

Hello Everyone,

***Nobody told me there'd be days like these
Strange days indeed.***

John Lennon, Singer & Songwriter

I don't think John Lennon had the stock market in mind when he wrote those lyrics, but they seemed appropriate this week.

I will spend the weekend trying to figure out how the Federal Reserve can "inject" \$1.5 trillion (with a t) into the financial system and gold go down. Something doesn't pass the smell test.

Until then, today's missive discusses the problems in banking. Something is wrong with the "plumbing" behind the scenes.

Have a wonderful weekend...provided you are not planning on going to Costco for toilet paper.

Signed, Your Doesn't-Think-He-Had-Much-In-Common-With-John-Lennon-And-Never-Understood-The-Yoko-Ono-Thing Financial Advisor,

Greg

KKOB 03.13.2020 Boeing & Banking

Bob: Greg, about a month ago, as the coronavirus situation was just ramping up, you said watch the banking sector. You said the economic severity of Covid19 would show up in bank stocks. So, what's happening?

Greg: Right. My thinking was, the longer the crisis went on--- the tougher it would be for people (and companies) to pay their loans. Then, knowing how fragile some of the world's banks were (especially in China and Europe) stresses would manifest in banking.

So, knowing that...here's a headline from yesterday:

Global Systemically Important Bank Stocks Crash to Record Low

OK. So that wasn't super hard to predict. But, let me explain something I didn't see coming ...and how it ties into yesterday's sell off.

Bob, two days ago, Boeing Corporation drew down 100% of its \$13.6 billion line of revolving credit it had at banks all over the world. Bob, do know how revolving credit works?

Bob: Well, I'm not an expert on it, but I know it's credit that automatically renews as debts are paid off.

So, was Boeing so short of cash they had to get every dime they could?

Greg: That's what we initially thought; but it turned out to be the opposite. Boeing didn't need cash, it was worried **their lending banks** needed cash. And, when banks need cash, they pull company credit lines.

Therefore, Boeing got concerned their cash line would get pulled. So, they said, "We had better get our money out now, before the banks say we can't have it."

So, think of it this way. A revolving line of credit (or a revolver) is like an ATM machine. Well, Boeing went to the ATM, withdrew the max they could while the machine still had money.

Bob: So what that tells me is Boeing thinks there are stresses in the banking system.

Greg: Right. And, they would know. Because back in 2008, when Lehman collapsed, banks quickly pulled company revolvers so they could hoard cash for themselves.

Bob: So Boeing beat the banks to the punch.

Greg: Exactly. Well, after Boeing's move, it wasn't but a few hours later when Carlyle Group and Blackstone---two huge Private Equity groups, did the same thing. They raced to the ATM machine and also recommended others do the same.

Of course the irony of this is if enough companies pull their revolvers, they could trigger the very liquidity crunch they are trying to protect against. Still, the thinking was, whomever panics first wins.

Bob: OK—so why the panic? Stocks have fallen before and the world didn't end.

Greg: Great question. Do you remember last fall when I said banks had stopped loaning to each other? That bank-to-bank lending market is called the Repo market....and, no it's not repossessing a car. It stands for repurchase agreement. And it's the way banks loan to each other.

Anyway, when banks don't trust each other the repo market freezes. That's what happened with Lehman in '08. And that's what happened again last September. Bank to bank trust evaporated. The Federal Reserve said it was short term glitch. Well, that glitch has gone on for 6 months....and it still isn't fixed.

So, the Fed has been printing hundreds of billions to keep the repo system greased. But, now the coronavirus situation has turned that grease gun into a grease hose. This is from yesterday:

Bazooka Fired: Fed Unleashes \$1.5 Trillion Repo Bailout

Bob: Wait. What! \$1.5 trillion? That's just money printing to keep the banks alive.

Greg: Right. But there may be some good news in all this.
(Besides the fact the markets are way up this morning).

As you know, I am not a fan of our Central Banking System. I don't believe a private bank should control our money supply. That's the job of the Treasury.

Anyway, when people start realizing an entity can create \$1.5 trillion out of thin air----in just one (!) day, I believe both the regular Joes and our leaders are going to start questioning all this. This is just a hunch, but we may soon see proposals to overhaul the Fed. We'll see.

Bob: I hadn't thought of that. But you're right. It may be time to question things. How do people reach you?

Greg: My number is 505-250-3754. Or, go to my website at zanettifinancial.com.

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