

AUDI MAKES A BIG BET

First let's get the **good news** out of the way – I wrote last Monday how I considered the previous week's financial markets' panic-decline to be nonsensical and a classic example of investors reacting on emotion, not facts. Happy to report I was proven right:

The S&P 500 closed last week at a record high, up 2.7%, its best weekly performance since February. The Dow gained 3.4%, its best week since mid-March, and the NASDAQ was up 2.4%. Our TSX managed "only" a 1.2% gain. Every major index, sector and commodity was higher. The only exceptions were the US dollar and bonds, as perhaps more investors accept that US inflation in the years ahead is going to be higher than in past decades. Grains, which have had a huge move up this year, were the only other notable losers.

To me, the **really interesting news was fourfold**, but all connected, and you may want to file away this email to review in 5 years' time:

- Audi announced it would be **100% electric cars** by 2026, that's a big bet by Germany's largest corporation and largest employer, and the 9th largest company in the world by revenue (2019 figures).
- Thanks to the destruction of the US fracking industry, energy companies notably reducing their exploration activities, and an overall global move to "cleaner" energy, the global oil supply is expected to drop from the current 100 million barrels a day to less than 40 million by 2040 - assuming no new major development. However, demand, as noted by virtually every major accepted study (incl. IEA – International Energy Agency), will still be around 100 million barrels a day. ***What does that do to the price of oil??***
- **Russia**, which is the key supplier of oil to Europe, has announced it will eliminate the US dollar from its \$185 plus billion oil fund to reduce vulnerability to Western sanctions. The wealth fund currently holds 35% of its liquid assets in dollars, worth about \$41.5 billion, with the same amount in euros and the rest spread across yuan, gold, yen and pounds. After the change, the fund's assets will hold 40% in euros, 30% in yuan, 20% in gold and 5% each in yen and pounds. The wealth fund holds savings from Russia's oil revenues above a cutoff price and is used to help offset shortfalls when the market falls below that level.
- Not as extreme as Audi, but **GM and Ford, along with most major auto manufactures**, have also announced big moves to EV (electric vehicles) within 5 years. However, no one is talking about the significant work to do between now and 2026 on the electric grid (both in the USA and overseas). To be ready for significantly more EV transportation being used, we will need more electric grid infrastructure. This must be made and it takes time, and right now much of that infrastructure may well be sourced from China. So, in keeping with President Biden's infrastructure plan, this means the US would have to make new factories to make the infrastructure and *THEN* use those

new factories to make the infrastructure. Such a process could be VERY inflationary.

Last, but not least – the demand for oil is not going away anytime soon, and if tensions between the USA and Russia escalate, dragging in the G7 nations, it is a possibility that a desire to reduce the dependence of Europe on Russian oil becomes paramount. That may well be the savior for our oil industry – there is lots of it and it's located in a safe, friendly country!!