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Winter is Coming | Episode 3
Doomberg, Publishers of the "Doomberg" Substack

In our third installment of Winter is Coming, we sit down with energy and #fintwit icon, Doomberg, for an in-depth discussion on the European energy crisis covering the team's take on the winter ahead in Europe and policy's role in the path forward.

Doomberg (01s):
When you are swimming in an excess of primary energy, it is easy to think that the energy commodities are yesterday's industries, can be thought of and treated like just any other fungible commodity, and don't really matter all that much. It's only when you enter into an unexpected period of primary energy shortage, the laws of physics take over and dictate the policy choices for our leaders.

Announcer (26s):
Welcome to Smarter Markets, a weekly podcast, featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together, we examine the questions are we facing a crisis of information or a crisis of trust and will building smarter markets be the antidote?

David Greely (51s):
Welcome back to Winter is Coming on Smarter Markets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Doomberg, the team behind one of the most widely read finance newsletters on subs. We'll be discussing the energy crisis in Europe and what Western policy makers need to understand about the energy markets. Hello, Doomberg, welcome to Smarter Markets.

Doomberg (01m 13s):
David, really fantastic to be here and a true honor, I, some of the amazing guests you've had on recently and I was really flattered when you sent us the invite and, and looking forward to a fantastic discussion today.

David Greely (01m 24s):
Oh, me too, me too. I was really flattered when you accepted our invitation and I've really been looking forward to discussing your perspective on the energy crisis that's now engulfing Europe, and that, you know, we've been talking about with a lot of different perspectives from our different guests recently and, you know, to get your idea for what, if anything we can do about it at this point, but before we dive into that, I'm sure our listeners will have noted that you and your colleagues have chosen to keep your identities private. So I was hoping, you know, to give them a better understanding of your perspective, could you just give us a quick introduction for our listeners, maybe share a little about your background and tell us why keeping your identities private is important to you.

Doomberg (02m 05s):
I'm more than happy to David. So as, as you've mentioned, yes, we are anonymous. I'm the head writer for a small team that runs the Doomberg Substack. In our real lives we are consultants former industry executives in the commodity sector personally as scientist by training and spent a couple of decades, you know, leading worldwide teams of, of researchers working on tough problems in the energy sector and so my editor in chief for example, has a very strong finance background and so together as a team, we were consultants and doing quite well. After having left industry, we have probably 50 years of industry experience combined on the team and then COVID hit and it put a big dent into our business, like many small business owners. We lost something like 80% of our business virtually overnight, and you have to decide what you're going to do.

Doomberg (02m 56s):
And we got a really fantastic piece of advice from a famous hedge fund manager who suggested that we look into helping people who create content and sell it into Wall Street look into helping such people run their businesses better. He recognized our sort of understanding of the finance world from the industry perspective, but also our abilities as business leaders and strategists and we embarked upon that journey. And, and it really was a, a fantastic 12 to 18 months after we decided to open up that vertical in our consulting business and it was much more fun than our prior work, which had focused on C-suites and family office types and we had a

lot of success and one of our best clients suggested that we just start our own. His advice was you will follow all of your own advice, unlike me, and build something from scratch.

Doomberg (03m 43s):
I'll lend you hand and it was the beginning of truly the work of, of our lives. It's been a unbelievable 18 months and we've grown the brand. We've improved the product we've since made it our full-time job. We've put our consulting business on hold. We've kept only our favorite clients. We're turning away business and we do Doomberg for a living and so why stay anonymous. I could tell you why we started anonymous. It's very difficult to build a brand behind a person from scratch. If you have no social media presence and one of our rules in marketing, when we would help clients is you can't be remembered if you don't stand out and the green chicken just, we sort of designed it one day. We were playing around with names. We did some preliminary AB testing. It scored amazingly well, and we just went with it.

Doomberg (04m 27s):
Now, why stay anonymous. We have observed that when popular Twitter accounts or big anonymous social media accounts reveal themselves, sort of the error is let out of the balloon, the mystique, the intrigue is gone and so Doomberg has grown so big and so fast that we just can't have a reveal ourselves. It's not some big secret. There's lots of people on the street who know who we are. Substack knows who we are, Stripe knows who we are. You know, our painters know who we are and that we're doing Doomberg ice. It's just part of the brand now and then last part I would make is that I'm the person who sort of the head writer and the person who appears on podcast, but we truly are a team, a very tight knit team. And it wouldn't make sense to rebrand around a person at this point. So we're just gonna stay as the, as the green chicken. It's a fun character and, and that's the background.

David Greely (05m 11s):
Oh, that's really great. Thank you for sharing that. It's, it's so great to hear of people building something that's working so well out of, you know, the struggles that many of us had over the past few years and to do it as a team, I think that's, that makes it really worthwhile to be able to do it with people and let the green chicken stand out front and not the egos get in the way. So congratulations on that and thank you one of the things that I think brought a lot of people to your writing in part was that, you know, in addition to having that science background and that strong background in the finance and the commodity markets, you've also been a strong critic of Western policy makers regarding some of their decisions in Europe for, you know, well over a year, you know, longer than it's been in the popular imagination and I was curious from your perspective and maybe from your perspective as, as a scientist and an energy market expert, what do you think Western policy makers have been getting wrong about the energy markets and, and why do you think that is?

Doomberg (06m 10s):
It's a very good question and I would say the way we analyze the world is we begin with a very, very basic, but critically important question and it is following one is the world currently experiencing an abundance of primary energy or a shortage of it and unless until you make an intelligent assessment of the answer to that question, it's very difficult to analyze the markets for the better part of the past two decades, the Western world, and the group of leaders within it have been bathing in an excess of primary energy driven predominantly by the boom in shale oil and gas production in the US and when you are swimming in an excess of primary energy, it is easy to think that the energy commodities are yesterday's industries can be thought of and treated like just any other fungible commodity, and don't really matter all that much.

Doomberg (07m 08s):
It's only when you enter into an unexpected period of primary energy shortage through the laws of physics, take over and dictate the policy choices for our leaders and a confluence of many events occurred in the past couple of years that pivoted the world from an era of excess, to an era of chronic shortage and the three main ones are one the ESG movement and the desire to defund fossil fuels when we do not have bridging technologies other than nuclear, which is also opposed by the environmentalists. We do not have bridging technologies to get us from where we were to where we want to be with regard to carbon emissions and yet we still sort of saw it away at the legs of our own stool by chopping away at the acceptability of funding, fossil fuel development projects, that's one, but to be fair to the environmentalists, it's also true that the shale booming incinerated a lot of capital a lot of investor capital, and this was all driven by access to cheap debt and, and abundant money.

Doomberg (08m 10s):
And that investor capital was burned and then the precipitating event of the shutdown of the economy in response to the pandemic was really the catalyst that marks the pivot point from the era of abundance to the era of shortage and so when those three things converged in March of 2020, you saw a wave of bankruptcies, particularly in the shell patch and the companies that emerged from court supervised reorganizations, have a cash oriented mindset. They aren't investing and now we have what we have, which is chronic shortages of primary energy and one of the themes that we've been pushing in a phrase we've become known for is energy is life and energy commodities in times of shortages are extraordinarily elastic and as we've said often what is the price elasticity of demand for life and who can pay it and the clearing price for life is far above what most of the world can afford and that's what we're experiencing right now. The genesis of the crisis was born in Europe. It has spread globally. The economy cannot survive in a way that we're accustomed to if Europe collapses and so we are really add up at a really significant turning point. We believe a historical one that is unfolding in real time before us.

David Greely (09m 30s):
And the one thing that you and Emmanuel Macron might agree on is that it's the end of the era of abundance.

Doomberg (09m 36s:
Well, that's by choice too, though, in some ways, right? I mean, it doesn't need to be this way, which is why we've been so critical. Sorry, I didn't mean to cut you off.

David Greely (09m 45s):
No, no, it's, it's a very important point. You know, it's, I think with many of our guests, the conversation's always been it's about investment. You know, it's about planning ahead and putting the dollars into the right places so that we don't run into these shortages and all the negative effects that come with them and last week we had Dan Yergin on to discuss his views on what's happening in Europe and he basically says we're in an energy war that it's the second front in the battle for Ukraine and in this war, I understand that you believe that Putin has the leverage and is that right and why I imagine it goes back to this notion of elasticity.

Doomberg (10m 24s):
So Putin certainly has the leverage as it pertains to the economic part of this hybrid war we believe and have written and we're writing as far back as a year ago, that by handing our energy cards to Putin, we should not be surprised when he decides to play them. We just put out a piece about it. And we had a fake quote that we put in. We normally open our pieces with a, with a good quote and, and this piece was called Europe on tilt and the fake quote that we used was in times of war hand, all the leverage to your enemy, then complain loudly when they use it and we said, Sanzu brackets probably you know, we handed Putin the keys to Europe's energy future. We believe that he understood the leverage that he had and is now using against Europe when he decided I think in terribly incorrectly to cross the border into Ukraine and initiate a kinetic war in the heart of Eastern Europe.

Doomberg (11m 19s):
I think that was a total blunder to be very clear. We've been accused by some, on Twitter of being sort of relatively pro Putin in our analysis. We don't think it is unpatriotic to point out the reality on the playing field and to suggest alternatives that we believe would actually help achieve our geopolitical objectives, which is what we've always tried to do. The cards that Putin has were given to him by the west, he's playing them now at some would say, and I would concur that completely shutting off the gas from Nordstrom. One is potentially a sign of weakness and desperation on his part, but it is certainly going to hurt Europe in the near term. What it does for Putin in the mid to long term is a different question whatsoever. But I do believe he has the leverage. He is using it and we're on the cusp of a very, very serious situation in Europe. In fact, we're in the middle of one given the headlines of the past week, which have been literally unbelievable.

David Greely (12m 09s):
Oh, it's staggering. When you look at the prices that are finally passing through, I know people who have been more involved in the commodity markets, you see it happening in, you know, what we might call the wholesale markets, you know, or the futures markets, you see those prices moving, but now it's flowing through to people, you know, home heating bills and energy bills and you're seeing the, the devastating impact it's having on small businesses throughout Europe and I think you've often made the important point that by trying to cut off the flows of Russian gas, by trying to push back against Russia in that way, we've actually enriched them because of, in the nature of commodity markets. You know, even though the volumes have fallen, the prices have gone up much faster and so those revenues, you know, have gone up for Putin instead of down.

David Greely (12m 57s):
And as you said, that doesn't mean you're a cheerleader for Putin. You're just trying to point out something about how the way the world works. So we can engage in a more productive way and, you know, this result that we're seeing now, which is so devastating to many people, I think was largely foreseeable, right. I mean, you were talking about it. So I'm curious, you know, do you think it was foreseeable and even now, how are you tracking the volume of oil and gas sales that Russia's lost because they're still making sales regardless of this and so they're able to keep those revenues up and where are those remaining volumes going do you think?

Doomberg (13m 34s):
So this is where drawing on our direct and real world experience in commodities differentiates our analysis on the support and topic. We believe anybody who has ever operated, you know, actually ran a business in the commodity sector. I don't mean like worked at a think tank and study charts or taught at a university and read theory, but if you've actually run a business with a P&L you understand something very, very quickly, first thing is you make all your money in very short periods of time and discount cash flow models make, they're almost meaningless for large commodity investments because you know that you make all your money in very narrow windows, and then you do your best to tread water in between and why is that, you make all your money when there's a shortage and this is because, so just the analogy we've used, and it was totally predictable.

Doomberg (14m 21s):
We wrote a piece on June 1st called crazy pills, where we outlined what was wrong with the sanctions and what should be done to correct them and here's all you need to know. Putin exports, 10 million barrels, a day of oil. If we were successful in shutting in 5 million of those barrels, cut it in half. The price of oil would way more than double and Putin would make more revenue on the 5 million barrels that were still finding their way to the market and as perverse as it sounds, we should be encouraging Putin to flood the market and we should be flooding the market because you cannot win a commodity war by trying to stop somebody else's volume from reaching the market. You can only win a commodity war where your objective is to reduce the value of your opponent's commodity by flooding the market with the commodity oil went to minus $37 a barrel on relatively minor excess and a lack of storage at the peak of the COVID crisis, it swung violently to $125 a barrel on shortages, as small as a half a million barrels a day.

Doomberg (15m 27s):
If we were smart about this and we had people in government who actually took the time to, well, preferably get some experience in industry, but at a minimum, treat them as your allies and, and get them in the, into a room and have an open, an honest discussion about what should be happening. We would've understood this, the sanctions have hurt the west way more than they've heard Russia and the pain is still to come and this is totally knowable, utterly well known. There are very few people with deep industry experience who have the freedom to write a blog like Doomberg. We have no overlords, you know, we can write what we want to write. Our, our subscribers pay our bills. We have no ads and take no sponsorships so we can have a hundred percent editorial freedom. This is so widely known in industry that it is remarkable that this was the policy choice that we have made.

Doomberg (16m 16s):
Now having made that mistake, how do you correct it. You literally decide tomorrow to admit this was a mistake and B hold a press conference, surrounded by industry executives from oil and gas and say we were wrong. We're going to do everything in our power to pump as much energy into the market to pivot the world back to a point of energy surplus, which will crush price and will defund Russia's military expenditures. This is the only path forward. All other paths that are being chosen right now do nothing but increase the price of primary energy, which feeds Putin's greedy war machine.

Doomberg (16m 54s):
Yeah and it is such an important point that you make about the volume price relationship, you know, and when you go back so much of Putin's focus seems to be on regaining the status that Russia lost with the fall of the Soviet Union and when the Soviet Union fell, one of the big drivers of that during its collapse was the collapse in oil and gas prices in the, you know, mid to late 80s. So we've seen this play out historically, it's, you know, low prices undermine his government, not high prices and all the years people have looked at OPEC. You know, if you're, if you're trying to raise the price, what do you do restrict the volume. So in a large sense, we've helped enforce a better monopoly on some of the oil and gas in the world right now by restricting those volumes because we haven't cut them all off and we haven't flooded the market either.

Doomberg (17m 43s):
It's one thing to sanction, a small country that produces 200,000 barrels of oil per day for export that's doable, but we're talking about literally the largest exporter of energy in the world and as we said in the piece I believe it wasn't crazy pills. We don't want to take Russia's. We shouldn't want to take Russia's energy off the global market because it would collapse the entire modern economy, including ours. There would be riots. There would be social unrest. There would be revolutions. The world cannot live without Putin's energy full stop. Axiom number one, in the analysis, if your objective is to minimize Putin's revenue, the only handle you have is production volume, your own production volume, and beg and pray that he doesn't unilaterally cut the world off of his energy, just to make a point, which is what he is doing to Western Europe today.

Doomberg (18m 40s):
We had no cards and we're still acting as though we have all the leverage, this utterly crazy, G7 proposal on capping the price of Russian oil has to be the most insane thing we've ever come across. The hubris, in their delusion. The G7 leaders think they can dictate to 4 billion people of what they will pay for property that does not belong to the G seven. It's quite literally absurd, pushed forward by Janet Yellen, who is a product of cushy jobs at universities and a small stint at a think tank, but who has only otherwise lived in the, in the halls of the, of the federal reserve, it's literal insanity and it baffles the mind, you know, this morning we have the president of the European union out saying that you know, two weeks to flatten the curve we are gonna do don't call it rationing, but we're going to do a mandatory cutbacks of energy to flatten the curve because, you know, we just waant to shave off the peaks. Like she has no idea what she's talking about, and it's okay to point out that the emperor has no clothes because that train's gonna hit us either way. You may, as well, at least try to point out the flaws and, and the fallacies of, of, of the pronunciations of our political leaders. It's David. I mean, it's, it's crazy, but it is what it is. You know, it's just, it's the world we find ourselves in.

David Greely (19m 59s):
Yeah, I know often, you know, scratch my own head and try to figure out what are they not seeing, you know, if it's an honest conversation, is there some way you could show them the world from a different perspective that might make a difference and couple pieces I'd like to share these with you and get your thoughts because I do think one of the issues is that policy makers often don't deal with the problem until I guess Jeff Currie said on our podcast, when it's at the doorstep and in commodity markets, if you want to change supply and demand, it's best to do it with a lot of lead time when there's time to invest. When there's time for people to switch to alternatives in the short term, not a lot you can do to bring on more supply or to get people to curtail demand other than very high prices that inflict a lot of pain and get people to, to pull back the way we're seeing them pull back in Europe.

David Greely (20m 50s):
So short term thinking leads to a lot of pain in commodity markets, you got to be longer term and as you, you know, open this conversation with, you know, a lot of the long term conversation and energy and recent years has been dominated by ESG and energy transition and important things, but not putting enough investment to, you know, make the, the fossil fuels unnecessary at this point and we're seeing that happen even before the restriction on Russian flows into Europe and the other that you brought up that I think is really important is that I've noticed that in a lot of the policy discussions that a lot of the policy makers seem to think in terms of euros and dollars while energy markets, people like yourself, think in volumes, you know, how many cubic meters of gas do we got. How many megawatt hours of power, how many barrels of oil?

David Greely (21m 38s):
And when you think in volumes, you quickly realize there just isn't enough. And that the problem is you got to figure out how are we gonna either get more volumes or how are we gonna redistribute the volumes. We have to inflict the least pain as possible, given the situation we found ourselves in, or I think when people think in prices, they get kind of in, in the strange land of, well, we'll just give everybody more money so that they can pay their heating bill. Well, yes, if you give everyone more money, you're just gonna raise the price higher because what ultimately leads people to cut back on demand is the price is too high and they've run outta money. So, you know, if you're not fixing the volume problem, the price isn't gonna help you. I was just curious about, you know, your thoughts on that and do you think shifting, and maybe, you know, getting people on the policy side to look at markets from that volume perspective could lead to a better policy outcome?

Doomberg (22m 32s):
Lots of different ways to tackle that, it's a great point and one that we have made forcefully in some of our pieces, but let's just stop for a second and do a little bit of thinking here. Energy is actually the ultimate currency and the currencies we're familiar with the Euro, the Dollar, Yen, they are just sort of overlaying our energy transactions in the hopes of making them more efficient. That's the way you

need to think about the world and this is especially true during a time of energy shortage, so everyone is saying the dollar is getting stronger and the dollar against certain currencies is getting stronger. What are those currencies, so the way we measure the dollar strength today is through this index called the DXY, but if you look at the DXY 83% of that index is composed of the Euro, the Yen and the British Pound, all three of those regions are chronically short energy today.

Doomberg (23m 21s):
And that's why their currencies are de-basing for the exact front running of the phenomenon that we know government leaders will do, which is to try to print Fiat in a desperate effort to secure molecules, but of course you can't print molecules and so the Russian Ruble of course has strengthened quite radically because Putin has all the cards. Now, the US dollar is doing quite fine against these currencies because the US is a net energy exporter or worse is really pretty much balanced and so while energy and your relative position as an importer or an exporter, doesn't explain all of the variance of your currency movement. It certainly explains a fair bit of it and in times of chronic shortages, I would bet that your energy position might explain 80% of the variance of your currencies movements which is what we're seeing today.

Doomberg (24m 05s):
The Yen is collapsing as we speak, which is a sort of another bomb waiting to go off in Asia. So yes, you cannot print molecules and when you're at a period of shortage, I think we've gone far enough now into the season that we, and Putin's recent decision on north stream. One basically assures that Europe is entering the winter with an insufficient amount of molecules. So now the only question becomes what is the most economically efficient/socially acceptable way to ration the insufficient, but remaining molecules that they do have in our piece while we just put two pieces in a row, out on Europe, because it's just irresistible, but in the piece we, we put out called the dead of winter. We rolled Doomberg's law of antilogic and in that law, we assume that the current slit of Western leaders will make the very worst possible decision at every opportunity.

Doomberg (24m 57s):
And we advise our clients to assume as much in their modeling and we predicted price caps. We predicted stimulus and we predicted protectionism and not, but a week later it seems as though things are accelerating at such a pace literally not just price caps internally, but we had the president of the European Union today saying that she's considering putting a price cap on global LNG as though she has some magic wand to dictate to the world, the price of something, everyone in the world knows she desperately needs. It's like Rome has fallen and the, the Roman Senate still thinks it's a global superpower. It's high time for Europe to get very serious about the important business of rationing and doing so in a way that minimizes damage to the most vulnerable in their society. So for example, if we take, what, what is currently being done take Germany, you know, they've rolled out a €65 billion stimulus to be paid for by wake for windfall profits taxes on the very energy producers that they're reliant upon to get the incremental volumes, to get them through the winter.

Doomberg (26m 04s):
This will simultaneously increase the price decrease supply and backfire in the most spectacular way possible, thereby proving the theory of antilogic we're seeing the same thing in the UK. Look, this is not easy and we take no pleasure in having been right. We would much, much prefer to be on this podcast today, apologizing for being alarmist, but it's just, I don't see a path out like the die is cast and Europe came out snake eyes. It's going to be amazing to watch this play out in the next few weeks and months.

David Greely (26m 40s):
Absolutely and I'm sure there'll be many heart winding moments along with it and I wanted to ask you, because in terms of where can those extra volumes come from at least to some extent you know, LNG has been the source of the extra volumes coming into Europe you know, US LNG to the extent that there is a rescue has been leading the charge, but it's still not enough you know, the US is now the largest LNG exporter in the world and US energy production, as you said, is a big part of why our currencies rising relative to those of Europe and Japan, but I wanted to ask you, you know, where is Canada in all this, you've written a lot about Canadian energy policy. Now, if we're in an energy board, doesn't Canada have a, a larger role to play in this?

Doomberg (27m 27s):
In our writing, we have been especially critical of Justin Trudeau, who we think is perhaps the most dangerous and simultaneously least capable leader on offer in the Western world today. Canada could be an energy superpower right now and Justin is an example is just another example of somebody who was born on third base and thought he hit a triple and you know, the son of a former prime minister who was sort of ascended to the throne charismatic guy, you know, handsome man but literally intellectually incapable of

leading his way out of a paper bag and so Canadian energy is trapped, Alberta's Oil is finding its way to the US market. But the Keystone pipeline was canceled on the US side to be fair by Biden shares as much of a blame for that as anybody, but Putin's nonsense about exporting hydrogen to Germany instead of just building, you know, the, the required liquefied natural gas export terminals, you know, natural gas in Western Canada is, is probably half the price of what natural gas is in the US, which is 1/10th of the price that it was in Europe last week to bank on Justin Trudeau's regime to make an intelligent decision in the energy sector.

Doomberg (28m 36s):
I put it this way. If you ask me to select who to be led by the current slate of European leaders or just Trudeau, I would reluctantly choose Europe. So I think we could just take Canada off the board until we see a regime change in Canada, which doesn't seem to be on offer anytime soon.

David Greely (28m 53s):
So putting that all together, you know, what's your outlook for this winner, you know, both in Europe and, you know, the knock on effects potentially for the US market and kind of what do you see as the best case in the worst case?

Doomberg (29m 05s):
So the best case is in the next few weeks, the Western world plugs its nose and cuts the best deal it can get for peace. With, I know that's probably a controversial thing to say, but as it pertains to resolving the energy crisis, that is the best case that piece suddenly breaks out, or maybe Putin gets overthrown or pick your favorite path function, but hostilities end and taps open and molecules flow, and the world narrowly averts, what could have been a generational crisis. We hope for that outcome to be very clear, nothing would please us more than this crisis, passing with minimal hardship, born by those who can least afford to bear. It that's the best case. The worst case is a rapid and hyperinflationary dissolution of the Euro. There are scenarios where, you know, the pinball machine goes full tilt, which is why we wrote the last piece Europe on tilt.

Doomberg (30m 06s):
The worst case scenario is Putin follows through and not only keeps north stream one down, but he has another valve. If he can turn, which is the pipeline through Ukraine, if he completely cuts off Europe and in fact, he said, one of his spokespeople said that any country proposing a price cap on Russian oil would get no gas, no oil, no finished products, no fertilizer, nothing and if he follows through on that threat at a time of maximum weakness for Europe, it could literally be a catastrophe and we see nothing in the current responses, emanating out of European capitals that give us hope that sensible policies will be chosen and one of the things we have predicted, and we fear is a right word, tilt of European politics already in Italy. You're seeing, you know, the leading what the European media would call far right candidate saying that we're on our knees and we need to sue for peace.

Doomberg (31m 05s):
We're seeing demonstrations in the Czech Republic. We're seeing demonstrations in Germany. There is a major risk to the ruling elite in Europe, that if they continue to get this as wrong as they have, that they will lose the authority to lead and we don't think they will go down without a fight and so, you know, there's lots of scenarios you're talking about a really chaotic situation, which is incredibly difficult to model, but if they enter the winter with us there is a chronic shortage of molecules, as we anticipate they might and if in their efforts to rationalize those molecules in an efficient way, they bundle it and make things worse, which we, again, all evidence would indicate they will. There are scenarios in play which get very ugly very quickly.

David Greely (31m 51s):
Yeah. And speaking of, you know, how difficult this is to model and things that could get ugly very quickly now, as you said, much of the commodity supply, part of this is already been decided, or it's in Putin's hands you know, the number of molecules that'll be available in Europe this winter, and on the demand side, we have how politicians in the public are gonna respond to that shortage of molecules. So I was curious, you know, as analysts and followers of the market participants in the market, what are you following to keep on top of how this is playing out and determine are we heading to the best case, the worst case, and you know, which, which is the next leg.

Doomberg (32m 32s):
It's a great question. So I guess the best way to answer it is to tell you what our Bloomberg terminal launch pad fires up with every morning when we make it to the office, we look at the price of natural gas in US. We look at the price of natural gas in Europe and we look at the price of natural gas in Asia, often unspoken about in this crisis is the impact that elevated natural gas prices in Europe is having on Asia. LNG contract price, JKM is $55 per million BTU today compared to $60 and change in Europe and that, that spread is

interesting to us. So is Europe still paying more for the incremental carrier of LNG. We look at the coal price. So one of the charts that we make that we've not published yet, but we're gonna share it with our pro tier subscribers in a presentation later this month is we have developed a way to correct for the units of trade of all of these different energies, commodities so that you can just read across in a very simple way to see on a sort of dollar per million BTU basis is oil more expensive than coal as coal, more expensive than natural gas.

Doomberg (33m 36s):
And if so, where and one of the interesting phenomenon that we see right now when we eyeball that chart is the price of coal is actually higher than the price of oil, which is interesting because in theory, oil has far more utility. You can do many things with a barrel of oil with coal. You can basically just burn it to make steam, to make electricity and so that coal is more expensive than oil is a fascinating little nugget of insight into the global economy. We obviously look at the major currencies the Japanese Yen, the Euro Canadian Dollar, Australian Dollar and then obviously electricity prices in Europe as well, you know, year forward prices. We look at the shape of curves, for example, the natural gas curve or Dutch TTF is pricing extraordinarily elevated prices out till 2024 prices that just a year ago, would've been unthinkable, literally are now priced into the curve out two years, $40, $50 per million BTU, natural gas, no economy can survive that.

Doomberg (34m 36s):
And so what would we look for, we would look for increased flows. You can actually track the flows through Nord stream you know, Bloomberg is just a really powerful tool for the analyst and no matter what they charged us, we'd pay it. You know, don't tell them that, but you know, so again, those are the main ones. We look at the molecules, the price of molecules we look at the currencies and of course you always keep an eye on gold and Bitcoin sort of as reads for market mania or lack enough.

David Greely (35m 04s):
That's great. That's really helpful. It brought up a question to my mind is, you know, as we look with likely a lot more government action interference in markets in Europe and you had mentioned like looking at Dutch TTF prices natural gas prices in Europe, are you worried that those prices are gonna stop being representative of the underlying supply demand situation and more representative of the, the political risk and interference in markets?

Doomberg (35m 33s):
So there is a lot of thumbs on the scale right now and a lot of it is sort of whispered about, and you don't want to sound too conspiratorial because, okay, what other prices on your Bloomberg don't you believe we, of course, were accused of putting too much emphasis on the relative strength of the Russian Ruble because, you know, the constant refrain on Twitter was, oh, what can you do with a Ruble you know, it's only because he has capital controls in place and, and our counter to that, is there 4 billion people still transacting with Russia and the, what the number you see on the screen is real and what other prices don't you like and so while we do, you know, we just take the mortgage back securities market, of course, the fed interfered in that market, but it doesn't mean that when I went to the bank and got a mortgage, that I got a different price, because, well, this's just correct for what the fed is doing, prices, price, the numbers on the screen are real.

Doomberg (36m 17s):
And if the governments can intervene in the natural gas or oil markets and bring the price down more power to them and of course, this is what OPEC is designed to do in the other way, like OPEC literally exists to manipulate the price of oil. And so, yeah, of course prices are manipulated and governments interfere, but the price on the screen is the price somebody's paying and it's a clearing price somewhere and so we just tend to believe it's, to give into the temptation of only believing the prices that fit with your narrative means you won't capture the narrative shifts when they happen.

David Greely (36m 45s):
It's great advice and, you know, I wanted to kind of round out the conversation today with something I've heard you, you say in another place, you know, I've heard you say this winner is a, a critical juncture in that how this winter plays out will be what's, you know, sets the stage for how energy markets operate for years to come. That it's very difficult to start to project or forecast what energy markets are gonna look like in say 24 or 25, until we see, you know, how the winner of 2022/23 comes to pass. So you may have said that, I bet you said that more eloquently denied, but how are you thinking about the potential paths forward coming out of this winter and what it means for the future of energy over, you know, the next five, 10 years, the foreseeable future?

Doomberg (37m 32s):
So you are correct and we have characterized the winter of 2022/23 as the single greatest geopolitical event to resolve. In the next few months, I would confess that we are surprised by the speed at which resolution is being imposed by the markets here, markets of course are forward indicating and so, I guess in hindsight, we shouldn't have been so surprised. We view the resolution of this event in the same way that a physicist might view a singularity and I'm not sure if you're familiar with that concept, but in a singularity, the laws of physics breakdown, which means it is fruitless to try to predict what happens on the other side of that singularity, because it's literally unknowable. The big bang theory is predicated on such a singularity and famous physicists. Like to say that it doesn't matter what happened before the big bang, because it was a singularity and we think there's an economic singularity on the horizon.

Doomberg (38m 24s):
And the range of potential outcomes are so chaotic that it is basically fruitless to try to model it. We spend most of our time reading real time data to see where things are going in the near term, because like the weather, yes, you can predict 3, 4, 5 days ahead, week ahead is a bit sketchy. And after two weeks, I just forget about it. We think we're in the same type of scenario right now with Europe, you could imagine things like, you know, an overthrow of the German government, as crazy as that might sound. You could imagine things as crazy as mass starvation in, in Western countries because of a cold snap, like pray for a warm winter, right and if your strategy is to pray, you've lost no offense to the, to the religious amongst your listeners, but, you know, so it it's truly a singularity.

Doomberg (39m 07s):
I don't know that you can look past this December, let's say and speak with any kind of authority about what's gonna, what things are gonna look like in the spring or next winter or two years after that. Other than to say, perhaps, well, you can't even say that, like I was going to say, perhaps that we will learn our lesson and reacquaint ourselves with physics over platitudes, but it's not clear to me that in fact whoever replaces this crop of leaders would be any better. So it, it literally, I don't think, and not trying to sound like a cop out, I don't think you could, you could see through a singularity with any intelligence. And so it's best to just admit that you can't and observe the short term with a keen interest.

David Greely (39m 43s):
Thanks again to Doomberg. The team behind one of the most widely read finance newsletters on Substack. We hope you enjoyed the episode. Please join us next week when our guests will be Mark Lewis, Head of Climate Research Andurand Capital Management. We'll be having Mark back to discuss how the European energy crisis is affecting the European carbon markets.

Announcer (40m 02s):
This episode was brought to you in part by Abaxx Exchange. Market participants need the confidence and ability to secure funding for resource development, production processing, refining, and transportation of commodities across the globe with markets for LNG battery metals and emissions offsets at the core of the transition to sustainability. Abaxx Exchange is building solutions to manage risk in these rapidly changing global markets, facilitating futures and adoptions contracts designed to offer market participants, clear price signals and hedging capabilities in those markets essential to our sustainable energy transition. Abaxx Exchange, bringing you better benchmarks, better technology, and better tools for risk management. That concludes this week's episode of Smarter Markets by Abaxx. For episode transcripts and additional episode information, including research editorial and video content, please visit smartermarkets.media. Please help more people discover the podcast by leaving a review on apple podcast, Spotify, YouTube, or your favorite podcast platform. Smarter Markets is presented for informational and entertainment purposes only. The information presented on Smarter Markets should not be construed as investment advice. Always consult a licensed investment professional before making investment decisions. The views and opinions expressed on Smarter Markets are those of the participants and do not necessarily reflect those of the show's hosts or producer. Smarter Markets, it's hosts guests, employees, and producer Abaxx Technologies shall not be held liable for losses resulting from investment decisions based on informational viewpoints presented on Smarter Markets. Thank you for listening, and please join us again next week.