

# **GAS UP THE TELEPROMPTER**

## **SEPTEMBER 2005**

Most journalists have been trained in the ancient art of never allowing the facts to get in the way of a good story. Their Jedi-Knight mind tricks are used strategically to keep up that great conspiracy to keep the public poor and stupid. We are preached to by the mighty teleprompter readers, their puppeteers and their major advertisers on the reasons why gasoline prices are so high. Their colorful stories make for great copy and ratings but it will not help in solving the problem. Here are some facts regarding the current state of the oil market.

**LIES:** Currently there is a terrible shortage of oil. There are many reasons behind this according to the mainstream press, some of the most popular are: the strong demand from China or evil people that drive SUV's that probably voted for Bush or of course, George Bush, Dick Cheney or Halliburton.

**REALITY:** We currently have 9.7% more oil in stockpiles than we did a year ago. Logic dictates that if we have a greater supply the entire supply/demand argument being pitched by the empty heads reading teleprompters is ridiculous. Oil is up because Wall Street wants it to be up. The big investment houses made over \$8 billion last year trading (manipulating) oil markets. Before hurricane Katrina even hit the gulf coast traders pushed the price of oil up over \$4 a barrel in a single day putting the price at over \$70. We now have useless journalists and political hacks like Senator Chuck Schumer D-NY who are calling for the President to release millions of barrels of oil from the Strategic Petroleum Reserve which the President did and of course it did absolutely nothing. Earth to Chuck, we have enough oil. According to the Federal Energy Information Administration there is 322.9 million barrels of crude on the ground today versus 285.3 million from a year ago.

What we do have is a horrible refining problem however that has nothing to do with the price of oil. The idea that demand is making oil prices skyrocket is a fraud. For example: It is a hot August day and you want some ice cream. You go to the local market to pick up some of your favorite brand of Ben & Jerry's and a gallon of milk. When you reach the checkout you realize that the price has doubled for both items! You ask the grocer about the drastic price increase and he tells you how the manufacturing capacity at the Vermont facility had been compromised when one of the workers Birkenstocks got caught in the ice cream while the worker was smoking a funny smelling cigarette. You tell the grocer that might explain the higher price of ice cream but it has nothing to do with the price of milk. The grocer tells you that milk goes into the ice cream creating a greater demand, a response so dense it leaves you speechless. Even if farmers worked day and night milking the cows it is not going to make the price of ice cream go down unless the hippies can get the ice cream machines up and running. However, with all that excess milk now available the price should go down. It is simple supply and demand. However, the laws of economics do not apply when in the mighty halls of the big brokerage firms. The ability to control both sides of the equation through self-serving derivative contracts allows for the impossible. Of course, someone has to pay, and that would be us.

Wall Street is salivating like Homer Simpson with a doughnut in one hand a Duff beer in the other at the prospect of \$100 barrel oil. In fact, they have been setting up oil trading floors over the past few years. They all want a piece of this market, anytime Wall Street can rig a market they will take full advantage. There is no spot price for oil like other commodities therefore you cannot determine what someone would pay if they wanted to have a barrel of oil delivered to their front porch today. Oil trades through futures contracts. Each contract represents 1,000 barrels to be delivered sometime in the future. If oil is trading at \$68.50 a barrel each contract gives the speculator control of \$68,500 worth of oil. What's interesting is that a speculator only needs put

up \$4,325 margin price for each contract. With only 244,405 contracts outstanding and extraordinarily low margin requirements it doesn't take much capital to drive prices higher. Think about how diabolically brilliant these big banks are. They know after they rip you off in your brokerage account or sell you an ill-advised annuity you will eventually leave. There is no escaping the fact that you need to fill your tank and they are taking their piece.

LIE: OPEC could shut off the spigots at anytime and its hurricane season!

REALITY: OPEC can shut off the spigots at anytime, however they need to eat, drink and be merry and that won't happen unless they are selling oil. We are not going to start buying their sand. As far as hurricanes go, the last time I checked, unlike the Red Sox winning the World Series which happens once every 86 years, hurricane season comes every year.

LIE: People are going to freeze to death in their homes this winter due to lack of heating oil.

REALITY: Stockpiles of fuel oil are 5.6% higher this year than last.

It is unfortunate that these facts are easily accessible with a little bit of homework and a little ECON 101. The overall ignorance of our public regarding energy policy and our future is allowing for the ideologues to frame the debate. This past month billionaire entrepreneur Richard Branson of Virgin Airways announced that he wanted to build an oil refinery to help fuel his planes. When the idea was presented to do build it in the United States the word impossible came up. It is it disgusting that in our country the word impossible is being used to define a business startup. We could create jobs; bring gasoline prices down to respectable levels all by building some new refineries. The special interest groups have framed the debated, they own the debate, we have not built a refinery since 1976 and we are not going to build another in the foreseeable future. Pathetic and sad are two words that come to mind.

Another couple of words come to mind when contemplating Wall Street's role in this mess, however they would turn this newsletter into a rated *R* publication. Wall Street concocts complicated pieces of paper called derivatives, which they buy and sell as hedges. Stocks, bonds, currencies, pork bellies, this Sunday's football picks, and oil; whatever moves the big brokerage firms are trading. Allow me to let you in on a dirty secret, the firms that create the derivatives are the only ones that know how to value them. This is literally the equivalent of printing money.

If we were to simply eliminate the element of leverage in purchasing oil futures, contract prices would fall. Couple that with a real-time spot market and we would see a much better price. 55% of the cost of a gallon of gasoline is oil and if we let the crooks in downtown New York control it we will continue to be held over a barrel. I cannot stress the collective ignorance of our entire nation on this subject. If you honestly think the answer to our energy problem is to go out and buy a Honda Prius, get some help.

