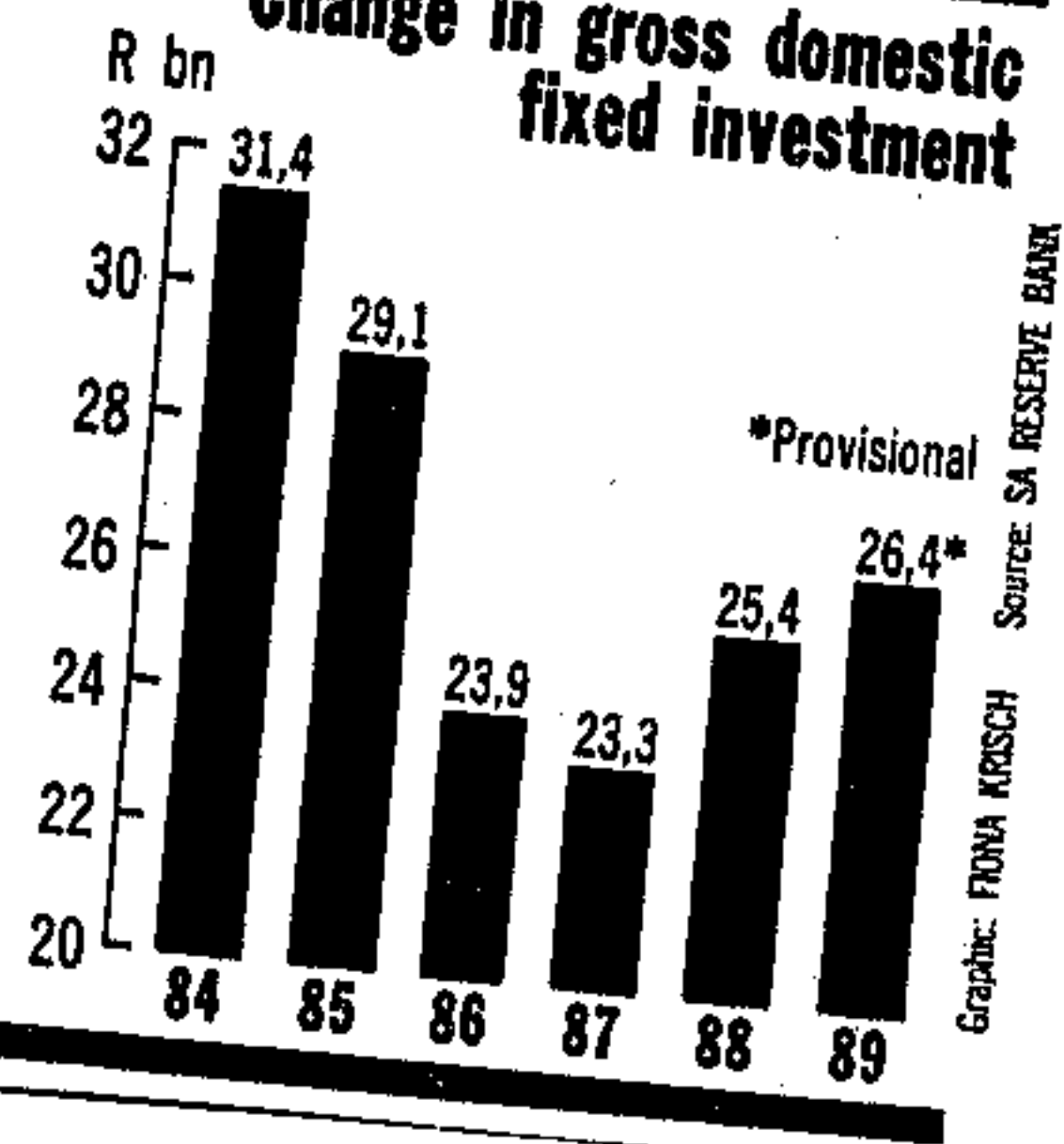
The view generally seemed to be that the recent Budget left little scope for increased fixed investment spending.

Bethlehem said the Budget was not designed to stimulate the corporate sector.

And Osborn said: "Also, given the BoP constraint, current interest rates are likely to remain until the balance of payments situation improves."

However, changes relating to the mining industry, particularly regarding taxation of listed investments held for more than 10 years, could free some capital for redirection into capital investment, he said.

Change in gross domestic fixed investment



Safex exchange seat now R50 000

ROBERT GENTLE

74

WITH barely a week to go before clearing operations commence at Safex (SA Futures Exchange), an apparent late surge in interest from prospective market players has pushed the price of a seat on the exchange to R50 000.

This is double the R25 000 price at which the first batch of 80 seats was issued to the public in October 1988. A second issue of 40 seats in December 1989 was priced at R35 000. *B10am 25/4/90*

Safex operations manager Patrick Birley attributed the recent price increase to the desire by hitherto undecided prospective participants to get into the market before it started in earnest.

Seat holders enjoy membership of the exchange and the trading advantages that go with it, as well as voting rights in Safex affairs.

Seats are tradeable in the market like shares, with the price fluctuating with demand for membership of the exchange. Most of the 120 existing seats are held by commercial and merchant banks.

The only way more seats can come on the market is through a rights issue, which has to be approved by at least 75% of Safex members.

Meanwhile, all systems were go for the Safex to start clearing operations next week through its clearing company Safcom, Birley said.

Third World aid spin-offs for SA

74

By Robyn Chalmers

THE World Bank's allocation of \$3.8-billion to Africa for infrastructural development in the 1989/90 fiscal year could have major spin-offs for SA. *S Times 25/3/90*

SA Foreign Trade Organisation (Safto) research manager Paresh Pandya believes SA will benefit handsomely from this and other money allocated by international aid organisations to Third World countries.

"New opportunities for SA civil engineers, building contractors and project engineers are emerging as a result of the increasing amount of finance being given by these organisations.

"The aid is mainly for projects covering rural development, energy, health services, industry, mining, transport, telecommunications, urban development and water supply."

The most serious obstacle to infrastructural development in the Third World is the lack of foreign exchange. On average, Mr Pandya says about 40% of expenditure on

infrastructural projects is on imports.

Without the necessary foreign exchange to pay for these imports, he says, such development is virtually impossible.

Mr Pandya says that, contrary to popular belief, the most serious obstacle to SA stepping up economic relations with the rest of southern Africa is not politics but a shortage of foreign exchange.

"Foreign aid is specifically aimed at circumventing the problems posed by shortages of foreign exchange. In fact, the foreign aid supplied by the World Bank may be used only to finance imports."

While foreign aid in southern Africa presents major opportunities for SA, Mr Pandya says local businessmen are as yet unaware of the possibilities.

The World Bank is one of a number of organisations he is investigating. Similar research will be conducted to identify opportunities for SA suppliers of educational and related products.

Safex clearing operations' start-up set

THE deadlock over trading limits and joint guarantees that has been casting a cloud over the opening of Safex (SA Futures Exchange) has been broken. (74)

Clearing operations will now start on April 30. BIDcom 26/3/90

This is almost a month later than the April 2 target date and is apparently a compromise between Safex and certain clearing members who need more time to get their systems fully operational.

Confirming the date, Safex CE Stuart Rees said: "This date is full and final. Market participants are being informed of the impending switch-over."

Safex's clearing company Safcom would start clearing operations on April 30 and the "new" market would operate under the same Safex rules which would eventually apply to the formal market.

Meanwhile, in the interim period from April 2 to April 30, Safex will be running its

ROBERT GENTLE

systems in parallel with the present informal market using live data.

Daily reports will be received from clearing members willing to participate in this "dry run".

On how the hitherto intractable problem of joint guarantees among clearing members had been solved, Rees said: "We are close enough to an insurance solution that should supplant that of joint guarantees."

Similarly, a solution to guaranteeing trades above a certain limit was under study.

It would involve the concept of "lot-sizes", which would be at the discretion of clearing members and have essentially the same effect from a guarantee point of view.

Finality on these two issues is expected shortly.

Safex takes the reins of SA futures market

THE informal futures market will today see the last day of trade under the auspices of Rand Merchant Bank (RMB) which, on Monday, will hand over the reins to SA Futures Exchange (Safex).

Safex's clearing company Safcom, will, in effect, become the custodian of the market.

Its clearing members, mainly banks and the JSE, will assure the financial integrity of the market. RMB will simply end up as one of the 14 or so clearing members, albeit the most active.

There was much praise in the market yesterday for RMB, which single-handedly introduced financial futures to the market three years ago.

An RMB spokesman said they were pleased the market had come of age but were too busy with preparations to be sentimental about it.

RMB will forego the lucrative clearing income — about R50 000 a day depending on market volumes — it enjoyed as official

ROBERT GENTLE

clearer. Safcom will now pick up this revenue.

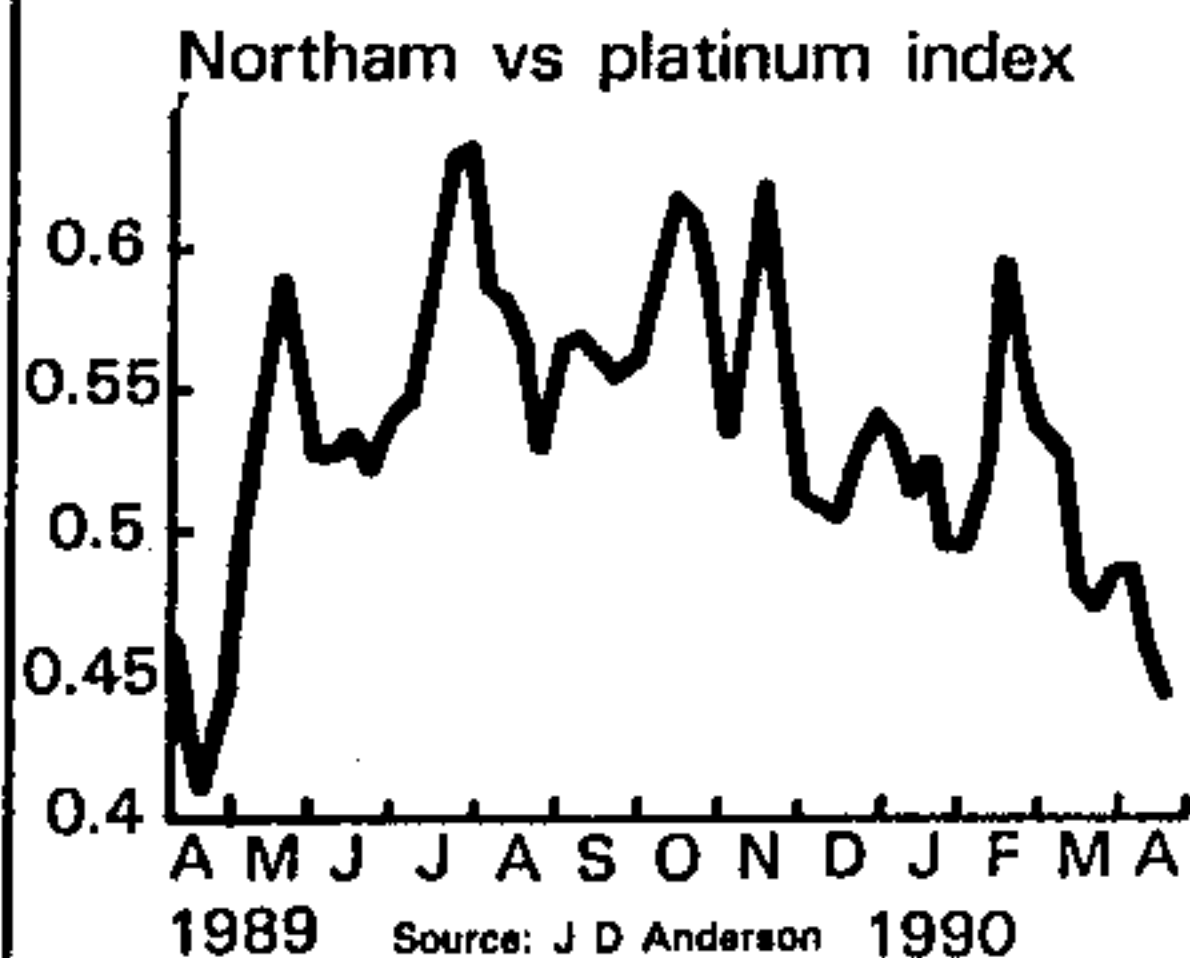
The RMB spokesman said the three years had been a profitable from both a monetary point of view and the experience gained. He pointed out that not a single cent had been lost on any defaulting trade despite two stock market crashes.

Futures brokers welcomed the switch-over to a more formal market, which now needs only a licence from the Registrar of Financial Institutions to become a fully fledged exchange operating within the Financial Markets Control Act.

A trader from First Financial Futures said volumes could jump 30% by the end of the year. A trader from Holcom Futures took the opposite tack, saying most of the key players were already in the market.

There are contingency plans for RMB to "take back" the market from Safex should things go wrong but few observers think this is likely.

Lagging the sector



to an annual rate of 250 000 oz by fiscal 1994. Financial self-sufficiency is expected within the first two years from the start-up and a maiden dividend seems possible in the year to June 1993.

There are at least two factors affecting the Northam share price at present. Firstly, the market's general nervousness, particularly on the political front, is dissuading investors from looking further than a year out. Shares which are not yet yielding returns are being cold shouldered. Secondly, a line of 100 000 shares came on to the market last week which appears to have been fully placed. This volume compares with the past average monthly turnover of 116 000 shares and has obviously had a depressing influence on the price.

The foreign seller has been in the market for several weeks. And now his nervousness is no longer a factor, the share price seems well placed to rise.

Northam shareholders should also profit from the rights issue. GFSA group companies normally pitch the price of their rights some 10%-15% below the market. At the current price of 2 425c, the sell-off seems to have been overdone and the share is probably at a bottom in the present cycle.

Gillian Findlay

NORTHAM

Bottoming out?

In the three weeks since Northam delivered its quarterly progress report, the developing mine's shares have fallen by nearly 8% against the JSE platinum index. At that time, chairman Alan Wright said R600m would be needed and, though he was not specific on the timing, it now appears the company is targeting a mid-June issue date.

This will be the last and largest of three rights issues needed for financing the developing mine — the first raised R256m in April 1987 and the second R274m in August 1988. If the three amounts are discounted at a rate of 16%, they equate to a total of R736m in June 1986 terms against parent GFSA's original estimate of R556m.

The market is clearly concerned ahead of the latest rights issue, but is the extent of the markdown justified? Essentially, nothing much has changed for the company. The total capex requirement is admittedly close to a third more than the original estimate but this should not come as any surprise. By June 1988, the overrun was 56% as a result of a more rapid staff build-up than planned, the advancing of some expenses and imported inflation with the rand's collapse.

A fairly detailed document released in January ahead of the listing on the International Stock Exchange in London in February revealed that platinum production is still scheduled to start in fiscal 1992, building up



TRADE & INDUSTRY

Durr's new deal

■ There's a fresh realism and emphasis on serving the private sector



There's nothing like a new broom to sweep out rusticated thinking. When FW de Klerk took office, he promised a spring clean that would go far beyond merely changing the bed lin-

en at Tuynhuys.

When it came, few were prepared for the sweeping political reform he instituted. Likewise, when he addressed freer markets and a more liberal economic dispensation, not many believed he could pull it off — even if we never doubted his sincerity.

His Cabinet appointees should have been, but probably weren't, a portent of things to come. By naming Wim de Villiers to head privatisation and economic restructuring, moving Deputy Minister of Economic Affairs George Bartlett to Transport and putting long-time maverick Kent Durr in charge of Trade & Industry, the president showed he meant business in more ways than one.

Durr, for one, has not disappointed. Since taking office in September, Durr (formerly deputy minister of finance) has up-ended departments throughout his portfolio, putting paid to a number of holy cows.

Starting with a flourish, he scrapped the Travel Agents' Board; removed barriers to entry for estate agents while giving notice that the Estate Agents' Board itself is under scrutiny; reconstituted the boards of the SA Bureau of Standards, Satour, CSIR and Industrial Development Corp; reviewed import surcharges and technology policy; streamlined foreign trade missions; simplified the National Building Regulations; addressed vertical integration in the liquor industry; restructured the Decentralisation Board; reformed the Board of Trade & Industry (BTI); and launched an investigation of our antiquated tariff policy.

Not bad for a mere eight months.

Behind the high energy restructuring is a simple objective. Assisted by DG Stef Naudé (ex-chairman of the Competition Board), Durr is giving a more streamlined focus to industrial and trade policy and harmonising it with other key government departments and fiscal and monetary measures.

The upshot, if Durr is allowed his head (and there is no sign to the contrary), will be a more vigorous, stronger economy capable of higher growth in the face of a deteriorating or, at best, unchanged economic scenario.

"Recent industrial policy has moved through three essential stages," he says. "First we had the import replacement of the Seventies and Eighties, followed by the sanctions-driven, self-sufficiency period. Now we are entering the third stage of becoming a winning nation through increased exports of value-added manufactured goods."

To achieve this, he is transforming the department into a service-orientated body for the private sector.

"We are aiming at a complete culture change. Priority is to cut down on spending and bureaucratisation. We are also tightening up and rationalising management by integrating the roles and functions of the ministry, department, BTI and 11 peripheral bodies that fall under my jurisdiction."

The focus is on exports. Durr, after Pik Botha one of SA's most widely travelled politicians ever (he has visited or lived in 60 countries), is taking a personal interest in establishing, cementing and expanding trade links in the EC, eastern Europe, Africa and elsewhere. He recently visited Poland with Naudé.

Broader matters receive similar attention. "Consumerism is a priority. We plan to streamline the functions of the Consumer Council and Harmful Business Practices Committee, giving the latter more statutory teeth. As a developing Third-World nation we must balance the power of trade against the needs of unsophisticated consumers."

Beefing up such bodies contradicts the objective of a robust free market environment. But Durr takes full credit for firmly closing the door on costly so-called structural adjustment programmes, de-



Durr



Naudé

vised by BTI in collaboration with the private sector.

The only one up and running is the motor industry local content Phase Six. "We can't afford these costly, micro-planned programmes, nor have we the manpower to consider more at this stage," he asserts.

Ending the public debate with BTI chairman Lawrence McCrystal over the structural adjustment programmes, Durr's department recently introduced the broad-based General Export Incentive Scheme (GEIS), which supersedes BTI export incentive programmes. He followed that last month by announcing a comprehensive investigation into tariff policy, as well as the role and functions of the board itself.

Naudé says: "Existing tariff policies often protect inefficiencies, while opening the door to possible corruption.

We must modernise and streamline a system last revised in the Twenties."

The GEIS policy encourages the export of beneficiated products — another keystone of Durr's policy. "We are looking at a comprehensive beneficiation policy. Part of this entails keeping electricity costs low at least until the year 2000," he says. That has obvious implications for Eskom.

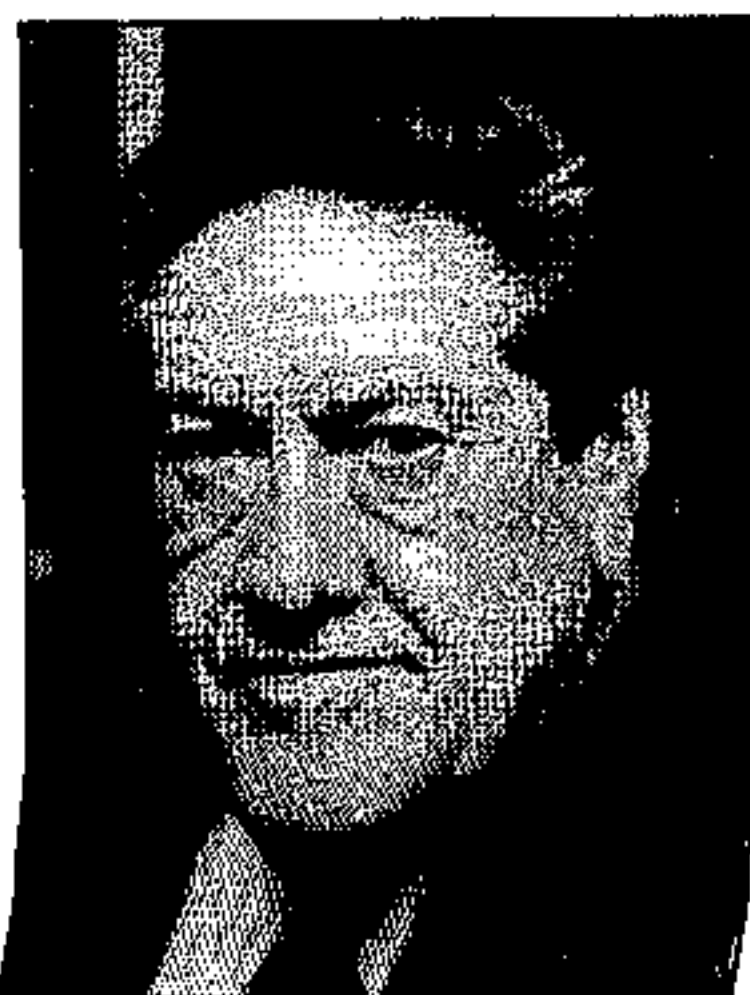
Durr is adamant that he and his government colleagues are not just paying lip service to the new free market orientation. "It's a team effort. Our new focus is on co-ordinating economic policy across the board. My department, Finance, Dawie de Villiers' Privatisation, Manpower, Education & Training and Wim de Villiers' economic restructuring departments all work together to free the economy, maximise opportunities for all and broaden the role of private enterprise."

More co-operation with and involvement by the private sector in shaping policy is a vital part of the "new deal." Close relations with the SA Chamber of Business, Afrikaanse Handelsinstituut, industry and trade bodies and individual businessmen form part of his relaxed, open-door policy. His experience as a successful businessman (his family has been in real estate in the Cape for years) obviously helps smooth relationships.

But Naudé insists that "restructuring the economy" remains the main battlecry. He says tariff policies of the past (and present) tried to overcome structural impediments by



Clewlow



Haywood



Car assembly plant ... no more structural adjustment programmes

adding further costs to the economy.

"Government aims to remove structural impediments — State overspending, high inflation, negative interest rates, an artificially high rand and others — through a correct mix of fiscal and monetary policies. We are moving that way fast," he says.

Part of this new growth orientation are the twin policies of deregulation and privatisation, aiming at opening the economy to more participants, lowering entry barriers and allowing all South Africans to reap the benefits. Encouraging tourism and foreign trade through the network of foreign trade offices in 27 countries (the latest opened last week in Hungary) are other legs.

But is this vision of nirvana for real? And what do industrialists think of it?

Most, like Amic chairman Graham Boustred, hail "the potential contribution of a well-controlled, market-related (export) incentive." But, predictably, they lament the structural adjustment programmes.

Boustred notes that "structural support"

for the paper and pulp industries led to a growth in industry turnover from R1bn in 1983 to R3bn now, while annual exports grew from less than R100m to R1bn.

And, while he welcomes "promised fundamental adaptations in economic and financial policies reflecting an awareness of market realities," he says "we have yet to see a fully implemented coherent set of policies."

Barlow Rand CEO Warren Clewlow also appreciates the "substantial benefit" of the new export incentive scheme, but adds the definition of qualifying manufactured goods could be a problem.

To promote beneficiated exports, the tariff investigation will have to include the negative effects of "import and export parity pricing," where local producers of raw materials demand that local buyers pay the rand equivalent of world prices, with theoretical transport and other import costs added on. So there is no advantage for local fabricators in using locally sourced raw materials.

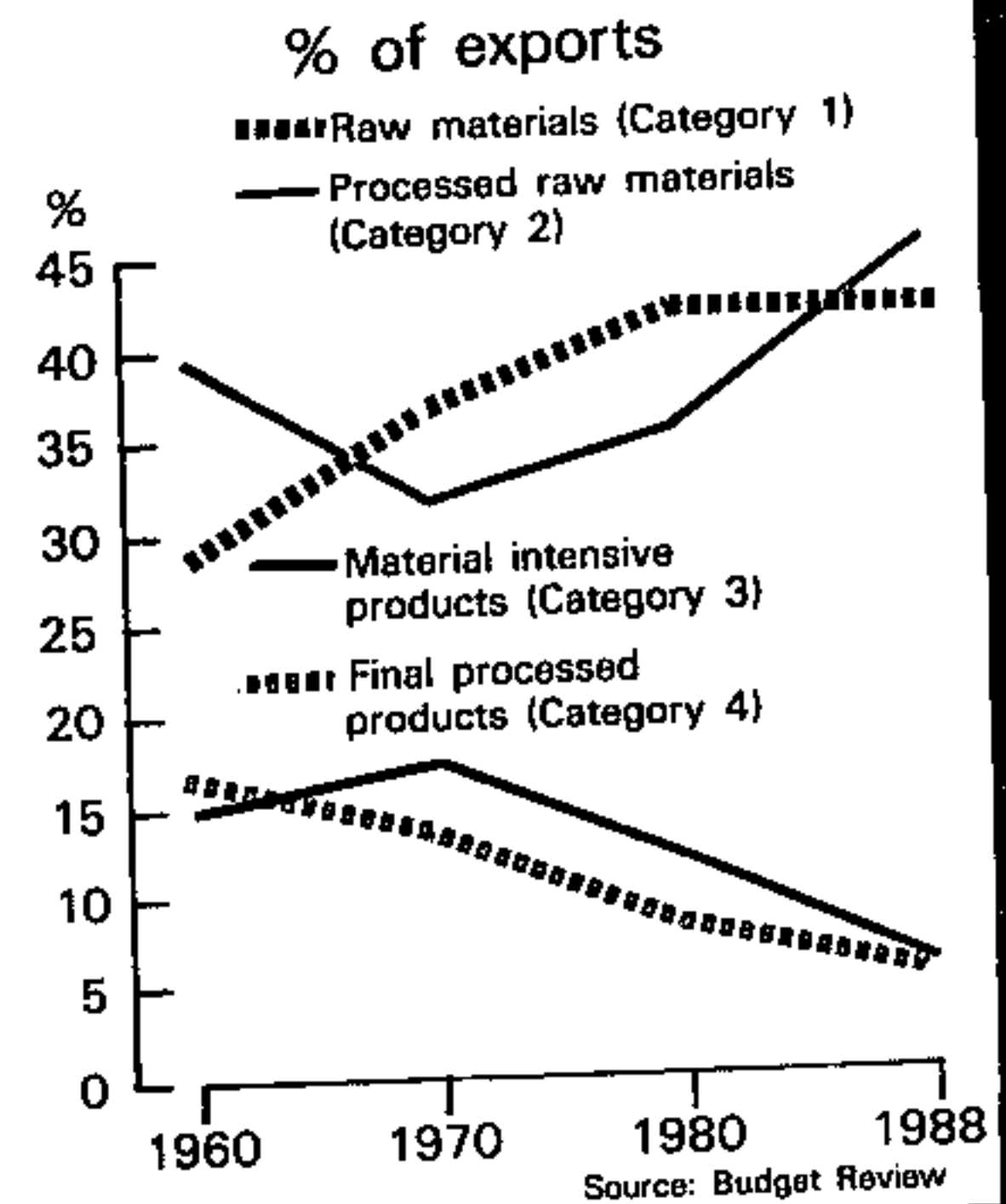
Safto CE Wim Holtes says industrialists themselves can do much to boost manufactured exports. "Greater dedication to multi-shift production will not only reduce capital costs, but also create more jobs and earn more forex." Underused capacity should be more productively applied.

Holtes adds that exporters' biggest problem is not the non-availability of markets, but their own lack of production capacity. "Dedication of fixed percentages of manufacturing capacity to exports should also help bridge this gap."

SA Chamber of Business deputy DG Ron Haywood hails restructuring aimed at creating a "lean and more efficient" department, as well as the overall focus on industrial and economic policy.

"But a successful industrial policy must be closely co-ordinated with the Department of Finance. There has to be long-term certainty and confidence for industrialists to invest large sums. Recently, the goalposts have constantly been changing — which creates uncertainty."

Industry's declining role



Most industrialists give Durr close to full marks for his efforts and "fire in the belly" enthusiasm to change the focus of industrial policy.

But the gap between stirring rhetoric and reality needs to be bridged urgently.

It is generally agreed that strong growth in manufactured exports is a prerequisite for a prosperous future. Growing structural unemployment, unchecked population growth and now threats to the future of several gold mines make such a policy essential — especially in view of our largely unbeneficiated mineral riches.

But it is also essential for De Klerk to crack the whip to ensure that sudden ad hoc tax and tariff shocks (including retroactive legislation) from other departments do not undermine industrialists' confidence in long-term strategy.

Durr and his colleague Barend du Plessis must get their acts together if they want industrialists to follow suit. ■

Market reels in wake of gold's plunge

B/Dam 27/3/90

GOLD's free fall to a 5½-month low of \$362 on aggressive Middle Eastern selling on world bullion markets stunned investors on the JSE and left the market reeling yesterday.

The metal staged a mild recovery to close more than \$21 down on the day at \$367.50 in London after one of the most hectic trading days for a long time, dealers said.

After opening lower on the weekend falls in New York and Hong Kong, gold continued to plunge when key technical chart support levels were erased, kicking off liquidation and outright fresh selling.

Dealers said the metal was particularly hard hit by selling out of Middle Eastern centres, especially the Persian Gulf.

While there was no panic selling of shares on the JSE and volumes were thin, the all gold index shed 7.4%, or 151 points, to 1 881 to bring the overall index down 3.8% or 126 points to 3 163.

Institutions nibbled at stocks throughout the day to bring selected prices off their lows in the hope that gold would have bottomed. "They did not seem as negative as the gold-price plunge would indicate," a dealer said.

The gold price fall came only a week after the metal edged back above \$400 to lift the overall index to a record high on a wave of bullish sentiment.

"Markets world-wide have changed in that they have become much more volatile, showing enormous falls and then bouncing back a couple of days later. It is a sign of the times and gold could rebound soon," said one trader.

Although dealers were not linking the amount of selling to any one event other

MERVYN HARRIS
than the technical breakdown in gold, they noted that the resilience of the dollar helped underpin the decline in gold.

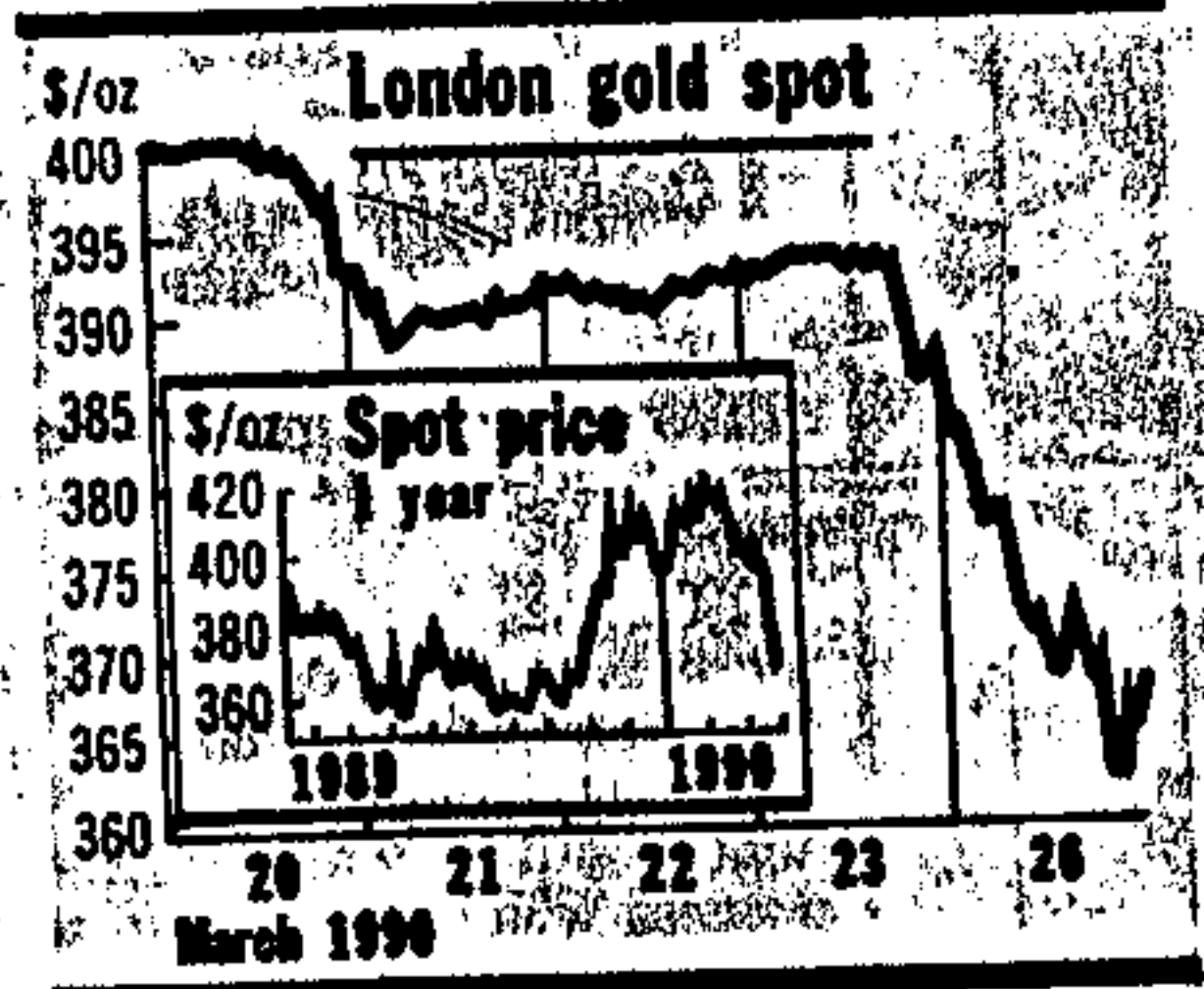
Traders on the JSE said the firm dollar and high global interest rates, particularly in Japan and West Germany, were the twin factors taking gold lower.

Another dealer said that while gold shares had fallen sharply, prices were in some cases still higher than they were in February, when gold was above \$400.

"The extent of the gold price downturn will probably only dawn on people today, and we could therefore see prices go lower."

Mike Brown, economist at stockbroker Frankel, Kruger, Vinderine, said "the wider ramifications of the gold price slump on the economy depends on how long it lasts. The immediate effect has been a lower rand which, down the road,

□ To Page 2



Graphic: FRONA KRSCH Source: REUTERS

Gold slump

B/Dam 27/3/90

could increase inflationary expectations. There could also be a spin-off on interest rates but it is still too early to tell."

The rand weakened sharply against the dollar to close at R2,6518 from Friday's R2,6242 and also lost ground against other major currencies. But the finrand investment unit held steady to close marginally easier at R3,8600 from Friday's R3,8500 to the dollar, giving no support to share prices.

The slump in the rand, however, was not sufficient to give support to the rand gold price which declined from Friday's R1 032,66 to R975,86.

JOHN CAVILL reports from London that a single Middle Eastern seller of 2-million ounces of bullion might have been the main cause of yesterday's collapse in the gold price.

Several stockbroking analysts reported heavy selling in Zurich and London when markets opened yesterday.

James Capel's Rob Weinberg said: "We

□ From Page 1

have heard a story which cannot be confirmed, that one big Middle Eastern investor was selling gold to buy £500m because he felt the pound was oversold. It was certainly enough to move the pound (which was up 1c to \$1,6135) and that amount of gold would hit the bullion prices."

Platinum, however, suffered less. It fell \$12,50 to \$482,50 an ounce but, according to traders Ayrton Metals, it was marked down rather than aggressively sold.

Brokers in London reported no panic selling of gold shares.

Albert Loveless of Smith New Court said there had been an expected marking down and a bit of selling but the gold share market was remarkable for being so quiet.

No analysts were forecasting a headlong dive to below last year's bear market low of \$356,50 an ounce.

At Shearson Lehman Hutton, Neil Buxton said he expected gold to struggle and go lower before the bounce.

"I do not think we will see a new low under \$360," he said.

Volatile quarter on JSE as index hits two peaks

01 Day 2/4/90

2002 74

THE JSE experienced a volatile first quarter with the overall market index hitting two peaks, one in February and one last month.

In between it has been a bumpy ride for investors with political events, unrest and the gold price causing wild swings on the charts.

The overall index peaked at 3 386 on February 7, dropping 9,8% before rising 11% to a new peak of 3 392 on March 19, falling again by 6,8% to 3 163 on March 26 when gold suddenly plunged.

However, investors did not take the metal's sharp fall seriously and the next day the major indices ticked upwards. The overall market index managed to recover 3% to 3 257 on Friday, the end of the quarter, despite a wobbly gold price and continued unrest.

The all gold index also showed two strong shoulders in January and February but took a knock — tumbling by 16,2% from the peak of 2 250 on February 2 to 1 885 on March 5.

The index clawed back to 2 137, a 13,4% rebound, as the mining sector was seen as a beneficiary of several of the Budget announcements.

However, the sudden plunge in the gold price, which appeared to be heading towards a \$360 support base, caused a plunge of 12% to 1 881 on March 26, when the index suffered a hefty 151-point one-day fall.

But by the end of the quarter the all gold index was up 4,2% at 1 960 in the

LIZ ROUSE

face of pressure on the gold price and lack of direction in the market.

Both corrections were sharp enough to have panicked investors, but every time they have rationalised the effects of the particular cause.

The recent immediate uptick on the gold charts has been largely due to a seemingly growing immunity on the part of SA investors to adverse political factors or even to cracks in the price.

Foreign investors — whose interest is mainly confined to gold and mining financial shares — abandoned the JSE after ANC deputy president Nelson Mandela's statement about nationalisation, particularly of the gold mines.

In any case, foreigners were mainly involved in the gilts market in the past

quarter and fear of a R5bn dumping of SA gilts stock, plus its depressant on the financial rand, was rampant at one stage.

This reaction was linked to sporadic bloodshed on the Tokyo, New York and other equity markets during the first quarter.

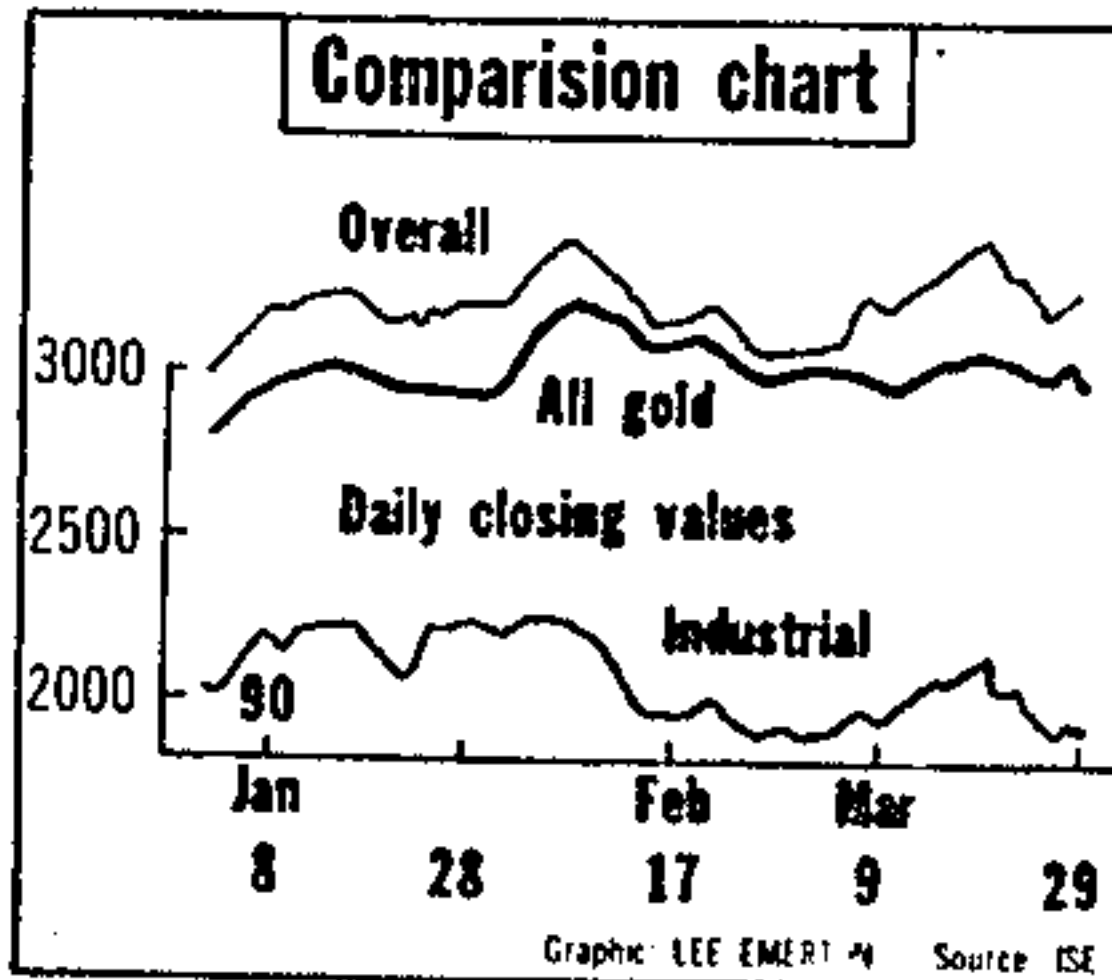
The industrial index has been less erratic due to support of solid institutional holdings. It peaked at 3 218 on February 7 (President F W de Klerk's new dispensation even briefly lured some foreigners into industrial blue chips at the beginning of February) before sliding 9,6% to 2 929 as unrest and Mandela's statements eroded optimism.

Recovery on the industrial board has been hesitant. However, the index quickly turned around after its 45-point one-day fall on March 26 to 2 963. It ended the quarter higher at 2 976, despite end-of-quarter book-squaring.

Because of the erratic background prevailing during the first quarter of the year, action was confined to the popular counters on the JSE.

Technically, gold, mining finance and blue chip industrial shares were in an overbought situation after strong rises since the beginning of the year.

They were thus more vulnerable just when sentiment wavered in the face of political change and a pedestrian gold price, which then succumbed to the sudden collapse below the support level of \$400/\$425.



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Finrand drops sharply

(74) Star 314 (90)
By Jabulani Sikhakhane

The financial rand dropped sharply to close at 23,7 US cents yesterday, largely due to a lower gold price and continued political uncertainty after the cancellation of talks between the Government and ANC.

Dealers said there was little investment coming into SA at present as foreigners were doubtful about SA's political future.

"Until there is a clear indication when we will have peace or talks about peace in SA, I don't see a bright future for the financial rand," one dealer said.

Despite the sharp drop in the financial rand, gold shares closed lower with the gold index declining 103 points to 1857. Industrials also weakened, the index shedding 96 points to 2886. This helped bring the overall index down 129 points to 3128.

Among heavyweight gold shares, VAAL REEFS shed R18 to R378, SOUTHVAAL R15 at R165 and OFSIL 100c to R117,50.

In mining financials CHARTER and CONSMNG firmed against the trend, gaining 25c and 4c to R28,75 and 44c respectively. ANGLOS and associate AMGOLD were weaker at R125 and R362.

Platinums were also weaker, with BARMINE shedding 25c to 475c, IMPLATS 175c to R72,25 and RUSPLATS 525c to R75.

In diamonds, DE BEERS and associate ANAMINT were easier at R83,50 and R1 115, bringing the diamond index 586 points down to 15093.

In weaker industrials LORNHO and TGH firmed, gaining 20c and 10c to R18,25 and 290c respectively.

But BARLOWS came off 300c to R39,75 and CGSMITH 100c to R90. SAFREN, RICHEMONT and SA BREWS were also weaker.

● The volume of shares traded was 11,763 million valued at R116,975 million. The number of securities active was 412. The five most active stocks were Consmng, Macmed, Iscor, ABS and Lanchem.

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	1050	1000
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	400	1900
	1750	
	95	
	85	
	43	3700
	55	1000
	18	
	2250	
	650	800
	25	
	600	
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	840S	
	375	
	200	
	160	
	1680	4100
	25	
	1750	
	3450	4000
	40	800
	260	
	3550	6791
	125	31430
	130	1500
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RP DM DY EY H L V

Gold firmer but ^{BID 4/4/90} ⁽⁷⁴⁾ hesitancy remains

A FIRMER gold price boosted sentiment on Diagonal Street yesterday but investor optimism was tinged with caution on concern over the political situation in SA.

Hesitancy was apparent as trading tapered off and share prices came off their top after a flurry of buying at the opening. A 4.6% rise in the finrand to R4,080 to the dollar also kept a lid on prices and the JSE overall index ended 38 points up at 3 161.

Gold rose nearly \$7 to close in London yesterday at \$375.75 and bullion dealers were mildly optimistic the metal would consolidate at the new higher levels. The metal also ended at \$375.75 in New York.

The rise was sparked by rumours that Middle East operators who sold large volumes of gold last week were buying back.

Market talk was that Japanese interests were following suit.

Some traders said the sudden climb was backed by technical factors and generally buoyant physical demand. A Soviet official's statement that Russia was not involved in discounted gold sales and might publish production and reserve data, gave the metal added support. One dealer said: "The gold market is recovering from an oversold position and we could see the metal heading towards \$380."

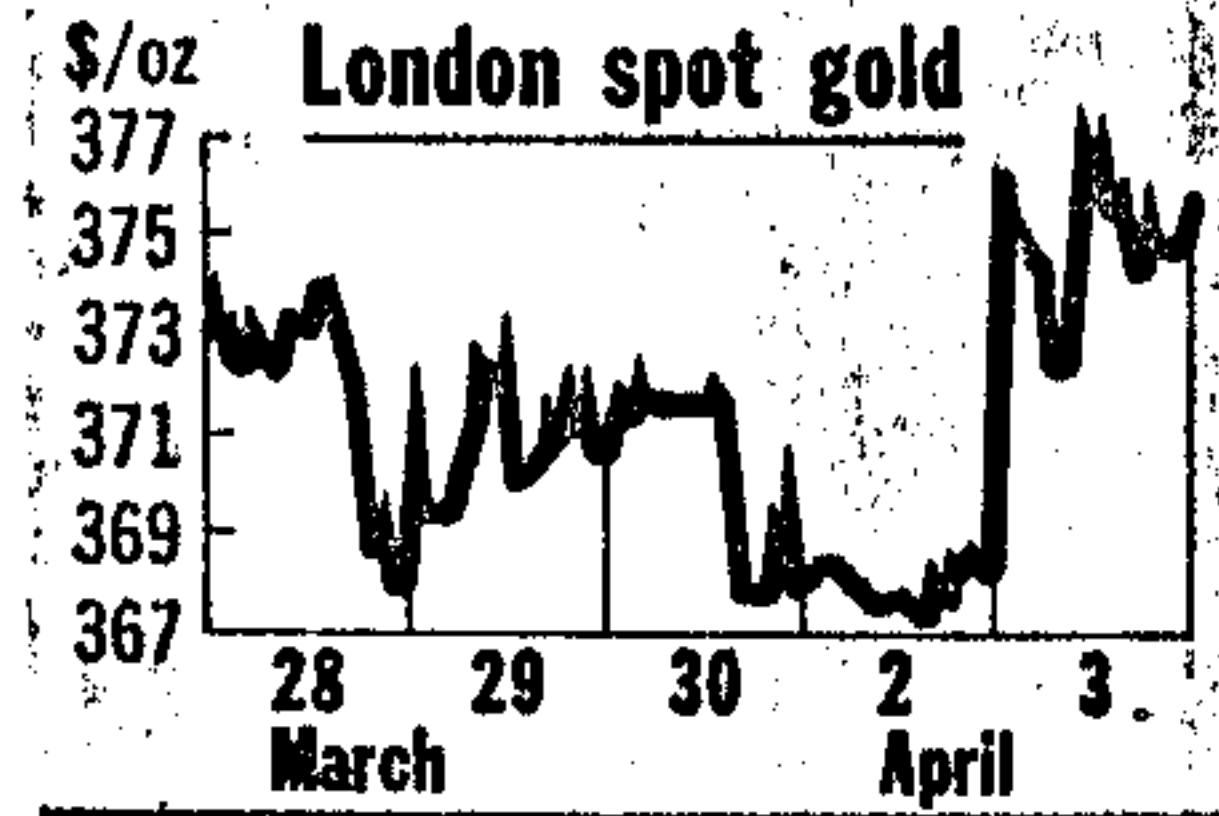
Initial figures indicated that about 4-

MERVYN HARRIS

million ounces of gold were liquidated last week. But a New York commission house trader suggested that the combined sales of Arab and Japanese interests were more like about 6-million ounces.

Major global stock markets were also on the recovery trail yesterday after the Tokyo Nikkei index recouped almost a third of Monday's second largest one-day fall on a rise of 2.7%.

Wall Street was boosted by a Treasury official's statement that signals suggesting declining inflation were creating an environment for lower US interest rates.



Graphic: FIONA KRISCH Source: REUTERS

Time for bold management

Strike action escalated dramatically last year, and all the signs point to even more problems this year. Add to that the sudden sharp increase in township violence, and a new feeling of political confidence among blacks, and you have a potentially explosive situation.

The ANC's views on nationalisation and the redistribution of wealth have made managers extremely edgy and uncertain about the future.

Foreign companies are unlikely to invest in South Africa in the short term, as it seems a high risk arena. Local managers will of necessity become even more short-term in their thinking.

But any time of change is a time of great opportunity.

Those managers who have the foresight and the courage to commit themselves to a bold new course of action will gain a valuable competitive advantage for the future.

Participation

It's senseless trying to repeat strategies that worked in the past. What's needed now is fresh thinking and real commitment to a totally new way of managing.

A priority for every firm should be to introduce participative management as fast as possible. Every worker should be exposed to the

As the reform process speeds up, relations between workers and managers will be severely tested in most companies. But this offers a golden opportunity to create a powerful competitive advantage for the future, says Johannesburg management consultant and author, **TONY MANNING**.



harsh realities of business and involved in decision making.

If workers are attracted by socialist ideology, it's because they haven't been shown an attractive alternative.

Most of them don't understand how business works, they don't know enough about their own firms, and they are kept out of the decision making processes.

The unions have done a masterful job of selling their point of view. They are expert communicators. They've been shaping work force attitudes for years, while managers have sat back and done nothing or, at best, tried to communicate in a totally amateurish way.

The solution is to develop a total communications strategy and to treat information as a key strategic resource.

Every worker should go through a

thorough induction programme which explains the company's competitive position and its strategy. In addition, they should get far more on-the-job training than is currently the norm, and they should be encouraged to set their own goals, to measure their performance and to suggest new ways of working.

Only when the new management style has been totally accepted and implanted should share schemes or other financial incentives be introduced. Money is an important motivator, but psychological rewards must come first.

When people are "counted in", they develop a sense of pride and commitment. When they're treated like adults, they deliver the goods.

But we're rapidly running out of time, if we're to secure our economic future. If it's tough coping with change today, it'll be far more difficult and dangerous in the years

ahead.

The future is a matter of choice, not chance. But we must empower people to make informed choices, and give them the experience of thinking about wealth creation. Only when that happens will we have a hope of building robust companies and a dynamic economy.

Impressive

Participative management has yielded impressive results in many other countries. Some South African companies practise it to a degree, but there's a dangerous — and growing — gap between management and the workforce.

Most formal sector workers are adults who take total responsibility for major personal decisions about finance, housing, education and welfare. They're also being increasingly called upon to make far-reaching socio-political decisions.

At work, however, they're treated like children. The "us and them" feeling is perpetuated in virtually every encounter with management.

International experience shows that on-the-job learning is the most vital part of any manager's development. Participative management is a great way to grow people. It's also the most sensible way to cope with the nationalisation threat.

Safex deputy CE quits after 'differences' 74

ROBERT GENTLE

WITH just over three weeks to go before Safex (the SA Futures Exchange) begins clearing operations, one of the organisation's key executives, deputy CE Mike Henegan, has resigned. *BIDam 5/4/90*

Explaining the reasons for the resignation, Safex CE Stuart Rees said: "There was a difference of opinion in our perception of what his role should be in the light of recent expansion."

This had come about as a result of Safex getting ready for the start of the formal market, Rees said.

"Henegan was not happy either with his new role. However, he is an extremely capable man and we wish him well."

Henegan's resignation comes amid mounting concern in the market that Safex is running up huge expenses in getting the formal market going, but with little to show for it.

The exchange was scheduled to come on stream in August 1989, but has been subject to repeated delays.

Persistent allegations about luxurious surroundings and high salaries reached a peak this month after it was learned that Henegan had travelled on Concorde in December during an overseas tour.

He had been visiting futures exchanges in the US and Europe as part of his duties.

Rees said the resignation had nothing to do with the Concorde trip, which apparently was a change of travel plans made to save a day's travel. The R800 extra cost was met by Henegan personally.

"Whatever reservations I may have

To Page 2

Safex *BIDam 5/4/90*

about this is not on the cost but the political sensitivity of it. A deputy CE should be free to make his own travel arrangements."

On the broad issue of alleged luxurious surroundings, Rees said Safex had to maintain a decent working environment for its staff and provide a service in keeping with its function as an exchange.

"Our costs are well below those at which comparable exchanges overseas are operating," he said. "I don't believe we can cut back on costs and still supply an adequate service to our members and the public."

He said expenditure was within the revised budget, and that about R3m had been

74 From Page 1

spent to date since the Safex prospectus was formally launched in September 1988.

Assuming a continued absence of clearing-related income, and assuming continued current expenditure levels — about R300 000 a month — Rees said Safex could run for a few more months on its available funds. These consist of R3.4m raised from the sale of seats to clearing and non-clearing members.

Rees said a general meeting would be held later this month at which Safex's budget and expenditure details would be discussed.

Mine results nudge gold share slide

THE slide of gold shares on the JSE yesterday was given a further nudge by the March quarterly results of mines in the GFSA fold which showed the tough conditions for mines at the current gold price.

The report, from the first of the mining houses to announce quarterly results, also indicated that mines are losing the ability to switch mining areas in order to maintain grades.

Gold failed to make fresh headway yesterday and eased \$1,50 to close in London at \$374,25 as bullion markets abounded with rumours over Tuesday's sharp gains to a high of \$378.

Widespread market talk of Middle East operators buying back gold they had sold last week was discounted by some analysts who suggested the talk was an attempt to manipulate prices.

Most analysts were seeing the advance as a technical short covering rally rather than as a significant inflow of fresh interest. "Gold could go either \$10 higher or \$10 lower," a Zurich trader said.

MERVYN HARRIS

15/02/74 5.14.90

Uncertainty over the direction of gold, the shakiness of global stock markets, jitters over the current political situation in SA, and the approach of the public holidays, combined to make investors reluctant to take up positions on Diagonal Street yesterday.

"When dealers and fund managers are uncertain, they sit on the fence, markets follow the least line of resistance and share prices drift and tend to go lower," a trader said.

In slow trading the JSE overall index shed 26 points to 3 135 on a 27-point decline in the all gold index to 1 868 and a 12-point fall in the industrial index to 2 901.

A firmer finrand investment unit, up from R4,0800 to R4,0100 to the dollar, provided no support for share prices but dealers noted little stock coming out at the lower levels so that investors would have to bid up prices to obtain scrip.

Uncertainties have Krugerrand trading at high premiums

74
Now 5/4/90

THE Krugerrand was trading at a high premium of 20% on the rand/gold price yesterday, an indication of the level of uncertainty about SA's future.

The one-ounce gold coin traded at R1 195 yesterday compared with the rand/gold price of R996,11. In New York, the premium was a realistic 1,6% with the coin quoted at \$378,20/\$381 on the London afternoon gold fix of \$375.

The high premium of the gold coin is seen as a barometer of political turmoil in SA where investors distrust the currency and equities, analysts said.

The chart reflects the changes in political sentiment — from optimism as the Krugerrand traded in line with the gold price after President F W de Klerk's announcement of a new dispensation and Nelson Mandela's release to pessimism, which has catapulted the Krugerrand into a high premium situation.

Trade in Krugerrands on the JSE, which represents only part of overall trade in the coins, has shown a sharp increase in the past month. Last month 11 606 coins worth nearly R14m changed hands, mainly one-ounce coins.

This compares with an average monthly trade of 7 677 coins worth R8,85m over the past 12 months.

However, the domestic market in Krugerrands is minute compared with the amount of Krugerrands existing overseas. Deborah Davis of the SA Gold Coin Exchange said there were more than 45-million ounces of gold in Krugerrand coins throughout the world — only about 8% of these coins were in SA.

Before sanctions more gold had gone into Krugerrands annually than all other bullion and restrike coins produced in the world in any one year, including the US, Canada, Britain, Australia, Austria and Mexico, Davis said. As many as 6-million SA coins had been produced in 1978.

Davis said the premium of 20% represented, in fact, the downside risk of the

LIZ ROUSE

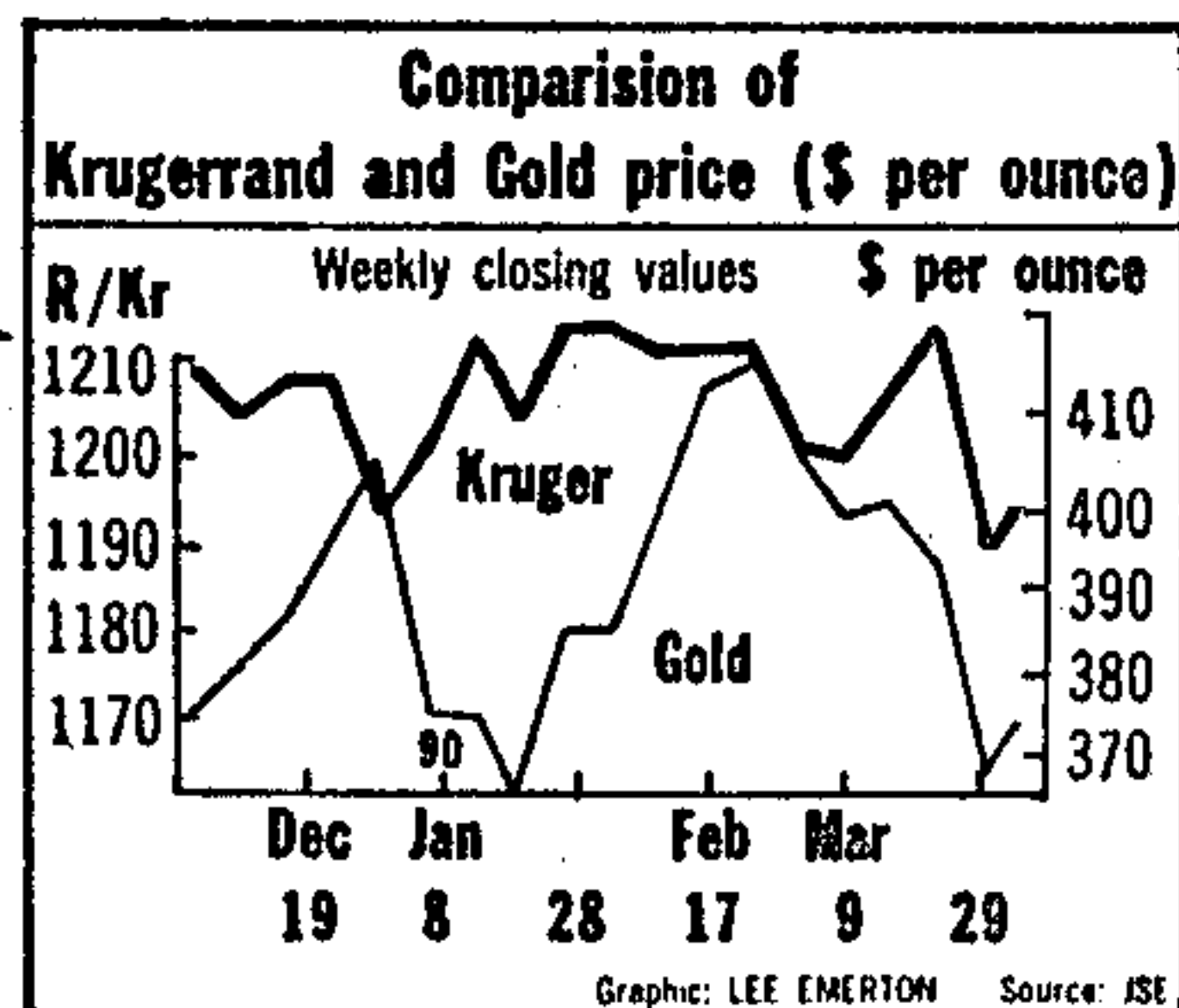
Krugerrand. No investor overseas would pay such a premium for an ordinary gold coin — he would buy a bar of gold at the current spot gold price.

However, were exports to become a reality in a changed situation, SA could be in the forefront of coin markets, as the SA Mint's products were reckoned among the world's best, Davis said.

In fact, at one stage there was brief foreign interest in Krugerrands. On February 7 — when political sentiment was buoyant — most London attention was focused on the Krugerrand which traded at a premium of \$3-\$4 above spot gold that day when gold was fixed at \$423.

However, at the moment there is little international investment interest in ordinary coins. If a foreign investor were interested in coins, he would go for the growing market in rare coins, which are now counted among the top appreciating assets.

Merrill Lynch had sought approval for the formation of a \$50m publicly offered, limited partnership in rare US and foreign coins, with the option of pushing the ceiling to \$75m. The American Rare Gold Coin Fund expected to invest \$100m in 1990, according to Coin World.



BUSINESS

Sentiment rather than logic drives JSE

CONFIDENCE is a fragile thing and nowhere has this been more evident than on the volatile Johannesburg Stock Market in recent weeks.

The JSE overall index started this week by falling by almost four percent on Monday, after going up a bit on Friday. Then prices rose again by the close of trading on Tuesday. Monday's falls were said by share dealers to be a response to the African National Congress calling off the scheduled April 11 talks with President FW de Klerk, as well as to the gold price, which remained below \$370, and to the falls in international stock markets, particularly Japan.

On Tuesday the index rose again, apparently in response to the gold price fix of \$375 and De Klerk's stated plans to curb violence in Natal.

Political factors and the gold price have made for a great deal of volatility in the market this year — although the JSE has still not been as badly hit as some of the foreign markets — by the middle of last week it was only 7.5 percent below its peak while the turbulent Tokyo market was 18.2 down, Hongkong 24 percent and the Australian market 32 percent below its peak, according to *The Economist's* index.

The theory is investors make rational decisions to buy or sell shares (or other assets) based on the expected stream of future earnings — what the share will yield in dividends and via a rise in its price.

Of course investors must look to the environment — economic and political — to forecast the outlook for companies and the expected returns from their share investments.

But the response of the JSE to daily political developments recently has looked like over-reaction — based on the front pages of the daily newspapers or the TV news, rather than on considered assessment.

In practice the JSE is usually driven by what the brokers call "sentiment" — rather than detailed financial or economic calculations.

This is particularly so because the JSE is a "marginal" market — well under 10 percent of the shares are traded each year, in contrast to major overseas markets which have turnover of at least four times that. The result is JSE share prices often go up or down on just a few trades — the price of a share is simply the price at which it was last traded.

If a few individual investors or a couple of London brokers take fright, this can have a substantial impact on the day's index, even though those who hold the bulk of the shares are sitting tight.

Political sentiment has carried much weight lately, particularly with foreign investors. It was selling from London which was said to have started the market falling this week — and it was buying by foreigners which boosted the JSE in the brief period following De Klerk's speech.

Picture the investor in London — who can buy shares anywhere in the world — who decides following De Klerk's speech that South African gold shares are now a good bet (most foreign investment in the JSE is in mines and foreigners held at least 24 percent of gold mine shares and 25 percent or more of De Beers shares in December last year, according to stockbrokers Davis Borkum Hare). But on hearing about nationalisation (or perhaps seeing nasty Natal scenes on the BBC), our investor decides his/her money is safer in American or Australian gold mines, even if financially they are not as good. That the ANC's views on nationalisation are not new is probably not something the investor in London knows or cares about.

In a recent report, Davis Borkum Hare's Dana Wakefield has noted that "many recent overseas investors have not previously been familiar with South African shares due to political factors during the 1980s. And they often have only limited or no first-hand knowledge of this country. The result can be false expectations based on simplistic applications of their experience in mature first-world countries on to the South African scene".

Wakefield adds: "This promotes speculative trading rather than medium- to long-term investment intentions."

But the JSE's volatility cannot be blamed only on unsophisticated foreign investors. Local investors have reacted in similar ways. In part they are merely making rational decisions based on the "sentiment" expected of others: if you believe other people will be selling their shares and driving prices down, it may make sense to get out now.

But jittery investors are also acting on the basis of their perceptions of the future — which may or may not be well-founded. While there is a whole industry of well-informed investment analysts in the stockbroking firms and the

Fluctuations in Johannesburg Stock Exchange prices depend more upon the news of the day than a considered assessment of the market, argues ANN FRIEDMAN

financial institutions, it can't be assumed that their political analysis is necessarily sophisticated. Most are CAs, MBAs or BComms — not political scientists or sociologists.

JSE investors also become jittery when the gold price falls (and euphoric when it rises). The gold price is perhaps the strongest and most consistent influence on the JSE. This is rational — although only up to a point.

One reason the focus on gold is rational is, obviously, its price influences the outlook for gold mines and therefore for gold shares.

Some investors react to any move in the dollar gold price, but the important price is not the dollar but the rand gold price, since the mines are paid for their bars of gold by the Reserve Bank in rands.

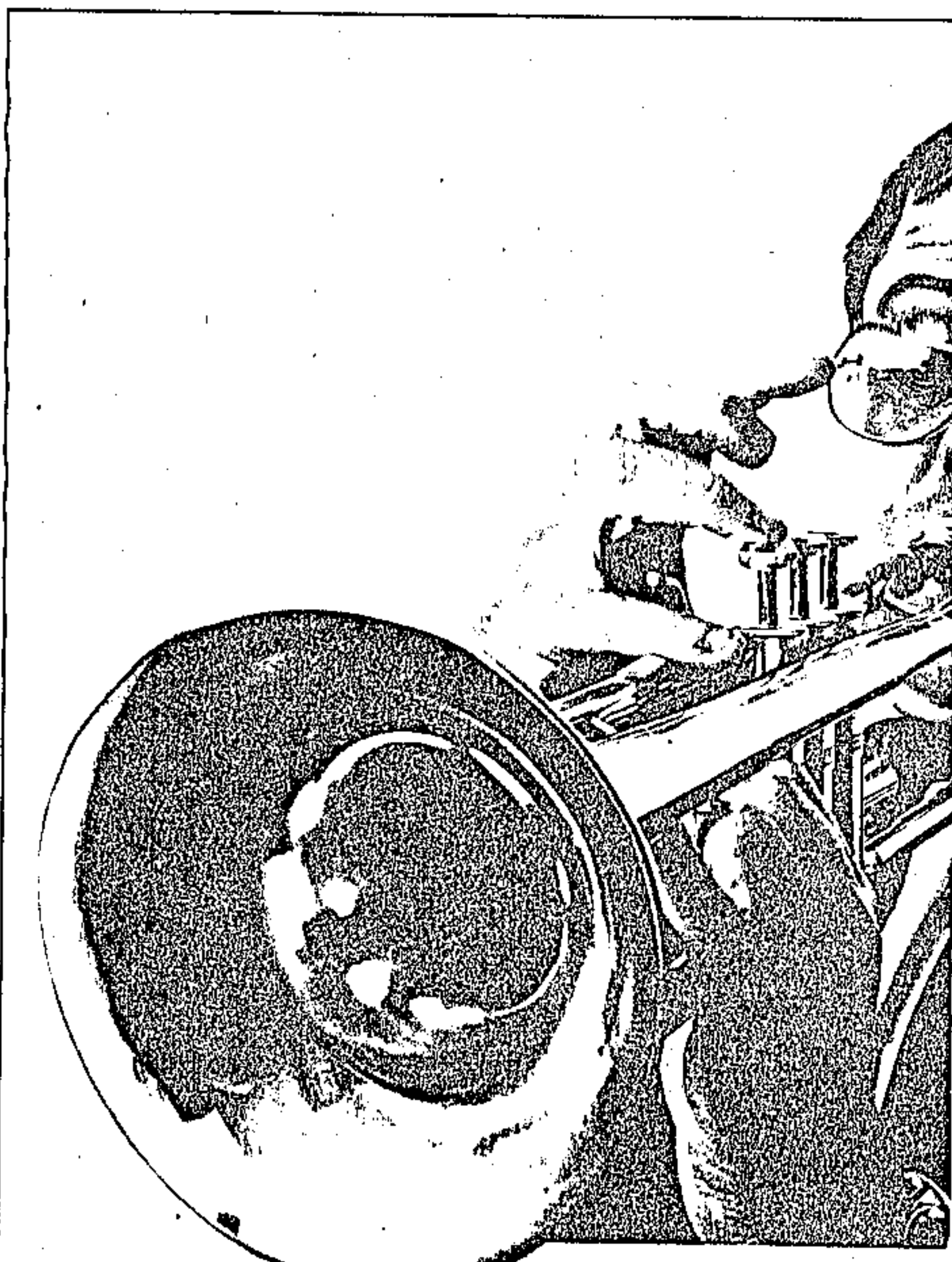
If the dollar gold price falls but the rand falls against the dollar to the same degree, the

mines' position should be unchanged. But recently the rand gold price has been falling — to below the R1 000 an ounce mark. If this continues, some mines may be producing at a loss. More risk-averse investors would want to put their money elsewhere, in industrial shares, for example.

Perhaps a more important reason for gold's dominance — one whose importance is difficult to quantify — is the centrality of gold in the South African economy. It accounts for 40 percent of export revenue and a \$10 movement in the gold price average for the year would make a R500-million difference to the country's export earnings.

The gold mines are such large customers for many of South Africa's manufacturers that what happens to them has a ripple effect through the economy. That perception looms large in the imagination of investors — and when the gold price looks bad, some become altogether disenchanted with the stock market.

• The JSE overall index yesterday was down slightly to 3136. But it was still 23 percent up on a year ago while the all gold index was 16 percent higher and the industrial index was 17 percent up. Gold was at R374.25.



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Firm has not poisoned water, says official

By Jacqueline Myburgh

A company which imports toxic waste from Britain and the United States, Thor Chemicals, was not dumping mercury into the Umgeni River, the assistant director of water pollution control at the Natal Department of Water Affairs, Mr Lin Gravelet-Blondin, said yesterday.

Environmental pressure group Earthlife Africa alleged that Thor was poisoning "the drinking water for millions of people" in the Durban area.

However, Mr Gravelet-Blondin said the most recent tests revealed that the mercury levels in local streams which ran past Thor and into the Um-

geni, and in the river itself, were slightly above 1 microgram per litre of water.

The standards set by the World Health Organisation allow for 1 microgram of mercury per litre of drinking water.

"But the tests were done on raw river water, and in purification the water would be treated to comply with the standards," he said.

The very high levels of mercury measured in the river last year were correct, he said, but they had been taken near the factory site and were strictly localised.

Mr Gravelet-Blondin said Durban's drinking water would not be affected since it was supplied by Nagle Dam, which was upstream from Thor Chemicals.

Theft

Mr Stephen van der Vyver, the managing director of Thor, has denied that his company is poisoning drinking water.

● Last week, seven drums of mercury compounds were stolen from the Thor's premises. The contents were dumped inside and outside the premises. Thor cleaned up the waste.

"Samples are being taken of the soil and local water sources, and Umgeni Water is monitoring the mercury levels on a weekly basis," Mr van der Vyver said.

The matter had been reported to the police.

74

EQUITY MARKETS FIM 6/4/90

New broom

(74)

Peter Rawlins, brought in last year as the new CE of London's International Stock Exchange, is wasting little time in shaking

FIM 6/4/90

(74) AC

up the organisation. He has already cut 350 of the exchange's 2 850 jobs and expects to make many more before the end of this year. And of those who remain, many will find themselves doing something very different from their present jobs.

It is all part of a deliberate attempt to shake to its core what had become a complacent organisation.

In future, the market will have three parts, each responsible for a different function: a primary markets division, fulfilling the exchange's responsibilities as a regulatory agency and providing services to issuers; a trading markets division; and a settlements division.

This does away with the bulk of the exchange's 100 or more committees and redefines the role of its ruling council, which will now delegate most decision-making.

Rawlins' spring clean has been greeted with cautious optimism by securities firms. They are happy to see the exchange's costs fall, but have yet to be convinced the central market has entirely mended its ways. ■

Finding the way back

■ F W's reform initiative is bearing fruit, in trade and diplomatic terms



Diplomatic and foreign trade relations have improved substantially over the past few months — at last. This is the first time since the process of excluding SA began in the Fifties that

there has been a roll back.

Not only have important heads of State and foreign ministers had talks with President F W de Klerk — there are others who have sought him out in the country itself. Trade delegations have been moving to and fro, new trade commission offices have been opened and the social ostracism of SA diplomats and trade representatives has been substantially reduced.

SA exports are re-appearing in increasing quantities on the shelves of our traditional trading partners; more direct trade is now taking place without the intermediation of expensive middlemen; and new markets have been opened up for relatively cheap and high-quality consumer products in central Europe, the Far East and Africa.

We have already reported in recent months on the improved attitude of foreign financiers towards SA enterprises that require loans and facilities from abroad. And there is good reason to believe that in the months ahead there will once again be public offerings of the bonds of SA undertakings in the appropriate foreign markets.

According to Trade Minister Kent Durr, the thaw has been particularly noticeable in the EC. "Even our personnel who had been excluded from the social circuit in Brussels are now being invited back again," he told the FM.

Last week, Durr met his Italian counterpart, who indicated during their talks that not only should discussions with SA be encouraged; but he undertook to bring a crafts exhibition here and invited Durr to visit Italy officially.

During a November visit abroad, Durr himself was received by the European Commissioners and the general-secretary of the EEC — the first time they have ever received a minister from this country. New trade commissions have been opened recently in South America, central Africa and Europe.

But not only is SA aiming to regain traditional markets, it is breaking new ground else-

where. "We have established our presence in central (that is, eastern) Europe and some of those countries are establishing their presence here. My department has taken trade delegations — including high-powered SA businessmen — during the past few months to central Europe and mainland China. In turn, there have been trade delegations here over the last four months from central and eastern Europe and central America."

Local banks have been involved in establishing credit lines and developing appropriate financial instruments. Countertrade arrangements have been made, though Durr regards them as a second-best deal.

He sees Africa as an important potential market and recently opened a trade commission office in Zaire, from where a trade delegation has visited SA. "There is a constant flow of people from Africa to our country and we have taken teams of industrialists into Africa," he says. While the African dimension remains small, it is important at the margin: 32% of high added-value exports go into Africa. And his department has recently established an Africa desk to deal with the specific requirements of trade on this continent.

In very few of these meetings and visits have sanctions been an issue, or, indeed, even discussed. "We have not been seeking to parade what we are doing. For we are often dealing with frail democracies and we understand that they lack confidence in general and need to develop a confidence in us as well."

Durr explains that these new and more direct contacts are shortening lines of communications, enabling trade to take place without the involvement of agents. This is particularly important because some commodities and manufactured goods were be-

ing handled by as many as three agents, each of whom added 20% to 30% to the price. It is also easier for businessmen who meet face to face to identify and exploit mutual trading opportunities.

What the "frail democracies" want from this country are high-quality consumer products such as wine, fruit and wool. "SA, too, is a world leader in quality and we are transferring this knowledge. We have intermediate technology (midtech) which is appropriate to the development levels in these countries. In fact, much of our technology is especially appropriate to their requirements. We have also invited them to work alongside our Small Business Development Corp, in which there has been a lot of interest," he says.

Durr believes that in the improved political and diplomatic climate, his department has played a considerable role in expanding SA trade and the attainment of our present substantial trade surplus by providing leadership, building up an export culture and concentrating on becoming a service ministry for business.

The extent of the thaw, however, is much wider than trade relations. The efforts of Foreign Affairs Minister Pik Botha and his officials are bearing substantial diplomatic fruits after years of hard and patient struggle — verging sometimes on the hopeless.

Speaking frankly in his Cape Town office this week, Botha said that at last he had a product that was saleable. The present thaw was the highlight of his 37 years in the Department of Foreign Affairs.

The prospects of Hungary opening a trade mission here are good, he says. While in that country in January, he met opposition leaders Miklos Szabo of the Free Democrats and Geza Zaszonszky of the Democratic Forum. Both approved of his visit.

In Argentina, SA's representation had been upgraded after a scaling down virtually to a caretaker position. Deputy Foreign Affairs Minister Leon Wessels has attended the inauguration of both new presidents of Chile and Brazil.

Botha himself describes his recent meeting with US Secretary of State James Baker as the best he has had with any Secretary of State. There has been communication with Canada's Foreign Secretary Joe Clark — which suggests improved relations with that country, too.

The visit of the European



FMs Eddie Botha (L) and Nigel Bruce with Pik Botha



Kent Durr and Pik Botha ... more positive signs than most can remember

troika here on a fact-finding mission between March 10 and 12 meant that they would have reported back to the 12 nations before he and De Klerk go to Europe. "I wanted them to come before we went and I prefer the Europeans to tell us what remains for us to do. Then at least we get a chance to iron things out before we see the European heads of State," he says.

Relationships with Britain — where Margaret Thatcher moved quickly to remove the new investment and cultural sanctions — and with West Germany remain good. And in the US, the actions of the Wolpe Committee will make it difficult for America to increase sanctions. A resumption of trade, however, would require legislative approval.

Our relationship with Japan, soured by the US release of Japanese-SA trade figures, is improving, especially after a meeting with a group of Japanese, which included an ex-foreign minister. The *FM* believes there are grounds for reasonable expectation that the status of the Japanese consul-general here will in the foreseeable future be increased to ambassadorial level.

The Swedes, too, have indicated to both De Klerk and Botha a softening of attitude, though the Swedish foreign minister believes it will take time to change the popular Swedish view on SA, which is conventionally hostile.

Botha says the situation in Angola remains fluid. Certain suggestions had been made to Eduardo dos Santos. "The Americans and we take the same stand on the issue ... It is both our wish that the parties should conclude a ceasefire agreement," he says.

In Mozambique, perceptions of SA are improving. "We have taken steps to convince President Chissano that we are not supplying Renamo with arms. The rapport between us and Chissano is really very good." Zimbabwe's President Mugabe remains the odd man out.

Botha has no doubt about what is the most important reason for this changing attitude towards SA. "The effect of what happened in eastern Europe is so far-reaching for us that I do not think our people fully understand the implications. Imagine where we would have been 18 months ago if we had to

negotiate with the ANC-PAC on a basis of the then policies of socialism, Marxism and one-party states. The advantage now is that we do not have to change our economic policy. The other parties have to change theirs ...

"The effect of the unbanning of the ANC and Nelson Mandela's release also played a major role in changing attitudes. What happened in Windhoek (at the independence celebrations), however, was the watershed. Until then, the perception of what De Klerk was doing was good. Windhoek was the actuality.

"Even Soviet Foreign Minister Eduard Shevardnadze accepted his integrity and sincerity and realised that the road the SA government was taking was irreversible."

While the De Klerk government is clearly very seriously concerned at the loss of life in the current wave of violence, especially in Natal, there are few reasons to believe it will retard the diplomatic and trade thaw. For the ANC's manifest inability to control warring factions and reluctance to begin serious talks is heightening impatience in Western capitals.

The current outburst of violence is clearly not intended to overthrow or destabilise government, as it was in the late Eighties. It emphasises instead the shortcomings of a

revolutionary movement out of touch with reality and reluctant to embrace the Western democratic standards and economic values on which De Klerk is making an uncompromising stand.

"No government will ask for constitutional change to make way for violence," Botha says. "Not even the UN had approved the handover to an interim government."

Nor were sanctions raised by De Klerk or Botha at the Windhoek diplomatic meetings — though some of the others did so, not without embarrassment on their part. "SA has a new image," Botha says, "and I do not fear an extension of sanctions as we move along."

"The climate in Europe is one of opening up trade with traditional partners.

There was interest in and discussion of his idea for a Marshall Plan for southern Africa to encourage Western investment in the area. To be successful, however, it would also have to entail a rejection of one-party states and Marxist policies. The new mission would be economic advancement — one that Botha expected would become increasingly the slogan of the non-aligned nations as the gap between East and West closed further.

There is little doubt that De Klerk has taken the diplomatic initiative. He has emphasised to the West that he is in a hurry to reform and negotiate an equitable constitution here and redress what he calls the social and economic backlogs that have placed blacks at a disadvantage.

He has embraced Western democratic and economic values that are difficult to gainsay. The peaceful revolution in central Europe, the failure of socialism and the degradation of central Africa reinforce his stance.

The ANC, on the other hand, has made clear its preference for violence and an economic system that has failed to sustain a supply of even the basic necessities of life. It is vacillating, capricious and uncertain. Its moral and material support from abroad is waning.

In these circumstances it is difficult to see — especially in the absence of inspired and firm leadership — how the ANC can regain the diplomatic advantages it enjoyed only a short time ago.



F W de Klerk ... making reform tangible

Costly price-tag on opening up cities

Small black traders and property owners likely to be the first to suffer

CAPE TOWN — About 150 000 independent small black traders could be put out of business after the scrapping of the Group Areas Act.

This is the belief of a leading property researcher, Mr Erwin Rode, whose Bellville-based Real Estate Surveys company has produced a special report Property Prices in Post-Apartheid South Africa.

These traders represent a turnover of R24 million a year, he says.

"Ironically, they have been protected from the jungle of competition by legislation such as the Group Areas Act, which has kept the capital-intensive and aggressive retail chains out of black areas.

"The white retail market is over-traded, making the black domestic market the natural target of the retail giants.

"The survival of the vast majority of black retailers in the face of such competition is doubtful.

"However, on the positive side this would provide black consumers with a greater variety of lower-priced goods nearer their homes."

Property outlook

The report also pinpoints sectors of the property market where values are likely to fall and suggests strategies for owners and investors to protect their investments.

It recommends investors should immediately assess their interest in both residential and commercial areas which are most vulnerable to "invasion and ghettoisa-

TOM HOOD

tion, as values decline following deregulation.

"They should consider limiting and redirecting their interests as speedily and as cost-effectively as possible."

Property values are most likely to fall in suburbs where more than 20 percent of housing units are priced below R85 000 (see chart).

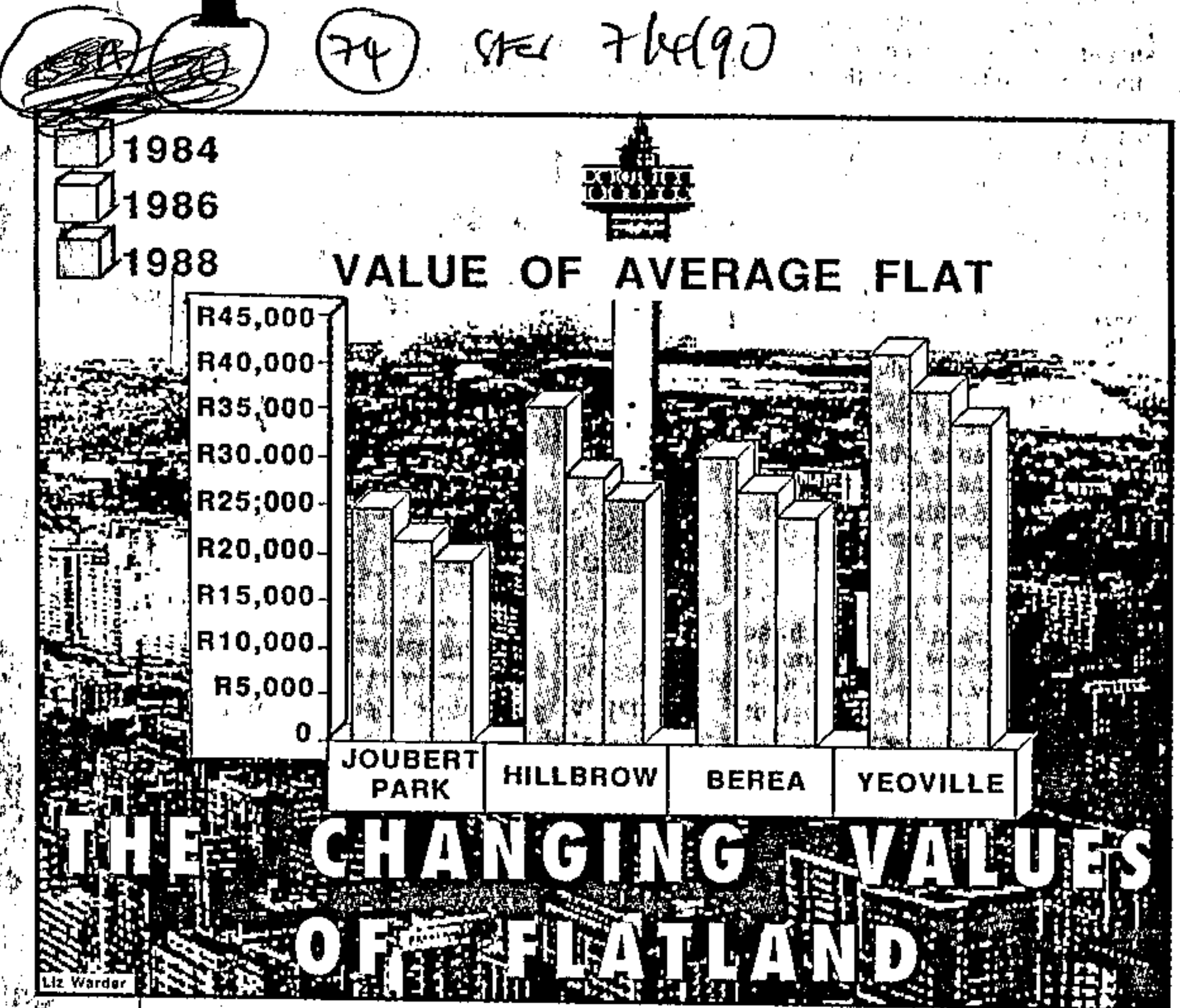
Other major factors to be considered according to the survey are: a significant proportion of existing rented accommodation; proximity to Black suburbs and amenities such as transport; proximity to a metropolitan central area; presence of urban decay; if a significant number of properties are rent controlled; attitude of local authorities to multi-family occupation, and the level of current property values.

The report says white residential areas turning grey are doing so for unavoidable and fundamental reasons, representing "a flood which cannot be stemmed. In the end most grey areas will become black."

Mr Rode therefore says the Group Areas Act might as well be scrapped - "the remaining issue is the when and the how of the abolition of the Act."

Looking at coloured and Indian residential areas, the report noted that excessive demand had led to premiums of as much as 30 percent above comparable white housing.

A study in Bellville showed coloured families paid 19 percent more for identical accommodation in comparable middle-class suburbs. The price premium, caused by a shortage of houses,



OPENING UP: Property values are most likely to fall in suburbs where more than 20 percent of housing units are priced below R85 000 or are already grey, according to the research. It recommends investors should immediately assess their interest in both residential and commercial areas which are most vulnerable to "invasion and ghettoisation".

was as much as 30 percent elsewhere.

This premium would be eroded as more suburbs were opened and would result in lower property values.

"Coloured and Indian suburbs close to black areas would also be prone to invasion by blacks, negatively influencing property prices."

The report commented there was a marked difference between expectations and realities. Only a minority of racial groups other than white, who had the education and skills, would experience any

significant upward mobility.

A recent study in Cape Town showed 53,8 percent of coloured families would prefer to be relocated in white suburbs.

Half of that group preferred upper-class suburbs such as Rondebosch, Constantia, Newlands and Claremont but only 3 percent would be able to afford to live there.

"The perception that people of colour already buying into white areas in expectation of changes in legislation will exert an upward pressure on property prices is not necessarily accurate.

"Admittedly this will increase the demand but the effect in the upper-income suburbs will be so dispersed that the net result on prices may be very slight.

"Living conditions for the mass of the rapidly increasing urbanised black population are unlikely to be transformed in the foreseeable future, even by the total abolition of the Group Areas Act."

The report concludes that the possibility of whole cities being declared free settlement areas would minimise financial damage and "take the heat off the government."

DURBAN — A costly technical legal hitch following the Budget, which reversed the GST-exemption given to foreign tourists on purchases of jewellery, is being remedied, says Jewellery Council executive director Michael Goch.

Although he had not been told how the new "interim" system would work, he had been advised by Government officials that they were "in the process of making provision for a system to be introduced which will allow the sale of jewellery to foreign tourists free of GST.

"I believe it will be run

Jewellery regains sparkle

DES PARKER

Star 7/4/90
along the lines that we proposed in that forms similar to the tourist declaration forms completed at the sale will be stamped by passport officers at the point of departure and returned to jewellers for submission to Inland Revenue," he said.

The problem arose after the Minister of Finance in the Budget announced the scrapping of the 20 percent ad valorem excise duty on all sales of jewellery.

As a consequence, Customs and Excise licences issued to jewellers, enabling them to exempt foreign tourists from the duty, were no longer of any force in law.

"Consequently, we were faced with the legal position that jewellers had to resume collecting sales tax from foreign tourists, despite the amendment 1985 to the Sales Tax Act which provided the exemption," said Mr Goch.

Political tensions could further erode confidence

Blom 9/14/90

CONTINUED socio-political tensions can lead to a dramatic fall in business confidence, the SA Chamber of Business (Sacob) says.

While the low gold price — the main reason for declining confidence in March — has begun to recover, other factors will be the chief determinant of whether business sentiment follows suit, it says.

These include political developments, the level of unrest and the impact of these factors on the JSE.

The chamber's note of caution follows the results of its latest business and industrial confidence indices — released simultaneously for the first time at a Press conference on Thursday — which reflect waning optimism.

Its business confidence index, measured against 16 economic indicators, tumbled 1,7% to 94,2 last month — its second lowest level since mid-1987.

But political developments within the country also heightened nervousness on the market, Sacob says.

"In recognition of the ANC's perceived importance in a future SA, significant weight is being placed on the statements of its senior officials, and the financial markets have responded accordingly," it says.

It is important in these times of

SYLVIA DU PLESSIS

socio-political upheaval that the economy provide a stabilising influence.

However, both foreign and local investors have shown reluctance to invest in SA, either on the JSE or in new business ventures, in view of the uncertainty. If this persists, it will "undoubtedly" impact on future economic growth.

Escalating violence in some areas and ANC statements which saw share prices fluctuate sharply and created deeper uncertainty — coupled with the Budget's failure to provide much

tax relief for manufacturing concerns — dampened confidence in the manufacturing sector.

Sacob's manufacturing activity index, after rising sharply to 132 in February, fell to 118 in March, while its chief indicator of industrial sentiment — that of expected sales — declined to 120 from 132.

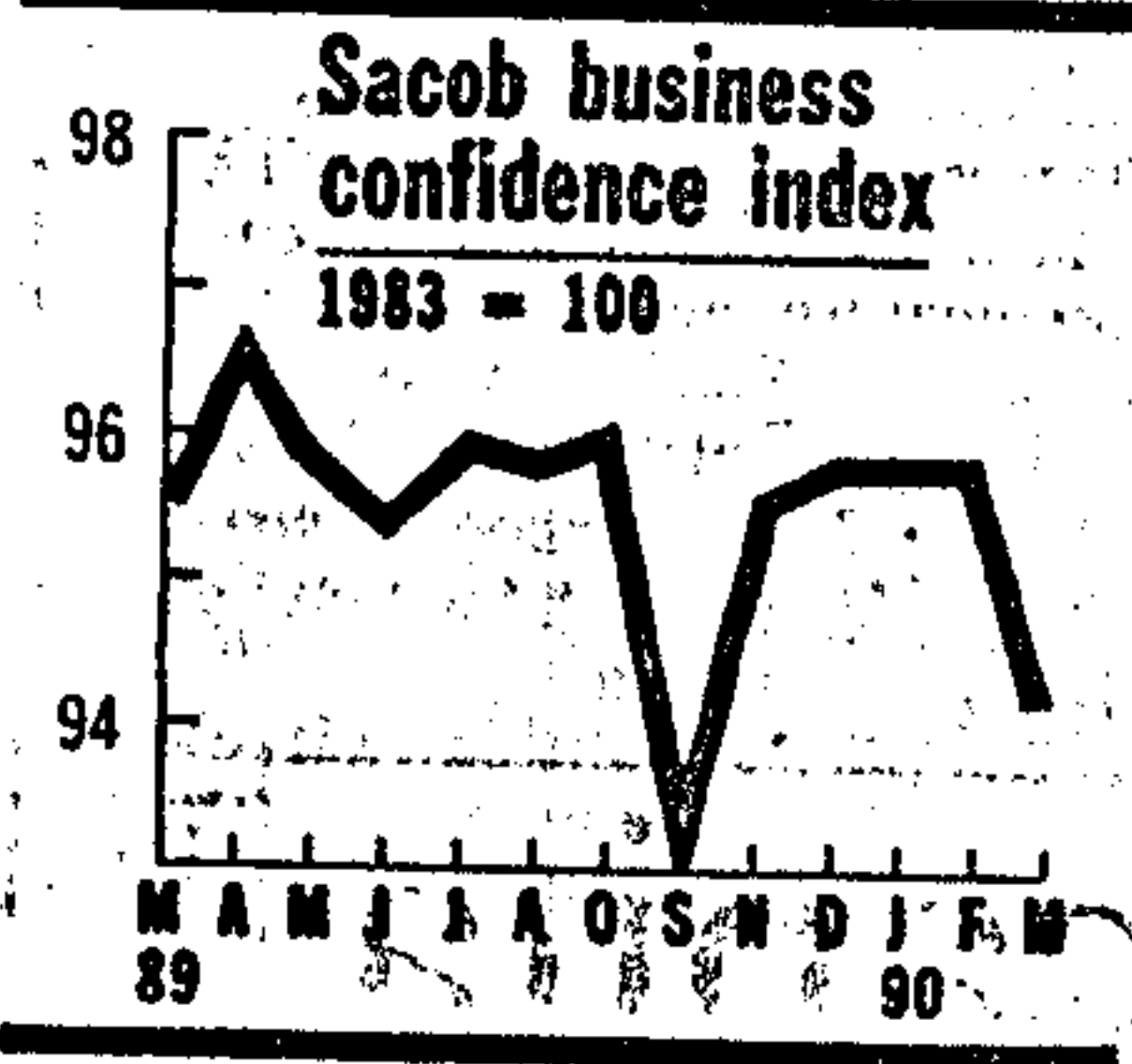
Expected sales indices for the next year in Maritzburg, highest overall in February, registered the sharpest fall — 36 points to 136.

However, the chamber says it may be that confidence levels in the sector have reached more realistic levels. On the basis of current economic expectations the sector should enjoy positive growth in 1990.

Sacob economic consultant Roelof Botha, commenting on overall prospects, told the conference it was important for business to bear in mind that the death of apartheid would induce two major beneficial economic effects.

One was a "post-apartheid dividend", in the form of savings on public expenditure aimed at supporting apartheid policies and the reversal of the costs of sanctions.

The other was the release of pent-up demand for housing, education and health, leading to more economic activity in areas with low import-propensity.



Graphic: FIONA KRISCH Source: SACOB

Confidence returning to gold market

Business Day Reporter

61 Dec 9 14 190
IT APPEARS that confidence is returning to the international gold bullion market after the recent sharp falls. (3) (74)

In weekend trading in Hong Kong, the yellow metal received a boost from heavy Swiss short-covering, which stimulated late trading. It ended at \$379.15.

The market was also influenced by heavy European short-covering, while the dollar's easing against the Japanese yen encouraged gold bullion buying.

Stock prices drifted lower on Wall Street on Friday as the Dow Jones industrial

average dropped 4.06 to 2717. In Tokyo, popular stock averages zigzagged amid rumours of speculators' financial woes.

Diagonal Street investors appeared reluctant to take positions ahead of the long weekend. The firmer gold price did little to generate confidence in the market. The overall market index had difficulty making progress as the all gold index remained near its recent lows, while industrials were under pressure from the poor performance of foreign equity markets.

74 ~~74~~ Star 10/1/90

Madeiran tax haven to get boost from property group

The establishment of a trade and industry free-trade zone and the development of a major off-shore financial centre in Madeira has created an attractive alternative to other tax havens in the world.

Quick to see the advantages is one of the South Africa's leading property groups, JH Isaacs.

Under the banner of its British subsidiary, JHI International and Pivotal Projects, it has secured rights to develop an industrial park within the Madeira free-trade zone.

Negotiations with potential investors are well advanced.

With an airport near by and a telecommunications system, the

Property & Construction

FRANK JEANS



park will be similar to recent developments in other parts of the world.

Industrial and office accommodation will be built to specifications conforming to those in South Africa.

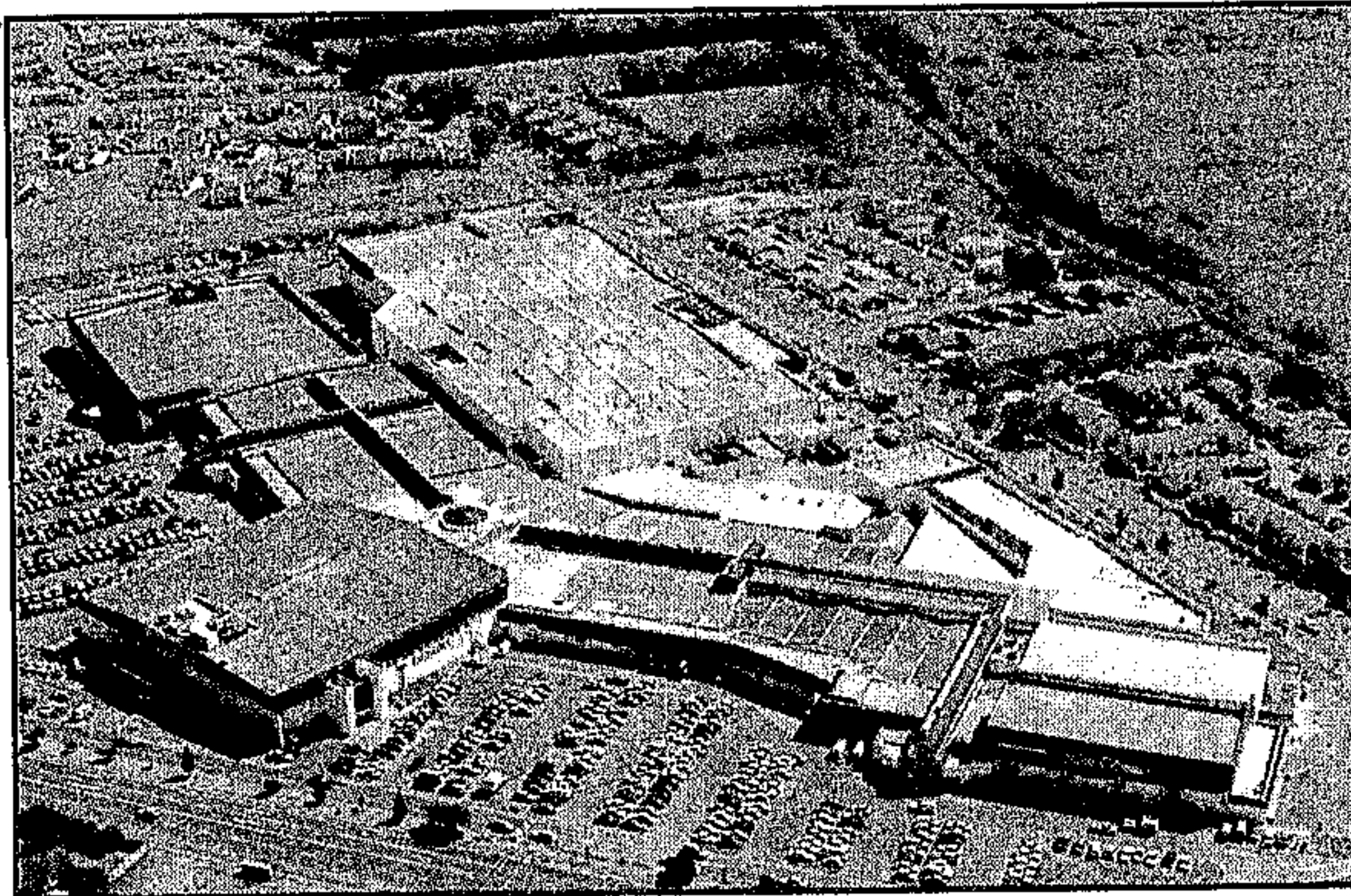
Lease terms will also be similar to those in this country, with 10 to 15-year leases incorporating standard rental escalation and review periods.

Applications from clients who want to buy units on a 50-year lease will be considered.

A JHI spokesman says: "The strategic location of Madeira puts it within easy reach of major shipping and air routes and thus offers international manufacturers an advantageous trading base into Europe, Africa and North and South America."

Building of the park is expected to be completed at the beginning of 1992, although the first buildings are planned for occupation at the end of this year.

The industrial sales division of the local JHI operation is handling deals.



Mall completed

The upgrading and extension at the Blue Route Mall (left) in Cape Town has been completed, making it the eighth largest shopping centre in South Africa.

Stauch Vorster was the main architect for the R69 million development and Ovcon the main contractor.

The complex, which now covers 46 000 sq m, includes a new Woolworths store and a 14 500 sq m Hyperama.

W/Mail 12/4-19/4/90

Zimbabwe in ~~the~~ fear of SA ~~the~~ ~~the~~ democracy (74)

By JOHN MORRISON

WORRIES about competition in the 1990s from a democratic South Africa are lending a new urgency to plans to liberalise Zimbabwe's tightly controlled economy.

Liberalisation has been talked about since the mid-1980s when a post-independence boom fizzled out and it became clear that Zimbabwe was failing to meet its economic targets.

Now, after several years of waiting, it looks as though action by the government is imminent.

"What we are working on and what we plan to implement in the middle of this year is a phased and targeted opening of the economy," Finance Minister Bernard Chidzero said.

Majority rule in South Africa could open wide the doors to black Africa for South African exporters, who at operate under a political handicap.

Mike Humphreys, economist for the Confederation of Zimbabwe Industries, believes that change in South Africa is making Zimbabwe's policy rethink even more urgent.

"Within the region our major competitor is South Africa. It's a Third World country in trade with the rest of the world, but in terms of the region it is a First World country selling manufactured products."

"This makes it more and more crucial that we get our act into gear. The time we have got left until South Africa has a settlement, we have got to use to get our industry much more competitive, much more efficient," Humphreys says.

Fifteen years of international sanctions up to 1980 against the rebel Rhodesian regime created an industrial sector based on import substitution, making a broad range of products for the domestic market. But efficiency was low and costs high.

Starved of foreign exchange for years, industrialists now will get the chance to re-equip their factories — but only if they export. Since independence textile and clothing manufacturers have plunged into cut-throat international markets, but other industries have stood still, cushioned against competition from imports.

— Sapa-Reuter.

Bumps in long road to economic health

Business Times Reporter

THE haul back to economic health could be longer than predicted.

As economists take stock of the first quarter, national accounts data show that the domestic economy entered the downward phase of the business cycle in 1989. The downswing gathered momentum in the second half of the year.

Although the deceleration in real economic activity has achieved some success in relieving pressure on the balance of payments, it is crucial that in the short term at least, the consolidation phase be extended to show more improvement in the foreign-currency reserves and to curtail inflationary pressures.

Old Mutual's Economic Research Unit says the potential for improvement in the

gross reserves will be determined by two factors: the size of the current account surplus during the year and the actual extent of SA's foreign debt commitments.

In all, a current account surplus of more than \$2-billion will probably have to be generated to accommodate total capital outflows and at the same time improve the foreign-exchange reserves.

SA's export revenue is determined largely by foreign developments. The gold price outlook appears at best to be cautiously favourable. The major factor militating against a sustained rise in the price is the continued disinflationary world environment.

Gold reached an all-time high of \$850 in 1980 when inflation in the major econo-

OLD MUTUAL ON WHAT LIES AHEAD

mies was averaging 12%. Given low inflation rates of about 4% there is little pressure for investors to move into gold, says Old Mutual.

The low interest in gold is enhanced by the high returns offered on government long bonds in most major economies.

These conditions are likely to last for the foreseeable future, providing little fundamental support for gold. It seems, therefore, that future support for the dollar price of gold will depend largely on a weaker American currency. The vulnerability of the US dollar implies that the gold price could improve from current low levels.

For various reasons — mainly related to concern about inflation — short-term

interest rates in most major industrialised nations are expected to remain high this year, and may even rise. The slowdown in world growth is expected to continue this year and possibly even next year.

Generally speaking, growth rates will be lower than the average since 1983, but at this stage a repetition of the severe recession that occurred in the early 1980s is not foreseen.

On balance, however, total export revenue in rand terms in 1990 should not rise as much as in 1988 and 1989 when growth of 15% and 19% respectively was recorded.

Old Mutual says growth in the rand import bill will have to be curbed to attain the required current account surplus. This implies further curtailment of real domestic demand and the maintenance of stringent economic policy measures.

All this means that there is limited scope for a fall in short-term interest rates in 1990. Moreover, because the greater part of this year's foreign debt matures before July, any decline that may occur will be in the second half.

Cyclical inflationary pressures in the domestic economy are still very much in evidence. Any significant decline in the inflation rate will depend on the relative stability of the rand exchange rate and domestic demand conditions.

The rand's international value remains vulnerable because of the large inflation

differential between SA and its big trading partners.

Consequently, it is vital that domestic economic activity be restrained by tight economic policy to curb demand-pull inflation.

Overall, the latest Budget seems to fall in the stimulatory category. Tax concessions are significant enough to provide real relief to individuals, while the eventual increase in total spending is unlikely to be much lower than the expected inflation rate.

Clearly, the burden of shouldering responsibility for stabilisation of the economy by restricting domestic demand has shifted towards monetary policy.

An imminent relaxation of monetary policy appears unlikely. A continued

slowdown in domestic economic activity should, however, allow for some decline in short-term interest rates in the second half of 1990 to provide a soft landing.

A steep decline would, however, be both imprudent and unexpected because of the authorities' commitment to positive real interest rates in line with those of SA's major trading partners.

On the whole a further moderate decline in real domestic expenditure is foreseen in 1990 after last year's 1% decline.

Domestic production could, however, register a small increase through a moderate rise in foreign demand and SA producers providing a larger portion of domestic demand.

Old Mutual says a worse agricultural year should, however, restrict the improvement in domestic production to below last year's growth rate of 2.3%.

New EC could open frontiers

ZILLA EFRAT

SOUTH Africans will have to learn to live with post-1992 Europe, says Frankel Kruger Vinderine's Mike Brown.

In an economic appraisal of Europe in 1992, analyst Brown says 26% of SA's total exports and 42% of its imports are with EC member nations, and SA's trade with the EC has grown steadily.

The EC will not only be the largest single market or economic bloc in the world, but may enjoy economic growth rates comparable to most other regions.

Brown says SA's exporters should take advantage of its positive market potential. However, political developments in SA would play a vital role in shaping the EC's future policy on SA.

"Should the normalisation of political representation in SA continue apace, it may be possible for government to negotiate abolition of sanctions and even favourable 'compensation' packages.

"A more politically acceptable SA might also be able to negotiate some favourable access to the EC."

Brown says lifting of inter-EC trade restrictions should enhance trade, but

might lead to greater introspection within Europe and deter trade with the outside world.

"SA companies should look towards penetrating such barriers by establishing a presence within Europe, either through direct representation or through co-operative agreements with European countries."

He advises serious SA exporters to acquire a European identity and think European to breach the barricades of "Fortress Europe".

A single market will also bring about conformity among EC members in standards, technology, tax and legal requirements. This should facilitate trade, but SA businessmen must familiarise themselves with EC standards.

Brown says regional cultural and income distribution disparities suggest that fragmented demand will still exist in many areas of Europe.

As a result, SA companies may need to look for targeted markets.

Wit Cols does well

Witbank Colliery (Wit Cols), RM's coal mining arm, produced strong results in the six months to March, compared with the same period a year ago. An interim dividend of 210c (175c) was declared.

"The strong results have been achieved despite a higher rand-dollar exchange rate of R2,62," says Allen Cook, deputy chairman of the coal division.

Taxed profit in the March quarter rose 12 percent to R44,4 million, representing a net working profit of R10,81 a ton (December quarter: 952c).

While actual working profit of R58 million was 30 percent greater than in the previous quarter, net sundry expenditure of R13,7 million (December: R4,8 million) was considerably higher because of finance charges incurred on the borrowing necessary for the acquisition of a stake in Middelburg Mines from BP.

Anglo-Transvaal Collieries — whose sole investment is a 15,6 percent stake in Wit Cols — raised its final dividend from 112c to 132c a share. This brings the year's total to 367c (1989: 250c) a share.

13/Jan # 18/4/90 74

US meetings see long-term optimism for gold

LIZ ROUSE

THE general mood of the Gold and Silver Institute's meetings in the US on the outlook for the gold price has been one of short-term neutrality, but cautious optimism for the medium and longer terms.

This summary of the meetings' view has been made by Mike Brown, Frankel Kruger Vinderine representative at the Scottsdale, Arizona, meetings.

Brown says the near-term nervousness stemmed predominantly from concerns that new investors attracted into the gold market in the final quarter of 1989 had been disappointed by the gold price performance, and could turn to sellers — fears apparently proved justified by the investor liquidation of gold holdings in recent days.

Another concern was the strength of

the US dollar, which was attracting political hedge funds seeking safety from developments in Eastern Europe and the Soviet Union, and which was also benefiting from weakness in other major currencies.

Reflationary

The more optimistic tone to gold price projection for the second half of 1990 and beyond stemmed from the following factors:

□ The US dollar recovery could be tenuous as it is based more on yen (stock market), mark (re-unification with East Germany) and pound (economic and political stagnation) traumas rather

than fundamental strength in US economic aggregates;

□ World money supply growth is accelerating. Expectations are that Eastern European integration and the repairing of Japanese equity market damage will require reflationary policies and promote further growth in money supply;

□ International inflation is providing some cause for concern, disguised by high yields on long bonds, but this is unlikely to provide a sustainable cure;

□ Economic strategy worldwide could be coming to a cross-roads.

Conservative economic policies might end up proving unpalatable in terms of the pain caused by high and real interest rates when economic growth slows.

British Prime Minister Margaret

Thatcher is encountering voter resistance brought about by stagflation — a message not likely to be lost on other nations;

□ World gold production appears to be peaking. The strong growth from under 1 000 tons in 1981 to more than 1 700 tons last year in Western World gold production is slowing, and could be close to topping in the next year;

Patience

□ Industrial demand, particularly jewellery fabrication, has expanded substantially in recent years, rising by about 600 tons since 1985, and has been at all-time record levels for the past two years.

In conjunction with the slowing growth in world gold production, buoy-

ant physical demand provides an argument for supporting the gold price. Brown says these arguments outlining the prospective improved fundamentals for gold suggest the gold price hiatus is cause for patience rather than panic.

Longer-term investors might require strong nerves to sit out the current liquidation of gold holdings by speculators, but such patience could be rewarded by a more favourable climate for gold investment.

Speculator disillusionment with gold and the dollar strength are, however, burdens that the market will have to work through, says Brown. Accordingly, it might take some time before the gold market re-focuses on improved fundamentals and, in the interim, the gold price could endure another phase of "bottom-fishing".

The Wilgespruit Fellowship Centre was the only organisation that had been declared a reporting organisation in terms of the Disclosure of Foreign Funding Act, the Minister of Justice, Mr Kobie Coetsee, said in the House of Assembly yesterday in reply to a question by Mr Tony Leon (DP Houghton).

74
19/1/90

WITH South Africa seemingly set to embark on a freer trade policy than ever since 1925, world trading conditions are becoming increasingly uncertain. South African economic policy makers must be more than a little concerned that international negotiations to establish a new General Agreement on Tariffs and Trade are facing severe obstacles.

GATT talks are scheduled to be concluded later this year, but participating countries and trading blocs seem far from agreed on many crucial issues.

Though the government has not yet publicised the details of its new trade policy, aspects of it are leaking into the public arena, probably derived from briefings with the private sector. The philosophy behind the new trade policy was summarised in an appendix to the Budget Review reported on these pages. The government believes that the inefficiency and uncompetitiveness of South African manufacturers is the product of the distortion of the prices of capital and labour. This distortion was partly caused by tariffs which favoured the importation of machinery and intermediate goods so that imported final goods could be made domestically.

One way of rectifying factor prices proposed by the government is the abolition of a range of tariffs protecting locally made manufactured goods. Among the products mentioned by economists as candidates for losing their protection are paper and pulp, pharmaceuticals, and textiles.

South Africa's daring free trade leap of faith

By ALAN HIRSCH

At the same time exports are to be promoted through the General Export Incentive Scheme, launched at the beginning of this month, which rewards firms that successfully enter the export market. In short, the government is abandoning an import substitution policy for an export promotion policy, but through minimal intervention in markets.

Critics might fear that loss of protection could threaten employment in some manufacturing sectors, though it is intended to encourage the substitution of capital with labour in uncompetitive sectors. With the added uncertainties faced by potential exporters reflected in the GATT talks employment growth in the export sectors is less than certain.

The current "Uruguay round" of GATT talks began in 1986 and is due to be concluded early in December, 1990. The weighty questions would have to be settled by July to allow time for fine-tuning. But divisions are still so great that some commentators wonder whether the agreement will be concluded on schedule.

A major line of division indicated in reports in international business publications and GATT monthly bulletins, is that between the advanced in-

dustrialised countries and the "developing countries". The issue is not simply free-trade vs protectionism; the industrialised countries are calling for controls over the trade and exchange of certain commodities, and free-trade in others, while the developing countries hold similar views about different commodities and services. *W/Mail 28/4 - 26/4/90*

For example, the European Community and the United States want the more developed countries of the Third World (the newly industrialised countries — NICs) to give up their right to impose trade restrictions when faced with balance of payments problems. The EC also wants to change a key clause which allows countries facing a sudden surge of imports to take temporary blocking action. Instead of blocking imports from all countries manufacturing the relevant category they want to be able to act against individual countries. The industrialised countries also want to free the international trade in services (banking, transport, telecommunications etc) and restrict the international transfer of "intellectual property rights" (patents, computer software etc).

The developing countries, on the other hand, want to end the present restrictions on the international trade

in textiles (under the Multi-Fibre Arrangement); to lift restrictions on the export of tropical products; to prevent the imposition of so-called voluntary export restraint agreements; and to have anti-dumping rules obeyed.

While Third World tariffs are the chief targets of the industrialised countries, the Multi-Fibre Arrangement (MFA) which controls world trade in clothing and textiles, beyond GATT rules and in defiance of GATT principles, symbolises for the developing countries the protectionism of the industrialised countries. The US has proposed a very gradual phasing out of the MFA which is unacceptable to the developing countries.

Another major stumbling block to the completion of the Uruguay round is the dispute over agricultural subsidies. Here the major antagonists are the US, which wants to end all farm support by 2000, and the EC, which has agreed to a partial removal of concessions, with increases in protection on certain products such as soya beans and other cereal substitutes. The EC's position has been rejected by all other delegations.

South Africa is launching a drive to market manufactured goods internationally in an environment not altogether conducive to free trade, especially when it comes to selling manufactured goods to the industrialised countries. In the context of the stable international monetary and trade order of the 1950s and 1960s an export drive in manufactured goods might have made sense. Today it is a daring leap of faith in free trade.

Harbour 'focus of free trade zone'

Cape Times
20/4/90

74

AUDREY D'ANGELO
Financial Editor
CAPE Town harbour meets many of the requirements for an export processing zone (EPZ) — which would be a good starting point for turning the whole of SA into a free trade zone — Senbank economist Emile van Zyl suggested yesterday.

But Wesgro director David Bridgman said that exports of manufactured and processed goods from the Western Cape had already risen by 35% in real terms, allowing for inflation, over the past two years.

He thought it was time for the area to move to the second stage, beyond a geographical EPZ in the harbour, to decentralised export zones wherever exporters' factories were located.

Van Zyl and Bridgman were speaking at a seminar organised by Senbank at the Mount Nelson Hotel.

Bridgman said that the latest official figures from the Central Statistical Services (CSS), showing that the Western Cape was underperforming compared with the rest of country, were out of date.

Producing a graph to show that Metropolitan Cape Town's share of the gross domestic product (GDP) was rising after falling to its lowest level in 1981, he said that tourism had performed very well in the last three years and was getting stronger.

The skills developed in the clothing and textile industries had proved useful in the rapidly growing technology sector.

And "a wave of black migration" had given the area a stronger base and accounted for an estimate of almost 100 000 people in the informal sector

Prime to fall by August?

PRIME rate will probably fall by 1% in August, Senbank chief economist Johan du Pisanie forecast at the seminar yesterday.

He expects another 1% drop in October, bringing it down to 18% by the end of the year.

Making the forecast, Du Pisanie said he expected money market interest rates to "start softening from now onwards".

in the Western Cape, which had been quoted by Van Zyl.

Van Zyl said that the percentage of cargo passing through SA ports which was handled at Cape Town harbour had fallen steadily since 1980. The harbour was clearly under-utilised, particularly outside the fruit season.

Consequently, it had sufficient capacity to serve as a focal point for an EPZ.

This would encourage exports with added value. SA at present exports primary products and imports finished goods.

However, the crucial factors which would determine whether an EPZ

could succeed would be foreign confidence in SA's future, and low production costs.

"If the present uncertainty about the way the country will be governed in future persists, all hope of the establishment of an EPZ promoting regional development must be abandoned."

But if SA had a free economy with minimal government interference, the EPZ concept could be applied successfully in Cape Town and later extended to other harbours and inland areas.

"Then the only minimum requirement would be that the cost of production, in spite of the distance from world markets, should be lower here than elsewhere in the world."

Bridgman said the main advantage of setting up an EPZ in a port was to develop an infrastructure focused on that area.

SA was not a poor economy. It had a relatively high technological base, a good infrastructure throughout the country and relatively high wage rates.

Unisa row: council chairman remains silent

Pretoria Correspondent

The man at the centre of the Unisa chancellorship row, Dr Gerhard Davidtsz, is determined to remain silent.

Dr Davidtsz, who is the chairman of the university council, said he had no further comment except that it was an internal matter which will be discussed at the council meeting on May 2.

The former chancellor of Unisa, Professor Theo van Wijk, denied that he was reluctant to accept that the duties of chancel-

Stew 2014/90
lor were not as comprehensive as those of principal. He reiterated that he was asked to resign by Dr Davidtsz.

The principal and vice-chancellor, Professor van Vuuren, said there was little opportunity for conflict between himself and the chancellor and as far as he knew Professor van Wijk had resigned for personal reasons.

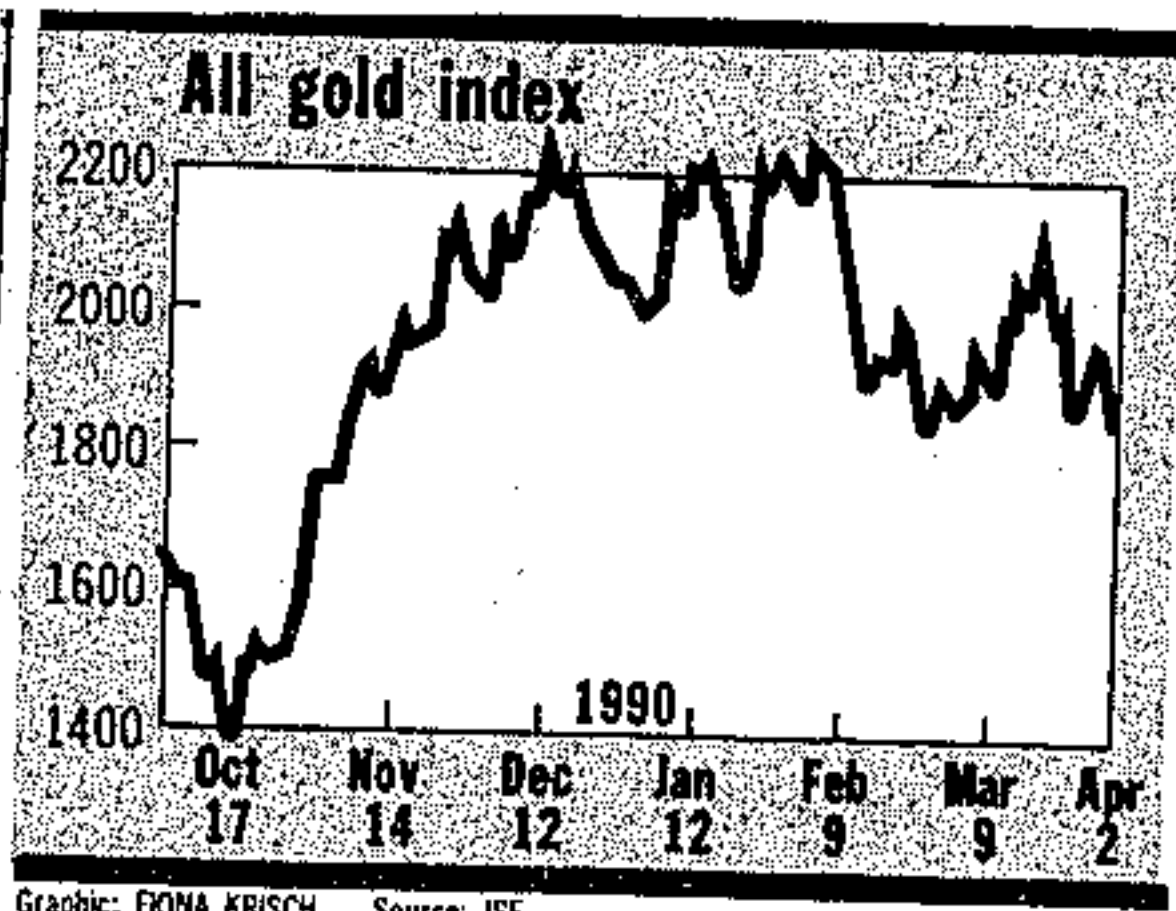
He said he had great respect for Professor van Wijk.

He added that as far as he knew Profes-

sor van Wijk had resigned for personal reasons and not been forced to resign by the University Council.

Professor van Wijk, a historian, said he would now devote his time to research and also to his duties as chairman of Pact and the National Orchestra.

As principal and chancellor, Professor van Wijk was an eminent, highly respected and capable person, said the chairman of the Committee for University Principals, Professor Abram Nkabinde.



Graphic: FIONA KRISCH Source: JSE

Move on talks hits trading

MERVYN HARRIS

DIAGONAL Street was mauled yesterday by a combination of bearish factors, with sentiment being hardest hit by the ANC's cancellation of talks with Inkatha and President F W de Klerk.

News that the talks had been called off resulted in a wave of selling of SA shares from London. Then the second largest one-day fall of 6,6% on the Tokyo stock market caused a ripple of nervousness on the JSE.

The third negative factor in a depressing session of trading was the failure of the gold price to penetrate the \$370 level. The metal closed unchanged in London from Friday's \$369 after trading in a narrow band in featureless conditions.

The JSE overall index plummeted almost 4%, or 129 points, to 3 128 as a sharp 4,2% weakening in the finrand investment unit failed to stem the downward tide with share prices substantially lower in dollar terms.

"Markets are driven by sentiment and yesterday we had not just one but a combination of three negative factors," a dealer said.

Analysts said the nosedive in political sentiment on the external front was reflected in the sharp downtrend of the finrand while, internally, sentiment could be mea-

sured by the Krugerrand's premium of almost 21% on the rand gold price.

The Krugerrand closed R3 lower at R1 187. Analysts said the differential with the rand gold price of R983 was high in historical terms and indicated uncertainty and unease at the current situation in SA.

The 5,2% (103 point) plunge in the JSE all gold index to 1 857 was seen as a belated reaction to last week's slump in the price of the metal to five-month lows.

Dealers said gold shares were now at more realistic levels, after showing remarkable resilience last week when share prices recovered almost all of their initial losses by the weekend in the hope that the metal would at least recoup part of its \$25 loss.

More depressing was the way leading industrial shares wilted under the weight of the negative factors with the index shedding 3,2%, or 96 points, to 2 880.

Dealers said the only positive factor to emerge was the lack of heavy selling after London instigated the initial downturn. There was only selective offloading of shares by local institutions which also nibbled at some stocks on their way down.

Experts trim forecasts of precious metal prices

8/23/90
AUSTRALIAN and Canadian gold indices have retraced most of their late 1989 improvements, while the SA gold index has not, says UK-based S G Warburg Securities in its latest international mining outlook.

Consequently, says Warburg, the share prices of high-cost, marginal SA gold-mining companies could be vulnerable at their current levels.

Because of the recent sharp declines in the precious metals markets, Warburg has cut its price forecasts for all of these commodities. But the firm still looks for improvement later this year based on a weaker US dollar and possible labour troubles in SA.

One bright spot was the split of De Beers into its SA and overseas components, followed by a 5.5% rise in rough diamond prices. The stockbrokers feel that the market is underestimating the potential for De Beers and urges its clients to buy the shares at current levels.

The firm expects base metals to remain firm, but warns its readers to beware of the summer doldrums.

The base metals market remains

Business Day Reporter

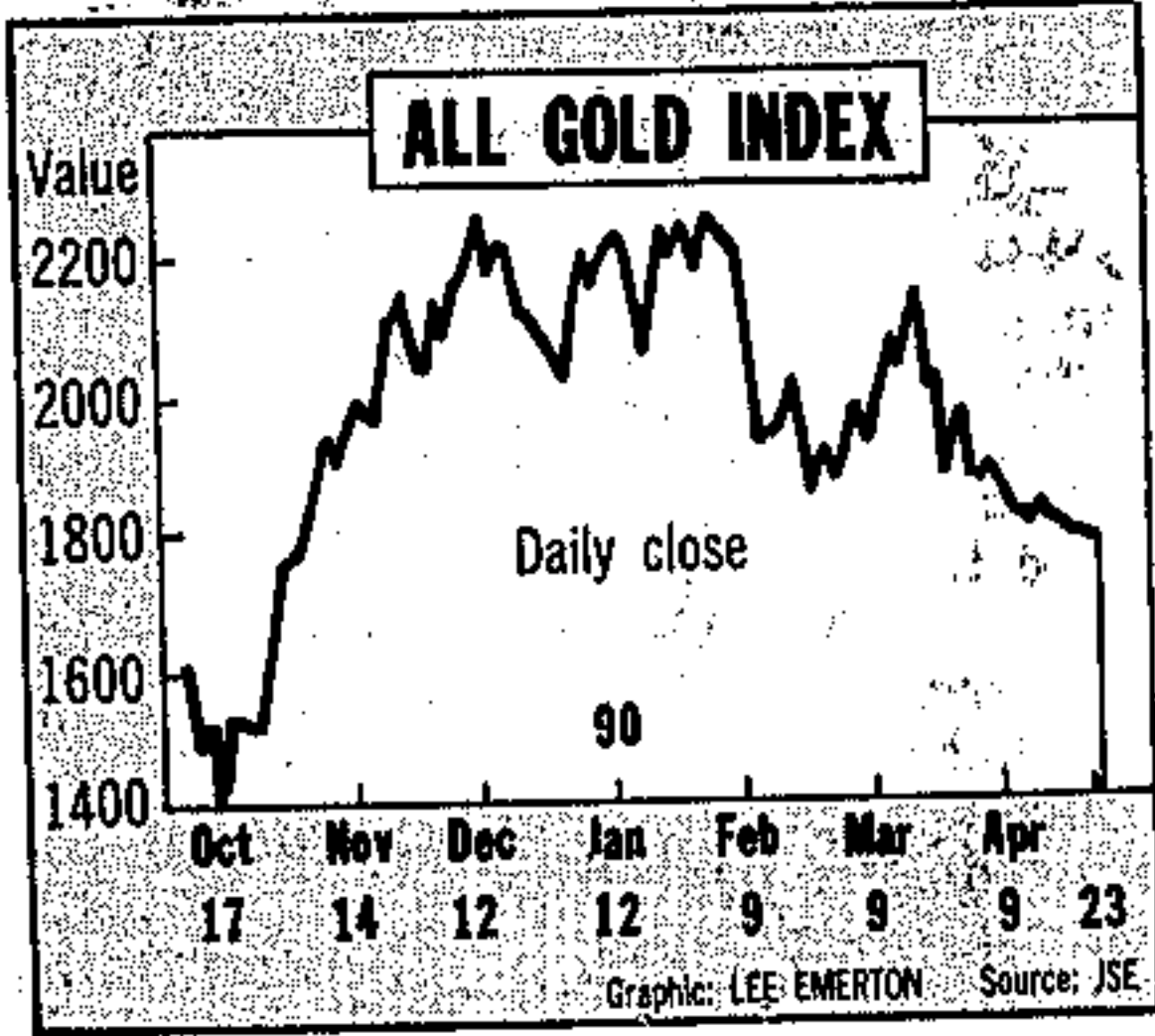
very tight and there is little surplus stock. But because the normally quieter northern hemisphere summer period is approaching, there is concern that demand growth for some metals has fallen away recently. Consequently, Warburg expects softness in mid-year and still believes it is too early to be buyers of non diversified non metal stocks.

Commenting on the individual base metals, the aluminium market is in better balance, and consequently further price falls should be limited from current levels.

The supply of copper is estimated to rise later this year, which could result in falling prices from July. But no price collapse is expected.

After rising sharply earlier in the year, lead prices should retreat, while nickel prices are also expected to continue to weaken.

Zinc prices could test new lows by mid-year, but the outlook for tin is more encouraging with modestly higher prices forecast.



Gloom sets in on Diagonal Street

B/D Day 2nd/4/90 MERVYN HARRIS

GLOOM set in on Diagonal Street yesterday as poor March quarterly results of gold mines sent shares of marginal mines reeling and caution over political and economic events weighed on industrials.

The market opened weaker on New York selling of SA shares on Friday and in London yesterday and continued to edge lower on lack of major buying to bring the JSE overall index down almost 2% or 60 points to 3 033. (74)

"Sentiment has taken a swing for the worse and the market is in a bad way," said Mannie Fisher of stockbrokers V H Simmons & Co.

The all gold index fell 2,5% or 46 points to 1 762 but it was the non-index weighted

To Page 2

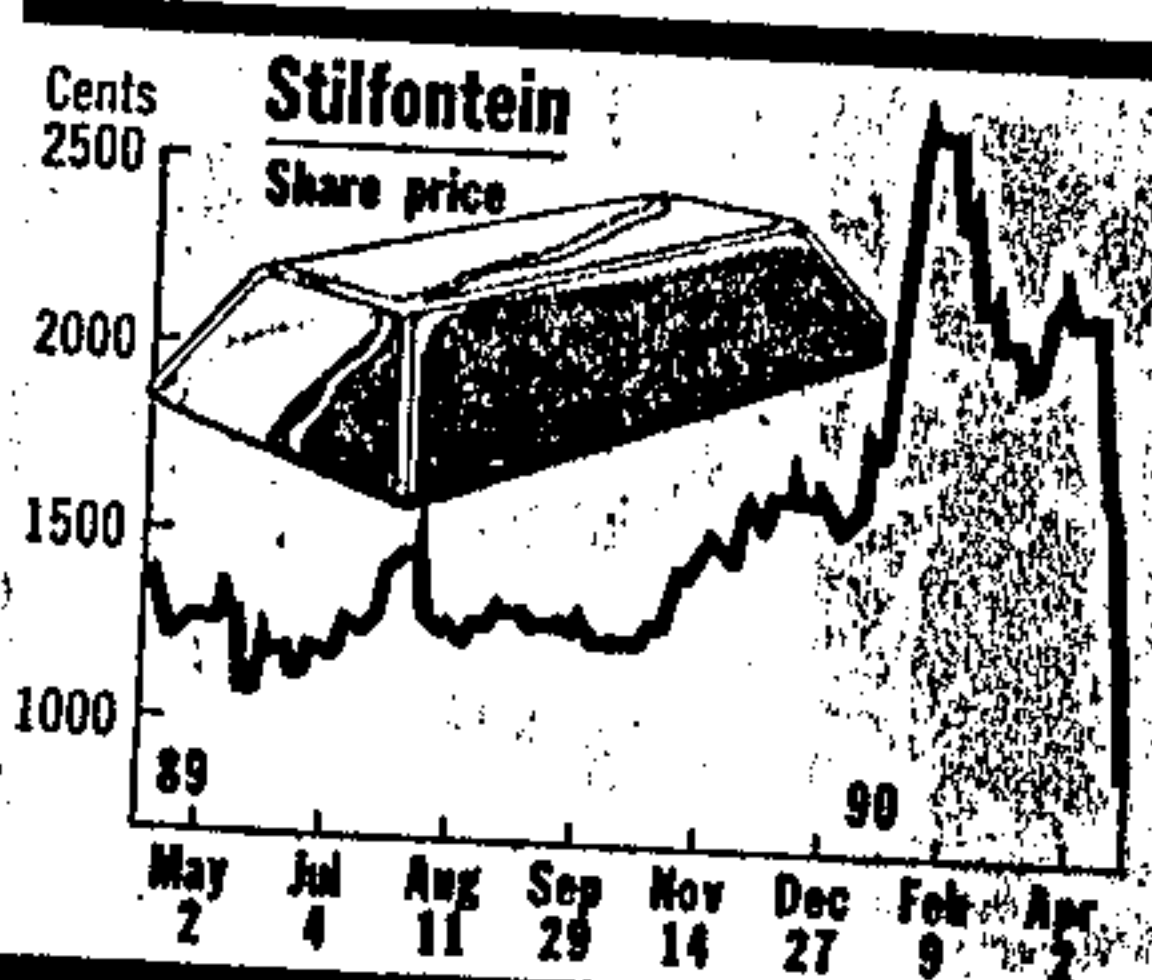
Diagonal Street

shares which bore the brunt of the declines in the wake of disappointing March quarterly results. The softer trend came as a firmer dollar kept a lid on gold which closed unchanged at \$375,75 in London.

Dealers said recent speculation of possible interest rate hikes and disillusionment

B/D Day 2nd/4/90 (74) From Page 1
over political events dampened interest in industrials. The index closed 1,2% or 36 points down at 2 833.

"People are opting to remain liquid. The market needs something positive to come out of next week's talks between the government and the ANC," a dealer said.



Graphic: FIORA KRISCH Source: JSE

Marginal mines' shares battered

MERVYN HARRIS

SHARES of marginal gold mines were battered on Diagonal Street yesterday and even a firmer gold price failed to spark buying in the rest of the market, which remained despondent.

Stilfontein Gold Mine, under threat of early closure, plummeted 44% to surpass its low of R11 a year ago and closed at 925c. The shares hit a low of 750c but Brussels shareholders, who have a stake of about 60% in the company, provided support.

Analysts said if the mine was to close, shareholders could be paid out a final dividend of up to 500c or 600c.

Libanon, which is also battling to survive, fell 13,6% or 75c to a new year low of 475c after peaking at R10,50 at the end of January. Durban Deep fell 13,6% or 300c to R19 after peaking at R41 in February.

Dealers said the weak gold price, rising costs and looming wage negotiations weighed on the gold market.

Reflecting the general downward drift in share prices, the JSE overall index declined 16 points to close at 3 017 — despite gold rising \$2,50 in London yesterday — to end at \$378,25. *bidam 2514190*

Stewart Penn, of Greenwich Futures and Options Brokers, said: "We expected the market to perform after the overnight rise in the gold price. But it has done nothing. This reflects nervousness and bearish sentiment, but if gold breaks through to \$382 we could see short-covering in futures."

The June all gold futures contract is trading at a 23-point premium to the spot market, while the June all share and industrial contracts are trading at slight discounts to the cash market.

FNB calls it right and is well rewarded

Star 26/4/90

58 -74

By Derek Tommey

First National Bank is again showing that it is the bank to be measured against.

Figures issued today show that its excellent 32,6 percent rise in earnings last year has been followed by a further outstanding 32,1 percent rise in earnings from 135,9c to 179,5c a share in the six months ended March this year — and this in difficult trading conditions.

Further good news for shareholders is that the bank, for the first time for five years, has increased its interim dividend. Shareholders will get 40c against 35c last year. And the cherry on the top is that the bank expects to report a 30 percent growth in profits for the year ending September, says Mr Jimmy Mackenzie, senior general manager.

Several factors are responsible for the bank's good showing. But one of the most important is that the bank's management decided that this was a time to be batten-ing down the hatches (or consolidating as it is sometimes called) and was not a time for expansion.

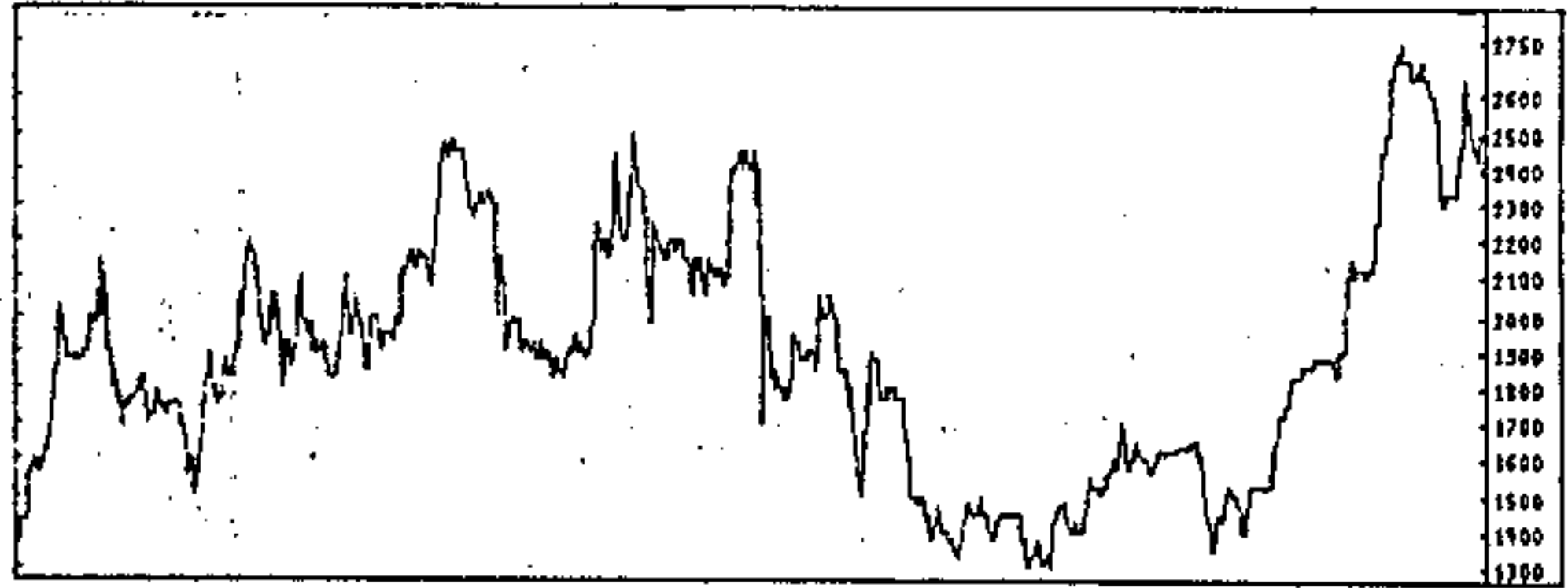
The result of this policy is that the bank's advances business — its main source of revenue — showed little growth. Advances at the end of March amounted to R23,6 billion, which was not much higher than the R23,4 billion a year ago.

Surplus funds

This policy produced several benefits. It provided the bank with surplus funds and consequently it did not have to buy high-cost deposits or pay penal rates at the discount window to get the funds it needed.

The pay-off was that net income from interest rose by 20,4 percent to R660,4 million — showing there are times when caution can produce better profits.

Mr Mackenzie said that the



First National's share price.

Governor of the Reserve Bank, Dr Chris Stals, saw the bank's figures as evidence that his current tough monetary policy could work.

Another important factor in increasing earnings was the bank's ability to limit the rise in operating costs to 8,9 percent. Main reasons for this was the considerable rationalisation undertaken, the reduction of some 1 300 in its staff levels, and the shedding of some bad investments.

This emphasis on limiting cost increases was on-going and should produce further benefits in the years ahead, said Mr Mackenzie.

Other sections of the bank also produced good results and "other" operating income rose by 21,0 percent to R450,3 million.

But not all the increase in net interest income was available for shareholders. In the past nine months the bank has thoroughly examined and evaluated its lending portfolio.

This scrutiny led to it almost doubling its doubtful debt provision from R76,3 million to R147,0 million. But Mr Mackenzie says this provision should be lower in the future.

Profits before tax rose a healthy 38,1 percent to R209,2 million, but tax payments rose 41,2 percent to R95,6 million, resulting in taxed earnings showing a 35,5 percent rise to R113,6 million, while net income, which included R17,0 million from associated companies, rose 31,2 percent to R130,6 million.

After paying out R34,7 million in dividends, the bank was able to plough back R95,6 million.

This has contributed to the bank being fully capitalised. It is already in full compliance with the 1992 Reserve Bank requirements — which means that it has ample capacity for an expansion in business in the coming months.

'Just the best'

But the bank's intention was not to become the biggest — just the best, said Mr Mackenzie, and it would seek only good quality profitable business.

Partly to this end the bank has introduced a training programme to upgrade the lending skills of its managers.

It has also introduced additional disciplines supported by a rigorous credit evaluation and risk management concept to create a stronger credit ethic throughout the group.

With First National now poised for an increase in business, with the bad debts provision likely to fall, with more cost cutting in the pipeline, and with the bank traditionally doing better in the second half of its financial year, Mr Mackenzie is hopeful that profits in the second half of the year could also grow by 30 percent.

First National's shareholders would seem to be destined to have more good news in six months' time.

8/20
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Bergers moves up-market

By Derek Tommey
The Bergers Group has made extremely successful inroads into the middle-income clothing market in the past few years and is now to move up-market as well.

Chairman Howard Mauerberger reports that his company has bought a controlling interest in the "smart set's" store chain, Hilton Weiner.

Mr. Mauerberger says Mr Hilton Weiner will remain with the group and continue to focus on the merchandising aspects of the stores.

EXPORTING

The number of Hilton Weiner stores is to be increased from six to eight and the potential in off-shore business from franchising and exporting holds the promise of exciting long-term future growth.

In the year ended December Bergers increased its turnover 33 percent to R83,5 million and its attributed earnings by 47,1 percent to R6,1 million, equal to 30,2c a share.

It is paying an annual dividend of 13c — up 37 percent from last year's 9,5c.

At the end of 1989 Bergers had 201 stores and expects to open another 20 stores this year.

Investigation reveals companies are empty shells

R14-million shock for thousands of investors

Star 27/4/90

34 232 2514 58

A Polish trade delegation to South Africa has signed agreements to buy iron ore, set up a joint food venture and strengthen other economic ties, officials of the two countries said yesterday.

Mr Andrzej Arendarski, president of the Polish Chamber of Commerce, included a deal with the Chamber of Commerce to offices and develop trade.

The Warsaw chamber's representative in South Africa, Mr Tomasz Kaminski, told Sapa on Wednesday Poland had signed an agreement to buy 200 000 tons of iron ore or promised to import 800 000 tons in 1990.

Mr Kaminski said it was bilateral trade could soon resume.

Star Line

JUNE BEARZI



Investors stand to lose their money after sinking R14 million into a venture capital scheme, Equity Participation Investments (EPI) and its maze of subsidiaries which includes Multi Gold Holdings Ltd and Mazuma Gold Holdings Ltd.

Several of the companies in which 4 000 South African and Swiss investors bought major stakes in the belief they would be listed on the Johannesburg Stock Exchange have turned out to be empty shells, a Star Line investigation has uncovered.

Financial records of the operations are unavailable.

Charges have been made that large sums of investors' cash were funnelled into a network of Swiss and British bank accounts, further probing established.

Mrs Gloria Broad of Sandton who, with her husband David, has invested a R250 000 nest-egg, told Star Line this week:

"We cannot trace our money but what we do know is that it did not go into developing the ventures we believed we were investing in.

"My husband is a broken man because of what they have done."

'Wizard'

EPI in Rodland House, Craighall Park, was launched with great fanfare in 1987 by non-practising lawyer Mr Roy Sellers and a former "insurance company wizard", Mr Steven Wolff.

Thousands of investors poured cash into EPI - dubbed by the promoters as "the vanguard of SA's venture capital business" - and its web of operations, because of promises of unbeatable returns for their stakes in "new gold and diamond mining and solar-powered TV ventures".

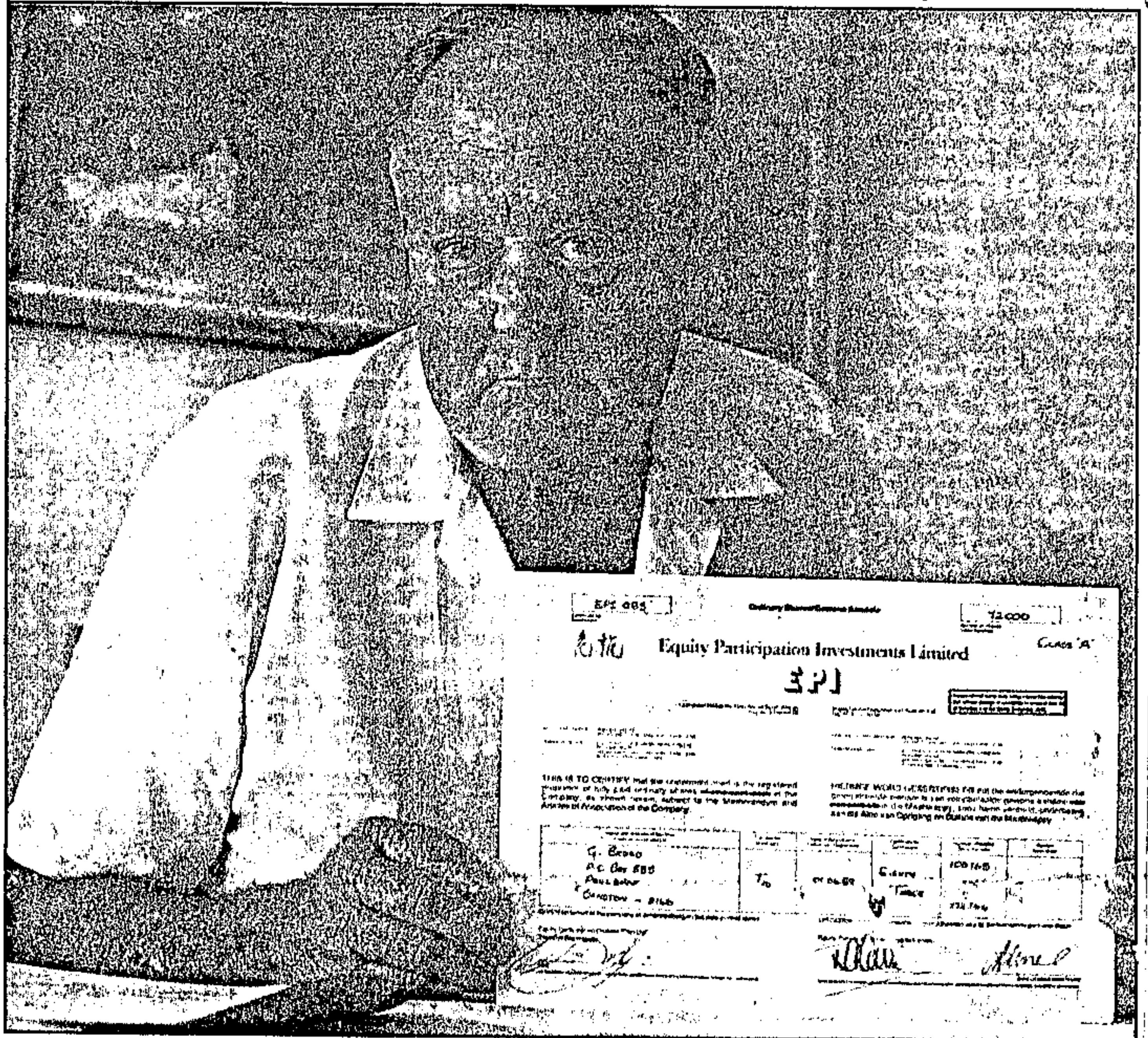
Johannesburg businessman Mr Woody Hornbuckle, however, told Star Line he was initially a partner in the EPI ventures but broke away in January 1989 when he discovered various irregularities. He added that he was further disillusioned by misrepresentations made to him and investors by his former partners.

When the first prospectus was released three years ago investors were told their R2 million would be used to back Supermax, Mechanipack and Brantam Investments, which, they were told, would be "listed on the stock exchange soon".

But the operations never got off the ground, Star Line established.

Shortly after this, prospectuses calling for public funding of unlisted gold-mining operations, Multi Gold and Ma-

● To Page 5.



Mr David Broad of Sandton . . . invested R250 000.

● Picture by Ken Oosterbroek.

First National cuts its bond rate to 20,75 pc

Star 27/4/90

58

By Sven Lünsche

First National Bank has announced that it will reduce its bond rate next month by a quarter percentage point from 21 to 20,75 percent.

This will bring its bond rate in line with those of other banks.

The bank's senior general manager, Mr Jimmy McKenzie, said today while clients' monthly bond payments would not be reduced immediately, the lower interest would be offset by the automatic increase in capital repayments.

This could shorten the term of their home loan by several years, Mr McKenzie said, adding that clients could choose to reduce their interest payments by arrangement

with their branch managers.

First National Bank is also offering a further rebate of 0,25 percentage point to clients who operate a cheque account and use at least two other bank services.

The lower rates apply to new and existing bondholders.

"We intend keeping our rates stable and our funding structures now indicate that reduced rates can be maintained," Mr McKenzie said.

Commenting on the state of the home loans sector, he said the upper end of the market was beginning to feel the effects of recent adjustments in perks tax.

But the market below R150 000 continued to experience strong demand.

Probe into register for child molesters

CAPE TOWN - The Government has ordered an urgent inquiry into the feasibility of a register for violent deviants targeting children and women.

This was announced in Parliament yesterday by the Minister of Justice, Mr Koble Coetsee.

He said a commission of inquiry presently probing psychopaths and other violent criminals would be asked to urgently turn its attention to the practicalities of establishing a register for molesters posing dangers to children, women and others.

Mr Coetsee said the commission, chaired by Mr Justice Willem Booysse of Natal, would be asked to make recommendations and, if necessary, compile concept legislation.

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Investors
may lose
huge sum

● From Page 1

zuma, were circulated.
Members of the public took advantage of what they believed was a "once in a lifetime offer" and bought shares in companies which they believed would soon be listed on the JSE.

These companies, too, remain unlisted and the funds unaccounted for, it has been found.

"The affairs of these operations are most unsatisfactory and they don't stand a chance of being listed," Star Line was told by a former EPI marketing agent, Mrs Trude Oertel, who now lives in Cape Town.

She added that R800 000 paid by 30 Swiss investors for Multi Gold shares and a British sterling investment amounting to about R220 000, which was to secure shares in Mazuma, a non-operational "gold mine" on a farm near Thabazimbi, had been deposited in British and Swiss bank accounts and never brought into South Africa.

Mr Colin Hartley, managing director of EPI's new marketing arm, Capital Growth Investments (Pty) Ltd, told Star Line he and a Mr Norman Tilley had "taken over the reins" and were inviting investors to put more money into their ventures to help get listing on the JSE.

He claimed that many of the financial problems occurred because Mr Sellers and Mr Wolff had bailed out of the venture capital schemes "too soon", taking large sums of cash earmarked for development.

When Star Line tracked Mr Wolff to his new home in Santa Anna, California, he denied Mr Hartley's allegations.

"In fact I have a written document showing I am owed a six figure amount," he said.

He claimed he could not be held accountable for any problems as he had severed links with Mr Sellers more than a year ago.

All attempts to contact Mr Sellers failed. It was established he had put his Sunninghil, Sandton, home on the market at R495 000 recently but was negotiating to sell it for R305 000.

He could not be contacted at an address in Brunfelsia Road, East London where it was claimed he was now living.

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Restaurateurs regret R250 000 investment

By June Bearzi,
Star Line

Restaurateurs Mr David Broad and his wife Gloria say the R250 000 they invested in Mazuma Gold Holdings and Equity Participation Investments Ltd (EPI) has taught them an expensive lesson — all that glitters is not gold.

An angry Mrs Broad said that two years ago she was "sweet-talked" by former attorney Mr Roy Sellers and Mr Steven Wolff into investing R30 000 in their venture capital scheme.

The money was to be used to develop a number of EPI's satellite companies, which she was told would be listed on the Johannesburg Stock Exchange.

A few months later Mr Broad was persuaded by Mr Sellers to enter a financial exchange deal involving buying shares in Mazuma Gold Holdings, which he was told would enable him to convert an inheritance from a British aunt into R220 000 within three months.

But now the couple feel they should have heeded EPI's official logo in their glossy venture capital promotional literature: "No opportunity without danger", instead of believing the verbal promises of fantastic re-



Mr Roy Sellers . . . dispute over mining rights.

turns.

"The men's offices were across the road from our Craighall Park restaurant. They used to eat there every day, and at the time they painted an incredibly good picture of investment opportunities they had on offer.

"I stupidly ignored my accountant's advice not to touch the scheme," Mrs Broad told Star Line.

Mr Broad says he has been landed with a worthless Mazuma share certificate, and has established that his British investment was put into a London

bank account and never brought to South Africa.

He says all attempts to get an explanation from Mr Sellers failed, and investigations established that the mine on a farm near Thabazimbi had not been worked.

Star Line has a list compiled by a mining expert which indicates that huge sums must be spent on equipment and repairs before mining can start at Mazuma. It also appears that a dispute exists over the mining rights.

Mrs Broad says that although she was promised she could sell her EPI shares at a handsome profit within six months, she is unable to trade with them because they are unlisted — and she cannot trace what has happened to her money.

Mr Colin Hartley, managing director of Capital Growth Investments which is marketing Mazuma and Multi Gold Holding shares, says he has stepped into Mr Sellers's shoes.

He said he was not associated with either operations when the deals were made, but had tried to sort the matter out satisfactorily.

He said Mr Sellers was no longer involved with the companies, and he did not know how he could be contacted.

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Poor-performing operation seeks more cash

Mr Colin Hartley says he is hoping a salvage operation in which about R3 million will be raised from existing investors by offering them options to buy more shares will get his venture capital scheme back on tracks.

Mr Hartley, managing director of Capital Growth Investments, which markets the shares, concedes that Multi Gold and Mazuma Gold Holdings and a number of other Equity Participation Investment (EPI) linked operations have not performed as promised and that large amounts of investors' funds have been left in overseas accounts.

But he says that was "before his time" and he is confident that, if the necessary capital can be raised from investors, a

listing on the Johannesburg Stock Exchange will be possible.

But sceptical investors say they are hesitant to put more money into a scheme which, to date, has not shown them any return and has many question marks hanging over it.

Too risky A northern suburbs woman who does not wish to be named has invested hundreds of thousands in Multi Gold. She said she was approached by Mr Hartley recently to buy more options in the venture to speed up listing.

"I have lost so much already that I dare not risk handing over more money," she told Star Line.

However, Mr Hartley says cash raised under an umbrella organisation, Livingstone Min-

ing and Exploration Company, into which all assets will be passed, is one of the only options investors have.

"If we can get control of a listed company who will take over Mazuma and Multi Gold then these shares will be tradeable," he said this week.

He said Mr Norman Tilley, a director of Livingstone Mining, had taken the controlling interest in EPI from Mr Roy Sellers who has moved away from Johannesburg.

"Mr Sellers is now out of the picture now so shares are not in jeopardy," he claimed.

Mr Hartley agreed that there were still problems with up-to-date balance sheets and prospectuses of the various EPI satellite companies, but he was confident they could be solved.

conference yesterday that the decision was ~~veracity and~~

New trade doors being opened, says De Klerk

star 28/4/90

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VEREENIGING — South Africa's difficult years of international isolation, boycotts and sanctions were being replaced by negotiation and greater cooperation, State President F W de Klerk said yesterday.

Speaking at the official opening of Dorbyl's seamless tube project at Vereeniging, he said doors which had been closed for many years were being opened and new trade opportunities were in operation with traditional and new partners.

The aim of broadening democracy was futile unless it was accompanied by developments in other fields. This included the sound creation of wealth and employment to ensure social peace, stability and improvement in the general quality of life.

The Government's role in the economy had been set out clearly in the annual Budget speech, the emphasis being primarily on achieving the highest rates of balanced economic growth, job creation and investment.

The creation of wealth, investment and opportunities fell mainly in the domain of the business fraternity.

"That being so, the Government's re-

sponsibility is to create a climate conducive to investment in industrial expansion and in new business by international and local entrepreneurs in accordance with the principles of a market economy."

He said it was imperative that the country's mineral riches were used to their full potential. Admittedly, the shortage of capital was often an inhibiting factor.

"The question which concerns me is whether all the available internal capital is optimally used for productive projects and development," said Mr de Klerk.

"We must become more competitive."

Local manufacturers should be able to compete better with imports. It was necessary to ask whether they had literally priced themselves out of the market.

Effective management, improvement of quality and better productivity in all facets of production should be the aim.

"In future, less dependance will have to be placed on subsidies, protection and other forms of state help." — Sapa.

Sowetan Business

Third World stock markets flourish

Sowetan 30/4/90

74

WASHINGTON - Stock markets in developing countries are booming, with many out-performing those in the United States, Britain and Japan, data compiled by the International Finance Corporation shows.

Turkey, Argentina, Taiwan and Thailand became the first, second, fourth and fifth best-performing stock markets in 1989 based on price index changes calculated in US dollar terms, according to the Washington-based affiliate of the World Bank.

The IFC said Turkey posted a gain of 300 percent, Argentina 136 percent, Taiwan 95 percent and Thailand 85 percent. Austria, the only industrialised country in the top five, was third-placed, up 101 percent.

Overall, 19 exchanges in the developing world gained 47 percent last year, eclipsing the performance of markets in the United States (up 27

Sapa-Reuter

percent), Britain (up 21 percent) and Japan (up 12 percent), the IFC said.

"The emerging markets were clearly a big success and the amount of investments flowing to those countries through these markets in the '80s was really quite staggering," said IFC executive vice-president Sir William Ryrie.

Funds

Stocks listed in Third World markets had a market capitalisation equivalent of R1 800 billion as of 1989, compared with about R260 billion in 1980.

This was still just five percent of the total capitalisation in all stock markets, with those in developed countries at about R34 trillion, the IFC said.

Briefing reporters, Ryrie attributed the growth in part to the IFC's sponsorship of 131 "country funds", many of which are listed in the

major markets such as New York, London, Luxembourg, Hong Kong and Singapore. Foreigners use the funds to funnel their investments to local industries.

The funds, the first of which was established in 1984 for South Korea, have a market value of about R35 billion, Ryrie said.

He predicted that the growth of the emerging markets would be sustained in the 1990s.

Investments will shift a little from Asia to Eastern Europe, as nations there begin to develop free market economies, and to Latin American countries emerging from their foreign debt crisis, he said. - Sapa-Reuter.

Police to probe missing millions

The police are to investigate Craighall Park-based venture capital operations Equity Participation Investments (EPI) and associated companies Capital Growth Investments, Multi Gold Holdings and Mazuma Gold Holdings Ltd.

The police announcement follows last week's Star Line expose of the activities of EPI, its network of companies and two directors, former lawyer Mr Roy Sellers and Mr Steven Wolff, who netted R14 million from local and overseas investors.

Mr Wolff is in California and Mr Sellers moved to East London two weeks ago.

Three Johannesburg men who are also involved in the organisations being probed are Mr Colin Hartley, former Rhodesian Mr Cecil D Holmes and his son, Robert.

Investors were lured with assurances of massive profits in funding unlisted companies which were to reopen gold and diamond mines, re-treat existing dumps and develop mining seals and bushes for overseas marketing.



A Sandton man and his wife were persuaded to put R250 000 into two of the ventures; a Namibian businessman handed over R72 000 and 30 Swiss investors paid R800 000 for unlisted shares.

Promises to list the companies on the Johannesburg Stock Exchange were never kept.

No assets

Instead it has been established the companies' affairs are chaotic. Three of them — Epigro, Supermax and Compufax — have been wound up while several others appear to have no assets. Investors who demanded to know what happened to their cash have slated directors for "ducking and diving".

Star Line has established, however, that large sums were put

into British and Swiss bank accounts.

Mr Norman Tilley of Livingstone Mining and Exploration Company, who describes himself as a troubleshooter, says he has taken over Mr Sellers' major shareholding in EPI and Multi Gold and has started a clean-up and capital-raising drive. Existing investors have been canvassed to buy more shares as part of the salvage bid, he said.

When pressed, Mr Tilley conceded that the ventures were "in a mess" and that there was "a lot of murky water around". He said he would also have to establish whether certain mining rights existed.

He explained: "I knew I was walking into a minefield but I acquire businesses with problems and put them back on path."

Mr W Dresselhaus, an angry Namibian businessman with R72 000 in Multi Gold, said:

"I'm not interested in giving them more money. I don't know what happened to my initial investment anyway. The men who ran these companies must be called on to explain what they have done with investors' money."

Only the rich have a 'vote' in the market

74
Sowetan
11/5/90



Our writer on economic affairs, MARK ADDLESON (left) of the Wits Business School, continues his series on economic systems.

ALTHOUGH each country has a unique economic system, all economic systems are made up of the same basic parts, which are combined differently and so take different forms in each country.

Components of any economic system

The three components of any economic system are the activities of people who buy and sell in markets, the plans and policies devised by government, and structures created by tradition.

Together they define the characteristics of an economic system for producing and distributing things to satisfy people's needs.

Fruits

When someone talks about a planned economy, such as that of the Soviet Union, he means that the decisions about what to produce and how to divide the fruits of production are made by government. It is the plans and policies devised by the state which are the most important element in managing the society's scarce resources. The other two elements, markets and tradition, also play a part in the decisions, but it is a much smaller role.

In a market economy on the other hand, which

is sometimes referred to as a 'free enterprise system', people's buying and selling activities in markets plays a major role.

The market activities are also influenced by government policies. Sometimes the role of the state is very important in this type of economic system and tradition also plays a part, but this is usually very small. Under a traditional system each generation is expected to follow in the footsteps of the previous one and to do the same work as the parents and grandparents. Custom also determines what share of the produce goes each person.

Market activity.

For many centuries markets have served as a means of allocating resources. Whenever people get together to exchange things, or buy and sell, they create a market.

A market can be very well organised and can take place at a particular location, like a stock exchange - where shares of ownership in companies are bought and sold - or a municipal fresh produce market where fruit and vegetables are traded.

A market can also be informal. When a doctor or plumber sets up a business these people (the sellers) and all their patients and customers (the

buyers) represent the markets for the services. In the same way a hawker on a pavement and the people who buy from her, or a shebeen owner and her customers, each constitute a market.

Why people trade

Markets exist wherever people trade. That trade can occur through direct exchange (also called barter) where one person exchanges something that he has for something which another person has. For example, I might be willing to trade a pair of my shoes for a pair of trousers which you have.

Because I place more value on the trousers than on the shoes, and you vice versa, we both gain through the exchange.

Today the principles are exactly the same but most of the transactions involve money instead of direct exchange.

These transactions influence the use of resources in the society. In a market economy the buying and selling decisions of many hundreds, thousands, or even millions, of people influence what things are produced and also how they are distributed among the households in the society.

Prices and Profits

In our example the 'price' I was willing to

pay for a pair of trousers was one pair of shoes. Essentially this is the same as if the price of a pair of trousers was R40 and a pair of shoes cost R40. Although we are talking about the money and prices, one pair of shoes exchanges for one pair of trousers.

Prices

The prices and the money which sellers get from the transactions actually serve to guide the use of trousers in markets. Sellers will always try to sell those things which give them the biggest income or the highest profits. When you spend your money you are indicating to the seller what you like to buy, and the seller will then order or produce those things which sell best.

When people spend their wages and salaries they are voting for the goods that they buy and their spending influences what is produced.

The weakness of the system

Through the money 'vote', producers or sellers are motivated to respond quickly to what people want. The big drawback of the market system, however, is that if you do not have the money you cannot afford to buy the goods and you will have to do without.

If you are rich you have a very big 'vote' in the marketplace, but if you are poor you have no 'vote' at all. So a market system often does not serve the needs of the very poor.

This creates tremendous problems in a society like South Africa's where there are a few very wealthy people and many very poor ones. Because apartheid laws have prevented blacks from gaining a bigger share of income, apartheid has also prevented many blacks from participating in and benefitting from the market system.

Overseas analysts too optimistic on SA equities

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Canada and the US should offer the most attractive equity investment opportunities during calendar 1990, according to a worldwide survey carried out by Citicorp.

The same survey ranks South Africa eighth — out of 15 major world markets — in terms of forecast company profit growth in 1990.

Response from most local analysts is that the SA forecast is too optimistic and that, although it is the latest updated quarterly picture, it does not appear to incorporate the significant deterioration in outlook that has occurred during the past two months.

This deterioration is chiefly politically based and stems from talk of nationalisation of major SA assets and the increasing violence, particularly in Natal. The latter factor has had a considerable adverse impact on consumer spending.

In addition, there is considerable disappointment on the local front about the lack of any tangible economic benefits following President De Klerk's moves in February — no significant improvement in exports and no sign of an inflow of capital from overseas sources.

The Citicorp forecasts, published in the latest issue of the Economist, represent the average guesses of 2 500 analysts at 150 investment firms. The guesses relate to the change in corporate earnings, between 1989 and 1990, of 7 000 companies.

For each country the percentage change is measured in national currency; the sector totals (and the grand total) are based on dollar equivalents.

Canada is well ahead of the pack with an expected total increase of 33,7 percent — profit growth in the Canadian finance sector is expected to surge by a massive 91 percent in 1990.

Next in line is the US with an expected increase in the total of 22,5 percent — again the finance sector heads the field with an 84 percent hike.

The sectoral predictions for South African firms range from a 10,1 percent profit increase for basic industries to 25 percent for transport companies.

Diagonal Street

ANN CROTTY



The technology sector is expected to show profit increases of 20 percent; the consumer goods and services sector an increase of 19,7 percent; finance, an increase of 16,7 percent and; capital goods an increase of 12,8 percent.

Even though these figures do not take into account an expected inflation rate of about 13 percent, the increases are regarded by local analysts as generally being on the optimistic side. (In real terms Citicorp is expecting the average earnings of South African firms to decline by about 1 percent, giving an expected total net increase of a nominal 12,2 percent).

The 25 percent forecast for transport companies is regarded as being way off the mark. With gdp growth expected to be in the region of one percent it is very difficult to see from where the volume of goods needed to support this sort of growth could come. Increased competition within the sector will hold profit growth well below the Citicorp figure of 25 percent.

The technology sector will be hard pressed to achieve its 20 percent figure. On the positive side is the strong demand for networking facilities but on the negative side is the cut-back in government spending, particularly on the military and post office.

On the basis of company figures released over the past few weeks and on more recent developments, the consumer goods and services sector is not expected to make the 19,7 percent mark.

As one analyst notes: "The political unrest across the country is physically preventing people from spending, either because they cannot get to work and therefore have no money to spend or because they have restricted access to shops."

Results from clothing companies; from Pick 'n Pay; from Pepkor and; from Tedelex

which relate to trading periods ahead of the more recent deterioration, all suggest that the Citicorp figure will be hard to realise.

Although the finance sector has produced a spate of very strong figures, there seems to be some uncertainty as to whether this can be sustained throughout 1990, chiefly because of the noises coming from the Reserve Bank about the need to take steps to control growth in money supply.

Capital goods related counters could do better than the forecast, not because of current demand but with the help of demand that has built up over the past 12-18 months.

The 10,1 percent forecast for basic industries is expected to be more or less in line.

The Economist notes that over the past three months the consensus forecasts for the entire sample has barely changed, although the deviation in forecasts has widened considerably.

It warns that the table (see below) is useful as a broad survey of expectations, but specific entries should be treated with caution.

Nixdorf, the biggest of the seven companies in the German technology sector, is now expected to cut losses by far more than analysts predicted in January, inflating the sector's entry from 131,5 percent to 206,6 percent.

Forecasts for the American technology entry, a 416 company sector, are still high, primarily because the earnings of IBM, the sector's biggest company, are expected to recover from large restructuring write-offs last year.

The Economist expects a slight decline in profit expectations, especially in the US, when the survey gets published again in July.

Over the past nine years Citicorp has discovered that analysts covering US companies lower their forecasts by an average 4,1 percent as the year progresses, almost always producing headlines heralding lower profits. But often all that has declined is the cyclical optimism of analysts, the Economist says.

Cont ↓

Company net profits, analysts' forecasts for 1990, % change over 1989

Country	Sector							Total
	Basic industries	Capital goods	Consumer goods and services	Energy	Finance	Tech-nology	Transport	
Australia	18,8	20,6	4,5	27,4	9,2	NA	-16,5	14,3
Canada	2,2	0,1	4,4	49,9	91,0	44,3	-4,5	33,7
Denmark	23,0	19,3	19,9	NA	7,3	NA	7,2	10,8
France	9,1	12,7	18,2	9,3	10,7	71,6	24,5	13,1
W Germany	2,8	13,7	9,6	NA	9,5	206,6	12,2	8,2
Holland	-8,1	16,7	7,4	-5,5	7,4	16,9	-1,6	0,9
Hong Kong	14,0	8,7	13,9	NA	4,9	16,2	12,5	9,1
Italy	2,2	10,7	11,3	29,2	11,4	15,4	NA	9,0
Japan	7,5	9,6	7,8	-4,4	8,0	6,5	10,0	8,0
S Africa	10,1	12,8	19,7	NA	16,7	20,0	25,0	12,2
Spain	8,6	17,8	13,7	16,9	16,0	NA	NA	14,8
Sweden	0,7	18,8	1,0	NA	9,0	NA	-26,2	8,4
Switzerland	7,0	23,2	13,6	NA	9,9	-0,6	11,3	13,5
UK	7,0	4,7	12,5	-2,4	88,6	19,0	10,0	17,0
USA	-9,9	19,3	11,7	20,6	84,0	38,9	38,7	22,6
Total	1,2	13,1	11,2	12,6	40,3	29,9	19,4	16,4

Global credit crunch feared as rates surge

SAW 2/5/90

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By Neil Behrmann

LONDON — The unexpected surge in international interest rates this year could be a symptom of a global credit crunch that will lead to a sharp slowdown in economic growth, some economists say.

The WEFA group, a leading international economic forecaster, says the major industrial economies are in danger of sliding into a credit crunch as the monetary authorities are either tightening or are maintaining a tight monetary stance.

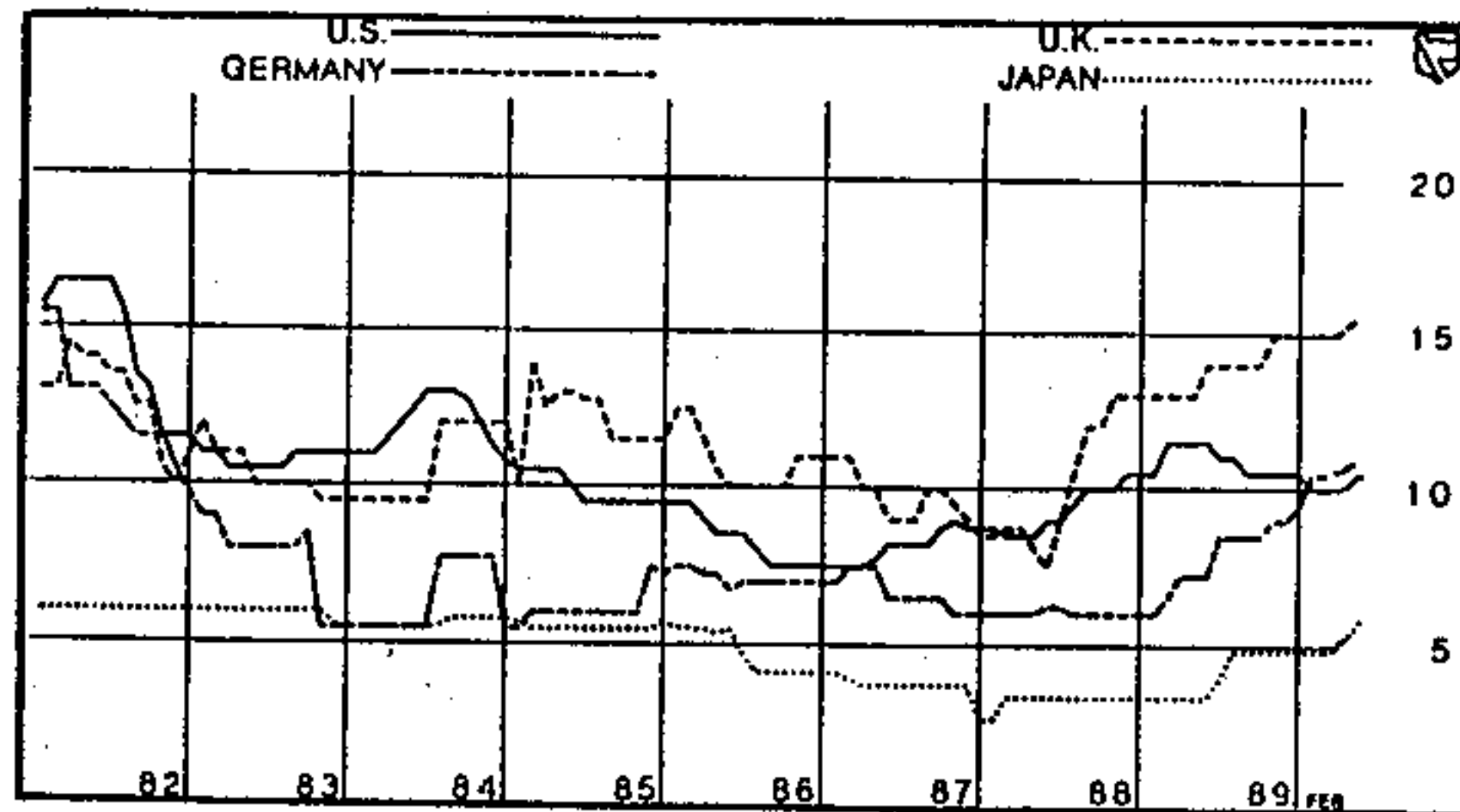
"While the risks of full-blown world recession are still small, they have risen recently," it says.

Soaring interest rates have confounded most economists who expected a general slowdown and lower inflation to reduce pressure on the capital market. Their incorrect forecasts proved to be costly.

As short term interest rates have risen, bond markets have slumped and the yield on long term US Treasury bonds have climbed above 9 percent, compared with 7,8 percent six months ago. On the Eurobond market, dollar bonds are trading around 9,75 percent, Deutschmark bonds are on yields of around nine percent and yen and Swiss franc bonds are offering returns of seven percent or more.

Long-term sterling gilts are presently trading at yields of 13 percent, about 3,5 percentage points higher than levels seen two years ago.

Losses on international bond markets have been so extensive that portfolios have declined by \$500 billion to \$1 trillion in the



Prime rates in the four leading industrial countries.

past year.

The international cost of capital is expected to remain high during a period of effective competitive revaluations. Later in the year, however, bond prices could improve in tandem with a slower world economy.

Meanwhile, in the short-term international money markets sterling is yielding 15 percent, Swiss francs nine to 10 percent, US dollars 8,5 percent, marks 7,8 percent and yen 7,25 percent.

Inflation

Even though inflation has accelerated, real interest rates either match or are even higher than they were during the monetary squeeze a decade ago.

There are several reasons for the sharp rise in the international cost of capital.

David Hale, chief economist at Kemper Financial Services in Chicago, says West Germany is devoting a growing share of its surplus savings to reconstructing the East European economies.

It is thus more difficult for

Britain, Spain, Italy, Switzerland and the United States to finance their large external deficits without raising interest rates.

The slump in the Japanese stock and bond markets and a sharp increase in interest rates there are also expected to discourage their large institutions increasing investment in the US. As a result the US bond market is jittery.

Finally, banks themselves are contributing to the credit squeeze by either being extremely selective, or by actually lowering the amount of loans to companies or individuals.

In Britain, for example, Barclays, Midland and Standard Bank have complained about bad debts. There are numerous other examples around the world.

Lenders — mainly US banks — are caught in a pincer. Already suffering under the strain of poorly performing third-world debt and real estate loans, they have also experienced sharp declines in the value of their junk bond portfolios and

are worried about the corporate health of some borrowers.

Junk bonds have become a two-tier market. Better quality corporate debt instruments are trading on yields of around 14 percent, about five percentage points higher than the return on treasury bonds.

Yields on poorer quality issues are 20 to 25 percent, according to Wasserstein Perella, a leading junk bond house.

"Of all commercial and industrial loans, at least a quarter are now related to leveraged buy-outs or other high leveraged transactions," says Thomas Holt of The Holt Advisory newsletter.

Leverage is out

"The banks actively sought to participate in mergers and acquisitions to capture lush advisory fees and interest charges. Now they are going to be actively searching for the exit doors."

Jonathen Wilmot, director of economics at CS First Boston, says: "Leverage is out, capital preservation and protective covenants are in."

The credit climate is much tougher, he says. Some capital market transactions for quality borrowers are becoming more laborious and expensive. Lesser-quality borrowers face higher spreads, while marginal ones risk being crowded out of the market.

"As lenders differentiate more sharply between good and poor credits, a cast iron AAA rating will once again be a key competitive resource for banks and corporations," Mr Wilmot says.

De Beers denies it is planning to un-link local and overseas shares

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Finance Staff

De Beers' directors have refuted market speculation that they are planning to "un-link" the De Beers shares and divorce the group's foreign investments from its South African interests.

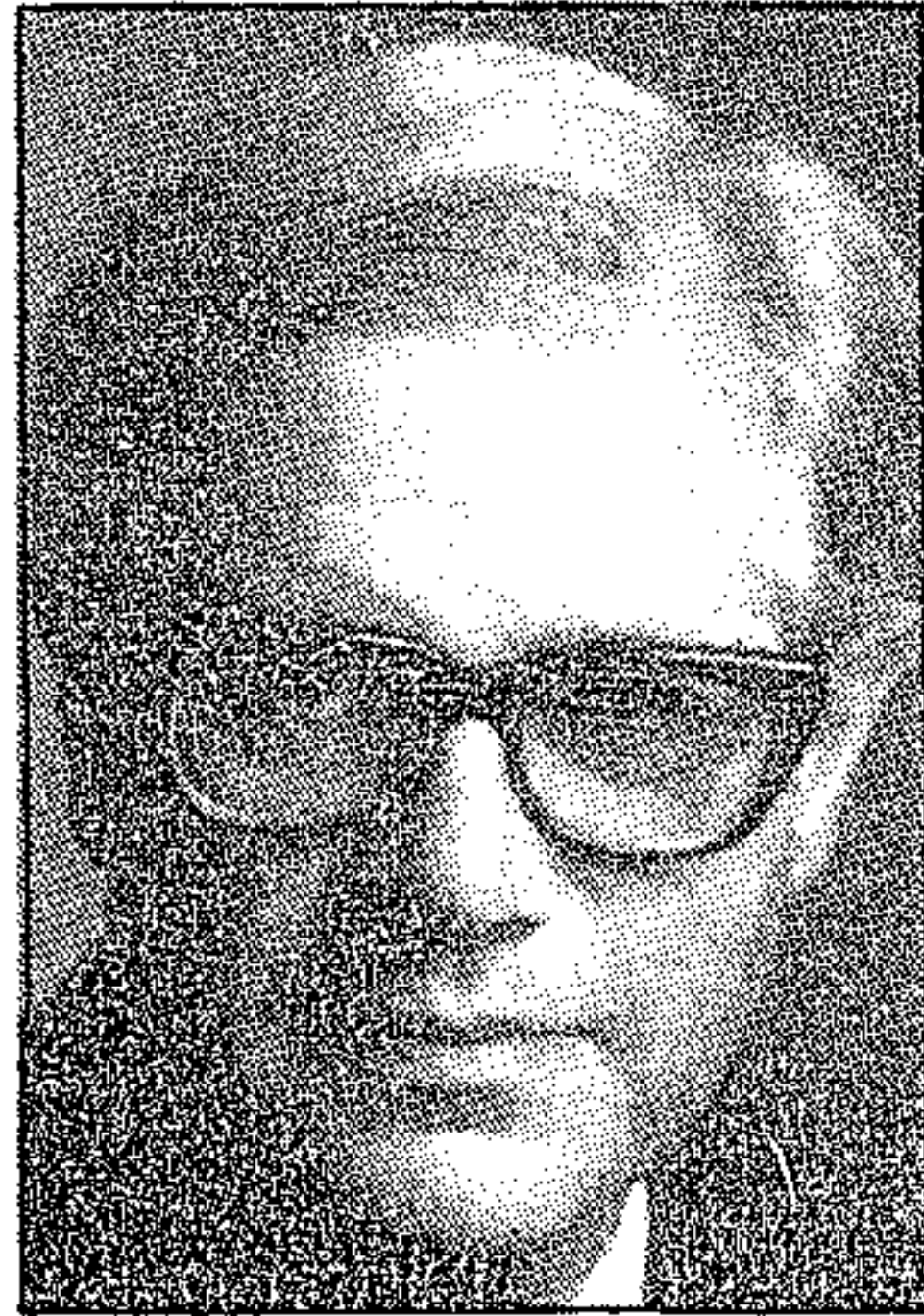
In a circular to shareholders, the directors, headed by chairman Julian Ogilvie-Thompson, reiterate that they have no plans to hive off the proposed Centenary deposit receipts from De Beers shares.

"The diamond industry operates on a global basis, and it is desirable that the two groups should co-operate in the interests of shareholders and of the diamond industry as a whole.

"To this end, it is proposed, that as far as possible the two groups will be administered by identical board of directors, and their securities will be linked so that they will be tradeable only as linked units," Mr Ogilvie-Thompson says.

However, some provision is being made to split the linked units in certain circumstances.

The non-South African interests are being placed in a new Swiss company to be called De Beers Centenary AG and the units will represent the Centen-



Julian Ogilvie-Thompson

ary deposit receipts.

In a circular to shareholders setting out the proposals, which are to be submitted to the annual meeting on May 25, De Beers clarifies some points made in its statement on March 6 when the proposals were first announced and has made minor adjustments to some of its calculations.

While De Beers may not intend splitting its shares into the two units at present, this can be

done should either the De Beers board or the Centenary board pass a resolution to this effect.

De Beers Centenary will be listed on Switzerland's stock markets on June 11.

The circular provides more detail on the financial impact of the split.

De Beers pro-forma equity accounted earnings for its South African interests for 1989 are given as R1,642 billion, compared with the actual earnings of R4,1 billion last year.

Had the split been in effect last year, earnings for De Beers would have been reduced from R10,76 to R4,32 per share, while De Beers Centenary would have reported a profit of \$2,31 per deposit receipt.

On De Beers 1989 balance sheet, almost 48 percent or R8,6 billion would have been held in the overseas division, reducing the balance sheet of the local group from R17,5 billion to R9 billion.

The net asset value a share of De Beers South African interests at the end of 1989 is set at R48,98, down from R80,32 for the group as a whole. De Beers Centenary assets last year are quoted at a pro-forma \$11,97 per

deposit receipt.

The balance sheet also shows other significant changes including distributable reserves at R3,8 billion (group as a whole in 1989: R10,3 billion) and non-distributable reserves at R5,1 billion (R6,3 billion).

The most striking feature, however, is the reduction on the books of De Beers (SA) of the diamond stocks and the diamond account.

The former is reduced from R6,3 billion to R138 million, with \$2,4 billion now accruing to the pro-forma balance sheet of De Beers Centenary. De Beers income from the diamond account declines from R2,9 billion to R287 million, with the balance in Centenary's books.

A similar situation now arises for tax payment, which in De Beers case fall from R807 million to R257 million, with the balance once again in the books of the overseas group.

Dividend payments will also shift significantly although the directors stress that overall capacity of the group to pay dividends will not be affected.

In financial 1989 De Beers Centenary would have paid almost 80 percent, or R833 million of De Beers total dividend.

Safex licence 'about July' 74

ROBERT GENTLE

THE SA Futures Exchange (Safex), which started operating this week, should receive its government licence by about July or August, by which time it will operate under law within the Financial Markets Control Act.

This estimate, given by Safex CE Stuart Rees, was described by deputy Registrar of Financial Markets Chris Mostert yesterday as "fairly accurate".

The licence will give Safex legal status as a fully functioning futures exchange.

Mostert said President F W de Klerk would formalise this process with due notification in the Government Gazette. Day 4/5/90

The futures market is now formal in all but name following the handing of the reins to Safex on Monday.

'Sell less gold, turn it into jewellery'

SOUTH Africa should stop selling so much bullion and, instead, turn more of it into jewellery says a scientist with the mining research establishment, Mintek in Randburg.

A small increase in jewellery production could earn South Africa an additional R1,5 billion a year in foreign exchange, according to the president of the Council for Mineral Technology, Dr Aidan Edwards.

In an interview at Mintek, he said domestic exploitation of gold was essential to uplift the sagging South African economy.

Jewellery is one of the major consumers of South Africa's gold.

World gold production is estimated at 1 625 tons a year and last year 1 600 tons were used in the manufacture of jewellery.

With an estimated annual gold production of 610 tons, South Africa dominates the supply of gold to

515194
JACQUELINE MYBURGH

the world — but it uses very little of its own gold for jewellery.

"If South Africa were to produce 10 percent, instead of the current 0.1 percent, of the world's jewellery, we would earn an additional R1 500 million in foreign exchange.

"In addition, a number of job opportunities and levels of technical expertise would be created," he said.

The most popular argument against adding value to the country's raw materials by turning them into end products — such as jewellery — has been that South Africa would run the risk of going into competition with the countries to whom it exports gold.

Dr Edwards envisages not competition, but partnership with these countries.

South Africa and Taiwan have entered into a number of agreements, particularly with regard to mineral and metallurgical operations, he said.

Of particular interest to South Africa, is Taiwan's access to the jewellery markets of Japan and South East Asia.

"Our local jewellers and designers are recognised internationally. But our jewellery is among the most expensive in the world, which has led to an illicit trade that has flourished.

The continuous rise in world jewellery manufacture, together with the recent abolition of the ad valorem excise duty in South Africa, offers the local jewellery industry the opportunity of becoming a world leader.

● Next week, on May 9, the deputy Minister of Finance Dr Org Marais, will open a conference, hosted by Mintek, on the state of the jewellery industry following concessions made by the Minister of Finance.

Get in quick with three of the best

BUY De Beers, Anglo and Richemont and do whatever you like with the rest.

Myles reckons it's a bit pointless to clutter investors' minds with any more advice than that.

He seems fairly certain that De Beers will reach the R100 level early next week although he was unable to explain why it was that the share took off this week.

There have been no really significant developments since the announcement of the creation of De Beers Centenary so it is difficult to see why the price hesitated around R85 for so long. Now the whole world is piling in with every new day seeing another bullish brokers' reports from some part of the globe.

Some of the more imaginative investors are comparing De Beers' price/earnings rating of around 10 times with Richemont's 26 times. Although both are nice Mandela hedges, this notion seemed a bit over the top. Even Myles had trouble taking on board the point that the two companies are in the luxury goods market — a market that is all about selling image.

He's worried that some day the rich may decide that they don't want to pay quite so much for image — so he wouldn't be prepared to buy De Beers on a 26 P/E even if he could unstaple the thing.

But expectations of soon-to-be-announced good results from Richemont and revived rumours about a separate listing for Cartier are currently pushing Richemont to even higher levels.

After a brief suspension on Thursday, Plate Glass was back on yesterday and traded a few rands higher at R62.

Overseas deal

The overseas glass deal certainly does look like a good one for the group but hardly enough to support a p/e of over 17 times, particularly as the problems in the timber operations (reason why earnings will be down 30 percent in financial '90) are unlikely to be sorted out in the near future.

According to Myles, it appears that some of the countries that grow the trees want to see a bit more local processing and this increases the industry's risk profile. In addition there are some bad debt problems in Brazil — this will hardly come as a surprise to anyone who keeps in touch with the fortunes of the World Bank.

Anyway it puts a bit of a cloud over the Whitestone deal and that can't be too good for the share. But Myles points out that it is quite tightly held.

Star 5/5/91

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ANNE
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No firm news yet about the Valard bid for Landlock. Myles thinks it looks like a good deal for all concerned and it seems to have attracted quite a lot of positive attention to Valard which is a reasonably low profile company that has been busy getting on with the job of making profits for its shareholders.

Reports are that the strategic study on Bankorp is just about finalised and the guys are now waiting for Piet Liebenberg to make the decision when he takes over on July 1.

At this stage it looks as though TrustBank and Santambank will be merged. This will obviously lead to considerable rationalisation of branch networks, computer facilities and so on.

Rationalisation

Senbank will also be brought into the fold. Rationalisation decisions here may be facilitated by the recent fall-off in staff numbers — apparently six guys have left the corporate finance department and the bank's economist Dr Du Pissanie has left to set up his own economic unit.

Myles says he was reliably informed that in terms of turnover (staff or business?) Senbank is still the major merchant bank in the country.

The Interboard share price seems to bear a sort of inverse relationship with news about the company. The price has gone up despite reports that plans to sell off, or merge, parts of the business have come to nought.

In addition, Sappi's new particle board division (very hi-tech by all accounts) is about to come on stream. All this extra capacity in the industry hardly seems bullish for Interboard. So why is the price going up?

Plans for an overseas investor to acquire Mynkar have apparently fallen through but no formal announcement as yet from the company.

News that Storeco (remember John Orr's in the old days) may see a change of control reminded Myles of the time — around 1982 — when Julian Askin and Hugo Bierman (the guys who recently acquired control of Duros) were rumoured to be keen to acquire John Orr's, apparently for an asset stripping exercise.

Anglo seeks positive role in the new SA

SINCE February this year, readers of Britain's up-market and influential newspapers have found it difficult to ignore the Anglo American Corporation's advertising campaign.

It is dramatic, different and nothing less than full-page stuff that pulls no punches in its attempt to woo back foreign investors, boost Anglo stock and clearly position the huge company within the confusing maelstrom of the South African economy and political arena.

Under a huge photograph of a group of black mineworkers enjoying a tea-break in a mine canteen, the headline of one advertisement reads: "Anglo American shareholders meeting. South Africa, Nov 1989." The advertisement goes on to explain the Group Employee Shareholders Scheme, in which 73 per cent of Anglo's eligible workforce own R235 million worth of stock.

Suspicion

It also details efforts by the corporation to educate its employees with regard to share ownership by the publication of literature in 12 different languages.

The advertisement admits to initial suspicion of the scheme by workers — that shares were in lieu of wage increases, or bribes for industrial peace.

Another full-page advertisement boldly features a group of fist-waving, striking black miners. The headline reads: "Do we wish we hadn't fought to have black trade unions recognised?"

"Yes," reads the copy, "we do quite often."

The advertisement describes steps taken by Anglo to have trade unions recognised for "moral and economic reasons" and concludes: "Whether you're running

Multimillion ad drive fires opening shots

During the past few months the Anglo American Corporation has been running a massive R6,5 million advertising campaign in British newspapers. Saturday Star media editor Chris Moerdyk looks at the reasons why the formerly publicity-shy South African conglomerate has embarked on the campaign — and the reaction it has generated at home and abroad.

a company or a country, if the majority have no say in their future they will naturally feel no responsibility for what happens around them."

Another advertisement in the seven-part series reads in bold headlines: "The issue is no longer apartheid, but what kind of society will replace it" — a quote from former chairman Gavin Relly.

Another ad features quotes from the ANC Freedom Charter — "There shall be work and security ... higher education and technical training ... houses, security and comfort ... food plentiful and no one shall go hungry ..."

The headline reads: "If the South Africa economy doesn't deliver, how can any politician hope to?"

The campaign is forceful, direct and powerful.

But why, after decades of adopting a low profile, is Anglo suddenly advertising in a big way?

The corporation's personal adviser to the chairman and public affairs consultant, Michael Spicer, explains: "The advertising campaign is simply a conclusion to what Anglo has been looking at for the past three or four years.

"However, the question of advertising and what to say in any advertisements has been difficult because of the political climate in South Africa.

"Now we believe that when Mr FW de Klerk

came into power, the debate changed internationally, as did the climate, allowing South African business to reposition itself — and this became the motive for our campaign."

Mr Spicer said the objectives of the campaign were to persuade investors to buy stock as well as to improve the value of stock. Foreign shareholding, he said, had been declining and it was for this reason that the UK had been selected as a springboard for what could become an international advertising campaign, as Britain represented a prime and traditional marketplace.

"We also wanted to put the case for a changing country — to put it optimistically — arguing about the economic climate and also constitutional matters."

He said there had been an unusually high interest in the campaign both at home and abroad.

"Everybody engages in corporate advertising, but what has been unnatural was our inability to do it because of the international climate of past years when SA business had to go into a highly defensive mode."

The advertisements, he said, were not apologetic. "We did not want them to be apologetic — we feel that business does not need to apologise."

Mr Spicer said the

campaign had achieved a good response in the UK. It offered more information to interested parties in the form of a booklet, and so far more than 1 000 letters had been received with positive comment and with requests for the booklet.

Only three negative letters had been sent to Anglo's London office.

However, it is understood that the Anti-Apartheid Movement in Britain was one of the complainants to the UK's Advertising Standards Authority with regard to an Anglo claim: "We have always stood for a democratic South Africa."

AAM executive secretary Mike Terry said in an interview with the Sunday Observer newspaper (not one of those chosen by Anglo for its campaign) that the ads projected an image of the company "that does not square with reality".

Mr Terry added: "The fact is that it's a company which has benefited and profited from apartheid."

Punished

Mr Spicer reacted to the AAM charges by suggesting that the movement was one of the proponents of the "capitalism equals apartheid" school of thought. "We have no dishonourable record and we shouldn't be punished."

He added that the AAM's "entire *raison d'être* is isolation and sanctions" and that he believed the movement was "having a problem with the way the tide was turning".

There had also, he said, been some reaction from SA trade unions who believed, for example, that the money spent on the advertising campaign should have been spent on increasing wages.

"However, this amount on the wage bill would have meant about a 50c per head increase. Unfortunately, some of the unions still have a misunderstanding of corporate life."



ANGLO AMERICAN SHAREHOLDERS MEETING. SOUTH AFRICA

In an attempt to woo back foreign investors, Anglo American has launched a massive advertising campaign in British newspapers. The headline of one advertisement reads: "Anglo American shareholders meeting. South Africa, Nov 1989." The advertisement goes on to explain the Group Employee Shareholders Scheme, in which 73 per cent of Anglo's eligible workforce own R235 million worth of stock.

MAKING AN IMPACT: Two of the full-page advertisements.

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ANGLO AMERICAN SHAREHOLDERS MEETING. SOUTH AFRICA, NOV. 1989.

[Faint, illegible text from the original advertisement, likely bleed-through or very low resolution.]

MAKING AN IMPACT: Two of the full-page adverts appearing in Britain's quality papers. The response has been overwhelmingly positive.

of deal in South Africa strike

DO WE SOMETIMES WISH WE HADN'T FOUGHT TO HAVE BLACK TRADE UNIONS RECOGNISED?

Yes, to be honest, we do sometimes. Because black South Africans have had no voice in the way their own country is run, and their own rights are being trampled.

For many years, the government refused to recognise black trade unions at all. Anglo American, South Africa's biggest mining and industrial group, campaigned for many years for the recognition of the policy.

It is true, we have seen some progress. In 1987, we organised our first ever experience of a strike and demands strike. So why have Anglo American pushed so hard to get the black trade unions recognised?

For many years, we have worked with the white trade unions in the industry, and we have got out of the industry better than ever before. However, though we have made progress, we are still not where we should be. We are still not where we should be. We are still not where we should be.

SA ports may be hit by import/export switch

Sowetan 7/5/90

By JOSHUA RABOROKO

TEN years after independence land-locked Zimbabwe is looking at prospects of snubbing South Africa by using Mozambican ports for exports and imports to empower the country economically.

Businessmen are being encouraged to use the now bustling Beira port, having realised that to route via South African ports of Durban and Cape Town is expensive and cumbersome.

The move is expected to be followed by the East and Southern African Preferential Trade Area (PTA) and the Southern African Development Coordination Conference (SADCC) because of South Africa's abhorrent apartheid policies.

The PTA's director of agriculture, Mr Joel Ong'iro, told *Sowetan*

Business that unless South Africa got rid of apartheid, members of PTA and SADCC would continue to consider trading with other countries. For South Africa to become a member it would need to have majority rule.

Potential

The PTA has 15 members: Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Together they have an estimated potential market in 1990 of 156 million people.

The nine member nations of the SADCC are Angola, Botswana,

Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe with a total potential market in 1990 estimated at 84 million people.

Ong'iro said PTA's aim was to promote cooperation and development in all areas of economic activity, particularly in the fields of trade, customs, industry, transport, agriculture, natural resources and monetary affairs.

It had established a multi-lateral trade clearing facility to settle intra-regional debts by way of the PTA Clearing House located in the Reserve Bank of Zimbabwe.

To avoid chronic dependence on the US dol-

lar or other hard currencies to carry out trade among African member countries, the PTA facilitated for intra-regional trade to be paid for in regional currencies and intra-regional country debts are settled in the Unit of Account of PTA (UAPTA) which is equal to the Special Drawing Right of the IMF.

Exploit

The SADCC seeks to coordinate the regional developments of member states allowing each to exploit its own comparative advantage within a regional framework.

Another objective is the reduction of economic dependence, especially, but not only, on South Africa.

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Back to baking on Comoros beaches . . .

8/14/90 By John Miller

Sun International hopes to re-open its resort hotel Le Galawa Sun on the Comoros Islands by July if negotiations on concessions for lower food and beverage duties are successful.

Group Marketing Director, Mr Ernie Joubert, said negotiations were taking place with the Comorian government regarding the lowering of import duties on liquor and food and the lowering of electricity rates.

He hoped an agreement would be reached within the next two months.

These reductions would mean tariffs could be

held at last year's levels or lower.

Le Galawa Sun was closed in January this year after the islands' government was overthrown in November, ushering in a period of political instability. However, after elections in March this year, the area stabilised. The smaller Itsandre Sun has remained open.

South African Airways has experienced a drastic reduction of passengers bound for the Comores. During the peak in July and December last year the airline operated two direct flights a week to the Comores. Since January this year they have flown once a week to the islands, via Malawi.

40% of gold now mined at a loss

Sta 8/5/90
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By Sven Lünsche

As much as 40 percent of South Africa's total gold production is currently being produced at a loss.

This is the warning issued by Nedbank's chief economist Edward Osborn, who argues that up to R7,3 billion in foreign exchange earnings is in jeopardy in a full year if inflation continues to push up costs.

"The country has been continually depreciating its currency in order to neutralise inflation and declining productivity at the mines and other export industries without actually addressing the underlying problems.

"The process has been feeding upon itself," Mr Osborn says, writing in the latest edition of Nedbank's Guide to the Economy.

"It can be brought to a halt only at the expense of export incomes and real wages of those employed in export industries, unless the dollar gold price recovers, which would allow the exchange rate of the rand and domestic working costs to stabilise."

Looking at the root of the problem Mr Osborn comments the authorities are constantly being faced with the dilemma of a trade-off between a currency depreciation and a profit attenuation.

"It boils down to a choice of either protecting export industries at the expense of induced inflation through rising import prices, or bringing to a halt one of the main determinants of inflation — the depreciating rand — at the ex-

pense of the profitability of the export industries."

The choice, according to Mr Osborn, has gone in favour of protecting the export industries.

This, he argues, is not only a compelling explanation of the recent fall in the rand but is far from addressing the underlying problem faced by export industries in general, and the gold mines in particular.

The recorded inflation of working costs at the mines over the December quarter 1989 was 15,7 percent, which means that all mines with working costs in excess of R904 per ounce are in danger of having their working profit eliminated — unless the rand gold price rises.

At the December quarter's working costs and the current inflation rate of these costs, Mr Osborn estimates that 17,8 percent of total production, excluding capital expenditure, is in jeopardy of being at a loss this year. Including capex this figure moves up to 40 percent and affects 17 of the country's gold mines.

"To put it in the context of balance of payments, R3,2 billion or R7,3 billion of foreign exchange earnings in a full year are in jeopardy, excluding and including capex respectively," he concludes.

● Genmin MD Gary Maude reportedly said yesterday that if gold mines produced at a loss for extended periods, producers were subsidising the gold price and consideration should be given to mothballing these mines.

Market buoyed by govt, ANC indaba

MERVYN HARRIS

BUOYED by positive political sentiment in the wake of talks between government and the ANC, share prices staged a strong rally on Diagonal Street yesterday.

De Beers, up 1,7% (165c) to a new high of R98, and mining financials were in the forefront of the uptrend in further response to last week's news of more details on the diamond group's rearrangement of its SA and foreign business interests.

Dealers noted demand for shares across a broad spectrum and the JSE overall index gained 66 points or 2,1% to 3 177, as the all gold index closed 2,4% up at 1 775 and the industrial index rose 1,1% to 2 896.

Maurice Fisher of stockbrokers Frankel, Kruger, Vinderine said: "The market was oversold and due for a correction. The positive feedback from the talks... helped to fuel demand for quality shares.

"Stabilisation of global stock markets with an overnight rise on Tokyo and renewed strength on Wall Street also sustained sentiment," he said.

The more optimistic outlook was reflected in a firm finrand which rose to R4,0750 from R4,1450. But the rise of the investment unit had no impact on share prices as UK financial markets were closed for a holiday and no stock was coming out of London. 610m 815/90

The gold board was encouraged by gold holding above the \$371 level on bullion markets with shares of marginal gold mines rebounding from recent lows.

ERPM jumped 40% or 500c to R17,50 to bring its gains to 59% in less than a week. The shares started rising ahead of news of a proposed rescue package.

GERALD REILLY

Warning sounded on foreign investment

PRETORIA — If SA's economic policies or lack of political stability made the country unattractive to foreign investors or traders the population would be condemned to greater poverty in the years ahead.

This warning was sounded here yesterday by UCT School of Economics director Brian Kantor at the Home Builders conference.

Kantor stressed an opportunity had now opened up for South Africans to

break open what had been the great barrier to faster economic growth — lack of foreign investment.

"What has held the SA economy back has been a marked lack of confidence in the capacity of South Africans to avoid prolonged violent transition to majority rule."

The expectation, Kantor said, had long been held that the transition to representative government required a

confrontation between blacks and whites that would severely, perhaps fatally, disrupt the economy.

"There is surely now a much better chance of avoiding this disaster."

The real hope for SA was to attract foreign capital which required the right attitudes to and policies for foreign capital.

"Until we resolve our political problems, foreign capital will remain too

expensive," he said.

"When we make the political breakthroughs, the cost of such capital could fall dramatically providing every encouragement for investment."

Kantor added it would then be possible, for the great majority of South Africans to consume and invest more in the future than before.

On profits and employment, he said one of the more surprising recent eco-

74 /
nomic outcomes had been the extraordinary earnings growth achieved by business.

He said the level of inflation on adjusted industry profits and building and construction were now closely approaching levels attained "in the halcyon days for SA business in 1981".

Shareholders had benefited from much better operating results and much higher stock exchange prices.

He said sanctions had been good for capital.

Foreign attitudes 'changed'

Star 9/5/90

(74)

The initiatives of President de Klerk and the efforts of the Government to bring about a new constitution through negotiation had already resulted in some remarkable changes in foreign attitudes and perceptions, the Minister of Mineral and Energy Affairs, Dr Dawie de Villiers, said in Parliament yesterday.

Introducing his vote, he said the recent political events in the country had already had a dramatic effect on exports from South Africa.

"International interest in trade with South Africa has improved considerably. Orders are even being received from unexpected sources.

"Although sanctions have had only a limited effect on the export of our raw materials, it has now become a concept which is fading into oblivion."

Mines and minerals remained one of South Africa's most important economic activities, Dr De Villiers said.

"The significance and major importance of Mineral and Energy Affairs for the economy of South Africa and

the wellbeing of its peoples stands out clearly."

During 1989 approximately 1 100 mines and quarries were in operation. The mining industry supplied employment to almost 737 000 people, which represented 14 percent of the total figure for non-agricultural employment.

The estimated capital expenditure in the mining industry in 1989 exceeded R5 billion and more than 80 different minerals were produced.

"Mineral products from South Africa are shipped to 85 different countries all over the world. These exports rose to a 10,5 percent improvement on 1988 and were responsible for 52 percent of the country's export earnings."

The gold mining industry remained the most important sector of the industry and about 70 percent of all mine-workers were employed on gold mines.

The right use of energy required the Government to follow a significant energy policy. Energy that was cost-affordable had to be used for the developing areas of the community. — Sapa.

Projec terminated but mystery remains

Star 10/5/90 ~~20/7/92~~ 74

The listing of Projec Investment Holdings has been terminated.

Nedcor results for the six months to end-March showed that UAL has already taken a R9 million net after-tax loss resulting from the failure of an overseas client to provide funds to cover its liabilities on a forward financial rand transaction undertaken by UAL.

The finrands had been used to buy Projec shares.

With the JSE having reached the limit of its fairly restricted authority it is now up to the Reserve Bank — with some help from UAL — to try and establish the specific nature of the transactions and try to recoup some of the losses suffered to the country's forex reserves.

According to Reserve Bank sources investigations both locally and overseas have been underway for some weeks and are proceeding.

The termination of Projec's listing, which was effective yesterday, comes six weeks after the share was suspended at the request of JSE president Mr Tony Norton.

The suspension was called for because of the very heavy trading in the share and the fear that there might have been some pushing of the share price to the detriment of minority shareholders.

Share trading

From mid-July 1989 to end-February 1990, 4,5 million Projec shares changed hands in the market at a price of R11 a share. These are dramatic figures considering that there are only 1,8 million shares in issue and that an R11 share price reflected a price/earnings rating of a massive 238 times — on a fairly vague and unsubstantiated estimate of earnings.

Indications are that there is little in the way of assets in the company.

Mr Norton stated that the listing was terminated because the JSE was unable to establish a place of business, get a copy

Diagonal Street

ANN CROTTY



of the company's accounts or, establish any contact with the company's directors — many of whom are apparently overseas.

According to Mr Norton, the JSE Committee had hoped that the suspension would precipitate some communication from the company: "We were hoping for some reaction, for some dialogue between the JSE and Projec but there was a remarkable silence."

Even minority shareholders failed to respond.

It now seems that by the time the suspension was effected in March, the parties involved had already been in silent mode for a number of weeks.

It was the February collapse of the finrand that led to the renegeing of the UAL finrand contract that was financing the heavy trading in Projec shares.

Original investigations by the JSE indicated that the Projec shares being bought in the market at R11 (since September) were then being sold to another party outside of the market.

This second party then sold them via the market back to the first party (or an associate) and so on.

It now appears that the trading sequence may have been even more complicated and involved a third party.

What is known is that Projec stock, that was bought in the market by an overseas party (using the UAL finrands), was having its finrand endorsement cleaned off and then being sold off-market later again back into the stock exchange.

Cleaning finrand endorsements is highly irregular and requires the co-operation of officials.

(Apparently the ties between World of Music and World of Leisure with Projec have been severed.)

Pump up the volume!

■ The birth of a new market has not been without controversy

It's a daring achievement for a small, isolated economy. That's part of the reason why our new futures market began with financial futures — in other parts of the world, the idea found its feet as an attempt to give farmers and metal producers the opportunity to hedge their commodities.

The path to formalisation of the market (sketched out by the Stals and Jacobs commissions) has not been smooth. However, opening day (April 30) was duly celebrated by the market's architects last week; now the SA Futures Exchange (Safex) hopes to be licensed as the official exchange by August.

Only financial futures are affected: mainly because of the control board system, no futures in local agricultural commodities such as maize and sugar are traded yet, though the Maize Board, a Safex member, is working on a local maize futures contract.

Futures in metals and commodities have been available to Reserve Bank-approved clients since the early Seventies. Hqicom Futures — and later two others — did the deals and were also licensed to deal on international exchanges. They do not fall under Safex's control. It was Rand Merchant Bank which started the informal financial futures market in April 1987; it saw a new money-making opportunity for the market — and ended up clearing and guaranteeing the entire market until the handover.

The takeover of the clearing function by Safex and its clearing house came nearly eight months after the latest planned start-up date, and the delay has fuelled costs, according to players. One dealer comments: "Safex is basically broke. It had to come on stream now as it has used up all its money and needs to recover costs."

CEO Stuart Rees says Safex did not raise a great deal of money to fund development. "We don't intend to operate for profit and at no stage do we need large reserves unless for funding future capital development." Expenses from inception to end-March this year will total R3,3m.

Reasons for delay are many. "The market has been dogged by compromises all the way

to take care of vested interests," says one operator — echoing a widely held view that bodies like the JSE want to protect stockbrokers' interests. This is what led to the most hotly argued issue — which dealing system to use, open outcry or screen. In the end it was decided to use both, "which has undoubtedly added to costs."

Some are baffled as to precisely why. An original poll showed a clear majority wanted screen trading only; two voted for dual trading and the JSE for open outcry. The cynical saw this as pandering to the interests of the JSE's traditional floor trading system.

Rules also had to be revised when the clearing banks objected to the proposed joint guarantee system whereby they could be held liable for any clearing member who defaulted. This has since been resolved and there are now 12 clearing members.

Most regard these and the other issues as water under the bridge — and the concern now is to increase and sustain volumes.

SA has limited potential, critics charge. They question whether volumes will justify the sophisticated systems being put in place for a market of limited size based on a First World-Third World economy.

And then, how many large investors use derivative instruments anyway? According to *Euromoney* magazine (March 1990), only 33% of British investment institutions



Rees



Norton

write equity options and just 15% use stock index futures.

On the local scene, Safex's derivative markets are unlikely to attract international interest for the foreseeable future. Even overseas interest in gilts is sporadic and politically sensitive. Secondly, since the late Eighties, securities markets worldwide have been shrinking. Some in any case consider SA overbrokered.

Rees denies the systems are over-sophisticated — "nor are they very expensive. We must be confident that the volumes will be there and we feel obliged to install the minimum necessary facilities."

Criticism of costs includes plush offices, overseas consulting staff and foreign travel expenses. Rees defends these: "I won't excuse providing a good working environment." He adds that the monthly housekeeping bill averages R300 000, mostly salaries for 26 people. "We do not overpay, but must compete with the banking sector in which we operate to get and keep good people."

Rees expects Safex to pay its way by its June 1991 year-end. "For budget purposes we predict a 20% increase in volumes for the current quarter and 5% quarterly thereafter. But this could prove conservative."

From January 1 to May 2, average daily trade of all futures instruments was 307, involving 4 300 contracts. Average daily value was R175m, share index futures accounting for R105m. Volumes peaked at 800 deals, or 20 000 contracts worth R590m at the March 15 share index futures close-out.

Lack of an official framework was given as one reason by several large players for not being more active. Some, like Safex, expect volumes could now take off. But not all will leap in — yet. However, Rees believes the new market is well guaranteed with multiple clearing members, and could attract hesitant players.

Another reason for reluctance comes from

Johannesburg Options Market MD David Bullard: "Unless we explain futures and options to potential users in simple terms, we will not sell them." Some potentially big players still want to see how the market develops before they commit themselves.

Shortage of qualified admin staff and incomplete systems are other problems. Again, news of losses among players in the informal market has filtered through to institutional managers, according to a dealer. They now want their systems to supply immediate up-to-date position reports to afford better controls, and this will take time to arrange.

As holders of a major proportion of available JSE equity, the institutional power base is seen by many as fundamental to the liquidity of the futures market. Their degree of activity has a direct impact on volumes.

To hedge large portfolios, institutional fund managers need to deal in large size. Trades are around 10 contracts per deal — which on the All Share index would currently give cover of only about R310 000, hardly attractive to an institution holding billions of rands in equity portfolios.

Also, "because of the relatively low liquidity of the JSE (5,5% last year), it is difficult to arbitrage between stock index futures and the physical market," says one portfolio manager.

Old Mutual assistant GM Isak Mostert comments: "We would like to see liquidity increase, to give us more flexibility to make appropriate investments in all markets."

It's a chicken-and-egg situation. The institutions must play for the market to expand.

Sanlam for one will probably keep a low profile for the present. Says portfolio manager Nel van Niekerk: "We are more comfortable with a formalised market as we are likely to sell the idea of futures and options to pension fund clients at some stage. But as clients probably do not fully understand these markets yet, a lot of education is need-

ed before we start even considering using pension fund money. So this must be some way down the line."

Old Mutual, perceived to be the most active of the institutions, does not intend to become more active in the futures market *per se*. Says Mostert: "We want to maximise our returns given certain levels of risks. The futures market presents a number of opportunities and if making more use of this market will help us achieve our primary objectives, we will do so."

By early August the floor should be open for trading. Space in the JSE Annexe has been leased jointly by Safex and the Bond Market Association for trading both bonds and futures. Infrastructure is being installed.

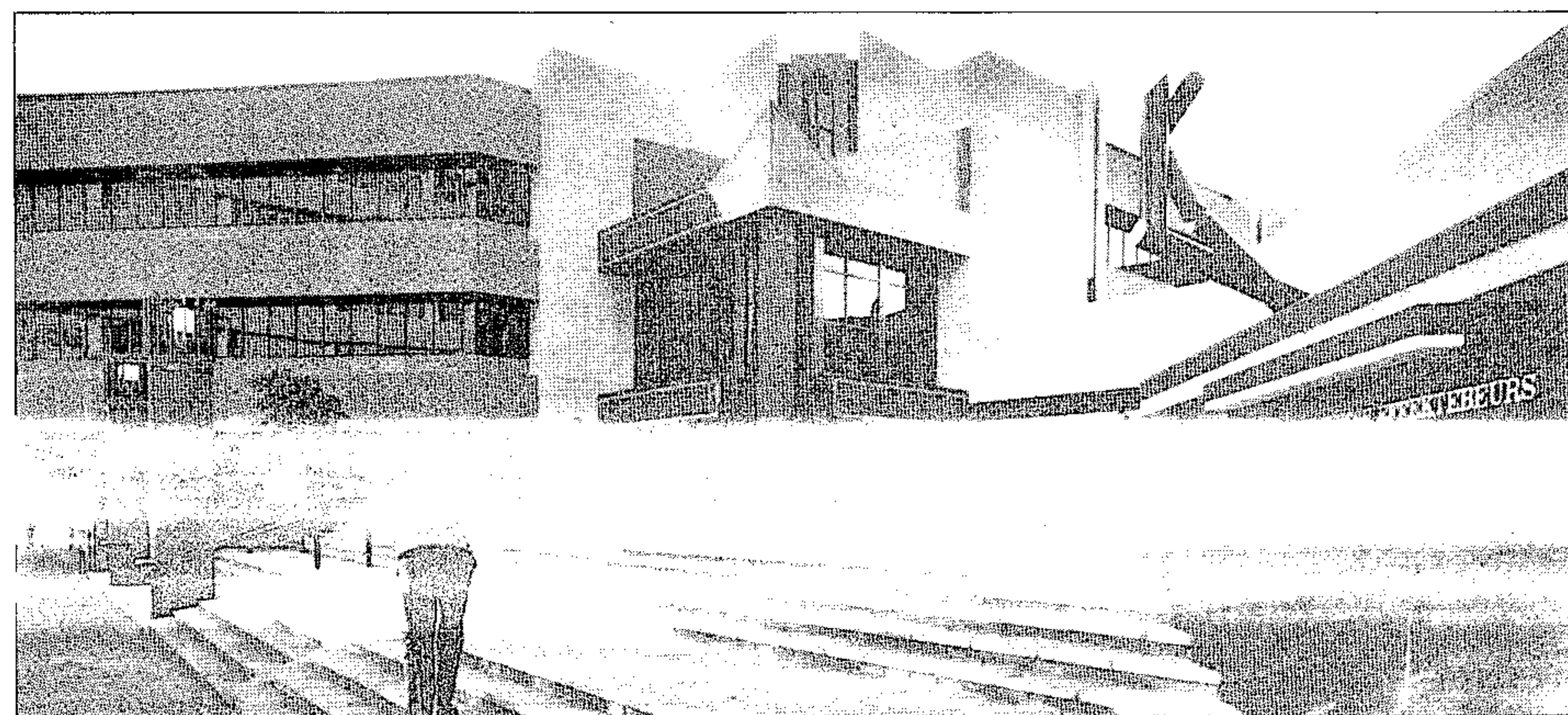
Queries answered

Fears that all futures members would have to pay for the floor are dispelled by Rees: "There will be no cross-subsidisation between floor and screen." About 46 traders, including 27 from the JSE, have taken space on the floor. The 71 Safex members hold 120 seats between them.

Another gripe is the extent of protection (implicit in the Financial Markets Control Act) to shield the private investor, which some say has lifted costs unnecessarily. Though there might be sound arguments for the markets to be regulated, objectors reckon private investors will make up too little of the market to justify it.

Those prepared to deal with private clients are more optimistic. But the larger stockbrokers think more client education is needed so are likely to target the wholesale market more actively than private clients for now. Says Max Pollak's David Shapiro: "We are demand-led, so will wait and see. There is not much natural retail business; most is self-generated."

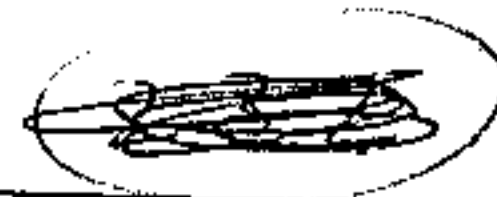
Trade by futures brokers on the JSE floor (which started a few months ago) has been



Action at the annexe ... waiting for the big boys

FIM 11/5/90

(74)



described as "petty jobbing" only.

According to Rees, Safex intends to introduce an automated trading system futures around mid-1991 at a budgeted R8m. Players do not agree on the need for this, relatively new abroad, until volumes increase. "This will be a business decision made by screen traders when the time comes."

Safex has pinpointed a need to rationalise Safex, Safcom, SA Futures Industry Association and the Financial Markets Institute and this is being addressed.

Futures contracts include the JSE All Share, All Gold and Industrial indices, Eskom E168 bond, BA rate and dollar/gold.

This enables those unable to buy the underlying stock to take a view and buy the future; or for those who possessed the underlying stock or equities, to hedge their equity

or gilt portfolio. By taking a decision as to whether the future will rise or fall, they can minimise loss or maximise returns by buying the relevant futures contract.

While futures have stolen much attention in the derivatives scene, the over-the-counter options market is still thriving. Options have traded successfully since 1984 and the market has high credibility, says a major operator. Trades are not centrally recorded but it is believed options volumes far exceed those of the underlying bond market. Options on futures will come under Safex's wing around mid-1991.

But a sore point with stockbrokers is the JSE's much-trumpeted Traded Options Market — options on equities exclusively for stockbrokers — which was due to open mid-1989. To their dismay the R2m budget has

become R7m — and they will foot the bill. Worse, though this was the first market to have its rules gazetted, there is still no new launch date in sight. The JSE reckons it is more concerned with getting the systems watertight.

Critics say the use of overseas consultants contributed to overspending. Brokers wonder when, if ever, they will recoup those costs.

JSE President Tony Norton says criticism is unjustified: "We are not building an intermediate system, but a state-of-the-art product to last 20 years. We accept criticism of delay, but not of our consultants, whom we hold in high regard."

A start has been made. Players hope that derivatives will not only justify the time and money invested but that there's money to be made, too. ■

fell from around 76% in 1981 to below 30% by 1986; and FIM 11/5/90
 □ Debt to income rose from 15% in 1980 to 33% in 1986. (74)

Moreover, with debt rising an annual 24,6% between 1982 and early 1986, capex increased only 6,5% a year in the period.

As the rise in outstanding debt outstripped cash flows, capex and profits, the normal growth process was reversed and credit extension became as helpful to business as anabolic steroids are to athletes.

Not only was credit readily available domestically but local borrowers could tap offshore credit at a time of relative rand strength when international rates were even lower than those available locally.

Then came the deterioration of the rand, the increase in international rates and steeply rising domestic interest rates. Finally came the foreign debt crisis of 1985-1986. In the face of a crippling liquidity squeeze, companies increasingly turned to "credit for non-capital spending purposes."

Fortunately, the period proved to be a watershed for business. "Nominal credit demand by companies showed no net growth and, by the middle of 1987, total outstanding debt was actually more than 5% lower than in the middle of 1985."

The result was a significant improvement in debt ratios. That of cash flows to total debt improved from just below 30% in 1986 to over 100% by 1989 (see graph).

"Between the final quarter of 1986 and the second quarter of 1989, credit extended by the domestic banking sector to private companies rose by some 46% in nominal terms, roughly equalling the increase in nominal private sector fixed investment."

With credit once again creating capacity for growth, the *Monitor* suggests the corporate sector should be able to avoid a repetition of the severe consolidation forced on it in the 1985-1986 recession. It "is a major reason why the current downswing should not be as harsh as the two painful experiences of the Eighties."

CORPORATE DEBT (74)

Uppers and downers

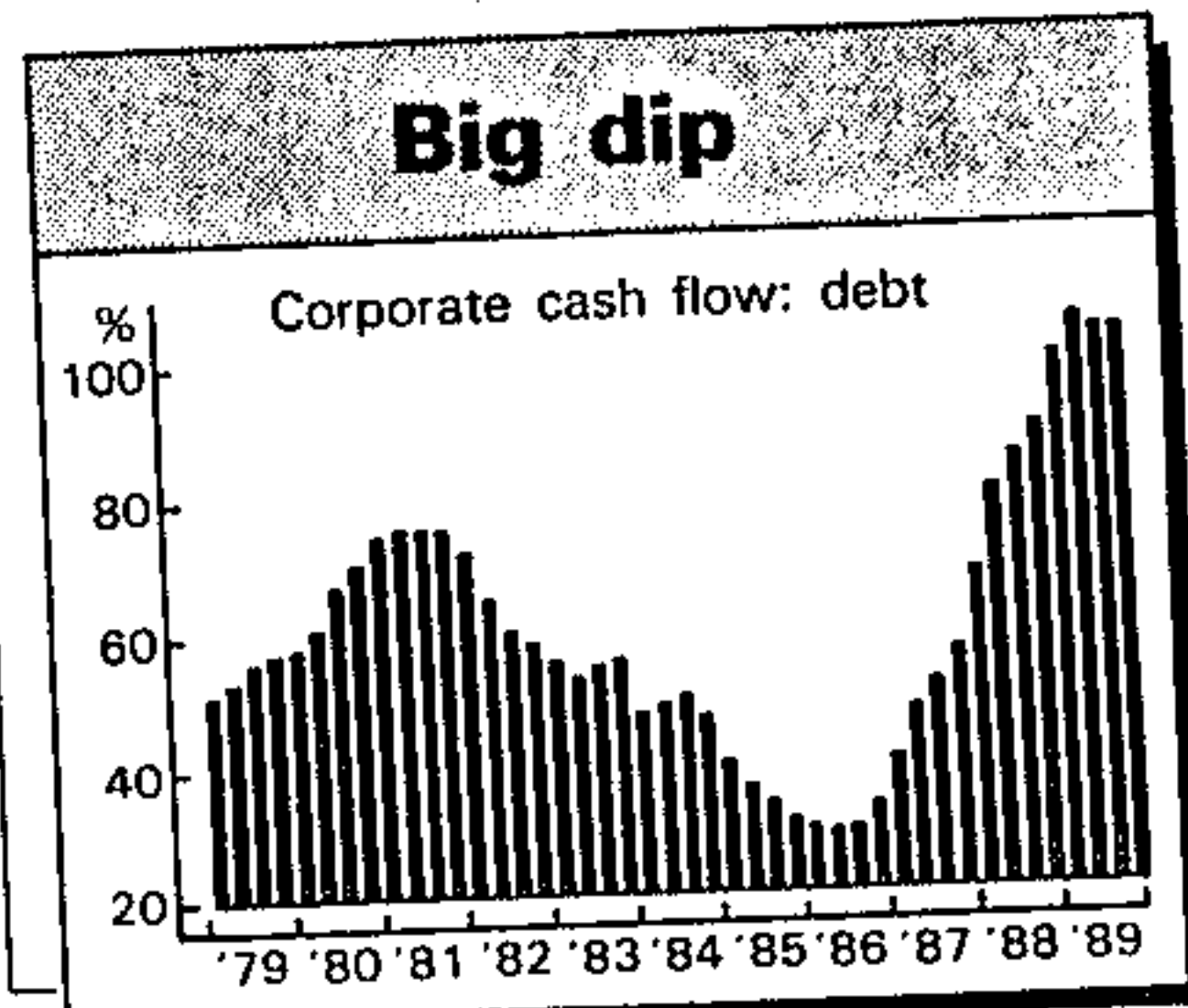
Credit extension is a powerful stimulant to economic growth. It provides liquidity for expansion, finances a level of real capital expenditure that would not otherwise be possible and, consequently, increases profits.

In the Eighties, however, a rise in corporate debt distorted the relationship between debt, on the one hand, and cash flows, capex and profits on the other. FIM 11/5/90

This had its roots in what Old Mutual's *Economic Monitor* calls "the credit-financed miniboom in 1983-1984." In a special focus on corporate debt, the *Monitor* records that total domestic credit, extended by private banks to companies, rose strongly during the first half of the Eighties. Excluding offshore financing, for which no figures are available, debt rose from R4bn in 1979 to R17,5bn by the first half of 1985, or at average annual growth of close to 31%.

As a result, the ratio of:

□ Corporate cash flows to outstanding debt



Star 12/5/90

74

NEWS

AIRFARES for South Africans travelling abroad are set to continue their upward spiral although Government deregulation plans could reduce domestic fares and those for foreign tourists to the country.

This week Tourism Minister Kent Durr announced the relaxing of the controls of charter flights, and at the same time Cabinet colleague Dr Dawie de Villiers said the Government was looking for a private-sector consultant to investigate SAA's privatisation.

But it seems clear from Dr de Villiers' statement that while the Government is keen to privatise SAA's domestic service and deregulate the airline industry within SA, it is shying away from breaking up the existing international airline cartel operating from SA to foreign destinations.

Mr Durr said the revised policy would be more accommodating to developing international charter air passenger services.

"The revised charter policy relaxes previous very rigid control over charter flights for purposes of transporting foreign tourists to South Africa.

"It welcomes charters as a supplementary form of transportation to scheduled carriers, without harming scheduled carriers' commercial interests," Mr Durr said.

Fares for visitors and local flights could drop

CHRIS MOERDYK

Many foreign charter operations had avoided South Africa because of the restrictive policies.

Besides offering more seats to tourists, the new policy would provide for more competitive pricing, for the creation of new jobs here, air links where there were none, and greater foreign earnings.

South Africa would not adopt a totally open-skies policy, as this would detrimentally affect international scheduled carriers. The Government also did not want to promote a mass of cheap charter traffic which would lead to low-income tourism, which would not benefit the country.

He said particular encouragement would be given to routes where no scheduled services were operating, round-the-world char-

ter flights, and affinity groups such as religious and sporting bodies.

Mr Durr said the Government would also consider an extended series of charter flights on routes that were served adequately by scheduled operators, low-cost single-destination itineraries, and low-season charter flights where scheduled carriers had adequate capacities available.

However, he made no mention of charter companies being allowed to operate out of South Africa to the benefit of local travellers to overseas destinations.

For decades now the main stumbling block to the deregulation of air travel out of South Africa has been the ban on overflights of Africa by SAA. With SAA having to fly "round the bulge" to Europe, for example, its foreign airline-pool partners have had a distinct time and profit advantage.

The formation of the cartel and its rigid price-fixing policy many years ago has ensured that SAA has not been disadvantaged.

Industry circles believe that should the SAA/foreign airline cartel be broken up before South Africa is granted overflight rights, the ensuing open competition among airlines would effectively put SAA's international operations out of business within weeks.

...and the court was losing his head. dismissed the incident with ironical words.

Beware get-rich-quick schemes

FANTASTIC rates of interest lured hundreds of investors to put their life savings into a Johannesburg company, Equipment and Business Consultants (EBC) - and their money disappeared along with EBC director Patrick Rudman.

Rudman's target investors were black people with a few thousand rands

to invest.

EBC advertised in Johannesburg daily newspapers, offering investors a dividend of at least 50 percent a year, paid monthly.

For factory worker Gabriel Mofokeng an investment of R18 000 meant a monthly dividend of R750.

But Mofokeng received only six monthly cheques, then the money stopped coming. When he visited EBC's offices in Jeppe Street, they were empty.

Rudman had disappeared from his offices without a word to landlords Standard Bank Properties. He also disappeared from the Mariston Hotel room he had rented for several years.

Attempts by the police and irate investors to trace Rudman have failed.

His victims believe he is now in Australia.

All of them have little chance of getting their money back.

Be warned - don't fall for investment schemes that sound too good to be true. You may end up losing everything.

READERS' HOTLINE

Helping you with your problems
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Watch for bogus agents

HOUSING fraud seems to be on the increase in the Johannesburg area again.

In the past few weeks, more than a dozen readers have complained to *City Press* that bogus estate agents have disappeared with deposits they have paid for houses in Soweto and other townships.

Taxi driver Elias Mbethe paid his life savings to bogus agent Emmanuel Lidimo. Lidimo told Mbethe he had a house for sale - and that he needed R20 000 in cash to give to the sellers.

Mbethe paid the R20 000 and then found out the house had been sold to someone else. The new owners had already taken occupation.

Johanna Mchunu also paid money to Lidimo's bogus estate agency, Lidimo Estates. Lidimo promised her a new house in Soweto and asked for a deposit in advance. She paid R5 700... then Lidimo disappeared from the offices he rented in Johannesburg.

City Press has established that Lidimo is being held in custody on unrelated charges of cheque fraud.

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City Press
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'Global village' is exporters' market

B/Dam 17/5/90

THE nations of the world are increasingly looking to exports for economic growth and competition on the international market is growing.

Sacob deputy director-general Ron Haywood says the world is changing and there is a movement towards a "global village".

This increases the need for SA to think in international terms.

Haywood says sanctions were an expensive and difficult learning experience, but will stand SA exporters in good stead in the years ahead.

Many companies lost

their traditional markets through sanctions and had to find alternative ones and new methods of trade. This leaves SA exporters in a better position as old markets open up through political change.

Certain industries which are world leaders in their fields, such as Armscor, have developed in the face of sanctions and will have positive spin-offs in the future.

Initiatives made by President F W de Klerk have led to a more open attitude to SA and goodwill towards the country is increasing.

Haywood, who has witnessed an upsurge in

foreign visitors to SA, says all sorts of markets are opening up to SA and previously clandestine export activities are reducing.

Sacob trade secretary Bess Robertson says the world is moving towards greater deregulation to facilitate easier trade and to build up economies. But SA has "lost out" because of the inward policy started in the '60s.

She says the economies of those countries that limited two-way trade have suffered.

Business cannot develop a keenness of trade if it lives in a protective environment and the most successful countries have been

those that lived with competition.

Another international trend is towards trading blocs, with one of the largest, the European Community, set to come on stream in 1992.

Robertson says this scenario must lead to a southern African bloc and there are many benefits to be reaped if SA can overcome political obstacles with its neighbours. Much of the infrastructure for such a bloc is already in place.

Haywood says the international trend is to use chambers of commerce to establish trade links with other countries. The recent Polish chamber of com-



RON HAYWOOD

merce visit to SA is an example.

Through its link with the International Chamber of Commerce, Sacob is able to provide information on a wide range of issues affecting trade.

Sacob also administers some bilateral chambers of trade represented in SA. It has an ongoing relationship with the Department of Trade and Industry and the Department of Foreign Affairs.

BACK in 1973 the Chicago Mercantile Exchange launched futures contracts on financial products in a move that reshaped the US capital markets. Today new technology is bringing futures to some of the world's less developed financial markets as a whole range of countries hope to join in the black box revolution.

Futures contracts are traded on anything from hogs and orange juice to Swiss francs and treasury bonds. They are agreements to buy or sell a specified amount of a specific commodity at a date in the future. The fast-moving markets are renowned for high returns and high risk, but they have become an indispensable tool for institutions to hedge their cash investments.

For this reason, many countries with developing capital markets are eager to move into the area of derivatives. Futures have traditionally been bought and sold on squashed trading floors where each broker acts as his own auctioneer yelling out bids and offers which he backs up with a flurry of hand gesticulations. New technology is moving all this on screen.

It is much cheaper to set up a screen-trading system than it is to equip a trading floor and train brokers. Derivatives, therefore, can reach the less-established markets more easily. Mexico and Korea are both considering a futures marketplace and Belgium is planning to set up a screen system by next year.

The march of screen trading has been the cause of much controversy in Chicago — the birthplace of futures trading which still leads the world in volume, and where independent traders fear they will become obsolete as screens provide users with a direct route to their trading partners.

But in many countries with no established system of open outcry futures trading, screens have been used to start a new exchange.

When the New Zealand Futures Exchange started up in January 1985 it was one of the world's first wholly automated derivatives exchanges for contracts such as bond and wool futures. The exchange got off to a

Screen trading 74 sweeps the floors of world exchanges

DEBORAH HARGREAVES in London examines the latest automated systems on the world's futures exchanges.

modest start by trading several thousand lots a day. It has since grown into a market for purely financial products with a volume of more than 40 000 contracts a month.

Screen trading proved the answer to New Zealand's specific problems in that its users are spread across the country and there could be no agreement on a location for an exchange. The trading system in place in New Zealand was developed by London's International Commodities Clearing House (ICCH), which has a long-established relationship with the derivative markets through its clearing function.

The ICCH has since developed a successor for New Zealand's system, offering a more customised trading arena which can be tailored for individual exchanges. This system, ATS/2 (automated trading system), was installed at Dublin's International Futures and Options Exchange in May last year and for trading in white sugar futures at London's Futures and Options Exchange (Fox) in June.

London's automated white sugar contract was launched three years ago in direct competition with a similar product traded in Paris, a market which is not automated. London has developed into the busier market, proving that screen trading can compete successfully with more traditional forms of trading.

The Fox exchange is a hybrid futures market where sugar is traded on screen and other products such as coffee and cocoa still change hands by the time-honoured method of open outcry.

Fox CE Mark Blundell believes the two ways of trading can complement each other. "While the floor is a superb way of filling large orders, electronic trading is a cost-effective vehicle for launching new contracts to gauge their success."

Fox is planning to launch futures on rubber and a metals index in the next few months, both on screen. Blundell does not rule out moving these contracts to the trading floor if they become successful.

White sugar traders at Fox have worked closely with the CCH over the past three years to modify their system to fit more closely with the traders' needs. But they are likely soon to switch over to a rival system, Fast, which has been developed at Fox and takes ATS a step further.

In the highly competitive market for suppliers of screen-trading systems, traders and exchanges can shop around for the most up-to-date technology. John Payne, head of the sugar committee at Fox, says traders started to look around at rival systems when ATS went through a

troublesome period of performance last year.

When the ATS system goes down, trading in white sugar futures continues over the telephone. This happened quite often during one of the ATS's development phases last October. A system's propensity to fail is an unresolved nightmare for its developers since it can often be caused by circumstances beyond their control.

Nevertheless, ATS's difficulties gave the exchange a desire to pursue its own screen system. Fast is the result — based on an after-hours trading system in place at the Sydney Futures Exchange. While it is a third cheaper to run than ATS, the new system has appealed to traders' fascination with gimmicks by providing a screen that can change colour to suit each trader.

The technology behind most electronic trading system does not vary much between developers, but screen presentation has been a way of differentiating a product. Fox's new system provides bright blocks of colour with which traders can highlight each function they use. Other systems are equipped with even brighter graphics which try to reproduce on screen the dynamics of open outcry futures trading.

This is what the London International Financial Futures Exchange

has done with its Automated Pit Trading system, which it uses to extend its floor hours. APT uses icons to represent traders and relies on a certain amount of trading skill to use.

Screen presentation is turning out to be a big sticking point in talks between Chicago's major futures exchanges — the CME and the Chicago Board of Trade — on combining their two screen markets. Globex, which is being developed by the CME and Reuter and which the exchange is pushing as an industry benchmark, provides straightforward order-matching while the CBOT has bowed to pressure from its independent traders to opt for a system which relies on trading skills to use.

In the end, John Hull, executive vice-president at Reuter in the US, believes the company will supply two types of screen for different classes of trader. These will include spreadsheet screens for large brokers — along the lines of Globex's planned presentation — accompanied by more visual screen for individual traders.

The ICCH says it will tailor its screens to the way traders want them. It has been working closely with traders at the New York Mercantile Exchange on the development of an electronic system for trading during the night and is awaiting the exchange's verdict on the pilot project.

Screen trading is yet to be tested in an extremely busy and rapidly moving market, which is why some of Chicago's traders are so dubious. Electronic trading will not be able to respond to orders as quickly as individuals on a trading floor, they say. Payne, who trades white sugar on screen, agrees: "A low volume market is very suitable for screen trading, but for high volume I have very mixed views. I don't think we're ready to put any of Fox's other contracts on screen."

However, screen trading is proving attractive for exchanges which want to extend their trading hours or as a cheap way to gauge the interest for newly launched contracts. At the same time, it is being used by new exchanges to get off to a start and to link their often diverse market users. — Financial Times.

Trade sanctions. Do they really hurt?

THE lifting of trade sanctions in European countries has been mooted, in response to the move towards reform by the government, after State President FW de Klerk's European tour.

France has suggested that its coal sanctions, apparently more symbolic than anything else, may be lifted.

European sanctions, where they have had an effect, have opened new markets in the East. Detailed export figures are not released but it is reliably estimated that exports to Europe last calendar year rose 37 percent by value, while exports to Oceania rose around 58 percent and to Asia by 27 percent. Exports to Africa also rose, by about 40 percent. By contrast exports to America dropped by 11 percent. Sanctions imposed by the US and Canada have been more effective than Europe's.

European trade sanctions have barred three important South African exports: coal, steel and Krugerrands.

The ban on Krugerrands had little effect. By the time these were barred from Europe, they had had the desired effect of spurring investor interest in gold coins and by attracting more individual investment in gold, broadening the market. The contraction of the KR market outside South Africa coincided with the creation of other gold coins such as the Canadian Maple Leaf. It matters little whether the gold South Africa sells makes its way into the world as ingots or gold coins minted by other countries.

The ban on basic steel products co-

FW de Klerk's tour of Europe has raised hopes of sanctions being lifted. REG RUMNEY looks at the possible spinoffs

incided with an excess capacity to produce steel at European steel mills. Keeping South African steel out of Europe may have been a form of protectionism. Should European sanctions be lifted there may be demand for South African steel.

But Iscor, South Africa's main primary steel producer which is producing to capacity, has been out of the European market for five years, said an Iscor representative. The overcapacity in the European market was starting to decline when sanctions were imposed, though it was always a competitive market.

Iscor's problem is more one of pricing than capacity. The loss of the US market was severely felt because it was particularly lucrative. And the price Iscor's steel can command depends more on the world supply-demand equation of steel than on demand from individual countries. Iscor has for years exported 35 to 40 percent of its production and isn't considering increasing liquid steel production.

The impetus the lifting of European sanctions would give to the total economy would boost local demand, and this would improve local prices.

Similarly, the lifting of coal sanctions by France and Denmark would

do away with the "political discount" South African exporters have to give to sell their coal. Like Iscor, coal exporters found new markets when the US, France and Denmark were closed.

Professor Dawid Kotze, of the Institute of Energy Studies, considers there are two hurdles to be cleared for South Africa to take advantage of any possible lifting of sanctions by European countries.

One is the constraint on the amount of coal that can be taken out of the Richards Bay coal terminal. Capacity at Richards Bay is now being expanded from 44-million tons to 53-million tons. This is only scheduled for completion in 1992.

Since South African coal exporters won't drop newly developed markets to supply Europe, new mines will have to be developed. But Kotze says the present coal price provides insufficient incentive for investment in greenfield coal mines. He believes the capital expenditure required over the length of the mine at R30 a ton, plus railage, will mean the cost of a ton of coal from a new mine by the time it is loaded on to the ship at Richards Bay will be R90. The international cost of a ton of coal is about R83 to R85 a ton — not enough to entice new investment. Kotze sees no stampede to supply new markets unless the international coal price surges.

According to a report in the London-based newsletter *Southscan*, coal exports to Europe from South Africa

have increased by 7,2 percent from 19,2-million tons to 20,6-million tons. *Southscan* quotes European Community figures to show that France, despite its decision in 1986 not to renew any supply contracts for South African coal, has for the second year increased its purchases, buying 948 000 tons, 9,7 percent more than in 1988.

Total coal exports did increase last year. In 1989 total South African coal exports were 46,7-million tons compared with 43-million tons in 1988, according to Amcoal chairman Graham Boustred, in his review for the year ending March. He says foreign exchange earnings from coal exports rose from R2,8-billion in 1988 to R3,6-billion last year. Only R270-million of the R800-million increase arose from higher volumes of exports, with R120-million coming from higher prices and R410-million coming from the lower value of the rand against the dollar.

Boustred states that while the Richards Bay coal terminal is being expanded, South Africa will only be able to achieve an increase of one or two tons a year, "in the prevailing political climate".

Coal and steel would benefit from a repeal of the Comprehensive Anti-Apartheid Act in the US, but this has not been mentioned.

Trade sanctions are one thing but they pale by comparison with financial sanctions, according to Trust Bank economist Nick Barnardt.

While the lifting of these financial sanctions have not yet specifically been mentioned, it is understood that South Africa's ability to repay its debt this year depends on the willingness of creditors to roll over debts. Already, says Barnardt, the rolling over of debts has showed a softening of attitude to South Africa by creditors.

Full normalisation of relations with the outside world would mean an actual inflow of capital and this would boost the economy. Reserve Bank governor Chris Stals has asserted (*Weekly Mail* February 2) that political reform is not enough to attract foreign bankers or investors to put money into South Africa, though it could stem the outflow of capital.

However, if more debt was rolled over, an easing of the constraints on the economy caused by the burden of debt repayment would also boost the economy. The authorities, Barnardt notes, would be able to relax their strict stance. Interest rates, because the capital shortage will no longer be severe, would decline, which in itself would give a boost to the economy.

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Grincor on course for above average growth

Stockbrokers believe shipping group Grincor is on course to achieve above-average profit growth this year, though they do not envisage a repeat of last year's 55 percent improvement in earnings.

In the latest annual report, chairman Murray Grindrod says while the group's domestic activities are expected to show modest growth, exports are expected to remain buoyant and increased earnings should come from offshore activities as the full benefits of recent investments are realised.

To reduce dependence on South African trading, the group has set an objective that 40 percent of attributable income should be earned from international activities.

Mr Grindrod discloses that about 20 percent of attributable income is currently derived from this source.

The group has two main operating subsidiaries, Grindrod and Unicorn.

In the year to December, group turnover climbed 23 percent from R345,2 million to R424 million.

Due largely to improved resource utilisation and the discontinuance of non-profitable activities, operating profit jumped 59 percent from R32,8 million to R52,2 million.

After interest expense of R13,1 million, which was 54 percent higher than the R8,5 million paid in 1988, pre-tax profit rose 60 percent from R24,4 million to R39,1 million.

A rise in the effective tax rate from 28,2 percent to 33,9 percent resulted in after-tax profit advancing 48 percent from

SA 22/5/90

Diagonal Street

74 LYNNE PEACH

R17,5 million to R25,8 million.

A relatively lower share of profits to outside shareholders boosted attributable profit to R15,7 million, 55 percent higher than the previous year's R10,2 million.

Earnings a share climbed from 40,3c to 62,3c. Due to an increase in cover, the dividend for the year was raised 28 percent from 18c to 23c.

Mr Grindrod comments that there was little growth in the tonnage of cargo carried by Unicorn on its domestic and international services but with the world ship market remaining firm, earnings from the offshore interests increased significantly.

The balance sheet shows an improvement in gearing to 55,8 percent, compared with 126,7 percent a year ago. The net worth has appreciated by 17 percent over the period from 198c a share to 231c.

Grincor is trading on a price:earnings ratio of around 6,0 and provides a dividend yield of 5,9 percent.

Stockbrokers believe the share is worth buying at the current price level.

COMMENT: Grincor's share price has been in an uptrend since the start of 1989 and, at 405c, has exceeded its 1987 peak of 385c. Some short-term correction could take place in view of the share looking very overbought, but the longer-term outlook remains positive.

Reason to get it right



British consul general John Doble, making his first official appearance in SA, sounded a positive note during an SA-Britain Trade Association lunch in Johannesburg. Here is an abbreviated version of his speech.

Our commitment to SA and to all South Africans is strong. There were some who disengaged in protest against apartheid; but Britain remained, during all those difficult years, trying to promote reform through persuasion and dialogue.

SA is more important to Britain than it is to any other country in the world, apart from your immediate neighbours. We have more at stake than anyone else; for us it is much too important for posturing.

Many South Africans have some degree of British ancestry. Around half of all the overseas investment here is British, to a large extent for historical reasons; and we sell more than £1bn of exports to SA each year, rather more than we do to the whole of Latin America.

It is not for the British government to get involved in the process, that has happily begun, of South Africans working out with South Africans, a constitutional solution to what is a unique SA problem. At the same time we want to do anything we can to help achieve a peaceful and prosperous future.

British-SA trade, I'm glad to say, is flourishing. Last year, we sold you goods worth £1,038bn; you sold us £885m. But, whereas our exports were static with your tight monetary policy, yours to us went up by 10%. In the first quarter of this year, there has been considerable growth in each country's exports to the other — ours up by 14%, yours by a staggering 43%. Our visible trade is now in balance for the first time since 1986. We have done well in power generation, railway

engines, machine tools and mine equipment.

Invisible trade is also healthy. Lloyd's has long had expertise in handling the special insurance needs of SA industry. In the other direction, British tourism here, from a high level, rose 18% in 1989. SA has long been a favourite wintering place for those who can afford the trip from Britain; and tourism should be a growth sector for you.

Of course, new investment is critical for you, if SA is to create jobs. Mrs Thatcher has ended the voluntary British ban on new investment. Commentators have said that this will not necessarily lead to any immediate new investment at all: they point to businessmen's doubts about the future here, partly in the light of the ANC's remarks on nationalisation. People have also pointed out that SA will now be competing for investment with eastern Europe.

But, unlike the countries of eastern Europe, you have a functioning, free-market economy and business practices with which British firms are familiar. I believe that there is great potential for new British investment here, once — and these are the two big provisos — you have achieved a new constitution acceptable to the majority of the people in this country, and one which retains a largely free-market economy.

The recent government-ANC talks, coupled with more realistic remarks by ANC leaders on economic policy, give considerable hope that such a settlement will be achieved. Almost all the top British firms have remained in SA, because of faith in your future and with an eye obviously to future business.

So once political reform releases the full potential of your economy from the restraints of both apartheid at home and sanctions abroad, I expect to see most British firms investing in expansion, to meet increased demand. The enhancement of black living standards, which is already under way, will obviously create great new demand in sectors such as construction, water supply, furnishings, electricity supply and domestic

equipment.

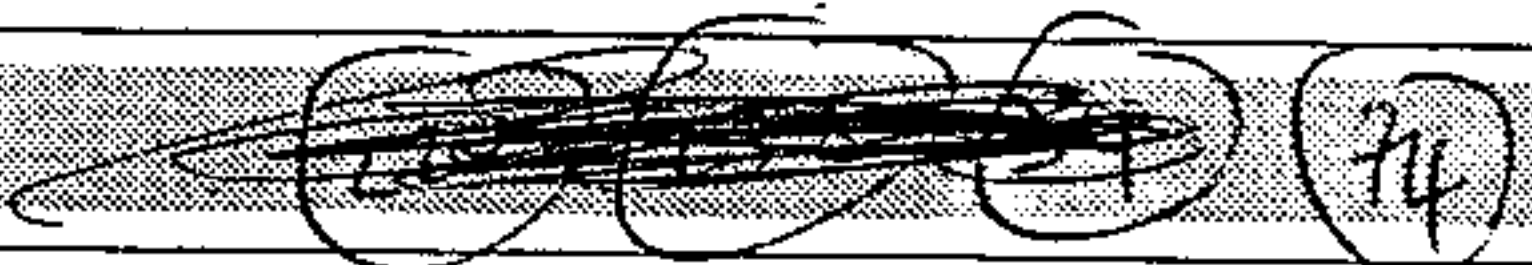
With a settlement here, much new demand will also come from the other countries of southern and central Africa. There has been much talk at the UN and elsewhere of the plight of Africa and the need for aid of Marshall Plan proportions. This is clearly over-optimistic, especially with the urge, the duty, to help the countries of eastern Europe emerging from the long, dark communist night. But there would undoubtedly be a great welcome internationally for a constitutional settlement here, together with a determination to rebuild the economies of the whole region.

Considerable new aid would flow, mainly to the surrounding countries. A very great part of the equipment and expertise to rebuild these economies, would come from SA. British firms bidding for contracts there would probably generally bid through their SA subsidiaries, or take SA partners. Within a few days of Namibian independence, Lonrho announced a \$150m sugar plantation and refinery producing 60 000 t rising to 100 000 t a year. Guinness will be made under licence in Windhoek from June 2.

In Mozambique, Gencor and Lonrho are discussing a joint project for the rehabilitation of the Moatize coal mines, which could produce 7 Mt a year for 500 years. The electricity industries of the countries of the region are already talking to Eskom about a regional electricity grid possibly including the Congo River. These are just a few examples of the sort of projects which could be expected in the wake of a political settlement here.

Britain and British firms are strongly committed to SA. They welcome unreservedly the new policies of your government. They are keen to take advantage of the great opportunities which will result from a constitutional settlement when SA is able to resume its natural role as the engine room for the growth and redevelopment of much of Africa.

Star 25/5/90



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Multi Gold under new attack

The crises-ridden venture capital scheme Multi Gold Holdings, which took millions from investors and failed to meet promises of large profits and a stock exchange listing, has now been attacked by the former general manager of its Nigel gold reclamation plant.

Laurence Matthews has slated Multi Gold, which was controlled by Equity Participation Investments (EPI), for failing to channel enough investors' cash into the gold recovery project to make it profitable. He is also furious that R150 000 owed in salaries to 62 Nigel plant workers since February has not been paid.

Mr Matthews, who resigned from the company last month, told Star Line: "Multi Gold owes me R25 000

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Line

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for outstanding pay and bonuses and the balance is payable to the other workers."

He criticised EPI directors for not giving him a chance to put the scheme in the black during the 18 months he managed the recovery operation, adding: "I tried to work the area without the necessary equipment but it was impossible to work to full capacity although the gold was there."

Over the last three weeks Star

Line has put the spotlight on the controversial venture capital scheme in which some investors hold stakes of R250 000.

Several investors who fear they are about to lose their money have expressed outrage at Mr Matthews' disclosures and have demanded the directors give a full explanation.

However, the two men who launched the scheme, former lawyer Roy Sellers, now living in East London, and Steven Wolff, have severed their links with EPI.

When Star Line contacted Mr Wolff in California recently he said he was not accountable for problems experienced by EPI or its subsidiaries.

Norman Tilley of Livingstone Mining and Exploration stepped

into Mr Sellers' shoes two months ago to untangle the scheme's affairs and attempt a rescue.

Colin Hartley, who runs Multi Gold's marketing arm, Capital Growth Investments from Rodland House in Craighall Park, said the next few weeks would be critical to the survival of the operation as they would know if additional funding would be forthcoming.

"We have a cash flow problem and we can only survive for as long as creditors allow us. Our offer to existing Multi Gold investors to reinvest 50 percent of their original outlay and to take up options in Livingstone Mining is on hold while we draw up documentation."

He said Mr Tilley should explain why Nigel staff had not been paid.

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WIGGATE IN INDUSTRIA

Shipping ready for full ahead

Business Staff

THE South African shipping industry is ready to handle increased volumes of business likely to be generated if international sanctions are lifted soon.

However, foreign shipowners who were reluctant to operate here or those that have never traded here before may also be attracted to these waters.

"That is a possible threat, but it should be offset by increased business that will be available," says Grincor managing director Mike Groves.

"We would be able to cater for the extra business, if not with our own vessels, with charters," he said in an interview.

Grincor derives 20 percent of its attributable earnings from international business and has

set itself a target of boosting that to 40 percent.

Mr Groves said while the shipping industry had been buoyant in recent times, it had to be looked at in relative terms.

"The industry went through a terrible recession from 1981 to 1986 and all that has happened from then until 1989 is that it has been getting itself back to acceptable levels," he said.

"In the first part of this year, there has been a slight decline in the market worldwide and we would expect it to remain flat for the next year to 18 months.

"But we do expect the mid-1990s to be a strong shipping market just in terms of supply and demand. And the people and hardware is there to handle the extra business when normality of trade returns."

The latest results for Grincor, the investment holding company involved in storage, handling and transportation of goods by sea, air and on land locally and internationally, have been impressive and the share price on the JSE has risen greater awareness of the company's financial strength.

A restructuring of operations occurred after the company bought Mitchell Cotts in 1987 and the effect has been significant.

"Unicorn traditionally has a strong cash flow and in Grincor we tightened up the cash management a lot and reduced working capital by R10-million which contributed to the present healthy situation," said Mr Groves.

The company was always seeking acquisitions in the shipping market, particularly where a reasonable length charter was involved and ongoing employment for the vessel was guaranteed.

"While we will be looking both locally and internationally for expansion, we will tend to stick to what we know and it is highly unlikely we will diversify," he added.

"We will, however, consider any privatisation opportunities that may occur, particularly in the harbours. We regard ourselves as a multi-mode transport group, but we would be careful how much we put into any road transport operation with the sector facing such severe difficulties.

"Nevertheless there are longer-term opportunities in Africa to the north by both road and sea as a result of political developments."

W/F ARGUS 26/5/90

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Citrusdal all set for a boom

By DICK USHER
Business Staff

CITRUSDAL, the Cape's famous orange-growing region, is all set for a boom.

Deregulation of the industry promises new growth opportunities and lower prices for consumers through increased competition, while plans are in hand to exploit the region's tourist potential.

The atmosphere was all optimism at the Goede Hoop Citrus Co-op this week during a media trip to the area for the official opening of the 1990 season.

Apart from expecting a record turnover this year, up 20 percent to R55 million, Goede Hoop has also taken important organisational steps in the past year which co-op members feel make it ideally poised to take advantage of deregulation.

Goede Hoop is one of eight co-operatives countrywide to have opted to market its own produce. It aims to make the Western Cape its primary local market, but also hopes to make a mark in the Transvaal market.

Farmers were eager to grasp the opportunities presented by deregulation which, they feel, will reward efficient producers of high-quality citrus fruit and end the "subsidisation" of low-quality producers that occurred under the Citrus Exchange.

They also realise that they will have to cope with competition from other co-operatives, but feel that this can only be to the good of the industry and

the consumer.

"Other co-operatives, especially in the Eastern Cape which cannot absorb all their produce, are eyeing the Western Cape as a market.

"Although their transport costs will be a significant factor they'll have to be cost competitive which will put pressure on prices," said a Goede Hoop spokesman.

"Even though we feel we have a superior product and expect to dominate the Western Cape market, price is an important factor in a free market and consumers can expect to reap the benefit.

"At the same time, with competition keeping prices down there should be increased demand which should lead to farmers having to expand production, so there could be a spin-off for the area in job opportunities."

Major possibilities

The co-op also hopes that different varieties could extend its season and enable it to take advantage of a gap in the Transvaal market between the end of the navel season and the start of the valencia season.

"Soft peelers" such as minneolas and clementines have been developed which extends the range of citrus fruit available to the market.

Another area where the co-op sees major possibilities is in the huge Western Cape informal sector where it is hoped that sales will help to more than double income from local marketing.

"We will also be supplying

directly to hawkers and township retailers, in turn creating many job opportunities," said general manager Mr Jan van Staden.

Goede Hoop produce will be marketed under the co-op's own logo.

At the height of the season the co-op packs about 250 000 cartons of citrus a week. Of these, although the local market will be an important factor, most will be exported.

About 60 percent of South Africa's crop is exported through the Citrus Exchange and earnings are expected to reach R900 million this year, assisted by the favourable rand exchange rate.

According to Citrus Exchange figures, 30.3 million cartons were exported in 1989, earning R830 million.

The area also sees major possibilities for expanding its tourist potential.

Mr Louis Genis, owner of the well-known Vanmeerhoff farm-stall at the entrance to the Olifants River valley, said the region had been represented at the recent tourism Indaba in Natal where overseas travel agents had shown great interest in package tours which had been formulated.

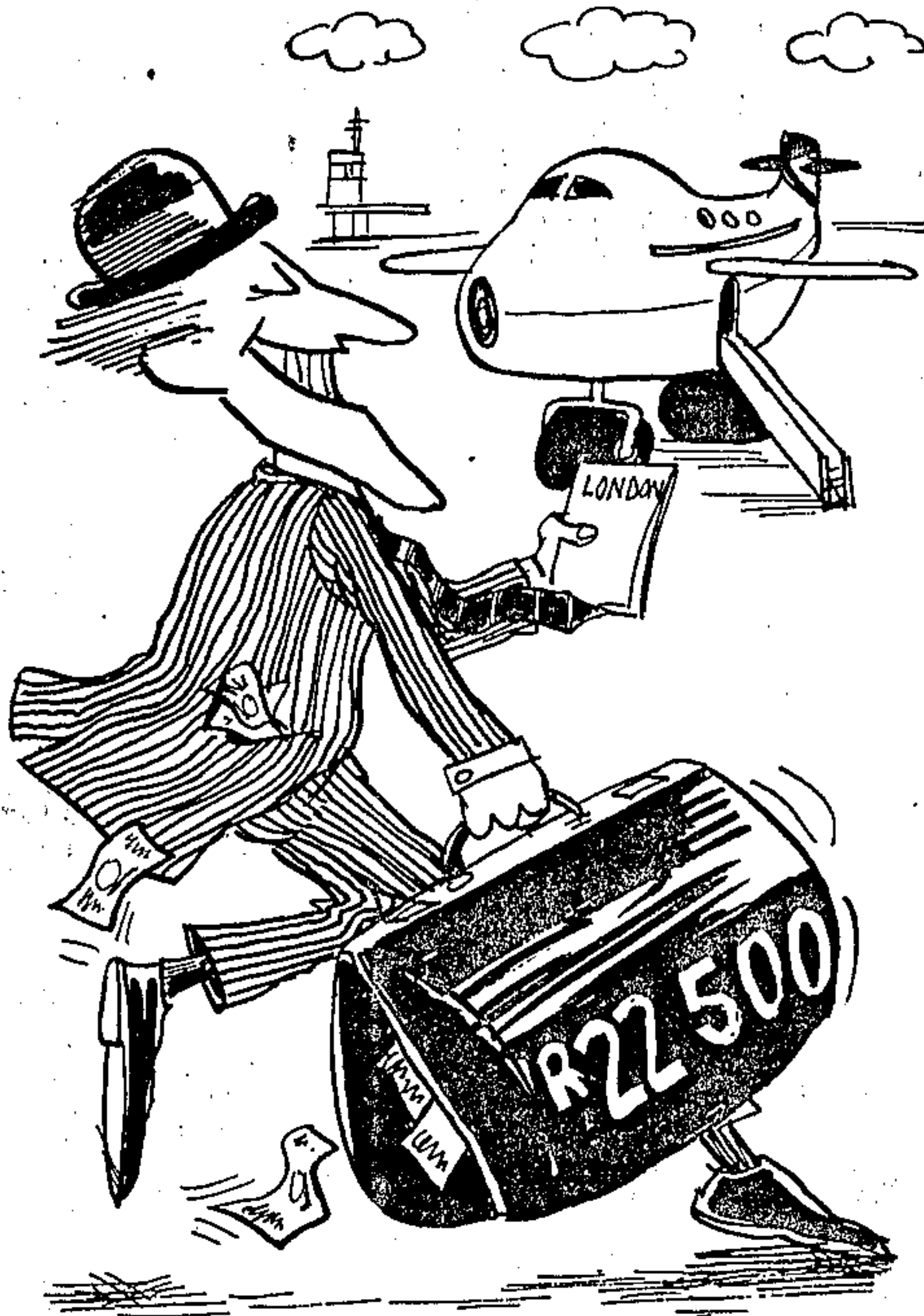
"The region is ripe for growth in tourism and the packages will also be marketed locally," he said.

Meanwhile, construction has started on the first phase of a R3.5 million chalet and conference centre scheme at Vanmeerhoff, planned to take advantage of the area's tourist potential.

All travel allowances up

Jan 26/5/90

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SVEN LUNSCHÉ

IN A major boost for South African tourists and business people travelling abroad and to neighbouring countries, the Reserve Bank yesterday announced increases of up to 50 percent in foreign exchange travel allowances.

The move reflects the continued slide in the rand exchange rate against all major Western currencies since the last adjustments were introduced in 1987.

The Bank's Exchange Control Department said in a statement: "Due to the effective depreciation of the rand since then and the effect of inflation on costs in foreign countries, the real value of some of these allowances which dealers may provide to their customers without prior reference to the Bank has been eroded.

Existing limits

"More applications are therefore now being made to the Reserve Bank for special approval of amounts in excess of the existing limits."

The adjustments announced by the Bank, which come into effect on June 1 this year, include the following:

- The travel allowance for holiday visits abroad has been increased from R10 000 to R15 000 per annum and for business visits from R15 000 to R22 500 per annum.

- In respects of visits to neighbouring countries the holiday allowance has been raised from R4 000 to R5 000 and the business allowance from R8 000 to R10 000 a year. Appropriate adjustments have also been made to the maximum allowance per day for business visits.

- The allowance for South African residents studying abroad will in future be R2 250 a month as against the present R1 500.

- The amount of local bank notes that may be imported or exported by travellers to and from the country has been lifted from R200 per person to R500 per person.

Emigration allowance

The Reserve Bank also announced considerable concessions to family's emigrating from South Africa.

The settling-in allowances per family, which may be transferred through the financial rand system overseas or to neighbouring countries, has been doubled from R100 000 to R200 000.

In addition the total value of personal goods and effects that may be exported has been raised by 20 percent from R40 000 to R50 000.

The same increase applies to the value of a vehicle that is being taken out of the country on emigration.

Prosperous UBS ready for drop in interest rates

Star 29/5/90 (74)

By Derek Tommey

UBS Holdings would not be caught out by any sharp drop in interest rates, Piet Badenhorst, the chief executive, said last night.

When interest rates fell sharply in 1987 the United Building Society was holding a large amount of high interest-bearing funds, but this time it would be different, he said.

"We are keenly aware of what we face in a downward interest rate cycle and will not be locked (into higher interest funds) as we were previously," he said.

UBS Holdings, the giant building society and banking operation, has marked its third year as a listed company on the Johannesburg Stock Exchange with an outstanding 30,7 percent increase in net income to R196,9 million in the year ended March.

Earnings a share rose 30,1 percent to 82,1c and the final dividend has been raised 21,9 percent to 19,5c a share. This makes a total dividend payment for the year of 32c — an increase of 18,5 percent on the previous year's payment — and covered 2,6 times by earnings.

Dividend cover

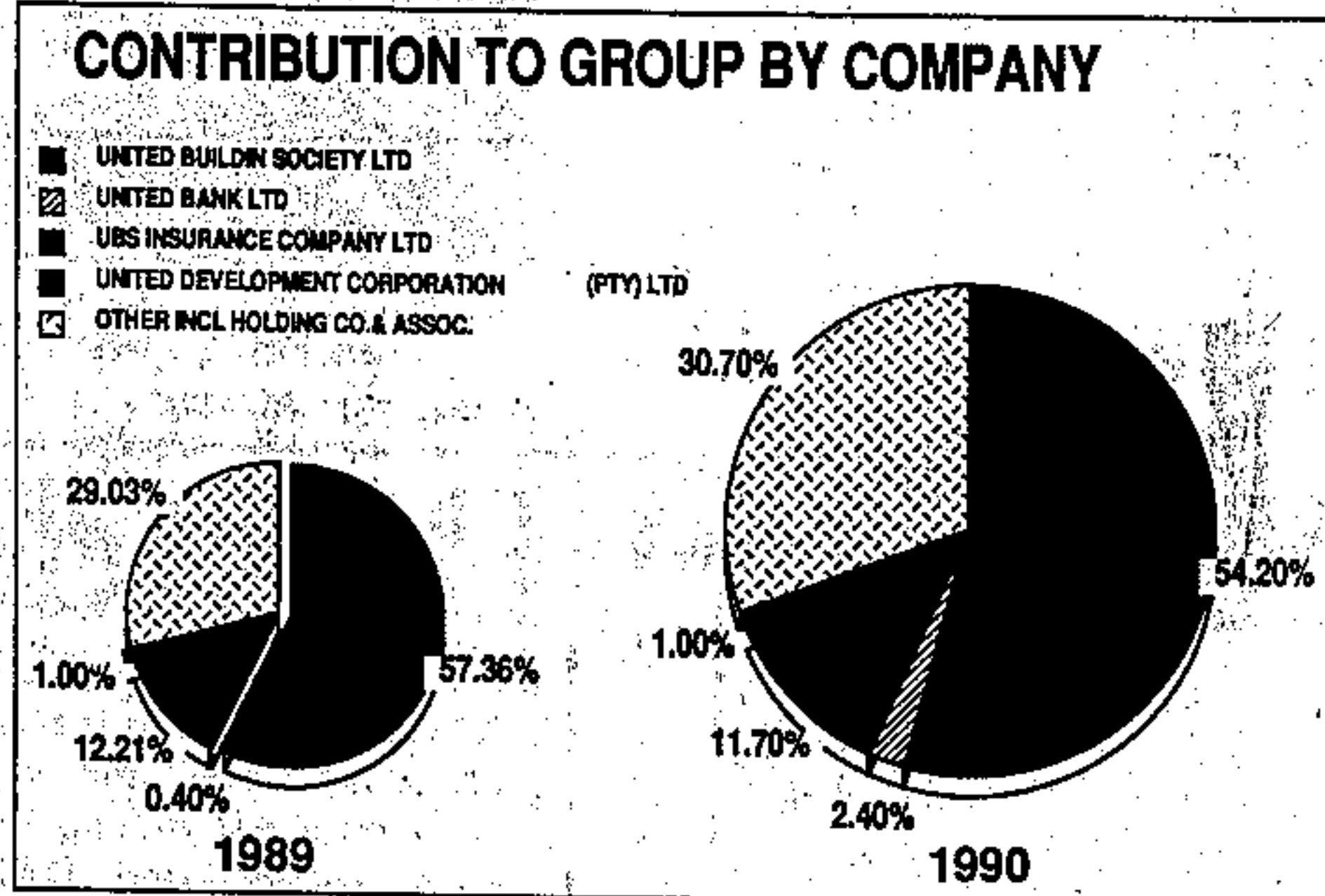
Shareholders may have liked a larger dividend. But the chairman, Mr Herc Hefer, says the group's intention, in the interest of sound financing, is to have the dividend covered three times by earnings.

He reports that the group again increased its efficiency, capitalising on its cost-efficient infrastructure and strong financial position.

The return on average shareholders funds rose from 12,2 percent to 14,3 percent and the return on average total assets rose to 1,36 percent from 1,26 percent last year.

Shareholders' funds amounted to 9,2 percent of total assets — by far the highest ratio of the eight major banks. It was unlikely that the United would need to make a rights issue for several years, he said.

The group's basic activity, its building society operations, increased its contribution to total earnings by a third. These rose from R74,7 million (49,6 percent



of total earnings) last year to R100,0 million (50,8 percent of total earnings).

An adjustment to the higher interest rates and a reduction in tax contributed to the increased building society profits.

United Bank, which has been operating for two years, is also making good progress, he reports. It now has 100 000 cheque accounts and made a taxed profit of R4,7 million.

Mr Badenhorst said the provision limiting a building society from holding more than 10 percent of a bank's shares will fall away later this year. As a result the bank will start eliminating the separation of banking and building society business at the earliest opportunity.

He said the bank was happy with its products. He added: "It's getting a little rough in the market place, but this is not a problem."

However, the doubtful debt provision has been increased to R78,5 million (0,65 percent of advances) from R662, million (0,62

percent) last year.

Total advances rose 13,1 percent from R10,7 billion to R12,2 billion.

He said the key to the United's success was that the bank and building society were run as a single organisation.

It had a fully integrated management structure. And it was at the leading edge of computer technology with its central computer able to handle more than 100 000 transactions a second.

The United was also fully staffed for further expansion. In the past four years its total work force has risen 28 percent to 7948, but its skilled workers — its management and executive management — had doubled to just over 1900.

Looking ahead, Mr Badenhorst said the United would expand its banking activities through its retail client base, lessening its dependence on traditional building society business. There would be further rationalisation and a continued emphasis on cost effective technology.

B/Dec 29/1990

Trade finance demand grows — Reichmans

PIERRE DU PREEZ

DEMAND for international trade finance is growing, according to Reichmans chairman Jeff Liebesman.

He said in a statement accompanying the company's latest annual report that on an international scale the company facilitated imports and exports and so contributed to the re-establishment of SA as an active participant in world and regional trade.

From an operating perspective, CE Clive Cohen said that once again — together with the other trade financing houses — Reichmans was able to grow its receivables. 74

However, in the short term prospects for the economy during the remainder of the year could not be viewed optimistically. Conditions were expected to remain difficult until at least the third quarter.

Interest rates remained at an extremely high level and the monetary authorities appeared to be determined, in their fight against inflation, to ensure positive interest rates prevailed for the remainder of the year.

It was therefore not possible for the directors to make a meaningful forecast of earnings for 1990, he concluded.

DP has high praise for FW

Political Staff

CAPE TOWN — The Democratic Party has praised President de Klerk for the success of his overseas trip, and has called on ANC leader Nelson Mandela to rethink sanctions.

The Democratic Party also voted with the Government to pass two white own affairs budget votes.

Harry Schwarz, chief DP spokesman on finance, said the DP had come to an agreement to vote with the Government.

"We don't support own affairs, but the money must be made available for the

departments to carry on.

"If one wants to show disapproval of a Minister, it must be done in a different way. There are certain rules and we will abide by our word."

Mr Schwarz (DP Yeoville) said he wanted to join the millions of South Africans in paying tribute to President de Klerk on his overseas trip.

President de Klerk's personality and his approach to people and problems would make European leaders attach sincerity and integrity to the words he used, Mr Schwarz said.

If Europe now accepted that the process of change was irreversible and

would lead to a universal franchise in a non-racial multi-party democracy, "then South Africa should also accept that is an irreversible process".

If Mr Mandela accepted Mr de Klerk's integrity and sincerity, then he had to accept that he would eventually sit in the highest legislative body, Mr Schwarz said.

Therefore, he did not think it presumptuous to ask Mr Mandela: "Is this not a time for you also to make a gesture? Why don't you tell the world now to let go of sanctions? Why don't you help your own people to get work and improve living standards?"

9/24/6/90

Pegg's estate sequestrated

THE estate of Mr Stuart Pegg allegedly one of the men behind the R47 million Trust Bank fraud, was finally sequestrated in the Rand Supreme Court yesterday.

Mr Pegg was arrested and detained in Switzerland in April this year. Yesterday, the Attorney General for the Witwatersrand Local Division, Mr Klaus von Lieres, said he had decided not to continue with extradition proceedings against Mr Pegg.

Time up

Mr von Lieres said time had run out and the Swiss authorities had not granted his application for an extension.

He understood Mr Pegg faced criminal charges in Switzerland as a result of complaints laid by Trust Bank.

Efforts to contact Trust Bank's attorney, Mr Antony Mostert, yesterday were unsuccessful as he is in Luxembourg for the matter involving Mr Pegg.

Trust Bank's media manager, Mr Louis de Villiers, said the bank preferred not to comment

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CATHY STAGG

on what action was being taken by the bank against Mr Pegg overseas — nor on the Attorney General's decision.

Yesterday Mr Justice H J C Flemming granted the final sequestration of Mr Pegg's estate. The application was initially launched in December last year after the bank discovered the R47 million fraud.

In papers before the court, Trust Bank's attorney, Mr Mostert said he had personally spoken to Niko Shefer (who has since stood trial, been convicted of fraud and sentenced to 14 years' imprisonment) and Mr Shefer had confirmed Mr Pegg's involvement.

According to evidence led during the trial a former bank clerk, Gotz Guntenhoner, (convicted of fraud and sentenced to 14 years' imprisonment in an earlier trial) stole clearance vouchers and, after these inter-bank transfer documents had been completed, the funds were

used to buy gold coins, emeralds and an aircraft.

The idea of using funds from this fraud, about R26 million, to buy a Falcon 50 aircraft, was proposed by Pegg, Mr Mostert said in an affidavit.

In an affidavit, a facsimile of which was apparently sent to Cannes, France, Mr Pegg had protested his innocence and said he had earned commission "in the normal course of business" but Mr Mostert rejected this.

Transactions

He said it was significant that Mr Pegg referred to various discussions and transactions with a variety of people and organisations — yet did not submit any evidence from them to support his claims. Among people mentioned by Mr Pegg were members of the Department of Foreign Affairs and local aircraft firms.

Trust Bank has obtained a judgment against Mr Pegg in Luxembourg for more than R47 million.

B.W. 4/6/90
Developing countries (74) beat the rest

LIZ ROUSE

STOCK markets in many developing countries outperformed those of major industrialised countries in 1989, with Turkey's stock market achieving a 300% gain.

The Emerging Stock Markets Factbook 1990, released by the International Finance Corporation (IFC) in the US, shows that four of the best performing markets last year were in developing countries.

The IFC composite index of 19 emerging equity markets registered a gain of 47% in US dollar terms, exceeding the performances of the stock markets in the US (up 27%), the UK (up 21%) and Japan (up 12%).

IFC's regional indices for Latin America and Asia showed increased values in 1989 of 51% and 52% respectively. Argentina's stock market rose 136%, Taiwan's 95% and Thailand's 85%.

However, four of the five worst performing markets last year were also in developing countries.

Numerous emerging markets have done as well or better over longer periods than have markets in the industrialised countries, as shown by the Factbook's annual data for the 1980s.

Multi Gold provisionally wound up

Star
5/6/90 By June Bearzi
Star Line

Multi Gold Holdings Ltd, a venture capital investment scheme which has been under Star Line's spotlight over the last four weeks, was provisionally wound up in the Johannesburg Supreme Court last week.

The order was granted following an application by Kenny's Transport Ltd, a Springs plant hire firm, which claimed R109 430,80 was unpaid for the hire of a front-end loader used for Multi Gold's gold reclamation operation in Nigel.

This is yet another blow to Multi Gold investors who sunk millions of rands into the controversial and trouble-beset gold recovery operation.

In papers before the court,

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Line

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Kenny's Transport director, Kenneth Hart, said over the last year his company had hired out plant to Multi Gold which included a front-end loader for R60 an hour.

On January 4 this year, at a meeting attended by Mr Hart and Multi Gold director Roy Sellers, Mr Sellers accepted the money was owing but said he was unable to make payments to creditors because of a breakdown in the works at the Nigel plant.

However, Mr Sellers said another company, Montrose Mining, would be taking over Multi Gold

and would make R1 million available to settle creditors.

Mr Sellers also undertook to make weekly payments of R7 500 to discount part of the debt and proposed that the front-end loader continue to be hired out to Multi Gold.

But, according to the papers, Mr Sellers failed to honour an undertaking to provide Kenny's Transport with the Montrose Mining takeover particulars by January 9 in which payment of the outstanding hiring fee would be dealt with, or to make the R7 500 weekly payments.

Mr Hart submitted to the court that Multi Gold was not able to pay creditors in general and was liable to be wound up.

Multi Gold has until July 10 to show why the order should not be made final.

Customs to raise SA's duty-free allowance 150% ^{5/6/90} (74)

CAPE TOWN — The duty-free allowance for travelers arriving in SA is to be increased 150% to R500 from June 8. Customs and Excise Commissioner Daan Colesky announced yesterday.

In a statement, he said the value of certain duty-free concessions had depreciated considerably since they were last reviewed in November 1984.

Concessions in regard to consumable goods such as wine, spirits, cigarettes, toilet water and perfume are to remain the same. But the additional existing allowance of R200 in respect of other goods is to be increased to R500. These goods are exempted from payment of sales tax.

Over and above the duty-

MIKE ROBERTSON

free concessions, passengers at present may pay import duty at a flat rate of 20% on goods not exceeding R500 in value. The value of this concession is to be increased to R1 000.

At present duty-free concessions may only be claimed once during a period of 30 days.

Colesky said that because of difficulties experienced in administering this provision it had been decided to withdraw it.

He also announced that a provision allowing the payment of duty of 20% on the import of one television set was also being withdrawn. Colesky said this concession did not appear to be of general interest.

W Cape goes against trend . . .

Cape Times 6/6/90

Confidence index drops

By AUDREY D'ANGELO
Business Editor

THE Western Cape is going against the trend in the rest of SA, with a buoyant retail sector and more exports passing through the harbour, says Alan Lighton, director of Cape Town Chamber of Commerce.

The SA Chamber of Business (Sacob) business confidence indicator continued to move downwards in May, although the drop — from 92,1 to 92 — was very slight. In March the index dropped from 95,9 to 94,2 and in April it came down a further 2,1 points to 92,1.

Lighton commented: "On a national level the recession is showing signs of deepening. But the feedback we are getting is that there is still a lot of money around, certainly as far as retail sales are concerned, and the market is holding up very well indeed in Cape Town.

"All the exhibitors at our Design for Living exhibition last week reported better results than last year, which shows there is plenty of buying power in Cape Town.

"The local property market is gaining momentum all the time and the tourist sector is performing as well, if not better, than last year.

"Another interesting fact which shows the Western Cape is bucking the trend in the rest of the country is that tonnages shipped out of the harbour in the first three months of this year have risen by 66%. This compares with a much smaller increase in the total export tonnage shipped from all SA harbours, which rose by only 5% in the first three months of 1990."

The Sacob report blames the downward trend of the business confidence index on uncertainty about the future, continuing high interest rates and a perception that the economy is unlikely to improve before the beginning of next year.

Sacob economist Keith Lockwood says: "Apart from the impact of the decline in the gold price and the further evidence of an economic slowdown the level of uncertainty over the course of future economic and socio-political developments remained high."

He points out that "the policy approach adopted by both the fiscal and monetary authorities will also be of crucial importance to the shaping of the business mood."

Lockwood says that while there is general agreement in business circles that the country is moving in an appropriate direction, the extent and speed of change have caused uncertainties which have made business decision making and longer term planning more difficult.

"As a result many expansion projects and new ventures are being postponed until there is a clearer indication of the path ahead."

Discussing interest rates, he says: "It seems unlikely that the bank will allow interest rates to fall until there are clearer indications that the rate of inflation has entered a declining trend and until the gold price shows a stronger performance.

"Although the rate of increase in producer prices has declined significantly in recent months, this has not yet been carried through to consumer prices in any noticeable way."

However, Lockwoods point out, "Because interest represents a substantial cost to both business and the individual, the rate of inflation could decline more rapidly once interest rates enter a declining trend, provided the reduction does not lead to a significant increase in the demand for credit.

"But in view of the fact that much of the credit extended to individuals in recent months seems to have been used to maintain living standards and to finance earlier borrowings, it seems likely that savings resulting from a lower interest rate will first be used to reduce debt and should therefore not result in an increase in inflationary pressures."

The weaker gold price will reduce export earnings. This means that imports will continue to be curbed, to maintain the balance of payments, and efforts to attract short-term overseas funds will continue. "As a result, it seems unlikely that interest rates will be allowed to fall for at least two to three months."

Lockwood sees no fundamental reason for optimism over the price of gold in the next 12 months "and SA's economy is therefore unlikely to obtain significant support from gold-generated foreign exchange in the current year. There should, however, be a slight firming in the gold price in August, September and October as a result of a seasonal increase in demand."

Markets reel as gold price plunges

MERVYN HARRIS

GOLD was yesterday bulldozed by technical weakness and Middle Eastern selling to almost four-year lows before recovering slightly to close \$2.95 down at \$354.10 in London as prices veered between \$352 and \$355.

The metal's decline to a low of \$350.90 and a London afternoon fix of \$352.80, its lowest setting since July 1986, sent financial markets reeling. Gold and mining financials plunged on the JSE and capital market rates ended sharply higher.

The decline started in New York on Wednesday night and gathered momentum on Asian selling after Australian producer sales took the metal through the \$355 support level.

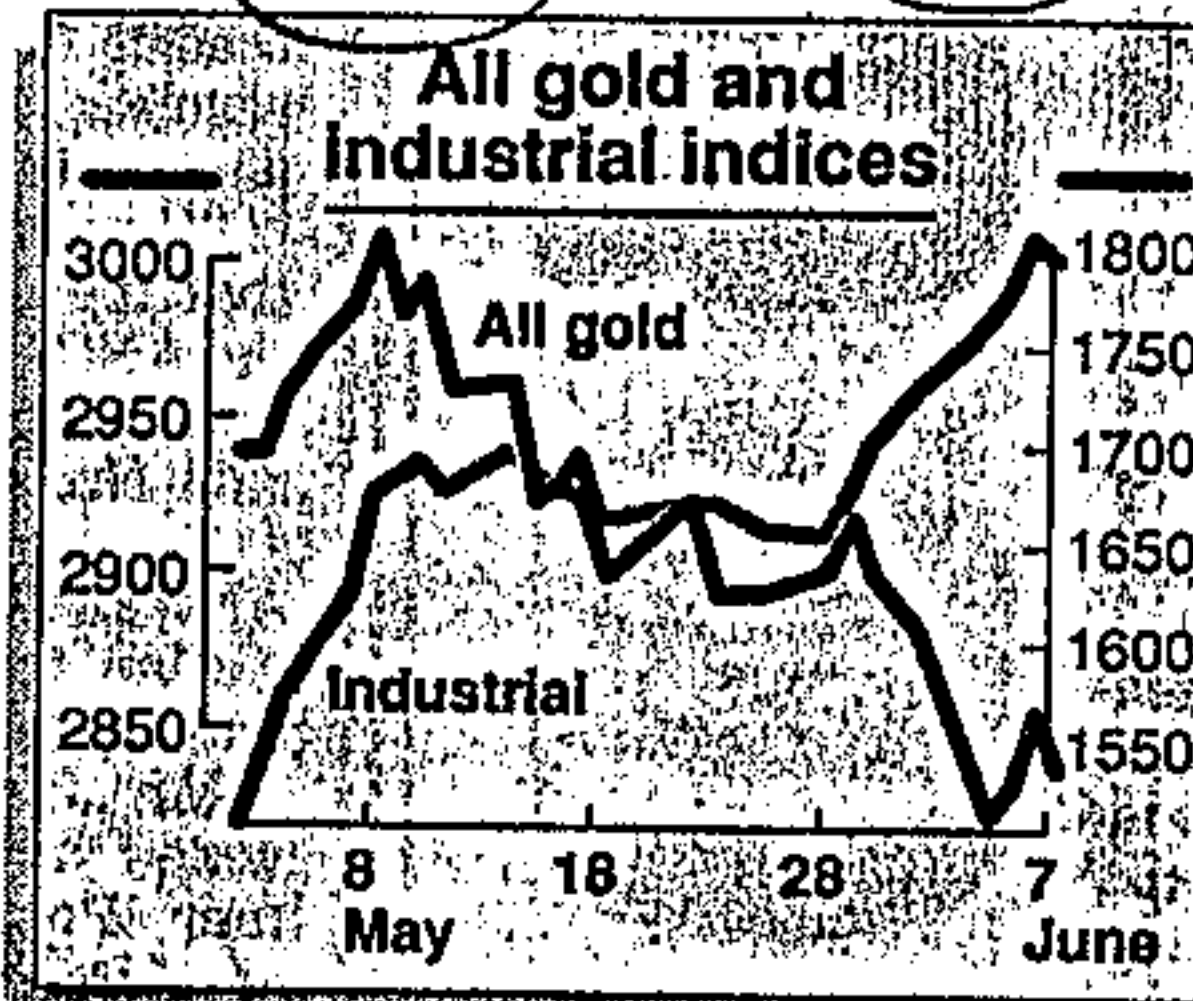
"Things really turned down when Saudi investors started to sell", a Zurich trader at a Swiss bank said. "Sentiment is overwhelmingly bearish and we are in deep trouble if gold breaks through \$350."

Some analysts said gold could drop to around \$330, but others thought the metal was due for a correction.

New York traders said the market was being driven by one sentiment: fear of additional sales by the Soviets. The Soviets had, however, not been seen selling in any strength below \$360.

A London bullion analyst said Middle East traders were very active on both sides of the market.

Other analysts believed the Soviet Union was more likely to swap gold than to sell from reserves to help pay off Moscow's



Graphic: FIONA KRISCH Source: JSE

arrears to Western suppliers.

On the JSE, gold and related shares were marked down sharply at the opening, but trading remained subdued and there was no heavy selling as shell-shocked investors digested the news of gold's tumble.

The JSE all gold index toppled 5% to 1 492 and the mining house index fell 3.7% to 4 377 to bring the overall index down 1.7% to 3 147. A sharp drop in the firrand investment unit from R3.90 to R3.97 to the dollar cushioned the falls.

Stewart Penn of Greenwich Futures and Options Brokers said June gold index futures contracts were trading below spot for most of the day.

"This reflected nervousness in the equity market and indications that prices could go lower."

□ To Page 2

Gold price

June gold index futures — ranging between 1 486 and 1 500 — were straddling spot with bids below offers above the spot market.

ANDREW GILL reports the industrial sector has been defying the extreme downward pressure of the weak gold price and its effect on the JSE over the past month.

Dealers said yesterday industrial blue chips had become significantly more attractive as investors were not prepared to risk large sums of money on potentially disastrous gold shares.

They said gold could technically go as low as \$310-\$320 in the near future.

As a result people were putting money into the scarce blue chips which, in turn,

gave more support to the already consistent industrial sector.

Another factor influencing the move to blue chip industrials was a lower real return on interest rates and a realisation that "the picnic was over". The outlook was now more long-term.

JOHN CAVILL reports from London that platinum, which recovered by \$5/oz on Wednesday to \$491.50, was weakened by gold yesterday and dropped to \$483-\$484. But dealers said it was holding up.

"Obviously it is being influenced by gold, but it is holding its premium at close to \$130/oz which is quite reassuring," a trader said.

□ From Page 1

ECONOMIC OUTLOOK

One thing after another

74 FIM 8/6/90

After five quarters in which the economy showed no clear direction — an unusual phenomenon, say economists — demand has turned down sharply. Several indicators confirm this and the unexpected fall in the gold price to US\$355/oz at the start of the week — the lowest since July 1986 — will give impetus to the trend.

If it is short-lived it will simply add to the uncertainty hanging over the markets and the economy. If it continues it will have more serious implications as export revenues fall, reducing the surplus on the balance of payments and as the reduced contribution of the mining sector to GDP ripples out.

So confidence, which has also been eroded by debate on the ANC's economic policy and persistent unrest in some areas, is looking tenuous. Many economists now talk of zero GDP growth in 1990. But there is nothing the authorities should or can do to cushion the impact.

A major difficulty in managing any economy and an argument often advanced against attempts at intervention, is one of timing. Unpredictability of timelags tends to undermine the most carefully calculated strategies; and the impact of remedial measures often comes at a time when it is counterproductive rather than countercyclical.

In addition to these inherent booby traps, SA policymakers have to contend with a volatile gold price. After rising from an average US\$390 in the fourth quarter of 1989 to \$407 in the first quarter of 1990, it's set to fall sharply this quarter. The extent of the swing is reflected in recent highs and lows:

- November \$415,80/\$373,05;
- December \$415,50/\$398,60;
- January \$420,75/\$395;
- February \$423,75/\$407,50;
- March \$406,30/\$368;
- April \$378,40/\$367,75; and
- May \$375,10/\$363,70.

While the fall-off in demand held out hope of some easing in interest rates in the not too distant future, the drop in revenue from gold exports will put too much pressure on liquidity for this to happen.

Standard Bank chief economist Nico Czipionka believes "there is no justification for the Reserve Bank now to ease interest rates, for two reasons. First, the balance of payments is suddenly under renewed pressure from a falling gold price as well as soft commodity markets and what may have seemed a safe level of demand is not safe any more. The second reason is that inflation has only started falling and the authorities mustn't back away at this point."

However, if credit demand falls even



faster than it already has, he says, and this "results in an increase in domestic liquidity despite falling gold revenues, the Reserve Bank can allow deposit rates to fall by not mopping up that liquidity. In time, lending rates will follow. But if any lobby tries to force lending rates down prematurely for whatever reason, the Bank will lose the credibility it has gained in recent months."

Moreover, it will not necessarily achieve the desired effect, as artificially low interest rates in 1986 proved. "People are beginning to run out of borrowing capacity and even distress borrowing seems to have run its course. This will force us to adjust the standard of living to the new circumstances."

Rand Merchant Bank economist Rudolf Gouws points out that fiscal stimulation later this year will have to be countered with continued firm monetary policy. "As the economy slows, tax revenues will fall, increasing the deficit which was anyway intended to be larger than last year. This will have a stimulatory effect."

Cape Town University's professor Brian Kantor: "I would be happy if they could achieve the target level for money supply growth. I fear that it will fall below that level. What is needed is consistency. The problem is that past lack of consistency means they are having to adjust to previous failure to contain money supply growth."

Even before the latest dip in the gold price, it was thought highly unlikely that Reserve Bank Governor Chris Stals would allow slackening of policy until he has proof that

growth in money supply is tapering off.

Each month First National Bank publishes an average of estimates by a panel of economists. In March, projections for the year-end prime rate of interest ranged from 17,6%-19,4%; in April from 18,1%-19,9%; and in May from 18,3%-20,1%. So any optimism following a sharp dip in the money market shortage between Friday and Saturday is misplaced.

No one is certain what caused it — some unexpected inflow of funds, or an expected outflow that did not take place. What is certain, say bankers following a meeting with Stals last week, is that he is not thinking of easing liquidity. They interpret the slight easing in the money market as a miscalculation that will soon be remedied.

SAVINGS FIM 8/6/90

Dips and dives

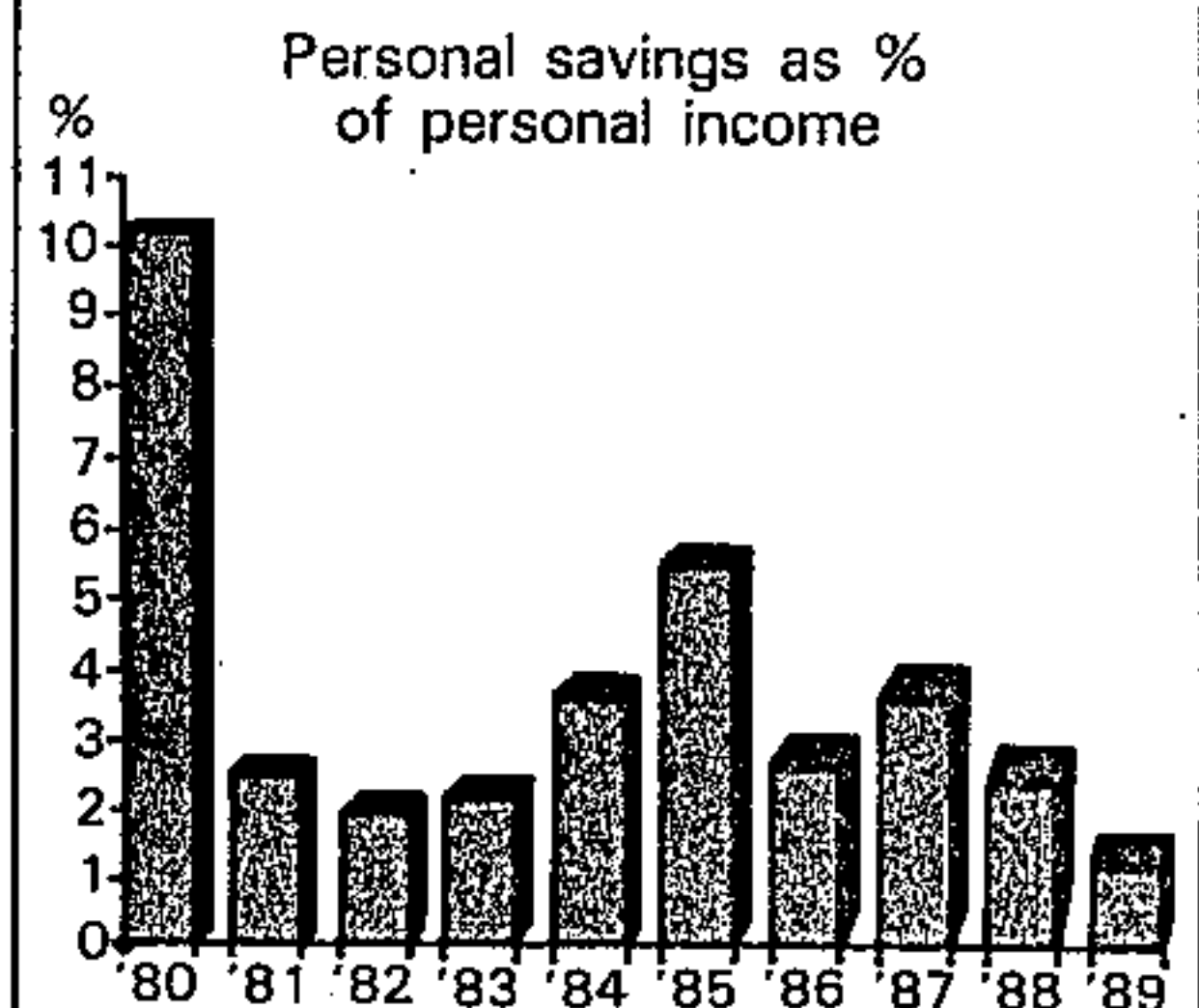
Personal savings deposits plummeted by R600m between end-December and end-March, according to a First National Bank analysis of quarterly returns of major banks, buildings societies and the Post Office.

This follows a decade of decline in personal saving as a percentage of personal income, from 10,3% in 1980 to 1,3% in 1989 (see graph). As a percentage of GDP, savings dropped from 35% in 1980 to 22,9% in 1988 and 22,5% in 1989.

Says TrustBank economist Nick Barnard: "In the past 10 years, people tried to maintain 1980 living standards with declining real disposable incomes and the casualty has been saving. This is not the only factor, but it's the central one."

As the economy slips into partial recession, the consumer's entire financial position is worse than last year, says Sanlam econo-

The eighties picture



F/M 8/6/90

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bankers increasingly cautious after a number defaulted on international debt commitments early in the Eighties, and strong competition for funds from eastern Europe.

Some benefits have been derived from recent domestic political developments, with foreign creditors showing increasing flexibility. For instance, Eskom recently rolled over a maturing bond issue by placing DM100m in short-dated notes with Commerzbank, at 1,5% above Libor, and plans more private placings this year. ■

FOREIGN CAPITAL F/M 8/6/90

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Way back

Hopes have been raised that recent political developments will allow SA to re-enter international capital markets. But this goal is likely to remain elusive until measures are taken to reduce, or preferably eliminate, funds in the debt standstill.

Millward Grebeck Securities' Charles Millward suggests the restructuring of multinationals' SA investments may be a step toward this. They could sell equity and export the proceeds through the finrand, then buy standstill debt at the prevailing discount (this, between 25%-30%, remains close to the finrand discount, so nothing is lost in the transaction.) Funds held by the Public Investment Commissioners are then released to the company's SA subsidiaries.

Interest flows out, free of withholding taxes, while foreign reserves are unaffected because the released funds stay at home. "We recently organised the first deal of this kind with a UK multinational, involving US\$130m. More are in the pipeline," Millward says. "Over two or three years, standstill debt could be substantially reduced."

An international economist sees this kind of transaction as healthy, because the purchase of standstill debt reduces the discount, but warns the scope may be limited. "Large amounts cannot be converted because there is just not enough tradeable debt. Restructuring would have to take place over a longer period." He points out that exchange control implications may have to be clarified.

When the Reserve Bank began offering long-term preferential forward cover rates early in 1989 to encourage capital inflows, it also encouraged borrowers to take advantage of any willingness by creditors to roll over SA loans for 10 years. Roll-overs enabled creditors to receive payment in full over that time, as well as higher interest (negotiable) than the Libor plus 0,875% the commissioners offered. About \$4bn has already been rolled over in this way.

If standstill debt is substantially cut, several other internal factors will affect international creditworthiness, including:

- Low foreign reserves, insufficient for even six weeks' imports;
- Inflation three to four times as high as the average of our major trading partners;
- Labour unrest, declining productivity and rising wages that erode international competitiveness;
- Uncertainty regarding economic policies of a black majority government; and
- Increasing pressure on government to raise expenditure on social upliftment.

SA will also have to contend with an international trend toward lower private-sector investment in developing countries, with

Exposition will give boost to exporters

714
An exposition in Johannesburg on June 26 to 28 will bring opportunities for local industry to drastically reduce the country's import costs and to expand its export market.

Parastatals, mining and industrial groups will display components and materials which are currently imported at highly inflated prices. They will want to know who can manufacture these items locally.

The exposition at the Witwatersrand Technikon campus is being supported by the Institute of Purchasing of SA (IPSA). Top business leaders will speak at plenary sessions each day on import replacement and export potential.

Goods such as general engineering components for the motor industry, machine parts, pumps, valves, electrical components, textiles, chemicals and switchgear, which cost the country about R20 billion a year to import, will be on display.

The expo is expected to provide opportunities for local manufacturers to find potential partners and enable companies to gauge the potential size of the market for goods which they could manufacture.

Dr Bob Stewart, a director of Wits Business School, says at least 20 per cent of currently imported items are already available locally and a further 20 per cent could be locally made within three to six months without a big capital investment.

"Apart from raw materials, most South African companies only think of exports when they want to get rid of surplus stocks. Any company that does not concentrate its efforts on exports today is committing hara kiri."

Kemplant order

Kemplant has been awarded a R4,5 million contract from Soda Ash Botswana for the supply of a modularised carbon dioxide liquefaction and storage plant for Sua Pan complex,

Industrial Beat

STAN KENNEDY



180 km north-west of Francistown.

Specialists in chemicals processing technology, Kemplant will be responsible for process design, engineering and commissioning of the plant which will have a capacity of a ton of liquefied gas an hour.

A feature of the storage system will be a pressure maintenance vapouriser. This is a separate, closed circuit loop in which a portion of stored liquid gas is vaporised by steam and fed back to the main storage vessel. In this way pressure is maintained in the void created above the liquid gas during take-off.

Liability warning

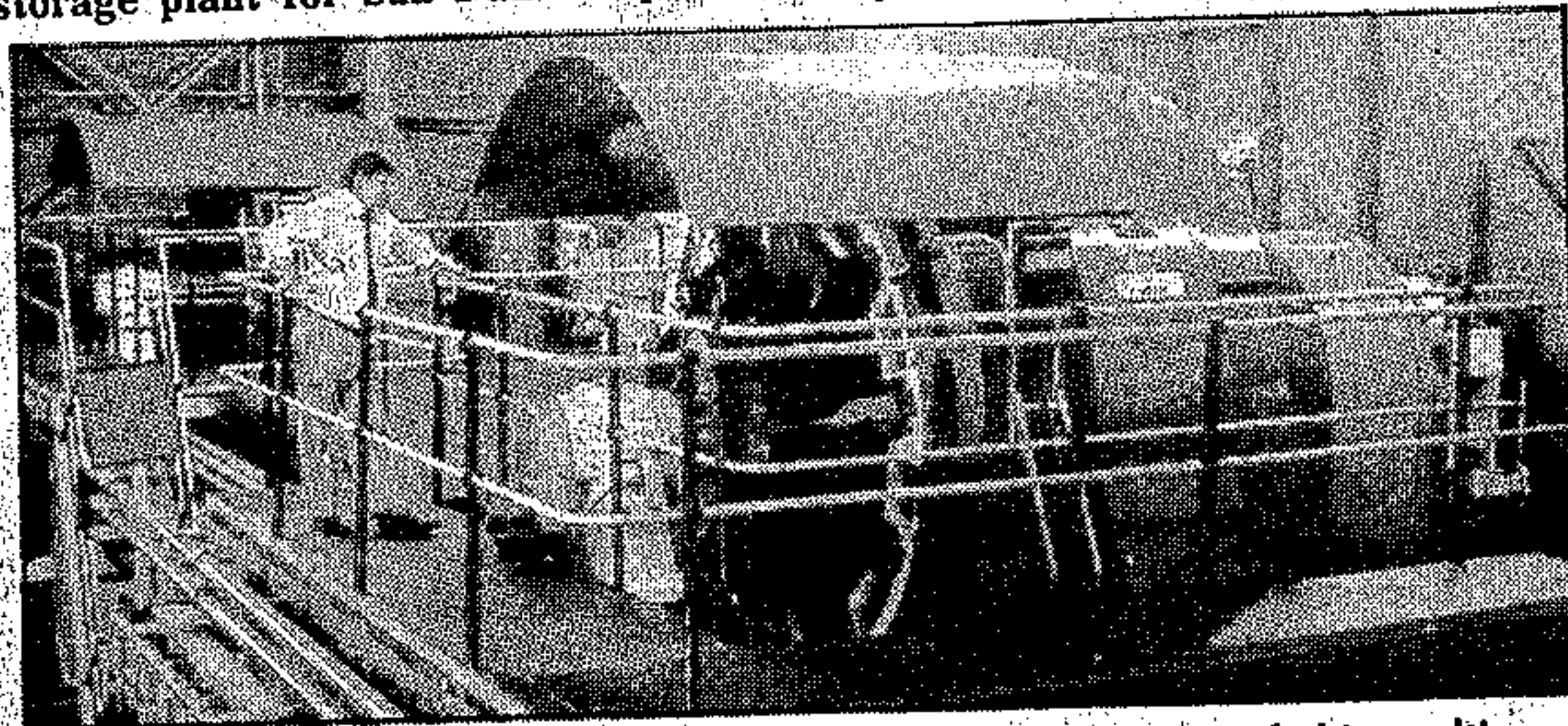
South African exporters who assess their products' liability insurance exposures on the basis of local experience could be in for a costly shock if their products cause injury or damage in an overseas country, says Mr Dave Franks, director of R.F.V. group's special services.

"The same product may cause the same injury in similar circumstances to both a local and overseas consumer. The difference is going to be in the local parameters that apply."

"In the US, there is a strict code of liability and the awards can be enormous; in one case involving a child and a lawnmower, total damages of \$23 million were awarded."

He advises exporters to consult with their brokers to ensure they have adequate cover.

The EEC countries recently introduced strict liability for products and this approach is being adopted by other countries in Europe. Australia has also embarked on products liability law reform.



GEC Electrical Projects recently completed the refurbishment of this multi-rope rock winder for Gold Fields of SA's Kloof mine. The work forms part of an R18 million project to refurbish two rock winders and two double drum men and material winders at No 1 Shaft.

Middle East behind gold drop?

LONDON — Another wave of selling before the London morning fixing yesterday drove gold down to a four-year low of \$339 before it bounced up to close at \$345.85 as short sellers took profits on the \$15 drop in 48 hours.

Once again blame was levelled at the National Commercial Bank of Jeddah — reported by the Financial Times to have offloaded 100 tons of gold during the past 10 weeks. There were also rumours that SA had resumed normal supplies to the market after holding back sales last week.

Slumping silver, which crashed to \$4.80 during a two-day fall of 25c through the "support" level of \$5, also undermined gold. Platinum was also a casualty, slipping \$16 to \$472.50.

David Ridley at brokers Williams

74 **JOHN CAVILL** (A)

de Broe said: "Nobody knows for certain, but there was Middle East-influenced selling first thing in the morning before the fixing, which got the price down to \$339 briefly."

"The story was that the National Commercial Bank of Saudi Arabia, which had been buying last week, started to sell again."

He said the situation was similar to that in 1986 when oil prices were weak and inflationary expectations were low. "We had Saudi selling then, and four months later gold was \$438."

NM Rothschild director Robert Guy said: "The mood is just plain bearish. For fund managers who didn't buy gold before it got to \$400 it is a black hole. And the worse the

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price gets the more pressure it puts on producers to hedge through forward sales, so it is a bit self-feeding."

At James Capel, Robert Weinberg said: "There seems to be a pattern developing about the selling. Whenever gold looks fragile someone comes in and whacks it when the market is at its most illiquid, that is after the Far East closes and before America opens. One also has to ask why the sales have been done so noisily. I've heard one suggestion that the purpose of hitting the price is to buy in at lower levels."

"Our technical analysis, however, points to gold and SA gold shares coming into an oversold position, which historically generates a rally. We could see one."

Barter could ease lack of forex, says academic

DANIEL FELDMAN

SA's lack of foreign exchange due to economic sanctions could be alleviated by using the barter system, RAU lecturer at the Institute for American Studies Johann Liebenberg says.

He says bartering could play an important role in SA's future economy, in external and internal relations.

In a recent paper Liebenberg says: "Barter may be the oldest form of trade man has indulged in but it is fast becoming an extremely sophisticated, extensive and highly complex exchange technique. It is gaining recognition and acceptance as being especially suited to SA's needs and circumstances."

This was particularly so because of SA's lack of foreign exchange due to economic sanctions.

"SA stands to gain much by barter trade in much needed technology for the beneficiation of our mineral services. It's time for SA to stop squandering its natural riches by exporting them in unrefined form."

Third World countries were a huge potential market because they were poor, debt-ridden and short of foreign currency. Liebenberg said barter trade was one way of doing business with them and "at the same time investing in development projects and thus creating future markets".

Barter trade was not limited to straight-forward goods exchange, but consisted of services and development contracts between one country and another. He divided bartering into three major sectors: international, counter trade between corporations, and retail exchanges between entrepreneurs.

The Barter Exchange/International Trade Exchange (BX/Itex) was established in SA seven years ago by Martin Kagan and Stephen Bisenius and is one of the largest retail barter companies in the world. Johannesburg and Durban-based, it enables its 1 000 affiliated SA companies to barter with 150 000 companies worldwide.

All quiet on the gold front

THE gold price fall was stemmed in the Far East on Friday on European short-covering and physical buying, although Australia remained a seller.

Dealers said the market was quiet on lack of news. The Hong Kong price moved in a range of \$344 to \$347 most of the day. Gold ended at \$346,50/\$347 against New York's close of \$346,00/50 on Thursday and its \$344,95/\$345,35 opening in Hong Kong.

The Hong Kong market was closed on Saturday, and will be closed today because of local holidays.

Although the sharp fall in the gold price — down \$15 in 48 hours to \$339 just before the London fixing on Thursday — was attributed to dumping by the National Commercial Bank of Jeddah, economic fundamentals for a stronger gold price are dim.

International real interest rates are high and major stock exchanges appear to be steady.

In addition, US consumer prices are moderating after a first-quarter surge and the

18/6/90
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LIZ ROUSE

nation's trade balance continues to show steady improvement, reports AP-DJ.

May consumer prices rose 0,2%, slightly below the consensus estimate of a 0,3% gain, and the May consumer price index (CPI), excluding food and energy costs, was up 0,3%, in line with forecasts, the US Labour Department said on Friday.

The May rise in the CPI followed a gain of 0,2% in April. Because of a first quarter surge in prices, CPI now has risen at a 5,8% annualised rate so far in 1990.

Meanwhile US trade fortunes are getting better, which will support economic growth. The US merchandise trade deficit narrowed to \$6,94bn in April from \$8,36bn in March, the Commerce Department reported.

The narrowing in the April gap — reflecting a sizeable decline in imports that outweighed a reduction in exports — was sharper than the consensus estimate.

MAPUTO PORT
ON COURSE FOR
A BIG REVIVAL

ZILLA EFRAT

TONNAGES moving through the port of Maputo have been steadily rising and are this year expected to be the highest in five years, says Safto executive, Mymie Vos.

She says: "The time has come when SA exporters and importers of bulk commodities in the PWV, northern Transvaal and eastern Transvaal areas should be seriously considering the cost benefits to be derived from using the port of Maputo."

In 1987, 2,2-million tons of cargo moved through Maputo. This rose to 2,7-million tons in 1988 and to 3,2-million tons in 1989. Based on performance up until May, 3,8-million tons of cargo are expected to move through the port this year.

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Bouyant

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Vos attributes the rising use of the port to its improved productivity and the need for greater flexibility in transport alternatives among African exporters and importers of bulk commodities.

Bouyant international market conditions for SA coal exporters gave a major boost to traffic in 1989.

But, more importantly, advancements in operational efficiency, improvements in security, long-term progress in upgrading facilities and progress with dredging ensured that the port was able to handle these added tonnages.

Vos says increased SA throughput at the port has been facilitated by improved general economic and political co-operation between SA and Mozambique.

Safto's seminar next month on the potential benefits of using the port will be addressed by a senior representative from Mozambique's harbour and railways authority.

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Sanction-buster Bell's into barter!

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From guns to butter, that's Fred

By DAVID CARTE



FRED BELL and swop products... Atomic Energy Board high-tech dust separator cluster to clean Eastern Europe's polluted air in exchange for Polish pork ribs
Picture: GARTH LUMLEY

FRED BELL, retired boss of Armscor, has a challenging second career as the father of counter-trade in SA.

The legendary Mr Bell, who steered Armscor to astonishing technical feats and export sales of R2bn a year, aims to push counter-trade and barter to R2bn in the next three years. At the moment, such trade is only R30m a year.

Mr Bell says: "I gained experience in clandestine buying and selling at Armscor. Initially, our counter-trade efforts were secret."

"While sanctions were tightening, we were dealing with communist countries. I guess that's why I was chosen to be chairman of the Counter-Trade Association."

Now that Berlin Wall is down, the Warsaw Pact appears to be dissolving and peace is breaking out at home, Mr Bell and the Counter-Trade Association can come out of the closet.

Scope

Countries engaging in counter-trade undertake to buy as much from each other as they sell. They deal in goods, not cash. A merchant bank records every transaction to ensure that trade is balanced.

In counter-trade and barter there are three contracts a deal — the export, the import and the protocol agreement linking the two.

Another aspect of counter-trade is buy-back — one country builds a plant in another and undertakes to buy some or all of its production. The Botswana soda-ash plant and the Lesotho High-

lands water schemes are examples. Mr Bell thinks there is great scope for this kind of deal between SA and Central Europe.

Mr Bell explains how SA's counter-trade drive started: "For some years now, several Eastern European countries — they prefer to be called Central European — have been scouring Africa to do barter deals. Like us, they lack foreign currency and access to trade credits and therefore resort to barter."

"SA exporters were also active in Africa and met the Central European counter-traders. They discovered considerable complementarity. We have what they want and they have what we want. My job has been to encourage this trade and extend it."

SA is in a good position to do counter-trade because it is a big importer and exporter.

Mr Bell says: "We spend more than R40bn a year on imports. We are unusual among counter-trading nations in having real cash to spend. That gives us enormous clout. Counter-trade enables the rand we spend on

imports to be matched by a rand of exports."

Several transactions have been completed with East Germany, Poland, Hungary, Czechoslovakia, Yugoslavia and Turkey.

Mr Bell says these countries have much in common with SA. Several have similar populations, gross domestic products, levels of technology and markets.

Vital

They do not have the huge production runs of US firms, nor do they attain the First World quality (and pricing) standards of the Swiss. They serve middle-income consumer markets much like ours.

Eastern European countries, with well-educated, hard-working populations, together with Western goodwill and capital, will grow fast as they adopt market economies. It is therefore vital to start trading with them now.

"In the past, we accepted refugees from these countries, notably from

Hungary after 1956. Now the friends of our refugees are coming to power. There is enormous goodwill towards SA. The Poles haven't forgotten that the SAAF flew in supplies in the Second World War. It's easier for a SA businessman to get a visa to Eastern Europe than to the United States."

Another advantage is that Eastern European economies are unbalanced. They have a surfeit of some things and shortages of others.

When Russian central planners held sway over Eastern Europe, they ordained that where a certain factory supplying the whole bloc would be situated. Production runs were huge and regional specialisation developed. Poland is famous for steel and engineering and Hungary for pharmaceuticals. But both are short of many items.

"I try to spread the word wherever I can find an audience. I visit supermar-

kets and mines and ask them to examine where they are buying. I ask whether they cannot get these goods from our counter-trade partners.

"But we never encourage the replacement of regular exports with counter-trade. Counter-trade is the alternative to no trade, not to normal trade. It frequently develops into normal trade."

He admits that it is not all plain sailing. It is hard to persuade SA importers to buy from new territories. In

many cases, companies with products that would sell well in Central Europe lack capacity."

The Industrial Development Corporation has made cheap loans available to help factories run second and third shifts with a view to pushing exports.

But many SA marketing and buying departments hardly know one another.

The Counter-Trade Association is funded out of tariffs, but is soon to be privatised.

Growth in SA's foreign trade matches world rate

Blomay 27/6/90

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SA's foreign trade grew at the same 7% annual rate as world trade in 1989, with SA's imports and exports rising by 2,5% and 11% respectively in volume terms, the Board of Trade and Industry (BTI) 1989 annual report said yesterday.

The report said in 1989 the economies of the countries which were members of the General Agreement on Tariffs and Trade (GATT) grew at a combined rate of 3,25%. SA's economy expanded at a rate of 2%.

As a percentage of SA's total non-gold exports, raw materials accounted for 42% of exports, processed raw materials 45%, material intensive products 8% and finished products 5%.

The volume of production of secondary industry grew by 0,2% in 1989

EDWARD WEST

compared with a growth rate of 4% in 1988, the BTI said.

Numerous government reports came to the conclusion there were structural deficiencies in the industrial sector other than the structural aspects of a more macro-economic nature.

Emphasis

The BTI said that a continuation of industrial policies of the past, of which import replacement was a central element, would not succeed in taking industrial growth to a consistently higher growth rate than the past 15 years.

Import replacement was no longer the growth force it was and emphasis had to be placed on exports.

An outward-orientated policy

would promote development together with efforts to achieve more value added within SA prior to export.

World markets for raw and processed materials were growing far more slowly than markets for finished products — emphasising the need to move the composition of exports into higher value added products, the BTI said.

The estimated shortfall on the services account of the foreign trade account was approximately R10bn in 1989.

To avoid periodically having to cut back severely on demand in the economy when it went out of line with supply, a high priority should be given to supply-side policies.

The BTI said major economies in the world were expected to grow by 2,75% in 1990. This slower growth would have an impact on commodity prices.

SA 'likely to be conduit for funding from abroad'

Blomay 27/6/90

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LINDA ENSOR

SA WAS likely to be a conduit for foreign funds directed towards infrastructural development in southern Africa, Development Bank CE Simon Brand said at the launch in Johannesburg yesterday of new insurance company Lombard Guarantee Insurance.

Brand said this would provide expanded opportunities for SA firms.

Once SA had achieved political and economic reform, opportunities for economic interaction with other African countries would emerge.

Although SA was unlikely to be a source of finance for infrastructural projects, public and private institutions could be a conduit for southern African financial assistance and investment from abroad.



● BRAND

● See Page 11



Pressure to be eased

'Trade is increasing, investment is increasing' — Thatcher

From SUE LEEMAN

The Argus Foreign Service

DUBLIN. — The European Community has applauded "important changes" in South Africa but has agreed not to lift sanctions now.

However, British Prime Minister Mrs Thatcher, who is keen to reward President De Klerk for his reforms, has predicted a distinct relaxation of EC sanctions within the next six months.

"Trade is increasing, investment is increasing... I believe the restrictions on South Africa will continue to be eased," she said.

In a joint communiqué at the end of its summit here, the European Council of leaders promised to consider a gradual relaxation of sanctions when there is "clear evidence" of continued movement towards the total dismantling of apartheid.

The EC accepted that Pretoria had made a commitment

● What Mandela told Congress about sanctions, page 24.

"to abolish the apartheid system and to create a democratic and nonracial" South Africa, describing President De Klerk as a man of "foresight and courage" who had brought about a new era.

And it praised Mr Mandela for his inspirational "qualities of statesmanship".

The communiqué called for an early start to negotiations on a new South Africa, coupled with the renunciation of violence by all sides.

It recognised that a post-apartheid South Africa should have access to wide economic resources, including external finance, and pledged more funds for apartheid's victims, including exiles.

The statement is expected to satisfy Mr Mandela, who is due in Dublin next week.

But Mrs Thatcher is not alone in pointing out that while the EC has retained its symbolic commitment to sanctions, some of the measures themselves are being quietly whittled away.

Among those apparently shifting stance is Italy, the EC's next president.

Mrs Thatcher made it clear that Britain will pressure Italy to push for a let-up in sanctions during its six months in the president's chair.

She told a post-summit Press conference that Italian Prime Minister Mr Giulio Andreotti had agreed in Dublin to monitor further steps by Pretoria "to see if they justify a reduction in sanctions".

In welcoming steps such as the release of Nelson Mandela and the unbanning of political organisations, it had recognised that key demands made at its December summit in Strasbourg had been met.

Argus
27/6/90

new methods of trading in gold are being planned

VENICE — Gold prices, around their lowest levels in four years, could draw fresh end-users to new and sophisticated trading products, delegates at the Financial Times World Gold Conference said. (74) (P)

The Commodity Exchange (Comex) in New York has an instrument in the wings called the Gold Asset Participation (GAP), which is waiting for approval by the Commodity Futures Trading Commission (CFTC), Philipp Brothers MD Sidney Gold told delegates.

The GAP is a certificate representing 10 oz of gold that can be marketed to the public like ordinary shares.

It is expected to be launched later this year. It is not a futures product and settlement will be based on the cash price of gold, times 10, whenever the holder decides to cash in the GAP, Gold said.

Comex decided to launch the GAP because it can be marketed to a much wider base than futures. Currently, there are about 44 000 authorised futures salesmen in the US, against more than 500 000 stocks salesmen.

"It is a new product . . . the US public is used to trading stocks, but not gold bars."

In response to questions, Gold said the GAP is different from mining company shares which are vulnerable to political uncertainty and vary in relation to gold. The GAP will always be based on the spot gold price, he said.

Coincidentally, Japanese investors also have a GAP, although this is the Gold Accumulation Plan, Mitsui and Company precious metals division GM Junnosuke Inoue told the conference.

Investors "buy every day under an equally divided monetary budget . . . this product taps small investor demand, due to its minimum monthly budget of a few thousand yen (about \$30)".

There were other alternative products on offer, particularly in the options markets, Credit Suisse First Boston director Dan McGanty said. These have been developed because of the high cost of ordinary options.

"Often the purchasers of these options have paid extra for something they did not need, while still not receiving adequate protection from risks." — Reuter.

Global executive search — SA in from the cold

Finance Staff

A move to reinvestment in South Africa by European multinationals has created an upsurge in demand for a special breed of top-level executive who can fulfil dual roles — that of a local manager well-versed in the intricacies of the South African marketplace and that of a locally based "global manager".

This is the opinion of Dr Trevor Woodburn, managing director of one of South Africa's leading executive search consultancies, Woodburn Mann (Pty).

"South Africa is poised to re-enter the international arena.

"Simultaneously, European multinationals which have retained South African-based operations are embarking on restructuring drives to steer their locally based subsidiaries towards the world of 1992 — and a new era, as corporate globalisation strategies take

hold," says Dr Woodburn.

"The call for a new breed of multifaceted executives to replace or bolster the ranks of the traditional management corps — a pronounced trend in First World economies — has created a demand for the specialised methodologies and confidential services of executive search or "headhunting" recruitment professionals.

"This is particularly true of the European Community, where the market for executive search has attained unprecedented growth levels and is still booming."

Dr Woodburn's comments are supported by the findings in a recently published study into the executive recruitment market by the London-based financial publishing firm, Economist Publications (Pty).

According to the study, the net revenues of Europe's 12 largest executive search firms have been soaring by more than 15 percent a year, reaching almost R750-million last year.

Based on recent performance levels by his firm, Dr Woodburn says that the dramatic worldwide move to executive search recruitment is fast taking root in South Africa.

Through its international association with Ward Howell — one of the world's leading executive search groups, which ranks among the top three in Western Europe — Woodburn Mann has, over the past three months, sourced 40 percent of its business from overseas-based multinationals.

Training ground

"Without exception, these multinational clients have requested searches for top-level South African executives," says Dr Woodburn.

"The South African environment, with its blend of First World and Third World components, has provided an excellent training ground for local top-level managers.

Against a background of an acute skills shortage in SA, the calibre of local executives has been further strengthened by the demands placed upon our managers.

On average, the ratio of one South African manager to the number of subordinates reporting to him is 1:50, whereas this ratio in West Germany is as low as 1:6.

sta 2/7/90 (76) 83

Interest reviving says Ackerman

CAPE TOWN — Major businessmen in Europe, the US and the UK have shown great interest in re-investing in South Africa in the wake of recent political developments, says Raymond Ackerman, head of Pick 'n Pay.

He said at the weekend on his return from abroad that investors were becoming aware that because of its sound infra-structure, SA would be a better prospect than East Bloc countries.

Mr Ackerman said sanctions were on their way out because European and US businessmen wanted to invest in SA no matter what their governments felt.

— Sapa.

'National backing necessary to sell new SA to world'



● YOUNG ... there is a need for a national will

Picture: ROBERT BOTHA

TO CREATE and sell the new "South Africa Ltd" on the aggressive international market will require a mobilisation of the national will and a consensus about goals, which can best be achieved by a tripartite alliance between the state, capital and organised labour, says visiting British businessman Michael Young.

Young was a foreign policy advisor to Ted Heath's government and is currently City Corporate Financial and Public Affairs chairman.

He believes such an alliance — as has developed in Japan and to a lesser extent in Germany and France — gives countries a head start over their competitors in the international race for markets.

Young says consensus on how best to maximise the country's assets in the national interest will be essential, once the country's political dispensation has been regularised, if SA is to grasp the immense opportunities which exist in Europe and North America.

Transitions

Social cohesion will also be crucial if the new government is to succeed in achieving a fine balance between the need to attract foreign capital by offering a good return on investment and the need to change social expenditure patterns to redistribute wealth.

"SA is undergoing major political and economic change. Clearly there has to be a view of where you are trying to get to, as that is the only way societies hang together when they pass through such difficult transitions."

Another reason why Young stresses the need for a national will, is the danger, given SA's history, that labour out prices itself as it seeks fulfillment of wildly inflated expectations.

"There is not a bottomless purse from which salary increases can be drawn; it has to be paid for by increased production and productivity. That is a difficult message for all people to understand, especially in SA where the state has played such a huge role in the economy, in some cases an even greater role than in Eastern European countries.

"This builds up a notion in the minds of the people generally that somehow the state will provide. It is only people and their efforts that can provide and an understanding of the way these things work needs to be woven into the fabric of the society."

Which is not to say that Young sees no role for the state in the economy, even if it is simply a co-ordinating, facilitating one.

He likes to see himself as an "objective man", steering clear of ideologies.

"We are dealing with many shades of gray. There are very few absolutes, if any," emphasises Young, who says he occupies the centre seat of the political spectrum. He was a parliamentary candidate for the

LINDA ENSOR

SPD/Liberal alliance in Britain.

He believes a mixed economy will emerge in SA, if only because of the need for fundamental redistribution of wealth. The vital, still unresolved question will be the weighting either towards the private or public sector.

Young feels the priority of a national economic strategy, arrived at through national consensus, should be to create the infrastructure for value-added manufacture. While SA has a virtual monopoly of some mineral resources, it holds a small percentage of the world's value-added manufacturing goods.

Young stresses that the inflow of foreign capital will be vital if SA is to sustain economic growth and develop its economic potential.

"There is going to be renewed interest in this economy by the private sector. Here is a very interesting market which, if all goes according to plan, could well be the economic motor for the African continent."

Companies already here would probably look at further inward investment with a view to developing and shoring up their portfolios.

While admitting that SA will be competing with Eastern Europe for foreign aid, especially as West Germany is deeply preoccupied with the unification of the country and with the development of surrounding countries, Young thinks Britain and America will press for aid for SA.

"If the rest of the world is serious about SA — and I think it is — it ought to be thinking about a programme of sustained aid to the new SA in order to assist in the transition phase.

Access

"I would like to see soft loans, direct gifts tied to specific and agreed upon projects and better trading terms, especially with the EC. I would hope the huge EC market would be made as open as it possibly could be to the new SA's manufactured exports."

Young "guesses" the British government will push for an agreement for SA similar to the Lomes agreement for former French colonies, giving the country special access to the European market.

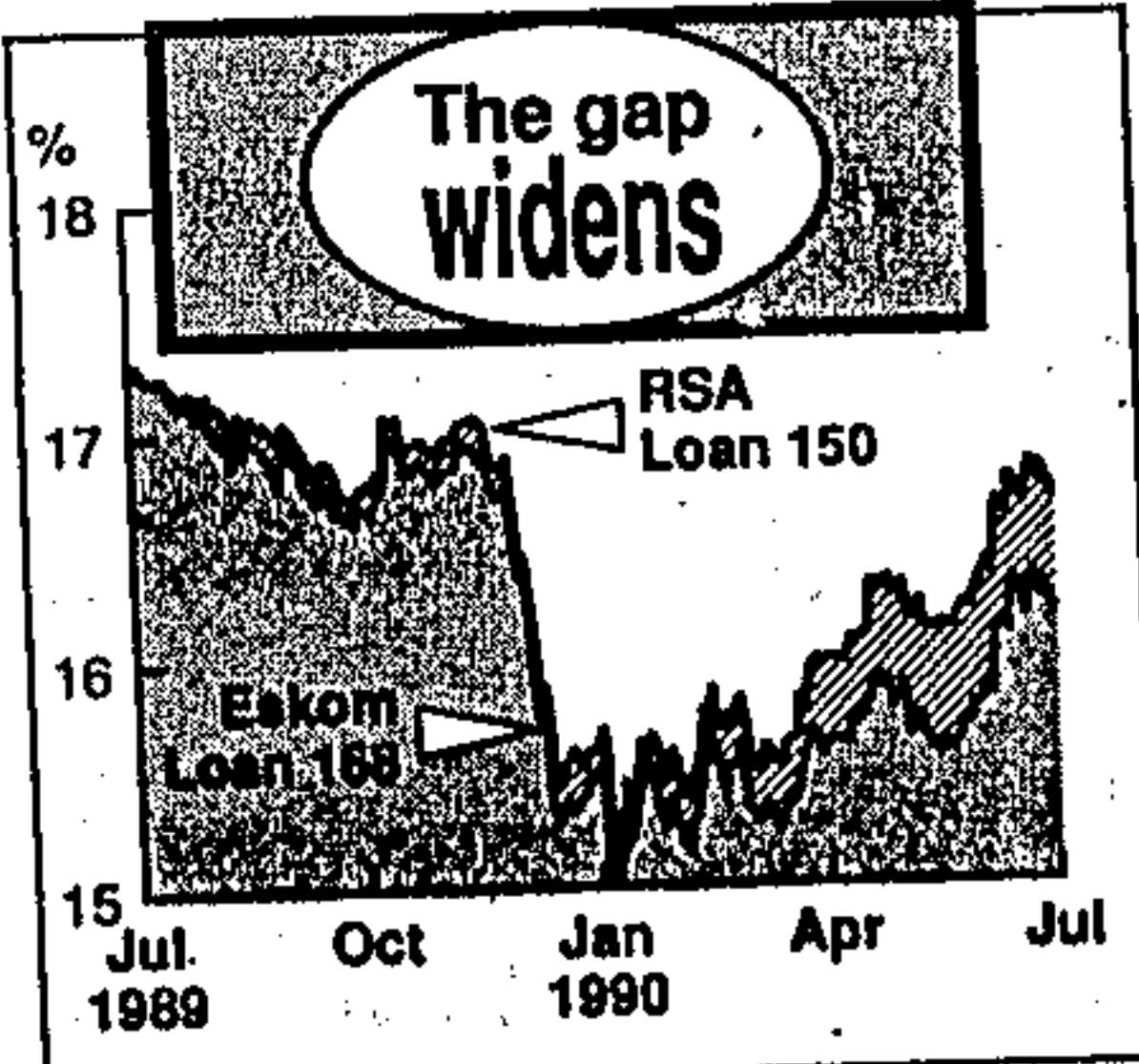
"I am extremely optimistic that SA will arrive at a new political dispensation and that it will get there sooner rather than later. In my commercial judgment I would want to be preparing now and looking at a changed dispensation within five years.

"There is so much here, there is so much going for South Africans that, unless you are so obstreperous with each other and foul up badly, you have to succeed."

Young says captains of industry in the UK, Europe and North America have no doubt that SA has turned the corner. There is a growing awareness of what can be achieved under a new political order.

Bank plan to boost govt stock

GRETA STEYN



Graphic: FIONA KRISCH Source: SMB

THE Reserve Bank is for the first time employing merchant banks to trade government stock on its behalf in a move towards creating a more active market in RSA paper. *B10an 417190*

Because government stock is not well traded in the market, government is forced to pay some 50 points more interest on long-term borrowings compared with other borrowers. The Bank has decided it wants to change the situation and is developing a strategy. *(74)*

Towards the close of trade yesterday, Eskom's E168 was trading at 16,10% compared with 16,57% for government's R150.

□ To Page 2

Govt stock *B10an 417190*

The Post Office, too, is more popular than government with long-term Post Office stock at 16,1050%.

In an effort to narrow the differential, the Reserve Bank has asked the merchant banks for input and is in the meantime employing a number of them to trade on its behalf to create a more liquid market. The practice in the past, with the Bank selling directly to investors, is being discouraged.

The Bank and the market agree on the vital issue — the lack of a "buyer of last resort" of government stock. Other borrowers on the capital market — Eskom, Transnet and the Post Office — are always prepared to buy or sell their own stock. This is known as "making a market". The premium at which government's stock trades in the market reflects participants' unwillingness to be stuck with stock for which there is no market maker.

As part of its investigation into the gilts market, the Bank has discussed with market participants the possibility of separating securities trading from funding activ-

ity. Securities trading would then not fall under the Deposit-Taking Institutions Act and traders would not be subject to the Act's requirements, including those about repurchase agreements. Securities trading companies would then be able to become market-makers in government stock.

The discount houses, would benefit from the legal separation of trading and funding, as they would prefer not to face the stringent requirements of the new Act.

Such a separation, has not been finally decided and in the short-term there will be no market makers. But the Post Office experience indicates the importance of market makers and a "buyer of last resort". The PO's acting senior director, Treasury, Willie Landman, said: "We gave the market our commitment we will always quote buy and sell prices on our stock. The spread between the two prices is kept as favourable to the market as possible and we have a good 'carry' policy to help speculators when they need covering."

(74) □ From Page 1

cient in catalytic convert-

GDM lifts earnings

38 percent

Finance Staff

Trade finance house GDM Finance reports good results in the year to end-April with attributable earnings rising by 38 percent to R7,5 million (R5,5 million).

Earnings a share were 29,3c (21,3c), while the total dividend is up 41 percent to 12c (8,5c).

Managing director John Cowper says the group's performance was satisfactory given the recession in the economy.

Pre-tax profits were 22 percent ahead at R9,8 million (R8,1 million) and return on shareholders' equity was up from 29,3 to 33,3 percent.

GDM remained conservatively geared with a gearing ratio of four to one at the year end.

"However, we expect to achieve another real increase in earnings in the current year, subject to there being no further deterioration in economic conditions," he says.

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DBSA sees signs of support in foreign capital markets

By Jabulani Sikhakhane
While the Development Bank of Southern Africa (DBSA) has not yet tapped the foreign capital markets, there have been indications of support from the international financial community, it says in the 1989-90 financial report.

Chairman and chief executive Dr Simon Brand says the overseas markets present a major opportunity, especially as South Africa emerges from the economic isolation of the past.

The bank has broken through to a level of disbursements of about R800 million a year, leading to the activation of the third

leg of the bank's financial mobilisation model — capital market funds.

The DBSA has raised R178 million of the envisaged R300 million to be mobilised in the local capital markets in 1990-91.

About R1,5 billion will be raised in the local and overseas markets over the next five years.

In the past year the Government's allocation to the DBSA was R375 million and to date the bank has received R746 million from the Government as part of the five-year funding pro-

gramme which began in 1988-89.

Over the past six years, the DBSA's loan book has risen by 53 percent a year to R2 400 million — equal to 92 percent of the bank's assets at year-end.

The annual report says the bank's liquidity levels were deliberately scaled down during the year from 18 percent of total outstanding commitments at the beginning of the financial year to five percent at year-end.

"This departure from the stated policy of maintaining liquidity at higher levels was motivated by the increasing degree of accuracy with which the bank has been able to programme its

loan disbursements."

Also, with interest rates at high levels for most of the year, the bank's liquid resources represented a less costly source of funding for loan disbursements.

Boosted by an escalation of 13 percent in interest received on development loans, the DBSA showed a surplus of R56 million, compared with R54 million the previous year.

The servicing of loans contributed 20 percent of the total cash flow of the bank in 1989-90.

Forecasts are that they will contribute a third of the total sources of funds within the next few years.

Adjustment needed to changing times

By Jabulani Sikhakhane
Recent political changes and social unrest are putting the already fragile capacities of many institutions in developing areas under severe pressure.

In response, the Development Bank of Southern Africa (DBSA) is looking at its own processes and structures so as to adjust to the changing political environment in which it operates.

Chairman and chief executive Dr Simon Brand says indications of possible changes in the constitutional status of some of its member countries and of the self-governing territories and emerging local authorities,

which are among the bank's borrowers, make it necessary to anticipate and adjust to changes in its institutional environment.

In his 1989-90 annual review, Dr Brand says recent changes are a challenge to devise institutional arrangements that can during political transition effectively carry out development programmes and projects and be consistent with future political developments.

The recent political changes also require timely measures to adapt the governing structures of the bank to changing circumstances.

The bank must lend even

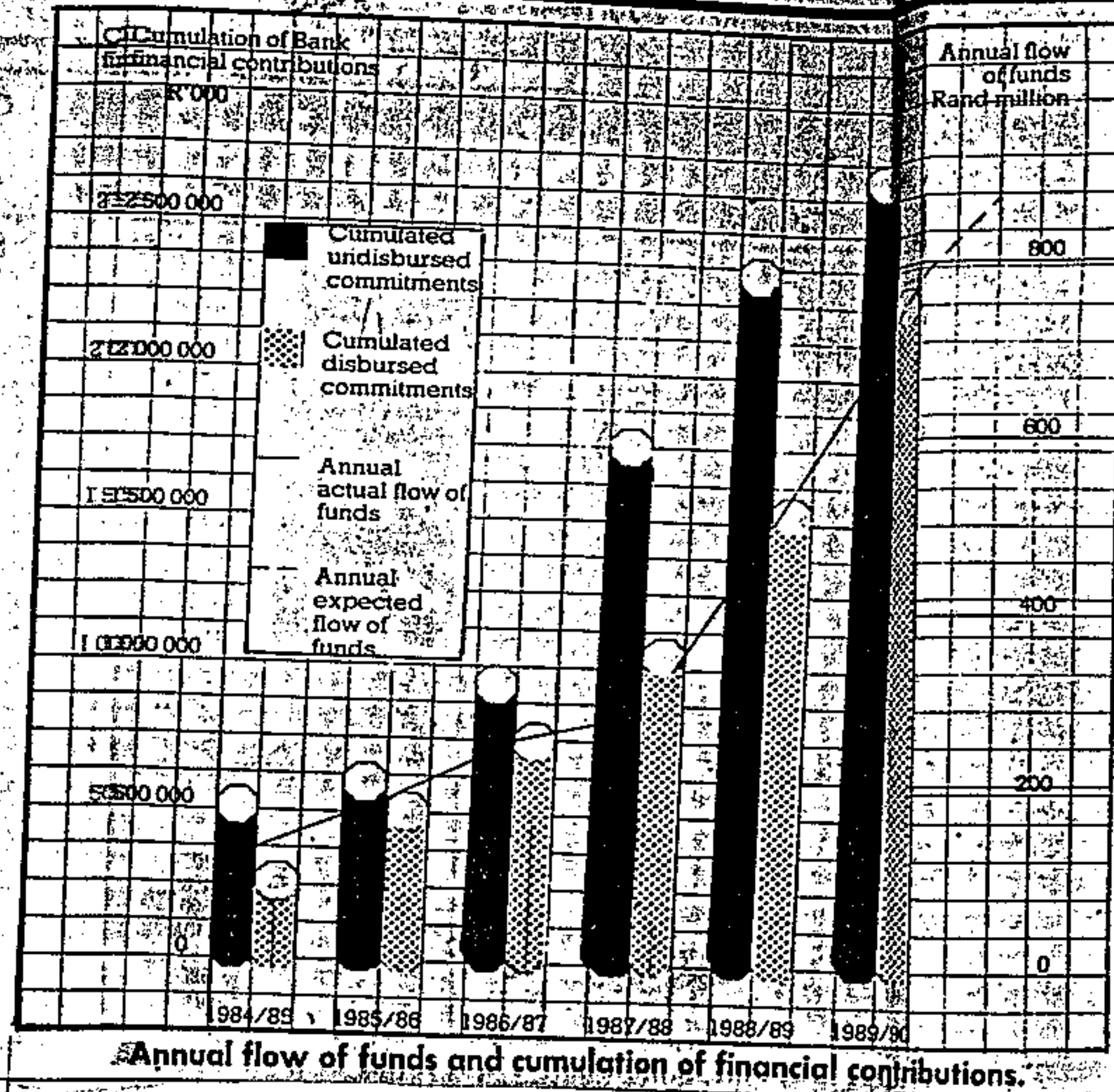
greater urgency than before to the goal of achieving a staff composition that is more representative of the population make-up in its area of operation.

The Development Bank has interacted with representatives of all shades of all political opinion in an effort to make a constructive contribution by taking part in the process of institutional adjustment required to underpin economic development in the midst of political change and by contributing to the debate about the future economic order, economic strategies and policies in Southern

Africa.

Dr Brand says there is hope that the demand for redressing of economic disparities that accompany the process of political change can be addressed to a meaningful extent.

This hope is based on the funds allocated by the SA Government towards social upliftment programmes, the increasing willingness of private corporations to augment and create new funds dedicated to development and the first signs of willingness on the part of foreign governments to direct increased funding to South Africa for development.



'Only worldwide credit ban would hurt SA'

WASHINGTON — Only a worldwide ban on import credit would badly hurt SA, the US General Accounting Office has said in a report to Senator Paul Simon. *6/10/90 18/7/90*

"The effect on SA of a unilateral US ban would be limited, though it might reduce the volume and value of US exports to SA," the report said.

The report was made on June 7 to Simon, chairman of the subcommittee on Africa in the Senate foreign relations committee, and distributed more widely this month.

The agency, which monitors US policy for Congress, said that after a while SA could find other sources it might need to replace imports from the US.

US exporters could also get around the ban in several ways.

"With restricted access to such credit worldwide, the SA economy could be severely injured by the necessity to pay cash or barter for its imports," the report said. *(74) (S)*

It said international banks and investors were waiting to see what, if any, changes were made in the political system and what effect they would have on the business climate.

"Even if there were a rapid change to a post-apartheid government, the holders of international capital would wait to assess the political stability of the new government and its economic policy." — Sapa-AP.

Gilt trade's second-successive record

ROBERT GENTLE

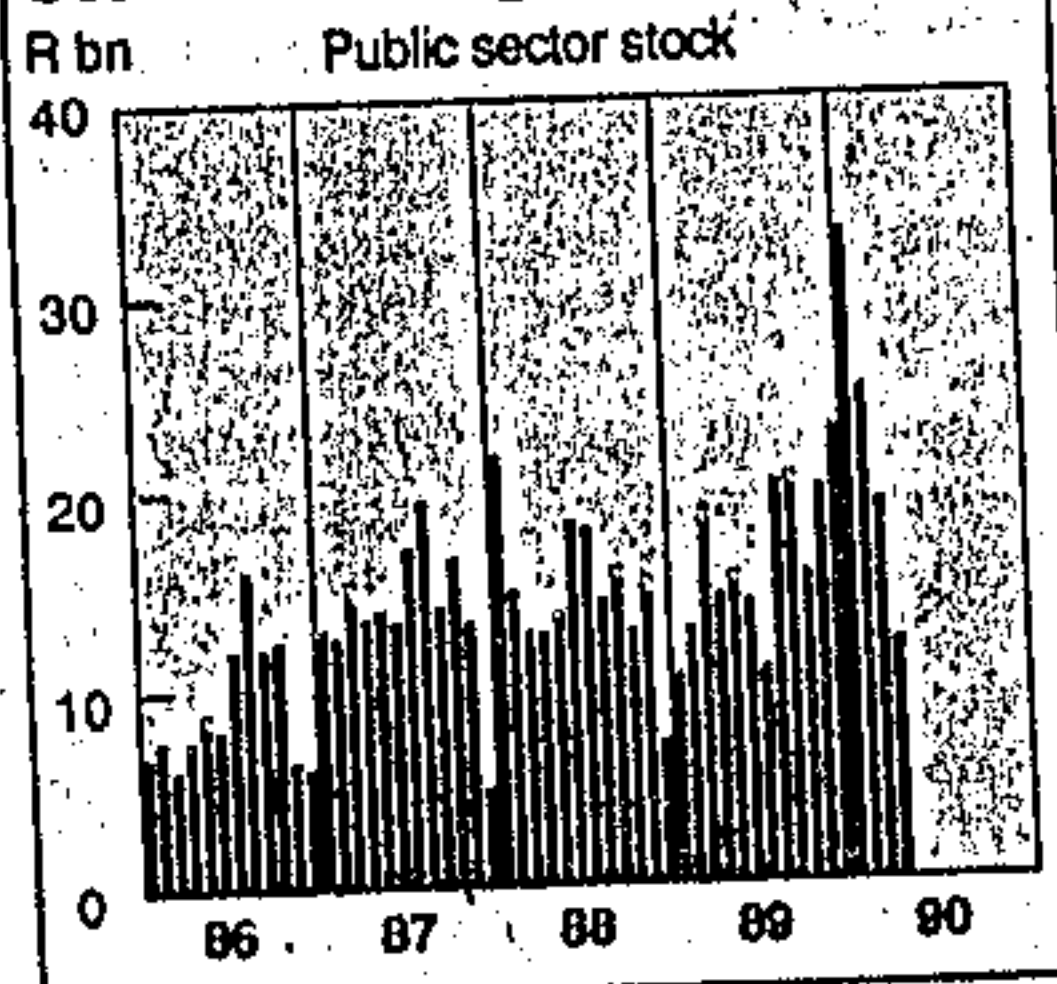
THE value of public sector stock (gilts) traded on the JSE in the first quarter of 1990 leapt from the previous quarter's record R58,1bn to a new record of R77,8bn, the Reserve Bank's latest quarterly bulletin revealed.

However it fell sharply in April, a decline the bulletin attributes partly to the large number of public holidays during that month, and to a lesser extent, to a marked fall-off in net purchases by non-residents. These retreated from a monthly average of R200m in the first quarter of 1990 to "significantly less" than half that amount in April.

Although non-residents account for a very small proportion of all gilts traded on the JSE, market sources have seen in the decline evidence of increased nervousness abroad.

They attribute this mainly to the

Stock exchange transactions



Graphic: FIONA KRITCH Source: SA RESERVE BANK

dashed expectations that arose after Nelson Mandela's release in April.

Spokesmen from the gilt divisions of Standard Merchant Bank, stock-brokers Edey Rogers and Simpson McKie said Mandela's statements on

a future SA economy had had a negative effect. *B Day 19/7/90*

It was also pointed out that in recent months general political uncertainty was not confined to the words of Mandela, and also included far-right activities.

The Simpson McKie spokesman, who returned recently from a trip to Europe to gauge foreign investor sentiment, said that a wait-and-see attitude had developed there.

"Those who already have large positions in SA gilts appear to be staying put. Those who want to come in are thinking twice before doing so."

This explained why there were no signs of any massive selling orders, she added. Indeed, there was even the odd small buying order. *(74)*

The bulletin said another possible reason for the fall-off in foreign interest in SA gilts was the hardening of real yields on similar instruments in other Western countries.

Soviets flood SA mission with immigration requests

PETER DELMAR

THE SA mission in Helsinki, Finland, had received 6 000 immigration applications from Soviet citizens in the past six months, Foreign Affairs spokesman Alayne Reesberg said yesterday.

And Eastern Europeans had addressed 30 000 inquiries about emigration to SA's embassy in Vienna, she said. Sapa-Reuter reported from Helsinki yesterday that the unprecedented wave of applications — from all over the Soviet Union including the Baltic republics, Moscow and Azerbaijan — had taken the embassy by surprise.

Ambassador Johannes Lotter said he was amazed that the Soviets chose to apply to his mission, adding that there had previously been no applications.

He said 90% of letters were from unqualified people with little chance of acceptance. Most seemed to be applying for economic

reasons and none had yet been approved.

Reesberg said it was well-known that Eastern Europeans often "shopped" around at a number of foreign missions when they crossed the Iron Curtain.

Confirming that most of the Soviet applicants were unlikely to be approved, Reesberg said that in addition to their lack of needed skills many of the applicants had no knowledge of languages other than their own dialects.

The ANC Helsinki representative Mohamed Hussein said the organisation objected to "this attempt to mop up the disenfranchised people from the East".

The ANC, he said, opposed immigration controlled by SA, adding that the government ensured that only whites were allowed to immigrate.

The Leegall Clothing Co Limited

(Registration number 05/34784/06)

Cautionary announcement

Shareholders are advised that negotiations are in progress which may affect the price of Leegall shares. Shareholders are advised to exercise caution in the interim.

A further announcement will be made as soon as possible.

Johannesburg

19 July 1990

SOUTH AFRICAN

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AWARD

In conjunction with Arthur Andersen & Co and the Wits

Keeley adding value to its granite

Star 26/7/90

Finance Staff

74

67

The Keeley granite-mining and exporting group is establishing facilities to add value to the materials it extracts from the ground.

Executive chairman Fred Keeley says in the 1990 annual report that a new factory processing granite roof tiles in the Ciskei is almost at full production, while the company is negotiating the purchase of a site for a plant in Boputhatswana.

Another tile plant is to be established in Zimbabwe.

He says manufactured products will be sold in new markets to avoid upsetting block sales to existing customers.

Keeley is the world's biggest producer and exporter of granite, accounting for about half of this type of stone exported by South Africa.

It operates about 80 mines and sells to 25 countries.

In addition to successful prospecting in the Transkei, the group began quarrying green granite in Natal in September.

The mine is producing 1 000 tons a month, and several overseas clients are tendering for building projects in which they intend using the material.

Mr Keeley says the new granite terminal at Durban harbour, with a capacity of 50 000 tons, has reached full efficiency.

Gilt market expected to operate later

REGISTRAR of Financial Institutions Chris Mostert said yesterday he hoped to see the Bond Market Association (BMA) — the gilt exchange in the JSE annexe — operating by September 10.

The BMA, whose operating licence will eventually be granted by Mostert, is running behind schedule as various start-up problems are sorted out.

Although the Financial Markets Control Act requires the BMA to be licensed at the same time as the SA Futures Exchange (Safex) — on August

8/24 26/7/90
ROBERT GENTLE

10 — Mostert said the BMA would be granted an exemption in the interim period. (74)

"Gilt trading will continue informally during that time," he said.

Informal gilt trading started on Monday on the new R3,3m gilts and futures trading floor in the annexe.

The old gilts trading floor in the JSE's main building was closed last week.

Gold price slips back as institutions take profits

Star 27/7/90

(74)

Finance Staff

Gold share prices on the JSE slipped moderately yesterday as the gold price failed to maintain its level of \$372 yesterday.

Gold eased by \$4 in London yesterday to close at \$368,75 from Wednesday's close of \$372,75 amid profit-taking by institutional investors, some selling by the Brazilian central bank and a firmer dollar.

In Hong Kong this morning gold opened \$2,55 down at \$368,55.

On the JSE the gold share index slipped back by 29 points to 1576 yesterday after rising by 3,7 percent on Wednesday, while

the overall index closed 17 points lower at 3153.

The gold price also came under pressure from a firmer US dollar, which rose against most other major currencies in Europe yesterday, helped largely by weakness in the yen.

The dollar was bolstered by yen selling which began earlier in Tokyo yesterday and continued on the exchange market this morning, Sapa-AP reports.

The American currency closed 0,64 yen up at 150,75 yen today. However, the yen fell not only against the dollar, but against European currencies as well, dealers said.

W/LEAS 28/7/90

Arm Scor reeling

74

From CLAIRE GEBHARDT
JOHANNESBURG. — South Africa's once-booming billion-rand arms industry is reeling and next week Armscor will take direct steps to alleviate its plight.

PRO Johann Adler revealed this week that Armscor would meet defence contractors countrywide in August to put forward "plans and programmes."

The move comes as evidence mounts of the negative ripple effects of huge Defence Force cuts and deferment of orders undertaken in January.

Already in April this year Defence Minister Magnus Malan said that more than 2000 workers at Armscor and its subsidiaries had lost their jobs as a result of the cancellation of 11 major weapon and equipment projects due to begin in the 1990/91 financial year.

Forty-nine other projects were either reduced or delayed.

This week industry sources, who declined to be named, said more retrenchments could follow.

If no new projects were forthcoming many highly qualified and skilled engineers would be "out on the streets" within months, they said.

Many sub-contractors to Armscor who had relied on defence

contracts for 90 percent of their work were in desperate straits.

A supplier said this week that the certainty of purpose for the industry had been lost.

"Local industry was built up solely to beat the arms embargo and although government has not said there is nothing in the pipeline, it has also not said it is willing to keep the industry going."

At the beginning of the year General Magnus Malan told Armscor and its off-shoots to use their high-tech know-how in commercial applications as peace and disarmament had brought about a shift in accent.

But many firms believe this is easier said than done.

"Work of this sophisticated nature is hard to come by and the industry faces competition from overseas firms who bring goods in fully packaged.

"As far as exports go, we would have difficulty in producing more cheaply than elsewhere else and could only export uneconomically."

Mr Adler says Armscor is aware of the problems and is planning for the future in a very realistic fashion.

"We will do this in conjunction with the armaments industry outside of Armscor, and will attempt

to put suppliers in a position to use their skills productively."

Analysts this week said that one of the major benefits of the arms industry was that it kept the technological base high and kept engineers in the country.

"Will these highly-skilled people now have to emigrate in the midst of a skills shortage," they ask.

Traditionally up to 75 percent of locally produced arms have been manufactured to Armscor's specifications by the private sector with no fewer than 975 outside companies engaged in the war machine.

In 1989, 70 percent of Armscor's annual expenditure flowed back into the private sector creating more than 75000 jobs.

Money pumped into local industry enabled companies to build up a highly sophisticated technological base and enabled Armscor to beat a UN arms embargo put into place in 1977.

In a relatively short period, Armscor achieved exceptionally advanced skills which under normal circumstances would have taken years to accomplish.

Over the last decade international sales in 39 countries earned more than R2 billion.

Star 31/7/90 (18/7) (74)

TGH sets out on overseas acquisition trail

By Jabulani Sikhakhane

The restructured Tollgate Holdings (TGH) is going on an overseas acquisition trail.

Chairman Julian Askin said yesterday that within the next 18 months about 80 percent of the group's earnings will be in non-rand currencies.

The acquisitions will be mainly in electronics, electrical and industrial materials distribution.

But analysts say for TGH to attract the necessary support from London institutions, it will have to clean up its balance sheet and bring down debt which stood at R373,7 million at end-December 1989.

As part of the plan to strengthen the group's capital base and reduce gearing, TGH will raise R44 million by way of a right offer of 14 percent unsecured subordinated compulsory convertible debentures at 225c per share.

Mr Askin yesterday said the overall plan in-

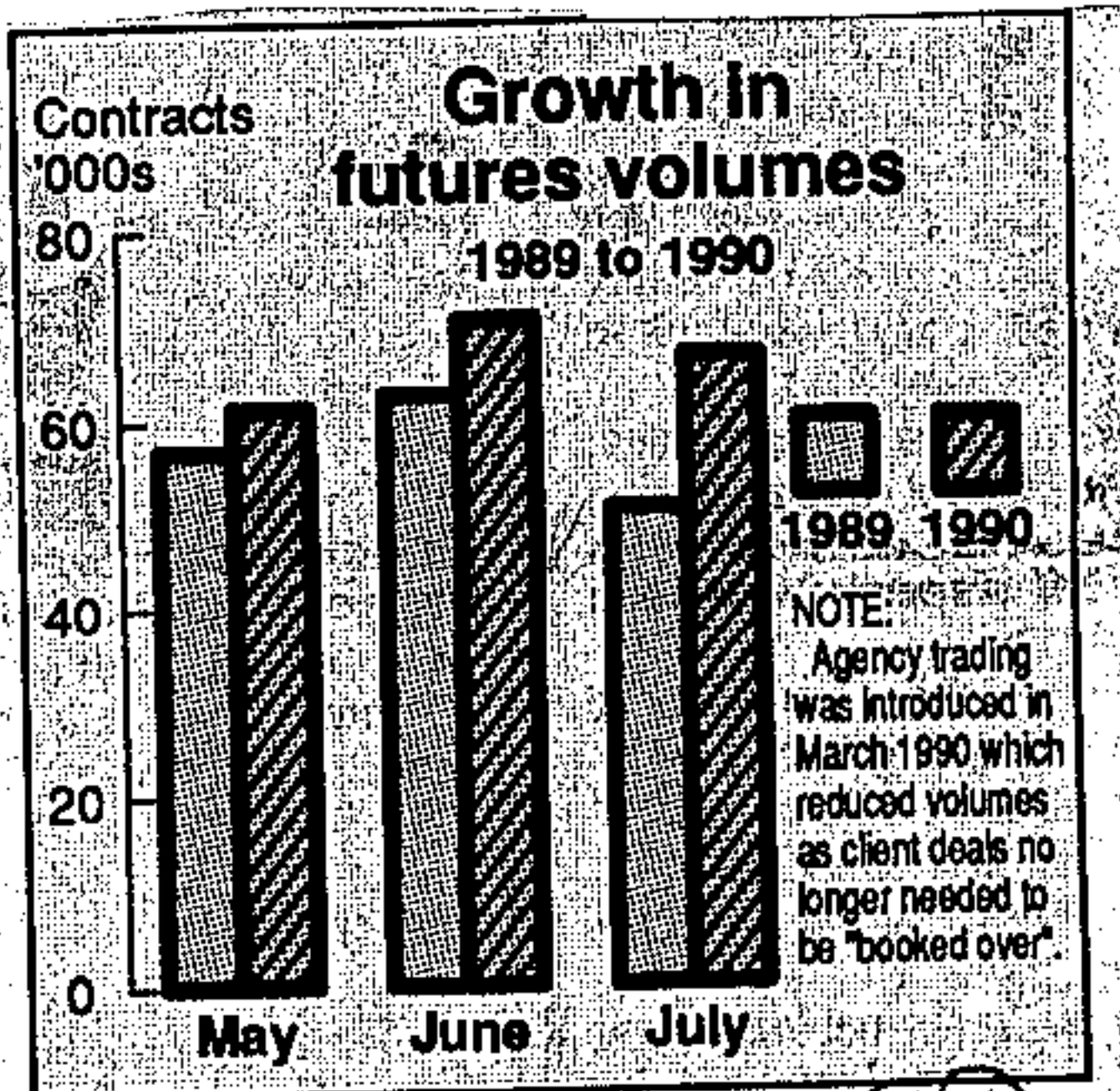
volves restructuring of the group's local assets as announced recently and reduction of gearing. However he declined to give any further details saying an announcement will be made shortly.

Analysts believe TGH is looking at disposing of some of its local assets.

DUROS

In terms of the restructuring plan, Duros would be wound down and TGH become a pyramid company with two listed subsidiaries Arwa and Gants. Entercor and Norths will be the two wholly owned subsidiaries.

Meanwhile, Mr Askin said yesterday's foreign purchase of Duros shares at 650c (against the market price of 875c) was the last part of the original deal which saw a consortium acquiring control of the group earlier this year. Part of the acquisition was made through the financial rand.



Graphic: FIONA KRISCH Source: SAFEX

74

Thirty percent more futures contracts were traded this July than last, despite the month traditionally being the quietest of the year, SA Futures Exchange (Safex) statistics show.

A Safex spokesman said yesterday that although volumes in recent months had been much lower than originally forecast, the market was still registering more trade than at the same time last year. This was mostly because of the changed structure of the new market in which JSE stockbrokers now operated. Last year they were absent; today they accounted for between 20% and 30% of the market. *8/10/90*

During the past fortnight, futures volumes have picked up further on the back of the rise in the gold price and rollovers (switching from near- to far-month contracts as the close-out approaches). Open interest — the number of open contracts registered with the Exchange — now stands at 10 250. However, 2 350 of these represent the August 1990 E-168 long bond future which closes out today.

Gold price off peak but oil and dollar soar

3/8/90 (74)

Finance Staff

The gold price failed to maintain its high levels achieved in the immediate aftermath of Iraq's invasion of Kuwait, declining by more than \$10 from the peak of \$387 touched in London in early morning trading.

Dealers said profit-taking in late trading was primarily responsible for the fall, which pushed gold down to a close of \$379.25 in London — a gain of just \$4 from Wednesday. The metal opened at \$378.20 today.

The trend was also evident in Hong Kong this morning where the metal opened at \$374.90, just 90 US cents up on yesterday's close. Since then, however, it has recovered slightly to \$378.

Frankel Kruger Vinderine analyst Keith Bright said today profit-taking on gold was evident when the metal rose above the

\$380 level. He added that the US dollar seemed to be the main beneficiary of investor nervousness.

Sapa-Reuter reports the dollar's rally, which started in Europe yesterday, continued in the Far East this morning.

Highest levels

Oil prices soared by up to 15 percent to the highest levels in four years amid concern about the security of supplies from the Middle East in general.

The dollar left two-and-a-half year lows against the mark behind and jumped as high as Dm1,6212 from Wednesday's close in London of Dm1,5945.

The dollar also jumped to 151.58 yen from a previous 147.35, then dropped back to end in London at 150.05 yen. In Tokyo this morning the dollar closed at 149.35 yen, up

0.45 yen from yesterday's close.

"Active selling hit the yen across the board this morning after a round of safe-haven dollar buying," a London dealer said.

Japan is particularly sensitive to oil prices since it produces no crude of its own and imports about 60 to 70 percent of its needs from the Middle East.

Dealers said the market had temporarily cast aside negative sentiment on the dollar as players focused attention on the latest news from the Middle East.

On the local currency market the rand was stronger on the back of the higher gold price and was trading at just below R2.60 to the dollar, while the financial rand, South Africa's investment currency, continued to strengthen and closed 3c stronger at R3.83c.

Stock markets fell across Europe as investors worried that

higher oil prices would be inflationary and lead to higher interest rates or stall rate cuts. The Financial Times Stock Exchange index of 100 leading shares closed 34.5 points down at 2 304.5.

In New York the Dow Jones index fell 35 points to 2 864.6, while share prices on the Tokyo Stock Exchange, as measured by the Nikkei index, closed 2.41 percent lower today.

On the JSE yesterday gold shares rose sharply with the all gold index closing 94 points higher at 1652. The overall index rose 56 points to 3216.

The bullish mood spilled over into the industrial shares with the index rising 17 points to 3062.

Dealers, however, expect a substantial fall in prices today in line with the decline in the gold price. Rush for gold shares on JSE —

Page 12.

Oil prices up due to Gulf crisis fears

WORLD markets were jittery on Friday on speculation that Iraq's Saddam Hussein would invade Saudi Arabia and oil prices again touched four-year highs because of fears that the Gulf crisis would widen.

Analysts were hesitant — given the volatile state of the Middle East — to commit themselves to market forecasts despite Iraq's announcement late on Friday that it would withdraw from Kuwait.

National Energy Council spokesman Lourens van den Berg said an increase in SA's petrol price would be unavoidable if the price of crude oil continued to rise.

Sapa reported that Van den Berg said a petrol price increase would depend on how permanent the rise in the price of crude oil was and how this affected the international market prices of the by-products.

The price of North Sea Brent Blend remained firm at \$23,50 a barrel on Friday, though London futures for the oil, the world benchmark, rose as high as \$24.

Gold retreated on Friday from the high of \$387/oz it reached on news of the Iraqi invasion and the SA stock market adopted a wait-and-see attitude.

Gold in Hong Kong on Saturday ended at \$375,00/\$376,00 against Friday's close of \$375,50/\$376,00, while in New York the metal lost ground before ending a bit firmer at \$377,60/\$378,10. In Zurich, gold surged to close \$1,00 below its previous finish at \$379,00/50. In London gold ended the day



Graphic: FIONA KRISCH Source: REUTERS

unchanged from Thursday's close at \$379,00/50.

News of Iraq's troop withdrawal sparked mild dollar selling which resulted in a lower closing price. The dollar ended at DM1,5845/55, compared with Thursday's DM1,5910/20, AP-DJ reported.

The rand firmed in quiet late trade on Friday, due to the fall in the dollar against most major currencies following news that US unemployment had risen to 5,5%. It closed at R2,5945/60 to the dollar against Thursday's R2,6060/75 close.

The financial rand weakened to R3,87/90 per dollar after Thursday's rise to R3,82/85. — Sapa-Reuter

● See Page 7

Similarities between SA and Romania outlined

PRETORIA — The decline of apartheid in SA and the collapse of communism in Romania occurred not only because of human rights abuses, but also because both countries were at variance with the free market ethos.

That view was expressed by Unisa history lecturer Phillip Eidelberg at a meeting of the SA Institute of International Affairs in Pretoria last week.

Eidelberg said Romania was in ways the exact opposite of SA, being socialist and based on one man, one vote majority rule.

Yet by the mid-1980s, both countries had become out of step with

EDYTH BULBRING

international opinion and were increasingly boycotted, allegedly on the issue of human rights.

However, Eidelberg argued the more fundamental reason was their insistence on existing in as they did in a world increasingly uncompromising towards ideological deviants.

Like Romania, SA's striving for national autonomy and self-determination was made difficult by the semi-developed nature of its economy and neither could compete effectively overseas.

Although SA continued to maintain a relatively vigorous capitalist sec-

tor, its market economy existed with a considerable degree of heavily bureaucratized centralised planning, Eidelberg said.

SA, as an exporter of largely primary products, was also vulnerable to long-term worsening in terms of trade, particularly evident in the mid-1980s.

SA's resultant balance of payment deficits made it increasingly dependent on foreign capital.

While Romania chose to repay its loans to reduce its economic and financial dependence on the West, SA agreed to accelerate its repayment in an attempt to maintain its economic links with overseas capitalism.

New average high for aluminium

PETER GALLI

THE average London Metal Exchange (LME) weekly price of primary aluminium reached a high of \$1 729 for the week ending July 30, an improvement of \$177 a ton on the \$1 552 for the week ended July 23.

The average monthly price of aluminium also reached a seven-month high of \$1 580 in July 1990. The previous high was \$1 629 in December 1989, falling to \$1 532 in January, and a low for the year of \$1 463 in February.

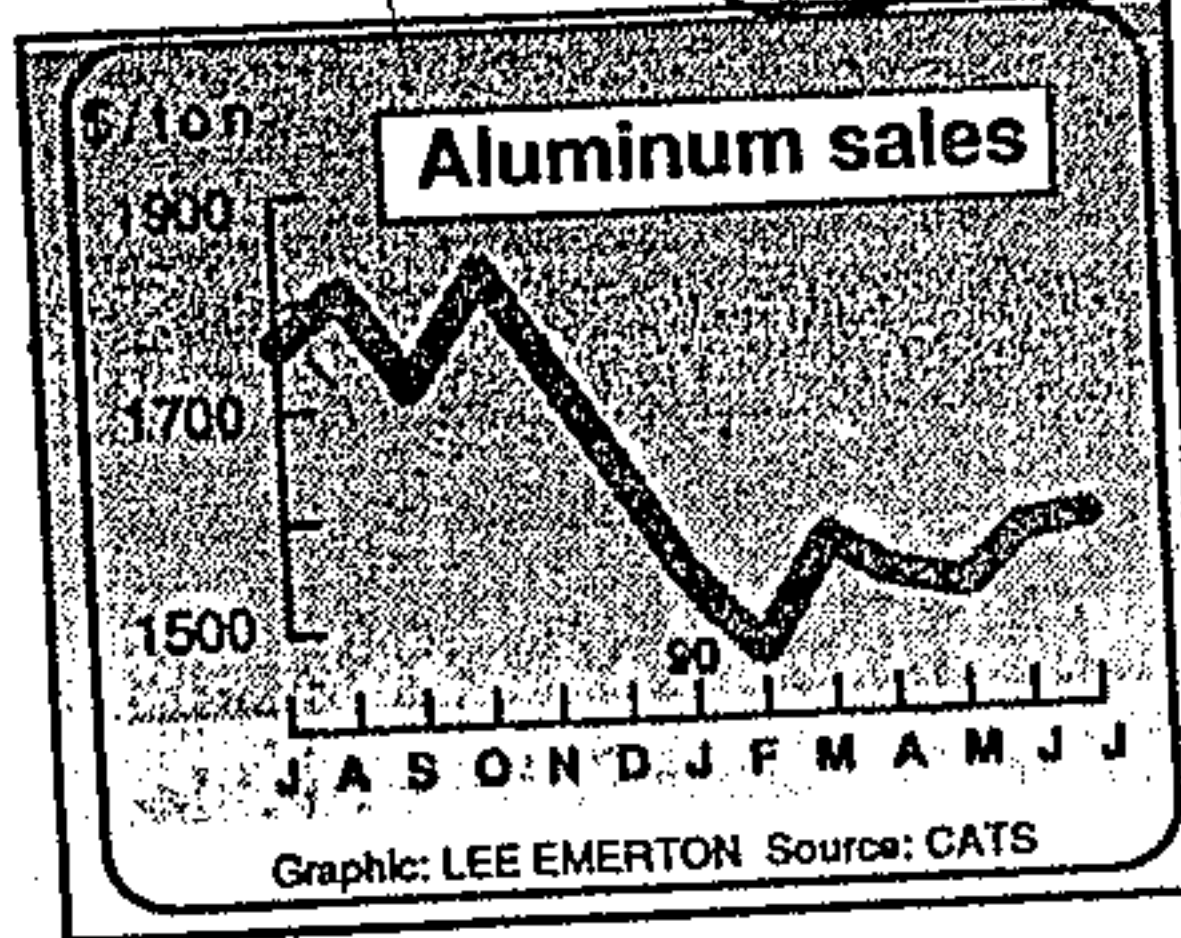
This new price represents a benefit for SA as export earnings will increase. As the local industry pays the stable SA price, the change in the LME will have no effect.

A spokesman for Alusaf said that no single factor

was responsible for this increase, and he could not determine what effect the Middle East tensions had had or how long the metal would remain at this value.

Aluminium Federation of SA director Tony Paterson said it should be noted the LME price of aluminium rose during the 1987/88 period and then fell again during 1989 to the prices reflected.

He emphasised SA followed the long-term trend of the LME, but was not directly linked.



"We foresee the LME price drifting up to \$1 800 a ton by year end and continuing into the latter part of next year," Paterson said.



ECONOMY

AR 645 9/8/90 74 (8) (3)

Back to Adam Smith is message Finance Minister gives nation

Business Editor

THAT people did not achieve equality in standard and quality of living by cavorting in the streets, striking and through stayaways, was the economic message delivered by Finance Minister Mr Barend du Plessis in Pretoria last night.

"The only universal economic principle is that a society can only consume as much as it produces," he said.

Export pricing

There was a maximum price at which a country could continue exporting, but the demands for wages and salaries in South Africa were now being bargained on the basis of political power and pressure rather than productivity.

There was need for every worker to understand that if the export price was given and

there was a need for an increase in wages, the only variable that could make that equation balance was an increase in productivity.

Present trends indicated wages and salaries had "dramatically and exponentially" outstripped productivity.

"Employers and employees must both understand there is ultimately no other solution than higher productivity or an arresting of wage demands for continued growth in South Africa, unless one resorted to continued depreciation of your currency, which immediately in our case translates into an inflation injection.

"This is something we need like a hole in the head right now."

South Africa's economic preservation did not lie in the lifting of trade sanctions and the country's return to the international capital markets,

but in developing an awareness of the fundamental truths of the economy.

He urged employers and others in positions of authority to explain these fundamental truths, such as the link between productivity and remuneration, to their employees.

The fundamental values should be explained because there were millions of people in South Africa who had not yet properly experienced the benefits of free enterprise and private property ownership.

Mr Du Plessis said the country was on the verge of "breaking the neck" of inflation.

"If we persist with our present policies there is a good chance that in the not too distant future Public Enemy No 1 will have itself broken and we can look forward to inflation figures below the double figure mark."

Markets on tenterhooks

MERVYN HARRIS

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FINANCIAL markets were on tenterhooks in nervous trading yesterday as participants assessed the latest developments in the Middle East crisis.

But an announcement by US President George Bush on the Iraqi invasion of Kuwait was seen as largely neutral, leaving matters unclear as Iraq President Saddam Hussein announced a merger with Kuwait.

Gold moved up to a high of \$386.50 on rumours of increased tension in the Middle East ahead of the announcements, but eased to close marginally lower on the day at \$382.25 in London.

In New York gold closed \$1.50 lower at \$383.25. *Buy 918/90*

Observers said gold was almost certain to breach \$400 if Iraq invaded Saudi Arabia. But if the situation in the Middle East cooled off, there could be a fall of about \$20 in the price of the metal.

Sliding oil prices did not help gold yesterday and some dealers in New York noted that gold producers appeared to have pulled back from active selling.

The uncertainty was reflected on Diagonal Street where trading remained nervous in a market which dealers said was very difficult to read amid rumours and speculation which could swing prices sharply in either direction.

Buying from London enabled the JSE all gold index to notch up a rise of 27 points to 1 671, but other indices generally moved sideways with no definite trend.

Prices of currency-linked shares were held back by the firand investment unit which continued to firm.

Unions' demands may harm SA, says Minister

Own Correspondent

The often unreasonable demands of trade unions could effectively price South Africa out of world markets, Finance Minister Barend du Plessis warned today.

Mr du Plessis was addressing the President's Council on a private member's motion by Democratic Party councillor David Gant on steps the Government should take to improve the economy and lift living standards.

In his address, Mr du Plessis highlighted difficulties faced by industrialists because of union activity as a factor in the decline in investment in South Africa.

He said the cost of labour was

already higher in South Africa than in other comparable countries in the world and he warned that South Africa had to beware of pricing itself out of world markets by allowing labour costs to rise even higher.

"We must get the unions to understand they will price themselves out of the market and lose their jobs if they continue to make unreasonable demands," he said.

Mr du Plessis said increased productivity was the key to increased wealth and increased investment for the country as a whole would ultimately benefit individuals too.

He said union activity also had

an important bearing on the confidence in the economy and this was an important factor when it came to investment.

Earlier, Mr du Plessis said that while the Government believed the country's economic answers were to be found in capitalism, it did not believe that "pure unbridled capitalism" would provide all the answers.

He said the great challenge facing South Africa was to achieve a delicate balance between the generation of wealth and the distribution of the wealth in a way which would also involve state responsibilities.

He said he believed that the best way to redistribute income was through the creation of equal opportunities.

This would allow everybody to gain access to the economy and to strive for the highest level of income their skill and talent would allow, in a regime of the lowest possible taxation.

The Government was against nationalisation, but aimed at maximum employment and price stability.

A bridge too far for Tollgate

Tollgate management went on a binge in the period to December 1989, buying companies engaged in food, textiles, tourism, sport and leisure, distribution and transport and Budget-Rent-a-Car — seven industries. But what a disaster!

Now parent Duros, controlling 60,6 percent, which itself underwent change of control in May 1990, plans major restructuring.

The lesson is simple — don't buy companies willy-nilly that you know little about, put them under an umbrella and hope to boost the share price with their earnings. Management should be experienced in the industries acquired.

I thought Duros had the merchant banking experience — obviously it didn't, judging by the 1989 Pandora's Box in the annual report.

The vanity was more than R1 billion in sales, the insanity the meagre bottom line after substantial interest and abnormal write-offs.

Worse were the massive extraordinary write-offs below the line. Then still, amazingly, dividends were paid.

To pay for acquisitions, the number of shares in issue rose from 24,2 million to 53,9 million at end-December and authorised capital further increased by 100 million shares in May 1990.

Acquisitions included Arwa (72 percent), Enterco (62 percent), Gants (54 percent), North Industries (72 percent) and Budget (100 percent).

By end-December 1989 debt had soared to R373,7 million, with management now hoping to reduce it via a rights issue of R44 million and by selling non-performing assets.

In the US, Tollgate would be in good company because such high debt is fashionable. But SA's high interest rates are the killer, so its hardly surprising restructuring is needed. I hope this is not just rearranging deck chairs in a soft economy.

I believe Duros has its eye on Tollgate's London listing as the restructuring is designed to support both local and overseas investors.

Forget about the worth of Tollgate and Duros after restructuring. Rather, how did management perform in the 18 months to December 1989?

Poorly, with many problems. It



was a most intensive and strenuous period, says chairman JL Claasen, with expansion causing difficulties.

Net profit was below expectation, with disappointing results from Arwa and Gants. High interest rates hurt.

Assets have been substantially written down, with losses made on disposal, goodwill and trade names written off. Non-performing assets need to be sold to improve gearing.

I question whether paying for acquisitions so liberally in shares didn't mean that management, in fact, overpaid and only eyed future earnings.

The red ink is still flowing as certain subsidiaries continue to incur losses.

Also, consider the auditors completed their work on May 15 1990 and the annual meeting was held on July 30 — seven months after year-end. What an inordinate length of time. What did the JSE think of this?

Sales for the 18 months looked impressive at R1,14 billion (1988: R204,2 million — 12 months). So, too, did operating profit of R80,2 million (1988: R17,8 million). But after crippling interest expense of R56,1 million (1988: R2,6 million), abnormal items of R15,3 million (1988: nil) and tax of only R6,1 million (1988: R7,6 million), taxed profits were R11,68 million (1988: R7,63 million).

Income from associates, less outside shareholders' profit, was virtually the same, leaving earnings at R10,93 million (1988: R7,63 million).

Below-the-line massive extraordinary write-offs took place — goodwill R22,6 million, loss on sale of assets and discontinued operations R32,5 million — a total of R56,28 million — and really made 1989 look sick.

Despite this, dividends totalling R11,92 million (1988: R4,9 million) were paid. Earnings per share were 23,5c (1988: 31,7c). Dividends paid were 27,5c (1988: 18,3c).

Gants' results were miserable. With soft export markets, overstocking in the cosmetics market

leading to price competition and declining margins, no clear improvement is expected in the short term.

Hosiery and fabrics ran into trouble at Arwa, with cost overruns and delays and considerable production sold at a loss.

Only yarns, ties and leisurewear returned record profits.

Certain of transport's operations are not profitable. The balance sheet is weak.

While ordinary shareholders' funds total R167,37 million (1988: R108,14 million), this includes almost R100 million in increased share capital to pay for acquisitions.

There's also R94,94 million (1988: R10,89 million) in goodwill, trademarks and trade names not written off.

Working capital has remained negative, declining further to R25,71 million (1988: R9,15 million).

Debt of R373,7 million has risen 700 percent. Contingent liabilities — guarantees for loans and advances — total R34,8 million and the company has guaranteed liabilities for subsidiaries of R90 million.

Strangely, holding company Duros borrowed R30,23 million from a subsidiary and gave pledges of 446 000 Hosken shares, as per Note 20. I thought a holding company was prohibited from using a subsidiary's funds.

Then there's an odd financial agreement (Note 19) consisting of preference shares of R30 million, a loan of R70 million and a deposit of R100 million offset to fund a subsidiary. What a web of indebtedness!

Tax losses have risen to R45,32 million (1988: R12,53 million) to be used later. Net asset value per share has tumbled to R3,10 (1988: R4,46).

Arwa is out of the group and the emphasis in 1990 will be rationalising investments, increasing profit margins, improving working capital, reducing costs and greater operating efficiency, says Mr Claasen.

It would be wise for management to be more single-minded, stick to the knitting and know its industries. The numbers in the annual report reveal crisis management.

US companies ask about export opportunities to SA

MORE US-based companies are inquiring about export opportunities to SA, says a recently completed report on foreign economic trends prepared by the US Embassy in SA.

The report identified the most promising sectors for US exporters as computers, software and peripherals; aircraft and associated avionics; mining equipment, services and technology; industrial process control equipment; medical equipment; residential and industrial security

equipment; quality clothing; cosmetics and toiletries.

"New US investments, however, continue to be prohibited under the Comprehensive Anti-Apartheid Act of 1986, except in black-owned businesses," the report said.

US exports to SA in 1989 totalled \$1.6bn, compared with 1988's \$1.7bn. Main exports included electronic

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data processing and related equipment (\$104m); aircraft and aircraft parts (\$110m); and mining, construction and agricultural machinery (\$45m).

US imports from SA last year kept steady at \$1.5bn compared with \$1.6bn in 1988. Major imports included platinum group metals, ferrochromium, ferromanganese, ferrosilicon, manganese, chrome ore and other minerals (\$1bn) and diamonds and other gemstones (\$24m).

01/21/90

BALANCE OF PAYMENTS (74)

Gold vs oil FIM 1718/90

If the worst comes to the worst in the Gulf, SA should be reasonably placed in an oil shortage. It uses no oil for producing electricity. Eskom relies on its grid of modern coal-fired stations, with an important input from Koeberg nuclear plant. Nor do we depend in winter on oil-fired domestic furnaces to keep out cold, as does the northern hemisphere. Space heating is provided — to the extent necessary in our milder climate — by coal or electricity. In industry, process steam is largely provided by coal-fired furnaces. As for liquid fuels, Sasol still provides a

FIM 1718/90 (74)
major proportion of needs of petrol, diesel, and aviation kerosene. This proportion has surely dropped, since the high point of self-sufficiency reached when Sasol 2 and Sasol 3 were commissioned, because the petrol market has grown significantly. A guess (we are not allowed access to the statistics for security reasons) would be that Sasol now provides at least a third, possibly more, of total requirements. When Moss gas comes into production the proportion provided by syn-fuels could rise significantly above 40%.
SA also accumulated a large stockpile of crude oil before 1979 (when the Shah of Iran fell). It is reasonable to suppose it is still substantially intact in the worked-out coal mines where most is stored. (Oil in the ground may be turned over to prevent loss of more volatile components, but this would not affect the net amount.)
On the balance of payments, a prolonged oil crisis would lead to a big debit item. In

(74)

FIM 1718/90

the first half of 1990 the unclassified item on the trade account stood at R2,553bn.
We can assume the bulk of this is oil imports, as we can hardly be importing much armaments in the changed circumstances. If this is so, a full year with oil prices at US\$25/barrel could see an increase in imports of say R1,5bn-R2bn for a full year.
This estimate assumes that SA has been paying around \$18/barrel averaged over the first half of 1990. If a price of \$18 is assumed, it becomes possible to make a further guess — that SA is now importing oil at a rate of about 100m barrels a year. So for every further \$5/barrel on the oil price, SA will have to pay an extra \$500m — or R1,3bn — annually for imports.
(This does not allow for any price-elasticity of demand for petrol — which is surely

too pessimistic, especially if the price rises sharply and suddenly.)
Against this debit item, the inflationary implications and general insecurity associated with a prolonged crisis must have a powerful influence on gold. With output around 17,5m oz and the present exchange rate, a gain of \$50/oz would add more than R2,2bn annually to the current account.
If one takes the price of gold, washed of oil price influences, as \$365/oz, the crisis has already added \$40 (at \$404). Were this to be next year's average, it would generate about R1,8bn, enough to neutralise a \$7 increase in the oil price (say from \$18 to \$25).
To suppose a continuing oil and political crisis in the Gulf would imply an increase in the gold price of no more than \$40 from the base is a modest assumption.

(74)

A very rough indicator is that every dollar on the oil price needs \$6 on gold to offset it.
On the debit side, there might also be a slowing in the world economy, which would hit non-gold exports hard. But Armscor could find increased demand. Less speculatively, both the price of and demand for coal would surely increase substantially.
While it is impossible to quantify the aggregate of these influences, SA could come out well on the right side. ■

"In time," says Smit, "the central scrip depository will eliminate tainted scrip."

Jacque Bullard

BALANCE OF PAYMENTS (74)

Gold vs oil

FIM 1718190

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FIM 1718190 (74)

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On the balance of payments, a prolonged oil crisis would lead to a big debit item. In

Amic earns
less, but
pays same

Star
24/8/90
74

Finance Staff

Anglo American Industrial Corporation (Amic) has maintained its interim dividend at 110c for the six months to June, despite a 19,5 percent decline in earnings per share to 451c (561c).

Attributable earnings fell 19,5 percent to R243 million (R302 million).

Turnover rose marginally to R2,961 billion (R2,790 billion), with earnings from operations falling to R344 million (R586 million) and income from associated companies to R109 million (R118 million).

Interest earned was R46 million (R26 million), while interest paid and finance lease charges rose R14 million to R70 million.

Tax was lower at R103 million (R241 million), of which normal tax was R50 million (R130 million) and deferred tax R53 million (R111 million).

Reichmans woes come in threes

By Derek Tommey

A large exposure to three distressed companies has sharply reduced attributable earnings of Reichmans, the trade finance company, in the six months to June. **74** **22** **str 24/8/90**

Earnings slumped to R808 000, equal to 2,2c a share, from R7,4 million, equal to 20,7c a share, a year ago.

A dividend of 2c has been declared, down from 9c last year.

Reichmans ordinary operations continued to show good results, despite difficult trading conditions, the directors say.

Operating profit was R8,4 million — down R934 000 from the R9,35 million a year ago.

Almost halving tax payments

from R2,4 million to R1,3 million resulted in taxed profit rising to R7,1 million from R6,9 million last year.

But misfortune has come in three separate forms.

Firstly, an insurance claim by the owner of a Ciskei factory, destroyed by fire earlier this year, has been repudiated. Legal proceedings have begun.

The factory owes Reichmans R12 million. As it could be some time before the case is settled, Reichmans has decided to provide against this loss by writing off R6 million before tax as an abnormal item.

Secondly, Van Reenen & Nicholls (Pty), in which Reichmans has a 20 percent stake, incurred a loss of more than

R5 million in the six months to June. A sum of R980 000 has been provided to cover Reichmans share of this loss.

Finally, in mid-August a company which owed Reichmans about R12 million was placed in liquidation.

These together reduced Reichmans attributable earnings from R7 million to R800 000.

In order not to distort Reichmans' earnings pattern for the 12 months, it has provided for this exposure in similar amounts in the first and second halves of the year.

The directors say that after allowing for the provisions referred to above, earnings for the second half of the year should approximate those of the first six months.

Abhold feels economic pinch

Abhold, in a difficult financial year, with trading conditions affected by the economic slowdown, posted a 43,4 per cent drop in attributable income for the year to February. (74) (8)

Attributable income declined to R3,8 million from the previous figure of R6,7 million. STH 27/8/90

Earnings a share reflected a corresponding drop to 25,5c from 47,6c.

A dividend of 9c (19c) has been declared.

To conserve cash resources and to improve the group's gearing, shareholders will be offered the alternative

of an issue of bonus shares in lieu of the dividend declared.

The directors expect that trading conditions in the year ahead are likely to see the continuation of the difficulties experienced since the second half of last year, with economic activity depressed, interest rates high and a difficult ongoing labour situation.

Margins, as a result, will continue to come under pressure.

In the circumstances it is difficult accurately to forecast sales and therefore to predict earnings, they say. — Sapa.

Gold

B/D am
28/8/90

million barrels.

World equity markets staged marked recoveries with Tokyo leading the rally in thin trading. It posted its ninth largest one-day gain of 4% (6% in two days) to break the 25 000 point barrier and end at 25 141.

Gold slumped more than \$8 to \$401,25 in Zurich as yesterday's Middle East developments depressed its recent bull run.

The weaker gold price depressed stocks on the JSE with the all-gold index falling almost 3% to close at 1 657 points. It has lost 11,9% since the beginning of last week.

The overall index ended the day 23 points up at 2 931 points after touching 2 946 in early trading on the back of strengthening rand hedge stocks which were buoyed by the weaker firrand.

London was closed yesterday for a bank holiday but other European markets posted strong gains.

In Frankfurt, share prices soared with the 30-share DAX index staging its largest

~~74~~ (74) From Page 1
ever points rise, closing 95,76 points (6,14%) higher at 1 654.

In Zurich, Swiss shares closed sharply higher in active trading. The all-share SPI index rose 35,8 points to 1 024.

Paris shares rocketed with the CAC-40 index registering its biggest ever gain on foreign buying and short-covering to end 82,30 points (5%) higher at 1 699.

Sapa-Reuter reports that Washington yesterday expelled 36 Iraqi diplomats in retaliation for Baghdad's ultimatum to close embassies in Kuwait. The US also restricted the movements of 19 diplomats still in Baghdad's Washington embassy.

Meanwhile, Western governments continued to pour troops, warships and aircraft into the Gulf and Saudi Arabia. And nearly 17 000 refugees from Iraq and Kuwait, including about 50 Westerners, crossed into Jordan.

● See Page 7

APC 63
31/8/90

Red lights are flashing in the economy

From TOS WENTZEL
Political Staff

DURBAN. — The trend of low productivity and rising wages were "red lights flashing in the economy", Minister of Finance Mr Barend du Plessis said here.

Addressing the Natal congress of the National Party, Mr Du Plessis said South Africa could be priced out of the export market if productivity continued to drop while wages rose.

He said the time had come to warn trade unions that this could not only happen but that unrealistic wage demands also diminished work opportunities for others.

In the new South Africa there would have to be a very special relationship between employer and employee. There would have to be close co-operation in order to stimulate economic growth.

PROFIT SHARING

Modern techniques to motivate workers including profit sharing and incentive schemes would have to be considered.

The new South Africa needed a high growth rate which in turn led to job creation. The two went together.

This could only be achieved in a market-orientated economy.

Mr Du Plessis warned against a too rigidly ideological approach in the debate between those in favour of a free market economy and those who stood for socialism.

FIRM POLICY

The two sides should rather be brought together in order to define what would be needed in an economic system for the new South Africa.

A decent, firm and sensible monetary policy including firm control over State expenditure would be needed.

Confiscation of property under a new system or punitive taxation would scare away investment from abroad.

There would also have to be special policies to educate manpower. Too many whites were being educated for white-collar jobs that would not be available.

● Violence, stayaways and strikes, which have cost South Africa about R3 billion so far this year, are set to cripple the

country's economy if they continue, says Mr Deryck Spence, chief executive of Castrol SA.

He said today: "Since the cessation of hostilities was announced earlier this month the business community has looked forward to an end to the violence.

"But instead the violence in the townships reached epidemic proportions. If it continues the South African economy will suffer so severely that the country could find itself among the poorest in Africa."

Business life 'irrevocably altered'

Star 5/9/90 By Duma Gqubule 74

The momentous political, social and economic events in South Africa in the past year have irrevocably altered the face of business life in South Africa, says Ronnie Price, chairman of industrial holding company Eureka.

In the 1990 annual report, Mr Price says these changes could

have the following effects on business life in South Africa:

- Export markets may emerge where previously there were none.
- Labour-related issues may become more politicised.
- Uncertainty about the future may diminish market confidence.

"The future success and indeed, survival, of many businesses de-

pend on their ability to react proactively to the many challenges, opportunities and threats present in their daily environments," Mr Price says.

"In particular, current economic realities are forcing most businesses to return to the basics of strict asset management, cash flow and containment of costs."

Export sector

Reviewing the group's electrical interests Mr Price says: "Large scale state and private housing and electrification projects, the political emphasis on import replacement and the need to develop a vital export manufacturing sector in South Africa represent substantial growth opportunities for the industry.

"However, unfavourable economic conditions and volatile raw material prices have had a restraining effect on potential growth.

"Moreover excess manufacturing capacity in the industry has created an aggressively competitive marketplace.

"As a result, profit performance is critically dependent on productivity, control of expenses and efficient use of working capital."

SA needs forex alternatives to gold ⁽⁷⁴⁾ CSIR

16 May 619190

PRETORIA — The pressing need for SA to develop foreign exchange earnings alternatives to the wilting gold mining industry was stressed yesterday by CSIR president Chris Garbers.

Speaking at a Client Care Symposium, Garbers said a critical issue in a country's future, and a powerful force for change, was how fast the gold mining industry's sun was setting and what the alter-

GERALD REILLY

natives were.

"At current prices production is declining as reserves dwindle. Already total costs of gold mining cast a dark shadow over 23 mines producing 55,2% of gold at costs in excess of R950 an ounce," he said.

Taking into account world tendencies, a high level of manpower and the technology they controlled

would become SA's gold of the future.

Education and training were the keys to SA's future advance where the manufacturing sector and SA's role in Africa would have to grow in significance.

The critical test was whether SA products could stand the scrutiny of international customers.

Critical feedback from customers was therefore vital.

Foreign capital at stake - Van Heerden

Political Reporter

The current spate of township violence was enough to convince the world to withdraw its investment and sympathy, the Director-General of Foreign Affairs, Neil van Heerden, said in Johannesburg yesterday.

Speaking at the SA-German Chamber of Commerce, Mr van Heerden said the new international interest in South Africa and new possibilities of investment would not materialise if

74 STEW 12/9/90
the country elapsed into uncontrollable violence.

The Government insisted that an effective form of political authority be maintained during the process of transformation.

It had no hidden agenda in its quest to arrive at an authentic democracy and was not in favour of white minority protection.

Turning to South Africa's relations with Africa, Mr van

Heerden said the stage had been set for the country's participation in regional structures and pan-Africanist organisations such as the OAU.

"We are knocking on that door. Our message has been heard."

South Africa would never be able to fulfil its vital role in the region if a peaceful solution was not found internally and if the wars in Angola and Mozambique were not ended, he said.

A new forward market is on the cards

IN A move that could solve the Reserve Bank's problems in the forward cover market, Standard Merchant Bank (SMB) is to lead banks in developing a new forward market. *13/17/90*

The Reserve Bank has agreed to the creation of a market in the new instrument, known as an FXA, to run parallel with the existing forward cover market.

SMB treasurer Chris Kenny said yesterday the development of the new market would be discussed early next month at a meeting between major players, including the Reserve Bank.

The FXA is a notional forward cover contract, which means there is no physical delivery of dollars. The notional nature of the contract reduces the risk and will thus make for a more liquid market, drawing largely speculators and exporters.

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GRETA STEYN

If the market gets off the ground, it has the potential to benefit the Reserve Bank in a number of ways, among others by creating a more liquid and balanced forward market and by providing the Bank with a hedge for its exposures. The Bank has not been able to close its oversold forward position domestically because of the undeveloped nature of the market.

Importers would also be able to use FXAs — even though there is no physical delivery of dollars involved — as they would access the spot foreign exchange market for that leg of the transaction.

However, Kenny says FXA's should prove to be more attractive to exporters

□ To Page 2

Forward market

13/10 am
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than importers because cover is provided at a more expensive exchange rate than in the usual forward market.

The cost is based on the differential between SA and Eurodollar interest rates, which means the forward cover contract is priced "correctly" — it does not contain the Reserve Bank's built-in subsidy which amounts to a reduction in the interest rate differential.

Since the product should attract more

exporters to the market, it should make for a more balanced overall forward market.

A major part of the Bank's problem has been the imbalance between importers and exporters taking cover.

As a result, its oversold position climbed to a massive \$23bn in 1989, according to figures released by the Bank this year, as importers climbed in to take cover and exporters remained out of the market.

□ From Page 1

PRESIDENT F.W. de Klerk's visit to Washington this week helped confirm the switch in the financial community's attitudes to SA which Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals have experienced at the IMF and the World Bank.

Pressure to repay debt has eased, SA may consider applying for an IMF loan when the next economic upswing affects the balance of payments, and bankers are starting to think about putting new money into the country.

Stals says that investment and banking attitudes towards SA have changed drastically in the past year.

"Bankers say they are positioning themselves for the future, upgrading files and looking at who potential borrowers might be.

"It's more than just wait and see. The attitude now is more positive in the sense that more banks and investors are prepared to retain existing exposures."

The next phase, which we've not reached yet, says Stals, is for banks to increase their exposures.

He says this is in sharp contrast to just a year ago when investors were still trying to get their money out of SA.

"That has changed. Most foreign investors in SA are happy to retain the status quo.

"There's not as much pressure on us to repay the loans. That's why we find it possible to roll over some of the loans."

Stals says De Klerk's visit to the US was very favourable.

"This is a process of improving the image of SA, of increasing our creditworthiness and our credibility. I think there is a better understanding as far as the banking community and the world is concerned. It is important that they see that the president is accepted in the US.

"This is confirming again that we are in an irreversible process of political reform. This is also the minimum the financial community of the world is looking for.

"The State President made it clear he was not coming here to try to get sanctions lifted, but it will make a

Switch in financial community's view of SA almost complete

B 1009 28/9/90 (74)

KEVIN DAVIE in Washington

very important contribution to the process of improving the image of SA in the financial markets."

Stals believes it was a coincidence that De Klerk's visit was timed to fall within the week of the IMF meeting, but says it ensured the maximum advantage as the international financial community was gathered in Washington.

The Governor says at this stage SA's prospects of borrowing from the IMF and World Bank are restricted by US legislation.



□ STALS

"Before we have a change to that legislation it will be extremely difficult for us to borrow because the Americans hold 20% of the voting rights within the IMF, which gives them a veto."

If there was an easing of the American attitude, then the issue would become a normal matter based on IMF requirements.

"This will require difficult negotiations between us and the IMF as it is not straightforward that we will qualify."

"Our balance of payments is in surplus; and our foreign reserves have been increasing recently.

"But we can obviously negotiate with the IMF and say we can develop a balance of payments need almost overnight as the only reason we have a balance of payments surplus is that we apply all kinds of restrictions."

These included restricting domestic demand, the financial rand system and the debt scheduling arrangement.

"We want to get rid of all these restrictions."

Stals says SA has not qualified for loans from the World Bank since 1966 because the country's per capita income has been too high.

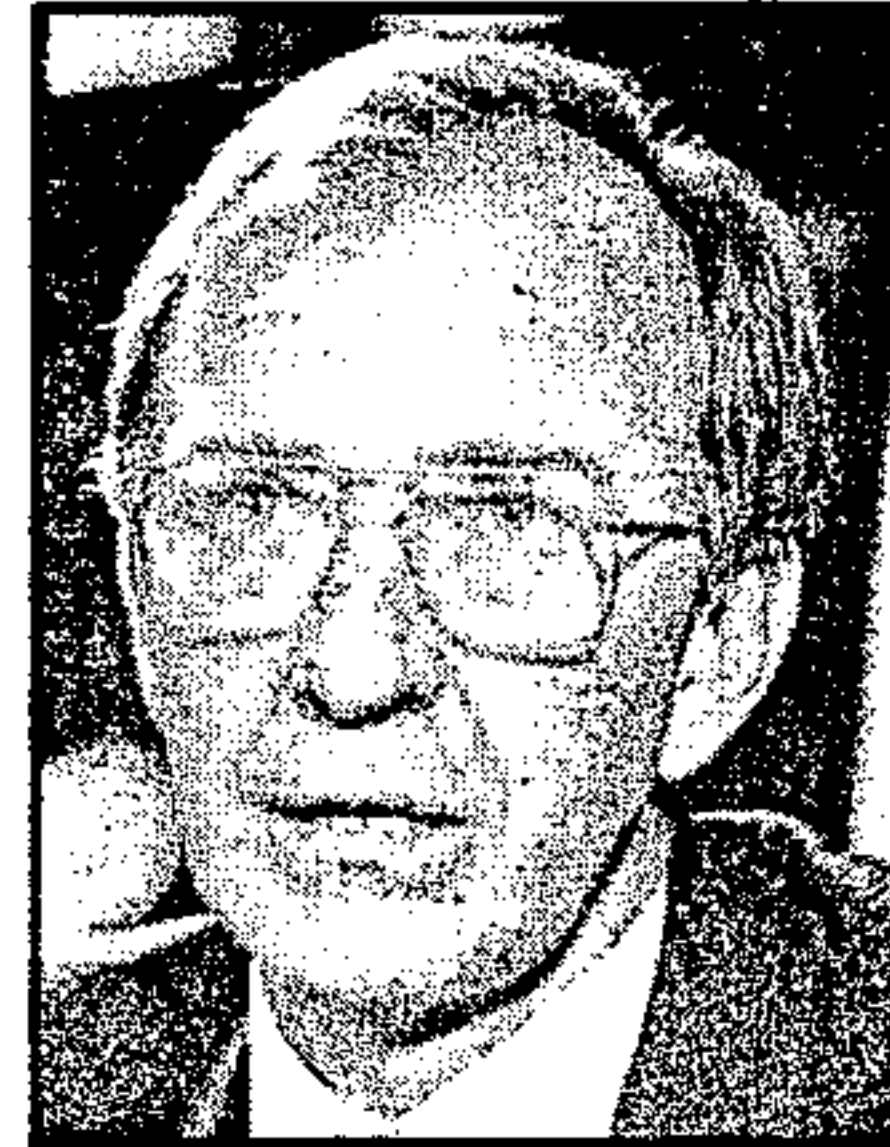
"If we should start talking to the World Bank there will be quite diffi-

cult negotiations to convince them that SA should qualify."

Stals says it will make no sense to approach either of the two institutions as long as the restrictions remain in the American legislation.

Du Plessis, SA's governor at the IMF, says from SA's point of view "we have long since complied with the Gramm Amendment (a law which requires the US to vote against IMF loans to the SA).

He says it is significant that the US administration is separating the



□ DU PLESSIS

Gramm Amendment from the Comprehensive Anti-Apartheid Act, the US umbrella sanctions law.

"This works to our advantage", he says.

Du Plessis says SA is not considering applying for an IMF facility at the moment. He says political and technical considerations will have to be kept in mind.

"After having had the (political) path cleared, and nobody can say when that will happen, we have not yet accumulated sufficient reserves, the parameters are not yet in place to start the growth phase.

"In other words there will have to be certain fundamental needs from our side before we apply. The most opportune time will have to be identified."

The Finance Minister says SA may see a resumption of the economic upswing by the end of next year, although the Gulf crisis may delay this.

Asked when SA might make an application, Du Plessis says: "It's only under normal conditions that we will begin the next upswing at the end of next year, and only when we've gone into that will we begin to experience balance of payments problems."

The IMF was quite happy about SA's economic programmes and policies but realised that SA had to manufacture a surplus on the current account.

"The price we pay for that is slower economic growth. Half of our savings have been required to service the outflow of capital from SA, at least halving our economic growth rate".

Du Plessis says he met World Bank president Barber Conable, and spoke about SA's involvement in cross-border projects in southern Africa and the role SA and the Development Bank was willing to play.

The fact that the World Bank was involved in the Lesotho scheme created common ground.

"They have been quite open about the importance of the role SA can play in the region. If and when we restore normal participation, then we should explore World Bank help in restructuring the economy of SA," Du Plessis said.

SA has turned its back on past - Durr

Star 4/15/90

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Pretoria Bureau

South Africa had turned its back on the past and is looking only at the future, Kent Durr, Minister of Trade and Industry and Tourism, said in Pretoria today.

He told a symposium on product certification organised by the SA Bureau of Standards (SABS) that South Africa was in a "new world".

Mr Durr said that many structures and practices which prevailed were wrong but that a sustainable constitution could only be created if there was a successful, forward-looking and effective wealth-creating society.

"We need to focus more sharply upon the opportunities of the future than on the inequities of the past."

Describing South Africa as again becoming a land of opportunity, Mr Durr said Europe in 1992 — when that continent becomes a united group — was putting up fences of quality, standards and specifications. It was important for South Africa to maintain standards and quality to be able to compete.

The SABS, which had obtained an international reputation, had tried to build bridges to facilitate international trade. Certification of products and systems was being increasingly used to indicate compliance with relevant standards.

In the past 18 months, technical advice, help and publications had been given to many African and South American countries.

B/DAY 5/10/90
Finrand fund

lures foreign investors

GRETA STEYN 74

EUROPEAN investors have pushed more than R20m into the Standard Bank-backed Finrand High Yield Fund since the fund's launch in mid-August.

The trust has been listed on the Luxembourg Stock Exchange and holds a portfolio of capital market stock quoted on the JSE. The fund is administered by the Banque Internationale à Luxembourg but Standard Bank is responsible for most of the marketing and investment advice.

Standard Bank Fund Managers MD Derick Finlayson said yesterday all the gilts purchases as a result of the inflow had not been completed.

"Careful management of the fund's liquidity will be necessary. We would prefer the size of the trust to grow gradually as excessive volatility could present problems."

The volume of demand so far was all the more surprising as fullscale marketing of the fund had not yet begun. Finlayson, who tested the market in Europe before the launch of the fund, said this was partly because of listing requirements in Britain and Germany.

The finrand discount makes the fund an attractive investment giving a high return — in commercial rands — with tax benefits. It is similar to a unit trust and has the benefit for the individual investor that he need not keep tabs on the SA capital market.

Safex scraps futures trading floor at JSE

THE controversial futures trading floor in the JSE Annexe has been scrapped.

The floor has been gathering dust since opening in July because traders prefer dealing on screen.

The SA Futures Exchange (Safex) last night terminated the project after a final appeal for support failed.

In a ballot, barely 10% of Safex members were in favour of the floor. Safex CE Stuart Rees said this was inadequate.

He said Safex would now decide on the extent of its financial commitments to the JSE, and how these would be met.

ROBERT GENTLE

The futures floor is part of a R3,3m complex designed for trade in both futures and bonds. It belongs to the JSE and was to have been jointly leased by Safex and the Bond Market Association (BMA).

JSE president Tony Norton, an ardent supporter of the floor who lobbied hard for it to be built, said he was disappointed — especially as he still believed in it.

He said the floor would still be used for bond trading. A review would be done to see how the surplus space could be used.

74 Norton said the JSE would be seeking to recover rent and other costs from certain Safex members who had not made good on earlier commitments to use the floor.

A futures trader who declined to be named said he would seek legal advice on whether he could be made to pay.

First Financial Futures MD Derek Kreunen welcomed the demise of the floor and said the future lay in automated screen trading.

The Reserve Bank could not be reached for comment on how it would recoup R2m it contributed to the floor's capital cost.

5/10/96

No. 2352

5 October 1990

DEFINITION OF LAND DESIGNATED AS A DEVELOPMENT AREA IN THE DISTRICT OF STUTTERHEIM, PROVINCE OF THE CAPE OF GOOD HOPE

In terms of section 33 (3) of the Black Communities Development Act, 1984 (Act No. 4 of 1984), I, Andrew Fourie, Deputy Minister of Planning, define in the Schedule hereto land which has been designated as a development area under section 33 (1) of the said Act.

A. FOURIE,
Deputy Minister of Planning.

(File 20/5/S46/1)

SCHEDULE

A certain area of land, approximately 500 ha in extent, known as Kubusie Development Area—Stutterheim, situated in the Administrative District of Stutterheim, the Province of the Cape of Good Hope, as shown on Surveyor-General Map filed as page 29 of File Cumakala 585, in the office of the Surveyor-General, Cape Town.

No. 2352

5 Oktober 1990

OMSKRYWING VAN GROND AANGEWYS AS 'N ONTWIKKELINGSGBIED TE STUTTERHEIM, DIE PROVINSIE DIE KAAP DIE GOEIE HOOP

Ingevolge artikel 33 (3) van die Wet op die Ontwikkeling van Swart Gemeenskappe, 1984 (Wet No. 4 van 1984), omskryf ek, Andrew Fourie, Adjunk-minister van Beplanning, in die Bylae hiervan grond wat kragtens artikel 33 (1) van bedoelde Wet as 'n ontwikkelingsgebied aangewys is.

A. FOURIE,
Adjunk-minister van Beplanning.

(Lêer 20/5/S46/1)

BYLAE

'n Sekere stuk grond, ongeveer 500 ha groot, geleë in die administratiewe distrik Stutterheim, provinsie die Kaap die Goeie Hoop, bekend as Kubusie Ontwikkelingsgebied—Stutterheim, soos aangetoon op Landmeter-generaal plan, wat as bladsy 29 van Lêer Cumakala 585 in die kantoor van die Landmeter-generaal, Kaapstad, geliasseer is.

GENERAL NOTICES • ALGEMENE KENNISGEWINGS

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NOTICE 821 OF 1990—KENNISGEWING 821 VAN 1990

P.5.01A

PRELIMINARY STATEMENT OF TRADE STATISTICS OF THE REPUBLIC OF SOUTH AFRICA RELEASED BY THE COMMISSIONER FOR CUSTOMS AND EXCISE
VOORLOPIGE OPGAWE VAN HANDELSTATISTIEKE VAN DIE REPUBLIEK VAN SUID-AFRIKA VRYGESTEL DEUR DIE KOMMISSARIS VAN DOEANE EN AKSYNS

Remark.—The import and export figures reflected in this statement have been adjusted largely to bring them into line with the requirements for the compilation of the balance of payments

N.B.—The change-over to the Harmonized Tariff System with effect from 1 January 1988, altered the classification of certain commodities. When comparing the section totals for 1988 and later years with those of previous years the possible differences due to the changeover should therefore be taken into consideration.

Opmerking.—Die in- en uitvoersyfers wat in hierdie opgawe verskyn is grootliks aangepas om dit in ooreenstemming te bring met die vereistes wat gestel word vir die opstel van die betalingsbalans

L.W.—Die oorskakeling na die Geharmonieërde Tariefstelsel met ingang van 1 Januarie 1988 het die indeling van sekere kommoditeite verander. Wanneer die afdelingstotale vir 1988 en later jare dus met dié van vorige jare vergelyk word, moet die moontlike verskille as gevolg van die oorskakeling nie uit die oog verloor word nie.

PERIOD: JANUARY TO AUGUST 1990—TYDPERK: JANUARIE TOT AUGUSTUS 1990

	Imports—Invoere		Exports—Uitvoere	
	1990	1989	1990	1989
Total in Millions of Rand—Totaal in Miljoene Rand.....	29 936,6	30 468,2	39 314,5	38 371,4

TABLE B: TOTALS IN MILLION RAND ACCORDING TO SECTIONS OF THE HARMONIZED SYSTEM
TABEL B: TOTALE IN MILJOEN RAND VOLGENS AFDELINGS VAN DIE GEHARMONIEËRDE STELSEL

Sections—Afdelings	Imports—Invoere		Exports—Uitvoere	
	1990	1989	1990	1989
I. Live animals; animal products Lewende diere; dierlike produkte.....	141,7	186,6	270,4	271,5
II. Vegetable products Plantaardige produkte.....	572,3	462,5	1 503,2	1 723,8
III. Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes Dierlike of plantaardige vette en olies en splitsprodukte; voorbereide spysvette; dierlike en plantaardige wasse.....	241,2	250,5	88,1	93,2
IV. Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes Voorbereide voedsel; drankte, spiritus en asyn; tabak en vervaardigde tabaksubrogate.....	588,7	636,8	1 058,5	882,7

Sections—Afdelings	Imports—Invoere		Exports—Uitvoere	
	1990	1989	1990	1989
V. Mineral products Mineraalprodukte.....	397,7	326,7	4 779,1	4 148,0
VI. Products of the chemical or allied industries Produkte van die chemiese of verwante nywerhede.....	3 212,8	3 301,6	1 215,0	1 361,6
VII. Plastics and articles thereof; rubber and articles thereof Plastieke en artikels daarvan; rubber en artikels daarvan.....	1 289,7	1 312,2	219,9	246,4
VIII. Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut) Ongelooide huide en velle, leer, pelsvelle en artikels daarvan; saal- en tuimakersware; reisartikels, handsakke en dergelike houers; artikels van dierederm (uitgesonderd sywurmsnaar).....	179,4	161,3	266,4	255,7
IX. Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw; of esparto or of other plaiting materials; basket-ware and wickerwork Hout en artikels van hout; houtskool; kurk en artikels van kurk; fabrikate van strooi, van esparto of van ander vlegwerkstowwe; mandjiewerk en vlegwerk.....	228,7	214,0	196,7	157,1
X. Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard and articles thereof Pulp van hout of van ander veselagtige sellulosiese stof; afval en oorskiet van papier of papierbord; papier en papierbord en artikels daarvan.....	804,2	953,0	851,5	1 075,4
XI. Textiles and textile articles Tekstiele en tekstielartikels.....	1 389,1	1 304,4	998,3	1 015,0
XII. Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair Skoeisel, hoofdeksels, sambrele, sonsambrele, wandelstokke, sitstokke, swepe, karwate en onderdele daarvan; bereide vere en artikels daarvan gemaak; kunsblomme; artikels van mensehaar.....	120,0	120,9	15,0	15,4
XIII. Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware Artikels van klip, gips, sement, asbes, mika of dergelike stowwe; keramiese produkte; glas en glasware.....	396,3	343,5	135,3	130,2
XIV. Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin Natuurlike of gekweekte pèrels, edel- of halfedelstene, edelmetale, metale met edelmetale bedek, en artikels daarvan; nagmaakte juweliersware, muntstukke.....	314,4	346,0	3 713,7	3 497,2
XV. Base metals and articles of base metal Onedelmetale en artikels van onedelmetaal.....	1 555,6	1 667,2	6 001,0	6 165,5
XVI. Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles Masjinerie en meganiese toestelle; elektriese toerusting; onderdele daarvan; klankopnemers en -weergewers; televisiebeeld- en klankopnemers en -weergewers, en onderdele en bybehoorsels van sodanige artikels.....	8 968,1	9 127,1	850,2	643,1
XVII. Vehicles, aircraft, vessels and associated transport equipment Voertuie, lugvaartuie, vaartuie en verwante vervoertoerusting.....	4 135,7	4 904,0	658,9	398,8
XVIII. Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof Optiese, fotografiese, kinematografiese, meet-, kontroleer-, presisie-, mediese en chirurgiese instrumente en apparate; uurwerke en horlosies; musiekinstrumente; onderdele en bybehoorsels daarvan.....	1 203,0	1 132,3	88,9	62,9
XX. Miscellaneous manufactured articles Diverse vervaardigde artikels.....	303,2	283,5	98,1	93,8
XXI. Works of art, collectors' pieces and antiques Kunswerke, versamelaarsstukke, en antieke.....	22,1	35,5	18,1	11,0
Other unclassified goods and balance of payments adjustments Ander ongeklassifiseerde goedere en betalingsbalansaansuiwerings.....	3 872,7	3 398,6	16 288,2	16 123,1
Grand total—Groototaal.....	29 936,6	30 468,2	39 314,5	38 371,4

DESPITE continued sanctions and bans on investment there has been a dramatic increase in overseas interest in resuming trade ties with South Africa.

South African fruit, for example, has now become "acceptable" in foreign stores resulting in a deciduous fruit export boom. And, following President De Klerk's visit to the United States there has also been a significant increase in the number of American businessmen investigating investment opportunities in South Africa.

On his return from Europe this week Pick 'n Pay chairman Mr Raymond Ackerman said he was "extremely encouraged" by what he called a "complete change of attitude" in Europe

It will soon be business as usual

toward South Africa.

He said that after a visit to Germany three months ago during which he pointed out to businessmen that South Africa had a far better infrastructure than eastern Europe, four major manufacturers in Germany had visited South Africa to explore manufacturing investment opportunities.

"Two German retail organisations have also visited South Africa and have purchased a substantial amount of local products."

Mr Ackerman said that on his recent visit to Zurich the new

attitude to South Africa was "even more noticeable" and he had already had a response from a Swiss retailer who was interested in a joint venture with a South African company.

"There is a terrific feeling in Europe with regard to South Africa at present. Businessmen there are not waiting for a new order here before becoming involved. Some are being brave and acting immediately while others are simply waiting for an indication that the current wave

of violence is dying down. There are, of course, still some who seem intent on waiting for complete constitutional change," said Mr Ackerman.

The executive director of the American Chamber of Commerce in South Africa, Mr Wayne Mitchell said this week that since President De Klerk's visit to the United States there had been a "marked increase" in US interest in trade with South Africa.

"Several American companies have come out to South Africa during past few months. They are scouting around, wait-

ing for sanctions to go."

Mr Mitchell said however, that while he "confidently expected" South Africa to have met, by early next year all of the US conditions for the lifting of sanctions, the process of dismantling sanctions legislation "could take time" going through Congress.

"But psychologically, the barrier has been broken."

Mr Mitchell added that although there was enormous interest by US companies with regard to investment in South Africa, these companies did not include those that had disinvest-

ed during the past few years.

He said there had also been a considerable increase in the number of South African companies wishing to join the American Chamber of Commerce with a view to establishing trade links with the United States.

Unifruco, the marketing arm of the S A deciduous fruit industry this week announced a boom in fruit exports.

According to the company, South African fruit was now "far more acceptable" in foreign stores due to the improved political climate. The opening of eastern European markets had also contributed to increased exports.

9/24 6/10/90
CHRIS MOERDYK (74)

Rocketing oil threatens to derail SA's efforts

B/Dan
11/10/90

74

SA FACES the threat of severe BoP problems and a major setback in the fight against inflation after oil prices went into orbit this week.

Reserve Bank Governor Chris Stals's hopes that SA could start rebuilding its threadbare foreign exchange reserves this year while fighting inflation are under threat, with oil prices hitting a record of \$41 a barrel yesterday and the gold price failing to breach the \$400 level. The Gulf crisis could see SA end the year worse off on both scores.

If oil continued this high, SA would need a gold price of about \$500 to offset the jump in its import bill. SA cannot expect non-gold exports to come to the rescue, as a world recession will knock demand.

Already, the higher import bill will put a severe dent in the surplus on the current account on the BoP.

With \$600m in foreign debt falling due in the second half of this year, economists said it no longer seemed possible the surplus would be enough to cover debt payments as well as leave enough foreign exchange over to boost reserves.

The current account surplus could

GRETA STEYN

easily be more than halved to less than R1,5bn in the second half of the year from R3,1bn in the first to yield a surplus of below R5bn for the year as a whole — compared with Reserve Bank projections of R6bn at the beginning of 1990.

Old Mutual economist Rian le Roux noted the "five-to-one" rule of thumb for oil and gold when looking at SA's BoP — an average increase of \$1 in the price of oil over a year needs a \$5 increase in the gold price to offset the outflow of foreign exchange to pay for oil purchases.

Recession

"Assuming an average \$18 increase in the price of oil, we need an average gold price of about \$470. These figures tell us the terms of trade — the relationship of export prices to import prices — is turning against SA and the inevitable result will be a much smaller current account surplus."

Even before the oil crisis, SA's terms of trade had worsened since 1988. There was little hope for sub-

stantial increases in prices of non-gold exports, especially given the deepening fears of a world recession.

"The bottom line is that monetary and fiscal policy will have to remain restrictive. SA will have to live with high interest rates for much longer than expected."

Some economists, including Nedcor's Edward Osborn, are even speculating the current account could have been close to a deficit in the third quarter of this year because of the Gulf crisis — which implies SA might have to dip into reserves to repay debt during the rest of the year.

At the beginning of the year, the Reserve Bank projected a current account surplus of about R6bn for the year. But signs of weakness appeared before the Gulf crisis and the surplus narrowed considerably to R811m in the second quarter from R2,3bn as a result of a drop export value and a rise in import value.

A favourable capital account, with SA succeeding in rolling over about R1bn in foreign debt payments, helped protect reserves. It is not yet clear whether this windfall on the capital account will continue in the second half of this year.

A growing world opens up for

SA's exporters

74

S/Times 14/10/90

THE South African Foreign Trade Organisation and chambers of commerce supporting foreign trade links are facing new challenges as Europe moves towards 1992, Eastern Europe opens up and external attitudes towards SA change.

"Less than a year ago we were counting the markets we had and wondering where else we could break in," says Safto general manager Ann Moore.

"Now there are so many available that the question is which ones to focus on."

Like the Department of Trade and Industry, Safto feels 1992 has been over-dramatised. Nevertheless, it has made sure of having all the information that potential exporters will need by linking into the British database Spearhead, which collates all harmonisation measures within the European Community.

"For instance, someone who wants to know about the marking of clothing can come to us and our researchers will consult Spearhead to find out," says Mrs Moore. A small number of companies are already making use of this service.

Diversify

She notes that one possibility for SA companies to consider is having a joint venture with an East European country — "much cheaper than setting up a base in Germany, for instance" — and benefiting from it as the country draws closer to the EC.

"Foreign trade now makes up 7-10% of GDP of these countries and is bound to rise towards the 30%

average of Western Europe," she says.

Within the EC itself, Portugal, Spain and Italy began looking for links with SA as early as 18 months ago — "perhaps seeking to diversify before harmonisation arrives".

Alan Tew, executive director of the SA-Britain Trade Association, says his organisation is re-shaping its role after being founded 25 years ago when trade difficulties first loomed.

However, it does not appear that a single market in Europe will lead to a single "EC" chamber of commerce in SA — for which, strangely enough, there has been only American pressure.

"There will still be contact with different regions of the EC and it

makes sense for different chambers to look after those contacts," says Mr Tew.

"The real effect here of the single market is that, for us, the 'other end' is opening up — a British buyer may mean EC-wide distribution."

What the coming single market HAS brought locally is approaches by "new" regions to be considered as entry points.

Alignment

"For instance, we have had an approach from Ulster, which points out that better margins are possible there through productivity higher than the rest of the Britain — as a result of a better standard of education and fewer strikes."

He points out that the wider market can only become simpler as currency alignment is carried forward, making costs and returns the same everywhere.

Few fields left for import substitution

By REG RUMNEY

(74)

ANOTHER idea put forward in the ANC document is tied in with growth through redistribution. *W/Mail 19/10-25/10/90*

The authors feel the growth path followed by the government up to now has been "orientated towards producing consumer goods for the wealthy minority". The South African manufacturing sector is uncompetitive internationally, depending to a great extent on imported machinery and equipment paid for with foreign exchange earned by exports of wasting mineral assets.

However, as former Federated Chamber of Industries' economist Roelof Botha points out, there are few areas left for import substitution. An import replacement policy has been followed in South Africa since the Twenties, though the drive to produce locally was given added impetus by World War II.

The ANC says we cannot develop as an industrial society "unless our manufacturing industries can become less dependent on imported inputs paid for by mineral exports".

However, Botha stresses that to produce the type of inputs now imported would need capital that could not be justified in the small domestic market.

WINNING WORLD MARKETS

THE RESHAPING OF WORLD TRADE HOLDS OPPORTUNITIES — AND PERILS

The fruits of the February 2 reforms, essentially the unbanning of the ANC and other protest groups, are now growing ripe — in non-gold mining, manufacturing and agricultural trade.

They followed the revolution in eastern Europe, which highlighted the frustration of the socialist communities at the inabilities of their own economies to supply. In Africa,

too, the growing realisation that economic reform and free trade are the only way to begin meeting basic human needs has meant a quick and positive response to the legislative crumbling of apartheid in the region's largest and most dynamic economy.

Almost overnight new markets have opened up. Angola, Mozambique, Zaire, Kenya, Madagascar, the USSR — and the rest

Richards Bay-based Bell Equipment, which has doubled its manufactured exports of, among others, heavy-duty trucks, in each of the past four years and is set to repeat the exercise in the next four.

"We plan to increase current turnover of R350m a year to R1bn by 1995 — with exports to South America, the US and Africa making up 80% of total turnover," says MD Gary Bell.

Important recent events which have directly affected SA's international relations were triggered by President F W de Klerk's historic announcements. They include:

- His visit to the US, given dramatic emphasis by President George Bush's statement that political change in SA is irreversible;
- De Klerk's earlier foray into Europe, followed by trips to (and growing trade with) Madagascar and the Ivory Coast, as well as last week's visit to Portugal and Britain;
- Warming relations with East Bloc nations — including opening trade offices in Poland and Hungary and a red-carpet visit to the USSR by a delegation led by Trade & Industry



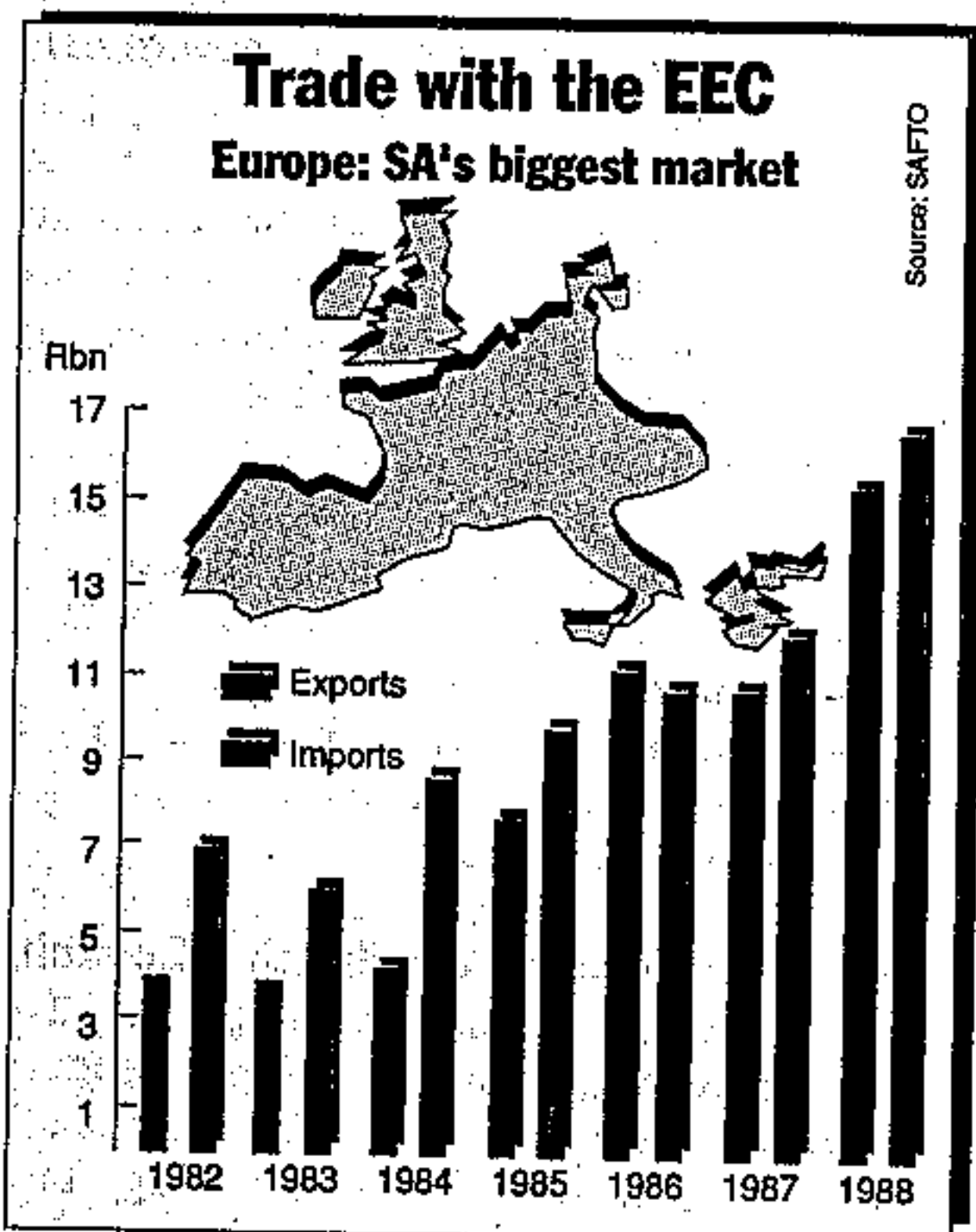
Durr



De Klerk



Ranchod



of eastern Europe — are eager to improve links with SA. At the same time the outlook on sanctions and foreign investment bans by the West is improving. And, while the ANC struggles to adjust itself to reality, Africa now knows that political slogans do not fill empty stomachs.

The result has been an astounding increase in trade, inquiries and buying orders from African states since February 2. The Foreign Affairs Department estimates exports to Africa at R10bn (17% of total exports) a year and growing. Premier International, an old hand in consumer goods trade with various sub-Saharan countries, reports an 84% growth in its exports for the first nine months of 1990.

The siege economy straitjacket — with its focus on import substitution and an illusory self-sufficiency — is being loosened. The challenge now to SA's manufacturing sector is to break out of its own insularity.

One manufacturer that has done so is

Minister Kent Durr;

- A thaw in relations with EC countries like Italy, which will head an EC summit in December to deliberate the sanctions issue;
 - Tentative trade with Red China with the bustling Pacific Rim's "Little Tigers" and newly-industrialising countries like Thailand, Indonesia, Malaysia and the Philippines providing the fastest-growing markets for SA products;
 - A recognition agreement between the SA Bureau of Standards and the German standards authority on the acceptability of SABS quality product certification (SABS 0157) in the EC after 1992, which will give SA an advantage over some other non-EC countries; and
 - The more sanguine attitude of international bankers now that political reforms have followed substantial debt repayments.
- Sanctions, of course, helped to concentrate the minds of large exporters on non-traditional markets and the high dependence of

WRONG DE JAGER

It was incorrectly stated last week (*Leaders* October 12) that Geoff de Jager is CE of Lenco. It was in fact his brother, Doug, who expanded the group since 1986 and is now group CE.

The error occurred during the editing process and was not the fault of the writer.

We apologise to Doug de Jager for this oversight and regret any embarrassment it may have caused his brother, Geoff.

the SA economy on foreign trade gave additional urgency to their quest.

Of course, the US Congress's Comprehensive Anti-Apartheid Act remains an impediment to further growth in trade, not only with the US itself but with those countries, like Japan, Canada and Australia, which tend to take the pace set by the US.

Important trade and investment restrictions which have yet to go include the long-standing oil and arms embargoes; the more recent ban on Krugerrand sales; and restrictions on SA's agricultural, steel and coal exports to specific markets.

Expanding manufactured exports to all

available markets is official SA trade policy — and a prerequisite for prosperity in an increasingly competitive and sophisticated world market requiring fewer raw materials and traditional commodities and more hi-tech manufacturers and services.

In the EC, according to Safto CE Wim Holtes, 69% of all merchandise imports in 1987 comprised machinery, transport equipment and manufactured goods, with only 31% made up of food, fuels and other primary commodities. Since 1965, he adds, the share of food imports had dropped by 30% and primary products by 60%. "This is a warning bell for SA," Holtes says.

Within a few years the single European market will form the world's most powerful trading bloc of 320m sophisticated consumers — richer than either the US or Japan. According to SA's EC ambassador in Brussels, Bhadar Ranchod, it is estimated "that the benefits of the single market will include a 4,5% increase in the GDP of the Twelve, the creation of 1,8m jobs, a 6% reduction in consumer prices and a sharp reduction in inflation."

But the removal of physical and technical barriers to trade between the EC's 12 member states could also mean that non-members like SA could be faced by new trade barriers. These could take the form of new European product certification standards. This is why German recognition of SABS standards is significant.

Holtes says that with foreign trade comprising 50% of SA's GDP, and with SA-EC trade comprising 50% of our global trade, the changes now taking place in Europe will place at risk 25% of SA's GDP. SA provides about 2% of the EC's annual imports of US\$530bn.

EC investments in SA amounted to R34,7bn in 1988 (50% of total foreign investment in SA).

The plain fact is that even after sanctions are removed, SA will have to change the nature of its exports to Europe to fulfil new market requirements. While more than 80% of our exports to the EC still comprise primary products, community imports of such products dropped by 60% (as a share of its total imports) between 1965 and 1987.

That was why SA

dropped from ninth to 26th in the ranking of countries exporting to the EC in the three years from 1986 to 1988.

Other trading blocs could be formed in North America where the US and Canada are already forming a free trade area. Mexico (and later, the rest of Latin America) could follow. There is the prosperous Pacific Rim area — Japan, the "Little Tigers" and the newly-industrialising countries of the Rim — which now form the Greater Co-prosperity Zone that Japan failed to establish in World War 2.

The East Bloc, during a period of radical change, offers specific opportunities — and dangers, especially the management of financial risk, given their drastic shortage of hard currencies in which to pay.

The mainland Chinese economy expanded at annual rates of 11% in 1987 and 1988 and projected growth for 1990 and 1991 exceeds 6%. The value of this import market at 1989 prices was \$59bn. Major items imported included iron and steel, machinery, textile yarn and fertilisers.

Notwithstanding political problems following the Tiananmen Square shootings, China's per capita income growth of 300% in the eight years to 1988 provides a growing consumer goods market of more than one billion people.

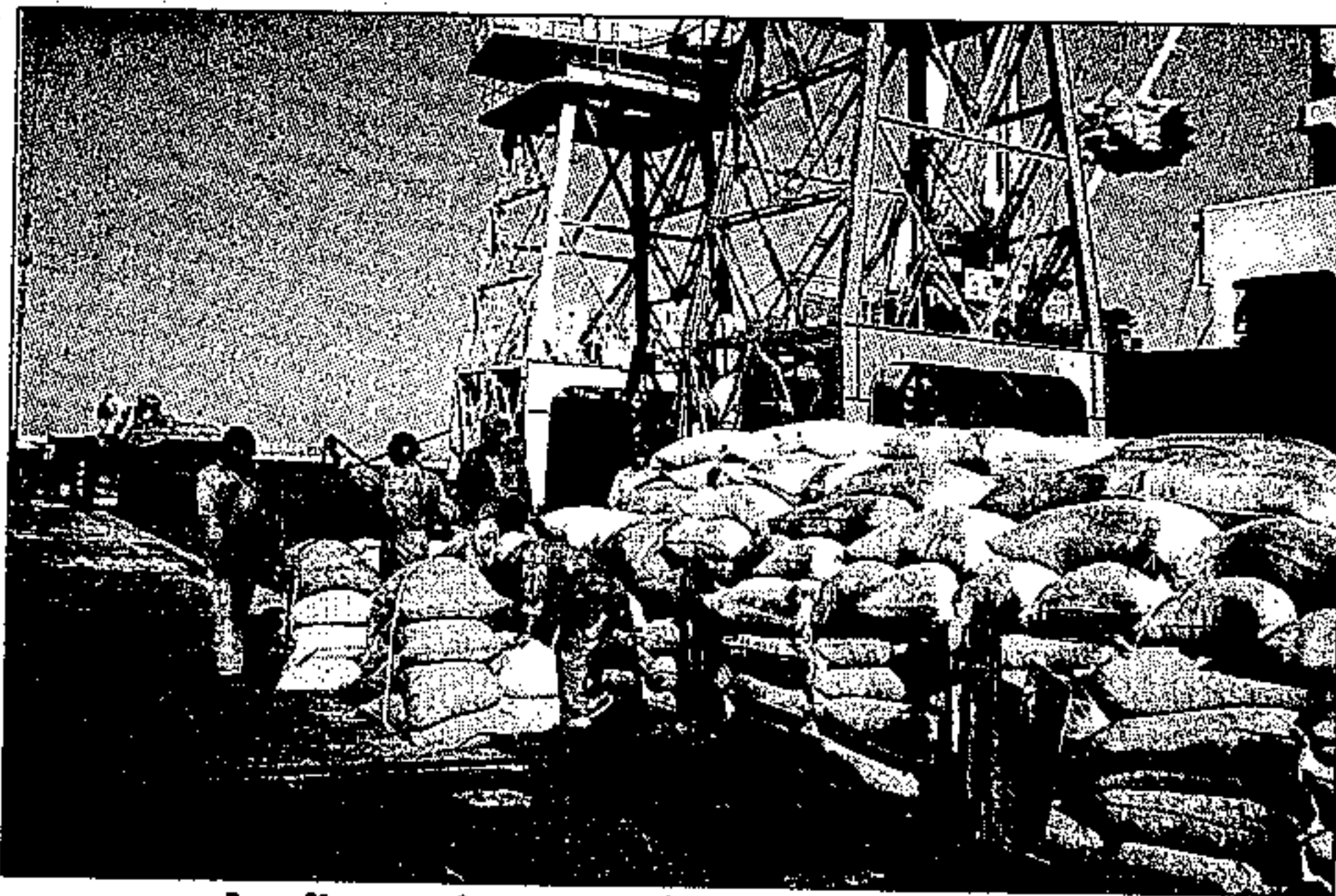
In Africa, Western financial aid is fast drying up. So, assisted by political change in SA, trade opportunities grow almost by the day. Pointers are the recent establishment of official SA trade offices in Madagascar, Zaire and the Ivory Coast; good relations with Mozambique and other neighbouring countries (with the exception of Zimbabwe); a recent ministerial visit to Angola; a naval visit to Zaire — and a flood of trade and investment inquiries.

Some major reductions in international trade barriers could flow from the current Uruguay Round of Gatt, now taking place in Geneva. Prodded along by the US, the Gatt negotiations are focusing on drastic reductions in international subsidisation of the farming sector.

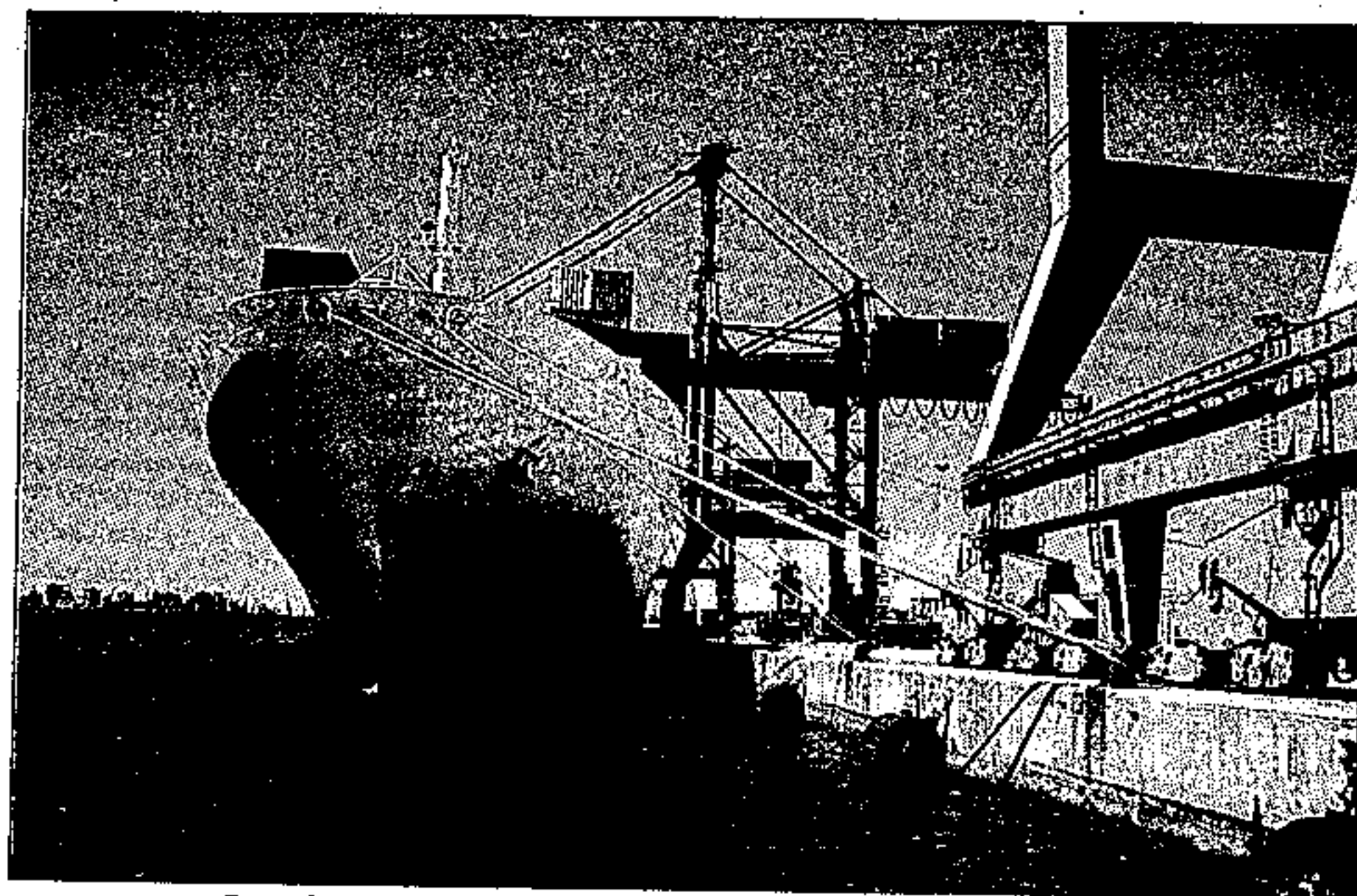
This would do away with the massive distortions caused by multi-billion-dollar annual farm support payments by the EC, the US and Japan.

It would mean the opening up of many new markets for SA produce and manufacturers, but the need to compete on price, quality and reliability will become much greater. And that, in turn, means government needs to support the export effort with an efficient, deregulated economy in which prices are stable and competition enables the rapid adjustment to the changing and challenging demands of international markets.

Indeed, the real challenge facing SA exporters of the future is probably not going to be the avoidance or erosion of sanctions, but meeting the changing needs of international customers in increasingly growing but competitive markets — made more complex by the emergence of large regional trading blocs.



Loading maize ... tailoring for special markets



Set for export ... breaking free of protectionism

'Fortress Europe' unlikely to occur

17/Day 24/10/90

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Own Correspondent

DURBAN — SA traders did not have to worry unduly about Europe creating a trading bloc and keeping them out of "Fortress Europe", Department of Trade and Industry (DTI) director-general Stef Naude told the Afrikaanse Handel-sinstituit congress here yesterday.

He said in his opinion the Common Market of the future, with its much enlarged markets, would result in a far greater demand for SA's primary products.

Fruits

Exports to Europe were well placed and had generally improved, he said.

He pointed out that some problems could only be resolved by the outcome of the current round of General Agreement on Trade & Tariffs (GATT) talks.

This included deciduous and citrus fruits where high import tariffs had been in place since 1973 but exports had improved.



● NAUDE

Other products such as coal and primary steel products had been affected by trade sanctions.

Only GATT could resolve the question of Europe protecting steel products, he said.

Naude said fiercer competition in the Common Market could produce problems for exporters of manufactured products.

This could be solved by market research to discover unexploited niches for trading where SA would not have to compete with the "big players".

A general problem fac-

ing exporters was the level of production subsidies offered by the Common Market either to European manufacturers or to special countries.

It was also only GATT which could solve, or ease, that difficulty.

Progress in the market to create standards of quality, health and safety had been slow.

About 3 000 standards had to be drawn up and accepted by 1992 and only a handful had made the rule books so far.

Progress

There was a lack of clarity as to what standards would prevail, Naude said.

This was being pursued energetically by his department, the CSIR and the SABS so that SA traders would not be caught short.

Progress on creating the single market (aimed at 1992) was slow as all 12 participating countries had to agree.

For example, the two interlocked area of customs tariffs and free travel made a true common market impossible until both were resolved.

Trade probe is aimed at 'bad eggs'

MARCIA KLEIN

THE proposed investigation into the law relating to customer transactions in the motor, furniture and advertising industries would not undermine work done by self-regulating bodies, investigation committee member E.R. van Eerden said last week.

of laws, he said, but a reasonable balance setting down what was fair and reasonable and what average rights and obligations were in transactions between businesses and customers.

The investigation — announced last Wednesday by Trade, Industry and Tourism Minister Kent Durr to ensure consumer protection — encountered opposition from members of some of the industries involved.

A major benefit would be to strengthen the consumer position and to maintain a balance between the formulation of guidelines and strictly enforceable regulations.

Van Eerden said while self-regulatory bodies did a "good job", their codes had loopholes and shortcomings that the committee would look at supplementing.

He said the content of the codes in existence were already enforceable with penalties issued by the regulatory bodies or by the Minister, and many aspects of the relationship between business and the consumer did not need to be linked to a criminal sanction.

One of the loopholes was that the codes could not be applied to non-members who were often the "bad eggs", and it was unfair for the self-regulatory bodies to carry the burden of wayward dealers on their shoulders, he said.

He said the investigation would cover a wide range of areas as the complexities of the legal relationship that flowed from legal transactions started at advertising and ended with delivery.

There would not be a whole new library

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Afcol earnings in decline

The impact of high financing costs and the difficult trading conditions encountered by equity-accounted interests offset Afcol's increased turnover and trading profit, and attributable earnings for the six months to September were nine percent below those of the previous year.

Attributable earnings were R23,4 million (R25,8 million), which translates into earnings

of 95,5c (105,4c) a share.

This was achieved on an increased turnover of R401,9 million (R356,2 million) and a trading profit of R35,0 million (R30,9 million).

An interim dividend of 47,5c (52,5c) has been declared.

The directors say it will be difficult for Afcol to do better than match earnings of the previous year. —Sapa.

In consultation with private sector . . .

Govt to update SA tariff book

CHE-TMFS 5/11/90 74

Own Correspondent

JOHANNESBURG. — SA's tariff book is to be modernised, but no changes to tariff structures will be made without broad consultation with the private sector, Trade and Industry Minister Kent Durr said yesterday.

This follows the recent completion of the Industrial Development Corporation's (IDC) investigation into the application and effectiveness of SA's tariff protection. This has been handed to the Cabinet.

The investigation was requested by government as part of its programme to restructure the economy to promote industrial growth and create a shift from an import replacement emphasis to an export orientation over time.

The IDC was asked to deal with the quantitative aspects of SA's tariffs and the lack of modernity of SA's tariff book.

Durr, who by and large agreed with the IDC's findings, said government was going ahead with the modernisation of the tar-

iff book. It would be simplified and made more readable.

The IDC also suggested that a packaged approach be followed concerning the quantitative aspects of tariff protection.

Durr said tariff protection could not be seen in isolation from a range of elements that had to be addressed to enhance SA's competitiveness on the international market. These elements included the exchange rate, tax, inflation and productivity.

For example, on the importation of capital equipment, factors like surcharges, GST and the method of accounting for depreciation offered often placed SA producers at a disadvantage and these costs were carried downstream.

As a result, a more thoughtful and balanced approach was required before any changes were made.

Durr said broad consultation on a step by step basis would take place with all industries affected. Any changes had to be intro-

duced gradually and no surprises would be sprung them.

Because the approach involved various factors in the economy, Durr has made a presentation of the IDC's report to the Committee for Strategy and Policy, which consists of top government officials and ministers across the spectrum.

He will also make a presentation to the State President's Economic Advisory Council this month.

In addition, Durr has already informed the SA Chamber of Business (Sacob) and the Corporate Forum about the tariff protection proposals.

An analysis of tariff structures on a sectorial basis is also taking place.

The Board of Trade and Industry has already completed a study on tariff protection in the paper industry and an announcement in this regard will be made soon.

The chemical industry is currently under investigation and be followed by other sectors of the economy, said Durr.

Gold loses ground to manufacturing

B 10am 8/11/90

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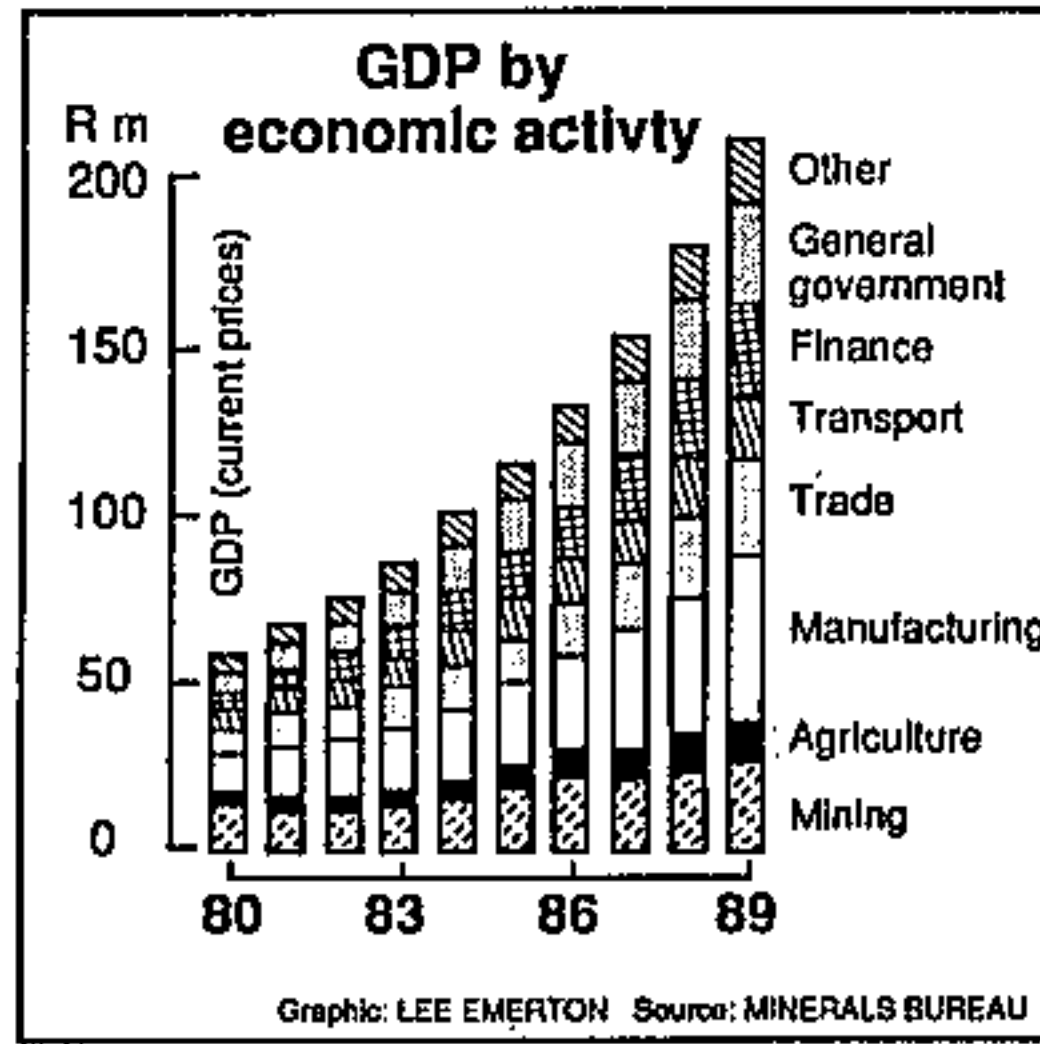
RIAAN SMIT

THE mining industry's contribution to gross domestic product (GDP) has shrunk steadily during the 1980s while the contribution of manufacturing has increased.

A graph in the Minerals Bureau review of 1989 released this week shows that while mining contributed about 20% of SA's R60bn GDP in 1980, last year its contribution was down to 12% of R210bn.

Manufacturing and mining's contributions to GDP were roughly equal in 1980. By 1989, manufacturing was contributing more than twice mining's contribution of R26bn.

But the bureau said in its review



that in terms of foreign exchange earnings, mineral exports accounted for no less than 51% of total exports.

This was largely due to gold's dominance, in value, of mineral exports.

If the various processed mineral products such as ferro-alloys and steel were included, the mineral industry's contribution to both GDP and foreign exchange would be "significantly" higher, it said.

The review also showed a definite trend toward adding value to metals and minerals before export in the 1980s.

For example, the export beneficiation ratio for chrome ore to chromium alloys — the percentage of ore being re-worked (beneficiated) into chromium alloys compared with raw ore exports — was 57% in 1982 compared with 87% last year.

...figure of R2,5 billion.
As a result, total gold and foreign exchange holdings improved R385,2 million to R6,218 billion.

Because terms of trade have been deteriorating recently —

...the current account could come under pressure because of reduced demand for export commodities and higher oil import payments, the weakness of the economy should result in declining non-oil import volumes next year, they say.

Sto 8/11/90 (74)

Reunert's earnings ease up

By Derek Tommey

Reunert ran into difficult trading conditions in the six months to September.

Earnings grew 32 percent in the six months to March, but by only eight percent in the six months to September.

Earnings growth for the whole year was 15,5 percent — up from 202,7c to 234,1c.

Reunert is paying a final dividend of 59c (52c), making a total of 81c (70c) for the year.

Turnover rose 25 percent to R1,4 billion, largely owing to the acquisition of Sandock Aus-

tral.

Profit before interest and tax was 17 percent higher at R131,6 million.

Interest paid increased to R21,9 million (R9,6 million) because of the increased average borrowings to finance exports and higher interest rates.

Tax was R21,3 million (R29,9 million), while associate companies contributed R8,4 million, leaving taxed profit of R96,9 million — an increase of 18 percent.

Attributable profit rose 16 percent to R73,3 million from R63,2 million.

Trade and Industry Minister Kent Durr yesterday invited comment on the recently released report by the Government-appointed Working Group for the Promotion of the Chemical Industry.

Mr Durr said in a statement that South Africa's importation of chemical prod-

Minister seeks feedback on report

ucts and related industries, as well as of plastics and rubber, already exceeded exports by about R5 billion.

"I am of the opinion that this negative balance between import and export

could show a sharp increase in the future," Mr Durr said.

He added that the working group had therefore been constituted to formulate a strategy for the promotion of the chemical industry.

Copies of the report are available at R20 each from The Director, Technology Promotion, Department of Trade and Industry, Private Bag X84, Pretoria 2000.

Comment on the document should be submitted to the same address. — Sapa.

FIM 9/11/90

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Hungarian products and the Poles feel they should get equal treatment.

Tadeusz Kaminski, Poland's trade representative in SA, bristles when Poland is lumped in with other eastern European countries that can't do business on an equal footing and are merely looking for places to sell (sometimes inferior) goods. He suggests ships, machine tools and other heavy industrial items — as well as top-rated Polish glassware — as products Poland can supply.

Trade between Poland and SA reached \$130m in the first nine months of this year — \$70m in Polish exports to SA and \$60m in SA exports to Poland. Poles like to think it's only the beginning of a beautiful relationship. Last month the two countries established permanent diplomatic relations. Kaminski says embassies could be established within a year.

The aim of the trade mission, according to Andre Zawislak, chairman of the Polish parliamentary committee on privatisation, is to find partners for joint ventures; intensify mutual trade; push portfolio investment and lobby for more immigration of the overabundance of unemployed Polish intelligentsia.

"Improving productivity means firing people," says Zawislak, who also lectures in management science at Warsaw University. "We have too many middle managers."

With the State controlling 80% of the country's biggest businesses, Poland's privatisation programme is painful but necessary. Unemployment, unknown in the old days, has jumped to 6,9% and is headed far higher. Setting the market free saw inflation rage at an annual rate of 558% in September, down from 1 183% in February. But now there are goods in the shops.

Delegation leaders see most Polish people as fiercely independent anti-communists willing to suffer to get their economy into shape. "Now the people are free but they look for food," says Bogdan Letowt, chairman of the Polish Association in Johannesburg. "Before, the dog ate, but it was on a leash."

FOREIGN TRADE FIM 9/11/90

POLAND'S PITCH

Andrzej Arendarski's advice to anyone toying with communism? Forget it.

"The poor people are told that with communism everything will be given to them, everything will be organised," says Arendarski, a member of the Polish parliament and president of the Polish Chamber of Commerce in Warsaw. "But practice has convinced us that communism is the most restrictive system."

As the leader of the 140-member delegation holding a trade fair in Pretoria this month, he has to put a brave face on the possibilities for increased trade between SA and Poland. They are working overtime to cut the country's US\$40bn foreign debt and SA seems like a likely spot to do business.

The trade mission will also try to strong-arm Trade & Industry Minister Kent Durr into granting Poland a concession by dropping import surcharges on Polish goods. He has already eliminated the surcharges for

Engen poised for major expansion

Start 9/11/90

~~74~~ 74

By Jabulani Sikhakhane

Gencor's energy group, Engen, has major expansion plans both inside and outside South Africa, but will probably have to come to the market to raise some of the required funds.

Chairman Bernard Smith says in the annual report that Engen's plans cannot be financed entirely from internally generated funds.

The expansion plans include doubling of capacity and extensive upgrading of Genref's Durban refinery in the next five years, the development of a chemical plant to produce feedstocks for the local market, and expansion of production and exploration activities.

Preparatory work to move into exports to sub-Saharan Africa are under way, he adds.

In his review, managing director and Engen chief executive Rob Angel says Genref has conducted detailed engineering and feasibility studies to debottleneck, upgrade and expand



Bernard Smith . . . exports to sub-Saharan Africa

in the most effective and pollution-free manner.

The expansion at Genref is due to the fact that Sasol plants will be operating at full capacity in the near future.

This has led to local crude production coming under pressure.

Another consideration for increasing refining capacity is the advantage in Genref taking

over the refining of Trek volumes from Sapref.

For the first phase, the Engen board will consider capital expenditure of at least R500 million by December 31.

"The Genref refinery is fully competitive, compared with any refining facility in sub-Saharan Africa.

"Although limited capacity for exports exists at present, we are pre-investing in selected areas to secure a share of those rapidly growing markets once the expanded refinery is on stream."

In the long term, the opportunity to increase the production of solvents, and enter into related petroleum-based chemicals manufacture offers scope for major expansion.

Mr Angel says that exploration has been conducted in the Bredasdorp Basin with some success. Engen plans to expand these operations to ownership and production of crude oil.

The group will also pursue exploration outside South Africa.

Engen is actively discussing a

possible participation with parent Gencor in the Alba and Kilda oil fields in the North Sea.

In his forecast, Mr Angel expects improved profits and more real growth. But he says it will be tougher to achieve such growth after an excellent opening year.

Refining margins are expected to remain strong and substantial inventory profits will be realised if oil prices remain high.

But Mr Angel says excessive profits from inventory evaluation will be used to cover increased working capital and tax payments and will not be available for dividends.

Mobil's takeover of the Trek distribution operation should save the group R15 million a year when complete.

With finance and tax costs expected to remain at financial 1990 levels, Engen is looking for improved operating earnings.

At the end of financial 1990, Engen's effective tax rate was 3,4 percent and the group had R79,340 million in assessed tax losses.

Trading partners will be hit worse by oil crisis

THE present oil crisis will not necessarily prevent the government from reducing the inflation rate in relative terms, says the Minister of Administration and Economic Coordination, Dr Wim de Villiers.

Addressing the Pretoria Afrikaanse Sakekamer yesterday, Dr de Villiers said that while

the oil crisis came at an inconvenient time in regard to the combating of inflation, it must be borne in mind that the competitive position of South African manufacturers was determined by the internal inflation rate in relation to that of South Africa's trading partners.

"The South African inflation rate, however, should be in-

fluenced to a lesser extent by the oil crisis than in the case of many of the country's trading partners."

A significant proportion of South Africa's fuel requirements was provided by the local manufacture of oil from coal. A large proportion of the country's energy needs were supplied by

coal generated electricity, Mr de Villiers said.

Commenting on the government's commitment to privatisation, Dr de Villiers said that fundamental policy was to reduce the role of the public sector in the economy and to offer the private sector the maximum opportunity for optimal performance.

"In the process, the operation of market forces and healthy competition should be allowed to bring about the necessary adjustments."

These adjustments, which would require sacrifices, should be considered prerequisites for a new period of sustained growth in the 1990s, Dr de Villiers said.— Sapa.

Relly sees a bright future

Business Day Reporter

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BILATERAL, and sometimes multilateral co-operation and improved trade links would prepare the way for greater southern African economic integration, said former Anglo American chairman Gavin Relly in an address to an investment conference in London.

SA's appropriately valued rand, proximity to African markets, regional knowledge and technical expertise in spheres such as agriculture and mining, the common legacy of British systems and practices, and its African identity, were all important advantages for trade with Africa, he said. B. Dan 13/11/90

Opportunities also existed for the foreign investor, either in partnership with SA companies or alone.

Relly said his optimistic outlook was based on the "quite extraordinary resilience" of the SA economy and the abundant entrepreneurial spirit of South Africans, coupled with strong foundations for a sound democracy.

He said major SA parties had committed themselves to a new constitution, and the trend of thinking on economic matters within the extra-parliamentary movements was more sophisticated and realistic.

FW: UK analysts believe in SA

B (Day) 16/11/90

ZILLA EFRAT

SEVERAL London investment analysts believed SA offered better investment potential than Central Europe, President F W De Klerk said yesterday.

Speaking at the SA Britain Trade Association's (Sabrita) 25th AGM in Johannesburg, De Klerk said this was because of SA's modern infrastructure, sophisticated stock market and banking system and its growing consumer base.

SA was believed to be one of the markets identified by the British Overseas Trade Board as a priority market for UK exports.

He urged British industrialists to plan for new investment in SA.

UK investors should not doubt SA would continue its reforms.

Recent estimates put direct UK investment at 40% of all foreign investment in SA.

Trade between SA and the UK was

increasing, reaching nearly R8bn in 1989. The UK market would continue to grow in importance for SA.

The UK was SA's third largest trading partner and SA's biggest foreign partner in industrial development, technology transfers, joint venture operations and financial services.

De Klerk added it was now time, given that the economy was in a cyclical downswing, for the private sector to look at the international market as a means of maintaining and even expanding output and sales instead of laying off personnel.

The economic downswing should serve rather as an encouragement to step up research and development, product diversification and internationalisation of the market.

Pegging policy 'could cut inflation premium'

BID 16/11/90

LINKING the rand to the European monetary system could lower the inflation premium in SA's domestic rates and allow greater flexibility to be injected into the process of determining wage prices, the Bank of Lisbon says in its latest Economic Review.

An argument in favour of fixed nominal exchange rates was that they might impose discipline on domestic monetary and fiscal policies, enhancing a country's ability to achieve price stability.

However, such a policy is unlikely to be favoured by the authorities in view of the risks and costs attached to it.

In the SA context, proposals to link the rand to the Deutsche Mark have been mooted as a means of pursuing such a pegging policy.

If credibility can be established in this way, it might induce favourable changes in the structure of the local economy.

Although exchange rate stability under these circumstances could become a means through which the country achieves greater stability in prices, such a policy in the South African context will incur several hazards, the review says.

It points out that if greater economic discipline is not forthcoming such an exchange rate policy will not be credible.

Gaining sufficient credibility will be dif-

MARIETTE DU PLESSIS

ficult, given the large inflation differential which exists, the continuing burden of capital outflows and the danger that these outflows will be magnified by adverse leads and lags influences.

Even if such a hard currency policy does acquire credibility, it will involve a heavy price.

Credibility

While inflation is being reduced in the transition phase, stringent monetary policies will lead to some loss of output, making the adjustment more painful through any external negative shocks.

However, in the longer term the economy could function more efficiently if inflation is materially reduced to eliminate inflation differentials with the country's major trading partners, sustaining credibility in anti-inflationary policies, the review said.

For a country without strong anti-inflationary credibility there could be a case for pegging its currency to that of a country with an established reputation for price stability as a means of disciplining the monetary and fiscal authorities as well as the private sector.



DP leader Zach de Beer at the SA-German Chamber of Commerce luncheon in Johannesburg yesterday.

Picture: ROBERT BOTHA

Zach: SA needs two-way trade

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TIM COHEN

DP LEADER Zach de Beer yesterday warned that violence in townships and informal settlements where the bulk of SA's population lived could not be allowed to continue.

And, addressing the SA-German Chamber of Commerce in Johannesburg, he said if the new SA was to prosper it had to trade with and attract investment from foreign and domestic sources.

"There must be perceived stability in our society. The continuation of violent conflict in SA could destroy all our hopes."

There was no doubt that manufacturing capacity would have to grow rapidly and that markets for

such production would have to be sought outside.

One of two important statistical reports released in recent weeks concerned the economic growth rate.

"... The average South African is getting poorer at the rate of more than 4% a year," De Beer said.

If a ray of light could be found, it was in October's trade figures. Exports soared to R6,25bn and imports were roughly constant at R3,9bn.

This might indicate the SA economy was beginning to adjust structurally to the demands of the future.

Mark/dollar axis dominates currency markets

THE fundamental strength of the German mark and the inherent weakness of the US dollar continue to dominate world currency markets. The rand, tagged to the dollar, responds on the cross-rates with other currencies in pattern as they react to the dollar/mark axis.

A case in point is the yen: the rand/yen cross rate is breaking out of its longer term bear trend but has yet to make a new high above the 51,60 resistance level to establish a new bull trend, says First National Bank's (FNB) technical analysis. But the FNB suggests that the dollar is trying to do exactly the same: break out of its bear trend against the yen. FNB recommends caution for the dollar/yen.

Of the yen, the Union Bank of Switzerland says there is less optimism about the yen in Japan than there is abroad. European analysts are tending towards the view that the yen will gain against the dollar.

The rand has continued to fall

against the mark, breaking key support at 0,5845 in following the long-term bear trend. Rallies back towards 0,5845 should find resistance and therefore a demand by importers for the German unit. Charts suggest that the rand will continue towards the channel base of 0,5600.

On the world stage the mark is very strong, with the dollar lagging and showing a decisive bear trend. The Union Bank of Switzerland attributes this to what appears to be conflicting policies within the US. The inflation and the trade balance figures are pointing to an economic slowdown. The Fed is letting interest rates sag but it has yet to come out with a decisive policy to lower rates.

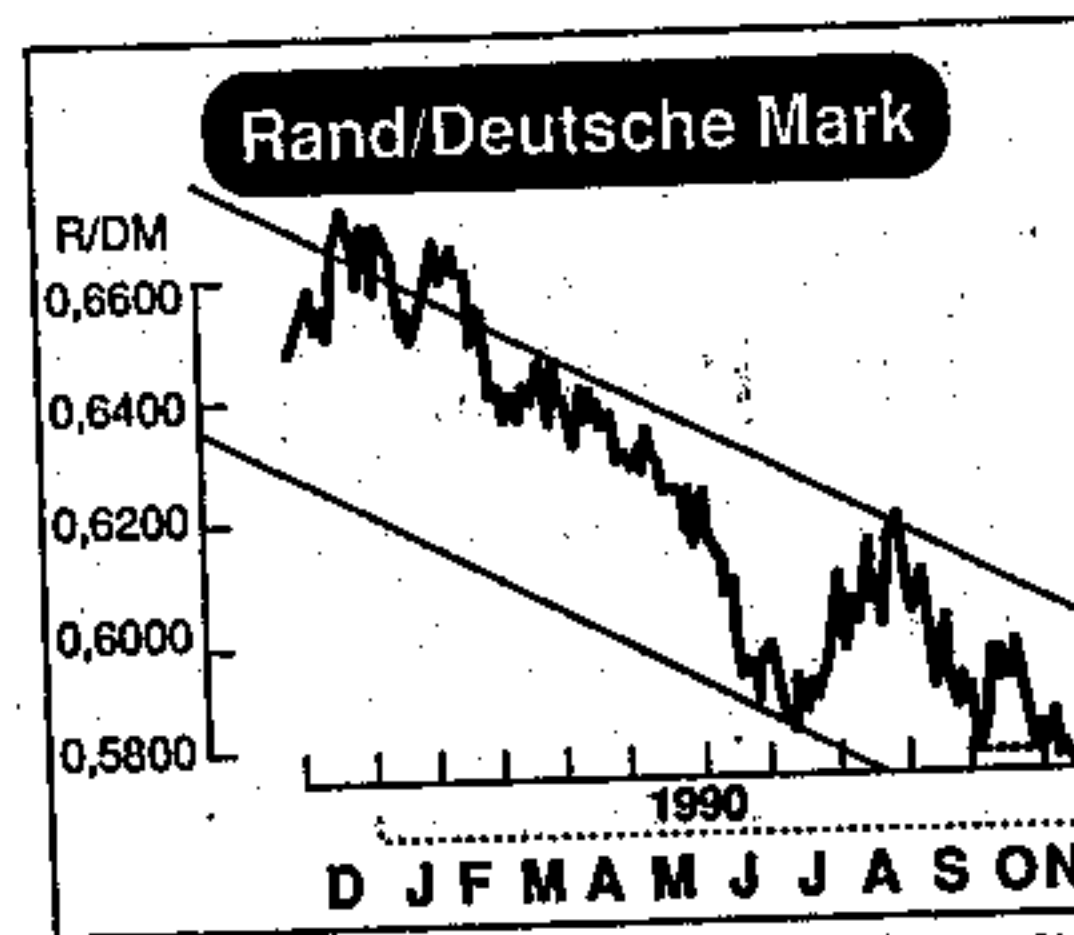
Meanwhile the dollar remains vulnerable. The French are tending to support it against the mark, a strategy aimed through the dollar against the mark. The French franc is also currently vulnerable.

Very little change has taken place in the rand/sterling technical mar-

Bl/day 2/11/90
HAROLD FRIDJHON

ket. The rand appears to be stuck within the 4,95-5,00 band, but the trend for a weaker rand vis-a-vis sterling remains.

Against the dollar, sterling appears to be marooned below its previous high of 1,9770 and, says FNB,



LETTERS

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seems to be unable to make new high to continue on its bull path. But then, as the Union Bank says, there is a political factor to be taken into account.

The forex market reacted to the Heseltine/Thatcher leadership controversy by selling sterling. In the face of unfavourable British economic news, the Bank of England has refrained from intervening. Union Bank says the political tension could result in sterling suffering further losses against the dollar and the Swiss franc.

The rand's relationship with the strong Swiss currency could continue for a while as a correction against its primary downtrend, although each step is being met with a local demand for Swiss francs. FNB considers that these corrective moves could reach a high at a resistance level of 0,5040 at which the rand could switch back towards its former bear line, resuming its downward tracking towards 0,4860.

The dollar, too, is following the rand's pattern against the Swiss franc — or would it be more correct to say that the rand is mirroring the movements of the dollar? The dollar is failing to set new highs and appears to be more inclined to plunge than to soar.

Unfortunately for SA and the gold share punters on the stock exchange, both the analysts in the Zurich bank and those at FNB are still regarding gold with jaundiced eyes.

The Swiss bank says that with the lack of new market-moving factors, gold started the week by trading in a very narrow range of \$381-\$384,50. It slumped to \$375 in tandem with oil prices, and failed to recover in the face of more war talk. Gold is susceptible to setbacks such as lower dollar interest rates. FNB's analysis is equally bearish. If gold breaks through the \$387 line and then on to \$364, it has the potential of breaking down to \$320. But before then it has to test the \$364,20 resistance line.

INTERNATIONAL foreign exchange markets are looking for reasons to justify the moves which they are hesitant to make.

The result is desultory Mexican bean jumping which appears to lack direction or continuity.

The dollar is blown hot and cold as the temperature changes from day to night in the Gulf, and as the economic indicators in the US signal bad news.

A cut in interest rates, expected before the end of the year says the Union Bank of Switzerland (UBS), could reduce the attractiveness of dollar investments.

Potential

The dollar, according to the UBS, is still very vulnerable but, it adds, a recession is already discounted in the current rate.

First National Bank (FNB) suggests that the dollar has a potential to regain some of its previous strength.

If the US currency pushes above DM1,4830, this could be a breakout

Gulf blows dollar hot and cold

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HAROLD FRIDJHON

from the present restraint of the steeper bear channel, in place since October/November.

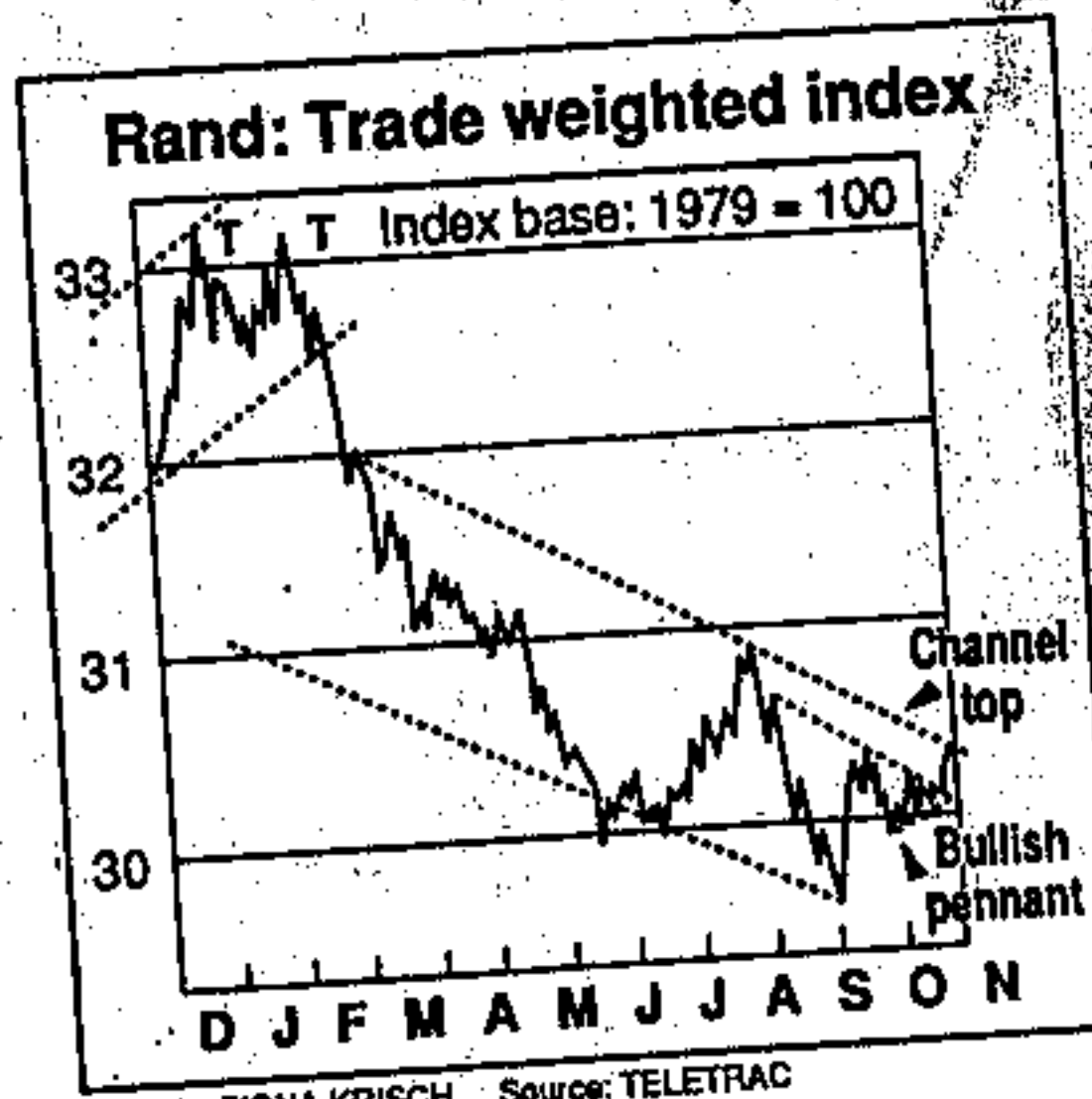
The trading range should be DM1,4800 to DM1,5200.

The Deutsche mark itself has been holding its own.

The Bundesbank drained DM4,6bn out of the money market and the call rate actually dipped, allowing the lira and the French franc to regain some of the ground they had lost.

The near-term strength of the pound appears to hinge on who is elected to sit on Maggie's chair.

If Heseltine emerges as the ultimate winner, the UBS sees the pound weakening, because he would lower interest rates as an election sweetener, and as a stimulant for the



economy.

By implication, the UBS sees little change should Major triumph.

But for the immediate present the pound's position should remain unchanged.

Looking at the Japanese market, FNB sees the dollar-yen relationship

moving sideways for a while.

UBS, however, reports that the yen has firmed against both the dollar and the Swiss franc, but it has a long way to go to the target level of 124 yen.

If no war results from the latest developments in the UN Security Council, the downtrend of the dollar against the yen should continue.

The Swiss franc has been trading in what the UBS terms a sluggish market, fluctuating in a relatively narrow range against both the dollar and the mark, but with a little more volatility against the pound and the yen.

FNB's technical analysis says the dollar is currently trading at a pivotal point 1,2580/1,2630 against the Swiss franc.

If it breaks into higher ground at around 1,2900, the dollar could be headed towards a new bullish channel.

The behaviour of the rand suggests it has reached a critical point on the trade-weighted index (TWI), which represents a weighted average of the rand against a basket of currencies of its major trading partners.

The graph shows that since the beginning of the year, following the double top peaks, the rand broke channel support at 32,50 (index numbers, not a currency notation), establishing the long downturn since March.

Poised

During last month the rand appears to have consolidated in a triangle (bottom right corner of the graph).

Last Friday when the dollar fell below 2,5200, the rand broke out of the triangle and was poised upward.

We now come to the ifs and the ands. If the rand continues to move up and break through the upper channel line, the outlook for the currency looks favourable.

If not, we'll be back where we started.

REVIEW

ANC focus on growth

By AUDREY D'ANGELO
Business Editor

THE new SA will need significant growth so that "the pressing problems of economic inequality, poverty and stagnation" can be addressed, Tito Mboweni, head of the ANC department of economic policy, said in Cape Town yesterday.

This can best be achieved in a mixed economy. But the engine of growth must be redistribution, to increase the spending power of the masses, Mboweni said.

He was speaking at a conference on the economic future of SA, organised at the Cape Sun by London-based Euromoney Publications.

He said the ANC favoured a mixed economy with a public sector, a private sector, a co-operative sector and a small-scale family sector. The state should promote the acquisition of managerial, technical and scientific skills among all sectors of the population — especially the black people. "And, finally, property for personal use and consumption shall be constitutionally protected."

CMT TWP 28/11/90

Redistribution

'the engine'

The economy should follow a new path of growth through redistribution rather than greed. "Redistribution is not seen as an optional extra but rather as a necessary requirement for growth to occur."

Redistribution of income would provide the means for mass consumption. This would stimulate mass production, particularly in labour intensive industries.

Mboweni said that given the level of regional disparities "a major potential for future growth actually does lie in a strategy for regional development."

But, differing from "the bantustan-centred programme of the NP", this should aim at the creation or development of industrial districts on the basis of collective efficiency rather than cheap la-

bour, with firms and the state co-operating.

Pointing out that SA goods seemed to have entered other markets in Southern Africa "fairly successfully" in spite of sanctions, Mboweni said these trading relations were "positively in SA's favour."

Botswana, Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe imported a total of \$2,3m worth of goods — of which about 70% were manufactured — from SA in 1982 and exported a total of \$411 worth, mostly raw materials, to SA.

"Future regional relations will in our view have to be based not on domination but on mutually beneficial and negotiated agreements."

Mboweni said a new democratic SA would encourage foreign investment. "A post-apartheid society will also have to negotiate to become part of international economic agreements such as the Lome Convention of the European Economic Community.

"This will afford us some possibilities of entering the European market, particularly after 1992."

Keith Hamm of Petroleum Economics in London says:
"There are a lot of trends over

African trade doors opening up — Safto

STW 28/11/90
Finance Staff (74)

A greater recognition of the critical role of market forces and commercial initiatives is emerging in Africa and SA businessmen are well-placed to assist in this awareness process, says Wim Holtes, chief executive of Safto (the SA Foreign Trade Organisation).

"The SA businessman is, on the whole, a great individualist, which is his major strength", Mr Holtes said yesterday.

"In Africa, however, he has rather to spearhead a team effort with his banker, an experienced Africa trader, public or private sector decision-makers in African markets concerned, as well as with international aid organisations."

The commercial approach to Africa had so far succeeded, he said.

Trade with Africa rose 40 percent last year and now amounted to R5,5 billion a year in goods and services, both direct and indirect, most of it in cash or the cash equivalent.

Mr Holtes said that as doors opened for the business community in Africa, foreign aid was becoming a viable alternative financing source.

It was a major support mechanism for most African countries, with the continent as a whole receiving a total foreign exchange inflow of R40 billion a year.

TAK

OUR I

E

SA must prepare to join global market

SA CORPORATE treasurers should start preparing for the day exchange control ends and SA becomes an integral part of the global market, Derek Ross, senior partner at London-based chartered accountants Touche Ross said yesterday.

Ross, who is on a professional visit to SA, was speaking in an interview at a two-day corporate treasury seminar which ended in Johannesburg yesterday.

He said even though SA was probably the last sophisticated economy in the world to retain a large degree of exchange control, the globalisation of world financial markets meant barriers would eventually fall.

SA's financial and banking sector was already "in many ways comparable" to that of other sophisticated Western countries where exchange control no longer existed.

Ross would not be drawn into judging SA's present exchange control system.

However, he said, its continued existence did not obviate the need for

SA corporate treasurers to get to grips with many of the instruments and methods used in more open economies overseas.

Ross said SA corporate treasurers, while expert and sophisticated, were hampered by a lack of adequate financial market instruments.

Among those lacking here were options on swaps, caps, collars and hybrid debt-equity instruments.

Ross also said the SA financial sector needed a strong corporate debt market which would offer companies a greater range of alternate sources of finance, and investors a wider choice of assets to hold.

He said SA had a unique chance to use the soon-to-be-enacted Deposit Taking Institution (DTI) legislation to transform the country's informal grey market in corporate paper — estimated at about R5bn — into a viable, regulated one in which both investors and corporates would be willing to participate.

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ROBERT GENTLE

Restructuring at Trade and Industry

6/04 29/11/90
THE Department of Trade and Industry's (DTI's) industrial branch had been restructured and streamlined, director-general Stef Naude announced yesterday.

The DTI's industrial arm is involved in all industrial policy and development matters. The other major arm of the DTI is trade.

Naude said the restructuring

MARCIA KLEIN

meant that some officials would move from the Board of Trade and Industry's (BTI's) offices to the DTI's offices.

The announcement followed rumours that the BTI was to be dissolved and some of its staff retrenched or relocated.

Gold plunges on prospect of peace in Gulf

Monday 28/8/90

GOLD plunged more than \$26 to \$387.75 in New York yesterday as prospects grew for a peaceful end to the Gulf crisis and Opec moved towards increasing oil output.

Diplomatic moves towards an easing of tensions in the Middle East triggered heavy selling of bullion as US and European investors rushed to liquidate their positions.

The turnaround in sentiment, and a fall in oil prices, sparked rallies in most world equity markets, which came sharply off last week's dramatic lows.

In New York, the Dow Jones industrial average gained more than 3% (86 points), rising to 2 619 as investors poured back into the stronger market.

Platinum followed gold's fall, trading \$24 lower at \$483 in New York, while oil prices plunged with the benchmark North Sea Brent crude down \$3.95 to \$26.

"With diplomatic initiatives being stepped up and oil prices sliding, the outlook for equities is good but gold's immediate future is grim," an analyst said.

Sapa-Reuter reports from New York that a major flashpoint in the Gulf crisis was removed with reports that Iraqi ships had been given new orders by Baghdad not to defy the Western blockade.

Iraqi captains have reportedly been told to allow US Navy ships to stop their vessels and board and search them.

The move follows a UN Security Council resolution at the weekend sanctioning the use of minimal force to implement UN

ANDREW GILL

trade sanctions against Iraq following its annexation of Kuwait.

The Daily Telegraph reports that 11 Opec oil ministers meeting in Vienna are expected to conclude an agreement "for each country to produce as much oil as possible".

Kuwaiti Oil Minister Rasheed Salem al-Ameeri said the two-day informal consultations would be finalised at a formal Opec conference today.

He said the new agreement would not force any Opec member to produce more oil, but some, such as Saudi Arabia, the United Arab Emirates, Qatar and Venezuela, would be able to produce as much as they pleased. This means Opec's oil output could exceed the previous limit of 22.5-

To Page 2



Graphic: LEE EMERTON Source: REUTERS

continued

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REVIEW OF ECONOMY

THERE has been some disillusionment with the policy of import substitution — making things here instead of importing them, according to the Bank of Lisbon's *Economic Focus*.

Import substitution has been an important facet of economic development strategy in South Africa, it remarks.

The policy was initially underpinned by the "infant industry" argument.

According to this thesis the protection of domestic industries from foreign competition by import duties and quotas enables these industries to expand, and eventually become viable, no longer necessitating protection from imports.

Quite apart from this argument, however, short-term economic policy considerations, and especially balance of payments problems, have encouraged the South African authorities in the past to resort to import restrictions.

Also, trade embargoes, especially those related to defence-orientated industries and oil supplies, have encouraged the development of domestic replacement industries in the post-war period.

Import substitution in developing countries has generally conformed to a particular course. A broad pattern involving three phases has been discernible. This has consisted initially of the local production of consumer goods, which is then followed by a phase of domestic production of consumer durables to replace imports. Thereafter, there is a phase of replacement of intermediate and capital goods.

Such a pattern closely resembles the changing structure of manufacturing industry in the process of economic developments as revealed in historical surveys.

The history of the South African manufacturing industry generally conforms to this pattern of import substitution.

A development policy aimed at generating industrial development through import substitution first gained prominence in the mid 1920s.

From that time industrialisation in South Africa proceeded along the standard route of sectoral transformation from consumer goods to capital and intermediary goods, or from light to heavy industries.

The share of light industry in total manufacturing production has declined substantially from around 65 percent in the mid 1920s to

W/Mail Suppl 30/11 - 6/12/90
Import substitution is strewn with pitfalls

Suppl W/Mail 30/11 - 6/12/90
 Opportunities for further large-scale import substitution in South Africa are limited, although prospects may be more rosy once sanctions are lifted, says the Bank of Lisbon's *Economic Focus*

CHANGING STRUCTURE OF EXPORTS

Category	Percentage of exports in various years			
	1960	1970	1980	1988
Raw materials	29	37	42	42
Processed raw materials	40	32	36	46
Sub total	69	69	78	88
Material intensive products	15	17	12	6
Final processed products	16	14	9	6
Sub total	31	31	21	12
Total	100	100	100	100

Source - Department of Finance

roughly 35 percent now. *W/Mail Suppl 30/11 - 6/12/90*
 Import substitution has significantly influenced the composition of imports and the structure of manufacturing industry.

Nevertheless, if the effects of import substitution are measured by the ratio of imports to gross domestic product (GDP), it is clear South Africa has not seen a decline in imports.

The ratio of imports to GDP was 25 percent from 1920 to 1924, while in the more recent period from 1984 to 1988 it was 28 percent.

This is striking, particularly in view of sanctions.

Employment opportunities offered by the manufacturing sector can equally be exaggerated.

Despite the fact that imports have not fallen in South Africa in the past 60 years or so, and

these high levels do not compare well with some developing countries, it has become generally accepted that opportunities for further large-scale import substitution in South Africa are limited.

The role of import substitution in fostering development in the manufacturing sector has been diminishing since the late 1950s.

The great bulk of imports is now confined largely to the field of intermediate and capital goods.

In these areas technological and labour skills are paramount, together with sufficiently large capital funds and markets. In South Africa, scarce capital funds and relatively small markets means viable domestic production is largely ruled out.

Import substitution has been accused of al-

lowing industries to shelter behind trade barriers, becoming inefficient and obsolete, with no hope of becoming competitive in open market conditions.

The death of import competition has likewise been criticised in the light of the large concentration of ownership in sections of the South African economy.

While a policy of industrial protection has been maintained, there has been a shift in emphasis away from import substitution to a policy of promoting exports of manufactured goods as a means of fostering industrial development.

This change in focus has been strongly supported by new thinking on comparative cost advantage and export-orientated industrial growth.

In one sense import substitution policies can be seen as creating a bias against export-orientated development because of the increase in domestic costs which such policies promote.

The upward pressure on costs stemming from protection and the decrease in export competitiveness explains why import substitution and export orientation are often regarded as conflicting development strategies.

In another respect, however, it has been argued that the two strategies are complementary. Import substitution can create a more diversified domestic industrial base which serves as a platform for the production of manufactured exports. Domestic industries developed on the back of protection against imports may subsequently become exporters.

South African interest in promoting manufactured exports partly stems from the success of newly industrialised countries in South East Asia with export-orientated industrial development. Such export expansion serves as a vehicle for financing technology transfers through the import of capital goods.

The growth in export businesses also provides a spur to the development of efficient and internationally competitive workers and management, and these beneficial effects spread beyond the export sector.

By generating foreign exchange such exports raise the capacity of an economy to finance imports in general and service external debt, and this improves a country's creditworthiness.

This in turn stimulates larger capital inflows that render it possible to finance higher rates of investment.

Export growth also creates forward and backward linkages to producers of goods and services in the rest of the economy.

Nevertheless, South Africa has not embarked upon a purely export-orientated industrial development strategy.

Industrialisation through import substitution policies creates strong vested interests among labour and employers for the maintenance of protection. These interests, together with the economic and social disruptions that could result from a sudden removal of protection, have combined to prompt the authorities to maintain a measure of protection, while applying export incentives of various kinds to promote production for export.

The promotion of manufactured exports from South Africa is a strategy strewn with pitfalls.

The general absence of export-orientation in manufacturing industries is well known. But capital sanctions, which forced the authorities to severely curb the growth in domestic expenditures, may now be encouraging manufacturing industry to look abroad for growth.

The large distance from markets in Western countries is likewise an inhibiting feature. The natural market for South African industrial exports is the African continent, but such trade, although it is increasing, is stifled by both economic and political considerations.

The limited size of the various domestic markets also hinders efforts to exploit economies of scale.

These difficulties have been reflected in the trend for the economy to become increasingly dependent upon commodity-based exports.

In recent years this trend has been strengthened by the intensification of trade sanctions and boycotts, since commodity exports are in general "fungible" products, and therefore less vulnerable to sanctions than manufactured goods.

It has, moreover, meant that the country has become even more vulnerable to fluctuations in commodity prices.

Nevertheless, in the new South Africa which is now emerging, the prospects for exports of manufactured products are improving.

In the wake of the new political dispensation which is unfolding, trade sanctions and embargoes against the country are receding, and new export markets for manufactured products are emerging, while old markets are being reclaimed.

Also, South Africa's new industrial policy includes a move in the direction of reducing, and possibly eliminating in time the tariff protection and other assistance furnished to many local industries.

Marrying capitalism and Marxism

W/Mail Suppl 30/11 - 6/12/90
 AT THE beginning of the Eighties some on the left confidently predicted the demise of capitalism. Ironically it turned out to be the decade of crisis for the existing socialist systems.

At the beginning of the Nineties capitalists are triumphantly claiming the victory of what is euphemistically called the Free Market system. I want to predict that the gods will this time take their revenge on the self-satisfied Hayekian ideologues of the right with as much vengeance as they did on the ideologues of the left. The free marketer solution will fail as dismally as did centrally planned socialism. What route will there be for South Africa to follow?

At least three different models have been proposed from the left as worth emulating. Firstly, there is Joe Slovo's proposals for a democratic socialism in his now famous "Has socialism failed?" Secondly, there are the proposals that we should strive for a socialist version of the South Korean or Taiwanese economies. Thirdly, there is the position, to which I personally adhere, that we should look for a solution along the lines of social democratic systems implemented in the Scandinavian countries, in Austria and to some extent in Canada and Costa Rica.

There is, of course, also a fourth position, that all we need to do is to bring about the world socialist revolution, and then our problems will be solved.

The only system under which social and economic justice, political democracy, a strong and free trade union movement and rapid and sustained economic growth could hitherto co-exist, are social democracies. These systems were not designed on the drawing board of ideologists on the left or right, but have emerged in praxis.

By this I do not mean to claim that social democracies are always successful. The blend of social democracy attempted by Harold Wilson and Callaghan failed; indeed, present day Swedish social democracy has serious problems with growth, because the politicians have too long ignored the changing conditions under which they have operated.

But social democracies, when the right blend of policies have been implemented, have been amazingly successful. For fifty

University of the Western Cape's Institute for Social Development director **PIETER le ROUX** sang the praises of social democracy at the Weekly Mail Book Week debate on the economy. Here is an excerpt of his contribution

years, from 1920 to 1970, Sweden had a steady and high rate of growth. Its unemployment came down from 25 percent to two percent, its per capita income increased many times, it has one of the highest standards of health care in the world, and one of the strongest trade union movements.

Social democracies have succeeded in blending the best features of capitalism and socialism; the child has inherited the nicest traits of its capitalist father and its Marxist mother.

The capitalist sector in social democracies is highly efficient and internationally competitive. In terms of the ownership of the means of production, social democracies are capitalist, even though the state does intervene in certain spheres, through, for example, the nationalisation of some banks.

But the trade unions are also very strong — the workers have greater say over the production process, over the types of investments made, over the conditions of employment, even over macro-economic policy, than in any other society in the world.

Of all the existing social systems, social democracy is the only one which has shown itself capable of meeting the aspirations of the Freedom Charter within a reasonable period of time. All the other systems which are being proposed are pie in the sky.

Of course, we will have to modify and adjust social democracy to the realities of the situation in which we find ourselves. We can learn some useful lessons from the little tigers of the east and from other countries such as Malaysia. We should also learn from the mistakes of social democracies, of which there are quite a few — I leave it to my opponents to enumerate some of them. But, in the end, if we are going to have peace, prosperity and justice in our country, we will have to opt for a social democratic compromise.

Clearly the South African social democracy will be of a very different nature from the Scandinavian one, but it will be based on broadly the same formula. The future of our country depends so crucially on economic success, that we cannot afford to experiment with systems which only exist in theory.



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Conference on Africa trading

WIMAN 30/11 - 6/12/90

SOUTH AFRICA hopes to tap into the billions of rands of aid money that pours into Africa every year and boost its trade with the rest of the continent.

This emerged at the announcement this week of a conference, "Scenario for a sub-continent", which is being arranged by the South African Chamber of Business (Sacob), the South African Foreign Trade Organisation (Saf-to), the National African Federated Chambers of Commerce (Nafcoc) and BMW SA.

Sacob deputy director general Ron Haywood said this week at the announcement of the two-day conference in March next year on forming a sub-Saharan common market that South African exports to Africa amounted to only 10 percent of total exports.

The potential for expansion is therefore enormous.

Safto chief executive Wim Holtes said South Africa's trade with Africa rose by 40 percent last year and now amounts to R5,5-billion a year in goods and services, both direct and indirect, most of this in cash or cash equivalent.

A knotty problem in exporting to Africa has been the lack of foreign exchange.

South African business has come up with a number of suggestions on how to overcome this, the best-known being Eskom's vision of buying hydro-power electricity from countries to the north to give African countries rands to buy South African goods.

Holtes mentioned another source of money. He pointed out that as doors open for the South African business community in Africa, foreign aid is becoming a viable alternative financing source. It is a major support mechanism for most African countries, with the continent as a whole receiving a total foreign exchange inflow of around R40-billion a year.

However, he said, aid organisations abroad are increasingly aware of the need to "mix and match" their available funding with local business initiatives in Africa, enabling, for example, soft loans or grants to be used on infrastructural and human resources components and commercial credit facilities on the commercial portion of the projects concerned.

Local business groupings are hoping foreign aid money comes our way in a post-apartheid South Africa, and we can normalise trade links with the rest of the continent, reports **REG RUMNEY**

Former Anglo American chairman Gavin Relly said at an investment conference in London recently that with the independence of Namibia and renewed interest in South Africa the focus of the World Bank and other development agencies in Africa was moving southwards.

South African expertise, he said, could ensure the success of projects. "When aid is tied to bilateral trade even modest participation by South Africa could be worthwhile. Moreover such participation can occur without running the risk of lack of finance."

At the press function to announce the conference, Haywood said putting into practice the idea of an African or even Southern African version of the Common Market was far off. But greater regional co-operation, including South Africa, was clearly possible.

The announcement of the conference comes after the launch by the Southern African Preferential Trade Area (PTA) at its ninth summit of a monetary harmonisation programme which it is hoped will lead to a monetary union.

Sacob and Nafcoc are being given observer status in the PTA.

The Southern African Development Co-ordination Conference (SADCC) has also indicated it would accept a South Africa free of apartheid.

Holtes said South Africa already had indirect trade links with most African countries, and especially Zaire, the Congo, Mozambique, Malawi, the Ivory Coast, Zimbabwe, Zambia, Seychelles, Mauritius, and the Comores. Clearly it has strong ties with Botswana, Namibia, Lesotho, and Swaziland. Recently South Africa has started trading with Madagascar, Burundi, Rwanda, Kenya and Angola.

This bloc represents a total population of some 150-million people and a gross national product of \$95,4-billion.

Relly also pointed out in his speech that in a world moving firmly towards

the establishment of large regional trading blocs there was a need for a common market in Southern Africa.

But he advised an evolutionary approach.

Relly said that instead of trying to achieve a common currency — which must be a distant goal — a more modest aimed should be harmonising investment codes so that the foreign investor could look to the regional market rather than just the one national one.

In turn this would require serious attention to the difficult problem of tariff barriers between countries; incremental progress on bilateral rather than multilateral bases was probably all that could be expected in the short term.

Attention would be needed also in areas such as exchange rate reform and improved regional infrastructure. Attitudes in the region, said Relly, were conducive to all of these reforms being far more realistically tackled than before.

Relly was also of the opinion that South Africa was sensitive to fears that it would swamp all the smaller economies.

"That is one of the reasons why important South African leaders such as Simon Brand, the head of the Development Bank, advise the incremental approach on institution building. Hence both the South African Customs Union and the SADCC are likely to co-exist for some time to come."

South Africa possesses important advantages for trade with Africa, Relly said. These include:

- An appropriately valued currency.
- Proximity to African markets.
- African know-how — this is especially important in agriculture, veterinary services, technical expertise such as construction and mining and training.
- With the exception of Angola and Mozambique, South Africa shares with all of Southern Africa a history of British rule. It therefore enjoys a common legacy of legal, administrative and commercial practices and traditions, not least of which is the ability to speak English.
- Our African identity. We are an integral part of Africa and therefore are not perceived as outsiders.

Speculation mounts that BTI scrapped

SPECULATION mounted yesterday that the Board of Trade and Industry (BTI) has been effectively scrapped.

A source said yesterday that all personnel had been relocated without prior notice and a senior official had been "axed", leaving the BTI powerless with only five members remaining.

The claims were made in response to Department of Trade and Industry director-general Stef Naude's announcement on Wednesday that the department's industrial branch had been restructured and streamlined.

Naude said in his statement that the restructuring meant some officials would

MARCIA KLEIN

move from the BTI's offices to the department's offices.

The source said the changes had been made because of "a power struggle within the department and not any streamlining as suggested".

The moves follow months of speculation over the future of the BTI and of policy differences between it and the department.

Trade and Industry Minister Kent Durr earlier this year requested the Commission for Administration to investigate the mission and functions of the BTI.

B/D my 30/11/90

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New thinking needed for

the 'new' SA

STW 2/12/90

FIRST National Bank group economist Cees Bruggemans reviews the economic strategy of Administration Minister Wim de Villiers, as disclosed so far, and finds that concentration on South Africa's comparative advantages in mining, energy and transport are not enough to underpin the drive for exports. A new and different mindset is needed.

THE secrecy surrounding Dr De Villiers' report on economic strategy appears excessive.

Surely there can be little new in such a report. Anyone acquainted with the writings of Reserve Bank Deputy Governor Jan Lombard and the speeches of Finance Minister Barend du Plessis can list everything that has gone wrong with our economy.

Dr De Villiers' secret report can only be such a review of past mistakes, proposed corrective action and its timing.

The main debate in the "new" South Africa concerns redistribution. That deals with a 100-year-old mistake, while it is a fair bet that Dr De Villiers' report has a shorter-term emphasis.

Capital

Sorting out our malfunctioning First World sector probably preoccupies any current government agenda. A return to high economic growth would facilitate redistribution. But how to achieve such growth once more?

From the writings of leading government thinkers, the main preoccupation is the reducing availability and misallocation of capital.

This to them is the key internal reason for the long-term deterioration in performance. Capital is always scarce, being the relatively small portion of income that is set aside. It is the nation's growth seed, which has to be used "productively" through wise investment decisions.

Overconsumption erodes the pool of available savings, which is further reduced by foreign-debt repayment. If such a shrinking pool of savings is also increasingly misallocated, a negative interaction feeds on itself which systematically reduces the rate of economic growth over time.

Deformed

The "right" investment decisions create productive economic structures which support strong growth. The more that is saved, the more such capital is productively invested, the higher the growth rate can be.

The "wrong" investment decisions squander the little capital available on low-yield activities. This deforms the structure of the economy, less is produced and living standards start to decline.

Public use of capital can

be wasteful. Government, the provinces, municipalities and parastatals are notorious for investing in inefficient operations and overinvestment; sumptuous "prestige" buildings; and the many "strategic" projects which usually fail a simple discounted-cash-flow test.

Such public waste can be addressed through discipline, budgetary control and common sense.

Private users of capital are generally efficient in finding "productive" investment opportunities. Government often provides assistance, but low interest rates, tax incentives and handouts sometimes encourage abundance where less could have led to more.

It is less the price of capital, however, than its access that determines how private investors will use it. Private fixed investment correlates most closely with cash flow.

A shortcoming of private investment is that too little is going into productive capacity aimed at exporting, judging from the increasingly constricted balance of payments.

Attitudes

This may be due purely to a management preoccupation with the domestic market and the lack of an export culture. This inward-looking mindset may have been caused by the Government's external financial policies. They have been protectionist since the start of industrialisation more than 70 years ago.

This mistake has cemented most of industry into an introspective cocoon. Most industries are unable to compete internationally because neither their cost structures nor their attitudes are appropriately tuned.

To get us back to a high and sustainable growth rate, the internal and external mistakes must be corrected.

The savings rate should be increased by resisting consumption demands. Foreign

debt should be transformed and its call on the savings pool reversed. Wasteful domestic use of capital should be stopped, while more capital investment in export capacity should be encouraged by aligning cost structures and retuning mindsets.

To ensure an export breakout, the layers of overprotection should be reduced in a controlled fashion; the currency should not become overvalued; and labour must come to realise that it is not "us against them", but them against their counterparts elsewhere in the world.

Burden

In addition to this primary role, fiscal and monetary policies have a supportive role. Their job is to limit the size of the public sector to leave enough room for private enterprise.

Deficit funding should be limited. The tax burden should be allocated optimally, so as not to create disincentives. Credit generation should be restricted through real interest rates. This should choke off the fuel on which inflation and its expectations feed.

Monetary policy is certainly being conducted with rigour while fiscal policy gets on with reforming tax policy and savings disincentives.

Internally, we have progressed from import substitution of the 1950s and 1960s and costly "strategic" self-sufficiency and parastatal

overinvestment of the 1970s and early 1980s to the "inward industrialisation" of the late 1980s and 1990s.

Unless, that is, growth-through-redistribution is allowed to become another inventive way of misallocating capital (on which the jury is still out and where imaginative solutions remain available).

However, it is on the external side that the Government's thinking remains fixated: the idea apparently lingers that our greatest comparative advantage remains our natural wealth — gold, platinum, coal, basic metals and minerals.

But reliance on mining as our external saviour is where we are coming from.

Although there is an acknowledged need for broad "outward industrialisation", the strategic emphasis apparently still remains on an easy short-cut called first-stage beneficiation of mining output.

Imperative

A few, potentially large, mining projects could be attempted by private interests. But these, on their own, will not bring the needed export breakout.

It remains imperative that our industrialisation should become outward-bound, as in successful parts of the world.

The lingering idea of magic comparative advantage in mining, combined with the temporary oversup-

ply of energy and transportation infrastructure provides a tempting opportunity to intervene in Eskom and Transnet.

The plan envisages a decade of risk-free subsidisation of key players which are energy intensive, but which are now either working only one shift or have spare capacity.

This "opportunity" is offered as justification for the delay in privatising Eskom, but the strategy can only be a stop-gap measure. It cannot be the main strategy; it is only a temporary arrangement which has to end.

Such a policy does not provide a long-term basis for export expansion, and still leaves the question about the size and number of such one-shift factories with spare capacity being able to enter the world market shortly.

Strident

Where is the evidence on the industrial side, that such capacity exists and will be taken up?

And what will happen to such "temporary" export incentives when the surplus energy has disappeared?

The benefit of lower increases in administered prices may not help in breaking inflationary expectations. They may make it easier to accommodate strident wage demands.

It is commendable that the Government wants to bring inflation down as soon as possible, get exports going and start our growth engine once more.

For that, however, we need a broad action plan aimed at changing the way we have done things hitherto.

Punting pet projects using surplus capacity in energy and transport may perhaps be possible in their own narrow context, but should not detract from the broader foundation on which we have to build our future.

SA-Zimbabwe trade set to soar, says envoy

By Robin Drew
Star Africa Service

HARARE — Trade between South Africa and Zimbabwe has increased tremendously over the past five years, and with

trade liberalisation in Zimbabwe it is expected to rise even further, says South Africa's trade representative in Harare, Nico Nel.

Mr Nel yesterday said a post-apartheid SA

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would offer opportunities to other African states.

"Contrary to popular belief that a post-apartheid economy will swamp neighbouring countries, we view the development rather as a

great opportunity and not as a threat.

"South Africa will be so preoccupied with internal reconstruction that most of its resources will go towards that end," he said.

SOWETAN BUSINESS

EXISTING trade links in the southern Africa region will be significantly strengthened during the post-apartheid era, Gaby Magomola, executive director of Fabcos told a conference organised by the Confederation of Zimbabwe Industries (CZI) this week.

Mr Magomola was among the few South Africans who attended the two-day conference on reintegrated the Republic into continental trade patterns held at the Victoria Falls.

Strong trade links beckon new S Africa

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By ALI MPHAKI

stressed that any trade that has taken place with South Africa has excluded the indigenous traders," Magomola said.

Magomola, together with Mr Cyprian Lebeso, Fabcos general manager of satellite companies, represented their organisation at the conference.

Dr Sam Motsuenyane, the president of Nascoc, also attended the meeting.

Magomola said Fabcos was on the verge of estab-

lishing a trade company and links have already been forged with African businessmen as far as Kenya, Zaire and Tanzania.

"One of the great prospects of businessmen within South Africa is that for the first time, African businessmen within South Africa will not want to be left out of the race for trading with their counterparts within the region," he said.

"This exchange of

ideas, without one party dominating the other, will pave the way for thriving cross-border trade opportunities and will consequently expand the regional economy," he said.

Other organisations which attended the historic conference included the Afrikaanse Handelsinstituut, Federation of Black Chambers of Commerce and organisations representing bankers and accountants.

All 10 countries of the Southern African Devel-

opment Co-ordination Conference and many members of the Southern and East African preferential trade area were also represented.

A spokesman for the organisers said the conference was held in view of the political developments in South Africa. He said there had to be a coming together of some kind of working arrangements as to how a new democratic South Africa is going to fit into the regional economic structures.



GABY MAGOMOLA

BUSINESS

East bloc offers huge potential for investment

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EASTERN Europe, with 150-million people (excluding Russia), offers many opportunities to foreigners — including South Africans. But communism has left a legacy of business lethargy, says Leslie Bergman of Arthur Andersen Consulting.

There are, for example, opportunities in Eastern Europe for South African food producers. South Africa has a net food surplus, and in these countries the variety of foods available is limited.

The business environment makes it difficult to do business in East Europe. Telecommunications are poor. Budapest, for instance, has five different telephone exchanges.

But the lack of a Western work ethic — more than the rusting, obsolete machinery and poor infrastructure — is the biggest obstacle to modernisation.

The effect of 45 years of insulation from world free markets has robbed the Eastern bloc of the work ethic found in Western Europe.

Bergman has for the last three months spent two weeks a month in Eastern Europe. He spoke to *The Weekly Mail* before leaving for Vienna, where he will be stationed permanently, and from where he will be responsible for Eastern Europe, particularly Czechoslovakia and Hungary.

He was surprised at the shoddy nature of consumer goods. For instance, most of the pens he found scattered in hotels he stayed in did not work. And each was defective for a different reason, so chance was not the root of the problem. The reason was that goods were not produced to satisfy demand but in terms of some bureaucratic plan.

Prague is like an open-air museum: a large city without commercial activity

As South Africa builds trade ties with Eastern Europe, a business consultant who is working there spoke to **REG RUMNEY** about the special problems and opportunities the opening up of the region represents

but with a large underground economy because the formal economy doesn't produce what is needed.

But what struck Bergman above all about the business environment was the anti-work ethic the communist regimes have produced.

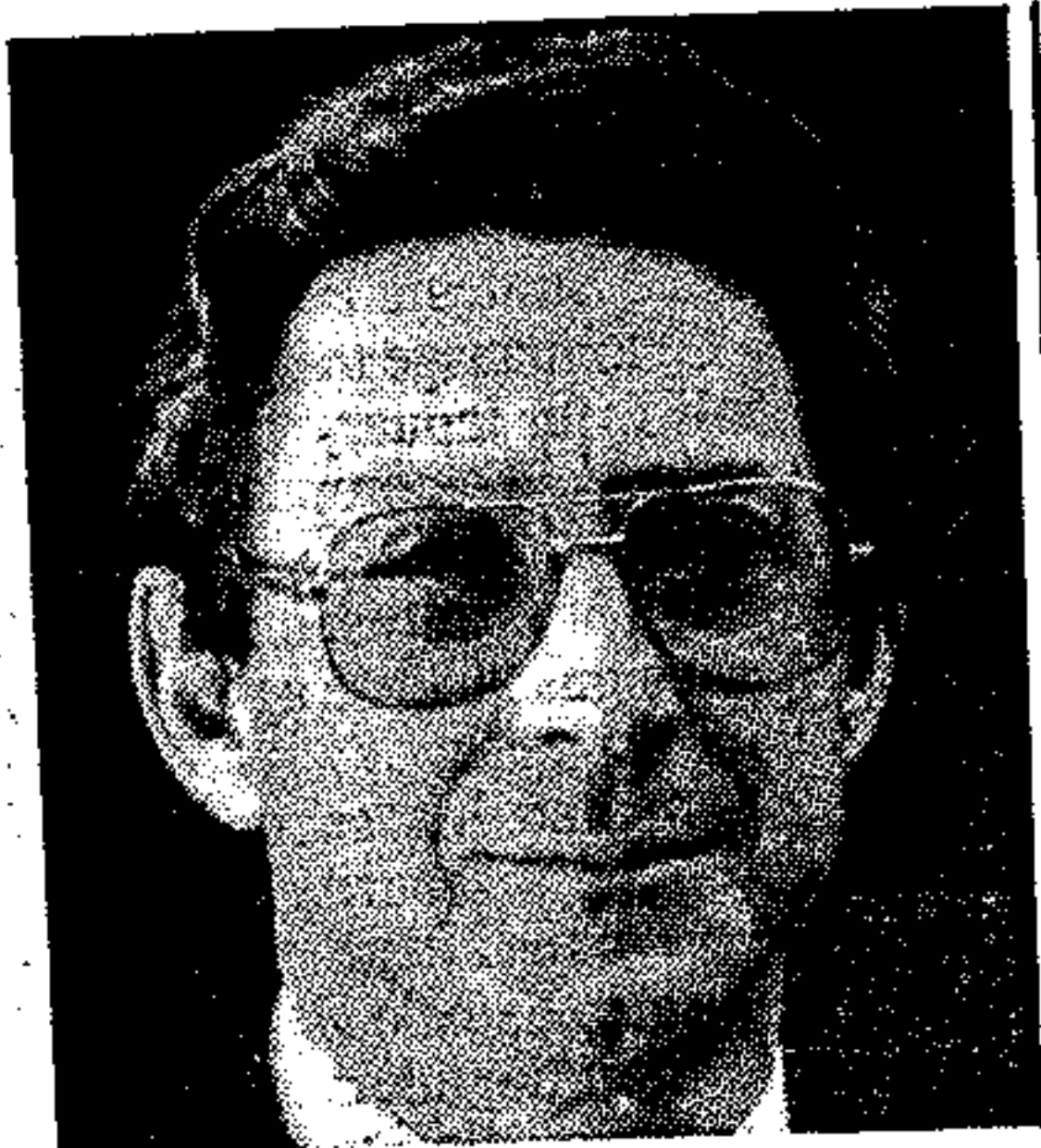
Bergman reckons it will take 10 to 15 years to modernise the economies of Eastern Europe. "Not only physical but psychological change is needed."

Bergman finds in his consulting work in Eastern Europe that few understand the concept of costing: "They don't understand how you cost goods and services. Few can value things like output." In the command economy counting things was more important.

This is the main difference between Eastern Europe now and Germany directly after World War II, where within five years a booming economy had sprung up out of the ruins. It will need more than Marshall Aid to return the economies of Eastern Europe to health.

Price support needs to be dropped, workers will have to be retrenched in various industries to make them competitive, but in the short term this will cause unemployment and an inevitable drop in the standards of living.

As a mark of the painful economic adaptation, the industrial output of Eastern Europe has dropped by about 50 percent, and real gross domestic product per capita has dropped.



Leslie Bergman ... surprised at the shoddy quality of consumer goods

For South Africans, Bergman suggests, Eastern Europe may prove easier to cope with. South African managers are used to dealing with the problems that could arise in Eastern Europe.

In South Africa, thanks to decades of Bantu education, managers are used to dealing with people less efficient and effective as those found in the highly skilled labour pool of Western Europe. Managers from Western Europe, with its highly trained and scarce labour, will find the going tough. "We have better understanding of the pressures."

Zimbabwe's trade with S Africa on the increase

Sowetan 7/12/90

VICTORIA FALLS - Trade between Zimbabwe and South Africa has increased over the last five years, according to Mr Nico Nel, South African trade mission representative in Zimbabwe.

In an interview with the national news agency Ziana, Nel - attending the Confederation of Zimbabwe Industries business conference at Victoria Falls - said trade was expected to increase even further in the future because of Zimbabwe's trade liberalisation.

"The volume of trade has increased tremendously and is still rising. We foresee, with trade liberalisation now in place in Zimbabwe, that the figure will even rise further," said Nel.

Imports

South Africa primarily imported agricultural produce and minerals from Zimbabwe, especially tobacco and asbestos.

"We hope to soon import some maize, since Zimbabwe has a surplus. We would also prefer to import meat as well, like in pre-independence days," Nel said.

He predicted that trade with the rest of Africa would also increase, provided a free market economic system was maintained.

South Africa was a potential market for front-line states, with its population of between 35 and 40 million people.

"Our large population presents a relatively large unexploited market and for Zimbabwe it can only mean greater opportunity, which will fit in well with trade liberalisation, which has an accent on exports," he said.

He believed a post-apartheid South Africa would be so preoccupied with internal reconstruction, which would require most of its resources, that it would not dominate trade in the rest of Africa in the post-apartheid era.

Optimism

"Contrary to popular belief that a post-apartheid economy will swamp neighbouring countries, we view the development rather as a great opportunity and not a threat."

Nel described the mood of the conference as extremely optimistic and said this had surprised him and delegates from the South African chambers of commerce who also attended.

"We received a clear message from our colleagues that they would prefer a closer relationship with South Africa, either in the SADCC or PTA (regional groupings which presently exclude South Africa). We would like to see what initiative is being taken to improve relations," he said.

He expected 260 000 Zimbabweans to visit South Africa by the end of the year, compared to 120 000 in 1988 and the 80 000 who visited the country in 1987. - Sapa.

KENT DURR

LEAVING LOTS TO DO

In the end, Kent Durr's meteoric, 15-month career as minister of trade & industry may have been his undoing; politicians — and especially fellow ministers — do not take kindly to being shown up by a relative newcomer.

While the London ambassadorship he's headed for is uniformly seen as an important posting, there is a measure of disquiet over Durr's sudden departure from his portfolio as minister. Industry leaders are upset that Durr is leaving the department just when he had established a high profile in business.

"I am very sorry that Durr is moving out of his important position," says Barlow Rand CE Warren Clewlow, who chairs the State President's Economic Advisory Council. "He has created a very strong and positive relationship with the private sector. And during our recent visit to the USSR, I wit-

nessed the strong impact, high credibility and good working relationships he established with our Soviet hosts."

Raymond Parsons, the SA Chamber of Business director-general, says: "Durr has been a very approachable minister who understands business language and relates very well to business issues. We have developed an excellent working relationship with him. His leaving the ministry is a sad loss to the business community."

Parsons hopes Durr's departure will not result in the department being downgraded.

Politics may be the best explanation for Durr packing his bags for the Court of St James. His success in opening new markets for SA in previously closed countries such as the USSR, Poland and Hungary may have tread on some sensitive toes in Foreign Affairs Minister Pik Botha's department. And his easy contacts with top bankers, industrialists and political leaders in France, the UK, Italy and elsewhere may have caused unease among Cabinet colleagues.

But Durr discounts these rumours, saying that he and Botha are "good friends and work on the same team; all my visits abroad were done in close association with him and I benefited from his visits abroad."

Durr did clash directly with the powerful protectionist lobby at the Board of Trade & Industry (BTI), where chairman Lawrence McCrystal's influence over industrial policy was undermined by Durr and his officials. The demise of the board's cherished structural adjustment programmes may also have upset some powerful industry lobbies.

Durr leaves a briefcase full of issues and tasks that will not be easy for his successor to pick up in mid-stream. Some of these are:

- The formulation of government's new tariff policy, which was submitted to the Cabinet after a study by the Industrial Development Corp;
- Defining the new role of the BTI, which may become focused solely on tariff and import policy;
- Complicated negotiations under the General Agreement on Tariffs and Trade (Gatt). Durr's department has submitted a list of 4-700 proposed tariff changes to Gatt officials as part of the current Uruguay round of talks which is scheduled to end this week;
- Europe 1992, which is destined to have a major impact on SA (about 50% of all SA trade is with Europe, which has a direct impact on 25% of SA's GDP);
- The department's promotion of manufactured exports to maximise investment, job creation and export receipts; and
- Co-ordinating economic policy with the top "econocrats" in Cabinet.

One result of Durr's stint at the depart-

ment has been his success in raising its previously low public profile. The important role of this department in SA's economy (job creation, adding value to exports, broadening the base of the economy, increasing domestic competitiveness) is now generally accepted.

President F W de Klerk must now find someone who can take up Durr's mantle. It might have been easier to find a different candidate for ambassador to London than to fill Durr's boots at the department.

The most prominently mentioned candidate for the job so far has been little-known western Transvaaler Amie Venter — who was recently given the task of overseeing industrial decentralisation policy. Hopefully this is not a sign of a return to the bad old days when regional development and protectionism were the cornerstones of SA's barely existent industrial policy. ■

TRAIL OF REFORM



Kent Durr had a sizable impact on trade and industry during his whirlwind ministerial career of just over a year. Here are some of his achievements:

- Led moves to deregulate the tourism industry;
- Encouraged the local manufacture of autocatalysts;
- Streamlined and rationalised SA's foreign trade offices;
- Removed entrance barriers to the Estate Agents' Board;
- Proposed reforms to the Board of Trade & Industry;
- Simplified national building rules;
- Helped to improve relations with Poland, the USSR, Hungary, Italy, France, Romania and Czechoslovakia; and
- Proposed numerous tariff reductions.

THE WEEKLY MAIL

RESCUE DELAYED

FIM 7/12/90
Two months ago it seemed a done deal. *The Weekly Mail* and Caxton group had said an agreement was signed that would save the *Mail* and allow Caxton to recover most of the money the *Mail* owes it (*Business* September 14).

But the deal was not signed. *Mail* co-editor Anton Harber says that the deal is pivotal to the paper's success. He blames technical problems for the hold-up. "For instance, we have only just finalised the balance sheet of *The Daily Mail* (now defunct.) We had to have that in place before we could work out the best way to pay off our debts."

Says Caxton financial director Edwin Jankelowitz: "Any plan to rescue a publication that has been in trouble needs to start from a firm position." For one thing, Caxton is concerned that the continuing case against the *Mail* by Lothar Neethling, head of police forensics, could ruin the publication. Neethling is suing the *Mail* for R500 000.

Under the deal, Caxton — which printed *The Daily Mail* and continues to print *The Weekly Mail* — would recover a portion of the *Mail's* debts. In return, Caxton would supply business and marketing advice to the *Mail* in an effort to make the five-year-old alternative paper viable. Neither party will disclose how much Caxton is owed.

One reason for the delay may be tax implications of the deal. "It would be possible to structure the deal tax-effectively from Caxton's point of view, and allow *The Weekly Mail* to keep its independence," says Chris Frame, Price Waterhouse's national tax con-

World recession new block to post-sanctions SA trade

By Neil Behrmann

LONDON — The international downturn, particularly in the United States, Britain and France, could impede South Africa's foreign trade even if sanctions are lifted.

This is the conclusion of foreign economists and bankers following discussions with the South Africa Britain Trade Association (Sabrita)

Headed by its president Blitz Bieber, Sabrita is touring the UK to help improve export and business relations for its members.

Mr Bieber said at a dinner here: "If sanctions are scrapped, SA exports will improve by around R1 billion or five percent of the total.

"Besides losing business, sanctions have forced our exporters to offer discounts on products while importers must pay premiums on goods bought."

Most participants at the dinner organised by the South

Africa Foundation contended that sanctions should and would be abandoned as swiftly as possible.

Lekgau Mathabathe, a director of the Premier Group and council member of Sabrita, said: "Sanctions damage an economy which must grow rapidly to satisfy the needs of the population."

Well aware

He forecast that a pragmatic African National Congress would rule South Africa within two years and the Government would opt for a mixed economy and reject socialism.

"ANC leaders are well aware of the problems," he said. "Moreover if an ANC government fails to satisfy the population, blacks will vote for whites in future elections."

"They will opt for leaders who will improve services and prospects."

While foreign bankers and

industrialists welcome the change in South Africa's political climate, they are concerned about high inflation and low economic growth. They are also constrained by recession at home.

A banker said US, Japanese and British banks were being hampered by capital restrictions following a spate of bad debts in their domestic economies and a sharp downturn in profits.

There was also a lot of competition for funds from Eastern Europe.

Since there were limited funds available, foreign bankers and industrialists would not be anxious to back projects in South Africa unless they were sure that they would be economically viable.

Meanwhile SA exporters are encountering recessions in the US and UK economies while a slowdown in the Far East and Europe will also restrain demand for South Afri-

can minerals and metals.

A collapse of the General Agreement of Tariffs and Trade would also be adverse for the world economy and hence South Africa.

Debt-burdened countries in Africa and elsewhere cannot grow back to creditworthiness without free trade. To escape a deeper recession, the United States requires booming exports abroad.

Flounder

Eastern European economies also require unimpeded access to Western markets. Otherwise their economies will continue to flounder.

Without Gatt and subsequent tariff liberalisation, trade would not have expanded more than twice as fast as output since 1950, says the Economist.

It is hardly surprising that international businessmen are worried that there will be a nasty increase in protectionism in the next few years.

Rand's strength against dollar pinned to weaker US economy

Star 7/12/90

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By Duma Gqubule

Those who have become accustomed over the past few years to seeing the rand depreciate sharply against the dollar can take some comfort from its performance over the past year.

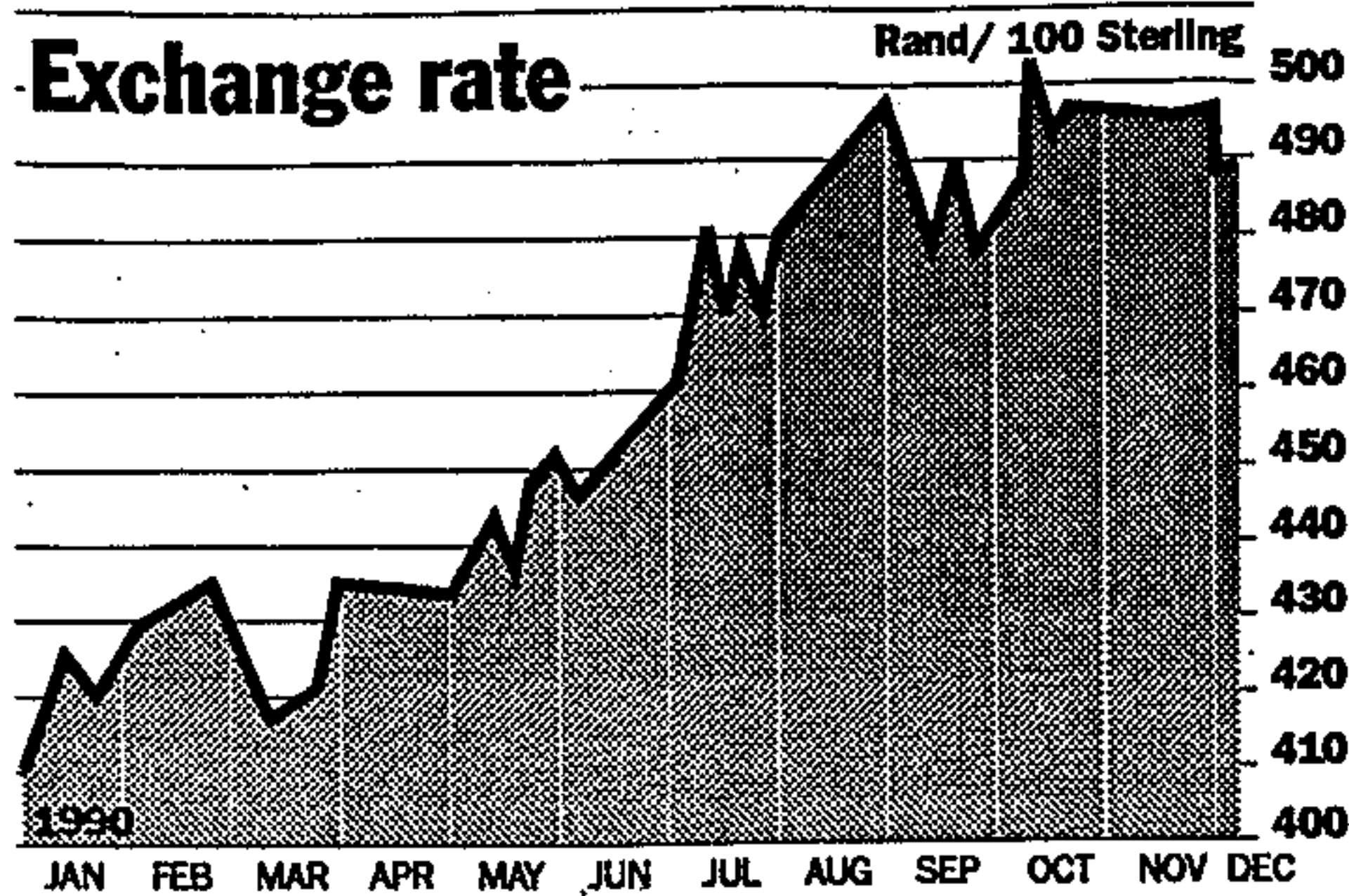
Compared with the exchange rate at the beginning of the year, the rand has held steady, gaining nearly two percent against the dollar. However, that is where the good news ends.

The dollar this year has been one of the weakest currencies in the world because of a slackening of the growth performance of the US, low interest rates and the prospects of even lower rates.

Depreciation of the dollar against the Deutschmark in the period June 1989 to end-August 1990 was 23 percent, against sterling it was 21 percent and against the Swiss franc 28 percent.

Given the weakness of the dollar in international markets, one would have expected the rand to have gained more against it.

The rand has fallen sharply against cross currencies.



Compared with the rate at the beginning of the year, the rand has fallen 15 percent against sterling and 17 percent against the mark.

It has also fallen recently to all-time lows against the Swiss and French francs.

However, economists say the policy of the Reserve Bank is to look at the performance of the rand against a basket of currencies, rather than one particular currency.

Against the trade-weighted index (which represents a basket of leading currencies), the rand has fallen by nine percent since the beginning of the year.

The Government has so far ignored the pleas of exporters, particularly the gold mines, to allow a rand depreciation to boost export earnings.

Gold mines now contribute less to exports and government revenues than they used to.

A report in the Economist

magazine says while most currency analysts agree the dollar is undervalued, none of them doubt a further fall is in the offing.

Therefore the rand should remain stable against the dollar in the first half of next year as the US economy continues to slow down. But further losses against other currencies are likely.

Later next year the rand could come under pressure as the dollar strengthens in response to an expected upturn in US economic activity in the second half.

Dealers expect the rand to fall by another 10 percent against the trade-weighted index in 1991.

The rand is fundamentally weak because of SA's relatively high inflation rate, the lack of access to foreign capital, the low gold price and the excessive growth of money supply in 1988-89.

But declining imports caused by the downturn, the large balance of payments surplus and high real interest rates provide some support.

Africa finds out it pays to shop in South Africa

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DITCHED . . . One of the problems for exporters is the appalling state of the roads in central Africa. The notorious "Hell Run" from Zambia to Dar es Salaam still lives up to its name so some exporters resort to shipping their goods to Europe for onpassing to countries in sub-Saharan Africa.

South African exports to these countries grew by 40 percent in 1989 and has grown by some 20 percent this year — and could now be worth some R5,5 billion a year.

BUSINESSMEN in sub-Saharan Africa are becoming frequent visitors to Johannesburg.

In the past two weeks six delegations have visited Johannesburg on potential buying missions.

Some of the delegations have made no secret of being here, even giving Press and television interviews.

Others, not wishing to lay their countries open to attack from the Anti-Apartheid campaigners, have quietly slipped in and out of the country, keeping a low profile while conducting their business.

But whatever their fashion of doing business, Johannesburg is increasingly becoming the mecca of traders from sub-Saharan Africa. They are looking for a better trade deal than they are getting from other countries — and often succeed.

This process has been going on for some time — as the sharp growth in South Africa's trade with sub-Saharan Africa indicates.

SAFTO, which plays a major role in fostering South African trade with other countries, estimates that South African exports to these countries grew by 40 percent in 1989 and has grown by some 20 percent this year — and could now be worth some R5,5 billion a year.

This figure is necessarily an estimate. Mr Paul Runge, manager of SAFTO's African business division, says the official trade figures issued by South Africa and African countries do not show the full extent of trade with this country.

For political reasons and for sound commercial reasons, a large part of the trade goes through third parties based in Europe. The result is that British import figures will include South African goods bound for African countries — but which will be excluded from any official South African-Africa trade statistics.

While Africa takes about 15 percent of this country's total exports, a point Mr Runge emphasises to highlight the importance

DEREK TOMMEY

of this market is that Africa takes between 25 percent and 30 percent of South Africa's exports of finished products.

Sub-Saharan Africa is looking to South Africa for a large range of goods and has sound reasons for doing so.

One of these reasons is the low exchange rate of the rand. The rand's devaluation over the past three years has helped give exporters a competitive edge.

Another is that transport costs are less, re-order times are shorter thus obviating the need to tie up large sums of money in stocks.

Other reasons are that South African goods are made for African conditions — though some work will need to be done in developing goods for tropical African conditions.

Out in the cold

Service and spare parts are not too far away, and last but not least, many of the sub-Saharan states want to do more business with African states, as they fear that Western Europe, preoccupied in developing trade and investment with Eastern Europe, could leave them out in the cold.

The easier political situation has played a major part in boosting South Africa's exports to other African countries. Since trade relations were resumed with Zaire about a year ago, it has become the country's second biggest export market after Zimbabwe, says Mr Runge.

The re-opening of relations with Madagascar has also led to large exports to that country. In fact, the market there has been over-sold for the moment, but it would come right in time, he says.

Now all eyes are on Kenya. Looking a little further ahead the opening up of trade relations with Angola would also give South African exports an important new market.

Transport can be a problem. Goods can be shipped by road as

far as the Shaba province in southern Zaire. But then the roads deteriorate.

Ships sailing from South Africa to other African ports usually have to come back empty which increases the cost of sea transport.

As a result in some instances it pays to ship some goods via Marseilles. Air freight facilities are available, but expensive.

But the most important consideration in increasing trade is the ability of the purchaser to pay in sound money.

There is a great shortage of foreign exchange in Africa, said Mr Runge. It means that trade has to be targeted to areas which can find the foreign exchange.

There are major companies well able to pay, but sometimes deals have to be arranged where these companies provide exchange for third parties.

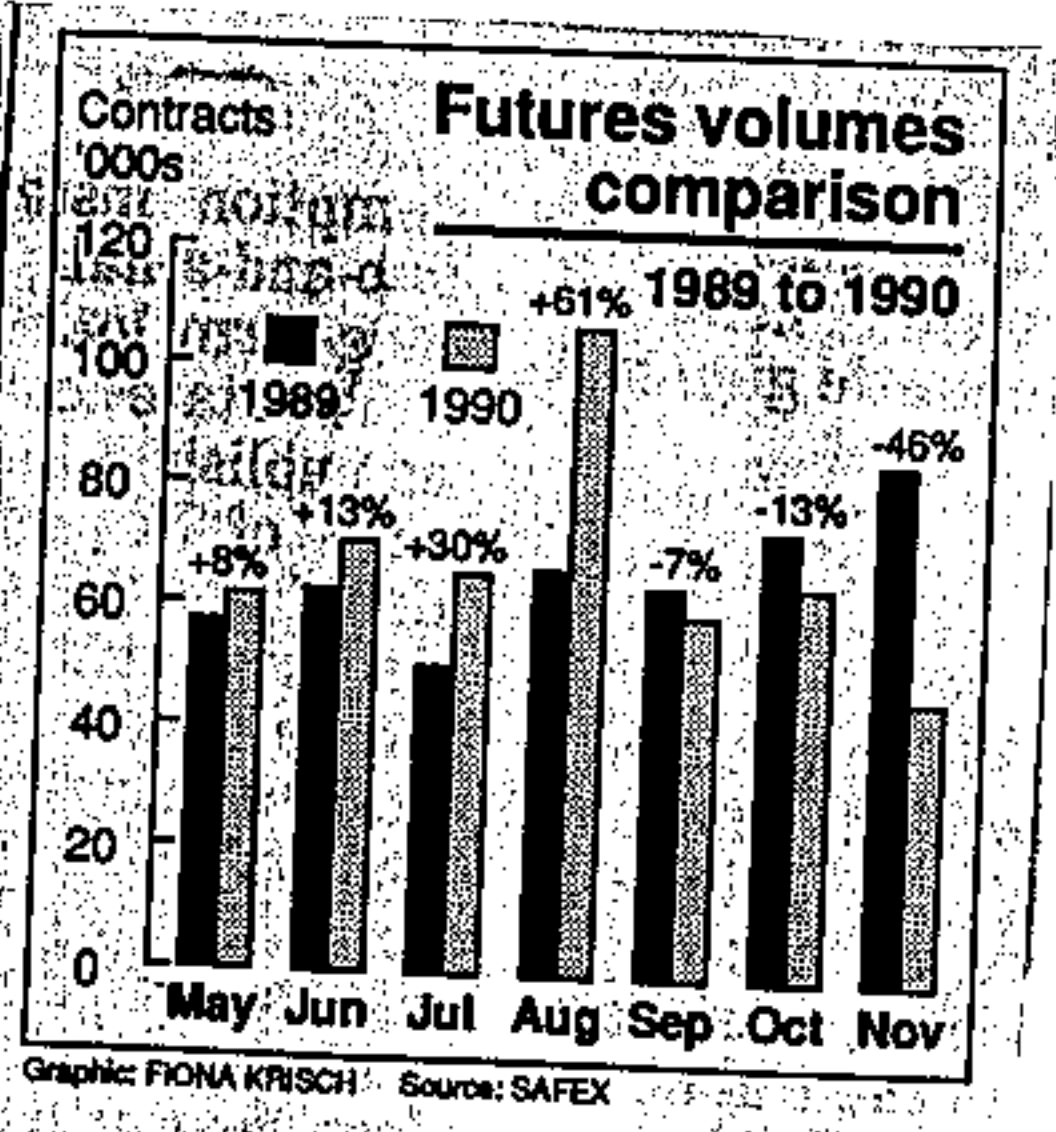
Mr Runge emphasised the importance of helping the African countries get aid from the World Bank and other development bodies.

"You have to indentify the project, do a feasibility study, and then help the country apply for a loan. Only then can you start supplying goods for that project.

Eskom is doing precisely this for Mozambique. It has worked out that the cost of restoring the power line from the giant Cahorra Bassa hydro-electric project to South Africa will be in the region of \$R100 million (R250 million) and is now actively seeking finance for it from the World Bank, Germany and several South African corporations.

Should it be possible to do a deal with Renano, as the Zimbabweans and Malawians did this week, then the new Cahorra Bassa project could provide South Africa with a valuable export contract worth tens of millions of rands.

In fact Southern Africa's development needs look like becoming a major source of new business for South African firms active in the export market.



Safex hits a low

10/12/90
 ROBERT GENTLE (76)

THE number of contracts traded on the SA Futures Exchange (Safex) in November fell 46% below that for the same period last year as the exchange continued to feel the bite of the recession.

It was the third successive month in which turnovers were down on last year, and contrasted with the bullish trend in the first half of 1990. Safex CE Stuart Rees said the exchange needed about 300 transactions a day to break even. Recent volumes have been about half that figure.

Safex is looking at cost-cutting and finance-raising measures.

Atlantic shipping market rates hitting a high level

THE past week brought a general firming of rates in most sectors of the freight market with rates in the Atlantic achieving levels not seen since April this year, Afromar reports.

Increased bunker prices and a rush by traders to fulfil their end-of-year cargo commitments had both contributed to the hardening of rates.

The Atlantic market last week reported the highest rates yet seen this year from the US Gulf to the continent for panamax grain cargoes.

The standard US Gulf to Japan panamax grain route is paying around \$25.25 a ton, which is about \$1.50 a ton more than the previous week.

Firming of the SA market has been evident during the past week.

Relatively firm panamax rates in SA are likely to remain until the current

Persian Gulf situation is resolved in view of the fact that fewer panamax vessels are going into the Persian Gulf/Red Sea area with cargoes, thereby causing an acute shortage of vessels which have traditionally been sourced from this area for SA trading.

This has necessitated charterers having to source vessels from further afield, such as the south-east Asian area, which is proving more costly for them.

Further, handymax vessels are in similarly strong demand at the moment with an owner of a 32 000-tonner commanding \$8 000 for a trip from SA to the Far East, and a similar vessel around \$5 000 for a trip to Europe.

Activity in the SA coal sector was relatively firm with a panamax fixture to Taiwan at \$10.23 a ton being reported.

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Bday 11/12/90 (74)
**Safex turns down
Bailey's appeal for
local membership**

BAILEY Overseas, an SA futures broking firm that has Reserve Bank permission to trade futures for clients on foreign markets, has had its application for membership of the SA Futures Exchange (Safex) turned down on appeal.

A special Safex appeal tribunal upheld an earlier decision by the Safex executive committee to reject Bailey's application for membership.

A notice sent to Safex members on Friday said procedures under the relevant section of Safex's membership rules had now been exhausted and that the appeal was subsequently dismissed.

This means that Bailey cannot trade on Safex for local clients.

Asked to explain the decision, Safex chairman Colin Dunn said: "Bailey Overseas did not meet the total criteria for membership." He would not elaborate.

Asked whether the decision had any implications

ROBERT GENTLE

for Bailey's continued trading on foreign markets, Dunn said: "We have no jurisdiction over trading by local firms in the international markets."

Approached for comment, a Bailey spokesman said: "We regard the Safex decision as grossly unfair and unjustified. We will explore all avenues to get this position rectified." He confirmed that the decision in no way affected Bailey's ability to trade on foreign futures markets.

It is one of a handful of local brokers that have Reserve Bank permission to trade futures for local clients on international markets. Contracts range from platinum to pork bellies.

Reserve Bank foreign exchange GM John Postmus said he was unable to comment as he personally had no knowledge of the latest Safex decision. However, he said it was being "followed up".

Mighty mark goes it alone as it takes a bullish course

THE fulcrum of influence in international forex markets is the Deutsche Mark. While other currencies, with the exception of the the sideways-moving Swiss franc, have been behaving with varying degrees of volatility, the German unit has been following a bullish trend which is showing no sign of a break.

On balance the dollar is indicating weakness against the mark and First National Bank's technical analysis suggests that the trend of the dollar is mildly bearish.

But definitely bearish is the behaviour of sterling against the mark and against the dollar and, parochially, the pound is looking weaker against the rand.

The mark/yen relationship appears to be firm but the analytical trend indicates that the yen might have to yield value to the mark.

The Swiss franc has been moving crab-like against the US dollar, that is, it is losing some ground against the mark.

Reasons for the strong movement of investment into the mark are the currency's inherent strength and the possibility of German interest rates rising — two immutable factors which act as a magnet to the vast flow of short-term funds which swirl through world markets.

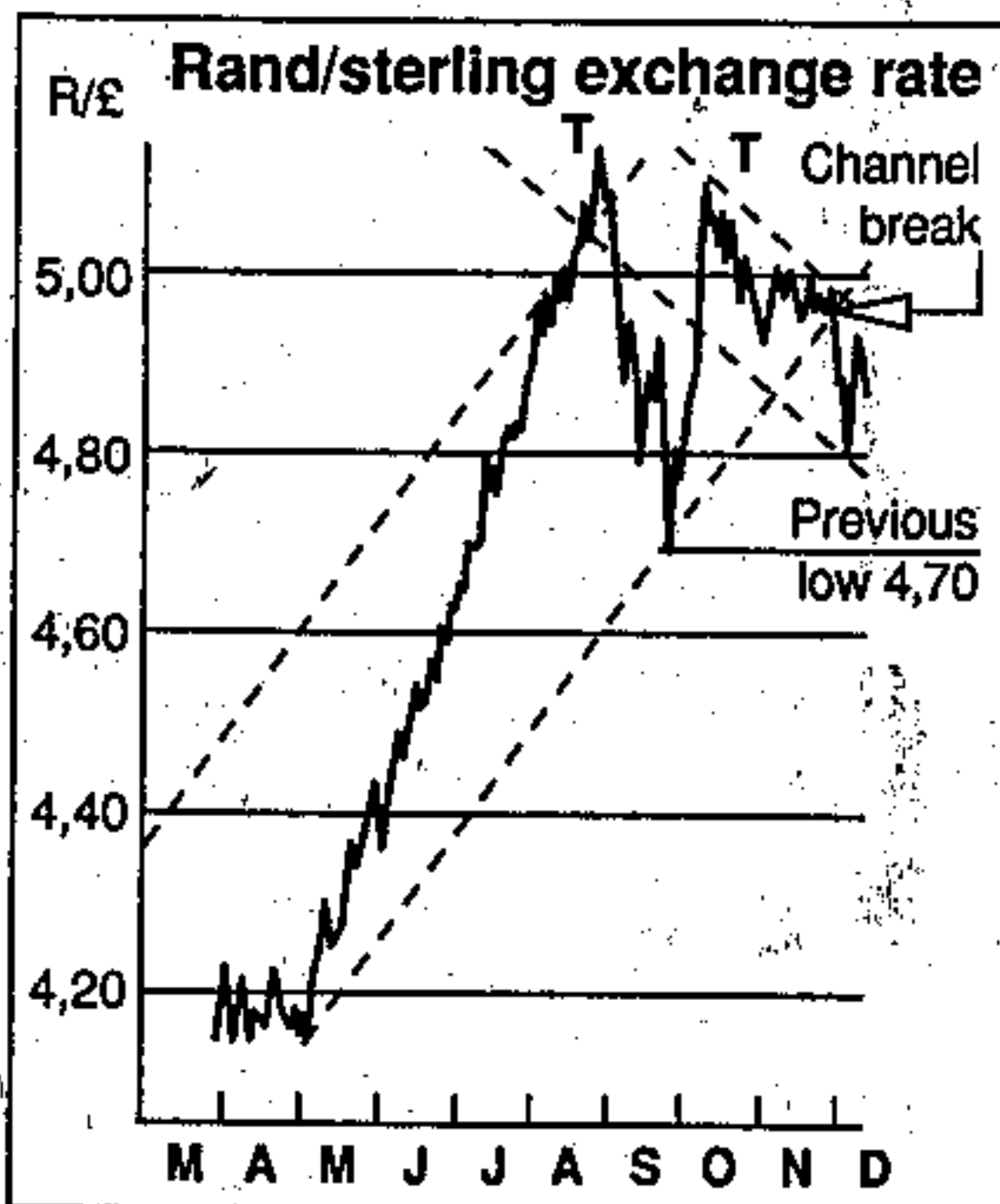
In an effort to ease the rates pressure in an illiquid German money market, the Bundesbank released its section 7 reserves into that market.

FNB says the 1,4840 level remains a pivotal point on the dollar/mark graph. There is resistance to any upward move while dips should find support at the 1,4570 channel base.

Sterling is looking somewhat anaemic. Last week a daily close low against the dollar at 1,9165 created a new bear channel with the base at 1,9122 and the projected top at 1,9770. As long as the market stays within the 1,9460/1,9520 band formed by the 21/63 day moving averages, some con-

solidation might be possible.

But against the mark, the pound's break below 2,8750 is a strongly bearish indication. When sterling broke the key support of 2,9480 against the mark on October 31, a new downtrend was started.



Graphic: FIONA KRISCH Source: TELETRAC

FNB says that the pound's weakness is now set to continue for some time.

At the time of writing the pound was 2,8640 against the mark with 2,77 being a critical level. This is the lower limit of the ERM band at which European central banks are expected to provide a crutch to sterling.

The weakness of the pound is now rebounding in SA's favour. At the same time that the pound started losing ground against the mark, sterling was also showing signs that its ascent to 5,000 against the rand was nearing its end. This is illustrated in the graph.

Once apartheid has been scrapped . . .

Japan wants lead status in SA trade

CMT 7148 12/12/90 74

Own Correspondent

JOHANNESBURG. — Japan wants to take over Germany's position as SA's leading trading partner once apartheid is scrapped, says Japan's consul in charge of economic affairs Yoshiaki Murakami.

Japan's trade with SA is expected to total \$3,3bn by the end of the year — a decrease of 10,8% on last year's figure.

Japan reduced its trade with SA after 1988 because of the stigma attached to being SA's leading trading partner. It was subsequently overtaken by West Germany.

Japan had been criticised

internationally for overtaking the US and becoming Pretoria's main trading partner in 1987.

In 1988 Japan's total trade with SA was \$3,9bn, which fell to \$3,7bn in 1989. For the year ending October, total trade between Japan and SA was \$2,7bn, and this figure is expected to reach \$3,3bn at year-end, Murakami said.

By end-October Japanese exports to SA totalled \$1,2bn, while SA exports to Japan totalled \$1,5bn.

Japanese cars and automotive components made up 60% of Japanese exports, with machinery totalling 25% and electronic goods 13%.

Of SA exports to Japan to end-October, iron, including iron ore, totalled 15%, coal 14%, platinum 9% and metals (including nickel and chrome) 10%.

In 1989, Japanese exports to SA were worth \$1,7bn, compared with \$2bn in 1988. SA exports to Japan showed a similar decrease, with \$2bn exported in 1989 and \$1,9bn in 1988.

Figures for other OECD countries show that in the first six months of this year, trade between SA and West Germany totalled \$2,4bn, Italy \$1,7bn, the UK \$1,9bn and the US \$1,7bn.

It was incorrectly reported yesterday that Italy was SA's leading trading partner in Europe.

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Japan keen to reclaim top trading spot

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EDYTH BULBRING

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while coal was 14%, platinum 9% and metals (including nickel and chrome) 10%.

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FIM 14/12/90

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board is alive and well and will have to continue playing an important part in tariff policy issues," says Warren Clewlow, Barlow Rand CE and chairman of the State President's Economic Advisory Council.

"In view of SA's delicate negotiations with the General Agreement on Tariffs & Trade, and the growing role of trading blocs such as the European Community — and even the Preferential Trade Agreement involving 18 African states — the board's role will become even more vital," says Ron Haywood, deputy director-general of the SA Chamber of Business.

The tide turned against the board last year after Kent Durr was named minister for trade & industry. Last March Durr shut the door on any more of the board's structural adjustment programmes for various industries, like the local-content programme for the motor industry (*Business* March 9). Stefan Naude, the department's director-general, said the programmes — the board's pride and joy — had to go because they require hundreds of bureaucrats to administer and government wanted to move away from interfering with business.

The final blow came when a two-year study by the Commission for Administration found that many of the board's functions were duplicated by other government departments. For example, the economic policy-making role of the Cabinet's economic co-ordination committee superseded the board's wide investigatory powers into issues such as fiscal policy, technology and the promotion of competition. Many of the board's activities even overlapped with the Department of Trade & Industry itself.

But even if the board does die, its critics believe its spirit will live on. "If it does die, the question of protective duties and tariffs won't die because there's too many big, vested interests," says one small manufacturer. "Naude is anti-protectionist but with Durr (recently named ambassador to London) we've seen how quickly the proponents of competition can be moved out of the way."

John Koppisch

FIM 14/12/90

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BOARD OF TRADE

NUMBERING THE DAYS?

The Board of Trade & Industry, that mischief-making body that has long been the bane of many businesses, could soon be all but dead. Few would mourn.

Nearly all of the 90 staffers seconded by the Department of Trade & Industry to the board have now returned to the department, leaving only the five members of the board itself and some assistants. Next year the Cabinet may consider legislation to strip away the board's advisory powers on issues such as fiscal policy, technology, promoting competition and small business development.

That would leave only tariff policy in the board's bailiwick, but then the board has proved it can do a lot of damage to the economy in that one area alone. Indeed, a former board staffer who now works for the department says the ex-board employees are continuing the same tariff investigations they conducted for the board. "The department will provide the support staff for the board," he says. "We'll do the same work."

The board, led by arch-interventionist Lawrence McCrystal, is the body that gave us the local-content programmes for the

motor industry, which helped to push up the price of cars beyond the reach of nearly all South Africans. Manufacturers resented the board because its proposals raised the cost of imported capital equipment and inputs to make them uncompetitive. Consumers resented it because its recommendations raised the price of toasters, tennis balls, hearing-aid batteries, toothpicks and countless other products. It was all done in the name of protecting local industry and saving foreign exchange — two misguided goals.

In a submission to the Industrial Development Corp's investigation into the board this year, one secondary steel manufacturer, which doesn't want to be named because it depends on the board for import permits, said: "The board has become the lobbying ground for vested interests and is invariably unable to appreciate the complexities. Decisions are arbitrary, with no recourse to a court of law to protest any injustice. You can be ruled out of business via the *Government Gazette*. Small businesses perceive the board as a department of interference and frustration that operates to the benefit of big business."

Indeed, big business is confident the board will continue its role in tariff policy. "The board's functions are essential to the tariff board's

De Beer confident of early resumption of foreign loans

ster 14/12/90

By Michael Chester

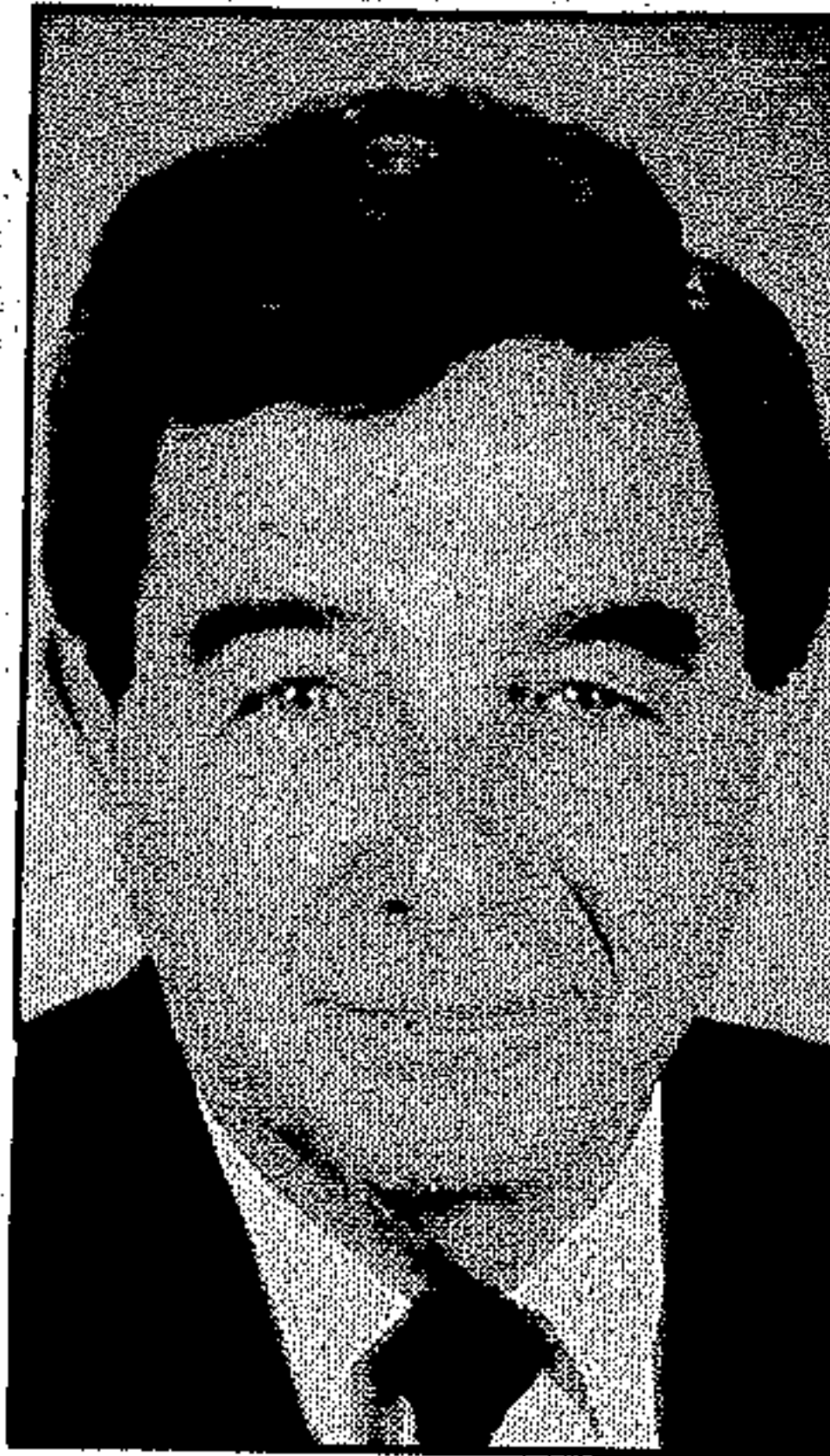
A renewed flow of international bank loans looks imminent, says Democratic Party leader Dr Zach de Beer.

He forecast yesterday that overseas banks would end the freeze on new loans quite soon.

Dr de Beer made the prediction at a Johannesburg symposium held by the Konrad Adenauer Foundation and the Centre for Policy Studies at Wits University to review the economic outlook in a post-apartheid era.

Initially, he said, private-sector investors in the stock market looked likely to remain scarce until a political settlement was reached, but the banking sector looked set to resume flows of funds needed to finance reform programmes.

Happily, because of the enforced repayment of old loans, SA found itself extremely under-borrowed by world standards, meaning it could afford to borrow quite significant new funds from international markets without exceeding prudent limits.



Zach de Beer... seed money for a massive housing programme

"We should do this," he said, "especially in order to provide the seed money for a massive housing programme, to be financed

principally by private-sector institutions.

"It should provide a good many jobs and give a valuable fillip to consumer-led economic growth without strain on the balance of payments."

Considerable new investment was also needed by the manufacturing sector in expansion programmes to boost exports and create more jobs and, in the longer term, replace the gold mining industry as the pivot of SA's overseas trade.

But investors would demand evidence of both political stability and successful economic management to guarantee sound returns on their funds.

Productivity

It was vital that there be a reversal of massive government interference and the abolition of apartheid in all its forms — in schools, residential zones and public services.

Also crucial was a thoroughly effective attack on low levels of productivity, with equal educa-

tion opportunities for all sections of the population and more emphasis on technical training.

Social justice was essential to the achievement of acceptable productivity levels — and that in turn made it vital to hasten the process of constitutional reform.

The Democratic Party would remain firmly committed to the ideal of a social market economy — with a balance between social justice and free market mechanisms — as the best route to the elimination of poverty and rising living standards for all sectors of society.

In an outline of National Party perspectives, backbencher MP David Graaff said it was essential that there be wider recognition of the constraints and parameters within which SA had to seek solutions to socio-economic reform.

The realistic parameters were far narrower than the expectations that had been generated.

New inflows of capital and skills were unlikely to be encouraged by threats of nationalisation — either by confiscation or expropriation — or by dangers

of still higher marginal tax rates, labour unrest and industrial strike action.

The limitations on redistribution of wealth were still not fully realised, he said.

For example, if as much as R16,5 billion collected from 2,3 million taxpayers was used to redistribute to an overall population of 30 million, in the end it would equal little more than an extra R10 a week for everyone.

There were also misconceptions about the existing pattern of the ownership of wealth.

Mr Graaff pointed to the insurance industry, which estimated that 48 percent of all policyholders were black investors, who between them now owned assets worth as much as R127,681 billion — equal to 32 percent of the entire capitalised value of the Johannesburg Stock Exchange.

The free market system, he said, still had to be regarded as the locomotive needed to pull SA — and indeed the whole sub-Saharan region — towards a new future with more jobs and higher incomes.

'R200m export market waiting'

5/12/90 17/12/90
MARC HASENFUSS

AN EXPORT market of R200m a year can be opened for local machine tool manufacturers if the Board of Trade and Industry amends its import duty policy and an affordable steel price is introduced, says Koppel Elga MD Chris Bell.

Bell said in an interview the Board of Trade and Industry's proposed phasing out of import control to encourage an internationally competitive industrial sector would harm local machine tool manufacturers.

Koppel Elga, SA's largest machine tool manufacturer, has been tooling up for almost two years to increase exports, and expects to earn about R12m from orders to Far East and Europe next year.

SA was able to meet local requirements for pressbrakes, hydraulic presses and guillotines, but local merchants favoured selling more profitable imported machines, he said.

If import duties were abolished without some compensatory measure, the local machine tool industry could die because of an inability to generate export markets from the current base. The cost of producing internationally competitive machines was enormous.

Uncertainty over Kenyan visas

61 Day 19/12/90

LINDEN BIRNS

THERE were conflicting reports yesterday on the issuing of Kenyan entry visas to holders of SA passports.

An SA source, who declined to be named, said SA passport holders would get visas to enter Kenya on landing at Nairobi's Jomo Kenyatta International Airport.

The source said there was a "99.9% chance" that 14-day visas would be granted on arrival. This would enable SA passport holders to go on holiday or conduct business in Kenya.

However, Jomo Kenyatta Airport's immigration chief last night remained adamant that SA passport holders wanting to enter Kenya had to make a "prior application for a visa". He said visas could be issued at the airport but only if arrangements had been made in advance.

SAA spokesman Leon Els said criticism and questioning of the validity of the airline's resumption of operations on the Johannesburg-

Nairobi route were "tongue in cheek".

"Before the imposition of sanctions, SAA held the rights to the Nairobi route. Now that the Kenyan government has given the go-ahead, we have simply taken up our entitled rights to the routes again," Els said.

Destinations

Last week a Financies en Tegniek article criticised SAA's motive for reopening flights on the route, saying that unlike the European carriers that could afford to land at Nairobi en route to Johannesburg, SAA did not have a sufficient market to justify the maintenance of the operations.

The article said that unlike European airlines, SAA did not have flying rights over countries north of Kenya and this meant flights between

Johannesburg and Nairobi had to end in the Kenyan capital and could not continue to other destinations.

There were 10 weekly flights between Johannesburg and Europe which had scheduled stops in Nairobi.

Els said the Nairobi stopover was a boost for SA's Muslim community as its members could connect with flights to the Middle East and southern Asia.

"We do not have any proposed extension of routes to the Far, Middle or Near East, but Cathay Pacific (Hong Kong) and Singapore Airlines (Taipei) have both indicated they are interested in extending their operations network to include SA."

Earlier this month a Cathay Pacific spokesman confirmed the airline was keen to start flights between Hong Kong and Johannesburg, but added these would operate initially in partnership with Air Mauritius.

JSE battle of the golds ends in a draw

61 Day 18/12/90

MERVYN HARRIS

THE battle of the bulls and bears ended in a draw on Diagonal Street yesterday as players scrambled to buy or sell index-weighted gold shares according to strategies they had adopted on the close out of December futures contracts.

The JSE all gold index swung from a high of 1 140 to a low of 1 123 before ending seven points up at 1 129 as players sought to take advantage of price differences in the cash and futures markets.

Market action concentrated on heavyweight

golds as there were 2 025 open contracts at the start of trading compared with 400 unclosed industrial contracts which, dealers said, gave little scope for price manipulation by big players.

Greenwich Futures trader Bryan Coyne said futures traded at a discount to golds on the spot market for most of the day. "This was due to rumours that certain large players were waiting to come in as sub-

stantial sellers of golds on the JSE.

"But the rumours were picked up by other large players in the market and they became counter-productive, neutralising the close out on heavy volumes." Gold rose nearly \$3 to close in London at \$376.50 as war fears mounted in the Gulf on deadlocked talks between the US and Iraq. The strength of golds and mining financial shares and a steady industrial board enabled the JSE overall index to close five points up at 2 682.

EC decision galvanises gilts market

THE easing of EC investment sanctions fuelled bullish sentiment in the gilts and financial rand markets yesterday.

But optimism was tempered by the ANC's "hardline resolutions" at its conference over the weekend, dealers said, and the release of SA's trade figures which showed a decline in November's surplus.

The financial rand was marginally firmer at R3,46 to the dollar from Friday's R3,49 on reports that the Reserve Bank saw the easing of investment sanctions as contributing to the process of abolishing the dual exchange rate. A dealer said positive sentiment was checked by the ANC's call for defence units and its April 30 1991 deadline for removing obstacles to negotiations.

18/12/90
GRETA STEYN

In a volatile day in the gilts market, the benchmark Eskom Loan E168 shed 10 points in early trading to touch a low of 15,61% before the release of the November trade surplus pushed rates back up to close at 15,69%. Although the price of gold was \$4 higher yesterday, an increase in the oil price combined with the weaker trade surplus to dampen bullish sentiment.

Foreign investors have remained net buyers of gilts and the easing of EC sanctions could heighten demand. Dealers report foreign investors appear to be switching out of E168 stock into government's long-term stock.

● Comment: Page 3

US dollar showing unseasonal bullish trend

B/dec 74 19/12/90

TENSION in the Gulf is disturbing the end-of-year winding-down process in international forex markets. Dealers seeking to balance their books are watching the steady movement of funds into the US dollar when technically the US currency should be showing signs of weakness.

The Union Bank of Switzerland (UBS) in its weekly forex comment, says the adverse recession/inflation indicators first pushed the dollar down last week, but it recovered through short-covering buying.

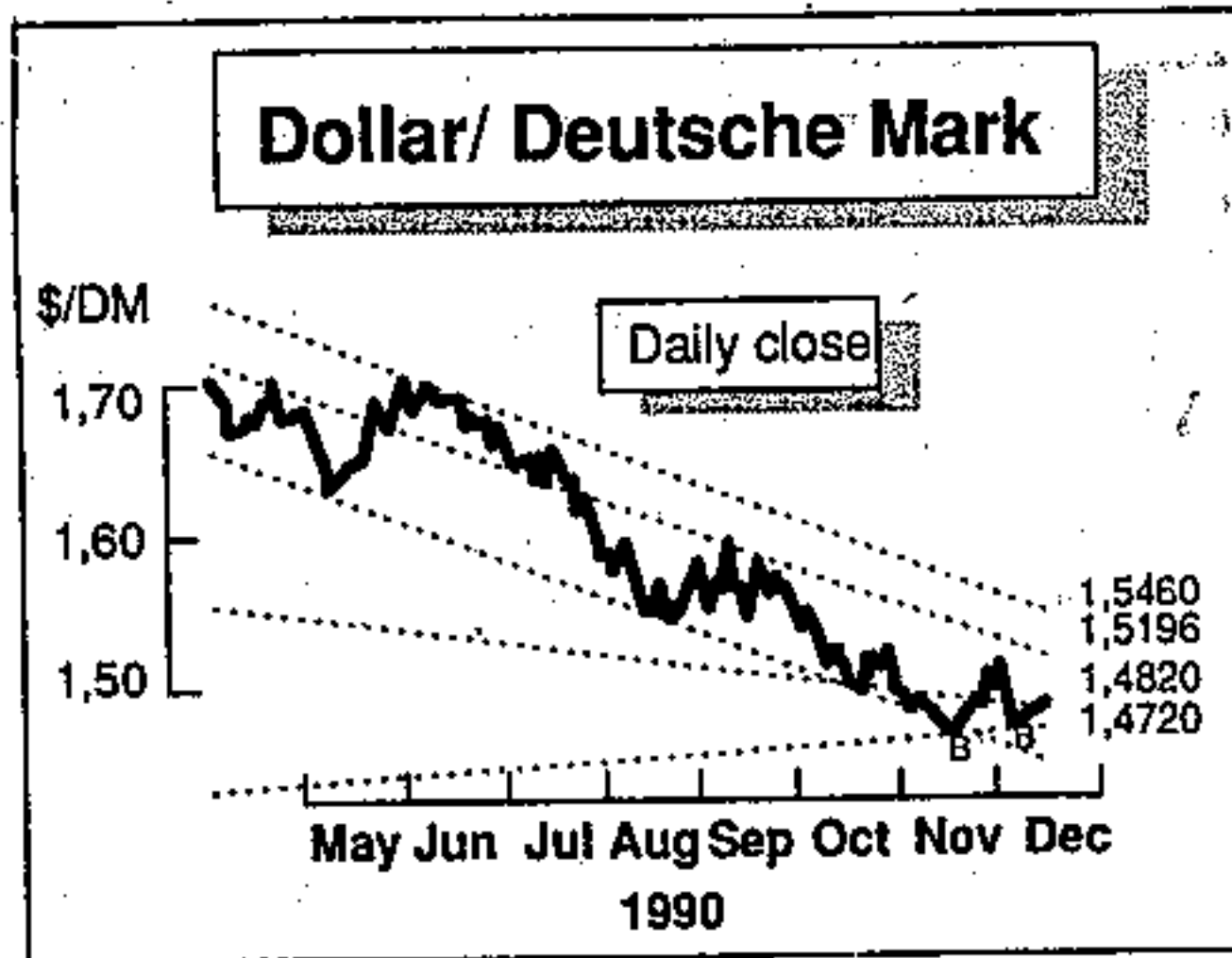
And, as First National Bank (FNB) puts it, it has also been affected by the flow of safe-haven funds seeking refuge in dollars — just in case all hell is let loose in the Arabian desert.

Dollars, in spite of all the US indicators pointing to recession and the possibility of interest rates being lowered, are preferred to

the inherently stronger Deutsche Mark because if the Gulf blows up, the German economy would be highly vulnerable to the consequent shortage of oil.

This week's graph from FNB shows clearly the double bottom formation — marked B — with the dollar/mark daily close line breaking out of the bear channel.

The FNB technical analysis says:



Graphic: LEE EMERTON Source: TELETRAC

HAROLD FRIDJHON

"This type of formation usually signals the commencement of a bear reversal and the target of this formation is the channel top at 1,5460. Only a break and close below 1,4720 would indicate a failure of this formation."

The likelihood of this downward break appears, at present, to be a little remote, particularly as the Italian central bank chief Caiampi, as reported by the UBS, claims the dollar is realistically valued against the DM. There might be more trading for or against the dollar were it not for the drying up of forex dealing. FNB says dealers abroad are reluctant to deal. They want to see their books safely closed with no open positions when 1991 is ushered in. They are even shrugging off the possibility of interest rates being cut in the US.

If the missiles don't fly across the desert, there is every likelihood of the DM strengthening against the dollar, and the scenario could change in mid-January.

Sterling is in a bearish mode against both the dollar and the DM. British economic indicators — with the exception of the inflation rate which has dropped below 10% — confirm the UK is in a recession and it is expected that pressure will be exerted on the government to cut interest rates. This would be a mixed blessing because while low interest rates would ease domestic pressures it would be a deterrent against capital inflows. Britain's salvation at present is the petro-bonus.

Signs still appear to be relatively favourable for the rand. The dollar/rand graph is almost a mirror image of the dollar/DM graph. There is a harmony between these currencies which leads one to suspect the Reserve Bank is exerting its influence.

The rand is still showing strength

against the British pound. Following the sharp downward move of sterling a few weeks ago, the flagtop resistance is likely to be met at 4,92 but a break of the support at 4,8500 could signal that the next support line will be at 4,8000.

The rand's bull trend continues against the Japanese yen and a break at 53,30 will further extend the rand's strength. The yen is the currency which is causing some concern among European central bankers; its weakness is a trade worry, not a stability anxiety. A weak yen enables Japanese goods to have an advantage against other international traders.

Gold is not performing well and its cause was not advanced by a rumour, since denied, that Germany proposed selling one billion gold coins to finance East German unification. But the rumour was sufficient to unsettle the gold market at a time when any unfavourable whisper could rock the balance.

LETTERS

Rush for cover in gold and dollar markets

Bloom
21112190 JOHN CAVILL

LONDON — Safe-haven money flooded into the dollar and gold markets yesterday on news of Soviet Foreign Minister Eduard Shevardnadze's shock resignation and on rumours that a US military aircraft had been shot down over the Persian Gulf.

Gold started its rally on Wednesday after the US Federal Reserve cut the discount rate by half a point to 6.5%, weakening the dollar against the Deutsche Mark and other European monetary system (EMS) currencies. From \$376.95/oz in London it climbed to \$380.20.

Yesterday saw bullion and the dollar both climbing. The US currency firmed from DM1,478 to DM1,505 and from 133.90 yen to 134.35 yen. Sterling's dollar rate slipped from \$1,932 to \$1,919.

The rand closed sharply weaker against the dollar at R2,5375/90 from its opening at R2,5235/50. It gained 2c on the pound, closing at R4,85.

In a thin, pre-holiday market, gold bounced to \$387.50 as short sellers covered in before sagging to \$385.45 at the London afternoon fixing. Other precious metals followed: platinum was up nearly \$12 to \$428.25/oz dropping to \$425.50.

However, silver shot from \$3.97c/oz in London overnight to \$4.33c in New York.

MERVYN HARRIS reports gold shares surged on the JSE and the all gold index ended almost 76 points higher at 1 188.

Worries about disruption in the Soviet Union, which accounts for 20% of platinum production, sent the platinum price sharply higher in London but platinum stocks failed to react significantly to the jump.

Southvaal was in the forefront of the gains among better class golds. The shares rose 10.9% or 850c to R86. Driefontein rose 7.4% or 250c to R36 and Vaal Reefs gained almost 6% or R11 to R197.

How SA can become the locomotive of Africa

THE COMPETITIVE ADVANTAGE OF NATIONS, by Michael E Porter (Macmillan, R125)

SANCTIONS on capital flows and trade pushed SA into limbo. Positive net exports became a major policy target, to be achieved by a weak rand and, by international standards, low wages. Achievement of a satisfactory balance of payments permitted repayment of overseas debt. Success? "No" says Michael Porter's recent book, *The Competitive Advantage of Nations*.

Politics and arithmetic may have compelled the economic pattern of the past few years but it has not been optimal. But as external political pressures weaken, two alternative scenarios beckon.

Number one says unemployment is a major problem. Job creation, with "appropriate" technology for the local environment, funded by taxpayers, or by prescriptive direction of financial sector funds will provide tomorrow's success. "Wrong" says Porter, unless we wish to live in a low wage country such as India, or join the basket cases in the rest of the continent.

There is a more desirable scenario, tantalisingly within reach as sanctions fade. This is to export goods with a high value-added component. They will fund the sophisti-

cated imports we cannot produce.

Michael Porter tells us how to do it. His encyclopaedic work is close on 900 pages long. It provides detailed industry profiles of more than 100 industries drawn from 10 countries. At a sitting it is indigestible. As a library resource it is worth buying. The author, or his publisher, shows amazing self-confidence in blending both Ricardo and Adam Smith into a carefully chosen five word title. But this is more than just a slick piece of marketing. Porter identifies what makes some nations successful and others not. His samples include both developed and developing nations.

Porter's study shows that success is generally long lived and occurs in *clusters of firms*. Prosperous nations, he argues, are those which are the home base for clusters of internationally operating firms.

Why does a particular nation become a home base for successful international competitors in an industry? Why is Germany the home base for many firms in chemicals, in luxury cars, in printing presses? Why does the US have many internationally operating firms in advertising, detergents and computer software? Why does the UK have clusters of firms in biscuits, insurance and electrical generation; Korea in shipbuilding, semiconductors and pianos; Italy in ceramic tiles, skiboots and

domestic appliances?

The list goes on. In each case the cluster of firms in the nation in question possesses a competitive advantage relative to the best world-wide competitors. The result is that the home nation benefits substantially and persistently. Nor does the home nation necessarily indicate the nationality of most shareholders; it is rather the country where the effective strategic, creative and technical control of the company lies.

Traditional

There are four interacting conditions for national success in a specific industry. Porter calls them, resorting to baseball jargon, the four points of the "national diamond". These interacting prerequisites are factor endowments (particularly skilled labour and thrustful management); a strong and sophisticated domestic market; a strong, internationally competitive group of supplying or complementary industries; and fourthly, rivalry, managerial strategy and an enterprise culture in the industrial cluster of firms.

Porter's arguments are not based on high theory — although at times he almost claims his book will displace traditional views of economics. His achievement is in some ways less than that, in others more.

The traditional economic establishment certainly does sometimes appear to view a balance of payments surplus as an end in itself, to see job creation as an ideal irrespective of the type of work done, and government direction of capital flows for "social" ends as somehow superior to markets which express the judgments of individuals.

Competition, to Porter, is not a sterile textbook abstraction. It is Schumpeterian innovation and dynamism, not equilibrium. Textbook factor substitution of resources from low return to high return areas is less important than how firms increase returns through new products and processes.

Developing nations often shun such lessons and, Porter argues, even resource rich countries like Norway, Canada and Australia could become trapped as technology advances and natural resources play a smaller and smaller role in global economic growth. Trade, which benefits all through exports and imports, occurs because of natural differences in character and culture.

Porter's policy conclusions for government are that it must reinforce the "diamond" by policies which encourage effort, incentive and competition, "not the tempting but counterproductive choices such as subsidy, collaboration (with indus-

trialists) and so called temporary protection". Home governments do not know what domestic markets want, they have even less knowledge of what foreign markets require.

What are the South African clusters which could have propelled us into the international arena in the 1990s had it not been for sanctions? The list is, in fact, heartbreakingly long for a country our size.

Porter does not tell us, but there are obvious examples: insurance, property development, retailing, alcohol, tobacco, mining exploration, hotels and tourism. These may or they may not be the optimal clusters for SA in the year 2000.

The departure of the foreign multinationals, who left because of our national socialist policies, imposed a cost. A far greater cost, Porter's thesis suggests, was the stunting of our home based clusters (Pick 'n Pay out of Australia, De Beers and Rembrandt shuffling sideways into Europe, Anglo and Liberty hiding their origins behind a costly welter of associates in the US and Britain).

If SA is to become the locomotive of Africa's growth these "clusters" need policies which encourage them. Without them SA will become another carriage in the African train, sitting immobile in the siding while the rest of the world rushes past.

DUNCAN REEKIE

B/day 24/12/90

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Dorbyl Marine lands German deal to build container ships

Own Correspondent

DURBAN had the capacity, manpower and expertise to cope with the construction of three 133-metre container ships, following a multi-million rand contract landed by Dorbyl Marine.

Work on the contract, concluded with a German shipping magnate, is already well under way and is expected to be completed by 1992.

Commenting on one of the major coups in the shipping industry Mr K Zakrzewski, ship building manager for Dorbyl, said as far as he knew it was the "biggest single contract awarded to a

South African shipbuilding firm".

The three ships have a gross tonnage of 9 300 tons and are the largest commercial vessels to be built in South Africa.

It has been said the contract will also provide a major financial injection for Durban's crippled economy.

Mr Zakrzewski said Dorbyl Marine had increased its workforce by 700 to handle the deal and he believed another 3 000 directly related jobs would be created.

He said one of the main factors in landing the contract had been South Africa's improved image abroad.

Approached for comment a spokesman for the African National Congress, Jill Marcus, said in principal the deal "sounded like a violation of sanctions".

However, she said she could not be "more specific" without having any knowledge of the details of the contract.

The ANC would not comment on whether it regarded such deals as a contravention of sanctions against South Africa. Mr Walter Sisulu, internal leader for the ANC, said he could not comment without becoming better acquainted with the facts.

AM-Trade 27/12/90

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By COLIN LEGUM

ALTHOUGH sanctions against South Africa have not yet been finally lifted, they are crumbling at a rate that already casts doubt on their credibility and effectiveness. This development is an undoubted triumph for President F W de Klerk whose promise of "a new South Africa" has carried more weight than the anti-apartheid movement's warning that the liquidation of apartheid is not yet irreversible.

In fact, as has been openly admitted by ANC leaders, De Klerk has succeeded in wresting the initiative in the opening phase of the negotiating process over a democratic non-racial constitution from his opponents.

This goes not only for the success he has had in the international arena, but also at home. One reason for this is the difficulty the ANC has had in establishing itself as a disciplined and coherent political party with a proven mass following. To date, it has succeeded in recruiting only 200 000 members in its initial campaign to secure one million members. Moreover, it has failed to produce an effective organisation to service even its 200 000 members.

Building a party

Yet, as public opinion polls show, over 57% of all South Africans give their vote to the ANC. Its failure, so far, has been to convert this massive sympathy vote into an organised political party.

Those who criticise the ANC's failure — and the critics are to be found inside the ANC as well as among its opponents — underestimate the very real difficulties of building an organised party in the short period of 10 months since the ANC was made legal.

It is likely to take at least another year before the ANC is able to create the infrastructure needed to establish its position.

Apart from the inevitable difficulties of planting itself firmly on the ground, the ANC's most notable defeat, thus far, has been the crumbling of sanctions.

If the ANC had read the signs correctly it could have gained greater international credibility by taking the initiative in advocating a policy of selectively lift-

Sanctions are being eroded but investors need stability

ing sanctions instead of persisting in the hardline advocacy of keeping up economic pressures.

In fact, many of the ANC's leaders — notably Oliver Tambo and Nelson Mandela — correctly foresaw the irreversible crumbling of sanctions and sought to change the party's hard line. But they failed to persuade key elements in the movement to accept the political wisdom of placing less reliance on international pressures and more on national pressures. The rejection of their advice was overwhelmingly demonstrated by last week's decision of the ANC's advisory conference to pursue the largely lost cause of pro-sanctions policy.

Much of the blame for eroding sanctions is now laid by the ANC at the door of the European Community's decision to begin phasing out sanctions by lifting the ban on foreign investment in South Africa.

But while the West Europeans are a convenient scapegoat, the reality is that the East Europeans, including the Soviet Union, and especially African governments, have done more to erode sanctions over the last six months than the European Community.

African governments

Hungary, Czechoslovakia and Rumania were among the first to breach the trade ban.

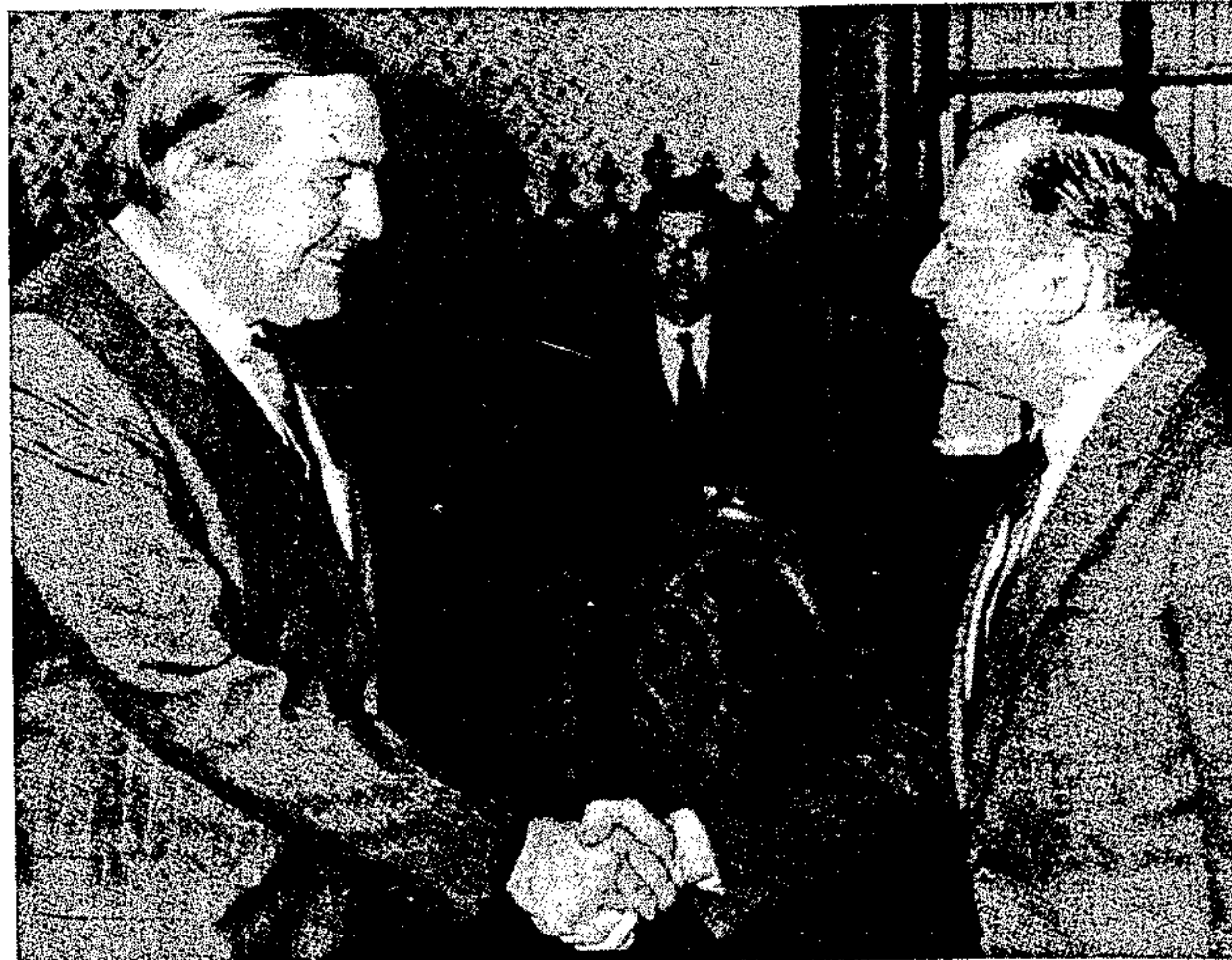
The Soviet Union sent a trade delegation to South Africa on an

exploratory visit which resulted immediately in the placing of an order for prefabricated housing for victims of the Chernobyl disaster, and in inviting South African experts to come and advise on measures of containing the effects of the nuclear fallout.

Far more telling than any of these breaches of sanctions has been the role of African governments. In the last nine months South Africa's trade with the rest of Africa has increased by 40%. A growing number of African governments has openly defied the boycott policy of the Organisation of African Unity by inviting the South African government for talks to develop trade relations.

This includes such formerly hardline opponents of Pretoria as Madagascar and the Seychelles, while Kenya broke the ban on air connections by licensing South African Airways to begin a regular weekly service to Nairobi to facilitate both tourism and trade. At least 14 African governments now maintain open trade and other links with South Africa.

There have also been other significant improvements in relations between South Africa and its neighbours. The Southern African Development Cooperation Conference (SADCC) — which was formed to lessen the dependency of South Africa's neighbours on Pretoria — invited Pretoria to send an observer to its lasting meeting, as did the 14



EASTERN BLOC LINKS . . . South African Foreign Minister Mr Pik Botha met Rumanian President Mr Ion Iliescu in November. Rumania, Hungary and Czechoslovakia were the first countries to breach the trade ban.

members of the Preferential Trade Area (PTA).

Even more important is the agreement by SADCC members to begin integrating their national power grid systems with the Electricity Supply Commission of SA (Eskom). The first stage of this development, which will be financed by the World Bank, will link Eskom with Zimbabwe. The second stage will extend the grid to Zaire and, potentially, as far north as Tanzania. The cost is estimated at tens of millions of rands.

Pretext for West

The opening of links between South Africa and the rest of the continent are potentially far more important than the putative ending of sanctions with Europe.

In a very real sense, therefore, it can be argued that the most serious breach in sanctions has been the result of the changing policies of African governments. It would hardly be surprising, therefore, if Europeans and North Americans were to use as their pretext for phasing out sanctions the example set by Africans themselves.

Since the ANC has been unable to dissuade members of the Organisation of African Unity to observe sanctions until the political process is adjudged to be irreversible, it seems unlikely to have more success in preventing the Europeans and North Americans from abandoning sanctions.

However, the steady crumbling of sanctions is unlikely to help South Africa's straitened econo-

my in the near future. It is unlikely that the European Community's decision to lift the ban on foreign investment will result in any meaningful new investment pouring into South Africa. What deters foreign investors is the country's political uncertainty. This will persist so long as there is no positive outcome over the negotiations for new democratic constitution.

This still gives the ANC the whip-hand in the negotiating process. The bottom line is that there can be no meaningful progress towards achieving stability in South Africa without agreement between the government, the ANC and other opponents of apartheid.

□ Colin Legum is a specialist writer on Africa.

Fixed investment spending 'to drop'

Blom 28/12/90

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ROBERT WICKS

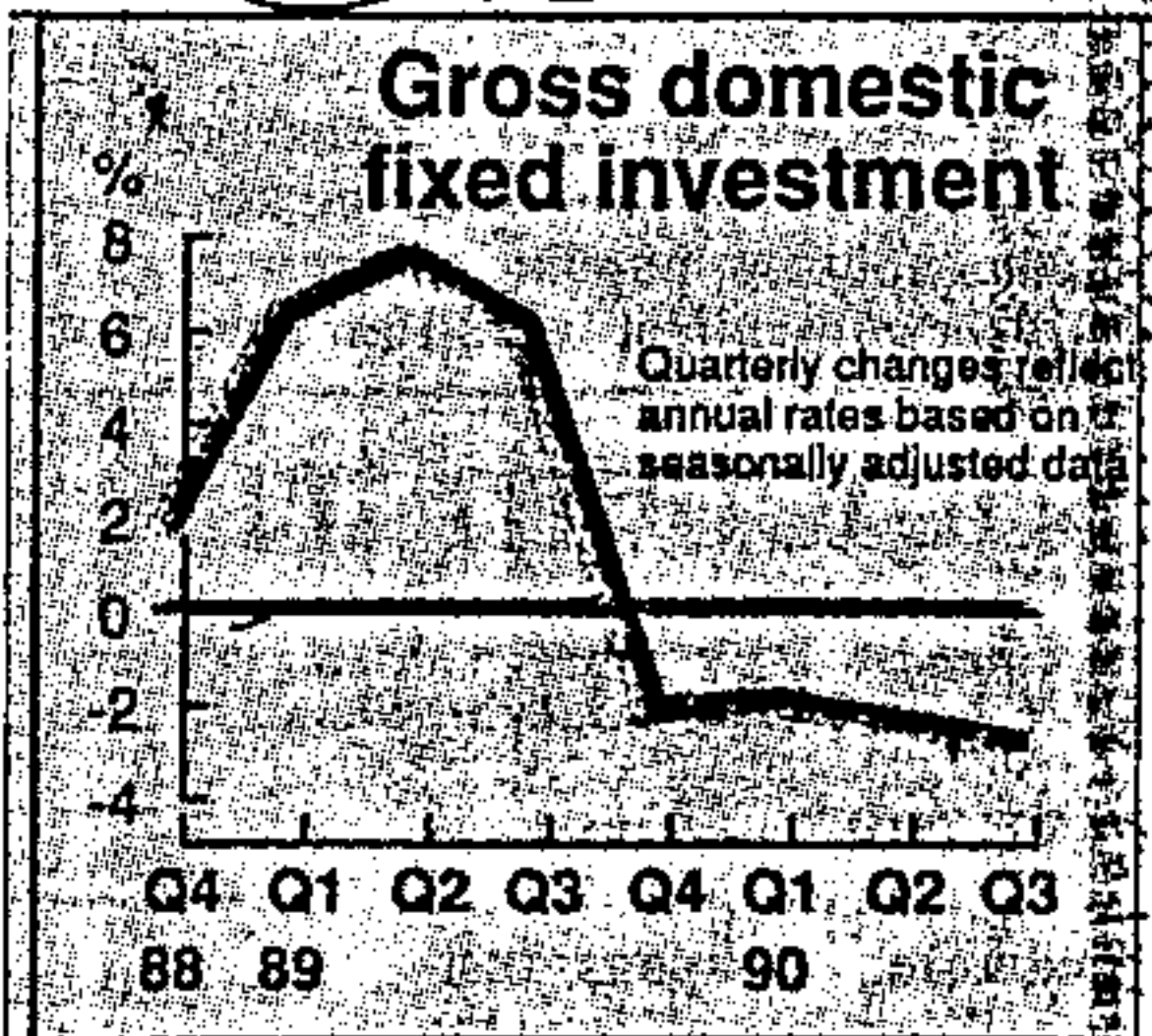
FIXED investment spending is set to drop by between 6% and 7% in 1991, reflecting the slowdown in corporate profitability this year, economists said yesterday.

Bankorp economist Nick Barnardt said a combination of negative factors was influencing both corporate profitability and fixed investment.

"Only a few companies have been able to show an earnings growth higher than the inflation rate. After the 1990 adjustment for inflation, corporate profits decreased by 10% in real terms. Such a reduction has to be bad news for fixed investment opportunities."

High interest rates continued to deter investors, although a cut early in the new year seemed likely. Export companies were unlikely to invest as a slowing of the international economy had significantly influenced domestic export prospects. The agricultural sector had experienced a difficult year, as had the manufacturing industry.

Political uncertainty, unrest, and high wage demands coupled with high consumer spending expectations all looked set to



Graphic: LEE EMERTON Source: RESERVE BANK

contribute towards a decline in fixed investment expenditure in 1991, he said.

A positive factor for investment spending was the recent inflow of capital. But economists Chris Greyling and Louis Geldenhuys said yesterday this would not have a marked effect on investment spending.

Greyling predicted that the decline would bottom out around the end of the third quarter next year, but until that

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Investment ^{Blom 28/12/90}

point, both the public and private sectors would experience declining fixed investment figures.

"The one positive aspect influencing investment is the gradual phasing out of international sanctions. Once complete, a better flow of investment expenditure

could be expected."

Economists also noted the general trends towards industry cutbacks, mergers and rationalisation would contribute to declining investment expenditure, with little movement towards expansion and positive investment capital expenditure.

From Page 1

By Robin Drew
Africa News Service

Star 28/12/90

SA ports in line for boost

HARARE — Zimbabwean importers may make greater use of South African ports if the Mozambican authorities persist with a new system of pre-payment in hard currency for goods railed from their ports to destinations in neighbouring countries.

The new system is due to come into effect on Tuesday despite strenuous objections from users of the port of Beira.

The Zimbabwean government has been kept informed by the Beira Corridor Group, whose managing director, David Zausmer, said it would be a very sad day if use of the ports of Beira, Maputo and Nacala diminished.

Mr Zausmer said the Harare government was exasperated by the short notice and by the fact that the decision had been

taken without consultation.

He was still trying to ascertain whether the decision was a rigid one and what exactly was meant by "pre-payment".

It seemed that the Mozambican railways, which already owed the National Railways of Zimbabwe a substantial amount, not only wanted payment of hard currency for rail-age on their system but also

for railage inside Zimbabwe.

He thought that shippers of containers would be more likely to use South African ports if the new system came into operation, as it would be easier to administer the transport of containers through Durban.

On other cargoes where the costing was more marginal, they would probably continue to use Mozambican ports.

Of concern is the future of fertiliser shipments due in Beira soon.

Mr Zausmer said: "We must assume the fertiliser will wend its way along the railways. We must wait and see."

Beira port-users are also known to be concerned at delays at the port, at the loss of efficiency along the railway at the port, and at the loss of efficiency along the railway system in Mozambique where there have been numerous derailments since October.

Brighter prospects for

SA in 1991

Star 29/12/90

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LAST week I was foolish enough to promise my views on what the economy holds for all of us during 1991.

All right, here goes. Sometimes economic forecasters find themselves lost in the woods because of all the trees around. Were they, like the lost woodsman, lifted just high enough to see over the whole wood, they would have a different vision.

This is the approach I think one should take right now. Otherwise we will find ourselves lost forever in the "trees" in the form of bad and depressing news.

Paint for yourself the Big Picture. What is happening to South Africa, not only in isolation but also in relation to the rest of the Global Village?

Links

South Africa is rapidly re-joining the rest of world. Barring an unforeseen reversal in the political process, we are as a country rapidly shedding our pariah status. Economic, financial, trade, sporting and cultural links are being re-established with erstwhile (and totally new) partners. Surely this is good news for all in South Africa?

Last week Dr Jan Lombard, deputy governor of the SA Re-

Money Matters

MAGNUS HEYSTEK



serve Bank, announced that the debt crisis is over. Long-term capital is flowing back into the economy at a very promising rate. Foreign creditors are now willing to roll over maturing debt. In many instances — as yet unreported — new forms of foreign financing are being negotiated.

The debt crisis strangled this economy for a full five years. Foreign banks are now releasing this stranglehold gradually. Make no mistake, our Achilles heel of foreign capital (or rather the lack of it) hurt the economy badly. The effects in terms of lost wealth and employment opportunities are incalculable.

With political obstacles rapidly falling away, overseas companies are queueing up to start up ventures in South Africa

again. The realisation is dawning that the gateway to trade with Africa is South Africa.

Already SA's trade with Africa constitutes a third of its total foreign trade and is growing almost exponentially.

People too in the form of immigrants are returning to South African shores, bringing with them capital and skills so desperately needed. Along with permanent settlers, tourists are again winging their way to our shores, our game parks and our mountains, bringing with them foreign currency. Some of them even invest in South Africa.

Despite the plethora of bad news in the form of increases in crime and violence country-wide, there is a small seed of hope and positiveness starting to grow in the hearts and minds of countless people — people like you and I who make up what is called the economy, people who buy houses, invest in new businesses, take on long-term credit.

Not for a moment do I think that this is all going to happen overnight. Nothing happens

overnight. This is one of the rules of the universe.

You don't get fat or thin overnight, or rich or poor. The same applies to a country.

We still have major problems. It would be foolish to deny this. But what good is it to focus only on the negative factors? Most of these problems are man-made and can be solved.

But was far as the Big Picture is concerned, in my view at least, South Africa is at the threshold of potentially a massive upswing: politically, economically and financially.

Gold Price

I cannot predict when the gold price is going to rise (or worse, drop). I will not even venture to tell you whether the JSE is going to rocket or collapse.

All I can tell you is that I today have more hope in the future of South Africa than during the last five to 10 years. That means I will still be investing in the blue chip companies on the stock market and that I will still be investing in prime residential property. And if I were in business I would be looking for opportunities that surely must be heading our way.

● To everyone, a healthy and prosperous 1991.



Trade drive to Africa

MANY black African countries are already responding enthusiastically to economic advances from South Africa, the former apartheid pariah.

Despite black Africa's ideological suspicions, almost every country is ready to welcome full economic co-operation the moment apartheid is ended.

Perhaps the most concrete example of the new economic trend can be seen in the relationship between South Africa and Madagascar. President FW de Klerk

paid a state visit there in August, with a retinue of businessmen in tow, and returned after signing a tourism and air links agreement.

South Africa's Sun International Leisure group is considering building a luxury hotel in Antananarivo, the Malagasy capital. Johannesburg mining companies have also expressed interest in nickel, chrome, bauxite, graphite and marble deposits in Malagasy.

SOUTH Africa has launched a full scale economic drive in black Africa, proclaiming apartheid has ended. It says sanctions should end too and wants to cash in on African markets as soon as it can. Its initiatives are succeeding.

Mozambique is another country that has long been the target of South African economic penetration. A South African trade mission is already well established in Maputo. South Africa, former backer of Renamo rebels, has suddenly changed into the rich neighbour keen to invest.

The trade mission reports there are over 100 applications a month from South African businessmen eager to find investment opportunities in the born-again economy.

South Africa, one of the main sponsors of the Cabora Bassa dam when it was first built in 1977, hoped it would supply power to its industry. But its backing of Renamo resulted in continual disruption of the supply. Now South Africa has sufficient confidence in the new entente to spend R50-million in the dam's reconstruction.

Ultimately it hopes Mozambique will be able to supply 10 percent of its electrical power from the dam. South African troops are now actually guarding the

dam while reconstruction goes ahead. Already, as Mozambique privatises, South African firms are arriving to buy rich land for plantation projects. Other businessmen are moving fast into hotels and tourism.

Trade is already increasing under the bilateral agreement signed in 1989. Traditional Mozambican exports of prawns, fish and furniture are being supplemented by synthetic and cotton textiles, blankets, clothes, cashew nuts, nut-oil, asbestos sheets, tyres and inner tubes.

Even Zambia, once the target of armed strikes and economic strangulation by its powerful southern neighbour, is now developing new relations.

In August the Zambian government announced that traders could start using routes through South African ports to import and export essentials. The move was welcomed by the business community, which knows South Africa provides cheaper and more efficient transport and looks forward to the day when trade can be liberalised too.

The Zambian government has also lifted restrictions on a number of manufactured and agricultural goods that can be exported to South Africa. This is seen as a covert way of lifting sanctions without doing so officially.

South Africa is now so confident in its new economic drive in black Africa that it almost ensnared Kenya. A deal between Kenya Airways and South African Airways that would have been profitable to both companies and countries was actually signed.

Flights were advertised and due to start on December 1 and some tickets were sold.

Under the agreement the airlines were to co-operate in joint maintenance, catering, security, ground handling, and the recruitment and training of staff.

But when ANC leader Nelson Mandela stopped over in Kenya on his way to Japan, he persuaded President Daniel Arap Moi to stop the deal. Mandela insisted the ANC had not been contacted and wanted sanctions against South Africa to be maintained.

Moi recognised the political issue at stake and ordered that the air link should be cancelled "until apartheid is dismantled".

Everyone knows both economies would benefit from a fast lifting of the ban, as will other African economies when South African co-operation becomes a reality. —
NEW AFRICAN

Biday 31/12/90 74

SA-Taiwan investment expected to flourish

ZILLA EFRAT

SA AND Taiwan, which have been enjoying steadily growing trade relations, are placing increased emphasis on expanding two-way investment, according to an article in the Safto Exporter.

Areas with potential for increased two-way investment include the service industry, precision machinery, information, electronics, communication, vehicle parts and medical equipment.

In the area of technological co-operation, opportunities are recognised in manufacturing, roads, transport and environmental management.

Safto says these areas also provide gaps for suppliers of related products, particularly in the manufacturing field.

Equipment for road evaluation and environmental management projects, such as effluent treatment and water purification plants, are also much in demand at the moment, says Safto.

Between 1979 and 1989, Taiwanese industrialists invested R800m in SA, creating more than 40 000 jobs. The establishment of the International Investment Bank of

China in Johannesburg earlier this year is expected to increase Taiwanese investment.

Trade has also grown steadily, increasing 40% to \$382m during 1985 and 1987 and surging to \$411m in 1988.

Taiwan and SA have concluded a most-favoured-nation agreement and bilateral agreements have been signed in the fields of trade, industry, culture, agriculture, energy, mining, fishing, transport and medical services.

Although the balance of trade between the two countries is in SA's favour, the trade relationship has largely been complementary, with SA supplying basic or intermediate products and Taiwan marketing sophisticated manufactured products.

SA's main exports to Taiwan include iron and steel, mineral by-products, fuels and base metals. Imports include electrical equipment, machinery and artificial fibres.

Small reduction in interest rates likely — Old Mutual

By Magnus Heystek

Star 31/12/90

While 1991 is going to be tough for most consumers, particularly over-borrowed ones who embarked on a credit-binge during the latter part of the Eighties, some relief can be expected from a reduction in interest rates in 1991.

This is the view of Dave Mohr, chief economist at Old Mutual.

"Although the Reserve Bank can be expected to be very cautious in reducing interest rates, the over-borrowed consumer and deeply indebted companies can expect light relief from a reduction in the prime overdraft rate in 1991.

"It is Reserve Bank policy to keep a five to seven percent margin between the inflation rate and the prime rate, thereby maintaining positive real rates.

That means a reduction of at the most three to four percent in the prime rate can be expected," he says.

Mr Mohr also holds out the promise of a possible boost to the economy from a stimulus next year in the form of lower personal taxes, as promised by State President FW de Klerk in a recent speech.

However, there is very little scope for significant tax reductions because the pressure on government spending will not ease, he adds.

Although the pressure on the country to repay its foreign debts has lessened in recent months, Mr Mohr says that about \$1 billion in foreign credit still has to be repaid this year, which will mean a brake on domestic spending.

"The country will have to live well within its means to repay, at least partially, its foreign debt.

"This implies that spending will have to be curtailed to generate a savings surplus, from which debt is repaid," says Mr Mohr.

He adds that such a process is not conducive to economic

growth in the short term because it implies strict economic policies.

"Our economy has also suffered from the sharp fall in the foreign price of gold, silver, copper, steel and platinum — some of our main export commodities.

"Coupled with recent increases in the oil price, these developments complicate the servicing of our foreign debt and reinforce the need for a strict economic policy, such as high interest rates.

"The consumer has borne the brunt of these developments.

"For example, the prime overdraft rate rose from 12,5 percent at the beginning of 1988 to its current rate of 21 percent.

"To worsen matters, consumers went on a borrowing spree in the second half of the Eighties, with bank credit (mainly overdrafts) rising by 86 percent in this period.

"With interest rates at their current high levels, the pain to consumers is obvious."

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