



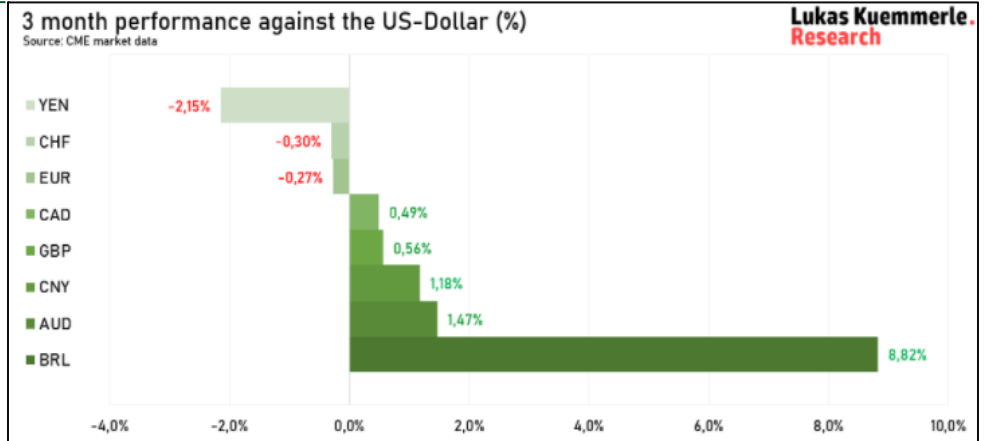
PINETREE MACRO

Brave New World

Edition 12

Brazil – Back to the phase of Re-Industrialization

- Despite being the best performer among recent industrializers until the 1970s, Brazil experienced severe macroeconomic crises in the 1980s and 1990s which culminated into stagnation, inflation & crises for commodity resource rich country.
- In an attempt to reindustrialize the economy after four decades of de-industrialization, Brazil's government announced a 25% cut to its industrial tax (IPI) for most products in a move to ease inflation and help local industry recover from a pandemic downturn.



- The country has BRL828 (USD161bn) of private investment commitments “to rebuild the Brazilian economy” in coming years in sectors including natural gas, oil, ports and infrastructure, in essence re-investment by private sector for the next 10 years.
- Brazil’s inflation rate is slowing and consumer price gains might slow from 10% to about 5% by the end of the year after removing the pandemic incentives. Contracting the fiscal policy during the recovery phase by holding back constitutional spending cap, higher oil prices lifting royalties, taxes on corporate income; worked on slowing down the inflationary impulse.
- The government debt to GDP has moved from 80.3% in December to 79.6% in January



There are ETFs listed in US focused on Brazil – EWZ available for investment by Indian resident investors



What is CIPS?

- The payments system was created to boost the global use of the yuan, which remains small compared to the size of China's economy.
- For Chinese banks and corporates, CIPS can serve as a messaging system without the risk of exposing transaction information to the United States, BOC International said in a report in 2020.
- 17.5 per cent of trade between China and Russia was settled in Yuan in 2020, increase from 3.1% in 2014.
- Average daily transaction volume of CIPS reached 317.2 bn yuan (\$49 bn) in August'21, up from about 190 bn a year ago with 1,144 indirect participating banks in 103 countries of which 531 were located within mainland China.



- CIPS counts several foreign banks as shareholders including HSBC, Standard Chartered, the Bank of East Asia, DBS Bank, Citi, Australia and New Zealand Banking Group and BNP Paribas

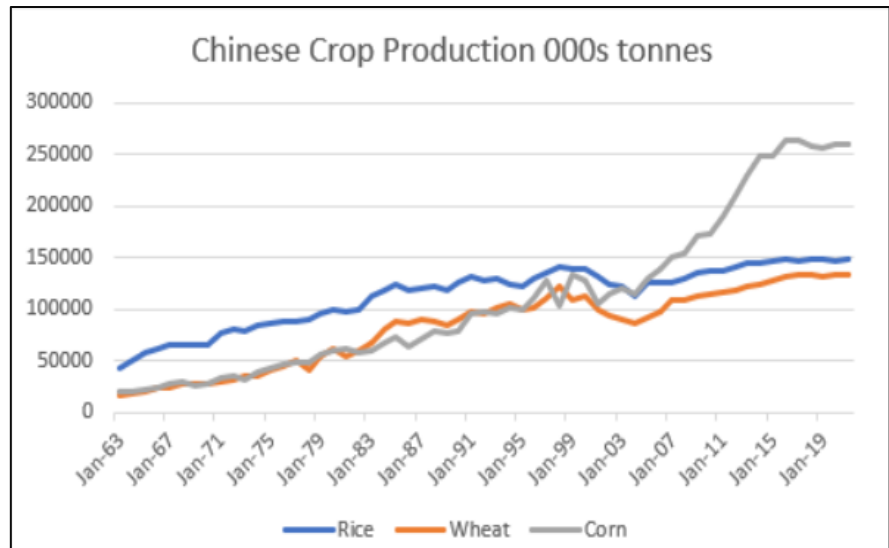
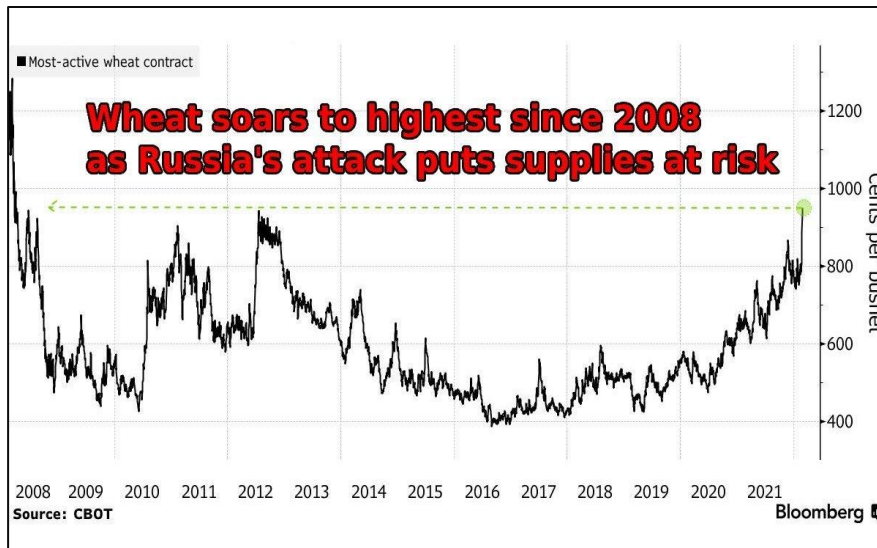
China will quickly brush off any threats of sanctions if it were to accept Russia banks into its orbit, it is now clear that instead of driving a wedge between Russia and the country that is true the biggest US challenger on the global scene, China, the West has succeeded into bringing the two powers even closer together while putting the fate of the world's reserve currency in jeopardy.

What is CIPS (Cross-Border Inter-Bank Payments System)? It is a payment system which offers clearing & settlement services for its participants in cross-border yuan trades. Indeed, it is a Chinese version of SWIFT, and one which most Russian banks might likely to be forced to adopt.



Are we heading for a Food Shock?

- Ukraine and Russia produce over 30% of the world's wheat, and Ukraine is the #4 exporter of world. Russia is a major exporter of fertilizer which is important for food production of *everything*.
- In a separate world, after aggressive imports of coarse grain (*corn, sorghum & barley*) to rebuild its pig herd at swine flu levels, a closer look at the Chinese agricultural industry, reveals that only corn production has grown in recent years, despite the country being world's largest subsidy payer and highest fertilizer user.
- If China is struggling to grow food production, then the security of food imports will become paramount.
- While, Russia could take care of increasing wheat imports demands from China given bilateral relations; however, for coarse grain China's import demands can be met only by combining Russia and Ukraine's exports. Only other large exporters for this are US, Brazil and Argentina where exports to China needs to be shipped, thereby reducing the security in periods of uncertainty.



As de-globalization changes the supply chain movement, instances of supply shock carry impact on pricing until market economy develops long term viable solutions.

There are ETFs listed in US focused on Agriculture – DBA available for investment by Indian resident investors



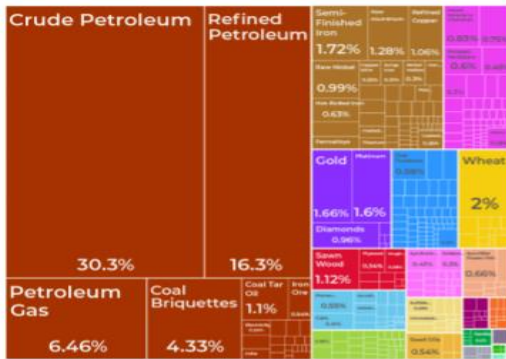
Two Major reasons which will change the World Order!

TRADE

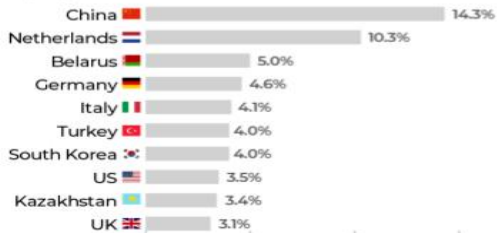
Russia and Ukraine's main exports

Russia exported \$407bn in products and Ukraine \$49.5bn in 2019.

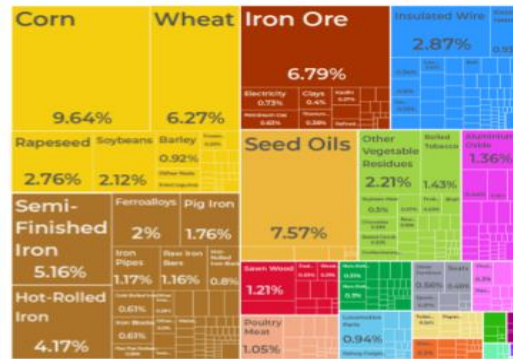
Russia



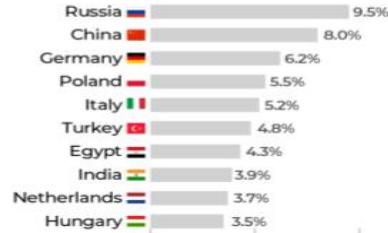
Top export countries



Ukraine



Top export countries



@AJLabs ALJAZEERA

(1) – Geopolitical Risks

The major risk for markets is just how destabilizing the Ukraine invasion becomes for world trade order and its impact on food and energy insecurity, unresolved issues like auto supply chains, chips and goods, further fueling inflation, and slowing growth. It confirms the critical effect of Geopolitics & massive shift has occurred as the world splits into new plates with their attendant conflict zones.

(2) - Wages

Since December of 2020, nominal wages and salaries were up 4.5 percent, the fastest increase since 1983. Prices, however, have also risen rapidly, and so inflation-adjusted wages fell. Corporate profitability will move from Shareholders to Employees as real wages rise in an Inflationary environment. Lower profitability will further impact risk assets as value moves to business with better future costs predictability i.e. low variable high capex costs.

The [Labor Action Tracker](#) paints the picture of a pre-revolutionary country. There are more than 50 active strikes or labor actions in the State of New York and 39 in the San Francisco Bay Area.



Even the relatively privileged employees of Apple, Netflix, and the University of California are bargaining for better wages and working conditions.

Covid will likely be remembered as one of these collective experiences which shapes generations and renews the social contract, just as the massacres of World War 1 accelerated the long fight for universal suffrage and the atrocities of World War 2 gave birth to the universal welfare state.

We are heading back to a 1967 – 1979 regime,

Recession + Inflation = Stagflation.

Overweight hard assets over financial assets.



Backwardation – Why understanding this term is most important now

- What does “backwardation” mean? It is when the near-month future contracts for a commodity trade at a higher price than longer dated contracts. This can be for a few reasons:

- Buyers can’t get enough supply here and now and are bidding up prices for commodities for immediate (within next 6 months) delivery.
- Buyers don’t think that the price of commodities will hold up (i.e. that the price spike is “transitory”)

It is probably a combination of both that account for the number of commodities in backwardation. In any event, this is something bizarre and “out of the ordinary.” It suggests that there is something systemic at play here rather than a short term transitory thing.

Commodities Backwardation Jumps on Russia-Ukraine Escalation

- Bloomberg Commodity Index futures 6% above one-year forward
- Geopolitical tension adds to concerns about tight supplies

Source: Bloomberg

CME cobalt futures put spotlight on forward backwardation

Source: Fast Markets

FUTURES WRAP: LME scrap contracts revert to soft backwardation, trading volumes lower

Source: S&P Global

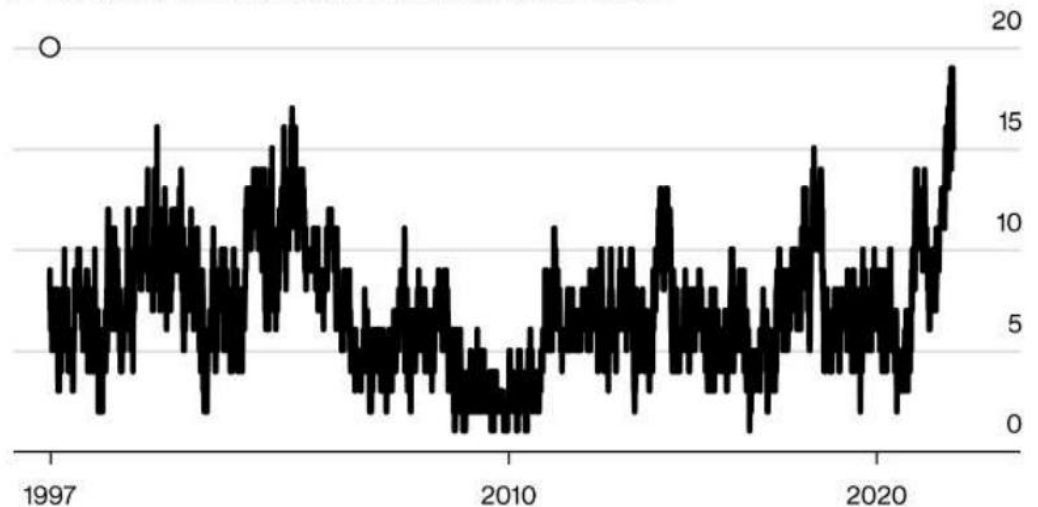
Backwardation for Brent is at \$6.92 a barrel, the widest since 2013. What does this mean?

Source: CNBC

Shortages Everywhere

Signs of tight supply abound in energy, agriculture and metals markets

Number of commodities in simultaneous backwardation



Source: Exchange data, Bloomberg

Note: Tracks 1st- to 2nd-month spreads in 28 major exchange-traded commodities markets

The real reason of backwardation in commodities, specially Oil is the lack of investment in fossil fuels due to the “energy transition” narrative.



Team



Mr. Ritesh Jain

Director

Master of Business Economics (MBE)

Executive MBA - Haskayne School
(Calgary)

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.



Ms. Chanchal Agarwal

Head - Products

Chartered Accountant

CFA Charterholder

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.



Thank You

Get In Touch

Registered Office

PineTree Macro Pvt Limited
102, 104 & 210 Lords, 7/1, Lord Sinha
Road, Kolkata, India - 700 071

To read more visit -

LinkedIn – Pine Tree Macro
Twitter - @PineTreeMacro

Write to us

info@pinetreemacro.com



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