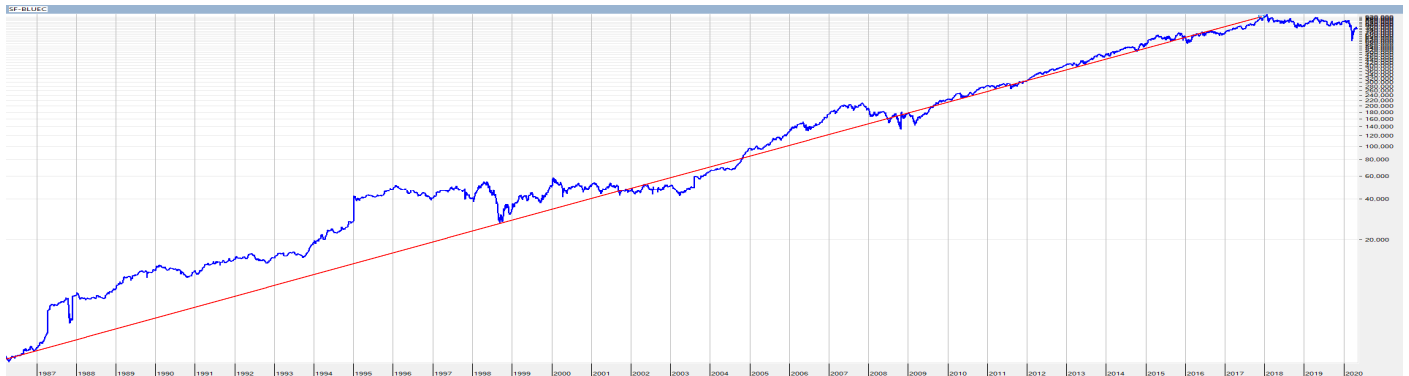




I was chastised this week by a reader of this column for directly comparing the JSE performance with New York's without factoring in the effect of the Rand/Dollar exchange rate. Nevertheless, by every measure we still top the growth lists.....or did, for it is downhill from here unless the ANC wakes up to the reality of starvation in the townships and urgently primes the pumps for economic growth!

Of course, my reader had a point. To refresh your memory, I published the graph below of the of the JSE Blue Chip index since this column began back in 1987 overlain with a red trend line which showed that the mean growth rate of the index since then was 20,2 percent compound annually up until the current market decline began in January 2018. If you measure it until today, the compound annual average falls to 18.1 percent.



Now, over the same period the Rand declined relative to the US dollar at compound 5.8 percent as defined by the red line in my next graph. I have added in the purple line to show the current position which now suggests a 6.5 percent annual rate of decline.

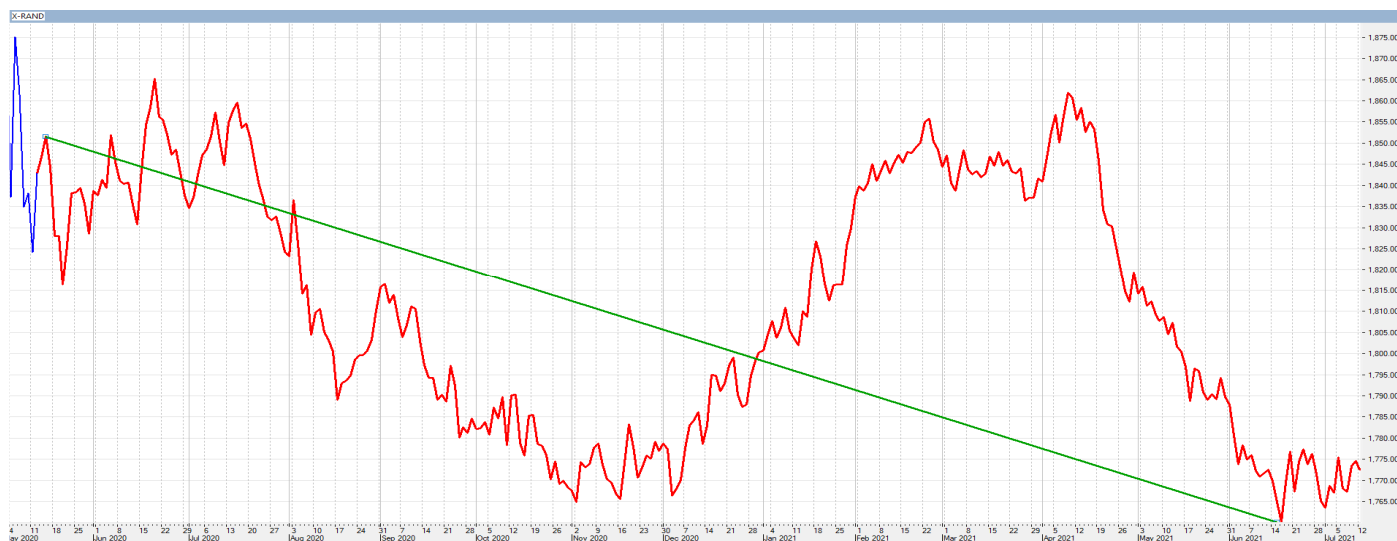


Subtract 5.8 from 20.2 and in dollar terms South African Blue Chips delivered an annual 14.4 percent and more recently by subtracting 6.5 from 18.1 you get a worst-case scenario of 12.3 percent.

Unfortunately my SF5 data records for New York only go back to January 1995 but if you consider the graph below you can see that since then the compound annual growth rate was 8.7 percent making it clear that the Blue Chip South African portfolio did 65.5 percent better than the New York one when one corrects for the Rand/Dollar exchange rate. A worst-case scenario taking a New York investment up to this week (the purple trend line) indicates a compound annual growth rate of 7.3 percent in New York which indicates in this latter scenario that a South African Blue-Chip portfolio did 68.5 percent better than the New York one.



There is further good news to be gained from the usually very reliable ShareFinder projections for ShareFinder currently calculates that the Rand has seen its worst and, as the green trend line in the graph below suggests, will recover steadily in the year ahead such that by this time next year it will have gained strength at a compound annual average rate of 4.4 percent and by then a Dollar will cost something like R17.68 compared with this week's R18.53.



Sadly, however, ShareFinder is not so optimistic about the long-term outlook for South African Blue Chips which it sees recovering from now until mid-September before falling again until mid-January next year and thereafter going through a series of ever-declining cycles within the confines of the falling wedge formation which I have depicted in my next graph:



Happily...or not depending upon how you view things, the protracted market down-turn envisaged by ShareFinder is not confined just to South African Blue Chips. The following extended projection of the New York Blue Chip Index senses a similar protracted down-trend until late 2021 at the least; the consequence of a global economic slow-down which might in part be attributed to the corona virus but, as I warned in my latest book, *The Crash of 2020*, is likely to have more to do with structural economic problems that need to be dealt with concerning debt-laden Developed World governments together with how central banks regulate the money supply.



While governments continue to mortgage the future earnings of our children and grandchildren to fund unaffordable social welfare programmes, there can be little economic growth. Happily, at least some leaders understand there is only one possible equitable solution to the twin dilemmas of global debt and global unemployment.

It is to facilitate economic growth. Making this view loud and clear in an interview with Bloomberg this week, US Federal Reserve Chairman Jerome Powell signalled that the Fed was done with using less than zero interest rates to manipulate the money supply which have made it possible for the USA and other developed nations to grow some of the biggest debts mankind has ever seen and yet not collapse in effective bankruptcy.

For the uninitiated, when central banks set the rate at which they are prepared to lend money to private banks at such rates, they effectively decimate the savings of retired folk who, by the year 2050 are expected to number more than two billion; that's approximately a quarter of the world's expected population who have been forced into relative penury because of a lack of interest income from their lifetime savings.

Adding to the rapidly-growing unsustainability of this social welfare-inspired misallocation of global capital is the fact that as a group the 'over 65s' are rapidly increasing while birth rates are shrinking globally. Classic examples of this phenomenon are currently provided by Austria, Sweden, Portugal, Latvia and Bulgaria where, according to the World Bank, the 65 and over population has gone up from 16 percent of the total population in 2006 to 18 percent in 2010, while its population of people aged 14 and under has declined from 16 percent to 15 percent in the same period.

Public pension spending was 12.3 percent of Austria's GDP in 2008, over 5 percent higher than the average of OECD countries. Austria also has only 3.5 people of working age for every person aged 65 and over.

Economists cite this as a crisis. But compare that figure with South Africa where Treasury figures show that Government spending represents 33.44 percent of GDP and of that 68 per cent goes towards social commitments, including education, health, social grants and basic services while the public sector wage bill accounts for the rest. Furthermore, while developed nations like Austria have 3.5 people working for every pensioner, we have three grant recipients for everyone who pays taxes.

Nobody doubts that the poor need assistance, particularly at times like these when hunger is stalking the land, but the current system worldwide is unsustainable and in South Africa it is catastrophic. Furthermore, in a shrinking economy, the percentage of unemployed people will inevitably grow which inescapably commits the government to borrowing for everything else it needs to do. But now we have reached our borrowing limits, dramatically illustrated by the fact that RSA bonds currently yield 11.12 percent. Only a handful of crisis nations like Argentina, Egypt and Turkey have to pay more for their borrowings.

World economists regard the current global economic model as an unsustainable crisis which will only be solved by radical change which amounts to stimulating economic growth above everything else, which they hope, the aftermath of the Covid-19 pandemic will force world governments to address. But stimulating growth at all costs risks an even worse crisis in the shape of irreversible climate change.

That is why so many are now looking to the green economy as the hope for the future and, given our own electricity generation crisis, it could offer us one of the vital job-creation opportunities we so desperately need. However, on its own it can be nothing more than a catalyst. If Cyril Ramaphosa's Government is to have any hope of saving the day they will have to open the throttle on growth **immediately** and he could make a good start by removing Gwede Mantashe who has been blocking green energy for far too long.

The good news is that President Cyril Ramaphosa does appear to be aware of the scale of the problem. Speaking to the KwaZulu-Natal provincial leadership last week, he said: "We are going to have to go for growth in a big and exponential way, and be willing and be brave and courageous enough to massify whatever needs to be done, because playing around on the edges with whatever efforts we are making — that time is over now."

It's possible, but given how often he has been contradicted by his own National Command Council which, as someone astutely recently observed is dominated by geriatrics who got what little understanding they have of economics in the old Soviet Union, it is likely to be an uphill battle.

To achieve a growth revolution, he will need to undo vast swathes of recent socialist legislation in order to give business a virtually free hand, but it is possible. He could start by immediately announcing that he will clear away labour legislation like minimum wages which protect the few by blocking the majority from finding gainful employment.

And he will need to completely ignore groupings within the Tripartite Alliance like the Communist Party whose economic spokesman Jeremy Cronin this week argued that his best piece of advice for the post-covid-19 cabinet would be to rigidly impose exchange controls to prevent capital leaving the country.

Those who remember exchange controls during the apartheid era will recall that they inspired whole industries dedicated to evading the controls. They simply cannot work but they very effectively prevent investment capital coming into the country.

No need to list here all the other impediments to growth that have relegated us to failed-nation status. They are well documented in almost every growth plan the ANC has launched since the turn of the millennium...but never effectively implemented.

I wish Ramaphosa well. We desperately need to go for growth but with people like Ebrahim Patel leading his party's current economic thought, I am not optimistic.

Perhaps, as the Paternoster Group suggested this week, it might be timely for Ramaphosa to reach out to his harshest critic, to DA leader John Steenhuisen by inviting some opposition (and civil society) leaders to join the government's decision-making processes. The ANC can retain its ultimate authority, but, as the group reminded us, a constitutional democracy also requires that the interests of the more than 42% of South Africans who didn't vote for the ANC are put forward in coming to these era-defining decisions. This cannot be done while the NCC closes ranks, and with parliament's teeth seeming blunter than before.

Have a good weekend!

The month ahead:

New York's SP500: I correctly predicted volatile gains which I still expect 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 followed by a downhill phase 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 but volatile recovery until the end of December when the next down-turn is likely.

Japan's Nikkei: I correctly predicted this week's upsurge but now see a few more modest gains within an overall downhill trend until August before the next short up-surge until mid-September and then down-hill again until December.

Australia's All Ordinaries: I correctly predicted the end of last week's recovery amid a worsening situation continuing until mid-August before it briefly recovers with further down-hill trending thereafter until year-end

JSE Industrial Index: I correctly predicted a recovery lasting until mid-May. Now I see declines until the end of June, recovery until late July and then sideways until late October before going into a decline into the New Year.

Top 40 Index: I correctly predicted a decline which I see lasting until the end of June followed by a recovery until the first week of August.

ShareFinder Blue Chip Index: I correctly predicted weakness in the new week followed by a volatile recovery beginning now until mid-September when a major decline begins.

Gold shares: I correctly predicted declines which I expect to last well into 2021.

Gold Bullion: I correctly predicted volatile weakness lasting until mid-June before a long recovery begins and is likely to continue well into 2021.

The Rand/US Dollar: I correctly predicted modest gains until the third week of May following which I see a modestly weakening trend amid considerable volatility until early September followed by volatile gains until November.

The Rand/Euro: I correctly predicted a volatile recovery which I still 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 since January 2002 has been 85.73%. For the past 12 months it has been 96.54%.

Richard Cluver