



**Until this week Wall Street traders had been talking about a V-shaped correction much like the market dips that occurred in 1987 and 2007 where, within a few months average share market prices returned to the same levels they had been before,**

This is in sharp contrast to the 1929 Great Depression phenomenon which did not see real recovery of the market for over 20 years.

Both phenomena have sound reasons behind them. V-shaped markets occur when they are the result of a temporary shock where there is no deep underlying weakness that will take time to resolve while more enduring market weakness is a reflection of fundamental problems that can significantly impact world trade for a long period.

If you have not yet done so and wish for a fuller explanation of these differences, I suggest you spend \$10 and order my latest E-Book, The Crash of 2020, by clicking on the following link: <http://www.rcis.co.za/the-crash-of-2020-order-form/>

So it is worth noting here the comparison I have previously explained between the trade sanctions that the United States initiated in terms of the Smoot Hawley act in 1929 - which, if not the complete cause of the Great Depression were certainly instrumental in prolonging it – and the recent Trump initiated trade war with China and most other trading partners including ourselves.

Back in 1929 there was yet another similarity inasmuch as the United States had, in order to pay for the accumulated cost of the 1914-18 war chose to free private banks from the obligation to match the loans they made with gold specie held in their vaults by substituting a lesser government bond value equivalent. In the aftermath the US Federal Reserve allowed a fourfold increase in the money supply which in turn resulted in a dramatic increase in Wall Street share prices with a knock-on rise in speculation that ultimately led to the Black Tuesday crash and the subsequent depression.

Since the Asian monetary crisis of the late 1990s central banks have again massively inflated global money supply to successively ward off a series of subsequent monetary problems, each triggered by something different but collectively representing steadily increasing seismic economic tremors building towards a major and catastrophic event. So the big question now is whether this is that event?

After each crisis central banks have rushed in to increase monetary liquidity and ward off the likelihood of another recession. And each time it has been more difficult to subsequently raise interest rates sufficiently to create the necessary ammunition for the next anticipated crisis.

So this time, as the US Federal Reserve dramatically reduced US rates by an unprecedented half a percentage point, it did so off the lowest base it has ever done which implies that future moves will soon see the world in negative interest rates, all of which brings me to the following announcement put out this week by one of the world's largest stock brokerages, Saxo Securities:

*We would like to inform you that from 1 April 2020, we will be introducing negative interest rates to our clients holding cash in EUR, CHF or DKK.*

*In 2019, the European Central Bank lowered its deposit rate to -0,5% to stimulate the economy. This has led numerous European financial institutions to follow suit, and effective 1 April 2020, Saxo will charge interest on EUR, CHF or DKK balances above the thresholds listed below.*

*The threshold and interest will be applied to the available Net Free Equity in your main trading account, as well as the account value on subaccounts.*

- *For positive Net Free Equity/Account Value in EUR, CHF and DKK, the interest will be the central bank rate plus the markdown. Interest will be charged on Account Values/Net Free Equity less threshold.*
- *For positive Net Free Equity/Account Value in other currencies, the interest will be the highest of either: the market bid rates minus the markdown or zero. Interest will be paid on Account Values/Net Free Equity less threshold.*
- *For negative Net Free Equity/Account Value, interest will be market ask rates plus a mark-up, however never less than the mark-up. Interest will be charged on the full amount for all Account Values/Net Free Equity.*

*The rates charged are subject to change based on central bank rates.*

*For more information on Net Free Equity, please click [here](#).*

	<b>Threshold</b>	<b>Rate for balances for threshold</b>
EUR	100,000	-0,50%
CHF	100,000	-0,75%
DKK	750,000	-0,75%

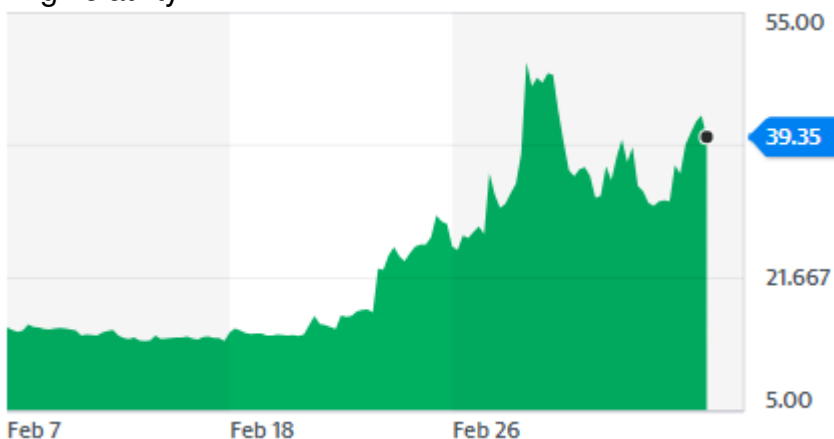
Now the problem with all of this is that interest rate manipulation can remove temporary imbalances in the world's monetary system by effectively increasing or reducing money supply which in turn stimulates or slows demand and thus keeps workers busy earning factory overtime and thus wards off recession or alternatively takes pressure off an overheated situation.

However, it cannot fix supply side disruptions such as the closure of Chinese manufacturing plants and, airlines cancelling flights and shipping companies diverting their vessels. In fact, increasing money supply at a time when production has been cut off will inevitably result in marketplace demand pressures rising which will in turn result in rapid inflationary increases.

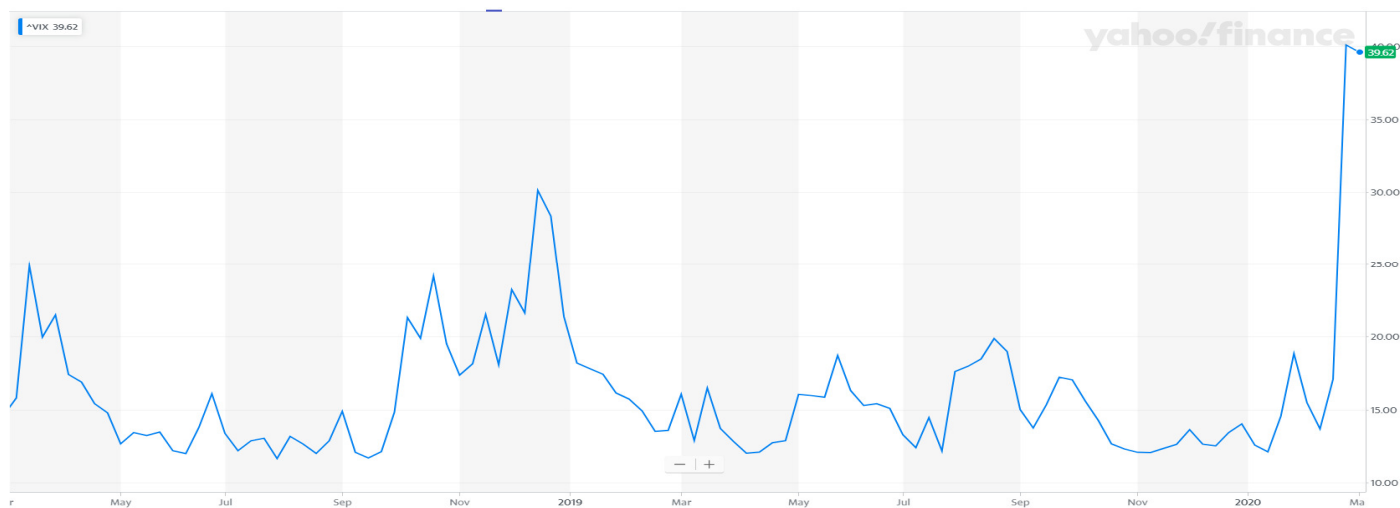
Currently investors have been panic-selling shares and climbing into bonds. But when inflationary pressures rise the reverse will happen. All of which explains why share prices have been all over the place lately as the market has alternatively panicked about the corona virus outbreak in China, then relaxed and then panicked again.

To see a graphic representation of these changing sentiments, analysts traditionally turn to the CBOE VIX, a measure of the US stock market volatility. It is a real time index which represents market expectation of 30-day forward-looking volatility.

The index is derived from the price inputs of S&P 500 index options and provides an accurate measure of market risk vis-a-vis investors' sentiments. The US market, being the largest asset class globally and attracting the largest amount of fund flows, can be considered as a proxy for world markets which are effectively coupled in terms of any big event.



Noting that the CBOE VIX index pictured on the right has hit above 50 only 9 times since the 1980s and crossed it only once during the 2008 financial crises. On February 28 it hit 48.7 and this morning was fluttering around 43.09 compared with a six-month average of 13, the following two-year graph puts that into perspective:



Every time the CBOE VIX index has hit 50, subsequent volatility has tended to subside. However, this time most analysts are expecting a 2008 like market rout due to the Coronavirus and a world trade contraction. ShareFinder, however, remains sanguine about current events, steadfastly predicting that the down-phase is over for now and sensing a recovery until September when it continues to predict a fresh market crisis:



## The month ahead:

**New York's SP500:** I correctly predicted a down-hill phase which looked like lasting longer but now I see a recovery under way until October with several retractions on the way: and the next between March 23 and May 11.

**London's Footsie:** I correctly predicted the beginning of a longer recovery phase lasting until mid-April, then another slippage, another recovery until early June and yet another slippage until late July, all within a rising trend until mid-October.

**Hong Kong's Hangsen:** I correctly predicted declines which I still see lasting until late March before a recovery trend lasting until year-end.

**Japan's Nikkei:** I correctly predicted a recovery until mid-April before the next short phase of weakness until around May 11 within an overall up-trend lasting until mid-September.

**Australia's All Ordinaries:** I correctly predicted declines. Now I see the beginning of a recovery lasting until mid-September.

**JSE Industrial Index:** I correctly warned that the next decline had begun and now expect it to last until mid-June.

**Top 40 Index:** I correctly predicted declines until late March. This week's brief recovery will be followed by declines until around March 23 followed by recovery until April 10 and then volatile declines until mid-June.

**ShareFinder Blue Chip Index:** I correctly predicted the beginning of a volatile recovery until early September when the next big dip is likely.

**Gold shares:** I correctly predicted a brief up-tick followed by declines which I now see lasting until early August.

**Gold Bullion:** I correctly predicted modest gains beginning now until mid-April when further declines are likely through to early June.

**The Rand/US Dollar:** I correctly predicted a volatile recovery until late-May.

**The Rand/Euro:** I correctly predicted weakness which I still expect to last until July.

***The Predicts accuracy rate on a running average basis over the past 730 weeks has been 85.58%. For the past 12 months it has been 95.53%.***

**Richard Cluver**