Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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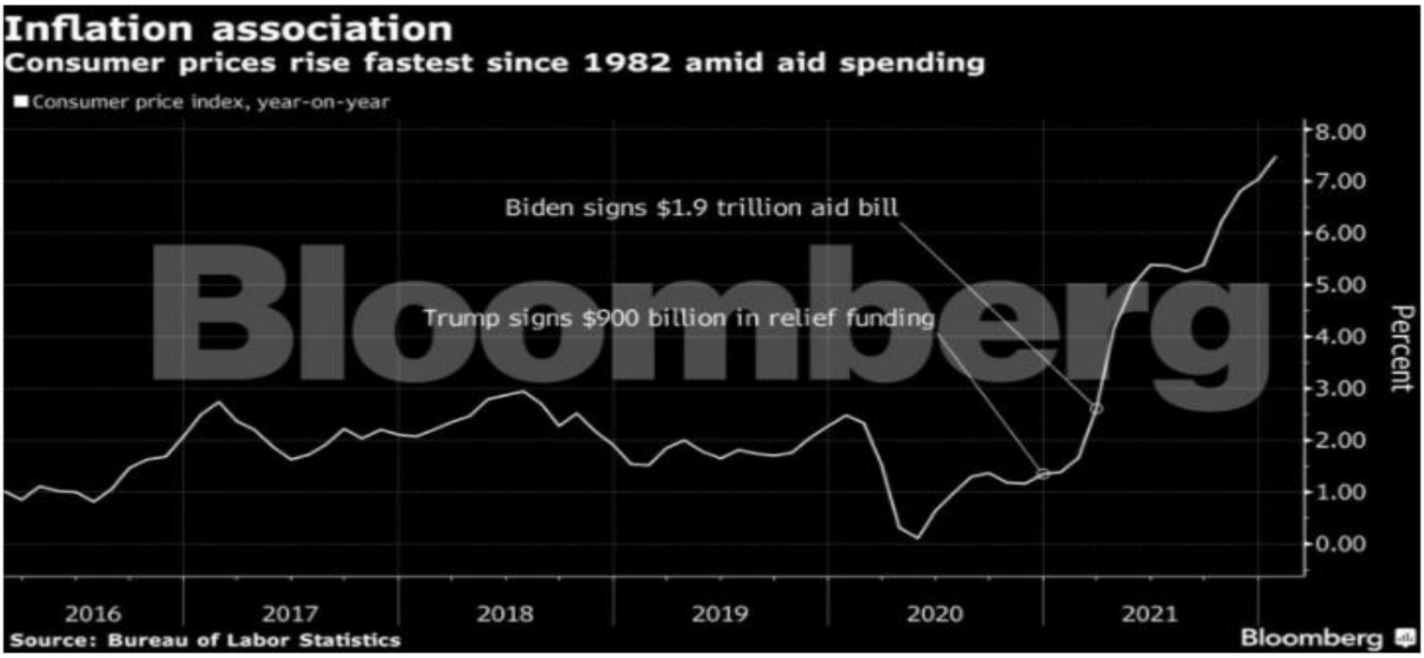
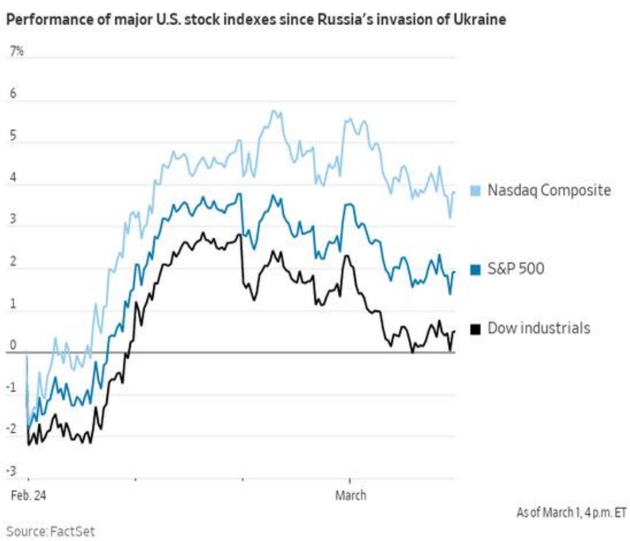


Probably the last thing most folk thought about as Vladimir Putin's tanks rolled into the Ukraine this week was world inflation, but an inevitable boost to an already runaway situation is the price every citizen of the world, from the richest to the poorest, will have to pay for the Russian megalomaniac's ego trip.

South Africa, with its already world's worst unemployment rate could well pay an equally steep price if the misery of millions living below the bread line boils over into more insurrection of the kind we saw last July. That threat will, furthermore, be exacerbated if politicians, spoiling for positions in the ANC's leadership race this year, start to inflame public opinion with the reality that the only people who benefit from inflation are the wealthy whose share portfolios are boosted.



It's not an unrealistic view. US President Joe Biden could not resist taking another tilt at the rich this week, commenting in his State of the Nation speech that, "One way to fight inflation is to drive down wages and make Americans poorer." Describing the way central bank policies work, Mr. Biden said, "I think I have a better plan to fight inflation." Hinting once more at wealth taxes, he went on to say that the wealthy would need to pay more.

Biden is not alone. Every world leader with socialist leanings will by now be eyeing the war effects upon an already surging oil price and all must be recognizing that it will push an already uncomfortable inflationary global trend into the red zone. Rising costs of everything from basic groceries to rents to taxi fares are beginning to bite their electorates and most politicians are beginning to recognize that they need to come up with a few answers.

US Federal Reserve chief Jerome Powell reacted this week signalling that he would be raising rates by 0.25 percent this month. Meanwhile, bond yields which had been moving lower on safe-haven buying, pushed higher on the news with the two-year Treasury yield rising adding 19 bps to 1.53% and the 10-year rising 17 bps to 1.9%. Simultaneously the S&P 500 added 1.9%, the Dow 1.8% and the Nasdaq 1.6%, while energy prices continued to rise on the worsening situation in Ukraine.

Here in SA the ANC leadership is clearly divided between those who think the wealthy can be coerced into perpetual giving and the realists who understand the limits of taxation. The good news is that Team Cyril Ramaphosa is alive to the fact that the tax burden being carried by our top ten percent has led to a rapidly-rising emigration of our biggest tax contributors. The new budget's one percent tax concession to corporates confirms that awareness.

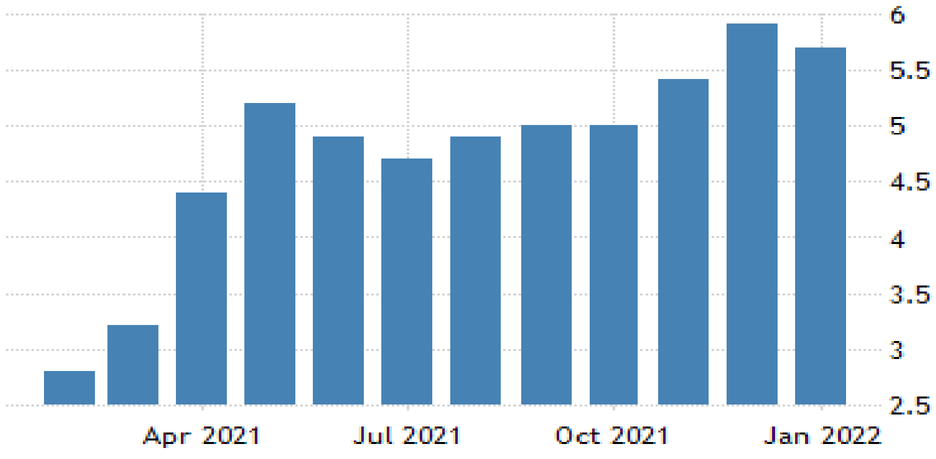
Another consequence the Ramaphosa leadership appears to now understand is that the high tax-extractive cost of doing business in South Africa has caused much of the stagnation of the economy – clearly if you take too much money out of successful businesses leaving insufficient for investment and expansion you get stagnation and eventually death….and it is no different with national economies. Socialism in the shape of the so-called "social wage" has changed the formerly vibrant South African economy into a stagnant backwater.

The latest victim of that trend has this week been PSG which has announced it is breaking itself up and distributing its assets to its shareholders so that, presumably, its directors will be able to go beneath the radar of public scrutiny! Allied company Zeder will likely follow next, in turn posing questions about behemoths like Remgro, Naspers, Prosus and others whose massive sum-of-the-parts discounts…averaging something like 40 percent usually……are the clear consequence the country's economic stagnation.

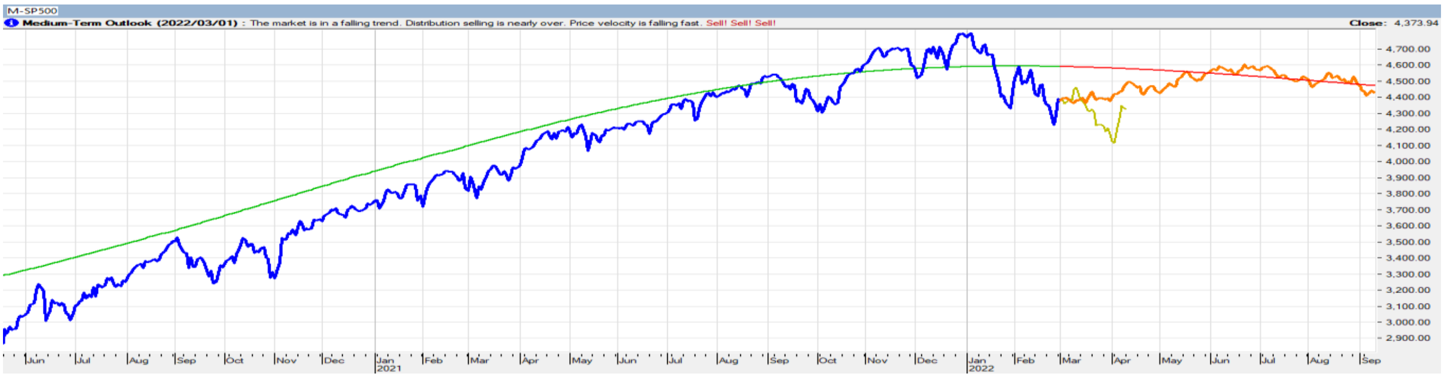
Something like the opposite has been playing out in the US where economists were warning a year ago that the $1.9-trillion spending package which Biden's administration pushed through Congress was too big and so poorly targeted that it would stoke demand which would fuel rapid price gains.

Exactly that happened. Cash-flush consumers spent so strongly in 2020/21 that Covid-pressured supply chains struggled to keep up. Now, with the inflation numbers inevitably spiking to the highest levels since the 1980s, the US Federal Reserve is being forced by its mandates to raise interest rates. From nearly-zero presently, Fed officials have signalled that they will be making a series of increases throughout the year as they try to put a lid on inflation which is now standing at an alarming 7.5 percent. Meanwhile economists at Goldman Sachs think US Consumer Price Index inflation could end 2022 at 4.6 percent; more than twice the level it hovered around before the pandemic.

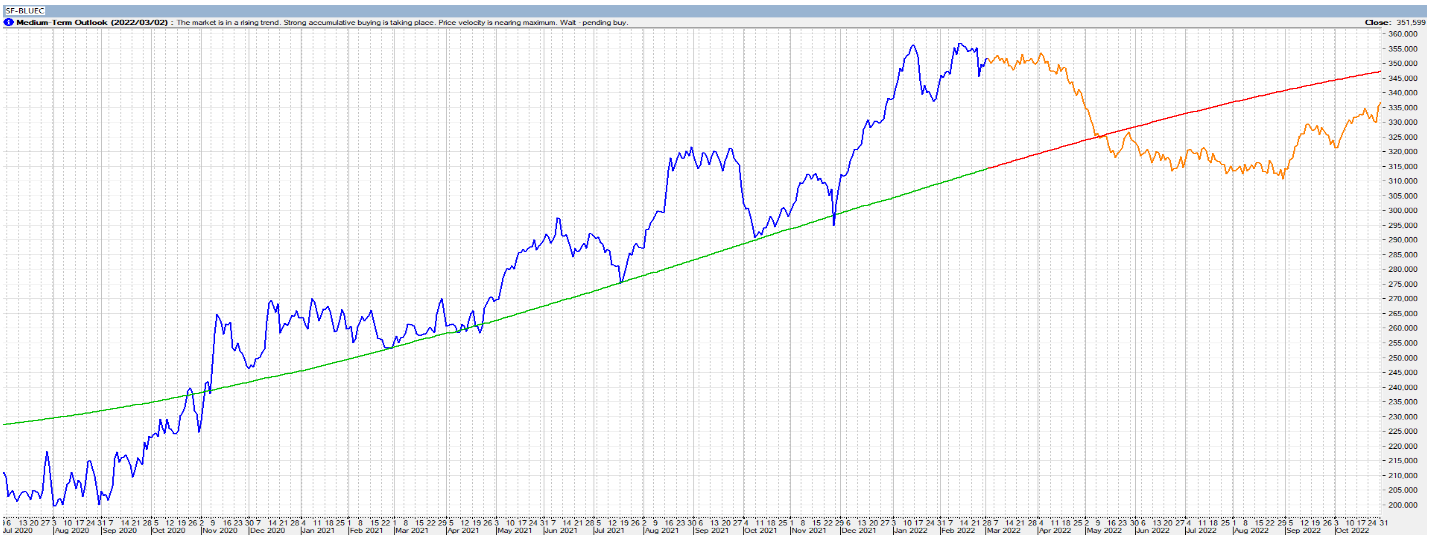
Here in South Africa, according to Trading Economics global macro models which provided the graph on the right, inflation is expected to be 5.60 percent by the end of this quarter and, optimistically, it is hoped that it will average around 4.50 percent for the year as a whole.



Rising interest rates are bad news for share markets which is why US markets have been headed south in the short term which explains the recent 15 percent decline of Wall Street so far this year as illustrated by my next graph:

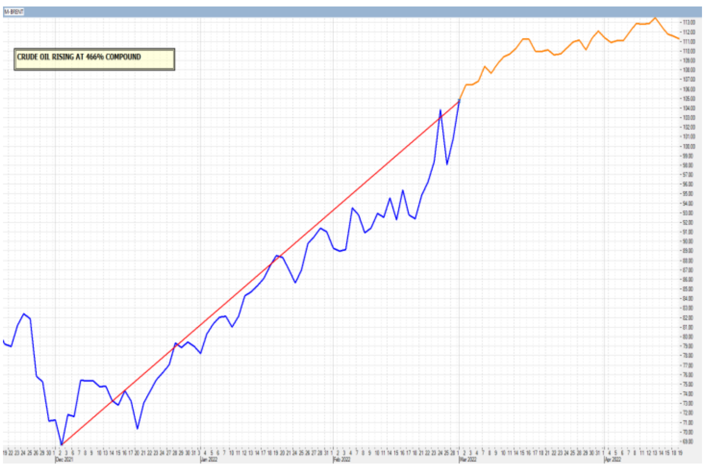


Inflation is, however, good for share market prices which explains why South African Blue Chips continue rising, at least in the medium term:



African countries imported agricultural products worth US$4 billion from Russia in 2020. About 90% of this was wheat, and 6% was sunflower oil. Major importing countries were Egypt, which accounted for nearly half of the imports, followed by Sudan, Nigeria, Tanzania, Algeria, Kenya and South Africa. Similarly, Ukraine exported US$2.9 billion worth of agricultural products to the African continent in 2020. About 48% of this was wheat, 31% maize, and the rest included sunflower oil, barley, and soybeans.

Commodities are on the move everywhere. Below left the crude oil price and, below right, copper:



The month ahead:

New York's SP500: I correctly predicted fresh weakness which I expect to last until mid-March followed by a recovery until late June.

Nasdaq: I correctly predicted this week's recovery. However the signs are divided by the war in Ukraine and, against short-term downward pressure for the month there are medium-term pressures pushing for a gain until late June.

London's Footsie: I correctly predicted the start of a new longer-term declining trend until early April when I expect a two-month recovery before things head south again. In the short term, however, a brief two-week recovery seems possible.

Germany's Dax: I correctly predicted the start of a down-phase to last until early May when I see a three-month recovery beginning.

France's Cac 40: I correctly predicted a yo-yo somewhat downward trend for most of the year. I also correctly expected brief weakness which I still see lasting until the second week of March ahead of a month of gains and then further declines until mid-May.

Hong Kong's Hangsen: The war continues to stall the imminent recovery I have been expecting. Now I expect a very short up-tick followed by an equally short down and then recovery from around March 18 to the end of April.

Japan's Nikkei: I failed to predict this week's brief recovery which should last until mid-week but then it should be down again until late April when a sharp recovery appears likely. Then I expect it to be down again in August until mid-November.

Australia's All Ordinaries: I correctly predicted the late February brief recovery, probably until today and then down again until late September.

JSE Top 40 Index: I correctly predicted weakness but failed to anticipate the current brief rally which I expect to end in mid-March ahead of declines until early May.

ShareFinder JSE Blue Chip Index: I correctly predicted weakness until the 22nd and then gains until the first week of April. But then it is likely to be down again until late August.

Rand/Dollar: I correctly predicted a recovery which I continue to expect to last until the end of June.

Rand/Euro: I correctly predicted the start of weakness until early March. Now I see gains until mid-June.

Predicts accuracy rate on a running average basis since January 2001 has been 86.54 percent. For the past 12 months it has been 94.53 percent.

The #1 Lesson From Bank Account Seizures in Canada... Do This Before It's Too Late

by Nick Giambruno

"We are broadening the scope of Canada's anti-money laundering and terrorist financing rules…As of today, a bank or other financial service provider will be able immediately to freeze or suspend an account without a court order."

These are the words of Canada's minister of finance, Chrystia Freeland.

Freeland's announcement shocked millions of Canadians and many more across the world. A major Western country had just thrown out any semblance of the rule of law and property rights on a mass scale—something unprecedented in recent memory.

Many Canadian companies and everyday citizens were paralyzed, suddenly unable to access the money they thought was theirs. There was not even a pretense of due process. It wasn't needed since the government simply granted itself emergency powers. The fundamental civil liberties that most Canadians thought they had proved to be illusory.

Imagine if the crackdown against dissidents in Canada instead happened in Venezuela, Cuba, or elsewhere. Is there any doubt there wouldn't be a fevered pitch call for sanctions or worse?

Instead, to the extent the mainstream media even mentioned it, coverage was generally sympathetic to the Canadian government. The media rationalized their actions as necessary measures against insurrectionists and potential terrorists.

The Canadian banks sheepishly complied. There was no attempt to protect their clients and push back against this blatant government overreach.

If you understand how money, banking, and politics *really* work, none of this should be surprising. Like almost all governments, the Canadian government heavily regulates and influences the nominally private banking system. If a Canadian bank were to disobey, the government would immediately give it the kiss of death by revoking its license, removing access to the central bank's clearing system, and perhaps arresting executives.

The banks will do whatever the government tells them when the chips are down. They have no choice.

Banks are not independent entities, as events in Canada make clear. They are ultimately extensions of the government and the will of politicians in charge at the time.

Here's the bottom line and the number one lesson from the fiasco in Canada…

Canada has set the dangerous precedent that politicians can use banks and money as blunt weapons against their domestic opponents and get away with it.

I have no doubt we'll see more of this soon in other countries.

It would be foolish to assume that politicians wouldn't use this new power at their disposal. The only question is, what pretext are they going to use to sell it to the masses?

Today, banks are a tool to stifle dissent and force compliance to vaccine mandates.

Tomorrow, you may find that the government has frozen your bank account because you exceeded your monthly carbon allowance by driving your car too much or buying too much meat. After all, the media and many politicians have already declared a "climate emergency."

The politicization of money is an urgent danger you cannot afford to ignore. But, thankfully, there is something you can do about it.

What You Can Do

It's essential to clarify you don't actually own the money in your bank account.

Once you deposit money at the bank, it's no longer your property. Instead, it belongs to the bank, and they can do whatever they want with it.

What you own is a promise from the bank to repay you. The currency in your bank account is really just an unsecured liability. Technically, you're a creditor of the bank.

That's a very different thing from cash in hand. Yet the vast majority of people wrongly conflate the two. Perhaps events in Canada will change that perception.

Prominent Canadian psychologist and best-selling author Jordan Peterson recently said:

"I don't know what to make of all of this because it's happening so quickly. I can't believe the state to which the country has degenerated.

I've been in contact with a reliable source within the Canadian military, and he told me today by email that if I had any sense, I'd take my money out of the Canadian banks because the situation is far worse than I've been informed. And that's just one of such messages I've received on a daily basis."

The more money you have in the bank, the more leverage politicians hold over you to shape your behavior. All it takes is the stroke of a politician's pen to target the bank accounts of large groups of people they don't like.

It behooves free and independent people to ensure that someone else isn't in charge of their destiny. A big part of that is securing your money. No politician or constitution will do that for you. It's something you have to take responsibility for.

The idea is to own assets with as few counterparties as possible. Therefore, you want the least amount of distance possible between you and a meaningful portion of your money.

Ideally, you have some wealth that you own outright, without a bank, a custodian, or some other 3rd party that can be pressured.

So, taking your money out of the banks is a good start. How much to remove is a decision that each individual must make given their circumstances.

But then where do you put it?

The way I see it, you have four options for your liquid assets.

Option #1: You could try to withdraw it as cash. However, it's not guaranteed the bank will honor your request, and if they do, they probably won't make it easy. Traveling with large amounts of cash is also unwise. It makes you a target for thieves and cash-sniffing dogs.

Option #2: Moving your money to a bank in a safer jurisdiction like the Cayman Islands, Singapore, or Switzerland is undoubtedly better than keeping it in Canada, for example. But that requires you to have set up such an account in advance, and it often requires large minimum deposits.

Even if you don't plan on using it, you should obtain a financial account in a friendly foreign jurisdiction. That way, you can act quickly in case you ever need it.

Option #3: Buying physical gold and silver bullion coins is a good choice. Owning physical gold and silver in your possession gives you access to money without counterparty risk.

I recommend avoiding numismatic or collectible coins. They are more complicated, can have significant premiums, and present an opportunity for you to get ripped off if you don't know what you're doing. Instead, keep it simple and stick to the widely recognized bullion coins like the American Eagle or the Krugerrand.

Unfortunately, physical gold and silver coins present a similar problem as cash. It's not a good idea to travel with a lot of them as they quickly show up in x-ray machines.

Also, never store your precious metals in a bank's safe deposit box. Naturally, that carries the same risks as money in a bank account. Instead, it's far better to use a private non-bank vault if you have more significant amounts.

Option #4: Jordan Peterson also recently said: "And Bitcoin once again looks more valuable and necessary." He's absolutely correct. There's never been a time when it's been more risky to not own Bitcoin.

Bitcoin separates money from the state and offers regular people a haven. They can easily use it to hold, send, and receive wealth.

However, it is critically important to emphasize that you should only hold Bitcoin in a non-custodial wallet in which only you control the private keys.

For example, if you own Bitcoin on Coinbase, Cash App, or some other custodial platform, you don't own your Bitcoins, but rather a "Bitcoin IOU," which is a very different thing. As a result, these custodians can easily freeze and seize your Bitcoin just like a bank can with its customer deposits.

Holding Bitcoin in a non-custodial wallet is like having a physical gold coin in your own possession. Nobody can take it from you or deny your ability to use it. Nor do you need to depend on any third party.

As for non-custodial mobile phone wallets, Muun and BlueWallet are excellent options. You can find them in the app stores.

Here's the bottom line.

Don't be complacent, and take action to secure your liquid assets before it's too late.

Canada has normalized using banks and money as political weapons. However, this is only the beginning…

I have no doubt we'll see much more severe measures soon worldwide. What happened in Canada is coming soon to your neighborhood.