



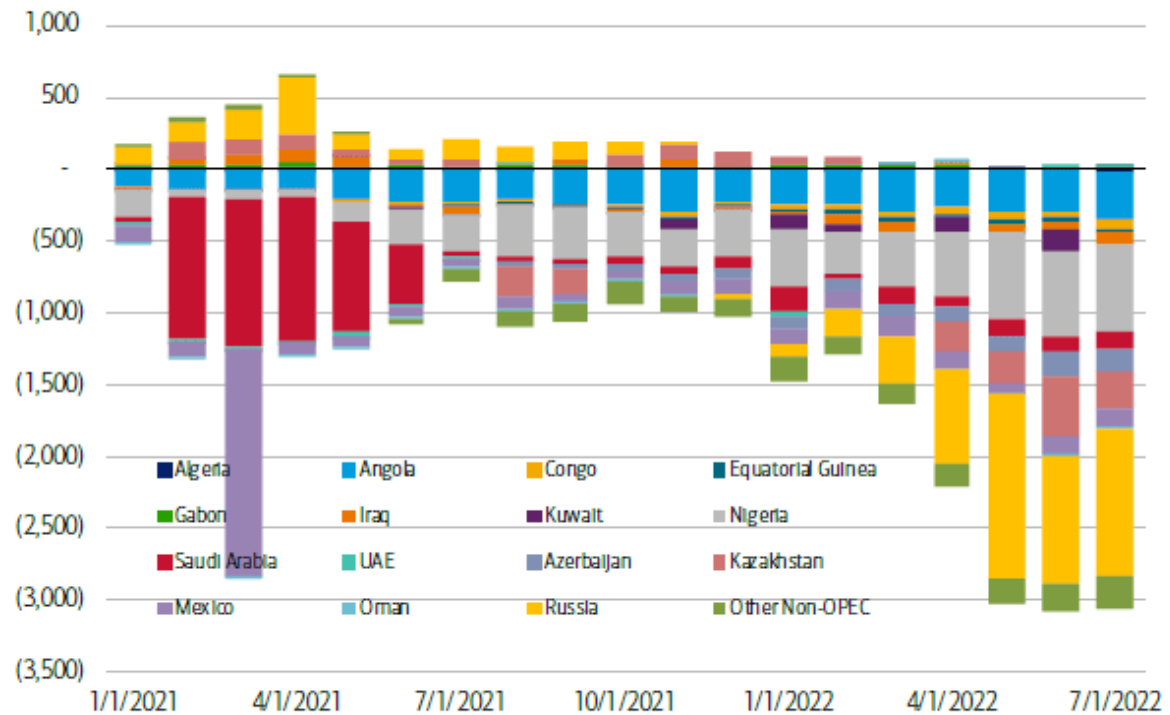
## OPEC Production Cuts- Does It Matter?

On Friday, the G7 announced a price cap on Russian oil. Russia quickly retaliated by cutting gas supply to zero to Germany due to a ?leaking pipe.? OPEC then piled on yesterday by reducing its oil production. Accordingly, OPEC will reduce its oil output target by 100k barrels per day (BPD) starting in October. It is unclear if OPEC is siding with Russia or reducing production to counter recently lower oil prices. The United States will likely continue to draw down its Strategic Petroleum Reserves (SPR) to try to offset reduced OPEC and Russian oil production. In a section below, we provide historical context for the recent unprecedented draining of the SPR.

Crude oil prices surged on the OPEC production news Monday but quickly retreated and gave up their gains by Tuesday morning. Many investors are questioning whether the reduction is meaningful. As we share below from BofA, OPEC production was already running well below its quota. Another 100k BPD reduction is not likely to move the needle and may just signal Russia?s support from OPEC.

### Exhibit 5: OPEC+ production vs quota

OPEC+ continues to underproduce

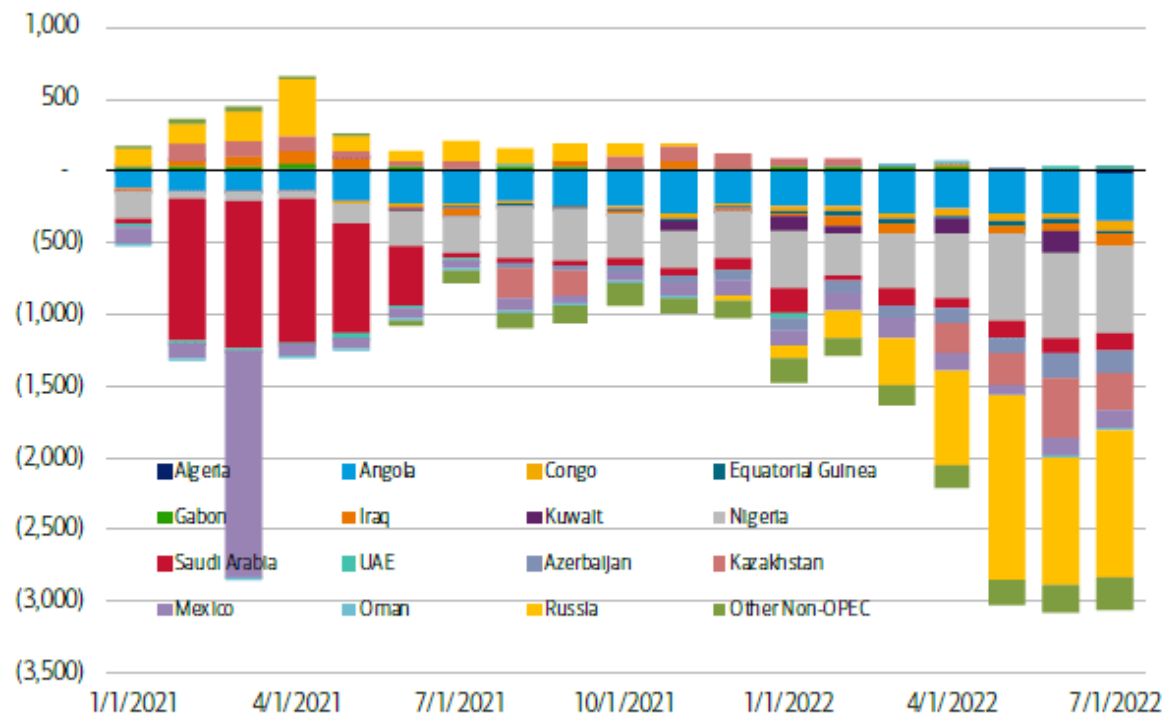


Source: BofA Global Research

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## What To Watch Today

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, the week ended September 2 (-3.7% previously)
- 8:30 a.m. ET: **Trade Balance**, July (-\$70.2 billion expected, -\$79.6 previously)
- 2:00 p.m. ET: **Federal Reserve Beige Book**

### Earnings

Company	Time	Estimate	Growth	Surprise	
✓ <b>CASY</b> Casey's General Stor...	5:00 PM ET	\$3.84	\$4.57 B	43.6%	+ = -
✓ <b>ASO</b> Academy Sports and ...	8:00 AM ET	\$2.10	\$1.71 B	-4.6%	+ = -
✓ <b>NIO</b> NIO Inc.	6:00 AM ET	-	\$1.43 B	9.3%	+ = -
✓ <b>AEO</b> American Eagle Outfi...	4:15 PM ET	\$0.13	\$1.20 B	0.5%	+ = -
✓ <b>GME</b> GameStop Corp.	4:05 PM ET	(\$0.38)	\$1.27 B	7.3%	+ = -
✓ <b>CPRT</b> Copart Inc.	6:15 PM ET	\$1.08	\$874.72 M	16.8%	+ = -
✓ <b>REVG</b> REV Group, Inc.	7:00 AM ET	\$0.21	\$592.62 M	-0.1%	+ = -
✓ <b>KFY</b> Korn/Ferry International	6:45 AM ET	\$1.53	\$697.72 M	18.6%	+ = -
✓ <b>WLY</b> John Wiley & Sons, Inc.	7:30 AM ET	-	\$501.60 M	2.7%	+ = -
✓ <b>GIII</b> G-III Apparel Group, ...	7:00 AM ET	\$0.49	\$593.41 M	22.8%	+ = -
✓ <b>PLAY</b> Dave & Buster's Ente...	5:00 PM ET	\$1.01	\$432.91 M	14.6%	+ = -
✓ <b>CURV</b> Torrid Holdings Inc.	4:05 PM ET	\$0.24	\$340.70 M	2.4%	+ = -
✓ <b>VRNT</b> Verint Systems, Inc.	4:05 PM ET	\$0.27	\$225.50 M	5.1%	+ = -
✓ <b>DSGX</b> Descartes Systems G...	5:00 PM ET	\$0.27	\$119.20 M	14.0%	+ = -
✓ <b>AVAV</b> AeroVironment, Inc	4:10 PM ET	\$0.09	\$102.92 M	1.9%	+ = -
✓ <b>YEXT</b> Yext, Inc.	4:15 PM ET	(\$0.19)	\$99.60 M	1.5%	+ = -
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## Market Trading Update

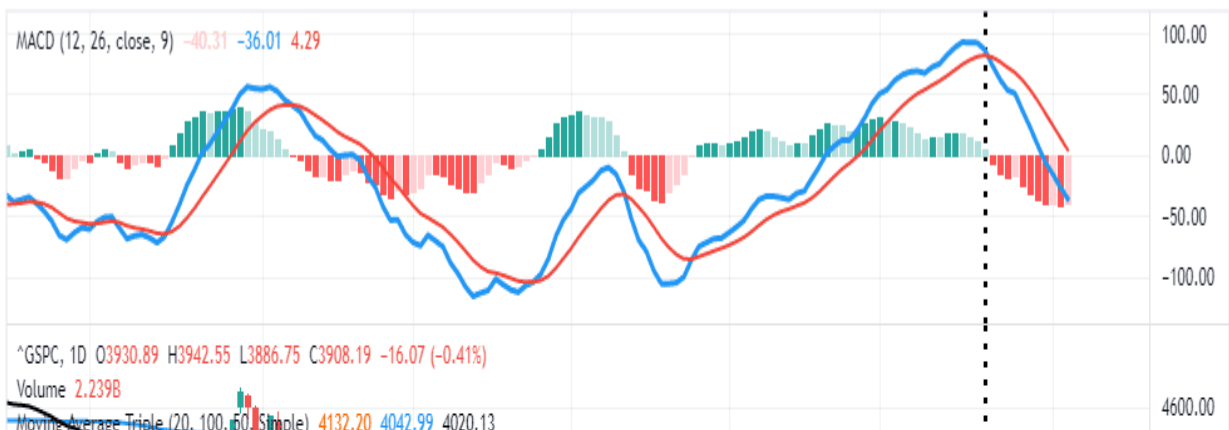
The market attempted an early rally yesterday but failed as investors continued liquidating stocks following the recent July/August rally. With the market challenging critical support, it is ?make or break? time for the market. If the market fails to hold support at 3900, there is a high probability of the market testing and potentially setting new lows. Such would be quite frustrating given recent bullish commentary suggesting such has never occurred following a 50% retracement of a previous decline. However, these are also unlikely times with the Fed aggressively tightening interest rates,

reducing their balance sheet, and long-duration rates rising sharply, constricting economic growth.

As shown, the market is oversold, so use any rally back to the 50-dma, which is about to coincide with the 100-dma, as a point to sell equities, reduce risk, and raise cash for now.



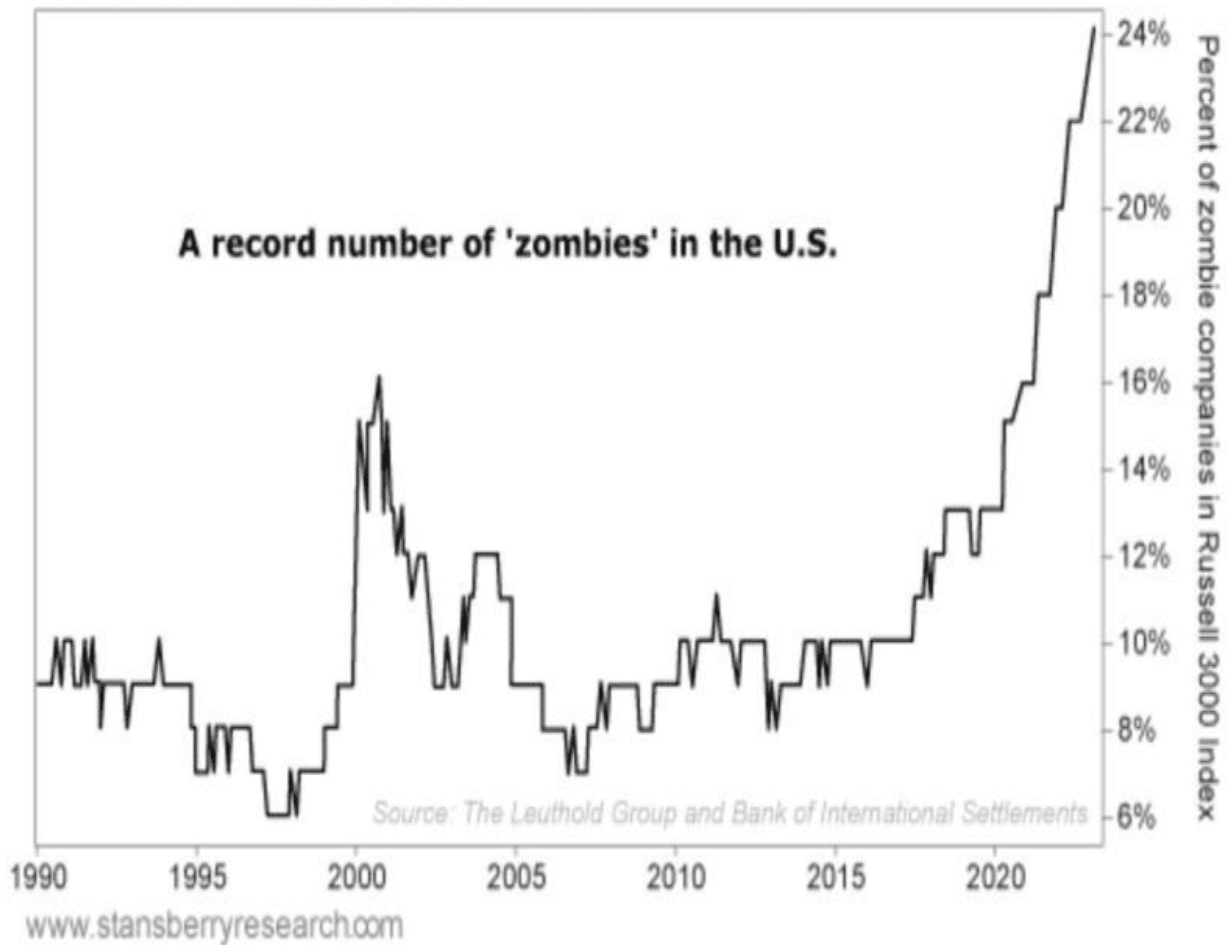
TradingView



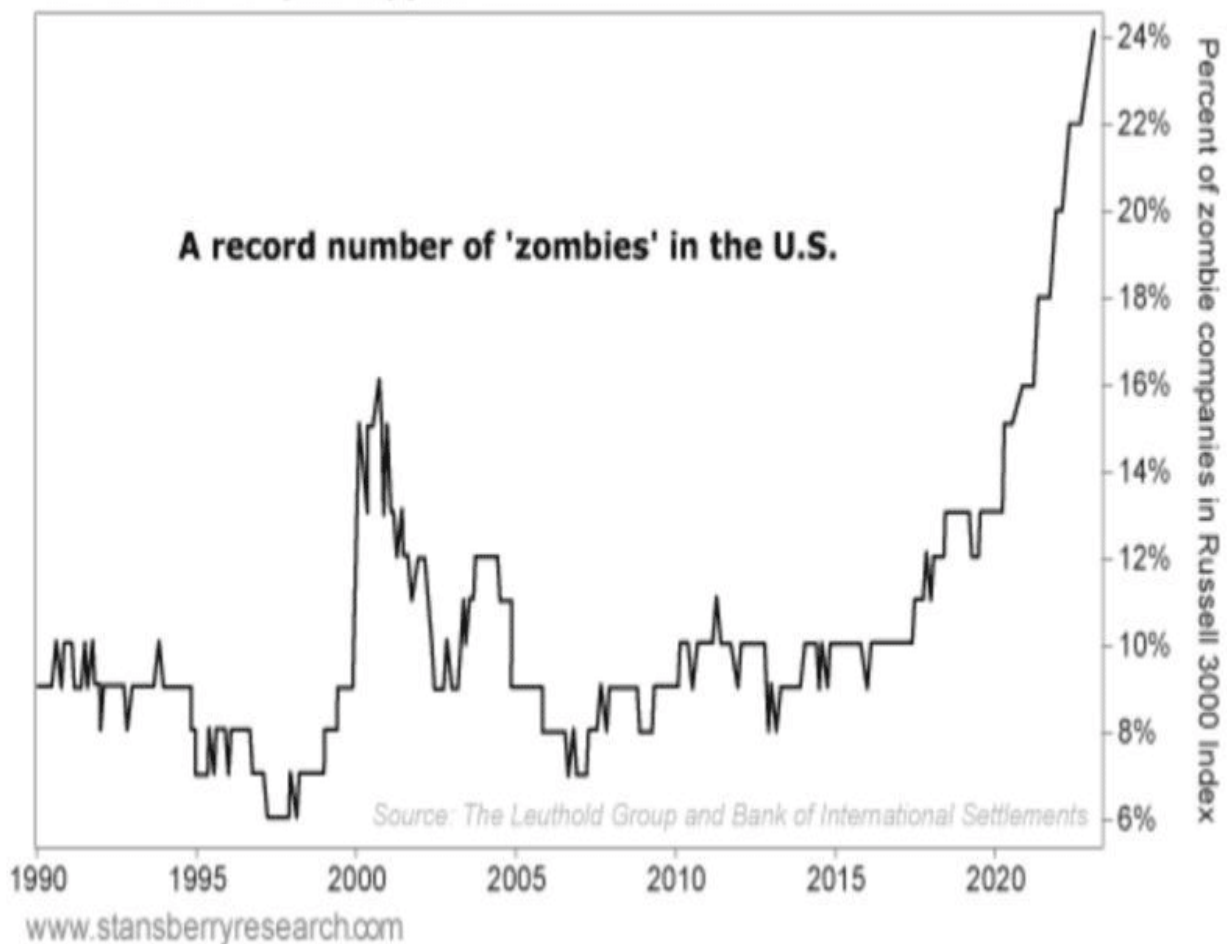
## **Zombies Apocalypse**

One of the biggest threats to the market, primarily the small and mid-capitalization sectors, is the enormous number of companies that require cheap debt to stay alive. As the Fed hikes rates and the longer end of the yield curve increases, the potential risk of a refinancing failure increases. With 24% of companies in the U.S. dependent on cheap debt to survive, a rush of bankruptcies could create the unexpected catalyst for a deeper market decline.

## A 'Zombie' Apocalypse



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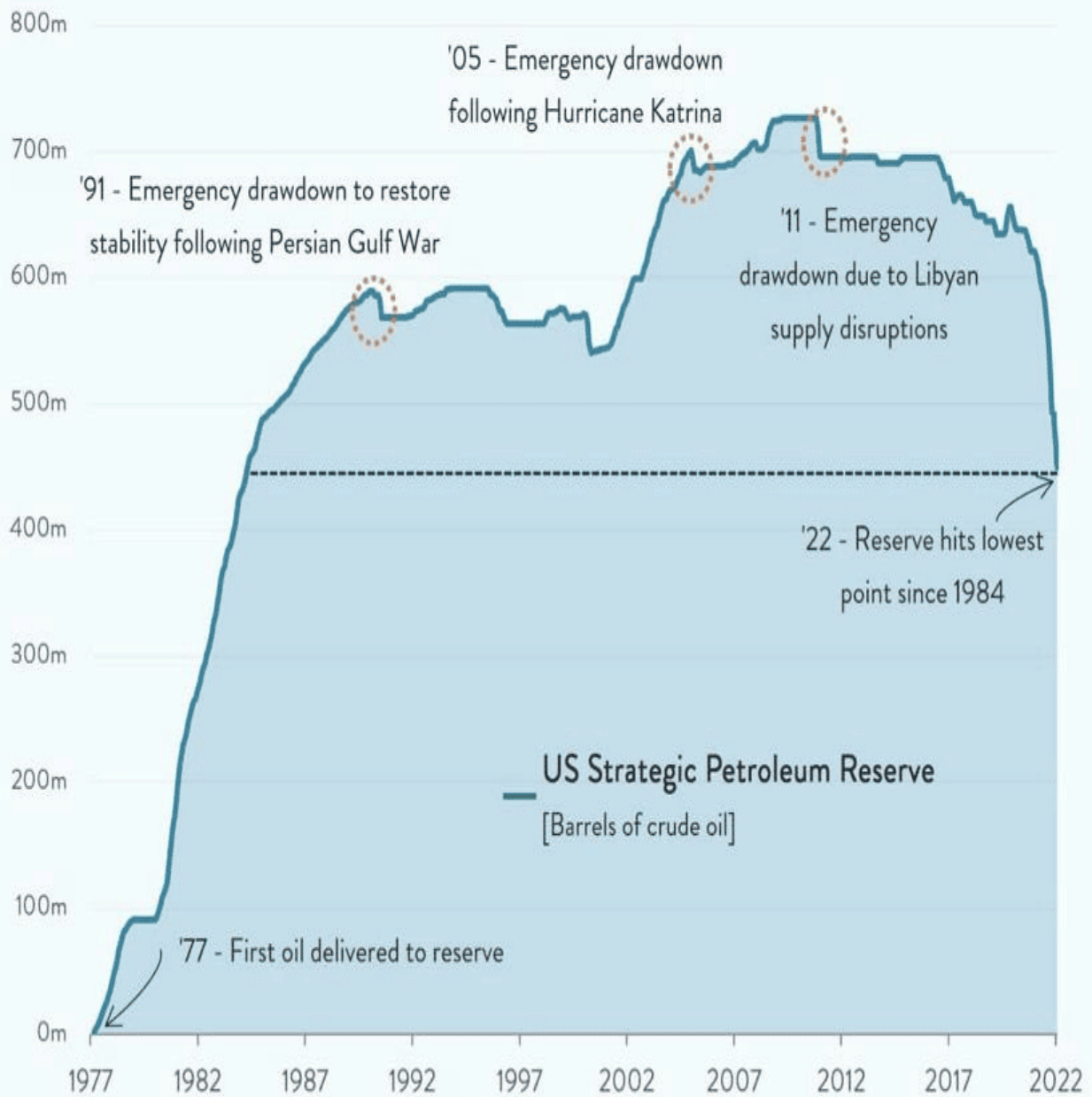




## **SPR Draining**

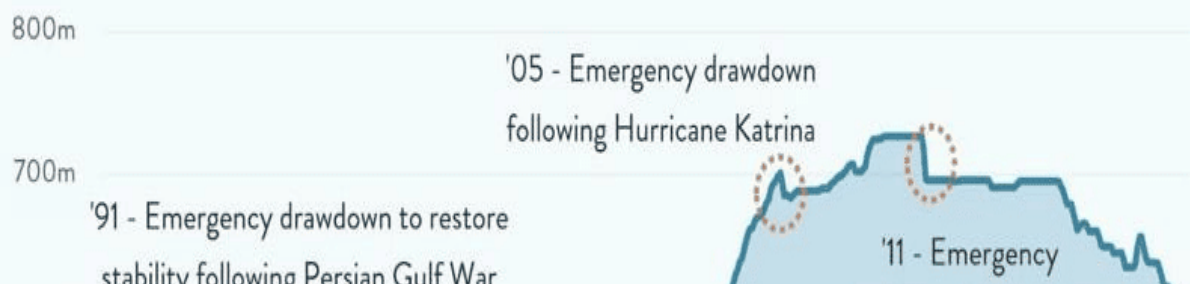
The Strategic Petroleum Reserve (SPR) is America's emergency oil reserve managed by the Department of Energy (DOE). Per the DOE, the SPR is a U.S. Government complex of four sites with deep underground storage caverns created in salt domes along the Texas and Louisiana Gulf Coasts. The DOE is currently draining reserves at a rate approaching 1mm BPD. As we share below from Chartr, the SPR is at its lowest level since 1984. We suspect the administration will continue to draw on the SPR to help cap the upside in energy prices. The problem, however, is that soon, they will have to refill the SPR, which will essentially put a floor under oil prices.

# The Strategic Petroleum Reserve Has Hit Its Lowest Level For 38 Years



Source: US Energy Information Administration [chart](#)

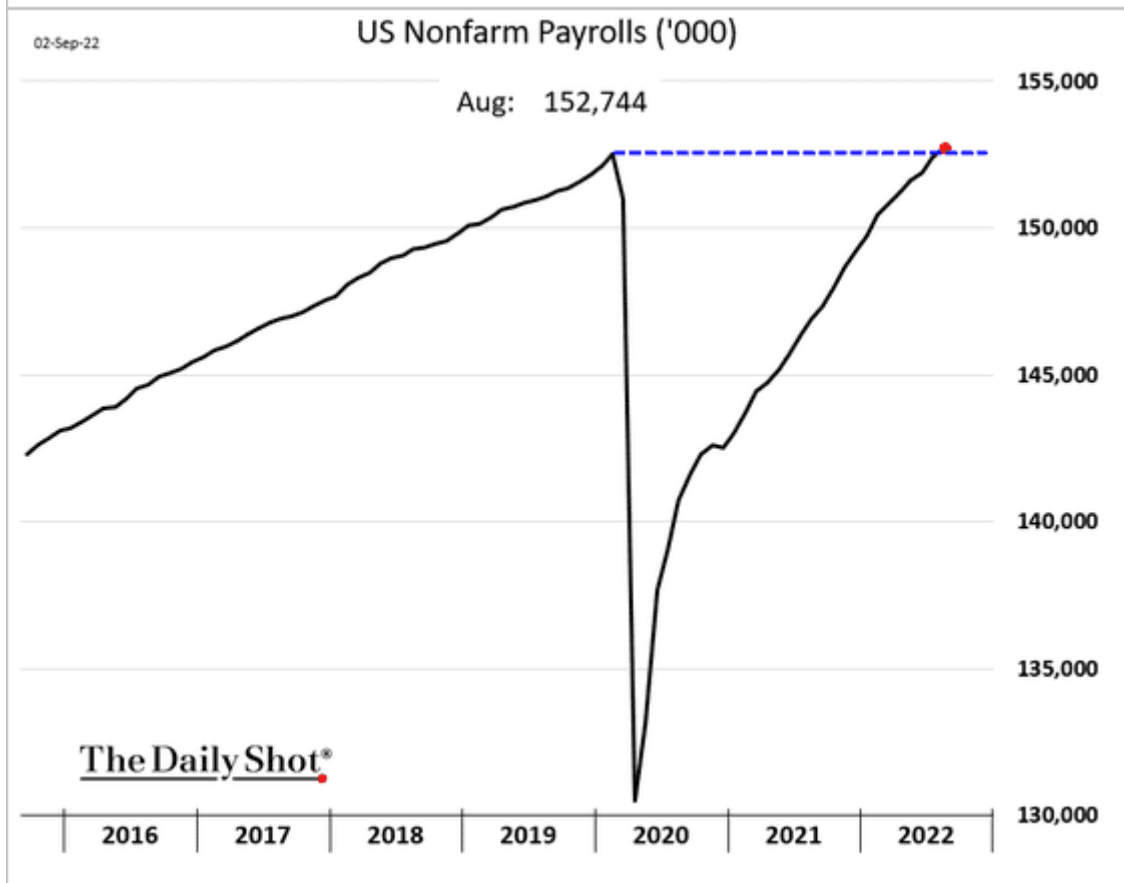
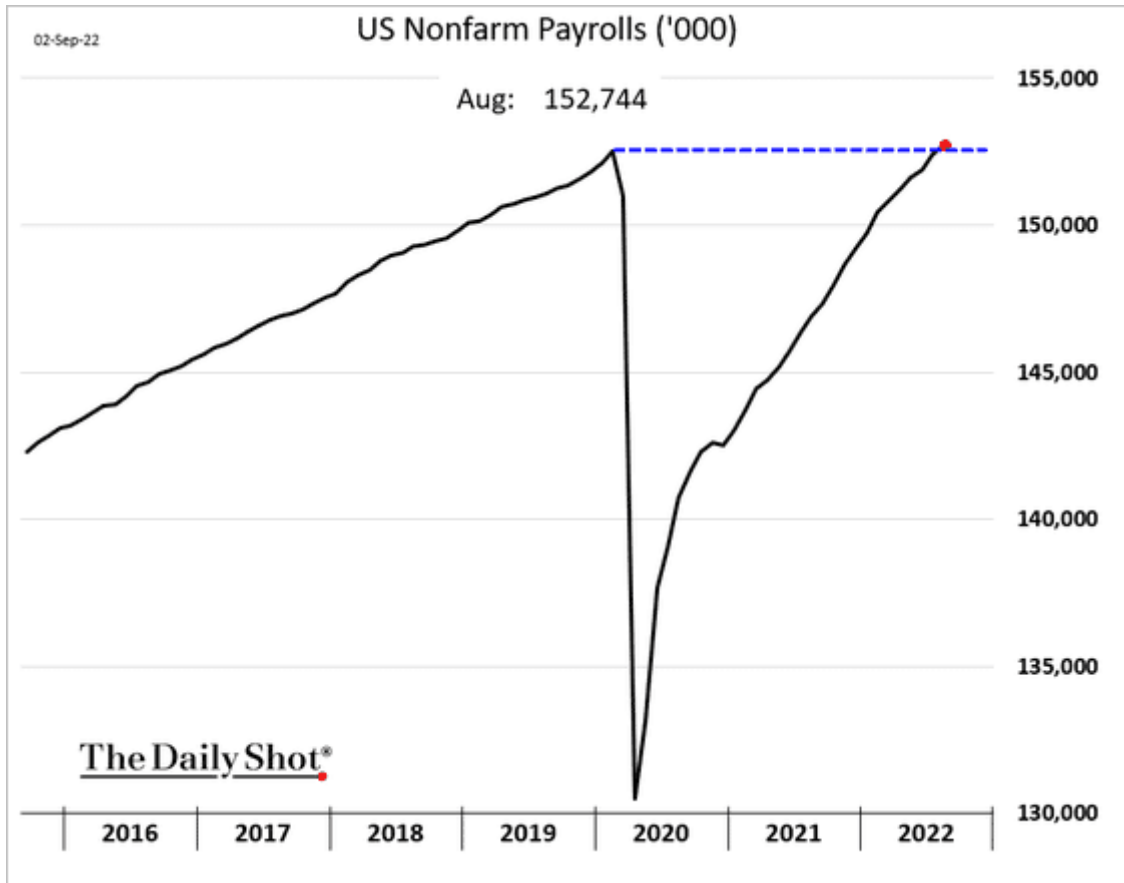
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## Post Pandemic Job Growth

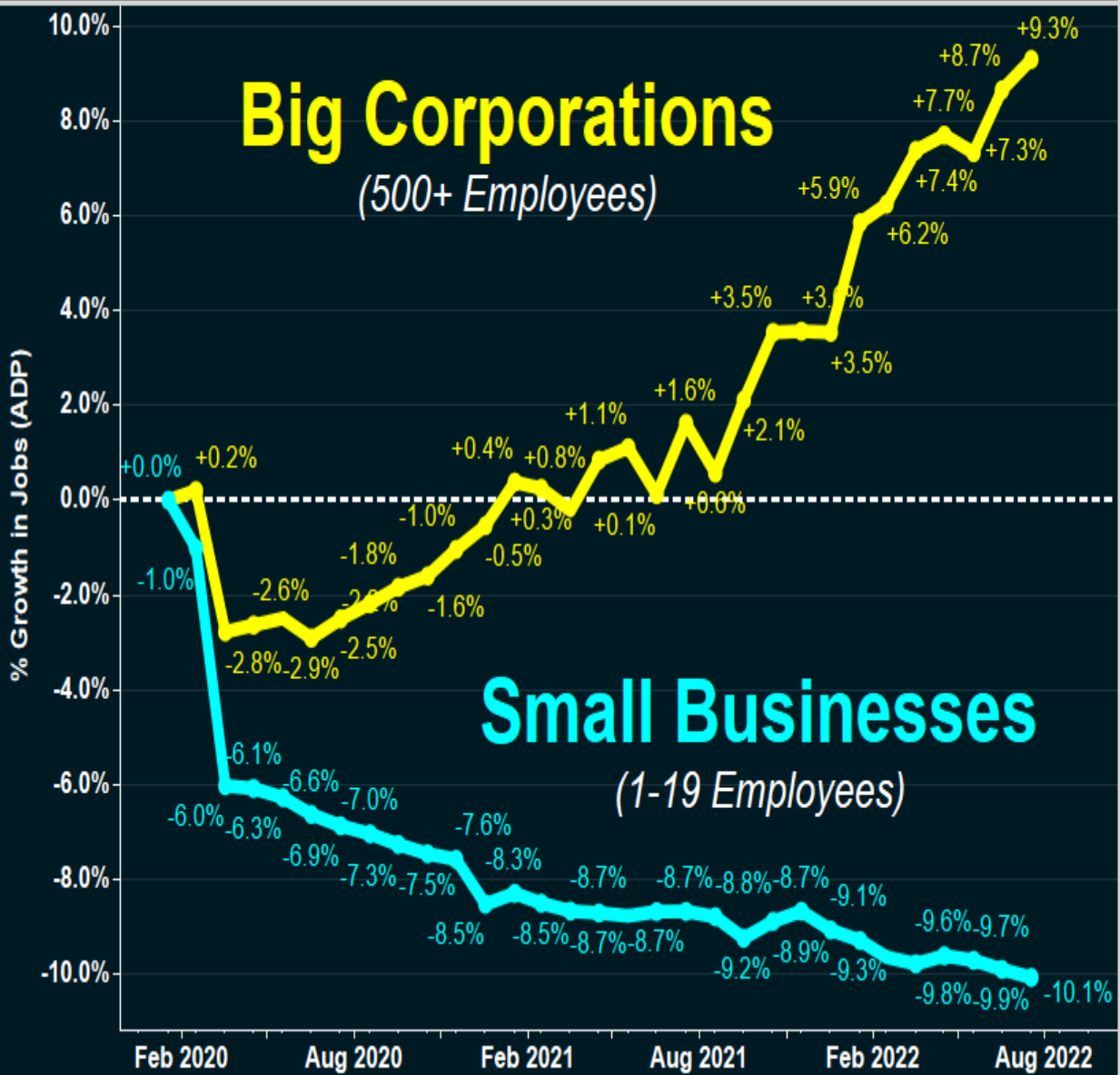
The first graph below shows that with Friday's payroll jump, the number of jobs is finally back to pre-pandemic levels. However, as we share in the second graph, the distribution of employment has changed markedly. Small businesses have lost about 10% of their workforce, while larger companies grew by about the same amount. The NFIB small business survey continues to point to the lack of available labor as the biggest problem facing small business owners. In its latest survey, they claim 49% of those surveyed are reporting job openings they can not fill. Per the [NFIB survey](#):

*The labor market continues to be a significant challenge for small business owners,? said **NFIB Chief Economist Bill Dunkelberg**. ?Owners are managing several economic headwinds and continue to make business adjustments to mitigate lost sales opportunities due to staffing shortages. Almost half of owners are raising compensation to attract workers for their open positions.*



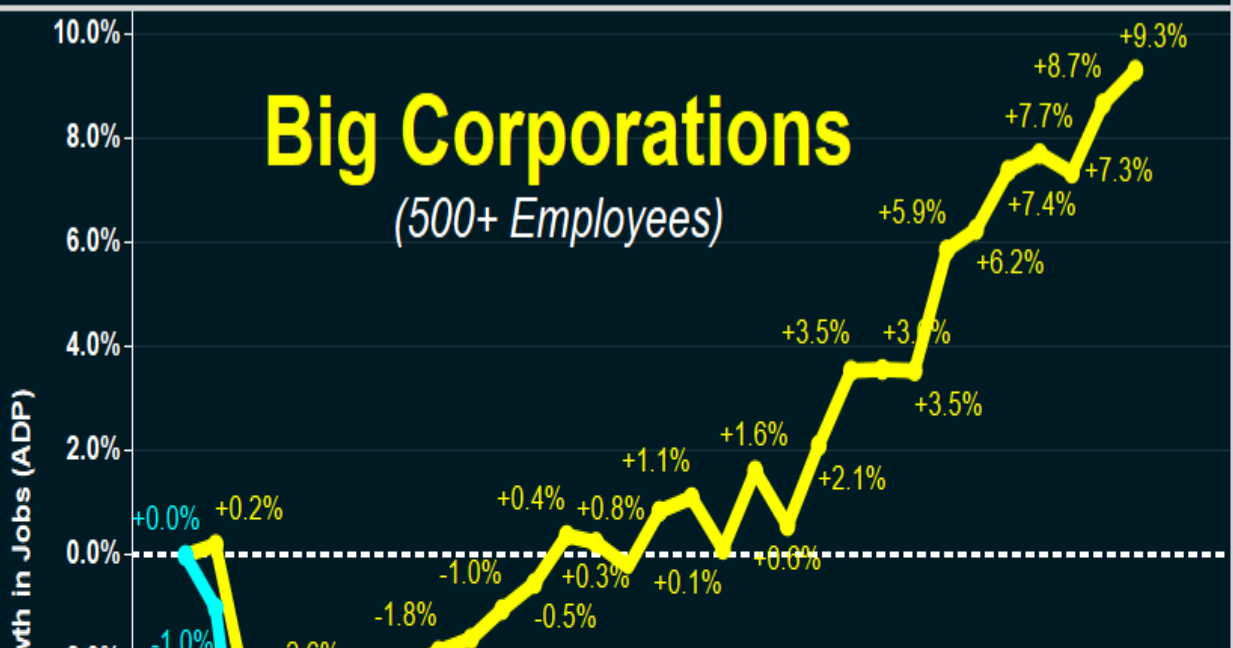
# Job Growth since Pandemic

% Growth in Jobs since Feb 2020 (Source: ADP)



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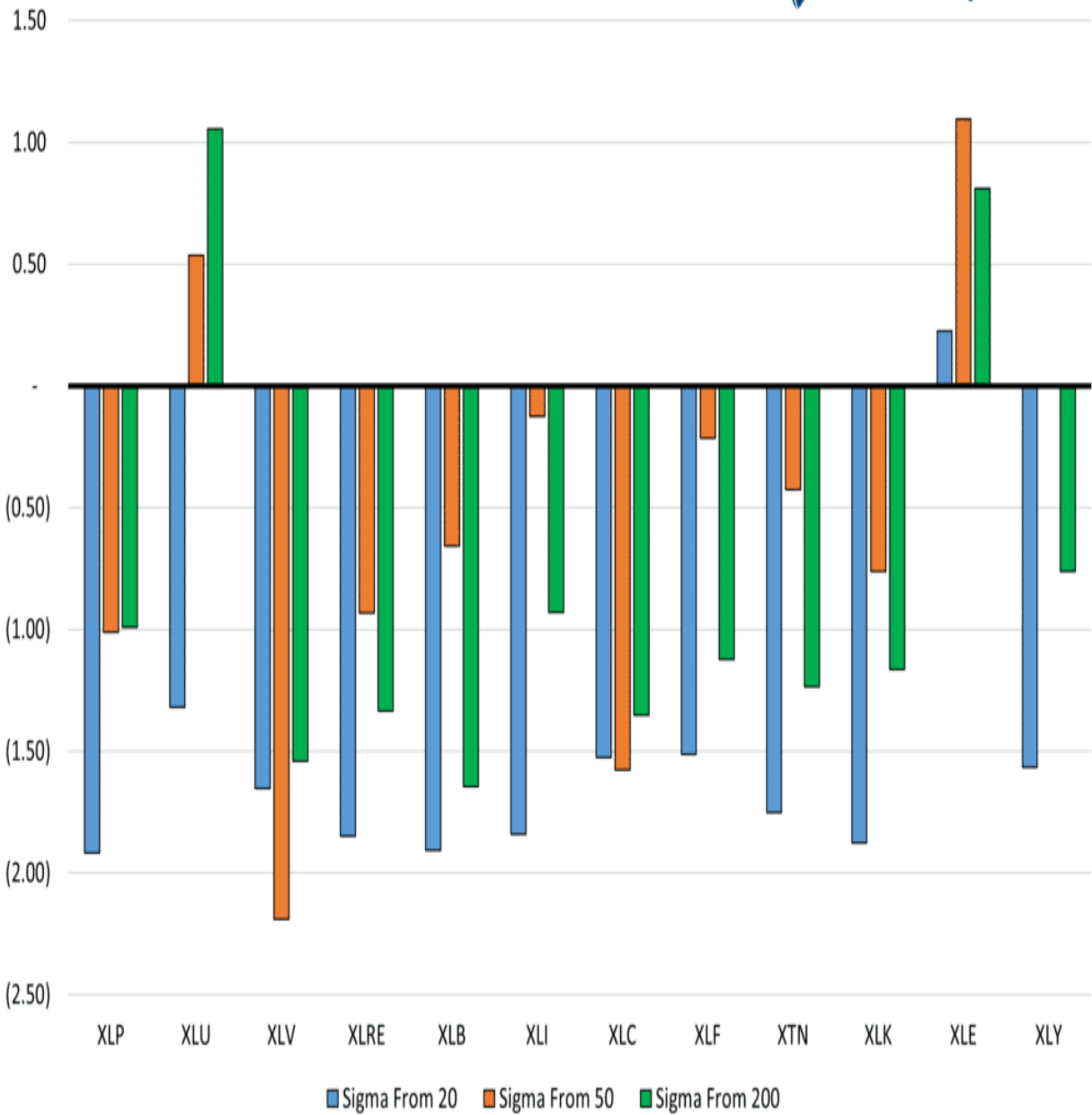
% Growth in Jobs since Feb 2020 (Source: ADP)



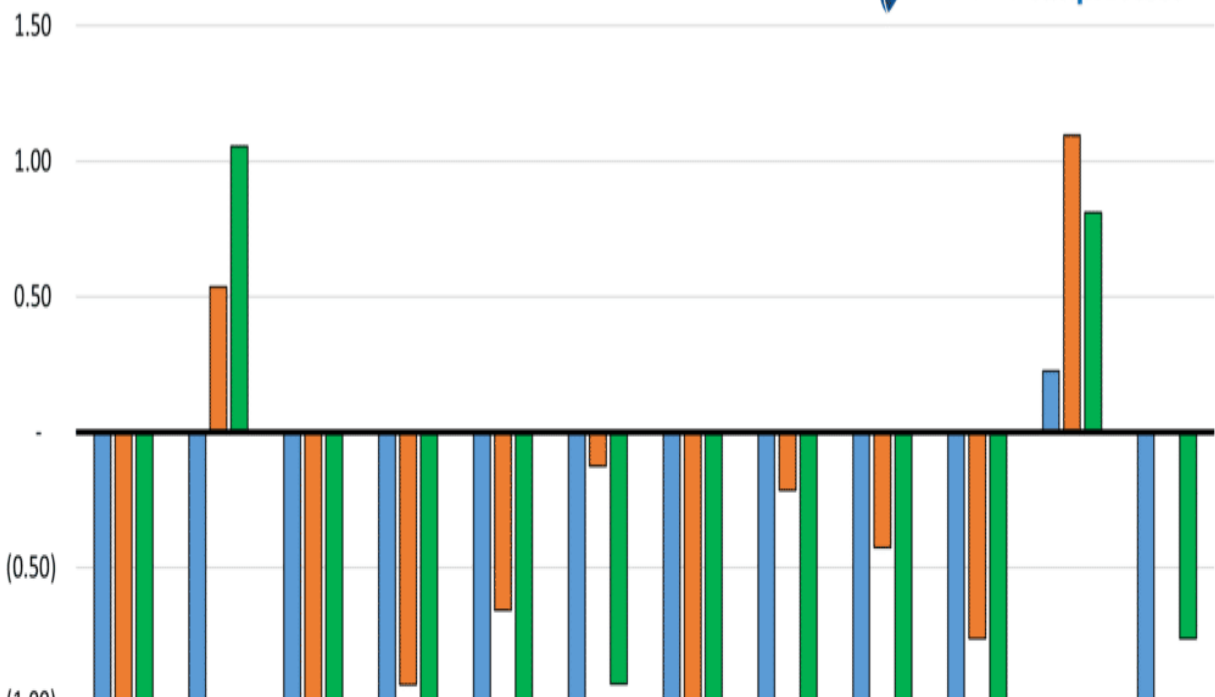
## Oversold Again

Only a couple of weeks ago, many sectors were flashing bullish signals as they approached and, in a few cases, rose above their respective 200-day moving averages. The optimism was short-lived as Jerome Powell's hawkish rhetoric reversed the bullish trend. The graph below shows that many sectors are now approaching negative two-standard deviations from their 20, 50, and 200 dmas. Such is likely signaling a bounce ahead. The August 16th high of 4325 will become a critical resistance level if the market is to bounce. That level at the time was also the 200 dma.

Standard Deviation from 20, 50, and 200 dma




Standard Deviation from 20, 50, and 200 dma



## Tweet of the Day






Mohamed A. El-Erian   
@elerianm



Per the [@WSJ](#), "rarely has the payoff for switching [#jobs](#) been greater than it is right now."

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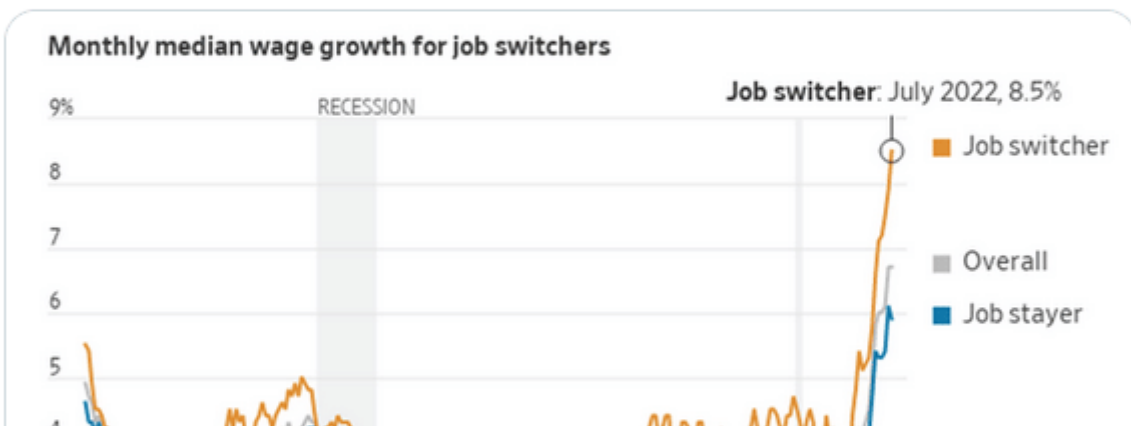


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