Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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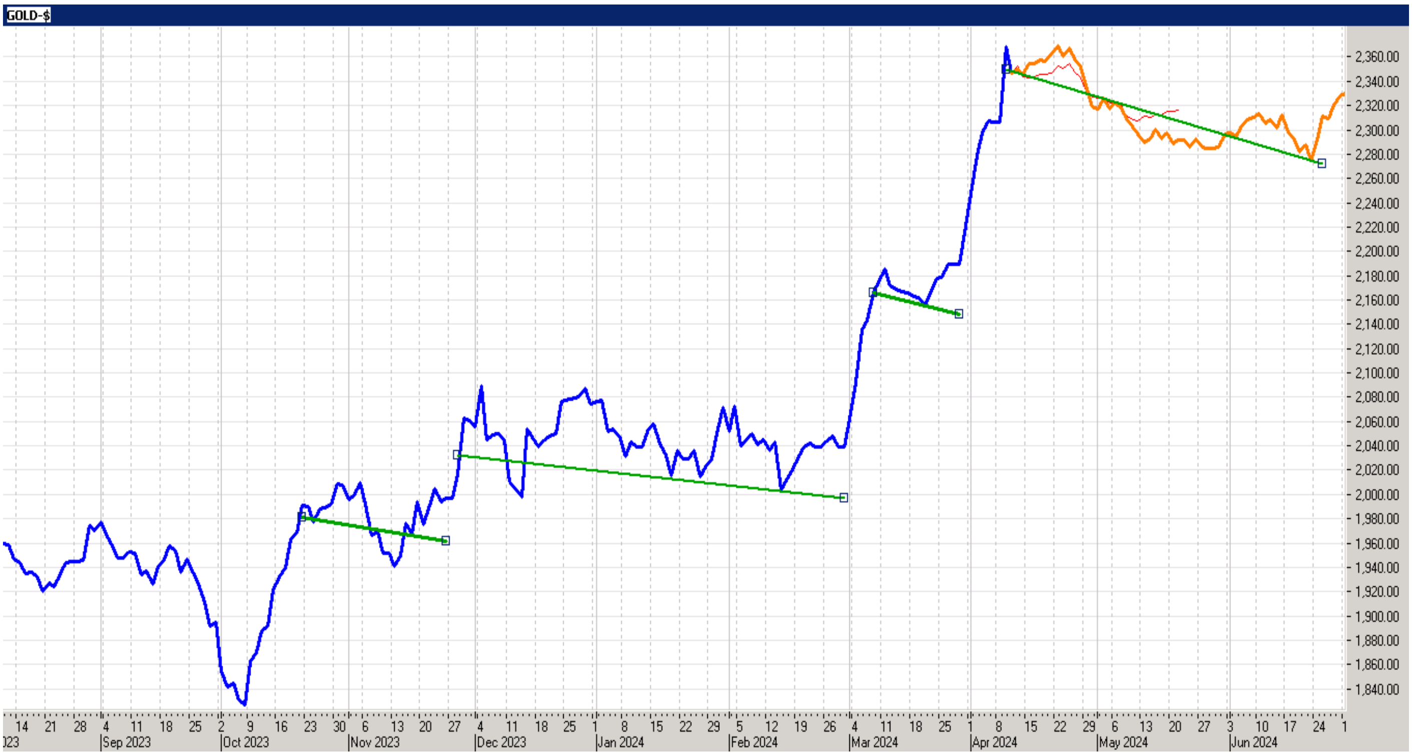
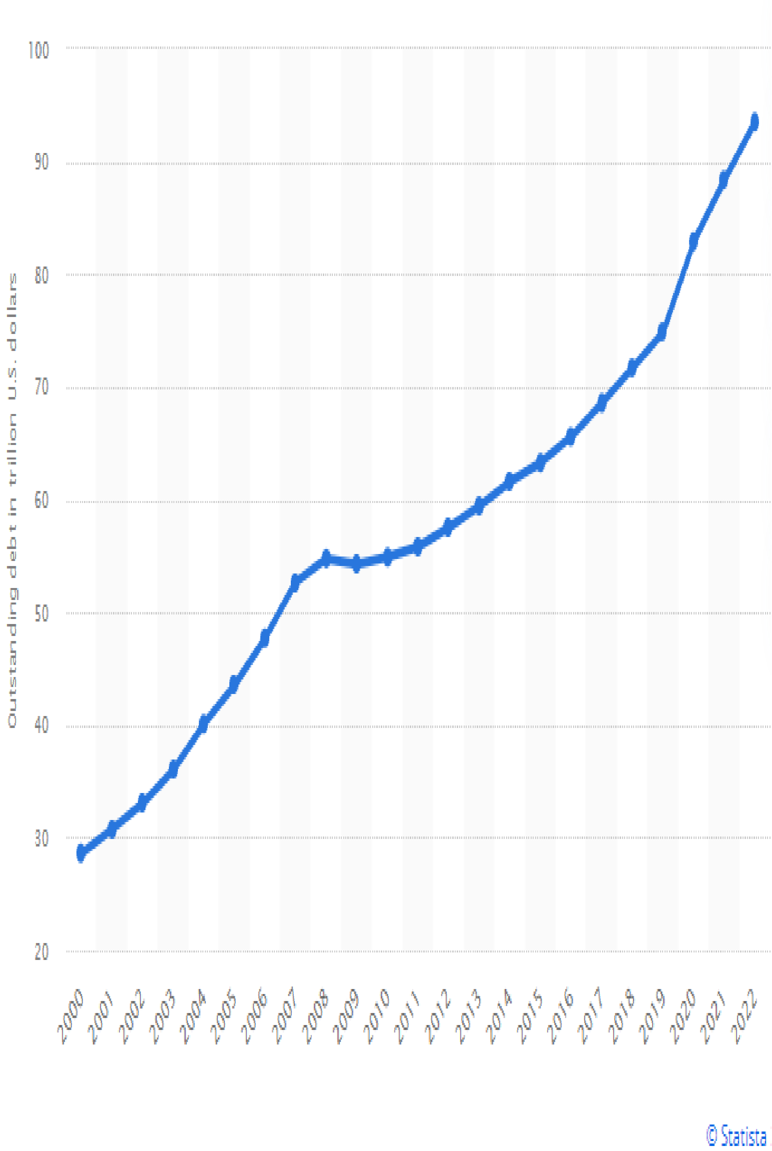
Gold bullion prices continue to pump, taking all the other inflation hedges with them as world financial worries continue to surge on evidence across the developed world which makes it clear that - once everyone has finished with the election silly season - further tax increases and possibly worse face us all.

Last week I noted that from a low of $1 998.20 on February 14, the gold price had soared to $2 288; a gain of 14.5 percent in the past seven weeks. Since then it has advanced further to peak this week at $2 384.50. Back in October it bottomed at $1 838.80 implying a 30 percent gain since then. As each up surge since October has clearly demonstrated in the graph below, it has been a mere pause for breath as global monetary uncertainty continues to spread.



Regular readers are well aware that I have been registering my concern about the global monetary situation since mid-2019 when I penned my book **The Crash of 2020** because I was growing steadily more worried by the collective debt being chalked up by mankind everywhere. But the worst case is in South Africa's leading trading partner, China whose economic slow-down is the principal reason why our mineral exports have slowed and negatively impacted SA government revenue.

In my preface to the 2019 book I wrote:" The US National Debt this year passed the $22-trillion mark (this week, it reached $34-trillion) and, based on the latest data, total private and public US debt has hit an astronomical record-high of $75.3-trillion, (and that sum of together with private debt has now grown to $93.5 trillion) or a staggering 365 percent of GDP. "



My graph on the right from Statista illustrates how the combined total has grown in the past quarter century.

But continuing with my 2019 book preface, I noted then that "A lot of other countries are in a far worse mess. As far back as 2012 Japan had passed 650 percent of GDP, Britain had passed 550 percent and the Eurozone 450 percent.

"According to a CNN analysis, "The global balance of borrowings is over $250-trillion, nearly 320 percent of worldwide GDP and just shy of the all-time high it reached in the first quarter of 2018. That means, overall, the world is borrowing more than it is producing".

"The likely trigger event for the next global share market correction could originate in China where, in its rush to grow it has built far too many buildings, produced far too much steel and other commodities and made far too many bad loans. Its overcapacity is so pronounced that it will take years for demand to catch up with this oversupply.

"Furthermore, China is compounding the problem by continuing to over-lend and overproduce though with diminishing returns. China's non-government loans have grown almost a trillion Dollars recently and yet they continue producing 40 percent more steel than the world needs.

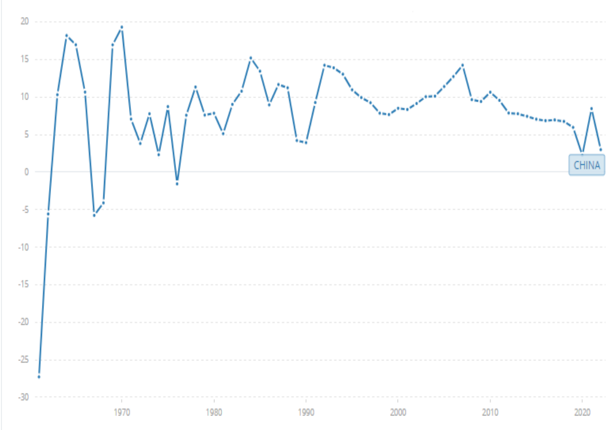
"In 2015, China's stock market collapsed costing investors 45 percent of their savings. Now its economy is decelerating and its soaring private debt ratio has reached 300 percent of GDP signalling the inevitability of a further economic slow-down. (Now its property market is in terminal decline)

"The Chinese are taking a problem whose size and scope is unprecedented and making it all that much bigger. So here it is worth turning to China's Asian neighbour Japan, where a not too dissimilar process led to very high GDP growth in the 1980s. Fuelled primarily by runaway lending, Japan suffered a stock market crash in 1990, then a real estate collapse in 1991, and finally a bank rescue in 1998. And Japan has posted 21 years of near-zero growth since that rescue.

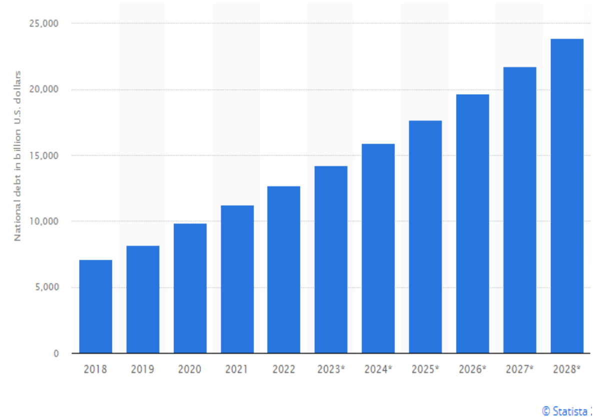
"Even if it can avoid catastrophic collapse, China's economic trajectory is to continue slowing, resulting in downward long-term pressure on commodity prices. Deflation will inevitably spill over to countries that are economically intertwined with it in the Asia Pacific region, such as South Korea, Australia, Thailand, Vietnam, Singapore, and even Japan as well as Africa and South America which will be profoundly impacted because both continents are disproportionately dependent on commodity exports.

"Deflation, following a long period of uncontrolled monetary expansion was, of course, what caused the Great Depression."

So, back to the present when ALL of those predictions are coming true before our eyes. What is clear is that China's powerhouse days are long over. The World Bank graph on the right shows how China's GDP growth peaked as far back as 1970 when it touched an annual rate of 19.3 percent and it has fallen steadily since then.



IMF projections in the second graph on the right suggest that the Chinese national debt is likely to continuously increase between 2023 and 2028 by in total 9.6 trillion U.S. Dollars (+67.74 percent). After the tenth consecutive increasing year, the national debt is estimated to reach 23.9 trillion U.S. dollars and therefore a new peak in 2028.



So my question is whether this is sustainable? I cannot imagine how it can be, particularly when debt levels are rising everywhere and central banks everywhere have been obliged to increase interest rates which are imposing a massive 'hidden tax' upon taxpayers.

South Africans who have watched our prime lending rate rise 60.7 percent from 7 percent in July 2020 to a current 11.25 know all about the impact. At a current SA average house asking price of R1.35-million that implies an annual bond cost increase from R94 500 a year to R151 875: equal to R12 656 a month.

Add that to the additional burden of one of the world's highest levels of personal income tax together with families also having to meet costs which taxpayers in the Developed World expect to receive free from their governments: like decent medicare, decent education, private security, affordable and reliable electricity and water, public transport, low crime levels......well I could go on with many more examples but I have no need to spell them out because readers already know all of them!

However, given that the average family disposable income is just R50 500, or R4 208.33 monthly, it is quite clear why debt levels are soaring. So, if we have not already reached breaking point, we are surely very close!

Since this problem is endlessly repeated right across the planet, it is quite clear why the general public is fed up with the politicians who have led us to this mess. Though problems like crime and corruption are undoubtedly major factors causing the government debt build-up, the over-riding problem is democracy itself with issues like the soaring levels of immigration resulting in ever-growing levels of "have-nots" understandably turning to the State for assistance, funded by an ever-dwindling number of "haves" whose collective taxes are simply not enough for the burden.

I think we are at breaking point and that is why the "Haves" are scrambling to get the remainder of their savings into securities like gold and crypto-currencies which, as I noted last week, have the added advantage of being able to cross borders at a touch of an Internet button while remaining opaque to governments desperately seeking new ways to fund their collapsing budgets.

Meanwhile, ShareFinder's projection – see graph below - of the JSE All Share Index continues to see rising share market optimism right up to election day and then sharply reversing until June 25 followed by years of strong gains. I interpret that as four weeks of post-election uncertainty followed by a coalition consequence that fills South Africans with a new spirit of confidence since the projected market gains are likely to outstrip ShareFinder's projections for most global markets – twice those projected for Wall Street. It belies the worst case scenario of an ANC-EFF coalition with Zuma the increasingly worry factor that could make that come about. Imagine Floyd Shivambu as Finance Minister. Justice Malala's column for the Financial Mail follows:

The month ahead:

New York's SP500: I correctly predicted the beginning of weakness which said was likely to continue until now ahead of a brief recovery to April 11 and then another decline to the end of April – which comes ahead of a volatile recovery to a new market high in mid-August.

Nasdaq: I also correctly predicted the down-turn which I still expect to last to approximately May 10 followed by gains to the end of July ahead of a long decline to the end of the year.

London's Footsie: I also correctly predicted the down-turn. London is forming a base at the 790 level ahead of five weeks of gains then a month down and two of recovery to a mid-August peak and then down to year-end.

France's Cac 40: Paris has recovered significantly. Where previously I correctly warned about the start of a long decline to July ahead of two months of gains, I now see gains from mid-month until the end of July ahead of weakness into the New Year.

Hong Kong's Hangsen: I correctly predicted weakness would last until early April within an extended recovery into the New Year.

Japan's Nikkei: I correctly predicted the start of a lengthy sideways trend with the next up-trend only starting in late August to the end of the year.

Australia's All Ordinaries: I correctly warned of weakness ahead of a volatile recovery likely to begin now. But from late July I again sense weakness right through to next February.

JSE Top 40 Index: I correctly predicted a volatile recovery until the end of October.

ShareFinder JSE Blue Chip Index: I correctly predicted volatile gains until late September with further interim weakness between July 16th and August 26.

Rand/Dollar: Long term I see gains well into the New Year with the next brief weakness between April 18 and June 14.

Rand/Euro: The current gains are likely to be over by the 17th with protracted but modest weakness thereafter.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.2 percent. For the past 12 months it has been 92.75 percent.

JUSTICE MALALA: Could Floyd Shivambu be the next finance minister?

The EFF's 'smart guy' comes out of the shadows

Picture: Freddy Mavunda

You don't need an economics degree to know that a finance ministry led by the EFF's Floyd Shivambu is a bonkers idea. Even before he walks into the National Treasury, the rand would collapse. Anyone at the National Treasury who understands the idea of balancing a budget would be shown the door. Remember, Shivambu belongs to the party that intends to increase old-age grants from R2,090 to R4,180. Overnight. Just like that.

It is the same party whose leader, Julius Malema, said three weeks ago to "poor people": "Comrades, make children. I will pay for it. We will double child social grants from R510 to R1,020. Our children deserve better. Please don't be lazy. Make children."

Don't even start on expropriation without compensation, nationalisation of banks and mines, and many other policies championed by the EFF that have failed virtually everywhere they have been tried.

Yet, do not dismiss out of hand the idea of Shivambu at the finance ministry. His name has been cropping up in Gauteng ANC circles for months now. Since January the EFF deputy president has been mentioned in glowing terms as smart, educated and mature enough to be in charge of a serious project. I have been in three conversations over the past two months in which a Gauteng ANC leader — or someone close to an ANC bigwig from the province — would blurt out: "You guys don't realise just how smart that guy [Shivambu] is."

I didn't quite understand just where these utterances were coming from or what they were meant to achieve. Why would key party figures close to Deputy President Paul Mashatile and others be punting Shivambu? The word in the EFF was that Shivambu had fallen out of favour with his leader and that his deployment to KwaZulu-Natal to lead the EFF's campaign in that province was a disaster, as the party had failed to "fill up" Moses Mabhida Stadium. It was unfair — it rained cats and dogs on the day. Malema had body-shamed Shivambu in public at the Moses Mabhida rally, the latest in a series of micro-aggressions against Shivambu by the party's everything-in-chief.

It is now clear why Shivambu has been on the lips of ANC Gauteng leaders over the past few months. The two parties are talking, and talking seriously, about a possible post-election coalition and what it looks like. The Sunday Times reported this week that it "understands that Mashatile has held informal talks with the EFF to establish if the two parties could work together after the elections".

The EFF deputy president has been mentioned in glowing terms as smart, educated and mature enough to be in charge of a serious project

Permutations of all sorts are on the table and being considered. This explains why, speaking to broadcaster JJ Tabane last week, Malema was confident enough to say that the ANC should resign itself to the fact that it must enter coalition discussions.

Then he dropped what seemed like a bombshell: "I'm prepared to give the EFF vote to the ANC nationally if it doesn't get 50%, and then I'll make one demand: make Floyd Shivambu the finance minister."

Shivambu's name is not the first to be floated as a key participant in post-election formations. About 18 months ago, speculation flared that Mashatile and Malema were in a process of *toenadering* and that in a coalition scenario they would be president and deputy president of the country.

Now Malema has said he doesn't need the "glory" of being a deputy president. Instead, he has posited, Shivambu would be finance minister. He then went on to repeat the usual conspiracy mantra that powerful Afrikaner businessmen control the finance ministry.

"The problem in this country is a department of finance owned and controlled by Stellenbosch and which engages in anti-poor policies. We need a radical [approach]," Malema said.

The ANC is weak and, if it suffers a significant decline on May 29, will be susceptible to the EFF. Shivambu has been Malema's right-hand man since the pair's alliance in the ANC Youth League in the early 2010s. They helped former president Jacob Zuma ascend to power, they vilified him, and now they are getting ready to make space for him again at the top table.

Such a coalition would spell the backsliding of democratic practice and economic prosperity and stability for South Africa.