



Introduction

- Jack Cowin is a hugely successful 79-year-old Australian billionaire (still working), who introduced KFC and Hungry Jacks into Australia, and is the largest shareholder in Domino's Pizza (Australia). In an interview with the Australian Financial Review he explained his rules for success - including:
 - Survival – in health and business - is the number one priority.
 - Find a tolerant partner.
 - Control your own destiny... and have vision, or a dream.
 - Maintain your integrity.
 - Be prepared to take risks, but don't bet the farm.
 - Find a mainstream business that produces cash flow.
 - There is no shortage of deals – so don't fall in love with just one business.
 - Always consider the worst-case scenario.
 - Hang in there if you think you're right, but otherwise be prepared to cut your losses.
 - Life is about dealing with people.
 - Counterbalance the risk... and diversify.
 - Pay attention to the big stuff, delegate the mundane.
 - Learn to focus - be a rifle not a shotgun.
 - Understand the fundamentals, including market cycles.
 - Understand the power of compound interest over time.
 - Keep some powder dry for new opportunities.
 - Life is an adventure - it is better to travel than to arrive.
 - Laugh at yourself.

He was without doubt the most inquisitive human I have ever met. His insatiable curiosity was not limited or distracted by his knowledge or expertise, nor was it casual or passive. It was ferocious, energetic and restless. His curiosity was practised with intention and rigour.

Apple designer Jony Ive - on the 10th anniversary of Steve Jobs' death.

Wall Street Journal
04/10/21

Cowin quoted Hunter S Thompson (*Gonzo* journalist and author of *Hells Angels* and *Fear and loathing in Las Vegas*):

Life should not be a journey to the grave with the intention of arriving safely in a pretty and well-preserved body, but rather to skin in broadside up in a cloud of smoke, thoroughly used up, totally worn out, and loudly proclaiming 'Wow! What a ride!'

Coronavirus

- Europe's top health regulator – the European Medicines Agency (EMA) – has issued a broad endorsement of booster shots, which will likely accelerate the rollout across the EU. This follows a recent recommendation from the US Food and Drug Administration to administer boosters to those at high risk of serious infection... but is in spite of persistent pleading from the World Health Organisation for people in undeveloped nations to be vaccinated first.

In most Western nations (but not NZ), more than 70% of adults are fully vaccinated. In middle-income countries, this drops to between 30% and 60%, whilst in the poorest countries only 2% have had a single dose.

- Meanwhile, the chief executive of BioNTech, which jointly manufactures a vaccine with Pfizer, has advised that a new vaccine formula is likely to be needed by the middle of next year... in order to handle new mutations.

According to the Financial Times (03/10/21):

The virus will eventually develop mutations that can escape the immune response bestowed by the vaccine, he said, necessitating a "tailored" version to specifically target the new strain.

This virus will stay, and the virus will further adapt. We have no reason to assume that the next generation virus will be easier to handle for the immune system than the existing generation. This is a continuous evolution, and that evolution has just started.

- Demand in the US for Covid-19 antibody treatments – which are administered after people are infected – has increased by 2,000% since the beginning of July, amidst persistently high levels of infections. The treatments – famously given to Donald Trump when he contracted Covid-19 – are proving especially popular with the unvaccinated population, particularly in the US Southern states.

The surge in popularity is fuelling a supply crunch in some areas and concerns over the unfair allocation of doses. Data has revealed that seven states in the South have received more than 50% of recent shipments, when almost all their vaccination rates are lower than the national average.

The Financial Times said (3/10/21):

Health experts warn antibody treatments only work well when they are used shortly after a Covid-19 infection and cannot provide the type of longer lasting protection against the virus that vaccines do. They can play an important role in preventing people at greatest risk of becoming seriously ill, but should not be used as a first line of defence against the virus.

As well as the risks of relying on Covid-19 treatments rather than vaccines to tackle Covid-19, the drugs also cost much more. The US government is spending \$2,100 for each dose of Regeneron's antibody cocktail — a combination of casirivimab and imdevimab — under a \$2.9bn contract agreed last month to help meet the shortfall in treatments.

It compares to the approximately \$20 price tag for a single dose of a vaccine.

- NZ Prime Minister Jacinda Ardern has announced that the government will be introducing vaccine certificates from November, mostly for use at large events over the summer. No decision has been made as to where certificates will be used, although essential services such as medical facilities and supermarkets have been ruled out.

The National Business Review said (4/10/21):

Asked whether the government would need to introduce new legislation or implement the new vaccine certificates through existing health orders, she suggested that still was not clear.

Ardern said the response the government had had from event organisers was that they would welcome the introduction of a vaccine certificate. It was much easier for them for the government to mandate it and gave them a greater degree of confidence their events could go ahead.

Equities

- Equity markets continue to be volatile and weak, as investors digest a plethora of headwinds. In particular, investors have been shifting out of technology stocks.

The Australian Financial Review said (4/10/21):

Investors have slammed the brakes on the incredible surge on global stock markets that began in March last year.

Problems are emerging on a number of fronts. And it's not just the toll the Delta variant is exacting on growth.

In no real order, they are as follows: the disruption to global trade from shipping constraints; a rapidly emerging energy crisis; serious concerns about China's property market and its entire growth model; and an escalating dispute within the US Congress that threatens to destabilise the global economy.

While there is a multitude of concerns, it can all be distilled down to two key issues: Global growth is slowing while inflation is being fanned by shortages of almost everything. In particular, energy prices have soared, threatening to push prices higher, for everything from food to construction.

Australian Financial Review
04/10/21

Last week was choppy for stocks in the dominant US market - as an ongoing series of bad news created concern among investors, worried that high valuations will be impacted by surging interest rates - evidenced by rising yields in US Treasuries.

A chart of the Dow Jones Industrial Average - an index of 30 large cap US stocks - is adjacent... showing signs of



rolling over.

- The strong US dollar is raising concerns that it will affect US equity markets, because of the importance of overseas earnings for large cap stocks (in particular).

The Wall Street Journal said (04/10/21):

A strong dollar has the potential to hold back gains in stocks and other risky investments. Companies in the S&P 500 generate 40% of their revenue from outside the US, according to FactSet. When the dollar strengthens, the value of money earned abroad shrinks. Emerging-market companies and countries also tend to suffer because their large dollar-denominated debts become harder to pay off.

Driving the greenback higher has been expectations that the Federal Reserve will act earlier and more aggressively to remove pandemic-era stimulus. Supply-chain snarls, soaring energy prices and disrupted industrial activity in markets including China and the UK have also weighed on growth prospects.

Investment Strategies

- A popular trading strategy has been to “buy the dip” (or buy on weakness), whenever the US market corrects downwards. It has been a profitable exercise. The major S&P 500 index has pulled back by 5%, or more, 25 times since the beginning of 2012, but overall has risen by more than 240%.

The problem is that generally things work... until they don't. There will come a time when the dip will have difficulty recovering. Strategists at investment bank Morgan Stanley believed that the S&P 500 will fall by 10%, or more, by year-end.

On the other hand (or to take another view), the derivatives market is indicating that the current weakness in equities is coming to an end.

According to the Financial Times (08/10/21):

Investors in the US stock market are wagering that the worst of the recent sell-off is over, despite persistent risks that have already knocked \$2.5 trillion off the value of US equities since early September.

Measures of demand for options that offer protection if the market were to lurch dramatically lower have receded steadily in recent weeks. This signals that investors are no longer clamouring to hedge themselves from a further slide.

Debt, Bonds, Interest Rates & Inflation

- US inflation – measured by the Labour Department's consumer price index – remained near a 12-year high in August, with prices up 5.3% year-on-year. The debate continues as to whether this spike in inflation will ultimately prove to be transitory, with consensus opinion predicting pricing pressures will ease in the near to intermediate term.

The Wall Street Journal said (4/10/21):

Economists generally expect inflation to fall, but disagree on how much. They attribute much of the recent surge in prices to temporary causes - such as a post-vaccine spending upsurge, specific supply-chain problems and other production bottlenecks - that should fade as businesses ramp up output.

Should supply chain disruptions continue for longer than expected, increasing interest rates will do little to quell rising prices... and not everyone is sure that the inflationary increases are temporary.

Market Watch said (04/10/21):

Jeremy Siegel, professor of finance at the University of Pennsylvania's Wharton School of Business, on Monday said that a fresh surge in inflation is making him nervous and warned that the accelerating pricing pressures could compel the Federal Reserve to raise interest rates at faster clip than currently anticipated, which could deliver a correction to equity benchmarks.

- US Treasury yields are steadily increasing, believed to be mostly the result of the Federal Reserve signalling a tapering of their bond-buying program, and not so much from long term inflation expectations.

A chart showing the (rising) yield of the US 10-year Treasuries is adjacent.



- Inflation expectations are also soaring in Europe, due to the energy crisis.

The Australian Financial Review said (06/10/21):

Inflation expectations in Europe are at their highest since the global financial crisis, with markets fearful the energy crisis could keep consumer prices elevated for an extended period and snap central banks into action.

The willingness by consumers to pay almost anything for natural gas is likely to mean a sharp rise in costs to households. The strong demand for natural gas has spilled into other energy commodity markets, with crude and thermal coal prices also rising.

“Breakeven rates” are an assessment by the market of inflation expectations, measured by the difference in yields between a normal bond and an inflation-adjusted bond (of the same maturity).

Every so often, the tectonic geopolitical plates that hold up the world economy suddenly shift in ways that can rattle and destabilise everything on the surface. That's happening right now in the energy sphere. Several forces are coming together that could make Vladimir Putin the king of Europe, enable Iran to thumb its nose at America and build an atomic bomb.

Australian Financial Review
07/10/21

The breakeven rate in the UK is 4%, the highest level since 2008.

The Wall Street Journal said (08/10/21):

Natural gas stocks are alarmingly low around the world, and prices in most places have never been higher after surging to new records in Europe and Asia. Demand has jumped as economies have bounced back from pandemic shutdowns, and the squeeze has caught traders, ship owners and energy executives off guard.

- The combination of the energy crisis and disrupted trade logistics is now (even) starting to cause central bankers to wonder whether the current bout of inflation is temporary, or not.

The Financial Times quoted the chief economist at the Bank of England, saying (08/10/21):

In my view, that balance of risks is currently shifting towards great concern about the inflation outlook, as the current strength of inflation looks set to prove more long-lasting than originally anticipated.

There is a similar concern in the EU, with the Financial Times saying (08/10/21):

Some European Central Bank policymakers have argued it is underestimating future inflation, warned about the risk of a “regime shift” in prices and pushed for a bigger cut in asset purchases than it ultimately decided at its meeting last month.

The debate highlights how the recent rise in Eurozone inflation to its highest level for more than a decade is creating tension between ECB rate-setters over how long the price surge is likely to last.

- The Reserve Bank of New Zealand (RBNZ) has joined South Korea and Norway to be one of the first developed nations to begin raising interest rates, because of inflation concerns following the pandemic. The bank lifted its key rate to 0.5%, from 0.25%, its first increase in seven years, which was in line with market expectations.

The RBNZ said (06/10/21):

The level of global economic activity has continued to recover, supported by accommodative monetary and fiscal settings, and rising vaccination rates enabling a relaxation of mobility restrictions. While economic uncertainty remains elevated due to the prevalent impact of Covid-19, cost pressures are becoming more persistent and some central banks have started the process of reducing monetary policy stimulus.

The move was already priced into markets. It was a foregone conclusion for currency markets and most of the major home lenders had also announced prior increases to mortgage rates.

Once central banks start hiking interest rates it is usually the start of a planned series of moves – with the RBNZ likely to increase the OCR to between 1.5 and 2%, The ANZ predicted 1.5% by August 2022, while Kiwibank indicated 2% by 2023.

Currencies

- The US dollar has continued to rise, despite forecasts of slowing global economic growth.

Barron's said (7/10/21):

A strong dollar might seem unlikely - ludicrous, even - given recent headlines about the debt ceiling, inflation, and slowing growth due to supply-chain snafus and the Delta variant of Covid-19.

But compared with the rest of the world, the US isn't doing all that badly. Real growth in the US is expected to increase by 2.5% in 2023, outpacing Europe, while the Federal Reserve might be tightening monetary policy more aggressively than its central-bank peers overseas. Government spending is also likely to be lower than expected.

And with the 10-year Treasury yield over 1.5%, much higher than elsewhere in the developed world, the dollar's strength might only be beginning.

The world's reserve currency tends to perform well in two scenarios: When the global economy is doing badly, as investors shelter in safe-haven assets, and when the US economy is doing well compared with others, prompting investors to snap up dollar denominated investments.

This is called the "dollar smile", as it rises in these two instances and flattens in between.

Wall Street Journal
04/10/21

- In comparison, the pundits are negative on the outlook for the Australian dollar, which has been the weakest currency among the G10 nations over the last three months.

The Australian Financial Review said (04/10/21):

Economists have downgraded their forecasts for the Australian dollar in the expectation that the US Federal Reserve is getting further in front of the Reserve Bank's timeline for monetary tightening, despite the currency already trading below fair value because of the bear market in iron ore.

A large contributor to the Aussie's downgrade is the widening US-Australian interest rate differential. Financial markets expect the Federal Open Market Committee (FOMC) to start raising interest rates as early as next year, from the zero-to-0.25% level where they have plateaued since March 2020, as the US economy recovers from the pandemic.

The Reserve Bank Australia governor Philip Lowe reiterated last month that he will not increase the RBA cash rate, which is currently at 0.1%, before 2024.

Economies

- The International Monetary Fund (IMF) has marked down expectations for the global economy during 2021, because of the disparity in vaccination rates between wealthy and underdeveloped countries.

According to the Guardian (05/10/21):

The head of the International Monetary Fund has warned the world economy remains “hobbled” by the Covid-19 pandemic as she revealed her organisation has revised down its forecast for global growth this year.

The IMF and World Health Organisation global vaccination target is 40% by the end of this year... and 70% by mid-2022.

- Meanwhile, the World Trade Organisation (WTO) has said that they expect global trade flows to continue at higher, but unequal, levels in the post-pandemic rebound for this year and next.

The Wall Street Journal said (04/10/21):

The WTO expects that Asia’s exports of goods will be 18.8% higher by the end of 2022 than two years earlier, while Africa’s exports are set to rise by just 1.9%. The trade dispute body expects North American exports to be up 8%, and European exports to be 7.8% higher.

Trade flows collapsed during the early months of the pandemic in 2020, but rebounded during the middle of 2020 - ending at their pre-pandemic levels by year-end.

- Manufacturing in the US, which accounts for 12% of the economy, continues to stoke along with factory orders increasing by 1.2% in August, according to the Commerce Department. Businesses are rebuilding inventories depleted during the first half of the year. However, the industry is still being disrupted by global supply issues.

Reuters said (05/10/21):

Business spending on equipment was robust in the second quarter, notching the fourth straight quarter of double-digit growth. That contributed to hoisting the level of GDP well above its peak in the fourth quarter of 2019.

Services are also strong.

According to the Wall Street Journal (05/10/21):

The Institute for Supply Management on Tuesday said its index of US service-sector activity edged up to 61.9 in September, from August’s 61.7. Anything over 50 represents expansion. September’s number would have been higher if it hadn’t been for a slowdown in employment growth - a reflection on how hard it is for many companies to find workers, rather than any shift in labour demand.

- However, the attitude of US CEOs - a leading economic indicator - is starting to wane. A survey by the Conference board, a business research entity, showed that their index of CEO confidence about the economy had dropped from an all-time high of 82 in the 2nd quarter, to 67 in the 3rd quarter – a fall of nearly 20% (although anything above 50 represents optimism).

CNN said (07/10/21):

US business leaders are still upbeat about the economic recovery. But they're not as confident as they were just a few months ago, and they blame the Delta variant and a super tight labour market for the drop in sentiment.

Two thirds of the CEOs said they expected to increase wages by at least 3% over the next year.

- Another disappointing piece of data to come out of the US was the non-farming payrolls figure for September, which came in at an additional 194,000 (500,000 was expected). This was the second straight month when businesses in America delivered a payroll number much lower than expected. However, unemployment still dropped, falling from 5.2% in August... to 4.8% in September.

CNN said (08/10/21):

While America's labour market is still not back to its pre-pandemic strength, it has made up a lot of lost ground. Businesses are having a hard time finding staff, which is pushing up wages. Average hourly earnings over the 12-month period ending September grew by 4.6%, the biggest increase since February.

- A recent NZ retail survey revealed that Covid-19 restrictions are creating huge uncertainty over the ongoing viability of retailers.

The NZ Herald said (06/10/21):

A third of retailers are unsure their businesses will survive the next 12 months thanks to restrictions imposed by the Government in its response to Covid-19.

That's according to Retail New Zealand's quarterly report to September, which examines how retailers have fared in the previous three months and their satisfaction with the Government's handling of the virus.

In a survey of 447 businesses and franchise groups from across the country, it found 75% did not meet their quarterly sales targets, while 45% didn't expect to meet their targets for next quarter.

Average retail spending across the country was down by 15% in August, and by 16% in September. This has been affecting the ability of retailers to pay their rent - additionally putting pressure on landlords.

- Meanwhile, the NZIER Quarterly Survey of Business Opinion has shown that there has been a marked downturn in NZ business confidence - falling from a net 9% of businesses expecting an *improvement* in upcoming general economic conditions in the June 2021 quarter, down to a net 8% expecting a *deterioration* in the September quarter.

In spite of this, shortages of skilled labour have hit a new high - and are now seen as the biggest constraint to business.

According to interest.co.nz (05/10/21):

Confidence in the building sector weakened despite continued solid demand, particularly when it comes to the pipeline of Government construction work. Capacity pressures remain very acute in the building sector, but building sector firms are finding it easier to pass on higher costs by raising prices.

Business

- A survey of 550 businesses by the Australian Tourism and Transport Forum has indicated that one in three Australian tourist firms will be likely to place their businesses on the market before Christmas, because they have been annihilated by the Covid-19 pandemic.

The Australian Financial Review said (08/10/21):

About 40% of tourism operators are expecting their business performance to deteriorate in the next three months, while 29% believe it will be worse in a year's time.

The major problem is the quarantine between states and with international borders - without the ability to travel there is little trade.

- The Financial Times - on where the energy and car industries are going (09/10/21):

It is 2030 and your electric VW has developed an annoying habit of pulling to the right. A few years back, when your last petrol car started doing something similar, a local mechanic in overalls spent half an hour wrestling underneath it with a torque wrench and a few muttered expletives. Today, you link to the car's control system from your tablet at the breakfast table and talk through an online portal to a VW technician in Hyderabad. Sure enough, it's a software glitch. A patch is sent over the internet, and the repair is done.

A striking feature of the re-engineering of the auto is the reduction in moving parts, from some 2,000 in a petrol engine to about 20 in an EV drive-train. A host of auto components familiar for up to a century will vanish. Some new ones will replace them, such as battery and charging systems, including brakes that partially recharge the battery. But the implications will be profound.

Also in the crosshairs of change are garages, mechanics and aftersales staff.

Politics

- In the US, lawmakers have reached agreement to avoid the potential default over debt levels by effectively postponing restraining action until December. While this solves the short term, it sets Washington up for another long round of debates at year-end.

Republican Senate Minority Leader Mitch McConnell had previously indicated that Democrats would have to push any spending Increase bills through Congress, without the help of Republicans, so they could distance themselves from the enormous spending packages that Democrats hope to pass.

He has since changed his mind.

According to the Wall Street Journal (7/10/21):

The debt ceiling doesn't authorise new spending but allows the Treasury to raise money to pay for expenses the government has previously authorised. Even so, Republicans have wanted to force Democrats to pass the debt limit without any help, seeking to tie Democrats, at least in voters' eyes, to higher debt levels, just as the party pursues programs that would cost trillions of dollars. Democrats have argued that both parties should be responsible for raising the debt ceiling, noting that increases or suspensions of the limit were bipartisan during the Trump administration.

The short-term avoidance of potential default caused equity markets to rise the following day, but analysts warn the risk has merely been deferred, not removed.

- The day of reckoning has arrived for international companies which channel revenue through countries with low tax jurisdictions, in order to pay a small amount of tax. An international agreement has finally been reached to establish a minimum 15% taxation regime - described as "the biggest corporate tax deal in a century".

BBC News said (09/10/21):

Most of the world's nations have signed up to an historic deal to ensure big companies pay a fairer share of tax. Some 136 countries agreed to enforce a corporate tax rate of at least 15%, as well as a fairer system of taxing profits where they are earned.

It follows concern that multinational companies are re-routing their profits through low tax jurisdictions.

Countries including Ireland had opposed the deal but have now agreed to the policy.

The discussions leading to the agreement were led by the OECD.

Commodities

- The global energy crisis continues to escalate, lifting the prices of oil, coal and natural gas. Analysts are laying a large part of the blame on climate change measures, which have reduced the exploration and production of fossil fuels.

The Asia Times said (08/10/21):

Excitement about the green revolution, it turns out, ran far ahead of nations' ability to pivot away from fossil fuels in reliable and pragmatic ways. This price shock is reshaping the trajectory of coal, a commodity virtually everyone thought was dead.

With UK wholesale gas prices surging to record highs, Brits have fresh reason to wonder if Brexit was such a great idea. The crisis is even morphing Vladimir Putin's Russia into a white knight of sorts. Moscow says it stands ready to stabilise markets with increased natural gas supplies. And it's putting a fresh spotlight on the potential of hydrogen power.

The global economy is cascading toward a "multi-year, potentially decade-long commodity supercycle" with many catalysts - including climate change and government stimulus aimed at reducing income inequality.

- Oil prices surged to their highest level since 2014 (before retreating) following a decision by the Oil Producing and Exporting Countries (OPEC) cartel to stick to its earlier plan to modestly increase production by just 400,000 barrels per day in November. Analysts had largely expected the cartel to release 800,000 extra barrels per day, in light of surging prices.

The Australian Financial Review said (5/10/21):

The cartel's decision not to ease pressure on the global energy market quickly flowed through to gas and coal, where prices have already been running hot. Prices for energy commodities have soared through the last few weeks, with a strong rise in demand from economies emerging from lockdown unable to be matched by a sluggish increase in supply.

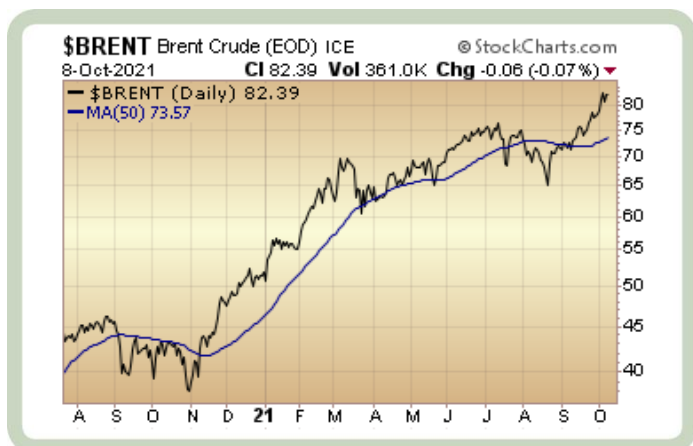
Natural gas prices in Europe have soared to record levels and hit seven-year highs in the US, with the elevated level of demand exposing structural weakness and under-investment in the hydrocarbon markets.

The Economist said (4/10/21):

An underlying factor is expected to make scarcity even worse in the next few years: a slump in investment in oil wells, natural-gas hubs and coal mines. This is partly a hangover from the period of abundance, with years of over-investment giving rise to more capital discipline. It is also the result of growing pressures to decarbonise. This year the investment shortfall is one of the main reasons prices of all three energy commodities have soared.

Prices have slightly retreated on news of emerging higher US oil shale field production, as well as commentary from Russian President Vladimir Putin suggesting that he could increase the supply of European exports to help temper prices.

The chart of the price of a barrel of Brent crude oil – the global benchmark – in US dollars is adjacent



- Surging demand for commodities has also caused huge spikes in shipping costs, particularly for oil and gas. Prices in the spot market for a single ship of natural gas have increased almost 3,000% year-on-year. The surge is a result of supply crunches and increasing demand, courtesy of electricity generators front running the Northern Hemisphere winter (yet to begin).

The Australian Financial Review said (7/10/21):

A typical cargo of 70,000 tonnes of LNG costs about \$US205 million, up from less than \$US7.3 million in June last year, when Australian cargoes of LNG were sold at less than \$US2/MMBTU and dozens of shipments were anchored in place around the world, or were going around in circles amid a dearth of buyers. It makes gas several times more expensive than crude oil at roughly \$US320 per barrel.

- India is the second-largest coal mining country in the world (after China) – but they have a shortage. This creates a serious problem, as coal accounts for around 70% of India's electricity generation.

The Australian Financial Review said (05/10/21):

India could face as long as six months battling to ensure coal-fired power plants have enough fuel as the nation's energy crisis escalates.

More than half its plants are on alert for outages after surging electricity demand and a slump in local coal output eroded stockpiles. Power stations had an average of four days' worth of coal at the end of last month, the lowest in years, down from 13 days at the start of August.

Like Europe and China, India is suffering from a sharp surge in electricity demand (from the unwinding of the pandemic lockdown), a squeeze in coal mine production and surging global prices of coal.

- Australia's large area and geological stability boosts its potential as a reliable renewable energy generator - and many countries are looking to it to supply "green" low carbon hydrogen. This is usually created by using renewable energy to electrolyse water... separating it into oxygen and hydrogen.

Steel giant Posco is South Korea's largest purchaser of commodities and has named Australia as a "regional strategic base" - to be a supplier of low carbon hydrogen, to help it become a leading clean energy company.

According to the Australian Financial Review (05/10/21):

Posco, as Korea's biggest steelmaker, expects to use more than 3 million tonnes a year of hydrogen by 2030 in its steel production as well as more than 2 million tonnes a year for its 6.5 gigawatts of power generation. It also wants to supply low-carbon hydrogen to third-parties to capture 30% of the Korean market

Korea Zinc is the World's largest producer of zinc and is also looking to Australia to assist it to becoming the world's first "green zinc" producer, as well as a significant hydrogen supplier.

Japan is Australia's biggest customer for coal and liquefied natural gas, but is also looking at the "lucky country" to assist with hydrogen supplies to meet carbon emission targets.

- The prices of gold and silver have continued to languish, due to a rising US dollar (they tend to be negatively correlated to the Greenback). Most gold and silver



contracts are written in US dollars and a rising USD increases the cost for non-American buyers. Silver prices have suffered steeper declines than gold.

The Wall Street Journal said (6/10/21):

Hedge funds and other speculative investors have grown more cautious on silver lately, cutting net bets on higher silver prices to their lowest level since June 2019, according to Commodity Futures Trading Commission data.

A chart of the price of a troy ounce of silver in US dollars is above.

- Cotton prices have joined the general commodity rally to reach their highest level in 10-years, due to robust demand from China.

Demand is particularly high for American cotton following former president Donald Trump's ban on imports of clothing products made with cotton from the Xinjiang region (where the Uyghur ethnic group live), as well as the commitment from China to increase purchases of American products in exchange for tariff relief.

Ironically, China (the world's largest cotton producer) now imports cotton from America, in order to make clothing to supply to the US.

The Wall Street Journal said (5/10/21):

Cotton futures are trading at their highest price in about a decade, with growing Chinese demand being met in part by rising US exports to China, a curiosity of Trump-era trade-war policies.

Prices have risen 22% over the past 11 sessions.



The (rising) price of cotton in the US is shown above.

Real Estate

- The impact of large Chinese property developer Evergrande defaulting on bond payments appears to be filtering through to the rest of the industry. Fantasia Holdings, a mid-sized Chinese real estate developer, has failed to make a \$282 million payment to bondholders. While occasional defaults from the sector are able to be absorbed, there are fears that this will have a snowball effect and seriously hamper the economic recovery in China.

The Chinese real estate sector accounts for nearly 30% of GDP, compared with just 19% in the US – so a collapse in property prices will have an outsized negative impact on consumer spending. Making matters worse, investment bank JPMorgan estimates that Evergrande may have an enormous quantity of off balance sheet debt, disguising the true size of their

liabilities. They estimated that Evergrande's net gearing, as a ratio of the firm's equity, was at least 177% at half year, instead of the 100% its financial accounts reported.

In describing the issues in the Chinese housing market, the Australian Financial Review said (06/10/21):

A number of powerful indicators show that this investment is driven by unsustainable prices and excessive leverage - and is also creating huge excess capacity: the price-to-income ratios in Beijing, Shanghai and Shenzhen are far higher than in other big cities around the world. Housing wealth accounted for 78% of all Chinese assets in 2017, against 35% in the US; household debt ratios are comparable with those in high-income countries; vacancy rates and other measures of excess capacity are high; and rates of home ownership reached 93% in 2017.

Furthermore, family formation is slowing, China's population is ageing and 60% of it is already urbanised. All these signal that the property boom must end.

A housing market collapse in China would have a serious impact on consumer demand (reflecting the lower "wealth effect"), investment alternatives... and the economy.

- Auckland based property agency Barfoot and Thompson has said that unconditional sales in September were down by 35% from August... and by 40% compared to September 2020.

Selling prices also slipped. The average price for September 2021 was \$1,132,552, compared to \$1,183,602 in August - a fall of 4.3%. It could be the beginning of a trend, because August was also slightly down on July.

According to interest.co.nz (05/10/21):

The restrictions and restraints on open homes and viewings had a major impact on sales volumes and trading patterns, and these in turn resulted in both the median and average sales prices edging lower.

John Ryder and Devon Ashby

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