



Basis Points July 19, 2018

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Above the Fold

- Fed Chairman Powell spoke before the Senate Banking Committee on Tuesday, and responded to a question about the effects of tariffs and an impending trade war on U.S. economic growth thus far, and in the future. Powell said that protectionism can hurt economic growth and potentially undermines wages. He noted “In general, countries that have remained open to trade, that haven’t erected barriers, including tariffs, have growth faster. They have had higher incomes, higher productivity. Countries that have gone in a more protectionist direction have done worse.” Powell said trade and tariff concerns have not shown up in economic numbers yet, but he hears a growing chorus of business leaders who are worried about the future in this area, and may slow capital expenditure spending due to new tariffs.

- Houston will soon get its own oil futures, as the city's importance grows as an energy export hub. Intercontinental Exchange (ICE) is planning a new crude futures contract with physical delivery in Houston. The contract will provide traders with direct access to Houston prices, and ICE is aiming to launch the trading product this quarter, subject to regulatory review. For many decades, the benchmark for U.S. oil prices has been in Cushing, Oklahoma, because of its accessibility through major pipelines and large storage space. However, with the U.S. on track to become a major energy exporter, industry analysts say that pricing power is shifting to the Gulf Coast, where oil gets loaded onto tankers and shipped overseas.
- Amazon's once-a-year Prime Day continues to grow in popularity, and Amazon said yesterday that this year's Prime Day was its "biggest in history." Prime members purchased more than 100 million products during this year's event. Amazon did not disclose specific sales numbers but said it had more new sign-ups for Prime on July 16 than any previous day in Amazon history. Last year, Amazon said sales grew more than 60 percent during the event, surpassing Amazon's Black Friday and Cyber Monday sales combined. The company also had added "tens of millions of Prime members" to its platform, helping it surpass 100 million Prime members for the first time earlier this year. Industry analysts had been anticipating Amazon could ring up at least \$3.6 billion in Prime Day sales globally this year.

Three Things

- Don't mess with Texas: As a result of huge growth in energy drilling in Texas due to the fracking revolution over the past 10 years, Texas will surpass the energy production numbers of both Iran and Iraq next year at current rates of growth. If it were a country, Texas would be the world's number three oil producer, behind only Saudi Arabia and Russia. The combined output of the Texas-based Permian and Eagle Ford basins will rise from 2.5 million barrels per day in 2014, to 5.6 million barrels in 2019. Texas will then account for more than half of all U.S. energy production. Production will only slow in West Texas because there is simply not enough transport pipelines at the current time to ship all the products to the Houston transport markets. New pipelines are currently being constructed, but most will not be online until late 2019.

- A retirement bill currently in Congress could alter and improve the use of 401(k) plans. The bill is called RESA, the Retirement Enhancement and Savings Act, and lawmakers are starting with a bipartisan bill that would encourage more small employers to offer retirement savings plans and make it easier for companies to offer annuities that turn workers' savings into a guaranteed annual income. Among the provisions in RESA is one that would allow small employers to band together to offer 401(k) plans. By joining a multiple-employer plan, or MEP, small companies can spread plan administrative costs over more participants, which would lower fees. The bill also would encourage 401(k) plans to offer annuities, which help participants transform their balances into a lifetime income stream. Though commonly offered by traditional pension plans, annuities aren't often used in 401(k) plans because employers worry about liability if they choose an insurance company that later fails to pay claims. A provision in the RESA bill would move that liability from the employer offering the 401(k) plan to the annuity company selling the product.
- The *Wall Street Journal* reports that U.S. corporations are warning that currency fluctuations are weighing on their profit results this year. Twenty-three S&P 500 companies have reported earnings so far in July, and half of these companies said currency swings had a negative impact on their earnings this quarter or they expect them to later this year. A much smaller number of company managements mentioned rising raw materials costs or higher energy costs as a negative to their businesses. The Dollar has risen this year, due to stronger economic growth in the U.S. vs. other world economies, and also from higher U.S. bond yields vs. the alternatives. To buy U.S. bonds, international investors must first exchange their currency for Dollars, which raises demand and the price of a Dollar.

Did You Know

Dwayne Johnson (aka "The Rock"), 46 years old, is at the entertainment business vanguard in using his social media presence to not only increase his income, but also in selling access to his followers to major movie companies. The Rock made \$124 million in earnings last year, and also has 108 million Instagram followers. His huge army of social media followers check out his daily posts and watch his frequent selfie-videos of him working out, filming movies and living the high life. Other posts that leverage his 13 million Twitter followers and 58 million on Facebook introduce movie trailers, show him in development meetings and celebrating his "cheat day" pancake stack. The Rock also is pioneering a new way to monetize his digital presence. In addition to acting in movies for \$20 million a pop and receiving a portion of the box office of those movies, The Rock also charges the movie studios separate seven-figure fees for posting information about his movies to his massive social media family. The studios like this deal, as instead of buying billboards or costly TV ad time, they can go directly to known fans of The Rock, in a more calculated, direct way. The Rock is globally popular, as his movie themes easily cross over to foreign markets, and more than 64 percent of his global box office comes from international

markets. For now, The Rock is the only actor in Hollywood that can command fees of this type for access to his fans, but expect this trend to increase as time goes on, and social media power continues to rise.

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