

Dragoman Digest

Majority of US coal fleet uneconomic with new renewables

However, economic forces are not the only factor at play

The marginal operating cost of the **US'** 220GW fleet of coal-powered generators is now more expensive than replacing it with new solar or wind capacity. US policy thinktank [Energy Innovation](#) has, compared the marginal cost of energy for 210 coal plants, including input costs, operation and maintenance, and annual capital requirements, with the levelised cost of energy for wind and solar, including subsidies. The 2019 report found that 62 per cent of coal plants were more expensive to operate than replacing them with new wind and solar. This rose in 2021 to 72 percent. Today, the figure is 99 percent (209 out of 210 coal plants). Several factors explain the gradual increase, including the costs of maintaining an ageing fleet and changing market dynamics. However, the US\$369 billion worth of tax credits for renewables investment contained within the *Inflation Reduction Act* this year has changed the game.

Despite being uneconomic, closing all 209 plants would be a high-risk approach. There is the potential for adverse implications on grid security and reliability, as well as social impacts for local communities, employees, and contractors. Energy Innovation also assumes that renewables can replace coal on a like-for-like basis. In reality, vast amounts of storage would be required to account for the varying capacity factors of baseload and renewable energy. The postponement of the closure of eight coal-fired power plants [late last year](#) amid forecast electricity supply shortages highlights the complex array of factors generating companies face in managing the retirement of their assets.

Egypt readies sale of 32 state-owned companies

Economic headwinds and indebtedness of SOEs may yet stymie the privatisation drive

In an effort to secure foreign currency reserves and stave off a possible debt crisis, the **Egyptian** government has [named](#) 32 companies, which it plans to divest from by March next year. Included on the list are Misr Life Insurance, Banque du Caire, paint and chemical manufacturer Pachin, as well as Port Said Containers and Cargo Handling. Stakes in companies in the transport, hotel and industrial sectors will also be sold. The most notable inclusion on the list, given the military's deep [entrenchment](#) in the economy and political system, was the sale of two military-owned companies, Wataniya Petrol and mineral water company SAFI. Cairo has signalled it may add to the list throughout the year. The companies will either be listed on the Egyptian stock exchange or sold to private companies.

The privatisation campaign's success is far from guaranteed. The financials and governance structures of many state-owned enterprises and military businesses are notoriously opaque. Approximately [US\\$23 billion](#) of foreign debt is owned by state-owned banks and companies. Egypt's economic woes – including inflation which, at times, has exceeded 30 percent – may also deter investors. The privatisation effort will test whether Egypt can sell its assets at a substantial value rather than resort to fire sales.

Much of the move is in response to IMF demands. The military has been busy reshuffling assets out of the companies that are to sold. It will be a case of buyer be [very](#) aware.

Leading US chip equipment makers target Southeast Asia amid export controls

The region's well-established chip industry offers a fitting, albeit partial, alternative to China

Several prominent **US** chip equipment manufacturers are [shifting their focus](#) from **China** to Southeast Asia. Lam Research, KLA and Applied Materials have all either scaled up their operations in Southeast Asia or transferred their non-Chinese (previously China-based) staff to the region. The three companies represent around 35 percent of the global chip equipment industry.

This pivot is in direct response to export controls imposed in October last year, which restrict the transfer of equipment used to make logic chips smaller than 14/16 nanometres (nm), DRAM chips smaller than 18nm, and NAND chips with more than 128-layers. DRAM and NAND are both types of memory chips. The new restrictions also ban US citizens from working for Chinese chip manufacturers without a licence. The US and China's chip industries have traditionally been mutually dependent. In 2020 and 2021, China was the US' largest customer for chip equipment.

Southeast Asia is a logical destination for chip equipment makers. The region's semiconductor and electronics industry is well-established, with US chipmakers having been in **Singapore** and **Malaysia** since the 1960s. The shift also goes hand-in-hand with recent investments from Intel and Samsung in Malaysia and **Vietnam**, respectively. Notably, none of the three US chip equipment makers have announced plans to leave China. Even with the chip equipment controls, China is a highly lucrative market.

Washington doubles down on Huawei export controls

Latest sign that national security imperatives are increasingly trumping economic concerns in Beltway debates

Last week, the **US** [stopped](#) issuing domestic companies with export licenses to **Chinese** telecommunications giant Huawei. In May 2019, the Trump administration placed Huawei on the so-called Entity List, which after further measures, ultimately required any global company selling US technology to Huawei to apply for a license to do so. Yet, in the intervening years, US companies, including semiconductor companies [Qualcomm](#) and [Intel](#), regularly received licenses to sell technology to Huawei.

Washington's tighter restrictions are partly driven by concerns over Huawei's expansion into new domains, including [undersea cables](#) and [cloud computing](#). Several Republican senators, led by House Foreign Affairs Committee Chairman Michael McCaul, have cited Huawei's growing diversification in calling upon the Biden administration to block all export licenses. There was also a strong Huawei influence on the US's unprecedented decision last October to block advanced semiconductor exports to China. Previous restrictions targeted companies rather than entire classes of technology. The US specifically alleged that Chinese companies, including its leading memory chip manufacturer, Yangtze Memory Technologies Corp (YMTC), surreptitiously sold US technology to Huawei.

Export controls have evidently moved to the forefront of US foreign policy. Whether the US can simultaneously curb exports to China – the largest market for many of its companies – without unduly curbing its global competitiveness remains to be seen.

Fallout from Adani Group sell-off risk flow-on effects for the Indian economy

Health of state banking sector and viability of India's ambitious infrastructure drive are both in question

Last month, **US** short-seller Hindenburg Research [issued](#) a report alleging that the Adani Group has committed accounting fraud and stock manipulation over several years. The crisis triggered a stock rout that wiped out US\$118 billion in market value from Adani's listed companies. The liabilities of 10 of Adani's listed companies add up to 3.39 trillion rupees (US\$41.1 billion), estimated to be equivalent to around 1.2 percent of **India's** economy. The total figure could be higher given that there are a slew of privately held companies in the Adani portfolio.

Adani's debt burden poses several risks for the Indian economy – with the most significant impact on state-owned banks. At least 30 percent of the Adani Group's entire debt is concentrated among government-backed lenders – the State Bank of India, Bank of Baroda, and Punjab National Bank. Concerns over these exposures may have the added effect of further delaying long-held government plans to privatise some of these banks.

Adani is also India's largest infrastructure company – across mines, ports, airports, railways and powerplants – raising questions over the viability of New Delhi's [ambitious](#) nation-building drive. Adani Green Energy and Adani Enterprises are among the most heavily indebted of Adani's companies – with net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA) ratios at 10 times and 14.9 times, respectively. These companies have explicitly [pledged](#) over US\$100 billion worth of investments towards India's renewables build-out. The risk for India is that it has put too many eggs in the Adani basket. The challenge maybe similar to the US's challenge in the global financial crisis – is Adani too big to fail?