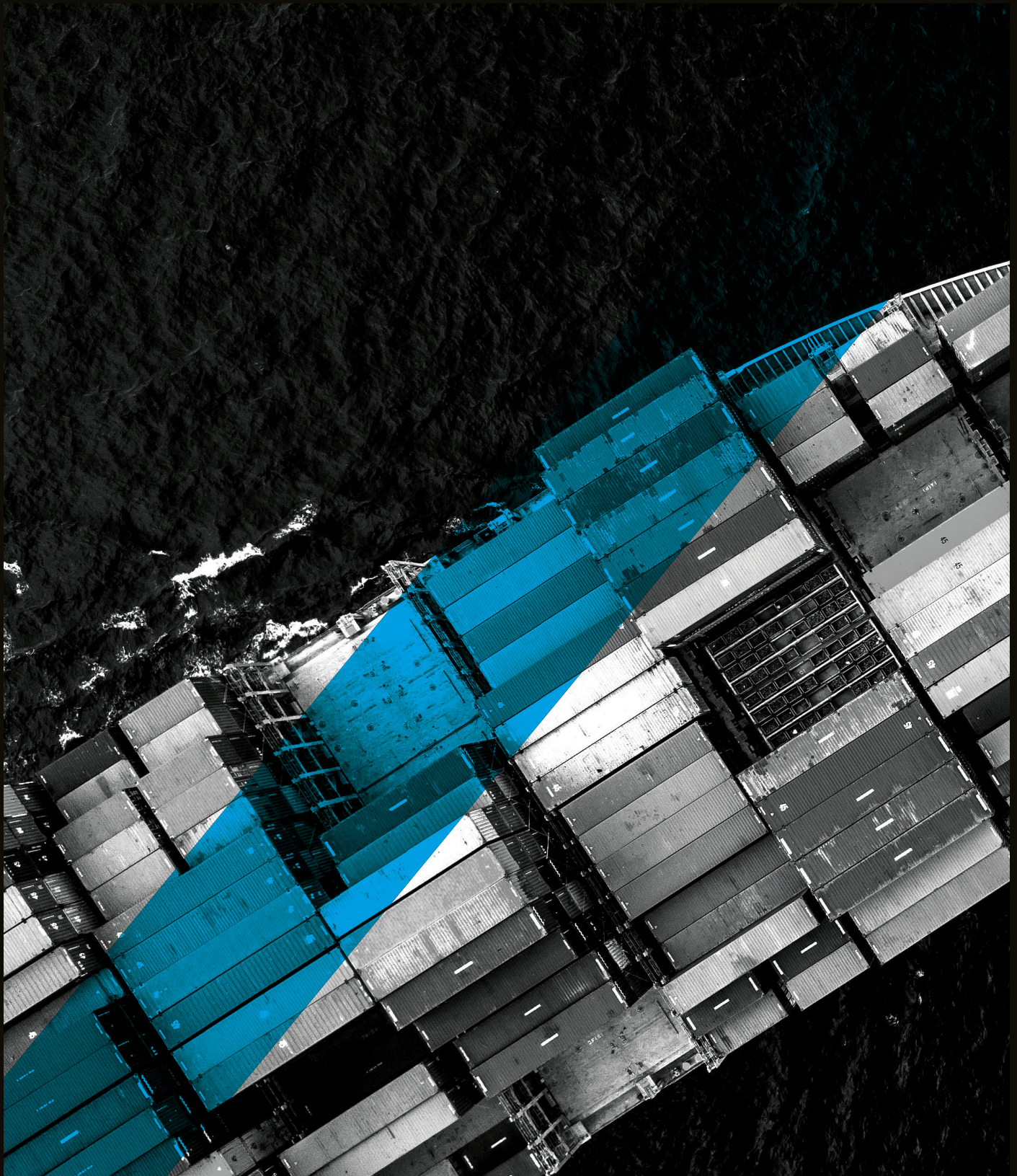


The Ghost In The Machine

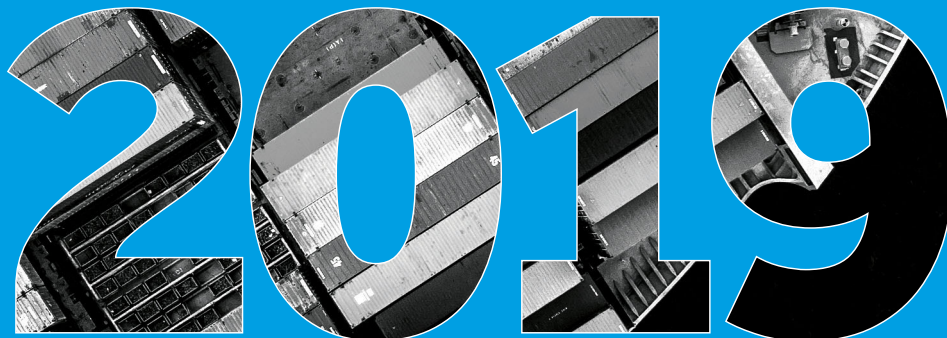
JANUARY/FEBRUARY 2019



ADM Investor Services
International Limited

EDITORS NOTE

JANUARY/FEBRUARY



Volatile markets, 2019 outlooks, and Brexit

Welcome to the jam-packed February 2019 edition of the Ghost in the Machine! This edition looks at a number of overarching themes: including the Q4 debacle and subsequent January rebound in many asset classes, Brexit, the 2019 outlook for the US and China and the sugar markets, and revisits IMO 2020 from the aspect of whether 'scrubbers' really are compliant.

The ostensible brutality of the sell-off in most 'risk' asset classes during Q4 2018 caught many by surprise, even if the subsequent recovery in January begged the question: 'what was all the fuss about?' For all that the narrative blamed an overly zealous Fed above all given rising concerns about the global economic outlook, outright positioning imbalances also played their part. The question then is whether the January rally is prescient in economic and policy terms, or rather too exuberant. Much may depend on the performance of the US and Chinese economies, with the outlook for both compared and contrasted. The US government shutdown leaves policy makers and markets scrabbling for clues, amid the data drought, perhaps most acutely evident in subdued volumes in grains futures.

Hindsight suggests that a tough 2018 for Sugar markets was in many respects predictable, but has the sell-off left the market more balanced? What lessons are there for physical agricultural and energy markets from physical trade in industrial metals?

Despite the almost immediate proximity of the Article 50 closing date for Brexit, it remains unclear whether a withdrawal deal will be ratified. We look at what trade under WTO rules implies, and take a closer look at the very substantial UK agri-food sector. Last but certainly not least, Eddie Tofpik recounts his experiences as a leading technical analyst, and one seasoned trader asks some searching questions about the 'fat finger' syndrome in FX.

THE GHOST IN THE MACHINE

EDITORS IN CHIEF

Eddie Tofpik

E: eddie.tofpik@admisi.com

Marc Ostwald

E: marc.ostwald@admisi.com

PRODUCTION & CIRCULATION

CREATIVE DESIGN

Simrat Kaur Sounthe

MARKETING

Megan Hodgson

ADM CONTRIBUTORS

Alan Bush

Andy Ash

Eddie Tofpik

Howard Jenkins

Lauren Judd

Marc Ostwald

Rohan Ziegelaar

Steve Freed

EXTERNAL CONTRIBUTORS

Blu Putnam

Erik Norland

Kevin Rodgers

Meghan Sapp

Valentina Keys

© 2019 COPYRIGHT ADM INVESTOR SERVICES INTERNATIONAL LIMITED - ALL RIGHTS RESERVED

ADM Investor Services International Limited, registered in England No. 2547805, is authorised and regulated by the Financial Conduct Authority [FRN 148474] and is a member of the London Stock Exchange. Registered office: 4th Floor Millennium Bridge House, 2 Lambeth Hill, London EC4V 3TT. A subsidiary of Archer Daniels Midland Company. The information within this publication has been compiled for general purposes only. Although every attempt has been made to ensure the accuracy of the information, ADM Investor Services International Limited (ADMISI) assumes no responsibility for any errors or omissions and will not update it. The views in this publication reflect solely those of the authors and not necessarily those of ADMISI or its affiliated institutions. This publication and information herein should not be considered investment advice nor an offer to sell or an invitation to invest in any products mentioned by ADMISI. © 2019 ADM Investor Services International Limited.



CONTENTS

4-6

Andy Ash

A Rocky Path to Nowhere

The equity market has had a jolly good rally since the wobble in December. In Fibonacci terms, as of at the time of writing, the S&P is just a gnats breath above its 50% retracement, which is where all of the Fibonacci family would ask if enough was enough.

8-9

Steve Freed

The Partial U.S. Government Shutdown Increased Market Uncertainty

On January 25 the U.S. government announced a stopgap temporary bill that will leave the government open for three weeks, through February 15. Grain futures tend to feed on USDA data, which they have not been getting.

10-11

Howard Jenkins

Will The Sun Shine For Sugar?

Hindsight is 20/20' is a saying used when something is rather more obvious on reflection than from the outset.

12-13

Lauren Judd

Simply what does the WTO really mean for us?

The New Year has brought increased uncertainty with regards to Brexit. The phrases 'no deal' and 'WTO rules' continue to be thrown around in both the political sphere and the UK media.

14-15

Eddie Tofpik

Eddie Strange love...

Or: How I Realised Life Was Too Short To Follow Fundamentals.

16-19

Rohan Ziegelaar

Physical Commodity Contracts: Hard Lessons for Softs Markets?

Commodity derivative markets have a lot in common across the agricultural, energy, and metals spaces.

20-21

Marc Ostwald

Brexit: a brief look at the agri-food sector

Elsewhere in this edition, Lauren Judd considers what trading under WTO rules implies, specifically in terms of what tariffs exist and how they might be applied. This brief article looks at some other aspects, above all some statistics on the agriculture and food sector in the UK, and then non-tariff considerations.

22-23

Alan Bush

Stock Index and Industrial Commodity Futures Rebound

After a dismal performance in December stock index and some industrial commodity futures markets have put in a stellar performance in January in spite of a variety of negative economic news and the ongoing U.S.-China trade rift.

24-27

Valentina Keys

Commissioning a scrubber system by 31 December 2019 is not sufficient to comply with the upcoming sulphur cap

Ship owners, ship operators and ship managers who are busy preparing for the upcoming high sulphur fuel oil ("HSFO") ban which enters into force on 1 January 2020 will be familiar with the option to install Exhaust Gas Cleaning Systems (EGCSs) otherwise known as "scrubbers" as one route to compliance.

28-31

Blu Putnam

Erik Norland

US-China Growth Prospects and Market Dynamics

The two largest economies in the world – the United States and China – are seeing economic growth decelerate, both have loaded up with debt, and are engaged in a high-stakes trade war with each other. How each country fares will have a lot to say about the dynamics and evolution of a variety of key markets in 2019.

32

Meghan Sapp

Ring in the New Year

A new year brings along with it fresh hope for a better future, full of resolutions and energy to effect change. January often starts with the best of intentions but by the end of the month business-as-usual has set back in and much of those hopes and dreams have succumbed to the reality of "what is".

33

Kevin Rodgers

Fat finger forex (New! USD/JPY edition)

A couple of weeks years ago I gave a talk about my book "Why Aren't They Shouting?" in front of a group of Belgian businessman at the Belgian embassy.

34

About ADMISI

35

The Ghost In The Machine Library



A ROCKY PATH TO NOWHERE

The equity market has had a jolly good rally since the wobble in December. In Fibonacci terms, as of at the time of writing, the S&P is just a gnats breath above its 50% retracement, which is where all of the Fibonacci family would ask if enough was enough.

As readers will know I am always interested in the speed of the move as much as the move itself. Alongside the speed, the volume of trading within that move has validity as well and most important is the positioning before that move.

The speed of this rally has been impressive, driven by the financial sector which was up sixteen out of seventeen days since December 24th, one of its best runs in 100 years. The downturn in markets, however, was led by the energy and banking sectors so the bounce is a bounce, even though history tells us that a sectorial run like this in financials has tended to continue.

The S&P bounce, 50% retracement, was one of the fastest in history. On average this has previously taken 39 days, the present move took only 16 sessions. If we look at previous times when the S&P has fallen at least 15% and rallied 50% without falling to a new low, we are tied for 3rd place. This alacrity of bounce has not tended to be good for future returns.

Chart 1



Source: Bloomberg

The other three occasions that rival this in speed were 1937, 1982, and 2011. In 1937, it squeezed higher for a few weeks then plummeted. In 1982 it was one of the most powerful bottoms of all time, and in 2011 it rallied for a couple of more days and then came off, finding a higher low but testing the resolve. Volume is important and the retail money in all the above examples was vital to whether we were starting a move or finishing one.

From the expiry in September 2018 until now, has been a volatile time. The extremes of price movements in major asset classes, when compared to many historic equivalents has been extraordinary. So it is even more surprising that most of the resulting price and positioning levels we have now reached could be seen as neutral.

When many people are all positioned the same way and it goes wrong, rarely will you see any of the zealots blaming themselves. When hunting for excuses for turmoil, never will fingers be pointed inwardly and so it has been during the recent shenanigans.

In Q3 2018, the positioning and sentiment had become totally consensual and likely very leveraged. How much easier it would have been in 2018 to have simply not raced all asset classes up so much (and down so much) in the first place. The US 10 year bond yield ended the year, pretty much where it started it. In treasuries we had never seen such bearishness (we had never seen such bullishness in mid-2017). Of course, despite this being a massive 'follow my leader' trade, there were hints of a solid fundamental justification. The Fed are/were raising rates. The economy was super charged by Trump's 'enthusiasm' and prices did seem to be picking up. The market was trying to return treasury yields to more neutral historic levels, but in doing so the positioning level was anything but. The speculative positioning had hit unprecedented levels of bearishness. There is always danger when short term enthusiasm towards an idea outstrips longer term stoicism.

“THE S&P BOUNCE, 50% RETRACEMENT, WAS ONE OF THE FASTEST IN HISTORY.”

The rally we have had in bonds has occurred across the world. In Germany and Japan we have seen yield levels that we thought we would never see again.

Because the omnipotent asset class to every major macro trend is always the dollar, the reserve currency had a good 2018. The yield differential against most mature economies was a strong justification to owning dollars. From January 2018, the dollar rallied.

Chart 2



Source: Bloomberg

The consensus was so strong for higher treasury yields and a stronger dollar that fund managers in every asset class joined the party. Whether you were a commodity trader, an equity fund manager or a wheat farmer, everyone tried to replicate within their business profile, a long dollar equivalent. As more asset classes helped convince the masses that there was true justification for the moves, more people became convinced.

So the move into extreme positioning spread out and since September, all of it has to be neutered. Some positioning was not even dollar-centric but still became grossly momentum led. But most were tied in a glorious single trade across all assets knot.

Chart 3



Source: Bloomberg



With everyone on the same trade and surfing the global momentum, by Q4 the idea of hedging any positioning seemed nonsensical. Any option premium had been a waste for the first 3 quarters, so no point bothering. VIX open interest, where the modern man goes to do his hedging, was very low (like in January 2018) with SPX put interest also very weak, and then 'emptied' by the September expiry. If the equity market were to fall, which of course it did, there was little hedging to protect it. It was not dissimilar to how it shows now.

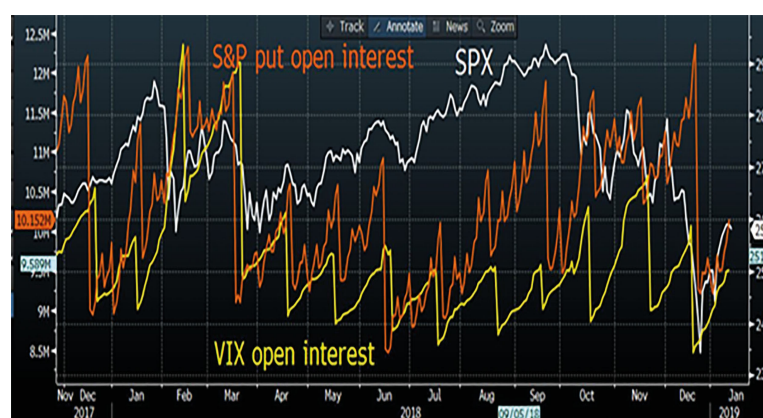
With such a bad year behind them, hedge funds and their like are now not piling into derivative markets to hedge, in the same way as in September but for different reasons. It is why VIX sits in the high teens, where 30 day historic volume is in the high 20's. There is little demand for expensive options. They simply do not have the 2018 performance numbers to justify anything apart from an out and out bet.

The real difference between the selloff we saw in Q4 and others previously, has been the behaviour of the retail investor. He has headed for the door. So far, we have not seen much sign of him returning. This is of paramount importance. Since 2016, the benign nature of all markets has seen the last vestiges of retail investors joining the parties belatedly but buying the dips. These are the more cautious souls who have simply been forced in a last gasp TINA: they know they did not want to buy anything, they just had to. They knew it was wrong. For that reason they are quicker to cut and run and less likely to pile straight back in.

The hedge fund investor is the opposite. He has done okay since the GFC started ten years ago. A lot of hedge fund people, are seriously thinking they will retire if and when the music stops this time. There is no point in simply doing nothing. Make more money or call it a day. (I know this, they have told me).

So immediately the recent December/January rally started, the CTA investor immediately moved 'back in' to try to restore exactly the same distribution of positioning they had previously. The computers are always quick to smell trend and momentum and because of them every move, up or down, carries on for longer than one would imagine. They followed in closely behind.

Chart 4



Source: Bloomberg

In the same way that the market unwind through neutralisation had to be monitored with fundamental justification in Q4, so the rally has too. Major moves occur because of overzealous positioning and the effect on valuations that positioning has created.

It is entirely feasible that bond yields are way too cheap but central banks predominantly remain buyers of bonds everywhere in the world apart from the US. The Fed were quicker to stop their own QE than anyone else dared. The ECB admittedly have started the process.

As asset classes rose over the last decade, when liquidity was squeezed into every orifice the system had showing, valuations became extreme. How many references to QE does one read now?

Bond markets have seen a violent swing in flows. Previously anything this dynamic has created much larger volatility.

So as bonds rallied and yields fell, the market had to find a reason why. They decided to converge on the lack of inflation again. High yield spreads widened and as the retail investor sold those indexed ETFs, more money from those sales went into the treasury market.

Suddenly 3% on a 10 year treasury looked really generous, especially when compared to an S&P yield way below that. The culprit, according to the markets, was not positioning but perceived inflation expectations falling from 2.1% to 1.7%.

The market was happy with this assessment because it meant the Fed would have to stop raising rates and if they did that, risk yielding assets could be bought once more.

If the economy was cited as a reason, we had simply become way too bullish in H2 2017 and Q1 2018. Suddenly the numbers were not beating.

The US bond markets concern turned towards a totally flat yield curve. The economy was not as good as the market had predicted (plus a change) and the beastly Fed kept insisting on raising rates.

No-one really had an idea what this flat yield curve meant within the present liquidity distorted markets but it certainly wasn't healthy on any historic measure.

What it actually meant was the short end had to reflect true interest rates for a couple of years and the long end had to represent a lot of buying back from the ludicrously large short position. (All charts are sourced from Bloomberg)

Andy Ash

E: andy.ash@admisi.com

Mitigate Price Risk in the Black Sea Markets



Manage Price Exposure with Black Sea Wheat FOB (Platts) and Black Sea Corn FOB (Platts) futures and options.

More Products: Black Sea Wheat and Black Sea Corn options – available now

More Choices: Contracts on Corn, Soft Red Winter (SRW) Wheat, Hard Red Winter (HRW) Wheat and Australian Wheat FOB (Platts)

Better Risk Mitigation: reduce counterparty risk with contracts cleared through CME Clearing

Visit cmegroup.com/blacksea for more information.

WE DELIVER MORE.

Derivatives are not suitable for all investors and involve the risk of losing more than the amount originally deposited and any profit you might have made. This communication is not a recommendation or offer to buy, sell or retain any specific investment or service. Copyright © 2019 CME Group Inc. All rights reserved.

Mailing Address: 20 South Wacker Drive, Chicago, Illinois 60606.

View full disclaimer: cmegroup.com/disclaimer.html



THE PARTIAL U.S. GOVERNMENT SHUTDOWN INCREASED MARKET UNCERTAINTY

On January 25 the U.S. government announced a stopgap temporary bill that will leave the government open for three weeks, through February 15. Grain futures tend to feed on USDA data, which they have not been getting.

Grain futures tend to feed on USDA data, which they have not been getting. This includes daily and weekly export sales, weekly CFTC Commitment of Traders reports and the delayed USDA WASDE U.S. and world supply and demand reports. Grain futures have settled into a mostly low volume trading range until the USDA comes back to work.

Grain futures have been trying to find support from hope that the U.S. and China may soon agree on a new trade deal. The main stumbling block appears to be differences between intellectual properties and IT transfer. They are miles apart on this issue. This suggests they may extend talks past the deadline, but tariffs may remain. The bright spot could be that China may agree to buy U.S. corn and wheat.

Without USDA updates the market assumes that the U.S. 2018/19 corn carryout may drop from 1,781 million bushels to closer to 1,679. This is due to a slight drop in the 2018 crop and an increase in feed and exports. There is a growing debate that exports may not reach the USDA estimate of 2,450. Globally, there is talk that higher supplies in Europe, Argentina and the Black Sea could offset drier weather in Brazil, lowering their crop from earlier estimates. Also, there is concern that a slowdown in the global economy could reduce global corn consumption in 2019. Some analysts estimate that 2019 consumption might increase at 1.0-1.5 percent versus the last five year average of 2.6 percent. I estimate that managed funds are net long 100,000 corn futures. This is up from the lows made after the trade tariffs were announced. Record fund longs were near 430,000 contracts in September, 2010 and record fund shorts were near 230,000 contracts in November, 2017.



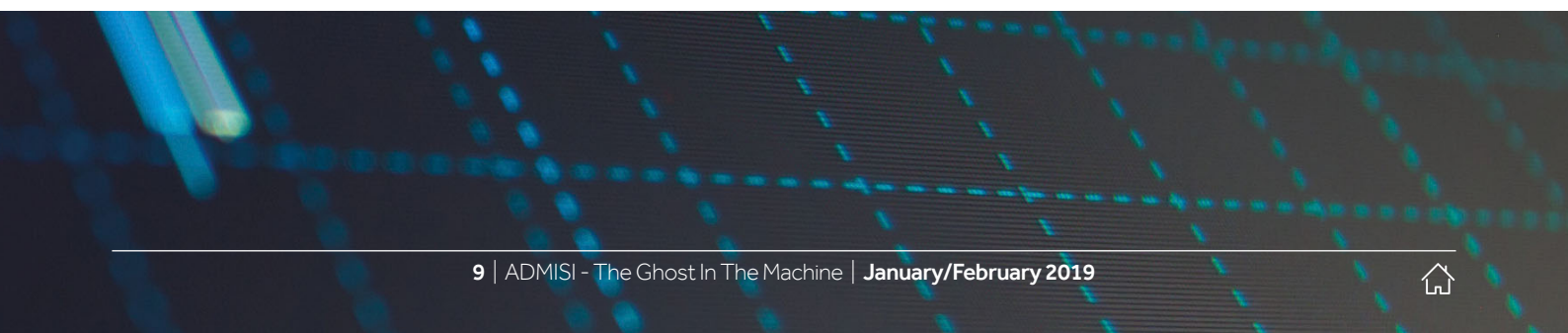
The market assumes that the U.S. 2018/19 soybean carryout may increase from 955 million bushels to closer to 1,050. This is due to a drop in U.S. exports. The U.S. trade war with China has reduced China buying U.S. soybeans. Globally, there is talk that dry weather in Brazil could reduce their 2019 soybean crop to near 118 mmt from the USDA estimate of 122. Despite wet weather in parts of Argentina, Argentina is expected to produce a 2019 soybean crop near 55 mmt versus 38 last year. Concern that a slowdown in the global economy and African swine fever in China could reduce global soybean and soymeal 2019 consumption. Some estimate that 2019 soybean consumption might increase at 1.5-2.0 percent versus the last five year average of 4.3 percent. Soybean meal consumption in 2019 might also increase at 2.0-2.5 percent versus the last five year average of 4.4 percent. I estimate that managed funds are net short a small number of soybean futures. This is down from the highs made early in 2018 due to a lower Argentina crop. The record fund long position was near 253,000 contracts in May, 2012 and the record fund short position was near 119,000 contracts in June, 2017.

The market assumes that the U.S. 2018/19 wheat carryout may increase from 974 million bushels to closer to 1,000. This is due to a drop in U.S. exports. Increased competition from Russia was more than expected. The International Grain Council recently increased its estimate of the 2018/19 world wheat crop 8 mmt to 737. This was due to higher crops in Russia and India. They estimate the 2019/20 world wheat crop to be near 751 mmt. I estimate that managed funds are net short a small number of Chicago wheat futures. This is likely up from the lows made early in 2017 and tested again in 2018 due to record world supplies. The record fund long position was near 80,000 contracts in August, 2012 and the record fund short position was near 160,000 contracts in April, 2017.

Steve Freed

E: steve.freed@admis.com
T: 001 312 242 7089

“*THE U.S. TRADE WAR
WITH CHINA HAS
REDUCED CHINA BUYING
U.S. SOYBEANS.*”





WILL THE SUN SHINE FOR SUGAR?

Hindsight is 20/20' is a saying used when something is rather more obvious on reflection than from the outset.

Fast forward 12 months and sugar prices ended 2018 down nearly 20% having dipped below double digits during the second half of the year for the first time for 10 years. Looking back it now seem obvious that with Brazil and EU production hitting record levels prices were going to continue to fall. The weather across the globe had been, with virtually no exceptions, ideal for growing cane and beet.

Of course, what the market did not know was that sugar production in India and Thailand would surge to unimaginable levels. This time last year Indian production was predicted at a modest 27.5 million tonnes which, might, enable them to become a net exporter later in the year. By the time the last cane was crushed, Indian production stood at a massive 32.4 million tonnes. In Thailand it was a similar story. The predicted large production eventually finished with a colossal 14.5 million tonnes some 2 million tonnes more than expected only a few months earlier. Add these surpluses to the production in Brazil (36 million tonnes) and the EU (21.2 million tonnes) the global surplus jumped very quickly from 10 million tonnes to over 17 million tonnes - the biggest surplus ever.

This time last year it was also fairly obvious that the current 2018/19 season was also likely to be another surplus production season albeit on a much smaller scale. While Brazilian production was expected to fall, production levels in India and Thailand were seen likely to be maintained. Only a serious weather issue could alter things dramatically. In the event, Brazil did cut production significantly from 36 million tonnes to 26.5 million tonnes.



Thankfully they had an alternative in ethanol to divert their cane. Additionally, EU production is expected to slip marginally from the 2017/18 record highs. This is on the back of the hot dry summer suffered across much of the beet belt of Europe. However, the weather appears to have had less impact than expected. Again, production in India and Thailand looks set to dictate the size of the surplus. It was soon after the last harvest that Indian production for the next season was estimated at 35 million tonnes due to a larger planted area. With Indian consumption at around 26.5 million tonnes their excess production was seen as easily off-set by the Brazilian drop. With another big production figure in Thailand total global production was seen to easily outpace consumption. Recently, production expectations have been scaled back in India to below last year's record level because of some sporadic dry weather and pest problems.

Thai production is also seen to be slightly lower. Whether total production does fall as much as some predict and hope remains to be seen. It is probably worth mentioning that this time last year the Indian Sugar Mills Association (ISMA) put total Indian production at 26.10 million tonnes – over 6 million tonnes less than the eventual total. Assuming ISMA have not greatly exaggerated production then a small global surplus will still be seen in 2018/19.



So attention is now turning to production prospects for the 2019/20 season. Surely global production will fall sufficiently to see a deficit against demand given the continuing very low sugar price? There are, obviously, reasons to be optimistic. Brazil is likely to continue to use over 65% of their cane for ethanol. EU processors have agreed new beet prices with their farmers at a level that should see the planted area cut substantially. Production in India and Thailand is expected to fall due to more cane being diverted to ethanol and cane being substituted for other crops paying higher margins. It is also likely that production elsewhere will be cut due to the low prices. It is probably fair to say that prices have been below the cost of production for virtually every producer for the past 18 months and this is likely to translate into lower production in many exporting countries.

Of course it is difficult to have two surplus seasons and not see a build in stocks. It is entirely possible that by the end of the Asian harvest the world will have 15 million tonnes of excess stocks, much of it in India. There are various arguments about the feasibility of India being able to export any more than a small percentage of these stocks over the next 9 months. Nevertheless, the sugar will still exist and will, undoubtable, act as a ceiling to price rises until the market gets some idea on total 2019/20 production.

It would be remiss if the 'elephant in the room' is not addressed. This being the hit suffered on consumption because of health concerns and the implementation of 'Sugar Taxes'. An entire article could be written about this contentious subject but suffices to say consumption is stalling in developed nations and not rising as fast elsewhere. It is something the sugar industry, as a whole, need to address.

Some solace can be taken from the fact that the recently introduced tax on fizzy drinks in the UK has raised rather more money than had been expected, suggesting people are prepared to pay more than give up sugar!

This time last year the whole sugar industry was depressed only to become more so as the year progressed. Are there now reasons to believe things will get better this year? Cautiously, it is possibly a yes. Global production is very likely to drop in 2019/20. The extent of the fall will not be evident until later this year but confirmation of the EU planted area and early harvest data in Brazil will give traders a flavour of what can be expected. Stocks will remain an issue. The key to seeing a rise in price is the funds. In March it will be two years since they had a substantial long position. They might start to build another if the fundamentals, technical, and macro all align. This would undoubtedly increase volatility which in turn should increase trading ranges, volume and interest all that have been in such short supply over the past 18 months.

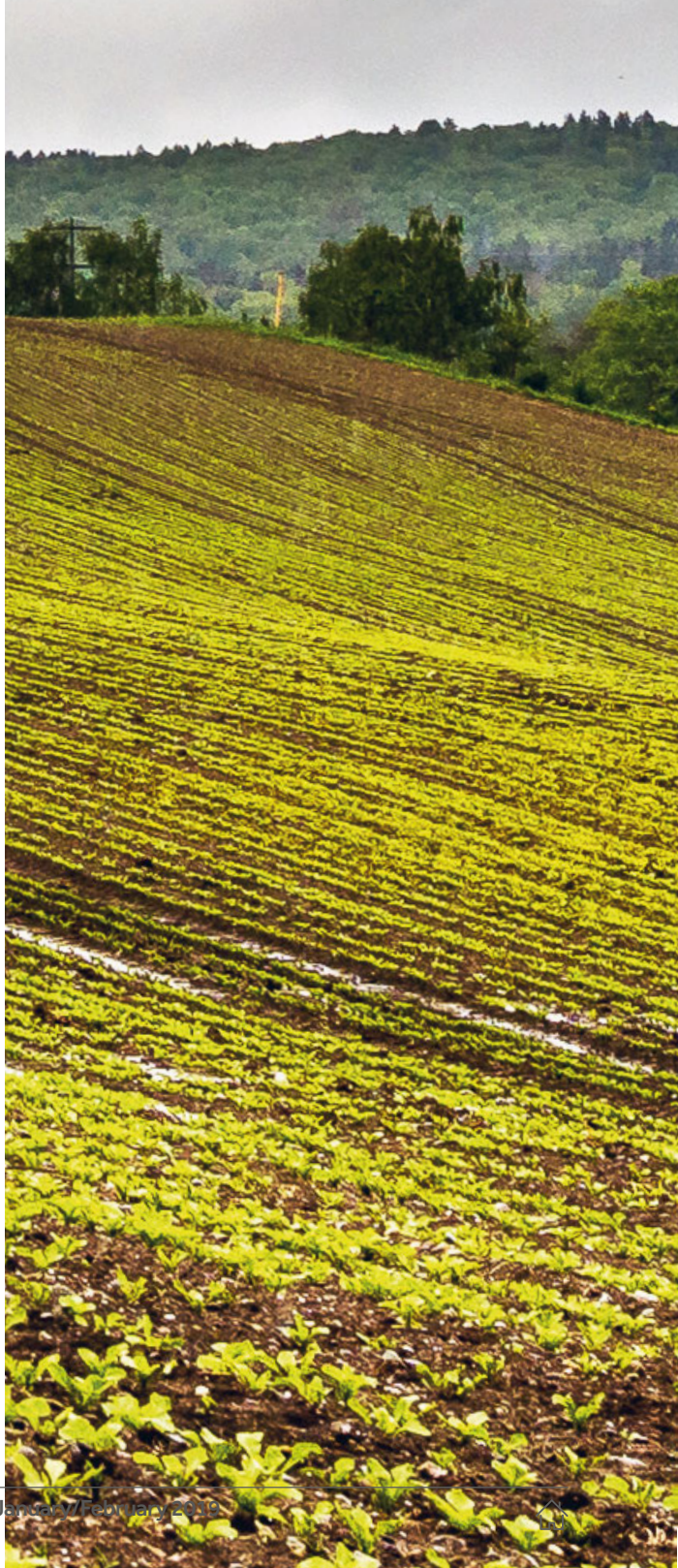
So to predict that the sun may shine once again on the sugar market might be slightly premature. However, it is probable safe to assume the rain may stop soon.

Howard Jenkins

E: howard.jenkins@admisi.com

T: +44(0) 20 7716 8598

“*EU PROCESSORS HAVE AGREED NEW BEET PRICES WITH THEIR FARMERS AT A LEVEL THAT SHOULD SEE THE PLANTED AREA CUT SUBSTANTIALLY.*”





SIMPLY WHAT DOES THE WTO REALLY MEAN FOR US?

The New Year has brought increased uncertainty with regards to Brexit. The phrases 'no deal' and 'WTO rules' continue to be thrown around in both the political sphere and the UK media.

By extension there is increased interest in events such as 'Operation Brock' organized by the Department of Transport at an airfield near Ramsgate in Kent; a simulation practice using 89 lorries to see how they would deal with potentially 1000 or more being stuck at the border each day. Such operations show that the government definitely remains as uncertain as the public about whether a Brexit 'deal' can be made with the EU, and passed by Parliament. With this being the case WTO rules are becoming ever more likely, but what does that really mean?

In short as described by the WTO itself: 'The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.' Although the UK is currently recognized through the EU, it does actually have membership in its own right, which is a positive given that Algeria has been trying to finalize joining the other 164 WTO member countries since 17th June 1987 and according to the WTO website is still only half way through the process. As such we have the right to use the WTO trade rules. Another way to look at this fact is that the WTO is incredibly complex, and as such it should come as no surprise that although WTO members default position is to trade on WTO terms, in practice none do so without additional agreements.

What every WTO member does have is a list of tariffs (taxes on imports of goods) and quotas (limits on the number of goods) that they can apply to other countries. These are known as the WTO schedules. The UK's commitments are currently bundled up with the EU as a whole. Therefore it now has to separate its commitments from those originally given by the EU. Positively the UK has already submitted documents to the WTO in Geneva, along with the EU mirroring these decisions. The UK has stated that it wants to make a few technical changes to its current commitments as an EU member, but otherwise will leave them largely unchanged. The reality of this is that the UK and EU have estimated percentages for products based on what they believe each received between the years of 2013 and 2015, and then split them accordingly. For example, the EU's current tariff quota for New Zealand lamb coming into the EU is 230,000mt, meaning everything up to this amount can be imported duty free, and anything above that has large tariffs charged. Based on the principle outlined earlier this resulted in a 50-50 split for the UK and EU. However New Zealand has objected to this, arguing that this deprives exporters the choice of 28 national EU markets to choose from. This is but one of many examples and, ideally, this all has to be agreed before the UK leaves in March.

What we do know is that WTO rules means tariffs will now be in place on products which, while the UK remains in the EU, have had the privilege of 0% tariff free trade. In general EU tariffs are fairly low for non-agricultural products, but as this suggests other tariffs can be high. Looking across the agricultural and commodity industry the average tariffs are:

Table 1

PRODUCT TYPE	AVERAGE EU TARIFF
DAIRY PRODUCTS	35.4%
CEREALS	12.8%
FISH	12.0%
FRUIT, VEGETABLES AND PLANTS	10.5%
COFFEE, TEA	6.1%
OILSEEDS, FATS AND OIL	5.6%
MINERALS AND METALS	2.0%

*NB these are average tariffs across a broad spectrum of products and therefore only indicative
Source: UK government website

These tariffs will need to be applied every time a product crosses any EU/UK border and, under WTO rules would necessitate a hard border around the UK to be able to apply tariffs and quotas. Typically to be able to facilitate these checks and controls that would need to take place, you require physical infrastructure to operate a customs border. There are worries that the UK has the practical problem of a lack of capacity in the UK customs authority to facilitate this sufficiently. It is also this particular hard border problem which has made Ireland a key element in the Brexit debate. Currently there is a frictionless border as both Ireland and Northern Ireland are within the EU, however with the UK leaving the customs union there could potentially be two product standards and regulations, and trade across the border would need to prove they are being adhered to. Given the nature of Ireland's economy still being fledgling following the many years of political disruption, three-quarters of the businesses in Northern Ireland trading across the border are small or micro businesses who lack the resources to manage such a fundamental change. Encompassed in this is the fragility of the harmony between the two countries following many years of conflict, which could be harmed by again imposing a hard border. It is thus very understandable why Ireland features so heavily on the agenda.

To answer this problem the UK could take the stance that it will forego all tariffs and regulations for EU imports and continue to accept all products from the EU without checks. The UK and EU are currently aligned on product standards and regulations, and this certainly will not change overnight. Under WTO rules, the UK is allowed to make this decision. However also according to WTO rules, the UK would need to extend this to products from all other WTO members as all members have to be treated equally. This would then would be an open trade border with 164 nations the same as Hong Kong and Singapore. Unlike the UK, both Hong Kong and Singapore are cities and almost entirely rely on food imports. Such an open border would be detrimental to local agriculture and the preservation of rural communities, as well as no longer having control over product standards within the UK.

THE UK'S COMMITMENTS ARE CURRENTLY BUNDLED UP WITH THE EU AS A WHOLE.

Some of our standards and exceptions we have in the UK are already not according to WTO rules. For example there is no science based evidence to state chlorine-washed chicken is bad for human health, and therefore according to the WTO it should be allowed to be sold within the UK, yet it is not. Examples like this illustrate the grey area surrounding the supremacy of the WTO over national and sub-national rules or regulations. By the same logic we could ignore open borders to all other nations, or the EU could ignore WTO ruling and block UK products it doesn't like from the future EU single market. Such sentiment will not fill businesses with confidence. Furthermore WTO rule enforcement is a very lengthy process. It takes on average two years to settle a dispute. These lengthy dispute settlement procedures can also only be accessed by citizens and companies through their respective governments. Therefore companies must persuade their local government to bring a claim on their behalf. Given how expensive and complex WTO litigation is, local governments filter complaints and only a small number of complaints are ever brought before WTO panels.

So in answer to what does the WTO mean for us it was answered rather well by the WTO's director general Roberto Azevedo when interviewed by the BBC: "Clearly this is not going to be a situation where all trade stops and there is a collapse in terms of the economy as a whole, but it's not going to be a walk in the park. It's not like nothing will happen. There will be an impact. The tendency is that prices will go up of course, [because] you have to absorb the cost of that disruption."

Lauren Judd

E: lauren.judd@adm.com

T: +44 1322 444 820



EDDIE STRANGE LOVE...

Or: How I Realised Life Was Too Short To Follow Fundamentals.

Around the turn of the year, I was asked to write a piece for the next edition of the Society of Technical Analysts Journal, specifically a piece for 'Head and Shoulders' which is the signature piece of the Journal. The reason for the request was I'd just become the newest Director of the Society and the Editorial Team thought it would be a good way to introduce myself to those who did not know me. My brief was...well just about anything! I was free to write what I wished...but it was suggested I should centre on how I became involved in Technical Analysis and why I've continued supporting it all these years. So...I did! The article will feature in the next edition to the Members of the Society...and I thought it would be a good opportunity for the wider audience of the 'Ghost...' to know how and why I am still, after all these years, a strong advocate of Technical Analysis. So...here goes...

When first asked to write this piece I was perplexed. I'd written many pieces before...but not on how or why I chose Technical Analysis (TA) as a career. I slowly realised that the best way would be to approach it as I would a piece of market analysis. Describe how I got here...explain what's going on now...describe likely future events.

One past story comes to mind. I tried many times to explain to my mother what I did in the City. She was never convinced...but was always grateful I'd got passed part time jobs as a youngster in the Petticoat Lane street market in London. She specifically credited my current success to being a teenage salesman selling suiting material in a shop, now long gone, in Goulston Street. It was where I started studying human behaviour and also realised I wanted to work in the City rather than follow in my father's footsteps as a baker. It coincided with the rise of the City as a financial centre in the 1980's and portals, for naturally savvy 'market' traders opened into areas previously shuttered. Sadly these seem to have since closed once more.

Anyway...I started working in the LME base metals industry, initially clerking for traders, then moving onto trading and broking. In about 1984 I first came across Technical Analysis whilst working as a junior futures broker for the London office of a Chicago brokerage, receiving and placing orders in international futures markets...that meant London, New York and Chicago in those days. My manager and first guru was a great man, now sadly missed, called Keith 'Eddie' Edwards. He kept scrolls of Point & Figure Charts going back years...carefully rolled up. He gave me a sage piece of advice. Study TA...someday...when you're too slow as a broker, you'll be able to use this to extend your career and remain useful. I echo his words to young brokers nowadays.

Eddie (Edwards) introduced me to my second guru and good friend, the well-known and respected Technician – Trevor Neil. It was Trevor who introduced me to ACTA – the Association of Chart and Technical Analysts, the precursor to the STA. He gave another sage piece of advice...join now...someday the (then) forthcoming regulators will either make it a requirement via circumstance or regulation to be a Member to practise TA. Very apposite!

“...IT HAS GROWN AND METAMORPHOSED INTO WHAT IS NOW THE 'EDDIE'S CRAYONS...' SERIES OF TA PUBLICATIONS...”

“*‘STUDY TA...SOMEDAY WHEN YOU’RE TOO SLOW AS A BROKER, YOU’LL BE ABLE TO USE THIS TO EXTEND YOUR CAREER...’*”

So...I started learning about TA, attending meetings, growing as an analyst, concentrating on the disciplines I liked/understood in this wide all-embracing church we call Technical Analysis...until I started to write my own pieces, articles and analysis. This was over thirty years ago and this has grown and metamorphosed into what is now the ‘Eddie’s Crayons...’ series of TA publications on various markets I produce today for ADM Investor Services International Limited (‘ADMISI’), the largest non-bank clearer in the UK, Europe and the World. These are freely available to clients and other interested parties.

I’ve been at ADMISI for close to thirty years, initially starting the Foreign Exchange Desk and running it successfully since 1991 until last year. Due to the increased exposure TA had both within and without ADMISI via social media, I was asked to start up a TA unit and in January 2018 I became Head of Technical Analysis & Senior Markets Analyst. In the middle of 2018 I was pleased to help the STA promote our 50th Anniversary reception at London’s Living Room in City Hall. I was then caught completely off guard when subsequently asked to serve on the Board of the STA. I was nevertheless very honoured, humbled and pleased to do so, standing for my first election this past December as a Director and Executive Committee Member responsible for Marketing the STA.

So...this is my TA journey and where I currently stand...what’s next?

I’ve already mentioned how wide a ‘church’ TA is. We’ve followers of Dow, Elliott and Gann. We’ve lovers of Candlesticks, Point and Figure and Pattern Recognition...all with many years of solid data, pre-dating other analysis not just by decades but by centuries! For example, look to Japan at the work of Munehisa Homma in the mid 1700’s, arguably linked to earlier work in China and possibly as far back as Ancient Egypt. Technical Analysts can embrace all these different disciplines. We can even accept those using the ‘F’ word...dare I say it...fundamentals! We can accept fundamentalists, I’m sure there are many sincere, good people who follow ‘fundamentals’. My sadness is...we (Technicians) can accept them...yet so many cannot accept us. Whilst tolerant in other aspects of their lives, many show a malevolent streak when dealing with TA. ‘...Witchcraft...’ is one phrase my son heard recently used describing what I do...not nice! I can see at least part of my/our work will be to try to bring genuine love and tolerance to the minds of these hardened fundamentalists towards Technical Analysis. It may take some time!

Eddie Tofpik

E: eddie.tofpik@admisi.com

T: +44(0) 20 7716 8201





PHYSICAL COMMODITY CONTRACTS: HARD LESSONS FOR SOFTS MARKETS?

Commodity derivative markets have a lot in common across the agricultural, energy, and metals spaces.

All these markets use similar derivative instruments and may sometimes face the challenges of backwardation curves, tight stocks, and physical delivery, which are issues not faced by purely financial markets.

However, when it comes to physical contract terms, there are significant differences between agricultural, energy, and metals contracts.

Of the three sectors, metals can make a case for being the most mature market. In London, metals trading started with the opening of the Royal Exchange in 1571, with metals traders spilling out into the Jerusalem Coffee House in Cornhill before forming the London Metal Exchange (LME) in 1877.

The LME's unique date system plays a part in its industrial appeal, allowing users the flexibility to trade every day out to 3 months forward, precisely matching their underlying physical exposure.

A degree of flexibility can also be found in physical metals contracts. Physical metals traders will be familiar with a number of clauses, allowing merchants, smelters or processors the ability to manage the timing of shipments or to store and blend materials whilst tailoring their hedge strategy accordingly.

Traders and processors don't face outright price exposure, instead operate on a margin, and this flexibility can be exchanged for improved premium terms.

These terms appeal to some buyers and sellers in the metals markets. Can metals, as the hardest of industrial commodities, offer any lessons to softer markets?

We'll take a look at some common clauses in metals, which may have application in other markets. To begin, it's useful to know a few things about standard metals contracts:

- Most physical metals and concentrates contracts are priced basis the month's average of the daily LME Settlement Price. The Settlement is the "Cash" price (i.e. 2 days forward), comparable to "Spot" in FX.
- The month of pricing is called the Quotation Period ("QP"), and a standard contract would specify the quality, the tonnage per QP, the strip of QPs, and the physical premium to the LME price. The QP could be expressed relative to a month of shipment ("M"), or month of arrival ("MA"), i.e. for a month of Shipment M = Feb 2019, a QP of M+2 would be April 2019.
- Metals concentrates ("concs") are produced from ore, and typically contain approximately 30% of the desired metal mixed with undesirable contents (e.g. sulphur, iron) and perhaps some tiny amounts of precious metals. These are traded basis the same LME price, per Mt of metal contained, minus adjustments for quality and costs of processing (treatment and refinement charges, TC/RCs).



1. CALENDAR SPREAD OPTIONALITY

Calendar spread optionality allows one party (usually the buyer, e.g. merchant or smelter) to choose the QP month from a range of choices, prior to the start of the earliest possible QP month, i.e. before any of the LME settlement prices are known. This choice can be made prior to the start of each delivery month, or prior to the start of a strip of months, i.e. at the start of a calendar year.

As mentioned, traders and processors operate on a margin, buying spot, storing/processing, then selling forward, so a contango curve is good for profit whereas a backwardation is bad.

With spread optionality, the buyer may have the choice of QP pricing basis month M or month M+3, declared by the end of month M-1. In a contango market, the smelter buys basis M, but will buy basis M+3 in a backwardated market, helping them preserve their operating margin.

Example table below:

Table 1

MONTH OF SHIPMENT	POSSIBLE QPS	POSSIBLE QPS			
MONTH M	QP M	QP M+3	Curve	QP declaration	QP choice
JAN 19	Jan 19	Apr 19	contango	31 Dec 18	Jan 19
FEB 19	Feb 19	May 19	backwardation	31 Jan 19	May 19
MAR 19	Mar 19	Jun 19	backwardation	28 Feb 19	Jun 19
APR 19	Apr 19	Jul 19	contango	31 Mar 19	Apr 19
MAY 19	May 19	Aug 19	contango	30 Apr 19	May 19
JUN 19	Jun 19	Sep 19	contango	31 May 19	Jun 19

Source: ADM Investor Services International Limited

“NUMBER OF CLAUSES, ALLOWING MERCHANTS, SMELTERS OR PROCESSORS THE ABILITY TO MANAGE THE TIMING OF SHIPMENTS OR TO STORE AND BLEND MATERIALS WHILST TAILORING THEIR HEDGE STRATEGY ACCORDINGLY.”

2. PRICE PARTICIPATION ("PP") CLAUSES (A.K.A. ESCALATORS/DE-ESCALATORS)

Price Participation clauses allow one party (usually the buyer, e.g. smelter), the ability to benefit from higher metals prices by giving a percentage discount which increases with the underlying market price during the QP.

This "step up" in discount with market price is called an "escalator", and it may also reverse the discount if market prices are lower, cushioning the seller from some of the effects of low prices.

These clauses can apply directly as a discount to the price, e.g. as in a copper concentrates PP clause benefitting the buyer, or can apply as an escalator to the Treatment Charge paid by a miner to a tolling smelter for processing concentrates.

Copper Concentrates Example:

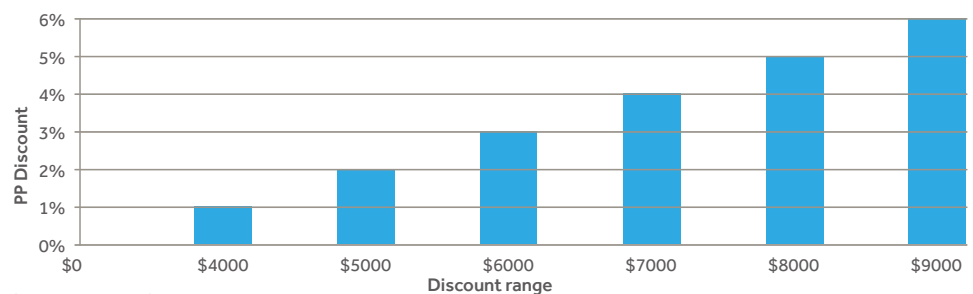
In this example, the buyer of copper concentrates receives a discount to the LME price which increases as the LME price increases.

Table 2

PRICE >=	PRICE <	PP DISCOUNT	DISCOUNT RANGE	
\$0	\$4000	0%	\$0	\$0
\$4000	\$5000	1%	\$40	\$50
\$5000	\$6000	2%	\$100	\$120
\$6000	\$7000	3%	\$180	\$210
\$7000	\$8000	4%	\$280	\$320
\$8000	\$9000	5%	\$400	\$450
\$9000	no limit	6%	\$540	no limit

Source: ADM Investor Services International Limited

Chart 1

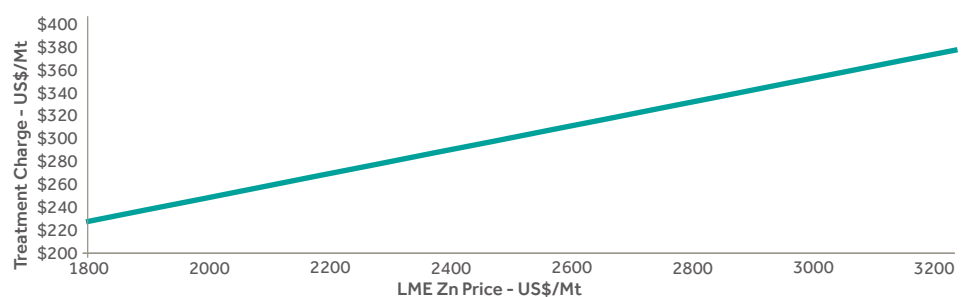


Source: ADM Investor Services International Limited

Zinc Concentrates Treatment Charge Example:

In this example, the miner pays a Treatment Charge of \$300/Mt of concentrate to the tolling smelter, subject to an escalator of +10%/-10% either side of LME prices at \$2500/Mt:

Chart 2



Source: ADM Investor Services International Limited

PP clauses give traders, processors and smelters (i.e. parties without an underlying price exposure) a small degree of price participation, in return for the seller getting improved terms.

“*CLAUSES CAN PROVE USEFUL IN SITUATIONS WHERE ONE PARTY NEEDS SOME FLEXIBILITY WHILST THE OTHER APPRECIATES A HIGHER PHYSICAL PREMIUM...*”

3. BACK-PRICING

Back-Pricing allows one party to choose the QP month from a range of choices but, unlike Calendar Spread Optionality, the back pricing QP choice can be made once the market prices are known.

For a merchant, who can face uncertainty over the timing of their physical purchases and sales or their shipping schedules, back-pricing allows them to re-match their hedge books to their physical exposures in case their schedule changes.

In return for being given this flexibility, the owner of the back-pricing can offer better terms on a physical contract, typically a more attractive physical premium.

For example, the following table shows a 6 month physical contract for Jan-June 2019, where the buyer can choose the QP for each Shipment Month “M”, being the buyer’s choice of either M, M+1 or M+2, with the QP decided at the end of M+1.

E.g. for the Jan 2019 shipment, the buyer can choose the LME price during January, February or March 2019, with the choice made at the end of February 2019. If the sales or shipping schedule changes, the buyer can adjust their hedge book accordingly and maintain their operating margin.

Table 3

MONTH OF SHIPMENT	POSSIBLE QPS			END OF M+1
MONTH M	QP M	QP M+1	QP M+2	QP declaration
JAN 19	Jan 19	Feb 19	Mar 19	28 Feb 19
FEB 19	Feb 19	Mar 19	Apr 19	31 Mar 19
MAR 19	Mar 19	Apr 19	May 19	30 Apr 19
APR 19	Apr 19	May 19	Jun 19	31 May 19
MAY 19	May 19	Jun 19	Jul 19	30 Jun 19
JUN 19	Jun 19	Jul 19	Aug 19	31 Jul 19
JUL 19	Jul 19	Aug 19	Sep 19	31 Aug 19
AUG 19	Aug 19	Sep 19	Oct 19	30 Sep 19
SEP 19	Sep 19	Oct 19	Nov 19	31 Oct 19
OCT 19	Oct 19	Nov 19	Dec 19	30 Nov 19
NOV 19	Nov 19	Dec 19	Jan 20	31 Dec 19

Source: ADM Investor Services International Limited

In return for giving this flexibility to the buyer, the seller would receive an enhanced physical premium. For example, a copper seller normally receiving LME +\$80/Mt might expect to receive LME +\$160/Mt for granting back pricing flexibility.

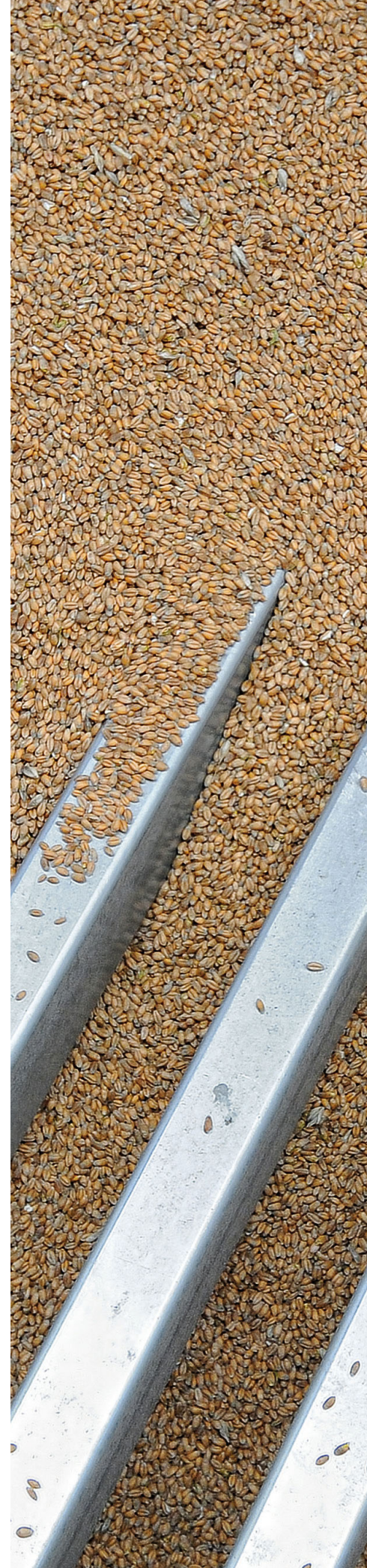
Not all metals contracts contain these clauses, although some may contain more than one, but they can prove useful in situations where one party needs some flexibility whilst the other appreciates a higher physical premium.

If that situation exists in other commodity markets, then the same tools may be applicable?

Rohan Ziegelaar

E: metals.desk@admisi.com

T: +44(0) 20 7716 8081





BREXIT: A BRIEF LOOK AT THE AGRI-FOOD SECTOR

Elsewhere in this edition, Lauren Judd considers what trading under WTO rules implies, specifically in terms of what tariffs exist and how they might be applied. This brief article looks at some other aspects, above all some statistics on the agriculture and food sector in the UK, and then non-tariff considerations.

Let us start with some statistics (source: ONS), in 2016 agriculture and fishing accounted for £9.2 Bln (ca 0.6%) of UK GVA (this being the difference between output and intermediate consumption for any given sector or industry). However the agri-food sector as a whole, (i.e. food manufacturing, wholesale, retail and non-residential catering) accounted for £113.2 Bln, thus contributing 6.4% to GVA. That is obviously substantial, but even more so when seen through the lens of UK employment, with the sector employing 3.9 Mln people, accounting for 13% of UK employment. UK food and drink exports totalled £22 Bln in 2016. In terms of food consumed in 2016, 50% came from the UK, 30% from the EU, 4% each from Asia, Africa, North America and South America. The sector is thus very large, and will de facto be heavily impacted, whether there is or is not a Withdrawal, let alone a Free Trade Agreement



According to the National Farmers Union (NFU), the UK is the third cheapest producer of food in the world, though this appears to be based on a single metric, namely that UK farmers take just 6% of the value of food that is produced. That may in part reflect an imbalance in the business relationship between farmers and their producer and retailer customers. But it emphasizes that margins are extremely tight, and that any supply chain disruptions due to Brexit potentially an existential threat. One key area would be in the supply of animal medicines and vaccines, 95% of which are sourced from the EU, along with a high proportion of fertilizers and other agricultural chemicals.

Some may argue that the farming sector should be preparing for any form of Brexit by increasing production, (i.e. 'onshoring'), but this is rather too glib from any number of aspects. For example, increasing production requires some fundamental assumptions about up front investment costs, be that equipment, land or raw materials, as well as access to (and the cost of) appropriately skilled labour.



It requires a degree of certainty about future food safety and animal welfare standards, and indeed laws regarding environmental protection, which the sector certainly has within the confines of the Common Agricultural Policy (CAP). (though CAP is not static), and despite enormous criticism of CAP regulations and hefty objections to associated subsidies. As is well documented, the agri-food sector has sought written reassurances from the government, but has received nothing more than 'warm words'. The latter is rather unsurprising given that there is still no identifiable majority within the UK parliament in respect of what trade relationships the UK does want to put in place with the EU, or indeed the rest of the world, with less than two months to go before 29 March. Indeed the other key consideration is that the Withdrawal Agreement does not even offer any details about any future trade agreement, with the 'transition period' until the end of 2020 looking woefully inadequate, when one considers that Canada/EU CETA agreement took 10 years to negotiate, and was almost scuppered by just a few Belgian dairy farmers.

For all that some of the pro-Brexit fraternity proclaim that the UK can be self-sufficient, there is a good deal of mythology being peddled, above all from those harking back to World War II and the period before Britain joined the EU. For example readers may like to read up on how much Britain was dependent on the Lend Lease agreement during World War II to maintain supplies of food and other materials, and how many US merchant seamen died in delivering those supplies. Then it is worth noting that Britain was in fact the largest recipient of US aid under the Marshall Plan (\$2.7 Bln), as against just \$1.7 Bln for Germany. However in contrast to Germany it did not invest this in upgrading and/or rebuilding industry and infrastructure, and diverted it instead to maintain the still extant 'Sterling Area', and (sic) maintaining imports of food, tobacco and lumber. Roll forward to the 1960s and early 1970s, and perhaps try and recall or find out what exactly was on offer in food choice terms at a local UK supermarket, green grocer or butcher. Then consider whether today's consumers who are used to having a very wide choice of fruit and vegetables available 365 days per annum would accept a sizable reduction in choice, or only at substantially higher prices. A zero tariff response by any UK government would inevitably see a lowering of imported food standards, which would have major existential ramifications for UK agriculture (and this applies across the spectrum of goods).

“*READERS MAY LIKE TO READ UP ON HOW MUCH BRITAIN WAS DEPENDENT ON THE LEND LEASE AGREEMENT DURING WORLD WAR II TO MAINTAIN SUPPLIES OF FOOD AND OTHER MATERIALS...*”

Finally, as much as the post Brexit trade tariff structure will be important, it is the non-tariff measures that are likely to be more significant. To be sure, the UK does import goods of all types from non-EU countries, and therefore businesses have the technology largely in place to deal with the additional customs and regulatory paperwork. The point remains that ca. 50% of current UK physical trade is conducted with the EU, and as long as agreed standards are adhered to, then all such paperwork is waived, and thus facilitates largely frictionless trade. Whatever arrangements are entered into post Brexit will involve a higher administrative burden, i.e. an increase in costs. If these non-tariff measures were to be unilaterally waived, the flood of cheap imports may well drive down some prices, but will almost certainly be far more costly in terms of business failures and lost jobs.

Marc Ostwald

E: marc.ostwald@admsi.com

T: +44(0) 20 7716 8534



STOCK INDEX AND INDUSTRIAL COMMODITY FUTURES REBOUND

After a dismal performance in December stock index and some industrial commodity futures markets have put in a stellar performance in January in spite of a variety of negative economic news and the ongoing U.S.-China trade rift.

However, in spite of these negatives, stock index futures and other markets, including many industrial commodities, such as copper and crude oil have performed very well.

Chart 1: S&P 500 Futures



Source: WeeklyChart from QST

Stock index futures and industrial commodities advanced in price even when the World Bank said it sees growth in the global economy decelerating to 2.9% this year compared to 3.0% in 2018 due to elevated trade tensions and international trade moderation. In addition, a slump in the global economy will continue in the coming year, with 2020 growth estimated at 2.8%. Growth in the U.S. is likely to slow to 2.5% this year from 2.9% in 2018, while China is expected to grow at 6.2% in the year compared with 6.5% in 2018, according to the World Bank. World Bank Chief Executive Officer Kristalina Georgieva said, "At the beginning of 2018 the global economy was firing on all cylinders, but it lost speed during the year and the ride could get even bumpier in the year ahead."

Stock index futures and industrial commodities performed well in spite of Chinese economic data that was weak and appears to be getting weaker. China's economy, the world's second largest, grew 6.6% in 2018, which is the slowest annual rate since 1990. The economic downturn was more severe in the last months of 2018, with fourth quarter growth increasing 6.4% from a year ago.

It could be viewed as a sign of strength for stock index futures when they were able to rally in spite of news that analysts lowered their fourth quarter earnings forecast for S&P 500 companies to 14.2% year-to-year growth from 20.1% that was estimated on October 1, according to Refinitiv.

Other stock index futures are performing well at a time when the news would have suggested lower prices. One example of this is the Shanghai Composite index. Much of last year the index had been consistently losing ground to U.S. stock indexes. However, in January the Shanghai Composite has performed very well.

“GROWTH IN THE U.S. IS LIKELY TO SLOW TO 2.5% THIS YEAR FROM 2.9% IN 2018.”

Also, the Chinese yuan, which was knocking on the door of seven to one against the U.S. dollar late last year, has now stabilized. Massive new accommodation from the People's Bank of China, including the recent addition of a record \$83 billion into the country's financial system should have taken China's currency lower, but didn't. Are some unseen factors at work?

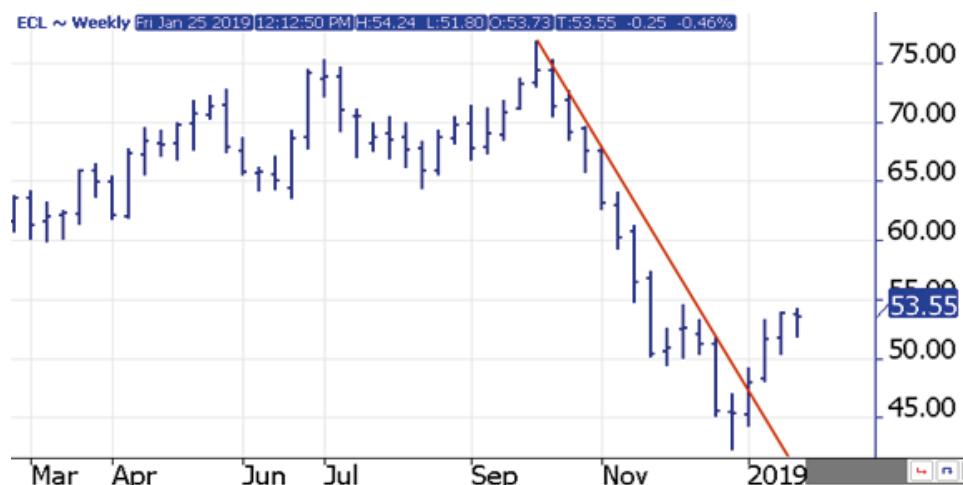
Chart 2: China / U.S. Foreign Exchange Rate



Source: Fred

Also, industrial commodity markets are performing better than the news would suggest. These markets have put in impressive performances recently, advancing above major downtrend lines. Do the industrial commodity markets sense a global economic recovery is coming?

Chart 3: Crude Oil Futures - Weekly



Source: Chart from QST

In addition, the U.S. Treasury yield curve recently became less inverted, which could indicate a sign of better economic times ahead.

There is a rule of thumb that any time markets can advance in price when the news is bearish, it can be a sign of higher prices yet to come.

Could it be that financial and commodity futures markets are anticipating a resolution to the U.S.-China trade dispute will come sooner rather than later? I believe this may be the case. If this assumption is correct, we could expect higher prices for stock index futures and also for industrial commodities, such as copper and crude oil.

Alan Bush

E: alan.bush@admis.com

T: 001 312 242 7911





COMMISSIONING A SCRUBBER SYSTEM BY 31 DECEMBER 2019 IS NOT SUFFICIENT TO COMPLY WITH THE UPCOMING SULPHUR CAP

Ship owners, ship operators and ship managers who are busy preparing for the upcoming high sulphur fuel oil (“HSFO”) ban which enters into force on 1 January 2020 will be familiar with the option to install Exhaust Gas Cleaning Systems (EGCSs) otherwise known as “scrubbers” as one route to compliance.

There appears to be some confusion within certain parts of industry as to whether it is sufficient to merely commission and not necessarily install or use a scrubber by 31 December 2019 in order to meet the new sulphur content requirements. This update clarifies the position with regard to relevant international, European and UK law and guidance.

MARPOL ANNEX VI REQUIREMENTS

On 26 October 2018, during its 73rd session, the Marine Environment Protection Committee (‘MEPC73’) of the International Maritime Organisation (IMO) formally adopted the ban on **carriage** of HSFO. This was effected through amendments to regulation 14 of Annex VI to the International Convention for the Prevention of Pollution from Ships (‘MARPOL Annex VI’) as laid down in the IMO document MEPC 73/3. This means that (a) from 1 January 2020, ships’ use of marine fuel with a sulphur content above 0.50% (“HSFO”) will be prohibited; and (b) from 1 March 2020 ships’ carriage of HSFO will also be banned (see our previous article online). Whilst there are a number of routes to compliance, one such route, is the installation of scrubbers, which enable vessels to continue to use an HSFO. An installed scrubber must be approved by the ship’s Flag Administration and such approval evidenced in the ship’s IAPP Certificate (International Air Pollution Prevention Certificate).

SIGNIFICANT CHALLENGES AHEAD

With less than 12 months left to prepare for the ban there are a number of challenges facing the industry such as (a) a growing concern that there will not be enough time nor capacity for installers and shipyards to fit scrubber systems on all ships in time; (b) forecasts of potential non-availability of low sulphur marine fuel; and, pertinently, (c) confusion generated by those who hold a view that it is sufficient to merely commission and not necessarily install or use a scrubber by 31 December 2019. This view carries neither regulatory nor legal substance.





“WITH LESS THAN 12 MONTHS LEFT TO PREPARE FOR THE BAN THERE ARE A NUMBER OF CHALLENGES FACING THE INDUSTRY...”

IMO'S MARPOL ANNEX VI

The IMO's position regarding the amendments to MARPOL Annex VI which are expected to enter into force later this year is clearly set out on its website ([click here](#) and [here](#)):

“The new 0.50% limit (reduced from 3.50% currently) on sulphur in ships' fuel oil will be in force from 1 January 2020, under IMO's MARPOL treaty, with benefits for the environment and human health.

The complementary MARPOL amendment will prohibit the carriage of non-compliant fuel oil for combustion purposes for propulsion or operation on board a ship - unless the ship has an exhaust gas cleaning system (“scrubber”) fitted. Installing a scrubber is accepted by flag States as an alternative means to meet the sulphur limit requirement. The complementary amendment is expected to enter into force on 1 March 2020. The amendment does not change in any way the entry into force date of the 0.50% limit from 1 January 2020. It is intended as an additional measure to support consistent implementation and compliance and provide a means for effective enforcement by States, particularly port State control”.

The statement clearly states that scrubbers must be ‘fitted’ on a vessel in order for a vessel to be able to continue to use HSFO from 1 January 2020. The IMO's FAQ further stipulates that **“ships may also meet the SOx emission requirements by using approved equivalent methods, such as exhaust gas cleaning systems or “scrubbers”, which “clean” the emissions before they are released into the atmosphere. In this case, the equivalent arrangement must be approved by the ship's Administration (the flag State).”** (our emphasis). There is therefore no suggestion at international level that simply commissioning a scrubber or any emissions abatement measure would be sufficient for compliance purposes. Given that the overarching objective of the IMO measure is aimed at reducing sulphur emission in international shipping, it is difficult to imagine how the IMO would have intended anything less than the actual **fitting**, approval and use of scrubbers by vessels.

DIRECTIVE (EU) 2016/802

The IMO requirements for a scrubber to be “fitted” are mirrored by the European Directive 2016/802/EC concerning the sulphur content of certain liquid fuels (the “Sulphur Directive”). The relevant provisions regulating the use of scrubber systems are contained in Article 2 (Definitions), Article 5 (Maximum sulphur content in marine fuel) and Article 8 (Emission abatement methods). Scrubbers are treated as EAMs and are defined in the Directive as **“any fitting, material, appliance or apparatus to be fitted in a ship or other procedure, alternative fuel, or compliance method, used as an alternative to low sulphur marine fuel meeting the requirements of the Directive”** (our emphasis)

We suspect that perhaps the phrasing “to be fitted” created the confusion in question suggesting that merely planning or intending to fit an EAM through commissioning may be sufficient to achieve compliance. However, a fundamental principle of European law is that it must be read purposively and not literally with consideration of the spirit and the intent behind the provisions in the Directive. These reflect those of the IMO, namely, to reduce harmful emissions from ships.

As we apply the principle of purposive interpretation to Article 8 (Emissions abatement methods) it is clear that the focus of the requirement is on the “use” of the EAMs as an “alternative” to using HSFO. Article 8(2) provides: **“Ships using the emission abatement methods referred to in paragraph 1 shall continuously achieve reductions of sulphur dioxide emissions that are at least equivalent to the reductions that would be achieved by using marine fuels that meet the requirements of Articles 6 and 7”** (our emphasis. Conversely, if EAMs are merely commissioned and not used, then the requirements of Article 8(2) would be rendered meaningless. Furthermore, Article 9 requires the EAM to be formally approved before they can be used. Thus, there are two key steps that need to be met in order to achieve compliance with Article 5 – (1) approval; then (2) use. There is no reference to “commissioning” in the Directive but the commissioning stage is referenced in the guidance produced by European Maritime and Safety Agency (EMSA), as addressed below.





EMSA SULPHUR INSPECTION GUIDANCE

The Sulphur Inspection Guidance (found [here](#)) published by EMSA in 2018 explains the practical implementation of the legal requirements in question. Though not binding, the Guidance is intended to steer the industry towards harmonised compliance. Page 12 of the Guidance provides:

"On a ship that uses an EAM to meet the requirements, the sulphur inspection should be limited to determining whether the ship:

- **has received an appropriate approval for using an EAM (approved, under trial or being commissioned), and**
- **is using the EAM for all fuel combustion machinery on board".**

Whilst commissioning is mentioned, albeit in passing, it is only done in the context of the staged approval process which is naturally conducive towards the required use of the EAM on board, once it has been commissioned, trialled or approved.

Appendix VII of the Guidance on page 28 sets out a list of non-compliances with the Directive and leaves us in no doubt that where commissioning is still in progress this would be treated as a non-compliance:

Table 1

NON COMPLIANCE	DESCRIPTION	ACTION TAKEN	DIRECTIVE REFERENCE
Emission abatement method approval document or trial approval	Missing, incorrect entries, incomplete, invalid Commissioning in progress	<ul style="list-style-type: none"> • Fuel sampling • Penalty as per provisions pursuant to national legislation • PSC authority informed • National Flag State authority informed • Foreign Flag consulted • Other (free text) 	Art 9.2 Art 10

Another circumstance that would be treated as a breach of the Directive is where it comes to light upon inspection by Port State Control or maritime enforcement authorities that the EAM on the ship is not continuously reducing SOx emissions.

Table 2

NON COMPLIANCE	DESCRIPTION	ACTION TAKEN	DIRECTIVE REFERENCE
Abatement technology	Not continuously reducing SOX emissions	<ul style="list-style-type: none"> • Compliant • Penalty as per provisions pursuant to Sulphur Directive • PSC authority informed • National Flag State authority informed • Foreign Flag consulted • Other (free text) 	Art 8.2

It is expected that from 1 January 2020, maritime enforcement inspectors will seek to ensure in the course of their inspections in ports that not only are the scrubber systems approved for use, but that ships are actively using scrubbers to continuously reduce SOx emissions.

UK POSITION

The UK has not diverged in its implementation of the international and European sulphur requirements.

The UK's Merchant Shipping (Prevention of Air Pollution from Ships) Regulations 2008 (as amended) and the Merchant Shipping (Prevention of Air Pollution from Ships) and Motor Fuel (Composition and Content) (Amendment) Regulations 2014 (the "UK Regulations") mirror the definition of and requirements for actual "use" of EAMs provided for in the Directive. Regulation 32(3A) makes it an offence for a master of a ship to utilise fuel having a sulphur content above 0.50% from 1 January 2020 unless the ship is using an approved and certified emission abatement method. The word "commissioning" is not referred to anywhere in the **UK Regulations**.

The Maritime and Coastguard Agency Marine Guidance Note, MGN 510 entitled "Use of Exhaust Gas Cleaning Systems under the Merchant Shipping (Prevention of Air Pollution from Ships) and Motor Fuel (Composition and Content) (Amendment) Regulations 2014" further supports the requirement for actual use of the scrubber systems which must be compliant and approved before they can be used.

Enforcement and sanctions for non-compliance
The IMO does not set fines or sanctions as these are established by individual Parties to MARPOL as Flag and Port States. Sanctions can be in the form of administrative fines or criminal penalties and would include detention, refusal of entry into port; delay; and prosecution and/or fines. Whilst levels of fines differ between countries if prosecuted in the UK fines would be unlimited. A mandatory order to restore any damage and to remedy the breach (e.g. install an approved scrubber system) could also be made in addition to the fine. Notably, the definition of a 'liable person' under UK Merchant Shipping (Prevention of Air Pollution from Ships) Regulations 2008 is wider than that of MARPOL and the Sulphur Directive. Whilst the latter instruments penalise the master of a ship and/or the ship owner, the UK regulations are wide enough to place liability on the owner, master of the ship, manager, charterer, harbour authority or terminal operator, fuel oil supplier or fuel oil supplier's representative (e.g. making a false declaration on the BDN) and any person who causes a non-compliance of any of the aforementioned persons through their acts or omissions. It is the latter "any person" liability that could potentially expose those in the scrubber industry to a prosecution in UK if it comes to light that scrubbers were supplied on a false premise which 'caused' a vessel operator to commit an offence.

EUROPEAN COMMISSION CONFIRMATION

DG Environment, European Commission, has confirmed that "it is not enough for a scrubber to be installed and **commissioned to allow the ship combustion of fuel exceeding the prescribed levels of sulphur.** In order to be fully compliant with Directive (EU) 2016/802, the scrubber must be actually used, so that it can continuously achieve SOx emissions reductions."

COMMENT

To conclude, any ship owners, managers and operators who have been operating on a false premise that commissioning a scrubber by the compliance deadline will be sufficient to demonstrate compliance should review their position. Those vessel owners/operators who are planning to meet the MARPOL Annex VI requirements by opting for scrubbers should take heed if they have merely commissioned a scrubber system and know for certain that they will not be installed in time for 31 December 2019. If this is the case then those ships must ensure that they seek to either have the scrubbers installed by the set deadline or source LSFO in time for 1 January 2020.

Valentina Keys

T: +44 (0) 20 7367 2173

E: valentina.keys@cms-cmno.com



“**ENFORCEMENT AND SANCTIONS
FOR NON-COMPLIANCE
THE IMO DOES NOT SET FINES
OR SANCTIONS AS THESE ARE
ESTABLISHED BY INDIVIDUAL
PARTIES TO MARPOL AS FLAG
AND PORT STATES.**”

US-CHINA GROWTH PROSPECTS AND MARKET DYNAMICS

The two largest economies in the world – the United States and China – are seeing economic growth decelerate, both have loaded up with debt, and are engaged in a high-stakes trade war with each other. How each country fares will have a lot to say about the dynamics and evolution of a variety of key markets in 2019.

The two largest economies in the world – the United States and China – are seeing economic growth decelerate, both have loaded up with debt, and are engaged in a high-stakes trade war with each other. How each country fares will have a lot to say about the dynamics and evolution of a variety of key markets in 2019.

THE DEFINING NATURE OF THE DEMOGRAPHIC CONTEXT

Context matters, and we start with a brief review of the dominant long-term theme – demographic patterns. Demographic trends suggest slower growth is in store for both China and the US well into the 2020s, before trends might shift.

In 1990, the percentage of the population over 65 years of age in China was 5.5% and, in the US, it was 12.5%. Today, those percentages stand at 11.3% and 16.0%, respectively. By 2030, the same measures will have increased again to 17.0% for China and 20.6% for the US. The impact of a larger population of retirees means the younger generations bear a greater burden of support. In addition, the growth of the working-age group cohort, defined by the U.S. Census Bureau as 15-64 years of age, is of huge importance to potential economic growth. If one thinks of economic growth potential as the sum of labor force growth and labor productivity growth and when labor force growth slows dramatically, it sets the same trend for real GDP growth subject to the variations in labor productivity which tend not to be very large. From 1990 to 2018, in both China and the US, the population of 15-64

year-olds increased cumulatively by just over 30%. U.S. Census Bureau projections for 2018 to 2030 suggest that China may see a -4.66% cumulative decline in the population of the 15-64 cohort, while the US may eke out a 3% cumulative gain, which is partly dependent on immigration assumptions which may well be overstated.

The relevance for real GDP over the next decade or so is simply that **population demographics suggest a deceleration of economic potential that will be well beyond the ability of traditional policy measures to reverse.** For the US, it will be very hard to see real GDP average more than 2.5% per annum until the demographic population trend starts to become a little more favorable to growth in the late 2020s. For China, the implications are modestly more complex. China has been experiencing a dramatic rural-to-urban population shift, which has effectively masked the impact of aging, because the highly productive urban labor force has still been growing at 3%-plus per year. As the rural-to-urban migration diminishes over the next decade, the joint challenges of a rapidly aging population and declines in the working age population will hit real GDP potential very hard. In effect, if China can manage average real GDP growth in the 3% to 4% range in the 2020s, it will have done an exceptional job of adapting to the demographic challenges it faces.



THE DEBT TRAP IS A LOOMING RISK.

With the long-term demographic context suggesting growth will disappoint policymakers, we may also project that they may try a variety of policies to increase real GDP by influencing labor productivity. And, the main policy that falls into this camp is the extensive use of debt, both government and private sector. According to the Bank for International Settlements (BIS), China's total credit to the non-financial sector is 253% of GDP for 2Q/18, and for the US the number is 249% of GDP. There are important similarities as well as differences in the structure of the debt between the two countries. Both countries' debt is mostly denominated in its own currency. Issuing debt in large amounts in currencies one does not control is a proven recipe for a debt crisis, but this is not the case here. Also, China's debt is mostly domestically owned, while considerable quantities of U.S. debt are owned by foreigners. This has not been an issue for the US, given the status of the U.S. dollar as the world's premier reserve currency. Still, if more and more countries choose to diversify their foreign reserves, over time the reserve currency advantage for the US will diminish.

The bottom line is that for both China and the US, adding more debt may no longer grow the economy at a faster rate. Indeed, China and the US are at a place where too rapid expansion of debt may increase the fragility of the economy as cash flows to sustain the interest payments may come into question and impact credit ratings. The key takeaways here are that China's favored policy tool for economics management – pushing new bank loans into the economy – may have hit the wall of diminishing returns and no longer works as well as it once did. The US may also have hit a wall on the use of government debt to stimulate the economy. There is no doubt the U.S. tax cut goosed economic growth in the first half of 2018, but it now appears there was no permanent effect and U.S. real GDP growth is rapidly returning to its current potential mean – or the 2.0% to 2.5% range.

TRADE WAR TAKES ITS TOLL.

Against a backdrop of aging populations and excessive use of debt, one might argue the US-initiated trade war came at a tough time for both countries. China's stock market has been hit much harder by the trade war than equities in the US. For U.S. soybeans, a target of China, prices fell sharply in May-July 2018 and since have partially recovered as trade tensions appeared to ease late last year. For the U.S. auto industry, the tariffs on steel and aluminum came at a time when auto sales were already stagnating. The stock prices of Ford and Fiat-Chrysler were hammered and many other automakers around the world have suffered as well. Chinese exports held up well at the start of the trade war but slowed quite materially as the year ended. Our research has indicated that the initial direct effects of the trade war were relatively small, even for China. Yet, as the trade war started to bite, indirect effects and behavioral feedback loops have kicked in and made the picture a little worse for both countries.

With the pressure building, the US and China made a show at the G-20 meeting to offer a path to negotiations. The US put a March 1st deadline on those negotiations to demonstrate progress. The canary in the coal mine that best reflects progress or not is the value of the Chinese Renminbi (CNY), which had rallied to 6.74/USD as of January 25th 2019, compared to its weakest point of 6.97/USD on October 31, 2018. By this measure, market participants are sensing that the pain is high enough in both countries to offer the possibility of a compromise. We shall see, but equity markets may not behave well if progress to ease trade war tensions does not come to pass.

POLICY TOOLS ARE LIMITED.

Neither the US nor China is in a particularly good place in terms of using traditional policy tools to counter a trade war-induced deceleration of economic activity.

For China, the main policy tool, as already discussed, is pushing new loans into the economy. The effectiveness of that tool has been substantially eliminated by its past success leading to diminishing returns complicated by the already high levels of debt. China has managed round one of the trade war relatively well, even if it has sustained a little more damage than the U.S. economy. China's challenge is that if the trade war were to intensify, it will not be able to cushion its impact as well as it did in 2018.

For the US, fiscal policy was a one-shot wonder, with the corporate tax cut pumping up growth in 1H/2018 only to see it falter in subsequent quarters. With Democrats now running the House of Representatives, and Republicans controlling the Senate, one can be certain that any further fiscal policy initiatives are off the table. Indeed, having watched the spectacle of a 35-day partial government shutdown, we are concerned about possible divisive wrangling over the debt ceiling, which goes back into effect on March 1, 2019, and will probably start to bite in the August-September time frame.

With fiscal policy on the sidelines, the interesting questions revolve around the U.S. Federal Reserve (Fed). The Fed is trying to get interest rate policy into the "neutral gear," while shrinking its balance sheet to reverse the past, emergency policy of quantitative easing. The Fed prides itself on being data dependent. Published economic data, however, is always backward looking -- like trying to drive a car looking at only the rear-view mirror -- definitely not recommended. The Q4/2018 swoon in U.S. equities was a wake-up call for the Fed. Equity markets are all about forward looking expectations of corporate earnings relative to risk, and elevated risks and lowered future earnings growth estimates dominated Q4/2018 equity markets. The Fed has backtracked to a position of flexibility, which in Fed-Speak means no further rate hikes until we see an uptick in real GDP.

Blu Putnam

E: bluford.putnam@cmegroup.com

Erik Norland

E: erik.norland@cmegroup.com

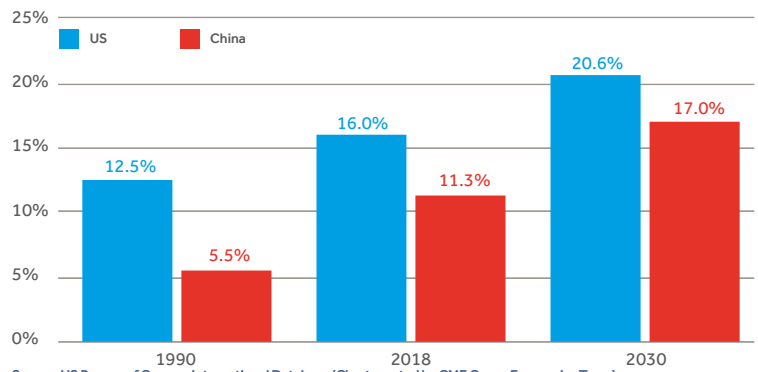
All examples in this report are hypothetical interpretations of situations and are used for explanation purposes only. The views in this report reflect solely those of the authors and not necessarily those of CME Group or its affiliated institutions. This report and the information herein should not be considered investment advice or the results of actual market experience.





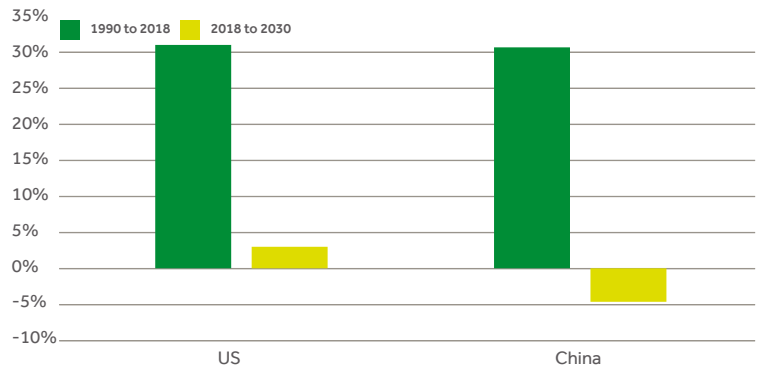
Appendix

Chart 1: US & China: Percent of Population, Over 65 Years of Age



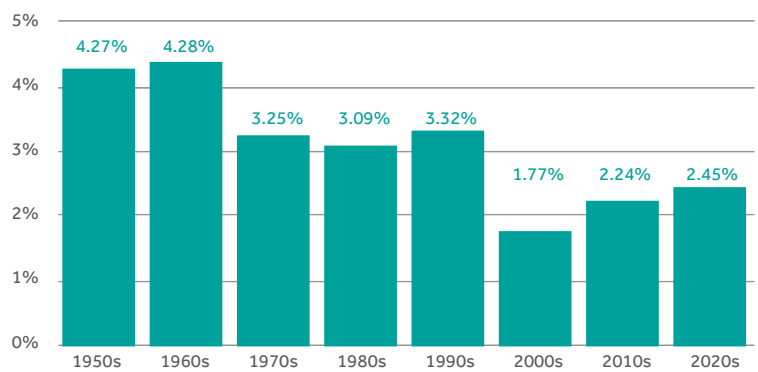
Source: US Bureau of Census, International Database (Chart created by CME Group Economics Team)

Chart 2: Cumulative Growth of Working Age Population: 1990-2018 versus 2018-2030



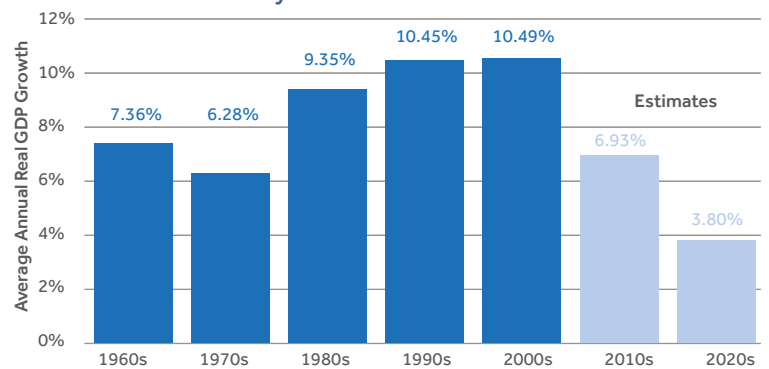
Source: US Census Bureau (Chart created by CME Group Economics Team)

Chart 3: US Average Annual Real GDP Growth by Decades (includes recessions)



Source: Federal Bank FRED Database (GDPC1), CME Economics estimates fo 2019-2030.
(Chart created by CME Group Economics Team, Data source: St. Louis)

Chart 4: China Real GDP by Decade



Source: World Bank Data through the Bloomberg Professional, CME Economics Estimates from 2019-2030.





RINGING IN THE NEW YEAR

A new year brings along with it fresh hope for a better future, full of resolutions and energy to effect change. January often starts with the best of intentions but by the end of the month business-as-usual has set back in and much of those hopes and dreams have succumbed to the reality of “what is”.

But, as with everything else, these are all choices to be made: look at challenges and face them head on or refuse to change and find oneself in the same place next year, or worse, obsolete.

The sugar industry has the opportunity to make changes, but will it? Only time will tell.

Already 2019 has shone a ray of light on the otherwise dismal situation that is the “war on sugar.” After years of misinformation and miscommunication in the mainstream press fed by those who would see sugar demonised for their own ends, the UK’s Institute of Economic Affairs has in The Telegraph newspaper called “BS” on the post-truth world that we have come to live in.

Sadly, the long list of facts laid out were in a comment piece rather than a headline news article, but it’s a start. And it’s been followed by pieces in The Spectator Health and BBC radio What’s important is to get that information out there, and the mainstream press may at last be ready to hear it. As they say, the first is always the most difficult, so perhaps more will begin to pick up the mantle of truth to begin re-educating the public who has been led astray.

“**FOLLOWING CONTENTIOUS ELECTIONS IN 2018, BRAZIL’S NEW PRESIDENT CHANGED HIS TUNE JUST BEFORE THE VOTE TO SAY HE SUPPORTED RENOVABIO, BUT WILL HE FOLLOW THROUGH?**”

The “war on sugar” is far from the only challenge that the industry is facing this year. Despite higher prices than this time last year, margins remain tight and that is provoking the consolidation typical after so many years of low prices. Already this year Olam has thrown in the towel, giving up on sugar trading because of those tight margins. Last year Bunge did the same, selling its entire book to Wilmar. Who else will give up sugar after surviving this long through the doldrums? India will remain a challenge as its monster production continues to hover over the global sugar market, with countries such as Australia and Brazil at the ready to take them to the World Trade Organisation. Several of those seeking to take India to the WTO for damage done to sugar prices and their domestic industries will take India to task mid-morning on March 27 during the Global Sugar Summit’s panel “Rumble in Geneva.” With the government set to issue even more bailouts to the domestic industry ahead of this year’s elections, the mess is likely to get even worse.

Following contentious elections in 2018, Brazil’s new president changed his tune just before the vote to say he supported RenovaBio, but will he follow through? The country’s policies regarding ethanol blending as well as marketing and trade have a major impact on whether mills produce ethanol or sugar, and until India’s production is reined in, the answer needs to be ethanol.

From water to weather to trade wars to smuggling, the industry has a lot on its plate this year, but with the hope and energy of a new year still fresh, there’s plenty of opportunity to be proactive and get ahead of those challenges before they raise their ugly heads.

Meghan Sapp

T: +44 (0) 7444 880753

E: meghan@sugaronline.com

This data is proprietary and may not be copied, rebroadcasted, redistributed or disseminated in any way without the express written permission of Sugaronline.com



FAT FINGER FOREX (NEW! USD/JPY EDITION)

A couple of ~~weeks~~ years ago I gave a talk about my book “Why Aren’t They Shouting?” in front of a group of Belgian businessman at the Belgian embassy.

The talk had a mixed reception. One gentleman, who worked at a hedge fund specialising in foreign exchange, took exception to my claim that automation has made the FX market more fragile.

Well I hope that, last night, he did not have any ~~GBP/USD~~ **USD/JPY** positions stopped out near the lows. If he did I’m sure that now he would be more willing to agree with me.

The move last night (~~7th October 2016~~ **3rd January 2019**) in Cable ~~USD/JPY~~ from about ~~1.2640~~ **109.00** to a low print some ~~10%~~ **4%** lower in a matter of a few minutes is being dubbed another “flash crash” or “fat finger” incident. Some people, giving it the old rational markets try, have suggested that ~~comments by the French president about the terms of Brexit~~ **a disappointing earnings announcement by Apple** could have spooked the markets.

I’m not sure what caused the move, but what I am sure about is that it should not have happened. The fact that the rate has bounced back to within a percent or so of its pre-move level supports this view.

Cable **USD/JPY** is one of the most important currency pairs in the markets. It is a measure of the rate of exchange between the biggest and the ~~fifth or sixth~~ **third** biggest

economies on the planet. A move in this rate of ~~10%~~ **4%** is seismic. ~~Stuff about Brexit.~~ If we are to cling to the idea of exchange rates moving in a way that is lognormal, then this represents ~~10~~ **5** or more daily standard deviations – ‘~~X~~ **Y** lifetimes of the universe’ territory.

At the risk of sounding like an old fogey and further annoying my Belgian friend, I believe that a move like this could not have happened in the old pre-automated market.

How would a ‘fat finger’ even have operated in the old days ? A junior (or possibly drunk senior) trader shouts down the line to a broker that he wants to sell a 100 billion ~~quid~~ **bucks?** ‘Don’t be a twat mate’ would have been the response. Automated stop losses? No such thing. No-one willing to make a rate? Everyone, at dozens of banks, was willing to step up.

That’s why when there were very big moves there was always a damn good reason. These days – not so much.

I’m sure that an inquest will now take place. Although I say that I do not know what happened, I am willing to make a gambling man’s

guess. And that guess would be that the move was caused by some error in an algorithm; the effect of which was compounded by triggering of automated stop losses in a nervous market.

But I am also sure of another thing – and that is that nothing will change. There is no overarching authority for FX. The ongoing automation of the market will continue and incidents like last night’s will become increasingly commonplace.

Whether that is a price worth paying for the undoubted increase in convenience and (marginal) decrease in costs of trading foreign exchange these days is a debate for the future.

[Note to readers: to save me effort in the future, please print out the original article and substitute the correct currency pair, date and rates when the next flash crash happens. Thanks.]

Kevin Rodgers

E: kevin.rodgers@mac.com





ADM Investor Services International Limited

ABOUT ADMISI

ADM Investor Services International Limited (ADMISI) is a full service multi-asset brokerage company with an 106-year corporate history in London and extensive experience in the international investment markets, offering clearing and brokerage services into all major investment markets.

PRODUCTS AND SERVICES

COMMODITY MARKETS



As one of the world's leading food processors, we have a wealth of expertise in agricultural markets. This is supported by extremely experienced and professional teams in each of the main fields of the industry: energy, metals, grains, sugar, coffee and cocoa.

FOREIGN EXCHANGE



With net sales of over US\$62.3 billion in 2016 involving 160 countries on six continents, we are extremely proud of our highly experienced team in foreign exchange.

GLOBAL INVESTMENT BROKING



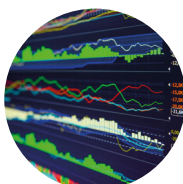
Our 24 hour trading desk is there to support all client trading through the time zones in all the markets throughout the year.

CLEARING/STRAIGHT THROUGH PROCESSING



Our highly experienced and professional team supports all aspects of clients' accounts from execution through to settlement. We value our clearing and settlement capabilities as a core competency for ADMISI.

EQUITY MARKETS



As members of the London Stock Exchange, we have a highly knowledgeable and energised securities group to meet your requirements.

MARKET COMMENTARY AND INFORMATION



We are able to call on a global network of market commentary covering all topics of the business, which can be found on our website, or delivered by email or hard copy as you require.

ELECTRONIC TRADING PLATFORMS/DIRECT MARKET ACCESS

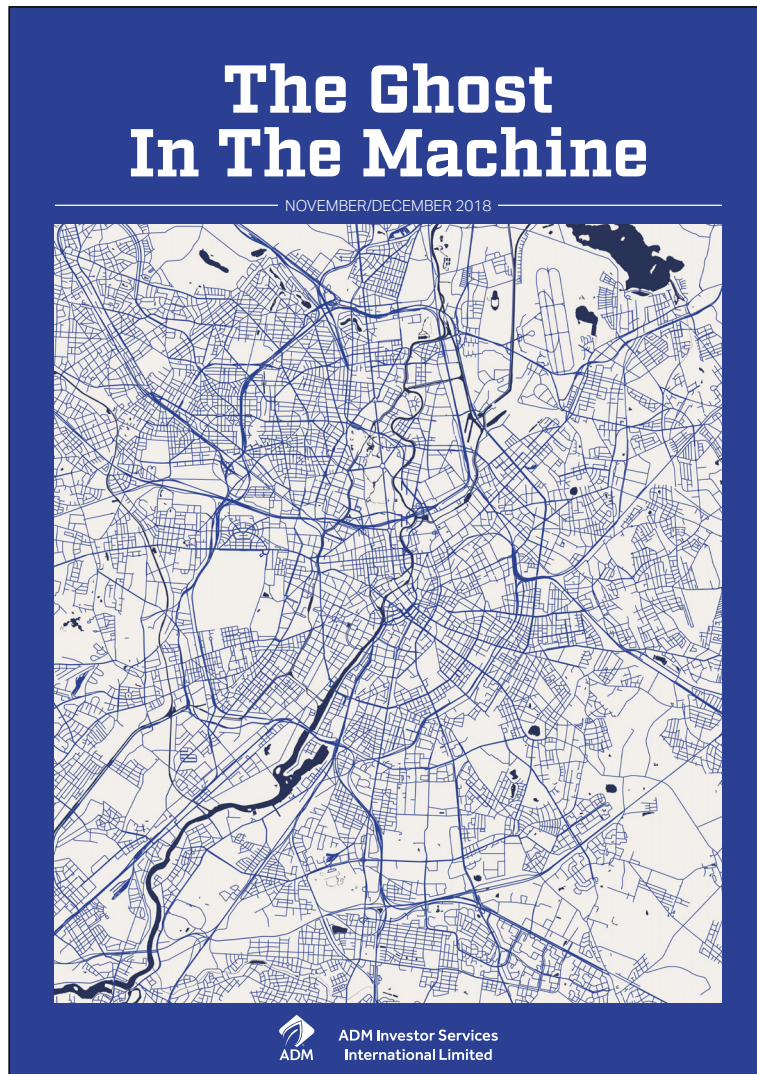


ADMISI is able to provide access to the most dynamic trading systems in the industry in futures, options, FX, CFDs and equities.

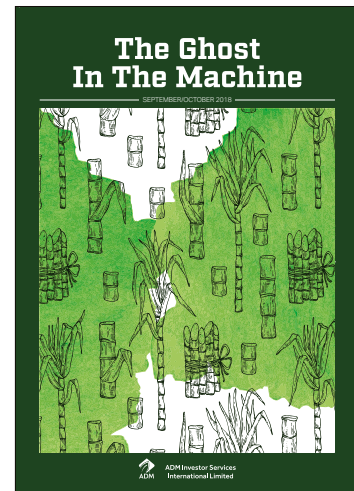
At ADMISI, we provide a full brokerage service that includes clearing and brokerage into all major investment markets and exchanges. We provide our customers access to an extensive range of investment opportunities.

THE GHOST IN THE MACHINE

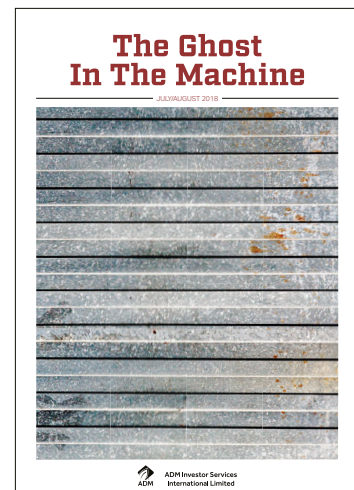
PREVIOUS EDITIONS



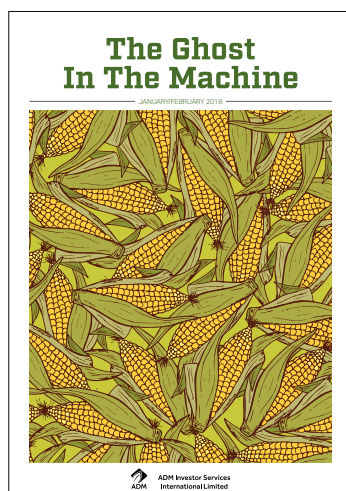
NOVEMBER - DECEMBER 2018



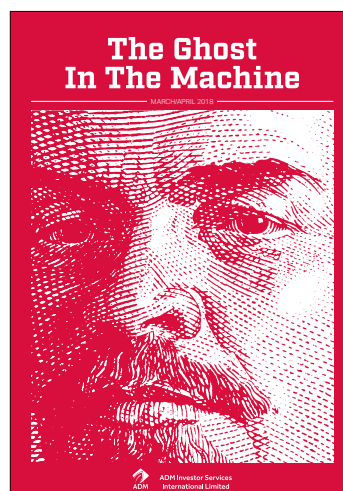
SEPTEMBER - OCTOBER 2018



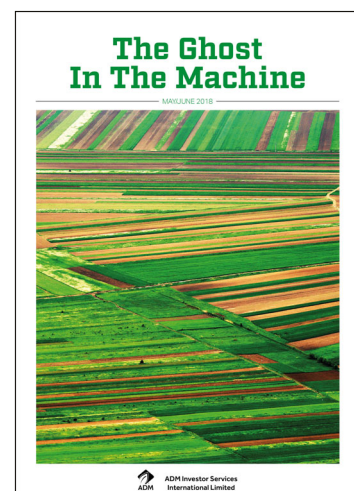
JULY - AUGUST 2018



JANUARY - FEBRUARY 2018



MARCH - APRIL 2018



MAY - JUNE 2018

To view the edition click on the image or please click the link below
www.admisi.com/customer-services/the-ghost-in-the-machine

Contribute to the next edition...

Please contact our team (E: tgitm@admisi.com) to find out the trending subject for the next edition.

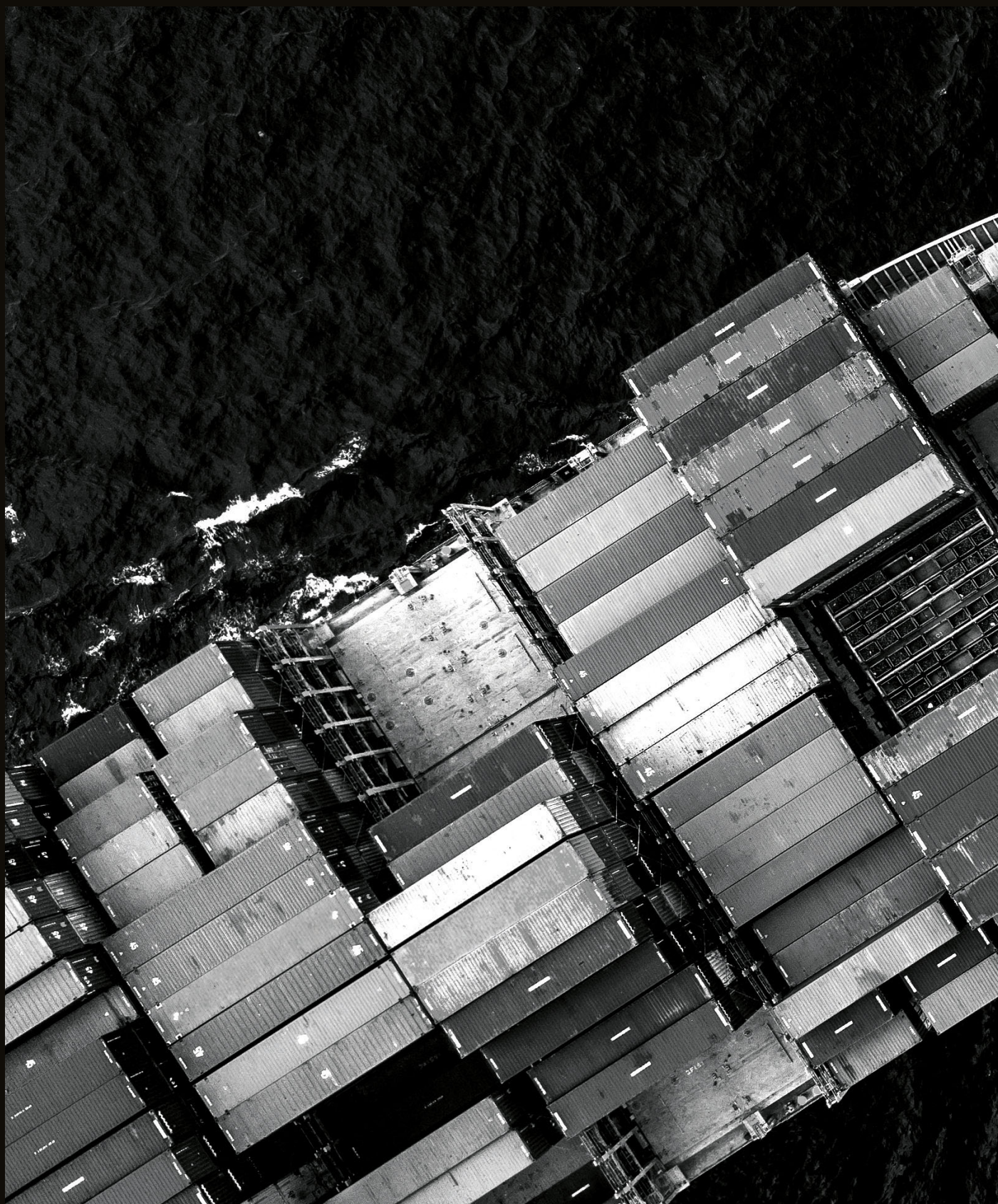


The Ghost In The Machine

JANUARY/FEBRUARY 2019



ADM Investor Services
International Limited



ADM Investor Services International Limited
Millennium Bridge House
2 Lambeth Hill, London
EC4V 3TT United Kingdom

T: +44(0) 20 7716 8142 | E: admisi@admisi.com

© 2019 COPYRIGHT ADM INVESTOR SERVICES INTERNATIONAL LIMITED - ALL RIGHTS RESERVED
ADM Investor Services International Limited, registered in England No. 2547805, is authorised and regulated by the Financial Conduct Authority [FRN 148474] and is a member of the London Stock Exchange. Registered office: 4th Floor Millennium Bridge House, 2 Lambeth Hill, London EC4V 3TT. A subsidiary of Archer Daniels Midland Company. The information within this publication has been compiled for general purposes only. Although every attempt has been made to ensure the accuracy of the information, ADM Investor Services International Limited (ADMISI) assumes no responsibility for any errors or omissions and will not update it. The views in this publication reflect solely those of the authors and not necessarily those of ADMISI or its affiliated institutions. This publication and information herein should not be considered investment advice nor an offer to sell or an invitation to invest in any products mentioned by ADMISI. © 2019 ADM Investor Services International Limited.

