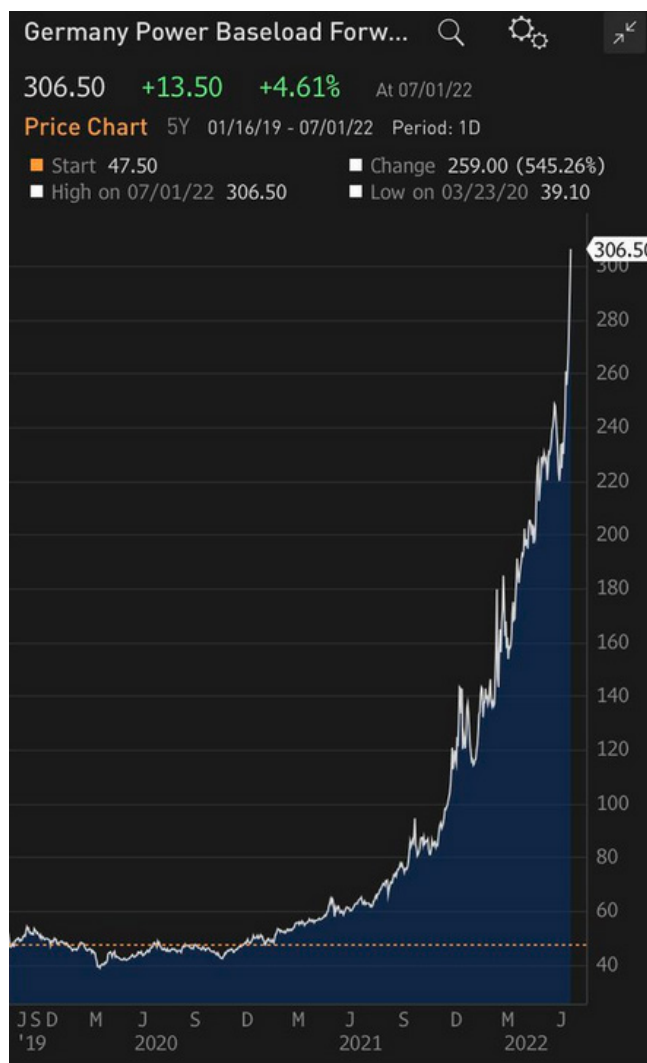


July 6, 2022

Expensive Juice

This chart shows wholesale electricity prices in Germany since 2019. Notice how the price jumped sharply well before Russia attacked Ukraine and the West imposed sanctions (February 2022). But notice also, the electricity price more than doubled again since then.

Now, because these are wholesale prices, German consumers may not feel the full effect. The government may offer subsidies or take other measures. But the problem could also get much worse this winter if Russia further reduces natural gas flows.

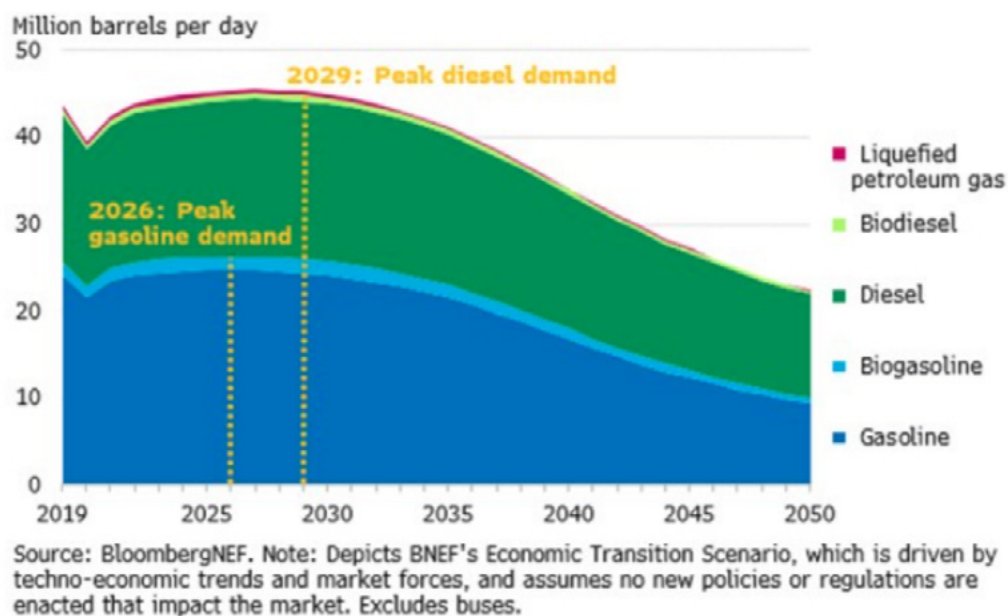


Source: [Andreas Steno Larsen](#)

Demand Peak

Here in the US, we feel the energy pain mostly in vehicle fuel prices. Refinery capacity is proving to be a big constraint. Having adequate crude oil supplies isn't much help if we can't turn them into usable fuels. What's the problem?

While bureaucracy and environmental regulations make new refinery construction difficult, the companies also have financial constraints. Construction costs must be amortized over the facility's lifespan, which requires assumptions about future demand. Some scenarios show it may peak fairly soon—2026 for gasoline, 2029 for diesel in this Bloomberg study.



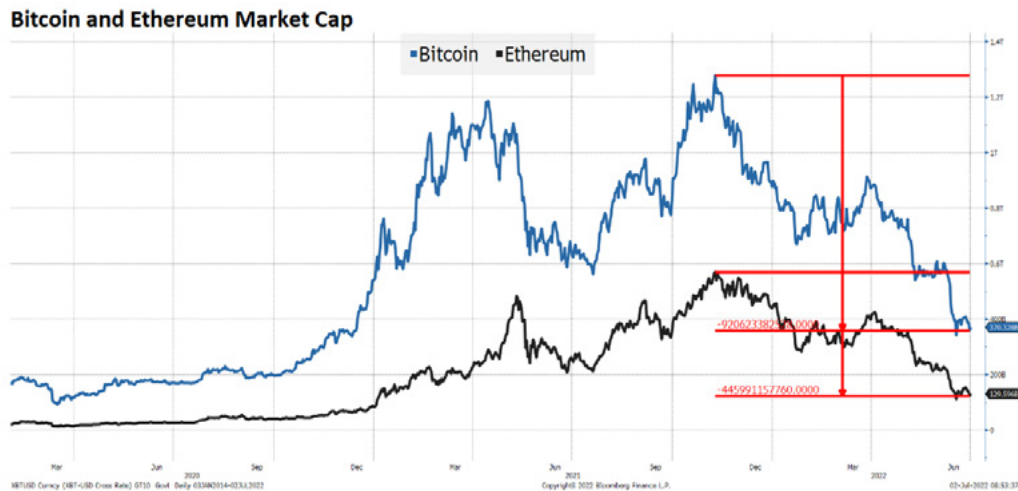
Source: [Joe Wiesenthal](#)

That's not to say fuel demand will drop to zero. The question is whether, 10-20 years in the future, it will be high enough to repay giant investments in building new refineries now. Refiners seem to think the answer is "no," or are at least highly uncertain.

That being the case, US refining capacity seems unlikely to grow much, and retail fuel prices will stay high until demand drops enough to restore balance.

Disappearing Crypto

Cryptocurrency prices are having a rough stretch. This chart shows the total market cap of two top assets, Bitcoin and Ethereum. Their combined value is down about \$1.3 trillion since last fall. And this doesn't include the many smaller "alt coins," tokenized artwork, etc.



Source: [Academy Securities](#)

This is obviously bad for those investors, but it may affect the broader economy, too. The crypto boom attracted many small investors and, in some cases, quickly rewarded them with substantial unrealized gains. The “wealth effect” was no doubt substantial, and probably explains some of the last year’s strong consumer spending.

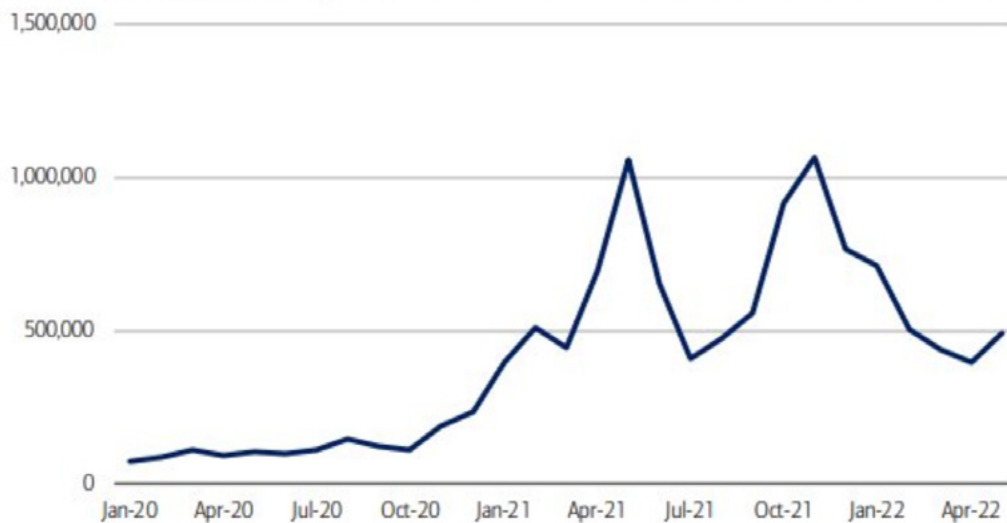
Wealth effects go both ways. Those same investors may now reduce their spending and/or liquidate the cars, houses, and other things they bought on the assumption their wealth would last forever. The same will happen to stock investors, but we aren’t there just yet.

Losing Interest

As crypto asset values fall, some investors are deciding not to play anymore. This chart shows the number of active crypto users at Bank of America. It was over a million last fall and has since fallen by half.

On the other hand, this number had a similar drop in spring 2021, from which it recovered within months. So crypto interest seems to be quite volatile. Maybe the low prices will attract bargain hunters.

Exhibit 2: Bank of America active crypto users



Source: Bank of America Internal Data

Source: [Liz Ann Sonders](#)

Thanks for reading **CLIPS THAT MATTER**. We hope you enjoyed it. We welcome feedback and suggestions at oms@mauldineconomics.com.

Best regards,

John & Patrick

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