

CHINA

China's Massive Energy Demand Starts its Next Leg Up

| Edited by Gregor Macdonald

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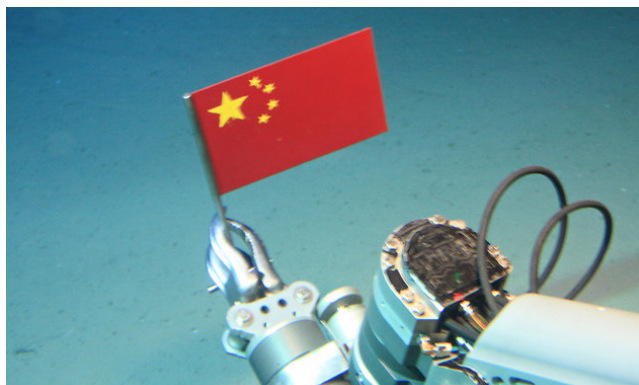
This week on StockTwits.TV:

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CHINAGY

China's industrial revolution continues to perplex macro observers who expect every volatile downtick to morph into a perma-crash, thus validating their narrative. Well, that's just not happening. Recent GDP data showed a restoration of growth rates typical before the financial crisis of 2008. The implications? China's back on the march, adopting autos, importing oil, but most of all: inhaling coal. Make way for Chinagy.



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The billionaires are negative and the common folk are negative. Perhaps this is not so "positive."

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A quick-take environmental accounting in China may suggest GDP is overwhelmed by enviro-damage.

A NOTE FROM THE EDITOR

Welcome to StockTwits Macro Weekly, the weekly magazine of the StockTwits investment community. Each issue features a core essay, written by the Editor. Around this, we build in the key news events and observations, from the past week. [To have each issue sent to you, sign up here.](#)

You will also find StockTwits Macro Weekly functions as a live document, that is eminently clickable and is therefore a helpful launching pad to other relevant content. Feedback from readership is welcome, and we are always on the lookout for written contributions from the community: gregor@stocktwits.com

A promotional graphic for Gregor Weekly. It features the Gregor Weekly logo (a house icon) and the website URL gregorweekly.com. A yellow starburst graphic says "Premium Blog". Below this, the text "Member Benefits" is followed by a list of four items: "Hand crafted model portfolio", "Real time changes to model portfolio", "Mid-week portfolio discussion", and "Weekly macro note". At the bottom, a dark red banner says "Sign up for two-week free trial".

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CHINAGY—For a decade now the China Crash Bears have tried to articulate the means by which China’s “fake” or “unsustainable” economy would come to an abrupt end. However, in a developmental pattern that largely tracks the big swings associated with industrial revolution more generally, China continues to push forward, macroeconomic warts and all. The post 2008 environment has been particularly instructive to those who would both deem China a pending disaster, and, who would naively place faith in a China as a miracle. Problems are myriad in China, from environmental degradation, to now emerging wage and price inflation. But fast growth, overbuilding, and real estate speculation alone are not enough to declare China’s economy as little more than a falsehood. Growth doesn’t have to be pretty, or smooth. China’s GDP is now seeing a full restoration since the post 2008 global weakness began, by rising 13.9% year-over-year in August, in data [just released this weekend](#). Meanwhile, in a new flurry of global deals for coal-sourcing, and also in combination with recent data on automobile adoption and oil imports, it appears that China is once again going to push back against any premature obituary. For, it appears the next leg up in China’s energy demand has now begun.



Oil bulls have been partly redeemed, and yet partly rebuffed, by China’s growth and adoption of automobiles. In other words, China has surprised (as always) both sides of the trade. What macro observers failed to comprehend coming out of the last decade, is that the fuel composition of China’s energy demand has not been defined by oil, but rather by coal. This does not take away from China’s almost scary-fast adoption rate of automobiles. Total vehicle

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StockTwits.TV: Value Plays with Todd Sullivan



Feeling bearish? You're not alone. You should watch an hour of [Value Plays TV](#) with Todd Sullivan. Because Todd has a very effective way of knocking down extreme sentiment on the market and the economy, which of course is very skewed these days in a negative direction. Todd counters our current moment, in which everyone from billionaires to the man on the street is feeling grim, not with broad assertions but with facts. Todd brings the data.

Value Plays TV each week provides a very good take on the market, and in particular security analysis. As one might guess from the title, Todd has a [classic value investors perspective](#) and he has been excellent in the post 2008 environment in spotting, selecting, and latching onto the deep discounts that the financial crisis produced. This week, Todd brings very helpful charts and sentiment data to probe we markets are, right now. [Watch the show here](#).

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sales in China--that's all cars and buses and trucks--rose an unbelievable 55.7% in August from the prior year. Moreover, China is either stockpiling oil or simply demanding more oil (or both), as recent import data shows another new leg up in China's voracious appetite for oil. Again, in August, oil imports were up 13% on the year and are up [22.7% in the first 8 months of this year](#) to 4.76 mbpd (million barrels per day). It was only 2-3 years ago that some very good oil forecasters--who also happened to be bullish on the price of oil over the long-term--felt that China's oil use would see a moderation in its growth rate. Some had predicted that China's total consumption of oil would begin to slow significantly at the 7-8 mbpd level. Well, China is now *importing* nearly 5 mbpd. And this is on top of the [nearly 4 mbpd](#) they are producing domestically. Let's consider the recent increase in imports, just cited: if China in 2010 increased imports by 22.7% over last year, that is a swing higher of 0.88 mbpd. Not quite a swing of a million barrels, but certainly moving there directionally. But here's what's rather mind-blowing: energy demand growth in China is not really defined by its adoption of oil. Rather, it's China's adoption of coal that is now the big story.

China's coal-based pollution has been a blight on the country's landscape for years and the past decade has seen a variety of horrors from increased coal-mining disasters, to an advance in health problems. Whole towns, farms and regions have also been dislocated as a result of either official mining or wildcat mining of coal. In certain areas, like Shanxi, [land subsidence from underground tunneling](#) is a serious problem that destabilizes structures, and causes mini landslides. Neither is China particularly willing (or even able) to significantly slow down its coal consumption, despite its more recent adoption of Wind and Solar power. Indeed, the electricity currently being produced by coal-fired power generation dwarfs the nascent, recent move

towards renewable energy and this brings up a common misconception of scale. Here's how: it's understandable that when Western observers see the *pace* of new Wind and Solar adoption in China, owing to its fast growth and enormous population, they project an enormous catch-up of clean energy as part of China's energy mix. But that's just not the case. Coal consumption in China, already at an exceedingly high level, continues to grow. Consider the quantity of BTU as represented by China's nearly 9 mbpd of oil consumption. Now consider that China's BTU consumption as represented by coal is *four times that of its oil consumption*, and thus the [admittedly fast adoption\(s\) of wind and solar](#) pales by comparison.

The most enduring line of attack from the China Crash Bears over the past decade has been to make a mockery of the de-coupling thesis. With the Chimerica dynamic so inextricably bound to both the US and the Chinese economies, surely there would be no way China could step back from the relationship and spur domestic consumption, right? In other words, de-coupling would either be catastrophic or impossible. This has turned out to be completely wrong. The 2008 financial crisis and global industrial collapse was the opportunity for China to trigger massive domestic fiscal stimulus, as it threw hundreds of billions at infrastructure, [encouraged citizens to buy silver](#), and generally pumped up the domestic economy. In addition, China reached out to new trade partners around the world and diversified those relationships. One result is that China is hooking in more forcefully now to cross-trade within the *developing* world, as US consumption remains punk. In fact, recent deals in the past few months highlight China's newer orientations.

Both [with Russia](#), and [with Indonesia](#), China/Chinese companies have signed enormous, long-term infrastructure deals in trade for long-term oil coal supply. The deals make

Energy in the Mountain West



Colorado produces five times as much natural gas as it uses. Nevada and the eastern deserts of California are on the threshold of a revolution in solar power generation. Research institutes from Los Alamos in New Mexico, to NREL in Denver conduct work on energy. Wind power is growing steadily across the region. Perhaps, therefore, it would make sense for the intermountain West to take the lead in energy transition research?

This is exactly the conclusion this month from [a study out of the Brookings Institution](#). Combining the region's energy resources, from oil and gas in New Mexico and Colorado, to its sunshine and wind intensity, Brookings sees an opportunity to also harness what they call *innovation resources* to find solutions to power generation, and the power grid. Leveraging existing institutions will be key according to Brookings, especially the universities. Could the Ft. Collins-Boulder-Golden, CO corridor be the site of the next smart-grid advance? Brookings has identified that region as being poised to make a significant contribution to the problem of powergrid efficiency.

Survey Says



It's not just the billionaires who are pessimistic on the US economy. Or wait, shouldn't that be: it's not just regular Americans who are pessimistic on the US economy? Two surveys out this week actually show the following: just about everyone is negative on the US economy's outlook.

Byron Wein has been gathering high net worth folks every Summer for the past 25 years to get their read on the economy. [So dour is the sentiment among this group](#) they're not investing in developed world markets so much as they are in Africa, and farmland. (Editor's comment: these are two areas that are drawing alot of direct investment from China).

Usually there's a silver lining for stock market investors in readings such as these. A [StrategyOne survey](#) showed 7 out of 10 Americans saw the country as broken, with over half saying the country's best days are now a part of the past. With such uniformity of thinking, perhaps this bodes well for stocks? Not exactly. Negativity among Americans appears to be crossing a new threshold, and now looks more like the onset of rigor mortis for optimism.

sense on a couple of levels. First, both Indonesia and Russia are likely to have vast remaining resources of coal and in the case of Russia this is particularly true. A 100 year Oil Age has generally meant that, since 1945, the world has not called upon coal resources with the same force as the world called upon oil, to fund industry. Second, now that the supply of oil can no longer be increased, it makes sense for China (and also India) to secure coal supply as both countries essentially started a coal adoption pathway--not an oil adoption pathway--some years ago.

Unfortunately, the resumption of a new industrial revolution in Asia since the late 1990's means that for the first time in over 60 years, the world is now hitting coal resources very hard, and since China has already developed more along the contours of the power grid rather than liquid fuels, it, like the rest of Asia, is looking to fund growth mostly through coal. The China Crash Bears will be proven correct eventually, no doubt--especially as both India and China have tried to replicate western automobile adoption. That particular trajectory is unsustainable (there simply isn't enough affordable oil) and will soon enough hit a wall. For now, however, China's resumption of strong demand growth for both oil and coal is a pulse that looks set to refute the hopes of those concerned with climate change, those who have [predicted peak coal](#), and those who mistakenly believe the world is well supplied with oil.

--Gregor Macdonald, 12 September--Amherst, Massachusetts

~The Parting Shot~

It is estimated that eco-damage of 13.5pc of GDP each year outstrips China's growth rate of 10pc. National wealth is thus contracting! --[The Automatic Earth, on Twitter](#)