

THE

FRED SAUER

UPDATE

Futures Trading & The Real Consumption of Oil

Hello Friends:

This month, *The Wall Street Journal* ran a piece about oil consumption: *Oil, at \$31.41, Skids to 2003 Levels*. The piece suggests that demand and consumption have driven the fluctuating prices of oil over the past few decades and are now causing a crisis in the energy industry.



Several years ago I wrote a detailed analysis about oil inflation, and I discussed the impact that futures trading has had on our economy and economies all over the world.

[I]n 1999 something radical happened. Oil prices took off in an almost vertical ascent. From the beginning value of \$16.56/barrel, oil prices shot up to an unbelievable near peak price of \$140.00/barrel on June 30, 2008. The compounded growth rate from this time frame would be 26.8% compounded annually for 18 years. Phenomenal, unprecedented and unjustified.

[G]uess what the change in [America's] consumption was during this period? In 1999, it was 19.5 million barrels/day and in 2008 it was the still about 19.5 million barrels/day. No change!

Oil consumption was not massively fluctuating and the huge spikes in oil prices were not justified by demand. Instead, something else has skewed the market and artificially inflated oil prices to numbers far beyond reality:

In finance, a futures contract is a standardized contract between two parties to exchange a specified asset of standardized quantity and quality for a price agreed today (the futures price or the strike price) with delivery occurring at a specified future date, the delivery date. The contracts are traded on a futures exchange. The party agreeing to buy the underlying asset in the future, the 'buyer' of the contract, is said to be 'long,' and the party agreeing to sell the asset in the future, the "seller" of the contract, is said to be 'short.'

To understand how futures trading exports inflation into the economy, and, thereby is constantly imposing an effective tax on consumption of most all our necessities, we are going to examine in extensive detail from the period from 1999 to 2010. This was a period of extreme volatility in oil prices. It was triggered by the removal of the Glass-Steagall Act.

The second Glass-Steagall Act (the Banking Act of 1933) was a reaction to the collapse of a large portion of the American commercial banking system in early 1933. It introduced the separation of bank types according to their business (commercial and investment banking), and it founded the Federal Deposit Insurance Corporation for insuring bank deposits.

Commercial banks and Investment banks would remain in separate domains. And Investment banks would tend to remain in private partnerships. In this form, its owners would be personally liable for its debts and losses rather than stockholders.

As the years ticked by, though, banks found ways around many of the imposed separations and when the legislation was repealed in 1999, we had much the same problem we faced in the 1920s:

'Robert Kutter (Stanford University) testified before Barney Frank's Committee on Banking and Financial Services in Oct. 2007. 'Since repeal of Glass-Steagall (FDR Banking Act) in 1999, after more than a decade of de facto inroads, super banks have been able to re-enact the same kinds of structural conflicts of interest that were endemic in the 1920s – tending to speculators, packaging and securitizing credits and then selling them off, wholesale or retail, and extracting fees at every step along the way. And, much of this paper is even more opaque to bank examiners than its counterparts were in the 1920s. Much of it isn't paper all, and the whole process is supercharged and automated formulas.'

[T]he repeal of the Glass-Steagall Act in 1999 was the primary cause of rivers of money flowing between commercial banks, investment banks, hedge funds, pension funds and endowments to be used in leveraged investments for their own accounts thereafter . . . **[T]hrough these institutions, excessive and bad lending would find its way into the highly leveraged trading of futures contracts.**

The key element causing artificially high oil prices was and is the low margin requirements on futures contracts. You only have to put up cash of 10% percent of the value of the contract. Stocks in contrast require 50% of the price to be put up in cash.

This is the combination of toxic stuff that propelled and is still propelling volatility on an unprecedented scale in almost all categories of commodities and producing inflation throughout our economy.

This inflation has had a profound benefit on a number of Arab nations whose “economies” are built on the price of oil. For years, these countries have been flooded with money in exchange for their oil. This money funds lavish lifestyles for the ruling class and what is left is distributed to the people.

The artificially high price of oil, however, has encouraged more and more people to jump into the energy game. Oil became so profitable, Americans began sinking deep wells in the gulf and invested in fracking operations. As supply shifted, the Middle Eastern countries began to feel a pinch as the price of oil dropped toward realistic levels.

The cheap price is ruining the Eastern economies, because economic growth depends on the free exchange of goods and services. Their “economies” are built on oligarchs profiting off of inflated oil prices.

The collapse of oil is one of the greatest benefits to free nations, but will crush oil dependent tyrannies and their redistributive economies.

It will be very interesting to see how this develops. In the meantime, you can find more details on futures trading and the creation of the current market in my complete piece: *How the Few Inflict Inflation on the Many*.

Why I don't Support Marco Rubio for President

Recently, a good friend and faithful supporter asked me what I thought of Marco Rubio as a presidential candidate. Marco Rubio is not my first choice and the reason is very simple. Marco Rubio has been dishonest about his immigration policy from day one, and immigration is too crucial at this juncture in our history to be ignored.

Recently, Rubio was excoriated in a *Breitbart* article for railroading a former ICE agent who opposed his “Gang of Eight” amnesty bill. Chris Crane helped organize ICE personnel, who knew the situation on the ground, to oppose amnesty.

On Friday, Breitbart News published an exclusive interview with Chris Crane, an ICE officer of 13 years and a U.S. Marine, in which Crane said Sen. Rubio treated law enforcement “like absolute trash” during his push to pass his 2013 amnesty bill.

The article details the angry and defensive response from Rubio. A quote from the article:

...Chris Crane in 2012 spoke out, when precious few did, about President Obama's first executive amnesty. And he and nine other ICE officers courageously filed a lawsuit to stop President Obama's 2012 executive amnesty. Think about the courage that takes about how it affects your future career, in terms of how it affects possible political reprisal.

Miller explained that “Sen. Rubio has [also] been an enthusiastic backer of Obama’s sovereignty-crushing trade agenda.

Phyllis Schlafly released a fifteen page memo detailing Rubio’s failings in this area. She began by reminding us that when Rubio was in a position of leadership in the Florida legislature, he was a champion of the pro-immigration lobby and squashed many bills that would have tightened up restrictions on illegal immigration.

When it came time to run for U.S. Congress, Rubio knew he had to change his tune, and he did, distancing himself from the amnesty crowd and promising to oppose amnesty. No sooner did he make it to Capitol Hill, he jumped right into the fray to push amnesty!

In a *Breitbart* article last month, a staffer involved with the Gang of Eight bill confirmed that Rubio could have been an influence to stop the legislation, but he affirmatively aided it and in doing so, he betrayed all the conservatives who had placed their trust in him. Thankfully, that bill did not pass, but it was no thanks to Rubio, it was in spite of his best efforts. How bad was the bill? Phyllis succinctly presents the breathtaking scope:

[Rubio’s bill would have] granted instant legalization, doubled annual foreign worker admissions (a much larger increase than McCain-Kennedy), issued 30 million green cards, provided mass amnesty, expedited citizenship for DREAMers without an age cap, removed the limits on family-based migration, etc., etc. Rubio’s bill was supported by every single Senate Democrat, every single liberal house lawmaker, every progressive politician and group in the country, Nancy Pelosi, Luis Gutierrez, Harry Reid, La Raza, Center for American Progress, George Soros, and on and on. Of course the White House was the biggest champion.

Rubio has a pattern. When he runs for election, he tells the voters what we want to hear. Once in office, he works for his own ideals and for the cash that comes from wealthy lobby that wants to throw open the borders.

I know for many of you, your concern and your priority is first and foremost the protection of life, particularly the lives of the unborn. At first blush it might seem these issues could not be more separate, but they are closely connected.

The Democrats push for open borders because the Hispanic vote swings heavily Democrat. If they legalize the millions of aliens who have made their ways to America outside the boundaries of the law, they will have imported a massive voting block to propel them to victory in every future election.

And how will this destroy the life movement? The Democrats are the party of death. If they are able to boost the number of Democratic voters by such a significant number, they will handily win most if not all elections. A Democratic majority will squash pro-life bills before they can get out of committee. Even more disturbing and perhaps hopeless would be a Democratic president, who would then appoint the next Supreme Court justices to control the court for the foreseeable future. If we want to win the life battle, we must defeat the Democrats.

Rubio’s stance on amnesty, if successful, would doom us.

Friends, I hope we will give long and hard thought to the ramifications of this election and of course, significant prayer.

Faithfully,

Fred N Sauer

Fred Sauer Matrix
231 S. Bemiston Ave. Suite 800
Clayton, MO 63105
314-854-1305
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