What to focus on in Global Macro for the week of September 20th, 2021

Macro Themes on the Radar:

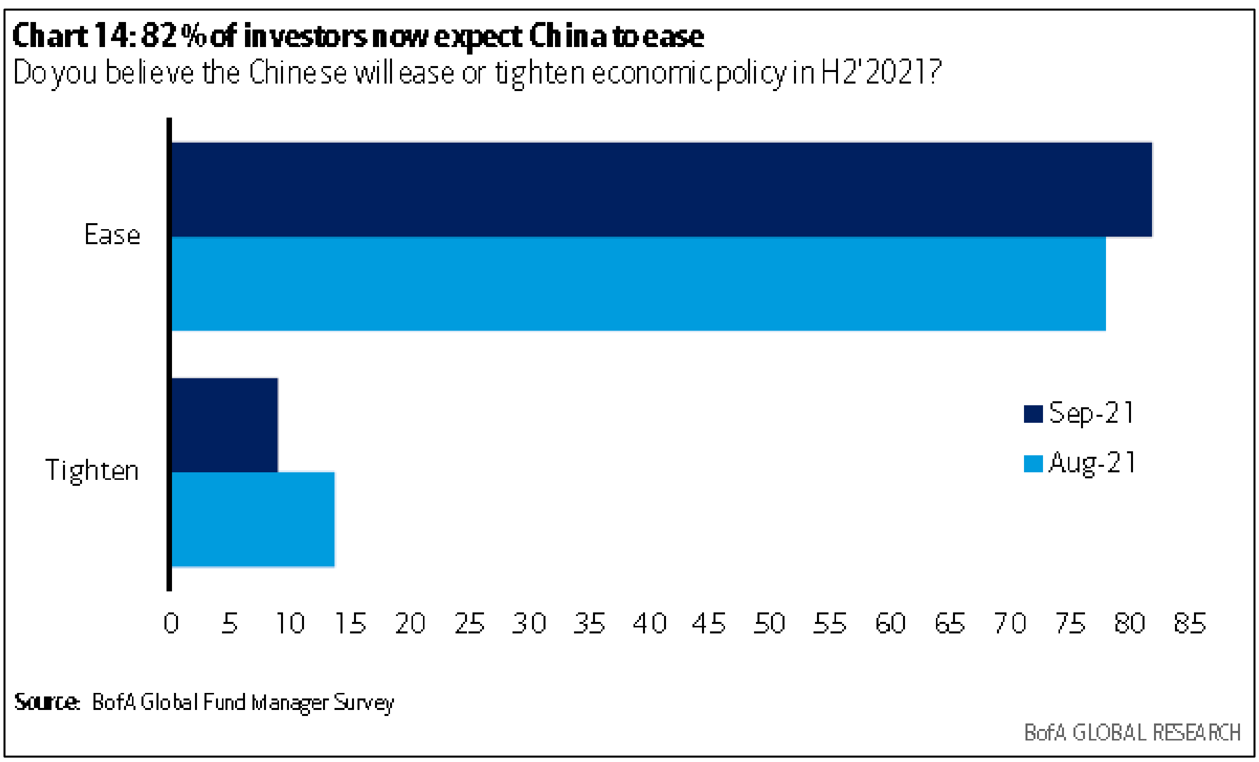
While next week has a number of central bank policy decisions looming, overall, the expectation is for broadly unchanged policies.

Fed

The Fed meeting will be closely watched for any hints about the timing of a potential tapering of asset purchases. I would expect more talk about how a reduction in asset purchases is appropriate "this year", as long as the economy stays on track. It is also likely that the dot plot shows more hikes than before in 2023. Market participants will also be watching for changes in the Fed's staff economic forecasts.

PBoC

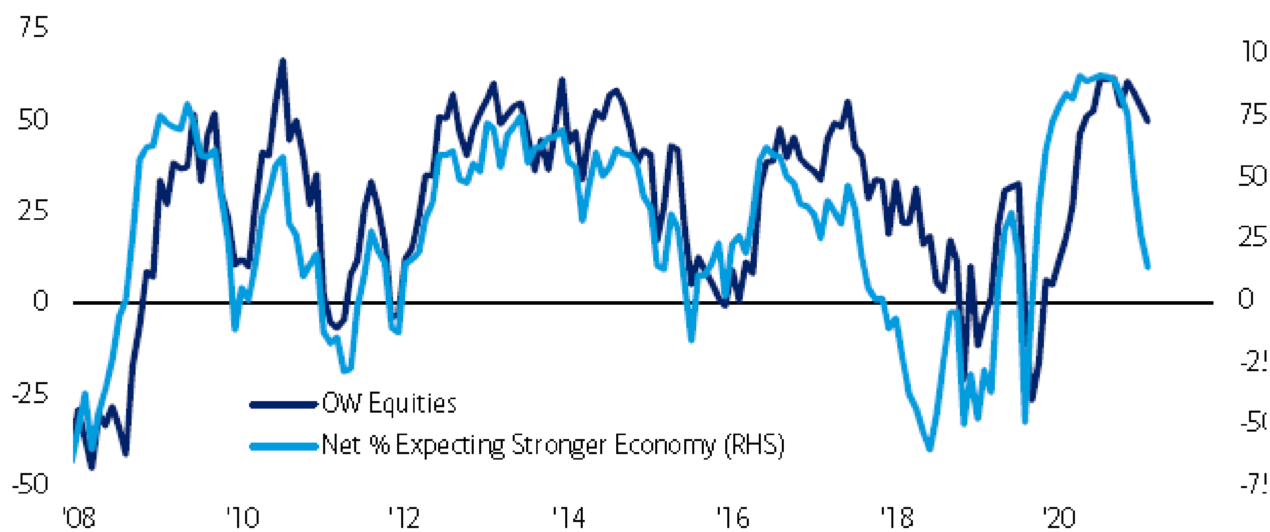
China's central bank also has a meeting coming up, and with the recent continued weak data, more and more investors have penciled in an eventual easing. This meeting could bring an RRR cut, but it is probably still too soon for a policy rate change. They have been injecting additional liquidity on a frequent basis over the last few weeks.



With expectations already so high, eventual action has already been at least partially priced for China, and any easing will need to be fairly dramatic to have a lasting impact on the markets.

The Delta variant and continued shortages of materials and labor are creating a growing disconnect between asset prices and fundamentals. China and its effects on global growth have recently been added to the list of concerns. So far US markets have been looking through all of this and benefiting from some of the flight to safety flows.

Chart 1: Rare FMS disconnect between asset prices & fundamentals growing
Net % expecting stronger economy vs net % overweight equities



Source: BofA Global Fund Manager Survey

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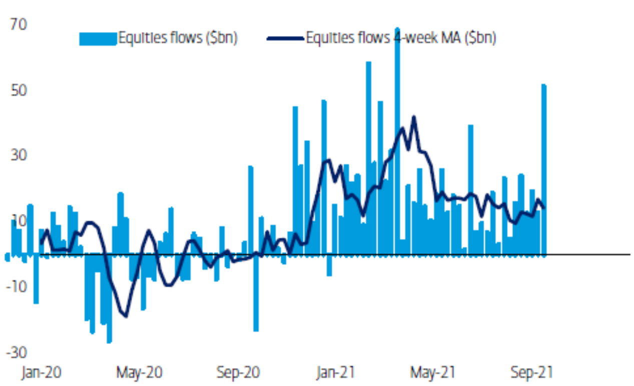
Chart 5: Monster reallocation cash-to-stocks
Equities flows (weekly and 4-week MA, $bn)



Source: BofA Global Investment Strategy, EPFR

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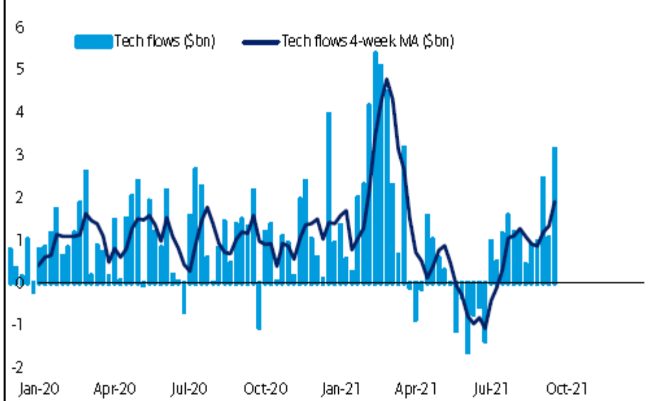
Chart 6: Largest inflow to tech since Mar'21
Tech flows (weekly and 4-week MA, $bn)



Source: BofA Global Investment Strategy, EPFR

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While US retail sales were better than expected and CPI was a bit softer than expected last week, the data in China has continued to disappoint, increasingly weighing on global growth expectations.

Chart 12 China threatening to turn "ex-growth"
China retail sales 2-year % change

Source: BofA Global Investment Strategy, Bloomberg

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- China: Retail sales growth slumped to 2.5% y/y in August, from 8.5% in July, well below the consensus, 7.0%.
- China: Industrial production growth slowed to 5.3% y/y in August, from 6.4% in July, below the consensus 5.8%.
- China: FAI growth slowed to 8.9% in August, from 10.3% in July, close to the consensus, 9.0%
- China: The rise in new home prices slowed to 0.16% in August, from 0.30% in July.

<u>What to Focus on Now:</u>

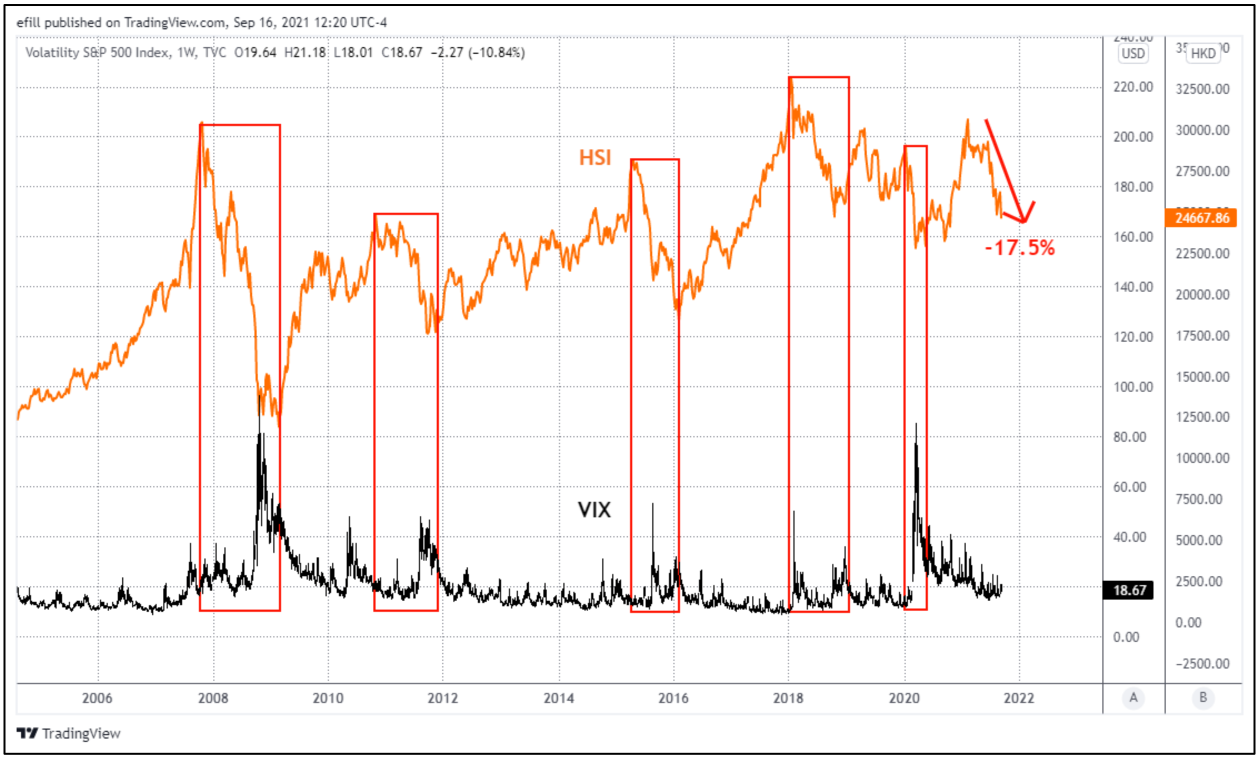
Equities

Global equities wobbled at the end of the week, with EM and commodity-related stocks continuing to look soft, largely because of China uncertainty.

The Hang Seng, with its large exposure to real estate firms has been roughed up in recent weeks.

Since 2008, this kind of drop has often resulted in a broader risk-off reaction that has popped the VIX.

We will see if that is the result this time as well…

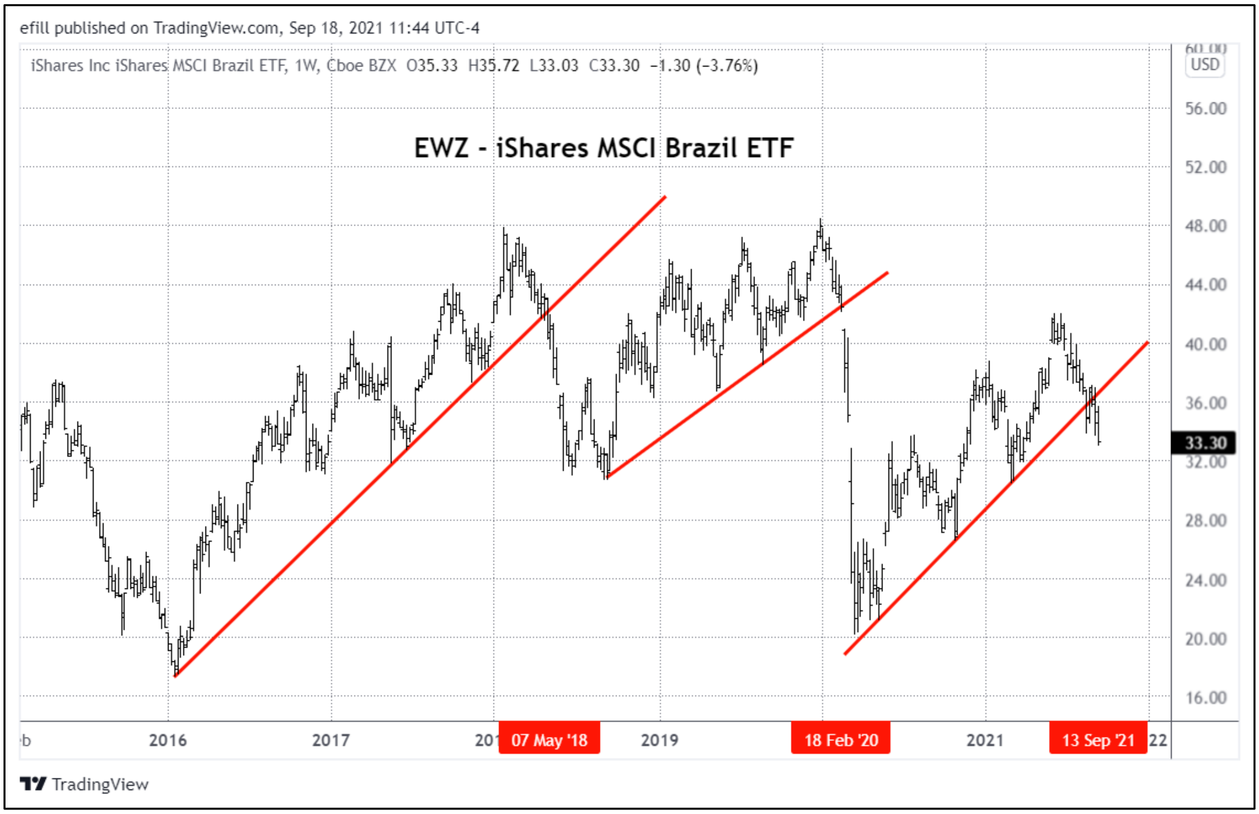


The disconnect between global equities and the HSI is now huge.

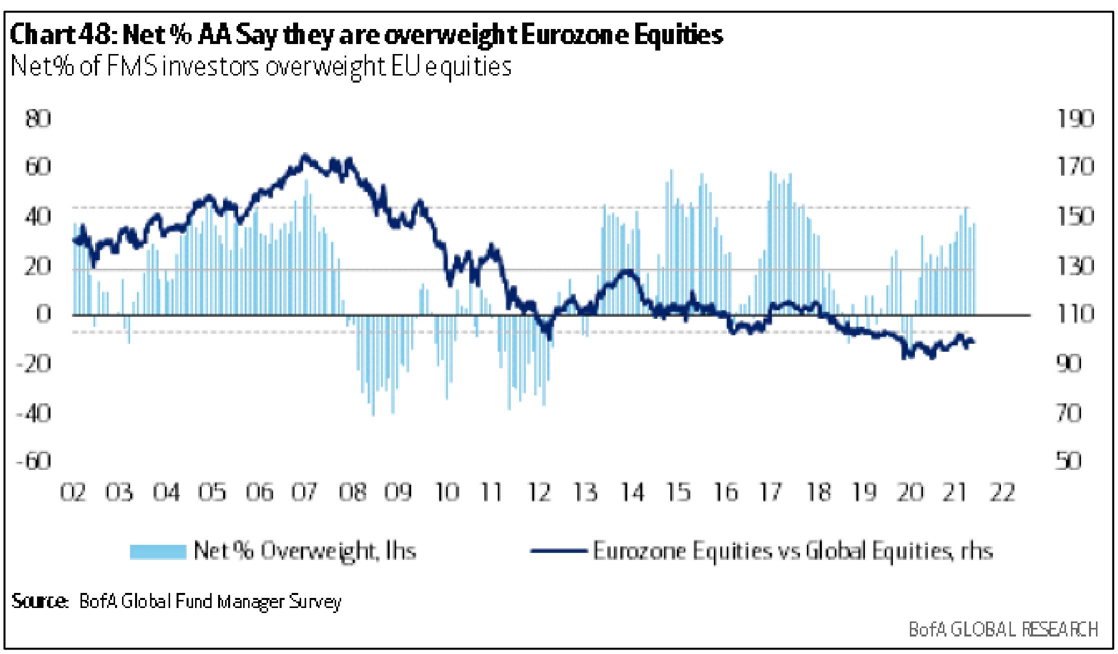
The US outperformance is definitely a big reason for that disconnect, given its weighting in global stocks. However, even if you take the US out of it, the divergence is still striking.

Natural resource stocks like BHP, VALE and RIO have been hit very hard over the last few weeks. Does that spell trouble for the broader materials stocks?

Brazil which has some of its own issues, but also represents EM/Commodities, remains vulnerable.



Europe has become an increasingly popular long as people look for continued reopening, and catch-up, after long underperformance.

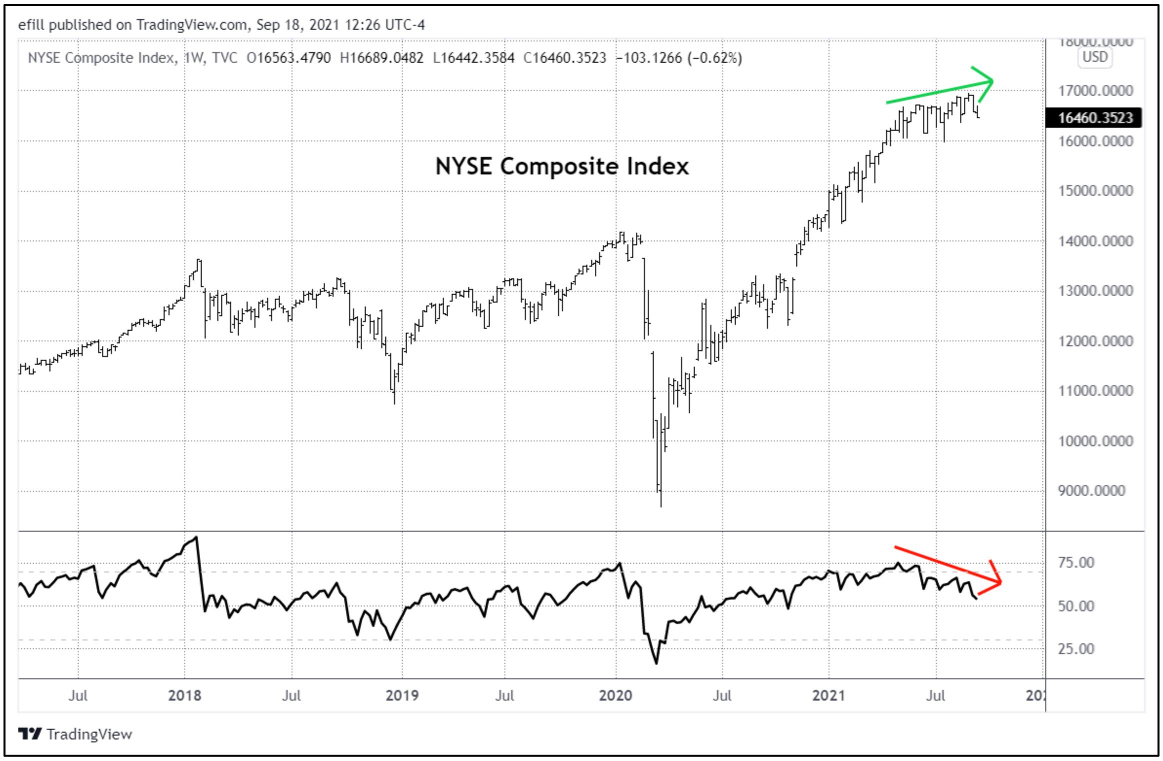


Stargazer Asset Management

Technicals are showing growing divergence between price and momentum, however. Renewed price acceleration to the topside is needed, or we may get some position unwind here.

The US cracked some initial support on Friday. Buy the dip, or more downside?

The broader NYSE Comp. has divergence similar to what we are seeing in Euro Stoxx.



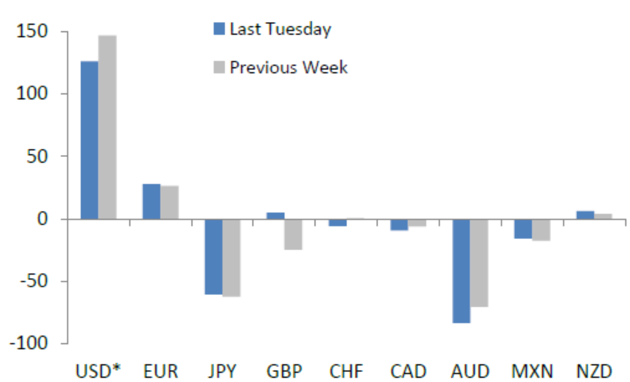
Bonds and Rates – US bond yields and front end knocking on important levels.

Eurodollars held an important level last week as well. Let's see what the Fed's dot plot brings on Wednesday…

FX - Currencies have not been much fun this year. Maybe something is stirring, however.

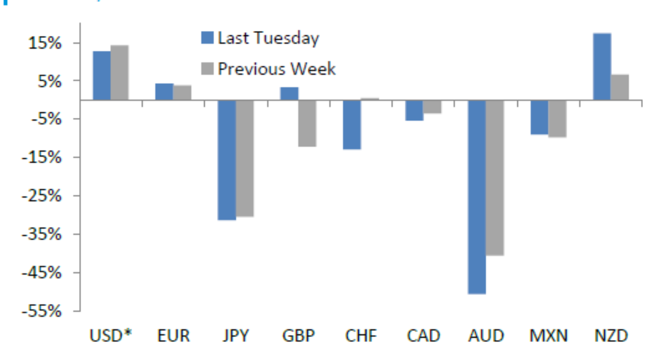
While most people I speak with are inclined to be bearish USD from a sentiment perspective, positioning looks long USD vs. JPY and AUD, with the market otherwise bored and frustrated with this asset class.

Figure 9: Net non-commercial positioning ('000 contracts)



Source : CFTC, Deutsche Bank

Figure 10: Net IMM-positioning (as % of open speculative interest)



Source : CFTC, Deutsche Bank

Suddenly we saw a break higher in USDCHF last week, as it hit 5-month highs. I suspect this is a combination of US interest rate expectations, and comments from the SNB saying that the CHF remains very over-valued (although there isn't much they can do about that). GBPUSD rolled.

I'll be watching GBPUSD's 1.3600 level for additional evidence that a broader USD rally could be developing.

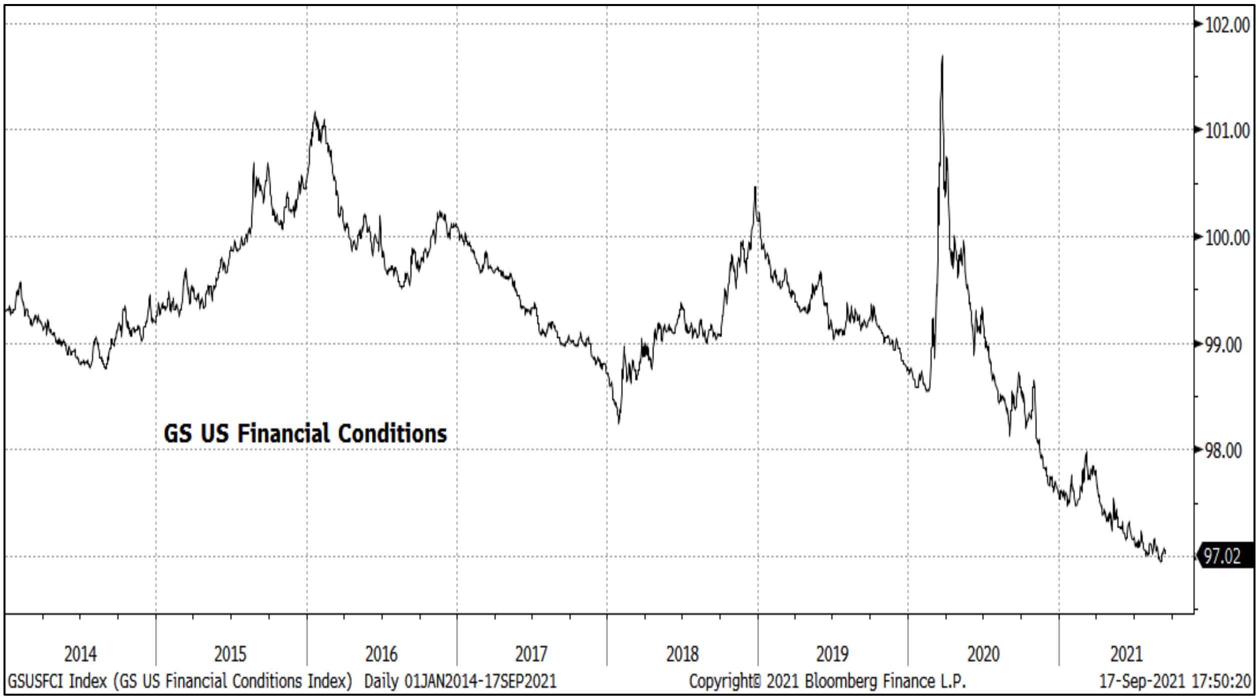
In the meanwhile, the weekly Bollinger Bands in USDJPY are now very tight, reflecting the very narrow trading range we have been in for months now. Over the last decade, we have seen big moves when very tight ranges like this finally do break. Start your countdown… I'm watching 111.00 on top and 108.50 below for the first indication that something is changing here.

Why does it matter? While FX hasn't been very exciting, it remains a good indicator of global liquidity conditions and mood.

The best backdrop for global equities remains slowly rising yields and a falling USD. Quickly rising or falling yields AND a stronger USD tend to produce a more difficult environment, with higher general volatility.

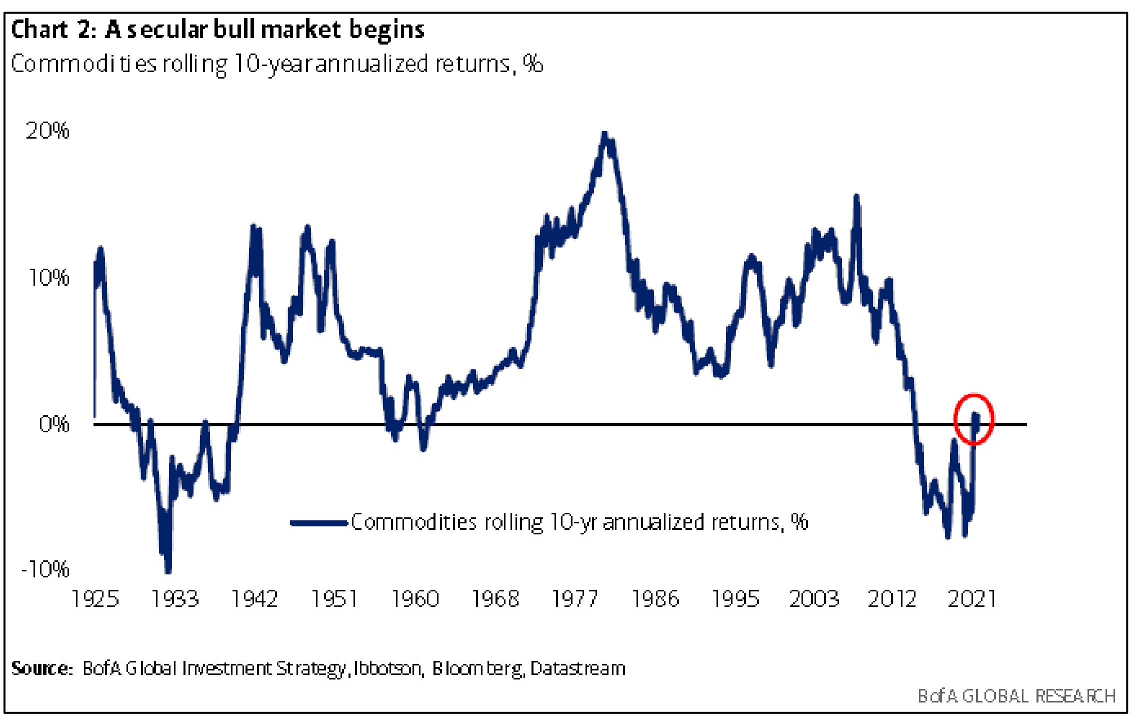
Financial Conditions, of course, reflect strong equity markets, but also include interest rates, credit spreads, and the USD.

Higher interest rates and a stronger USD need to be monitored if they develop, as they will start tightening Financial Conditions, which have remained extremely easy.



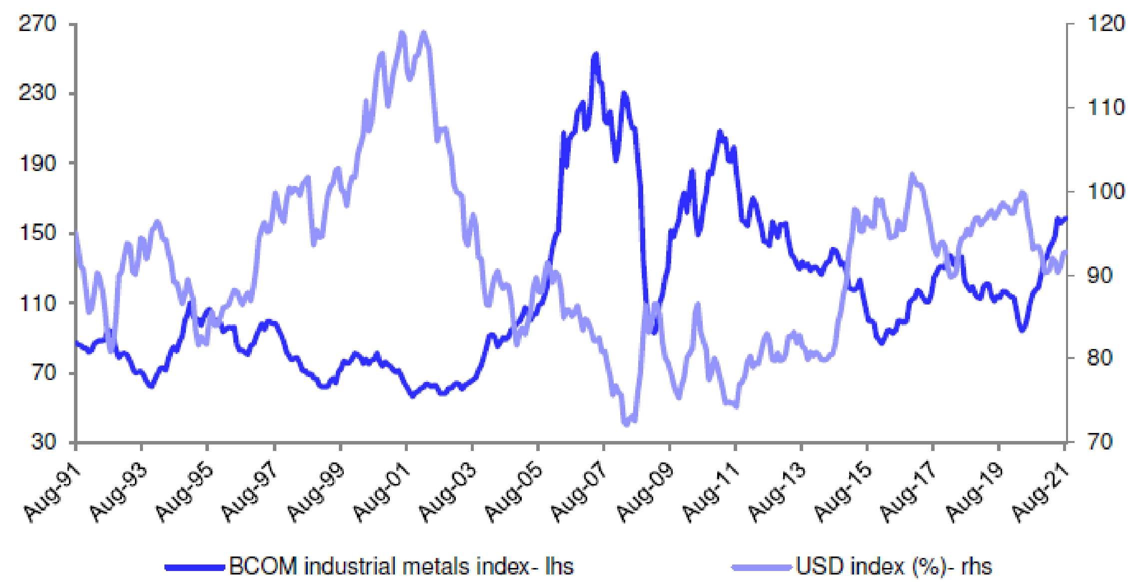
Commodities

We may well be at the beginning of a period of generally higher commodity prices and returns. However, in the near-term, the USD and China will be key.



Periods of commodity strength are historically closely linked to periods of USD weakness.

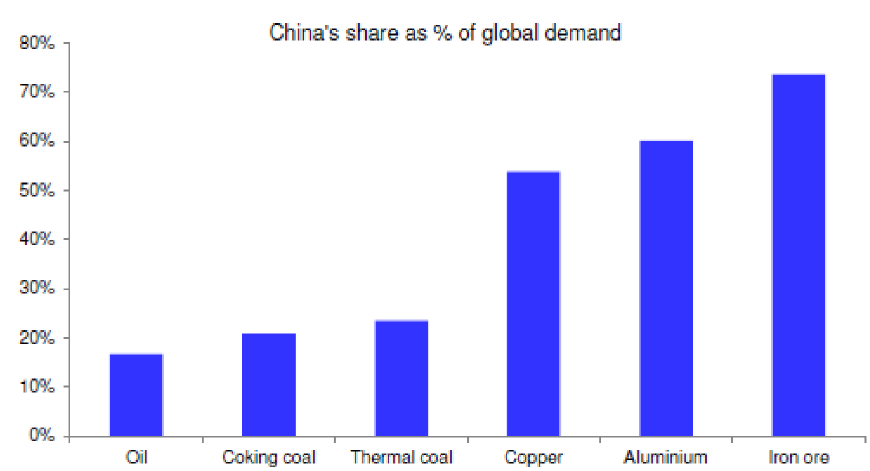
Figure 29: The US$ has a strong inverse relationship with commodity prices



Source : Deutsche Bank, Bloomberg Finance LP

However, China is such a big player, especially in some commodities, that it remains key.

Figure 27: China as a share of global demand for coal, copper, aluminium and iron ore



Source : Deutsche Bank, CRU. Coal and iron ore based on import demand

Stargazer
Asset Management

China's emission and supply policies are driving some extreme divergences in commodities.

There is a developing energy squeeze in China and Europe that has been propelling natural gas and coal prices higher, while Aluminum (as DB calls it "energy in metal form") has surged due to forced production cuts and the Guinea coup. At the same time, there have been large steel production cuts in China due to emissions targets, combined with weaker construction demand. The result has been a 50% drop in iron ore prices from the record May highs.

Over the medium term, de-carbonization should mean that Copper and Aluminum demand is persistently higher, as EV's provide a durable boost to demand.

This week we have a slew of CB's announcing monetary policy decisions and flash PMI's.

Important Macro Data Releases and Events for the Week

Monday
9/20/2021

- PPI MoM (Aug) Forecast: 0.8%, Prior: 1.9%
- RBA Meeting Minutes

Tuesday
9/21/2021

- Building Permits
- Housing Starts
- **PBoC Interest Rate Decision – Current 3.85%**
- BoJ Interest Rate Decision and Monetary Policy Statement / Press Conf.

Wednesday
9/22/2021

- **FOMC Interest Rate Decision and Monetary policy Statement / Press Conf.**
- **FOMC Economic Projections**

Thursday
9/23/2021

- Markit PMI's Across Europe
- Initial Jobless Claims Forecast: -, Prior: 332k
- Initial Jobless Claims 4-week average Forecast: -, Prior: 335k

		Continuing Jobless Claims, Prior: 2.665M
		SNB Interest Rate Decision and Monetary Policy Statement
		Retail Sales
Friday 9/24/2021		IFO - Business Climate, Current Assessment, Expectations (Sep)

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