PINETREE MACRO

Brave New World

Edition 1

Phase of Structural rise in Inflation is beginning…

- What is '*Financial Repression*' - bond yields *consistently* < inflation

- This is one way to steal money from savers slowly as low interest rate reduces debt servicing costs; while negative real interest rates erodes real value of debt.

- What will cause rise in Structural Inflation now, despite high quantitative easing post GFC leading to deflation and asset price rise?

✓ *Rising growth rate of Money* – Current, high Inflation numbers are due to supply side issues (*Semiconductor shortage*), which could be transitory. Going ahead, inflation will be driven by rise of money in circulation, which could settle much above the post 2008 bubble average.

✓ *Central Bankers becoming irrelevant* – Led by an era of Helicopter money, governments will take charge of monetary system by guaranteeing private sector loans to commercial banks leading to rapid expansion in bank balance sheets. This is inflation induced by politically directed growth.

➢ Key Question - Will interest rates be allowed to reflect high inflation? The answer to this is NO

Bonds Yields could dissociate from Interest Rates

Russell Napier caused a stir in the financial world one year ago when he made the call for a regime change: After almost thirty years in which the global economy was characterized by deflation, the market observer thinks that a phase of ***structurally rising inflation*** *is beginning.*

Just like after World War II, Napier believes that governments will pursue a policy of ***financial repression*** *in which the interest rate level is deliberately kept below the rate of inflation to get rid of the high levels of debt.*

(Source: Extract from themarket.ch/Russell Napier interview – 14th July'2021)

Economies likely to settle @ 10% broad money growth >>> 4% persistent inflation

Impact Analysis of financial repression - As savers realize that the link between Inflation & Interest rates is broken; prices for all ***assets which can maintain purchasing value of currency including real estate, Gold and Blue chips*** will be main beneficiary

Is the Global Economy in position to bear another "Food Crises"

- US is the largest exporter of agricultural products namely corn and soyabean.
- The combined increase in intended corn and soybean plantings this year reached only 4.8 mm acres, approximately half the 9 mm combined acres expected by analysts. Wheat climbed to the priciest since February 2013.
- Partly this could be driven by lower prices, pandemic restrictions; however, corn ending stocks will likely fall this year, taking inventories to levels last seen in 2012, when corn prices, driven by the extensive US drought, surged to all-time highs.

Droughts again?

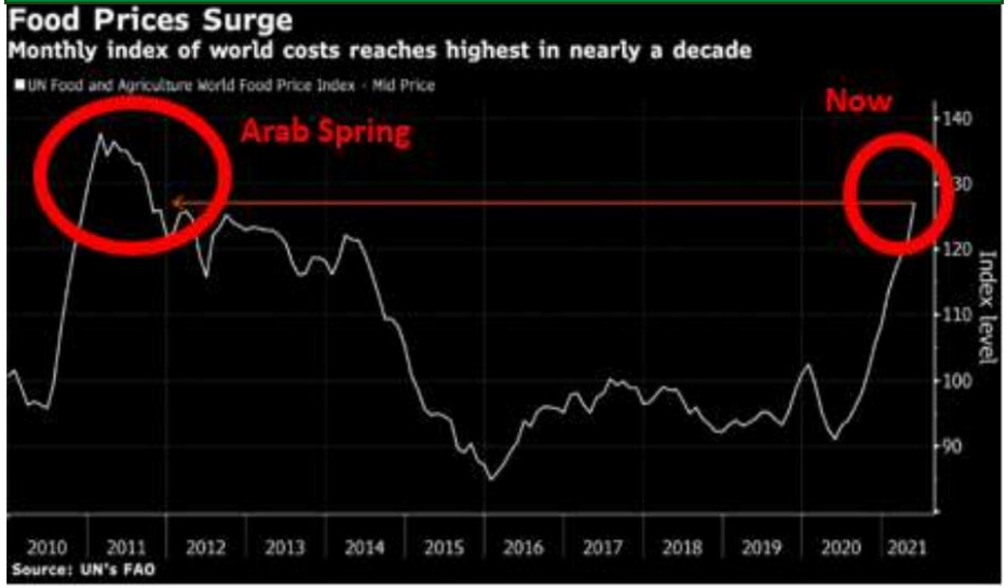
Weather conditions in large parts of the Corn Belt are already off to a challenged start with large sections of the western US now experiencing a severe drought. In many areas, moisture levels are so low, farmers have indicated planting is not possible at all. At the same time, North and South Dakota are experiencing very dry conditions while sections of Iowa, Illinois, Indiana, Michigan, and Wisconsin are abnormally dry. The current La Nina conditions, coupled with decreased sun-spot activity raises the probability of disruptive weather during the growing season.

(Source: Extract from blog.gorozen.com on US in drought & agricultural markets in deficit)

But is draught the only contributor to shrinking inventories?

- *"American agriculture the first in the world to achieve net-zero emissions and create new sources of income for farmers in the process, by paying farmers to put their land in conservation & plant cover crops that use the soil to capture carbon,"* - Joe Biden
- The Biden administration announced last week that it would "expand a program that pays farmers to leave land fallow, part of a broader, government-wide effort to cut greenhouse gas emissions in half by 2030".
- The new initiative will incentivize farmers to take land out of production by raising rental rates and incentive payments.

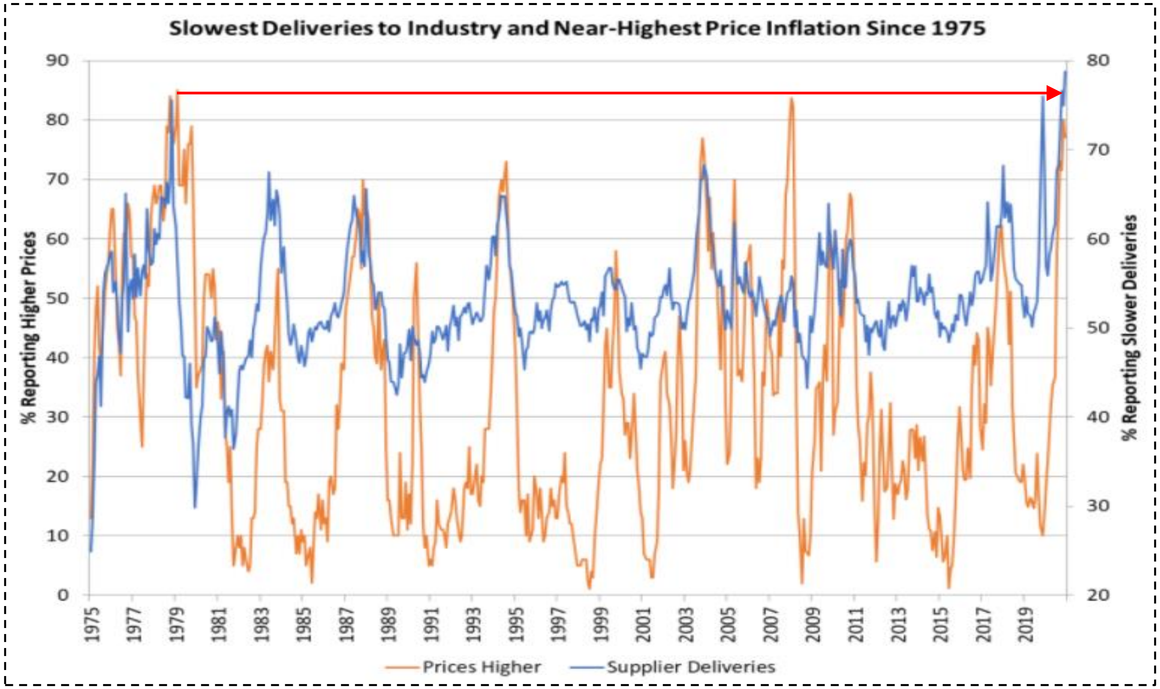
Food prices reach the Arab Spring highs



Is it 1979 Stagflation scenario again?...may be not yet

- In the past, we have always dealt with either a demand-side crisis, or a supply-side crisis. But this is both—a supply and a demand crisis at the same time and at a global level
- Oil price, housing costs, used car prices, appreciating Yuan are all finding its way to rise in Inflation numbers led by lagging delivery lines & rising prices.
- Easy textbook approach to address rising inflation as learnt during 1979 crises is increase in interest rates, which ultimately leads to sacrificing growth as masses prefer saving over consuming.
- But this time its different from 1979…
- Debt have moved up the ladder since past ~40 years from being 1/3rd of GDP then to ~130% now. Rising interest rates is suicidal as its increases exchequer's debt service costs.
- The only remedy is to pray that Inflation turns out to be *Transitory*.

Prices paid + Slowest deliveries hitting its highest levels since 1979



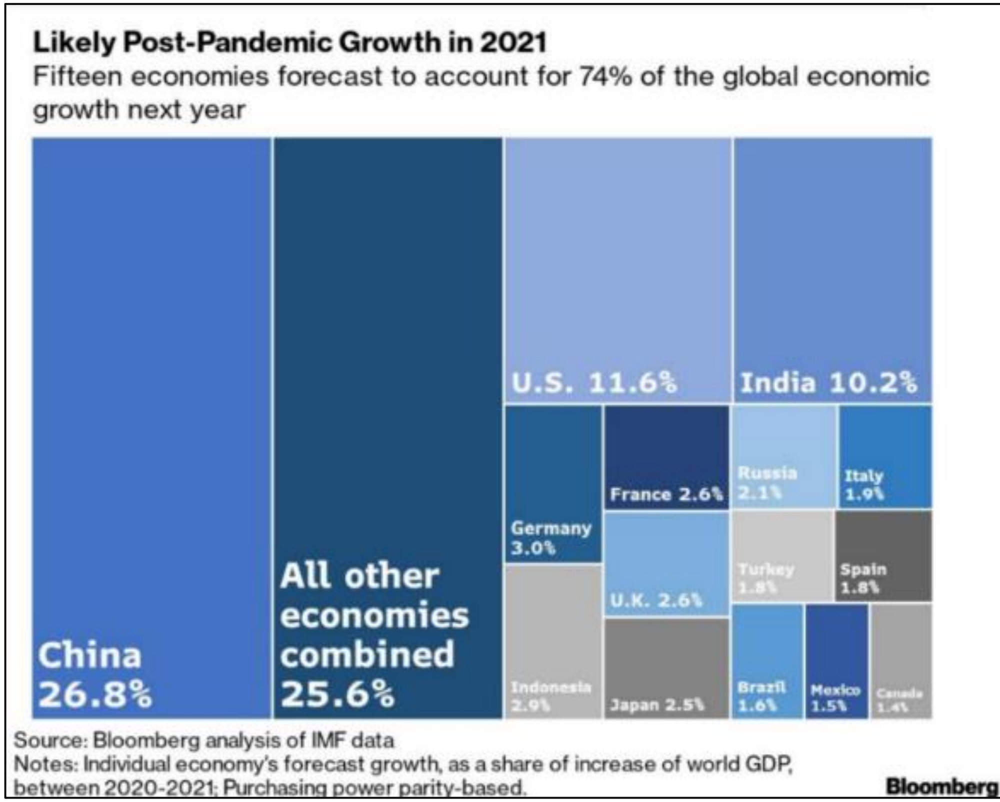
If this disease resembles 1979, then what is the remedy?

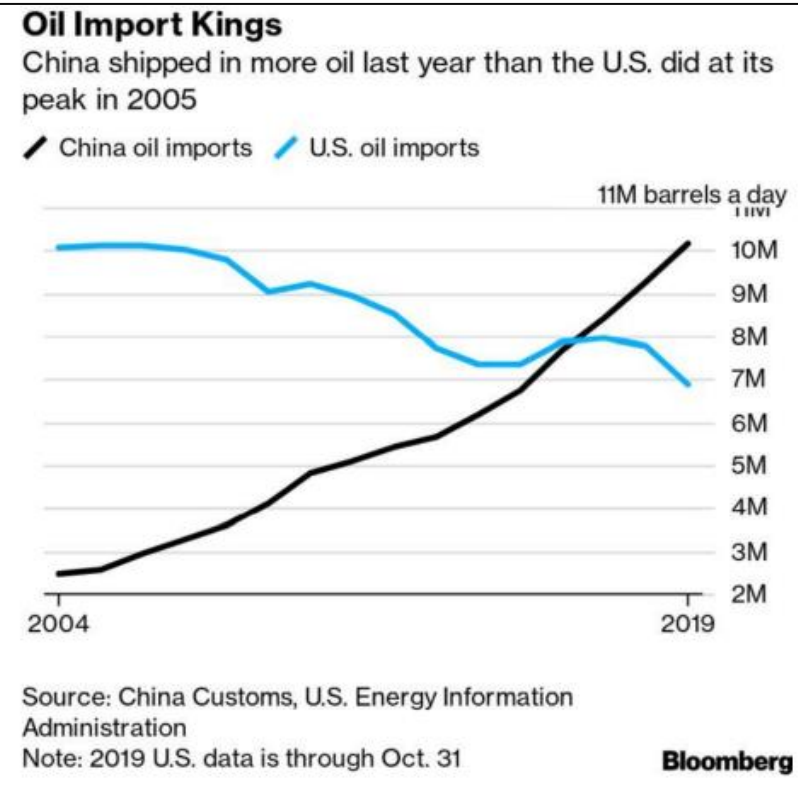
The Biden Administration's attempt to shove $5 trillion in demand through America's sclerotic supply chains has produced simultaneously a demand-side shock (sudden increase of spending power) and a supply-side shock (US firms can't produce or ship goods on order).

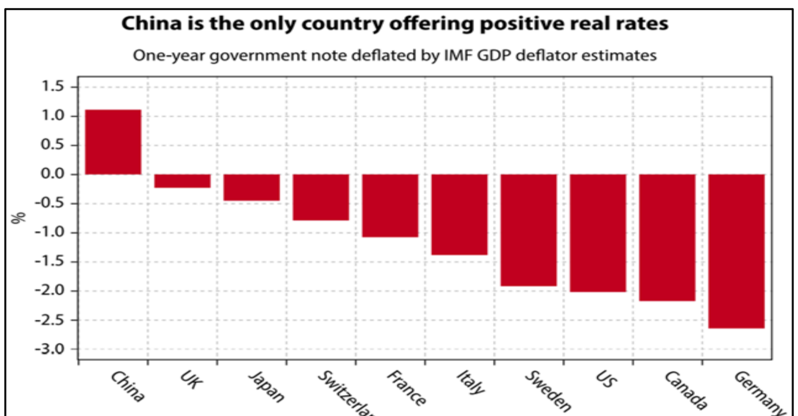
(Source : Extract from asiatimes.com on 'its 1979 again but with quadruple the debt')

What happened post 1979 – Collapse of Bretton woods system, dollar devaluation, oil crises led to hyperinflation finally causing stock market crash of 1979. In response, US central bank raised interest rates from 7.4% in June'1978 to 20% in March'1980 – crashing inflation at the expense of recession for next 3 years.

China claims the Centre stage







Economic growth in China to reach 8.5 percent in 2021 amid robust recovery: World Bank

By Global Times

Published: Jun 30, 2021 10:23 AM

New chart shows China could overtake the U.S. as the world's largest economy earlier than expected

China's foreign non-financial direct investment amounted to $43.29 billion, while total imports and exports reached 14.76 trillion yuan, breaking a historical record, giving a strong impetus to world economic recovery and growth.

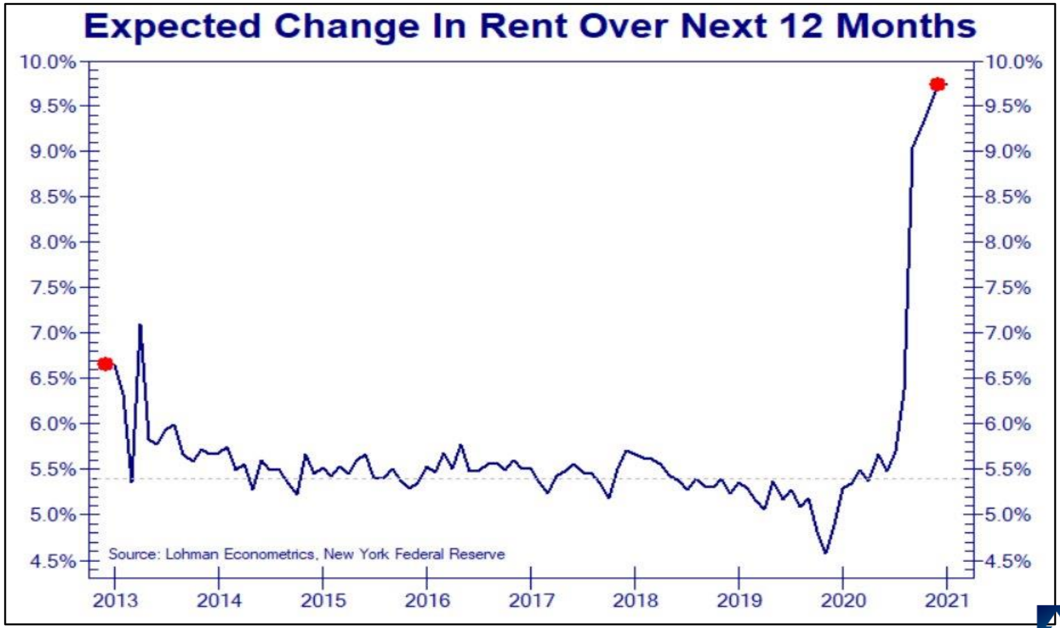
Here comes the ultimate form of Inflation – Housing!!!

Freddie Mac predicts home prices will rise by 6.6 percent in 2021. The U.S. housing market is 3.8 million single-family homes short of what is needed to meet the country's housing demand, up 52% as compared with 2018's shortfall, according to a new analysis from mortgage-finance company Freddie Mac

(Source: Extract from Norada real estate blog)

- US home prices surged last year as Americans took advantage of record-low mortgage rates to snap up houses in the suburbs.
- That demand, combined with a tight supply of homes, drove up prices to record levels. That was further exacerbated earlier this year by a sharp rise in lumber costs.
- Expected Change in Rent remained at a high of 9.7% in June per New York Fed Survey.

Is this the right time for Fed to re-evaluate its support of the housing market through its monthly purchases of $40bn in agency mortgage-backed securities?



Team

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He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.

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She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the ‘Top 100 women in Finance”. She has featured in the Audio talk series ‘Show me the Money’ by Meghna Pant (available on Audible Suno). Her article reflecting on ‘What stops women from investing’ was published in The Hindu Newspaper.

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