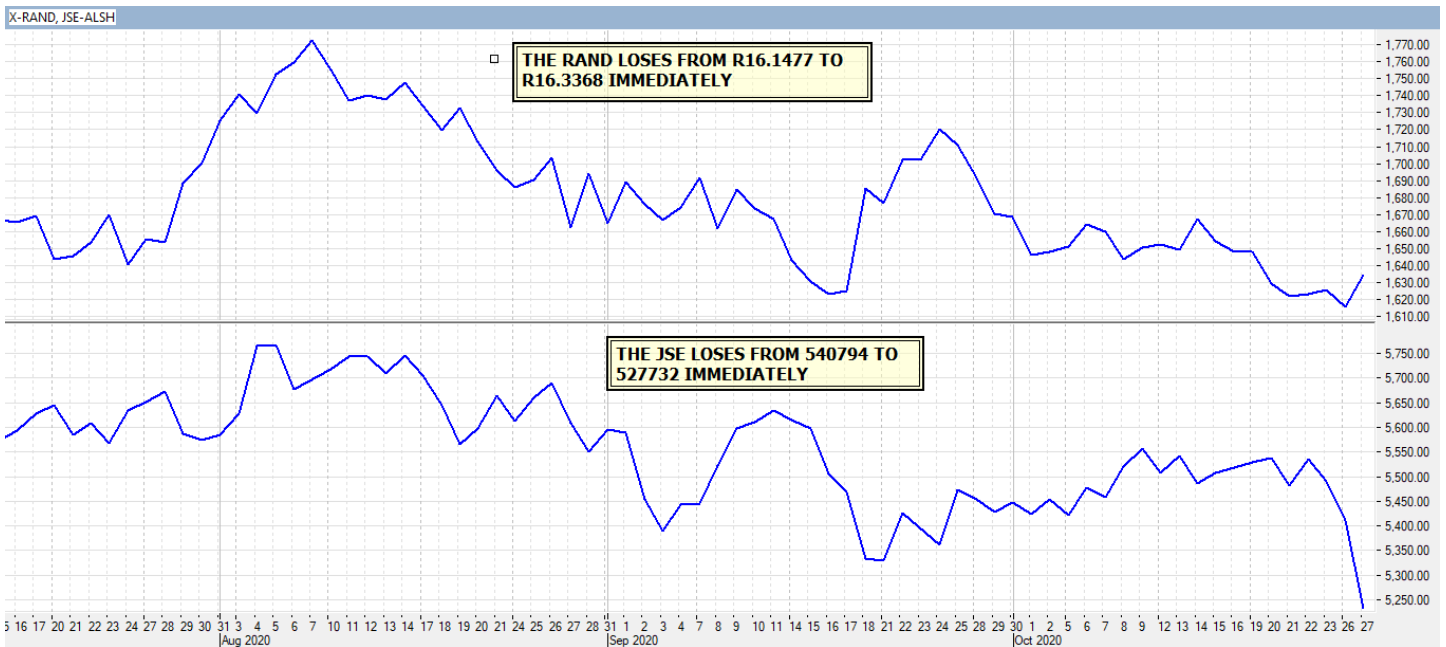




So, a quick take on Tito's mid-term budget: One contested goal and one home goal with the market reaction an inevitable thumbs down.

Marketplace reaction in the immediate aftermath is depicted below with both the Rand and the JSE All Share Index showing marked displeasure. It is, however important to note that the JSE was not alone. On Wall Street the Nasdaq fell 3.73 percent, and the S&P500 3.52 percent; the worst one-day drop since June. In Europe The Stoxx 600, a pan-European index, suffered its worst one-day drop since September. France's CAC and Germany's DAX dipped 3.7% and more than 4.4%, respectively. Bottom line: The U.S. and Europe have resoundingly failed to hold onto the progress made over the summer against the virus and many East Asian countries resoundingly haven't;



Yesterday, the market was all over the place as it struggled to make sense of the mixed messages from commentators. But question mark shares like Sasol opened down a significant 3.02 percent, while others like MTN surged a massive 5.71 percent and has continued rising as excitement grows about a new French connection: a typical response to an investment community seeking direction. And market uncertainty continued today with the Rand extending its slide.

Tapping in to my own network of people I consider to be wise old market watchers, the consensus view seemed to be that the Finance Minister and President Ramaphosa completely understand where they need to take the country but fear the loss of support if they seek to put the interests of South African citizens ahead of ANC aspirations. And therein lies the rub.

While the ANC's predominant support is among rural blacks, the steady migration to our cities has seen that number being steadily eroded and so, at best from its point of view, the party is likely to in future only rule by coalition wherever it is able to strike alliances. Our future is thus likely to be in the hands of king-makers whose diverse agendas will not necessarily provide the country with secure long-term planning capability. And that, in a nutshell, is one of the principal reasons why foreign investors are fighting shy: no longer prepared to put their money into long-term South African projects to, for example, exploit our amazing mineral resources.

Investors need a long-term vision which is why, for example, for all the warts that came with it, they were long ago prepared to back the National Party despite sanctions et al and why our stock exchange continued to deliver world-beating growth back in the day!

So, what are the problems going forward? Hardest of all to justify, and I have no doubt the International Monetary Fund will be demanding an explanation for the decision to throw another R10.5 billion into the South African Airways bottomless pit at the expense of tertiary education, health and housing provision. Though Tito was at pains to underscore that the money would not come from borrowings but rather from re-purposed budgetary items, that argument is unlikely to convince lenders.

Furthermore, although Tito promised a Public Service pay freeze, few think that in the face of its dwindling support base the ANC can afford to alienate the trades unions. But if Tito cannot stem the tide of Government spending, we are likely done for. We are on the edge of a fiscal cliff and at best clinging on with our finger tips and so one mis-step at this stage must inevitably send us plunging into the abyss of a "failed state." That prospect is too awful to contemplate and yet many seasoned commentators are not convinced that the majority of Cyril Ramaphosa's Cabinet understands that.

Tito said it clearly enough. *"We can't continue the same way when facing a debt ratio of 95%. I'm warning you that if you continue in this direction, you are heading for a sovereign debt crisis."*

However, far too many in leadership positions still appear to think Zimbabwe's Robert Mugabe was a hero, and that his economic leadership was an inspiration for inexplicable reasons seemingly tied to anti-colonialistic thinking. It's not unlike the "New Economy" thinking which is driving a growing group of First World thinkers who argue that ever-increasing indebtedness is OK so long as you can control interest rates which, in any case will always be driven downwards if you print so much money that it becomes virtually worthless.

In both cases it inevitably ends badly and pensioners whose life savings can no longer provide them with a decent income from sovereign debt, have been the inevitable losers. But, the alternative, if central banks are able to engineer an inflationary tidal wave which is the only non-explosive way the world of money has ever devised to wipe out accumulated debt, pensioners will lose anyway. Down that road, of course, that likely takes us back to an era which saw the rise of totalitarianism and World War Two: but perhaps that route might curiously appeal to a rising generation raised in the cyber era nurtured by video games like "Warcraft" which, unlike our parents who experienced actual hand-to-hand fighting in places like North Africa and Italy, has no conception of the real, horror of war!

My own experience in newspapers and business is that you only win credibility by doing the right thing consistently for a very long time. I do believe that Team Ramaphosa understands what needs to be done and is trying to do it. Now the investment world will be watching just one main theme when it turns its lens on South Africa; the Public Service pay bill. If they can really keep a lid on it then observers will gradually begin to believe this country has a credible growth future.

As the mouth-wateringly low prices of JSE shares currently make clear, there is a fortune to be made here if we can restore growth and, furthermore, that is the only win-win approach that can improve our worst in the world unemployment crisis and see the social upliftment the ANC has long promised and failed to deliver.

So, this is either the turning point or the end. Let's hope Team Ramaphosa does not flinch in the months ahead!

Do enjoy your weekend!

The months ahead:

New York's SP500: I correctly predicted that a new decline had begun on October 13 and I expect it to continue until early January when a strong three-month recovery is likely. In the interim I see a month-long short-term recovery from November 10.

London's Footsie: I correctly predicted a continuation of the long-term declining trend which I expect it to continue until late January when a three to four-month recovery is likely.

Germany's Dax: I correctly predicted a volatile decline until the end of November when a four-month recovery seems likely.

France's Cac 40: I correctly predicted a down-hill phase which I still expect to last to the end of November when a long recovery trend to mid-April is likely to begin.

Hong Kong's Hangsen: I correctly predicted that Asian markets would stage an interim recovery until the end of this year. I expect it to be followed by a steep January decline and a February to mid-March recovery.

Japan's Nikkei: I correctly predicted the recovery had peaked ahead of a volatile declining trend which I still see lasting until mid-December ahead of gains until mid-March.

Australia's All Ordinaries: I correctly predicted an extremely volatile recovery phase lasting until mid-May but completely failed to anticipate the sharp interim downward correction which I now expect to last until the end of November before the increasing volatile recovery again gets under way with the next major decline likely in mid-February.

JSE Industrial Index: As I correctly forecast, the index remains in an extremely volatile declining phase until mid-January when a short sharp recovery can be expected within a continuing declining trend. From November 12, however, I see a recovery until the mid-December ahead of the next down phase until the third week of January.

JSE Top 40 Index: I correctly predicted a decline which I still see lasting until mid-November when another upsurge is likely marking the beginning of a volatile recovery trend until mid-December ahead of the next down-trend until mid-January and another recovery to mid-February followed by declines until mid-April.

ShareFinder JSE Blue Chip Index: I correctly predicted the recovery was over and, with volatility continuing it is likely to be downhill until mid-September.

JSE Gold shares: I correctly predicted a decline continuing for the next 12 months however I now see the decline beginning to slow from late February.

Gold Bullion: I correctly predicted the recovery would continue well into 2021 and continue to hold that view. However, volatility is increasing which suggests there might be more interim declines like that of the past week.

The Rand/US Dollar: I correctly predicted an interim month-long strengthening phase. However, it ended sooner than I expected following the mid-term budget disappointment and I see weakness continuing until early February when another strengthening phase is likely until July.

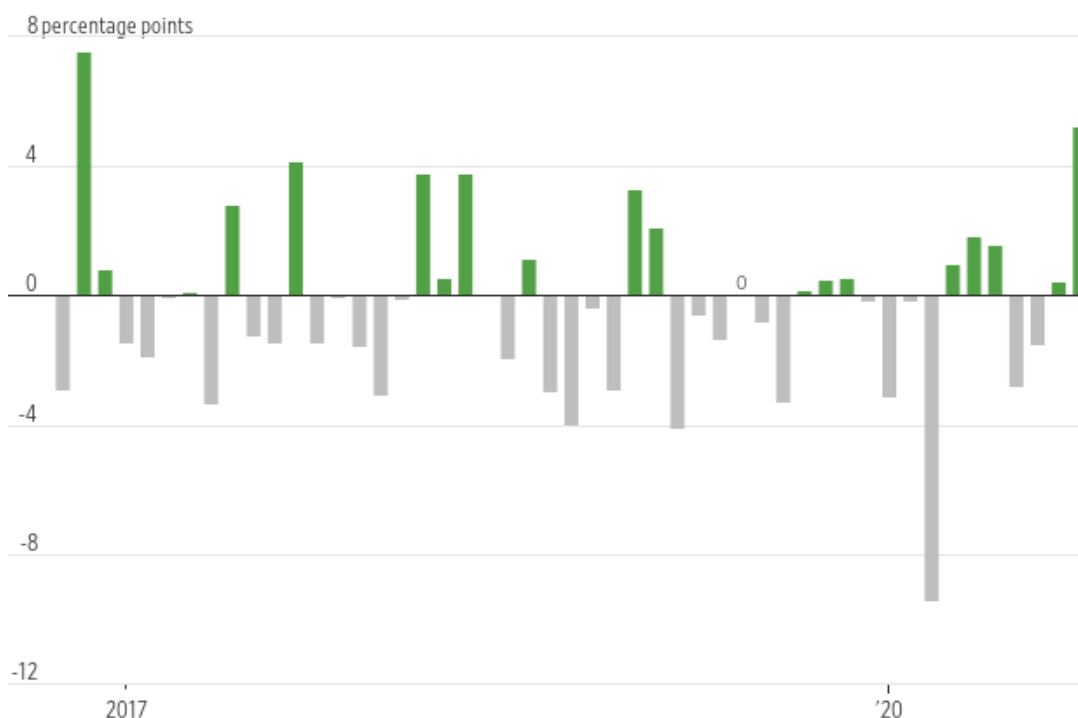
The Rand/Euro: I correctly predicted gains until mid-November ahead of a weakening phase until mid-December. Thereafter I continue to foresee strength resuming until next September when a 17.9 Rand is possible.

The Predicts accuracy rate on a running average basis since January 2002 has been 85.85%. For the past 12 months it has been 94.97%.

Meanwhile bets on Biden-Led Stimulus Fuel Small Stocks

By Amrith Ramkumar of the Wall Street Journal

Monthly difference between Russell 2000 and S&P 500 performance

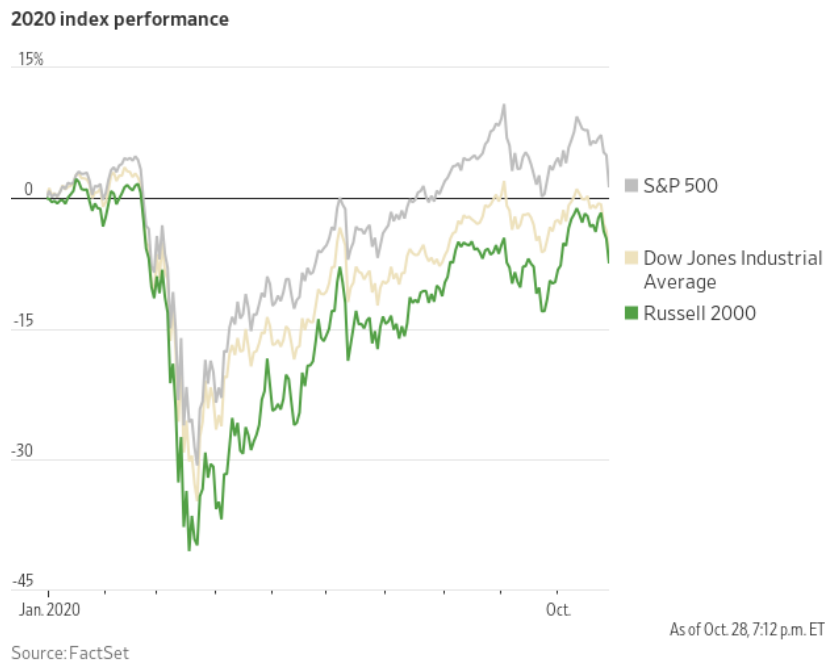


Notes: Positive numbers mean Russell outpaced S&P and negative numbers signal the opposite; October 2020 figures through Wednesday

Source: Dow Jones Market Data

Small stocks are outpacing larger companies by the greatest amount in years so far this month, underscoring investors' bets on Democrats gaining control in Washington and ramping up spending to support the economy.

Despite this week's slide, fueled by rising coronavirus cases around the world, the Russell 2000 of small-cap companies is still up 2.4% in October. That compares with a 2.7% drop for the S&P 500 and would be the largest such outperformance for any month since November 2016, the month President Trump was elected, according to Dow Jones Market Data. The Russell is outpacing the Dow Jones Industrial Average by 6.9 percentage points, which would be the largest monthly gap in more than a decade.



In the past week, the Russell is down 3.8%, compared with a 4.8% drop for the S&P 500 and a 6% fall for the Dow. The Russell has led even though smaller companies would be hard-hit by any new lockdown measures in the U.S.

Earnings at these companies tend to rise and fall with the performance of the economy, but investors are anticipating that a victory by Democratic presidential nominee Joe Biden will lead to larger spending programs on everything from infrastructure to renewable-energy projects.

Similar wagers were made four years ago after Mr. Trump's surprising victory, when investors bet that spending on infrastructure programs and deregulation would support small-caps. Many of those wagers unwound after a large infrastructure bill never materialized, and small companies continued lagging behind their larger peers as they have for much of the past decade. Since the 2016 election, the S&P has risen 53%, while the Russell is up 29%.

But nearly four years later, investors are favoring small stocks again. Many investors are hopeful that greater fiscal spending can offset corporate-tax increases or greater regulation that many investors expect in a "blue wave" scenario that sees Democrats win the White House and control in the Senate.

Pain at the mall is fueling an opportunity for fund managers, who sell payment protection for a fee

By Joe Wallace and Julie Steinberg of the The Wall Street Journal

Pain at the shopping mall is throwing up a moneymaking opportunity for fund managers. For the bet to pay off, retailers on the edge of going bust must actually survive.

The bet rests on a form of protection known as a vendor put option that thrives in times of economic stress. Such deals, which often involve big players like JPMorgan Chase & Co., are on the rise. They can be lucrative for fund managers, who get paid to act as a backstop in case a supplier's customers go bankrupt.

Economic stress has driven some retailers to seek bankruptcy protection. Some of their suppliers are looking to make sure they get paid for their goods, even if the cash isn't from the retailer. Some buy vendor puts. Interest in vendor puts has bloomed recently. In good times, trade-credit insurance, which protects against defaults, is available. But insurers during the pandemic slashed coverage and companies including Neiman Marcus Group Inc. and J.Crew Group Inc. tipped into bankruptcy.

The puts work like this: A supplier grows concerned its client might not stump up for goods and services after it buys them. To protect its accounts receivable, the supplier enters into a contract of up to a year with an investor, which collects a fee upfront and agrees to purchase the receivables claims if the company collapses.

Since May, suppliers have entered into put options on companies including J.C. Penney Co., Macy's Inc. and Bed Bath & Beyond Inc., according to Cherokee Acquisition, which runs an online platform for the instruments. Transportation and technology companies are also popular, industry participants say.

JPMorgan often sits in the middle, striking vendor-put deals with suppliers before passing its position onto investors. The bank says requests for prices on vendor puts are up between 30% and 50% over the past year.

Credit Suisse Group AG and Goldman Sachs Group Inc. have been involved in the vendor put market in the past, but currently JPMorgan is the only big bank with a significant presence, according to people familiar with the business.

For funds, puts can be more lucrative than credit-default swaps, another protective financial instrument. Many investors look for annualized returns of 15-18%, according to a person familiar with the trades.

On Oct. 21, it cost vendors \$10,000 a month to protect a notional \$1 million in receivables with a Macy's put on Cherokee's exchange. If the contract lasted a year, the equivalent credit-default swap would cost just under two-thirds as much. The flip side to this premium: Puts are hard to trade and can be costly to manage if there is a bankruptcy, said Cherokee director Bradley Max.

Distressed-investment firm Avenue Capital Group notched a profitable trade in 2018 and early 2019 when Tesla Inc.'s bonds were under pressure. Avenue sold puts to a company supplying body panels to the electric-vehicle maker, a person familiar with the matter said. Avenue co-founder Marc Lasry lauded the trade at the time, saying there was no reason to fear for Tesla's prospects.

Puts are generally much more expensive than credit insurance, but they can't be canceled for the duration of the contract, said Shereen Furio, principal at insurance brokerage Furio Agency. She says requests are up 50% since before the crisis.

Since May, suppliers have entered into put options on companies including J.C. Penney and Macy's, says Cherokee Acquisition. The wager typically pays off because most companies covered by the deals don't collapse. Losses are steep when puts are triggered, so many investors hedge by buying credit-default swaps, said Thomas Janover, a lawyer at Kramer Levin Naftalis & Frankel LLP, who draws up put agreements.

Vendor puts were created in the 1990s and dwell in a niche corner of the credit market. Popular through the 2008-2009 financial crisis, they wane during periods of economic growth when suppliers are broadly confident their customers will pay. The deals are private, but participants estimate that puts protect receivables tied to payments for hundreds of millions of dollars.

Karaoke-machine distributor The Singing Machine Company Inc. was readying to ship \$1.3 million worth of products to Penney in September 2019. Worried about the retailer's health, Singing Machine tried and failed to find credit insurance, said Chief Financial Officer Lionel Marquis. The company decided to spring for a put after weighing the losses it would incur from selling the machines to a discount retailer instead of Penney.

The put cost \$135,000 to cover goods valued at \$800,000, Mr. Marquis said. Penney didn't go bankrupt at the time, but Mr. Marquis said the deal was worth it because if it had gone "belly-up then we could recover the cost of the inventory."

René Canezin, managing partner of Evolution Credit Partners, which is backed by Harvard University's endowment, said selling puts is attractive because the firm gets to contribute to the real economy, as the supplier is "worried about his business profile; he needs to ship next month."

Mr. Canezin said the size of returns is linked to puts' bespoke nature, requiring time spent on research and customer service.

Sometimes investors and suppliers dispute their contracts. E-Lo Sportswear LLC and Lanco Apparel LLC alleged in September in a civil case in New York that ETG Capital LLC didn't pay over \$1.5 million the two clothing companies claimed was owed to them under put agreements this year.

An attorney for ETG Capital said E-Lo and Lanco didn't fulfill their obligations and ETG had no contractual obligation to them. An attorney for E-Lo and Lanco said he believes their claims in the lawsuit would be found to be valid.
