

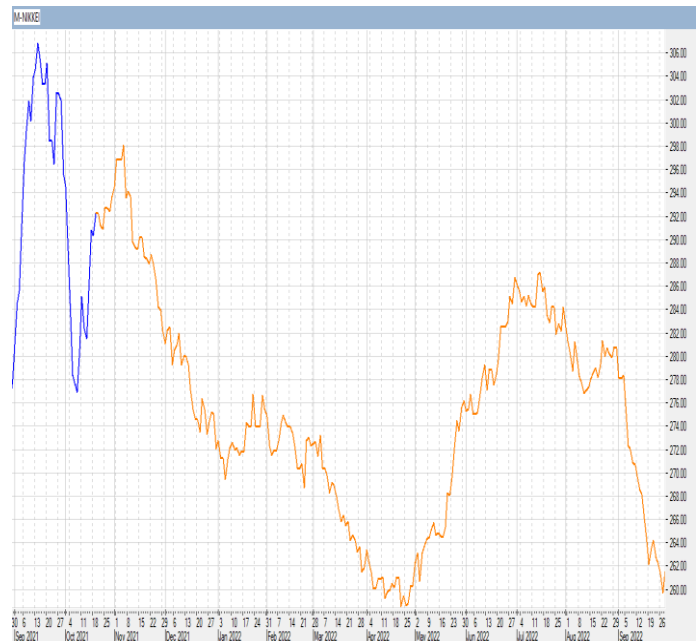
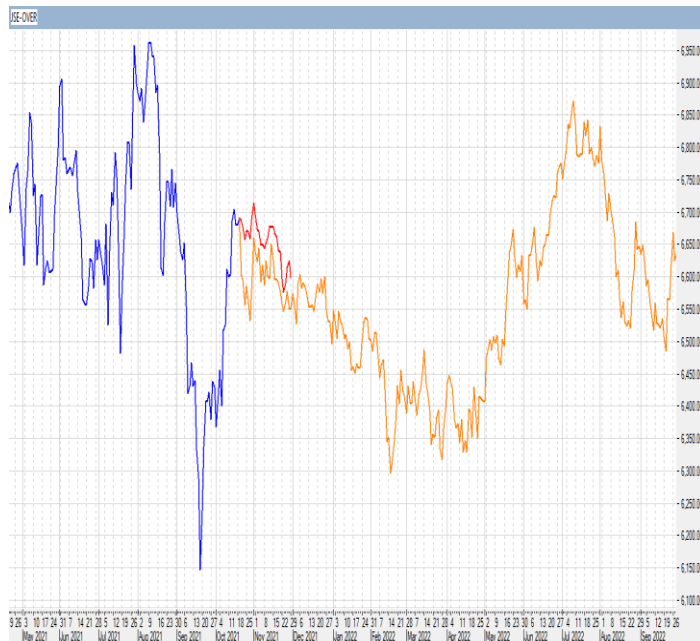


I have been warning for months that investors should brace themselves for a coming wave of inflation which might well eclipse the runaway problem we faced in the 1980s and, of course, the evidence is already stacking up that a short-term problem is now becoming entrenched.

Expect that the forthcoming meeting of the US Federal Reserve on November 2 will formally announce the start of the “Taper” when it tapers off the facility it has been offering the US Government during the Covid years, which has been ultra accommodative to government paper.

For South Africans that might seem a remote event but it signals the beginning of the end of a benign interest rate regime which has, for example, fuelled a massive boom in property sales as a consequence of ultra-cheap mortgages it made available. Meanwhile, South African consumer inflation has picked up pace, quickening slightly to 5 percent in September from 4.9 percent in August, mainly fuelled by food and petrol prices.

Cheap money has also, of course, driven a phenomenal stock exchange recovery both here and abroad and, as my graphs below make clear, the markets have been anticipating rising borrowing rates by themselves going into decline...probably in most cases at least until the middle of next year if ShareFinder’s predictions are as accurate as always. On the left below the JSE Overall Index projection and, on the right, Japan’s Nikkei Dow.



Now, markets watchers everywhere, are eyeing corporate profit announcements to try and gauge whether hoped-for increases of dividend payouts will match the anticipated erosion of monetary buying power and, depending upon that tug o war, share prices are likely to either continue rising or, as the ShareFinder projections suggest, go into decline.

In the long term, of course, if inflation really takes a hold as it did in the latter part of the last century until the application of a tough era of austerity eventually brought it under control, those who have

bought property in quality locations and those who have invested wisely in ultra-Blue Chip shares, will score immensely. But in the short-term we can expect a few wobbles.

Meanwhile, the shock announcement this week that South Africans might soon be staring in horror at the consequences of a R20 per litre petrol price, is the sober consequence of this inflationary trend. The fuel price is merely the return of crude oil prices to pre-Covid levels and, if past history is anything to go by, the present fuel price increase is just the beginning. In the graph below I have reproduced the Brent crude benchmark price graph of the past decade from its peak of \$126.64 a barrel in March 2012 to its low of \$19.70 in April last year when desperate producers were dumping production they could not sell. Then, as my red trend line emphasizes, the price began recovering at a remarkable compound annualized rate of 164 percent which has brought us to the current situation. But, as the graph makes clear, another 50 percent increase is on the cards if prices are to get back to the levels that prevailed between 2011 and 2014.



So it is time you asked those politicians who are knocking on everyone's doors right now what they intend doing about the taxes the government collects on every litre of fuel we put into our tanks. As the AA was reminding us this week, last time the oil price spiked our Rand was worth R8.30 to the US\$.

ANC Government profligacy and its inability to promote economic growth have driven the Rand to a current R14.50 and that, of course, is a short-term high. Just imagine where we might be when the Rand spikes back to the R19.34 levels it was at in April 2020 and crude prices possibly reach above \$120 once more.

Here it is important to recognize that in the face of a really scary global outlook if the world continues pumping out carbon dioxide from the burning of fossil fuels, investment in oil exploration has been severely curtailed and so, until we all start using electric vehicles and Gwede Mantashe gives up his one man campaign to keep on burning coal, oil prices are likely to be under greater pressure than they ever were before.

But back to the taxes we pay on petrol! Currently, when a litre of petrol costs you R19.30, R6.11 of that will go to the Government in taxes. That is R3.93 into the state's coffers to be used any way the government sees fit and R2.18 into to the Road Accident Fund (RAF).

To put that into a practical example, every time you spend R850 on a 50l tank of petrol, R196 of that goes directly to the Government to pay for things like the Digital Vibes scandal while R109 goes to the RAF.

In all the government is collecting R120-billion a year from the fuel tax and that figure will soar as the fuel price rises and the Rand weakens again. **And it will weaken again.** If you consider my next graph, you will clearly note that the Rand LOSES value relative to the Dollar at compound 6.6 percent a year because South African monetary inflation is that much worse than the official US rate:



Put those two numbers together and ask yourself what the impact will be on taxi fares. The AA's Layton Beard calculates that, "We believe the hike will be one of catastrophic proportions that will filter down to everyone. Just for someone to get to a job interview, for example, an increase in R3.50 for taxi fare would be a big hit,"

If the July unrest has been swept under the carpet by a seemingly unperturbed ANC, one has to wonder what the consequence will be when a strongly-rising fuel price begins to ripple through to basic food prices. My guessing is that the Zuma/Magashule RET forces – re-energised by yet another triumphant demonstration that Baba is above the law because he is still able to exercise his power over the prison authorities - will be out stoking the flames in a bid to oust Cyril Ramaphosa who, foolishly in my humble opinion, has allowed himself to be the face of an election campaign in which the ANC will very likely get a "groot klap."

At best, I fear, we are facing a bumpy ride ahead both because of the cumulative effects of the ANC's mismanagement of the economy and, lately, its seeming reluctance to arrest the people who planned and executed the July unrest with such military precision. If the authorities really don't know who made the riots happen, then the failure of our intelligence services is far worse than we can imagine. If they know and continue doing nothing about it, then the emboldened forces of darkness are likely to continue taking Cabinet Ministers hostage and hastening the end of the Rule of Law.

Then Heaven help us!

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 predicted gains that began earlier this month but so far I have been wrong in anticipating a brief retraction within this upward sweep to a likely April peak.

London's Footsie: I correctly predicted the end of the last brief recovery and now expect a volatile declining trend lasting until next August.

Germany's Dax: I correctly predicted brief gains which are still 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 wrongly predicted a retraction likely prolonged until late-March, failing in the process to anticipate the current up-trend which now appears likely to last until mid-December before the down-phase reasserts itself.

Japan's Nikkei: I correctly predicted 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 weakness until mid-February when a longish rally appears likely.

ShareFinder JSE Blue Chip Index: I correctly predicted declines until June at least.

Rand/Dollar: I correctly predicted a brief recovery which I now see lasting until the first week of November ahead of further losses until late January.

Rand/Euro: I predicted the gains to be over late this week and I am still waiting. But a long phase of weakness is extremely likely now lasting until early-March.

Bitcoin: In the face of continued gains I have been predicting an imminent weakening trend until early June. Here, as I have commented before, the relatively short life of cryptocurrencies is making it difficult for Sharefinder to be its reliable self and I am seriously considering dropping this one prediction! I would welcome comment from readers.

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 93.39 percent.
