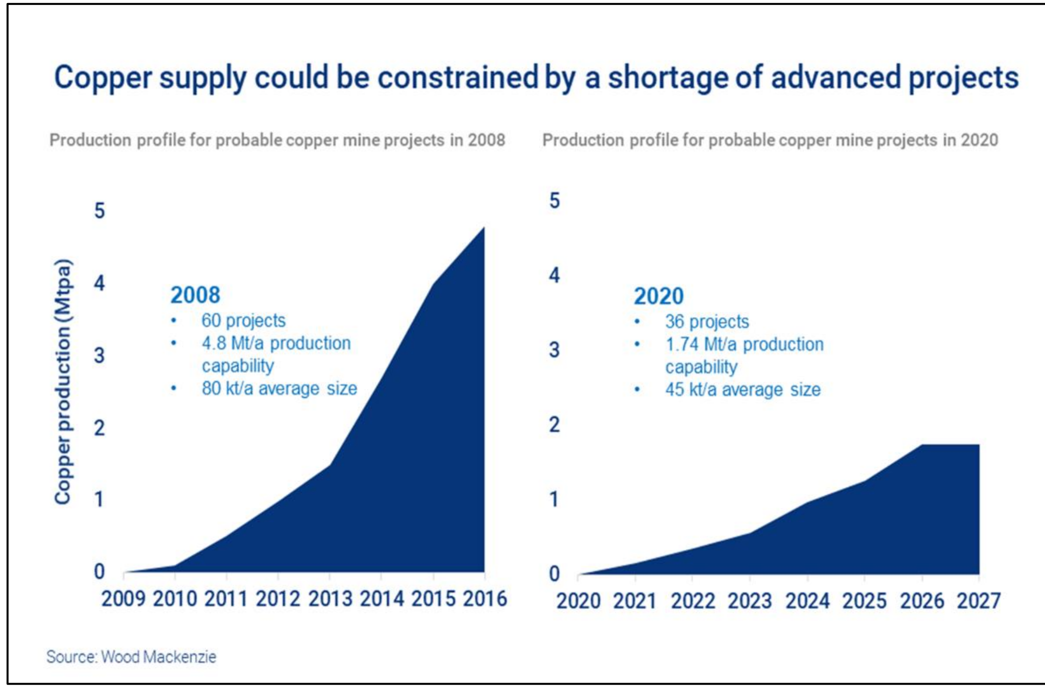
PINETREE MACRO

Brave New World

Edition 15

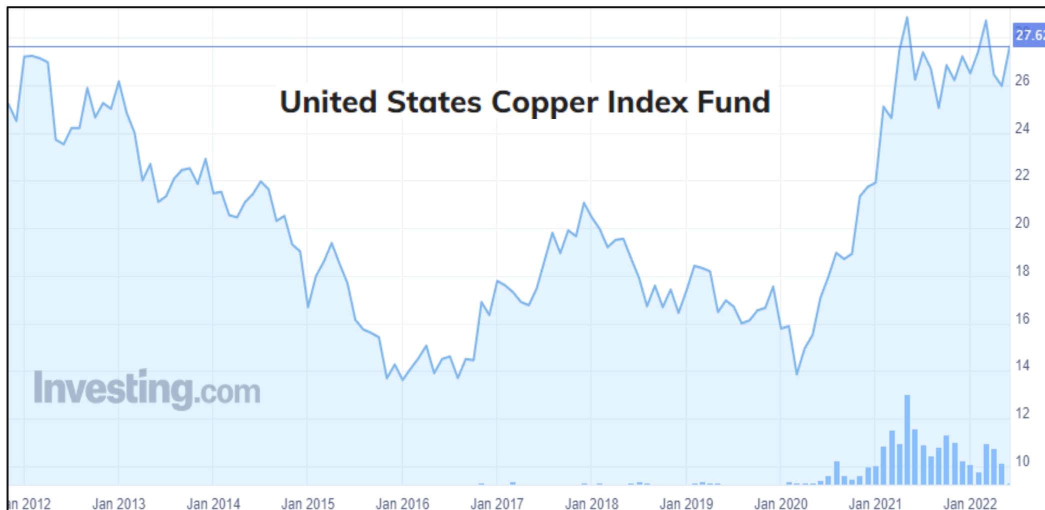
No Decarbonization without Copper

- Demand for copper presently is ~24 mn tones per year out of which non green demand (wiring) works to ~22.5mn tones & green demand (wind & solar) is about 1.5 mn tones. By the end of this decade, green demand for EV, charging infrastructure is expected to go upto 6-7mn tones moving from 5% of global demand to 20%.
- There isn't shortage of copper in the earth's crust but not much capital is flowing into those projects. Reasons – near death experience by miners in 2013/14 crash after over building in response to high prices of 2000s, ESG influence, high time lag in securing mining permits, shortage of skilled mining labour etc.
- Increases in demand for copper are expected to be very high unlike oil. It takes a really long time to get new production online. The existing production is expected to peak at the end of 2023/beginning of 2024 post which we see phase of open ended contraction of 1% from 2025 onwards. *(Source: Bloomberg)*



Copper price scales $10,000 on Chinese stimulus, lockdown reprieve

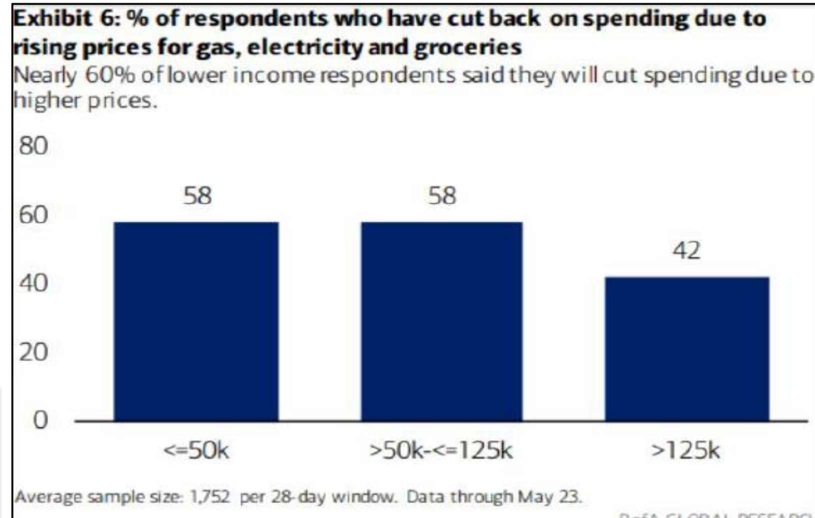
MINING.COM Staff Writer | June 2, 2022 | 9:10 am Markets News China Copper

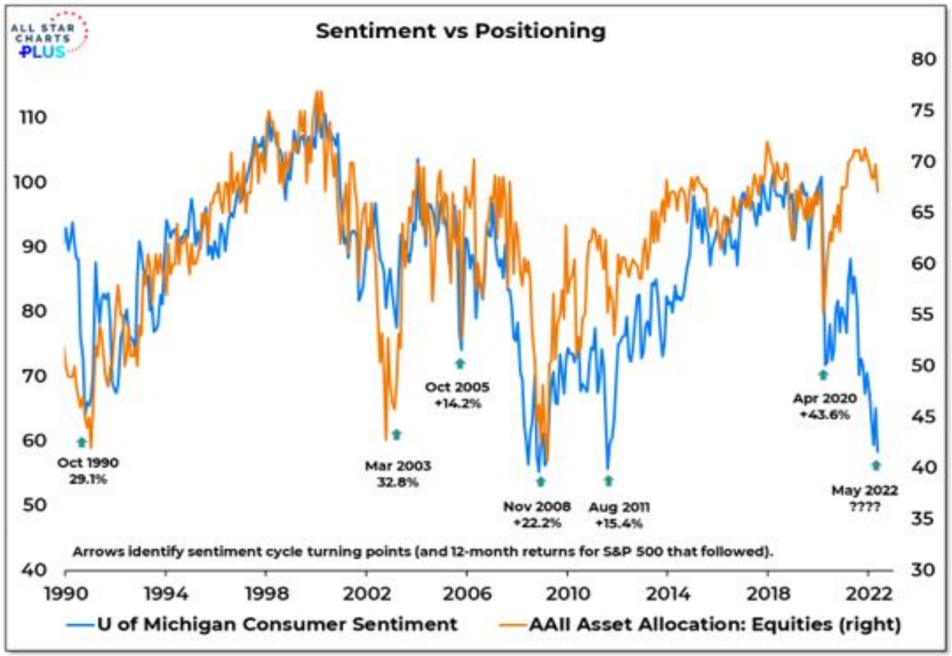


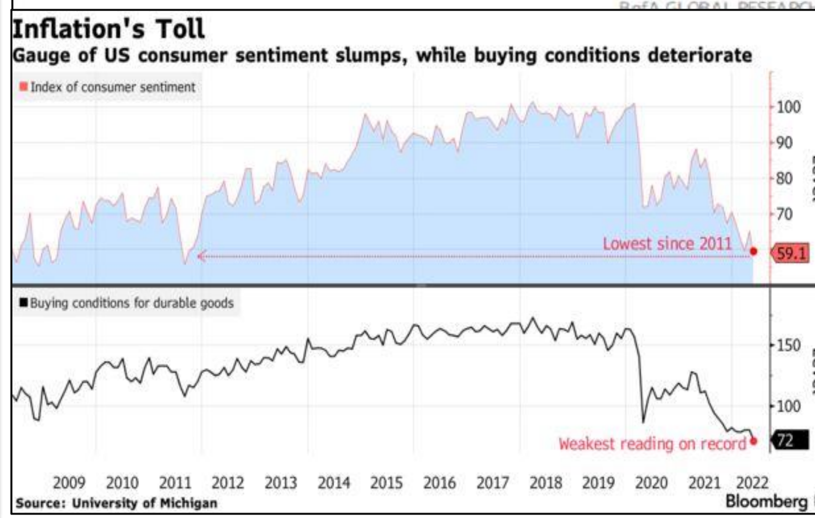
There are ETFs listed in US focused on Copper – COPX and CPER available for investment by Indian resident investors.

Consumer Sentiment – Weakest since GFC

- US consumer sentiment declined in early May to the lowest since 2011 as inflation takes a toll on consumer discretionary incomes, consumers' purchases are starting to change. In order to cover the increased food costs, Americans cut back on clothing and furnishings.
- The two biggest export economies of the world – Germany and China are seeing their new export orders in the manufacturing PMI fall sharply indicating deteriorating global demand as we move towards recession.



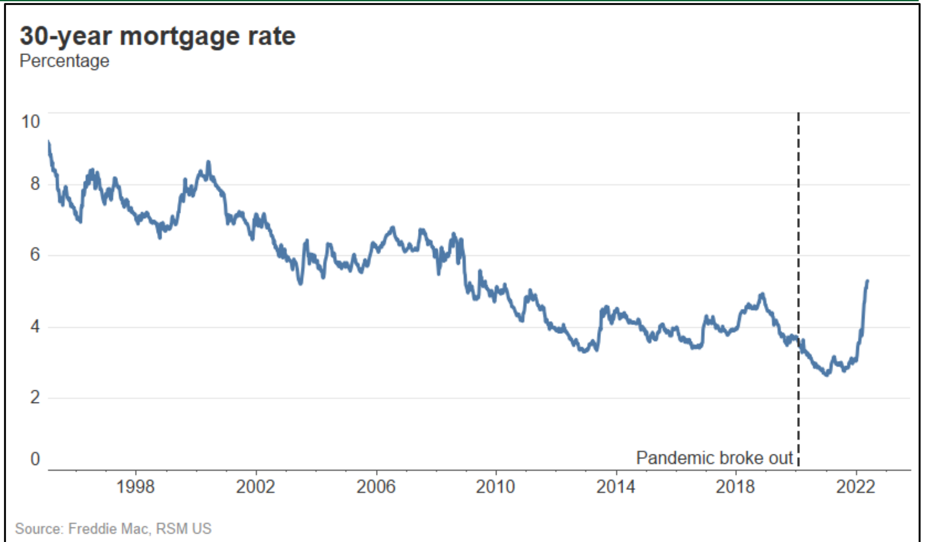


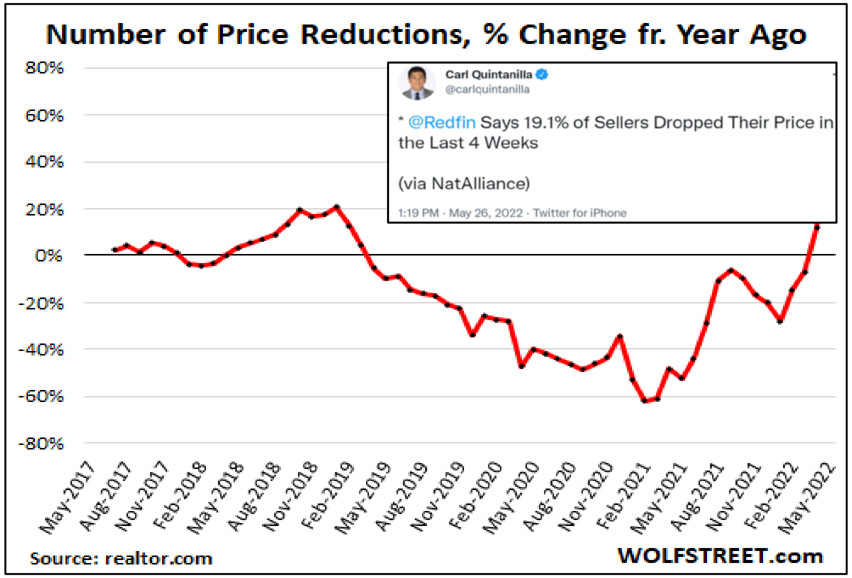


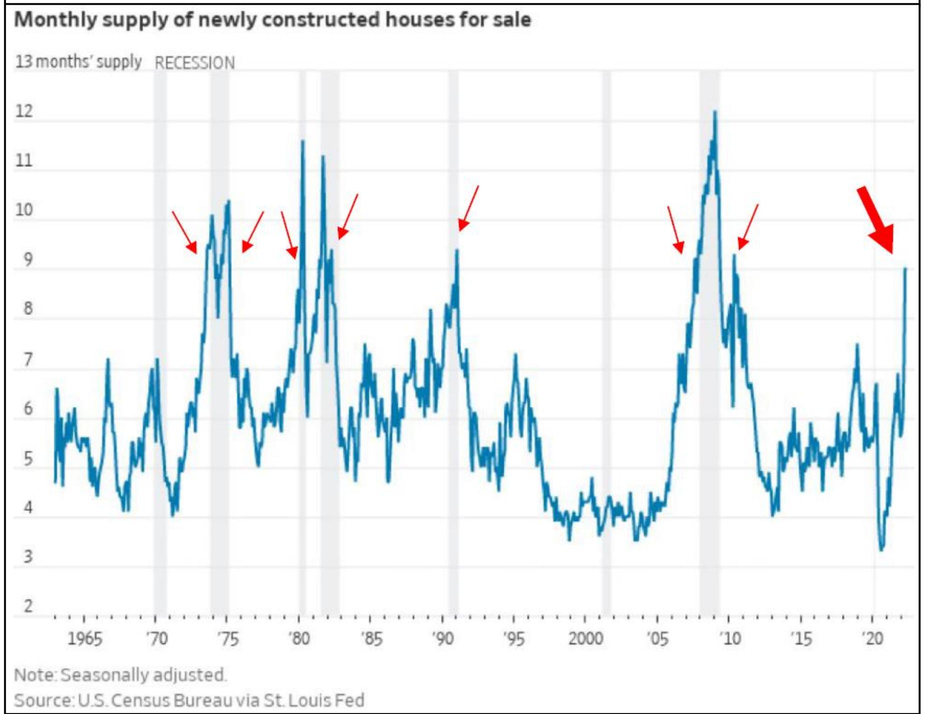
For much of the post-Great Financial Crisis (GFC) era, US equity prices have positively correlated with the overall systematic liquidity and Fed (US treasury) explicitly targeting higher stock prices to drive consumer spending, GDP and tax receipts.

Residential RE: The last man standing starts to wobble

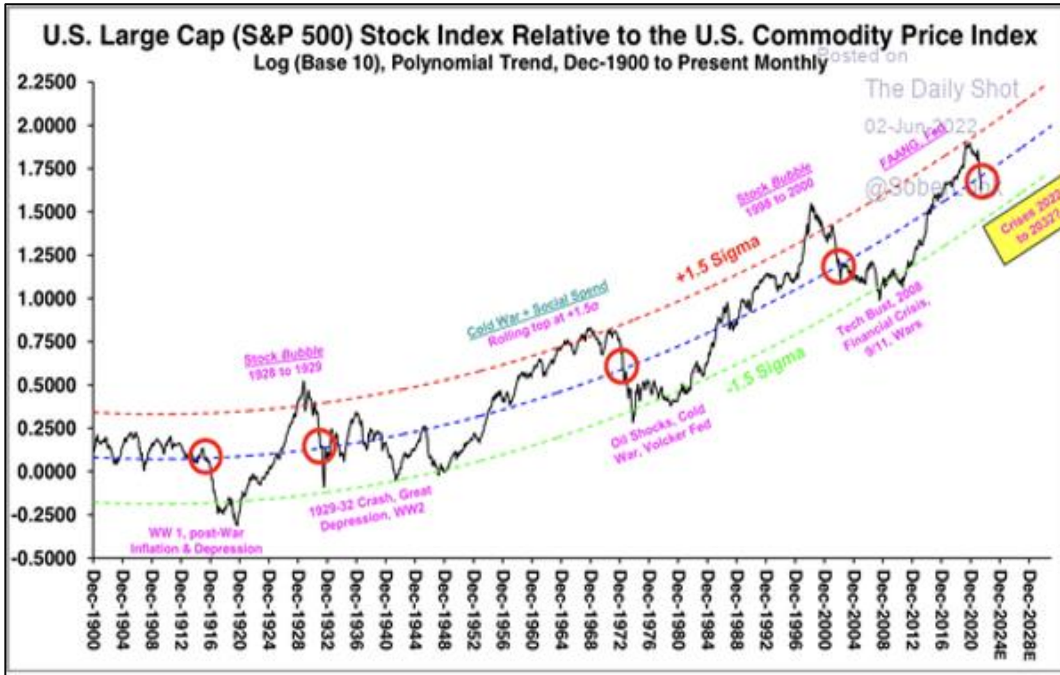
- Decline seen across risk assets since the beginning of this year has started to show signs of spreading to the biggest and most important asset class – Residential real estate. New home sales fell 16.6% last month – biggest monthly drop since 2013, as rising mortgage rates make homeownership more expensive for buyers.
- Every other time in last 50 years when new home Inventories have hit 9 months of supplies, US has either been about to go into recession, was already in a recession or Fed was about to renew QE *(Source : Luke Gromen)*
- Rising new home inventories suggest that we are months at most from home prices beginning to fall, adding to the already notable downward pressure on US consumer demand, US GDP, unless the Fed stops raising rates.



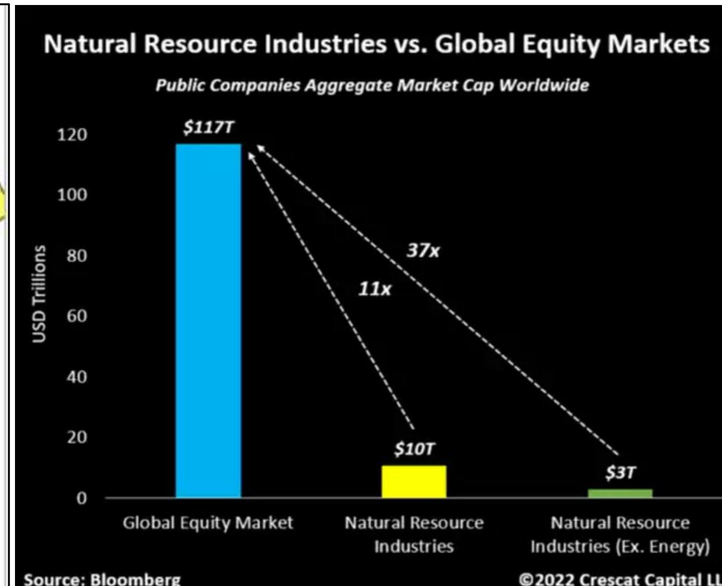


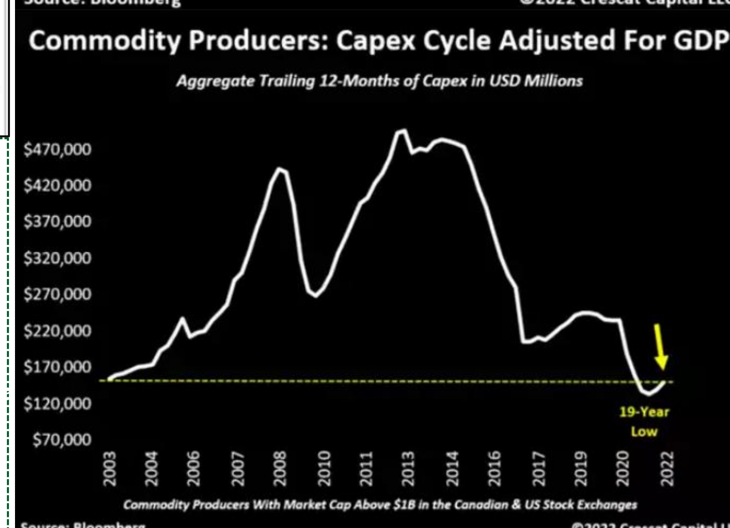


Its all about Capex cycle!



Source: S&P 500 data Shiller, Warren & Pearson Commodity Index (1900-1925), equal-wtd (1/3rd ea.) PPI Energy, PPI Farm Products, PPI Metals (Ferrous & Non-Ferrous, excl.-precious metals) (1926-1956), Refinitiv Equal Weight (CCI) Index (1956-1994), and Refinitiv Core Commodity CRB Index Excess Return (CRY) Index (1994+), Stifel estimates.



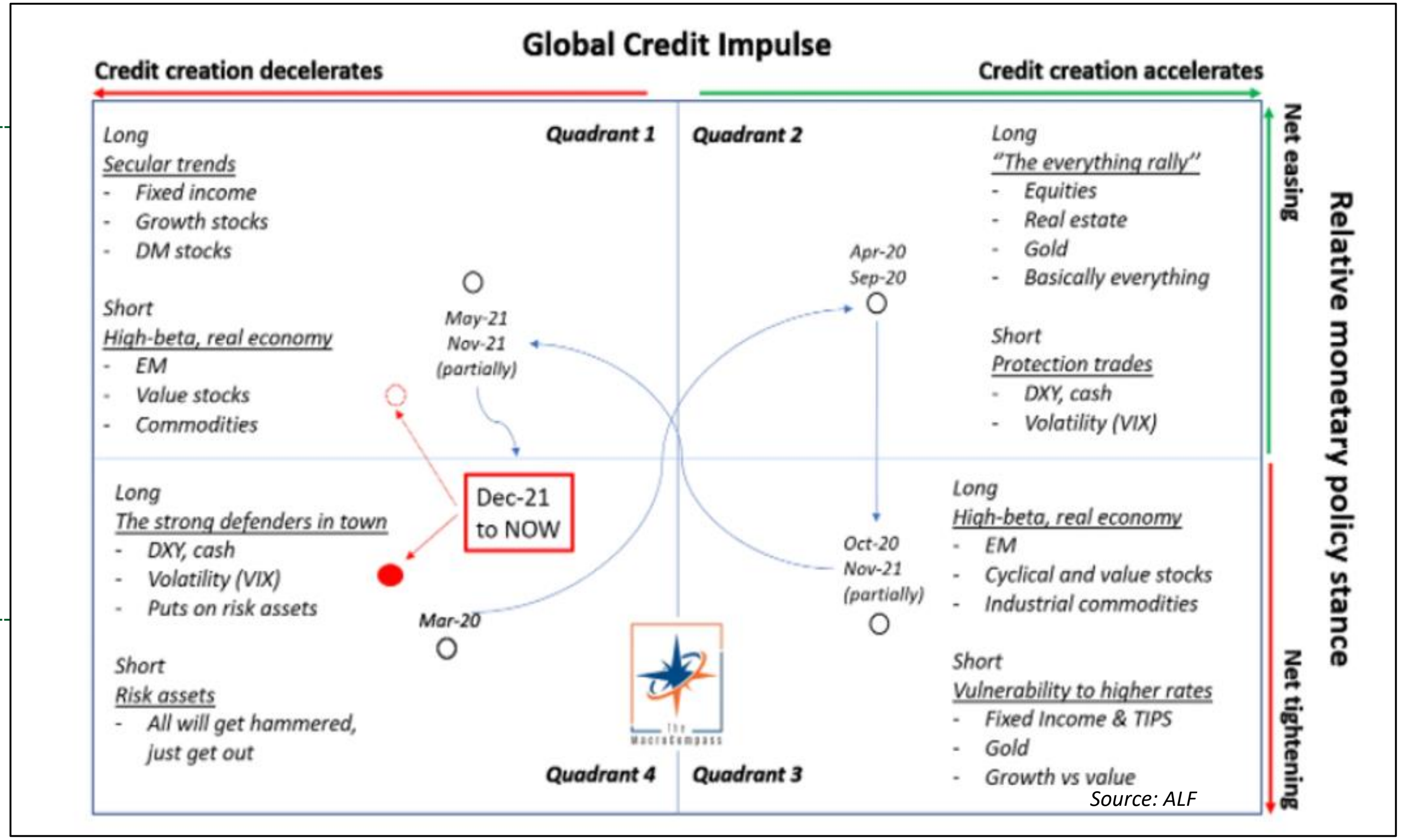


- The macro case for inflation being around at a higher rate for longer & contributing to a further bear market in financial assets is based first and foremost on structural commodity supply shortages today. There has been a multi-year declining investment trend in capital expenditures of commodity producers necessary to boost output.
- This is in large part is the result of a policy error based on an aggressive green agenda that has lacked the foresight and coordination with industry for a viable clean energy transition.
- These industries have long lead times, so output cannot be ramped up without years of increased investment. As a result, the world now faces a commodity supply cliff and likely higher increase in energy and food prices.

There are ETFs listed in US focused on Commodity & allied investing – XME and XLE

6-month Sharpe ratio of Risk Assets worst since 1991

In today's macro environment where the economic growth impulse is decelerating and Central Banks are tightening monetary policy more aggressively than expected, **correlation amongst asset classes can swiftly change.**



- At the end of 2021 we moved to **Quadrant 4**, which sees **risk assets' correlations converging to 1** as the long-standing negative correlation between bonds & stocks breaks as sharp tightening in monetary policy & hawkish forward guidance prevent bonds from rallying, despite a decelerating economic growth impulse.

A robust framework that helps you navigating different macro cycles and correlation regimes is hence important and ACTIVE Asset Allocation plays a key role in navigating through this framework.

Team

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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.

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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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