



Richard Cluver Predicts

In our 32nd year of service to the investing public



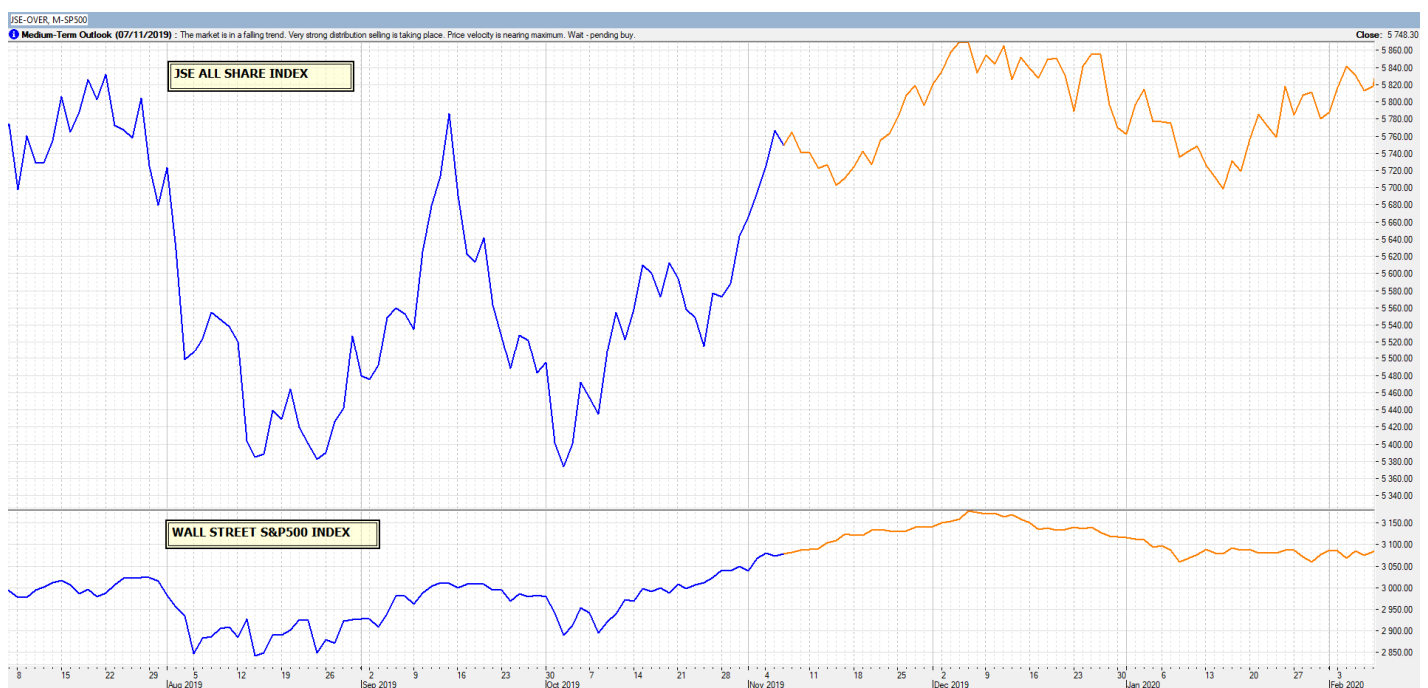
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Good news that the US and China are nearing agreement that could see the removal of the Trump tariff barriers signaled a positive trend on Wall Street this week...and then a last-minute hiccup in the shape of a Trump advisor issuing a cautionary reversed everything. And the JSE All Share Index has promptly hesitated in its recent headlong upward dash.

And so, lest we attribute everything good that is currently happening to Bok euphoria, it is important to note that the upsurge of the JSE All Share Index of late predated the World Cup final and actually has its roots in a Wall Street recovery which began on October 3rd when Washington watchers first began trumpeting that a China trade agreement was again on the cards. In my composite below you can see how the two recoveries coincided together with the good news that ShareFinder predicts that both markets will continue rising until the first week of December.



Isolated as we are here in South Africa from many world events, there is an inclination to forget how important the trade disagreement between the US and China really is, and to forget that many of our exports to the US are similarly constrained. Most of all, however, as I have frequently reminded readers there are deep parallels between the current trade wars and the Smoot-Hawley Act which scholars have blamed for converting a regular US economic recession into a full-blown Great Depression back in 1929.

Ahead of that event, the US had undergone an unprecedented period of monetary expansion very similar to the one which the world has again seen as a result of central bank "Quantitative Easing" interventions.

Since the Sub-Prime Crisis of 2008, the leading nations have tried to re-ignite global growth by massively increasing the world's money supply which has increased nearly five-foldand yet most economies are still stagnating.

Only China of the big five economies has still been showing some signs of growth and even that is refusing to respond to the ever-increasing sums China is pouring into producing 40 percent more steel than the world can currently absorb, bricks and mortar in the shape of ghost cities that remain stubbornly uninhabited, and an increasing pile of dubious and unrecoverable loans.

Notwithstanding this stimulus, third quarter figures indicate that the Chinese economy grew at its weakest rate since 1992. To counter the slow-down the Chinese government has announced it intends to address sluggish growth with tax cuts and increased access to credit in an attempt to improve the country's business and investment landscape. But a growing proportion of global economists believe this is merely throwing good money after bad.

After decades of near double-digit growth, Chinese leaders have turned to using turbo-charged stimulus financing to maintain moderate growth. A consequence of this strategy has been a dramatic and rapid rise in debt. As of 2017, China's total debt amounted to 255.7 percent of its gross domestic product (GDP). While a debt-to-GDP ratio exceeding 100 percent is not unusual, because China's credit expansion over the past decade has risen so quickly, this trend has contributed to growing financial vulnerabilities that could threaten the long-term health of its economy.

Here it is worth noting a 2016 IMF report showed that of the 43 economies whose credit-to-GDP ratio grew by at least 30 percentage points in the last five years, 38 of them "experienced severe disruptions, manifested in financial crises, growth slowdowns, or both." China's total credit-to-GDP over the five years 2012-2017 grew by 48.4 percentage points.

Now, a key gauge of China's debt has topped 300% of gross domestic product, according to the Institute of International Finance, as Beijing steps up support for the cooling economy while trying to contain financial risks. China's total corporate, household and government debt has risen to 303% of GDP so far in 2019, from 297% in the same period a year earlier

China's credit-heavy financing spree was not matched by a corresponding boost in productivity, but by an increasingly inefficient use of credit, which suggests China's corporations may have a deteriorating capacity to repay their existing debts.

Chinese government debt has soared to unprecedented levels, but private debt is even worse. Now Industrial output has plunged to a 17-year low in August, and residential property prices have also suffered as consumer debt increases.

What China can least afford now is a consequent deflationary collapse which is precisely the event that resulted in the Great Depression. That is why the trade war with the US is the last thing China needs.

And here read the last thing South Africa needs for our economy, sluggish as it is already, is critically dependent upon our exports of minerals to China.

The month ahead:

New York's SP500: I correctly predicted a continuing recovery which I saw lasting until early-December, with another weak phase from then until the second week of January before a long growth period, and I continue to hold that view.

London's Footsie: I correctly predicted a bullish phase which I saw lasting until late November. Now I think it has peaked and is likely to decline until the end of January before a volatile recovery becomes the dominant theme for the year ahead.

Hong Kong's Hangsen: I correctly predicted the bull phase would continue and I continue to expect the gains will last until early January. Thereafter I still see declines all the way until April before the next bull phase sets in.

JSE Industrial Index: I correctly anticipated a recovery which I thought would last until the first week of December. Now I see a brief decline until the 21st, a short recovery and then down-hill until mid-May.

Top 40 Index: I correctly predicted the beginning of a recovery which I thought would last until early December. Now I see a brief decline until the 15th/25th followed by a short recovery and then down-hill until early-June.

ShareFinder Blue Chip Index: I correctly predicted gains which I saw lasting until the first week of November. Now I see brief weakness until November 20, a recovery until late January and then a decline to mid-March.

Gold shares: I wrongly predicted the upward surge would last until mid-December. However, this week's brief plunge is almost over and now I see gains from the 13th until mid-December followed by a weaker trend for most of the New Year.

Gold Bullion: I correctly predicted continuing weakness lasting until mid-month followed by brief gains until early December. However, the outlook for the New Year is negative until June.

The Rand/US Dollar: I correctly predicted a recovery which I still see lasting until mid-December before fresh weakness sets in for most of the new year. However, I now see brief weakness between November 25th and December 12 before the gains resume.

The Rand/Euro: I correctly predicted gains until the end of the year with a brief phase of weakness from November 21 to December 9 but I see protracted weakness beginning in late December and lasting well into the New Year.

The Predicts accuracy rate on a running average basis over the past 718 weeks has been 85.31%. For the past 12 months it has been 93.37%.

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