



# Benefiting From Belligerence: Defence Boon, Balloons & The Hard Commodities Complex

## Portfolio Attribution

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When Russian forces marched on Kiev in February 2022, few thought Ukraine could survive; Russia had more than twice as many soldiers as Ukraine, its [military budget was more than tenfold](#) and US intelligence estimated that Kiev would fall within one to two weeks at most. Outgunned and outmanned, Ukraine [turned to one area in which it held an advantage over the enemy: technology](#). Shortly after the invasion, the Ukrainian government uploaded all its critical data to the cloud, so that it could safeguard information and keep functioning even if Russian missiles turned its ministerial offices into rubble. The country's Ministry of Digital Transformation, which Ukrainian President Volodymyr Zelensky had established just two years earlier, repurposed its [e-government mobile app, Diia](#), for open-source intelligence collection, so that citizens could upload photos and videos of enemy military units. With their [communications infrastructure in jeopardy](#), the Ukrainians turned to [Starlink satellites](#) and ground stations provided by [SpaceX](#) to stay connected. When Russia sent Iranian-made drones across the border, Ukraine acquired its own drones specially designed to intercept their attacks – while its military [learned how to use unfamiliar weapons supplied by Western allies](#).

Cite:- [Power To Reprimand Russia Lies In The Hands Of Investors](#), 26 July 2014

Cite:- [Drones Highflying Investment Offers An Alternative](#), 26 March 2016

Ultimately, in [the cat-and-mouse game of innovation](#), Ukraine simply proved nimbler and so what Russia had imagined would be a quick and easy invasion has turned out to be anything but.

Watch:- [Bloomberg Kathleen Hays & Australian Standfirst Discuss Iran, Cyber, US Markets & Australian Bushfires](#), 8 January 2020

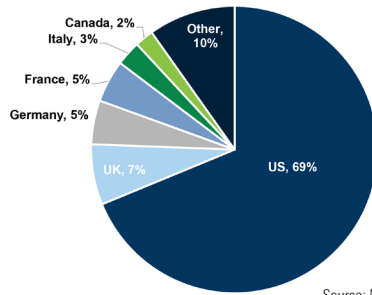
[Anticipating belligerence has expanded](#) beyond pan-Europe, with the defence complex turning its sights on Australia, with the [Australian Government stating that the ADF requires greater long-range strike capability](#) (i.e. est, stealth bombers) in both [the air](#) but [also sea](#) – this may too include balloons, as despite the hoopla surrounding Sino dirigibles, over the past two years, the US military spent nearly US\$3.8 million on balloon projects, with an additional US\$27.1 million set to be spent in fiscal year 2023; the main purpose of the increased investment into balloons appears to be involved with US military efforts to track [hypersonic weapons developments](#) in Siberia and Greater China (Tibet, Manchuria) as well as support multi-domain operations in the Indo-Pacific (Taiwan).

Cite:- [All Eyes On Taiwan: Microprocessors, Hypersonics & The Opportunity Set Across The Defence Complex](#), 20 May 2022

Cite:- [Military Conflict With China](#), 6 November 2019

Cite:- [Taiwan's Looming Crisis Is A Much](#)

## US defense spend dominates total NATO defense spend % of total NATO defense spend (2022e)



Source: NATO

## Bigger Threat Than Markets Realise, 20 June 2018

Cite:- [Taiwanese War & Markets Fallout](#), 30 January 2019

Cite:- [Australia's Impossible Choice: Taiwan](#), 13 December 2020

Cite:- [Hong Kong Affects Backend Of Australian Wealth Management](#), 4 December 2019

Cite:- [Goodbye Hong Kong](#), 19 April 2020  
Geopolitics are evidently tense and there is higher support for defence spending across [USMCA](#); inflation can be absorbed but margins are under pressure across the military complex.

Cite:- [What Some Blanket As "Inflation" Is In Fact China Closing Its Factories To The West: Inflation In A US Election Year. Markets Impact & The Sinosphere](#), 6 January 2022

There is a well-grounded argument that we are entering a period of expansion in European defence spending not seen since the 1980's. The Russia-Ukraine fracas has highlighted the importance of national security in an environment where defence spend is at all-time lows, leaving room for what could be the biggest step-up in spending in the past forty years (pre-[Perestroika](#)). While defence securities were up 60%+ on average in 2022, current valuations are well-supported by Euro bloc budget expansions and remain materially below US levels. Over the last [two commodities Supercycles](#), multiples have closely tracked increases in defence spending and remained elevated until real economic growth rates started to decelerate, ergo, it is expected that an acceleration of martial budget growth continues until at least 2024 and with 2023 in focus: firstly, [product exposure within the military budget](#), with those exposed to near-term restocking or structural long-term growth drivers ([AUKUS](#)) likely to outperform; and secondly, execution, which has typically been a sticking point for margin improvement within the [trans-Atlantic democratic defence complexes](#).

The North American defence conglomerates faces a major obstacle when trying to export products in 2023 – the strength of the Greenback. The US Dollar is more attractive and stable than the Euro, the Franc, Yen, or the Rénmínbì & the deep irony of having the world's reserve currency is that the United States is effectively subsidising the rest of the world's exports while making Yankee products and services too expensive to aggressively compete in global markets. At the

same time, China, the world's largest exporter, continues to keep the value of its currency artificially low, boosting its own exports.

First, the United States can negotiate a currency and goods accord with China, just as President Ronald Reagan did with the [1985 Plaza Accord](#) with Germany and Japan, when both agreed to limit the dumping of their manufactured goods on the United States and accepted the depreciation of the Greenback to strengthen global demand for ailing North American exports; although these agreements were voluntarily negotiated, Germany and Japan were told in no uncertain terms what the alternative would be: the United States would have no choice, in the absence of an accord, but to act unilaterally both to curtail German and Japanese imports and to devalue the then overpriced Greenback.

Cite:- [Australian Dollar Impaired By The Greenback: The Threat Of A 'Mnuchin Shock' In April 2020](#), 4 April 2020

Turning to [China and the fracas that will matter the most to the twenty first century](#), acknowledging the dangers of trade deficits, the Opium Wars between China and the United Kingdom in the nineteenth century stemmed from the trade imbalance between the two countries. The United Kingdom and the West had a strong demand for Chinese goods, such as tea, porcelain and silk, in the early 1800's. China, however, did not care for British goods, such as wool. The British paid for Chinese goods in silver, which led to an outflow of millions of Pounds of silver, weakening the Pound. To rebalance the trade deficit, British merchants sold opium to the Chinese. British opium profits skyrocketed as millions of people became addicted, unravelling Chinese society, which ultimately led the Chinese Emperor to ban and destroy the drugs imported from Britain. This act started the [First Opium War in 1839](#). Yes, the conflict took place in the context of an era of aggressive European imperial expansion but this episode was a powerful example of how trade deficits can provoke conflict between countries, also referred to in academic circles as the [Thucydides Trap](#) dilemma.

Listen:- [Australian Standfirst Podcast Guest Professor Ezra Vogel](#), 06 May 2020

Cite:- [The Investment Theme We Like, For A Technology We Hate: Facial Recognition Technology \(FRT\) and Dual-Use Applications](#), 13 July 2020

Cite:- [The Lucrative Investment Question Of Our Time: Chinese Technology – Sino Semiconductors, Digital 元 & Cyber-Sovereignty](#), 26 April 2021

Today, [great-power competition](#) and [underlying Chinese overreach certainly inflame tensions between China and the West](#) but the trade deficit feeds animosity and exacerbates the fears of many who simply seek economic security. Smedley Butler was right when he conjectured, ["War is a racket & that it can be smashed effectively only by taking the profit out of it"](#), however, nearly a century since publishing, that still won't be happening anytime soon. ■

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