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Commodities in Asia | Episode 8

Clara Ferreira Marques, Managing Editor, Commodities and Energy in Asia, Bloomberg News

We continue our *Commodities in Asia* series this week with Clara Ferreira Marques. Clara is Managing Editor for Commodities and Energy in Asia at Bloomberg News in Singapore. SmarterMarkets™ host David Greely sits down with Clara to discuss how China and the West are approaching the energy transition in Asia – and what’s at stake for Asian commodity markets, the energy transition, and global geopolitics.

Clara Ferreira Marques (00s):

I think it's hard to overemphasize this point that Indonesia and India need to create millions of jobs for young people coming into the workplace. Manufacturing is the way to create that level of jobs. You will not create those with the service sector. And both economies are extremely aware of that. So I think recognizing that dilemma and trying to provide a solution around it. So for example, could we think about diversified pricing? Pricing greener metals in a different way. Could we think about support for energy storage. There are other ways, encouraging investment in grids, for example, which I think is something that has really come out of the Indonesian experience. This is very necessary, it's just not very glamorous.

Announcer (37s):

Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?

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David Greely (01m 17s):

Welcome back to Commodities in Asia on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Clara Ferreira Marques, Managing Editor, Commodities and Energy in Asia at Bloomberg News in Singapore. We'll be discussing how the differences in how China and the West are approaching the energy transition in Asia are playing out and what's at stake for Asian commodity markets, the energy transition, and global geopolitics. Hello Clara. Welcome to SmarterMarkets.

Clara Ferreira Marques (01m 46s):

Hi.

David Greely (01m 47s):

I'm really glad that you're able to join us for this series on commodities in Asia. I think you have a really unique point of view as managing editor for Asia at Bloomberg News, you lead a team of more than 40 people covering commodities and energy from Australia to Pakistan, which gives you a truly unique vantage point and I'm glad you're here to share that with us. On this podcast, we often discuss the energy transition and there are different energy transitions happening in different parts of the world, different transitions and different approaches. And to a great extent, whether we succeed or fail as a planet in meeting the challenge of transitioning to a lower carbon energy system, we'll be decided by what happens in Asia. And the approach offered to countries in Asia by the west is a, a very different approach than that offered by China with the west at a high level offering financial assistance and China its industrial strength to drive down the cost of renewables, electric vehicles and critical materials. So I was hoping maybe you could start us off today by talking about the approach you're seeing the west take in Asia towards the energy transition and is that approach working in Asia?

Clara Ferreira Marques (03m 00s):

Well, that's a complicated question, but just for context, we're speaking here just as the UN summit begins in Dubai. So tens of thousands of delegates are gathering and going to do lots of different things over the next couple of weeks. Take a first global stock, take on progress towards the Paris Agreement. You know, hopefully we'll see an agreement on renewable energy, tripling renewable

energy capacity. And I think that's really where we get to the question about approach. Even if you just look at the need, the investment need that will come with that dramatic increase in renewable energy. If you look 2022, we invested more than 500 billion, about \$500 billion in renewable energy. We need to double that every year to 2030. So we need to basically be investing 1.2 trillion every year. The problem however, is much of that investment is obviously concentrated in the west, it's concentrated in developed markets.

Clara Ferreira Marques (03m 51s):

It's also concentrated in the energy generation rather than in these, all these other bits and pieces that are required and particularly required in developing nations. So that's grids, that's batteries, that's dealing with the use of renewables in industrial or in manufacturing in particular the jet piece. So these are the just energy transition partnerships been highlighted particularly last year. And it will be very interesting to see what comes of that in because I think that's quite indicative of the western approach as you say. So this idea that money from developed nations can help these developing nations with these often middle income countries. Actually, if you think about Indonesia, Vietnam, help them invest in renewable energy, help them invest in grid and infrastructures, wean them off coal and help them manage the just transition. In reality, if we look at the Indonesian experience, it has been very, very difficult.

Clara Ferreira Marques (04m 43s):

The only part that has really worked is increasing renewable investment, sort of the high IRR, the high end PV part, which to be honest would probably have happened without the JEE. So it's been a very interesting example of where the trouble really sits. It sits in the availability of capital, it sits in the willingness and the ability of financing entities take on some of these risks and it sits with some real problems around data. And in Indonesia that's around coal for industrial use. So what we call captive coal off-grid coal, it's difficult to even quantify that. And that's a vast amount not only of what Indonesia already has today in terms of coal-fired power generation. It's about a fifth, but it's 50% of the new additions that will come. So I think the jet piece is a really good example of why it's very difficult to sort of think of a switch that the west can flip by just providing this money as if it all sort of comes in one in one big block.

Clara Ferreira Marques (05m 35s):

In fact, we realize that the different types of money, whether it's grants or the concessional, where it goes, all of that is highly contentious and then there are parts of the economy, specifically manufacturing. So very, very difficult and if you look at all of these nations, that's vital because they are adding, they need to add a lot of jobs and manufacturing is crucial to that, which gets us to China's approach, which really has been, as you say, to support the mineral processing part of the energy transition. And in Indonesia in particular, just to go back to that example, I think it's, it's been very difficult because a lot of that is coal fired. So on the one hand you are helping Indonesia use their low grade nickel to produce something that could be used in batteries, but you're using coal to do so. So a very difficult compromise there.

David Greely (06m 21s):

You bring up the difference in the Chinese approach and often what we hear coming out of China is the great strides they're making in producing solar producing renewable. You know, we had Septian Seto on from Indonesia talking about how the Chinese technology in nickel production is about a decade ahead of what's available from the west and I'm curious, when you look at the strides China's making, how big of an impact is that having on how others in Asia are thinking about making their energy transition?

Clara Ferreira Marques (06m 53s):

There's two questions in that. I think because there are two different kinds of technology. So if you look at what they've done in processing and in Indonesia in particular, that's the ability to use low grade nickel to eventually produce something that you can use for your batteries. It's been revolutionary for Indonesia in terms of sort of the economic immediate cash, economic benefits. Obviously there's also huge costs that come with it. That's one of the things that China has done. It's exporting a lot of these highly polluting industries. So that's nickel processing. It's also aluminum, but they have also dramatically reduced the cost of renewable energy. So the, the generation, the solar panels in particular, and I think if you look at what they're doing domestically and in particular this week, we've just been assessing we just published a, an assessment of China's desert solo.

Clara Ferreira Marques (07m 40s):

So that's this big push that Xi Jinping announced in 2021 and it wasn't really clear how far they'd got and what we found is that the amount of solar and wind that's being deployed in desert and remote areas is absolutely gigantic. So, you know, to the point that they, they could actually reach their 2030 emissions target early. So where the overall, the, the program targets 455 gigawatts, which is basically the combined renewable energy capacity of Canada, Japan, Germany, and France. It's the whole of India in power terms. So yeah, I think it at, at the same time, of course they're still adding coal. So yeah, there is that.

David Greely (08m 18s):

No, and it's really staggering and I'm curious, often we hear when you scale solar renewables at that level, the hope of course is that not only do you have the power to supply in a lower carbon way, but you drive down the cost of creating it in the future. How much has that been happening with what China's doing, are we seeing even further declines in the cost of installing solar, wind, other renewables?

Clara Ferreira Marques (08m 41s):

So in some countries, yes, in other countries, no and that's because of policy constraints. So there are policy constraints in a lot of these economies that support fossil fuels. They may be direct subsidies, they may be infrastructure subsidies. So for example, it's difficult if you build a solar power plant to sell back to the grid. You may not be able to get the price you want. You may not be able to guarantee a certain price. So as an investor, that makes it quite tricky. And if you look at Indonesia and Vietnam, that has been, that has been the case. So I think that's one of the, one of the really big ones. Even though the actual solar panels are cheaper, the infrastructure around them is actually still quite challenging. I think the real trick will be the next stage and so that would be battery storage, so energy storage, because even China, you can see that at this sort of level record levels of renewable deployment, we're going to get to the stage where the grid can no longer handle that and it's getting wasted. So they will need to really scale up energy storage and if they can bring those costs down, that will really have an enormous impact, not only on China but on countries like Indonesia and India.

David Greely (09m 47s):

So where do you see the next steps for China and the West in terms of trying to, to influence the energy transition in Asia? Is it China going forward with battery storage the West, trying to figure out what it's doing on, on aid? What are the next steps do you think?

Clara Ferreira Marques (10m 04s):

That's a really good question and I'm not sure I have a very good specific answer for you. I would say that both sides will continue to do their thing. They will, you will see the west, the jet peas have been perhaps bumpier than we might've liked the South African one, extremely bumpy. Indonesia quite bumpy, but at least they still exist. And you know, the Vietnamese one was supposed to be presented this morning, the investment plan. So you know, some it is, the dialogue is still there and I think a few years ago we would not have thought that we would be having these conversations with middle income countries. As for China, they will continue to their deployment. The question marks then are geopolitical ones, will China be allowed to continue to sell these to the west of the rate that they have. Whether you have a doubling up of manufacturing, a doubling up of minerals, of mining, of processing, I think that's really where you could see some significant costs added and some real impact on, on the speed of the transition.

David Greely (11m 00s):

Yeah, I wanted to come back to the geopolitics in a second, but first I wanted to ask you a question on the economics. There's a lot of ambiguity, maybe a little less clarity than even normal when people try to assess the state of the economy in China right now. And I'm curious from your vantage point, what's your assessment of what's happening in the Chinese economy?

Clara Ferreira Marques (11m 21s):

That's a big question. The Chinese economy quite clearly has not recovered from the COVID pandemic and from the multiple years of being closed off from the world at the speed that they expected and, and that a lot of people outside China expected. You can see today with manufacturing figures, it's not great. You look at consumption by any metric, it's not great whether you look at things like pork. So pork obviously being the most consumed meat in China, it's a pretty good gauge. There's deflation there. If you look at diesel, I mean all of these point to not exactly a drop, but certainly not a ramping up at the dramatic speed that the world might have expected. We are seeing some quite significant moves from the Chinese government in terms of trying to stimulate, trying to get the economy going. But they are in a bit of a bind.

Clara Ferreira Marques (12m 09s):

And if you look at, I think iron ore is a really good example of this. So the iron ore price, somewhere around 120, it's gone up to 130. These are pretty high prices considering where the Chinese economy is. And so you have the evidence that the Chinese eco, the Chinese government rather, is trying to stimulate the property market. It's trying to get banks to lend into the property market to get that moving again. But at the same time, it's calling in commodities traders to say, no speculation, please, let's keep the price down, keep a lid on the price. So they really are a little bit stuck there for, for input prices overall, I think pretty clearly it's not going the way they intended, but they are quite constrained in terms of what they can do in the short term at least.

David Greely (12m 49s):

And turning to the geopolitics, maybe this is because I've been catching up on watching the series for all mankind, but part of it is, I wonder like are there elements of a space race kind of aspect here where China's pushing ahead in a lot of these energy transition with the solar, with the renewable, as you said, installing, you know, the equivalent of Canada, Japan and other countries power grids, the US trying to with its IRA, trying to influence the direction that this takes. I mean it seems like there's a lot at stake here in terms of approaches and systems and how that plays into geopolitics. And so I was curious, you know, we have big elections coming up in India and Indonesia. What's at stake here in terms of influence throughout the world between say the US and China?

Clara Ferreira Marques (13m 38s):

Okay, so I think when you, when you think about the geopolitics of the sort of energy transition race that's called it, that I think it's actually quite good for climate in theory, right because Everyone should be pushing to, to do this faster and getting more people manufacturing, you should be bringing costs down. In reality that may not be what happens because you have a doubling up of supply chains, right? And a doubling up of, well, particularly of the supply chains, which really will mean for example, that you might have to mine for minerals in somewhere in the US where it'll process them in a place that isn't particularly economically viable. In terms of the elections, I mean it really is an enormous year for elections next year and not just in Asia, but if you look at, so the UK, lots of the US so we'll have plenty to keep us entertained in 2024.

Clara Ferreira Marques (14m 24s):

But in Asia you have, apart from Taiwan, it's also quite significant. We will have Indonesia and India and I think those are quite interesting elections to watch from a climate perspective in both countries to a greater less degree climate will figure significantly in the election. It's not exactly a kitchen table issue, but it is a significant one. So if you look at India, it's been quite an important part of the sort of Modi presentation, this big push into soda, the big push into renewables, an idea that it would help make India a manufacturing sector. So catch up with China on the manufacturing front, India has had some success, perhaps not quite as much as Modi might've light and a lot of the infrastructure, the grids remain very problematic, still have a lot of coal India still pushing back on, you know, efforts to reduce elevated coal.

Clara Ferreira Marques (15m 09s):

So that will be an interesting one for India. If, if we do see a continuation of the Modi government, will they, for example, support efforts to reduce methane. Will they take a more significant steps to increase battery storage, increase energy storage to allow this renewable energy deployment to really take, hold Indonesia's an even more interesting one because the mineral processing push that we talked about earlier, this effort to use the mineral base that Indonesia has to leverage that to build a manufacturing sector, a really significant manufacturing sector to push the country into the EV supply chain, that has really been a core of the sort of developmental economics of the Jai economics. So Joko Widodo is the president, he's known as Jai, and this has been absolutely central, they call it downstreaming, sort of, I guess moving both up and down the chain depending on how you describe it.

Clara Ferreira Marques (15m 59s):

Anyway, they call it downstreaming and it's something that's really caught on. And he has also signed the jet piece. So he's done these two things that really seek to make it a greener economy. Can this continue. Quite possibly, but for the moment Indonesia has largely seen the benefits. They haven't yet had to deal with the costs either environmental or otherwise. That will be for the next administration. And Indonesia has this very complicated year through 2024 because the elections are early in the year. The president doesn't actually take office until the autumn. So you know, we don't have a lot of years to 2030. So losing a whole year to political machinations, it means there'll be very little legislation past, possibly none that is a little troubling for the rest of the world.

David Greely (16m 40s):

Right. And of course there are other geopolitical issues at play as well that aren't necessarily, you know, rooted in the energy transition. We've had the redirection of Russian commodities to Asia following the sanctions imposed by Western countries in the wake of Russia's invasion of Ukraine. I'm curious, how is that changing the dynamics of the commodity markets in Asia?

Clara Ferreira Marques (17m 02s):

Gosh, a lot. I would split that into two. So I think on the first, I'd think about it as how Russia's invasion of Ukraine has changed China's approach in particular to food and energy security. Now quite clearly these have been a focus for China for quite a long time, right. It's not new, you know, the, the Xi has been talking about food security since he came to power. It was a focus for China. Even before that, I think success of governments have been extremely aware that China has, you know, 1.3, 1.4 billion people, but not enough arable land

and importantly not enough water. So they're very aware of that. They're aware that they do not have enough of their own oil, enough of their own gas to manage. So there has been an increased emphasis in that after the Russian invasion of Ukraine, because where China has seen vulnerability is also on the economic front, right?

Clara Ferreira Marques (17m 48s):

It remains very intertwined. It receives a lot of these materials by sea. So that's a, a point of vulnerability and it looks at how Russia actually did a pretty good job of insulating itself economically and Russia is a, a large food producer, also a large hydrocarbon producer. So it's in a much better position. So we have seen, even today there was an article, a fresh article from Xi Jinping on the quality of Chinese soil and dealing with decimated polluted soil, basically, which is a huge issue for China. Lots of heavy metal in the soil and then energy security. And that's also been about diversification. So it's about diversification of supply for a lot of what China has to import, for example, soybean. It's also about dramatically increasing domestic production even at, even if it's not necessarily cost effective. So that's on the one side. On the other, I would say the big change has been Russia turning east.

Clara Ferreira Marques (18m 38s):

So Russia, obviously Europe cut off, it had to turn the other way. This has been easier for some commodities than for others for oil relatively, until the price cap came in for gas. Much, much more complicated because the entire infrastructure, as we well know, was turning west. It does not exist to the east. So they've had to they're having to deal with that. Now. Gas exports and gas is a percentage of, of the Russian government's revenue has, has dropped very, very significantly. What that has meant is that flows have changed. So we have seen, for example, Russia becoming not only the largest so China's now the largest importer of fossil fuels from Russia, but also India has emerged as a very large buyer of Russian fossil fuels and it wasn't before the war, it was really it bought its crude largely from Saudi, from other, from Iraq and now it's now it's really all about Russia, which does put India in a bit of a tricky situation because we're not always clear that it's buying below the cap at certain price points during the year. But really we have seen a very significant shift towards these two nations in particular. I think that's really where, where you both of them taking advantage essentially of, of discounted oil.

David Greely (19m 46s):

Right and returning to your first point about maybe China taking some lessons from Russia and its ability to withstand sanctions and the need to be a little bit more secure in your own commodity energy supply, you know, one of the, the things that was used to impose sanctions was the strength of the US dollar standing as the world's reserve currency access to the Fed Swift system and I'm curious, how has the, the role of the US dollar in being able to impose sanctions on Russia, how has that affected the view of the dollar, if at all, for commodities trading in Asia?

Clara Ferreira Marques (20m 25s):

I think it's something we've all been watching for a long time, and I think many people have declared the death of the dollar in commodities trading, and it's quite hard to see that in practice. What I would, you know, especially in percentage terms, if you look in percentage terms, you know, is still traded in the dollar, clearly it's the overwhelming majority. What we have seen this year is deals in alternative currencies this year, in last year, I'd say, but in particular this year, so since the price cap kicked in a lot more sort of digested, we've seen deals in Durhams. So in particular going into India. So India buying crude and Durhams and in the interesting thing as well is we've not just seen trades between China and Russia, also bilateral. We've seen other countries using the often under pressure from Russia.

Clara Ferreira Marques (21m 08s):

They don't want to use the ruble. Russia doesn't want to use, for example, the rupee. So there's a search for alternative currencies. Russia itself is using the UN a lot more. You can see that in foreign exchange trading. We can see that in even individual metals trades. It's still small, but it, it is emerging. The issue for China, of course is it cannot make the UN the sort of currency that it would like. It cannot get that sort of clout without allowing freedoms that it doesn't want to allow. So it's a little bit stuck here. You cannot have your cake and eat it. So it is trying as much as possible to expand in futures markets, for example, to encourage the use of yen in these trades as a sort of friendly south currency. But it is not easy. Countries are quite resistant because of the obvious risk that it, that it brings.

David Greely (21m 55s):

And I wanted to come back to a little bit of where we began this conversation with the, the energy transition. Clearly we now have COP 28 is underway. What do you expect out of this COP?

Clara Ferreira Marques (22m 08s):

Well, I think the one thing to know from multiple cops is to manage your expectations. You know, COPs don't solve problems. They are ultimately incremental. I think it would be fantastic to see, and I hope to see some positive movement on renewable energy, some positive movement on methane, some positive movement, perhaps even on fossil fuels and certainly some positive movement on loss and damage, which has been, you know, very, very difficult to get to this point where I would, but perhaps it's less realistic. Where I would like to see discussion is around the effective use of finance. So how do we actually get finance provided by the developed world to be going to the right places and to have the right sort of money. So it's not very useful to say we sign a deal in its \$21.5 billion, but then not actually tell us exactly how that splits down, how exactly you would like it deployed and where exactly it's coming from. Because a lot of these financial institutions who are supposed to be crowded in still have, for example, cold exclusion policies. They still have fiduciary duties to their shareholders. So I think a little bit more nuance around the financial conversation and recognizing that this is a tiny, tiny amount of what the world needs.

David Greely (23m 21s):

Right and thinking about what the world needs, you know, both on the financial side, on, you know, being able to do the transition in a cleaner way. You brought up before aluminum, nickel, some of these things that are produced. What are some of the issues surrounding how we do the transition in addition to the financial that you think should be the focus of some discussions, even if they're, they're not currently?

Clara Ferreira Marques (23m 47s):

Well, I think in the industrial issue is, is a big one because I think there is an expectation, and this is very much how it's perceived from the middle income countries in Asia, that you're basically told to get rid of coal. But of course they will tell you, well, a what am I supposed to use for generation because if you look at these countries, often the grids are not built properly. So, or there are no grids, or the grids are old or yeah, more often than not, they simply don't exist. So coal is a much easier, so not to defend it, but it is just simply has been historically easier. The problem then is to recognize that they have these dilemmas, they have to provide power generation, you know, a lot of people still living in energy poverty or without access to electricity at all.

Clara Ferreira Marques (24m 30s):

You want to develop your economy, you want to create a manufacturing sector and I think it's hard to overemphasize this point in Indonesia and India need to create millions of jobs for young people coming into the workplace. Manufacturing is the way to create that level of jobs. You will not create those with the service sector. And both economies are extremely aware of that. So I think recognizing that dynamic and trying to provide a solution around it. So for example, could we think about diversified pricing, pricing greener metals in a different way. Could we think about support for energy storage? There are other ways encouraging investment in grids, for example, which I think is something that has really come outta the Indonesian experience. This is very necessary. It's just not very glamorous.

David Greely (25m 12s):

And I, first, I want to thank you for a great conversation. Then I have one more question that I, I wanted to ask you about, which is, you're a journalist, you're the managing editor for Bloomberg News. I was curious, you, you've told us a lot, so maybe the answer's already in here, but I would love to know as we get to the end of 2023 and look forward to 2024, what are some of the stories that you think we'll need to be paying attention to and following in the next year and are there any little nuggets, any signposts you're looking for that would let us know if we're on the road to success or failure?

Clara Ferreira Marques (25m 47s):

Hmm. Okay. So the things that I am looking forward to reading about and writing about in 2024, I'm very interested in the whole Russian shift to the East, as we discussed earlier. So how sanctions enforcement will change not only for Russia, also for Iran, but in particular for Russia. How that will change, how that will continue to build these new networks. The Dark Fleet for example that obviously has been a huge transformation, hundreds of ships and in particular in my part of the world. So I sit in Southeast Asia. It's obviously been very, very significant here. A lot of the transshipping is happening here. I look for that. I'm very interested in energy storage. We're really looking to see how China approaches that problem and the scale at which they approach that problem and what that will mean for the rest of the world. We do look at food security.

Clara Ferreira Marques (26m 34s):

This year has been a very difficult year from a food protectionism point of view. I know we didn't really go into that side of the commodity space, but if you look at things like rice sugar areas where India, for example, to deal with structural problems in its agriculture has had to put in place these export curbs. We do have more nationalism coming in. We see that even in the metal sector. So a lot of that feeds through into food. So food security and how countries deal with that, in particular, how China deals with that I think will be very, very significant. Also, India, of course, is a huge food exporter. So what happens with them will determine how we all feed ourselves, and in particular how some of the major importing nations in Africa, so some of the most vulnerable feed themselves. So that's another one for us. But yes, all of the same, all of the same issues continue into, into 2024 and all these elections, as you said earlier.

David Greely (27m 22s):

Well look forward to following your writing on it. Thanks so much for joining us today. Really appreciated your insights and perspectives.

Clara Ferreira Marques (27m 29s):

Thanks so much for having me.

David Greely (27m 33s):

Thanks again to Clara Ferreira Marques, Managing Editor, Commodities and Energy in Asia at Bloomberg News in Singapore. We hope you enjoyed the episode. Join us next week as we continue our series Commodities in Asia. We hope you'll join us.

Announcer (27m 48s):

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Announcer (28m 36s):

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