



PINETREE MACRO

Brave New World

Edition 5

Deglobalization + Restocking post Covid = Supply Side Crisis + 'Inflation'

- Globalization which gained wings in 1988-2016 post wall era, is facing reversal challenges with inflation, pandemic related lockdown & interventionist ideologies of governments.
- There will be a demand-pull capex boom in the developed world,
 - ✓ as companies seek to bring supply chains in house,
 - ✓ as governments invest in energy security,
 - ✓ as businesses seek to vertically integrate to explore operational synergies.
- Corporations recognize that demand is in a new regime led by nationalization & need to locally produce items; which, were erstwhile imported & they are investing accordingly. Rising Capex uptrend + inventory restocking will be a tailwind for growth for months to come.
- This could trigger stock piling amongst firms affecting their ROEs amid rising shipping costs, lack of mobility across borders leading to scarcity of skilled employees, rising import substitution which may not be cost effective & tightening world labor markets.

The 'trade-off' from turning trade off will be cost-push and demand-pull 'inflation'.

There are inflation protection ETFs listed in US available for investment for Indian citizens.

3. Container shipping costs continue to rise amid trade disruption...



Source: Refinitiv Datastream

Capital Goods New Orders Nondefense Excluding Aircraft



(Source : The Cascade – Pinecone Macro Research)



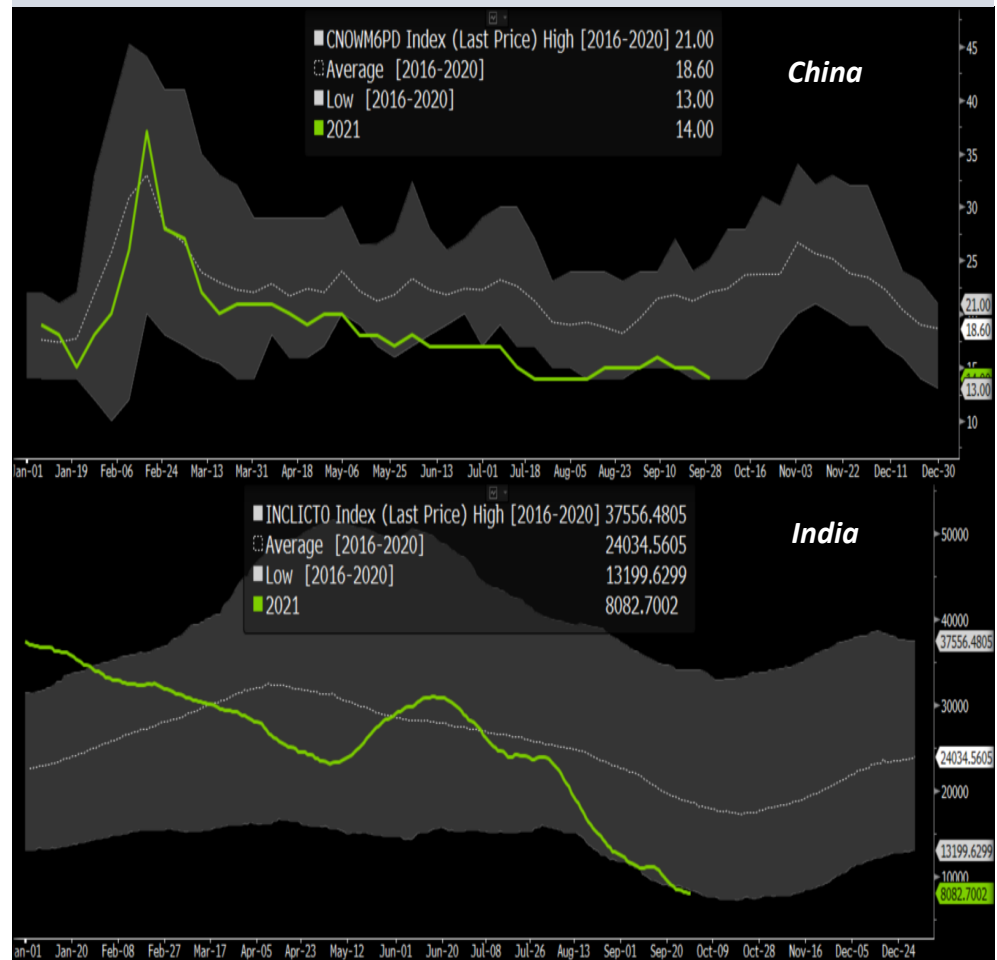
Fossil Fuel (like Coal) rises amid concerns on Fossils & clean energy focus

- With winter on the way & energy prices at record levels, economies across are competing for a finite supply of coal. China has ordered its top energy companies to secure supplies at all costs.
- If this continues economies could face crippling heating bills with governments struggling to ease inflation could lose popular support.
- Clean energy transition already under fire for low wind generation leading to Europe's power shortage, could further be questioned.
- Spiking gas prices in UK, electricity prices in Europe, factory shut-downs in Germany - different countries same problem - they reduced 'carbon economy' before they had sufficiently built the 'green economy'.
- Excluding spike in 2008, world has seen 4 decades of uninterrupted energy supply fueling growth. What if the energy crisis is the 1st crisis Fed wont be able to fix?

The dirtiest fossil fuel, which was struggling against cleaner energy sources, is now seeing its biggest comeback ever, complicating international climate talks.

Interestingly, VanEck discontinued its Coal focused ETF last year post rising concerns on fossil fuels and focus on ESG.

Coal inventories vs. 5 year average for 2 most populous countries



China's Coal Shortage Means Higher Prices for the World

By [Stephan Stappenberg](#), [Ann Koh](#) and [Jois Almeida](#)
28 September 2021, 20:08 GMT+5:30
Updated on 29 September 2021, 08:52 GMT+5:30

- ▶ World's second-biggest economy struggles to refill coal supply
- ▶ Asian, European coal prices are trading near an all-time high

A German Power Plant Just Ran Out of Coal in Latest Energy Shock

By [Jesper Starn](#) + Follow
1 October 2021, 15:50 GMT+5:30

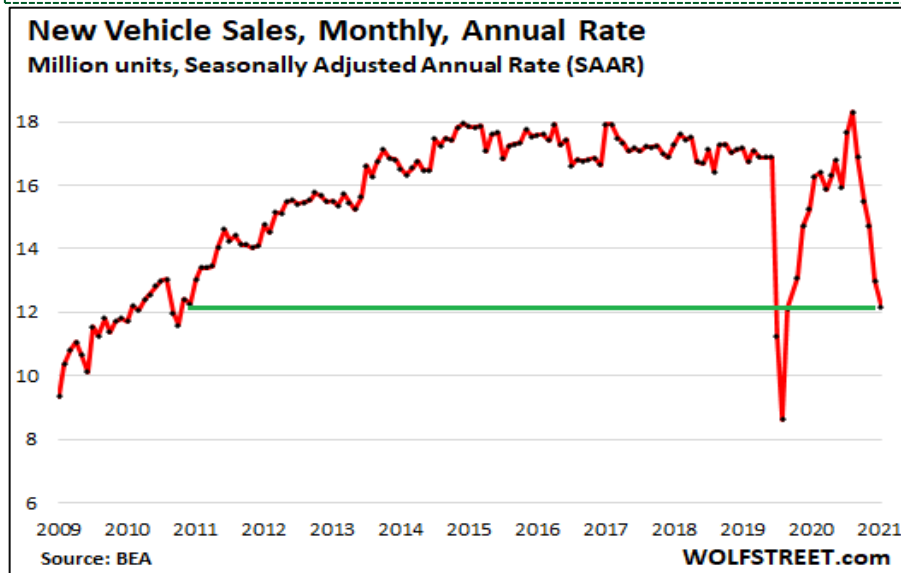
- ▶ German utility Steag ran out of coal for Bergkamen-A plant
- ▶ A coal index is headed for a record after sky-high trades

(Source : Bloomberg)

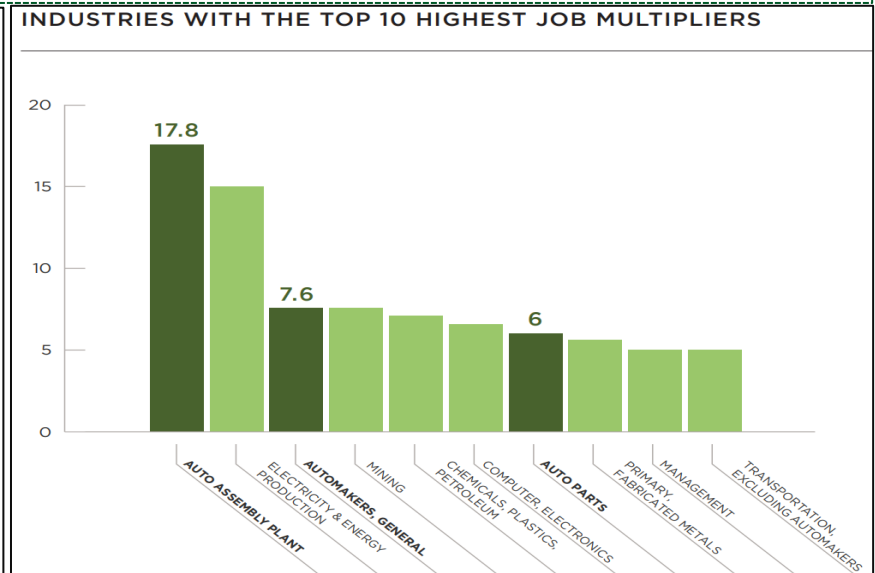


Will slowing Auto sales derail US economic growth?

- New vehicle sales have plunged as supply chain disruption, chip shortages and depleted inventories add to the pricing pressure affecting supply volumes.
- New vehicle sales in September dropped 37% from that in March this year. Monthly seasonally adjusted sales have plunged 5th month in a row lowest (outside 2 lockdown months) since June'2011.
- Automakers (incl suppliers) are US's largest manufacturing sector, responsible for 3% of GDP. No other manufacturing sector generates as many jobs. Not only are they largest exporters in US, they also buy hundreds of billions of dollars worth of US steel, glass, rubber, iron, and semiconductors each year. They are also among largest investors in R&D. (Source: americanautomakers.org)
- Analysts predict vehicle supply will improve mildly in the fourth quarter, and continue to improve throughout 2022, but won't return to "normal" until 2023 (Source: CNBC)



(Source : Wolfstreet)



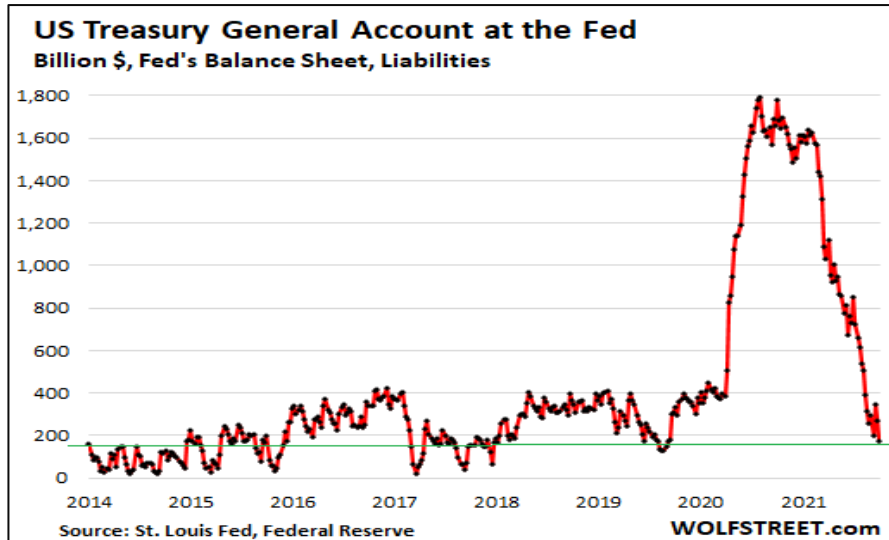
(Source : americanautomakers.org)

Will the auto companies resort to reducing manpower & other variable costs in response to slowing sales. Will central bankers be able to effectively taper and raise rates in an economy affected by rising costs & slowing growth.



Treasury General Account – How close to zero will it get?

- If the debt ceiling isn't raised or suspended US government would run out of cash by 18th October & 'technically' default on its' debt obligations.
- While, the chances of this happening could be very minimal given stakes involved (*Since 1960 debt ceiling has been raised 78 times*), technically rating agency (S&P) can/may downgrade the US sovereign debt from 'AA+' by 20 notches to 'D' for default, creating havoc across asset markets.
- The first casualty as TGA moves from \$1.6 trn in Jan to near zero in a week or two could be assets; where, liquidity injection played a major role in boosting returns vs. overall change in fundamental dynamics.
- Its noteworthy to observe that certain economies not particularly on friendly terms with US are diversifying their reserves to 'Gold' so as to not be insolvent if US were to hit a 'technical' default.



2020s will be a decade for real productive assets like commodities & other scarce assets. This won't be linear and there would be periods when having exposure to cash in the portfolio allows you to buy on dips & rebalance.

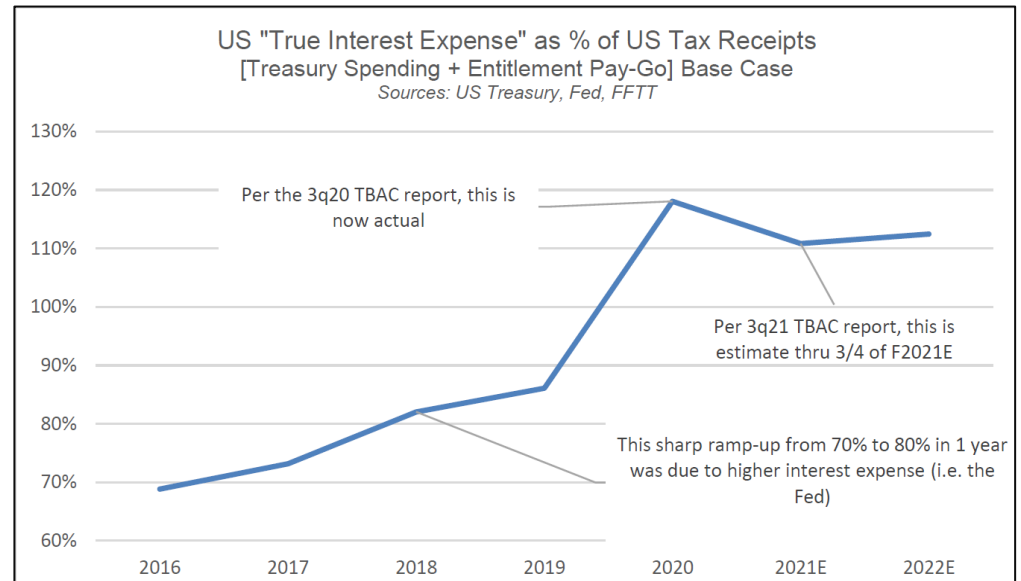


Rate Hike...Taper...Which one comes first and WHEN?

- Bank of New Zealand joins other central banks – like the Bank of Japan, the Bank of Canada, the Bank of England, the Reserve Bank of New Zealand, and the Reserve Bank of Australia – have already either ended/throttled back their large-scale QE operations/announced rate hikes. The ECB has announced that it would “recalibrate” its QE.
- Will Fed’s taper decision lead us back to 2013 or is this time different? Despite the Tax receipts at all time highs (*aided by bubbles in virtually every asset class*); US ‘True interest expense’ i.e. treasury spending + entitlements is still 111% of tax receipts.
- If Fed tapers QE without offsetting the liquidity withdrawal with swap lines or standing repo facility; then this Taper is likely to be much shorter and painful experience than 2013 leading to rising yields in global asset market and sell off in risk assets.
- Sell off in risk assets like Equities could also potentially reduce tax receipts; further detoriating the ‘real interest’ to tax receipts ratio.
- US Fiscal position is truly in unprecedented position to start a tightening cycle. Will the reserve currency continue to lag behind other central bankers in monetary tightening cycle?

Will India join other countries that are expected to hike rates in the coming months?

Will companies be able to manage rising costs, supply side issues, rising interest costs, deglobalization all at the same time and will these costs be eventually passed on to end consumers.



(Source : FTTT, Luke Gromen)



Team



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Director

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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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