

December 30, 2022

A Look Back / A Look Forward

Much of the social history of the Western world, over the past three decades, has been a history of replacing what worked with what sounded good.

- Thomas Sowell

One of the saddest lessons of history is this: If we've been bamboozled long enough, we tend to reject any evidence of the bamboozle. We're no longer interested in finding out the truth. The bamboozle has captured us. It's simply too painful to acknowledge, even to ourselves, that we've been taken. Once you give a charlatan power over you, you almost never get it back. - Carl Sagan

Passionate hatred can give meaning and purpose to an empty life. - Eric Hoffer

The people in Washington will tell you inflation is produced by greedy businessmen or it's produced by grasping trade unions or it's produced by spendthrift consumers or maybe it's those terrible Arab sheiks...only money has that printing press and, therefore, only Washington can produce inflation, - Milton Friedman

The most important macro event for 2023 is the reopening of China - Louis-Vincent Gave

We have an epidemic of childhood respiratory illnesses and a horrific shortage of baby formula, children's medicine and antibiotics. It's insane this isn't leading every MSM news channel morning, noon and night. It's insane the WH gets a pass on this. ... Both the left and the right are so busy fighting The Culture Wars that we can't be bothered to have a government that ensures there's enough food for babies and medicine for sick kids. - Ben Hunt



Markets

(Graphs updated)

Let's Think About Bitcoin

Here's the state of play, which we have discussed previously:

- **Bitcoin has an incredibly potentially-bullish chart**
- **Bitcoin's price is near a level that will invalidate near-term bullishness**
- **The regulators are going to come down hard on crypto**
- **Tether is looking shaky.**

Now we have another wrinkle.

You may know that bitcoin "mining" is necessary to the integrity and progression of the blockchain. If miners do the work of caretaking for the blockchain(s), which requires extensive computational tasks, they are rewarded with a brand-new bitcoin.

The process is very energy intensive because of the caretaking tasks and because the number of bitcoins is limited. This limitation means that as you get closer and closer to the maximum, it takes longer and longer to mine a bitcoin, making mining more and more expensive.

Ok, here's the rub. The price of bitcoin is now somewhere around the cost for the miners to mine. Miners are making less and less money on each new bitcoin and, depending on their particular cost of electricity, some are losing money. Bitcoin mining rigs are available on the market at a substantial discount.

When there is no mining or not enough mining, the blockchain(s) will not be maintained. It is not clear to me what happens then, but some people are discussing collapse.

We are now way over my pay grade - this leads me to wonder what happens to mining when all of the bitcoins are created - but keep this in mind if the price of bitcoin declines much from here.

Deflation and Inflation

A Look Forward and A Look Back

Powell has a problem: how do you wrestle inflation Balrog to the ground while the Federal government is passing \$1.7 trillion spending bills. J-Po has no allegiance to and is getting no help. This could be a brawl. - Dave Collum

In the end game, things are going to wobble quite a bit before the wheels actually come off. We are heading for a cliff and those with their hands on the controls are trying mightily to avoid a crash, while, at the same time, keeping the pedal to the metal. It will be a wild ride. No one wants the crash, but no one wants the pain required to avoid the crash.

And there we are.

Will there be deflation or inflation?

Yes.

The dirty little secret that almost no one is talking about is that it takes some 12-18 months for monetary policy to begin to affect the real economy. Rate hikes started last March, therefore ... therefore, it is about to get ugly.

My thoughts have been that inflation would increase and then decrease - so far so good.

My thoughts have been that we will have at least a recession, which will create deflationary pressures. Given the dynamics of the situation, deflation has the potential to turn particularly nasty.

My thoughts have been that the Fed needs for inflation to exceed interest rates in order to decrease the real amount of the obscene levels of debt outstanding. The only problem is that there are few examples of this approach actually being successful in the real world without an economic implosion. One, maybe the only, example was the US after World War II.

My thoughts have been that ultimately we will get nasty levels of inflation as the Fed has to pivot to prevent the economy from totally collapsing.

I see nothing to change my mind.

But, let's drill down a little further, where we see serious cross-winds.

All the free money handed out by Trump and Biden has been very inflationary - much of that money is still sloshing around the system and enabled stupidity like FTX.

Demographics are deflationary - older people don't spend as much ... and inflationary - fewer workers mean higher wages and a great deal of expertise is being lost.

Debt is deflationary as it burdens the future

... and inflationary as central banks attempt to inflate away the debt

China's reopening is inflationary as three years of pent-up demand are unleashed

Central banks raising interest rates is deflationary to the extent that they result in demand destruction

... and inflationary in that increased interest rates contribute to increased costs for everybody.

Base effects will kick in, probably in the second quarter of 2023, where increases over base will decline.

The cost of energy is the wild card. Common sense indicates that it should skyrocket. My charts indicate that, at least in the short - medium term, prices will decline. But, what do I know? And, at the end of "my" decline, prices skyrocket.

Lots of volatility in our futures. The word, whipsaw, comes to mind. Multiple whipsaws.

The biggest news, which is inflationary and will have profound effects on all facets of the economy and "normal" life, is the underinvestment in energy.

I have beaten that horse enough in these pages, but environmentalists' and the Biden administration's determination to kill the fossil fuel industry without having first figured out a transition plan to green energy, is at best criminal and at worst a tragedy of Greek proportions. I have no words adequate to express how bad an idea this is. Now that we have made a fundamental error, it can take more than a decade to fix it, even if we start now, and even if we embrace nuclear energy, which we will not do. That, perhaps-decade-long energy hole is looming ahead of us and we will all pay a significant price as the tragedy unfolds over the next few years.

Energy shortages will be inflationary in that prices will increase; and deflationary in that demand destruction will result.

The Fed cannot print oil and natural gas. Pivots will be all but irrelevant in the energy space.

If you do not have the energy, you cannot make things, transport things or heat things.

Life will significantly change.

The combination of globalization, fine-tuned supply changes and extreme consumerism created a huge mountain of efficiently-produced, cheap goods. We reached peak efficient consumption.

Now that the cheap labor in China is gone, we are reshoring or friend-shoring, and as a result, there are and will be increasing costs and decreasing efficiency. Prices will go up as a result.

As a result of increasing prices and increased trade friction, food issues will continue to arise. We were also at peak efficient food production.

This is all part of my larger theme of Coming Apart.

Then, there is the second profound issue of our time: debt and deficits - all around, but I will focus on the US.

Our economy MUST rationalize, one way or the other. We have used all kinds of strange and unnatural acts to keep the con alive, but all available tactics have been used (I think - maybe they have one last card up their sleeve). All we did in the process was to make matters worse. What rational person can look at debt-to-GDP over 100% and multitrillion dollar deficits, year after year and not at least see that there is a problem? Well, other than our elected leaders.

We have lived beyond our means and now the piper must be paid. S/he must be paid through some combination of economic collapse and currency collapse. Either way, your life will become more difficult.

That rationalization has started and will take several years until its completion.

So, inflation, deflation, energy shortages, food shortages and economic crises. That is our future for the next decade or so.

It was one hell of a party.

What's on the other side?

Don't know.

There is a renewal, a First Turning, that will begin another cycle.

What is not clear is from what level it will start.

Nor what its organizing principles will be.

We have discredited ourselves and capitalism and consumerism and globalization. There will be something else, but I have seen no flickering of what it might be.

But, as ideas come to mind, we will discuss them in this space.

You and I have lived wonderful lives at the pinnacle of human material existence.

You can and should be thankful for that.

I know I am.

It was the wrong thing to do, but it was a lot of fun. Life seems to work like that.

Probably The Most Important Explanation Of A Paper You Will Read

Arcane, so you have to be motivated to get through it and understand it, but do it, if you can. ZeroHedge explains Pozar [here](#). Lots of assumptions that need to be addressed, but also very interesting conclusions.

Related news item:

THE MAXIMUM POSSIBLE SHARE OF CHINESE YUAN IN RUSSIA'S NATIONAL WEALTH FUND HAD BEEN DOUBLED TO 60% THE MINISTRY SAID THE PERMITTED SHARE OF GOLD IN THE NATIONAL WEALTH FUND WOULD ALSO BE DOUBLED TO 40%

The Ten Commandments

Following on to my thoughts on Christianity last week, I decided to see how the Ten Commandments were holding up.

In the Judeo-Christian tradition, Moses received Yahweh's Ten Commandments directly from the god, himself - twice, no less. Jesus summarized his preaching as the "law and the prophets," referring to the Tanach / Old Testament, including the Ten Commandments, loving thy neighbor as thyself and the Golden Rule, together with belief in him.

Here they are, in a summary of one of the two versions in the *Bible*:

- 1. You shall have no other gods before Me.**
- 2. You shall make no idols.**
- 3. You shall not take the name of the Lord your God in vain.**
- 4. Keep the Sabbath day holy.**
- 5. Honor your father and your mother.**
- 6. You shall not murder.**
- 7. You shall not commit adultery.**
- 8. You shall not steal.**
- 9. You shall not bear false witness against your neighbor.**
- 10. You shall not covet.**

Looks like only number 6, and to some extent, number 8, survive.

Otherwise, we not only have fallen short, we are not even trying.

One of my themes when I write on religion is that Yahweh and Jesus are basically irrelevant to Christianity. We choose the bits we like, and feel good about ourselves. The important bits are basically ignored. It is the cartoon that persists.

War, Energy and Food

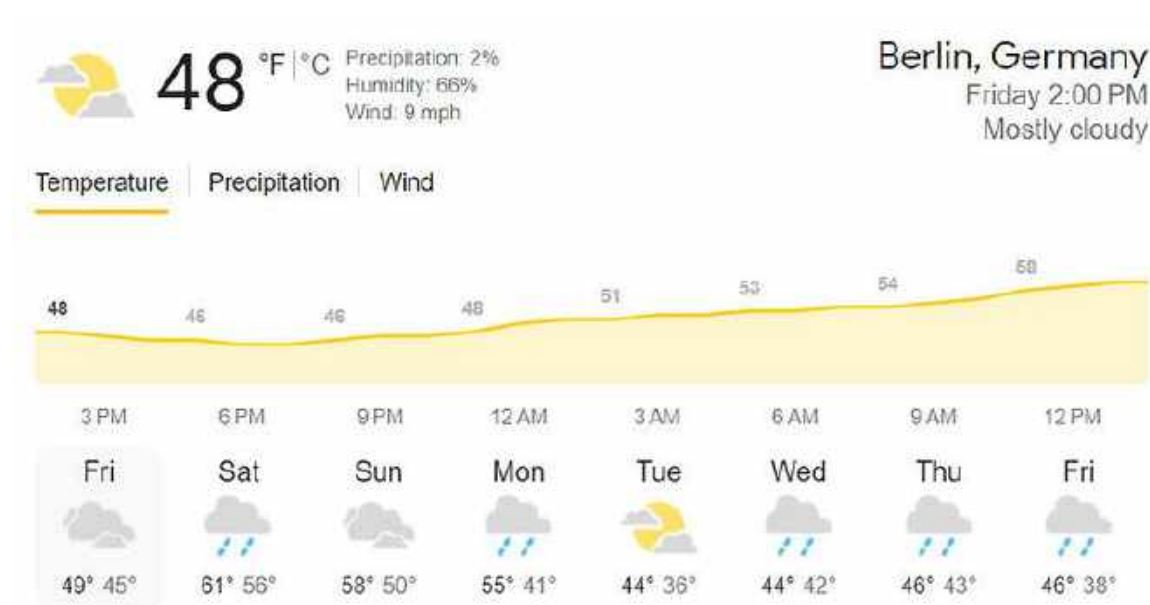
Xi Tells Russia's Medvedev That China Wants Talks on Ukraine just as Zelensky goes to Washington. This is the Xi-Biden deal. China & US pushing Ukraine and Russia to the negotiating table. - Pippa Malmgren
China has added almost 580K MW to its coal fleet since 2010, while the U.S. retired approximately 100K MW...China added almost 6 times more new coal generating capacity during 2010-2022 than the U.S. retired over the same period.

The 2023 Chevy Bolt EV retails at \$26,595. After an estimated 70,000 miles, the replacement battery is projected to cost \$29,842 based on today's price.

Putin says he is ready to negotiate. The primary sticking point will be the Crimea and areas in Eastern Ukraine. Russia and Ukraine both want to keep them. The US is putting pressure on Ukraine and China is putting pressure on Russia to come to the table. Ukraine is also insisting on a war crimes tribunal for the Russians.

In an effort to undermine the West's price cap on Russian oil exports, Russian President Vladimir Putin signed a decree on Tuesday banning the sale of oil or petroleum products under contracts that "directly or indirectly provide for the use of the price cap mechanism." Putin can, however, create exceptions and "grant special permission" to allow certain sales if he so chooses. The price cap—imposed earlier this month—has not yet been tested, with Russia's main crude blend selling at prices below \$60 a barrel.

A mild winter is coming to Europe's rescue.



Tidbits

Who knew? Netflix still has a DVD-by-mail service.

George Jetson was born on 7/31/22.

I had not considered that California, a leader in the reparations movement, was not a slave state.

New York City Mayor Eric Adams in response to criticism of use of facial recognition technology, "No, Big Brother is protecting you."

If we thought bitcoin used a lot of energy, anyone wanna ballpark AI going forward? - Kelly Evans

A metaphor - Santos, elected in November to represent New York's 3rd Congressional District, on Long Island, came under scrutiny last week when *The New York Times* published an investigation calling out inconsistencies in his background. On Monday, the congressman-elect told the *New York Post* that he had indeed lied about several of his credentials, admitting to having never worked "directly" for Goldman Sachs and Citigroup and not graduating from Baruch College, nor "from any institution of higher learning."

Santos in the lead-up to the midterm elections had also fabricated elements of his family's history, including that his mother was Jewish and that his maternal grandparents escaped the Holocaust during World War II. After referring to himself publicly as "half Jewish" and a "Latino Jew" during his campaign, Santos conceded to the *New York Post* on Monday that he is "clearly Catholic."

There is this new Russian advent calendar. Every time you open a window an oligarch falls out.

The CDC announced on Wednesday that the US will require travelers from China, Hong Kong, and Macau to record negative COVID tests before entering the country starting on Jan. 5. - I remember a time when this was labeled xenophobia. (I don't really care much, and hypocrisy is ingrained in much of our politics, so it is expected, but every now and again, I just feel better by bringing it up.)

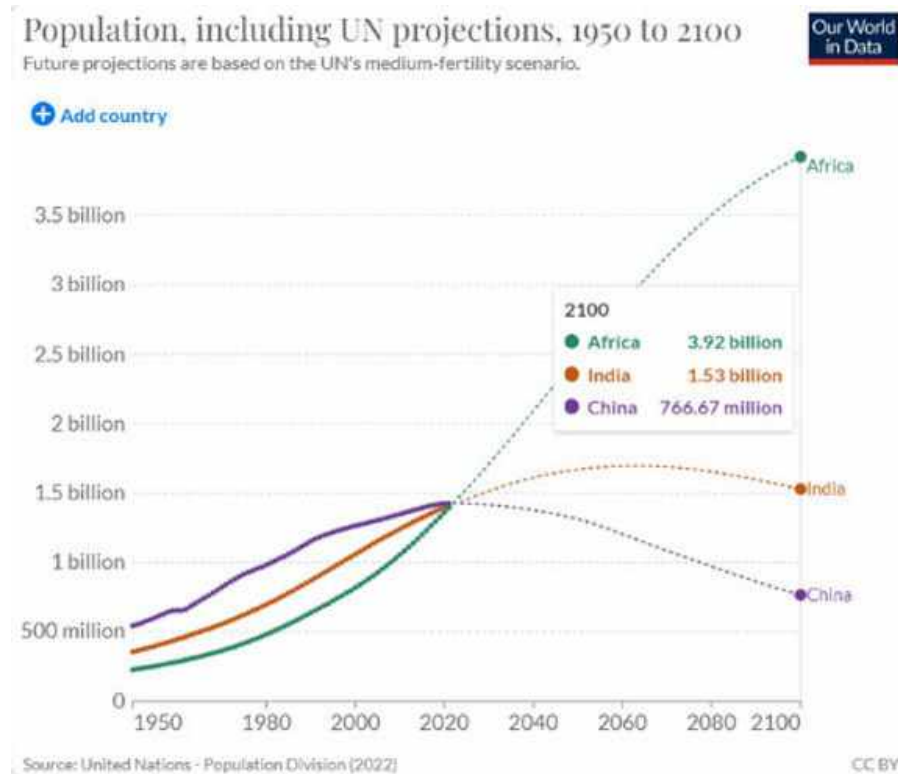


Photo: Ng Han Guan/AP

In Beijing, a police autonomous robot patrols a mall

Murders in large U.S. cities are down more than 5 percent so far in 2022 compared to the same time last year, according to the research firm AH Datalytics. Gun deaths, injuries and mass shootings are also down this year.

Very important graph - think about it



Ecoterrorism

One result of the-world-is-coming-to-an-end rhetoric around global warming has been the destructive energy transition policies I have been discussing. Another is significant anxiety of young people, who really are afraid the world is coming to an end. Another is that a group, primarily made up of young people, has decided that taking any action is justified to prevent the end of the world.

Therefore, we should anticipate an increase in ecoterrorism, such as the recent instances of the damaging of electrical grid components.

This is all so stupid and useless, but we reap what we sow.

Our Governance Has Broken Down

The Supreme Court is keeping Title 42 in place - for a while. We have a very, very, very big border problem that almost everyone is ignoring. Politics has polarized any reasonable discussion. This will all end badly. I think Title 42 is the least-bad, expedient band-aid for a festering cancer. But I agree with Neil

Gorsuch. From his dissent: "Courts should not be in the business of perpetuating administrative edicts designed for one emergency only because elected officials have failed to address a different emergency. We are a court of law, not policymakers of last resort." The complete abdication by Congress on essentially all issues is putting the Supreme Court, and the country as a whole, in this position. Congress' unwillingness to govern may be the biggest crisis we are facing. I need to think about whether it is bigger than the energy crisis.

Biden is hiding behind the Supreme Court and virtue signaling. He is going to have a gargantuan problem when Title 42 goes down. Which is probably a good thing - perhaps reasonable discussions and actions will take place. (I actually wrote that last sentence? What I meant was, the odds of reasonable discussion might increase from somewhere around zero to 10-20%, tops. More likely is that the border states, particularly Texas, take matters into their own hands.)

Paul Simon On The Best Song Writers

I would add Leonard Cohen to the second tier, and maybe put Simon in the first tier.

"I'd put Gershwin, Berlin and Hank Williams. I'd probably put Paul McCartney in there too. Then I'd have Richard Rodgers and Lorenz Hart. Then, in the second tier, Lennon is there, Dylan is there, Bob Marley and Stephen Sondheim are there, and maybe I'm there, too."

Plus Ca Change

4,000 years later & we're back to the same language



I Apologize On Several Levels, But This Is Just Too Good

For the record I made women from men before it was cool. -
God @TheTweetOfGod