OIL - Another Reminder Why ALL Forecasts Should Be Taken With a Silo, Never Mind a Grain, of Salt

A little less than twelve years ago the price of crude oil reach a record high of $147, and the news media was full of breathless reports that the supply of oil had peaked and a growing global shortage meant much higher prices ahead. A major Canadian bank's economist got widespread headlines with his prediction of $225 by 2012. He further predicted that the very high cost of fuel for transportation would mean a severe global disruption of supply chains everywhere.

Last week should also go down in the history books as the price of West Texan Intermediate (WTI), the benchmark for US oil, hit a low of *minus* $40 a barrel. Yes, dear readers, the glut of oil meant you had to pay someone to take it off your hands. By week's end some order had returned to the energy market, and by Friday the price was $16.73 a barrel, a very far cry from $225, or even the $50 to $70 a barrel that has been a more recent range, for most oil producers to have any hope of profitability.

After the stock market's strong gains over the last few weeks some weakness in share prices was not unexpected. Along with the collapse in oil prices, there were a number of other negatives to discourage investors:

- Disappointing results of Gilead's vaccine trial against COVID-19.
- The biggest drop in durable goods orders since August 2014.
- Unemployment numbers continued to grow – 26 million Americans are now unemployed - wiping out all job gains since the global financial crisis.
- The widely touted government financing struggles to find its way to the right hands, while at the same time public outcry led to Shake Shack and other large publicly traded corporations returning their employee protection loans.
- Ongoing national debate - initially centered around Georgia - on a, satisfactory to all, process on how let businesses reopen.

Thus, despite another $484B in U.S. aid being approved, for more PPP loans and Small Business Administration disaster assistance, all major indices were lower for the week with the winners being the safety of government bonds and the rediscovered safe haven of gold. The real big winner after the shutdown of a number of American meat processing plants - Lean Hogs up almost 40% in price.

In CANADA, our financial and real estate sectors continue to be notable underperformers as energy loan losses, plus rising rent and credit card non-payments, weigh heavily on investors' minds.

The week ahead is going to be very interesting as there are some major earnings announcements plus further data on the impact of social distancing on the economy. Reports are due from Amazon, Alphabet, Facebook and Microsoft . On the economic front, the US Commerce Department will provide an indication of first quarter GDP. Economists, on average, expect a drop of 4%. The second quarter, of course, will be the real biggie.

Nevertheless, as I have commented a number of times before, I believe the low points of major indices seen in March will hold and recent strong rallies make it even more unlikely that any declines will come close to those levels.