



Basis Points – June 8, 2021

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Above the Fold

Is \$100 Oil Making a Comeback?

As the world continues its transition to clean energy, crude prices seem to be making their last stand. Exactly one year ago last week, the cost of a barrel of black gold was a mere \$19. At the time, global lockdowns abruptly halted industry and commerce, while oil continued to flow into the world's marketplace. At one point, oil futures had even gone inverted, meaning that oil purchasers were given money to take delivery of a barrel of crude. But with oil being a manipulatable resource (one where production can be throttled on and off), oil-producing nations began reducing output to match the dramatically lowered demand.

Over the last year, as industry slowly came back online, the price of WTI (West Texas Intermediate) oil has quickly risen to its current value of around \$70. But apparently there are some big bets being made that will only pay off if oil prices eclipse \$100 (a level not seen since 2014). On the New York Mercantile Exchange (NYMEX), investors have been buying \$100 call options in both Brent and WTI futures. These call options are essentially a wager that crude will reach \$100 by the end of next year. In fact, the \$100 call is currently the most widely held WTI option on the NYMEX at present. In other words, there's a bit of conviction to this trade. It is important to note that the option itself is/was relatively inexpensive as most investors didn't see \$100 oil. But the flurry of activity now has traders reevaluating the crude landscape — and some are starting to believe it's not such a far-fetched proposition.

Three Things

1. *All-Male Boards Are a Thing of the Past for the S&P 500* – A growing call for diversity on Wall Street has finally come to fruition. Monolithic Power Systems, the last company with an all-male board, added a female director last month. At least one woman now sits on the board of every S&P 500 company. Women also account for nearly 30% of directorships across the index of publicly traded firms, with the biggest presence in the communications sector.
2. *Fed to Begin Dumping Corporate Bonds* – During the pandemic, the Federal Reserve's (Fed) dramatic actions included the purchase of corporate bond ETFs (Exchange Traded Funds) and bonds directly to support that marketplace and ensure liquidity. Now with about \$14 billion in corporate bonds and ETFs, the Fed announced plans to unload those holdings in the open market. The good news is that its actions are unlikely to have a major impact on prices as the corporate bond market is more than \$10 trillion in size.
3. *Bezos to Try His Hand at Space Travel* – Amazon founder Jeff Bezos and his brother plan to launch into space next month aboard a rocket built by Bezos' space company Blue Origin. The flight will last just 10 minutes, attaining an altitude of 340,000 feet and is the first "tourist" flight for the company. Blue Origin is also auctioning off one open seat in the capsule; the current bid is just under \$2.9 million.

Did You Know?

More on Blue Origin and the New Shepard

As the race for space tourism heats up, Bezos' Blue Origin and its current rocket design called New Shepard is planning to shuttle passengers with an autonomous, reusable rocket and pod combination. What's unique about New Shepard is that after the pod detaches, the rocket stays upright and guides itself to a concrete pad using jet propulsion. The pod then deploys parachutes, drifts back down to Earth and lands in a nearby desert. Tickets are expected to be in-line with its

competitor Virgin Galactic at about \$200,000 to \$250,000 for the short excursions that will allow passengers to see the full curve of the Earth and experience weightlessness. Both companies say that ticket prices are likely to increase in cost.

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