Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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An exasperated International Monetary Fund this week held meetings with the SA government, organised business and state-owned enterprise officials and concluded that the government is still moving too slowly on implementing structural reforms on energy embracing renewable energy sources, telecommunications (releasing new radio frequency spectrum), transport (opening ports to private sector investors), reducing red tape for businesses, addressing systemic corruption and paring down the degree of state ownership in SA.

In its official concluding statement the IMF said that "Structural rigidities are depressing private investment and hindering inclusive growth and job creation. These rigidities need to be tackled immediately to increase the economy's productivity and competitiveness and reduce poverty and inequality."

The Daily Maverick's Ray Mahlaka reported yesterday that in response the National Treasury went on the defensive, saying that the country remains committed to implementing structural reforms, as evidenced by early measures taken in the energy and ports industries.

"The Treasury said other reform measures are in the offing, including ongoing work to restructure the governance and financial affairs of Eskom, streamlining the application process for water-use licences, improving the e-visa system that will be completed by 2022, and releasing Spectrum in the New Year."

Well, of course, we have heard it before ad nauseum and, as the municipal elections have shown, South Africa has given up on the ANC achieving any of its promises. Meanwhile I was recently reminded by a fellow board member that there are few people more ineffectual than an outgoing chairman. As he put it, "Everyone knows he is going in the next month or two and so everyone is turning their attention to his successor instead."

It's a view which might well apply to Cyril Ramaphosa. He will go on having his family chats on TV but few are paying much attention because he is a figurehead now for a lost cause. And there lies the problem because we still have to operate in a rudderless country.

What could have us all sitting up and paying attention would be some decisive action like the sidelining of energy minister Gwede Mantashe who is holding our entire economy to ransom with his foot dragging over connecting private energy suppliers to the national grid and his hostility to those international agencies who would like to assist us with ultra cheap money to alleviate Eskom's debts and get us away from CO2-spewing old coal-fired power plants. Worse, given that Prosecutions head Shamila Batohi has been quoted in the Press as stating she is 'not prepared to discuss in Parliament' why Hermione Cronje left her Investigating Directorate," the Daily Maverick reported that DA member of Parliament's justice and correctional services committee Glynnis Breytenbach who is a former long-time senior state prosecutor, is far from satisfied with Batohi's attitude.

"Advocate Cronje is not a faint-hearted woman, not by any stretch of the imagination. She knew what the job was when she signed up for it. She has a history in the NPA, she was a senior manager in the NPA for some time, so she knew what she was getting into.

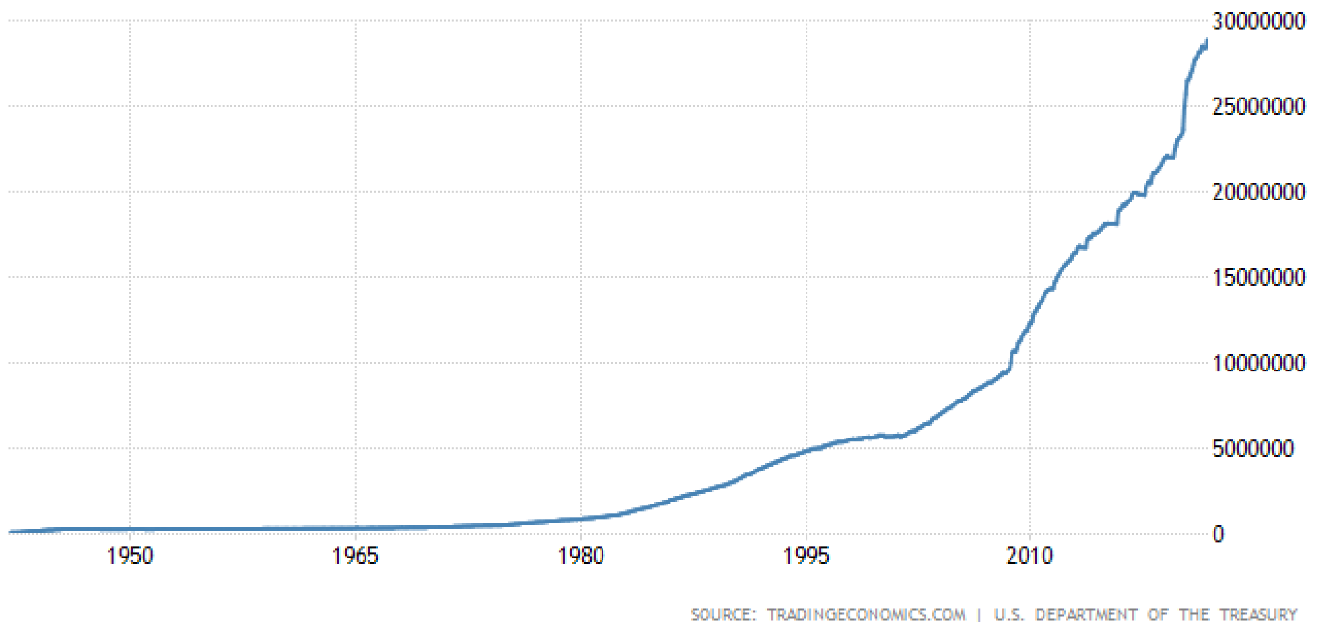
"I am not convinced by this suggestion that everything is hunky-dory and there are no issues, and her leaving is nothing odd and that in fact it is healthy to change horses in midstream, when we know it isn't.

“We don’t know why she has left, and we are left to speculate, and the national director is not telling us. It is deeply disturbing that someone of advocate Cronje’s calibre has abandoned her project — on which she has worked very hard — at great personal cost, half complete. It’s unlike her, and it leaves me deeply concerned… while it may well be healthy to change leadership now and then, this was a fixed-term contract, it was for five years,” said Breytenbach.

Investors should not, however, allow local problems to dominate their investment policy since the JSE is a minnow swimming in a big ocean whose currents are largely dictated by the United States. And there markets wobbled this week in the wake of another warning that the US Federal Reserve is beginning to face up to the probability that years of unconstrained money-printing are finally seeing a consequence in higher inflation becoming entrenched.

The issue is critical since heavily-indebted national governments are seeing the costs of servicing those debts creeping up towards levels where defaults are becoming inevitable.

I have often written about the US national debt which, according to the latest figures from the US Department of the Treasury increased in October to 28 908 765-million Dollars, but what does that mean? Well the graph below provides a visual picture. But what it actually means is that every man woman and child of the 331.4-million population of the US is responsible individually for a debt of $87 232.



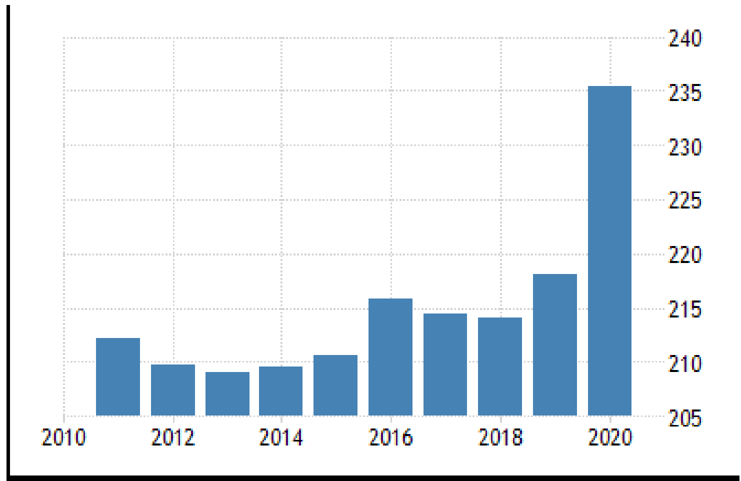
To convert that into Rands for added local meaning, every American is individually responsible for R1 376 910 as his part of the total national debt.

Meanwhile, the average US home mortgage interest rate is at an historic low of 2.84 percent, so to put that debt into perspective one might argue that before the average US citizen wants to buy a car on HP or a home on a mortgage, he is personally responsible for a further R39 104 of the interest that government has to pay annually.

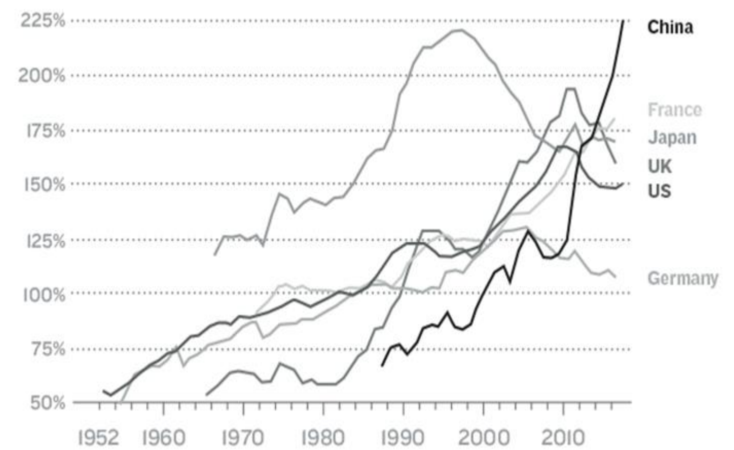
Now you need to recognise that the US official inflation rate has just edged up to 5.4 percent and so borrowing rates are going to have to increase to, at the very least, equal inflation because at any rate lower than that lenders are losing money.

I think it is thus fair to assume that in the short-term the US Government is going to need to find a way to dramatically increase the taxes it collects from its citizens since it is not at all managing its running costs without borrowing. Just note the graph above for an understanding of how the US national debt has soared in recent years.

For the general public, however, the problem is far worse. Private Debt to GDP in the United States is expected to reach **228.00 percent** by the end of 2021, according to Trading Economics' global macro models and analysts expectations. In the long-term, the United States Private Debt to GDP is projected to trend around 224.00 percent in 2022, according to their econometric models. The graph on the right illustrates what has happened to the ratio of US private debt to Gross Domestic Product...or to put that crudely the relationship of the average citizen's interest burden relative to his earnings.

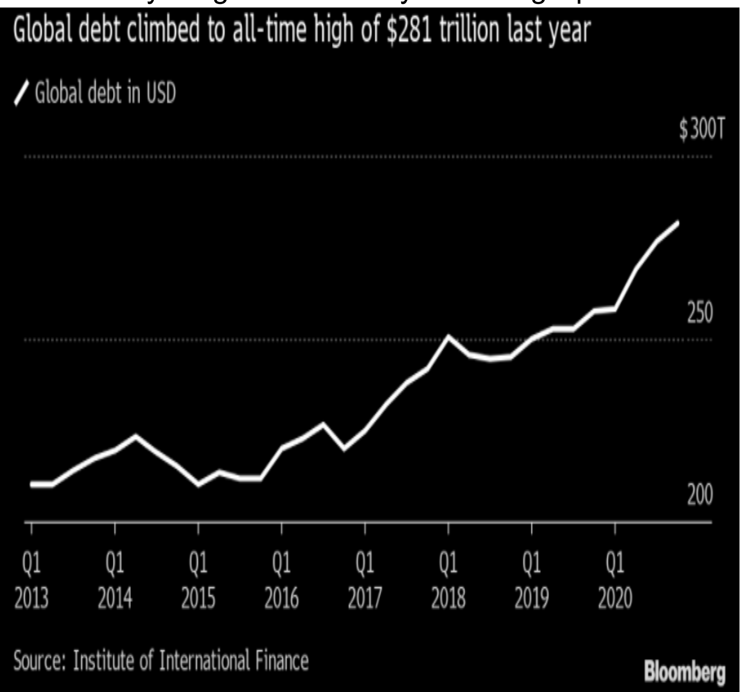


Both private debt and government debt matter to the economy, but of the two, private debt has by far the greater and more direct impact on economic outcomes and so, addressing the issues associated with private debt is the more productive path to economic revival. The next chart relates the rise of private debt among the leading economies of the world. Note how dramatically Chinese debt has been rising recently for it might just lead to the next crisis tipping point:



Source: BEA, Federal Reserve, BIS, UN data, CEIC

Rising private debt brings many problems. Very rapid or "runaway" private debt growth often brings financial crises. It brought about the 2008 financial crisis in the United States, the 1991 crisis in Japan, and the 1997 crisis across Asia. Secondly, it becomes a drag on economic growth, chipping away at growth trends. When private debt is high, consumers and businesses have to divert an increased portion of their income to paying interest and principal on that debt and they spend and invest less as a result. That's a very real part of why the global economy is relatively stagnant currently since high private debt understandably suppresses demand.



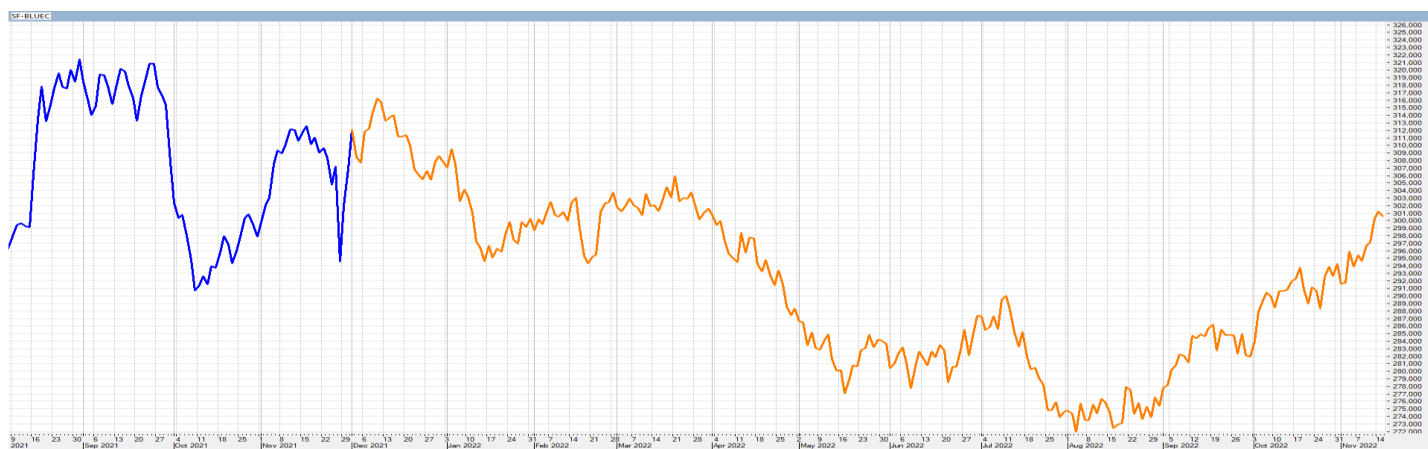
Most middle and lower-income households and businesses in the US (which is where the highest rate of debt growth has been) pay interest rates much higher than money market rates and the rates for these loans can be very high. To state the obvious, in addition to interest, all these borrowers have to pay down the principal balance of the loan.

High debt makes these borrowers more reluctant to spend or take on more debt. And the world has just hit a new debt record of $281-trillion with China and the US accounting for more than 60 percent of it. Borrowing by governments, households and non-financial business now accounts for more than 240% of the world's gross domestic product, and it's growing faster than the global economy.

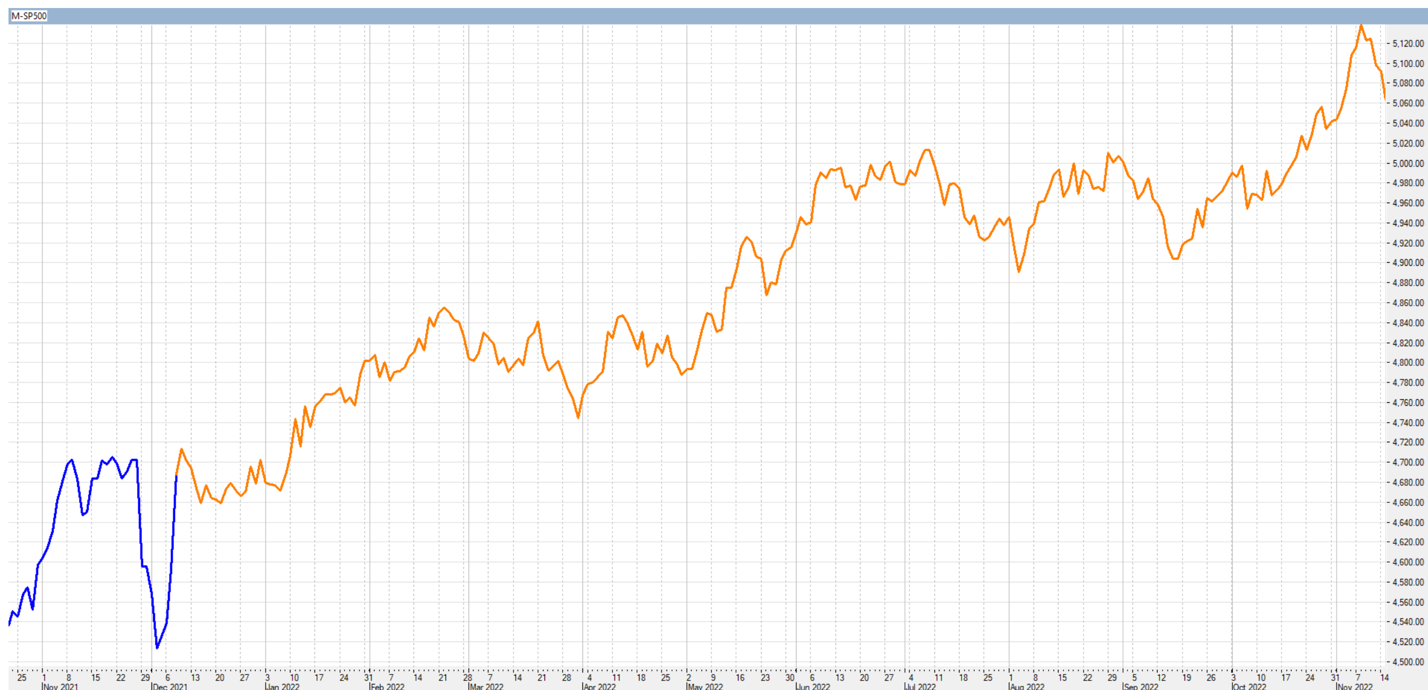
Thus, when US Federal Reserve chairman Jay Powell signalled this week that that fighting inflation was the US central bank's top priority during two days of testimony to Congress in which he only fleetingly acknowledged the damage that Omicron might do to the recovery, markets understandably reacted with an inevitable wobble. Then Loretta Mester, president of the Cleveland Fed, told the Financial Times that the Omicron coronavirus variant was threatening to fuel soaring inflation in the US by putting further pressure on supply chains and worsening worker shortages.

Mester echoed Powell by saying she would support a quicker withdrawal of the Fed's massive bond-buying programme as a form of "insurance" that would give the central bank more flexibility to raise interest rates next year. "We have to entertain the risk that those persistently high numbers of inflation could become more embedded," she said on Thursday. "It's really about giving us the optionality. . . to make moves on the interest rate path."

Now, as everyone knows, when interest rates rise at a greater rate than dividend and earnings yields, share prices have to fall in order to achieve market equilibrium and so it is important to keep an eagle eye on market trends. Thus, ShareFinder projects our SA Blue Chip Index, which peaked at the end of August, will continue down until next August:



Happily, for now it sees Wall Street, as measured by the S&P500 Index, continuing to gain throughout 2022:



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Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly predicted a brief retraction ahead of further gains until February 22 ahead of another retraction until the end of March but in the long term continuing upwards.

Nasdaq: I correctly predicted a brief retraction ahead which I expect to last until Christmas ahead of a longish upward sweep until June.

London's Footsie: I correctly predicted a volatile declining trend lasting until next August. I also correctly predicted one more brief but very volatile up-spike which is now under way to mid-February.

Germany's Dax: I correctly predicted a decline until early May.

France's Cac 40: I correctly predicted a brief downward spike which is now over. Thereafter it is likely to be a yo-yo somewhat downward trend for most of the coming year.

Hong Kong's Hangsen: I correctly predicted a volatile decline which I expect will continue until mid-February before a protracted recovery begins.

Japan's Nikkei: I correctly predicted the start of a decline that should last until late April.

Australia's All Ordinaries: I correctly predicted at best a sideways to falling trend until mid-March before the next long decline sets in until at least next October.

JSE Top 40 Index: I correctly predicted the recovery was probably over now over ahead of weakness until late April when a longish rally appears likely.

ShareFinder JSE Blue Chip Index: I correctly predicted a short rally but still can't see it lasting beyond the 10th. Then it is down until August.

Rand/Dollar: I correctly predicted weakness lasting until the end of January followed by a recovery until June.

Rand/Euro: I correctly predicted weakness until early March ahead of gains from then until October.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.46 percent. For the past 12 months it has been 93.89 percent.