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FROM OUR AUDIENCE

OILMAGEDDON...OILPOCALYPSE...WHATEVER TERM YOU USE, THIS WILL BE DEVASTATING IN MANY WAYS

Hey Chris, What does this oil price plunge portend? You sound ominous at times. . .All I can think of is low gasoline and shipping prices, and of course some kind of massive impact on our shale oil industry.

The more I have thought about it of late, no sector of the markets/sub-sector of the economy is more a microcosm of America's hubris, financial excesses, unfolding deflationary bust *and false sense of security* than our energy industry. President Trump, as you know, has ballyhooed the surge in the last few years in our domestic production of both oil and natural gas. Now, I'm all for America being energy independent, too. But just as "The Donald" became rich by using and misusing DEBT **so, too, has America's energy industry and vaunted energy independence been built on an unsustainable skyscraper of debt.**



"Pumpers" in the financial and economic press *even now* don't get what the problem is or how we got into it when it comes to **the renewed implosion of an entire industry and all that will accompany that.** Last Friday morning, I listened to an especially clueless—and frighteningly reckless—*CNBC* court jester Bobcat Goldthwait...er, I mean Jim Cramer (left)...encapsulate everything America has done *wrong* on this subject in a manic diatribe which again has me wondering whether Cramer really did give up the "blow," or is instead hitting it harder than ever.

"Oil is just embedded in the greatness of what was happening in the economy. . .we were doing something good in this country, which was getting oil out of the ground," Cramer said,

in part, in suggesting America's energy policy/production was an economic and engineering marvel of the ages until this magnificence was recently hit. Seldom, though, does he remind people that this was made possible ONLY as Wall Street force-fed HUGE sums of money into this industry. . . did so without much in the way of checks, balances, etc. but based on the blind faith that this was the road to guaranteed riches. . . fostered as a result a bloated industry, overcapacity and overproduction. . . and led to an industry at death's door which now wants to be bailed out.

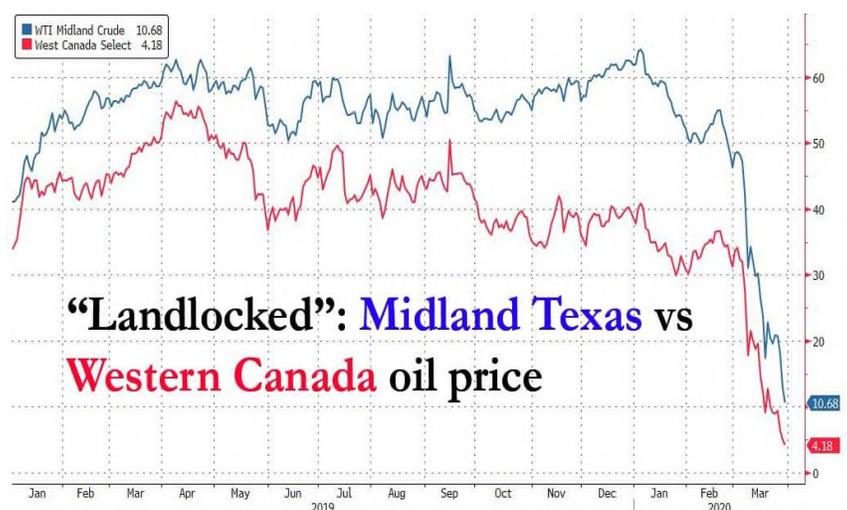
And I've put aside, for now, MANY corollary issues such as environmental despoliation and the like.

As have the president and others, **Cramer has chosen to blame Saudi Arabia and Russia** for making things worse than they were already for demand and the industry overall due to the Wuhan Virus. Truly crackpot things have come out of this goof's mouth; to the point of advocating sanctions, diplomatic and otherwise, and more against those countries. Speaking of those countries' "oil war" of sorts going on and how that has hit the oil price—and America's cratering industry—even harder, Cramer said, "I'd hate to see the Saudis or the Russians become the reason why we have such trouble."

It was neither a Saudi nor a Russian official running the Federal Reserve and—via that "Everyone gets a trophy" credit system—thus enabled the debt bubble now set to collapse. They were not the ones on Wall Street hypothecating said Fed policy *many times over* in the rush to securitize this lunacy and pile ever more leverage on top of leverage, temporarily manufacturing "returns"—and the attendant bonuses and such—no matter how IDIOTIC their scheme was *economically*.

Neither Vladimir Putin nor Saudi Prince "M.B.S." have sought to keep zombie companies alive in the U.S. oil patch, extend bad loans and engage in other financial and economic decisions that once upon a time would have been considered INSANE. They were not the ones who gave the American people the false security of an energy policy that would forever keep us in cheap and easily accessible oil and natural gas both; something which we will discover to our collective HORROR was terribly and even treasonously planned and—in the end—NOT TRUE. *Yet exhibiting BOTH hubris and insanity, the Trumps, Cramers and their like act as if it's the responsibility of both Saudi Arabia and Russia to continue taking the hit in order that the U.S. does NOT have to suffer the consequences of its own actions.*

Never since the dawn of the industrial age has there been such a blow to conventional energy demand. Almost overnight, global demand for crude oil particularly has plunged from a bit over 100 million barrels per day to a level now estimated to be settling (for now) at 70-80 million. **And especially where the overcapacity-laden and over-indebted American shale industry goes, it will be beyond debilitating**, trashing an entire sub-set of the U.S. economy; and the jobs, families and communities most dependent on it.



I warned a while ago (to the seeming shock and disbelief of my friend Cory at the *K.E. Report*) that we could actually see oil's price in the U.S. go *negative*. **That is happening now.** Inland areas in the Rocky Mountains (Wyoming specifically as I have read so far) are PAYING about 20 cents/barrel to have their heavy oil taken off their hands. And even in the Permian Basin, the realized price is now down to about *half* of the already-bleak reported spot price for West Texas Intermediate Crude, which has dipped below \$20/barrel briefly as I write this *to its lowest level since 2002*.

Things are no better in Canada where the story is less of a glut as here, and simply to economies grinding to a halt. The price for West Canada Select—which *had* rebounded nicely in 2019, **but chiefly as the Province of Alberta mandated across-the-board production cuts**—has imploded anew.

At this point, no action by the Saudis or Russians is going to meaningfully help an American energy industry whose problem is that it *continues* to oversupply a market that can't *physically* take any more oil (hence low-ball and eventually wider NEGATIVE pricing being the only solution to slow down the flow of oil from producers.) All that *might* help somewhat would be some VERY harsh medicine in the form of **across-the-board production cuts in the U.S.** Reportedly, two of Texas' leading crude oil producers—Pioneer Natural Resources and Parsley Energy—are asking for an emergency meeting of the Texas Railroad Commission, in the hopes that body would do as Alberta did a year or so back and mandate the kind/size of cuts needed to firm the price back up meaningfully.



To the extent that *anybody* is suggesting that browbeating Russia or Saudi Arabia will help things is disingenuous at best; and *still* reeking of what in the end will be a self-destructive hubris. **Let me speak first about Russia.**

First off, if *President* Trump had stayed true to the tone vis-à-vis Russia that *Candidate* Trump had exhibited, Putin would have more reason to want to help (though, at this point, we're past that.) But sadly, President Trump:

* Has sanctioned various Russian banks, business people, companies and industries.

* Overtly attempted to sabotage Russian business dealings with Europe; chiefly (though not exclusively) over energy.

* Thrown—or allowed his various “Swamp” holdover appointees to throw—monkey wrenches of various kinds into Russia's economic and security dealings in ITS part of the world.

*** And as has every single other president since George H.W. Bush, violated the deal the elder Bush struck with former Soviet leader Mikhail Gorbachev.** And in the case of Trump, this is especially angering as (again) Candidate Trump was so CORRECT in his views on foreign policy generally, and on N.A.T.O., Europe and relations with Russia especially, for purposes of this discussion.

What The Orange Wonder *has* given us is 1. Record military spending by the U.S., 2. Ditto for N.A.T.O. (which Candidate Trump correctly said belongs on history's ash heap with the Soviet Union)

3. The added browbeating of N.A.T.O. countries to *themselves* spend ever more on war spending, even though most want to be *friends* with Russia and 4. The ongoing war games, expansion of N.A.T.O. and encirclement of Russia *which Bush 41 promised would NOT happen*.

Thus—as I said on social media following the news that Trump was calling Putin for the latter’s help—Putin has every right to tell his counterpart to go straight to the Devil.

As it is, Putin has reportedly agreed to ministerial-level meetings between people in his industry and those designated by Trump. Already, it’s believed (as even Russia’s *Tass* news agency reported a couple weeks back) that some of that country’s own major companies *don’t* want to boost production. They all have simply tired of being the ones who have to “enable” the overcapacity-laden American shale industry and the parties that have loaned/invested a LOT of money into it.

Putin has everything to gain and nothing to lose by “dealing” with Trump on this (who, if he really believes getting those other parties to cut production means the U.S. industry will be saved from any pain, is *really* ignorant.) I suspect Putin will roll out a list of ALL the American attacks, sanctions, slights, military war games on Russia’s border and the rest; and DEMAND satisfaction on at least some of them in order to be a part of a *global* effort—to include production cuts in the U.S. as well—to shore up the market. *This will be interesting*.

While I completely understand and sympathize with Russia’s decision to bow out of that “O.P.E.C.-plus” regimen, Saudi Arabia is a different matter, as I opined at the time. It frankly had me scratching my head, given that they are at least ostensibly an “ally” and one that has long been protected by the U.S. military to boot.

Once upon a time an “accidental” President Gerald R. Ford, in fact, bluntly told the Saudis (this during the Arab oil embargo of the 1970’s) that the country we protect—and the sheiks we made rich—had one of two choices: 1. Continue to sell America the oil we need or 2. That same military that protects you will *take it*. Trump recently bragged about taking oil from Syria in such a way. *What does he intend to DO now about Saudi Arabia; especially with that country just announcing it plans to increase monthly production another 600,000 barrels/day?*

Again, an American president (and I dump less on the current one than I do **the institution and mind set** of a waning global power that increasingly is frantic in trying to hold Empire together) seems ever more to be motivated simply by, “I want.” As such, Trump seems a bit oblivious to the fact that this *really is* a dispute between Russia and Saudi Arabia and each oil exporter’s respective clout in a world *outside the U.S.* where America will have much less of its own clout left in coming years. This *Bloomberg* story--<https://www.bloomberg.com/news/articles/2020-03-20/putin-won-t-submit-to-what-is-seen-as-saudi-oil-price-blackmail> –from March 20 is especially instructive on that.

President Trump’s 1. True abilities as a deal maker and 2. His real motives/feelings as an out-of-the-box leader NOT beholden to the old Washington ways are about to get one of their most severe tests. *Candidate* Trump would be up to this. But a President Trump—whose ongoing sanctions elsewhere continue to cripple Venezuela, Iran, Syria and others, too, together with making the respective Wuhan Virus outbreaks in those countries even harder to cope with—has little moral authority to be asking for *anything* (see <http://ronpaulinstitute.org/archives/featured-articles/2020/march/31/while-trump-fights-coronavirus-pompeos-on-the-warpath/>.)

The picture is bleak for the American energy industry no matter what happens, as I discussed among other things at <http://www.kereport.com/2020/03/31/oil-price-war-is-devastating-energy-companies-the-gold-price-sells-off-into-the-close/> as I was finishing up this issue. **Opportunities will re-emerge; and new ones as a consequence of this mess.** But things will get *much* worse first.



Finally, in his discussions with *both* Russia and Saudi Arabia, Trump had best well keep in mind that wrong moves may render him **the president who presided over the end of the U.S. Dollar standard for the world.** As I have often pointed out, his seeming understanding in the first place of the intricacies of the dollar's role as the world's reserve currency—augmented in a key way by the so-called petrodollar system governing the globe's oil markets—leaves *a lot* to be desired.

As I have been stressing of late, the whole world is again buckling under the pressures of the dollar's recent strength; and renewed calls regionally will come again, as they did post-2008, to break away from it. So the president is playing a delicate game here; and as countries such as Russia *or even* "ally" Saudi Arabia see their ways clearer to move toward the post-dollar world in a bigger way, they may take this HUGELY disruptive new episode that has hit the world's economies and markets to do just that. And that will be especially the case if an ignorant Trump *pushes* them toward that outcome.

***The above is excerpted from the March 31, 2020 Issue;
Chris' response to a Member's question***

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