

# Wentz Weekly

April 6, 2020

## Is Another OPEC Oil Supply Cut on the Horizon?



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At a press briefing last week President Trump said Saudi Arabia and Russia could end their price war, after saying he spoke to each President Putin and Crown Prince Salman. Trump says he expects and hopes they will cut back production on 10 million barrels of oil per day. WTI crude oil rose 32% on the week following additional reports of a possible deal between the U.S., Saudi Arabia and Russia, which are the top 3 oil producers, to cut supply. OPEC+ is expected to meet this week via a virtual meeting to discuss possible production cuts and end the price war started last month, which started after Russia opposed additional production cuts.

Last week we saw data on the manufacturing sector through the Purchasers Manufacturing Survey. Overall conditions are given a number which indicates the overall level of manufacturing activity. Results from the March survey were better than expected at 48.5, which is a decline from 50.7 in February. A number below 50 indicates contracting conditions while a number above 50 reflects expanding conditions. Respondents in the survey said new orders, output and employment all declined in the month, however some producers reported being much busier as a result of stockpiling, notably in the food and health care sectors. PMI surveys from around the globe reported similar conditions, with the exception of China, who reported (barely) expanding conditions with the index at 50.1 which was up from 40.3 in the month prior.

The Department of Labor reported 701,000 jobs were lost in March, the first monthly job loss since 2010. The data was collected the week of March 12th so reflects the first half of the month and is also after seasonal adjustments. Prior to seasonal adjustments we saw 251,000 jobs lost. Most of the weakness was in restaurants, with 459,000 jobs lost, followed by health services at 76,000, professional services at 52,000, and retail at 46,000. Wages rose 0.4% in the month and are 3.1% higher than a year ago, which is a larger increase than expected most likely due to the fact a lot of the jobs lost were in the lower-paying, few-hours industries. The markets did not react much to the news, we already knew over 10 million individuals filed for unemployment benefits over the two weeks ended 3/28, so a survey in the middle of the month was "old news".

Part of the [CARES Act](#) included approximately \$350 billion for loans for small businesses to cover payroll and other expenses. The Application process for small businesses to receive these loans launched Friday after a brief delay due to the enormous size of the funding. Funding for the program is expected to be exhausted quickly. There will be heavy emphasis on the SBA program's ability to meet demand and whether the \$350 billion in funding is enough to keep up with the amount of small businesses needing to cover payroll and other expenses. Most early estimates believe this will not be enough which is leading to conversations about a phase 4 stimulus. To illustrate the amount of demand, by mid-day Friday Bank of America had already taken in 60,000 applications totaling in excess of \$6 billion. Separately, direct payments to consumers are expected to begin within the next two weeks.

## Company News

- CME Group, operator of contract markets including futures and options, reported a 68% increase in average daily volume in March compared to a year ago. Volume was over 25 million contracts per day for 15 consecutive days, which is well above average.
- Visa reported from March 1st to March 28th, U.S. payment volume declined 4% from a year ago, with cross-border volumes down 19%. For the quarter ended March 31, Visa still expects revenue to grow mid-single digits.
- Carnival raised \$6.25 billion last week to help weather the impact of coronavirus by issuing new debt and equity. The new debt was in high demand and although Carnival is still rated investment grade, Carnival went to the "junk" bond market to issue the debt with a yield at par value of 11.5% while using its ships as collateral.

## The Week Ahead

It will be a four-day trading week, with the stock and bond markets closed Friday for Good Friday. The earnings calendar will be fairly quiet, but still expect additional companies to suspend forward looking guidance due to the uncertainty. The economic calendar has the Job Openings and Labor Turnover Survey on Tuesday, followed by inflation data with the Consumer Price Index and Producer Price Index toward the end of the week. Focus will continue to be on the number of confirmed COVID-19 cases, with more emphasis on the number hospitalized.

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