

Mexican Jumping Oil

By [The Mogambo Guru](#)

03/19/07 **The Daily Reckoning PRESENTS:** First the tortilla crisis, now this? Oh Mexico...if only you hadn't put all your eggs in one chalupa. This week, the Mogambo Guru examines the Mexican peak oil crisis, and (in perfect Spanish) explains why depending on oil exports for 40% of your revenue is "no bueno". Read on...

MEXICAN JUMPING OIL

Sean Brodrick at Money and Markets writes that it appears Peak Oil has affected Mexico, as, "In December 2005, Mexico sent the U.S. 1.7 million barrels of oil per day (bpd). This past December, Mexico only exported 1.2 million bpd to the U.S."

He asks, "Why is Mexico sending less oil?" For some reason, I thought that he was really asking a question, so I leap up and say, "Because they are selling it to China and India and everywhere else, but they don't need the money, anyway, because my appetite for tacos is off the charts here lately, and they are making plenty of money that way! And speaking of tacos, that sounds good! Let's break for lunch! Your turn to buy! Let's go! Hup! Hup! Move it! Let's go, go, go!"

This was, as I interpret the pained and angry look on his face, the wrong answer, probably because it is only 9:30 in the morning. He pointedly ignores me and explains, instead, "Because it's producing less oil. Total oil output fell to just below 3 million bpd in December 2006. That's down from nearly 3.4 million barrels at the start of the year, and Mexico's lowest rate of oil output in seven years."

This is bad news for Mexico because "Mexico relies on oil exports for about 40% of its revenue." Notice the complete lack of exclamation points in those four previous sentences. When it is reported in the Mexican newspapers, you can bet your burrito supremo that headlines will have PLENTY of exclamation points all over the damned place. For example (showing off my impressive command of Spanish), "Ustamos Mucho Grande Freaking Doomed, Just Exacta Mundo Para El Mogambo Habla!!!" which got three exclamation marks, since they understand the true significance of, "Mexico relies on oil exports for about 40% of its revenue"!!!

It seems that half of the revenue of the whole economy of Mexico is unhealthily dependent on just one source of revenue! Hahaha! If the Mexican government had taken the time to look, they would have seen that my family is dependent on me as their sole source of revenue, and as I am as similarly corrupt, stupid and worthless as the Mexican government, they should have noticed from the chaos and hostility that it clearly hasn't worked out here, either! I mean, the parallel is obvious! What in the hell is the matter with those people?

Even worse, "55% of Pemex's sales revenue went to the Mexican government last year."

And it is not just the Mexicans that seemed to be gripped by the looming terrors of Peak Oil Syndrome, as “Kuwait’s giant Burgan field has also peaked. Iran’s energy use is rising so fast that its oil exports are being crimped badly. And despite the fact that the Saudis are supposed to be sitting on a thousand years of oil, their oil production declined 8% last year”. Of course, “The Saudis will say they made their cuts to ‘stabilize’ the market.”

Hahaha! “stabilize” the market! I did not realize the generous beneficence of the Saudis! They will sell less oil and make less money, while their competitors wax rich by continuing to pump furiously, so that the cost to the ultimate consumer, mainly Chinese and Western infidels, doesn’t rise! What can I say, except “Thanks, dudes!”?

But the underlying message is that (and pay particular attention here) demand for oil is going up, but supply is going down. And I am sure that something flickered in your Fledgling Mogambo Mind (FMM) about the effect on the price of oil (an absolute energy necessity) resulting from such a falling supply/growing demand imbalance, which is actually getting worse rapidly, and which will continue to get worse for a long time.

And if you are a Junior Mogambo Ranger (JMR), then you are probably salivating, literally, at the prospect of reaping a lot of those enormous oil riches for yourself so that you can easily afford to stretch your Second Amendment rights to include getting some tactical nuclear weapons. That’ll show that pesky Skyview Neighborhood Association who’s REALLY the freaking boss around here, and it will be very educational to see if the threat of imminent nuclear obliteration will make my decrepit hovel seem a little less of an “eyesore” and “public nuisance” to them! I’m betting it will! Hey! I love this investing stuff!

Doug Noland’s Credit Bubble Bulletin at PrudentBear.com starts out this week with some interesting graphs. All of them are bad news, of course, but the one that really grabbed my attention was the one labeled “Balance Sheet of Household Sector”. Going back to March of 1989, the average household had \$19,000 in net worth, which was, back then, about the average household yearly income.

Now, as our bloodshot eyes nervously scan across the graph, we see that the average household net worth is about \$55,000, which is, again, about the average household yearly income! Hahaha! You are right back where you started, in terms of buying power, and yet you think that the stock market and the housing market and the bond market are going to provide you with a decades-long comfortable retirement? Hahahaha!

I’m laughing so hard that I am actually spitting up blood! Hahaha! I can’t stop! Hahahaha! With a burst of Mighty Mogambo Self-Control (MMSC), I gain dominance over my giddy emotions, and with rasping, gasping breath I say, “If you believe that everyone will make money and retire in comfort by investing long-term in the stock and/or bond markets, then that is the biggest load of hooey that a gullible, dimwitted population has ever swallowed without even gagging.”

The ugly truth is that the majority of investors will not only suffer a loss in strict dollars (“the majority is always wrong”), but even those who manage to get marginally ahead, in nominal terms, will have the purchasing power of the money stolen by the ravages of the inflation caused

by the Federal Reserve constantly creating so much money and credit, which is, ironically, where the money came from that enabled them to buy the stocks and bonds!

The bottom line? The best that you can expect to do is to invest one dollar's worth of buying power to get, in the future, an equivalent amount of buying power. The majority, alas, will lose both nominal money AND the buying power of what's left!

Until next week,

The Mogambo Guru
for the Daily Reckoning
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**** Mogambo sez: Oil is getting so cheap that I am drooling at the glaring bargain. And gold and silver? Don't get me started, as I could go on for hours and hours about why you should buy as much as you can, as soon as you can, turning the exercise into a long, angry harangue which will end with you desperately trying to get away from me. Of course, I'll be grabbing you by the sleeve and hitting you up to loan me a lousy twenty bucks so that I can save up to buy some gold, too. But you say "no", you selfish little bastard, and we get into a big fight, and it's all real, real ugly.

Anyway, like I said, don't get me started. Just buy the stuff and save us both a lot of hassle.