



Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 34th year of service to the investing public of South Africa



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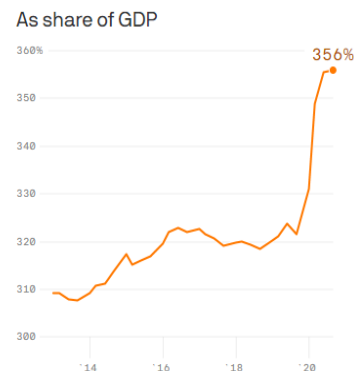
When world share markets crashed last year in the wake of the Covid pandemic, a number of kind souls labelled me “Prophetic” because I had predicted just such a happening arising from a Black Swan event likely emanating in China.

Actually what I was expecting was something like an aggressive takeover of Taiwan. But all the rest was pure Economics 101 which, with this week’s “shock” inflation increase in the US, was simply the next inevitable step that I warned readers was likely back in September 2019. At 4.2% year-on-year, this week’s inflation figure was the highest rate in almost 13 years, while the 0.8% month-on-month increase was the highest in about 12 years (excluding food and fuel, the monthly increase was 0.9%).

So there was nothing particularly inspired about it though it is comforting to know that I was correct!

The next step in this probable progression will be that, despite Chairman Jay Powell’s assertions that there are unlikely to be any interest rate increases for the next two years, that gentleman will probably be forced to eat his words sooner rather than later and, of course, that will take the world to the brink of the matter that has been concerning economists for some years; the event they call The Great Reset.

From a current 356 percent, economists expect global debt to reach \$277 trillion, or 365% of world GDP by the end of this year. But the real issue is that global interest rates have been held artificially low in order to try and stimulate the world out of the longest recession in post-war history. So debt costs have been manageable. However, if rising inflation threatens to become a runaway problem, governments could be in trouble. They could face technical bankruptcy!



Reproduced from The Institute of International Finance; Chart: Axios Visuals

In an adverse scenario where U.S. borrowing costs rise 2 percentage points above current market expectations, the price tag to service that nation’s debt would jump from 2% of GDP in 2020 to nearly 6% of GDP in 2030. To put that in perspective, that’s comparable to their total current annual outlays for Social Security.

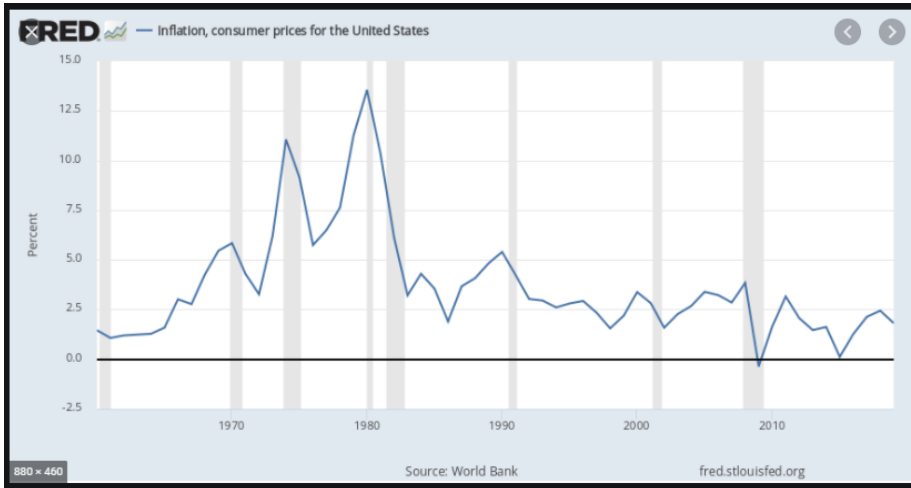
In Italy, costs could hit 5.5% of GDP — higher than during the European sovereign debt crisis. Among emerging markets, South Africa’s already-unsustainable debt could reach a crisis point even more quickly while India and Brazil would also face major fiscal dilemmas.

More to the point, from the perspective of share market investors, rising bond rates inevitably have an inverse effect upon share prices because, in the absence of rising dividends, the only way shares can offer comparable returns is through falling prices.

Of course the market has been anticipating these things and positioning itself accordingly. My graph on the right tracks US 10-year treasury bonds which have been rising since last August at a compound annual average rate of 347.3 percent.

All of which brings me to the events of this week when confirmation of investors worst fears arrived in the shape of official US inflation figures.

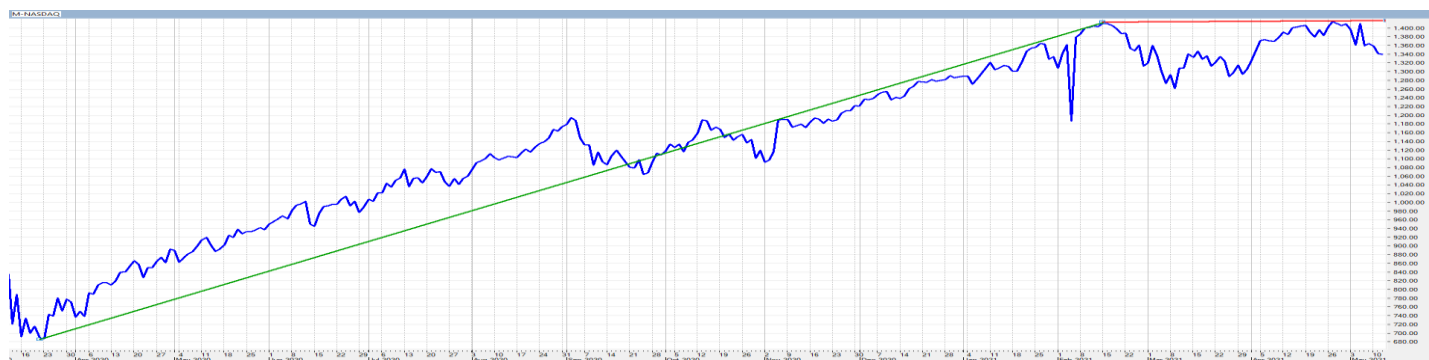
For the most part of the past 40 years, US inflation has hovered around the 2.5 percent line as my next graph below illustrates and so the increase to nearly twice that figure is a very big deal indeed.



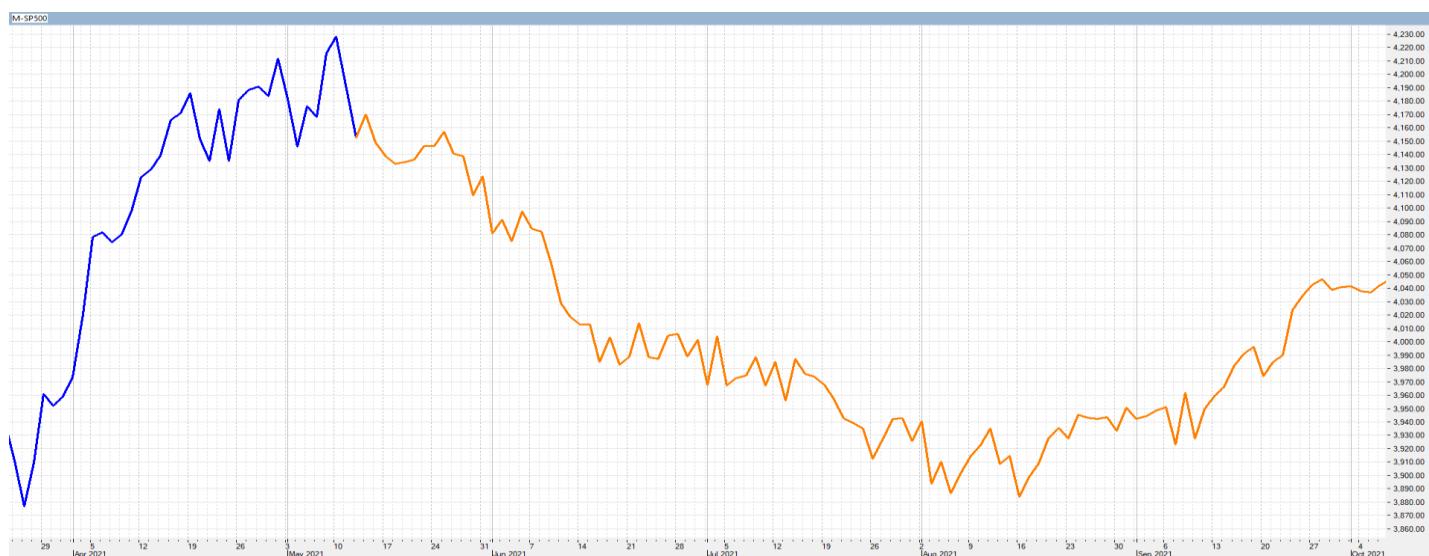
Furthermore, though US policy-makers are rushing to proclaim that this is a short-term consequence of the Biden administration's stimulus package and things will very likely be back to normal by August, serious economists doubt that. Prices are not only rising in the US. It is a global issue as underscored by the rise of key manufacturing commodities like copper which, as my graph below left illustrates, has been rising at a compound annual average rate of 103 percent for over a year now while crude oil prices, graph below right, have been rising at compound 245 percent.



That is why a roaring bull market in US share prices abruptly reversed this week and, in so doing it confirmed its previous jitters when in mid-February the Nasdaq fell from 1409.55 to 1260.92 on March 9 and the even steeper January fall. Technical analysts call that a spread triple top: one of their most defining signs that a market phase is over:



Now, as readers well know, ShareFinder has been projecting this event for some months and I have accordingly cashed in all my Risk Portfolios to create a series of war chests in all of my long-term Blue Chip portfolios. Below I have reproduced what ShareFinder expects will happen to the world's most representative market index, Wall Street's S&P500 over the next four months; a continuing decline until August 16 and then a recovery until the end of the year:



Inevitably, our South African market has been decidedly volatile over the past few months, but ShareFinder suggests that here too declines are likely until September 8 followed by a sharp recovery until approximately October 8 and then a second decline lasting until next February.



I have been accused of being unduly pessimistic and some have said I was wrong to sell off major portions of my portfolios, but I was convinced it was the right thing to do. This week's shuddering global share markets have accordingly offered me the reassurance that, for now I was right.

Those of you who have followed my advice will be well positioned to take advantage of the predicted market declines!

Do enjoy your weekend

The month ahead:

New York's SP500: I correctly forecast a decline to early August followed by a recovery until late November ahead of the next decline.

Nasdaq: I correctly predicted declines. Now it is likely to be a volatile sideways trend until early September followed by a recovery until early December.

London's Footsie: I correctly predicted a decline until October when a brief recovery might interrupt the protracted decline through to next April.

Germany's Dax: I correctly predicted that the declines which began in mid-April will continue well into the New Year.

France's Cac 40: I correctly predicted the start of volatile declines likely to last for the rest of the year.

Hong Kong's Hangsen: I correctly predicted a long slide down to mid-July and then a recovery to the end of the year.

Japan's Nikkei: I correctly predicted the declines that are likely to continue until mid-June followed by gains until the end of October ahead of steep declines thereafter well into the New Year.

Australia's All Ordinaries: I correctly predicted a fresh bear phase from mid-May until mid-September followed by a short recovery until the end of November.

JSE Top 40 Index: I correctly predicted the start of a long volatile slide until early September followed by a brief recovery to early October and then a further slide until mid-February.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning of a volatile decline likely to last well into next year.

Rand/Dollar: I wrongly forecast losses until the first week of June but the probability remains followed by gains to the end of June, weakness until late September and then further gains until mid-October.

Rand/Euro: I correctly forecast gains until early September.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.19 percent. For the past 12 months it has been 92.88 percent.

JUSTICE MALALA: A poison pen letter from SA's postal non-service

Here we go again. What are the chances of the SA Post Office delivering a package to you safely and quickly? They are slim. My experience of the post office is that your parcel will be ripped open, the contents stolen, the empty package delivered to the wrong address — and you will spend months at one of its branches paging through a tattered logbook trying to "identify your package".

Followers of economist Thabi Leoka on Twitter have for months shared her anguish as she has waited for a package. In February, faced with the tattered logbooks again, she tweeted: "'The system' has been down since ... well ... Adam! Found so many familiar names [in the logbook] including the Sars [SA Revenue Service] commissioner".

So what do you do when this sort of thing happens? You go to a private courier service. With these services, wherever you may be in the world, the package arrives safely, quickly and affordably. After years of waiting for parcels that never arrived — or arrived pilfered — I gave up on the post office. It's broken.

So imagine my shock when I heard that the post office wants to sideline private courier companies and monopolise the delivery of parcels weighing up to 1kg.

News site Business Insider reported that the post office laid a complaint in 2018, arguing that PostNet was in contravention of the Postal Services Act by delivering items under 1kg. In terms of this law, the post office is the only licensed operator of such services. The post office argues that it should have exclusive rights to deliver such items.

Ridiculous does not begin to describe this. Here is an entity that cannot do its job, applying to the courts to prevent others from helping the consumer, doing that job for it. The consequences will be devastating — apparently average delivery times will double (assuming the package ever arrives). But, even worse, the R20bn small parcel courier industry will be destroyed.

We know that the post office is bankrupt. According to the Business Insider article, it incurred losses of almost R1.8bn last year and owes the same amount in rental arrears.

No amount of protectionist action will save the post office. Earlier this year, it lost its CFO. Before that, it lost two acting CEOs in the space of a year — and its board chair, Colleen Makhubele, was removed after clashes with her minister, Stella Ndabeni-Abrahams. Last year, it could not pay employee medical aid and pension fund contributions.

It's a mess. These people cannot be trusted to deliver a letter reliably. We shouldn't reward mediocrity.

So here's the thing. If you look out of a window anywhere in affluent SA, you will be met by the sight of private security guards. Why? The police, paid for by the taxpayer, just cannot handle the job.

Right now the national police commissioner and the police minister are involved in a very public and unseemly fight. Fighting crime is the last thing on their minds.

Eskom can't deliver electricity reliably, so most businesses have their own generators.

SAA isn't flying, though we keep pouring billions down its maw.

By all accounts municipalities seem to be failing to provide enough clean water, so boreholes will soon be the norm where they aren't already installed.

It is time for the powers that be to acknowledge that there are pockets of excellence in SA but, unfortunately, most of those are not in the government.

The key is to allow those pockets of excellence to thrive, and the best way to do that is to allow them the space to operate.

It is a philosophical shift. It will be difficult to handle for the ANC, a political party suckled on the notion that it would ride in on a white horse, nationalise everything and save the masses.

Yet this is where we are now: in most spheres the government has failed and has no plan for recovery.

Of course, the government is not all bad. There are, to be sure, areas where it is delivering to the people.

The post office isn't an area where it has excelled. It should just walk away. Please.

Naspers-Prosus share swap scheme may just be a step in the right direction

By Sasha Planting

Solving the problem of the Naspers share discount is one that has kept teams of lawyers, actuaries and accountants gainfully employed for months, if not years. A new scheme will see the size of Naspers materially reduced on the JSE and may just be a step in the right direction.

Judging from the share price reaction, Naspers and Prosus shareholders don't know quite what to think about the elaborate scheme that invites Naspers shareholders to swap their Naspers shares for Prosus shares.

The price of the companies' shares rose just 3.1% and 2.7%, respectively, as news of the offer broke on Wednesday morning.

This is the latest in a long line of attempts to reduce, in particular, the Naspers share-price discount to the value of its internet-heavy portfolio of assets. At this point, Naspers is trading at a massive 50% discount to its value, while Prosus trades at about 30%.

A discount of 20% to 25% is considered acceptable for holding companies: 50% is a headache for management and investors alike.

In terms of the offer, Naspers shareholders will be invited to tender their ordinary Naspers N shares for newly issued Prosus ordinary shares. If the proposed transaction is fully taken up by Naspers shareholders, it is expected that Naspers' holding of issued Prosus Ordinary Shares N will reduce from 73.2% to 57.2% post-implementation, and that Prosus will hold 49% of the issued Naspers N Ordinary Shares, providing it with a 49.5% economic interest in Naspers.

Due to the cross-holding in Naspers by Prosus, the effective economic interest of the Prosus free float in the underlying Prosus portfolio is expected to more than double to 59.7% or \$100-billion.

This pushes the company into the Top 20 STOXX 50, hopefully attracting further inflows and greater liquidity.

By the same measure, Naspers will reduce in value by \$50-billion, reducing its weighting on the All Share Index from 23% to 14%, says CEO Bob van Dijk. This removes the perennial problem of Naspers' outsize weight on the JSE, he says.

"There is a strong correlation between Naspers' size relative to JSE and the discount, because it limits the forced selling that limits share price appreciation."

At the same time, Naspers will remain domiciled in South Africa as the JSE's largest listed company and will retain control of Prosus.

Solving the problem of the Naspers discount is an ongoing one. In September 2019 the firm unbundled its internet stocks – including classifieds, food delivery, fintech, payments and online education, as well as its stake in Chinese media company Tencent, into Prosus (in which it retained a controlling stake), and listed on Euronext Amsterdam, creating Europe's largest listed consumer internet company.

"This was designed to reduce the weight of Naspers on the JSE, and in the process narrow the discount," says CFO Basil Sgourdos.

It worked for a while. But then shares in Naspers climbed by 30% in 2020, supported by Prosus' 28.9% stake in Tencent (it sold 2% in April). As a result, Naspers' weight has risen on the JSE and the discount is at its widest point ever.

In October 2020, Prosus announced it planned to buy back \$1.37-billion worth of Prosus shares and \$3.63-billion worth of Naspers shares – a process that has probably increased value for shareholders but has yet to reduce the discount.

"I think the offer is neutral to slightly positive for shareholders of both Naspers and Prosus," says Peter Armitage, CEO of Anchor Capital. "But in the long run, I question whether it addresses the problem of how to unlock the underlying economic value within Naspers."

Reducing Naspers' discount requires a multipronged approach, says Sgourdos. "We are solving one known reason for the discount – Naspers' size on the JSE. To get back to 24% of the All Share, we would have to add another \$200-billion of value, so we believe this is a sustainable solution that creates value for both Naspers and Prosus shareholders."

Paul Theron, director of private client asset management firm Vestact, was less certain. This deal, he commented, looks a bit like "two snakes which are eating each other from the rear". The problem with the offer, as with the entire cross-shareholding structure of Naspers and Prosus, is that it is inordinately complex, he says.

"If this works, Naspers gets smaller. We will see if the local institution concentration limit issue is really what has been holding the Naspers share price back."

The proposed transaction has already been approved by the South African Reserve Bank but requires the approval of Prosus shareholders. It is expected to be concluded by the third quarter of this year. **BM/DM**

Tin Prices Soar on Electronics Demand, Shipping Trouble

By Joe Wallace Wall Street Journal

High demand for consumer electronics and difficulties shipping metal out of Asia have created a shortage of tin, pushing prices for the metal close to record highs for the first time in a decade.

On the London Metal Exchange, the price of tin to be delivered in three months has soared 47% this year to \$29,820 a metric ton, outstripping other metals such as copper and aluminum. Tin last fetched as much at the height of the run-up in metal markets in 2011, when prices crested at more than \$33,000 a ton.

Tin's advance is one of the biggest moves in commodity markets that have ripped higher, feeding expectations among investors that inflation will accelerate, at least temporarily.

Lofty commodity prices have acted as a brake on factories. Companies are looking to pass higher input costs through to consumers, some of whom are [feeling the pinch](#). Worries about inflation have sent jitters through Wall Street, [hurting stocks](#).

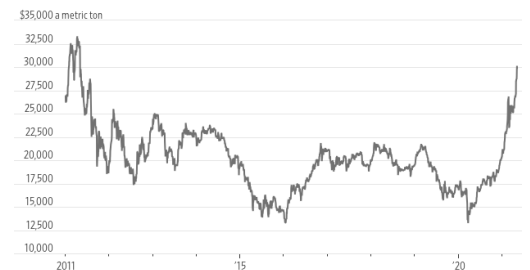
“Demand is wild across the board,” said Evan Morris, co-president of Nathan Trotter, adding that he has never experienced such acute shortages of tin. The Sadsburyville, Pa.-based manufacturer of solder wire and other tin products is racing to keep up with orders.

Coronavirus has constrained supplies of raw metal coming out of Indonesia and elsewhere, while a snarl-up in container-shipping markets has led to weekslong delays in transporting tin from Southeast Asia and Latin America.

The market for tin—the most expensive of the major base metals—tumbled in 2019 when a downturn in semiconductor sales knocked demand. Prices took another leg lower when [lockdowns and the closure of factories](#) hit sales of industrial commodities in early 2020.

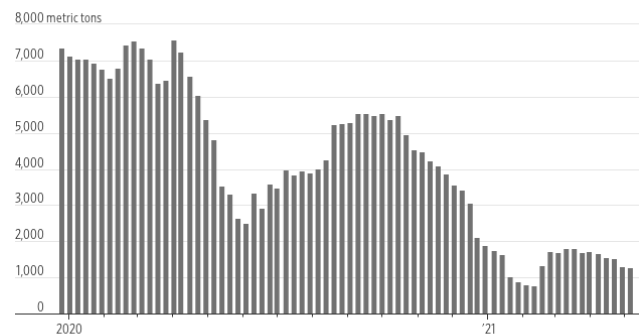
Fast forward a year and the market is “probably the most squeezed it’s ever been,” said Charles Swindon, managing director of U.K.-based RJH Trading.

Tin prices since 2010



Note: Prices are for tin to be delivered in three months' time on the London Metal Exchange. Source: FactSet

Supplies of tin in London Metal Exchange warehouses



Note: Weekly data Source: FactSet

Beware economists bearing policy paradigms

By Dani Rodrik

Dani Rodrik, Professor of International Political Economy at Harvard University's John F Kennedy School of Government, is the author of 'Straight Talk on Trade: Ideas for a Sane World Economy'.

Our societies are confronted with vital challenges that require new economic approaches and significant policy experimentation. The Biden administration has launched a bold and long-overdue economic transformation. But those who are seeking a new economic paradigm should be careful what they wish for.

Neoliberalism [is dead](#). Or perhaps it remains very much [alive](#). Pundits have been calling it both ways these days. But either way, it is hard to deny that something new is afoot in the world of economic policy.

US President Joe Biden has called for a vast expansion of government spending on social programmes, infrastructure and the transition to a green economy. He wants to use government procurement to rebuild domestic supply chains and bring manufacturing jobs back to the United States. His Treasury Secretary, Janet Yellen, is pushing for a globally coordinated increase in corporate taxes. Jerome Powell, Chair of the Federal Reserve, traditionally the most hawkish arm of government on price stability, is [playing down](#) inflation fears and lending his support to fiscal expansion.

All of these policy changes represent a sharp departure from the conventional wisdom in Washington. Do they also augur a new economic policy paradigm?

Economic policies in the US, and the West more broadly, have long been in need of overhaul. The ideas dominant since the 1980s — variously called the Washington Consensus, market fundamentalism or neoliberalism — originally gained traction because of the perceived failures of Keynesianism and excessive government regulation. But they took on a life of their own and produced highly financialised, unequal and unstable economies that were unequipped to cope with today's most significant challenges: climate change, social inclusion and disruptive new technologies.

The needed paradigm change might usefully start with how we teach economics. Economists tend to be enamoured of the power of markets to promote overall economic prosperity. Adam Smith's invisible hand — the idea that self-interested individuals seeking only their personal enrichment might produce collective prosperity instead of social chaos — is one of the crown jewels of the economics profession. It also remains deeply counterintuitive, which is perhaps why economists devote an inordinate amount of time proselytising about the magic of markets.

But economics is not a paean to free markets. In fact, much of economics instruction focuses on how markets may produce too much inequality, and how they fail on their own terms to allocate resources efficiently.

Perfectly competitive markets that harmoniously produce stable equilibria are only one possibility among many. The Smithian model is [not the only one](#). Still, the knee-jerk reaction of many economists is to treat well-functioning, competitive markets as the relevant benchmark for any proposed departure from laissez-faire.

Fortunately, a new paradigm for teaching economics does exist. The [CORE Project](#) is an online teaching tool and free, open-access textbook. Two leading economists, Samuel Bowles of the Santa Fe Institute and Wendy Carlin of University College London, are the visionaries behind it. But a large group of economists worldwide has collaborated in its development. Already, it is in use in a majority of university economics departments in the United Kingdom.

A key advantage of the CORE approach is that it tackles issues like inequality and climate change head-on. But the pedagogically more interesting move is that it [replaces](#) the standard benchmarks of economics with alternative benchmarks that are more realistic and useful. For example, in contrast to conventional economics, CORE assumes that individuals are pro-social and myopic, rather than selfish and far-sighted.

Competition is imperfect, with winner-take-all characteristics, rather than perfect. Power is ever-present in the form of principal-agent relationships in labour and credit markets, instead of being treated as either diffuse or exogenous. Economic rents are ubiquitous and often required for well-functioning economies, not rare or the result of policy error.

Such a new paradigm for teaching and doing economics will produce better understanding of social outcomes. But we should recognise that it will *not* produce a new paradigm for economic policy. And that is as it should be.

All of our previous policy paradigms — whether mercantilist, classical liberal, Keynesian, social-democratic, ordoliberal or neoliberal — had important blind spots because they were conceived as universal programmes that could be applied everywhere and at all times. Inevitably, each paradigm's blind spots overshadowed the innovations it brought to how we think about economic governance. The result was overreach and pendular swings between excessive optimism and pessimism about government's role in the economy.

The right answer to any policy question in economics is, “It depends.” We need economic analysis and evidence to fill out the details of what the desired outcome depends upon. The keywords of a truly useful economics are contingency, contextuality and non-universality.

Economics teaches us that there is a time for fiscal expansion and a time for fiscal retrenchment. There is a time when government should intervene in supply chains, and a time when it should leave markets to their own devices. Sometimes, taxes should be high; sometimes, they should be low. Trade should be freer in some areas and regulated in others. Mapping the links between real-world circumstances and the desirability of different types of interventions is what good economics is about.

Our societies are confronted with vital challenges that require new economic approaches and significant policy experimentation. The Biden administration has launched a bold and long-overdue economic transformation. But those who are seeking a new economic paradigm should be careful what they wish for. Our goal should be not to create the next ossified orthodoxy, but to learn how to adapt our policies and institutions to changing exigencies.

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