Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

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The latest US Inflation figures came out this week showing that living costs rose a shocking seven percent during December – the worst increase in 40 years - and investors worldwide are paying keener than usual attention because the increase arguably confirms that the Federal Reserve is going to tighten monetary policy considerably.

In February 2021, the Labour Department’s consumer price Index was running just 1.7% ahead of a year earlier. From there, the year-over-year price increases accelerated steadily; 2.6% in March, 4.2% in April, 4.9% in May, 5.3% in June. By October, the figure was 6.2%, by November 6.8%.

At first, Fed Chair Jerome Powell and others characterized higher consumer prices as merely a “transitory” problem — the result, mainly, of shipping delays and temporary shortages of supplies and workers as the economy rebounded from the pandemic recession much faster than anyone had anticipated.

Now, many economists expect consumer inflation to remain elevated at least through this year, with demand outstripping supplies in numerous areas of the economy.

And the Fed has radically changed course. As recently as September, Fed policymakers had been divided over whether to raise rates even once this year. But last month, the central bank signalled that it expects to raise its short-term benchmark rate, now pinned near zero, three times this year in an effort to quell inflation. And many private economists expect as many as four Fed rate hikes in 2022.

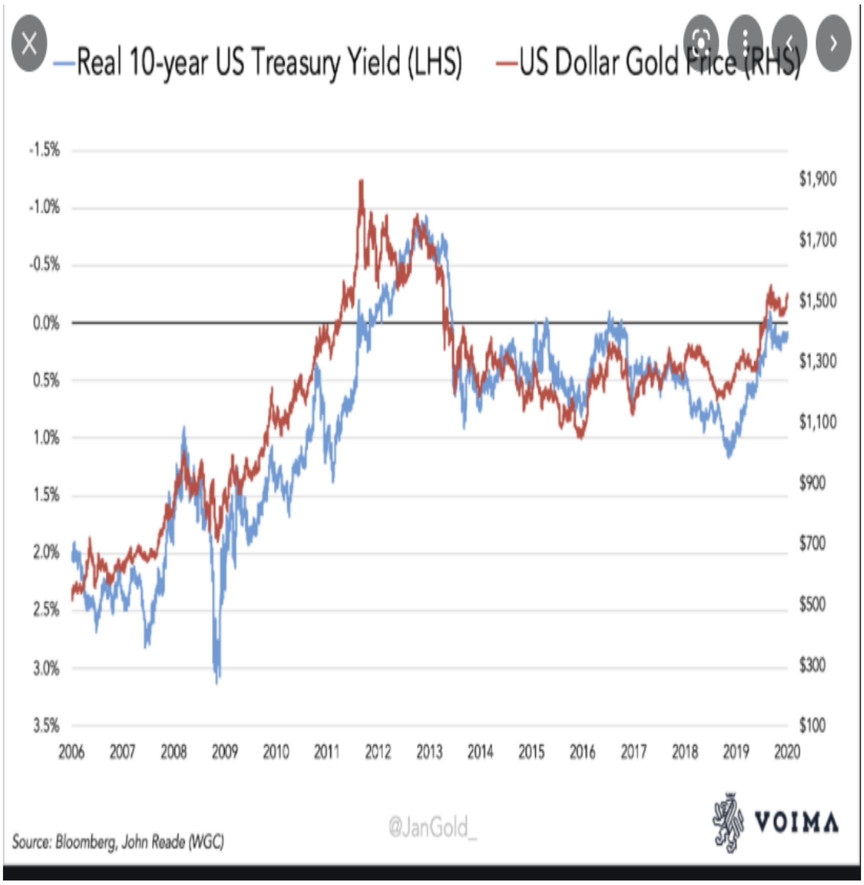
“If we have to raise interest rates more over time,” Powell told the Senate Banking Committee on Tuesday, “we will.”

Acting now while the numbers are still relatively low is arguably the best economic policy, but it is not a cause that will please the politicians who ultimately decide who gets elected to the board of the Fed and its various subsidiaries across the US. It puts immediate pressure upon consumers who, in turn, become hostile towards the government. But the alternative is the hidden rot of consumer price inflation which eats away at the fixed incomes of people like pensioners who constitute a large part of the US electorate. Either way it is bad for ordinary folk but inflation is good news for indebted governments because it also eats away at their debts.

In theory that issue should be of no concern to Fed members who are theoretically politically neutral, but this is the real world where being a Fed board member confers considerable status, not to mention, many associated monetary benefits in the long term and so it is quite reasonable to expect board members to at least pay some attention to what pleases the politicians.

Now let me not mince words here. As the first graph illustrates, the US Federal Reserve, along with the central banks of all leading nations, has printed new money in unprecedented proportions in recent years. They will of course argue that they had to do so to stave off a severe economic recession in the face of the pandemic and its associated business closures and staff layoffs. But the reality is that they had to print far more than was necessitated by businesses laying off staff for a few months and the final bankrupting of quite a number of businesses which were ‘Zombies” anyway.

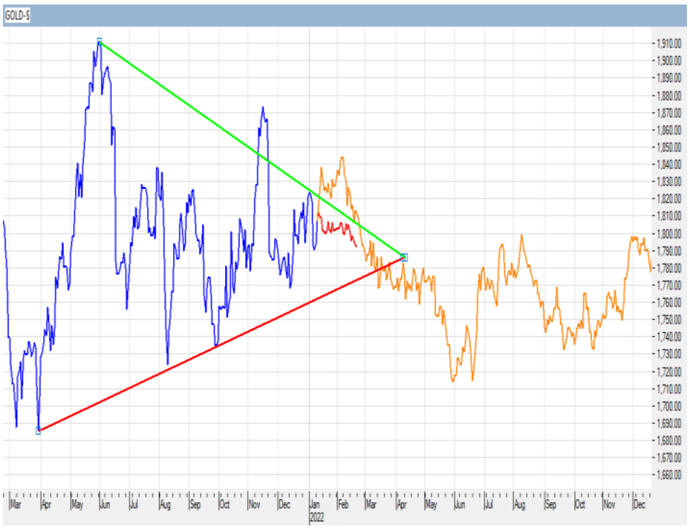
The real reason why they have been printing so much money has been to force interest rates down into negative territory because of their governments’ mounting costs of servicing their debts. But they are not destined to win that one because, as the second graph illustrates, governments have not been able to fool commercial lenders who have since early 2019 been demanding ever-increasing bond yields in order to part with their investment capital.



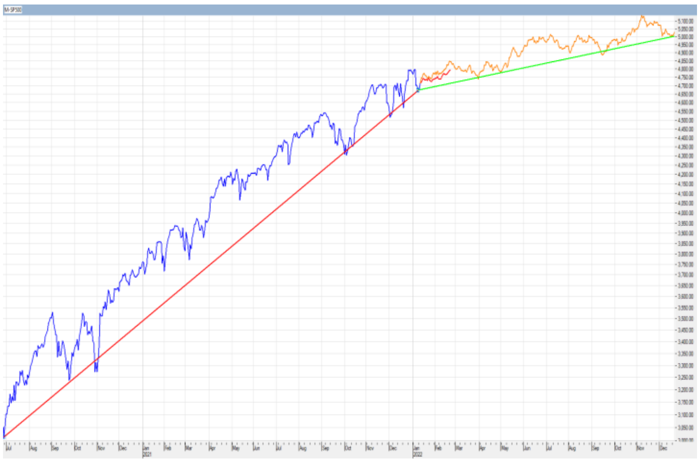
Now it is not that the principal lenders - pension funds, hedge funds and the like – are being nasty and vindictive. They are after all acting in the best interests of millions of ordinary folk like you and I who want to be sure that our pension payouts each month will retain their buying power.

So, once their calculations suggest that monetary inflation is likely to be a problem which will inevitably devalue their investments in the sovereign bonds of leading nations, they obviously put their clients first. After all, should they rather turn altruistic and, instead of their own clients, rather worry about the problems of the politicians who have been borrowing excessively in order to sustain vanity projects that are actually not in the best interests of all of their people, they would understandably start losing business quite rapidly. So the lenders started demanding more from the issuers of bonds and that is the reason that the blue trace in my second graph started rising so significantly from early 2019: long before the world knew anything about Covid 19. More importantly, note how the red line which traces the US Dollar price of gold bullion began rising even before bond yields began rising. That red line is the absolute alter ego of monetary inflation because, whenever it rises significantly, it tells you the whole world is worrying about inflation.

So, it is interesting to turn to ShareFinder's tried-and-tested artificial intelligence system to see what it thinks will happen to the gold price in future. Thus, in my first graph on this page which tracks the gold price in US dollars, it is most interesting to see a pronounced pennant formation. What pennants imply is that a consensus is growing. Back in April last year the gold price fell to a low of $1 685.35 before surging in the next two months to $1 910.80 before plunging back once more and then yo-yoing back and forth in an ever diminishing differential which this month has brought gold traders close to consensus that a fair price right now is in the region of $ 1 768.



However, ShareFinder also thinks that US long bonds, as dictated by the average price of bonds that will mature in the next five year which appear in my second graph on this page, are nearing their current peak and will trend sideways for most of 2022. However from the beginning of August, the program thinks US long bonds will surge upwards for another three months, suggesting that more inflationary shocks could be in line for this year! Normally, a rising bond rate implies falling share prices as the two seek a return equilibrium. However, in the third graph on this page ShareFinder believes that Wall Street share prices will continue rising which, if correct, suggest that corporate profits will rise to compensate for the erosion of the dollar.



However, against the compound growth rate of 33 percent traced out by the red trend line in my last graph of the S&P500 Index, the green trend line of the current projection senses a mere 7.5 percent during 2022 which bears out the views I expressed in the latest issue of Prospects that the current year will not be nearly as exciting in the markets as 2021 offered us!

The month ahead:

New York's SP500: I correctly predicted further gains which I still see lasting until the 17th ahead of another retraction until the 27th and then a month of gains followed by a longer retraction from the end of February to the end of March. However for now the long-term up-trend appears likely to remain in place.

Nasdaq: I correctly predicted a brief retraction which appears over for now ahead of volatile gains until June.

London's Footsie: I prematurely predicted a volatile declining trend lasting until next April when I expect a two-month recovery before things head south again. But I still expect it!

Germany's Dax: I correctly predicted a decline until early May followed by gains until mid-August but failed to anticipate the brief upsurge from early December which I still expect to last until the third week of January before the present wild oscillations are over and the long decline continues.

France's Cac 40: I correctly predicted a yo-yo somewhat downward trend for most of the coming year with the recent year-end upsurge still looking likely to continue until the end of January before the down-trend resumes.

Hong Kong's Hangsen: The long decline looks to be over now and now I see gains until mid-May followed by a two-month decline followed by a protracted recovery.

Japan's Nikkei: I correctly predicted a decline that I expect to last until late April when a sharp recovery appears likely.

Australia's All Ordinaries: I correctly predicted a falling trend which I expect to last for the rest of the year.

JSE Top 40 Index: I believe the recovery is over now ahead of weakness until late May when a longish rally appears likely.

ShareFinder JSE Blue Chip Index: I correctly predicted a short rally. Now I see weakness to the end of the month ahead of another last rally and thereafter down until early August.

Rand/Dollar: The recovery began sooner than I predicted but it should last until the end of June.

Rand/Euro: I wrongly predicted weakness until late March ahead of gains from then until late October, but weakness is now imminent, probably from next Friday.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.48 percent. For the past 12 months it has been 94.12 percent.

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http://www.sharefinderpro.com
richard@rcis.co.za