



Daily Macro Insights: No Chips with that?

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CHIPS FOCUS: US\$440bn revenue global semiconductor industry is seeing shortages and worrying governments. After years of tech-driven deflation this is now driving inflation concerns, with shortages likely running into next year, hurting sectors such as autos and related economies like Germany. We don't see surging chip prices (see chart), but do see 'chips as the new oil' with strong and diverse demand, less cyclicity and deeper 'moats' (high entry barriers).

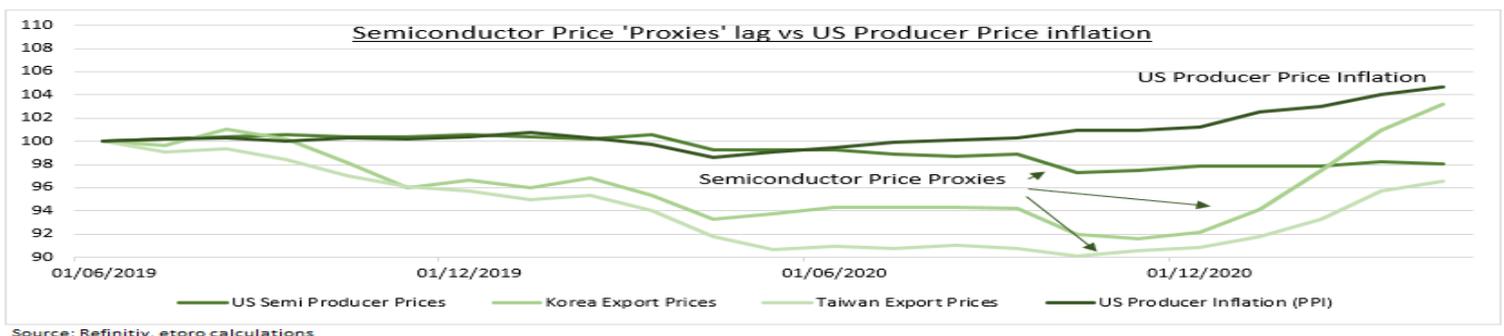
SUPPLY: This has changed dramatically, improving sector profitability, and cutting cyclicity, but also boosting the supply disruption risks seen this year – from plant fire to water shortages. We've seen strong consolidation (3 makers of the most sophisticated chips vs 20+ two decades ago), whilst huge investments (capital and R&D spend = 30% of revenues) and complexity ('it's not rocket science, it's more complicated') deter most (TSMC US\$100bn capex plan).

DEMAND: Autos saw a perfect 2020 storm of misjudged demand, short-term contracts, just-in-time inventories, and demand boom elsewhere (PC's, 5G, geopolitical stockpiling), but is only c11% of chip demand vs 30%+ each for PC's and communications. The overall global demand trend keeps surging, +18% yoy in Q1 and seen at +12% for 2021e.

PRICE INCREASES: Companies are talking higher prices, but we see little of a broad surge so far, with our proxies (see chart) all lagging US producer prices. US semiconductor producer prices are -1.2% yoy, Taiwan export prices (c30% from semiconductors) +5% yoy but down vs 2019, whilst Korea export prices (c20% exports Semiconductors) is +10.6% yoy. It's estimated a 10% increase in auto chip prices boosts overall car production costs by only 0.2%.

IMPACTS: The Philadelphia Semis Index (SOXX) is +14% YTD, only a little ahead of global equities. The sector is on 23x P/E with forecast 31% earnings growth. This is more than the global average valuation, but with less growth, though earnings are seeing strong upward revisions. Largest stocks are TSMC (TSM), NVIDIA (NVDA), ASML (ASML), Intel (INTC), Broadcom (AVGO), and well-represented in our @InTheGame and @BigTech portfolios.

TODAY: Chinese inflation is higher than seems. CPI rose to seemingly low 1.3% yoy last month, but up from 0.9% and lapping 5% rates of 2020. Underlying producer prices soared 9.0% yoy, most in decade. As world's no.1 exporter with FX 10% yoy [stronger](#), this is being exported to world, as we look to US inflation (est. peak +4.7% yoy) Thursday.



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