Stargazer Asset Management

What to focus on in Global Macro for the week of October 26th, 2020

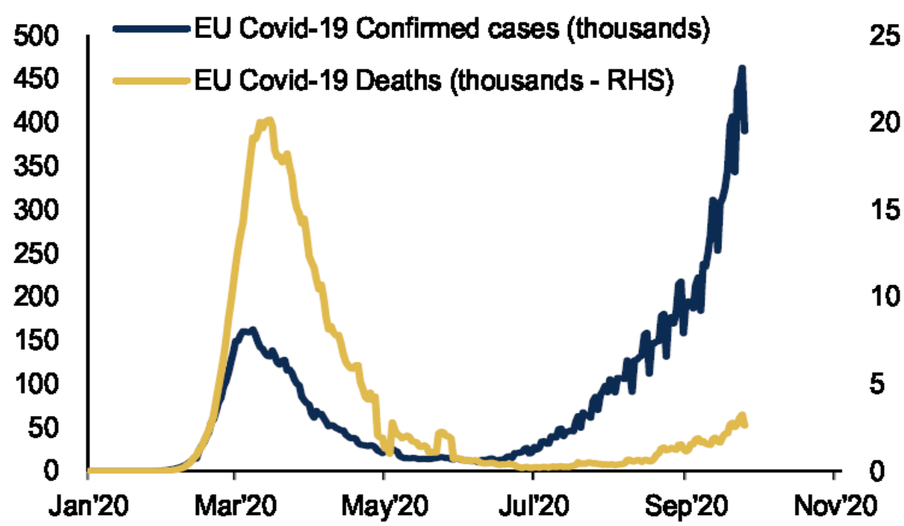
Macro Themes on the Radar:

ECB

The ECB meets on Thursday and while I probably wouldn't expect any policy tweaks at this meeting, expect them to address growing concern that the economic rebound is softening. Last week's PMI's were weaker than expected across the board. No doubt EUR strength will be mentioned, as will be the resurgence of COVID across the continent. Increasingly, restrictions on activities such as night-time curfews are being reinstituted as case-counts continue to rise. This has resulted in protests against renewed lockdowns in France, Italy and even Germany. While case counts are seen as a leading indicator of deaths, so far, the death rate has remained much lower than during the first wave. Let's hope that holds.

It is increasingly expected that the ECB will prepare the market for an increase in QE at the December meeting. This will probably come via an expansion of the PEPP program as it allows much flexibility in what can be purchased (capital keys).

Chart 5: EU Q4 surge in new COVID cases not matched by deaths

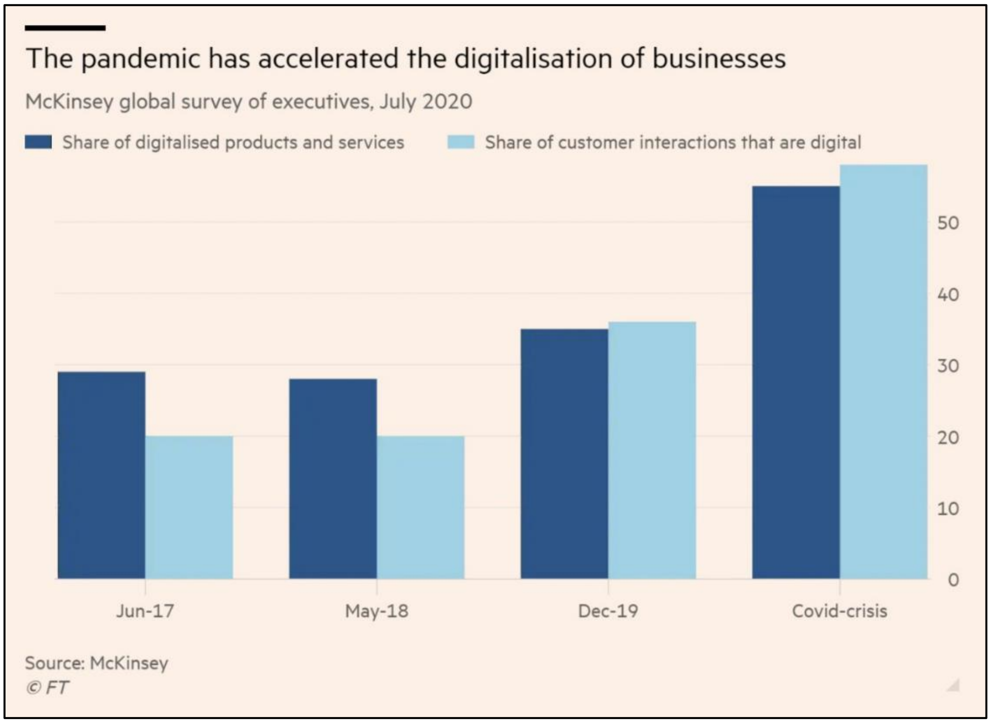


Source: BofA Global Investment Strategy, Bloomberg

With the EU recently completing its largest bond issuance yet, into overwhelming demand, expect the ECB to continue pushing fiscal policy via Green initiatives as the path of least resistance for supporting growth. Europe will be making a big push into renewables and Green energy in an attempt to become a leader in the industry. Interestingly, it is the already relatively prosperous northern European economies that have the industrial entities most likely to gain from this pivot; again. Transfer payments will need to continue.

Digitalization

The acceleration of the digitalization of the economy has been widely reported on and is, of course, one of the reasons US Tech has outperformed.



Money itself is increasingly on the cusp of being included in this trend. The crisis has not only brought on a renewed interest in cryptocurrencies by investors, as they seek an alternative store of value, but also by central banks. Increasingly, central banks are studying if and how to implement their own digital currencies. Not only would it potentially bring a way of employing a new payment system for direct payment of further stimulus checks, but also a conduit by which new policies such as UBI (universal basic income) etc. could be executed.

Late last month Cleveland Fed President Loretta Mester touched on a few of these points during a speech on the US payment system. There are big plans in the works that could eventually transform the roll that central banks play. This is part of the melding of monetary and fiscal policy that is becoming increasingly inevitable.

On FedNow…
"The Federal Reserve's FedNow service, which is currently being built, will be an around-the-clock service whereby payments can be originated, cleared, and settled within seconds. The service is expected to provide clear public benefits in the form of safety, efficiency, and accessibility of instant payments…

The target release date remains 2023 or 2024, but we will announce a more specific time frame once additional work is completed… We are working to finalize a technology strategy that will create a flexible infrastructure, one that is scalable and can evolve with the times…Thinking ahead, a service like FedNow, coupled with a directory service with accurate information on where to route payments for final distribution to households and businesses, has the potential to solve some of the challenges the government faced when distributing pandemic relief payments…The Federal Reserve understands the potential value of such a service, and has been exploring these issues as it evaluates the features to eventually include in FedNow."

Mester went on to discuss central bank sponsored digital currencies…
"The experience with pandemic emergency payments has brought forward an idea that was already gaining increased attention at central banks around the world, that is, central bank digital currency (CBDC). Legislation has proposed that each American have an account at the Fed in which digital dollars could be deposited, as liabilities of the Federal Reserve Banks, which could be used for emergency payments. Other proposals would create a new payments instrument, digital cash, which would be just like the physical currency issued by central banks today, but in a digital form and, potentially, without the anonymity of physical currency. Depending on how these currencies are designed, central banks could support them without the need for commercial bank involvement via direct issuance into the end-users' digital wallets combined with central-bank-facilitated transfer and redemption services.[8] The demand for and use of such instruments need further consideration in order to evaluate whether such a central bank digital currency would allow for quicker and more ubiquitous payments in times of emergency and more generally. In addition, a range of potential risks and policy issues surrounding central bank digital currency need to be better understood, and the costs and benefits evaluated."

This is coming… how will the Fed implement this and maintain the role of banks in the economy?

China

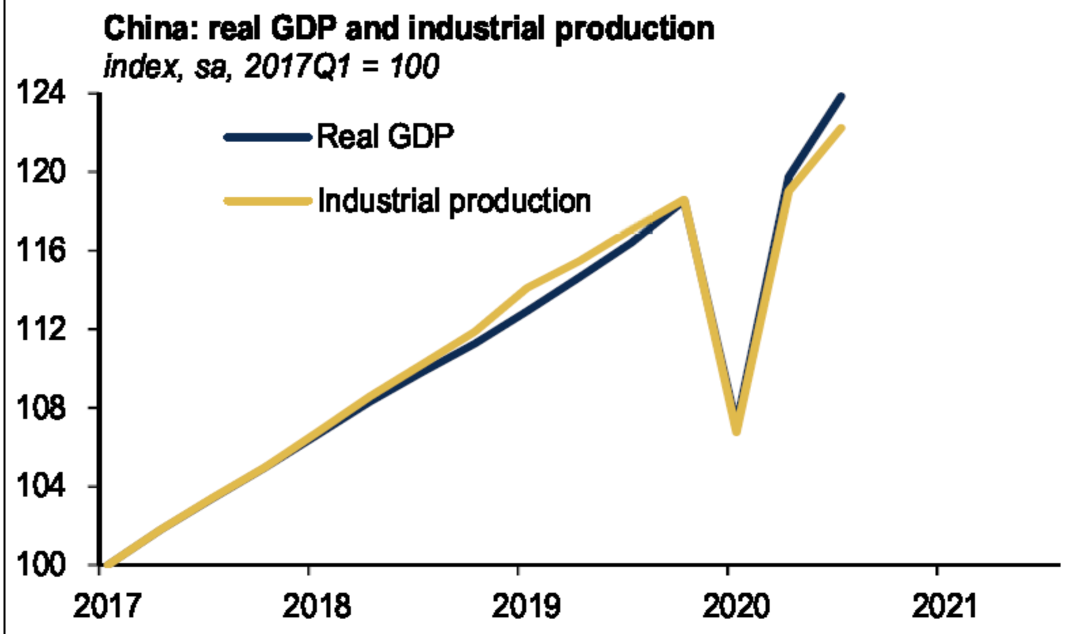
Diplomatic issues and accusations regarding withholding information during the early days of the pandemic aside, China's latest economic numbers continue to show outperformance.

China's recent Q3 GDP print came in at +4.9% year-on-year. While a bit less than the 5.2% expected, these numbers stand in stark contrast to the expectation that the US economy will show -3 to -3.5% vs. a year ago. Worse still, Europe's economy looks to have contracted by 7% while Japan is expected to come in at -6.6%.

At the moment, global growth looks to be very dependent on China 's continued recovery.

So far, it has been surprisingly powerful.

Chart 7: Chinese macro in "super-V"

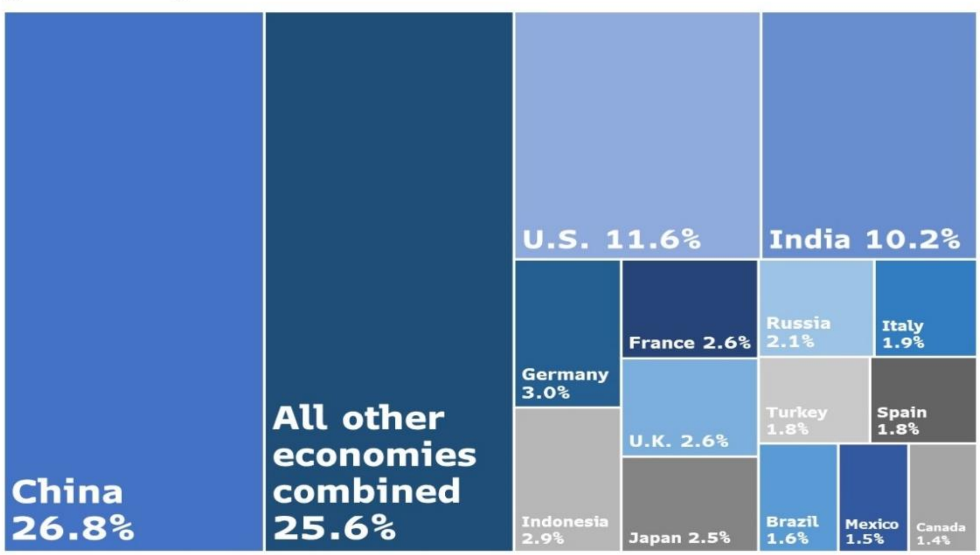


Source: BofA Global Investment Strategy, Suttle Economics

Expectations are that it will continue to do the heavy lifting in terms of global growth.

Likely Post-Pandemic Growth in 2021

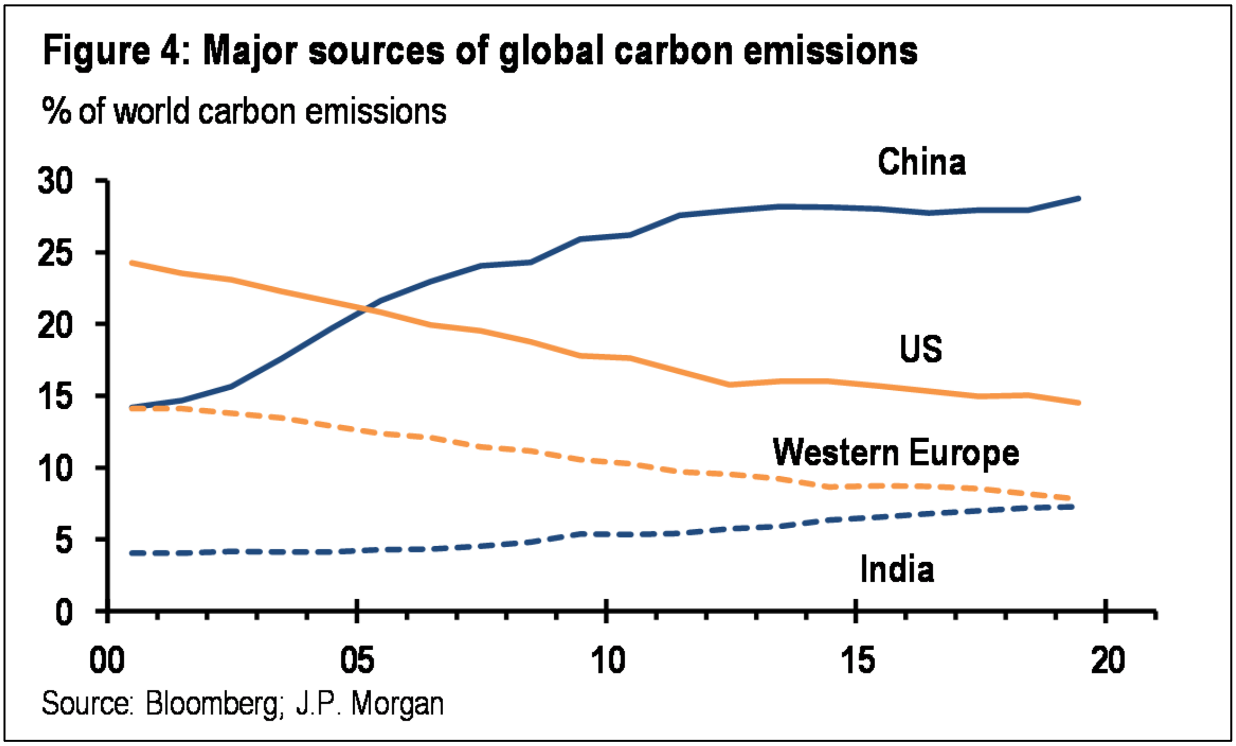
Fifteen economies forecast to account for 74% of the global economic growth next year



Source: Bloomberg analysis of IMF data
Notes: Individual economy's forecast growth, as a share of increase of world GDP, between 2020-2021; Purchasing power parity-based.

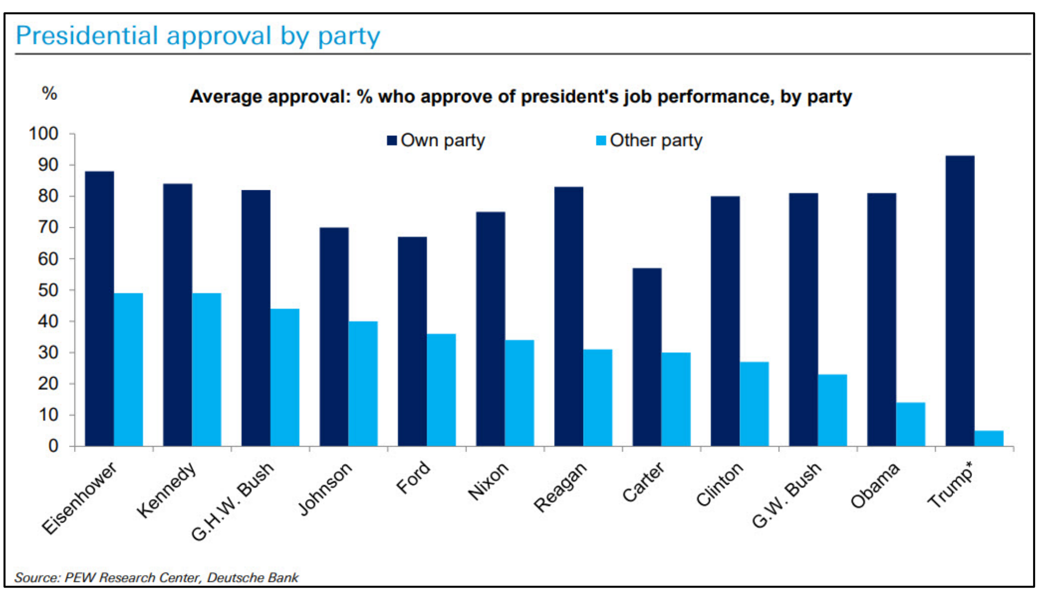
Bloomberg

With the growing focus on environmental issues, especially sustainable and renewable energy, the economic outperformance may draw increased calls for environmental action by China. This could be another source of trade tension, especially under a Biden administration. Given the huge amounts of debt that are expected to be required to transform the current system, China will be expected to do its part.



What to Focus on Now:

Election – record "us against them" mentality in the US



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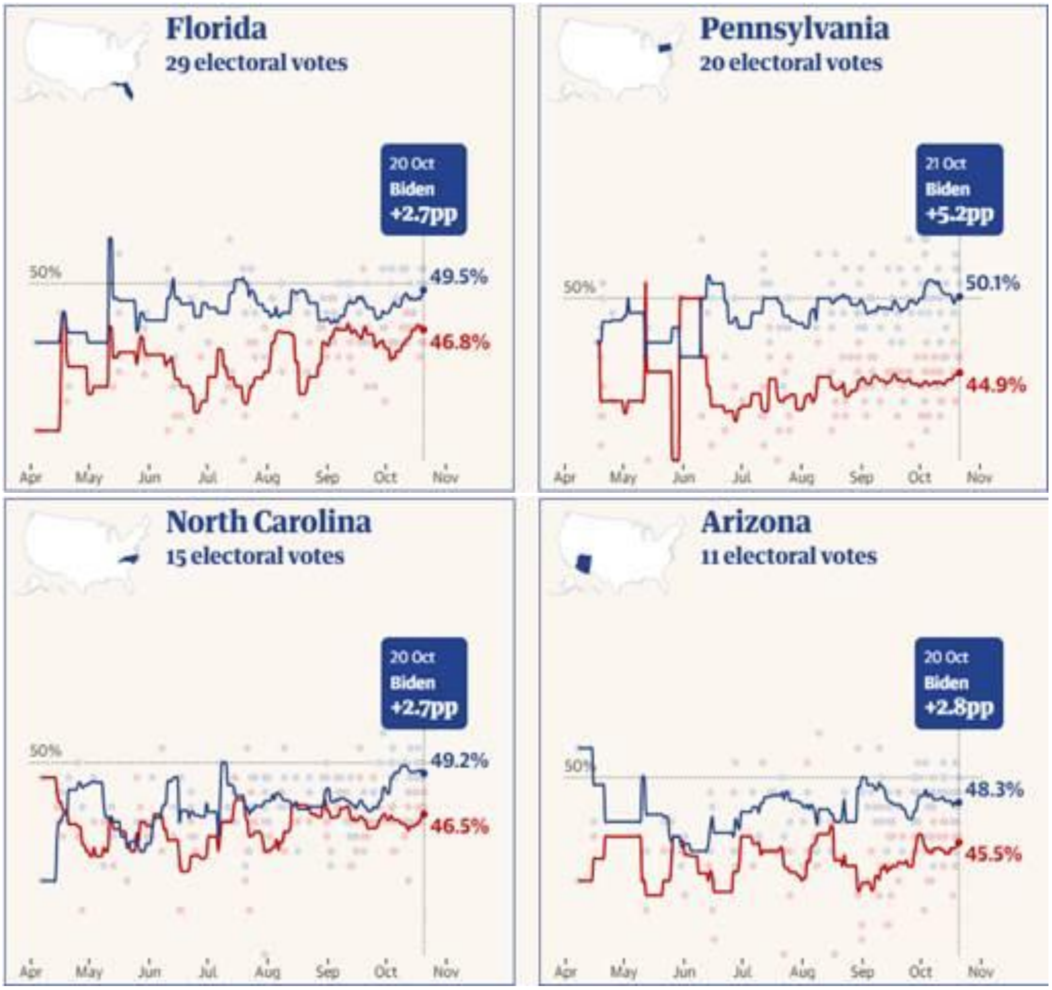
While Biden continues to lead in national polls by a meaningful margin, that matters less than what is going on in the four most important battleground states. While widely ranging and source dependent, at least by some estimates those polls are still very close.

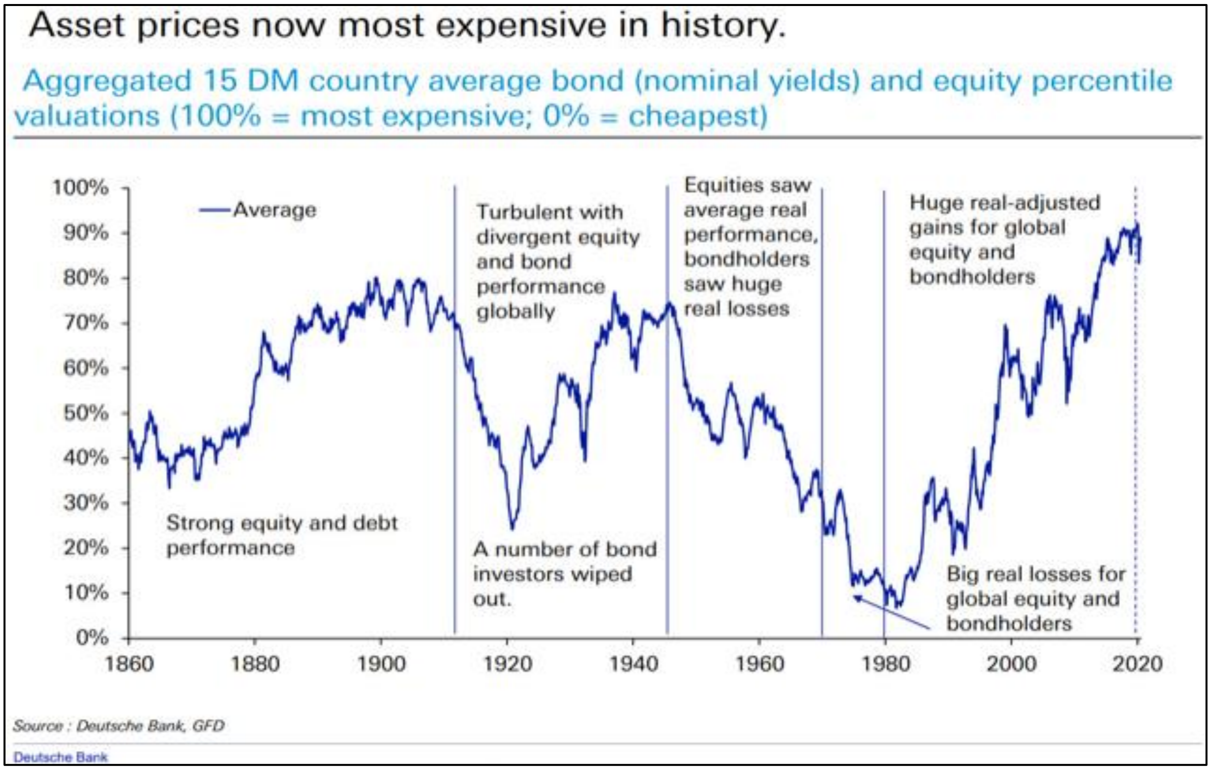


Source: The Guardian

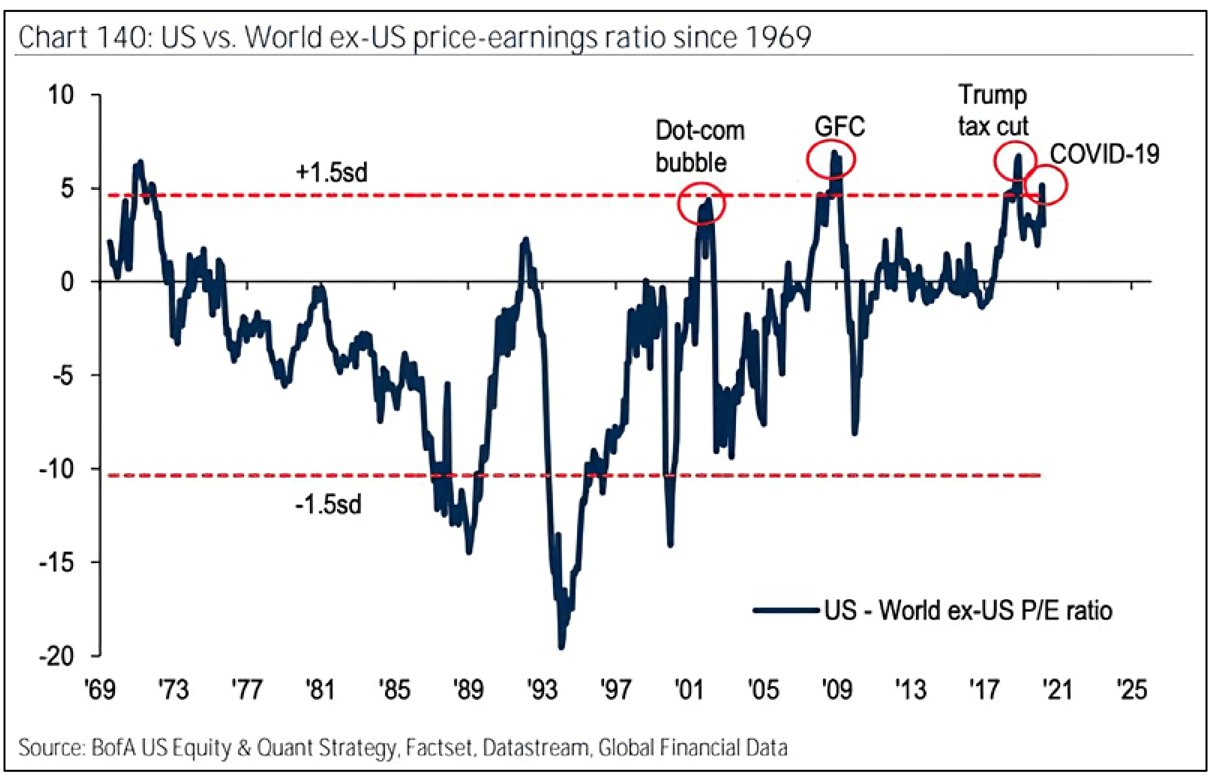
Equities

Equities are stuck in a push and pull between continued uncertainty on numerous fronts. Some line items will clear in the coming weeks, while others will linger.

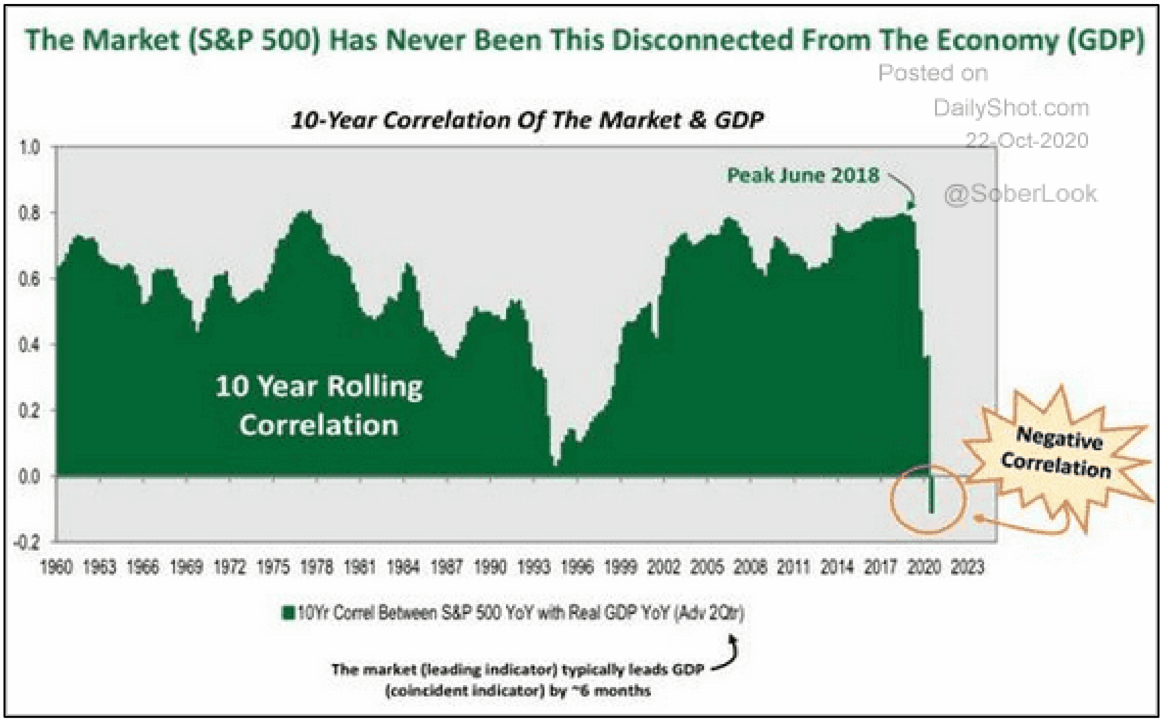
Liquidity and low interest rates combined with no place else to go has goosed asset prices globally and is keeping them high.



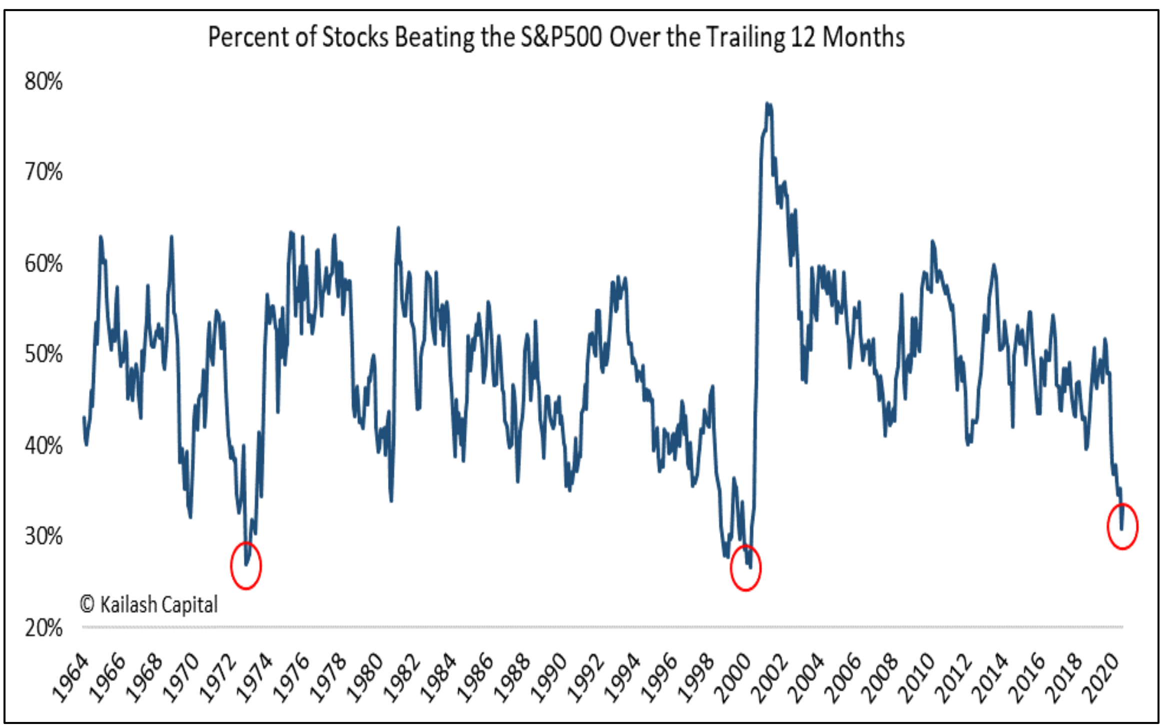
With the US still leading the charge via technology names.



The flow to US growth stocks has been powerful since 2018. COVID took it to extremes.



Although recently the A-D Line has made new highs the pandemic had made this market very narrow.



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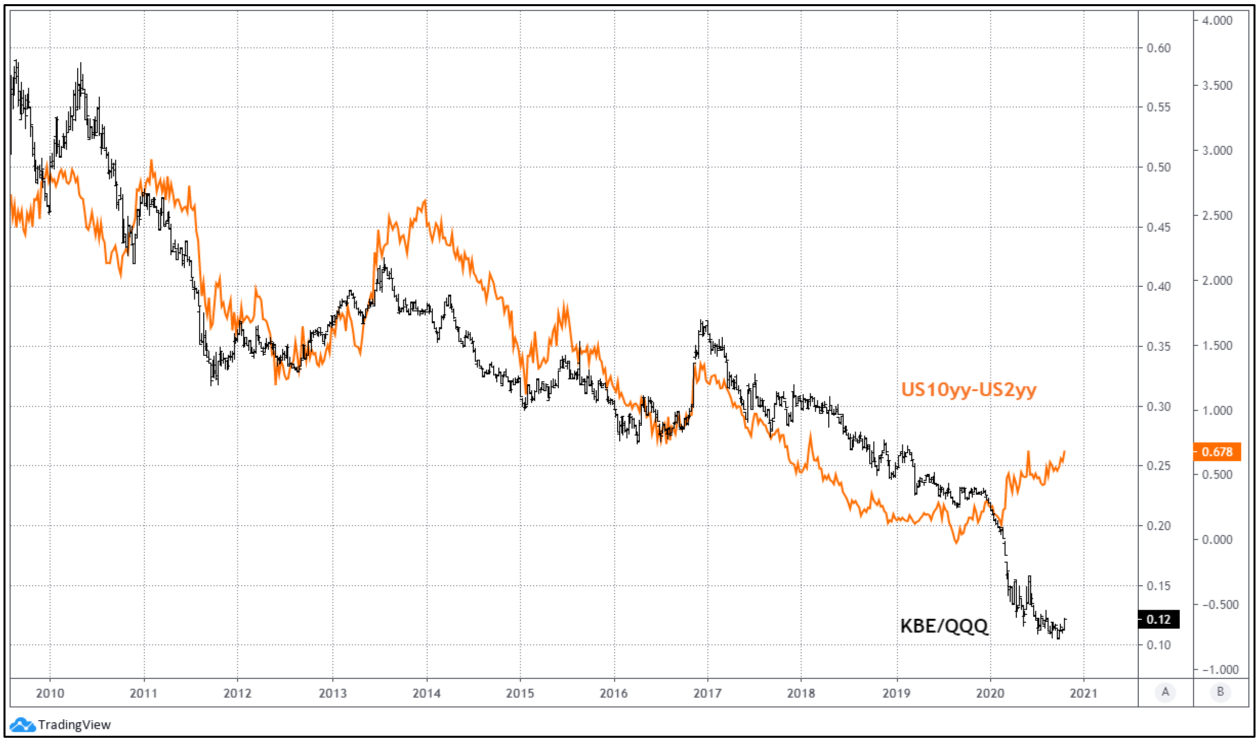
However, things may now be shifting. Between governments willingness to go after tech and reduced relative earnings performance, the market is more and more focused on the potential for rotation.

The charts keep knocking on the door…

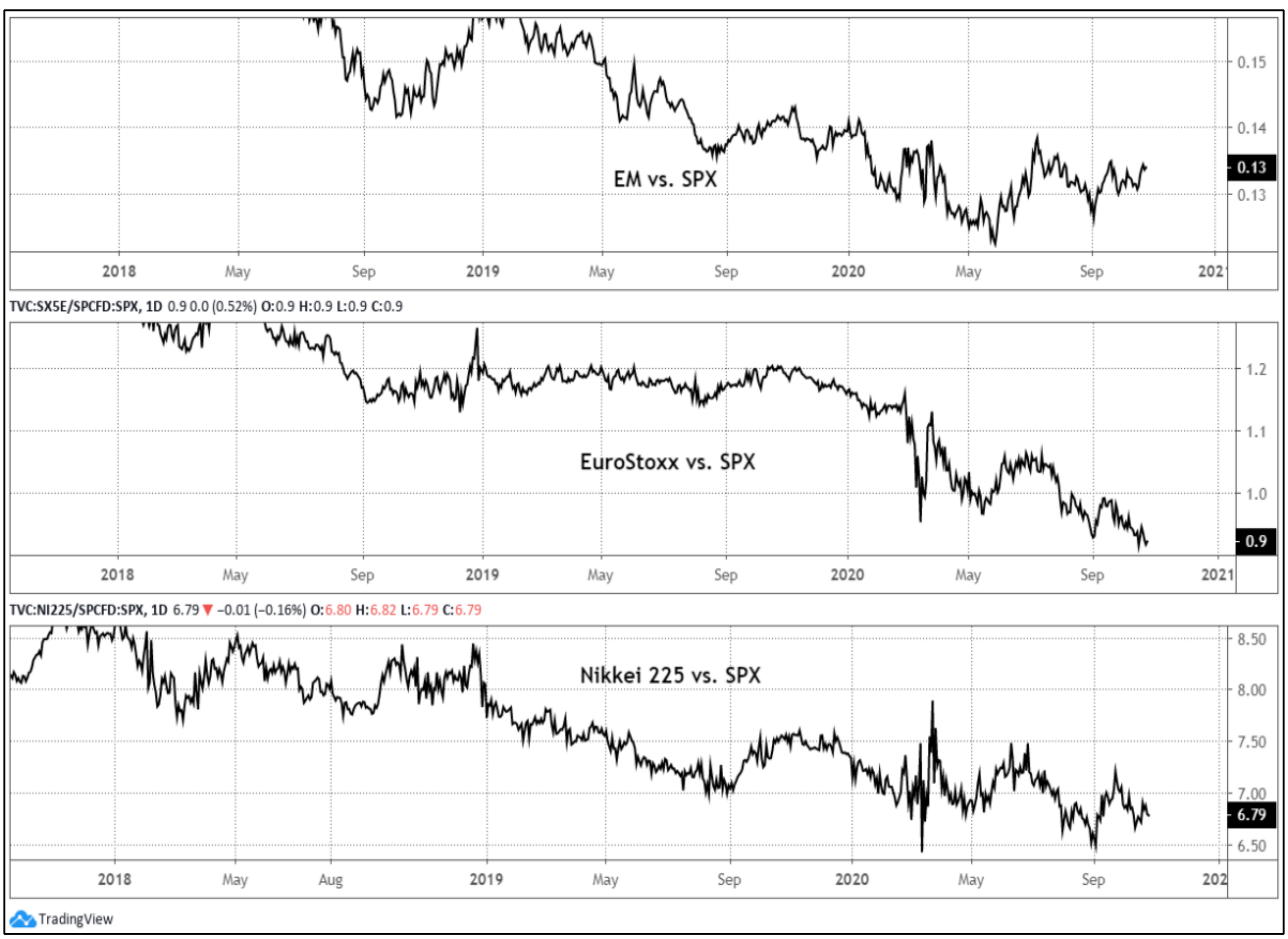
With continued steepening of the curve as long end yields have pushed higher, there is still potential for rotation into banks. The peculiarities of COVID and Fed assurances of continued low rates, have so far kept banks subdued. On a relative basis they had a good week last week. Let's see if it holds.



Lots of commentators are talking about how everyone expects a melt-up and is now positioned for it. Reasons for this expectation include seasonality, election cycle price action, blue wave stimulus expectations, similarity to ’99 tech price action and growth outperformance (need another leg up), etc. This is being countered by predictions that COVID resurgence will take down economic performance again and that the employment picture is about to again darken markedly. Talk that liquidity is not solvency, and that when the next shoe drops, stocks and bonds will go down together. The bulls say everyone is short, the bears say everyone is already long.

It all makes me wonder if for now at least, the rotation trade IS the most likely outcome. Makes people sell what they have and buy what they don’t.

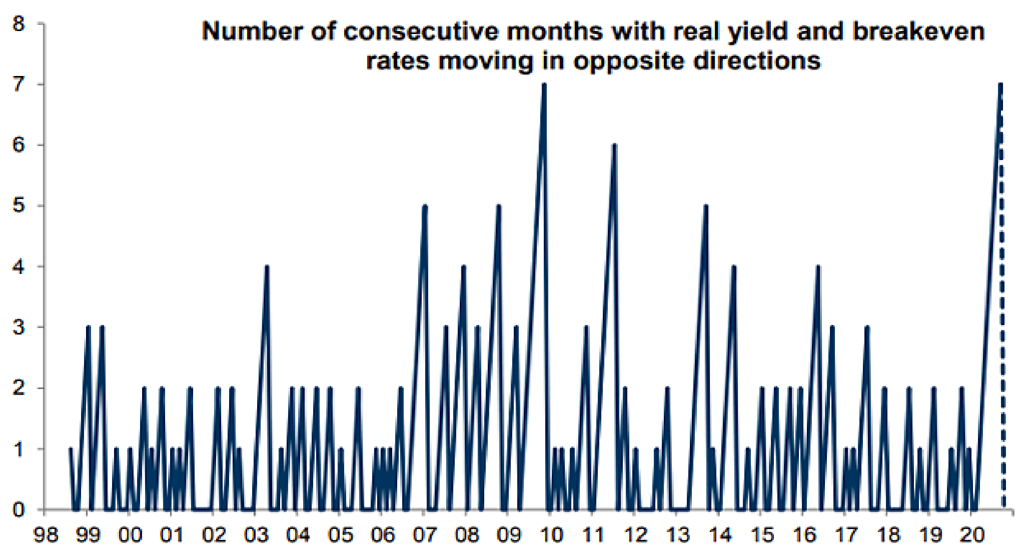
In the meanwhile, the US remains the main game as none of the international opportunities are yet outperforming. EM is still trying, but no real breakout yet. Europe remains a dog and has been trading sideways for nearly five months. Japan, despite growing inflows, hasn’t been able to break higher on a relative or absolute basis.



Bonds

The meaningful move up off the lows in inflation expectations without a pop in long yields, has been very unusual. Maybe that takes a break and long yields can continue to recover.

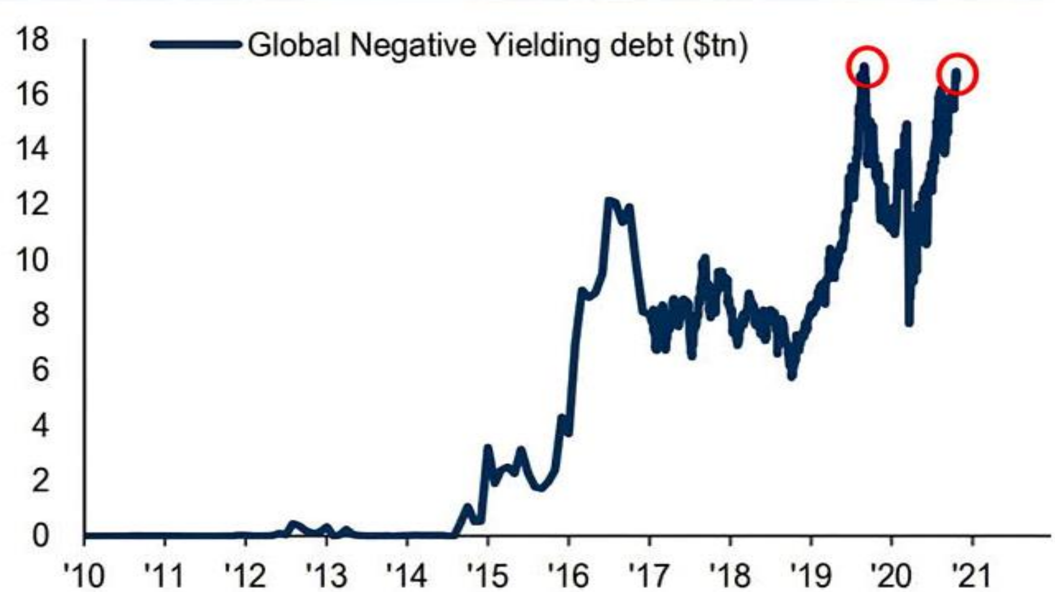
Exhibit 1: Once again, real yield and breakeven have started to move higher together



Source: Datastream, Bloomberg, Goldman Sachs Global Investment Research

CB run NIRP abroad poses a challenge though to persistently higher US yields at this point.

Chart 9: Currently $16.8tn of negatively-yielding global bonds



Source: BofA Global Investment Strategy, Bloomberg

FX

The dollar vs. developed markets is now back exploring the bottom of its three-month range. EUR and CNY relative strength have continued to set the tone.

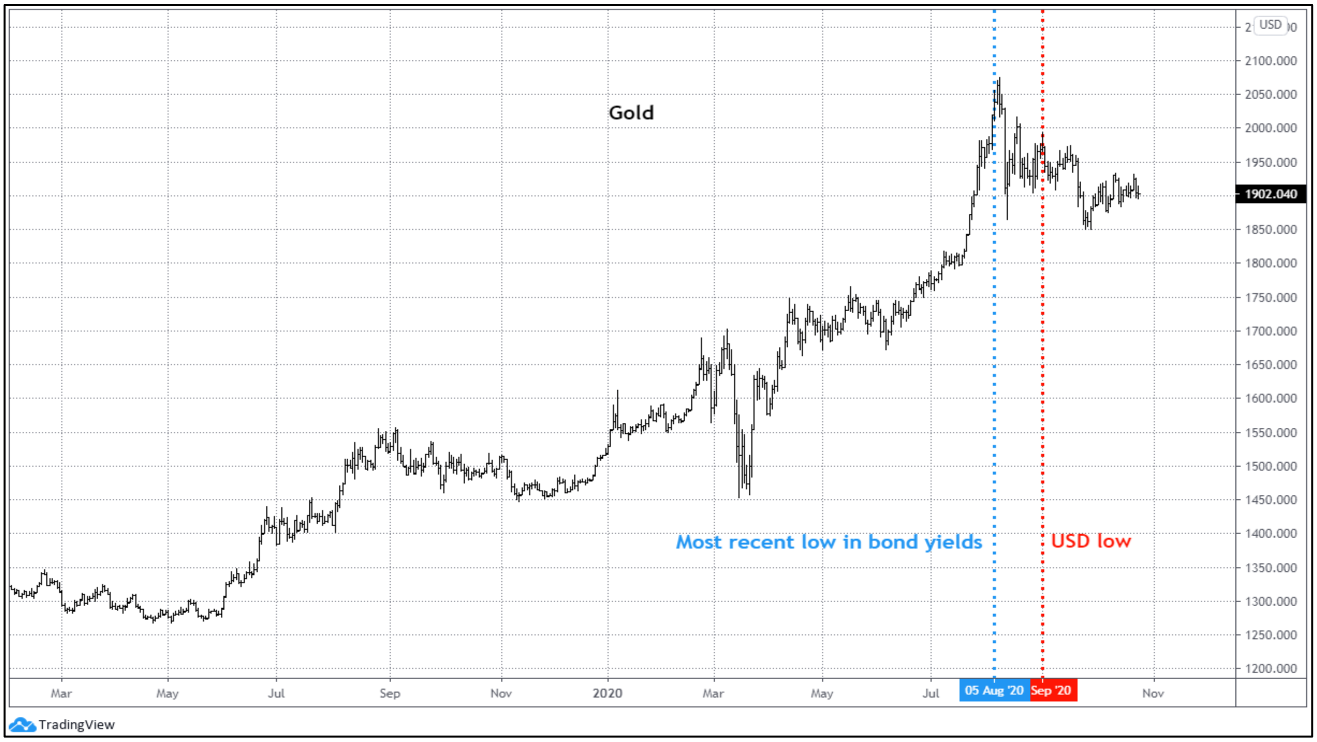
EM flows are supporting select EM currencies while other continue to struggle. Brexit, COVID and US election uncertainties continue for now.

Precious Metals / Bitcoin (BTC)

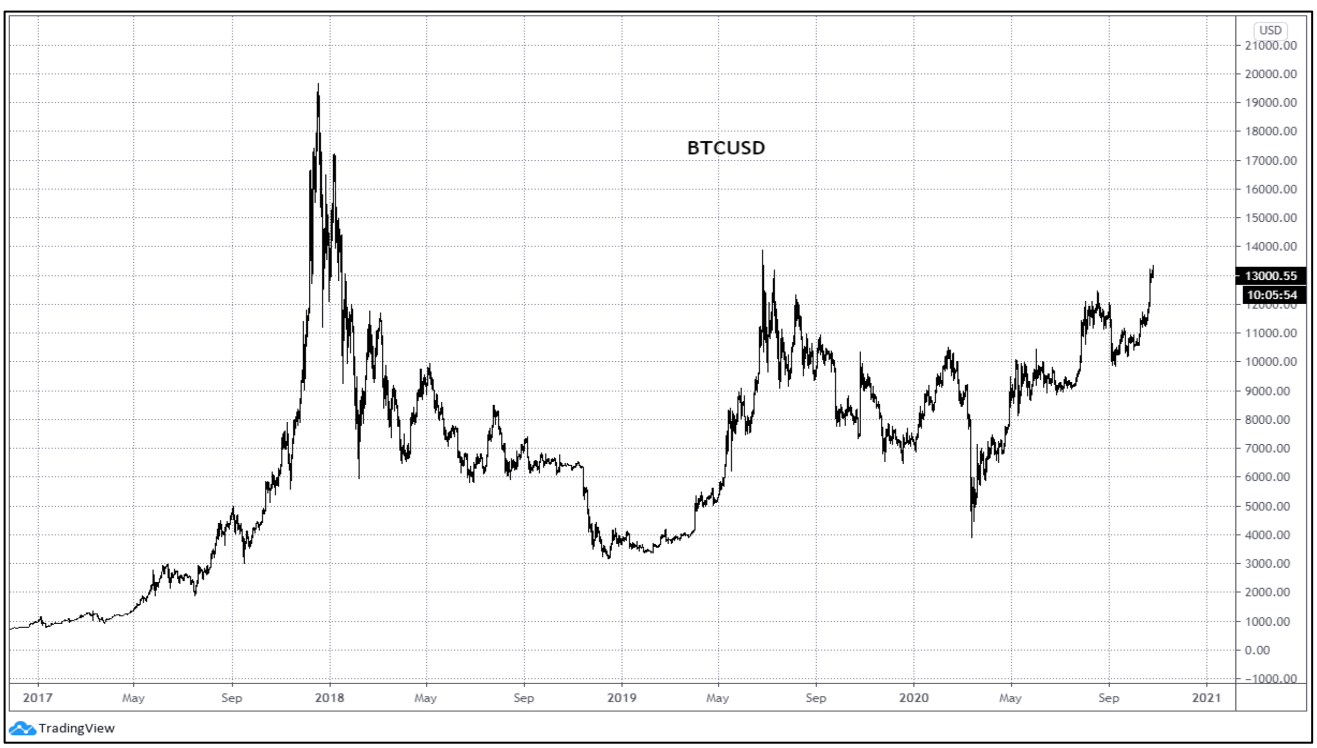
Alternative stores of value have been in the news a lot over the last few weeks. Both Gold and BTC are up handsomely on the year. BTC at +80% (having suffered a >60% drawdown in March) and Gold +25% (after wearing a 15% drawdown). The environment is ideal for assets that CB's can't print.

Gold and Silver are heavily influenced by the USD and by real interest rates.

The low in bond yields and subsequent pause in the dollar decline, have together been too much for Gold to overcome. As a result, we have been in a sideways consolidation now for the last three months.



Bitcoin had similar price action but was more correlated to equities. Recent news of more corporate adoption has pushed it to new highs over the last few weeks.



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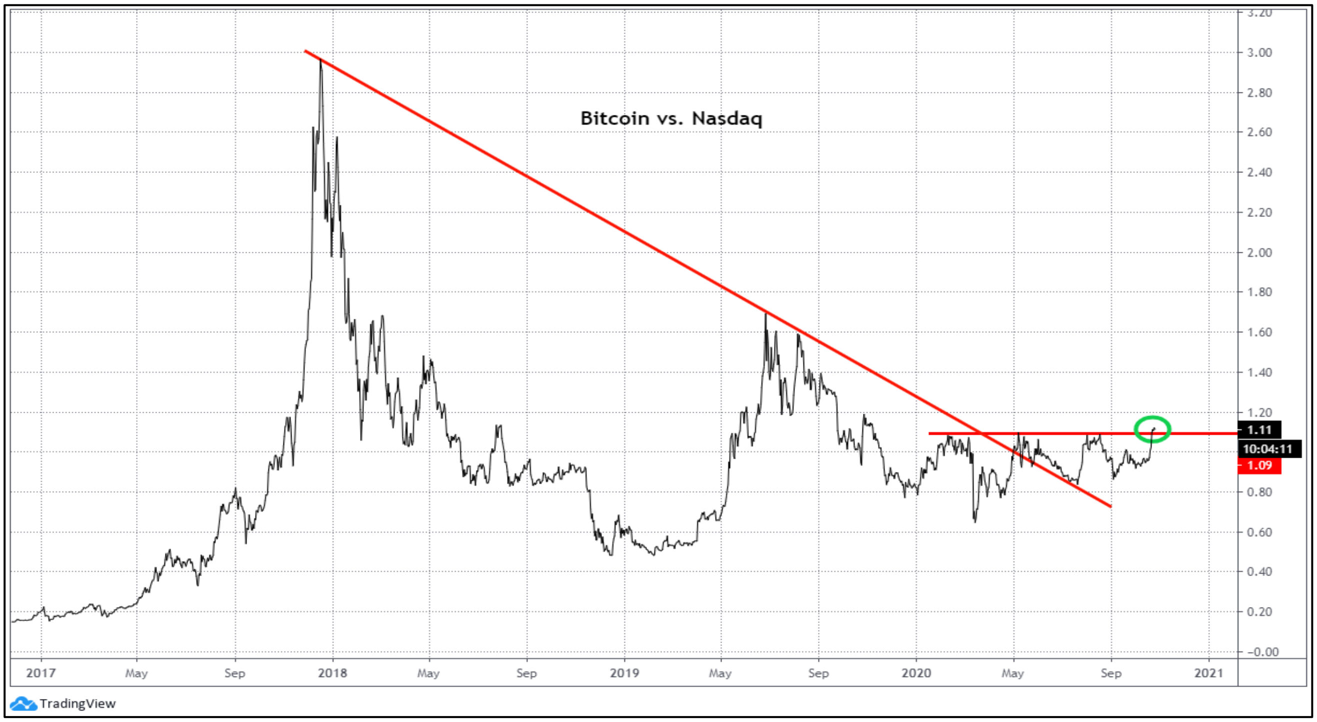
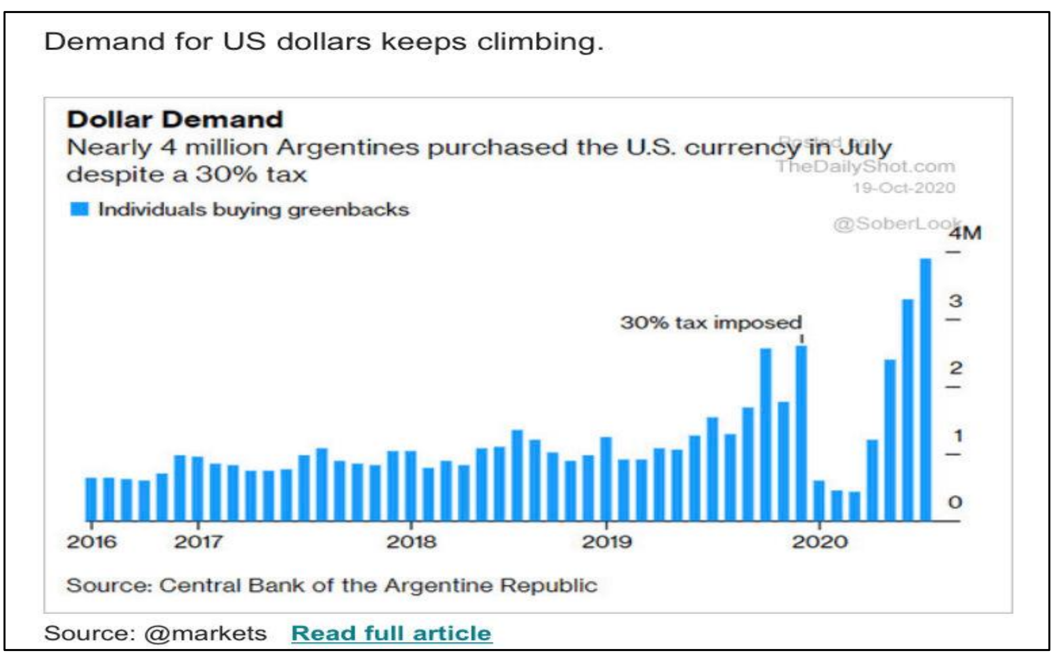
Of most interest, is that the correlation to NDX is in danger of cracking as BTC tried to break higher on a relative basis (again a competition between things CB's can't print).



Regardless of your views on Bitcoin, it is interesting to note that in some countries, where people are desperate to escape the local currency, a large haircut or high volatility is not as much of a deterrent to inflows as you might think. Take capital trying to escape Argentina (in this case into USD).



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Commodities

While near-term Corn, Wheat and Soybeans look like they have already had big moves, bigger picture soft commodities may just be getting started. Something to keep an eye on.

Expect more Congressional stimulus and Brexit headlines this week. Lots more election polls and ECB on Thursday.

Important Macro Data Releases and Events for the Week

Monday
10/26/2020

- Leading Economic Index (Aug) Forecast: 88.8, Prior: 88.8
- IFO - Expectations (Oct) Forecast: 96, Prior: 97.7
- IFO - Business Climate (Oct) Forecast: 92.7, Prior: 93.4
- IFO - Current Assessment (Oct) Forecast: 89.7, Prior: 92.2
- Chicago Fed National Activity Index (Sep) Forecast: 0.39, Prior:0.79
- New Home Sales MoM (Sep) Forecast: 1.022m, Prior: 1.011m
- SNB's Chair Jordan SPEECH

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Tuesday 10/27/2020	RBA's Bullock SPEECH
	ECB Bank Lending Survey
	Durable Goods Orders (Sep) Forecast: 0.7%, Prior: 0.5%
	Durable Goods Orders ex Transportation (Sep) Forecast: 0.4%, Prior: 0.6%
	Durable Goods Orders ex Defense (Sep) Forecast: 0.2%, Prior: 0.9%
	Nondefense Capital Goods Orders ex Aircraft (Sep) Forecast: 0.5%, Prior: 1.9%
	Housing Price Index MoM (Aug) Forecast: 0.6%, Prior: 1%
	S&P/Case-Shiller Home Price Index YoY (Aug) Forecast: 3.8%, Prior: 3.9%
	Consumer Confidence (Oct)
Wednesday 10/28/2020	BoC Interest Rate Decision and Statement Current: 0.25%
	Fed's Kaplan SPEECH
	BoJ Interest Rate Decision and Statement, Current: -0.10%
Thursday 10/29/2020	Unemployment Rate s.a. (Oct) Forecast: 6.4%, Prior: 6.3%
	Unemployment Change (Oct) Forecast: -8k, Prior: -8k
	Consumer Confidence (Oct) Forecast: -15.5%, Prior: -15.5
	Business Climate (Oct) Forecast: 1.96, Prior: -1.19
	Initial Jobless Claims Forecast: -, Prior: 898k
	Initial Jobless Claims 4-week ave. Forecast: -, Prior: 866k
	Continuing Jobless Claims Forecast: -, Prior: 10.018m

PCE QoQ (Q3) Forecast: -, Prior: 1.6%

Core PCE QoQ (Q3) Forecast: -, Prior: -0.8%

GDP (Q3) Forecast: -, Prior: -2.1%

ECB Interest Rate Decision and Monetary Policy Statement, Press Conference

Pending Home Sales MoM (Sep) Forecast: -, Prior: 8.8%

Friday
10/30/2020

Retail Sales YoY (Sep) Forecast: 4.2%, Prior: 3.7%

Retail Sales MoM (Sep) Forecast: -0.5%, Prior: 3.1%

CPI YoY (Oct) Forcast: -0.3%, Prior: -0.3%

CPI Core YoY (Oct) Forecast: 0.5%, Prior: 0.2%

Personal Income MoM (Sep) Forecast: 0.5%, Prior: -2.17%

Personal Spending MoM (Sep) Forecast: 1%, Prior: 1%

Chicago Purchasing Managers Index (Oct) Forecast: 56.9, Prior:62.4

Michigan Consumer Sentiment Index (Oct) Forecast: 79, Prior: 81.2

Non-Manufacturing PMI (Oct) Forecast: -, Prior: 55.9

NBS Manufacturing PMI (Oct) Forecast: -, Prior: 51.5

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