Weekly Market Summary

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Done with the Nasdaq Whale ... Time for the Oil Whale??
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Latest Update on Coronavirus: Confirmed cases last at 30.38 million, with the death toll from the pandemic at 951,184. France's daily coronavirus cases have risen by more than 10,000 to the highest since the end of lockdown in May and Health Minister Olivier Veran warned that the disease "is again very active" in the country. Joe Biden (alias "*Sleepy Joe*"! 😊) has gone after President Donald Trump again and again over his handling of Covid-19, calling Trump's downplaying of the pandemic "criminal" and his administration "totally irresponsible". Dr. Anthony Fauci, the leading US infectious disease expert has pledged to "take the heat" for any potential problems with a vaccine for Covid-19 in his latest interviews with MSNBC whilst singer Dua Lipa has teamed up with James Corden to give fans dating advice amid the novel coronavirus pandemic.

Big players that are capable of moving markets with large trades are known as "*Whales*". The term is borrowed from casino gamblers and refers to individuals/entities with a substantial amount of capital. Market Whales are spotted periodically in cryptocurrency, credit, fixed-income and foreign exchange markets (remember Britain's Black Wednesday – on September 16th, 1992 - when George Soros broke the Bank of England by betting against the British pound and pocketing $1.0 billion in profits?)

In January 2012, Jamie Dimon commented on the Volcker Rule (part of the Dodd-Frank Wall Street Reform and Consumer Protection Act – originally proposed by American economist and former US Federal Reserve Chairman Paul Volcker), saying that "*part of the Volcker Rule I agreed with, which is no prop trading. But market making is an essential function. And the public should recognize that we have the widest, the deepest, the most transparent capital markets in the world. And part of that is because we have enormous market making.*" Few months later (precisely April & May 2012), large trading losses occurred at JPMorgan's Chief Investment Office, based on transactions booked through its London branch. A series of derivative transactions involving Credit Default Swaps (CDS) were entered, reportedly as part of the bank's "*hedging*" strategy. Trader Bruno Iksil, nicknamed the London Whale, accumulated outsized CDS (Credit default Swaps contracts) positions in the market; An estimated trading loss of US$2.0 billion was initially announced, with the final damage reaching in excess of US$6.0 billion by the end of the second quarter! On the company's emergency conference call, JP Morgan Chase Chairman, CEO and President Jamie Dimon said the strategy was "*flawed, complex, poorly reviewed, poorly executed, and poorly monitored*". These events gave rise to a number of investigations to examine the firm's risk management systems and internal controls, and a US Senate report published in March 2013 - after 9 months of investigation - found that Dimon personally misled investors and regulators the previous year, as losses were dangerously mounting on this "monstrous" derivatives bet. According to Carl Levin, Chairman of this panel, JP Morgan had "*a trading operation that piled on risk, ignored limits on risk taking, hid losses, dodged oversight and misinformed the public*".

Fast Forward to September 2020

As we reported last week, Masayoshi Son's conglomerate – SoftBank Group Corp., was behind the spectacular ride in large-cap US technology stocks in recent weeks that lifted the broader market and, in effect, made investors nearly forget the Covid-19 crisis for a moment. The "*Nasdaq Whale*", as the FT called the Group, appears to have made a monstrous options trade that effectively amounted to spending billions of dollars on purchasing out-of-the-money call options tied to around $50 billion worth of individual tech stocks (forcing those on the other side of the trade to buy more options or simply buy the underlying stock to hedge their short positions). That left investors and market observers struggling to explain exactly why their share prices took an extra leg up over the summer and made them ponder whether to stick with a responsibly diversified portfolio that would be destined to underperform, or chase the frenzy. It also led to a sharp sell-off in SoftBank Corp. shares at the time the news was revealed on September 9th (shares have recovered since). In past week, stocks have wildly fluctuated on an intraday basis - with weak market openings attracting buy-the-dip investors only to have the resulting bounce in stock prices bring out sellers by the close - though they have remained confined to very narrow ranges on a close basis (week-on-week move of less than 0.50%). This afternoon, traders could face some market turmoil with the expiry of options and futures on indexes and equities, a quarterly event known as quadruple witching that typically fuels added trading as large derivatives positions roll over around the open of markets.

Who Let the "Oil Whale" Out?

In early September, as the summer driving season was fading in the rear-view mirror, oil markets began taking a distinctly chilly air. At the same time, analysts started suggesting that the recovery in demand was officially stalling. With spare capacity widespread throughout the supply chain and huge stockpiles of crude and refined products still in place adding to fears of a second wave coronavirus spread, the risk-reward was clearly for a retracement lower in prices following the strong rebound from the depths of the pandemic-induced slump. Add to that OPEC+ group of 23 countries' decision to raise their combined output target by 2 million barrels a day from the start of August and a stalling consumption recovery in Asia (especially India) - and clearly all signals were in place for a bleak short-term outlook for the "black gold". Between September 4th and September 8th, WTI oil prices took a major dive, falling roughly 14% (from a high of $42 to a low of $36 per barrel; Brent prices also followed suit, dropping from $44.50 to $39.25). That prompted bank of America Merrill Lynch to predict that it would take three years for global oil demand to recover from Covid-19 assuming there is a vaccine or a cure in between. And whilst nobody assumed a return to the dark days of April, when US crude briefly traded in negative territory, the tone of the market was nonetheless turning more bearish; Traders were now starting to position for more bad news on the way (Corona cases surging in Europe, Chinese oil imports levelling-off, Saudi and other GCC producers starting to cut the official selling prices for their October imports, …), with statistics released last Friday showing money managers had decreased their bullish Brent and WTI oil bets by 124,167 combined net-long positions to 404,914, the least bullish (net-long position still) bet in 21 weeks.

And yet, oil prices are now poised for their biggest weekly advance since early June after Saudi Arabia piled pressure on fellow OPEC+ nations to deliver on promised output cuts. Saudi Energy Minister Prince Abdul Aziz bin Salman opened Thursday's meeting with a forceful condemnation of members that try and get away with pumping too much crude. This week, the IEA said the United Arab Emirates almost entirely disregarded its commitment to quotas last month, while tanker tracking data show Iraq is exporting more crude so far in September than it shipped in August. More importantly, Saudi Arabia also warned short sellers not to challenge its resolve and dropped clear hints that there could be a change of direction in production policy before OPEC+'s next ministerial meeting in December. "*We will never leave this market unattended*," AbdulAziz bin Salman noted. "*I want the guys on the trading floors to be as jumpy as possible. I am going to make sure whoever gambles on this market will be ouching like hell*" (Oops!). Futures in New York are up about 10% this week, despite bearish calls on the outlook from industry heavyweights such as BP Plc and Trafigura Group to the International Energy Agency. "*All in all, the strong reiteration of OPEC+'s commitment with its planned supply cuts is welcome news to the bulls in the market*," said Harry Tchilingirian, head of commodities strategy at BNP Paribas SA. Oil prices have also been supported this week by a weaker US dollar and a surprise 4.3 million barrels decline in US crude inventories. November WTI and Brent crude prices last trading at $41.00 and $43.15 respectively.

Below, we leave our readers with the two major stories that have shaped our world/markets over the past week:

- ***US Federal Reserve Sees rates Near Zero Through 2023:*** The Federal Open Market Committee (FOMC) held interest rates near zero and signaled they would stay there for at least three years, promising to delay tightening until the US gets back to maximum employment and 2% inflation. The US central Bank "expects to maintain an accommodative stance" until those outcomes are achieved, it said in a statement on Wednesday evening following a two-day meeting that kept the overnight Fed funds rate unchanged at 0.00% - 0.25%. "This very strong, very powerful guidance shows both our confidence and our determination," Powell told a press conference following the meeting, though he noted the new strategy was still a bit of a work in progress. "*There is no cookbook*"! (in other words, we're as clueless as anyone else about the final outcome 😊). The market reaction was a short-lived rally in equity prices and a steepening of the Treasury yield curve. The US dollar was little changed (up on the day, though succumbing to selling pressure over the past 48 hours)

- ***UK Sees Brexit Progress:*** Contrary to previous signs pointing to a chaotic split between the UK and the European Union without a new trade deal, the UK government suggested that a second round of informal EU trade talks this week were "useful", as European Commission President Ursula Von Der Leyen told the Financial Times she is "convinced" a deal is possible. The discussions "covered a broad range of issues and some limited progress was made," the UK government said late Thursday. The positive noises from both sides contrast with the saber-rattling in recent days, as Prime Minister Boris Johnson's government introduced a draft law to parliament that tore up sections of the Brexit deal he reached less than a year ago, and the EU threatened to retaliate with legal action.