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A UK focused Turnaround Value Investment Partnership

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# LIST OF UNCERTAINTIES

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- De-globalisation due to conflicts with Russia and China
- Highest interest rates in over a decade
- Record prices for:
  - Oil products
  - Utility bills
  - Car prices
  - Agricultural goods
- Record low consumer confidence
- Record high government debt/GDP
- High inequality, high conflict and political extremes, Northern Ireland protocol
- Tax hikes coming with a UK corporation tax of 25% in 2023 vs. 19% in 2022
- Crypto bubble burst
- China zero Covid policy

# TODAY'S TOPICS

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1. Inflation accelerates again
2. Energy price peak?
3. Easing supply chains
4. Consumer Confidence at record low
5. The transition to EVs
6. The next war for resources
7. Rates above 2018 break levels
8. How the micro fits the macro

# 1. INFLATION ACCELERATES AGAIN

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# ARE WE AT A TURNING POINT?

## +0.4% April 2022 CPI Print

### Biggest drivers:

- 0.4% used cars (4.04% weight)
- +1.1% new vehicles (4.01% weight)
- +0.8% car and truck rental (0.15% weight)

- +1.7% lodging away (0.99% weight)
- +18.6% airline fares (0.66% weight)
- +0.5% rent of shelter (32.08% weight)
- +3.1% transportation services (5.67% wgt)
- 0.8% apparel (2.54% weight)
- 2.7% energy (8.3% weight)

- +0.9% Food (13.36% weight)

- +0.5% Medical care services (6.88% wgt)

## +1% May 2022 CPI Print

### Biggest drivers:

- +1.8% used cars (3.99% weight)
- +1.0% new vehicles (4.03% weight)
- +1.7% car and truck rental (0.15% weight)

- +0.9% lodging away (1.01% weight)
- +12.6% airline fares (0.66% weight)
- +0.6% rent of shelter (32.07% weight)
- +1.3% transportation services (5.83% wgt)
- +0.7% apparel (2.49% weight)
- +3.9% energy (8.3% weight)

- +1.2% Food (13.42% weight)

- +0.4% Medical care services (6.87% wgt)

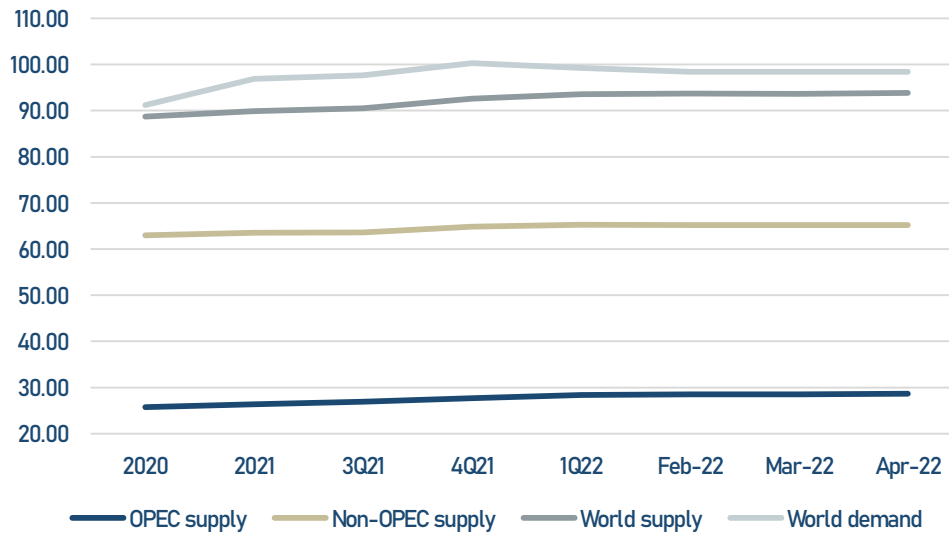
## 2. ENERGY PRICE PEAK?

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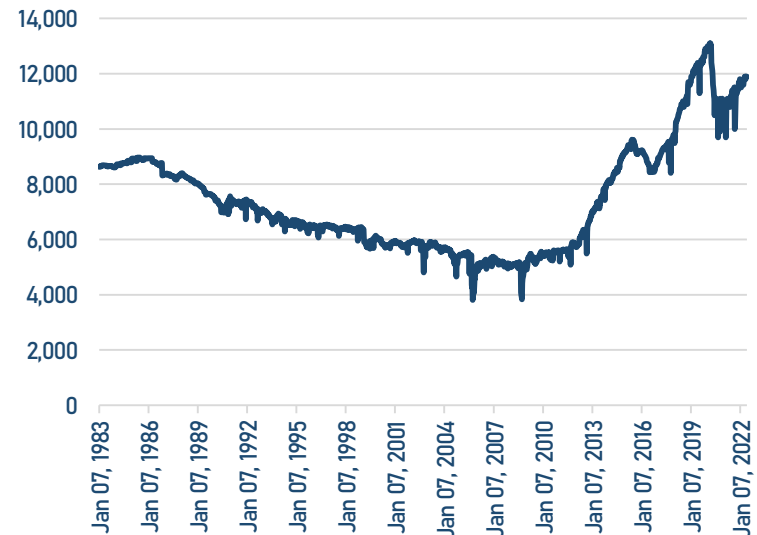
# OPEC + US OIL PRODUCTION ~1MIO SHORT OF 2019

- Russian oil exports to EU are 2.2mio barrels a day and 1.2mio barrels of products a day (800k bopd via pipeline). Ban will only be effective by December 2022 (pipelines excluded)
- OPEC+ to increase supply by 432k bopd in June and 648k bopd in July and August and will be back to 2019 levels. US supply remains at least 1mio bopd below 2019 levels
- China consumes ~13mio bopd, hence any lockdowns have big oil demand impact

OPEC oil supply 1mio bopd below 2019 in Apr-22



Weekly U.S. Field Production of Crude Oil (Thousand bopd) 1mio bopd below 2019

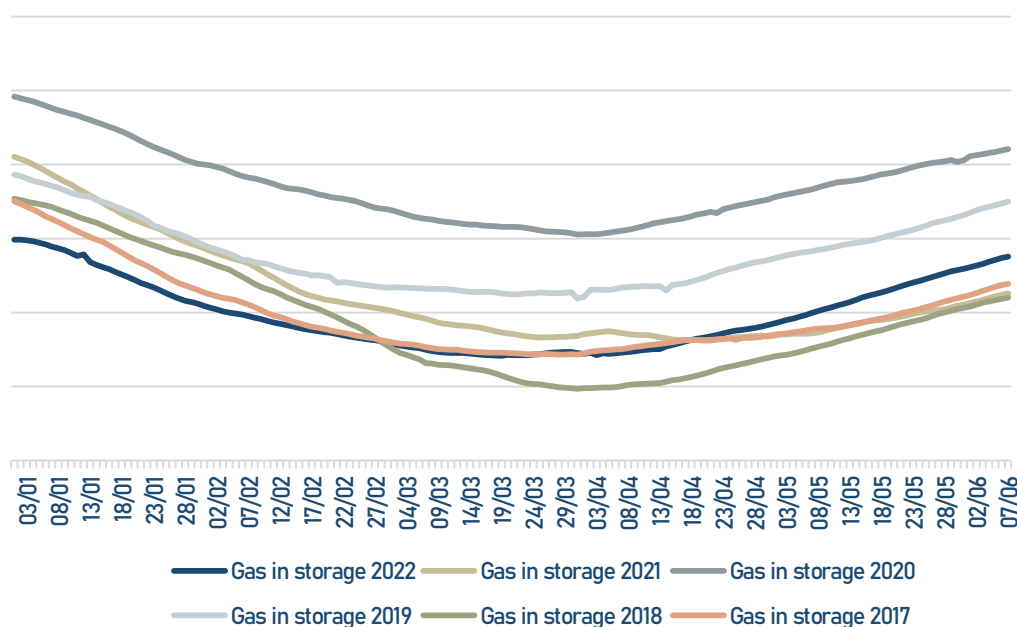




# RUSSIA STOPPED 11.5% OF EU GAS CONSUMPTION

- EU gas storage tanks filled to 50%, at current pace 100% full by end of September
- Storage tanks enough for 25% of annual consumption & 4.5 months storage decline
- Once storage tanks full, day-ahead prices would collapse, bringing curve lower

EU Gas Storage Tanks are filled faster than in past



Countries/Companies cut off from Russian gas

Company	Country	Amount in bn cubic metres (annual)
PGNiG	Poland	10
Bulgargaz	Bulgaria	2
Amber Grid	Lithuania*	2
GasTerra	Netherlands	2
Shell	Germany	1.2
Orsted	Denmark	1
Gasum	Finland	0.1

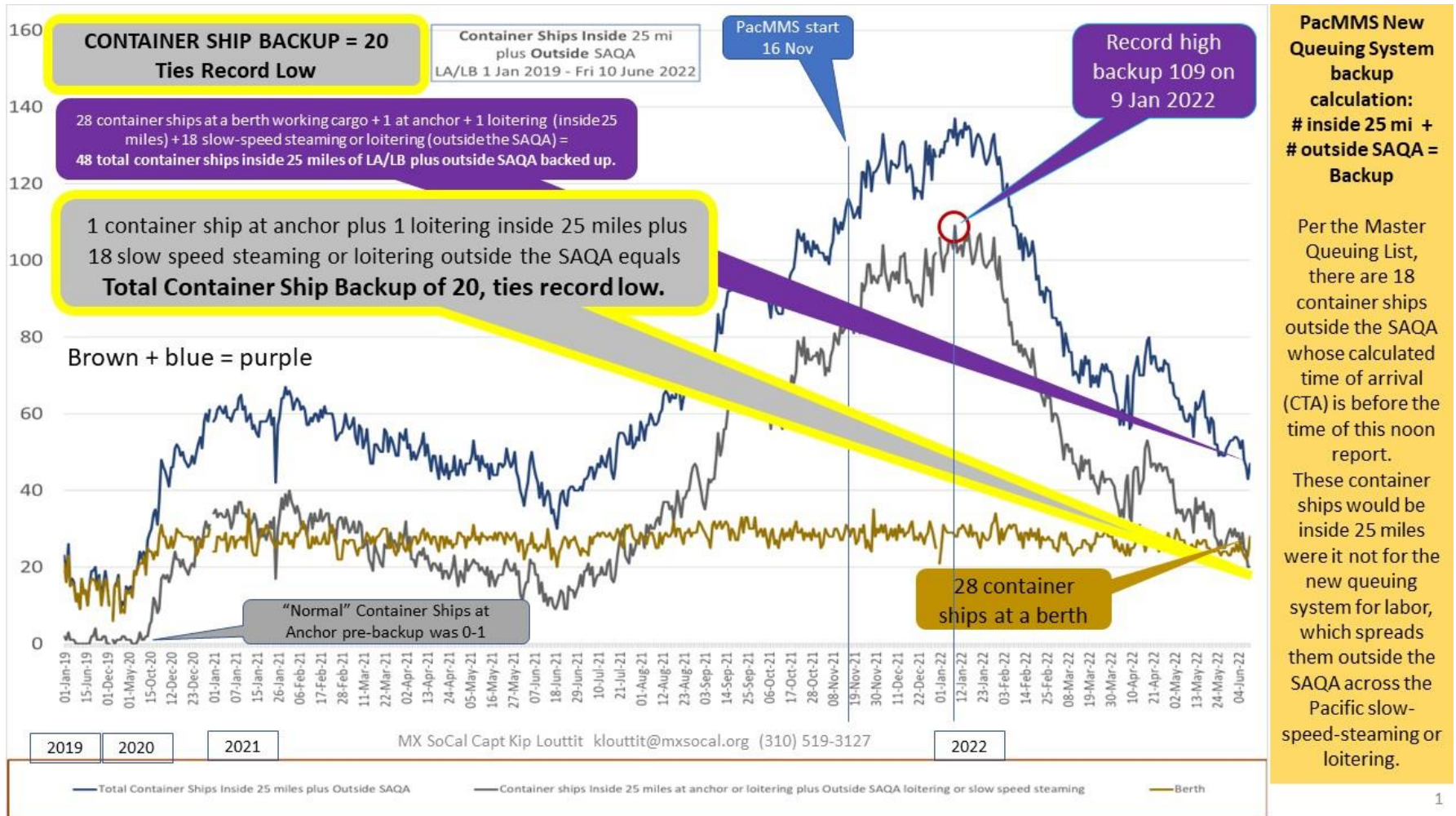
Total annual consumption is 156bn cubic metres (vs. ~18bn cut off)

### 3. EASING SUPPLY CHAINS

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# SUPPLY CHAINS UNLIKELY TO FACE 2021 FAITH

- Ships inbound LA/Long Beach Port continue to decline after end of Shanghai lockdown



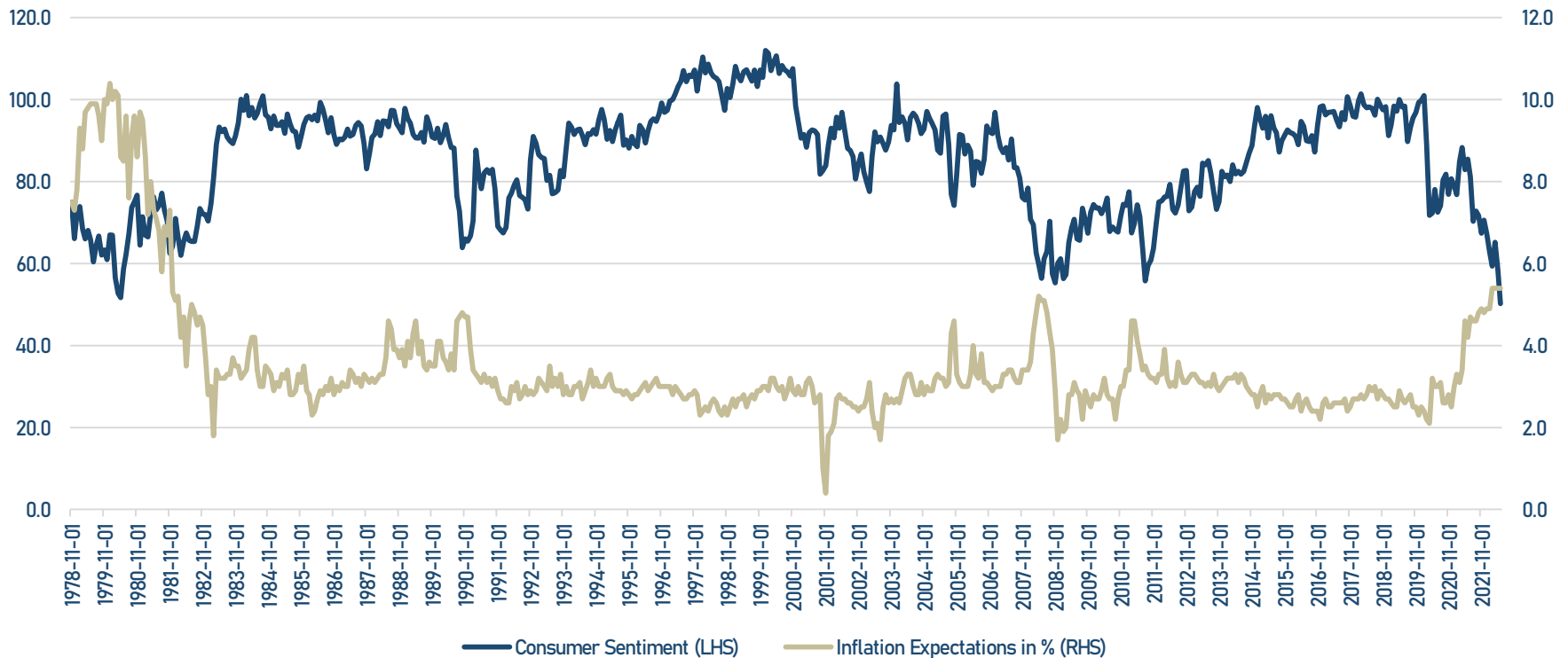
## 4. CONSUMER CONFIDENCE AT RECORD LOW

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# US CONSUMER AFFECTED BY HIGH NATURAL GAS PRICES

- Sentiment will affect the economy at one point, as war in Ukraine is not talked about
- Sentiment worsened due to higher gas prices. Freeport explosion comes to rescue?

Consumer sentiment reaches record low

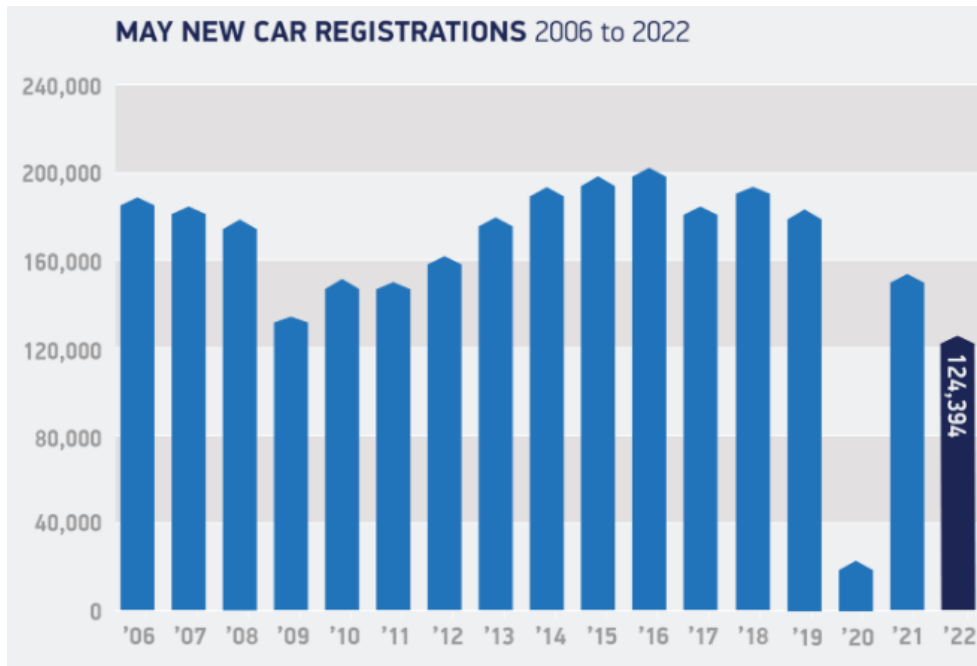


## 5. THE TRANSITION TO EVS

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# EUROPE IS TAKING BIG RISKS WITH THE PUSH FOR EVS

- Norway had only 15% ICE vehicle sales in May 22
- Waiting times for EVs stretch >1yr
- A lot more chips needed for EVs vs. ICE vehicles
- UK car registrations down -30% vs. May 2019



Brand	Phase out year of ICE	Region	Phase out year of ICE
Jaguar/Land Rover	2025	Norway	2025
Aston Martin	2026	UK	2030
Audi	2026	EU	2035
Bentley	2030	US	2035
Cadillac	2030	UN	2040
Cupra	2030		
Mercedes	2030		
Porsche	2030		
Rolls Royce	2030		
Volvo	2030		
Chevrolet	2035		
GM	2035		
Volkswagen	2035		
Ford	2040		
Honda	2040		
Hyundai	2040		
Toyota	2040		
Peugot	2023*		
DS	2024*		
Lancia	2026*		
Abarth	2027*		
Alfa Romeo	2027*		
Fiat	2027*		
Opel	2028*		
Renault	2030*		
Kia	2035*		

## 6. THE NEXT WAR FOR RESOURCES

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# CHINA PRODUCES AROUND 85% OF RARE EARTH METALS

- US & Allies still have upper hand in raw materials, but China & Russia are catching up

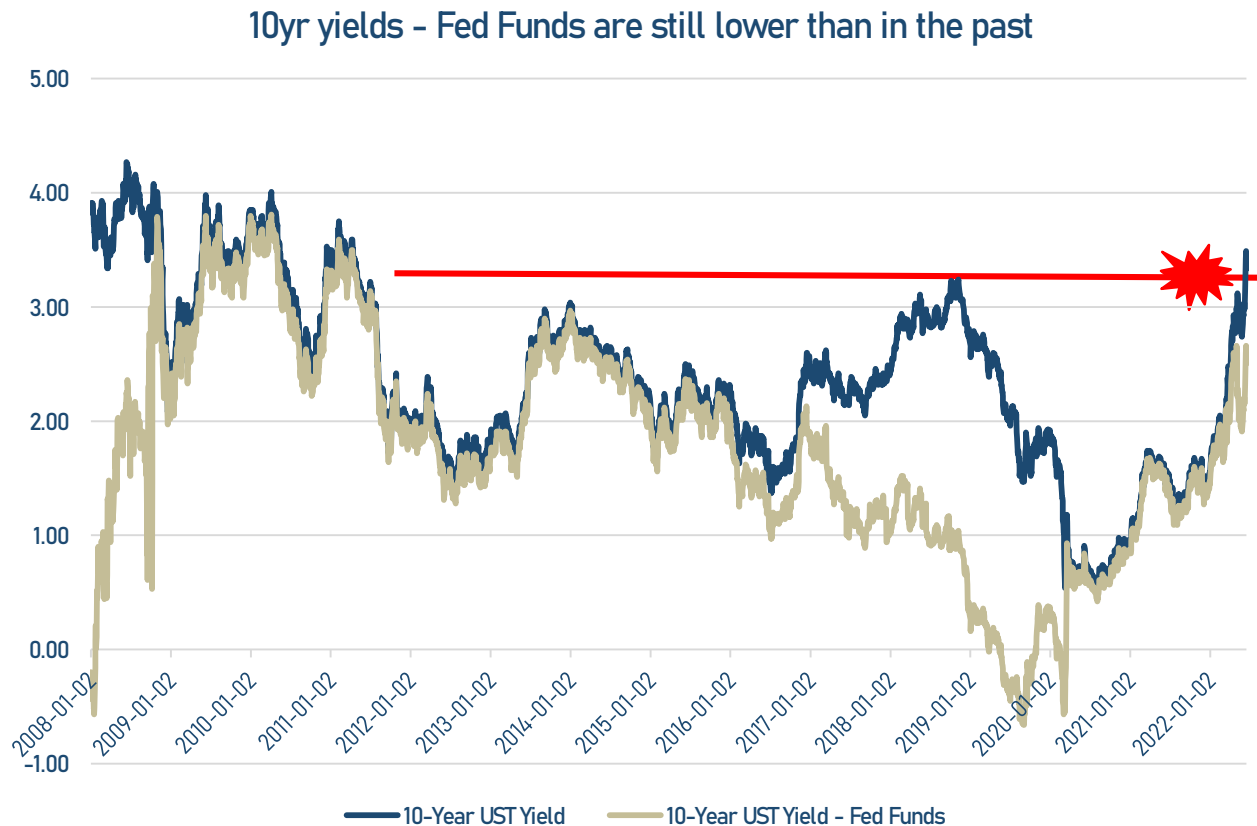
Type	Raw Material	Uses	#1 country of supply	% of world share	#2 country of supply	% of world share	#3 country of supply	% of world share	Country	Sea pathways
Energy	Oil	Fuels and plastics	USA	14.50%	Russia	13.10%	Saudi Arabia	12.10%	Egypt	Suez Canal
Energy	Coal	Power	China	50%	India	10.46%	Indonesia	7.40%		
Energy	Gas	Power	USA	23.70%	Russia	16.60%	Iran	6.50%		
Energy	Uranium	Power	Kazakhstan	43%	Canada	13.00%	Australia	12.00%	Iran/UAE/Oman	Strait of Hormuz
Food	Corn	Food	USA	31.00%	China	23.40%	Brazil	9.00%		
Food	Wheat	Food	China	18%	India	14.20%	Russia	11.30%		
Minerals	Copper	Electrical equipment	Chile	26.60%	Peru	10.90%	China	8.90%	Yemen/Djibouti/Eritrea	Bab al-Mandab Strait
Minerals	Silver	Electronics, coins, photography, jewelry	Mexico	23%	Peru	14.00%	China	12.00%		
Minerals	Gold	Jewelry, electronics, coins	China	11.70%	Australia	9.90%	Russia	9.30%		
Minerals	Iron ore	Steel	Australia	38%	Brazil	16.70%	China	14.17%	Morocco	Strait of Gibraltar
Minerals	Platinum	used in catalytic converters (diesel)	South Africa	72.00%	Russia	12.20%	Zimbabwe	8.30%		
Minerals	Palladium	used in catalytic converters and as a catalyst agent (gasoline)	South Africa	38%	Russia	35.20%	Canada	8.10%		
Minerals	Rhodium	used in catalytic converters, electrical components and as a catalyst (N2O)	South Africa	84.60%	Russia	6.94%	Zimbabwe	5.50%	Turkey	Black Sea/Bosphorus
Minerals	Aluminum	used in almost all sectors of the economy	China	56%	India	5.80%	Russia	5.60%		
Minerals	Titanium	used as a white pigment or metal alloys	China	52.40%	Japan	23.80%	Russia	15.70%		
Minerals	Cobalt	used in rechargeable batteries and superalloys	DRC	70%	Russia	4.30%	Australia	3.60%	Panama	Panama Canal
Minerals	Nickel	used to make stainless steel, superalloys and rechargeable batteries	Indonesia	30.40%	Philippines	12.80%	Russia	11.20%		
Minerals	Lithium	used for rechargeable batteries	Australia	55%	Chile	26.00%	China	10.86%		
Minerals	Graphite	used for lubricants, batteries and fuel cells	China	79.00%	Brazil	6.50%	Mozambique	2.90%	Malaysia/Singapore/Indonesia	Malacca Strait
Minerals	Manganese	used in steelmaking and batteries	South Africa	34%	China	16.20%	Australia	15.70%		

## 7. RATES ABOVE 2018 BREAK LEVELS

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# US INTEREST RATES ABOVE PRIOR BREAKING POINT

- Interest rates above prior breaking points, yet 10yr minus overnight rates would need to reach perhaps 1% for further market breakdowns



Fed	Rate (priced 15th June)
June	1.68
July	2.25
September	2.83
November	3.45
December	3.60
BoE	Rate (priced 15th June)
June	1.36
August	1.69
September	2.22
November	2.51
December	2.72
ECB	Rate (priced 15th June)
July	-0.25
September	0.00
October	0.41
December	0.92

## 8. HOW THE MICRO FITS THE MACRO

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# IT'S ALL ABOUT COMMODITIES NOW

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- Portfolio: Centrica & Serica, looking at Hunting & James Fisher and Sons
- Centrica – target £7.5bn market cap:
  - Trading update revealed earnings per share expectations of GBp 10 vs. GBp 76 market price
  - Ofgem variable tariff adjustment will lead to less switching: New supplier needs to pay up to 85% of previous supplier's hedging costs when prices declined by >10%
  - Recent decline likely related to fears of taxes on electricity generator and bad debt from British Gas customers
- Serica Energy – target £1.2bn market cap:
  - Half of market cap is cash, hence EV is trading at 2:1
  - 85% gas, 15% oil production
  - Sell all at day-ahead prices
- Hunting offers opportunities in higher O&G completion spending
- James Fisher & Sons finally have a new CEO with a background in energy

