

# Energy Prices, You had Better Prepare!

By Tom Boyle February, 18, 2011

There is a continuous barrage of information in the Energy Arena of a troubled horizon: Peak Oil, Global Warming, Geo-Politics, Economic Shifts [BRIC], and Supply Disruptions [i.e. Hurricane Karina]. Recent Data suggests that we Americans have created yet another driver to price: Currency.

Oil price data since the economic collapse in late 2008, suggests we have set the table for another oil crisis via our own policies of TARP, Too Big To Fail, QE 1 & QE2.

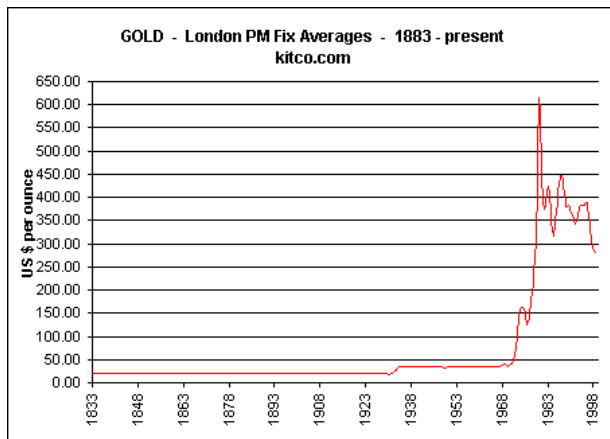
We are headed for some extreme price possibilities, You, Your Family and of course, Your business should be making plans on how to build success into a future of a Paradigm Shift in Energy Price Structures.

## Historical Context

I am a first generation college graduate from a humble background. My parents did as their generation was programmed, and put their hard earned money into providing a college education for myself & my two younger brothers.

As a present, my parents bought me a High School Class ring made of 10K gold circa 1973 for about \$75. My parents are typical of their era, my father was a factory worker and my mother took an accounting job with a State of Indiana facility, which began as a state mental hospital and [thru the miracle of trickle-down economics] became a prison. This occurred during the era where President Reagan discharged [most] mental patients from their cushy [secure] group home to the streets & woods of Indiana.

I value my parents' contribution to my life immensely and have worn the ring since I was given it. So if my recollections are correct, they paid \$75. The ring is approximately 1 oz. gold was selling for about \$50/oz - about \$20 of actual gold value, the rest was workmanship & mark up.



When gold peaked over \$600/oz. during Oil Crisis a few years later, this ring seemed quite an astute investment, that \$20 of gold became worth \$250, not bad.

Gold, however, is not an investment, it is a currency. Gold has been used, until recently, as a currency, since before America, since before the UK, since before the pyramids and before the Great Wall was built.

In the last 100 years, modern man has invented a new system of fiat money, first paper and now mostly electrons in the internet and Ben Bernanke's laptop.

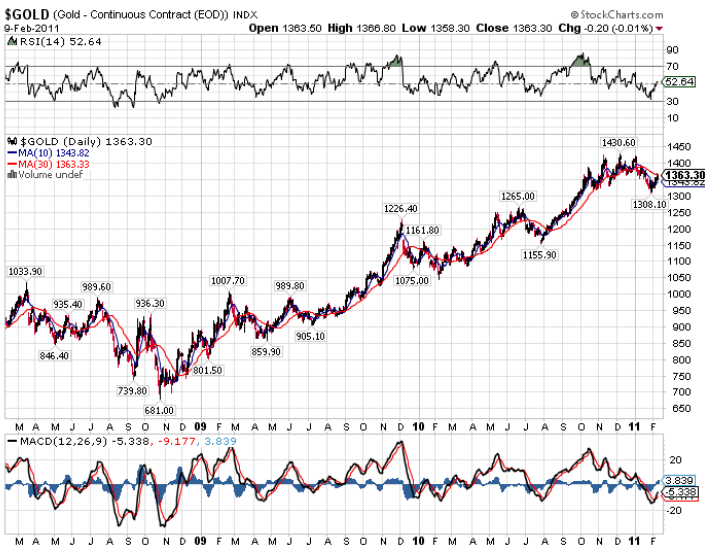
How has that worked out? Back to that ring which to me is priceless. Today, gold is trading at over \$1350/oz.! The gold value in the ring is now worth \$560/oz. Wow, \$20 became \$560, WoooHooo! 28 times higher, way to go mom & dad!

Opps, wait a minute, gold is not an investment. Gold is a currency. The correct way to interpret this is the value of my dollar has been dilute by 1/28, yikes! The value of the dollar [my parents worked hard to get] today is worth 1/28 of its purchasing value it had back in 1973. Or, over 96% LESS!

So in my lifetime, my dollar in my pocket has become worth-less than 4¢, that's 4 Cents! Worth-less or Worthless. It is hard to argue which is correct.

### **Fast Forward to Today & Recent History**

Unless you have been living under a rock, you're aware of gold's recent run up on price. Since the global economy crashed in 2008, gold has gone from circa \$630/oz to over \$1300/oz.



What, just since 2008, our dollar has devalued by more than half relative to the currency – gold!

The economy is in the toilet, and our dollar worth-less. The big brains are telling us – that's good, it makes our stuff cheaper in the world market. So we can sell more stuff!

My 4 cents, as recently as 2008, was worth 8 cents, and somehow that is good. My brain certainly is not as big as the big brains. I cannot understand this at all.

Does anyone see us making more stuff?

### **Great Tom, but what does that have to do with Energy?**

Getting there!, if somewhat slowly, these problems have been a generation in the making, a little indulgence if you please.

My parents funded my education. I have a BS Chemical Engineering from Rose Hulman Institute of Technology a damn fine little private engineering school in Terre Haute Indiana. By some stoke of providence, I was headed for Purdue, but accompanied a friend on a campus visit and RHIT made me an offer I could not refuse. A Private education at a state school cost. They made it cost my parents exactly

the same to the dollar as Purdue. Hmmm, private education taught every class by a PhD, who is practicing his craft or, Purdue where most undergrads interact with a grad student T/A. No brainer. Or, as HD Thoreau, said, “.... And, that has made all the difference.”

After RHIT, during the Energy Crisis of the 1970's, I took a job with Exxon in Baton Rouge, LA. And, arrived just at the time when the Energy Boom, went Bust!

Luckily, from 1980 thru 1987, I survived 5 'downsizings' at Exxon. And, I was taught the oil/refining/chemical business by some of the best in the world, in some of the most dynamic years. One of my tutors was one of the first female chemical engineers in the country and, I believe the first lady to graduate from Old Miss in chemical engineering, ever. If you think about someone who surpasses a gender barrier, in the south just after the 'civil rights era', this is the type of determined, quality of skill level that taught me, the refinery/chemicals operations. What I know about the energy business, I owe to these people.

Many people might not know, the Baton Rouge Refinery when I worked there was the 2<sup>nd</sup> largest in the Nation. And, due to history dating back to before WW II, it is also, the mostly highly integrated [interwoven] between any chemical business & refinery anywhere in the world. When I studied Refining as part of my degree, in the text book, the photo depicting a 'modern refinery' was the very place I ended up working.

As I mentioned, the years that I worked there were challenging years, going from Boom to Bust. Literally, you could not assume that what you did yesterday or last week was correct or optimum Today!

The small chemical's business of Exxon [which I worked for] margins were more healthy than refining's at the time, so the flea [Chemicals] on the tail of refining [which itself was a smaller part of the Huge Exxon Corp] was many times driving the 'boat', to use a Louisiana expression. Boy, did that piss off some Old-time refinery guys!

Luckily, my mentor was a lady, who really knew her stuff, would go toe-to-toe defending the right plan, no matter its source. In the dynamic environment, with the economics changing weekly, you could not rest on the past status quo. You had to evaluate the possibilities and adapt to the changes the market brought you.

Today, we are in a similar environment, things they are a changing!

In 1987, GE Plastics stole all the wonderful knowledge from Exxon. I went to work to buy chemicals for GE, my 'territory' stretched from Israel to China [the long way round]. I bought over 200 chemicals & energy in multiple countries, delivered to GE Plastics manufacturing locations around the world. I made a ton of money for GE doing so, thanks to what Exxon taught me. This was the best Job ever!

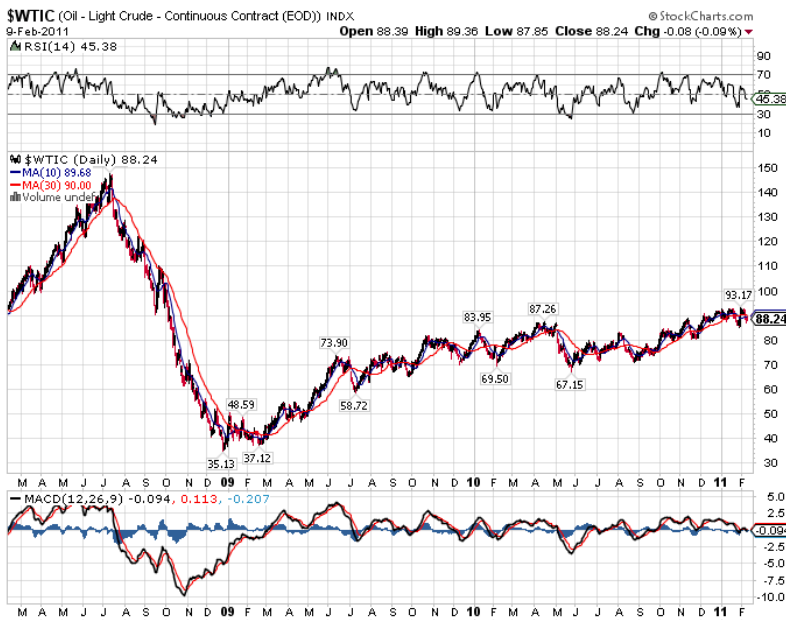
## Gold / Energy Inter-Play

You're losing me Tom! Right, whenever you start to drift off, repeat after me, "gold is a currency, not an investment", and keep repeating until you wish to read more.

Everyone knows that in 2008, Oil prices peaked at over \$140/barrel and gasoline prices ran up over \$4 a gallon. Everyone said bad things about Oil companies. No one said, "Gee, thanks Exxon. I am glad my local gas station has gasoline to sell!" To an American in this millennium, Oil is like water. You open the valve and it flows out, no one thinks there will be a day that does not happen – right!

Here, in Orlando, people whined about \$4 gasoline, but amazingly everyone generally drove themselves to work, at the same Disney/Universal/SeaWorld parking lot .... By themselves! It was only the rare persons who [how un-dignified] car pooled. Much whining, no Action!

So indulge me further by examining some data regarding these commodities. First, take a look at West Texas Intermediate Crude Oil prices before the economy tanked.



You can see WTIC peaked near \$150/B, then the Global economy collapsed and it dropped to \$35.

This Boom/Bust sounds very similar to what I experienced in the 1980's, in Baton Rouge.

These prices are in US dollars. That is the Global [OPEC] convention, since before the last 1970's Oil Crisis.

Why, because back in 1970, the biggest oil buyer in the world was the USA, so after US oil companies developed all the

supply in the Middle East, they threw us out, and took control of their National heritage and nationalized their oil companies. Sucks to be us [US].

Since, 2009 oil has [in a 'struggling' economy] risen over 2 times in price. Hmm, my dollar went from 8 cents to 4 cents ... WTIC [Oil] went from \$35/B to over \$90/B. Sounds like the same thing, the movement is not a supply issue, it is a currency issue.

But wait, Gold is a currency!

Exactly, my point [however long it took me to get here]!

**Lets Look at Oil in the “New” currency = “6000+ year old gold”**

Next, let’s look at an oil chart without the dollars in it ...?!?!

What?

Let’s explore the concept.

What if, OPEC decided, “We no longer want to sell oil, with your 4 cent dollars?”

WTF?!?! Can they do that?

Yep, it’s their Oil!

You don’t want our lovely 4 cent dollar?

Nope.

What would we do, we use oil like a drunken sailor. What would we ‘relieve’ our Oil addition with?



This chart is a ratio of the Price of Gold (\$/oz.) divided by the Price of WTIC. The dollars cancel out and you are left with Barrels of WTIC per oz. of Gold. Engineers love this kind of stuff!

Wait a minute, Tom, that makes my brain hurt [ya, not just your brain, you wallet as well].

What does this chart tell us?

Before the crash, OPEC was not concerned about \$\$\$ so, Oil peaked and Gold languished.

With a one ounce gold piece you could buy only, 6 barrels of oil.

Then the Global Crash happened.

Oil crashed with the economy. Companies failed. Panic, Gold rose based on the fear factors.

“TARP” “Too big to fail” “Housing bubble burst” “Bank Bail Outs” “Stimulus Package - Approved by Congress”

Almost overnight, the money supply was doubled. Hmm, MS doubled, dollar down by half, hmm, these might be related?!?

The relationship of gold to oil inverted a one ounce gold coin as quickly as from July 2008 to Feb 2009 translated from 6 B/oz to 26 B/oz!

The new/old currency gold just got over 4 times more valuable! In 8 months – magic, I do not think so.

Gold is now the new currency, even if the USA does not want a gold standard, we are on it, because in gold equivalent to buy gold we are already converted.

Why? Because, with our National debt, who would really want to sit on a pile of US dollars?

The Australian dollar has passed parity. The Canadian dollar is at parity. These economies are nowhere near the size of the USA, but are much healthier.

Faith has been lost in the US dollar. Gold is the new currency, no matter what we wish.

Examining the data further, since the crash, peak and some return to some stability in the global economy, the one ounce gold coin now has traded in the range of 12 B/oz. to 17 B/oz.

### **What does this chart tell us about the FUTURE?**

Not a damn thing! No one I know can predict the FUTURE. Anyone who says they can is a lying toe rag!

You can, however, extrapolate some possibilities.

The CEO of Gold Corp, one of the largest gold miners has said [I am quoting from memory] that if you take the previous peak price of gold, from the 1970-1980's Oil Crisis put that Peak price of gold in Today [highly diluted dollars], the peak gold price is in the range of \$2400 -2500/oz. in today's dollars.

So we can take the indices from the chart of 6 B/oz., 26 B/oz., 12 B/oz. and 17 B/oz. We can back calculate a price per Barrel of Oil in dollars if Gold peaks similarly to where it had in the last energy crisis of my childhood.

### **The Bad News, the Good News and the “New Normal” News**

What does that mean for the future? No one knows, but as my chem eng professor use to say, we can bracket the right answer!

And, once we have the answer bracketed, we can plan for the possibilities!

What if Gold goes back to the \$35/oz. of my childhood? That is laughable, but if it did [0% Probability] you would divide \$35/oz. by the indices above [6, 26, 12 & 17] and get the following: the oil BOOM price peak is \$5/B, the Oil Bust Price is \$1.35/B, the 'normal' range would be between \$2 – 3/B.

Yes, Virginia, if there really is a Santa Claus. Or, if we changed our country's strategy from diluting our currency changed miraculously over night to a world dominating currency. In a time period, longer than my lifetime, it might be possible. Zero % probable, though.

What if Inflation/FED/Global Trade causes further dilution of our 4 cent dollar to say 2 cents? Gold doubles from today, to \$2700/oz. Yikes, say it isn't so!

My, my, could it do that? It did from 2009 to 2011, gold more than doubled.

Certainly possible, but is it probable? I don't know. Using historical charts is like trying to fly a Cessna from New York to San Francisco, by looking out the back window and using a compass. Both are at sea level. But it might not prepare you for all of the possibilities of the future, in say Colorado.

The future will not be the same as the previous Oil Crisis. In the previous Oil crisis the USA was the single major user of spare oil [from the Middle East]. Europe was hurt but nowhere near as what the USA was.

In today's economy, China, India, Russia & Brazil's economies are growing much faster than the USA [if we are growing at all]. These are needs that are new to the equation compared to my childhood.

China alone has 1.3+ Billion people, the USA has 300 Million. Or, we are the 0.3B relative to their 1.3B.

China has 4 times our population. China is buying oil & gas reserves in the newly producing regions of the world, Brazil, Africa, Indonesia/New Guinea and various offshore locations. China is thinking ahead.

A small change in China's per capita energy consumption has a huge leverage affect compared to our own country.

This does not address Brazil, Russia or India's needs, just China's needs. It does not address Peak Oil, where the total supply of oil, actually is going down, while demand is going up.

This does not address supply disruptions, caused by a Katrina like Hurricane or Cyclone, Political Disruptions [Iran, Egypt, here, or other OPEC nations].

This analysis is only looking at Currency effects for the transition from Dollar based Oil, to the new Gold based Oil trade.

If we take the Gold Corp, possibilities for gold prices of \$2400 – 2500/oz. based on gold market effects, not further dilution of the dollar by the government or the FED driving our dollar from the 4 cent dollar to a 2 cent dollar. Gold Corp's estimate of the peak is a more conservative case!

What if Gold goes to the \$2500/oz. of Gold Corp's dreams? That is NOT laughable, but if it did [maybe 50% Probability] you would divide \$2500/oz. by the indices above [6, 26, 12 & 17] and get the following:

the oil BOOM price peak is \$416/B, the Oil Bust Price is \$96/B, the 'normal' range would be between \$147 – \$208/B.

This scenario is possible. This scenario is more probable than many would have thought as recently as 2008.

For Example, what would this country do if China bought Exxon?

Think about it. China owns our National Debt to a point where our children, may have difficulty paying them back.

If China said,

“Tough luck America! Here’s some of your debt back, we are taking over Exxon. We’ve got Trillions of your dollars, name your price.”

What could we actually do?

Go to War? Not likely.

Stomp our feet. Much more probable. [Expletives deleted]

If not, China would dump our debt, our 4 cent dollar would go to 0.004 cent dollar [exaggeration I know, but again, we got the answer bracketed!] put some more zeroes on the above price estimates!

### **The Future?**

No one knows!

Unless you’re a Disney or Universal Studios [Back to the Future] script writer where your pen - controls reality in a movie, no one knows.

How quickly will this happen. No one knows.

*Our own FED diluted our dollar over 96% since the 1970’s and of that 96%, an incremental 50% in the last 2-3 years.*

It could be very quickly.

### **What Can We Do?**

Dr. Ron Paul thinks we should audit the FED and go to a gold standard.

That WOULD have been a good idea in 2008!

With all due respect to Dr. Paul, the world already has gone to a gold standard.

There is a small bit of poetic justice in the world. Those OPEC dollars they took from us in the 1970's are now diluted 96%, as well!

If the above ideas concern you about your family or your company, you can:

- Stop worrying, and start planning
- Learn Mandarin. Move to China
- Engage us to evaluate scenarios to protect your interests.
- Get Serious and Take Action!

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