

## The Perfect Storm

*We see prices skyrocket, and I must say that before they start to go down, they will continue to rise, at least until the end of the Russian winter. But why is this inflation all of a sudden? Well, it is because of a series of factors not related to each other but that they feed of each other, and have come together at the same moment, causing an explosive effect that can leave the European economy very battered by the time the recovery begins, in spring.*



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It is called the Perfect Storm because three economically negative events have come together in time, unrelated to each other, but overlapping in time, feed back each other and make the crisis worse. There are three events, with a consequence that exponentially increases its damage.

### First. The gas crisis.

This crisis has been caused by the unusual shortage of reserves at the beginning of autumn in Europe and China.

This shortage is due in turn to two events:

- 1) A longer winter than normal in Russia (the world's main gas producer), which caused exports to store it to start later than expected.
- 2) Atypical demand peaks in various markets (caused by excess liquidity generated by central banks) that increased gas consumption to produce these elements, during spring and summer. This led to the supply chain crisis discussed later.

The consequence of the above is that China, having its gas reserves so scarce, has had to go out to buy gas on the spot market (current), competing with Europeans for Russian gas, and causing the rise of the price we are seeing, which in our case directly impacts the price of electricity.

***"The demand peaks of spring and summer were not adequately interpreted by any central bank or by any major think tank of world governments."***

### Second. The coal crisis.

China consumes between 50% and 60% of the coal produced in the world, and although it is a large producer, it needs to import. Until last year its main source of coal was Australia, but tensions in the China Sea (\*) have broken these relations and caused China to run a significant coal deficit.

Currently, the main energy source for Chinese combined-cycle plants is coal, so its deficit has a direct impact on the price of electricity. The Chinese Communist Party keeps the price of electricity capped, which means that production must be carried out at a loss, causing many combined-cycle plants to close, resulting in systematic blackouts in 2/3 of the country.

### Third. Military tensions in the Taiwan Strait.

Taiwan currently produces 85% of the microchips that are produced in the world, a technology that is not only not available to everyone, but the construction of its factories is demanding of investment and very time consuming as well.

(\*) These tensions in the China Sea are why the Americans have sold the Virginia-class nuclear submarines to the Australians. Perfect submarines to patrol those waters without having to emerge to refuel during the patrol.

The Taipei government has come to the conclusion - and it seems the correct one - that the only way it has to attract the attention and help of the world in the face of threats of an invasion from China is to blackmail it by not providing microchips, elements each which are more and more present in any product that has electronics in its machinery, which today are the vast majority.

***"Taiwan is playing its trick with enormous pressure. As long as the Chinese do not withdraw their threats, the export of microchips will be curtailed."***

The latter is coupled with the fact that the peaks in demand in spring and summer originated an overproduction for which the logistics chain was not prepared, originating the bottlenecks in the supply chain that we are seeing.

Ships full of containers cannot unload because the ports cannot supply them, and the containers are stored because there are no trucks. As the goods stored in the ports are not

distributed, the containers are not emptied and the ships cannot unload to return to origin for more products, which, together with the problem of chips, causes a shortage throughout the supply chain.

***"Prices skyrocket, but not because there is an excess in demand, but simply because there is less and less supply."***

In addition to the above, it is added that the energy problems described above mean that those products highly dependent on burning gas or coal increase their costs due to the rise of this scarce good, in addition to producing in less quantity due to not being able to assume or advance the producer these costs.

And it can all be summed up in that prices rise like a rocket, but not because there is excess in demand, but simply because there is less and less supply, that is, because the performance of the economy is getting worse. Definition of the damn word, **Stagflation**.

