What to focus on in Global Macro for the week of June 14th, 2021

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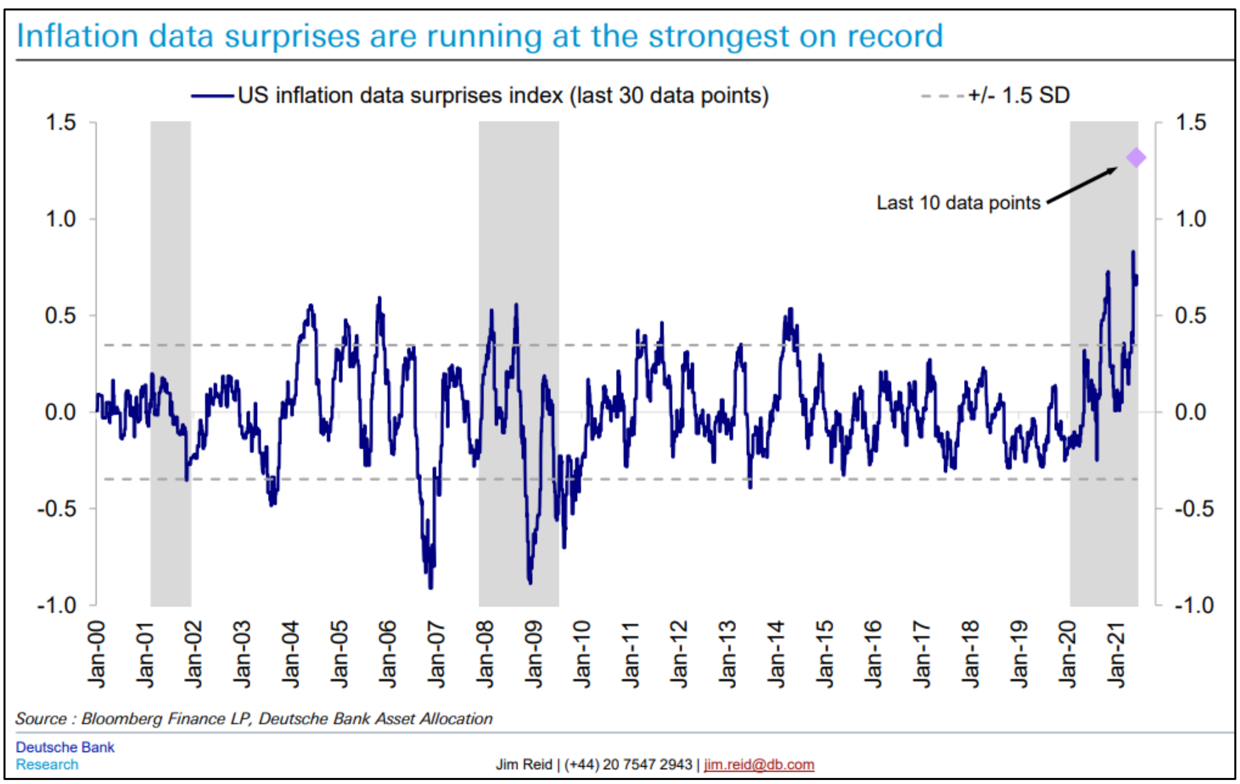
Macro Themes on the Radar:

Central Banks

With last week's unsurprisingly dovish ECB meeting and press conference behind us, markets are now focused on the upcoming Fed policy announcement and press conference on Wednesday.

Despite more strong inflation data last week, markets and the Fed continue to largely accept the transitory nature of the current jump in inflation. Fair enough, as to some extent it most certainly is. Things should come off the boil in the next few months and base effects will calm down. How much inflation pulls back and for how long, will then be the big question, but we won't know the answer to that for months.

For now, the Fed will stay dovish and guard the success they have had in pitching the transitory inflation story.



A few things to look out for at Wednesday's meeting:

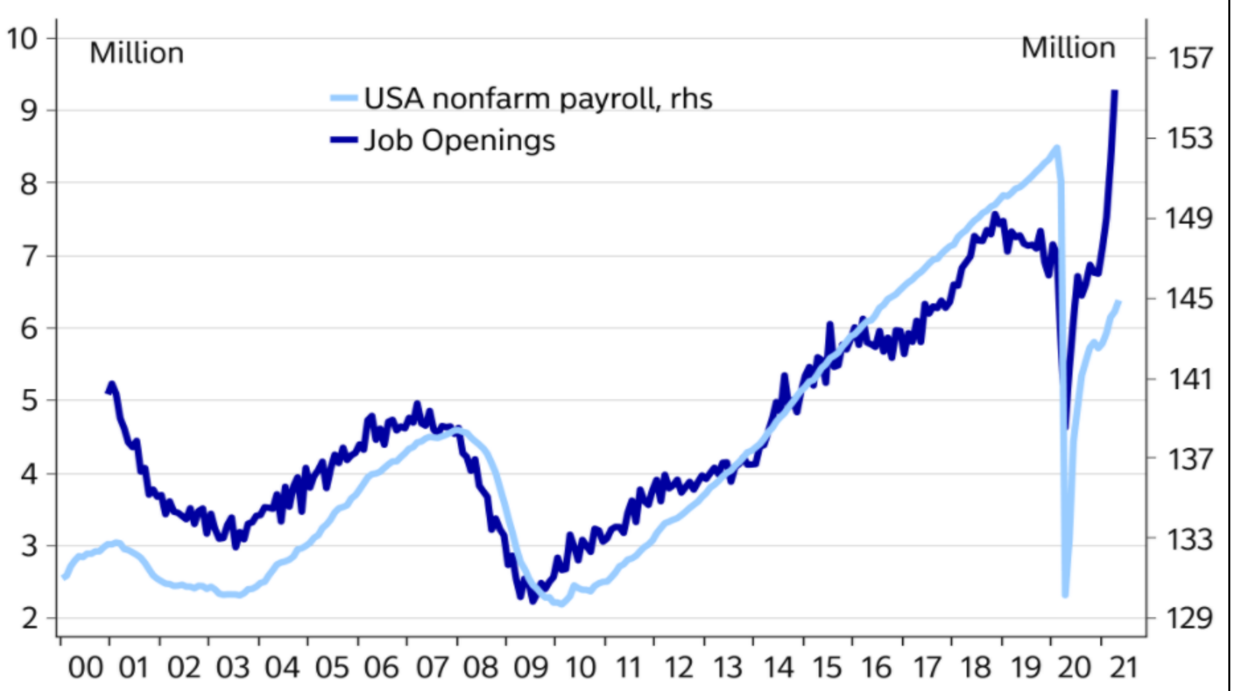
- Any "blink" on the transitory inflation story (doubt it)
- Increased / specific taper talk

- An increase in the IOER (maybe 5bps) to deal with the large reverse repos being executed to mop up all the excess front end liquidity
- Change in policy rate lift-off expectations (the dots in April said no hike through 2023)
- Powell has repeatedly acknowledged that "…we have resisted the temptation to try and quantify what moderate overshooting means, but when we are above target… we can do that". Is 5% headline and 3.8% core now officially above target? If so, he may feel it is time to add some color on how much is too much.

While the inflation prints have certainly been higher than the Fed and the market's forecasts, the employment data has been a bit disappointing. That has helped take the pressure off the Fed.

However, there are plenty of signs that the underlying employment picture is actually very strong and only being held back, for the moment, by temporary factors. Those should start to dissipate over the next few months. Come the August Jackson Hole conference and the September FOMC meeting things could get very interesting (interesting=volatile).

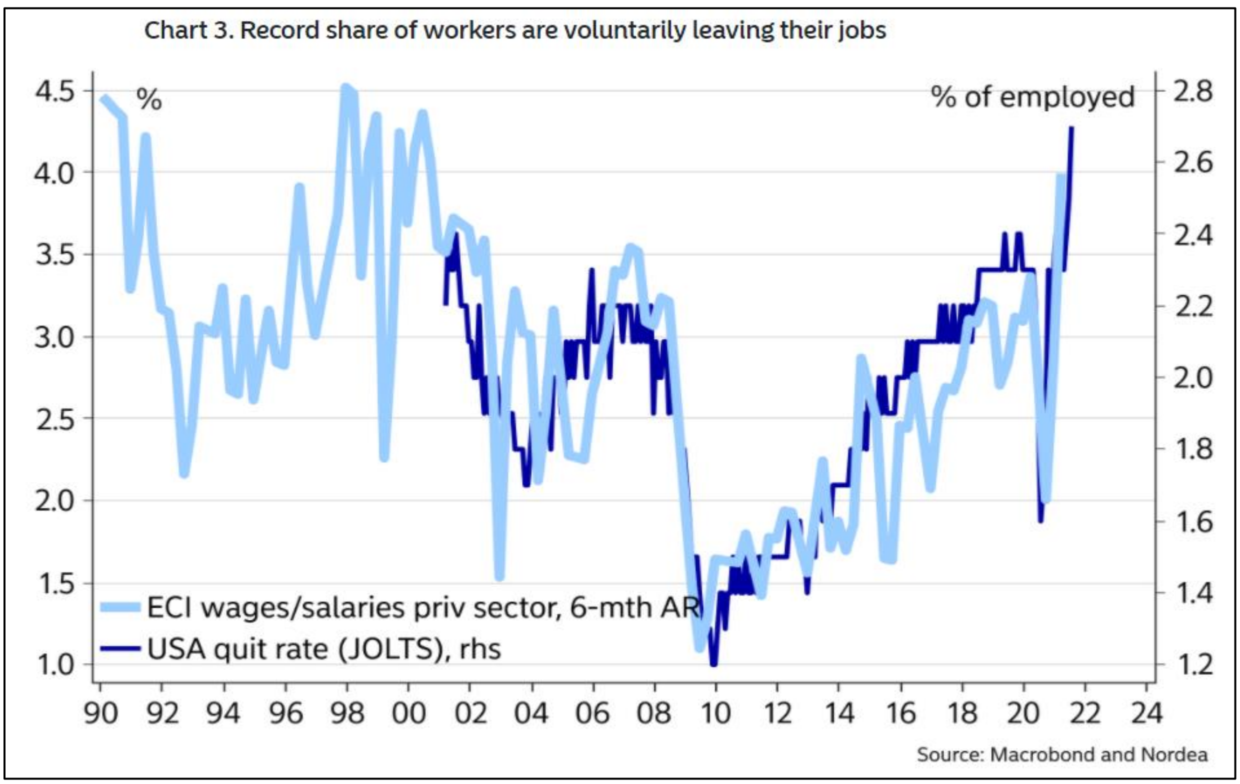
Chart 2. A record number of US job openings



Source: Macrobond and Nordea

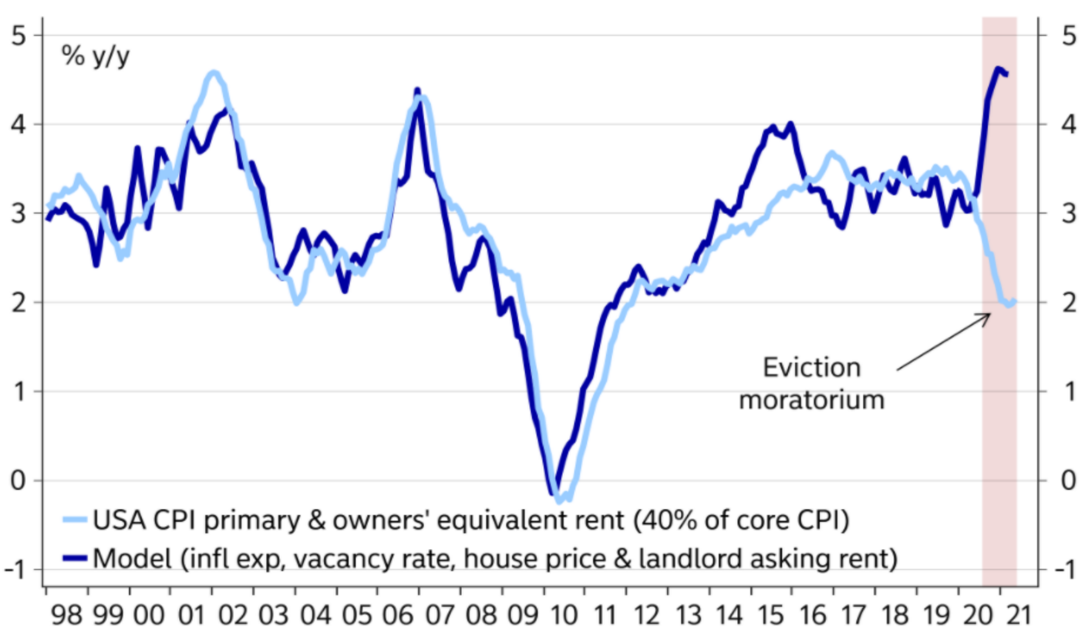
Not only are there plenty of Job Openings that remain unfilled, but the rate at which people are quitting their jobs is the highest in 20 years. It is unclear if they are looking to upgrade in terms of wages and/or lifestyle, or what exactly is driving this. Probably not something you do if you are worried about getting another job, however.

Or a job that pays less than the one you are leaving, for that matter.



A real clearing of the labor market is probably still a few months away and, in the meantime, there is the potential for inflation prints to moderate come July and August. By the Fall however, rents, which have been largely sidelined, could come into play. Primary & owners' equivalent rent are a 40% weight in core CPI. Just saying.

Chart 5. Rents should become the next CPI SHOCKER

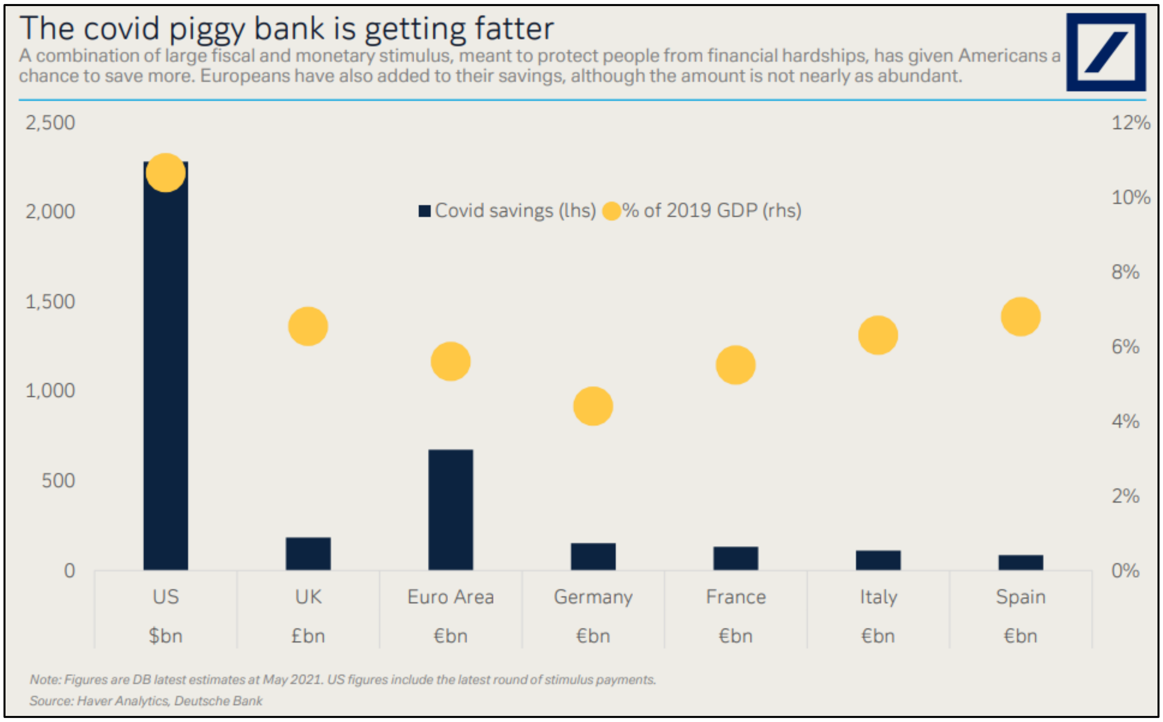


Source: Macrobond and Nordea

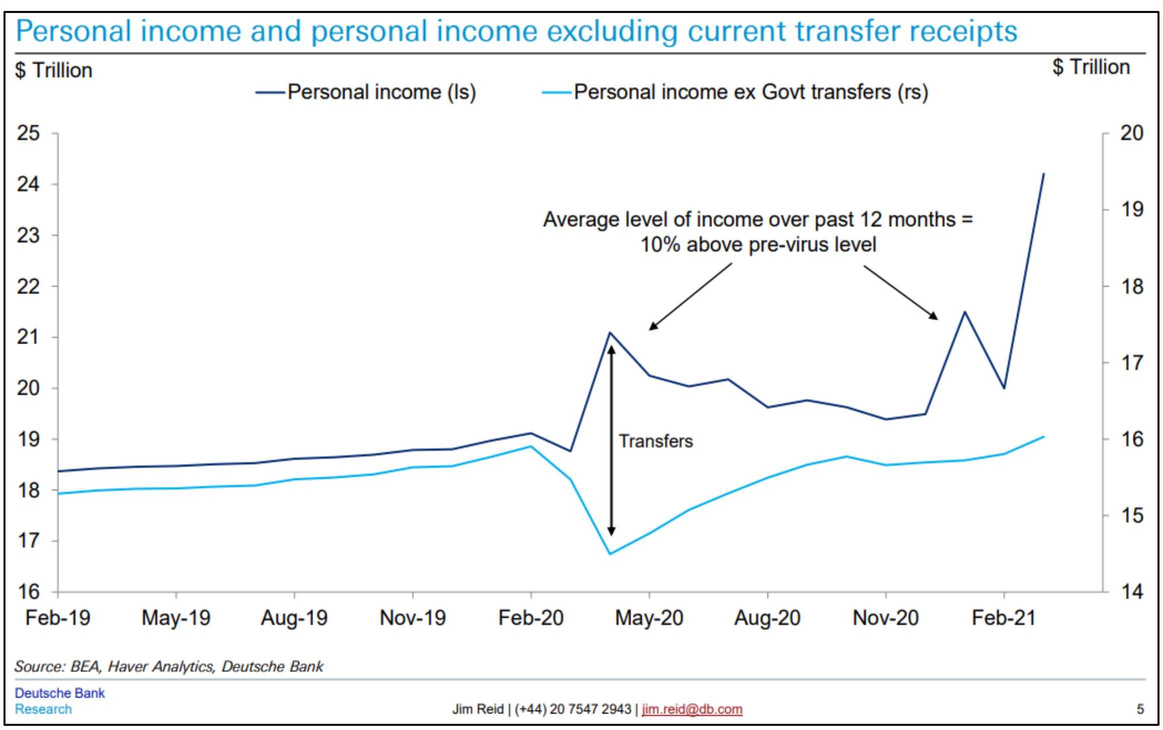
There was an interesting opinion [piece]() on Bloomberg last week, by Bill Dudley. As former President of the New York Fed and vice-chair of the FOMC, he was rarely accused of being a dove. While he professes to be on-board with the new framework, the execution is another matter…

"The problem is that the Fed has put the new strategy into practice in an unnecessarily extreme way. Officials have indicated that they won't raise short-term interest rates from their current near-zero level until three conditions are met: employment has reached its maximum sustainable level, inflation has reached 2%, and inflation is expected to remain above 2% for some time. This means monetary policy will remain loose until overheating begins – and cooling things off will require the Fed to increase interest rates much faster and further than it would if it started raising rates sooner. The new framework doesn't require the Fed to take such big risks. Instead, officials could set conditions that allowed the central bank to begin raising rates sooner and more gradually, without this being in conflict with the goal of 2% average inflation. They have made a choice that may be attractive now, because it provides more impetus to an economy recovering from the pandemic. But this benefit will come at a potentially high cost later – a tradeoff to which the Fed should be paying greater attention."

Finally, on the growth and inflation front, there remains a big question mark hanging over all the excess savings generated during COVID. This is especially true in the U.S. To what extent will it get spent, and when? Some of it was certainly generated by reduced spending.



However, it is hard to argue that fiscal spending didn't play a big role in building it as well.



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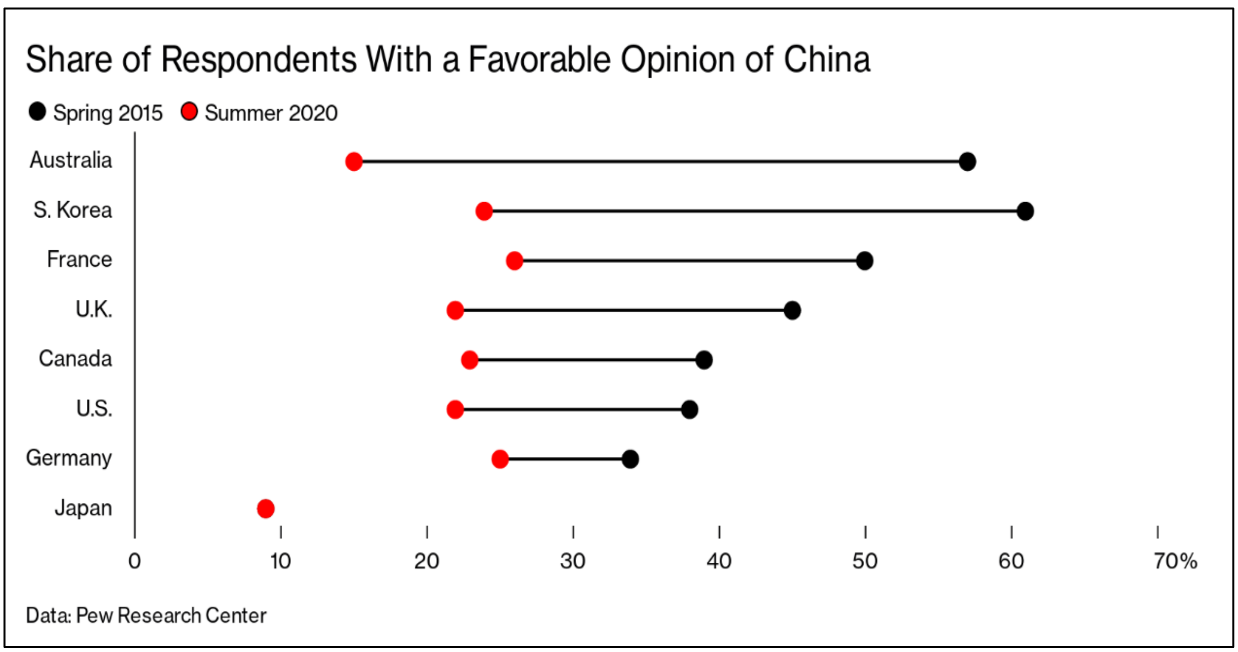
When it comes to consumers spending these new savings, I have to admit that the theory of Ricardian equivalence comes to mind.

Ricardian equivalence maintains that government deficit spending is equivalent to spending out of current taxes because taxpayers will save to pay the expected future taxes. This in turn will tend to offset the longer-term macroeconomic effects of increased government spending.

Just a thought to ponder. It would imply that people will be slow to spend these savings.

China

If anything, relations between China and the rest of the world continue to erode. This weekend's G7 meeting was another clear reminder of the trend. Not only is the lab escape theory regarding COVID being increasingly discussed, but so are human rights and environmental concerns. It seems that during secretive discussions five of the seven countries were on board with a more forceful position vs. China, while only Germany and Italy were less convinced it was the proper course. As headlines leaked out of G7, a spokesman from the Chinese embassy in London made the statement that "The days when global decisions were dictated by a small group of countries are long gone".



I expect this showdown to escalate in the coming months. We will see if it ever takes on a form that the markets care about or not, but it will be with us for the foreseeable future.

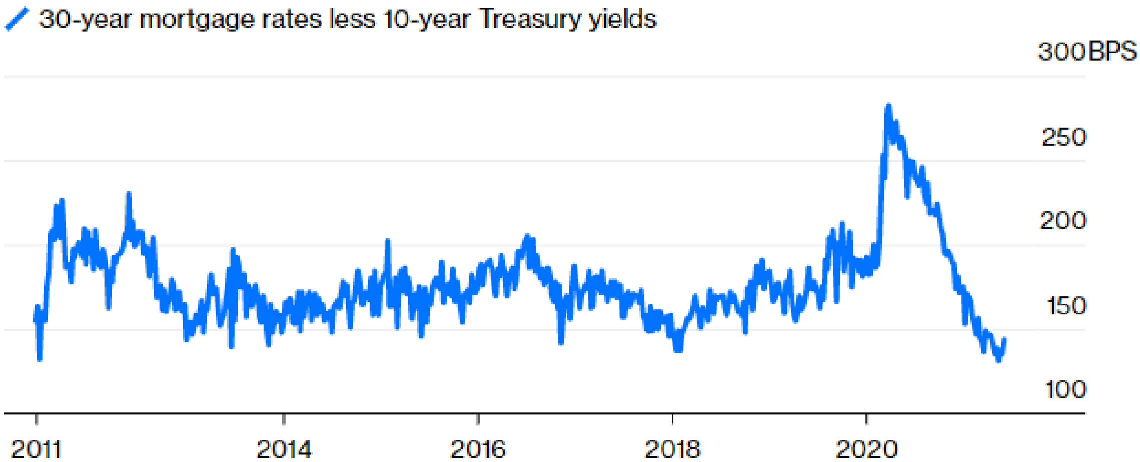
Housing

It has been very hot, but is it starting to slow?

Tight mortgage spreads have helped keep down mortgage rates despite rising yields.

Tight Spread

The gap between government bond yields and mortgage rates is about the narrowest on record

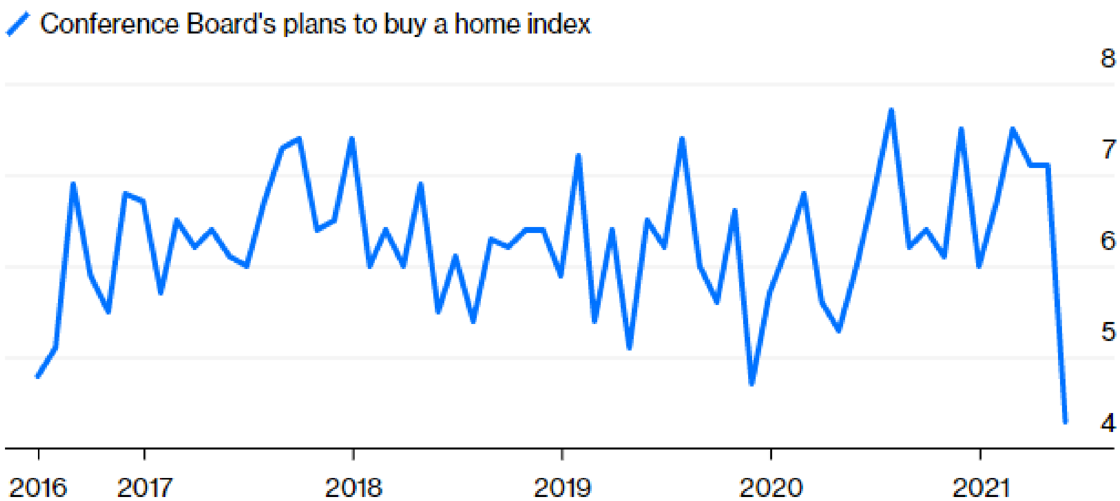


Sources: Bloomberg, Freddie Mac

However, the real estate market may now be slowed by its own success.

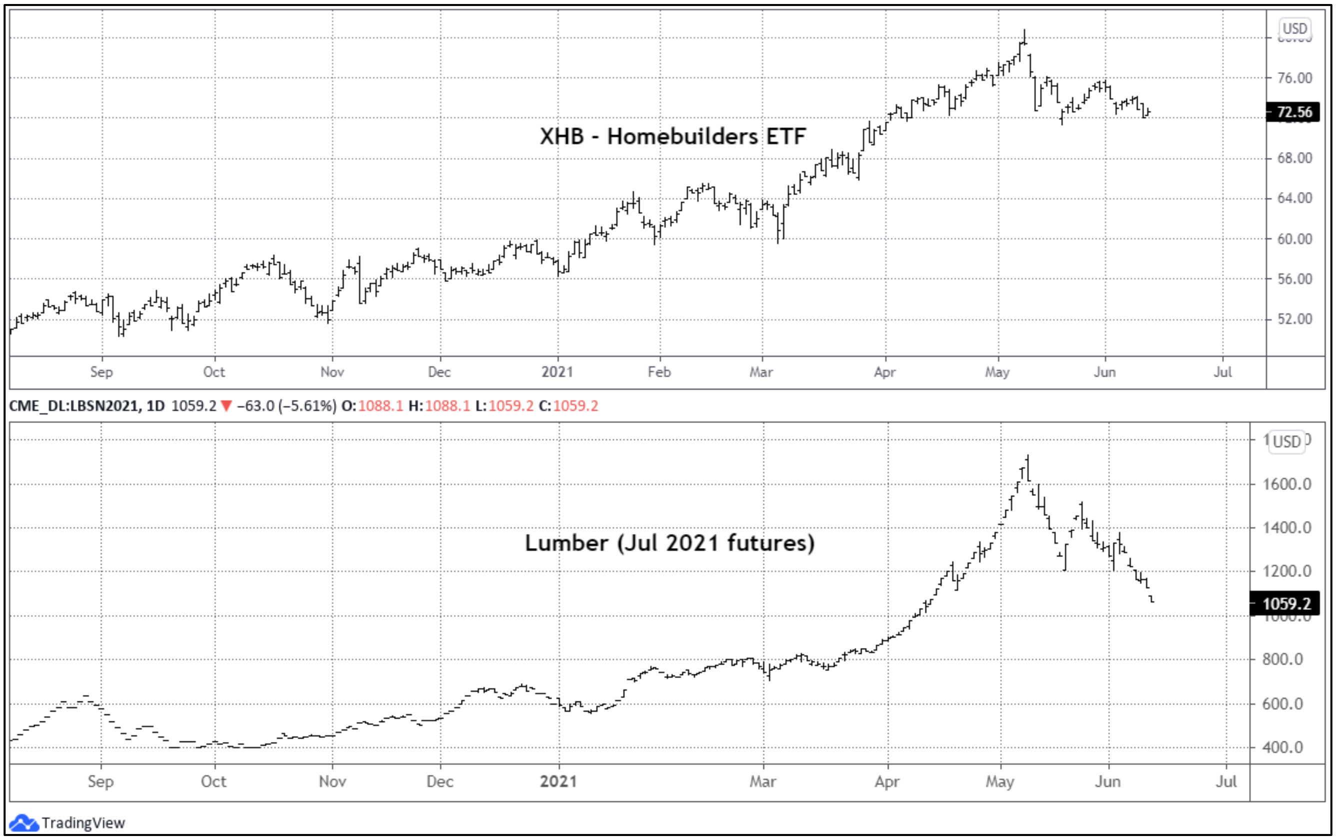
Pulling Back

Consumers have few plans to buy a home after prices surged



Sources: Conference Board, Bloomberg

Both homebuilders and lumber have topped for the moment. Worth watching.



What to Focus on Now:

Equities

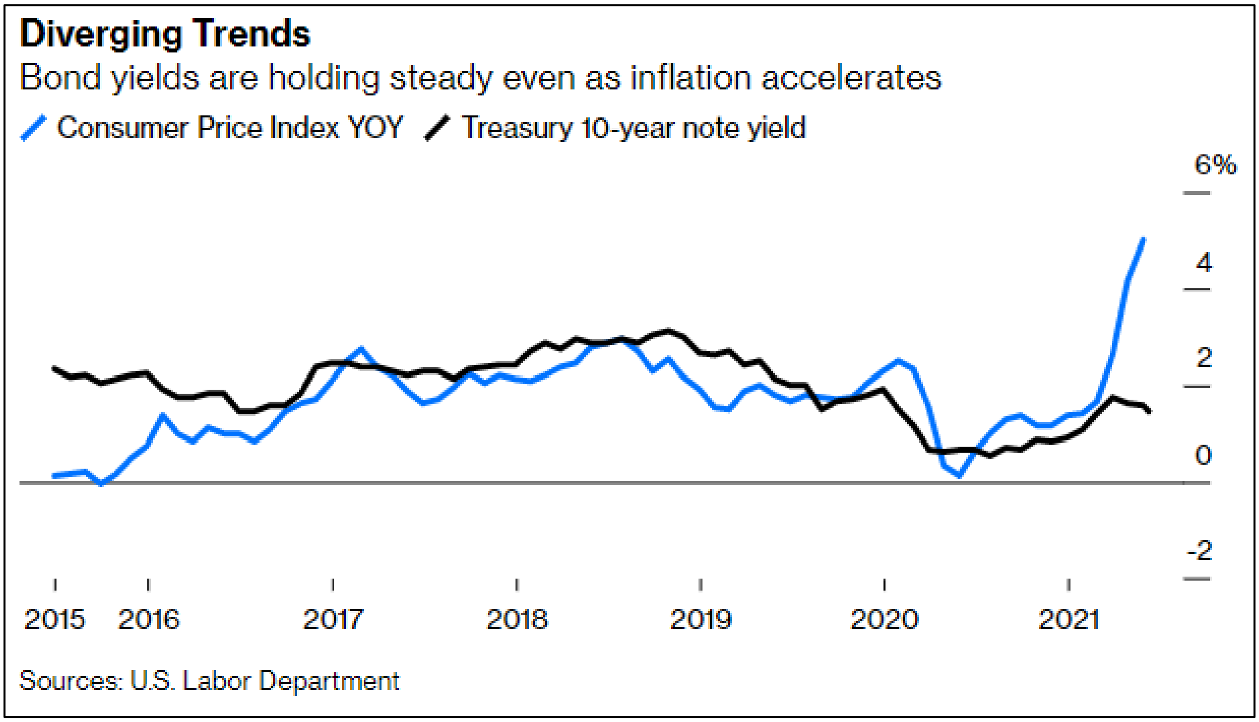
From a Macro perspective, equities in the US and Europe have continued their synchronized rallies, while China, Japan, and some of the EM markets have generally underperformed.

In the U.S. it is worth monitoring the very overbought conditions in financial, industrials and transports. They are very reminiscent of the overbought state of the Russell back in early February that resulted in 4+ months of sideways.

Bonds

As already discusses we are seeing the big divergence between bond yields and higher than expected inflation prints. Transitory inflation vs sticky inflation, flows, positioning, and sentiment all come into play.

At this point, we need the Fed to blink, or even stronger data, preferably on the employment side, to get markets fired up again about closing the gap in the near term.



The last few above-consensus inflation prints have only left bond yields lower.

In the meantime, the Fed keeps buying $120bln of Treasuries and MBS, monthly. In Q1, that amounted to 2/3rds of issuance. In a market where the central banks have killed many of the price signals when taper does finally come, the power of the markets' vote will likely increase.

FX

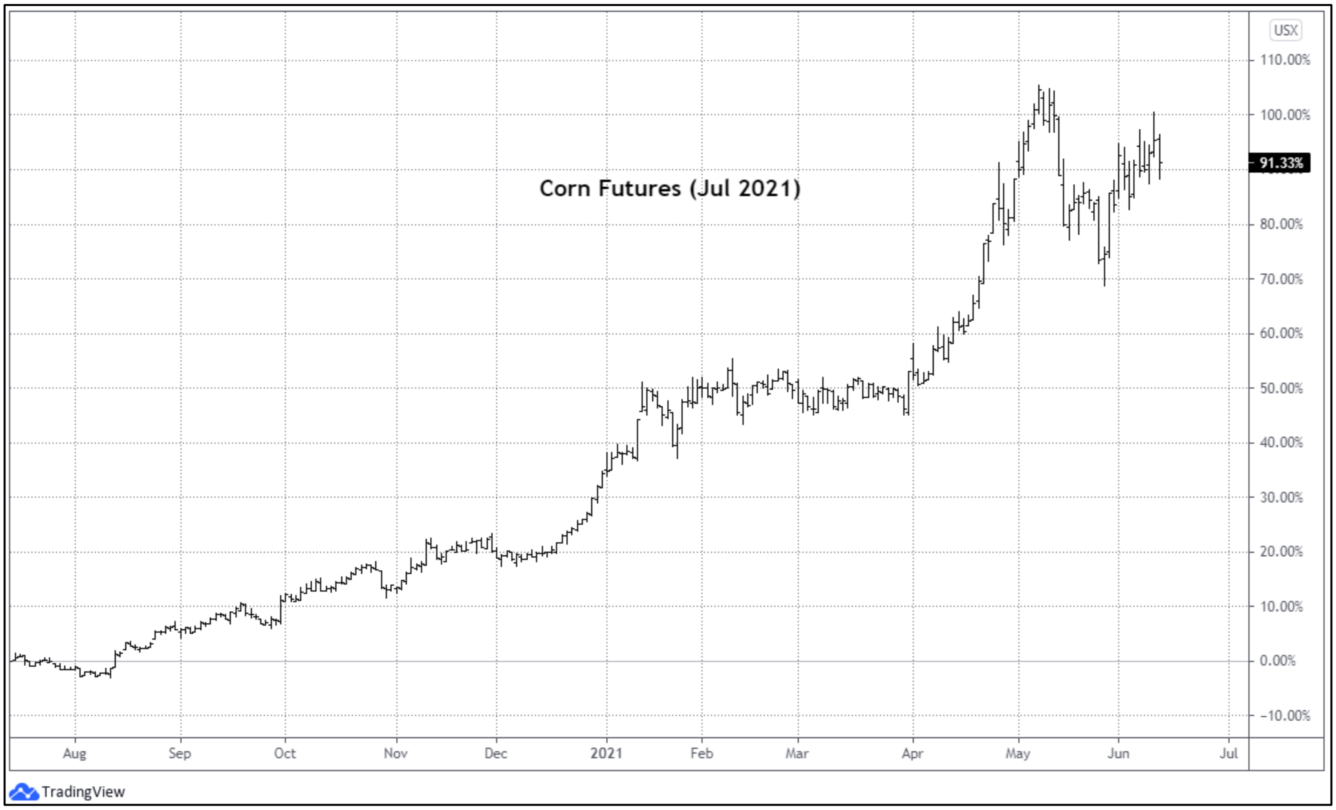
Another disappointing week for USD bears. Again, we looked like we might finally break lower only to see another pop in the dollar at the end of the week. The danger remains that a further rally will trigger a meaningful unwind of USD shorts in the market. A few of the dollar crosses are warning the probability of that outcome is rising. Higher inflation and lower bond yields are pushing down real yields for the USD and yet it can't weaken vs. other DM currencies. EM has done better, but even there we are starting to be limited by the fact that further currency appreciation is not necessarily welcomed.

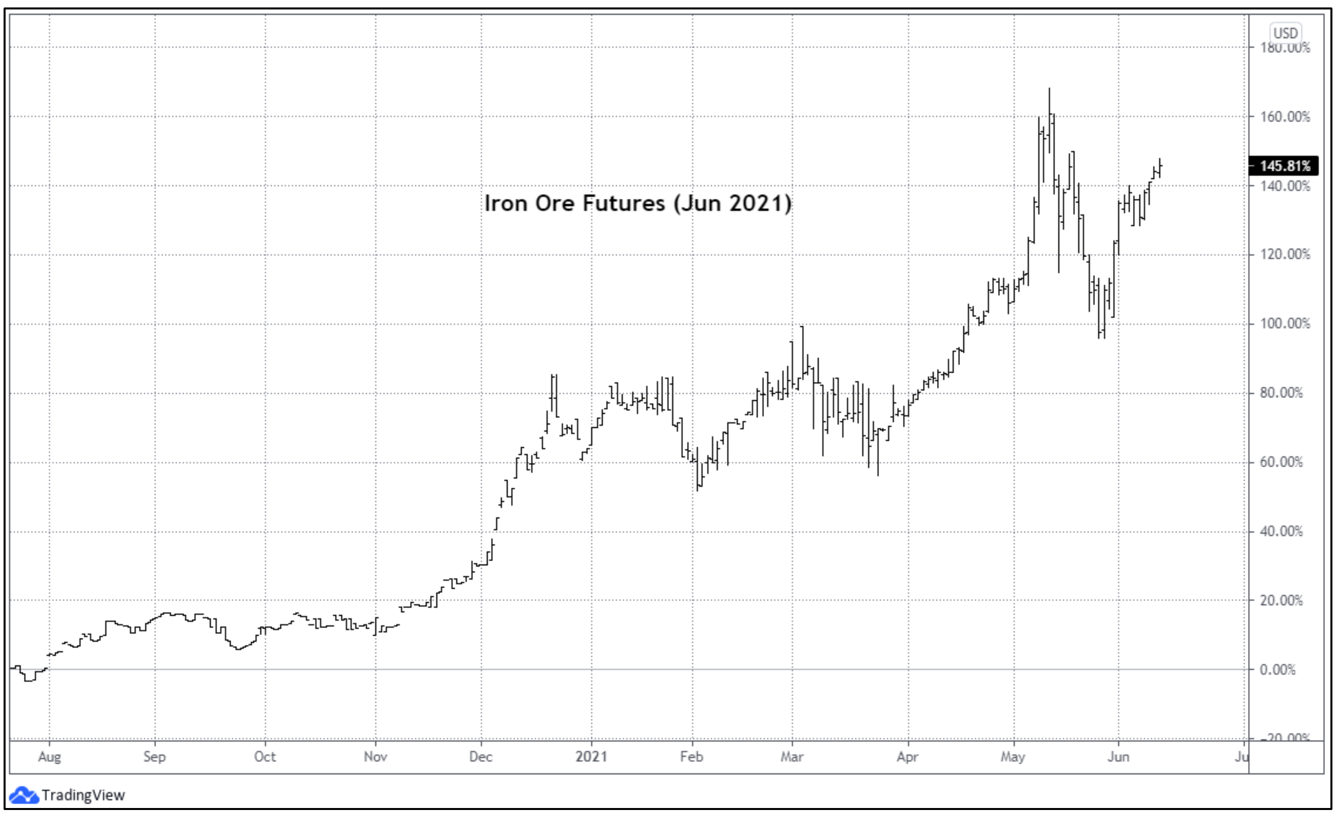
Commodities

More evidence last week that China has been selling some commodities to slow the price gains. In particular non-ferrous metals like copper and aluminum. We will see how well that works.

For the moment, the rally in a number of the hottest commodities has slowed or stalled, but there is a lot of dispersion and some violent swings taking place.

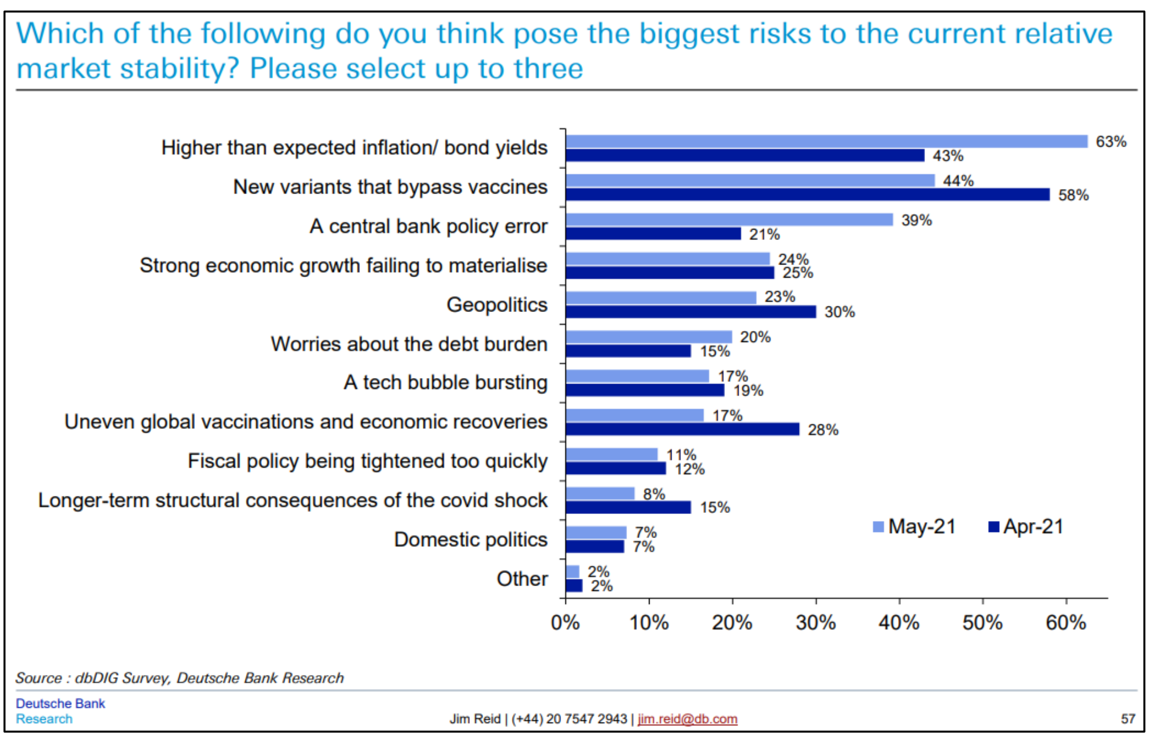
If we get a further USD rally here, it will likely undermine the price action in commodities.


Corn Futures (Jul 2021)
USX
110.00%
100.00%
91.33%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
−10.00%
Aug
Sep
Oct
Nov
Dec
2021
Feb
Mar
Apr
May
Jun
Jul
TradingView


Iron Ore Futures (Jun 2021)
USD
160.00%
145.81%
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
Aug
Sep
Oct
Nov
Dec
2021
Feb
Mar
Apr
May
Jun
TradingView

Gold is its own animal but again, a stronger dollar would not help. Given how much real yields have been under pressure the price action in Gold has been pretty disappointing. For now, the breakout is holding, but we may be in store for another test and a look at 1840. That area really needs to hold.

Finally, I thought these two slides from a recent DB survey were an interesting illustration of the current sentiment towards inflation.



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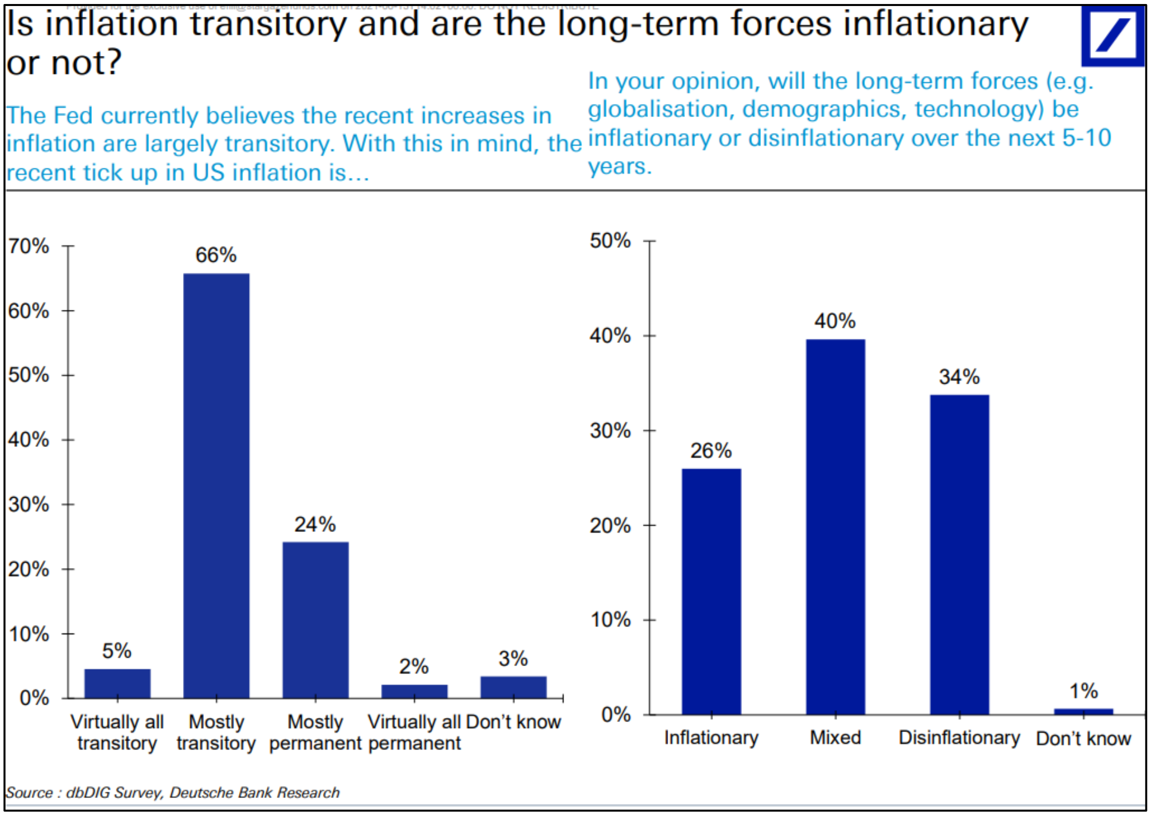

Important Macro Data Releases and Events for the Week

Monday
6/14/2021

- Industrial Production s.a MoM (Apr) Forecast: 0.4%, Prior: 0.1%
- RBA Meeting Minutes

Tuesday
6/15/2021

- Harmonized Index of Consumer Prices YoY (May) Forecast: 2.4%, Prior: 2.4%
- BoE's Governor Bailey speech
- Retail Sales MoM (May) Forecast: -0.4%, Prior: 0%
- Retail Sales ex-Auto MoM (May) Forecast: 0.5%, Prior: -0.8%%
- Retail Sales Control Group MoM (May) Forecast: 0.3%, Prior: -1.5%%
- PPI ex-Food & Energy Forecast: 3.7%, Prior: 4.1%

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	🇨🇳	Retail Sales YoY (May) Forecast:14%, Prior: 17.7%
Wednesday 6/16/2021	🇬🇧	CPI YoY (May) Forecast: 1.8%, Prior: 1.5%
	🇺🇸	Building Permits MoM (May) Forecast: 1.738M, Prior: 1.733M
	🇺🇸	Housing Starts MoM (May) Forecast: 1.63M, Prior: 1.569M
	🇨🇦	BoC Consumer Price Index Core YoY (May) Forecast: 1.9%, Prior: 2.3%
	🇺🇸	**Fed Interest Rate Decision and Policy Statement/Press Conf/Eco Projections**
Thursday 6/17/2021	🇨🇭	SNB Interest Rate Decision/Policy Statement/Press Conf.
	🇪🇺	CPI MoM Headline and Core (May)
	🇺🇸	Philadelphia Fed Manufacturing Survey (Jun) Forecast: 31, Prior: 31.5
	🇺🇸	Initial Jobless Claims Forecast: -, Prior: 376k
	🇺🇸	Initial Jobless Claims 4-week average Forecast: -, Prior: 402.5k
	🇺🇸	Continuing Jobless Claims -, Prior: 3.499M
	🇯🇵	BoJ Interest Rate Decision/ Policy Statement/Press Conf.
Friday 6/18/2021	🇩🇪	PPI MoM (May) Forecast: 0.6%, Prior: 0.8%
	🇪🇺	EcoFin Meeting

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