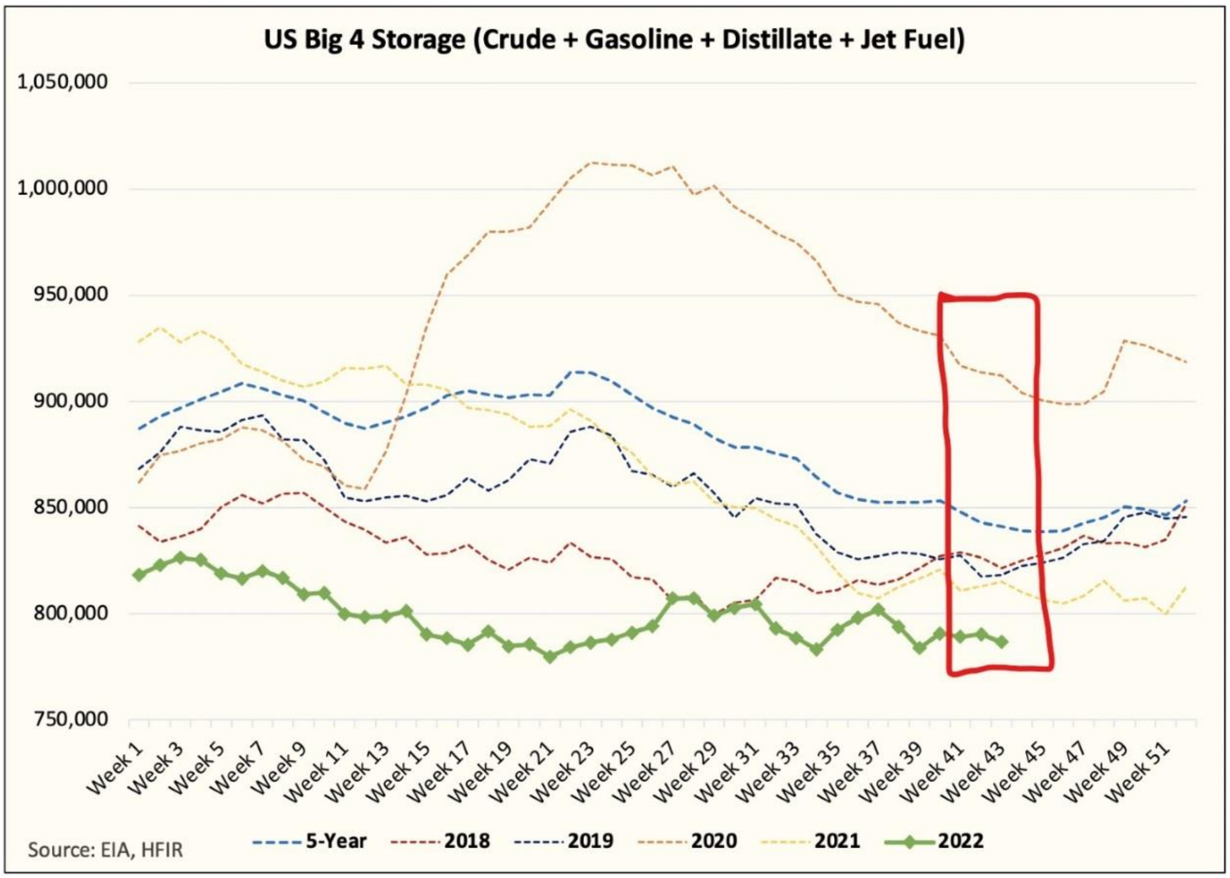
The Outlook: Nov. 2, 2022

Oil: dramatic pictures, big payoffs.

Dramatic charts are always fun . . . as long as we're not too quick to draw dramatic conclusions from them. Dramatic or boring, they are always only one corner of the big picture; and we always must look at the whole picture before making up our minds.

But they do help us begin thinking. Courtesy of energy analyst HFI, here's an important part of oil's big picture today, even if it is only a corner.



In the red box, that solid green line is America's current volume of stored crude oil *and* the refined fuels we get from it. The 5 lines above it are the same storage levels in each of the past 4 years, plus the 5-year average. This picture's message is simple: we're running well below all of the fuel storage levels of the last 5 years.

Demand and supply make the economic world go 'round. This picture is one part of oil's supply story. The other big part is the flow of production, from inside America and worldwide: from Texas shale and OPEC, when we get right down to it. As the headlines told us, OPEC just cut its production plans for at least the next 6 months. That leaves shale. Shale's production has been rising this year . . . but sluggishly. Why? The shale producers who haven't gone bankrupt vowed (over the last couple of years) to produce cash and profits for investors, rather than the sheer volumes of oil which they (and their backers) had previously worshipped. They seem to be sticking with that vow. So that grim inventory picture above, plus the grim promises from OPEC and Texas, add up to one thing: no more gushers of oil supply . . . maybe something more like trickles, for a good while to come.

Then there's demand. We learned something about oil demand from the Global Lockdown Calamity and Recesssion. It dipped, even dipped sharply . . . but never "plunged." Then it came back, steadily. It has done that even in the teeth of worldwide economic shakiness, these past couple of years. The clear message from the story of oil demand, these past two years, is: "The world can't do without it. Nothing can replace it for quite a long time."

That's the basic reason for this:

Conoco: Up 394% Since the Lockdown Bottom

Conoco is around $126/share at the moment. At that "Lockdown Bottom" it was around $25. It's hard to find words strong enough to describe that price; strong enough to get across the nature of the market's betting crowd. As Outlook has mentioned once or twice, that crowd's business is <u>not</u> gathering facts and thinking; it's making quick bets on the impressions (usually fearful impressions) dominating the crowd itself, for the next few minutes or months. That's a prescription for ridiculous valuations, like Conoco's $25/share. Thankfully, we investors <u>are</u> in the business of gathering facts and thinking. The payoff from that business is pretty clear up there, isn't it?

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