Spyglass Macro

Global Macro Advisory for Active Investors

What to focus on in Global Macro for the week of August 15th, 2022

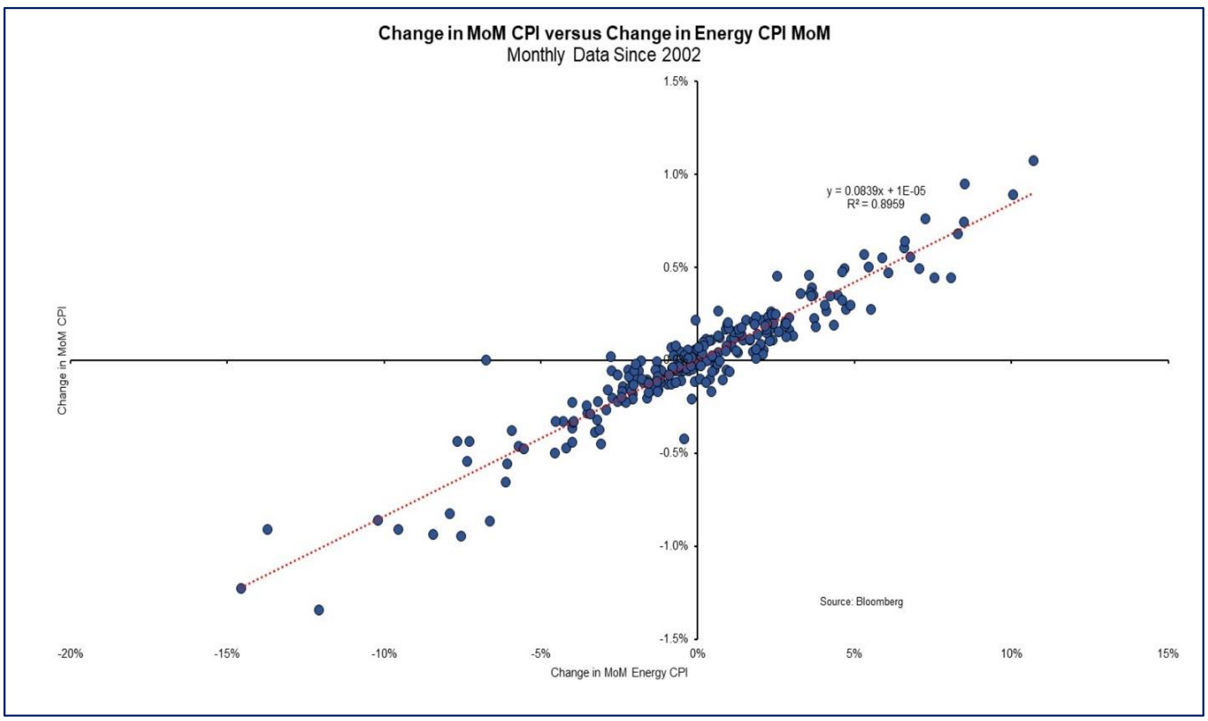
There were a number of Fed speakers last week and the message was basically as follows:

- The inflation fight is far from over
- The market is wrong to be pricing cuts next year
- We want tighter financial conditions and positive real rates

The markets, on the other hand, think the Fed will end up being more moderate, either by fortune or necessity.

With last week's CPI finally coming off the boil, thanks largely to the drop in gasoline, it is now worth contemplating what the inflation drivers will look like going forward.

The change in energy MoM inflation has explained 89% of the change in MoM Headline CPI since 2002.

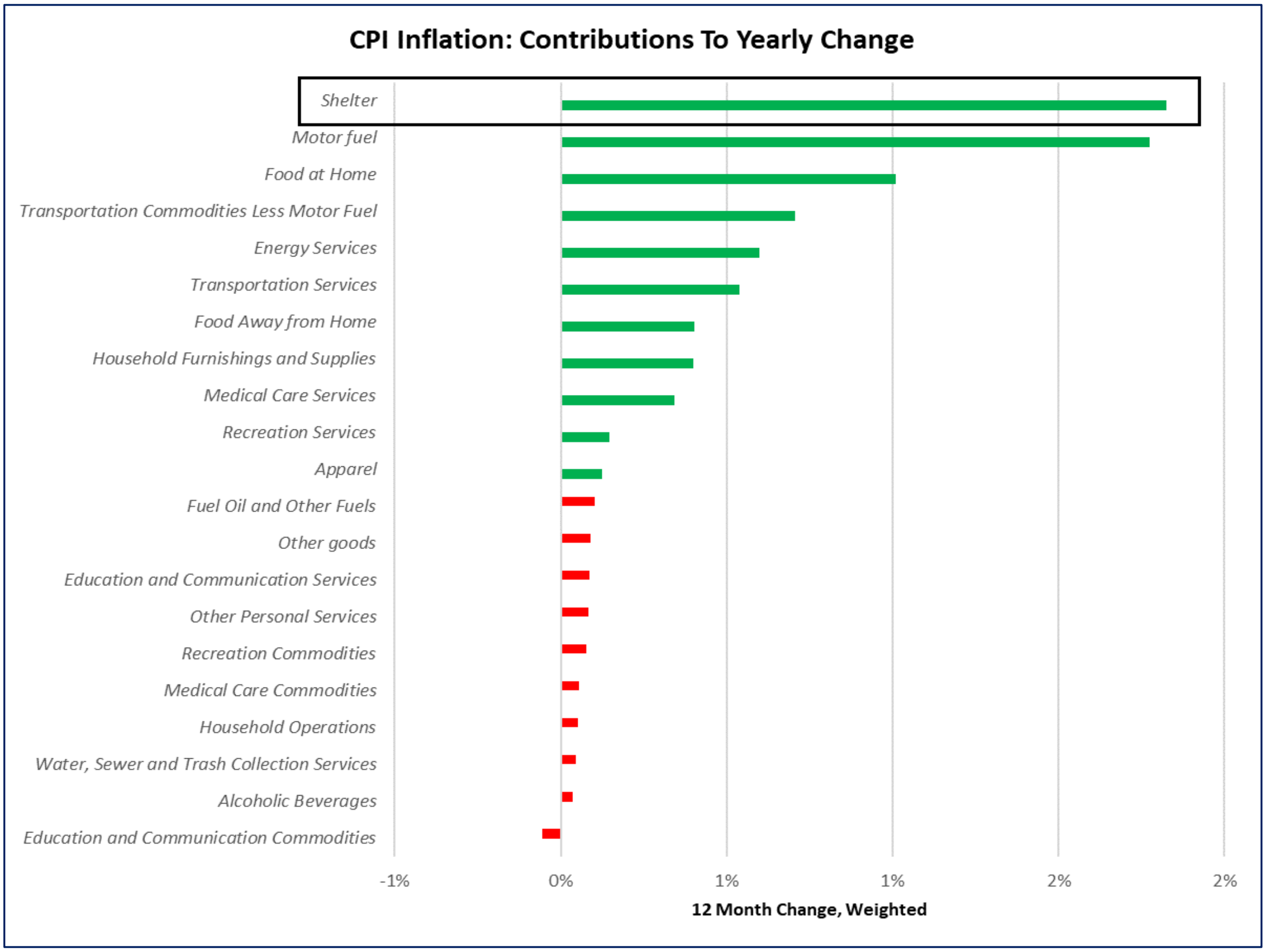


Source: @VincentDeluard

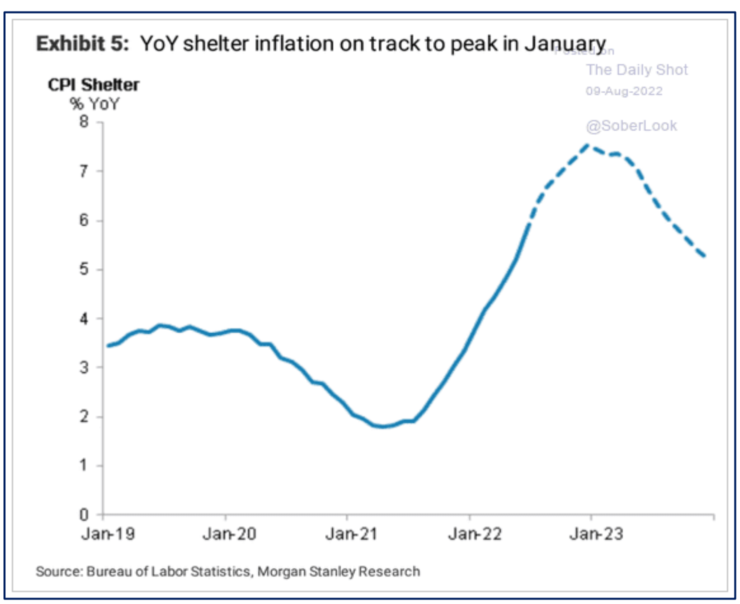
Of course, there are other factors, and arguably they are more important now than they have been over the last few decades.

Besides energy, shelter and food have been headline inflation's other two big drivers. Shelter, in particular, is seen as a lagging component, but a sticky one.

According to Prometheus Research... "the shelter component is now in the driver's seat and accounts for 1.8% growth of the 8.45% headline yearly number. 5.5% yearly growth comes from the top 5 areas."



With real estate starting to soften, the shelter component should eventually follow, but again, it is lagging and not expected to peak until the end of the year.



Shelter and food are expected to continue to hold up inflation relative to where it would otherwise be.

Last month was a good example.

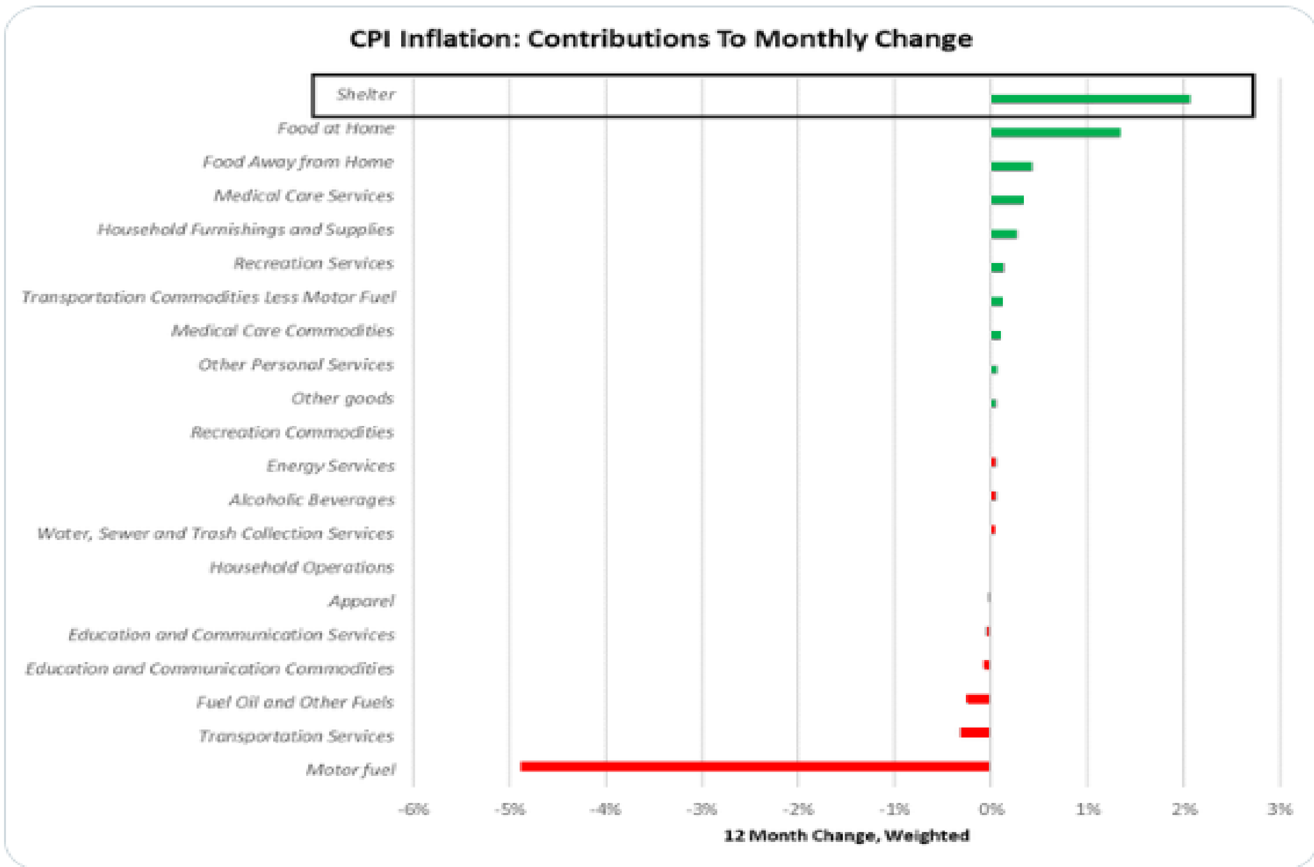
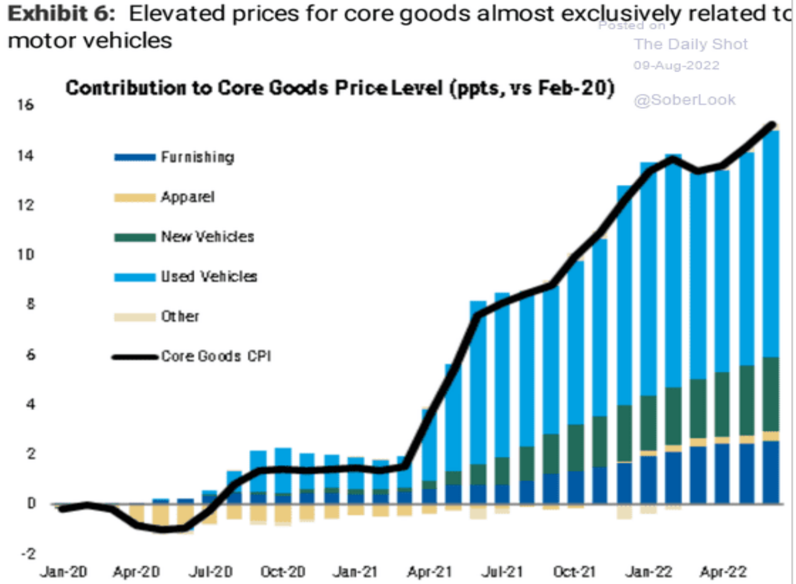


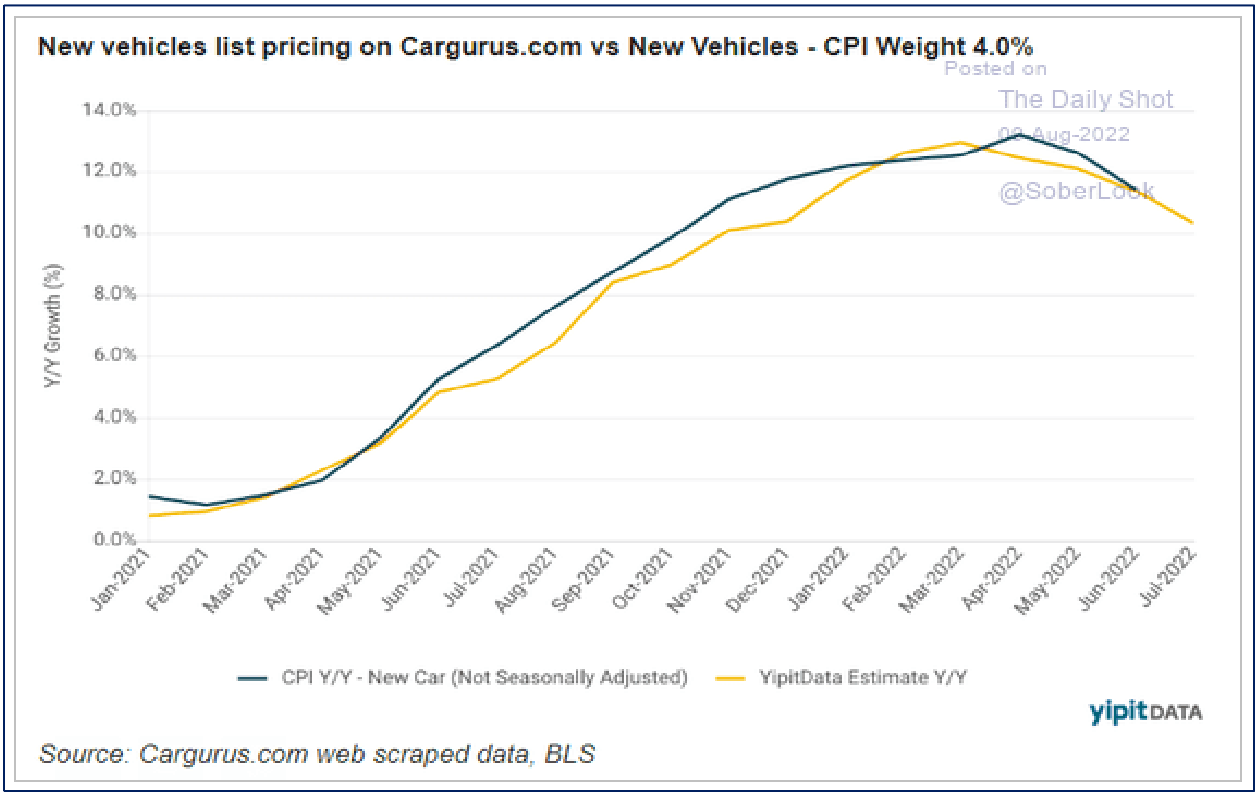
Exhibit 6: Elevated prices for core goods almost exclusively related to motor vehicles



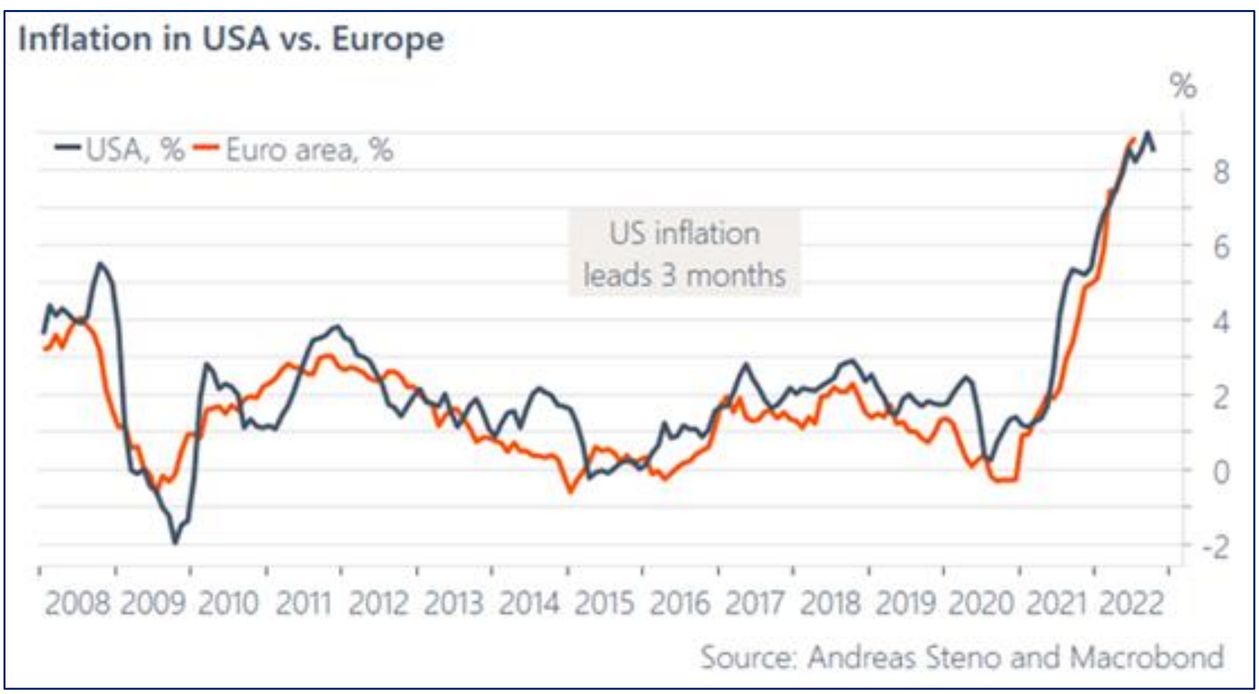
Source: Bureau of Labor Statistics, Morgan Stanley Research

In terms of CPI ex food and energy, motor vehicles, both new and used, have been a huge driver of core goods prices.

However, real-time data suggests car prices are starting to moderate.

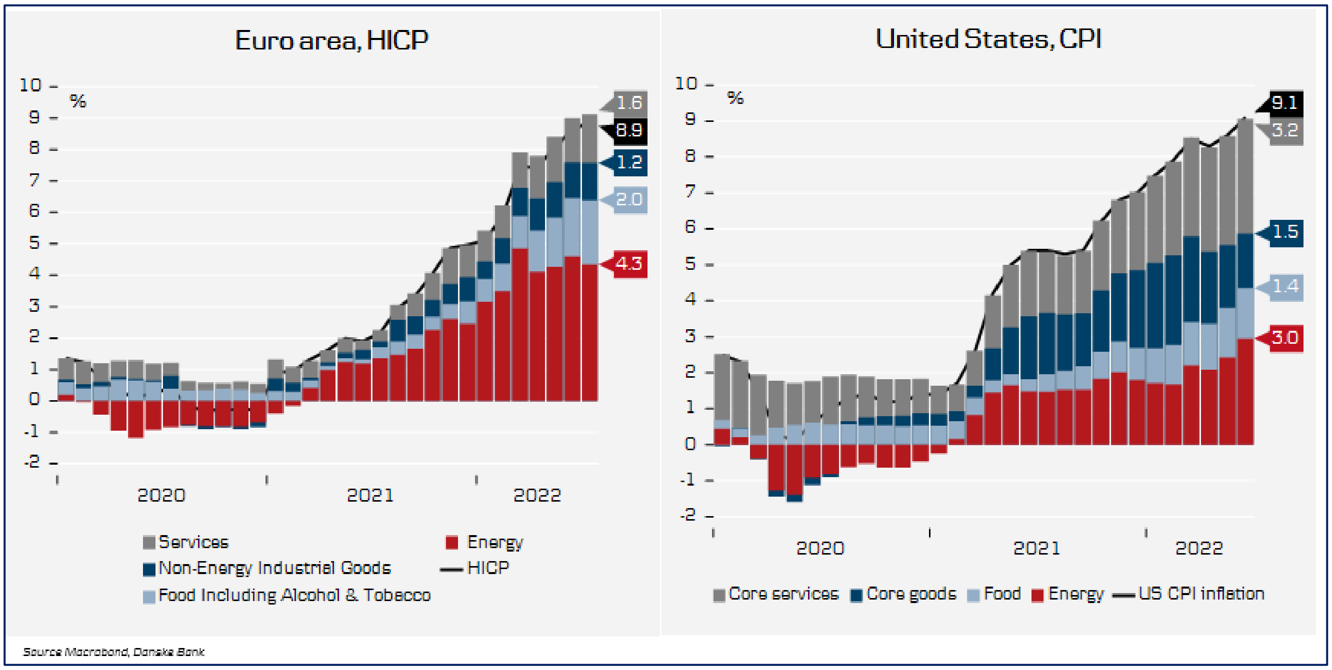


Over the last 15 years or so, US inflation has tended to lead European inflation by roughly 3-months.



Having said that, this time really is likely to be a bit different given the European energy crisis.

Here is an interesting chart that highlights the larger contribution of energy to Euro area inflation.



With European NatGas still near the highs, the recent move in electricity prices in France and Germany has been eye-watering.

Markets – Given the lack of clarity for me in the fundamental narrative these days, I have been very focused on the charts. The IWM/SPY chart is a compelling chart with good risk/reward. Having said that, I'm not sure I understand the drivers or am comfortable with the implications.

The DXY had a nice break lower on the weak CPI print. 107 is the line in the sand for bears.

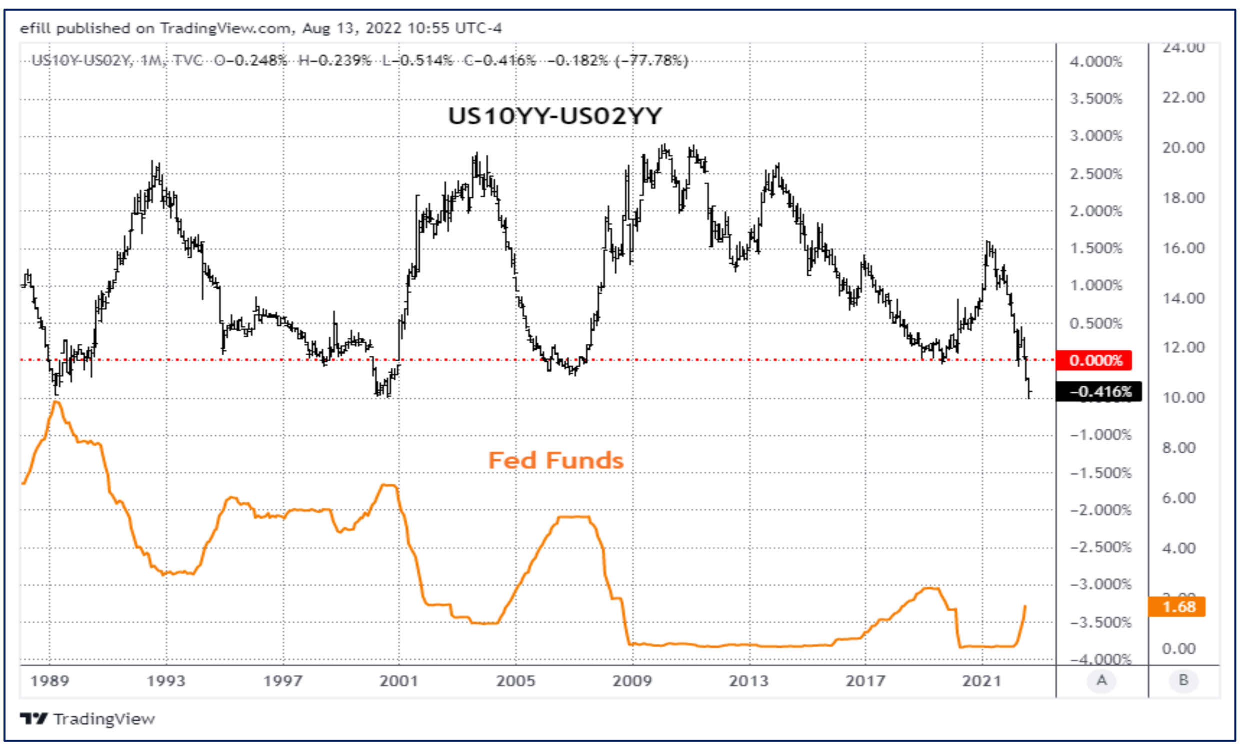
With war on the border of Europe, a heat wave, wildfires, navigable rivers drying out, and German & French electricity up 10x off the 2020 lows, it has been hard for EUR to get much upside momentum. Watch 1.0400 above.

The AUD on the other hand, found its legs last week. I like a run at .7250+ initially.

The AUD outperformance has brought my bearish GBPAUD and EURAUD views to life. These are big breaks.

I continue to like both BRL and the BOVESPA. However, I think you can tighten the stop in USDBRL now and I would have taken off over 50% of the EWZ given the +20% move.

Full QT is coming in September when they ramp up the roll-offs. Also, larger than expected tax receipts in April has meant lower issuance than normal from the Treasury. What will full QT and increased issuance mean for Treasuries? The chart is a mess now and Thursday's jump in long-end yields did some damage to the lower yield thesis. The market has been embracing a higher probability of a softer than expected landing. We will see if it lasts.



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Gold has been holding in well and peaking through resistance after having held the bottom of the range. Softer yields overall, and a weaker USD have helped. It is worth watching here but I don't have strong conviction here, nor is the location great.

Important Macro Data Releases and Events for the Week

Monday 8/15/2022	Sunday night ET - Industrial Production and Retail Sales
	Industrial Production
Tuesday 8/16/2022	UK Employment Data (Jul)
	ZEW - Economic Sentiment and Current Situation (Aug)
	Building Permits and Housing Starts (Jul)
	CPI (Jul)
Wednesday 8/17/2022	CPI, PPI, and Retail Sales (Jul)

	EU	GDP Q2 PREL
	US	Retail Sales (Jul)
	US	Fed's Bowman speech
	US	**FOMC Minutes**
	AU	Employment Data (Jul)
Thursday 8/18/2022	EU	HICP (Jul)
	US	Initial Jobless Claims
	US	Initial Jobless Claims 4-week average
	US	Continuing Jobless Claims
	US	Philly Fed Manufacturing Survey (Aug)
Friday 8/19/2022	CA	Retail Sales (Jun)