



**It feels like the Great Depression, the worst failure in the world's monetary history. However, while the people in charge back in 1929 might, perhaps, be excused for the catastrophic mistakes that they made out of a failure to understand how the economic system worked, they have no such excuse today!**

So, while I must praise President Ramaphosa and his team for the steps they have taken so far, the acid test will be in the execution. Nobody can fault Team Ramaphosa for enacting the lock-down when he did for that action has undoubtedly saved countless lives. What I do fault, however, is their failure of detail. Which idiot in the team decided that tobacco and alcohol should be banned. I was once a smoker and I understand how desperation can drive decent ordinary folk to become criminals in search of their cigarettes.

But, as Prohibition in America taught the world, criminality flourishes when 'holier than thou' folk seek to restrict public access to their vices. So those who are desperate are still getting their fixes courtesy of a flourishing underground industry which, once established, is hard to stamp out. Meanwhile, the fiscus is being deprived of desperately-needed revenue.

The same goes for those who thought it smart to arrest people who, while keeping a suitable distance from one another, would like to take a little exercise by walking in our many open spaces. They bring the law into disrepute which is disastrous in the long term if we ever hope to return to being a normal law-abiding society.

I could go on and on! I guess Cyril has little option in his divided political party but to be obliged to incorporate a lunatic fringe. But, nevertheless, the Covid-19 crisis has allowed him to take command and stand up to the worst in his team, so perhaps he can be forgiven for allowing the idiots some concessions.

He has stood up to them where it really matters. For example, the bloated civil service wage bill did not take us further into the red last Wednesday by overpaid public servants being awarded further pay increases at precisely the time when all over the country private sector people are, at best, having their wages cut, and countless thousands of others can expect nothing at all.

Worse, nearly half of the country's small businesses are threatened with oblivion as a direct result of the lock-down. That is why the processes of "helicopter money" and "quantitative easing" have been employed in the Developed World to ensure that those economies will keep on running after the immediate crisis is over.

As many readers of this column will by now have been made brutally aware, even Blue Chip companies have had to close ranks and many have deferred their dividends, guaranteeing hardship for millions of pensioners whose often quite meagre lifetime savings were invested in such Blue Chips in order to put a "few little luxuries" into the shopping baskets of the elderly when their inflation-eroded pensions no longer stretched that far.

That is why, before all the ink is dry on Cyril's R500-billion rescue plan, I would like to add the suggestion of a quick and efficient means of saving hundreds of thousands of jobs and, in a win-win process, both serve to uplift South Africans collectively and polish the social image of the ANC. Furthermore, it could go a very long way towards ensuring the future prosperity and financial stability of the country, and guaranteeing team Ramaphosa and Mboweni a good place in history!

Furthermore, if Cyril can use his well-documented persuasive charm to prevail upon the Reserve Bank, this line of rescue need not either divert any money from the R500-billion rescue package, or need it add a cent to the Government's already overstretched loan book.

The plan is simple. Extend an offer to South Africa's property Reits to take up a minimum of five percent of their issued share capital which would give them vitally-needed working capital at this time when their tenants, the nation's hard-pressed retailers, restaurateurs and thousands of 'Momma and Poppa' stores, are finding it nearly impossible to meet their rent bills as a consequence of the lock-down. The offer could be conditional upon the property-owners providing their tenants with something like a three-month rental holiday and, five percent would be enough to give the government a seat on the board. That way the benefit would trickle down to small businesses which, in return for the rent holiday, might in their turn be prevailed upon to maintain the wages of their employees.

If the landlords were required to issue convertible Preference shares in return for such loans, Government or, preferably the Reserve Bank, would be obtaining a real growth asset at a currently bargain price. Below I offer you graphs of what has happened to two of the property Reits that my ShareFinder system lists as topmost Blue Chips: Growthpoint and Hyprop. Hyprop was standing at R140 a share in mid-2016 when, as a consequence of State Capture, the South African share market turned bearish. Growthpoint lasted longer, peaking in early 2018 at R29. This week, Growthpoint could be bought for R13 and Hyprop for R18; bargain basement prices if ever they were!



In terms of the Reserve Bank Act, that institution is charged with issuing 'promissory notes' which we know as Rands. It does so in a strict ratio to the assets it holds; assets such as gold bullion, the International Monetary Fund's Special Drawing Rights and the currencies of other nations. There is, however, nothing so far as I am aware to prevent it adding Blue Chip shares to that asset base. Alternatively, because the Reserve Bank accommodates the South African Government by buying its bonds, there is nothing to prevent it from, within reason, buying "zero-interest" bonds that would allow the Government to buy such shares\* Note the article at the end of this weekly column on this concept. Either way the shares would represent an asset in the hands of the people of South Africa.

The only limitation upon the asset backing of the Rand is the effect upon it in the marketplace and the authorities have obviously considered it an advantage to allow that relationship to decline over the years so that our exporters might remain competitive in global markets while, for example, mine wages have soared ahead of those of our mineral-exporting competitors. My graph on the right shows how the Rand has been allowed to decline in value from R3.14 to the US Dollar at the dawn of democracy to a current R18.99. The red trend line suggests that the decline has occurred at a mean compound annual average rate of 5.4 percent. Over the past two years, however, as our global debt rose to the extent that the ratings agencies have now all “Junked” our bonds, that rate has dramatically accelerated to 25 percent as denoted by the green line: a compelling reason why we must turn our economy round and restore it to job-creating growth rather than a centrally-commanded socialistic disaster.



In an aside, there have now been four times when the Rand has crashed in value. In 2001 it fell from R7.6 to the US\$ to R13.13, again in 2008 it went from R6.54 to R10.64, the next one was more protracted during the Zuma years when the investment community world finally lost hope in the resurrection of our once healthy economy, rising from R6.69 in January 2011 to R16.57 in December 2015. And now, of course, we have had our ratings agency downgrade that was widely expected from December last year when the Rand stood at R14 to a current R19.12. That first spike prompted an inconclusive commission of enquiry which strongly fingered a cartel of foreign merchant banks in a concerted “shorting” attack upon our currency. But no official action is known to have been taken.

Nobody has since picked up the challenge as to why these spikes have occurred, but they should because opportunistic attacks upon the currencies of nations have had a massive cost effect upon their citizens; ask any South African who has children living abroad and, not unreasonably, would like to make periodic visits to them!

But, to return to my argument for the State buying direct stakes in Blue Chip local companies, the following graph of the ShareFinder Blue Chip index illustrates how a sovereign wealth fund created in such a manner would, by direct implication, benefit all South Africans and over time reduce Government’s reliance on tax revenue. The red line represents the mean value of such a portfolio as it has risen in value year by year at an annual compound average rate of 16.7 percent; that is better than three times the rate at which the Rand has lost value and grown their dividend distributions in the same manner.

What about the quality of these property Reits? That is determined by the quality of their underlying investments and in the case of the two examples I have offered, that is solid bricks and mortar which **in normal times** bring in enough revenue to GUARANTEE an income yield, in the case of Hyprop, calculated on the last financial year ended June 30 2019, of 10.2 percent. Furthermore, until the market turned against this share simultaneously with the onset of the latest attack upon the Rand, it was offering compound annual price growth of 15 percent as illustrated by the red trend line in my graph on the right.



That represents a Total Return of 25.2 percent. Moreover, calculated upon the current price of R16.93 that represents a yield of 42.77 percent and a total return of almost 58 percent if things were to return to normal; possibly the greatest bargain I have seen in my lifetime as a financial commentator

As to the quality of the investment, Hyprop owns landmark retail malls: Canal Walk, CapeGate, Clearwater Mall, Rosebank Mall, Somerset Mall, The Glen, Woodlands Boulevard and Hyde Park Corner as well as significant holdings in Eastern Europe with, according to the last annual report, a very low vacancy rate of 0.8 percent.

Finally, as the extract on the right from the last annual report makes clear, against assets of R35.366-billion, the company has debts of just R8.75-billion. That is a gearing ratio of just 24.7 percent in an industry in which average gearing is 35.5 percent and it might be compared with an Investopedia analysis that claims the average debt ratio of US Standard & Poors 500 companies if 150 percent.

Having lately been a buyer of significant quantities of Hyprop shares for my own portfolio, I have in the current idiom, demonstrably put my money where my mouth is. I trust Finance Minister Tito Mboweni who receives this column each week, similarly appreciates how ordinary South Africans could similarly benefit.

In closing, I note that the Stellenbosch Bureau for Economic Research (BER) is now projecting a budget shortfall of 11.1% of GDP, or R558bn, due mainly to lower tax revenue and higher debt service costs. Add to this, for example, a temporary R500 top-up to social grants for six months, and the deficit is closer to 12%. To fund the shortfall the government, which issues about R15bn of bonds every week, would need to increase issuance by another R5bn, says the BER.

In the weeks leading to the lockdown bond investors were already in full flight for the door, with bond yields close to 13% when the Reserve Bank entered the secondary market on a modest scale to itself buy government bonds. But the Bank stated that it would not target the price of borrowing and intended only to unfreeze the bond market.

Now, with greater issuance and a credit ratings downgrade in the mix and yields still above 11%, the real prospect has emerged that the government could rapidly find itself in a position where it is unable to sustainably raise the money it needs. It could turn to short-term borrowing or use the cash reserves held at the SA Reserve Bank. It could also access concessional funding such as that offered by the New Development Bank, African Development Bank, World Bank and maybe even the IMF special Covid-19 facility.

It is doubtful, though, that any or all of these will be of the scale required to finance the government continuously for the next 12 months. The main source of funding is likely still to be weekly bond auctions. Unless confidence in this market is restored the government will have limited options, none of which is attractive.

## Consolidated statement of financial position

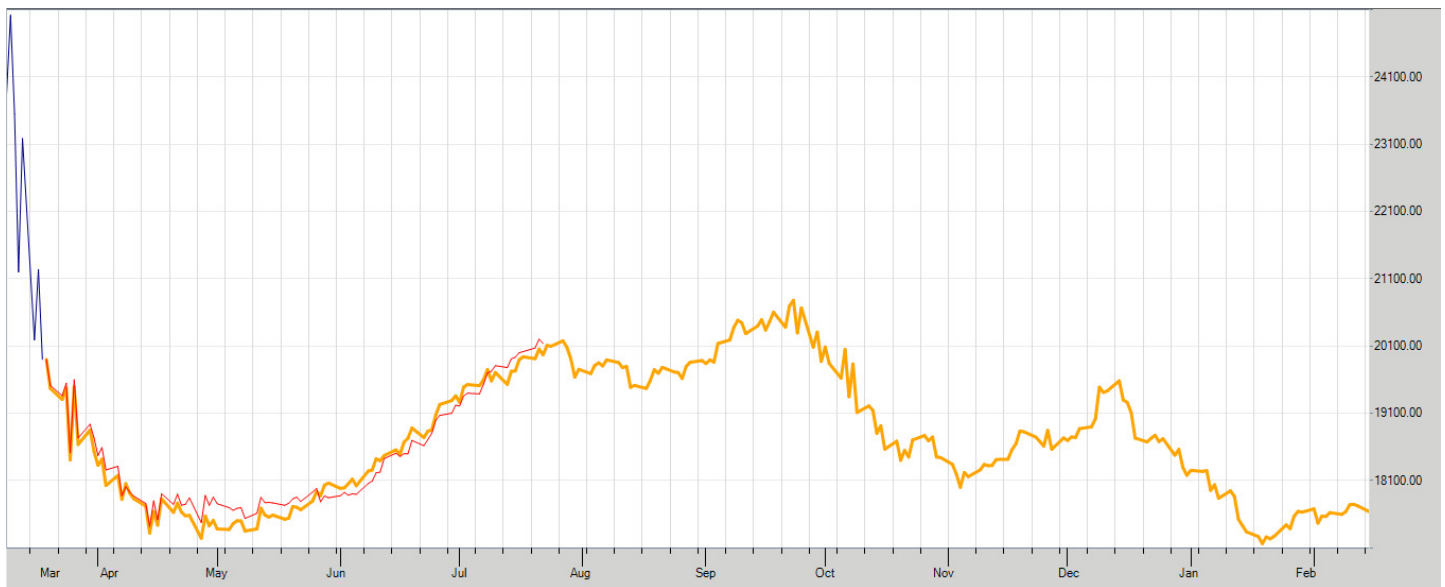
at 30 June

Note	2018 R'000	2017 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment property	33 951 124	32 854 166
2.1	30 141 027	29 128 477
South African portfolio	28 091 539	27 176 840
Ikeja City Mall (Ikeja, Nigeria)	2 049 488	1 951 637
2.3	550 182	553 119
Straight-line rental income accrual	163 068	148 530
3	2 918 721	3 005 821
Investment in sub-Saharan Africa (excluding SA)	2 918 721	2 995 718
10	10 103	10 103
6.2	152 556	
Financial asset		
7.3		
Other investment		
9		
Loans receivable	18 723	17 434
10	6 846	785
18	1 015 095	1 366 021
Derivative instruments	40 716	
10	258 071	230 741
11	815	9 530
18	715 493	1 125 750
17	199 257	426 681
13	35 165 476	34 646 868
<b>Current assets</b>		
Loans receivable	40 716	
10	258 071	230 741
11	815	9 530
18	715 493	1 125 750
17	199 257	426 681
13	35 165 476	34 646 868
<b>Non-current assets classified as held-for-sale</b>		
<b>Total assets</b>		
<b>EQUITY AND LIABILITIES</b>		
<b>Equity and reserves</b>		
	26 395 237	24 882 553
Equity and reserves attributable to Hyprop shareholders	26 304 917	24 788 254
14	8 418 904	7 648 216
14	16 841 038	16 252 043
15.1	27 443	23 901
15.2	1 004 408	861 877
16	13 124	2 217
16	90 320	94 799
4.1		
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	8 203 399	5 428 316
17	7 815 651	5 068 332
8.2	185 686	163 855
18	24 060	56 530
19	178 002	139 599
<b>Current liabilities</b>		
Borrowings	558 683	4 372 925
17	69 343	3 832 306
20	486 090	489 681
Trade and other payables	1 251	
taxation	1 999	938
18	8 157	13 074
13	8 770 239	9 764 315
<b>Liabilities directly associated with non-current assets held-for-sale</b>		
<b>Total liabilities</b>		
<b>Total equity and liabilities</b>		
* Value less than R'000		

Among them are: the route the apartheid government took of prescribed assets; bilateral loans from other countries; or a standby facility from the IMF.

The next move by the Reserve Bank will give us a sense of where we are heading. But clearly, we need to shore up our reputation as a reliable borrower with growth assets in our sovereign mix. That is another reason why I have touted the Property Reits investment idea. Of course, it need not be confined to the Reits once it is demonstrated to be a viable working concept.

Meanwhile, ShareFinder has turned increasingly pessimistic about Wall Street which went into reverse this week, possibly undoing the previous hope for a V-shaped recovery. The following graph shows our latest ShareFinder 6 projection for the Dow Jones Index, likely to be the most accurate forecast we have ever made given the increased forecast accuracy of our latest software:



## The month ahead:

**New York's SP500:** I correctly predicted the recovery with this week's weakness likely to be over by the first week of May followed by gains until the end of September when the next sharp phase of weakness is likely.

**London's Footsie:** I correctly predicted the recovery which I still see lasting until the end of May, downhill from then until early July and then another recovery until early October ahead of the next big down-turn.

**Hong Kong's Hangsen:** I correctly predicted the start of a long recovery until January when the next down-turn is likely. In the short-term I see declines until mid-May.

**Japan's Nikkei:** I correctly predicted the short-lived recovery would be over by mid-month. Here the market has topped out and it is likely to be downhill until August before a recovery until late September.

**Australia's All Ordinaries:** I correctly predicted a worsening situation with the down-trend continuing until mid-August before it briefly recovers with further down-hill trending thereafter until year end.

**JSE Industrial Index:** I correctly predicted a modest recovery which I did not see lasting much longer. Now it is likely to be down-hill until the end of June followed by a brief July-long recovery and then a volatile decline thereafter.

**Top 40 Index:** I correctly predicted the start of a decline until late June and then a brief recovery which I still see lasting until late July followed by a weakening sideways trend until the next sharp decline, likely in December.

**ShareFinder Blue Chip Index:** I correctly predicted the beginning of a more modest phase of recovery which I now see lasting until late July though interim volatility must be expected. From July 23 it is likely to be downhill again.

**Gold shares:** I wrongly predicted further declines which I saw lasting well into 2021. But the current recovery is probably over now and I see declines from now well into 2021.

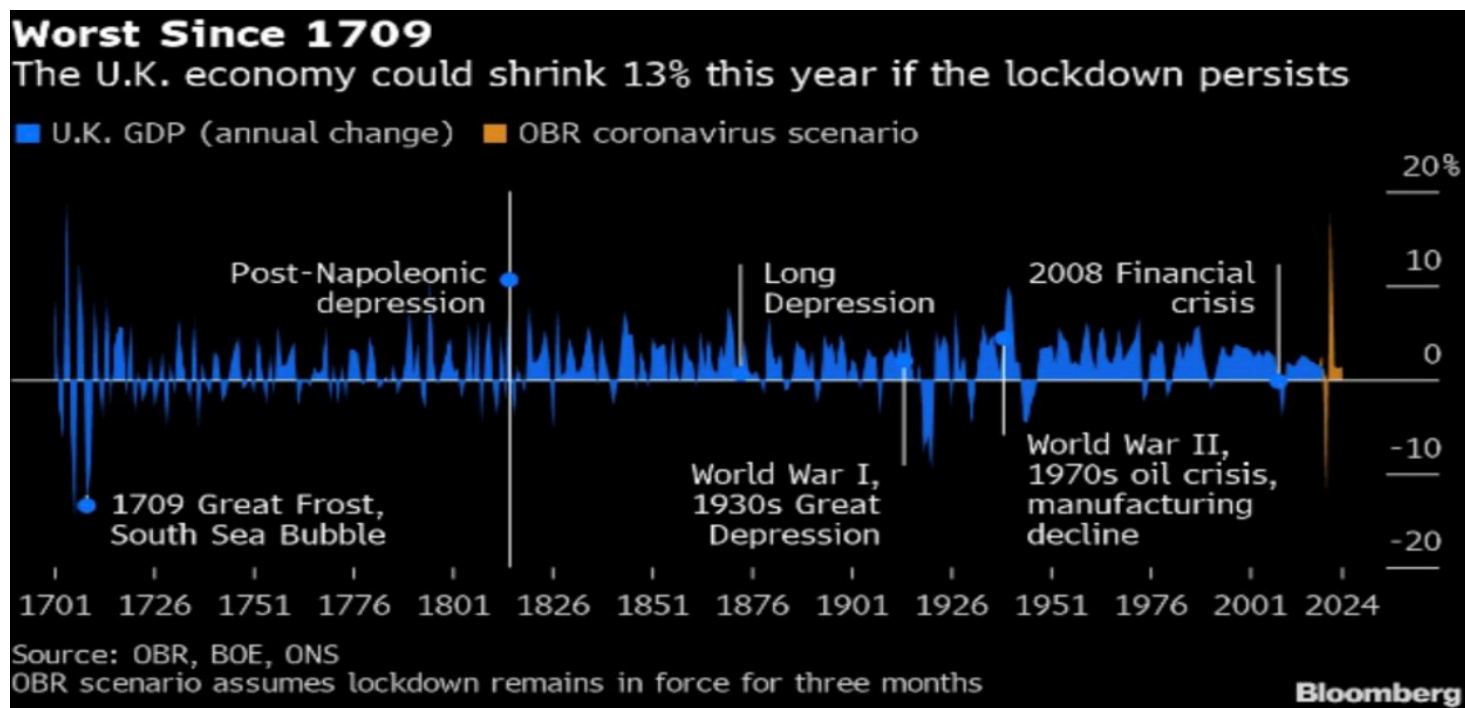
**Gold Bullion:** I correctly predicted a decline but missed the up-tick that followed. Now I see weakness lasting until mid-June before a long recovery begins and that is likely to continue well into 2021.

**The Rand/US Dollar:** I correctly predicted the establishment of a semi-permanent new level at around R18.60 to the dollar. Now I see modest gains until the third week of May.

**The Rand/Euro:** I correctly predicted a volatile recovery which I now see lasting until mid-June followed by weakness until mid-July followed by gains until late October.

***The Predicts accuracy rate on a running average basis over the past 742 weeks has been 85.67%. For the past 12 months it has been 96.54%.***

**Richard Cluver**



## How other Governments are coping with the cost!

By Adair Turner, former chair of the UK Financial Services Authority

In response to the Covid-19 pandemic, the US Federal Reserve will buy unlimited quantities of Treasury bonds, the Bank of England will purchase £200bn (\$250bn) of gilts, and the European Central Bank up to €750bn (\$815bn) of eurozone bonds. Almost certainly, central banks will end up providing monetary finance to fund fiscal deficits. The only question is whether they should make that explicit.

Monetary policy, on its own, is clearly impotent in today's circumstances. Central banks have cut policy interest rates and bond purchases are depressing long-term yields. But nobody thinks that lower interest rates will unleash higher consumer expenditure or business investment.

Instead, depressed economic growth will be offset (as best possible) by increased government spending on healthcare, direct income support for laid-off workers, and a reduced tax take. This will inevitably result in unprecedented fiscal deficits.

In theory, funding those deficits by selling government bonds could raise bond yields, potentially offsetting the stimulative effect. But with central banks buying bonds and depressing yields, governments can borrow all they need at rock-bottom interest rates.

When the United States used that policy during World War II, the Fed's role in facilitating debt finance was explicit: from 1942 to 1951, it committed to buying Treasury bonds in whatever quantity needed to keep bond yields flat. This time round, such explicit commitments have been avoided, but the effect is the same: central banks are making it easy to fund yawning fiscal deficits.

Whether this amounts to permanent monetary finance depends on whether the bonds are ever sold back to the private sector, with central banks' balance sheets returning to "normal" levels. In the US after World War II, such a reversal never happened.

In their book, [\*A Monetary History of the United States\*](#), [Milton Friedman](#) and Anna Schwartz later estimated that about 15% of the war effort was financed with central-bank money rather than by taxes or with debt which was never actually repaid. In Japan, where 25 years of large fiscal deficits have been matched by equally large purchases of government bonds by the Bank of Japan, it is also obvious that the central bank's bond holdings will never be sold: permanent monetary finance has occurred.

So, monetary finance need not be explicit to be permanent. All asset purchases by central banks over the past decade — so-called quantitative easing (QE) — might in retrospect entail some monetary finance.

That possibility terrifies those who believe that monetary finance must eventually lead to hyperinflation. But such fears are absurd. Friedman famously said that in a deflationary depression, we should scatter dollar bills from a helicopter for people to pick up and spend. Suppose US President Donald Trump ordered just \$10-million of such helicopter money: the impact on either real activity or inflation would be minuscule. But suppose he ordered \$1,000-trillion: obviously, there would be hyperinflation. The impact of monetary finance depends on the scale.

Fears about the long-term impact on central-bank balance sheets and commercial-bank profitability are also misplaced. Central banks do not directly create the money held by individuals or companies in the real economy; what they create is the monetary base held as reserve assets by banks. As a result, central banks, which pay interest rates on reserves, will face an ongoing cost if they create more such money.

But central banks can create costless money by paying zero interest on some commercial-bank reserves, even while paying a positive policy rate at the margin. And while such zero-rate reserves might impose an effective tax on credit creation when economic activity revives, that could be desirable, because it would prevent the initial stimulus from being harmfully multiplied by commercial bank's future money creation.

So, on close inspection, all apparent [technical objections](#) to monetary finance dissolve. There is no doubt that monetary finance is technically feasible and that wise fiscal and monetary authorities could choose just the "right" amount.

The crucial issue is whether politicians can be trusted to be wise. Most central bankers are sceptical, and fear that monetary finance, once openly allowed, would become excessive. Indeed, for many, the knowledge that it is possible is a dangerous forbidden fruit which must remain taboo.

They may be right: the best policy may be to provide monetary finance while denying the fact. Governments can run large fiscal deficits. Central banks can make these fundable at close to zero rates. And these operations might be reversed if future rates of economic growth and inflation are higher than currently anticipated. If not, they will become permanent. But nobody needs to acknowledge that possibility in advance.

Paradoxically, the only danger with this approach is that central banks will be too credible. If individuals or companies believe policymakers' promise never to allow monetary finance and that all QE operations will definitely be reversed, they will expect that all the new public debt must be repaid out of future taxes. And anticipation of that burden could depress consumption and investment today.

The alternative approach is honesty — while offsetting the danger that honesty will lead to excess. Andrew Bailey, Governor of the Bank of England, [argued](#) on April 5 that explicit monetary finance is “incompatible with the pursuit of an inflation target by an independent central bank”. But former Fed Chair Ben Bernanke has shown why that is not true, [proposing](#) instead that independent central banks should determine the amount of any monetary finance while governments decide how to spend the money.

Independent central banks could make explicit decisions about optimal quantities of permanent monetary finance. But whether or not they do, a significant proportion of today's QE operations will in retrospect have financed expanded fiscal deficits.

*Note: Spain is currently considering the issuance of “Permanent Bonds” which might represent an alternative approach. RC*