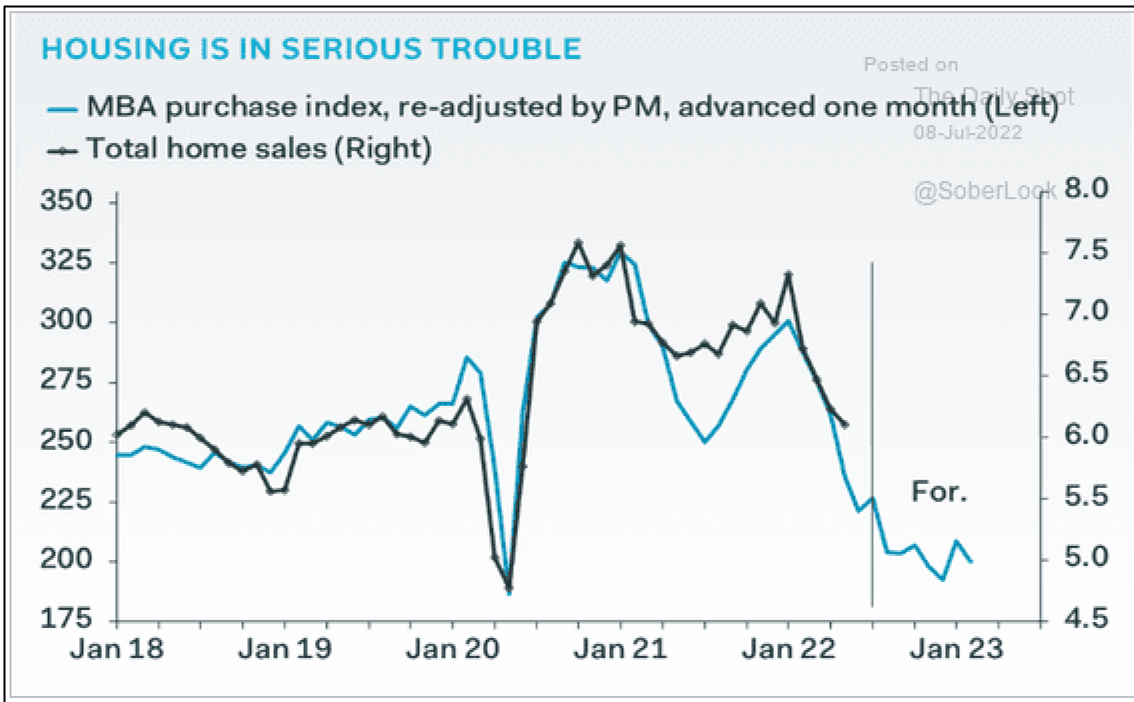
What to focus on in Global Macro for the week of July 11th, 2022

Markets remain uncertain, even confused, as they try to gauge the hope of better inflation prints in coming months, vs. the fear of a weakening economy. Markets have continued to price in an increased risk of recession, while the Fed continues to talk tough, with no pivot in sight. Commodity prices have weakened considerably from their highs but remain elevated vs. pre-COVID levels. Interest rates had been falling in recent weeks but turned higher again after better-than-expected PMIs and a stronger-than-expected employment report. Consumer sentiment and spending have continued to drop.

While the headline PMIs were better than feared, Manufacturing New Orders came in at 49.2, indicating contraction. Both ISM Manufacturing and Service Employment printed contractionary numbers at 47.3 and 47.4 respectively. To my mind that puts the good news delivered by Friday's BLS data into question as it stands in contrast with the forward-looking surveys. I'll be keeping a very close eye on how the initial claims numbers develop in the coming weeks and months. This Wednesday's CPI will be a big one, delivering fresh insight into whether a peak in inflation has already been hit or not.

Housing is another one to watch as this market seems to be decelerating rapidly given the very fast jump we have seen in mortgage rates and the heightened growth fears.



Source: Pantheon Macroeconomics

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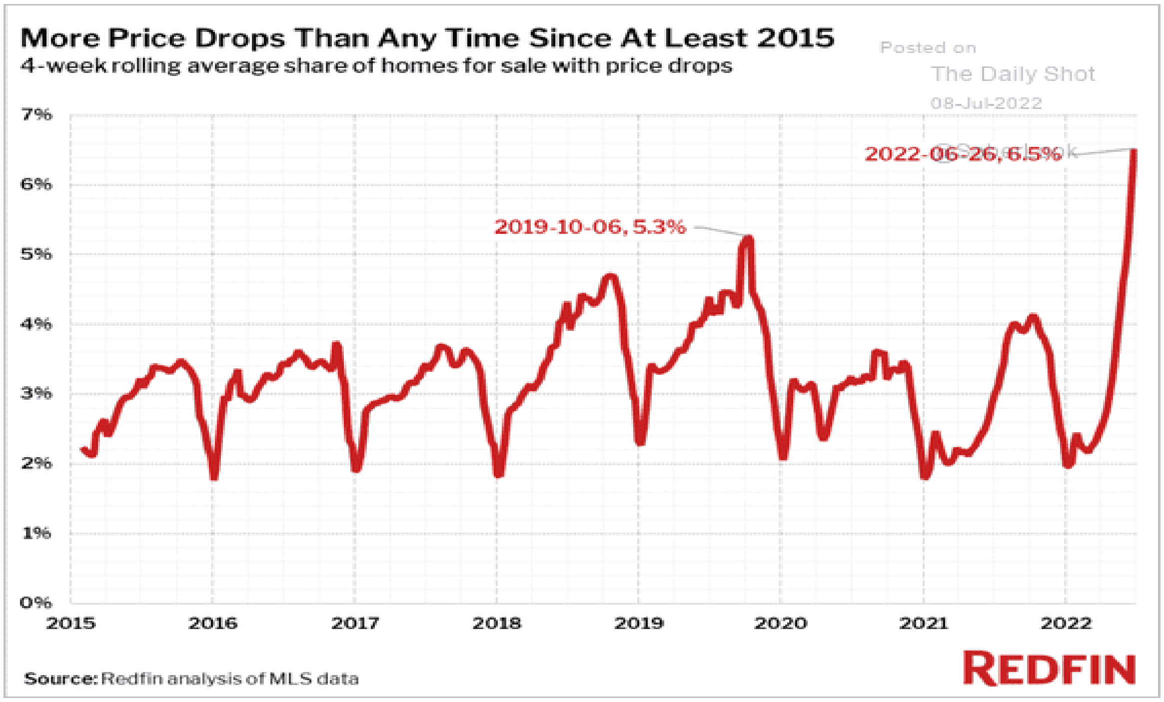
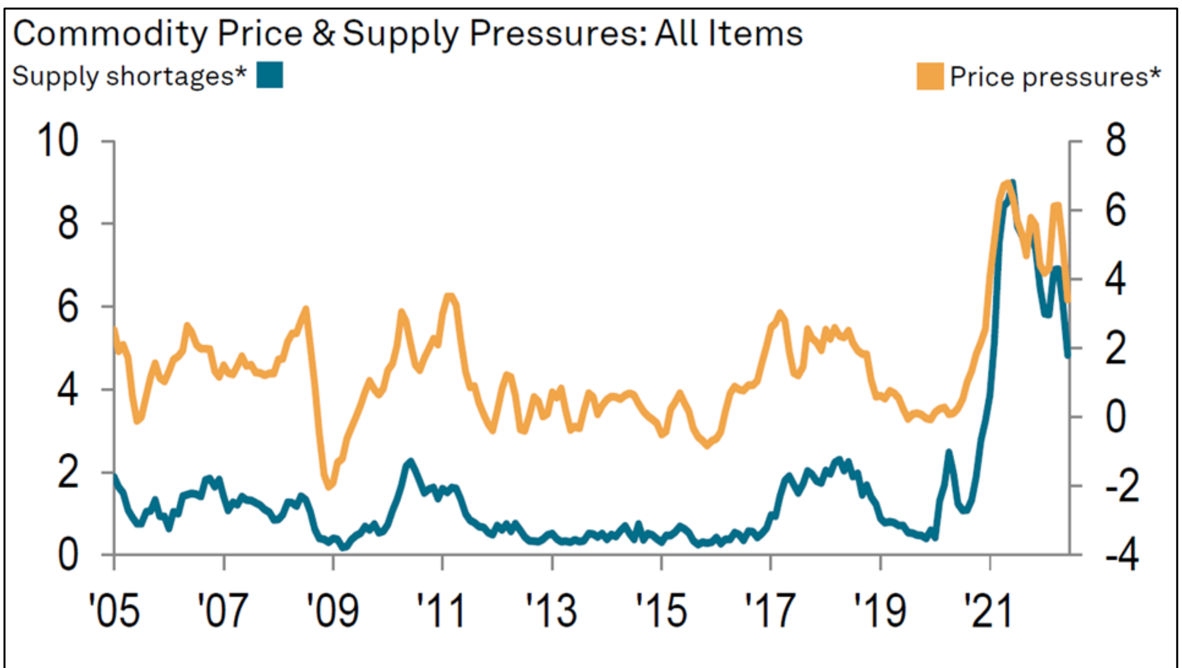


Source: Redfin

The good news for inflation is that at least some of the bottlenecks and price pressures look to be easing.



Source: S&P Global.
multiple of long-run average

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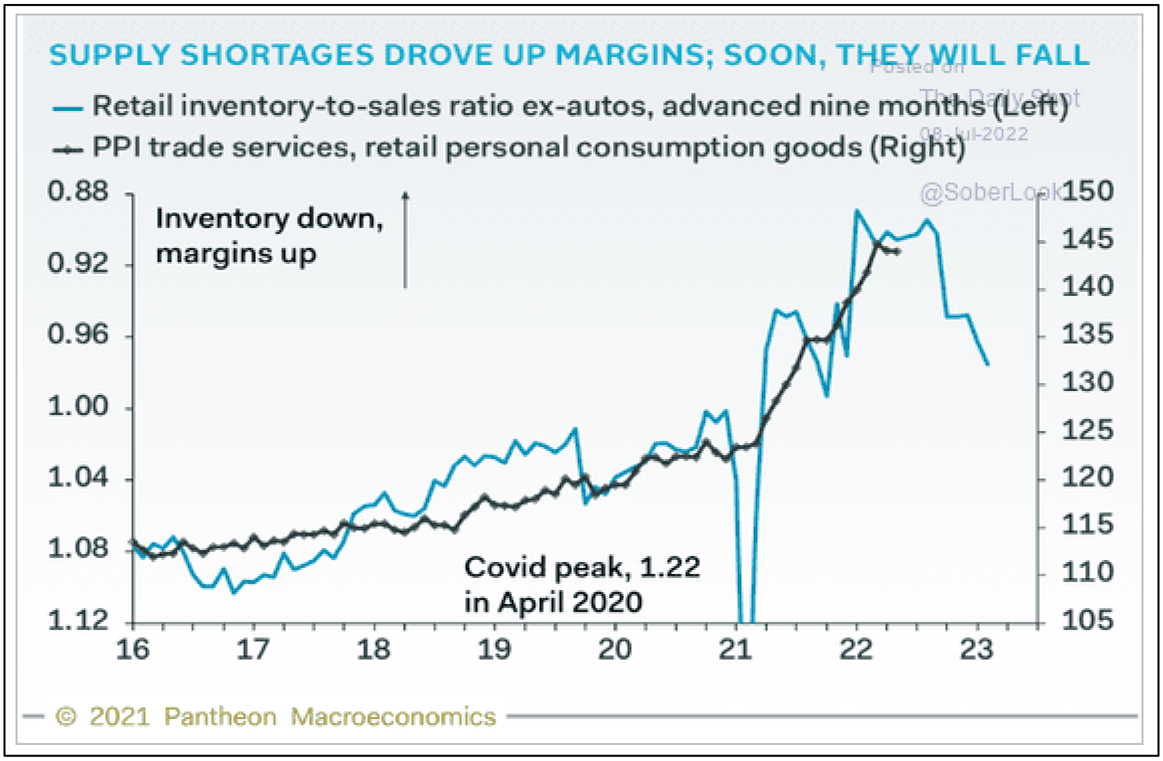
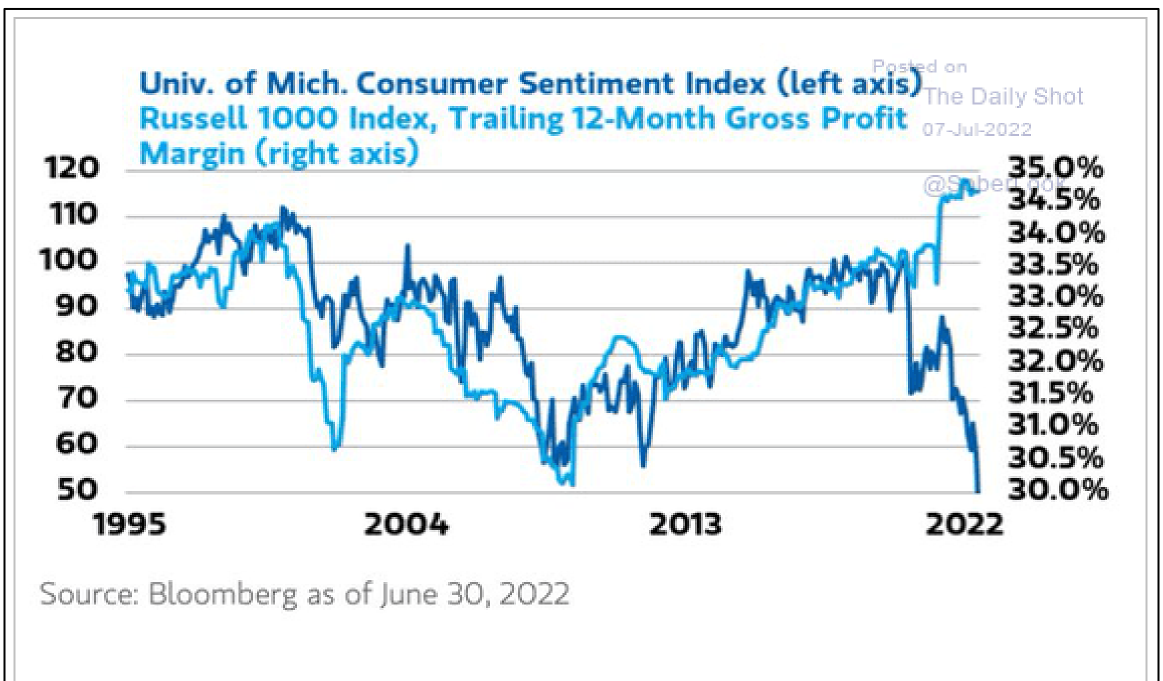
Inflation has been a mixed bag for equities. On one hand, it helped drive up margins.

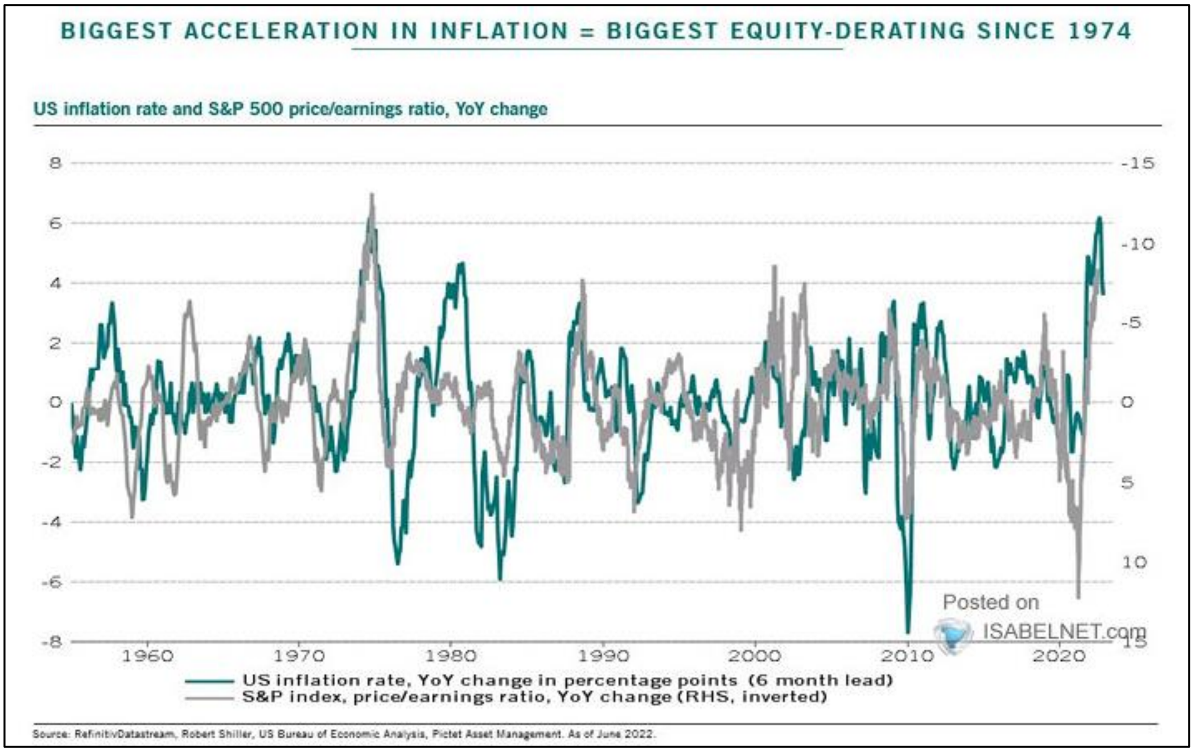


But, drove down consumer sentiment…

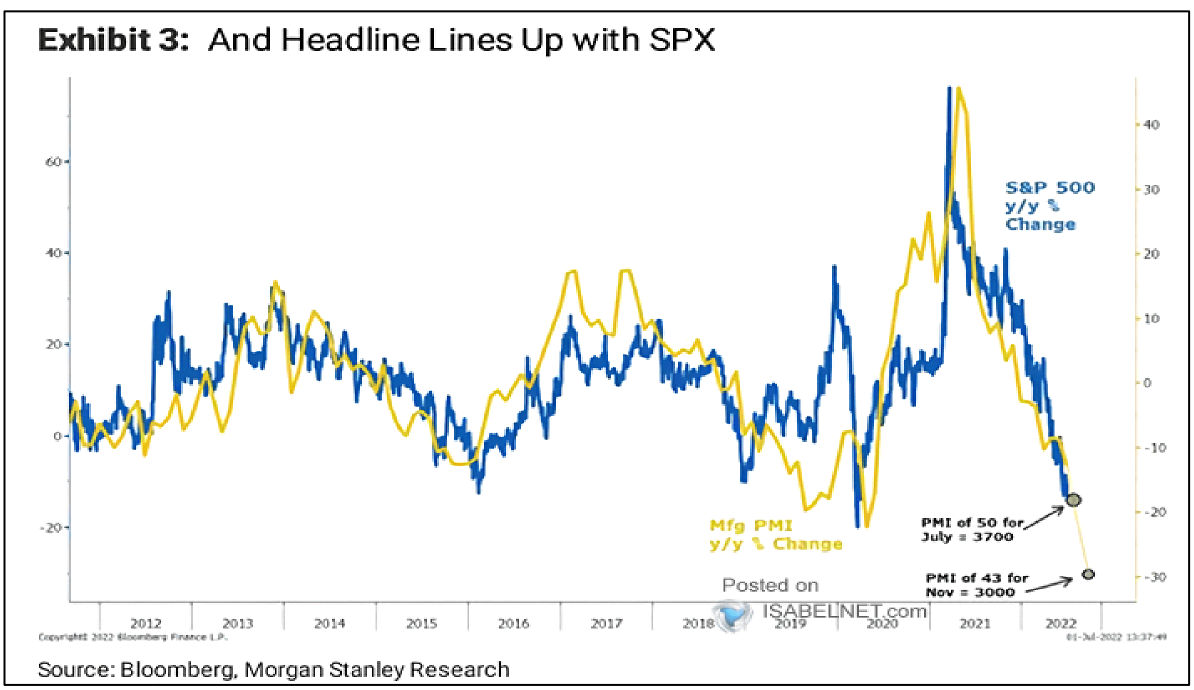


Source: @acemaxx, @MorganStanley

and equity valuations as interest rates rose. The change in the U.S. inflation rate tends to lead U.S. equity valuation by 6-months, according to Pictet Asset Management.



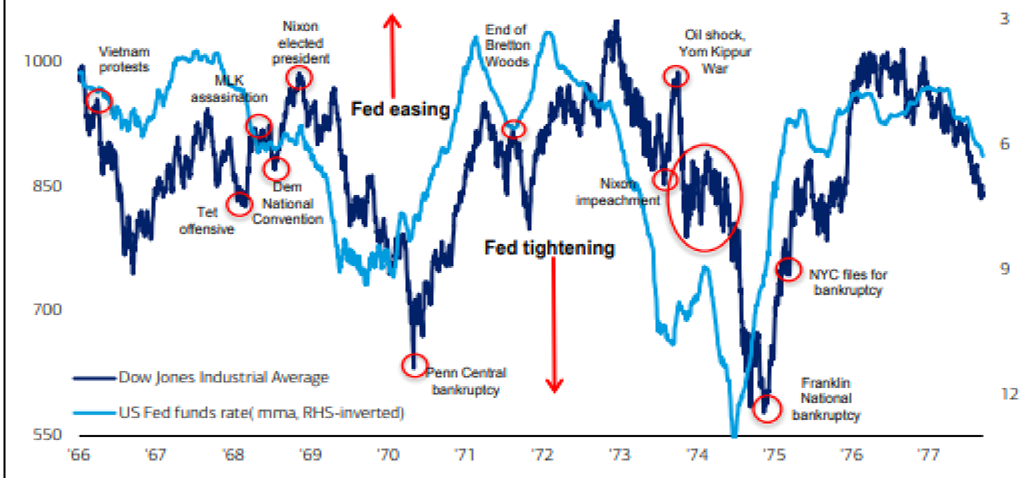
While a slowing economy has certainly been priced, the degree to which that occurs will be key for markets going forward. Further slowing with a meaningful improvement in inflation will be welcomed, while slowing growth without sufficient inflation improvement will be a big problem.



There are a lot of comparisons being drawn between the current situation and the '70s. I think it probably isn't a very good comparison. There are major differences. For one, the '70s saw a huge bear market in the USD, this time we have the opposite.

Chart 17: '22 similar price action and investment backdrop to '74

Dow Jones Industrial Average vs Fed Funds



Source: BofA Global Investment Strategy, Bloomberg

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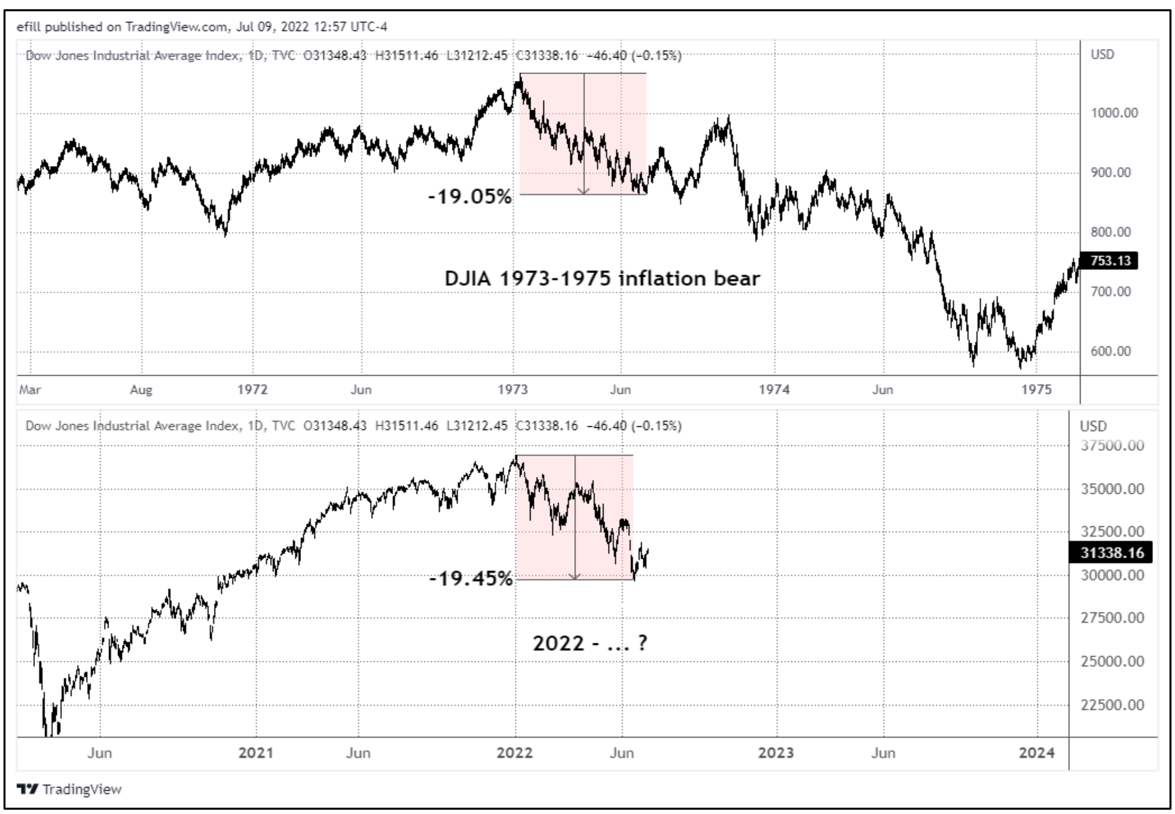
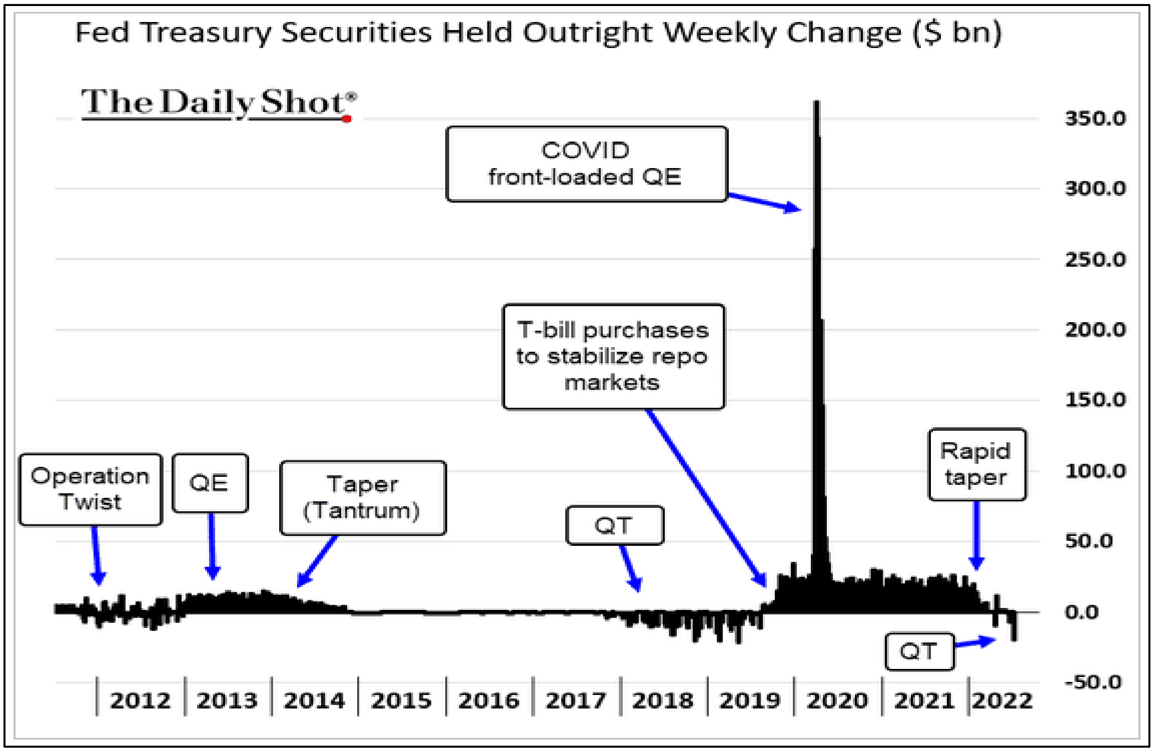
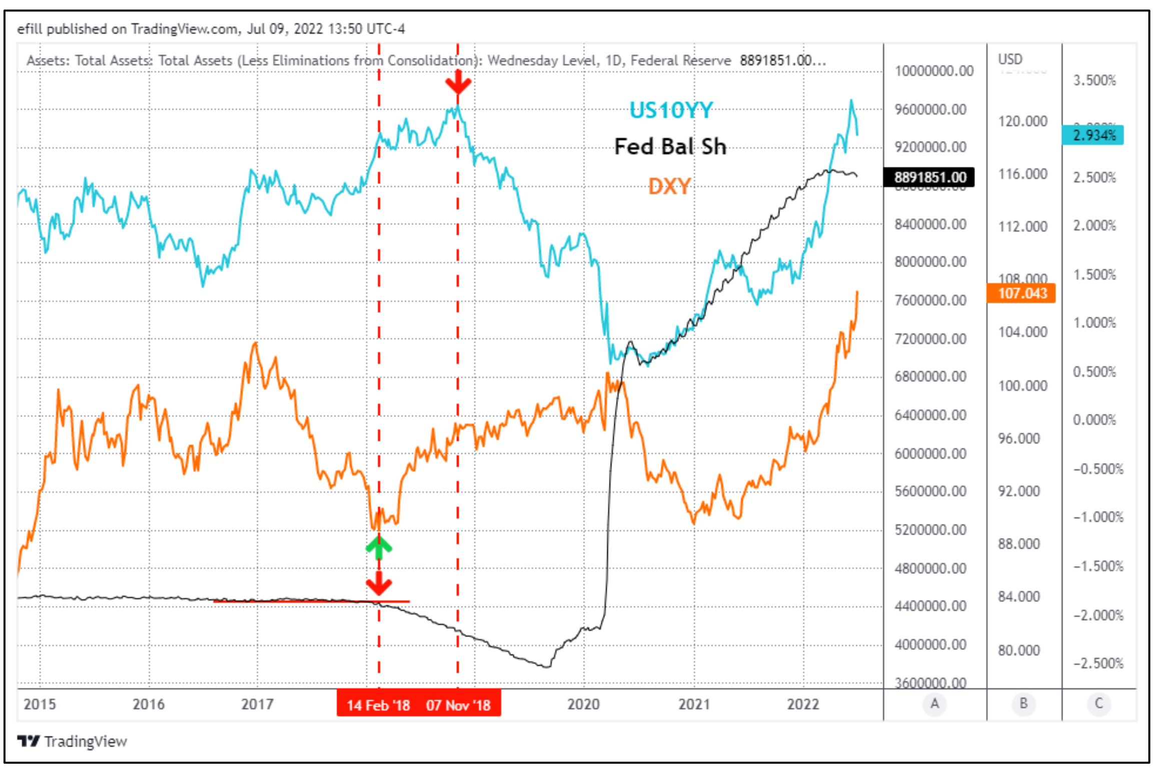
Let's hope they're not right. The '70s analog would deliver some sloppy/difficult, price action



Then there is the question of QT, which is only just getting going. There will be consequences.



Here is how it played out for FX and FI in 2018. This time the set-up going in is very different. With a sample size of 1, there is a lot of uncertainty around how QT will affect markets this time.



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The yield curve remains inverted in many of its various forms.

US rates and yields continue to cover a lot of ground and do so quickly, as the market tries to balance inflation vs. growth.

With PMIs pointing to continued weakness ahead in Europe, on one hand, and better than expected PMIs out of China followed by an announcement of large stimulus via frontloading of local government spending, global growth expectations remain in flux.

While Friday's price action ended with the USD well off its highs, the trend has been unmistakable.

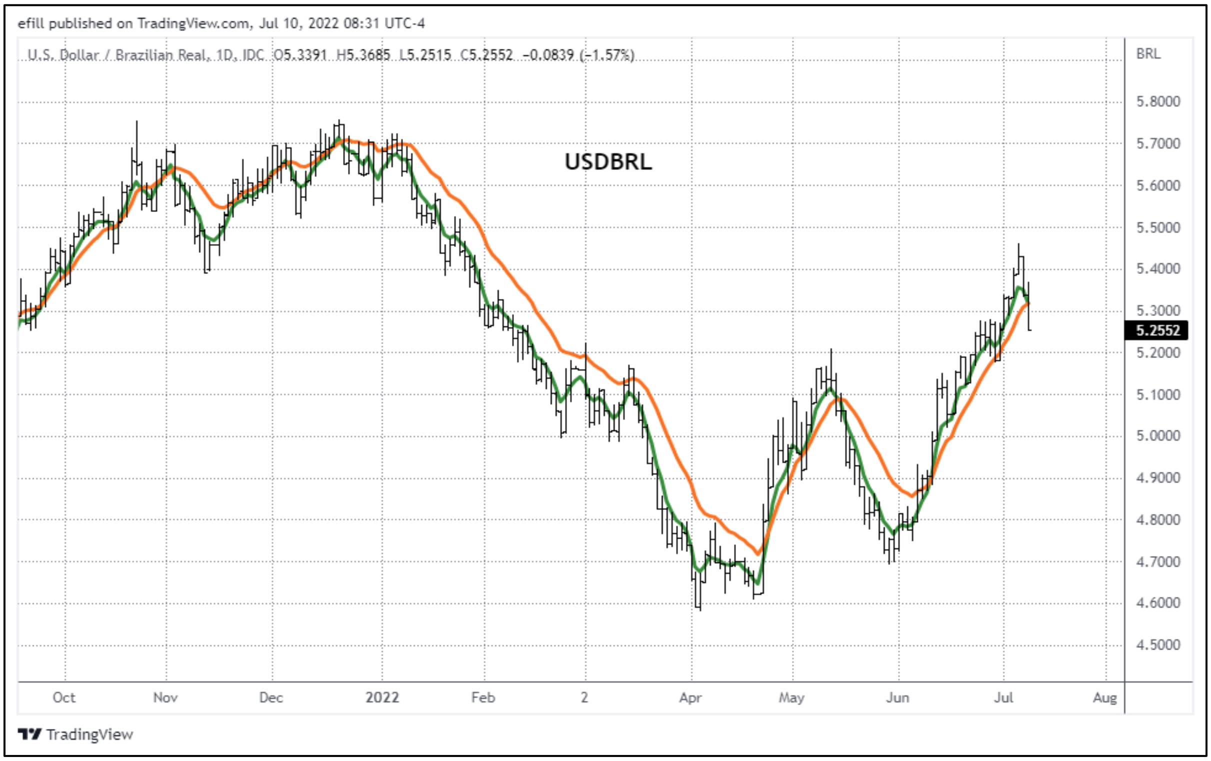
Largely, that has been true for both DM and EM currencies. Many of the commodity-linked currencies have continued to be challenged as industrial metals prices soften and energy prices come off the highs.

The news out of Europe has been relentlessly downbeat. Last week's break of the 1.0350 level in EURUSD was big and we now need to get back above 1.0450 to have any confidence that a low of any sort is in. Otherwise, par beckons.

For now, at least, most dollar crosses are still clearly long on a trend and momentum basis. However, a few, especially in EM are threatening to roll.

Some EM crosses are starting to show signs of exhaustion.

USDBRL has had a painful rally for BRL longs but looks ready for at least a pause if not a more meaningful reversal.



AUDJPY has not been able to accelerate to the downside and I am sidelined, for now.

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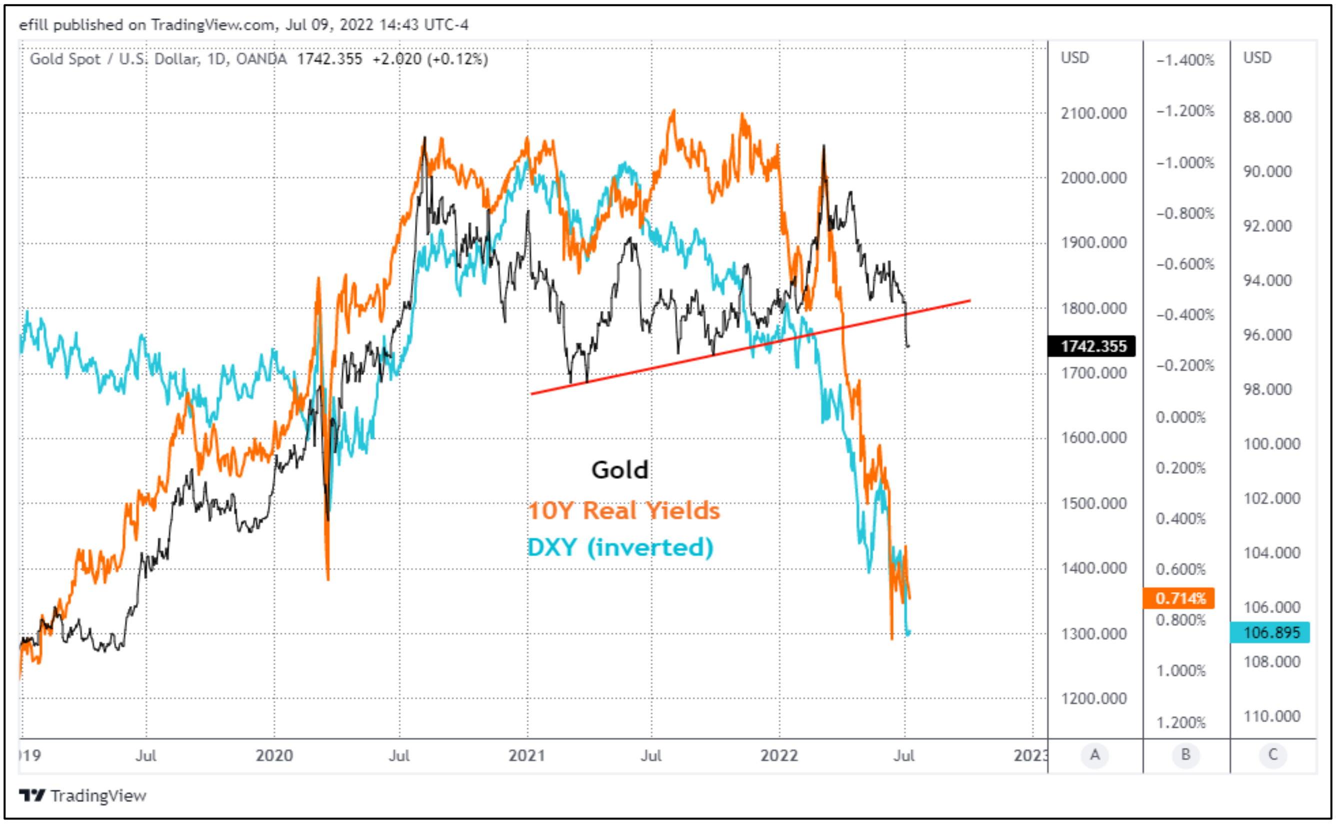
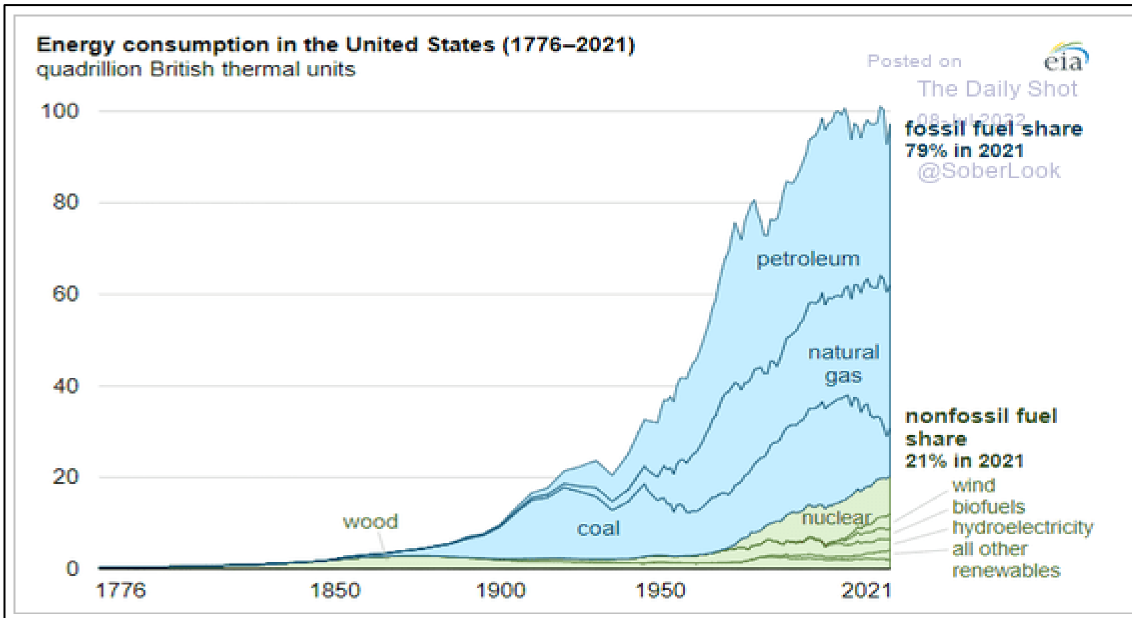
I continue to watch GBPAUD for a break lower. A break of 1.7200 would be the first indication that this cross is back in play.

Gold cracked support last week.

To be honest, the fact that it held up as well as it had, given what the dollar and real rates have done, is amazing and has potentially given longs a false sense of security.



I thought this was an interesting one to close on…



Source: @EIAgov

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Important Macro Data Releases and Events for the Week

Monday 7/11/2022	Sunday night ET - BoJ's Kuroda speech Fed's Williams speech
Tuesday 7/12/2022	EcoFin Meeting EU and German ZEW Survey Trade Data (Jun)
Wednesday 7/13/2022	HICP YoY (Jun) **CPI Headline and Core (Jun)** BoC Interest Rate Decision, Statement, and Press Conference Employment Data (Jun)
Thursday 7/14/2022	Initial Jobless Claims Initial Jobless Claims 4-week average Continuing Jobless Claims PPI Headline and Core (Jun) Fed's Waller speech GDP (Q2) and Retail Sales (Jun)
Friday 7/15/2022	Retail Sales (Jun) Michigan Consumer Sentiment Index (Prel for Jul)

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