Speaker 1:

You're down in Dallas. I've actually been down there. I've been to the ranch. You've got a lot of distress down there right now, what's happening in the energy world. I got to believe you see some opportunity in what's happening.

J Kyle Bass:

I think there is a massive opportunity in energy and my views are dogmatic about the supply and demand situation in energy and that's cost me this year. I know this has been one of our worst years in the last 10.

Anthony Scaramucci:

Okay. So let's talk about the dogma of your views. What are your views?

J Kyle Bass:

In energy I just believe that... First of all, the margin of safety for the globe is the smallest it's ever been in energy. So global demand's 96 million barrels a day, the highest it's ever been. Let's say incremental supply capacity, let's say swing capacity is at the lowest point as a percentage of that, about a million and a half barrels a day-

Speaker 1:

But it's because prices have come down so the marginal producers come off market?

J Kyle Bass:

No, I mean... There are very few marginal producers have come off the market. US production at its peak was 9.6. Today it's 9.2. Only 400,000 barrels a day has been shaved off US production. OPEC production is continuing to move higher. It's 32 million barrels a day.

Anthony Scaramucci:

That in order to help them protect their market share?

J Kyle Bass:

It is all of OPEC, I think, trying to put marginal producers here out of business-

Speaker 1:

If you think... If you've got a scenario where the global economy is going to slow down?

J Kyle Bass:

A little bit.

Speaker 1:

A little bit, isn't that the direct correlation with the energy assets.

J Kyle Bass:

Look, global GDP will still be positive. It's not going to be 4%. It's not going to be three and a half. It might only be two, which when you look at scale, that's a huge number-

Anthony Scaramucci:

It's $1.4 trillion.

J Kyle Bass:

It's a massive amount of money, but it's still growth. Incrementally there's new demand for crude every year, depending upon what global GDP is and demand response. Point being, right now I think we have a glut of maybe 600, 700,000 barrels a day. You have to realize that the US added a million barrels a day, five years in a row, but it took hundred dollars crude for us to do that. We were the marginal swing producer for the world and now we're going to go down a million barrels a day, I think, in the next 12 months. So we're going to go from a glut to all of a sudden a deficit and the world's not ready for a deficit. I think a year or two from now-

Speaker 1:

If I'm a true longterm investor, is this the best place I should be thinking about allocating capital right now?

J Kyle Bass:

Yeah, if you're going to allocate capital for the next three to five years, you should do it now.

Speaker 1:

Into the energy space?

J Kyle Bass:

Yeah, Call it in the next six months. That's when you buy.

Speaker 1:

And is it infrastructure, pipelines is it producers, upstream, downstream, where?

J Kyle Bass:

It just depends where you have expertise. Those businesses are dominated by those that have expertise in each of those verticals. You better get with those people to decide where in the cap structure to invest because these MLPs, the upstream MLPs, their equities trade for pennies. They're subordinated debt trades in the twenties and thirties and their senior debt trades in the eighties. No one knows when they filed bankruptcy, which many of them will, what are the best securities dome? Because the equity is probably going to get wiped out. The subordinated debt might get wiped out.

Speaker 1:

Well just final point.

J Kyle Bass:

I'm saying it's a really difficult answer to tell a crowd like this.

Speaker 1:

Understood. We're not trying to pick specific stocks, but just [crosstalk 00:03:19]. You referenced the housing recovery post 2009. Would you describe the rebound in energy when it happens, is it going to be a similar type of rebound?

J Kyle Bass:

It will be. There aren't many instruments that are available in the energy market that-

Anthony Scaramucci:

Yeah, the housing was way more liquid than the energy market. It was an easier way to make that investment.

Speaker 1:

You used to always talk about hard assets. Maybe the best things to do is go out and buy a couple of rigs that are just sitting there and probably trading way below book value.

J Kyle Bass:

Or for this crowd that we're talking to, all you do is go buy a crude oil ETF because that way you don't have to bet on a specific management company, you don't have to worry about a cap structure [crosstalk 00:04:05] supply and demand and if you can hang on to that for 18 months, two years, I think you're going to do really well.