

## The Outlook: Oct. 13, 2021

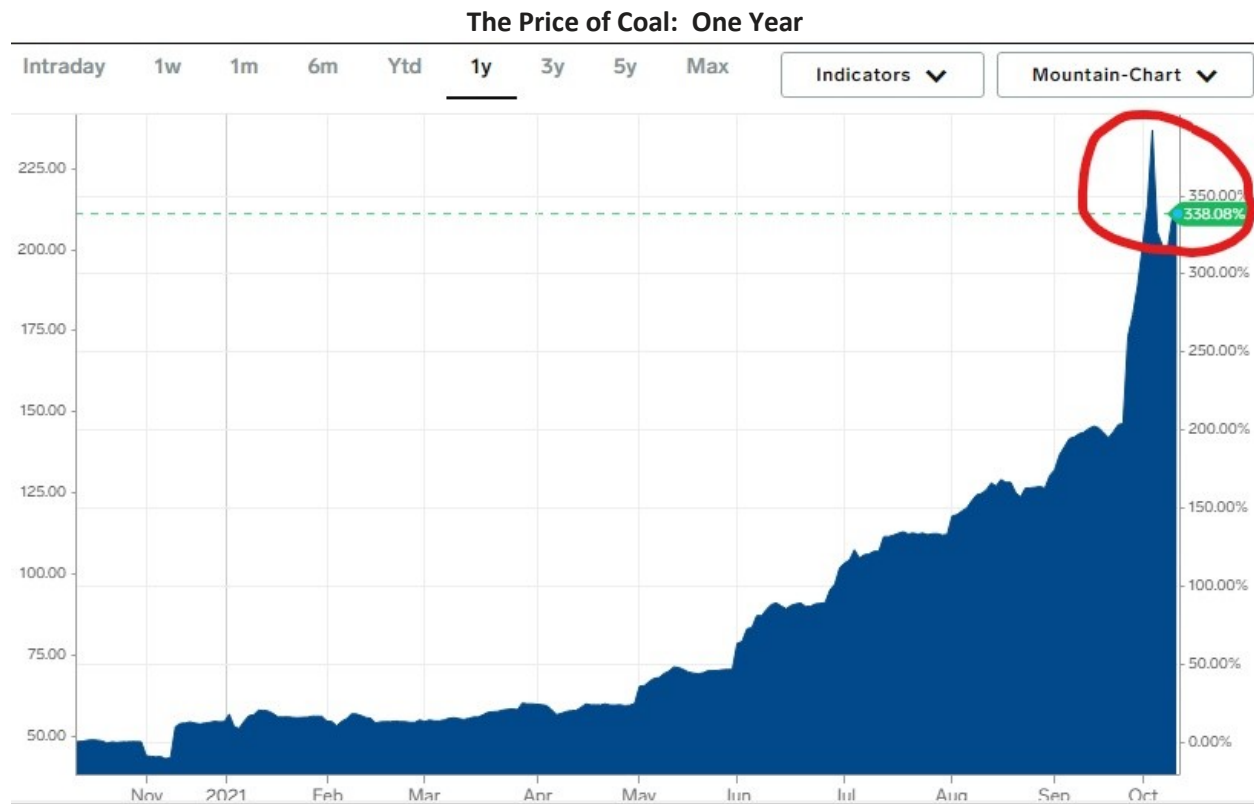
### **Energy: impressions getting canceled . . . not facts.**

At Outlook we've mentioned, once or twice, that the worst thing we investors can do is make decisions without knowing all the facts: seeing the "whole picture" instead of the impressions created by splashy headlines about some corner of the picture (usually a dark one.) Of course it's easy to preach against this mistake, but a lot harder to stop making it—since none of us has the time needed to gather all those facts, all the time, surrounding decisions we must make. Hence the value of a few "Golden Rules", which might not give us all the information we'd like, but might very well stop us from going too far in the wrong direction.

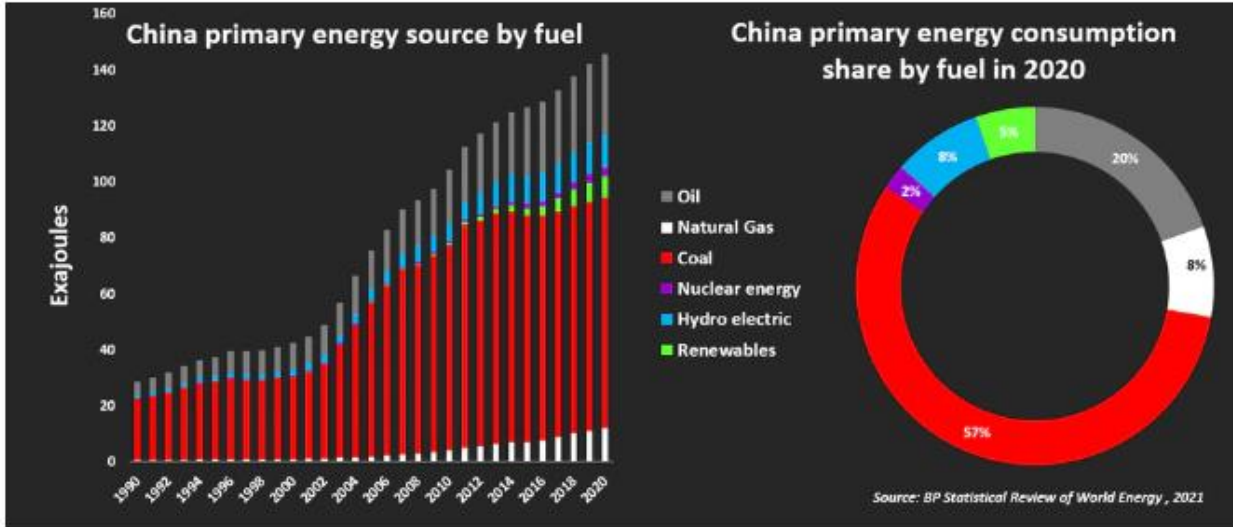
There have been some pretty startling facts showing up, these days, in the world energy market. Here are a couple of the Golden Rules those facts might remind us about.

- **Never swallow the impressions created by headlines.** Around 99% of them are misleading, to be polite.
- **Never swallow the impressions created by politicians.** That's a pretty high "misleading" number, too.

We'll get back to these rules in a moment, but let's glance at a few pictures first.



**Where China Gets Energy: Coal (Red) and Oil (Gray)**



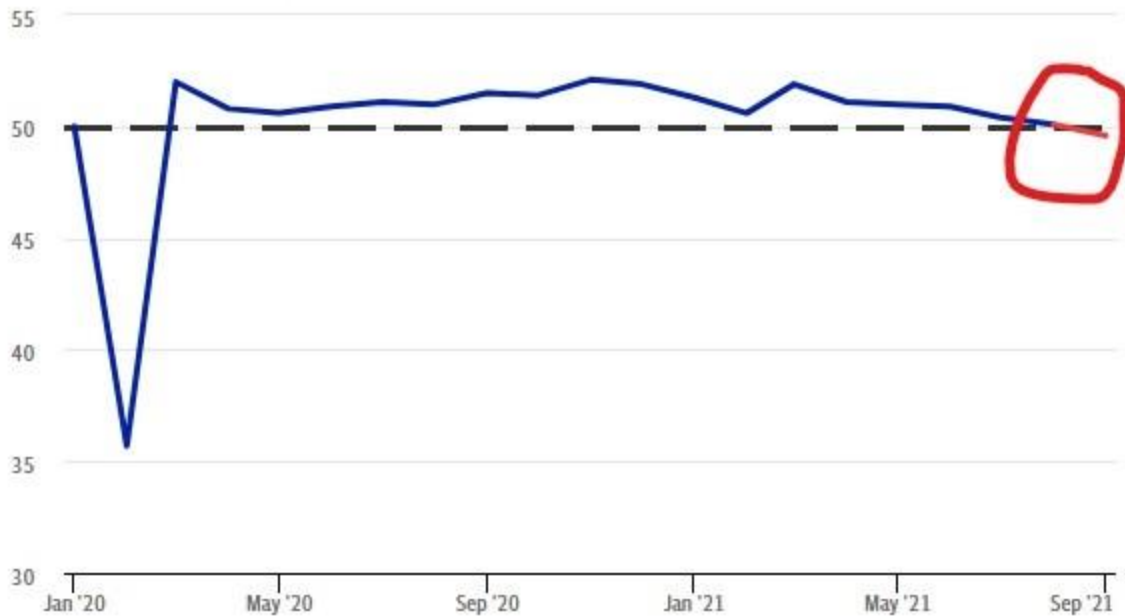
China primary energy source by fuel

Coal, of course, is the most hated fuel in the world . . . at least among politicians and people who needn't worry about their cost of power. If we investors had swallowed the impressions created by the past several years of headlines and politicians' promises, we'd have ruled out investing in coal. Green energy was stamping out coal, apparently, with nearly-unanimous support from political leaders around the world. Mr. Xi, in China, was one of them. The idea that coal might rocket up 340% in a year, driven by desperate demand, looked like nonsense.

But that chart on top isn't nonsense, but the real world. So is the second chart, showing just how impossible it is for China to do anything to stamp out coal (and oil) for a long time to come. 77% of China's giant economy is fueled by those two items. That makes China's coal and oil demand like the Queen Mary: it changes course slowly—very slowly—no matter how many impressions suggest otherwise. Here's the next picture:

## Chinese manufacturing has contracted for the first time since Feb 2020

### *China manufacturing PMI*



\*Any score above 50 indicates growth

Source: National Bureau of Statistics china

Along with this picture came two news items from China:

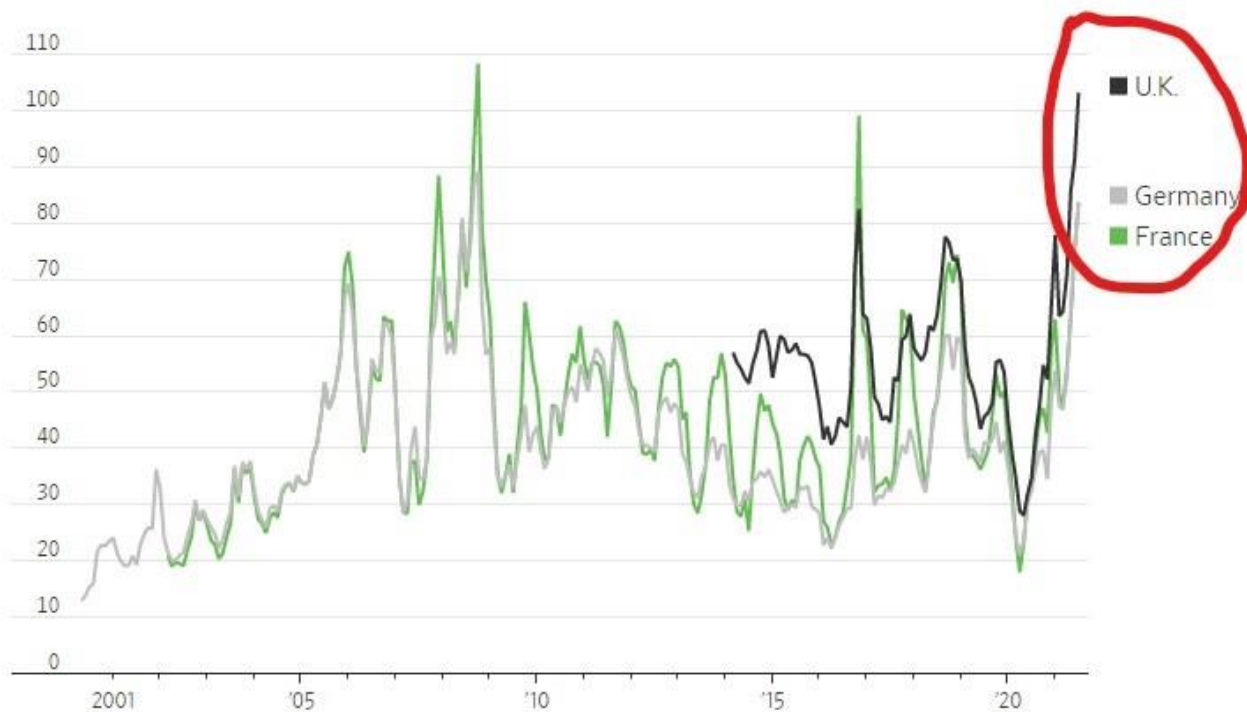
- The government canceled its price controls on energy, for business users. That is, China's power companies can charge commercial and industrial customers whatever the market will bear.
- The government urged coal mining companies to ramp up production as fast as humanly possible.

If we all had been taking Mr. Xi's public promises at face value, lately, our jaws would have dropped at these two news items. Mr. Xi has been making a great many promises to follow in Europe's path: "decarbonizing" the economy, clearing up pollution right now, and so on. *But too little power for too many Chinese people would be a catastrophe.* Those 2 news items make it perfectly clear that Mr. Xi's practicality overwhelms the purity of his Communist ideology. "Thank goodness!" might be flashing through the minds of those billion.

Is this cold dose of facts only showing up in China? Nope. The cold shower pictured below is coming down on most of Europe's 750 million people just now, as well. Unless that spike in costs vanishes as fast as the last one did, in 2017, Europe is in for a cold winter or high energy bills, or both. At Outlook we think this particular bad news will stick around for a while, because it's the creation of too little energy supply for too long . . . and demand which is trying hard to recover "normalcy" on the heels of Europe's very prolonged Virus and Lockdown Calamity.

## Monthly European electricity prices

€120 a megawatt-hour



“Never swallow the headlines,” and “Never swallow political talk.” At Outlook we doubted the headlines and the politics, these past years, when they gave the impression that oil and gas were terminally sick if not at death’s door. Supply and demand in a world economy are very, very powerful forces. They are not canceled out by the media or by politicians. We aim to stick with our positions in Conoco and Exxon, as well as others which benefit from those forces, like Freeport and the “heavy industrial” companies like Caterpillar and Cummins. It will be a bumpy ride as usual, but worth it.

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