Our Weekly Paid Newsletter
Richard Cluver Predicts
In our 36th year of service to the investing public of South Africa

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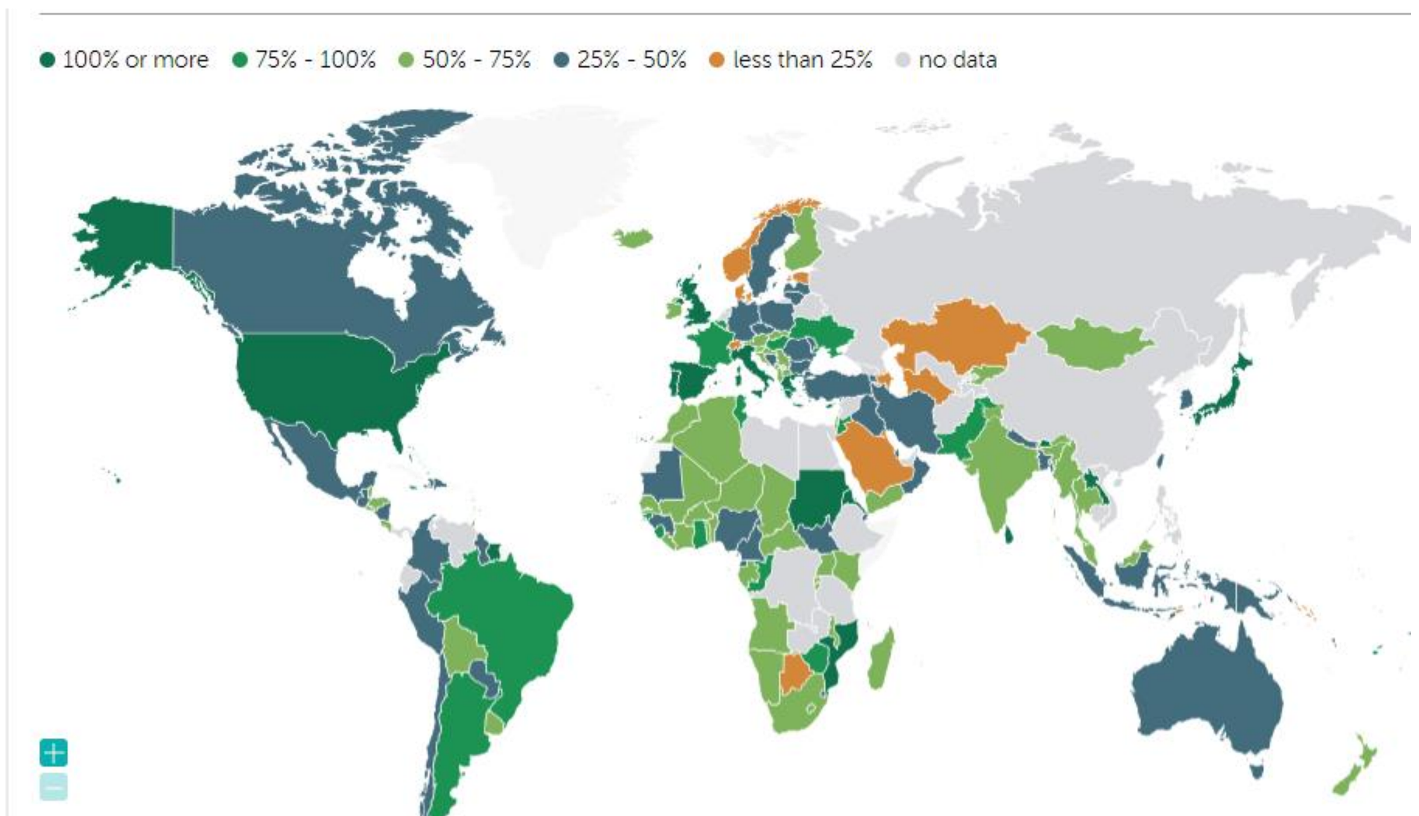
I listened this week to a British economist describing the Israel/Palestine war as a third wave of economic crisis, arguing that nations can cope with the occasional blow to their economies provided they happen in isolation. But when they come in waves such as the world has experienced since Covid decimated global supply chains and sent debt levels soaring, followed swiftly by the disruption of the Ukraine campaign.....and now Israel....it's simply another story!

The real problem blighting the world is government debt:



The International Monetary Fund graphic above illustrates in shades of green every nation on earth whose government debt is now unsustainable. Need I say more!

Government debt is, of course, the money successive administrations have had to borrow over and above the money they collect from us in duties and taxes. But the trouble is that as the debt burden of individual nations rises above the levels of sustainability, interest rates climb in parallel which ripples to the local cost of borrowing. That is why, if you have a mortgage or HP debt, your monthly repayments inevitably soar.

And it does not end there because businesses which provide you with the staples of life mostly use long-term debt to provide the machinery of their operations and so the costs of everything we consume rise just

as inevitably until the entire community becomes overwhelmed. Debt repayment costs then begin to overwhelm nations, crowding out the costs of maintaining everything from our roads and sewers to our own homes and, most of all, it robs business of the ability to grow and create additional jobs for societies like ours where the national birth rate exceeds mortality.

Economic stagnation is thus as inevitable as the social unrest which normally follows. The lucky nations historically are those which manage to transition their political systems without violent revolution: without coups and military juntas and the loss of personal liberty that such processes virtually guarantee. The problem with this latter route is that it has seldom resulted in the buy-in of the majority and those in control have usually put personal prosperity as a greater priority than the needs of the public as a whole. That is why we have so frequently seen the downward social welfare spiral that has characterised so many post-colonial African nations.

So is there an alternative? Well one way is to recognise the route you are on and, before your national debt overwhelms you, use your remaining debt capability to switch your economic priorities towards growth at the expense of populist programmes. As the George W Bush Institute recently noted, "*Among historical great powers, 18th and 19th century Britain offers the most compelling example of fiscal consolidation. Britain emerged from its failed war in America and its victorious war against Napoleonic France with extraordinary debt levels, but exercised spending restraint and rapidly reduced indebtedness after both conflicts. It then maintained a political consensus for fiscal discipline for 100 years, even through imperial expansion and growing spending on Victorian Era social programs.*

"Evidence that fiscal consolidation can succeed in modern democratic societies comes from Sweden, Denmark, and Finland, which experienced severe crises in the early 1990s after two decades of galloping growth in social spending. In each country, parties across the ideological spectrum reached consensus on fiscal prudence and began long processes of thoughtfully reforming their welfare states.

"Sweden has reduced its debt/GDP ratio from 70 percent to less than 30 percent, while Denmark has achieved zero net indebtedness after counting government assets. Fiscal restraint commands 80 percent-plus public support throughout Scandinavia today.

*"Closer to home, Canada reduced its debt/GDP ratio from 64 percent in 1997 to 31 percent in 2016 – roughly the inverse of America's move from less than 40 percent in 2008 to 79 percent today. Canada's achievement also reflects the emergence of a new political consensus after an early 1990s recession. Like Denmark, Canada has experienced faster growth in living standards than America since the late 1990*s.

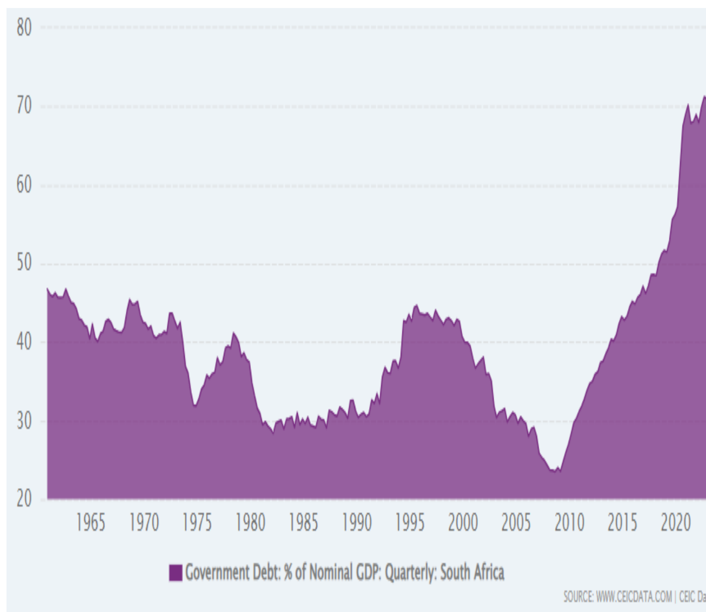
Care to go back to that world map with which I started this column and you might now notice that the abovementioned nations stand out as some of the few not coloured green. Notably too, global polls have long highlighted these as the "Happy Nations" where the majority of citizens are comparatively happy with the governments that administer their lives.

They also deliver high levels of social welfare to their people. In this regard, if for example, the level of gender violence is a fair measure of the desirability of living in a country then it is perhaps no coincidence that the nations with the highest levels of gender violence are Yemen, Senegal, Oman, Cameroon, and Uganda while those with the lowest levels are the same northern European countries together with Canada, and Malta.

Can South Africa pull back from the brink? Our situation is indeed dire, but it could be a lot worse. Economic theory suggests that any developed nation with a debt to GDP ratio exceeding 80 percent (and 60 percent in emerging economies like South Africa) will be unlikely to repay what it owes by conventional means like austerity or accelerated economic growth programs which place ALL social welfare on the back burner. The IMF table on the right thus neatly explains why the world is in trouble.

Country	Value
France	92.15
Germany	45.95
Italy	140.57
Japan	214.27
United Kingdom	100.75
United States	110.15

South Africa's government debt to GDP ratio – see the graph on the right - has exploded almost uncontrolably since Jacob Zuma's administration ushered in State Capture and industrial-scale corruption which has stripped our state-owned enterprises of their assets and left the economically-central ones like Eskom and Transnet floundering without leadership because of internal political faction battles.



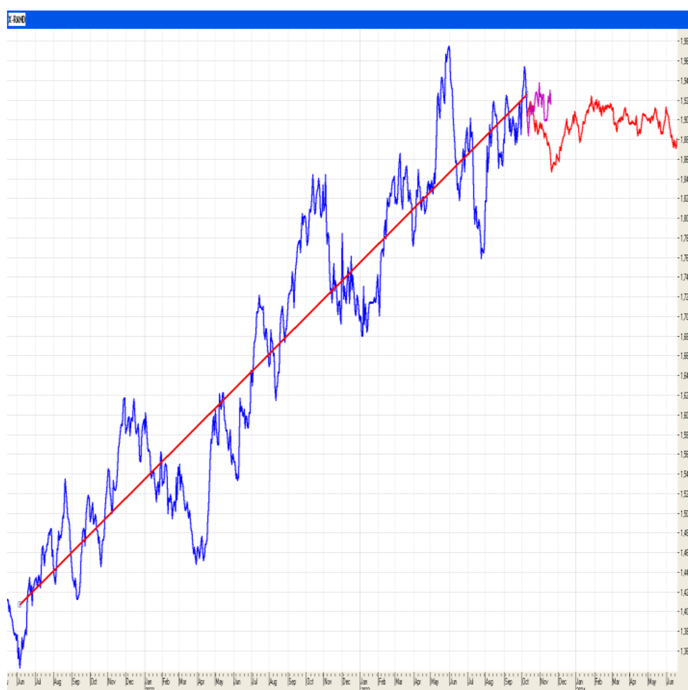
Government debt amounted to 72.7 percent of nominal GDP at the latest accounting in June and so, in simple terms, we are on the brink with no time left to change our ways.

The same problems are overwhelming our municipalities where, as most of us are painfully aware, latest figures suggest that only five percent are financially stable while only 38 out of 257 achieved clean audits in the 2021-22 audit outcomes report. Of those 38, 23 were DA-run which, hopefully suggests that if the latest polls are correct and that a DA-IFP coilition could take control next year, there is still a chance we could begin the re-build before chaos overwhelms us!

This fact has, furthermore, critical consequences for South African investors. JSE and Bloomberg data indicates that foreign investors who fear the imminent collapse of our economy have been dumping South African assets, with the JSE recording net outflows from stocks of R67 billion in 2023 and R123 billion outflows from its bond market.

We are not the only developing nation to face such selling, but our load-shedding and Transnet logistical collapse are clearly exacerbating an international view that South Africa is close to economic implosion.

This week's dramatic resignation of Eskom chair Mpho Makwana out of sheer frustration because of political meddling in which Minister of Public Enterprises Pravin Gordhan's name seems to figure prominently, is thus a high probable cause of the latest weakening of the Rand.



It has, however, been simply a small blip on the road to disaster highlighted by the graph on the right which shows how the rand has lost ground at a steady compound annual rate of 14.3 percent to the US Dollar since June 2021 when our debt levels first began to attract global investor attention. ShareFinder's medium-term AI projection in red on the right of the graph does, however, suggest there is a cyclic probability of some recovery and, interestingly, a more pronounced recovery trend beginning in the New Year.

These local events are, of course, also a function of the international economic picture which, if you read my Prospects Newsletter this month, strongly suggest that the world as a whole is now on the brink of momentous change. As I have repeatedly observed, the old monetary system of regularly-recurring boom and bust scenarios which are the result of political meddling with the monetary

system, cannot be allowed to endure. How is it possible that the only effective way mankind possesses of long-term monetary maintenance is to regularly put men out of work; of using high-interest-rate-induced recessions to cure monetary delinquency.

To take that point to its simplest outcome, why must the starving poor of Third World countries be obliged by inflation to pay more for a loaf of bread because the US Federal Reserve printed more dollars than US GDP growth justified? If ever there was a need for a global monetary system that was beyond the manipulative powers of individual nations, now is that time!

Going back to that British economist whose views I opened this column with, if the Israel/Palestine war is just another economic blow which, like the ten which successively plagued Egypt three thousand odd years ago: in Biblical recording a succession of water turning to blood, frogs, lice, flies, livestock pestilence, boils, hail, locusts, darkness, and the killing of firstborn children – and perhaps their modern equivalent of pandemic disease, global warming, meteor-strikes, tsunamis and a few other horrible wars, not to mention the ultimate horrors of rogue nations tossing nuclear weapons around: our current monetary system simply cannot survive.

My final graph which tracks 27 years of monetary mismanagement during which the world's central banks printed more money than their slowing economies allowed for. That in turn reduced money to an oversupplied commodity which is why long bond yields fell steadily throughout as delineated by the red trend line superimposed upon a graph of US 30-year bonds with that line indicating a compound annual average rate of decline at minus 4.8 percent.

Its inverse is represented by the 6.8 percent compound annual average gain of the green trend line superimposed on the lower graph on Wall Street's S&P500 share value index.

For those who set store by technical analysis, I have also drawn brown support and resistance lines onto the graphs to suggest how much the S&P might have to unravel in order to correct the monetary oversupply. Most economists would completely disregard such an approach because it implies that Wall Street shares could lose nearly four fifths of their value in the event of uncontrolled monetary panic overtaking the markets.

Hopefully it will not come to that. But the question remains, how deep needs the crisis to extend before the world forces vested interests to come to their senses and craft a better way of managing monetary value; one that will ensure that the most vulnerable in our society do not always pay the price of economic recessions and depressions, not to mention the blood that inevitably flows when the social fabric of societies gives way?

The month ahead:

New York's SP500: I correctly predicted the recovery which, with some hiccups in November and January, is set to continue to late February.

Nasdaq: Ditto the Nasdaq which I correctly predicted would surge up until the second week of November, retreat until December and then surge again to the end of January.

London's Footsie: I correctly advised that short-term pressure had been building for another very brief up-surge. Long-term however, the expectation is for a very volatile period that will result in an overall decline well into the new year.

France's Cac 40: I correctly predicted that the overall decline could be expected to last until the middle of the New Year, I also correctly highlighted that short-term pressure would cause a brief recovery until early-November.

Hong Kong's Hangsen: I correctly noted that pressure was building up for a two-month recovery which is now under way and should last until the end of November ahead of a long decline to the end of March.

Japan's Nikkei: I continue to warn of a long-term weakening trend which I expect to last until next May. Within that I correctly predicted a brief recovery until year-end.

Australia's All Ordinaries: Optimism briefly trumped the current pressure for weakness which now seems likely to continue to the end of this month ahead of a protracted recovery until the middle of the New Year...but watch out for interim weakness between mid-January and mid-March.

JSE Top 40 Index: Like the rest of the JSE the Topi has been in decline since late January. So there was some surprise when I predicted gains until mid-February followed by fresh weakness until June.

ShareFinder JSE Blue Chip Index: I correctly predicted gains which I still see lasting until mid-November followed by declines to mid-January when gains should follow until mid-March.

Rand/Dollar: I correctly predicted gains beginning this week and I still see them lasting until late-November followed by weakness until year-end and then further gains for most of 2024.

Rand/Euro: I correctly warned predicted that present weakness would not last and I continue to expect a long recovery until March.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.99 percent. For the past 12 months it has been 90.76 percent.

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