Portfolio Manager Weekly Meeting Notes

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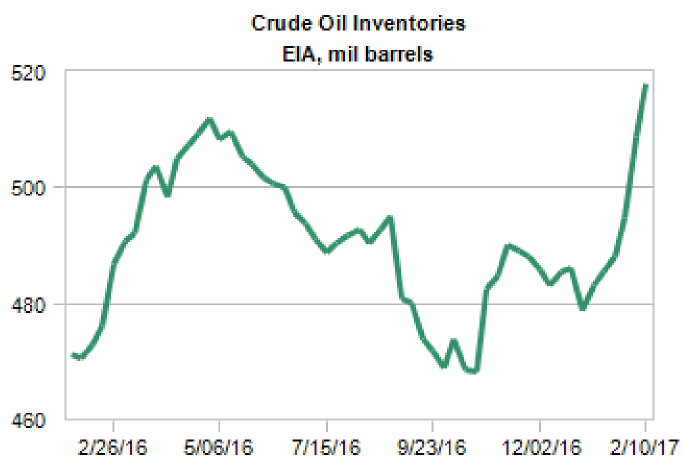
Oil inventory build does not foreshadow an economic slowdown

- There has been quite a bit of chatter the last few weeks about the unexpectedly large build in oil inventories. For some perspective, the Energy Information Agency conducts a weekly survey of oil refineries and bulk storage terminals to assess the volume of crude oil in the U.S.
- For last week, crude oil inventories rose 9.5 million barrels to 518.1 million barrels. Inventory has been building since the beginning of the year and is now 39 million barrels higher. Year over year oil inventories are 9.6% higher.
- Inventories of refined gasoline are only 0.1% higher than one year ago, but up 10% YTD. The latest data from the Federal Highway Administration showed that total miles driven in a single month are averaging over 262 billion miles. Just FYI, the mean distance from the earth to the sun is about 93 million miles. The point here is that miles driven are high and increasing while the build in inventories due to the normal slowdown in refinery output following the heating oil season and the 5 to 6 month lag to deliver oil from restarted shale oil producers.



Source: Moody's

Jobless Claims near new lows

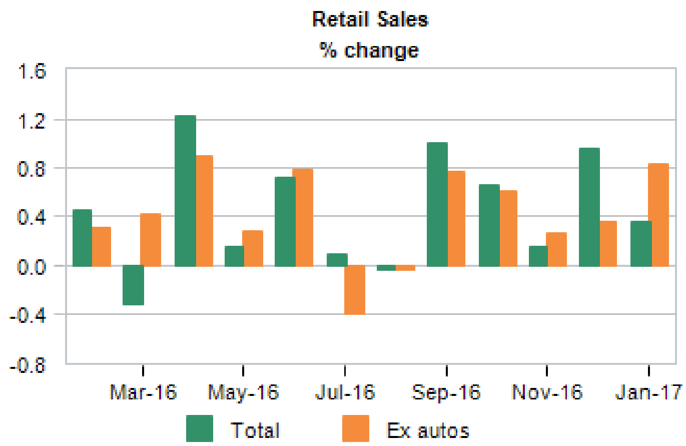
- Initial jobless claims fell by 12,000 last week to 264,000 which is right on the cyclical low. The four-week moving average is now down to 244,000, which is a new cyclical low. This is the 101st week in a row that claims have been below 300,000.

Strong U.S. dollar keeps import prices low while domestic inflation moving higher

- Import prices, ex-fuel, declined in January for the third month in a row. We are importing deflation. Consider this, the price change in fuel imports was 57.6% in 2016, while the price change of all other imports was zero. The stronger U.S. dollar is keeping inflation down and will ultimately drag GDP lower by reducing demand for exports.
- On the domestic side inflation is building. Producer Prices increased 0.6% in January, well ahead of expectations. This is the third month in a row and brings the annual rate of wholesale inflation to 1.7% from 0% just five months ago. Probably not enough for the Fed to move in March, but it raises the probability off zero. For now, stick with June.

Headline inflation over 2.5%. Retail sales strong as consumer confidence remains high.

- Consumer prices rose 0.6% in January, well ahead of expectations and double the December increase of 0.3%. Core CPI rose 0.3% and the yearly rate of headline inflation is now 2.5% with core inflation at 2%.
- Retail sales surprised to the upside in January as well. Total sale grew 0.4% against an estimate of just 0.1%. As you may recall, auto sale was brisk, but below the December pace, so ex-autos retail sales were even higher at 0.8% for the month. Electronics and appliances stores, gasoline retailers, sporting goods and food service lead the way. On a year over year basis, total retail sales are up 5.6% and 4.4% excluding autos and gasoline sales.



Source: Moody's

Industrial Production declined on lower utility output, reversing December's gain.

- Industrial production declined slightly in January. Total output was down 0.3% on lower auto production and a reversal of December's large gain in utility output. Manufacturing output in total was up 0.2%, a decent number, and mining output rose 2.8% after a weaker December number of -1.4%. On a year-over -year basis, total production is flat, and the 2015-2016 change was 1% lower. There is still plenty of room for the industrial sector to grow in the U.S.