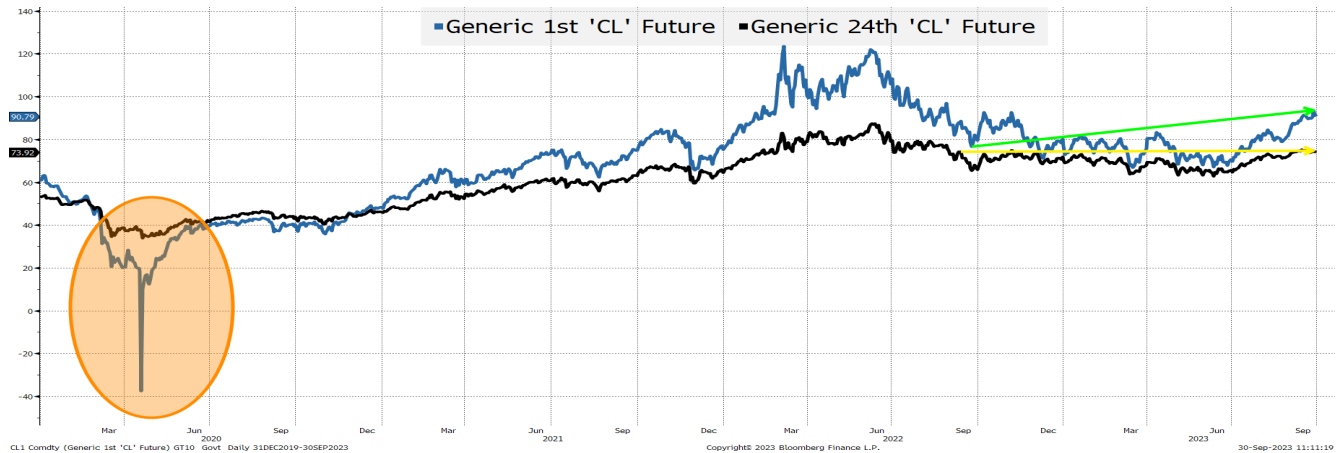


My Favorite Oil Chart

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So much is being made of oil that I wanted to pull out a version of my favorite chart. I think that I used something like this back when oil went negative. Remember when people were being paid to take oil and when lumber skyrocketed? The internet was filled with pictures of lumber yards representing wealth!



We can debate the issues facing oil markets:

- Begging the Saudis to increase production and then releasing the SPR probably didn't help us win any long-term support.
- Being forced to reach out to Venezuela probably only demonstrated weakness.
- While I don't think that China is doing well, India could be the surprise user of commodities in greater quantities and could spark a commodity super cycle.
- Not refilling the SPR when oil prices dropped probably isn't helping.
- The perception (which I've started to become concerned about) that the world views inflation as the U.S. "Achilles heel" probably doesn't help.
- Personally, I would have encouraged the energy companies to produce more and provided them with assurances that the need for fossil fuels will continue for decades. Also, I would have reminded them that their production provides us with the security that we need and aids our ability to convert to other sources of energy over a realistic timeframe. Complaints about "windfall profits" have certainly not encouraged energy companies. Finally, I wouldn't have wanted them to believe that policy makers would turn their backs on them once the immediate crisis was "deemed" to be over (which is how I think it played out).

I would like to remind people that the front contract of oil futures is a great place for speculators to play. Stops and stop losses come into effect. Weird nuances in delivery impact markets and a robust options market can create gamma which in turn moves the "spot" market.

That is one reason why I like to look at longer-dated contracts. The chart above compares the active contract to one that is basically 2 years out. The "inflation is spiking" story doesn't play out quite as aggressively as current headlines would make you believe (just like the death of oil was overstated too).

I am paying attention to oil, but my view remains that the economy is slowing and will continue to send more signals that the Fed should be done!

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