PINETREE MACRO

Brave New World

Edition 3

Vietnam – The China of 1990s or more like Singapore

One of the five fastest growing countries over past 30 years

- As most countries slipped into deep recession in 2020, one of the few countries to record *positive GDP* (2.9%) in pandemic, Vietnam is now in the midst of worst covid outbreak with a swathe of factories either shut down or have slowed further disrupting the existing global supply chains.
- Its openness to trade and investment, low labor costs, stable currency & capitalist political system had led to remarkable export expansion.
- So crucial have its factories become to the global business that in America retailers (*like GAP & Nike*) have lobbied the white house to donate more vaccines to Vietnam.

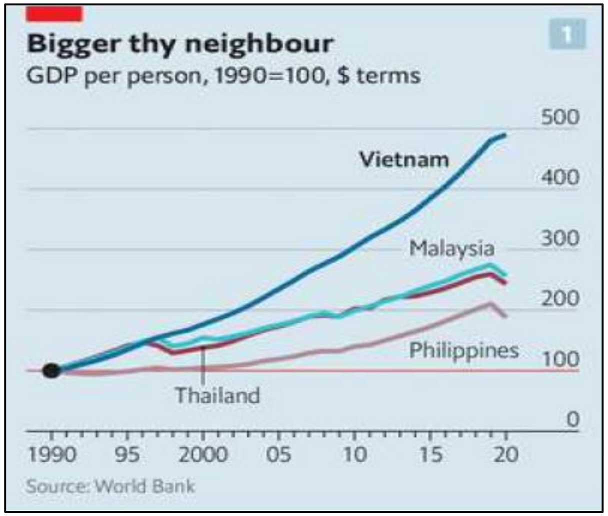
What's the secret to Vietnam's success?

- *(Export Intensive)^2* – With an exception of mineral rich or maritime trade denominated countries, Vietnam is one of the few economies with goods *trade exceeding 200% of GDP*.
- Since 1990s, Vietnam has received *6% of GDP via FDI*, i.e. 2x the average global level, far more than China or South Korea ever recorded. This led to widening gap between foreign capital infused and domestic companies.
- The economy now is overwhelmingly *dependent on investment & exports* by foreign companies; while, domestic ones underperform. The government to fire up the private sector is now trying to create national champions.

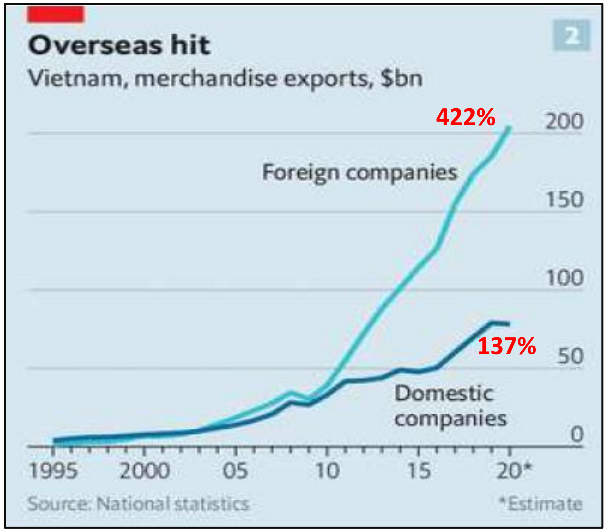
Set back from Covid aside it seems hard not to be rosy about an economy that appears to be in the early stages of emulating an East Asian Economic miracle.

There are Vietnam focused ETFs listed in the US with focus on publicly listed companies incorporated in Vietnam *(available for investment by Indian citizens)*

Expected expansion of 4.8% in 2021



Largely driven by FDI



(Source : The Economist)

Uranium Boom – The metal hit six-year high ($35/lb)

- Commodities prices are influenced by supply & demand.
- Uranium is a small market at roughly $6.3 billion in annual consumption (180 million pounds at $35/lb). The spark for this price rise was because SPUT *(Trust invests and holds substantially all of its assets in uranium)*, started buying up & storing physical uranium a few weeks back.
- But why is this important? – One of the cleanest & most powerful sources of energy, nuclear power could play a key role in decarbonization goals of countries. Nuclear reactors use fission (splitting of uranium atoms) to produce energy, making it one of the cleanest and economically efficient energy source.

Given the cost in-efficiencies associated with Green Energy and rising fossil fuel prices along with concerns around turning net neutral by 2050 there is increased focus on develop Nuclear (Uranium) to meet the increased energy demands

There are Uranium focused ETFs listed in the US with focus on companies involved in mining & exploration *(available for investment by Indian citizens)*

Exhibit 7: Metals & Mining Commodity Thermometer

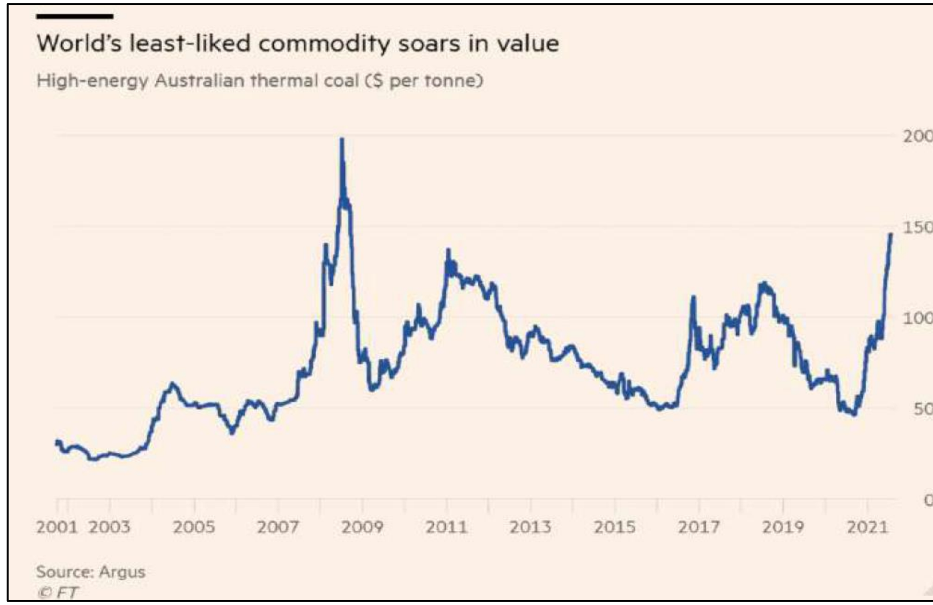
Rating	Commodity	Bearish	Neutral	Bullish	Thesis
5	Uranium				Further price upside near term as commercial inventories are drawn down, investment demand continues, and mine supply remains below 2019 levels. Longer term, demand growth continues to push price higher.
5	Alumina				Upside potential on a 6-month view contingent on easing freight rates through 2H21, continued growth in China's aluminium output and rising costs. A growing surplus beyond 2021 makes for a flat longer-term price outlook.
5	Hard Coking Coal				Excess Australian volumes in the ex-China market and easing steel production/domestic coking coal prices in China put downside pressure on spot price.
4	Lithium Carbonate				LatAm pricing still playing catch-up to China spot near term, but the peak is expected soon as supply growth across China domestic mines, Chile brines and Australia's spodumene meets waning restocking activity.
4	Manganese Ore				In a well-supplied market with ample inventory, we see price support coming from producer costs.
3	Aluminum				Structural factors put a strong floor under the market, but near-term risk remains to the downside vs. elevated spot as cyclical drivers wane and supply responds.
3	Copper				The recent market correction has brought price to more sustainable levels <$10k/t, but expect high volatility through 2H21 as the market reacts to policy and macro drivers, supply risks, and strong demand. We remain bears through 2022-23.
3	Nickel				Strong stainless markets remain supportive, but expect normalising demand and growing supply from Indonesia to bring a move lower in late-21/early-22.
2	Palladium				The lagged impact of the Norilsk outage on supply underpins price through 3Q21. Shrinking deficits drive a more bearish price outlook into the medium term.
2	Silver				Strong fabrication demand enables silver to outperform gold, but both move lower on rising real rates and a strengthening US dollar as the Fed turns hawkish.
2	Zinc				High inventory, growing mine supply, and recovering smelter production in China present downside risk for zinc's market through 2H21.
2	Gold				Anticipation of asset purchase tapering and rate hikes are likely to drag on gold's price on a 6-12 month view, with heightened risk of a 'taper tantrum' taking price below our base case.
2	Platinum				Emerging price risk from rising real rate expectations and softening investment demand see platinum move lower before positive substitution drives a recovery into the medium term.
2	Lead				Near-term support stems from falling inventory and strong replacement battery demand. But strong secondary supply caps upside and recovering mine/smelter production likely weigh on price on a 6-month view.
2	Thermal Coal				Gradual easing of China's domestic coal shortage and seaborne supply catching up will unwind current market tightness.
2	Cobalt				Further downside to price stems from an end to China's restock and recovering supply, bringing a surplus market back into sight.
1	Iron Ore				China's compressed steel margins and slowing steel output together with robust 2H shipments will drive the slow normalisation of price.

Source: Morgan Stanley Research. Note order of preference based on MSe 4Q21e vs 2Q21e average prices

But, is it over for other Fossil fuels?

The harder it pushes for Greener economy, the expensive the campaign becomes

- New government-directed spending is driving up demand for materials needed to build a cleaner economy.
- At the same time, tightening regulation is limiting supply by discouraging investment in mines, smelters, etc.
- The unintended result is "Greenflation": rising prices for metals and minerals such as copper, aluminum and lithium that are essential to solar and wind power, electric cars and other renewable technologies.
- Building green economies will consume more oil in the transition period, but oil producers are not responding the same way by not adding on to capacities or increasing output; because, political and regulatory resistance has darkened the future of fossil fuels.
- In contrast to the US, China uses 10x more coal than natural gas. In 2020, China built over 3x as much new coal capacity as all other countries combined, equal to one large coal plant per week.



Green
China Softens Tone on Climate Ambition Amid Power Shortages
Bloomberg News
30 July 2021, 22:58 GMT+10

Energy & Science
Gas Is So Scarce in Europe That Coal Is Making a Comeback
By Vanessa Dezem, Jesper Starn, and Isis Almeida
15 June 2021, 16:00 GMT+10

Opinion Commodities
'Greenflation' threatens to derail climate change action
Fossil fuels will be needed in the green transition but vital supplies are being squeezed

Markets
It's Not Over Yet for Coal as Global Prices Surge on Hot Demand
By Dan Murtaugh and Vanessa Dezem
3 June 2021, 17:53 GMT+10 Updated on 4 June 2021, 12:06 GMT+10

Intense push by world economies to adopt Green revolution, has created a supply squeeze amidst rising demand amongst related commodities, thereby pumping up their prices. But, the cost inefficiencies associated with Green Energy is making way for comeback of fossil fuels.

The Detail: Coal is the worst emitter you can find, so why is NZ importing it by the shipload?
Alexia Russell of Newsroom · 05:00, Aug 02 2021

Decade ahead : Real Assets *(like Farmland)* likely to perform better vs. Financial Assets

‘The Big Short’ fame Micheal Burry buys Farmland hand over fist

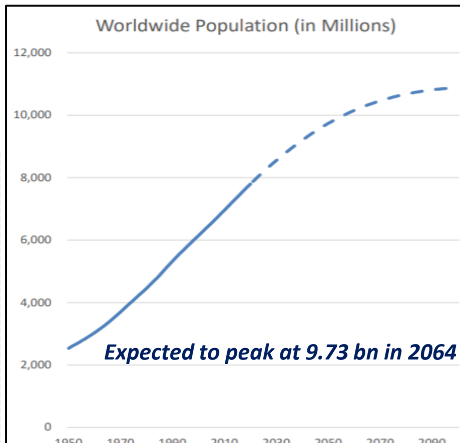
- As risk assets like Equity get fierce with current stock values pricing in most of the anticipated future cash flows; developing macros around rising inflation, taper talks, supply chain issues could weigh much larger on financial assets vs. real assets *(like Farmland)*.
- From 1972 to 2016, farmland outperformed all major asset classes with volatility closer to that of a bond than to stock. *(Source: Seeking Alpha).* During the last 15 years, farmland prices have had a -35% correlation to stocks; but, a 66% correlation to CPI (Inflation) and 53% correlation to Gold *(Source: Gladstone LAND).*
- But beyond inflation hedge, there are many other reasons for betting on Farmland one being – *“Agricultural land with water on site will be very valuable in future”.* The most common way to invest in water is to buy farmland.
- Catalyst that support strong Farmland performance going ahead are rising world population, shrinking arable land per capita, steady rise of crop prices, expanding global middle class and increasing farm innovation.
- According to UN FAO (www.fao.org), increase in population, growth in global GDP per capita will increase demand for primary crops. By 2050, global annual grain production will need a 43% increase from 2005-2007 levels & 2x the quantum of grain produced in the US in 2014.

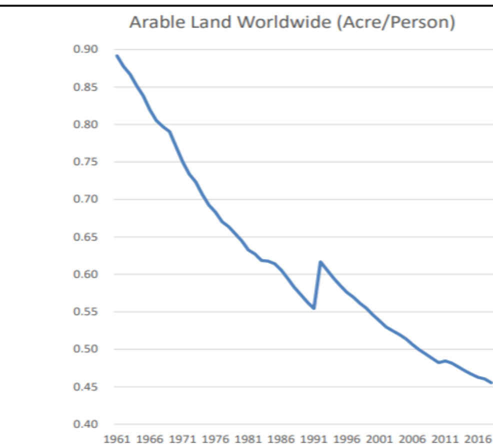
Farmland can act as a hedge due to low/no correlation with other asset classes, rising commodity prices, reducing acreage per person, supply side constraints to name a few

“Bill gates is the largest farmland owner in the nation”

Ways to invest in Farmland - focused MFs & ETFs, equity shares of the agricultural companies, purchasing farmland directly or via Farmland underlying REITs. Farmland prices are determined by a set of economic forces, including expected returns from agricultural production, cost of borrowing & potential growth in future returns. Farmland prices rise & fall according to general trends in commodity prices & cost of production.

World population expected to grow by 40% till 2050 vs 5% increase in farming





Team

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Director

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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.

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