Crossbow Partners
Experience & Discipline

London Trip Report

April 18 - 19, 2016

Executive Summary

European growth remains weak despite massive stimulus measures by the Central Bank

The economic recovery continues to be dampened by a sluggish implementation of structural reforms

The inflation forecast remains unchanged at 1.6% for 2018 which is below the target of 2% despite the ultra-expansive monetary policy

Markets are trading sideways and may break out over the coming months whereas a positive breakout would be the contrarian bet

The strong rebound across emerging markets is expected to be short lived as the fundamentals need to catch up significantly

Managers become increasingly bullish on gold and bearish on the USD against EUR and JPY

Crude oil will continue its recovery on the back of an improving demand and supply balance and is expected to trade up to USD 80 per barrel by 2017

Macro update

There is no clear direction in most markets and the mood easily swings from bullish risk to bearish risk. These are usually more difficult markets to trade from a psychological point of view, as asset prices do not provide reassurance as to the validity of fundamental macro themes and views.

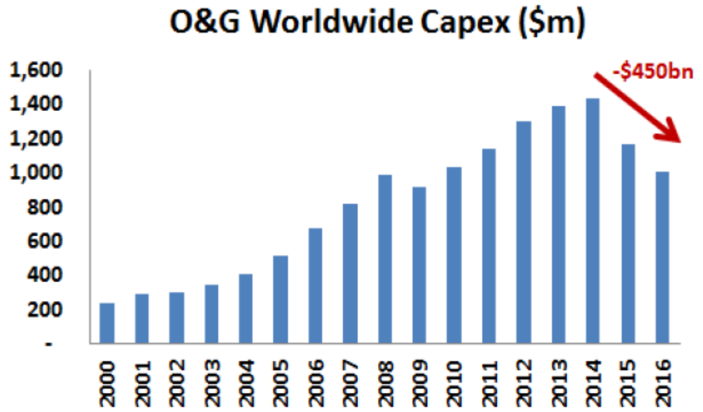
The medium term view for late 2016 or early 2017 remains bearish risk, based on a US slowdown and the pricing in of a higher probability of a recession in the US. We consider that the US economy is late in the business cycle and also faces significant structural headwinds.

The concerted effort by central banks to kickstart the global economy, which was the agreement reached at the Shanghai G20 meeting, was a smart way to deploy the limited monetary tools available to central banks. While there are, of course, further extreme measures that can be deployed (very negative rates, helicopter money), central banks and government officials feel very uncomfortable exploring the boundaries of those tools, as not only is the direct impact questionable, but the ultimate consequences are largely unknown.

A key event in the near term will clearly be US employment data. There is potential for USD strength around this event, which could lead to the market pricing in more hikes from the Fed. Given the notable concern around the upcoming “Brexit” vote in June, market stress could spread to peripheral European assets which will affect parts of the emerging markets. Many hedge fund managers favor gold positions or gold mining stocks. The drivers are a bearish medium term trade weighted USD view, long term concerns on global growth and associated risk aversion episodes, and the need for more global stimulus, which will keep rates low for longer.

Crude oil update

Non-OPEC production has started to decline and will even accelerate going forward. Ten months of sub USD 50 per barrel oil have taken their toll on capex. A large number of project delays or cancellations have been announced, which will lead to a large supply gap in the coming years.



There is a lag of approximately two years before one can realize the substantial impact of capex cuts on activity and supply. While supply declines were previously confined to specific regions, there is now increasing supply declines across a large range of producers around the globe.

Andurand Capital expects that the supply demand balance will be reached in summer of 2016 and that inventories will decline at a rate of 0.5 million barrel per day (mbd) during the second half of this year before drawing 1 mbd on average in 2017.

As a result, the downside risk is very limited. At the end of the day USD 40 per barrel is simply not sustainable in the long term for 95% of the producers and producing countries around the world. Therefore, it is expected that crude oil will cross USD 60 per barrel this year and USD 80 per barrel next year.