From: Ed DeVilbiss
Sent: 12/22/2014 11:33:34 AM
To:
Cc:
Subject: Fwd: Bill Bonner economics/finance editorial - impact of $60 oil

Friends,
Passing this on from a friend. Food for thought. Have a great Christmas and blessed New Year. ED

editorial - impact of $60 oil

Unbelievable: How cheap oil could wreck the economy

From Bill Bonner, Chairman, Bonner & Partners:

New York is filling up with holiday shoppers and tourists. On Saturday, we went to the Broadway show Jersey Boys.

It was not an especially complex or subtle storyline. But the music, of Frankie Valli and The Four Seasons, was lively and agreeable. It took us back to the early 1960s.

Those were the days!

Back then people had jobs… prices were fairly stable… and the GDP was growing at twice or three times today's rates (and so were personal incomes).

How was it possible?

Back then, under chairman William McChesney Martin Jr., the Fed ran much tighter monetary policy. So America's savers could earn a decent return on their money. And the Fed wouldn't have even dreamed… let alone dared… to target higher stock market prices.

What about quantitative easing?

It was probably illegal. And certainly would have been considered immoral or insane.

But there are fads in music… and in central banking, too.

The music industry has given us “twerking.” (Google it.) And in central banking, we have multitrillion-dollar asset price manipulation programs. Both are obscene. But both are popular. And almost nobody wants to see them stop.

But in the end Mr. Market… nature… and the gods… will prevail.

Thy will be done. It always is.

Defying the Gods

But what happens next is not up to us. It depends on the gods, who represent the forces of “what shall be,” not “what we want things to be.”

All we know is the Fed cannot control the outcome. Nor can individual investors. Nor Paul Krugman. Nor the president of the U.S. Not even Warren Buffett or the NFL can dictate the terms of this story.

You can tinker with nature… you can bend and twist the markets… you can delay and outrage the gods… but you can never control them.

If smart, well-informed people, armed with modern theories and “policy tools,” could control an economy or a market, why would there ever be meltdowns, breakdowns or shakedowns?

Why would Zimbabwe’s currency become worthless? Why would Venezuela be feeling “the hurtin”? Why would Japan’s GDP be the same as it was 25 years ago – despite a quarter of a century of “stimulus”?

No, dear reader, even the most powerful policymakers and the smartest theorists cannot defy the gods. In the end, we don’t get what we want; we get what we deserve.

Cheap Gas!

Now, thanks to our enlightened economists and their careful management, we’re told, the U.S. economy is doing quite well. Reports the New York Times:

On Friday, the Labor Department reported that U.S. payrolls rose by 321,000 jobs in November and that hourly wages jumped, easily beating economists’ expectations. This year will be the best for job creation since the boom years of the late 1990s.

Meanwhile, federal deficits are falling. And you can buy a gallon of regular gasoline for $2.71 – only five times the price of when Ike and Dick were "sure to click."

The Fed says falling prices are bad. They are adding trillions of dollars to the monetary base to make sure the consumer price index rises by its target of 2% a year.

But falling oil prices are a good thing. Do we have that right? Sometimes we can't remember.

Let's see, Americans can spend less on gasoline, leaving them more to spend on other things. Heck, we don't need no stinkin' QE anymore. Now we have cheap gas!

Wait. Since the crisis of 2008-09 about one-third of capital spending by S&P 500 companies went into energy. And as much as 20% of the high-yield market (junk) now is concentrated in the energy sector.

That boom was built on low interest rates and a high oil price. Without cheap money, cheap gas wouldn't be possible. And when gas gets too cheap, the cheap money suddenly gets very dear.

Nearly a trillion dollars of spending worldwide is focused on new energy production. And with oil prices down nearly 40%, much of that spending… and all the subprime energy debt… is in danger.

Unless oil prices go back up soon, there could be hell to pay.

The Saudis seem to be determined to keep on pumping, despite plunging crude oil prices. The only way they can protect their market share is by remaining the low-cost producer.

U.S. frackers are likely to keep fracking too. They've bet big money on forcing crude out of grudging rock. They won't give up easily. Instead, they'll borrow more heavily to stay in business. But the more they pump… the longer oil prices stay low.

Paying $60 to extract a $50 barrel of oil is not a good business – no matter how low interest rates are. Already, the gods have smashed the oil companies, the drillers, the transporters and almost everything else that reeks of gasoline. Soon, they'll whack at their subprime debt too.

Will they bring down other stocks? Bonds? The economy? Only a fool would pretend to know.