Energy Dominance Or Flatulence? Israel and Oil

Description

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All of President Trump's foreign policy can be summed up by two themes, **making the world safe for Israel and controlling the price of energy.**

He calls the latter "Energy Dominance." And to those who still believe Trump has a plan, these two things are the only ones consistently in evidence.

His reactions to things contrary to his plan, however, are purely limbic.

These two themes converge completely with Iran. Trump wants Iran neutered to force Jared Kushner's now-delayed again, "Deal of the Century" onto the Palestinians while also taking Iran's oil off the market to support surging U.S. domestic production in the hopes of taking market share permanently.

Everything Trump does is in support of these two themes while throwing some red meat at his base over China, Mexico and the border.

It was never his intention to leave Syria back in December, really. Look how easy was it for John Bolton and the Joint Chiefs to convince him to stay because how else would we cut Iran's exports to zero if we didn't stop the land route through Iraq?

This is why we're still harboring ISIS cells in the desert crossing around Al-Tanf at the Jordan/Iraq/Syria border, to stop Iranian oil from coming into the country.

This feeds right into hurting all of Syria's allies to strengthen Israel's position.

To paraphrase the song from Aladdin, “It’s stupid, but hey, it’s home.”

If the average Trump voter truly understood the lengths we are going to starve the Syrian army from having enough energy to finish wiping out the Al-Qaeda-linked groups in Idlib and Homs provinces they would burn their MAGA hats and stay home next November.

But they don’t so Trump’s approval rating keeps climbing.

On the other hand, people mostly understand exactly what the “Bay of Fat Pigs” operation in Venezuela was all about, protecting domestic oil production and getting control of Venezuela’s.

The sad truth is that many Americans consider this comeuppance for being stupid enough to elect Nicolas Maduro President.

But this is the guts of Trump’s “Energy Dominance” policy. Use tariffs, sanctions, threats and hybrid warfare to destroy the competition and therefore MAGA.

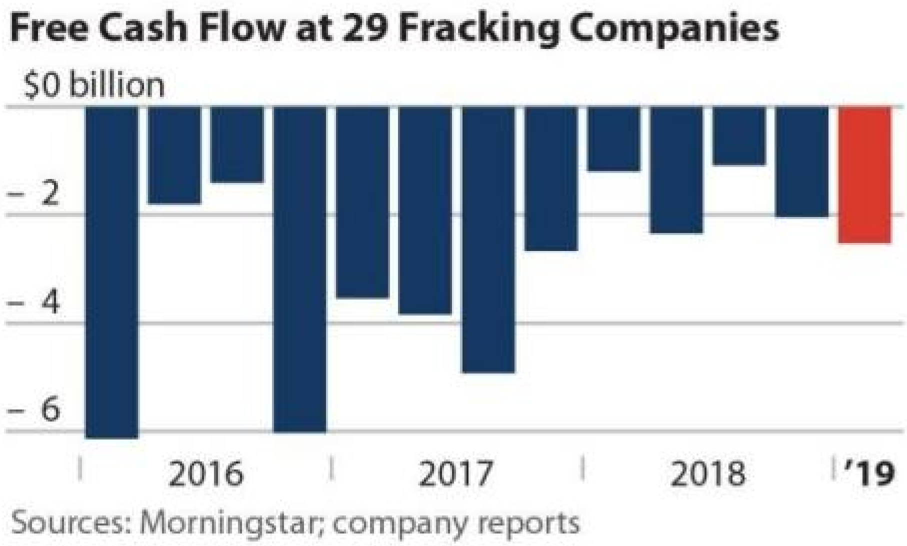
It would be sad if it wasn’t so pathetic.

And the irony is that the whole plan is predicated on sustainable and nigh-exponential growth of U.S. domestic production.

There’s only one problem with that. It’s completely unsustainable.

The greatness of the U.S. production story is evident if you only look at the number of barrels produced. But that story turns into a nightmare the minute you look one inch deeper to see what the cost of those barrels are and what profit, if any, they produce.

From Zerohedge via Nick Cunningham at Oilprice.com comes this beauty of an image:



Heading into 2019, the industry promised to stake out a renewed focus on capital discipline

> and shareholder returns. But that vow is now in danger of becoming yet another in a long line of unmet goals.
>
> "Another quarter, another gusher of red ink," the Institute for Energy Economics and Financial Analysis, along with the Sightline Institute, wrote in a joint report on the first quarter earnings of the shale industry.
>
> The report studied 29 North American shale companies and found a combined $2.5 billion in negative free cash flow in the first quarter. That was a deterioration from the $2.1 billion in negative cash flow from the fourth quarter of 2018. "**This dismal cash flow performance came despite a 16 percent quarter-over-quarter decline in capital expenditures," the report's authors concluded.**

So, higher cash burn rates at high sale prices (remember Q1 here) and lower capex costs as the rig count hits a fifteen-month low.

You can't hide a lack of profitability forever with financial engineering folks. Even Elon Musk is beginning to figure this out. And, once that reaches critical mass, to quote one of my favorite philosophers, The Tick, "Gravity is a harsh mistress."

What was that old joke?

> **"So if we're selling dollars for ninety-cents how do we make money?"**
>
> **"Volume."**

If that doesn't sum up where we are today in the energy space I don't know what does.

All of this is a product of the Fed's ridiculous zero-bound interest rate policy allowing energy drillers to issue obscene amounts of low-quality shares and lower-quality debt packaged in such a way to yield the magic 7.5% most pension funds need to maintain their defined benefit payouts without going broke.

This cycle is only partially derailed by the Fed raising rates a couple of points to 2.75%.

All Trump cares about is getting a 4% GDP print before next year's election to prove his critics wrong. This is why he wants the Fed to lower rates.

It will keep the shale boom going pumping massive amounts of oil which we can't ship to the coasts to sell to people who don't want it.

And even if all of the new pipeline capacity alleviates the internal glut that doesn't mean there's a market for more of it. Remember, shale produces ultra light sweet crude which most refiners have to blend with heavier feedstock so there really is an upper limit as to how much of this stuff the market wants.

The current and persistent discount of West Texas to Brent, which is still over $9 per barrel is a measure of this since most oil is priced in relation to Brent, even heavy sour grades like Russian Urals, which we're importing more of to feed domestic refineries strapped for stock now that we've embargoes Venezuelan oil.

If the shale boom is so sustainable why are frackers flaring off obscene amounts of natural gas that comes along with it? Why are they wasting what should be salable energy? Maybe because there's no market for it?

> Rystad puts it into context, noting that the most productive gas facility in the U.S. Gulf of Mexico – Shell's Mars-Ursa complex – produces about 260 to 270 MMcfd of gross natural gas. **In other words, the most productive gas project in the Gulf of Mexico only produces about 40 percent of the volume of gas that is being flared and vented in West Texas and New Mexico every single day.**

Given this situation I think we've reached that part of the story where someone just let a really big one rip and no one is willing to acknowledge it.

Dood… Natural Gas is Awesome!

This is classic overproduction based on time-preference mis-coordinating the use of capital due to artificially-low interest rates. It has nothing to do with a normally functioning market.

But this situation can go on a lot longer thanks to the realities outside of the U.S. shale industry.

When the Fed finally does lower interest rates it won't be to save the energy producers in North Dakota. It will be to save the banking system from a dollar liquidity shock that will implode Europe.

The market's reaction to Friday's horrific jobs report was pure front-running that rate cut mixed with safe-haven behavior knowing that the global growth story is dead.

The U.S. yield curve imploded another 6 basis points. Gold popped to a 2019 high, the Dow put in a major reversal and the euro rallied after a massive run-up in euro-bonds before the New York open reversed some of that.

And there's Trump demanding lower oil prices on Twitter which is just feeding the problems of the shale drillers already underwater. Rock meet hard place.

Dollars for eight-five cents? MOAR volume!

So Trump has gotten what he wants but not for the reasons he wants it. With growth dying thanks, in part, to his random acts of financial terror, oil prices are now in free fall.

I identified the signals for my Patrons in a Market Report on May 26th, noting a back-to-back-to-back set of reversals I deemed “**hugely bearish.**” Sometimes, it’s just that easy. More often than not the market is telling you what you need to know, if you would only turn off the spin-machines and read the tape.

But the sad truth is that once the Fed lowers rates the drillers will be encouraged to go back to the credit well one more time because there will be even more demand for their crappy paper. In a yield-starved world everyone is trying to stave off the day of reckoning for as long as possible.

And right now, U.S. pension managers are a shale drillers’ best friend. And so is an ECB trapped like an egg in a vice between a faltering German economy and political system undermining what’s left of growth across Europe.

But not a U.S. President intent on creating a world few want and fewer benefit from while wasting a precious energy by the cubic shit load for a couple hundred thousand votes more than a year from now.

MAGA bitchez.