

# TRANS SIBERIAN



## A Moscow-Beijing Accord Opens a New Currency Era

| Edited by Gregor Macdonald

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On Momentum Monday

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## TRANS SIBERIAN

Almost quietly, just before the American Thanksgiving holiday, Moscow and Beijing agreed to conduct future bilateral trade in the Ruble and the Yuan. Thus displacing the dollar. The event was barely covered in the media. Though, the econo-blogsphere saw the shift as tectonic. Was it? Is this really revolutionary? This may turn out to be a story about resources, rather than the dollar. A different kind of bad news for the US.



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The most famous name in global finance has just locked up major energy resources in Asia.

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Conflating the stock market and the economy is perhaps not the best way to talk about...the economy.

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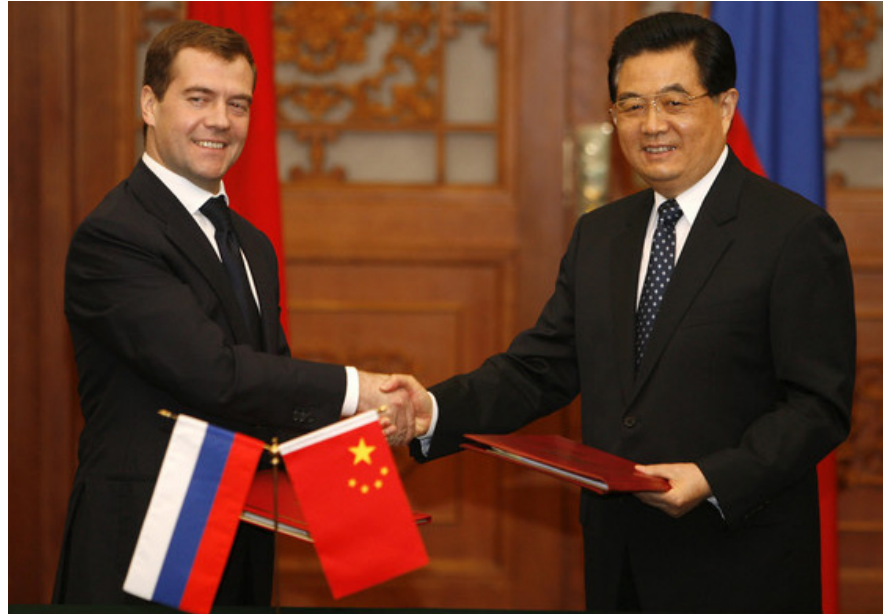
Even as Russia's oil production growth has slowed, its contribution to world supply is impressive.

## 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](mailto:gregor@stocktwits.com)

**TRANS SIBERIAN**— The announcement last week that China and Russia would use their respective currencies for bilateral trade, thus displacing the dollar, was one of those broad geo-economic news items the financial press sometimes chooses (curiously) to ignore. Perhaps the press feels 56 billion in annual trade between the two developing nations, [and growing rapidly](#), is not worthy of mention. And, maybe that's true. Maybe in a world of trillion dollar



budget deficits in the US, with GDP of both the US and Europe at more than 10 times such an amount, trade at levels than 100 billion between China and Russia amounts to little more than an asterisk. However, the potential for trade between the two countries is quite enormous, and this may be more of an emerging resources story than a dollar story. To be sure, some of [the excitement around the economy-blogsphere](#) probably did overstate the affect on the US Dollar, from the Sino-Russian accord. What does seem important is that this is another significant step in the [internationalization of the Yuan](#). And that Russia, with its massive base of untapped natural resources, has moved closer yet again to China. Resource Producer, meet your new partner: Resource Consumer.

OECD nations, meanwhile, once again seem a bit clueless about their own structural shortage of natural resources, as Russia is allowed to slip away further towards Asia. While it is widely known that the United States imports nearly 70% of its oil, and that Europe is heavily reliant on trans-continental shipments of Russian natural gas, few are aware that Japan is the largest importer of natural gas in the world, or that coal--which Russia has in vast, untapped quantities--is the new energy source for the developing world. Furthermore, while OPEC nations have fast growing populations that are now consuming increasing amounts of their own oil, Russia's

**Indexes**

INDU 11052	TNX 2.82	GOLD 1364.00	VIX 21.53	SPX 1187.76	DXY 80.875
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## **StockTwits.TV: Momentum Monday w/ Howard Lindzon**



In Variety Magazine every film director is referred to as a Helmer. And when it comes to Howard Lindzon's hosting of StockTwits.TV, he is every bit the helmer.

Howard hosts two regular shows, in addition to conducting a lot of spot interviews. A fun show that airs every week is [Momentum Monday](#). This is an occasion to highlight the individual stocks and the global markets that are currently running to the upside. This week Howard highlights the big tech names, and also the select Asian markets that have been doing well. Seen Thailand's market recently? The [\\$THD](#) ETF is up nearly 50% this year. Peru and Chile have also roared in 2010.

One of the best features of Momentum Monday is Howard's discussion of [The StockTwits 50](#), the best momentum tracker on the web. [Watch the show here](#).

[StockTwits.TV](#) can also be taken as an iTunes subscription.

economy remains dwarfed by its own oil production power. Indeed while many assume Saudi Arabia is still the world's number one producer of oil, that position was ceded to Russia nearly two years ago. It is a surprise that the West has not courted Russia more concertedly, despite the Moscow government's ornery, resentful attitude towards London and Washington. This is perhaps yet one more indication that the West continues to sleepwalk its way through the early years of the 21st century. While the US spends a trillion each year to lock down difficult oil resources in the Middle East, China meanwhile is taking a more direct route by sourcing its energy supply right next door.

One of the grim realities of post-Soviet Russia, not often talked about, is that the collapse of the Soviet Union increased mortality rates, triggered a Russian diaspora that fanned out across the world, and generally suppressed the rate of Russian population growth. The result has been a discontinuity in the size of Russia's economy. It was not until 2007, for example, that the pre-collapse GDP of 1990 was attained again after a deep and long economic trough. There are a number of complications in these measurements, however. Not least of which was the command and control nature of the Soviet economy in which energy-hungry industrial growth was stipulated by the government, instead of being generated organically. And while contemporary Russia is growing strongly now on the back of world demand for resources, its weakness is partly demographic, in that it does not have enough domestic demand to capitalize fully on its potential energy flows. Meanwhile, China is running into a wall of domestic energy demand in the face of pressured world supply. Not only for oil, but for coal.

It is a truism that to convert resources into useable form one must have strong, developed demand. The economic curiosities of post-soviet Russia have been detailed well

by such writers as Dmitry Orlov, author of [Reinventing Collapse](#). Orlov has pointed out that the surge in Russian oil production the last decade would never have been possible if solely reliant on a contracting domestic economy, and at this century's higher price level for oil. Russia lost so much industrial demand internally that to bring on the next tranche of oil resources would have been simply uneconomic. It was only Asia, with its unique ability to pay much higher prices for oil, that would play a key role in lifting Russian oil production. Indeed, at the start of last decade, Russia was only producing 6.48 mbpd (million barrels per day). But in 2010, Russia has been producing 9.68 mbpd--an astonishing increase that has no parallel globally. Indeed, while no world oil producer including any member of OPEC has increased oil production meaningfully since 2004, Russia has charged onto the scene as it moved from supplying 9.40% of world oil supply in 2001 to now 13.2% of world supply. That is a huge shift in Russia's economic influence, but it has come quietly. Perhaps too quietly for Moscow.

The Russian government still seems to struggle with a lingering cultural wish for its lost empire. This nostalgia appears to drive a lot of political rhetoric also, especially from Putin, about the outsized role the US still plays in the world. The past few years has seen no shortage of complaint--much of it very open--about the role of the USDollar, and the need for the world to diversify away from the dollar standard. Equally, Russia has made several announcements now declaring its accumulation of Australian [and Canadian Dollars](#), and also gold. But none of these protests or attempts to break free from the dollar standard would compare with the opportunity presented by China, and Russia's ability to accumulate the CNY. Russia's current population is just 1/10th of China's, at just over 141 million. That's down from nearly 150 million in 1990. That population is too small to trigger the next wave of Russian

### **Front Running China**



One of the great games over the past ten years has been to buy what China is buying. This was true in copper, in oil, and in iron ore as investors and mining companies snapped up marginal resources when they saw China coming. Targeted regions for this quiet competition have included Canada and of course Australia. Somewhat off the radar until now, however, has been a country like Indonesia which itself had to leave OPEC several years ago, as its oil production peaked and went into decline. Surely Indonesia does not have excess resources to offer a country the size of China, yes?

Enter Nat Rothschild who clearly has figured out that a second wave of coal extraction is now underway. Rothschild raised capital, formed a shell corporation in London, and now has promptly purchased 25% of Bumi Resources and 75% of Berau Coal which essentially makes his Vallar Group [a major player in Indonesian coal](#). Now that oil is no longer increasing in supply, formerly big oil producers are turning to their coal reserves. After all, the 70 years of the Oil Age left a lot of coal resources untouched, in the ground.

## Cavalier About Bears



It takes a brave newspaper columnist to downplay tough economic conditions, especially if your beat is Los Angeles and your state is still suffering its worst slump since the 1930's. It seems that Tom Petruno, columnist for the MarketBeat column in the L.A. Times, has tired of commenting on [the dire straights faced by residents of California](#). Who wouldn't? The state's housing market peaked nearly four years ago but its employment has returned to levels ten years ago. With no improvement in sight.

Seems Petruno got the idea for his column, [Still betting on economic doomsday — and still waiting](#), from The Big Picture where Barry Ritholtz decided to call Time on the stock market bears, and gave them a well-deserved reality check. The thing is, or rather, the problem is: [Ritholtz conflated the 18 month stock market rally with the real economy](#). That's usually problematic and in the current economic situation, with its high rates of structural unemployment, it's especially so. The rising stock market has not improved California's economy, state budget, or tax revenues. Seems Petruno took the Ritholtz piece, and ran a bit too far.

oil production. But by selling higher priced oil to China, which can easily afford both current prices *and even higher prices*, Russia maintains the flow required to extract its next tranche of higher cost oil--and coal.

For China, with its [exploding demand for automobiles](#) and its newly pressured coal situation as it tips more heavily towards coal imports, a currency liberalization with Russia has obvious merit. Furthermore, China is only too happy to spend capital out of its massive reserves by building infrastructure across Siberia to smooth the sourcing of its energy supply. These are not projects Moscow would have likely undertaken speculatively. Meanwhile, by accumulating rubles, China will have a flexible call on future Russian energy supply and also strong means to diversify its own reserves. The agreement between Moscow and Beijing is therefore more evolutionary, rather than revolutionary. However, the United States has been handed yet another in a series of 40 year warnings that its use of might, and its dollar, to forever secure energy supplies is an unsustainable strategy.

--Gregor Macdonald, 29 November—Amherst, MA

