



Richard Cluver Predicts

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In many more ways than most of us can imagine this is indeed the winter of our discontent as the consequences of central bank stimulation during the Covid pandemic are being visited upon us in the shape of soaring inflation at precisely the time when the war in the Ukraine is causing severe supply shortages which are causing petrol and food price surges.

JPMorgan CEO Jamie Dimon said last week that “storm clouds” were on the economic horizon. Yesterday, in remarks at a finance conference, he upgraded his forecast to a “hurricane” due to twin threats of the war in Ukraine and the Fed pulling its stimulus. Dimon said he “...still doesn’t know if it’s “a minor one or Superstorm Sandy.”

Given the hardship of world-record levels of unemployment in this country, we will be fortunate indeed if the worst result is a succession of workplace strikes. That is why the Sibanye-Stillwater affair is so unfortunate because it sharply contrasts workers’ demands for R150 more than the company has offered them with the R300-million bonus CEO Neal Froneman was recently rewarded. Few could be criticized for comparing the issue with the last Queen of France, Marie Antionette, whose infamous “Let them eat cake....” comment was arguably the final straw that launched the French revolution.

Of course the whole Sibanye issue is a pure case of public relations posturing. The bulk of the money Froneman received was in the value-appreciation of shares he took in lieu of salary some years ago when the mining group was struggling with a below working cost price of platinum. My understanding is that Sibanye workers were offered and rejected the same deal at the time, but that is water under the bridge when the emotive issue is underpaid workers pitted against the ugly face of capitalism.

And of course it is all spin. What about the fact that Froneman’s inspired risk-taking and leadership brought back to life an old gold mine which the big mining houses of old had considered to be at the end of its life? So, is it unimportant that the 6 000 striking Sibanye workers actually owe their jobs to Froneman?

Of course when you contrast R300-million with R150 it does sound awful. But are the mine workers really underpaid and desperately deserving of our sympathy? But what is certain is the fact that how the court of public discourse finally judges this matter could have enormous bearing on the economic future of every last citizen both rich and poor.

So the primary truth is that, against an average South African take-home pay figure which increased by an inflation-busting 13 percent in January to R17 102, the Sibanye miners have rejected an offer of R20 648. That, if you care to work it out is a chunky 21 percent more than the average South African worker is earning....never mind the 7.9-million who are jobless! The difference of R3 546 stands out in quite sharp contrast to the R150 extra that is prolonging the strike and inflaming labour opinion throughout the country.

And it is setting the scene for countless more struggles where, in virtually every case, the REAL issue is affordability.

If I understand Froneman correctly, an extra R150 makes the mine unprofitable at current gold prices and so he has told the strikers that if they persist with their demands he will have to consider closing the mine. But the real issue is that the offer already on the table represents an 18 percent increase on the miner’s current wage while the gold price, on a 20-year average basis, is rising at an annual 4.9 percent.

Against the miner’s demand, the ten percent Government workers are calling for, sounds modest. But here the problem is that ten percent would add R49.2-billion to the fiscus which would sink South Africa’s attempts to live within our means, inevitably spike a worsening ratings agencies view of the country and accordingly force upon us even steeper interest rates increases than we already face....and we are already paying some

of the highest rates in the world with a rippling effect upon every householder with a mortgage and every citizen with debt of any kind.

And that is the heart of the matter. On the one hand there is a widespread view that workers in South Africa are poorly paid and exploited by the “*White capitalist minority*.” On the other hand is the practical problem of running a sustainable business. So you might for a moment consider the fact that the capitalists of the world are not exactly beating a pathway to South Africa’s doorstep in order to take advantage of a labour force that is supposedly so cheap and exploited. Given our world record unemployment rate, the reverse is arguably true.

But, given the Sibanye Stillwater example, it looks like an easy argument for the trade unionists to win! If you are a socialist politician you can demonstrate exploitation by converting local wages into the figures earned by American, German, French and British workers. And by that calculation they do seem miserly. But that is NOT the fault of South African employers. It’s the fault of our own mismanagement of the economy that we are so heavily over-borrowed in the money markets of the world and consequently are considered a poor lending risk with the result that the value of the Rand is artificially suppressed.

According to the Big Mac Index for 2022, the Rand is, as a result of the way we govern ourselves, one of the world’s most undervalued currencies. The index is based on the theory of purchasing-power-parity (PPP) – the notion that, in the long run, exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a Big Mac burger) in any two countries.

Using that calculation implies the true exchange rate should be R6.67 to the dollar because a Big Mac costs R39.90 in South Africa and \$5.81 in the United States. The difference between this and the actual exchange rate – R15.47 to the dollar at the time of the report – suggests that the rand is undervalued by 55.6%, which makes it the world’s eighth-most undervalued currency. However, economists who make a more detailed study of the matter believe that a figure of R11.52 more accurately represents the realistic value: implying a 25.5 percent undervaluation.

Right now at a time when US employers are facing severe labour shortages and are having to pay top dollar to attract workers US Bureau of Statistics figures indicate that the average worker earns \$4 775.37 a month while a year ago he earned \$4 567.25. An average British worker earns £3 700 a month while the average French worker currently earns €4 560 a month.

Those figures imply a Rand income of R74 675 for a US worker, R72 348.11 for a British worker and R75 975 for a French worker. That is using R16.6564 for the Euro, R19.5455 to the Pound and R15.53 to the US Dollar. But using R6.67 to the US Dollar suggests rand equivalent earnings of R31 852 for a US worker and, similarly R31 193 for the British worker and R33 424 for the French worker.

So one might conclude that the average Developed World worker is earning R32 156 and so one might conclude that the Sibanye miners are being underpaid. But then, if the average South African employee earns R17 102 one has to conclude that EVERYONE is underpaid.....by a massive 47 percent.

However, if one were to imagine that the average employer is exploiting his workers and could in reality afford to increase salaries across the board by that extent, we would at a stroke render most South African businesses completely uncompetitive.

Analysing the freely-available accounts of JSE-listed companies – which one might assume are our best-run and most profitable in the country – makes it very clear that such increases across the board would put most out of business. Unemployment would soar even further and effectively the lights would go out forever. But the big pay differential makes it totally understandable why our brightest young people are leaving the country!

So the message to the ANC as it meets to consider its future policies; if we want to reduce unemployment and stem the brain drain we need to become competitive on a global scale. To do that we need to become an efficient state by ENDING Cadre Deployment which has guaranteed mediocrity in the public service, prioritise the optimal education of everyone, turn over ALL of our State owned enterprises to private enterprise and minimise the State’s role in EVERYTHING. But then we know all of that already. Experts have told us over and over again!

But before we leave the subject, there is a fascinating continuum in workers' earnings and the origins of money. The very first coinage to be issued, the Lydian Lion first minted by King Croesus in 630 BCE, weighed 10.7 grams and contained 55 percent gold. Most important for our purposes is that he also minted a smaller coin known as a "Trite" weighing 4.7 grams which was the equivalent to a labourer's pay for one month....**or the cost of eleven sheep!**.

At this month's going price a sheep costs R2 000 which suggests that Sibanye miners are being offered approximately what their equivalent miners earned some 2 700 years ago.

But let's do the maths on a trite starting with the observation that each one contained on average 2.585 grams of pure gold. Today, one international troy ounce is the equivalent of 31.1034807 grams of pure gold and a troy ounce was this week trading at \$1852.10 which is close enough to its ultra-long-term trading average price to be the basis of an objective valuation for the present time.

Accordingly we might calculate that King Croesus's Trite was worth in today's money \$153.93. At R15.47 to the US Dollar that implies that a Lydian miner extracting the ore with which to cast the first coinage was earning only R2 381.25 a month.

However, Croesus did not earn his reputation as the richest man in the world at that time by being anything less than an astute businessman. So we also know that while the ordinary man thought the coins were pure gold, if they had not been effectively counterfeit they would thus have been worth, in our language, \$279.86 or R4 329.55 which suggests that the Sibanye miners are currently being offered 4.7 times the monthly wage of a miner 2 700 years ago: the very first workers to be paid in coin!

But since the Sibanye miner can still only buy eleven sheep for a month's pay makes it clear that a whole lot of inflation has happened since then and, in fact, since the amount of money in circulation has increased 60 times in just the past half-century, we can understand why.

Since, in the long term, items like the gold price and that of commodities like mutton always correct over time in order to accurately mirror the effects of monetary inflation, it is thus realistic to expect mutton to soar in price nearly five-fold. Everything else we consume actually maintains its value over time and it's just our mismanaged money which loses its value more or less in line with the rate at which we print more of it. Ask any Zimbabwean!

So, for example I looked up the price of an average house in suburban New Jersey, USA. In 1920 it cost \$5 612 compared with today \$500 628. So in a century US house prices have increased in price at compound 4.6 percent annually and gold has increased at 4.9. The implication of these two numbers is that the value of the US dollar halves every 15 years....and it is one of the better managed currencies! Don't even try to compute the loss of value of the Rand. It will only depress you further!

The month ahead:

New York's SP500: I correctly predicted the start of a short recovery but it should be over in the next few weeks. The present sell-off looks like a brief interlude.

Nasdaq: I correctly predicted the present brief gains and said they would likely to be over by the second week of June ahead of a prolonged phase of weakness. I continue to hold that view.



London's Footsie: I correctly predicted a month of gains followed by losses starting early in June ahead of a brief recovery in July. Overall, however the dominant trend remains down into the New Year.

France's Cac 40: I correctly predicted a brief up-tick which could last until early June against a longer-term downward trend until February.

Hong Kong's Hangsen: I correctly predicted a brief recovery which now seems to be over until mid-July. Longer-term I see gains until the end of August before global uncertainty begins to bite once more taking the market down until next February.

Japan's Nikkei: I correctly predicted a recovery until mid-July and then declines until the end of September.

Australia's All Ordinaries: I correctly predicted declines which I now expect to last until January.

JSE Top 40 Index: I wrongly predicted the beginning of a recovery which I expected to last until early September ahead of declines for the rest of the year. But I believe they have merely been delayed and recovery is now likely to begin around the 23rd.

ShareFinder JSE Blue Chip Index: I correctly projected a decline which I now see ending around the 17th ahead of a brief recovery until mid-July and then another decline until the first week of August when I believe this market will bottom.

Rand/Dollar: I correctly predicted that the gains would end with the new month with short-term weakness to mid-June when another last-gasp recovery is due until the end of the month ahead of weakness until the first week of August.

Rand/Euro: I correctly predicted further gains until around June 10 when a second phase of weakness could last until the end of July.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.66 percent. For the past 12 months it has been 94.68 percent.