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Folk who have been hoping that interest rates might soon go into retreat – either because they have taken long bond positions and are hoping to score a quick capital gain or because they are struggling to meet the monthly cost of the household mortgage – were dealt a body blow this week because affluent Americans are continuing to spend as if there were no tomorrow.

It is a bitter truth that ordinary folk everywhere, and that means over 7-billion of the world's 8-billion population, are today experiencing economic hardship because of the dominance of the US Dollar in international trade and its manipulation by the US central bank to serve the narrow interests of US politicians. It's given ordinary Americans a boost at the expense of the rest of the world and it is unlikely to change soon; but it's important to put on record!

To get a feeling for the extent of the problem, DebtBusters reported last month that 70 percent of South Africans who responded to a survey they were conducting indicated that they were suffering economic stress. Of these, 72 percent were spending more than 30% of their take-home pay to repay debt.

Meanwhile, Standard Bank has noted that home loan impairments are at elevated levels on the back of the ten consecutive interest rate increases in the past 18 months, which have pushed banks' prime lending rate from 7% to 11.75%. Absa, the second-largest home loan lender in South Africa after Standard Bank, this week reported a 258% year-on-year surge in credit impairments in its R298bn mortgage book for the six months to June — from R272m to R975m.

Nedbank has reported a 57 percent increase in debt impairments and, as I have often explained in this column, at the heart of the problem has been the deliberate action of the US Federal Reserve's "quantative easing" process which has over the past 30 years effectively created trillions of dollars of new money out of thin air. The effect of it was to drive down interest rates to the extent that bond investors were effectively having to pay borrowers to take their money; because bond yields as a consequence fell far below global inflation levels.

The root cause has been the US Government's inability to live within its means and so the purpose of the US Federal Reserve money-printing exercise was to try and keep a lid on the rising cost of servicing the US Government's ballooning debt. Printing excess amounts of dollars made them an oversupplied commodity with, because of the laws of supply and demand, drove down the cost of money.

Initially, the inevitable inflationary consequences were masked by the industrialization of China. But in recent years inflation has exploded on a global scale. Simultaneously, governments have been extracting ever-increasing amounts of tax in order to service their own growing debts with the inevitable result that, as the world's central banks have been obliged to push up interest rates in order to try and ward off the threat of hyperinflation, business has become starved of working capital and ordinary citizens of discretionary income. Together, these trends promise planet earth a pandemic of that most dreaded of all economic phenomena, "stagflation."

All across Planet Earth, the financial community has consequently been watching in hope that the Fed's "war on inflation" might be a short, sharp event because, long experience of monetary inflation is that if it cannot be contained in the short-term, second-round effects begin to take over. Once labour unions start pushing for inflationary wage increases and manufacturers start building in an inflationary margin into their costings, inflation tends to become an enemy dug in for a protracted confrontation.

Initially too, it looked as if the opening salvos of the battle might have been successful. Official US inflation numbers have been falling quite rapidly as my first graph illustrates. Critically, the average US inflation rate for the past century has been 3.3 percent with a mean of 4 and so when the July CPI went to 3.2, the world held its breath in hope. But then in August it tripped up to 3.7 and it held steady there last month, but core inflation fell to 4.1 percent from 4.3.

So all eyes are on associated data to see, because if, in the longer term, CPI can hold below mean, the better the long-term outlook becomes; not only for US consumers, but even more so for embattled consumers everywhere who are the unwitting victims of what is playing out in the USA. And that is why hearts skipped a beat this week when retail sales data came out indicating that sales figures were up 0.7 percent from August 2023, and up 3.0 percent above last year. Non-store retailers were up 8.4 percent from last year, while food services and drinking places were up 9.2 percent from September 2022.

Clearly the Federal Reserve still has work to do in the battle against inflation, which remains well above its 2% target and so Fed Chairman Jay Powell has signaled that rates could stay "higher for longer" and that further hikes remain on the table. Be mindful, this is no change of attitude by the Fed but what has changed dramatically in the past few weeks has been a sharp rise in US Treasury yields, with 30-year yields peaking at 5.05 percent on October 6 which is the highest level since 2007: thus signaling that the investing public does not consider the fight over by any means. All this week they have hovered between 4.97 and 4.74 and this narrow range has been closing steadily.

The yield increase has obviously raised borrowing costs significantly and this could in turn slow US economic growth and push inflation lower without the Fed having to further raise rates. Investors are, furthermore, well aware that Jay Powell has in his most recent statements kept open the option to further raise rates before the end of the year?

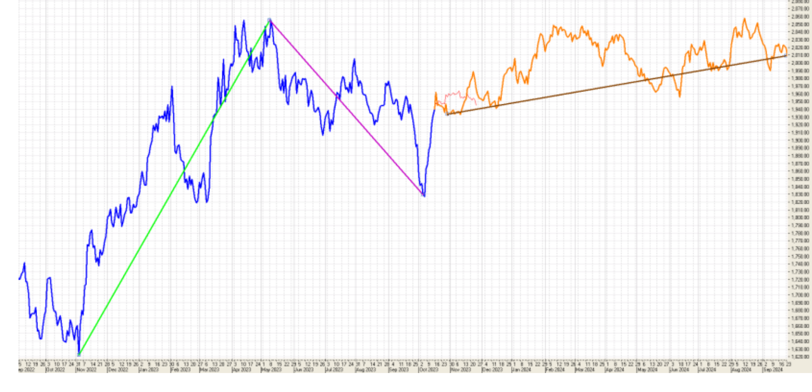
As my second graph on this page thus indicates, ShareFinder clearly at this stage thinks yields could go either way in the immediate future with the (yellow) short-term projection suggesting that 5.35 percent is possible by the end of November though the medium-term (red) projection senses a protracted decline at least to August levels.

But other indicators make it clear that markets remain fragile as they try to digest the likely consequences of the Israel/Palestine war and the massive amounts of disinformation surrounding it in this new era of cyber bots operating from dark spaces all over the planet: it's an era not unlike that which preceded World War 2.

Back then anarchists and others whose direct agendas had little to do with the main focus event, latched onto whatever cause was top of the news at any particular time in order to pursue their own narrow causes. And given the pervasive nature of the internet, the decline of the mainstream Press and the reality of cell-phone chat groups, the world has grown infinitely more complicated to understand today.

That is why fundamental indicators of monetary movement are becoming increasingly important if you want to try and penetrate the darkness!

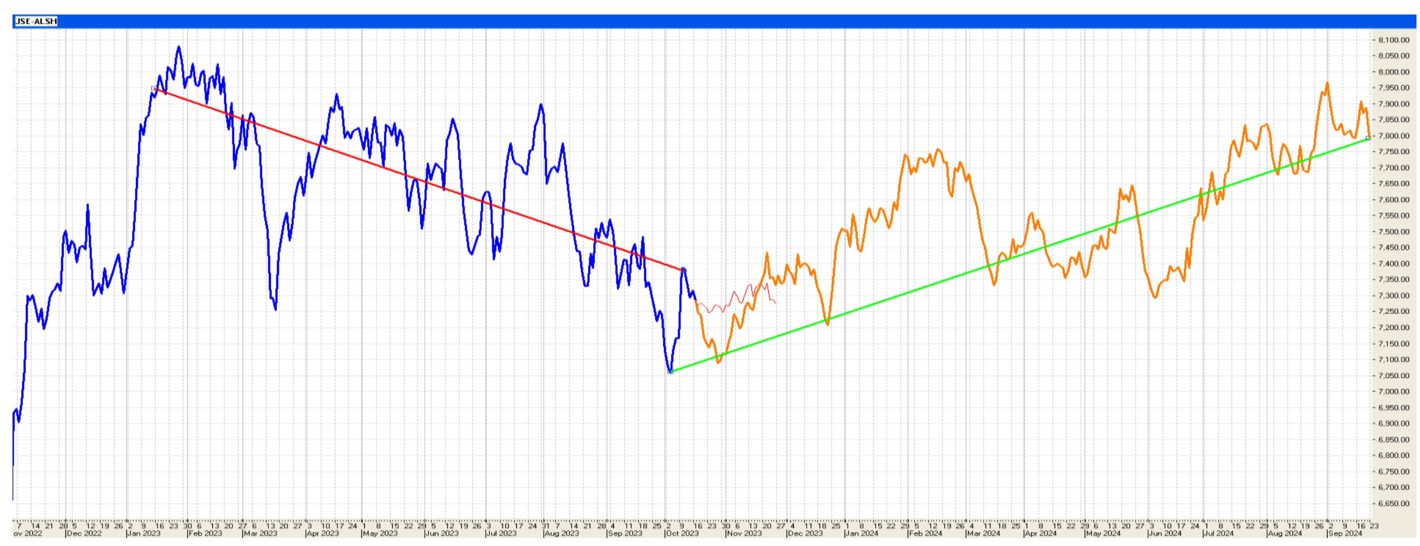
So, for example, it is important to note that Gold, after being in retreat since early May, rose sharply from October 6 to hit a four-week high this week and oil reached a two-week high after a blast at a hospital in Gaza led to the cancellation of a summit organised by Jordan (which was to have included US President Joe Biden). Brent crude was trading this week at US$91.11/barrel while spot gold was trading at US$1937/oz.



Furthermore, as my third graph suggests, ShareFinder thinks that the gold price is likely to continue rising well into the New Year as the world digests the latest twist in the ultra-long-running Middle Eastern Saga where few observers expect any quick solutions to an intractable situation that has been 75 years in the making.

Reportedly the majority of Jews worldwide were opposed to the creation of the State of Israel in 1919 because, they argued, Judaism was a religion not a nationality. But let me not go down a road where angels fear to tread except to note with some relief that President Ramaphosa went some way this week to back-track on his party's last weekend stance that the Israelis had it coming to them. Perhaps he has learned a little from the global reaction to his party's stance on the Ukraine invasion!

Meanwhile, the good news is that ShareFinder has identified strong cyclic pressure for a JSE rebound if only some politicians could give South Africans something to feel good about....or the Boks winning the World Cup! My final graph suggests that given a dollop of good tidings the JSE could launch into a protracted climb at compound 10.6 percent as outlined by the green trend line in my final graph:



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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.

Hong Kong's Hangsen: I correctly noted the start of 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. I did not, however, foresee this week's brief weakness.

Japan's Nikkei: I continue to warn of a long-term weakening trend which I expect to last until next May. Within that I predicted a brief recovery until year-end but did not anticipate this week's very brief decline.

Australia's All Ordinaries: I correctly identified **a** protracted recovery until the middle of the New Year...but watch out for interim weakness between mid-January and mid-March. Seemingly Palestine barely mattered to the Aussies.

JSE Top 40 Index: I correctly predicted the start of gains until mid-February followed by fresh weakness until June. Currently the brief retraction in sympathy with most of the world markets will likely be over between the 24th and the 27th.

ShareFinder JSE Blue Chip Index: I did not expect this week's weakness but still expect gains lasting until mid-November followed by declines to mid-January when fresh gains should follow until mid-March.

Rand/Dollar: I correctly predicted the start of long-term gains which I saw lasting until late-November followed by weakness until year-end and then further gains for most of 2024. This week's brief weakness is likely a mere passing show.

Rand/Euro: Ditto the Euro. I 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.

with **Tim Cohen**

Monday, 16 Ocrtober 2023

The markets in three words
Gaza, oil, hostages

Recently I've been thinking about hyperbolic overstatement. If you are trying to convince someone of something, does it help (or hurt) to become frantic, emotional, angry, or panicked? Or does it help (or hurt) to be steadfastly rational, thoughtful, fact-based, and dispassionate.

Most people, I suspect, would prefer the latter. It just seems more adult, more mature, and more constructive. I agree of course, in most circumstances, but what if that doesn't work? What if a rational approach inadvertently suggests the problems are not quite as bad as they actually are? What if you are making it worse by being inappropriatly sanguine?

The master of hyperbolic overstatement in the entertainment industry is Rowan Atkinson, whose scripts like Blackadder and Mr Bean are filled with analogies and comparisons which are so extreme, so wildly mad, they are just hilarious. For example, a rational person might say that Blackadder's imbecilic side-kick Baldrick's brain was "undersized". But Blackadder says, "**Baldrick, your brain is so minute, that if a hungry cannibal cracked your head open, there wouldn't be enough to cover a small water biscuit**."

Think of criticising leadership? Some might say, government has made "an unfortunate policy choice". Blackadder says, "**There hasn't been a war run this badly since Olaf the hairy, King of all the Vikings, ordered 80,000 battle helmets with the horns on the inside**."

And then, of course, there are always ways to escape a tough situation, sometimes known as "cunning plans". However, Blackadder is picky: **"Baldrick, you wouldn't recognise a subtle plan if it painted itself purple and danced naked on a harpsichord singing 'subtle plans are here again'.**" Classic.

Anyway, the question arises because frankly, I think **we are well past the point where we should have started to panic about the state of the economy.** Even more, I can't help wondering why it is that so few people are panicking now that we find ourselves in a situation that obviously requires dramatic, immediate action.

Worse than that, some economic actors in South Africa are actively arguing that people are trying to manipulate the situation by panicking, most notably, the Treasury. In fact, the situation is, you know, not perfect, but generally it's fine. And they have numbers.

The best example is a paper put out last week by the fiercely left-wing Institute for Economic Justice, asking the question in reference to the SA Medium-Term budget Policy Statement to be released early next month, whether SA is heading for a fiscal crisis. The answer they come to is "no", and that **those calling for fiscal restraint (they would call it "austerity") are needlessly and callously trying to do physical harm to the poor of South Africa. The fools!** This is the Treasury of the national government they are talking about.

The Treasury itself, they say, concocted this so-called crisis by budgeting badly, particularly by not including a large public sector wage increase in its plans. "National Treasury should have budgeted for items included in the overspend and if this overspend is a 'crisis' then it is one entirely of National Treasury's own making", the paper says. **I am not making this up.**

The group does agree there will be a huge expenditure overrun this year, around R68-billion. But, it says, this is absolutely in line with historical overspends. **That just cracks me up**. Think of the logic. Because this overspend is similar to previous overspends, it's not a problem. Magic! **Where is Rowan Atkinson when you need him?**

The fact is that no amount of international comparisons, dubious data, or numeric shenanigans can hide the fact that there is a big, big problem here. Over the past 15 years, the SA economy has been growing at barely 1% a year and its population has been growing at about 3%. **We are all getting poorer.**

Of course, SA did have isolated years of under-budget expenditure, particularly when commodity prices were running. However persistent and large over-budget expenditure is a very distinct feature of the Zuma and Ramaphosa administrations, which argue a government that fundamentally misunderstands the economy and is losing financial market credibility. **You can see that most obviously in the roughly 20% increase in the cost of government debt in just three years!**

The Institute for Economic Justice claims SA's debt-to-GDP ratio is not out of kilter with a basket of developing market countries. Maybe, but concern over debt levels is a function of economic growth. If SA was growing at, say, aggregate African levels of growth, you could argue SA should take on even more debt! But we are not. SA is growing at less than the developing markets in Asia, Africa, South America and the world average, etc. This fact doesn't feature in their analysis at all.

So I come back to my question: why are all of SA's plethora of economists, most of its policy wonks, and definitely anyone associated with the government, not panicking? I think they actually are, but just can't say anything publicly. If you live in a single-party dominant state, openly disagreeing with government is extremely risky. You have government sign-offs to worry about, licensing regulations, and you rely on the government to provide infrastructure. You have to ask, how will my criticism improve things, and that's a very hard thing to rationally argue, because this government is going to be the next government and next, and so on.

To put your position in peril by telling the truth could be irresponsible to your shareholders. So you make suggestions. You try and help. You engage. And hope. But you certainly don't put your head above the parapet.

But behind the scenes, quietly, you are panicking.

Happy investing.

Tim Cohen