RJO Previews and Perspectives for Thursday, April 9

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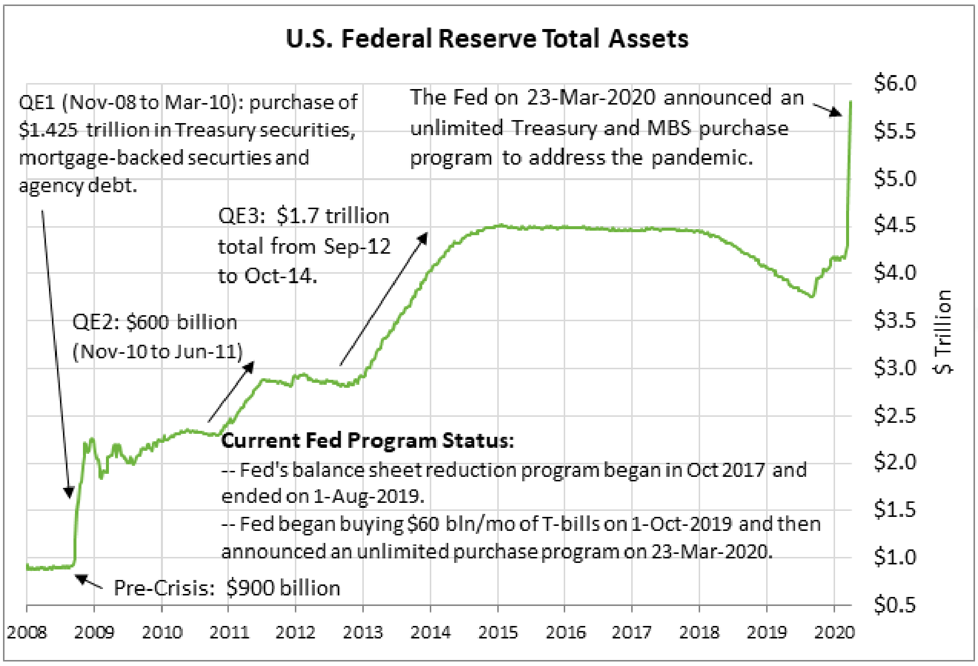
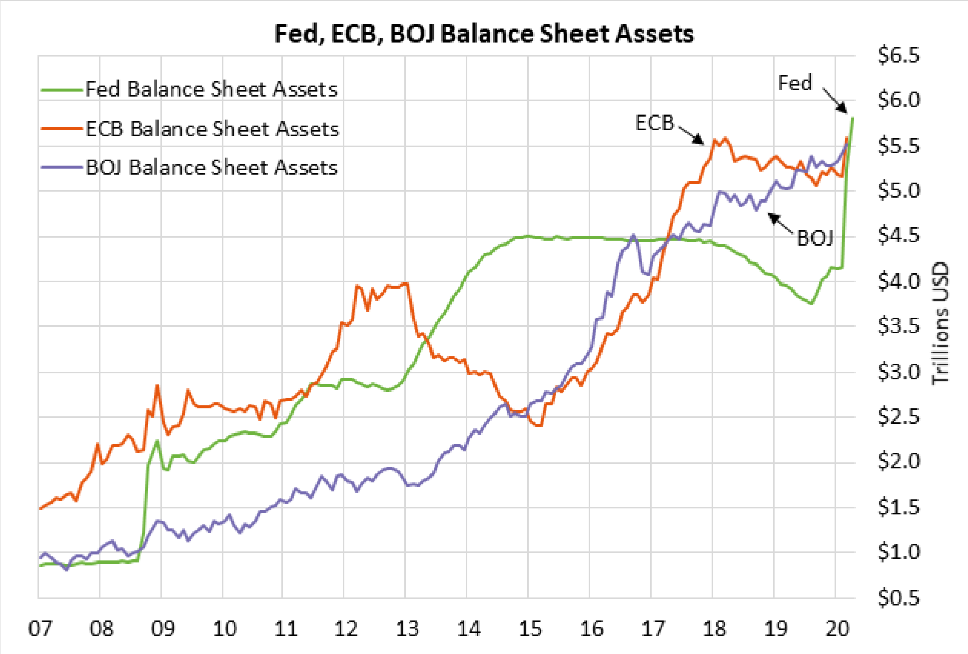
Markets hope for a "whatever it takes" pep talk from Powell today -- Fed Chair Jerome Powell today will give an economic update on a webcast hosted by the Brookings Institute. The markets will be hoping for a pep talk with the "whatever it takes" attitude that former ECB President Trichet famously used to reassure the markets that the ECB would end the Eurozone sovereign bond crisis and defend the Eurozone's integrity no matter what was required.

Although it would be nice to hear, Mr. Powell doesn't really need to repeat Mr. Trichet's phrase because the Fed has already basically proved that it will do whatever it takes to tackle the worst economic crisis the U.S. has faced since the Great Depression. The Fed has so far been successful in preventing the very sharp economic hit from turning into a global financial system meltdown.

The Fed has taken quick and decisive action in blasting liquidity into the U.S. and global financial system and providing funding support for many markets and entities such as the Treasury market, mortgage-backed securities market, corporate bond market, commercial paper market, muni market, asset-backed loan market, government securities dealers, money market funds, and even small and mid-sized businesses via the purchase of bank-originated PPP loans.

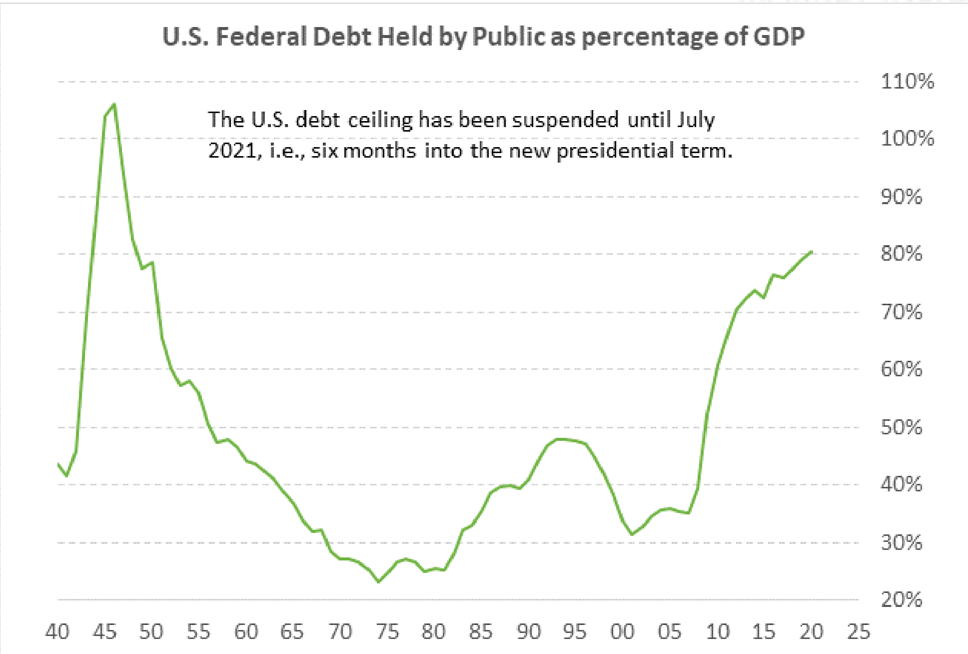
The Fed has already purchased securities and provided funding so rapidly that its balance sheet since the end of February has soared by +$1.65 trillion (+40%) to a record $5.812 trillion. That means that the Fed in just four weeks has nearly matched the $1.7 trillion QE3 program that took the Fed about two years to complete (i.e., from Sep 2012 to Oct 2014).





Congress may be slowed in approving a boost to the small-business lending program -- Senate Majority Leader McConnell is still hoping to get the Senate today to approve by unanimous consent his proposal for a $250 billion boost in the Paycheck Protection Program (PPP) from its current size of $350 billion. However, House Speaker Pelosi and Senate Minority Leader Schumer are promoting an even larger $500 billion package that has the $250 billion of PPP funding, plus $100 billion for hospitals, $150 billion for state and local governments, and a 15% increase in the SNAP food stamp program.

Even if the Senate passes a bill that is acceptable to Democrats, it remains unclear whether Speaker Pelosi will be able to get the House to approve a bill by unanimous consent. Kentucky GOP Representative Thomas Massie indicated that he might again object and block a House unanimous consent vote because of his belief that House members should be required to register their votes on the floor as normal. That would require Ms. Pelosi to again call House members back to Washington in order to vote and get the bill approved. She has shown, however, that she can get members back to Washington for a vote in less than 24 hours.



Italian bond yield rises to 3-week high on failure of EU rescue talks thus far -- The Italian 10-year government bond yield on Wednesday rose to a 3-week high but then fell back and closed the day +4 bp at 1.65%, adding to Tuesday's +13 bp upmove. The spread of the Italian 10-year yield over the German bund yield on Wednesday closed at 196 bp, about midway between February's pre-pandemic level of 130 bp and the mid-March 10-month high of 279 bp.

The Italian bond yield rose on Wednesday after EU finance ministers after a long teleconference on Tuesday night were unable to agree on a 500 billion euro rescue. The main sticking point is reportedly a dispute between the Netherlands and Italy over the conditions attached to the potential use of credit lines from the Eurozone's ESM bailout fund to finance pandemic rescue spending. Also, Germany and other countries are still refusing to agree to any jointly-issued corona-bonds that could put German taxpayers directly on the hook for paying other Eurozone member's debts.

Moment of truth arrives for whether OPEC+ can engineer a 10 million bpd production cut -- May WTI crude oil prices on Wednesday closed sharply higher by +1.46 (+6.18%) at 25.09, and then rallied another 4% in late-afternoon trading as the market generally expects an OPEC+ agreement today. Still, oil prices are consolidating only moderately above the 18-year low of $19.27 posted on March 30.

There was some optimism yesterday when Russian's energy ministry said that Moscow would cut production by 1.6 million bpd (about 15% of its production) as part of a deal that includes OPEC+ members, as well as other countries such as the U.S. However, Russia nixed the Trump administration's idea of a U.S. production cut. The Trump administration has been pitching the idea that the U.S. contribution to a production agreement could be the 1 million bpd cut in U.S. production that the EIA expects this year due to adverse oil market conditions. Kremlin spokesman Dmitry Peskov told reporters, "You are comparing the overall demand drop with cuts aimed at stabilizing the global market. These are completely different things."

OPEC+ members will hold a teleconference today. Saudi Arabia on Friday will then host a virtual meeting of G20 energy ministers. It remains unclear what type of math OPEC+ will use if they are going to claim a 10 million bpd cut. In any case, a 10 million bpd cut (which is close to a -10% cut in world oil production) will not come close to estimates of a 25-30% drop in world oil demand due to the pandemic. Even a real 10 million bpd cut today would at best delay the time until the world's oil storage facilities are totally full, at which point oil prices could fall into the teens.