



Markets Bulletin 18th March 2022

The War in Ukraine - The Global Economic Impact

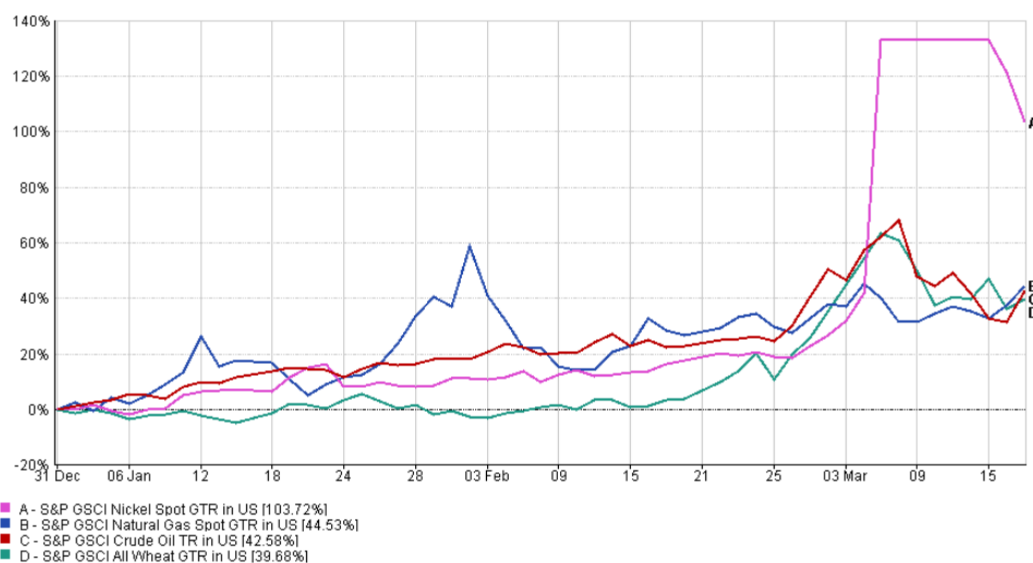
Since Russia's invasion of Ukraine global commodity prices have surged, as concerns over supplies of oil, gas, wheat, and many other raw materials have shaken markets. This has further escalated concerns regarding global inflation and what it shall mean for consumer spending. In addition to this, Covid 19 has surged in China and Hong Kong with China locking down swathes of the population, leading to renewed concerns over supply chains. This in turn has led to further volatility in Asian markets.

Last week saw the price of oil reach \$139 per barrel, as markets reacted to the possibility of the Western allies banning the import of Russian oil. Since then it has fallen back significantly and is currently just over \$100 per barrel. The reasons for this are the signs that progress is being made in the talks between Ukraine and Russia and the rise of Covid 19 in China.

The price of oil and gas have been making the headlines since last Summer and the war has just escalated their volatility. The price of other commodities including nickel, aluminium, wheat and steel have also seen significant price rises over the last few weeks.

Russia is the world's biggest producer of high grade nickel which is used in the production of stainless steel and more recently the batteries used in electric cars. Trading in nickel was stopped last week as the price passed \$100,000 a tonne after surging 250% in just two days. The market has now reopened, however trading was initially suspended again as a result of the price tumbling. The price of gas has affected the production of aluminium, as it takes high levels of power to transform alumina into metal. The high production costs of aluminium and zinc have seen companies including Glencore mothball production sites, in turn reducing the supply of the metals.

Year to Date Commodity Performance



31/12/2021 - 17/03/2022 Data from FE fundinfo2022



Together Russia and Ukraine account for 30% of the world's wheat exports, which means there shall be ramifications for the consumer at both a supply and price level as a result of the war. The UK is largely self sufficient on wheat, however emerging markets are most likely to see a disproportionate impact given they have been the traditional destination of Russian wheat.

The supply of fertilizer shall also be significantly challenged by the war in Ukraine as Russia is a large global supplier of phosphate, nitrogen and potash which are all used in fertilizer production. 40% of all globally exported potash is exported by Russia and Belarus. Europe imports 28% of its fertilizer from Russia and 18% of its wheat is imported from Russia and Ukraine. Norwegian fertilizer company Yara recently indicated the scale of potential crop shortages due to disruption in farming. They advised that 'Farmers are now entering a crucial stage in the agricultural season in which input factors such as fertilizer, seeds and water determine the yield of the coming harvest. The most extreme calculations indicate that if fertiliser is not added to the soil, the crops can be reduced by 50% by the next harvest'.

Prior to the war in Ukraine the global economy was still trying to recover from the pandemic. Markets were reacting to the rising levels of global inflation and were speculating upon how many times the Federal Reserve would need to raise interest rates this year. The situation has become far more complicated in recent weeks. Russia's invasion of Ukraine came as an enormous surprise to markets, and that is reflected in the stock market sell-off as well as some of the speculative activity in commodity prices.

Central Banks are now facing an unenviable choice between acting hawkish, raising interest rates to bring inflation under control at the risk of meaningfully damaging growth, and letting inflation run unchecked in order to protect growth as much as possible. With inflation surging and global growth slowing economists are predicting that a period of "stagflation" could be approaching the global economy. Having said this, rates of employment are currently high, demand for goods and services remain strong and consumers have built up their savings during the pandemic. Consumers should therefore be able to withstand inflationary pressures over the short term. The longer that inflation and prices remain elevated and if supply chain issues escalate, the greater affect that this will have on demand and global growth and a downturn could follow.

As widely expected, the Federal Reserve (Fed) has now confirmed that it will raise interest rates by 0.25%. This is the Fed's first rate rise since 2018 and is an attempt to tackle inflation, which is at a 40-year high in the United States at 7.9%. They also signalled that there would be a further six increases this year, delivering a more hawkish message than many were expecting. The policymakers now see the federal funds rate rising to a range between 1.75% and 2% by the end of the year and predict it will climb to 2.8% next year.

In a post announcement press conference Jerome Powell (Fed Chair) stated that economic indicators and employment figures had "continued to strengthen", but noted that inflation remained elevated, and the invasion of Ukraine was not only "causing tremendous human and economic hardship" but due to the "surge in prices of crude oil and other commodities that

resulted from Russia's invasion of Ukraine will put additional upward pressure on near-term inflation here at home". He also added, "We are seeing supply chain issues around shipping and around lots of countries and companies and people not wanting to touch Russian goods, so that is going to mean more tangled supply chains."

The Bank of England has now confirmed that it shall increase interest rates by a further 0.25%, bringing the interest rate to 0.75%. The Bank is also projecting that inflation shall rise to 8% during the second quarter and could possibly reach 10% in October, when energy prices are set to rise again. In contrast to the Fed however they are already seeing a fall in consumer confidence and are expecting a greater squeeze on household incomes than previously projected.

The members of the ECB (European Central Bank) have also now met for the first time since the outbreak of the war and the outlook for inflation in Europe, not the war, dominated discussions. They agreed that the ECB's asset purchasing programme shall reduce at a faster rate, ending during the third quarter of this year if economic conditions are favourable. Interest rates in the Eurozone are still not expected to rise until next year. These plans put inflationary concerns ahead of the war in Ukraine, these could however change if there is a further escalation in the war in the Ukraine with Russia cutting off Europe's energy supply.

As stated, China and Hong Kong have this month seen a surge in Covid cases as the Omicron variant has taken hold. Both have a zero Covid policy, which up until now has seen them through the pandemic. In China however about 40% of the over 80's are unvaccinated and as of February this was almost 70% in Hong Kong. The issue has not been the availability of vaccines, as these are widely available, but the public have not seen the urgency to have the vaccines due to the low numbers of cases being previously recorded.

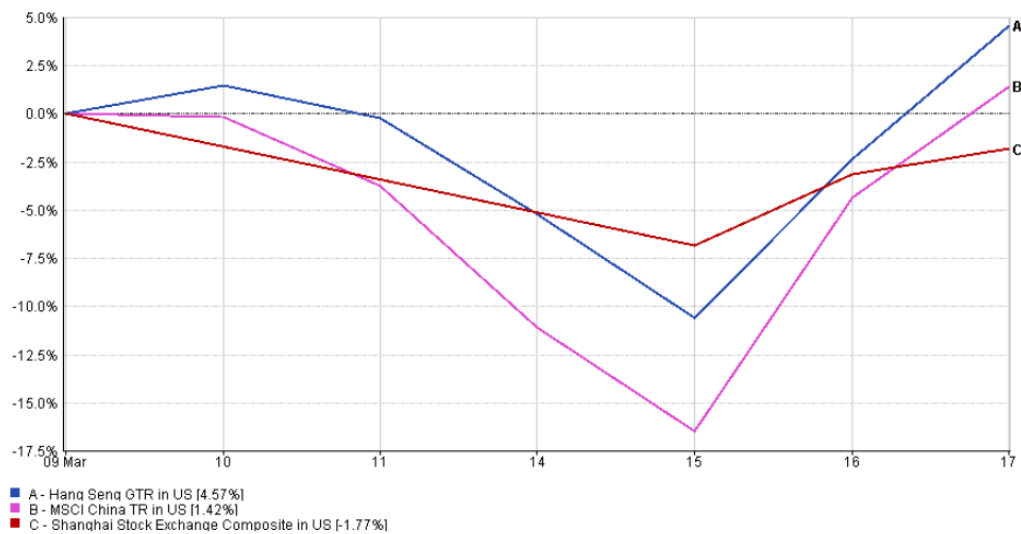
Hospitals in Hong Kong are now under severe pressure, and the seven day average of Covid related deaths has become the highest in the world. Many cities across China have now been placed in either a full or partial lockdown, which is so far only expected to last a week, however it has affected approximately 30 million people and is causing further supply chain disruption

In addition to the Covid surge, Asian markets have been shaken by the threat that some Chinese stocks could be delisted from U.S. markets over a lack of accountancy transparency. This has been a contentious issue for some time and relates to the Holding Foreign Companies Accountable Act. The first five companies that could face delisting have now been announced, marking the beginning of a process which could take up to two years to implement. If it proceeds as outlined, it could impact up to 270 companies. This is in effect old news but the announcement, together with other global developments, appears to have led to a reappraisal of these risks.

A further concern that investors in China have had to overcome this week was the possibility that China could be sanctioned over its willingness to offer military assistance to Russia. All of these points saw markets in the region sell off at the start of the week.



China & Hong Kong Stockmarket Performance



09/03/2022 - 17/03/2022 Data from FE fundinfo 2022

In response to the freefall in markets, Vice-Premier Liu He, and economic advisers to President Xi, pledged to take measures to support the economy and markets. It followed a special meeting of the state council's Financial Stability and Development Committee.

Liu indicated that Chinese regulatory authorities had held a constructive ongoing dialogue with US counterparts to resolve the issues in relation to US-listed Chinese stocks. In addition, he reassured investors that the aim of the government is to preserve the stable and healthy growth of Chinese Internet platforms and uphold their global competitiveness. Finally, he specifically mentioned the importance to China of the stability of the Hong Kong financial markets. These announcements saw Asian markets rally with Hong Kong's Hang Seng having its best day since October 2008 erasing all of the losses from earlier in the week.

At this time there are the early signs of progress in the peace negotiations between the Ukraine and Russia, however the fighting and rhetoric continues, and the sanctions remain in place. Even if the conflict in Ukraine did end soon, we would be left with a gulf between Russia and the West, with Russia isolated and sanctions probably remaining.

Inflation is projected to continue to rise over the short term and is not expected to peak until the third or fourth quarter. Interest rates are also going to continue to rise as inflation remains elevated, and based upon recent Central Bank meetings, bringing down inflation is a priority over economic growth. Central Banks are however expected to proceed with caution, so as not to stifle growth to the extent that brings on a recession.

As we have continued to advise throughout this year, remaining invested at this time and focusing on your long-term investment objectives is the best course of action.

Should you have any queries or concerns, please do not hesitate to contact your Investment Director.

Kevin Hunt Dip PFS, Cert PFS (DM)
Investment Manager
Technical Team





Risks & Disclosures

- Past performance is no guarantee of comparable future results. Unit prices can fall as well as rise.
- Diversification does not guarantee investment returns and does not eliminate the risk of loss.
- The projected results and statements contained within this document that are not historic facts are based on current expectations.
- Any statements made speak only as of the date of this document and involve risks, uncertainties and other factors that may cause actual results, performance or actions to be materially different from any future results, performance or actions.
- Assumptions and projections made involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are impossible to predict accurately and are beyond the control of Burley Fox Limited.
- Burley Fox Limited does believe that any assumptions made for projected results or forward looking statements are reasonable as at the date of this document. Any of the assumptions made could be inaccurate and, therefore, there can be no assurance that the projected results or forward looking statements made will prove to be accurate.
- In light of the significant uncertainties inherent in the projected results and forward looking statements within this document, the inclusion of such information should not be regarded as a representation as to future results or that any forward looking statements shall be achieved.

The General Data Protection Regulations (GDPR) became effective in the UK from the 25 May 2018. Burley Fox Limited has published a new Privacy Policy so you understand how we use and protect your data. A copy of this document can be found on our website here.

<https://www.burleyfox.com/documents/BFL-Privacy-Notice-2018-V1.pdf>

