



It's been one of the longest-awaited and most anticipated events in modern economic history and so it was something of a surprise when yesterday's announcement by the European Central Bank that it was to launch a R60-billion a month Quantitative Easing programme caused the Euro to immediately lose some 1.5 percent of its value relative to most other world currencies.

To illustrate my point, while the Rand has been losing value relative to most world currencies for some time now, it has actually been GAINING relative to the Euro at an annual rate of 7.7 percent since early February last year. Prior to that it was losing relative to the Euro at a long-term average rate of 11.3 percent a year.

Furthermore, since the rumour mills began in mid December to accelerate the view that a EU QE programme was a racing certainty, that recent rate of decline had surged ahead to a remarkable annual rate of 70 percent as illustrated by my graph on the right. (A falling graph denotes a strengthening currency because fewer Rands are needed to buy Euros) Note, furthermore, that if ShareFinder is right in its current projection, the Rand/Euro exchange rate could very well fall from its 2014 peak rate of R15.1086 to the Euro to a low of R11.81 by next September.



It was thus hardly a surprise event. But then, unlike the US Federal Reserve which sits like our own Reserve Bank as a committee of governors that takes its decisions behind closed doors, the European Central Bank has to obtain the unanimous agreement of every one of its 28 member countries before and major decisions can be announced. And that is also why, despite this announcement, the actual bond-buying will only commence in April.

In the process of this tortuous round of negotiations, ECB President Mario Draghi has repeatedly told the press that a European QE programme similar to that recently concluded by the US Federal Reserve, was on the cards and so, if there was any surprise about yesterday's announcement, it was that he had finally been able to finesse his plans.

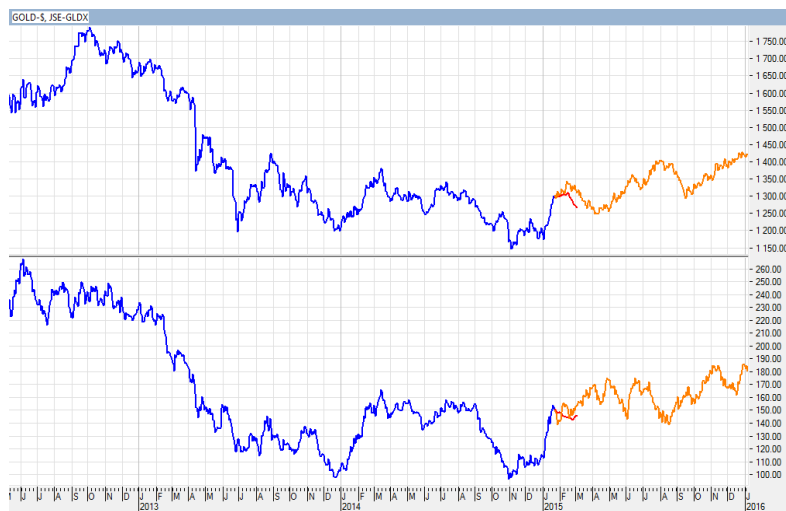
Many believed he would never find unanimity. And that is precisely the problem of the European Economic Community: that it is a political construct that everyone likes because of its open borders that makes travel there so easy. But it is an administrative nightmare as illustrated by precisely these recent QE plans. Ideally Europe should have embarked upon the programme as soon as the US did for if it had it is probable that countries like France, Holland, Italy and Belgium would now be experiencing positive economic growth in much the same way as the US

is. Instead it has taken years for the finance ministers of each of the 28 European countries that make up the EEC to make up their minds.

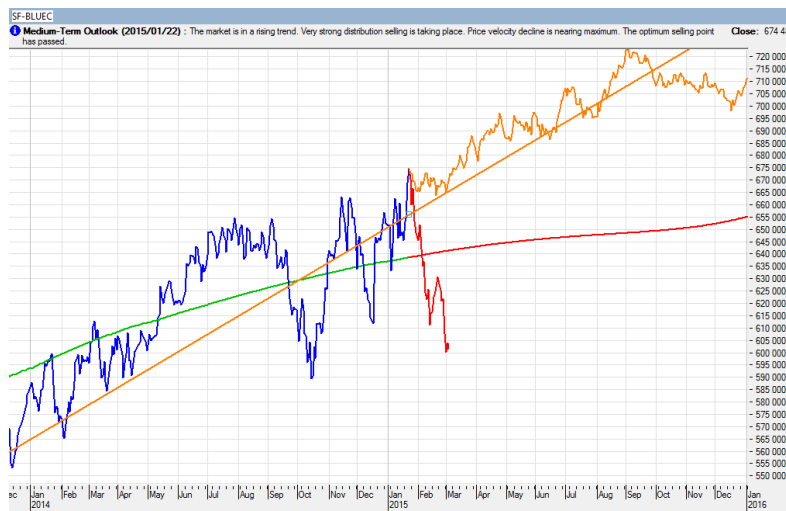
And so, having been so long delayed, there is every possibility that the project will fail both because the process is one of "Beggars your neighbour" in which the whole world is competing to lower the value of their respective currencies in order to stimulate trade which might, in turn, get their idle factories back to work and jobs for their ever-growing armies of unemployed.... and because the great US monetary experiment could shortly begin a melt-down.

As I have previously explained, by artificially lowering the borrowing cost of money, the US stimulated the oil fracking industry to invest in a large number of marginal profit wells which, because of the consequent collapse of the oil price, implies a wave of imminent bankruptcies and, shades of the sub-prime crisis of 2007, could lead to an imminent crisis in the US bond market.

Given that most new jobs that have been created in the US in recent years have been in the oil industry, there is a crisis of confidence in the making which, in a world as economically fragile as it is at present, the fall out could be significant. This partially explains why investors have been running for cover lately by investing in gold bullion, and in the process driving the price of the metal from a low of \$1144.25 in November to \$1288.96 currently and pushing up the JSE Gold Mining Index 51 percent during the same period (see my graph on the right).



Expect a similar boost in respect of Blue Chip shares which, note my second graph composite on this page, ShareFinder thinks could be in for a short-term downward correction which could pose a significant buying opportunity ahead of projected major gains for the rest of the year: remember that the EEC is only the latest grouping to embark upon a QE programme: Japan has been at it for over a year now and China has been doing it in a covert manner as well. All of that money only serves to drive down the value of money which in direct consequence drives up the value of hedge assets like Blue Chip shares. ShareFinder's projections suggest that the overall gain of South African Blue Chips will probably exceed 14 percent in aggregate during 2015



The next month:

New York's SP500: I correctly predicted the beginning of a recovery which I expect to continue erratically at least until the end of February.

London's Fointsie: I correctly predicted a recovery. Now I see a decline until the second week of February followed by a brief recovery.

JSE Industrial Index: I correctly predicted the beginning of a decline which I now see lasting until February 9.

Top40 Index: I was surprised by a recovery when I had expected a decline lasting until the end of the month. Nevertheless I see a decline starting immediately and lasting into the first week of February.

The ShareFinder Blue Chip Index: I correctly predicted a recovery which I expected to end today and I continue to see a decline lasting until February 12..

The Rand: I correctly predicted a brief recovery. Now I see a fortnight of weakness.

Gold: I correctly predicted the next bout of weakness though it began a little earlier than I expected. Now I see an erratic decline continuing until the third week of February.

Bonds: I correctly predicted gains until Monday followed by brief weakness. Now I see fresh gains until the first week of February.

The Predicts accuracy rate on a running average basis over the past 532 weeks has been 82.84%. For the past 12 months it has been 91.35%.

Richard Cluver