

Daily Intelligence Briefing

Thursday, January 6, 2022

Identifying Change-Driven Investment Themes - Five sections, explained [here](#).

I. Today's Thematic Investment Idea

A deep dive into a market driver with alpha generating potential.

Semiconductor Sales Forecast Third Straight Year of Growth on Tight Supplies, Global Digital Transformation

Summary: After semiconductor sales shattered records in 2021 amid an ongoing supply shortage, chip manufacturers are forecasting another year of growth in 2022. An overwhelming digital transformation is expected to ramp up this year across multiple industries, which is could subsequently bring over half a trillion dollars to the semiconductor industry.

Tight chip supplies are unlikely to subside before the second half of 2022, and in some cases not until 2023. Demand, meanwhile, could continue to boom until 2025 as the transportation sector undergoes an electric transition and technology spending, while expected to slow this year, remains historically high. While certain risks remain for the chip industry, semiconductor manufacturers are confident 2022 could bring a third straight year of record-breaking revenues.

Related ETF: iShares Semiconductor ETF (SOXX)

Semiconductor Sales End 2021 on a High Note, Look Toward Further Growth in 2022

As the global semiconductor shortage enters its third year, chip manufacturers are projected to shatter both annual revenue records as well as units shipped in 2021. Manufacturers have been ramping up production over the last year, yet sky high demand for semiconductors has still kept supplies tight, a trend that could continue through the new year and into 2023.

According to Evertiq, global semiconductor sales were up **23.5% YoY in November to a total of \$49.7 billion**, 1.5% greater than the previous month. The Semiconductor Industry Association (SIA) stated the cumulative annual total of **semiconductors sold through November was 1.05 trillion**, the industry's highest ever total with a month of data yet to be recorded.

In terms of dollar sales, semiconductors grew **26% in 2021 to an astounding \$553 billion** worldwide as chipmakers struggled to match the level of unprecedented demand from the COVID-19 pandemic, CNBC writes.

Not only was 2021 a banner year for the industry, but a new report from trade credit insurer Euler Hermes forecasts 2022 to be even more lucrative for chipmakers. Semiconductor sales are expected to grow another 9% this year and **cross the \$600 billion mark** for the first time ever. The firm credits "unusually strong demand" for consumer electronics, **higher prices for chips amid tight supplies** and an improved product mix as the main reasons for the semiconductor industry's multi-year outperformance.

Historically, the semiconductor industry tends to have a cyclical nature to it, in which demand for chips surges and manufacturers scramble to build up inventories, eventually leading to a supply glut and a subsequent sales crash.

Bloomberg recently posted on this stretch, noting that the chipmakers have the opportunity to break the trend and report a third straight year of sales increases for **the first time in decades**. Companies like Intel and Micron have argued the nature of the industry is fundamentally different now due to the fact chips are used in so many products these days rather than just computers and mobile devices.

Since much of the global economy is dependent on these chips, semiconductors could remain increasingly hard to come by until 2023.

Supplies Remain Tight as Automakers, Video Game Manufacturers Struggle with Production

Chip supplies have been extraordinary tight over the last year and a half due to a slew of factors ranging from strong electronic demand, global supply chain struggles and a high concentration of production coming from two companies in East Asia - **Taiwan's TSMC and South Korea's Samsung**.

Further, new production cannot come online swiftly, as The Wall Street Journal notes chip factories can **take three years to build and begin operations**.

A recent report from Deloitte, highlighted by CEPro, predicts that the semiconductor shortage will last well into the new year and could **push component lead times into 2023**. However, the consulting firm said it expects the deficit to be less severe than the last two years, with the industry projected to balance out by early 2023.

Still, delivery times for chips have yet to reverse their uptrend. Per Global Times, the wait time for semiconductors to be delivered stands at 25.8 weeks in December, six days higher than November and the longest delivery timespan **since Susquehanna Financial Group began tracing the data in 2017**.

As MRP highlighted a few months prior, a quick economic turnaround from the COVID-19 pandemic has limited chip supplies for industries including automakers and video game manufacturers, creating significant production setbacks. Those setbacks have yet to be resolved and are expected to spill over into the new year.

According to Bloomberg, carmakers sold **12.5 million new vehicles in December**, down 23% from the same month in 2020. December is typically a strong month for the auto industry as holiday promotions typically fuel a year-end push, yet low inventories hampered sales for some of the industry's top manufacturers.

General Motors has been hit the hardest, **recently usurped by Toyota** as the United States' top-selling automaker, while consultancy Roland Berger warned some **automakers should prepare to battle the chip crisis for years to come**.

Video game manufacturers, meanwhile, saw their sales dip 10% in November, primarily due to supply setbacks attributed to the chip deficit. Hardware sales, which are the most correlated to semiconductor supply, **slipped 38%** according to the most recent NPD Group report. However, console demand has not significantly waned, video game production is just unable to keep up with relentless consumer appetite for gaming consoles.

Demand Boom Could Last Until 2025, Yet Certain Risks Remain

Semiconductor demand is not expected to subside any time soon, either. According to Bloomberg, the **current demand boom could last until 2025**, driven by strong growth in smartphone and computer sales as well as the expansion of the EV market. Further, semiconductor use has spread from just computers and phones to smart watches and smart home technology, even finding use in clothing and other wearables.

However, there are still certain risks that could derail a third straight year of sales growth for the world's top semiconductor manufacturers. For one, some analysts expect demand for hardware like TVs and computers to slow in 2022 as **markets could be set to normalize** after the last two years of breakout growth.

Second, the ongoing "standstill" between the US and China in the battle for tech supremacy, as CNBC writes, could dampen growth with **restrictions still in place for Chinese companies** looking to acquire US semiconductor manufacturing technology and equipment. New developments in this standstill, such as the US forbidding semiconductor technology specialists from **selling to Chinese companies**, could also limit expansion.

Finally, with semiconductor production highly concentrated in Asia, a higher likelihood that a typically unusual climatic event, such as drought or typhoons, strike the region could certainly diminish production. Chipmakers already use vast amounts of water, **as Fortune has reported**, and the growing threat of drought could potentially limit output.

While these risks are certainly possible, the semiconductor industry appears confident 2022 could bring another year of outperformance. Demand for technology was supposed to normalize in 2021 as the economy reopened and remote work subsided, yet that has not been the case thus far. Similarly, chipmakers battled historic droughts last year and were still able to reach record high sales and shipments.

CHARTS



SOXX Top 10 Holdings

Company	Weighting
Broadcom Inc.	9.32%
Qualcomm Inc.	7.85%
NVIDIA Corporation	6.98%
Intel Corporation	5.82%
Advanced Micro Devices, Inc.	5.06%
Marvell Technology, Inc.	4.77%
Micron Technology, Inc.	4.30%
Applied Materials, Inc.	4.15%
Lam Research Corporation	4.10%
KLA Corporation	4.09%

Source material for today's market insight...

Semiconductors
Another chip shortage is only a matter of time. Here's how businesses can prepare

By the time our current semiconductor shortage ends, Deloitte said, it will have lasted more than 24 months and will likely have had a global cumulative revenue impact of more than \$500 billion USD.

Far from being an unprecedented shortage, Deloitte reminds us that there have been six shortages of similar duration or magnitude to today's in the past three decades. As semiconductors become more important to the global economy, the risk of a shortage only increases, it seems.

[Read the full article from TechRepublic +](#)

Semiconductors
Fire at vital tech factory could worsen global computer chip shortage

A fire at a factory owned by the sole provider of a vital technology used to manufacture computer chips could exacerbate an already serious global shortage of semiconductors used in everything from phones to cars.

ASML Holding declined a request for interview, but said in a press release that it was too early to tell how significant the damage was and whether it will have any impact on production.

[Read the full article from NewScientist +](#)

You'll find all of our recent Market Insight reports on the MRP website [-->](#)

OTHER DIBS MATERIALS

II. Updates of Themes on MRP's Radar

Follow-up analysis of key market drivers monitored by MRP.

Digital Payments **LONG:** Goldman Says Bitcoin \$100,000 a Possibility by Taking on Gold

eCommerce: Walmart doubles down on delivering groceries straight into your fridge

Copper: BHP's Cerro Colorado copper mine in Chile hit by further water measures

Oil: Oil Jumps as OPEC Sees Limited Omicron Impact

Pharma: After years of decline, drugmakers' price hikes may have bottomed out

III. Joe Mac's Viewpoint

Founder Joe McAlinden's big-picture analyses of macro issues. More about him [here](#).

December 23, 2021: [Bye Bye, Transitory -->](#)

November 3, 2021: [The Roaring \(Inflation\) '20s -->](#)

October 6, 2021: [Looking Through the Third Wave -->](#)

September 2, 2021: [Inflation & Valuation -->](#)

July 30, 2021: [Jay's Jedi Mind Trick -->](#)

IV. Active Thematic Ideas

MRP's active long and short themes, with an archive of follow-up reports.

[See Them Here -->](#)

V. Macroeconomic Indicators

Key data releases relevant to MRP's Active Thematic Ideas.

[See Them Here -->](#)

ACTIVE THEMATIC IDEAS

Select a theme to see when and why we added it. Also included is a link to all recent Market Insight reports we've written about that theme, allowing you to track its progress.

- LONG**
Travel & Leisure
- LONG**
Agricultural Commodities
- LONG**
U.K. Equities
- LONG**
Digital Payments
- LONG**
Oil & Gas Services
- LONG**
Drug Stores
- LONG**
Sports Betting
- LONG**
Video Games
- LONG**
U.S. Banks
- LONG**
Uranium
- LONG**
Aerospace & Defense
- LONG**
Solar
- SHORT**
Long-Dated Treasuries

MACROECONOMIC INDICATORS

1. US Composite PMI Slightly Lower in December

The IHS Markit US Composite PMI came in at 57.0 in December 2021, little changed from a preliminary estimate of 56.9 and November's final reading of 57.2. Input cost inflation hit a fresh series high in December.

[Click here to access the data +](#)

2. US Crude Oil Inventories Lower Again, Gasoline Stocks Surging

US crude oil inventories fell by 2.144 million barrels in the week ending December 31st, a sixth consecutive period of declines and compared with market forecasts of a 3.283 million drop. Meanwhile, gasoline inventories surged by 10.128 million barrels, the most since April 2020.

[Click here to access the data +](#)

3. MBA Purchase Index Tumbles Lower

The MBA Purchase Index in the United States decreased 10.8% to 277.30 points in the week ended December 31st 2021, the lowest in 9 weeks.

[Click here to access the data +](#)

4. Japan Consumer Confidence Flat

The consumer confidence index in Japan was at 39.1 in December of 2021, little changed from 39.2 in November which remained the highest reading since May 2019, as disruptions from COVID-19 eased.

[Click here to access the data +](#)

5. Euro Area Composite PMI Breaks Lower

The IHS Markit Eurozone Composite PMI stood at 53.3 in December 2021, little changed from a preliminary estimate of 53.4 and below the previous month's final reading of 55.4. The latest figure signaled the softest expansion in private sector activity since March. Business confidence did rise from November's ten-month low.

[Click here to access the data +](#)

6. Italy Inflation Rate At More Than 13-Year High

The annual inflation rate in Italy likely accelerated to 3.9 percent in December of 2021 from 3.7 percent in the previous month, in line with market forecasts. It was the highest reading since August of 2008.

[Click here to access the data +](#)

MARKET INSIGHT UPDATES: SUMMARIES

Finance

Digital Payments
Goldman Says Bitcoin \$100,000 a Possibility by Taking on Gold

Goldman estimates that Bitcoin's float-adjusted market capitalization is just under \$700 billion. That accounts for 20% share of the "store of value" market which it said is comprised of Bitcoin and gold. The value of gold that's available for investment is estimated at \$2.6 trillion.

If Bitcoin's share of the store of value market were "hypothetically" to rise to 50% over the next five years, its price would increase to just over \$100,000, for a compound annualized return of 17% or 18%, Zach Pandl, co-head of global FX and EM strategy, wrote in a note Tuesday.

[Read the full article from Bloomberg +](#)

Services

eCommerce
Walmart doubles down on delivering groceries straight into your fridge

Walmart (WMT) said Wednesday that it plans to make InHome, its \$148 annual delivery option, available to 30 million US households by the end of the new year, up from six million today.

Walmart did not disclose how many shoppers have signed up or stuck with the program. But it's targeting healthier, time-strapped customers who are willing to pay a subscription.

[Read the full article from CNN +](#)

Commodities

Copper
BHP's Cerro Colorado copper mine in Chile hit by further water measures

BHP, the world's largest miner, said on Friday that Chile's First Environmental Court had issued a new precautionary measure related to the extraction of water from the Lagunillas aquifer, which would affect the mine's \$467 million operational continuity project.

Copper companies across Chile, the world's top producer of the red metal, have been forced in recent years to find alternative means to feed water to their mines as drought and receding aquifers have hampered operations.

[Read the full article from Mining.com +](#)

Energy & Environment

Oil
Oil Jumps as OPEC Sees Limited Omicron Impact

The Organization of the Petroleum Exporting Countries and a group of non-OPEC producing countries led by Russia said Tuesday they would raise their collective production by another 400,000 barrels a day in February.

"The storm is over," said one OPEC delegate, referring to the pandemic's impact on oil demand last year. In its monthly report last month, OPEC raised its demand estimate for its own oil output by 200,000 barrels a day for 2022.

[Read the full article from The Wall Street Journal +](#)

Biotechnology & Healthcare

Pharma
After years of decline, drugmakers' price hikes may have bottomed out

Pharmaceutical companies have raised the list prices of many of their drugs by about 5% to open 2022, roughly in keeping with recent years' trend but significantly less than in the early and mid-2010s.

Data from the consultancy Iqvia show that while list prices rose by 4.4% on a group of branded medicines in 2020, net prices actually fell by 2.9%. From 2018 to 2020, net price increases on those drugs tracked below the consumer price index, according to the company. Iqvia hasn't published figures for 2021 yet.

[Read the full article from HealthcareDive +](#)

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