



A UK focused Turnaround Value Investment Partnership

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TODAY'S TOPICS

1. Inflation, Rates & Economic Cycles
2. European & Global Energy Crisis
3. Supply Chains
4. Labour Market
5. Asset Allocation: Emerging Markets
6. NATO
7. Bitcoin & Energy

1. INFLATION, RATES & ECONOMIC CYCLES

INFLATION – US CPI NOW HIGHEST IN 40YRS AT 7.5%

+0.5% December 2021 CPI Print

Biggest drivers:

- +3.5% used cars (3.42% weight)
- +1% new vehicles (3.88% weight)
- 5.3% car and truck rental (0.18% weight)
- +1.2% lodging away (0.96% weight)
Of which +1.3% hotels, motels (0.85% weight)
- +0.4% rent of shelter (32.05% weight)
- 0.3% transportation services (5.05% wgt)
- +1.7% apparel (2.67% weight)
- 0.4% energy (7.54% weight)
- +0.5% Food (13.99% weight)
- +0.3% Medical care services (6.99% wgt)

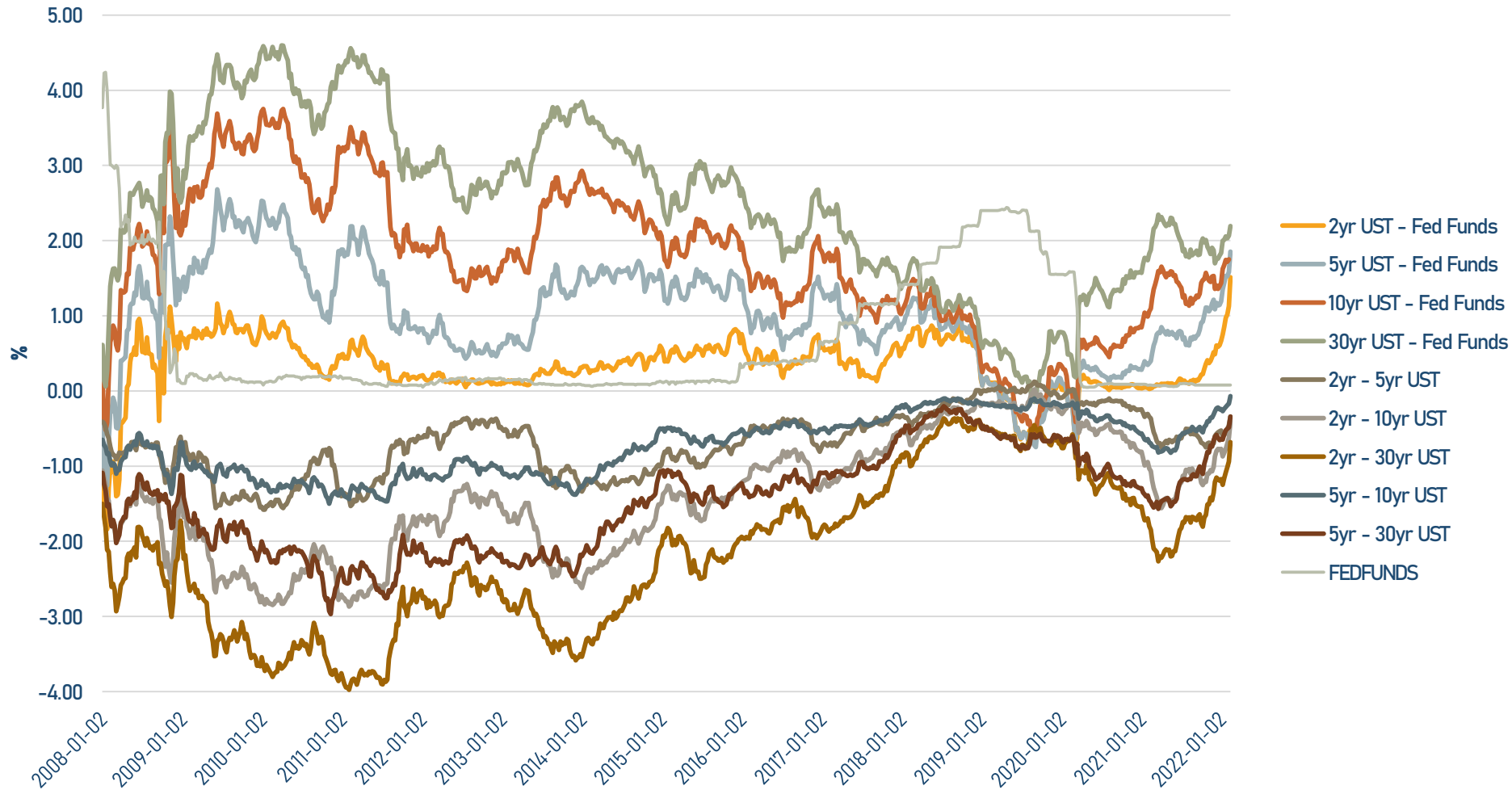
+0.6% January 2022 CPI Print

Biggest drivers:

- +1.5% used cars (4.14% weight)
- +0% new vehicles (4.1% weight)
- 7.0% car and truck rental (0.15% weight)
- 3.9% lodging away (0.91% weight)
Of which -4.2% hotels, motels (0.79% weight)
- +0.3% rent of shelter (32.95% weight)
- +1.0% transportation services (5.6% wgt)
- +1.1% apparel (2.46% weight)
- +0.9% energy (7.54% weight)
- +0.9% Food (13.37% weight)
- +0.6% Medical care services (6.96% wgt)

INFLATION – US YIELD CURVE GONE BONKERS

US Yield curve dynamics from 2008



INFLATION – WHERE THE FED STANDS

Federal Reserve Bank	Governor	View on inflation/action	Hawk/dove leaning	50bps March hike?	Voting Committee Member
Chair	Jay Powell	Flagged to raise rates multiple times	Centrist	?	Yes
Vice Chair	Lael Brainard	Several hikes over course of the year	Dove	25	Yes
Vice Chair Supervision	?	-	-	-	-
Board member	?	-	-	-	-
Board member	Michelle Bowman	Sided with colleagues on tightening	Centrist	50	Yes
Board member	Christopher Waller	High inflation caught Fed off guard	Hawk	50	Yes
Boston	Susan Collins (from July)	Supported to raise inflation target to 3%	-	-	
New York	John Williams	Senible to hike 1 month ago	Dove	25	Yes
Philadelphia	Patrick Harker	Saw 3-4 hikes 1 month ago	Hawk	50	Yes
Cleveland	Loretta Mester	Not compelling to start with 50bps	Dove	25	Yes
Richmond	Thomas Barkin	Needs to be convinced for 50bps	Centrist	25	
Atlanta	Raphael W. Bostic	Open to 50bps hike	Hawk	50	
Chicago	Charles L. Evans	Need to raise two, three or four times	Dove	25	
St. Louis	James Bullard	1% by July	Hawk	50	Yes
Minneapolis	Neel Kashkari	Needs to tighten a little bit	Dove	25	
Kansas City	Esther L. George	Ideally hike step-by-step unless data changes	Hawk	50	Yes
Dallas	Meredith Black (Interim)	-	-	-	
San Francisco	Mary Daly	Thinks 25bps in March is appropriate	Dove	25	

INFLATION – THE CURRENT CYCLE...

2020:

1. Lockdowns, people stuck at home
2. 10% of economy closed (Travel & leisure)
3. Pent-up savings
4. People buy houses, online delivery, PC equipment



2021:

1. Partial/national reopening of economies
2. Car sales jump, high consumer goods demand
3. Supply chain cannot keep up (chip shortage)



Mid-2021:

1. Higher prices have emerged in real estate, freight costs and consumer goods
2. Asset bubble led to huge wealth, labour shortages



bitcoin

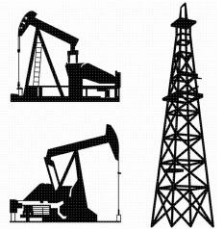
End-2021:

1. Partial international reopening of economies
2. Energy demand close to pre-pandemic levels
3. Energy supply still lags demand with record low inventories



2022:

1. Full international reopening of economies
2. Higher interest rates to fight inflation
3. Energy supply increases to meet demand
4. Supply > Demand



2. EUROPEAN & GLOBAL ENERGY CRISIS

EUROPEAN ENERGY CRISIS – HOW IT ALL BEGAN...

2020

- Pandemic caused lower energy demand and resulted in lower energy supply
- ESG movement in 2020/21 made investments into non-renewables hard. Pension funds and other large investors divested their fossil fuel holdings

2021

- UK North Sea oil & gas exploration stalls
- France's nuclear power plant (>70% of France's energy generation) faces corrosion. EDF has lowered nuclear power output by 1TWh
- Germany closes down half of its 6 remaining nuclear power plants
- Unusually low winds cause windfarm output to decline by over 11% y-o-y

2022

- France's EDF cuts nuclear power output twice within a month from 330–360 TWh to 295–315 TWh
- Germany on course to close all its remaining nuclear power plants
- Record low inventories for natural gas, oil and coal, which together make up for ~85% of world's energy demand
- BP increases its 10-year oil output estimate from “declining” to “stable”, the UK encourages oil & gas investment

EUROPEAN ENERGY CRISIS – UK HAS CHANGED GEARS...



Kwasi Kwarteng @KwasiKwarteng · Dec 20, 2021

We are backing the oil + gas sector's low carbon transition through a new Climate Checkpoint

This has to be a transition, not extinction

Turning off the taps would put energy security + British jobs at risk - and leave us more reliant on foreign imports



Kwasi Kwarteng @KwasiKwarteng · Dec 23, 2021

There will continue to be an ongoing need for oil + gas over the coming decades while we transition to low carbon alternatives

Turning off domestic supply overnight isn't the answer

We're backing the oil + gas sector to decarbonise in a way that protects jobs + energy security



Kwasi Kwarteng @KwasiKwarteng · Jan 18

I welcome today's High Court judgment

Turning off North Sea oil and gas overnight would put energy security, jobs and industries at risk - and make us even more dependent on foreign imports

This has to be a transition, not extinction.



Kwasi Kwarteng @KwasiKwarteng · Feb 2

We have done more than any other Government to expand renewable capacity (up 500% since 2010!)

However, there will continue to be ongoing demand for oil and gas over the coming decades while we transition

Shutting down the North Sea just increases foreign imports...



Kwasi Kwarteng @KwasiKwarteng · 50m

We will need gas over the coming decades while we transition to clean, affordable, home-grown power

Today's reforms to our flagship renewable energy auction scheme will:

🇬🇧 boost energy security

📈 attract £billions in private capital

⚙️ create jobs



Kwasi Kwarteng @KwasiKwarteng · 9h

Turning off North Sea oil and gas would put energy security, British jobs and new industries at risk - and we'd just end up importing more from abroad

This has to be a transition, not extinction 📌

Pinned this Tweet with a video now

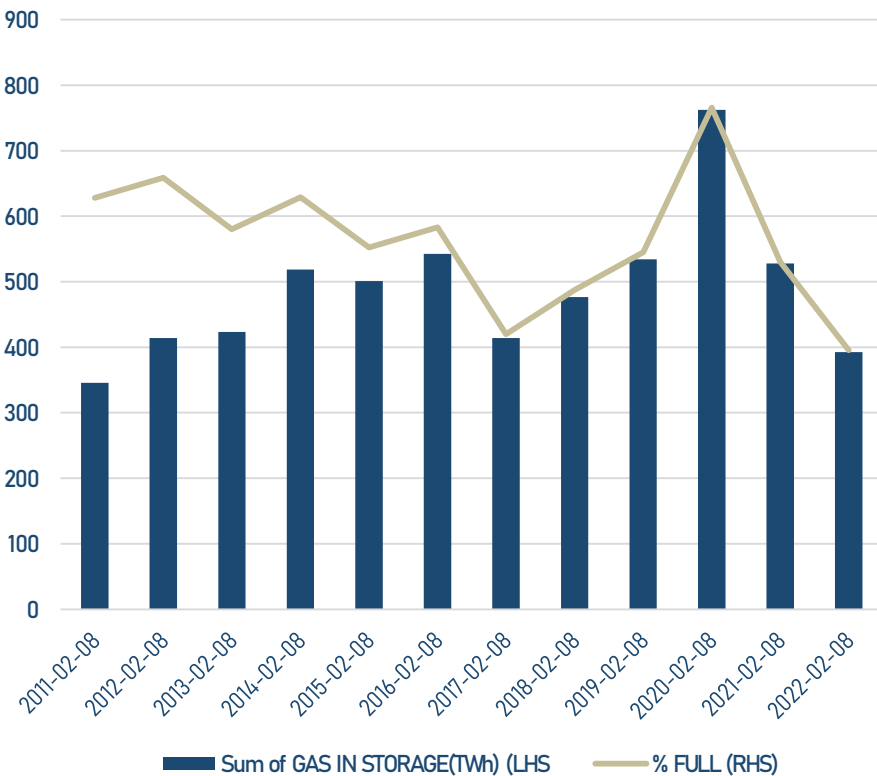
GLOBAL ENERGY CRISIS – LOW INVENTORIES



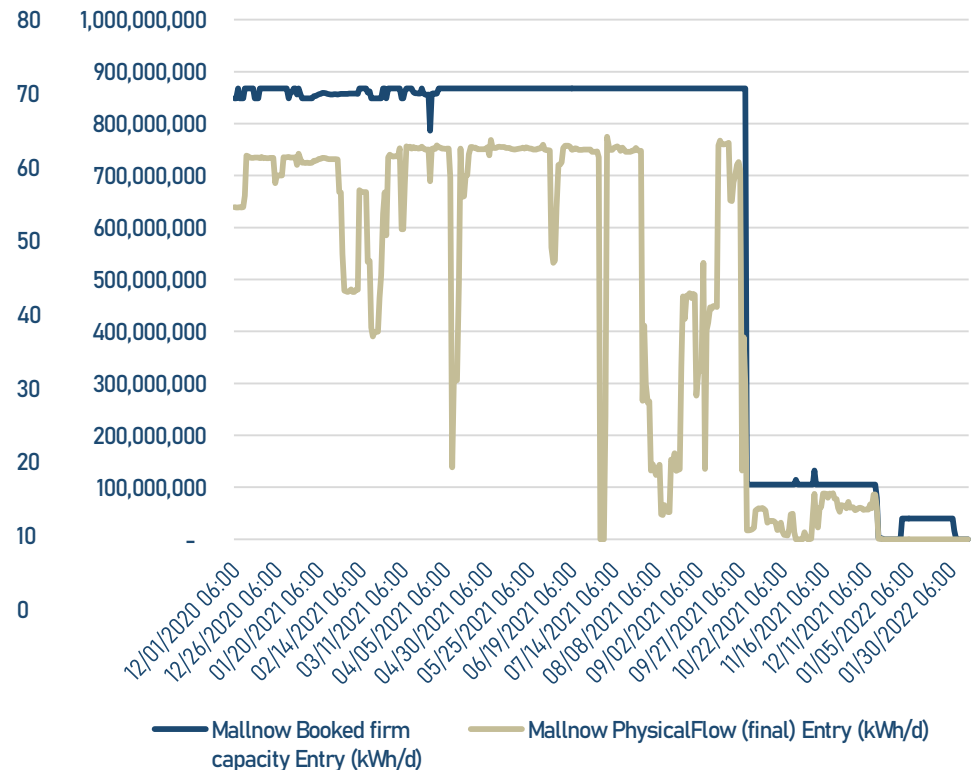
GAS – EU INVENTORIES ARE AT RECORD LOWS

- Russia uses energy as a weapon? Or Europe isn't buying any gas?
- Recent gas inventory draws a slowing and refilling over summer months will be key

EU Gas Inventories are at record lows

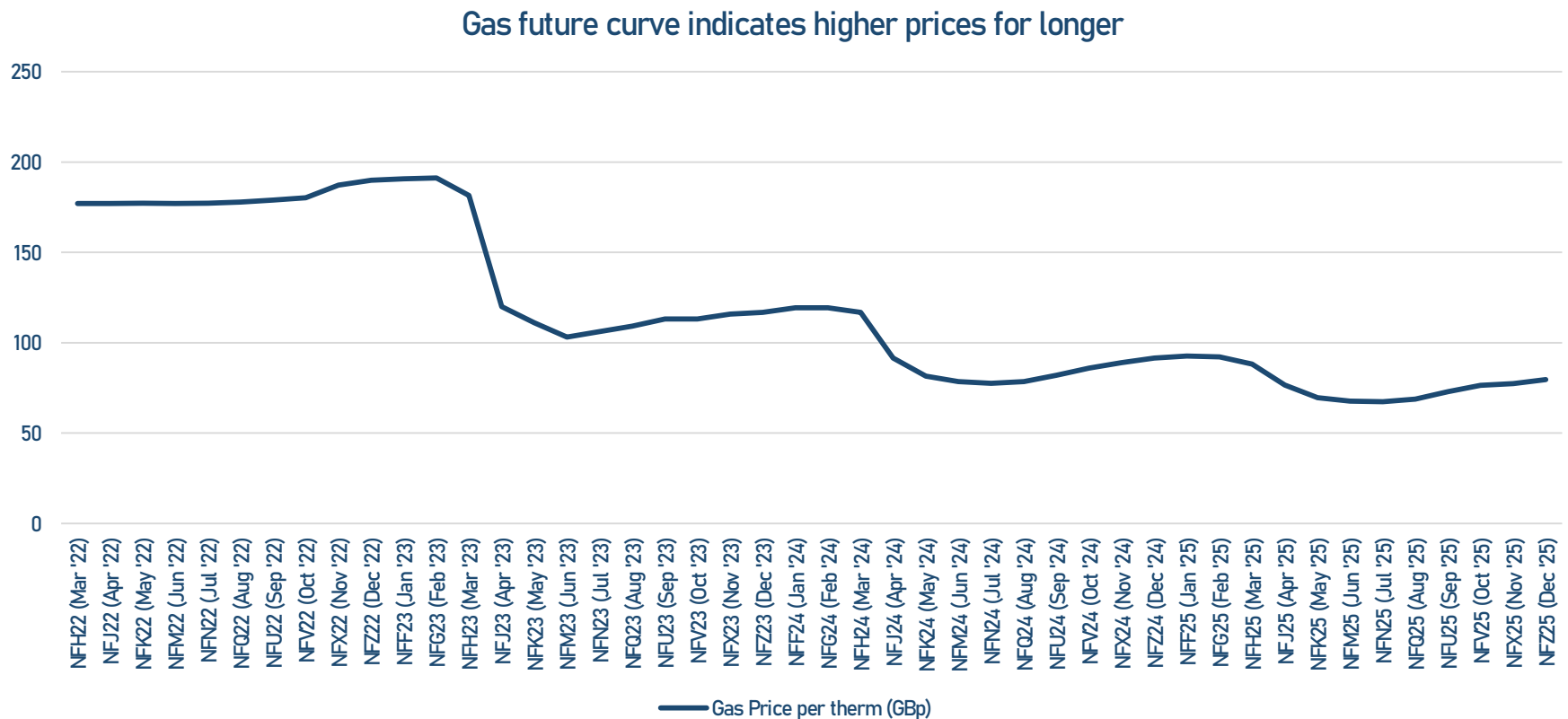


Gas flows from Russia into Germany stall



GAS – FUTURE CURVE INDICATES NO EASING IN SIGHT

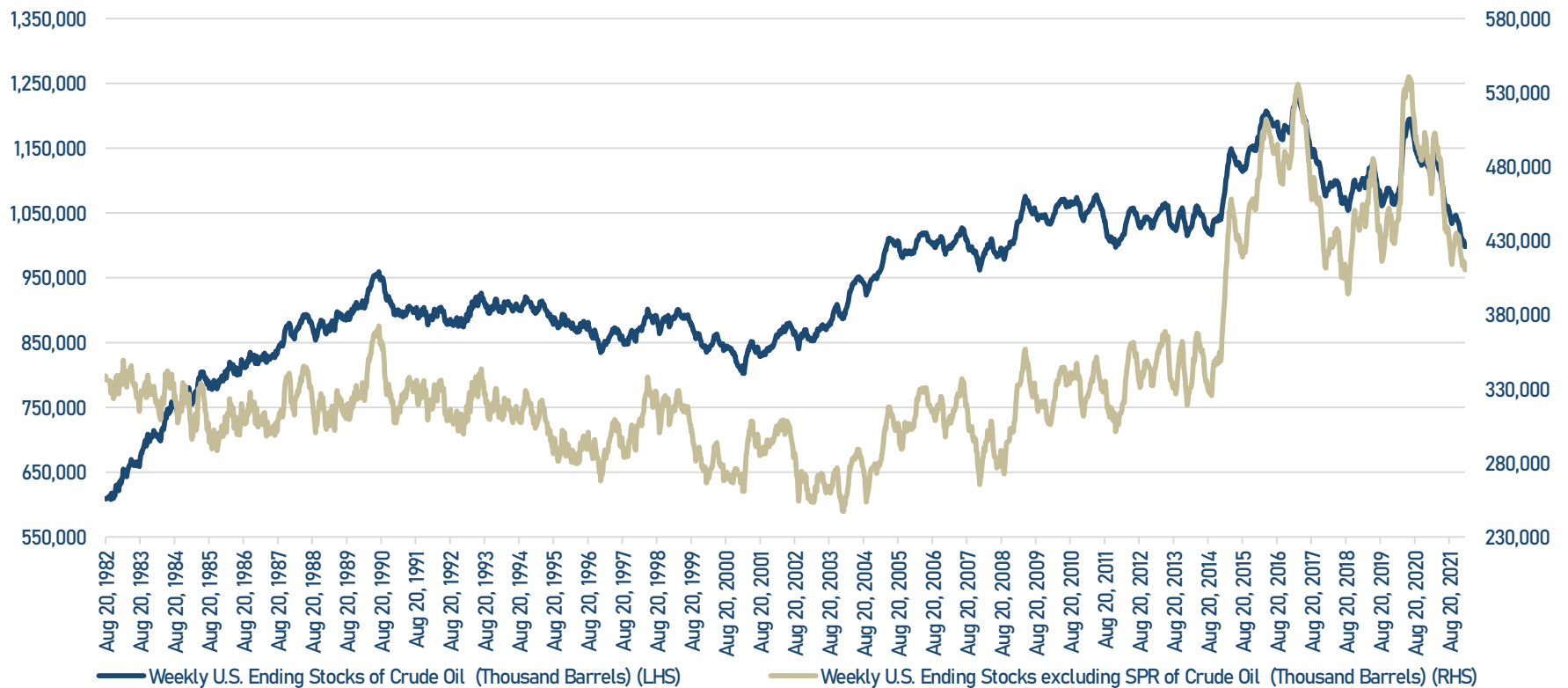
- UK Oct-Mar Ofgem energy cap to be hedged from February to July at average forward prices → Next winter will be expensive!
- Europe will look to diversify its energy supply sources away from Russia



OIL – US INVENTORIES ARE BACK AT >\$100 A BARREL LEVEL

- SPR release was perhaps a mistake, but non-SPR inventories will be key to watch
- Shale oil needs to jack up production...

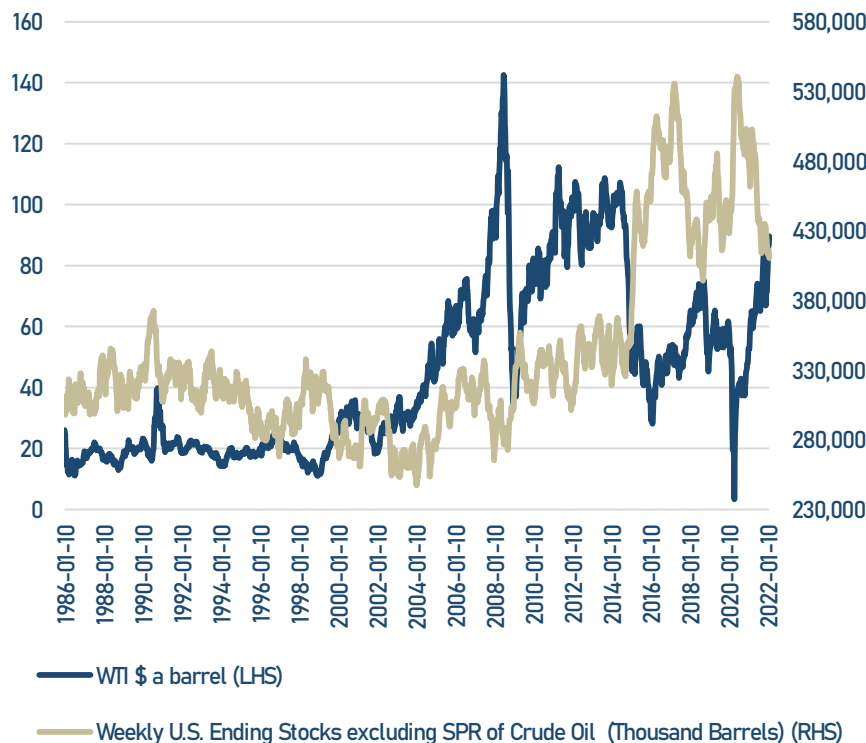
US oil inventories including SPR are back to pre-2014 level



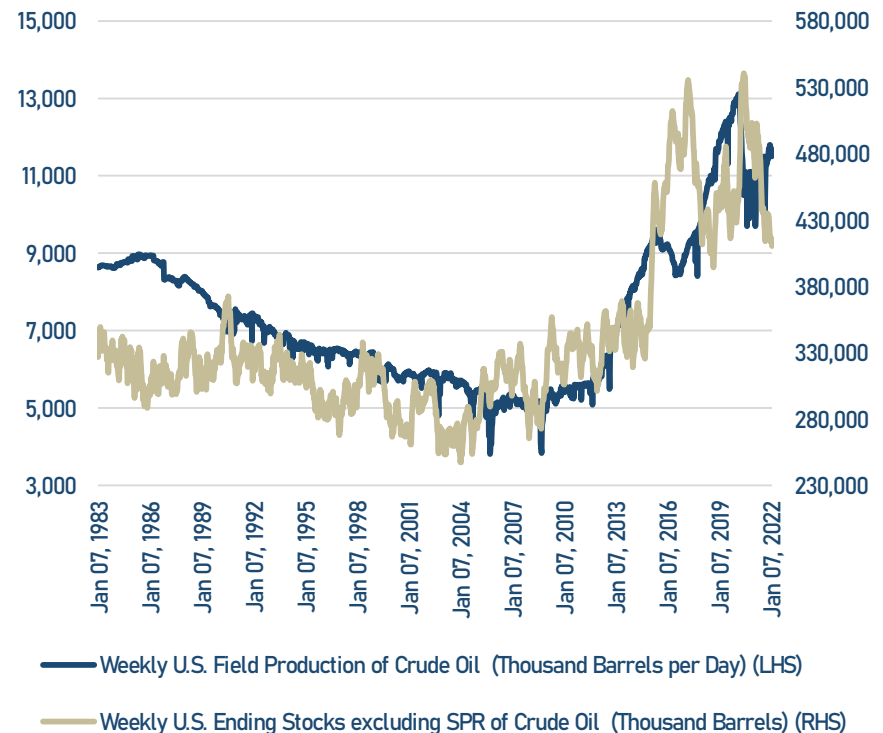
OIL – US SHALE OIL PRODUCTION USUALLY SAVED US...

- Crude oil prices appear fairly valued based on US inventories (w/o SPR)
- 700+ rigs currently operated in US shale, up 69% y-o-y, only 100 below 2020 high

Expect >\$100 a barrel when non-SPR inventories drop further to pre-2014 levels



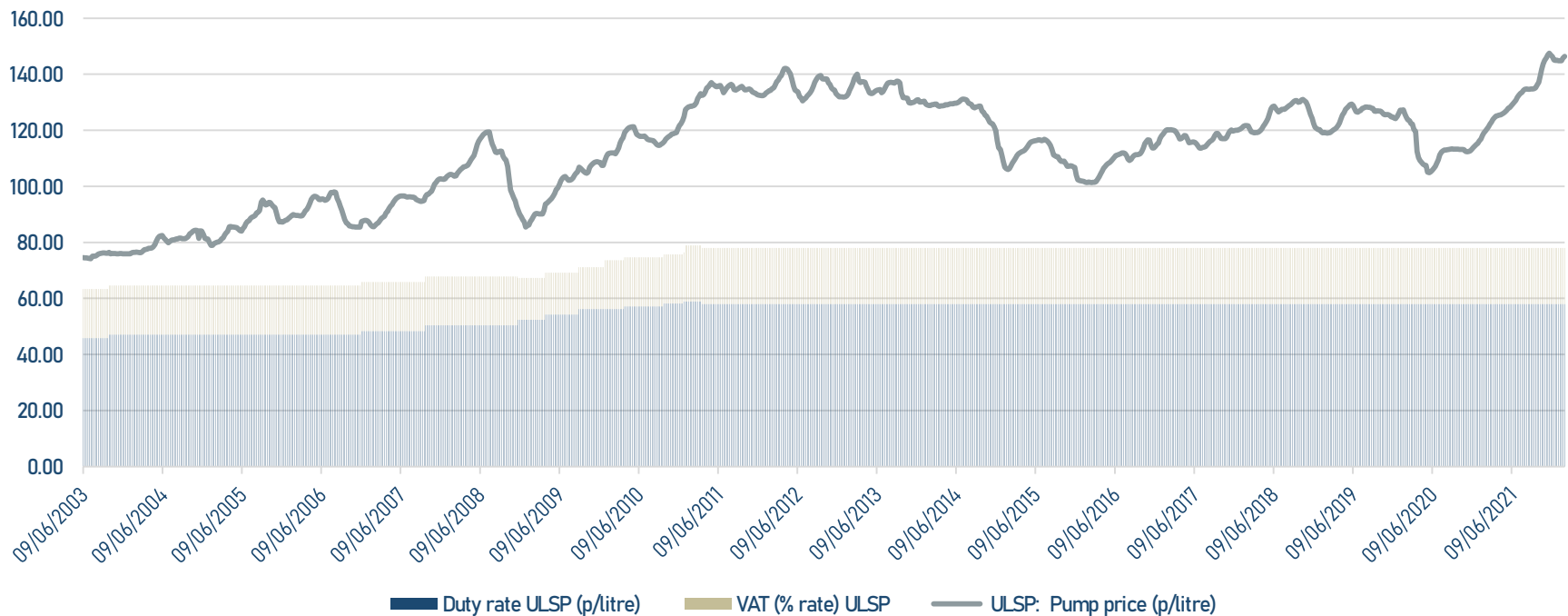
US oil production usually goes up after similar historic inventory draws



OIL – IN NON-US\$ TERMS, OIL PRICES ARE AT RECORD HIGH

- Charging an EV can now be more expensive than petrol car without duty rates
- EV charge now costs 33 GBp per kW/h & consumes 0.2 kW/h/km
- Petrol car fuel costs 145 GBp per litre (88 GBp without Duty rate) & consumes 0.06 litre/km
- 100km with EV = £6.6 vs. 100km with petrol car = £8.7 (£5.28)

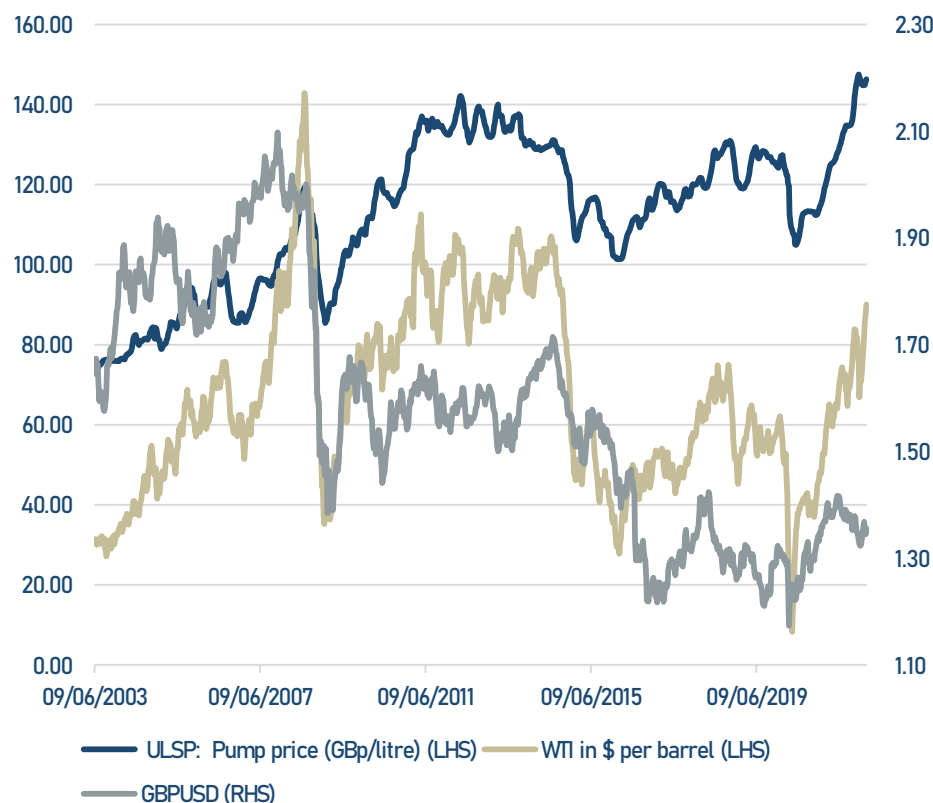
UK GBp Petrol Price are at record highs



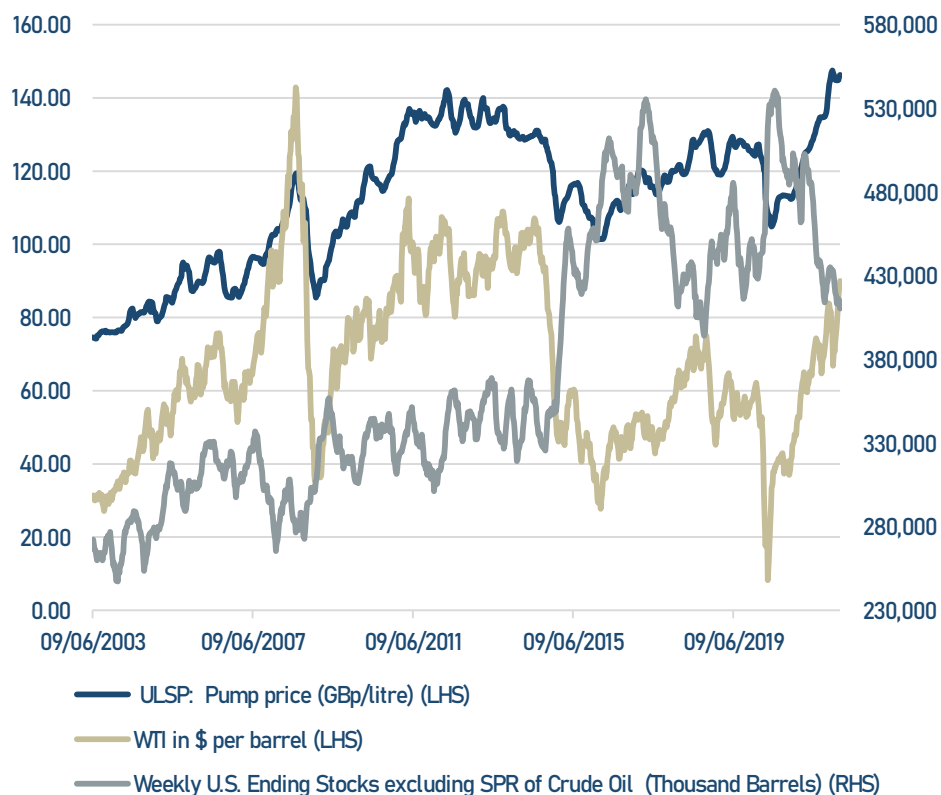
OIL – IN NON-US\$ TERMS, OIL PRICES ARE AT RECORD HIGH

- US\$ has been strong lately, but oil has rallied → at 2012 exchange rate oil > \$100
- Recent increase in oil prices related to reduction in inventories

The last six months cannot be explained by FX...



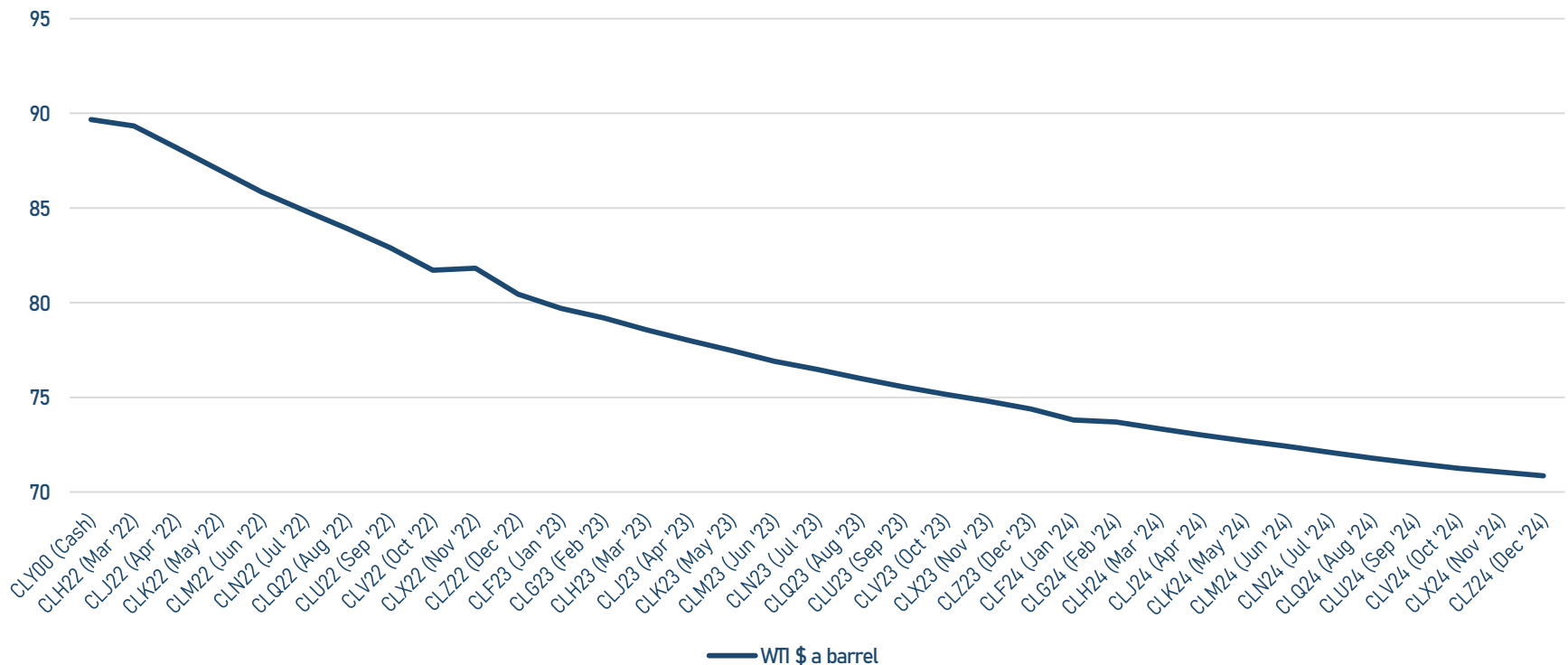
...they are driven by inventories



OIL – FUTURE CURVE SHOWS STEEP BACKWARDATION

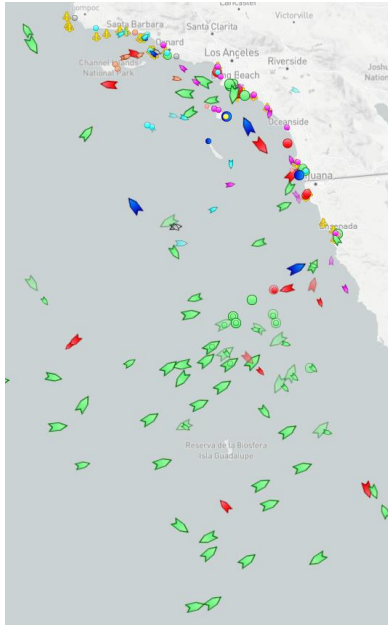
- Producers are hedging their sales forward, but airlines (the buyer) are not hedging amid restriction uncertainties → Backwardation
- US shale is recovering...

Oil in backwardation amid producer hedging



3. SUPPLY CHAINS

SUPPLY CHAINS – ARE EASING FAST!



February 8th

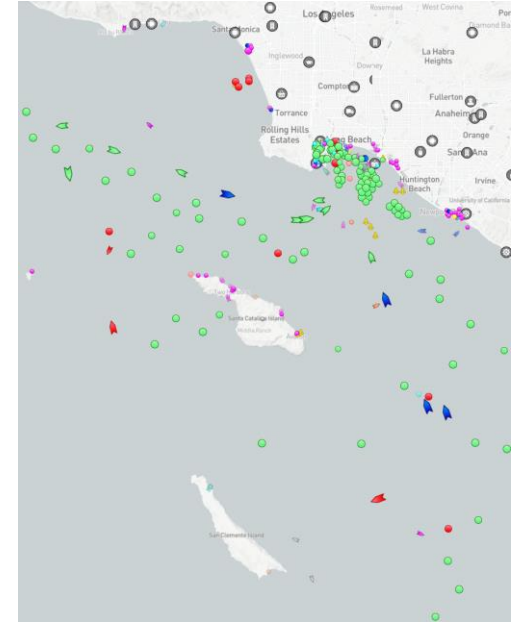


Marine Exchange
@MXSOCAL

Ship Report 2/8: 87 total ships inport LA/LB including 28 at anchor or loitering & 59 at berths. Of the 87, 34 are container ships including 3 at anchor or loitering & 31 at berths. 0 vessels loitering!

- Christmas season is over and sales were down y-o-y!
- Companies have ordered in line with prior year, hence likely have excess inventories now
- Pandemic → Endemic
- Feb 2021 ~100+ ships inport LA/LB
- China Ningbo port expansion

Ships queueing inbound LA/LB Port



November 16th

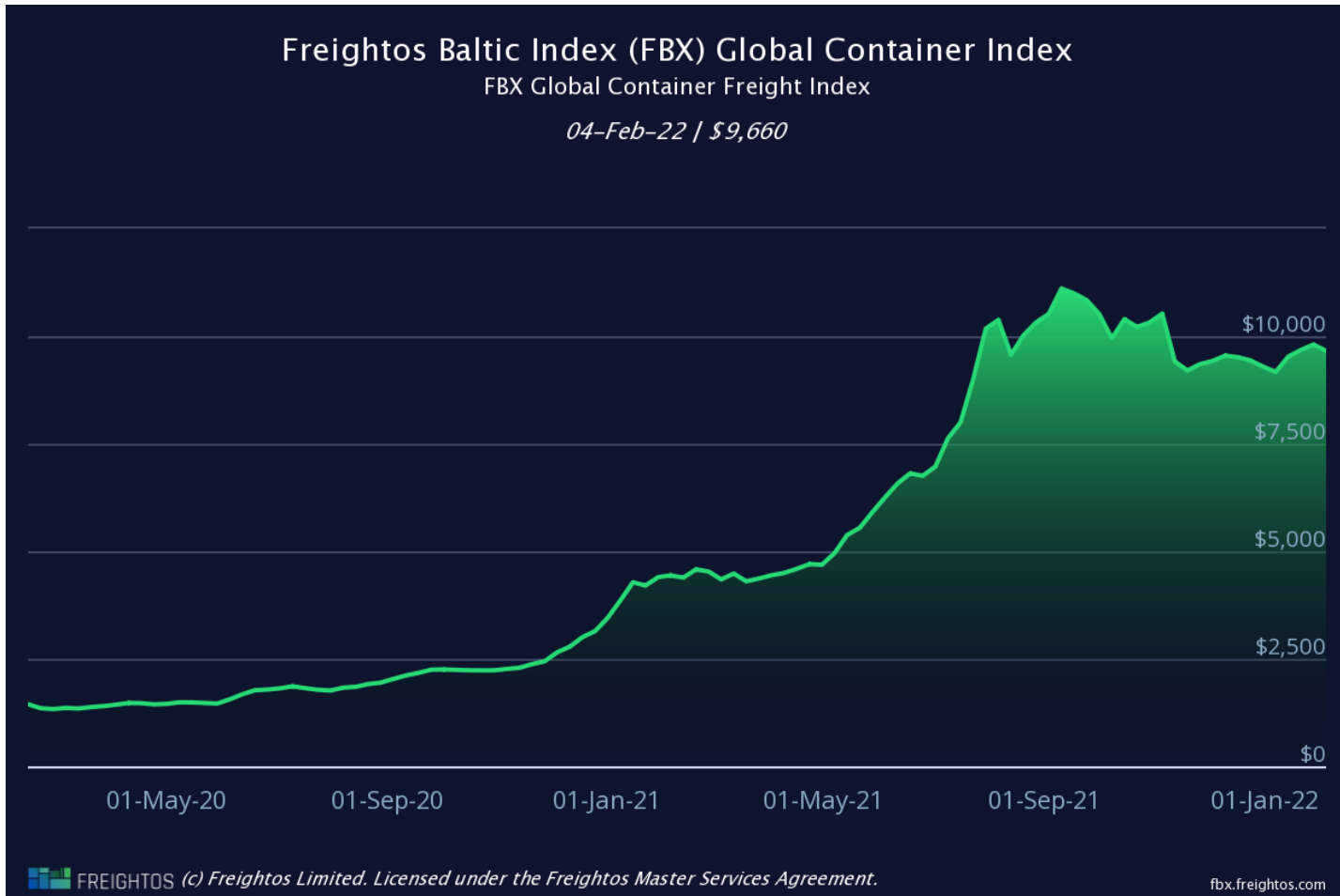


Marine Exchange
@MXSOCAL

RPT 11/16: 179 total ships inport LA/LB incl. 114 at anchor or loitering & 65 at berths. Of the 179, 116 are container ships incl. 86 at anchor or loitering & 30 at berth. 62 vessels loitering; 51 container ships, 6 tankers, 2 bulk, 3 general cargo.

SUPPLY CHAINS – ARE EASING FAST! PRICES NOT!

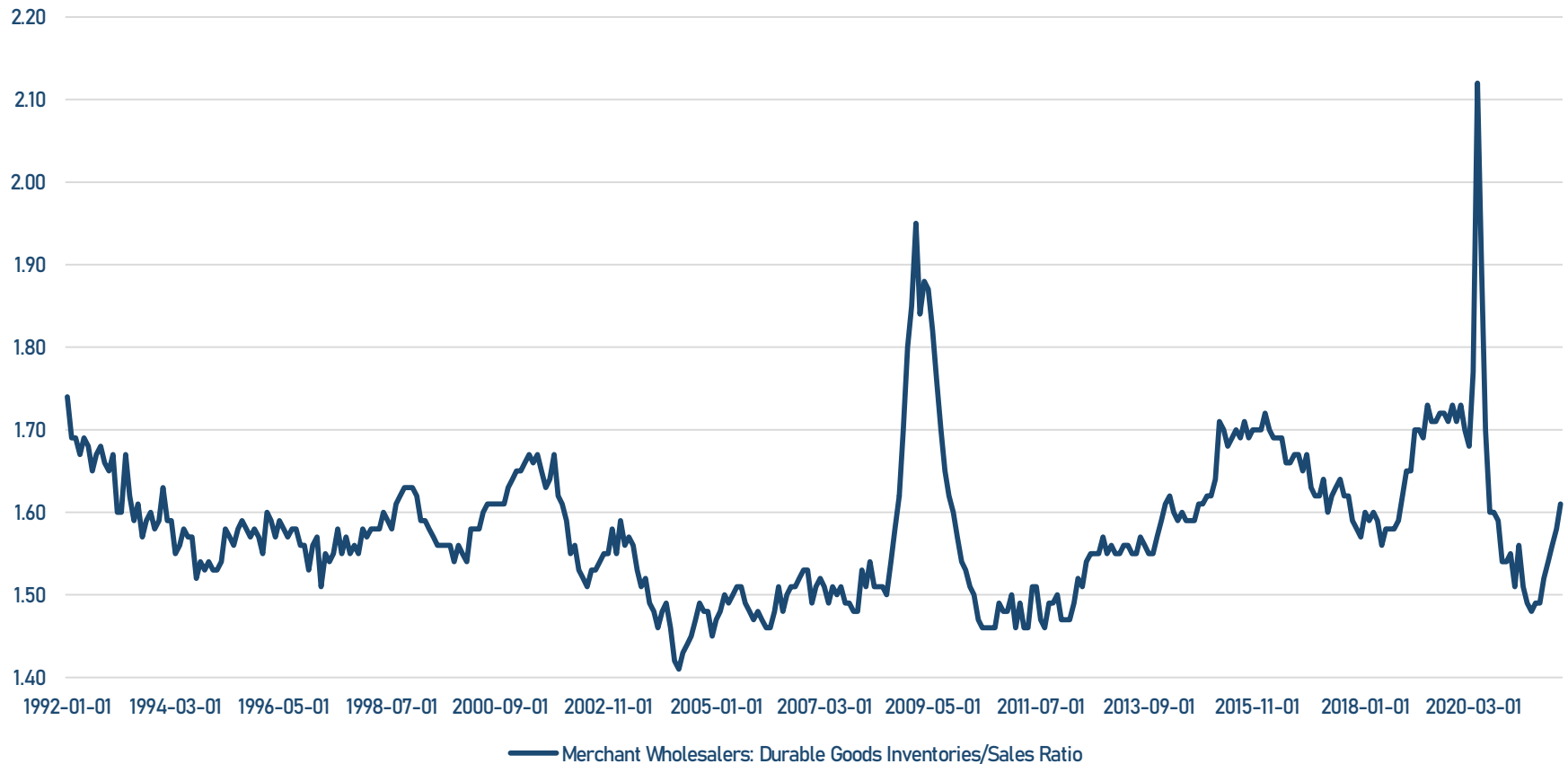
- Pricing hasn't adjusted yet...



SUPPLY CHAINS – INVENTORIES ARE CLIMBING...

- Levels of 1.7 could mark a turning point

US Durable Goods Inventories/Sales Ratio is picking up rapidly

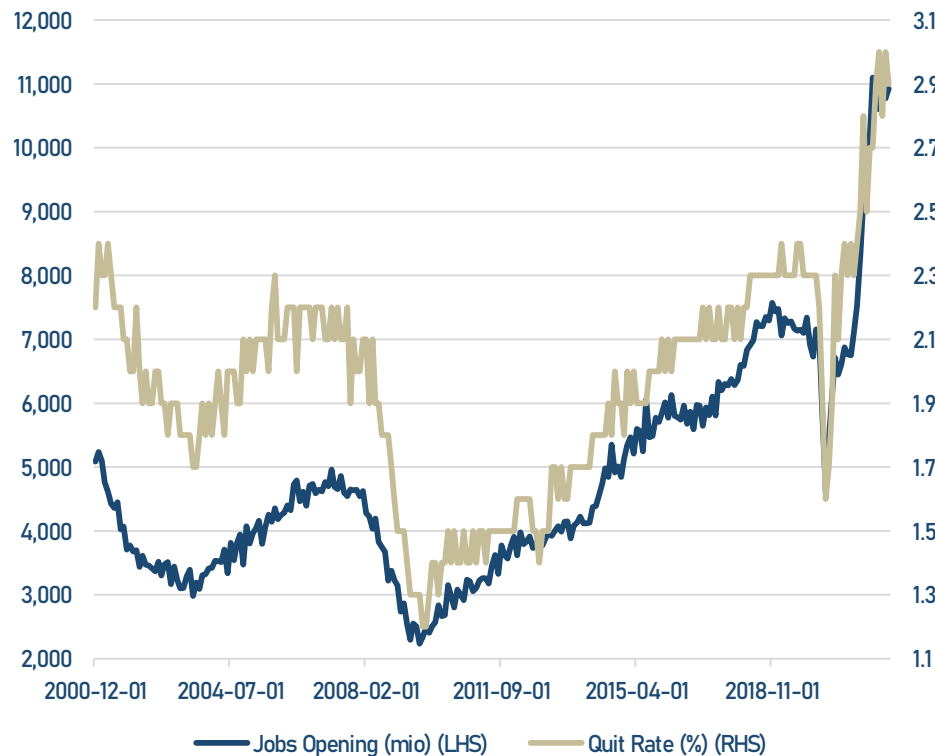


4. LABOUR MARKET

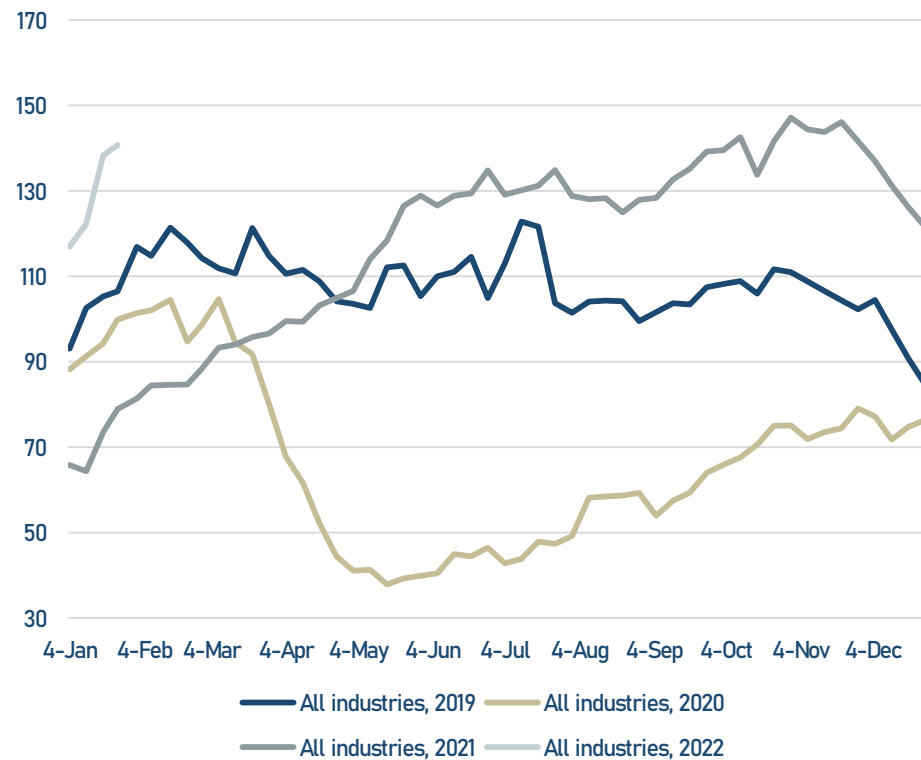
LABOUR MARKET – REMAINS TIGHT

- Labour market harder to solve, perhaps we need a stock market crash...
- ...record retirements could then reverse
- Higher wages could now lead to outsourcing

US Labour Market remains tight



UK Labour Market remains tight



5. ASSET ALLOCATION: EMERGING MARKETS

EMERGING MARKETS – THE REMAINS...

- China, Russia, Turkey, Pakistan, Argentina = “uninvestable”
- Brazil, Peru, some parts of Asia & Africa few bright spots → money goes to developed markets



6. NATO

NATO – 7 OUT OF 30 DEFENCE MINISTERS SERVED MILITARY

NATO member countries “defence” ministers



Albania
Niko Peleshi



Belgium
Ludvine Dedonder



Bulgaria
Stefan Yanev



Canada
Anita Anand



Croatia
Mario Banočić



Czech Republic
Jana Černochová



Denmark
Morten Bødskov



Estonia
Kalle Laanet



France
Florence Parly



Germany
Christine Lambrecht



Greece
Nikolaos
Panagiotopoulos



Hungary
Tibor Benkő



Iceland
Þorvaldur R.
Gyfiadóttir



Italy
Lorenzo Guerini



Latvia
Dr. Artis Pabriks



Lithuania
Arvydas Anušauskas



Luxembourg
François Bausch



Montenegro
Olivera Injac



Netherlands
Kajsa Ollongren



North Macedonia
Slavjanka Petrovska



Norway
Odd Roger Enoksen



Poland
Mariusz Blaszczak



Portugal
João Gomes Cravinho



Romania
Vasile Dincu



Slovak Republic
Jaroslav Nad



Slovenia
Matej Tonin



Spain
Margarita Robles



Turkey
Hulusi Akar



United Kingdom
Ben Wallace



United States of America
Lloyd J. Austin III

7. BITCOIN & ENERGY

BITCOIN – PRICE DETERMINED BY EXCESS ENERGY

- Oil producers frequently flare gas as a by-product, as necessary infrastructure would not pay off
- Excess gas could be used as energy source to mine bitcoin

