Stargazer Asset Management

What to focus on in Global Macro for the week of August 30th, 2021

Macro Themes on the Radar:

Fed

After a week of hawkish pronouncements from various regional Fed Presidents, we finally heard from Powell on Friday.

This paragraph might be the best summary of his speech:

"My view is that the "substantial further progress" test has been met for inflation. There has also been clear progress toward maximum employment. At the FOMC's recent July meeting, I was of the view, as were most participants, that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year. The intervening month has brought more progress in the form of a strong employment report for July, but also the further spread of the Delta variant. We will be carefully assessing incoming data and the evolving risks. Even after our asset purchases end, our elevated holdings of longer-term securities will continue to support accommodative financial conditions."

With much of the inflation spike still seen as transitory, they are happy to wait a little longer to get a clearer picture of how the Delta variant is affecting the economy and what kind of progress is being made on the employment front. November looks like a good bet for the announcement, but September is still possible if we got a blowout employment number on Friday (the consensus, however, is that it will be weaker than last month).

US equities loved Powell's more dovish tone. We will see how long he can hold off the growing hawkish chorus of regional Presidents.

PBoC

The expectation of further cuts in the RRR and potentially in the policy rate continues to grow. There are a number of factors weighing on Chinese growth and some further targeted loosening is very likely. Be ready for those headlines in the coming weeks. However, some of this is seen as preventing a tightening of financial conditions and the PBoC has been careful to say that they will be matching the expansion of the money supply to nominal economic growth, in contrast to what they see the US as engaging in.

In its recent quarterly monetary policy report, the PBoC was critical of the other large central banks, and the US in particular. They stated that the rapid growth in money supply would lead to inflation risks and "the destruction of financial discipline" and that the policies of the Fed and central banks in Europe and Japan will bring damaging side-effects.

"Since the pandemic, developed economies have launched massive fiscal and monetary stimulus, which has not only added to inflation pressure but also led to asset price bubbles, leading to a deviation of financial market trends from the real economy and exacerbated fragility. If the normalization of major economies' monetary policy picks up, that could trigger a correction in financial markets, and increase capital outflow pressures and currency depreciation in most emerging economies, leading to higher risks for debt repayment and refinancing."

-- PBOC's quarterly policy report

"If the bubble in the American economy bursts after the pandemic, that will bring huge shocks to the world and the Chinese economy. We have to prevent and prepare for this scenario," said Liu Yuanchun of Renmin University in Beijing, a well-known economist who regularly consults with Xi's government.

It is important to keep the current Chinese perspective regarding monetary and fiscal accommodation in mind. They are **not** on the same page as the Fed, ECB, and BoJ. Don't expect them to act in the same way. Stimulus will be smaller and more targeted when it is required.

What to Focus on Now:

With Jackson Hole out of the way, we move on to the next "big event", payrolls this Friday. The expectation is for a number in the mid-700's.

While gyrating over the last few weeks, yields are not far from where they were two months ago.

As has been the case for a while, the markets remain very sensitive to even relatively small changes in bond yields and dollar direction.

Everyone is looking for a heads up that prices are telling us something about global growth, changes in inflation expectations, or shifting financial conditions.

Also, the narrative of drivers for the price action in bonds, with all its potential moving parts, remains very confused.

For example, will the eventual taper bring a flatter yield curve (historically it has) or will it be different this time as net issuance of bonds rises and the Fed refuses to hike rates for another year plus?

For now, I'm just watching the price action, rather than locking myself into a favorite scenario.

For 10's 1.40% and for 30's 2.05% are worth watching out for.

ED’s remain in a Fed-induced coma, pricing in about one hike by the end of 2022.

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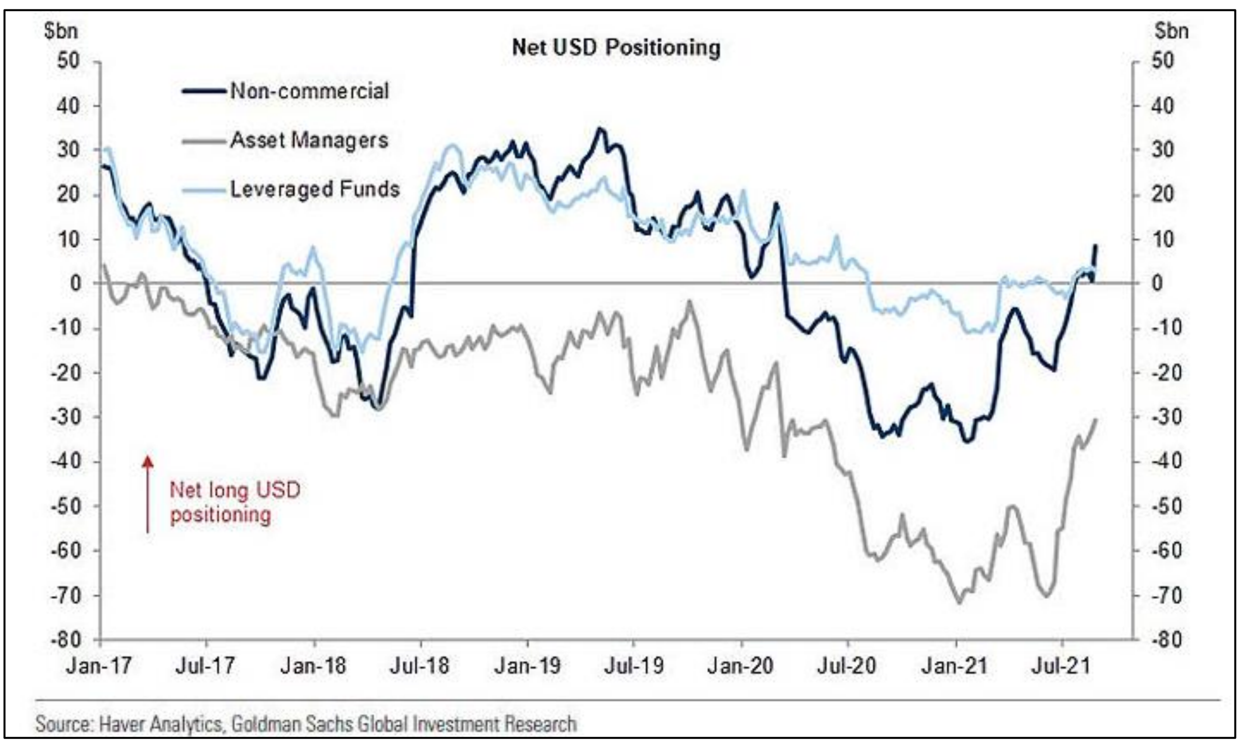
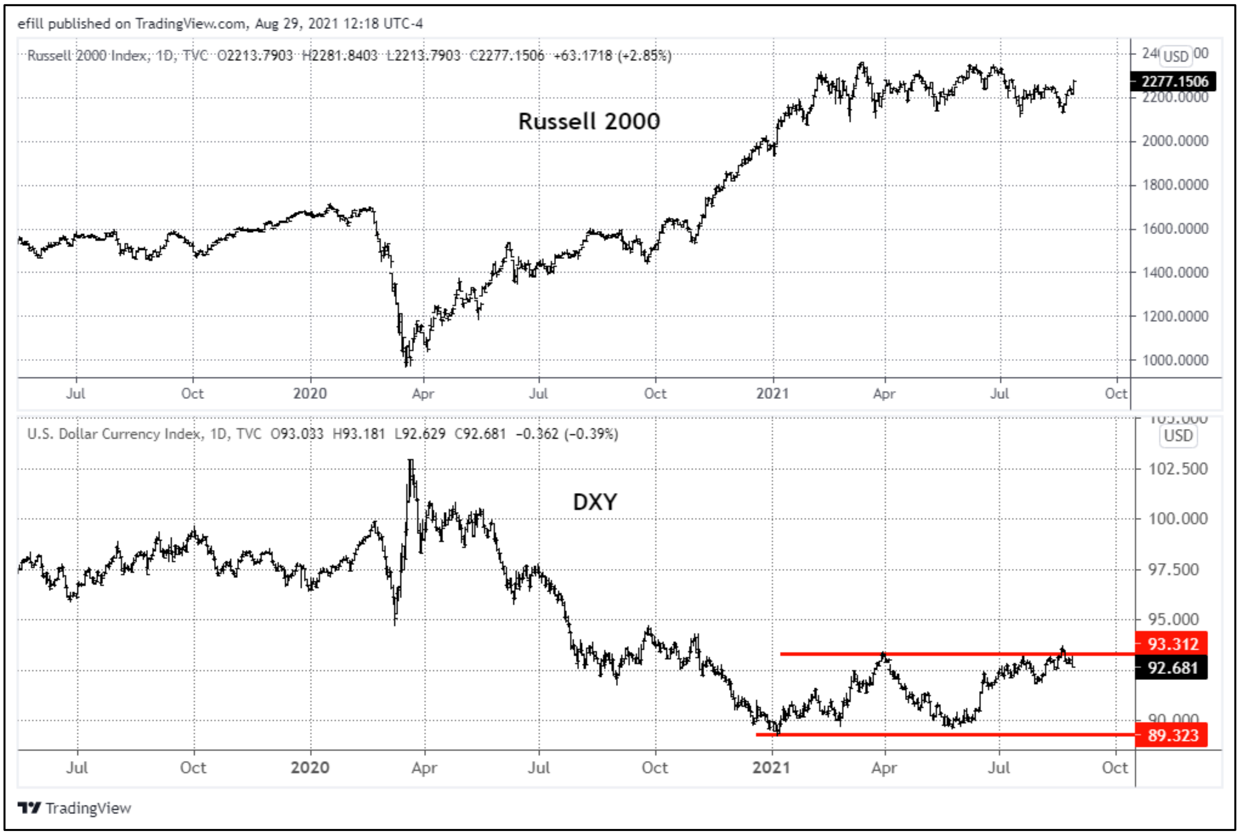
The slightly more dovish Fed helped reverse some of the recent USD gains. Another failed break?

Not surprisingly, EURUSD tells a similar story. Break lower fails, and now trying to break higher.

Just after USD long positioning has been on the rise… of course. FX has been joyless.



A more lasting USD reversal would help the Russell, which has been perking up over the last few days. The bottoming of the dollar, early in the year, coincided with the end of the Russell's run.



Higher bond yields and a falling USD would be ideal but could be hard to come by.

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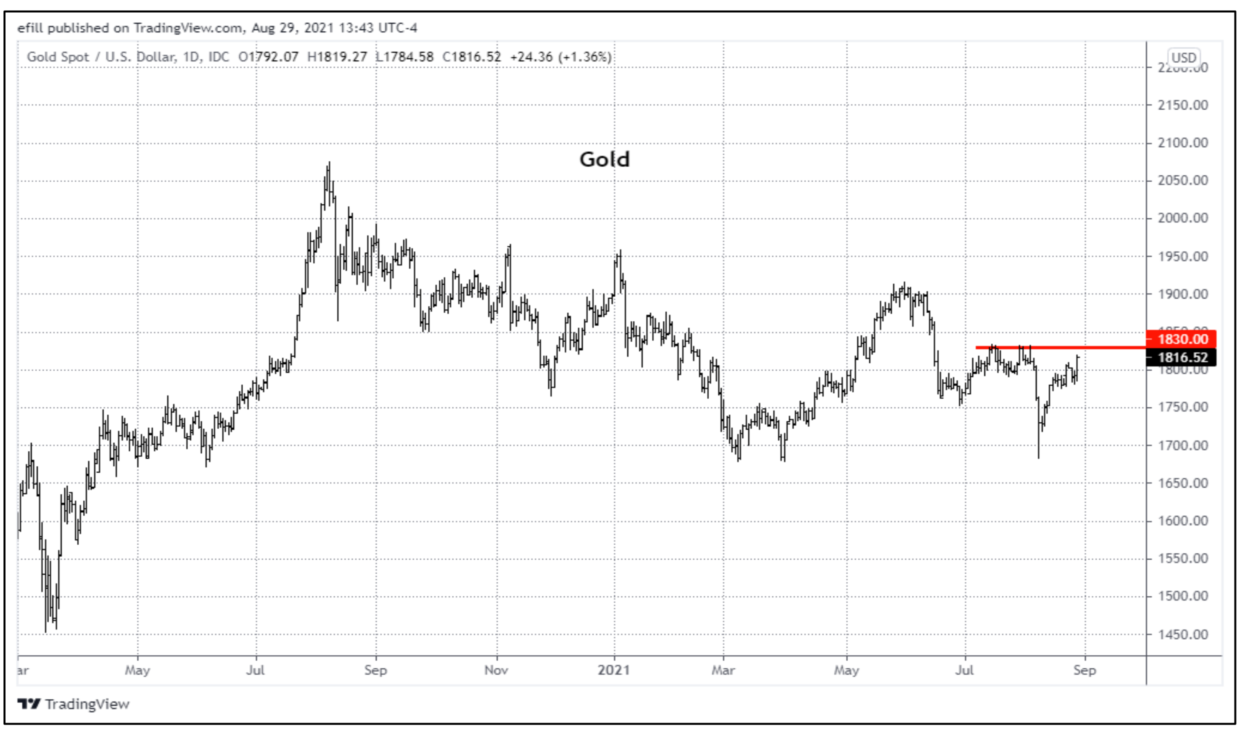
While the Russell has made no progress since early February, it is worth noting that it had opened up a big lead off the March 2020 lows.

Another asset where the interaction between the USD and yields is critical is Gold. 1830 is worth keeping an eye on now.



For Gold vs. the EUR, the 1540/1550 area is worth watching out for. Otherwise, ignore.

Important Macro Data Releases and Events for the Week

Monday 8/30/2021

- Consumer and Industrial Confidence (Aug)
- Harmonized Index of Consumer Prices YoY (Aug) Forecast: 3.4%, Prior: 3.1%
- Pending Home Sales MoM (Jul)
- NBS Manufacturing and Non-Manufacturing PMIs (Aug)

Tuesday 8/31/2021

- CPI - Core YoY (Aug) Forecast: 1.5%, Prior: 0.7%
- Housing Price Index
- Chicago PMI (Aug) Forecast: 69.8, Prior: 73.4
- Consumer Confidence (Aug)

	Caixin Manufacturing PMI (Aug)
Wednesday 9/1/2021	Markit final Manufacturing PMI's from across Europe (Aug)
	ADP Employment Change (Aug) Forecast: +600k, Prior: +330k
	ISM Manufacturing PMI and Prices Paid (Aug)
Thursday 9/2/2021	Productivity and Unit Labor Costs
	Initial Jobless Claims Forecast: 351, Prior: 353k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 366.75k
	Continuing Jobless Claims, Prior: 2.862M
	Factory Orders
	Caixin Services PMI (Aug)
Friday 9/3/2021	Markit final Services PMIs from across Europe
	Nonfarm Payrolls Forecast: 725k, Prior: 943k
	Unemployment Rate Forecast: 5.2%, Prior: 5.4%
	Markit and ISM Service PMIs

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