Our Weekly Paid Newsletter

Richard Cluver Predicts

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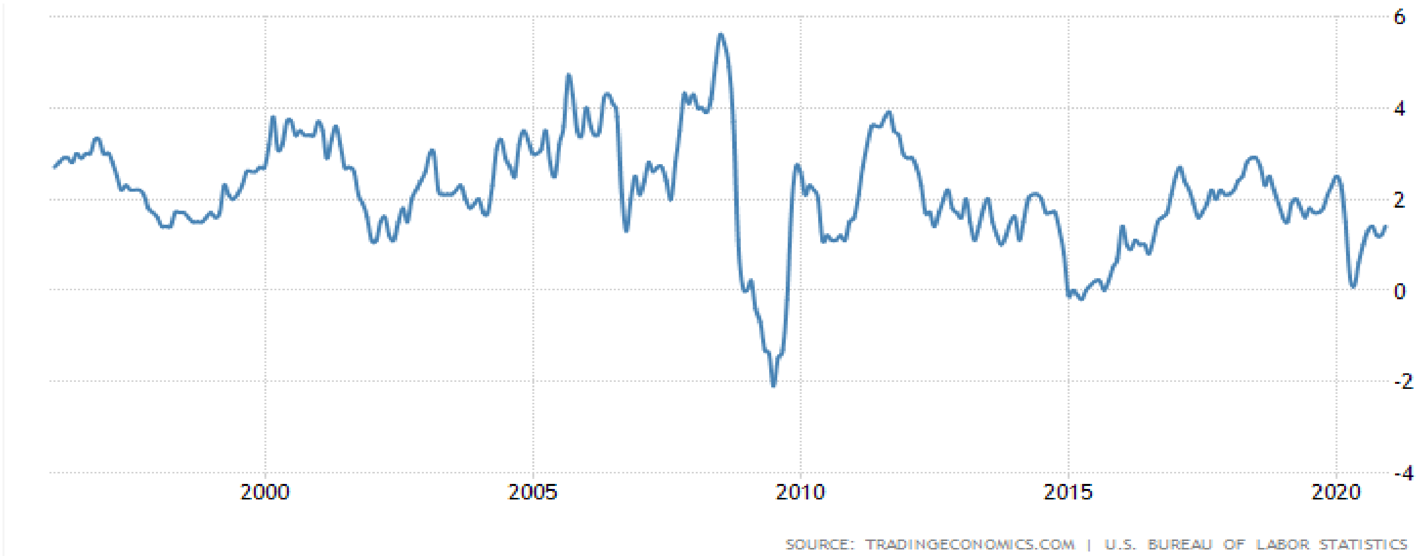
What is happening to the price of gold? Though the world has long forsaken the 'Gold Standard' which for centuries was the solid underpin of currency worth - the store of wealth when all else failed in each successive failure of government policy- gold has remained our surety in a world of financial uncertainty. Yet now, with the planet gripped in a once in a century global health crisis, the precious metal price has been falling steadily!

Let's start with a long-term graph which illustrates that for the past quarter century the gold price has fluctuated around a trend line that has risen at compound 8.4 percent in US Dollar terms.

Of course, if one is to get really technical about this, what the long-term trend of the gold price really means is that the US Dollar has been losing value at an average of 8.4 percent throughout this period relative to the currencies of its principal trading partners. In other words, it has suffered from inflation at an annual rate of 8.4 percent.

Yet **official** US figures disagree. My next graph tracks the official US inflation rate which, at its highest level in 2008 averaged 3.84 percent and currently stands at 1.4 percent. Is the US Government misleading its people and the wider world about the true nature of its inflation rate?



One measure which serves to confirm this view is that the US Dollar has been losing value rapidly relative to benchmark currencies like the Swiss Franc. As my next graph illustrates, it is plain that the Dollar has been weakening since the end of November 2015. Back then one Dollar bought you 1.0297 Swiss Francs. Furthermore, it has been weakening comparatively rapidly since May 2019 when the world began to realise the full horror of the Trump administration and his dangerous trade war with China which had deeply worrying parallels with the Smoot-Hawley trade protection Act that was one of the root causes of the 1929 depression. Yesterday it closed at just 0.7816 Swiss Francs.

Of course, that graph is a long-term one and the US has lately been rocked by more problems that it has for several decades with the storming of the Capitol a week ahead of President Biden's inauguration highlighting the fact that the US is now a deeply divided nation in urgent need of healing.

A new IPSOS poll has shown, among many troubling findings, that 39 percent of Americans believe "...there is a deep state working to undermine President Trump," a belief is driven primarily by Republicans and FOX News viewers with "nearly half of white men and rural residents (49% each) agreeing as well."

Among other alarming findings of the IPSOS poll was that although the great majority of respondents correctly answered knowledge test questions about the moon landing, Barack Obama's birthplace, and 9/11, 40 percent believe that COVID-19 was created in a lab in China while fewer than half (47%) were able to correctly identify as false a statement that, "A group of Satan-worshipping elites who run a child sex ring are trying to control our politics and media."

Thirty-seven percent were unsure whether this theory, backed by the conspiracy theory group QAnon, was true or false, and 17% believed it to be true while nearly half (47%) believed the majority of the social protests of the past summer were violent, while just 38% correctly indicated that this is a false statement.

Much more than just the re-education of the average American accordingly hangs on the Biden administration. Recognising that the path of the gold price and the strength of the US dollar accordingly will continue to have a major impact upon global trade and the direction of investment markets for many years to come, every global investor obviously has a deep material interest in the ability of the Democratic Party to heal the divisions in US society and get it working profitably again.

I accordingly take considerable relief in the following short-term graphs which indicate that the US Dollar has begun strengthening, note the first green shoots of a starting trend of recovery in my next graph:

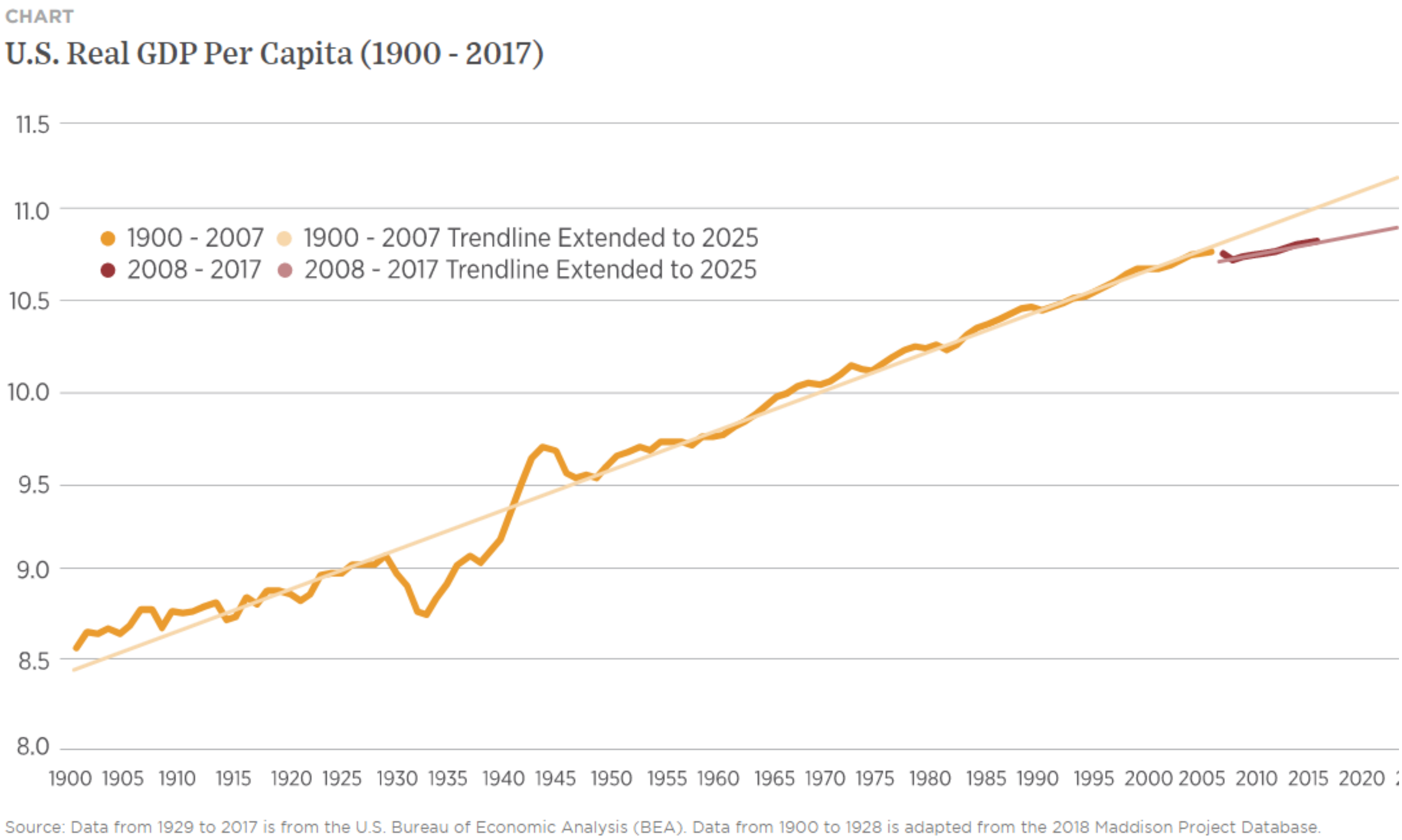
The gold price is also a little more uncertain but a compound 42 percent rising trend is now clearly discernible in the gold price graph as well:

Wall Street is, of course, driven by other considerations but it has principally responded in recent years to the US Federal Reserve money-printing process which has shown no sign of slowing. Here one needs to recognise that money is a commodity and so, if you create a lot more of the stuff in the absence of Gross National Product growth to underpin its value – again read inflation – then it must fall in value relative to other currencies.

The share market, consequently, always acts as a store of value – as an inflation hedge – so if you consider the past ten years of Wall Street's Standard and Poors 500 Index it is valuable to note that the green line representing its long-term mean has been rising throughout at compound 15.6 percent. Deduct the 8.4 real inflation rate which I earlier derived by measuring the behaviour of bullion and you can thus conclude that there has been real growth of 7.2 percent.

Now one would normally expect a S&P500 company to outperform US GDP and so it is worthwhile to deduct the average US GDP growth rate of 2.33 percent (excluding the negative 2020 Covid figure) from that figure of 7.2 percent to conclude that investors are really achieving around 4.9 percent if they are using an S&P500 tracker.

In that light, however, the following graph created by the University of Chicago shows that although real per capita GDP has continued growing steadily in the US over the past 120 years at compound 1.83 percent annually, the graph started falling significantly below the trend line over the past decade since the 'Great Recession' when the US Fed began its "Quantative Easing" policy of printing excess amounts of money.



Do enjoy your weekend

The month ahead:

New York's SP500: I correctly predicted a market downturn but wrongly expected it to extend until the end of the first week of February. Now I forecast gains until late May.

Nasdaq: I correctly predicted that the recovery had begun and see gains from here until at least the second week of April after which I expect weakness until August.

London's Footsie: I correctly warned of weakness likely to continue until late February after which I expect a recovery until the end of April.

Germany's Dax: I correctly predicted the beginning of gains until early April and I still hold that view

France's Cac 40: I correctly predicted a slight weakening which I still see lasting until late February ahead of the next gain to mid-April.

Hong Kong's Hangsen: I correctly predicted a very volatile declining trend until July which I continue to forecast.

Japan's Nikkei: I correctly predicted the beginning of the next up-phase which should last until late-March.

Australia's All Ordinaries: I correctly predicted the market was peaking ahead of a long decline which I expect to last until late March followed by a strong up-tick to mid-May and thereafter a fresh bear phase until mid-September.

JSE Top 40 Index: I correctly predicted the up-tick was probably over with consolidation then taking place ahead of a long declining phase until late-August.

ShareFinder JSE Blue Chip Index: I correctly predicted the end of the brief up-tick. This decline should be over by the end of the month with gains thereafter likely until mid-February but then expect a volatile decline until the end of September. There is here, however an opposite view also at play with ShareFinder's medium-term projection sensing declines until late July as a consequence of a steep fall from mid-June!

Gold Bullion: I correctly predicted a continuing recovery likely to peak in December.

The Rand/US Dollar: I have correctly been expecting the onset of three months of weakness but wrongly interpreted the recent strength as the start of further gains likely until October. Now the weakening trend has re-asserted itself and I expect it to peak in mid-February with a second peak in the first week of April before strength re-asserts.

Rand/Euro: I correctly predicted resumed gains until October. The present weakness is just a short blip likely to be over by mid-week.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.02 percent. For the past 12 months it has been 93.63 percent*.**

Gold Set for Worst Start to Year in a Decade as Dollar Ascends

BUSINESS MAVERICK

Gold fell after the Federal Reserve left its benchmark interest rate unchanged and stuck with the current pace of bond-buying, aiding the dollar and putting bullion on course for the worst start to a year in a decade.

The Fed repeated it would maintain bond-buying at $120 billion per month until “substantial further progress” toward employment and inflation goals has been made. After the Federal Open Market Committee’s first meeting of 2021, Chair Jerome Powell said it would take “some time” to achieve the threshold for altering purchases, making clear the central bank’s not close to tapering them.

Bullion has lost more than 3% this month, its worst January performance since 2011, as traders weighed the strengthening greenback, prospects for more stimulus, and trajectory of the pandemic. Powell said that the widespread availability of vaccines was grounds for optimism, noting that “several developments point to an improved outlook for later this year.”

“Investors focused on the Fed’s optimistic tones on vaccinations, which suggest a strong recovery in the second half,” said Edward Moya, senior market analyst at Oanda Corp. “Gold can’t get its groove back until the dollar rebound is over. Gold’s consolidation phase continues, and the bull case should remain if prices can hold the $1,800 level over the next couple of weeks.”

Spot gold fell 0.4% to $1,837.29 an ounce at 11:12 a.m. in Singapore, after ending 0.4% lower on Wednesday. Silver and platinum dropped, while palladium was steady. The Bloomberg Dollar Spot Index rose 0.1% after surging 0.6% a day earlier.