What to focus on in Global Macro for the week of June 28th, 2021

Macro Themes on the Radar:

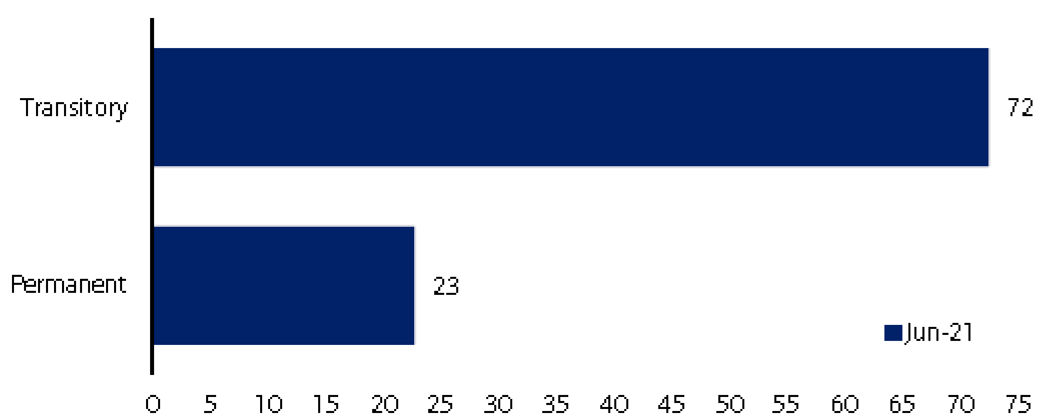
Forest for the trees…

Last week was both messy and strangely quiet for Macro. The noise to signal ratio remains very high as uncertainty about how high inflation will get, and how long it will last, is keeping central bankers and market participants on edge.

Core PCE printing the highest inflation reading since 1992 last week, didn't help. Larry Summers is now calling for 5% inflation by the end of the year, and El-Erian expects that central bankers will soon need to change their definition of transitory, lengthening the time period, as inflation persists for longer than expected.

For now, investors are still largely onboard with the Fed's view.

Exhibit 1: 72% of investors think inflation is transitory
Do you think inflation is transitory or permanent?



Source: BofA Global Fund Manager Survey

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However, increasingly Fed officials are admitting that they are surprised by the speed of the re-opening and the magnitude of the inflation pop.

Unfortunately, we won't really have a clear answer to the "transitory" debate for months. What we could get, is a Fed that feels real mounting pressure if the inflation prints continue to surprise. In that scenario I would expect increasingly divergent pronouncements from Fed officials, as some will see a need for action. Potentially volatility inducing.

The high uncertainty and delayed resolution of the inflation question makes the employment data over the next few months even more important.

Which states plan to end the FPUC early?

- Arizona: June 10*
- Iowa: June 12
- Mississippi: June 12
- Missouri: June 12
- Alaska: June 12
- Alabama: June 19
- Idaho: June 19
- Nebraska: June 19
- New Hampshire: June 19
- North Dakota: June 19
- West Virginia: June 19
- Wyoming: June 19
- Arkansas: June 26
- Florida: June 26
- Georgia: June 26
- Ohio: June 26
- Oklahoma: June 26
- South Carolina: June 26
- South Dakota: June 26
- Texas: June 26
- Utah: June 26
- Montana: June 27*
- Maryland: July 3
- Tennessee: July 3
- Indiana: July 19

* Arizona and Montana are offering additional stipends or "return to work" bonuses with the loss of expanded benefits.

Nordea

The market is expecting payrolls in the +600-700k range on Friday.

Some states have already ended FPUC payments and more are to follow. All told, there are now 25 states that will end the payments well before the Federal program runs out on September 4th. The July and August payroll releases will give us a lot of insight into how big an effect these payments have had. It will be worth watching the individual state's weekly claims data as well, for hints on how this is unfolding.

Even if we get a +700k increase, the total number of nonfarm payrolls would still be -6.9m beneath its level in February 2020. At the same time, there are a record number of unfilled positions and a record number of people quitting their existing jobs. This is an unsustainable situation, and there is huge potential for some out-of-consensus data prints, as this log jam clears in the coming months.

The Fed is chronically bad at getting the big macro calls right, and COVID has only raised the degree of difficulty. Maybe we still have a relatively quiet six weeks or so ahead of us but come August things could get interesting.

For now, the stimulus keeps coming. Not only is the Fed still increasing its balance sheet (now overt $8T) but the government continues to push new spending.

When you look at it on a global scale, the numbers are staggering. The latest US infrastructure plan, according to BoA's calculations, takes a running tally of global monetary & fiscal stimulus to $30.5tn over the past 15 months, an amount equivalent to entire Chinese & European GDPs.

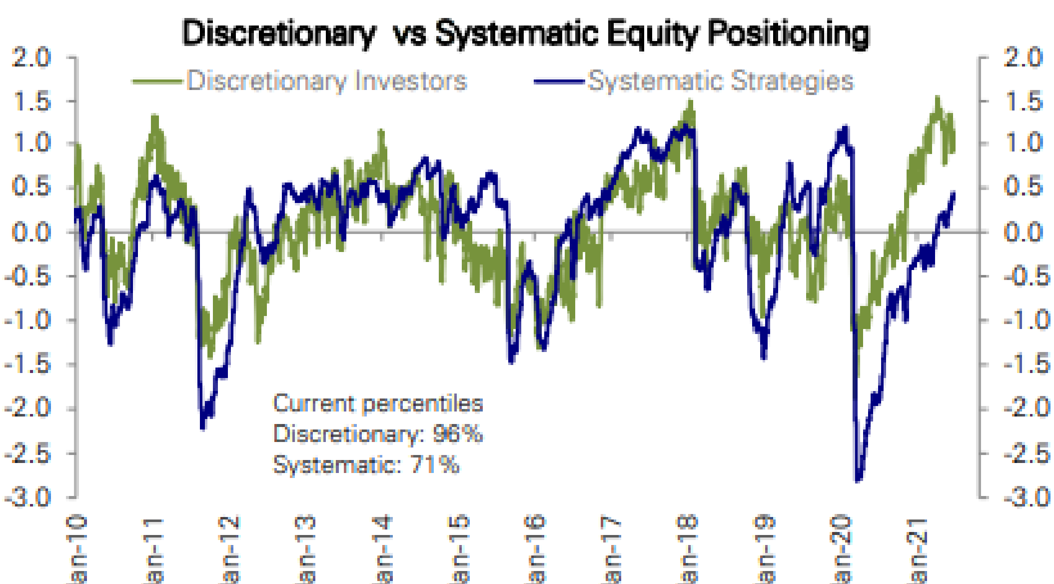
Some central banks are now tightening or at least actively contemplating it. Fiscal spending is also likely to peak in the coming months. Between the huge demand and supply mismatches seen across many facets of the economy, and the large footprint left by governments, I think H2 will provide some big tactical opportunities.

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

Equities

Positioning in equities remains high with systematic strategies still adding.

Figure 2: Discretionary vs Systematic strategies divide[2]

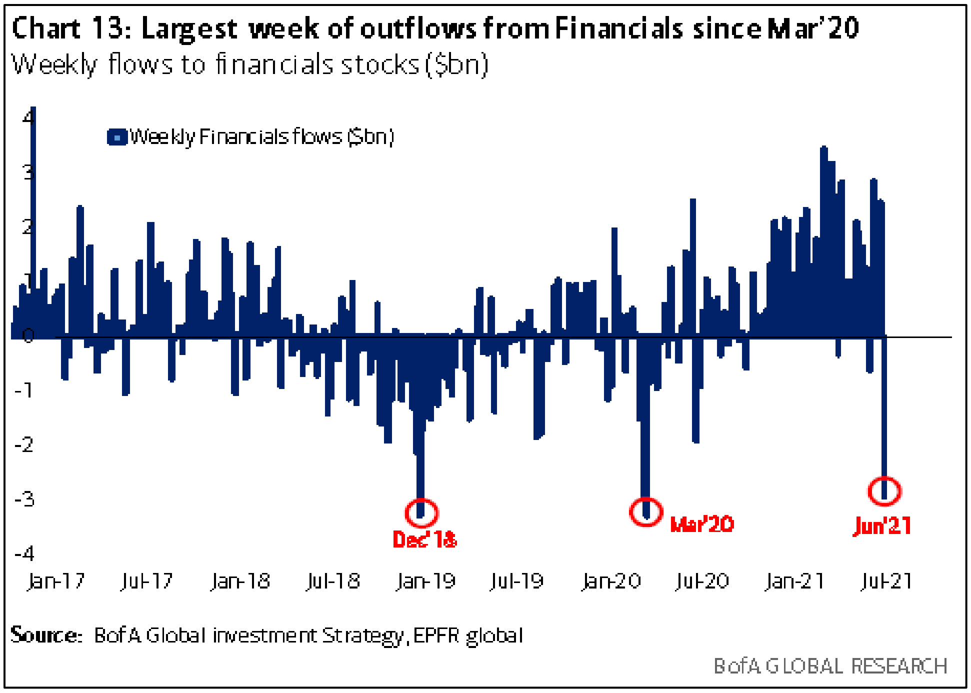


*Wtd average of Z-scores for positioning and flows indicators, weights based on explanatory power in regression of equity performance on indicators

Source : EPFR, CFTC, Bloomberg Finance LP, Haver, Deutsche Bank Asset Allocation

US equities are back to leading, as they quickly recovered from last week's selloff. With the bond market seeing large moves in the curve, rotation has been relentless, however.

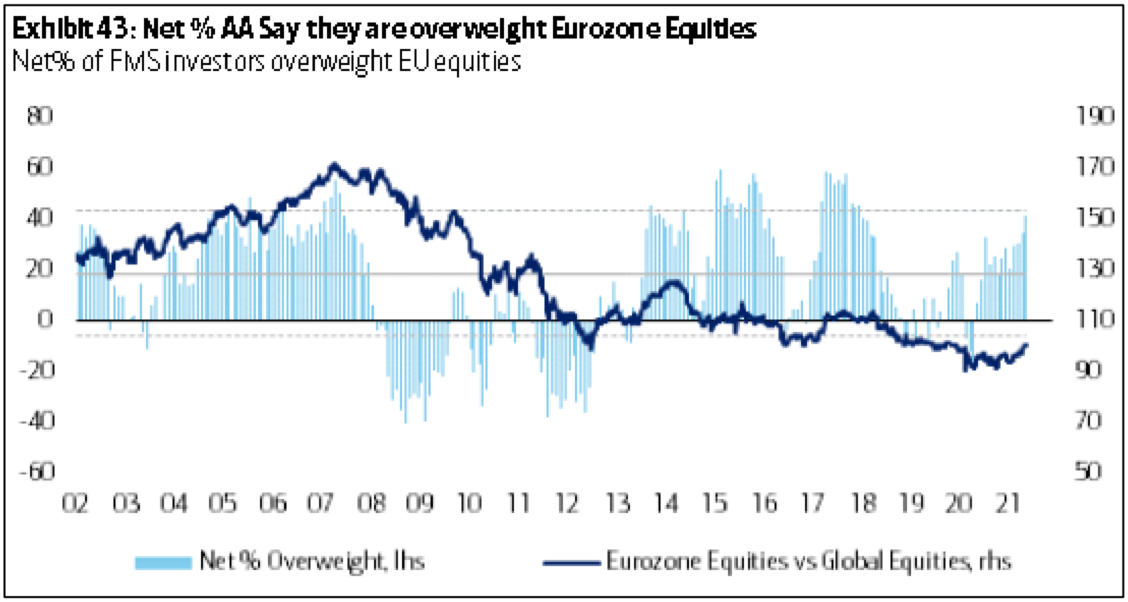
Overbought sectors like financials, industrials and transports have been hit over the last few weeks.



In the meantime, the NDX is at new highs. That's a chart pattern to own some gamma on.

One way or the other, we should get some big moves in the coming months.

Europe has been holding its own but despite a big flip from underweight to overweight positioning, it has not been able to outperform the US.



Despite a few attempts, Europe still not able to break higher in relative terms.

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Bonds - After the previous week's big Fed-induced flattener, the Treasury curve stabilized last week. Was the flattener just position liquidation when the bottom of the range broke?

Triggered by the jump in front end yields? (that by the way have not given anything back…)

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If it was basically just stops going off, don't be surprised if back-end yields grind back up. I think 1.60% is worth watching in 10's. Employment data is the wild card.

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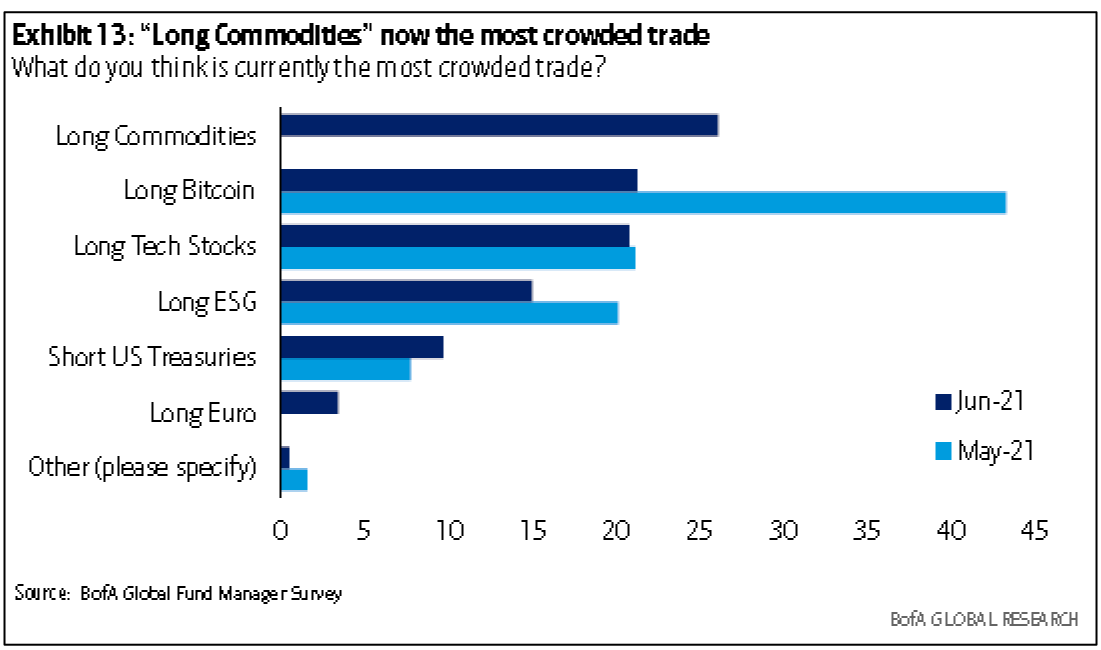
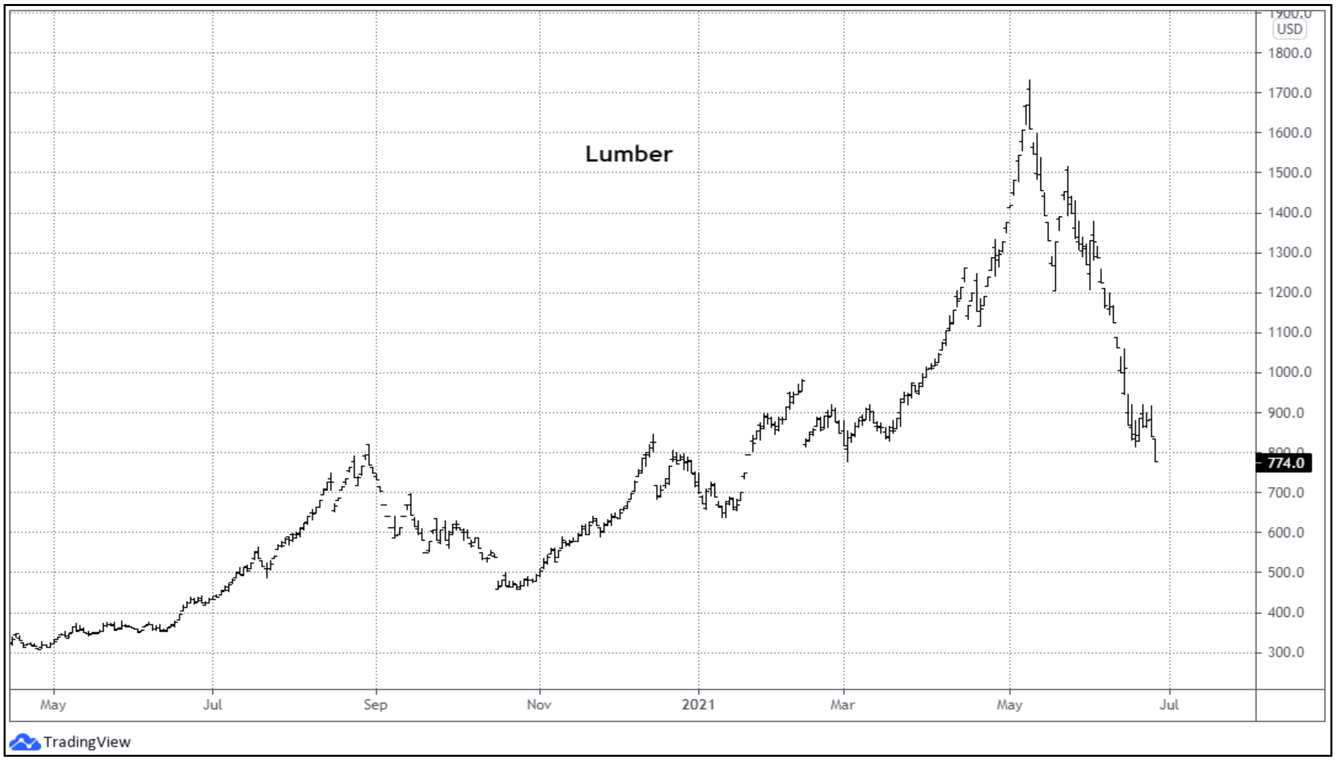
FX – After the big USD rally the previous week, most developed market currencies were stuck vs. the dollar. We will see if payrolls and ISM can break the log jam. I still wouldn't be surprised to see another run higher in USD but a lot of positions will already have been cut.

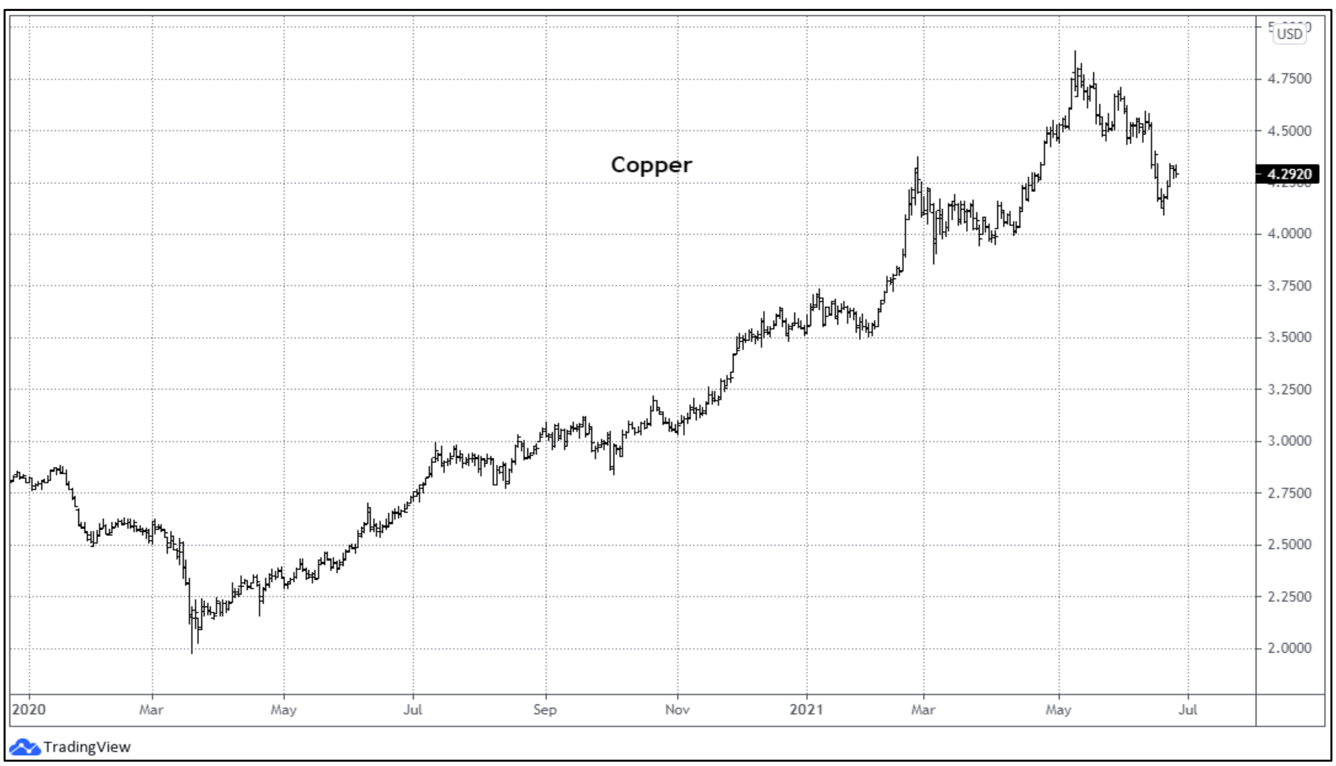
Commodities – We had seen big inflows, and very bullish sentiment.



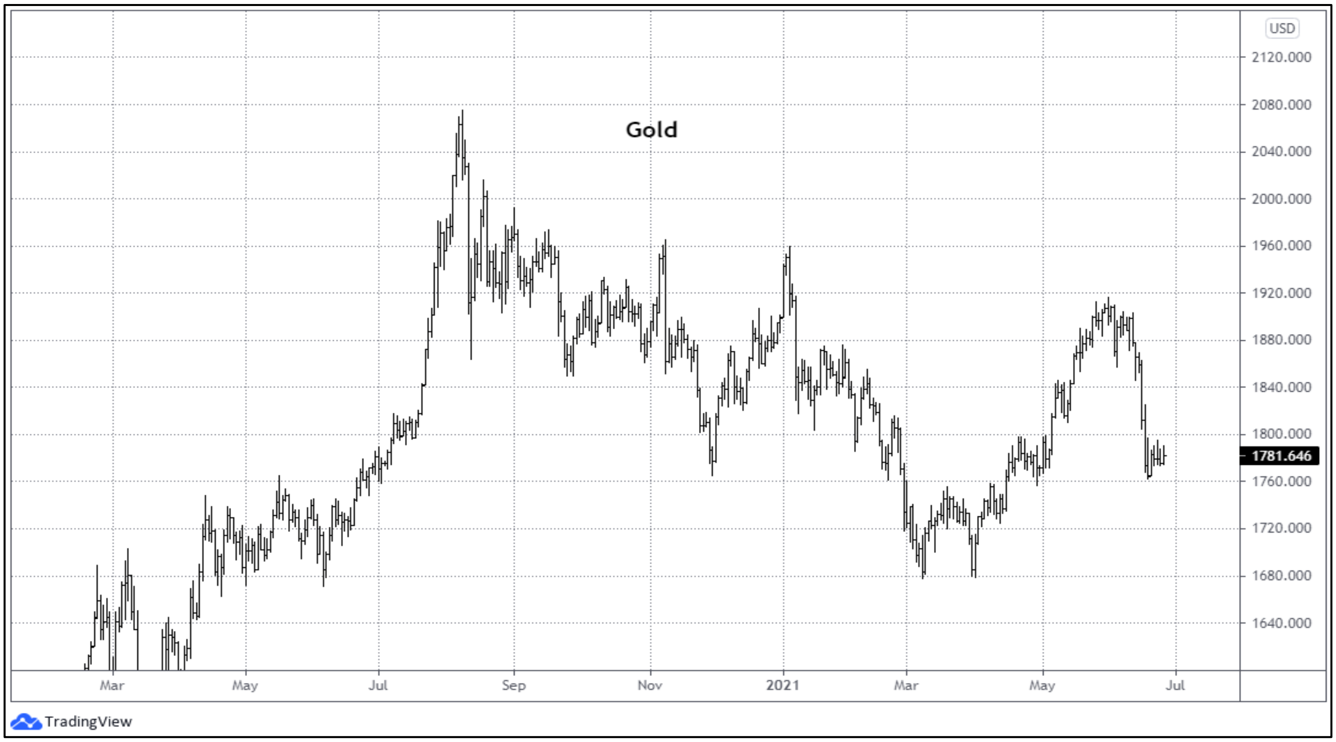
However, some prices have seen a pullback recently. Lumber is now -55% off the highs.



Iron Ore and Aluminum have held up well, while Copper is still trying to regain its footing.



Gold, like the dollar, has been stuck since its big lurch…



While Oil has been relentless… despite a stronger USD.

Crypto - So far, the price action hasn't mattered for other assets, and maybe it won't.

Still, I thought these two charts were interesting and provide some perspective.

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Important Macro Data Releases and Events for the Week

Monday 6/28/2021

- Fed's Williams speech
- Fed's Quarles speech

Tuesday 6/29/2021

- Consumer Confidence (Jun) Forecast: -3.3, Prior: -3.3
- Harmonized Index of Consumer Prices YoY (Jun) Forecast: 2.1%, Prior: 2.4%
- Housing Prices Index MoM (Apr) Forecast: -, Prior: 1.4%
- S&P/Case-Shiller Home Price Indices YoY (Apr) Forecast: 12.3%, Prior: 13.3%
- Consumer Confidence (Jun)
- Non-Manufacturing PMI (Jun) Forecast: 52.7, Prior: 55.2
- NBS Manufacturing PMI (Jun) Forecast: 50.7, Prior: 51

Wednesday 6/30/2021

- CPI - Core YoY (Jun) Forecast: 0.9, Prior: 1%
- CPI YoY (Jun) Forecast: 1.9%, Prior: 2%
- ADP Employment change (Jun) Forecast: 600k, Prior: 978k
- Chicago Purchasing Managers Index (Jun) Forecast: 72, Prior: 75.2
- Pending Home Sales MoM (May) Forecast: 0%, Prior: -4.4%
- Tankan Large Manufacturing Index (Q2) Forecast: 15, Prior: 5
- Caixin Manufacturing PMI (Jun) Forecast: 51.8, Prior: 52

Thursday 7/1/2021

- Markit Manufacturing PMI's across Europe
- OPEC Meeting

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- Initial Jobless Claims Forecast: -, Prior: 411k
- Initial Jobless Claims 4-week average Forecast: -, Prior: 397.75k
- Continuing Jobless Claims -, Prior: 3.39M
- Markit Manufacturing PMI (Jun) Forecast: -, Prior: 62.6
- ISM Manufacturing Employment Index (Jun) Forecast: -, Prior: 50.9
- ISM Manufacturing PMI (Jun) Forecast: 61.5, Prior: 61.2
- ISM Manufacturing Prices Paid (Jun) Forecast: 89.8, Prior: 88
- ISM Manufacturing New Orders Index (Jun) Forecast: -, Prior: 67

Friday 7/2/2021

- Retail Sales (YoY)(May) Forecast: 10.1%, Prior: 4.4%
- **Nonfarm Payrolls (Jun) Forecast: 675k, Prior: 559k**
- **Unemployment Rate (Jun) Forecast: 5.6, Prior: 5.8%**
- **Average Hourly Earnings (YoY) (Jun) Forecast: -, Prior: 2%**
- **Average Hourly Earnings (MoM)(Jun) Forecast: 0.4%, Prior: 0.5%**
- **Labor Force Participation Rate (Jun) Forecast: -, Prior: 61.6%**
- **U6 Underemployment Rate (Jun) Forecast: -. Prior: 10.2%**
- Factory Orders (MoM)(May) Forecast: 1.4%, Prior: -0.6%

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