

Classical Insights

Global Investment Analysis Based on the Classical Economic Model

Classical Insights bullet points - September 16, 2021

1) Gold continues to be weak. Long-term interest rates are ticking up as the US economy strengthens, and that is bad for gold. A helpful series to track this is the 2026 Eurodollar future. The use of 2026 gives you a fixed point in time -- when COVID influence on Fed policy presumably will have ended. As the chart below shows, gold is tracking 2026 Fed funds expectations pretty well. Those expectations have been rising (i.e. white line falling) since mid-July.

GOLD (yellow) vs. 2026 EURODOLLAR FUTURE PRICE (white) -- 2013-present:



2) A good economist I know suggests copper/gold is a lot more accurate than silver/gold in signaling whether the Fed is in an inflationary or deflationary posture. I guess logically that makes sense: If silver is "half gold, half copper" why not just use copper to get a clearer vision of the relationship between industrial and monetary commodities? In the chart below we can see that this chart definitely gives you a worthwhile real-time signal. Right now it could be described as "up and stable." Not actually doing anything.

COPPER/GOLD RATIO (copper cents/lb. divided by gold ounce) -- 2000-present. (UP IS GOOD)



3) Corn seems to be mirroring the evolution of US monetary drivers. Right now just milling around.

US CORN PRICE -- 2017-present:



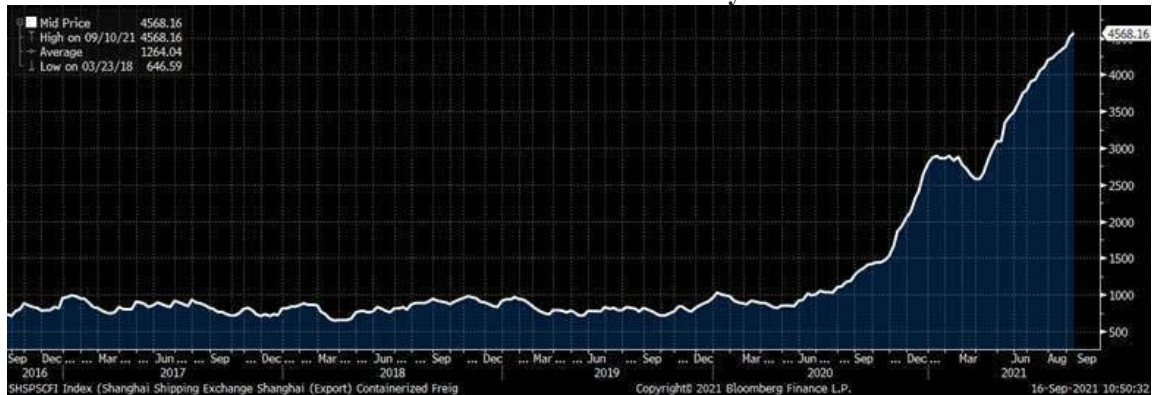
4) In the wake of the implosion of Chinese developer bonds, it's going to be important to watch the Chinese economy for negative effects. Here is the chart of China iron (62% fines imported from Australia) vs. China hot-rolled coil steel. So far steel not moving (about \$900/tonne) but iron is getting clobbered. Quite strange in a sense. Even stranger when you consider iron (down) vs. met coal (exploding). Apparently there are various idiosyncratic factors at work but still ... this chart merits meditation.

IRON ORE (\$/tonne Qingdao port) vs. CHINA STEEL PRICE (HRC, \$/tonne) -- 2010-present:



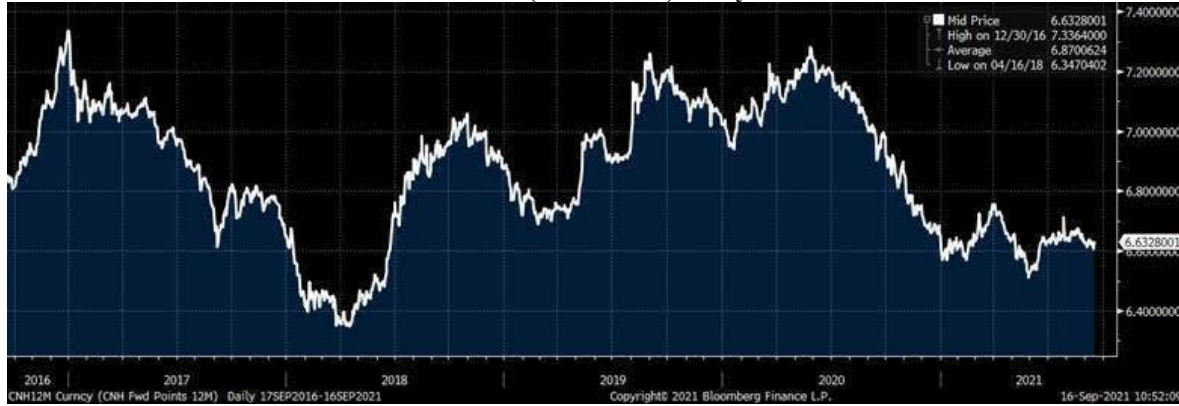
5) Meanwhile, the China containerized freight index continues to soar.

SHANGHAI CONTAINERIZED FREIGHT INDEX -- 5-year chart:



6) How about the 12-month yuan future? If the PBoC is going to have to flood the Chinese economy with liquidity to offset a pancaking real estate sector, the yuan should weaken. So far ... nothing happening. That's encouraging -- though perhaps it's still just early days for China's "Come to Confucius moment" in real estate.

CHINESE YUAN 12-MONTH FUTURE (CNY/USD) -- 5-year chart:



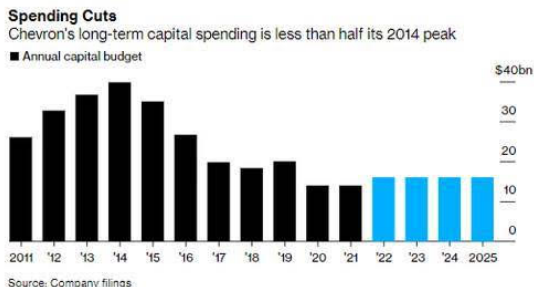
7) Chevron CEO says ESG witch hunts likely to drive oil and gas prices higher.

"There are things that are interfering with market signals right now that we haven't seen before. Eventually, things work out, but eventually can be a long time," Wirth said. "There are two signals I'm looking for, and I'm only seeing one of them right now," he said. "We could afford to invest more. The equity market is not sending a signal that says they think we ought to be doing that."

Wirth added that shareholders would rather see cash returned to them than invested in new or existing drilling projects. Investors are cautious about plowing billions of dollars into low-return projects. They are also concerned about climate change initiatives targeting energy companies to reduce carbon emissions that would hurt future returns.

"You've got some real new dynamics, whether it's government policy, efforts to constrain capital into the industry, to make it harder for the industry to access capital markets," Wirth said. "That is the short term could create some risk for the global economy."

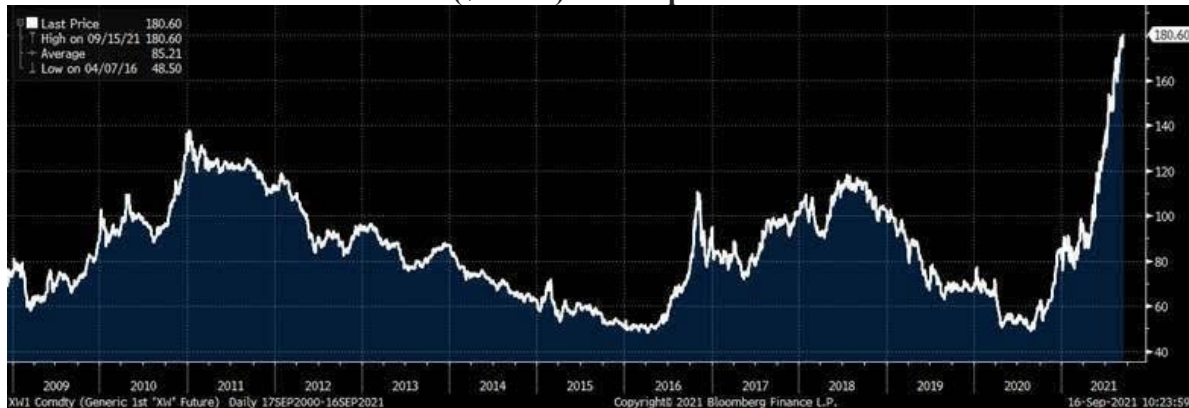
Because of climate change policies, Chevron has to examine each project's carbon emissions. "It's become a big part of our decision-making process," Wirth said. As shown below, the company has halved its long-term capital spending implying new high carbon projects will be limited and may result in years of diminishing output, thus helping to create supply tightness.



What is the endgame is here for Team Davos? Are they perhaps *trying* to make existing oil, gas and coal investors/proprietors richer? That's one possibility. For, if you make financing more expensive and/or morally suspect, that gives the incumbents a wider moat to exploit their existing infrastructure. Another possibility is that higher oil/gas/coal prices make alternative energy sources seem less absurdly uneconomical by comparison.

8) Speaking of which, Australian thermal coal is US\$180/tonne.

NEWCASTLE THERMAL COAL (\$/tonne) -- 2009-present:



I'm going to put on another tranche of two thermal producers: Alliance Resource (ARLP) in the CI portfolio and Indo Tambangraya in the new EM portfolio.

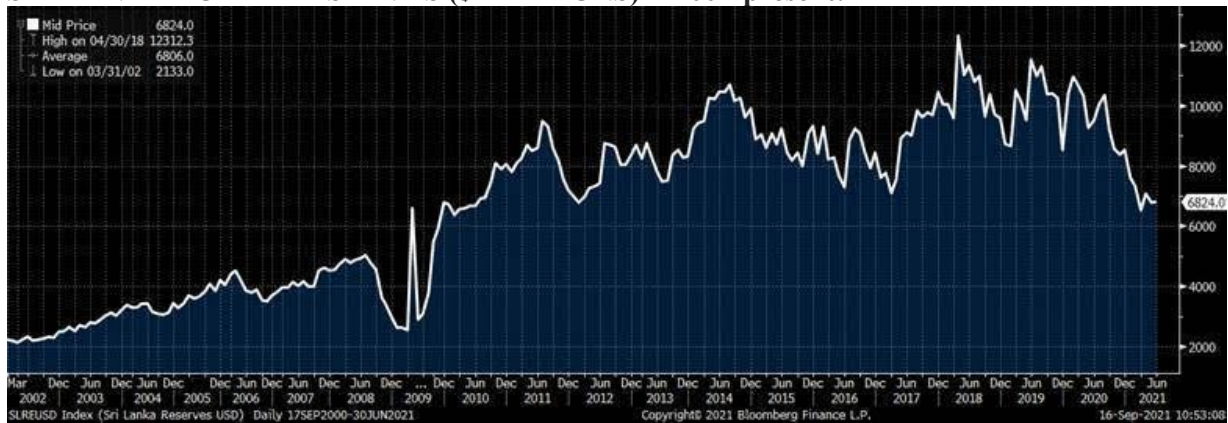
ALLIANCE RESOURCE LP (magenta) vs. INDO TAMBANGRAYA IN USD TERMS (white) -- 5-year chart:



9) In the Bloomberg metals chatroom there is a lot of talk about Teck perhaps trying to dump its met coal division for ESG virtue-signaling and/or debt reduction. I think Teck should just keep it. Teck has a debt burden that is a somewhat higher than one would ideally like to see ... but in my mind the met coal business is a helpful offset to the political risk of all those copper and zinc mines in Chile and Peru.

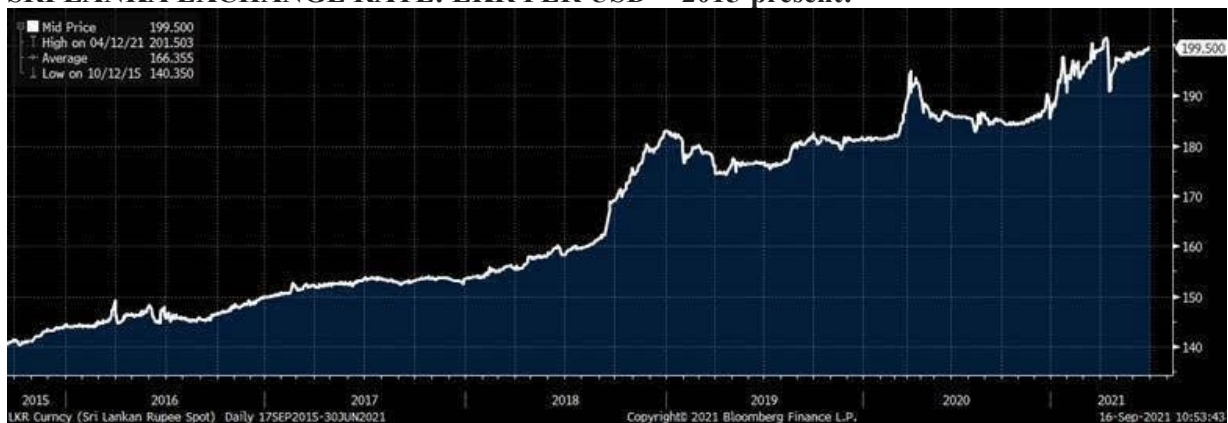
10) Sri Lanka has reinstated [former central banker Ajith Cabraal \(2006-15\)](#) to address the problem of plunging foreign reserves ...

SRI LANKA FOREX RESERVES (\$ MILLIONS) -- 2002-present:



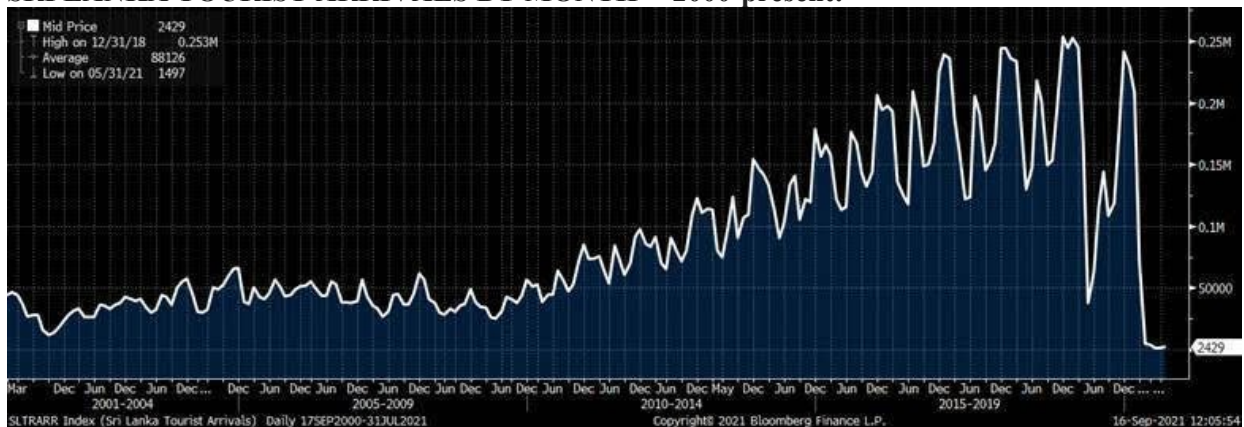
... and an exchange rate that is now 199 LKR/USD:

SRI LANKA EXCHANGE RATE: LKR PER USD -- 2015-present:



Half of Sri Lanka's problem (if not all of it) is Coronavirus restrictions which have decimated tourism. If they just *took off the COVID restrictions* and announced that Sri Lanka is now a "free port" where you can come and relax and look at elephants without tests and shots, the problem would be solved. But Sri Lanka is in hock (deeply) to all the multilaterals so probably won't do that.

SRI LANKA TOURIST ARRIVALS BY MONTH -- 2000-present:

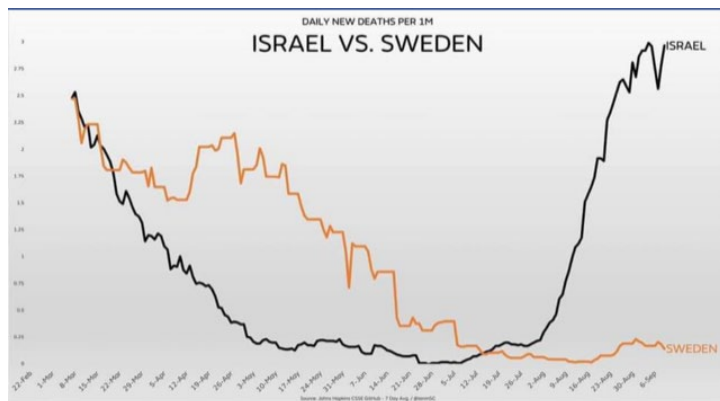


11) [Sri Lankan Airlines COVID rules](#). It's no wonder nobody wants to go there. What a nightmare. If you do something wrong on the paperwork, at the end of your 9-hour flight they put you in quarantine in a government hotel in Colombo. This almost happened to me in Panama and I had to spend a night sleeping on the floor of the Panama City airport to avoid it.

12) [Meanwhile, in Uttar Pradesh India -- which has 9x the population of Sri Lanka \(200m vs 21m\) -- COVID cases are at zero thanks to Ivermectin.](#)

This whole Sri Lanka trainwreck is another case study in why you should never get in hock to the multilaterals. To paraphrase Al Pacino in *Glengarry Glen Ross*, multilaterals are not there to *help* you, they are there to [^%\\$# you up](#). Argentina is exhibit "A" in this respect.

13) [Sweden beat COVID by doing the bare minimum -- Israel is quadruple-vaxing people and the morgues are filling up.](#) The vaxx *is* the variant, quite obviously.



Joseph DeLapp

Joseph DeLapp's Photos · Tuesday at 1:38 PM · 🌐

14) [Bill Gates: For the next pandemic we'll have gigantic mRNA factories in India.](#) Gates is sort of an actor/front man for much deeper forces. He is telling you where humanity is going: People are going to be bred and controlled like farm animals, with Pfizer and Moderna determining the path of the species. Curt Doolittle argues that historically the peasant class *was* viewed as little more than farm animals -- and often were bred as such. Perhaps we are returning to that paradigm. If so, that puts the successful half of the merchant class in an awkward position: Smart enough to figure out the game, rich enough to theoretically buy a way out -- but lacking the connections (proverbial lodge memberships etc) to know how to go about it.

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