Stargazer
Asset Management

What to focus on in Global Macro for the week of September 6th, 2021

Macro Themes on the Radar:

US

With disappointing August employment data now out of the way, and any Fed taper announcement likely postponed until November, we are back to waiting for data. Inflation and employment data remain the focus.

In the meantime, we have news from key Democratic Senator Manchin that he won't support the $3.5T "human infrastructure" plan in its current form.

Last week saw the release of the Dallas Fed's Manufacturing Survey. There were some real zingers among the respondent's comments. They are worth a look to gauge the mood… Here are a few:

- We are having increased difficulty in procurement of raw materials and logistical costs.
- Some domestic stainless steel material pricing is now 14–28 times the price of imported material and not available for 12–16 weeks. For products going into the water market, these increases are being paid for by cities and utilities and ultimately the taxpayer. This limits the amount of funds available to improve our crumbling infrastructure.
- Labor costs continue to rise, and supply-chain disruptions with major material components continue to drive production delays, increased costs and uncertainty.

ECB

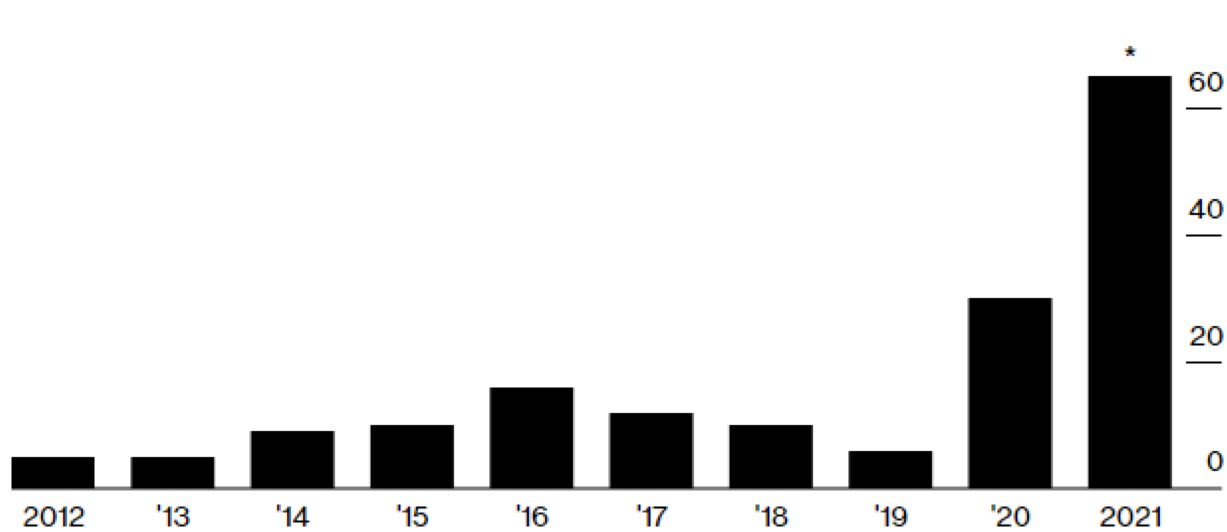
This week we have the much-anticipated ECB decision on Thursday. Given recent comments by Chief Economist Lane it looks increasingly likely that they may signal a reduction in the pace of PEPP asset purchases as soon as this week. If so, it will be couched in terms of a "technical" adjustment and the potential impact will be downplayed. Unlike in the US and China, most of the data has been surprising to the upside, and not just with large inflation prints.

China

Xi's revolution?

Things are getting interesting in China… are we seeing a tactical shift to rebalance the economy, or something bigger?

Xi is increasingly focused on "common prosperity" a Maoist concept that fell out of favor after Deng Xiaoping shifted the focus to developing an economy that would allow "some people to get rich first."



Sloganeering
Number of times the term 'common prosperity' appeared in speeches by President Xi Jinping
* Through Aug. 20, 2021
Source: Bloomberg analysis

The recent tech crackdown which spread to tutoring and healthcare, is now taking on more social undertones, as actors with "incorrect" political views are having their media presence and incomes curtailed, and minors are being limited to three hours of online gaming a week. This is a nice recap from Bloomberg.

There is lots of continued talk about the China credit impulse weakening in recent months. In the past, that has been followed by volatility in global markets and lower commodity prices (with a lag). Just as a reminder, the credit impulse is the growth of credit as a percentage of GDP. The counter to this argument is that this time the US's large fiscal spending will overwhelm the importance of China to global growth, for the first time in many years.

The zero-tolerance COVID policies are certainly having a big impact and there is continued debate about how sustainable those will be, should outbreaks continue.

At the same time, it is hard to separate the effect that the new domestic policies are having on the economy, from the COVID situation.

As the PBoC tries to balance its fear of bubbles and financial excess with the need to support a slowing economy, China data has continued to come in weaker than expected… as both manufacturing and non-manufacturing PMI's fall into contraction territory.

As noted, China growth has been very important for global growth.

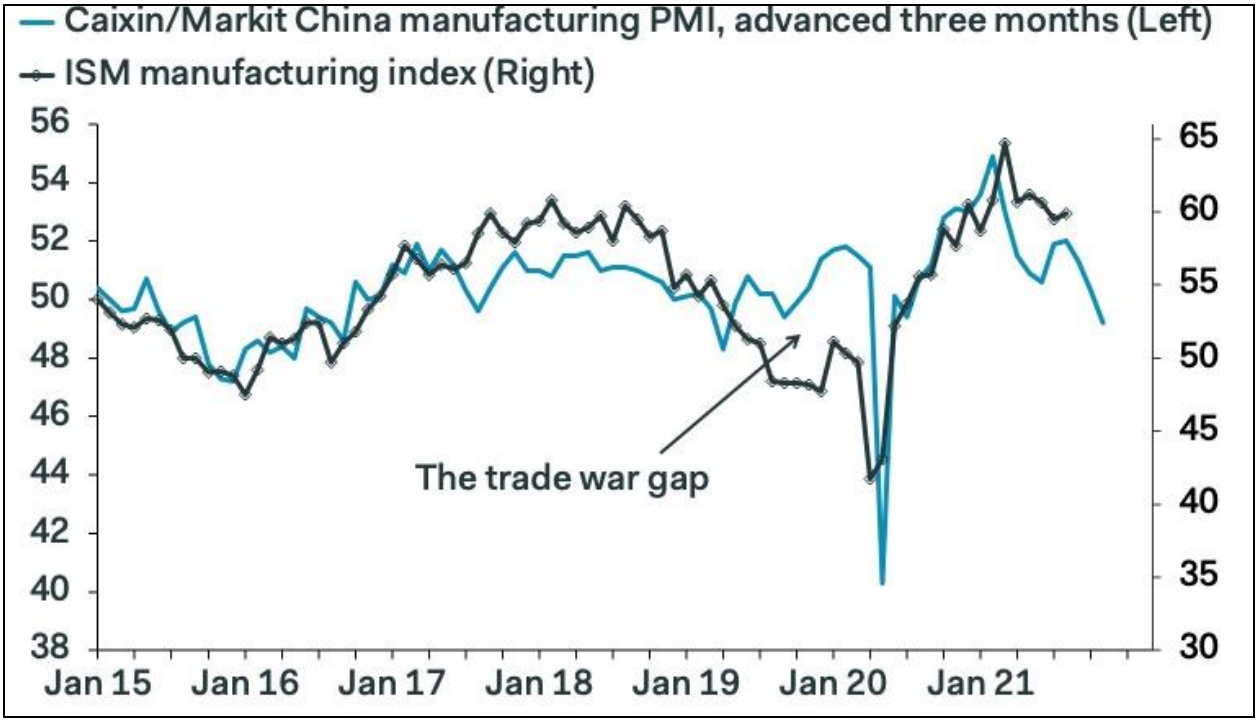
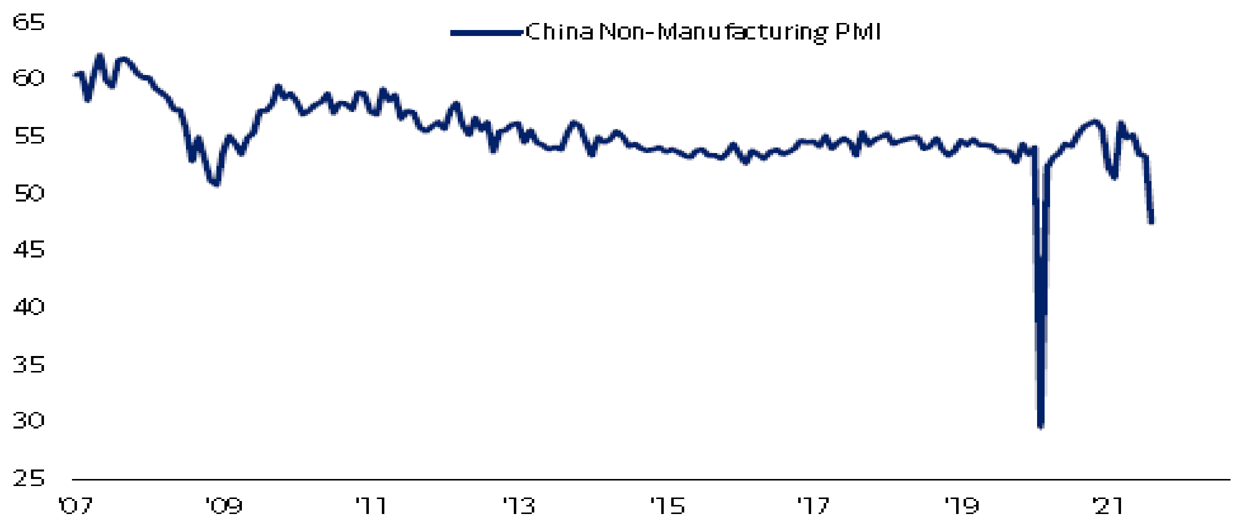


Chart 8: China macro data turns recessionary

China non-manufacturing PMI



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Germany

Two things to note regarding Germany…

1) German Elections on September 26th – The SPD seems to be gaining ground, but the outcome is still wide open, with lots of post-election drama possible, depending on if and how a coalition can be formed. This is wider topic of interest for markets because an SPD government is more likely to be strongly supportive of further European integration.
2) The DAX is about to get a major makeover, the biggest since its inception in 1987, as the makeup and number of companies in the index is revised. The count is going from 30 to 40 companies and the newcomers will include a number of growth stocks, potentially making the index, more competitive with US growth stocks.

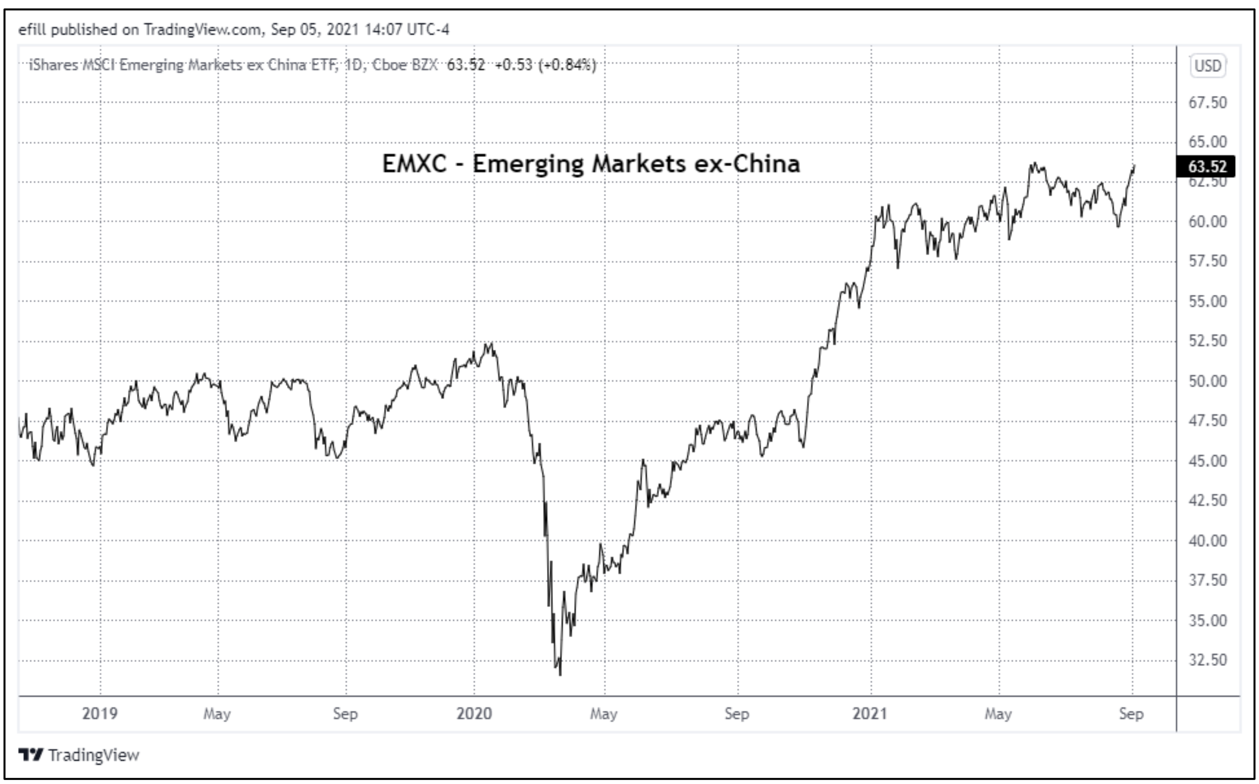
<u>What to Focus on Now:</u>

Equities and Bonds

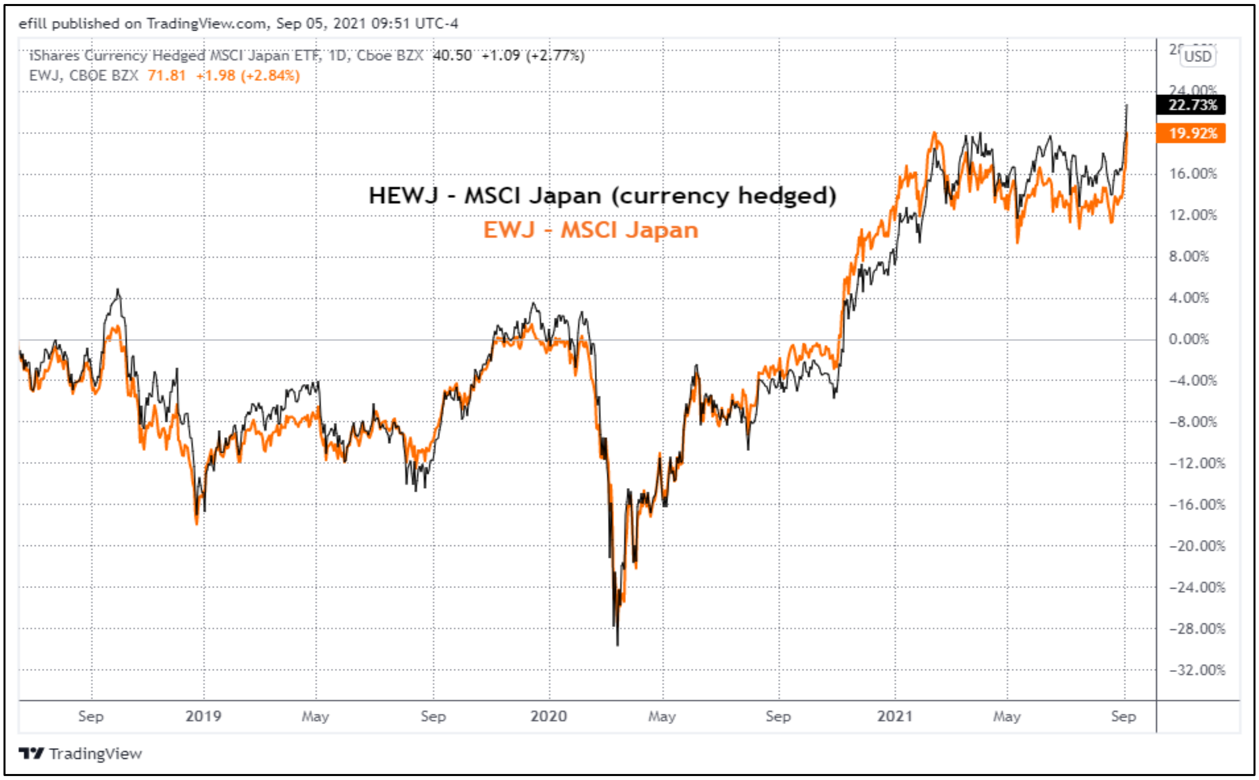
A relatively dovish Jackson Hole speech followed up with weaker US data, have continued to push back the prospects for the Fed to reduce accommodation. There has been a jump in reflation trades as a result and the dollar has seen a big reversal from breakout territory. The Russell quickly jumped off the range lows and is now testing the top of that range.

EEM has jumped too but is being held back by greater China exposure.

EM ex-China is nearly back at the highs.



Japan has also seen a big jump to in recent days.



Unlike US tech, global growth and reflation trades have struggles this year.

Interestingly, after months of sideways, equities and commodities are trying to break higher vs. bonds again.

Bond yields have stopped going down in recent weeks.

Although yields have not been able to get back above 1.40 in 10's or 2.05 in 30's… watch those.

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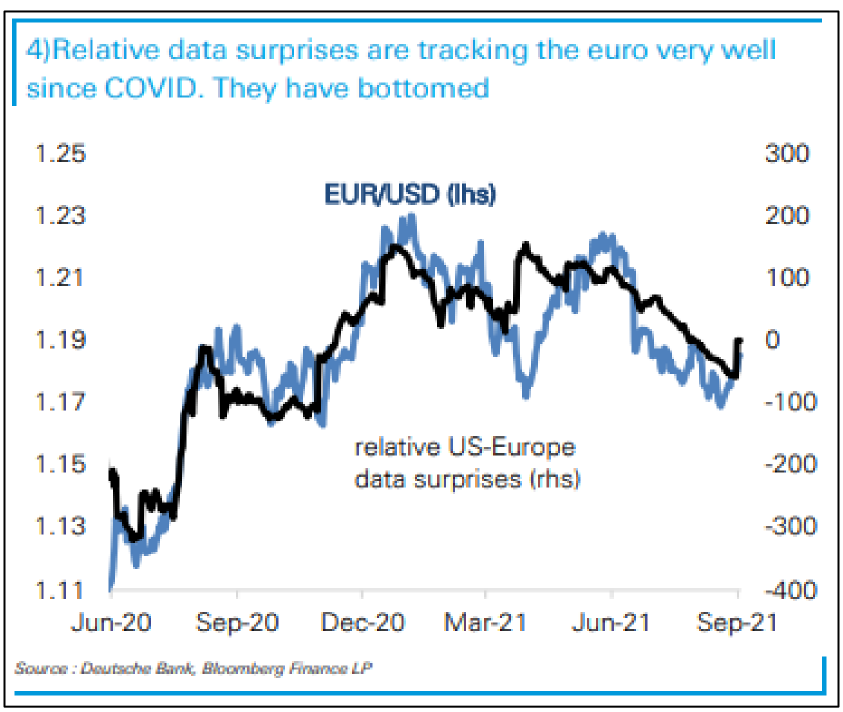
Three-month Eurodollar futures for December 2023 have remained range bound, as the Fed has tried to divorce a taper from any kind of countdown to the first hike. So far, the market is buying the Fed's dots.

FX



As mentioned, the dollar saw a powerful reversal lower after threatening to break to the upside.

Data surprises and the resulting shifts in relative CB signaling have definitely contributed to that.

The pushing back of taper expectations has been seen as reflationary, resulting in a lower USD and somewhat higher yields.

That lower USD/ reflation combination has allowed Gold to recoup all its recent loses.

Up through 1835/40 and it will be threatening a technical breakout…

A break above 1550 in XAUEUR could serve as confirmation that something is up.

The same if Silver starts to again perform, as that is usually the high beta in precious metals.

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September should be an interesting month. This week we get the ECB and how they will react to the upward surprises in growth and inflation data. We will also get US PPI, ahead of next week's CPI. Also, keep an eye out for a Biden decision on who the next Fed Chair will be.

Important Macro Data Releases and Events for the Week

Monday 9/6/2021	**Labor Day**
	EcoFin Meeting
	Trade Data
Tuesday 9/7/2021	RBA Interest Rate and Policy Decision
	ZEW Survey - Economic Sentiment (Sep) Forecast: 52.2, Prior: 42.7
	GDP
	ZEW Survey - Current Situation (Sep) Forecast: 33, Prior: 29.3
	ZEW Survey - Economic Sentiment (Sep) Forecast: 30, Prior: 40.4
Wednesday 9/8/2021	BoC Interest Rate Decision and Statement
	Fed's Williams speech
	Fed's Beige Book
	CPI
Thursday 9/9/2021	**ECB Interest Rate Decision and Policy Statement**
	Initial Jobless Claims Forecast: -, Prior: 340k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 355k

	Continuing Jobless Claims, Prior: 2.748M
	Eurogroup Meeting
Friday 9/10/2021	Harmonized Index of Consumer Prices YoY (Aug) Forecast: 3.4%, Prior: 3.4%
	EcoFin Meeting
	PPI YoY (Aug) Forecast: 5.6%, Prior: 6.2%
	Employment Data