Stargazer
Asset Management

What to focus on in Global Macro for the week of September 14th, 2020

Macro Themes on the Radar:

With the Fed coming up on Wednesday, and the Bank of Japan and Bank of England policy decisions on Thursday, central banks will again be in the spotlight this week.

The Fed should be about expanding on and fleshing out the recently announced move towards AIT and potentially some tweaks of existing programs, but not much else.

With Abe leaving office and the transition looming I doubt the BoJ will announce much.

The BoE will be increasingly concerned about the economy as a hard Brexit looks more likely, although their options are limited. An already falling Pound will help. It is interesting to note that short dated government debt is now trading with negative yields.

In the meantime, while we had nothing new out of the ECB last week, they assured us that they stand ready to adjust policy and instruments as needed. Well, almost nothing. What is starting to become clear, is that there is growing concern with regard to recent EUR strength. Last week the ECB's Lane highlighted the issue. That was followed up with comments by Lagarde during last Thursday's ECB press conference. On Friday, Chief Economist Philip Lane reiterated his concern that the stronger EUR has dampened the inflation outlook. On Saturday, the ECB's Rehn and De Guinos touched on EUR strength and its importance as a variable in the transmission of monetary policy. Finally, on Sunday, we heard from Lagarde herself again. Despite the ECB's stimulus measures, "other factors, such as the appreciation of the euro have partly offset the positive pull coming from our measures," Lagarde said. "Near-term price pressures will also remain subdued due to the recent appreciation of the euro exchange rate." Adding, "when it comes to meeting our price stability goal, there is and there will be no complacency," For now continued jawboning from the ECB is the most likely way forward. This could increase if the EUR continues higher. As they are already very committed and have questionable further appetite for negative rates, they have limited policy options.

In a world where few countries want or can tolerate a meaningfully stronger currency, it is no wonder that investors are being drawn to precious metals and TIPS.

The one exception could be China. There have been recent articles about the PBOC's willingness to tolerate a stronger Yuan than in the past. Part of this is being linked to the growing deglobalization and China's resulting focus on growing internal consumption as a way of rebalancing it's economy.

Having said that, it is easy to confuse USD weakness with CNY strength. So far it looks to be that the fall in the dollar has been the primary driver of what people are pointing to as newfound CNY strength. We shall see if the price action against other currencies confirms the talk of a real policy shift. Watch for pairs like EURCNY to break meaningfully lower for confirmation.

With US/China relations not likely to be healed anytime soon and Europe now joining the revolt it will be interesting to see how successful Xi's move to "dual circulation' will be.

What to Focus on Now:

FX

While slightly off the boil, EUR positioning vs. USD remains high.

Chart 11: FX CFTC Positioning

CFTC Positioning	EURUSD	GBPUSD	USDJPY	AUDUSD	NZDUSD	USDCHF	USDCAD	USDMXN
2 Year High	211,752	[illegible]5,162	115,201	4,250	6,966	40,394	66,002	5,984
Latest Net Contracts	196,747	[illegible],312	-29,604	-165	6,966	-11,597	27,006	-5,969
Total Exposure (USDbn)	-29.3	-0.5	-3.5	0.0	-0.5	-1.6	2.1	-0.1
2y %ile Rank	96%	85%	9%	98%	99%	5%	64%	87%
Previous Contract Positions	211,752	[illegible],600	-23,616	-3,899	4,188	-11,866	29,318	-3,862
2 Year Low	-114,021	-1[illegible]02,702	-34,607	-73,284	-42,474	-17,165	-54,002	-170,366

Yet, even with growing ECB protests, all we have done is trade in a range for the last 6 weeks.

The weaker USD has coincided with the rallies in global equities, commodities and credit spreads. It is possible that dollar strength may surface if we get further equity market weakness early next week. So far, I have been surprised by the dollars inability to stage even a short-term rally of any consequence. Overall, the dollar could easily still rally 3-4% on a risk-off scenario. However, no follow through on that yet.

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Bonds

Yields continue to range trade as they are wedged between:

- global central bank front end rates that are stuck at zero or negative for the foreseeable future
- continued fear of renewed downside for the real economy
- potential yield curve control by central banks (implicit/explicit)
- political uncertainty leading to risk-off

on one hand, and…

- global attempts to reflate / inflate
- massive fiscal stimulus
- concerns as taboo's against large and continued government deficits are broken

…on the other.

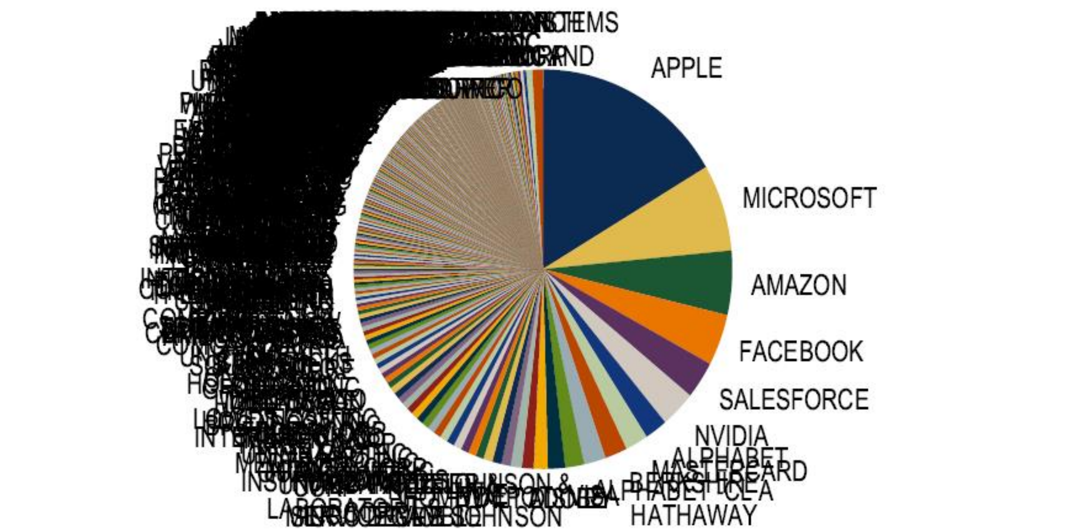
Equities

Last week we saw some follow through to the downside in US equities on the heels of the outside week reversals of the previous week.

Preceding the recent route in tech and growth stocks, the leadership had remained very narrow…

with a few stocks accounting for most of the recent gains in the indices.

Chart 3: 10 stocks in S&P500 accounted for >50% of August 7.2% return



Source: BofA Global Investment Strategy, Bloomberg

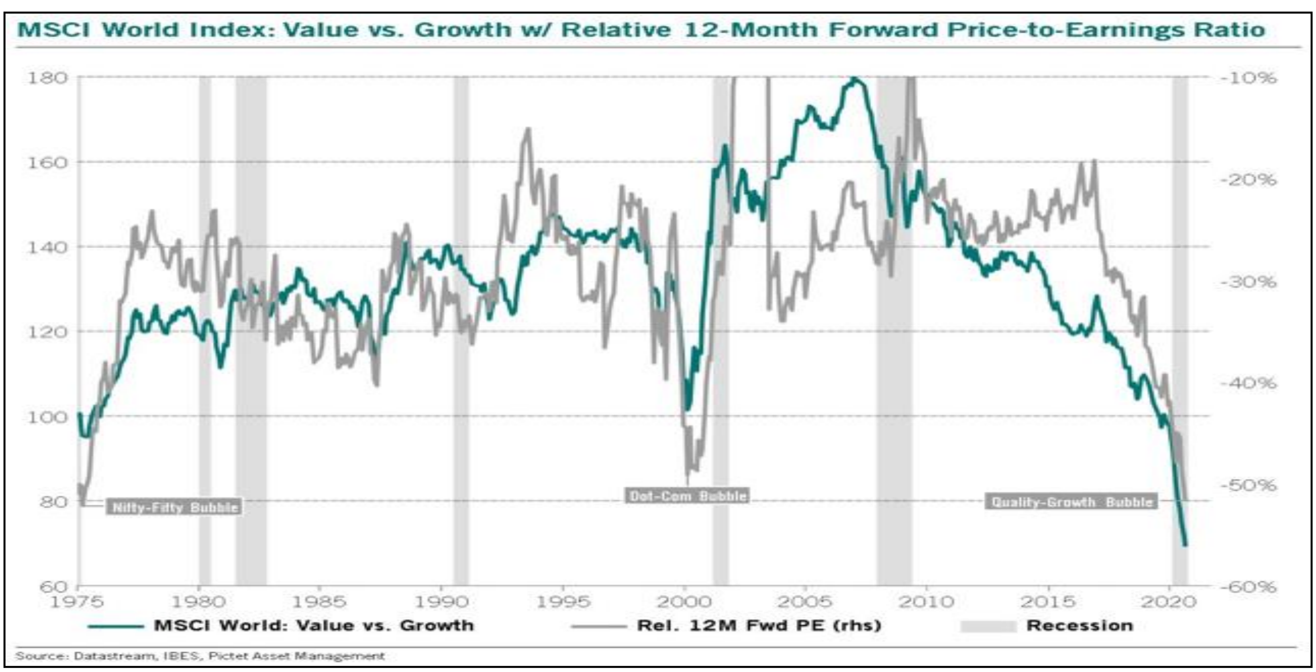
What had taken everything up, now took it down over the last two weeks, as we gave back nearly all of those August gains.

While we are lacking it in the other indices and we are only mid-month, the NASDAQ Composite now already has an outside month reversal.

We continue to see a market that is heavily influenced by the movements of the large US tech stocks. Be it options gamma, day traders, or the inability to pass on the momentum of the growth stocks, they have been the main drivers. There is continued focus on a potential shift from growth to value, but it is hard to see that happening without some major volatility and probably a continued initial down-leg in those NDX leaders.

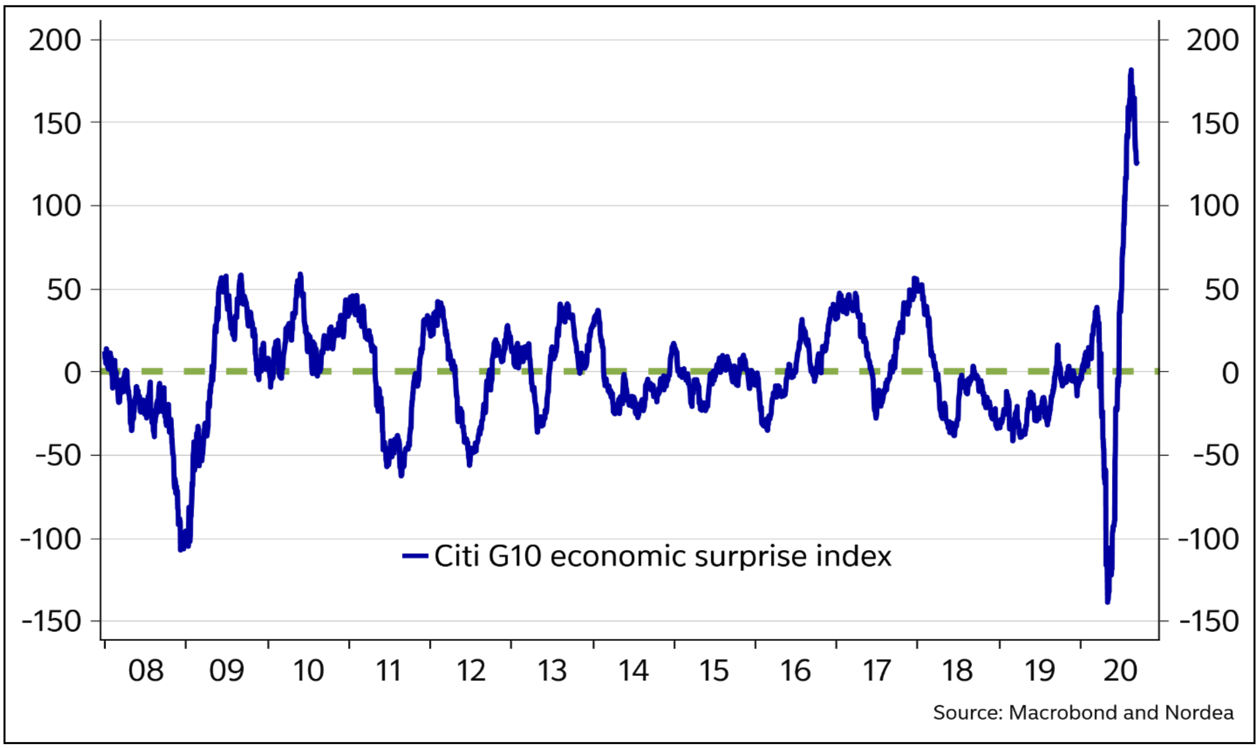
Momentum softening on the relative trade … but big levels not broken yet.

While value seems tempting, at this stage it is still all about growth up/down.



I don't feel like I have much of an edge here in picking the near-term direction of the NDX here. I'm inclined to think lower initially and then try to bounce it later in the week. I do like looking at how equities are doing relative to other indices and even other asset classes to get better perspective and potentially confirmation that something new is happening.

The ability of US stocks to rally over the last few months has certainly been assisted by the placid bond markets. Any change in that relationship is worth watching. A sooner than expected (credible) vaccine or renewed prospects of a "blue wave" in November could strain that relationship. In the meantime, watch out for weaker economic prints after a long run of better than expected data and/or a surprise revival of a meaningful stimulus package.

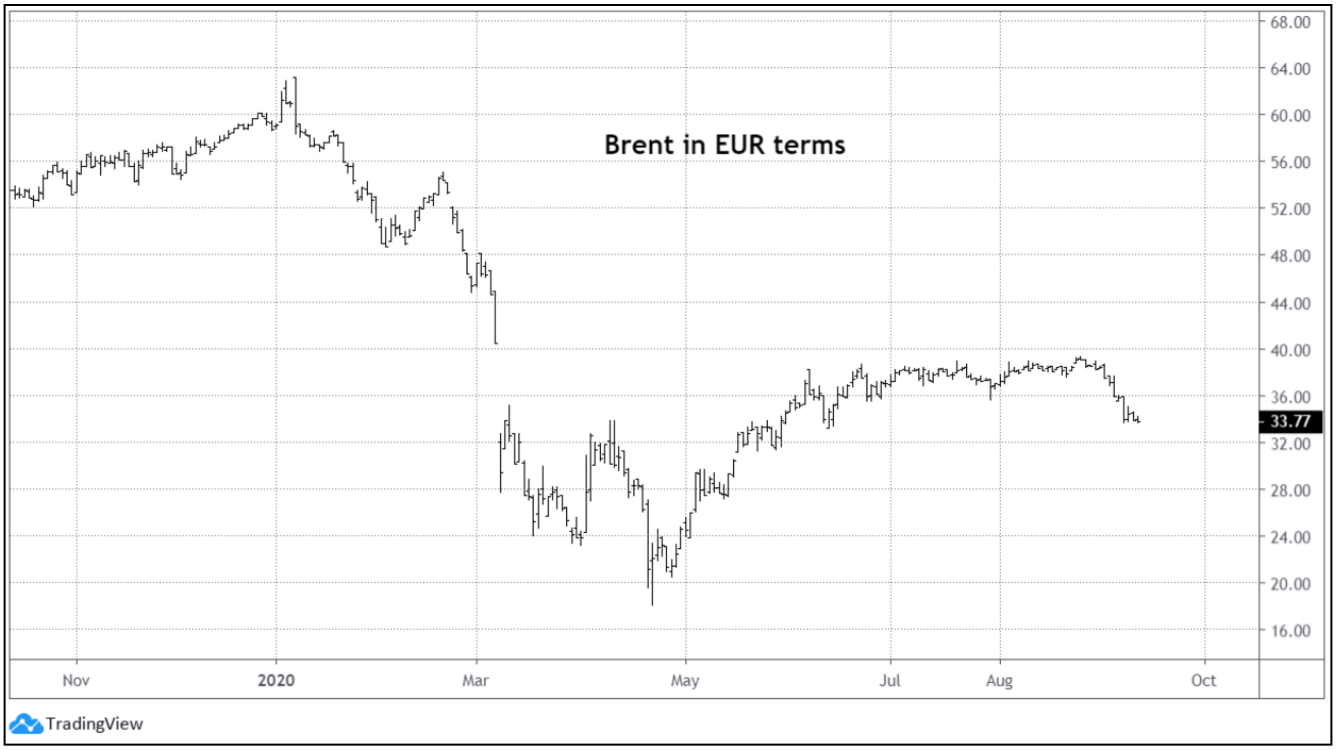


Europe

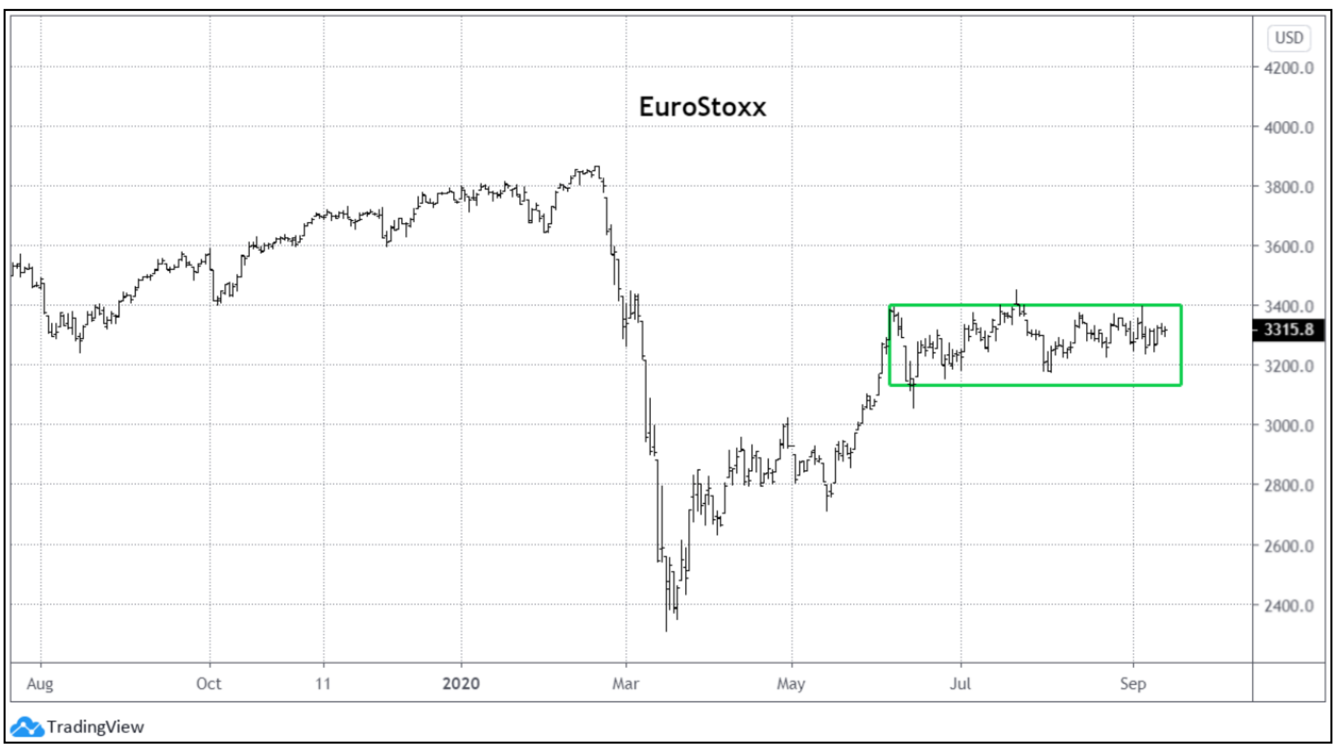
As discussed previously, the last few months have seen meaningful in-flows into Europe. Yet, the indices have barely moved in months.

Yes, the EUR has been rallying since the end of May and EuroStoxx have been more or less sideways since then.

The European Recovery Fund was a win, the higher EUR less so. With the ECB locked into the inflation view of the world, it has been unfortunate that the falling USD has not had much of an effect on oil prices this time around. Often oil has a higher beta than the EUR and that bails out the ECB... not this time.

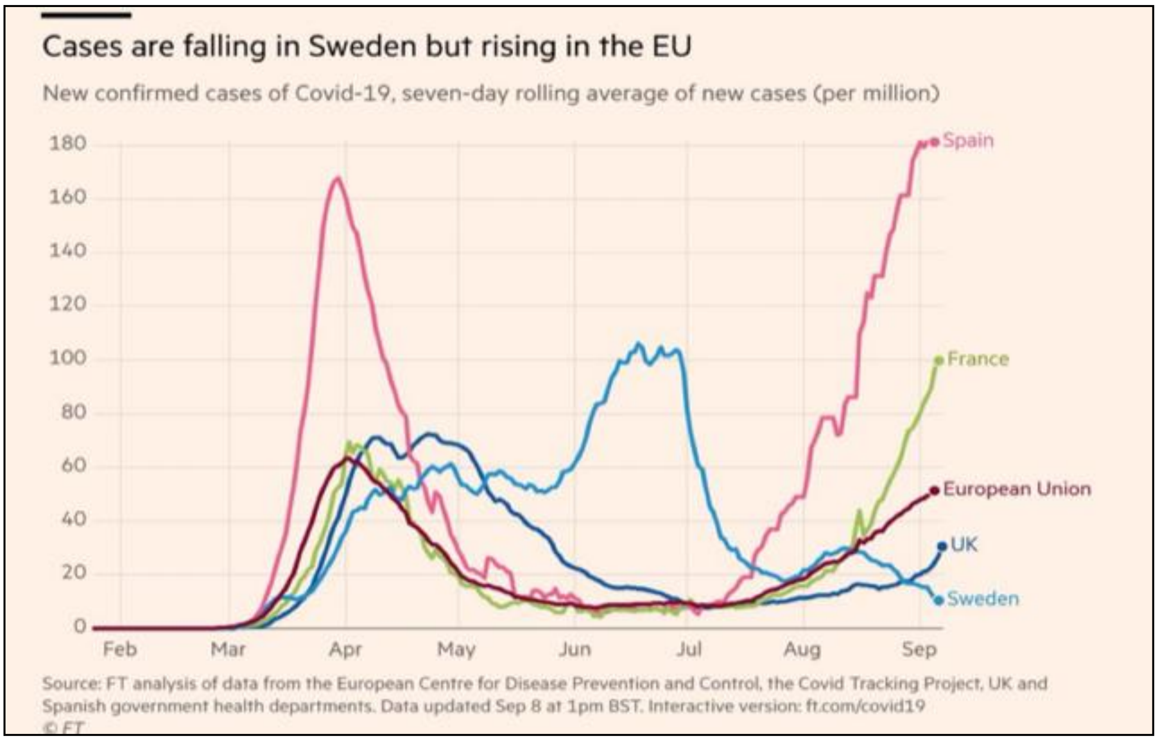


Nevertheless, this chart is coiling.



There are some near-term issues to watch:

- EUR strength
- Hard Brexit
- New ECB policy measures
- Recovery Fund ratification
- Recent jump in COVID cases … new cases now outpacing the US again. Especially in Spain and France. However also jumping in Austria and Germany where reproduction rate is now back above 1%. Note that European deaths have not risen much yet and that some of the shift between the US and Europe is likely due to falling testing numbers in the US while European testing has increased.



EM

How EM has behaved has very much depended on what countries and sectors you are looking at.

Countries hard hit by COVID, which has compounded already existing economic and political problems, have had a hard time bouncing.

While greater China heavy EEM has done much better… Although momentum is close to rolling.

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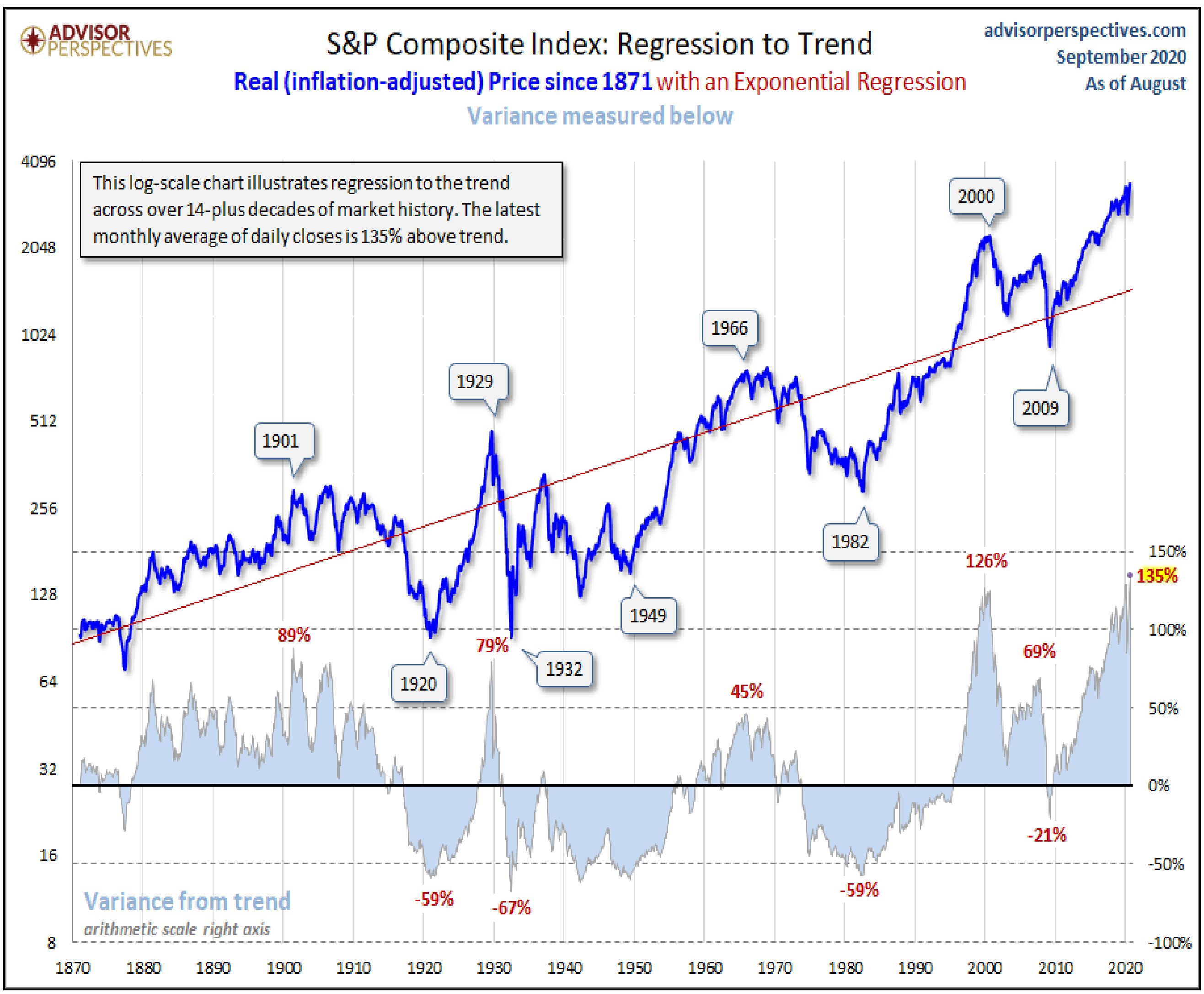
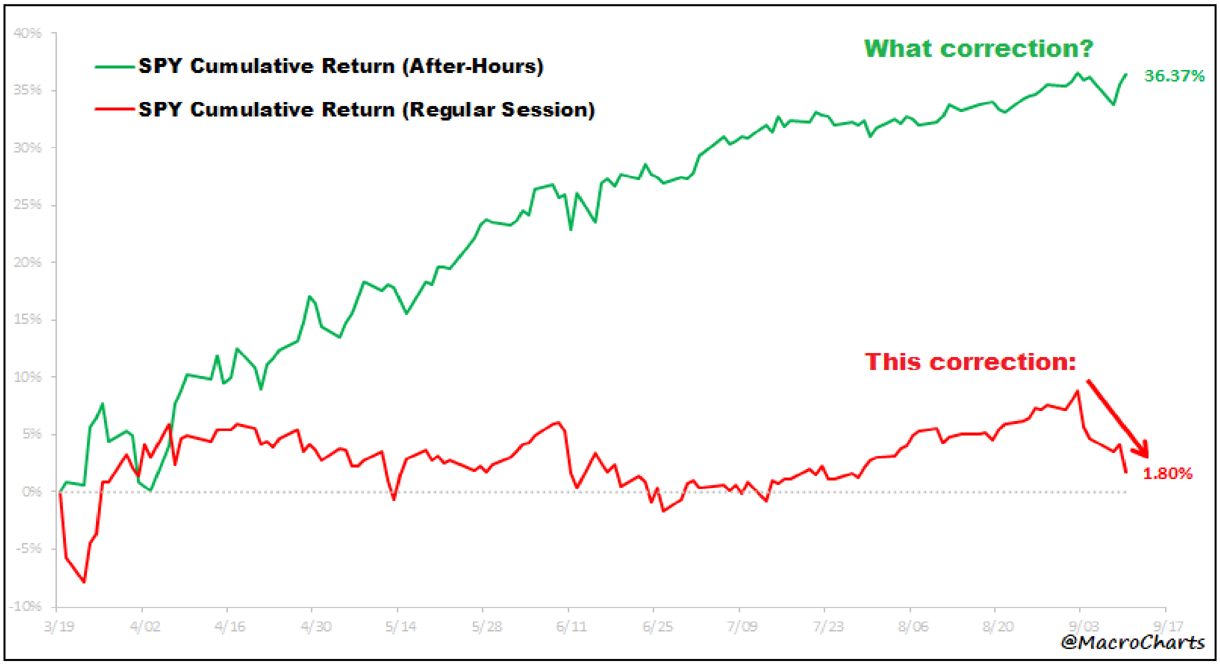
Three semi-random charts to close with…

This one shows the S&P's inflation adjusted value since 1871 with an exponential regression. We are currently the furthest above trend we have been during that period. Past outperformance of this magnitude has resulted in future underperformance. Perhaps the world has changed, and it is different this time in ways that allow for a steeper accent. It almost certainly is different in terms of central banker activism, low inflation and interest rates and the resulting tolerance for outsized fiscal spending… but I would guess you could have said the world had changed a number of times along the way.



This day session vs. after-hours relationship has been going on for a while now, but I thought it is always worth checking in on once in a while… since March 19th.



And finally…

NYC anyone?

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Important Macro Data Releases and Events for the Week

Monday
9/14/2020

- Industrial Production YoY (Jul) Forecast: -16.1%, Prior: -16.1%
- FDI YoY (Aug) Forecast: -, Prior: 0.5%
- Industrial Production MoM (Jul) Forecast: 10%, Prior: 9.1%

Tuesday
9/15/2020

- RBA Meeting Minutes
- NBS Press Conference
- Industrial Production YoY (Aug) Forecast: 2.1%, Prior: 4.8%
- Retail Sales YoY (Aug) Forecast: -1.4%, Prior: -1.1%
- ZEW Survey - Economic Sentiment (Sep) Forecast: 62.8, Prior: 64
- Labor Cost (Q2) Forecast: 3.1%, Prior: 3.4%
- ZEW Survey - Current Situation (Sep) Forecast: -68.8, Prior: -81.3
- ZEW Survey - Economic Sentiment (Sep) Forecast: 58, Prior: 71.5
- Industrial Production MoM (Aug) Forecast: 0.8%, Prior: 3%

Wednesday
9/16/2020

- Retail Sale Control Group (Aug) Forecast: 0.5%, Prior: 1.4%
- Retail Sales MoM (Aug) Forecast: 1.1%, Prior: 1.2%
- FOMC Economic Projections
- **FOMC Interest Rate Decision, Policy Statement and Press Conference**

Thursday
9/17/2020

- Unemployment Rate (Forecast 7.8%) and Employment Change (Forecast +40)
- **BoJ Interest Rate Decision, Policy Statement and Press Conference**

Consumer Price Index and Core

BoE Interest Rate Decision and Policy Statement

Initial Jobless Claims Forecast: -, Prior: 884k

Initial Jobless Claims 4-week ave. Forecast: -, Prior: 970.75m

Continuing Jobless Claims Forecast: -, Prior: 13.385m

Building Permits MoM (Aug) Forecast: 1.53m, Prior: 1.483m

Housing Starts MoM (Aug) Forecast: 1.487m, Prior: 1.496m

Philadelphia Fed Manufacturing Survey (Sep) Forecast: 14.5, Prior: 17.2

Friday
9/18/2020

Producer Price Index MoM (Aug) Forecast: 0.1%, Prior: 0.2%

Retail Sales MoM (Jul) Forecast: 24.5%, Prior: 23.7%

Michigan Consumer Sentiment Index (Sep) Forecast: 76, Prior: 74.1

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