



OFF THE NEWS

A Chinese Gold-Backed Reserve Currency?

It is starting to be known in international financial circles that the Chinese government is the reason the global price of gold is soaring. “Beijing is buying gold like a mad man,” a senior G7 official said. The speculation is that Beijing’s plan is to create a gold-backed entity that becomes a kind of Chinese-controlled reserve currency.



Trump’s Hand Grenades and Fireworks

Financial traders, particularly those who lost big shorting the U.S. stock market when President Donald Trump introduced his massive tariffs only to find the market soar, now have a new watchword: Don’t listen to what Trump says. Look carefully for what he possibly means.

Put another way, the president loves announcing new policies by setting off hand grenades and filling the skies with fireworks that don’t mean anything. These are just PR tactics to get the public’s attention. In the end, the tariffs are likely to be 15 percent in most of the cases that matter, not the initially proposed 50 or 100-plus percent tariff numbers being thrown about.

Remember, the administration is not logistical-ly capable of negotiating several hundred more trade deals over the next several months. Instead, their only hope is to work to create a template as a guide for all other future trade deals. Administration insiders believe that the deals already negotiated with the United Kingdom, Japan, and the European Union have gone a long way toward establishing that template.

So what about China? Beijing could do a quick deal. But the expectation is that China will sit back and watch. “China will come to the table when (or if) the Trump template reaches a critical mass,” said an administration official.



All Crudes Are Not the Same

U.S. energy dominance in crude oil will raise prices for petroleum products.

Why? Diesel fuel is becoming by far the most important product made from crude oil.

Heavy crudes such as the oils found in Alaska, Canada, and the Middle East are “distillate rich.” This means refiners can get a lot of diesel out of these oils. Light crude oils such as the crudes from the Permian Basin, Eagle Ford, and North Dakota are distillate poor, meaning they produce low volumes of diesel. There is also no way to refine them to boost the diesel yield.

This means the global supply of diesel declines as larger volumes of U.S. crude substitute for Middle East crudes. Diesel prices rise. Since crude prices are essentially the weighted average of the products produced from them, crude prices also rise.

The obvious conclusion is to boost Middle East production, cut U.S. production, and possibly achieve lower prices.

At the moment, the rise in diesel prices is disrupting petroleum markets.

—Philip K. Verleger, Jr.



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