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 US Federal Reserve has an urgent and fateful decision to make within the next few days. It must either keep printing trillions of dollars and let inflation skyrocket or tighten monetary policy and watch markets crash.

As US columnist Doug Casey this week observed, the Fed can either sacrifice the stock market or the dollar but it no longer has the option to fiddle at the edges of the inflation problem! What happens next will have direct implications for global share markets as well as the life savings and pensions of ordinary investors everywhere. Meanwhile, here in South Africa where food and fuel prices are already soaring as a result of the war in the Ukraine, what the Fed decides will likely test the ANC's ability to continue governing in the face of its abject failure to deliver jobs as attested by the country's worst ever unemployment rate.

What we face is the toxic combination of monetary inflation combined with economic stagnation which is a lethal political force that will test the best of governments!

So it is very important at this time for ordinary investors to pay attention to the thoughts of the world's most influential monetary figures whose decisions will ultimately determine the fate of every one of us. Thus, when JPMorgan Chase Chief Executive Jamie Dimon noted this week that the U.S. economy is facing unprecedented risks that have him preparing for dramatic upheavals, you had better take note!

The head of America's biggest bank offered a largely upbeat view of the US economy's health in his annual letter to shareholders on Monday. Noting that US consumers and businesses are flush with cash while wages are rising and the economy is growing rapidly after its pandemic slowdown, Dimon nevertheless warned that consumer confidence has declined. Importantly, he also said the bank was positioning itself to cope with the fact that the war in Ukraine could collide with rising inflation to slow the pandemic recovery **and alter global alliances for decades to come.**

"Along with the unpredictability of war itself and the uncertainty surrounding global commodity supply chains, this makes for a potentially explosive situation."

The US economy remains strong and hopefully "has Covid-19 in its rearview mirror," but competing factors facing the world's largest economy "present completely different circumstances than what we've experienced in the past -- and their confluence may dramatically increase the risks ahead."

Dimon praised the Federal Reserve for making clear that it will raise interest rates as much and as fast as needed to contain inflation, while also starting to reduce its massive bond holdings.

To those who still think the Fed can engineer a "soft landing," former US Treasury Secretary Lawrence Summers had this to say: "*There is a first time for everything, but over the past 75 years, every time inflation has exceeded 4% and unemployment has gone below 5%, the U.S. economy has gone into a recession within two years. Today, inflation is north of 6% and unemployment is south of 4%."*

US consumer price inflation jumped 7.9 percent in February compared to a year earlier, and the Fed last month raised the benchmark lending rate off zero for the first time since the start of the pandemic in March 2020.

Meanwhile an important UN paper released this week will increase pressure upon world governments for climate change action because it has added new urgency to the debate, arguing that it is **"now or never"** to limit the effects of climate change. The UN paper said countries can still limit warming to 1.5 degrees Celsius by frantically cutting greenhouse gas emissions and investing in carbon capture technology, but that window is closing fast. We'd have to hit peak emissions by 2025 and then send them down a Black Diamond after that to keep things under control. I hope our energy minister Gwede Mantashe is listening!

But there could be positives despite the economic challenges such change envisages. Here it is worth noting a Maverick Citizen report highlighted a calculation by C40 Cities that South Africa could create 1.8 million 'green' jobs by the year 2030 if we were to commit to an investment of R570-billion per year for the next five years in urban centres towards ambitious climate actions.

Again I hope Gwede is listening and, if he is not, that our President might take time out of his exhausting daily schedule to lean on him to remove his solar road-blocks!

However, amid the gloom it is accordingly also important to recognise that South Africa is in fact making significant progress in clawing its way back from over-indebtedness and in recognition Moody's Investors Service this week upgraded the SA government's sovereign bond outlook. This is not a grading change. Our foreign and local-currency ratings still sit at Ba2, which is two notches below investment grade, and there is still a long, long road ahead getting back to investment grade.

But, as journalist Tim Cohen reacted, *"This may be a turning point, since practically all movements have been down for almost a decade. And it's worth noting Fitch also upgraded its outlook late last year."*

Justice Malala also highlighted Moody's comment that, "…. *the government's dogged implementation of its debt consolidation plans — and the fillip from higher commodity prices — were the reason for its improved outlook.* He also drew attention to Moody's comment that,*"Over the past two fiscal years, the government has shown it was able to reprioritise its spending while staying committed to fiscal consolidation, which Moody's expects will remain the case."*

JPMorgan Chase has not been alone in its concerns about the immediate economic future of the US. Fortune Magazine's Bernhard Warner this week highlighted the fact that Goldman Sachs is also bearish on the U.S. and global economy and argued that this was, "A warning we should pay close attention to as we near the kick-off of another corporate earnings season.

Goldman economists have slapped a "below consensus" label on its growth forecasts for the United States, Canada and Europe which should not come as too much of a surprise. Runaway inflation, supply-chain snags and the choppy COVID recovery were already conspiring as of late last year to jolt the global economy in 2022. But then war broke out in Ukraine and plunged the world into an epic energy crunch which forced economists to rip up their estimates as it became apparent households would have to cut back on spending and businesses would curtail investments.

Goldman now says the odds of a recession in the U.S. stand at 38%. That's because just about everyone on Wall Street is predicting oil prices will surge again ahead of the summer "driving-season," particularly if Western powers slam Moscow with more sanctions, and if they specifically target Russia's energy exports.

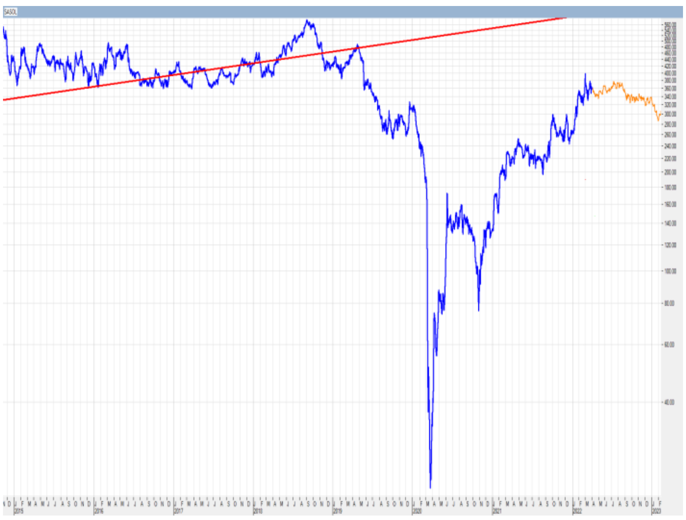
But there are always those who benefit from such situations. Energy supplier **Exxon Mobil** disclosed this week that its first-quarter profit could top $9 billion, thanks in part to billions more from rising crude prices. Locally, Sasol which hit a price low of R20.77 in March 2020 and peaked in March at R407.98 has enriched many Predicts readers who followed my lead and bought heavily. I was able to average R46.43 buying average giving me, to date, a 676 percent gain which has been one of the better market finesses of recent years.

It's anyone's guess where the oil price is going in the future as major governments have begun tapping into their strategic reserves in order to assist countries like Germany reduce their outright dependency on Russian fuel. Last week, however, I highlighted ShareFinder's projection which suggests that, following the development of a telltale pennant formation as crude prices whip-sawed through the immediate uncertainty, prices seem to be settling in a channel around $110 a barrel.

This week, as my graph on the right highlights, the mauve trend line senses a modestly-declining trend which might take the crude oil price to $107 over the next three months but not likely break below $100 before the end of the year.

Noting that the Russian invasion ended a brief declining trend for the Sasol share price, sending it soaring from R318 at the start of the invasion to R407.98 before it began to echo the crude oil pennant, the share price has now broken downwards suggesting a buying opportunity towards the end of this month at around R333. After that ShareFinder senses that Sasol will begin to gain again to peak in early August at somewhere around R376.

Below left I have created a long-term Sasol graph with an orange 20-year trend line to highlight the fact that Sasol is still currently cheap relative to its long-term past. That line has risen annually at 8.5 percent compound *forever!* On the right I have blown up the recent trend of the share price so that you can clearly see how a new pennant formation has resulted in a downward break-out which suggests the April-end buying opportunity.



The month ahead:

New York's SP500: I correctly predicted gains lasting until mid-June and what we are now seeing is an interim month-long decline.

Nasdaq: I correctly predicted gains until early June with an interim month-long weaker phase within it.

London's Footsie: The brief weakness I had been warning about finally came through and there is short-term cyclic pressure for it to continue throughout April. However, long-term cyclic gain pressure is still strongly present. So there is a tug-o-war which means anything can happen in the short-term though I favour weakness.

France's Cac 40: I correctly predicted declines until mid-May followed by a brief up-tick to early June within an overall declining trend to the end of the year.

Hong Kong's Hangsen: I have been correct so far in predicting a market peak by the end of April with declines following to early July.

Japan's Nikkei: I correctly predicted the onset of brief weakness until late April ahead of gains until early July.

Australia's All Ordinaries: I correctly predicted the brief recovery which I still expect to be over by the 12th ahead of declines until August.

JSE Top 40 Index: I correctly predicted the decline would slow but continue until late April ahead of a three-month recovery until the end of July ahead of declines for the rest of the year.

ShareFinder JSE Blue Chip Index: I correctly projected gains until the end of the month. Now I see a decline until the end of August.

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

Rand/Euro: I correctly predicted further gains starting around April 6. Now I see brief weakness from the 14th-19th ahead of further gains until mid-June.

Predicts accuracy rate on a running average basis since January 2001 has been 86.59 percent. For the past 12 months it has been 94.68 percent.

FORTUNE

CEO DAILY

by ALAN MURRAY

Good morning.

"It's hard to make predictions, especially about the future," Danish humorist Robert Storm Petersen said a century ago. That's even more true today.

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Yet the trends and forces that shape the future are with us now, and it’s at least possible to discern where they are pointing. Deloitte’s chief futurist Eamonn Kelly—his real title—has taken a stab at it in a new paper co-authored with Jason Girzadas.

Both are quick to acknowledge that surprises lie ahead. But the five big “discontinuities” they identify will at least be loud parts of the background music. The five include:

Technology: “The pump is primed…for truly unprecedented levels and novel types of scientific discovery over the coming decade” as digital technology increasingly combines with biotechnology, nanotechnology, neuroscience, materials science and behavioral science to drive new breakthroughs. Synthetic biology, the rise of the metaverse, the new expansion into space, and new technologies to save the planet—these are all among the places to watch for mind-bending breakthroughs.

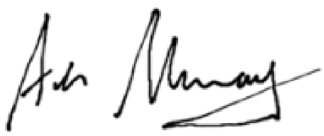
Stakeholder Capitalism: It’s not going away. “Fragile physical environments, fractured and unhealthy societies, and an increasingly unstable and volatile global climate” are among the forces that will continue to drive businesses to rethink their role in society. What economists have long referred to as “externalities” will have to be internalized, forcing companies to adopt new tools and practices to manage them, as well as fair and accurate methodologies to measure them.

Globalization: It has to be reinvented. The authors expect “a lengthy period characterized by a messy patchwork of competing powers; fraying and fluid alliances; increased conflict; weakening of traditional multilateral institutions…and increasing use of regulation and protectionism to advantage domestic businesses.” At the same time, “the role and reach of government will probably exceed anything that most Western business leaders have experienced in their careers to date.”

The Theory of the Firm. Ronald Coase laid out why we need large corporations in the 1930s. But the “transaction costs” that drove his analysis have been eroded by digital technology: “Traditional views of industry structure…are of rapidly declining usefulness.” And what replaces the firm? “Dynamic, human-centric ecosystems” that “address fundamental human and societal needs and wants in newly possible—and typically more effective, precise, accessible, and sustainable—ways.” Particularly ripe for transformation: health and education—because both sectors are insufficiently accessible—and energy, manufacturing and mobility—because they are currently unsustainable.

The nature of power. Formal power is being replaced by informal power, and the default is switching from hierarchies to networks. That means all the most fundament tools of leadership are changing. “Networked, decentralized, autonomous and collaborative models of power” will become the norm. “Power is already shifting dramatically—but so much more lies ahead.”

You can read the full paper this morning here. I recommend it to anyone who plans to be leading a business a decade from now.



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