



Basis Points – July 2, 2019

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Above the Fold

Risk On! — As expected, markets soared Monday as President Trump and President Xi Jinping agreed to a tariff cease-fire of sorts after several G20 meetings. The leaders of the two largest global economies will halt plans for new tariff actions and go back to the negotiating table to (hopefully) get a deal done. That said, current tariffs will remain in place, which are already having apparent effects on the communist nation. Recent (non-government issued) data on China's manufacturing sector showed a sharp drop in activity into contraction territory.

Extending an olive branch, Trump said he would loosen the ban on Huawei, allowing U.S. companies to sell their products to the Chinese tech group, even though it remains blacklisted.

Obviously, an agreement will not be an easy task, as both sides have failed to reach a compromise after 11 rounds of talks that last ended with increased tariffs. Investors are hoping the reset, along with weakening economic data and shaky business confidence from both countries, will help spur a deal.

What's Ahead

The Organization of the Petroleum Exporting Countries (OPEC) continues its talks today, but is poised to increase its output costs in response to weakening demand. With a new month and quarter upon us, we will also get data from Automatic Data Processing, Inc. (ADP) on June's employment condition in the U.S. — analysts are expecting 140,000 jobs to have been added in the month and are looking for upward revisions to last month's huge miss.

Three Things

1. *Apple's Design Guru Leaving* – John Ive, who took the design spotlight after the passing of creator Steve Jobs, is leaving Apple after 27 years to start his own design firm called “LoveFrom.” Insiders say that Ive’s departure was telegraphed as he had withdrawn from Apple’s new operationally-focused climate under CEO Tim Cook. Apple will continue to pay LoveFrom millions per year as a design consultant.
2. *Fossil Fuels Favored* – Crude oil prices got a boost over the weekend on news of a U.S.-China trade truce and OPEC cuts, while natural gas clocked in its best week since January as scorching temps across the globe fueled that rally.
3. *Cobs are Coming* – Corn prices fell as the Department of Agriculture (USDA) projected a much larger crop of corn was planted than expected. The heavy rains and flooding experienced by much of the Midwest this year was originally expected to curtail spring planting by as much as 3 million acres, but the USDA report showed a 2.6 million acre increase in this year’s plantings over last. Farmers have also been incentivized to plant corn by President Trump’s \$16 billion farm aid package signed in May.

Did You Know?

OPEC nations are responsible for roughly 40% of global oil production, but that number is falling as countries like the U.S. dramatically ramp up production. According to OPEC, its 13 members collectively account for nearly 82% of the world’s oil reserves, which are estimated to be more than 1.2 trillion barrels.

The Journal of Petroleum Technology (JPT), a respected industry information source, shows a much different picture. According to a recent JPT publication, supported by data from Rystad Energy, the U.S. is by far the largest owner of recoverable oil resources at 293 billion barrels, 20 billion more than Saudi Arabia, and nearly 100 billion more than Russia. Rystad data also show that non-OPEC countries control more than 1 trillion barrels of recoverable oil, while OPEC controls less than 800 billion.

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