

Oil -- An Embarrassment of Riches

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The US futures market did something it hadn't done in its more than 120 years of existence -- it closed a May contract at - \$37.63. That meant a person who was long (a buyer) had to accept such a sum per barrel on a thousand barrel contract because the short seller was desperate to unload it before they would have to take possession.

West Texas Intermediate is currently a hot potato that no one wants to touch because demand has collapsed along with economy. With no demand possession means finding a place to store it. There is so little space that some owners are leasing empty tankers at hefty costs, and there is even a shortage of them. Numerous tankers are said to be patrolling the coast of California in search of a port that has the means for them to unload.

The oil problem was supposed to be resolved a week ago when Trump and other leaders prevailed upon Russia and Saudi Arabia to settle their differences and have OPEC agree on a 10% cut in production. But the trending recession prior to Covid suddenly became a full fledged depression with the onset of the virus. With the disappearance of a decent oil price thousands of oil industry jobs were lost, especially in shale which requires a fairly high price because of the higher cost of extraction. Still, the renewable energy people are pleased, with solar energy there is never too much. Storage stays put at the source.

BOLI Death Contracts

The crowning expertise of banks is in finding ways of making money in places that no decent person care to look. One is Bank Owned Life Insurance which is often included in the piles of documents new employees must sign if they care to have a job.

The bank owns this policy on its employees and receives all stated value in the policy on the death of the person named in the policy. Survivors get nothing. The bank doesn't have to pay interest as the value accrues nor a federal tax when it collects. Except in some states it also collects even if the employee had quit or was fired and is working on another bank. That bank may also have a BOLI on the employee and both can collect on his departure from life.

The scandalous nature of these policies produced enough disgust that in 2006 Congress made a few adjustments in BOLI and the similar Corporate Owned Life Insurance that, while grandfathering all previous policies, included a few changes in tax policy and reporting.

JP Morgan Chase has pressured its traders to remain on the floor making deals even as NY shut down many businesses because of the pandemic. Earlier this month more than 2 dozen traders contracted the virus and many more had to go into quarantine. Due to company pressures about 20% remain on the floor. Market values may be dropping but all is not lost if a few traders do the same.

Economic Info

– China's foreign debt was \$2.03 trillion as of September 2019. Foreign banks contributed \$492 billion to that sum. With international trade being much diminished this year China will not have that as a sufficient source to cover its debts. It has drawn large sums from the surplus accrued during the good times during the course of the pseudo recovery from the GFC. It will now need even more to claw its way out of GFC2 unless its dream of a buy-mad domestic consumer society isn't realized.

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