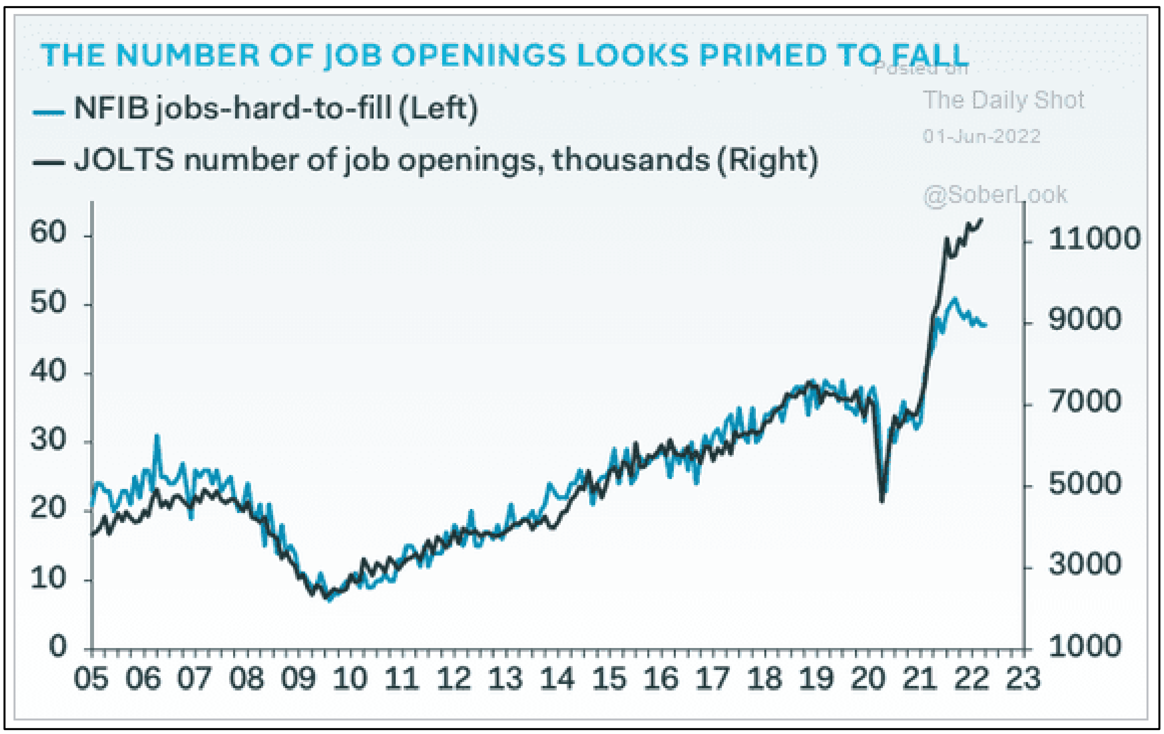
What to focus on in Global Macro for the week of June 6th, 2022

Uncertainty is making it hard to maintain much conviction at the moment, as reflected in the gyrating markets.

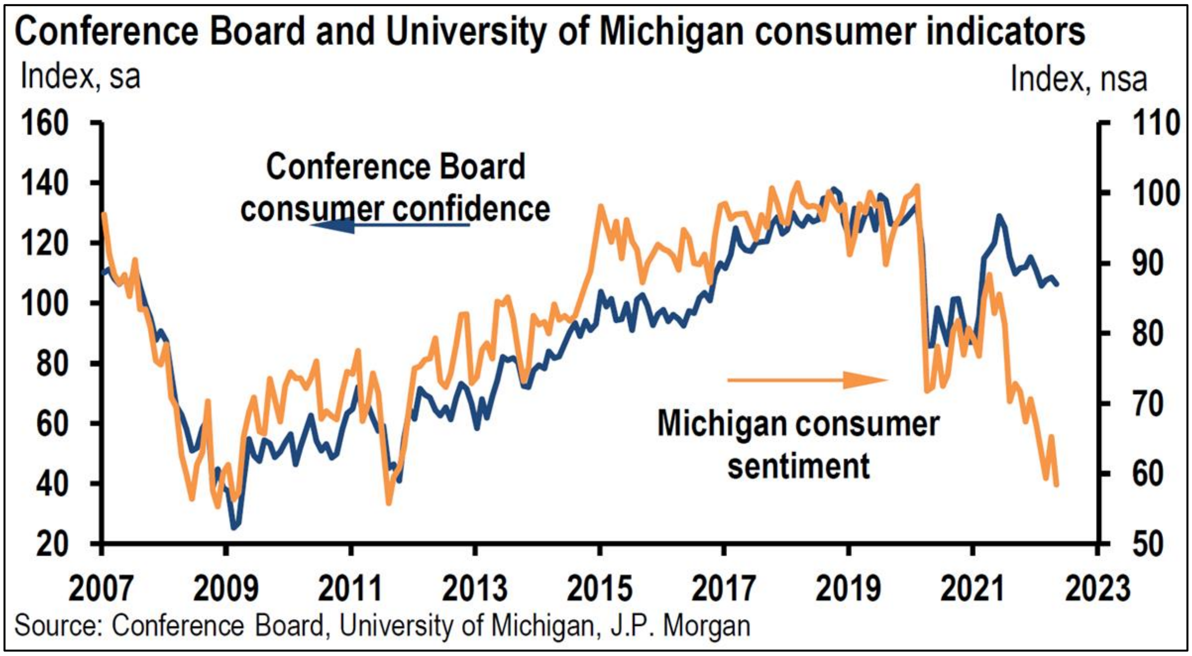
The awkward combination of still high inflation (most expect it to fall) and still low unemployment (most expect it to rise) is delivering an environment where strong data is bad and weak data is good, as the Fed looks for signs that demand destruction is starting to slow the economy. There are early signs that employment is at a minimum starting to come off the boil given reduced expectations in surveys and the announcements of hiring freezes in the technology sector. However, so far, we have not seen much deterioration in the labor market via either payrolls or jobless claims.



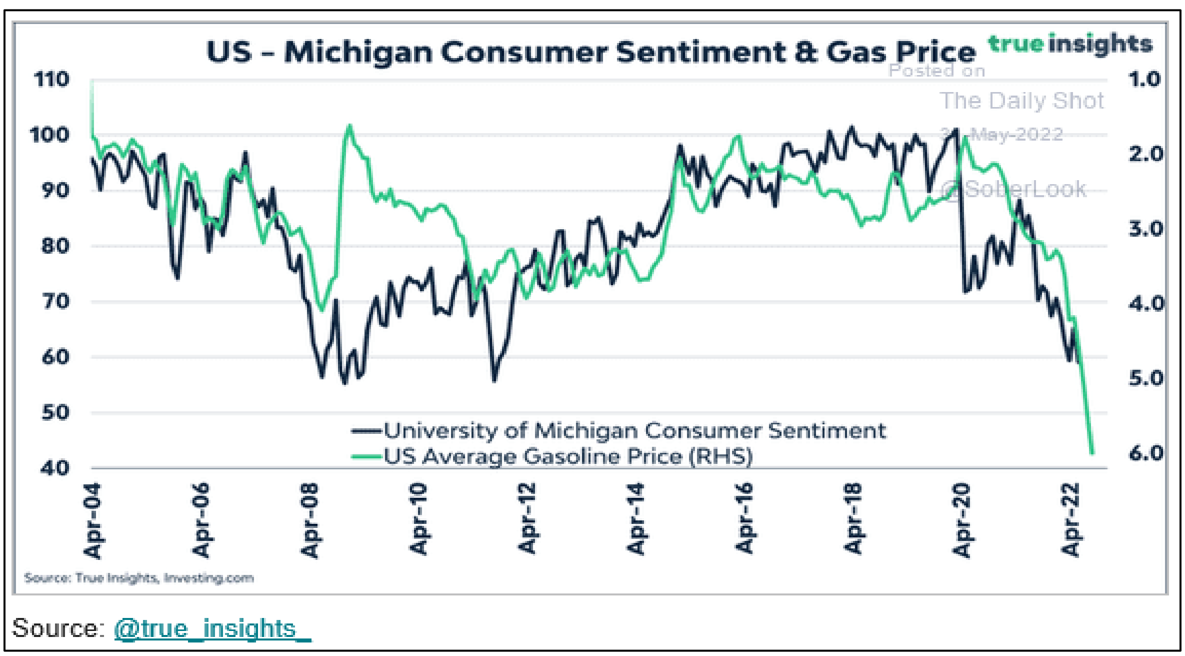
A rapid jump in market rates/yields, lower equity prices, a stronger dollar, and wider credit spreads have combined to tighten financial conditions. The Fed has openly said that they are happy to see this tightening and members have broadly kept up the pressure, although a few, like Bostic, have started to talk about a potential pause in rate hikes come the Fall. September seems like a long way away as we have no idea how soon the economy will slow or how quickly when it starts.

There are plenty of people worried about the difficult economic mix we are facing. Everyone from Jamie Dimon to Elon Musk has commented on how difficult times may be ahead. However, so far, it has mostly been inflation that has everyone worried.

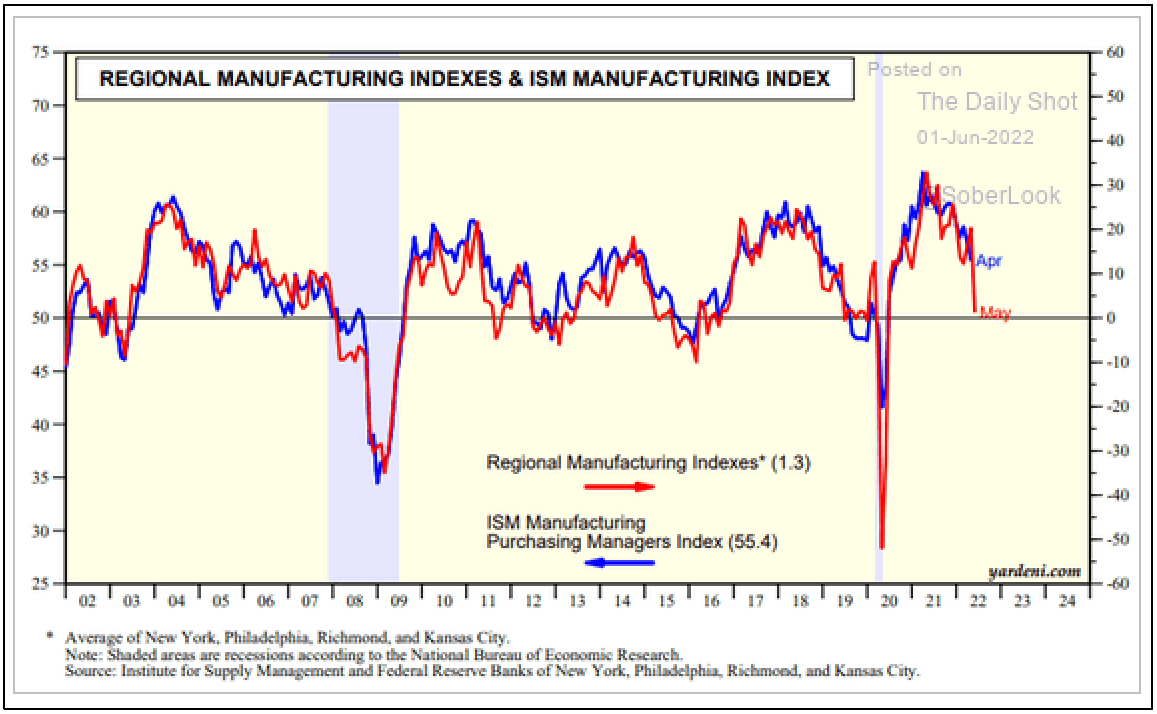
Different surveys of consumer confidence capture inflation concerns to different degrees and as such are diverging.



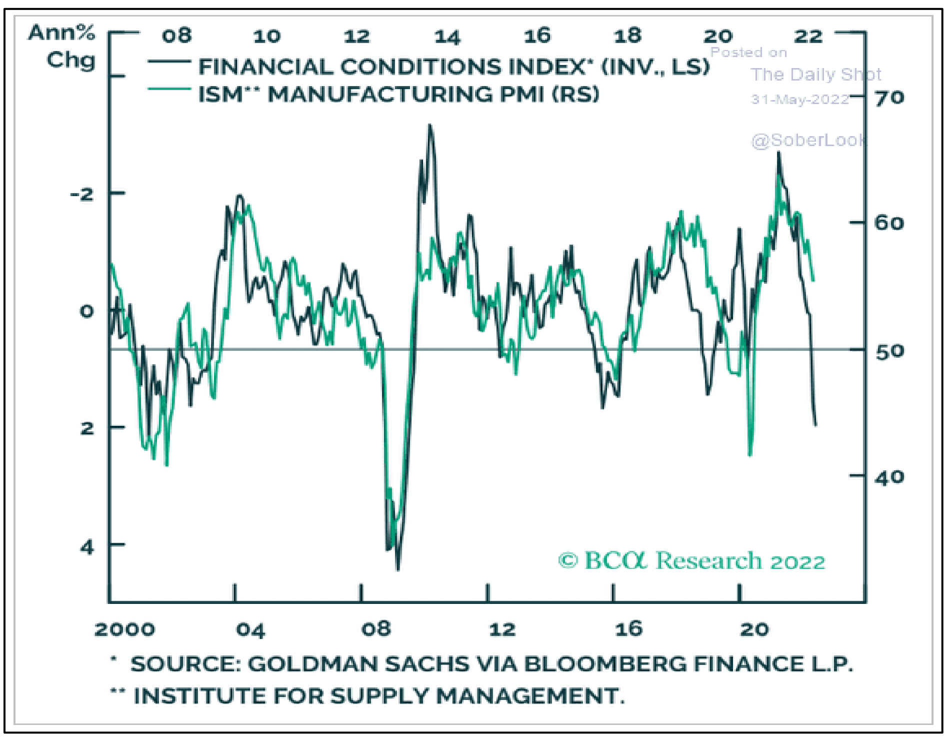
Everyone points to the plunge in the U. Michigan Consumer Sentiment Index, however, that is heavily influenced by energy prices.



Regional manufacturing indexes have been deteriorating and they often lead the broader ISM Manufacturing data.



Tighter financial conditions often lead the ISM as well.

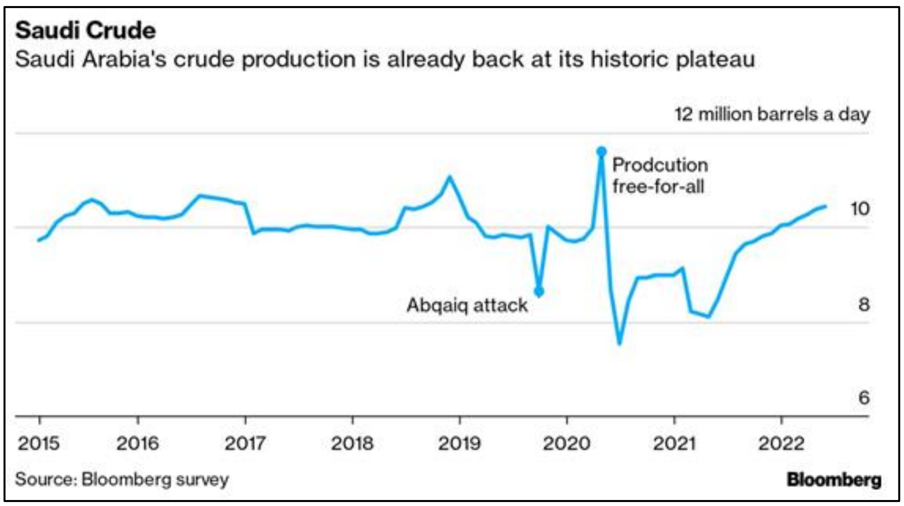


Larry Summers, who has been calling the environment well, last week pointed to some indications of a turn in labor demand and increasing stockpiles of unsold goods, refereeing to the rise in inventories (new orders are starting to fall as a result). Albeit, from a very firm footing.

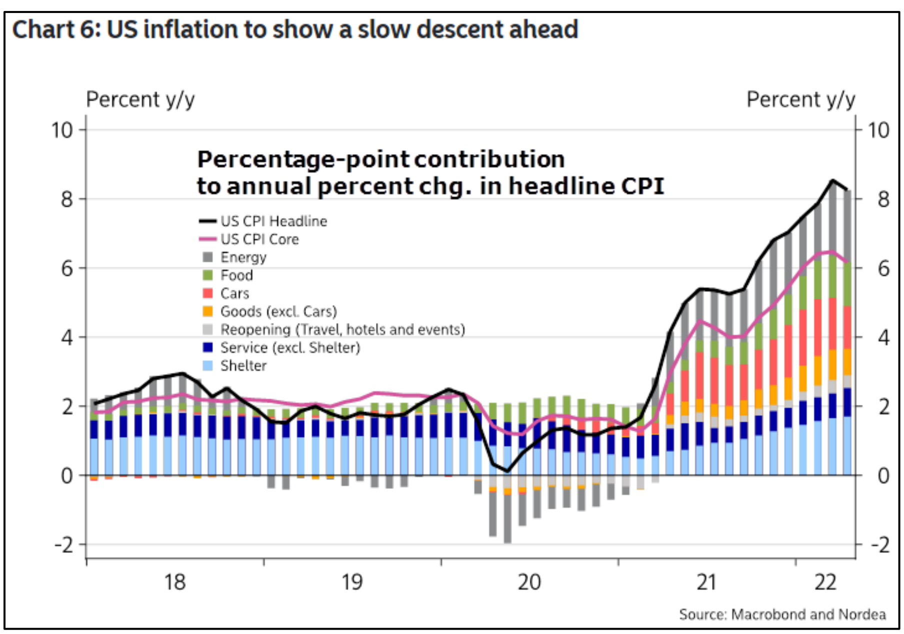
With the big jump in mortgage rates, the housing market is starting to soften. Summers expects a recession will result from the Fed's need to reduce demand. I would say that is likely, but when? Also, how much is already priced vs. what we actually get? This isn't a market for grand plans or high conviction narratives, just for staying one step ahead.

With energy not yet giving in to higher rates or showing any real signs of demand destruction, will the presumed drop in inflation be even slower than the already revised estimates, forcing a higher terminal rate?

With OPEC already struggling to reach its production targets, the market shrugged off the token supply boost that was announced last week. It amounts to just 0.4% of global demand during July and August and is unlikely to be met in full in any case.



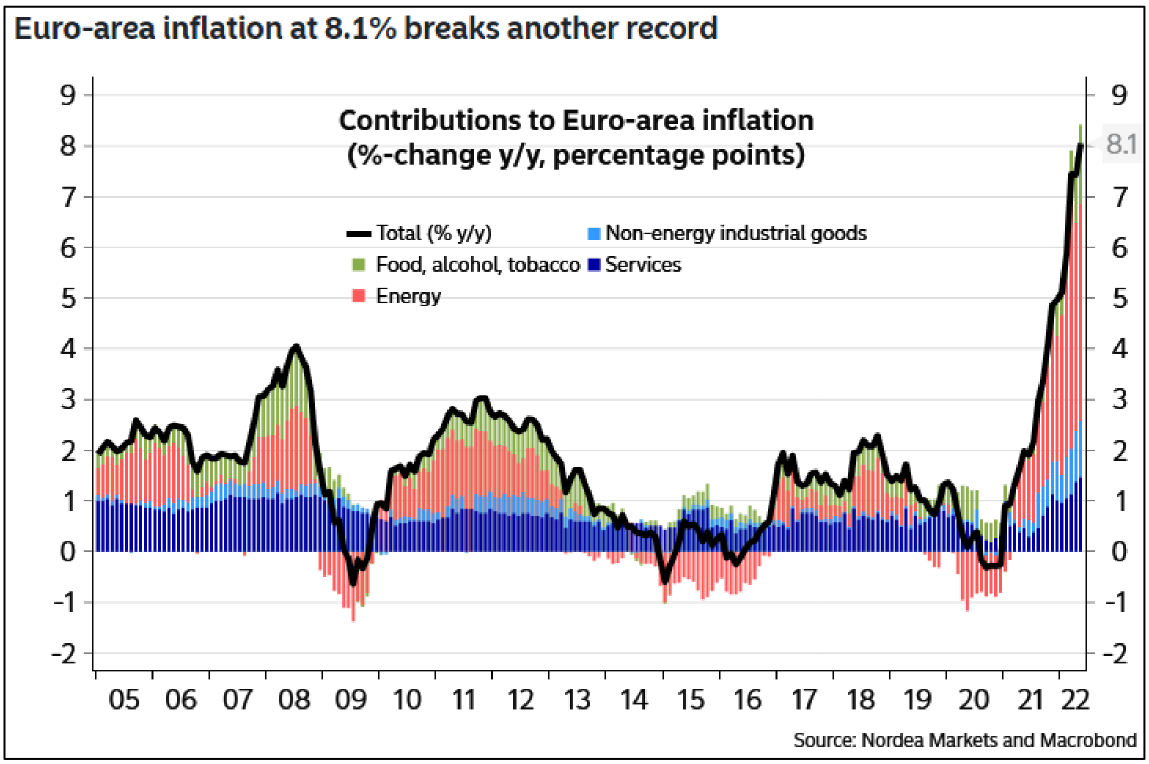
In the US, energy accounts for about 2 of the 8+% YoY increase in inflation.



ECB

With next Thursday's ECB meeting looming, members have upped the hawkish rhetoric in recent weeks. Despite Lagarde's earlier comments endorsing a gradual liftoff, several members have been calling for a 50bp initial hike. The ECB is expected to confirm that they will finally end asset purchases in July and hike rates 25bps, shortly afterward. The staff economic forecasts should be interesting as they are expected to show a downward revision to GDP growth but higher core inflation for longer.

In Europe, energy's contribution to the latest 8.1% headline inflation print is much bigger than in the US, coming in at close to 60%. With the sole inflation mandate of the ECB, they have no choice but to hike. I would think they will go slowly out of fear of a policy mistake given that they have few good options.

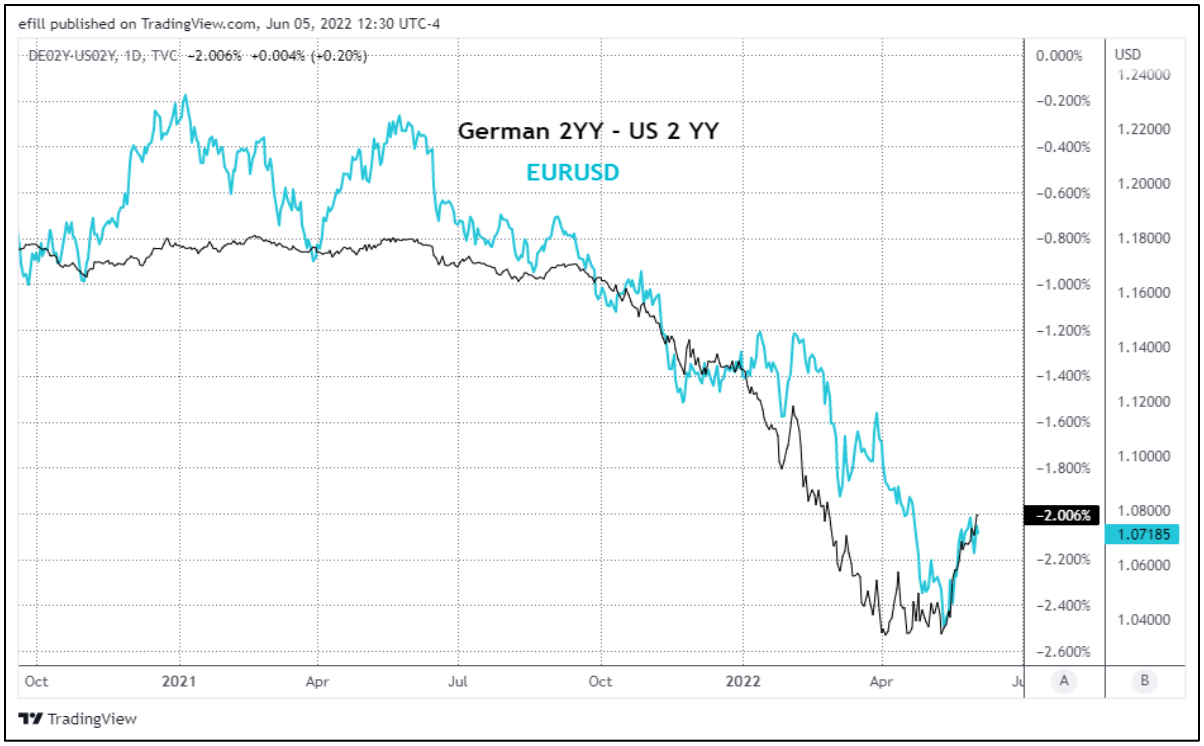


Over the last few weeks, market rates in the US have stalled while in Europe they have pushed on.

The sudden shift in the interest rate differential has been partially responsible for the recent EUR strength.

Add to that the recent recovery in the Yuan on hopes of easing lockdowns and more concerted government stimulus measures and it explains a good bit of the recent USD weakness.

Stargazer
Asset Management



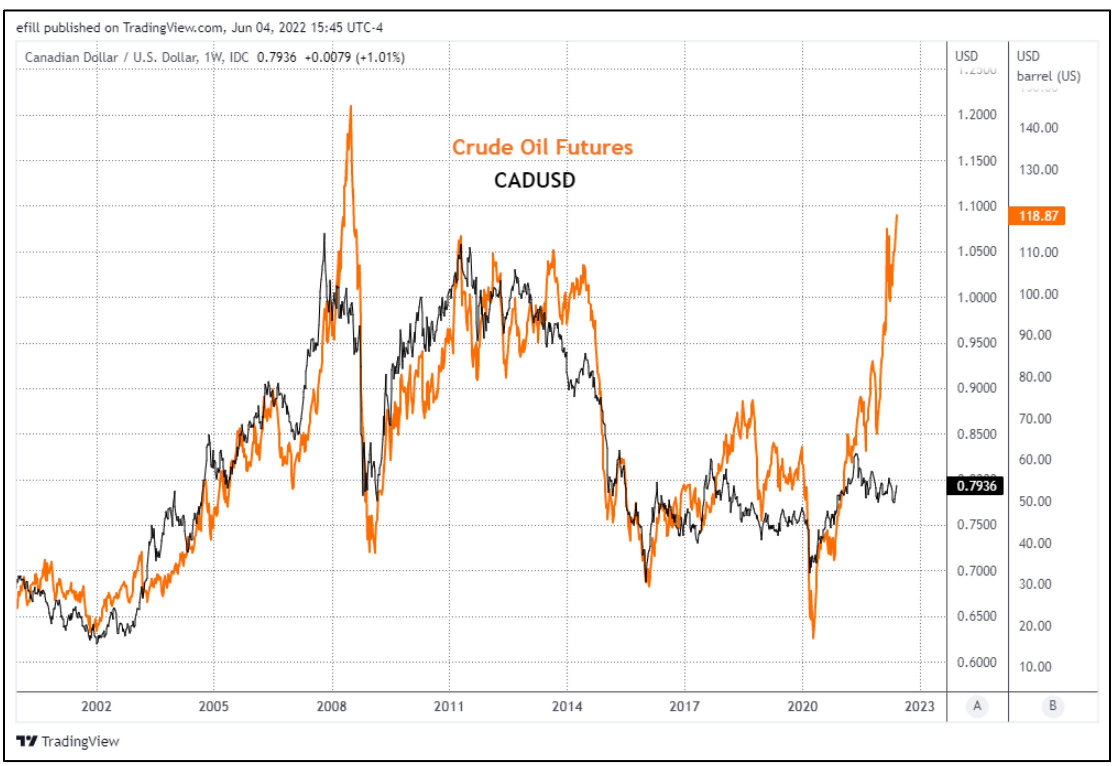
With shifting policy expectations, the dollar has dropped back from the 20-year highs it hit only a couple of weeks ago. I wouldn't be surprised if we see a range develop here for the time being.

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

A meaningfully more aggressive ECB would likely mean that the EUR pushes on but would come with its own problems. Italian vs. German yield spreads are now challenging the 210-215 bps area that in the past has served as a signpost for trouble. Given that the ECB plans to end asset purchases soon, they may need to come up with an alternative support mechanism for some of the member bond markets. Again, they are in a tricky spot.

Seen another way … it has been a problem since ’08, culminating with the debt crisis in ’11.

Beyond the interest rate differentials driving FX, the divergence between commodity currencies and the usually correlated underlying commodities remains starkly obvious. The generally strong dollar in a bullish commodity environment is certainly a factor, as are Chinese growth concerns.

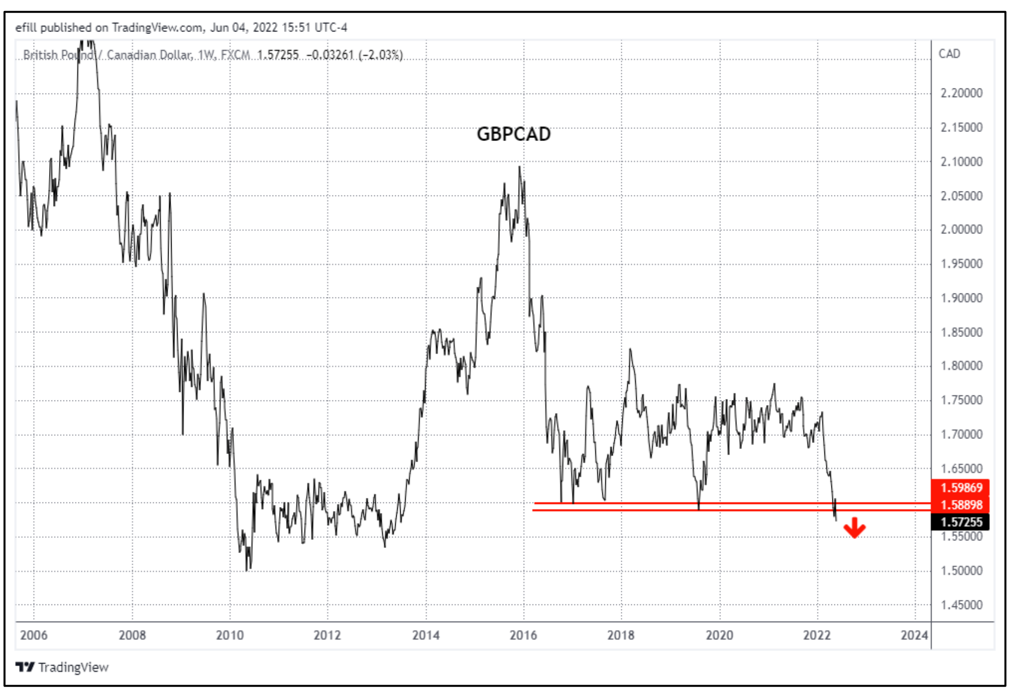


Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

However, if and when there is a catalyst for these instruments to be reunited the moves will likely be massive. So it is worth contemplating and watching.

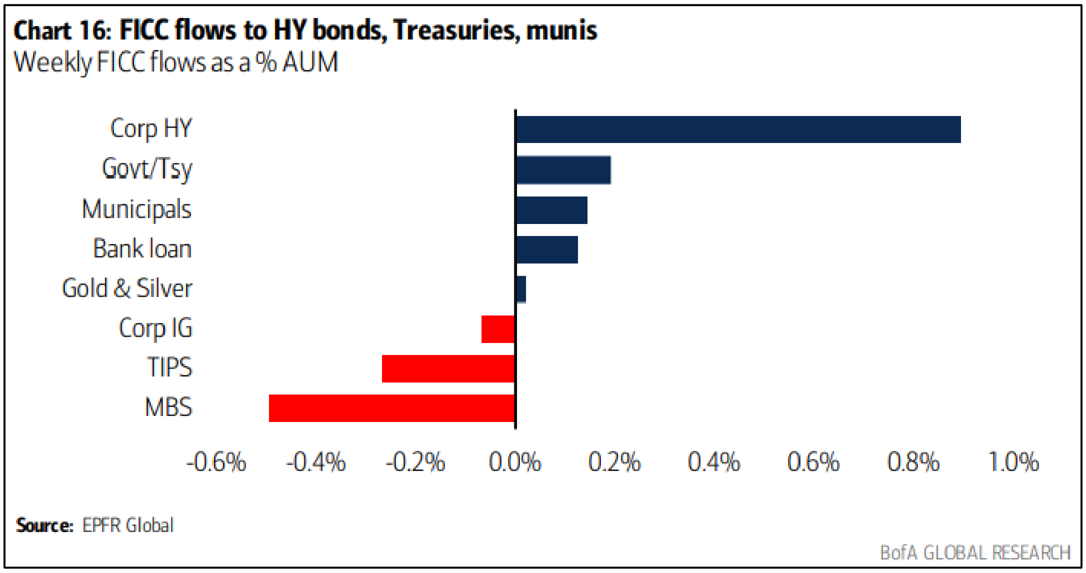
With the reasons for the divergences as of yet unresolved, it may be interesting to trade the continued commodity strength via crosses. GBP looks like an interesting candidate given that it will likely continue to face painful stagflationary pressures. The rate differentials have your back.

For CAD, the current account has even turned positive for the first time since 2008.



Credit

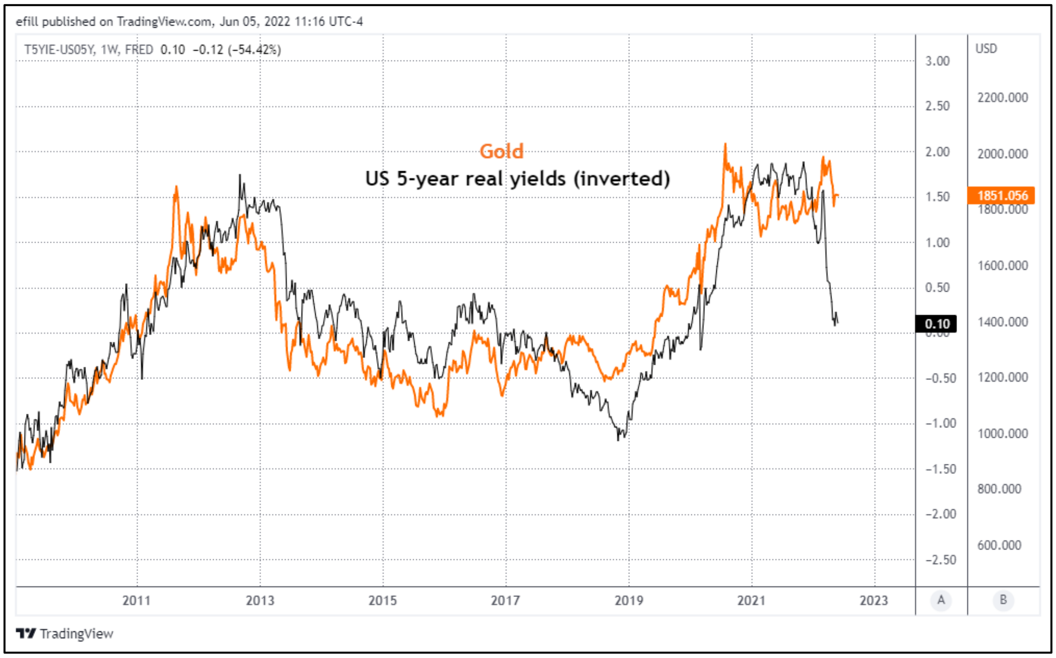
The on-again, off-again talk of a September Fed pause and the lift in equities off the lows seems to have been enough to get flows going into credit.



Without constantly higher yields, the equity market-sensitive spreads become the main driver of prices.

Stargazer Asset Management

Gold – We have not managed to close the week back above 1860, despite a number of attempts. Rates and the dollar continue to be the drivers locally. In the big picture, Gold has held in very well given the general USD strength and the rising real yields (inverted on the chart). Is that a sign of strength or is it just hanging on by one finger? I suspect there is some CB buying going on behind the scenes.



Wheat – So far, that Economist cover has done a reasonable job!

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

Stargazer
Asset Management

This week we have the ECB on Thursday and US CPI on Friday.

Important Macro Data Releases and Events for the Week

Monday 6/5/2022	Caixin Service PMI (May) - Sunday Night ET
Tuesday 6/6/2022	RBA Interest Rate Decision and Statement
	Factory Orders (Apr)
	Goods and Services Trade Balance (Apr)
	Ivey PMI (May)
	GDP (Q1)
Wednesday 6/7/2022	GDP (Q1)
	10-year Bund auction
	Trade Data (May)
Thursday 6/8/2022	**ECB Interest Rate Decision, Policy Statement, and Press Conference**
	Initial Jobless Claims
	Initial Jobless Claims 4-week average
	Continuing Jobless Claims
	CPI (May)
Friday 6/9/2022	**CPI (May)**
	Employment Data (May)

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

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.