



A UK focused Turnaround Value Investment Partnership

www.aozorastep.com

david@aozorastep.com

LEGAL DISCLAIMER

The contents of this publication have been prepared solely for the purpose of providing information about AozoraStep Capital LLP and the services and products it offers, which are targeted for professional investors only. The opinions and views expressed are those of AozoraStep Capital LLP, may change without notice and should not be construed as investment, tax, legal or other advice. AozoraStep Capital LLP does not guarantee the completeness and accuracy of the information provided and all content can become out of date. Products or services mentioned on this site are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly persons are required to inform themselves and observe any such restrictions. In respect to investments described in this publication, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned in this publication may fall as well as rise and may have tax consequences. The performance of AozoraStep Capital LLP is based on a personal track record and approved by Sedulo for the time period Q1 2019 - Q1 2021 only with further audits being done on an occasional basis. AozoraStep Capital LLP is currently not authorized by the FCA, but is in the process of authorization, and hence, until authorized, AozoraStep Capital LLP is not allowed to manage capital. However, the members of AozoraStep Capital LLP might hold positions in any investments described in this report. AozoraStep Capital LLP is registered in England and Wales with registered number OC436835. Registered Office: 57 Lansdowne House, Berkeley Square, London W1J 6ER, United Kingdom. Reproduction or distribution of any materials obtained in this presentation or linking to this presentation without written permission is prohibited.

TODAY'S TOPICS

1. US inflation
2. Interest rates expectations
3. Commodity prices
4. US interest expense
5. Ukraine war

1. US INFLATION – US

US CPI – INFLATION NOW NEGATIVE M-O-M

+0.1% November 2022 CPI Print

Biggest drivers:

- 2.9% used cars (3.72% weight)
- +0.0% new vehicles (4.06% weight)
- 2.4% car and truck rental (0.14% weight)
- 0.7% lodging away (0.93% weight)
- 3.0% airline fares (0.63% weight)
- +0.6% rent of shelter (32.4% weight)
- 0.1% transportation services (5.9% wgt)
- +0.2% apparel (2.46% weight)
- 1.6% energy (8% weight)
- +0.5% Food (13.7% weight)
- 0.7% Medical care services (6.8% wgt)

-0.1% December 2022 CPI Print

Biggest drivers:

- 2.5% used cars (3.6% weight)
- 0.1% new vehicles (4.1% weight)
- 1.6% car and truck rental (0.14% weight)
- +1.5% lodging away (0.9% weight)
- 3.1% airline fares (0.6% weight)
- +0.8% rent of shelter (32.6% weight)
- +0.2% transportation services (5.9% wgt)
- +0.5% apparel (2.4% weight)
- 4.5% energy (7.9% weight)
- +0.3% Food (13.8% weight)
- +0.1% Medical care services (6.8% wgt)

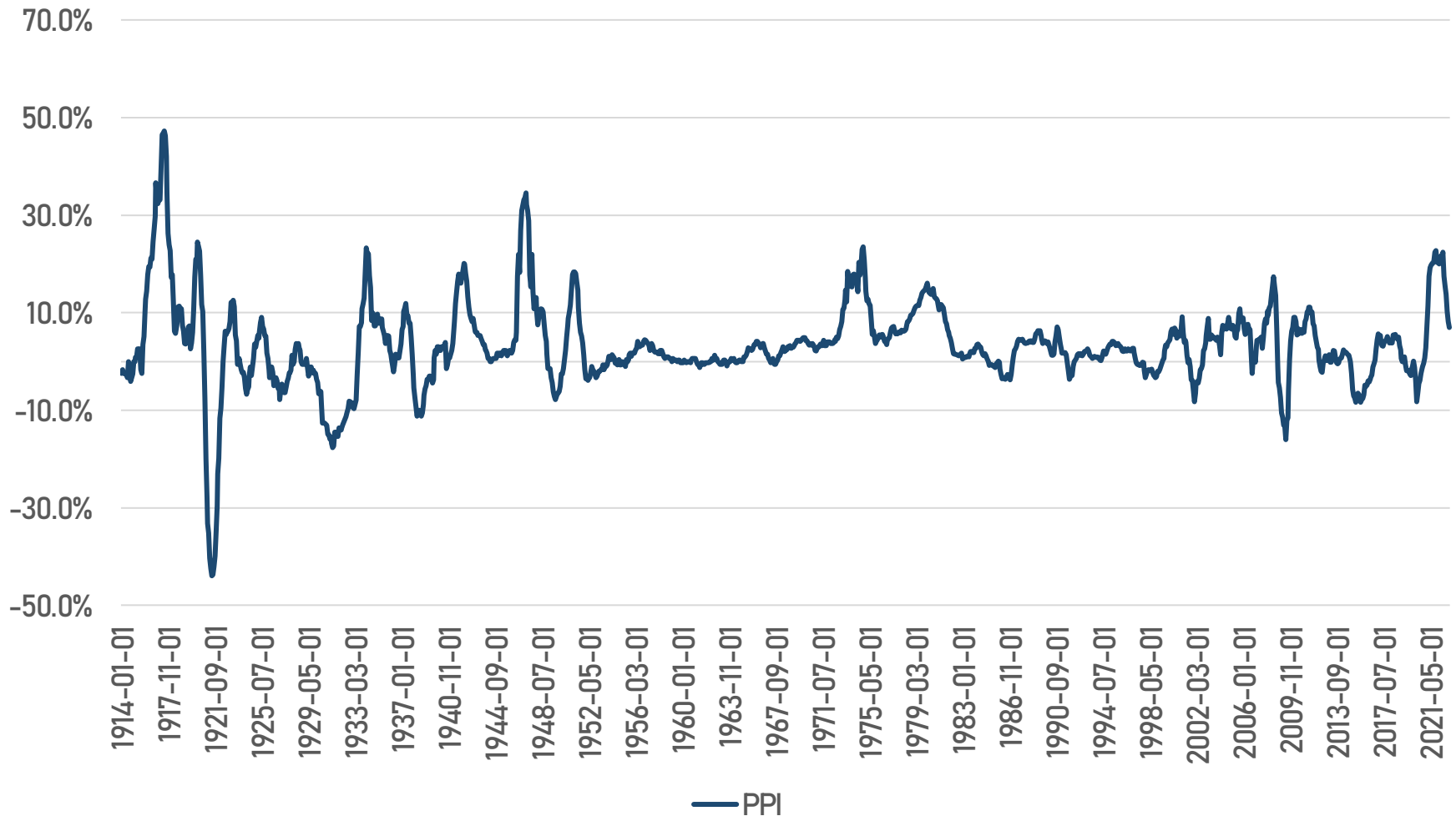
JANUARY CPI PRINT – 0.5% EXPECTED M-O-M INCREASE

- Natural gas prices declined by 50%
- Oil prices stable/small decline
- Used car prices rose by 2.5% (Mannheim)
- Rent prices increases are slowly beginning to decelerate, up 0.3% (Zumper)

- Expect inflation to come in below expectations

US PPI – SET TO GO NEGATIVE OR 1970S SCENARIO?

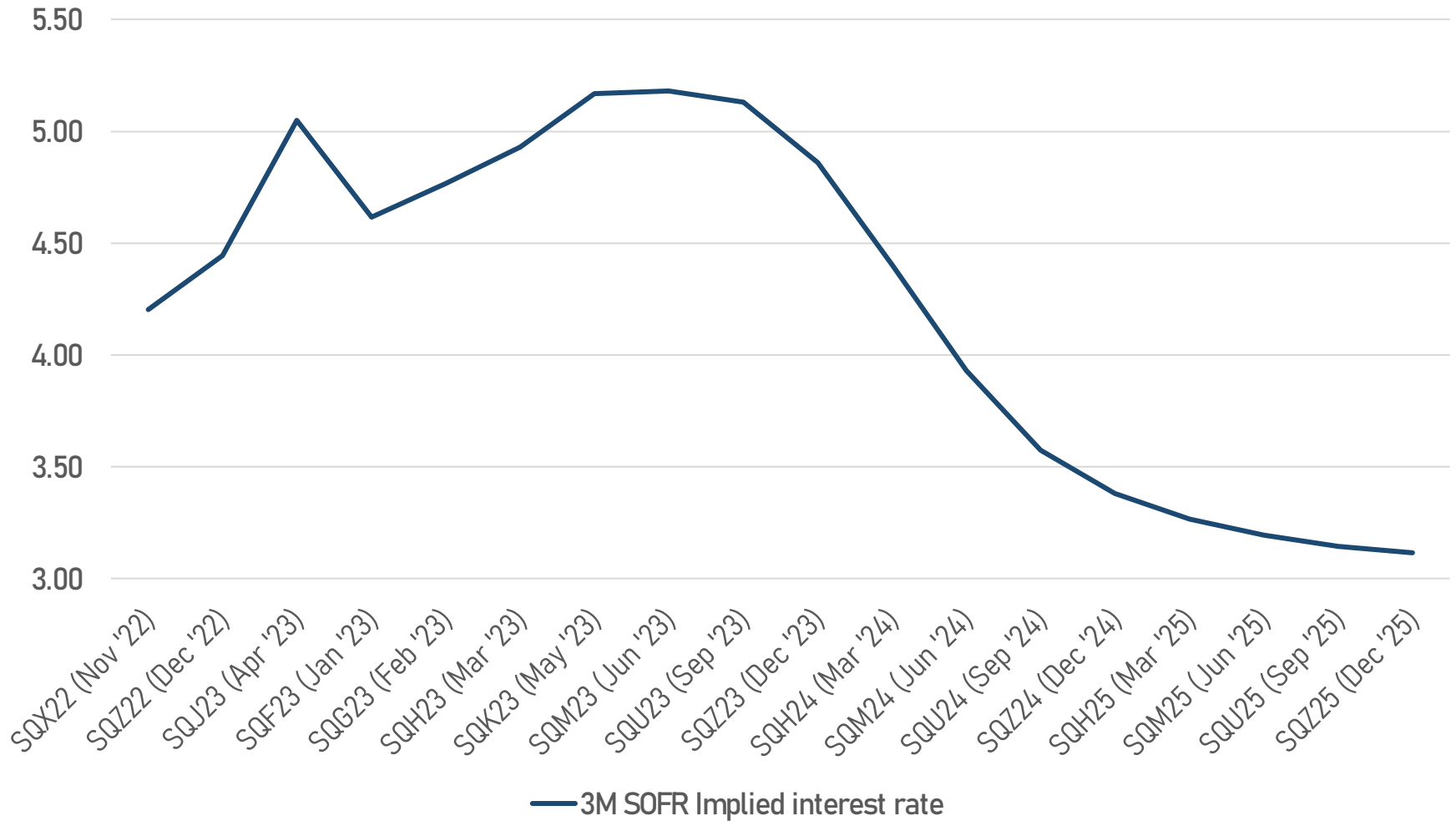
US PPI December 2022 at 6.9% with further declines expected



2. INTEREST RATES EXPECTATIONS

US INTEREST RATES – CUTS PRICED IN BY END 2023

US Interest rates expected to decline by end 2023



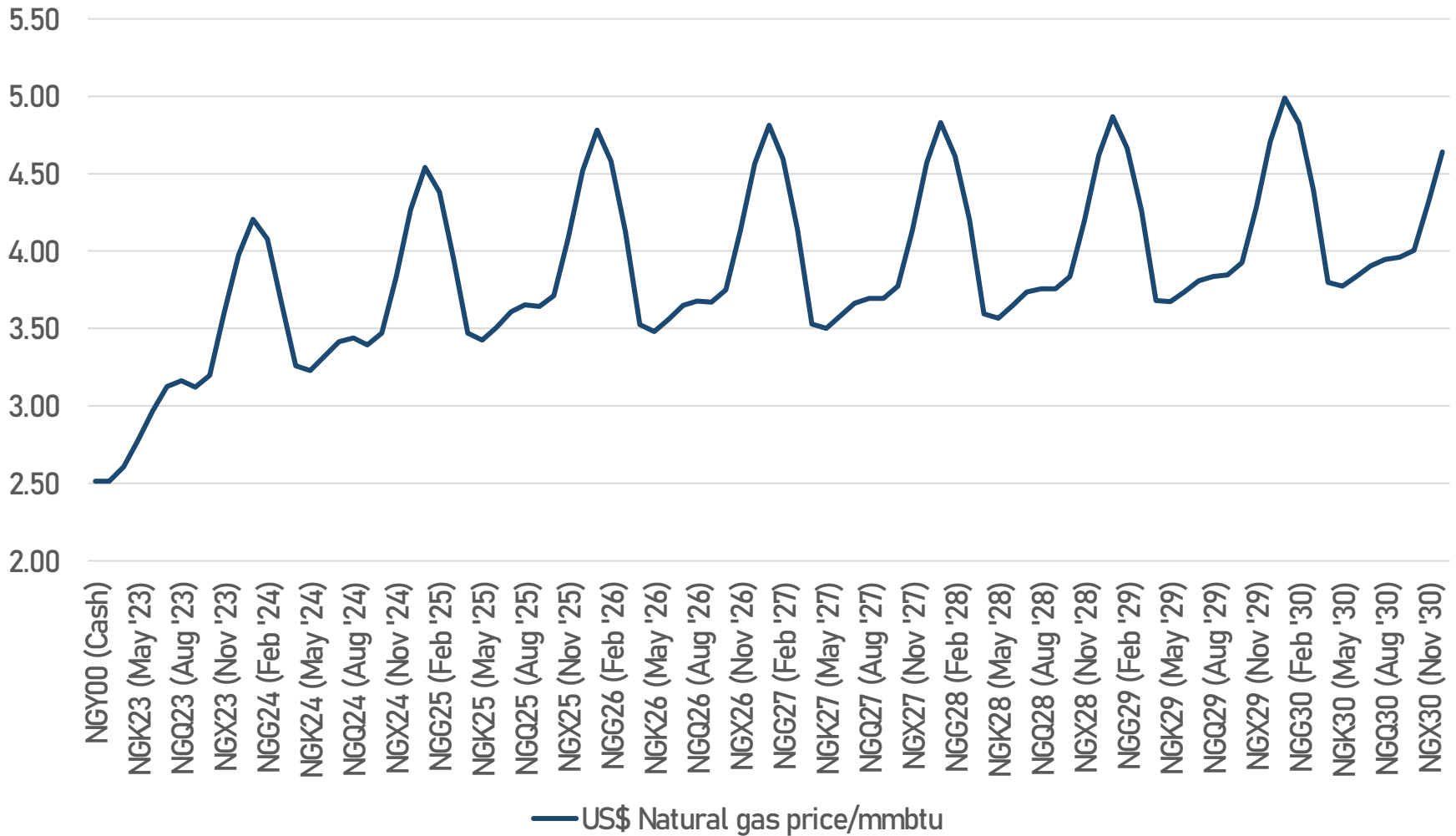
3. COMMODITY PRICES

US NATURAL GAS PRICES – TOO LOW?




US NATURAL GAS PRICES – FUTURES CURVE ELEVATED

US Natural gas price is currently artificially low




RUSSIA CUTS 500K BOPD – IMPACT ON OIL PRICES


- Global oil demand is set to rise by 1.9mio b/d in 2023 to 101.7mio b/d (EIA)
- OPEC cut production by 9.7mio b/d in 2020, but consumption was also down by 9mio b/d
- Oil prices only rise by 2.5% after Russia's output cut announcement
- OPEC spare capacity said to be around 2mio b/d
- Russia's cut (-0.5mio b/d) + increase in demand (1.9mio b/d) will see market undersupplied (ceteris paribus, simplified)

 White House: Following Russia's oil cut announcement, will consult with allies and partners, including OPEC.


20:55 Feb 10

 G7+ Price Cap Coalition Official: Global energy markets remain stable, with benchmarks largely unchanged since the implementation of the crude cap in December.


16:41 Feb 10

 G7+ Price Cap Coalition Official: The G7 Price Cap Coalition believes that the price cap continues to meet its dual objectives.

16:41 Feb 10

 G7+ Price Cap Coalition Official: It is critical not to take Russian statements about oil production cuts at face value.

16:40 Feb 10

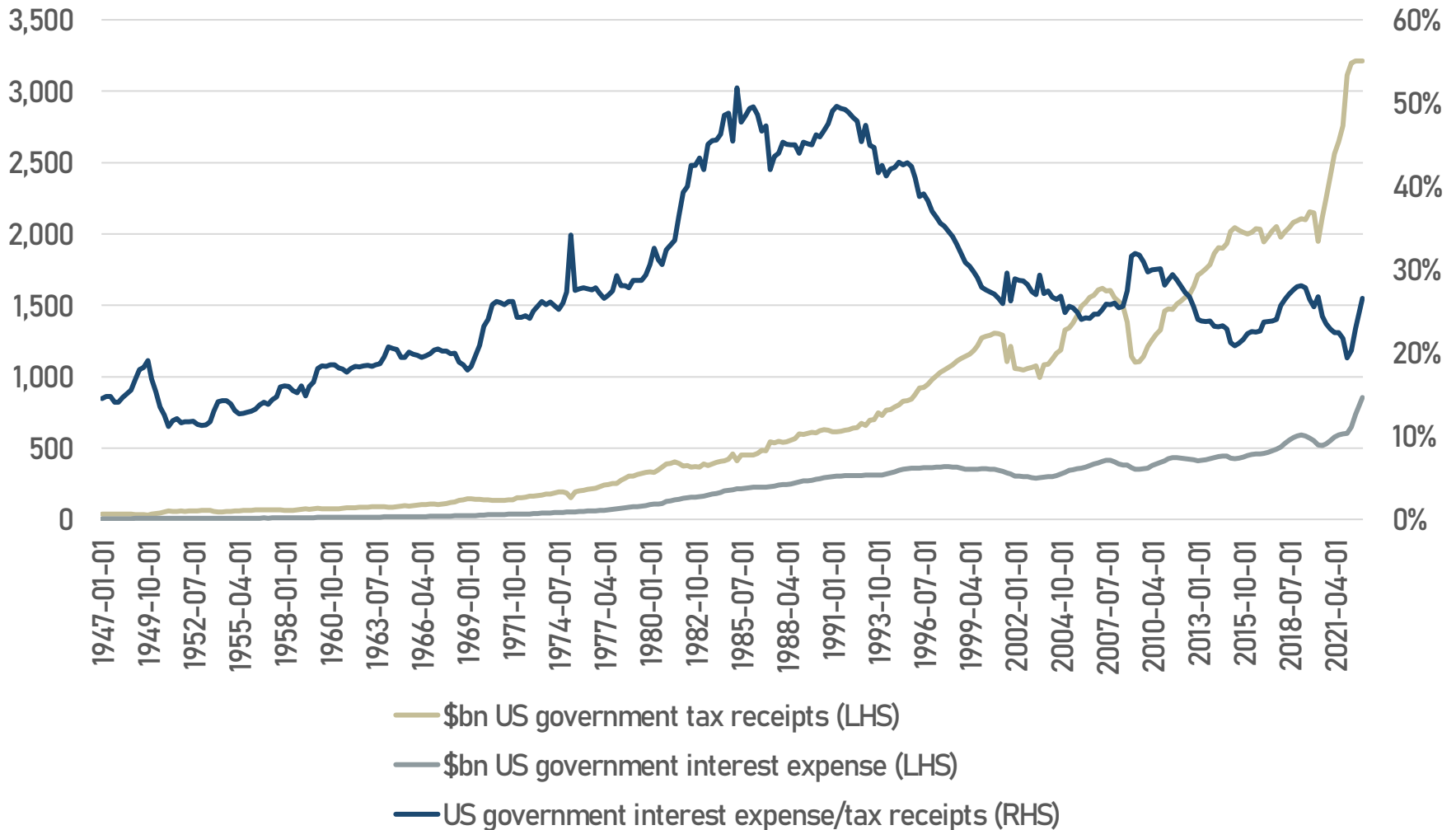
 G7+ price cap coalition official: According to public reporting, a large volume of Russian seaborne oil was delivered via price cap-compliant tankers.

16:39 Feb 10

4. US INTEREST EXPENSE

US INTEREST EXPENSE – NOW AT 27% OF TAX RECEIPTS

US tax receipts have risen as strongly as interest expense has gone up



5. UKRAINE WAR

UKRAINE WAR – HUGE AMMUNITION DEMAND

- Ukraine shells around 5k ammo & artillery a day (FT)
- Chemring on supply of explosives and propellants: “Some customers asked for 100-200% increase in output” (FT)
- This will only intensify in coming weeks



Figure I: Raw materials in the European defence industry



Figure II: A simplified materials supply chain and the main European suppliers