Energy Rundown: 2022, A New Year of Living Dangerously

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"The chaos will only intensify," said the CEO of Saudi Aramco, Amin Nasser. As in, oil markets are chaotic now and things are definitely getting worse.

So, Happy New Year, right?

Of course, if anyone might know a few things about global oil markets it's the guy who runs the state-owned oil company of Saudi Arabia. (Okay, mostly state-owned. There are a few non-state investors too.)

Nasser gave a talk last month in Houston at the World Petroleum Congress. Attendance was over 5,000 from more than 70 oil producing countries, and this was despite Covid restrictions.

"Energy security, economic development and affordability imperatives are clearly not receiving enough attention," warned Nasser.

He spoke in the context of innumerable breakneck efforts by governments, non-government organizations and businesses across the world to restructure the global energy complex. In other words, he offered an oilman's perspective on the anti-oil, anti-fossil fuel, anti-carbon/CO2 movement.

The background to what Nasser discussed is the fact that we live in an era when a large segment of (mostly Western) global-level governance, power and money is resetting energy policy to move away from carbon, the energy source that powered the Industrial Revolution for well over 200 years. No more coal, oil or natural gas, basically. No more combustion. No more CO2 emissions, or so they say.

It sounds good to some people; mostly, to people who willingly overlook all manner of issues wrapped up in history, engineering, thermodynamics, geology and much else.

Here in the West, we’ve long passed the point of social and economic danger. We’re far beyond mere barstool rants about “saving the planet,” let alone giving a hearing to faculty lounge kooks.

Go back just a year to January 2021. On his first day in office, President Biden all but declared war on fossil fuels. Via executive order he canceled the Keystone XL Pipeline (concerning oil imports from Canada), shut down oil and gas drilling on most federal lands, and much more. In just one afternoon he signed off on a long laundry list of anti-carbon bonbons for his political supporters.

Then as 2021 unfolded U.S. energy prices rose. A mystery, right? Who could possibly have known?

Yet by the end of 2021, fuel pump prices were up 75% and more, and Pres. Biden was reduced to whining and pleading with OPEC nations to increase oil output over previously scheduled levels. Overseas, oil producers politely declined and smiled all the way to the bank.

But fuel prices are just one page of a long chapter that reflects Biden’s domestic policy contra oil and gas. And couple this American angle on the issue with other events that negatively impacted global energy supply. China banned Australian coal, for example. While Germany shut down almost all of its nuclear plants. More such power-downs come to mind if we cared to list them.

Suffice to say that we're now at the point where being wrong on energy can (as in, It Will) crash the global economy. And contrary to popular political wisdom, no central bank will ever create enough "money supply" to bail out the problem.

Across the world, powerful people have promulgated policy based on carpet bombing carbon. You see it everywhere, both figuratively and literally. It's embodied in the wind and solar movement, with those massive, eye-insulting, not-very-renewable systems you see along highways and covering landscapes.

World policy players have long waged an ongoing jihad against coal for electricity too, until recent power outages in diverse continents brought a reprieve to the proverbial rock that burns. And irony of ironies, humble coal was among the best performing commodities of 2021, with average global prices rising by 111% if the charts are to be believed.

Or consider those super-high, government-mandated mileage standards for internal combustion vehicles. On the darkest day of the year, the Winter Solstice this past December, the U.S. EPA lifted mandates by 25%, from 32 miles per gallon to 40 for cars sold in the American market by 2026.

In essence, this is akin to wartime industrial policy masquerading as environmentalism. That is, EPA just issued a de jure ban on almost all internal combustion engines in favor of still-evolving electric vehicles, to be built with all manner of exotic materials whose supply chains are problematic on the best of days.

Getting back to Saudi Aramco's Nasser in Houston last month, he referred to "glaring gaps in the transition strategy" of developed nations to move away from fossil hydrocarbons and related, so-called "green" policies in developing nations. In essence, if I may summarize the speaker, much of what's happening is short-sighted with large measures of complete ignorance thrown in.

A few topical numbers speak for themselves. Begin with a recent analysis by Rystad Energy, which concluded that global oil and gas discoveries in 2021 hit a 75-year low, at about 4.7 billion barrels of oil equivalent (boe). This is significantly down from 2020 when over 12.5 billion new boe were booked.

For perspective, global oil consumption over the past few years – just liquid petroleum and not including natural gas – has hovered in the range of 100 million barrels per day, or 36.5 billion barrels per year.

So just compare recent discovery with current consumption. Clearly, the world is drawing down against past oil discoveries and not replacing its oil-based resource with new finds or development.

But it’s not as if the oil and gas are not “there.” Oh, the molecules are in the ground. They just await the geologists and programs to discover them, and the engineering to bring them out.

And this raises another profound factual issue, namely that capital investment in 2021 was dismal, with about $340 billion globally invested in new exploration and development. It may seem like a big number, but per people who follow the energy industry – economists and oil company analysts – the appropriate capex number “ought” to be well over $500 billion per year.

Do that math, and right away we see dramatic under-investment in the global energy complex, certainly with hydrocarbon prospects up and down the line. Oil and gas investment is shy by about $500 million per day overall. That is, if you want to keep the world’s transport, industrial and agricultural systems working.

Oddly enough, this immediate investment deficit doesn't materially affect daily oil output in the short or even medium terms. Oil that flows today, tomorrow, next week, etc. is from wells already drilled and producing. In the case of Saudi, for example, much of its oil comes from fields discovered 50 and 60 years ago, and wells drilled in the 1980s and 90s.

But in a longer timeframe, current underinvestment will eventually reflect in absolute decline in output. You can't pump oil from wells that were never drilled, nor from fields never discovered in the first place.

More immediately, oil buyers and traders clearly see what's happening, and of course markets tend to be forward-looking. So current underinvestment is a strong forecast of a looming, long-term supply crunch. And thus we stand at the foundation of market uncertainty, which has led to high prices, with higher tom come.

I'll wrap up with a couple of broad predictions for 2022. They derive simply from connecting the dots out of 2021.

Coming down the rails, energy supply is and will remain problematic. Every energy source will be more expensive. And rising energy prices will translate as a core element of looming inflation. In this regard, well-run energy plays are a good idea, especially ones that pay a dividend.

And don't neglect another important safe harbor in times of inflation, which is well-run mining plays and related metals.

In 2022 precious metals ought to do well, along with so-called "energy metals" used in batteries and electric systems, everything from copper and nickel to rare earths (REs). Expect prices to stay solid and likely rise. While all along, supply will tend towards tight, to the point of shortages of key commodities.

And finally, along these latter lines let me refer you to a recent interview that Jack Lifton and I conducted with Geoff Atkins of RE producer Vital Metals, click here to access

There’s more to come from this end as the weeks and months unfold. But for now, best wishes for 2022.