What to focus on in Global Macro for the week of August 29th, 2022

Following up on pretty much every Fed speaker for the last few weeks, Powell delivered a hawkish speech on Friday.

Powell's message: "Restoring price stability will take some time and requires using tools forcefully to bring demand and supply into better balance … likely to require a sustained period of below-trend growth". While he acknowledged that the economy is "clearly slowing", he also focused on the tight labor market that was "clearly out of balance".

Demand destruction remains the path forward for the Fed, and Fed speakers have been signaling that they do not agree with the market's assessment that rate cuts will begin as soon as the middle of next year. Instead, Powell hammered home the need for a restrictive policy for "some time."

Rather than wanting to do a "Volker", as some have claimed, Powell wants to avoid becoming the Arthur Burns of the current period, avoiding the need for Volker-like policy later. His comments that the "historical record cautions strongly against prematurely loosening policy" were likely a direct reference to the policies under Arthur Burns (chair of the Fed between 1970-1978) who raised rates in the mid-'70s but lowered them again on growth concerns, only to see inflation come roaring back and in the process un-anchoring consumer inflation expectations.

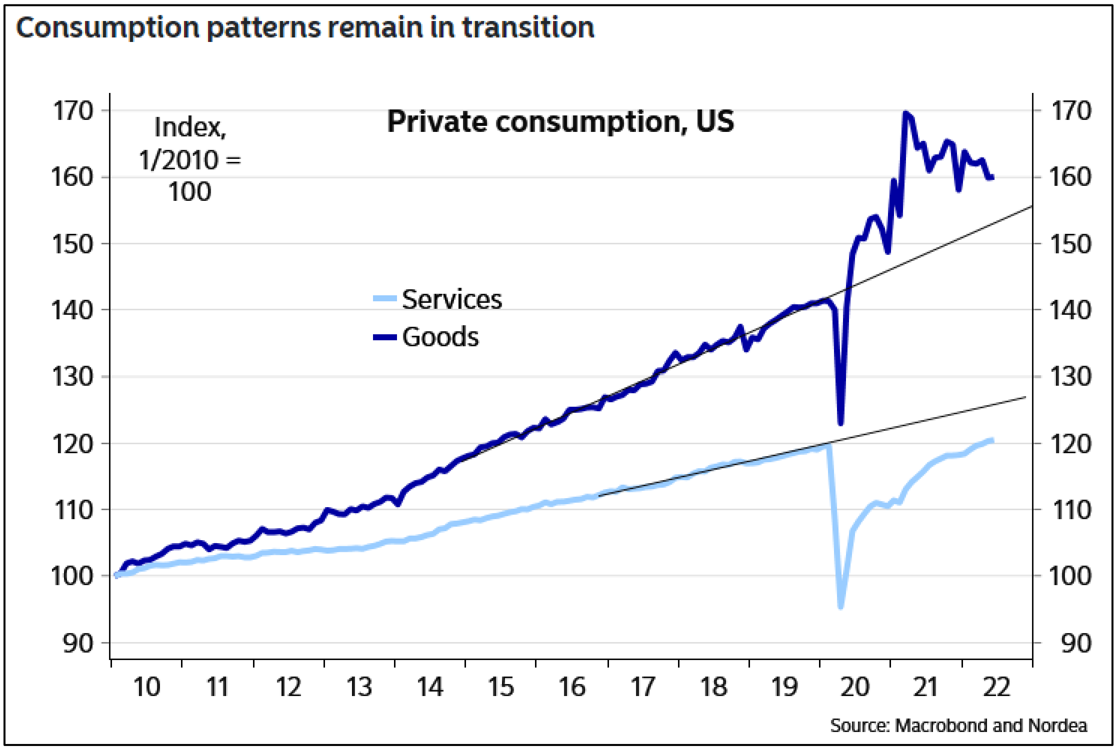
The market remains fixated on whether the next hike is 50 or 75bps. With the softer-than-expected PCE print of Friday and the ramp-up of QT starting next month, I would lean towards 50bps, but I think the debate misses the point. The Fed has laid out its plan to get Fed Funds to a moderately restrictive level, from the more or less "neutral" current level. That means roughly another 150bps of tightening. I'm not sure that how that is delivered in the coming months matters as much as the market seems to think it does. I suppose the slower they go, the higher the probability that some data points come along that prevent them from ever getting to the "higher" terminal rate.

Remember, last year's Jackson Hole get-together brought us a Fed that was still nearly unanimous in its support for the idea that inflation would be "transitory". This year we have a Fed that is fully committed to its "unconditional" responsibility to deliver price stability.

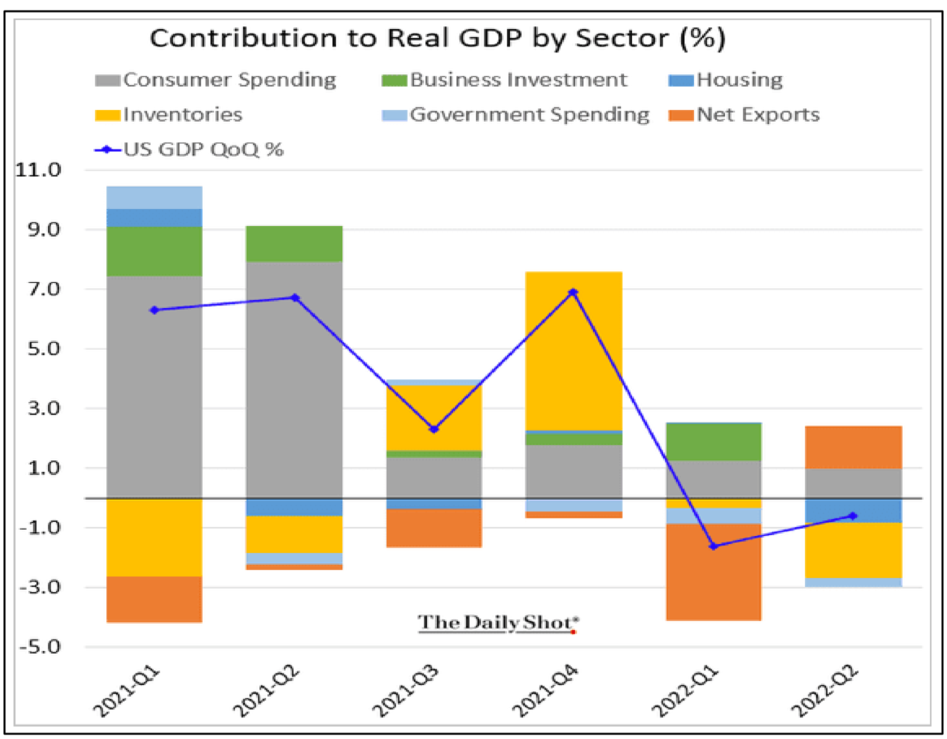
The Fed isn't alone. The ECB, after a relatively quiet period, has in recent days sent its minions out to start talking up the probability of a significant rate hike at the September meeting, maybe even 75bps.

How that would fit in with a much weaker economic backdrop than what the Fed faces in the US, remains unclear. We have a number of ECB speakers over the next week who will undoubtedly shed further light on what they are thinking.

US economic numbers remain messy as the Goods vs Services components adjust post-COVID.



In the most recent quarter, inventories and housing were a drag, while consumer spending, and a bounce in exports, helped.



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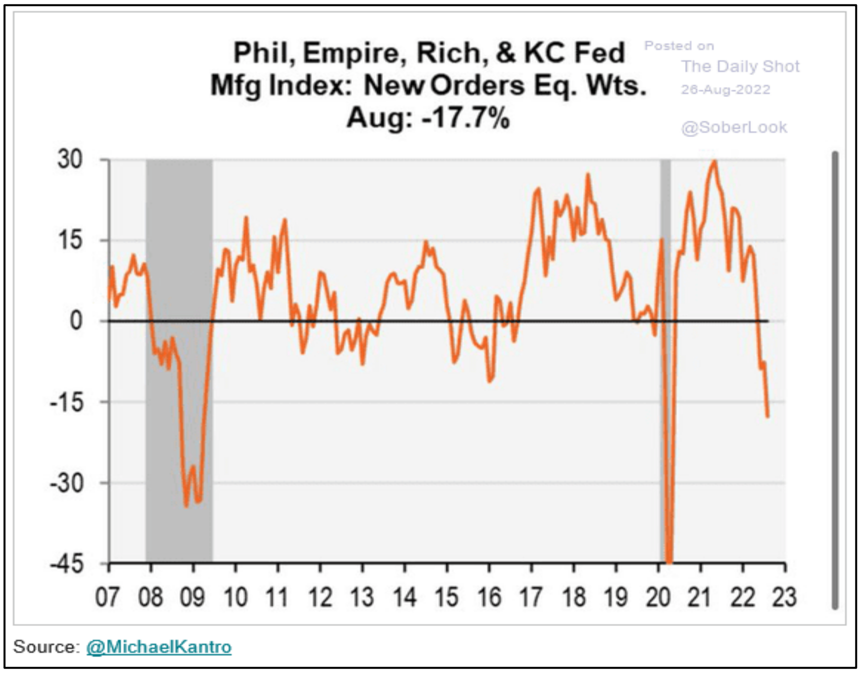
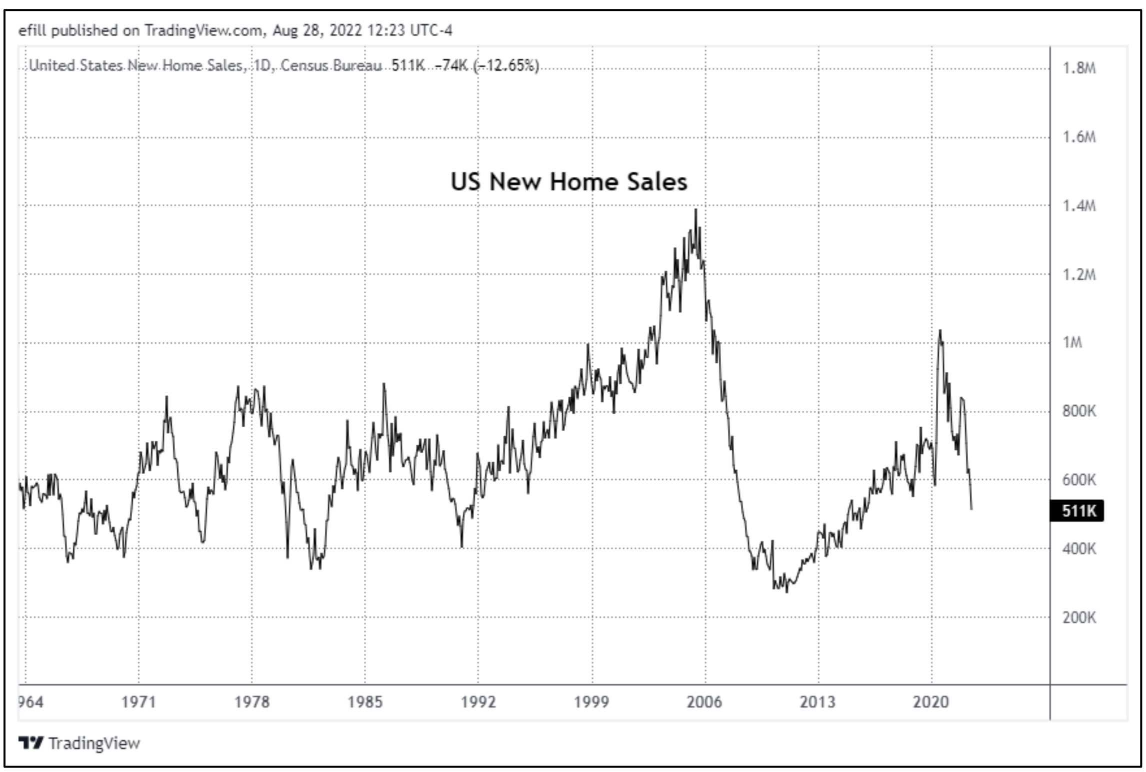
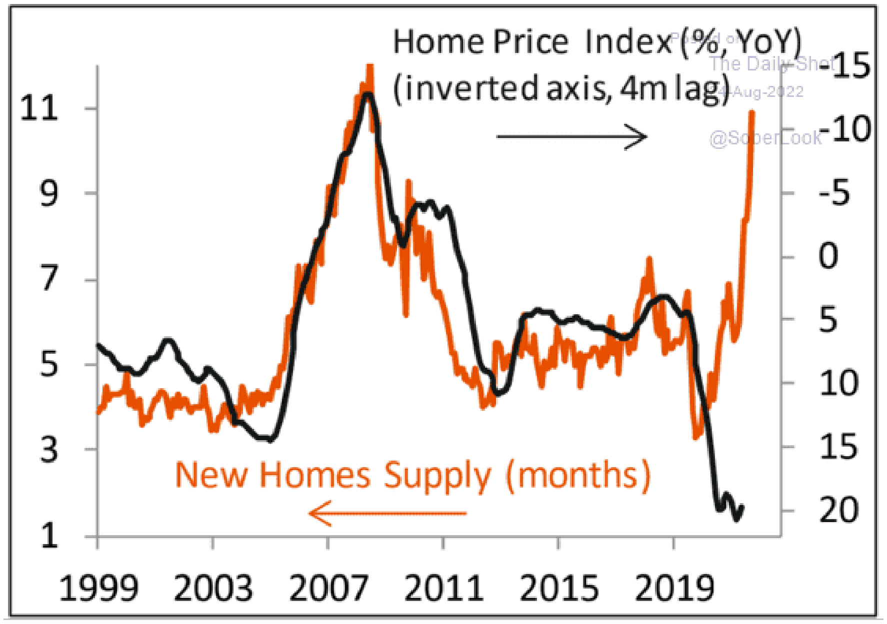
The weakness in manufacturing has been pronounced (people want to do stuff, rather than buy more stuff). However, at least so far, that hasn't kicked in the door of the labor market as services remain robust and the initial supply/demand mismatch in labor has not yet been eaten through. We have employment data looming on Friday.



The housing market has continued to weaken.



And prices should follow. Anecdotally at least, they are already doing so.



Source: Piper Sandler

With Jackson Hole behind us, how does it leave markets? The S&P's set-up is very similar to that of the third week in April. Momentum had already rolled before Friday's failure.

I'm watching energy here. As discussed previously, while it isn't the only driver of inflation it is a big one, with a lot of access points. A rebound in oil and gasoline now would spook US markets. The opposite is true as well, making this market worth watching.

True for commodities more broadly as well.

FX had a tricky week that required fading the moves to monetize much. Continued attempts at USD weakness have so far failed as upward pressure on the US front-end and a lack of alternatives to the USD makes it a tough task.

I continue to remind myself that we now face a situation, at least for the moment, where global central banks are united in their desire to tighten financial conditions and withdraw liquidity. Faced with a huge jump in inflation caused in part by supply constraints, but also government fiscal spending, they now have no choice but to seek demand destruction as a way of bringing the demand/supply dynamic back into balance. With "transitory" egg still on their faces, there will be a high bar for them to flip-flop again.

However, after being focused on fighting disinflationary forces and supporting global growth for the last two decades, the markets continue to question the central banks' credentials and fortitude for this kind of fight. Add to that the lack of visibility regarding the true state of the US economy post-COVID, and of course global geopolitical, growth, and energy concerns, and we have the prescription for more volatility ahead.

I'm focusing on flows, positioning, and good risk/reward set-ups and am trying not to get sucked into any ridged narratives as I keep an open mind.

Important Macro Data Releases and Events for the Week

Monday 8/29/2022	Fed's Brainard speech, ECB's Lane speech
Tuesday 8/30/2022	Consumer Sentiment and Business Climate (Aug)
	HICP (Aug)
	US Housing Data
	Consumer Confidence
	Fed's Williams speech, Fed's Barkin speech
	NBS Manufacturing and Non-Manufacturing PMI (Aug)
Wednesday 8/31/2022	HICP (Aug)
	ADP Employment Change (Aug)
	Chicago Purchasing managers' Index (Aug)
Thursday 9/1/2022	Retail Sales (Jul)
	Final (Aug) PMIs across Europe and North America
	Unemployment Rate (Jul)
	Initial Jobless Claims
	Initial Jobless Claims 4-week average
	Continuing Jobless Claims
	Unit labor costs and non-farm productivity (Q2)
	ISM Manufacturing (Aug)

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Friday 9/2/2022

US Employment Data: Non-farm payrolls, Unemployment Rate, etc.

Factory Orders (Jul)

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