FT Weekend

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China power crunch/coal: lightbulb moment

Nearly three-quarters of China's total electricity generation comes from fossil fuels. Cutting down on coal is a pillar of Beijing's climate change promises. It now faces a dilemma over its priorities.

China has ordered coal miners to boost production urgently as an energy shortage threatens factories and pushes consumer prices higher.

There is good reason. Power shortages in China threaten a popular backlash against the government. More than 20 provinces, mostly where manufacturing is centred, have implemented power cuts. That affects production of everything from iPhones to Toyota cars and toys. And it results in factory closures. Producer inflation is soaring, up nearly a tenth in August.

Meanwhile, scarce electricity disrupts the food supply chain as food-processing plants are shut down. China has already warned that food security is a concern as global food prices hit decade highs, according to UN data.

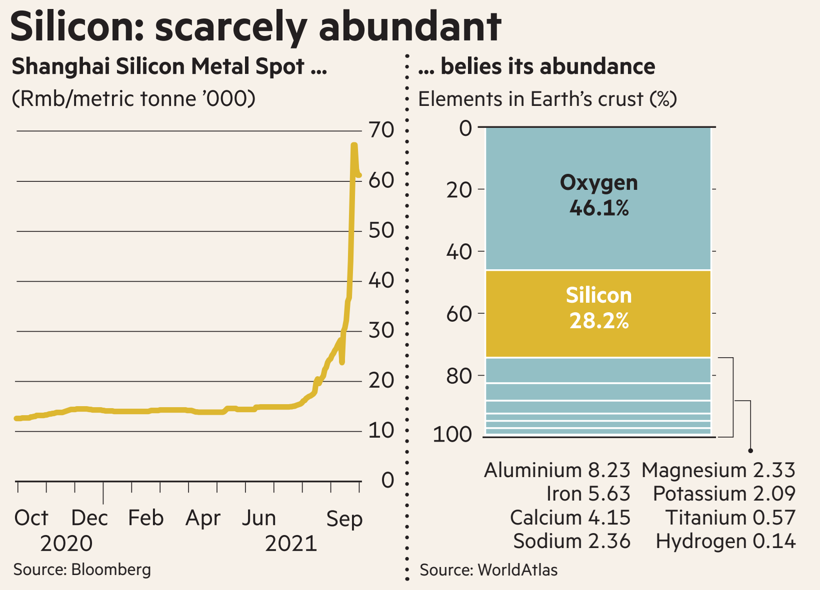
Some of the biggest beneficiaries of this year's power crisis have been miners. Share values of local majors such as China Coal Energy and Shanxi Coking Coal Energy have nearly doubled as record prices fattened margins. Those should now fall.

On the flip side, power groups that depend heavily on coal such as Datang, Huadian and Huaneng are expected to post steep quarterly losses. Stabilising fuel prices and household electricity supply before the cold winter months should be a priority for Beijing.

The latest measures are, however, unlikely to be enough to alleviate the crisis for industries that use the most energy. A much bigger supply response is needed. But it will provide short-term relief for industries such as food and tech manufacturing.

Beijing has already been forced to backtrack on its own trade bans on Australian coal. The power crisis may persuade it that carbon neutrality by 2060 is too great a stretch. It can at least stop public discontent over soaring costs in the meantime.

Silicon: scarcely abundant



There is irony in silicon scarcity — the raw material is the second most abundant element on earth. But few are laughing. A quadrupling of prices ripples through a multitude of consumables. Electronics and cars all rely on silicon for parts or alloys.

Blame geopolitics, causing power shortages and sanctions. Making silicon metal is energy-intensive, requiring quartz, which contains silicon, and coal. Furnaces reach temperatures of up to 2,000C and require 10MWh-12MWh of energy.

China is the biggest producer, responsible for two-thirds of silicon materials in 2019. But recent coal shortages left the country desperately rationing power, by far the bulk of which comes from this fossil fuel.

But even before furnaces began cooling down, international supply of silicon was under stress. In June, the US slapped a withhold release order on silica-based products made by Hoshine Silicon Industry in Xinjiang, preventing entry into the US. The province has attracted international ire for its persecution of Uyghurs.

The biggest corporate casualties to date include solar-panel module manufacturers such as Canadian Solar. Silicon groups such as Norway's Elkem ASA could suffer, forcing the issuance of *force majeure* letters to customers on certain materials.

Their shareholders can take heart from tentative moves to ease China's coal shortage.

But the surge in silicon prices illustrates fragility in the supply chain and hefty reliance on a single country, neither of which bode well. The long period of flat silicon prices has ended.

Eurowag: buyer's market

Comically named payment group Eurowag flirted with tragedy when shares started trading in London yesterday. Investors facing an energy crisis, rising inflation and growing political tensions were always going to be a tough crowd.

Eurowag's IPO came a day later than planned, with the shares priced at 150p, 25p below the bottom of the original range. When trading commenced, shares fell a further one-tenth. That valued the company at just over £900m, little more than half the £1.7bn originally mooted.

Eurowag shows the risk of pushing on with an IPO when sentiment has turned negative. It did achieve its aim of raising £200m to fund growth. It could have decided to pull the deal; French healthcare property group Icade Santé this week postponed its IPO until the market improves. Fitness group iFit cancelled too, citing similar US conditions. The propensity of sellers to walk away is an indication of who are usually the winners from IPOs.

Eurowag shareholders will hope they have got a bargain. The 150p IPO price was at a multiple of 18 times 2022 ebitda. US peers such as Shift4 and Paya trade in the mid-to-low 20s. But even with Eurowag shares now trading at closer to 16 times, investors should be cautious. The business is a payments play on fuel sales to highly cyclical European haulage companies.

Studies have shown that, more often than not, IPO buyers end up losers in the long run. Deals in the London market this year will not help that image. Of the 15 IPOs that raised £150m or more this year, seven trade at an average 23 per cent below their offer prices. The underperformers include Deliveroo, the year's largest. Dr Martens is teetering on the brink of going below its initial valuation.

Best performer Darktrace, up more than 200 per cent, fits the trend of punchy tech valuations. Like other top-performing IPOs this year, it is an unprofitable tech business.

Rapid grocery delivery: customers' delight

UK supermarket chain Asda is rolling out its rapid delivery to 100 stores, joining peers such as J Sainsbury and Wm Morrison. All compete with a bevy of start-ups, including Getir and Zapp.

Restaurant couriers such as Deliveroo have also expanded into groceries. The UK may be a newcomer — China and the US have enjoyed doorstep deliveries for longer — but now even Greggs, a purveyor of 99p sausage rolls, is expanding deliveries.

Appealing as it is to have a tub of ice cream delivered to your door at midnight, costs attach. One is environmental. Courier companies protest, but even those reliant on cyclists are guilty of packaging or powering vast warehouses. Another is margins. Customer-acquisition costs burn cash, as Uber and the other ride-hailing apps discovered.

Yet venture capital continues to flow. About a dozen start-ups tapped investors for cash in the most recent quarter, led by Gopuff and Gorillas, valued at $15bn and $3bn respectively, according to CB Insights.

Different business models have emerged; some build warehouses while others rely on existing shops. Misfits Market sells organic produce deemed by retailers to be imperfect-looking. The Netherlands' Picnic does not charge for delivery, which is by electric vehicles. Boxed is for shoppers who like to bulk-buy. Dubai-based Kitopi recently added grocery delivery to its cloud kitchens delivery model.

Yet common themes persist. The path to profitability is slow. DoorDash, which listed last year, spent a third of revenues on sales and marketing alone. China's Pinduoduo, the biggest grocery delivery company in the world, posted its first quarterly operating profit this year — although warning that did not point to sustainable future earnings and donating it to charity.

Consolidation, as China shows, will bring about big-scale winners. Until then, consumers are the biggest beneficiaries.

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The $1tn coin is a poor replacement for US Treasuries

Brendan Greeley

The Long View

The US Mint is a factory. It buys metal, stamps it into coins, then sells those coins to the Federal Reserve at face value. The mint's profit is called "seigniorage". It goes to the person known in Middle English as the seigneur — the person in charge. Think of Janet Yellen as America's seigneur.

When Congress runs a deficit, it is instructing the Treasury Department to produce new dollars. As secretary, she has to figure out how.

This autumn, America returned to a tedious cycle of threats from Republicans in Congress to make it difficult for Yellen to produce new dollars. After a temporary deal this week, the next threats are scheduled for December.

The fight has again offered a moment to discuss a fun legal theory: that Yellen could manufacture a trillion new dollars through seigniorage at the mint. Behind that conversation, however, lies a more radical idea. Maybe dollars are just whatever the seigneur says they are.

The Treasury Department spends dollars into the US economy from an account at the Fed. Normally, it tops up this account in two ways. When citizens pay their taxes, commercial banks transfer dollars in. Or the department can sell Treasuries — contracts that promise a little bit of interest over time.

To the financial system, Treasuries are a kind of dollar. They trade like money. When the department auctions Treasuries, it is producing something that is valuable to investors and foreign central banks, swapping it for the bank dollars that it can use to pay salaries.

The federal government is not the only place dollars come from. Commercial banks can produce dollars, too — even foreign banks. But the federal government is the only organisation in the world that can produce Treasuries. A Treasury auction is the pit face of the only gold mine that matters. But that regular threat from Republicans to make Yellen's life difficult — it is to halt any new Treasury auctions.

Hence, the seigniorage option. First, Yellen would direct the mint to stamp an ounce of platinum into a proof — a limited-run, finely made coin. Next, she would sell that proof to the Fed at a face value of $1tn. Yellen, as seigneur, would net about $999,999,999,000. She has ruled this out, calling the coin a "gimmick" in an interview with CNBC. But the simple fact that she is now being asked about the coin is a tribute to the power of the idea.

Last year on a face value of $1.2bn in coins, the mint took $550m in profit, mostly from the high seigniorage on quarters. Historically, that is not bad for a seigneur. And most years, the mint transfers several hundred million dollars of seigniorage to the Treasury Department's account at the Fed. Legally, the trillion-dollar profit on the platinum proof coin would be just like what the mint earns on quarters. But these are both types of seigniorage in the way that a wanton mistake at an office party and a secret family in another city are both types of adultery.

> A Treasury is not a vague promise of faith and credit. It is a specific financial contract, sold in markets

Seigniorage has always been a delicate negotiation between seigneur and subjects. Take too much profit on coins, and they can begin to lose value. Take too little, and they become too valuable to circulate. There are, however, two historical precedents for seigniorage that high: siege coins and tokens.

Under a literal siege, a medieval city could issue scraps of stamped leather, to be redeemed for coins when the siege lifted. Perhaps this is what the platinum proof coin would be: a temporary way to deal with barbarians. But Yellen could also just decide that the coin is a trillion-dollar asset, full stop, because she says it is. Then, after the Republicans roll away their trebuchets, she would not have to sell any new Treasuries and buy back the platinum proof siege coin.

Rohan Grey, an assistant professor at the Willamette University School of Law in Oregon, has written a thoughtful and exhaustive defence of the coin, in which he describes a "constitutional monetary moment" — a chance to fight over the nature of money. Grey argues that dollars are what Yellen says they are. They have value because she demands that Americans pay taxes by transferring them back into her department's account at the Fed.

In this view, how Janet Yellen produces dollars is irrelevant. She could just say there are dollars in that account, and they would be there. The US can no more run out of dollars, writes Grey, than a bowling alley can run out of tickets. The coin is a gimmick, then, but it is also a way to be honest about dollars.

This way of thinking about dollars, though, does not really have a way to explain what a Treasury is, other than as an accounting relic. The reason the Republican threat is so powerful, though, is precisely because Treasuries are so valuable. A Treasury is not just a token, a vague promise of American faith and credit. A Treasury is a specific financial contract, sold in markets.

Perhaps those buyers are misguided about the nature of money. But they sure seem to treat Treasuries like an asset, something you hold or trade, like gold. Yellen should do whatever she has to the next time she is under siege. But it is not at all clear why America needs a new way to manufacture dollars.

The writer is an FT contributing editor