

Traumatized by Inflationary Gunfire

By [The Mogambo Guru](#)

12/03/07 You might argue that the Mogambo was a little crazy to begin with; but one this is certain – inflation is massaging that craziness on a daily basis. Poor, poor Mogambo... Good thing he's got his old friend tequila to help keep his mind right.

As usual, it is inflation in prices that makes me crazy, and it's tequila that lets me do something fun with my natural insanity to take my mind off the horror of it, as it is inflation in prices that is the precursor to social upheaval and economic collapse, which is why I figure that the Second Amendment was invented in the first place, and if you don't think so, then just manage to stay alive for the next couple of years to learn a real expensive lesson that you will never forget.

In the meantime, my dire prognostications continue apace, as the CRB index increased 1.4% for the week, which is a lot, and which is about a 15% increase year-to-date. The Goldman Sachs Commodities Index (GSCI) went up by a heart-stopping 3% last week, which means that this index is up a terrifying 42% y-t-d!

And speaking of inflation, the new Producer Price Index came out, and it looks like the price of finished goods, on a non-adjusted basis was up 6.1% year-over-year.

But for businesses, the prices they are paying keep going up, as the annual All-Items PPI inflation for October spiked to a 6.1% jump over this time last year. Food increased 7.1%, and Energy was up 16.1%. Yikes!

For All-Items Intermediate Goods, prices were up 5.6%. Yikes yikes!!

For All-Items Finished Goods, prices were a blistering 25.7%. Yikes yikes yikes!!!

And even more ominous, The Economist magazine reports that "The Baltic Dry Index, which tracks the costs of shipping 'dry' goods such as iron ore, coal and grain around the world, dipped this week after hitting an all-time high on November 13th. But it is still up 154% from a year earlier." In fact, "The cost of shipping iron ore from Brazil to China is now more than the cost of digging up the ore itself."

The reason is the same old one, "As with so much to do with commodities, the extraordinary rise in freight rates is partly because of China's appetite for raw materials."

And this means that the transportation pipeline is already too small to accommodate such a large movement of goods, as "A dearth of new ships, and flotillas waiting to berth in overcrowded ports (especially in Australia), are also driving rates higher", meaning that even if enough stuff could be grown or mined, very little of this surplus could be delivered, as the transportation system is maxed out already! Hahaha!

And that is why OPEC saying that they are going to pump more oil is a load of hooey. In fact, The Daily Reckoning's Desidooru Saloon reports an online.wsj.com article that read, "Sadad I. Al-Husseini, an oil consultant and former executive at Aramco, Saudi Arabia's national oil company, gave a particularly chilling assessment of the world's oil outlook. The major oil-producing nations, he said, are inflating their oil reserves by as much as 300 billion barrels. These amount to hypothetical reserves that are 'not delineated, not accessible and not available for production.'"

The worse news, for those expecting an open oil spigot to save our nasty economic butts, is that, "A lot of production in the Middle East is from mature reservoirs, and the giant fields of the Persian Gulf region are 41% depleted."

But we were not talking about how oil exporters are liars and cheats, but about inflation, and that inflation in prices is everywhere, and everywhere the official response is the same; "Paper that sucker over!", even in oil-exporting nations.

For example, according to the Financial Times, inflation in consumer prices in the United Arab Emirates is "rampant" at "around 10%", which has prompted the federation of seven emirates to think about "revaluing or de-linking the dirham from its long-standing US dollar peg in a bid to tame" the inflation.

There are many ways for a government to paper over this mess. In this case, the UAE plans to, I kid you not, "raise federal government salaries by 70%". Hahaha! Too rich!

The article even says that there are many of us out here in the real world of economics who are scared out of our freaking minds about such irresponsible government behavior, and indeed there are other "economists" who said that this "could fuel inflation in the Gulf state", although there is no word on how many of these other "economists" are also scared enough to carry so much heavy firepower, so much so, in fact, that they are so burdened that they need a motorized wheelchair just to get around the office, and so much body armor and bullet-proof plating that you need an intern just to help you remove enough of that heavy stuff to take a crap, which you have to do a lot during the day because there is just so much economic bad news scaring the crap out of me, so you can see my problem.

And without the least bit of irony, the very next sentence was, unbelievably, that "A cabinet meeting yesterday raised the 2008 budget by 47%." Yow!

In other sites around the region, Saudi Arabia, according to the Financial Times, "Inflation, which crept up to 4.9 per cent in September after averaging 2.2 per cent last year, is raising anxiety among the authorities." What I think is really worrying authorities is that "Food prices have increased 18.8 per cent", which makes you wonder how in the hell the overall inflation stayed at 4.9 percent?

King Abdullah, proving that being a king doesn't take a lot of smarts about money, especially if you have a lot of oil to pump that is making you lots and lots of money without lifting a finger, is apparently unaware of the basics of economics, which says that all this excessive flood of money

inflating the money supply will cause inflation in prices, which is exactly what is happening. Being a stupid king, and thus at a loss, he "felt compelled to summon officials last month [to] explain the phenomenon."

I don't know what they did or said, but I assume that they did some uniquely Arab thing, like looking into the eye of some camels and eating figs or something, I dunno, since the idea of actual economics doesn't seem to appeal to them.

Well, to be fair, the fact is that the supply of oil can't apparently be increased, and in fact it is going down as part of the Peak Oil phenomenon, and with demand rising, oil exporters are going to be making scads of money, tons of money, mountains of money for their oil, no matter how little they pump.

And speaking of oil, in Martin Wolf's column in the Financial Times, he quotes the International Energy Agency as reporting the astonishing factoid that "The increase in China's energy demand between 2002 and 2005 was equivalent to Japan's current annual energy use." Yow! This is just the increase!

Suddenly, I feel compelled to remind you to buy gold and silver, as much as you can, and take physical possession of them, and put them somewhere safe and sound, someplace where you can get a good shot at anyone who even goes near to that locked closet, and when you demonstrate your resolve with a couple of warning shots to one of the kids who "accidentally" wandered over to the closet while chasing a stupid rubber ball that had rolled in there, leave the bullet holes in the wall as a reminder to the others. Trust me; it's worked like a charm around here!

But we were not talking about me or my Mogambo Closet Of Bullion (MCOB), or even how some snotty "mental health professionals" think that the stupid kids are now "scarred for life" because of a little gunfire, some random screaming and vague death threats for trespassing in the Mogambo Forbidden Zone (MFZ). Instead, we were talking about inflation and oil, and combining both of them brings us to the further news that in other "Gulf countries", inflation is running at double-digit rates! Ten percent and more! Much more! My God! This is horrific news!

But explaining to stupid social workers the relative degree of the two situations, namely a traumatized bunch of stupid kids or a traumatized stupid economy, is a waste of time, as they just "don't get it."

I'll bet you do, though. And if you don't, you soon will.

Until next time,

The Mogambo Guru