



A UK focused Turnaround Value Investment Partnership

www.aozorastep.com

david@aozorastep.com

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TODAY'S TOPICS

1. US economic data: Turning points
2. Interest rates: Converging paths
3. Energy crisis: Fuel switching & Iran deal

1. US ECONOMIC DATA – TURNING POINTS

US CPI POINTS TOWARDS DEFLATION

+1.3% June 2022 CPI Print

Biggest drivers:

- +1.6% used cars (3.99% weight)
- +0.7% new vehicles (4.03% weight)
- 2.2% car and truck rental (0.15% weight)
- 2.8% lodging away (1.03% weight)
- 1.8% airline fares (0.76% weight)
- +0.6% rent of shelter (31.92% weight)
- +2.1% transportation services (5.86% wgt)
- +0.8% apparel (2.46% weight)
- +7.5% energy (8.67% weight)**
- +1.0% Food (13.42% weight)
- +0.7% Medical care services (6.82% wgt)

+0% July 2022 CPI Print

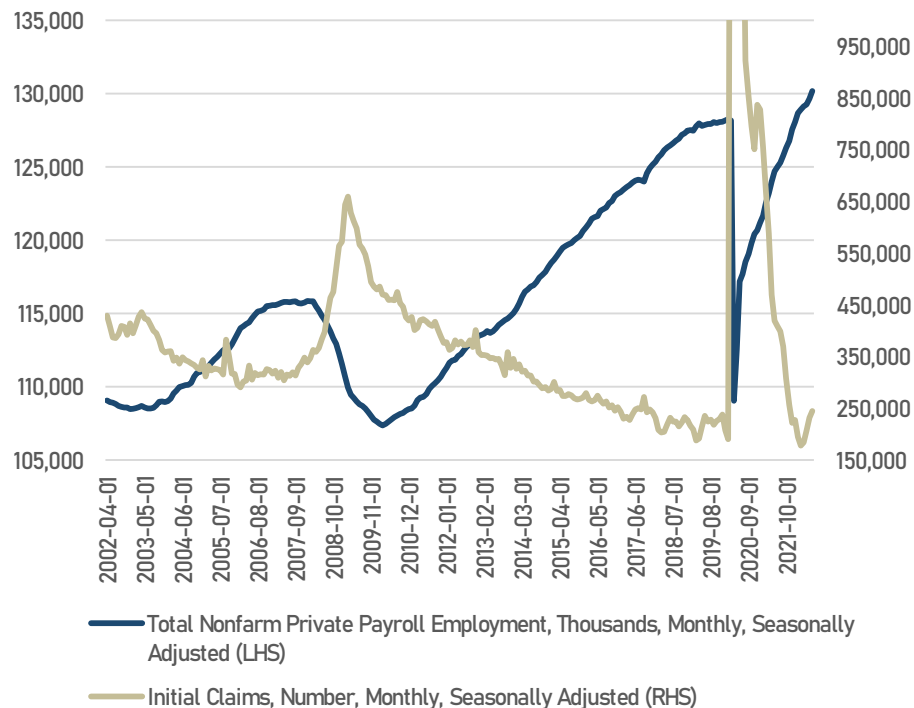
Biggest drivers:

- 0.4% used cars (4% weight)
- +0.6% new vehicles (4% weight)
- 9.5% car and truck rental (0.15% weight)
- 2.7% lodging away (1% weight)
- 7.8% airline fares (0.75% weight)
- +0.5% rent of shelter (31.7% weight)
- 0.5% transportation services (5.9% wgt)
- 0.1% apparel (2.42% weight)
- 4.6% energy (9.2% weight)**
- +1.1% Food (13.37% weight)
- +0.4% Medical care services (6.77% wgt)

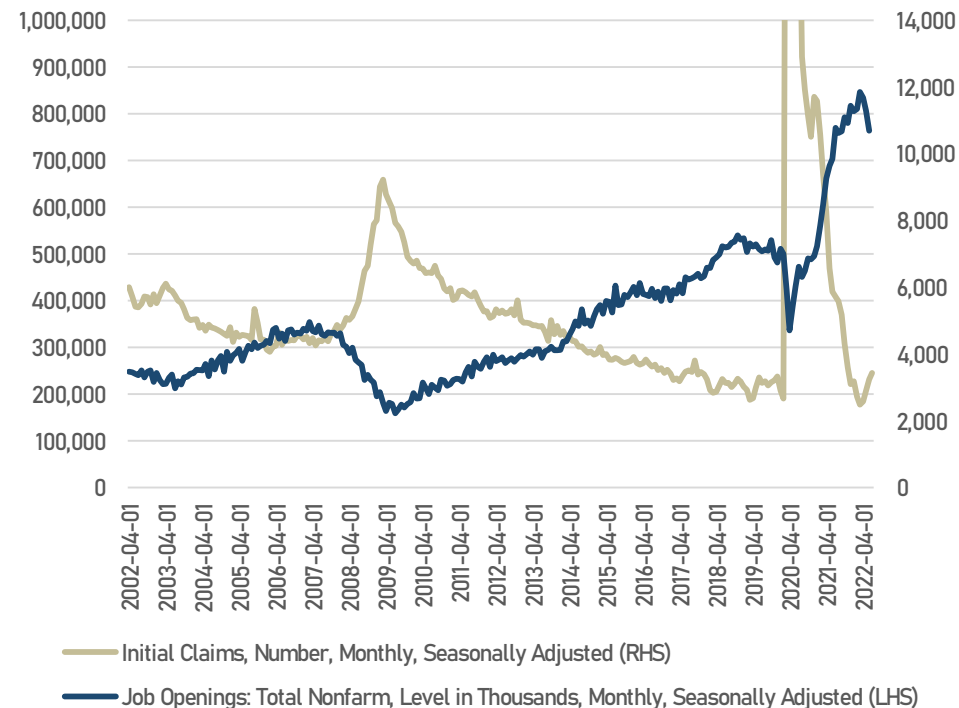
JOB MARKET MIGHT BE AT A TURNING POINT

- Job openings decline by -6.6% m-o-m with half of the decline due to retail trade → retail sales came in at 0% for July driven by decline in motor vehicle sales & parts dealers
- Initial claims rise, but are still at a low monthly figure
- Nonfarm payroll has surprised to the upside, but further gains seem less likely

Nonfarm Payroll surprises to the upside recently

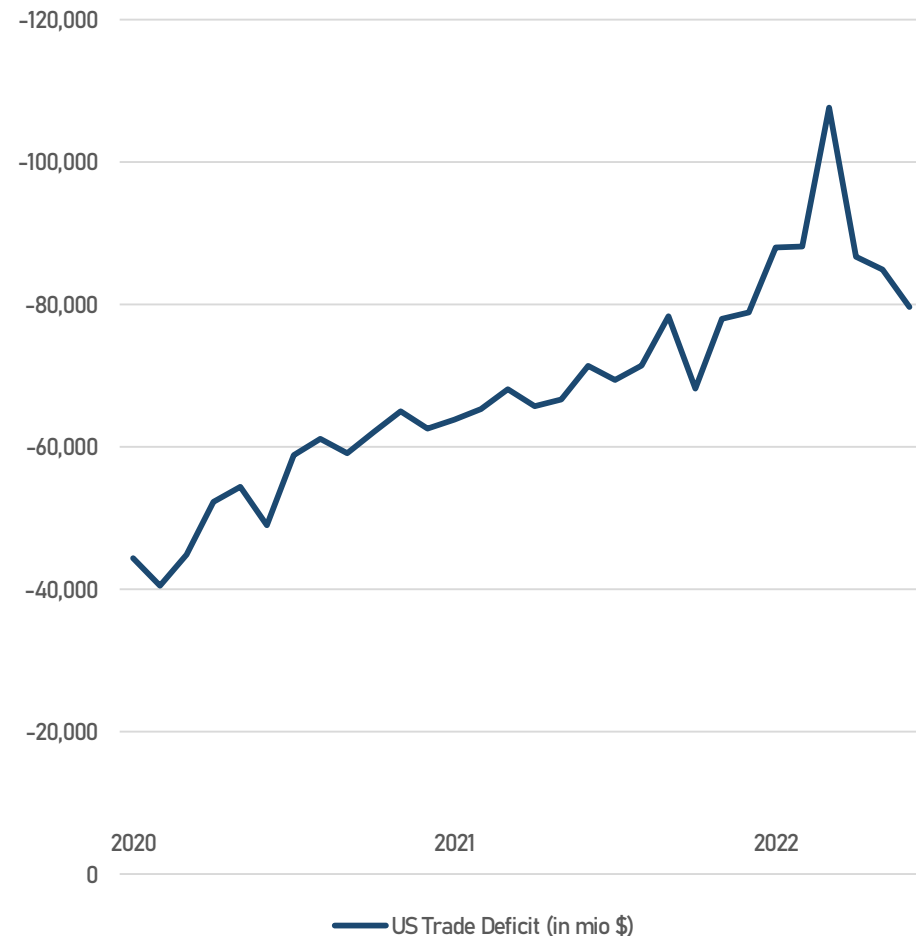


Initial Claims & JOLTS are negatively correlated



IMPROVING TRADE DEFICIT COULD HELP GDP GROWTH

US Trade Deficit is declining driven by stronger, energy related exports



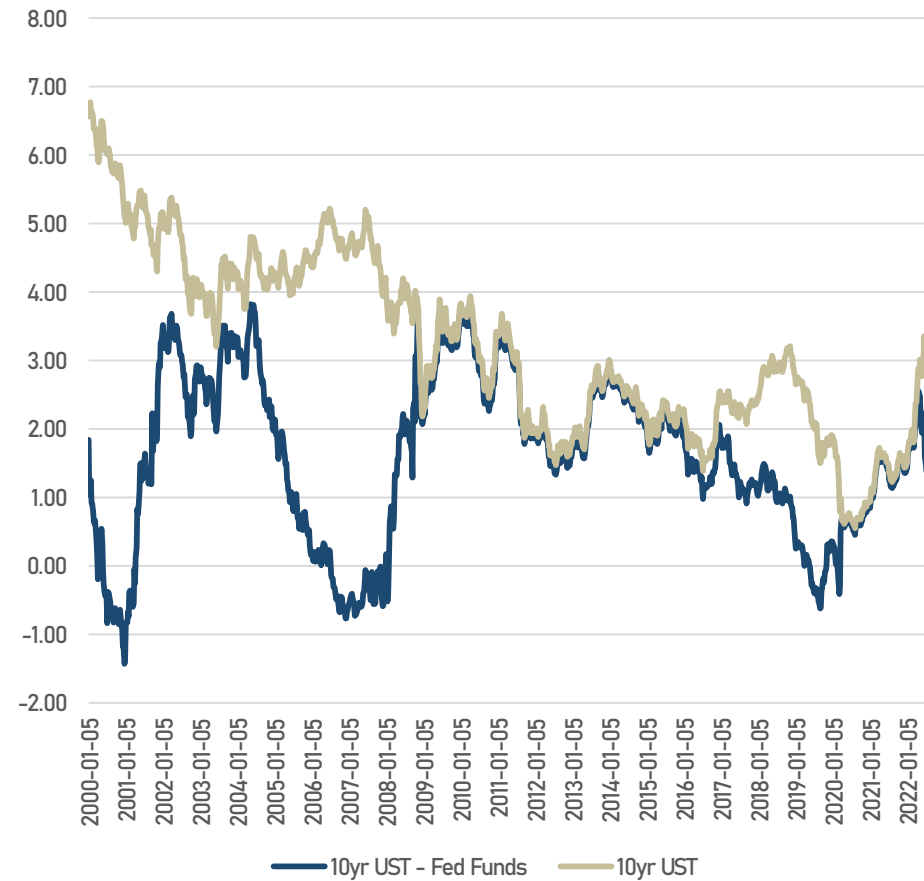
Decline in Export and Import Prices has usually indicated a recession



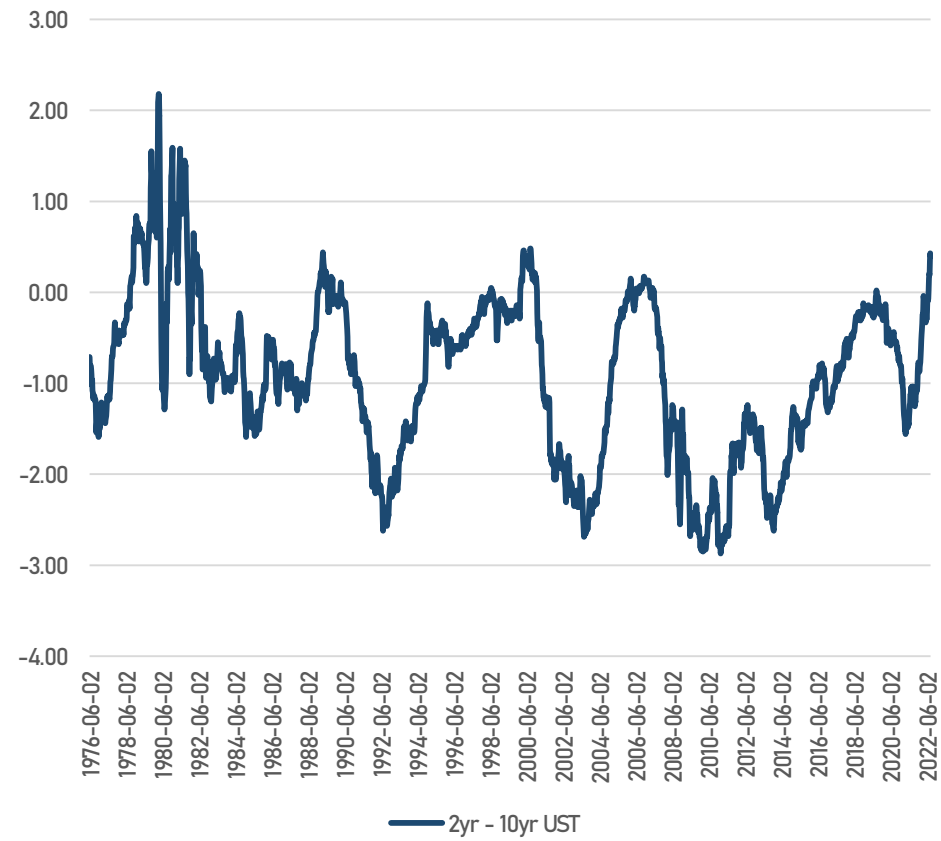
2. INTEREST RATES – CONVERGING PATHS

ANOTHER 50BPS HIKE AND 10YR UST – FEDFUNDS INVERTS

USTs hit post GFC highs and curve begins inverting



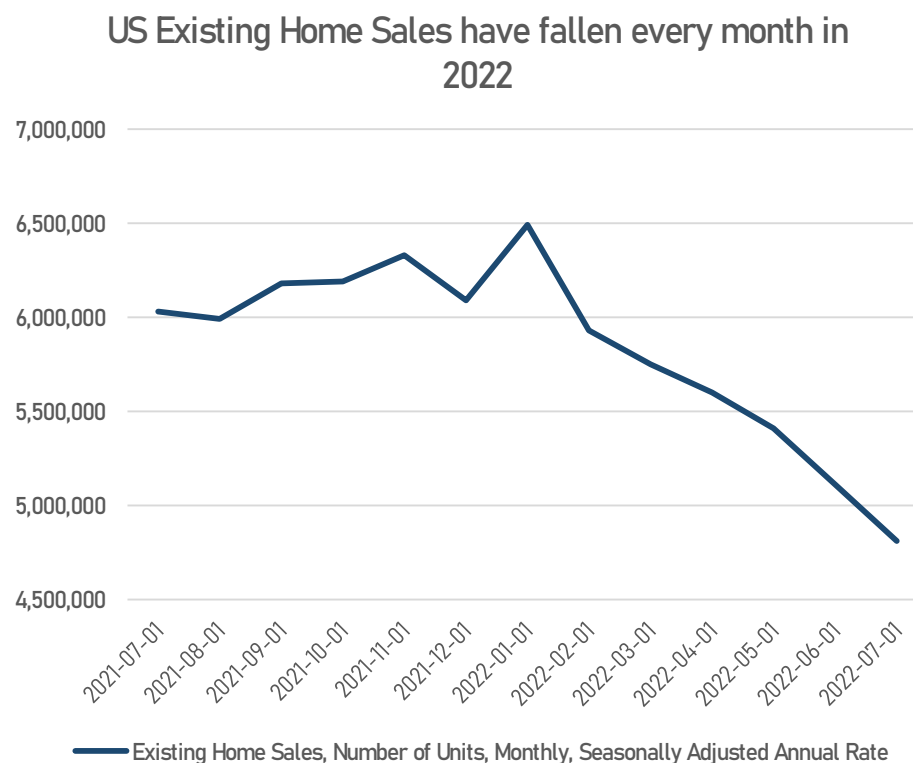
2yr - 10yr UST yield curve inversion at prior top of +40bps



EUROPEAN INTEREST RATES CONVERGE WITH US

- US existing-home sales declined by -5.9% in July, -20.2% y-o-y. Median sales price declined by -2.4% m-o-m

Fed	Rate (priced 15th June eod)	Rate (priced 29th July eod)	Rate (priced 19th Aug eod)
June	1.68	-	-
July	2.25	2.33	-
September	2.83	2.88	2.95
November	3.45	3.47	3.44
December	3.60	3.60	3.53
BoE	Rate (priced 15th June eod)	Rate (priced 29th July eod)	Rate (priced 19th Aug eod)
June	1.36	-	-
August	1.69	1.55	1.66
September	2.22	2.16	2.00
November	2.51	2.40	2.72
December	2.72	2.71	3.43
ECB	Rate (priced 15th June eod)	Rate (priced 29th July eod)	Rate (priced 19th Aug eod)
July	-0.25	0.00	-
September	0.00	0.38	0.55
October	0.41	0.60	0.78
December	0.92	0.86	1.00

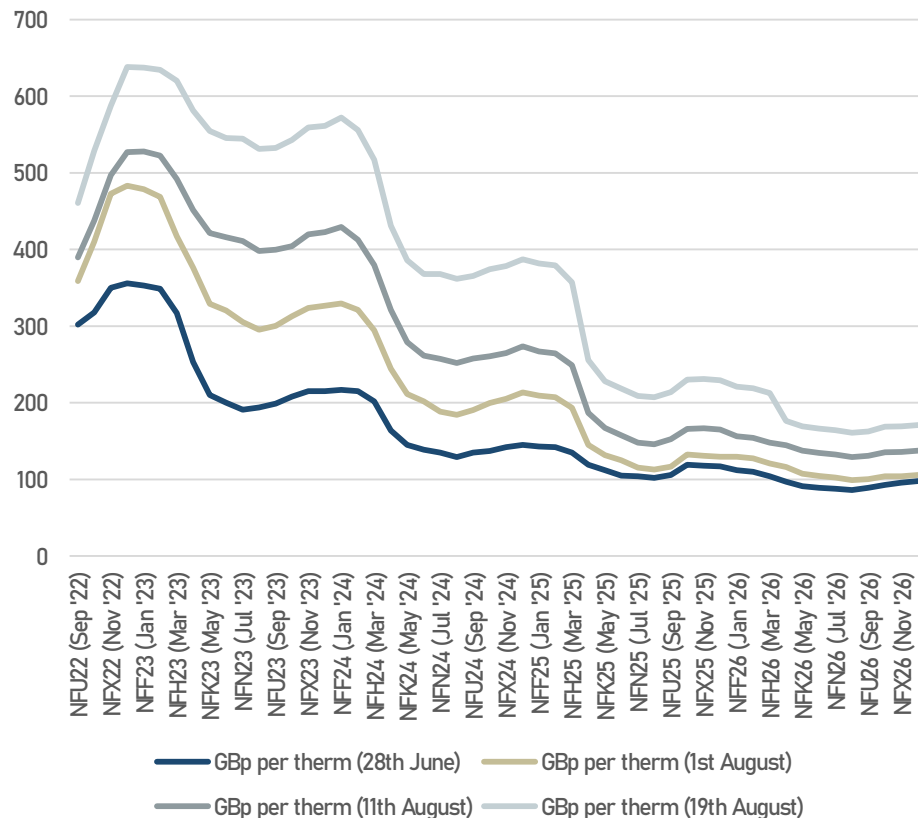


3. ENERGY CRISIS – FUEL SWITCHING & IRAN DEAL

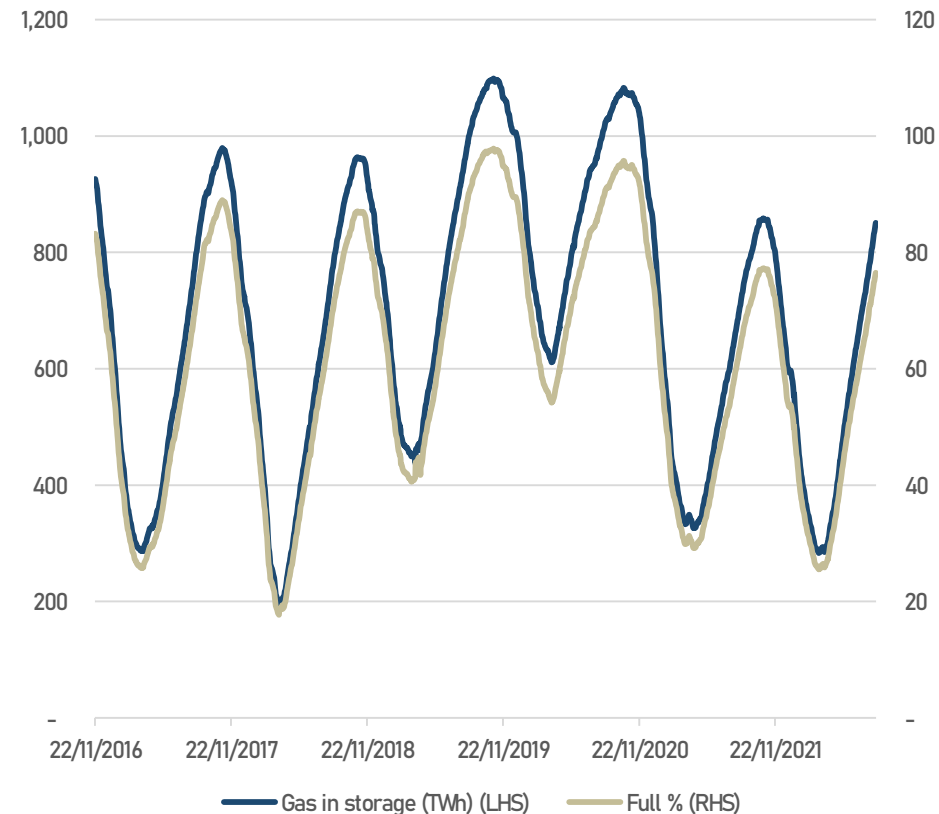
UK GAS FUTURE PRICES UP 2-3X IN <2 MONTHS

- Germany has Europe's largest gas storage tanks – but they only last for 2.5–3 months considering no gas imports

UK future gas prices continue to climb



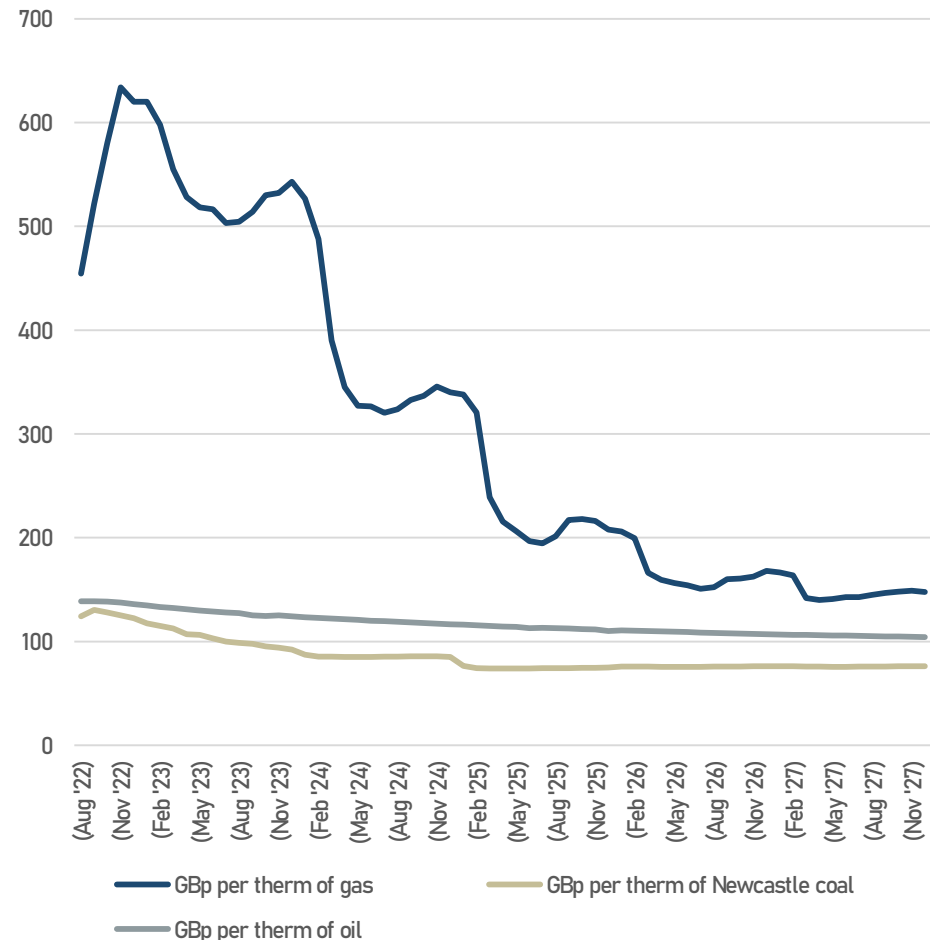
European Gas in Storage now at peak level of 2021



FUEL SWITCHING HAS NOT HAPPENED REALLY

- IEA expects 380k bopd increases in oil demand due to gas-to-oil fuel switching (equivalent of 235 TWh – 4.4% of annual gas consumption in Europe)
- Gas prices of £6 per therm are equivalent of \$350 a barrel of oil
- European thermal coal imports from Russia (51.6mio metric tons (420 TWh, 7.86% of annual gas consumption in Europe), 70% of all thermal coal imports – mostly Germany and Poland) now at zero and replaced with thermal coal from the US, Colombia, South Africa and Australia
- June thermal coal imports doubled y-o-y, mostly driven by France due to nuclear power plant outages (50% switched off, which produce 72% of electricity in France)

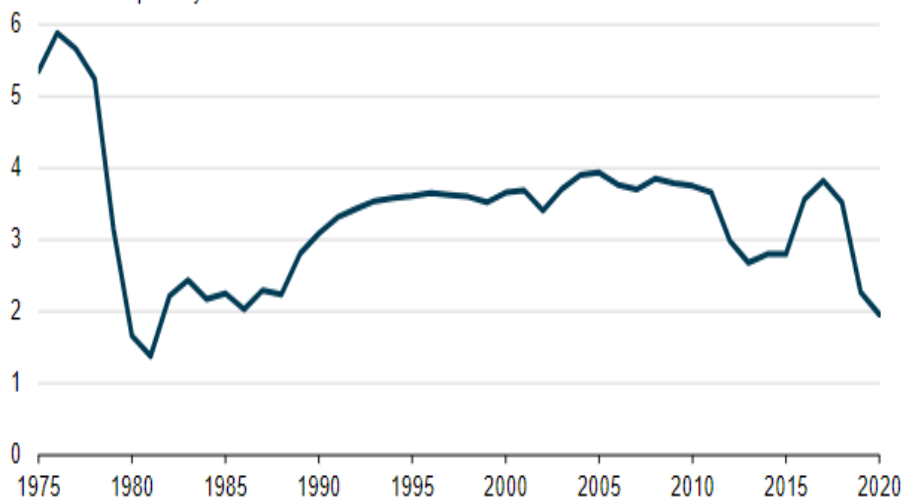
Arbitrage due to fuel switching does not seem to merge prices of gas, oil and coal



IRAN DEAL THE ONLY OPTION – FOR OIL

- Iranian oil could replace the US SPR release of 1mio bopd
- While Iran has the 2nd largest natural gas reserves, there are question marks how fast they can step up production and ship it via LNG tankers to Europe

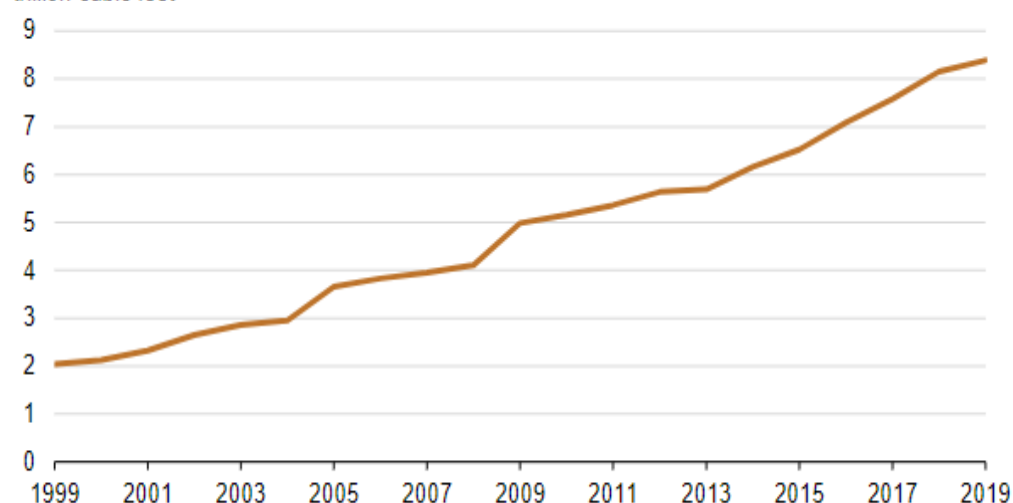
Crude oil production in Iran (1975–2020)
million barrels per day



Source: U.S. Energy Information Administration, [Short-Term Energy Outlook](#) (STEO) June 2021



Iran's dry natural gas production (1999–2019)
trillion cubic feet



Source: U.S. Energy Information Administration, [Iran Country Analysis Brief](#)



According to a senior Administration official, Iran no longer requests that Biden remove the IRGC off its list of terror organizations - CNN.

20:29 Aug 20 Energy

