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Weekly Newsletter

Macro

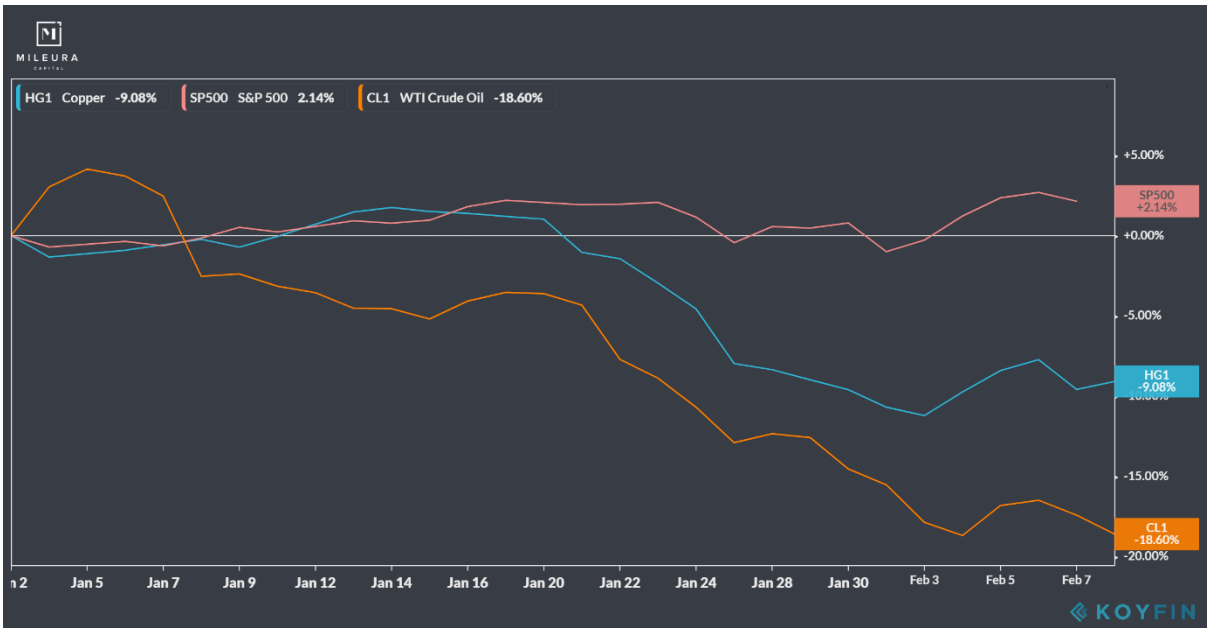
Corona virus fears are everywhere. Equities at ATH's and macro sensitive commodities such as copper and oil are suffering. As seems to be typical these days the best bearish hedge is a commodity short and hold onto your long equities and bonds.

You could argue that Corona Virus could be deflationary due to the demand effect (what commodity markets are pricing now). The other view, is that due to supply chain disruptions (assume nominal demand growth) then the supply side inefficiencies create higher prices and thereby inflation. Paul Krake put some good thoughts out on this earlier this week. I recommend you take a look at VFTP here

I think the issue is more around timing. If global demand does not suffer as much as the commodity prices and bond prices suggest, then you could get a subsequent inflationary spike. An additional impact of the corona virus is it will keep CEO and CFO's reluctant to invest in exploration of new sources of supply or invest in existing supply chain. To a certain extent that has been the mind set over the past 3 years as miners and the oil majors rebuilt balance sheets and returned cash to shareholders via dividends or buy back. That trend is likely to continue despite some certainty being returned to markets post the (elusive on detail) Phase 1 trade deal.

Between trade wars, tariffs and viruses maybe Trump does get his dream of on-shoring after all. It could be the start of more regional manufacturing - using certain hubs rather than the over-reliance the world has on the Chinese manufacturing base. If this does happen this should be inflationary (temporarily). However, commodity markets are pretty good at eliminating arbitrages so I am sure it will become efficient over time.

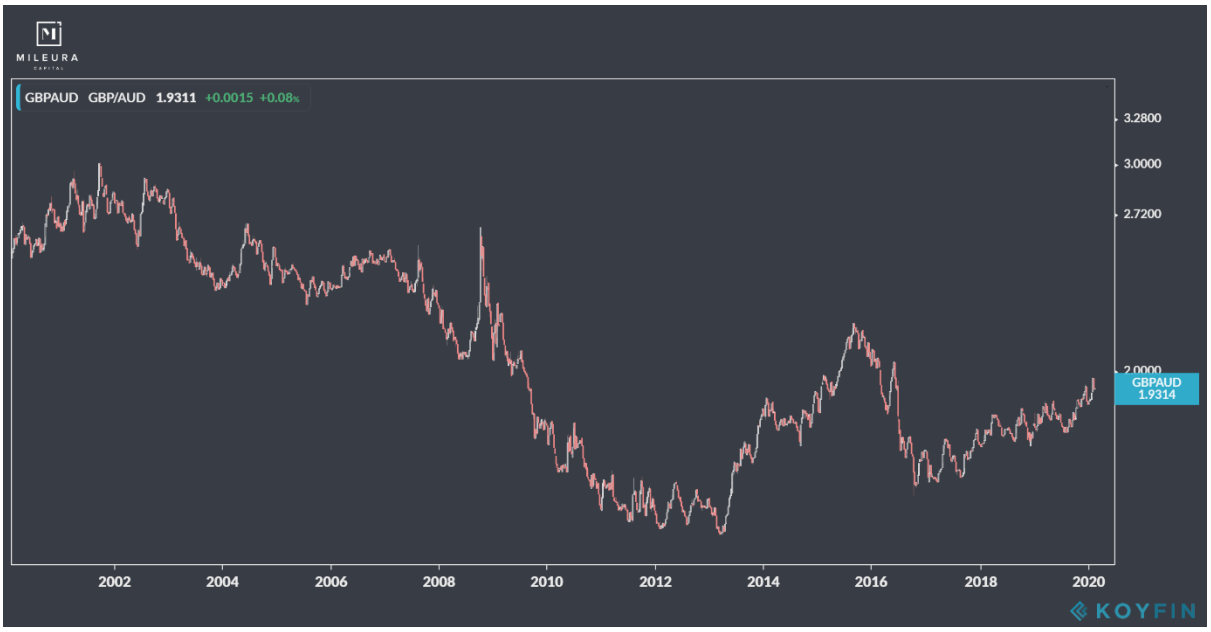
Year-to-date performance of SP500, Copper and WTI Crude



FX

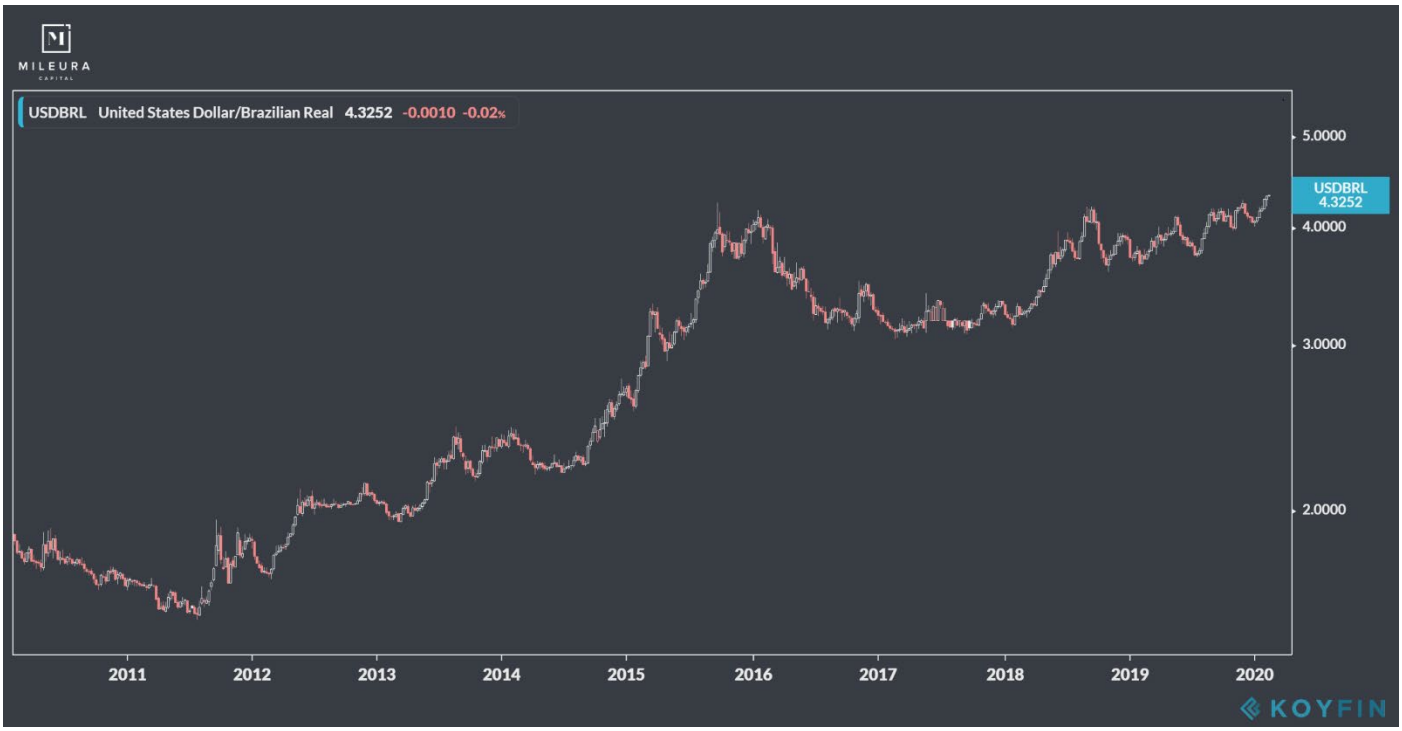
Living in the UK and given the amount of pessimism towards the UK. Things here have picked up post-election. Real estate at all ends of the spectrum has been busy. Not saying prices are ripping but transactions are happening, certainty has returned and I think this will slowly spill through to the wider economy. I like GBP/AUD to try and take the USD noise out of it.

GBP/AUD - Weekly



EM FX

BRL is really under pressure. It is trading at the lowest levels (highest USD) since the *Real* floated in 1999 (it just celebrated its 21st birthday – what a time to be alive!). The weakness in EM FX is pervasive. It will make it hard for US agricultural exports to compete in this type of environment.

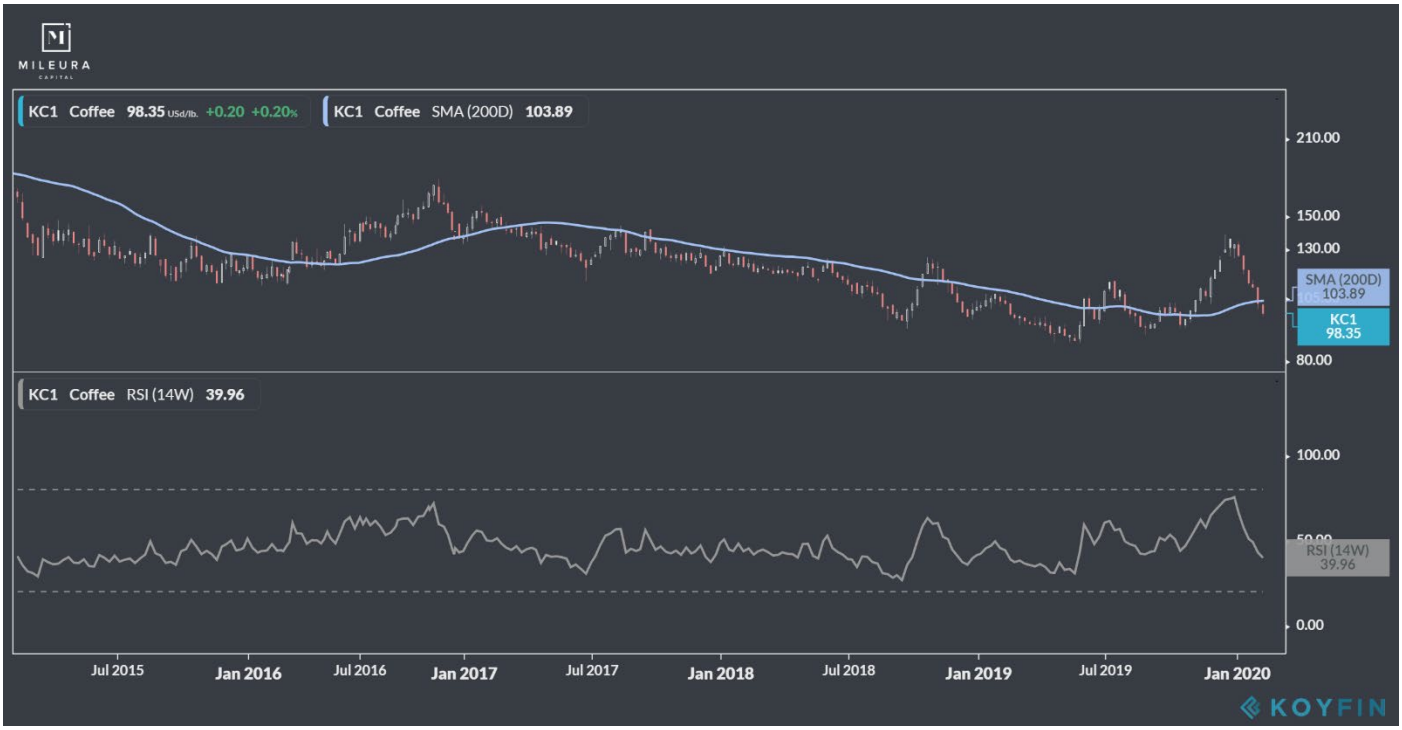


Commodity ideas

Iron ore took a hit and is still looking vulnerable to a further slow down in China. I would like to see it back in the mid $85-87 range for an opportunity to sell. Given the backwardation it is always a tough market to short so you have to be cautious and quick to take profits.

Cotton has weathered a bearish storm. Chart still looks ok. I will be keeping an eye on export sales over the next few weeks to check demand for US cotton. It has been strong of late and supportive of the recent test above 70c. But with a stronger USD and other competitive growths stepping on we have to pay attention to what relative prices are doing to see if we get another leg lower in futures.

Coffee basis levels are ripping. Cash market appears a lot tighter than what a 40% decline in futures prices would suggest. A weak BRL is certainly not bullish but it feels like the SnD is going to start to matter.


MILEURA
KC1 Coffee 98.35 USd/lb. +0.20 +0.20%
KC1 Coffee SMA (200D) 103.89
210.00
150.00
130.00
SMA (200D) 103.89
KC1 98.35
80.00
KC1 Coffee RSI (14W) 39.96
100.00
RSI (14W) 39.96
0.00
Jul 2015
Jan 2016
Jul 2016
Jan 2017
Jul 2017
Jan 2018
Jul 2018
Jan 2019
Jul 2019
Jan 2020
KOYFIN

Good luck!