OIl market recap

physical constraints, fundamental, trading dynamcis

92% GDP in some type of lockdown, even in Singapore going backwards.

* 20m barrel per day.
* global 100m bpd, 30% cut from that is reasonable
* through second quarter
* from physical not able to cope with it
* must exist inside an **infrastructure, must be put into a pipeline**
* cash prices are blowing out
* physical in is near
* funding cost: eased up dollar issues. grid system in global trading.
* default risk is coming off.
* not financial issue, a physical issue.
* super contago curve. 98 cloest to current environ. price war, Asian financial crisis
* spike to the downside
* keep hitting the constraint
* market getting more efficient when dealing with this shock
* not going to happen immediately
* 2+months using model of Wuhan
* environment to move people back to work is essential
* outlook: 20 dollars pb near term
* who's going to shut in? Norway is safe: 150m deep in the sea
* demand is the key here
* significant surplus building. 40% reversal in demand
* start at refineries
* gasoline, desial suturation
* have to shut the refinery, crude to stay at producer level
* weeks later, no other solution, shut in
* take a long term to restart
* in land countries: US, Canada, Columbia, bigger impact
* G20: too little and too late
* potential recovery is big
* frictions on the way down and up.

PMI:

stabilisation on the sequential basis from last month. External demand evolution. China restarting but in a slow manner.

European pmi: flash number revised down. below financial crisis.

1. Paris rescue fund. 100bn insurance scheme.

2. programme to support companies

Oil: Trump considering temp ban on import on crude. 60-90 days period. Relative value perspective. Market responding WTI rallied against Dubai crude down.

- US Pompeo ease sanctions on Iran. Bearish thing in general.

- API last night, crude build 10mn, gasoline 7mn.

- Russia not going to increase the production.

- WTI not really break 20. Futures curve holding firm. Some RV moves going on.

2020-4-3 market update

* service Pmi. 23.5 better than the consensus.
* slow recovery and further job losses in march.
* new lockdown measures in Singapore. increase in case count. more signs of spreading domestically.
* Europe PMI more or less. declines quite striking. flash revised down.
* divergence between Germany and southern.
* Germany keep employees on the book, not in Italy and Spain.
* rapid labor market decline.
* pushing on the test.
* apologies from the EU to Italy. German to help.
* Germany critical to lack of help to Italy.

Oil

* media and Monday to determine to cut 10mn. Saudi and Russia will do as long as US 's participating.
* Market still short.
* a lot of disbelieve.
* today continue to break higher.

Rates

* libor expected to lower

## 2020-4-6

1. slowing down of the curve

2. German to be hit later on

3. opening of activity Austria, small retailers reopen.

4. aggressive social distancing early on

5. use face mask

6. Japan infection rate increase

7. Emergency in some regions.

8. tightening in Jap, Sing. China started to quarantine locality. Corporate better activity. BMW up. Signs of coming back.

JPM conference 2020-4-6

1. initial jobless claim

2. 2 trillion dollars

3. MBS

4. High grade credit

5. recovery quickly

6. labour market and credit market damage different.

7. global GDP 11% in the first half of the year.

8. Western europe even more

9. Set for rebound in mid year, 13% annualised globally.

10. Fed learnt to do in GFC.

11. Credit is going to a onging problem here.

12. Rebound: how succesful in containing the virus, financial stress.

13. 12% GDP fiscal stimulus. Package. 300bn to mortality. 3 most improtant, FBA programme, unemplotmeny. Will support consumption. 3Q perhaps.

14. ow equities, uw bonds. Flushing positionings.

15. in 2021 the earnings is going to be ok? fiscal support.

16. When will the economy reopen? Uni of Washington.

17. Exponential features, not believable.

18. Big data: most countries have now past. 1 week later peak in fatality, 1week later peak hospital discharge.

19. 4 weeks to normalised, some limited reopen.

20. 1 week later will think about rethink about opening.

21. growth vs value. Perf differential. Positioning extreme.

22. Fed announcement:

2020-4-7

1. Japan announce emergency. 20% GDP package

2. cases slow down.

3. in the US Pelosi trillion dollars. Mirror Phase 3 deal. Other economist quiet so far

4. BoJo: household concerns

5. German finance Minister. Nowhere near Eurozonecrisis? Money only for virus related. No tangible progress on a package when the crisis is over.

6. Should be ok to patch over thing in the near term. Solitary?? EU conmission?

Oil

1. OPEC meeting on Thu, G20 on Friday

2. 3 months cut, want US and Brazil to participate. Will be his call to implement the law on curtail production. Cut output 30% from May.

3. Natural gas rally. Norway to cut?

FI:

1. Auctions?

2020-4-7 Recap on Simon, Fed funding stress

-Due to LCR requirement, funding shorter than 30 days is not useful for banks.

- Banks had interest in borrowing in the unsecured market 3m or longer.

- CP: commercial paper, short term unsecured.

-CD: Certiicate of deposit.

- As cash outflows reduced weekly liquidity, prime MMF were forced to try to build liquidity by selling longer term CP/CDs and only buying short CP/CDs.

- Mismatch between banks wanting to borrow 3m, and MMFs selling long.

- overnight financial AA CP traded at 16 bps, 3m 206 bps.

- Dollar swap lines: Fed gives USD to another central bank at OIS+25 bps and that central bank distributes them and take the credit risk.

- Money market liquidity facility: pulls longer CP,CDs from the money fund. improving their weekly liquidity

- Commercial bank funding facility:

-CCAR: stress test. 35% recession is ok to survive.

- Corporate debt market. High prob of default. 2%.

- small business. 50%. Recovery 20%. Spend a lot of capital

- US treasury.

- Very difficult to payback.

- Disinflationary pressure to fight against.

- repo facility: new. 2014: safe place to store cash, earn a good rate, 300bn, MOF japan has large chunk of that. Make money on cash.

- FIMA repo: 3trn NY fed, temp liquidify the US treasury. Cheap funding. Dealer might not want to face you in big size. - you don't want to blow 6trn dollar treasuries over a few weeks.

- Leverage ratio: OCC(), FDIC(Fed deposit corporation). Soverign debt included in the leverage ratio

- Germany: large balance sheet but in risk weighted asset it's tiny. (14:49)

- European would very concern about a backstop which include the sovereign debt.

- The compromise was to include central bank deposit in your own currency and your own sovereign. Never makes sense to me, but there's politics there. You do not have to hold capital against the liability of the Fed. US treasury is ok. You don't have to hold capital against that. It will be crazy to have capital constraints because there will be trillions of dollars of treasury to hold in the next few months (when talking about the primary dealers).

Flora: the leverage releasing measures have relatively small impact on the bank. Not worth doing it.

- FX swap and the new repo facility. There're some signs that the dollar funding pressure is alleviating. Is there a risk that the pressure could come back?

- Indonesia says that they're taking up 60bn from FIMA(=foreign institutional monetary authorities) repo. There's a debate about how much collateral you have to put with the central bank. How much haircut, volatility of exchange rate. There has been funding issue in 2015-16, 2019. Libor has two pressure: funding pressure and credit risk. 2008 was more a serious credit risk issue. Now US banks have a really good buffers against a severe recession.

- In Europe the banks never got the capital ratios up to the same level. No backstop of the bank debt.

- Where is the end game for these dollar facilities? FX swap lines have been there for decades. But what about the repo facilities. Do you think it is a permanent feature? Many central banks offer the repo services to their fellow central banks. The argument against it is that people may not be prudent when they make choices. Because they know they could always liquify their assests. Let's go back to 2015-16. Large country was trying to fight exchange rate pressure.

- Regarding the FX swaps. Imagine you have a harmonious world should be. But unlikely that China and the US will forget.

- practical question: if a central bank has 30bn treasury, how much can he get. Answer: google discount window haircut. The risk is obviously adverse price move. If the price of the Treasury drop a lot and the counterparty fails to deliver the cash back. Distributed 100mn of cash to criminals. There're operational risk with other central banks.

- What's left in the toolbox.

- Answer: relief to the SLR. Leverage ratio. In Europe and UK, there is strong guidance towards stop capital distribution.

- Public don't know how big the recession gonna be. The overall strategy has the risk of unknown of the depth. Adjusting to it is really critical. Whether or not you should let bank eat through their capital buffer? In one state of the world it can be the right thing. In another world you go say please eat through your buffer and we can give you if it goes wrong. Small business loan...

- 3m dollar libor is still quite elevated. Libor is still the best signals.

- Libor is more disciplline that they were in 2008 on what they report. There's a few points out there that Libor is lagging CP rates were. Let's say it's a funding issue not a credit issue. Then it gets into the very complexed structures of the Libor panel. Who has access to the fed facitilities and who doesn't. The German bank I mentioned, that was downgraded from A1 to B2 long time ago. If you have a bank that is much lower rated... Libor is pricing in all the other things... Libor is an issue of transmission of the monetary policy. The fed should at some point look at that and say we have to fix it. You have to do that under the existing risk taking that the fed has. Commercial paper funding facility is basically for the top tier, with the option that you're downgraded in the last few months.

- How do you see the regulatory changing overtime to address this?

- The idea of LCR is that when the time of stress you can eat into that.

- If the fed would ever buy the high yield?

- If it is logical to buy the cruseline, you find a way to buy them. The more pressure you take off the agency MBS and quality assets, you let private money to buy those as long as there's backstop.

- 50:09 Dollar is so far orthodox, no other currencies can replace it.

2020-4-8

1. EU fails to come up with agreement. 16hour phone conversation. Nothing managed to agree upon

2. Compromise is at hand. Hopefully easter from Germany.

3. Support will be there for Italy.

4. Prob OK in near term.

5. France survey crashed to 50.

6. Lufthansa worse case senario out there, cut 25% by Oct?

7. Bernanke: will take time to come back from this.

8. Japan with Fiscal package, 20% GDP. Truly near spending around 3%.

9. More needed, not spending but also ficsal support.

2020-4-9

1. was expanded to 20bn in GFC

2. FT some days ago things were appropriate for the government to fund itself

3. pay the way for this decision.

4. ECB minutes out. Suspicion not explicit on issue limits in place.

5. Quite on this front. Do not apply to the new programme. Concerns remain.

6. Fiscal package from Japan. That includes a lot of other measures already around.

7. Report from South Korea, recontracted.

Oil

1. OPEC+ today. Tmr G20 energy call. Contribute to the cut.

2. Many uncertainties going on. Production level is going to be the same no matter

3. Important: 1. size and duration of the cut. 10mn from Apr. RUS cut 1.6mn, Saudi cut 4mn. Duration matters. 6m is much better than 3m.

4. too many forces want this to happen. Good for everyone to save face.

5. Demand numbers on the downside.

6. Nobody has an edge on anything. Stupid to trade at this stage.

Rates

1. fairly quite.

2. focus on EU meeting. The market price in some sort of agreement. People worry going to the weekend.

3. Italy might be downgraded.

4. Decision will be after Easter. But tone matters more.

2020-4-14:

TJ:

1. Export slightly better, reflecting bouncing back in March

2. Improvement is temp.

3. Korea launch election. A little problem.

4. Italy reluctant to agree the EU agreement. Apr 23rd, further progress.

5. More language in EU bonds in there.

6. US policy: survey this morning: 21,000 asked for support.

Oil:

1. really which month we're talking about.

2. Curve moved going on.

3. Thurs and yesterday all oil except May and Jun more up.

4. Market is trying to price build May, more normal situation out the curve.

2020-4-15

1. oil market is the key thing

2. PBOC offered 2.9%. Larger than expected. Make sure to provide before Q1 GDP

3. Significant easing in FCI index. retreat 2/3 from the peak.

4. IMF forecast quite a lot of attention. Shape of the recovery in question.

5. Harvard suggest that social distancing until 2022. Not going to be v-shape coming back.

6. Pressure on BTPs. 150% by the end of the year, highest in Italy since 1920.

7. 23rd is EU concil meeting. Expect another muddle through. Difficult to see favorable outcome.

Oil

1. IEA report revised down demand. Inline with where the street is. More bearish than the street(GS etc).

2. IEA makes forecast in inventory. That may change.

3. Sold off on the IEA report a little bit.

4. Shut in: 1.2 from Canada, 400 in US, 300 in Brazil. 4m ex-opec to shut in

5. progressing but slow.

6. Texas to deicide on 11

FI

1. dollar

2. Zoltan put out his piece.

3. Euribor, curve flattening.

2020-4-16

1. debate on opening up continues.

2. UK: There'll be social distancing in place until vaccine is developed. This will be surprise to many people. Survey: life return to normal 6months?

3. Large scale bankruptcies. Large retailers in Europe. Department sector. Labor market reverse take longer than thinking?

4. Largarde: new version on whatever it takes. Longer list of things they can do.

5. IMF week, a lot of comments out next days.

Oil:

1. bearish IEA, down day.

2. Curve strengthen, following local differentials.

3. News: Trump admin: paying producers to not producing oil. 20 dollar WTI

4. Trying to get creative here.

5. we got some data from EU and US, 3 weeks of lock down. Maybe 30% yoy.

6. The market is very bearish.