

# **Worldwide Macro Environment: Background analysis for Fishmeal and Fishoil Markets**

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October 2011



**JORGE QUIROZ C.**  
CONSULTORES ASOCIADOS S.A.

One year ago...



# One year ago...

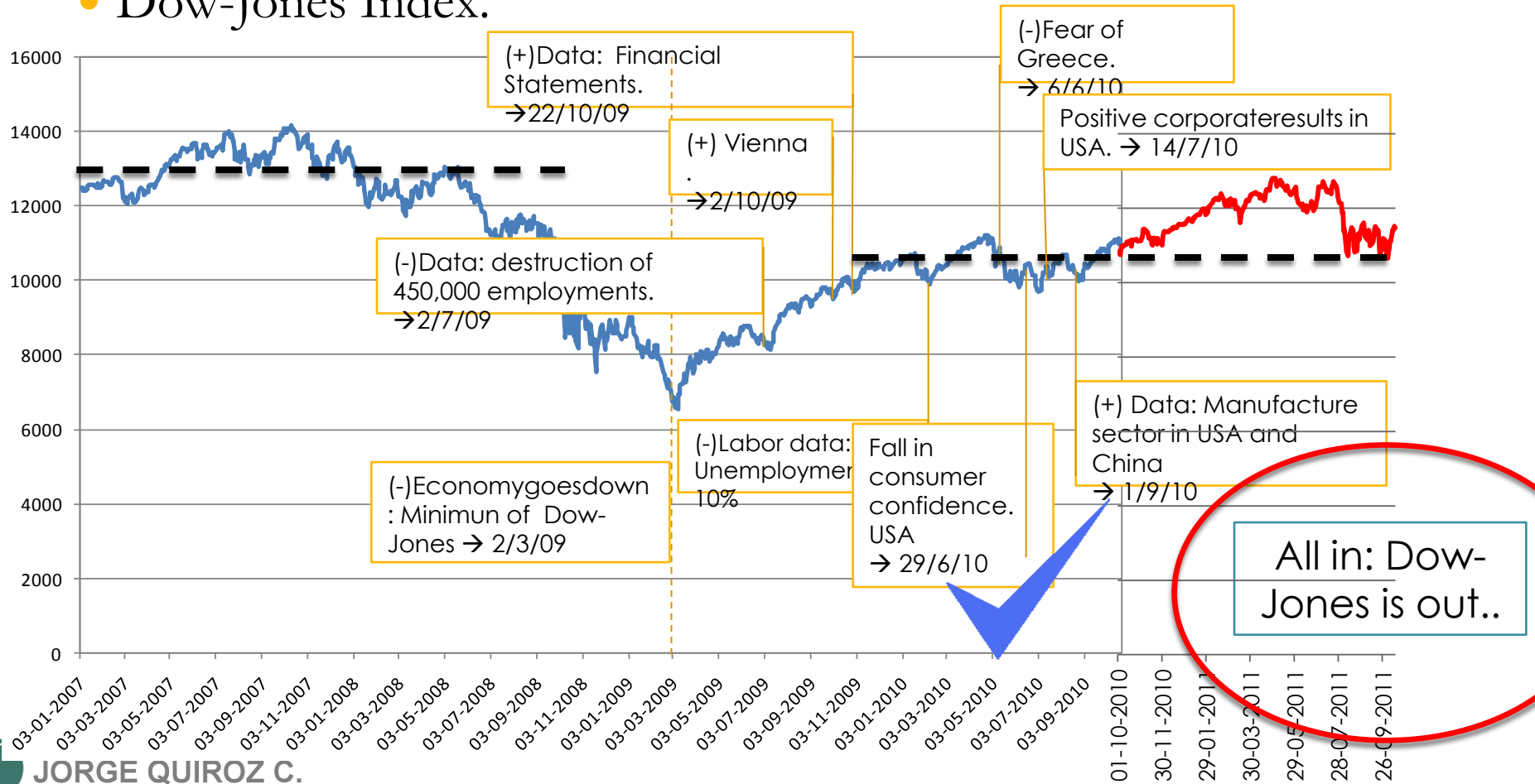
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What we said in Beijing...

# The “recovery” was far from “Business as usual...the market was telling so...

- Market: A manic depressive with signs of denial?

- Dow-Jones Index.



All in: Dow-Jones is out..

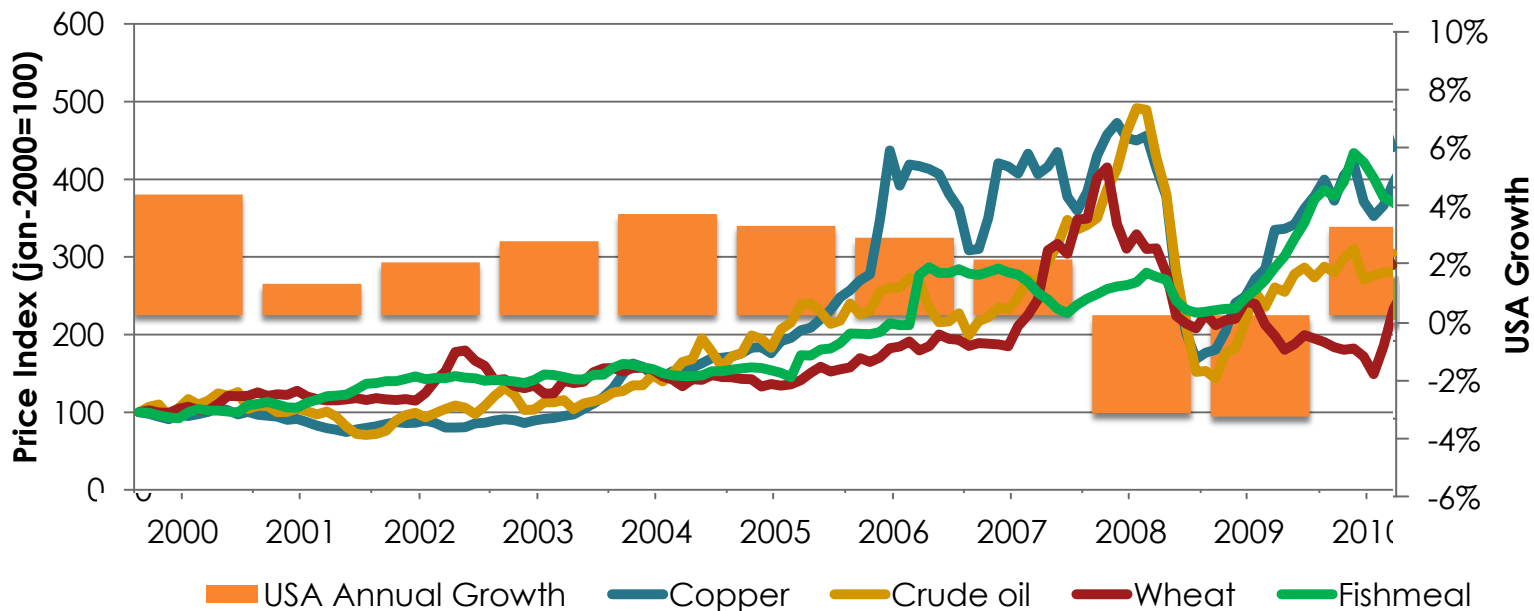
# By now, we know...

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- “Recovery”, as far as the rich economies goes, run quickly out of steam.
- After the fiscal stimulus, the rich economies are facing the fact that this crisis is more about structural change than anything else.
- There is little room for additional fiscal stimulus; but “austere” fiscal policies everywhere make no sense either... → **This is very dangerous**
- Monetary expansion will have to continue at an unprecedentedly loose stand
- The above contrasts sharply with the ability of the Chinese economy to implement countercyclical policies... (In China we Trust)

# We were bullish on commodities...

- **“Expect high commodity prices in spite of sluggish economic recovery in the most important developed economies.”**



# By now, we know...

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- Commodity prices depend more on the performance of emerging economies than on anything else.
- Inverse relationship between the dollar and the commodity prices
- Mild levels of confidence prompt the dollar down and commodities up.
- By the same token, even mild degrees of uncertainty prompt the dollar up (the “refuge”, the “safe heaven”) and commodity prices down...

By now, we know...



So...

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**The Question now is...**



What's Next?

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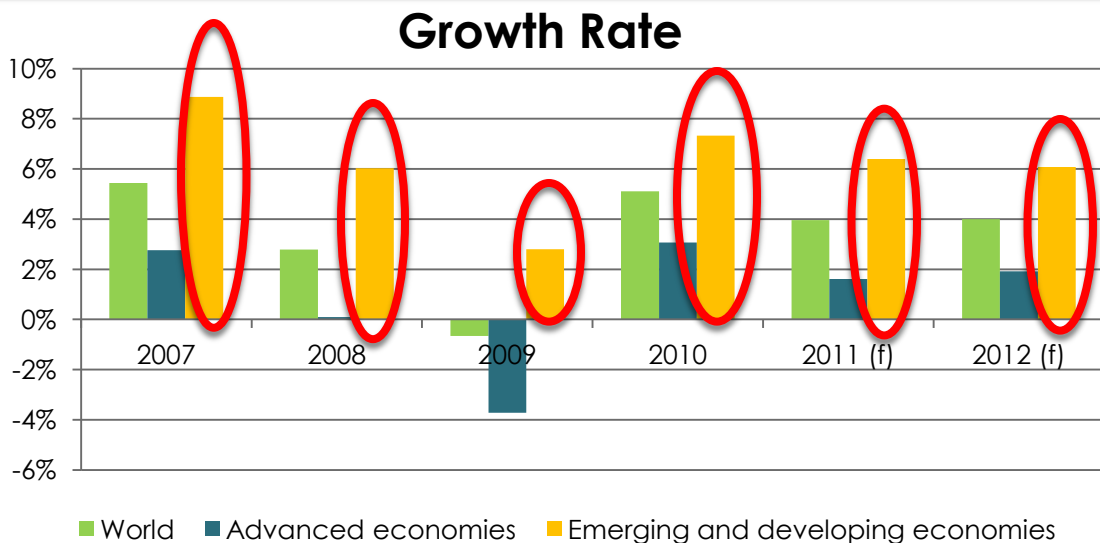


# Structural Change has deepened

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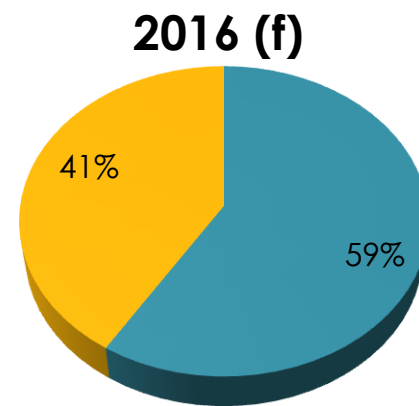
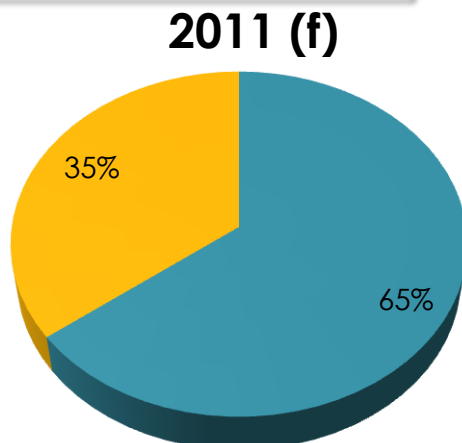
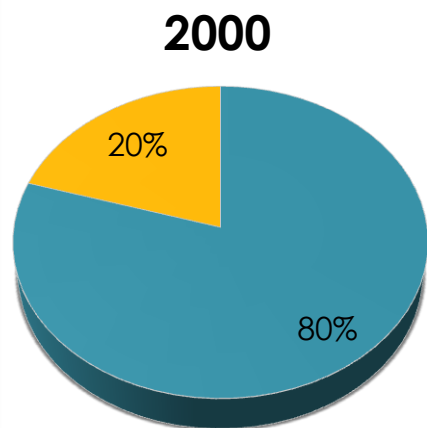


# Structural Change has deepened



**Emerging Countries are growing**

Participation in global GDP



Legend: Developed Economies (blue), Emerging Economies (yellow)

# Europe



- Our Clinical Test

	Public Debt (% PGB) (Aug-2011)	Current Account Balance (% PGB) (2010)	Growth rate (expected 2011)	Fiscal Deficit (% PGB) (2011 (f))	Unemployment rate (Aug-2011)
Belgium	102%	1.2%	2.0%	-2.9%	6.8%
Germany	80%	5.3%	3.5%	-2.2%	6%
Ireland	104%	-0.7%	-1.0%	-8.0%	14.6%
Greece	158%	-10.4%	-4.5%	-9.5%	16.3%
Spain	64%	-4.5%	-0.1%	-7.5%	21.2%
France	87%	-2.1%	1.5%	-5.1%	9.9%
Italy	121%	-3.5%	1.3%	-2.9%	7.9%
Portugal	84%	-9.9%	1.4%	-6.7%	12.3%
Netherlands	65%	7.1%	1.7%	-4.1%	4.4%

Source: IMF, Eurostat,

# Europe

“We have to make sure that banks and other investors share the costs of overcoming the crisis”

Angela Merkel

## Investors don't accept more than 20% of haircut

The lead negotiator for private holders of Greek debt has said that investors are **unwilling to accept greater losses on their bonds than the 21 per cent** agreed in July, jeopardising eurozone plans to finalize a second Greek bail-out by the end of next week.

The Financial Times

## It means...

# Europe

- Take Greece as a way of example...

	Public Debt (% PGB) (Aug-2011)	Current Account Balance (% PGB) (2010)	Growth rate (expected 2011)	Fiscal Deficit (% PGB) (2011 (f))	Unemployment rate (Aug-2011)
Greece	158%	-10.4%	-4.5%	-9.5%	16.3%



With haircut=20%



$158\% * (1 - 20\%) = 126\%$  **PGB**  
**Public Debt**

Considering a 7% interest rate....



**Interest payment = 8,8% PGB**  
(7% \* 126%)



# Europe



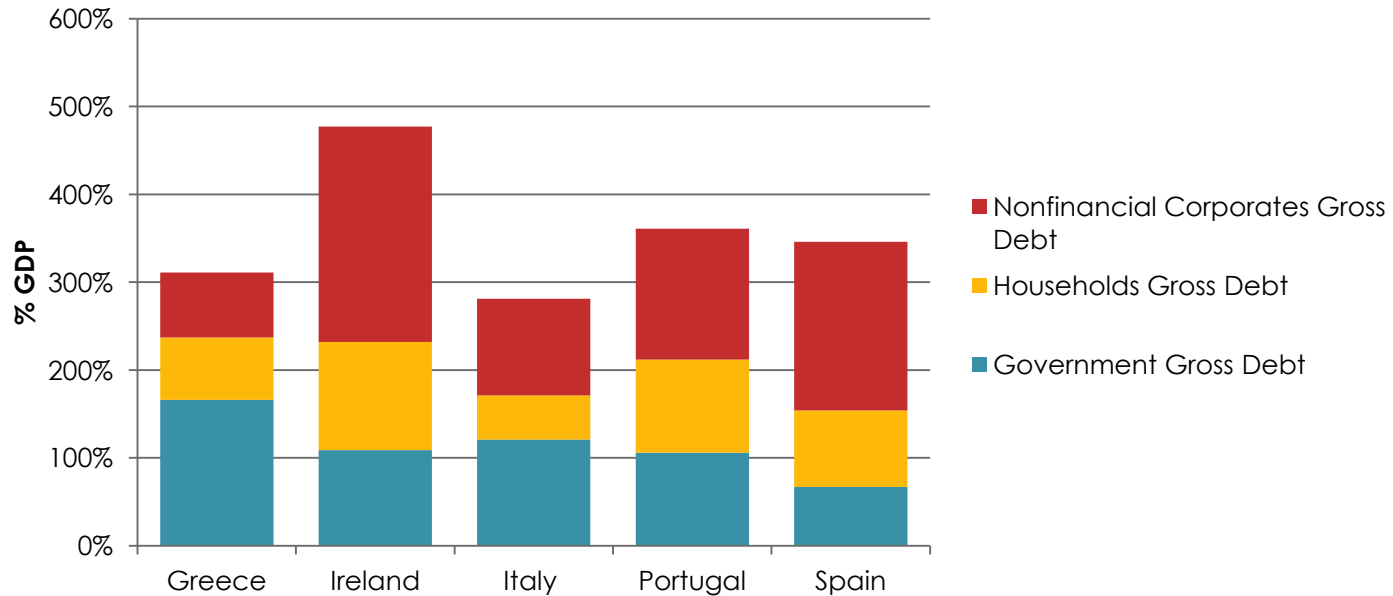
**But the problem goes beyond fiscal-monetary mess**



**High debt household and NFC**

# Europe

- High debt of households and NFCs → Beware with “capitalization” of banks...

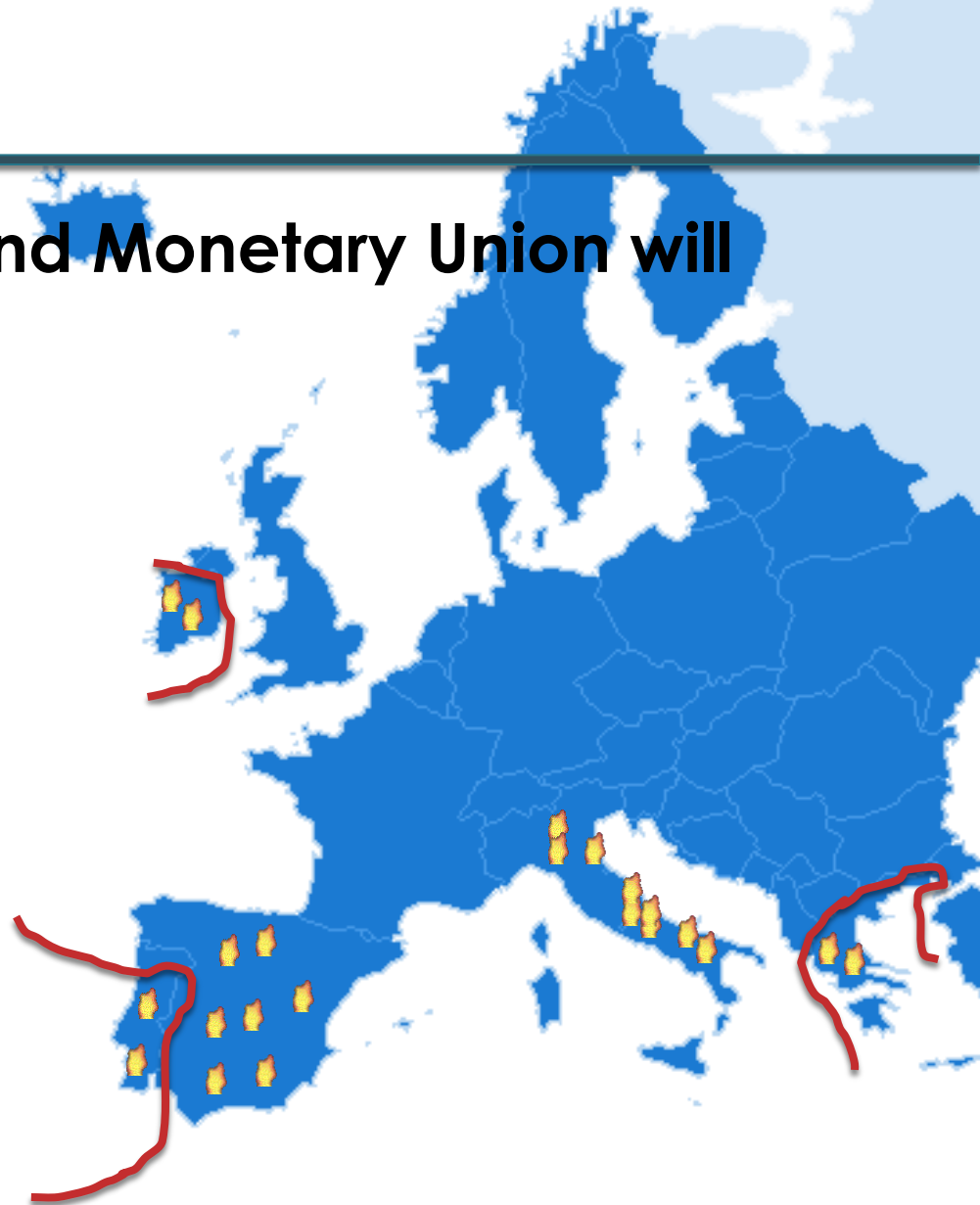


# Europe

- **What the Economic and Monetary Union will attempt to do:**

## Scenario A

Combination of  
“Muddling through”  
plus strong signals of  
defense

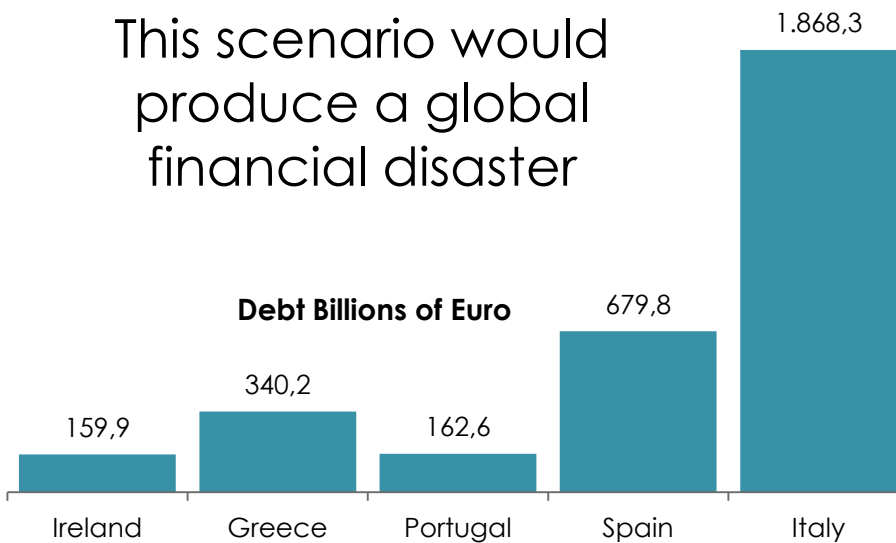


# Europe

- Or....

## Scenario B

This scenario would produce a global financial disaster

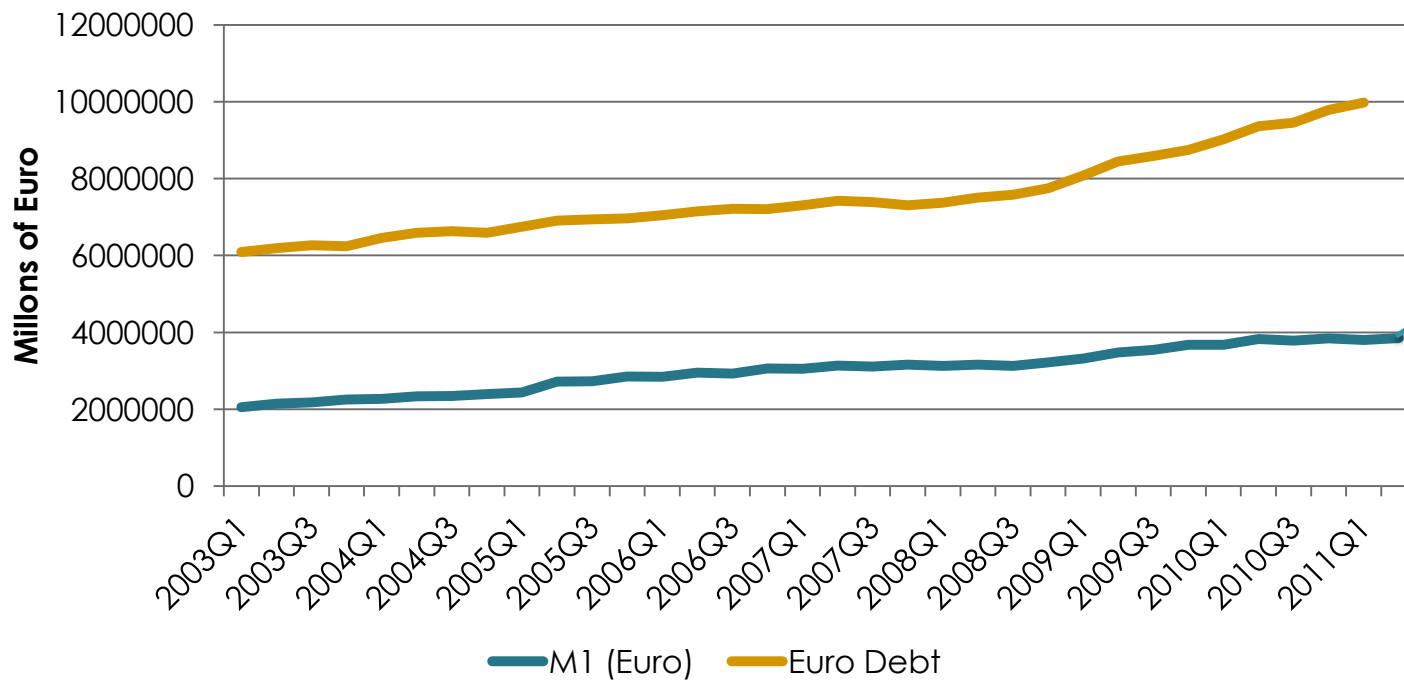


**So, it's unlikely to happen**



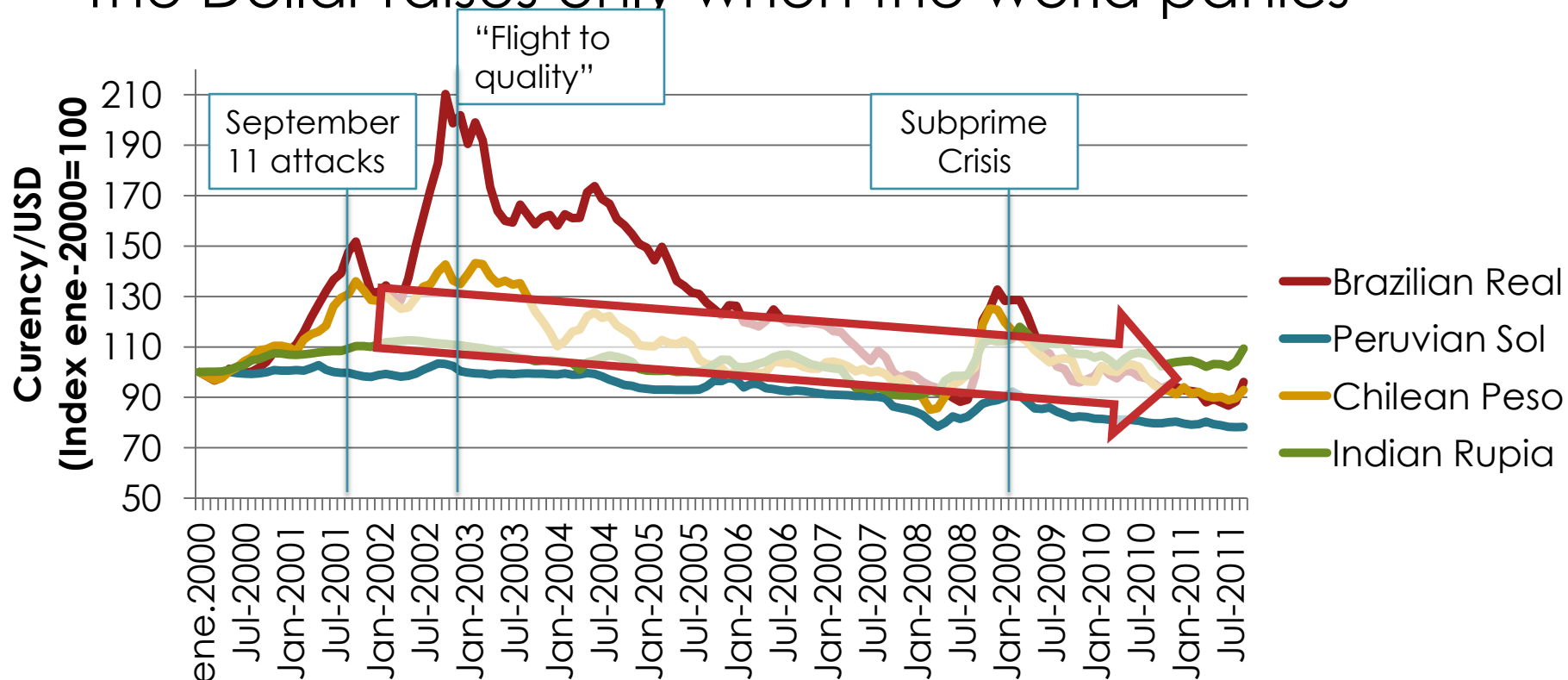
# Europe

- At any case, the “firewalls” will mean a significant monetary and fiscal expansion.



# The Dollar

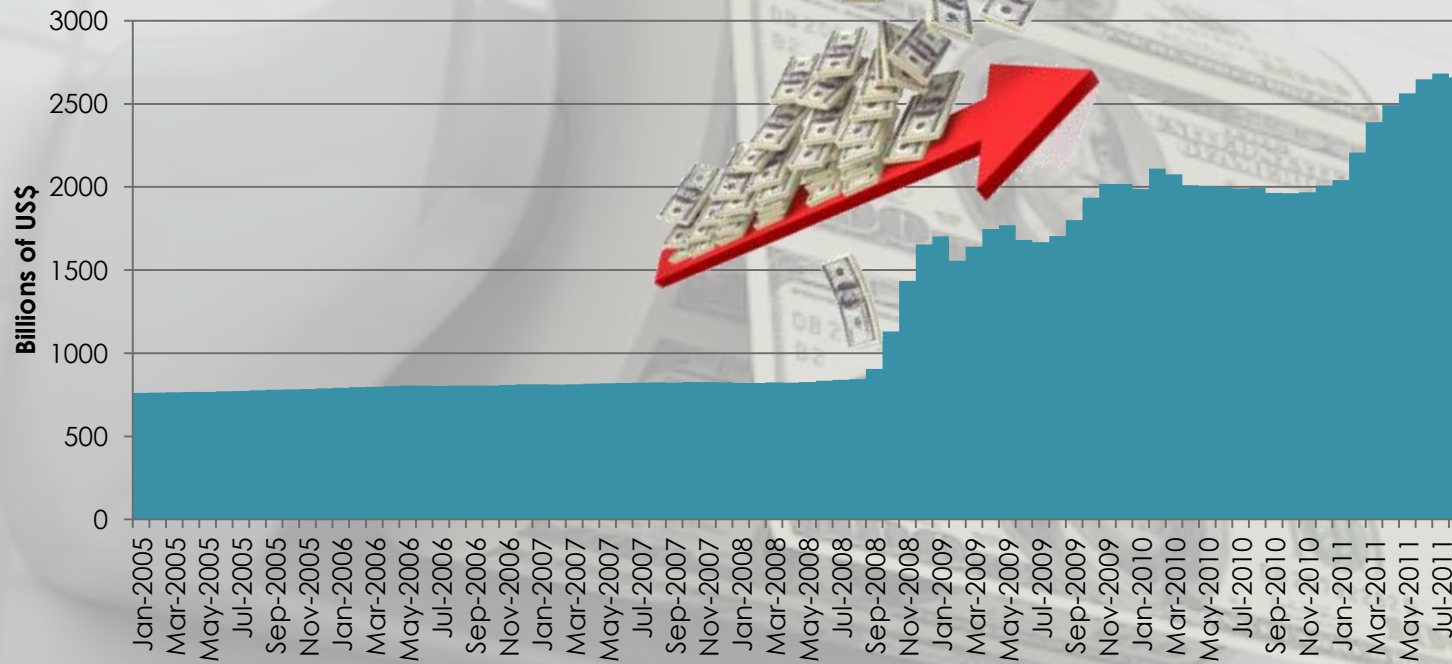
- The Dollar raises only when the world panics



- Since the world can't live in permanent "panic", our long term forecast for the dollar is to continue it's declining trend

# The Dollar

- Monetary Base



# Commodity Outlook

- As long as Europe does not fall in “Scenario B”...and
- As long as China and other EC’s continue to use wisely their large battery of countercyclical weapons...

**Growth of  
emerging economies**



**Monetization  
(US+EU)**

**Commodity prices at  
roughly the same levels of  
today (“strong”)**



**“The big Wave”**

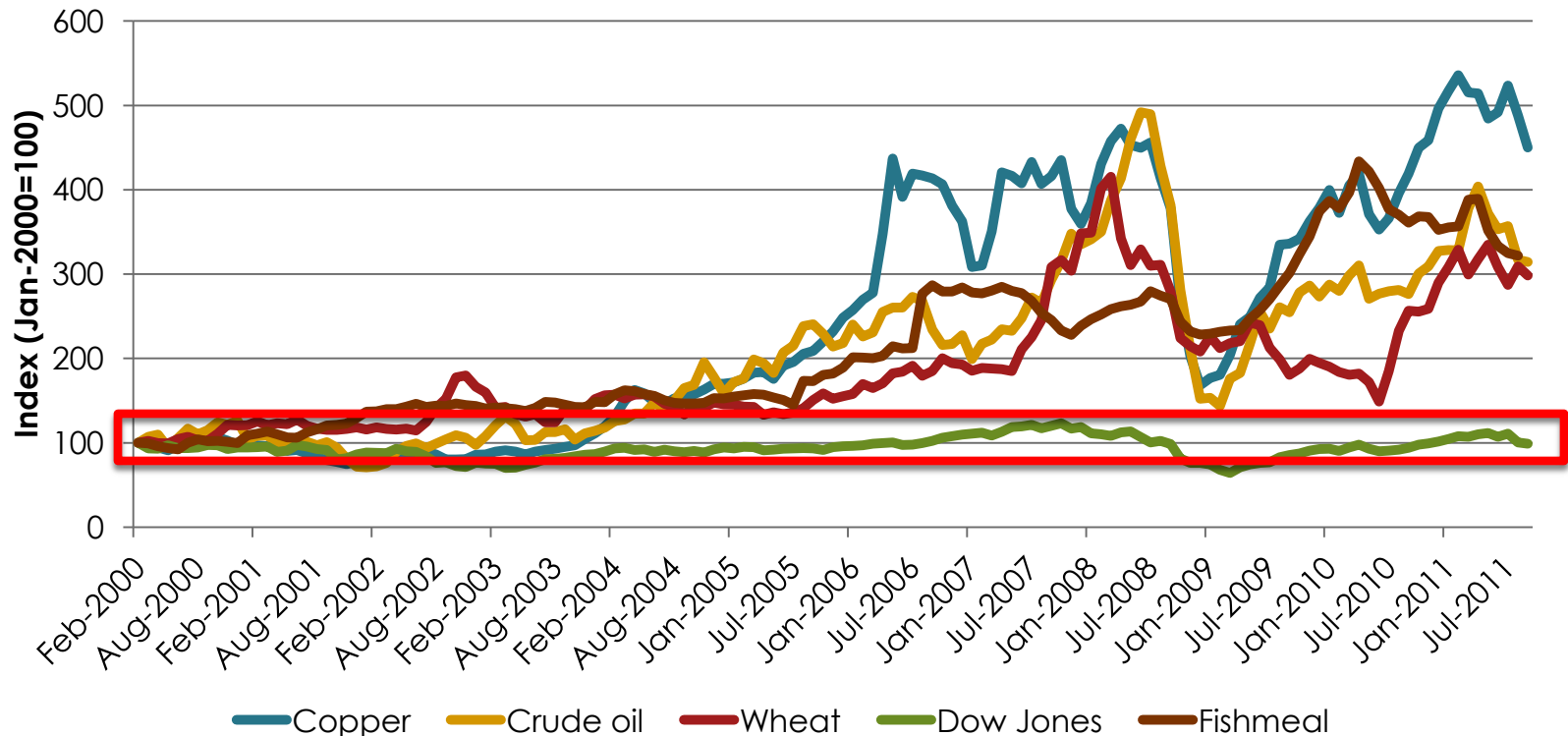
# Commodity Outlook

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- It is not that we are “bullish” on commodities,...
- Of course, there are plenty of reasons to be cautious...
- But, excluded a financial disaster en Europe (scenario B), we are bound to face the obvious: the continuing trend towards higher income and consumption in emerging countries, coupled with stagnant biomass (fish), lagging exploration (copper), and other supply constraints, will most probably keep commodity prices at around present levels.
- Yet, volatility will certainly be pervasive.

# Commodity Outlook

- What the “big wave” means...



**Naturales resource → UP**

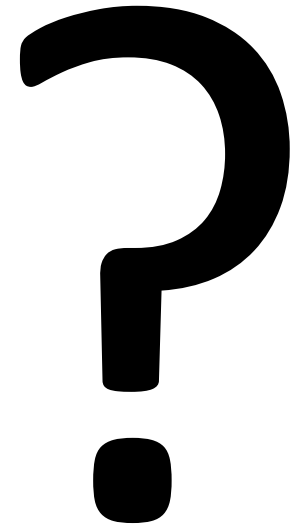
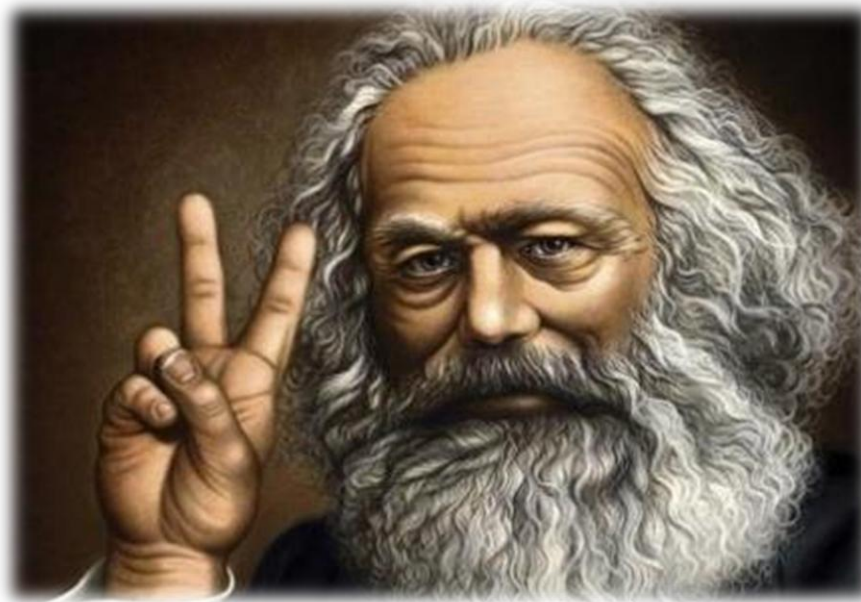
**Assets of rich countries → Down**

# The Human Factor

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- People are angry all over the world...

**The class struggle seems to be back**



# Spain



# Greece



# Italy



# Chile



# USA



# The Human Factor

- This has become so crucial that nowadays, large corporations have created a new “position”:

## “THE COMMUNITY MANAGER”



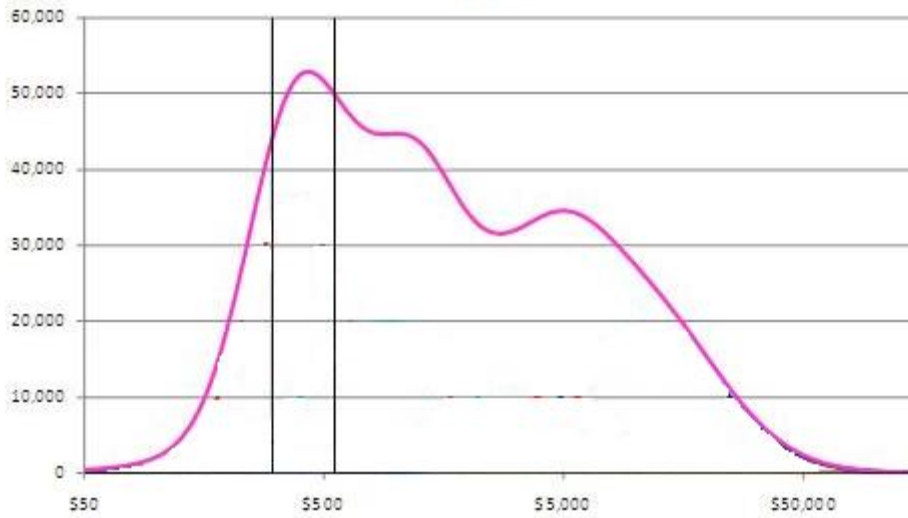
The one who watches closely what's going on in the social network.

# The Human Factor

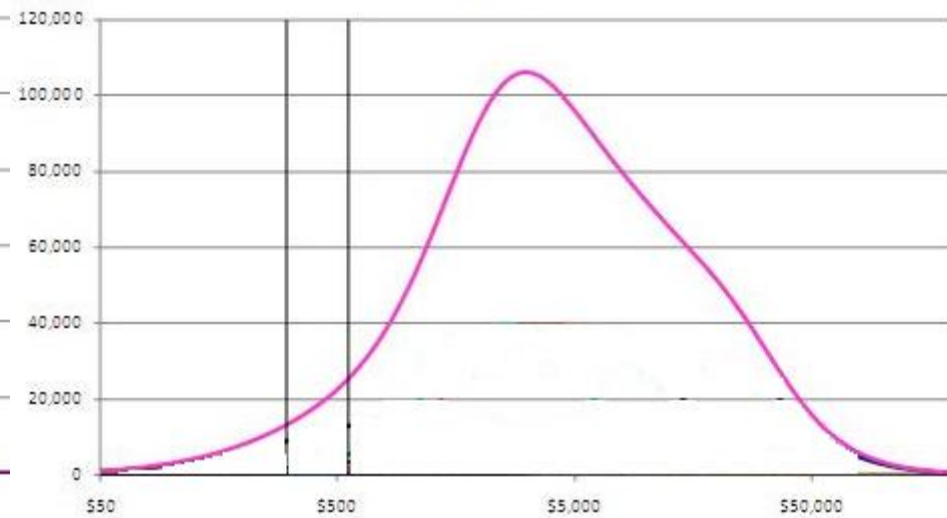
- The Paradox:

While “income distribution” world wide is “improving”...

1970



2006



# The Human Factor

- The Paradox:

Income distribution within important countries has worsened.

Take the US as example: **Top 1% of people.**

	Now	25 years ago
Income Participation	25%	12%
Wealth Participation	40%	33%

*“While the top 1 percent have seen their incomes rise 18 percent over the past decade, those in the middle have actually seen their incomes fall. For men with only high-school degrees, the decline has been precipitous—12 percent in the last quarter-century alone”*

Joseph E. Stiglitz

# Summing up

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- a) Beware with the “Solution” of the €... (the B scenario is unlikely, but if it happens the crash will be an event to be remembered)
- b) “In Scenario A we trust” (and in China too!)
- c) Slow growth if any in rich countries; sustained growth in emerging economies
- d) We continue to believe that there is strong support for commodities prices, although with significant volatility.
- e) Expect inflation and social turmoil in years to come.

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