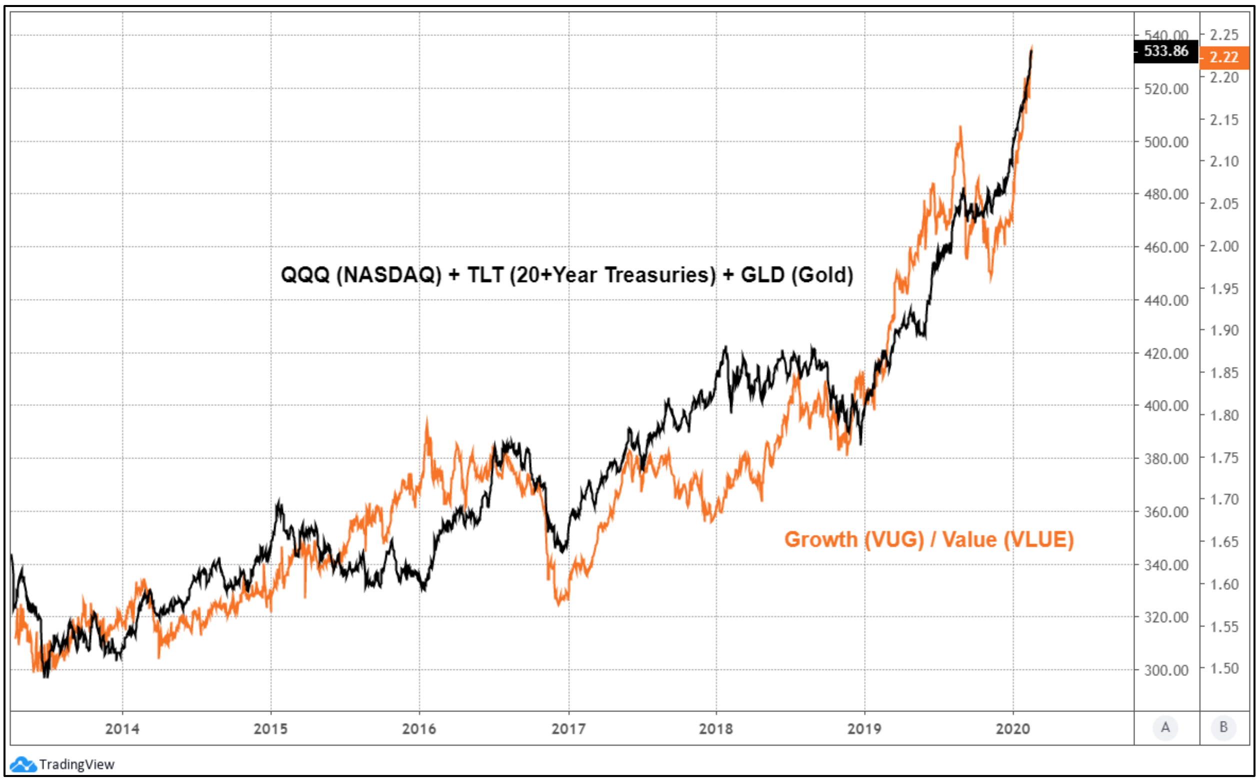
Stargazer
Asset Management

What to focus on in Global Macro for the week of February 24th, 2020

Macro Themes on the Radar:

We have been in a low growth high liquidity environment for a number of years now. However, over the last year, the search for growth and non-negative yields has taken on a new sense of urgency. As a result, these investments have had explosive performance, with the recent price action going vertical.



Once prices start on an exponential run it becomes hard to gauge how far they can go, since almost by definition there is a radical repricing going on.

Vertical runs can go further than you imagine and usually don't end well so it is important to have a plan.

We have been experiencing a highly unusual situation where US Stocks, Bonds, Gold AND the USD have all been rallying together. Historically the dollar has rallied either during times of US outperformance OR during times of synchronized global slowdown. By contrast, the dollar tends to fall during periods of synchronized global growth.

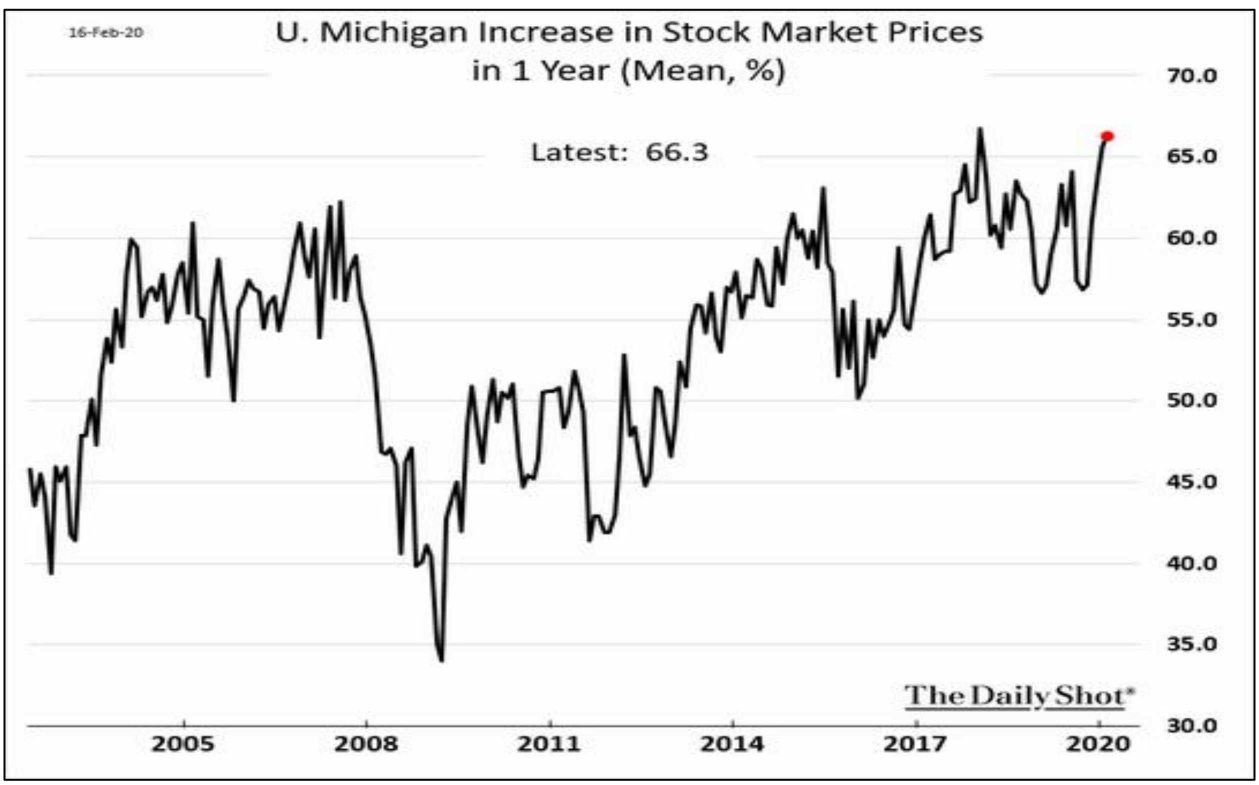
Having these four assets rallying together is a very unstable situation and equities would seem to be the weakest link. In any case, implied volatility is still very low in many asset classes and now is a good time to think about ways to add some to your portfolio. Cash positions can be converted to premium risk and/or tail-risk hedges can be added.

What to Focus on Now:

The US has, so far, continued to hold up well economically. As discussed, there are a few amber lights but nothing flashing red yet.

US employment data has remained resilient although the deterioration in Job Openings, mentioned last week, needs watching.

Consumer Sentiment closely linked to equity prices has remained strong as you might expect. Although retail investors have been reluctant, they are at least mentally getting dragged in now as those expecting higher prices a year from now rises.



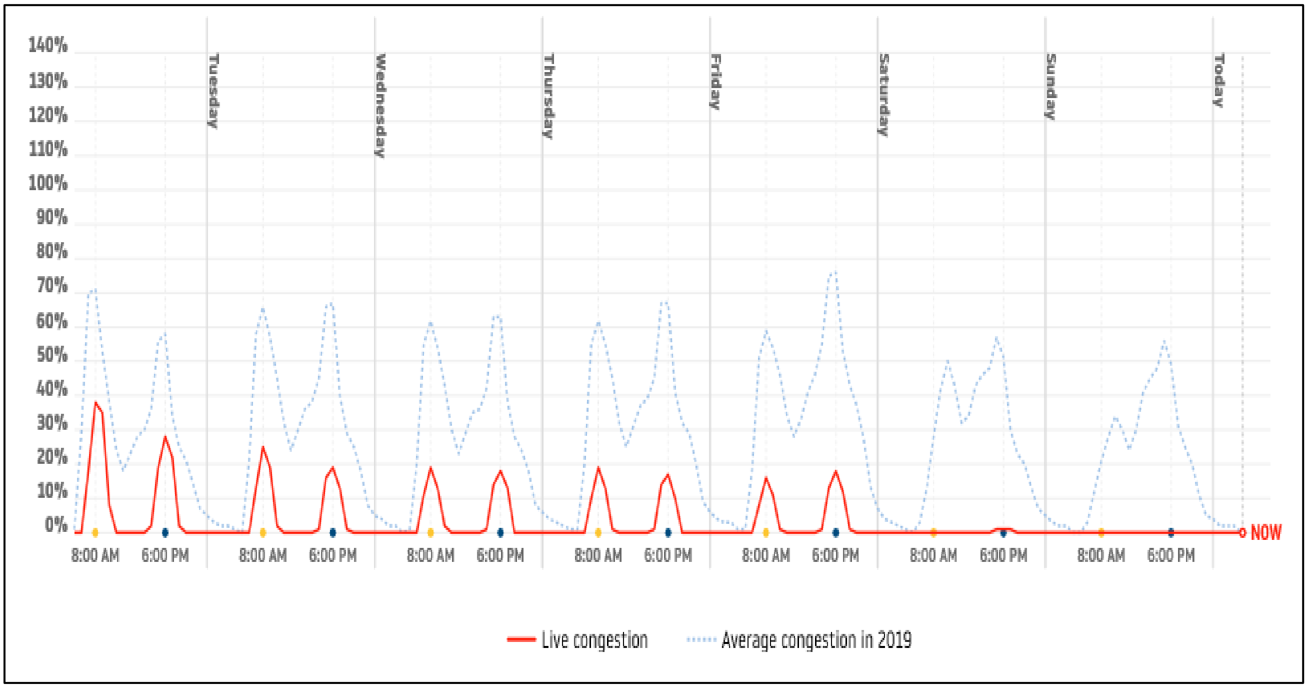
While US markets are certainly pumped up and probably susceptible to volatility as a result, the real danger is to the broader global growth story.

China seems to have hit a wall and hopes for a quick rebound look increasingly shaky. The longer this situation lasts, the harder it will be to quickly reverse the damage being done.

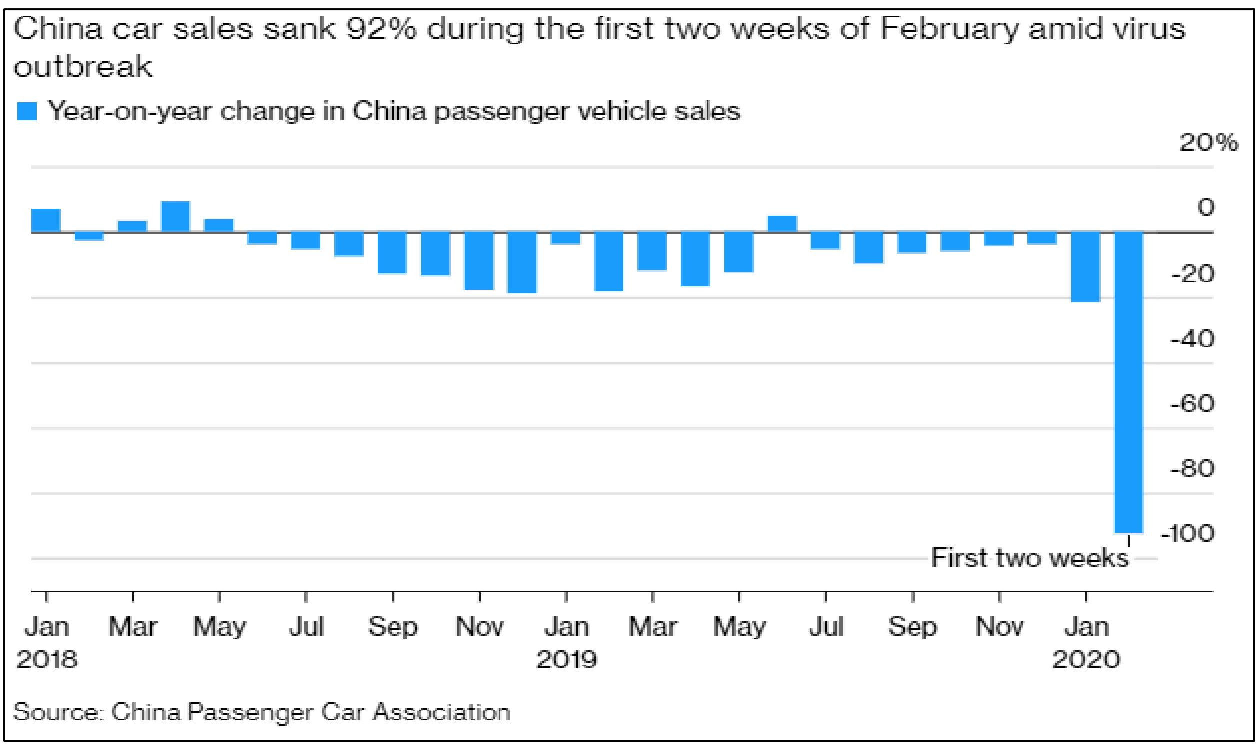
Pedestrians cross an empty road in Wuhan on Feb. 20. *Source: AFP via Getty Images*

Many of the people in the most effected cities, like virus ground zero Wuhan, are working from home if they can and hardly venturing out.

Even in Beijing traffic is still a fraction of normal levels.

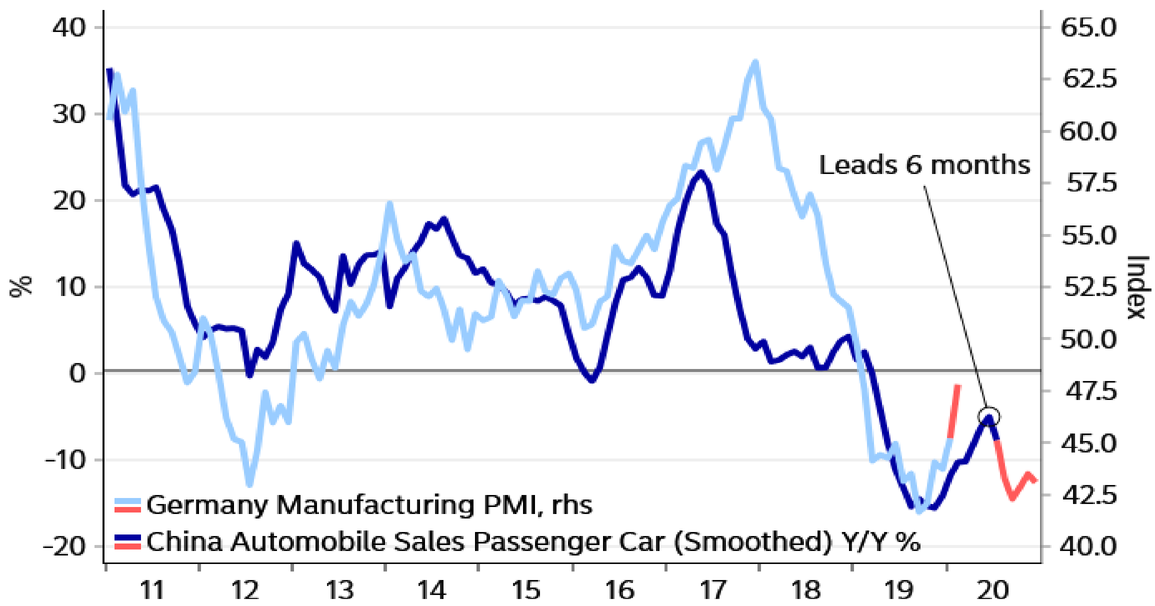


Car sales have plunged in China …



This plunge in production and consumption is going to have global consequences.

Chart 1: If no cars are being sold in China, Germany will take another hit over Q2



Source: Macrobond and Nordea

And might spell trouble for Global PMI's that were just starting to bounce after the latest round of Central Bank rate cuts and stimulus.

While on paper there seems to be some progress being made, as the number of daily infections in China looks to be falling, there is low certainty around the data. News stories like this are making people wonder just how controlled the situation really is: "Wuhan to Build 19 more makeshift hospitals"

In the last few days we have seen a jump in the number of cases outside of China. South Korea has been hit hard. Now Italy is facing an outbreak as well. For Europe this couldn't come at a worse time. The economy has already been slowing and countries like Germany, that were supporting overall EU growth have hit stall speed.

Italy, already facing a recession will definitely feel the impact. With 13% of GDP generated by tourism this will be a painful blow.

Today it was announced that the famous Venice Carnival that draws 10's of thousands of tourists has had its last two days of festivities canceled for fear of spreading the virus.

Even countries with relatively few cases in Europe are already feeling the tourism squeeze.

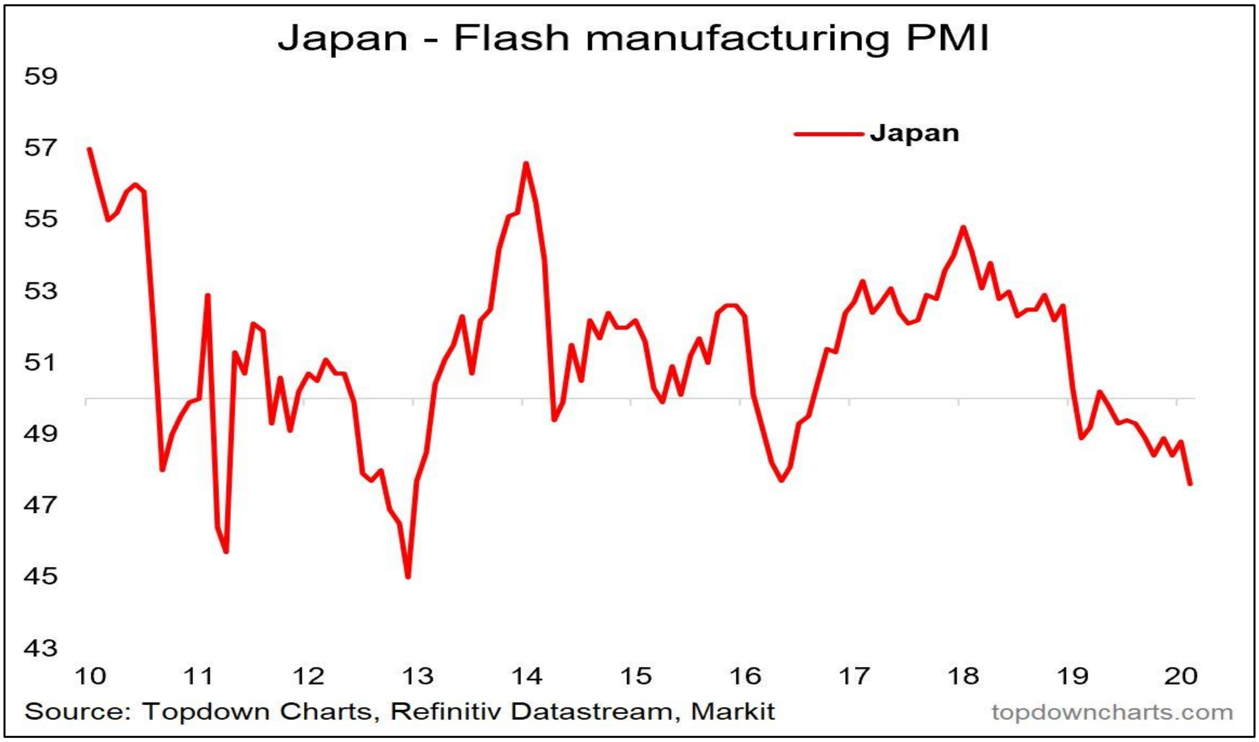
France with only 12 cases reported, certainly is. On Sunday the Finance minister, Bruno Le Maire, announced that France has already seen a 30-40% fall in tourism since the coronavirus outbreak began. For France, tourism accounts for 8% of GDP.

Japan is likely to feel the direct effects of coronavirus on its economy as well. Like Europe it is coming into the crisis on its back foot economically. Recent data has been very poor following the consumption tax hike and the Super Typhoon. Not only was Q4 GDP much worse than expected but PMI's are again falling.

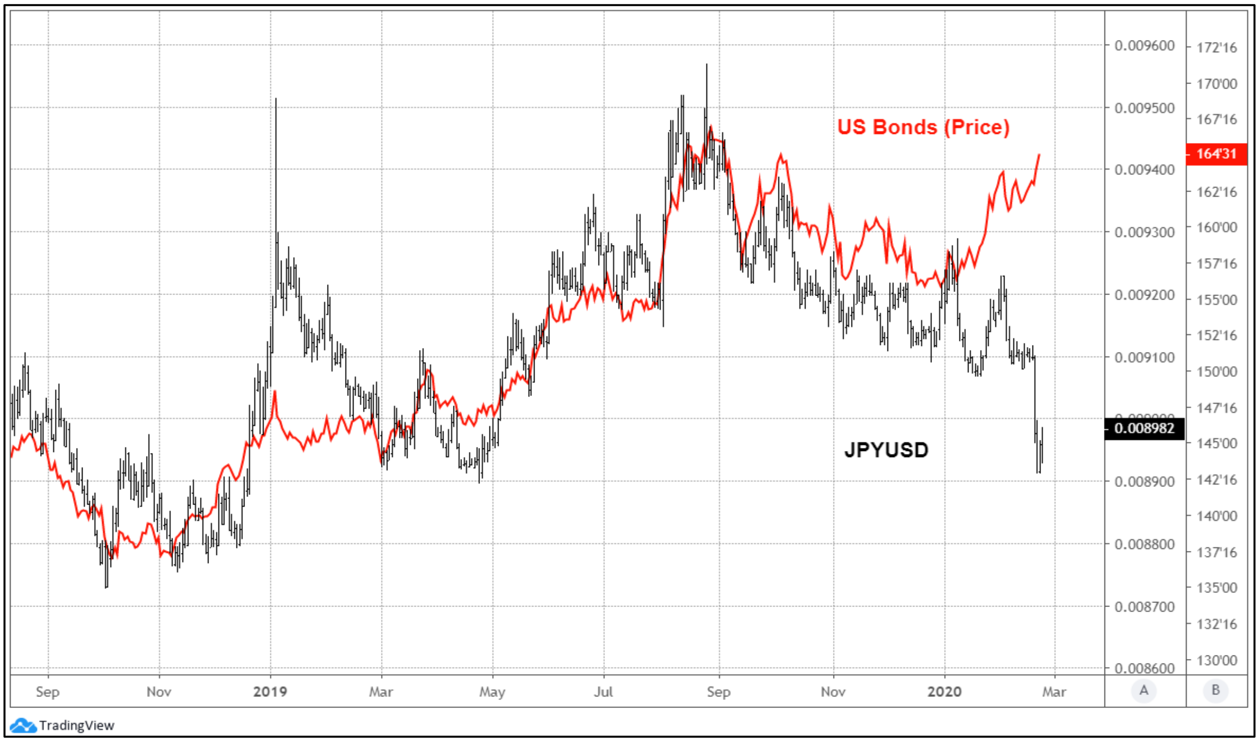
There is increasing speculation that the Summer Olympic Games in Tokyo could be under threat if the virus is not contained soon.

For countries with already weak data going into the outbreak, meaningful recessions may be hard to avoid unless there is a quick turnaround in the situation.

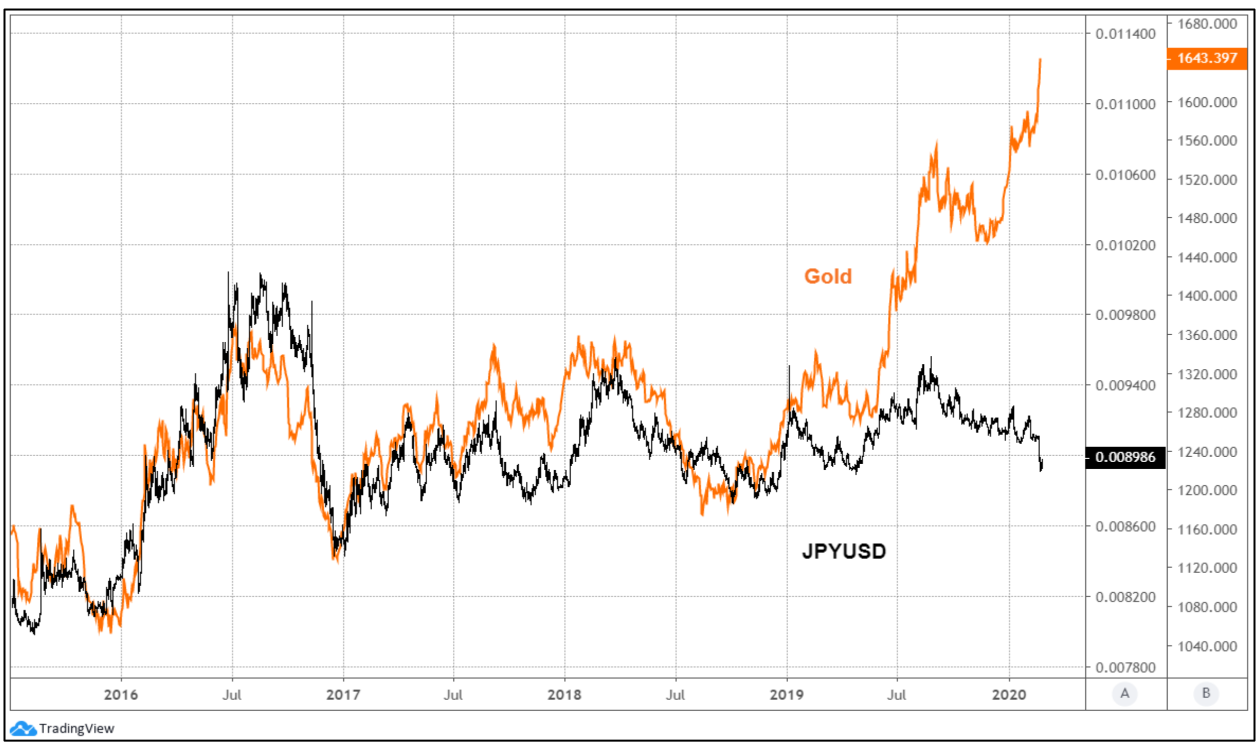
Judging by the comments from the CDC and WHO on Friday however it seems like the fear of escalation is growing.



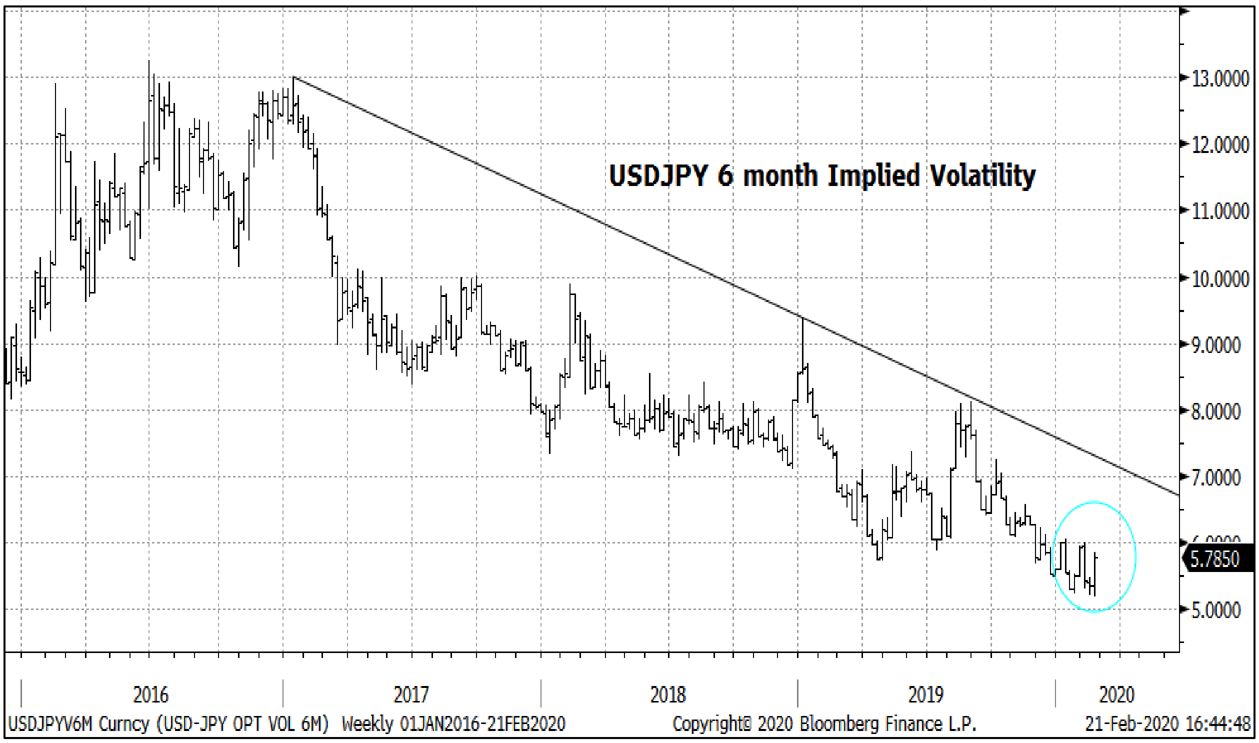
As discussed, the dollar has been generally strong, and that found its way into USDJPY last week as we saw a big drop in Yen. I think it was an important break. For weeks, Yen had not been following it usual pattern of Yen strength on US bond strength. Then they broke in different directions.



Yen has also been steadily losing its correlation to Gold. Last week that trend accelerated.



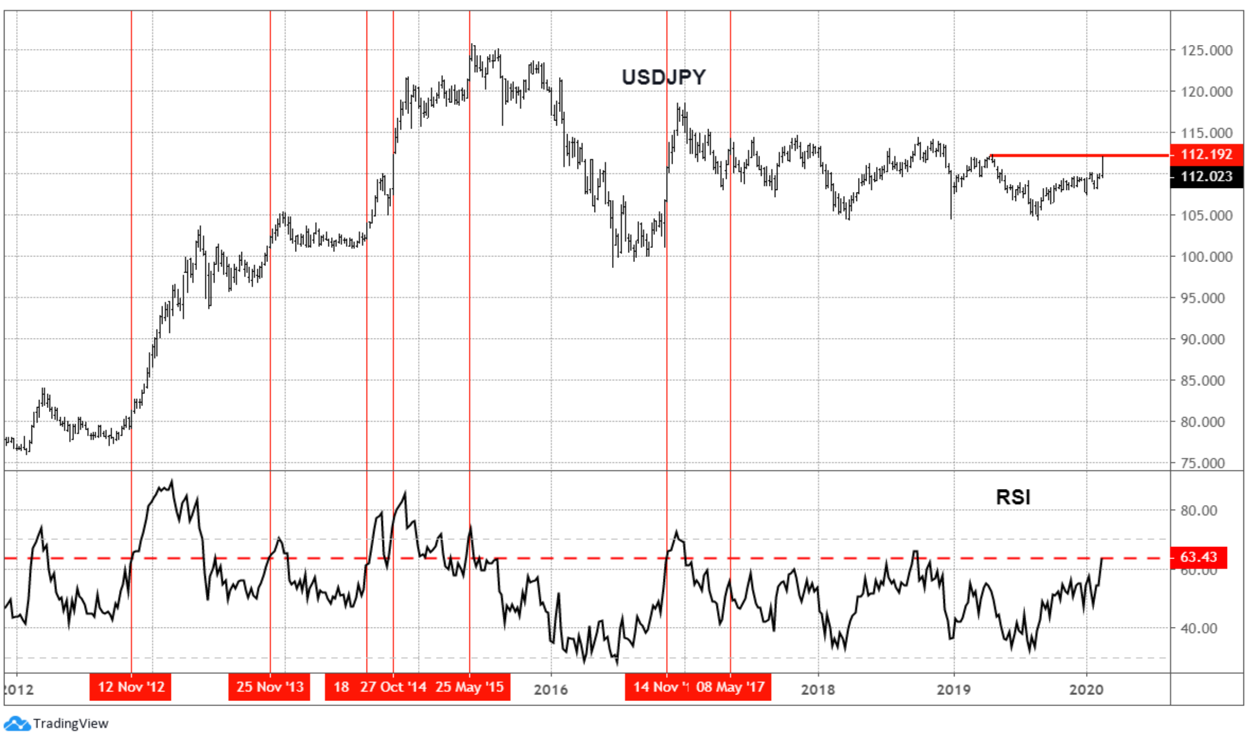
Something new is going on here and when you get correlation breaks like this, it is worth thinking about what volatility that may bring. Implied Volatility, just off of all-time lows, looks cheap.



The technical picture looks interesting too for Yen. After years of sideways consolidation, are we seeing the first signs of life? A sustained break above 112.40 would increase my conviction.

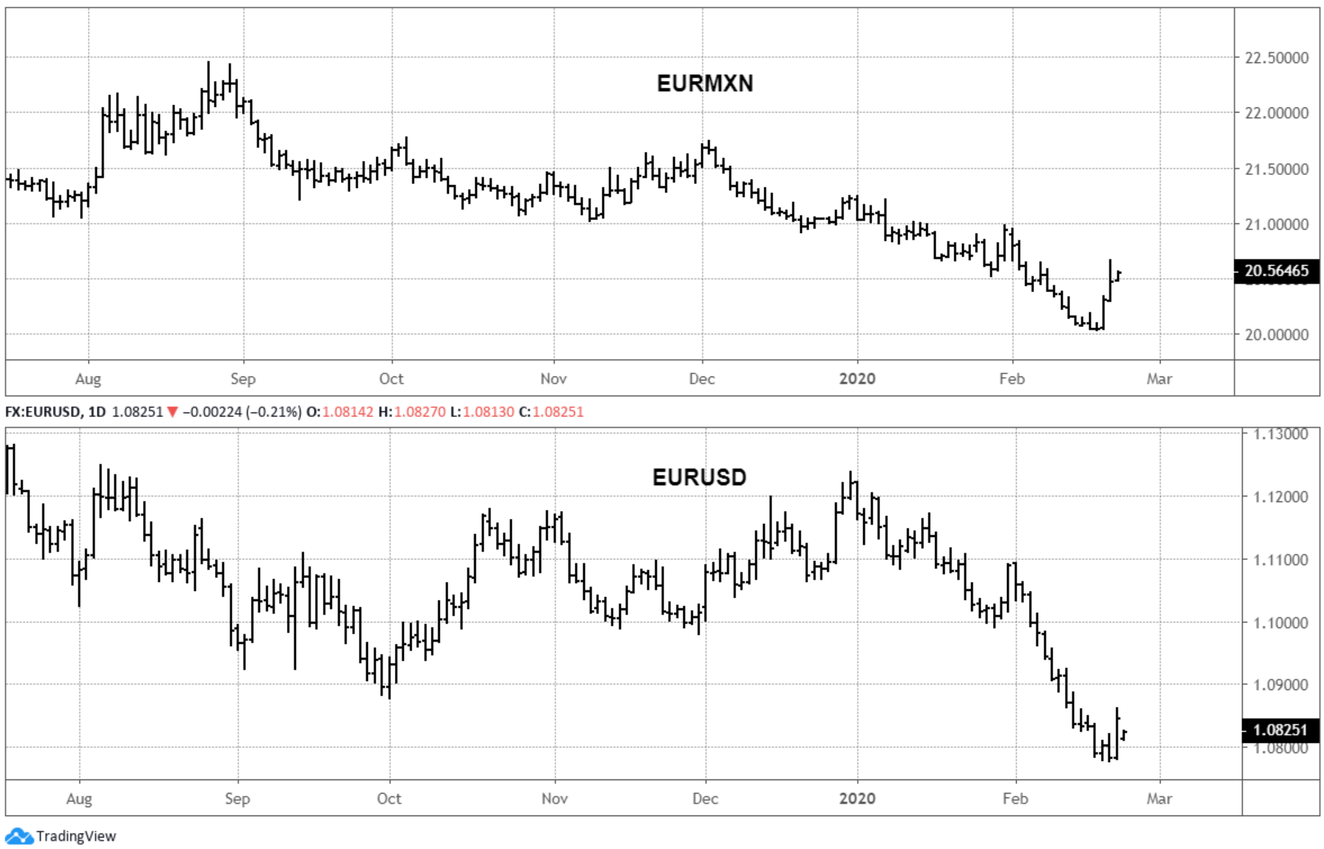
Stargazer
Asset Management

There is lots of room to run on the weekly chart.



After a strong few weeks the Dollar Index came off at the end of last week, into the risk-off price action of Thursday/Friday.

In part this was due to a sizable bounce in the EUR. The EUR has become a popular funding currency for what carry trades exsist these days. In particular there have been large short positions built in pairs like EURMXN. That trade in particular took on some water on Friday as general risk-off prompted position unwind in carry trades. We may get more early in the week, but I don't think EURUSD strength will last long.



Stargazer Asset Management

Lots of Central Bank speakers and some potentially interesting data out this week so should be quite a lot coming across the tape.

Important Macro Data Releases and Events for the Week

Monday
2/24/2019

- Industrial Production YoY (Jan) Forecast: - , Prior: 6.9%
- Retail Sales YoY (Jan) Forecast: - , Prior: 8%
- IFO - Business Climate (Feb) Forecast: 96, Prior: 95.9
- IFO - Current Assessment (Feb) Forecast: 99, Prior: 99.1
- IFO - Business Climate (Feb) Forecast: 93.3, Prior: 92.9
- Chicago Fed National Activity Index (Jan) Forecast: -0.92, Prior: -0.35

Tuesday
2/25/2019

- Leading Economic Index (Dec) Forecast: 91.6, Prior: 91.6
- GDP QoQ (Q4) Forecast: 0%, Prior: 0%
- GDP YoY (Q4) Forecast: 0.3%, Prior: 0.3%
- Housing Price Index MoM (Dec) Forecast: 0.3%, Prior: 0.2%
- S&P/Case Shiller Home Price Index YoY (Dec) Forecast: 2.4%, Prior: 2.6%
- Richmond Fed Manufacturing (Feb) Forecast: 13, Prior: 20
- Consumer Confidence (Feb) Forecast: 132, Prior: 131.6
- Fed's Clarida **SPEECH**

Wednesday
2/26/2020

- New Home Sales MoM (Jan) Forecast: 0.708m, Prior: 0.694m
- ECB President Lagarde **SPEECH**

Stargazer
Asset Management

Fed's Kaplan **SPEECH**

Fed's Kashkari **SPEECH**

Thursday
2/27/2020

BoJ's Kataoka **SPEECH**

ECB De Guinos **SPEECH**

Business Climate (Feb) Forecast: -0.24, Prior: -0.23

Durable Goods Orders (Jan) Forecast: -1.5%, Prior: 2.4%

Durable Goods Orders ex Transportation (Jan) Forecast: 0.2%, Prior: -0.1%

Durable Goods Orders ex-Defense (Jan) Forecast: 1.3%, Prior: -2.4%

PCE Prices QoQ (Q4) Forecast: 1.6%, Prior: 1.6%

Core PCE Prices QoQ (Q4) Forecast: 1.3%, Prior: 1.3%

GDP Annualized (Q4) PREL Forecast: 2.1%, Prior: 2.1%

GDP Price Index (Q4) Forecast: 1.7%, Prior: 1.5%

Non-defense Capital Goods Orders ex - Aircraft (Jan) Forecast: -0.1%, Prior: -0.8%

Initial Jobless Claims Forecast: 210k, Prior: 210k

Initial Jobless Claims 4-week ave. Forecast: - , Prior: 209k

Continuing Claims Forecast: 1.709m, Prior: 1.726m

Pending Home Sales MoM (Jan) Forecast: 2%, Prior: -4.9%

Tokyo CPI YoY (Feb) Forecast: 0.8%, Prior: 0.6%

Tokyo CPI ex Fresh Food YoY (Feb) Forecast: 0.6%, Prior: 0.7%

Tokyo CPI YoY ex-Food and Energy (Feb) Forecast: 0.9%, Prior: 0.9%

Stargazer Asset Management

		Jobs/Applications Ratio (Jan) Forecast: 1.57, Prior: 1.57
		Unemployment Rate (Jan) Forecast: 2.2%, Prior: 2.2%
		Retail Trade YoY (Jan) Forecast: -1.1%, Prior: -2.6%
		Retail Trade s.a. MoM (Jan) Forecast: 2.4%, Prior: 0.2%
		Industrial Production YoY (Jan) Forecast: -9.5%, Prior: -3.1%
		Large Retailers' Sales (Jan) Forecast: -3.3%, Prior: -3%
Friday 2/28/2020		GfK Consumer Confidence (Feb) Forecast: -8, Prior: -9
		Unemployment Rate s.a. (Feb) Forecast: 5%, Prior: 5%
		Unemployment Change (Feb) Forecast: -3k, Prior: -2k
		German Buba President Weidmann **SPEECH**
		Harmonized Index of Consumer Prices YoY (Feb)
		Core PCE - Price Index MoM (Jan) Forecast: 0.2%, Prior: 0.2%
		Core PCE - Price Index YoY (Jan) Forecast: 1.7%, Prior: 1.6%
		Personal Spending (Jan) Forecast: - , Prior: 0.3%
		Personal Income (Jan) Forecast: 0.3%, Prior: 0.2%
		Chicago PMI (Feb) Forecast: 45.3, Prior: 42.9
		Michigan Consumer Sentiment Index (Feb) Forecast: 100.9, Prior: 100.9
Saturday 2/29/2020		Non-Manufacturing PMI (Feb) Forecast: - , Prior: 54.1
		NBS Manufacturing PMI (Feb) Forecast: 45, Prior: 50

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations. This document is an outline of matters for discussion only.

This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.