John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 12, 2022

"The madness of the Biden Administration's energy policy has been horrifying to watch, like a car crash except all Americans are passengers. The latest bizarre twist is that the White House may ease sanctions on Venezuela and its dictator Nicholas Maduro in an effort to increase the supply of oil on the global market." (*The Wall Street Journal Editorial Board, 10-06).*

President Biden is desperate. He triggered inflation by killing the XL pipeline and attacking American oil producers. Yes, the Russian invasion of Ukraine has added to the crushing inflation, but inflation was already at 7% before Russia went to war. Simple math says that had Biden left the XL pipeline and U.S. oil producers alone we would have inflation at 1.3% or slightly higher.

What makes the Biden Venezuela idea truly bizarre is that oil from Venezuela is called heavy or sour oil. It is difficult to refine and causes more pollution in the process. The XL pipeline was to bring Canadian oil to the U.S. so we would no longer need oil from Venezuela. Canadian oil is called light, sweet oil and is much easier to refine, causing much less pollution in the process. All of a sudden President Biden is willing to reverse his climate-change policy and reward a socialist regime that has impoverished its people and created a refugee crisis in the region. His new goal is to do anything to bring down gasoline prices and help bring inflation down. He went to Saudi Arabia and begged for them to increase oil production. He did not do well. After he left, the Saudis and other OPEC oil producers voted to cut oil production by one million barrels a day. That infuriated Biden and he and other Democrats said that the move was shortsighted and damaging to international relations. In response OPEC held another meeting and voted to cut oil production by 2 million barrels a day. That is enough to push the oil and gasoline prices up.

President Biden tried to counter by selling 200 million barrels from the Strategic Petroleum Reserve. That has not worked and has brought that reserve down to a low not seen since 1984. That reserve needs to be refilled but Biden is doing the opposite and plans to release another 10 million barrels. Much of the oil that remains in the Reserve can't be efficiently processed by U.S. refiners. If there were a true national emergency, such as a cyber attack on a major oil pipeline, we might not have enough oil to keep supply flowing. Clearly the President is continuing to play a very dangerous game with his energy policies.

A new study by the Committee to Unleash Prosperity estimates that the U.S. would be producing between two and three million more barrels of oil a day and between 20 and 25 more billion cubic feet of natural gas if the Trump Administration's policies had continued. Economists Casey Mulligan and Steve Moore say the Biden Administration's anti-oil and gas policies are costing the U.S. economy $100 billion a year.

Producers usually respond to rising prices by increasing output. But that is not the case today. Democrats blame the oil companies for prioritizing profits over production. They either are conveniently ignoring the realities of doing business or they just don't know anything about business. Companies must consider the long-term return on investment. The Biden policies have created substantial regulatory uncertainty, raised production costs, and directed capital to green energy.

Because of the Biden energy madness gasoline prices may well go up between now and election day. If that happens the Administration has only itself to blame.

The consequences of the Biden madness are not confined to the U.S. Rising U.S. interest rates and a Fed resolved to bring inflation down has rattled foreign currency markets. The DXY, an index of the dollar versus a dozen major currencies, is up almost18% this year. On the other side, currencies are down, some dramatically. The euro is down to the lowest level versus the dollar in twenty years. The British pound is down to the lowest level since the 1970s. The Japanese yen has also taken a pounding. These declining currencies are an economic threat, forcing governments to take steps to stop the decline. Governments have taken two steps to help their currencies - intervention and raising interest rates. These have helped but have also raised concerns about the long-term consequences. Will raising interest rates push slowing economies into recession? Will interventions strain bank reserves? So far these are just concerns, but the sooner U.S. inflation declines the better for all.

There are some early signs that inflation is starting to come down. The rise to nearly 6% in home mortgage rates is cooling demand for housing and home prices have started to come down. Some real estate experts think the decline will accelerate in coming months. In the September jobs report the Labor Department said that average hourly earnings rose by 0.3% from a month earlier. That matched the gain in August but was down from a 0.4% rate over the first seven months of the year. The hope is that the Biden energy madness does not result in gasoline prices so high that they offset the good news from other sectors.

Stocks remain volatile and that will likely continue until there is solid good news about inflation. Given the mistaken Biden policies that may take a while longer. But don't lose sight of the stock market's reaction when that good inflation news arrives. Stocks will rebound sharply when that happens. And as we know from past experience, economic developments can change unexpectedly.

I will have the next market review and update for you one week from today on Wednesday, October 19, 2022.

All the best,

John Dessauer