Cantillon Effects

The Course of the Exchange

Increased Physical Demand
Raw Materials
Petrodollar Pump; 'Core' CPI targets
Trade & Industry
MONEY & CREDIT
Austrian Business Cycle Theory
Financial 'in[illegible]' CB/Fiscal [illegible]

"Silver alone is the true sinews of the circulation"

Essai sur la Nature du Commerce

'Alternative Assets' Financialization
Raw Materials
'Chicken Farmer' Investment Demand
Money & Credit
TRADE & INDUSTRY
'Real Bills' Credit Elasticity
New Tech; 'Frontier Markets'

Raw Materials
Possible Spill-over
Financial Assets, RE, Art
MONEY & CREDIT
Asset-Collateral Spiral
Claims to existing capital preferred to construction of new
Trade & Industry

Volume I, Issue Ib

Dead Cat or Deep Value?

Since their Lockdown lows, commodities have performed as well as any other asset, though they still remain generally depressed. Can they continue to rise?

Whether he was just 'doing God's work', or earning his speaker's fee by telling the audience what they wanted to hear, Ex-Goldman CEO and J. Aron alumnus, Lloyd Blankfein, recently told a CME Group metals conference, 'From an inflation perspective, as an investor, I don't think it's a bad thing to invest when the material sector has not received enough attention. Everyone thinks we will never see inflationary pressure; that oil prices will never rise again. But I don't think so." Bloomberg News

Well, Lloyd, we're halfway with you as some of our regular readers already know.

Certainly, we are running the same sort of extraordinary inflationary risks that wartime economies run when the State issues copious quantities of what are effectively requisition chits for resources - and has a good many of them monetized either directly or indirectly by the central bank. However, just as during a time of conflict, that inflation is being partly suppressed as the same State acts to dampen the recipients' free use of the proceeds of its issuance through rationing, embargoes, the closure of businesses deemed 'non-essential', and other such restrictive measures.

As we never fail to be reminded, central bank balance sheets have exploded and – along with them – their monetary bases. These, if not as translatable into higher-order aggregate creation in quite the mechanical manner the textbooks of the 60s and 70s would have it, have nevertheless contributed to (as well as augmented) rapid growth in commercial bank credit extension, securities issuance, and money fund growth.

Furthermore, where a private sector shackled, if not actually incarcerated, by anti-COVID measures has been struggling to regain its footing – and where even those who *have* managed to regain an upright posture have had to operate under the shadow of newly-imposed local and threatened national lockdowns, as well as to navigate a dizzying whirl of stop-start policy pronouncements – much of private business' will, not to say capacity, to put such credit to active use has been sorely lacking.

Hence, what we have argued elsewhere is the seemingly all too easy option to chase after supposedly 'biosecure' tech stocks, almost to the exclusion of all else and hence, too, the corresponding lack of interest in the materials of which our modern world is built and by means of which it is powered.

Mind that Cat!

That said, since the late-April lows, commodities have staged something of a partial comeback, if only relative to the awful, end-of-the-world depths they plumbed when the epidemic was at its worst and governmental responses at their harshest.

In reverse order, excess returns on the S&P sub-indices since then have amounted to: Energy. +78.0%; Base, +25.4%' Precious, +16.5%; Agri, +7.2%. As a whole, the GSCI index has added 40.5%, +14.1% Ex-Energy.

For comparison, the same 150 days has seen S&P Growth put on 31.0%, Value gain 14.9%, the overall index increase 23.7%. JNK has climbed 6.5%, LQD 5% and TLT has fallen 4.3% (all figures on a total return basis).

So, while the rising tide has not lifted ALL boats equally, neither has it left commodities entirely behind to founder.

Of course, a rebound from panic-selling lows is one thing: projections of uninterrupted gains are another. Where Mr. Blankfein hits the nail only partly on the head is that an increase in price for commodities is not, *per se*, a necessary consequence of 'inflation' – though that latter disease is not generally an impediment to their ascent – but can instead simply reflect a quickening of demand not immediately able to elicit a commensurate acceleration of supply.

Here, over the longer haul, whether we are doomed to fall victims to the Planners' Utopian fantasies to 'Build Back Better', to launch a 'Green New Deal', or – worse – to enforce a 'Great Reset', material demand will again surely rise.

Castles-in-the-Air still need bricks

Though some luminaries such as the intriguingly named Bernard Looney, CEO of Beyond Petroleum, would argue hydrocarbons will not have much of a place in such a world, it is the actions of such men and women as he who are most likely to bring about their partial substitution, not the benign way, through supplanting them with economically superior techniques, but by failing to invest in their continued production and thus causing much avoidable hardship.

Indeed, the more rapidly we do move along a path to a goal of 'Net Zero' which some of the more jaundiced among us already treat as synonymous with 'Year Zero', the more this prescribed, narrow dominance of the technological means of reducing (direct) carbon emissions over wider calculations of cost- and energy-effectiveness are likely to push up the prices of all manner of capital-intensive, hard-to-extract materials. Nor will the lot of those who persist in such endeavours be much aided by the spreading 'Green Finance' and ESG initiatives – or by the closet protectionism of, say, the EU's proposed 'carbon borders' - all of which threaten to starve the world's extractive and refining industries of a good deal of much-needed capital.

You may well dream of a land- or seascape populated with endless expanses of vast, soaring windmills, each feeding 'clean' power to a water-

electrolysis factory for the production of 'green' hydrogen, but let us not forget that these things consist of many tons of steel, and (oil-derived) composites; that they are each anchored in tons of concrete; that they are built, shipped, and erected with the use of a great deal of other plant and equipment; that power must be led from their widely dispersed, low energy-density networks to the consumers of their output; that their design life is a bare 20 years (though some studies suggest that performance degrades appreciably over that time and that offshore giants, in particular suffer much more rapid wear from their aggressive marine environment); and that meteorological vagaries mean these things operate at best at around 25% of boilerplate capacity, in any case.

Then there is the question of the safe storage and distribution of all that wondrous hydrogen; of the power plants, the delivery networks, and refuelling infrastructure needed to utilise it. There is the so often overlooked issue of all the intervening, 2nd Law of Thermodynamics, losses incurred in each leg of this multi-stage process. Then there are the copper wires, the transformers, the junction boxes, the EV superchargers, and their battery packs as well as the mighty, parallel architecture of back-up generators needed for the frequent days when Holy Mother Gaia is not feeling at her most beneficent.

And we haven't even started on solar…

Everything's a Risk

This may all squeeze sizeable quantities of coal, oil, and natural gas out of the mix for electricity, heat, and transport, as Mr Looney suggests – and ROIC or EROEI be hanged! – but it will not necessarily reduce our call on a whole host of the other materials necessary to the maintenance of a modern civilisation, much less to the spread of that civilisation's bounties to a wider, aspirant fraction of the world's population.

It is clear that to bet on the performance of commodities in the short term is as fraught with risk as it ever has been – especially with panic now mounting everywhere in official circles about a self-generated rise in coronavirus 'cases' that are largely no more than the inevitable consequence of a much -expanded testing regime.

But to dismiss them as of no consequence to the future of one's investments; to assume that 'sustainability' wishfulness shrinks demand faster than political obstructiveness limits supply; or to exclude the possibility that people might once again become eager to exchange what they decide is a surplus of newly-printed money for the possession of something much more tangible - is a similarly dangerous proposition.

Sean Corrigan

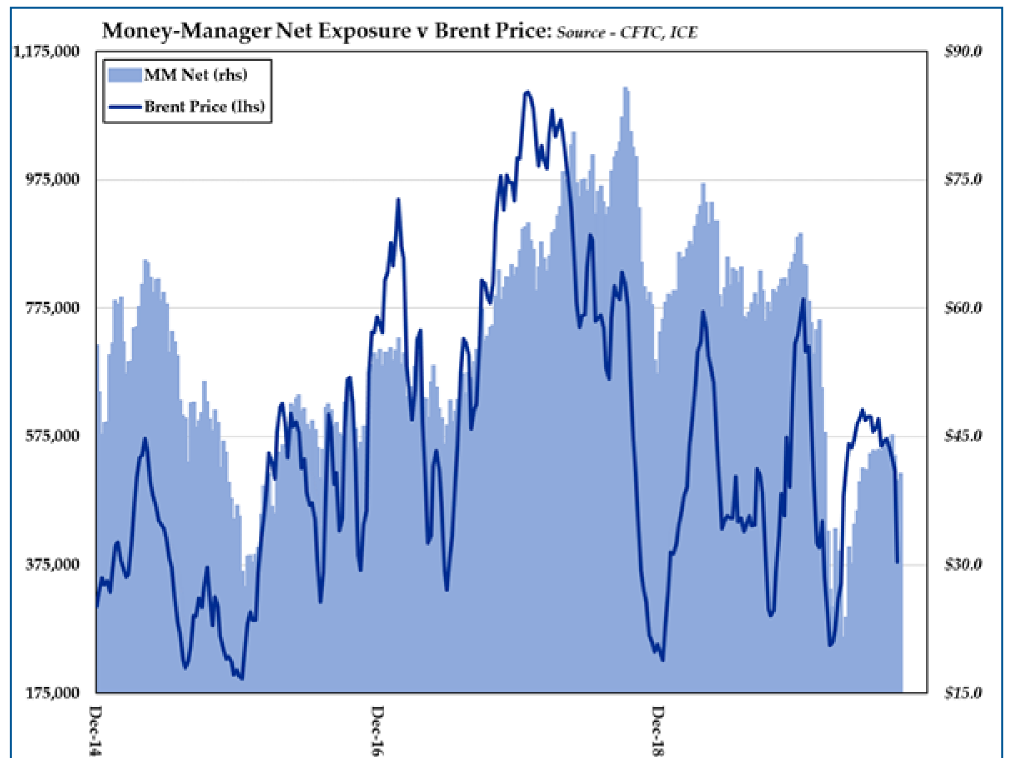
US Crude Stocks ex-SPR, MMbbl v Price, 4wkma YOY%: Source - EIA

Cantillon Effects
'Unconventional Wisdom and Original Thinking'

Stocks YOY (rhs, inverted)
WTI (lhs)

Extreme levels of visible supply have snuffed out spec enthusiasm for oil for the time being, their liquidation being the primary cause for crude's latest slippage.

We need to start emptying those tank farms if we are to get a real rally going, not something renewed lockdowns and international travel restrictions will help

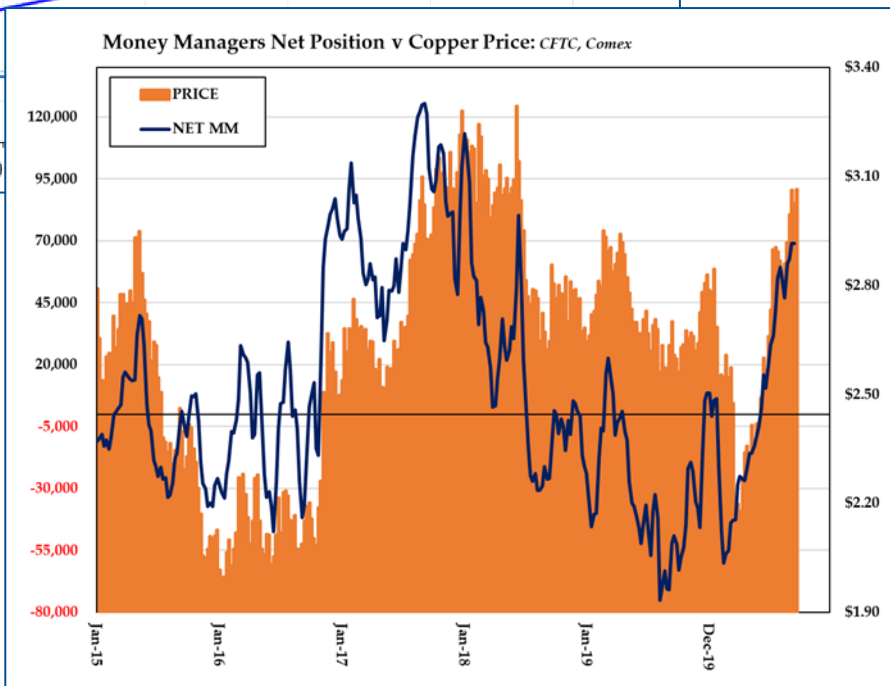


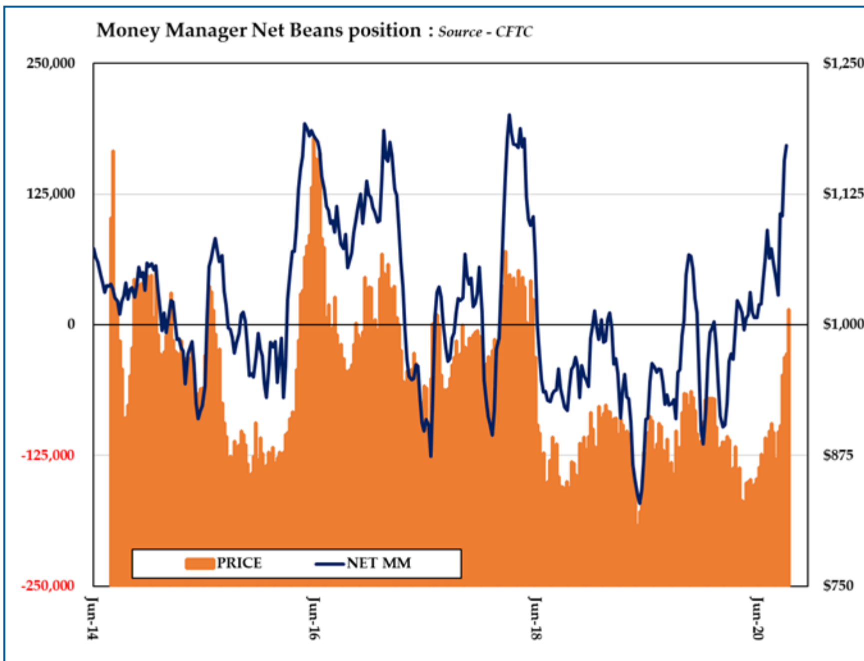
Though we all tend to focus on 'Doctor' Copper, other important barometer metals are also showing signs of life. Nickel and zinc are both up around 40% from the lows, near 10– and 15-month highs, respectively.

Copper itself has broken trend, though longs are beginning to look a little heavy.

A further positive note is that the red metal has been holding its own versus the yellow for the past few weeks—usually a sign of increased real-side optimism, lessened financial stress, and lower appetite for 'risk-free' bonds.

Long may it last!

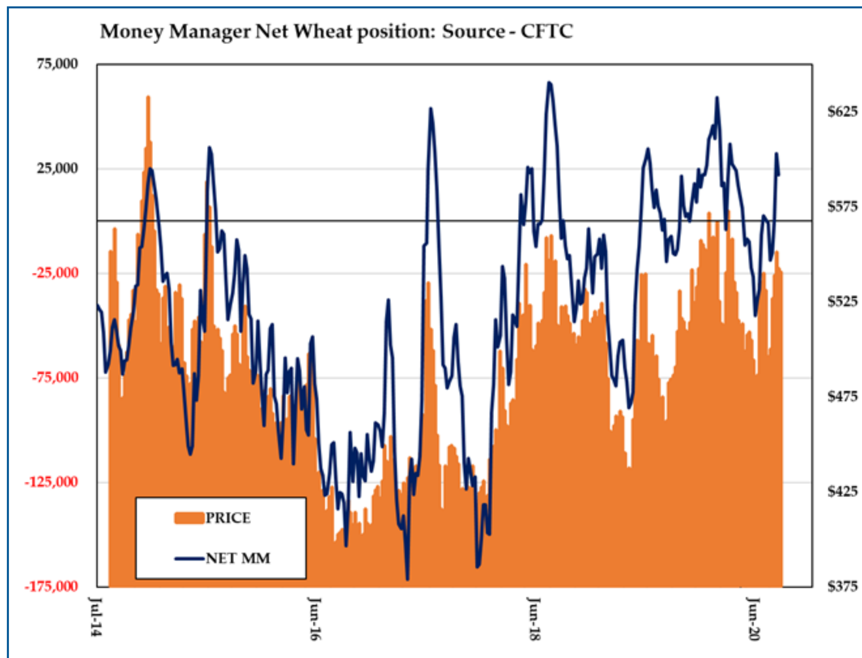




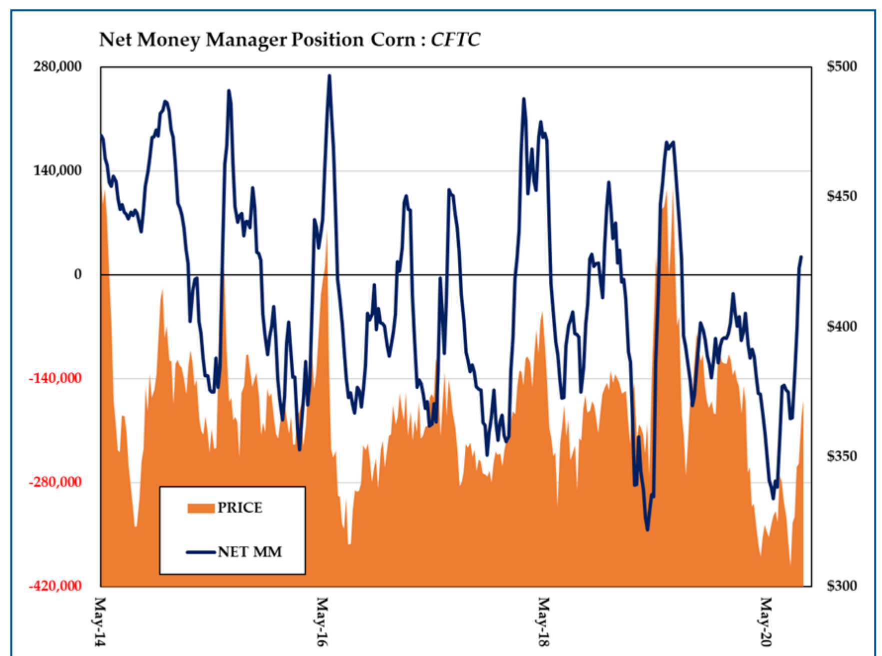
Despite official denials, rumours continue to swirl about the availability of basic food and feedstuffs in China—what with disease, pest, flood & flu all impacting supply.

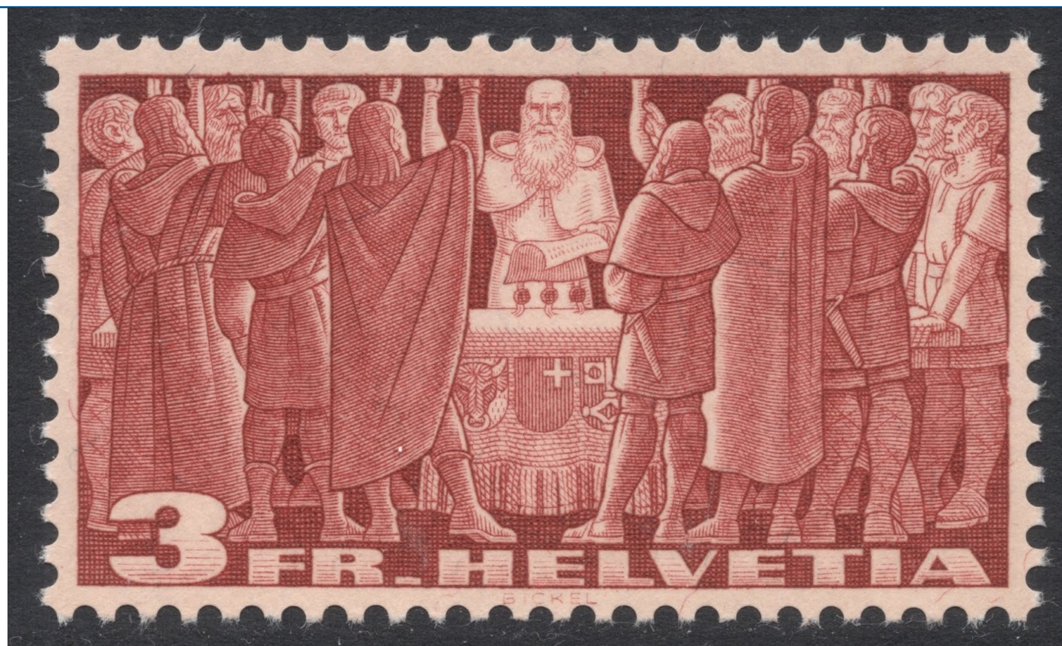
Imports are accordingly elevated. Soybean purchases were up 17.6% in the first 7 months. Wheat imports were more than double 2018's total, corn was 30.7% higher.

The Iron Rice Bowl must be kept filled!



As the charts show, such factors have not gone entirely unnoticed, but corn has only so far seen short covering, driven by 'derecho' storm damage in August, not excessive longs. Wheat, too, does not look wildly overstretched. Drought in the Black Sea region is the trader's hope and farmer's fear, here





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