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A UK focused Turnaround Value Investment Partnership

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# TODAY'S TOPICS

1. Inflation, labour, supply chains and energy
2. My Positioning

# 1. INFLATION, LABOUR, SUPPLY CHAINS AND ENERGY

# INFLATION – US CPI PEAK?

## +0.9% October 2021 CPI Print

### Biggest drivers:

- +2.5% used cars (3.29% weight)
- +1.4% new vehicles (3.83% weight)
- +3.1% car and truck rental (0.17% weight)

- +1.4% lodging away (1.02% weight)  
Of which +1.5% hotels, motels (0.91% weight)
- +0.4% rent of shelter (32.23% weight)
- +0.4% transportation services (5.02% wgt)
- +0.0% apparel (2.73% weight)
- +4.8% energy (7.32% weight)

+0.9% Food (14% weight)

+0.5% Medical care services (7.02% wgt)

## +0.8% November 2021 CPI Print

### Biggest drivers:

- +2.5% used cars (3.35% weight)
- +1.1% new vehicles (3.86% weight)
- +1.1% car and truck rental (0.18% weight)

- +2.9% lodging away (0.98% weight)  
Of which +3.2% hotels, motels (0.87% weight)
- +0.5% rent of shelter (32.08% weight)
- +0.7% transportation services (5.01% wgt)
- +1.3% apparel (2.73% weight)
- +3.5% energy (7.47% weight)

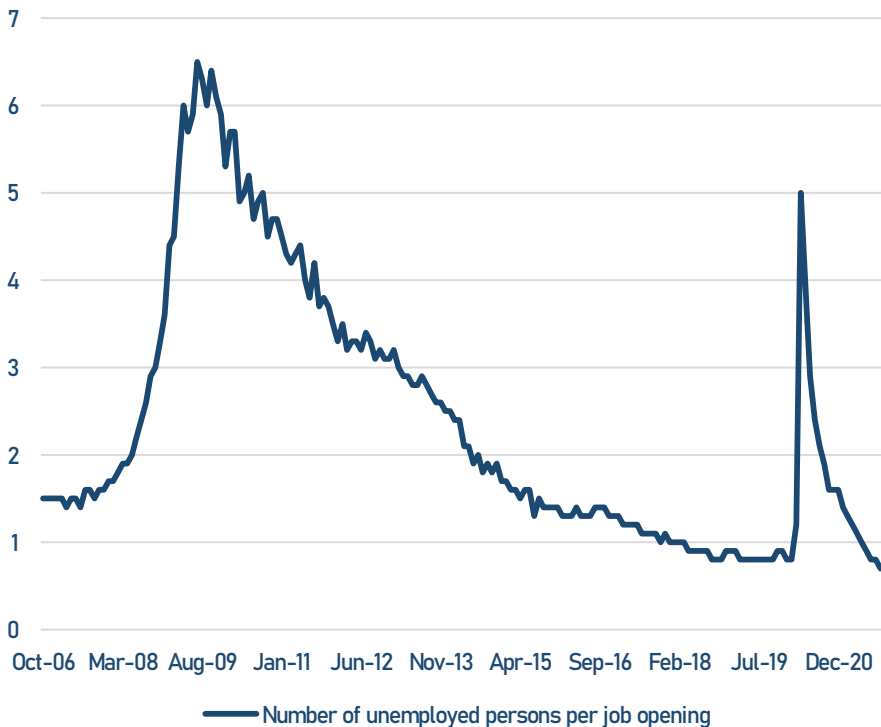
+0.8% Food (14% weight)

+0.3% Medical care services (7% wgt)

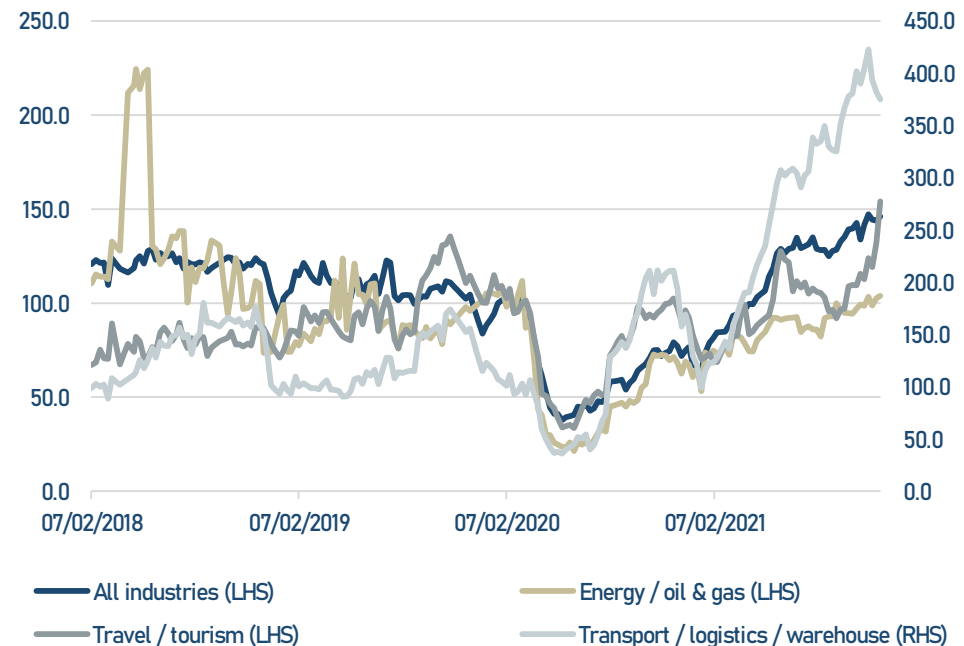
# INFLATION – LABOUR SHORTAGES

- US labour market is red hot
- Labour shortages remain, but the UK logistics sector sees some easing lately

US number of unemployed persons per job opening remains at a record low



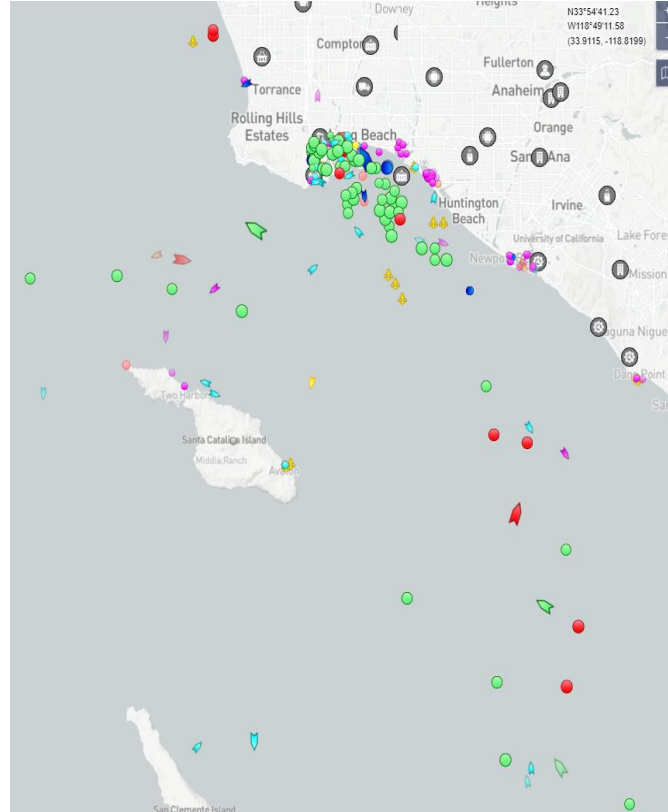
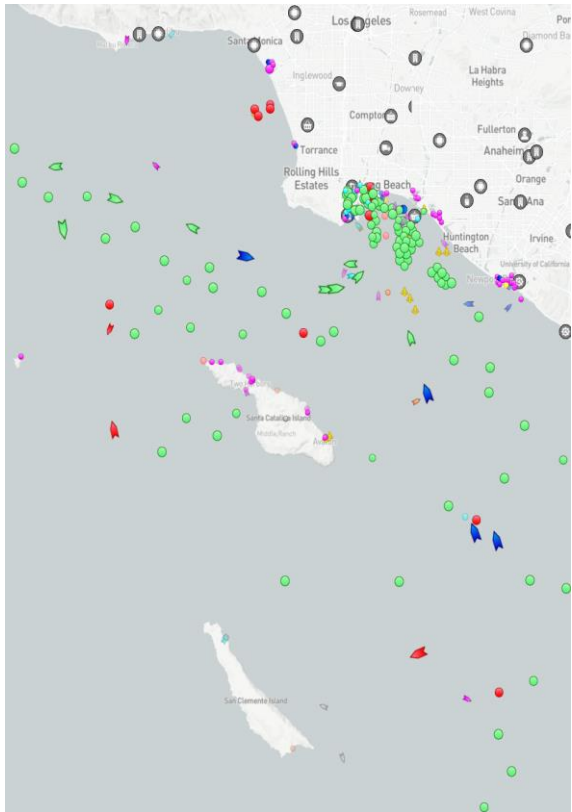
UK Labour Market shows signs of easing in Logistics, but tightening in reopening industries



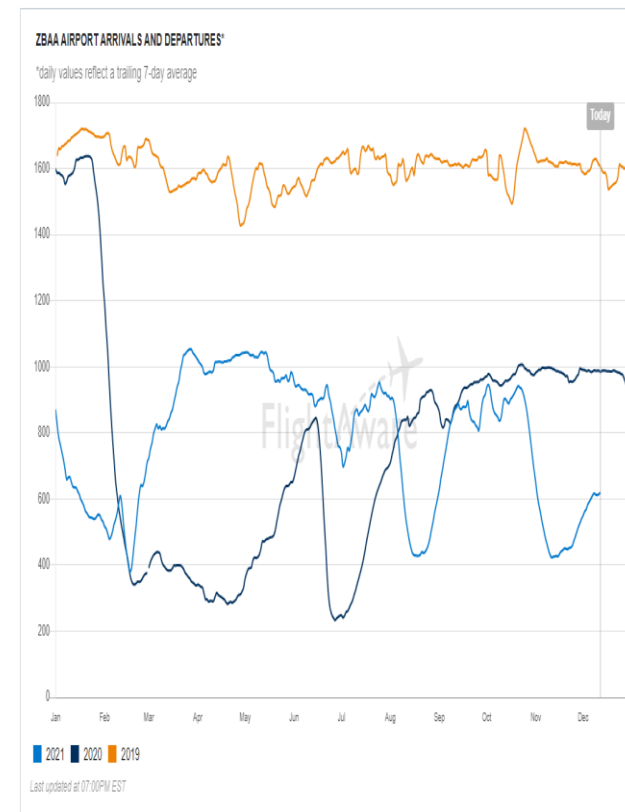
# INFLATION – SUPPLY CHAINS CONSTRAINTS

- Number of container ships anchored around LA/Long Beach Port is easing
- China flights are only recovering slowly

LA/Long Beach Port congestion (green dots) mid-November (left) vs. mid-December (right)



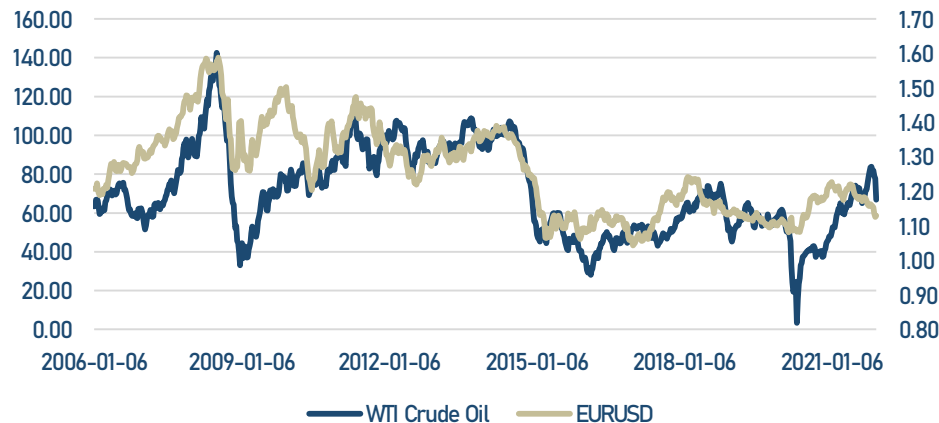
Beijing flights recover only slowly



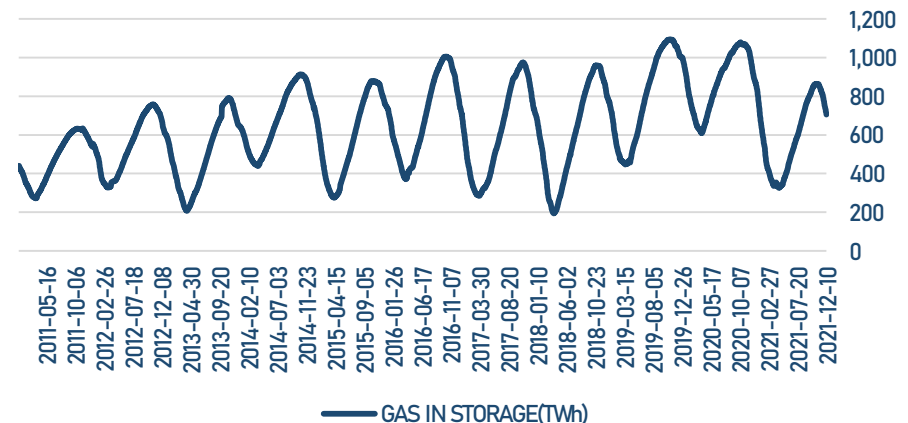
# INFLATION – ENERGY SHORTAGES

- Shifts towards renewables means energy shortages
- UK oil & gas production at 70% of 2019
- European gas tanks need to be refilled, at low of 2013, but much higher energy usage

EURUSD and Oil are highly correlated and are back aligned now



EUROPE GAS IN STORAGE(TWh) will hit 0 by end of April at current rundown rate





# ECONOMIC HISTORY – A LESSON TO LEARN FROM?

Influenza	Covid-19
1 <sup>st</sup> wave: Early 1918	1 <sup>st</sup> wave: Early 2020 (Beta)
2 <sup>nd</sup> wave: Late 1918	2 <sup>nd</sup> wave: Late 2020 (Alpha)
3 <sup>rd</sup> wave: Early to mid-1919	3 <sup>rd</sup> wave: Early & mid 2020 (Delta)
4 <sup>th</sup> wave: Spring 1920	4 <sup>th</sup> wave: Late 2021/beginning 2022 (Omicron)

# ECONOMIC HISTORY – A LESSON TO LEARN FROM?

## 1918-1920 and beyond

1918: Lockdowns were introduced to curb the virus

1919: 1 in 5 American was striking to achieve higher wages

1919/early 1920: Inflationary boom with commodity prices reaching all-time highs

November 1919: Stock market peak, just as the Federal Reserve hiked rates from 4% to 4.75% to fight inflation and speculators, stocks slumped 12.8%

January 1920: Fed raises rates to 6%, stock market didn't react

April 1920: A Tokyo bank defaulted, prices of rice, cotton and silk dropped quickly, GM shares dropped 8%

1920: Consumers changed to non-inflationary living, buying used clothes

Spring 1920: Consumers stopped buying cars, strong demand disappeared. GM sold 52,000 vehicles a month in early summer, 13,000 in November and only 6,150 in January 1921

April 1920: Weather was cold, wet and caused wheat and other agricultural goods to spike in price, farmers started borrowing more, but then were facing huge losses in 1921

April 1920: Steel Corporation had luxury of 10.4mio tons of unfilled orders. This backlog dwindled to 5.8mio tons from April 1920 to March 1921

June 1920: Fed raises rates to 7%

April 1922: Accumulated inventories were sold off for extremely low prices

## 2020-2022

2020/21: Lockdowns were introduced to curb the virus

2021: Record number of people left their jobs, resulting in labour shortages

2021: Inflationary boom with commodity prices reaching all-time highs

November 2021: Fed announced tapering. Central banks around the world turn more hawkish

# ECONOMIC HISTORY – A LESSON TO LEARN FROM?

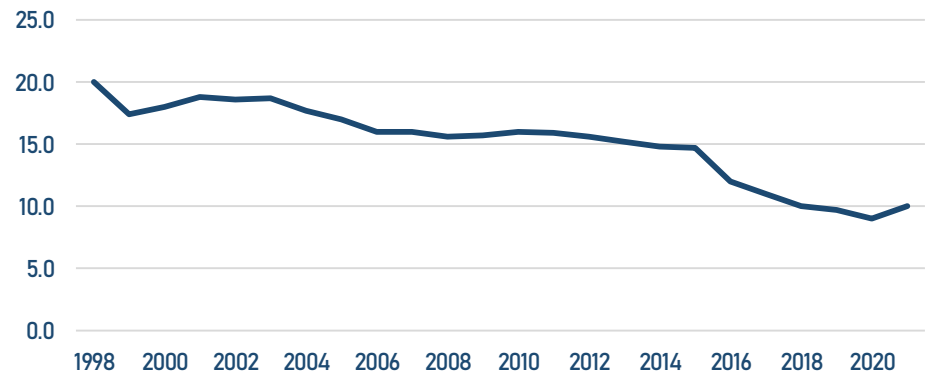
1918–20s	2020–22s
High inequality, with top 1% owning 12–19% of the total share of income	High inequality, with top 1% owning 30% of all household wealth
Combustion engine replaces horses High speculation with businesses borrowing excessively and individuals borrowing to buy stocks	Electric vehicles set to replace combustion engine High speculation with individuals investing in “no return” cryptocurrencies
Large backlogs Income tax and other taxes were set to be introduced	Large backlogs Global corporation tax is set to be introduced, taxes are increasing
World was in globalization mode, but faced headwinds with WWI World leader had excessive debt/GDP of over 130% (England)	Globalization continues, but faces headwinds with China desiring to become a world power World leader had excessive debt/GDP of over 120% (USA)
“On the way up, inventory accumulation had contributed to the panicky sense that the world was running out of everything. On the way down, inventory destocking helped to enflame the fear that the world was oversupplied with everything	We have high inventory accumulation right now, and while inventory/sales ratio are extremely low (automobile industry), some industries are stocking up in expectation of high Christmas sales and due to supply chain issues

## 2. MY POSITIONS

# MY POSITIONING – BENEFITTING FROM ENERGY CRISIS

- Centrica (CNA LN)
  - Turnaround of British Gas, as smaller suppliers fail
  - Capex decline and lower pension and interest expense
  - Cash of over £4bn on hands = current market cap
- Hunting (HTG LN)
  - Turnaround of shale oil drilling
  - Rig count keeps rising
  - Biden's Energy Plan will keep energy prices elevated/higher
  - Return to shale oil is inevitable as crude oil demand is just 1.1mio b/d less than Nov 2019

British Gas residential customers have consistently declined since 2015



US Crude Oil Production declined by 2mio b/d

