



Basis Points – June 23, 2022

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Above the Fold

What's the Real Reason for \$5-a-Gallon Gas?

Gas prices have been at record highs all month, and continue to rise. Each day, it seems prices notch slightly higher (even though prices are slightly down from the peak). The strain on global oil and gas prices has many contributing factors, such as the world working to replace the absence of Russian petroleum products since their invasion of Ukraine. Here in the U.S. though, where supply is needed, exports are near *record highs*. This is because the big oil companies are seeking higher-paying markets abroad rather than replenishing domestic reserves. March, April and May averaged 32% higher seaborne shipments than the same three months the year before, and 19% higher than the same span in 2019. U.S. companies still haven't recovered from the output cuts that took place during the pandemic. As exports continue to rise, however, this is prompting

domestic companies to deplete fuel reserves even further. The same pressures affecting oil and gasoline are also putting upward pressure on natural gas prices as well. Exports of natural gas reached a record high in March, reaching 22% of U.S. gas production, according to data from the Energy Information Administration. Domestic prices reached \$9.32 per million British thermal units. This is the highest level seen since 2008 and has largely been driven by Europe's pursuit of supply.

Due to the fracking boom, the export habits of U.S. companies normally don't have much of an effect on domestic prices. But due to the depleted reserves of oil and petroleum, and some White House policies, exports are raising fuel prices in the U.S. and making it more costly to keep the lights on in American homes as well, according to analysts. Western countries are turning to the U.S. as Russian and Chinese exports continue to fall off, and U.S. companies are jumping at the higher-paying opportunities. But, following the explosion at the Freeport LNG export facility on June 8, some companies are cutting back on natural gas exports and selling it domestically instead. This has actually lowered the benchmark natural gas prices 17% on Tuesday, putting them at \$7.19 per million British thermal units. President Biden wrote to leading fuel companies asking them to do everything they can to increase their capacities to pre-pandemic levels to help curb pricing. Some politicians are also calling for fewer exports, while others call for more exports to replace Russian supply loss.

Three Things

Home Sales Slide, but Prices Still Rising

May saw home sales shoot to more than \$400,000 for the first time as sales continue to slow due to the mortgage rate hikes rippling through the U.S. markets. The Federal Reserve is working to combat inflation with interest rate hikes, causing potential first-time homebuyers to hold on to their money in hopes of better rates in the future. The median existing-home prices rose 14.8% in May to \$407,600, a record high in data going back to 1999. The rising rates have real estate analysts predicting home sales to continue slowing through the rest of the year.

Kellogg Goes for a Trifecta

Kellogg is planning to split its company into three by the end of 2023 to jump-start its snacking business while allowing for more focus on its namesake cereal brand. "Bigness for bigness' sake doesn't make a lot of strategic sense," said Kellogg's Chief Executive Steve Cahillane. Cahillane

will head the newer snacking business set to be formed, which currently accounts for roughly 80% of Kellogg's net sales.

(Another) Cloudflare Outage Takes Down a Slew of Internet-Based Companies

Cloudflare went down for roughly an hour and a half on Tuesday morning, affecting sites like Fitbit, Discord and Shopify. The company has yet to release what they believe the issue was, only that the outage did not spread worldwide. DownDetector, a crowdsourced web monitoring tool that tracks outages, reported that many popular services were cut off during the outage from 2:30 a.m. EST to 4:06 a.m. EST. Peloton, League of Legends, Coinbase, DoorDash, Omegle and NordVPN were among some of the more notable services cut off during the outage.

In the Know

A Few Interesting Facts About Natural Gas...

Natural gas has been trapped under Earth's surface for millions of years, seeping through the cracks and igniting on the surface when lightning strikes found the right spots. This was long considered a mystery until the Chinese found ways to transport the gas through bamboo pipes in 500 BC. In 1626, French explorers found natural gas being ignited by Native Americans around Lake Erie. But it wasn't until 1785 that natural gas would be commercialized by the British to fuel streetlights and lighthouses.

In 1821, William Hart established the Fredonia Gas Light Company in Fredonia, New York, and marked the first focused plan to dig for natural gas on American soil. After WWII, the country began focusing time and resources on the natural gas industry, building thousands of miles of natural gas pipelines by the 1960s. Today, the industry is still booming, with the U.S. being the fifth ranked source of natural gas in the world.

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