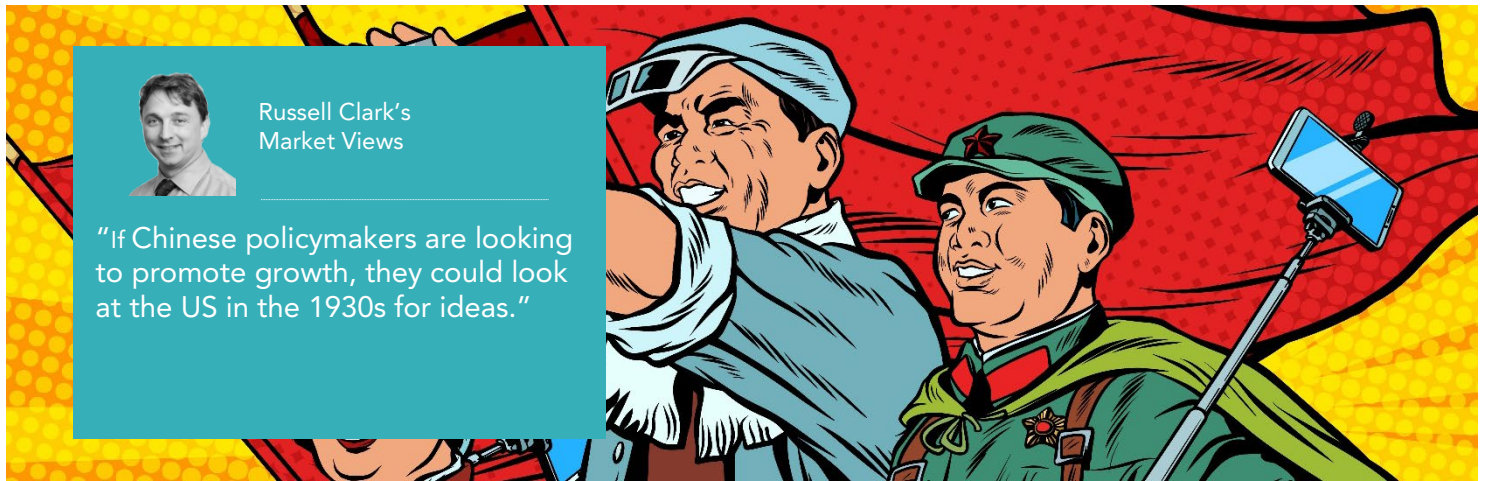


THE COLLAPSE OF SOCIALISM, WAGE INFLATION AND FOOD INFLATION

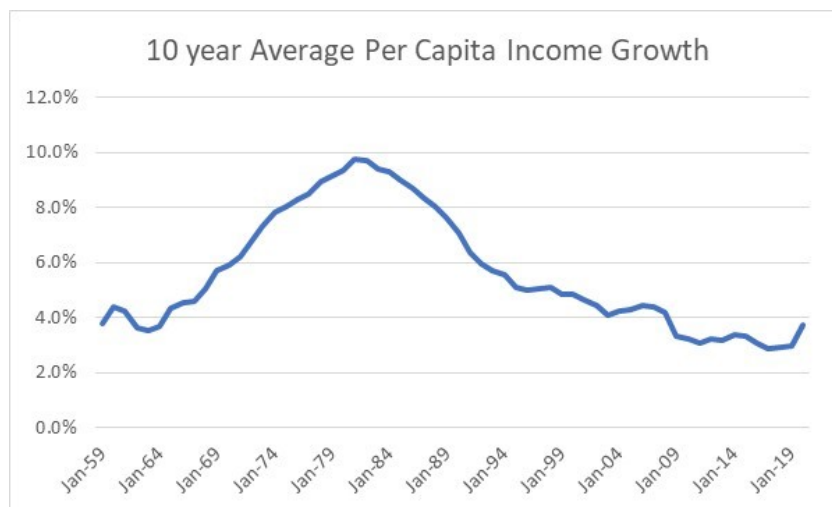


Russell Clark's
Market Views

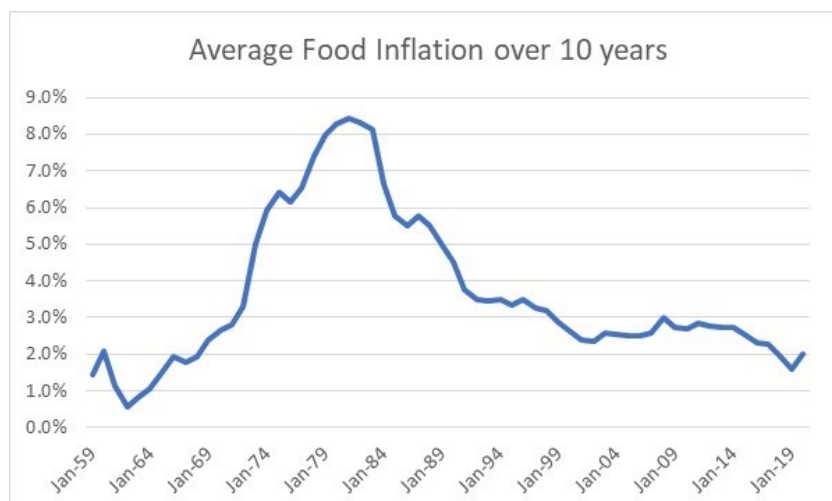
"If Chinese policymakers are looking to promote growth, they could look at the US in the 1930s for ideas."



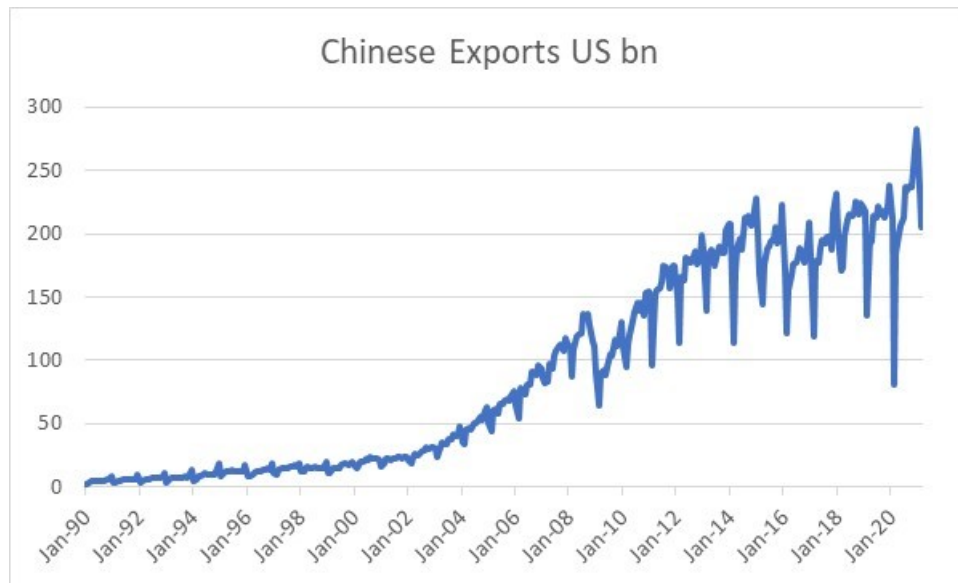
After World War II, and the rise of socialism, it became a political imperative to improve workers' incomes. However, as the world moved from socialism in the 1970's and 1980's to globalisation, US average per capita income growth has slowed from 10% a year to around 3% a year.



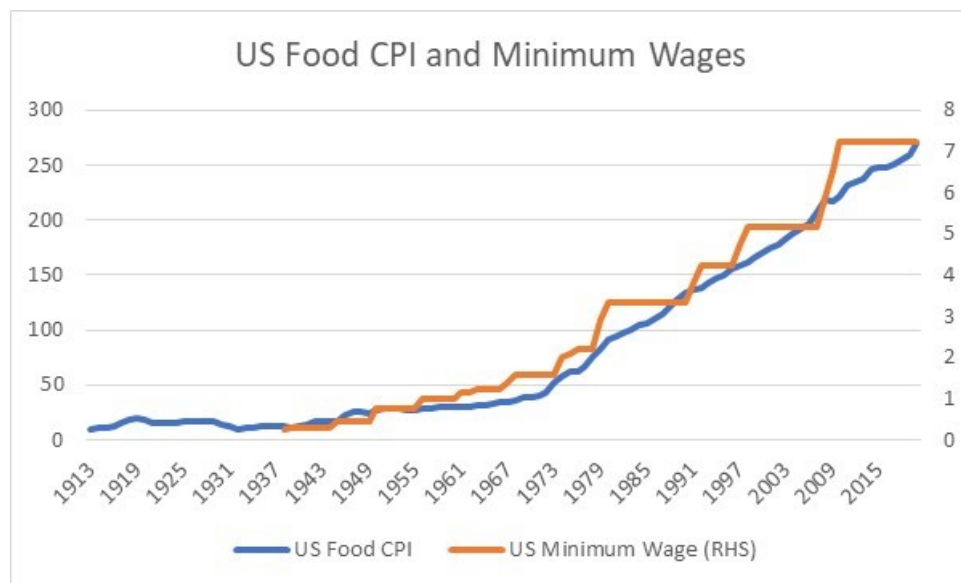
US food inflation showed a similar dynamic:



The transformation of China from a socialist to a capitalist economy has been one of the most fundamental changes of the last thirty years. In the 1990s, everything was cheaper in China, and as a rule China industrialised through export led growth. In recent years, Chinese export growth has slowed appreciably, and from a political point of view, growing exports to the Western World looks problematic.



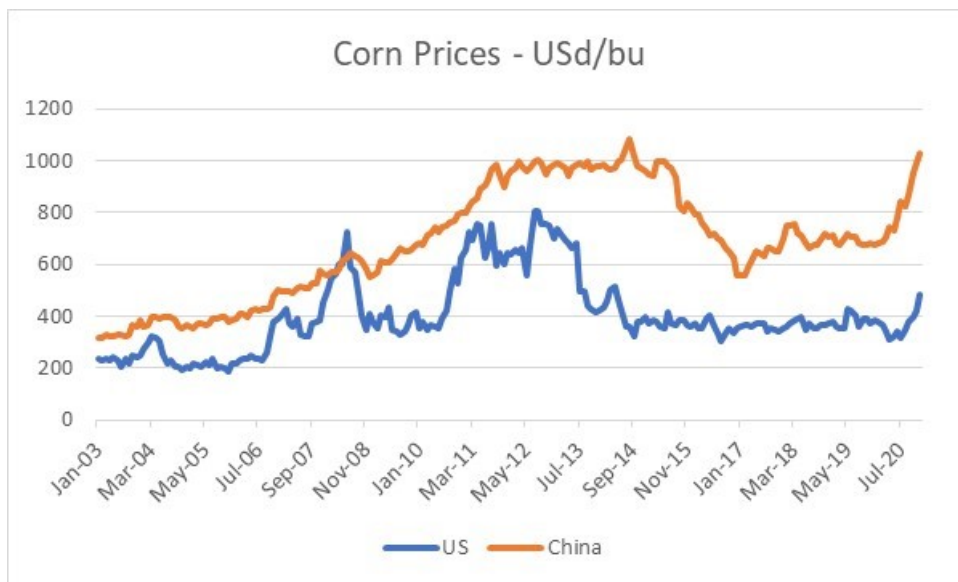
For Chinese policymakers looking to promote growth, they could look at the US in the 1930s for ideas. Solving for the slow growth of the Great Depression, policy makers focused on raising wages via strong unions, trust busting and minimum wage increases. Ever since, US Food CPI and minimum wages have followed each other closely.



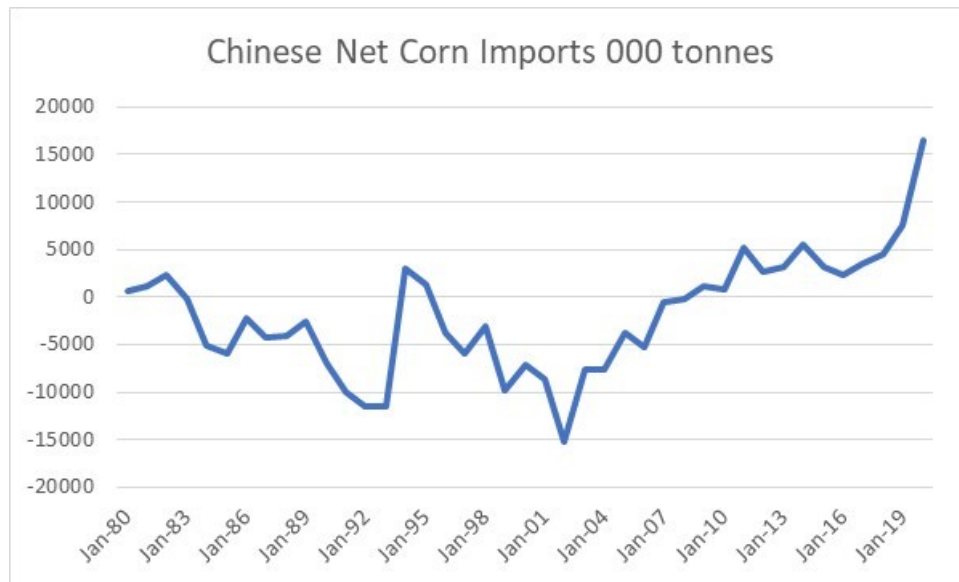
In the 1930s, the US was the dominant economic power, if not quite the superpower it is today. In 2020, China is in many ways the dominant economic power, but not quite the superpower. Like the US, China is too big to export its way to growth, which leaves only one option to grow, which is to promote domestic consumption. Minimum wages and food inflation have risen much more sharply in China than the US. Food prices have tripled since 2001, and the minimum wage is up 5 times. Over the same period, the US has seen a 50% increase in minimum wages, and a 22% increase in food prices.



The implication would be that food prices would be more likely to rise in China than in the US. If we look at corn, the largest and most traded of the grains, it has been trending above US prices since 2013.



Despite higher prices for corn in China, it was a net exporter of corn as recently as 2006, and only in the last year has China become a large importer of corn.



It is also noticeable that Chinese authorities are beginning trustbusting actions against its erstwhile tech champions. While food inflation and wage inflation are highly correlated, it is very hard for the West to conceive of wage growth driving food inflation. But if we focus on Chinese wage growth driving food inflation, then the story becomes easier to see. The interesting question will be whether food inflation emanating from China is enough of a shock to drive wages higher in the West.

INFORMATION

Issue Date: 26th March 2021
 Source: Bloomberg, unless otherwise stated
 Investor Relations: Samantha Dunn
 Email: info@russellclarkim.com
 Telephone: +44 (0)20 7838 7580
 Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.