



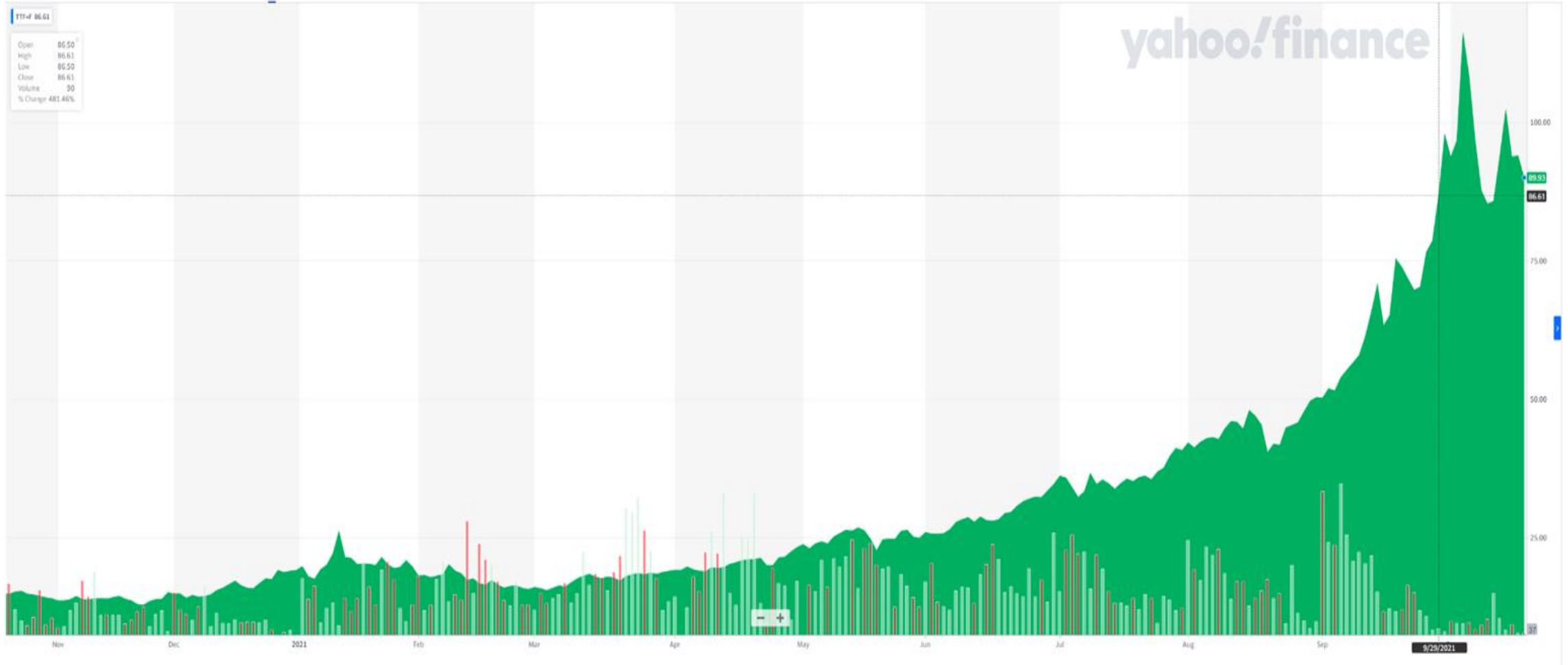
IS AN ENERGY CRISIS INEVITABLE?

Agenda: The Great Energy Bubble and Bust

- Roll up for the amazing energy bubble
- Demand drivers
- Supply drivers
- Paths of resolution
- Investment implications

The amazing energy bubble

- Thermal coal 450%+; Coking coal 230%+; European gas 1000%+. WTI 100%+



Demand drivers

- Chinese coal: huge industrial demand on US goods binge. Hot summer depleted inventories.
- European hot summer as well boosted power demand.
- US reopening for oil demand.

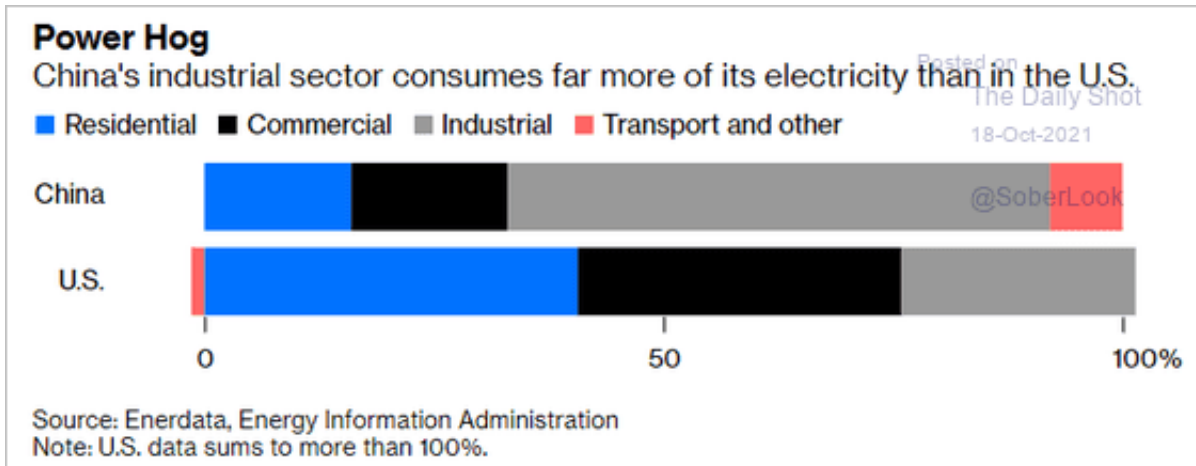
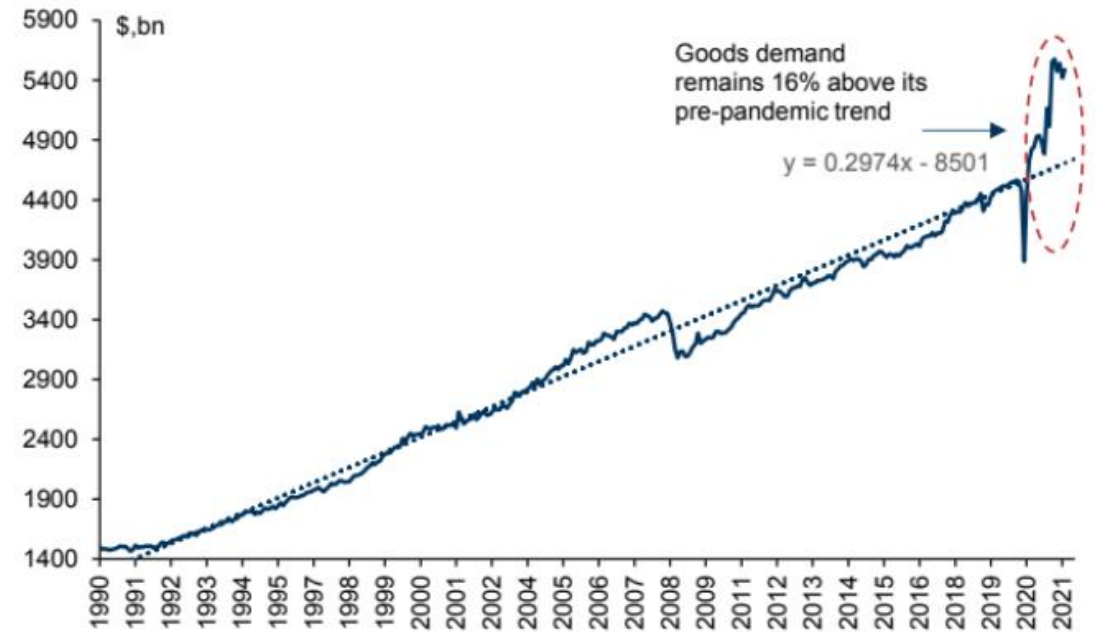


Exhibit 6: Strong goods demand remains persistent, sustaining pressure on commodity supply

US Personal Consumption Expenditure, All Goods (SA, \$ bn)



Source: Haver Analytics, Goldman Sachs Global Investment Research

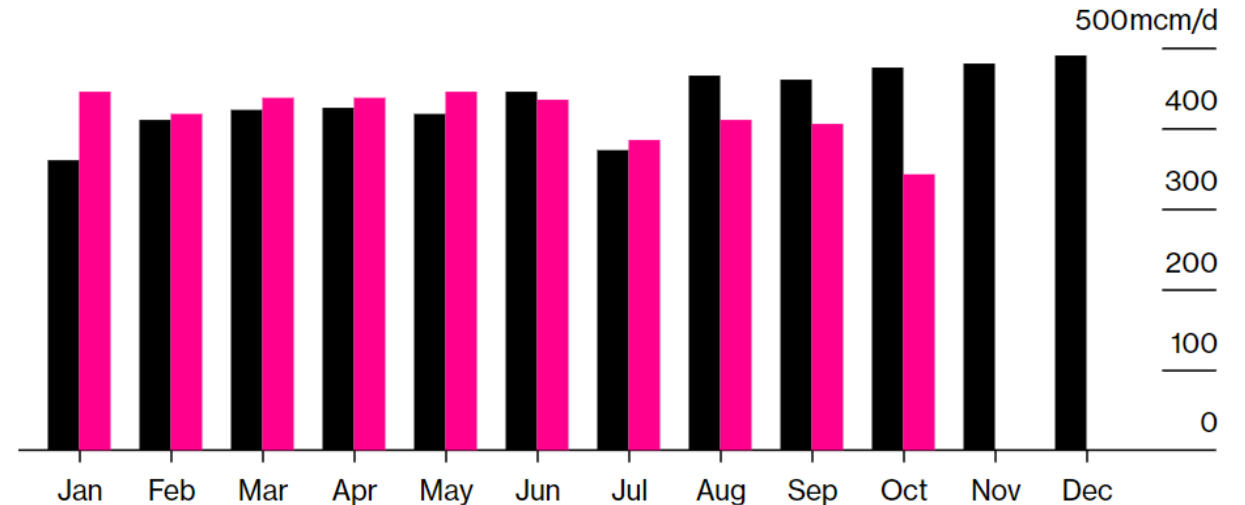
Supply divers

- Chinese coal: accidents, floods, COVID, low hydro.
- European low wind output. Russian gas geopolitical play on Nord Stream 2.0.
- US shale oil slower to ramp up with prices and OPEC+Iran.
- More chaos theory than ESG.

EU Supplies

Gazprom's flows to EU have been lower year-on-year since August

■ 2020 (average daily flows) ■ 2021 through Oct. 14



Source: Gazprom

NOTE: Unclear from Gazprom data if U.K. flows included in 2020, 2021 numbers

Paths of resolution

- La Nina blowoff possible
- Cyclical not structural.
- Goods volumes to fall over time.
- Chinese coal to boom. Already up from 10.4mt per day to 11.6mt. 12mt coming.
- Coking coal demand cratered 100mt by clubbed steel output.
- Both coals to crash.
- Gas more complex (given geopolitics) but still an underlying glut.
- Russia won't want to birth US LNG into Europe.
- US shale rebounding more sharply with prices \$70+.

Investment implications

- Energy bubble has triggered broader commodity bubble as Chinese metal processing cut. Both feed Wall St.
- Commodity bubble has triggered rates back-up. Spooked Fed tapers despite slowing growth and fiscal cliff.
- But, extreme goods volumes to ease over 2022 as services spending lifts.
- Just as deflating energy deflates all commodities as Chinese metals output lifts.
- Just as Chinese property bust hammers demand.
- Just as stronger USD adds to commodity deflation.
- Just as supply side bottlenecks ease.
- 2022 commodity bust and year of **deflation not inflation**.
- Yields tumble. Stocks correct and reverse rotation to Growth from Value.
- Avoid miners and banks.

Viewer question of the week:

W?

Drop your answers in the comments

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