

Current Market Conditions ahead of September 2021

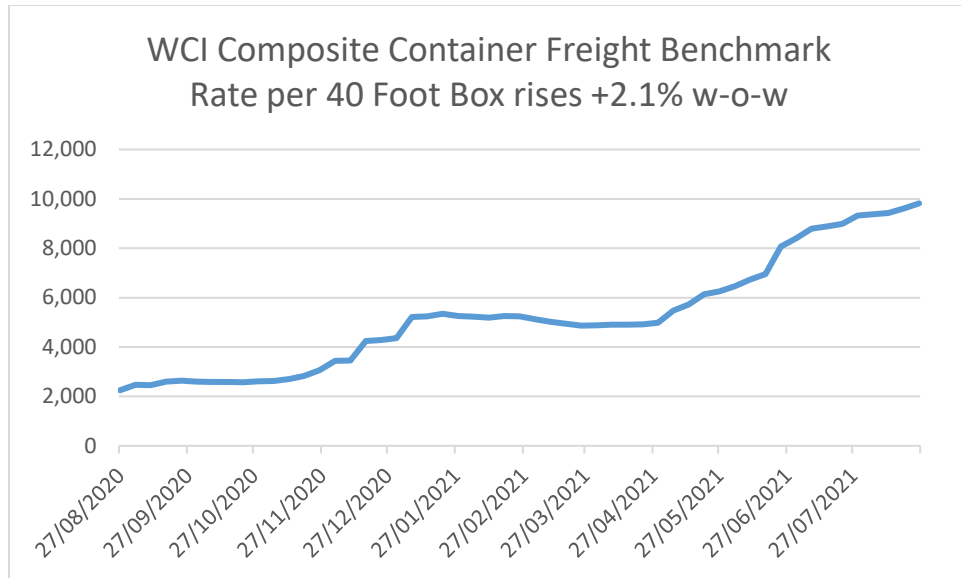
Container freight continues to soar higher

While the Ningbo Port in China has fully reopened, there are new bottlenecks forming at Los Angeles Long Beach Harbour with a record 40+ container ships anchored, waiting to be offloaded. This has led the World Container Index composite to move to another record high last week. The problem is not the number of ships, but rather the harbour capacity to handle more ships arriving within a short period of time.

The supply bottlenecks and higher logistics & energy prices has led the following companies to announce price hikes lately coming in effect as early as September:

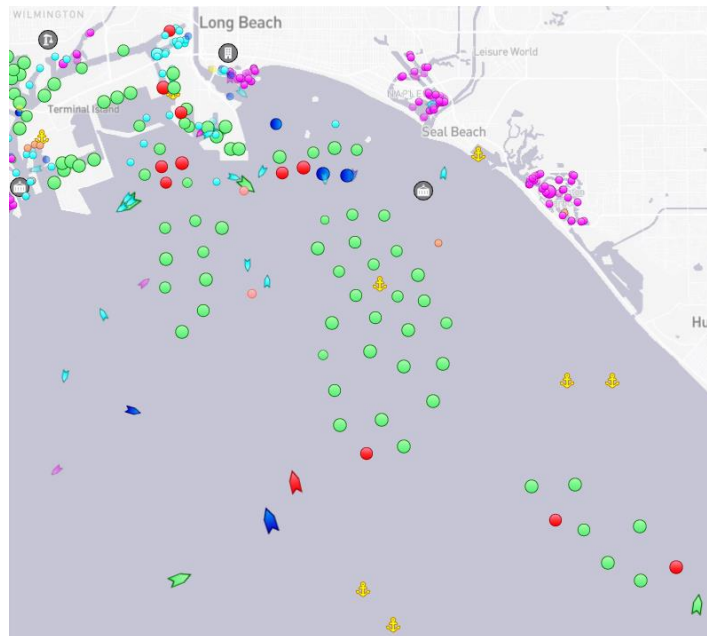
- TSMC semiconductors +10-20%
- Creagh Concrete products +15%
- Ibstock bricks +10.5%
- Hunting is looking to increase its drilling equipment prices (+10%?)
- Unilever warns to pass on cost inflation, McBride sees 50% slump in profits amid packaging and logistics price hikes
- UK energy bills to rise by at least £139 annually (~+5-10%)
- According to [Reuters](#) multiple American firms are looking to increase prices to offset inflationary pressure mostly in high single digits

While I expect the August CPI print in the US to be somewhat moderated compared to the prior months, this looks to be short-term in my eyes and September/October will see higher prints across most categories, making inflation broader and hence less transitory. Ultimately, by November/December I expect most countries to be vaccinated by as high as 80% of its population – e.g. [Australia](#), [China](#) – which could in turn lead to a deflationary scenario by January 2022. The big problem could be that companies will have to replenish their inventories at elevated costs and might end up with excess inventories by Q1/Q2 2022, which will impact profit margins – see US auto inventories below.

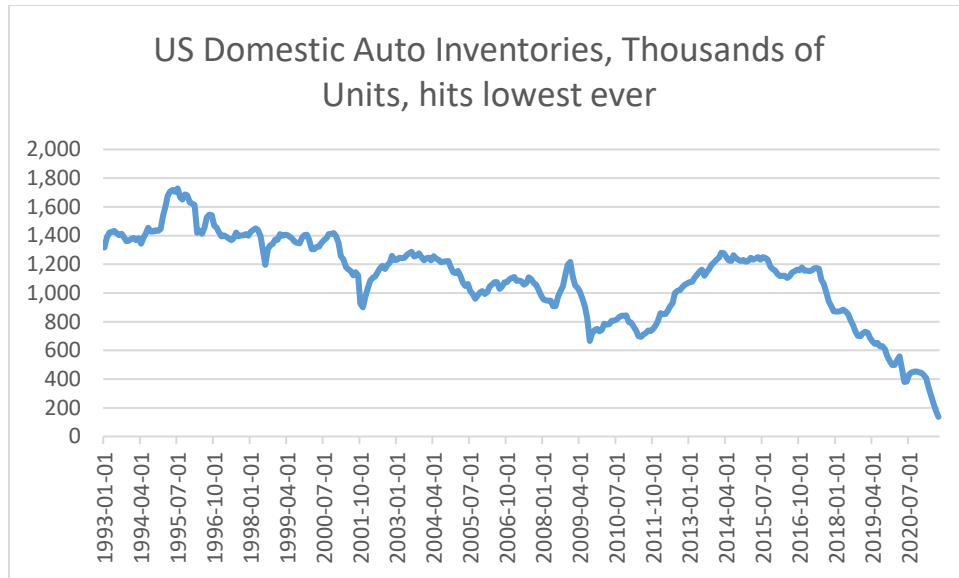


Source: Bloomberg

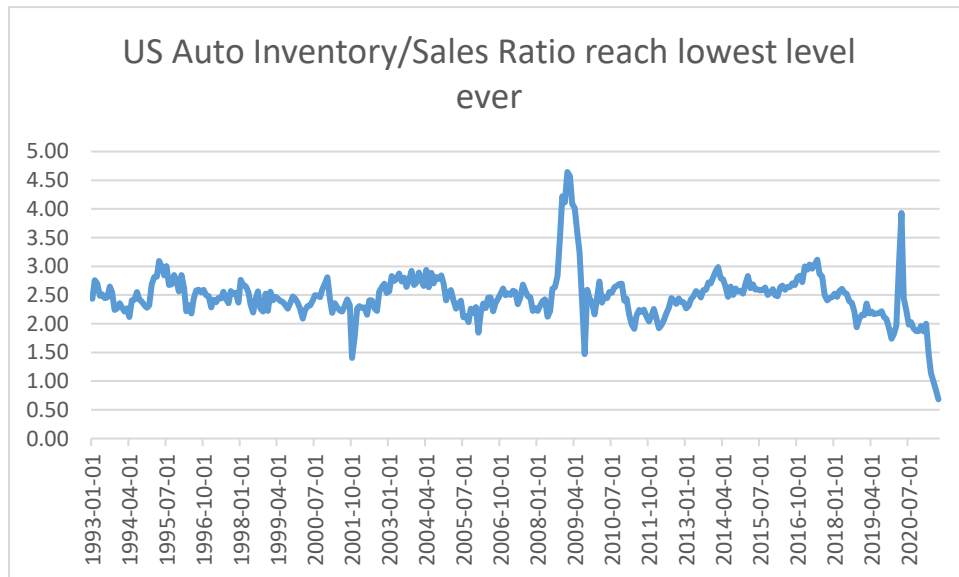
Los Angeles Long Beach Harbour has a record 40+ container ships waiting (green dots)



Source: Marinetraffic.com



Source: Fred St. Louis

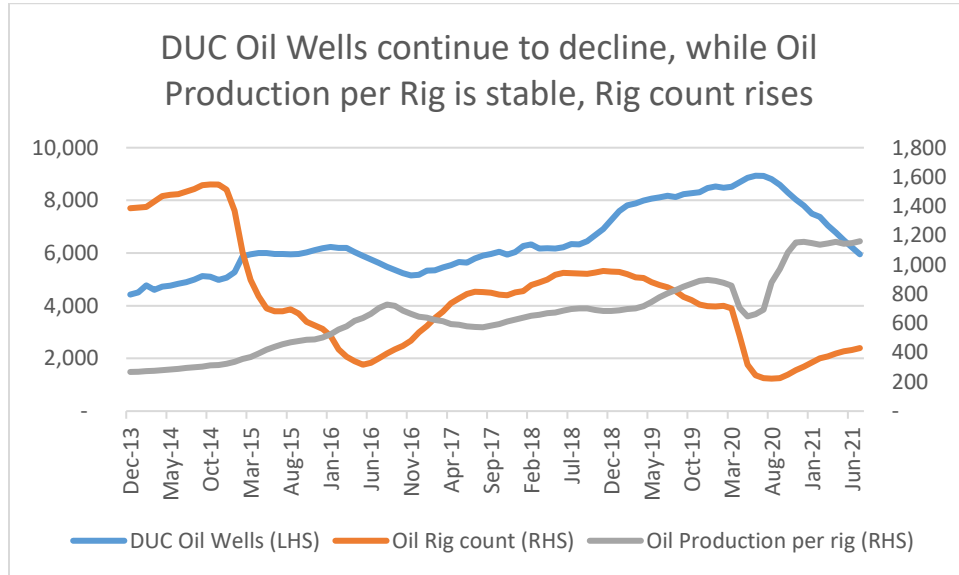


Source: FRED St. Louis

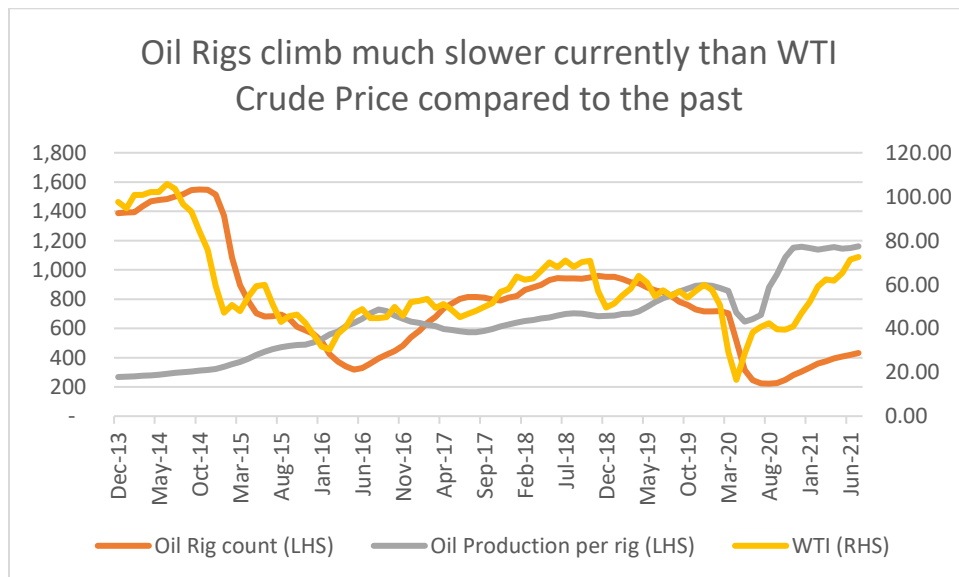
Drill, baby, drill is gone forever?

Saudi Arabia's comment on US shale oil "drill, baby, drill is gone forever..." might backfire, in my opinion. I believe oil demand has not peaked and 2022 will see most oil drillers looking to expand capital expenditures to increase their declining output. At that time, most developed nations will be fully vaccinated by +80%, travel and oil demand will be back at 2019 levels. The US shale region has not been drilling oil as much as thought, which was mainly due to running down drilled, uncompleted oil wells (DUC), which have now moved below 2018 levels. Over the last three weeks, we have started to see the oil rig

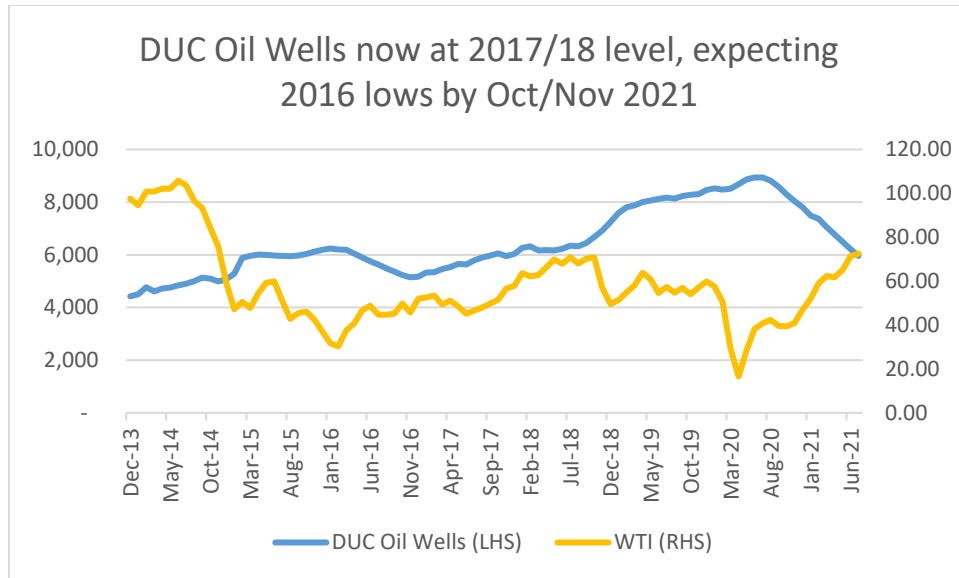
count jump by 5-10 rigs each week, while oil production kept steady. From now on, I think that US shale oil drillers need to add to the rig count to keep production stable, which will benefit oil equipment firms, such as Hunting.



Source: EIA



Source: EIA, FRED St. Louis



Source: EIA, FRED St. Louis

Update on direction where China is headed

With regards to the regulatory crackdown in China, I am quite split between “policy mistake” and “necessary adjustment”, but tilt towards policy mistake, as I’m a strong believer in the capitalistic system and laissez faire. To control infrastructure and manufacturing industries on a governmental level has worked, but I do not think that a government can control innovative firms and service companies, as it would make them less competitive internationally. Those investors who hail China’s crackdown a success or “necessary adjustment” are mostly all biased, as they held positions in Alibaba and other Chinese firms before the crackdown (Charlie Munger, Bridgewater). The Chinese government seems to admit that their crackdown is not very popular with its population on a domestic level, as they seek to improve [police performance](#) to maintain security and stability in the last four months of the year.

There have been a few other interesting updates from China over the last few days, such as flights resuming from [Nanjing](#), which are slowly ticking upwards, same as [Beijing](#) flights and [Shanghai](#) flights seem to pause their downwards trajectory. [Ningbo](#) Port was also reopened fully now, as China [clears](#) all Covid-19 high-risk areas. China continues to follow a zero Covid case policy, which is a bad long-term policy and won’t work. The likely reason for this is due to the low efficacy rates of Chinese vaccines. China has yet to approve the Pfizer vaccine, but likely delays the approval to ensure domestic vaccines don’t lose credibility (+63% of population is fully vaccinated) + it gives the domestic vaccine producers more time to come up with an efficient mRNA solution. Sinopharm was expected to deliver a “Pfizer” equivalent vaccine by the end of August, which seems less likely now.

The Chinese economy will face a few hurdles going forward in an ageing society that moves from manufacturing towards services. China is trying to maneuver this structural change by speeding up [high-value patent innovation](#), preparing plans to [grow trade in services](#) (this will be hard given levels of trust between Western countries and China is deteriorating) and improving their [pollution footprint](#). I remain skeptical on the success and believe there is a higher risk towards confrontation with the US building.

Crypto, NFTs - bubbles that need to burst

As mentioned yesterday, I seek to take advantage of the latest mania (non-fungible tokens - NFTs) by minting my [own](#) NFTs and [selling](#) them. It is an extremely lucrative business, as not only you can make money selling your NFTs, you can also set a % share of all future sales of your NFT other people sell. It is, however, easier said than done. I have been trying to set up an active [Twitter](#) account to promote my NFTs, but you really need to create at least 100 NFTs to get any interest. The community is also very “WallStreetBets” like, i.e. mostly pure gamblers who have no clue of anything, not really people you want to connect with. Nonetheless, the top 10 collections have transacted over \$1bn in value by now. The sellers of those projects have turned into multi-millionaires in a matter of weeks. I think we are three to four months away from the bubble to burst.

International Updates

US Pending Home Sales July 2021

Pending home sales again declined in July by -1.8% after a -1.9% decline in June. While the market may be starting to cool slightly, there remains to be higher demand than supply, which is driving fewer sales. The problem is particularly acute in the Northeast, where the m-o-m decrease amounted to -6.6%, -16.9% lower than a year ago.

Dallas Fed Manufacturing Business Index August 2021

Texas factory activity continued to increase, but at a slowing pace in August. The Index had a reading of 9 vs. 23 estimate and 27.3 in July. The decline was led by manufacturing conditions slipping 10 points and new orders down 11.2 points. While those are large m-o-m drops, the readings remain well above average. Although future manufacturing activity remained optimistic at 44.3 points, future general business activity was less positive slipping from 37.1 to 15.1 points.

Key headlines:

Asia/New Zealand:

- *ARDERN: AUCKLAND TO REMAIN AT LEVEL 4 FOR ANOTHER 2 WEEKS
- *JAPAN COVID SHOTS REACH 127.4MLN ; 44.6% ARE FULLY VACCINATED
- *TOKYO SERIOUS CORONAVIRUS CASES FALL TO 287 FROM 296 YESTERDAY
- *TOKYO FINDS 1,915 NEW COVID CASES, 7-DAY AVERAGE AT 3,708
- *JAPAN PM SUGA ORDERS NIKAI TO COMPILE NEW ECO MEASURES: JIJI
- *HONG KONG REPORTS NO NEW LOCAL CORONAVIRUS CASES
- *CHINA CSRC HEAD VOWS TO STRICTLY REGULATE PRIVATE FUNDS

*CHINA FURTHER TIGHTENS ONLINE GAME SERVICE RULES FOR TEENAGERS

*CHINA TO STRENGTHEN INSPECTIONS OVER ONLINE GAME PROVIDERS

*CHINA TO 'STRICTLY' PUNISH GAME PROVIDERS WHICH VIOLATE RULES

Europe:

*GERMAN AUG. INFLATION RATE RISES TO 3.4%, MATCHING ESTIMATE

*GERMANY PRELIM AUG. CONSUMER PRICES UNCHANGED M/M; EST. +0.1%

*EURO-AREA AUG. ECONOMIC CONFIDENCE SLOWS TO 117.5; EST. 118.0

*VILLEROY: U.S. WILL RECOVER MORE QUICKLY THAN EURO ZONE

*ECB'S VILLEROY: THERE WILL BE TEMPORARY SPIKES IN INFLATION

*ECB'S VILLEROY: NO INFLATION OVERHEATING IN THE EURO AREA

*VILLEROY: NO RISK OF SUSTAINABLE SURGE IN INFLATION IN EUROZONE

*ECB'S VILLEROY: PEPP IS THERE UNTIL AT LEAST MARCH 2022

*ECB'S VILLEROY: NOT URGENT TO DECIDE ON PEPP AT SEPT. MEETING

*VILLEROY: ECB HAS MORE TIME TO DECIDE THAN FED

*VILLEROY: ECB WILL DISCUSS IMPACT OF MORE FAVORABLE CONDITIONS

*VILLEROY: DISCONNECTING QE FROM RATES MAY ALSO APPLY IN EUROPE

*SPAIN PRELIM AUG. EU HARMONIZED CPI RISES 0.4% M/M; EST. 0%

US/Canada:

*CANADA CONSUMER CONFIDENCE FALLS TO 62.6 FROM 64.2 PRIOR: NANOS

*U.S. SAYS AT LEAST FIVE ROCKETS FIRED AT KABUL AIRPORT

