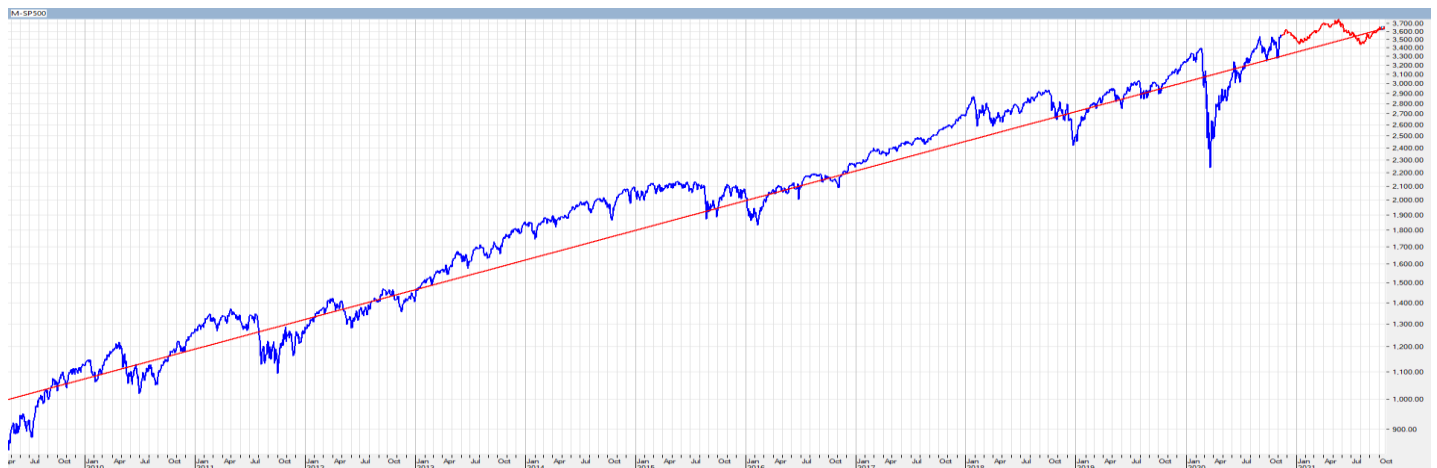




To the surprise and clear gratification of investors everywhere, two happy events have conspired together to send markets into orbit with the clear promise that 2021 will be a far better year than this one has been!

The result has been a convincing resumption of the bull market that began back in March 2009. It is, if you consider my graph below of New York's most comprehensive index, the Standard and Poors 500, as if the pandemic never happened and we can now all get on with our lives once more. The events of the past week have, moreover, erased the probability of another serious market decline until mid-January although, if you study the graph below you will note that ShareFinder continues to project a small retraction from November 26 until January 7 before Wall Street goes full throttle until the end of May next.



Clearly the most important event from a global point of view has been Pfizer's announcement of a virus vaccine that is better than 90 percent efficient in protecting the public against Covid-19. Furthermore, here at home in South Africa local drug maker Aspen has announced its ability to locally manufacture vaccines at the rate of a million doses a day which implies that the entire country could be vaccinated within a few months once production gets the official green light.

Aspen's agreement is with Johnson & Johnson for a different vaccine which is still undergoing clinical trials and so at this stage we can only speculate upon when South Africans might have access to it. What is important, however, is that globally we are now able to see the light at the end of the Covid tunnel and markets are clearly showing their relief in the best way they know how!

Pfizer's vaccine candidate isn't a live virus that's been weakened, or a killed virus. Even though historically, these vaccine platforms have produced the [strongest antibody responses](#), they can take [years and sometimes over a decade](#) to develop—not ideal for squashing a quickly-spreading pandemic.

Instead, it's what's called an mRNA vaccine. If the US Food and Drug Administration grants it emergency use authorization or eventual approval, it will be the first of its kind on the market.

This class of mRNA vaccines could make vaccines against new pathogens available shortly after scientists sequence its genetic material, says Malcolm Duthie, a professor in the department of global health at the University of Washington. “It speeds it up at the pandemic response immensely,” he says.

One bottleneck in traditional vaccine development is figuring out how to safely mimic an external pathogen. This means building a properly folded protein facade or genetically altering a virus so that cells register it as a threat without being *under* threat. With mRNA vaccines, researchers can skip that step; instead, they give cells the instructions for mounting defences against a virus that isn't there.

Writing for Quartz magazine, health and science reporter Katherine Ellen Foley explained that mRNA vaccines provide the cellular ingredient list for the antibodies that target the signature spike protein on SARS-CoV-2. When our cells make the proteins they need to survive, mRNA—short for messenger RNA—is the intermediary genetic material translated from DNA, akin to the shopping list you write yourself after reading a recipe in a cookbook.

“To get that mRNA into your cells, the vaccine designers put it in a fatty envelope that has the same chemical characteristics as certain proteins that can shimmy their way through our cell membranes. Once inside, the fatty envelope degrades, and little protein factories called ribosomes read the mRNA inside to start making select snippets of the SARS-CoV-2 virus, which kicks off antibody production.

“The fact that Pfizer’s vaccine seems to have worked so well means that they were right that the signature spike protein on the SARS-CoV-2 virus was a good target. But it also means that—for the very first time—mRNA vaccines seem to have worked. If they do, researchers working to develop vaccines for future pandemics will have a blueprint of how to quickly develop vaccines against them.”

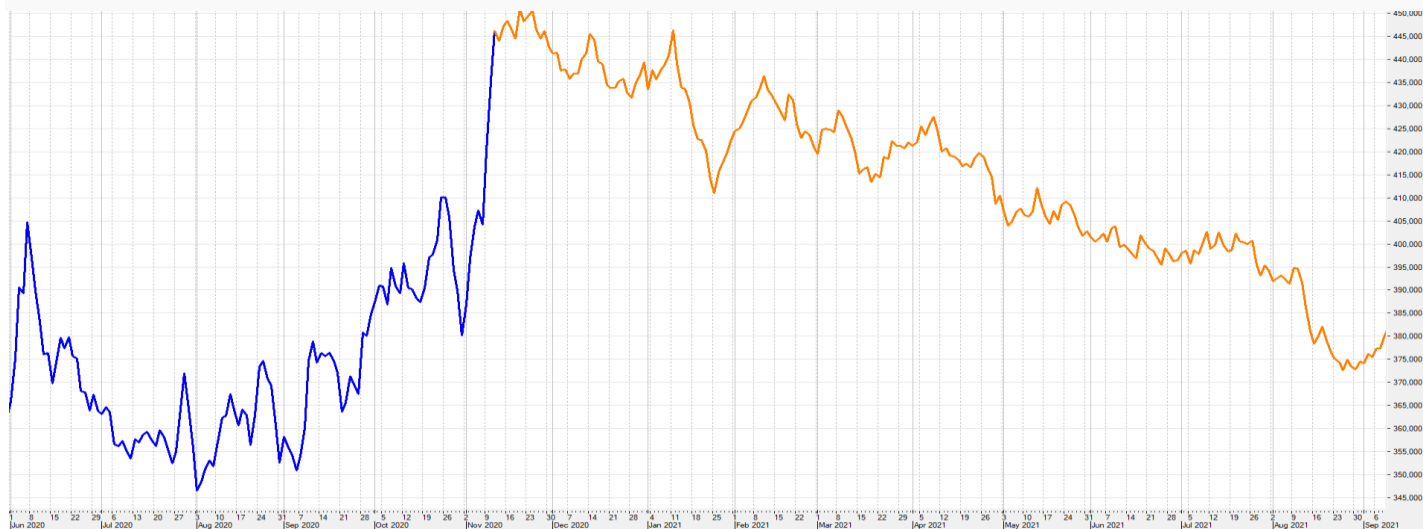
It is a significant break-through which effectively addresses fears that, after Covid-19, a host of other viruses could similarly hurl the world into successive lock-downs and effectively destroy our already extremely fragile economic system.

Against this development, the fact that the American people last week elected their Democratic candidate Joe Biden by a satisfactorily large margin is clearly of far lesser consequence. However, the fact that he will lead a “hung” parliament in which the Democrats still dominate Congress by a small majority but will probably not control the Senate has delighted US economists who proclaim it as a best of both worlds’ situation. A dangerous maverick who has regularly threatened world peace and foreign relations has been removed from power, but the hung parliament means that no major legislation is likely to happen.

No significant US tax increases are thus likely and neither are some costly mooted enhancements of the US Medicare system which is the best news for Wall Street. It is also unlikely, however, that the new democratic administration will do what President Clinton accomplished during his term by reducing the towering US deficit at the expense of quite rigorous austerity for which the American people rewarded the Democrats by not re-electing their party to the White House. That is likely to have a profound long-term effect because it will effectively hasten the inevitable day of reckoning when global debt collapses our world economy.

It does, however, probably kick the reset can down the road a bit further while central bank accommodation methods ensure that share prices will continue rising since they represent one of the few means available to the ordinary man in the street to protect his savings.

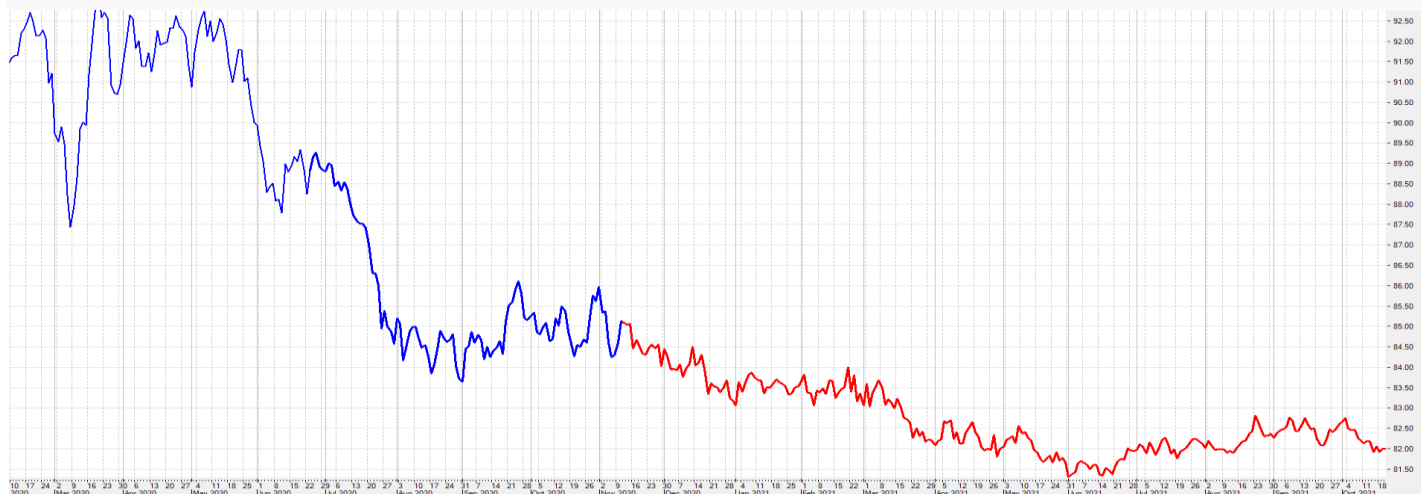
Sadly, although South African Blue-Chip shares responded with alacrity to the recovery of world markets, ShareFinder's projection for the future holds little promise of the gains continuing for much longer. As my next graph clearly illustrates, ShareFinder predicts that Blue Chips will peak on or around November 19 before turning down once more heading for an eventual bottom around the end of next August:



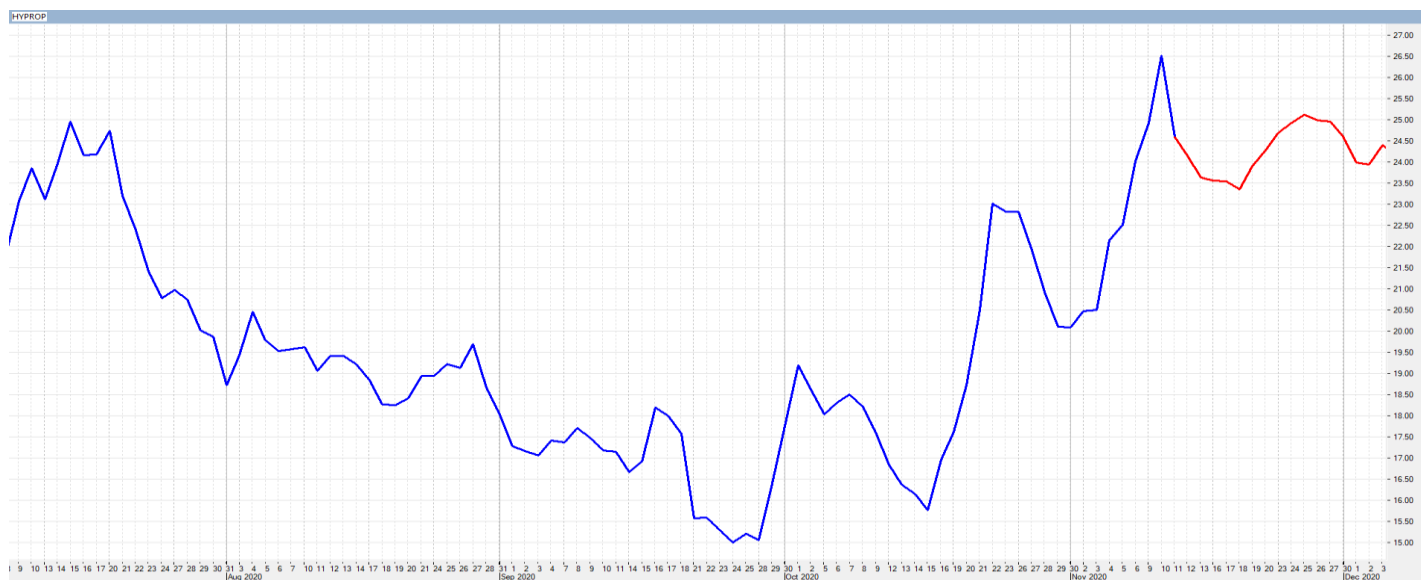
Furthermore, although the Rand has benefitted lately from a steady weakening of the US Dollar, ShareFinder opines that the strengthening phase is probably over for now since it expects weakness to continue at least until mid-February as my next graph illustrates:



The projected weakening of the Rand is, however, in contrast with what is expected to happen to the US\$ for economists generally expect a consequence of the Biden administration will be a further weakening of the US\$ relative to currencies like the Euro and ShareFinder agrees, projecting that the dollar will continue losing until early June as my next graph illustrates:



Meanwhile, I trust readers have taken advantage of my numerous recent intimations that property reits like Growthpoint and Hyprop have been massively undervalued. You will have already doubled your money if you did. As my last graph of Hyprop illustrates, from a September 28 low of R14.16 the shares have so far risen to R27.25 and, both ShareFinder and I think they have some way still to go.



Both fell back in price yesterday following Growthpoint's announcement of a R4.3-billion accelerated bookbuild fund-raising which, understandably was seen by some as a dilution of the share value and the weakness extended into today offering would-be buyers another opportunity to get on board this situation.

Noting that Hyprop's AGM will be staged on Tuesday, November 24 when shareholders hope there will be some clarity on when the next dividend payout can be expected, ShareFinder projects that the temporary weakness of Hyprop shares will continue until the 19th of this month before the next recovery phase begins

Do enjoy your weekend!

The months ahead:

New York's SP500: I correctly predicted that a new decline began on October 13 with an interim month-long short-term recovery from early November. The recovery is, however, likely to be over by the 27th with the subsequent recovery still expected to begin around January 12.

Nasdaq: Having rebounded from its lowest interim point, I correctly predicted a brief retreat which began this week and should last until the 16th ahead of a modestly upward sideways trend until early January when the next upsurge might be expected.

London's Footsie: I correctly warned that this week's recovery is a very brief short-term response to the US election and I expect an imminent return to 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 warned that this week's recovery is a very brief short-term response to the US election and will likely be over by the 16th at the latest. December should, however, see the start of a long four-month recovery ahead of an April to October decline.

France's Cac 40: I correctly predicted that this week's recovery was a very brief short-term response to the US election and I expect it to be followed by 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. Now I expect a very brief correction ahead of further gains until early January followed by a steep month-long decline and a February to mid-March recovery.

Japan's Nikkei: I correctly predicted the recovery was peaking ahead of a volatile declining trend which I believe is imminent and likely to last until + - December 18 ahead of a three-month recovery phase.

Australia's All Ordinaries: I correctly predicted an extremely volatile recovery phase lasting until mid-May within which I saw an interim downward correction which I expected to last until the end of November ahead of a three-week recovery to about December 22 before a three-month decline sets in.

JSE Industrial Index: As I correctly forecast that a brief recovery was likely over but another appears due around November 18 until the end of the month followed by a decline until +- January 20 when five weeks of gains appear likely.

JSE Top 40 Index: I wrongly predicted a decline lasting until mid-November. Now I see gains continuing until mid-December with the next brief up-tick as I predicted last week likely to begin around the 13th lasting until mid-December ahead of the next down-trend until mid-January and another recovery to mid-February when a volatile decline is likely until mid-August.

ShareFinder JSE Blue Chip Index: I wrongly predicted the recovery was over. But the end is likely quite soon, around November 19 until late January when a brief recovery seems likely ahead of a declining trend until August.

JSE Gold shares: I correctly predicted a decline continuing until February followed by a slower decline until October at least.

Gold Bullion: I correctly warned that volatility was increasing which suggests there might be many more interim declines. Nevertheless, I continue to predict continued gains for most of 2021.

The Rand/US Dollar: I correctly predicted the end of the latest recovery phase and now expect the new weakening phase to last until mid-February. Thereafter I again see gains until late May.

The Rand/Euro: I correctly predicted gains until mid-November ahead of a weakening phase which has now begun and is likely to last until the end of December. Thereafter I continue to foresee strength resuming until next September.

The Predicts accuracy rate on a running average basis since January 2002 has been 85.86%. For the past 12 months it has been 94.96%.

Sharp Dollar decline predicted

By Kenneth Rogoff, former chief economist of the International Monetary Fund

With alternative assets such as gold and Bitcoin thriving in the pandemic, some top economists are predicting a sharp fall in the dollar. This could yet happen. But so far – despite inconsistent US management of the pandemic, massive deficit spending for economic catastrophe relief and monetary easing – core dollar exchange rates have been eerily calm.

Even the ongoing presidential election drama has not had much impact on the value of the dollar. Traders and journalists may be getting worked up about the greenback's daily travails, but for those of us who study longer-term exchange rate trends, their reactions amount to much ado about nothing.

To be sure, the euro has appreciated by roughly 6% against the dollar in 2020, but that is peanuts compared with the wild gyrations that took place after the 2008 financial crisis, when the dollar fluctuated between \$1.58 and \$1.07 to the euro.

Similarly, the yen-dollar exchange rate has barely moved during the pandemic, and yet varied between ¥90 and ¥123 to the dollar in the Great Recession. And a [broad dollar exchange rate index](#) against all US trading partners is currently sitting at roughly its mid-February level.

Such stability is surprising, given that exchange rate volatility normally rises significantly during US recessions.

As Ethan Ilzetzki of the London School of Economics, the World Bank's [Carmen Reinhart](#) and I discussed in [recent research](#), the muted response of core exchange rates has been one of the pandemic's major macroeconomic puzzles.

Economists have known for [decades](#) that explaining currency movements is extremely difficult. Nevertheless, the overwhelming presumption is that in an environment of greater global macroeconomic uncertainty than most of us have seen in our lifetimes, exchange rates should be shifting wildly.

But even as a second wave of Covid-19 has stunned Europe, the euro has fallen only by a few percent – a drop in the bucket in terms of asset price volatility.

Fiscal stimulus talks in the US are on one day, off the next. And although America's election uncertainty is moving toward resolution, more huge policy battles lie ahead. So far, though, any exchange rate response has been relatively small.

Nobody knows for sure what might be keeping currency movements in check.

Possible explanations include common shocks, generous Fed provision of dollar swap lines and massive government fiscal responses around the world. But the most plausible reason is the paralysis of conventional monetary policy.

All major central banks' policy interest rates are at or near the effective lower bound (around zero), and [leading forecasters](#) believe they will remain there for many years, even in an optimistic growth scenario.

If not for the near-zero lower bound, most central banks would now be setting interest rates [far below zero](#), say, at minus 3%-4%. This suggests that even as the economy improves, it could be a long time before policymakers are willing to "lift off" from zero and raise rates into positive territory.

Interest rates are hardly the only likely driver of exchange rates: other factors, such as trade imbalances and risk, are also important. And, of course, central banks are engaged in various quasi-fiscal activities such as quantitative easing.

But with interest rates basically in a cryogenic freeze, perhaps the single biggest source of uncertainty is gone.

In fact, as Ilzetzi, Reinhart and I show, core exchange rate volatility was declining long before the pandemic, especially as one central bank after another skirted the zero bound.

Covid-19 has since entrenched these ultralow interest rates.

But the current stasis will not last forever. Controlling for relative inflation rates, the real value of a broad dollar index has been [trending up](#) for almost a decade, and at some point will probably partly revert to the mean (as happened in the early 2000s).

The second wave of the virus is currently hitting Europe harder than the US, but this pattern may soon reverse as winter sets in, and particularly if America's post-election interregnum paralyses both health and macroeconomic policy.

Although the US still has enormous capacity to provide much-needed disaster relief to hard-hit workers and small businesses, the [growing share](#) of US public and corporate debt in global markets suggests longer-term fragilities.

Simply put, there is a fundamental inconsistency over the long run between an ever-rising share of US debt in world markets and an ever-falling share of US output in the global economy.

(The International Monetary Fund expects the Chinese economy to be [10% larger](#) at the end of 2021 than it was at the end of 2019.)

A parallel problem eventually led to the breakup of the post-war Bretton Woods system of fixed exchange rates, a decade after Yale economist Robert Triffin first identified it in the early 1960s.

In the short to medium term, the dollar certainly could rise more – especially if further waves of Covid-19 stress financial markets and trigger a flight to safety.

Exchange rate uncertainty aside, the overwhelming likelihood is that the greenback will still be king in 2030.

But it's worth remembering that economic traumas such as we are now experiencing often prove to be painful turning points. **DM/BM**

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