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Salvation in the Cheap Oil Army

by The Mogambo Guru

"And, as the news just keeps getting worse, Iran just asked OPEC to cut production by a further 1.5 million barrels per day, which comes just after OPEC cut production by 1.5 million barrels last month! Yikes!"

I was standing outside of the supermarket, jostling with the bell-ringing Salvation Army guy for attention, telling shoppers, "Buy gold, silver and oil! The governments of the world are insanely creating too much money and credit to try and alleviate the inflationary ravages of all the previous decades of too much money and credit, and the result will be the tragedy of terrifying inflation and all its miseries and suffering for everyone! We're freaking doomed, you morons, so save yourselves at least!"

Of course, the whole idea of gold and silver as a store of value is completely alien to these ignorant Earthling boobs, and I don't bother trying to explain Peak Oil or how oil is a finite resource and how it looks like we have reached the peak of oil extraction, because it is such a long explanation that before you get a chance to explain it to them, somebody from the store always comes out and tells you that they are calling the cops unless you leave right now and stop harassing the customers, and everybody cheers.

But I now find that I can save a lot of time by just showing them an article from the Financial Times newspaper, which plainly states that "Output from the world's oilfields is declining faster than previously thought."

In fact, the Times said that the International Energy Agency's annual report, the World Energy Outlook, declares that "Without extra investment to raise production, the natural annual rate of output decline is 9.1 per cent." Yikes!

Not surprisingly, the Times says, "The findings suggest the world will struggle to produce enough oil to make up for steep declines in existing fields, such as those in the North Sea, Russia and Alaska, and meet long-term demand." Demand will be higher than supply!

Interestingly enough, they figure that even with the forecasts of China, India and other developing countries ramping up oil-related investments totaling \$360 billion every year until 2030, it will not be enough, and "even with investment, the annual rate of output decline is 6.4 per cent." Yikes again!

And beyond this huge decline in supply, Byron King of WhiskeyandGunpowder.com notes that "According to the International Monetary Fund, Iran, Venezuela and Nigeria need oil prices above \$95 per barrel just to cover their respective national budgets. Saudi Arabia requires oil prices above \$75 to cover its budget. Well over half of the revenues of the Russian Federation come from taxes on hydrocarbons. Mexico gets over 40% of its federal revenues from taxes on Petroleos Mexicanos (Pemex), the national oil company."

He concludes that "low oil prices are causing problems for the oil-exporting states of the world", which is probably why the Financial Times reports that "The Opec oil cartel yesterday cut its forecast for demand growth next year to 500,000 barrels a day, down

from 800,000 b/d."

And if that is not enough, since speculators in futures seem to be routinely slaughtered by the commercial traders, the FT also reported, "Data on hedge fund positioning from the Commodities Futures Trading Commission showed that speculators on Nymex had made their most aggressive bet on falling oil prices since November 2005."

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So, reanimated with a renewed sense of urgency, I go back to the supermarket, jostle the Salvation Army bell-ringer aside, and loudly reiterate my Mogambo Message To The Masses (MMTTM) "Buy oil, you morons! Buy oil! Look at this Financial Times piece if you don't believe me, you jerks!"

Alas, I encountered the same indifference and hostility from the same shoppers, matching the sameness of the little store manager and his same tired "I'll call the cops" refrain. Then I went home, continuing the apparent motif, the same as I always do.

But I bought more oil, which was different than usual, which is still cheap thanks to the ignorance of everyone else not buying it! Whee! This investing stuff is easy!