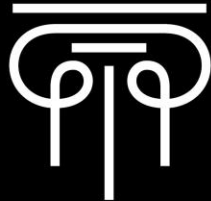

17 Aug 2022

Geopolitical alpha ain't where it used to be!

Marko Papic
Partner & Chief Strategist, Clocktower Group
(Santa Monica)



Portfolio
Construction
Forum



CLOCKTOWER
STRATEGY

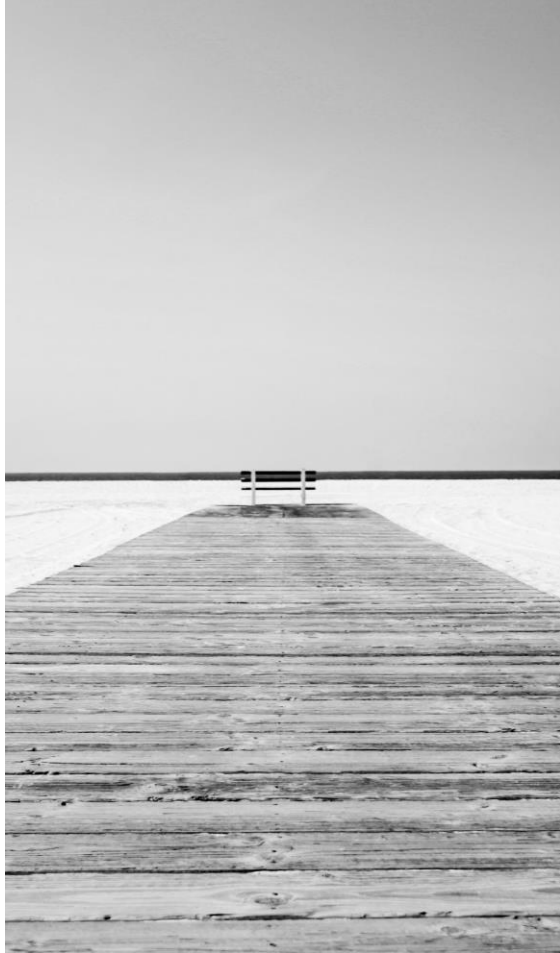
Geopolitics & Markets

August 2022

310. 458.2003
clocktowergroup.com

Santa Monica
CA 90401

225 Santa Monica
Blvd. FL10



High Level Summary

- **Cold War?** – The narrative that the world is experiencing Cold War 2.0 has received a boost in 2022 as Chinese assertiveness towards Taiwan grows and as Sino-Russian axis – allegedly – grows stronger.
- **Multipolarity** – We stick to our decade-long view that the world remains *multipolar*, not bipolar. The US remains constrained in creating coalitions of the willing against China. Even the one against Russia will, we think, dissipate as the war in Ukraine stalls. China, on the other hand, has stalled as a great power. Western bias makes it difficult for investors to realize that Chinese geopolitical aggression has actually been toned down, not increased, since 2017.
- **Geopolitics Is Not Transitory** – A multipolar environment that is further colored by populism and the green transition will ensure that this is a CAPEX-led cycle. The world needs more stuff – “planes, trains, and automobiles,” – not software. **On a secular basis, we are bond bearish due to inflation and tech bearish, while remaining commodity bulls. In the near term, however, there may be more downside to commodities due to growth concerns.**
- **Ukraine Is a Symptom of Multipolarity** – Nothing proves that the world is multipolar like the war in Ukraine. Our view is that the conflict is stalling, which means the second derivative of geopolitical risk premium will fall.

A large, light purple decorative graphic on the left side of the slide. It consists of a large circle containing several concentric, slightly offset lines that form a series of nested, elongated shapes, resembling a stylized 'E' or a series of parallel lines curving towards the center.

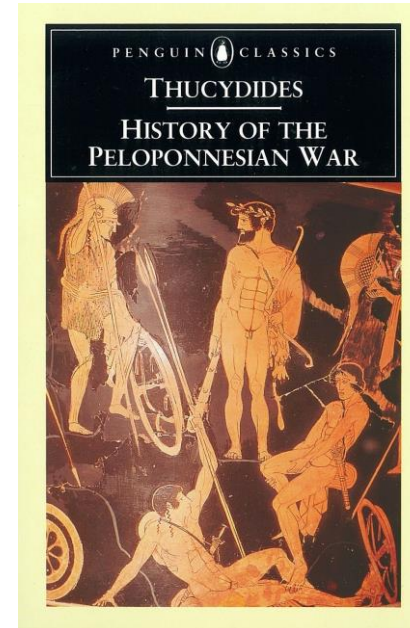
The Case for a New Cold War



Cold War 2.0 | The Thucydides Trap Is Real...

Nº	Period	Ruling Power	Rising Power	Domain	Result
1	Late 15 th century	Portugal	Spain	Global empire and trade	No war
2	First half of 16 th century	France	Habsburgs	Land power in western Europe	War
3	16 th and 17 th centuries	Habsburgs	Ottoman Empire	Land power in central and eastern Europe, sea power in the Mediterranean	War
4	First half of 17 th century	Habsburgs	Sweden	Land and sea power in northern Europe	War
5	Mid-to-late 17 th century	Dutch Republic	England	Global empire, sea power, and trade	War
6	Late 17 th to mid-18 th centuries	France	Great Britain	Global empire and European land power	War
7	Late 18 th and early 19 th centuries	United Kingdom	France	Land and sea power in Europe	War
8	Mid-19 th century	France and United Kingdom	Russia	Global empire, influence in Central Asia and eastern Mediterranean	War
9	Mid-19 th century	France	Germany	Land power in Europe	War
10	Late 19 th and early 20 th centuries	China and Russia	Japan	Land and sea power in East Asia	War
11	Early-20 th century	United Kingdom	United States	Global economic dominance and naval supremacy in the Western Hemisphere	No war
12	Early-20 th century	United Kingdom supported by France, Russia	Germany	Land power in Europe and global sea power	War
13	Mid-20 th century	Soviet Union, France, UK	Germany	Land and sea power in Europe	War
14	Mid-20 th century	United States	Japan	Sea power and influence in the Asia-Pacific region	War
15	1940s–1980s	United States	Soviet Union	Global power	No war
16	1990s–present	United Kingdom and France	Germany	Political influence in Europe	No war

“It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable.”

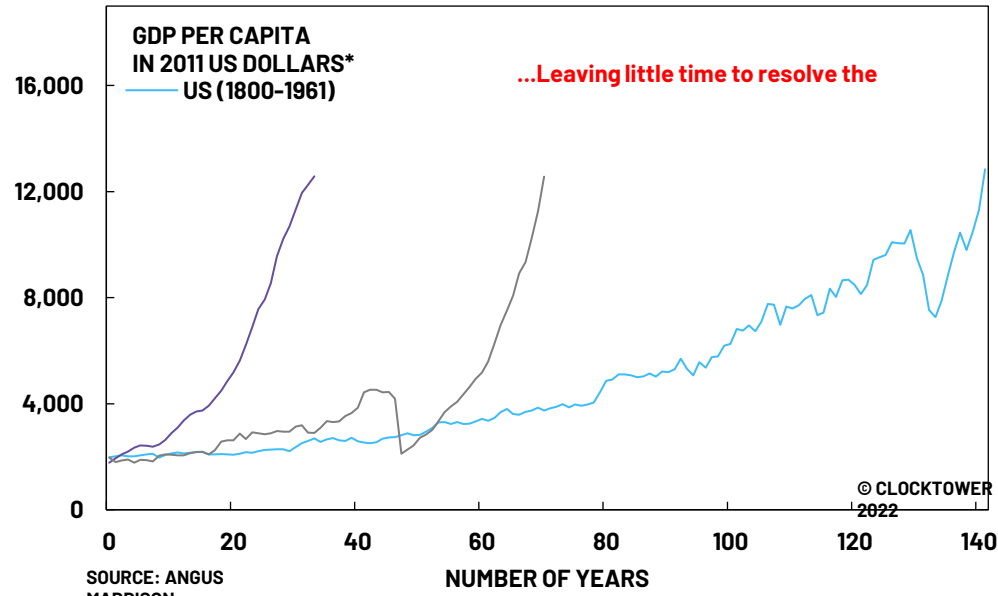




Cold War 2.0 | ...But China Is *Not* Athens

Unlike challenger powers of the past, China has closed the gap with the status quo power with impressive speed.

Chinese Reemergence Has Been Extraordinary...

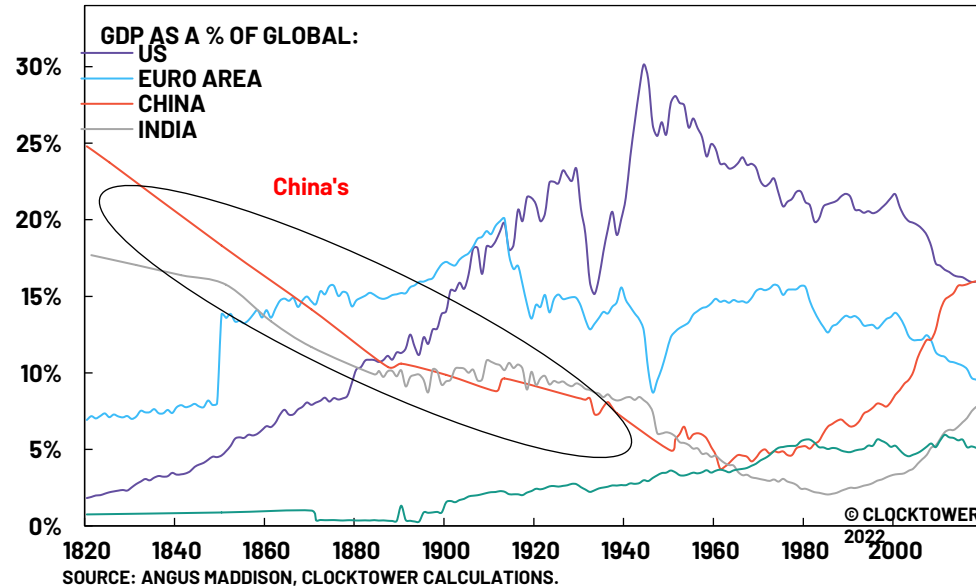




Cold War 2.0 | Mean Reversion

China believes that it is not just another challenger power...
it believes that it is reverting to the mean and reversing a Century of Humiliation.

China Does Not See Itself as the "Challenger"

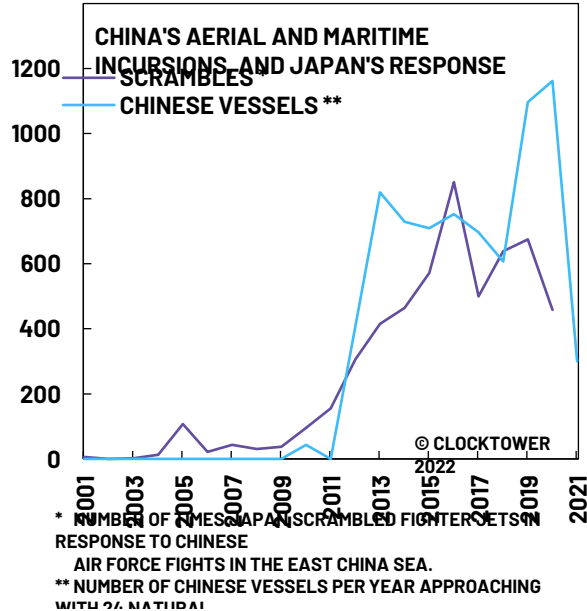




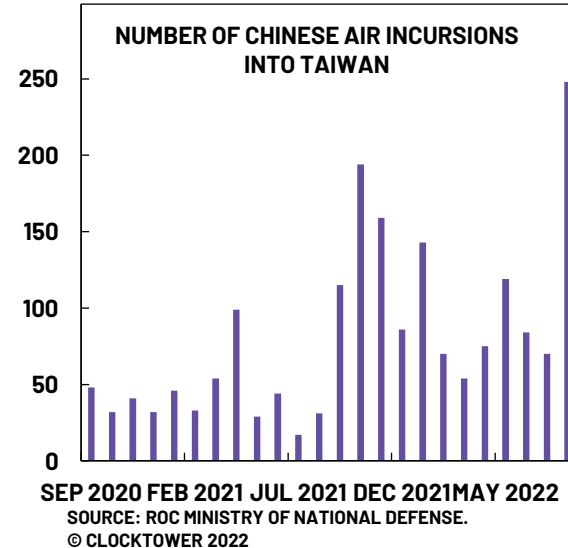
Cold War 2.0 | China Has Shown Its Assertiveness

As Chinese capabilities have grown, so has its assertiveness. Since 2011, China's military has taken a much more aggressive posture throughout East Asia.

The Year 2011 Was a Critical Moment



China Has Continued its Assertiveness

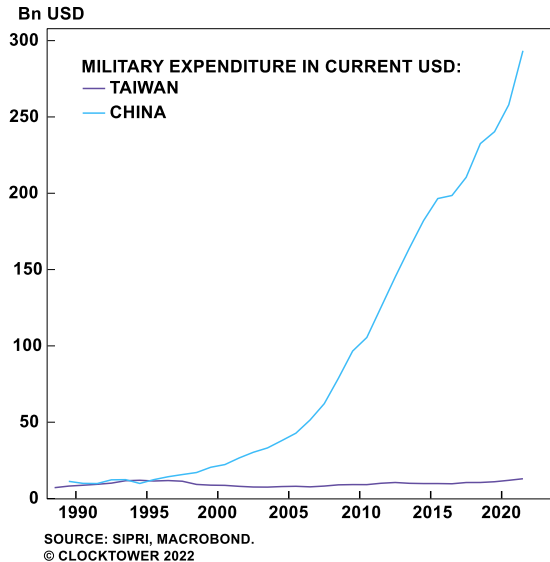




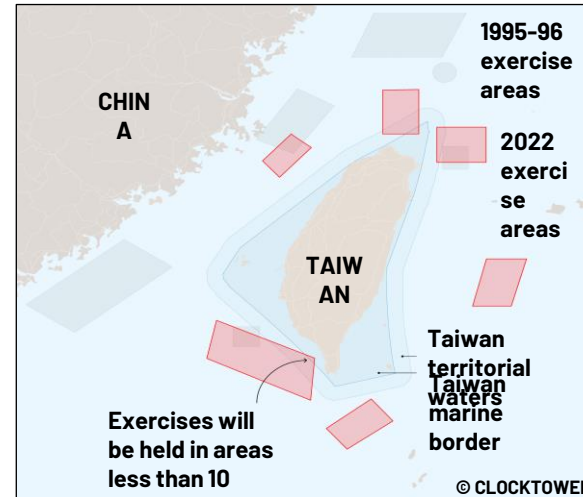
Cold War 2.0 | China Is Now a Regional Hegemon

China has shown its capabilities in the recent standoff with Taiwan. Unlike 20 years ago, the China-Taiwan rivalry is no longer a fair fight. China knows it and is acting like it.

China and Taiwan Are No Longer Rivals...



...Beijing Is Acting Accordingly



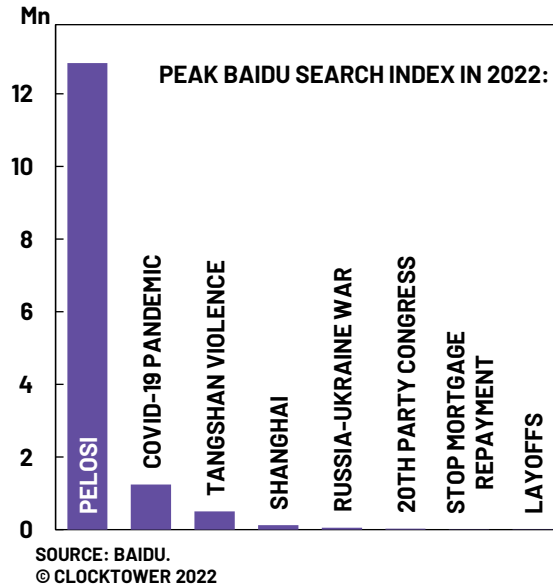
NOTE: MAPS SHOWING THE 2022 EXERCISE AREAS WERE PUBLISHED BY CHINESE STATE MEDIA ON AUG. 2. COORDINATES DESCRIBING THESE AREAS PUBLISHED SEPARATELY BY BEIJING HAVE SEVERAL DISCREPANCIES WITH THE MAPS; THE MAPPED AREAS ARE APPROXIMATE.



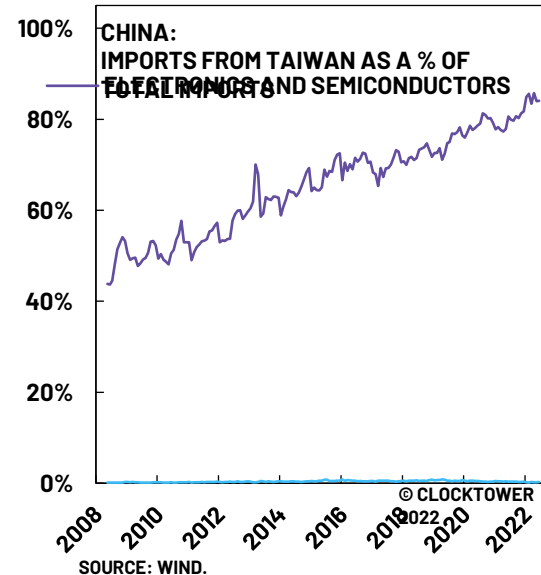
China | Domestic Politics Are Complicated

The smooth landing of Pelosi's plane in Taiwan reveals three things – Beijing remains constrained, President Xi's domestic standing is strong, and the constraint from nationalistic sentiment is limited.

Despite Attention from Onshore Netizens...



...Beijing's Response to Pelosi's Visit Is Weak

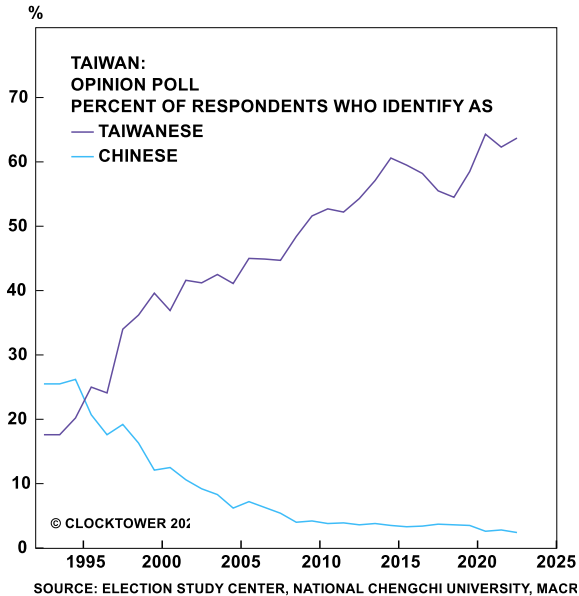




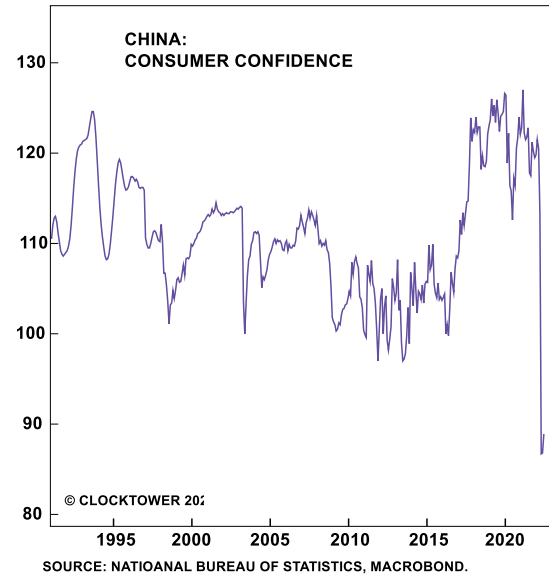
China | Time for Confrontation May Be *Now*

Beijing may believe that the window for an all-out military reunification with Taiwan is *now*. And, with Chinese economy facing intractable headwinds, an intervention may be a welcome distraction.

Taiwanese Dynamics Have Changed Dramatically



An Intervention Could Be a Welcome Distraction

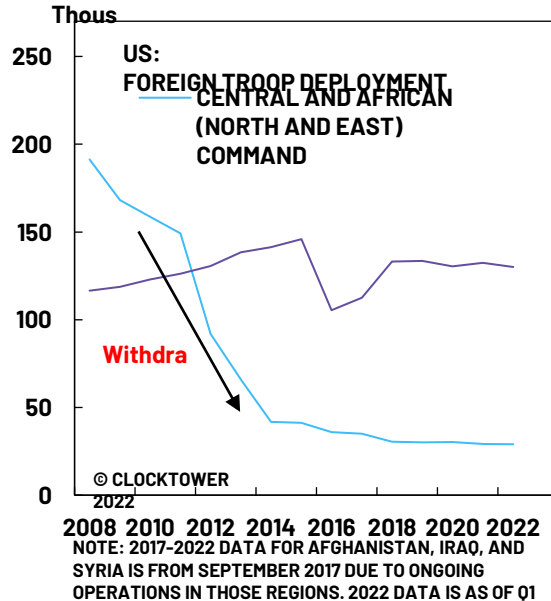




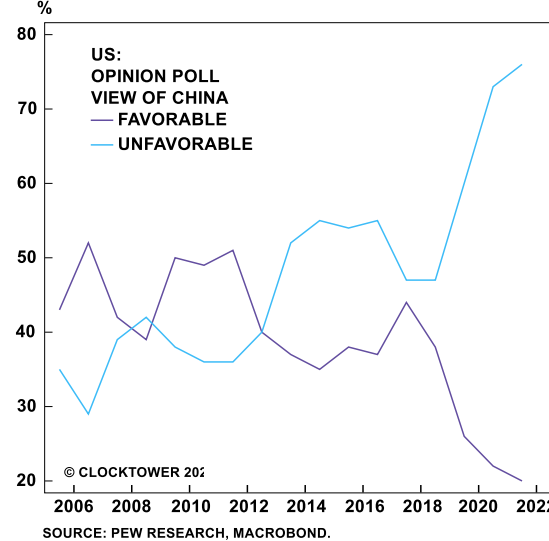
Cold War 2.0 | The US Has More Geo-Political Room to Maneuver

The US was caught off guard in 2011. It was distracted by an economic crisis and a massive geopolitical commitment in the Middle East. **The US has more maneuvering room in 2022.**

The US Has Deleveraged out of the Middle East



Voters Have More Appetite for Anti-China Policies

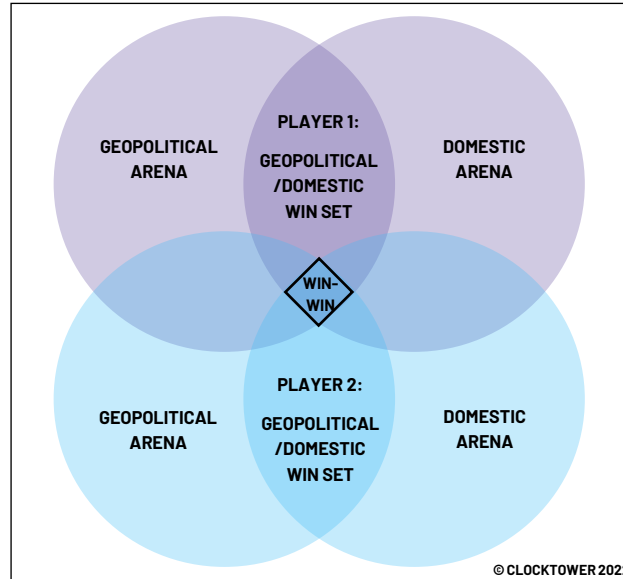





Cold War 2.0 | Beware Two-Level Games

Investors should expect the Biden Administration to focus on foreign policy following the Midterms. As Biden seeks relevance abroad, **more geopolitical risk will follow in 2023.**

In Two-Level Games, a Win-Win Outcome Is Difficult to Achieve



SOURCE: CLOCKTOWER GROUP.

An abstract background on the left side of the slide featuring a large, light purple circle. Inside this circle, there are several concentric, slightly offset chevron-like shapes made of parallel lines, creating a sense of depth and movement.

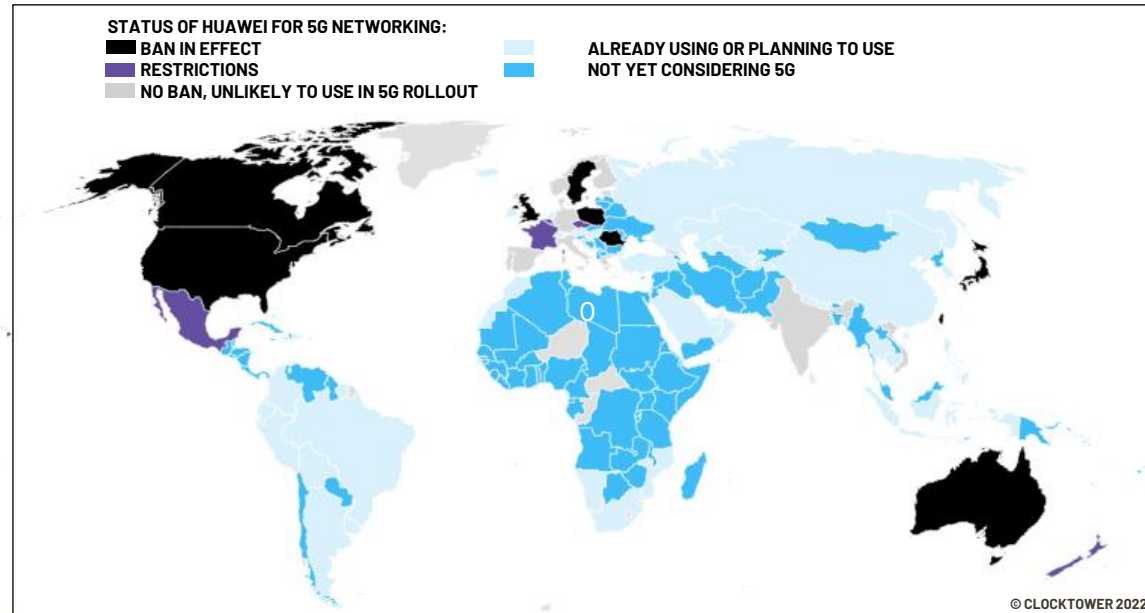
Cold War Is a Lazy Analogy: Global Multipolarity and Constraints on the US



US Constraints | America Will Struggle to Produce...

... a coalition of the willing against China. European allies simply do not see China as a serious enough of a threat necessitating a response analogous to the fight against the USSR.

George W. Bush Laughs at Your Coalition of the Willing



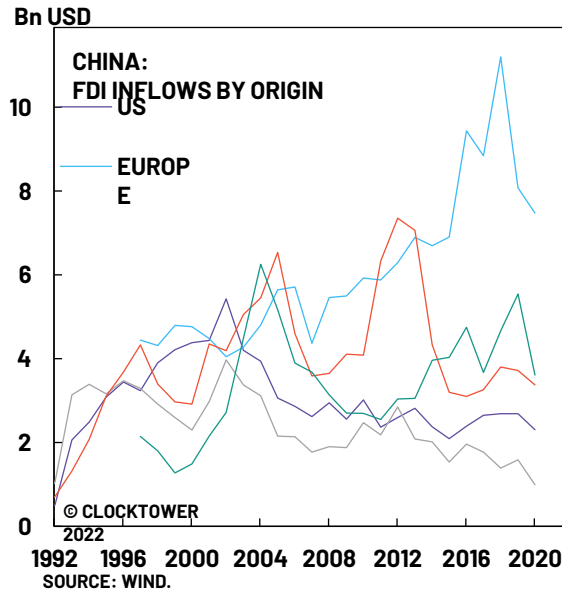
SOURCE: COUNCIL ON FOREIGN RELATIONS.



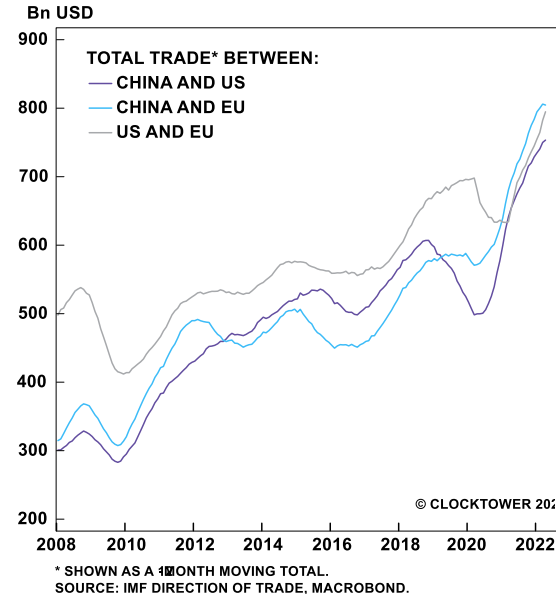
US Constraints | Europe Sees China as an Opportunity

Europe has not bought into the US view of China. While the EU has called China a “rival,” it continues to trade and invest in the economy.

Europe Has Replaced Japan/Taiwan/US...



...As China's Main Economic Partner

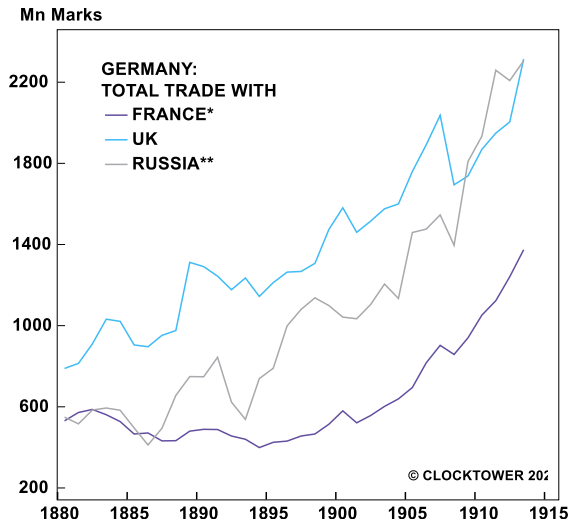




US Constraints | This Is a Replay of the 19th Century

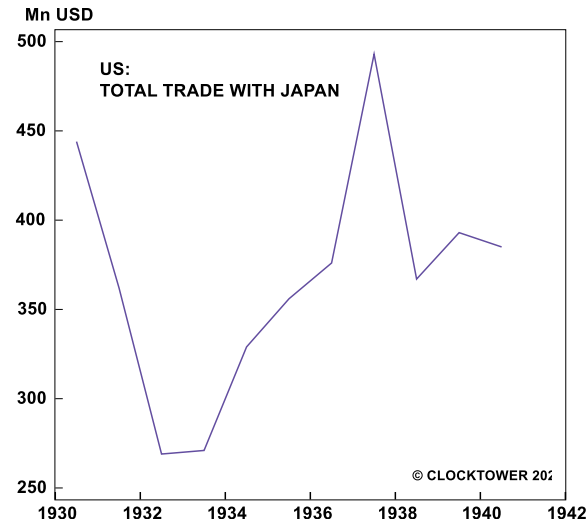
A multipolar global ordering of power does not lead to neatly decoupled economic spheres.
Both history and political science teach us that trade between enemies continues.

A Trade War Did Not Precede World War One...



* INCLUDES ALGERIA AND TUNISIA UNTIL 1897.
** INCLUDES FINLAND UNTIL 1897.
SOURCE: B.R. MITCHELL, INTERNATIONAL HISTORICAL STATISTICS, EUROPE 1750-1988, MACROBOND.

... Nor World War Two



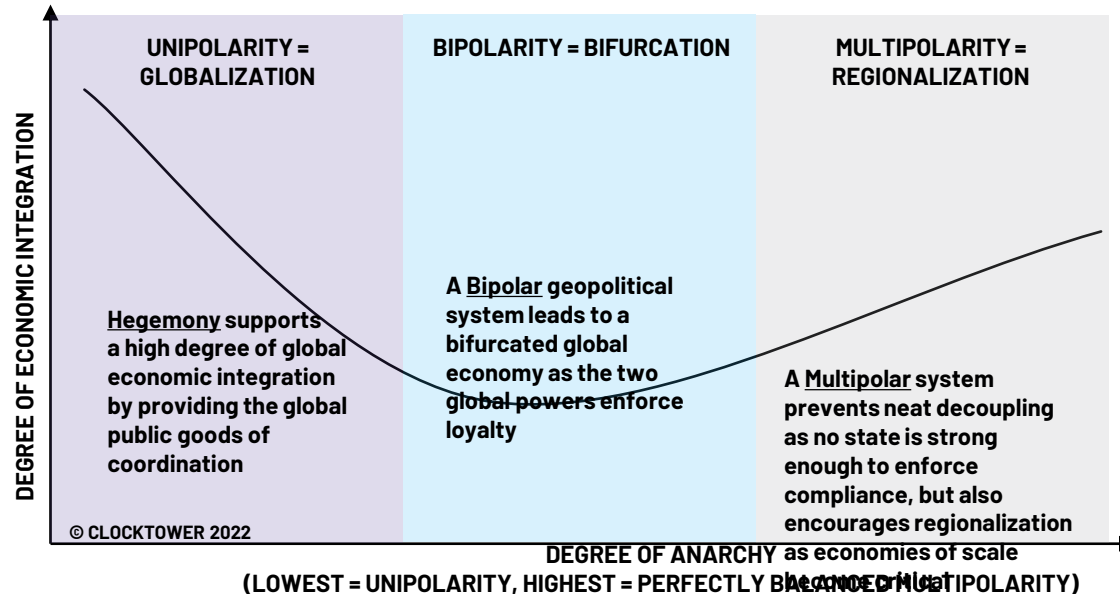
SOURCE: INTERNATIONAL HISTORICAL STATISTICS: THE AMERICAS 1800-1950
B.R. MITCHELL, MACROBOND.



US Constraints | Multipolar Geopolitics

Is the world then hurtling towards the inevitability of a Cold War? No. The Cold War is a lazy and overused analogy. In a multipolar global context, a bifurcated world is unlikely.

Neat Decoupling Is Not Compatible with Multipolarity

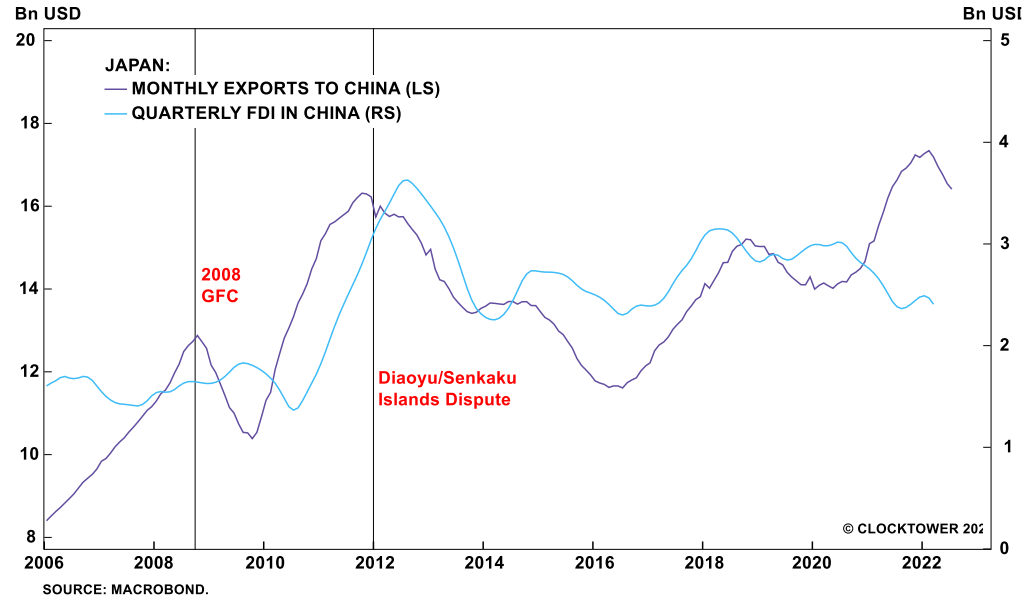




US Constraints | Not Just A 20th Century Phenomenon

Japan has similarly avoided decoupling from China over the course of the past decade, despite significant tensions – and rising nationalism in both countries.

Japan Has Avoided Bifurcation from China

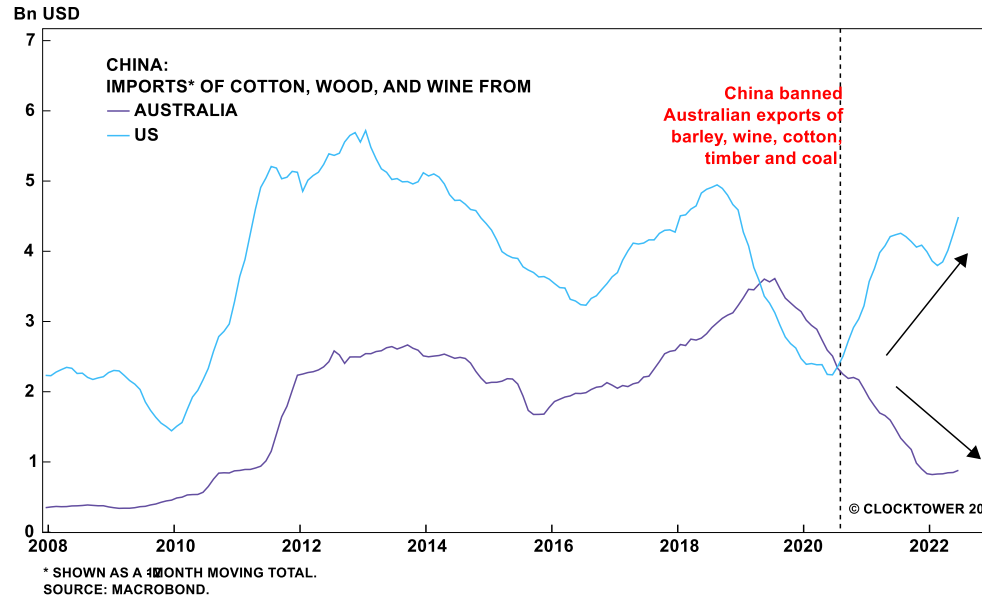




US Constraints | Misjudging Multipolarity Is Folly!

The one country that does not understand that the world is multipolar is Australia. Its “loss” has been America’s “gain,” its purportedly strongest ally. That is multipolarity at work.

With Friends Like These... Who Needs Enemies?

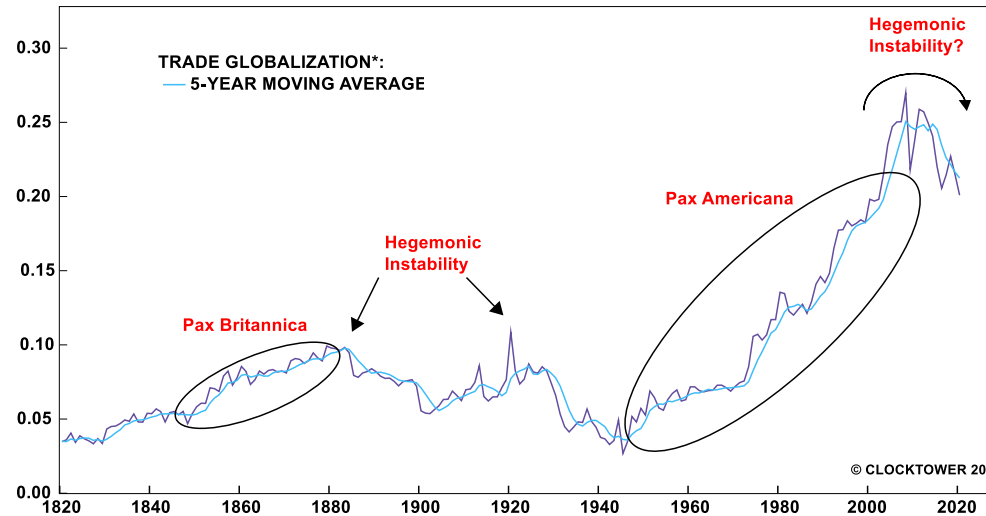




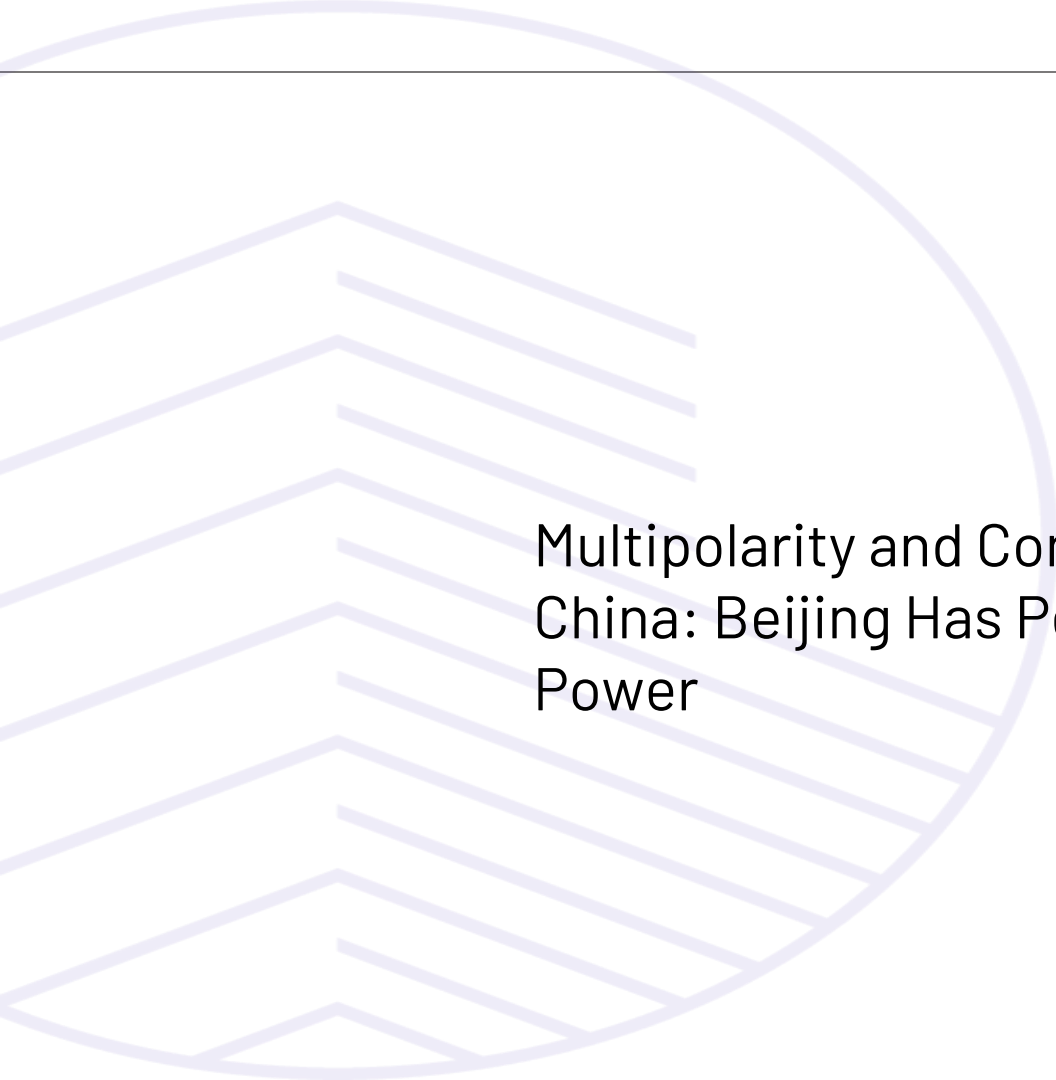
US Constraints | Globalization Is *Not* the Norm

That said, globalization will not proceed as before, given multipolarity. Without a hegemon to provide the expensive global public goods, globalization will fray, but not collapse completely.

We Are Living Through the Apex of Globalization



* TRADE GLOBALIZATION IS MEASURED BY IMPORTS AS PERCENTAGE OF GDP WEIGHTED BY POPULATION
SOURCE: MACROBOND, BCA RESEARCH, CHASE C., KAWANO Y., AND BREWER B., "TRADE GLOBALIZATION SINCE 1791: A REASSESSMENT OF THE WORLD SYSTEM," AMERICAN SOCIOLOGICAL REVIEW, VOL. 65, NO. 1 AND CLOCKTOWER ASSOCIATIONS

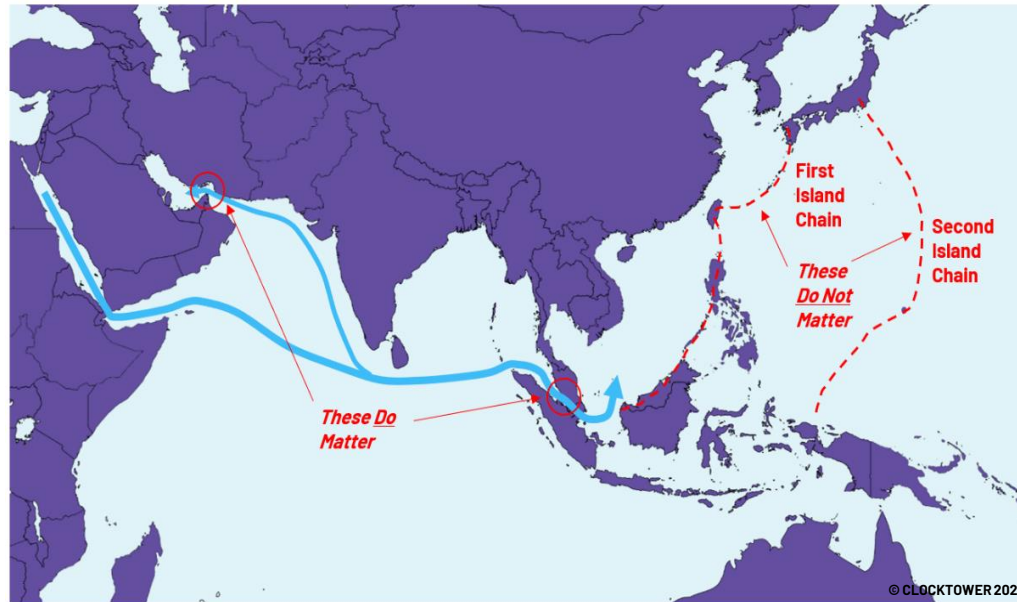
A large, stylized graphic on the left side of the slide. It consists of a large circle containing several concentric, slightly offset lines that form a series of nested, elongated shapes, resembling a stylized 'E' or a series of parallel lines curving around a central point.

Multipolarity and Constraints on China: Beijing Has Peaked as a Global Power



Peak China | China's Trap #1: Geography

Many geopolitical strategists talk of First & Second Island Chains... this is all nonsense.
China's geographic fulcrum is half the planet away: The Strait of Hormuz.

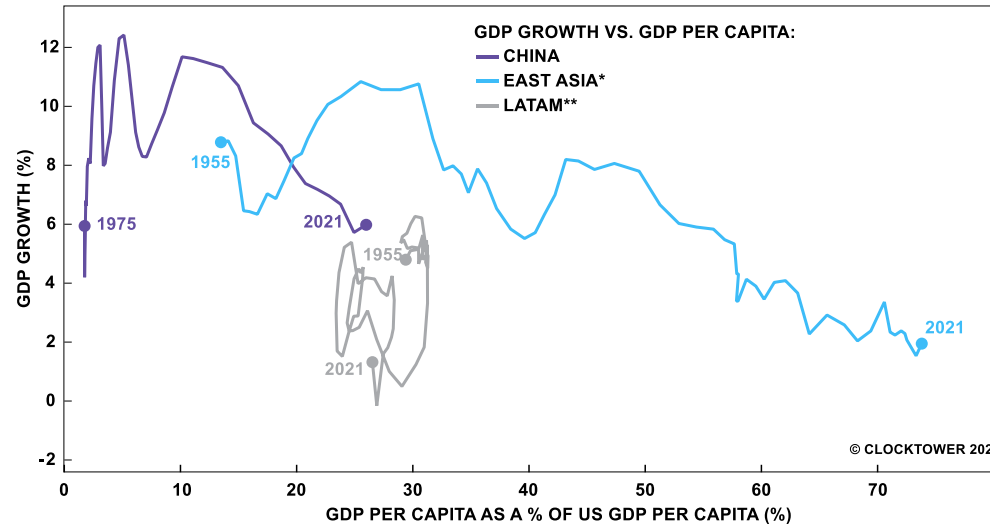




Peak China | China's Trap #2: The Middle-Income Trap

China's productivity growth is declining, a dire outcome that will result in the country potentially being trapped in the middle income. **China needs to avoid the middle-income trap.**

China Is Too Poor to Get Stuck in the Middle-Income Trap



* AVERAGE OF JAPAN, SOUTH KOREA, AND TAIWAN.

** AVERAGE OF ARGENTINA, BRAZIL, CHILE, COLOMBIA, ECUADOR, GUATEMALA, MEXICO, AND PERU.

NOTE: ALL SERIES SHOWN AS 5-YEAR MOVING AVERAGE.

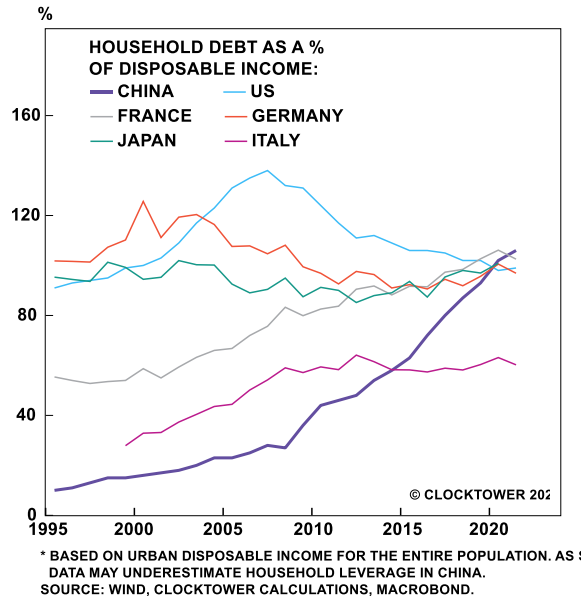
SOURCE: CONFERENCE BOARD TOTAL ECONOMY DATABASE, BCA RESEARCH, MACROBOND.



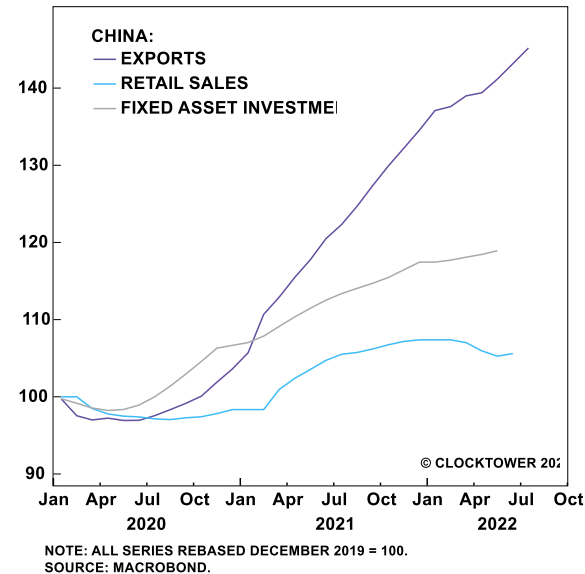
Peak China | Exports Are the Only Thing that “Works”

The private sector is at the end of its debt supercycle and policymakers are pushing on a string. The only source of growth for China are exports, which means the economy is leveraged to foreign demand.

Chinese Private Sector Is Leveraged...



...Forcing Beijing to Depend on Foreign Demand

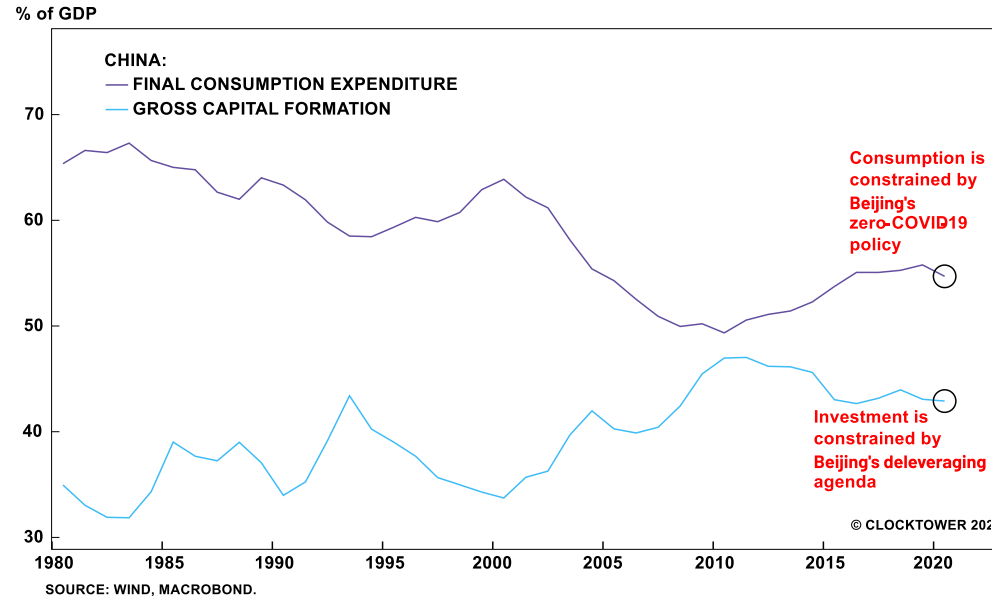




Peak China | Beijing Has to Pivot Towards Investment

Exports won't be healthy forever, forcing Beijing to choose between leveraging the private or public sectors. Given constraints to private sector, **we expect public investment to surge in 2023.**

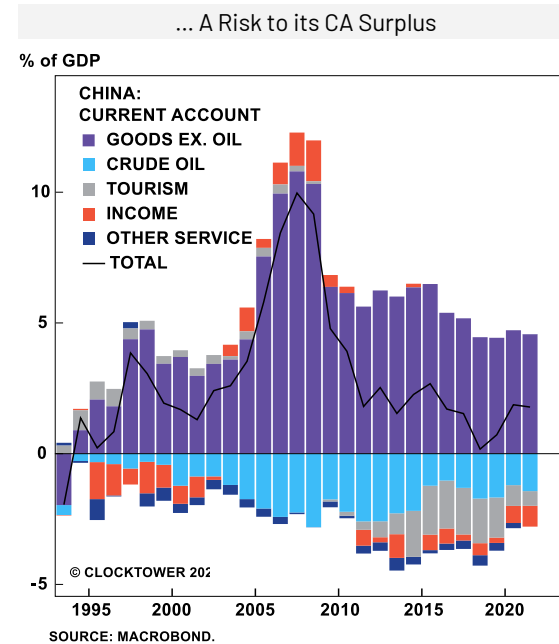
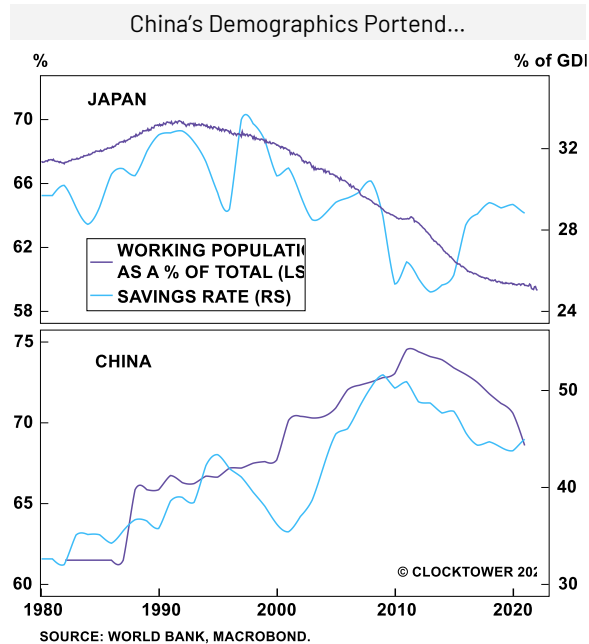
A Hard Choice for Beijing





Peak China | Trap #3: Demographics Are A Risk to the BoP

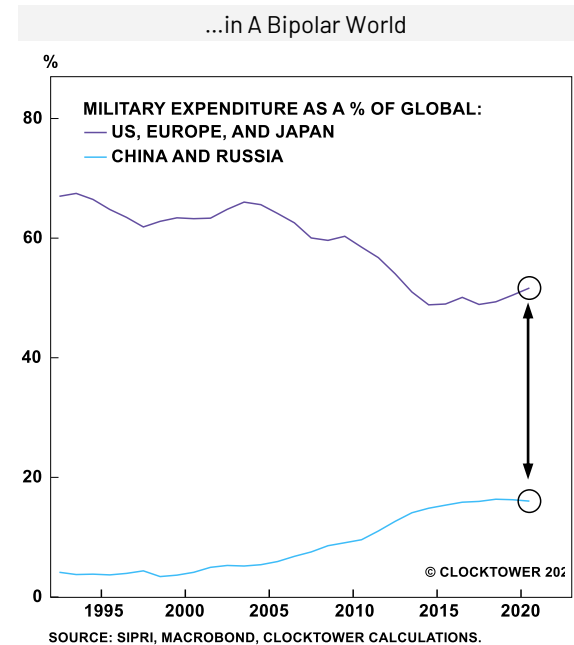
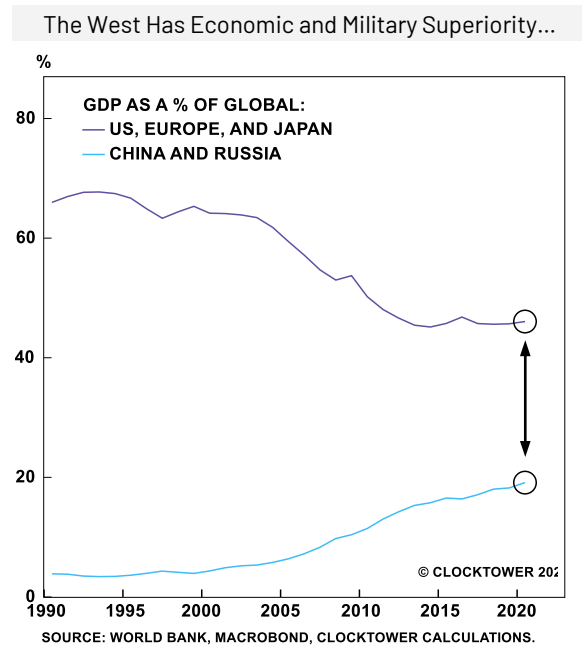
If $Y = C + I + G + NX$, and $S = Y - (G + C)$, then $S - I = NX = CA$. Math story put simple:
China's demographics will guarantee to tip the country into a CA deficit.





Peak China | Will China Usher in A Bipolar World?

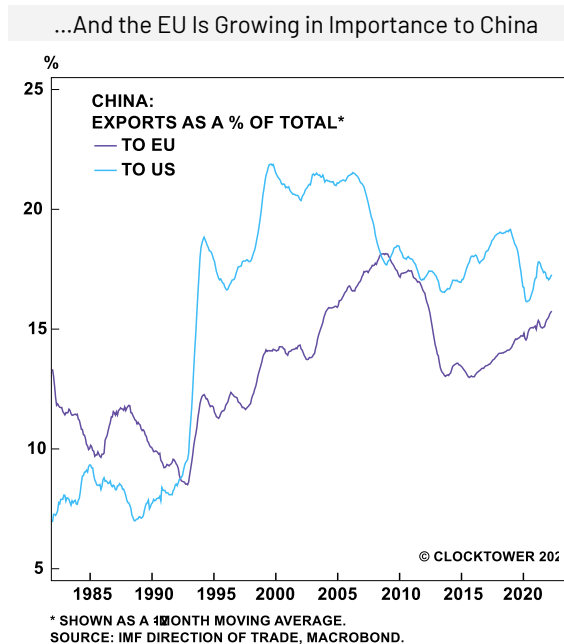
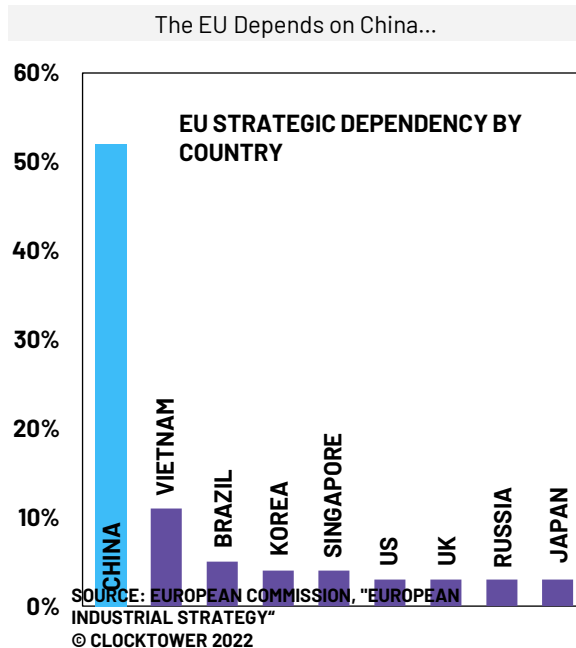
If Beijing takes the Russian side and isolates itself from the EU, it may create the conditions for the world to evolve from a multipolar distribution of power to a bipolar one.





Peak China | The Importance of Sino-EU Relationship

The value of bilateral trade between China and the EU is now the world's largest, with China's export dependence on the European market gradually growing to match that of the US.

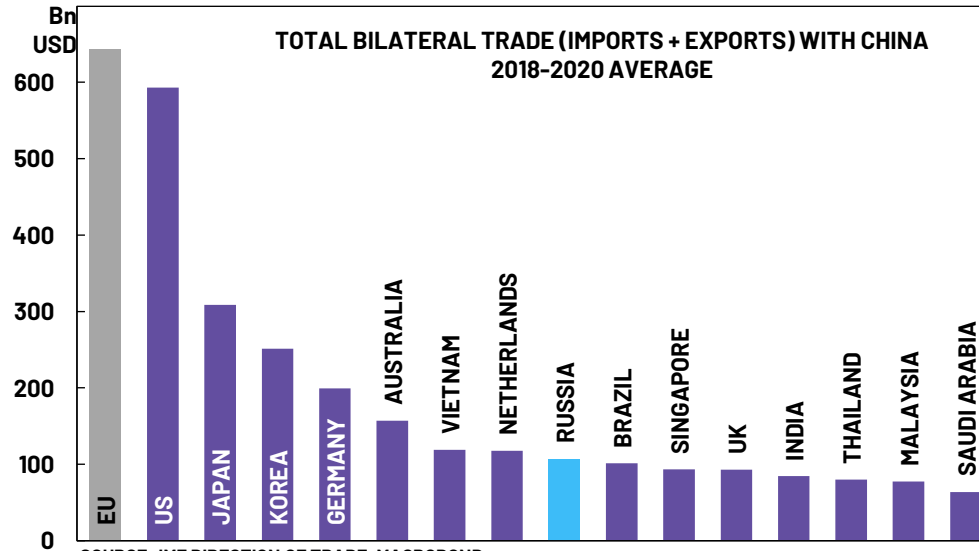




Peak China | Less Substance in Sino-Russia Partnership

The substance of the Sino-Russia comprehensive strategic partnership is far less significant than many think, particularly in the West.

Russia Is Not Even in the Top Five Trading Partners of China



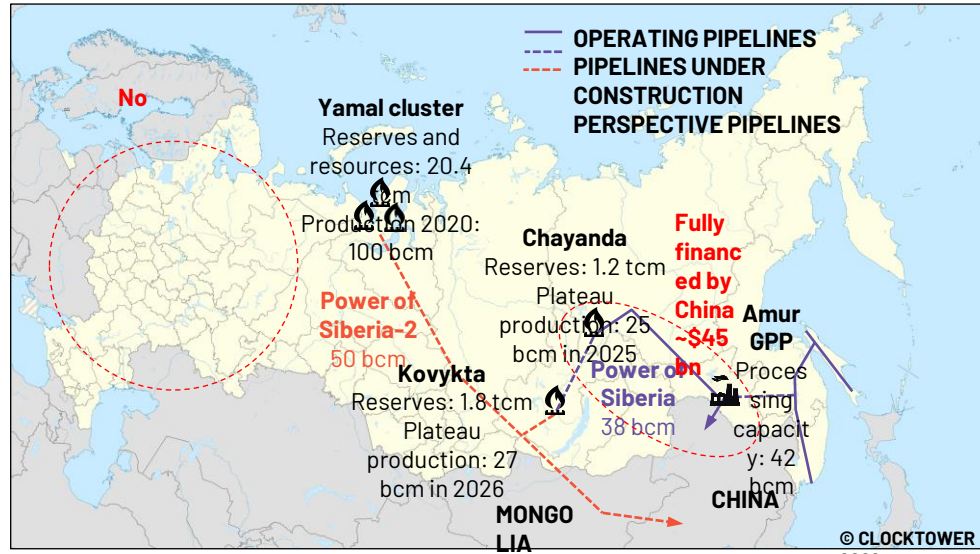
SOURCE: IMF DIRECTION OF TRADE, MACROBOND.
© CLOCKTOWER 2022



Peak China | Russia-China Infrastructure Links Are Paltry

Infrastructural needs for a robust Sino-Russian relationship are huge. They have not been built yet. Getting Yamal Peninsula gas to China would be one of the greatest infra projects ever attempted.

Russia-China Infrastructure Links Are Paltry



SOURCE: SONNENFELD, JEFFREY AND TIAN, STEVEN AND SOKOLOWSKI, FRANEK AND WYREBKOWSKI, MICHAL AND



Peak China | When Was the Last Time You Focused on SCS?

While China's focus on Taiwan and Hong Kong has increased, its aggressive posture towards neighbors – Japan, Malaysia, Philippines, Vietnam, etc. – **has been toned down**. Beijing has trimmed its ambitions.

South China Sea Has Not Been Relevant Since 2016!



A large, light purple decorative graphic on the left side of the slide. It consists of a large circle containing several concentric, slightly offset lines that form a series of nested, elongated shapes, resembling a stylized 'S' or a series of chevrons.

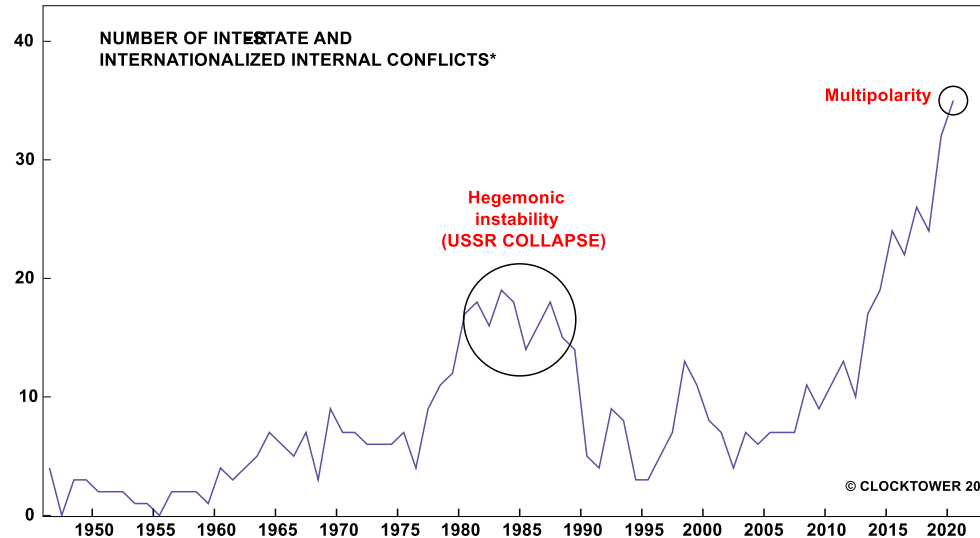
So What?



So What? | Multipolar World Is Fraught With Risks

Geopolitical conflict is more likely in a multipolar world for a number of reasons, both theory and empirics support this view. Nation states will seek to bolster their defenses and alliances.

Multipolarity Leads to Higher Odds of Conflict

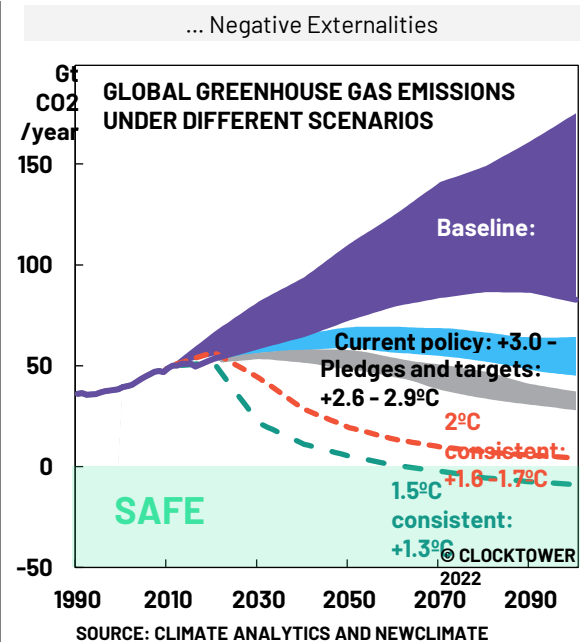
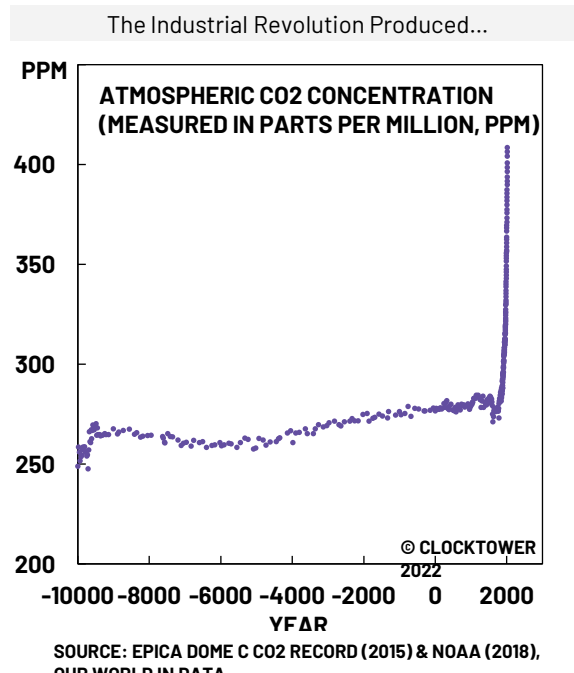


* DEFINED AS THE NUMBER OF CONFLICTS BETWEEN TWO TYPES OF DYADS (PAIRS): INTERSTATE CONFLICTS INVOLVING TWO STATES AND INTERNATIONALIZED INTERNAL CONFLICTS WHICH INVOLVE A STATE AND ORGANIZATION SUPPORTING THE STATE.
SOURCE: UPPSALA CONFLICT DATA PROGRAM.



So What? | From *Race to Scale*...

The global *Race to Scale* was made possible by the two Industrial Revolutions. It ultimately produced negative externalities, such as pollution and – ultimately – two World Wars.

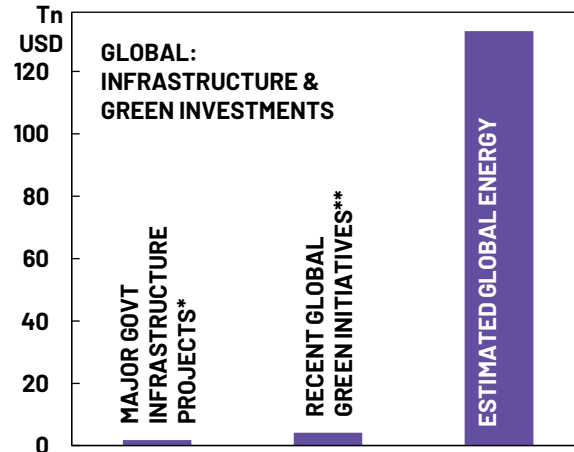




So What? | ... To *Race to Zero*

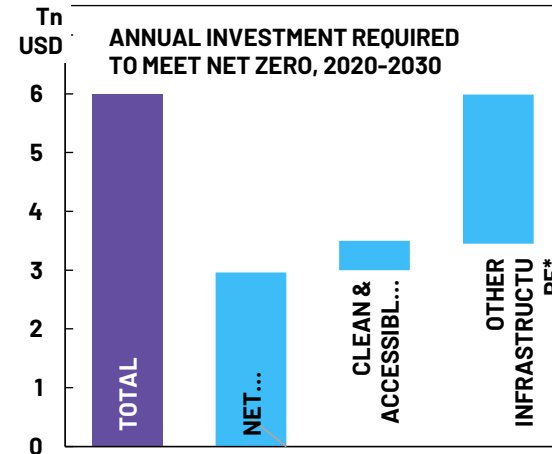
The capex necessary to ensure the transition to green energy will have to be gargantuan. Not only will capex need to support green energy, but also to maintain current supplies of old energy sources.

Green Transformation Requires Massive Investment...



* INCLUDES US INTERSTATE HIGHWAY SYSTEM, SAUDI ARABIA'S NEOM, XIONG'AN NEW AREA, THE APOLLO PROGRAM, THE GREAT WALL OF CHINA, CHINA THREE GORGES DAM, MANHATTAN PROJECT, PANAMA CANAL, SUEZ CANAL, AND US TRANSCONTINENTAL HIGHWAY.

... Annual Estimate Is \$6 Trillion

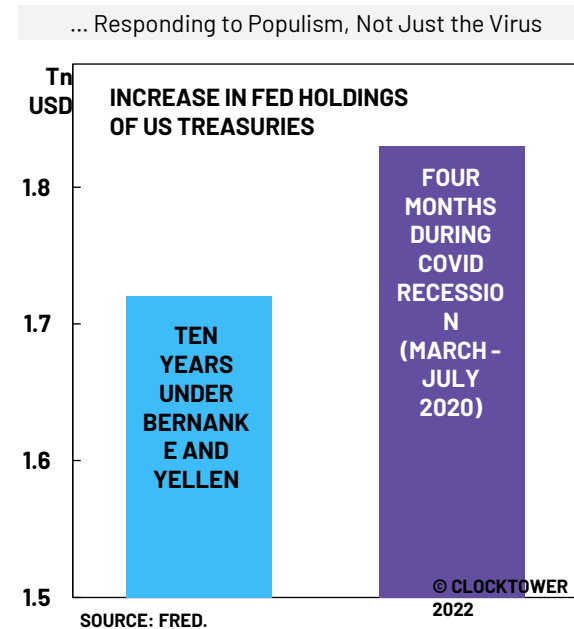
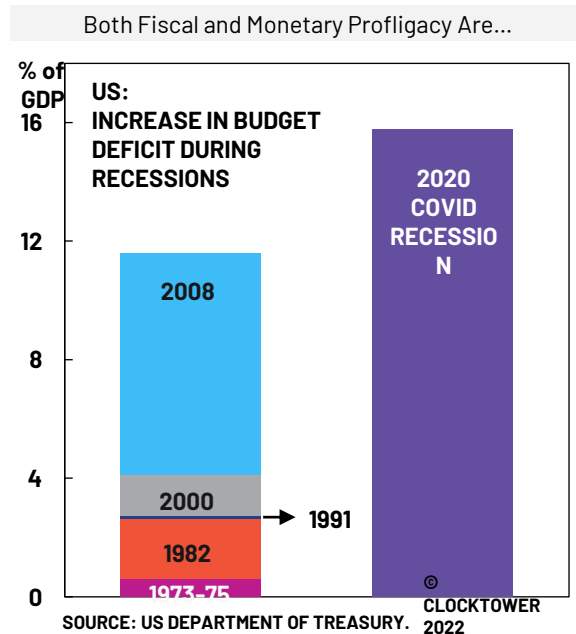


* INCLUDES TELECOMMUNICATIONS, AIRPORTS, PORRTS, RAILWAY, AND ROADS.
SOURCE: IEA, OECD, MCKINSEY & COMPANY, GOLDMAN SACHS GLOBAL INVESTMENT RESEARCH.
© CLOCKTOWER 2022



So What? | The Pandemic Did Not Cause the Stimulus

While it is impossible to prove, we would argue that policymakers would have responded to *any* recession with gargantuan stimulus. **When the pandemic dissipates, unorthodoxy will not.**

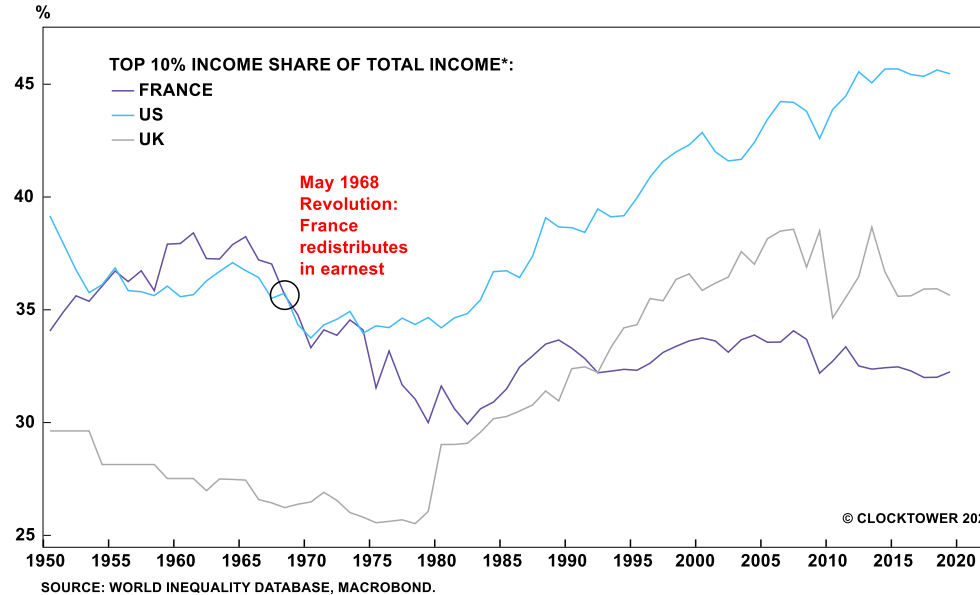




So What? | A BAC Bull Market

Underpinning this cycle is our most important paradigm: the Buenos Aires Consensus. It represents a shift from the macro-orthodoxy of the Washington Consensus to... something else.

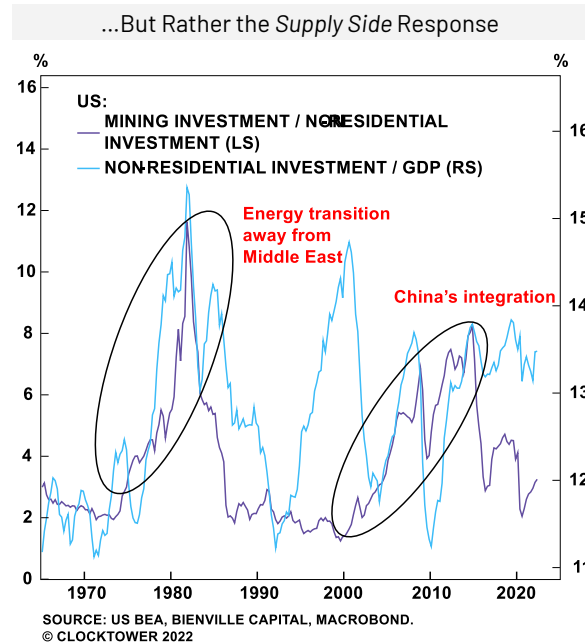
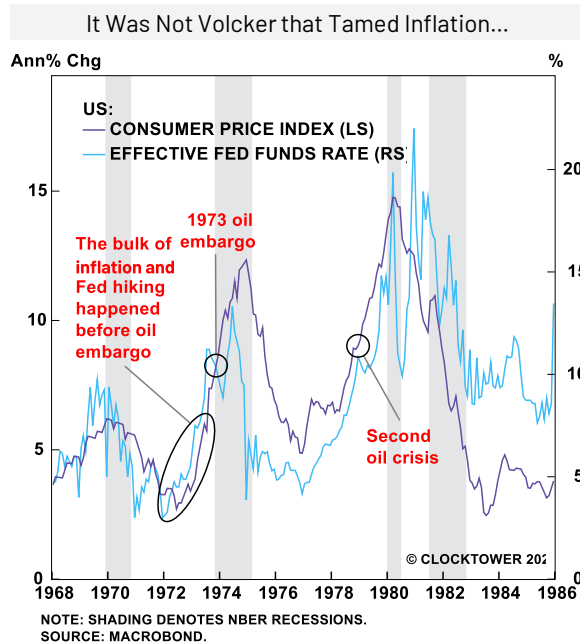
The Most Important Chart in this Chartpack





So What? | Inflation Is Not Going Away Without Capex

Investors put too much emphasis on monetary policy when thinking about inflation. What the world needs is *capex*, not demand control. A massive capex boom is necessary to resolve supply problems.

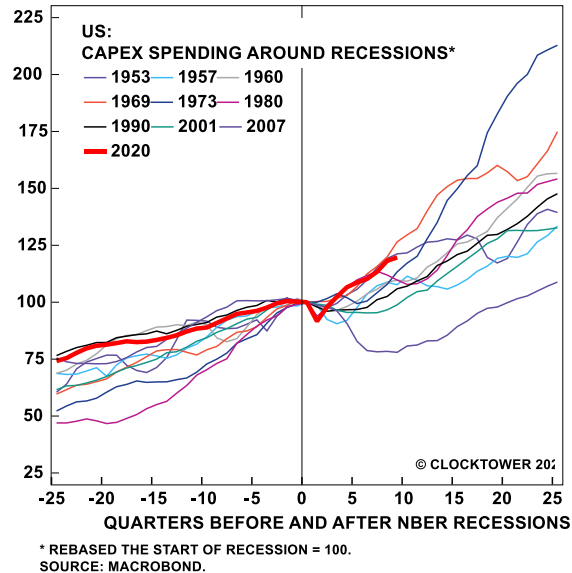




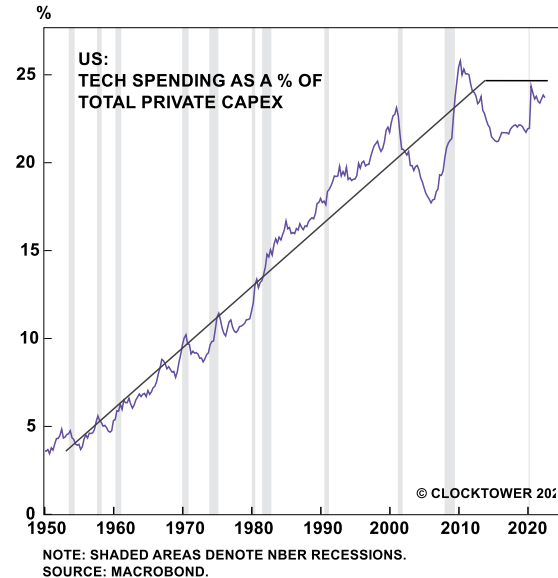
So What? | And that Capex Is Already Here

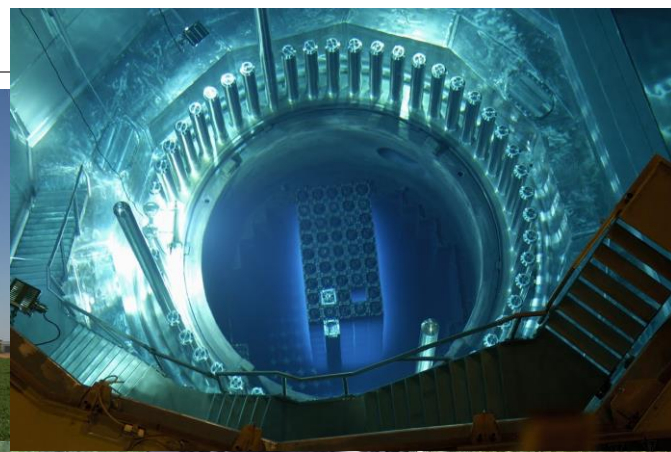
This cycle has already seen an upturn in capex, although energy and mining capex still lags. Intriguingly, **capex in tech is weak, and actually *has been weak since 2010***.

The Capex Surge Dwarfs Previous Cycles...



...But Not Necessarily in Tech



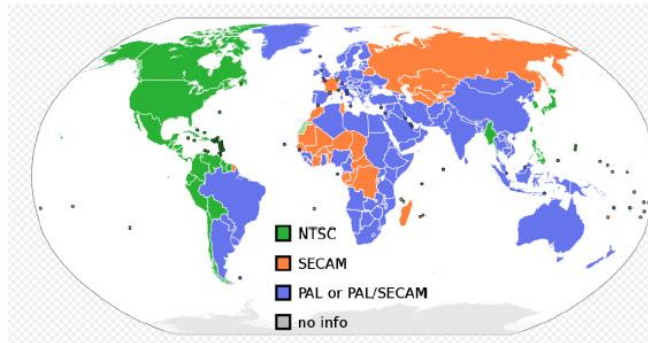




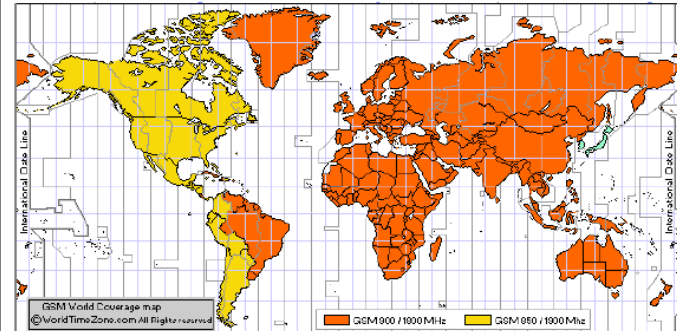
So What? | Some Level of “Decoupling” Is Inevitable

China and the US will continue to diverge on 21st century goods and services.
But this is not a risk, it is an investment opportunity. Trade and capital flows will continue.

Remember When VHS Tapes...



...And Cell Phones Could Not Travel?

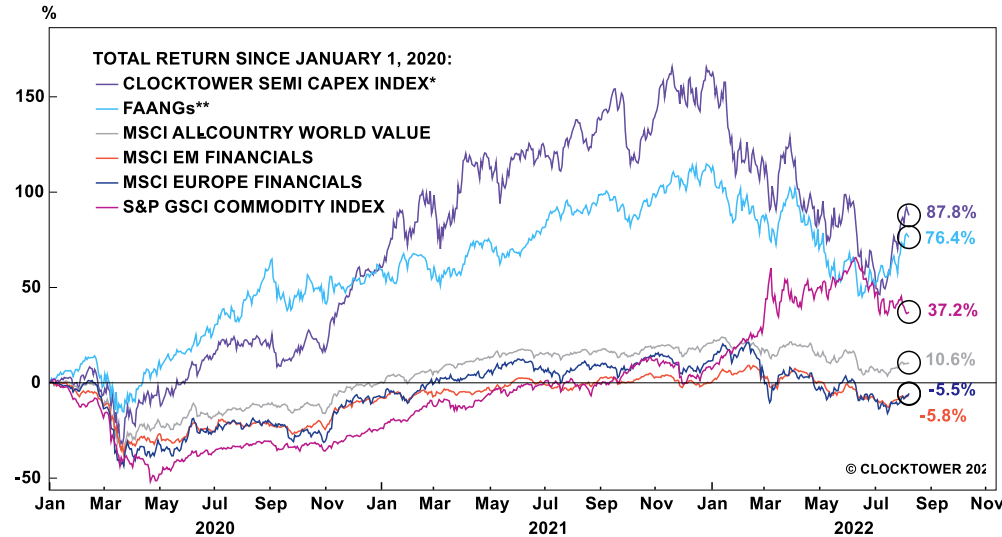




So What? | But Decoupling Will Be *Nuanced*

Capex plays are a clear winner of nuanced decoupling. As manufacturing becomes geopolitically bifurcated, capex players will win by selling to both China and the West!

Our Highest Conviction View Since 2019 Is Working Out



* INCLUDES AMAT, LRCX, KLAC, MKSI, AEIS, BRKS, TER, ASML, TOELY.

** INCLUDES APPLE, ALPHABET, AMAZON, META, AND MICROSOFT.

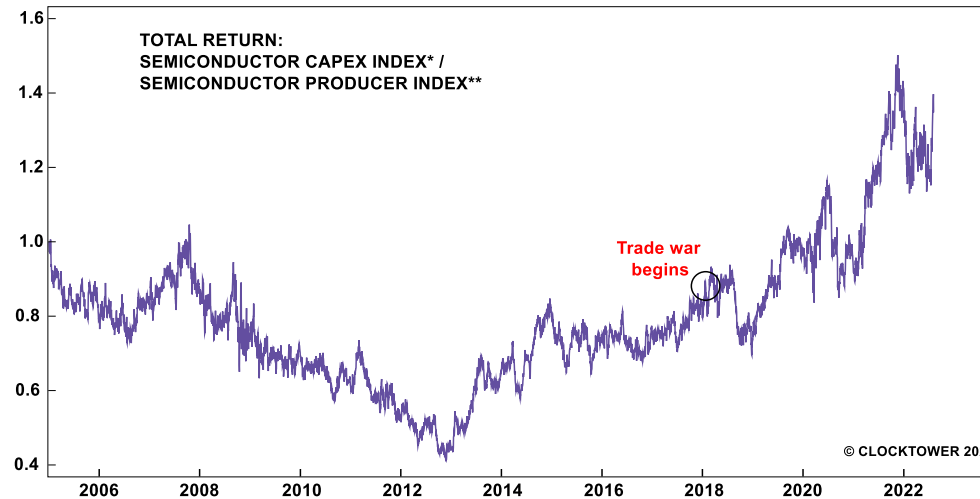
SOURCE: MACROBOND.



So What? | Long Capex, Short Producers

Manufacturers are the biggest losers as they will have to dip into revenues to build out new capacity according to the whims of Washington and Beijing. Long Capex, Short Producers.

Long Capex, Short Producers



* INCLUDES AMAT, LRCX, KLAC, MKSI, AEIS, BRKS, TER, ASML, TOELY.

** INCLUDES TSMC, SAMSUNG, UMC, SMIC.

NOTE: BOTH SERIES REBASED TO JANUARY 1, 2005 = 100.

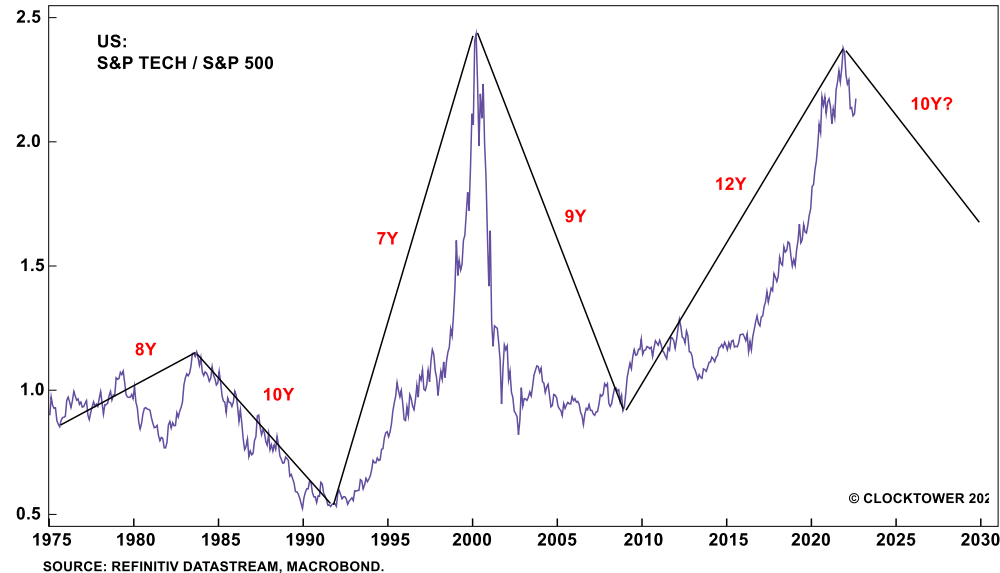
SOURCE: MACROBOND.



So What? | The Tech Party Is Over

The epic run for tech is over. And not just for unprofitable tech. *All* tech. Tech is a sector finely tuned to the disinflationary era of the past decade. We are no longer in that decade. Act accordingly.

Look Out Below

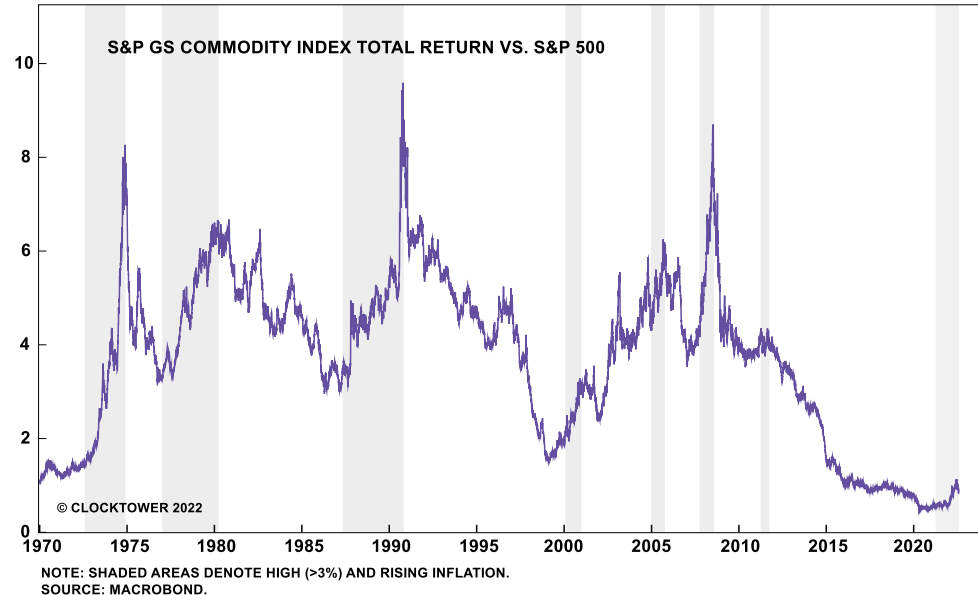




So What? | We Are in a Commodity Supercycle Decade

The 2020s will be characterized by a decade of building stuff out of atoms, not bytes. **As such, invest in commodities on a long-term horizon, even if they are overstretched in the short-term.**

A Decade of Atoms





Ukraine Is a Symptom of Multipolarity



Tactical | Russia's Quagmire Is Not Going Anywhere

Geopolitical risk premium associated with Ukraine no longer makes any sense.

The war is entering a stasis, one from which Putin must untangle Russia.

Russia Has Withdrawn from all of the North...



SOURCE: INSTITUTE FOR THE STUDY OF WAR.
© CLOCKTOWER 2022

...And its Gains in Donbas Are Pathetic



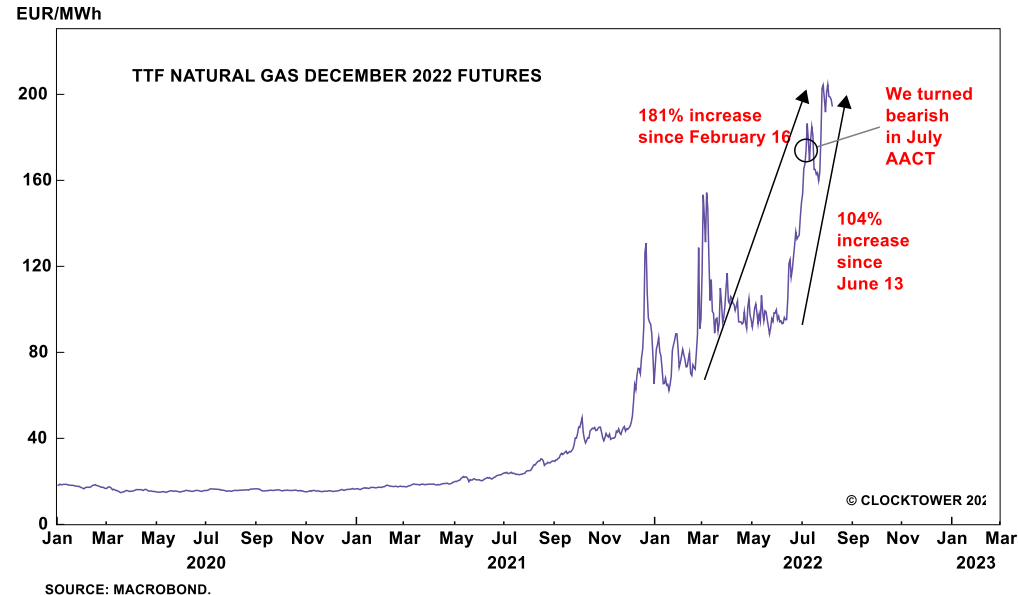
SOURCE: BBC, UK MOD / INSTITUTE FOR THE STUDY OF
WAR.



Gas Crisis | Markets Are Priced for Genius Putin, But...

...Is Russia really that smart?
Not according to our math.

Europe's Natural Gas Futures Are Priced for Armageddon

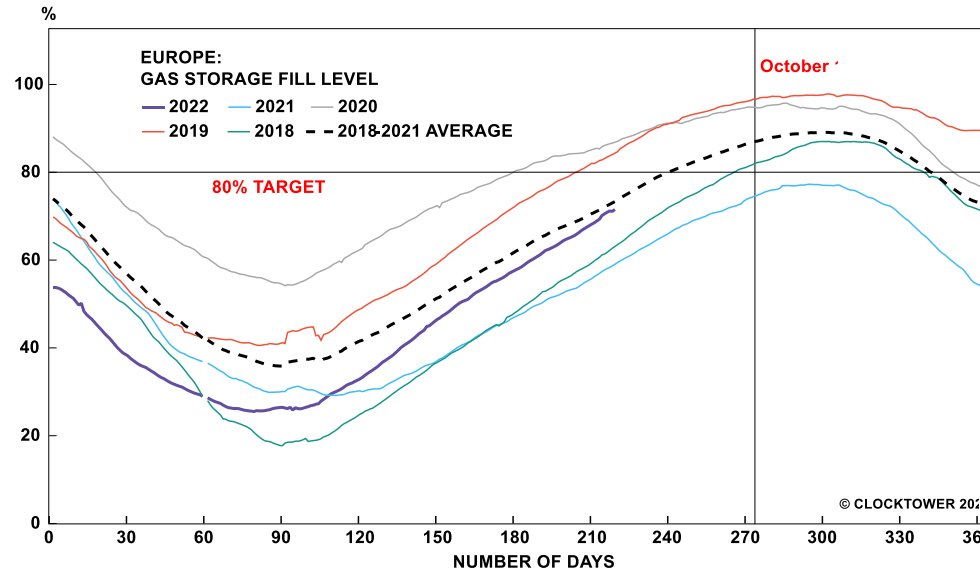




Gas Crisis | Europe Is Not Stupid

Europeans are on pace to hit their storage target, which should – *ceteris paribus* – allow them to get through the winter with minimal rationing of natural gas use.

The EU Is on Schedule to Hit its Storage Target

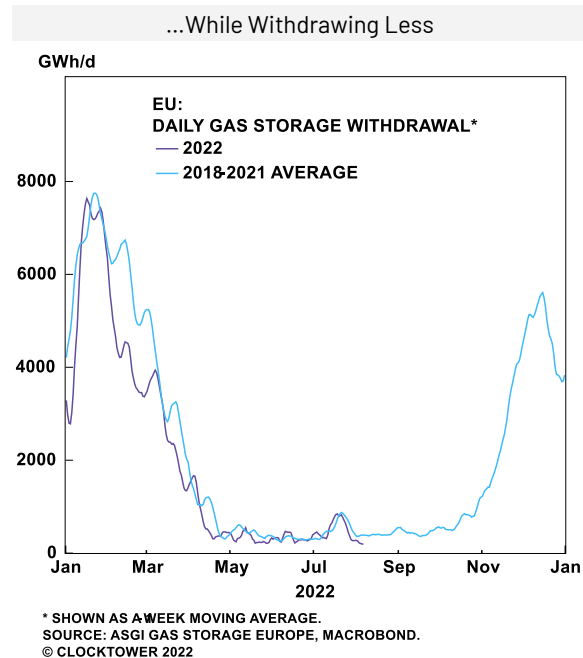
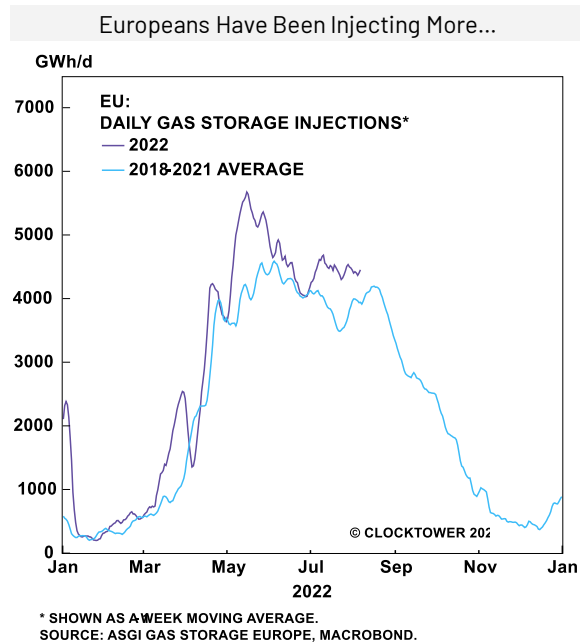


SOURCE: GIE, MACROBOND.



Gas Crisis | How Is that Possible?

Europe's injection and withdrawal trend this year shows that the EU has been intentionally building up a buffer since the war in Ukraine began. The media ignores this because it does not fit its neat narrative.

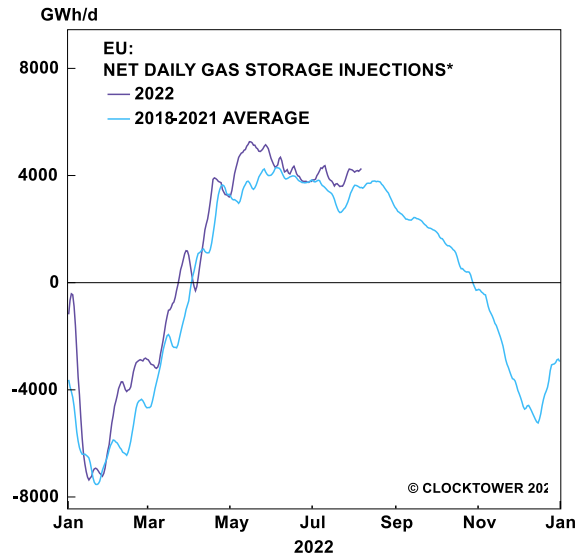




Gas Crisis | Europe Is Going to Be Just Fine this Winter

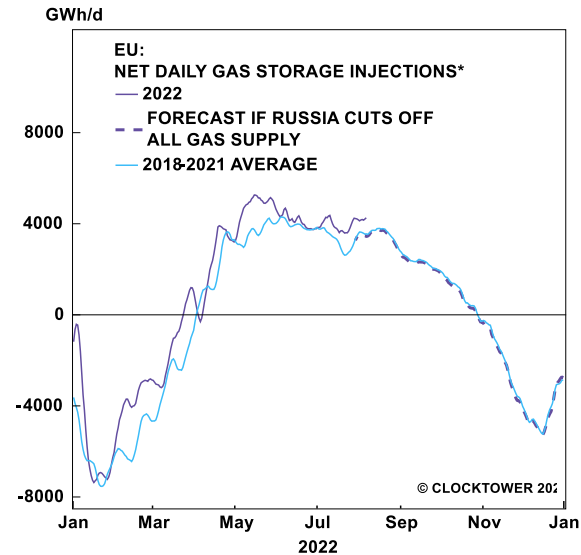
European net injections have been higher than normal, allowing the EU to fill its storage as planned.

Net Storage Injection Is Above Average...



* SHOWN AS A-WEEK MOVING AVERAGE.
SOURCE: ASGI GAS STORAGE EUROPE, MACROBOND.

...Which Means a Complete Cutoff Won't Do Much



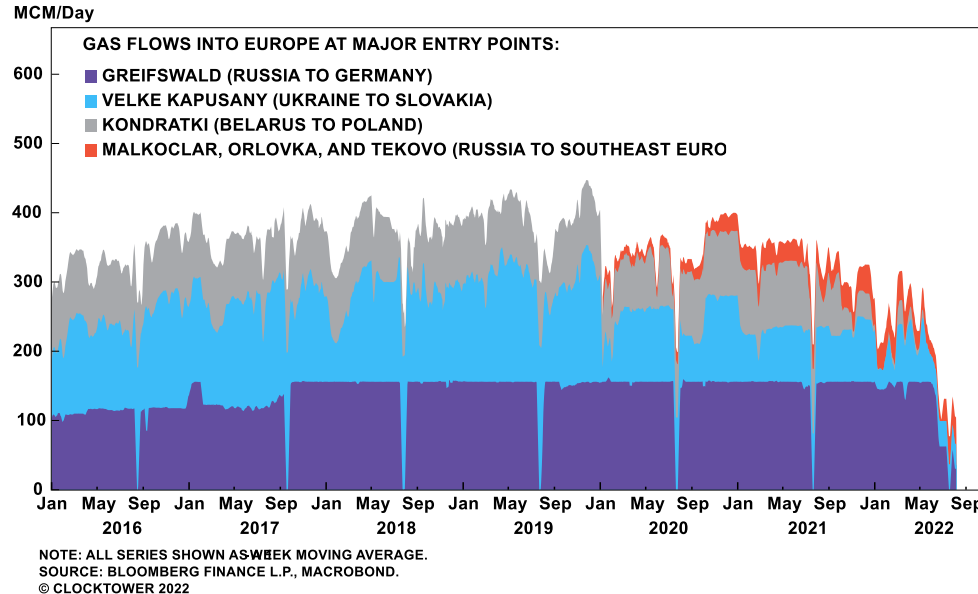
* SHOWN AS A-WEEK MOVING AVERAGE.
SOURCE: ASGI, MACROBOND, CLOCKTOWER CALCULATIONS.



Gas Crisis | Moscow Made a Mistake

Russia only began shutting off natural gas flows to Europe this summer, giving the EU enough time to squirrel enough into storage. Why didn't Moscow shut down all gas immediately in late February?

Russia Kept Flows to Europe Too High

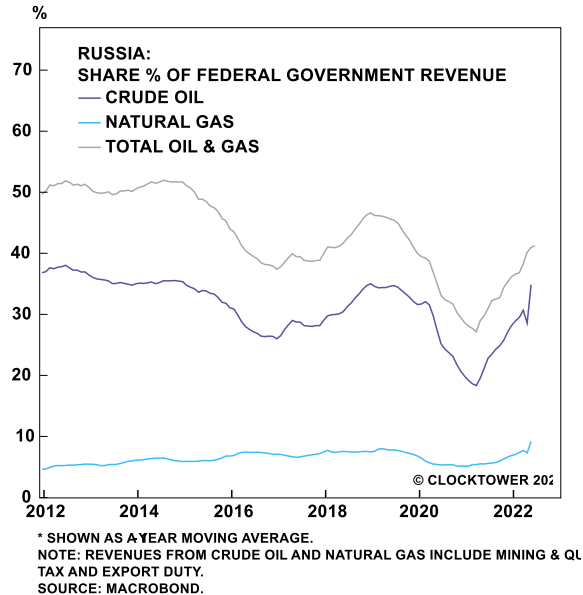




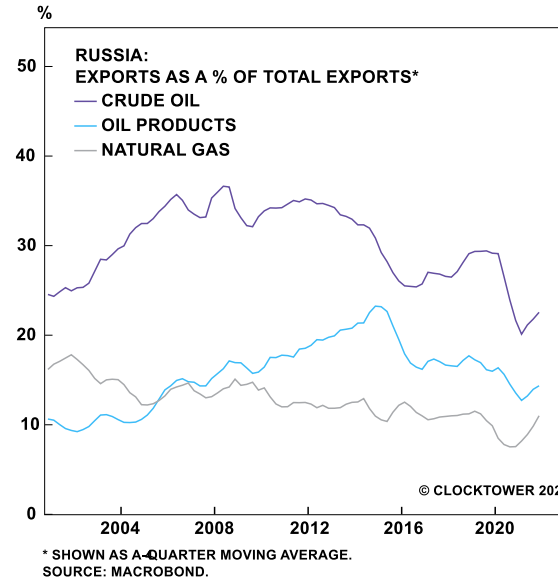
Gas Crisis | Why Did Russia Make the Mistake...

...When it supposedly does not need natural gas revenue? It is correct that natural gas accounts for “only” 10% of government revenue. However, sales to Europe are still \$55bn per year!

Moscow Does Not Depend on Natural Gas



Gas Trails Oil in Export Importance

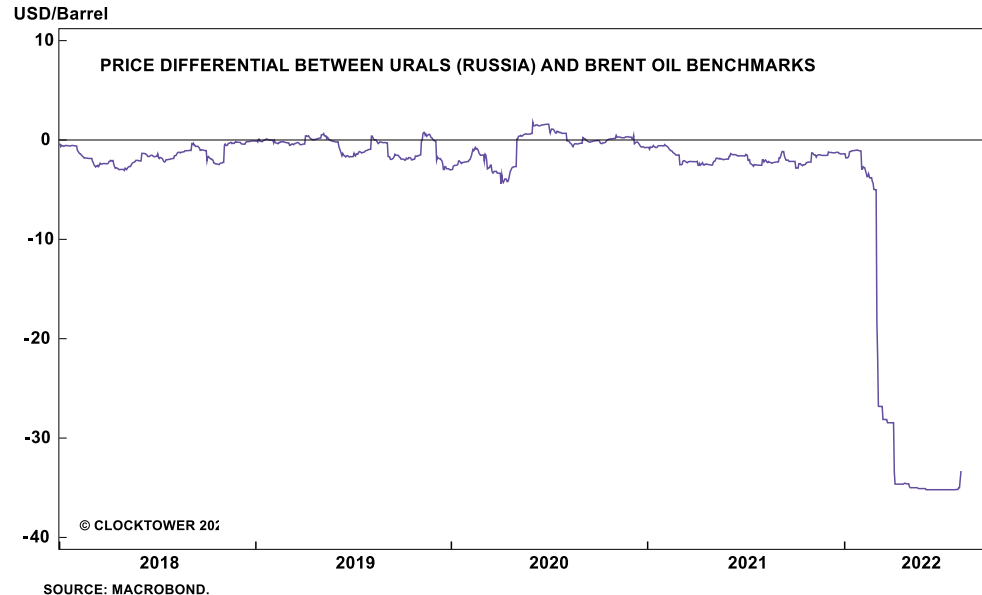




Gas Crisis | Does Russia Really Not Need the Revenue?

We doubt that Russia does not need natural gas revenue. Especially given the decline in revenues from oil sales. Furthermore, what kind of a regime is the Kremlin? Kleptocratic or Strategic?

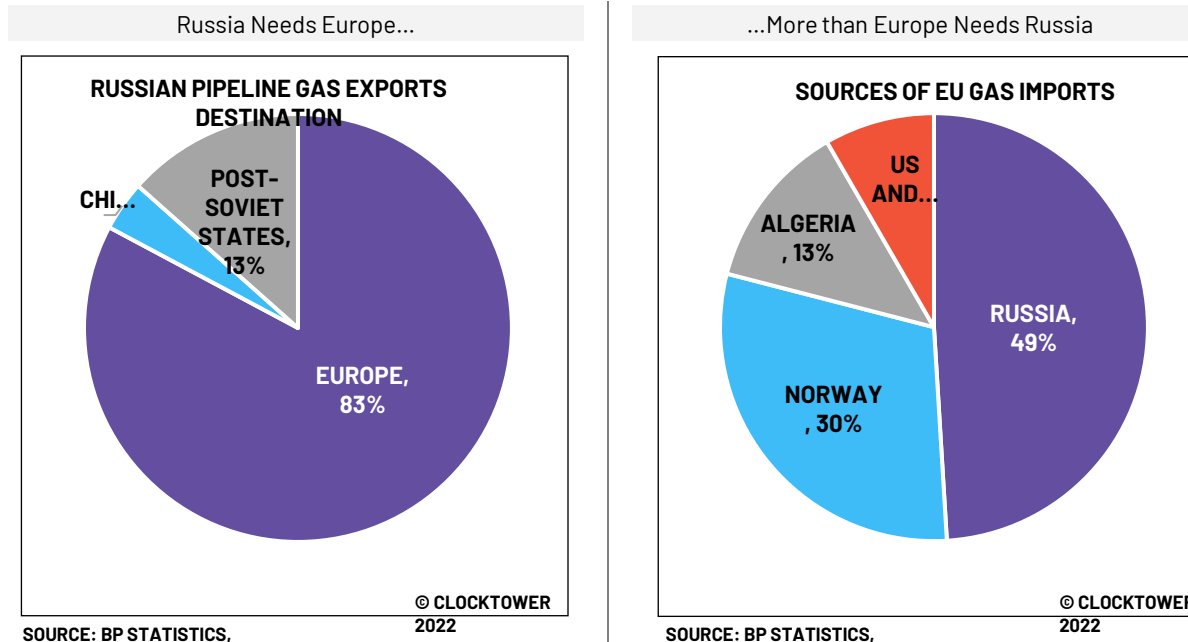
Oil Revenues Are Down Given the Discount on Ural Blend





Gas Crisis | Europe Has Putin by the Pipelines

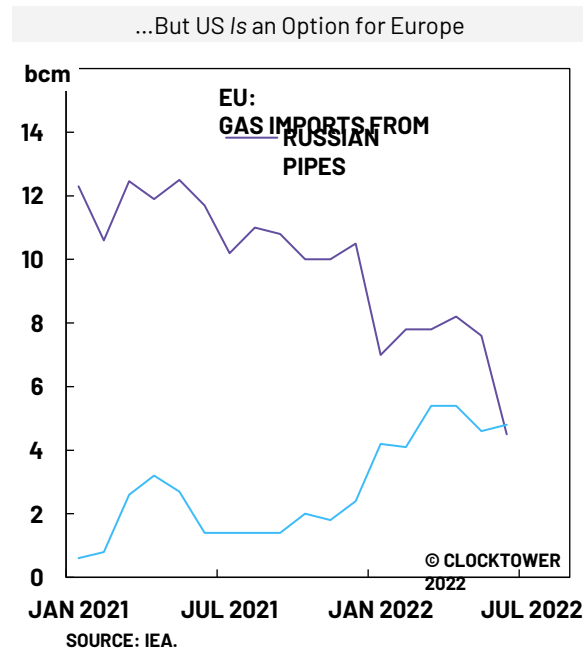
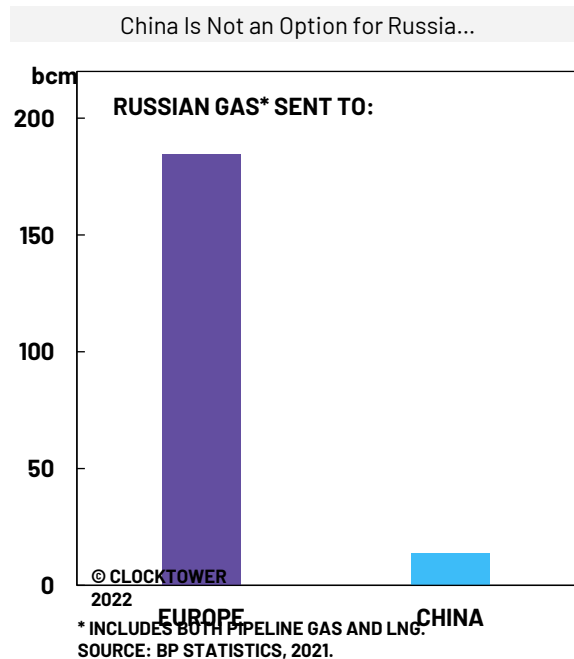
Despite supposedly not needing natural gas revenue, Moscow was still too late in cutting off gas. Why? We think it is because it *does* need the revenue. Russia is a kleptocratic regime, not a geopolitical one.





Gas Crisis | Russia Has No Alternative to Europe

While Europe can find alternatives to RUS supply, RUS cannot find alternatives to EU demand. As such, if the Kremlin wants its \$55bn (we know empirically it does), then it has to engage with the EU.





Gas Crisis | The Natural Gas Game of Chicken

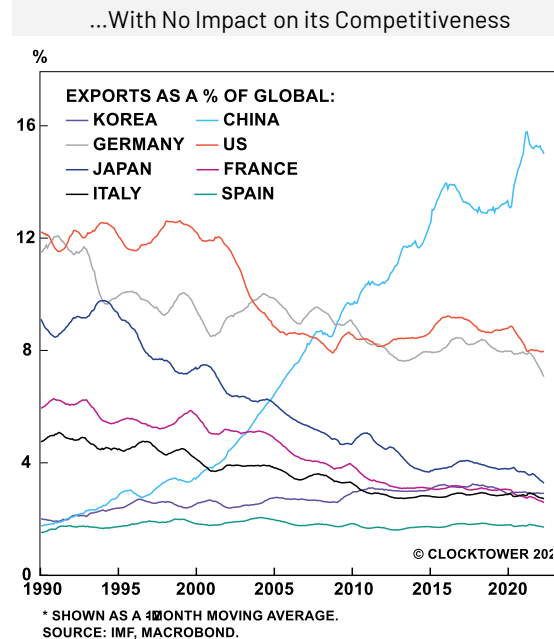
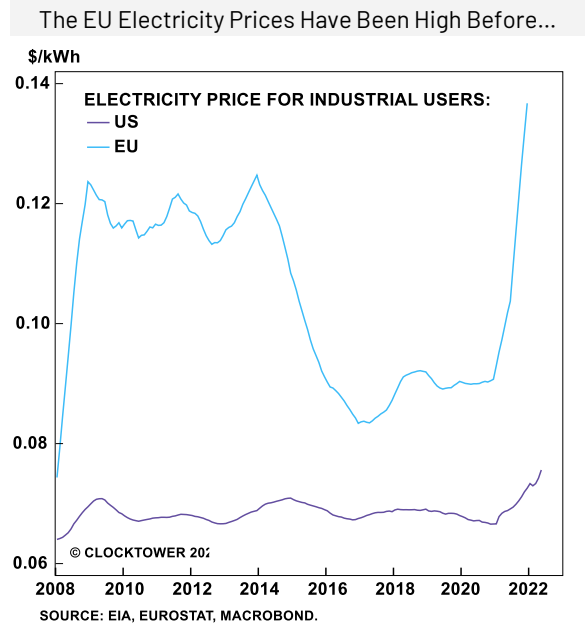
In the short term, Russia can impose some pain on Europe (but less than the conventional wisdom believes). In the long term, Europe has Russia by the pipelines.

The Game of Chicken...		...Adjusted for Reality!	
PLAYER A		EUROPE, DRIVING A G-CLASS MERCEDES-BENZ	
PLAYER B	SWERVE STRAIGHT	SWERVE STRAIGHT	SWERVE STRAIGHT
	(X, X) (TIE, TIE)	(X-1, X+1) (LOSE, WIN)	(X, X) (TIE, TIE)
STRAIGHT SWERVE	(X+1, X-1) (WIN, LOSE)	(X-10, X-10) (CRASH, CRASH)	(X-100%, X-10) (DEATH, BODY PAINT DAMAGE)
© CLOCKTOWER		© CLOCKTOWER	



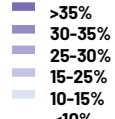
Gas Crisis | Europe Will Be Just Fine

In the long term, the current episode is the best thing that ever happened to Europe. It will find alternatives to Russian imports and focus on productivity gains, as it always has.





NATURAL GAS AS % OF PRIMARY ENERGY CONSUMPTION



**NATURAL GAS
IMPORT TERMINALS:**

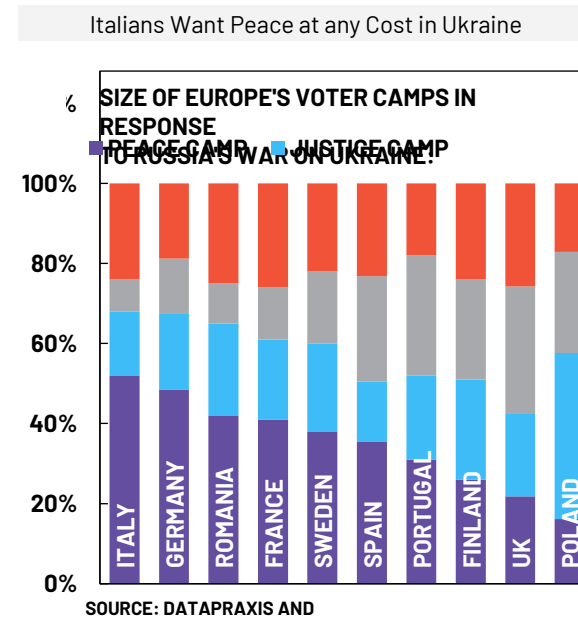
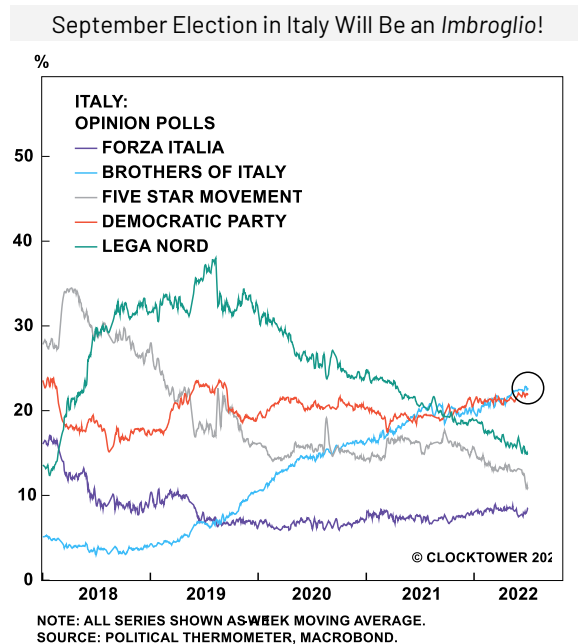
-
- Map of Europe showing the percentage of electricity generated from coal by country. The map uses a color scale from light yellow (0%) to dark brown (>85%).
- | Country | Percentage of Electricity Generated from Coal |
|------------------------|---|
| Iceland | 0% |
| Finland | 0% |
| Sweden | 14% |
| Denmark | 0% |
| Poland | 52% |
| Czech Republic | 36% |
| Slovakia | 8% |
| Hungary | 59% |
| Romania | 20% |
| Bulgaria | 36% |
| Greece | 40% |
| Italy | 46% |
| France | 59% |
| Germany | 39% |
| Netherlands | 10% |
| Belgium | 10% |
| Spain | 10% |
| Portugal | 10% |
| United Kingdom | 4% |
| Ireland | 0% |
| Switzerland | 0% |
| Austria | 0% |
| Slovenia | 0% |
| Croatia | 0% |
| Serbia | 0% |
| Bosnia and Herzegovina | 0% |
| Montenegro | 0% |
| Albania | 0% |
| Moldova | 0% |
| Ukraine | 0% |
| Russia | 0% |
| Belarus | 0% |
| Latvia | 0% |
| Lithuania | 0% |
| Malta | 0% |

NOTE : SHARES OF NATURAL GAS IMPORTS FROM RUSSIA FOR DENMARK, ESTONIA, CROATIA, AUSTRIA, ROMANIA, SLOVENIA, AND FINLAND ARE CALCULATED BY EUROSTAT.
SOURCE: EUROSTAT, STATISTA, EUROPEAN COMMISSION, EXXONMOBIL.



Gas Crisis | And European Politics Are Getting Complicated

Rising costs of energy in Europe are also going to force policymakers to move off their max-hawkish policies towards Russia. This is especially the case given the upcoming elections in Italy and Germany.

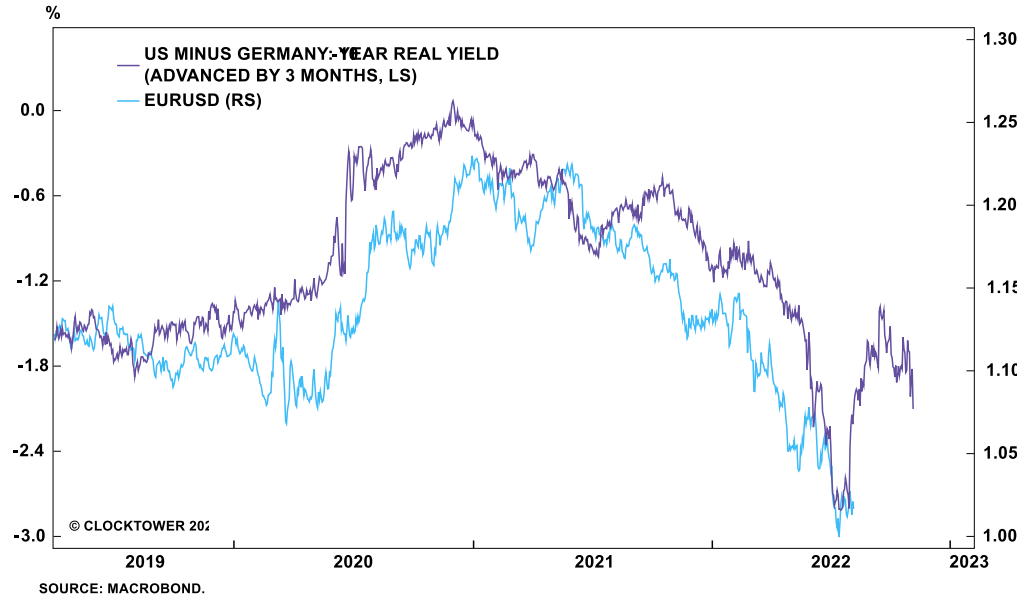




Gas Crisis | Is Europe Really Going to Collapse?

Given our natural gas storage math and view of Russian *and European* constraints, we suspect that the worst is over. As such, EURUSD is poised for a rally.

The Euro Is Still Pricing-In Too Much Geopolitical Risk

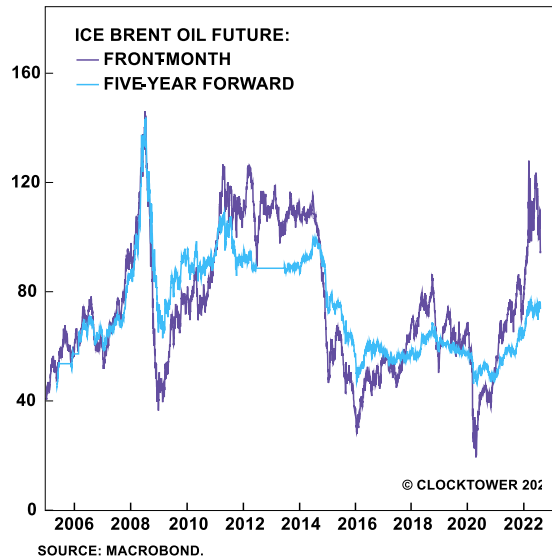




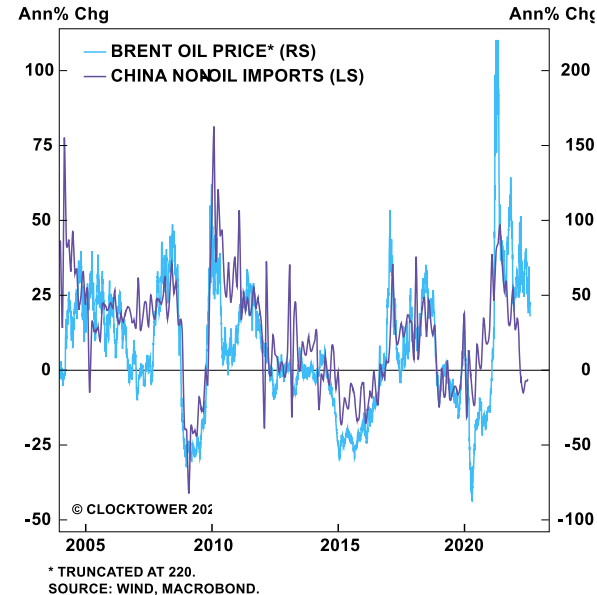
Tactical | Oil Price Is *Still* Pricing-in Too Much Risk

Oil prices have diverged from fundamentals, with Chinese demand set to remain below expectations – see next section – and US demand flagging. Oil prices should fall further.

Geopolitical Risk Premium...



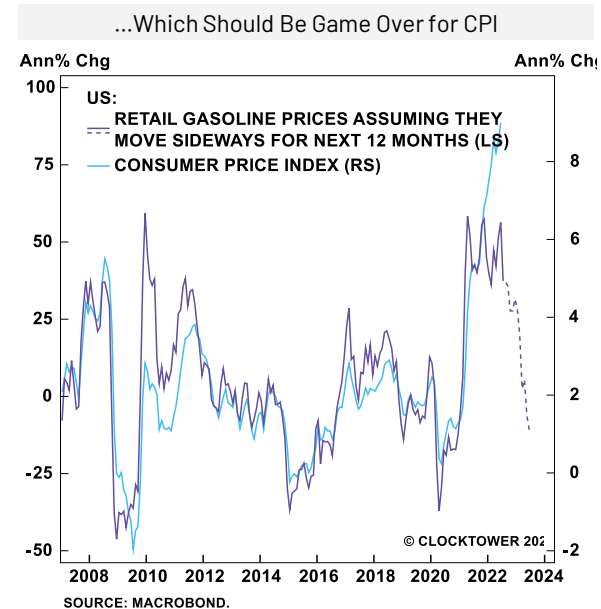
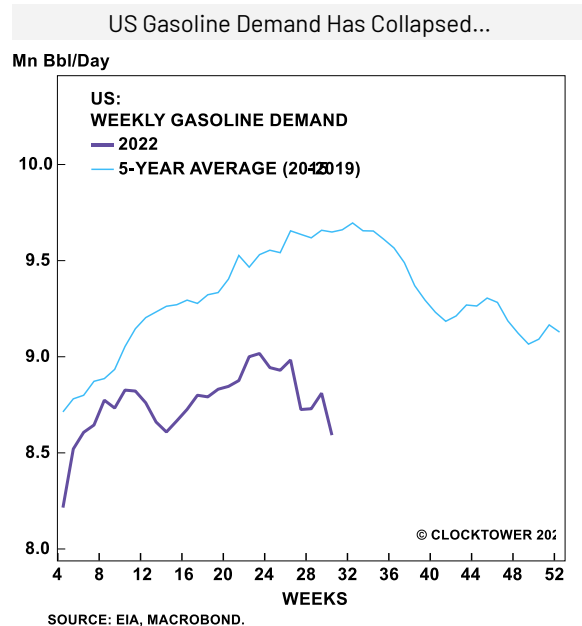
...Remains Embedded in the Oil Price





Tactical | No Sign that Gasoline Demand Is Being Revived

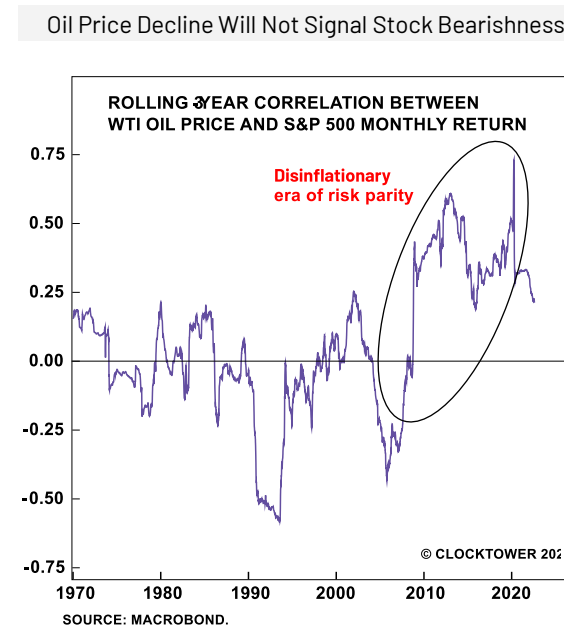
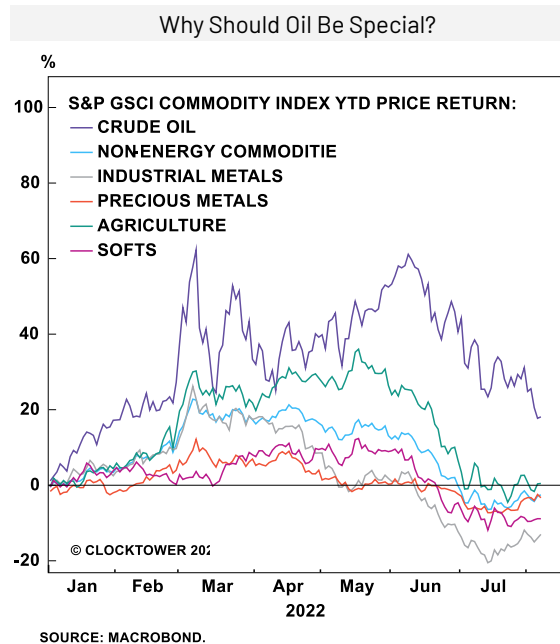
Rising costs of energy in Europe are also going to force policymakers to move off their max-hawkish policies towards Russia. This is especially the case given the upcoming elections in Italy and Germany.





Tactical | If Oil Prices Decline Further, Stocks Will Rally

Jay Powell told us on June 15 that he is watching headline inflation, which really means oil. With the entire commodity complex down, **oil is next to stall**. And given Fed reaction function, **that's not bearish!**





Portfolio
Construction
Forum

specialist, independent, investment
continuing education, accreditation and certification

+61 2 9247 5536

mail@portfolioconstructionforum.edu.au

L2, 6 Bridge Street, Sydney, NSW 2000, Australia
PO Box R923, Royal Exchange, NSW 1225, Australia
portfolioconstructionforum.edu.au