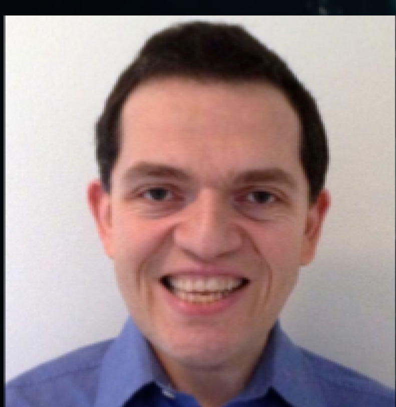
diffusetap
Virtual Event Series

The Inflation Ripple Effect

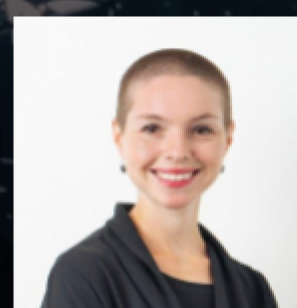
Guest Speaker:



Igor Gonta
Angel Investor

Hosts:

Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: The Inflation Ripple Effect

Last time on DiffuseTap, Igor Gonta* talked to us about how the strength of the US dollar directly impacts inflation, why Bitcoin is not acting as the hedge against inflation we want it to be, and how inflation affects the price of commodities and subsequently, crypto.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)… straight from your armchair like a boss.

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Meet the Speaker

From 2012 to 2016, Igor Gonta was CEO of Market Prophit, a financial big data analytics company that generates real-time buzz signals from stock-related conversations on social media. Today, Igor is an angel investor in emerging technologies – including crypto, blockchain, energy tech, and AI – with a strong background in commodities.

LinkedIn: @igorgonta

About Diffuse®

We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit www.diffusefunds.com.

** All views expressed are those of the speaker.*

KENNY ESTES: You're all here today to hear from Mr. Igor Gonta. Igor, can you please introduce yourself?

IGOR GONTA: Absolutely. First of all, great to meet everybody. My name is Igor Gonta. I am a proud member of Diffuse. I thank Kenny and Ayla for letting me participate in this great group. My background is in commodities. I've been in commodities for 25 years, and now is an interesting time for the space. That's where we're going to talk about today.

Privately, I am a very active angel investor. I invest in venture rounds of firms that are focused on everything from fintech, to machine learning, to AI, and of course, energy tech, which is my background. I'm also heavily involved in crypto and blockchain. I am an investor in blockchain companies. I trade cryptocurrencies.

And in between the seller and the buyer side, where I am now professionally, I ran a fintech startup that does machine learning and language processing on social media feeds to generate signals for traders and hedge funds in the stocks, currencies, and commodities world, and now cryptocurrency. It's currently a very interesting time because there is a lot of information out there. I'm very excited to talk about these different topics today, including inflation and its relationship to commodities and crypto, and other asset classes in the world.

AYLA KREMB: Awesome. I will dive right in and put you on the spot. The first question that we want to ask is, could you define inflation? There are many definitions roaming around out there, but how would you define inflation, especially thinking about how it has changed in the last 10 years or so? How do you view it?

IGOR: It's interesting. I think everybody used to talk about inflation as a singular term, like the US CPI. That's the headline number everybody watches. That's what the Fed watches. That's what the world watches. It's obviously still there. It's relevant. But that particular index has a lot of components. It's very broad. It has everything from commodities, labor, services, and everything.

What's interesting now specifically in this timeframe is that commodities are contributing to inflation and that headline CPI number. However, the effects of global commodities right now are prevalent in a variety of ways around the world in their own way. What I mean by that is, to understand the ways in which they are rearing their head, you have to understand every single commodity because they're all behaving in different ways.

Here's what I mean by that. One of the things that I watch is energy transition. That means going towards a cleaner world by decarbonizing, reaching the Paris Climate Accord, meeting the two degrees celsius mark, etc. Those trends preceded the war. Governments were very actively trying to decarbonize and announced a lot of different projects, goals, and targets for the build out of renewable energy, wind, solar batteries, EVs — you name it. That was a mega trend that already existed prior to the war.

That trend is going to have profound implications specifically for the prices of metal, steel, copper, nickel, lithium, cobalt to some extent, and even silver in order to build all the infrastructure globally that is going to be required to generate electricity in a cleaner way. That megatrend is a subcomponent of this headline inflation index you might call CPI, and in my opinion is quite bullish long term for metals. The effect is that it accelerated the trend towards not only decarbonisation, but with the primary goal of energy security.

What I mean by that is getting off Russian gas. Europe has to get off Russian gas. One of the ways they're going to do it is by building renewable energy to displace gas-fired power generation, certainly coal, and others. We just passed the IRA with historic amounts of capital being put towards renewable energy. What the war did is it accelerated the trend towards decarbonisation because of this added effect of energy security, which means to get off Russian gas, and not to be solely dependent upon a hostile nation for your energy supply.

Half of Europe's natural gas consumption comes from Russia, and that will last for a while. We now all see that that's bad, so they're passing a lot of packages to not only accelerate renewable energy, but also increase its quantity. If you want to look at that sub sector, and the new definitional component of inflation, you need to pay attention to metals.

KENNY: There's metals and then the Ukrainian war, and obviously, it's pushing energy away from Russia. In theory, there seems to be some connection there to crypto. Bitcoin is very energy reliant. Ethereum, maybe less so as of last Monday. Where does this all come together in your mind, the energy piece, the inflation. and then crypto as a potential inflation hedge? How does that work into the equation?

IGOR: In some ways, it's straightforward. But it's also very complex in other ways. I've watched this very closely, and here's how it is straightforward. The narrative revolves around Bitcoin in particular, and I want to focus on Bitcoin because that is the currency that has been recognized as an inflation hedge. It's the modern version of gold, also what they call digital gold. You can't talk about crypto and inflation without talking about gold, which of itself is a commodity.

Since the war started, Bitcoin hasn't been acting as an inflation hedge. It's a risk asset. Its correlation to NASDAQ is like 90%. People ask why Bitcoin falls when the NASDAQ falls. People are saying we have a war, therefore it should be rising as we have record inflation. But why is it falling? I think it's because Bitcoin, just like gold, is following its natural evolution of how gold became an inflation hedge. That is in and of itself a narrative.

Gold was adopted by the market as an inflation hedge because the market decided over a period of time that they would trade it as an inflation hedge, or as disaster insurance. It's a last resort currency that you stockpile for times of extreme panic and fear. It was a replacement for fiat as a way to barter and actually pay for goods. It sounds primitive, but that was what it meant.

And if you look at gold itself, in some periods of time, it does not act as an inflation hedge. Sometimes it trades just like a pure commodity based on supply and demand. It also has a used demand, like electronics, jewelry, etc. But sometimes, it also trades as an inflation hedge. But for it to do so, it's taken a long time to get there, and as I've noticed, it happens in moments of extreme panic. I mean tail events. Even during Lehman, gold sold off perversely. If it's a disaster hedge, why didn't it go up?

The reason why is because in moments of panic and absolute distress, like Lehman on a global scale from a capital market standpoint, any asset got sold in order to raise liquidity because of the chain panic. That includes gold itself. Now, after the panic, gold proved to be a long term buy. People who did that prevail really well. Going forward to now, we have a war. Inflation is at record highs. Why isn't gold up? Forget about Bitcoin for a minute. Let's talk about why gold's not up.

Part of the reason why that is is because of the strong dollar. The dollar just hit record highs, and commodities are priced in US dollars in general. There is a narrative around oil being moved away from a US dollar benchmark. Russia is trying to do it, China is trying to do it, and the Saudis are trying to do it. They're trying to create this basket that oil will be priced in to get away from the US dollar dominance in the world. That will take a long time to evolve. That's a whole separate conversation, but it can happen.

Part of the reason why gold isn't going up here is because it's inversely related to the US dollar. In a strong dollar environment, commodities hurt. That is what keeps the lid on gold prices. Even though we have record inflation, you have to remember what's causing inflation. It's not just because of the demand that came back post-COVID. It was a very aggressive restart, and it created a demand surprise.

The major cause of inflation right now is because of a record supply shock to the commodities that's coming from Russia, and the fact that Russia produces so many commodities in such a concentrated quantity, including Ukraine. I mean, you can't talk about Russia and supply constraints on commodities without talking about Ukraine. It's the same landmass. Many of the commodities that are produced in the world are produced by both. And there's a disruption to both..

They produce a third of the world's wheat. They produce two-thirds of the world's platinum. They produce 97% of the world's palladium. And so, we're in a massive supply shock. That's happening, when demand just restarted. Now, while raising interest rates has been the traditional tool to try to fight inflation, it isn't going to stop a war. Powell raised rates today by 75, some say 100 basis points. But in my opinion, interest rates will not stop the price of bread from tripling, or milk, or aluminum. It's a supply problem, not a demand problem at all. Yes, if you raise them high enough, you're going to cause a recession. And yes, that's going to help alleviate some of the pressures on commodities. But it won't stop a war.

The other thing that's happening which is causing a strong dollar environment is Europe is hurting. Their currencies have been pressured, which has also increased pressure on the US dollar. Everybody's buying the US Dollar as a safe haven against the rest of the world, which is another perverse flow. That's putting pressure on gold.

Lastly, Bitcoin. When does Bitcoin become an inflation hedge? I think it needs more institutional adoption. It needs more eyes. It needs a combined narrative and trading style in mass, which institutions bring in terms of capital allocation, for it to be adopted as a digital version of gold. I don't think we're there yet. I think we're so early, but we're definitely heading there in terms of what I see in terms of institutional adoption. But right now, it's largely a risk asset. I don't know when it's going to become a gold-like instrument, but I do think it will get there eventually.

AYLA: I'll ask you a simpler question. Who are the unexpected winners in this inflation scenario? As an investor looking at this environment, it could be a case of putting your head under the blanket. But where should folks be looking for opportunities in the crypto world in general? From a trading or investment perspective, where are the opportunities that you see that could potentially survive another six months or so of up and down inflation?

IGOR: I'm going to keep pointing to short term and long term. I'm not tooting my own horn because I primarily deal with commodities, but I personally think the word is going to get resolved anytime quickly. I think we're in a very long bull run, and commodities in general are a safe bet. However, you have to be very specific. I think long term, because of energy transition like I talked about before, you have to focus on metals, or what I would call energy transition metals, just because of how hard it is to bring on new supply.

There will be short term fluctuations and short term oversupply, and there will be nuances depending on which mode you're talking about. But as a global macro theme, long term, we need metal in order to build all the renewables that are planned to be built. I like commodities, and I kind of hate everything else. I think there will be distress. As we head toward winter with no gas shut off, I think natural gas could be explosive above and beyond what's already going on in Europe, including power, because gas is correlated to power. I think gas could be explosive in the US, depending on temperature here versus temperature there. That's a short term thing.

In terms of crypto, I'm not Michael Saylor. I'm not a crypto maxi on Bitcoin. I own it, I hold it, I accumulate it. That's its own thing. In terms of blockchain, I own coins that I think are the winners of web3. And having lived through web1, as I'm sure many of you have, the majority of them fail. Dot coms went to zero, but we got out of that mess long term.

There are a couple of companies I'm betting on. I like infrastructure plays that are agnostic to platforms, but are the pipes, wires, and picks and shovels that will need to be used to operate blockchain and web3. I like and own some Chainlink. Actually, I like Cosmos because it reminds me of TCP IP from web 1.0. It's like a layer zero. I think certain layer twos are going nowhere. Even though Ethereum went through the merge, I think it's going to be a victim of its own success.

It's just going to attract even much more volume. And so, it's going to get congested. It's going to require off-chain solutions to speed up transactions. I think I like Ethereum more than Bitcoin, but in some sense I think Ethereum is actually harder money than Bitcoin. I think Ethereum is actual money, but not as a store of value like Bitcoin or gold, but I think in terms of value and deflationary mechanics. Those are some of the things that I like.

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Dennis Chookaszian

Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on

Susan Brazer

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on

Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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