Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 37th year of service to the investing public of South Africa

Volume: 37 - Issue: 11

15 March 2024

Confounding hopes that US inflation is under control – and by implication the hopes that most of the Developed World whose investor class dictate the health of stock exchanges will remain positive – the February inflation number ROSE!

As the New York Times reported things this week, *'The fresh data underscore that fully returning inflation back to a normal pace is likely to be a bumpy process — and backs up the Federal Reserve's decision to proceed carefully as officials consider when and how much to lower interest rates.*

The Consumer Price Index climbed 3.2 percent last month from a year earlier, up from 3.1 percent in January. That's down notably from a 9.1 percent high in 2022, but it is still quicker than the roughly 2 percent that was normal before the 2020 pandemic.

After stripping out volatile food and fuel costs for a better sense of the underlying trend, inflation came in at 3.8 percent, slightly faster than economists had forecast. And on a monthly basis, core inflation climbed slightly more quickly than anticipated as airline fares and car insurance prices increased, even as one closely watched housing measure climbed less rapidly.

Taken as a whole, the report was the latest sign that bringing inflation fully down is likely to take time and patience.'

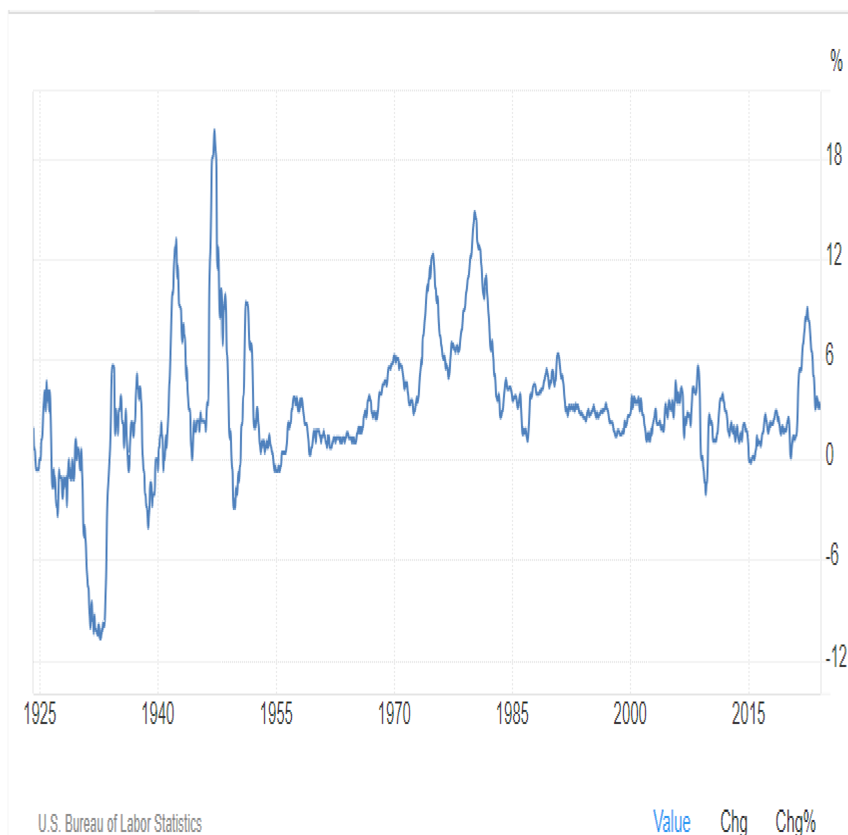
Long-time readers are well aware of my concerns about US custodianship of the world's monetary system which was handed to it in the closing stages of World War 2 when most Western nations were war-torn and totally cash-strapped. The US, by contrast because of its late entry into the war and massive industrial capacity, had profited mightily from the war and the greenback dollar was consequently overwhelmingly strong.

That Bretton Woods Agreement custodianship made the dollar the world's reserve currency, and until the mid-1970s the US Federal Reserve did, at least verbally, try to preserve the fiction that the Dollar was backed by gold in Fort Knox. The signatory countries at Bretton Woods had after all

Published by ShareFinder International
http://www.sharefinderpro.com
richard@rcis.co.za

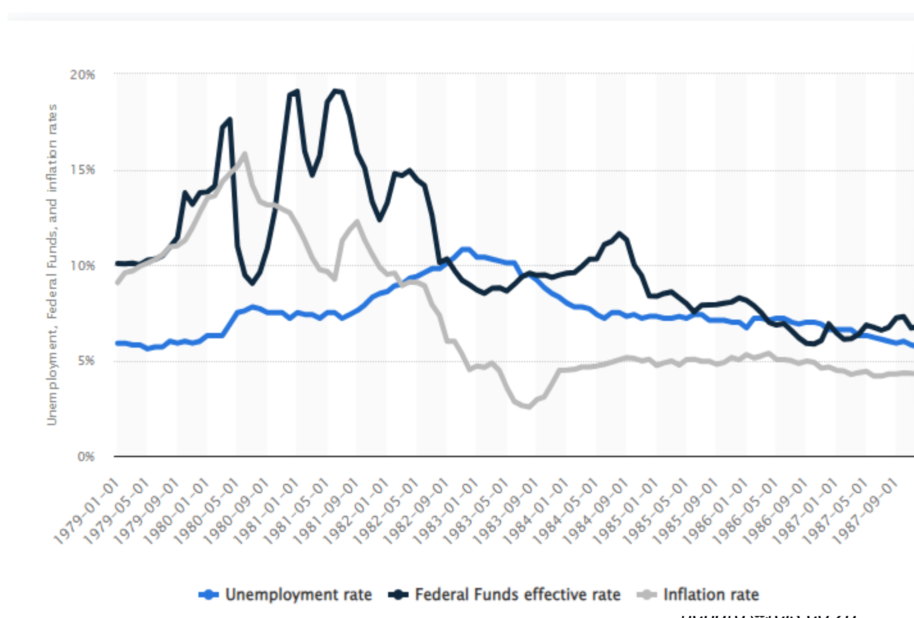
agreed to, "... keep their currencies fixed but adjustable (within a 1 percent band) to the Dollar, and the Dollar was fixed to gold at $35 an ounce."

Now it is clear that, had that agreement held true to the letter until today, the explosion of world trade which bought us to the current 'global village' situation with its massively-profitable trade flows, would probably have been impossible. Nevertheless, if you care to calculate it out, at today's price of $2 171.30 the implied consequence of the US failure to strictly adhere to its $35 undertaking is that the US has effectively printed dollars at a compound annual average rate of 5.23 percent greater than its growth of gold reserves throughout the intervening 80 years which, surprise, surprise if you care to study the graph on the right, courtesy of the US Bureau of Labour Statistics, it precisely illustrates that 5.23 percent was also more or less identical to the official average US inflation rate over that whole 80 year period: That's why gold remains the ultimate store of wealth and why, furthermore, governments probably cannot be individually trusted to manage monetary systems.



Here let us pause for a brief history lesson, noting that, when the agreement was signed, the US was enjoying an annual inflation rate of 0.6 percent but, driven by a post-war boom it then soared by March 1947 to a peak of 19.7. In the subsequent harshly-enforced recession, inflation then fell all the way back to negative 2.9 percent by August 1949. Then the 'stimulation' began again in earnest and, with more dollars spewing out of the Fed, inflation quickly took hold and it soared to another peak of 14.4 percent in May 1980 by which time ordinary folk in countries like South Africa were fighting inflation rates which here peaked at 20.7 percent in January 1986 and mortgage rates which peaked at 25.5 percent in August 1998.

Tamed by another dose of harsh Federal Reserve action in the 1980s - an event which became known as the Volcker Shock – inflation was brought under control again and a severely chastised US Federal Reserve remained quite responsible over the next 30 years during which time, as the graph on the right illustrates, inflation gradually trickled down to an August 2009 rate of negative 1.5 percent.



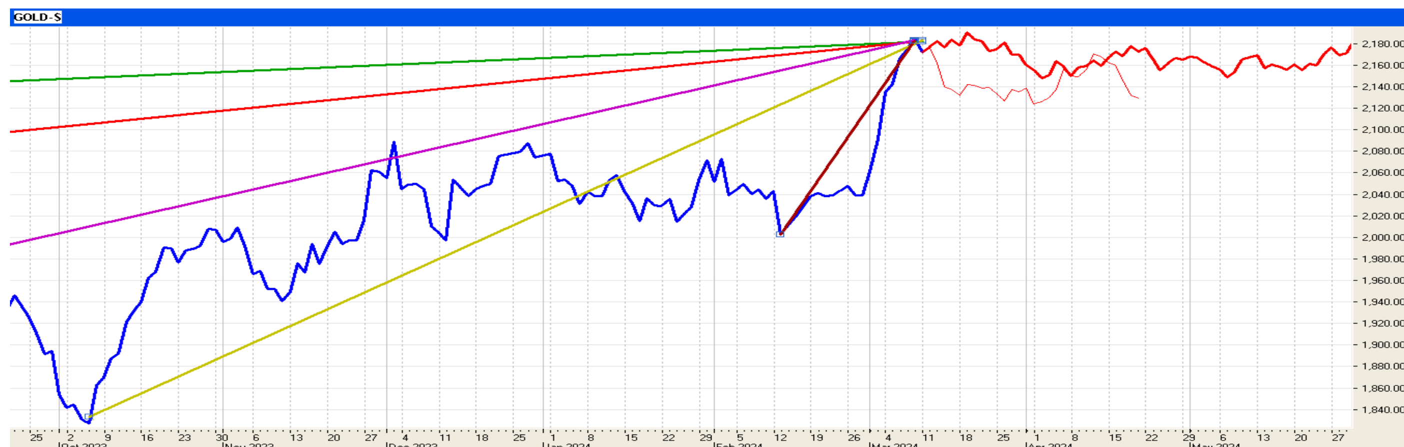
Briefly, in between, the irresponsible events of the great ‘Sub-Prime’ financial crisis - which to be fair was barely understood even by Nobel Prize-winning economists so perhaps the Fed’s liability was not so serious this time. Nevertheless that sub-prime explosion of credit that was largely created by the private banks, had culminated in August 2008 with an inflation spike up to 5.4 percent. But that was a separate story which, taken together with the recent and obviously necessary Covid stimulation, was undoubtedly to prove to be a fore-runner of current events!

So we cannot only blame the Fed. However, the important lesson to take away from this history is that at 3.2 percent – if you trust the controversial methodology of the US Bureau of Labour Statistics – the current US inflation rate is actually at an historically quite low level from which, once interest rates are officially lowered, the stage should be set for a very strong global economic recovery if, for a moment, we overlook the small problem of global debt. But these are not ordinary times!

Consider that if the gold price has in the past provided us with a fairly accurate picture of the true rate of monetary inflation over the long term, why is it suddenly soaring when it should be receding? Let’s consider the ShareFinder graph below which highlights that in recent years the gold price has been accelerating at an ever-increasing rate. The green trend-line from 1999 to the present - that is from the time when the US began printing dollars in order to rescue the Far East from monetary collapse – indicates a dramatically accelerated rate from the long-term 5.23 percent average to a new compound 9.1 percent

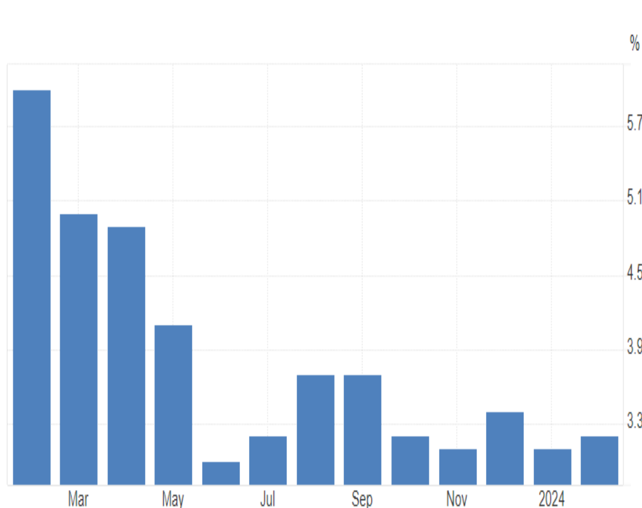
And the acceleration has continued. Note the steeper angle of my red trend line which underscores the fact that from July 2018 the gold price trend had accelerated to 11.6% compound and then finally, note the mauve trend line which since October 2022 indicates that gold has since then been rising at compound 24.1 percent.

And recently that gold price trend has begun to rise exponentially which suggests it is trying to tell us something important! Thus in my next graph I have blown up just the past five months from October last year when an interim price decline gave me another point from which to draw that yellow trend line which showed that the price was rising at compound 49.7 percent.



Which brings us to the present! Thus February provided some modest weakness until the14th. But since then gold has been rising once more at, note my last brown trend line rising at a compound annualised rate of 235 percent........that's a nearly vertical climb which in mathematical terms means the gold price has gone exponential which symbolises monetary panic.

So, if inflation in the US has been abating - note my next graph tracking the US monthly rates since last February for visual proof of that fact - why is gold going exponential?



U.S. Bureau of Labor Statistics

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

Well one might argue that the world is afraid that the Russian/Ukraine war followed by the Israel/Palestine crisis, and now the extraordinary fact that Donald Trump could again be headed for the White House, might be raising public anxiety.

But is that enough for exponential gold? Might the global community be fearing some sort of imminent catastrophe?

My concern is that the event I have long been writing about could perhaps be imminent. I refer of course to the nub issue I raised in my 2019 book **'The Crash of 2020**' – of a massive global debt default - might now be perilously close; the fact that the global debt of governments has begun rising exponentially and that it might tip the entire monetary system into chaos. The table on the right, courtesy of the International Monetary Fund, details the ratio of government debt of the world's six biggest nations relative to their respective GDP ratios.

Excluded is China whose figure is officially unknown: but one of the more authoritative sources, the National Institution for Finance and Development, notes that the macro leverage ratio which measures China's total outstanding non-financial debt as a share of nominal gross domestic product, rose to 287.8% in 2023; that's 13.5 percentage points higher than a year ago. The same institution claims the debt ratio held by households rose 1.3 percentage points to 63.5% while that of non-financial corporates increased 6.9 percentage points to 168.4%. None of those numbers are sustainable, even in the short-term!

China's central-planned economy might well be imploding in the wake of its dramatically failed 'Ghost Cities' stimulus policy of recent years. Avalanches begin slowly but then................!

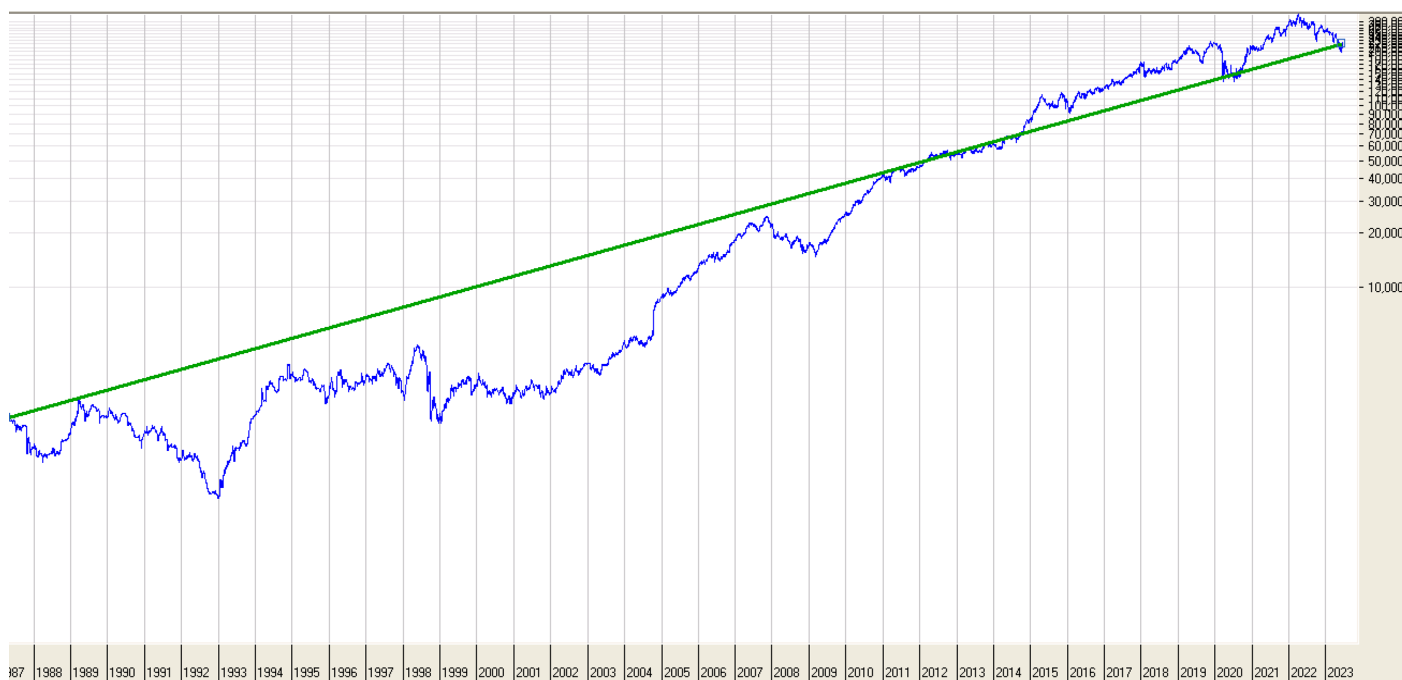
The stultifying impact of these numbers upon individual economies is well understood by South Africans in particular where servicing our debt to GDP figure – actually a comparatively low figure of just 74 percent as at last September - is now gobbling up a fifth of all tax revenue.

Arguably however, that 74 percent is a leading reason for our pathetically low GDP growth rate. Thus the question investors need to consider is how much more stultifying is it in other leading nations where the "cost of living" is the big reason why voters everywhere are demanding changes of government in this globally most significant election year?

In the US, according to the Heritage Foundation which has historically been ranked among its most influential public policy organisations, "*Interest on the federal debt is now so immense that it is consuming 40% of all personal income taxes.*

It further notes that, *"The largest source of revenue for the federal government is increasingly being devoted to just servicing the debt, not even paying it down."*

So, in the face of this, where does the small investor hide? Noting that it is largely impractical to hold gold itself, my safest haven has always been Blue Chip shares. My final graph thus illustrates how well the Blue Chips have held their value over the past 37 years, rising as the green trend-line highlights, at a compound annual average of 14 percent and delivering an average dividend of 3.7 percent offering small investors a remarkable total return of 17.7 percent.



Published by ShareFinder International
http://www.sharefinderpro.com
richard@rcis.co.za

Gold, by contrast only offered compound 5 percent when measured in dollars and 11.1 percent when measured in Rands.....and of course it also paid no dividends. QED, the South African investor would have been 59.46 percent better off having his money in Blue Chips!

The month ahead:

New York's SP500: I correctly predicted the beginning of weakness which is likely to continue until the end of March ahead of a brief recovery to April 9 and then another decline to the end of April ahead of a volatile recovery to a new market high in late October.

Nasdaq: I also correctly predicted the down-turn which I still expect to last to the first week of May followed by two months of gains and then further declines to the end of the year.

London's Footsie: The current up-tick came sooner than I expected but it is likely to be over by the 21st ahead of a brief reversal and then fresh gains until about May 22 when the next big dip is likely until mid-June. Thereafter I see two months of recovery before the next even bigger dip is likely.

France's Cac 40: The losses I have been expecting were delayed but I still see them lasting until mid-April followed by a volatile period of overall gains to the end of August before another steep decline gets under way.

Hong Kong's Hangsen: I wrongly predicted that weakness should last another week but now I see losses again until month-end. Overall, however this is just a brief weakness in a long recovery through into the New Year.

Japan's Nikkei: I correctly predicted weakness ahead of a lengthy sideways trend culminating in a mid-November peak.

Australia's All Ordinaries: I correctly warned that the market was topping ahead of weakness to late March ahead of a brief recovery to mid-April when another brief drop is likely before gains resume until late June. Thereafter I see declines to the end of the year.

JSE Top 40 Index: I wrongly predicted weakness until the end of April but the current gains are merely brief noise in a downward-trending index which is only likely to bottom in late April.

ShareFinder JSE Blue Chip Index: I correctly expected continued gains amid considerable volatility which I now see lasting until the end of July. Thereafter I see two months of weakness before growth resumes.

Rand/Dollar: I correctly predicted a recovery followed by weakness from now to April 11 followed by a week of recovery and then a volatile weakening trend until around June 11. Thereafter I see a volatile period of continued gains into the New Year.

Rand/Euro: I correctly predicted gains until mid-March. Now I see weakness for most of the year with a two-month gain from early July to around August 26.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.17 percent. For the past 12 months it has been 91.5 percent.