



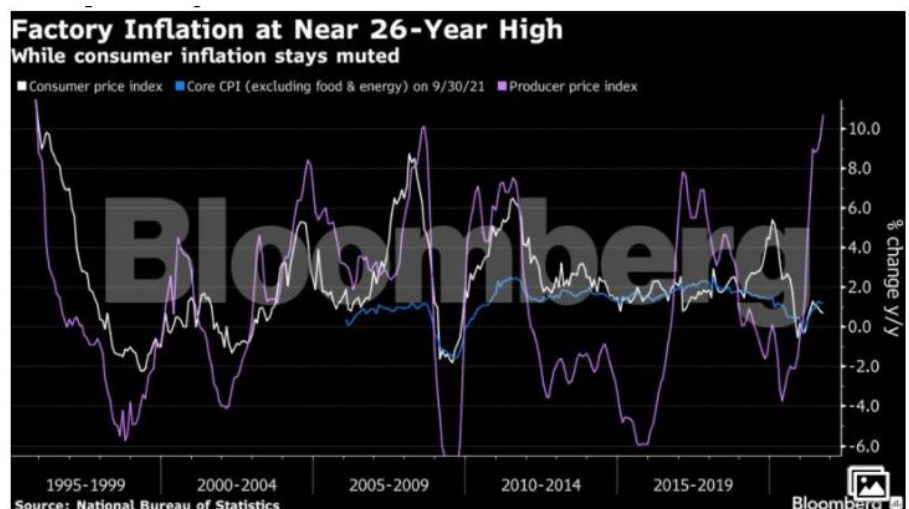
Its official! The rising problem I have been warning readers about for months is now very much on the front burner. I am talking about inflation, the consequence of altogether too much money being printed.

Data from the Fed shows that a broad measure of the stock of dollars, known as M2, rose from \$15.34 trillion at the start of the year to \$18.72 trillion in September. The increase of \$3.38 trillion equates to 18 per cent of the total supply of dollars. It means almost one in five dollars in circulation was created in 2021.

It would, however, be wrong to blame just one originator. But the fact that there are a fifth more US dollars in circulation this year than there were a year ago means that, in the absence of an equal amount of Gross Domestic Product growth, that the dollar which underpins the majority of international trade has effectively lost a fifth of its value.

Against that US **long term** GDP growth has averaged a mere two percent and inflation 3.24 percent so one should expect it should be no surprise that the long term U.S. inflation rate has been accelerating and has now gone exponential as it rose to a 13-year high in September driven by rising costs for food and shelter pushed the rate up to 5.4 per cent.

So the fact that official US consumer inflation came in way ahead of market expectations, means that the whole world is beginning to feel the consequence. And the latest country where the problem has raised its very ugly head is, unsurprisingly, China. As the graph on the right illustrates, China's factory-gate prices grew at the fastest pace in almost 26 years in September, adding to global inflation risks and putting pressure on local businesses to start passing on higher costs to consumers.



The producer price index climbed 10.7% from a year earlier, the highest since November 1995, data from the National Bureau of Statistics showed Thursday. That exceeded the 9.5% gain in August and the 10.5% median estimate in a Bloomberg survey of economists. The consumer price index rose 0.7% last month from a year earlier, lower than a 0.8% gain in the previous month.

The jump in PPI, says Bloomberg, was mainly fueled by skyrocketing coal prices and other energy-intensive products. Surging coal prices and policy goals to cut energy consumption have led to an electricity shortage, resulting in power rationing and factory production halts in over 20 provinces in September. Prices of other commodities such as crude oil also continued to climb, with the Bloomberg Commodity Index rising 5% for the month.

Add to this news the growing crisis in China's property development market which has been epitomised by the phenomenon of "Ghost Cities" of apartment blocks whose construction is a result of the artificially cheap money which has been sloshing around the world in recent years. But even cheap money comes at a cost as

China's Evergrande property company has recently learned....and the whole world heard about last week when the company defaulted on its interest payments.

Evergrande is, furthermore, China's largest property company by far but it is by no means expected to be the only Chinese company likely to go into default...and shortly thereafter into liquidation. The development perhaps explains why Chinese Premier Xi Jinping has lately led a clamp down on Chinese corporates which began a year ago with the purging of Jack Ma, founder of the tech giant Alibaba and poster boy until then for China's supposed economic miracle.

South African investors woke up to this new reality in China when the value decline of their Naspers holdings began tumbling as a result of the Chinese Central Committee beginning to enact radical changes intended to control its entrepreneurs whose excesses have been highlighted by the Evergrande saga.

As my graph below illustrates, Naspers whose principal value lies in its ownership share of the Chinese tech giant Tencent, has long been used to share price gains of the order of the 44 percent compound rate illustrated by my green trend line between October 2018 and February this year – and indeed a compound annual average growth rate of 30.7 percent throughout the past decade which saw local share prices rise from R267.88 to R3 844.25 on January 17.



The price then fell at a gut-wrenching compound annualised rate of minus 45 percent until it managed to find some sort of base at R2 314.35 on September 2. That was a 40 percent capital loss which has severely dented many pension portfolios in this country. Happily, since then the shares have begun a convincing recovery which ShareFinder's orange AI projection on the right of the graph, expects to continue until April at least.

Happily too I can attest that I was one who bought at the bottom of that wave. But it was more a flutter on the basis of the 'return to mean' argument. My decade-long mean line illustrated in my second graph on the right, indicates how far Naspers has fallen recently. On that calculation alone the shares might be expected to at least regain 25.5 percent as they revert back to the green line. But I certainly would not bank on it because China's troubles are only just beginning and some very unpleasant things might happen as the Chinese Government indulges in classic diversionary tactics – like this week's invasion of



Taiwan's airspace which drew warnings of a serious retaliation.

Back to the inflation issue, however, the fact that it is becoming a serious problem in China is likely to become the basis of major academic study by both economists and political scientists. In market-driven economies like the US it is understandable that money supply needs to closely follow GDP if one is to avoid the twin dragons of inflation and deflation. That is why investors listen very closely on a regular basis to every nuance of statements emerging from the US Fed because changes in monetary policy can have a dramatic impact upon the valuation of securities if the central bank fails to anticipate GDP trends with reasonable accuracy.

But in a central command economy where the government is far less concerned about placating an electorate and is, furthermore far less subject to internal market forces and their implications for interest rates, scholars have long thought that problems surrounding inflation and deflation are far less likely to manifest in China.

I think, however, that the problem is really one of the extent of the excess that politicians exert upon monetary policy which eventually results in major crises.

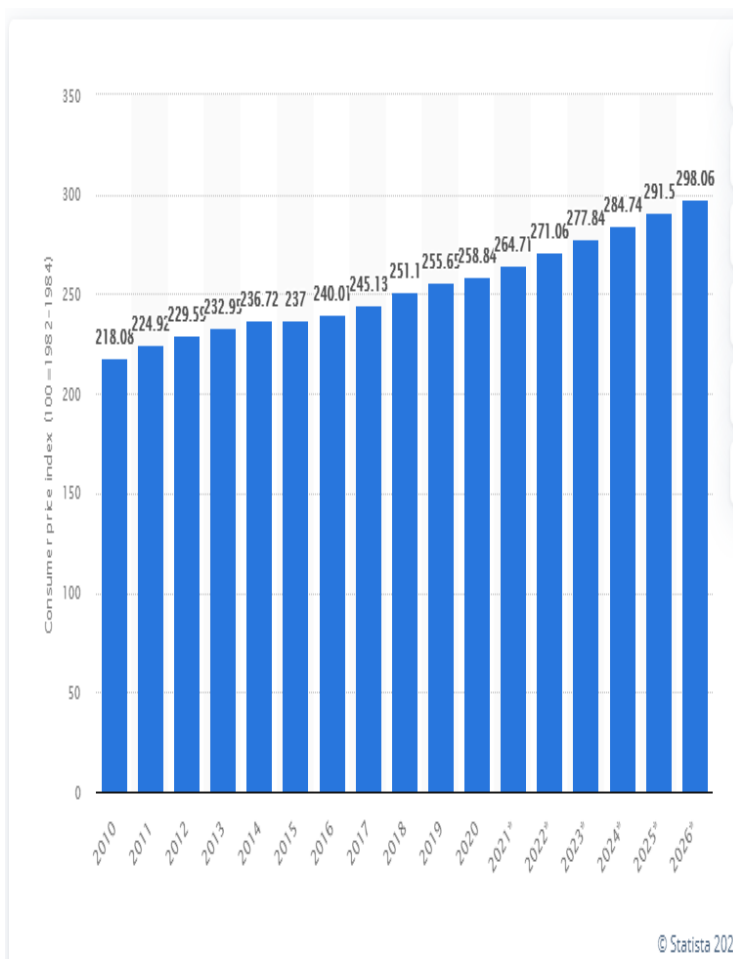
Since the US became the sole arbiter of world monetary value following the Breton Woods meeting in the closing stages of World War 2, it is quite clear that they abused the dollar to gain economic power over most of the world. The relationship of the dollar with the gold price makes that completely clear. In the following graph I have illustrated how the dollar has lost value relative to this prime commodity at five percent compound over the past 35 years.



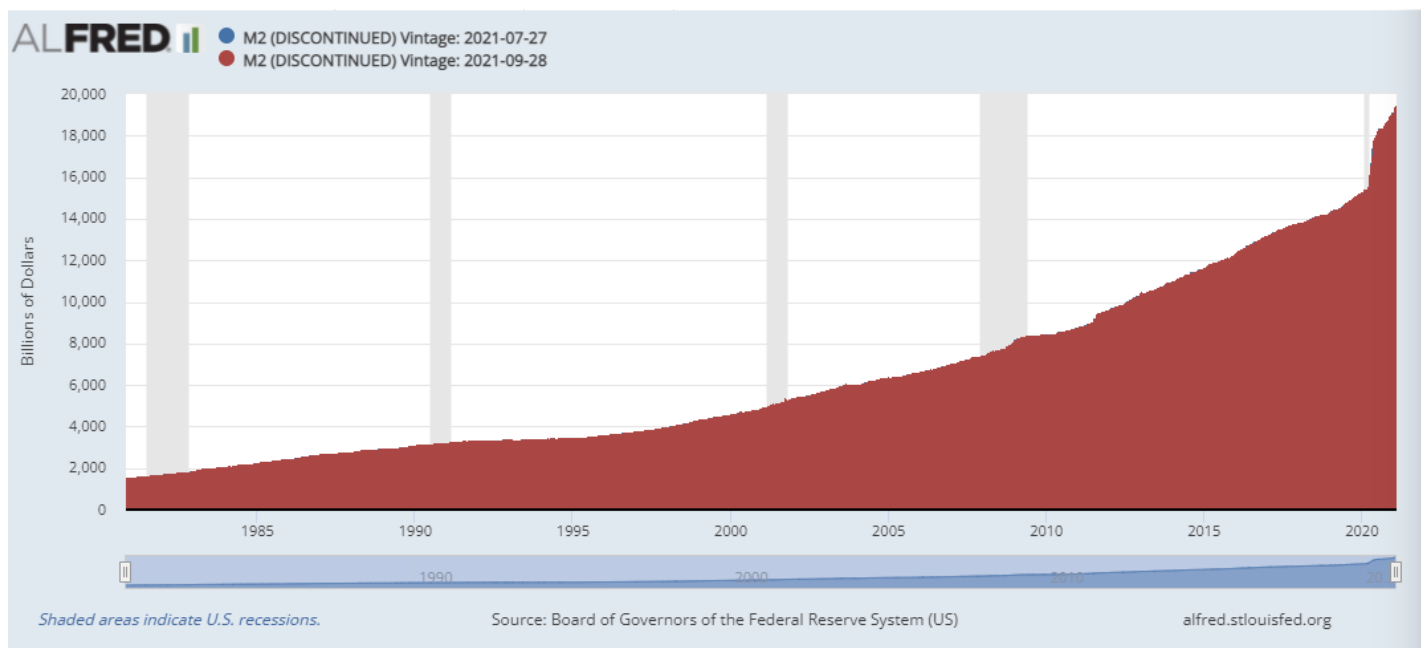
Relative to that figure, US inflation has been rising steadily as the Fed has printed ever increasing sums of money in order to try and stabilise global values through a succession of crises over the past half century. The graph on the right provides an idea of how that progression has continued and is likely to continue into the future:

Over the past century **official** US inflation has in fact averaged just 3.4 percent. The difference between that figure and the average dollar gold price gain of five percent thus represents the average error rate of the US Federal Reserve or, to put it another way, its level of irresponsibility as the world's reserve currency. Money supply growth has similarly averaged around five percent which serves to prove my contention that US inflation data does not represent the true situation.

Official US statistics attest to a different story. US money supply has in recent years been growing exponentially as my next graph illustrates. It's grossly irresponsible and the world will soon start



to experience market-shaking doses of hyperinflation as a direct result.



One would have thought that America's major monetary opposition, China, might have done things a little differently since it is openly committed to, in time, taking over the US role. And since its leaders do not have an electorate to placate, one would have imagined their economic policy might have followed a completely different trajectory. Instead, however, as I wrote in the preface to my book 'The Crash of 2020,' *The likely trigger event for the next global share market correction could originate in China where, in its rush to grow it has built far too many buildings, produced far too much steel and other commodities and made far too many bad loans. Its overcapacity is so pronounced that it will take years for demand to catch up with this oversupply.*

Furthermore, China is compounding the problem by continuing to over-lend and overproduce though with diminishing returns. China's non-government loans have grown almost a trillion dollars recently and yet they continue producing 40 percent more steel than the world needs.

In 2015, China's stock market collapsed costing investors 45 percent of their savings. Now its economy is decelerating and its soaring private debt ratio has reached 300 percent of GDP signalling the inevitability of a further economic slow-down.

The Chinese are taking a problem whose size and scope is unprecedented and making it all that much bigger. So here it is worth turning to China's Asian neighbour Japan, where a not too dissimilar process led to very high GDP growth in the 1980s. Fueled primarily by runaway lending, Japan suffered a stock market crash in 1990, then a real estate collapse in 1991, and finally a bank rescue in 1998. And Japan has posted 21 years of near-zero growth since that rescue.

Even if it can avoid catastrophic collapse, China's economic trajectory is to continue slowing, resulting in downward long-term pressure on commodity prices. Deflation will inevitably spill over to countries that are economically intertwined with it in the Asia Pacific region, such as South Korea, Australia, Thailand, Vietnam, Singapore, and even Japan as well as Africa and South America which will be profoundly impacted because both continents are disproportionately dependent on commodity exports.

Deflation, following a long period of uncontrolled monetary expansion was, of course, what caused the Great Depression.

Of course I was expecting a monetary crisis to originate in China when I penned The Crash of 2020 late in 2019. I got it right that the crash would originate in China but had not expected it to be a pandemic. However, China's economic problems are getting steadily worse and many observers have begun talking of a domino effect which might get completely out of control.

Thus, lone among world share markets, Wall Street is continuing to climb because investors are understandably fearful of the coming inflation problem. But these problems are not isolated to inflation. The Biden administration, like so many socialist administrations before it, has made it clear that it plans to spend its way out of trouble and, failing to learn the lessons of the past, thinks it will find the money by taxing the rich who, in turn, are fleeing for the anonymity of the cryptocurrency-denominated markets in a lemming like headlong rush of proportions that have never before been equalled. It echoes the South African situation where irresponsible Government borrowing and some of the highest taxes in the world have led to a massive exodus of the wealthy. Socialists never seem to learn!

The immediate future is worrisome in the extreme. That is why I have created large amounts of cash in my portfolios and I urge readers to do the same!

Watch this space and do enjoy your weekend!

The month ahead:

Making the following projections I have long looked for correlations between the projections made by the ShareFinder 5 and 6 programmes. Sadly these have been diverging due to a decline in the accuracy of the data available to SF5. I need to thus warn users of SF5 that a decision has accordingly been made to discontinue support for this programme as from the end of December.

New York's SP500: I correctly predicted an early recovery with volatile gains from here until the second week of December when I see a brief retraction and then further gains until mid-February ahead of a two-month retraction then.

Nasdaq: I correctly a brief early turn-around which I correctly thought would be over by mid-week followed by a run down until the end of the month and then another month-long recovery within a bumpy ride to an April peak.

London's Footsie: I correctly predicted a brief recovery that is probably over, followed by a volatile declining trend which I continue to expect to last until next August.

Germany's Dax: I correctly predicted brief gains which are likely to continue until the second week of November. Thereafter it is likely to be down again until early January ahead of a fortnight of gains and then down again once more until early May.

France's Cac 40: I correctly predicted the volatile declining trend that I expect will continue until mid-2022.

Hong Kong's Hangsen: I correctly predicted a retraction likely prolonged until mid-January followed by volatile modest gains for the first half of the New Year.

Japan's Nikkei: I correctly predicted a decline until mid-October and then another final up-trend to early November ahead of a long decline until April.

Australia's All Ordinaries: I correctly predicted the start of a three-month recovery until mid-December. Thereafter I see it bumping along the top until mid-March before the next long decline sets in until at least next September

JSE Top 40 Index: I correctly predicted a recovery which is probably now over ahead of four months of weakness until mid-February when a month-long gain is likely.

ShareFinder JSE Blue Chip Index: I wrongly opted for gains until May. Now I see declines until June at least.

Rand/Dollar: I correctly predicted a brief recovery which I still see lasting until the third week of October ahead of further losses until late January.

Rand/Euro: I wrongly predicted weakness. But I expect the gains to be over late next week followed by weakness until early-March.

Bitcoin: I wrongly saw losses. But once again I was early with regard to Bitcoin. But the losses are likely now lasting until the end of December when a fortnight of gains is likely to precede further losses until May.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.4 percent. For the past 12 months it has been 93.7 percent.
