Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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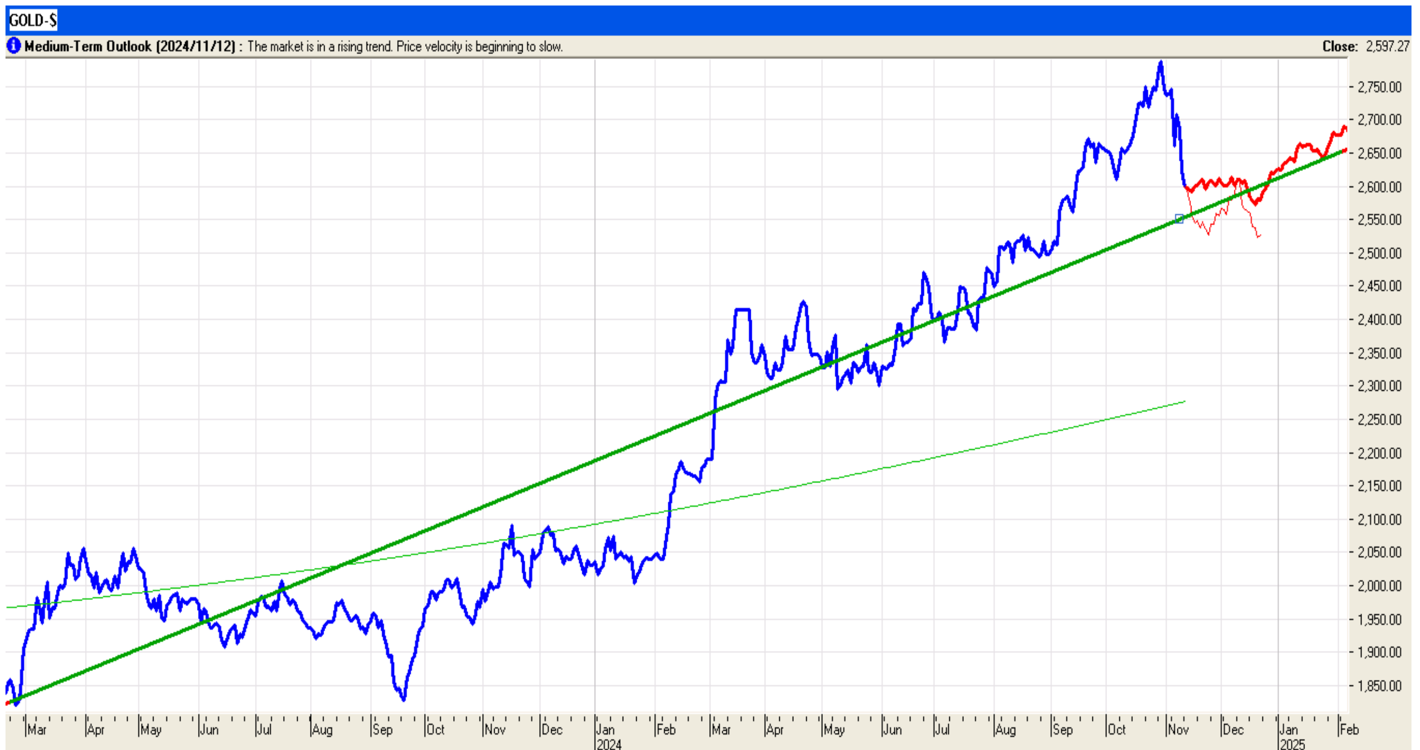
Depending how you have read the news these past few days since the world was profoundly shocked by the outcome of the US election, amid the horror, panic, joy and confusion, it is clear that markets everywhere remain uncertain and are likely to remain so for the next two months at least.

There is one thing investment markets profoundly dislike, uncertainty, which has been one of the reasons why the world's most reliable store of monetary wealth, the gold price, has been breaking growth records. The following graph, when read alongside recent political events, makes for some interesting discussion.



Noting that the green trend line is drawn at the gold price 'mean' of the past two years which makes it probably fair to assume that the price increase from July to the end of October represents investors acting on their fears of rising global monetary risk during the run-up to the US election. Furthermore, that the price has all but returned to that green mean line since the election leads one to assume that the short-term US contribution to international monetary concern is now largely out of the way.

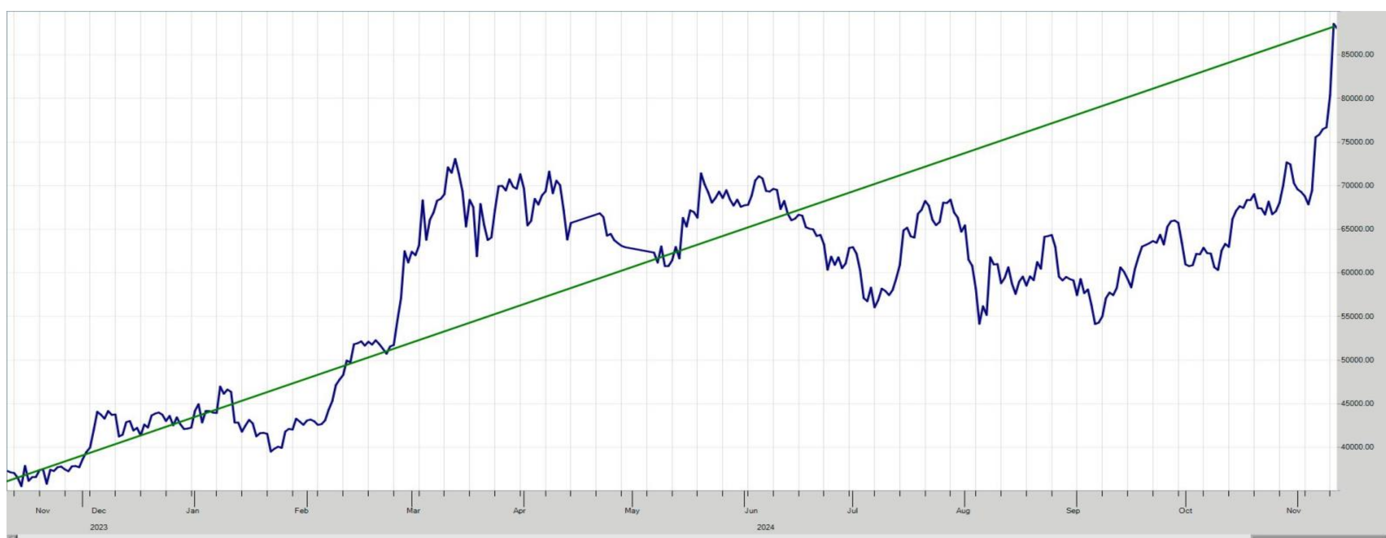
More to the point, however, the fact that the mean line has been rising at a compound annual average rate of 22.4 percent for the past two years and is projected (in red) to continue at that rate for the foreseeable future, speaks of serious other concerns: namely fear that money is losing its value.

Since the US Dollar accounts for some 95 percent of international trade and, relative to the price of gold, it is losing value at compound 22.4 percent, is a matter of considerable concern. Furthermore the situation is even worse for South Africans because of the fact that our Rand, as illustrated by my next graph, has been losing value relative to the US Dollar at a compound 5.2 percent.

It effectively means that in real terms our individual purchasing power is falling at a compound 27.6 percent annually. To understand the impact upon individual South Africans, it means our buying power internationally is HALVING every 31 months!

At the heart of the problem is global debt. That is why, even more interesting for those who are concerned that the global monetary system might be on the verge of imploding because Day Zero is nearing in respect of global debt, has been the direction taken recently by cryptocurrencies. Ten years ago you could have bought one Bitcoin for $457.33. This week you would need $89 933 to buy one. That's an astounding annual average gain of over 200 percent a year….particularly for an instrument which was never intended to be an investment.

More to the point if you study the following graph, the latest price surge began AFTER the US election result was announced - and please note there has to date been no price retraction to mimic gold! Might one accordingly assume that the Bitcoin trend DOES include the advent of Donald Trump for a second term in the White House?



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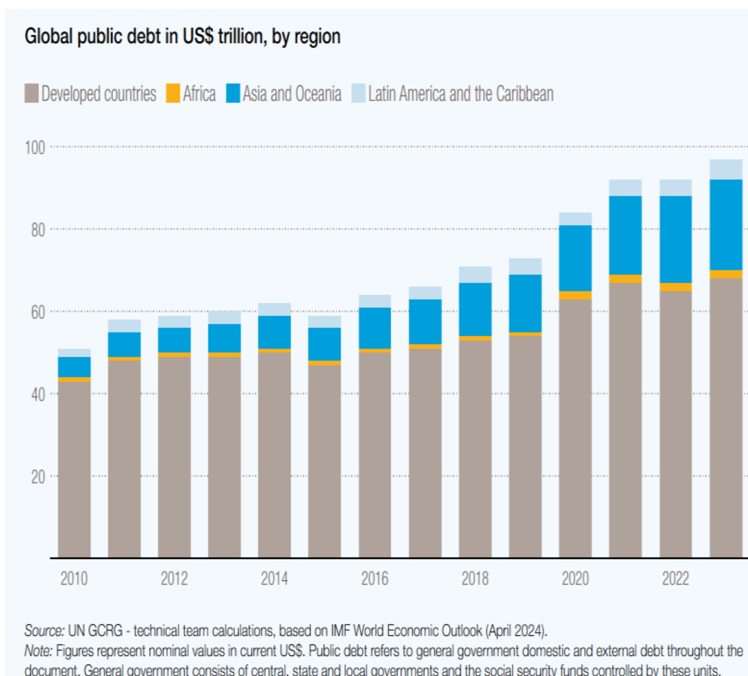
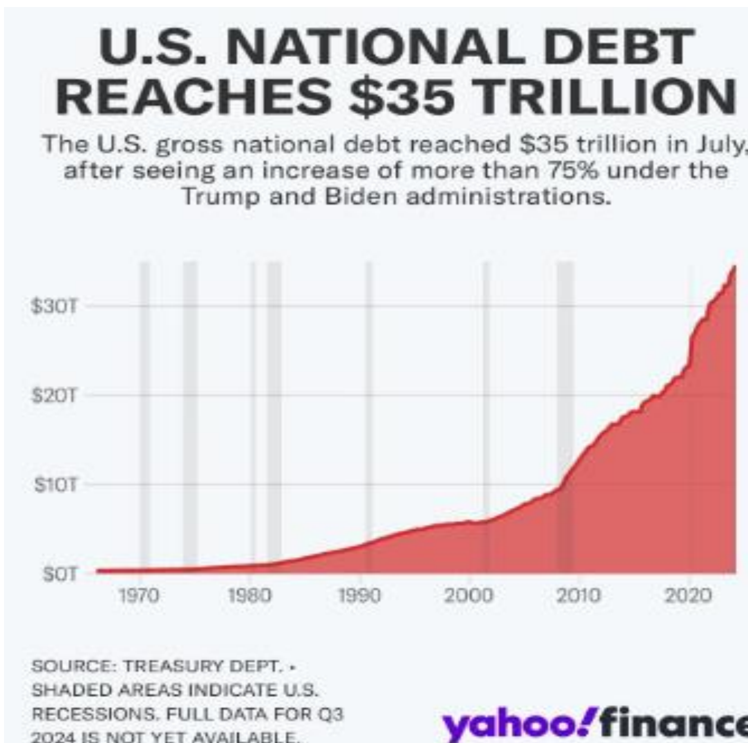
Since cryptocurrencies represent a means for the wealthy to hide their wealth from the Tax Man and, furthermore, to enable folk who wish to move their wealth instantly to any point of the Globe without the cumbersome requirements of the world's banking system, might Bitcoin be suggesting that the Wealthy are now primed for flight?

Why might they adopt such an attitude? Might it be that they fear the collapse of a currency; in this case the US Dollar? Noting that in 2023 total global debt reached a record US$97-trillion as illustrated by the UN graph on the right, fully a third of that figure represents the US national debt of $35-Trillion and the US is adding another trillion dollars every 100 days.



That is the elephant in the room which neither US candidate mentioned in their hustings over the past few months. And why is that you might ask? The simple answer is that nobody in US politics wants to address the problem because the only way that can be done would be to end ALL social benefits and massively raise taxes.

Donald Trump's idea of raising tariff barriers against foreign imports CANNOT solve the problem but it is very likely to massively increase inflationary pressure upon the already hard-pressed average US citizen.



You might however gain some insight into how the Trump team is considering handling this issue by the lively debate surrounding US Federal Reserve chairman Jay Powell. As reported by the New York Times this week, "Federal Reserve Chair Jerome Powell has been under pressure before, but the events of this week might have him sweating through his crisp collared shirts. The central bank cut interest rates at its meeting yesterday by a quarter point, to a range of 4.5%–4.75%, in response to cooling inflation. But the real action came at the press conference after the meeting.

"Powell replied to reporters' questions about his future amid speculation that President-elect Trump might try to sack him, saying the president does not have the power to fire or demote him. "Not permitted under the law," Powell said. He also remained expectedly noncommittal about the Fed's plans for more rate cuts."

Folk with long memories furthermore point to the fact that when Trump was last in the White House he called Powell, whom he himself appointed to office, an "enemy" and criticized the agency for not cutting rates fast enough.

Imagine how South African debt and inflation might have looked today if Jacob Zuma had managed to gain control of the SA Reserve Bank …..and then see that in spades with respect to the whole world if Trump could manage to get his hands on the US money supply.

All of which, noting that the principal buyers of gold bullion are China and Russia, might explain why gold has been rising so strongly. Since, according to the US Federal Reserve, the Dollar accounts for 96 percent of global trade and, furthermore, that the great majority of China's foreign reserves are held in US Dollars and US Treasury Bonds, it should be obvious that if the US Dollar collapses it will also devastate China.

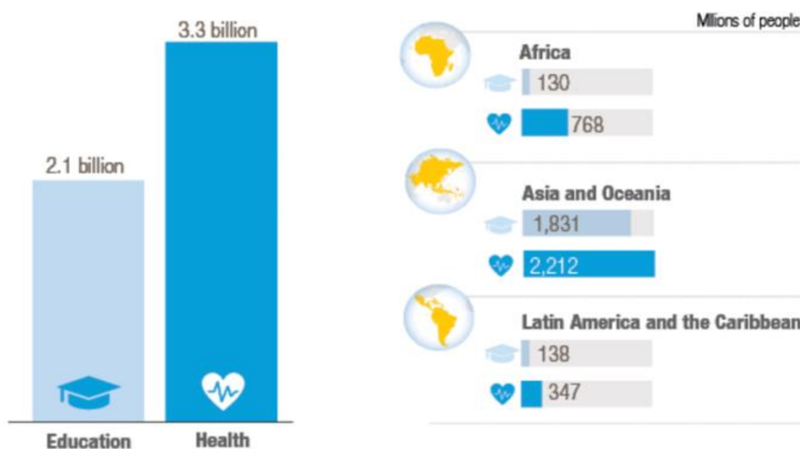
Might that point explain why the latter two nations are buying gold with almost foolhardy disregard for the rate at which the price has been rising?

Of course Russia's experience of having its foreign reserves frozen by the US Government in retaliation for its invasion of the Ukraine might also have something to do with the two allies wishing to reduce their exposure to the Dollar!

But back to the risk of Dollar collapse, it currently costs every US citizen approximately 25 cents in every dollar of the taxes he pays to service his government's debt. The magnitude of that debt is best understood by expressing it as a second mortgage representing borrowings of $270 000 per US household.

That's more than twice the average US home mortgage of $104 215 which is so crippling family finances currently. Given furthermore that the US national debt has risen 122 percent since 2014 and now costs more than most other government programmes, Mr Trump has arguably got less spending leeway than Cyril Ramaphosa and so his administration's popularity is likely to deteriorate quite rapidly in the New Year.

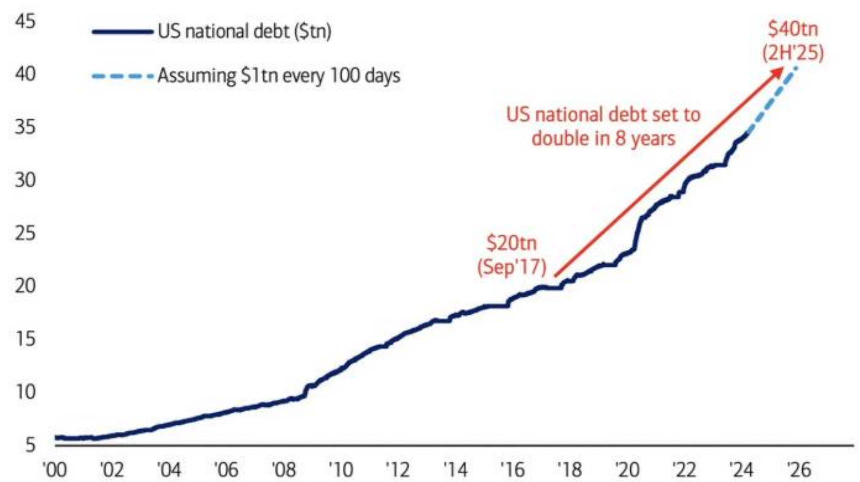
From a South African perspective, in the light of the debt service costs crowding out everything else and the much promised economy drive that is to be driven by SA-born Elon Musk, it is increasingly likely that Africa's right to export duty free into the US will abruptly disappear and, along with that, the US subsidies which pay for our domestic antiretroviral clinics. We certainly deserve it for taunting the US by cozeying up to Russian Tyrant Putin.



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank World Development Indicators.

But there is a consolation in all of this. If global debt is now at US$97-trillion, there might be some comfort for local readers in the fact that Africa in total counts for only two percent of that number. Nevertheless, the average African country is spending more on interest than on the education and health of their peoples; note the second UN graphic.

But overriding everything is the fact that debt day zero is fast approaching and readers need to ensure that they are suitably prepared for it!



Day zero is the day when ALL of the US Government's tax revenue is needed to just service its debt interest bill. Pessimistic current projections suggest that within eight years the debt will, at the present rate of increase, reach 200 percent of US GDP. However, many respected economists suggest collapse is likely BEFORE that number.

The best case scenario developed by the University of Pennsylvania" Wharton School of Business concludes that, "*Under current policy, the United States has about 20 years for corrective action after which no amount of future tax increases or spending cuts could avoid the government defaulting on its debt whether explicitly or implicitly (i.e., debt monetization producing significant inflation). Unlike technical defaults where payments are merely delayed, this default would be much larger and would reverberate across the U.S. and world economies.*"

However, in the view of Wharton's Finance Professor Joao Gomes, the crisis could begin as early as the New Year. Fortune Magazine reports Gomes as warning that America's $35-trillion debt burden may upset the world's financial markets as early as next year—should a president-elect announce a raft of expensive policies.

"And remember the UK's mortgage meltdown following a disastrous premiership under Prime Minister Liz Truss? That's on the cards as well, as Gomes said rates could spiral to 7% "or higher" if the topic is swept under the rug by Washington.

The month ahead:

New York's SP500: I correctly predicted this week would see the end of the brief last gasp recovery. I still see weakness until early January.

Nasdaq: Ditto the Nasdaq where I foresee a down week followed by gains from November 20 to month-end and then five weeks of declines. From about January 8 until the end of March I see a brief recovery followed by a year of declines.

London's Footsie: I also correctly predicted the start of a decline that should continue until early December. Thereafter I see a very volatile recovery through most of 2025.

France's Cac 40: I correctly predicted a decline likely to last until early January before a sustained recovery sets in.

HongKong's Hangsen: I correctly projected a bottoming and now I see gains until early December. However, 2025 does not look promising with declines for most of the year.

Japan's Nikkei: I correctly predicted the recovery would continue and still see the end of November as the peak. Thereafter I see losses for most of the New Year.

Australia's All Ordinaries: I correctly saw a very brief gain ahead until November 20 followed by volatile declines until mid-February. Thereafter I still see a VERY volatile recovery until mid-May.

JSE Top 40 Index: I correctly warned that weakness would begin now and I expect it to last until mid-year. Within that I see a brief gains for a week starting now.

ShareFinder JSE Blue Chip Index: I correctly predicted weakness which I see lasting until November 20. But it is probably over for now with modest gains likely to month-end. Thereafter I see gains until mid-December ahead of a weak first two weeks of the New Year.

Rand/Dollar: I correctly predicted weakness to late November with the long-term recovery resuming from around November 25.

Rand/Euro: I prematurely predicted a resumption of the recovery but I think it is likely to start now and last well into the New Year.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.42 percent. For the past 12 months it has been 95.21 percent.