



Basis Points – November 10, 2022

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Above the Fold

Should We Be Concerned About Negative Prices in China?

Over the last year, we've talked quite a bit about China's role in the global economy and how both its banking/real estate crisis and continued COVID-19 lockdowns could lead to broader issues. China, much like the U.S., is a bellwether for the world's economic health. As both a large importer and exporter of goods, commodities and services, disruptions in the flow of those items and/or a deterioration in their prices could be a sign of bigger trouble. The latest signal came in the form of China's producer prices, which is what Chinese factories charge at the wholesale level. For the first time since the height of the pandemic in December of 2020, prices fell 1.3% in October compared with a year earlier. The data comes on the heels of an unexpected 0.3% drop in Chinese exports year over year; a huge deviation from the forecasted 4% increase. Exports to the

U.S. fell 13% on the year in October, the third month of decline, while sales to the European Union fell 9% as well. China is not alone, as other Asian nations, such as South Korea and Taiwan, reported sharp export declines. What's more, the cost for shipping goods from Asia to the U.S. West Coast prices were 87% lower last week than the same time last year, according to data from Freightos.

On one hand, these dramatic price declines should make their way into the inflation calculations of many countries, including the United States. Ironically, inflation in China has also remained below the government target of around 3%, which obviously stands in sharp contrast to most of the world. Economists now expect China's economy to sharply miss previous gross domestic product (GDP) growth estimates of 5.5%. In sum, the data streaming out of the second-largest economy in the world suggests that broad global efforts to curb inflation are working. It could also serve as further impetus for the Federal Reserve to slow rate increases in the near future if it wants to keep a looming recession shallow.

Three Things

Airline Stocks in Focus

One of the brightest segments of the American economy continues to be travel. The surge in our need to take to the skies is still taxing an industry that's severely understaffed both at the corporate level and even air traffic control. But as oil prices have moderated, airline stocks are getting a bit of a bonus this fall as ticket prices have soared and are likely to stay that way (at least for a bit). Flights booked for March 2023 are averaging \$350 per domestic round-trip ticket, which is a 26% jump over the same time last year and 28% above 2019. Carriers are still dealing with increased operational costs and several have had to, or are planning to renegotiate contracts with workers and put more aircraft into service to move more passengers. But for now, demand is outstripping supply ... which, unfortunately, means elevated airfares.

TSMC Set to Build Another Substantial Fab in Arizona

According to the Wall Street Journal, the world's largest chip maker, Taiwan Semiconductor Manufacturing Co. (TSMC), is planning another multibillion-dollar plant in Arizona. The move is likely motivated by generous government grants for chipmakers who bring production stateside. TSMC's new facility is expected to manufacture 3-nanometer transistors, which are some of the smallest and most lightning-fast transistors available. The company already announced a fabrication facility two years ago, which should become operational in December. Demand for chips has cratered in recent months, but this is a longer-term bet for TSMC and allows them to get a piece of the \$39 billion available in U.S. grants.

Crypto Liquidity Deal Shifts Landscape

It's been a rough year for cryptos. From Ponzi schemes, widespread hacks and outright failures, to an overall massive decline in prices, the digital currency space is in the midst of a near-complete reset as investors go "risk-off." Crypto exchanges are extremely vulnerable to volatility and one such exchange, FTX, seemed as though it would emerge from the carnage relatively unscathed. Unfortunately, FTX recently experienced a sort of crypto bank run as investors pulled assets out of their accounts, triggering a snowball effect. On the brink of failure, its arch-rival, Binance, founded by Changpeng Zhao, has now stepped in with an intent to purchase FTX. That said, the near collapse of FTX does little to help calm investor sentiment in the space.

In the Know

Crypto Facts You Might Not Know

The first commercial bitcoin transaction reportedly occurred in Florida on May 22, 2010, when a man purchased two pizzas for 10,000 bitcoins! At the time, the transaction was valued around \$40 as bitcoins were trading under \$0.50. The lure of some cryptos is not only in the tradeable value of the currency itself, but also in the technology that powers it. For example, Ethereum's technology can be used to create a "smart transaction" where very specific conditions must be met and verified before the recipient is paid. This works well in supply chain management and/or other transactions with more than just two parties involved. And the crypto market is still in its early stages of growth, but has recently taken a large step backward. In October, the entire crypto market capitalization stood at \$900 billion, down from \$3 trillion just one year ago. The global stock market cap is nearly \$105 trillion.

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