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GLOBAL MACRO

New highs on the dollar against pretty much everything and the creaks are starting to accelerate. I suspected that it might be a collective EM cry of despair to push the Fed to slow down their blistering rate rise speed but the real noise is coming from the UK. No surprise when you consider that they are no longer a part of any trading block and their bond and currency markets have become perilously isolated. And so it was, that of all people, Truss should give the market the perfect gift, the perfect excuse to sell everything on the back of the most preposterous mini budget in history. It turned out that this localized rout had such a profound effect on the UK pension companies that they were hours away from administration. How tenuous the markets are in of itself is worrying, but the Bank of England happily reversed its QT and has had to extend QE as I write because again the local gilt markets have become offered only.

So there we have it, the first of multiple central banks that will have no choice but to execute U turns on policy due to the single prerogative of simply surviving as a non failed state.

The Europeans are starting to ask themselves also whether the Fed is pushing them to hyper tighten simply to protect their currency or whether their real problem isn't inflation at all but protecting 500mm people from the ravages of winter prioritizing more spending to fight inflation?

Such poor policy choices and such poor politicians all round to solve them is not a good recipe for sound economic stability.

We fear that horse has left the barn and much more volatility and bad news is ahead. Conditions like these push the boundaries of prudent asset management and there will be many price dislocations which should and could be exploited. This is not the time to consider returns nominally but to ensure the safe return of one's capital. What is happening in the UK will spread elsewhere. The tinder is set, the smoke is billowing, and the riskiest assets will burn. Stay secured and physically own what you lend against.

AGRICULTURAL COMMODITIES

The Ukraine-Russia tit for tat has escalated, as the bombing of the Kerch bridge was followed by Russia's pan-Ukrainian shelling. This brought grain prices immediately higher, as fear that Russia would cancel its agreement to the Black Sea Grain Initiative would relock Ukrainian exports. We believe this is unlikely, as Ukraine is already struggling to sow its next winter wheat crop, and its supply has already been drastically affected by the war. To block the grain deal now would portray Russia as starving its prospective allies in North Africa and the Middle East, while achieving little in attacking the North Atlantic economic complex that it wishes to hinder.

An odd yet obvious set of headlines crossed our desks last week, Ukraine reporting that it would likely see a drop in its 2023 wheat production from 19 million tones to as low as 16 million tones. This news coming a couple of days after Russia's Agriculture Minister said it expects its grain harvest to grow by 5 million tones, due to the new territory it's acquired. Fret not, Russia has it covered, and so it seems futile for them to cancel a grain deal now that could only put them further away from other reintegration efforts.

Before the recent attacks, the UN had proposed a resumption of Russia's export of ammonia through pipelines that run across Ukraine, to its port in Yuzhny, outside of Odessa. Ammonia is a critical ingredient in nitrate fertilizers, and thus in the continuation of reliable production of grains across the globe. Russia did not seem to show any opposition

to the deal, but Zelensky refused to entertain the idea without some of its prisoners being released. Prisoner swaps are not uncommon, but a prisoner-for-ammonia transit pipeline swap is a new one.

We sense an uncomfortable shift in the tide, as Russia veers towards re-engaging global markets, while Ukraine digs its heels in. While it is hard to believe that the aggressor in this war will begin to look increasingly like the more rational of the two sides, it is possible. Honoré de Balzac wrote, putting the words in the mouth of his devilish character *Vautrin*, “There is no good and bad, there are only circumstances.” The circumstances are that Russia has an immense volume of resources in its food, fertilizer, and energy. These are basic sustenance requirements no matter where you live. Russia’s attempts to bring these resources back online will look humanitarian for the vast majority of the globe, who has no skin in the game in the steppes of Ukraine. That will leave the US in an especially interesting spot, where its continued support for Ukraine will only add to uncertainty across commodities markets at a time when stability is increasingly sought.

Turning from the Black Sea, where winter is approaching and new grain supply will become increasingly long dated, we look towards Latin America. In Brazil, soy planting across its key regions began in mid-September, and although there have been some slight delays due to rain, moisture is good, and the delays are not uncommon. Both soy and corn production are expected to hit records in the 2022/23 season. Let us not forget, Brazil was ahead of the curve in importing fertilizers early in the conflict. While Bolsonaro’s brash approach to diplomacy is in question as the country sits between the first and second rounds of a Presidential election, his negotiating of a fertilizer deal with Russia before their invasion has proven to be a windfall for the country’s farmers and exporters.

We are keeping our eye on the oilseed crushing complex, as some Brazilian crushers halted production earlier than normal this year, as crush margins turned negative mainly due to an increased supply of palm oil from Indonesia. Nonetheless, a record crush is still expected in Brazil for the upcoming 2022/23 season, as Indonesia’s sudden increase in supply is likely a consequence of its government’s failed interventions to impede exports. Moreover, the US’ Inflation Reduction Act provides tax credits and funding development for biofuels. This will drive demand growth in renewable diesel produced from soybean oil, meaning the US will likely allocate more of its soy production towards this opportunity. We believe this increase in US demand will bring global soybean oil prices higher, leading to stronger crush margins in the coming season.