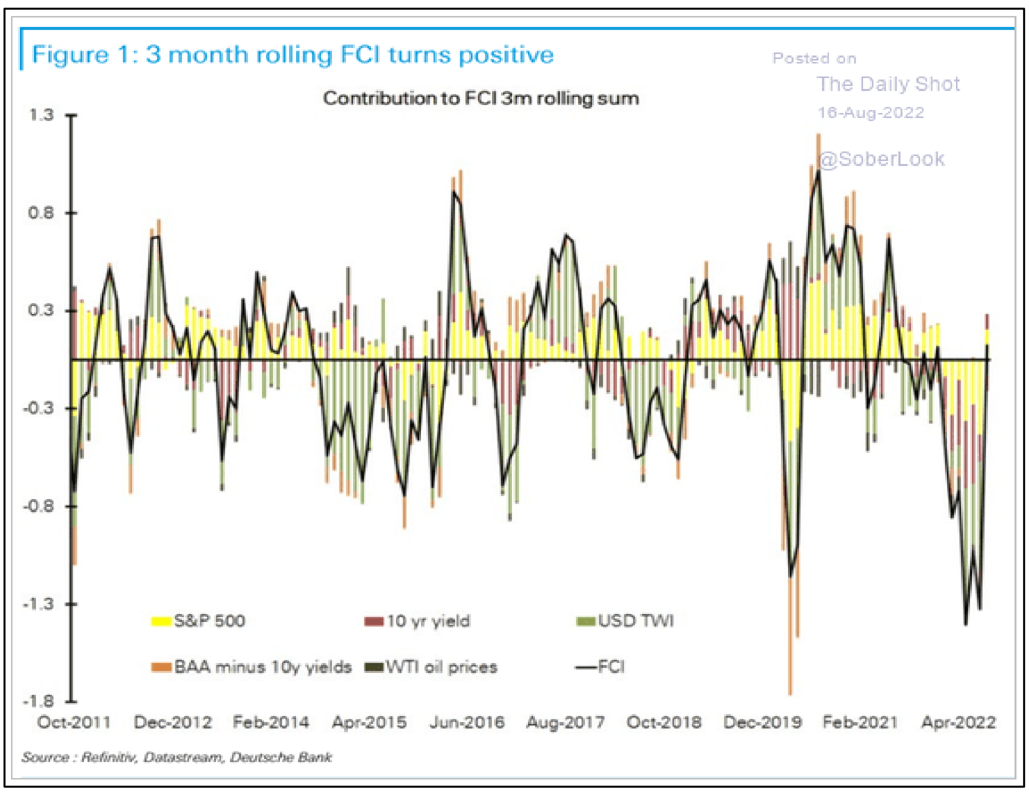
What to focus on in Global Macro for the week of August 22nd, 2022

What a difference a week can make for markets. We came into last week with a dollar that had broken big support levels, only to see a total failure and reversal of that momentum. China's growth concerns were amped up with a surprise interest rate cut, European energy prices continued their upward trajectory, and Fed members continued to push back on the notion of a Fed pivot. I would argue none of these things were news, but that the magnification of those trends was a surprise for markets.

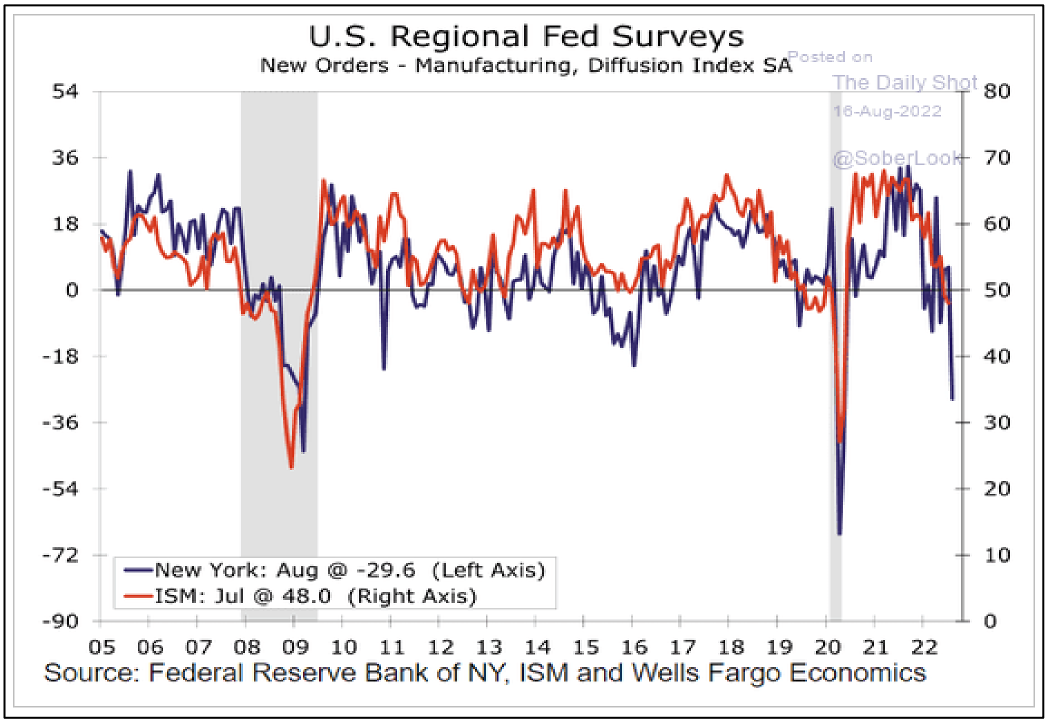
The Fed speakers were especially targeted in their criticism of market interest rate expectations on what the terminal rate is likely to be and the market's erroneous pricing of interest rate cuts, starting as soon as next year.

Before the recent equity market rally and reduced rate expectations, financial conditions had tightened meaningfully and quickly, with some measures of real rates flipping positive. However, the recent recovery in markets had reversed some of that and is being seen as counter-productive, driving the Fed's concerted pushback.



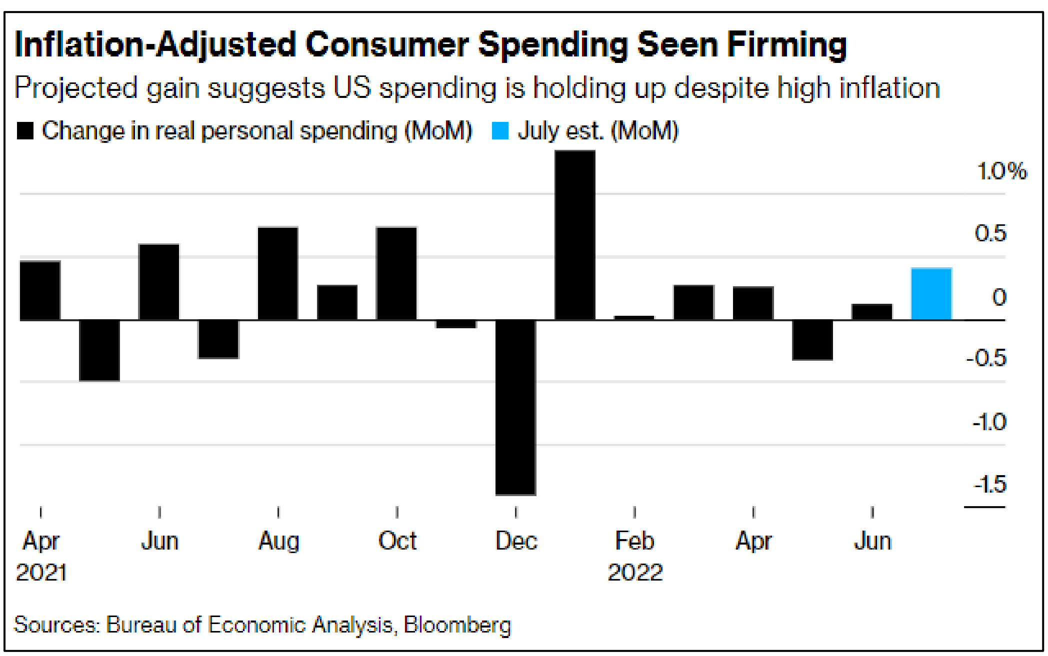
Economic data continues to paint a mixed picture as labor is holding up well as is the service sector. Manufacturing, however, remains weak (a very poor Empire survey print last week drove that home) and real estate continues to soften.

The regional Fed surveys continue to suggest weaker ISM and PMI data is coming. Flash PMIs for Europe and the US are due on Tuesday.



Retail sales have held up well but the difference between real and nominal is striking, as the inflation jump might be making the data less transparent.

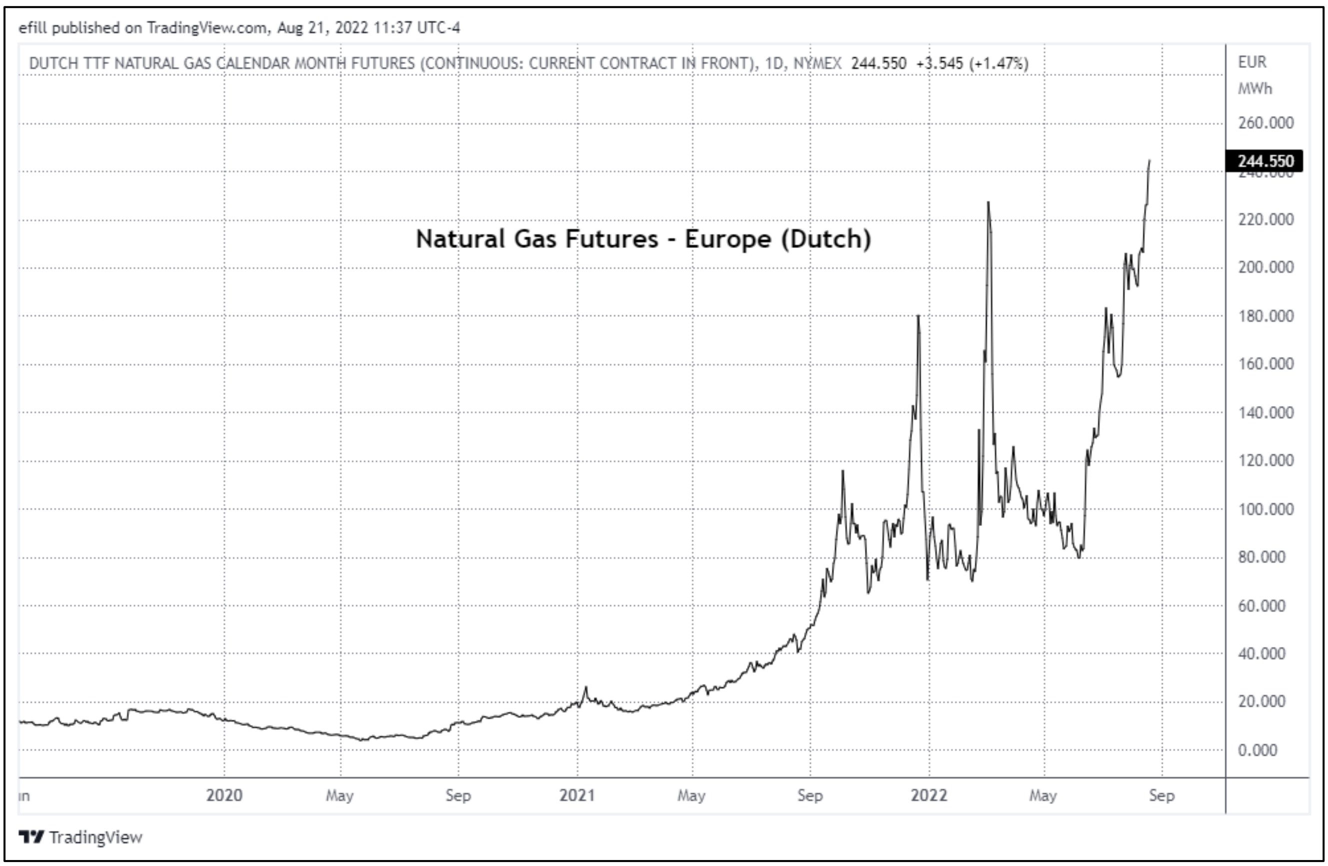
We will get additional personal spending and income data this week. So far it is expected to hold up.



Having said all that, the main event will be Powell's speech at the Jackson Hole Symposium on Friday. Expect tape bombs along the way from various other speakers.

In the meantime, Europe continues to face an ugly set-up of rising inflation and falling growth. Germany is being hit especially hard. As Germany's Finance Ministry said last week, "Germany's economic outlook is bleak, clouded by rising energy and supply chain issues." Not exactly a pep talk.

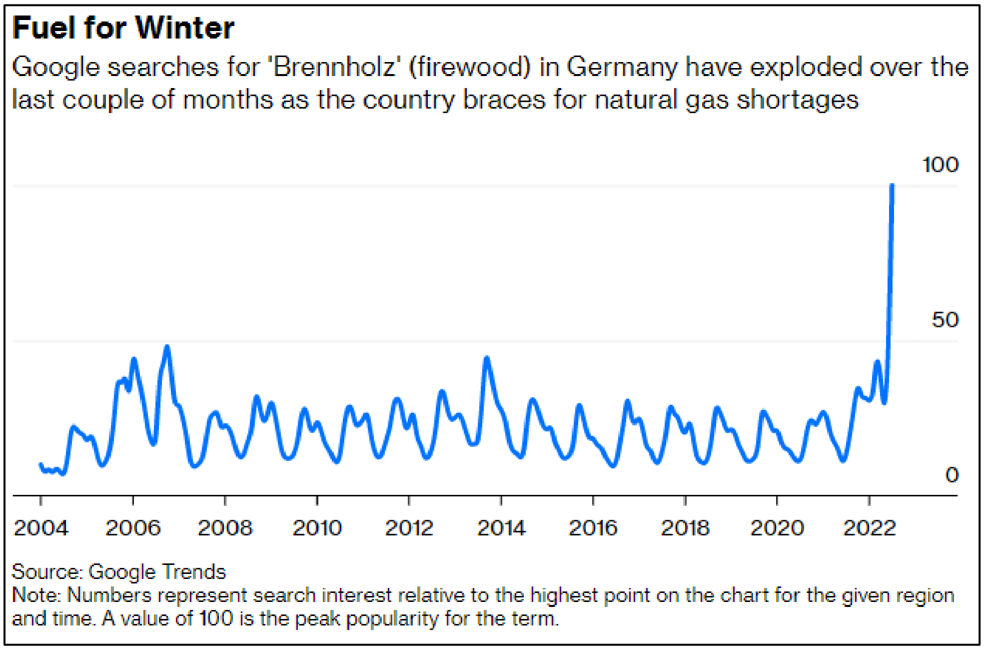
Getting to 90% storage capacity for natural gas by November is nice, but that also assumes that Nord Stream is running at full capacity over the winter. Last week's announcement that it was being shut down for 3- days sent gas prices in Europe to new highs.



Add to that last week's announcement that due to the heatwave, water in French rivers is now too warm to effectively cool many of the nuclear reactors.

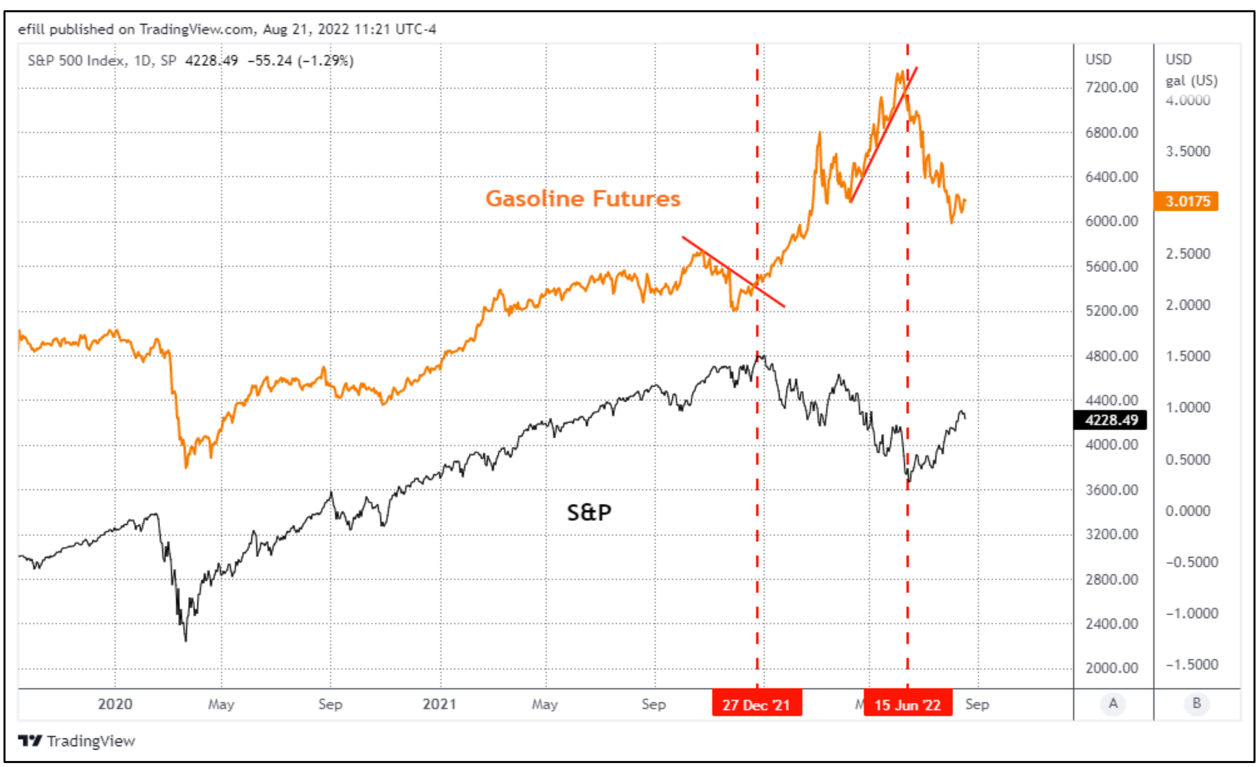
Compared to the ECB the Fed is on solid ground.

No wonder this chart was floating around …



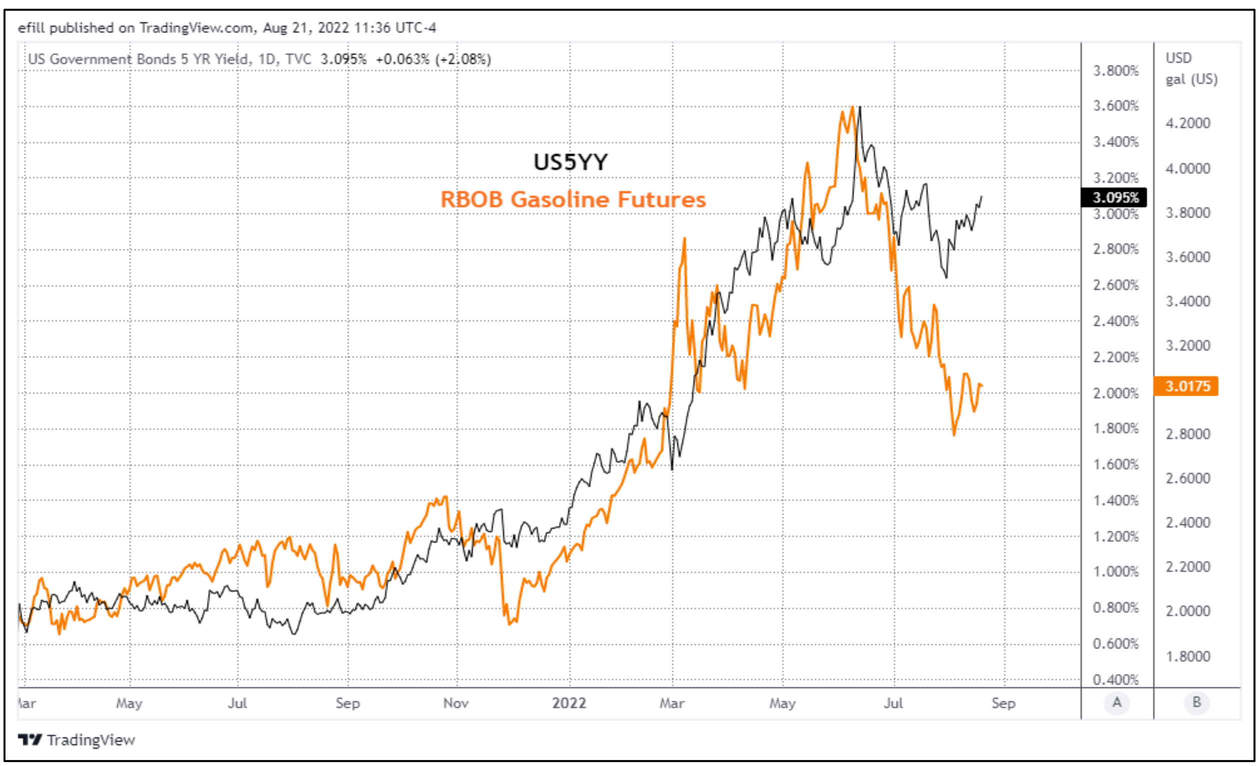
Source: Bloomberg

Energy is obviously critically important in the US as well. Correlations can of course shift a lot over time. When markets are predominantly focused on growth, oil/gasoline prices tend to be positively correlated to equities. Since the end of last year, however, we have seen the opposite. The high correlation that gasoline has to headline inflation means that stocks have become very reactive to the ups and downs in fuel.



Last week there were some initial signs that RBOB is trying to bottom… we will see how that plays out, but it is worth keeping an eye on.

Yields have again been rising on Fed pushback. A bounce in energy would only reinforce that.

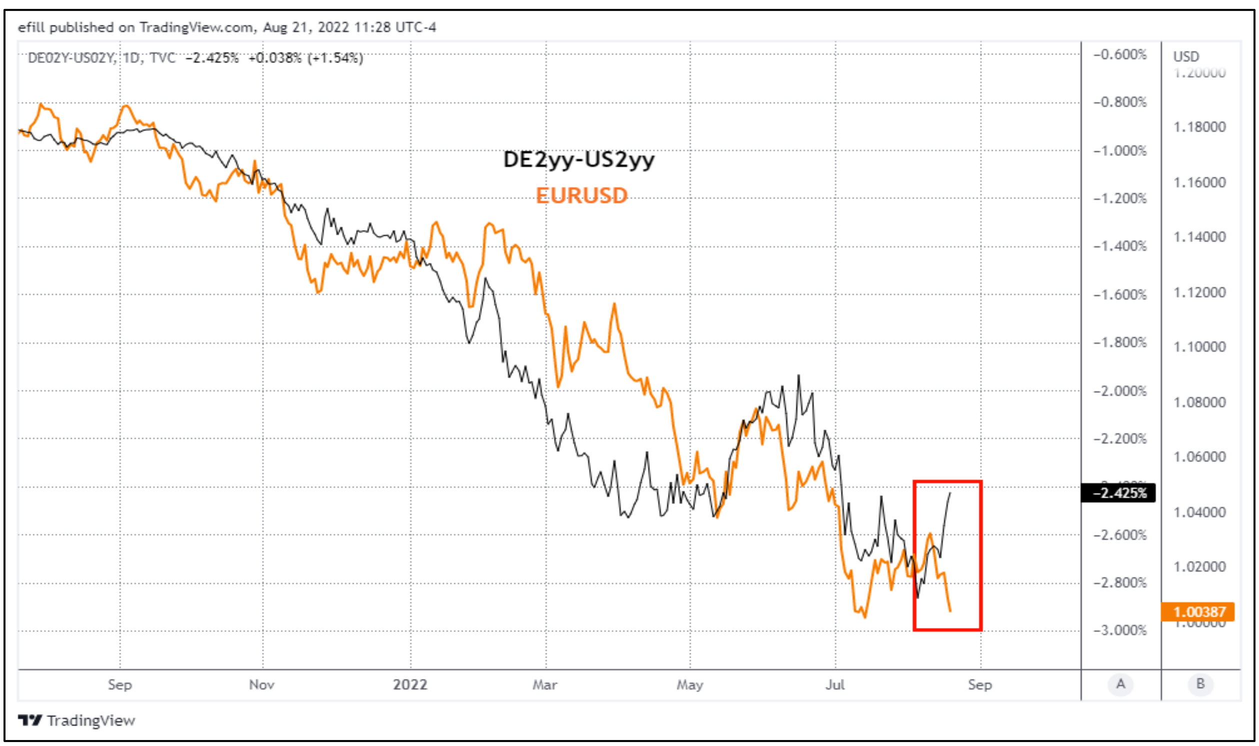


As already touched on, last week's break back up was dramatic. The fact that there was no follow-through to the downside on what should have been a meaningful break says to me that there is still some real USD demand.

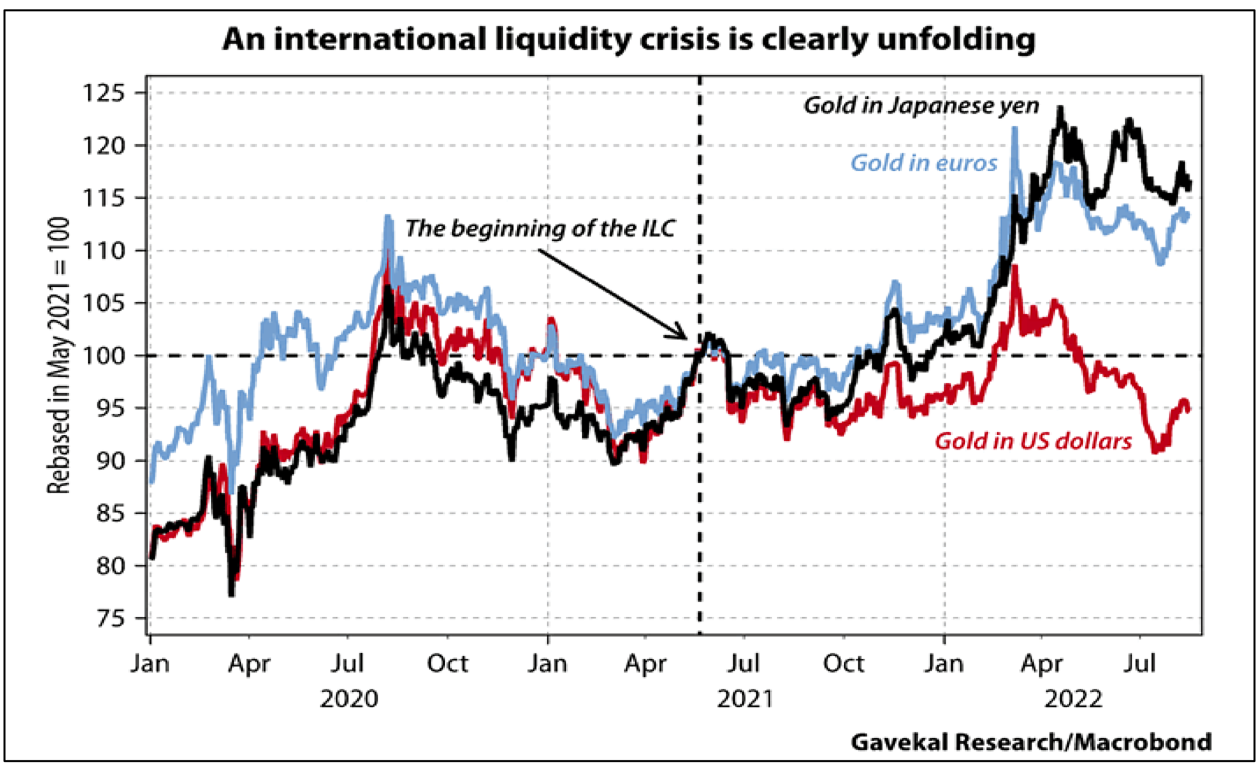
Zooming out there is no obvious reason to fade the DXY yet.

Of course, the EUR plays a central role in the DXY (57.6%). Combined with the other European components and you get a 77.3% weighting.

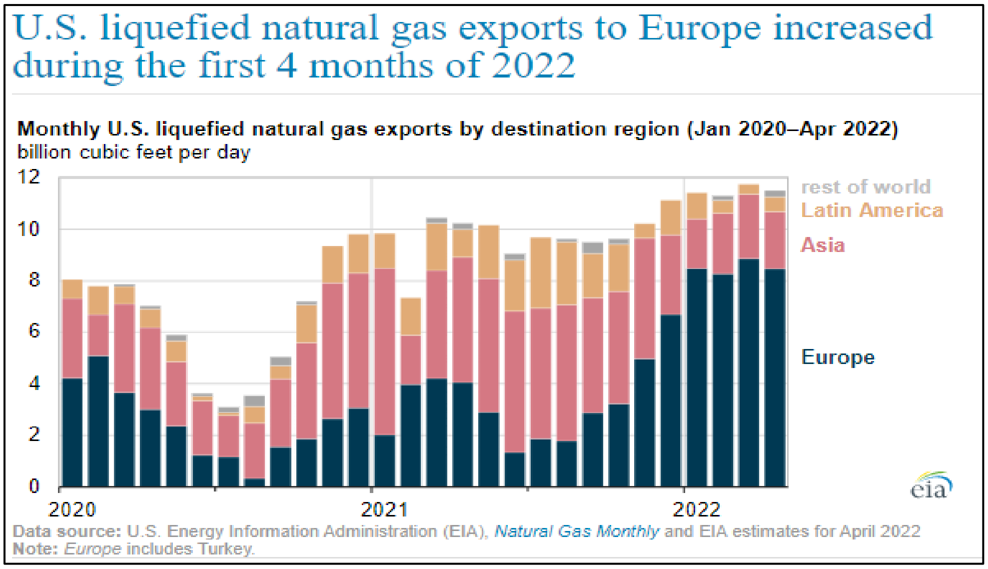
With plunging consumer confidence due to rising food and energy prices, the EUR and GBP are starting to trade like EM currencies in trouble, where rising rates can mean a falling currency.



The big question is whether the receding tide of global liquidity is starting to reveal a dollar shortage abroad. This chart from Gavekal Research is an interesting way of looking at that idea.



With Europe increasingly looking to the US for LNG is that playing a role in the demand for USD vs. buying it from Russia in EUR (or even RUB)? Currently, >70% of LNG exports are going to Europe.



These are interesting times where you have the inflationary forces unleashed by inadequate supply, running into the global deflationary forces of USD strength.

Finally, if the Fed ends up "hiking and holding", as they have been suggesting, vs. the market's current view that they will hike and then be forced to cut, this spread should move higher. It is essentially a bet that labor markets hold up better than the market believes, however. Maybe…

Important Macro Data Releases and Events for the Week

Monday 8/22/2022	Chicago Fed National Activity Index
Tuesday 8/23/2022	**Flash PMI readings across Europe and for the US (Aug)**
	New Home Sales (Jul)
	Consumer Confidence (Aug) Preliminary
Wednesday 8/24/2022	Durable Goods (Jul)
Thursday 8/25/2022	GDP Q2
	IFO - Business Climate, Current Assessment, Expectations (Aug)
	ECB Monetary Policy Meeting Accounts
	Initial Jobless Claims
	Initial Jobless Claims 4-week average
	Continuing Jobless Claims
	GDP Q2 Preliminary
	Core PCE and PCE Prices QoQ Q2
	Jackson Hole Symposium starts
	Kansas City Fed Manufacturing Activity (Aug)
Friday 8/26/2022	Gfk Consumer Confidence Survey (Sep)
	PCE and Core PCE Prices MoM and YoY (Jul)

	Personal Income and Spending
	Fed's Chair Powell Speech - Jackson Hole Symposium
	Michigan Consumer Sentiment Index (Aug)
Saturday 8/27/2022	**Jackson Hole Symposium ends**

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