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HEIJIN CAPITAL BI-WEEKLY INVESTMENT COMMENTARY

March 22nd – April 5th, 2020



Commentary Overview

GLOBAL MACRO	3
MARKET BEHAVIOR & NOTES ON THE CREDIT MARKETS	3
GLOBAL MACRO	7
THE EXTENT OF CORONAVIRUS'S IMPACT ON GLOBAL LABOUR MARKETS	7
GLOBAL MACRO	9
DOES COVID-19 SPELL DISASTER FOR SMES?.....	9
COMMODITIES	10
CURRENT SITUATION OF OIL MARKETS AND THEIR FUTURE	10

Market Snapshot

INDEX	CLOSE	2 WEEKS	YTD
Dow Jones Industrial Average	21,052	+13.23%	-27.08%
S&P 500 Index	2,488	+11.23%	-23.61%
NASDAQ	7,373	+7.47%	-18.91%
10-yr Treasury Yield (% yield)	0.62%	-0.14%	-1.26%
WTI Oil (\$/bbl)	\$28.34	+21.32%	-53.59%
Bonds	\$114.98	+2.08%	+2.04%

*bonds are represented by the iShares Core U.S. Aggregate Bond ETF (NYSEARCA:AGG)



Global Macro

Market Behavior & Notes On The Credit Markets

When we compare the way markets are moving in this crisis to any other crisis in the past it can actually be objectively justified that it is slightly different. It all comes down to the correlation across asset classes. In today's world an asset manager can decide to take on a risk-on approach or a risk-off approach (or a mix of both). This is called asset allocation, which embodies the respective risk parameters, investment criteria, and etc of an asset manager. In order to assess whether a portfolio is risk-on or risk-off, assessments are conducted on the way assets behave in certain environments and how much they are correlated. Thus, why many seek to allocate to hedge funds that can deliver uncorrelated returns to the market, i.e. not being dependant on the underlying beta of any asset. Since, when things go south your uncorrelated asset allocation will in retrospect deliver above market returns, i.e. alpha, which is how funds justify performance fees (unfortunately less so these days). For instance, the Heijin Capital Vulture Fund is structured to deliver uncorrelated returns due to the ways our investment committee decided to allocate assets depending on the global macro environment.

However, for most, the recent COVID-19 driven crisis has distorted the way assets behave, irrespective of how they should in theory, which has rendered most of asset allocation strategies of funds entirely useless. This being the core reason behind the huge losses incurred by funds such as the All-Weather Fund of Bridgewater Associates that was also structured to deliver uncorrelated above market returns no matter the underlying market environment.

In a normal market environment, the correlation across asset classes will look very much like what is shown below from Guggenheim Investments. Whereby, both IG Bonds and Currencies have a negative correlation with the S&P500. And where Commodities, Equity Market Neutral, Managed Futures, and REITs have a weaker correlation to the S&P500. As expected, even Hedge Funds are almost entirely positively correlated to the S&P500, so most of the investors out there are paying for basic beta driven returns. This is essentially the bedrock of modern portfolio theory and it's what most of the PMs that have a normal finance degree will use to decide how to allocate assets. Unfortunately, most of them are sheep because they are all doing the same as their competition in most cases and usually deliver correlated returns and only sometimes hit home runs. That is why hedge funds with

	Positive	Negative	Investment Grade Bonds	Cash	Commodities	Currencies	Equity Market Neutral	Event Driven	Global	Hedge Funds	International Equity	Long/Short Equity	Managed Futures	REITs	S&P 500*
High	0.7-1.0	(0.7)-(1.0)													
Moderate	0.4-0.7	(0.4)-(0.7)													
Low	0.0-0.4	(0.0)-(0.4)													
Investment Grade Bonds			1.00												
Cash			0.11	1.00											
Commodities			(0.25)	0.07	1.00										
Currencies			(0.00)	(0.08)	(0.54)	1.00									
Equity Market Neutral			(0.03)	(0.04)	0.37	(0.64)	1.00								
Event Driven			(0.22)	(0.03)	0.57	(0.39)	0.41	1.00							
Global			(0.17)	0.01	0.61	(0.58)	0.47	0.80	1.00						
Hedge Funds			(0.02)	(0.03)	0.51	(0.42)	0.51	0.88	0.83	1.00					
International Equity			(0.11)	(0.00)	0.58	(0.66)	0.53	0.77	0.96	0.81	1.00				
Long/Short Equity			(0.18)	(0.03)	0.52	(0.49)	0.56	0.84	0.90	0.91	0.86	1.00			
Managed Futures			0.42	0.02	(0.07)	0.02	0.11	0.11	0.16	0.47	0.13	0.23	1.00		
REITs			0.30	0.02	0.25	(0.31)	0.28	0.46	0.65	0.54	0.58	0.56	0.29	1.00	
S&P 500*			(0.22)	(0.00)	0.57	(0.46)	0.40	0.77	0.97	0.79	0.85	0.87	0.16	0.65	1.00

The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see disclaimer at the end of this presentation. **Past performance does not guarantee future results, which may vary.**

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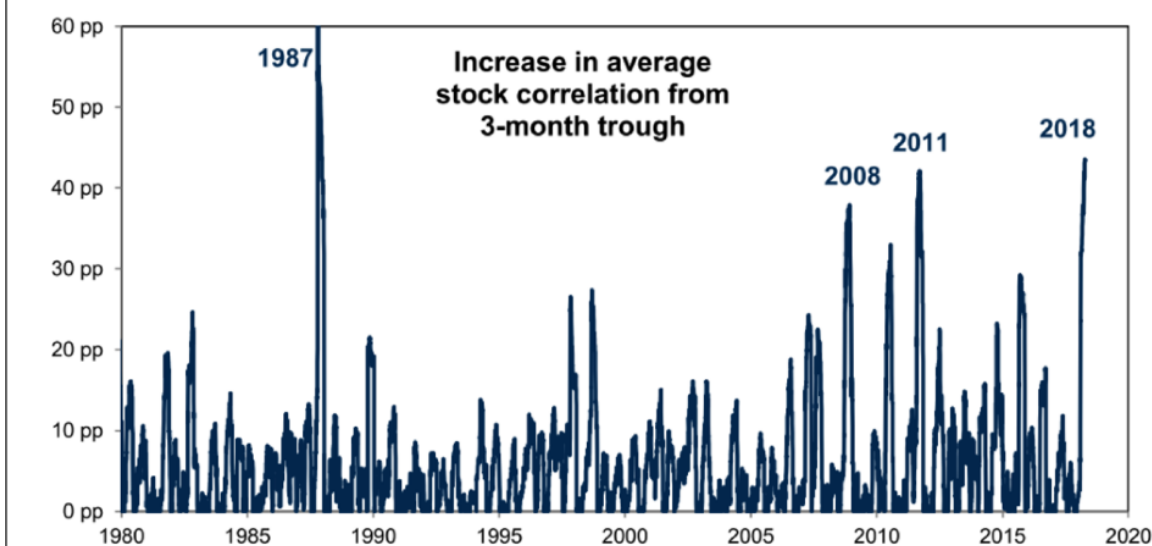


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more nuanced approaches are preferred by investors since they operate on a totally different level. After all, that's why uncommonly educated asset managers have built up funds that have been shut off to outside investors since they have no little incentive to give away the "Kevlar" of their way of thinking. Namely, Soros Fund Management, Renaissance Technologies, Point72, BlueCrest etc.

During a financial crisis, or when there is an inflection point in markets at the top of a bubble the correlation between asset classes experiences a huge shift (as displayed in Exhibit 1 below by Goldman Sachs). Asset classes suddenly are significantly more positively correlated to each other and there are only a few "safe haven" assets on the side-lines that are continuously negatively correlated to everything else. In 2008 for example, treasuries began being slightly positively correlated to equities despite being considered a safer and more risk-off asset class. But, despite the monumental levels of volatility in 2008, 2000, 1987, and etc, there was still "logical" reasoning behind the shift in correlations. Gold, Munis, the Japanese Yen, the Swiss Franc and etc were still sought after and were thus on paper delivering uncorrelated return, i.e. negative correlations to the rest. So, there were places to hide on the long side, not just by hedging or by being net short. Despite this "common knowledge", no one anticipated what the COVID-19 driven crisis would create, and that was a market where almost every single asset classes were positively correlated. There was simply nowhere to hide, and the only solution was to hedge through derivatives and/or insurance products such as CDS on top of being net short. Even so, few asset managers had anticipated the decisions taken by South Korea, Italy, and other states that banned short-selling or speculating through derivatives to profit of the downside for the foreseeable future. A true regime change for the asset management industry.

Exhibit 1: S&P 500 average stock correlations have surged since January



Source: FactSet, Goldman Sachs Global Investment Research

A factor that contributed to the severity of this shift in correlations across asset classes was the level of globalisation. At the inflection point in equity markets in February, the world had reached peak globalisation. The flow of goods, services, culture, and most importantly human capital across borders

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had entered unprecedented territory. And for some it is only in this global “stay-home” policy period that we are realising how much we depended on others that were miles away from us. This underscored the emotional way market participants reacted to this black swan event. With good reason. We have never been in this situation. What are we doing? Are we making the right choices? Will the system be broken forever? Will we be behaving differently once this is over? Should we enforce stay-homes for the benefit of the environment? Will everything be nationalised? And it goes on... Uncertainty kills markets since it kills the positive feedback loop that props them up and reduces the underlying confidence of the demand and supply side. On the flip side, uncertainty drives innovation and drives humanity forward if it remains under control (same goes for stress – channelled properly can be a benefit in our lives and if not detrimental to our health). After all, a recession is a test of an economy’s/a market’s immune system and whatever cannot survive it will be replaced by something better. It is unhealthy to bailout the whole system – not every corporation, and not every human will survive – it is part of a recession and life. It is essentially what pushes humanity through the boundaries of the past. Darwinism.

Despite what some may say, it will all be OK. If a company like Delta goes under yes, it is not great since thousands will lose their jobs and an American giant will be gone (if not nationalised or entirely bailed out). But it was their fault for not preparing for this unprecedented scenario and for being undercapitalised. It is their fault if they spent billions on share buybacks to prop up their share price and “benefit” shareholders instead of making decisions on the basis that we are in an infinite game and putting cash aside for a rainy day. They will be replaced by a newcomer or by other companies filling in for their customer base that were better managed.

In the end as previously mentioned, markets are like living organisms and we reproduce what is lost. Jobs will become available again even if hundreds of companies file for bankruptcy. In fact, jobless claims in the US skyrocketing is a sign that there is flexibility in the US economy unlike rigid European economies. If companies cannot pay, they lay off workers and hire them back when they must and can afford them. It is a mistake to think like European policy makers that companies should be disincentivised to lay off workers and to give everyone a huge social safety net. Because this corrupts both corporations and individuals and makes all the market participants fall in the trap of moral hazard. If we start having a mindset of “Whatever we do it will be fine; someone will pay even if I can’t and we will be resurrected” it is the beginning of the end. And this is what causes once great nations to fall and others elsewhere to prosper. We need recessions to survive and move on to another level, we should not always try to entirely stop them by making the state pay for the economic damage. Dampening the effect of recessions or by trying to turn a “hard landing” into a “soft landing” is fine, but only if fiscal and monetary policy are used within reasonable boundaries.

After all, markets build up to become bubbles which are asymmetric in nature. As Soros said, the boom is long and slow to start. It accelerates gradually until it flattens out again during the twilight period. The burst is short and steep because it involves the forced liquidation of unsound positions. Delusion turns into panic, reaching its climax in a financial crisis. In this current crisis, in a 20-day period we saw losses that were the equivalent of the losses that were seen in 2008-09 over a 11-month period. The reason for this is the entirely new level of globalisation (financially as well) and the unprecedented use of algos these days. Everyone developed a panic reactive behaviour since there is way more uncertainty due to the globalised world, we are now part of. No one has an exact idea of how



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much their asset allocation could be impacted by a shuttered Chinese economy and then a European economy and now a global economy. This caused a mass selloff over weeks. Leading to margin calls even at asset managers that held a more risk-off stance on the use of leverage (i.e. the forced liquidation aspect). Which in the end turned into such a dire market environment that all assets were positively correlated, and IG Bonds sold off hard. A Morgan Stanley issued bond maturing in 2026 was trading at 85 cents on the dollar during the climax of the March selloff (we may be in for a bumpy ride in April as well). This type of market behaviour took many investors by surprise. Even gold itself saw losses in some negative market sessions. Who would have thought? Apparently, not many... As of last week, correlations across asset classes have begun to readjust are starting to behave more normally, whereby IG bonds are gaining ground when equity markets selloff etc.

For many investors active in credit markets this has been showtime. Many are banking on this volatile episode in the credit markets. Many IG bonds traded at huge discounts in March and some investors are as result getting a 4,5,6% coupon instead of a meagre 2,3% or even -0.75% on LVMH bonds. Sure, a firm like Apollo got hurt even in their Tactical Income Fund and Senior Floating Rate Fund as many of their underlying assets got revalued by the markets. But that is not a reason for laying low, there are now opportunities that Apollo is taking advantage of that were unforeseen in the market we were in previously. The risk-free-rate (RFR) has dropped in synchronisation across the world, and in most cases is nearing zero or below zero. In a normal and stable market, the premium on top of the RFR would still be applied but the overall cost of debt or yield on credit would be lower since the underlying cost of borrowing has dropped. However, due to current market risks the RFR rock bottomed but yields are skyrocketing on old debt and newly issued debt even for well financially positioned companies. And investors are seeing this is an opportunity since this COVID-19 crisis does not necessarily create forever dire consequences for companies. For instance, Carnival Cruises issued \$4bn in bonds yielding 11.5% last week and the orderbook ballooned to \$17bn for the sale – demand is back and there is certainly liquidity after risk-adjustments were made. Baron Rothschild once said, “Buy when there’s blood in the streets, even if the blood is your own”. Most out there got hurt directly or indirectly by this crisis, but that is not a reason for a strikeout. It may well be one of the greatest times to playball!

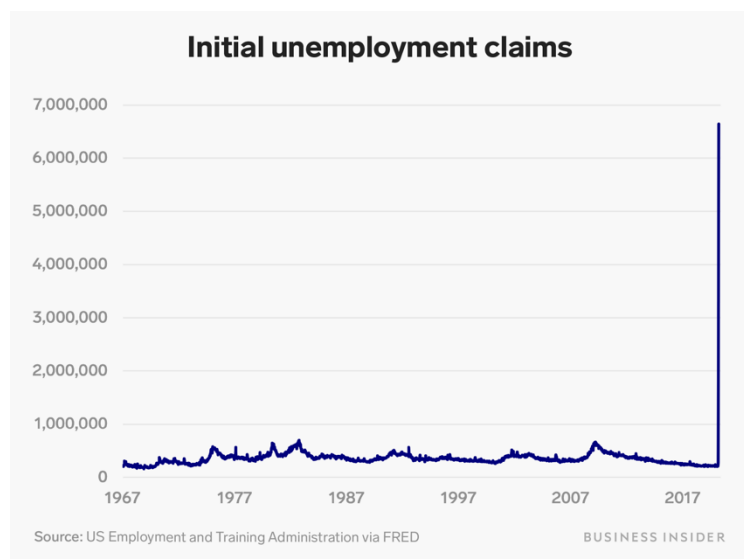


Global Macro

The Extent Of Coronavirus's Impact On Global Labour Markets

Around the globe, workers are already experiencing the devastating impacts from the coronavirus, as claims and welfare benefits are being driven into the millions. The IMF has claimed that this crisis reflects the most significant non-wartime recession since the Great Depression of the 1930s, where peak unemployment reached a staggering 25% globally. Although Central Banks around the world are trying to keep the economy afloat by introducing stimulus packages and cutting interest rates, it's hard to say that these measures have had any impact on containing the recession. Just this week, the US Labor Department posted record jobless claims with an astonishing 6.6 million Americans seeking benefits, almost 10x more than the peak during the '08 financial crisis. Although the total jobless claims during the '08 crisis totalled at around 38 million, we cannot ignore the numbers that we are being presented with here. (Please note that the jobless claims figure below shows new, weekly, claims and not total claims).

These aggressively rising unemployment rate numbers will put immense pressure on governments and central banks to provide programs to compensate laid-off workers or to fund businesses to allow them to keep staff on payroll. Failure to do so in the early stages of the recession will only compound the effect and lead to a full-on global economic downturn, which will take years to recover. For example, last week, the ILO (International Labour Organisation) - the controlling body for global employment figures - estimated that a minimum of 25 million jobs could be lost if the virus is not contained. While there will be economies that are recovering from the havoc of the virus (such as China), many analysts predict that unemployment rates will remain elevated until the end of 2021. Some predict these numbers to be as high as 5% and 8% in the US & Europe, respectively.



The US Labour Market

An imminent and devastating shock to the US labour market will be a useful data-point to compare how different labour models around the world are equipped to handle this crisis. For example, the US, where the labour market is known to be predominantly more liberal & flexible, will most likely see a massive surge in initial claims with a stable decline after that. This is because regulations around laying off employees are much less strict in the US compared to those of Europe, meaning that companies will use the virus to their advantage and lay off all their employees in one big chunk. This contrasts the labour laws in Europe,



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where a stricter & worker-friendly regulation will mean that the jobless claims will be more spread-out, spanning over several weeks or months.

So far, the model is holding its ground, with the US posting a record 700,000 payroll drop for early March, which is profoundly worrying as these figures have not priced in the massive layoff and closures which occurred mid-to-end of March. To put things into perspective, the total 10 million Americans that applied for unemployment benefits over the last two weeks are equal to the same amount during the first six months of the 08-09 recession.

European Labour Market

The situation in the UK is also highly critical, with over 1 million people applying for benefits, roughly 10x more than the national standard. The national statistics office of the UK recently released a survey where they claim that nearly 30% of all businesses in the country will be laying off staff, at least for the short term.

On the other hand, German unemployment numbers had a minimal increase in March. This is most likely attributed to the early cut-off date from the country's statistics office, meaning that we should be expecting a massive improvement for April's numbers. Meanwhile, the number of German businesses applying for emergency wage support rose to almost 500,000 - another record that is expected to continue to grow. The country's statistics office forecasts that nearly 25% of the working population is expected to be laid-off.

In France, the situation is quite similar, with nearly 400,000 businesses requesting support from the state to pay its workers' wages. The French government is now paying up to 84% of the salary of some 4 million workers.

Other European countries such as Spain and Austria are suffering from the highest unemployment numbers in the developed world, with rates as high as 14% and 12%, respectively. Overall, the situation is highly critical and there is no immediate sign of recovery.

Asian Labour Market

Despite concerns of a second wave of the virus, the economy in China seems to be returning to standard operating capacity. In February, during the peak of the outbreak, the unemployment rate was topped at 6.2%, erasing around 8 million jobs from the workforce. The current unemployment rate is on a gradual decline, and the manufacturing sector is seen to be experiencing continuous improvement.

Japan, on the other hand, is experiencing a peak in terms of the virus outbreak. Unemployment rates were held at a modest 2.4%, but the number of emergency loans and wage support applications in the country have skyrocketed. The Japanese CB now has the difficult job of deploying its resources efficiently to keep the economy stable.

In Thailand, nearly one-third of the population (23 million people) registered for the emergency cash handouts by the government. The program, launched on the 28th of March, is only geared to cover around 9 million people at 15,000 baht (\$455) each.



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Final Remarks

Government and central banks worldwide are faced with immense pressure to keep economies stable despite these turbulent times. They must realize even though the current pandemic will come to an end, the devastation caused by it will be felt for the foreseeable future, with many industries (airlines, for example) taking years to recover. The most important factor now is not to overdo and over-exaggerate the current crisis we are facing. Compared to pandemics we have experienced in the past (such as the Spanish flu or Bubonic plague), the novel coronavirus is less infective, less severe, and, most importantly, less lethal than outbreaks we have overcome. Moreover, the world's science and health organizations are far more prepared to tackle this virus than they were in the 1920s. As individuals, we must put faith in the global health system to contain the spread of the virus, and of course, do our societal duty of limiting contact, staying home, and supporting public health workers.

Global Macro

Does COVID-19 Spell Disaster For SMEs?

The market rally shown at the end of March was peculiar. Did the Covid-19 epidemic improve? Not at all, it's gotten even worse both medically and economically, especially in America. As the very fitting metaphor goes, when America sneezes the world catches a cold. Has market sentiment improved? No, the smart money is almost certainly bearish into 12 months. So with estimates of second-quarter GDP at a -30% loss, and US unemployment benefit office seeing 6.65 million applicants last week, how can the market rally of 20% be possible?

With highstreets effectively closed, restaurants unable to open and consumer activity at unprecedented low levels, business worldwide, regardless of size, are feeling the effects of the coronavirus. However, it is the small businesses, the 'mom and pop' operations, that this epidemic spells disaster for. According to research, unlike their corporate rivals such as McDonald's who have huge cash reserves, it's expected that most small business with over 3 employees have only enough cash on hand to see out 40 days of inactivity. Investors know that McDonald's will be here next week, next month and more than likely into the next century, the local cafe, on the other hand, will probably not see out to the end of 2020.

Despite being the backbone of the US economy, small businesses have not been shown the attention they deserve. The Fed's rate cuts and quantitative easing are helping Wall Street, not the high street. In fact, in the past month, we have seen the highest number of corporate debt issuance in history. Massive corporations have been able to access debt at extraordinarily low rates, allowing them to ride out this storm whilst the small business of America are rapidly going under. McDonalds was able to raise \$3.5bn in 30-year bonds at roughly 4.18%. It seems like the US, and the world economy is throwing life vests to those in no need of saving. At this point in time, there is little guidance on how the small business loans will work in practice. But considering that 24 million of the country's small business are sole properties with an average cash buffer of less than one month, it is clear that this bailout package is too late. Small businesses are under constant cash flow pressure at all times, let alone in times of crisis such as now. Small businesses are in critical need of cheap money and despite grand speeches by the government, it seems little has been done.



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While the Fed helps huge corporations by buying their bonds, banks are still unsure on how to underwrite these smaller loans and how the government would help permit businesses to use the money to retain or rehire workers. What is actually needed to save this small business, is a fiscal, not monetary policy, response. As we very well know, the consumer is king. It is the consumer who will save the high street and the economy. A cash injection in terms of tax cuts for households, especially those people on a low income, part-time work who spend 100% of their wage is vital to the economy. Banks need to prioritise small business loans, extent temporary relief for outstanding debts and extend loan maturities. To solve this crisis money needs to be put in the hands of the consumer to spend in the local economy, not used to bail out Wall Street. If this problem is not tackled that we may very well see the death of small business in America and the rise of super corporatism as huge firms pick up the scraps of what is left when this virus passes.

Commodities

Current Situation Of Oil Markets And Their Future

The recent oil price slump probably didn't go unnoticed to anyone who reads news regularly. Almost a month ago, on March 6th, Putin decided that he would not comply with other OPEC+ members' plans to curb down oil production by 1.5 million barrels per day. The consequence was more than 50% oil price drop, down to levels never seen since 2002. For instance, the US WTI dropped from \$46 a barrel to as low as \$20, while the OPEC basket fell from \$52 to as low as \$17.

Why didn't OPEC+ Reach a Deal?

The main reason why OPEC+ couldn't reach a deal is that Russia didn't agree to curb its oil production, this is all we can say with certainty. Why Russia didn't want to lower oil production to sustain reasonably high oil prices can just be speculated. According to our research, two factors played an important role. One reason that also Putin used to criticize Saudi Arabia is that the Saudis recently increased output even as the fall in demand due to COVID-19 was obvious. In his conditions to go back to the negotiation table, Putin demanded that all potential decreases in oil production that are negotiated by OPEC+ should be based on Saudi Arabia's production levels before the recent increase. Another reason set by Putin as a condition for a deal is that the US would be included in the agreement. OPEC+ was formed in 2016 to include all major oil-producing countries in deals to set global oil production. At that time, the US was still a net importer of oil, so the country was not included in OPEC+. However, in 2019 the US became a net exporter of oil and the biggest oil producer in the world. Since then, OPEC+ members increasingly demanded the US to join at their table, since US shale oil is a significant contributor to cheap oil.

Implications of Low Oil Prices on the Global Economy

As intuition might suggest, the impacts of low oil prices are the opposite for energy-importing and energy-exporting countries. For energy importing countries such as Europe, low oil prices are beneficial to the economy. The ECB estimates that each \$10 decrease in oil price lowers inflation by 0.3, which would mean the current \$30 could reduce inflation in Europe by as much as 1%. Even though since the Great Recession in '08 deflation was always viewed negatively by the ECB, deflation from low oil prices would be positive for Europe, since consumers and companies would have more money to spend on European goods.



On the other hand, for oil-producing countries, the oil price decrease is terrible. For instance, oil accounts for 90% of Saudi Arabia's exports, 75% of its government revenue, and 45% of its total GDP. However, Saudi Arabia's cash reserves are still reasonably high, which means that it can survive for a couple of months of low oil prices without significant damage. Moreover, Saudi Arabia has the infrastructure to produce about 30% more oil at any time, which remedy the Saudi government's budget if there is no agreement on curbing production.

However, for smaller countries like Iran without high cash reserves, low oil prices can be fatal. These countries usually do not have the capabilities to increase oil production without help from foreign countries, which means they cannot even increase government revenues by increasing output quickly. Moreover, lower-income from oil production in these countries results in lower money to invest better equipment to remain competitive over time or in making the economy oil-independent. One might say that low oil prices might have the beneficial effect of weakening authoritarian oil countries such as Iran or Venezuela; This might be true in the long run, but in the short-term, it might result in a humanitarian crisis. Also, for Russia, low oil prices hurt the economy; however, Russia's economy is more diversified than the likes of Saudi Arabia or other OPEC countries; consequently, the problems are significantly lower. According to Moscow, if price wars were to sustain, Russia's economy could survive 6-10 years with oil prices of \$25-\$30. The most significant implications of low oil prices in Russia are probably public discontent. Russians are already angry with their government because the US sanctions are taking their tolls on the economy; low oil prices would worsen the situation.

Under normal circumstances, the US would benefit from low oil prices, since higher consumer spending and investments due to low energy and product costs would outweigh smaller investments and income of oil companies. However, with the current COVID-19 situation, low oil prices are bad for the US economy. On the one hand, it takes time for the economy to adapt to low oil prices and benefit from it; in the short term, low oil prices result in lower revenues from oil production and no increase in spending in other sectors. On the other hand, many US shale oil companies are risking bankruptcy, which would further stress the US economy and the banking sector.

Where are we going from now?

After arbitration by Trump and some smaller OPEC+ countries such as Angola, Russia, Saudi Arabia, and the rest of OPEC+ agreed to resume talks in a video conference on Monday. However, yesterday, after mutual accusations by Russia and Saudi Arabia of being responsible for the low oil prices, Russia suggested that a meeting could wait until Wednesday, Thursday, or beyond. Although these countries and their leader's egos might further delay agreement on curbing oil, this is not too big of a problem, since, at some point, these countries are almost forced to come together and negotiate.

A far more significant problem is that Trump signaled that the US has no intent in participating in any deal on curbing oil production. Russia, however, said it would only agree to decrease oil production if OPEC+ includes the US in the agreement. Consequently, as usual in world politics, the solution to the problem goes back to the US and Russia reaching an agreement. At this point, it isn't easy to say who has to give in, since both countries have strong leverages. The US could impose tariffs on Saudi and Russian oil, thereby decreasing the effects of low oil prices on their economies and increasing pressure on Saudi



Arabia and Russia to reach a deal. However, this would likely strain relationships between the Saudis, a key ally to the US.

Moreover, Saudi Arabia could counter by canceling its \$350 billion arms deal with the US, which could hurt Boeing. On the other side, Russia could pressure the US for a deal by keeping oil production steady or increasing it. Saudi Arabia is a crucial ally of the US and significantly more vulnerable to low oil prices than Russia. Consequently, if Russia insists on the US joining an OPEC+ deal, Saudi Arabia would probably put significant pressure on the US to collaborate.

Another essential aspect of the future of the oil situation is what Europe does. Europe is one of the biggest buyers of US oil after Trump pressured it to do so; However, US oil is currently more than 50% more expensive than OPEC oil. With the current economic strains on European countries due to COVID-19, it is questionable how long they will be willing to buy the more expensive US oil to maintain good relationships with the US. Europe ceasing buying US oil is another essential factor that would pressure the US in finding an agreement with OPEC+.

Heijin's Take

The current situation around oil prices is highly complex and challenging to resolve as the egos of some world leaders are heavily involved. In our opinion, the trouble around reaching an agreement on cutting oil prices comes down to whether the US collaborates with OPEC+ or not. For the moment, we do not think it is appropriate to make investments betting on the oil dispute, because too many interests and unpredictable world leaders are involved.

However, in the short-term, we think that US oil stocks have priced in an agreement on curbing oil prices too much. USO (United States Oil Fund) rallied 40% this week on a tweet by Trump saying that Saudi Arabia and Russia are in negotiations to cut 10%-15% of global oil production. Notably, the Kremlin issued a statement shortly after the tweet saying there have been no talks with the Saudis on the matter yet. Consequently, given that there is little substance behind Trumps' tweets, we think the 40% rally is too optimistic. Moreover, another doubt is whether oil production cuts can remedy the sharp drop in demand. Significant parts of Europe and soon maybe even the US are shut down: people are forced to stay at home and cannot drive their cars, manufacturing plants remain closed, more than 85% of flights are canceled, and global shipping beyond essential goods is minimal. The question is whether a 10%-15% cut in global oil production has a significant effect on the price of oil, given the sharp downturn in demand. Our opinion is no, and we are therefore holding a neutral-bearish stance on oil in the short-term.



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Contact Details

Gregory Laurent Josi

Founder, Managing Director & CIO

gregory.laurentjosi@heijincapital.com

Moriz Martiner

Research Analyst

moriz.martiner@heijincapital.com

Pasha Tinkov

Executive Director & COO

pasha.tinkov@heijincapital.com

James Schofield

Director

james.schofield@heijincapital.com



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