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Today's Notes:

1. Its Official, The Commodity Bubble is Over
2. Bernanke's Spring : It will come again

1. ITS OFFICIAL ….

I just returned from Dallas where they are drilling shale gas directly under DFW airport. I met with two world class oil and gas geologists while there and came away with an informed view of the shale gas plays in Texas and the West.

Isn't it interesting that Texas will drill for natural resources while a congressman from Arizona wants to stop uranium exploration in his state and others in Colorado oppose natural gas drilling there? Yesterday I learned that Russia has decided to ban all foreign ownership of resource exploration and development. Resource nationalism is beginning to ramp up, indeed. One must hope that our leadership will realize this developing trend and seize the day. I note, this AM, that oil has once again fallen from its lofty perch. It is trading between $133 and $134 per barrel. Cheaper oil is a positive for the commodity cycle in the long term; but more importantly an oil price that is stabilized will be a very big boost for this economy and for those countries and developing economies now suffering under the stratospheric oil prices. Numerous commentators have suggested, once again, that the commodity cycle has now peaked. I am not so sure about this. Irrespective of your view of commodity prices in the short run, the Discovery cycle roles on.

Yesterday Cleveland Cliffs, a stock I recommended 2 years ago at $54.00, bought the "met" and thermal coal assets of Alpha Natural Resources for $10 billion. This deal was necessary to provide Cliffs with an energy source. Cleveland Cliffs is widely considered a takeover target. The company now has excellent leverage on iron ore and coal. The new company will be named Cliffs Natural Resources. It will boast 1 billion tons of iron ore and 1 billion tons of met and thermal coal resources. The company will have significant free cash flow. It plans to diversify into other minerals according to Bloomberg this AM. One wonders if Cliffs might take a run at Polymet. Stay tuned.

Earlier this week we saw Barrack Gold pay $345 million to buy its energy supply (a quarter of its oil and a significant percentage of its gas needs) in Cadence Energy (13.8 years of reserves). Cadence produces about 3,600 BOE per day. Royal Dutch Shell continued to buy non-conventional upstream assets with a $5.9 billion purchase of Canadian tight gas producer Durnevay Oil. There is a very clear trend developing here:

1) Producers are seeking to secure energy supplies – just as countries are seeking to control their natural resources.

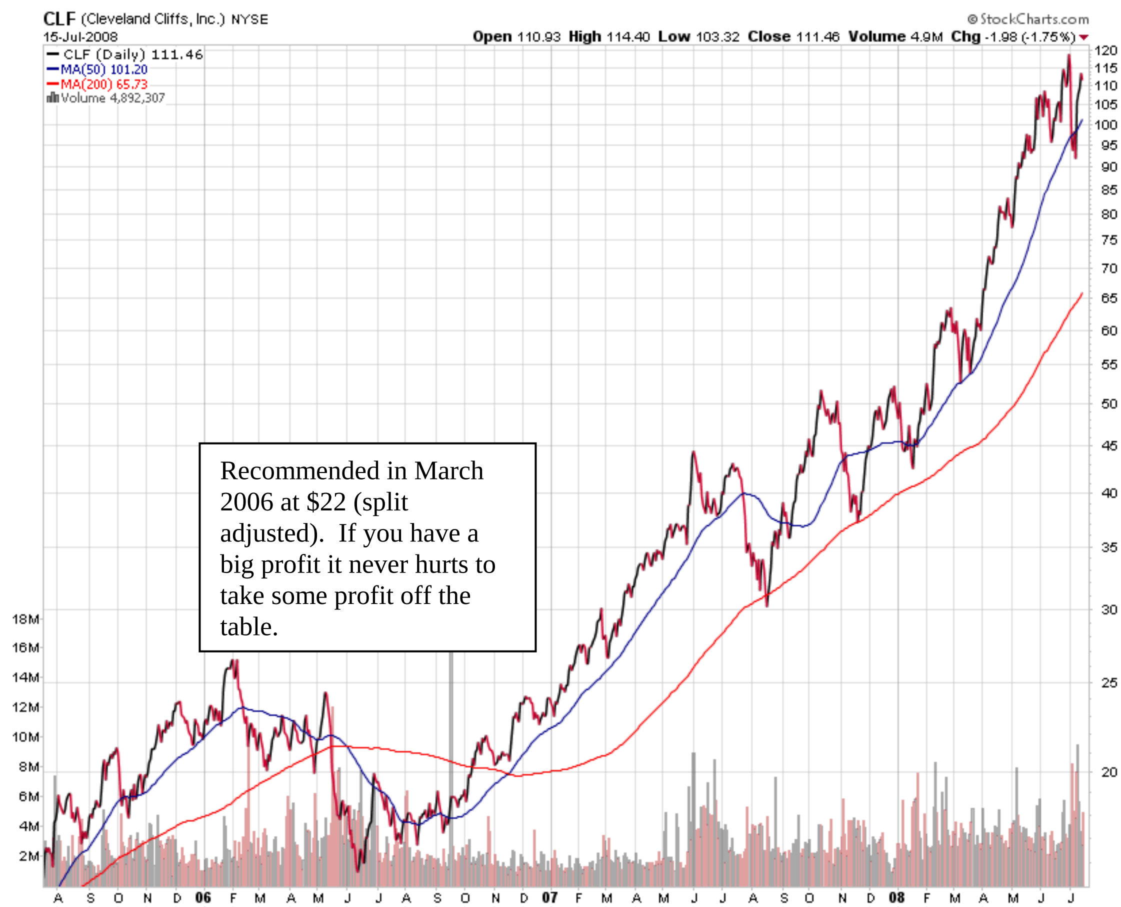
2) Companies like Shell are migrating to safer jurisdictions. Shell halted, at least temporarily, Nigerian production and bought Canadian assets. This has long been one of the central theses of the Discovery Investing discipline.

3) We think the commodity cycle is intact and that the energy cycle still strong though we would prefer to see oil lower at $80 to $100. If growth worldwide slows perceptibly we may be wrong about commodities. Slower growth is the bet that Bernanke has placed. If so the $ will fall and deflation will take care of commodities.

4) Energy companies are moving to non-conventional sources. This debunks, in part, the hypothesis that Congress holds that current energy leases should be drilled before opening the deep offshore targets of the gulf.

Perhaps the Bloomberg commentators are correct that commodity prices have peaked; maybe. But it is possible that the company's that are now scrambling to expand their energy exposure in gas, coal and oil see the real picture – which is one of restrained supply and expanding energy demand worldwide.

Why have the airlines not followed the same policy? If an airline were to buy Derek Oil and Gas or MegaWest Energy could it not hedge some or all of its exposure to oil? Our corporate and Congressional leaders proceed with hope that oil will fall back to $40 per barrel and this entire, convoluted energy nightmare will vanish.   That seems unlikely under the current supply / demand situation. Texas is proceeding with natural gas discovery for the US. God bless them for that.



Finally, I note this AM that TransCanada Corp. is planning a $7 billion phase 2 expansion (2012) of its Keystone pipeline project 4 months into the construction of its first phase. Phase 2 will have a capacity of 500,000 barrels of oil per day to the US and gulf coast refiners. Producers in Alberta have agreed to ship an additional 300,000 BPD for 18 years. This alone represents 2.3% of US daily imports. The pipeline will connect to Cushing and then on to refinery row in Texas. ConocoPhillips is a 50% partner in this project. By 2012 the pipeline will move 1.5 million barrels of Alberta crude per day to the US. 1.5 million BPD represents more than 10% of current level of US imports. The **picture is becoming very clear.** Secure sources of energy are far more important to the US than other considerations. Iran, Venezuela, Mexico and Nigeria are not "secure providers" for various reasons. This expansion highlights the importance of the Canadian oil sands (even though US mayors may veto oil sands production). This ties Canada and the US more closely together.

2. BERNANKE'S SPRING …

I do not envy the position of Dr. Bernanke. However, he may be on target. I have long maintained that he cannot raise interest rates and that, in fact, he will end up lowering rates. An evident fact is that despite all the Fed's gimmicks, including significant interest rate maneuvering, the US economy seems to be stalling. There is little talk of interest rate increases anywhere. Even the EU's Mr. Trichet's recent 25 basis point gambit looks silly in hindsight. Now, just at the time when we should be seeing growth, it appears we are descending into the netherworld. Just at the time when an economic spring should be on us, the GLOBAL banking system is under assault and credit is extremely difficult. GM and GE are both reeling and trying to sell assets and delay the inevitable. No dear D.I. we have a tough road ahead for at least another year. It will be extremely important for the BRIC's and the BRAC's (Brazil, Russia, Australia and Canada – the commodity countries) to carry the load for a while.

Spring will come again but the landscape will be materially changed. Banks that exist today will no longer exist in the new world. The increased need for energy, metals, food and water will still be critical. Discovery of these resources and the technology to produce them will be crucial if we are to welcome another billion humans to a better lifestyle. My advice now, as it has been for the past two years, is to clear your debt as much as possible, raise cash where you think it makes sense, keep 6 months of folding money handy and make sure you have gold and silver in your possession. You've heard this before I am sure. It may be costly. But I always ask people who challenge me on this strategy if they own insurance on their lives, cars or health. For the most part the answer is an unequivocal, yes. Why then would you not buy some insurance on the unlikely potential for a Black Swan systemic financial system failure? Of course you should consider this.

Yesterday we saw a violent rally in the financial sector. Well Fargo's earnings cannot be the entire result. There is still much "hair" on the US banking system. The housing bubble must become quiescent before we can get a handle on the true health of US banks. J P Morgan reported earnings lower by 54% this AM and the stock has soared in the pre market. It was simply a better than expected loss. That gives me little comfort.

But yesterday's rally was also fueled by the short covering of many of these stocks. It is about time that naked shorting was brought to a conclusion. One must wonder what role such rumor mongering and shorting played in the demise of Bear Stearns and IndyMac.

Perhaps this past Tuesday was a day of capitulation. I hope so. The uncertain spring will come again dear D.I. Please be very patient and do not jump at the financials – just yet.

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