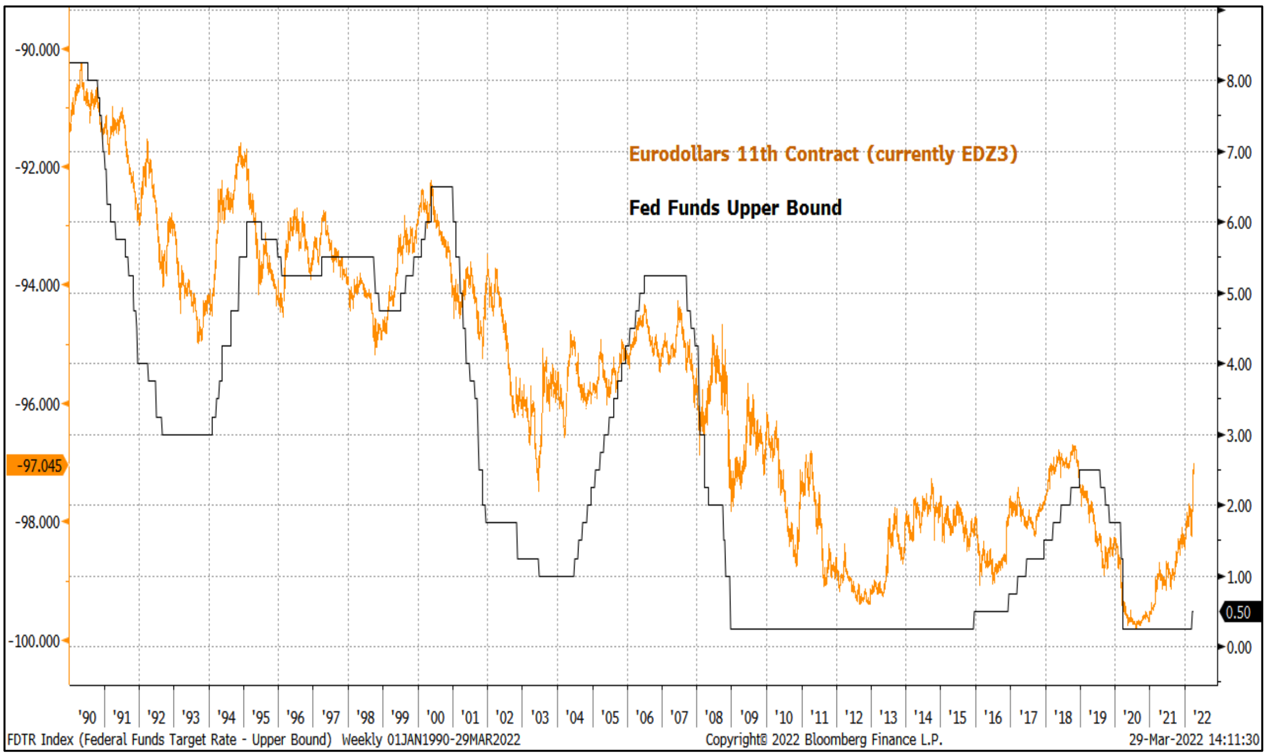
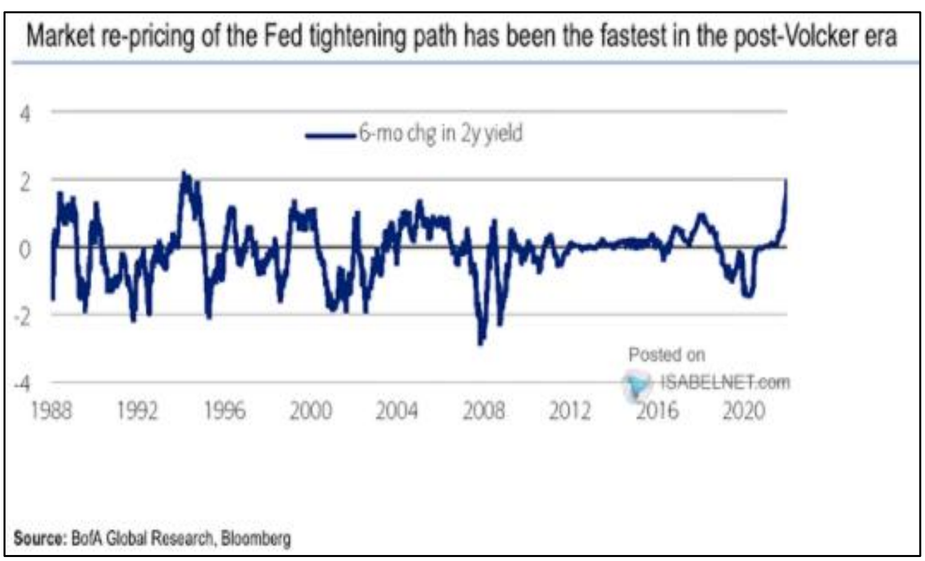
What to focus on in Global Macro for the week of April 4th, 2022

Higher and longer-lasting inflation than expected has the Fed in a panic. They continue to talk a big game regarding coming hikes and an imminent reduction in the bloated balance sheet.

Because markets have moved so quickly to price the entire hiking cycle, the effects of this cycle could well be felt much sooner than markets are accustomed to.





Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

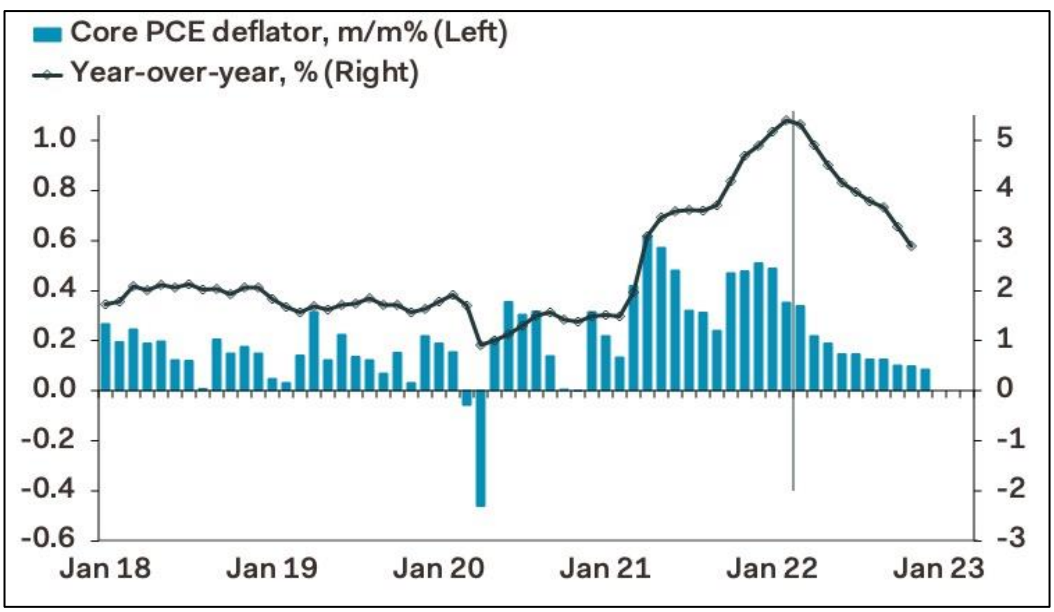
The Fed is projecting a lot of confidence that they can achieve a "soft-landing" for the economy. Although in the last 30-years, they have really only been able to do that once, in 1994/95. We will see if the substantial buffer offered by the strong employment picture is enough to soften the blow of quickly tightening Fed policy.

Bill Dudley has an opinion piece on Bloomberg last week discussing that possibility. He served as president of the Federal Reserve Bank of New York from 2009 to 2018 and as vice chairman of the Federal Open Market Committee.

"To create sufficient economic slack to restrain inflation, the Fed will have to tighten enough to push the unemployment rate higher. Which leads us to the key point: The Fed has never achieved a soft landing when it has had to push up unemployment significantly. This is memorialized in the Sahm Rule, which holds that a recession is inevitable when the 3-month moving average of the unemployment rate increases by 0.5 percentage point or more. Worse, full-blown recessions have always been accompanied by much larger increases: specifically, over the past 75 years, no less than 2 percentage points."

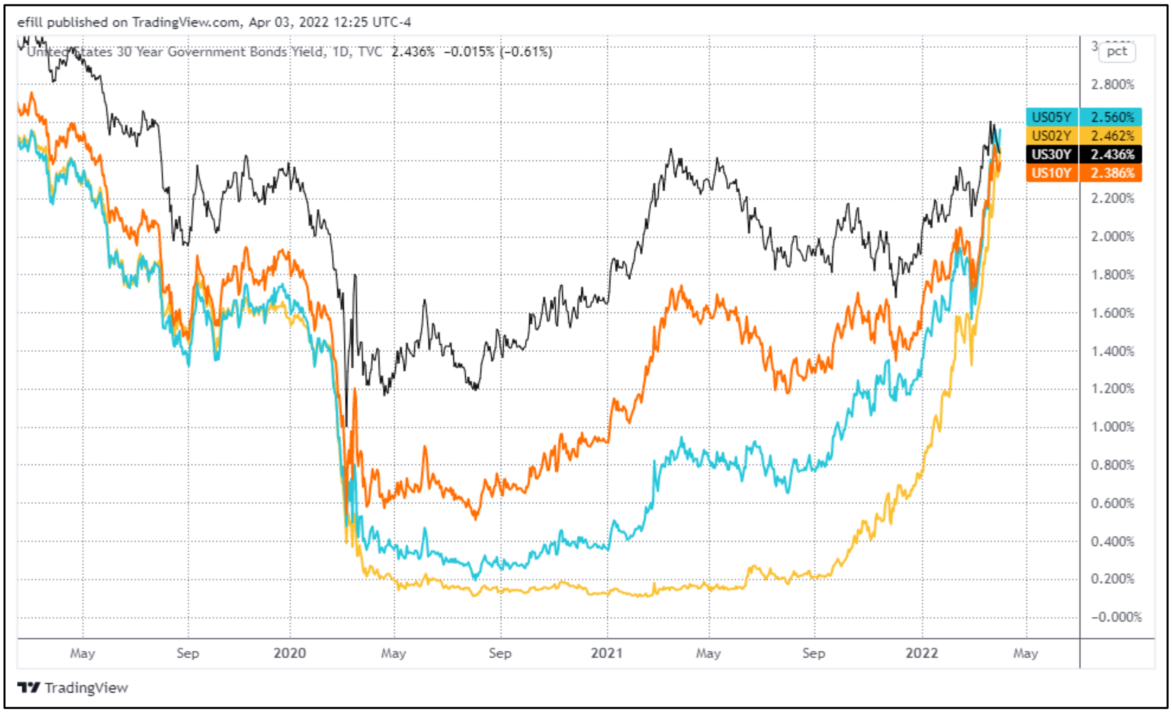
As discussed previously, it is going to be a particularly tricky hiking cycle, with high inflation being driven largely by supply factors that are out of the Fed's control. They will look to knock down demand by just the right amount that doesn't end up tipping over the economy in the coming quarters.

They may still get lucky as base effects should still start to kick in over the next few months. However, the extent to which that takes down inflation, and how durable that drop will be is unknown.

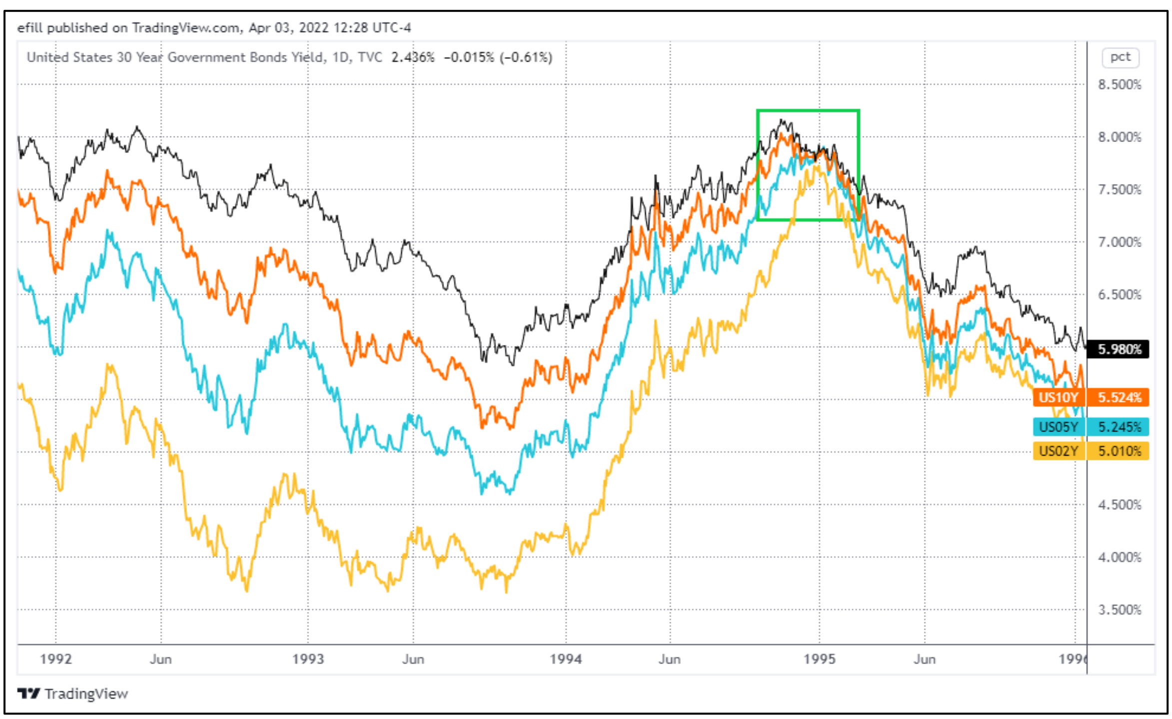


Source: Pantheon Macro

Yield curve fever is running hot as many curves invert. This chart shows the speed with which the front end has caught up with the long end.



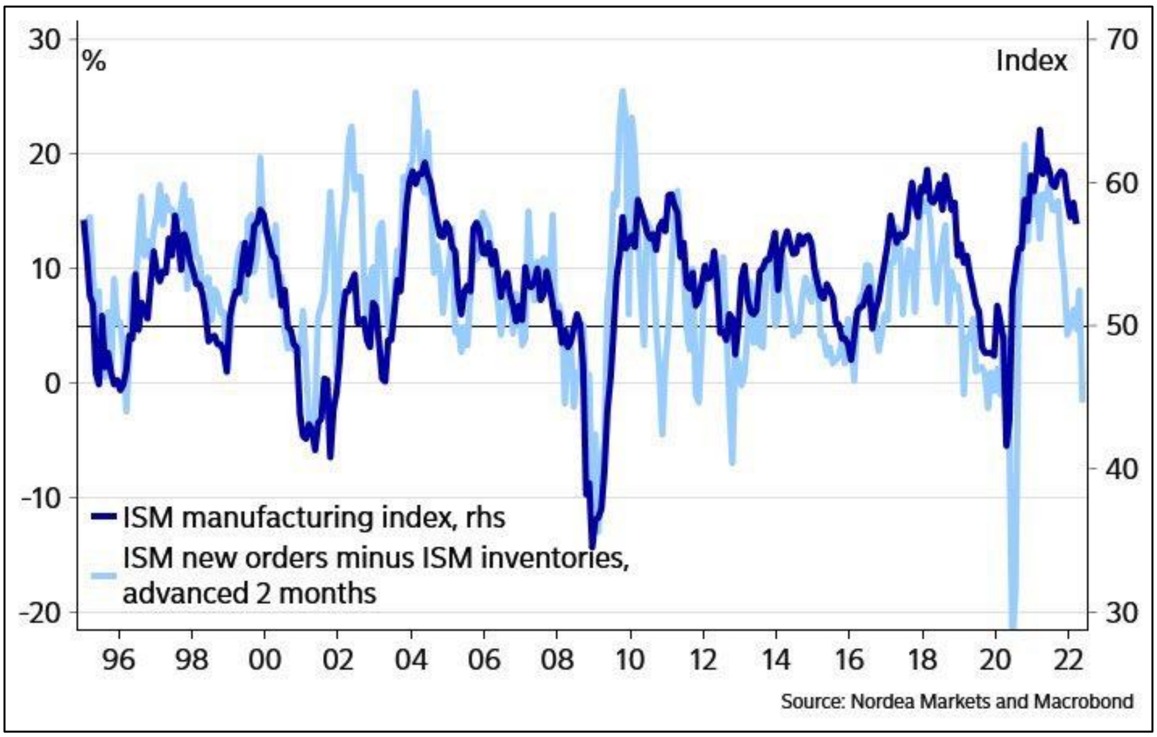
With the curve flattening so far driven by the front-end via a bearish flattener, it is now time to keep an eye on how the price action in the long end develops given the Fed's goal of weakening demand. Notice how the long-end yields rolled first in 1994.



Consumer Sentiment numbers have been weak with real wages under pressure from rising inflation.

Last week's ISM release offered a mix that missed to the downside on growth and to the upside on inflation, increasing fears that we are heading for a stagflationary outcome.

33)	04/01 16:00	ISM Manufacturing	Mar	59.0	57.1	58.6
34)	04/01 16:00	ISM Prices Paid	Mar	80.0	87.1	75.6
35)	04/01 16:00	ISM New Orders	Mar	58.5	53.8	61.7
36)	04/01 16:00	ISM Employment	Mar	53.1	56.3	52.9



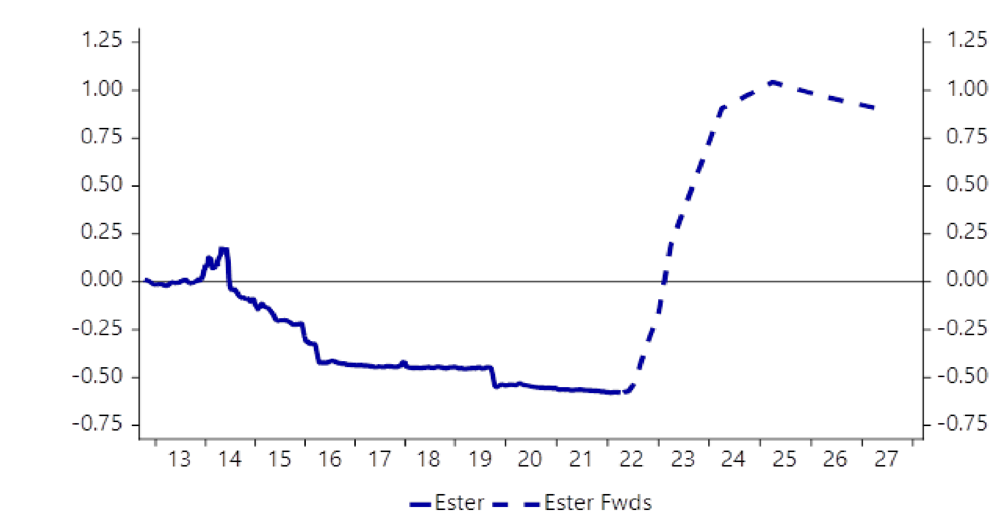
Pantheon Macro had an interesting take on the numbers…

"China + Ukraine + oil + rates = ouch / Not for the first time, the regional PMI and Fed surveys were misleading, on this occasion pointing to strength which failed to materialize in the national index. This is probably because none of the regional reports cover the economy west of the Rockies, which is more directly exposed to problems in China. The dip in the headline index is due mostly to a sharp drop in new orders, to a 53.8 - a 22-month low - from 61.7 in February. This is a big drop, but it's not clear if it's just a knee-jerk reaction to the war in Ukraine and the accompanying surge in energy and other commodity prices, or a reflection of China's latest Covid restrictions, or both. The manufacturing recovery is now under pressure from a several directions at once, and the China downturn in particular suggests that the ISM has further to fall, as our first chart shows. We take little comfort from the jump in the employment index; that looks like a seasonal adjustment quirk."

The potential for stagflation is creating a very problematic environment for Europe, in particular.

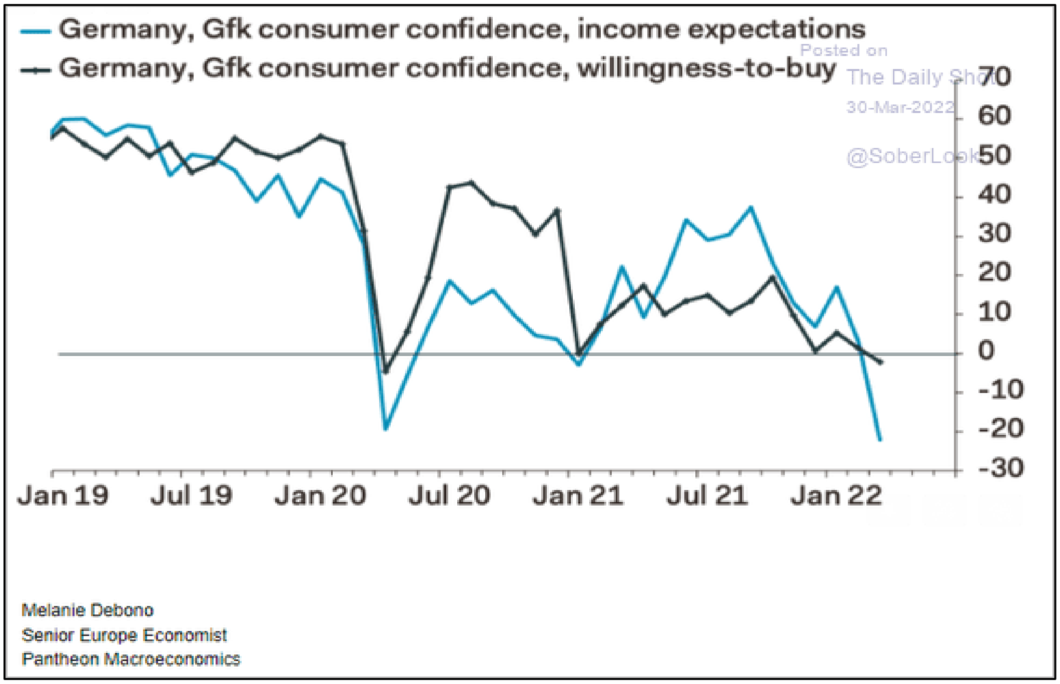
Will they focus on inflation as the Fed has or blink, given the concerns around growth? ECB Chief Economist Lane's remarks on Thursday left me feeling like they don't know what is happening and don't know what to do about it. He said the ECB should be ready to adjust monetary policy in either direction, stressing the importance of maintaining optionality that's "two-sided." "What we have here is opposing forces," Lane said. "We have the energy shock and the prospect of second-round effects pushing up inflation, and on the other hand the weakening of sentiment, and the fact that real incomes will suffer with high energy prices," pulling down inflation. So far, markets have priced two hikes by year-end, and four more next year.

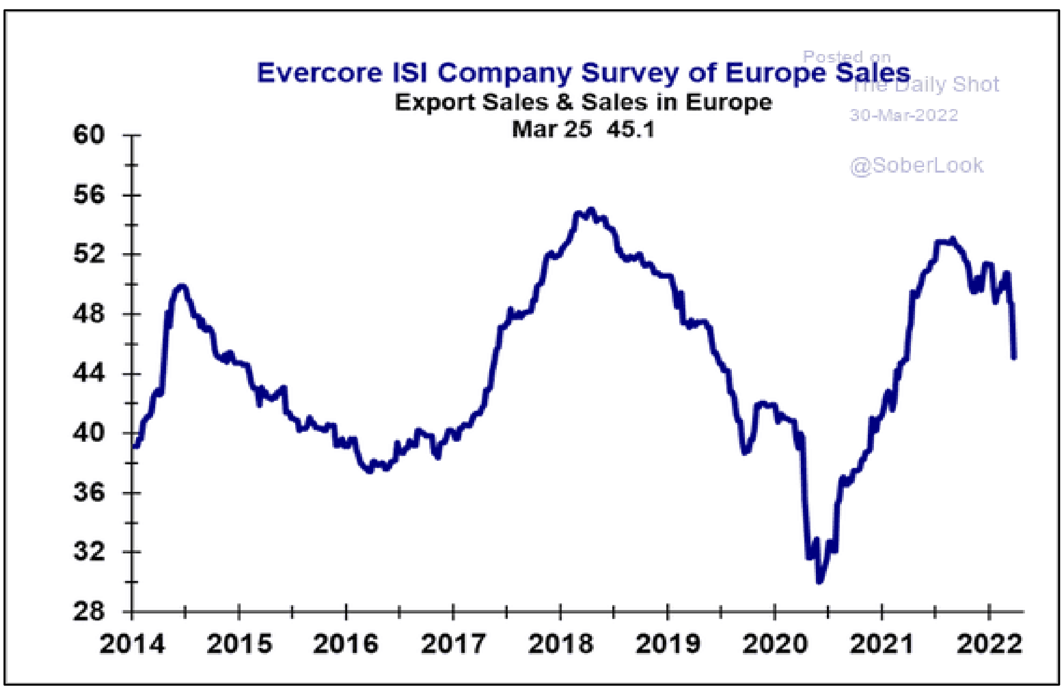
Chart 3. Market implied policy path for ECB



Source: Macrobond and Nordea

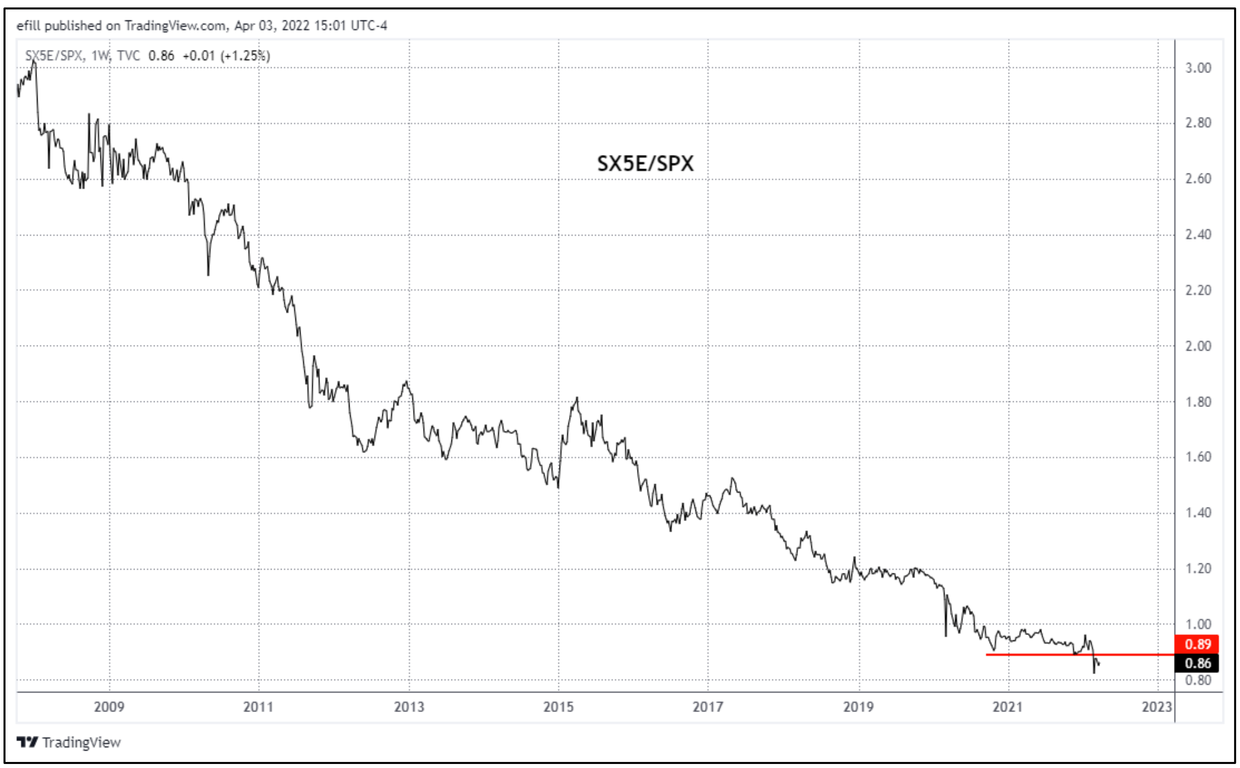
In the near-term, however, the looming growth concerns are real.





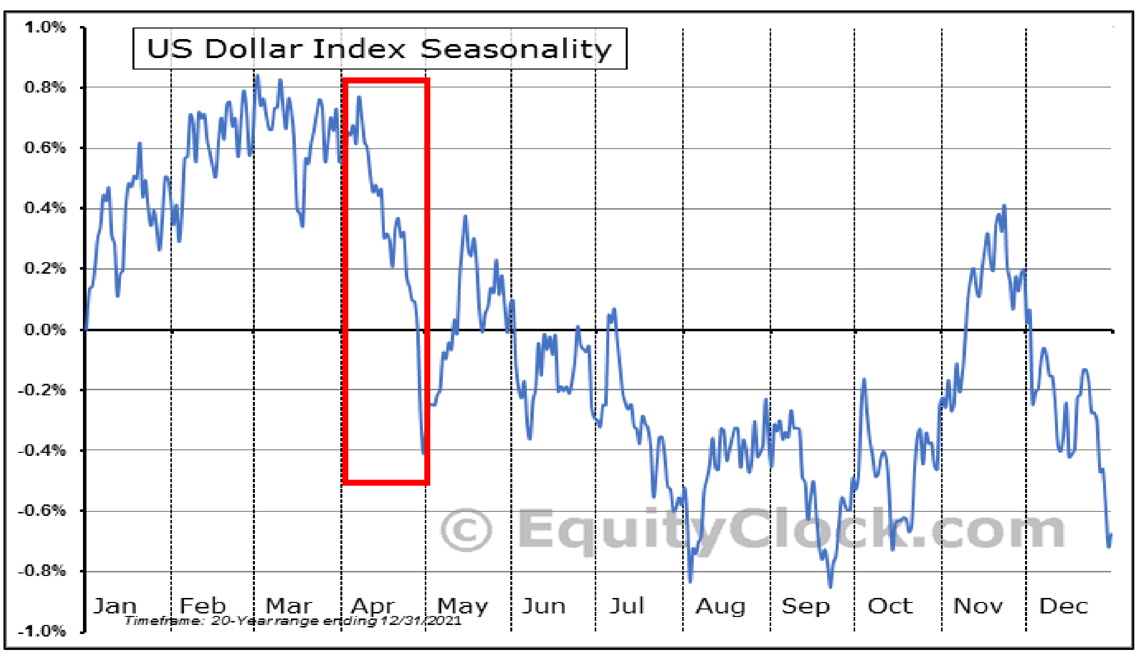
After the recent Ukraine-induced position washout in European equities, the region remains relatively cheap. However, it doesn't seem likely that investors will even think about getting meaningfully involved at this point, so soon after getting flushed, and without any clarity on a potential resolution in Ukraine.

As you might expect, relative performance vs. the US is hovering near the lows.



In FX, the EUR also remains near its lows as geopolitical and growth concerns call into question any potential for interest rate spreads to benefit from tighter policy. For now, we remain stuck with 1.1150/1.1200 the top, and 1.0800 the bottom of the range.

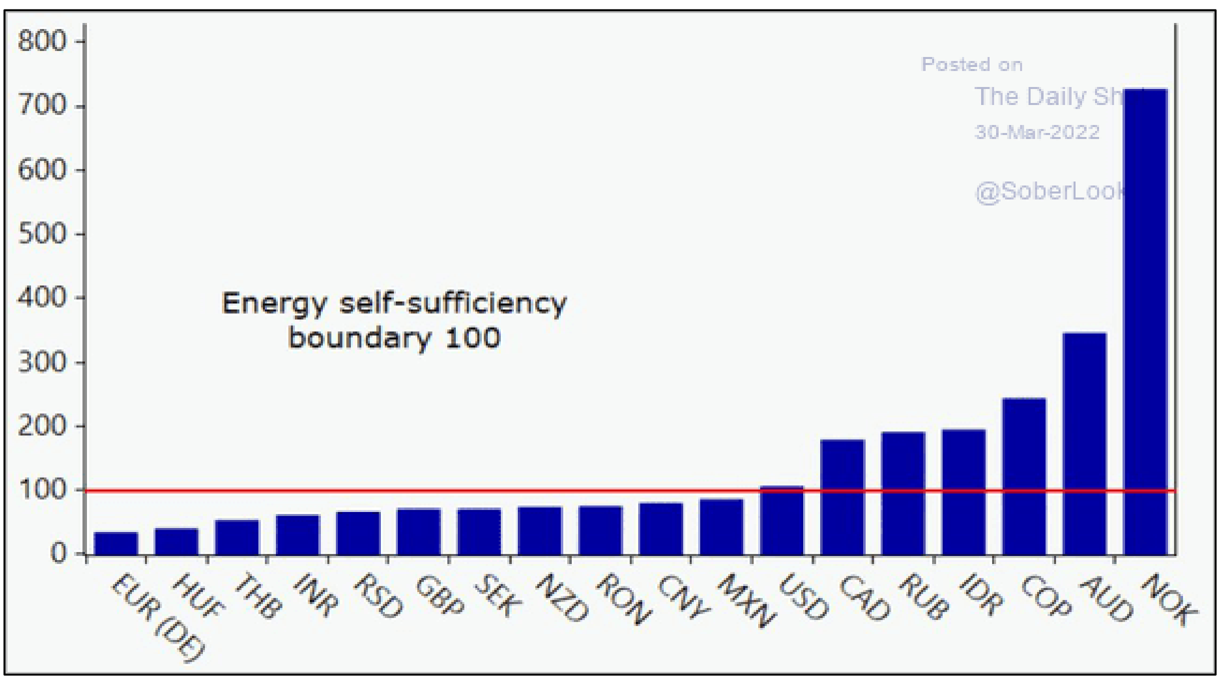
I remain very skeptical of historic seasonality in this environment; however, it is worth knowing that April is normally a weak period for the USD.



Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

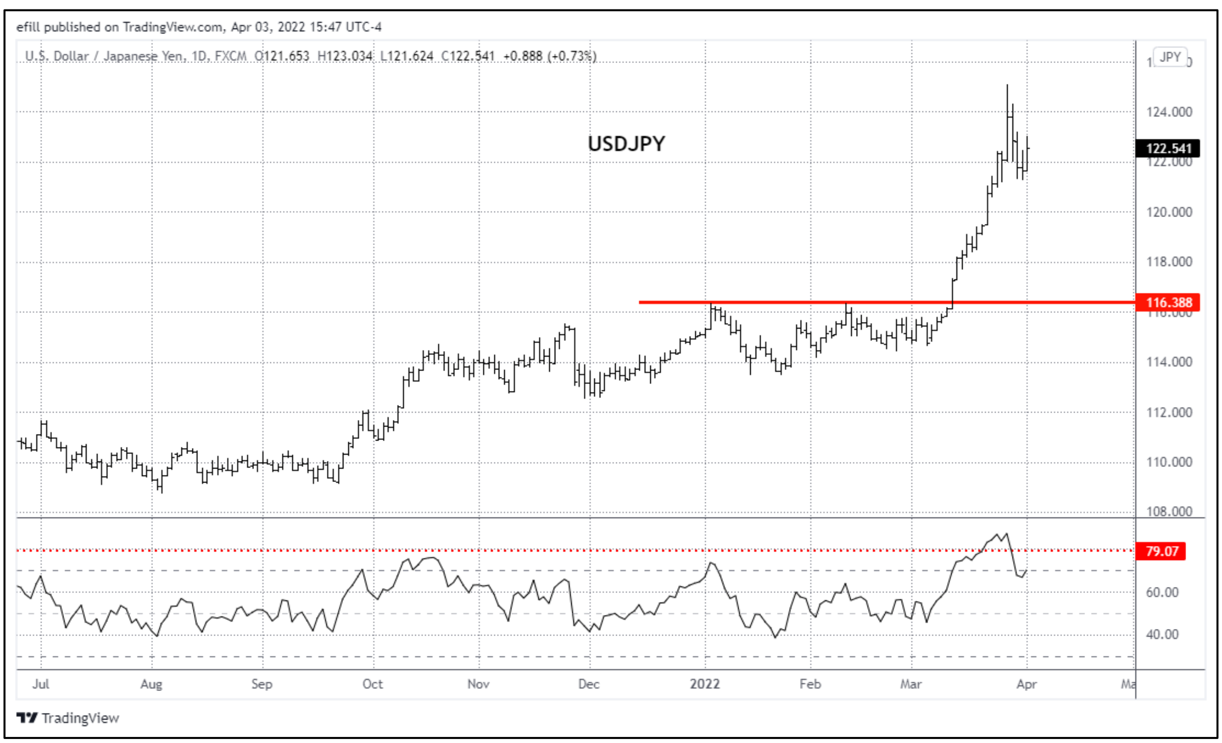
The Dollar Index, usually a tight fit for the EUR given its weighting, looks a bit different this time around, given the big dispersion we are seeing among its other components.

Generally, EM and commodity-linked currencies have been performing well while negative yielders, and those DM currencies reliant on imported commodities, have been poor performers.



AUDUSD has been consolidating just below resistance. I think we will see a break higher in the coming weeks. Similarly, USDCAD is sitting just above support.

USDJPY has become very overbought on this recent move and is now consolidating. However, the BoJ seems intent on using the globally inflationary environment to import some inflation of its own. The combination of Yields Curve Control and a falling currency means they are effectively easing monetary conditions into an inflationary environment. This is going to get interesting… There should continue to be good trading opportunities in this pair.



Gold continues to consolidate after its recent run. There has been lots of talk about central banks from Russia to China and even India buying Gold again. This is rhyming with the idea that sanctioning reserves has crossed a Rubicon for countries concerned with being reliant on the US and European currency systems. Increasingly, there is pressure to transact trade outside the USD and EUR banking systems. Gold is seen as an alternative, although I would question how practical that is in real terms. Russia has been floating the idea of a move to the Gold Standard (again, practical?) and is now bidding a few percent below the current market price for domestic delivery.

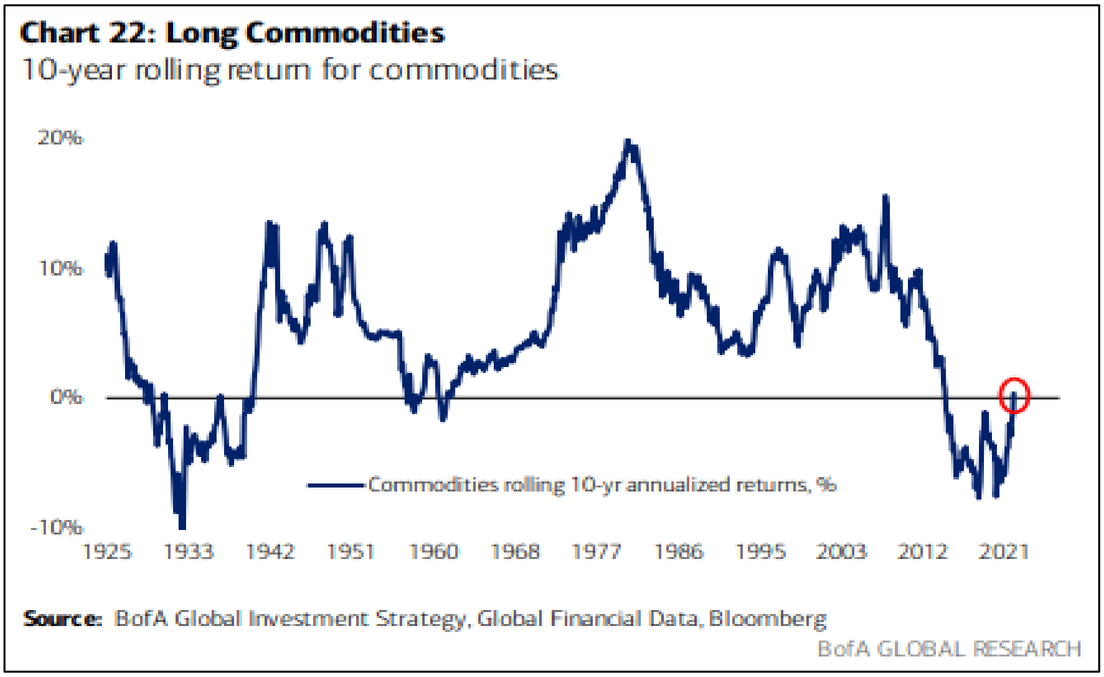
From a price standpoint it would be great to see a sharp and fast move down towards 1850, which then quickly rebounds. I like the eventual upside but timing it here is tricky.

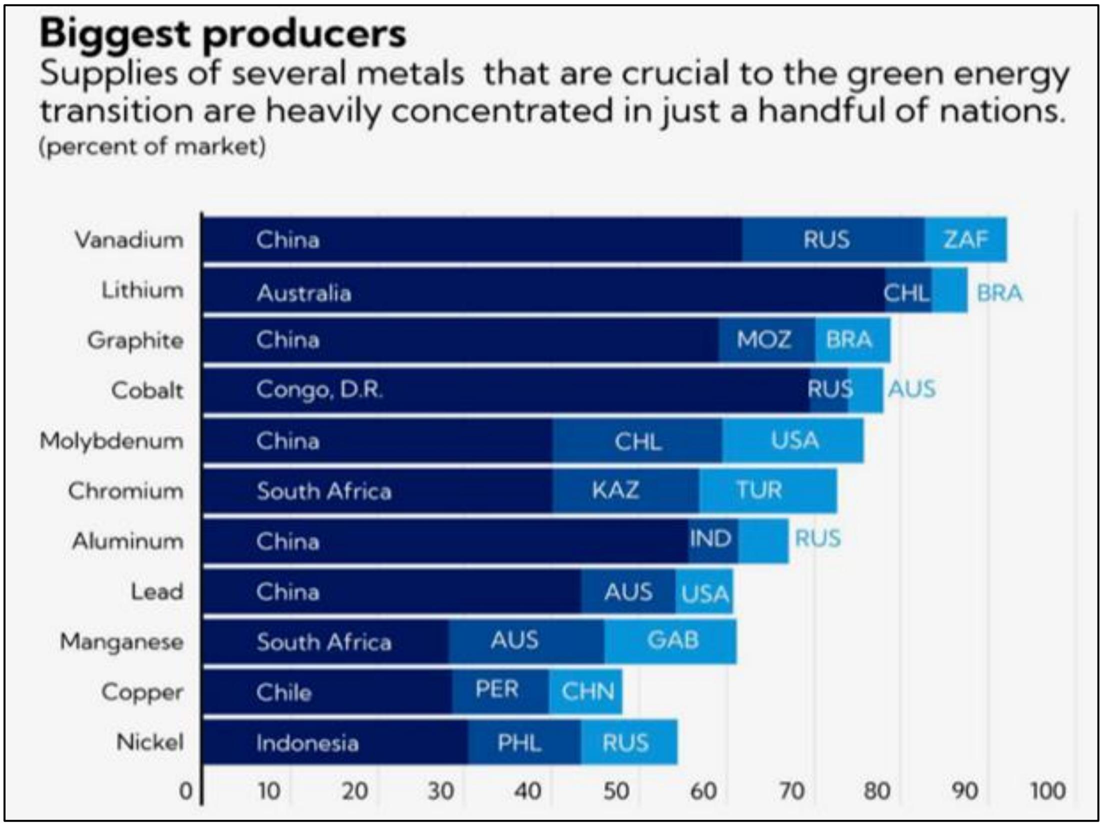
In the meanwhile, the gold miners have held up very well. We will see if that presages a further move in the commodity, or just reflects the already higher commodity prices that seem to be sticking.

Stargazer
Asset Management

Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

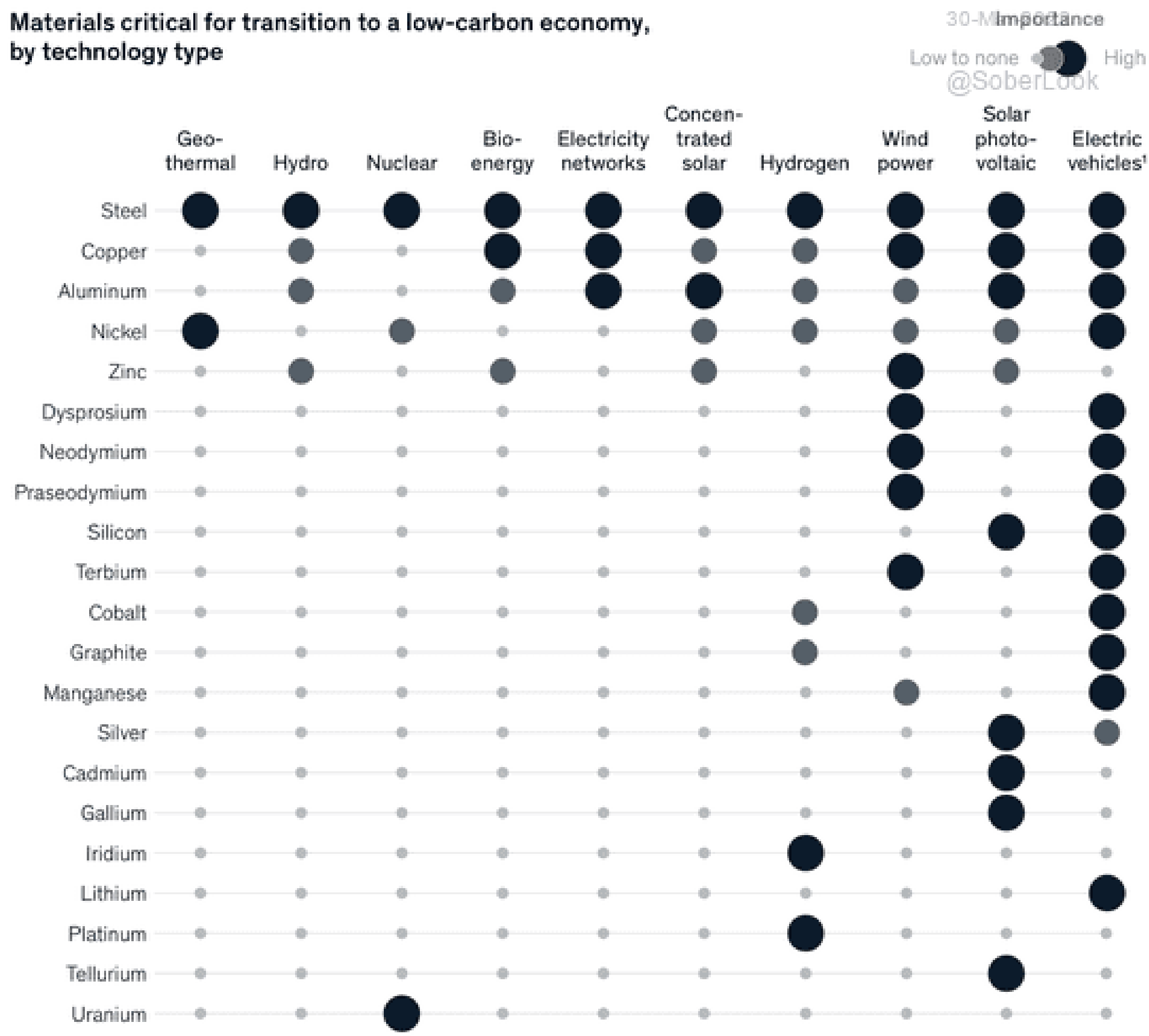
With the long-term cycle potentially starting to turn in favor of hard assets, geopolitical volatility high, and acute concern around energy dependence widespread, I thought these three charts were interesting.





Stargazer
Asset Management

While steel will be crucial as an infrastructure enabler for all technological transition, specific elements will play an important role in each technology.



[1]Includes energy storage.
Source: *Critical raw materials for strategic technologies and sectors in the EU*, A foresight study, European Commission, Mar 9, 2020; *The role of critical minerals in clean energy transitions*, IEA, May 2021; McKinsey analysis

Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

Stargazer
Asset Management

Important Macro Data Releases and Events for the Week

Monday 4/4/2022	BoE Governor Baily speech
	Factory Orders (Feb)
	RBA Interest Rate Decision and Policy Statement
Tuesday 4/5/2022	S&P Global flash PMIs (formerly Markit) (Mar)
	EcoFin Meeting
	S&P Global flash PMIs (formerly Markit) (Mar)
	ISM Service PMI
	Fed's Brainard and Williams speeches
Wednesday 4/6/2022	FOMC Minutes
Thursday 4/7/2022	Retail Sales (Feb)
	Initial Jobless Claims
	Initial Jobless Claims 4-week average
	Continuing Jobless Claims
	Fed's Bullard and Williams speeches
Friday 4/8/2022	Employment Data

Stargazer
Asset Management

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.

Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649