

Weekly Commentary 14

On interest rates in Japan, the US and China...

You would expect the Japanese Yen to have appreciated to 145 by now, given that the BOJ was going to hike its interest rates within March. But that sharp rise in the Yen exchange rate did not happen. More accurately, it rose and snapped right back after one week, as can be seen in the chart below. Instead, as at the close of business on Friday, the FX markets were trading the Dollar Yen at 149, just a tad below its highest point recently at 151. Why the sharp rebound from 146.5?



Well, since currencies are traded in pairs, and the Yen was expected to rise on account of BOJ interest rate action, the last week saw a series of bad news on the US side. The market was expecting the US Federal Reserve to cut interest rates, certainly by June this year, but there are reasons to doubt that this would happen. There were a bunch of “bad data” which indicate that inflation in the US economy is not so easy to solve.

The Bank of Japan is expected to end its negative interest rates when its policy board meets early next week, as Nikkei has learned, marking the first rate hike since February 2007 in a turning point for the BOJ's long-running monetary easing policy.

The BOJ sees a chance to normalize its monetary policy now that inflation appears set to remain at 2% or higher -- the Central Bank's condition for changing its policy -- as big corporations and their labor unions agreed on substantial wage hikes this year.

The Bank began coordinating both within and outside the institution Friday on ending its negative interest rate policy, which was adopted in February 2016. The leading **plan is to raise the policy rate, currently at negative 0.1%, by more than 0.1 point to guide short-term interest rates to the 0%-0.1% range.**

Under the negative rate policy, the BOJ imposes an interest rate of minus 0.1% on certain deposits by financial institutions. The BOJ is currently the only central bank

in the world that employs negative rates, seen as a symbol of its massive monetary easing.

BOJ Gov. Kazuo Ueda has said this spring's wage negotiations will be a "key consideration" as central bank policymakers weigh ending negative rates.

The Japanese Trade Union Confederation, or Rengo, the nation's largest labor organization, said Friday that this year's annual wage negotiations resulted in hikes averaging 5.28%, the highest level in 33 years, according to the first tabulation of the results. Raises among smaller companies also averaged 4.42%.

With base pay increases also averaging 3.7%, the BOJ thinks economic conditions are now conducive for maintaining stable 2% inflation.

The BOJ has zeroed in on wage trends since higher wages would boost consumer purchasing power and make inflation more sustainable.

Speaking at Parliament on Tuesday, Ueda said he is closely monitoring the virtuous cycle of wage hikes and inflation, hinting that the bank is in the final stages of ascertaining whether to exit negative rates.

This year's wage hikes "are of a level that even reflationists who are cautious about modifying monetary policy would accept a change in policy," according to a BOJ source.

As the bank exits negative rates, it is also expected to scrap yield curve control, which sets a reference cap of around 1% for the long-term interest rate, a key tool of its massive monetary easing.

New purchases of exchange-traded funds and real estate investment trusts likely would be terminated.

The BOJ has been laying the groundwork for ending negative rates since the end of last year. Deputy Gov. Shinichi Uchida acknowledged in a speech on Feb. 8 that even if the BOJ ends its negative interest rate policy, overall monetary policy will remain accommodative. Policy board member Hajime Takata said on Feb. 29 that sustained achievement of 2% inflation is in sight.

Government officials are increasingly receptive to a March exit from negative rates. A senior Finance Ministry official said that an exit in March would be preferable, as there is no need to wait until April.

Ever since Russia's invasion of Ukraine in February 2022, central banks around the world -- including the U.S. Federal Reserve and the European Central Bank -- have rapidly hiked rates to tame inflation. But the Bank of Japan has stuck with monetary easing since it last raised rates in February 2007. The BOJ's exit from negative rates would affect not only companies and households, but also the global flow of money.

In short, the BOJ wants inflation to be no less than 2 percent while the US Fed wants its inflation to be no more than 2 percent. If both inflation rates converge like that,

we will have the Dollar-Yen headed in the right direction, which the market expects to be down, towards, 145. But that was not to be, not last week. A series of inflation statistics were released in the US which indicated that inflation is not so easy to tame.

Here is a Reuters report on the matter:

US dollar poised for biggest weekly gain since mid-January; yen falls ahead of BOJ

By Gertrude Chavez-Dreyfuss

March 16, 2024 3:24 AM GMT+8 Updated 7 hours ago

Summary

- U.S. manufacturing output rebounds in February
- U.S. consumer sentiment little changed, inflation outlook steady
- Dollar on track for largest weekly gain vs yen since mid-January
- Focus on Fed, BOJ meetings next week
- US CPI was higher than expected.
- US PPI was also higher than expected, adding to signs of persistent inflation.

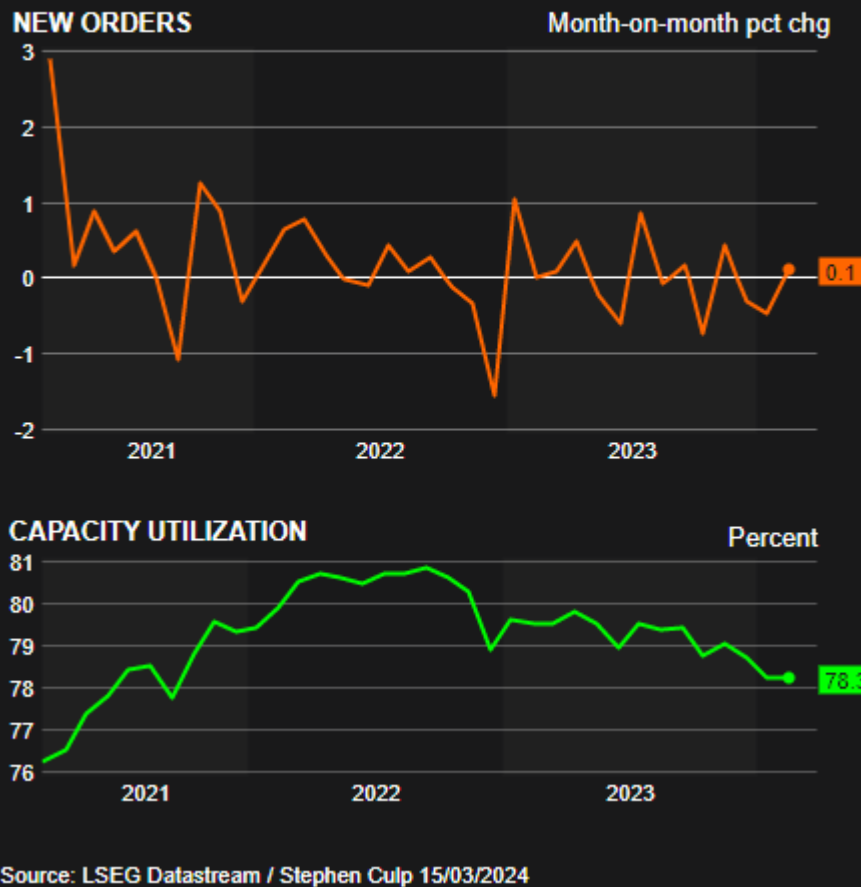
NEW YORK, March 15 (Reuters) - The dollar rose to a more than one-week high on Friday after a mixed batch of data showed the U.S. economy remained stable with small pockets of weakness, suggesting the Federal Reserve could keep interest rates higher for longer or reduce the planned number of rate cuts this year.

The dollar index, which tracks the U.S. currency against six major peers, was on pace to post a weekly gain of 0.7%, the largest since mid-January. The index was last flat at 103.43 .

Data on Friday showed a solid U.S. manufacturing sector, with output rebounding by 0.8% last month after a downwardly revised 1.1% decline in the prior month.

Analysts at Citi, however, said in a research note that the rebound in February partly reflects the revisions lower to January output and the reversal of a "weather-related drag in January in non-durable goods manufacturing sectors."

U.S. industrial output



Industrial output

U.S. consumer sentiment and inflation expectations were little changed in March, a survey showed on Friday. The University of Michigan's preliminary reading on the overall index of consumer sentiment came in at 76.5 this month, compared to a final reading of 76.9 in February.

The survey's reading of one-year inflation expectations, a measure tracked by the Fed, was unchanged at 3.0% in March. The survey's five-year inflation outlook held steady as well at 2.9% for the fourth straight month.

The Fed is scheduled to meet next week and while it is not expected to make any interest rate moves, hotter-than-expected U.S. producer and consumer price data this week has led traders to rein in bets on future cuts.

The Dow lost half a percent,

"Ahead of the meeting, there's nothing to indicate that the Fed can afford to be dovish at this point," said Eugene Epstein, head of structuring for North America at Moneycorp in New Jersey.

"That's why we have Treasury yields going up and that's why we have the dollar stronger. Gold fell as well. It's all the standard correlations. So **the Fed** maybe gets higher for longer: they're **not being given any room to cut sooner than later.**"

The rate futures market on Friday has priced in a 57% chance of the Fed cutting rates in June, compared to 71% on Monday, according to LSEG's rate probability app. **The market has also reduced the number of rate cuts it expects this year to less than three, from between three and four earlier this year.**

Investors are also looking to a highly-anticipated meeting at the Bank of **Japan** next week.

The BOJ is close to ending eight years of negative interest rate policy, with internal preparations for an exit in the works since Kazuo Ueda took office as BOJ governor.

At the same time, Japan's biggest companies agreed with labor unions to raise wages by the highest level in 33 years on Friday, reinforcing views the country's central bank is poised to make a landmark shift away from negative interest rates.

The dollar continued to rise against the yen, up 0.5% at 149.02 . On the week, the greenback rose 1.3%, on track for its biggest gain since mid-January.

The focus is also on other central bank decisions for signs of how quickly they will cut interest rates after a period of rapid rises to curb rampant inflation. The Bank of England and Swiss National Bank are due to meet next week.

The euro was slightly up at \$1.0889. The European Central Bank council last week began a discussion on when to reduce its own rates, council member Olli Rehn said on Friday.

Sterling slipped 0.1% to \$1.2737.

This brings me to my thesis, which I have written in these commentaries for some months now.

- 1) You cannot have a lower dollar when the National Debt of the US government is at such astronomical levels – 34 trillion dollars and adding a trillion every hundred days. It is profligacy.**
- 2) Given this, the US government will have to either stop spending and collapse, raise taxes or print more money. The easy way out is the last because politicians can do this without being accountable and because taxation in the US destroys political careers. But this requires people to be willing to hold dollars.**
- 3) For that to happen, the dollar cannot fall and interest rates cannot go to zero and stay there.**
- 4) Besides, inflation is a result of too much money printing, as well as of the debt. The US Treasury is pressured to service the debt, and that debt servicing raises the level of interest rates in the economy. That has a cost that is passed on to businesses which then pass their higher cost to the public.**
- 5) My thesis is that unless the US government learn how to suppress their urge to be profligate, ie, print money to sustain its budgetary process, and all that is**

impossible given the structure of the US government and its politics, interest rates will stay high and the dollar will be elevated.

This stands in contrast with what the Chinese government does. Since the covid pandemic ended, Beijing has faced a problem of lack of aggregate demand. And economists and media analysts used to western profligacy have pushed for more stimuli from the Xi government. But the Chinese have steadfastly refused to do this.

As one media source put it:

China is not giving anyone solid grounds for economic optimism

An opinion in the Nikkei Asia

By Henny Sender

Expectations of a dramatic market intervention have helped keep Chinese stocks afloat since the end of the country's Lunar New Year holiday, but Beijing is doing "little to address investors' lack of confidence about the country's economic future," [writes Henny Sender](#).

At the recent National People's Congress, the founder of Apsara Advisory notes, "Hopes for an announcement of a major stimulus package to address sluggish demand went unrealized."

"Beijing's intentions in moving to discourage property speculation and deleverage local government investment vehicles are hard to fault," she writes. "The problem is that China needs to encourage other sources of growth."

So there will be no American style money printing and deficit financing in the Chinese economy. It is simply a conservative way of doing things. The first thing to note about Chinese fiscal and monetary policy is that they learned what not to do during the Global Financial Crisis. Back then, the US government panicked when Lehman fell, and asked the Chinese to launch stimulative policies to support them so that the world economy would not crumble. Wen Jiabao was accommodating and released a Keynesian style RMB 4 trillion package.

The CCP found that the massive amount of money did go into the intended infrastructure projects (they did not have time to plan this) but instead found its way into the real estate market, launching the greatest bull market in properties ever, fostering speculative activity in real estate which Beijing wants to kill off. As a matter of fact, one of the reasons why the current economy is still in the doldrums is because the clamp down on the excessive leverage the economy had gotten accustomed to cannot be fine-tuned. Probably with that in mind, once bitten twice shy, the Chinese government is now very reluctant to using stimulative measures to kick start a moribund economy.

This does not mean that the central government does not engage in stimulative monetary policies at all. In fact, all through the last six months, since the lifting of covid restrictions and after the economy did not recover as quickly as hoped, the government launched many stimulative monetary policies. But these are not the same as the type of policies used in the west.

Here is an explanation from someone who knows the inner workings of Chinese monetary policy:

A brief description of China's monetary policy framework

Oct 17, 2023

Hui Yuan

Associate Professor Department of Economics, National Academy of Governance

“Compared to the dramatic changes in interest rates in major advanced economies, China's interest rates are moderate and relatively stable, which provide the conditions for implementing a normal monetary policy for a long period.”

On June 24, 2016, the governor of the People's Bank of China (PBC), Zhou said at an IMF Central Banking Lecture, “as China has the features of both a large transition economy and an emerging market economy, China's central bank and its monetary policy are yet to be well understood by the outside world”. This situation remains relatively unchanged even today.

When the reform and opening up started in 1978, China didn't have a monetary authority in the modern sense, not to mention a proper monetary policy framework. Nowadays, China has not only built a central bank with its Monetary Policy Committee, but also greatly improved the framework for modern monetary policy with Chinese characteristics including multi-objectives, several intermediate targets, its transmission mechanisms, and the sound or prudent operational philosophy.

Multi-objectives

The ultimate goals of China's monetary policy are to maintain the stability of the value of the currency so as to promote economic growth according to the *Law on the People's Bank of China*, in 1995. Beside that, employment levels, equilibrium of the balance of payments, and financial stability are also included with different weights (Zhou, 2013; Yi, 2023). These multiple goals are consistent with post-Keynesian theory, which argues that the goals of monetary policy should go beyond strict price stability and include financial stability and macroeconomic stabilization, with regard to both economic sustainability and employment levels ([Rochon and Rossi](#)). However,

they are derived from characteristic specific to China as the largest developing country and the monetary policy practices.

Intermediate targets

To achieve these goals, the PBC claims to use M2 and aggregate financing as the anchoring of the intermediary objective, which means keeping the growth of the money supply and aggregate financing generally in line with nominal economic growth according to the 14th Five-Year Plan for Economic and Social Development and Long-Range Objectives through the Year 2035.

However, with the transformation of China's economy and the development of financial markets and products, the seemingly stable relationship between the quantitative intermediate target and the ultimate goal of monetary policy tends to weaken. Furthermore, the deepening of market-oriented interest rate reform has provided a solid foundation for the gradual shift of monetary policy framework from quantitative to price-based regulations.

Table 1 presents the main interest rates in China and their levels, at the end of 2022. The PBC believes that the equilibrium interest rate is determined by market supply and demand, but its level in the long run should equal the natural interest rate. Since the natural interest rate is an abstract concept in theory, the PBC adopts the golden rule to evaluate the effect of monetary policy implementation, which requires the real interest rate to roughly approach the potential economic growth rate (Y_i ; MPAG).

Table 1 Interest Rate System in China⁴²

Interest Rates ⁴³	Introduction ⁴³	Level ⁴³
interest rate on required reserves ⁴³	interest rate paid by the central bank on required reserves ⁴³	1.62% ⁴³
interest rate on excess reserves ⁴³	interest rate paid by the central bank on excess reserves, served as the floor of the interest rate corridor ⁴³	0.35% ⁴³
OMO interest rates ⁴³	short-term reverse repo operating rate ⁴³	7-day reverse repo: 2% ⁴³
SLF interest rates ⁴³	rate at which central banks lend short-term funds, served as the ceiling of the interest rate corridor ⁴³	7-day SLF: 3% ⁴³
MLF interest rates ⁴³	rate at which central banks lend medium-term funds ⁴³	1-year: 2.75% ⁴³
LPR ⁴³	based on the quotes made by quoting banks by adding a few basis points to the MLF rate, served as the pricing reference for bank lending ⁴³	1-year: 3.65% ⁴³
Shibor ⁴³	a simple, no-guarantee, wholesale interest rate calculated by arithmetically averaging all the interbank RMB lending rates offered by the price quotation group of banks with a high credit rating ⁴³	overnight: 1.9570% ⁴⁴ 1-week: 2.2230% ⁴⁴ 1-month: 2.3460% ⁴⁴ 1-year: 2.6190% ⁴³
benchmark deposit interest rate ⁴³	released by the PBC, provide an important reference for financial institutions to set their own deposit rates ⁴³	1-year: 1.5% ⁴³
government bond yield ⁴³	risk-free rates, served as benchmark rates in bond market ⁴³	5-year: 2.6446% ⁴⁴ 10-year: 2.8353% ⁴³

Source: The People's Bank of China⁴⁴

Transmission mechanisms

Nowadays, the core of the PBC's monetary policy is to control interest rates, that is, to control interest rates at levels conducive to price stability and economic growth. Two channels for monetary policy transmission are proposed (Figure 1). For short-term interest rates, with the assistance of interest rate corridors — the ceiling and floor of which are the 7-day SLF interest rate and interest rate on excess reserves respectively — the PBC guides the market rates represented by the DR007 (7-day repo rate between depository institutions with rate securities as collateral) to move around the short-term policy rate (the 7-day reverse repo rate). For medium-term interest rates, the PBC developed a transmission mechanism featuring “MLF rate → LPR → loan rates”. Although government bond yields and bond market rates are mainly determined by market forces, they can be affected by the PBC's operations trying to control short and medium rates.

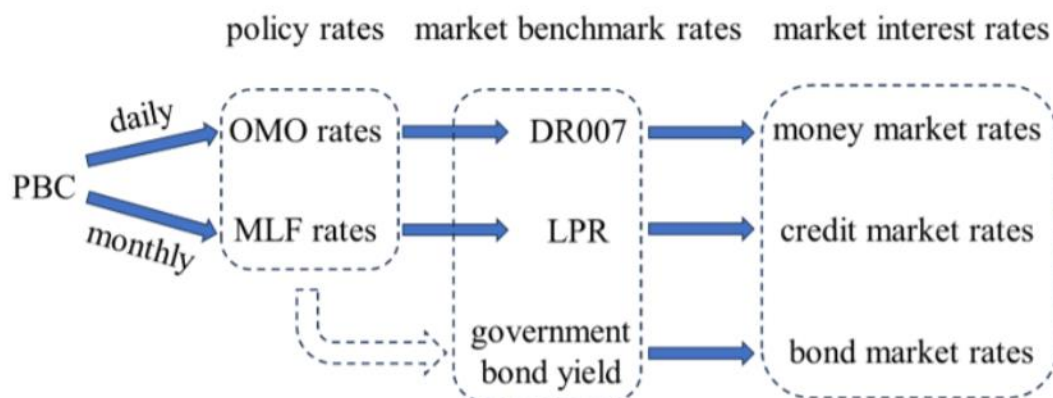


Fig. 1 The Monetary Policy Transmission Mechanism in China⁴¹

Source: Yi, 2021, recompiled by the author⁴¹

Operational philosophy

As [Hawtrey](#) indicated in his famous book, now more than 90 years ago, central banking is an art concerning the relation of cause to effect and means to end. China's monetary policy framework advocated by the PBC generally adheres to a sound or prudent adjustments philosophy, which requires monetary policy to be appropriate in intensity and handled in a more forward-looking, flexible, and targeted manner. Firstly, the "soundness" reflects the concept of dynamic regulation and counter-cyclical adjustments in light of changes in economic and financial conditions. Monetary policy should prevent overheating and inflation in the economic upturn, and deal with economic recessions and deflation in the downturn.

Secondly, a sound policy should be cross-cycle and cross-regional. While monetary policy may have long-term complex aggregate and structural impacts, and the policy effect may be uncertain, it's necessary to hold the cross-cycle and cross-regional view in counter-cyclical adjustments.

Thirdly, the "soundness" also means to put domestic goals first, instead of just following monetary policy operations in developed countries. China is a major economy that can rely on domestic demand, priority should be placed on internal equilibrium when there is any contradiction between the internal and external equilibrium.

Since the Great Recession caused by the global financial crisis in 2008, monetary authorities around the world have been forced to implement new unconventional policy tools to stimulate the economy, some of them even adopted a negative interest rate policy. This said, since 2022, major advanced economies have experienced severe inflation, forcing central banks to raise interest rates quickly and shrink the balance sheet. Compared to the dramatic changes in interest rates in major advanced economies, China's interest rates are moderate and relatively stable, which provide the conditions for implementing a normal monetary policy for a long period. In

particular, China didn't follow the interest rate hike, but cut interest rates in a timely and appropriate manner to promote economic growth. The 7-day reverse repo rate fell by 30 basis points, the 1-year and 5-year LPR fell by 25 basis points and 45 basis points respectively, and the CPI in 2022 was 2%. It is possible that China's monetary policy framework will retain certain features different from those of major advanced economies for quite a long time as the reforms go further.

There was also no fiscal stimulus this time round like in 2009. Once bitten twice shy.

As for other sources of growth, whole new industries are being built. The most prominent of these is the EV industry, and in just three years, China became the largest producer of cars in the world. According to the Financial Times, internal combustion cars are becoming "zombie":

Zombie car factories on the rise in China as buyers opt for EVs

Edward White in Hefei MARCH 14 2024 233 Financial Times

In 2017, Hyundai invested \$1.15bn in a new factory in Chongqing, south-western China, with the goal of reaching an annual output of 300,000 internal combustion engine cars.

But six years later, the rapid switch by Chinese consumers to electric vehicles has stalled sales, forcing the carmaker to sell the factory in December for less than a quarter of the investment value. "The Chongqing plant continued to be in the red and China's auto market is grappling with oversupply," said Lee Hang-koo at the Jeonbuk Institute of Automotive Convergence Technology, a South Korean research group. "No one was willing to buy the plant at a high price."

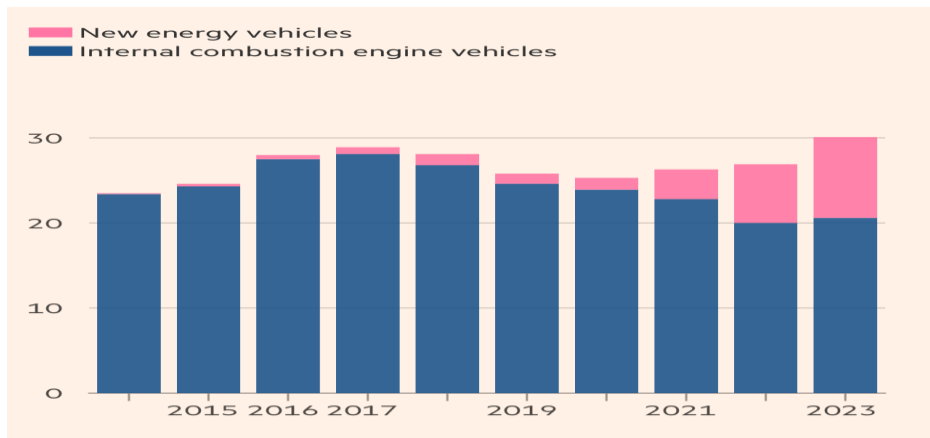
That plant is one of the hundreds of zombie factories that analysts are predicting over the next decade in the Chinese car market, the world's biggest across sales, production and, since last year, exports. In 2023, China produced 17.7mn internal combustion engine cars, a 37 per cent fall from its prior peak in 2017, according to data from Automobility, a Shanghai consultancy.

Bill Russo, the former head of Chrysler in China and founder of Automobility, said the "precipitous decline" of internal combustion engine car sales meant as much as half of the industry's installed capacity — about 25mn out of 50mn units' annual capacity — was not being used.

While some older factories will be repurposed for plug-in hybrids or pure battery electric vehicles, others will never produce another car, posing a problem for both foreign and Chinese companies.

Many carmakers in China, Russo said, ultimately face two choices: "Leave the factory mothballed or crank out some volume and send it to Russia, send it to Mexico."

Hyundai's exit from Chongqing comes as combined car sales in China by Hyundai and its Kia affiliate fell to 310,000 last year from nearly 1.8mn in 2016, as a result of free-falling sales of internal combustion engine cars. Hyundai, which makes cars in China as part of a joint venture with state-backed BAIC Motor, declined to comment on its China business.



An intense price war across the Chinese auto sector is only heaping more pressure on legacy carmakers, including top foreign players Toyota, Volkswagen and GM, which have been slower to release popular low-cost EV and hybrid models and are quickly losing market share to companies such as BYD and Tesla.

Until recently, foreign carmakers could only enter the Chinese market as a joint venture with a local partner. Of 16 joint ventures between Chinese and foreign groups, only five had a capacity utilisation rate higher than 50 per cent while eight were below 30 per cent, according to a report by Chinese media outlet Yicai Global.

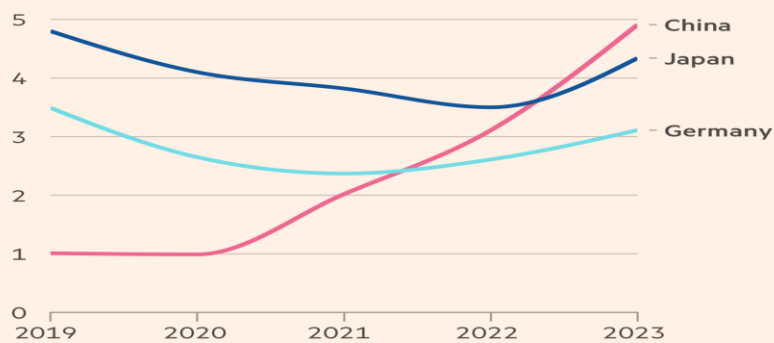
In response to the worsening domestic market situation, Chinese companies have been ramping up exports of cheap petrol-powered cars to Russia, a market that many international carmakers have quit in the wake of that country's full-scale invasion of Ukraine.

Yet analysts question whether those sales deliver meaningful profits to the Chinese groups, for how long they can continue, or if other developing markets can help soak up Chinese non-EV exports.

Foreign brands, too, are increasingly trying to export more from their Chinese factories. But, experts say, in doing this companies risk undercutting their own factories in other markets.

China surpassed Japan to become the leading auto export country

Annual automotive exports (mn)



VW, the largest foreign carmaker by sales operating in China, declined to provide excess capacity figures in the country but said the market for petrol-powered cars was still lucrative.

Growth, VW believes, will mostly come from the hundreds of smaller Chinese cities that usually have a population of 3mn or below. That is in part because car ownership in the bigger, more developed cities is high and restrictions on buying new petrol-powered cars are already in place.

But another critical factor is the lack of charging infrastructure in poorer cities, which has frustrated EV industry growth. “The number of cars in China is still very low. While the average here is just 185 vehicles per 1,000 inhabitants, there are almost 800 vehicles per 1,000 inhabitants in the USA and around 580 in Germany,” said VW.

VW last year announced €5bn worth of investments in China as it targets ramping up production of EVs. It has started converting some factory lines in China to produce EVs.

And the group will also work to “gradually hybridise the internal combustion engine models and thereby convert them into an electrified new energy vehicle fleet”, the company added.

But VW is an outlier in deciding to double down on the Chinese market — spending by most other foreign carmakers in China has ground to a halt.

China’s car market has become a Darwinian battleground

Industry executives say that the biggest pressure on all legacy carmakers in China stems from the rise of new EV factories, which take a radically different approach to car manufacturing. In Hefei, west of Shanghai, a factory owned by Nio demonstrates this challenge. The factory, opened in late 2022, is designed around founder William Li’s bet that EV customers will increasingly want cars with customised features, rather than a mass market product from a dealer.

The factory offers different configurations — both physical design and software features — among its eight different Nio models. Cars can be delivered in China around three weeks after they are ordered, or 90 days to customers in Europe. Nio’s Hefei factory will soon have the capacity to produce 300,000 vehicles annually — the target for Hyundai’s Chongqing factory less than 10 years ago.

John Jiang, the Nio factory manager who previously worked with GM in China, says all carmakers in China are in a fight for survival: “not every brand can succeed in the end”.

Another new industry targeted by the Chinese to build impetus for economic activity is in the solar and wind power businesses.

Here is a report from Reuters on the green energy industry:

China dominates renewable energy and coal power forecasts

By Clyde Russell

January 11, 2024 9:00 PM GMT+8 Updated 2 months ago

By Clyde Russell

Windmills and a power plant can be seen in the distance as beachgoers watch sunset in the city of Dongfang on the western side of China's island province of Hainan, June 18, 2014.

LAUNCESTON, Australia, Jan 11 (Reuters) - China's status as the colossus of renewable energy is set to be cemented in the next five years, with the world's second-biggest economy adding more capacity than the rest of globe combined.

The International Energy Agency said in its Renewables 2023 report, released on Thursday, that China will account for 56% of renewable energy capacity additions in the 2023-28 period.

China is expected to increase renewable capacity by 2,060 gigawatts (GW) in the forecast period, while the rest of the world will add 1,574 GW, the IEA data showed.

The European Union and the United States are the next biggest builders of renewable energy, at 429 GW and 337 GW respectively.

It's worth noting, though, that India is forecast to add 203 GW of renewable capacity, while the 11 countries that make up the Association of Southeast Asian Nations are expected to boost capacity by a combined 63 GW.

This shows that Asia is the dominant force in renewable energy deployment, largely because of supportive policies and the availability of capital and offtake agreements for the electricity produced.

The IEA report also sheds light on just how China is coming to be the leading force in renewable energy, with supportive policies driving a huge increase in the expected capacity additions from the previous report in December 2022.

"China accounts for almost 90% of the global upward forecast revision, consisting mainly of solar photovoltaic (PV). In fact, its solar PV manufacturing capabilities have almost doubled since last year, creating a global supply glut," the IEA said.

"This has reduced local module prices by nearly 50% from January to December 2023, increasing the economic attractiveness of both utility-scale and distributed solar PV projects," the report said.

The IEA said the lower costs are making utility-scale solar more attractive in China than coal- and gas-fired generation.

China has also clarified the rules around its green certificates, which will provide additional revenues for solar and wind developers.

China is also expected to increase its gap over the rest of the world in deploying renewables, even as the United States and countries in Europe boost policy and financial support.

ADVANTAGE CHINA

China has several advantages that sometimes aren't available in other countries.

These include being able to approve and build transmission grids and renewable energy projects more quickly than in countries where democratic processes and the objection of local communities can constrain infrastructure development.

China can also finance projects more easily than in countries where money is lent or raised on the basis of expected returns rather than on policy priorities.

The country's manufacturing base also allows for economies of scale in producing PV panels and wind turbines, and this is further supported by China's efforts over the previous decades to build a leading position in the supply and processing of minerals such as copper, nickel and lithium.

There is also a caveat to China's rapid build-out of renewable capacity because at the same time **it is still adding substantial coal-fired generation.**

China is the world's biggest coal producer and importer and has more coal-fired capacity under construction than the rest of the world combined.

China is building 136.24 GW of coal-fired generation, and has another 255.5 GW at the announced, pre-permit or permitted stage, according to data compiled by the Global Energy Monitor.

This is 67% of the global coal-fired capacity currently under construction and 72% of the potential new capacity.

China already accounts for 53% of the world's 2,095 GW of operating coal-fired generating capacity, a share likely to increase in coming years as more coal plants are retired in the developed world.

When taking China's renewable deployment together with its ongoing coal-fired construction, a more nuanced view emerges of the country's energy profile.

It's clear that renewables are increasing their share of China's power generation, but it's equally clear coal-fired power is going to be around for decades to come, and that if China does meet its goal of net-zero emissions by 2060, it will largely be achieved in the final years prior to the deadline.

And guess what?

China has found oil in the Bohai Sea. In a 2023 report from Reuters, we learned that:

China's CNOOC discovers oilfield in Bohai Sea

Reuters

March 1, 2023 7:43 PM GMT+8Updated a year ago

BEIJING, March 1 (Reuters) - China's CNOOC Ltd has discovered an oilfield with estimated reserves of 100 million tonnes of light crude in the Bohai Sea, which stretches along China's northern coastline, the company said on Wednesday.

The estimated size of the Bozhong 26-6 field is an 'oil in place' metric, referring to the total volume in a reservoir rather than the recoverable portion of that, the company told Reuters.

The discovery well was drilled to a depth of 4,480 metres (14,698 ft), and encountered 321.3 metres of oil pay zones, meaning they have the potential to be extracted economically.

The well was tested to produce an average of around 2,040 barrels of crude and 11.25 million cubic feet of natural gas per day, the company stated.

The southern Bohai Sea has an average water depth of 22 metres, the company added.

State-owned CNOOC is China's largest offshore oil and gas producer. It has targeted a record 650 million to 660 million barrels of oil equivalent (boe) for this year.

That was in 2023.

This March, more discoveries were made. In March this year in 2024, it was announced by State media that :

Cumulative proven reserves exceed 200 million cubic meters at Bozhong 26-6 oilfield

By Global Times

Published: Feb 25, 2024 02:29 PM

China's Bohai Sea Oilfield, the country's largest offshore oil producing base, discovers a third oil field with output of over 100 million tons, China National Offshore Oil Corp announced on March 1, 2023. The field can extract more than 20 million tons of crude oil, which can be refined into enough gasoline for 10,000 small cars to run normally for 30 years.

Chinese oil giant CNOOC said on Sunday it has made a significant discovery in the Bozhong 26-6 oilfield in the country's northern Bohai Sea, revealing additional

proven reserves exceeding 40million cubic meters. The oilfield's petroleum reservoir now boasts an accumulative 200 million cubic meters, making it the world's largest metamorphic oilfield.

Located in the southern waters of the Bohai Sea, about 170 kilometers offshore Tianjin city, drilling and exploration at Bozhong 26-6 area has kept on.

Of which, the Bozhong 26-2 North 2 Well encountered a 118-meter-thick oil and gas layer during the drilling process.

The test results showed that the average daily oil production of the well exceeded 390 cubic meters, and the daily gas production exceeded 50,000 cubic meters, setting a record high for the test productivity of new drilling wells in the oilfield.

It is expected that the Bozhong 26-6 oilfield can extract more than 30 million cubic meters of crude oil, meeting the daily transportation needs of urban residents with a population of one million for more than 20 years, after being refined into gasoline.

At the same time, it can extract more than 11 billion cubic meters of natural gas, which can satisfy the household gas needs of urban residents with a population of one million for more than 60 years, the company said.

The reservoirs of the Bozhong 26-6 oil field are buried in seabed hills thousands of meters deep below the surface. They are mainly composed of metamorphic rocks.

Traditional theories believe that due to the continuous strong activity of faults in this area, deep oil and gas reservoirs are easily destroyed and it is difficult to form large-scale oil and gas accumulation. Previously, more than 80 deep-water wells drilled by many well-known foreign oil companies have not made meaningful discoveries.

It seems to me that China is now all set to do well in the future. It has found a good supply of the traditional energy source, oil and gas, which adds to the potential of the new green energy industries and then an EV industry. This news is scarcely publicised in western media, because it has the ability to transform geopolitics. The fact that China just discovered oil and they discovered a giant oilfield near Beijing (actually Tianjin), probably changes the whole geopolitical game in the region.

Discovered in the Bohai Sea, it is touted as the largest oilfield in the world. According to China the oilfield is around 200 million cubic meters and when compared to others that's pretty large.

How is this going to change the geopolitical situation in the world?

Let's start off with Russia.

Russia

Russia is one of the leading exporters of oil. China actually imports large quantities of oil from Russia and since the Ukraine war, China has been getting Russian energy pretty cheaply.

However, once China starts using the oil from Bohai for domestic consumption, they may cut back on imports from Russia and if China decides to export oil, then Russia will face competition from their ally.

It is unlikely that the rivalry or competition will be that intense, given the two countries are strategic allies having a common goal, there will nevertheless be some substitution effect there.

America

Given that America and China are strategic rivals, it would make sense that oil being discovered in China would make America uneasy, because America, like other countries on the list, would rather not see China gain independence in such a strategic resource.

China does import from the US, but in small amounts compared to importing from other countries and their oil imports are diversified. But if it's in small amounts, then it doesn't hurt them to stop the import of American oil and replace it with their domestic production.

If they begin exporting it, just like Russia, it would compete against America in global oil markets, which means tougher competition and possibly a stronger leverage by China against the US. If they ever reach the point in which they could cut off America from some markets such as Europe in which the Americans are selling LNG at exorbitant prices, it would make the US less important to a critical alliance such as NATO.

Of course, this is only a hypothesis if the tensions between countries continue to rise. It just means that the US have fewer cards to play against China.

Middle East

Perhaps the ones to suffer the most would be gulf countries and the reason for that is because for gulf countries oil is their leverage against most countries in the world.

With oil, they have leverage in economic power and China is known to import a significant amount of Middle Eastern oil. If they have their own, that leverage that Middle Eastern countries have over China diminishes and in geopolitics, leverage is power.

So it is clear that Middle Eastern countries will not be happy to see China discover vast amounts of offshore oil and gas.

How about China itself? Is this new found wealth going to make a difference?

Needless to say the discovery in the Bohai Sea will boost their economy, but what does that look like?

Well for one thing, it would boost China's energy security, because now they have their own domestic source of oil. It would reduce dependency on other countries, especially Russia and the Middle East and most likely China would lose, quite gladly, the status of being one of the largest oil importers in the world.

In terms of GDP, the extraction, building of the rigs, and operating them creates jobs. A new offshore oil and gas industry will create jobs which infers an increase in the employment rate and that would in turn boost the economy in a dynamic sector.

With its own oil imports, the geopolitical leverages that other countries have over China will be reduced. China will not be susceptible to foreign pressure through the weaponization of oil. It would also stop China being affected from oil price fluctuations and market events to a degree.

Clearly, this is bounty from the heavens for China. That's why this news cannot be found in most mainstream media sources because these do not want China to do well. China has a lot to look forward to financially when it comes to oil, as well as politically and economically. For them, it allows greater independence and this will be reflected in their foreign policy moving forward. Combined with their solar and wind power, and the EVs, China is looking unstoppable now.

We started this week's commentary comparing the interest rate policies of Japan, the US and China. We then find that many western commentators have been bashing China for not doing enough to stimulate their economy. As it turns out, the Chinese government has been engaged in some modest stimulation, but more importantly, they don't want to be sucked into GFC style deficit spending or flip flopping on interest rates. The more important priority for China is to grow the economy not through policies based on steroids, but on actual balanced development. We have found evidence that this is indeed the case. The Chinese economy has been building new industries like ev's, green energy industries as well as coal, even oil and gas, which are newly discovered. To conclude, there is a lot going on in China, and if the government does not boost the economy by using temporary means like what the west like to do, it is perfectly rational given their circumstances.

As a matter of fact, Beijing is looking stronger everyday compared to its western rivals.

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Un-Influencer in a World full of Hubris