



MACRO Voices

with hedge fund manager Erik Townsend

Philip Verleger: Energy Economics and Inflation

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Erik: Joining me now is Phil Verleger, founder of [PKVerleger LLC](#), and also editor and author of Notes at the Margin. Phil, I've really been looking forward to getting you on the show because you have been analyzing the oil business literally for 55 years. So you're a veteran of this business. Let's start with our really big picture of hey, they're people telling us that this entire industry is going away. There are people that have been saying for decades, of course, there's problems with fossil fuels. But now we've actually gotten to the point where the IEA, the International Energy Association, which is supposed to be our own industry body to promote this industry is telling the world that the entire industry needs to for ever stop looking for new oil. Just keep the wells we've got and then we're going to shut. I guess the idea is a suicide, shut down the entire industry and make it go away in favor of something else. I do think Phil, we've got to get eventually off of fossil fuels. But I don't think it's going to go down the way a lot of people seem to be talking. How do you assess this? Is the industry really coming to a slow motion end or what's happening here?

Philip: No. The industry, well, the industry is probably past its peak. I don't think we will see oil consumption ever get back to the levels we saw, say in 2019. The International Energy Agency is an intergovernmental organization that Henry Kissinger formed, and I actually I was working at the Council of Economic Advisers under Jerry Ford, when it was formed. So it was designed to deal with energy shocks. And what they have done is been following the oil market and energy markets for 50 years. They came out with this net zero 2050 forecast. I don't know why and I've done a lot of forecasts. And you know, one of the things I was taught when I started looking at economics after doing my economics degree, was if you're gonna forecast, forecast often. Well, this is just kind of a one time forecast, which is a mistake.

The other thing we always teach students is never put a number and a date on the same piece of paper, and they really blew it here. Now, if you read through it in the back, they also have a scenario where we get to net zero, maybe by 2100, which is probably more likely. But it's a disconcerting projection. It is knock people off, it's really affected the industry. I think it's going to make it harder to raise capital when capital is going to be needed and it's just wrong. Oil use is going to go down. It won't go down as rapidly as they think it will. The economic assumptions they have in it are probably wrong. Because you can't forecast out 30 years with any accuracy. And there's probably going to be a good deal more carbon capture because if oil prices keep going up as they are right now, it will become more and more profitable to sequester oil, the way Occidental Petroleum wants to do in the ground. That's we've been doing with enhanced oil

recovery for as long as I've been around. And so what the IEA said is a distraction, I guess is the way I see it. A real distraction.

Erik: Let's talk then about what should happen and what's likely to happen. Because the way I see this Phil is there's so much pressure. And I think it's it's very counterproductive, frankly, ESG is a good thing in the sense of making the world a better place, you know, environment. We only got one planet, we got to take care of it. I'm all for that. But punishing extractive industries and disfavoring them and treating them as bad guys, just because they're involved in doing something which really is the only known way of meeting the planet's energy needs right now until we come up with better ways, with newer ways of doing it.

It seems to me at least my prediction of what's going to happen here is we're disfavoring investment in this industry so much because of the ESG pressure that I think what eventually happens is we get to a crunch. Yes, the industry is slowly very slowly going away. Fossil fuels are being replaced slowly. But what is happening much more quickly is decline of existing productive assets that are not being replaced with new production because the investment didn't happen. So we're a lot of people see a price crash at the end of oil. I think the final price crunch to the final all time high, actually comes as the industry is winding down in the grand scheme of things because the investments not there. And that's very much non consensus. What do you think, am I onto something or am I crazy to think that

Philip: Your scenario is more realistic than this scenario that's been put forward by the IEA

Erik: Well, that's not saying much.

Philip: Again, I think you're on onto something. What is going to happen is investment by companies that are domiciled in the EU, and the United States, and Canada is going to stop. The arrival of Gary Gensler at the SEC is going to put a lot of pressure on companies listed on US stock exchange. And having spent some time with Gensler during the Obama administration when he was running the CFTC. He is a very tough *hombre* and probably as the best chairman of the SEC since Arthur Levitt. So I mean, he's going to make these companies disclose and investors are going to move away.

That doesn't mean that Equinor in Norway isn't going to keep investing. Saudi Arabia will invest the Russian tool invest some, and so that there will be oil production. And you know, that if you come back to your scenario, so we're going to be importing more and more oil. A higher percentage of the oil we're using, and those countries will have more and more monopoly power, and they'll try to use it. The one question in this whole scenario is China, China sits out there. And if they decide they want to depress commodity prices, they have the power to do it. They've just done it with copper and some aluminum.

So it's, yeah, I think you're right, I think the that as and those countries are going to look and say, Well, we've got one last chance to get some money. And they'll try to do it. Now the risk is as the US companies die, and the European companies die. And let me be clear, BP and shell

and Total are not going to become new energy companies. Economic History shows that companies like Kodak did really good in film. died. So what will happen is the consuming countries will have less and less of an incentive to use oil, because their companies at home aren't using it. So that will then mean that there's an accelerated pressure to get off oil. But yes, you're absolutely right, I mean, the price of oil is likely to go up as we get off oil.

Erik: Phil, we usually focus on macroeconomic subjects here on macro voices, such as secular inflation, and I'm very much convinced that we're at the beginning of what I think could be an epic secular inflation. So as I prepare for an interview with you, we got to get out of macro mode into energy mode. I look at your newsletter, what's the first thing you're writing about? It's inflation. So it's, I think, great minds think alike. Tell me your view. Why are you got inflation on your mind? I think we're potentially looking at a major secular event over the next decade? Or is that what you're thinking about? Or you're just thinking about a whiff of inflation here?

Philip: I'm worried about a major secular inflation. Now, I'm an economist, I've, you know, I've spent a lot of time focused on oil. But I, you know, work started out working at data resources, which was the first time economic forecasting firm, and it was in 1971. Well, so I lived through the inflation of the 70s, I spent four years at the US Treasury working for the Assistant Secretary for Economic Policy and the Secretary of Treasury when Paul Volcker came in, and so I have seen inflation. And, you know, if you, if you want to understand oil, you want to understand any commodity, you have to start by understanding the economy. So I pulled off my shelf in 1982 book by Barry Bosworth and Bob Lawrence, called commodity prices in the new inflation. And that was published by Brookings, and it looked at the 70s. And, you know, and they go back to the late 60s. What happened then? People didn't invest in the capacity to make copper, they didn't make an investment capacity to make steel and so on. And guess what, we had commodity shortages, and we had a commodity price run up. History doesn't repeat, but it rhymes. And so yeah, I started looking at that.

Then to add to that, there is a paper by Andrew Haldane, who is the chief economist at the Bank of England and a very smart economists and everything and he laid out a case for more inflation, because one, the labor force seems to be down. I don't know why but the number I mean, you've talked about macro views, the number of workers coming back. We're short and what's happening well people are trying to offer bonuses to get people to come back to restaurants. In Pittsburgh they found a great solution they started paying restaurant workers \$15 an hour. They got plenty of people. So we're going to get some wage push inflation and you take that and you start adding that. You got shortages, a lumber shortage or lumber prices have come down but they're still 70-80% above a year ago. You look at other copper and so on. And then you have this ESG using all this conference so on in the electric cars and so on and chips. We have a problem and yes, inflation is going to be a problem. Unless the Fed raises rates and squeezes the economy the way Volcker did in 1981. Guess what, we have inflation, and it's gonna be around for a while.

Erik: Phil the thing that really concerns me about this coming secular inflation. And frankly, this is my biggest concern about all financial markets. I don't think there's any replacement for experience in any field. And frankly, the number of guys Phil like yourself who were working in this business as adults in the late 1960s. And remember, the onset of secular inflation and everybody saying it's transitory, don't worry about it, maybe back then they called it transients, because they hadn't invented transitory yet, I'm not sure. But you know, it was no big deal and nobody's worried. And then come the 1970s and guess what? It's a big deal.

I don't think that the number of people that are still working in the industry who were working in the industry in the late 1960s when you would need to in order to have that experience. I don't think that number of people is more than a couple of 100 guys. What could go wrong here? Because you've been through this when back in the 60s, nobody had seen inflation for 50 years. What happens when a secular inflation that and you've clearly got the backdrop right now. CNBC and Bloomberg they tell us, it's transitory just listen to Janet Yellen, everything's fine. What could go wrong, Phil? If it turns out number one, that it's not transitory. But number two, that every single one of the professional oil traders in the universe was in diapers the last time this happened and has never been through it and doesn't know what to make of it?

Philip: Well, it's not just oil traders.

Erik: I said the whole financial world.

Philip: The whole financial... All these guys, a lot of I mean, a lot weren't even around and their parents were in grade school. You know, it's disconcerting. Jeffrey E. Garten got a great book that's coming out Three Days at Camp David. And I'll give him a plug because I have a piece in the international economy that looks at it. August 15 1971. That's August, 50 years. President Nixon took people up there, he took George Shultz, he took the secretary Treasury, John Connolly, took Peterson, few others up. And on the Sunday, August 15, he announced the price freeze, 90-day price freeze. And he also broke the connection between the dollar and gold. And I think it was a very important I spent a number of years at the Peterson Institute for International Economics. Because have we not done that we would have had a run on the dollar, we would probably had a major recession because you have to defend the dollar. And you have you know, all the kinds of effects that my teacher Charlie Kindleberger talked about in his books, A Man Has Panic and Crises and his other books on economic history.

So that's a hugely important event. One of the outcomes of that event was a price controls on oil, which they kept and stayed and became worse and more pernicious, and caused all sorts of distortions. And one of the reasons that the energy sector gets treated badly. In policy side, the IEA same thing is nobody with experience and energy is allowed to be an energy policy maker. one little anecdote, Claude Brinegar was the Secretary of Transportation to Richard Nixon. He had been an executive vice president Unocal. So Nixon brought him in. He was there in 71-73 when the price kept rising, but they very carefully said you can't do anything on energy because nobody with energy or nobody from the big bad oil industry can affect oil policy and the government. And so he joke because he and I and several people at Treasury, I think Mike

Blumenthal was a Secretary at the time. And when we were trying to get decontrol. Treasury in 79' really wanted decontrol of oil. Get out of these Nixon-Ford-Carter programs to defend the dollar.

And Brinegar just joked that when he was in the cabinet meeting, after the Yom-Kippur War. He was the only member of the cabinet who knew that there were 42 gallons in a barrel. And that is the state of knowledge of energy policy officials. I've just done. I'm going to use it someplace, a table that looks at the background of energy secretaries versus Treasury secretaries. And what you see is in the case of Treasury, you have people like Paulson, Henry Paulson who inherited Goldman Sachs. He knew about financial markets. He knew how all these things came. So when you had a crisis in 2008, he brought all the bankers in and he said, you're all taking TARP money because we don't want to identify which banks are bad and they all did. We have nothing like that in energy. It has never happened.

We come back to this the IEA forecasts. Well, the head of the IEA was the chief economist at OPEC before there. He has no experience in the thing. None of our energy secretaries, Ernest Moniz was a great nuclear physicist. He was really helpful in the Iran negotiations in the Obama administration. But he's not experienced in the energy side, he's gone to a lot of meetings and the energy industry and it comes back to your point is treated, particularly oil, like a stepchild. You know, we don't want, we want academics or something like that to figure out an oil policy without knowing anything about it. And guess what? We get all the disasters we keep getting.

Erik: Phil, it really is amazing the way politicians just have no idea what's going on. The one that you mentioned not knowing how many gallons are in a barrel of oil. The one that is striking to me is the inability of politicians to have any cognizance that all crude oil is not fungible and created equal, light, sour, and heavy sweet are two different things. You can't because we have lots of one in the back doesn't mean we don't need any more of the other from the Middle East. And that concept is just too hard for Maxine Waters to process no matter what you do. And I don't know how we really move on beyond that. It's really an interesting world that we live in.

Something I've noticed though, you know, you'd think as okay, supposedly the petroleum industry. If not, the whole energy industry is supposed to come to an end, you'd think that what I'd be hearing in pitches I'm getting in terms of you know, investing in energy would be alternatives. The wind, the solar, the photovoltaics, all that stuff. I just listened to a pitch this morning for yet another carbon credit company. And what I'm noticing is, as the petroleum industry at least starts to wind down, it seems like both the carbon sequestration but more so the carbon credits are where the money is. So what do you make of this? Where is it all headed?

Philip: Well, okay, you put a great point in there. I like for just a second go back. You're talking about light sweet crude, and then I'll go to the carbon credit. So when you ended with Maxine Waters and light sweet crude that caused a major part of the 2008 recession and nobody understands it. And it points to this and points to this very issue. Because what happened was in 2005-2006, we started switching to ultra low sulfur diesel fuel. The industry didn't have

enough refining capacity, and the Europeans just barge ahead and did the same thing. So what happened is, in 2008 when crude got to \$130 a barrel. The refiners were all looking for light sweet crude, and they couldn't find it. And diesel prices were pulling crude up and up and up. Meantime, heavy crude, Iranians had heavy crude sitting on ships, and they were trying to sell it and nobody bought. So I mean, the failure to understand this, it contributed maybe half a percent, or maybe a percentage point to the GDP decline in 2008. Mostly it was housing but it was there.

Now, let me go to in terms of carbon credit, you know, I left teaching at Yale and went to Drexel Burnham and helped create the NYMEX contract in 1983. NYMEX crude contracts, they have the heating oil contract. I think that this carbon trading is going to become a very big deal. Because the only way the world gets towards net zero in 2050. It's not going to get there but it gets to towards there is with good sequestration. Now, Occidental talks about putting it in the ground, that works. Planting trees is not you know, that's a Ponzi scheme. But if you have devices that can take carbon out of the air, or other ways, as Exxon is talking about on the ship channel. That actually gets CO₂ out, and it puts it in the ground, and I can make a blockchain.

And so you can sell it just the way you sell other things like Bitcoin on a blockchain. And that's meaningful, it's expensive, right now, it's expensive. If they do more of it, I think they'll bring the cost down. And so that comes back to saying. Well, yeah, they're going to be all these different proposals to trade carbon. A lot of them are going to be Ponzi schemes, a few of them are really going to work. And the few that really work are going to take off. Somebody from Vitol said yesterday, I think the FT conference, that they think that the carbon trading market will become bigger than the oil market, and that the oil markets huge.

So now if that's the case. What happens is you've got a price of carbon, then I can buy carbon credits, or I can sell carbon credits. And that then facilitates. The market facilitating the transition to net zero rather than somebody in Paris at the IEA saying this is how you have to do it. You know, it's a market system rather than the old Soviet command and control system. And we've seen the market system worked since August 1971. Reuters got invented after that, we started getting the Reuters machine so we could trade currencies. It's going to be the same type of adjustment, and I think it'll come pretty quickly.

Erik: Now, Phil, you focus almost entirely on the petroleum industry. Yet people who read notes at the margin are reading about China selling metals. What do metals have to do with the petroleum industry? And why is China selling them so interesting?

Philip: Well, the first thing you can say is the price of a commodity. You're trying to forecast the price of a commodity is very difficult, because the price elasticity of demand is low. Price elasticity of supply is low. So you can have an equilibrium price in case of oil any place from \$30 to \$50 to \$80 to \$90. Then when you add inventories, the problem becomes intractable. Because if there are significant inventories of a commodity, and traders choose to buy more for storage, they push the price up a lot cooler 40. If traders choose to unload their stocks, the prices come way down. The liquidation.

And government stockpiles are the biggest random variable in this whole thing, the Chinese have a metal stockpile. And if they start choosing to put some of the copper back on the market, they can send the price down a lot. And they already have. They were rumors that they were going to do this. They have huge oil inventories, they have over a billion barrels of oil. And it's you know, they have more oil inventories relative to the consumption the United States does. If they decide that the price is too high, and the Chinese are really worried about inflation, they can start telling a) people not to drive so much, but b) telling companies to use oil inventories or selling oil from their strategic stocks, instead of buying it from OPEC. And that can alter the global supply demand balance a lot for quite a while. So I mean, it is a big deal. And the Chinese are much more willing to intervene in the market to get their way than United States has been.

Erik: Phil, a lot of people are saying that, hey, it's all going to change in any day. Now they're going to lift the sanctions on Iran, and that changes everything and the price goes shooting right back down to I don't know what the number is because I don't agree with them. But at the same time, I don't hear anybody really talking about the fact that you know, a lot of Iranian oil really never came off the market. There's gray market leakage of that oil no matter what, how big of a deal is this really Phil. I mean, people are acting like it's a big deal. But when it happens when they say okay, you know, the Biden administration has come to new terms, they've reinitiated the nuclear deal with Iran, and there's no more sanctions on Iranian oil. Is that a huge price shock that changes everything? Or is that more of a, you know, already priced in? Neen there done that, let's move on.

Philip: It all depends on what Saudi Arabia does. And it's not production. It's how much oil Saudi Arabia sells into the market. They were willing to take an extra million barrels a day off the market. I forget exactly when, I think about just about the beginning of the year. And that really firmed up the market. Prince Abdul Aziz as is the most educated in economics of any of the Saudi oil ministers. And he has his finger on the pulse of this thing. You know, back in 2019 when there was a the attacks on the Saudi oil facilities. I thought you're gonna see a big jump in the price. Well, the Saudis went and bought oil from Iraq to sell to their customers to make sure the price didn't jump.

I mean, you know, one of the things he talks about is how Greenspan dealt with a stock market drop in the 80s. So I think, you know, the re-entry of Iran. One, the volume won't come out as quickly and to the Saudis will try to adjust as will other countries, other producers. I mean, the more interesting indicator is what's happening with the UAE because they're pushing this futures market. And they're really going to a totally market-oriented deal, rather than, you know, they've taken off their destination limits on where crude goes and so on. So they're, you know, they're really doing what the NYMEX did to crude in 1983. So, I think that the Iraqis can't push a lot of oil out, although they evidently have maybe 60 million barrels of oil in storage they can sell. And I think it's less of an event because people will react to balance it. So I'm not as convinced that it's a big deal. And I think the Iranians also have a habit of messing up some of these things, just when the opportunities coming to them.

Erik: Phil, I'm hoping that you can fill me in because frankly, there is a big piece of this energy future story that doesn't add up for me. I hear the ESG story of hey fossil fuels problem, carbon, I get it, we gotta solve that problem. Okay. I would think a logical rational person would say. Therefore, the way we're going to get more energy is we're going to do this, this, and this. And of course, there are discussions that are going on. There's activity going on in photovoltaics, in you know, wind farms, and so forth. But frankly, it pales in contrast to the amount of energy production that would be necessary to actually replace fossil fuels. So I get this whole, essentially, the whole world government seems to be behind this idea of we got to get rid of fossil fuels. We all seem to agree on that. Carbon is the enemy but nobody seems that interested to me in finding viable alternatives. We know that windmills don't work, when the winds not blowing, we know that photovoltaic solar cells don't work at night.

Now, we do know that nuclear could be the solution. But there's a huge political opposition to nuclear, I think we need a nuclear Renaissance. A lot of you know, it's very hard to sell that. I talked to my friend, Robert Friedland, who is very involved in this geothermal thing. He's saying, if we could just get a breakthrough, to a new level of geothermal drilling technology to where we drill deeper into hotter rock than we know how to drill into now, we could solve the energy problems of the whole world forever. I don't hear very many people talking about realistic solutions, such as deep geothermal or non uranium fueled nuclear and things that I think about. Nobody seems to focus on that. But they're very focused on getting rid of the carbon. Am I missing something, Phil? Or is nobody actually looking for the solution that replaces the petroleum when it's gone? People are looking all sorts of places.

But the focus of the investment industry is not as far as I can say, on the hot prospects.

Philip: Well, the focus of the investment industry is not on the hot prospects. We're not training the people. I mean, take the geothermal example. That's a yeah, I hadn't heard of that. It's a great idea. It would take a lot of engineers. Look at the engineering schools. They're turning out software engineers, they're not turning out petroleum engineers who might who could easily do that kind of drilling. We're not investing there. Turn to the nuclear industry. I think nuclear does need a restart. And Bill Gates says it's a great idea. I think he's right, you ought to invest in it and do on. Nuclear engineering is the toughest engineering course in college. Electrical Engineering is hard. Chemical Engineering is very hard. Nuclear is really hard. For many, we're not training nuclear engineers. They've closed down the engineering, nuclear engineering departments at many colleges.

Okay. So how do you go to a nuclear engineering business if you don't have the nuclear engineers? Your answer is you don't. China is turning out in a number of nuclear engineers. But now it turns out, they have some problems with their technologies. And it takes years and years to build a nuclear plant. I mean you know, if you look at the Georgia Power one, I think it's 10 years behind. So nuclear is out. Geothermal is a great idea. We need the engineers. We don't, you know, we don't have the people to do this. And everybody misses this. And so I'm with you. I don't know how we get there. And you come back to the oil industry. Well, the oil industry is

we're gonna need it. But the trouble is, there aren't many people left. I mean, they're, you know, most of when I talk to younger students. You talked about when I was teaching in Calgary, do you want to go in the petroleum industry? No, these are 30 year old, 25 year old people engineering degrees, because engineering is such a cyclical business. You take a job, they pay you a lot, but then suddenly, you're fired. You look at what happened and after 2014. So the industry is eating its own children. And I'm not sure it's got the manpower, man and women power to keep going ahead. So, you know, we've got a big big problem that comes back to your original question, inflation. If we don't have the capacity to add, you get more inflation.

Erik: This is the part of this Phil, which concerns me the most in which I think most people don't get is it's about the natural resources of intellectual capital more than anything else, it might be possible to use thorium rather than uranium to have a nuclear Renaissance that completely solves all of the energy problems for the world. If that happens, it's most likely to be a Chinese company that does it because that's where they've got the engineering talent. And Robert Friedland might be right that that you could get to deep geothermal and solve all the energy problems with the whole world that way, but it's not going to be US engineers that have this problem. Meanwhile, in the country that I was born in, we have the very best social media engineers that create Facebook. Yeah, and you know what that is making way more money in the short term than you'd ever make being in the energy business. But I think it ultimately long term is going to put the country at a huge disadvantage and change our standing in the world completely, because we lost the engineering talent that we used to have in the United States. And it's...

Philip: You know, I can't agree with you more. I mean...

Erik: I want you to disagree with me, I really badly do.

Philip: So, I grew up in California, in a town La Cañada that's right next to JPL. And I remember when Sputnik went up, I think I was eight or nine or ten. And suddenly, you know, I was really good at math. And I could read, but I couldn't spell. Suddenly, the fact that I couldn't spell didn't make any difference, because I was good at math. Everybody they wanted engineers. I mean, the push to get engineers, and the push to get mathematicians, and science people was just enormous. And it led all the way through to when I, when I went to MIT to get my PhD.

I mean, you know, there was a focus we need these engineers, we need chemical engineers, we need aeronautical engineers, we need electrical engineers, we need nuclear engineers. And then suddenly, we stopped building the nuclear power plants. So I have a nephew who has a nuclear engineering degree. What's he doing? He's working at Goldman Sachs trading or writing programs to calculate option values. I mean, we diverted all our talent, to financial engineering, and we're going to pay for it.

Erik:

Unfortunately, I'm afraid that we're in violent agreement on that point. Phil, I want to move on, though, because the oil traders in the audience will kill me if I had you on the show. And I never

even asked you for your outlook for the market. So we've been talking about a high level big picture where do we go over the next 20 years? Let's talk about the next year or two. What do you see on the horizon? Because with your inflation outlook, maybe you're super bullish. But I know you've also had reason to concern that this market may have gone too far too fast. So how do you see this?

So, you know, you read everybody's forecast and I contribute to a British consensus economics thing. But, you know, I have long since moved past modeling to try to think about prices. And what I do is I rely on the decision of investors. Particularly I watch the share price of the BP Royalty Trust. Because if we buy shares in it, what you're doing is you're buying a cash flow tied to the price of WTI. That's all you get, it dies eventually, when the costs that they factored into the unit back in 1989 exceed the price for two years and it looked like it was going to go away, and now it suddenly bounced back.

And so it looks to me, like investors and most people see kind of the price edging upward slowly, you know, maybe at about a 12% per year rate from the current levels. That says, you know, we were at 70, 72, 73 for the rest of the year. And it goes up further from there and I can't argue with that. I think the OPEC plus ministers are working really hard to kind of keep prices going up, it helps the Saudi economy. It helps the Middle Eastern economy, it helps the Russian economy. And so if it gets too far, I think China will come in and dump some of their huge inventory on the market to keep the price from say going past say 80. But you know, it'll hold in this range for some time to come particularly with the demands of investors that companies like Pioneer and others increase their dividends to shareholders and this recent shareholder revolted Exxon. So, I find it hard to find a way really going steeply down unless the Fed or somebody else throws a monkey wrench into the economy.

Erik: Phil, I want to ask you about finished product demand because Goldman Sachs made big waves a couple weeks ago. Three weeks ago I think saying okay 5.2 million barrels of additional demand coming on the market maybe here we go, demand is coming back. Vaccines are out, let's do it. Well Phil, I'm looking at my crude oil going through the roof and I'm looking at my RBOB gasoline on the bottom of its trading range, barely struggling to stay alive and I'm thinking it's not the products that are pushing the price higher. What's driving this market? Why is the crude oil market so hot when it seems like gasoline that normally is the driver behind it hasn't been as hot?

Philip: Well, the crude oil is hot because there's a lot of speculative money coming in. If you follow the CFTC data as I've been doing since the late 90s. We've seen a big push of speculators into it, they have managed to push backwardation up by about two, two and a half dollars a barrel. So they've lifted the whole curve. Gasoline demand hasn't recovered and gasoline demand is not going to recover. And probably this year, maybe next year, for a couple of reasons. One, workers are not rushing back to the office. People will go back to the office, but people figured out how to do things more efficiently. Productivities up and one of the ways productivity is up is because people don't go into the office as often as they used to, and they won't. But the other thing about gasoline demand and diesel demand is it's tied to the housing

industry. People don't notice that they always say that summer is the summer driving season. Well, it's not the summer driving season, it's the summer home building and construction business. People build a lot more during the warm months.

Erik: They build a whole lot more when a pandemic just ended and scared a whole bunch of people out of cities too

Philip: Oh, that's true. But the housing starts data that came out today don't show a big jump, because there's this other problem that we talked about at the start of the show. the lumber shortage. So housing starts, you know, the cost of lumber has become so large in the construction of housing that builders are holding back because the buyers can't come up with the money. So if you look at the seasonally unadjusted data. Housing starts are about where they were at this time 2019. So that says, okay, you're not getting this big incremental push from the construction business. You're getting some from the travel business, but not as much. It doesn't matter as much, and people aren't going back to work. So we're 9% down I think in gasoline demand in terms of the actual way not the way DOE measures it, but taxable gasoline demand. electric cars may be cutting it a little bit, but not much yet. The same thing is true in Europe. In India, motor fuel demand is down about 15 to 20% from 2019 levels, because COVID is still strong there. So product demand is gonna come back. But I don't see the number that Goldman Sachs comes up with.

Erik: Well Phil, I can't thank you enough for a terrific interview. Before I let you go though, I want to talk to you about "Notes on the Margin". And for our listeners we've got a treat for you this week folks! Be sure to check your research roundup email, and you'll find a download link for several complimentary issues of Phil's newsletter "Notes on the Margin" which I quite enjoy reading. So I strongly encourage you to check that out. Phil, tell us a little bit about what people can expect to find inside Notes at the Margin when they get there and for those who are interested in subscribing. How do they contact you?

Philip: Well, I call it a report rather than a newsletter because newsletters are kind of newsy. Newsletters don't have footnotes, and it kind of I run to about 20 footnotes in the issue. This is an economic report and I'm just trying to think about the economic issues. I created years ago at the request of several people because I keep talking about economics. And they say would you would you write it out? And that's what I do and it's it's an economic focus. It's almost geeky economics. I try to keep the moderate stuff out. Because sometimes I don't even fully understand the monitors. But I mean it is laying, you know, I've tried to integrate what we know from the economic frontier into the energy markets. And I guess I'm influenced a lot by Gillian Tett who is the editor. An editor of the Financial Times who wrote the Silo Effect. She's an anthropologist, and how we all live in the kind of our individual silos. And I tried to get out and look at the economics and energy.

So it's looking at the economics and it's I rarely stick a forecast in because, you know, everybody's got forecasts. What I have that I bring to this uniquely is kind of connection to the inflation and the potential for an economic slowdown if the Fed moves, and what that does to

energy. It's trying to look at the whole body. As far as getting in touch with us. We have a web page it's www.pkverlegerllc.com. There's a spot on that to contact us. And my editor Kim Peterson who's down in Key West Florida picks all that up and responds or sends things to us. And this is aimed for larger oil companies or larger energy companies or banks that have big concerns about the energy sector or trying to look kind of past the day-to-day events, and kind of look forward to kind of what the big trends are. So you know, I take on things like this, IEA forecast of net zero, and try to say, here's where the big problems are.

Erik:

Well Phil, we look forward to getting you back on the show in a few months for another update. Patrick Ceresna and I will be back as [MacroVoices](#) continues right after this message from our sponsor.