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Fuller Treacy Money - Saudi Will Only Cut Oil Output if Others Do, EA's Sen Says

Video commentary for April 2nd 2020

Eoin Treacy's view

A link to today;s video commentary is posted in the Subscriber's Area.

Some of the topics discussed include: oil rebounds and gold firms, stocks stead but big difference emerging between investment grade and non investment grade bonds and equities.

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Saudi Will Only Cut Oil Output if Others Do, EA's Sen Says

This article by Laura Hurst for Bloomberg may be of interest to subscribers. Here is a section:

"It's very clear that Saudi Arabia is maintaining its position - it will cut only if everyone else cuts," Energy Aspect's Amrita Sen says in a Bloomberg TV interview.

Russia does not see benefit in cutting production given the 20m b/d drop in demand "No way" Saudi Arabia can cut enough to compensate for such a decline

NOTE: Sen speaks following U.S. President Donald Trump's tweet saying he expects Saudi Arabia and Russia to cut production by 10m bbl

There could be a deal later in the year, but it's too early as it is unclear how low demand will go; "There's a lot of hope and expectation rather than anything concrete"

Market will correct through market mechanisms; Energy Aspects believes world will run out of storage in May, producers will then have no choice but to shut production, but prices will remain low

It's unlikely that the U.S. would ever join Russia and Saudi Arabia in coordinated cuts

"How do you get the U.S. to join something that it would call a cartel?"; there are thousands of producers in the U.S., so it would be impossible for the country to cut

Eoin Treacy's view

The shock from the coronavirus lock down is still rippling through the energy markets but that is not why Saudi Arabia chose now to launch a price war with Russia. They are much more concerned with the fact oil demand growth is slowing down, if not contracting, on a secular basis. That presents singular problems for countries who entire existence is predicated on oil exports.

Gundlach Sounds Alarm on 'Paper Gold' ETFs Raking in Billions

This article by Katherine Greifeld and John Gittelsohn for Bloomberg may be of interest to subscribers. Here is a section:

The process of swapping GLD shares for physical gold sits "outside of normal dealings," according to State Street Global Advisors head of ETF research Matthew Bartolini. Bank of New York Mellon, the fund's trustee, doesn't interact with the public but only with middlemen known as authorized participants -- traders who channel assets in and out of the fund. An investor would have to work with one of GLD's APs to acquire gold, he said.

"An individual investor wishing to exchange the Trust's shares for physical gold would have to come to the appropriate arrangements with his or her broker and an authorized participant to receive the gold bars," Bartolini wrote in an email.

Gundlach said earlier in March that while he was neutral on gold mining companies, the metal would ultimately go higher. The $51 billion DoubleLine Total Return Bond Fund, Gundlach's mortgage-focused flagship fund, lost 1.3% this year through Monday and returned an annual average 2.6% over five years.

For Bloomberg Intelligence's Eric Balchunas, that process isn't necessarily a problem. Most investors buying gold ETFs are doing so to get exposure to bullion's price movement, rather than to acquire physical gold, he said.

"The problem with getting physical gold is you've got to insure it or keep it in a safe spot," Balchunas said. "Generally speaking, most people don't want gold. They want the return stream that gold gives."

Eoin Treacy's view

There is no way to hold physical gold in a fund without incurring some form of risk. However, there is also no way of holding physical gold personally without also incurring some form of risk. Most people are satisfied to receive the diversification and potential for appreciation gold represents. However, it is inaccurate to describe gold as offering a return stream. It does not pay dividends. For that you need gold miners.

Borrowers Brave Record Jobless Claims With Bigger, Bolder Sales

This article by Molly Smith and Hannah Benjamin for Bloomberg may be of interest to subscribers. Here is a section:

Even as the number of jobless claims soar, companies around the globe are capitalizing on investors' thirst for debt by moving ahead with larger and riskier bond offerings.

T-Mobile US Inc. is selling $19 billion of bonds in the year's second-largest sale, while the high-yield market is coming back to life with three new deals, including one from Tenet Healthcare Corp. T-Mobile and Tenet announced their debt offerings just ahead of what turned out to be 6.6 million more Americans applying for unemployment benefits, double last week's record. More borrowers like VMware Inc. and Ross Stores Inc. came forward after that, on top of 17 in Europe.

Issuers are seeing a resurgence in risk appetite, as massive demand for new issues has allowed companies to go bigger and bolder with their debt offerings. Cruise line operator Carnival Corp., though technically investment-grade rated, was able to draw massive demand from high-yield investors for a bond sale that ended up being larger and cheaper than expected. Junk bond funds are expected to see a record inflow this week when Refinitiv Lipper reports data later Thursday, reversing six straight weeks of outflows.

Eoin Treacy's view

There are two important factors at work in the investment grade market. The first is interest rates might be zero, economies under duress and anxiety high but investors still need to capture yield and cashflows. The second is the Federal Reserve is backstopping purchases of investment grade debt so investors now have a measure of security in purchases that did not exist two weeks ago.

Eoin's personal portfolio - Last updated March 27th

Eoin Treacy's view

One of the most commonly asked questions by subscribers is how to find details of my open traders. In an effort to make it easier I will simply repost the latest summary daily until there is a change. I'll change the title to the date of publication of new details so you will know when the information was provided.

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