Stargazer
Asset Management

What to focus on in Global Macro for the week of August 16th, 2021

Macro Themes on the Radar:

With the endless cycle of watching for Fed speakers/announcements, inflation numbers, and employment data now well entrenched, I thought it might be helpful to highlight the "big dates" for the Fed in the coming months.

Jackson Hole Conference August 26-28

September Fed meeting 21-22

November Fed meeting 2-3

December Fed meeting 14-15

Last week, we saw another round of inflation data. CPI came in marginally weaker than expected and gave some cover to the Fed's transitory camp. Car and truck rentals fell -4.6% mom, used cars were only up 0.2% and likely to turn negative next month. Housing rental pressures remain subdued as owners-equivalent were up 0.3%mom and rent up 0.2%, weakest since March.

The very next day, US producer prices surprised to the upside highlighting the ongoing inflationary pressures from still-rising commodity costs and supply chain bottlenecks.

We had a number of Fed speakers as well last week. For the most part, they all continued to go with the transitory inflation story and said that they would not hike preemptively even with a hot labor market. However, increasingly they seem to agree that "substantial progress" is being made, and that taper is coming. Kaplan even laid out a timeline, saying that he "would be in favor of announcing a plan at the September meeting and beginning tapering in October."

The current delta variant surge is a big question mark, but at least for now it looks like the next jobs report could be strong again. Job openings surged in the last US Jolts survey to a record 10mn+. The consistently hawkish Fed's Bostic indicated that a September taper decision is possible "if jobs growth explodes". That conditionality probably meant that September isn't his base case.

So, with the uncertainty around the COVID wave, unless we get another big jobs number, the taper announcement may be slipping to November. I think the September meeting will be a lively one, and since it is still over a month away, a lot could change.

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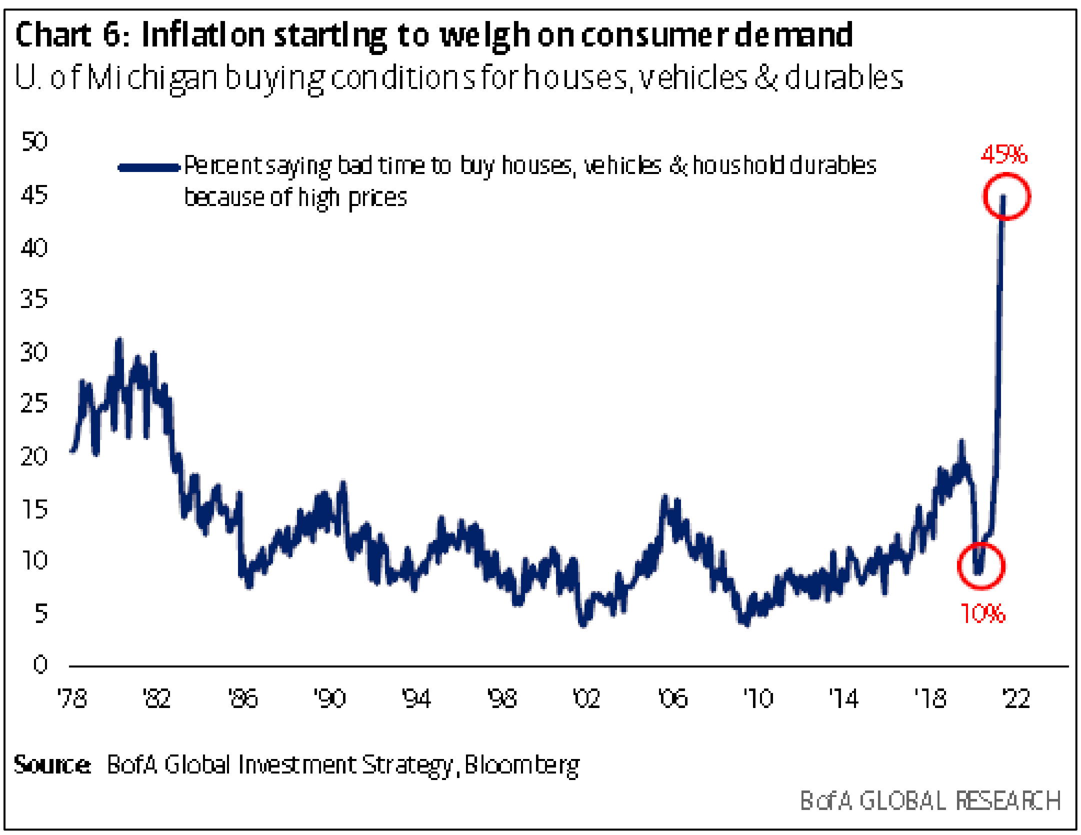
To finish off the week, Friday's University of Michigan Consumer Sentiment Index was much worse than expected. Reflecting [“dashed hopes that the pandemic would soon end”.]()

The jump in prices also looks to be weighing on consumer sentiment.



What to Focus on Now:

Yields

The daily price action across global markets is certainly being influenced by everyone's constant focus on yields. Equity rotation and currency moves are shadowing yields. Despite a continued run higher for most of the week, by Friday, long-end yields were basically back to where they started.

Five-year yields held up better, resulting in a small bearish flattener of about 3bps in 30's-5's on the week.

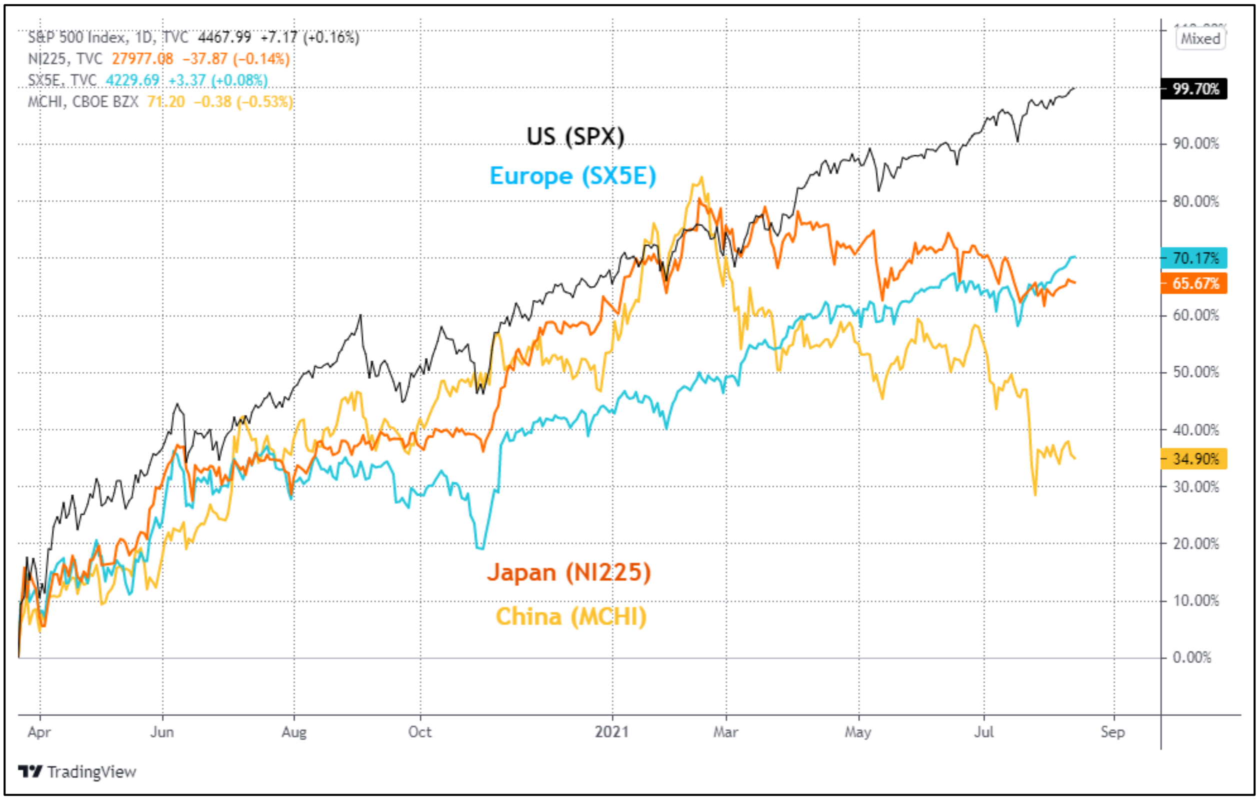
It is a very strange COVID world, and markets are struggling with the potential for slower inflation and GDP growth in the coming months while yields are already unusually low given the fundamentals, and the curve is already flatter than you would expect at this point in the cycle.

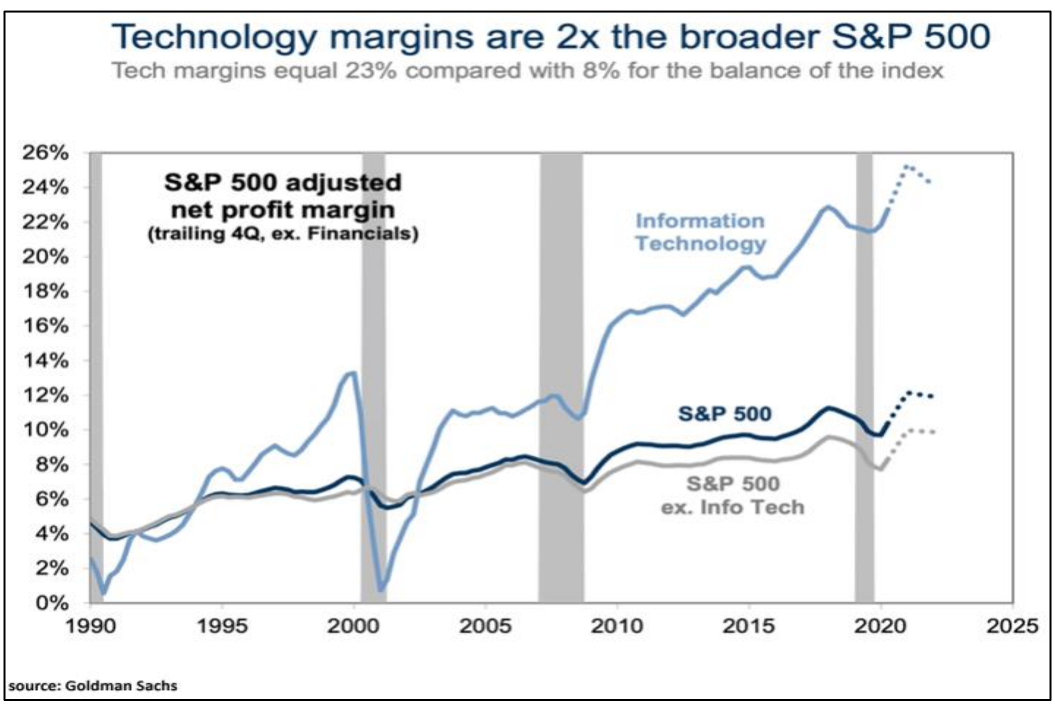
The Fed seems equally lost in terms of why the curve is already flatter than normal. Noise or signal? In a world of massive government involvement in markets via monetary and fiscal stimulus, it is hard to penetrate. We can blame everything from a short squeeze, bank buying of bonds, negative net issuance (after QE), less new borrowing as TGA is drained, etc. The big question is whether there is still a signal in the price, or higher yields just being delayed by the above factors? This week's yield highs are now worth keeping an eye on.

Curve a little flatter but still stuck in the recent range for the moment.

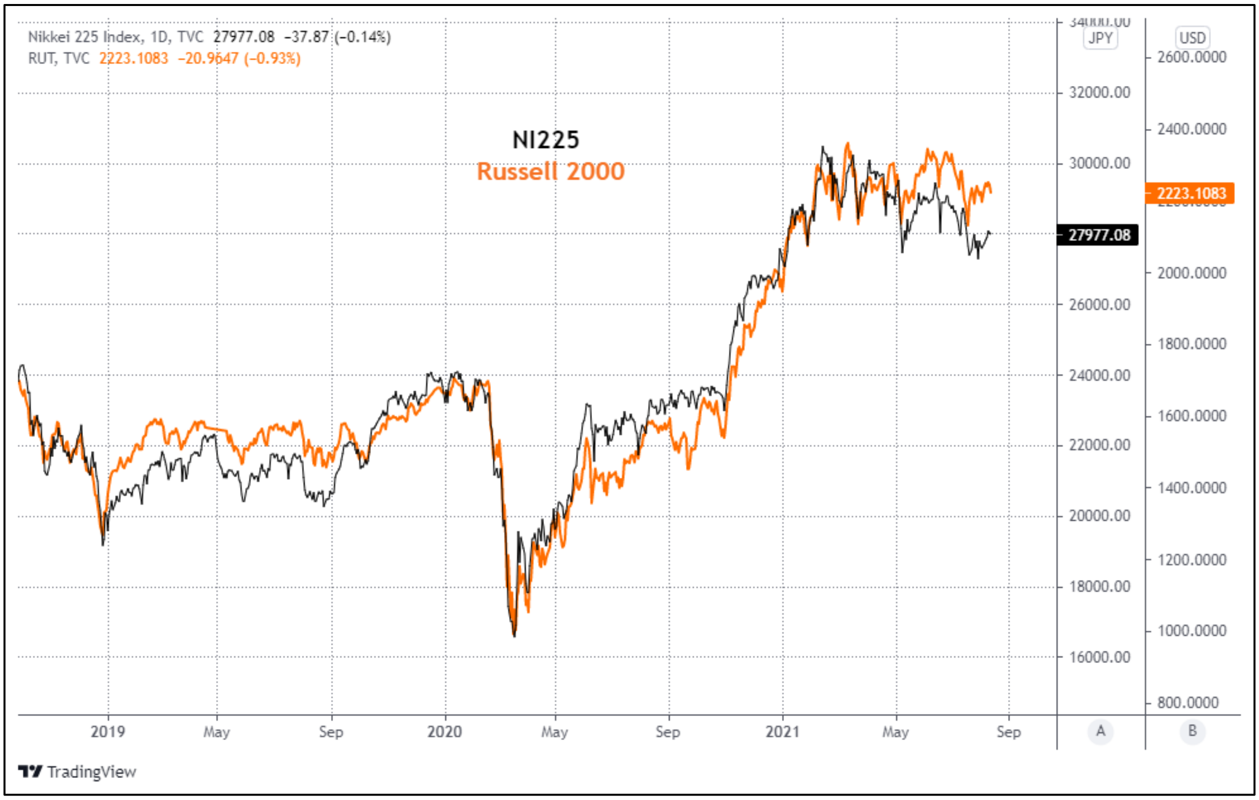
Equities

Global equities have continued to be led by the US (tech), with Europe recently also coming to life.



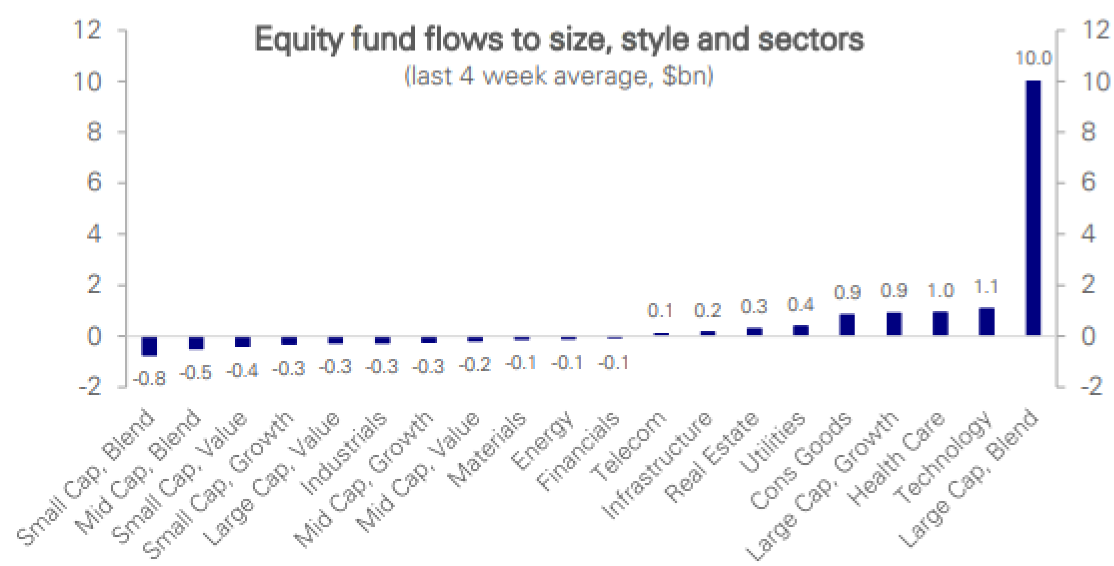


Without the power of US big tech, some of the other charts start to look similar.



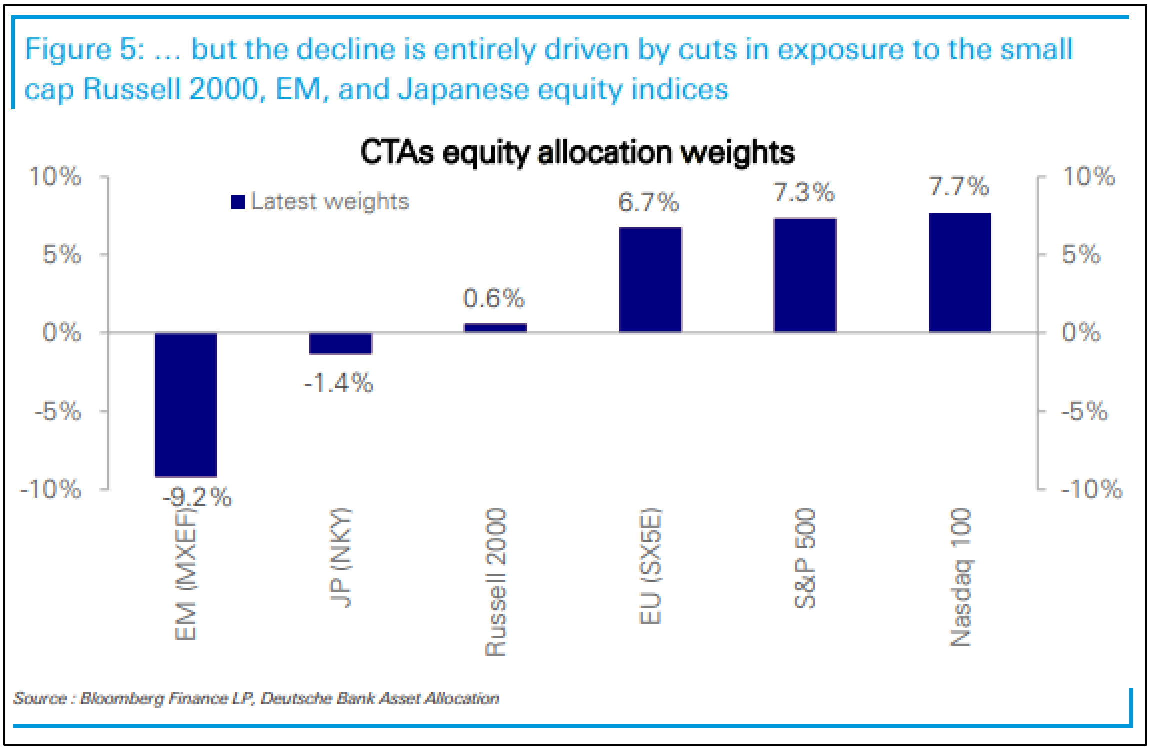
Large Cap. has been the winner recently… again.

Figure 10: … but most other categories have seen inflows stall or are seeing outflows



Source : EPFR, Haver, Deutsche Bank Asset Allocation

Equity exposure has been falling for some investors as they sell out underperformers.



As noted, Europe has been performing recently. So far it barely registers in the big picture.

Europe doesn't look expensive if earnings can stay on track as full reopening unfolds.

Exhibit 1: YTD STOXX price has risen ....but P/E has fallen
Europe STOXX 600

Source: FactSet, STOXX, Goldman Sachs Global Investment Research

France, Germany, and Sweden have led the charge, but Italy looks interesting as well.

The above MIB Index chart doesn't have the direct EUR exposure the EWI ETF has, and so has already taken out big levels, while the ETF is still lurking. Interesting levels in the paired trade…

In the meanwhile, Europe is accelerating vs. EM. Here Euro Stoxx 50 vs. EEM…

And Eurozone… Of course, part of this is that EEM is being held back by large China exposure.

EM/China

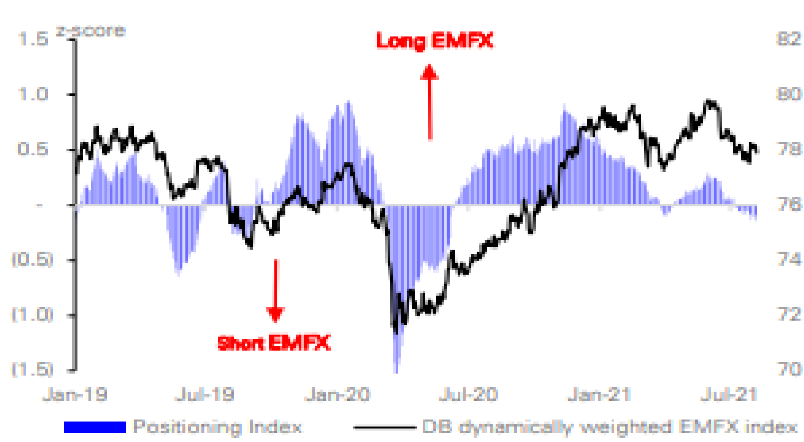
China looks set to continue its efforts to reduce leverage and to "reform" the economy. As DB highlighted mid-week…

"Overnight, China's State Council and the Communist Party's Central Committee have jointly released a statement saying that authorities would "actively" work on legislation in areas including national security, technology and monopolies while adding that law enforcement will be strengthened in sectors ranging from food and drugs to big data and artificial intelligence. In addition to this, China's banking and insurance watchdog has ordered companies and local agencies to curb improper marketing and pricing practices and step-up user privacy protection. The agency said that it is encouraging for companies to address these issues voluntarily and said those that failed to comply would face "severe punishment." Chinese stocks are weaker on the back of this."

The question is how fast and how impactful. At the same time, China is faced with increased COVID cases and potentially economically damaging containment efforts. Increasingly people are thinking that we will not only get another RRR cut in the coming months but that the PBoC could deliver a policy rate cut as well (this meeting is probably too soon). However, policymakers are very mindful of the balance between providing liquidity and creating bubbles and inflation.

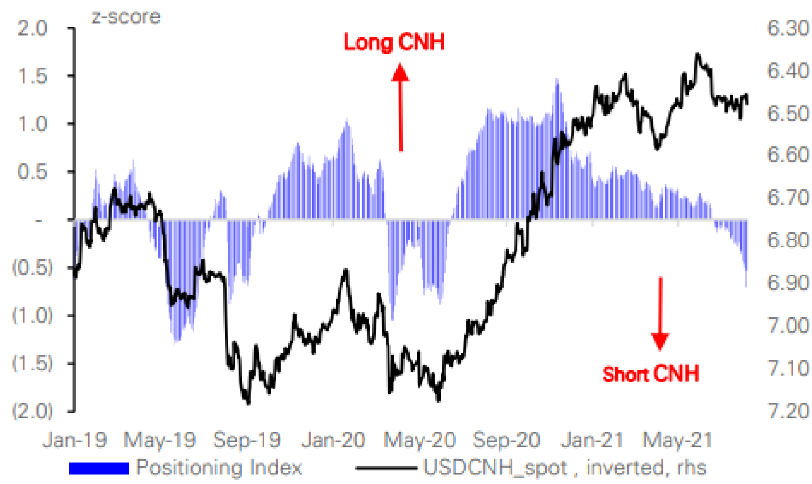
The market is starting to worry about how China will thread the needle, and what that means for the rest of Asia. CNH shorts are building.

Figure 1: The market has opened a small aggregate EMFX short…



Source : Deutsche Bank, Bloomberg Finance LP, DTCC, EBS, Reuters, IMM, CORAX

Figure 16: CNH positioning



Source : Deutsche Bank, Bloomberg Finance LP, DTCC, EBS, Reuters

So far, this continues to be largely a China-specific story for markets but watch ex-China EM and the dollar for signs of contagion.

In FX, the CAD and the AUD have been weakening. Is it a warning sign for global growth and commodities going forward, or just idiosyncratic issues and positioning adjustment? The problem is that the old drivers and correlations are already very out of whack here.

Take AUD for example. In terms of Australia's current account, and its old relationship to such commodities as copper, it is very cheap. However, continued COVID cases, low vaccination rates, and the resulting stringent lockdowns are being blamed for the continued AUD weakness. Makes sense for sure, but that also means that it has little value as any kind of indicator or hedge when looking at bigger picture risk-on, risk-off. Again, we are faced with the question of whether there is greatly reduced informational value in prices?

In the meanwhile, FX overall has remained rangebound.

Currently, EUR/USD is on track to see the tightest range in thirty years (synthetic pre-1999). So far, we have seen a 6-figure range, while an average year sees 19. I guess we will see if we can still make up the difference before year-end!

Only last week we were testing support in the EUR at 1.1700. A meaningful break could be interesting for global assets overall. As noted last week, how that would combine with moves in the bond markets would dictate the regime we are heading into. The combination of bonds and FX can quickly have big effects on global financial conditions.

For the Dollar Index, the 93.20/50 area remains the zone to watch.

Important Macro Data Releases and Events for the Week

Sunday 8/15/2021

- Retail Sales YoY (Jul) Forecast: 11.5%, Prior: 12.1%
- Industrial Production YoY (Jul) Forecast: 7.8%, Prior: 8.3%

Monday 8/16/2021

- RBA Meeting Minutes

Tuesday 8/17/2021

- GDP s.a. QoQ (Q2) Forecast: 2%, Prior: 2%
- GDP s.a. YoY (Q2) Forecast: 13.7%, Prior: 13.7%
- **Retail Sales Control Group (Jul) Forecast: 0.3%, Prior: 1.1%**
- **Retail Sales MoM (Jul) Forecast: -0.2%, Prior: 0.6%**

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Wednesday 8/18/2021	CPI YoY (Jul) Forecast: 2.2%, Prior: 2.3%
	CPI Core YoY (Jul) Forecast: 0.7%, Prior: 0.7%
	CPI Core YoY (Jul) Forecast: 2.8%, Prior: 2.7%
	FOMC Minutes
Thursday 8/19/2021	Philly Fed Manufacturing Survey (Aug) Forecast: 28, Prior: 21.9
	Initial Jobless Claims Forecast: -, Prior: 375k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 396.25k
	Continuing Jobless Claims, Prior: 2.866M
	PBoC Interest Rate Decision
Friday 8/20/2021	Retail Sales MoM (Jun) Forecast: 4.4%, Prior: -2.1%

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