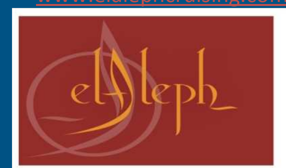

TRUTH & BEAUTY
[...AND RUSSIAN FINANCE]

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STRATEGY

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The Khodorkovsky Death Watch

T&B will spare the reader any further lurid exposés of Khodorkovsky's criminal enterprises. Suffice it to say that T&B – caring and sharing enough to feel sympathy even for Bernie Madoff (with his medieval, 150-year sentence for purely financial crimes) – could feel only grim satisfaction at seeing Khodorkovsky and the thuggish Lebedev remain behind bars, regretting only that Nezhlin is not in their company.

Russia had a "turbulent" decade, and one would be inclined to excuse past criminality – but what we find truly nauseous is the sanctimonious hypocrisy of a bunch of gangsters spinning themselves as Heroes for Democracy – akin to the saintly Sakharov – to a corrupt, complicit Western Kommentariat.

The news flow strongly suggests that a prosecution for murder will be brought next… while T&B shudders at the thought of having to spend another six months writing about a story which – when it should have been no more a detail of history – sometimes starts to feel like a life's work, we would hope to see justice finally served. The Oligarch, with a slew or murders on his conscience, has thus far been prosecuted for financial crimes only.

History's Preliminary Verdict

While we have yet to hear any convincing arguments in defence of the Godfather, we do not for a moment imagine that we have convinced his defenders. Thus, it is with some satisfaction that we evoke at least ***one objective point where we have been unambiguously vindicated:*** *press reports supporting Khodorkovsky generally concluded with dark warnings of the irreparable harm his prosecution has done to the Russian investment case – that no foreign company would consider investing in a country which dared to jail oligarchs whom Washington happens to favour….*

If only journalists had to publish their own track records!

In actual fact, as the verdict was being read, and whatever negative press one disgruntled foreign investor, long known for his talent in spinning the press, could generate[1]*, Russia was well on its way to becoming the top destination for BRIC equity investments – as global funds began to overweight a fundamentally undervalued market. More importantly, this inflow of speculative funds was accompanied by a series of multi-billion dollar inward investment deals, including BP-Rosneft, Pepsi-Cola-WBD, GE, as well as a clutch of European technology firms. The opening of the Russian economy, and the reform process, are slow, uncertain, and clumsy – at best, the government gets it right the third time around – but it is inexorable and investors scared off a compelling global investment opportunities by the FT and The Economist with the execrable predictive records have only themselves to thank.*

*The deeply self-referential Western Kommentariat rates very highly its own importance, mistaking its personal viewpoint for "*world opinion*" – in fact, the Western press speaks for itself, and for itself only. Travelling outside of the sunset countries of the West, we find that the West as a whole and the United States in particular, are widely viewed as hypocritical and self-serving. It is nearly impossible to find anyone in Brazil, Argentina, Indonesia, China or Vietnam, with a harsh word to say about Vladimir Putin. As for the famously free and fair press, it is taken for granted that it serves the interests of the State – just as does their own… with the proviso that, in the words of a Russian friend:* the only difference between us Russians and you Westerners is that WE do not believe our own propaganda*!. Be that as it may – investors in Russia long ago learned the cost of relying upon press coverage for anything beyond entertainment.*

[1] *Perhaps someday Mr. Browder shall chose to appear before a Russian court to discuss the allegations, which he denies, that his own history and business practices of the 1990s were less transparent than he know alleges. Now effectively excluded from operating in the only market where he had some substantial expertise, his natural vindictiveness has reached a fever-pitch in a one-man campaign of denigration of Russia.*
This is not, of course, meant to justify the way the investigation into Hermitage has been carried out – but a mishandled prosecution does not necessarily signify that the accused is innocent. While, in private conversations, many local journalists are resentful of being spun, and are deeply cynical of his motives, he has succeeded in intimidating any media with UK exposure; at least one UK blog – reproducing our discussion of the allegations by Russian authorities that he made widespread use of offshore vehicles in order to evade local legislation – was forced to redact our work due to the threat of cripplingly-expensive litigation under the notorious UK liability statutes.

Anyone doubting the elasticity of Browder's "ideals" would do well to contrast his recent cloying support of Khodorkovsky – a man whose crimes he knows well – with his published remarks on the Khodorkovsky prosecution at a time when it was in his financial interests to support the Putin government (http://news.bbc.co.uk/2/hi/business/4487245.stm). Perhaps, like in the willful misreporting of the Yukos story in the Western media, the only satisfaction is that, while unarguably an irritant, he has been so unsuccessful in his attempts to drive off foreign investment in Russia.

Global Trading Strategy –

A Hard Rain

T&B has a hard-earned reputation for being fundamentally bearish, and we are certainly not about to imperil it here. While we may have indeed predicted ***three*** *out of the past* ***two*** *meltdowns, we are looking forward to our revenge with the next one. This is not a matter of personal preferences – quite the opposite – we love bull markets, wishing that we could spend our allotted three-score-and-ten years in one continuous bubble – alas, an exceedingly unlikely eventuality. Deeply cynical of any party-line, we have a useful talent for spotting what should be glaringly obvious. In the land of the blind, the one-eyed is king… and T&B has one good eye!*

We will once again reiterate our bullish call: **don't fight the (Global) Fed!** In roughly descending order, accounts we advise are long commodities (especially softs and energy), equities (especially Russian, and the global commodity complex), emerging fixed income (short duration, wide spreads, and leveraged), and have reopened some dollar shorts – cautiously – as long as unsustainable fiscal stimulus is maintained, currencies can move in a counter-intuitive fashion.

We are inclined to increase our timid side-bets on a recovery of Peripheral Europe, but are becoming a little less enthusiastic about Asian equities, Latam assets, and (for once, joining the consensus) broad emerging markets, given the growing inflation scare. We remain heavily weighted towards commodity producers.

Overall, we continue to recommend long, leveraged positions – the global carry trade – whilst we are fully cognizant of the freight train heading towards us. Why the cognitive dissonance? Simply a matter of timing!

The Big Long

Next to the New Age drivel which clogs airport bookshelves – Paolo Coehlo must be the literary answer to McDonalds, without the salads – we can think of few literary genres more useless than business books, generally little more than a single mediocre idea endlessly reiterated over 250 pages. There are however, a few exceptions, notably Michael Lewis. Having finally gotten around to reading his The Big Short*, we find it a vital piece of behaviour psychology as regards financial markets. Even for those familiar with the inner workings of the subprime finance bubble, Lewis' book provides a remarkable illustration of the collective ability of the* respectable consensus *– the captains of industry, the titans of Wall Street, the political hacks – to collectively take leave of reality – slipping into the literally delusional in their steadfast refusal to acknowledge the glaringly obvious.*

While everyone now acknowledges the subprime bubble to have been self-evidently an accident going somewhere to happen, just how self-evidently, and how widespread was the collective refusal to recognize a locomotive barrelling down the tracks, is instructive. The talent for collective self-delusion of our peer group is rarely encountered outside of psychiatric institutions and revivalists meetings. Like the Internet bubble before it, anyone with an IQ in the mid double-digits and not intentionally blinkered by overwhelming self-interest should have seen it coming – the only trick was to figure out how long before the music stopped, and vitally, how to trade the inevitable unwind. Like the Internet bubble, then the sub-prime follies, we are flummoxed by the sanguine view of the approaching fiscal Armageddon evinced by our Wall Street peers.

This rather long-winded introduction was meant to preface our rebuttal of a recurrent criticism: several of our readers have argued that T&B was too bearish – that US economic growth is chugging along at 3.5%–4%, not at all bad for a large, developed economy.

Madness! We say. The US is currently chugging along quite nicely on the back of **a one-and-one-half-trillion dollar budget deficit coupled with massive monetary creation.** Not for the first time, we remind the

reader that, if you shoot enough voltage into a corpse, it will twitch; crank it up still further and it will eventually get up and dance… This does nothing to improve its long-term prognosis. None of this will not end well…

On the other hand, whilst T&B is deeply bearish as regards the ultimate outcome, hard experience has taught us the danger of being right too early – it is not our job to be impoverished-but-vindicated in some distant future, nor are we psychologically suited for placing long-term bets, then sitting out several years of small losses waiting to be proved right. As a Russian publication, it seems appropriate that our medium-term strategy should be limited to where we are having lunch – and even for Western markets, anyone who thinks he can confidently predict out beyond a 6-month horizon is mad.

Each day brings a further slew of sell-side analysis regarding what the data from the US housing, jobs, and equity markets are "telling us" – whether the "New Normal" is too pessimistic, whether the system has self-righted, how much more borrowing before the recovery becomes self-sustaining. The authors are apparently all riding in the same elevator, oblivious to the fact that an elephant stepped in on the way up.

What, in fact, the data are "telling us" is that there is far too much money chasing too few assets – this is not novel – and for as long as the Fed and Treasury (now the same balance sheet) can continue to pump in vast quantities of liquidity and deficit spending, the markets will do just fine, thank you.

The Federal Reserve has now become the **single largest investor in US Treasuries**, edging out China – thus, akin to the situation with subprime circa 2006, the only fundamentally interesting question is: *what happens when the music stops?*

We do not pretend to know what will be the trigger – does Washington run into a buyer's strike, the agencies decide to downgrade (as just happened to Japan), long-term interest rates turn up decisively, or even (god forbid) an inflation scare. The US body-politic is not easily predictable, and perhaps, thinking the unthinkable, the US political establishment shall finally know the metallic taste of fear, capitulating before the inescapable reality: that one cannot borrow one's way to riches nor revoke the laws of gravity – that deficits have to be paid down (or inflated away), that – discretionary or non-discretionary, military or civilian, current levels of spending are not remotely affordable. What happens then? And when does it happen? These questions are neither hypothetical nor academic – if we are correct (and we are still waiting for someone to convincingly prove us wrong), much like in 2008, survival will depend upon being positioned to be able to get out of the way in time.

We have no good answer as to what the unwind will look like – it is far easier to predict major discontinuities than to foresee their exact timing and physiognomy; indeed, by its very nature, market behaviour at points of discontinuity is unpredictable – assets expected to crash can perversely surge as markets freeze up or become irrational. Similarly, timing is always tricky, especially as the vital question here is one of political choice – not of economics.

It remains T&B's contention that the US political system is broken, and thus is unable to accept economic pain, much less to properly allocate it. Democratic political processes and rapid alternation in a two-party system naturally breed a tendency to kick the can down the road, in the hope that any time bombs will explode on someone else's watch.

-What if we are wrong?

The bulge bracket consensus still believes (or claims to believe – yet another extraordinary suspension of disbelief?) that the US could potentially grow its way out of its debt load, with relatively modest GDP growth allowing a gradual reduction to a sustainable fiscal deficit. We remain deeply sceptical of this "bootstrap" approach and cannot believe that further debt creation will do much to enhance efficiency or productive capacity – instead fuelling consumption, a renewed sense of personal prosperity, and the collective view that a country self-evidently favoured by the Creator can borrow its way to wealth!

The contrary argument – as best we can see – is that the US is fundamentally different, given the strength of the agricultural sector, excellent microeconomic framework, the reserve role of the USD and the "risk-free" positioning of

Treasuries. We agree, but see nothing in these arguments to negate the fundamental force of gravity.

If we are wrong, then the feared dollar-crisis will be avoided, the US yield curve will flatten, and ultimately, we will see a normalization of US monetary policy. Both US and foreign equity markets will initially do well as the level of fear recedes, before weakening in response to rising short-term rates. Equities will outperform debt, the US dollar will strengthen again, and global risk assets will perform strongly, commodities even better. Needless to say, we find this scenario very unlikely.

The Oil Slick

In keeping with this month's theme – *how can the respectable consensus so systematically fail to recognize what is right in front of its nose?* – we remain bewildered by much of the discussion regarding trends in oil prices. This strikes us as a no-brainer. Prices are ultimately going higher – only the timing may be open to question.

It has not been, and will not be a smooth, continuous ride. While the ultimate effect of financial speculation on medium-term commodity **prices** is precisely nil, there is an unarguable (and economically harmful) effect upon commodity price **volatility**. Oil prices reached a historic peak of $147 in the run-up to the Global Credit Crisis (indeed, the role of surging energy prices in triggering the meltdown may have been underestimated), driven largely by capital flows into commodity markets exacerbating the underlying supply-demand factors. Whether or not this price surge helped to trigger the crisis, the ensuing correction in oil prices was brutal, as the end-of-the-world trade triggered a massive liquidation of positions.

As we go to press, the political crisis in North Africa is pushing energy prices higher. While we had failed to include an uprising in Egypt among our favourite risk factors, analogous situations can be found throughout the region. While our best guess is that a peaceful initial transition will be engineered, a change of government will do little if anything to improve the dire economic situation: socially dangerous food price inflation, massive youth unemployment, declining agricultural production, and a gaping budget deficit due to the huge food and energy subsidies needed to buy social peace.

The Fire This Time - Demographics

In Roman Polanski's Fearless Vampire Killers*, in a dream-like scene, the hero (Polanski, directing himself) is attacked by wolves as he rushes through the Transylvanian woods in the back of a sledge; he tries desperately to awaken his travelling companions, without success. We find ourselves in a similar situation. How is it that only we sense the snapping of the lupine jaws?*

Scanning the work of even our most learned peers, strategists whose quantitative skills far exceed our own, we seek in vain for any discussion of what constitutes the single greatest threat to the Panglossian view that our world is moving inexorably towards a shining future – a future where democracy and liberal capitalism will put an end to conflict, poverty and war.

Political correctness apparently precludes any discussion of ***Population Dynamics****, indeed, the new consensus is that those countries with the highest birth-rates, and thus, the lowest dependency ratios, will do best over the next decades. Russia – and even China – are seen as being condemned to ultimate decline, while those countries with the fastest population growth rates, from India to North Africa, will prevail. T&B, on the other hand, sees this as the ultimate bubble.*

Our ***long-term*** *view goes beyond the merely "pessimistic" in that "pessimism" suggests that, of several possible outcomes, one favours the worst. In fact, the only alternatives we see are of the order of "which mine blows up first?" We are here confronted not with ideologies or models, but with physical realities. Perhaps a purposeful global policy akin to that practiced by China could still forestall catastrophe, but we see no feasible basis for said policy. Perhaps global governance was both an impossible dream and the sole engine for survival.*

Seeing the Pyramids – Up Very Close

As we go to press, there is sudden concern about the sustainability of the situation in the Middle East. This is interpreted as a rejection of the corrupt, unpopular and authoritarian governments – valid as far as it goes. However, we believe that the fundamental driving factor for political unrest is something far more profound – over-population – the rest is no more than a rounding error.

Egypt's population has tripled since 1960 – with no commensurate increase in agricultural land, water, or living space. When Mubarak came to power in 1981, there were 40m Egyptians. Today, there are 80m – UN population statistics suggest that by 2050 there will be 150 m (unless, as we think likely, something untoward reverses the trend before then). The most colourful consequences are the overcrowding of Cairo – to the point where cemeteries are now being populated with the living. Those more sensitive to statistics will note that Egypt now imports 40% of its food – 60% of its wheat. As population pressure causes increasing loss of agricultural land, while salinization of farmland proves an increasing problem, there is simply no way to increase domestic production.

Like much of the Moslem world, Egypt is a land of over-educated, unemployed young men – forced to live with their families, unable to marry, angry and frustrated, they provide an ideal terrain for religious fundamentalists who would explain their increasing poverty and despair by a conspiracy of the Christian West.

The problem – needless to say – is not confined to Egypt. Tunisia, where the current spot of bother began, has seen its population increase by 250% since 1960. According to the extremely useful website of the World Bank (http://www.google.com/publicdata?ds=wb-wdi&met=sp_pop_totl&idim=country:EGY&dl=en&hl=en&q=population+egypt#met=sp_pop_totl&idim=country:TUR:IRN - *the reader is encouraged to play around with this user-friendly resource and draw their own conclusions*), the population of Pakistan has more than tripled in 50 years, with Turkey and Iran also seeing a more than three-fold increases. For some truly startling data, Kenya's population has gone from 8 m to more than 40m in that time, with the slope of the increase now accelerating in an exponential fashion.

Mouths to Feed

From the same website, the reader will note that while Egyptian nominal GDP has exploded upwards, **real GDP per capita** is stagnating. Add to this the increasing pressure on living space, water, and air – and the day-to-day experience of the average Egyptian is deteriorating dangerously – this in an era where, thanks to information flow and the global media, expectations are rapidly rising.

Counter-thrust: China – the Purposeful Dragon

Looking at the Chinese population curve, we see a much more encouraging trend. Thanks to the one-child policy, Chinese population is moving towards stabilization. India, by contrast, is still seeing a linear rate of increase, now approaching 1.2bn. It is striking that the most successful of the Asian NICs such as South Korea are nearing stabilization, while those still mired in deep poverty such as the Philippines and Indonesia continue to grow their populations at accelerating rates. We would argue that this suggests that there are some benefits to be had from "authoritarian" modes of governance, where actions necessary for the survival of society, but perhaps harmful to the interests of the individual, can be imposed from above.

The reader may argue that we are making the error of extrapolating current trends out to infinity, and there are indeed counter-arguments. The website will show that Mexico, where population has increased from 40m to 100m in a 50-year period, is now seeing a deceleration in the rate of growth, as are some of the other developing countries. The question is whether it is not already too late. Perhaps Mexico's population will ultimately stabilize at some 150m. A key question is whether that number will be sustainable in any real sense – indeed, if even the current population can be decently fed and housed (which they current are not). Given the frightening deterioration in public safety and the situation of guerrilla warfare in many regions of Mexico, the initial results are not encouraging.

Gimme Shelter

For those of us sitting comfortably in the developed world, the threats referred to here seem remote. Europe is self-sustaining in food, could probably get by with less energy consumption, and does not suffer from extreme overcrowding. Unfortunately for us, thanks to the explosion in transportation and communications, the days when the poor were condemned to suffer whatever deterioration in local conditions with no hope of escape are a thing of the past. From Nigeria to Mexico, Tajikistan to Pakistan, we live in a globalized world, and expectations have increased radically – unchecked, the massive outward emigration in search of better living standards would literally drown the old G7 countries in the blink of an eye. The situation in France – where certain areas (Dreux, as well as the Northern suburbs of Paris and Marseille) have become no-go zones is a chilling warning of what may be to come.

We believe that, although the current uprisings in the Middle East may temporarily result in an advance in "democracy," the resulting political regimes will be fragile and ill-equipped to solve the fundamental economic problems, much less to reverse deeply entrenched demographic trends; they will thus be increasingly susceptible to overthrow by radical religious and tribal forces.

Investment Conclusions

After a half-century during which the belief in global shared prosperity – only partly an illusion – was rarely challenged, we would expect to see a growing rift between those countries which have attained stable (or stabilizing) populations with commensurate economic growth, and those which are caught in a spiral of increasing population outstripping any conceivable economic growth.

Indeed, the entire notion of the "Emerging Markets" is probably fallacious – any term throwing together Ghana, Thailand, Kenya, India, Argentina, China and Russia is little more than an impediment to rational analysis. As much as we may shy away from politically correct terminology, we would rather group markets as the **PSM** *and the* **USM**, *i.e. the Potentially-Sustainable vs. the Unsustainable Markets.*

If we are correct, investors should favour those countries well endowed with natural resources, living space, water, and more controversially, with defensible natural boundaries and a social willingness to defend those borders against the threat of massive economic migration. All things being equal (e.g. quality of governance, social stability, resources) such countries would include Australia/New Zealand, to a great extent the United States and perhaps Scandinavia; more controversially, among the emergings we would single out Russia for exceptionally high sustainability, China for the ability to maintain growth despite huge problems, and the agricultural power-houses of Latin America (Uruguay, Argentina, perhaps Brazil). Needless to say, this "long-term" may be some ways off in the future, and in the meantime, countries such as Argentina may encounter severe economic difficulties due to a persistent tendency of Argentine governments to announce the repeal of the laws of economics, engendering boom-bust cycles.

More controversially still, as populations outstrip resources, driving increasing political instability, the next half-century may witness some very fundamental shifts in ethical and political beliefs – away from the 19th-century model based upon notions of natural rights and the value of human life – as competition for scarce resources becomes the major driver.

From the political standpoint, the "authoritarian" model (we would prefer to call it "purposeful") applied by China with undeniable success, and which China now seeks to export, may well displace some of our own cherished ideals, at least for the emerging world. The rapid increase in Chinese resource colonialism may well collide with the interests of the West.

In our neo-Malthusian model, the obvious investment plays include agricultural and forest land, commodities and producers of agricultural machinery, energy, as well as transport infrastructure. Energy and industrial commodities will be in increasing demand.

Outside of the bulge-bracket institutions, the consensus view is shifting towards an increase in inflation driven by a combination of self-indulgent monetary policy in the West and growing competition for resources; we acknowledge the danger, but are not yet ready to radically shift positioning, instead preferring

to keep our duration short and enjoy the global carry trade while it lasts.

That said, those wishing to get ahead of the trend will favour (resource-based) equities over fixed income, as well as real assets of all descriptions – from real-estate to farmland. Perhaps – given their storied inventiveness – the global banks will be kind enough to develop a series of trading instruments allowing easy access to these asset classes.

How to Spend It – Trading Views

Currencies: The Great Dollar Short

Despite our high-conviction call that the US dollar is on its way to losing its primordial status in the global economy due to the appalling economic mismanagement across the Atlantic, this has not been – and very certainly will not be – a smooth, continuous process. As we go to press, the dollar is bouncing on the back of the inconsistent US employment numbers, disregarding any issues of fiscal sustainability. We are sceptical about the rebound – indeed, according to Merrill Lynch research, the recent sharp fall in the unemployment rate despite minimal job creation was at best a statistical artefact, at worst an indication of increasing long-term structural unemployment (the long-term unemployed, i.e. "discouraged workers" are conveniently excluded from the main US employment indices…).

Furthermore, whatever the logic or illogic, financial markets continue to react to every loud noise by reflex buying of the dollar, and thus, during periods of severe economic stress, the market decouples from long-term drivers, with a risk-off flight into the "safety" of the US. Whilst investors who fail to get out of the way in time are likely to get carried out, this does not invalidate the ultimate fundamental logic of the short-dollar trade.

As the dollar dropped to 1.23/Euro, we opined that its strength was overdone and recommended shorting it against a range of longs: SEK, CHF, NOK, SGD, RUB, as well as the commodity currencies – AUD and NZD in particular; in the event, after briefly breaking below the 1.20 level the Euro rebounded, and is now back around 1.36. While we reiterate our out-of-consensus view that there likely will be no sovereign debt crisis in Europe, we were wary of the Euro given the danger of adverse news flow, preferring to take our European exposure in the form of CHF/NOK/SEK.

The rebound of the Euro has been impressive, and surprisingly, even the firestorm in the Northern Arab crescent has not really dented its momentum.[2] With oil appearing to hold around $100, and markets moving back to risk-on, we would be loath to be long the USD.

Commodities – Glowing in the dark

One of our favourite speculative reflation trades has been uranium. The metal was left behind in the first phase of the post-crisis commodity rally, and is now making up the lost ground. There is a strong fundamental story as reactor construction is gaining pace, and power companies must secure future uranium supplies in order to receive project finance. We would put on this trade via the uranium explorers/small-cap producers– the likes of URRE, UUU, PDN, DEN, DYL, etc. (*please note: this trade is HIGHLY speculative, though potentially rewarding*).

As for the rest of the commodity complex, we continue to love the softs – wheat, rice, sugar, cotton etc. – although punting around in the futures market is a good way to lose fingers and toes. A less exciting way to trade them is via manufacturers of fertilizers, farm machinery, seeds, etc. – though this takes more fundamental research than T&B is ordinarily capable of.

Unlike virtually anyone else we speak with, T&B has never been wildly enthusiastic about gold, preferring other commodity trades: agriculturals, energy, and industrial metals. That said, we think a couple of the Russian small-cap plays, in particular Trans-Siberian Gold (TSG), are cheap to their fundamentals, and well worth a look.

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[2] *indeed, it has never been entirely clear to us whether it is the falling dollar which drives up the price of oil – the consensus view – or, in fact, strength in the energy complex which dents the dollar.*

Fixed Income

Here, we can only repeat ourselves. Keep duration short (up to 2015) and buy yield, especially in Eastern Europe.

Long-term readers are doubtlessly familiar with our reiterated picks: Russian bank subs (RUSB, Promsvyaz, Alfa, etc), followed by their Kazakh counterparts (KKB, ATF and CentreCredit), as well as selected Ukrainian plays – AlfaUkraine, Metalinvest and (more controversially) Privatbank being some personal favourites. With modest leverage, they provides a good meal!

T&B loves a mispricing, and we will reiterate our strong, speculative BUY on PDVSA, the Venezuelan oil major. The short-end of the curve ('15s,'16s) is yielding around 17%. While Venezuelan macroeconomic policy leaves much to be desired, and will most likely end in tears especially if there is a short-term correction in oil prices, we continue to believe that PDVSA should trade well inside the sovereign curve.

While the Venezuelan sovereign could conceivably default with limited short-term recourse, PDVSA has numerous attachable assets. Not just refineries, but especially, its oil exports – which in the event of default would be easily seized by any New York judge. Though increasing volumes of Venezuelan oil now go to China, the US remains by far its biggest client, accounting for some 70% of exports. Much like Tatneft, which stayed current on its Eurobond despite the Russian default due to the threat that its exports would be seized at the border, even in a catastrophe scenario PDVSA would be obligated to find an agreement with its creditors. While there is a danger of a short, nasty mark-to-market (thus, this trade is best savoured unleveraged!) we would not expect much of a haircut. It is a risk-trade, but in our view, investors are being very well paid for taking the risk. (*As always, if any of our readers has a good counter-argument, we would be delighted to discuss and perhaps be convinced… please do contact T&B at* krausmoscow@yahoo.com.)

The Europeans – What if they had a Crisis and Nobody Came?

Our fundamental view remains that – despite the many excellent reasons why some of the peripherals (PIIGS) should default, restructure, or simply wander off into the night – the consequences for the global banking system would be far beyond the merely "devastating" – as in Chernobyl/Lehman-squared/Mad Max…

Indeed, while German banks have negligible exposure to say, Ireland, the British banks are heavily exposed, with Germany in turn, exposed to the UK banks. Ergo - *Eire defaults on Monday, the UK-banks have melted down by about Wednesday, on Thursday Germany has joined the fun, and by mid-week the following week Europe has no more banks. Those who would reply –* "so what? – We start over from zero" *should probably have deep caves well stocked with food, water and firearms – the situation above ground would likely be interesting in the extreme.*

While Russia did indeed have a similar experience in 1998, it is far more robust than the fat, complacent G7 countries, where social stability in a real crisis would make the current situation in Egypt seem relatively benign. Thus, we expect that, unless some national electorate actually chooses a collective trip back to the late Middle Ages, a sovereign default will simply not be allowed to happen.

The contrary argument is, of course, that each time the European crisis recedes a bit, the "adult" countries – France and Germany – find themselves herding cats, as the remaining 15 Eurozone states (or 25 EU members) all scurry into the limelight, demanding that whatever bits of their national social models are most politically sensitive should be preserved. There will likely be several failed attempts at imposing the German model, but again, the choice is between that and a meltdown; without further fiscal and social integration the common currency cannot be maintained, and a breakdown of the Euro would have unacceptable consequences for the European – and the global – economies. We thus believe that everything possible will be done avoid this scenario, though there is always a risk that politics will derail the best efforts.

In recent issues, we suggested that Greek 3-4 year debt could be an interesting play, as the hysteria regarding an imminent meltdown receded – although we thought it a bit early to catch a falling knife. In fact, with a relatively

benign news flow, the yields in the 3-4 year segment have tightened by 100bp-150bp, before stabilizing at the price levels of 4Q 2010. Anyone who put the trade on was well rewarded for his courage, but we do not yet find it entirely compelling. While ultimately we do not expect investors in European debt to take a haircut, ours remains a minority bet, and since it takes a crisis to focus the minds of European policy makers, we can expect to have several more over the coming years – and mark-to-markets could become painful.

Equities – Russia Exiled?

There has been much chatter about whether or not Russia "deserves" her place amongst the BRICs, largely due to the sharp decline in economic growth in the wake of the Global Financial Crisis. As these things usually happen, as the doom and gloom choir hit its crescendo, Russia began to strongly outperform her BIC peers:

	2011 to date (6/2/11)	Last 3 Months	Last 6 Months
Russia (Micex)	+8.73	+19.54	+27.8
Brazil (Bovespa)	-6.7	-10%	+1%
China (CSI)	-1.6	-10.1	+8.5
India (Sensex)	-13.9%	-16.8%	-4.5%

Can you spot the missing BRIC?

(Source: Bloomberg, USD returns)

October may have marked the low-point in investor sentiment as regards Russia, and much like the situation following the first Khodorkovsky trial, with a P/E absurdly undervalued in the mid-single digits, there was nowhere left for the index to fall.

After the spectacular drop during the 2008 global crisis, the RTS is now about 20% below its historic peak, and given the expected strength of global commodity prices, increasing liquidity, and the gradual but inexorable pace of Russian restructuring, absent a severe discontinuity in global markets, we would expect it to break this level sometime this year.

Back to the Future

Early in the last decade, T&B argued that the Russia discount was absurd – that even such havens of stability as Argentina, Pakistan and Mexico were trading rich to Russia, and although Russia had some serious economic and structural problems, it was certainly not alone in having them. The spectacular (500%) rise from 500 to 2500 between 1 January 2005 and the onset of the global crisis seemed to confirm our view.

What we had failed to realize was the extent to which Russia had become dependent upon foreign bank lending, foreign investment, and financial leverage – a toxic cocktail, which eventuated in a truly spectacular crash when the foreign cash suddenly flowed back out, with massive liquidation of margined local positions.

Lessons have been learned, and although Russia still lacks domestic long-term capital pools, at least the domestic banking system is no longer heavily exposed to foreign creditors. In part due to pressure from the Central Bank, Russian banks now have a **net positive** foreign exposure. Similarly, while some leverage is working its way back into the system, we have heard no reports of the sort of 10:1 equity lending which had become prevalent in 2007. Finally, of course, Russian macroeconomic indicators remain admirable, with single-digit sovereign foreign indebtedness, circa $500bn in foreign reserves, and a budget deficit almost certain to come in well below the rate of GDP growth – the functional definition of sustainability.

Our trading picks for last year – small cap oils, the metals sector (NLMK), coal (RASP, MTL) and Sberbank have generally outperformed the index. Our favourite TNK-BP Prefs may (or may not) be moving towards an exit, BANE remains a strong performer, and given the strength in oil prices, for a trading pick we would now look to own the large-cap oil sector Rosneft and LUKOIL.

What if we are wrong? – The Contrarian View

DB has just put out a piece arguing very much the opposite of our fundamental call, underweighting Russia (and Brazil), in part based upon excessive use of capital without a commensurate increase in corporate profitability, but primarily due to a predicted fall in commodity prices due to a slowdown in China.

DB are hardly the worst fools in the market, and we are always alert to the danger that we will cling to an initially successful market view for too long… T&B has been beating the commodities/Chinese growth/peak oil drum for the past decade, and results have been gratifying. That does not mean that the situation cannot change…
Are we smart enough to catch the inflection point?
Only the shadow knows…

The bear case (for EM/commodities/Russia) scenario is essentially that overheating and inflationary pressure in the emergings due to above-trend economic growth, expansionary US monetary policy, and commodity price inflation will cause a sharp contraction in activity. This would be potentially aggravated by destabilization of fragile political regimes in the Middle East, Africa and possibly emerging Asia.

A two-man show, T&B cannot possibly address concerns regarding all global emerging markets. We have always been wary of the Middle East, Africa, and our exposure to Latin America has been limited to Argentine fixed income (especially the GDP warrants – up about 500% in two years and probably still a strong "hold"… As well as the restructured bonds – now a bit rich for our tastes.) We remain China bulls, but do not know how to express this in liquid investments. We are deeply sceptical of the current craze for frontier markets.

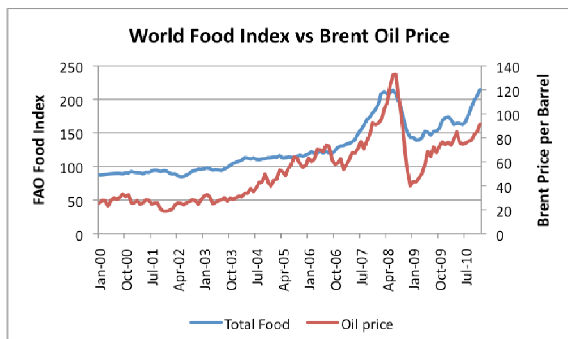
There are two issues germane to our worldview – Russia and commodities:

As we have written previously – if we are wrong about China, we are likely wrong about the rest. Whilst we take the danger of EM inflation very much at face value, we remain enthralled with the Chinese story, and suspect that Beijing will manage a soft landing (if it lands at all…). We have spent 20 years reading dire warnings of the coming Chinese implosion, and have grown somewhat cynical – perhaps this time we are wrong, but given the dynamic of the underlying Chinese economy (as opposed to its financial sector) we would require substantial hard evidence before changing our view.

That said, there is one fundamental point which either T&B – or the rest of the world – is obviously missing: no one seems to expect China to go into outright recession, i.e. negative GDP growth. While a slowdown would have a substantial effect upon global sentiment, it would signify nothing more than a **moderate deceleration in the rate of growth of the world's largest source of commodity demand,** i.e. the rate of increase would slow, but the physical volumes would continue to increase, albeit at a slower pace.

Imagine for a moment that US growth were "stuck at" 8%... where do you think oil prices would be? We are not speaking about abstract financial phenomena here – we are speaking of the rapid increase of consumption in a consumer market of 1.5bn people – of whom say 200m can now be described as vaguely middle-class (i.e. having a disposable income beyond the purchase of necessities). It is as if the world had created a new Europe, *ex-nihilo,* in a mere two decades….

The Law of Unexpected Consequences – Food Prices



For reasons we have never fully understood, butterflies flapping their wings in the Amazon are taken to cause hurricanes along the Eastern Seaboard of the United States. Equally surprising, innovative monetary policy in Washington is leading to the destabilization of a series of moderately pro-Western governments in the Islamic crescent.

Where the rubber meets the road is, of course, inflation – in particular, rising food prices. This is being driven by a host of factors – the rapidly increasing frequency of aberrant weather – possibly due to global warming[3], rapid increases in wealth, and thus protein consumption in Asia, urbanization and salinization of soils, overpopulation, increasing production of biofuels, and more controversially, excessive liquidity going into real assets as an inflation hedge.

While rising food prices are little more than an irritant for that narrow, happy global income tranche which would include our readers, they are dramatic for the poorer countries. Indeed, while food makes up only about 15% of the consumer price basket in the US/UK, it is a full 50% in India, and about 35% in China.

Perhaps more to the point, in poor, agricultural importers such as North Africa and the non-oil Arab states, as well as some of the emerging Asian countries (Indonesia, Philippines) food price inflation can rapidly send large swaths of the population back into deep poverty, destabilizing the political situation[4]. The current revolutions in Tunisia and Egypt, as well as the rapid increase in political agitation in numerous other poor countries, are unambiguously linked to the rise in food prices.

Blind Faith in the Technological Fix? – Beware!

Pre-empting the obvious riposte, T&B has clearly identified our own viewpoint as "neo-Malthusian" – with the caveat that the simple fact the Malthus got his timing badly wrong (by a good 150 years…) does not mean that his view of the ultimate outcome was misguided.

The counter-argument most commonly offered us is that massive famines were predicted (wrongly) in the past, notably in the late-1960s – these were forestalled by the "Green Revolution" i.e. the rapid increase in yields thanks to better seed and agricultural technologies. There is a natural tendency to extrapolate trends out to infinity, and thus, to expect a continuation of this benevolent trend. We are sceptical that further revolutionary increases in yields can be attained – the evidence of the last decades suggests stagnation.

In fact, many physical processes – from acid-base titration and population dynamics of bacteria growing in a Petri plate, to economic growth rates in developing countries – display a sinusoidal pattern, i.e. a relatively flat initial

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3 *Those who do not believe in man-made climate change are akin to those who reject Darwinian evolution – their position is based upon ideological preferences – not an assessment of the hard evidence. Last year and 2005 were the two hottest years on record – six of the 10 hottest occurred over the last decade – with Moscow temperatures hitting an unprecedented 39 degrees this summer – exceeding the previous 300-year record by a good four degrees.*
CO2 climate change does not simply mean warmer weather – it means far more extreme weather – colder winters, hotter summers, a radical redistribution of rainfall, and a major increase in storms. That said, the current extreme La Nina weather pattern cannot be unambiguously linked to this phenomenon.

4 *Beware of what you ask for! While the current wave of unrest in North Africa has been welcomed as another step forward for democracy, the most likely outcome of truly democratic elections would be to bring a more-or-less hardline Islamist government to power in these formerly moderately pro-Western countries. The convenient notion that even regimes such as Ahmadinejad's are "anti-democratic" as opposed to "anti-Western", seems quaintly naïve…*

slope, leading by an exponentially rising segment, which then again flattens as it approaches the theoretical maximum. Human life expectancy starts to increase at a slowly accelerating pace rapidly once a certain level of wealth is reached, rises at an increasing rate, then levels off near the maxima. The rapid medical advances of the early part of the century (vaccination, antibiotics, advances in pharmacology) had huge payoffs – currently, we are seeing rapidly diminishing returns[5].

As regards agricultural productivity, according to the authoritative Science Magazine, the rate of increase in yields for major food grains and soybeans dropped by half in 1990-2007, in contrast with the rate of increase in the period between 1961-1990. The USDA claims that productivity growth in the developed countries dropped to below 1% in the decade to 2007, i.e. the lowest since the beginning of the Green Revolution of the 1960s. In any event, the rate of increase in productivity is clearly lagging the growth in global demand, given population dynamics and wealth-effect factors.

The Eternal Russia

A View from the Regions

Readers sceptical of our constructive view of Russia have been known to rebuke us for our Moscow-centric viewpoint, assuming that we know nothing of the situation outside of the Sadovoe Koltso. Quite the opposite – much of our optimism about the gradual redevelopment of Russia comes from the changes we witness during our repeated, if short, forays into the regions – not just the cities of over 1m people (goroda millioniki) but also some of the major second-tier cities (populations over 500k).

Investors touring the Russian regions in the 1990s encountered a grimly post-Soviet spectacle – while at least the centre of Moscow showed signs of new life, everywhere beyond the capital city one saw crumbling housing, decaying infrastructure, dead industries, small cities where the population was reduced to subsistence agriculture and barter trade. T&B has recently travelled to a half-dozen Russian regional towns and cities, as well as their surrounding countryside. Though the 2008 (mini-) crisis took its toll, we were frankly very surprised by the improvements seen. Shops are well stocked, massive housing projects have restarted, high-end restaurants and coffee shops are springing up in the most unlikely places. It is certainly not Zurich, but compared to the pre-1998 situation, it is impressive.

Growth in post-Soviet Russia has been uneven. Initially, there were a few pockets of wealth amidst the general misery of Moscow. As this wealth began to spread out across the city, we a similar phenomenon began to take hold in a few of the regional cities – before all was swept away again in the 1998 crisis.

Now, one cannot help but be struck by the rapid pace of construction in the largest cities. The riverside developments in Yekaterinburg easily match those of Moscow, and given the concentration of heavy industry (pipe-rollers, metallurgy, and military) the city has a distinctly prosperous feel to it.

Even in the poorer cities such as Cheboksary, the local stores stock the same products one finds in the middle-income shops in Moscow. A new river port has been built, all shiny and new. A lot of high-end housing has gone up, while the dreaded Krushchovki (five-story panel houses built in the Khrushchev era, to be seen from Vladivostok to rural Cuba) are gradually being pulled down. Public transport is fast, efficient, and generally more comfortable than in overcrowded Moscow. A good half the city still has a distinctly Soviet feel to it – but an increasing area is being redeveloped for middle-class housing.

On the other hand, in our limited experience of the countryside, except for certain better-off areas in the Southern regions (Krasnodar, Kuban, etc.), one sees very limited benefits from a decade of national economic growth. Although Russian agricultural productivity has improved greatly (Russia has gone from one of the world's largest agricultural importers to a major grain exporter), much of the countryside is largely depopulated – abandoned to drunks and babushki. While some attempt has been made to improve conditions – roads, water,

[5] *When T&B was a little bear cub, it was common knowledge that by the year 2000, there would be no traffic jams as everyone flew with their personal jetpacks, cancer would be cured, and people would be residing on the moon – Moscow now boasts traffic beyond human comprehension, cancer kills increasing numbers each year (as people no longer die early of infectious diseases), and the only Central Bankers show any signs of living on the moon…*

telephone service and electricity had all been improved in the villages in Chuvashia – a true renewal of rural life outside of the black-earth belt would constitute a huge challenge.

Boarding Now: Flights to Safety

At a recent investment conference[6], one well-respected academic noted that, amply endowed with food, water, oil and minerals, and inured to hardship by historical experience, Russia was far safer than many of its Western peers.

We could not agree more! Any Westerner who lived through the 1998 crisis could only by amazed by the robustness of Russian society, and the ability to reorganize economic function in a survival mode. At the slightest misfortune, our American cousins tend to cower beneath the table wondering how God could do this to THEM – his favourites, while the Europeans stage massive street demonstrations against the forces of nature, Russians grunt, mutter something about "as usual", and then head out to the dachas to plant potatoes.

Russia looks dangerous as an investment destination – until one looks at the rest of the world. Michael Lewis' hugely entertaining "The Big Short" provides a wonderful illustration of group-think, the ability of investment banks and financial analysts of all stripes to huddle together for warmth, no one daring to challenge the comfortable consensus, even as the plaster begins to fall from the ceiling.

Thus, anyone referring to Russia as a "safe-haven" is likely to be thought mad. Meanwhile, in the "investible countries" we see Japan no longer threatened with downgrade, but actually downgraded – and thinking the unthinkable – the agencies are now warning of possible downgrades of the US, where gross indebtedness is widening out at about 10% GDP per annum – the sole major economy where the rate of increase is actually accelerating. Europe has a few problems of its own, while large areas of the globe are threatened with political instability given food price inflation. There is risk everywhere – the question is one of getting properly paid for the risk. There are no "bad assets", there are only bad prices for assets.

The Accidental Flight to Safety (coda)

T&B is sometimes accused of being a bit too Polyannish as regards Russia. There is some truth in the accusation. Our job is to represent the complex Russian reality to foreign investors – and given the disinformation and outright corruption of the Western press, this necessarily regards an element of counterbalancing the constantly reiterated bear-case.

Russian reform is a work in progress – the glass is distinctly half-empty, half-full. This place is NOT China… But then again, it isn't Western Europe either (talk about an inability to reform…)

Russia sometimes strikes us as a country where some of the world's smartest people do some of the world's stupidest things – thus, governance is improving, but still very inefficient, while reform is hesitant, mismanaged and clumsy – but nonetheless, very real. Russia suffers from corruption, but quite controversially, we are not convinced that it is any more corrupt than the UK or the US – simply that its corruption takes a very different form; perhaps someday it will evolve to a respectable country when no cash changes hands, yet government policy is set in the interests of a moneyed elite, banks and oil companies and pharmaceutical manufacturers no less rapacious than the most bent Russian chinovnik*.*

Perhaps our best defence is our track record on Russia. It took a leap of faith, but those investors who have granted us the privilege of managing their assets, or have simply followed the trading recommendations laid out in T&B – have done exceedingly well over the past decade. It has been a bumpy ride (2008 was a swine!), but a gratifying one in fine*. We sincerely believe that those who continue to overweight Russia – buying when global sentiment is worst, and then lightening up when everyone gets a bit too enthusiastic – will enjoy another.*

While Russian microeconomic structure is unarguably weak, we are witnessing a gradual improvement, albeit from a very low level. A

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[6] *which T&B was definitely NOT invited, having been quite critical of the sponsor for enthusiastically promoting the bonds in Evrokommerz – virtually the only Russian rouble bonds to default with literally ZERO recovery value),*

number of the most corrupt regional figures have been removed from their positions, and an increasing number of mid-level bureaucrats are being prosecuted for corruption. It is just a beginning, but we are gratified to see the government start to get serious.

The situation in the Caucuses is grim – there is little employment, the local police force is predatory and widely loathed, and terrorism will remain a reality for years to come. That said, at least the Medvedev team is seeking to channel huge public investments into the region in order to develop tourism infrastructure – reportedly in amounts rivalling the Sochi Olympic development. There is no guarantee that it will be successful, but at least something other than brute force is being attempted.

Problems we can live without

On the other hand, looking at the big picture, we are reassured. There is a host of outlier risks facing the Global Economy, and the odd thing is that Russia is immune to, or even a net beneficiary, of many of them:

- Commodity prices

The world's largest exporter of oil, gas as well as a host of minerals and foodstuffs, the coming resource crisis will swell the huge trade surplus even further. Although Russian agricultural production was badly impacted by the freakish 2010 weather, this is hopefully a one-off, and substantial investment is now going into agricultural infrastructure.

- Political Risk

The Middle East looks like a powder keg, and food inflation is likely to bring a number of other emerging economies onto the front pages in the coming years. The Western press has systematically – indeed comically – misjudged Russian political risk. Some moronic op-ed writer for The Moscow Times[7] recently opined that the fate of the Tunisian regime pointed the way forward for Russia, conveniently ignoring the fact that with rising living standards, the polls overwhelmingly show the Russian government to be quite popular. Given the total absence of civil unrest during the 1998 meltdown and the (far milder) 2008 crisis, however much this may displease the Western Kommentariat, a revolution in Moscow seems about as likely as one in the Vatican City.

- Global financial structure

Russia was affected far worse than most of her peers by the 2008 crisis: The "negative carry trade" whereby the government banked foreign reserves abroad, while Russian companies borrowing massively from the global banks, was never one of FM Kudrin's best ideas. Mercifully, this system has been dismantled and the authorities are keeping pressure on both the corporates and the banks to borrow domestically rather than on global markets.

In fairness, in the very short run, modern financial markets have all the serenity of a horse caught in a barn-fire – the recent spectre of investors spooked by Middle-Eastern turmoil fleeing the bonds of Russia (the world's largest energy exporter) and of Venezuela for the "safety" of US assets (the world's largest energy importer) was typical – and in the event of a renewed global crisis, Russian investors will likely endure a painful few months. It is our contention that in any likely crisis scenario, the Russian recovery would be far more rapid than following the 2008 crisis, or what we would expect to see in the West.

- Sovereign Debt Crisis

Like several of its emerging peers, Russia's credit fundamentals are far superior to the G7 nations. The banking sector has proved remarkably resilient – as US regional and global banks crashed in their hundreds, Russia saw no true bank failures (several banks were taken over by their more solvent peers with the assistance of the Central Bank, and the only default – IIB, was never actually "a bank" to begin with), even at the depth of the 2008 global crisis.

Like most of its global peers, Russia is also running a budget deficit – this year it is likely to come in at 2.5%-3.5% of GDP, i.e. slower than the worst case Russia GDP-growth scenario. Government debt-to-GDP is 9% (in contrast to 200% for AA-rated Japan) and unlike the

*7 Sounds harsh? Perhaps, instead, we are too indulgent. The point is <u>not</u> that they get it wrong – something that happens to T&B on a regular basis. The point is that when we screw up on one of our calls, we acknowledge it, and try to learn from our mistakes. The MT, on the other hand, has been **consistently wrong for eleven years**, and still has not had the intellectual honesty to: a) admit it; and b) change their editorial line to fit with reality.*

situation in 2008, the Russian banks are now net foreign creditors. Foreign reserves are down from their 1997 peak, but $500bn in cash still buys you some respect.

- Headline Risk

Anyone who was going to be scared off by an attack on a thuggish oligarch beloved to the West was probably already out of the Russian market – while long-time investors have seen it all before, and counted it a buying opportunity.

While corporate governance abuses have become far less egregious than in the past, and financial infrastructure has improved greatly off a low baseline (the merger of RTS and MICEX should be an important step forward – now what about the single depository?), a great deal remains to be done to attract the global real-money funds.

That said, discussions of the problems with Russian corporate governance seem to start from the basic assumption that the rest of the world is ideal. By way of example, several years ago, BP ran into a spot of bother by egregiously overplaying its hand against its Russian partners. The outcome was, in fact, quite felicitous – though they have ceded operational control to their Russian partners, their purchase of TNK must count as their best investment of the past century. On the other hand, an accident in the Gulf of Mexico came close to destroying the company – the US government simply tore up the rule book, finding them guilty and imperilling the survival of the company without any chance to defend themselves, or any attempt to properly assess the blame. It is hardly surprising that BP now seeks to decrease its US exposure, joining with Rosneft to develop their Russian business.

What if we are wrong? Afterword

Has T&B fallen into the very trap of which we constantly warn our readers, remaining wedded to the old economic model in which nothing of importance happens outside of the borders of the continental US? Is our assumption that the magnitude of US liquidity creation will overwhelm all other global flows still valid, or have we already moved into the Sino-Centric world?

Financial markets currently live in fear of two mortal dangers – that the Chinese will fail to raise rates and go into an inflationary spiral, or that they will raise them, tipping the global economy into a new Ice Age. Following the third rate-hike in five months, their choice is fairly clear – the Central Bank of China will do whatever necessary to avoid a bubble (would that their foreign counterparts be that foresightful…).

There is a historical tendency for markets to briefly reverse course immediately following the release one of our missives – causing us acute embarrassment, if not actual pain. Thus, as we go to press, Asian markets are coming off on the back of the Chinese hike, while investment banks are moving in a tight herd towards overweighting the DM vs. the EM.

As we noted above, we consider that the term "EM" is more an impediment than an aide to classification, and we stick to our overall macro view – though we are ready to decamp at a moment's notice!

Perhaps, once again, it is our friends at UBS Hong Kong who have offered the most insightful view, noting that those countries which saw the highest inflows last year – inter alia Turkey, Ukraine, Israel, Poland, Philippines, Indonesia, Brazil and India – have seen the sharpest corrections in the currency/bond markets – whilst those which saw net outflows (Russia, Baltics, Vietnam) are spared. It pays to be contracyclical!

We remind our readers that they are welcome to forward T&B to any party who might be interested.
We write to be read!

Comments should be directed to Eric Kraus, on eric@nikitskycapital.com or krausmoscow@yahoo.com

NOTE: T&B remains an orphan, and our discussions with potentially sponsors have not yet borne fruit. While T&B is a labour of love, we would be happy to have someone else bear the costs!

Any financial institution desirous of sponsoring us would benefit from our wide readership in financial markets, as well as the service of our chief author for interaction with clients interested in global finance.

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It should be assumed that the author and/or the funds he advises will from time to time have long or short positions in any of the assets discussed, or derivatives thereof. These positions may at times be contrary to the views expressed.

Like cats and horses, markets – whether emerging or emerged, are apt to do as they damned well choose, and a considerable measure of luck is required to come out in one piece. Exercise caution in all things. Good Luck!

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