



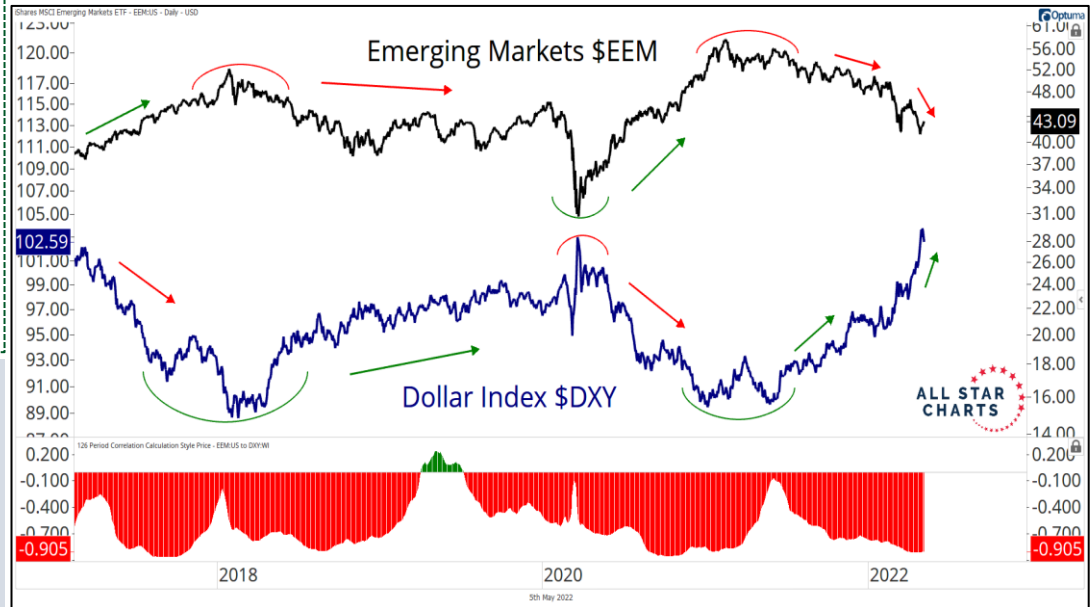
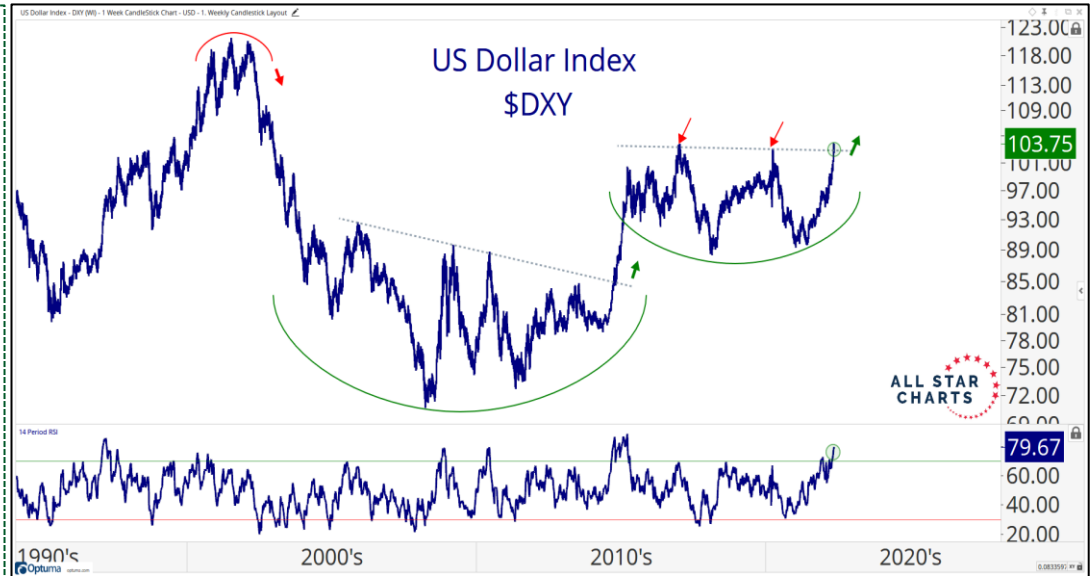
PINETREE MACRO

Brave New World

Edition 14

Is There a Stronger Trend Than USD?

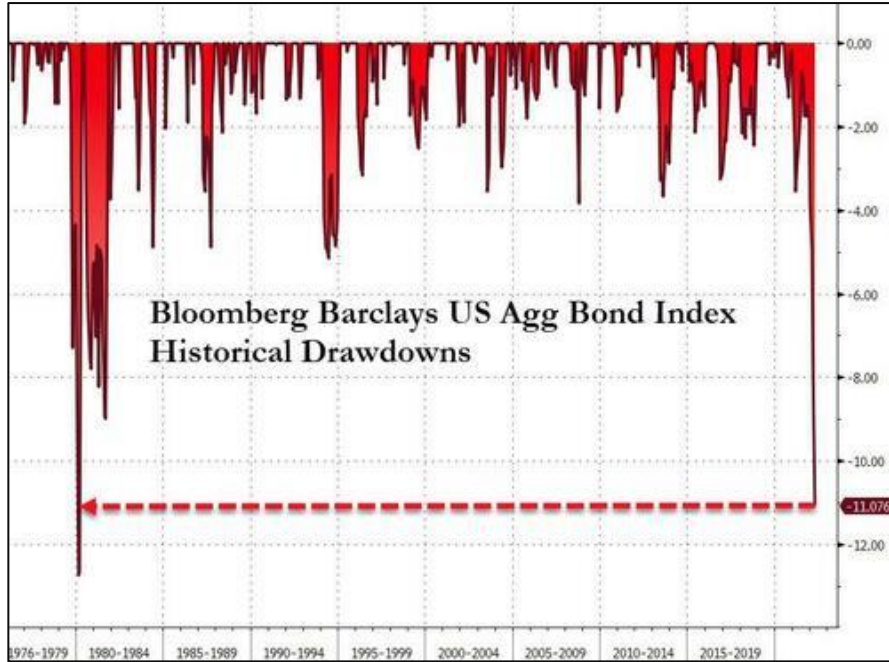
- While most uptrends have come under pressure in 2022, the US dollar has remained as strong. As we write, it on its path for its largest single-day gain since the pandemic crash more than two years ago.
- When the dollar is rallying, risk assets like equities, commodities etc. tend to be falling. When the dollar is falling, risk assets are typically in an uptrend.
- But, DXY's historic inverse correlation with commodities has been diverging for several quarters now as both are rallying together.
- The inverse relationship between commodities & DXY could re-establish with one bound to catch lower. Which either means;
 - ✓ Surging US treasury bond yields cools down after a probable dovish stance by Fed given recession fears or if consumer demand expectation fall
 - ✓ Fed continues it path to tighten if inflation prints remain concerning; leading to surging bond yields and stronger USD.



USD due to its reserve currency status creates boom and bust across globe. When USD is rising it is generally deflationary in nature & when USD is falling then it is generally inflationary/reflationary.

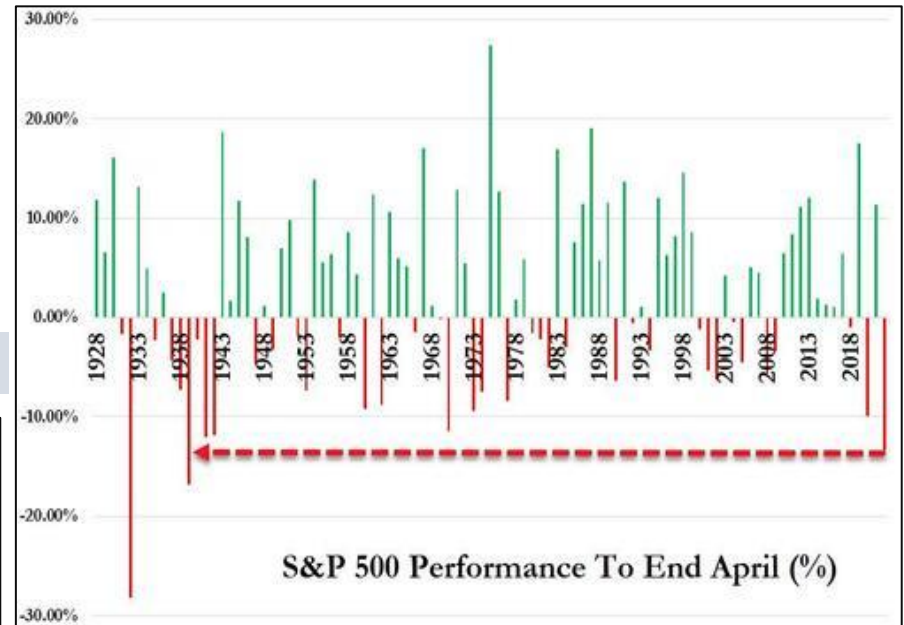
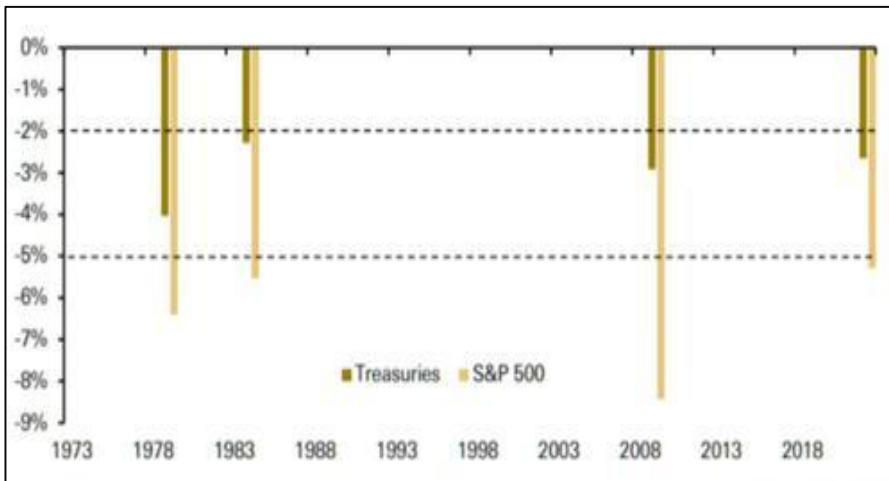


How have risk assets reacted to surging USD?



At -11%, this is the largest drawdown in the US bond market since 1980. Back then the 10-year treasury yield was at 12.6%. Today it's at 2.9%.

S&P is suffering its worst start to a year since the start of World War 2



4th month since 1973 when S&P is down > 5% & Treasuries down > 2%



Emerging Market sensitivity Index to China

- Markets globally and specifically in Emerging economies get affected with major policy changes in developed economies or when large EMs like China are undergoing painful change.
- Amongst all major Emerging markets, India seems to be fairly insulated on the basis of overall China sensitivity index. (Source: Wells Fargo Economics)

Country	Overall China Sensitivity ¹	Exports to China (% of GDP)	Imports From China (% of GDP)	Currency Beta	Equities Beta
South Korea	Red	Red	Red	Yellow	Red
Singapore	Red	Red	Red	Yellow	Red
Chile	Red	Red	Red	Red	Yellow
South Africa	Red	Red	Yellow	Red	Red
Russia	Red	Yellow	Yellow	Red	Red
Brazil	Yellow	Yellow	Green	Red	Red
Poland	Yellow	Green	Yellow	Red	Red
Mexico	Yellow	Green	Red	Red	Green
Thailand	Yellow	Red	Red	Green	Green
Philippines	Yellow	Yellow	Red	Green	Yellow
Peru	Yellow	Red	Green	Green	Yellow
Colombia	Yellow	Green	Yellow	Red	Green
Indonesia	Yellow	Yellow	Yellow	Yellow	Green
Turkey	Green	Green	Green	Yellow	Yellow
Israel	Green	Green	Green	Yellow	Green
India	Green	Green	Green	Green	Green

¹ Red indicates "Highly Sensitive"; Orange indicates "Moderately Sensitive"; Green indicates "Little Sensitivity"

Source: Bloomberg Finance L.P. and Wells Fargo Economics

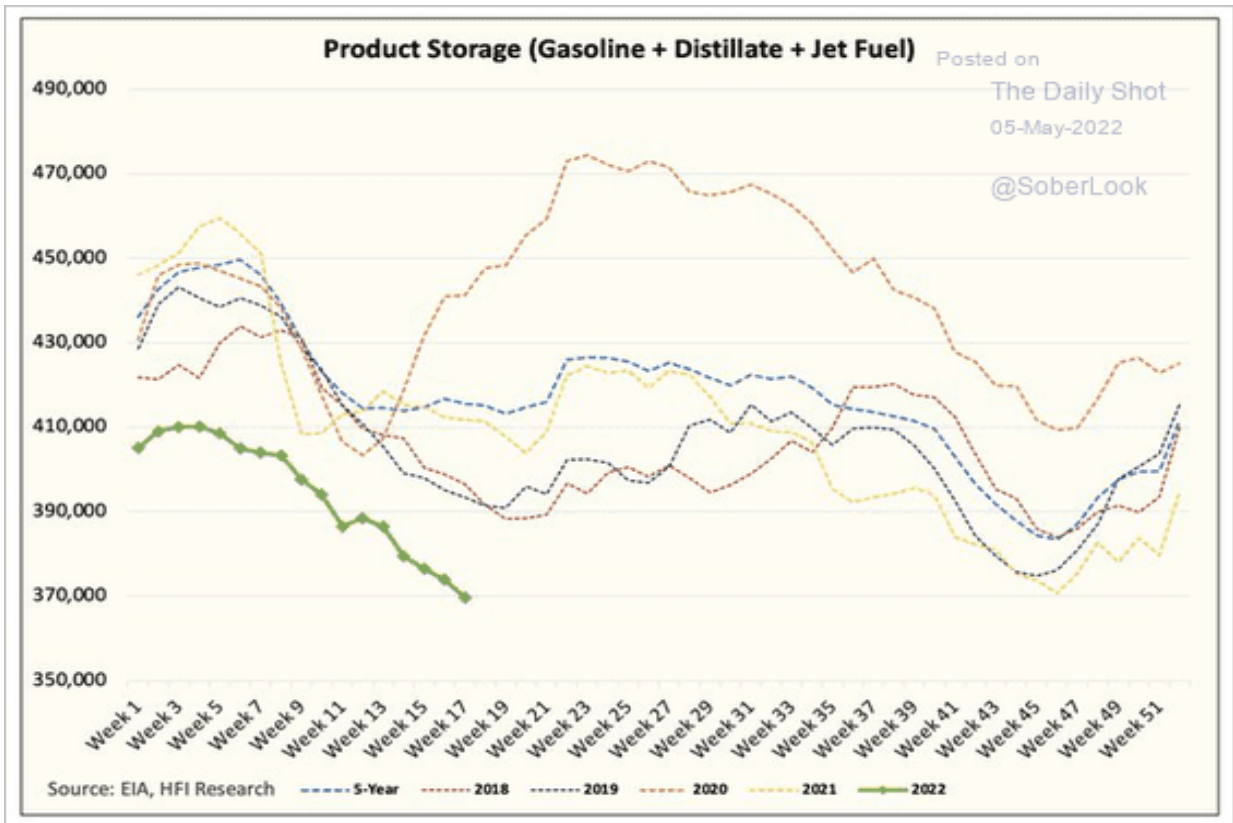


Energy

- As US refinery runs deteriorate, total refined product inventories continue to shrink.
- Even before the war started there were soaring energy prices. We saw this already past summer, when China had to shut down its steel production, ban bitcoin mining; because, all these were energy intensive and they didn't have enough energy. World has already entered into slow moving energy crises.
- No energy capex increases are seen presently in U.S; not even Saudi. Europe kept believing on alternate energy like green revolution which failed to see the day light. So, in some sense Russia went ahead with the invasion; because they knew in a world so dependent on energy nobody would punish them.

- In this cycle, the biggest victim of all energy crisis would be Europe as U.S. is energy independent, Russia wants energy purchases to be paid in Rubles and Saudi is siding the east.
- China should be fine with Russia agreeing to supply energy in Yuan, as practically energy then is free as you can print as many Yuan's as you wish.

There are ETFs listed in US focused on Energy investing – OIH and XLE available for investment by Indian resident investors.

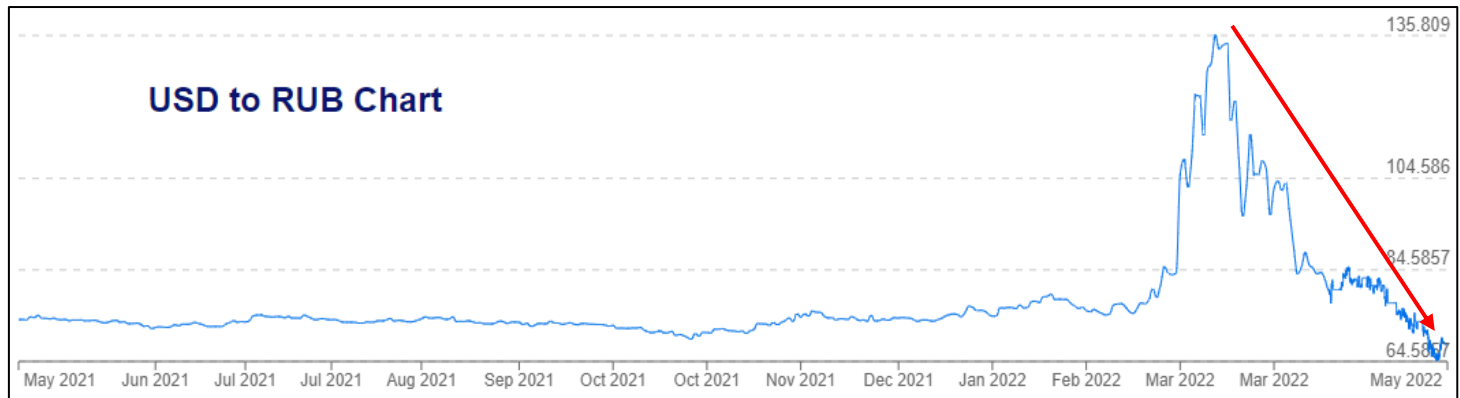
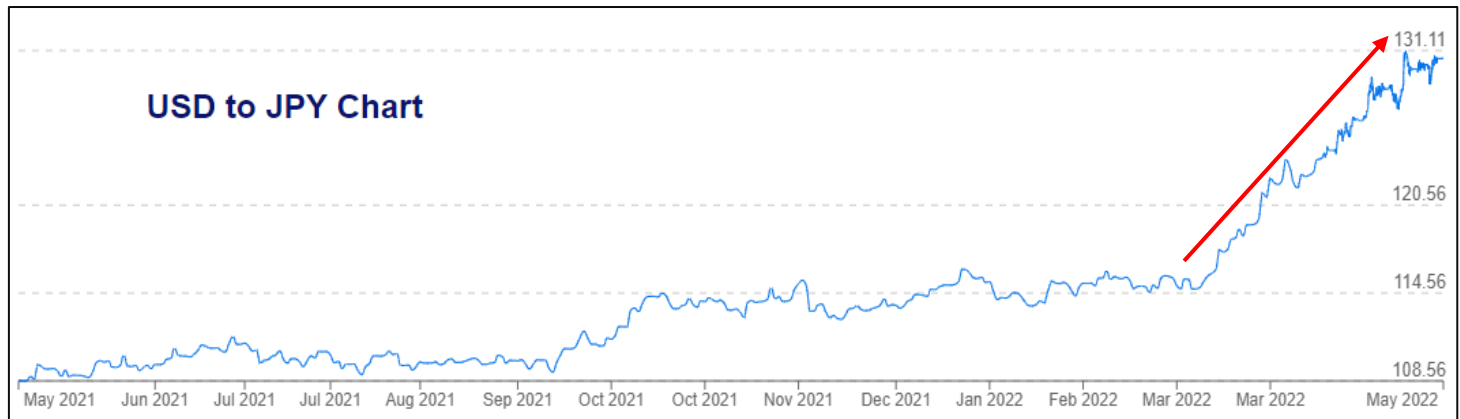


The Bank of Japan is trapped!

- U.S & EU plan to trap Russia by employing sanctions thereby inflating their economy, creating BOP crises & political unrest seems backfired as two months into the war, Japan rather than Russia seems to be trapped, with BOJ doing what ideally Russian central bank was expected to do.
- Due to higher energy, food and other commodities, Japan reported a bigger than expected trade deficit weakening the yen; there by raising costs for consumers and businesses.
- This in turn puts upward pressure on JGB yields and with Japan debt being so high, even a modest rise in yields has the effect of bankrupting the government. Resultant effect – Print more JPY to cap JGB yields from rising.

As long as Russia demands RUB for its gas, then EUR and JPY will likely to continue on the path to Balance of Payments crises and extreme currency weakness v. the USD.

Paradoxically, this will present in markets as the USD (DXY index) going up day after day.



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.



Thank You

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