

# The Ghost In The Machine



Q1 EDITION 2021



ADM Investor Services  
International Limited



## EDITORS NOTE

Q1 EDITION

# Q1

2021

Recovery, Pandemic, Sustainability, Agriculture, QE, Gamestop, Central Banks, Commodities, ESG, Equities, Bitcoin, Gold, Rates, Sugar.

**Welcome to the March 2021 edition of the Ghost In The Machine, which as ever looks at a broad spectrum of topical issues from ESG investing, cryptocurrencies and financial flash mobs to central bank policy challenges and commodity super cycle prospects.**

The trend towards ESG investing has been accelerated by the pandemic, but is also facing an array of challenges about definitions, a rapidly evolving regulatory backdrop, with considerable divergence between the UK and EU.

As part of efforts towards a green economic recovery, Sustain's Fringe Farming project is exploring ways to enable agroecological farming at the edge of cities, bringing food production closer to the urban consumer.

The Covid-19 vaccine roll-out has boosted recovery hopes, fuelling a sharp rally in most commodity prices, but is this really the start of a new 'super cycle', and what are the specific implications for the sugar market?

Markets have long embraced central banks' QE backstops and liquidity provisions, but now appear to be questioning the wisdom of current forward policy guidance, perhaps fearing that central banks may fall into a trap of their own making. US equities continue to make new highs, but does the positive technical momentum fit with the fundamental backdrop? Speculative bubble rollercoaster moves in single stocks such as Gamestop driven by retail flows have captured the attention of markets' chattering classes, the media and latterly regulators, we take a look at the underlying drivers of this 'disruption', and how this may signal a more fundamental shift in the way that markets operate.

Bitcoin and other cryptocurrencies have moved from being dismissed by sceptics as a speculative sideshow towards the realm of 'acceptable investments' for banks and funds, so does the comparison with gold have any merit?



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# SUPER EXCITED ABOUT A SUPER CYCLE

There has been much talk over the past few months of a commodity super bull cycle having started. The likes of Goldman Sachs and JP Morgan and other analysts have stated that for several reasons commodity prices could be entering a decade or more up trend. The development of a true commodity bull cycle can take several years to develop but many appear to have made up their minds.

Long term commodity cycles have been witnessed for centuries and should not be confused with short lived booms which happen more frequently. There have been three commodity supercycles over the past 150 years. The Second Industrial Revolution between 1870 and, abruptly, ending in 1914 when the first world war started saw raw commodity prices improve markedly. The post-World War II economic expansion which lasted until the mid-1970's saw unprecedented global growth which brought renewed huge demand for all commodities. The last commodity bull cycle started at the back end of the last century, after a couple of decades of depressed commodity prices and came to an end when the world went into recession after the banking crisis of 2007-2009 although it did linger on until 2011 when oil prices dropped from historic highs. It was largely due to the rising demand from emerging markets such as the BRIC economies and in particularly China.

Despite the global pandemic that has overwhelmed the world, there are many analysts who see the vaccine roll-out as the beginning of a commodity bull cycle. Its extent and size still undetermined although this has not deterred many from getting seriously excited.



“THE SECOND INDUSTRIAL REVOLUTION BETWEEN 1870 AND, ABRUPTLY, ENDING IN 1914 WHEN THE FIRST WORLD WAR STARTED SAW RAW COMMODITY PRICES IMPROVE MARKEDLY.”





“CRUDE PRICES ARE BACK TO PRE-PANDEMIC LEVELS AND COPPER HAS REACHED LEVELS NOT SEEN FOR NEARLY A DECADE”

What are the reasons for the bullishness? Firstly, as in the last bull cycle, China and its apparent insatiable appetite for all commodities. Other emerging economies such as India are also seen as increasing commodity demand. Secondly, optimism that the world is soon to conquer the Covid virus. Not only will the huge global financial stimulus introduced to combat the pandemic spark economic growth and increasing employment but also cause inflation. Buying raw commodities is the classic hedge against inflation. The widely-predicted further weakening of the USD is also supportive although it has recently strengthened. Finally, climate change policy could increase demand for certain metals.

Are these factors reason enough for a multi-year bull market for commodities to develop? The United Nations food agency reported at the beginning of February that global food prices rose for the eighth consecutive month in January to their highest level since July 2014. The main reason would seem to be stock piling in anticipation of food inflation in certain importing countries, with China the prime example and producing countries also limiting exports such as Russia, who have imposed export taxes on wheat and corn. Whether this is a long-term trend or more a short-term reaction to the pandemic remains to be seen.

The investment funds have certainly made their views clear. They have been building huge long positions across all commodities. During 2020 they bought a record volume of agricultural commodity future contracts and have added more this year although there has been some consolidation recently. Crude prices are back to pre-pandemic levels and copper has reached levels not seen for nearly a decade. Of course, one could argue that the funds, in buying, are self-perpetuating the super-cycle view.

Recently, there have been some concerns voiced that some caution may be necessary. The UK's Financial Times commented recently that they see China cutting back on imports over the coming years as they strive to be more self-sufficient. They are also sceptical that the global vaccine roll-out will be the cure-all for the global economy and will not fuel a super cycle. They are also unconvinced regarding the threat of inflation and believe the US Fed will keep it under control. However, they do concede that measures to control climate change could see metals such as copper, nickel, lithium and platinum surge in price but only if concrete policies are agreed at the UN climate meeting in November.

“OIL AND METALS ARE, ESSENTIALLY, DIMINISHING COMMODITIES AND THEIR SUPPLY CAN BE EASIER TO CONTROL, IT NOT THE CASE WITH AGRICULTURAL COMMODITIES”

While oil and metals are, essentially, diminishing commodities and their supply can be easier to control, it not the case with agricultural commodities. It is hard to control farmers who often react to higher prices by growing more – the classic boom and bust scenario. Short term fundamental issues have driven many grown commodities higher recently but whether it is a basis to predict a long-term bull cycle developing is not certain.

One factor that has not been mentioned is weather. Regardless of what happens at the UN meeting late this year, climate change will continue to have an impact for many years to come. There are some who are convinced the world is going to suffer huge changes in weather due to solar cycles and shifting jet streams but that is probably a discussion for another time. Nevertheless, the recent very cold weather in Texas and parts of Europe is certainly food for thought. However, weather is likely to be only a peripheral factor as to whether a super cycle develops.

So, the heady mix of post-pandemic global growth, the possible emergence of inflation and rising demand for many commodities suggest the pundits may be right and commodity prices will continue to rise. 2021 certainly looks as if prices will remain volatile. The question is whether it will develop into a full blown super cycle that will last well into the next decade? Too much uncertainty to make any bold predictions by the pragmatists but if it is the case then, at least, it should mean that the virus has been controlled.

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# FROM STOCKHOLM TO HELSINKI SYNDROME?

As readers will be aware I have described the phenomenon of endless central bank financial repression and financial markets' ostensible affection for what has evolved from the 'Greenspan put' during the Asian debt crisis, to the \$9.0 trillion central bank backstop in response to the economic shock of the pandemic, as being analogous to 'Stockholm Syndrome'.

The latter is defined as a psychological response wherein a captive begins to identify closely with his or her captors, as well as with their agenda and demands, which one could argue describes the phenomenon of the broad risk asset rally in the face of the economic shock due to the pandemic. The central bank promise not to take away the punch bowl from the party has underpinned this, with markets also emboldened by previous successes in throwing tantrums to force a 'retreat' from central banks when they tighten policy. But has an inflection point been reached, where Stockholm Syndrome morphs into Helsinki Syndrome?

This is not 'Helsinki Syndrome' as mistakenly referenced in the film Die Hard, but rather as defined in a 1985 article in The Nation: "Most feared of all Scandinavian disorders is Helsinki Syndrome, in which positively charged particles of information afflict the victim's central ideological system, causing him to question America's absolute moral superiority (i.e. the Pax Americana) in the Cold War. Specialists in the field refer to victims of the syndrome as being 'Finlandized'". In other words, are markets questioning the wisdom of major central banks' pledges to keep rates at current levels for a protracted period, in the face of nascent inflationary pressures, and are they questioning the aura of omniscience and omnipotence that they have bestowed upon central banks since the GFC? The obvious counter would be that markets have mistakenly tried to second guess central bank policy moves on many an occasion in the past few decades, and the mantra that 'you can't fight the Fed' (or other central banks) remains as valid as it has always been.



"HAS AN INFLECTION POINT BEEN REACHED, WHERE STOCKHOLM SYNDROME MORPHS INTO HELSINKI SYNDROME?"







“ALL MAJOR CENTRAL BANKS HAVE AN INFLATION TARGET, WHICH IN MOST CASES IS 2.0% YR/YR, BUT OVER THE PAST 10 YEARS, ONLY THE FED AND BANK OF CANADA HAVE ACHIEVED THAT TARGET IN BROAD TERMS, MEANING THAT INFLATION HAS FLUCTUATED IN A RELATIVELY NARROW RANGE.”



Perhaps this is the wrong prism through which to view these developments in any case. But it does seem sensible to adopt a sceptical questioning stance, as per the Helsinki syndrome, on central banks' 'superior' knowledge and understanding, given that this is effectively assumed in their forward guidance to keep policy rates and other measures at current levels at least until 2023. Before looking at some of the questions that may need to be raised about what any post pandemic economic recovery might look like, there are some questions about central bank key policy variables and their policy toolboxes, as well as post-GFC regulation and markets which would to be appear unavoidable.

All major central banks have an inflation target, which in most cases is 2.0% yr/yr, but over the past 10 years, only the Fed and Bank of Canada have achieved that target in broad terms, meaning that inflation has fluctuated in a relatively narrow range. By contrast UK CPI has been far more volatile, though far from out of control, while Eurozone and Japanese CPI have persistently undershot target, often by a large margin. In Japan's case, the BoJ has had interest rates at or close to zero for more than 20 years, and has been deploying some variation of quantitative easing for nearly two decades. To be sure, one can argue that argue that are structural factors at work in Japan, but the fact remains the BoJ has via its various quantitative easing programmes acted as a backstop buyer of many domestic asset classes for a very long time, and has in fact never ever put a plan in place to reduce the size of its balance sheet, now more than 100% of Japan's GDP. Indeed, outside of the Fed for a brief period in 2018/19, no major central bank has ever tried to reduce the size of its balance sheet, thus giving the lie to the originally rationale of QE. Let us recall that the idea that was central banks reduced rates to near zero, purchased high-quality, low-risk assets from banks, who in turn could lend more to businesses and consumers, and restore confidence in the economy, and once the economy was on a sustainable growth and inflation path, and financial conditions were stable, central banks would reduce the size of their balance sheets and 'normalize' rates. But this never actually happened, in no small part because it relied on 'trickle down' economics, and instead of QE flowing into the economy, it was funnelled into financial markets, inflating asset prices and inequality, allowing governments to sit back and do nothing to address what were and are much needed structural reforms. It can be argued that the sharpening of bank capital requirements in the wake of the GFC clearly hampered the hoped for 'trickle down' effects, but that is only part of the story.

Firstly it was always going to be the case as current BoE chief economist observed in 2014 that: "One of the likely consequences of the crisis, and the resulting regulatory response, is that the financial system will reinvent itself. Financial activity will migrate outside the banking system. And with that move, risk may itself change shape and form. What previously had been credit and maturity mismatch risk on the balance sheet of the banking system may metastasize into market and illiquidity risk on the balance sheets of non-banks."



Secondly as former BIS chief Caruana noted in 2015: "Policy does not lean against the booms, but eases aggressively and persistently during busts. This induces a downward bias in interest rates and an upward bias in debt levels, which in turn makes it hard to raise rates without damaging the economy – a debt trap." "Systemic financial crises do not become less frequent or intense, private and public debts continue to grow, the economy fails to climb onto a stronger sustainable path, and monetary and fiscal policies run out of ammunition. Over time, policies lose their effectiveness and may end up fostering the very conditions they seek to prevent."

Thirdly, none of those charged with regulatory reform ever sought to ask whether it was and is the leverage in the wider financial system, and by extension certain types of accompanying financial instruments where the epicentre of risk lies, and which has risen sharply, if not exponentially as a result of the combined monetary and fiscal measures that have been taken. Central banks have effectively been complicit in this, and instead being 'in control', they find themselves in a trap of their own making, and as guilty as governments of failing to tackle much needed reforms. Perhaps the saddest observation in recent months was that of RBA governor Lowe that the RBA cannot tighten policy if other major central banks continue to loosen financial conditions, or at least not without prompting a major and unwanted revaluation of the Australian Dollar.

Markets are increasingly aware that the aforementioned trap is a problem which central banks 'Spaghetti principle' policies (the act of throwing spaghetti against a wall and hoping that some of it sticks) will not solve, and indeed may serve to destabilize economies via inflation or potentially stagflation, and in the process the financial and monetary system architecture that underpins it. But what may be of greatest concern to markets is that tacitly central banks are far more concerned about how they can extricate themselves from this trap, but persist with a narrative of persisting with current policies for a very protracted period via 'forward guidance', even though the risks to the economic outlook are as BoE governor Bailey has said 'increasingly two-sided'.

There would appear to be two very clearly identifiable risks, despite a still very high level of uncertainty about how the pandemic evolves, and by extension its economic consequences. The first is a near certainty, namely that the pace of recoveries diverge very sharply, necessitating unilateral decisions by governments and central banks on removing some of the fiscal and monetary support, which even in a more homogenous evolution will be tricky. The risk is primarily that with so much excess central bank liquidity and so little market liquidity, such unilateral moves prompt sharp shifts in flows between geographies and indeed asset classes. The second is around inflation, rather less due to pent-up demand, which should prove to be transitory even if perhaps alarming at certain points, and rather more because it remains unclear how much productive capacity has been permanently lost, or will take a very considerable period to rebuild; semiconductors, above all for the auto sector, are the obvious immediate example. In that respect, and on a closing note, if the fad for ESG and climate change related investing ends up cutting off finance for the hydrocarbon sector in an abrupt fashion, the risk of outsized price rises for hydrocarbons looks to be inordinately high. While the pressure to migrate to energy sources that are more climate friendly is obvious, this will take decades, and self-righteous tub-thumping and chest beating has never been the basis for any realistic and realizable plan for a major global transformative project.

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*SYSTEMIC FINANCIAL  
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OUT OF AMMUNITION.*











# ESG... ANOTHER BUZZ WORD TO TRY TO REMEMBER...!

## 'The Rise of Responsible Investing!'

The title of this piece is 'ESG...another buzzword to try and remember...!' That's wrong to start with! A buzzword, as defined by Oxford Languages, publisher of the Oxford English Dictionary, is a word or phrase, often an item of jargon, that is fashionable at a particular time or in a particular context.' Well ESG is neither! It is an acronym...but I'll still stick with it being a buzzword because I have heard it mentioned, cited, quoted, voiced, cautioned, warned, especially warned, lots of warning and lots and lots of webinars, seminars, paper, position statements, etc...etc...etc...!

This piece is not going to fit into any of these cleanly... but it is a first look at the detail, something we will all seemingly have to deal with...and I should warn you, there will be more acronyms coming!

*"...ESG ISSUES ARE RELEVANT FOR FINANCIAL VALUATIONS."*

This is the supposed 'Rise of Responsible Investing'... as if we didn't need to do that in the first place! ESG stands for Environmental, Social, Governance (...or derivations of those words). It was first used in a 2005 study called 'Who Cares Wins.' and is based on the SRI movement (Socially Responsible Investment) that has been around much, much longer. The difference is SRI used ethical & moral factors to mostly negatively screen investments, whereas ESG investing is based on factors that have financial relevance. It all started when former UN Secretary General Kofi Annan wrote to over 50 of the world's major financial institutions, asking for a joint initiative under the UN Global Compact and supported by the IFC & the Swiss Government. This produced 'Who Cares Wins', authored by Ivo Knoepfel. In essence, it stated embedding ESG factors makes good business sense, sustainable markets & better outcomes for societies. At the same time, the UNEP/ FI produce what was known as the 'Freshfield Report'. It showed ESG how issues were relevant for financial valuations...i.e. non-financial factors used as criteria to compare a company's impact on the environment, contribution to social goals & the quality of governance...with other firms! These two reports helped start the PRI – Principles for Responsible Investment at the NYSE in 2006 and the Sustainable Stock Exchange Initiative (SSEI) in 2007. Today the UN backed PRI has over 1600 members representing USD 70 Trillion in AUM

Taking a step back. In theory, companies who score highly on ESG criteria will perform better over the longer term and investors would therefore prefer to buy their debt or equity compared to ones that don't. So...what measures a company's ESG level? Some have put forward the idea of a scoring ladder with a threshold system, similar to ones used by rating agencies but with Laggard, Average and Leader instead of the AAA's, BBB+, etc. To get these ratings, the companies rated will be measured on thousands of points on tens of key ESG factors. Additionally, some of this is happening...right now!





SFDR (I said there will be acronyms) is the Sustainable Finance Disclosure Regulations and is an EU based regulation on sustainability related disclosures. RTS stands for Regulatory Technical Standards, these have recently been published on how to capture major financial services companies such as banks, funds, asset managers, etc... and are coming into effect this month (March!). Full implementation will be in January 2022. There are already issues on the reliability of ESG data & the small number of data providers. ESMA has also seemingly indicated a lack of transparency...and this raises the issue of 'Greenwashing'. Greenwashing is when incorrect information, sometimes disinformation, is issued by a company so as to present an environmentally responsible public image.

In the UK, the approach to SFDR has already diverged from the EU. However, UK firms will probably move towards joining due to customer pressures...but there is NO implementation in 2021 over here. Instead, the focus will be on TCFD Disclosures (Task force on Climate-related Financial Disclosures), an entity set up by the Financial Stability Board. It has 4 core elements and 11 recommended disclosures. In 2021 this will apply to pension funds over GBP 5 Billion, premium listed companies, banks, etc... In 2022 it will extend to UK regulated companies and in 2023 to other companies. Key elements to note are...

1. Governance – Board oversight, management roles, committees on process, strategy & risks.
2. Strategy – Climate risks & opportunities over short/medium/long term, business strategy & resilience
3. Risk Management – Identify, manage, how it is integrated in to an organisation.
4. Practical Considerations – Disclose metrics, scope, GHG (Greenhouse Gases), Targets, KPI (Key Performance Indicators).

The EU has also reviewed the NFRD (Non-Financial Reporting Directive) to move to an EU wide ESG reporting standard. Points to note on this are a flexibility disclosure and criticism that companies place too much emphasis on short term quarter-by-quarter performance instead of long term sustainably strengthened financial foundations. IFRS (International Financial Reporting Standards Foundation) has issued a consultative paper on this subject. Their suggestion has been along the lines of creating 'Sustainability Boards'. However, they note the need for a 'standard setter' to get this going. Many nations have IFRS standards written into law, yet this new higher level of information may not be legally binding...but it may gain momentum.

**“ENGAGE WITH YOUR TRADE BODIES...AND YOUR PEERS! THEY WILL DOUBTLESS BE HAVING THE SAME ISSUES AS YOU”**

There is also SASB (Sustainable Accounting Standards Board) under which some companies have signed up to. They set standards in environment, social capital, human capital, business model & innovation plus finally leadership & governance. Influential companies such as BlackRock, AXA and Fidelity have signed up here.

This has been a short whirlwind tour of what I've noted on ESG. So, can we compare the EU with the UK...in other words, the EU's SFDR compared to the work of the FCA and the UK Treasury. First off, there are already concerns about regulatory competition in this. The UK is seen as more competitive and possibly less stringent than the EU. However, the UK is seen as striving in this area to be above the EU and also a Global leader, so it is unsurprising that the two may diverge. Additionally, there are some special issues in this time of COVID such as working from home. Companies still have offices to run with heating and lighting. The impact from this on climate is still being appraised.

So how can a company keep track, especially those with ACD (Authorised Corporate Director) or an Authorised Person under the FCA? Well, here are a few useful suggestions I've seen!

- a. Engage with your trade bodies...and your peers! They will doubtless be having the same issues as you.
- b. Do not be left behind...you really don't want that!
- c. Document ALL workings.
- d. Make a Disclosure that can be audited...and ensure your auditors can do it.
- e. Set an ESG Timeline.

Two final acronyms that I didn't have a chance to fit in elsewhere...but are important. GRI – the Global Reporting Initiative, this has published ESG standards since 1997. ISO 26000, an ISO Standard that offers guidelines for ESG issues...but is not certifiable like other ISO Standards.

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# FRINGE FARMING – THE POTENTIAL OF AGROECOLOGICAL FOOD GROWING AT THE EDGE OF THE CITY

Sustain's motivation to bring agroecological food production closer to urban communities has been strengthened by the inspiration of many growers in and around the urban fringe of UK cities; but it is time to upscale from being a fringe activity to a mainstream part of the food system.

The Fringe Farming project is a collaboration with partners across the UK to understand barriers, identify land opportunities and local actions, and develop national policy to enable agroecological farming at the edge of cities as part of a green economic recovery. With a new generation of farmers and growers looking for suitable sites to meet increased demand for healthy, ecological and culturally-appropriate foods, one of the key challenges to developing localised food systems is finding and accessing land to support equitable opportunities in the sector.

“WE WANT TO SEE THE CREATION OF A WAVE OF NEW MARKET GARDEN ENTERPRISES THAT CONNECT THE URBAN AND THE RURAL WITH GROWING AND TRADING AGROECOLOGICALLY-PRODUCED FOOD CLOSER TO MARKETS, GENERATING LONG-TERM GREEN JOBS AND RESILIENT ECONOMIES, AND CONTRIBUTING PUBLIC GOODS IN THE PROCESS.”





An important consideration here is that the kind of organisations supported to develop fringe farming are connected with and collaboratively build food systems with the communities they serve. The 'Preston model', for example, makes a strong case for how to build community wealth and support co-operative enterprise through council procurement, and the Community Interest Company structure provides democratic channels for developing food systems with the knowledge of people where a business is based.

Currently gaps in access to information or buy-in from local councils and businesses means that opportunities for integrating the social and ecological benefits of peri-urban farming into resilient food systems are being missed. The Fringe Farming project seeks to address this through place-based research from Bristol to Glasgow; producing a series of forums to understand different contexts and co-create practical solutions and policy guidance.

**Agroecological farming** takes an integrated approach to producing food where ecological and social principles underpin regenerative systems that work with natural cycles, develop fair livelihoods and equitable land access, and value farmers' knowledge. The Food and Agriculture Organisation describes 10 elements of agroecology.

Agroecological farming approaches not only provide more jobs per acre than industrial chemical farming, they also increase public goods such as biodiversity and carbon emissions reduction, and often enable education programmes and community development initiatives. The multiple benefits of agroecological farming in effect not only support access to healthy, culturally-appropriate foods they also support council targets on climate change, education and community access to green space.

## INITIAL RESEARCH INTO LONDON'S GREENBELT IN 2020

The project builds on initial research by Sustain's Capital Growth team in 2020 - with input from Shared Assets, the Greater London Authority (GLA) and many organisations and individuals working on farms - to investigate existing farm productivity in London's Green Belt land, highlight data gaps, structural barriers, current opportunities and steps to enable this vision to take place.

An event in February last year provided opportunity to communicate findings, and further share experiences and ideas on how to access land to grow food, develop supply chains for produce, and support training needed to grow food at this scale.

“THE FRINGE FARMING IN LONDON BRIEFING HIGHLIGHTED THAT THE CONVERSION OF 1.4% OF LAND GROWING CEREALS AND GRASSLAND TO VEGETABLES AROUND LONDON COULD PRODUCE AN ADDITIONAL 1.3 MILLION KG OF FOOD FOR COMMUNITIES.”





## FOUR CITY PARTNERS IN 2021 FOR NEW UK FRINGE FARMING RESEARCH, ACTION AND POLICY

This year we will be building on Fringe Farming in London at a wider scale working with Shared Assets and partners Bristol Food Producers (Bristol), Glasgow Community Food Network (Glasgow) and ShefFood (Sheffield) to research access to land for peri-urban farming with a briefing and event produced in each city. In London, Capital Growth will be taking forward the actions from the 2020 report particularly highlighting case studies of borough councils supporting agroecological farming at the edge of the city in line with their social, ecological and economic targets.

In launching the project Steph Wetherell, from Bristol Food Producers, said:

*ACCESS TO LAND HAS BEEN A SIGNIFICANT BARRIER IN UPSCALING LOCAL FOOD PRODUCTION IN AND AROUND BRISTOL AND THIS IS AN EXCITING OPPORTUNITY TO FOCUS ON THIS ISSUE. IN PERI-URBAN AREAS THERE ARE LOTS OF COMPETING PRIORITIES FOR LAND, AND THIS PROJECT WILL ALLOW US TO EXPLORE THE LAND THAT IS AVAILABLE AND WHO OWNS IT, THE BARRIERS TO ACCESSING IT, AND TAKE STEPS TOWARDS UNLOCKING THIS FOR FOOD PRODUCTION.*



In tandem with regional efforts, the Landworkers' Alliance will be setting up a peri-urban practitioners forum to build supportive grower networks, identify issues and share knowledge within the sector.

This exciting series of collaborative endeavours will culminate in:

- Local action plans in the four cities using existing data, plugging gaps and where possible detailing explicit local opportunities for accessing land
- An overall analysis/policy briefing on land availability and specific issues with a clear socio-economic case for increasing peri-urban farming as part of a green economic recovery
- A model of progressing land for peri-urban farming that can be replicated in other cities. Our vision is that the resources we create can be used by any local authority, and any local group wishing to access peri urban land locally
- A series of local policy recommendations describing what good-practice looks like for a council looking to increase and support peri-urban farming
- National policy proposals to unlock land in the urban fringe for food production connected to local communities e.g. as part of Defra's ongoing consultation on the role of peri-urban land in delivering Environmental Land Management Scheme (ELMS) outcomes.

## FOR MORE INFO ON THE FRINGE FARMING PROJECT

[www.sustainweb.org/foodandfarmingpolicy/fringe-farming-peri-urban-food-growing/](http://www.sustainweb.org/foodandfarmingpolicy/fringe-farming-peri-urban-food-growing/)

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# EMPEROR'S NEW GOLD?

Bitcoin and other crypto-currencies ("cryptos") seem on the verge of becoming "acceptable investments", with some observers hailing them as the "new gold". Once sceptical banks have set up trading desks and some high profile investors and wealth managers have publicised their holdings, attracting renewed retail interest which contributed to a sharp price rise in the last 6 months.

The comparison with gold is not completely without merit, because gold can also live outside the regulated financial system. For some gold owners, the ability to store, transport and transform wealth was the appeal. These abilities may also have suited some early users of cryptos, hoping to stay out of the sight and reach of financial and criminal authorities?

Whilst it's unsurprising to hear a few murky stories from the early days of cryptos, these likely pale in comparison to the colourful and bloody history of gold production, use and ownership.

However, as cryptos have rallied and gained wider acceptance, gold's price performance couldn't have been more different, slipping from the August 2020 highs of \$2072.50/oz to below \$1700/oz by early March 2021.

Before proclaiming Bitcoin as the new gold, it's helpful to take a look at gold over the past couple of millennia.

## WHY GOLD?

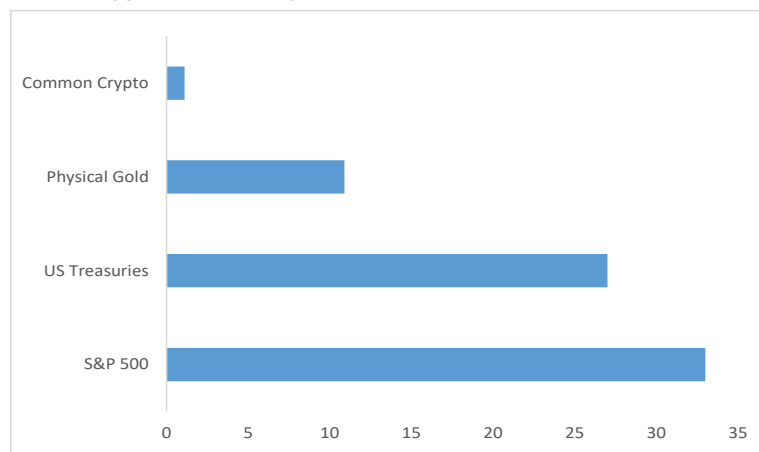
For thousands of years, gold has been the first choice for those seeking to hold and transport wealth. The metallurgical properties of gold, and to a lesser extent its cousin silver, make it ideal for this task. Gold is chemical stable, so it doesn't tarnish unless alloyed. Gold is universally desirable and recognisable by colour and density. Gold can be re-melted and worked easily, turning bullion into jewellery and back again. Gold is relatively rare with supply largely controlled, being roughly 1/20th as abundant as silver, although the mining ratio of gold to silver is about 1/8th.

Total gold production throughout history is estimated around 200kmt, with 70% mined since the 1950s, and is held in the following forms (approx. figs):

- Jewellery = 93kmt
- Private holdings = 43kmt
- State Holdings = 34kmt
- Other = 28kmt
- Known reserves = 54kmt

Based on above ground physical gold stocks of circa 200 kmt at \$1700/oz, this has an approx. value of \$10.931Tn (\$10,931 billion). To get a sense of scale, US Federal Government debt exceeds \$27Tn and the S&P500 has a total market cap of approx. \$33Tn (Feb 2021). In comparison, some of the most common crypto currencies have a combined market value of approx. \$1.1Trn, with Bitcoin approx. 80% of that total.

Chart 1: Approx. Market Cap, US\$ Trn



Source: ADMIS / Various



## GOLD AS MONEY

The inefficiencies of barter meant that all civilisations adopted some form of money, from coins to sea shells, which were easily recognised and readily accepted in exchange for something of value. Money is just a convenient token of exchange, and a limit to supply and stability is desirable to prevent price inflation.

A stable, transportable store of wealth was essential for international trade, and gold and silver coins were the international trading currency for almost 400 years up until the late 19th century. Building and maintaining reserves was very important to European trading states, evidenced by the seizure, exploration and development of gold and silver wealth in the Americas and Africa.

British traders used their silver reserves to buy Chinese goods in the 18th - 19th Centuries but, with the Chinese not purchasing goods in return, the British channelled opium to China to recover their depleted silver holdings. The damaging effects of opium addiction spurred the Chinese to ban the trade, sparking the opium wars.

As well as being accepted for trade around the world, price stability was essential. The gold/silver ratio was set in law, with the US fixing the ratio at 15:1 in 1792, and French law set the ratio at 15.5 in 1803, similarly adopted in England thereby avoiding a physical arbitrage.

The ratio set in the early 19th century wasn't far removed from the 10/1 to 15/1 ratios noted in ancient Greece and Rome, an impressive history of relative value stability and continuous use spanning a couple of thousand years. This gold/silver ratio wasn't picked at random, but derives from historic recovery rates in bi-metallic deposits before the advent of modern processes improved the relative recovery rate for gold.

**A STABLE, TRANSPORTABLE STORE OF WEALTH WAS ESSENTIAL FOR INTERNATIONAL TRADE, AND GOLD AND SILVER COINS WERE THE INTERNATIONAL TRADING CURRENCY FOR ALMOST 400 YEARS UP UNTIL THE LATE 19TH CENTURY.**

## GLOBAL ECONOMY OUTGROWS GOLD

Financial systems backed by physical bullion favour countries with below and above ground deposits, with economic activity limited by the amount of physical held. Strains of the 20th century brought an end to gold backed currency, starting with the UK increasing money supply beyond gold holdings during WW1, before finally dropping the gold standard in 1931 during the Great Depression.

In the US, where Federal paper required 40% gold backing, the public were banned from holding significant investment gold in 1933, requiring holdings to be exchanged at the statutory price of \$20.67/oz. In 1934, the US raised the price to \$35/oz, and an influx of physical gold into the US allowed more money to be printed devaluing the US\$, credited by some for helping lift the US out of the Depression. The Bretton Woods Agreement in 1944 saw the US\$ become the world's reserve currency, with President Nixon ending the US\$ link to gold in 1971.

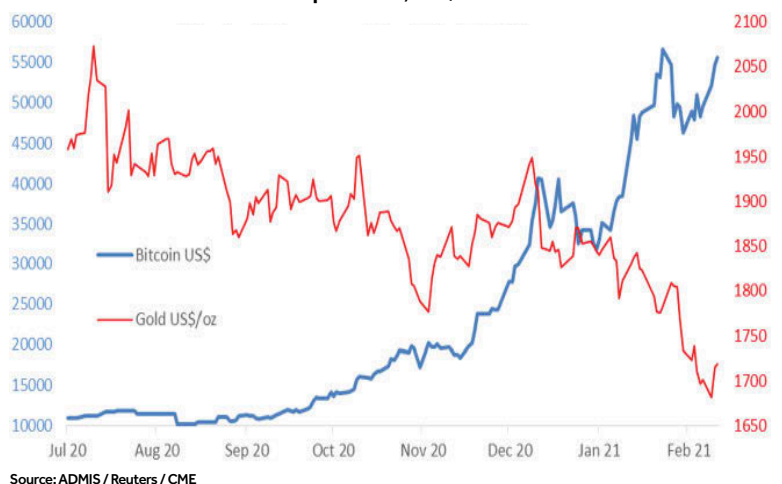
Central Banks (CBs) still held a lot of physical gold reserves until the 1990s, but earned a sub US\$ return by leasing their gold to bullion banks to facilitate producer forward hedging. With a robust and efficient global financial system, many CBs saw little need to hold gold and decided to divest. CB selling and lending drove gold prices down from \$400/oz towards \$250/oz by 1999, but the slump was reversed dramatically by the Washington accord of Sept 1999, which limited Central Bank sales and lending and triggered a short covering price rally.

Since 1999, a number of events have damaged faith in the robustness of the financial system. The equity and dot.com sell-off in 2000 was fought with low interest rates, which contributed to the housing boom and sub-prime crash in 2008, followed by QE programs and jump in Government debt since 2009, exacerbated by the debt response to the COVID crisis since 2020.

Whilst some fringe gold bulls call unrealistically for the return of gold backed currency, it would seem more reasonable to expect higher gold prices given questions over the strength of paper assets?

However, since Bitcoin was hailed as the "new gold", it seems to have stolen gold's thunder.

Chart 2: Bitcoin Futures and Spot Gold, US\$







## “CRYPTO” THE NEW GOLD?

Gold is familiar and easy to picture but crypto currencies are less tangible, being a computer code embedded on a “blockchain”, which is a secure, universal ledger supporting a growing number of valuable applications, aside from supporting crypto currencies.

Bitcoin’s gains over the past 6 months have been phenomenal, but this price performance and volatility make it difficult to market as a durable store of wealth or reliable token of exchange. Past performance doesn’t give much comfort either. From a price below \$1k until Feb 2017, Bitcoin approached \$20k in Dec 2017 before collapsing towards \$3k by Dec 2018.

Whilst Bitcoin is the most famous crypto, there are alternatives: (Table shows some alternative cryptos. Approximate values, March 2021. Source: ADMISI / Various):

Not all coins are similar payment tokens, e.g:

**Stellar** makes large transactions between financial institutions faster and more efficient.

**Tether** is pegged to the US\$, a type of “stable-coin” valued against an underlying currency or asset.

## FAIR EXCHANGE, RELATIVE VALUE AND SUBSTITUTION

Over a couple of thousand years, gold and silver maintained a relatively close price ratio, which raises questions about substitution and arbitrage in crypto currencies.

The prices of goods and assets are affected by substitution so that, if a particular price is perceived excessive, demand moves to a substitute. This works in commodities and the financial world too, where relative value plays attempt to exploit perceived pricing discrepancies by selling the expensive asset and buying the cheaper one.

For cryptos representing secure electronic tokens of exchange, it’s difficult for the layman to understand why their prices are so different if their roles are similar? If similar, then it should be possible to substitute and arbitrage between them?

Bitcoin took a significant step to wider acceptance in 2017, when a London bullion trader began accepting Bitcoin for physical gold. Potential crypto investors might get more comfort if their crypto was readily exchangeable against a wider variety of goods and other crypto currencies.

**Table 1**

Name	Symbol	Price US\$ approx 15/03/21	Market Cap US\$ approx. 15/03/21	#Coins approx. 15/03/21
Bitcoin	BTC	55,305.00	1,031,535,033,750	18,651,750
Ethereum	ETH	1,772.69	203,964,805,555	115,059,489
Litecoin	LTC	205.31	13,685,582,723	66,658,140
Cardano	ADA	1.02	32,587,275,630	31,948,309,441
Polkadot	DOT	34.96	32,176,891,769	920,391,641
BitCoin Cash	BCH	525.25	9,811,781,878	18,680,213
Stellar	XLM	0.38	8,634,386,944	22,609,025,777
Nbinance Coin	BNB	255.47	39,478,490,584	154,532,785
Tether	USDT	1.00	38,515,573,409	38,515,573,409
Monero	XMR	218.93	3,910,762,353	17,863,072

Source: ADMISI / Various





## MINING CRYPTO

Crypto fans have borrowed metals terminology, with "Bitcoin mining" suggesting that the significant effort and energy required gives coins inherent value. Each coin requires mathematical problems are solved, and these get progressively more difficult requiring more processing and power. Bitcoins are limited to 21m, the rate of new issue decreases and costs to produce increase as the limit is approached, which helps create the impression that prices should move higher.

Cambridge researchers estimate 121 TWh/year of power is used for mining crypto currencies (equivalent to smelting about 8m Mt of primary aluminium).

Like metals mining, where deep mines are feasible for high value metals, the high price of Bitcoin justifies significant expenditure, and Bitcoin miners locate to regions with cheap power.

Bitcoin transaction costs are also high, with some estimates putting the average energy consumption for 1 Bitcoin transaction at 741 KWhr, equivalent to about 500k VISA transactions.

## IS MINING HAZARDOUS?

Just like the real thing, mining cryptos can be hazardous. The participants of the blockchain have to agree that a newly mined coin satisfies the existing criteria. Without a central authority, a dispute in the rules can lead to a "hard fork" creating a parallel coin, or a "soft fork" where a rule change is applied to existing coins. Forks can also result from cyber-attacks, which split Ethereum into Ethereum Classic, and these forks cause significant price volatility.

Different cryptos use different mining methods, with implications for cost and security:

"Proof of Stake" means that miners can validate blocks of transactions based on their existing holding, with the understanding that a Bitcoin miner is less likely to attack the system if they are heavily invested in that crypto.

"Proof of Work" means that miners require massive computer power to create new Bitcoin, and these systems are theoretically vulnerable to an attack if the owners of 51% of the computer power take control of the crypto.

## BURIED TREASURE AND BITCOIN?

In UK news, a computer engineer who mistakenly threw away a hard drive containing Bitcoins believed valued above £200m has offered the local council £50m for permission to dig up a landfill site and recover his money. In a modern day treasure hunt, he's cross checking the date he threw away the hard drive against the map grid reference for the landfill site to narrow down his search, and says he has the backing of a hedge fund to ensure the council's costs are covered.

Lost bitcoin passwords can also be a problem. In January 2021, it was reported that a San Francisco programmer with 7002 bitcoins (>\$350m) had only two remaining attempts to remember his password.

## HIDDEN WEALTH?

Just as the shape of a gold tola bar allows it to be transported secretly, some early Bitcoin users may have also sought anonymity?

In November 2020, the US Department of Justice seized \$1bn Bitcoin from a hacker who had stolen 70,000 Bitcoins off the Silk Road in 2012. The DoJ caught "Individual X" by tracking Bitcoin transaction history on the blockchain.

The crypto "Monero" improves anonymity, using "ring signatures" to provide multiple cryptographic signatures for each real participant.

## AS GOOD AS GOLD?

Whilst crypto-currencies share some features with bullion, notably the ability to move wealth outside the financial system, the extreme price volatility and lack of wider acceptance means they appear far from becoming a credible form of payment or store of wealth.

Gold and silver have proved their value over thousands of years, with ancient Egyptians using pyramids to carry gold into the after-life, and it's probable that gold will still have life after these schemes have passed.

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"IN JANUARY 2021, IT WAS REPORTED THAT A SAN FRANCISCO PROGRAMMER WITH 7002 BITCOINS (>\$350M) HAD ONLY TWO REMAINING ATTEMPTS TO REMEMBER HIS PASSWORD,"







# STOCK INDEX FUTURES, TECHNICAL AND FUNDAMENTAL ANALYSIS

There is a rule of thumb that new record highs suggest follow-through strength is likely. When new historical highs were made in August of 2020 it was an indication that there could be additional gains, which proved to be the case.

**Chart 1: S&P 500 Futures - Monthly**



Source: Chart from QST

**Chart 2: Dow Jones Futures - Monthly**



Source: Chart from QST

The latest new highs were registered in February 2021. This rule of thumb also worked when new record highs were made in April of 2019. After a brief correction, futures advanced to a new historical high in July of 2019. This rule worked well in July of 2016, as futures continued to advance into January 2018. In addition, this rule worked in April of 2013 when new highs were registered, and futures continued to advance into May of 2015.

In some cases, the additional strength can be substantial. The logic behind this is that, if the fundamentals are powerful enough to propel a market to new historical highs, they are probably strong enough to persist for a while longer and push prices even higher (Chart 1).

The patterns on the Dow Jones futures chart are very similar to the patterns on the S&P 500 futures chart. There are multiple examples of the successful application of the rule of thumb that new record highs suggest follow-through strength is likely. The latest instance occurred in November of 2020 when another round of historical highs was registered. This was followed by a series of record high futures prices in 2021 (Chart 2).

## WHAT IS THE DOMINANT FUNDAMENTAL ACCOMPANYING THE "NEW RECORD HIGHS" RULE OF THUMB?

In light of this technical rule of thumb, it has to be asked what are the fundamentals that have underpinned the historic advance in stock index futures that began in March of 2009 and remains with us today? The answer I believe is the interest rate influence that history has shown to dominate all others. This fundamental ultimately dominated over a multitude of temporary bearish influences that have sprung up in the past decade, including political turmoil, U.S.-China trade disputes, banking crises, crude oil price shocks, severe weather related economic downturns and the pandemic. Short-term interest rates in the U.S. remain near zero and the Federal Reserve has pledged not to hike its fed funds rate until possibly 2023 (Chart 3).



## **RISING LONG-TERM YIELDS ARE A NEW, BUT LIKELY A TEMPORARY CONCERN**

There are worries that rising long-term interest rates globally will halt the bull market in stock index futures. My belief is that rising long-term yields will be met with yield curve control measures by the major central banks. In fact, the Reserve Bank Australia was the first to address this issue by recently doubling down on bond purchases. The RBA announced plans to buy more than \$3 billion of longer-dated securities, following up on a surprise boost in purchases of shorter-maturity debt. Also, several European Central Bank policymakers suggested the central bank stands ready to provide more stimulus if needed to keep yields down and support the economy.

The U.S. Federal Reserve currently appears to be resistant to the idea of instituting new yield curve control measures and shrugged off the impact of rising yields in the U.S. Treasury bond market. Federal Reserve Bank of Richmond President Thomas Barkin said in an interview that he remains optimistic the U.S. economy will continue recovering and rising government bond yields do not worry him very much. In addition, Federal Reserve Bank of Chicago President Charles Evans said he was not worried about the rise in longer-term bond yields. Also, U.S. Federal Reserve Chairman Powell said the recent increase in Treasury yields caught his attention, but he stopped short of signaling that the Fed was close to buying more long-term Treasuries each month in an effort to contain yields.

It is possible that the March 17 Federal Open Market Committee meeting could provide the right timing for the Federal Reserve to reveal a more willingness to enlarge its asset purchase program. The Federal Reserve could hint at or initiate policy tweaks then. One possible move could be the third "Operation Twist." The term "Operation Twist" was first used in

1961 in a reference to the Chubby Checker song and the associated dance craze when the Federal Reserve employed a yield curve control policy. The operation gained its nickname due to the Fed's initiative of buying longer-term Treasuries and simultaneously selling some of the shorter-dated issues it already held in order to bring down long-term interest rates, thus flattening the yield curve. The Federal Reserve implemented the "Operation Twist" program again in late 2011 and 2012 during market turmoil around the time of the European debt crisis.

Another possibility would be to increase the rate paid on reserves to address issues in the money markets. In addition, the Fed could adjust the rate on overnight repo operations in the bond market.

I believe major central banks eventually will employ tools to mitigate rising long-term interest rates, which will likely reduce the selling pressure on stock index futures.

## **SHORT-TERM INTEREST RATES REMAIN HISTORICALLY ACCOMMODATIVE**

With the current focus on long-term interest rates, little attention has been paid to the short end of the yield curve. With global short-term interest rates remaining at or near historically low levels, this fundamental is still the dominant fundamental that will support U.S. stock index futures in the long-term, and the rise in longer-term yields will only temporarily get in the way of this bull market for stock index futures.

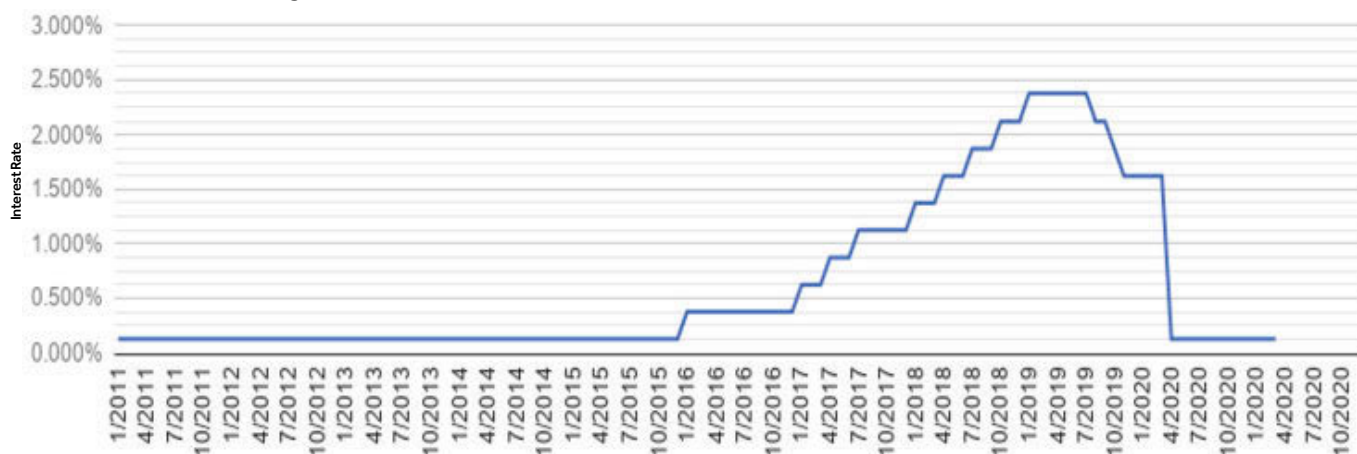
Combining the technical rule of thumb that new historical highs often beget follow-through gains with the ongoing bullish fundamental of historically low global short-term interest rates, higher prices are likely for U.S. stock index futures.

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**Chart 3: Federal Funds Target Rate**



Source: ©2020 MoneyCafe.com

I BELIEVE  
MAJOR  
CENTRAL  
BANKS  
EVENTUALLY  
WILL EMPLOY  
TOOLS TO  
MITIGATE  
RISING  
LONG-TERM  
INTEREST  
RATES.









# THE RISE OF THE FINANCIAL FLASH MOB

While discussing the meme stock story that started to unfold in January it is perhaps tempting to ask why all the fuss and furore? After all, some on Wall Street won, some lost. A few on main street won but most would have lost. What's new with any of that? However the scrutiny and coverage of this story has been as remarkable as some of the moves in the stocks concerned. This concerted examination suggests that the outcome of the saga will be profound for many areas of the market.

This is perhaps a watershed moment for how individual investors and the companies that now serve them are regulated or for some ground-breaking reform of the settlement process in equity markets. Prepare for disappointment on all these levels. That's not to say that this is not an important event but above all this is story about industry disruption and the power of social media and what that could mean for markets in the future.

Before we get in to the consequences it is perhaps worth identifying what actually occurred back in January. While other stocks are involved I will concentrate on GAMESTOP (GME US), it seems to perfectly illustrate the power of social finance. GME US is a company on its way to bankruptcy, a dead business model selling physical video games in physical premises even before the pandemic hit. Sales and revenue are sinking and they report negative earnings per share. The stock is heavily shorted, on Jan 15 2020 the total value of shorts was 130% of the market capitalisation. Hedge funds Melvin Capital and Citron are cited as the main players. The low in the stock was \$2.57 in April 2020. A lot of commentators would have you believe that the short squeeze in GME started on Jan 13 this year. However the genesis of this remarkable story dates from a couple of years ago. In August 2019 Michael Burry, immortalised in the film The Big Short, writes to the board

*"GME US IS A COMPANY ON ITS WAY TO BANKRUPTCY, A DEAD BUSINESS MODEL SELLING PHYSICAL VIDEO GAMES IN PHYSICAL PREMISES EVEN BEFORE THE PANDEMIC HIT."*



of GME urging them to buy back their stock. The letter becomes public. Burry reveals that this is not the first time he has written and confirms that he has a 3% stake in the company. Hang on, this man is hardly representative of the individual investor? The student playing with the college grant or Joe Soap "investing" his redundancy money or stimulus check? Step forward Roaring Kitty. Roaring Kitty on YouTube and Twitter but "DFV" on the subReddit website r/wallstreetbets (WSB) forum. Kitty's first post appeared in early September and revealed a \$50k position in call options in GME that he had held well before Burry's letter. The posts from Kitty kept coming on a monthly basis under the heading GME YOLO UPDATE. (you only live once I believe). In Feb 2020 he is down on his investment, but in April the stock goes from a low of \$2.57 to almost \$6. He has a healthy profit. He does not sell, stating that this is merely the start of "the big short squeeze". In November 2020 another big fish, Ryan Cohen former CEO of Chewy the company he sold to PetSmart in 2017, issues a public letter (apparently his private ones were ignored) urging the company to basically become the Amazon of the video game industry. He reveals a near 10% stake. At around the same time it is thought that the "GME Gang" nickname was born on WSB (and yes, you can buy T-shirts). We have to bear in mind the amount of exposure these posts on WSB are getting. At the height of the frenzy the WSB forum added 2 million new subscribers in 36 hours!! The stock was trading at around \$18 at the end of 2020. Kitty's posts were now daily and on Jan 13th the stock took off. At one stage Kitty's \$50k was worth \$22mln, absolute rocket fuel for all the WSB subscribers and would be investors. The stock hits an intraday high of \$483 on Jan 28 two days after Melvin Capital reveal that they have closed their short position. The stock is worth \$26bln and therefore eligible for entry into the S&P. All perfectly rational I think you will agree.

What happens next has to be part of the discussion on the consequences of this episode. Enter Robinhood and their CEO Vlad Tenev, the disruptor-in-chief of equity market trading for individual investors. Enter Citadel Securities (owned by Ken Griffin's Citadel) the main broker that Robinhood uses to funnel its order flow and for which it gets paid.

“AT ONE STAGE KITTY'S \$50K WAS WORTH \$22MLN, ABSOLUTE ROCKET FUEL FOR ALL THE WSB SUBSCRIBERS AND WOULD BE INVESTORS”

Small investors still own 35% of the \$52 trillion worth of global equities. Not an insignificant proportion. However most of this is not traded it is bought to hold in a "one decision" deal. Robinhood and others, over perhaps the last five years, have revolutionised share trading for the individual. Transactions are commission free, there is an ability to trade fractional shares, generous credit is offered, there is easier access to options and all on an app on your mobile. Waiting for your coffee you can buy Tesla - for free! Robinhood like to claim that they have "democratised financial markets." Indeed the proportion of total equity volume that is retail has gone from 10% a decade ago to 25% last year. Back to GME and the gyrations of the back end of January. Where were we? Ah yes GME was worth more than Delta airlines or Best Buy or Fifth Third Bancorp. You get my laboured point. On Jan 28 Robinhood, the punters pal, bans trading in GME and approximately 50 other securities. Democratic politicians are up in arms. Elizabeth Warren gets particularly animated. The scourge of Wall Street, she, among many others, are unhappy with the cosy relationship between Citadel (remember Robinhood's broker) and Melvin Capital (the hedge fund short GME) after the former injected \$2bln in to the latter on the day before Melvin revealed that it had closed its short. On Feb 1 Vlad Tenev insisted that the rumours that Citadel market makers had pressured the company to ban trading in certain stocks was false and that the decision why some stocks were restricted to "position close only" was at the request of the National Securities Clearing Corporation (NSCC). The NSCC had, a week earlier, requested a deposit of \$3bln that forced Robinhood to raise \$1bln from existing investors (they subsequently had to raise another \$2.4bln on Feb 1). The SEC chimed in with warnings of extreme stock price volatility "with the potential to exposing investors to rapid and severe losses while undermining market confidence...we will closely review the actions taken by regulated entities that may disadvantage investors or otherwise unduly inhibit their ability to trade certain securities." A hearing in front of the House Financial Services Committee was pencilled in for Feb 18. However it was perhaps clear that the Democrats were complaining about their own legislation. Regulations that were imposed by the Dodd Frank Act required companies to lodge sufficient collateral with the DTCC to reduce systemic risk and the impact of financial speculation. Let's not forget that many other brokers had to suspend trading with no obvious links to either Citadel or Melvin Capital. In a rather ham fisted way the regulations played out but what caught Robinhood out was that it failed to anticipate the sheer size of the trading activity that evolved. The episode did however highlight the plumbing of a two day stock settlement process that these days seems rather archaic.



“THE COSTS INVOLVED FOR MARKET PARTICIPANTS TO MOVE FROM T+2 TO T+1 ARE CALCULATED TO BE IN THE REGION OF \$1.8BLN.”

The hearing of Feb 18 took place amid frenzied media interest. An almost freakish event, certainly with Roaring Kitty in attendance. Democrats roared their disapproval but not much “got done” as they say, and if there are to be any reforms to the settlement process and payment for order flow it will after protracted reviews and still some years away. The costs involved for market participants to move from T+2 to T+1 are calculated to be in the region of \$1.8bln, a clear impediment for any swift action. On payment for order flow (a practice banned in the Europe, the UK and Canada) regulators are likely to err on the side of seeing it as a benefit for equity investors. “If” this payment arrangement was to be banned it would mean the end of Robinhood as the fees are a substantial share of revenue. But Robinhood could still lose some accounts that did not like being frozen out of the market for days. Civil lawsuits may follow but company websites specifically flag up the risk that the company may restrict access to trade without prior notice. Elizabeth Warren has asked FINRA to probe Robinhood’s suitability but that may not amount to much. And as for those individual investors, surely they are guilty of manipulating markets? How that is proved and how it is regulated is however a grey area – free speech and social media will always be hard to pin down. However a financial transaction tax is already in the offing, opposition to this may now be waning after this episode. No action on short sellers is expected, which is absurd. The short seller fraternity has long been pilloried for some of the tactics that it uses when aggressively shorting companies. Spinning lies about some biotech names has restricted access to funding and therefore in to research. Quite indefensible at times. However, bar some headline risk it would appear that any lasting reform or regulation of the system will be slow or, more likely non-existent.

The consequences for the market in terms of being disrupted are much more profound. GME could be emblematic of an inflection point for financial markets where retail investors will matter more. It has highlighted the power of social media in transforming behavioural finance, whereby the individual makes the common human mistakes of trading, in to social finance where the transmission of information leads to investment contagion that has a tremendous impact on markets. This information it would seem doesn’t even have to be accurate. This is a legacy of Trump. Or maybe it’s always been the case – the electorate has just always been asked to vote on whose lies they believe. Same with Brexit. As long as you have the numbers you win! So no longer are we limited to facts, they are so last decade! It’s not

clear of the rhyme and reason behind how WSB subscribers choose their stocks to attack. I used GME as my example because there is a background story, this didn’t just start on Jan 13. The stars aligned with activism, a massive short and a huge social media mob ready to play in what “was” a reasonably illiquid name. Other stock raids have failed. One of the other criteria was said to be big open interest created in options. This will mean a re- pricing of options in the short term and a move towards a generally higher volatility regime. The short squeeze in GME is an uncomfortable result for those who believe that markets are always efficient and that capital is allocated to companies with the best prospects. It is also a demonstration of technical innovations that since 1975 has saved investors \$1 trillion in fees. It is a reminder that other areas of the market are in the process of being disrupted. The bond market, which has a fragmentation issue that is not conducive to being disrupted, has nevertheless adopted ETFs that help with the pricing of very illiquid issues and that are easy to trade. MARKET AXESS an electronic multi dealer to client platform is gaining market share. Art, property and cars can be traded online. There are those who feel that the GME saga was another warning that the market is in a bubble or that people have not only too much time on their hands but too much money to afford to gamble it in stocks. You may feel that his latest retail uprising is a passing fad as in the Nifty Fifty era or the dot com boom. I think it’s bigger than all that – the power of social media is replacing traditional valuation metrics. Financial markets are being Trumpified. Fiction is replacing fact. How and why we own things including money is changing...different values are being placed on assets (GME T-shirts?), something that provides a sense of belonging. FOMO is replacing PE and P/BV. Cathie Wood believes that banks as the conduits of money will eventually be hollowed out. They’ve already given up stock trading – what next will they be forced to give up. Massive things are happening, some good, some dangerous and worrying but they nevertheless seem irreversible.

In the meantime it’s perhaps worth noting that Melvin Capital was up 22% in February and Robinhood announced their intention to list on the Nasdaq on Friday. Meanwhile many individual investors will be nursing losses. Why the fuss? Well, stay tuned.

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# SUGAR AND THE COMMODITY BOOM

Commodities in general had a massive rise in prices since mid of 2020, after major losses earlier in the year due to the Covid-19. Sugar benefited from a turn around by investors in their approach to Agri and other Commodities.

Investors, in general, were running short positions until mid-2020. The fall on the Dollar and a risk diversification triggered short coverings and fresh new longs, absorbing producer selling and triggering consumer buying and pricing.

Sugar was no exception, but perhaps one of the exceptions was a tighter S and D and a fast-moving buying flow, which absorbed producer selling and left consumers chasing the market.

## SUGAR TRADE FLOW

**World Sugar Trade (from exporters to importers) rose from 51 mln m/t in 2019 (56 mln in 2018) to 60 mln m/t in 2020.** We had the usual 21/22 mln m/t of White Imports, but we had close to 38 mln m/t of Raw exports, about 8 mln m/t higher than in 2019 (33 mln in 2018).

Some regions of the World had lower crops like the EU, Pakistan and Thailand and therefore triggered a shift in supply. Due to a stronger White Premium (less white sugar producer selling) we had a higher flow of Raw imports by tolling Sugar Refineries (raws in whites out).

We also had some re-stocking by some destinations like China, Bangladesh, West Africa etc... Lower imports in 2019 (falling market) allowed for stocks at destinations to be consumed and lower prices in early 2020 triggered some re-stocking also.

The Far East, thanks to China and Indonesia, imported 3,5 mln m/t more than in 2019, a total of 19 mln m/t, up from 15,5 mln m/t in 2019 (17,3 mln in 2018). Most of the increase was on Raw Sugars.

Africa is also a larger sugar importer and received close to 13,2 mln m/t, about 1,2 mln m/t more than in 2019 (12,9 mln in 2018).

The Sugar World Trade was also affected by logistics constraints. Freight rates plummet in early 2020 (Break Bulk/Bulk vessels) but as container rates rose strongly (higher demand for containers and longer utilisation) we ended up with a stronger demand for BB/Bulk vessels and freight overall rose again.

**“THE FAR EAST, THANKS TO CHINA AND INDONESIA, IMPORTED 3,5 MLN M/T MORE THAN IN 2019, A TOTAL OF 19 MLN M/T, UP FROM 15,5 MLN M/T IN 2019 (17,3 MLN IN 2018). MOST OF THE INCREASE WAS ON RAW SUGARS.”**



## SO, WHAT ABOUT SUPPLY AND STOCKS AT ORIGINS?

Brazil just finished their 2020/21 cane harvest and due to stronger Sugar prices vs. Ethanol (market conditions and weaker Real) and a weaker ethanol demand, **Sugar production was strong, reaching 38,2 mln m/t for in the Centre-South and 2,9 mln m/t in the North/Northeast.** Despite a strong harvest, demand for Brazilian sugars were strong also, with a stronger World Demand (normal needs plus some re-stocking) absorbing the extra production.

**Brazil managed to export 30,2 mln m/t during April/Feb 20/21 an increase of 12,667k m/t.** That was great. Based on estimated domestic demand, exports and "imports" and reported production, we estimate Sugar Stocks close to 5,3 mln m/t in the CS and less than 400k m/t in the NE, for end of February 2021. Stocks overall seem to be about 400k m/t lower YoY and over 50% were Raw Sugars.

On the Ethanol front, Brazil domestic demand remains weaker overall vs. last year, by 3,3 bln liters during April/20/ Feb21 vs. same period the year before. Corn Ethanol production was 874 mln liters higher YoY at 2,295 mln liters. On the other hand, giving to the stronger sugar mix, Ethanol production in the CS was 2,8 bln liters and the NE 202 mln liters lower. According to the Braz Gov, Ethanol stocks were 4,2 bln liters by end of Feb, about 300 mln liters higher YoY.

India is also having a larger and fast cane harvest, thus far. Crop estimates range from 30,2 to at 31,5 mln m/t vs 27 mln m/t last year. India started the crop year with 3,2 mln m/t less in stock, estimated at 9,3 mln m/t. **Due to a larger crop and lower domestic consumption, despite strong exports, estimated stocks for end of Feb are 22,4 mln m/t, about 1,1 mln m/t higher YoY.**

**ETHANOL PRODUCTION IN THE CS WAS 2,8 BLN LITERS AND THE NE 202 MLN LITERS LOWER.**

Thailand is about to end their cane harvest, estimated at 67 mln m/t down from 74 mln m/t last year. A lower crop in 2019/20 and strong exports allowed for Thailand to reduce stocks and they started this crop year with about 1,2 mln m/t, about 2,8 mln m/t lower YoY. Given the lower cane crop and lower carry-in stocks, **Thailand is expected to have 2,5/2,7 mln less exportable sugars in 2021.**

The CIS region which became a significant exporter in 2020, due to larger crops, especially Russia, is unlikely to carry on with their export flow. Russia had a large crop in 2019/20, close to 7,9 mln m/t but dropped to less than 5,2 mln m/t in 2020/21. Ukraine and Belarus also didn't increase production and the region sugar stocks will end up down to the bone! **We estimate the CIS which exported 1,8 mln m/t in 2020 may drop to less than 600k m/t and most of the drop in the first half of 2021.**

Australia is heading to their new crop but is not expected to grow from last year, producing close to 4,2 mln m/t. The EU also had a tough time with lower acreage, poor Agri yields (weather) and some areas were affected by the yellow virus, especially France and the UK. **The EU dropped exports to less than 900k m/t in 2020 (1,4 mln in 2019) and are unlikely to rise in 2021.**

The US and Mexico are still on target for larger crops and therefore **the US will import less and Mexico will export more, perhaps a total nett flow of 1 mln m/t.**

## OVERALL SUGAR S&D

Our revised Sugar S&D shows a 3,2 mln m/t surplus for April/March 2020/21 and most crops are in. Our estimate for Oct/Sept 2020/21 shows about 800k m/t surplus with some downside, depending on some crops will end i.e., India and how others will start i.e., Brazil, Australia, South Africa etc...

Looking forward, all going well our S&D for April/March 2021/22 shows a 4 mln m/t surplus but we have plenty time for things not to go to well i.e., weather!

Sugar demand has fluctuated with the lockdowns and downturn on economic activity and there is a greater difference on estimates, depending on analysts. We are taking a more conservative view and still see 2021 as a challenging year, in terms of supply but also demand.

**Domestic markets in many nations, especially importers, are stronger (higher prices), for one reason or another but mostly due to reduced stocks and logistics constraints.** We have also seen stronger markets are origins like Brazil, EU, Russia, Pakistan, India etc.... as strong demand/lower stocks pushed prices upwards.

**Importers are having to deal with higher futures and freight rates (higher working capital), greater volatility and an inverse market.** We suspect demand will be kept to a minimum as importers hope for better prices down the line. The inverse market will encourage producers to speed up their sales and therefore some pressure on cash premiums may persist.

## INVESTMENT FLOW

Investors in Sugar, in the form of Funds, Specs and Index Funds, started covering their nett short of 332k lots on the 8th of June 20 and by the 2nd of March 21 they were 349k lots long. **These 681k lots or 34,5 mln m/t (close to 60% of the World Sugar Trade) pushed prices from low 10cts to 17,5 cts.**

Most of the selling came from producers and now they are well priced into 2021. **We estimate that at least 70% of the World Trade for 2021 has already been priced by consumers.** We also believe consumers are playing safe and close to home and are 22 mln m/t behind pricing in 2021 vs last year.

Sugar will carry on with its usual challenges and will also be influenced by the current Commodity Boom and most other Commodities have similar challenges.

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## CTI LIVE

**21/03/21 | 2.30PM**

PRESENTATION:

Eddie Tofpik presenting 'Commodities and politics: Is 2021 bringing more disruption than 2020?'

[CLICK HERE TO VIEW THE EVENT WEBSITE](#)

## 13TH BIOFUELS INTERNATIONAL CONFERENCE & EXPO

**15/06/21 | 2.15PM**

PRESENTATION:

Eddie Tofpik presenting 'Emerging (FX) Risks for Ethanol Trade'.

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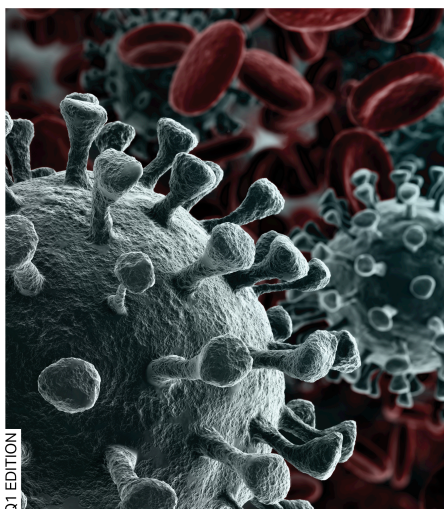
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