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Optimism Sparks a Rally

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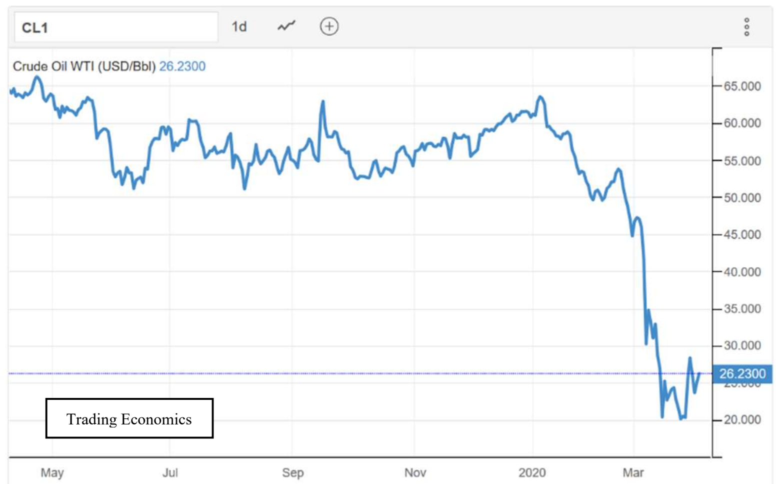
Optimism was in the air on Wednesday – something that has been very rare indeed the past six weeks. The Down Jones Industrial Average popped 779 points higher to close at 23,433 – a rise of 3.4%. The S&P 500 gained 91 points, or 3.4% and the Nasdaq Composite jumped 204 points or 2.6%. The Dow Jones Industrial Average is now 20.7% off its February peak, while the S&P 500 is 18.8% lower, and the Nasdaq Composite is 17.6% from its record February high.

The market moved higher on several signs of optimism. Continuing evidence of a slowing rate of growth in coronavirus cases in hotspot areas and reports of the Trump Administration public health officials beginning to discuss plans to slowly open certain economic activities was warmly received by the stock market.

Perhaps as meaningful as any of the optimism was the news during the trading session that Russia is open to cut back oil production up to 1.6 million barrels per day if OPEC would also cut production. Oil prices surged on the news that Algeria, a member of OPEC, confirmed that OPEC would be discussing an output cut of up to 10 million barrels per day. They implied that the production cuts were contingent on all oil producing nations participating in the reduction of oil supply – including the United States.



The group of oil exporting nations known as OPEC plus a group of non-OPEC oil producing nations led by Russia will meet Thursday in emergency session to discuss details of this coordinated output cut. Interestingly, and significantly, they will be joined by the representatives of the United States. It gets politically and legally sticky for the U.S. to work in coordination with the oil cartel and in the end will likely not be part of the announced production cut. However, the US has already cut production by market forces as it is expected that the 12.9 million barrels of peak daily production achieved last November in the U.S will be down to 10.9 million barrels per day by March of next year according to the EIA. Some oil analysts are suggesting that output cuts need to be at least 15 million barrels per day to shore up the global oil market.

The initial move by the Saudis to increase production and drive oil prices lower seemed targeted at the U.S. fracking industry and has certainly claimed some casualties in the fracking patch. However, it appears that the precipitous price drop got away from the Saudis and has ended up hurting all oil producing nations; therefore, all oil producing nations have a vested interest in moving oil prices higher and so we believe that the nations will agree to some coordinated effort to cut supply. However, given the dramatic worldwide public health initiatives, the demand for oil has temporarily dropped significantly, so, it remains to be seen if the market feels like whatever production cut is announced will be enough.

Thursday also means that weekly jobless claims will be announced. The market is expecting another eye-popping number in excess of 5 million. Initial jobless claim came mostly from restaurants and tourism. It will be instructive to see how the job losses are broadening out.