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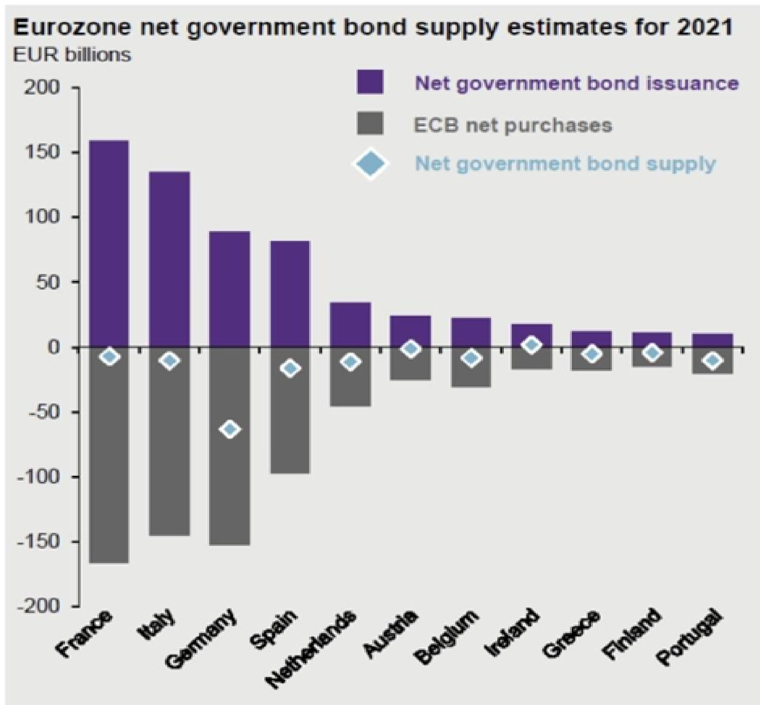
What to focus on in Global Macro for the week of September 13th, 2021

Macro Themes on the Radar:

ECB

As expected, the ECB "recalibrated" its PEPP asset purchase program, slowing it to "a moderately lower pace … than in the previous two quarters." So rather than the 80bln a month I would expect something like 60-70bln a month until the key December meeting. Lagarde went out of her way to say that they are not tapering. The ECB still intends to essentially buy the net supply of bonds between the two asset purchase programs keeping their de facto spread control between the countries intact. While it isn't really a taper it is the first step to ending PEPP which could eventually lead to lower total asset purchases.



Fuente: JPMorgan Asset Management

Lagarde was upbeat on the economy overall. While the ECB staff upgraded its near-term growth outlook and raised its inflation expectations, 2023 didn't move.

	2021		2022		2023	
	Sep-21	Jun-21	Sep-21	Jun-21	Sep-21	Jun-21
GDP	5.0	4.6	4.7	4.6	2.1	2.1
HICP inflation	2.2	1.9	1.7	1.5	1.5	1.4
HICP core inflation	1.3	1.1	1.4	1.3	1.5	1.4

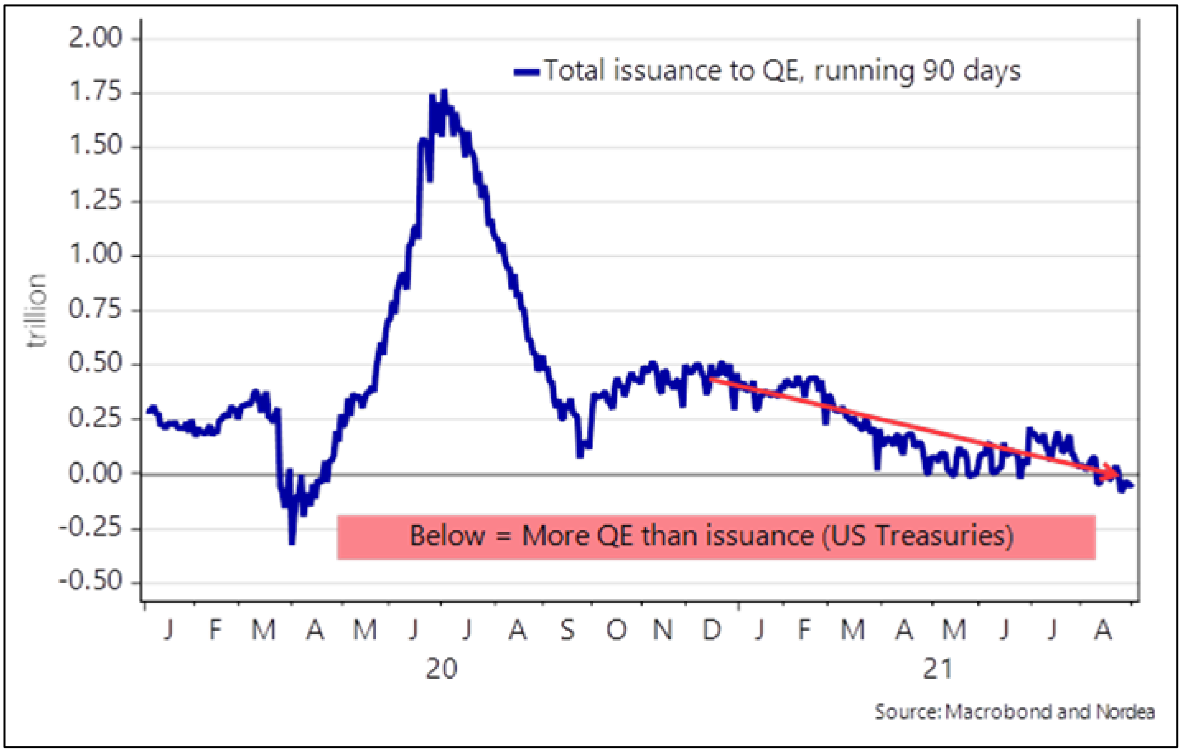
Source: Nordea and ECB

Fed and Treasury

The interplay between QE, tapering, inflation, employment, new issuance, and even more fiscal spending, remains complex for bonds.

Since the last NFP print, bonds have been performing worse than you might expect given the data. That is in stark contrast to what we had seen during the meat of the bond rally when high inflation prints and strong data were largely ignored.

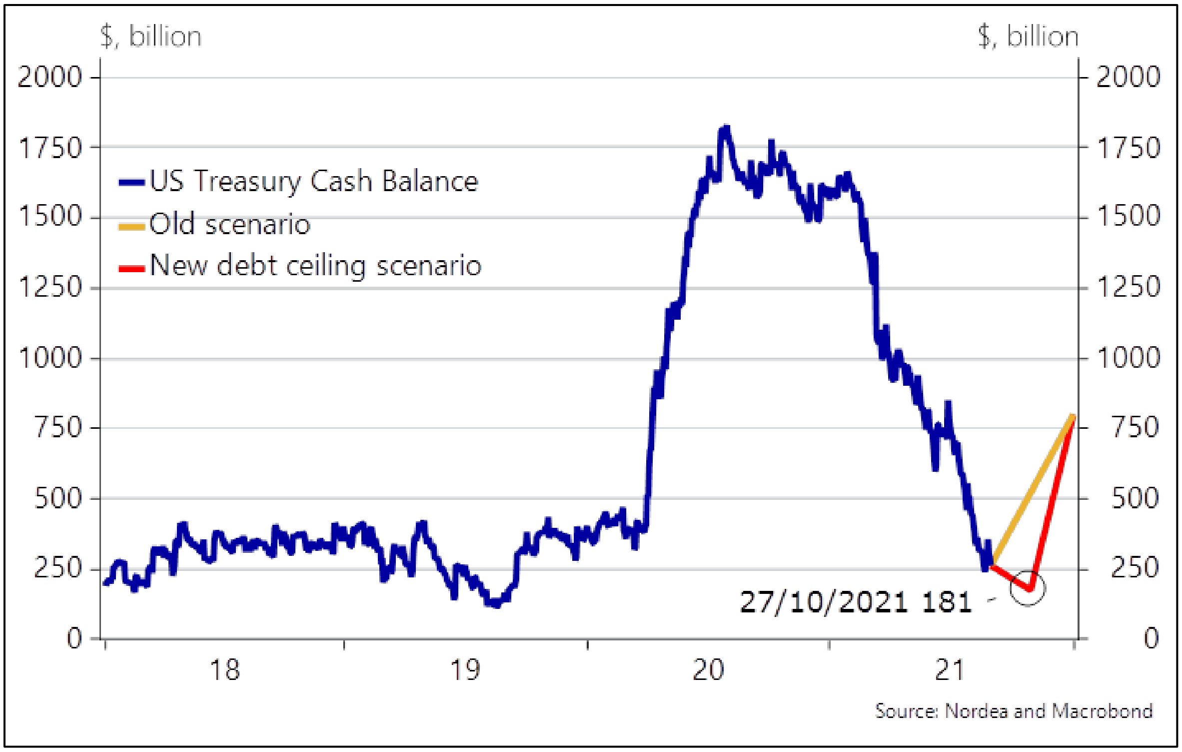
Does this mean the bond squeeze has run its course and we are primed for another round of bond weakness and rising yields? The market is looking through some of the Delta-induced weakness, but it is also likely eyeing the changing issuance dynamics that are just ahead. QE has been absorbing nearly all the issuance in recent months.



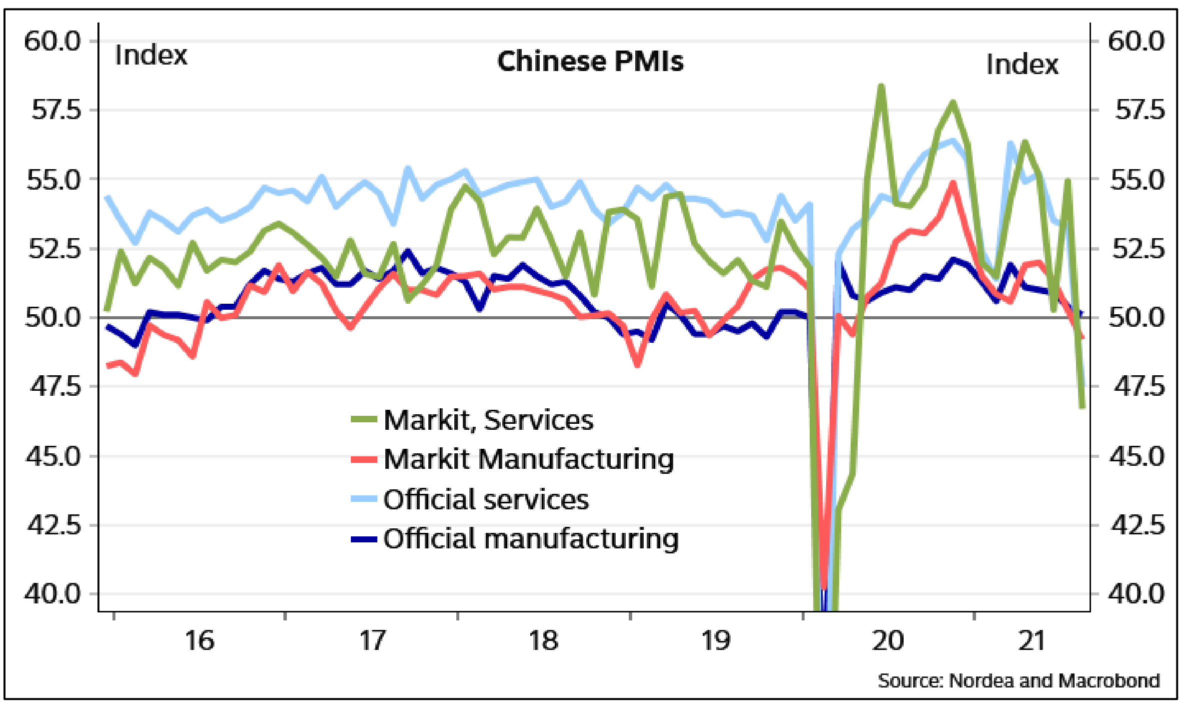
However, now that the Treasury balances at the Fed have been largely drawn down, issuance will need to pick up again. If you combine that with less Treasury buying, as taper comes into focus towards the end of the year, there will be increased supply hitting the market.

I would note that in the past, the supply of Treasuries and their prices have only had a weak link given all the other factors that affect price.... so, we will see what the market focuses on. It is also important to remember that historically, taper leads to lower bond yields and a flatter curve rather than higher bond yields.

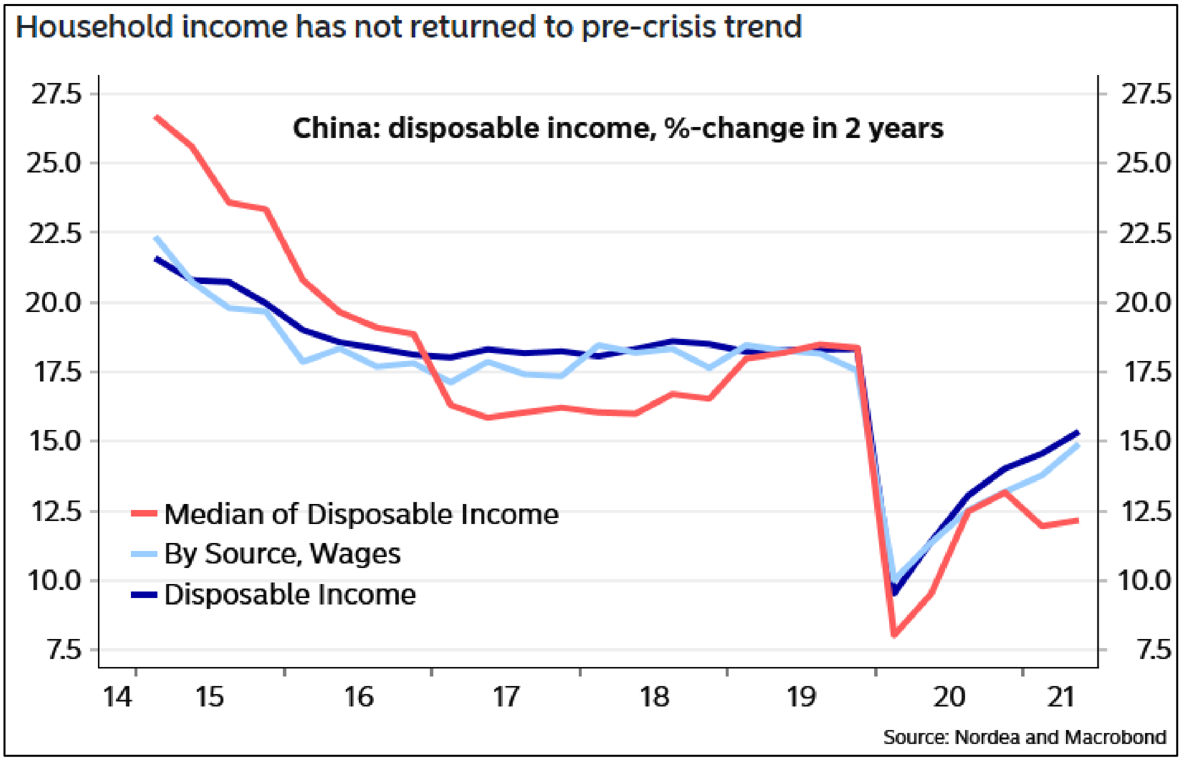
The TGA should bottom soon as issuance picks up. The Battle over the debt ceiling may complicate the timing, however.



China - In recent days, Chinese officials have tried to calm fears about the new policies. However, between the uncertainty around Delta lockdowns and the crackdown, some damage has been done over the summer months.



While the recovery for consumers remains incomplete.



It is increasingly likely that we see another 50bp RRR cut, maybe even this month. In the meantime, the "investability" debate around China rages with Blackrock and Ray Dalio talking up Chinese assets and Soros penning a warning last week. 2018 remains a warning re divergence.

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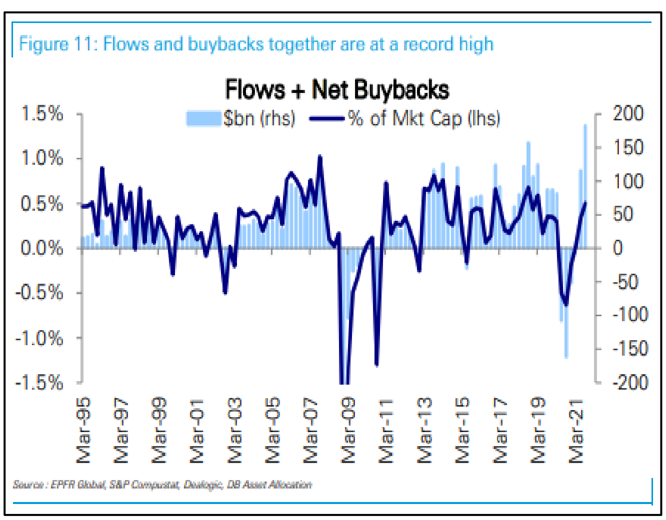
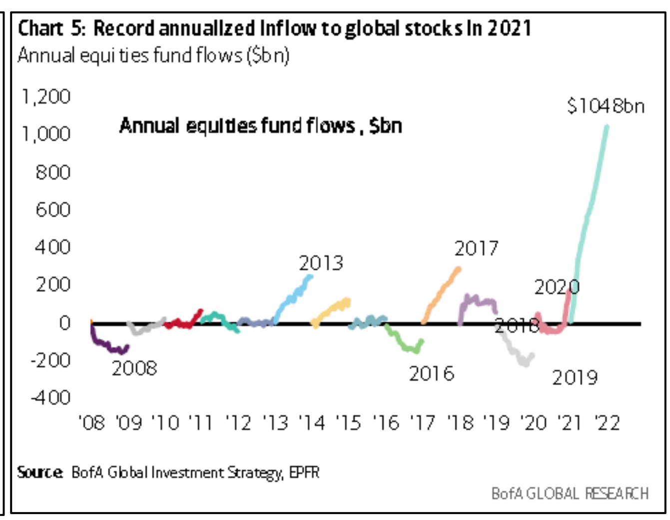
What to Focus on Now:

Equities - The above chart aside, the US has remained incredibly resilient given how expensive equities are. After last week's dip from new highs, we will see if the buy-the-dip pattern remains intact, or we get a bigger retracement this time. The flows have been relentless, with this year still on track to outpace what we saw during the last 20 years… combined.





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I thought it noteworthy that after again trying both the bottom and the top of the range, the Russell still can't reach escape velocity. When it does, the markets are going to get interesting.

While the S&P is back at mid-August levels, the Dow is back to early May already.

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Bonds - The long end remains range-bound with lots of potential inputs but little clarity. Watch 2.05 and 1.40 for a potential break higher in yields.

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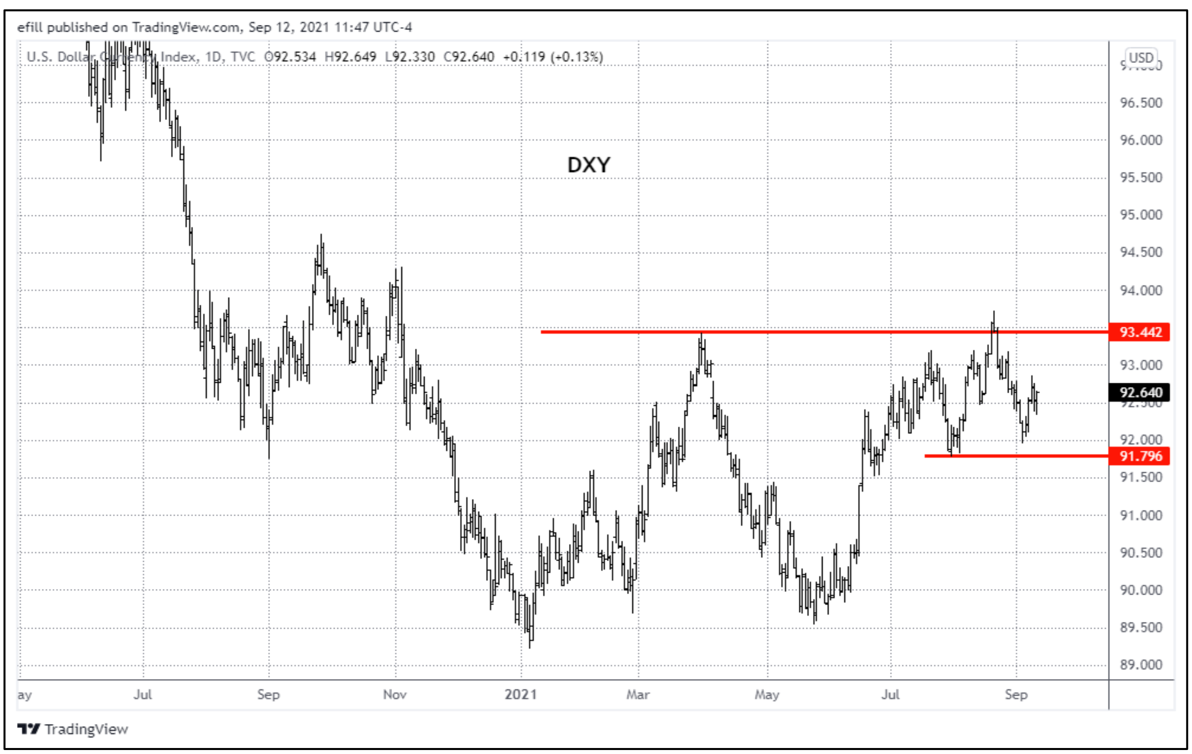
Not surprisingly, the front end remains stuck.

FX – This market remains uninspiring but needs to stay on your radar as an indicator of mood and expectations, especially in combination with Treasury yields.



Gold – Another failure as both the dollar and bond yields held up. With no supply bottlenecks, as we have seen in other commodities, it remains an out of favor zero-yield currency… for now. That 1835 level is now critical after the third failure.

Overall, this asset class has been mixed recently with commodities like oil and copper holding up well. Aluminum exploded higher after the military coup in Guinea while iron ore has been soft on China growth worries and commodity market intervention.

This week we have US CPI (Tuesday) which will be a key input for the Fed policy meeting the following week.

Below is a handy list of upcoming events and releases for the next six weeks, from BoA, followed by the usual weekly calendar.

Table 1: Reconciliation package key driver for yields next 3-6 weeks
Events to watch

79 trading days to go in 2021...	
Sep 14th	US Aug CPI
Sep 14th	California gubernatorial recall election
Sep 22nd	FOMC
Sep 26th	German federal elections
Sep 27th	Speaker Pelosi's deadline to pass bipartisan infrastructure bill
Sep 30th	US fiscal year end
Sep 30th	UK furlough scheme ends
Oct 1st	ISM Manufacturing Index (Sep)
Oct 3rd	US national eviction moratorium ends
Oct 8th	US Sep Payroll
Oct 13th	US Sep CPI
Oct (Mid)	Treasury Secretary Yellen's deadline to raise the debt ceiling
Oct 22nd	Japan general election
Oct 28th	ECB
Oct 30th	G20 meeting in Rome
Nov 3rd	FOMC

Source: BofA Global Investment Strategy

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Important Macro Data Releases and Events for the Week

Monday 9/13/2021

RBA's Governor Lowe speech

Tuesday 9/14/2021

UK Employment Data

US Consumer Price Index (CPI)

	Retail Sales
Wednesday 9/15/2021	CPI
	CPI
	Employment Data
Thursday 9/16/2021	Philly Fed Manufacturing Survey
	Retail Sales Data
	Initial Jobless Claims Forecast: -, Prior: 310k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 339.5k
	Continuing Jobless Claims, Prior: 2.783M
Friday 9/17/2021	Retail Sales Data
	CPI
	Michigan Consumer Sentiment Index (Sep) Forecast: 70.2, Prior: 70.3

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