John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday April 29, 2020

A week ago, the oil futures market convulsed. The May futures contract for the U.S. benchmark - West Texas Intermediate crude oil - fell sharply. By afternoon, the price was down to $10 a barrel, then $5 and then pennies and finally turned negative for the first time in history. Mainstream media quickly seized on that particular futures contract and announced that the oil price was minus $37 a barrel. For a few seconds that was partially true, but misleading. At the same time the May futures contract expired, the price for June delivery was at $21.40 and August was at $29.15. So, the momentary minus $37 a barrel was a futures market trading convulsion and not a broad oil market indicator.

During the 1980s, 1990s and well into this century expert after expert told us that the world was running out of oil. "Peak oil" was the phrase used by those experts to warn that the world oil production was now in a permanent decline. All the "elephant" oil fields in Saudi Arabia had peaked out and no new fields were left to be discovered. North Sea oil, likewise, was said to be in decline. At one point the price for a barrel of oil soared to $200. Best selling books were written about the economic ruin that was coming as the world ran out of oil. Looking back, I was skeptical of the gloom and doom forecasts. But I am always skeptical of popular pessimistic pronouncements. Still, I wish the authors of the "peak oil" scare were now being confronted on how they could have been so massively wrong. We know that innovation and technology are the reasons they were so wrong. And they should have left that possibility open. After all, oil exploration and production have been technology dependent from the beginning. In any case they were wrong, and we now face the opposite problem - that oil production exceeds current demand. The American Petroleum Institute estimates that global oil production is still about 100 million barrels a day. But demand has fallen to 70 million barrels. The deal to limit oil production that President Trump recently negotiated with Saudi Arabia will help reduce supplies, but that agreement starts on May 1.

The problem that triggered the plunge in the price of the May futures contract is storage. Traders who buy and sell oil futures contracts for profit do not actually want to take delivery of the oil. There are oil dealers who do want the oil. However, the imbalance between supply and demand has used up most of the available oil storage capacity. There are cargo ships full of oil sitting at anchor outside American ports. As the May futures contract approached expiration, traders panicked…they didn't want to take delivery of oil that they couldn't sell or store. So, they got rid of the contract at fire-sale prices, temporarily driving the price into negative territory.

The real oil price is low, but not negative. Pessimists, instead of apologizing for their decades long oil error, now talk about jobs being lost in the oil industry. I wonder what they will conjure up when the global economy is on the mend and oil demand catches up with supply. And the lower price for energy will be a big help for manufacturers and consumers as the economy struggles to recover.

There is another side to the oil story. It was highlighted in a recent editorial in *The Wall Street Journal* titled: "Big Oil to the Coronavirus Rescue." Last week ani-carbon activists convinced the New York City council to introduce a resolution to divest from banks invested in fossil fuels. At almost the same time, the State of New York was negotiating with Exxon Mobil for critical supplies badly needed to fight the coronavirus.

The anti-carbon activists apparently don't know that isopropyl alcohol, the key ingredient in disinfectants and sanitizers, is derived from oil. That was developed in 1920 by chemists working for Standard Oil, Exxon Mobil's predecessor. Exxon Mobil's Baton Rouge chemical plant is the world's largest producer of isopropyl alcohol. And in response to the virus Exon Mobil has ramped up production by 3,000 tons a month, enough to produce 50 million four-ounce bottles of sanitizer.

And there is more to the story of Exxon and the virus. Exxon is increasing production of a specialized polypropylene that is used in medical masks and gowns. Plus, Exxon is applying its expertise in material science to develop new face shields that utilize a filtration fabric.

The editors of *The Wall Street Journal* ended that editorial with this question: "Do liberals want to divest from using those to fight off the coronavirus?" If they were asked, I am sure they would answer no, they didn't know that Exxon Mobil is such a major player in combating the virus. And the anti-carbon activists are not the only ones being exposed by the virus. The Medicare For All crowd also has a big problem.

USA Today reported last Sunday that more than 100 rural hospitals in the U.S. are so financially stressed that they can't continue much longer. Last year Eastern Niagara in New York was among two dozen or so hospitals to file for bankruptcy. The reason? Miserly Medicaid and Medicare reimbursements. A Rand study last year estimated that Medicare pays about 40% of what private insurers do. Medicaid typically pays about 70% of Medicare and less than half in states like New York and California. In other words, hospitals have been overcharging private insurance patients to make up for the shortfall in Medicare and Medicaid. Because of the virus elective surgeries - the financial life blood of so many hospitals - has dried up. People are putting off hip and knee replacements until they feel safe going to the hospital.

It is now very clear that Medicare in its present form is not sustainable. Doctors, nurses and hospitals cannot survive on Medicare reimbursements. Medicaid is even worse. Rural communities that do not have a large population of wealthier people who can afford private insurance are losing their hospitals. Medicare for all would soon mean health care for none as financially strapped doctors, nurses and hospitals go out of business. New York is proof that raising taxes doesn't solve that financial problem. New York has one of the highest income tax rates and still is seeing hospitals go bankrupt.

To the extent that lessons like oil and Medicare are learned, we will emerge from the virus attack stronger and wiser. Meanwhile, we can take comfort that dedicated scientist are working to find a vaccine and better treatments. Innovation and technology solved the "peak oil" crisis and they will solve the virus crisis as well.

I will have the next market review and update one week from today on Wednesday May 6, 2020.

All the best,

John Dessauer