Richard Cluver Predicts

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Seldom have I turned each morning with such increasing interest to the graph of Wall Street's S&P500 Index as with each viewing it becomes increasingly clear that the bears have captured the world's biggest share market.

Furthermore, as it becomes increasingly clear that the USA is determined to ignore its own history and press ahead with trade sanctions when precisely the same issue turned a US recession in 1929 into a world depression, this is a major cause for concern. Back then, the Smoot-Hawley Act was opposed by a majority of US economists who warned that imposing tariff barriers against the importation of foreign goods into the US was likely to result in reciprocal action by America's trading partners.

This time around they have been remarkably silent notwithstanding the fact that history has been repeating itself in a singularly accurate fashion. I have written about it many times before, but in case you need reminding, there was a time when the principal coin in our pockets was the gold sovereign, dollar etc and since all weighed one fine ounce, all were interchangeable, and banks had not yet discovered how much money they could make from foreign exchange transactions.

The gold coins of that era were in fact completely interchangeable until the world went off the Gold Standard, an event preceded by the US Federal Reserve Act of 1913 by which politicians took control of the US money supply in order to pay off the 1914-18 war debt.

That act allowed private American banks to reduce their reserves from over 20% to 10% backed by Federal Reserve Notes instead of gold. And the Fed itself was only required to keep reserves of 40% gold effectively increasing money supply six fold. Then, between 1922 and 1928 money supply was allowed to double again which led directly to the Wall Street crash of 1929.

On its own that would have set economic wheels in motion for a future crisis, but in 1929, the US Congress passed the infamous Smoot-Hawley Tariff Act which imposed dramatically high tariffs on US imports which resulted in tit-for-tat retaliatory sanctions by Britain and many European countries which led directly to the bankruptcy of scores of export-orientated industries throughout the US eastern seaboard and then in a ripple effect the collapse of a series of eastern banks and, as the contagion spread across the US, to the Great Depression.

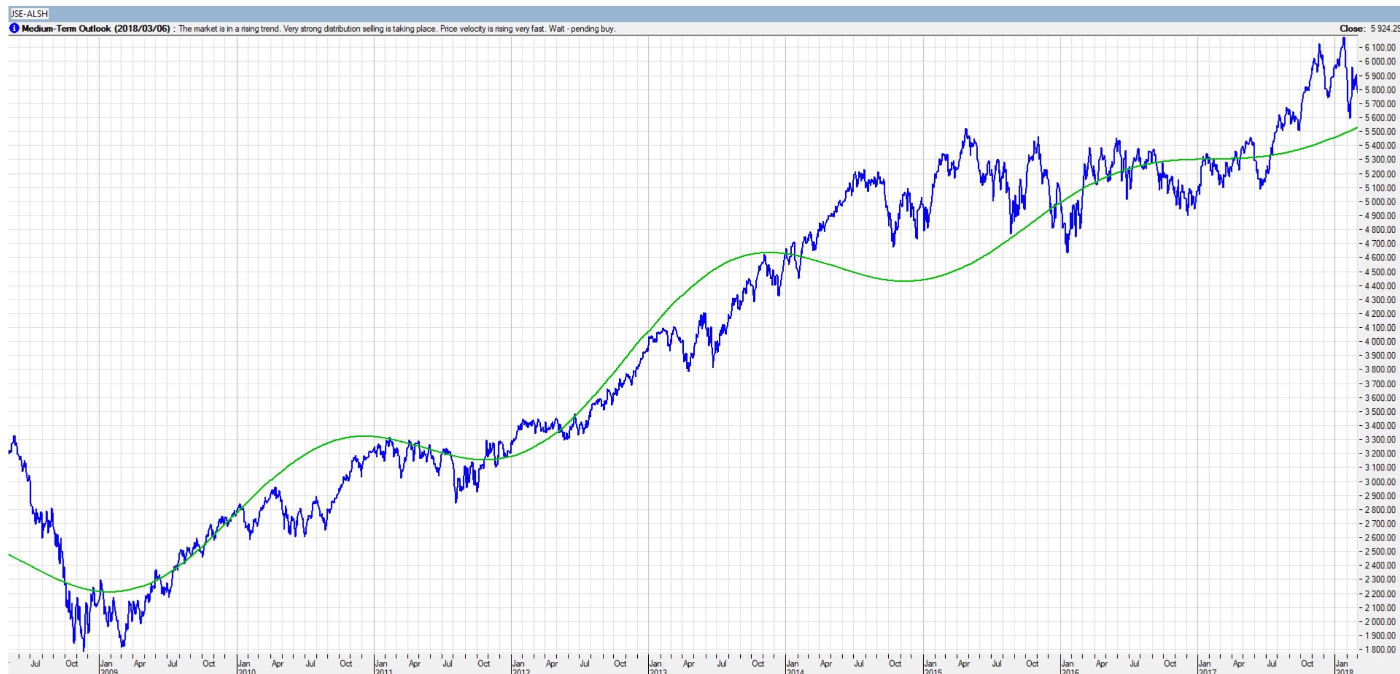
Reportedly, more than a thousand economists warned American leaders against hiking tariffs on more than 20,000 imported goods to as much as 60 percent but President Herbert Hoover, desperate to ensure his own re-election and wanting to curry favour with workers who were increasingly worried about an economic slowdown, signed the bill in 1930. Soaring American tariffs set off a global trade war. US trading partners retaliated, and global trade fell sharply, deepening the Great Depression which, in addition to the crippling burden of 1914-18 war reparations that had been forced upon Germany, set the stage for the rise of Adolf Hitler, Nazism and in turn for World War Two.

Meddling by politicians in the economy has throughout history led to unintended, or should I say "unforeseen by politicians" consequences! And they were at it again when, in the closing stages of World War 2 the leading nations met in a hotel in Bretton Woods in the US where they put together the Bretton Woods Agreement which made the US Dollar the reserve currency of the world backed by gold reserves held by the Federal Reserve and set at 35 US Dollars per fine ounce.

For the next 30 years this relationship held until, shortly before he was impeached, US President Richard Nixon was forced into the humiliating admission that the US had printed so many extra dollars that in truth the 35-dollar relationship with US gold reserves no longer existed. In the aftermath of Nixon's impeachment the gold price soared until, in over-reaction it peaked at 850 dollars an ounce before eventually settling down into a + - 400 dollar range. In effect the ultimate gold price suggested that the US had printed ten times more dollars than it had gold to back the issue Effectively the dollar was devalued to one tenth of its former value. But of course, the meddling did not end then. My next graph illustrates what happened subsequently:

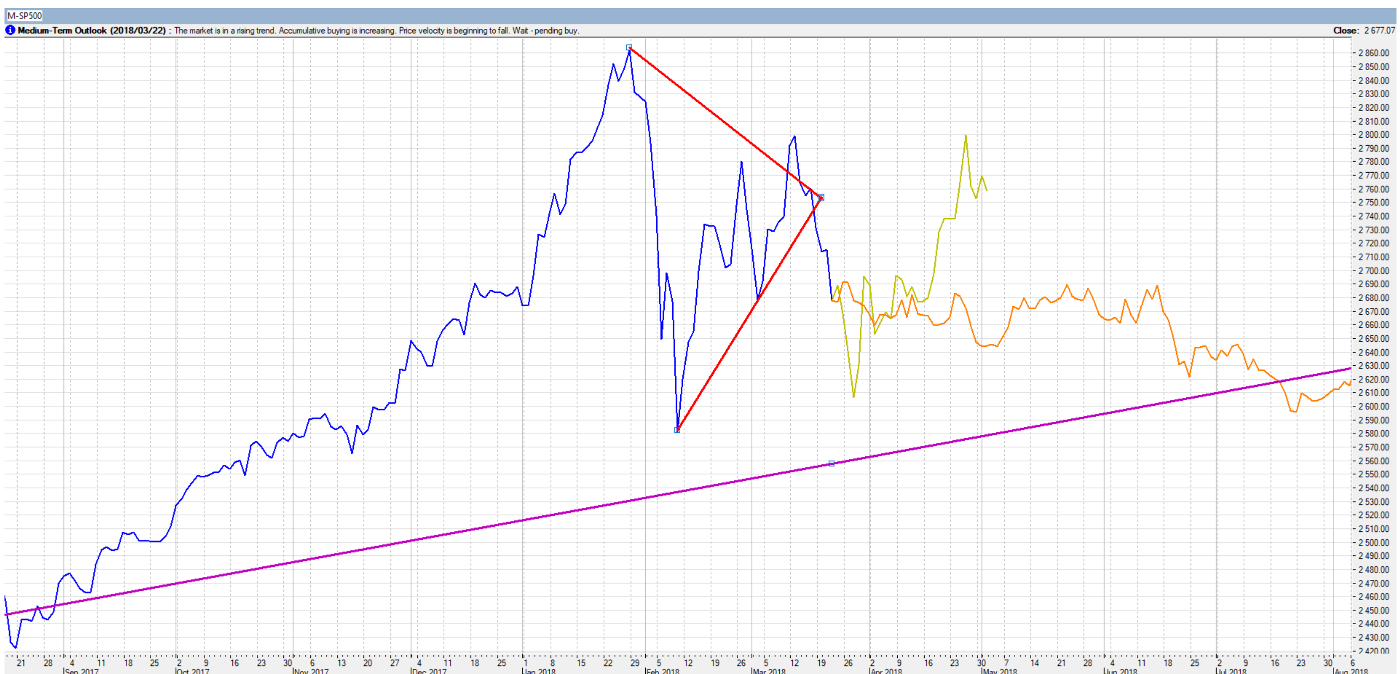
By the 1990s politicians had forgotten the disastrous consequences of their tampering with the money supply and so, in order to pay for the Gulf War the first President Bush began inflating the money supply and from October 1992 Wall Street began to boom for, in aggregate, shares, like precious metals, land and other commodities eventually reflect the "real" value of currency. Overall, in that period the US increased its money supply six fold and the world's stock markets went into overdrive culminating in the 2008 market crash and what in other terms would have been the next Great Depression.

Perhaps we should be grateful that we were spared the worst consequences of the Depression and instead suffered only what has since become known as the Great Recession which continued in many parts of the world right through to 2017. But the measures the world's central banks adopted to calm the economic storm, the money-printing exercise they euphemistically named "Quantative Easing" effectively re-doubled the world's supply of money and here at home the JSE All Share Index soared 346 percent as it tried to retain "real value" rising from 178144 in November 2008 to a peak of 616231 in January 2018.



Thus, while the wealth of the rich who owned shares saw their investments grow three and a half times greater, the poor saw the price of maize meal double. Meanwhile, because of the recession, millions of jobs were lost and such pay increases as they were able to obtain were sparse in the extreme.

So, history is repeating itself in an extraordinary fashion and nobody seems to have realized this chilling fact, which brings me to today's graph of Wall Street's S&P500 Index and a reminder that since June last year ShareFinder's artificial intelligence projection system has been warning that this month would see the start of the next Wall Street decline. And here we are:



The first dash of icy water in the face of bullish investors came in January when, out of a clear blue sky, Wall Street fell ten percent in the sharpest index retraction in modern history.

And still nobody seemed to be looking at history. But the bankers are obviously aware of what is happening. Until the middle of February, the US dollar was gaining in value against most major currencies because everyone knew that, in contrast to the anemic appearance of the rest of the world, the US economy had returned to robust good health and their unemployment figures were as close to zero as it was possible to get.

It was precisely this robust good health that spooked the share market in January because everyone knows that when unemployment figures bottom, workers' pay rises become inevitable and inflation follows almost immediately. Central banks fight inflation by increasing interest rates and rising interest rates are anathema to share prices. And in case there were any doubts about that, the US Federal Reserve this week increased interest rates by a quarter percent: the first of a probably three increases this year.

Of course, the bankers understood this and so, since the middle of last month they have been selling US Dollars. My next graph illustrates how the dollar has fallen against the Swiss Franc since February 16:

My ShareFinder projection suggests that Wall Street will continue falling until March 28 when it will try a brief recovery until April 26. But it is unlikely to be a full recovery and that will signal the end of the longest Bull market in modern history.

Whether it might lead to another Great Depression could well rest with the most problematic US President since "Tricky Dickie" Nixon and depending how far he is prepared to take his trade wars. But I have to stress that history is not on Donald Trump's side!

There is some good news, however. South Africa's All Share Index has been falling since mid-January. But the decline is nearly at an end. April should see a brief recovery as illustrated by the yellow short-term projection in my graph below. But in any event full recovery should get under way from late May with gains for the rest of the year:

The next month:

New York's SP500: I correctly predicted weakness which I saw lasting at least until the end of the month. From the 28th I see a gain getting under way which could spell some recovery during April.

London's Footsie: I correctly predicted that the latest plunge was probably over now and we could be looking at a recovery until the end of April. But be careful. The longer-term trend is for the market to continue falling until mid-June.

JSE Industrial Index: I correctly predicted declines which I now possibly see lasting until the first week of April. However, the longer-term projection is for a brief recovery within a longer term decline.

Top 40 Index: I correctly predicted weakness. Now I see a very short recovery beginning around the 28th and lasting most of April.

ShareFinder Blue Chip Index: I correctly predicted a brief recovery. Now I see declines until mid-April.

Gold shares: Though the signs were opposed to one another, I wrongly predicted that a further decline was the greater possibility. Now I see declines until May.

Gold Bullion: I correctly predicted a brief recovery which is likely to continue until late April.

The Rand: I wrongly predicted weakness until the 28th. However, I continue to foresee weakness throughout April.

The Predicts accuracy rate on a running average basis over the past 651 weeks has been 84.5%. For the past 12 months it has been 90.85%.

Richard Cluver