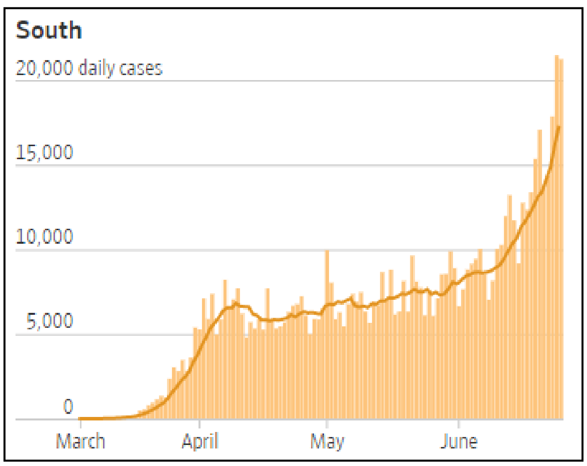
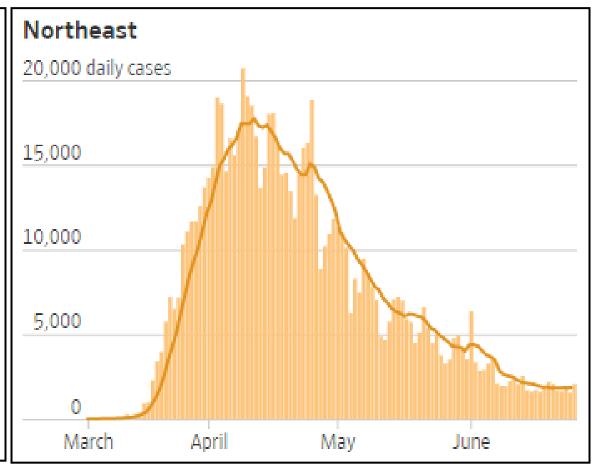
What to focus on in Global Macro for the week of June 29nd, 2020

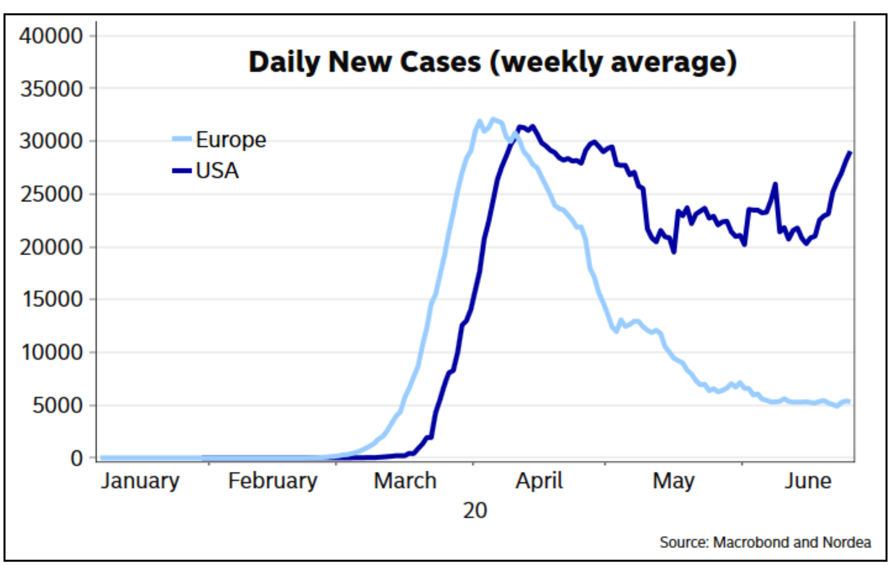
Macro Themes on the Radar:

Last week saw a narrative shift as the market once again focused on COVID and the spike in cases in some southern and western states. While some of the jump may be due to increased testing, the rise in hospitalizations and increased percentage of positive tests seems to confirm that we have a real problem. Some of the affected states are starting to slow or reverse re-openings as a result. This isn't a second wave, but rather a delayed first wave. Re-openings are out of sync with a delayed first wave for these states and the results are painful. The good news is that the Northeast still looks stable at much low levels.





The combined picture leaves the US still looking vulnerable when compared to the progress made in previously hard-hit regions like Europe.



The jump in cases should prove to be temporary, but it does again highlight questions about how the outbreak has been managed in the US and is being used for fresh political ammunition as the election creeps closer. It also raises fears that a full recovery will be further delayed.

The worsening COVID news was accompanied by continued equity supply last week adding to what looks like it will be a record month and quarter for US equity issuance. A far cry from the days of shrinking supply and buybacks.

Finally, FAANGM+ stocks slid as Facebook and Twitter were hit with boycotts and advertising pauses as sponsors worry about continued protests and rising political polarization.

EU

European leaders will meet in Brussels on July 17th – 18th to try and get a deal on the EU Recovery Fund. Expect lots of headlines and grandstanding from the “frugal four” as the date approaches. While there hasn’t been any talk of an outright veto at this point, expect the northern countries to try and drive a hard bargain. A veto would be very problematic for Europe and there will be massive pressure to achieve some type of a compromise that still delivers on the primary objectives.

ECB

Adding to a growing list of initiatives, the ECB introduced a new Eurosystem repo facility (EUREP) to provide euro liquidity to non-euro area central banks. They characterize it as precautionary, so it will be interesting to see to what extent it is utilized in the coming months. It is similar to what the Fed has done with its FIMA facility. The point is to provide liquidity without having to provide swap lines that can have currency risk. Here you are granting temporary liquidity over-collateralized with Euro area assets. As with the Fed, it prevents foreigners from selling your debt instruments to get the liquidity, which could impact the market.

Fed

For the second week in a row the Fed's balance sheet shrank. This time it was only by -$13bln vs. the $-74bln last week. Again, this was largely due to a drop in FX swap line usage which fell by -$78bln vs. an increase in holdings of US Treasuries and MBS of $53bln. The difference was comprised of smaller shifts in the various other facilities.

<u>What to Focus on:</u>

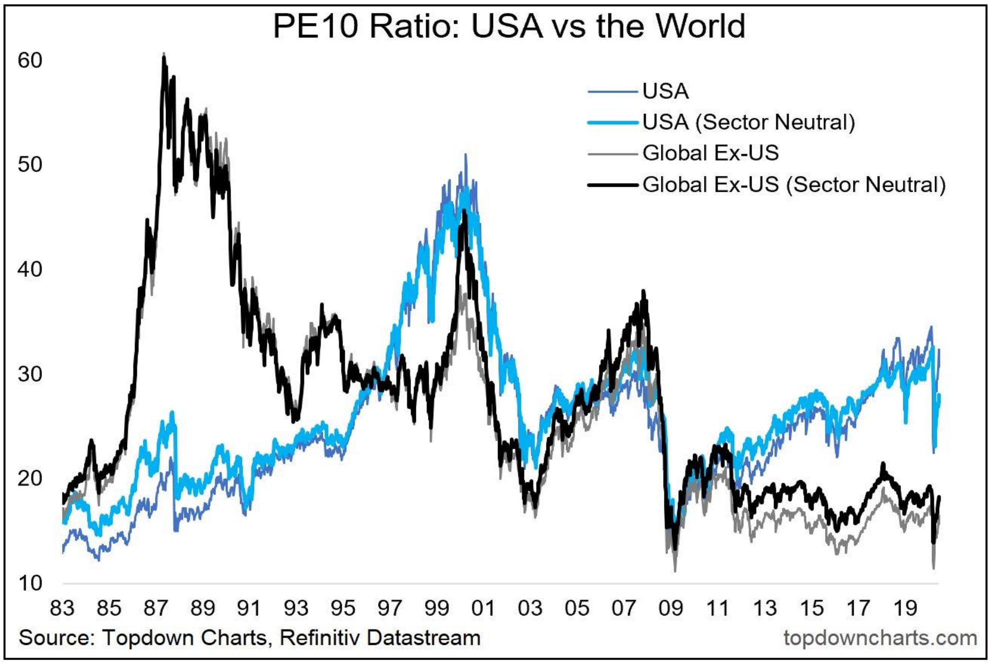
CARES Act Extension

The additional $600/week in unemployment benefits that some $33m Americans are currently getting as part of the CARES Act is set to expire on or before July 31st. In some states, total unemployment benefits are currently running at $55k/yr, which is higher than the national median annual salary. Without the boost, states would revert to the pre-crisis payments that vary from state to state but averaged $387/week nationally prior to the pandemic.

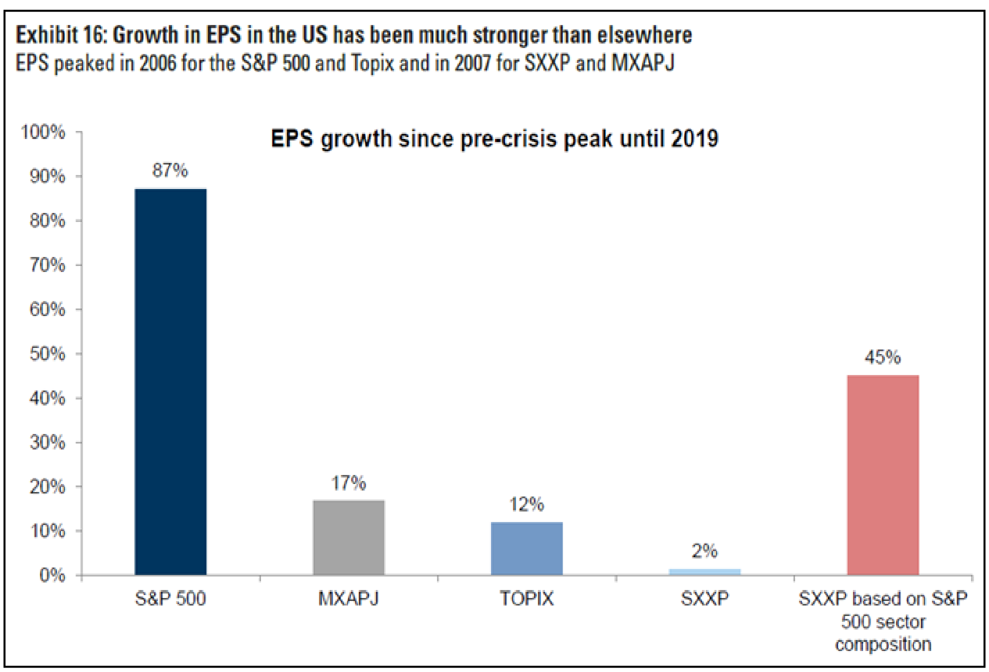
The House has already passed the HEROES Act which includes a 6-month extension on the additional $600 payments, but it is seen as a Democratic wish-list by Senate Republicans. Trump is caught as well since he wants to keep his constituents happy but doesn't want to hand the Democrats a victory as we head into the election. The stakes are high and the potential hit to consumer confidence is meaningful should the benefits not be extended. Expect this to be a hot topic in the coming weeks. Either way Congress will need to act relatively fast as it is not scheduled to return from its recess until July 17th.

US vs. Rest of World

As discussed, the US outperformance has been led by the NASDAQ and more specifically the FAANGM… Especially since 2011, growth in a low growth world has been rewarded with capital flows and multiple expansion.



US earning have certainly been better…



Stargazer Asset Management

Even over the last 12-months the trend has persisted as the NDX has easily beaten the other major averages. Of course, the pandemic actually helped as it accelerated the adoption of technology. New digital world over old world of manufacturing.

There are some initial signs that a change in leadership may be developing. Perhaps, global growth will pick up and make cheaper opportunities hard to ignore. Maybe the USD will fall, and inflation will slowly turn up with all this stimulus. Or, the current leadership with falter as it becomes a victim of its own success as concerns over a concentration of influence, monopolistic behavior and tax evasion invite government scrutiny.

It is too early to tell and at this point we only have the hint of a possible turn in what has been a relentless trend for over a decade.

In Europe we have a potential catalyst with the newly aggressive ECB and the apparent willingness to forge a stronger union. If the EU Recovery Fund can get approved without compromises watering it down to the point of meaninglessness, it would be a big deal. Still a big IF but watch Euro Stoxx relative performance.

So far, the jury is out but stay tuned!

Interestingly, there are some signs of improvement in Japan. They have withstood COVID relatively well, both in terms of the human cost and with regard to markets.

Stargazer
Asset Management

The Nikkei vs. the underperforming DJIA is just starting to turn higher.

EM is trying to bottom vs. the US as well. Here the fundamentals still seem very challenging, but a meaningfully weaker USD would go a long way… Interesting technical set-up.

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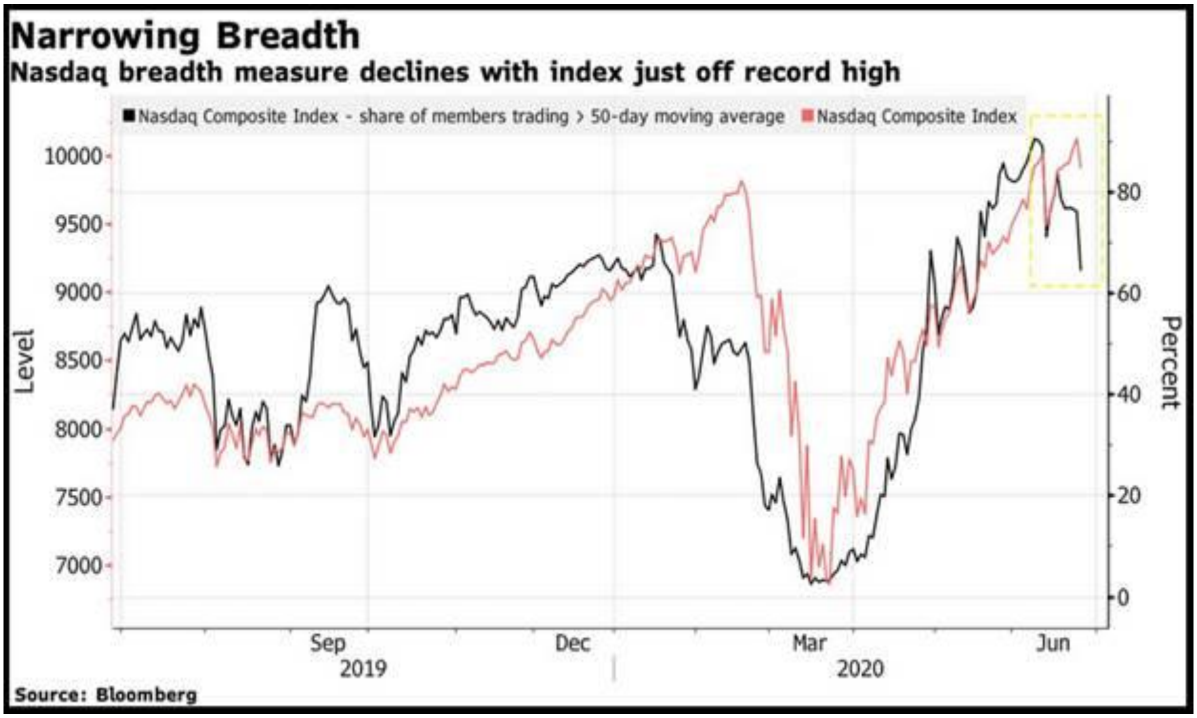
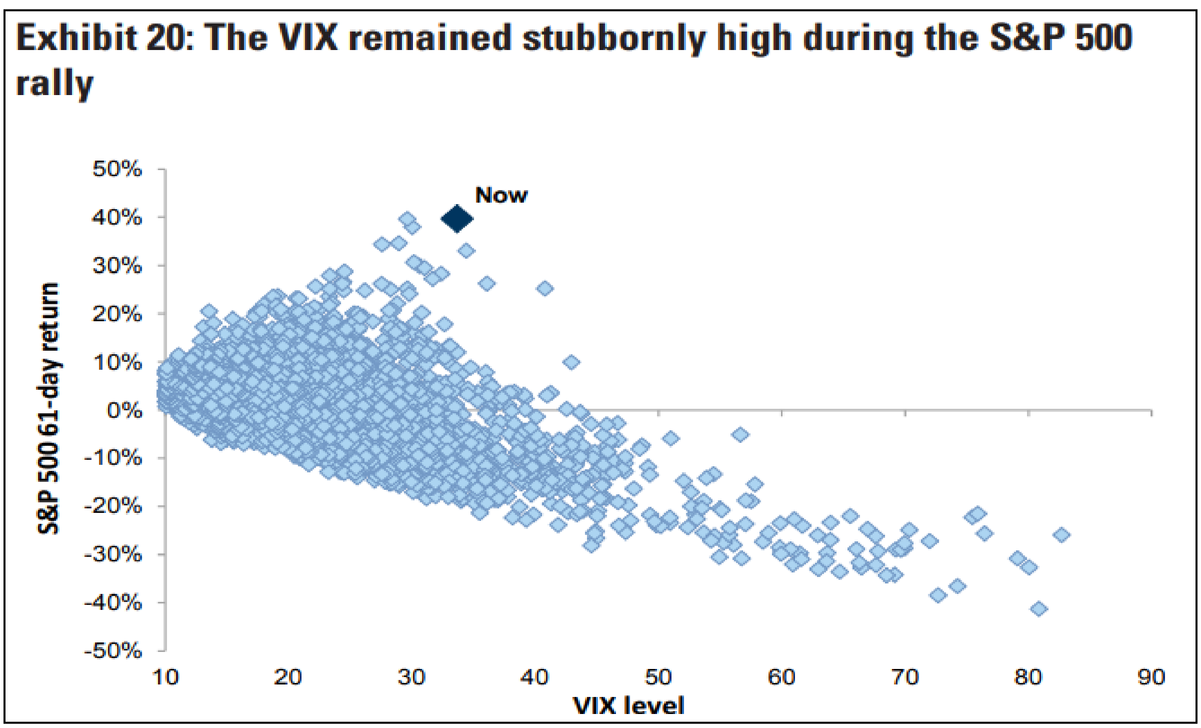
For the NASDAQ itself, there is a developing breadth issue…



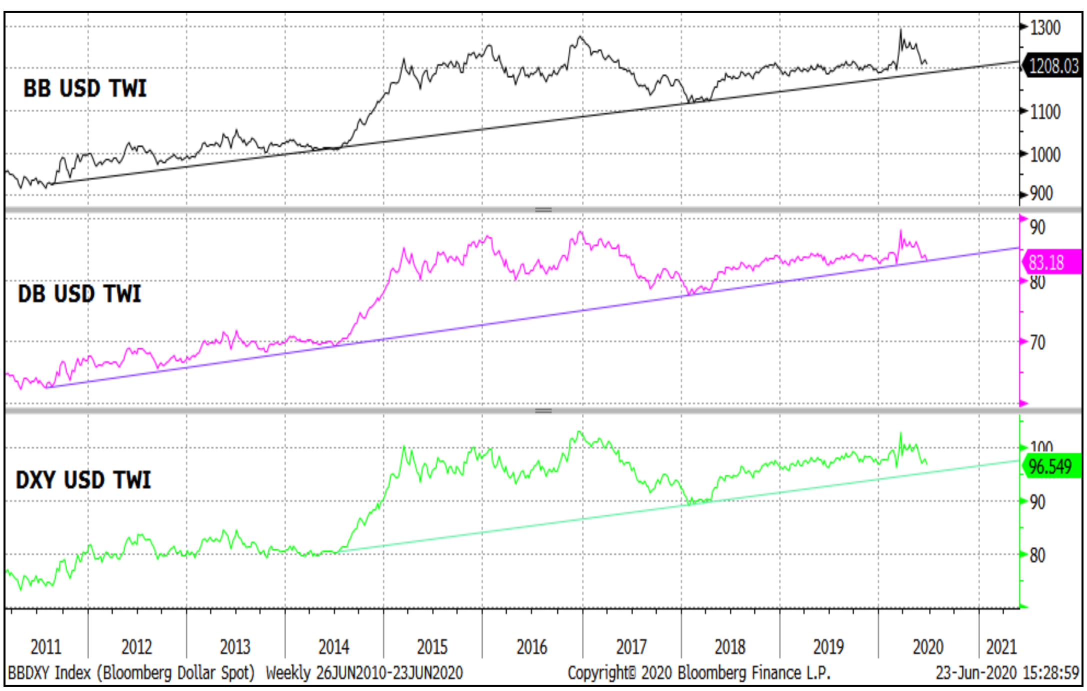
And with plenty to still worry about, VIX has stayed relatively high given the very powerful rally in equities… protection is more expensive than normal, but realized volatility is performing.



USD, Treasuries and Gold

The USD has certainly weakened from the highs. However, despite the risk on rally and the relatively good news with regard to COVID, ECB activism and EU common goals, the EUR is only a bit above the middle of its range for the last 10 months.

Various Trade Weighted versions of the dollar don't look very different and have not broken down yet. Although some are getting close… here you need EUR, CAD, MXN or CNH to play.

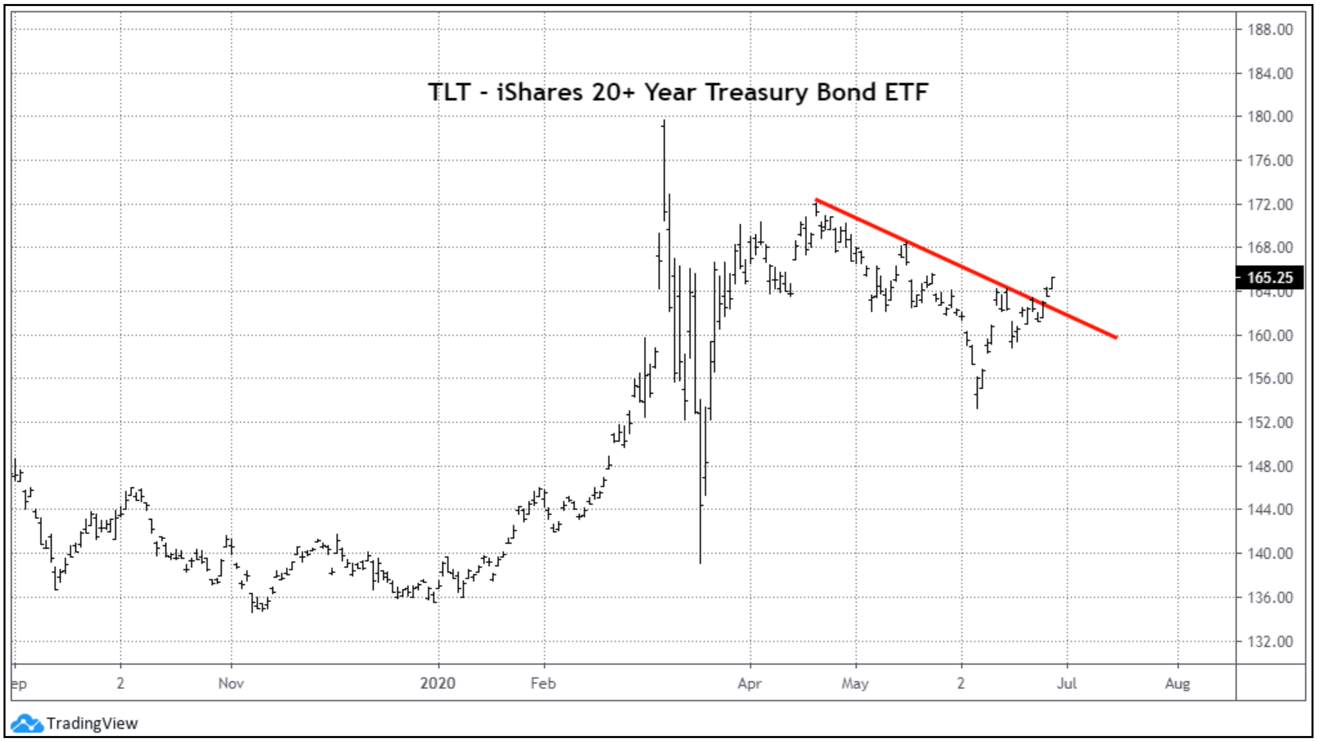


Futures positioning is now again getting short the dollar.

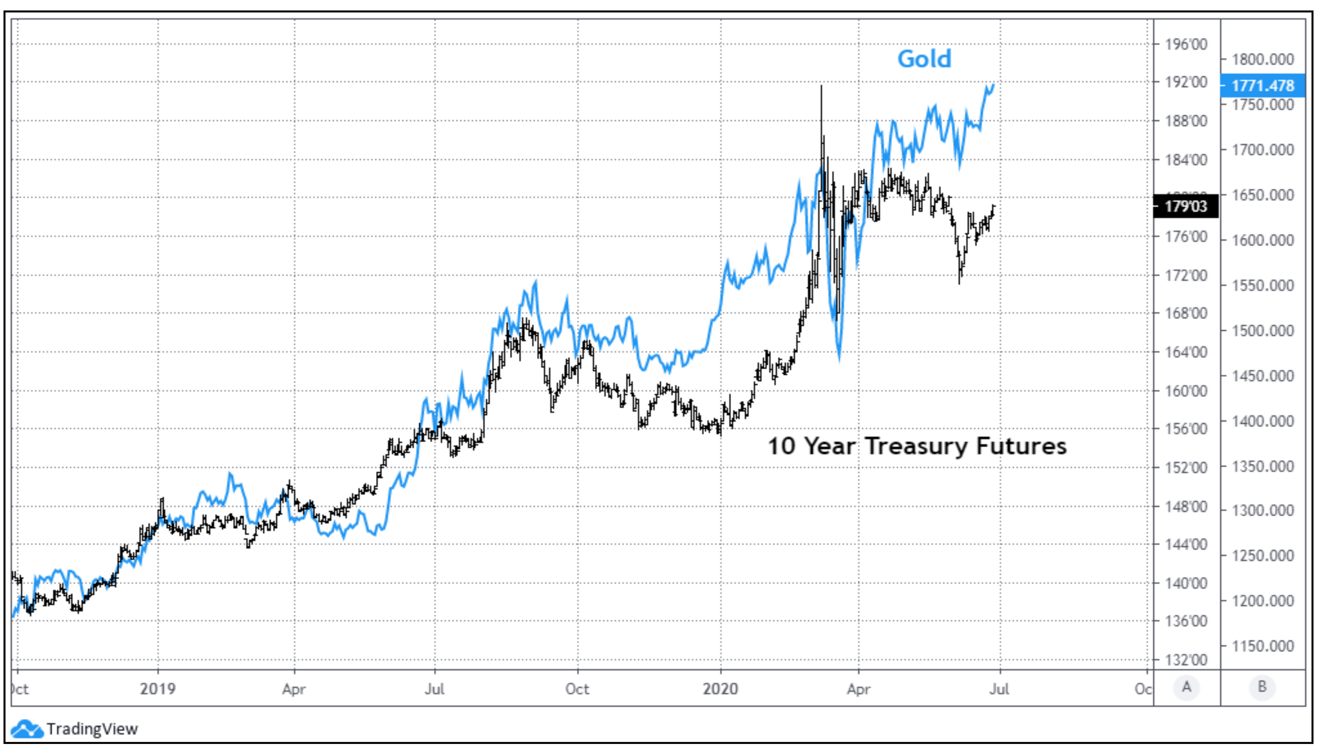
Treasury yields have been unable to get off the floor despite the powerful equity market rally. With negative yields abroad and a Fed making sure everyone knows they won't raise rates for potentially years, it is hard to escape the pull of the front end of the curve.

The real potential for Yield Curve Control in the front end as a strengthening of "forward guidance" and the dark fears of negative rates in the US at some point are keeping yield under wraps as well. If anything, they are threatening to fall again …

Bond prices trying higher again is reflected in the ETF's as well.



This time Gold is leading the way.



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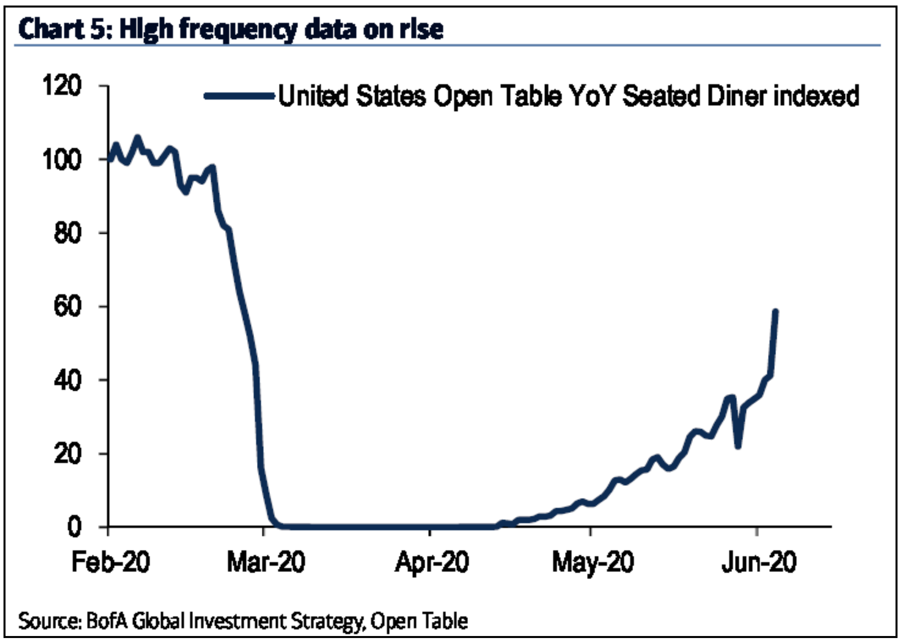
While positioning looks to be long Gold, both in futures and vs. ETF holding, bigger trends can take a while to develop but can be lasting. These two charts are worth keeping an eye on…

The weaker DJIA giving in more easily…

This week and next will be important for the high frequency data. The traditional stuff is just way behind with the situation on the ground developing so quickly. So far, so good, but with the jump in COVID in the South and West over the last week, we will see if it holds. Don't be surprised if we hear from the Fed and it gets Congress going again if this type of data turns down.



Important Macro Data Releases and Events for the Week

Monday 6/29/2020

- Business Climate (Jun) Forecast: -3.91, Prior: -2.43
- Harmonized Index of Consumer Prices YoY (Jun) Forecast: 0.6%, Prior: 0.4%
- Pending Home Sales MoM (May) Forecast: 19.9%, Prior: -21.8%
- Dallas Fed Manufacturing Business Index (Jun) Forecast: -59, Prior: -49.2
- Fed's Williams SPEECH
- Industrial Production YoY (May) Forecast: -11.3%, Prior: -15%

Tuesday 6/30/2020

- Non-Manufacturing PMI (Jun) Forecast: -, Prior: 53.6

	NBS Manufacturing PMI (Jun) Forecast: 50.4. Prior: 50.6
	CPI - Core YoY (Jun) Forecast: 0.8%, Prior: 0.9%
	CPI YoY (Jun) Forecast: 0.1%, Prior: 0.1%
	Chicago Purchasing Managers Index (Jun) Forecast: 44.5, Prior:32.3
	Fed's Chair Powell Testifies
	Treasury Sec Mnuchin Testifies
	Consumer Confidence
	Fed's Brainard SPEECH
Wednesday 7/1/2020	Caixin Manufacturing PMI (Jun) Forecast: 50.5, Prior: 50.7
	Unemployment Rate / Change (Jun) Forecast: 6.6% / 120k
	Markit Manufacturing PMI (Jun) Forecast: 44.6, Prior: 44.6
	ADP Employment Change (Jun) Forecast: 3.5m, Prior: -2.76m
	Markit Manufacturing PMI (Jun) Forecast: 49.6, Prior: 49.6
	ISM Manufacturing Employment Index (Jun) Forecast: 35, Prior: 32.1
	ISM Manufacturing PMI (Jun) Forecast: 49, Prior: 43.1
	ISM Manufacturing Prices Paid (Jun) Forecast: 36, Prior: 40.8
	ISM Manufacturing New Orders Index (Jun) Forecast: 36.1, Prior: 31.8
	FOMC Minutes
Thursday 7/2/2020	Unemployment Rate (May) Forecast: 7.7%, Prior: 7.3%
	Initial Jobless Claims Forecast: -, Prior: 1.48m

- Initial Jobless Claims 4-week ave. Forecast: - , Prior: 1.620.75m
- Continuing Jobless Claims Forecast: 19m, Prior: 19.522m
- **Nonfarm Payrolls (Jun) Forecast: 3m, Prior: 2.509m**
- **Unemployment Rate (Jun) Forecast: 12.2%, Prior: 13.3%**
- AHE Forecast: 5.3%, Prior: 6.7%
- Factory Orders MoM (May) Forecast: 8.5%, Prior: -13%

Friday
7/3/2020

- Caixin Service PMI (Jun) Forecast: 49.9, Prior: 55
- Markit PMI Composite (Jun) Forecast: 45.8, Prior: 45.8
- Markit PMI Composite (Jun) Forecast: 47.5, Prior: 47.5