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Financial Newsletter

The Financial Newsletter Team

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Foreword

In the first Newsletter of this already eventful year, we start with the Macroeconomic Overview where we analyze and see the effects of inflation and the monetary policies implemented to fight against it worldwide.

We then move onto the Economic Calendar, where we see that the global economy's position is weaker than it was expected due to the fast spread of the Omicron variant which forced countries to bring up their mobility restrictions once again, disrupting the overall economic recovery.

Thirdly, in the M&A section, we looked at the FTX and Liquid merger which earned approximately $400 million at a $32 billion valuation is analyzed. Both these crypto exchange companies were competitors in the cryptocurrency space.

In addition, we can see the IPO of Meihua International Medical Technologies Co., a company that specializes in the medical field and has the mission of "becoming a world-leading manufacturer of medical consumables with high quality."

Finally, for the Hot Topic, we dive deep into the current state of the rising tensions between Russia and Ukraine and the effect it may have on the markets and commodities.

Have nice readings and bold investments,

The Financial Newsletter Team

Macroeconomic Overview

The world economy is in the middle of the 1st Quarter of 2022, and it hasn't been a positive one for investors. The main concern is inflation and monetary policy used to fight against it, as central banks prepare to increase interest and standing rates (several times through the year). Frankfurt and Federal Reserve are smoothing monetary policy and making it gradual, meaning interest rates won't increase steeply, however, investors should be concerned. The pandemic is cooling off, as immunity to new variants continues to increase, however tension between the big players in world trade is increasing. Russia and the Occident are on the verge of armed conflict over the threats and military movement Russia has made on the borders of Ukraine, and the EU hopes to cease the trade rivalry that is starting to take place with China. The described situation, with many others, is driving the price of commodities and creating uncertainty in the forecasts for economic performance for the near future. Around the world, governments must actively target inflation without reversing the effect of the demand engaging policies.

Europe and Portugal

Europe's post-pandemic recovery plan is undergoing; however, markets are still very volatile, inflation is increasing rapidly, and geopolitical tension is expected to continue for the rest of 2022, as Europe is dependent on Russian energy deposits. Regarding Portugal, GDP is expected to have grown 1.6% in Q42021 compared to the previous, and 5.8% for the same quarter from last year (Q4 2020). This represented one of the higher growth rates in the Euro; The EU is projected growth at 0.4% and 4.8% for the same time periods, according to the preliminary flash estimates. The deficit for 2021 may lay around 3% of the GDP, with the government plan of reducing it for 2022 and 2023. The latest data regarding debt are for Q3 2021, which noted that Portugal decreased its debt by 4.9 percental points to 130.5% of the GDP. The average behavior in the Union was less than 1 percental point. For Portugal, unemployment is at 6.6%, and the ECB projects it to be 6.5% for the EU.

United States of America

For the USA, it is projected that the real GDP grew 6.9% on Q4 2021 when compared to the previous quarter, confirming a tendency from Q3 2021, where the registered growth was 2.3 percental points. Q32021 debt was 122.52% of the GDP, 3 percental points drop from the second quarter of the same year. According to the Labor Statistics, unemployment was 4% for January 2022, an increase of 0.1% compared to December 2021. However, if we compare it to the same month of 2021, there's been a decrease of 2%, as the country is experiencing the biggest number of resignations in a long time, an event already designated "the great resignation".

United Kingdom

The United Kingdom has been very busy since the beginning of the year with political instability: Boris Johnson's weekly parties' scandal has divided the political system, as Britons ask for the prime minister's resignation. Also, as a historic Russian money holder, the country watches closely the situation in Ukraine and considers stopping the golden visa for Russians. By 2021, the economy in the UK grew 7.3% from the previous year, with the last quarter being the slowest, within touching distance from the pre-COVID number. Despite, inflation (which the Bank of England will fight increasing monetary tightening), is expected to slow the activity, as reports file the forecasts for 2022 at the 3.8-4% range. Debt in the UK is now 103.7% of GDP for 2021, surpassing the 100% mark. Unemployment in the UK is projected to be at 4.5% by 2022.

Asia

Even though China is currently hosting the winter Olympic games, there's real worry from the occident towards the labor market and human exploitation of workers in the country. Additionally, the country's latest athlete scams and the solidarity for Russia against NATO, are worrisome for investors.

Both China and India registered growth in 2021, 8.1% and 9.4% respectively, with China forecasting a slowdown to 5.1% in 2022, as India will likely keep the momentum gained this year after the COVID infection peak in May (projections of 8.1%). The rest of Asia gained momentum in economic activity, with inflation. Both countries have serious debt concerns. While India needs to consolidate the fiscal health of the economy, whose debt-to-equity ratio spiked to 87.4% after the pandemic, China's private sector had a debt crisis, but the country is expected to reduce the number for the foreseeable future. India's unemployment for January 2022 was 6.6%, the lowest since March 2021.

Emerging economy

IMF's recent forecasts for Latin America decreased the growth for 2022, mainly due to inflation and tightening monetary policies, as well as political instability. These economies depend a lot on the exportation of commodities, whose prices have been increasing since the end of 2020, and whose market is very volatile. Also, the decline in the growth of the main trading economies for Mexico and Brazil will affect the economies. The total growth projection lies at 2.4% for Latin America and the Caribbean. With Brazil entering a post-pandemic recession, due to the inflation, and Mexico decreasing, Argentina takes the spotlight for the continent, having a projected growth of 3% for 2022. The IMF also denotes that most of these developing economies, both in Latin America and Africa are in major debt distress, with a lot of difficulties in not defaulting, and not much space to increase the fiscal policies or other sources of revenue.

***Sources:* Reuters; Bloomberg; IMF; OECD; Wall Street Journal; Jornal de Negócios; BEA; BLS; ONS, European Central Bank, Bank of England**

Economic Calendar

Economic Outlook

Entering 2022's first quarter, the global economy's position is weaker than it was expected. Since December, the fast spread of the Omicron variant forced countries to bring up their mobility restrictions once again, disrupting the overall economic recovery.

According to the IMF, global growth is expected to moderate from 5.9% in 2021 to 4.4% in 2022. The latter percentage is 0.5% lower than expected in October 2021, due to forecast markdowns in the two largest economies, US and China.

The US is expected to grow 4.0% in 2022, 1.2% lower than previously forecasted. Reason being the removal of President Biden's signature Build Back Better fiscal policy package from its baseline projection; the early withdrawal of monetary stimulus from the Federal Reserve; rising energy prices and continued supply disruptions, which contributed to the current inflation rise.

In China, disruptions caused by the zero-tolerance COVID-19 policy and "protracted financial stress among property developers", caused the forecasted growth rate to drop by 0.8%, standing at 4.8% for 2022.

With this being said, the emergence of these recurrent COVID variants can and will prolong the pandemic and induce economic disruptions again, so the IMF forecasts can be very volatile.

Inflation

In line with what was reported by INE, Portugal's annual inflation rate rose from 2.7% in December 2021 to 3.3% in January 2022, consistent with preliminary estimates. It was the highest number since February 2012, as prices advanced at a fast pace for food & non-alcoholic beverages and housing & utilities. On the other hand, the price for transport and miscellaneous goods & services rose at a softer pace. In the meantime, Portugal's CPI also went up to 2.4 percent, from 1.8 percent in December 2021.

In the Euro area, according to Eurostat, the inflation rate is expected to be 5.1% in January 2022, 0.1% higher than the previous month. The main components of the Euro area's inflation include energy, food, alcohol & tobacco, services, and non-energy industrial goods. In terms of weight, services are the main component, accounting for around 41.7% of household final monetary consumption expenditure in the Euro area. Following services, we have non-energy industrial goods with around 26.5 %.

Food, alcohol & tobacco account for 20.9% while energy accounts for 10.9%. These two combined compresses less than one-third of euro area expenditure, however, they can have significant impacts on the headline inflation as their prices tend to be much more volatile than the other components.

Switching to the USA, according to the US Bureau of Labor Statistics, the country's annual inflation rate increased to 7.5% in January of 2022, the highest since February 1982 and slightly above market forecasts (7.3%), due to increasing energy costs, labor shortages, and supply disruptions along with high demand.

The biggest contributor would be energy with an inflation rate of 27% with gasoline prices surging 40%. Inflation also accelerated mainly for shelter, food, vehicles, and medical care services. The CPI in the US, which excludes energy and food categories, rose 6%, the most since August of 1982.

Labor Market

As reported by Eurostat, in the Euro area, the unemployment rate fell to a record low of 7% in December 2021, slightly below market forecasts of 7.1% as the demand for labor continues to improve during the recovery of the economy. It was estimated that around 11.481 million people were unemployed in December 2021, 210 thousand down compared to the previous month. Youth unemployment also went down by 78 thousand, decreasing the rate down to 14.9% (0.5% less than November). Amidst the largest economies in the Eurozone, declines in the unemployment rate were seen in Spain (from 13.4% down to 13%), Italy (from 9.1% to 9%), and France (from 7.5% to 7.4%), while it remained steady in Germany at 3.2%.

Going over to the US labor market, the total nonfarm payroll employment rose by 467,000 in January, and the unemployment rate suffered light to change at 4.0 percent, according to the U.S. Bureau of Labor Statistics. Employment growth continued in leisure and hospitality, professional and business services, retail trade, and transportation and warehousing.

Central Bank Decisions

Staring in Europe, the Governing Council confirmed the decisions taken at its monetary policy meeting in December 2021.

With the goal of improving the macroeconomic and financial conditions, the ECB is conducting net asset purchases under the Pandemic Emergency Purchase Program (PEPP) at a slower pace than in the previous quarter, and at the end of March 2022, it will discontinue net asset purchases under the same program.

To follow through with the reduction of asset purchases decided in December 2021, monthly net purchases under the Asset Purchase Program (APP) will amount to €40 billion in the second quarter of 2022 and €30 billion in the third quarter. The Governing Council expects net purchases to end shortly before it starts raising the key ECB interest rates.

About the key ECB interest rates, they will remain the same as previous levels, 0% on the main refinancing operations, 0.25% on the marginal lending facility, and 0.50% on the deposit facility.

Going over to the US, the Federal Reserve indicated it could soon raise interest rates as part of a broader tightening of historically easy monetary policy.

According to the FED, the unemployment rate stood at 4.0% in January, the inflation rate increased by 0.5%, standing at 7.5% and the interest rate remained unchanged at 0.25%.

Aside from that, they will be maintaining the interest rate paid on reserve balances at 0.15%.

Sources: FED, ECB, U.S. Bureau of Labor Statistics, Eurostat, INE, Trading Economics, BBC, IMF, CNBC

Investment Banking

M&A Deal of the Month: FTX and Liquid

On the 2nd day of February, the Chinese cryptocurrency exchange FTX, which is owned by billionaire Sam Bankman-Fried, announced they are acquiring its Japanese Rival, Liquid, for an amount that has yet to be disclosed.

On the first Wednesday of the month, FTX disclosed they had reached an agreement to buy Liquid and, consequently, all of its subsidiaries, which include Quoine Corporation, the first-ever registered crypto exchange in Japan, and its Singapore-based unit. This deal is said to be settled by the time March ends, as it is dependent on shareholder and regulatory approval.

According to a statement made by Liquid, after its acquisition by FTX, Quoine will progressively fuse with FTX's services and products. Meanwhile, FTX's already existing Japanese customers will be moved to Quoine's platform. Furthermore, they also said that following this acquisition, FTX had also agreed to a deal to provide its existing Japanese customers with services that match Japan's law.

This news follows FTX's earlier announcement that it had earned $400 million at a $32 billion valuation. The Chinese cryptocurrency giant is advancing rapidly in the Asian market as the competition in this region intensifies.

Having been founded in 2014, Liquid is now one of the biggest crypto exchanges, volume speaking, with almost $72 million in daily trading volumes. Its services include spot trading in cryptos like Bitcoin, XRP, and Ether and some financial derivatives. Last year, the company suffered a sizable cyber-attack that allowed the criminals to steal more than $90 million. However, after the hack, it borrowed $120 million in debt financing from FTX, to strengthen its capital position, which would then lead to further collaborative opportunities. Meanwhile, last week, U. S's FTX division declared they had made $400 million with its external fundraising, which valued the company at $8 billion.

Sources: Bloomberg, CNBC, CoinDesk

Initial Public Offering:Meihua International Medical Technologies Co.

In February, most of the IPOs that we´re priced in were mainly blank checks and holding companies.

It is certainly not often that Chinese companies are listed on the US Stock Exchange. After Didi Global went public on the NYSE, the Chinese government deliberately targeted it for a cybersecurity review, forcing the company to be delisted from the NYSE and listed on the Hong Kong Stock exchange. With this, and with IPO´s rhythm slowing down in the USA, not many Chinese companies were interested in having a public offering on US soil.

However, that's not the case with the Chinese company Meihua International Medical Technologies Co. The company made its Initial Public Offering on the 16th of February, under the ticker MHUA on the Nasdaq Global Market.

Meihua is a medical device maker that specializes in the medical field and has the mission of "becoming a world-leading manufacturer of medical consumables with high quality." Having its subsidiaries in China, the company provides Class I, II, and III disposable medical items. These classes are defined by the Chinese medical regulators and coincide with the FDA's approach as well, making it simpler to be in these two different markets. Some of the exact products that this company sells and manufactures are infusion pumps, kits for anesthesia puncture, and urethral catheterization. The company sells and exports these products to North America, Europe, Asia, Oceania, South America, and Africa.

As it is seen on the company's financial statements, the company is indeed profitable, with revenue of above $48M and a net income of approximately $9M (for the six months ended in June 2021). The Net Income suffered a decrease of 11% when compared to the previous year. On the balance sheet, the total number of assets is around $118M, the liabilities are $24M, and the stockholder's equity is $95M. This shows that Meihua is a company with a smaller debt percentage in its financing. The company currently has 629 employees.

The total number of shares outstanding accounts for 25,000,000 and the number of shares offered to the public was 3,600,000, at the price of $10.00 each. Initially, the company had planned on selling 5M of shares, downsizing this number on the IPO day. The total offer amount was $36,000,000.

On the first trading day, the stock closed 29.2% higher at $12.92. However, at the time of writing, the share price was about 8$. Throughout the first 3 days of the company's presence on the equity markets, the share price has fluctuated between $7.02 and $14.80.

As it is stated in the filing, the company's offering was directed by Prime Number Capital LLC, Shengang Securities Co, Revere Securities LLC, and RF Lafferty & Co. and the total offering expense was $1,207,455.00

It Is important to state that the company had originally filed with the SEC in August 2021, and then it had to revise the filing, to include information that the Chinese government could pressure them because of the international offering.

Source: NASDAQ; YAHOO FINANCE; Market Watch; The Edge Markets

Hot Topic

Russia and Ukraine Growing Tension

The constant fear of Russian's invasion of Ukraine is felt not only by locals but also by investors. Financial markets have been feeling this pressure, showing a proportional behavior with the news headlines.

After Moscow, which allegedly denies the possible invasion, claimed it was going to take out some of the troops from the Ukraine border, stocks reacted positively. However, days later when instead of pulling back the troops Russia added more, stocks reacted negatively.

For the second week in a row, U.S. stocks suffered significant losses. Dow Jones Industrial Average (DJIA) dropped 1.9%, S&P 500 (SPX) lost 1.6% and Nasdaq Composite (COMP) declined 1.8%. During this period of geopolitical uncertainty, it is possible to observe the investors' desire to seek out assets perceived as havens and explain the lift in gold GC00, which increased 1.88%. This reduction of exposure to risky assets can also be explained by the decrease in volatility. According to Cboe Volatility Index, it fell 1.4% and although this is preferable on a down day, this value does not appeal to investors.

Nevertheless, oil failed to get a boost from Ukraine tensions, instead, a streak of eight weekly gains ended, showing a decline of more than 2% to $91.07 a barrel, due to prospects of a revived Iran nuclear agreement, that could ultimately raise U.S. sanctions on the country's crude exports.

Although Biden stated that U.S. troops will not be deployed to Ukraine, it was made clear that severe sanctions against Moscow would be applied in case of an invasion, including the blockage of energy sales as a counteract to Russia's militant action. Since oil prices already increased significantly due to supply concerns and rising inflation, further tension could implicate another increase in prices, perhaps even surpassing the $125 per barrel, which will negatively impact not only the U.S. economy but also, the global one.

Even with such a negative scenario, an optimistic situation of a diplomatic resolution is hoped for, creating an advantageous outcome that would ultimately return oil prices closer to the final year target of $80 per barrel, meaning a reduction of the geopolitical risk premium in oil prices.

Besides crude oil, Russia plays the role of key supplier of natural gas to Western Europe and thus Russia could raise prices in the region. A Russian invasion would increase volatility around financial markets by spiking energy prices in Europe and across the world.

As mentioned before, Russian energy sanctions are currently being considered as an option if the invasion does happen. European Commission President Ursula von der Leyen considers the imposition of sanctions on Russian gas giant Gazprom “on the table”. Europe presents a non-sustainable dependency on this company, importing around 40% of its gas supply from there and thus new alternatives must be found. According to the European Commission President, it can be assured that in case of dissociation with Russian gas, it will be possible to make it through the winter with the supply from others.

However, since Italy is one of the major importers of Russian gas in the EU, Italian Prime Minister Mario Draghi disagrees that possible sanctions against Russia should include energy imports, but the Italian Prime Minister was reassured that there was the necessary amount of gas from another supplier even for Italy.

Energy exports to Europe represent a significant amount of Russia’s budget and the current reduction of the energy dependency on Russia is a very negative situation for the country’s economic situation. Also, if this dependency reduction continues to increase successfully, Russia will no longer be able to use gas as a political tool and therefore, lose its power over Europe and eventually suffer from the effects of the dissociation of Europe from its gas supply.

Source: Yahoo Finance, CNBC.

Our Team

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