

Everything you wanted to know about sex, at the gas pump

Written by Bruce Enberg

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Gasoline began its career as a leftover waste product from the refining of crude oil to get kerosene for lamps. A hundred years ago, refiners still burned most gasoline just to get rid of it. Today, things really haven't changed that much, except that we now have the perception that gasoline is something precious. In a barrel of sweet crude, the gasoline content is on average about 51%, and that's a lot of waste to get rid of every day.

Demand for gasoline has dropped sharply in the last few years to the point where we export 117,000,000 gallons of gasoline and other fuels every day. Actually, this was the 2011 average, the surplus is still going up. In dollar value, this is now our largest manufactured export.

The news reports are saying that this is the first time since Harry Truman was President that we've exported more "fuel" than we imported. They are careful to say "fuel," even though we've always exported gasoline. Remember, over half of a barrel of crude oil is made up of "waste" gasoline. Gasoline stocks currently on hand are also at a historical high.

Part of the fuel surplus comes from the decline of the economy, part from increased efficiency mandated for cars and trucks. Part of the surplus also comes from the new generation of efficient aircraft engines and the new, more efficient diesels used in trains and ships. We also produce a lot more oil in the United States and Canada than just a few years ago.

Most of this new production is taking place in the interior of the continent where it can't be exported. That is, as long they don't build the Keystone XL pipeline - that oversized drain would connect all the oil fields, all the way from north Texas and Oklahoma up through North Dakota and Alberta. The proof of this theory is that gas prices in that swath of America haven't gone up. The small refiners there are unaffected, but if Keystone XL is built they will be overwhelmed by big oil and Wall Street.

Tar sands oil is about the same consistency as the blacktop on your driveway. Even after expending twice the energy content you will get from the oil by cooking it with natural gas, you still need to mix it with light sweet crude in order to pump it anywhere. The sour crude that comes out the other end is slated to be made into diesel fuel and exported. Keep in mind that we are already exporting diesel fuel now, so we have no need for more of it. There will, however, be a shortage of all fuels once the unlimited, unregulated exports commence under the next Republican president, as any sweet crude that makes it to the export zone will be

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exported too.

According to the Commodity Futures Trading Commission, the percentage of oil and fuel contracts owned by the big Wall Street banks has just recently jumped from 30% to about 70%. One of the Commissioners has been making a stink about this and says that 90% of current daily trading is done by these banks. This means that they are not only buying up contracts, but they are churning the market to drive up the price. He estimates that 20% of what you pay for gas is going to these banks. I think he's being conservative.

In sworn testimony before a Congressional committee last year, when gas was this high then, the CEO of Exxon-Mobil put the value of the cut that the banks were taking at 40%. He was, of course, passing the buck - most oil isn't traded. What oil that is traded used to be called the spot market, really just the leftovers. Big oil companies would get rid of it cheaply just to avoid burning it. When the banks corner this surplus and run up the market, it's the oil companies who make the really big money. Big oil sells into the spot market, - they do not buy oil.

What would the price be if the banks were shut out of the futures market the way they were 25 years ago? You know, when gas station signs only had two digits and the New Deal was still in place. When the banks went into a general collapse in 2008 they had cornered the gasoline market and the price was at record levels. Once the Wall Street banks activities were curtailed (nobody would take their checks anymore) the price fell immediately to \$1.65/gallon.

So, when Republican candidates say they would put gas prices back to what they were before Obama was elected, do they mean the \$4.05/gallon like it was when it looked like McCain would be the next President, or do they mean \$1.65/gallon? By that time, Obama was on his way to a landslide. They tell the crowds of knuckle draggers they'd bring back \$1.65 gasoline, but they don't believe in the regulation of the banks, and they'd build the Keystone XL pipeline that will create permanent shortages.

The good news is that we aren't likely see really high prices this summer. The supply continues to grow every day despite the best efforts of the big oil companies to cut production. Most likely, the price will crash soon, bubbles are like that. Obama can stick a pin in it when it gets big enough by restricting exports, as he can do with the stroke of his "emergency declaration" pen. Don't worry about the banks, they cash in big time when the price goes down, too. That's the whole point of creating these bubbles, - to panic the actual fuel users into buying derivatives against the predicted high prices. Republican capitalism is like that.

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