

The Return of Spindletop

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The massive creation of liquidity by the Federal Reserve beginning in 1995 has created one asset bubble after the other. Presently it resides primarily in housing and oil prices. We and others have commented extensively about the housing bubble, but few if any have visited the worldwide oil bubble. The thinking here is that it is a pure out and out supply demand problem that has very little to do with excess liquidity in the monetary system. We believe otherwise.

In an article reported in the *Financial Times* the following came to light, which we ask you – does this have the symptoms of a true bubble of high proportions?

1.	Saudi Arabia's major stock index	+55% y-t-d
2.	United Arab Emirates major stock index	+97% y-t-d
3.	Kuwait major stock index	+35% y-t-d
4.	Qata major stock index	+56% y-t-d
5.	Oman major stock index	+61% y-t-d

An I.P.O. Aabar Petroleum Investments came public recently wishing to obtain \$135 Million. It was 800% oversubscribed, the final demand being \$110 Billion. This makes the tech boom of the late 1990's look like a piker. Here is a quote from a managing director of a large investment firm in the gulf area, "Liquidity is at an all time high in the region and we only have two asset classes to put money in: equities and real estate."

The final result of such excess liquidity is a plain old-fashioned force-feeding bubble which will eventually result in a crash of unknown magnitude. Particularly will this be the case if in fact there is no more oil to be found as most oil bulls claim. We believe much oil will be found. Isn't it ironic that the Gulf States are booming for the first time in 25 years on the one hand, while on the other their schools are teaching people to destroy their customers?

We strongly urge all who will listen, to watch the money supply numbers. Its rate of growth is slowing rapidly and if it continues to do so a liquidity trap is probable, Bubbles will turn into troubles.