What to focus on in Global Macro for the week of February 1st, 2021

Macro Themes on the Radar:

This felt like a good quote to kick off the week...

"It's tough to make predictions, especially about the future."

Yogi Berra

Fed

Last week's Fed meeting came and went as expected with no changes to interest rates or the current 120 bln monthly QE. They softened their near-term growth outlook a bit saying that *"The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic"*.

Powell pushed back on any policy exit discussion, saying it "is premature" and when asked whether fiscal stimulus might risk inflation, "our problem is disinflation". The Fed expects a big jump in economic activity as the economy reopens later this year. They expect "*transient base effects in inflation in March and April"* referring to energy price base effects. However, they seem intent on looking through any near-term inflation jump while indicating the possibility "*that as the economy reopens there is a burst in spending, and that could create some upward pressure on inflation"*. Powell went on to say that he is in fact *"more concerned about people's careers than the possibility of higher inflation"*. These are strong words and are meant to put off any expectations for near-term wavering on the current level of QE or rates.

I would note that other than expected base effects in inflation and the expected jump in economic activity, we just have no idea how quickly inflation will rise and what core level needs to be hit, and for how long, before the Fed starts wavering.

Inflation is likely coming:

- huge jump in M2 (fiscal and monetary stimulus)
- pent up demand for services that will be unleashed as economy re-opens
- production/delivery bottlenecks

While all these things can be seen as temporary, the potential for higher than expected inflation prints is there. The question is not will the Fed be tested on this, but when?

I thought it was interesting that both the ECB and the Fed last week indicated that it was not monetary policy that was responsible for the high global asset prices. Instead, they sited anticipated growth from re-opening of the economy (vaccines) and fiscal policy. Amazing.

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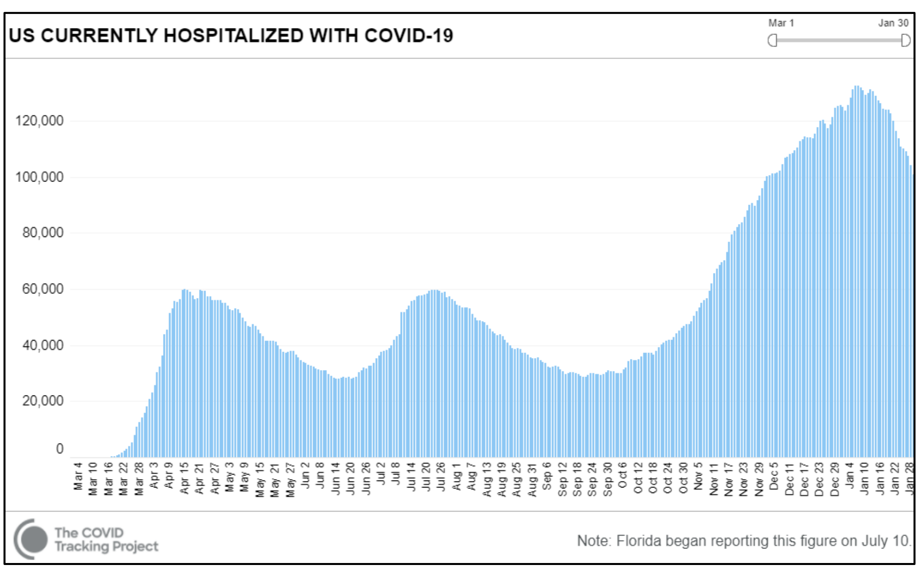
Stargazer
Asset Management

COVID - While the vaccine rollout remains painfully slow globally (with a few exceptions), and concerns over variants of the virus persist, headway is being made and additional effective vaccines will be joining the fight soon. US hospitalizations continue to drop.

Figure 2: COVID-19 vaccination as % of population

Country	Total vaccinations	Total people vaccinated	Total vaccination as % of pop	7 day Δ (Total vaccinations)	7 day Δ (Total people vaccinated)	Total vaccination as % pop in last 7 days	Latest data as on
Israel	4,347,206	2,849,425	50.22	1,024,796	400,544	11.84	1/28/2021
United Arab Emirates	2,868,650	2,618,650	29.00	622,581	622,581	6.29	1/28/2021
United Kingdom	7,923,497	7,447,199	11.86	2,486,213	2,473,951	3.72	1/27/2021
Bahrain	144,130	144,130	8.47	42,767	42,767	2.51	1/20/2021
United States	26,193,682	21,698,606	7.91	8,647,308	6,645,349	2.61	1/28/2021
Malta	23,512	21,417	5.32	8,196	N/A	1.86	1/27/2021
Iceland	15,522	10,702	4.55	9,317	4,977	2.73	1/27/2021
Denmark	221,067	183,973	3.82	34,385	4,227	0.59	1/27/2021
Ireland	161,500	147,700	3.27	39,600	N/A	0.80	1/27/2021
Romania	609,396	534,346	3.17	261,300	196,094	1.36	1/28/2021
Slovenia	64,972	51,653	3.13	18,505	5,186	0.89	1/27/2021
Portugal	296,004	225,499	2.90	N/A	N/A	N/A	1/28/2021
Spain	1,356,461	1,183,395	2.90	330,524	173,100	0.71	1/27/2021
Lithuania	76,387	64,355	2.81	10,376	6,801	0.38	1/27/2021
Italy	1,653,027	1,314,960	2.73	338,988	33,307	0.56	1/28/2021
Poland	1,008,253	858,474	2.66	416,468	291,681	1.10	1/27/2021
Germany	2,104,317	1,738,236	2.51	644,191	383,898	0.77	1/27/2021
Finland	138,323	127,783	2.50	60,023	N/A	1.08	1/28/2021
Canada	903,664	554,017	2.40	197,200	N/A	0.52	1/28/2021
Estonia	31,629	25,415	2.38	9,644	N/A	0.73	1/28/2021
Switzerland	197,368	N/A	2.28	N/A	N/A	N/A	1/24/2021
Greece	232,070	208,461	2.23	108,723	87,352	1.04	1/28/2021
Czechia	236,697	214,470	2.21	74,215	59,605	0.69	1/27/2021
Belgium	246,870	243,412	2.13	82,893	80,148	0.71	1/27/2021
Slovakia	115,399	109,925	2.11	29,442	25,868	0.54	1/27/2021
Turkey	1,697,575	N/A	2.01	577,317	N/A	0.68	1/28/2021
Hungary	187,508	161,215	1.94	48,924	26,661	0.51	1/27/2021
Singapore	113,050	113,000	1.93	N/A	N/A	N/A	1/28/2021
Austria	169,439	163,806	1.88	61,187	58,768	0.68	1/28/2021
Sweden	190,096	181,659	1.88	92,738	84,478	0.92	1/24/2021
France	1,136,906	1,130,753	1.74	568,420	563,609	0.87	1/26/2021



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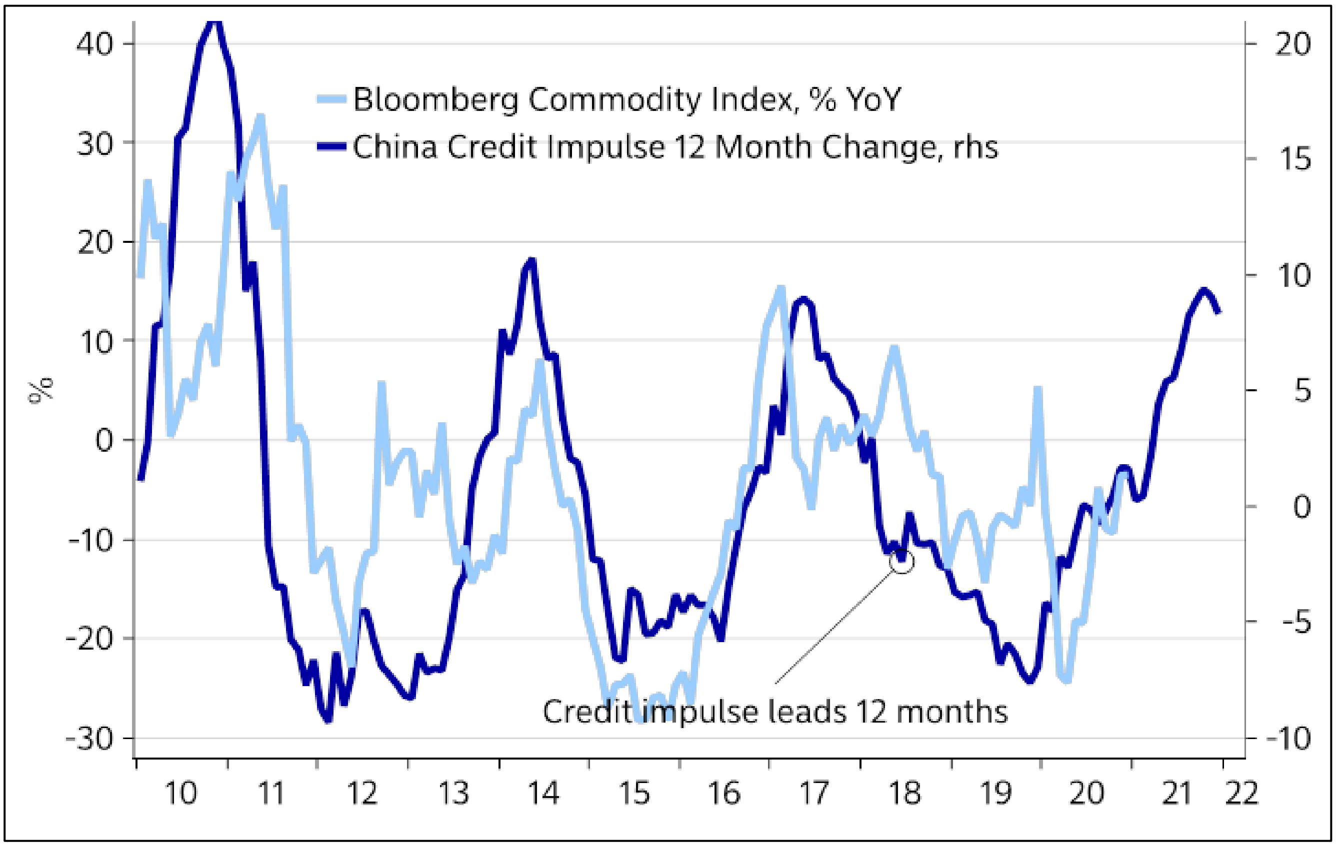
China – There have been growing indications that China is worried about stock and real estate bubbles. They have been draining liquidity and some market rates, like repo, have been rising. This is definitely something to keep an eye on. I wouldn't expect them to get too far ahead of themselves just yet as both Manufacturing and Service PMI's out over the weekend were meaningfully weaker than expected. However, it is something to have on your radar, especially for H2.



What to Focus on Now:

It was once widely believed that stock prices reflected the discounted present value of the cash flow times some multiple of what people are willing to pay for it. However, at the moment flows and positioning are the drivers, and the dreary fundamental stuff has been downgraded. A lot.

I'll keep this short because I don't want to bore you with another r/WallStreetBets commentary.

I do find the level of anger and vitriol associated with this retail investor uprising astounding. It makes you wonder if this is yet another expression of the boiling frustration that is obvious in American politics. Is it a coincidence that both AOC and Ted Cruz have found common ground in their objections to how Robinhood handled the recent shenanigans?

For markets, this collective action by a large number of retail investors brought together on a social media platform, means there is a new player in the game. A potentially powerful one. This group will need to stay focused on a few points of action at a time. If the focus gets too watered down, their newfound power will quickly evaporate.

The effect on the unexpecting institutional players and been quick and painful.

What looks to have started as a group interested in picking individual stocks rather than just "boring" indexing, has now become an activist group to be reckoned with. Last year brought increased interest and familiarity regarding options trading by retail investors. That knowledge has recently been weaponized and applied in equities with big short interest.

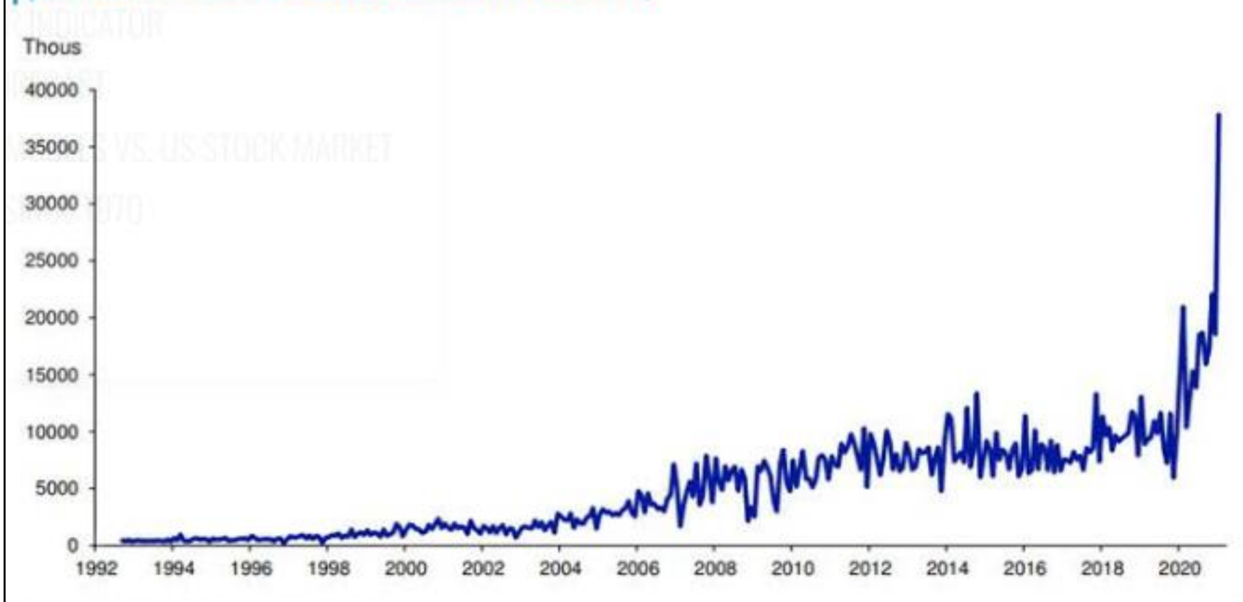


Figure 1: US Total Call Option Volumes for Stocks and Indices (month end points with Jan 27 2020 used for current)

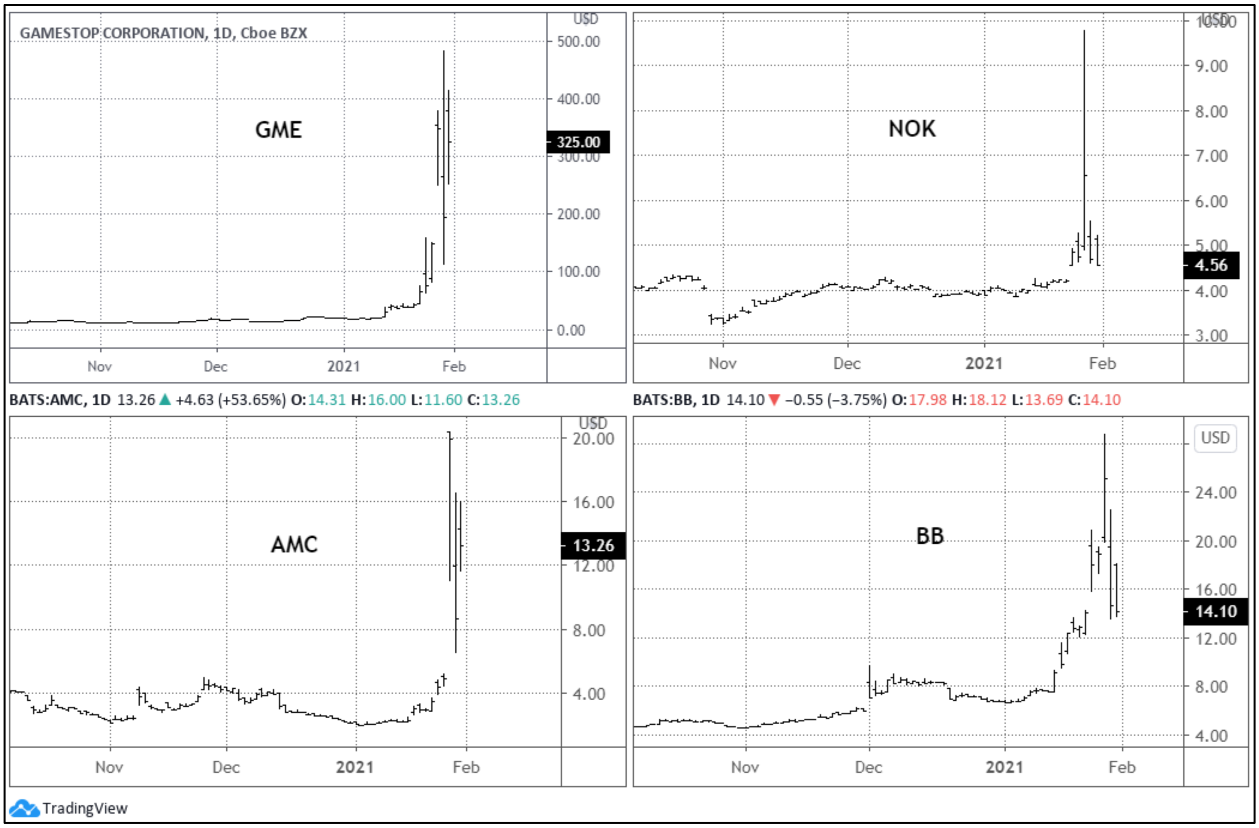
Source : Bloomberg Finance LP, Deutsche Bank

No doubt there is some overlap with the Bitcoin investors in terms of their desire to challenge the system. They also share the BTC buy and hold mantra that encourages others in the group to join forces and then not relent.

Reading the Reddit posts in r/WSB is really interesting stuff. These guys are wagering their own money and will win or lose… maybe big. Full credit for that.

On top of that there are a number of layers. Some feel that they are helping these beaten down companies like AMC and GME, that they have fond memories of as children or young adults. Others see it as a way to challenge the "system" and the institutional investors that have had an unfair advantage on Wall Street. Yet others, are feeling the FOMO and want to be certain they are part of a group that is obviously wielding its power and getting results. Like I said, there is a lot going on here. Whether it ends in glory or disaster, it is moving markets at the moment.

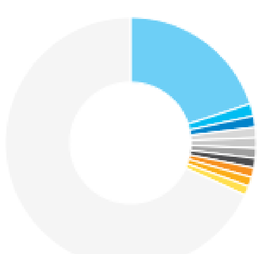
The favorite stocks have gone from zeros to heroes in a week (and some most of the way back).



Again, this is not happening in isolation. Not only has it kicked of a bit of a VaR shock for equity investors and forced de-risking, but it is leaking into ETF's and kicking up volatility where people don't expect it.

Have a look at how GameStop has jumped to the highest weighting in the XRT Retail ETF.

XRT Top 10 Holdings [View All]



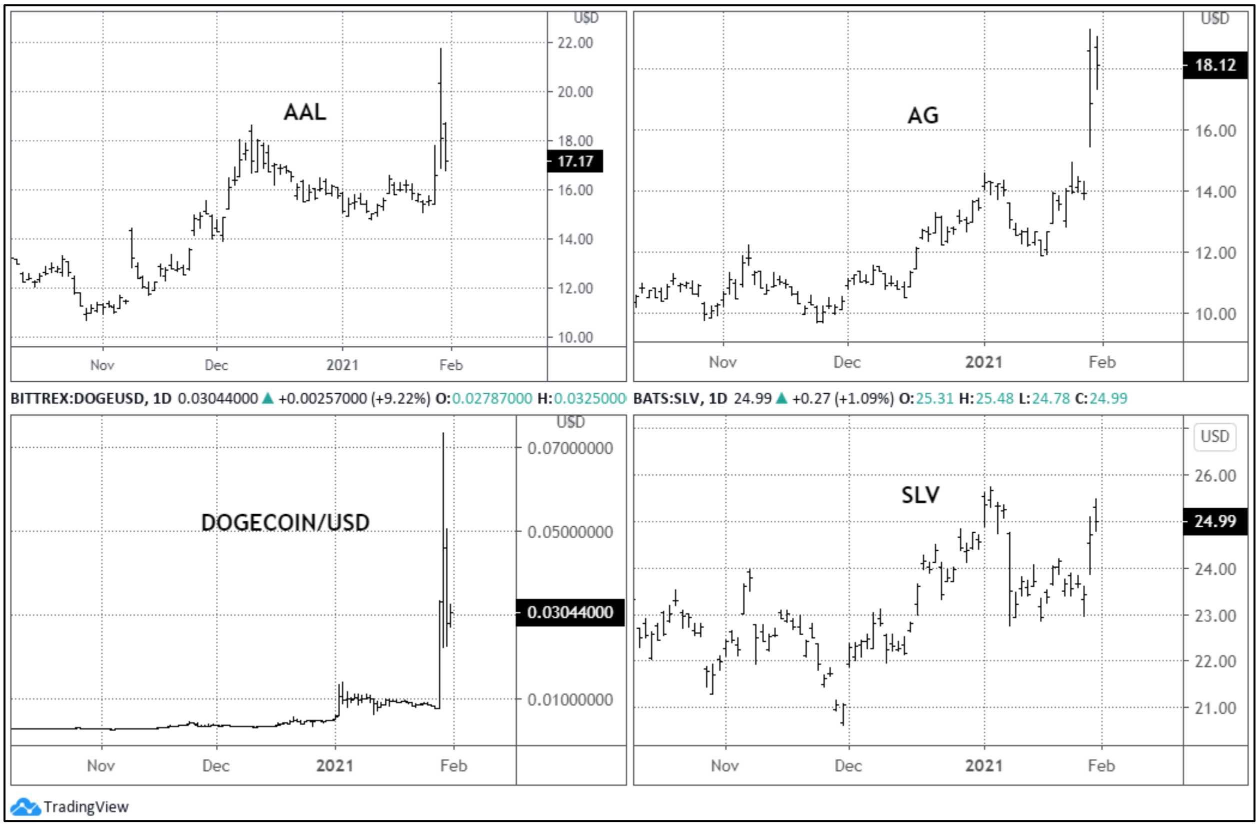
GameStop Corp. ...	19.98%	Children's Place, I...	1.28%
Blink Charging Co	1.58%	1-800-FLOWERS....	1.23%
Magnite, Inc.	1.45%	Macy's Inc	1.22%
Stitch Fix, Inc. Cla...	1.36%	Signet Jewelers L...	1.20%
PetMed Express, I...	1.33%	Overstock.com, In...	1.20%
		Total Top 10 Weig...	31.82%

That has made this ETF much more volatile suddenly. The total range traveled in price over the last 5 days is greater than 50%.

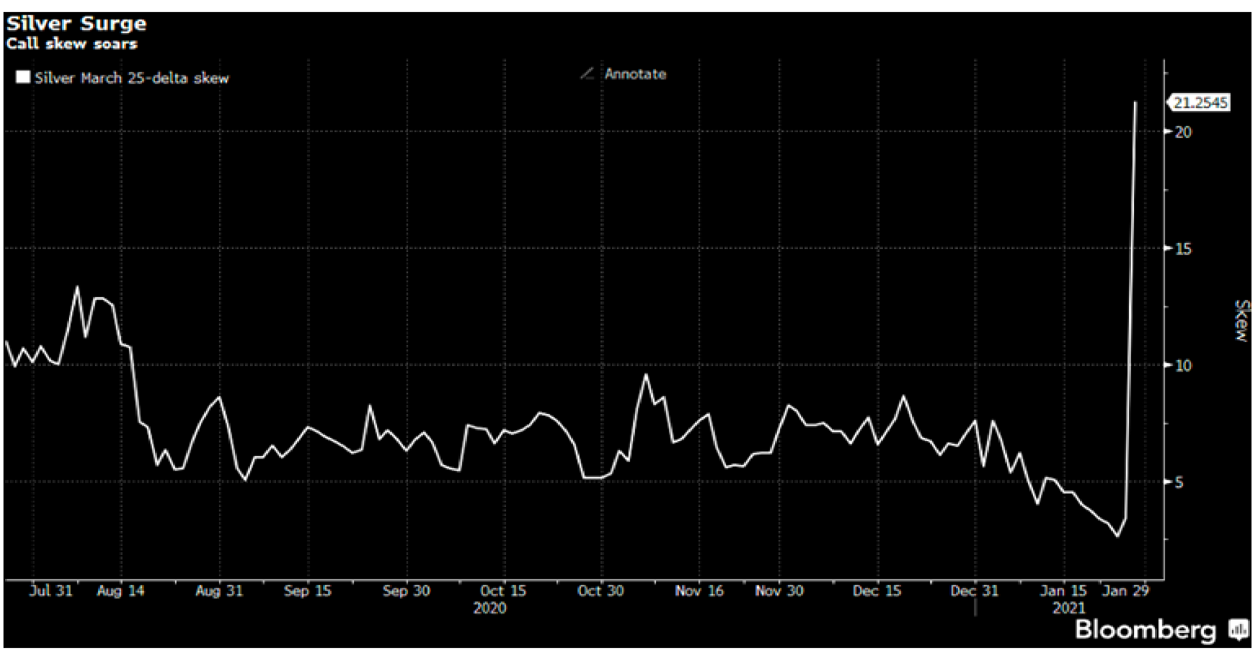
An ugly week according to CS for Long/Short funds.

By the end of the week the onslaught was not confined to those stocks with large short positions. They took a shot at driving up American Airlines and even Dogecoin in the crypto space. On

Thursday and Friday there was increasing focus on silver. First Majestic Silver (AG) took off as did the physical silver ETF, SLV.



There seems to be the view that it is being artificially manipulated and that by buying the ETF and calls on silver they can force the metal higher. There was huge call buying.



While I have liked silver for a while it has been in an ugly range for nearly six months now. My reasons for liking the metal are based more on monetary and fiscal policy and potential demand from a clean energy buildout. It is worth watching daily closes for signs of acceleration.

If silver starts outperforming Bitcoin, it may draw away some of those investors. Starting?

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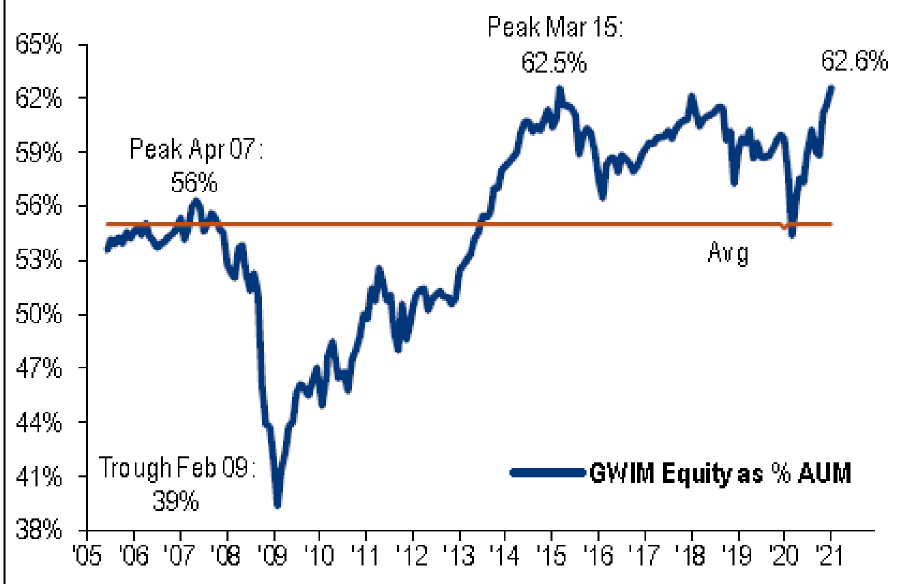
Over the weekend there was a news story that India is thinking of banning crypto currencies and introducing their own official one. That will be an interesting development if it plays out.

Equities

Friday's price action aside, markets have remained very bullish on growth and reflation. BoA/ML's private clients now at the highest equity allocation in 15 years.

- Easy Fed and fiscal policy, with more to come.
- Expected turning point in COVID fight approaching.
- Anticipation of large improvement in corporate earnings.
- Lack of alternatives.

Chart 15: GWIM equity allocation as % AUM

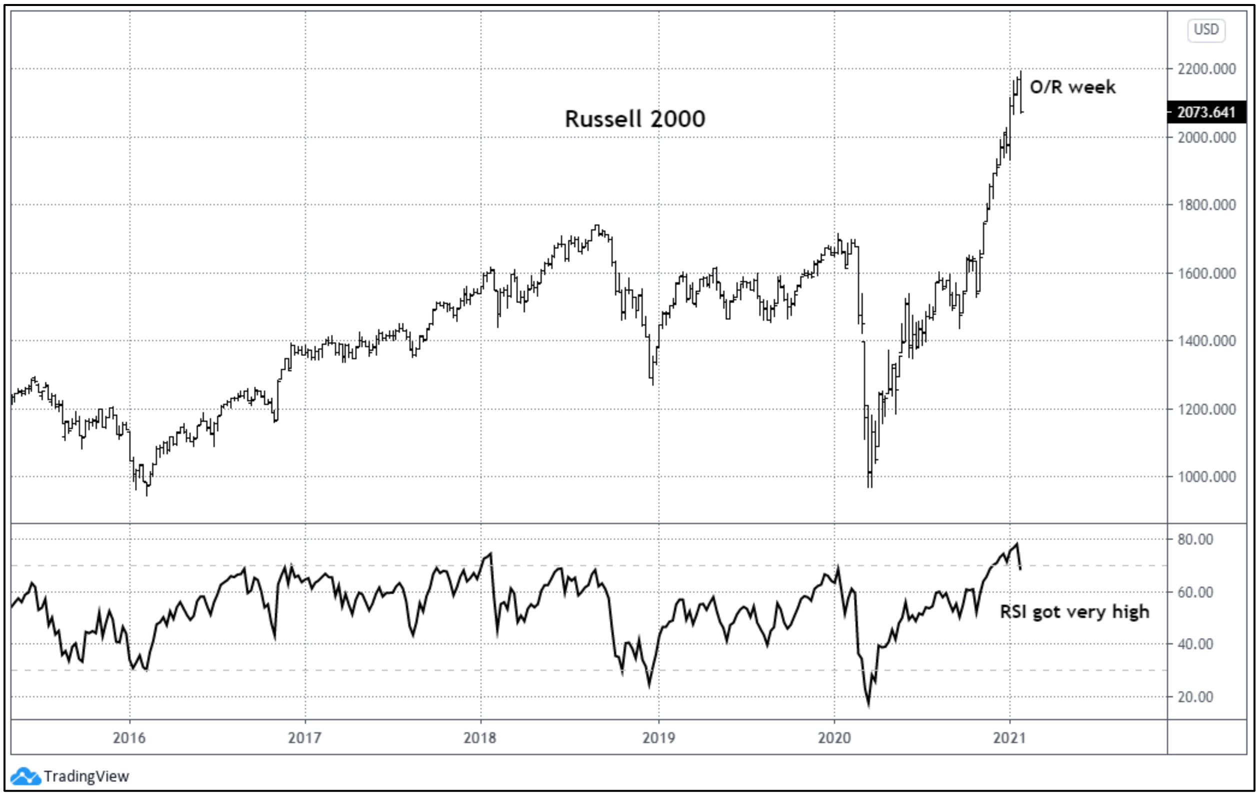


Source: BAC internal data

However, markets are unstable and VIX has remained high. High asset valuations are being cautiously watched out of one eye as the inflation expectations and nervousness about bond yields is monitored with the other.

Last week's selloff did some technical damage to the markets. Many weekly charts saw an outside range weekly reversal. At a minimum, that should mean the probability of a multi week pause for equities is now high. Potentially it means we can get more downside in the near-term.

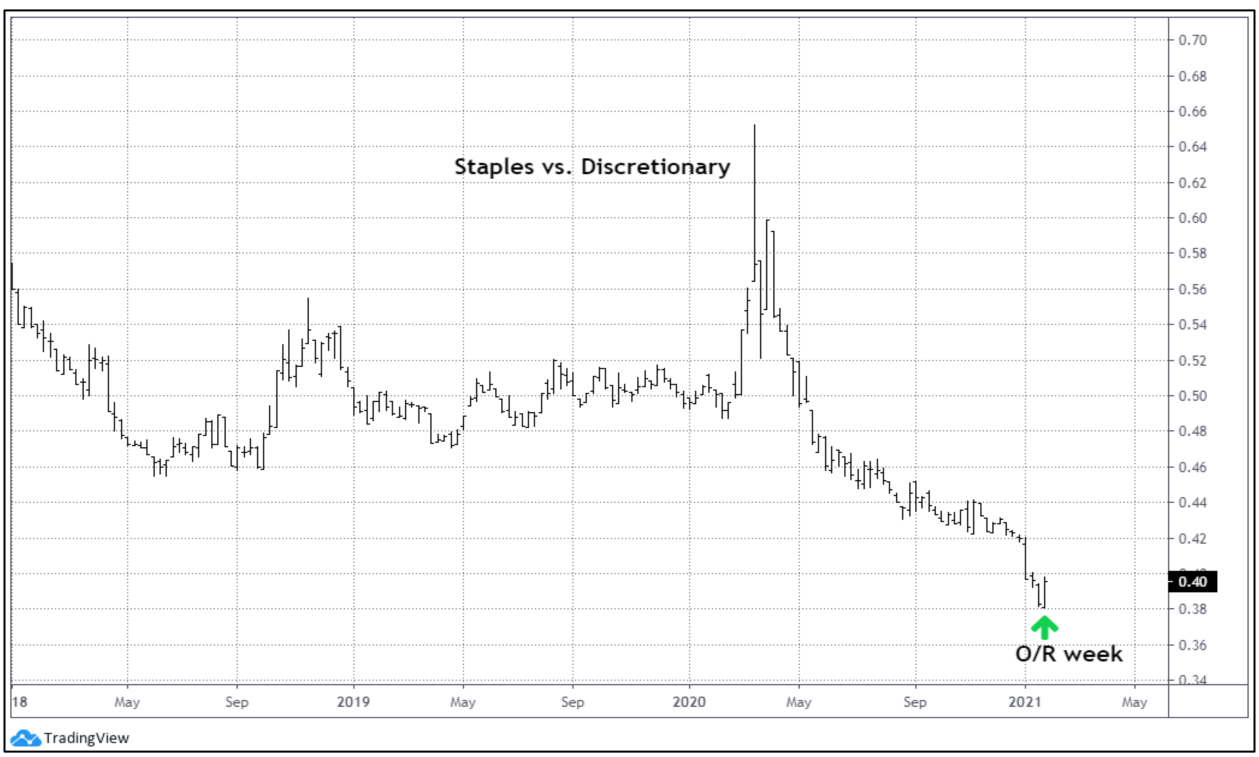
Both the Russell and the S&P had outside week reversals. With very high RSI in the Russell.



The daily charts saw trendline breaks and short-term momentum roll.

Stocks should now be on the defensive in the near-term.

Even Staples vs. Discretionary saw a lift and an outside range week.



As noted over the last two weeks, I think these markets will remain volatile and looking for ways to own some volatility will be helpful in navigating them.

Foreign Exchange

The dollar has been a little firmer and needs to be watched. Short positions remain extended and a further pop will go hand in hand with more de-risking across markets. The 91 level in DXY is worth watching. USDJPY has already broken higher.

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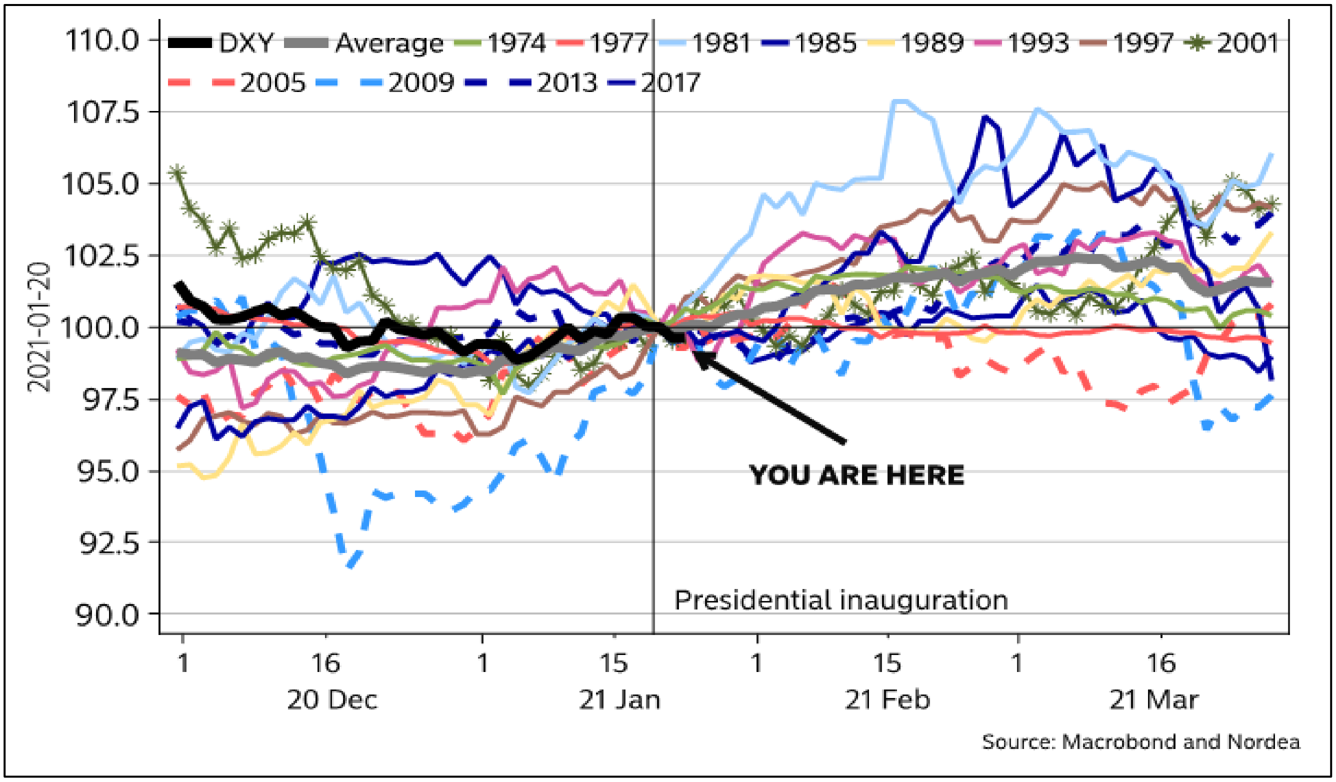
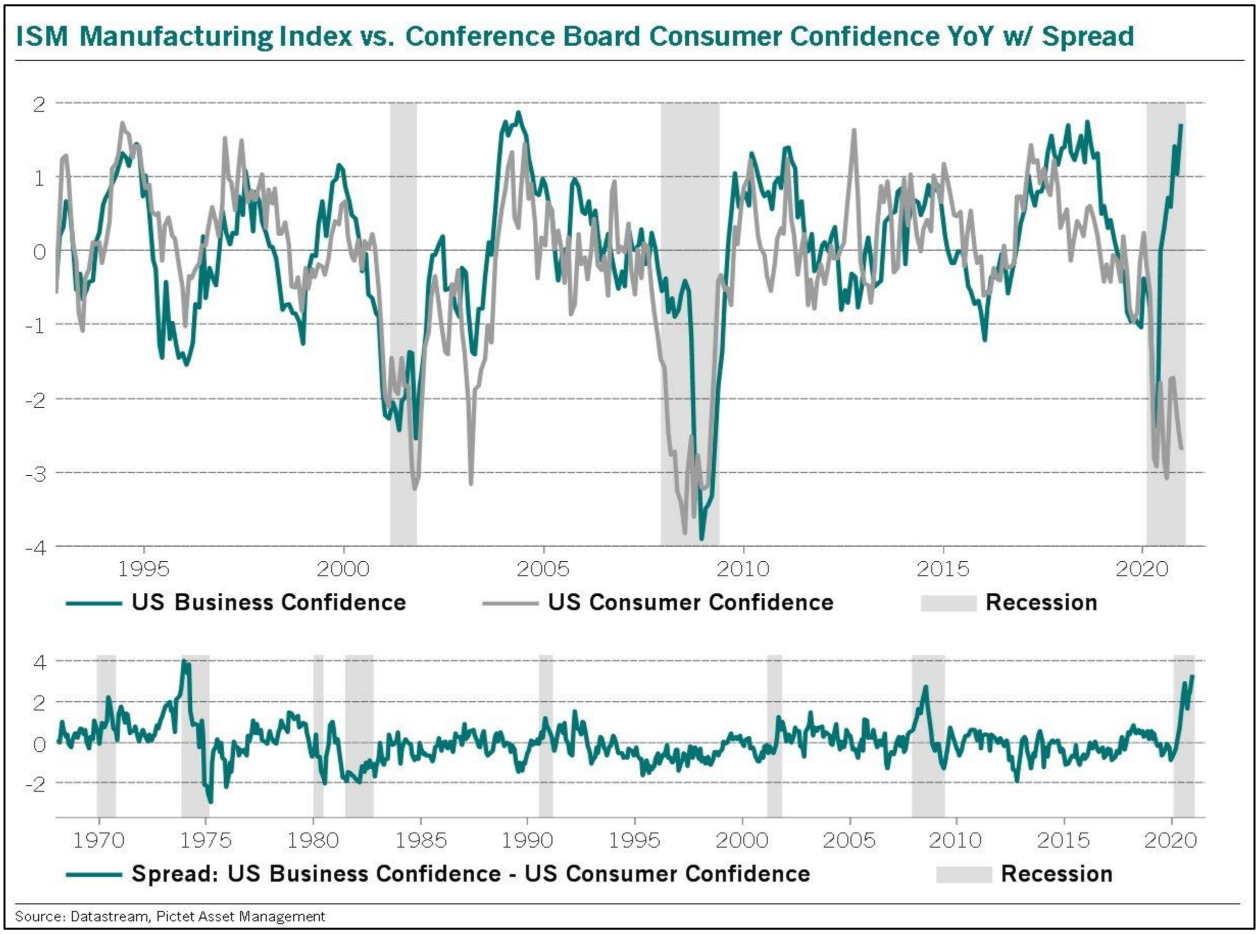
I thought this was an interesting chart regarding the USD and the Presidential inauguration.



Bonds – On Friday 10-year yields rose, despite the equity selloff.

Overall, bond markets have been very placid given CB policies and assurances. However, forces are building, and I don't know that the calm will last for that much longer. Will re-opening get consumer confidence to close the gap?

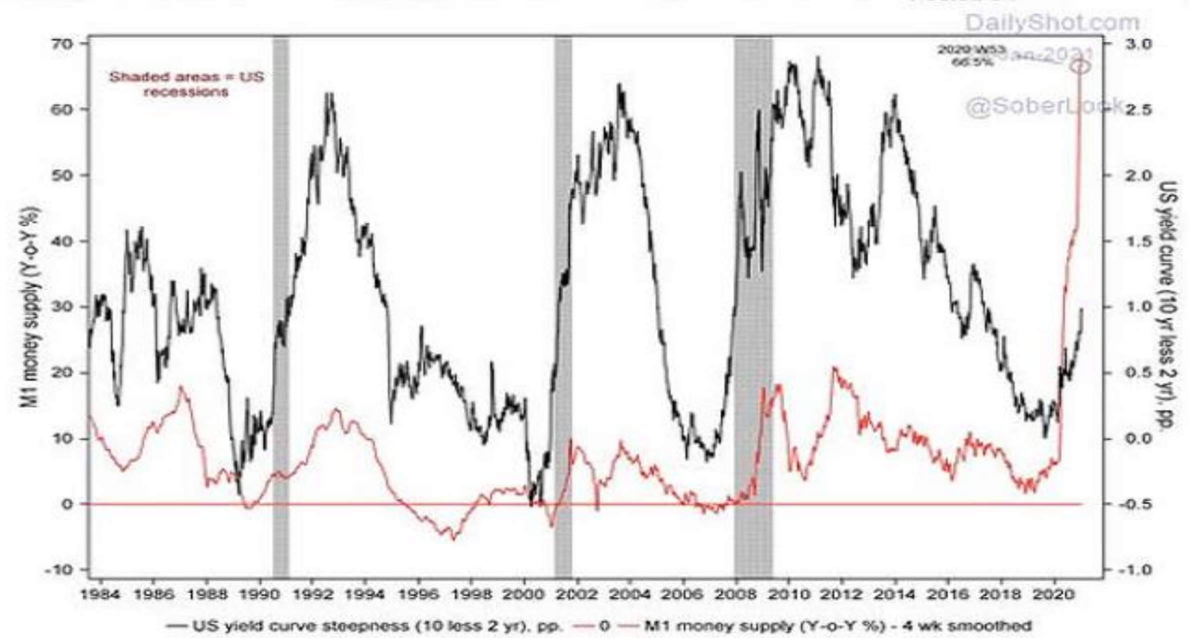


If so, it might be hard to keep bond yields where they are.

There are plenty of forces that threaten to push up inflation. The ability to frame them as temporary will be key.

The biggest driver could be that especially in the US (reserve currency and all) the need to inflate is quickly becoming an expedient way out of a debt and inequality trap.

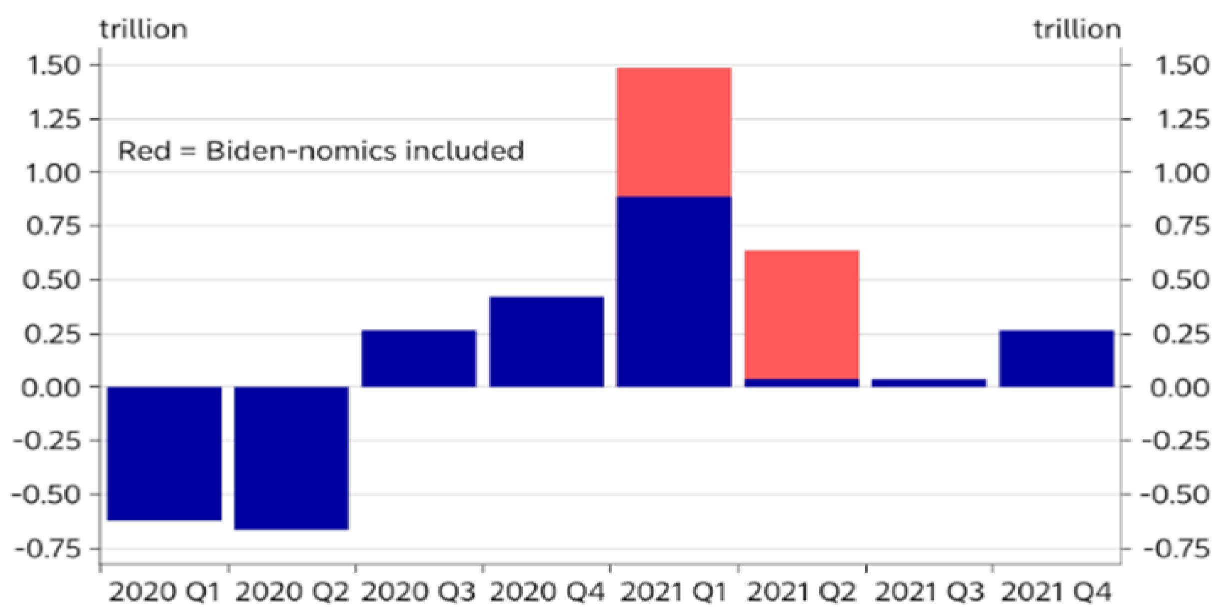
Fig 5: US M1 money supply growth vs. Steepness of US yield curve



Source: Longview Economics, Macrobond

Another thing to consider given the currently low bond yields, is that increasingly the new issuance will be overwhelming the current pace of QE purchases. Does that, in itself, push on yields?

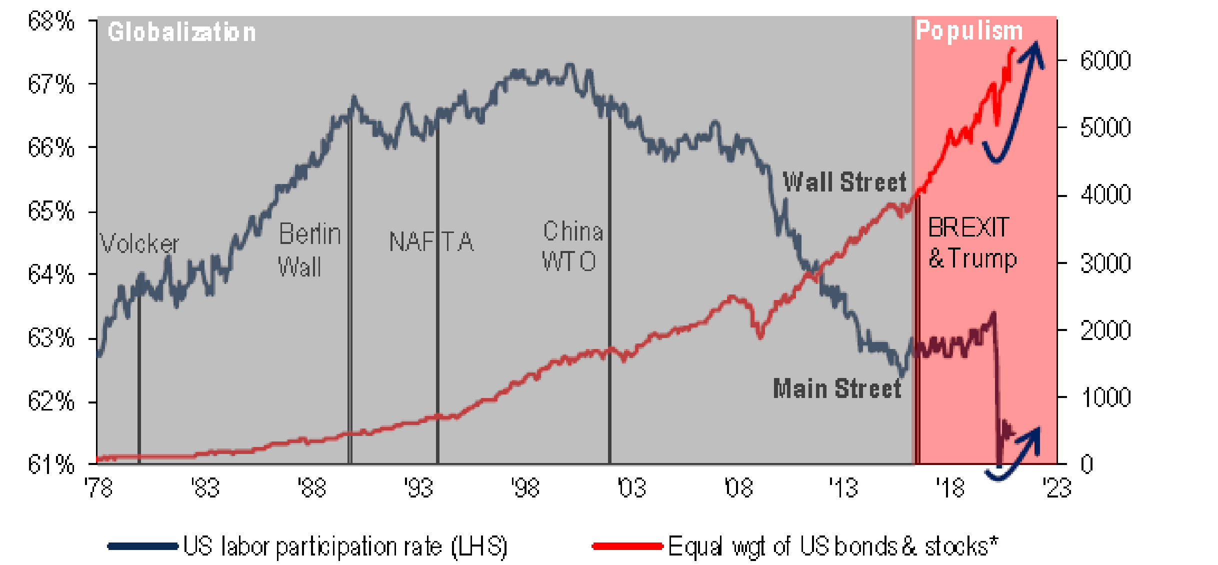
Chart 1. The issuance – QE ratio per quarter assuming a $ 1200bn Biden-nomics package.



Source: Nordea and Macrobond

Here is an interesting closing chart to contemplate given that the measure of success in Washington has shifted away from being focused on the level of the equity market. New goals, new policies. The adjustment to a new landscape has started with some of the equity rotation we have seen, but is still far from complete.

Chart 7: Wall St. vs Main St.



Source: BofA Global Investment Strategy, Bloomberg, Haver. *Equal weighted total return index of US equities (DJIA) and US government & corporate bonds (BOAO).

In the week ahead we have global PMI's for January, as well as nonfarm payrolls.

Important Macro Data Releases and Events for the Week

Sunday 1/31/2021	Caixin Manufacturing PMI (Jan) Forecast: 52.7, Prior: 53
Monday 2/1/2021	Retail Sales YoY (Dec) Forecast: 52.7, Prior: 53
	Markit Manufacturing PMI's Across Europe (Jan)
	Unemployment Rate (Dec) Forecast: 8.3%, Prior: 8.3%
	US Manufacturing PMI (Jan) Forecast: 59.5, Prior: 60.7
	RBA Interest Rate Decision

Tuesday 2/2/2021	GDP s.a. QoQ (Q4) Forecast: -1.8%, Prior: 12.5%
	GDP s.a. YoY (Q4) Forecast: -6%, Prior: -4.3%
	Fed's Williams SPEECH
Wednesday 2/3/2021	Markit Service PMI's Across Europe
	CPI - Core YoY (Jan) Forecast: -, Prior: 0.2%
	CPI YoY (Jan) Forecast: 0.4%, Prior: -0.3%
	ADP Employment Change (Jan) Forecast: 40k, Prior: -123k
	Markit Service PMI (Jan) Forecast: -, Prior: 57.5
	Markit PMI Composite (Jan) Forecast: -, Prior: 58
	ISM Services New Orders Index (Jan) Forecast: -, Prior: 58.6
	ISM Service PMI (Jan) Forecast: 56.5, Prior: 57.7
	ISM Services Employment Index (Jan) Forecast: -, Prior: 48.7
	ISM Services Prices Paid (Jan) Forecast: -, Prior: 64.4
Thursday 2/4/2021	Retail Sales YoY (Dec) Forecast: 0.4%, Prior: -2.9%
	Retail Sales YoY (Dec) Forecast: 1.3%, Prior: -6.1%
	BoE Interest Rate Decision and Monetary Policy Statement
	Initial Jobless Claims Forecast: -, Prior: 847k
	Initial Jobless Claims 4-week ave. Forecast: - , Prior: 868k
	Continuing Jobless Claims Forecast: -, Prior: 4.771m

Unit Labor Costs Q4 Forecast: 3.4%, Prior: -6.6%

Factory Orders MoM (Dec) Forecast: 0.6%, Prior: 1%

Friday 2/5/2021

Nonfarm Payrolls (Jan) Forecast: 85k, Prior: -140k

Unemployment Rate (Jan) Forecast: 6.7%, Prior: 6.7%

Average Hourly Earnings MoM (Jan) Forecast: 0.3%, Prior: 0.8%

Unemployment Rate (Jan) Forecast: 8.6%, Prior: 8.6%

Net Change in Employment (Jan) Forecast: -, Prior: -62.6%

Ivey Purchasing Managers Index s.a. (Jan) Forecast: -, Prior: 46.7

Ivey Purchasing Managers Index (Jan) Forecast: -, Prior: 53.9