

Zanetti Monday Missive 2023.07.24

Tapping The Energy Piggy Bank

“My gas tank goes from zero to \$30 in a under a minute.”

~ Maxine



Hello Everyone,

Newspaper editors used to scream at their cub reporters, **“Don’t bury the lede!”** It was a slang term meaning---put the essential information at the beginning of a story. (Oh, and “lede” was spelled that way.)

BTW, for our Gen X and Gen Z readers, a newspaper was the way people used to receive information. It was usually delivered by a newspaper boy on a ...nevermind.

Moving on...

The lede of this missive should be:

- **Energy Prices Are Going Up.**
- **As An Investor, You Want to Own Investments Where Prices Are Going Up.**

There. Now the details.

In the, “Cheer up! It’s going to get worse,” department, let’s review a few **Summer-Of-2023** headlines. We will then tie these back to the energy lede above.

- **Iran Flaunts Its Fattah Hypersonic Missile in Tehran; Threatens Israel by Saying – ‘400 Seconds To Tel Aviv’**
- **Israel can best any Iranian weapon, Gallant says after hypersonic missile claim.**
- **Kissinger Sees War Over Taiwan Likely Unless US, China Back Down**
- **Air Force general predicts war with China in 2025, tells officers to prep by firing 'a clip' at a target, and 'aim for the head.'**

- **As War in Ukraine Escalates with Surge of Missile, Drone Attacks, Prospects for Peace Remain ‘Desperately Dim’, Senior Official Tells Security Council**

Hmmm. So, war in Ukraine, plus possible wars in Asia and the Middle East. Great. Just great. (Sarc.)

I know what you are thinking.

Oh, Greg, this kind of thing always happens. Taiwanese-Chinese tensions have existed since the 1940's. Israel and Iran? That is an ancient rift that goes back to Biblical times. And Ukraine? Ukraine has been the autobahn of invasion since the Mongols took it in the 1200's.

All that is true.

But wars have cycles. Humanity cannot consistently take “total war.” World War II was the last total war. And history shows that about the time the last total war generation has passed away, humanity seems ready for the next one.

Oh, and wars are energy intensive!

Therefore, if you are a national leader, and war is possibly on the horizon, you would want to work hard toward peace----but still have ample supplies of energy. You know. Just in case.

We in the US, however, are not doing this.

Look at this headline from last week:
**'Massive US Oil Caverns' Are Now Empty, Will Take
'Decades to Refill' Thanks To Biden**

I would add thanks to Republicans as well. I have not heard much from the GOP about this.

So, what is going on here? What are US oil caverns? This is where we store a substantial portion of our Strategic Petroleum Reserves.



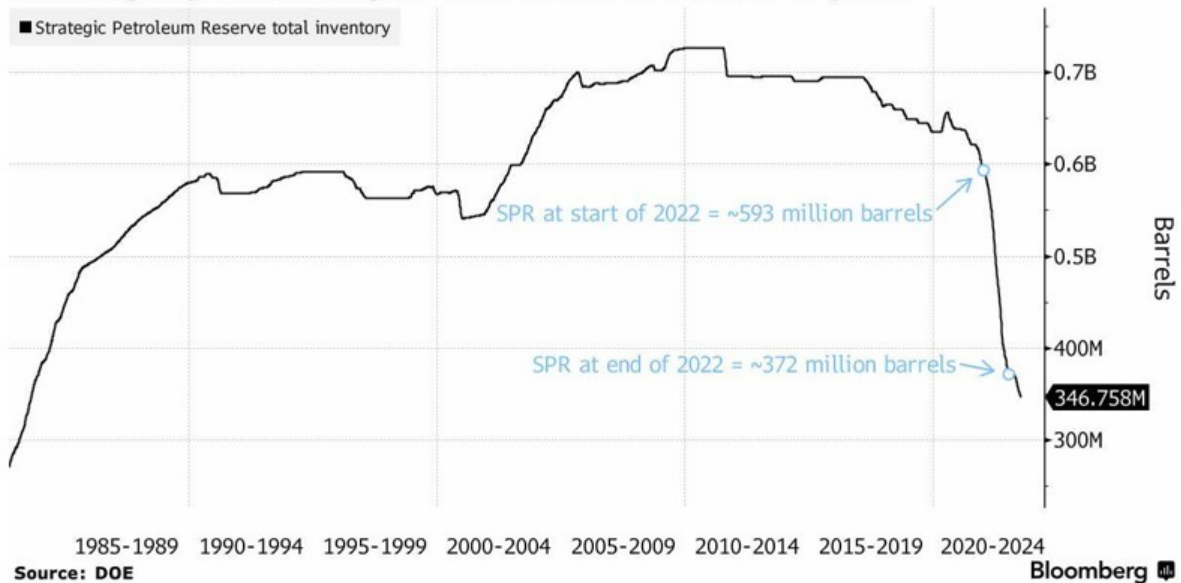
The Strategic Petroleum Reserve (SPR) is our national “oil savings account.” The rainy day fund. For national disasters. For embargoes. For wars.

Just in case.

In only six months we have drained the SPR to 40-year lows. We now have 20 days of emergency oil left. Check out the below chart.

Oil in Reserves

US emergency crude stockpiles haven't been this low in 40 years



I still have not figured out what “emergency” necessitated the draining of the SPR. I did, however, research the so-called reason.

Earlier this year, the Department of Energy said President Biden “*rightly authorized emergency use*” of the strategic reserve, also known as the SPR, to address supply disruptions and “*provide relief to American families and refineries when needed the most.*”

OK. But the above statement is always true.

When gas was \$5/gallon, I wanted “relief” to \$4.00. When it was \$3.00/gallon, I wanted “relief” to \$2.00. We all want “relief” at the pump. But at the expense of our national security?

Thus, it is politics-as-usual. Neither side wants to be held responsible for rising gas prices...especially as an election year approaches. So, wink-wink-nod-nod, we will address the SPR in 2025. Nothing bad could happen between now and then. Could it?

So, what does this mean to you and your investments?

Once tapped, the US is supposed to refill the SPR. We last filled the SPR when oil prices were around \$29/barrel. Today prices range from \$75-\$80/barrel.

And if draining the SPR can keep oil prices artificially low, then doesn't it follow that refilling it will force prices up?

But what if we don't refill it?

We don't have to. No law says it must be full by such-and-such a date.

Eventually, however, we will be forced to stop draining it. I hope it is not when it is 100% empty. Anyway, once we stop the outflow, all that extra oil supply we have been enjoying will go away----and the wind will once again be at the back of energy prices.

Oh, and higher energy prices may also get a boost from the Europeans. Here's why.

When the war in Ukraine started, the Russians cut off energy exports to Europe. Energy prices soared overnight.

European governments then decided to take on additional debt to subsidize energy prices.

Thus, they cushioned the energy price shock to their people...but at the expense of rapidly rising debt. But now, finances dictate they cannot keep this up. Thus, this recent headline:

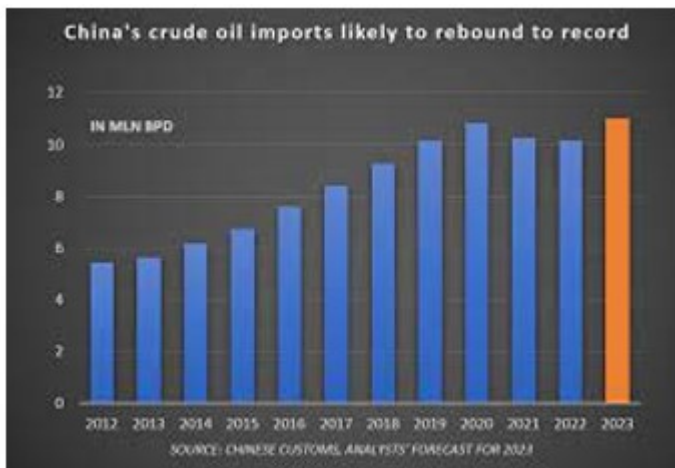
Europe Agrees to Remove Energy Support Stimmes To Cut Budget Deficits

So, rising energy prices are on their way to Europe as well.

And if Greg-in-Albuquerque knows all this, then our economic competitors know it as well.

According to Reuters:

China set for record crude oil imports in 2023, analysts say.



Oh, and guess where some of those imports came from?
The US **Strategic Petroleum Reserve**.

Yes. We sold some of our emergency oil to China. And what

are the odds of Saudi Arabia and Russia opening their oil spigots to help us out?

So, let's go back to our lede---and conclude the following:

- Energy prices will be rising.
- That is bad for the American (and global) economy.
- Because...energy prices affect every part of the economy.
- Rising energy = rising production costs = rising inflation rates.
- All of which will lead to a stagflationary recession. (Stagflation is a term for a slowing economy + higher prices.)
- And, in this environment, hard assets historically outperform other investment vehicles.
- And that also means energy investors tend to be quite happy with their returns...even if Fed Chair, Jerome Powell, and the politicians are not.

So, cheer up! Things are about to get worse. But not necessarily for you----and all the others who see this coming.

Signed, Your I-Miss-The-Good-Old-Days-When-Women-Won-Beauty-Pageants Financial Advisor,
Greg

By accepting this material, you acknowledge, understand and accept the following:

This material has been prepared at your request by Zanetti Financial, LLC This material is subject to change without notice. This document is for information and illustrative purposes only. It is not, and should not, be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) Zanetti Financial, LLC is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will

make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to Zanetti Financial, LLC that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. Zanetti Financial, LLC does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. Zanetti Financial, LLC shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of Zanetti Financial, LLC except for your internal use. This material is being provided to you at no cost and any fees paid by you to Zanetti Financial, LLC are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of Zanetti Financial, LLC and (ii) the terms contained in any applicable investment management agreement or similar contract between you and Zanetti Financial, LLC.

*Copyright © *2022* *Zanetti Financial, LLC*, All rights reserved.*

Our mailing address is:

5130 San Francisco Rd NE
Suite A

Albuquerque, NM 87109

505-858-3303