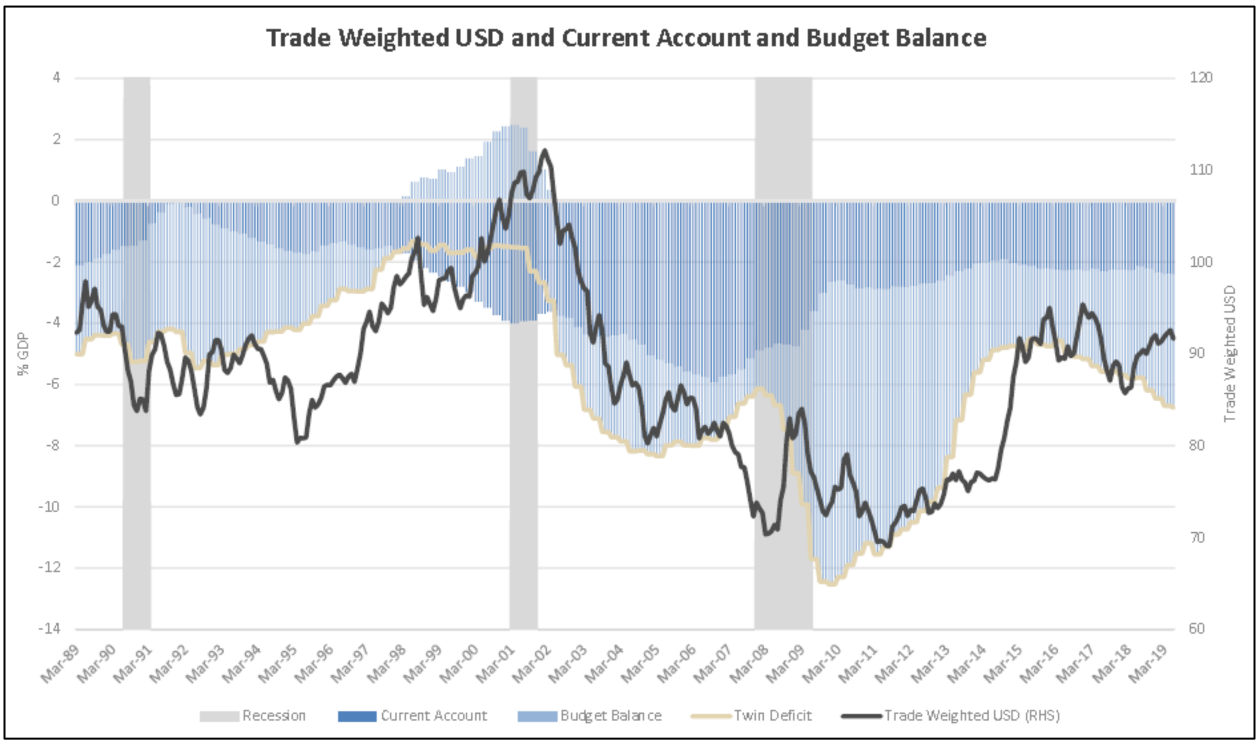
Spyglass Macro

Global Macro Advisory for Active Investors

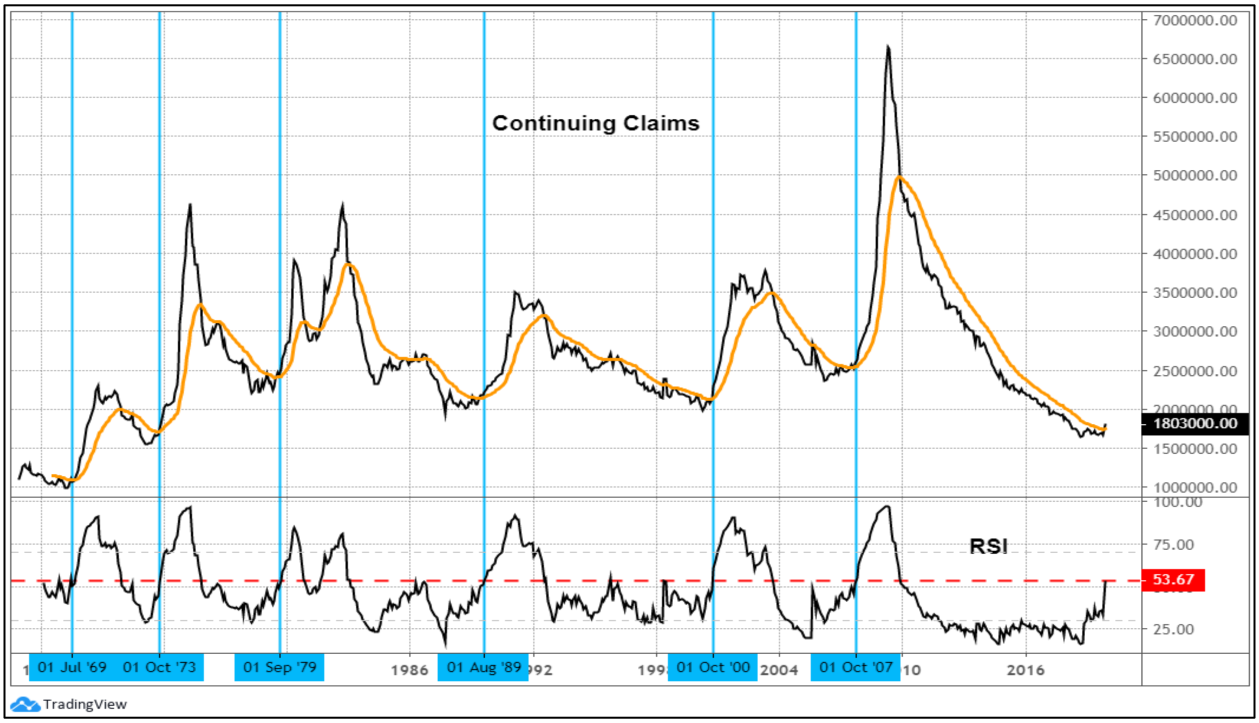
What to focus on in Global Macro for the week of January 13th, 2020

Macro Themes on the Radar:

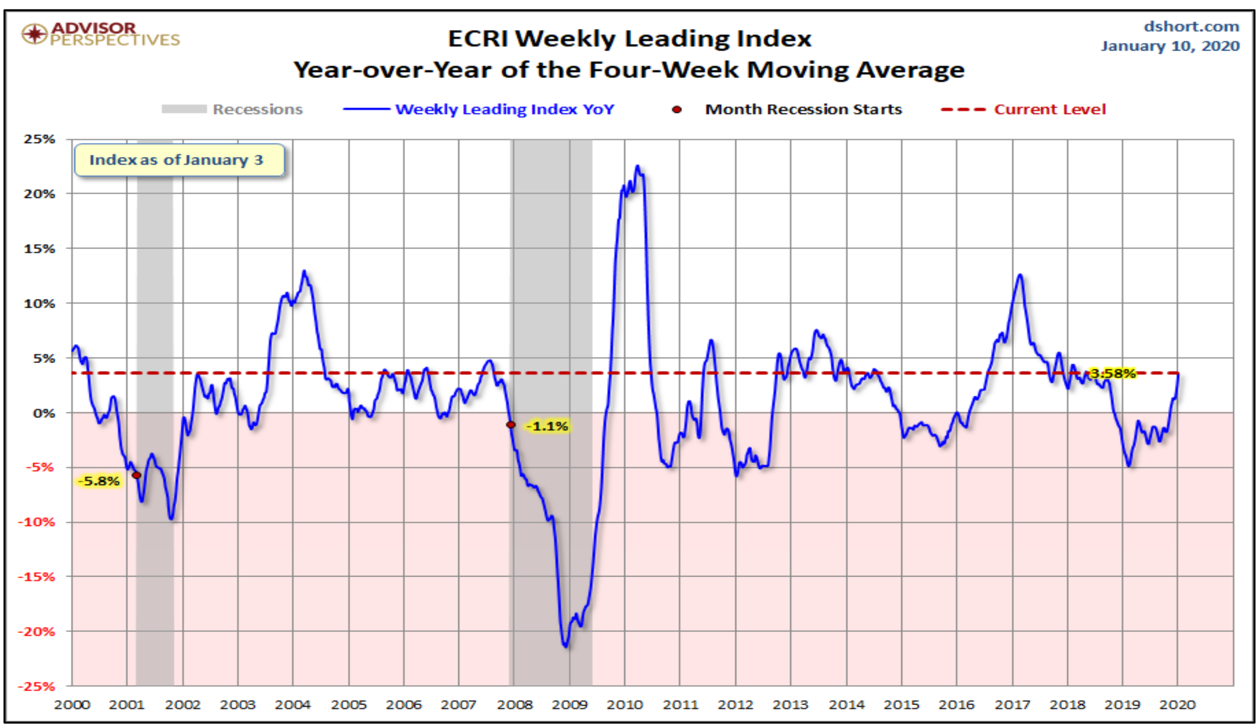
USD – Does the dollar rally and tighten Global Financial Conditions, or does it fall and bring EM, Commodity and Foreign markets to life; potentially supporting a virtuous cycle for global growth?



US Leading Indicators – Do they continue to hold up as they have? The LEI, which I covered last week, is one to watch for sure. So are some of the components, such as Claims for Unemployment Insurance. Initial Claims have bounced around recently but so far have remained well contained. However, last week saw a bump up in Continuing Claims that, if maintained, leaves us with a dangerous setup. A set-up that in the past has heralded a turn for the worse in employment.



The ECRI Leading Index, on the other hand, is now perking up. Will it be gloom or boom?



Bonds make the Weather – The Bond market is just as uncertain as the data. After having priced a very negative and deflationary outcome, it is now waiting for the other shoe to drop. If it turns out that all is well after all, and the economy remains resilient or even accelerates, what happens to bond yields will be key. A sudden move higher in yields has the potential to create market turmoil. However, so far, the equity rally, optimism about earnings and a potential rebound in PMI's hasn't been able to knock down the bond markets.

As mentioned last week, the tight correlation that Gold has had with Bonds since the rally began in Q4 of 2018, has broken down. Over the last few weeks we have seen new highs in Gold, culminating in a spike on the Iran tensions, Bonds however have not followed. To me the Gold move has essentially been a currency trade as investors and Central Banks look for a substitute for the dollar but find few appealing alternatives. It doesn't take much of an allocation shift to move a relatively small market.

Perhaps negative rates in Europe and Japan, combined with the Fed potentially being on hold for all of 2020, means that in the absence of decisive economic weakness or strength/inflation, bond prices will be sideways for now.

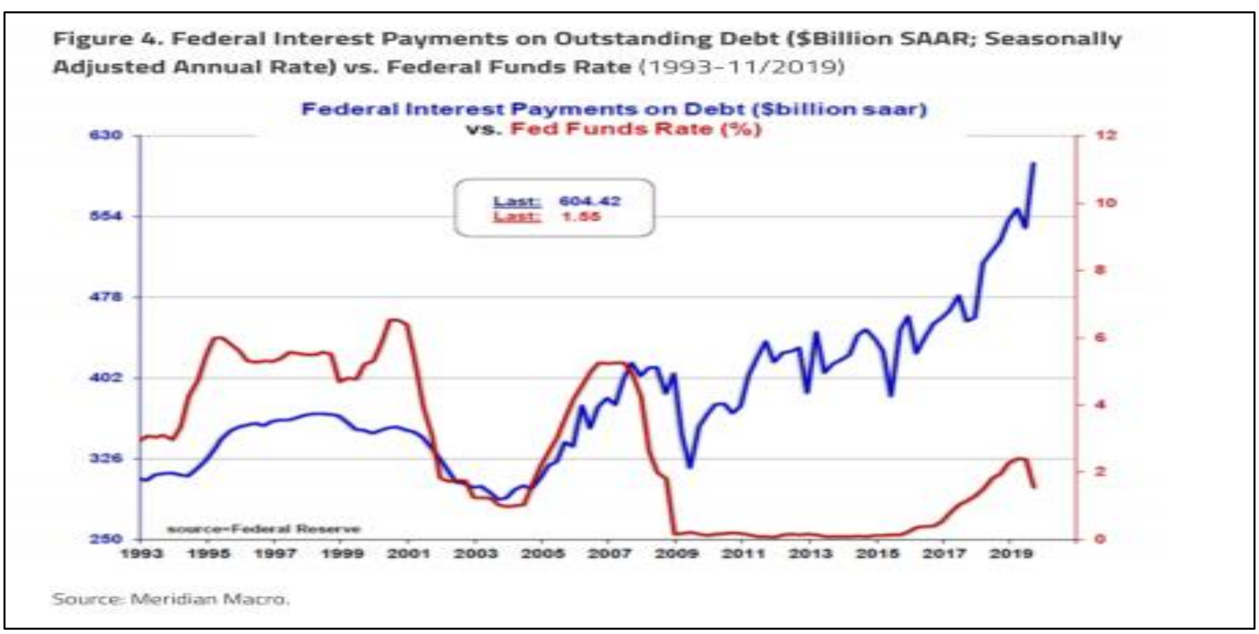
Central Banks in the 2020's

There has been growing debate about what Central Banks could/would do if the business cycle did turn down in the coming months or even years. Europe, with policy rates already at -50bps and QE currently underway, is left with few options other than fiscal spending. In the US, the situation is in some ways reversed as there is still some room for policy rates to be lowered but we are already running a meaningful fiscal deficit.

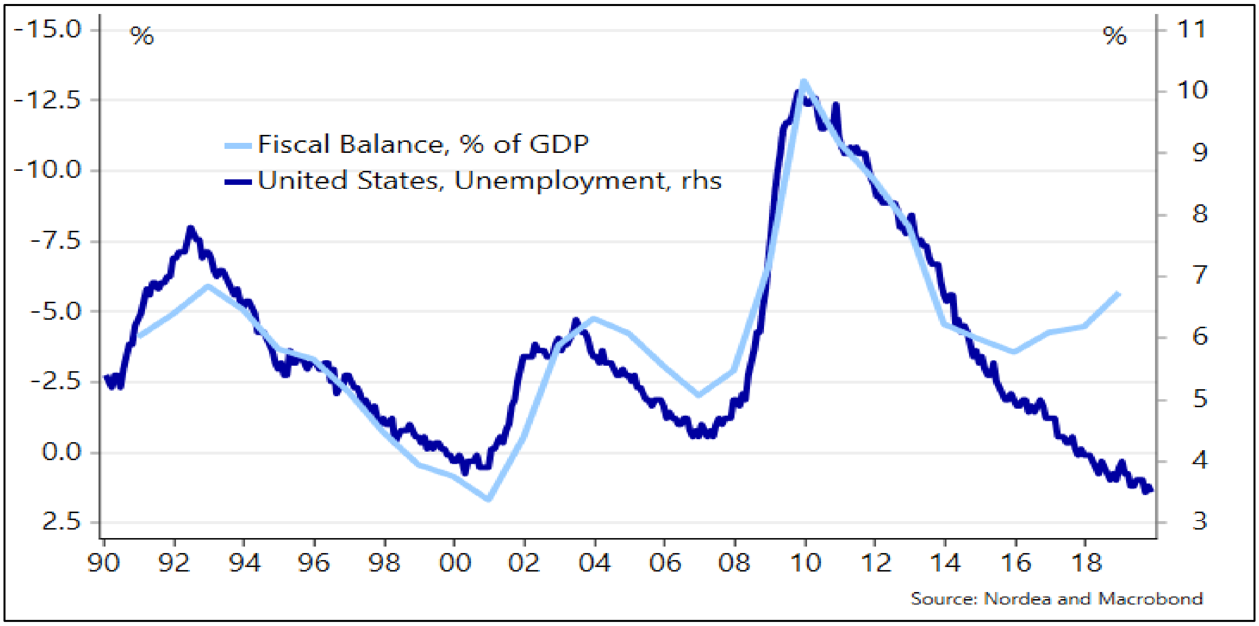
On January 4th Ben Bernanke spoke at the American Economic Association annual meeting. Bernanke said he thought the Fed's tools still would be effective should they be needed and that in addition to the 150 bps of easing that the current Fed Funds rate could deliver, QE and forward guidance on rates could deliver another 300bps worth of equivalent stimulus.

Larry Summer, also at the conference, was quick to disagree: "I just don't believe QE and that stuff is worth anything like another 3 percentage points," he said. "We're going to have to rely on putting money in people's pockets, on direct government spending."

Instead, he presented a paper, written with ex-International Monetary Fund chief economist Olivier Blanchard, arguing that the government should put in place "semi-automatic stabilizers" These would be policies that would automatically increase government spending, most likely via temporary tax cuts or tax credits, if certain economic measures passed agreed thresholds. Of course, fiscal spending has its costs…



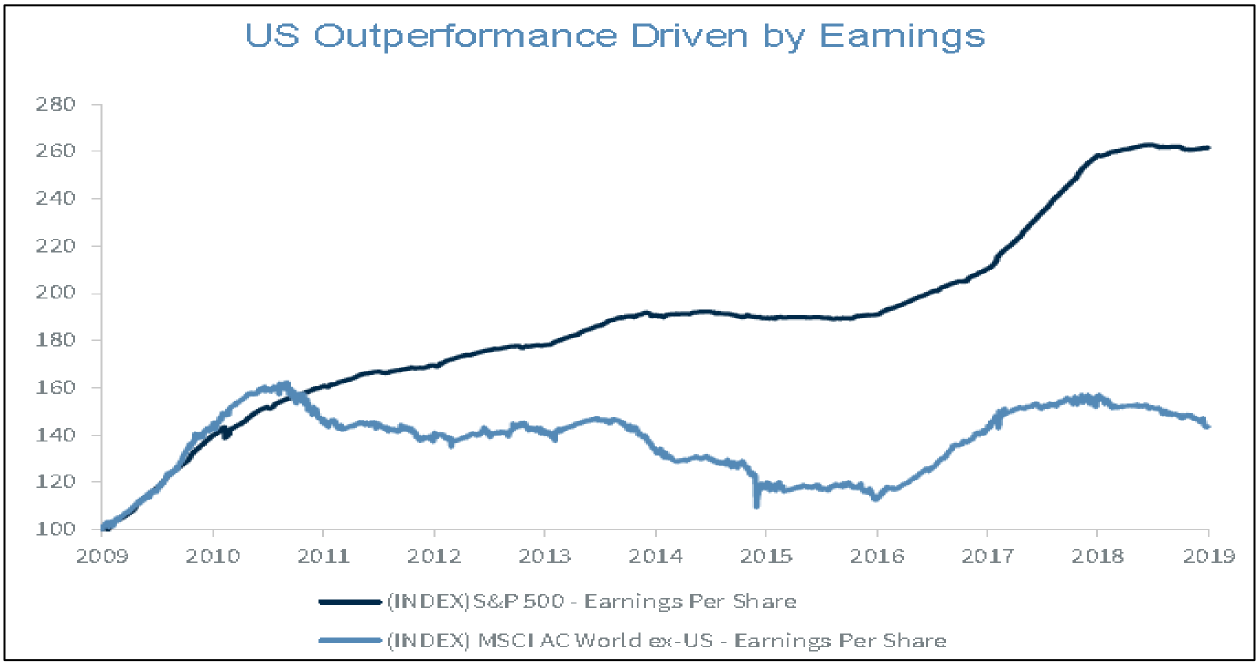
This is the first time in decades that we have had so much deficit spending already in place at this point in the cycle.



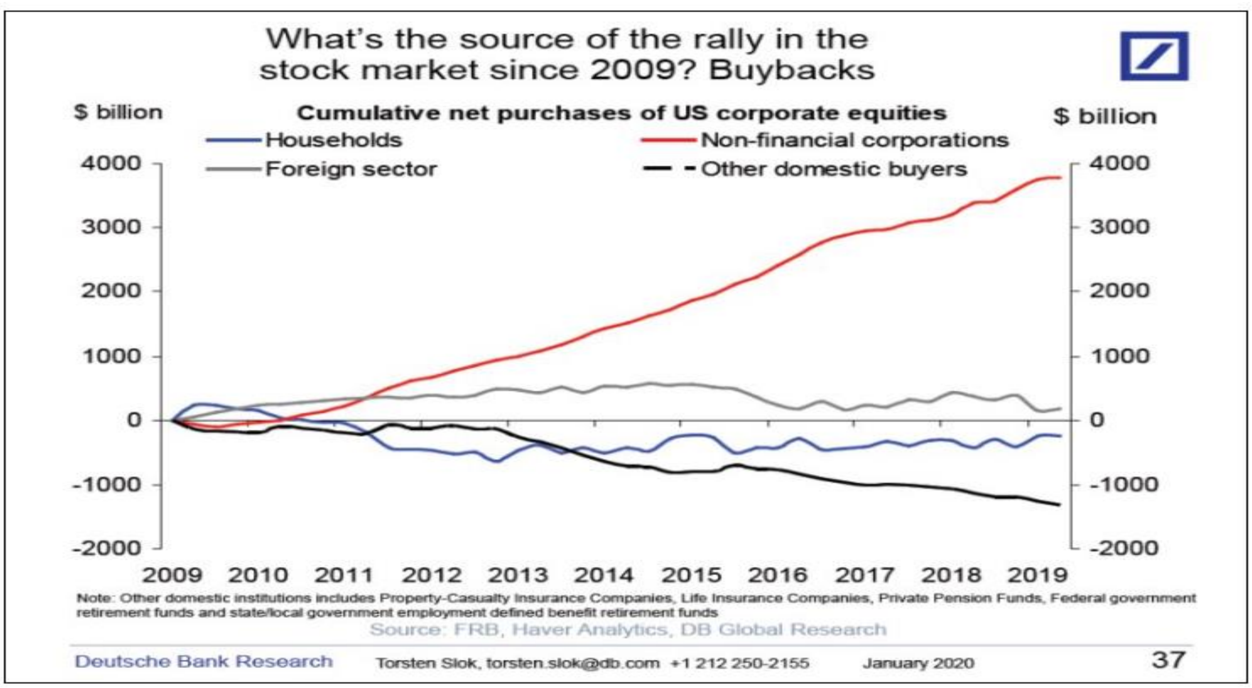
US Exceptionalism –Technology, Buybacks and Earnings Per Share

Since 2011 (ish), the US equity market has increasingly outperformed the rest of the world.

Certainly, EPS has been a driver for this performance divergence.



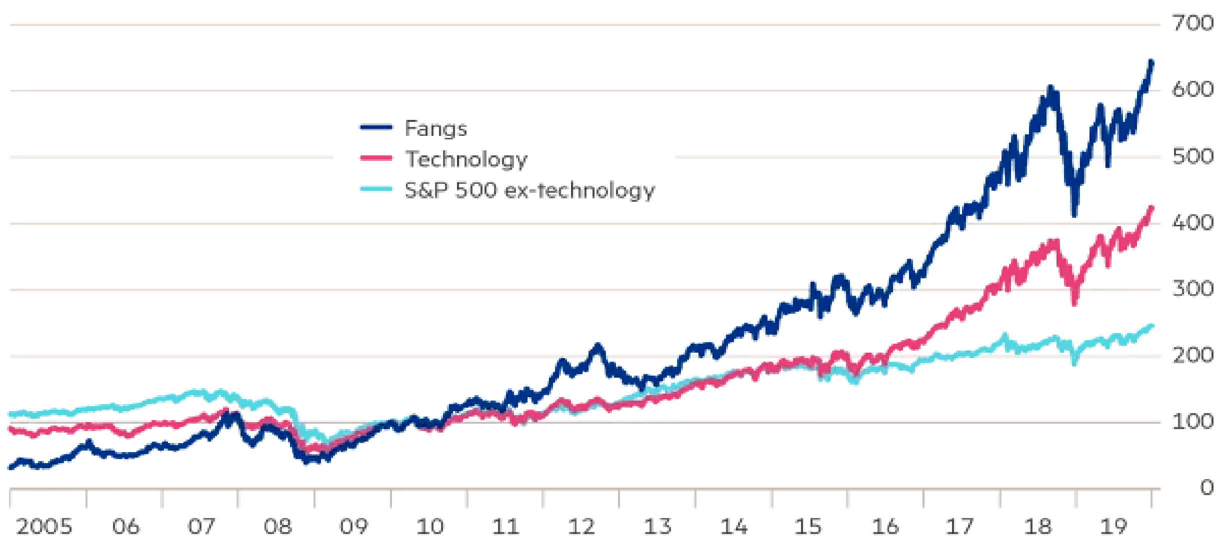
And it sure looks like a great deal of that EPS outperformance has been driven by the outsized US buybacks.



Last year much of the rally in global equities was due to multiple expansion. However, on a global relative basis since 2011, the interplay between buybacks and the technology growth stocks in the US has been **the** driver for US exceptionalism.

The Fang Decade

Facebook, Amazon, Apple, Netflx and Google dominate returns since 2010
(indices rebased as of end-2009)



Source: Credit Suisse
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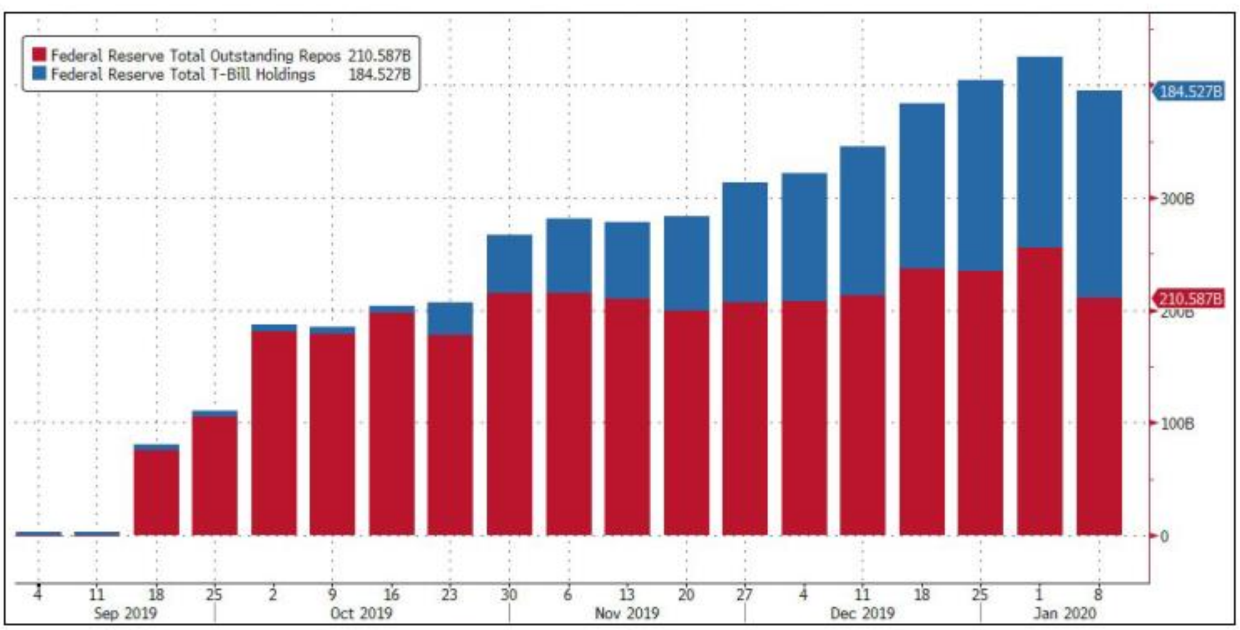
<u>What to Focus on Now:</u>

Over the coming week we have a number of global inflation releases, the China Phase 1 deal signing, some global industrial production prints, ECB minutes from the last meeting and Fed and Bundesbank speeches.

I continue to be very focused on the USD and Bonds. A big break in either direction would be important and show that the market is coming to a determination on what is next.

USD vs. DM continues to languish as it is pushed up and down in a range. EM and Commodity currencies have done better but are now at important levels and need to push on, or risk a reversal.

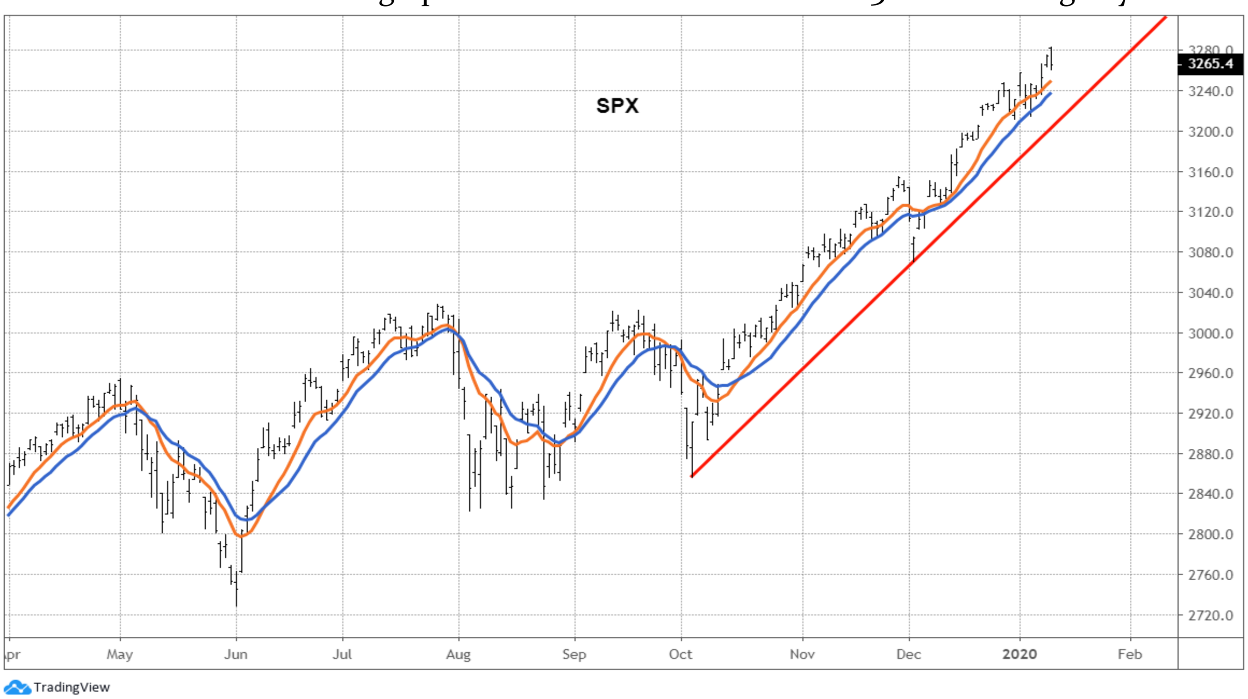
The repo/reserves saga continues but with year end behind us things should calm down. While demand for liquidity remains strong maybe we have reached peak liquidity provision for now. Last week saw the first real downtick in total outstanding repo and T-Bill holdings… Lets see.



Actionable Trades and Developments:

Equity Indexes: Like EWW for EM in general rally and MXN specific breakout.

US momentum still holding up so far. Best if S&P holds above 3210 in coming days.



Fixed Income: Like June 98.50 Eurodollar calls for 4 ticks, just in case Fed is forced to unexpectedly cut more.

Commodities: Still like Gold big picture but sidelined for now.

Currencies: Short USD vs. MXN and AUD. Looking for potential USD downside acceleration. To borrow a Druckenmiller quote: "Strong convictions, lightly held."

Important Macro Data Releases and Events for the Week

Monday
1/13/2019

- Manufacturing Production MoM (Nov) Forecast: -0.2%, Prior: 0.2%
- Manufacturing Production YoY (Nov) Forecast: -1.6%, Prior: -1.2%
- Industrial Production MoM (Nov) Forecast: -0.2%, Prior: 0.1%
- Industrial Production YoY (Nov) Forecast: -1.4%, Prior: -1.3%
- GDP MoM (Nov) Forecast: 0%, Prior: 0%
- Bank of Canada Business Outlook Survey **REPORT**

Tuesday
1/14/2019

- Trade Balance USD (Dec) Forecast: $48 B, Prior: $37.93 B
- Exports YoY (Dec) Forecast: 3%, Prior: -1.3%
- Imports YoY (Dec) Forecast: 9.6%, Prior: 0.5%
- CPI Ex-Food and Energy MoM (Dec) Forecast: 0.2%, Prior: 0.2%
- CPI Ex-Food and Energy YoY (Dec) Forecast: 2.3%, Prior: 2.3%
- CPI MoM (Dec) Forecast: 0.2%, Prior: 0.2%
- CPI YoY (Dec) Forecast: 2%, Prior: 2.1%
- Fed's Williams **SPEECH**

	Monthly Budget Statement (Dec) Forecast: $-196.5 B, Prior: $-209 B
Wednesday 1/15/2020	CPI YoY (Dec) Forecast: 1.5%, Prior: 1.5%
	Industrial Production s.a. MoM (Nov) Forecast: 0.3%, Prior: -0.5%
	PPI Ex-Food & Energy YoY (Dec) Forecast: 1.4%, Prior: 1.3%
	US/China Trade deal Signature
	Fed's Harker **SPEECH**
	German Buba President Weidman **SPEECH**
Thursday 1/16/2020	Harmonized Index of Consumer Prices YoY (Dec) Forecast: 0.6%, Prior: 0.6%
	ECB Monetary Policy Meeting Accounts (minutes)
	Retail Sales Ex-Auto MoM (Dec) Forecast: - , Prior: 0.1%
	Retail Sales Control Group (Dec) Forecast: 0.4%, Prior: 0.1%
	Philadelphia Fed Manufacturing Survey (Jan) Forecast: 3.9, Prior: 0.3
	Initial Jobless Claims Forecast: 220k, Prior: 214k
	Initial Jobless Claims 4-week ave. Forecast: - , Prior: 224k
	Continuing Claims Forecast: - , Prior: 1.803m
	Fed's Bowman **SPEECH**
Friday 01/17/2020	GDP YoY (Q4) Forecast: 6%, Prior 6%
	Industrial Production YoY (Dec) Forecast: 5.9%, Prior: 6.2%

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- GDP QoQ (Q4) Forecast: 1.5%, Prior: 1.5%
- Retail Sales YoY (Dec) Forecast: 7.6% Prior: 8%
- CPI MoM (Dec) Forecast: -0.3%, Prior: 0.3%
- CPI YoY (Dec) Forecast: - %, Prior: 1.3%
- CPI - Core MoM (Dec) Forecast: -0.5%, Prior: 0.5%
- CPI - Core YoY (Dec) Forecast: 1.3%, Prior: 1.3%
- Building Permits MoM (Dec) Forecast: 1.47 M, Prior: 1.482 M
- Housing Starts MoM (Dec) Forecast: 1.365 M, Prior: 1.365 M
- Fed's Harker **SPEECH**
- Industrial Production MoM (Dec) Forecast: 0.2%%, Prior: 1.1%
- Michigan Consumer Sentiment Index (Jan) Forecast: 99.4, Prior: 99.3
- Fed's Bowman **SPEECH**

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