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GLOBAL MACRO

To the casual observer, it's becoming clear that sanctions do not work. They have had zero effect on Russian aggression and if anything, the West has shot itself mortally in the foot. To die of bleeding from a foot wound is and should be considered very embarrassing but that is where our financial masters have taken us. By banning Russian use of SWIFT, we have accelerated the creation and use of alternative payment types and systems outside the Dollar.

China is now buying huge quantities of Russian crude oil in Yuan, others will follow. Dollar dominance will not end from this, but it will certainly diminish. As if that were not bad enough, the confiscation of Dollar and Euro Central Bank reserves has meant that any country that doesn't share Western political ideas will need to rethink its foreign currency reserve mix and likely this will include commodities like oil, gold and maybe even some softs. China of course has been preparing for this moment and stockpiling every commodity imaginable while reducing its Dollar exposure. It didn't think the West would be so foolish as to show its hand so early. Certainly, in our lending we have been surprised by the Chinese SOE's behind a multitude of off take contracts.

Following all this excitement, there is the rather important matter that Russia has now pegged its currency to gold at 5000 Ruble per gramme. Again, others will follow and again the West didn't see this coming. The consequences will be profound, and we believe that this is the beginning of the end of dollar hegemony and the start of a multi polar financial world where commodities play a much more significant role, a US recession is guaranteed and there is a still a better than evens bet that China is going to take back Taiwan.

Maybe Putin reads enough history to know that as Napoleon wittily observed, "Never interrupt your enemy when he is making a mistake."

AGRICULTURAL COMMODITIES

The discussion over food security in the 21st century has often been limited to do-gooders and non-profit institutions. While the issue has persisted in numerous regions across the globe during this time, it's been pushed to the back pages of most western news outlets. It was not the problem of the everyday western consumer. With the ongoing conflict, and Russian goods being turned offline, the issue of food security, and at what price, has suddenly come to the forefront.

Countries that are exporters of food and agri-commodities have a choice to make, whether they should implement controls and tame prices at home or continue exporting freely. It is unlikely that the US will implement controls that keep domestic food prices lower, for food is power and they cannot ask the world to wane themselves off Russian goods, while locking up their own. This is despite the inflation issue they face, currently being driven by higher food and energy prices.

India, one of the world's largest sugar producers, is expected to implement a sugar quota to keep any calories at all within its borders, and at a reasonable price. Argentina, a large global wheat producer, now even more relevant given the lack of Russian and Ukrainian supply, has implemented a wheat export quota below that of previous seasons. These examples serve as an indicator of how the ongoing conflict can have severe knock-on effects. We believe countries whose governments are more fragile will be more tempted to control domestic food prices and limit themselves from the global market. It does not take an avid historian to look back only as far as the Arab Spring, to see how lack of accessibility to food, whether through price or supply, can lead to revolution.

People can make do with less discretionary purchasing power, or with unfavorable politicians or even a tyrannical dictatorship in the most extreme cases, but nobody can live without food. While there can be numerous reasons to question one's government and bring about real structural change, lack of food will always break the camel's back, regardless of other circumstances.

The longer a conflict lasts, the likelier it is to continue, and if this turns out to be the case in Ukraine, then we believe the food protectionism trend may continue to develop further, even from net exporters. This would lead to ever-higher prices for the rest of the world. Places like the Middle East and Africa, who largely sit in a milieu between the East ad West will eventually buy goods from Russia. While this would appear like a shadow market to the US and the West, operating outside western sanctions, we believe it could develop into an equally large marketplace that parallels that of the West. Moreover, the West would be unable to question this decision, for how can one ask a country to starve itself on behalf of an agenda that is not their own?

While we could continue to speculate down this train of thought – and we certainly have – we will merely say that this would open commodity price crosses that rival between the US Dollar, Ruble and Yuan. While basis spreads between these market prices would be wide to begin with, they'd eventually shrink. The loser in such a scenario is the Dollar, as it effectively loses market share of the global commodities trade.

The alternate scenario would be if a resolution of the conflict comes soon, and in a manner that reduces sanctions. In this case, commodity prices would certainly drop back towards pre-war levels, and possibly even beyond that. In either case, we continue to believe that supply chains will be redrawn, and alliances formed around them. Historically, structural change in supply chains has been driven by wars, which put a microscope on one's dependencies. This time is no different.