Chaos Rules

03-13-2020

Monetary and fiscal stimulus of almost unimaginable proportions has begun and we will likely see more of it. First, there was the Fed's $1.5 trillion worth of three days of repo additions, although it appears that, thus far, not much has been used, which is likely a consequence of Basel III (and other) banking regulations, which will have to be changed. The Fed also slipped in $60 billion a month of additional QE yesterday, and Germany has shown its willingness to allow more deficit spending.

Index	Close	% Change
Dow	23173.99	9.31
Dow Transports	7938.3	9.36
Dow Utilities	762.58	5.35
S&P 500	2708.62	9.19
Nasdaq	7874.23	9.34
Nasdaq 100	7995.26	10.07
Russel 2000	1166.98	3.92
VIX Index	55.17	-26.9
10 Year Gov't Yield	0.99	21.54
Spot Gold	1521.89	-3.44
Spot Silver	14.62	-7.6
GDX-Gold Miners	19	-14.84
Crude Oil	33.12	5.11
Dollar Index	98.73	1.3
Euro Spot	1.11	-0.62
Japanese 10 Year	-0.05	19.3
Shanghai SE	2887.43	-1.23
Long Bond 20-year	175.75	-1.82
Source: Bloomberg March 13, 2020 13:01:13		

One-Trick Ponies of the Apocalypse

In short, we are going to get mass monetization and deficit spending in Europe, here, and quite likely other places as well. That has been an extremely high probability for some time and now it's virtually a certainty. We also have the upcoming FOMC meeting, where they are likely to cut interest rates by 100 basis points and announce even more stimulus. Liquidity is unlikely to be the issue, although it's going to be difficult to get aid to the small businesses and individuals that will be directly hurt by the virus in time to help them, but we can hope for the best.

In the good old days, this is why governments, businesses, and individuals saved money and were prudent, so they would have it for a "rainy day." Now everyone is encouraged to be irresponsible and when the rainy day comes along, the government is supposed to be even more irresponsible to bail out the folks that they encouraged to be reckless in the first place. It's a rather sad state of affairs, but it is what it is, and there will be much more news to come regarding all of this in the next couple days.

In terms of market action, the Japanese markets fell 10% almost immediately last night and that dragged the SPOOs lower by a couple of percent, but by the time our market got around to opening they were limit up and the indices opened about 5% higher before backing off again to just about 1.5%. From there, the market rallied again and was about 4% higher, with an hour to go, just before Trump spoke to declare a state of emergency. The market celebrated that news and tacked on another 3%, gaining about 9% for the day.

Long End Gets Short End of the Stick

Away from stocks, green paper was stronger and fixed income was weaker across the curve, particularly at the long end once again. I believe we're going to start to see the yield curve steepen, which I'm sure banks would like, but which could possibly be an indication of the preference for folks not to lend long due to the consequences of all the MMT that's coming our way. That said, two days is far too short of a time to draw any conclusions.

Turning to the metals, they were both higher and lower overnight, although in New York, silver was crushed again, this time for 8% compared to 3% for gold. I heard from a good source that risk parity funds were taking down gross leverage and gold was being sold as a result. (That explanation sort of fits both the recent buying and selling we have seen.) As for the miners, they were liquidated aggressively again, most likely due to some sort of structural ETF issues.

Follow the Bouncing ETF

I have been slow to understand this, but it appears to me that the mining ETFs are the source of a lot of the volatility and inexplicable trading that we've seen. Yesterday, the GDXJ closed at a very large discount to its underlying securities, and in addition, there is going to be a rebalance of its holdings announced today. For those involved in the mining sector, this is an up-close-and-personal view of what happens to the underlining securities when an ETF inherently promises more liquidity than those securities actually have.

I think the mechanics of the miner ETFs are largely responsible for the incredible smashing that the underlying stocks have had, especially the 3x-leveraged ones, NUGT and JNUG, which were completely destroyed. The latter has fallen over 95% in the last two-and-a-half weeks, losing $2 billion in market cap, which equals $6 billion worth of liquidation.

Hopefully, these beasts will be closed down for good. However, that also means that they were partly the reason that miners were trading where they were before the collapse occurred. What the sector needs is real buyers and I still believe that outcome is going to be a distinct possibility when the mining results are reported (vis-Ã -vis other corporations, as I noted yesterday).

With gold prices around these levels (gold is still about flat on the year, unlike many other assets), most miners are still going to be doing quite well, particularly relative to the average company in corporate America, although that information only matters once people decide to start acting on it.