



A UK focused Turnaround Value Investment Partnership

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TODAY'S TOPICS

1. Political risks
2. Japan and its implications
3. Oil price dynamics

1. POLITICAL RISK – THE RISE OF FASCISM IN EUROPE

A WORLD OF POLITICAL EXTREMES

The 1917 Russian Revolution and resulting Marxism caused alarm, as European politics moved to hard-left vs. hard-right extremes

UK in 1920s:

“Committed as they were to deflating the economy to strengthen the pound in the hope of returning to the Gold Standard, the symbol of international free trade that had made Britain great in the nineteenth century before being suspended in the War, successive governments failed to tackle unemployment. The Geddes Report or Geddes Axe of 1921/2, which brought cuts to government departments, worsened the chances of economic growth. Agitation from the unemployed was led by the Communist Party of Great Britain, formed in 1920, and the National Unemployed Workers (Committee) Movement (NUWM) formed in 1921.”

1922-1924 a period of instability for the Conservatives. In 1924 Labour Party won the election for the first time replacing the Liberals as the main party next to the Conservatives

1920 = 2022 IN TIME PERIOD OVERLAY

Country	Fascist leader	Year	Forgotten Depression time overlay in today's time
Italy	Mussolini	1922-1945	2024-2047
Germany	Hitler	1933-1945	2035-2047
Portugal	Salazar & Caetano	1933-1974	2035-2076
Austria	Dollfuss & Schuschnigg	1934-1938	2036-2040
Bulgaria	Zveno	1934-1935	2036-2037
Yugoslavia	Stojadinovic	1935-1939	2037-2041
Greece	Metaza	1936-1941	2038-2043
Spain	Franco	1939-1975	2041-2077

Links that compare the Flu pandemic and the resulting Forgotten Depression with today's pandemic and recession by overlaying the time periods:

<https://www.aozorastep.com/Narrowing%20down%20the%20big%20picture.pdf>

<https://www.aozorastep.com/1Q%202022.pdf>

2. JAPAN AND ITS IMPLICATIONS – A COLLAPSE?

YIELD CURVE CONTROL

BOJ:

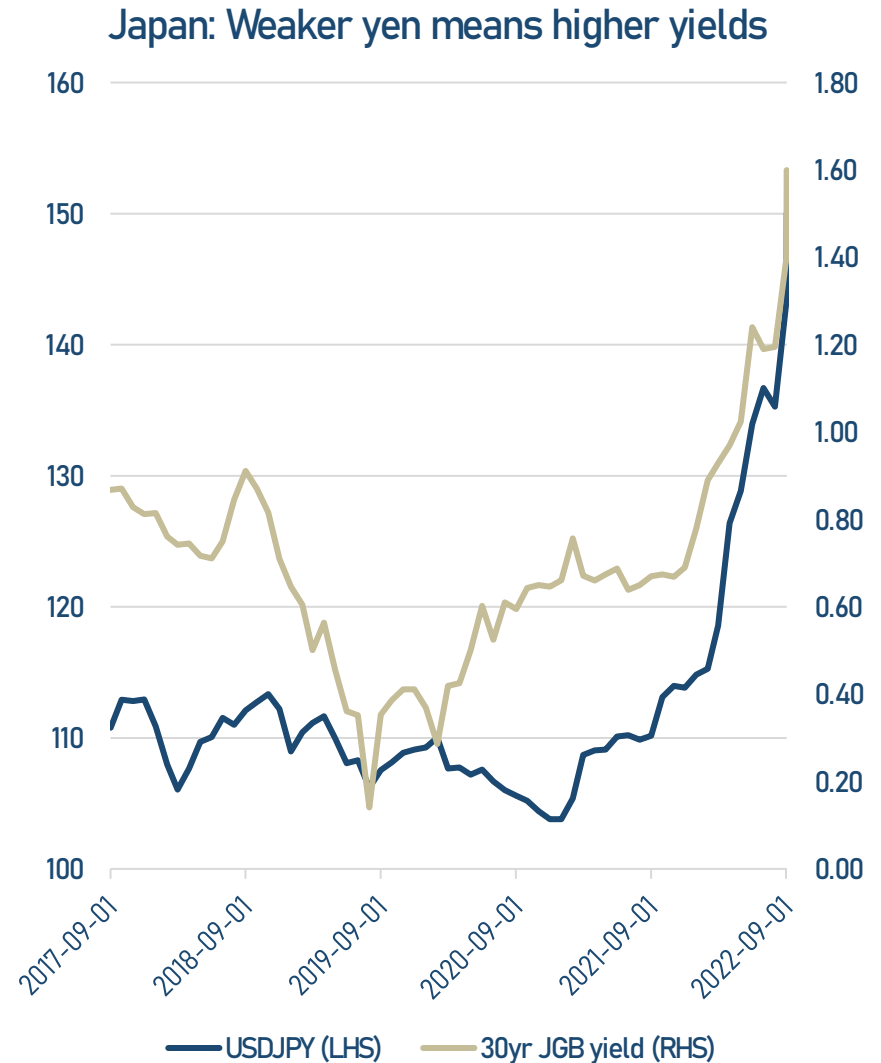
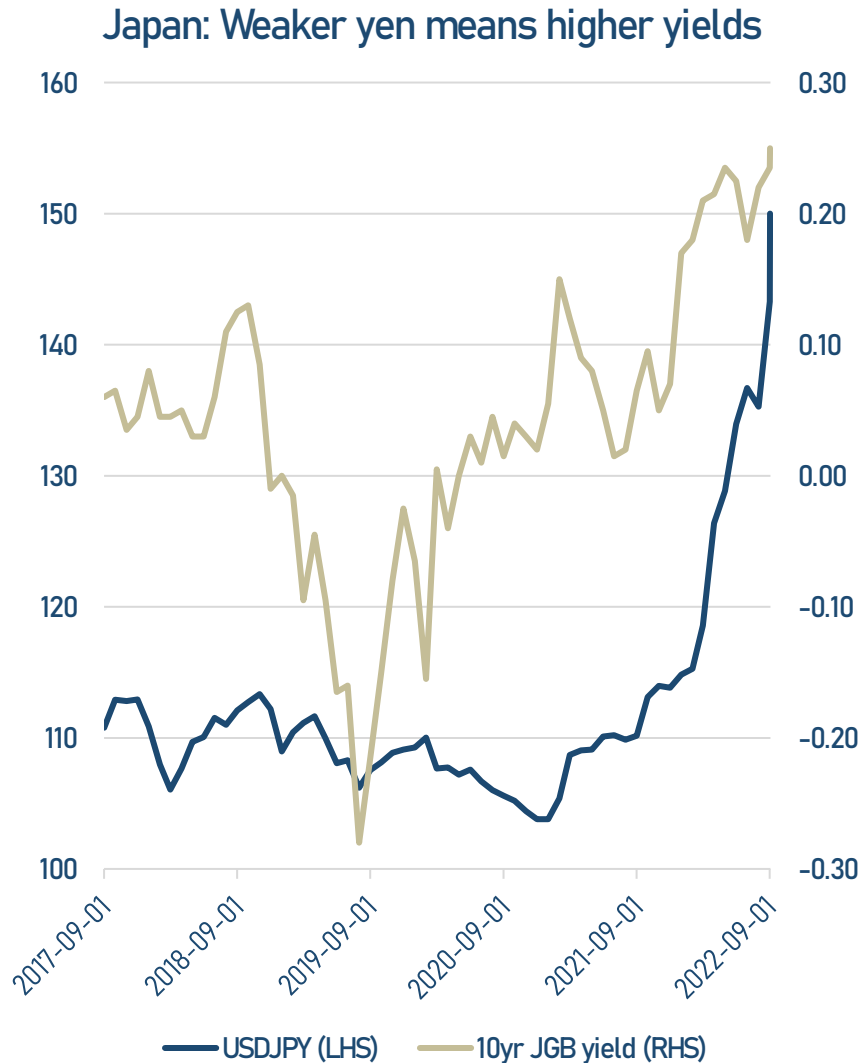
Inflation-overshooting commitment:

- Price stability target at +2% y-o-y CPI change
- All items less fresh food exceeds +2% and stays above the target in a stable manner
- → September 2022 y-o-y CPI @+3% (+1.8% ex food, energy, +3% ex-fresh food)

Yield curve control:

- Policy rate: -0.1%
- 10-year JGB: 0%, purchase necessary amount → daily auction set at 0.25%
- TOPIX ETF purchases (Yen 12trn a year) + J-REITs purchases (Yen 180bn a year)
- CP purchases (Yen 2trn a year) + corporate bonds (Yen 3trn a year)

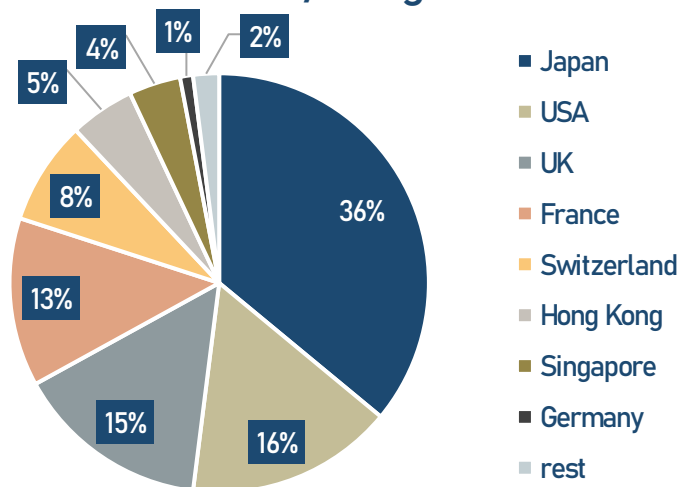
YIELD CURVE (OUT OF) CONTROL



WHY JAPAN IS IMPORTANT

- Japan is the biggest creditor nation in the world holding \$3.29trn in net international investment position (difference between the stock of assets it holds overseas and stock of Japanese assets held by foreigners) (as of June 2022)
- Japan holds \$9.96trn assets overseas, \$3.7trn equities and \$5.7trn debt (IMF)
- Japanese retail foreign currency deposits at domestic banks rose to \$182bn end of August 2022 (+8.3% ytd – largest increase in 2015)

Japan accounts for more than 1/3 of global retail FX spot trading

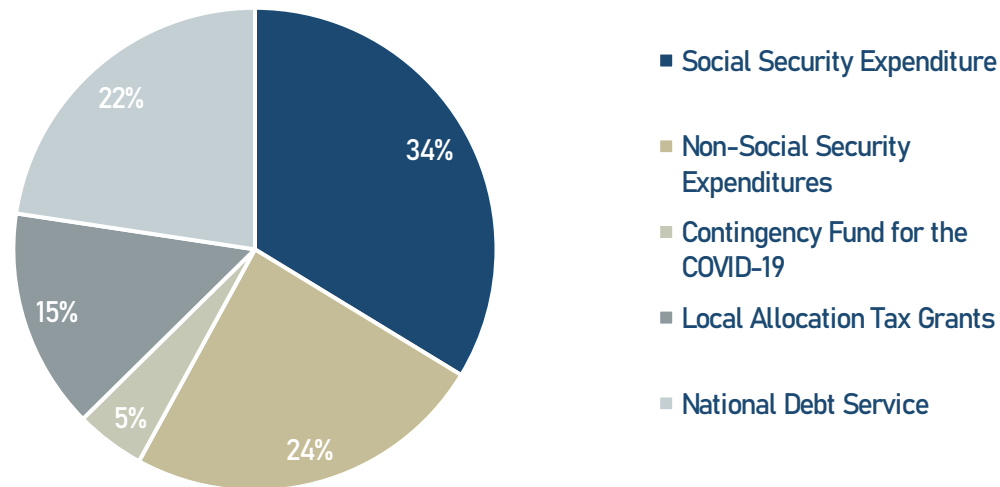


Source: BIS 2013

DEFENDING THE YEN

- Japan's Ministry of Finance holds \$1.3trn foreign currency reserves (\$1trn US treasuries)
- Japan GDP = \$5trn (2019 at USDJPY 110)
- Japan Government Debt/GDP = 231% (June 2022)
- Raise retirement age from 64 to 74 years?

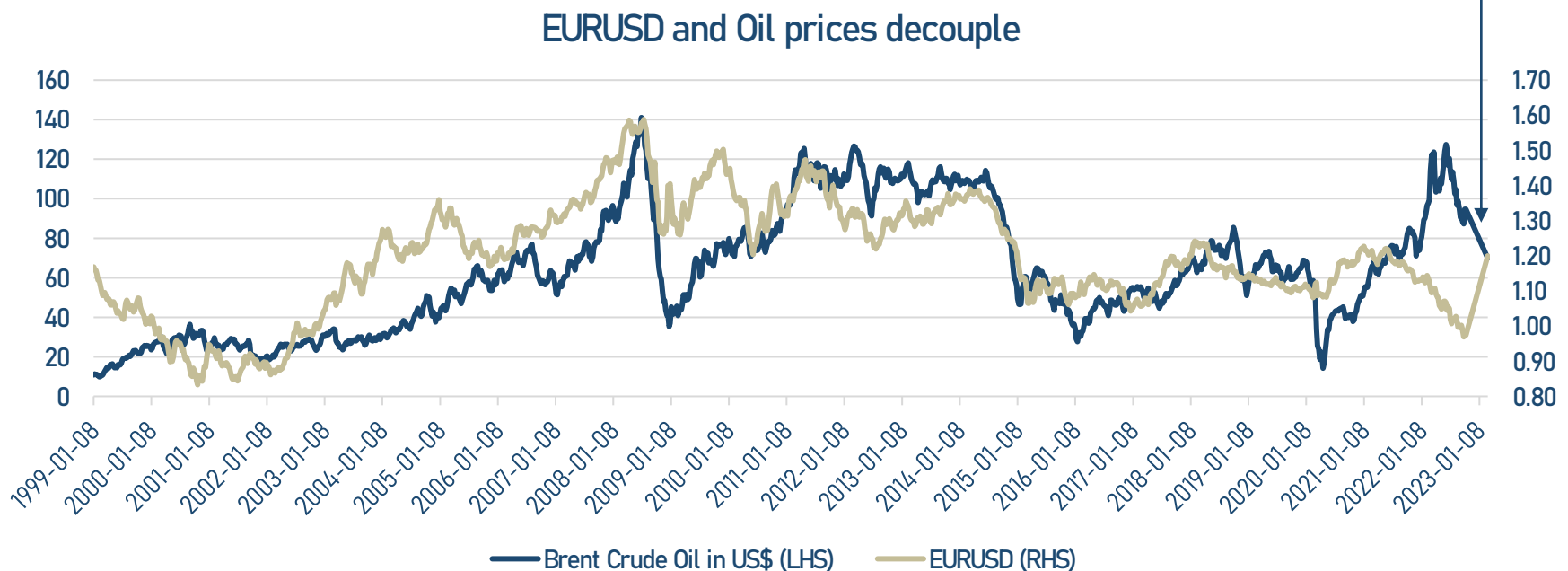
Japan Government Expenditures 2022 in bn Yen



3. OIL PRICE DYNAMICS – A CRISIS BREWING?

OPEC+'S 2MIO BOPD CUT

- Underproduction was 3.6mio bopd in August 2022
- US 1mio bopd SPR release to stop in November/December 2022 → buy back at \$67-72
- Combined with OPEC+'s 2mio bopd cut, this indicates growth of 0.6 bopd
- OPEC says real output cut is slightly more than 1mio bopd
- 2008/09 lost around 1-2mio bopd in demand



A TURNING POINT?

- Luceco (LED light producer): “Customers are reducing their inventories faster than anticipated”
- Naked Wines (Online wine seller): “We are reducing marketing spending to improve margins”
- Synthomer (Chemicals producer): “We are reducing capex to improve net debt”
- IG Design (Greetings cards producer): “Christmas season selling has started much earlier than usual this year to avoid supply chain chaos, leading to results being tilted towards 1st half rather than usual 2nd half”

