What to focus on in Global Macro for the week of March 29th, 2021

Macro Themes on the Radar:

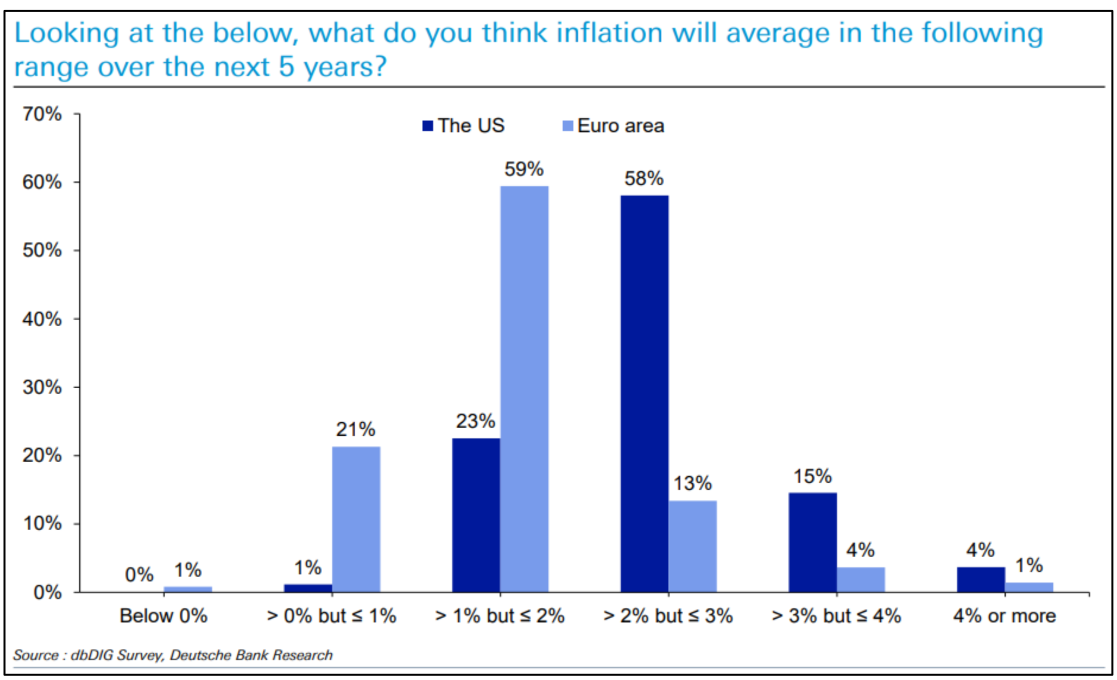
Last week's Congressional appearance by the Fed's Powell and Treasury's Yellen yielded what I expected. Powell gave continued assurances that the Fed would not reduce accommodation until substantial progress has been made towards their objectives. Yellen provided strong support for the most recent fiscal package.

Chair Powell again addressed inflation expectations saying that neither he nor his colleagues thought "that the effect on inflation will be neither particularly large nor persistent." He went on to say that "we have been living in a world of strong disinflationary pressures - around the world really - for a quarter of a century...We don't think a one-time surge in spending leading to temporary price increases would disrupt that."

Fed Governor Brainard subsequently drove home the point, emphasizing that the Fed's new policy framework is focused on "outcomes rather than outlook" and suggesting that "policy should be patient rather than pre-emptive at this stage in the recovery."

The market is still trying to digest this focus on "outcomes" that is central to the new framework. So far, they are not really buying it, having already priced in substantially more and earlier tightening than the Fed is indicating as likely. The market remains unsure that the Fed will have the ability to sit through the expected jump in growth and inflation without reacting. No doubt, a central issue for markets remains the expectation that meaningful inflation is coming, but the unknown is how much and how long will it last.

Here are two charts from a recent DB survey on inflation that I thought were interesting.



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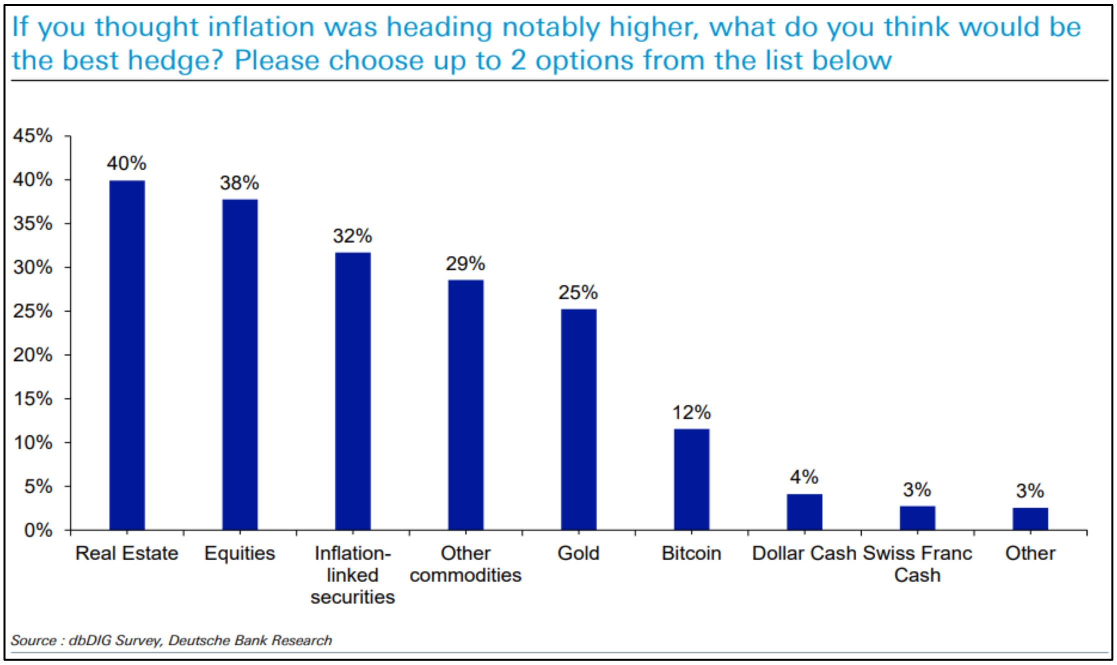
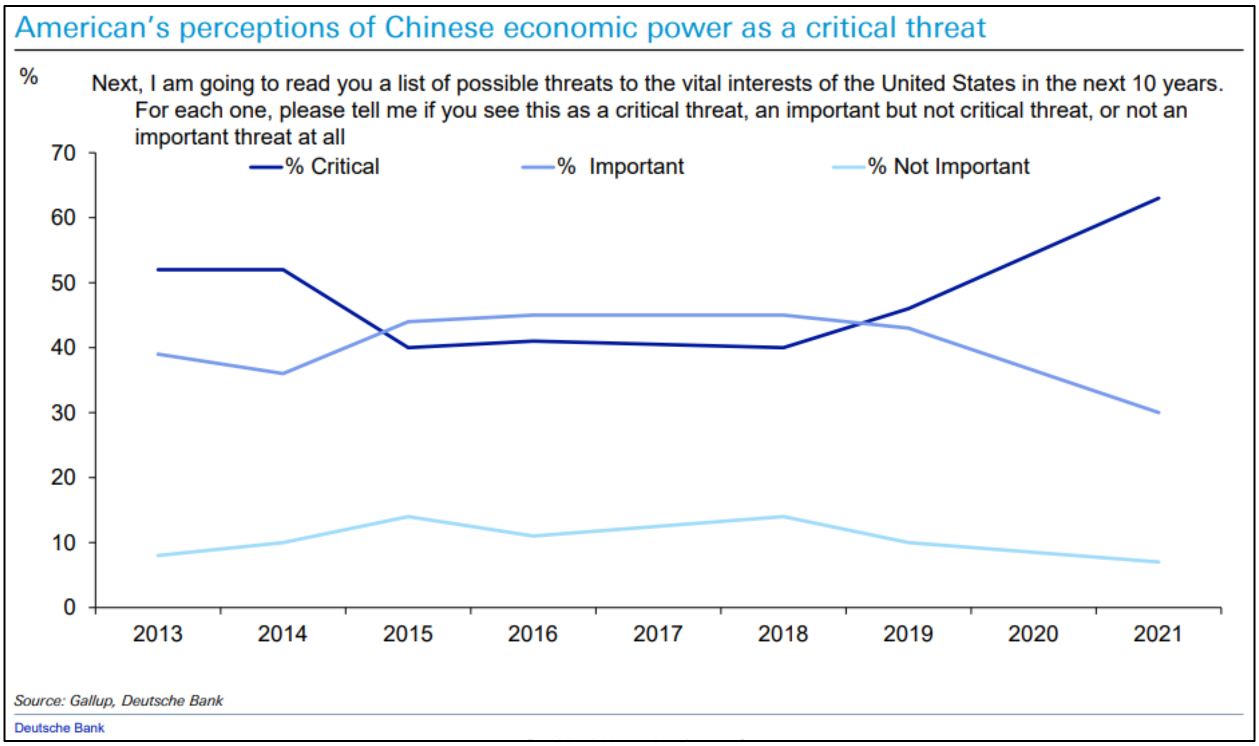


I guess one issue that comes to mind is that markets remain forward looking while the Fed now insists that it is no longer focused on projections but on outcomes. While it remains to be seen if they stick to their guns, this mismatch is a potential source of increased volatility. Maintaining the focus on outcomes may be harder to do in practice than on paper. The more they commit to this new process the more binary and after the fact their decisions will have to become, by definition. In the end, is it also an admission that they are not very good at predicting the future path of the economy? Not a surprise to most market participants, but are they willing to admit it?

In the meantime, as markets have continued to be roiled by on again, off again rotation there are plenty of other news items to muddy the waters.

- Suez Canal blockage and the further strain it is putting on supply chains in the near-term. It has already caused a 320-ship traffic jam.
- Portfolio liquidation we saw on Friday as block-trades were executed in Chinese technology and global media names.
- China/US relations remain rocky. Biden said at his Thursday press conference that China has "an overall goal to become the leading country in the world, the wealthiest country in the world, and the most powerful country in the world. That's not going to happen on my watch, because United States is going to continue to grow and expand." That was followed up by 20 Chinese war planes flying into Taiwanese airspace on Friday. A senior US official commented to the FT that "China appears to be moving from a period of being content with the status quo over Taiwan to a period in which they are more impatient and more prepared to test the limits and flirt with the idea of unification." And that the Biden administration had concluded that "As we prepare for a period in which Xi Jinping will

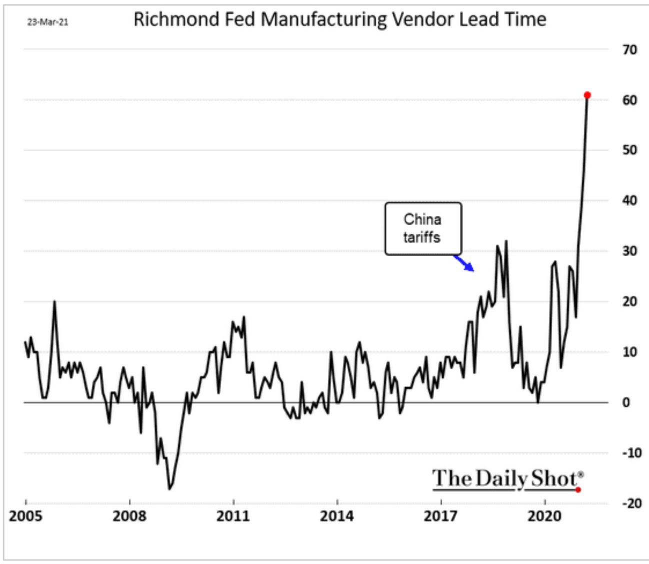
likely be entering his third term, there's concern that he sees capstone progress on Taiwan as important to his legitimacy and legacy," the official added. "It seems that he is prepared to take more risks." Finally, on Saturday it was announced that Iran and China were strengthening ties with a 25-year, $400bln cooperation deal. The deal apparently includes Chinese investments to be made in fields including banking, telecom, ports, railways, health care, and information technology. In return, China would receive a regular and apparently discounted supply of Iranian oil. The initial draft of the deal called for deepening military cooperation, including joint training and exercises, joint research and weapons development, and intelligence-sharing.

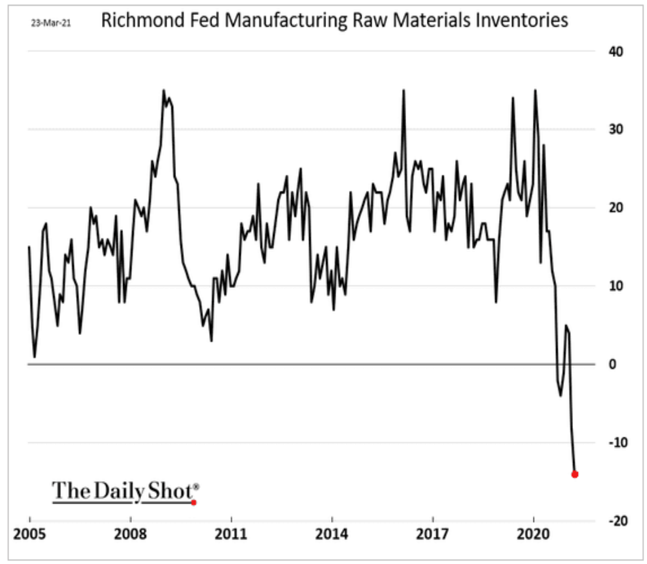


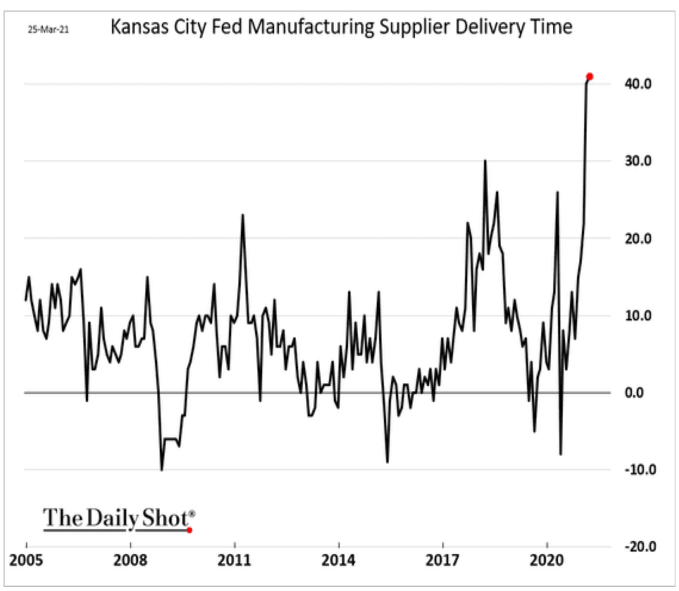
- The European vaccine and lockdown mess continues.
- While in the US 50mill people are now fully vaccinated and an additional 35mill have received the first dose.
- On Friday, the German highest court blocked ratification of EU recovery fund until they sort through the current legal challenges. There are five, and there is no word on how long the delay will take.
- A US infrastructure package is in the works. Biden is considering a further $3tn spending plan focused on infrastructure and clean energy in the first phase, childcare and education in the second. It would be at least partly funded through higher taxes on the top 1%. Advisers are expected to present detailed proposals to the President this week.
- New Zealand's government took aim at property speculators with a suite of new measures to tackle runaway house prices and prevent the formation of a "dangerous" bubble. NZD didn't like the announcement.

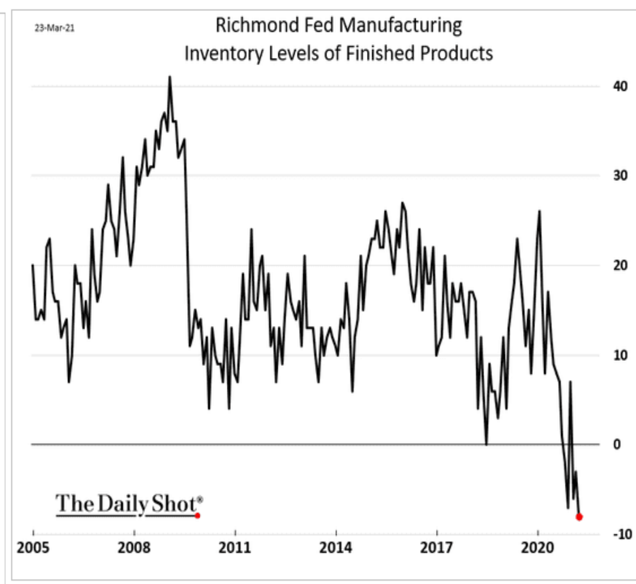
Supply chain disruptions collide with reopening…

The Richmond Fed Manufacturing survey nicely illustrates the supply chain issues that many producers have been facing around the country and globally.

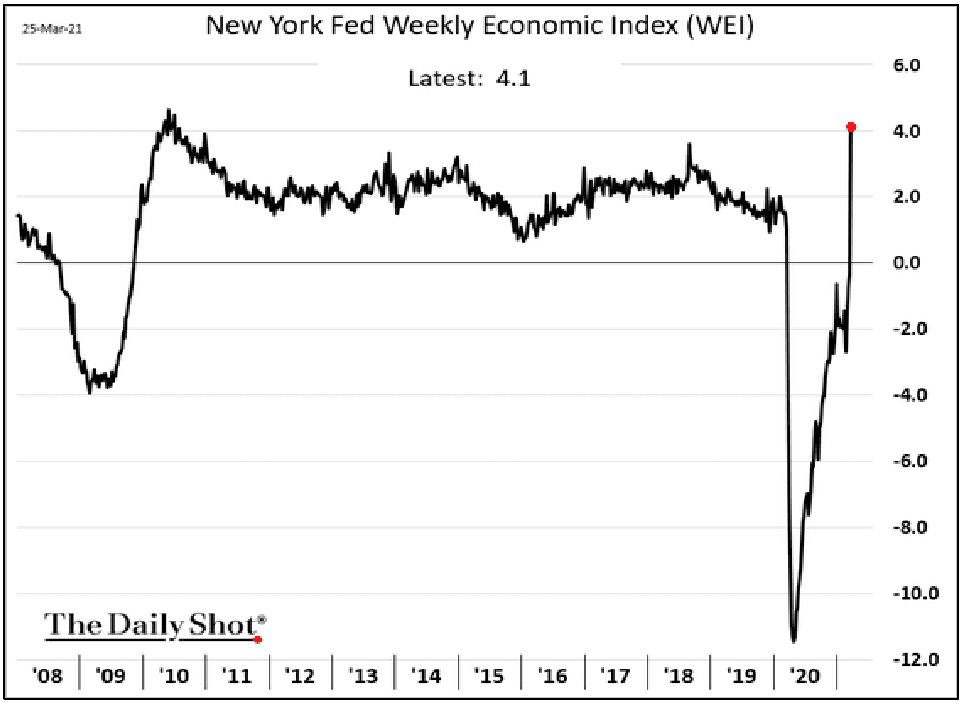






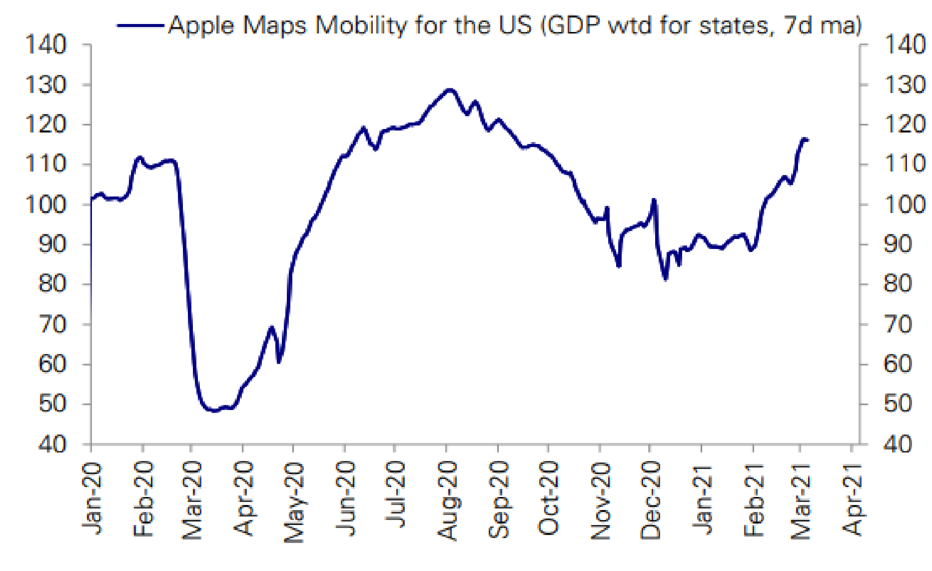


The economy is picking up as services start to gain traction as well now.



Mobility has been rising…

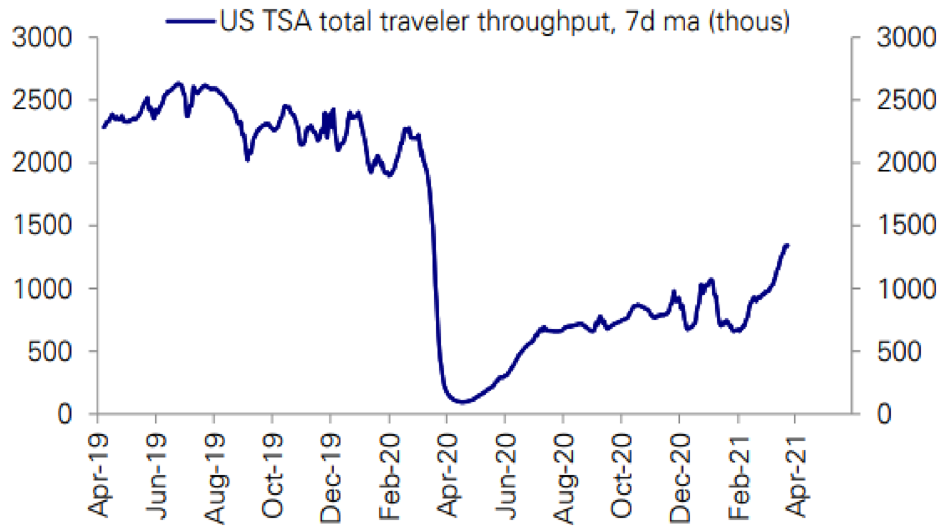
Figure 6: The pace of reopening has accelerated in recent weeks



Source : Apple Maps Mobility, Deutsche Bank Asset Allocation

Travel too…

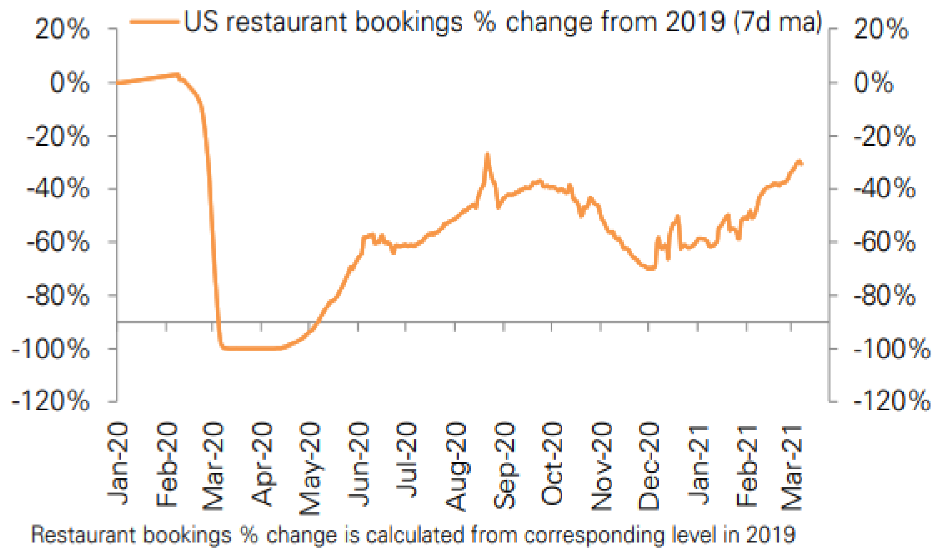
Figure 7: Air traveler throughput has risen sharply …



Source : TSA, Deutsche Bank Asset Allocation

And restaurants…

Figure 8: … as have restaurant bookings



Source : OpenTable.com, Deutsche Bank Asset Allocation

What to Focus on Now:

Equities

April is historically the next best month of the year for stocks. Slightly better even than the usual end of year rally period. However, the last 12 months been like no other period in so many ways.

Monthly Return Stats for the S&P500 1964-2020

	Avg Return	% Positive	Best	Worst	Std Dev
Jan	1.1%	60%	13%	-9%	5.0%
Feb	0.0%	54%	7%	-11%	3.9%
Mar	0.9%	63%	10%	-13%	3.9%
Apr	1.7%	74%	13%	-9%	3.9%
May	0.2%	58%	9%	-8%	3.7%
Jun	0.2%	58%	7%	-9%	3.3%
Jul	0.6%	51%	9%	-8%	4.1%
Aug	0.1%	56%	12%	-15%	4.8%
Sep	-0.4%	47%	9%	-12%	4.3%
Oct	0.9%	60%	16%	-22%	6.0%
Nov	1.4%	68%	11%	-11%	4.4%
Dec	1.3%	72%	11%	-9%	3.4%

Source: Topdown Charts, Refinitiv   topdowncharts.com

In such a strange environment, where the coming jump in growth is already so well telegraphed, it remains hard to know how much is already priced in.

PMI's have been strengthening and the ISM manufacturing index has been on a strong run.

Nordea Research had an interesting note in which they pointed out that equities tend to have a very steady run as the ISM rises, but that once it hits 60, historically things have become more volatile.

They found that not only does the USD often rally, but that the trend in equities is likely to become less stable. On balance, they still tend to go up in the months following the 60 print on ISM, but there is much greater dispersion of outcomes.

Given the current backdrop, all historical references are difficult, but it does seem to support the view that volatility is not likely to subside in the near-term.

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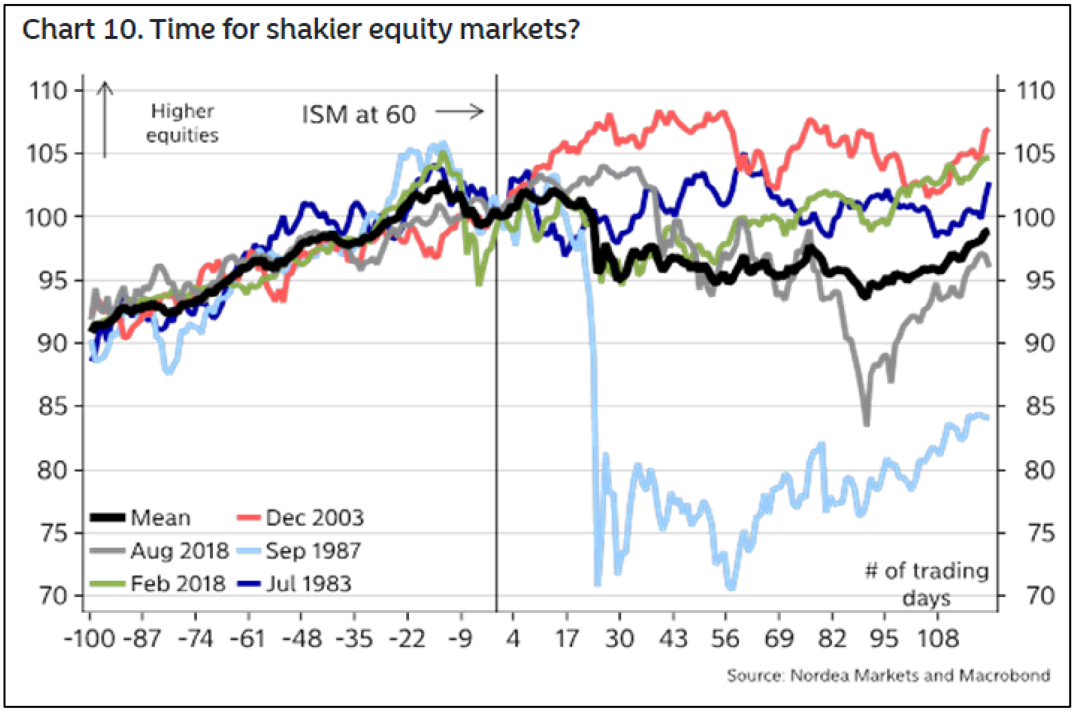
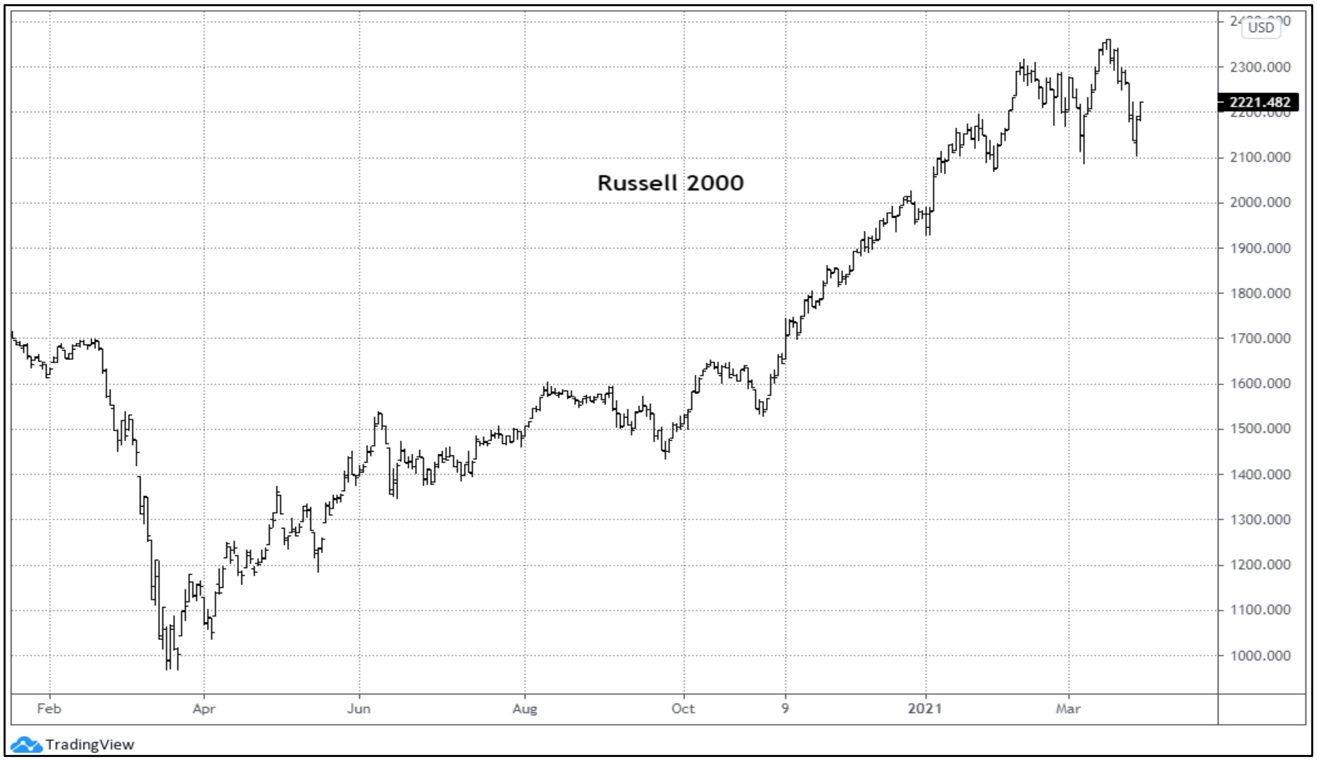
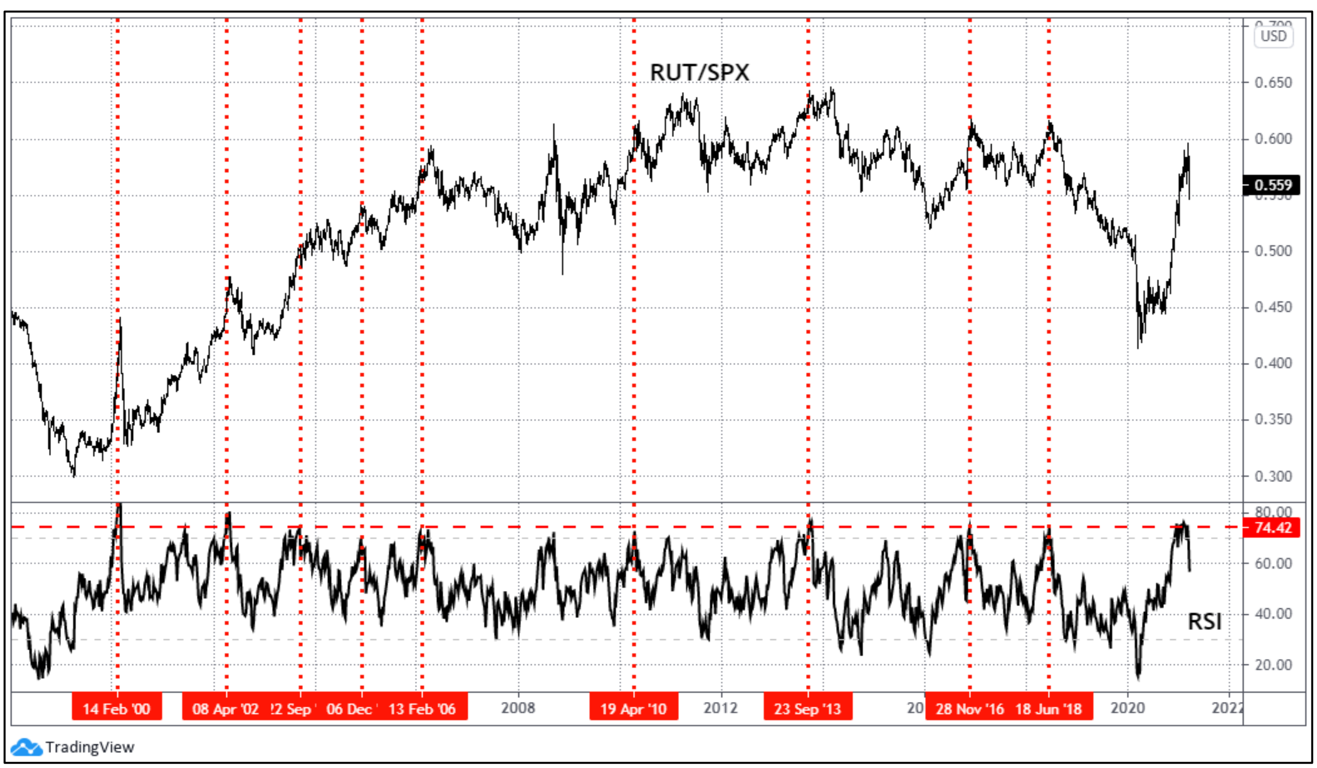


Many of the beneficiaries of the stay at home trade, such as global mega cap tech have continued to be out of favor.

On the other hand, after a blinding run, the Russell continues to digest its outstanding performance since November. Both on an absolute …



And relative basis…



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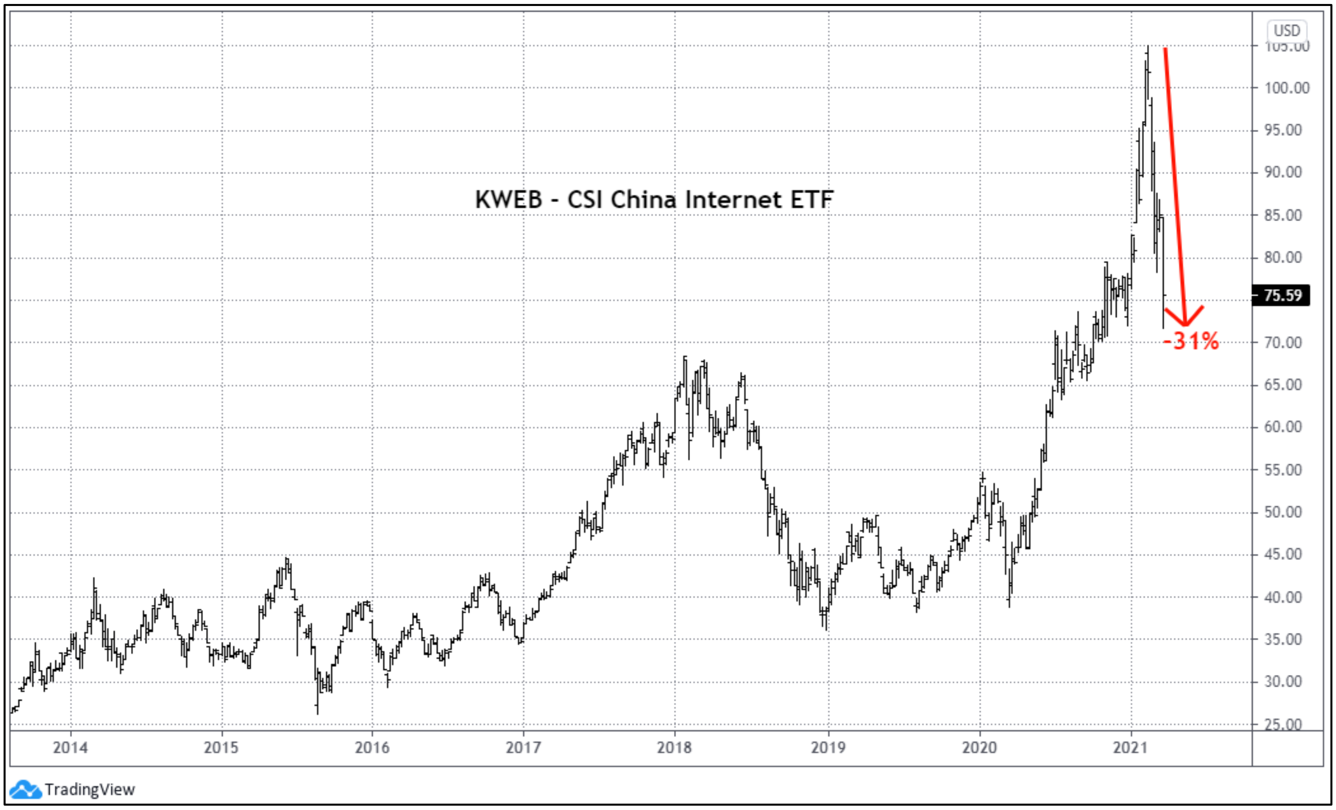
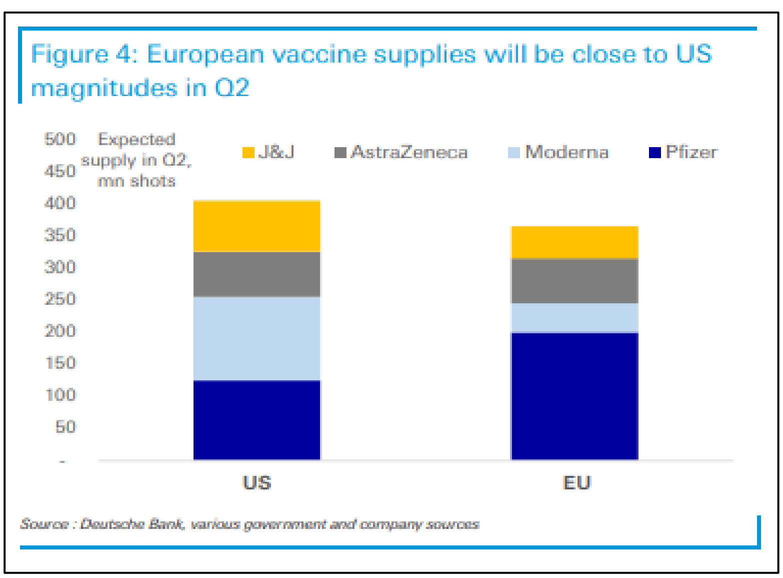
Hitting new lows with Friday's liquidation, Chinese tech has had a tough run.



While Europe has held up relatively well, prices haven't been able to push on, so far. The fundamentals have remained largely poor, with continued lockdowns and regional spikes in infection.

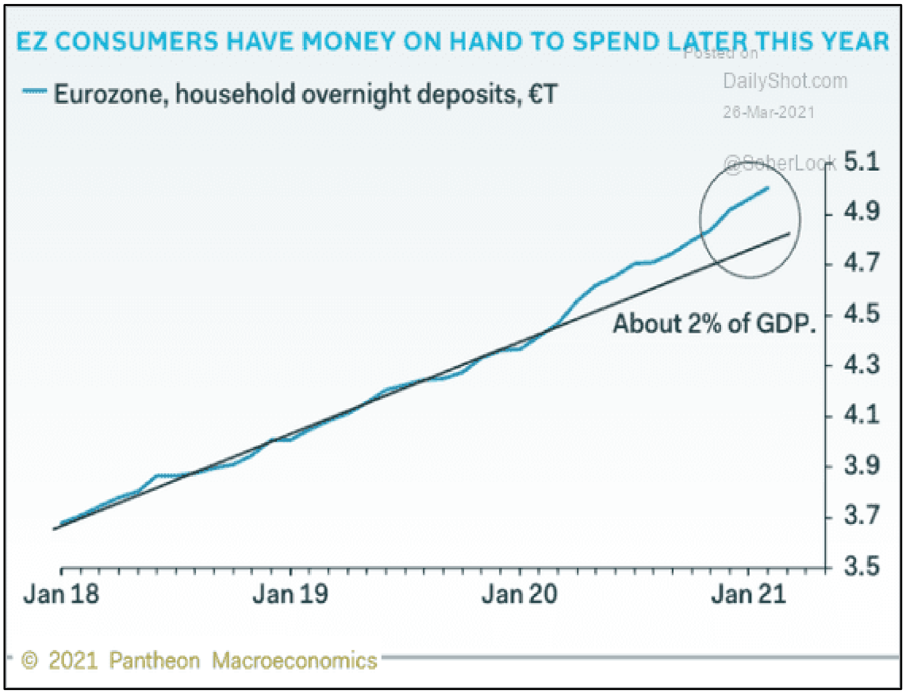
The lack of available vaccine became an especially sore subject last week as it was revealed that 77mln doses of vaccine, 42% of vaccine produced in the EU, had been exported to the rest of the world.



However, there remains hope that the situation will soon turn around and that while delayed, the service sector will start to get back on its feet in the coming months.

In the meantime, manufacturing has been very strong, as the flash PMI's indicated. The final versions are out this week and should help confirm that the manufacturing recovery in Europe is underway.

There does seem to be money in the consumers' pockets that is ready to spend.



However, with the US performing so much better than most other countries there has been very little sponsorship of European equities by investors so far…

Table 4: Net fund flows to global equities, $mn

Global equity flows by region

	Wk % AUM	YTD
Total Equities	**0.0%**	**350,892**
long-only funds	0.0%	85,517
ETFs	0.0%	265,297
Total EM	**0.1%**	**63,138**
Brazil	-1.6%	234
Russia	-0.4%	24
India	-0.2%	-234
China	0.6%	18,889
Total DM	**0.0%**	**287,754**
US	-0.1%	128,062
Europe	0.0%	-211
Japan	0.3%	13,146
International	0.3%	142,462

Total Equities = Total EM + Total DM

Source: EPFR Global

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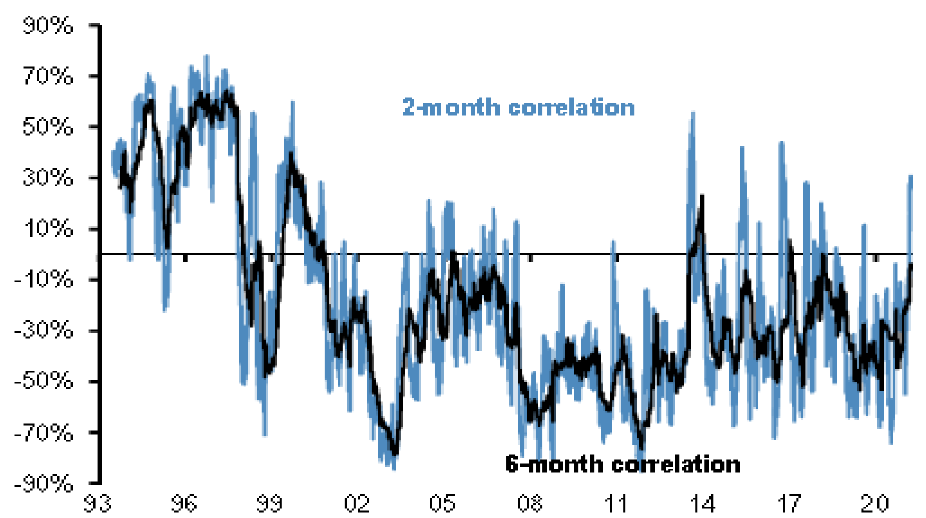
Still, the technical set-up is interesting as we bump against the top of a long-standing range.

A pattern very reminiscent of what we recently saw in Japanese equities … that was some break!

With markets nervous about rising bond yields, correlations have been on the rise.

Figure 3: Bond-equity correlation

2- and 6-month rolling correlation between daily returns of MSCI World Local vs. GBI Global hedged into USD indices.

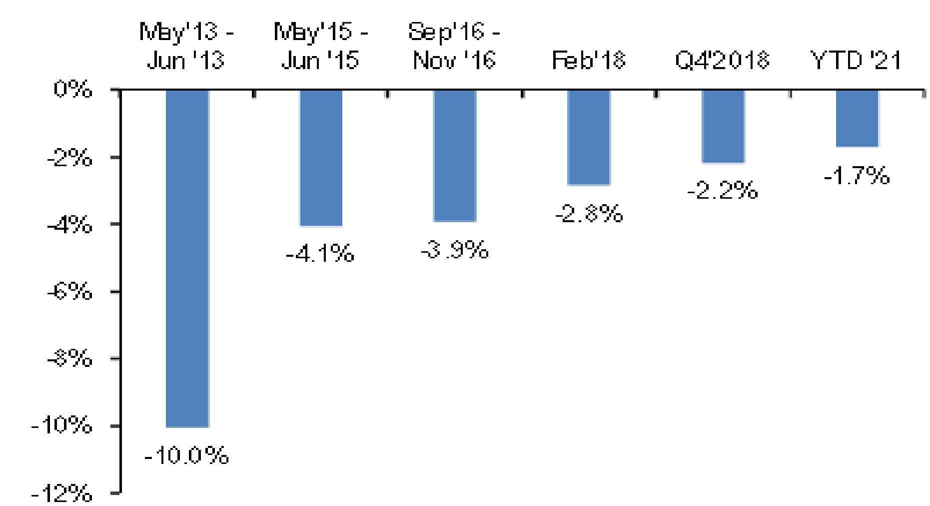


Source: Bloomberg Finance L.P., J.P. Morgan

Usually not a very good environment for Risk-Parity strategies, as you might expect.

Figure 7: Performance of risk parity funds during positive bond-equity correlation episodes

In %

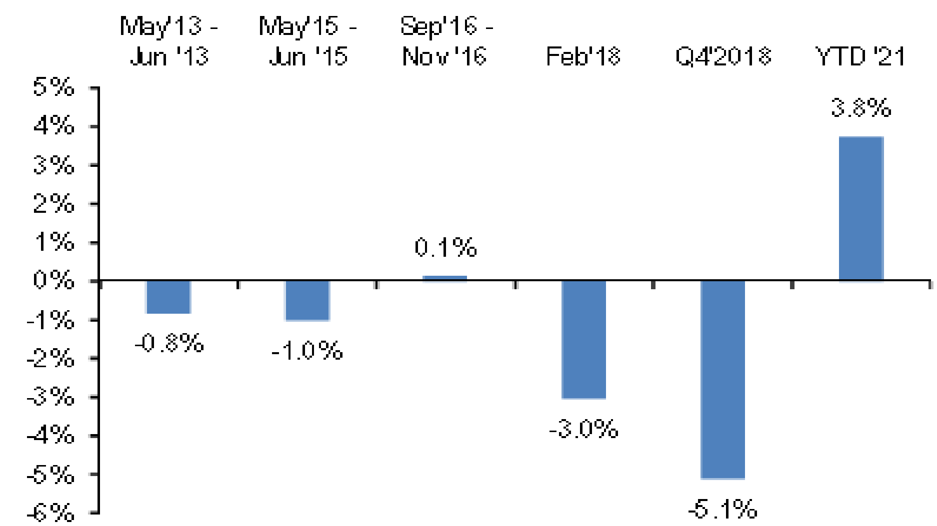


Source: HFR, Bloomberg Finance L.P., J.P. Morgan.

Nor is it usually a very good backdrop for Balanced strategies. So far, this year has been a bit of an exception.

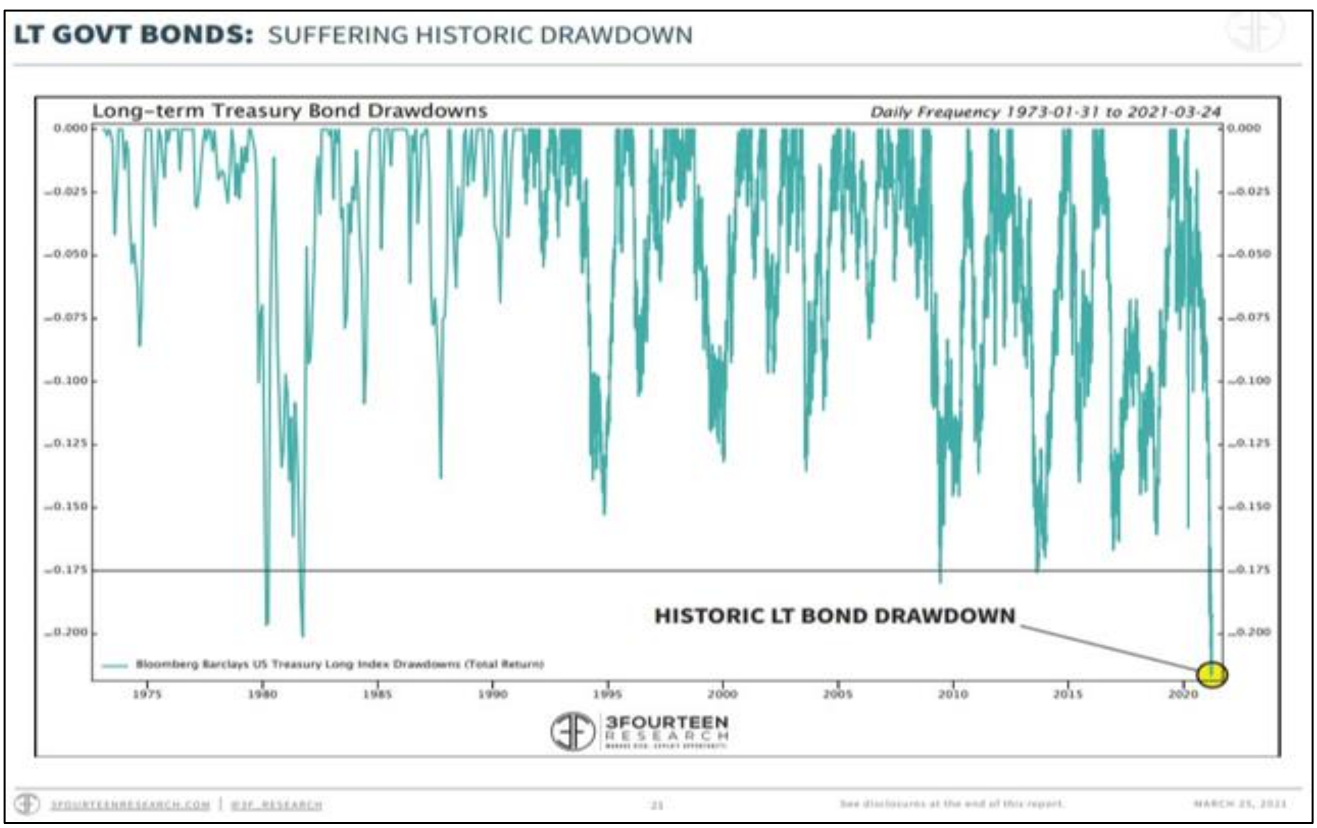
Figure 8: Performance of US balanced mutual funds during positive bond-equity correlation episodes

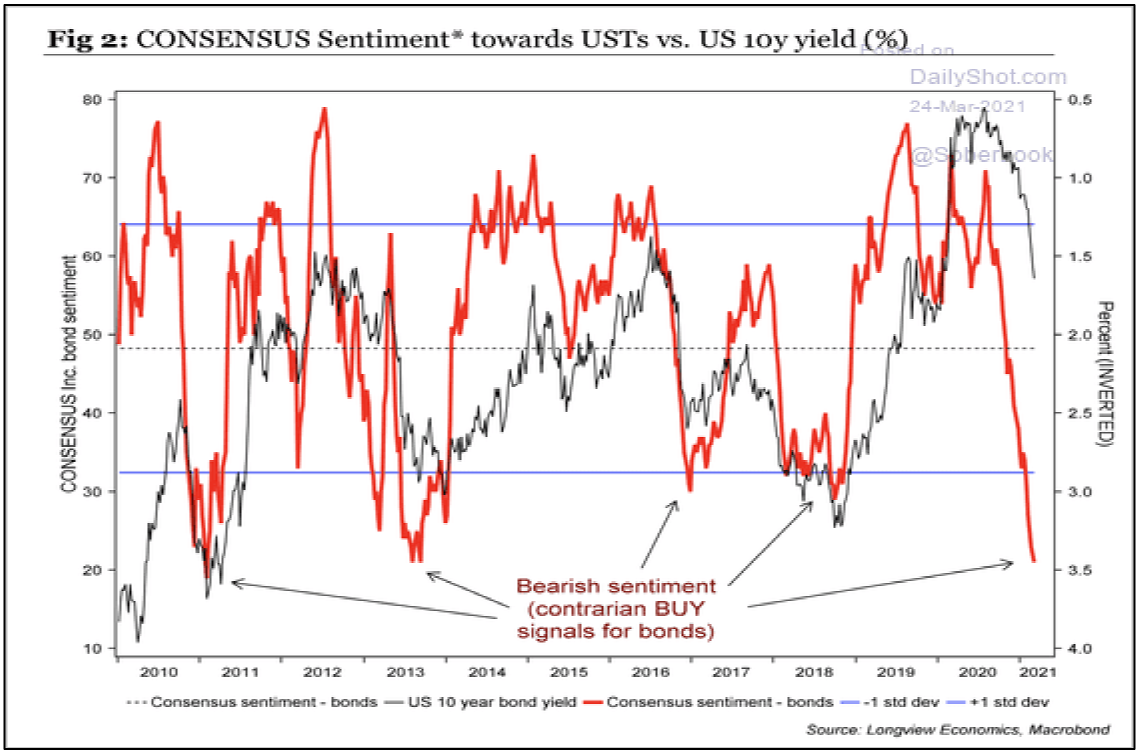
In %

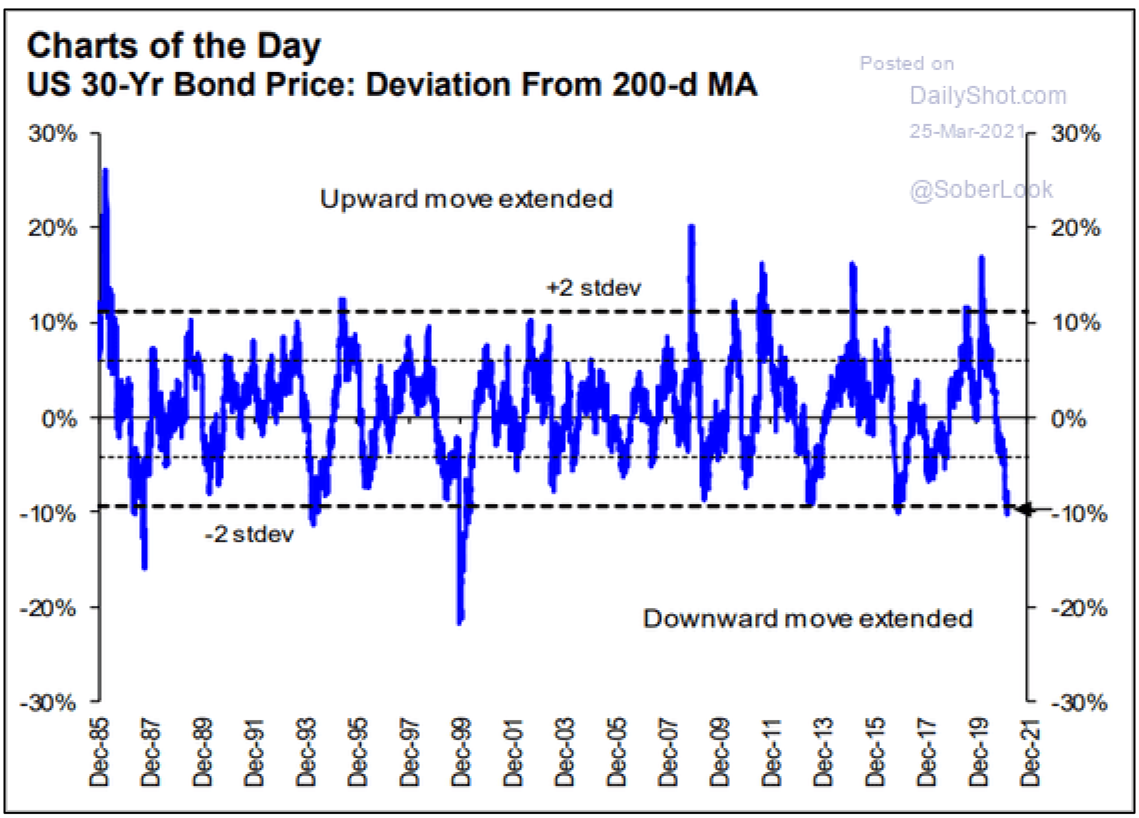


Source: Bloomberg Finance L.P., J.P. Morgan.

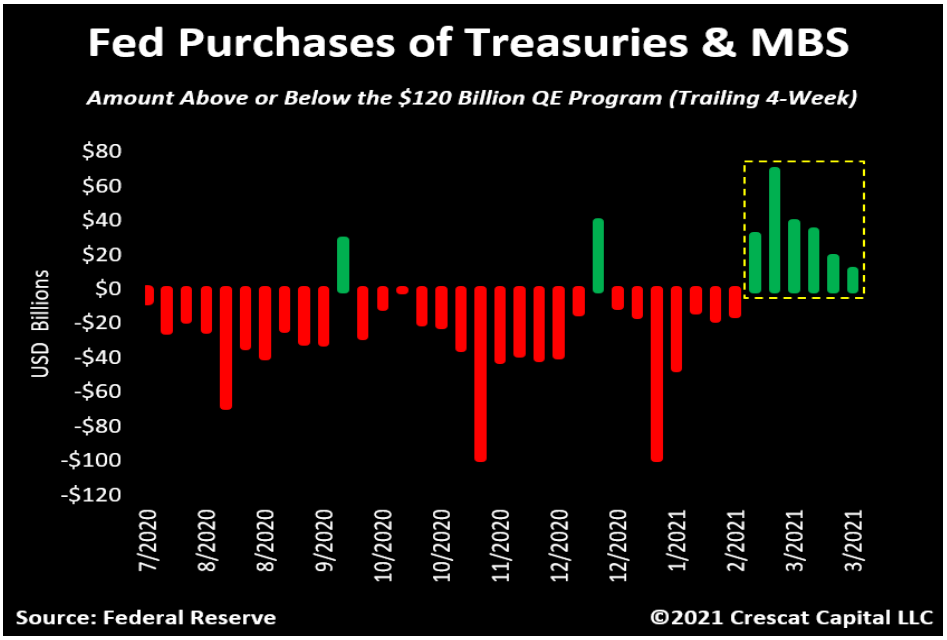
Bonds – As discussed last week, bonds have come a long way in terms of price pain, sentiment, and positioning. There are lots of charts with which to illustrate this. It hasn't mattered yet.



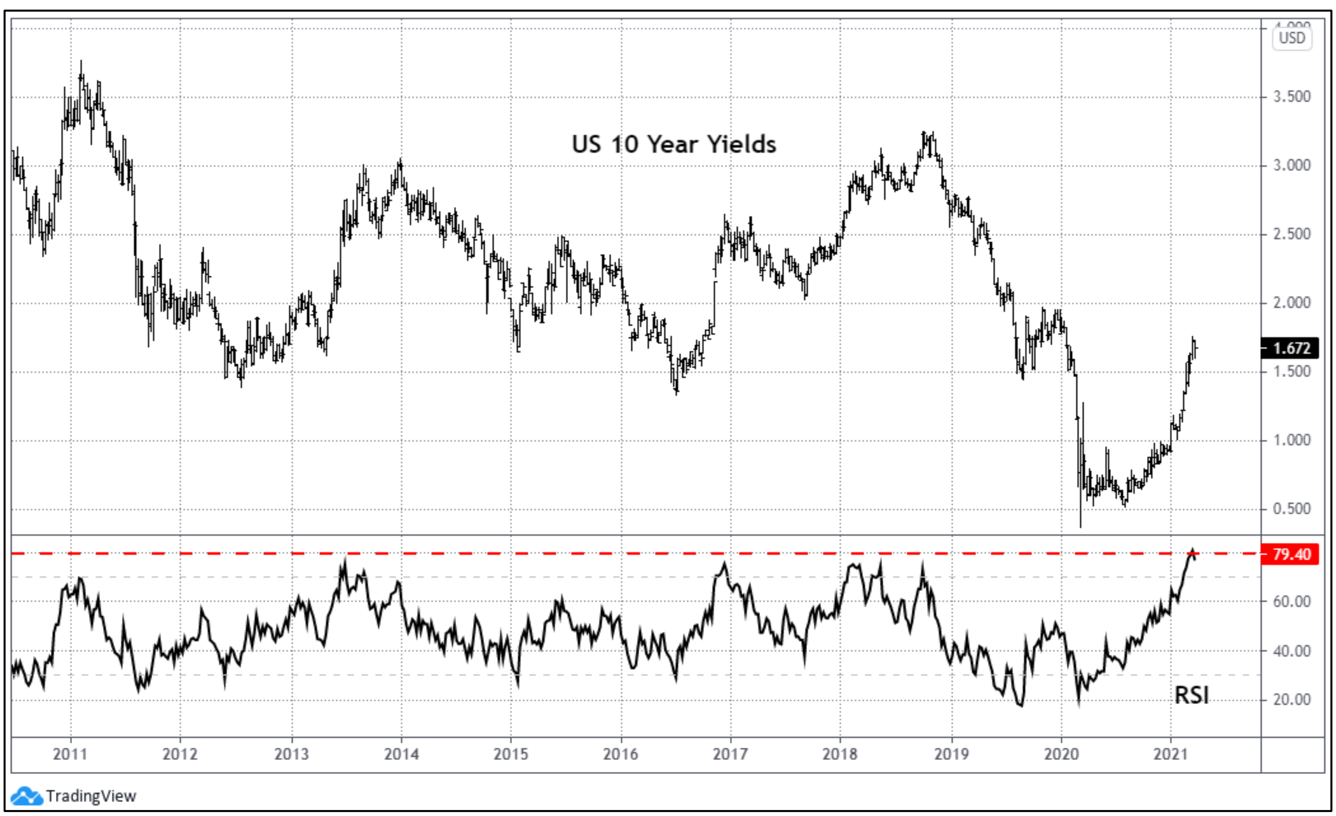




It is interesting to note that the Fed seems to be front loading its purchases a bit. Perhaps "smoothing" the move.



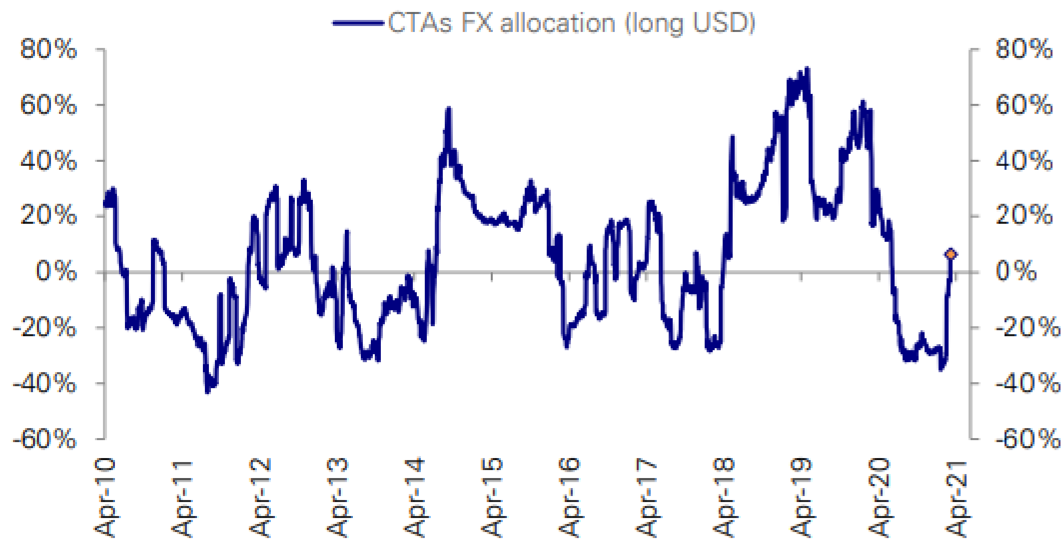
Last week posted the first down week, after 7 up-weeks in a row. While still close to extremes in terms of sentiment and stretched in price terms, we are also now entering the period of potentially much stronger growth and inflation data. As the two clash, markets should remain volatile.



FX

As the dollar has surprised many with its resilience, short positioning is being cut.

Figure 27: CTA allocations in FX (long USD)



Source : Deutsche Bank Asset Allocation, Bloomberg Finance LP, Data as of 25-Mar-21

For now, economic outperformance and widening interest rate differentials are the driver.

Figure 59: No clear trend between big bond bear markets and USD

Largest losses to US Treasury portfolios since 1990s

Rank	Start	End	Duration	Size	3m After	USD move
			days			
1	Dec-08	Jun-09	125	-7.2%	5%	-1.4%
2	Feb-94	May-94	52	-6.7%	1%	-0.9%
3	Jun-03	Aug-03	45	-6.6%	5%	4.1%
4	Jul-16	Dec-16	116	-5.8%	3%	5.7%
5	**Aug-20**	**?**	**158**	**-5.7%**	**?**	**-2.4%**
6	Mar-04	May-04	42	-5.3%	5%	4.0%
7	Oct-98	Jun-99	180	-5.3%	3%	-0.4%
8	Nov-01	Dec-01	29	-5.2%	5%	0.3%
9	Mar-20	Mar-20	8	-5.0%	5%	6.9%
10	Feb-96	May-96	59	-4.7%	6%	0.1%
Median			*56*	*-5.5%*		*0%*

Barclays Bloomberg bond aggregate used for bond portfolio, calculated as peak to trough drawdown

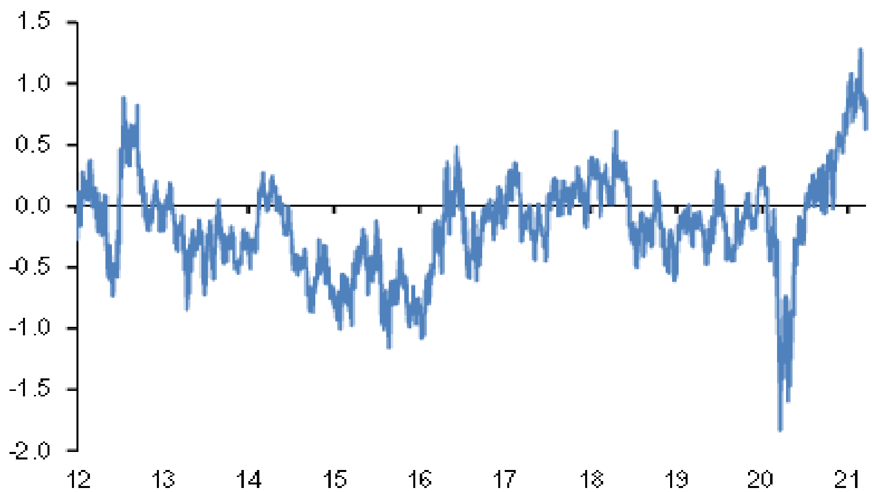
As always, the dollar matters a lot, and a persistent and extended rally will often contribute to higher volatility in markets. The Fed will be watching for signs that it is tightening financial conditions. Not an issue at this point.

The relative nature of what is going on in terms of growth, fiscal and monetary policy at the time, makes it hard to see a good relationship between prior periods of rising bond yields.

Commodities - The recent momentum across commodities has been striking but has now paused as more differentiation kicks in.

Figure 14: Weighted average of momentum signals across commodity futures contracts.

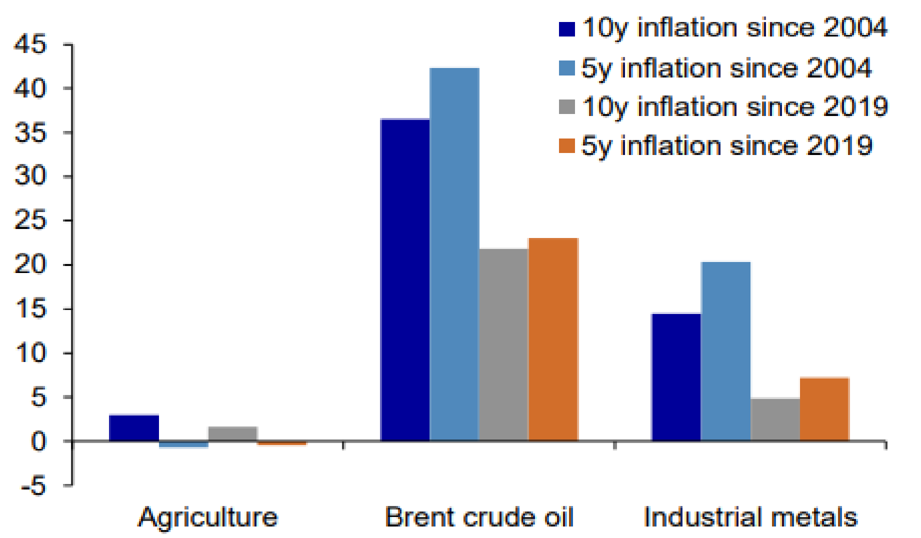
See Tables A5 and A6 in the Appendix for more details of our momentum signal framework



Source: Bloomberg Finance L.P., J.P. Morgan.

Oil of course matters a great deal in global markets, but it also has a big effect on inflation expectations. Something to keep in mind.

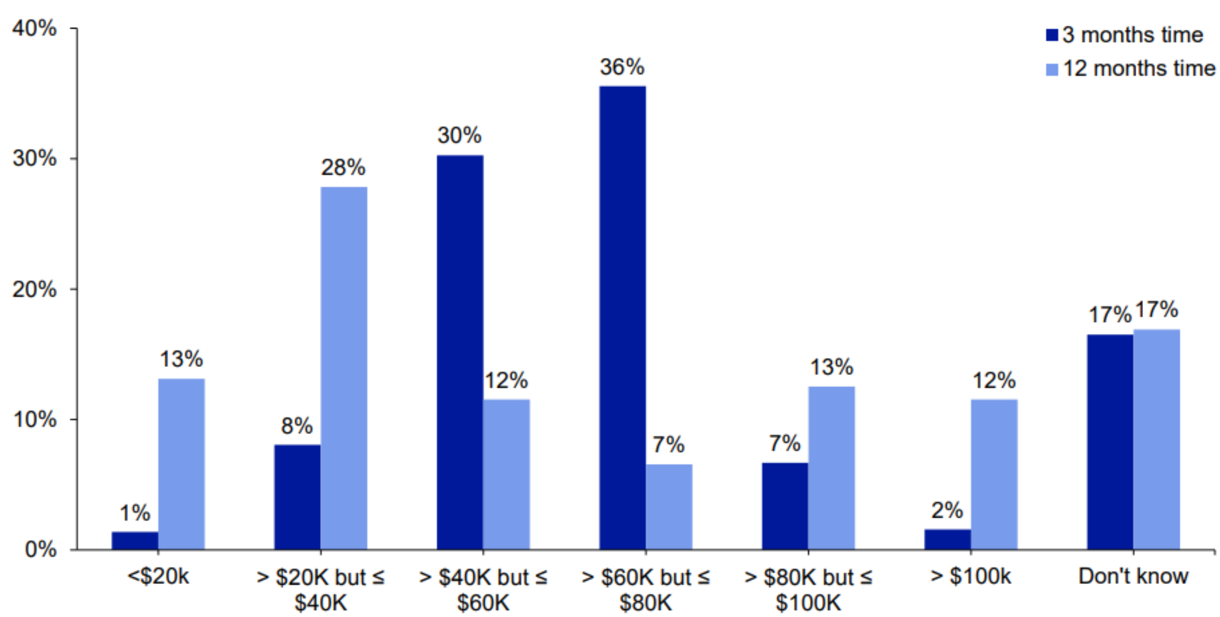
Statistical significance of commodities in predicting inflation



Source: Deutsche Bank

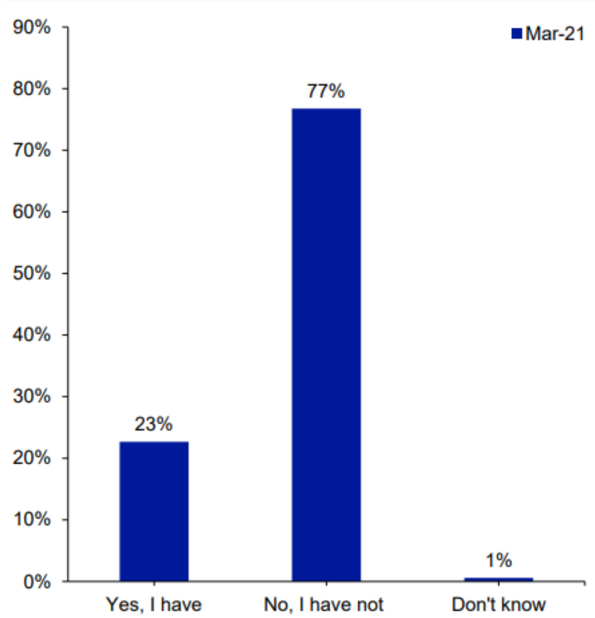
With Gold still on the ropes and lots of talk about Bitcoin being the new Gold, here are a couple of interesting charts from a recent DB survey. It's partially an age thing, not surprisingly.

Looking at the following periods, where do you think the Bitcoin price will be... For reference, for most of this week Bitcoin has been priced at between $55k and $60k



Source : dbDIG Survey, Deutsche Bank Research

Have you ever bought Bitcoin for your personal investments?



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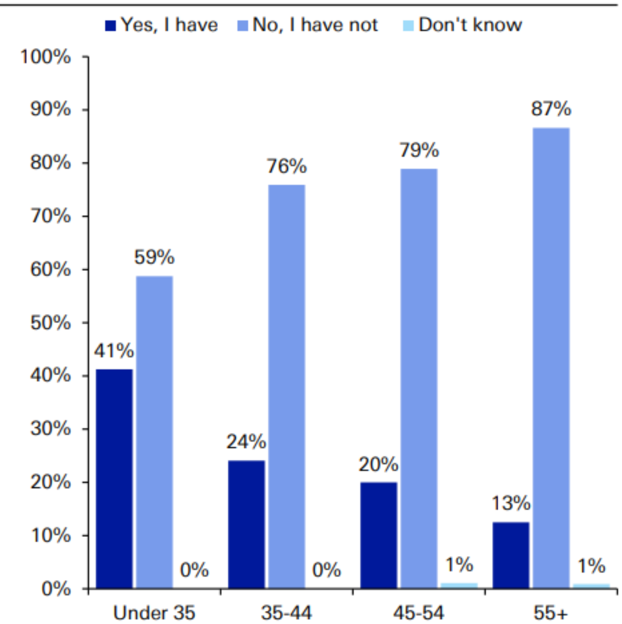

Source : dbDIG Survey, Deutsche Bank Research

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Final PMI's across Europe and for the US, after last week's flash numbers, combine with US employment data, to make it an interesting data week.

Last week's flash manufacturing PMI's were very strong, particularly in Europe. With the big beat in jobless claims last week the market is looking for a large increase in nonfarm payrolls in March. Most estimates are in the 650-675k range with a drop in the unemployment rate to 6%.

With Good Friday on April 2nd financial markets will be closed in multiple countries for the holiday.

Important Macro Data Releases and Events for the Week

Monday
3/29/2021

- BoJ Summary of Opinions
- Retail Trade

Tuesday
3/30/2021

- Consumer Confidence (Mar) Forecast: -10.8, Prior: -10.8
- Business Climate (Mar) Forecast: , Prior: -0.14
- Harmonized Index of Consumer Prices YoY (Forecast: 2%, Prior: 1.6%
- Housing Price Index MoM (Jan) Forecast: -, Prior: 1.1%
- S&P/Case-Shiller Home Price Indices YoY (Jan) Forecast: 2%, Prior: 1.6%
- Consumer Confidence (Mar)
- Fed's Quarles and Williams Speeches
- Non-Manufacturing PMI (Mar) Forecast: 52.6, Prior, 51.4
- NBS Manufacturing PMI (Mar) Forecast: 51, Prior: 50.6

Wednesday
3/31/2021

- CPI-Core YoY (Mar) Forecast: 1.1%, Prior: 1.1%
- CPI YoY (Mar) Forecast: 0.9%, Prior: 0.9%
- President Biden SPEECH

	ADP Employment Change (Mar) Forecast: 550k, Prior: 117k
	Chicago PMI (Mar) Forecast: 60.3, Prior: 59.5
	Pending Home Sales MoM (Feb) Forecast: -2.6%, Prior: -2.8%
	Tankan Large Manufacturing Index and Outlook
	Caixin Manufacturing PMI (Mar) Forecast: 51, Prior: 50.9
Thursday 4/1/2021	Retail Sales YoY (Feb) Forecast: 1.3%, Prior: -8.7%
	Markit PMI's Across Europe
	Initial Jobless Claims Forecast: -, Prior: 690k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 736k
	Continuing Jobless Claims -, Prior: 3.87 M
	Economic Bulletin
	Markit Manufacturing PMI (Mar) Forecast: -, Prior: 59
	ISM Manufacturing PMI (Mar) Forecast: 61.2, Prior: 60.8
Friday 4/2/2021	**Nonfarm Payrolls (Mar) Forecast: 655k, Prior: 379k**
	AHE YoY (Mar) Forecast: 4.6%, Prior: 5.3%
	AHE MoM (Mar) Forecast: 0.1%, Prior: 0.2%
	Labor Force Participation Rate (Mar) Forecast: -, Prior: 61.4%
	Unemployment Rate MoM (Mar) Forecast: 6%, Prior: 6.2%
	U6 Underemployment Rate (Mar) Forecast: -, Prior: 11.1%

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