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A UK focused Turnaround Value Investment Partnership

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# TODAY'S TOPICS

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1. UK Budget
2. Fixed Income, Currencies, Commodities
3. Politics looks a lot like 1979/80s

# 1. UK BUDGET – NOT SO MINI AT ALL

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# UK CORPORATE TAX REMAINS AT 19%

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Corporation tax remains at 19% (not being raised to 25%)

→ -£19bn reduction in tax receipts

## UK has the lowest corporate tax in G20

Country	Corporate tax
UK	19%
France	25.8%
US	25.8%
Canada	26.2%
Italy	27.8%
Japan	29.7%
Germany	29.8%
Russia	20%
Saudi Arabia	20%

# NATIONAL INSURANCE CONTRIBUTIONS REMAIN UNCH

National Insurance Contributions will remain at current levels (not being raised by 1.25%)

→ -£13bn reduction in tax receipts

National Insurance Contributions rise scrapped will benefit high tax payers most

Savings element	Basic taxpayer (£30k)	Higher taxpayer (£80k)	Additional rate taxpayer (£200k)
NIC 1.25% scrapped	£75 (22/23), £175 (23/24)	£300 (22/23), £700 (23/24)	£1,650 (22/23), £3,890 (23/24)

# 38 INVESTMENT ZONES & 8 FREEPORTS

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## 38 Investment zones (& 8 Freeports):

1. 100% business rates relief for 25 years
2. 100% capital allowance
3. 20% taxable profit reduction on structures and buildings, relieving 100% of their cost of investment over 5 years
4. Zero rate National Insurance contributions relief for employees on up to £50,270 earnings a year who work at least 60% of their time there
5. Full stamp duty land tax relief for land and buildings

- Blackpool Council
- Bedford Borough Council
- Central Bedfordshire Council
- Cheshire West and Chester Council
- Cornwall Council
- Cumbria County Council
- Derbyshire County Council
- Dorset Council
- East Riding of Yorkshire Council
- Essex County Council
- Greater London Authority

- North East Lincolnshire Council
- North Lincolnshire Council
- Norfolk County Council
- North of Tyne Combined Authority
- North Yorkshire County Council
- Nottinghamshire County Council
- Plymouth City Council
- Somerset County Council
- Southampton City Council
- Southend-on-Sea City Council
- Staffordshire County Council

- Gloucestershire County Council
- Greater Manchester Combined Authority
- Hull City Council
- Kent County Council
- Lancashire County Council
- Leicestershire County Council
- Liverpool City Region
- Stoke-on-Trent City Council
- Suffolk County Council
- Sunderland City Council
- South Yorkshire Combined Authority

- Tees Valley Combined Authority
- Warwickshire County Council
- West of England Combined Authority
- West Midlands Combined Authority
- West Yorkshire Combined Authority

# BENEFITS: BASIC VS. HIGHER TAX PAYER

## Personal tax rates are cut

1. Higher income tax to be reduced from 45% to 40%
2. Basic tax rate will be cut from 20% to 19%
3. Banker bonus cap of 100% (200% with shareholder approval) will be scrapped
4. Dividend tax increase of 1.25% will be scrapped

→ -£5bn reduction in tax receipts from basic tax rate cut alone

## Tax savings by income

Gross salary	Tax savings in 2023/24
£20k	£218
£30k	£391
£40k	£563
£50k	£736
£60k	£812
£80k	£958
£100k	£1,104
£120k	£1,249
£140k	£1,395
£160k	£2,041
£180k	£3,187
£200k	£4,333



# STAMP AND OTHER DUTY CUTS

## Stamp duty land tax

1. Will be increased from £125k to £250k
2. First time buyers don't pay stamp duty for properties selling for up to £425k (£300k before) with maximum value claimed to increase from £500k to £625k

## Tax savings by buyer and price

Price (£)	SDLT charge for standard home mover (£)			SDLT charge for first time buyer (£)		
	Before	Now	Saving (£)	Before	Now	Saving (£)
200k	1.5k	0	1.5k	0	0	n/a
400k	10k	7.5k	2.5k	5k	0	5k
600k	20k	17.5k	2.5k	20k	8.75k	11.25k

## Alcohol duty rates

1. Duty rates for all categories will be frozen and are not increasing

## VAT free shopping

1. For overseas visitors tax-free shopping

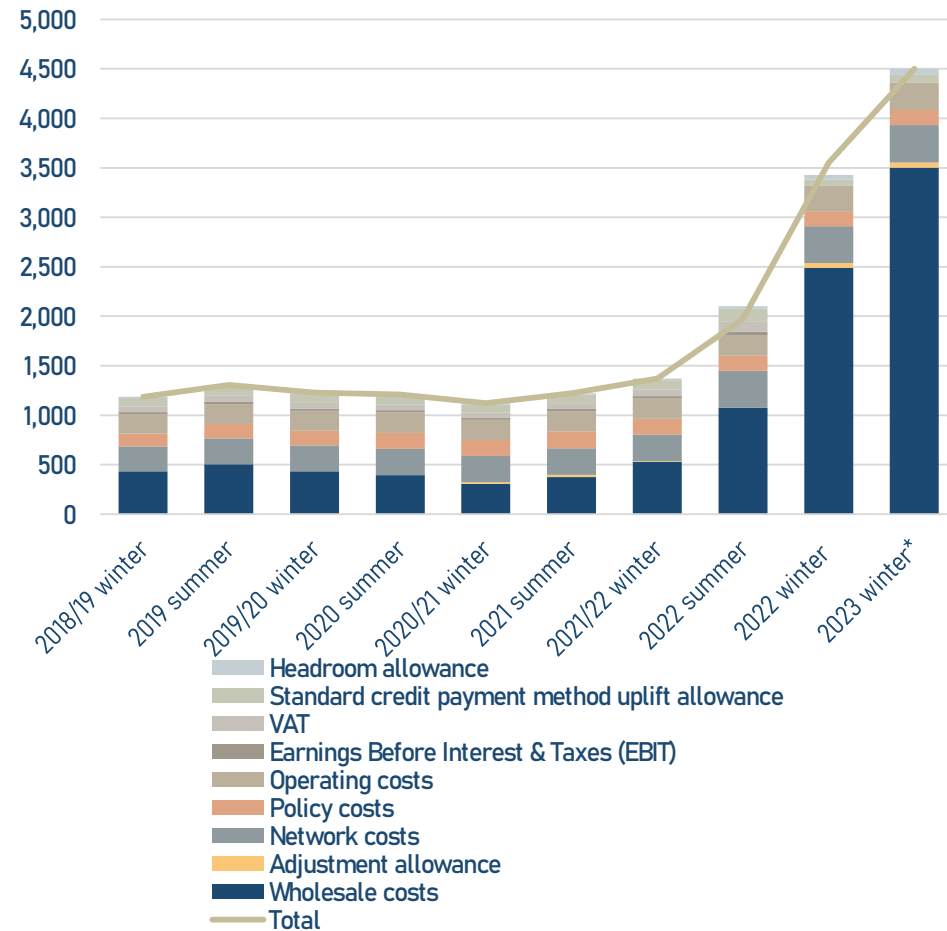
# ENERGY CAPS & SUPPORT

## Energy package

1. Household energy bills will be capped at £2.5k for the average UK household for two years
2. Business energy bills will be capped at a similar rate for the next 6 months

→ Package will cost -£60bn over 6 months

## Ofgem Average Household Energy Tariff in £



# THE UK'S "MINI" (BAZOOKA) BUDGET

## DMO Remit

1. Energy package will cost £60bn over 6 months
2. Tax cuts will cost £45bn and £161bn over 5 years

Financing requirement	2022/23 April update	2022/23 September update
Net Financing Requirement	161.7	234.1
Total gilt sales for debt financing	131.5	193.9

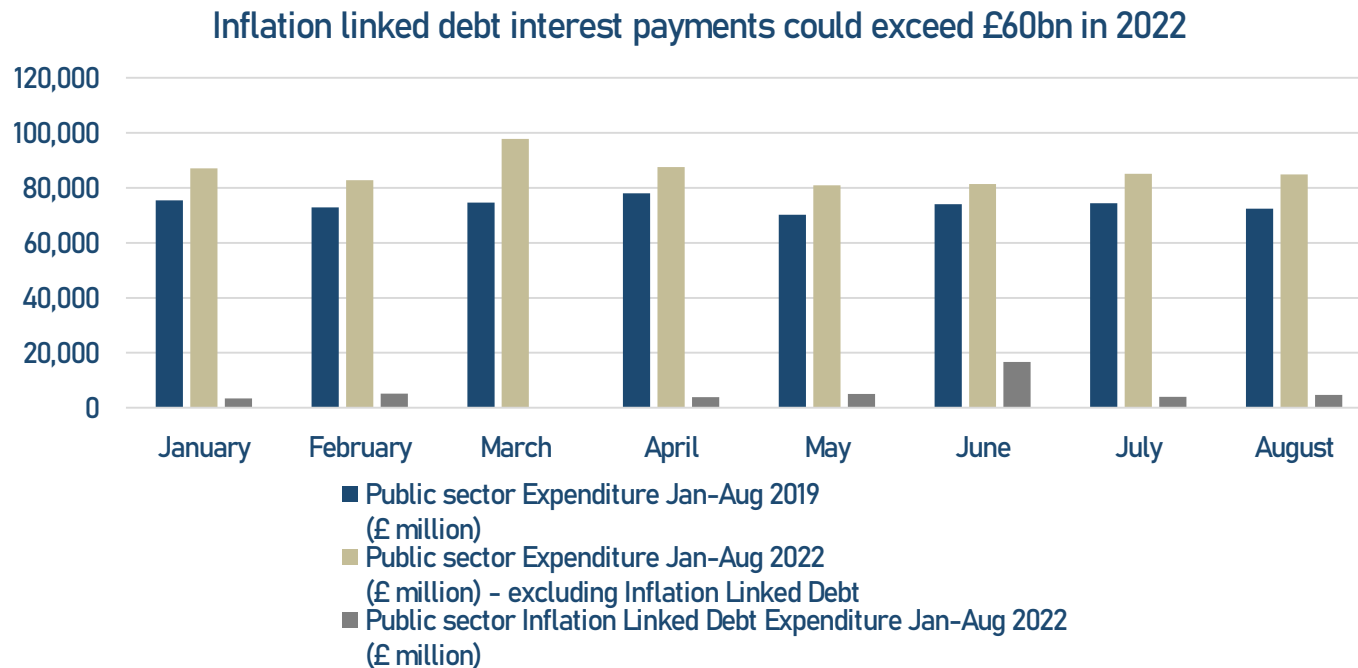
## UK deficit

1. Additional £72.4bn in gilt & T-bill sales (3% of UK GDP)
2. Of note: 3% of GDP military spending by 2030 will come in at \$81bn (vs. \$84bn Russia) and it is likely not included in the budget (currently 2% of GDP) → \$27bn extra per year or at least £157bn over the next 8 years → Spending review in Nov 22

# THE UK'S "MINI" (BAZOOKA) BUDGET IMPLICATIONS

## How the numbers add up

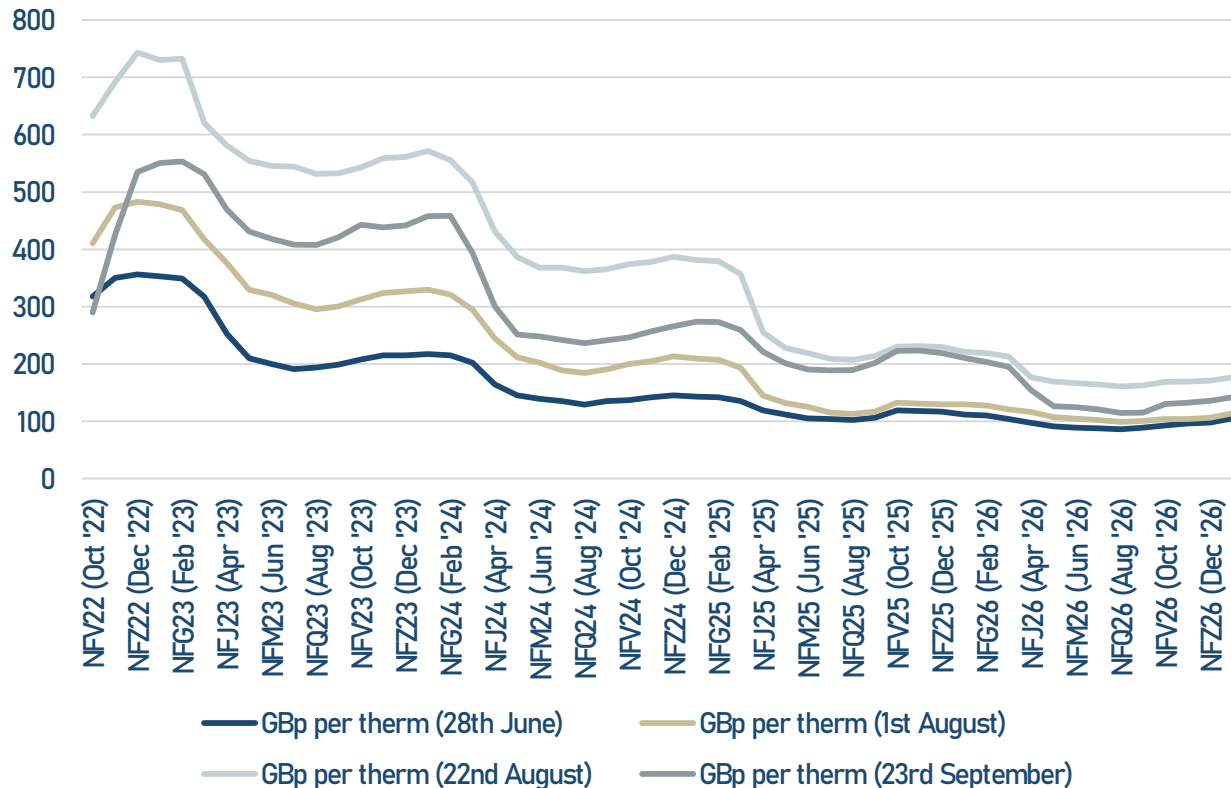
1. Additional borrowing of £72.4bn is equivalent to 3% of GDP
2. UK hopes to achieve 2.5% GDP growth with this package
3. Inflation linked debt interest payments will likely exceed £60bn this year (2.5% of GDP)



# IF COMMODITY PRICES COME DOWN...

- UK government could save ~£50bn once inflation comes down due to reduced inflation linked debt interest payments

UK future gas prices remain elevated



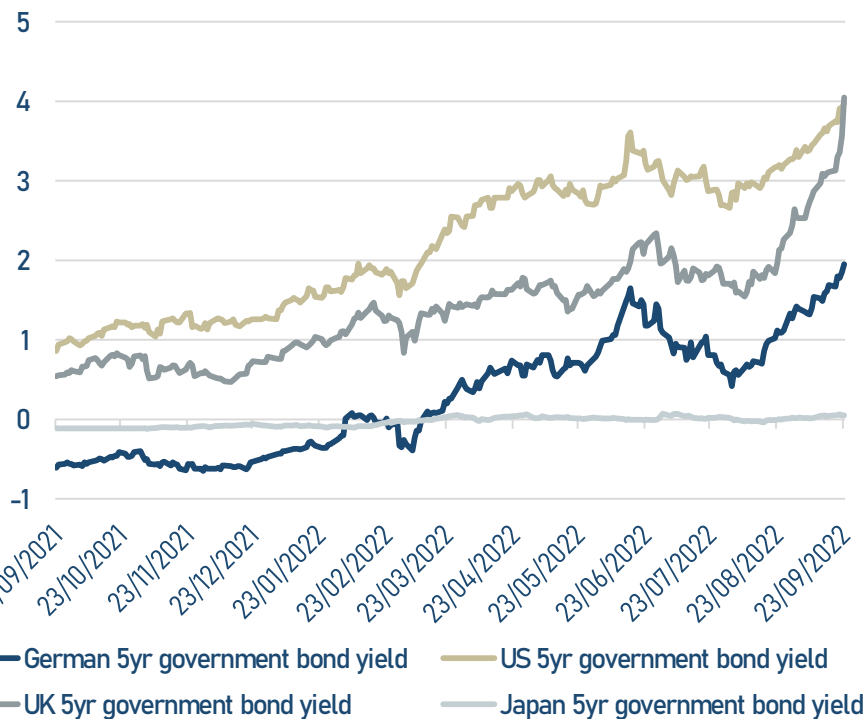
## 2. FIXED INCOME, CURRENCIES, COMMODITIES – FICC

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# UK INTEREST RATES NOW ABOVE THE US FROM >5YR

- UK budget has caused the market to panic due to higher borrowing needs
- If BOE now hikes above FED rates, £ should in theory strengthen

## G4 5yr Government Bond Yields



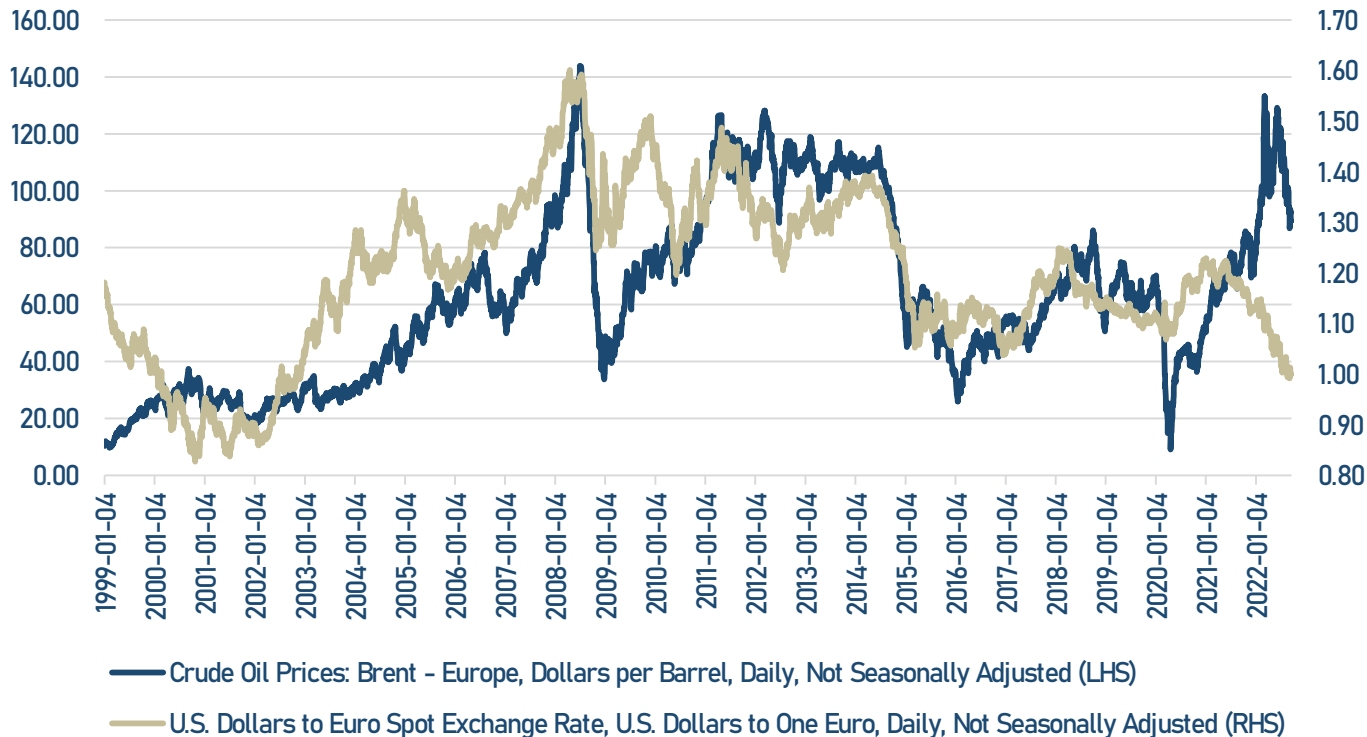
## GBPUSD



# OIL PRICE DRIVEN BY US\$ STRENGTH

- Last diversion during 08/09 crisis
- Ultimately, EURUSD adjusted, not oil prices to bring prior correlation back in line (2010)

Oil should trade at \$40 a barrel, if history was a guide



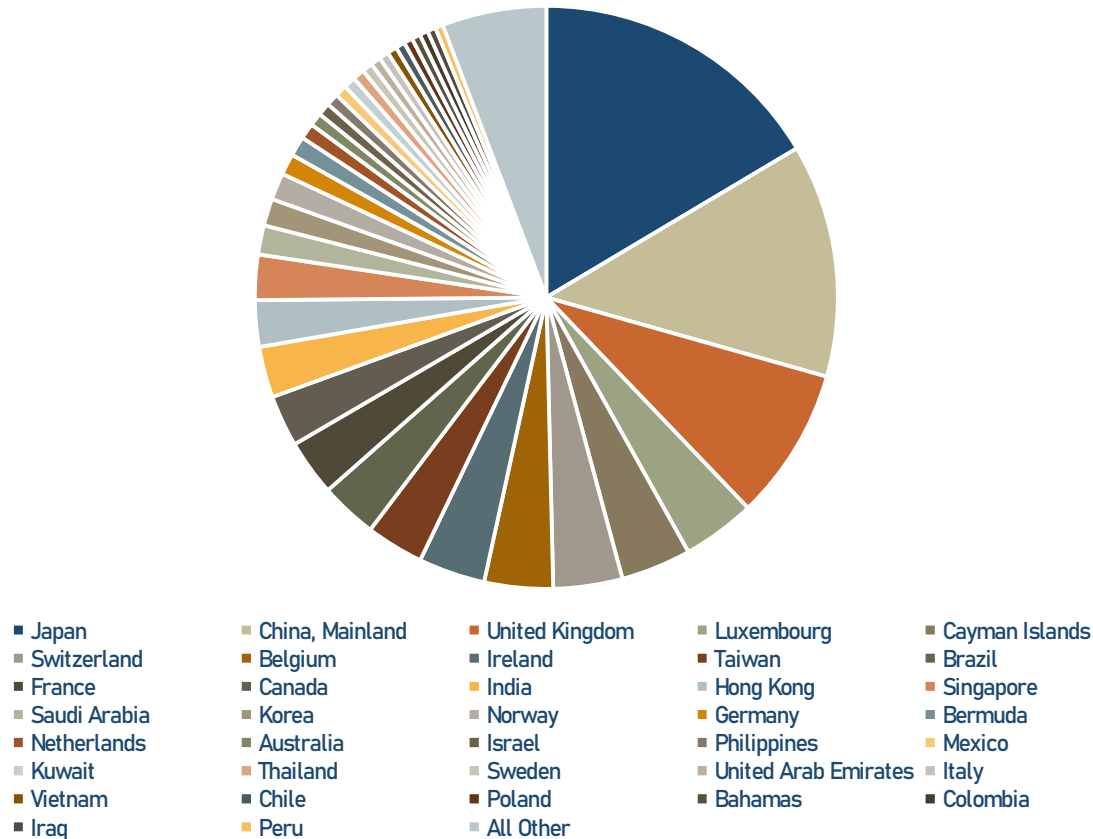


# PROP UP THE YEN?

- BOJ only has around \$60bn USD, Japan's pension funds own US Treasuries
- Could governments push their institutions to sell US Treasuries to weaken the US\$?

Unlikely...

Japan held 16% (\$1.23trn) of US Treasuries in July 2022



### 3. POLITICS LOOKS A LOT LIKE 1979/80S – PLAZA ACCORD?

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# BIGGER PICTURE

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- Ukraine war is going to intensify
- UK mortgage brokers are pulling rates, housing crisis to come with stamp duty relief not enough to stop it
- Banks are warning of stringent regulation in respect to minimum capital to cover losses, affecting leveraged loans now
- Freight costs have almost come back down to pre-pandemic levels, but it will take time to get reflected in earnings due to long term contracts
- China is in a credit crisis, Evergrande first and now the largest copper trading house is said to be in trouble
- Politicians are looking at 1970s/80s for answers:
  - Powell = Volcker (1979-1987)
  - Truss = Thatcher (1979-1990)
  - Kwarteng = Anthony Barber (1970-1974)

# THE WRONG PLAYBOOK

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- Jerome Powell's rate hikes resemble those of Paul Volker (1979–87) although Biden does not resemble Ronald Reagan (1981–89) – both caused the US\$ to appreciate around 50% against G4 currencies in the early 1980s
- Truss's & Kwarteng's tax cuts (1.5% of GDP) are 2<sup>nd</sup> largest after Anthony Barber (1970–74) (2% of GDP) and economic theory resembles that of Margaret Thatcher (1979–90)

## Differences

- UK higher tax rates were at 83% and therefore had a lot of room to be cut. UK corporate taxes at 25% would still be the lowest in G7
- While Thatcher reduced taxes, there was an offset with higher VAT and NIC contributions
- Government debt/GDP was at 40% vs. now 100%
- We moved towards globalisation in 1980s, now we are moving towards de-globalisation