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Financial Newsletter

The Financial Newsletter Team

March Edition

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Foreword

At the beginning of this month's newsletter, we can start by reading about the global Macroeconomic Overview, focusing on the conflict currently experienced between Russia and Ukraine and the focal points of its implications: financial sanctions, commodities prices, and supply-chain disruptions.

Secondly, we move on to the Economic Calendar, where we can see last month's trends in inflation, employment, and the decisions of central banks. In February inflation broke another record in the Eurozone and the message from the ECB is that there is no urgency to raise rates.

Thirdly, we will look at the M&A deal of the month, in this case, Intel and Tower Semiconductor. A $5.4 billion deal that involves the acquisition of Tower Semiconductor by Intel. With this deal, Intel will gain added value to its business, presented in this section.

Next, we will look at the IPO of Akanda Corp, an international medical cannabis and wellness platform company, which went public on March 15, 2022. Akanda Corp shares opened on Nasdaq, the target was to open 4 million shares at $4, but the stock opened at $30 and closed at $10.5, +162.5% above its target price.

Finally, for the Hot Topic, we will have The Mozambique LNG - a hope for the future? In this section, it will be possible to analyze how the commodity price has been affected and if there may be a new life for Mozambique LNG.

Have nice readings and bold investments,

The Financial Newsletter Team

Macroeconomic Overview

The end of February and the beginning of March were not positive for investors or the global economy.

Although Covid has reduced its impact at an economic level due to the increase in the percentage of the vaccinated population and the omicron variant is not as impactful as the other variants, global growth is expected to decelerate from 5.5 percent in 2021 to 4.1 percent in 2022.

The conflict between Russia and Ukraine is affecting the global economy in three main channels: financial sanctions, commodities prices, and supply-chain disruptions. In the last weeks, we have been watching a drop in exports due to the sanctions, the destruction by the Russian invasion, and the suspension of the economic activities in most economic sectors.

The independent central bank analysts indicated that Russia's GDP fell by approximately 8% in 2022 and inflation rose by 20% in Russia.

The Ukraine-Russia conflict spreads to the rest of the world, either through the supply of raw materials or through the uncertainty of the economic future of these two countries. For example, Russia is a major exporter to Europe and the world of gas, oil, and wheat. Ukraine mainly exports raw materials such as corn, iron, and wheat.

The stoppage of exports causes the effect to be felt across Europe and the world.

Crude oil reached $123 on March 8 and wheat rose 28% this month and 77% for the year. According to the USDA, fertilizer Bills are expected to jump 12% this year.

United States of America

In the USA, on March 16, the Fed raised interest rates by a quarter-point. The economy is expected to expand by 2.8% this year, down from the 4% it had predicted in December 2021. The USA debt in February is around 30.2 Trillion dollars, around 2.3 trillion more than a year earlier.

The average annual CPI forecast in the USA is to rise 5.1% in 2022 after increasing to a 4.7% pace last year, according to a Bloomberg survey of economists.

Europe and Portugal

On March 2, Eurostat released a document stating that annual inflation in Europe is expected to be 5.8%, compared to the 5.1% forecast in January. In terms of areas expected to be affected by inflation, it is the energy sector, which is expected to grow by over 31%, and the least affected sector is the services sector, which will see an expected inflation growth of 2.5%.

In Portugal, the latest gross domestic product report showed that the Portuguese economy grew by 4.9% in 2021.

For the first quarter of 2022, analysts expect a slowdown due to the Omicron wave, but thereafter expect growth to pick up. It's expected that general economic activities reach their pre-pandemic level in the second half of 2022. For

2022 as a whole, analysts expect 5.5% economic growth.

The estimated unemployment rate for January stood at 6%, the lowest recorded in January since 2002, according to data published by the National Statistics Institute.

Unemployment is below the level recorded before the start of the pandemic: in January 2020 (6.9%) and in January 2021 (7%), reaching the lowest value in the last 20 years in January.

***Sources:* Bloomberg, European Central Bank, EuroStat, OECD, Jornal de Negócios, The Federal Reserve**

Economic Calendar

Economic Outlook

The sudden change in the world's panorama caused by the Russian-Ukrainian conflict-affected all major institutions' economic outlooks, from 2021 and even the most recent ones until February of 2022, which didn't predict the conflict and its consequences. Upon research, the reports focused on the economic recovery from COVID-19 and the challenges that energy costs, supply chain issues, and inflation would pose to the global economy. Therefore, the numbers provided by these forecasts can be greatly compromised as they're never intended to account for the effects of a possible war.

For the reasons mentioned, the economic outlook for 2022 is greatly dependent on the conflict and how the world adapts to it and is subject to great uncertainty due to the possible effects, duration, and escalation of the war.

According to the European Economic Forecast for Winter 2022, the EU economy predicted a growth of 4.0% in 2022, with all Member States expected to achieve pre-pandemic GDP levels by the end of this year. Once again, it's crucial to note that this article and projections were released in February 2022 and are now threatened by the effects of the Russian conflict, which could lead to a very different scenario. In contrast, the first forecast after the invasion by the European Central Bank predicts that the Euro Zone will only grow by 3.7% in a baseline scenario, 2.5% in an adverse scenario, and 2.3% in a severe scenario. One of the main factors behind these numbers is the high dependency on Russian gas, which represents 40% of all Europe's consumption.

Inflation

Inflation in the Euro Zone hit another record in February, reaching 5.9%, up from 5.1% in January 2022. These numbers contrast when compared to YoY when the rate was 1.3%. The highest contributors to this came from energy (+3.12 percentage points, pp),

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then services at +1.04 pp, followed by food, alcohol, and tobacco (+0.90 pp) and non-energy industrial goods (+0.81 pp). At the moment, Portugal is still one of the countries at the lower end of the scale, at 4.4% inflation, contrasting with Lithuania, which has the highest value at 14.1%.

In the US, inflation rose to a 40-year high of 7.9%, caused by rising prices of gasoline (+19.3%), food (+1%) and housing, which made it impossible for the Federal Reserve to keep the two years of near-zero interest rates. Biden's ban on Russian energy and generally the tightening of oil supply thanks to the war affected retail gas prices and other commodities that shot up in price. Thanks to this, the chief U.S. economist at Barclays Plc stated that further increasing prices and inflation during the next few months is expected.

On the other hand, the ECB expects a decrease in inflation in the medium-term as supply chains adapt to other suppliers of energy, making them less impacted by the Russian constraint. It also states that this transition and its reflection on prices can affect household, company, and state budgets until 2024. For the near future, the ECB predicts 2023 inflation of 2.1% (baseline scenario), 2.0% (adverse scenario), and 2.7% (severe scenario).

For that reason, forecasts are now very uncertain and deeply dependent on the projections of the duration and impact of the Ukrainian conflict, and for that reason, they should be considered with high apprehension.

Labor Market

Regarding the labour market, it's estimated that real disposable income will decline in the first quarter of 2022 as a consequence of increased inflation, but the ECB expects a rebound in Q2 due to improving labour markets. The unemployment rate has been steadily decreasing, with 6.8% in the Euro Area in January and 3.8% in the US in February.

The tightening labour market hasn't put noticeable pressure on wages so far and hasn't been able to keep up with increases in inflation, both in the EU and US, which means that real income is negatively affected.

Central Bank Decisions

In the US, the Federal Reserve has been conservative in increasing interest rates, having hiked the funds rate by a quarter point, to 0.5% from 0.25%, which is expected to ripple through the economy, pushing credit card rates and adjustable-rate mortgages up. Federal Reserve Chairman Jerome Powell stated the Fed's forecast for six extra hikes this year and that if the changes need to be more aggressive, they will be. The Fed predicts a maximum rate of 1.9% by year's end and 2.8% by the end of 2023.

In Europe, ECB President Christine Lagarde stated that there is no hurry to raise rates and that any move will also be gradual and only after its bond-buying program ends, placing it somewhere in Q3 2022.

Expectations for euro area ten-year nominal government bond yields indicate an average annual level of 0.8% for 2022, gradually increasing over the projection horizon to 1.1% for 2024. These expectations were based on market predictions with a cut-off date of February 28th, 2022.

To conclude, uncertainty is the common term in all predictions, and these have yet to adapt to the Ukrainian conflict, which means that future outlooks can vastly differ from today's ones and it is important to observe closely in the near future.

Sources: European Commission, ECB, Eurostat, CNBC, Bloomberg, OECD, USA Today, The Federal Reserve

Investment Banking

M&A Deal of the Month: Intel and Semiconductor

Intel's (INTC) attempt to resurrect its moribund manufacturing division is starting to take shape. The company announced $5.4 billion to acquire Tower Semiconductor (TSEM) company, a contract chip producer with a less famous name. It was a deal through an all-cash offer for USD 53.0 per share, representing a 60% premium to the closing price on the 14th of February.

With this deal, Intel gains a few new things: the company has opened new chip plants in Israel, as well as two in the United States and one in Italy. Tower's primary business is the manufacture of chips utilizing an outdated process manufacturing technology that Intel no longer use. However, these old chip designs have found use in a variety of industries, including defense, automotive, wireless, and industrial sensors.

Executives said Intel is buying Tower to provide it with a new product portfolio, which it will then offer to its existing clients. But, perhaps most crucially, Intel is purchasing a contract semiconductor maker with 30 years of experience. Note that Intel's Foundry Services is less than a year old and lacks the experience that some of its competitors have.

Tower's idea, on the other hand, will require time to develop. This transaction will not finalize for another 12 months, after which Intel plans to integrate Tower Semiconductor. It will take a couple of times to dial in this new firm and convert it into a competitive foundry.

In fact, more recently, Intel has already done a few things to boost its manufacturing operations. For example, the business has committed $20 billion to an Arizona plant expansion, as much as $100 billion to expand its new Ohio facility, and $95 billion to expand its European operations. And the company shows no sign of stopping.

This M&A has been approved by INTC and TSEM boards but is subject to certain regulatory approvals and customary closing conditions, including the approval of TSEM's shareholders.

Remember that Intel has been struggling for the past couple of years with increased competition, supply problems, and little innovation. Last year, the global semiconductor industry registered a sales record of around $555.9 billion in sales, with China being the biggest market and TSMC dominating in that market. This deal might move the needle for Intel in that market, as TSEM has a presence in Japan and the demand for semiconductors is still high. This might represent a significant opportunity for Intel's growth if they can deliver more volume and more chips, they could sell more on that market.

Sources: Yahoo Finance

Initial Public Offering: Akanda Corporation.

Akanda Corp, an international medical cannabis and wellness platform company, went public on March 15th of 2022.

The shares of Akanda Corp. debuted on the Nasdaq, trading under the ticket AKAN. The company planned to price its initial public offering of 4 million shares at $4 each, but the stock opened at $30 and closed at $10.50, +162.5% higher than its target price. Trading in shares had been paused and resumed several times in the session due to volatility.

Boustead Securities LLC, the lead underwriter for the offering, is planning to raise capital for property, plant and equipment and general corporate purposes as Akanda builds up a legal cannabis business in the U.K. and Europe. Akanda's current portfolio includes Bophelo Bioscience and Wellness, a cultivation campus in the Kingdom of Lesotho and CanMart, a pharmaceutical importer and distributor in the U.K.

Founded in 2018 and headquartered in London, Akanda Corp is a cannabis cultivation, manufacturing and distribution company whose mission is to provide premium quality medical cannabis products to patients worldwide. The company cultivates and processes natural cannabis products at their facilities in the Kingdom of Lesotho in Africa. Its goal is to supply medicinal-grade cannabis biomass, cannabis flower and cannabis concentrates to wholesalers in international markets. Akanda also imports and sells medical cannabis-based products to the domestic market in the UK.

Switching over to financials, Akanda Corp has a limited operating history and little revenue to date. The revenues from the sale and distribution of medical cannabis in the UK have not exceeded $20k in any 12-month period since they established there in 2019. As of now, the company is not very profitable, with an EBITDA of $-4.419 at the end of 2021.

On the balance sheet, the total number of assets is $25,49k, the total number of liabilities is $6,7k and the stockholder's equity is $18,79k as of 29th September 2021. This shows that Akanda Corp is a company with a rather small debt percentage on its financing. Akanda's number of employees ranges from 50 to 100.

While Akanda's first goal is to become a growing and profitable company, its ultimate goal is to develop the community around Lesotho, uplifting the quality of life. Among all its contributions, the key socio-economic initiatives undertaken with the Mophuthi Matsoso Development Trust included the construction of state of the art learning center, supply of computer equipment, construction of a place of worship, and a small farmer development program.

Source: Yahoo Finance, Market Watch

Hot Topic

The Mozambique LNG – a hope for the future?

Several events occurred during the first quarter of 2022. Some of these events include the "end" of the covid-19 epidemic, the financial markets fall, supply chain disruptions, conventional and non-conventional monetary measures led or threatened by central banks to combat increased inflation, and the geopolitical event in Eastern Europe.

We were attempting to resume our usual life after two years of the covid-19 epidemic. With the alleviation of government limitations – indeed, in some countries, masks are only required in public transportation and healthcare institutions – and the lesser flow of covid-19 news during the first quarter of 2022, we assumed we'd be able to return to our "past" and regular lives.

However, a new occurrence began a few days following the covid-.19 alleviation. Russia's invasion of Ukraine on February 24th was notable, which demonstrated that no one could anticipate or dictate anything. The conflict in Ukraine has added to the uncertainty that has already plagued the stock market this year. In the midst of a battle with no end in sight and rising sanctions on the side of the US and its European allies, the S&P 500 saw its worst one-day decline since May 2020.

Longer-term inflation expectations have also begun to climb, which is a source of concern for the central bank as an indicator of whether it is losing public confidence in its capacity to keep prices under control. The conflict in Ukraine has no clear end in sight, and it might fuel much greater inflation through higher energy costs, supply chain disruptions, or even a reorganization of global commerce and governance that would result in consistently higher prices.

Undeniably, it is possible to point out three key points where the geopolitical tension is affecting current prices, mainly due to the main commodities exported by Russia and Ukraine. Russia is one of the world's top producers of metals used in everything from aluminum cans to copper cables to vehicle components, such as nickel, which is used in lithium-iron batteries, and palladium, which is used in catalytic converters, as a prominent commodities exporter. Furthermore, the world's reliance on wheat and corn grown in Ukraine is driving up the cost of several basic items, such as bread. Finally, individuals are already paying exorbitant energy and gasoline expenses. The Russia-Ukraine crisis has pushed these even higher, with oil prices reaching their highest level in over 14 years and wholesale gas prices more than doubling.

Therefore, to suppress the current inflation is expected that central banks adopt gradable and flexible measures. In the U.S., the Fed already hiked interest in 25 basis points and warned about interest rates will go up 6 more times this year. In addition, to this conventional monetary policy, it is expected the relief of the Fed's balance sheet, which has doubled to nearly $9 trillion over the course of the pandemic through quantitative tightening - it is taking back that money supply by no longer buying assets in that market but selling assets, selling its balance sheet assets, basically all the bonds that they've got at their balance sheet at the moment, and reduces the money supply floating around in the economy. In the other side of the world, the ECB already warned against the possible hike of interest rates and the decreasing of the quantitative easing - a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment.

Driving our attention to the natural gas price and supply sources, it is possible to be optimistic about the Mozambique LNG Project. The Mozambique LNG Project began in 2010 with the discovery of a large amount of natural gas off the coast of northern Mozambique and ended in 2019 with a $20 billion Final Investment Decision. The project is now on target to provide LNG in 2024, thanks to collaboration and careful project planning. For the time being, their plans for the approximately 65 trillion cubic feet of recoverable natural gas include a two-train operation that can scale up to 43 million tons per year.

Although the project will not be completed this year, there remains some hope given Europe's reliance on Russian natural gas.

***Source:* BBC, Reuters, The Gaurdian**

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