
The Ghost
In The Machine
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ADM
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‘The Ghost in the Machine’ Editorial Team’

Editor's Note

Welcome to the September edition of The Ghost in the Machine

It is very gratifying to continue receiving such positive feedback on our 'The Ghost in the Machine' monthly offering. We appreciate everyone's comments. 'TGITM' has, so far this year, covered a wide number of key themes and this month's issue centres on global trade. This subject is contentious and a perpetually difficult subject to tackle but is a key driver to investment performance. Global trade always represents a fascinating topic for debate and we are hopeful that we shall stimulate that.

In June we discussed 'seasonality' and our thoughts appear to have worked well. In July's edition we moved on to the more animated theme of El Nino. We discussed the Madden Julian Oscillation and, even at that stage in the year, there was a strong suggestion that the El Nino could last well into 2016, with the potential for severe disruption in late 2015. As I sit here and write this introduction, I notice that the second most read article on Bloomberg today is, 'A huge El Nino is spreading all kinds of mayhem around the world'.

Although predicting the effects of an El Nino is a fool's game and normally I fit nicely into that category, I will paraphrase some of the recent comments from the 'experts' in the popular press, who tend to get highly excited. Obviously, the Daily Express in the UK are rarely wrong. They wrote on 21 October: 'Heavy Snow Warning: Worst El Nino in recorded history means UK faces white out'. Meantime, 'The Ottawa Citizen' in Canada suggests 'Super El Nino will bring a much warmer winter but it won't cancel skiing (hopefully)'. 'We are looking at levels that are pretty historic, matching levels where we were in 1997-98', said Kyle Mozley, a forecaster at the National Weather Service. The forecasters are now all fairly consistent in their view. El Nino is now happening and is not a vague prediction. 'The difference now: a better ability to predict El Nino's impact', Mr Mozley says.

El Nino always evokes a 'cry wolf' reaction and historically it has been virtually impossible to gauge which commodities, and where, will be affected positively or negatively. Perhaps that is why we gauge such apathy towards it. However, with recent heightened uncertainty across all asset markets, any degree of indecision in commodity markets will prelude another round of heightened volatility and consequentially reduced market exposure.

Fund performances have been poor this year and many fund managers are already looking optimistically towards the end of the year, to 'wipe the slate clean' and start again. We believe there is much more left in the game before then.

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WORLD TRADE FALTERS

As financial disruption reached threatening proportions in 2008, global policymakers were reminded of the 1930s, when troubles in the banking system had led to economic depression. At one international meeting after another they resolved that history would not be allowed to repeat itself. One feature of the 1930s that historians have, ever since, picked out as especially damaging to economic activity and employment at that time was the shift that occurred, across the world, towards protectionist trade policies. This time, policymakers resolved, they would exert themselves to resist protectionist impulses and to maintain progress towards opening channels for international trade. This, they hoped, would contribute to global recovery, if not a return to pre-2007 normality.

It is not obvious why trade protection should be inimical to world economic growth. After all, from a global perspective, the aggregate of national exports must equal aggregated national imports, even though the summation of national export and import data does not, as a matter of fact, bear out that logical identity. Differences in methods of data collection must lie behind the discrepancies in the reported numbers. But if aggregate exports must equal aggregate imports, it follows that the contribution of net trade to world GDP must be zero. Whether there is a large volume of international trade or very little at all, this must be the case. It seems to follow that a reduction in the level of world trade activity can have no effect on the level of world GDP.

However, this purely arithmetical analysis leaves out important dynamic elements that may be present when trade volumes contract. If it is accepted that free trade allows goods and services to be provided worldwide on the most efficient basis, that is, at the least total cost, any impediment to trade must result in inefficiency and hence in higher costs of production. That, in turn, means that, for a given level of global income, the volume of goods and services that purchasers can afford is less than in the free-trade situation. Further, from the point of view of a business operating on an international scale, a fall in sales in foreign markets is likely to have a depressing effect on expectations of future activity. For that business, there will not necessarily be an offset from the reduced sales of foreign competitors in its home market. Indeed, the fact that other companies operating in its market sectors are also having a tough time may well reinforce its own dim view of prospects. In such an industrial climate, capital investment is likely to be cut and employment constrained. With jobs hard to get, consumer spending is also likely to suffer. The multipliers that, in a healthy economy, generate growth are put into reverse. The result may be an intractable depression.

In the aftermath of the financial crisis, policymakers were entitled to claim credit for preserving the free trading arrangements that had prevailed prior to 2007. There was no replay of 1930's implementation of the notorious Smoot-Hawley Act. In passing, we should note that the Fordney-McCumber Tariff Act of 1922 raised US import duties by more than Smoot-Hawley but this action was accompanied by large US loans to Europe, the chief market for US exports at the time. But Fordney-McCumber did not plunge the world economy into depression. The conclusion must be that protectionist measures do not invariably generate headwinds for the global economy; much depends on the attendant circumstances. However that may be, world trade suffered a severe setback in 2009 before rebounding in 2010. After this hopeful sign, though, the negotiations relating to the Doha trade round, which had begun in 2001, ground to a halt at the end of 2012. The aim had been to liberalise trade in services and agricultural products and to lower non-tariff barriers, but the results were negligible.

Also at the end of 2012, Japan adopted a monetary policy that appeared to depend for its effectiveness largely on enhancing the competitiveness of its currency. The other members of the G7 approved Japan's policy-shift because they did not want to pick a fight with the newly-elected Abe Government, because they hoped that Mr Abe, given a free rein, would at long last adopt policies to drag the Japanese economy out of its malaise and because they could not suggest any other course that might materially improve Japan's prospects. The risk always was that the weakening yen would trigger a general 'currency war' involving Japan and its competitors. In the event, other national authorities showed a degree of forbearance but, by the beginning of this year, their patience began to wear thin. They, too, moved to adopt monetary policies that depreciated their currencies. The pledges of 2008, to eschew 1930s-style competitive currency actions, appeared to have been forgotten.

The problem is that the 2010 upswing in world trade has not been maintained. It is no easy matter to measure world trade volumes but the World Trade Organization (WTO) has compiled consistent series covering the period since 1950. The WTO estimates that world export volume fell by 12% in 2009 but then recovered 14% in 2010. The swings in trade were far more extreme than those in world output, which fell by 2% in 2009 before rising by 4% in 2010. Between 1970 and 2007, world export volume had risen almost seven-fold while global GDP increased slightly more than three-fold. The ratio of export growth to GDP growth was 2.2-to-1. Expansion in both exports and GDP resumed in 2010 but in the period between 2010 and 2013 (the latest year for which the WTO has compiled full data), export volume rose 10.0% while GDP increased 6.3%. The ratio of export growth to GDP growth declined from its pre-crisis level, to only 1.5-to-1. What is more, the WTO estimates world export growth of 2.8% for 2014 and forecasts a similar outcome for 2015. This compares with IMF figures for GDP growth, on which the WTO estimates are founded, of 3.4% in 2014 and 3.1% in 2015. Based on the most recent partial data, the WTO is saying that world trade has most recently been expanding more slowly than world GDP. The ratio of export growth to GDP growth has dipped below 1-to-1.

This would be a dramatic development, if confirmed in more complete data. In fact, national trade figures released over the past few months suggest the WTO's forecast for this year is, if anything, too optimistic. There appears to have been a particularly sharp dip in trade volumes in the Asian region, widely attributed to slower growth in China's industrial output. There could well be prolonged disruption to trade flows within the euro zone resulting from the spread of border restrictions related to the refugee crisis. For policymakers, the outlook for world trade is likely to become increasingly a matter of concern in the months ahead.

There are factors that might explain the slowdown in world trade in the post-crisis era that are not at all cyclical in nature. The globalisation of economic activity proceeded apace up to 2007. Since the creation of cross-border supply-chains was a central element in the globalisation process, it was only to be expected that, while the process was ongoing, international trade should grow rapidly. It is not unreasonable to suppose that globalisation had already reached a mature phase before the financial markets erupted in turmoil. The ratio of world export growth to GDP growth would, then, in any case have fallen. But there are other influences at work that may have led to some erosion of the gains in trade volumes that had been related to the pre-

2007 globalisation of economic activity. The crisis was accompanied by temporary strain on supply-chains that may have prompted some producers to reduce their reliance on their ability to source components from foreign sites. In view of the extremely severe disruption of international trade during the crisis, it might have seemed prudent to integrate production at specific centres. This would have resulted in smaller export volumes being associated with any given level of output.

Then again, the regulatory measures the authorities have taken to minimise the chances of another financial crisis may well be hurting world trade. The flow of goods and services around the globe depends even more than domestic sales on external finance being available to companies. Banks have traditionally been the chief source of this finance. A substantial increase in the capital requirements that regulators impose on banks is likely to have dampened the banks' general willingness to lend, including for purposes of supporting international trade. Since world trade is in any case slowing, the risks in this line of lending business probably appear larger than they did a few years ago. The resulting constraint on world trade growth is one of several unintended consequences of the G20's resolve to tackle prudential issues in the banking sector largely through measures to strengthen the banks' capital.

The factors we have considered so far do not explain why the trend in world trade growth should have taken so sharp an adverse turn this year. The strongest element in world trade prior to this year had been that which involved emerging countries, either as suppliers of raw materials or as purchasers of capital and consumer goods. The fact that world exports were able to grow faster than world GDP for so long during the recovery from the global crisis was a reflection of the buoyancy of economic activity in the emerging sector. This year, however, the rate of expansion in the emerging sector has turned decisively downwards as many of the economies concerned have become sensitive to their levels of indebtedness. At the same time, China's attempt to reduce reliance for growth on manufacturing and construction has left global demand for raw materials running below expectations based on previous trends. The downward adjustment in world demand for commodities and for energy products is reflected in the overall trade statistics. Whether this will turn out to be a one-off development or will lead to a longer-lasting drag on international trade will depend primarily on how successfully the Beijing authorities deal with the challenges facing their economic strategy.

This has been the background for the multilateral discussions on regional trade pacts under way this year. At the time of writing, the future of the Trans-Pacific Partnership (TPP) has still to be decided. The TPP would reduce barriers to trade between twelve nations on both sides of the Pacific, together representing 40% of world GDP. In the circumstances, a successful outcome would be a significant achievement. The chief hurdle, now that participating governments have agreed the terms of an agreement, is the passage of necessary legislation through the US Congress. President Obama has 'fast-track' authority to sign the TPP but, with opposition from both Democrats and Republicans to its terms, it is not a certainty that it will survive up-or-down votes in Congress.

If the TPP still hangs in the balance, the chances of the proposed Transatlantic Trade and Investment Partnership (TTIP) being concluded look even more tenuous. Such an agreement would liberalise trade between the USA and the EU. But, under the most favourable conditions, negotiations on this deal are not expected to conclude until next year, when the US presidential election could well complicate the process. In some respects, the TTIP is a more ambitious project than the TPP since it would go far beyond removing conventional barriers to trade, venturing into areas that are usually regarded as matters of sovereignty, in the interests of fostering business. Further, a long-term consequence of the VW affair could be to increase the mutual suspicions that the USA and the EU harbour over the trading practices they each adopt. If either of these regional initiatives to free up trade fails, following the stalling of the Doha Round, the widespread assumption will be that the high-water mark of free trade has passed. That, in turn, could have a long-lasting negative effect on business confidence around the world, with adverse implications for growth in activity.

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DRY BULK RÉSUMÉ

There is no doubting the volatility of the dry bulk shipping market and Baltic Dry Index (BDI) since the early 2000s is to be classed as impressive if nothing else. The BDI hit a historical low in February this year of 509, down over 95% from the highs of the super- cycle boom of 2003-2008 when levels threatened to break the 12,000 mark.

The BDI is derived from the time charter elements of the Baltic Exchange Capesize, Panamax, Handysize and Supramax Indices. These indices are an assessment of the cost of moving raw materials across the world by sea, and as such are supposedly an indication of world trade in addition to being an element of the cost of world trade.

The Panamax class of vessels is thought of as the workhorse of the dry bulk shipping market, being the "middle" size ship whose name simply derives from the fact that, at its maximum size to be classed as a Panamax, it must still fit through the Panama Canal. The vessels range in size from 50,000 to 80,000 deadweight tonne (dwt), with the Baltic Index based on the 74,000 dwt size and ships not over 12 years of age. The Panamax ships have traditionally been used mainly to carry coal and grains and the minor (not iron ore) bulk commodities. Within the freight derivatives market, the Panamax FFA contracts offer widespread geographical coverage with the Pacific Round, Trans-Atlantic Round, Cont /Far East Routes and the average of the 4 Time Charter Routes (4PTC). As an indication of current shipping costs, the October front month P3E Pacific Round Route Index is trading at $7250 per day, the P1E Transatlantic Route Index trades at $6688 per day and the P2E Cont/Far East Index trades at $12625 per day, with the October 2015 4PTC Index trading around $6675 per day. These rates are far from boom-time highs and considerably down from the $14,000 per day level of the 4PTC Index seen during January 2014.

While the price of the Panamax has fallen sharply, it has not been hit in the same manner as the Capesize. Indeed, earlier this year we had the scenario of the larger 4TC Capesize Index trading below the Panamax Index and, as we hit Q4 2015, rates are appearing to once again converge. (Maybe big isn't always better, at least not right now in the shipping market, as the Capesize vessel has most definitely been hit the hardest from the reduction in demand for Iron Ore and Coal). The Panamax vessel will always incur cyclical demand owing to its use for grain transportation.While Grains are a much smaller percentage of the dry bulk market (for Dry Bulk Seaborne trade in 2014 Iron Ore and Coal made up around 52% of market share with Grains accounting for around 9%), they do play an important role in the short-term demand for the Panamax fleet. With strong grains and port congestion during Q4 2015 for the Atlantic routes and an increase in the demand for minor bulks on the Pacific routes, coupled with growing importance of Chinese steel exports, these factors have seemed to support the Panamax price levels, though sentiment remains cautious. The ongoing issues of ports' ability to accept the new VLOC (very large ore carriers – ship makers aren't the most inspired with names) and Capes and the downturn in demand, I believe that, while unfashionable, the workhorse Panamax that can carry most things will continue its important roles in the shipping world and not leave things only to the little Handysize or big old Capes.

The obvious inelastic supply of shipping – ships take time to build and there is only so much capacity within shipyards at any given time - not only pushed rates up during the boom- time when we had surging demand and high commodity prices.It is also a major factor in the current decline in shipping rates. Shipowners ordered huge amounts of tonnage during the boom of 2003-2008, with the new fleet of shiny supersized carriers hitting the seas just as world (Chinese) demand and commodity prices fell. The dry bulk fleet in 2007-08 was only at 25 million dwt (new builds were on order but were yet to be completed and add to the supply of the fleet), in 2011 the dry bulk fleet was some 100 million dwt. It doesn't take much insight to figure out what happens to shipping rates when supply levels rise as significantly as this. Many older ships were scrapped. In 2012 alone some 35 million dwt was removed from the fleet and the reduction in order book (those huge boom time orders were built and already on the sea) resulted in the fleet falling to around 47 million dwt in 2014. The order book for 2015 and beyond is still large, but with the continued slowdown in world demand it has been suggested there is implied slippage of up to 50% of these new orders. Even so, delivery rates look to remain high for the next 2-3 years when, compared to the pre 2005 levels and with scrappage rates falling away as lots of the older vessels have already gone, it is predicted that the dry bulk fleet will increase, though at a pace far reduced from what we have previously experienced.

For how long we see this increase is questionable. As the shipping market continues to adjust to the slowed demand and lower commodity prices, the inelastic nature of the supply side may well keep shipping costs low for some time Then, as the rebalance occurs, maybe we head back to the normalised rates of pre supercycle shipping rates – or at least until next time……..

Global Metals Comment

LME Week entices global trade to London

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It is a rare occasion in England for the working week to begin on a Sunday; however the arrival of LME Week summons such an instance. Despite its name, the London Metal Exchange is the yardstick for global benchmark futures contracts in the majority of the world's metals. Dating back to 1877, the LME is the epitome of global trade as it attracts a vast array of end users from all corners of the world. The week itself is jam-packed with events, ranging from business meetings to seminars to social gatherings. It offers an opportunity for LME Member firms to show their gratitude to their clients for the past year's support as well as the chance for new businesses to familiarise themselves with the LME.

The official LME dinner takes place on the Tuesday and is the largest annual sit down dinner in the world, with the Great Room of the Grosvenor seating over 1500 people. Those not sat in the Great Room will most likely have secured an invitation to one of the many satellite functions in the surrounding hotels and restaurants of Mayfair.

Before the parties commence, the main focus is very much centred on business; as the producers, smelters and consumers meet to discuss and finalise contracts for the coming year. This year however was somewhat overshadowed by a lacklustre summer of depressed commodities prices and a downturn in trading volumes - giving little about which to be enthused.

More than ever, this year kicked off with a fiery start as Glencore made a significant announcement on the preceding Thursday. The news that they were to cut Zinc production by 500,000 tonnes per annum – 4% of global output – moved the market significantly and sent the flat price soaring up over 12%. The cuts were far reaching, affecting mining operations in Australia, South America and Kazakhstan. The motivation behind the cut was to both preserve the value of the assets Glencore has in the ground and also to bolster the recovery in Glencore's share price, which closed 7% higher after spiking 16% earlier in the day.

The initial rally in zinc saw the price up $100 before the London open and was further buoyed by local's failing to pick the top as hedge funds and the cta's continued to cover their shorts through $1800. With much of the short covering going to the December date and fresh sales going forward of the 3 months date, it is an opportunity for the floor and cat 2 traders to highlight the strengths of the current trading model. As the LME continues to beat the drum for cash settled monthly contracts and incentivising market makers to participate, in our opinion, they may be better versed in reducing fees on carries to enhance the adjustment as happened on Friday.

All the market participants came together trading the 3m price, in a fair and transparent way. Those selling forward enjoyed the liquidity provided by those covering shorts and the buyers were able to adjust back to November and December at fair market value.

Why? Because the risk profile of the floor traders is not primarily focused on flat price. Their trading card position's often far outweigh their flat price risk in terms of lots and allows the dynamic for them to provide spread liquidity independent of their flat price position.

At the same time as the CFTC announced that they have seen 35 so called 'flash crashes' in the US oil markets already this year, one can only wonder what the disparity would have been in the metal market if the algorithms had taken control of a December metal prompt after such a significant production cut as Glencore made in the zinc market.

Regulatory reforms have made the banks risk adverse and less willing to act as market makers, leaving the LME floor traders and category 2 members in a unique position. Providing liquidity to a global market and setting benchmark prices for the metals industry on a daily basis, the Exchange should be keen to celebrate the traders who pit their wits against each other in the closing seconds of the LME rings.

Outside of the rings it is these same traders who provide the liquidity that have helped the market avoid the drastic swings of the flash crashes seen in other markets. As the Exchange moves to new premises this year the floor will need to campaign for its future once more, in a world that has become dominated by computer traded systems, let's hope the floor remains, as LME week would never be the same again.

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Sugar: Free Market?

Global sugar production has increased enormously over the past 25 years. Back in 1990 the world produced 100 million tonnes of sugar. This season production is likely to be around 167 million tonnes. In 1990 Brazil's market share was only 5% now it is closer to 75%.

Today around 25% of global sugar production is freely traded (75% is produced and consumed in the same country). This compares favourably with grains where it is between 10-20%. So today, around 50 million tonnes is bought, shipped and sold by trade houses. This is considerably more than in the past when most of the trade was government to government. Over the past 25 years many countries have liberalised their sugar trade allowing trade houses to become international traders of raw and white sugar. However, despite long term efforts by the likes of the World Trade Organisation, there remain many trade restrictions, long term trade agreements and internal price support which still restrict the free trade of sugar. This all goes to prove that sugar remains one of the most political of commodities.

It stands to reason the majority of large producers have the most restrictions. Most producers are keen to protect their farmers and millers/refiners from cheaper imports. Some go further by subsidising production to make sure they can compete in the global market when their production costs would inhibit their competitiveness.

The classic example of this type of production and support is India. Second largest global producer and consumer means that sugar is hugely political. One mill can employ directly and indirectly over hundred thousand workers, farmers and their families. So the government has intervened, seemingly continuously, over the years. While sugar became 'decontrolled' in 2013, the government still sets a minimum cane price that the mills are required to pay the farmers. Needless to say, this is generally seen as too high by the mills (farmers are generally happy and one reason production has not fallen despite the recent multi-year lows in global prices – but that's for another discussion!). So to help the millers, the government often introduce export subsidies and subsidised bank loans. At times of large surpluses, prohibitive import duties are also introduced. In the past, imports have been totally banned.

China is another country that often uses import controls to manage internal sugar prices. Their concerns are not so much political as physical. The government wants to restrict population movement to cities so keep farmer income inflated by restricting imports. However, their border is long and porous to illegal imports from other countries so the government is, currently, rethinking policy.

In Thailand there are over one million sugar cane farmers so, like India, the government is keen to keep them happy. The government introduced a quota system over 30 years ago. At the beginning of each season all sectors decide on likely production and price. The farmer price will then be fixed. If at end of season prices are higher, the farmers get paid more while, if less, the government pays the millers. Indonesia, one of the largest consumers of sugar, allows only raw sugar imports on quota. The white sugar produced from these imports cannot be sold directly to consumers.

Other producers have similar controls to support their sugar industries which, left to market forces would not be able to compete. Typical examples are Bangladesh, Nigeria and Russia where their mills are, generally, so inefficient that the cost of sugar is way above world prices.

Things get very much more complicated when looking at the sugar industries of Europe and the US. The EU operates under tariffs and quotas systems which severely restricts imports ….unless you belong to the ACP (African/Caribbean/Pacific) or 'Everything but arms' group of less developed countries who can import duty free. Oddly, Brazil/Cuba/Balkan can import at a reduced tariff. True to EU form, the structure is immensely complex. This may change when the EU sugar industry becomes deregulated at the end of September 2017 but no one is holding their breath!

In the US, controls are only slightly less confusing. Imports are controlled by quotas although Mexico can import a certain amount at zero tariffs due to the North American Free Trade Agreement. Production is also on quotas with price support as well. The USDA gives loans to farmers and refiners that guarantee a minimum price. In practice, it means that American sugar cane and beet farmers are highly subsidised and insulated from low world prices.

An example of when controls or subsidies are not available is Cuba, once the world's largest exports with production of 8 million tonnes in the 1970's. During the cold war, sugar was bought with subsidies by the Soviet Union. After the collapse of the Union, the Cuban sugar industry collapsed never to recover. Cuba still exports to China under an historic protocol deal but it is not big enough to impact on the Island's sugar industry.

More surprisingly, another producer that has very limited import controls is Brazil, the world's largest producer and consumer. This is probably because controls are not needed because they produce such a huge surplus to their domestic requirement and their cost of production is probably the lowest in the world, especially since the Brazilian real went into freefall over the past year.

In the past, global sugar agreements have been tried. The first was put in place in the early 1900's and successions of revised agreements were attempted through to 1984. In total, six were introduced and were based primarily on export quotas. As with other commodity agreements (coffee being a chief example), none of the agreements worked.
So the so called free market in sugar is a myth. Quotas, tariffs, subsidies and loans are used by Governments of virtually all producers to support and protect their farmers, mills and, more importantly 'voters'!
The major consequence of all this Government backing is that it encourages over production. Hence this is why global production has been in surplus for the past five seasons. Nevertheless, it is inconceivable that government intervention will cease any time soon so the distortion of the 'free' sugar market will continue.

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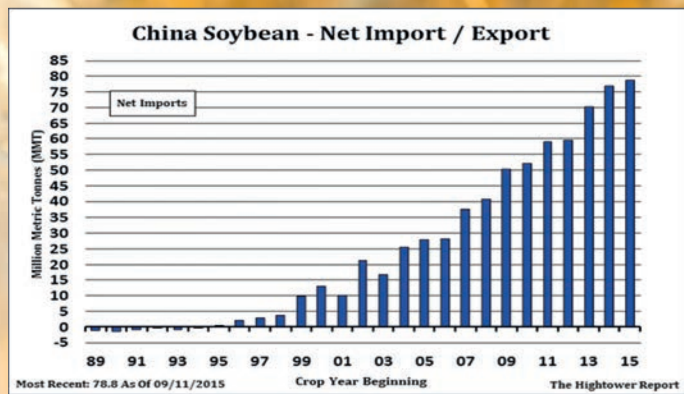
World Grain Export

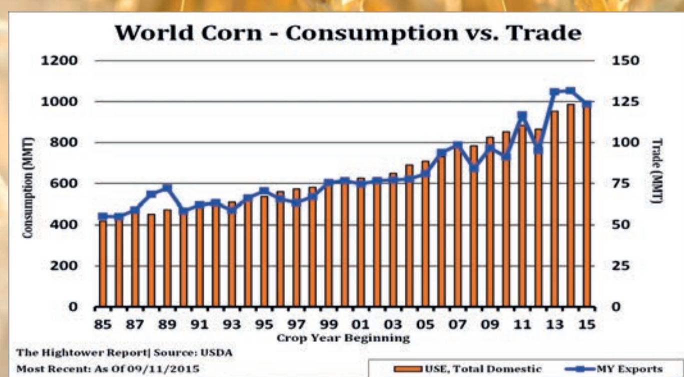
World Grain Export Situation and Outlook. US losing the battle

Grain price discovery has many key fundamentals, comprising Global economies, Managed Funds trading Trends, Global Supply and Demand, both short term and long term and weather. Year-to-Year weather continues to be the most important factor. Within the demand outlook, exports are a key driving force for cash basis, spreads and futures. Since the CBOT corn and soybean futures delivery system is based on river storage, export demand is key to price discovery.



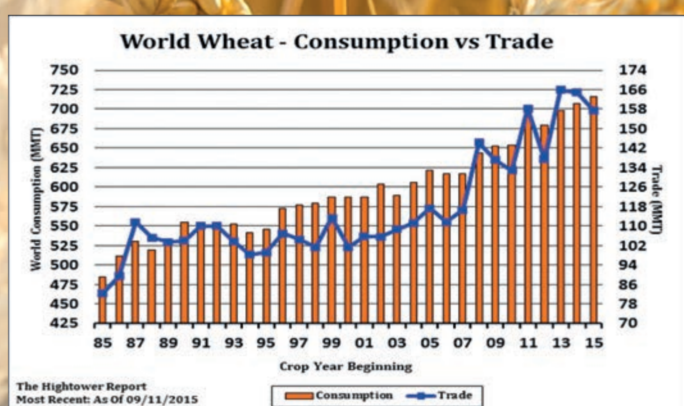
Higher export demand supports cash basis, spreads and prices. Low export demand like this year widens spreads to a carry and limits the upside in prices. The USDA estimates that 41 percent of the world soybean demand comprises exports. China imports 64 percent of the world soybeans.

USDA estimates that 12 percent of the world corn demand is exports. USDA estimates that 22% of the world wheat demand is exports.



US share of World exports has been declining. US share of World soybean exports is estimated by the USDA near 37%. Increase in South America production has reduced US market share. US share of World corn exports is estimated by the USDA near 38 percent.

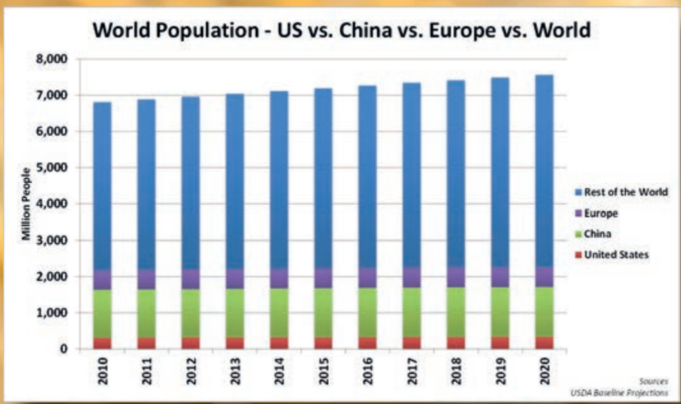
Increase in Brazil and Ukraine production has reduced US share. US share of World wheat exports is estimated by the USDA near 16%. Increase in Russia and EU production has reduced US share.



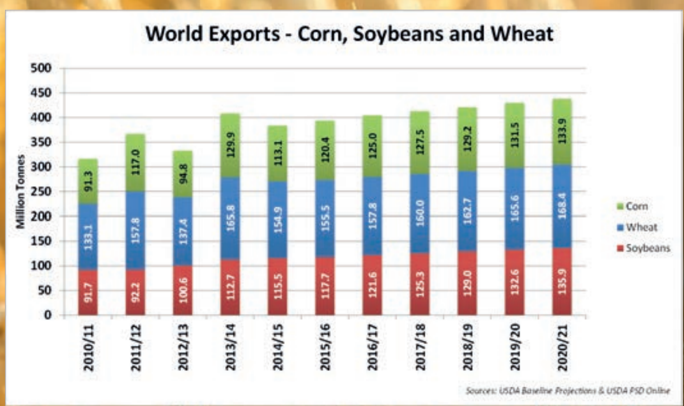
In February, USDA has their Annual World outlook conference. At the conference, USDA Offers a 5 year outlook for World crop production, use and end stocks. USDA continues to look for higher demand. This is due in part to higher population and higher wages/GDP especially in developing countries.

This would suggest higher export demand. USDA though feels that this demand may be satisfied by South

America for soybeans, Ukraine and South America for corn and Russia and Europe for wheat. They also assume that if US corn, Soybean and wheat yields



increase annually, US acres may need to decline or US stocks will increase. Higher US stocks could limit the upside in prices to weather problems.



#RefugeesWelcome.........really???

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The Road from Bouazizi to Schengen to London

Shortly after Saturday 12th September, I received a message from Andrew Saks-McLeod. Andrew is CEO of Finance Feeds and a generally good friend in the markets. He asked if I would like to write a guest editorial for Finance Feeds on my opinion of refugees coming to London and what effects it might have on the largest institutional FX and electronic trading centre in the World. He had been prompted by pictures and commentary I had tweeted along the route of the March for Refugees Welcome Here on the 12th. My family and I had gone to join the protest and I think many of you (dear readers) were aware of it. At this point I have to declare an interest – my father was a 'fugee'! He left Poland in 1939 after fighting Nazi and Soviet aggressors and was not able to return until 1989... ironic since his brother, my uncle, was in the Red Army…but that's another story.

Anyway, though I was flattered by Andrew's offer, I didn't think it was much of a story. So few refugees would actually come to the UK that it wouldn't actually have an economic impact…and that's where I left it. However, since then, numerous articles from respected economists, journalists and commentators have come out on this point and it has made me think again about impacts refugees/migrants have had in the past and may in the future, both at destination and at point of origin. So let's start at the beginning…or at least one of the beginnings.

On 17th December 2010, Mohamed Bouazizi, who sold fruit from a cart in Sidi Bouzid, Tunisia, was no longer able to tolerate violent repressive corruption from local officials. He doused himself in lighter fluid and self-immolated. Since then this has led to the 'Arab Spring' and, in turn, to large numbers of refugees crossing Southern Europe towards Germany, Sweden, etc… The effects are still ongoing and will continue for many years. Why? Political lethargy as a synchronicity of many major elections throughout Europe in the coming few years could be said to be part of it. There are a number of risks to the EU FX markets (no just the Eurozone) as anti-immigration sentiment in EU countries has increased. Some stoked by politicians for gain and some as genuine concerns by citizens but all leading to potentially hazardous volatile impacts on EU currencies. Already, the borderless Schengen area has been partially suspended plus riots at Calais impacting trade flows across the region…that's just the start.

Next there's the need politicians have to (be seen to) be doing something…anything…as long as it is something. It could be further indirect/direct intervention in Syria and elsewhere. Not only might this be seen later on to be wrong but now, with so many uncoordinated military planes from so many countries flying around a small area, something is going to give. It may be that local FX, including the ILS, will suffer unnecessary stress moves, transmitted to moves in the EU, Russia other currencies.

This also leads to another point; the UK will soon try to negotiate reforms to its EU membership. Will the rest of the EU think the UK is not pulling its weight on refugees? Will there also be enough of a Brexit campaign from refugee fears that might push the UK past the exit tipping point? What will happen to GBP, especially as Scottish Nationalists vocally support EU membership?

…large British Flag with 'SANCTUARY' written across the centre

Who's going to pay for it? Well, ultimately, we all will but allowing refugees to stay does not come cheap – how will public finances fare, especially in Southern Europe, an area still haunted by Grexit. Another scare?

Up until now I've pointed out negatives that may cause FX volatility. So what's the upside?

Well, none of it is immediate to start with but first, Northern Europe has an aging population. There are two ways to deal with this 1) the 'Japanese' solution - increasing technology to assist an older population or 2) the 'NHS' solution (for want of a better term) - as many of the refugees are well educated and young, they eventually become migrants (note the change...) and plug any employment gap. Not so good for many young less skilled EU citizens but there's no perfect solution… as yet. Indeed, I've read of a World Bank paper in 2006 suggesting if 14.2 million 'workers' moved from poorer to wealthier countries between 2001 to 2025, then the labour force of wealthier countries would rise by 3% and the World's annual salaries would rise by USD 772 billion. Now is a good time to mention John F. Kennedy's attributed phrase '…a rising tide lifts all the boats.'

The direct impact migrants as opposed to refugees have on FX markets ought not to be underestimated. Whether the refugees choose to stay and become 'migrants' is open but if we look at the GDP effects of migrant remittances they can be spectacular. For example, in Latin America in 2012 a whopping 16.5% of the GDP of El Salvador was remittances. Mexico, though 'only' 2% of GDP is remittances, it still amounted to a massive USD 22 billion. In Europe, Polish remittances have risen to 1.5% of 2011 GDP. Such numbers move markets. Remittances are a high value FX business and seasonally predictable.

This brings me to my last two stories (points). The first is – no one does you over like your own! In my journeys I've had the opportunity to work with some great STF people at ADM. During one of our meetings with an El Salvadoran banker, the banker told of how local money exchange/ remittance houses were always situated at the very end of local shopping malls. This was deliberate! When the usually elderly relatives received money from abroad they were enticed by shiny consumerism on their way in and out and soon parted from their relatives' hard earned money.

The second story is personal. Of all the placards and banners I saw during the Rally and March in London, a single one hit home. It was simply, a large British Flag with 'SANCTUARY' written across the centre. It was held up by two smartly dressed young men who would not have been out of place in a City dealing room.

View from under a toadstool

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Traders have not seen the norm

Last week the FT, via Consensus Economics, told us that market participants have run out of ideas. Evidently the range of forecasts, given by economists, for US, Europe and Japanese GDP is, in standard deviation terms, the lowest it has been in 'many a moon'. Increased volatility everywhere would indicate greater uncertainty, and in reality, when uncertainty is so great, like a herd of gazelles being eyed up by a pride of lions, forecasters huddle closely together.

The sentiment surveys, despite the recent market turmoil, also appear oblivious. The AAII sentiment readings, which illustrate the opinions of individual investors, show roughly a third of respondents are bullish, a third bearish and a third neutral (and a third on holiday and a third retired). There are a lot of very confused folks out there and none are being given confidence by generally poor fund performance levels coming into the last quarter. Increased volatility essentially means traders have to run long positions for longer and can take more time to cut shorts. Overall, if they do that, they can deal in less size to get the same return as they did when on the lower volatility. So, less trading is needed. At the same time, VAR models (Value at Risk), which determine how much risk most geared funds are allowed to adopt and at what time, when faced with a permanent shift in volatility, will insist on lower gearing in level balanced portfolios. This culminates in less market liquidity and a necessity for more unwinding of cross books and leverage, which does not make for ease of portfolio management. It is not surprising to see, that the S&P has performed poorly in previous instances when this level of indecision has been evident. Consensus Economics data highlight previous cowardly occasions when economists have all 'thought' the same as occurring in 1997, 2007 and 2011.

Since the sell-off in equity markets bottomed, on the September expiry, there has been a vigorous sectorial rotation. This has also been due to the de-leveraging that funds have had to instigate. As volatility rises, less risk can be tolerated. Bigger moves mean bigger P/L swings, which then in turn, as we have discussed, force a reduction in positioning. Consequently, the typical long/short equity portfolio needs to reduce it's long holdings and short holdings together, in a limited period of time. Short positions tend to be considerably more concentrated than longs. On this occasion, most of the shorts were in the oil and mining sectors and on a macro level in emerging markets and commodities. These shorts all squeezed violently.

This was not, as some saw fit to suggest, any reappraisal of global growth prospects; it was simply a painful squeeze, in increasingly derisory volumes as the market had to reduce its overall exposure. It is interesting reading about Goldman Sachs missing their numbers recently, if for no other reason than it is such a rarity. Unlike rival investment banks, Goldman Sachs have decided to maintain a large presence in FICC (fixed income, currencies and commodities). They might feel all the more encouraged to do this, as they feel they are capturing market share in those business units, as others flee. Over the last quarter the market share they have captured has unfortunately been tainted with what is known as 'bad volatility' and has contributed to their disappointing numbers. Normally any pick up in volatility would see a pickup in volume alongside it, proffering excellent investment bank trading opportunities but not this time, evidently.

Trading with low volatility is different from trading in a high volatility environment. A large number of market participants will have only known low volatility throughout their careers. Since the credit crisis, low volatility, assisted by central bank actions in saving the markets whenever they are distressed, has been entirely normal. However, if a low-volatility trader now has to deal in a higher volatility norm, unless he adjusts appropriately , which is highly unlikely, it will cause major dislocation of his parameters. In fact he might even believe the tail risk to volatility (a move of more than 3 standard deviation points form the norm) is more likely to materialise. Purely because of his ineptness he will not be able to comprehend and adjust to the new normal.

This might be why we have recently seen record moves in the SKEW index (the difference in volatility between out-of-the-moneys relative to at-the-moneys) and also leaps in the volatility of the VIX index itself. Certainly there is a clear sense of discomfort in how market participants are adjusting to the new structurally higher volatility. It is likely most of them are struggling to do so.

For a few weeks we have been commenting on how the 'bread and butter' trading functions across all asset classes have been impinged on a number of fronts. A lack of regulatory capital and a demand for a higher return on that capital has meant permanent job cuts across the board. A lack of personnel to trade effectively has meant repo markets and swap markets look severely dislocated. Add to that the regulators insistence that swap trades – and a number of other transactions- now be forced cleared across 'third party' platforms and previous trading liquidity has essentially disappeared. In fact overall volumes, in most asset classes, have not risen to compensate the higher volatility. In equities they have to a small extent but in others NOT. This implies that a higher volatility structure is now here to stay across the board as the investment banks, who might have traded away any pricing anomalies previously, are not willing to do it now. It is a structural move. We have all been aware of the dangers of exterminating market liquidity (as the central banks and regulators have been happy to do) but because we have been aware of it, we then appear to have ignored the permanence and ramifications of the development when it actually happened.

Equities Are Awesome

Paul Mylchreest

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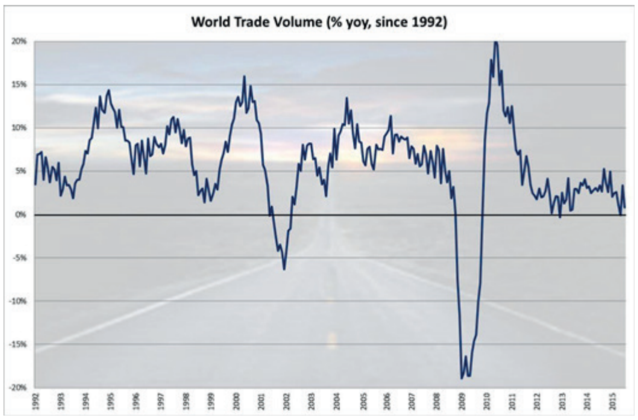
What's happened to World trade?

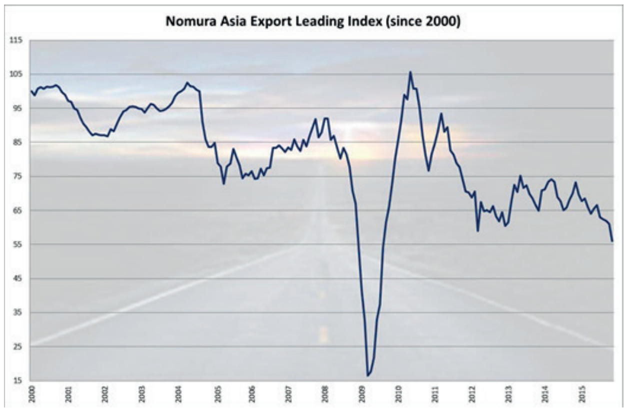
Growth in world trade has almost ground to a halt. As the chart below shows, this has happened several times since the crisis, after which there has always been a revival.



Source: ADMISI, Bloomberg

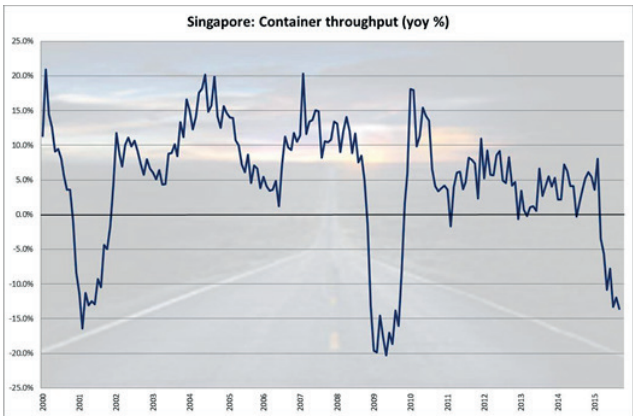
The question is, could this time be different? One indicator that we keep a very close eye on is the Nomura Asia Export Leading Index (NAELI) which is a composite index of eight components: EM Manufacturing PMI, China Manufacturing PMI and its New Orders index, "Major 5 Asia" Leading Economic Index, US Semiconductor Global Sales, Chinese imports, Eurozone Manufacturing PMI and China's Leading Economic Index.

The NAELI has declined to its lowest level since the crisis.



Source: ADMISI, Bloomberg

A very stark indicator of the slowdown in trade is shown by the rapid decline in container throughput in the Port of Singapore.



Source: ADMISI, Bloomberg

Singapore is the world's second largest port in tonnage terms after Shanghai and trans-ships 20% of the world's shipping containers.

If we look at the world's two largest economies, China is investment and export-driven. Year-on-year growth in Chinese exports has been negative in 7 out of 9 months so far in 2015.

Source: ADMISI, Bloomberg

The US is a consumption-driven economy and, despite the surge in the value of the dollar (especially against EM currencies) since mid-2014, import growth has been negative in 6 out of the 8 months reported so far in 2015.

Source: ADMISI, Bloomberg

India was supposed to be another contributor to global growth, but exports and imports fell by 24.3% and 25.4%, respectively, in September 2015. Indian exports have shown double digit declines in every month so far this year.

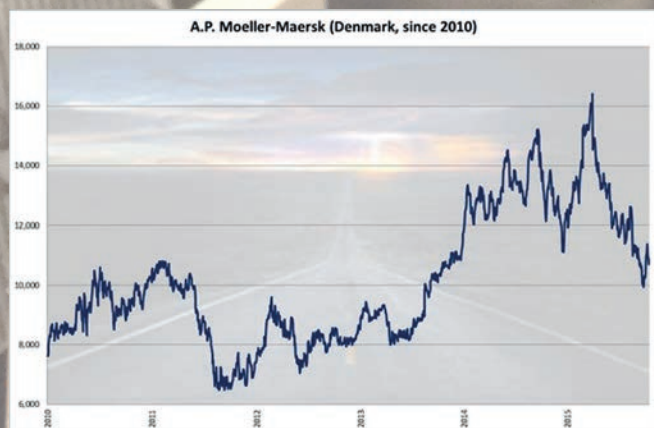
Source: ADMISI, Bloomberg

The extent of the weakness in world trade increases the probability that the revival we've seen following previous post-crisis periods of softness may not be forthcoming this time.

The share prices of major shipping companies, like South Korea's Hanjin Shipping, remain very depressed…

Source: ADMISI, Bloomberg

…or have sold off sharply, in the case of Maersk.



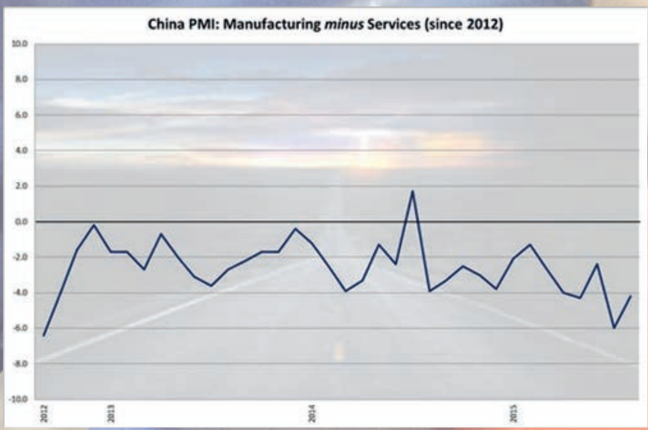
Source: ADMISI, Bloomberg

The weakness in trade is also a strong indication of weakness in the manufacturing sector of the global economy. In key economies, like the US and China, the weakness in the manufacturing sector of the global economy versus the service sector is as wide as it's been since the last crisis when measured in terms of PMIs.

In the US, there is an 8 point difference between the Manufacturing and Non-Manufacturing ISM readings.

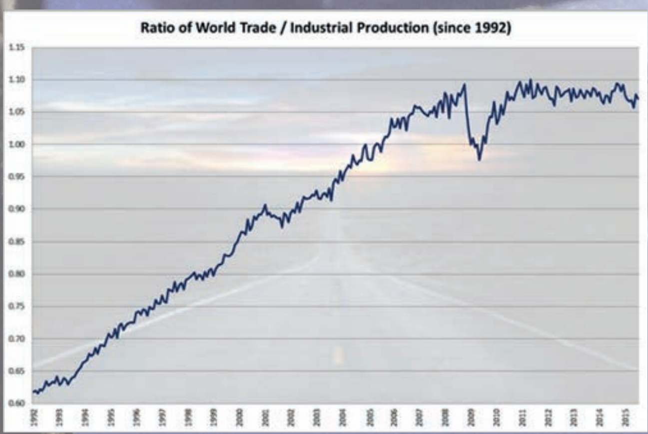
Source: ADMISI, Bloomberg

It is also marked in China to the tune of 4 points.



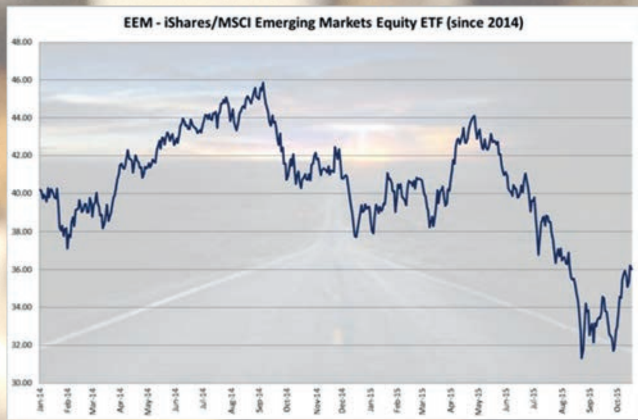
Source: ADMISI, Bloomberg

We think that it would be very risky for the global economy to maintain such a heavy dependence on the service sector, especially in EM economies (52% of global GDP) where it is less well developed.
It's also interesting to note how the ratio of world trade to industrial production levelled off after the 2008 crisis and has still not shown any signs of a rebound.



Source: ADMISI, Bloomberg

It suggests that the shift in manufacturing from DM economies to EM has largely run its course with obvious negative connotations for the latter.
It seems to us that EM equities are going to struggle to maintain the recent rally.



Source: ADMISI, Bloomberg

Information from External Sources

A special thanks to the following non ADMISI contributors in the subsequent pages for their thoughts and analysis. We are truly grateful for their efforts. ADMISI would like to extend the opportunity to receive additional external contributors' analysis for inclusiion in subsequent editions of 'The Ghost in the Machine.' Please contact Andy Ash for further information. Tel: +44 (0) 20 7716 8520 or Email: andy.ash@admisi.com

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Maleeha Bengali

Our Commodity Fund Specialist

"Just Keep Pumping, Pumping, Pumping..."

What stands out here?

1. **Post a dovish Fed, a long dollar extreme position unwind, and after a 70% short covering rally in levered miners such as Glencore (GLEN LN Equity), the stock is now looking expensive once again as fundamentals remain unchanged.**

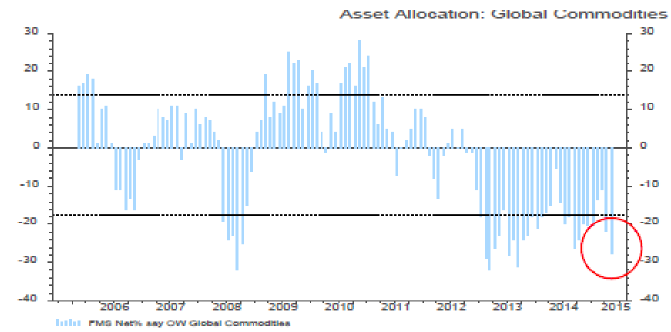
2. **Do not be fooled, the Oil market still remains massively over supplied as OPEC pumps at record highs targeting market share. Demand is not the problem, it is supply!**

Anyone nauseaus yet? I am not sure if Tums is a listed company or a subsidiary of a listed parent company, but I am pretty sure that it is worth investing in as its sales must have skyrocketted in Q3 2015! Commodity stocks fell 50% in two weeks to then rally 100% in 10 days? OMG is not the only 3 letter acronym that comes to mind. The only risk management tool that one could possibly employ is the one we wished we had employed back in 2008: "Switch off the Screens and do nothing!" Well if Buddha was running a portfolio, this strategy might work, as He would be enlightened enough to see the "bigger" picture. We are just mere mortal portfolio managers.

So does the start of Q4 2015 signal a paradigm shift in sector allocations?

The most recent BAML Global Fund Manager Survey released on 15th September, showed extreme pessimist positioning across assets with an overweight in Equities and underweight in Bonds. Allocation in Global Commodities was at a net 28% underweight (Chart 1 below).

Chart1: Asset Allocation Towards Global Commodities:



Source: BofA Merrill Lynch Global Fund Manager Survey

The percentage of investors that were aggressively underweight Commodities in September was at record highs!

In our previous MBCC note published on 2nd September 2015, we highlighted the risks of the "pain trade", an aggressive short squeeze in Commodity and Emerging Market related assets. Low and behold, that is what irked the market at the start of Q4 2015. However the related Equities rallied much more as they tend to over react. FX and Commodity markets are behaving rationally, in line with their fundamentals.

What happenned and why?

Post the Chinese devaluation at the end of August and further soft data witnessed in Developed Markets, the Fed decided to push back raising rates. Yellen commented on the uncertain global outlook, this spooked the markets initially by taking all sectors down with it. S&P500 down 7%, Eurostoxx down 12% in Q3 2015 alone; the worst quarter since 2011. Commodity stocks fell 20-50%. Everything was sold indiscriminately. If the market was truly worried about growth or deflation, it would not be selling down sectors that benefit from this trend. Investors were not thinking, they were just reacting. Was it a slight bit of an overreaction? Errr yes! Quarter ends usually face some sort of "window dressing," purging one's portfolio of "losing" positions to save face with their investors as the new quarter starts.

As the minutes of the FOMC meeting showed that the Fed might delay rate hikes until next year, BOOM, the markets took that cue to sell their long dollar positions and buy risky assets! Commodity stocks rallied anywhere from 30-80% in the first ten days of October. It seems quite perverse logic if the Fed was really worried about global economic growth slowing, that investors should be piling into "risky cyclicals."

We are all just fixated on the dollar trade for now. Covering shorts is not the same thing as going long. Nothing has changed. Even bearish secular themes can have mini squeezes, harsh as they may be.

So where do we currently stand?

The chapter is closed on Q3 2015, and we eagerly await Q3 earnings season to see if results will be a positive driver for the US equity market. Worth noting that company guidance have been lowered going into it so the bar is much lower now. For full year 2015, S&P500 bottom up consensus shows no earnings growth at $119/share concerned on weakness from China filtering into US and European markets. The word deflation is doing the rounds across the globe.

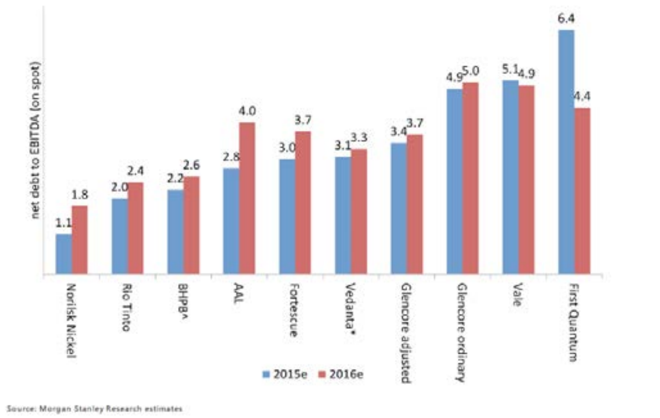
As far as European markets are concerned, oil prices have dropped close to 50%, Euro's real effective exchange rate has weakened by close to 10%, which imply a boost to the level of Euro area

GDP close to 2% over time. This could be a positive tailwind against any potential Asian led slowdown. With nearly the full set of PMI data released, September's Global Manufacturing PMI reading slipped 0.3pt to 50.3. Advanced and emerging economies both saw moderate declines in September of 0.4pt and 0.1pt, respectively. The US ISM slid 0.9pt this month to 50.2, the lowest level since May 2013. China's manufacturing PMI dipped just 0.1pt to 49.8. EM Europe and LatAm aggregates remained below the important 50-point mark, but added 0.6pt and 0.9pt respectively. The global growth picture seems, if anything, weaker on the margin. US September's retail sales (released 13th October) were down sequentially and worse than expected. According to GS proprietary indicators, US Q3 2015 real GDP is currently tracking growth down to 1.2% vs. a forecast of 2.3% just one month ago.

As the days go by, the release of more data will hopefully give us more clarity on the "demand" picture, but one thing is for sure, central banks certainly seem to have a "put" in place to support markets and provide quantative easing if weakness persists or inflation targets are not met (BoJ and ECB in particular).

From pricing a October 2015 US rate hike, the market is now pricing in 25 bps hike in Fed funds by July 2016! Seems risk has gone the other way now. It is not a matter of if, but when, the Fed raises rates. Regardless its economy is much more robust and its currency should continue to be the main beneficiary against Emerging Market currencies, after this latest unwind.

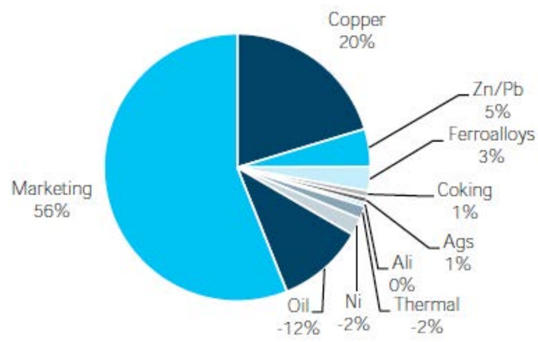
Chart 2: Mining Shares Net Debt/Ebitda On Spot:



Why is Glencore expensive?

According to Chart 3 below, Glencore's 2015 EBIT (according to Barclays) is ~ 56% Marketing, 20% Copper, and 12% Oil. For a 10% change in the copper price, Glencore FY 2016 EPS sees a change of 19%! Essentially the company is one big levered trade on Copper and the Commodity cycle.

Chart 3: Glencore FY 2015 Expected EBIT:



With $6.5 bln of cash today, $1.6 bln maturities next month, and $7.4 bln revolver facility, Glencore may not be at risk of a default today. However, should Copper prices go below $2/lb (sub $4400/tonne), their free cash flow and bank financing could be at risk. This could also impair its Investment Grade credit rating, which is key.

Credit goes to Glasenberg as Glencore recently announced measures to address the hole in its balance sheet. They announced a capital raise $2.5 bln equity issue, a $3.9bln cut in dividend, $1.5 bln reduction in working capital plus $2bln of expected asset sales, to reduce net debt by $10bln to the low $20bln range. 80% of the equity issuance was underwritten by Citigroup and Morgan Stanley at 125p/share and the balance taken by management. On spot prices, Glencore 2016 EBITDA of 8bln means net debt needs to be below $23 bln (3x target) but can they achieve all their non asset sale initiatives is questionable. All steps in the right direction, but far away from being in the clear.

The theme of de-leverage continues in the Commodities space. Lower commodity currencies lead to lower costs of production, taking break-even prices even lower. The media loves blaming China for the collapse in Metal prices, but if you take a look at Chinese GDP demand it has been around 5-6% since 2012, weak but consistent, yet prices have been falling throughout? It is all the investment from 2004 onwards that is hitting the tape now at a time of soft demand. So let's not blame China, they have enough of their own problems.

Glencore may not be in trouble today, but we know physical premiums are eroding metal trading profits. With excess supply, Copper prices need to be even lower to see the real pain amongst producers before we can talk of any price support.

2) Do not be fooled, the Oil market still remains massively over supplied as OPEC pumps at record highs targeting market share. Demand is not the problem, it is supply!

Brent Oil prices fell 20% in August touching $44.5/bbl on that Black Monday when market feared further Chinese devaluation amidst global growth slowing down. But as we entered Q4 2015, all risky assets including Emerging Market Commodity currencies and Commodity related Equities have rallied aggressively on hopes of stimulus from China to boost growth. Oil price has rallied about 10% but still trading sub $50/bbl. Wishful thinking?
Let's not run to get our magic eight balls just yet, time to be a bit cerebral and talk Oil market fundamentals.

The media is always eager to attach a story to a move. In this case quoting the Baker Hughes US weekly rig count that last Friday showed the largest decline in rig count since 1st May, down 26 rigs. A tad bit misleading because whilst US companies have idled rigs, production is not actually coming off that fast. Also funding is still available to US E&Ps compelling them to keep producing.

Looking at the EIA data, US stock builds are still larger than the seasonal norm for crude and the main products, in particular gasoline. Similarly, high frequency stocks in Europe, Singapore and Japan also point to larger than seasonal stock builds last month. To offset US rig count decline, international rig count was actually higher due to activity in the Middle East. We all know OPEC is pumping at record levels. OPEC crude supply rose by 90,000 b/d in September to 31.7m b/d led by record Iraqi output which offset declines from Saudi Arabia. Year to date the group has pumped 31.2m b/d, 1m b/d higher than the same period a year ago. Even Russia and Brazil reported production to new record highs in September.
Some may be concerned about geopolitical risk in the Middle East, but the tensions remain far from producing regions.

Portfolio Managers have become "macro headline trading junkies". Correlation across all asset classes is one. There is no evidence of stock or sector selection as we are all chasing the same trade. Dollar up or down, or China up or down. It's not science, it really is that simple. Volatility is elevated on back of bipolar investor mindsets. Regardless of Fed delaying hikes or not, the fact of the matter is that Commodity markets are plagued with excess supply.

YTD PERFORMANCE:

Portfolio	% YTD
SPX YTD	-3.14
Eurostoxx YTD	2.84
SXPP (Basic Resources Index)	**-14.30**
SXEP (Oil & Gas Index)	0.00
EEM (Emerging Markets)	-9.33
S&P GSCI Commodity TR Index	-18.20
MBCC Net Return YTD	6.71

Maleeha Bengali - Founder, MB Commodity Corner

Maleeha Bengali graduated from Cornell University with a Bachelors of Science degree in Engineering in 1997. For the past 14 years, she has worked as a Portfolio Manager/Trader for various Hedge Funds and Proprietary Trading desks across both US and Europe including UBS O'Connor, Goldman Sachs J. Aron, Merrill Lynch Commodities and Noble Group, where she launched and managed their Commodities and Equities investment funds specialising in Energy and Basic Resource Equities and the respective Commodities. Over the past 8 years, her strategy has generated a compound annual growth rate (CAGR) of 12% using systematic delta neutral investment trading strategies; minimising market and directional risk while maximising returns, focusing on alpha generation.

Algorithm Analyst

ALGO TECHNOLOGY LIMITED

Anthony Edwards

Methodolgy:

The basis of our approach to analysing asset prices is that the price of an asset reflects the market's view of all the public information about that asset. By analysing how prices have changed over time, we can gain insight into how market participants typically react to changing information and hence determine how prices are likely to change in the future.

What are Algos?

We use algorithms, or 'algos', that we use to identify potential entry and exit points for trading assets. Algos typically look for patterns that are occurring in an asset's price now which have occurred historically. By then looking at those historical occurrences, the algo can determine what typically happens to the asset price. Using this approach, we aim to bring a scientific and statistical approach to determining investment opportunities. Our Algos: The list below shows a brief description of the algos available on this site. For our bespoke services we can create customised algos, so please contact us if this service is of interest.

SIGNAL ALGO - The 'Signal Analyser' identifies technical signals that are firing on assets that have a proven track record of success. By 'signals' we mean discrete binary events such as the 2 week price performance being above 10%, or the 20 day Relative Strength Index being below 30. As you raise the performance levels, this algo will identify fewer assets albeit with higher conviction. We suggest using a sharp ratio setting of 2.0 or more to identify high conviction ideas.

HIGH VOLUME ALGO - The 'High Volume' algo identifies instances where there has been a significant price movement with significant volume. These tend to occur when news has been released that significantly affects investors' perceptions of asset prices. This algo therefore identifies assets where recent events have altered investor sentiment.

OVERBOUGHT / OVERSOLD ALGO - The 'Overbought/Oversold' algo uses a self-scaling relative strength indicator to identify assets which are in either oversold or overbought conditions and at the point when typically the price action begins to mean-revert. This enables the reversal levels to be tuned to the strength of the trend of an asset.

CORRELATION ALGO - The 'Correlation Algo' identifies which technical factors are the most highly correlated to future asset price returns. By 'factors' we mean continuously valued variables such as the 2 week price performance and the 20 day Relative Strength Index. The algo then identifies what typical future returns occur when those factors are similar to where they are today.

TREND ALGO - The 'Trend' algo identifies the direction and strength of a price trend using a proprietary methodology based on a range of moving averages and the position of the price relative to these moving averages.

Anthony Edwards gained a 1st class honours degree in Electrical and Electronic Engineering at the University of Bath and went on to earn a PhD based on research into power system stability using artificial intelligence techniques. He started working in the City of London in 1998 for Bankers Trust and subsequently became Head of Research IT Development for Deutsche Bank in London. In 2007 Anthony joined Liberum Capital to build out their global quantitative research platform. In 2011 he left Liberum Capital to start AlgoTechnology Limited which specialises in developing bespoke quantitative and technical algorithms and also in developing portfolio strategies.

Algorithm Analyst

ALGO TECHNOLOGY LIMITED

+ Positive Signals

Positive Signals	Score	Best Signal	Horizon(d)	Avg Return	Sharp
Sampo	+10	Commodity Channel Index / CCI(144d) signal	60	6.7%	3.1
Ageas	+8	RVI(89/10d) greater than 60	60	11.0%	2.0
QIAGEN NV	+8	Commodity Channel Index / CCI(144d) signal	60	11.4%	1.9
Bolsas y Mercados Espanoles SA	+6	Commodity Channel Index / CCI(233d) signal	60	17.7%	4.4
Merck KGaA	+6	Commodity Channel Index / CCI(233d) signal	60	8.4%	2.1
Smurfit Kappa Group	+6	Exponential Moving Average / EMA(144d) turning upwards	60	5.9%	1.6
Natixis	+4	Commodity Channel Index / CCI(144d) signal	60	15.4%	2.8
Henkel AG & Co KGaA	+4	Commodity Channel Index / CCI(233d) signal	60	16.9%	2.2
Henkel AG & Co KGaA	+4	Commodity Channel Index / CCI(233d) signal	60	15.9%	2.0
ING Groep NV	+4	Price crossing up through SMA(233d)	60	6.4%	1.8

- Negative Signals

Negative Signals	Score	Best Signal	Horizon(d)	Avg Return	Sharp
Delta Lloyd NV	-6	Force Index(144d) signal	40	-39.4%	3.6
Etablissements Maurel et Prom	-2	RVI(89/10d) less than 70	60	-5.1%	1.0
Bankia SA	-1	Commodity Channel Index / CCI(233d) signal	60	-4.8%	1.0
UniCredit S.p.A.	-1	Price crossing down through SMA(144d)	60	-4.6%	1.1
RWE AG	-1	RVI(89/10d) less than 70	20	-5.7%	1.1
SBM Offshore NV	-1	RSI(34d) greater than 70	20	-8.1%	1.7
ThromboGenics NV	-1	RVI(144/10d) less than 70	60	-50.0%	1.8
Vienna Insurance Group AG Wiener Versicherung Gruppe	-1	On-Balance Volume / OBV(89d) signal	20	-5.5%	1.3
Anite	-1	RSI(34d) greater than 70	60	-16.5%	1.3

The **AlgoAnalyst** uses a range of bespoke algorithms to identify the probable future direction of asset prices from time horizons from 1 week to 6 months. These algorithms look at a wide range of technical factors and signals and use backtesting to determine patterns and correlations in the data that have yielded consistent returns in the past. The algorithms can be individually tailored to each user's criteria such as investment horizon and risk/reward profile. The system itself covers a wide range of equities and equity indices and clients can create their own portfolios in the system to provide alerts for idea generation and risk management. In addition, the system provides the '**Portfolio Doctor**' which can be used to suggest potential replacement ideas for existing portfolio positions.

+POSITIVE

Signal Algo - Top 10

Sampo-OYJ	+10
Ageas	+8
QIAGEN NV	+8
Bolsas y Mercados Espanoles SA	+6
Merck KGaA	+6
Smurfit Kappa Group	+6
Natixis	+4
Henkel AG & Co KGaA	+4
Henkel AG & Co KGaA	+4
ING Groep NV	+4

Correlation Algo - Top 5

Glanbia	+1
Bolsas y Mercados Espanoles SA	+1
Ingenico	+1
Sodexo	+1
BASF SE	+1

Trend Algo - Top 5

Suez Environnement Co	+2
Ageas	+2
Iberdrola SA	+2
Gas Natural SDG SA	+2
Veolia Environnement SA	+2

Overall Most Positive

Sampo-OYJ	+11
Merck KGaA	+10
Ageas	+10
Bolsas y Mercados Espanoles SA	+8
QIAGEN NV	+8
Henkel AG & Co KGaA	+7
Smurfit Kappa Group	+7
Suez Environnement Co	+6
Henkel AG & Co KGaA	+6
ING Groep NV	+6
Kering	+6
Telecom Italia S.p.A.	+6
Glanbia	+5
Natixis	+5
ProSiebenSat.1 Media AG	+5
BASF SE	+4

High Volume Algo - Top 5

Merck KGaA	+2
Kering	+2
Telecom Italia S.p.A.	+2
ProSiebenSat.1 Media AG	+2
Azimut Holding Spa	+2

Algorithm Analyst

ALGO TECHNOLOGY LIMITED

—NEGATIVE

Trend Algo - Top 5

Banca Popolare di Milano Scarl	-2
KBC Groep NV	-2
Tods SpA	-1
Hugo Boss AG	-1
ThromboGenics NV	-1

Signal Algo - Bottom 10

Delta Lloyd NV	-6
Etablissements Maurel et Prom	-2
Bankia SA	-1
UniCredit S.p.A.	-1
RWE AG	-1
SBM Offshore NV	-1
ThromboGenics NV	-1
Vienna Insurance Group AG Wiener Versicherung Gruppe	-1
Anite	-1
Raiffeisen Bank International AG	-1

Overall Most Negative

Delta Lloyd NV	-7
KBC Groep NV	-3
Etablissements Maurel et Prom	-3
ThromboGenics NV	-3
Banca Popolare di Milano Scarl	-2
Banco Comercial Portugues SA	-2
CaixaBank	-2
Aixtron SE	-1
Banca popolare dellEmilia Romagna, Societ	-1
CGG	-2
Hermes International	-2
JD Wetherspoon	-2
Anite	-2

Correlation Algo - Bottom 5

Aixtron SE	-1
Alstom SA	-1
Banco Comercial Portugues SA	-1
Cofinimmo	-1
Deutsche Bank AG	-1

Overbought Algo - Bottom

Wincor Nixdorf AG	-1

High Volume Algo - Top 5

Ingenico	-2
Banca popolare dellEmilia Romagna, Societ	-1
CaixaBank	-1
Gecina SA	-1
KBC Groep NV	-1

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