Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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Sensing an approaching global monetary crisis in the wake of ever-mounting government debt throughout the developed world, I sat down in mid 2019 to research my book The Crash of 2019 in which I sought to understand the potential shape of a new monetary order in a post-capitalist post-democratic new world.

A stray item which has so far failed to materialise was the possibility of a military stand-off as a consequence of the ever-increasing rivalry between the US and China which, against a background of rising global debt and taxation which were collectively both killing entrepreneurship and putting ordinary folk under ever-increasing financial stress, was formenting the coming crisis. Readers will surely remember the recent table on the right from the IMF detailing the debt of leading national governments relative to their domestic GDP together with authoritative views that China's debt is likely twice the worst of those numbers!

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

It has been an age-old tactic of rulers to invade a peaceful neighbour because history has shown that in such circumstances patriotism can easily be ignited as a useful distraction to re-unite people who have grown dissatisfied with their leadership. So, because ShareFinder's AI markets-projection system was predicting a series of global share market crashes early in 2020, I opined that these might be the consequence of China enacting just such a distraction by invading Taiwan. So I wrote about a 'Black Swan" event emanating in China.

I was obviously wrong about the nature of the Chinese event for, of course, it was Covid 19 not an invasion. But I got the date right and the market did indeed crash. And I was only half wrong about the military idea because we have of course seen that option play out in a series of theatres of which the Ukraine and Palestine are but a few.

There are dozens more if one includes North Africa and the Far East. The Geneva Academy which monitors such things says there are more than 45 happening currently with the most prominent in Cyprus, Egypt, Iraq, Israel, Libya, Morocco, Palestine, Syria, Turkey, Yemen and Western Sahara. There are 35 in Africa, 21 in Asia, seven in Europe and six in Latin America

Indeed, getting closer to home, the KwaZulu-Natal riots of 2021 were probably another symptom of the social pressures we are all living under and the reality that something has to break soon before we are forced to recognise that significant change needs to happen to introduce a new world monetary order which is not under the control of any single nation. If you read **The Crash of 2020** or my associated columns at the time you will know I believe the answer lies in substituting regional Blue Chip share portfolios for the gold bullion/ hard currency deposits nations currently hold with the World Bank, and for the latter's Special Drawing Rights to become a global currency backed by this Blue Chip reserve in the same manner that money was for centuries stabilised by employing the Gold Standard.

Not that this alone will solve the debt problem, but it might go a long way towards a more stable future order once we have gone through the pain of eliminating debt...and that will perforce require a change that ends the rivalry between capitalism and socialism which currently enables the political class to exploit everyone with more than tuppence to rub together; the entrepreneurs whom history has over and over again proven be the only effective means of eliminating poverty and creating a better life for all.

Locally, the stultifying effect of the global debt burden is seldom more starkly demonstrated than by the financial crisis in our municipalities. As a former spokesperson for the finance minister, National Treasury and SA Reserve Bank, Jabulani Sikhakane, this week wrote in Business Day, “The continued increase in unpaid municipal bills – up more than threefold in the past decade – is yet another indicator of the depth of the financial and economic crisis SA is in.

“A 10-year view shows that unpaid municipal bills have ballooned from R87-bn at the end of June 2013 to more than R313-bn by June 2023, the end of the financial year for municipalities. The latest data for the six months to end-December shows the debt had risen to R338.2-bn.

“The biggest driver is money owed by households, which accounts for R230.5-bn (R55.5-bn), more than half of which - R127.5-bn - is due to metros. National and provincial governments account for R17.6-bn (R4.2-bn) of unpaid municipal bills.”

If you have any lingering doubts that politicians have lost touch with the voting public, let me take you briefly to the realities facing Durban ratepayers. With memories acutely focussed by the 2021 riots, Durban’s municipality last year introduced what it termed a ‘People’s Budget’ which, not to put too fine a point on things, socked the tiny minority of ratepayers who are still contributing to the upkeep of the city and relieved the remaining 92 percent of much responsibility.

Noting estimates that only eight percent of Durban’s residents provide 100 percent of the city’s rate and tariff income and that this heavily-burdened group collectively now owes the city R19-billion in unpaid rates, Durban’s proposed budget for the 2023/24 municipal year was clearly unrealistic in the extreme. It included a 21.9 percent electricity tariff increase, a 14.9 percent water tariff, an 8.9 percent rates increase - which disguised the fact that properties had already been massively re-valued – a sanitation increase of 11.9 percent and a refuse collection increase of 8 percent.

Noting that South Africa had just recorded an official inflation rate of 6.9 percent and that the city was facing threats of many ratepayer organisations launching official tariff boycotts, the city reduced those numbers to electricity 18.49 percent, water 14.9 percent, rates to 7.9 percent, sanitation to 10.9 percent and refuse to 6.9 percent.

Of course the result is that the debt crisis has considerably worsened because the people of Durban are collectively in deep financial distress. Yet, blinded by their power to sequestrate if they are unable to collect rates and tariffs, the municipality this week unveiled yet another massive series of tariff increases as detailed in the graphic on the right.

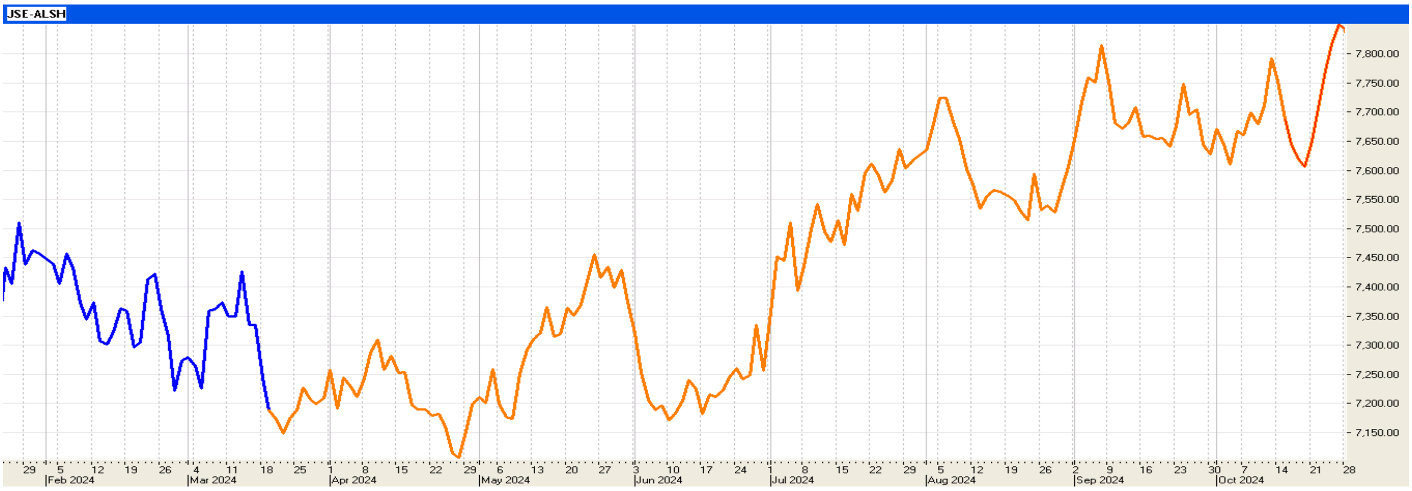
No wonder figures from the SA National Treasury show that 17% of all municipalities are considered to be in crisis; 44% of all municipalities have tabled unfunded budgets (budgets that they do not have the income or resources to pay for); 59% of all municipalities are bankrupt and insolvent and 68% of all municipalities are in financial distress!

Meanwhile, since the ANC is building its current election campaign with the message that it alone rescued South Africa from apartheid, it is perhaps time to remind readers that the man who actually made it happen was a Durban banker named Terry Crawford-Browne who, when I knew him, had no ANC links! Seconded to New York he there persuaded his colleagues that it was immoral for US banks to loan money to the SA Government. Thus began the debt standstill which effectively forced the National Party Government to a negotiating table, sponsored by leading businessmen, which ultimately brought about democracy in this country leading directly to the unbanning of banned political parties and on to Codesa and then full democracy.

If you click on the link below you can read the actual January 1977 document that Crawford-Browne and his committee circulated to the New York banks which started the ball rolling:

https://projects.kora.matrix.msu.edu/files/210-808-3220/ACOABankLoans1-28-77opt.pdf

Meanwhile ShareFinder's projected count-down to the May 29 election continues to predict the JSE All Share Index will rise on May 30 and then tank until Monday June 10, following which it sees several years of strong gains which, if the projections are correct, will see the JSE as arguably one of the world's best performers for the next few years!



The month ahead:

New York's SP500: I correctly predicted the beginning of weakness which is likely to continue until March 27 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: I correctly predicted brief reversal ahead of a short gain starting today and then another drop to month-end ahead of two months of gains. Thereafter I see an extended period of weakness to min-June and ten weeks of gains.

France's Cac 40: I correctly warned about the start of a long decline beginning this week and likely to last the rest of the year. July and August should, however offer an interim stronger period.

Hong Kong's Hangsen: I correctly predicted the start of weakness until early April which is but a brief moment in an extended recovery into the New Year.

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

Australia's All Ordinaries: I correctly warned that the market had topped ahead of weakness to late March ahead of a a volatile recovery until late June when protracted weakness is likely to begin.

JSE Top 40 Index: I correctly predicted weakness until the end of April followed by gains at least until October.

ShareFinder JSE Blue Chip Index: Though the current brief weakness is likely to last until April 5, I correctly expected continued gains amid considerable volatility lasting well into the New Year.

Rand/Dollar: I correctly predicted weakness from now to April 11 followed by a week of recovery to April 19 then weakness to late May. Thereafter I see a volatile period of continued gains into the New Year.

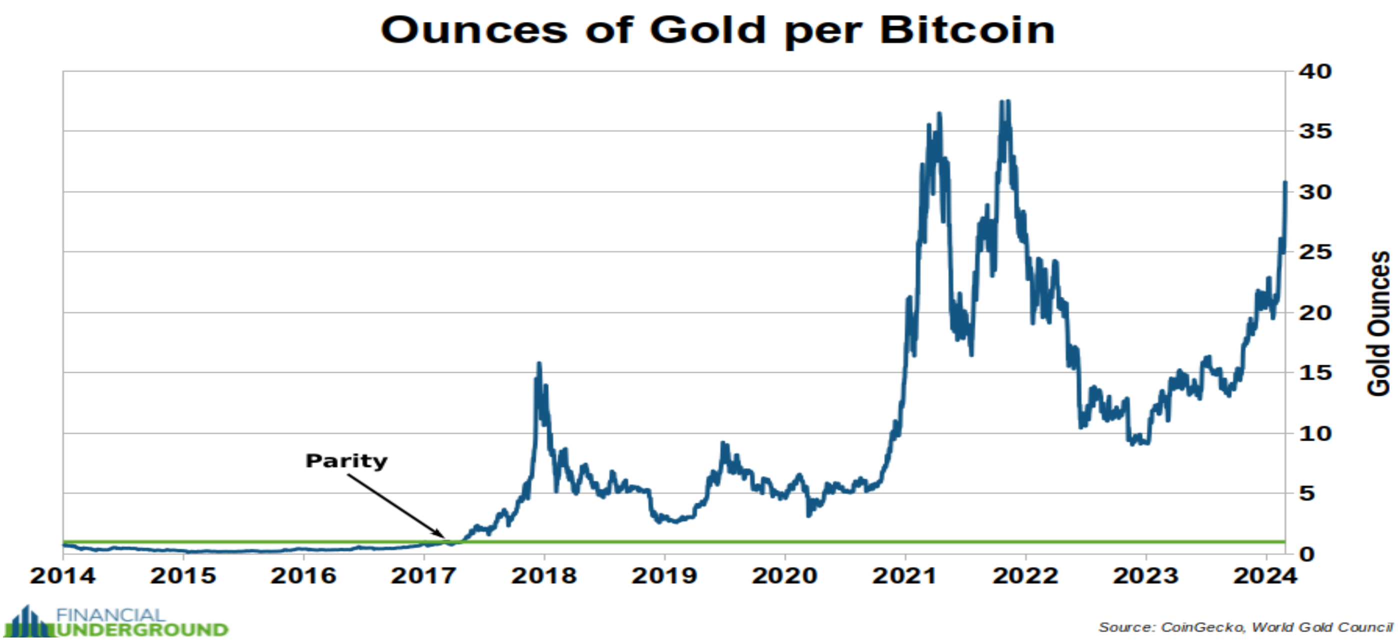
Rand/Euro: I correctly predicted weakness for most of the year with a two-month gain from early July to around August 26.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.18 percent. For the past 12 months it has been 92.75 percent.

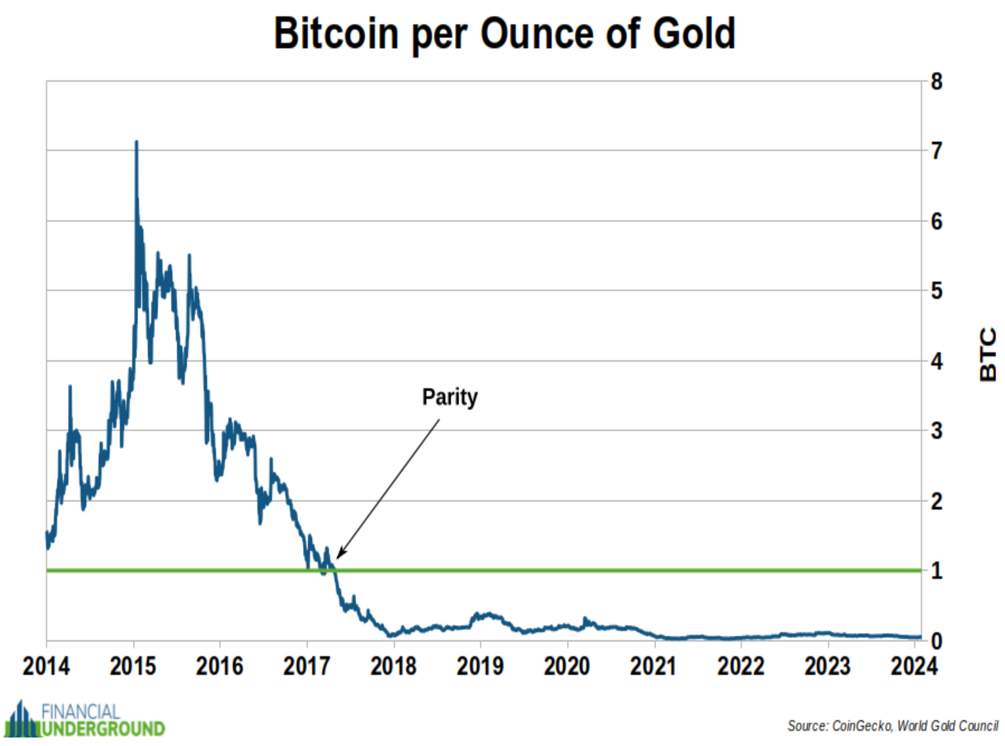
Gold vs. Bitcoin: The Ultimate Competition

by Nick Giambruno

Did you know the Bitcoin price reached parity with the gold price in April 2017 and never looked back? Today, buying a single Bitcoin takes over 30 ounces of gold.



In the last year, Bitcoin's market cap grew by over $883 billion—from around $457 billion to about $1.34 trillion today. Annual gold production is estimated at around 118 million ounces, worth about $254 billion.



The increase in Bitcoin's market cap last year alone was more than triple the value of global gold production. If just 10% of that $883 billion increase in Bitcoin's market cap instead went into gold, it could have rocked the market and sent prices soaring.

With that in mind, and looking at these charts, it's not surprising that many have wondered, is Bitcoin demonetizing gold? How should investors position their portfolios? These are critically important, fundamental questions I will answer.

MicroStrategy founder Michael Saylor thinks gold is an outdated monetary technology compared to Bitcoin. He once said: "You can cling to gold, but it's like clinging to your Kodak stock because you like photos instead of buying Apple. Or like Rand McNally maps compared to Google Maps." For the first time, gold indeed has a worthy monetary competitor that presents a serious challenge to its status over the long term. However, I don't believe the outcome is 100% certain or preordained.

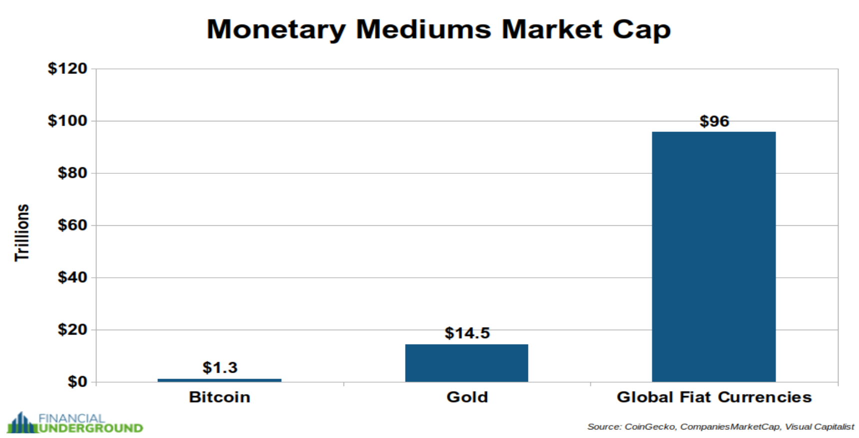
Nobody knows whether gold or Bitcoin will ultimately emerge victorious in the ultimate competition to be the world's best money. I'll describe how I see it playing out.

First, it's crucial to clarify a fundamental point. We are talking about a competition to be the world's best money. So, let's define what money is.

Money is a good, just like any other in an economy. And it isn't a complex notion to grasp. It doesn't require you to understand convoluted math formulas and complicated theories—as the gatekeepers in academia, media, and government mislead many folks into believing.

Understanding money is intuitive and straightforward. Money is simply something useful for storing and exchanging value. It's a tool for sending value through time and space. That's it. Therefore, I'll analyze gold and Bitcoin to see which is best suited to send value through time and space.

Today, three monetary goods—fiat currency, gold, and Bitcoin—compete as the best vehicles for storing and exchanging value. The chart below shows their approximate sizes.



I believe the chart will be flipped entirely in the future. The only question is whether Bitcoin or gold will reign supreme.

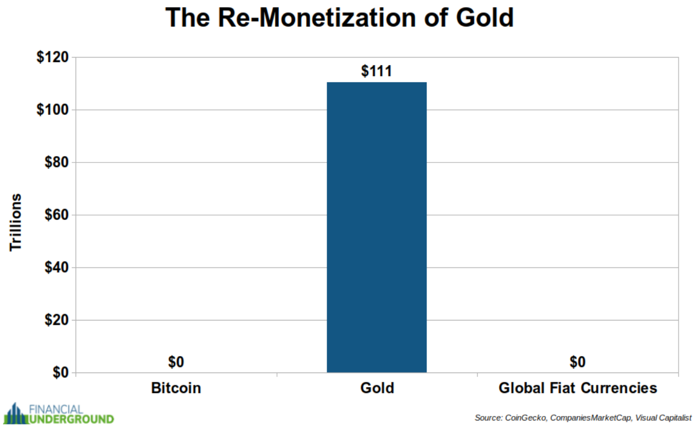
While fiat currency is today's dominant form of money, it is well on its way to collapse. I estimate that by around 2030—or perhaps sooner—the collapse of fiat currencies could be complete.

The chart above estimates that about $96 trillion is stored in global fiat currencies. I believe most of that value will migrate to better store-of-value assets, primarily gold and Bitcoin.

That's why Bitcoin and gold could do exceptionally well in the short and medium term as the fiat currency system crumbles.

However, over the long term—after the fiat currency system has fully collapsed, which I estimate to happen around 2030—I expect an epic competition between Bitcoin and gold as one or the other will necessarily emerge as the world's dominant form of money. That competition could take many years.

Suppose gold wins. The above chart might look something like this.



If gold emerges as the world's dominant money, I estimate a gold price of around $16,168 per ounce in purchasing power in today's dollar. It also implies a Bitcoin price of $0. That's because Bitcoin is purely a monetary good with no industrial or other non-monetary uses. Bitcoin is either useful as money or worthless.

Industrial Use Doesn't Make a Good Money

A common misconception says money also needs to have some industrial use for it to be good money. However, that's like saying a shoe must also be useful as a hammer to be a good shoe. Many people incorrectly reason that Bitcoin can't be a good money because it has no industrial or non-monetary utility.

However, industrial use is not needed to make something useful as money. Using something as money—i.e., to store and exchange value—is sufficient for it to be money. The fact that gold has some industrial use doesn't give it superior monetary properties. People value gold as money primarily because it's the one physical commodity most resistant to debasement—not because it's used in dentistry, electronics, or other industries.

On the contrary, I'd argue that gold's relatively small industrial uses do not enhance its monetary characteristics. If they did, why aren't metals with more industrial use—like copper or nickel—more desirable as money?

When it comes to money, I'm only interested in its ability to store and exchange value. I'm not interested in something whose value is hostage to the whims of ever-changing industrial conditions. This is why industrial use is not a monetary benefit but, in fact, a potential detriment.

Gold would be an even better money without the variation in its supply and demand from its industrial uses, which are unrelated to its use as money. Further, the competition to be the world's dominant money is essentially winner-take-all. Anything else would amount to an inefficient barter system, which is why international monetary networks tend to converge on one thing as dominant money at the base layer.

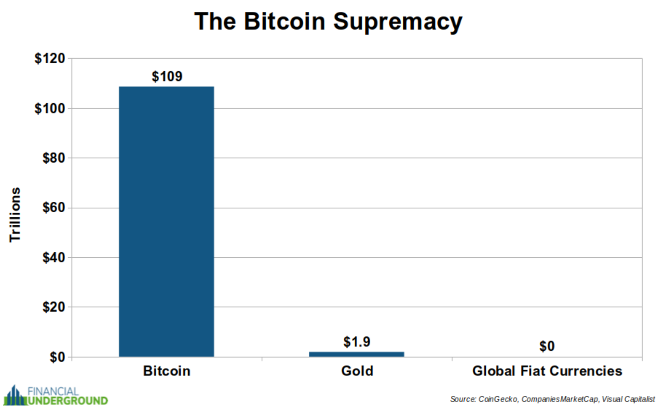
Previously, the dominant base layer money was gold. Today, it's the US dollar and Treasuries. In the future, I think it will either be Bitcoin or gold.

The current status quo for Bitcoin seems untenable. Over the long term, I believe Bitcoin will become the dominant form of money or end up at $0 as a superior money—most likely gold—beats it out. On the other hand, suppose Bitcoin emerges as the world's dominant money—a megatrend I like to call The Bitcoin Supremacy.

The above chart might look something like the one below.

Even if Bitcoin emerges as the world's supreme form of money, gold will still have industrial and non-monetary uses, which I estimate comprise around 14% of its total demand. So it won't be worthless.

If gold were to lose all of its monetary demand to Bitcoin, it would become a pure industrial metal like copper or aluminum. I estimate that monetary demand—to store and exchange value—makes up around 86% of the overall demand for gold. Therefore, if Bitcoin demonetizes gold, I estimate the gold price could drop by 86%.



If The Bitcoin Supremacy occurs—and gold is demonetized and rendered a purely industrial metal—it would imply a gold price of $278 an ounce and a Bitcoin price of $5,171,429 per BTC in purchasing power in today's dollar.

After the collapse of fiat—which I estimate to be around 2030—nobody knows how long the competition between gold and Bitcoin will last. It could be over quickly or drag on for many years. My guess is that it won't be over quickly.

I am confident that this competition will happen and there will only be one winner.Over the long term, billions of people, through trillions of transactions—in other words, the free market—will ultimately decide whether gold or Bitcoin will win. I am all for free-market competition in money.I say let the best money win.

In the meantime, I think the stars are aligned for a massive Bitcoin bull market. Consider this. The market cap for Bitcoin is around $1.34 trillion. The market cap for all the mined gold in the world, which took thousands of years to accumulate, is about $14.5 trillion.That means Bitcoin has a market cap roughly equal to 9% of gold's.

Assuming gold stays flat and Bitcoin goes up about 10x, its market cap would roughly equal gold's. At that point, a single Bitcoin would be worth over $680,000.I think that's a real possibility in the years ahead, though it could happen much sooner.

If that sounds outrageous, consider this…Ten years ago, the Bitcoin price was around $600. **Today, it's roughly 113x that**. Bitcoin has made numerous breathtaking moves to the upside in the past. I think it can do it again, especially as corporations, institutional investors, and even nation states start buying Bitcoin for the first time. Of course, it's important to remember that past performance does not indicate future results for any investment.

Publicly traded Bitcoin stocks stand to be a primary beneficiary of this trend. Bitcoin stocks have the potential to MASSIVELY outperform Bitcoin—and deliver those enormous gains quickly. I wouldn't be surprised to see the best Bitcoin stocks deliver eye-popping returns during Bitcoin's next upside explosion, which could be imminent.