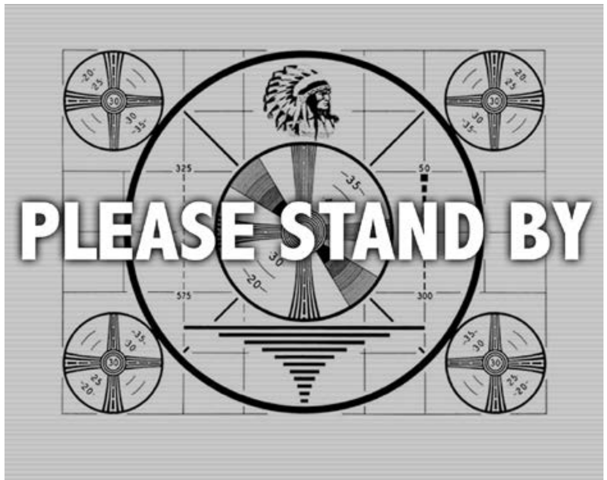
"We Now Return to Our Regularly Scheduled Programming"



Hilsenrath Analysis: Friday's Jobs Report Assures Global Central Banks Going in Two Directions
— Wall Street Journal, December 5th, 9:59a ET

Earlier today I tweeted that "I should write a note on Draghi today, but after 2.5 yrs of reviewing the same song and dance I'd rather put out my eye with a rusty spoon." I feel the same way about writing a note on Jon Hilsenrath's Missionary statements on monetary policy, **but the potential ramifications of today's jobs report *and how the Narrative is being shaped around that report* are just too important – particularly for the price of oil and the energy complex – to leave it alone.** Over the past two weeks I've tried to provide an Epsilon Theory perspective on both the price of oil ("The Unbearable Over-Determination of Oil") and the signaling role of the price of oil on energy stocks ("Signs and Portents"), and here's the skinny: **so long as the dominant Narrative around oil prices is based on global supply/demand fundamentals – even if those fundamentals are somewhat negative – that is far more constructive for oil prices and energy stocks than if the dominant Narrative around oil prices is based on monetary policy.** When Saudi Arabia said, "we're happy with oil in the 60's", here's what value investors heard: "we're not happy with oil in the 50's". So long as there is a perception of a floor … so long as value investors do not fear catching a free-falling knife … they will buy stuff that looks cheap. That's what value investors DO.

The dominance of the OPEC meeting-inspired supply/demand Narrative is, I fear, short-lived, as we appear today to be returning to the regularly scheduled programming of all central banks, all the time. The dollar is starkly higher today, as the yen and euro plumb new depths. That's on the back of the much stronger than expected jobs report today, which – as Fed amanuensis Hilsenrath "reports" – means that the Fed will be still more resolute in tightening even as the BOJ and ECB double-down on extraordinary liquidity operations. Oil is down a bit … less than I'd expect from a currency move of this magnitude … which I think is indicative that the fundamentals-driven Narrative still narrowly holds sway. How narrow? Can't tell yet. I'll be watching Narrative development closely next week, but there's a non-trivial chance that the monetary policy "explanation" for oil prices will resume its pole position, and that's problematic for the energy sector. Sorry, but I gotta call 'em like I see 'em.

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