



Well there can now be little doubt that the corona virus outbreak was the Black Swan event I anticipated in my 2019 book, *The Crash of 2020*, and, following Wall Street's reaction this week, ShareFinder is in agreement that this is the Big One, particularly now that we have a double crisis in the shape of an oil war which has the capacity to turn an economic crisis into an Armageddon.

So, this week I began buying, applying HALF the contingency funds I have recently created lest this NOT be the bottom of the current crash! I have put in cheeky bids and in a few cases been surprised by being rewarded at very low prices.

To re-cap the week, there has for some time past been little love lost between Russia, the Middle East and the USA, and Russia's refusal to come to an OPEC party last week to lower its crude oil production rates on the pretext that to do so would only help US shale oil producers who face a potential crisis of their own, spelled trouble enough. But then the Saudis entered the fray and declared they would lower prices and increase production as far as was necessary to force Russia to agree.

The result was to see crude prices fall on Monday to just 30 dollars a barrel. On Tuesday they continued falling reaching a low of \$27.34 on Wednesday and were slightly up at \$31.36 this morning.

It was oil's biggest decline since the Persian Gulf War in 1991. Energy prices were already tumbling this year owing to concerns that the corona virus epidemic would sap global demand for oil and natural gas. Yet American producers kept drilling. According to the U.S. Energy Information Administration, U.S. crude-oil production hit a fresh record of 13.1 million barrels a day during the week ended February 28.

But as the wildcatters kept on drilling, they were racking up debt which means they are now unable to cut back on production as repayment dates loom. Energy companies borrowed hundreds of billions of dollars to drill thousands of miles-long multimillion-dollar wells, lay pipelines between customers and new drilling regions and maintain huge fleets of heavy machinery.

Investors snapped up their bonds, which offered higher yields than many other forms of debt. Energy bonds became one of the biggest segments of the Bloomberg Barclays high-yield index, tying a big chunk of the junk-bond market to volatile commodity prices.

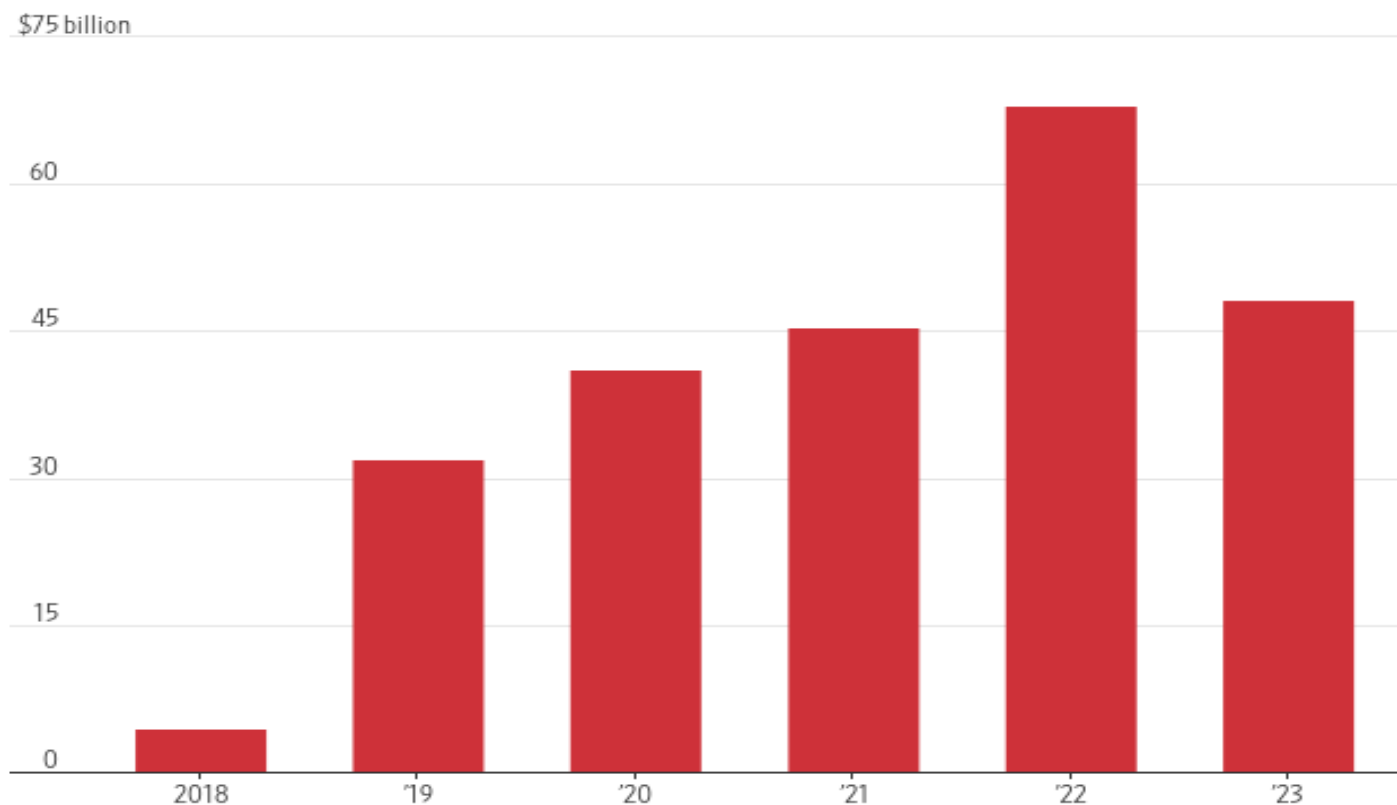
Then the oil-price collapsed on Monday wiping out tens of billions of dollars in energy-company stock market value in a moment and calling into question the industry's ability to pay the huge tab that it rang up with bondholders and banks to fuel its current price war with OPEC.

As investors accelerated their flight from energy-company assets, sending stock and bond prices down by double-digit percentages it began to dawn on Wall Street that the exodus of capital threatened a total melt-down of an industry that has been a pillar of the debt markets and of the U.S. economic recovery since the last recession. Everything now depends upon a swift resolution of the oil disagreements and a return to prices closer to the + - \$50 level of recent months.

It is a critical phase for Sasol as well because the company is not profitable at these levels which explains the massive price fall that has occurred over the past week. Whether or not it is a buying opportunity depends on the duration of the price war for Sasol has its own bond redemptions to meet.

The table below, courtesy of Moodys Investors Services, makes it clear that an industry debt problem looms which has the capacity to precipitate through contagion the global debt crisis which I wrote about with in depth in my latest book:

North American oil-and-gas debt maturities, annually



Source: Moody's Investors Service

Meanwhile, we are only now beginning to realize the full extent to the economic crisis being unleashed by the corona virus. Shutting down China has meant that the world's only real remaining engine of economic growth has been shut down, taking with it some 17 percent of global GDP at a time when the whole world is on the brink of collapse, trying to service debt costs that on a worldwide basis have now risen to 340 percent of global GDP.

Australian analyst Jonathan Pain summed it up like this:

China is 17% of the global economy, compared to 4% in 2003.

China accounted for a third of the growth in the global economy in 2019.

China is the beating heart of the world's supply chains.

60% of the Chinese economy is in a state of virtual lockdown.

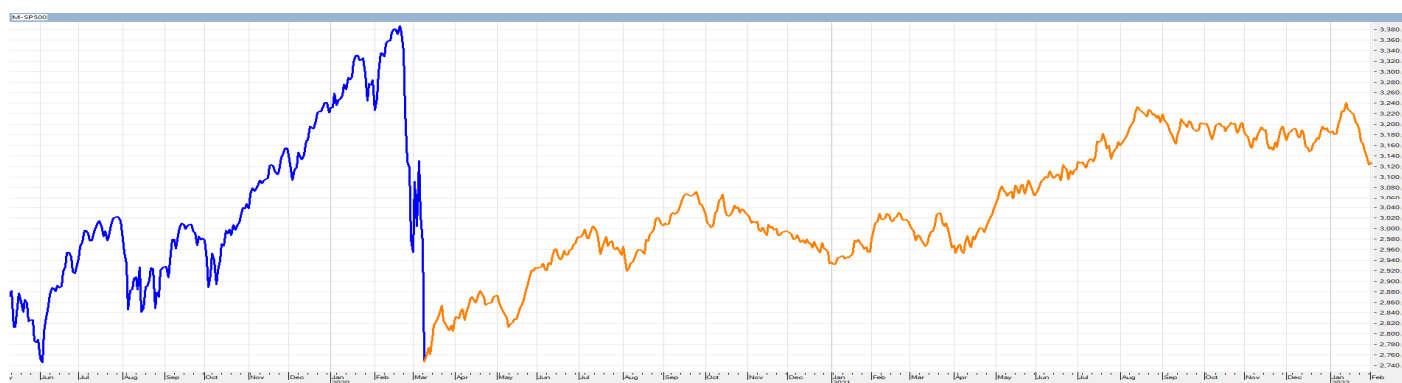
This is not anything like the SARS crisis in 2003.

China will see a severe contraction in its Q1 GDP.

Now, according to an International Monetary Fund analysis, China's total debt ratio reached 258 percent of GDP at the end of 2018—the same as the United States and nearing the average for advanced economies, which was 265 percent. Latest figures are not yet available but the debt has clearly continued to grow. Indeed, China watchers argue that the rate of debt increase has been climbing dramatically which poses the question as to whether the industrial shut-down does not push China over the edge?

Clearly the worst for the global economy is yet to come over the next several months. China's manufacturing and demand slump will affect activity in the rest of the world and demand for services will contract due to containment measures and fear. While the spread of the corona virus outside China is likely to peak in the next few months, the impact upon an already fragile world economy cannot be overstated.

More critically for a South Africa already hovering on the brink of an economic crisis as severe as that which engulfed us in the 1980s, the situation is dire. Thus, while the events of the past week have effectively absorbed the latent sting from Wall Street with ShareFinder now seeing only a mild downturn from September to January within an overall recovery likely to peak in January 2022 as depicted in my first graph below, the JSE is likely to be in for a more troubled ride:



For Britain and Europe, Brexit is an added strain though the EU is unlikely to take a big economic hit from the U.K.'s exit, says RBC Wealth Management. If the EU loses access to the U.K. market due to the potential breakdown of negotiations over a new trade agreement, the impact would be modest as EU exports to the U.K. represent only 3% of EU GDP, RBC says. "Moreover, the damage would be partially offset by some diversion of trade, investment and skilled migrants away from the U.K. to the EU," says RBC's Frederique Carrier.

Brexit seems to have boosted support for the EU among its 27 remaining members and the loss of the U.K.'s contribution to the bloc's economy and budget should be manageable, he adds.

For Britain, however, severe economic strain lies ahead. In London too, this past week's drama has partially pulled the teeth from the September melt-down threat though it still remains a problem: the likely to result of a hard Brexit:



Locally, ShareFinder sees Blue Chips now shrugging off the crash and entering a recovery phase that is likely to last until the first week of September. Here, the sharp decline I have long forecast, remains a probability:



The month ahead:

New York's SP500: I correctly predicted a down-hill phase which should see the market bouncing along the bottom until early May following which I still see a recovery under way until October with several retractions on the way: and the next between March 23 and May 11.

London's Footsie: I correctly predicted weakness. Now I see a recovery beginning and lasting until the end of May with a lot of volatility in between.

Hong Kong's Hangsen: I correctly predicted declines which I now see lasting until mid-May before a recovery trend begins lasting until year-end.

Japan's Nikkei: The recovery I predicted has been delayed but should be starting now and should last until mid-April before the next short phase of weakness until around May 11 within an overall up-trend lasting until mid-September.

Australia's All Ordinaries: I correctly predicted declines. Now, in place of the recovery I previously predicted, I see a flat, sideways trend until the end of June and possibly until the end of the year.

JSE Industrial Index: I correctly warned that the next decline had begun and still expect it to last until mid-June.

Top 40 Index: I correctly predicted that last week's brief recovery would be followed by declines which I still see lasting until around March 23 followed by recovery until April 10 and then volatile declines until mid-June.

ShareFinder Blue Chip Index: I correctly predicted the beginning of a volatile recovery which I still see lasting until early September when the next big dip remains likely.

Gold shares: I correctly predicted a brief up-tick followed by declines which I still see lasting until early August.

Gold Bullion: I correctly predicted modest gains beginning now until mid-April when further declines are likely through to early June when a long recovery begins taking us through to early 2021.

The Rand/US Dollar: I wrongly predicted a volatile recovery until late-May but it has merely been postponed and should get under way today.

The Rand/Euro: I correctly predicted weakness which I still expect to last until July.

The Predicts accuracy rate on a running average basis over the past 730 weeks has been 85.58%. For the past 12 months it has been 95.63%.

Richard Cluver