Our Weekly Paid Newsletter

Richard Cluver Predicts

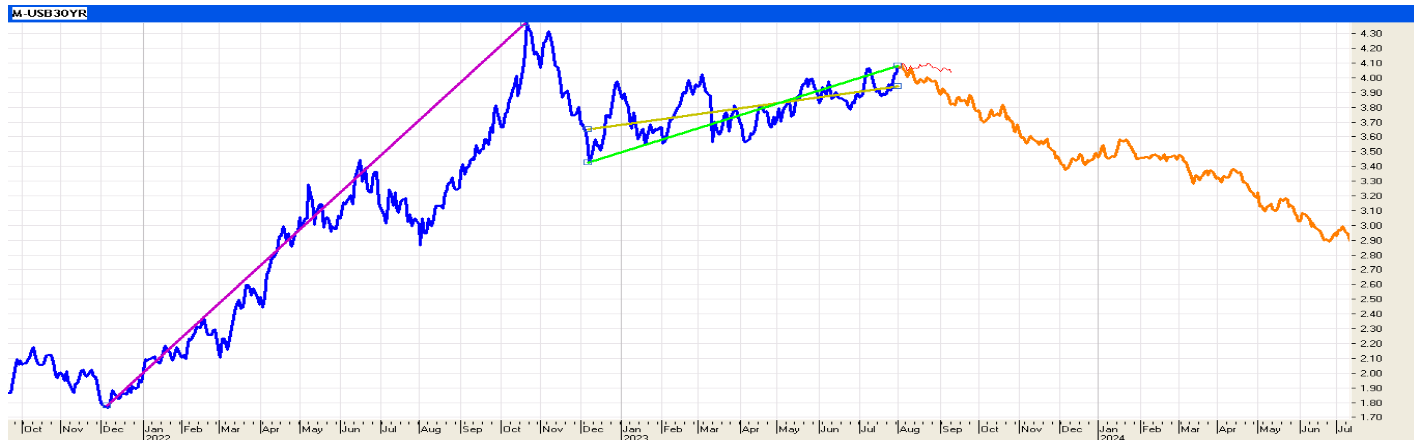
In our 36th year of service to the investing public of South Africa

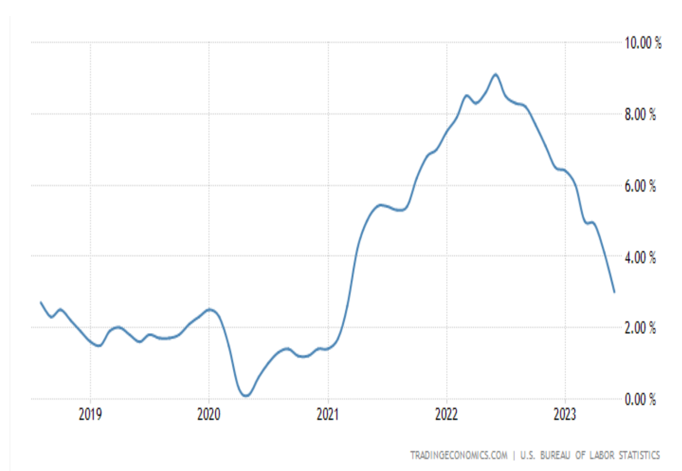
Volume: 36 - Issue: 31 **04 August 2023**

South Africans, battered seriously in recent months by rising inflation rates, took another blow this week when the price of fuel rose significantly once more.

With signs all around us that global inflation rates are coming down and, as a consequence it is possible to start thinking of a day sometime in the future when borrowing costs might begin to fall again, global oil prices are going the other way. So my question today is whether monetary springtime is further away than we have been hoping? Will oil kill the fight against inflation?

That question, furthermore, is very pertinent for bond investors who have been hoping for a quick capital gain as interest rates begin to unwind! So let us start with US 30-year bonds for they represent the best measure of the world's current struggle with inflation:





The first (purple) trend line rising at a compound annualised 180.7 percent between December 2021 and the end of October last year marks the first (post Covid) Central Bank campaign to head off a growing threat of inflation while, on the right courtesy of Trading Economics, I have illustrated just how effective that campaign has been as US inflation has been brought back from a peak last August of 8.3 percent to a latest (June) figure of three.

Now I know that latter figure is controversial because some critical elements are left out – or skewed in the way they are observed in order to make US inflation appear more benign than it really is insofar as it affects the daily lives of US citizens, but for now let us live with the official figures. Bond rates, however, do not lie because they represent a dynamic marketplace in which traders daily risk their personal fortunes and so, returning to the peak of US bond yields last October, it is probably fair to say that the marketplace was satisfied back then that the US Federal Reserve had effectively caged the inflation monster.

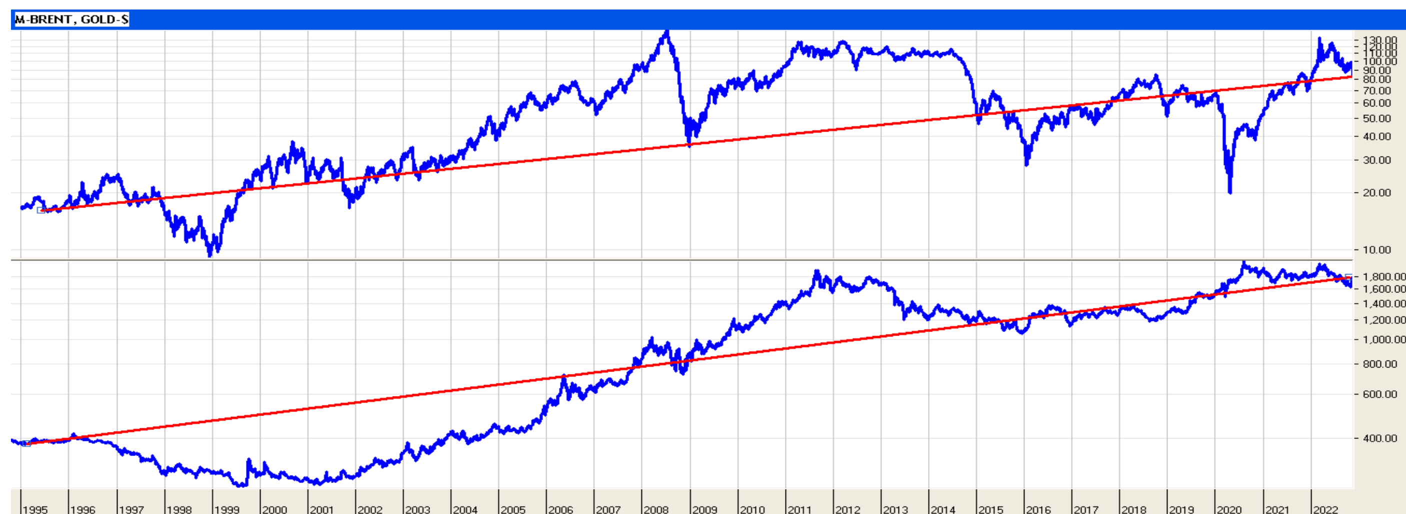
There are, however, always second-round effects of inflation to take into account because economies as a whole do not react instantly to central bank action. So while it is true that 30-years of Central Bank irresponsibility has allowed far more money to be printed than is truly represented by global GDP growth.....and that this global oversupply resulted in anyone with capital investments like home ownership or even modest private share portfolios feeling richer than they truly were in real buying power.....one of the more compromising consequences is a distortion of the labour market.

Simply stated, when people think they have more money in their pockets than usual they begin to splurge on luxuries they might not otherwise afford......think fine wines, show-off watches and cars etc. Manpower thus becomes diverted from essential bread-and-butter areas in order to service these fringe industries and wages begin rising as the competition for manpower rises.

Now salaries and wages, once agreed upon, are difficult to go back on which is why, in countries like the US it has become normal for workers to be laid off whenever a phase of economic over-stimulation has come to an end. Retrenchment, once regarded as a symbol of personal failure which has underlain social problems like the suicide rate, has consequently become a norm in the working lives of most Americans...because of the difficulty employers face going back on pay agreements.

That is why central banks need to step in early when economies become overheated and BEFORE inflation becomes "sticky." And this secondary "sticky" phase is represented in my opening graph by the green trend line which is currently rising at a compound annualised rate of 30.8 percent. That the secondary phase has now endured for a full eight months is cause for real alarm and it is why, for example, our own SA Reserve Bank recently commented that it could not YET commit to lowering borrowing rates...and for that matter why the US Federal Reserve has merely paused its rate of interest increases.

Happily, ShareFinder offers us its orange future projection of US long bond rates suggesting a fairly steady decline over the next twelve months. However, to get back to my opening point, notwithstanding everything the greenies have to say and the rise of both solar electric power and electric vehicles, the red trend line in the upper graph of the following composite makes it clear that King Oil is still dominating world markets. Though Brent crude oil prices respond in volatile fashion to economic events – note for example the very sharp fall during Covid from $66 to $28.28 – the overall trend over the past 30 years has been a compound annual rate of 6.2 percent.



In order to put that figure into perspective, however, I have added the dollar price of gold as a second graph in the composite with a similarly-tracking trend line which, at compound 5.8 percent is arguably the most realistic measure we have of global inflation. With the two figures so close, we thus have a fairly realistic average of the TRUE global inflation number.

Now to bring South Africa into that picture, here is the international price of oil expressed in South African Rands during the period since the ANC government took control of the SA economy in 1994. And now we have a trend line rising at compound 12 percent!

That "double the world's average inflation rate" measure is in one simple graph proof of why the ANC's policy of diverting capital away from the private sector in order to, for example, create the world's third most expensive civil service, has bestowed upon us the world's highest unemployment rate and a stagnant economy.

I hate to even contemplate the likely consequence of the ANC's National Health and Employment Equity Bills which are being rushed through the legislature in order to provide the party with something to use in its next year election manifesto. Since nobody has costed the likely impact of these two economic wrecking balls, nor for that matter the true cost of municipal mismanagement implicit in the fact that only 38 out of 257 municipalities in South African achieved a clean audit this year and the consequent semigration or actual collapse of rural commerce and industry, you can understand why we are in trouble. You should also now understand why our economy cannot deliver a better life for all while ANC economic policies are in place.

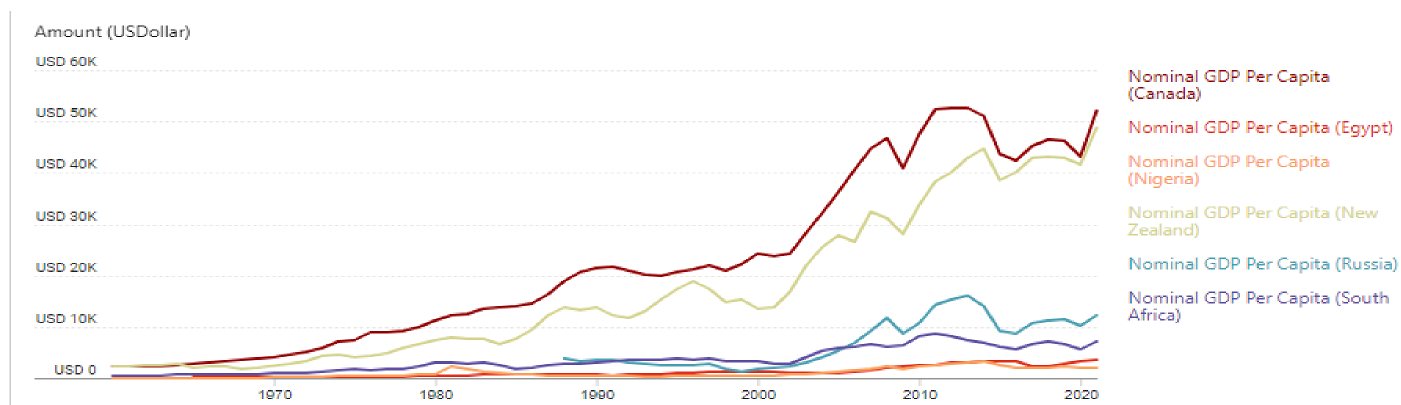
If, after reading the foregoing, you feel depressed enough to take out emigration papers, my final graph should convince you not to do so. If we can put capitalists back in the driving seat after the next election, here, at compound 22 percent, is how out Blue Chip business sector has managed to perform throughout the ANC's period of tenure. It really is possible and business is showing us it HAS BEEN possible notwithstanding the state of the economy!

Economists tell us that all it would take to put South Africa back on a sustainable growth path would be a GDP growth rate of five percent. So imagine how we could turbo-charge our economy if we could put our Blue Chip business leaders in charge of the economy!

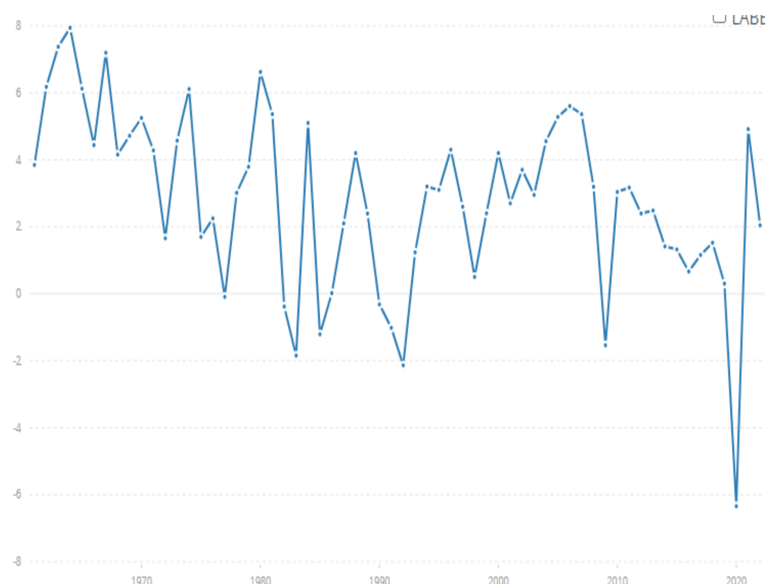
But let's dig a little deeper. World Bank figures make it clear that until 2011 South Africa was doing quite well with our per capita GDP having risen from $3 350 in 1994 when the ANC came to power, rising to a peak of $8 740 by the end of 2011. Those were, you will remember as the Trevor Manuel years when South Africa's international debt levels were systematically reduced simultaneously with a burgeoning social development plan that included, for example, millions of RDP houses.

But then came the Zuma years, cadre deployment inefficiency and wholesale corruption which sent government debt levels soaring and, sadly per capita GDP has since collapsed. It has been downhill since then to bottom at $5 740 at the end of 2020. Since then there has been a modest recovery to $7 060 at the end of 2021. But those figures pale into insignificance when compared to Canada's $52 000, New Zealand's $48 800 and Russia's $12 200.

Back in 1994 the South African per capita figure of $3 350 compared more favourably with Canada's $19 900, New Zealand's $15 300 and Russia's $2 660. The World Bank graph illustrates how Canada and New Zealand have in recent years, relatively-speaking, streaked ahead of the rest. And the latter are socialist countries!



Disappointing though they are, those figures unjustifiably flatter ANC rule because the reality is that our population growth rate has dramatically declined in recent years. Back in 1960 our population was growing at 6.16 births per 100 people. By the time the ANC took power that figure had fallen to 3.17 children and it has now reached 2.4. So GDP is being spread across a shrinking population base though that slow-down has nevertheless seen our total population grow from 16.5-million in 1960 to a current 59.4-million because all of us are living much longer.



Back in 1960 the average person could expect to live to the age of 53 and that figure peaked at 66 years in 2019, falling back following Covid to 62 years. None of this, however, offers the short-term solutions that South Africa desperately needs to reverse a GDP growth trend that, as the graph on the right illustrates, has been in decline since it peaked in

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Published by ShareFinder International
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1964 at 7.9 percent.

Only one thing potentially offers us a future which avoids us becoming a failed state. We need to provide South Africans with a reason to unleash our underutilised wealth. We need our power grid fixed, our rail lines brought back to full use before they are all stolen and we need to get ALL our remaining assets working 24 hours a day.

ONLY an unfettered private sector - and a government working hand in hand with it – can do that!

The month ahead:

New York's SP500: I correctly predicted a retreat which I still expect it to last until early September.

Nasdaq: I correctly warned that declines were likely to the first week of September before the up-trend resumes. Now I think the recovery will begin around August 8 but be fairly modest until mid-September.

London's Footsie: I correctly predicted an extremely volatile but declining period until the end of August followed by gains until mid October within an overall longer term declining trend.

France's Cac 40: I correctly predicted a short recovery within a longer-term declining trend. Now the down-turn is under way again and is likely to last well into the New Year.

Hong Kong's Hangsen: I correctly predicted the start of a recovery. There are still short-term signs of imminent weakness at least to the 7th and possibly the 22nd but the majority of indicators are positive until late November.

Japan's Nikkei: I correctly warned of considerable volatility within a modestly rising medium-term trend to the end of the year and I continue to hold that view.

Australia's All Ordinaries: I correctly warned of weakness beginning and I still expect it to last until late-September. Short-term indicators still, however, suggest brief gains and the majority of other technical indicators agree.

JSE Top 40 Index: I correctly warned of a declining trend until the end of October....amid much volatility.

ShareFinder JSE Blue Chip Index: I correctly predicted a volatile slightly-declining trend to the end of August ahead of protracted gains until well into the New Year.

Rand/Dollar: I correctly predicted the end of the current weakness with gains likely to the end of the year.

Rand/Euro: I correctly predicted an overall long-term recovery lasting until March.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.96 percent. For the past 12 months it has been 91.49 percent.

JUSTICE MALALA: Singing for Putin as Russia muzzles South African journalist

Too afraid to complain about the revoking of a veteran correspondent's accreditation, the ANC broke into song

BL PREMIUM

While in St Petersburg last Saturday, President Cyril Ramaphosa held a meeting with six members of his delegation to the Russia-Africa summit. Among Ramaphosa's key advisers on this trip were former North West premier Supra Mahumapelo, a fervent Jacob Zuma supporter who defended his man throughout the state capture years, and Obed Bapela, the man who led South Africa's defence of the Sudanese murderer Omar al-Bashir.

After their meeting, the participants stood in a line and sang a 108-year-old anthem of the labour movement:

Solidarity forever!

Solidarity forever!

Solidarity forever!

For the ANC makes us strong!

Solidarity Forever wasn't being sung in solidarity with workers, as was the intention when it was composed. It was in solidarity with Russian President Vladimir Putin and his war on a sovereign state, Ukraine. It was in solidarity with Putin and everything he stands for: clamping down critical voices in society by jailing opposition political players, shutting down media outlets except those that slavishly follow his line, and breaking international laws that demand respect for the sovereignty of others.

Ramaphosa sang lustily but clearly did not stop to consider that while he cavorted with his delegation in St Petersburg, a crucial element of South Africa's democracy was not there. The media outlet Daily Maverick had its accreditation to cover the summit revoked by Russian authorities last week. That meant veteran correspondent Peter Fabricius, who has covered foreign affairs for over 30 years, could not travel to the summit to report on what our president and his delegation — the people we voted for and pay with our taxes — were doing there.

The South African government did nothing about this outrage. Instead, Ramaphosa and his delegation went to the summit, shook hands with Putin and got told that the Russian leader will continue bombing Ukraine, thank you very much.

Let me be very clear and serious now. This is a dangerous development for our country. To borrow Clem Sunter's terminology, this is a red flag — and an extreme one at that. We ignore it at our peril.

This is a major red flag. We are allowing Russian intolerance to infect our democracy

When Russia believes it can tell South Africa which journalists can cover our president and our government's actions, when that country presumes it can choose who covers it and how, and we say and do nothing about it, we are in trouble. We have built this country these past 30 years because we did not want

to be like the Russians today or the apartheid state, both of which banned and jailed and killed journalists. We are an open democracy with a diverse, independent and free press. We do not have a single journalist in our prisons.

When people like Jacob Zuma tried to suppress the media in the early 2010s, the country stood up against his media tribunal. That's not the case in Russia. In April this year The Moscow Times quoted data from international press freedom organisation Reporters Without Borders, saying that as many as 22 journalists were imprisoned in Russia for their work.

Certain values are non-negotiable for South Africans. We are sticklers for the rule of law, for example. For us it is a complete no-no for anyone to invade a sovereign country and violate its independence. That's because we believe in the rule of law. That is why our country made a stink when Zuma assisted Bashir to escape being arrested for his war crimes — we were following the international laws we had agreed to by signing the Rome Statute. Most importantly, we believe in a free press.

The silence of the South African government when Russia banned Daily Maverick from attending this summit is not just of concern. It's outrageous. If our leaders took our democracy and themselves seriously, they would have immediately made South Africa's displeasure known to the Russians. Did they? No. Basically, Russia can target a South African media house and journalist and Ramaphosa will roll over and accept it.

It may seem a small point to some, but it is not. Destruction starts small, with a banning like this, and then, before you know it, your country is gone. This is a major red flag. We are allowing Russian intolerance to infect our democracy. South Africa's silence means our country is being turned from an open democracy to the closed dictatorship of a Russia, a place of fear.

9 Reasons Why Gold Will Soon Replace Treasuries as the Ultimate Store-of-Value Asset

by Nick Giambruno

In the age of fiat currency, the distinct concepts of saving and investing have become conflated and confused. Saving is producing more than you consume and then setting it the difference aside.

Investing is allocating capital to a productive business to create more wealth. Investing has more risk—and potential reward—than saving.

Today, however, what most people think of as saving is actually investing. That's because most people take the excess of their production over consumption and put it into the stock or bond market. Most people understand that it's not optimal to simply hold fiat currency, which the central banks continuously debase. So they put their money into other assets, primarily bonds and stocks.

In other words, fiat currency and inflation have ruined saving for most people. It has forced them further down the risk curve into stocks, bonds, and other investments in a struggle to maintain their purchasing power. However, there is no guarantee those investments will even keep up with inflation. But suppose they do. They will then be subject to a capital gains tax, even if it's only a nominal gain, not a real one.

That means savers face the daunting task of not only keeping up with inflation but also outpacing the capital gains tax on the nominal gain just to maintain their purchasing power.

That's made saving an impossible task for most.

Before the era of easy-to-produce fiat currency, people could simply save in money, which was either gold or a derivation of it. There was no need for a dentist, construction worker, or taxi driver also to become a hedge fund manager to try to keep their head above water.

That's how the fiat era monetized stocks, bonds, real estate, and other assets that wouldn't have otherwise been. For example, 50 years ago, the market cap of all the gold in the world was roughly equal to the market cap of all the stocks in the world. Today, the market cap of gold is about 10% of the world's equities. It's an indication of how capital that used to be allocated to saving in gold became allocated to the stock market instead.

That doesn’t mean there isn’t a legitimate place for stocks, bonds, and real estate—there certainly is. It’s just that people would use them for investing—or, in the case of real estate, its utility value—and not as savings vehicles. Bonds in general and Treasuries in particular, became the "go-to" savings vehicles to store wealth in the fiat era.

However, I think that will change soon as bonds will be incapable of storing value in the face of financial repression. With 2022 being the worst year for Treasuries in American history, the shift away from bonds has probably already begun. That means a lot of the capital parked in bonds will be looking for a new home that functions as a better store of value.

Gold has been mankind’s most enduring store-of-value asset because of its unique characteristics. Gold is durable, divisible, consistent, convenient, scarce, and most importantly, the "hardest" of all physical commodities. In other words, gold is the one physical commodity that is the "hardest to produce" (relative to existing stockpiles) and, therefore, the most resistant to debasement.

Gold is indestructible, and its stockpiles have built up over thousands of years. That’s a big reason why the new annual gold supply growth—typically 1-2% per year—is insignificant. In other words, nobody can arbitrarily inflate the supply. That makes gold an excellent store of value and gives the yellow metal its superior monetary properties.

People in every country of the world value gold. Its worth doesn’t depend on any government or any counterparty at all. Gold has always been an inherently international and politically neutral asset. This is why different civilizations worldwide have used gold to store value for millennia.

From a historical point of view, using government bonds as a savings vehicle is a relatively new concept. As it fades, I expect people will rediscover the world’s premier store-of-value asset: gold.

It’s already starting to happen in a big way…Last year, central banks bought roughly 37 million ounces of gold — a multi-decade record.