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PROVIDING PEACE OF MIND

Free of Charge: A Barrel of Oil and a Steak Dinner

An interesting thing happened last week. The price of oil fell through the roof and then through the main floor and then it created a large hole in the basement. On Friday, April 17th, the price of crude oil (West Texas Intermediate, aka WTI) closed the trading day at $18 per barrel. On the ensuing trading day (Monday, April 20th), that price fell below zero . . . and then continued to fall. And when the bell rang at the end of the trading day, the price of WTI was at -$37 per barrel.

That's not a typo. It reads "MINUS THIRTY-SEVEN DOLLARS PER BARREL." It sounds crazy but, for at least one day, you could get a barrel of crude oil for nothing *and* get a free steak dinner.

During an April 3rd webinar that we hosted for our clients, we stated that oil prices would get very low soon and might go negative. Sounds like we were pretty brilliant but, in all honesty, we thought the price of oil might get just a little bit negative and probably not until late May some time. Even *we* didn't expect it to go this far this fast.

The primary reasons we think oil will decline in price are A) Global demand for oil has plummeted because of the global "stay at home" economies. *(Good news? Gasoline is cheaper than we have seen it in years. Bad news? No one is driving anywhere.)* And B) The Saudis are intentionally creating a glut of oil in order to push down prices and drive many of their competitors out of business.

However, what happened Monday to drive the price to -$37 was a freaky, complicated perfect storm that involved the futures market for the price of oil. And the May futures contract to take physical delivery of a barrel of oil in Cushing, OK, just happened to expire on Monday, April 20th. Well, the storage tanks in Cushing have been quickly filling for the last couple months and if they actually filled up completely, traders who were forced to take delivery would have a problem: nowhere to *put* the oil.

Oil futures traders almost always close out their positions and do not take delivery. But the sheer *potential* of physical delivery with nowhere to store it forced somewhat of a "flash crash," causing traders to panic and sell at any cost. They were so afraid of the potential of storing barrels of oil in their garage that they were actually *paying* others to take it off their hands — eventually paying someone as much as $37 per barrel.

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Because of the drop in demand and the increase in supply, we are running out of places to store unused oil. Cushing, OK, which boasts the most oil-storage capacity in the country, is not yet full but it is filling up fast. However, many storage facilities and refineries around the country (and world) *are* full. Right now, dozens of oil tankers are sitting off the coast of California with nowhere to go. The tankers hold the equivalent of 20% of the world's daily oil consumption. Never happened before.

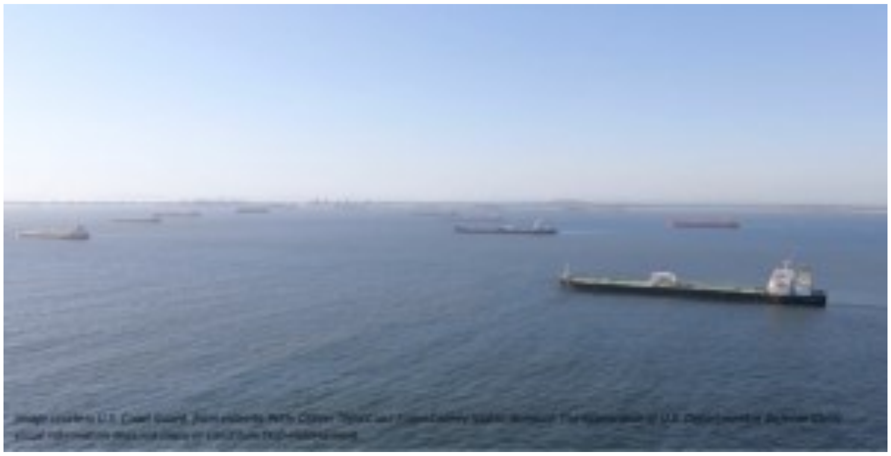


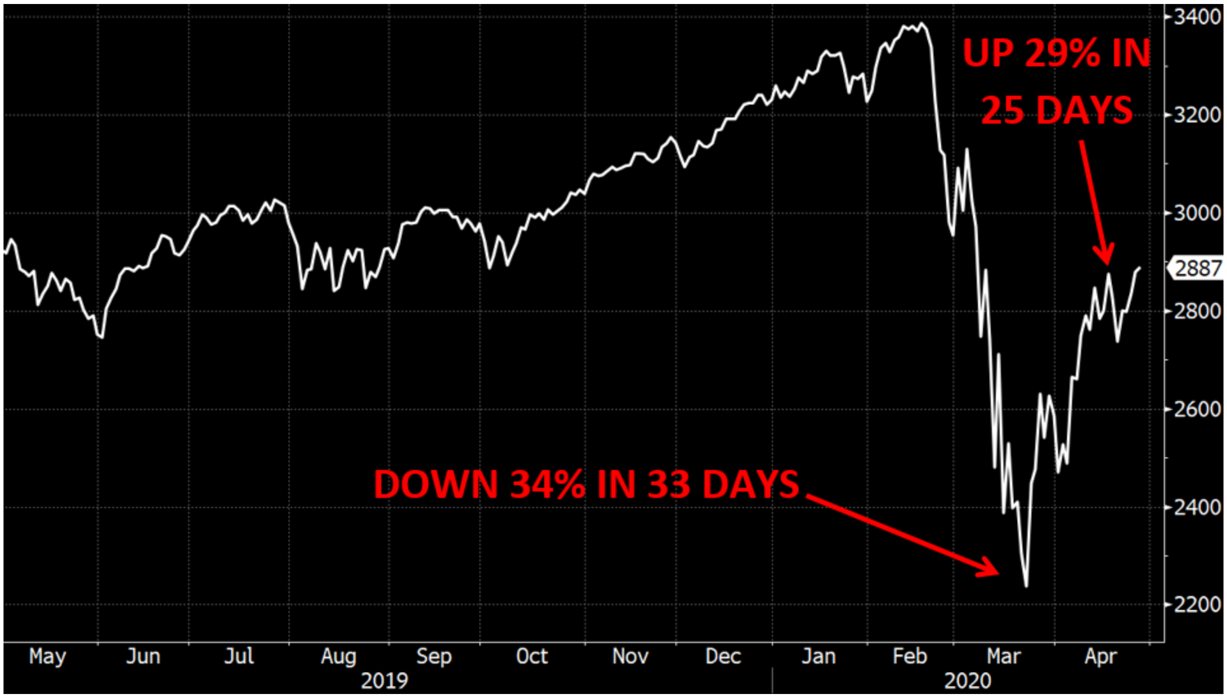
Image courtesy U.S. Coast Guard, [illegible] The appearance of U.S. Department of Defense (DoD) visual information does not imply or constitute DoD endorsement.

Source: ABC7

And, oh, by the way, the Saudi's attempt to drive competitors out of business? It's working. Oil producers around the world are hurting big time. Countries that rely on oil as their primary source of income will be economically crushed. Venezuela, a country that is already broke, will have to completely remake itself into a country that does not rely on oil at all. It will take years and probably a couple of changes in leadership.

And this isn't going away anytime soon. Now, if we just had a reason to drive our cars anywhere . . .

Meanwhile, the stock market is having difficulty deciding just exactly what it wants to do. In March, it nosedived almost 34% before screaming right back up over 29% in a little over three weeks. Net/net the market is down almost 15% from the February 19th peak.



And this stock market doesn't do anything in moderation. The *average* daily change (up or down) of the S&P 500 since February 19th (the top) has been 3.5%. To put that into perspective, the average daily change for the past 30 years has been only .75%.

As we have said many times, markets ultimately don't like volatility and unpredictability. They like boring calmness and predictability. The Volatility Index (VIX) hit a record high of 82 and is now hovering around 30–35. For reference, VIX usually runs around 15–20 during "normal" times.

Subsiding volatility is partly due to the slowed spread of the coronavirus, but also due to rather extreme fiscal (government spending) and monetary (Federal Reserve, European Central Bank, etc.) policies around the world.

In the United States, our government already spends about $1 trillion more than it takes in through taxes each year. And passage of the CARES Act alone increased spending by an additional $2.2 trillion this year. The Federal Reserve cut rates to zero for only the second time in its existence, and also doubled-down on its unconventional methods used in the 2008 Financial Crisis.

If you were wondering why stock markets have already rebounded some even though most of the world is still under lockdown, keep in mind that policymakers have signaled that they are willing to do whatever it takes to steer the economy through this pandemic.

A week or so ago, there were public protests in Austin, TX, and Annapolis, MD, . . . people who were tired of the government(s) making them stay home. Whichever side of that issue you're on, these protests are marking the beginning of the end lockdowns across America. It will take time. It will end slowly . . . gradually. In fact, we are already starting to see regions of the country do exactly this. Texas will let its stay-at-home order expire this week. There are 26 million unemployed people across the country who want to get back to work. The risk of getting sick and spreading the virus is real, but so is the risk of not being able to pay your rent or feed your family.

It seems the worst is behind us as fewer new cases and deaths each day get us on the path to normalcy. We are not certain if that path will last for months or years, but we feel we have already looked into the abyss . . . and jumped over it. OK, maybe not "jumped" over it . . . more like traversed it on one of those wooden bridges that sway back and forth, scaring the hell out of you.

At BCWM, we feel we have seen the stock market bottom, but we don't expect a quick snap-back to recent market highs. There will continue to be hitches in the recovery as supply chains have to be repaired/relocated/refashioned. There will be hitches in the recovery as consumers catch up on unpaid bills and increased credit card balances.

And there will be hitches in the recovery as most developed nations are faced with dealing with a debt load that was already too high and is now "too higher." The U.S. government is loading up on more debt too, but our economy is most likely going to recover from the coronavirus pandemic better than other countries will.

The massive glut of global debt will continue to hinder economic growth, which, in turn, will keep interest rates low and drive them lower. We see the 10-year Treasury bond with a negative interest rate sometime later this year (currently it is .64%). And we see the 30-year Treasury bond below 1% (currently 1.23%).

And we would not be so surprised to see oil go negative again either.

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