



Money, Macro & Markets Monitor

Insight & Support for the Managers of Wealth

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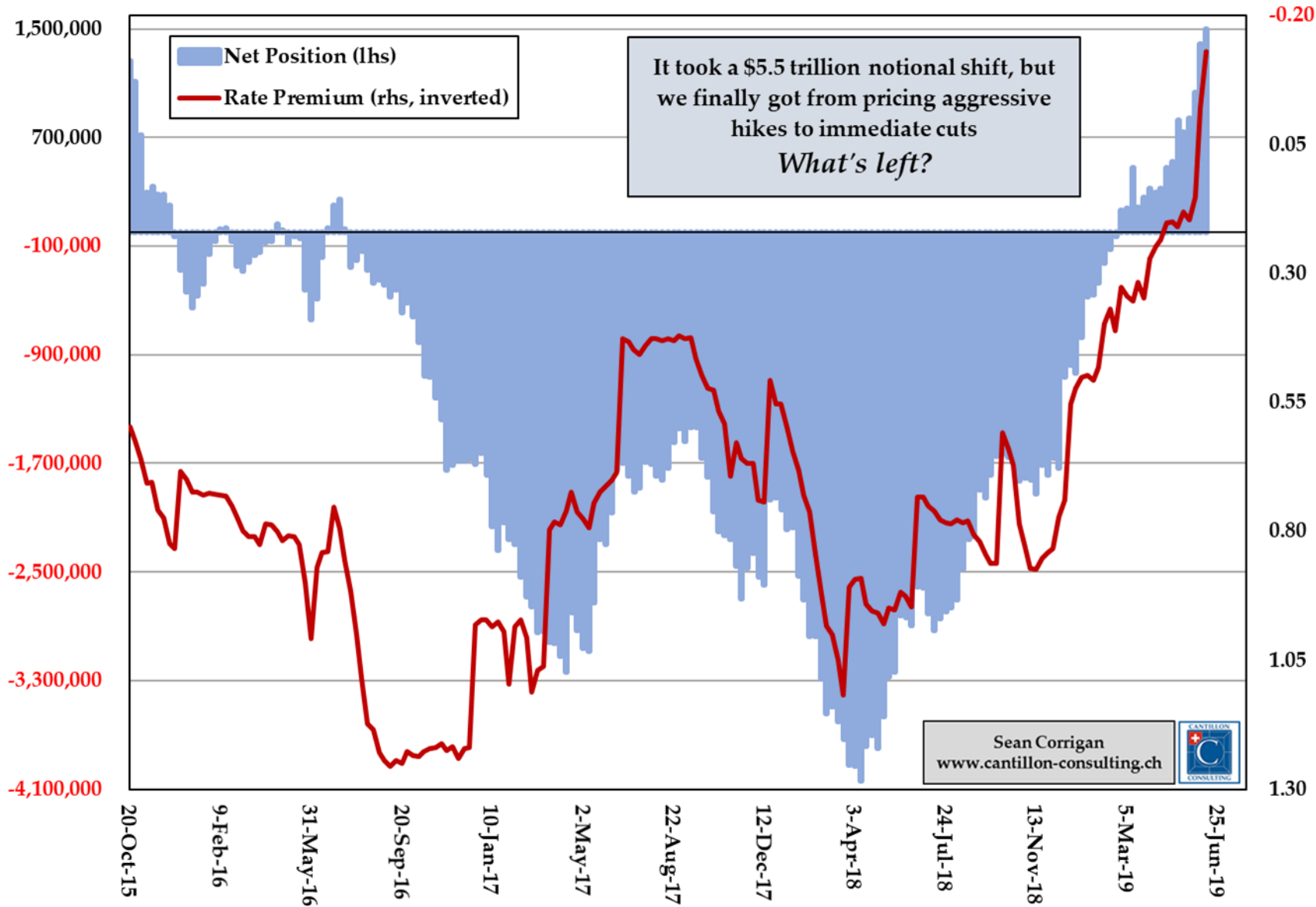
June 18th, 2019

FOMC Decision Time

Sean Corrigan
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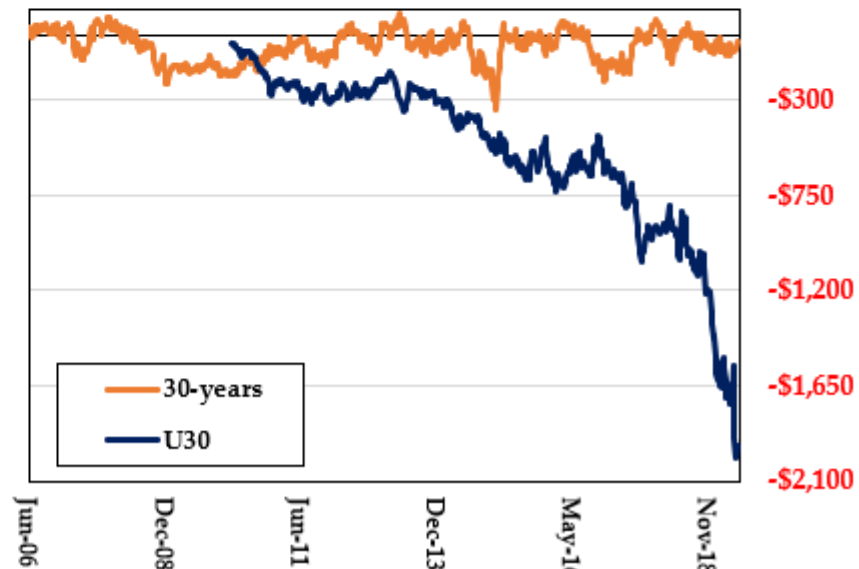
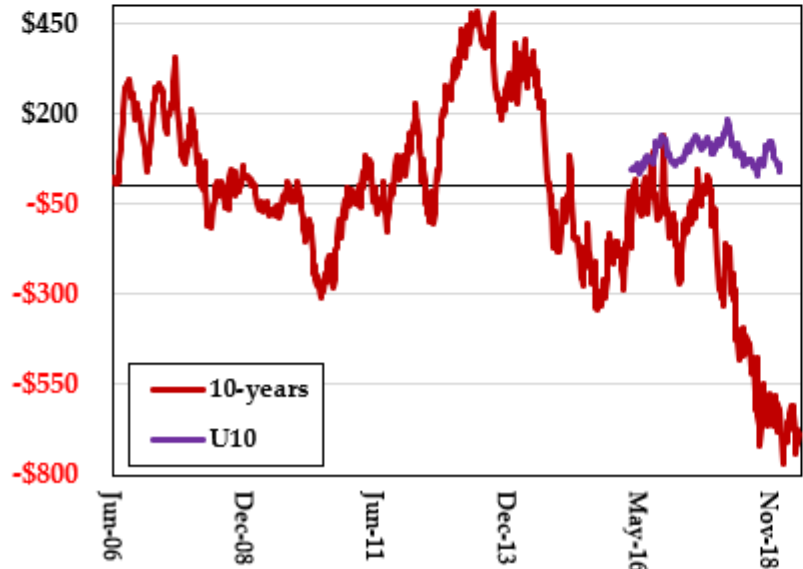
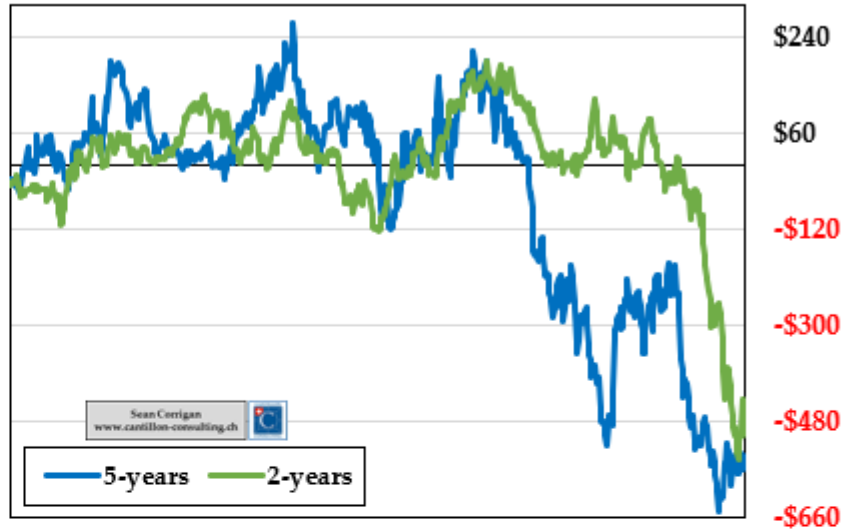
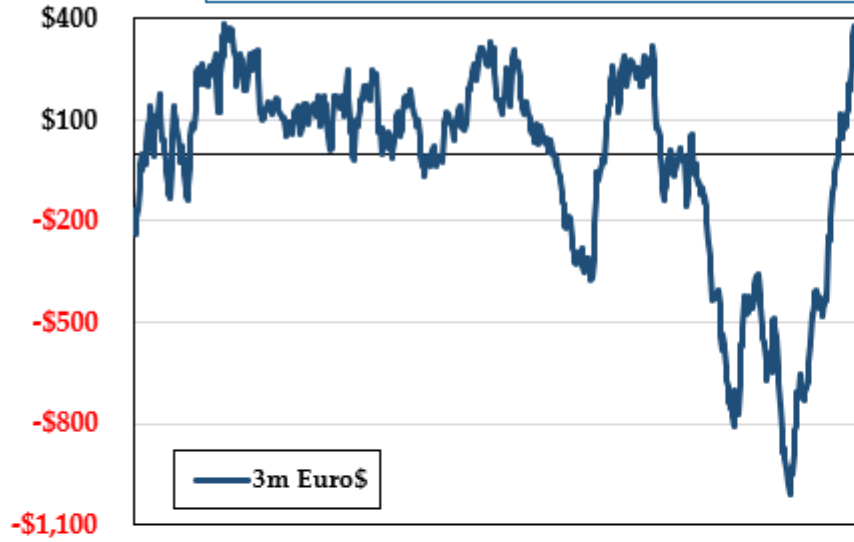


Money Manager Net Eurodollar position v 3x6 Forward Rate spread over Feds: CFTC, FRED



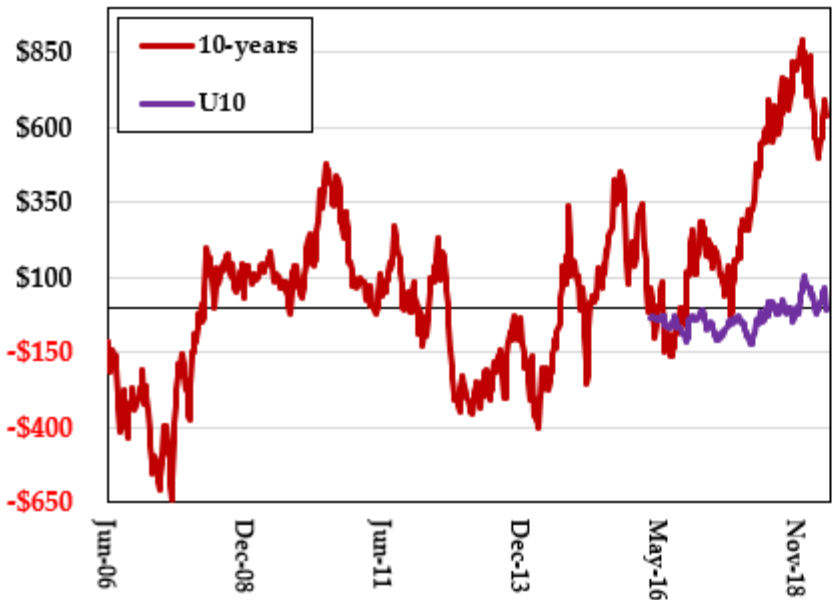
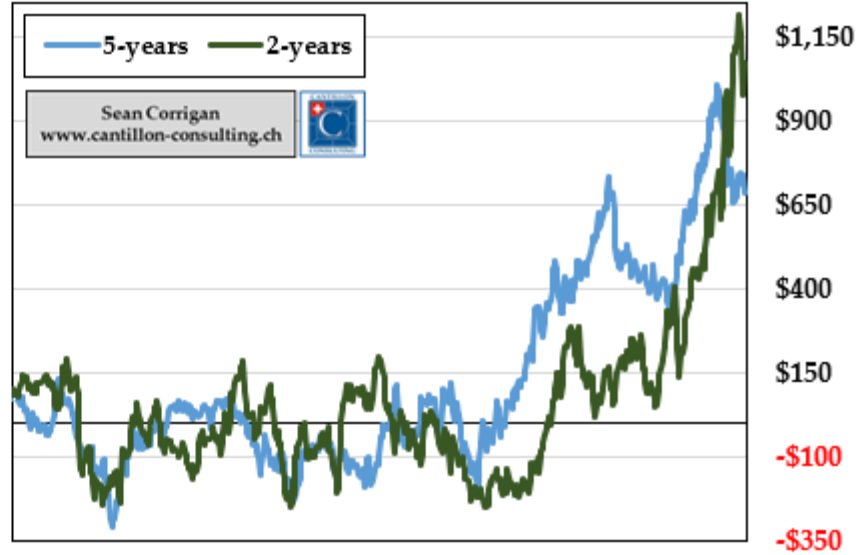
It was clearly a struggle, but the market finally got itself very long of the front end...

US Futures Leveraged Money Net Positions, \$1bln x 1-yr equivalents: *Source - CFTC*



...not so at the long-end, however,
 where the Specs will be hoping
 for a little relief

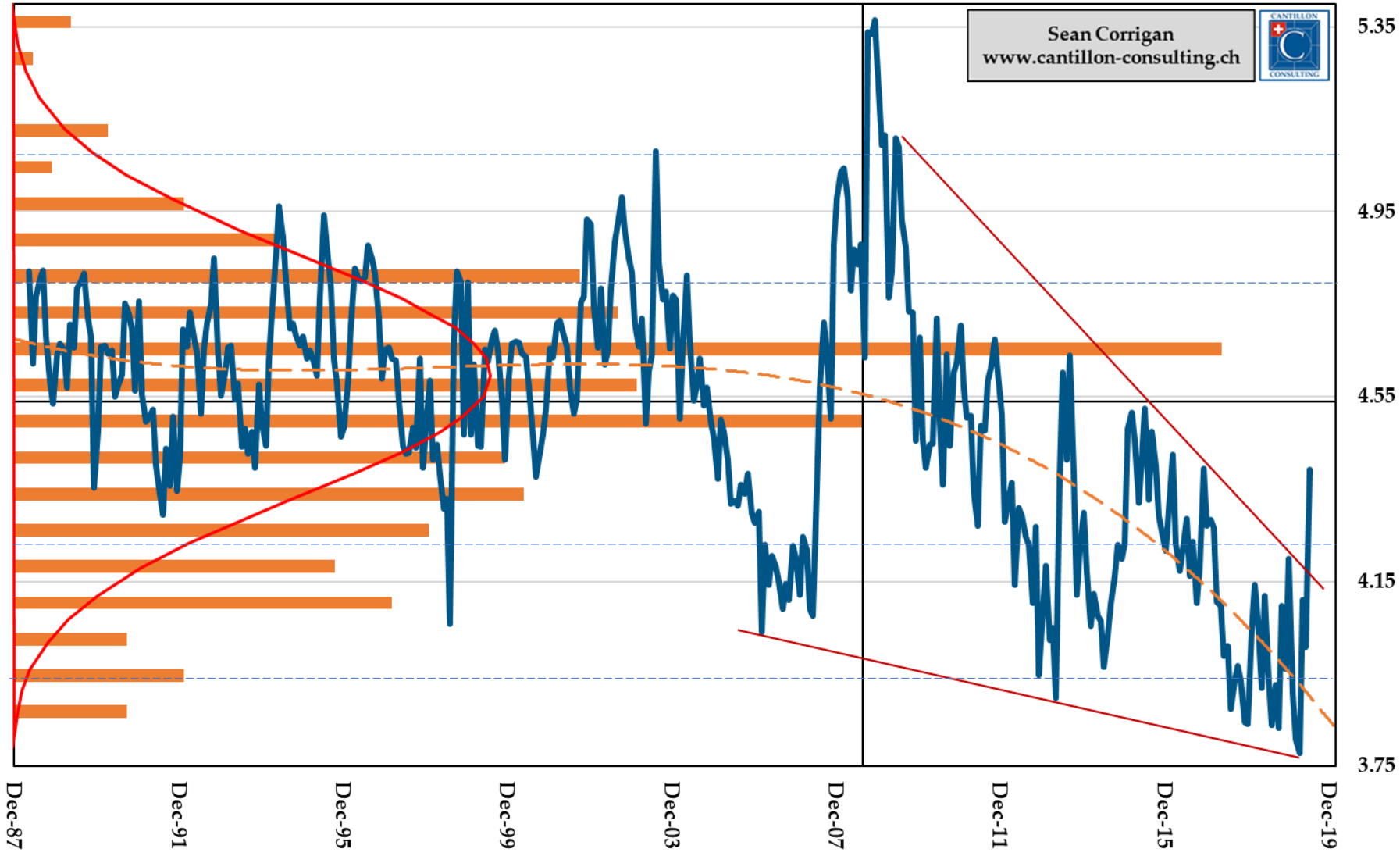
US Futures Asset Manager Net Positions, \$1bln x 1-yr equivalents: *Source - CFTC*



...and Asset managers – driven by other, less discretionary factors of course – will be hoping they've not overshoot the mark

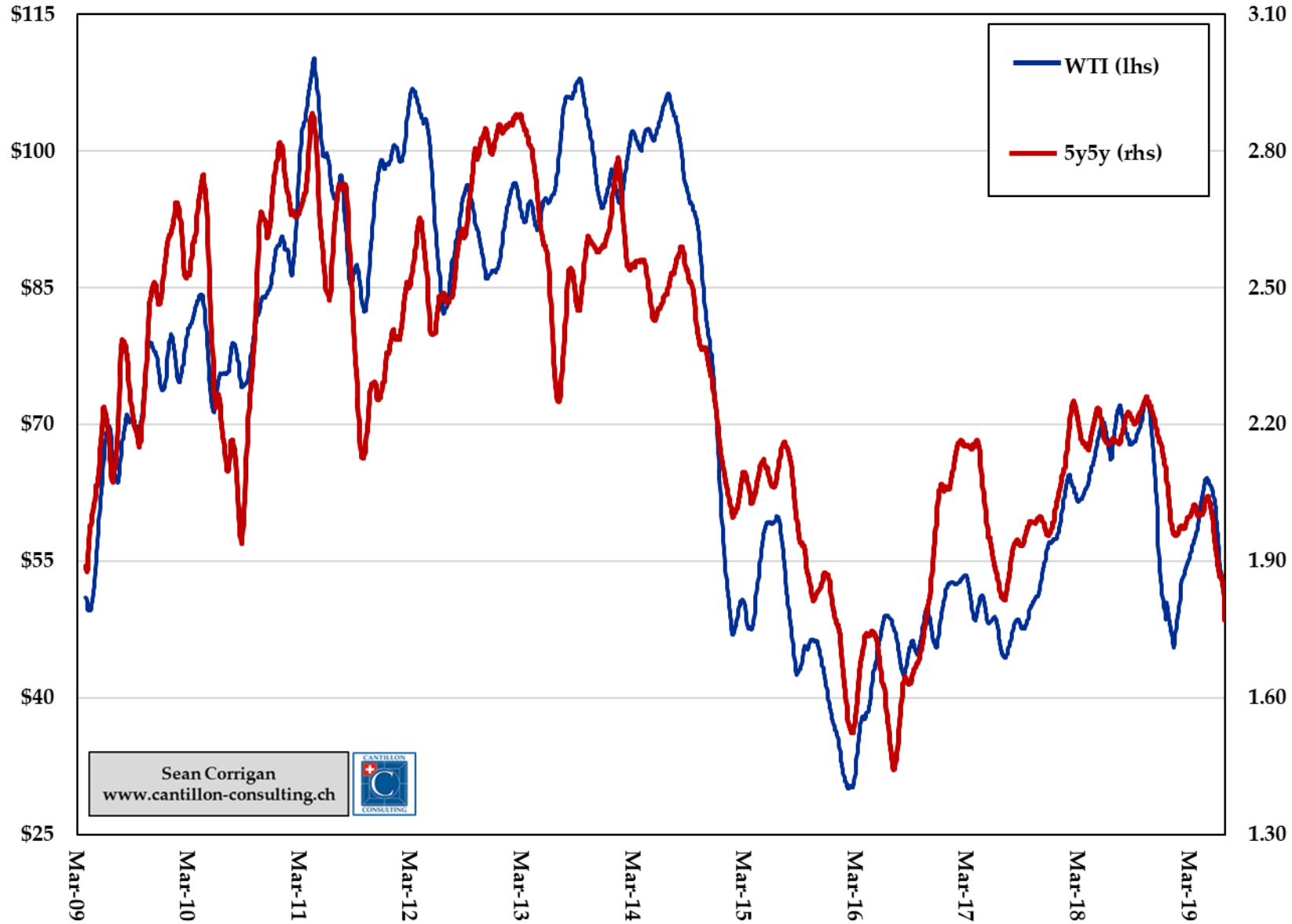
log MOVE

0 10 20 30 40 50 60 70



Though hardly elevated in historical terms, bond Vol has been on the rise – as the shorts seek some last-minute protection, perhaps

Crude Oil price v US Forward BEI, 4wkMA: Source - FRED



The dog is chasing its tail again. Lower crude leads to lower BEIs, leads to the Fed watching the market watching the Fed re 'expectations'...



As a result, T-Notes are back to their post-Lehman spike lows.

Surely the world isn't in that bad a fix??

...certainly the stock market doesn't seem to think so.
Is the Powell Put really worth that much?



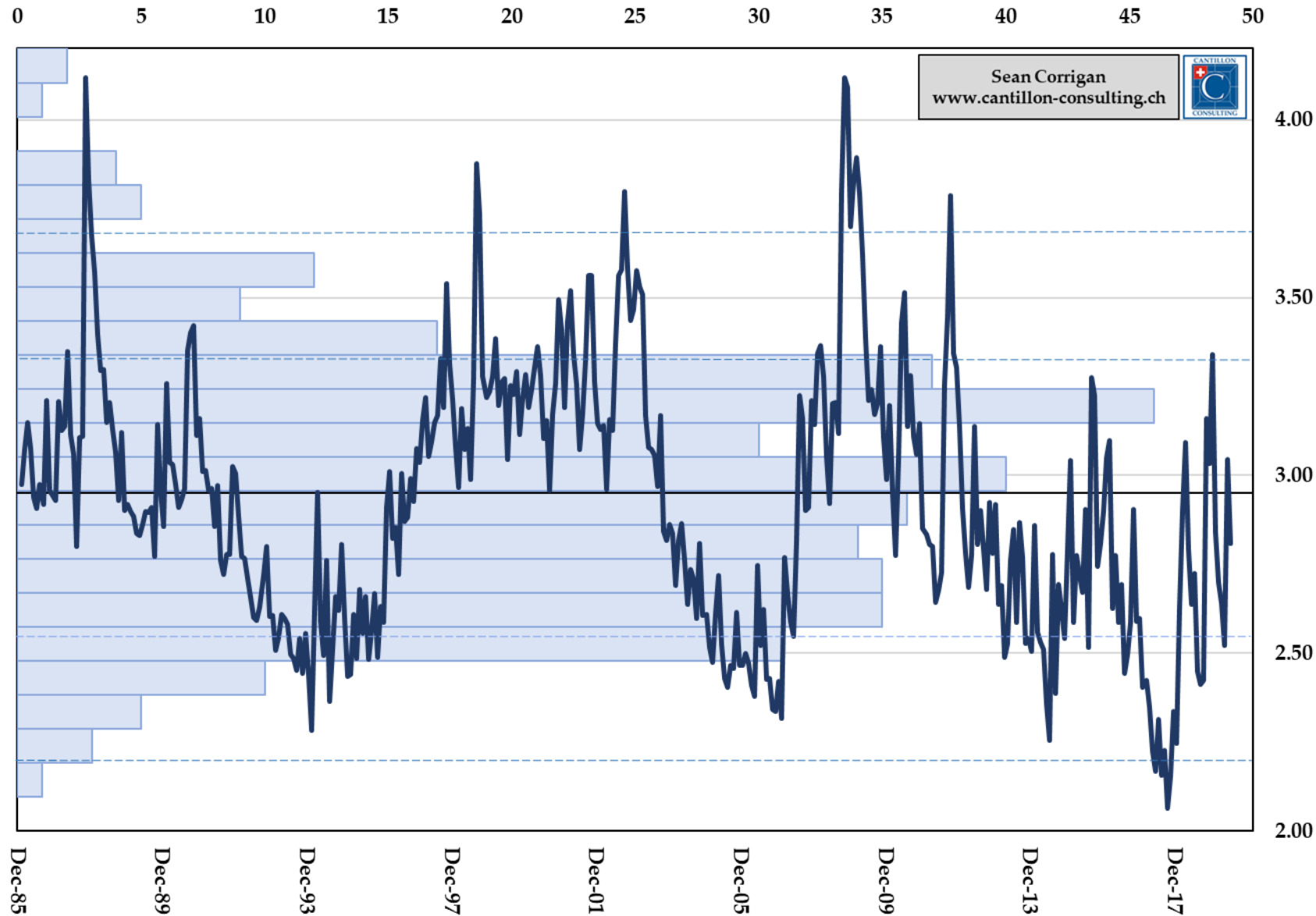
VALUE LINE INDEX

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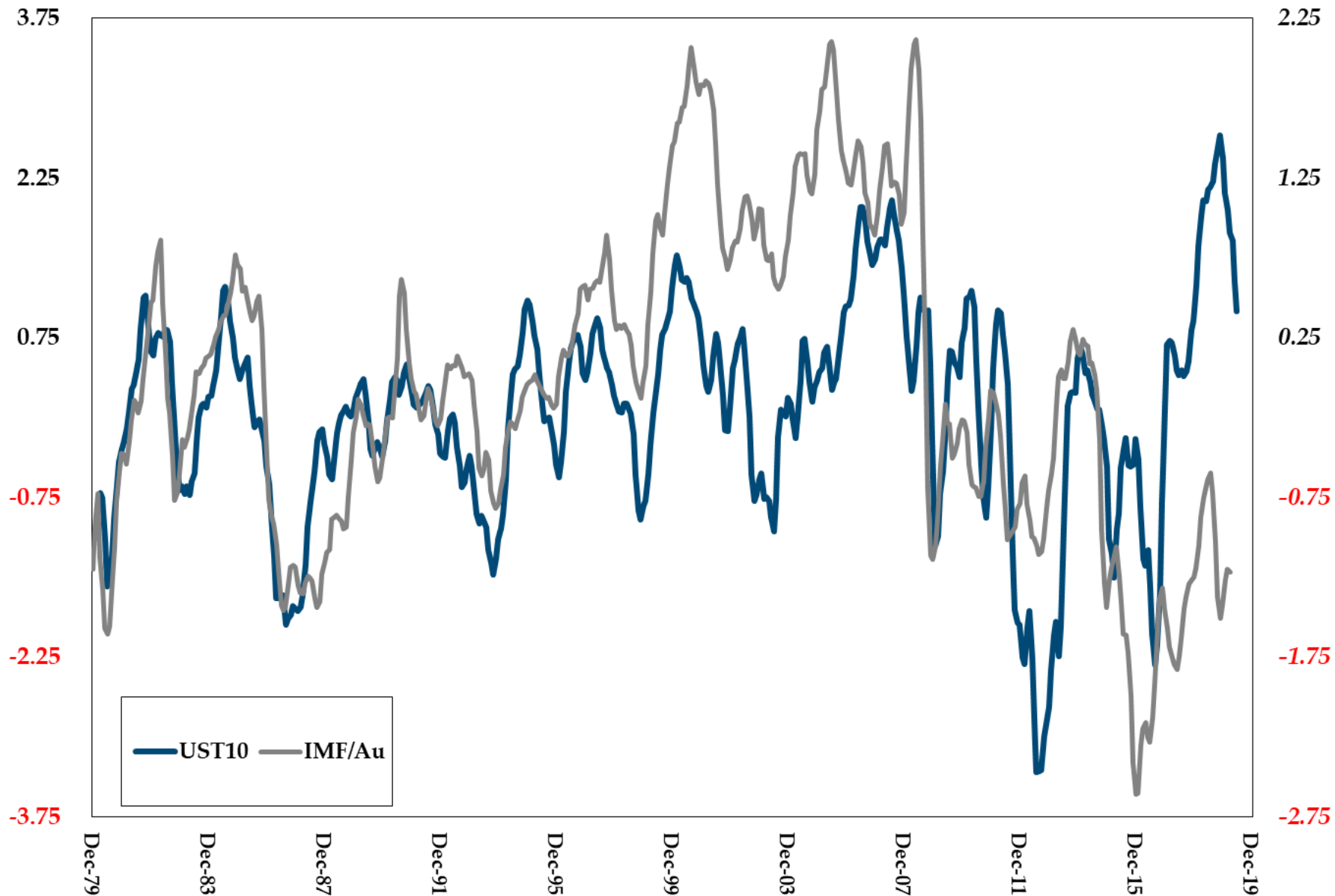
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VXO log distribution: *Source - FRED*



Certainly, there's little real sign of angst in here, even if we are not quite at the sort of comatose complacency levels seen in early 2018

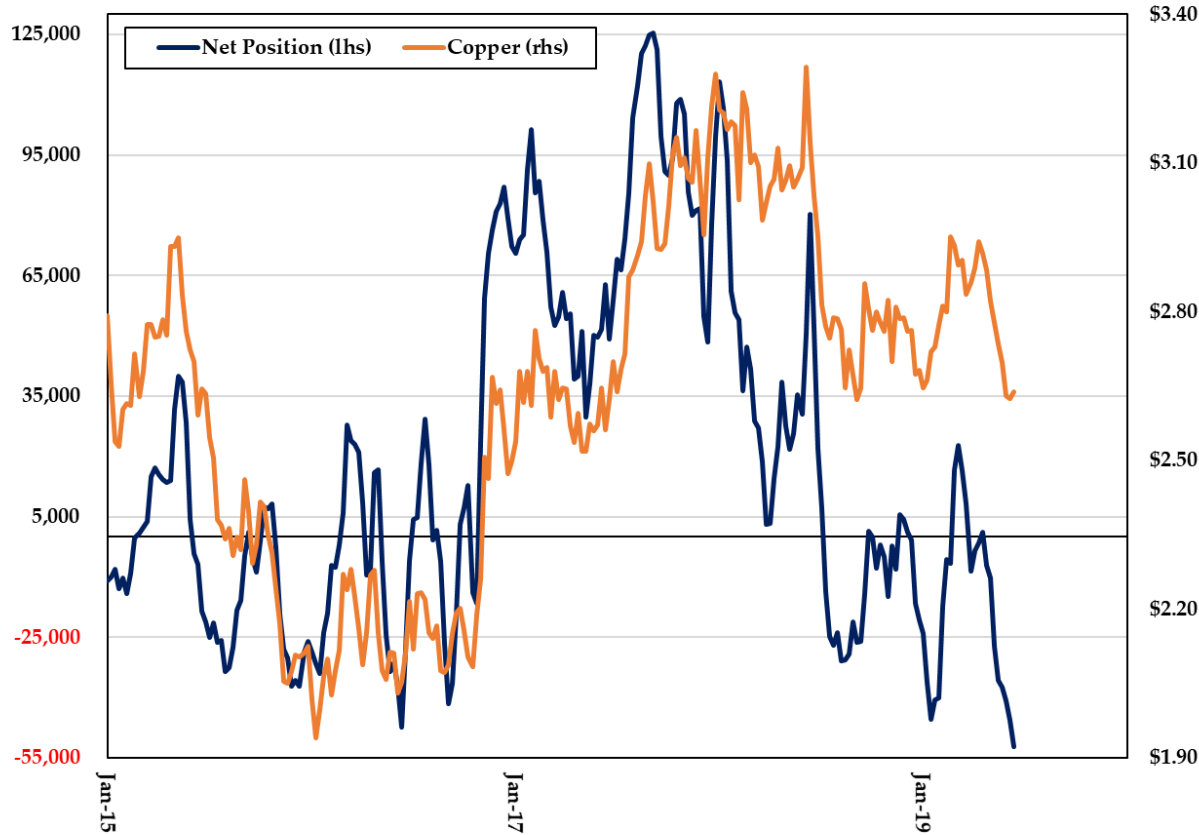
Gold/Commodity Ratio (t+3) v UST yields, deviations from trend: *Source - WB/IMF, FRED*



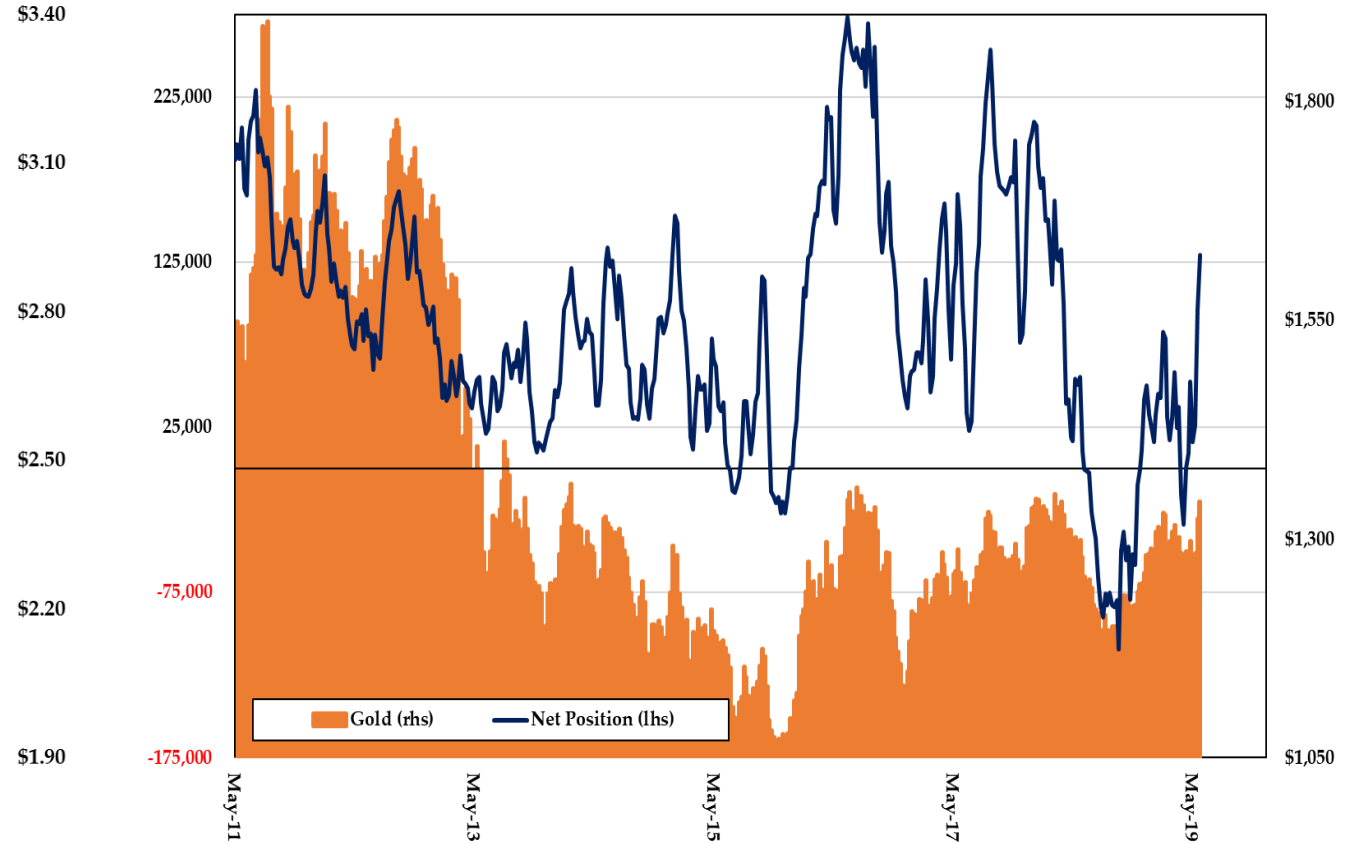
Falling bond yields are helping gold outperform its peers in time-honoured fashion

That divergence can be clearly seen in positioning in the underlying. Copper bears have never been so numerous: gold bulls are the most convinced in over a year

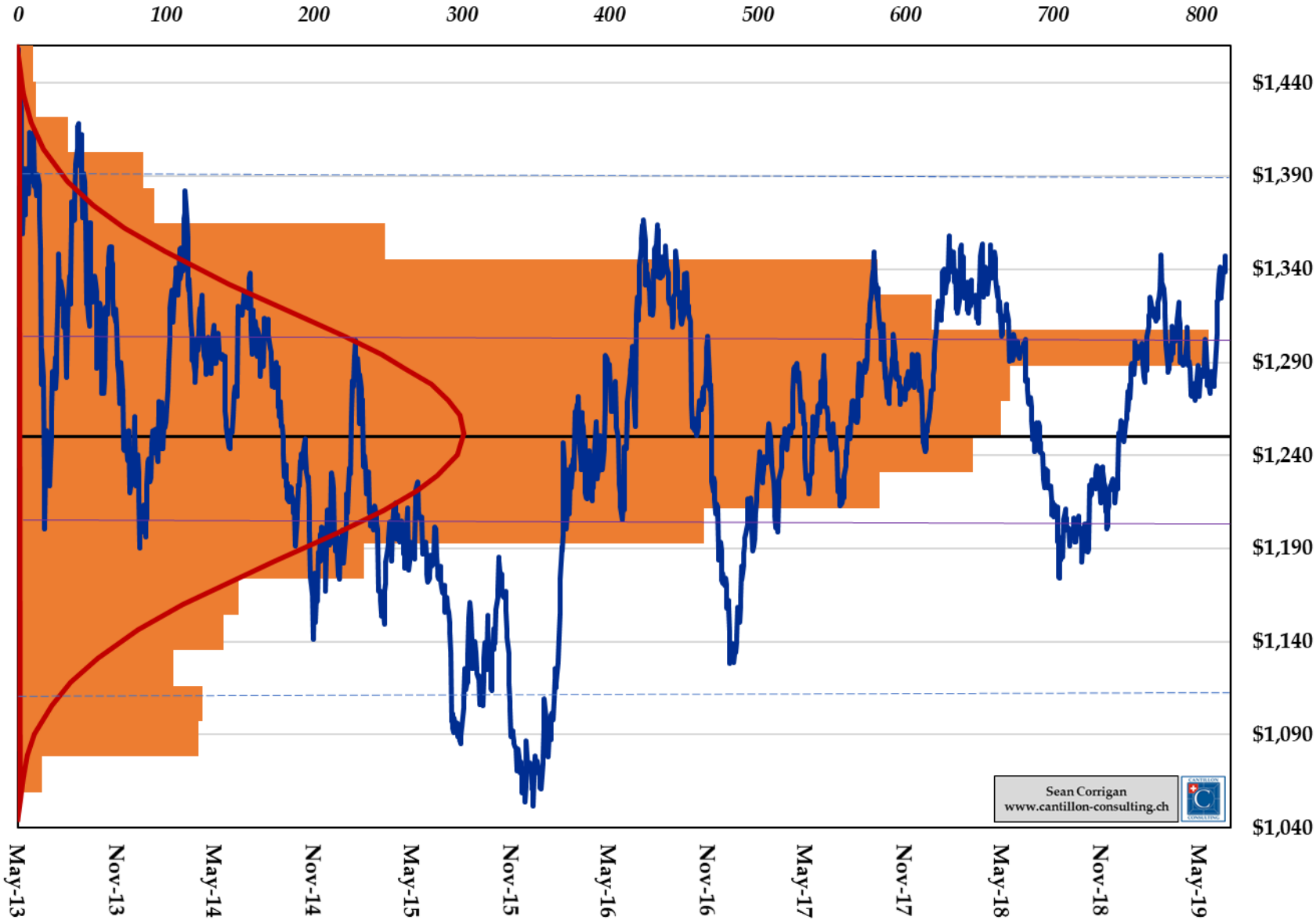
Money Managers Net Position v Copper Price: CFTC, Comex



Money Managers' Net Gold position: CFTC, COMEX



Gold



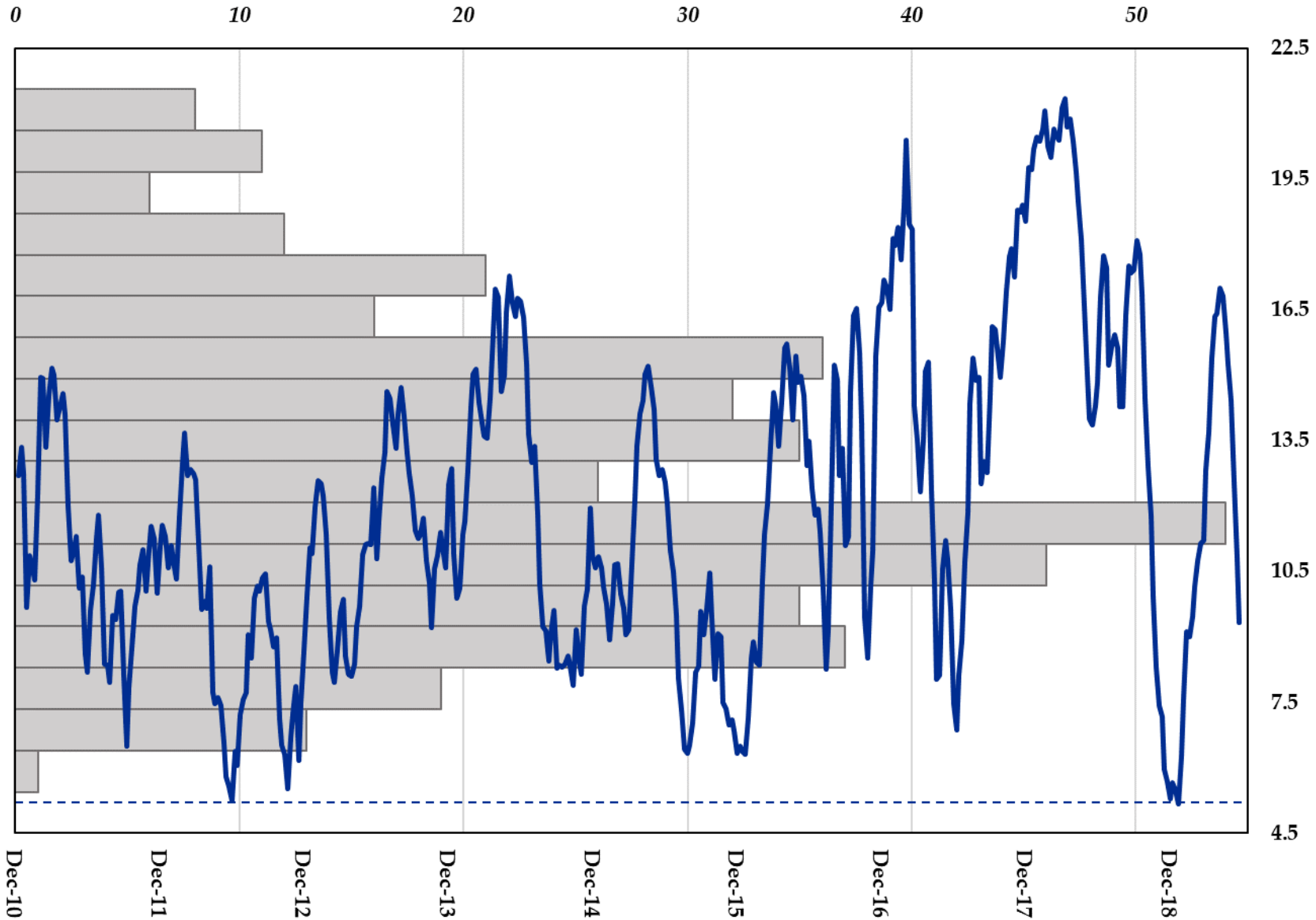
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In absolute terms, gold is again bumping up against the long-term sellers frequently to be found in the \$1350/75 area.

Will it finally break its shackles?

Combined WTI & Brent Money Manager Net as % O/I: Source - CFTC



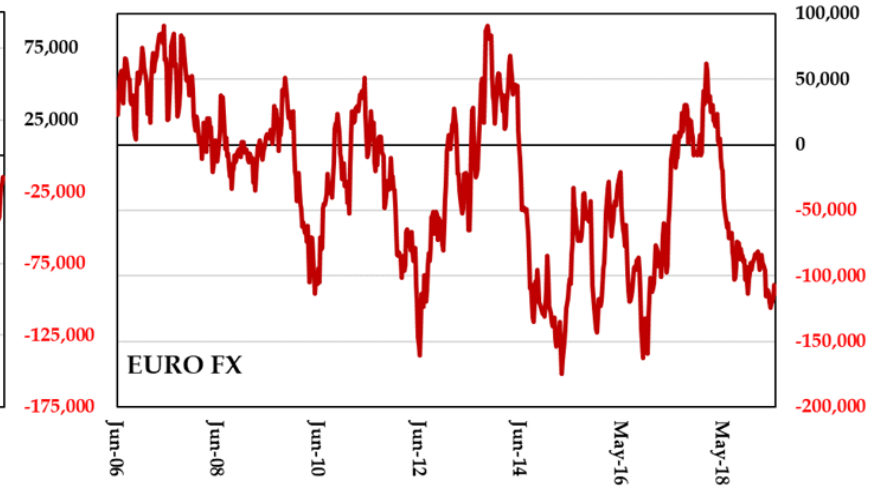
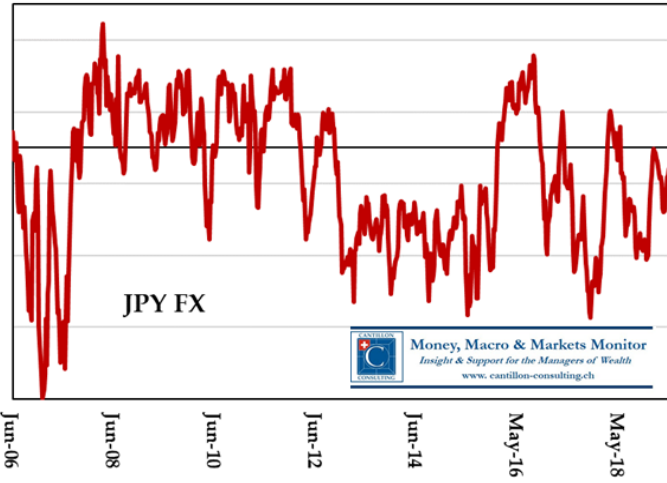
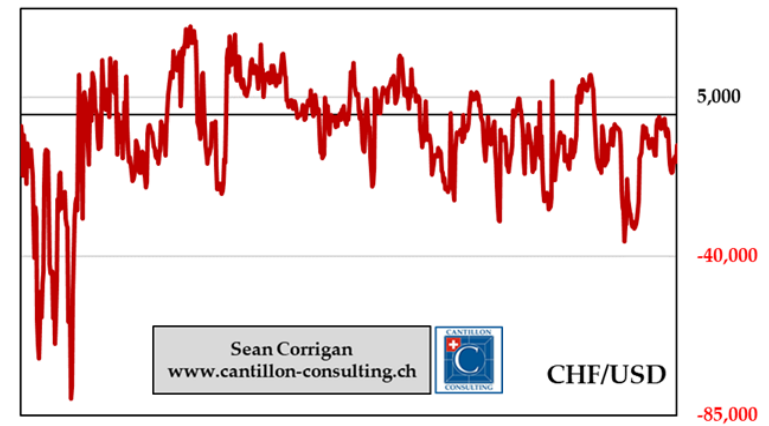
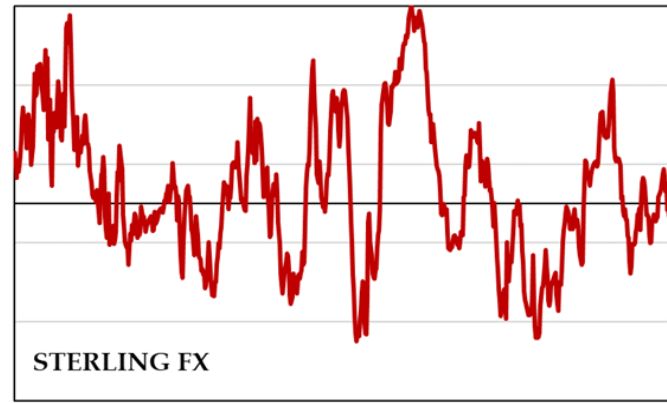
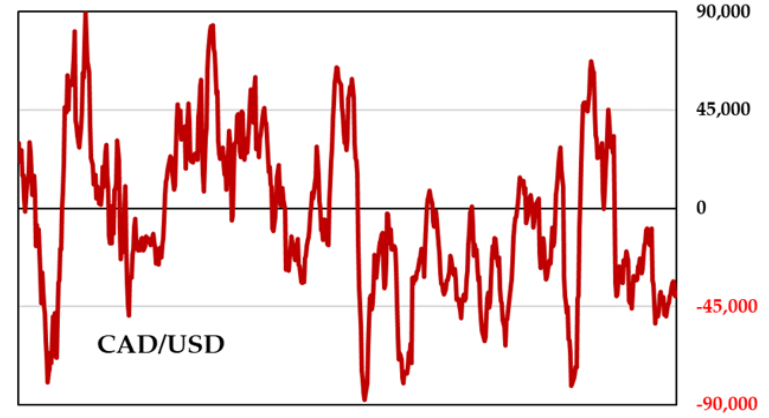
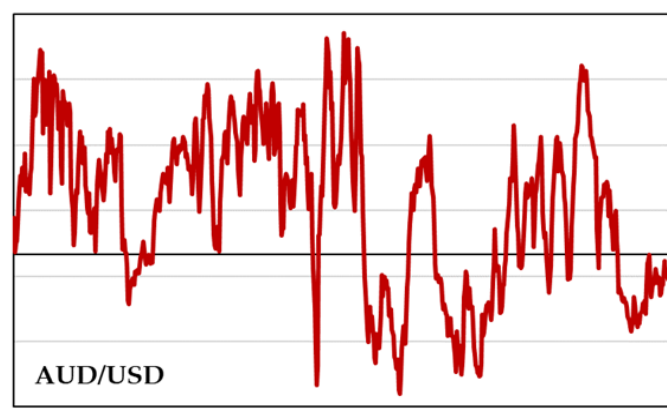
War or no war, the US domestic glut of crude, allied to wider growth fears, has sapped the resolve of oil buyers



WTI

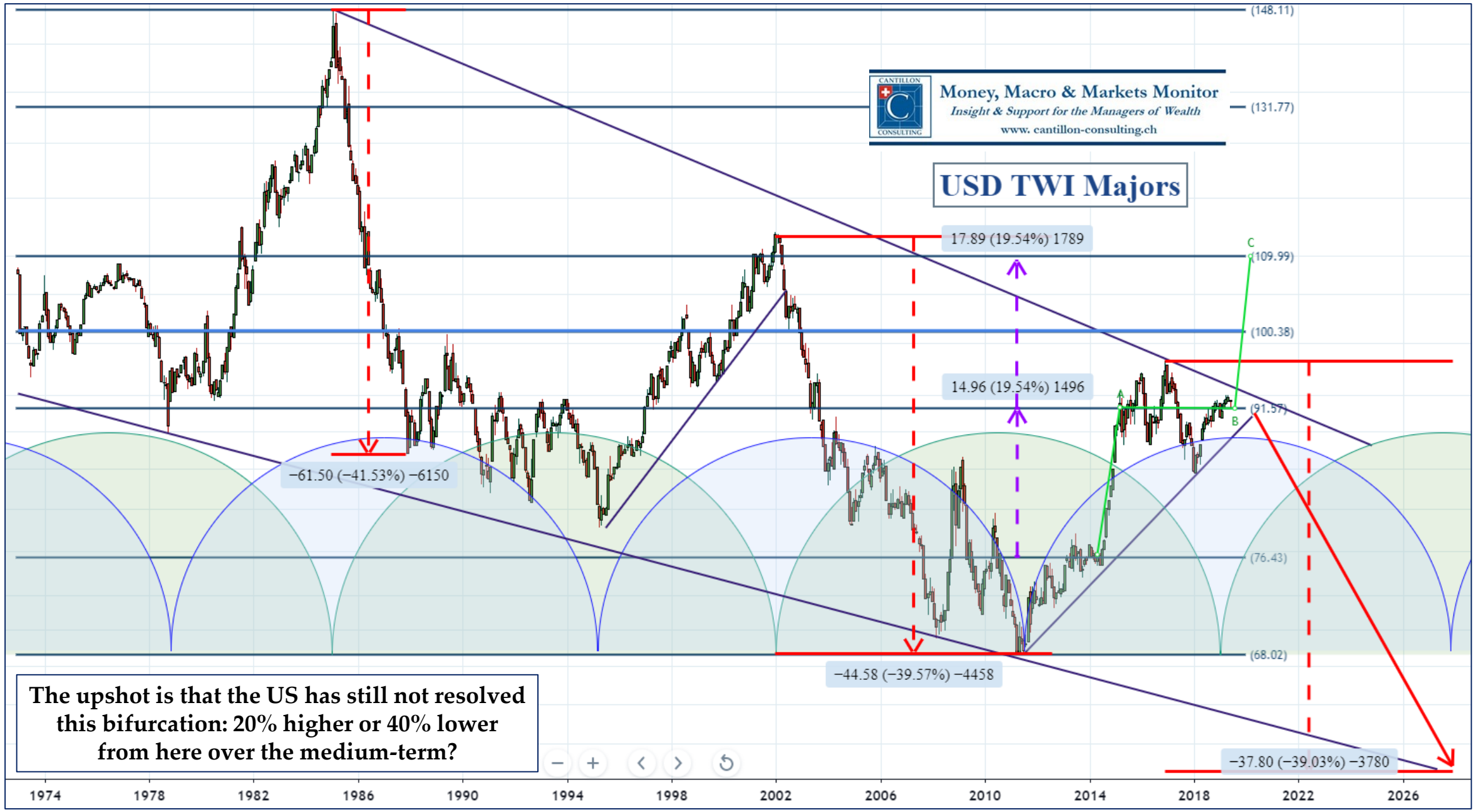
This has left WTI slap bang in the middle of the Shale Era range, though the technicals from the spring highs suggest the winter's lows are not to be ruled out

In the currency markets, the main focus of bearishness seems to be the Loonie and a Draghi-afflicted euro, if we take the leveraged account positions as our guide





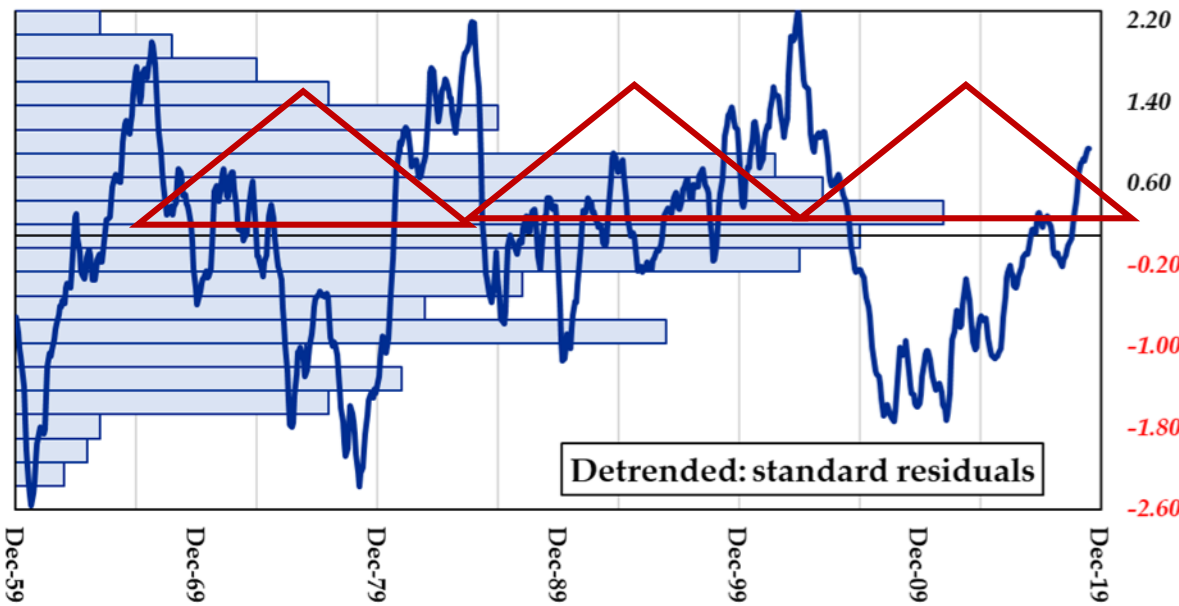
USD TWI Majors



The upshot is that the US has still not resolved this bifurcation: 20% higher or 40% lower from here over the medium-term?



SPX v DAX total return: log scale



...Though the clear cycle seen in relative stock market returns suggests we have around another two years to wait for the major turning point to arrive – just after the next President takes office, in fact



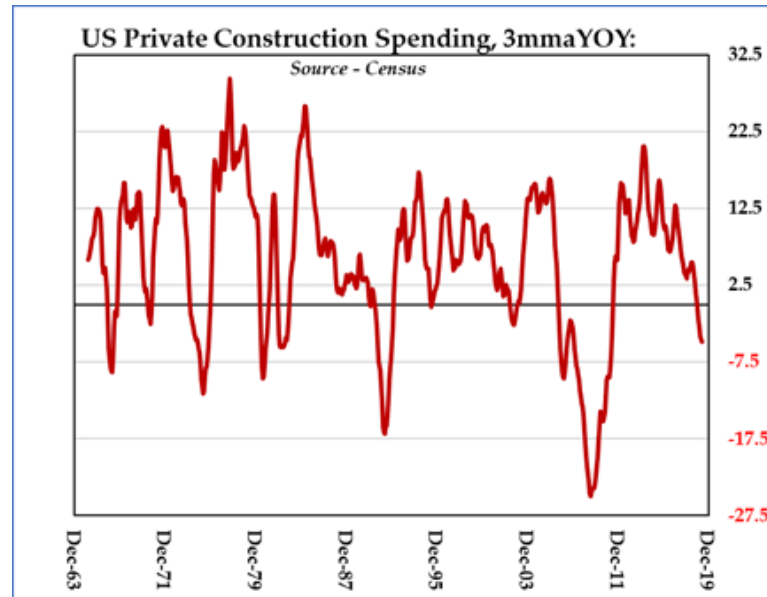
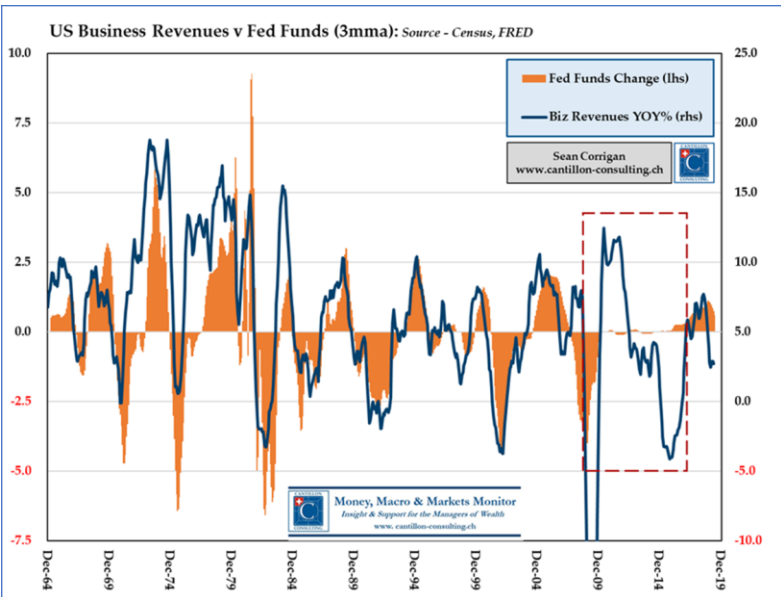
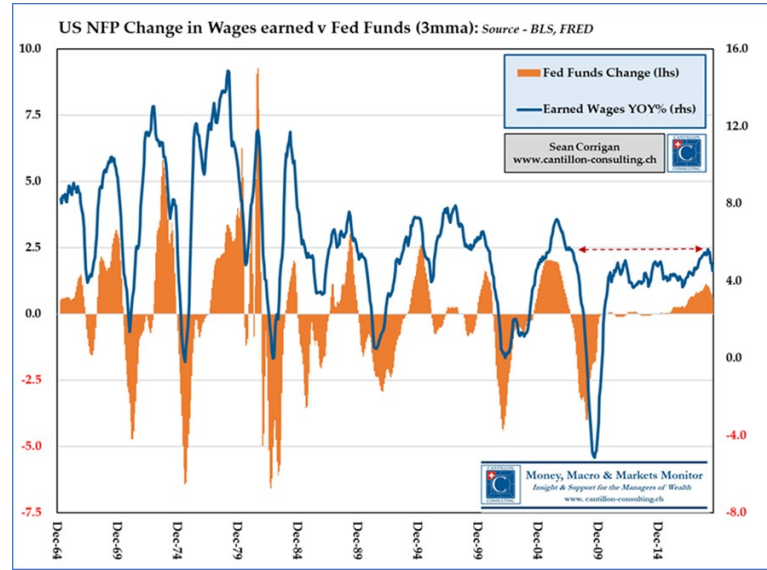
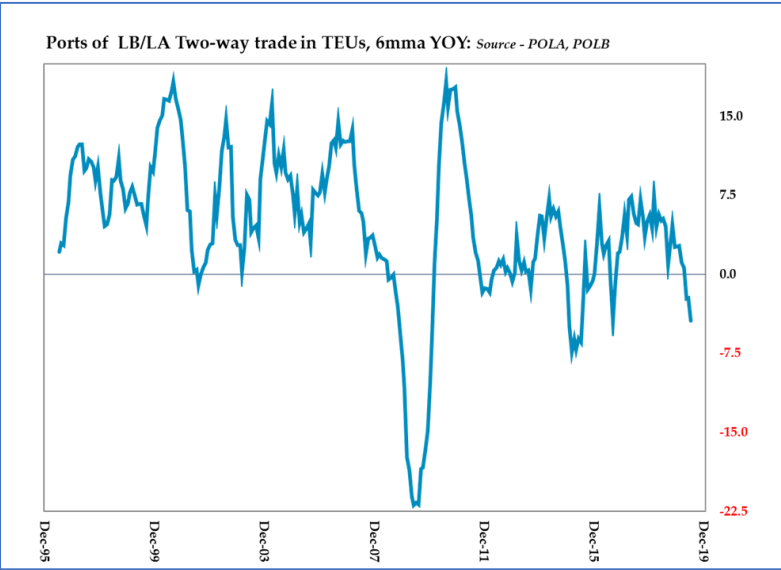
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July 25th, 2019

Cantillon Effects

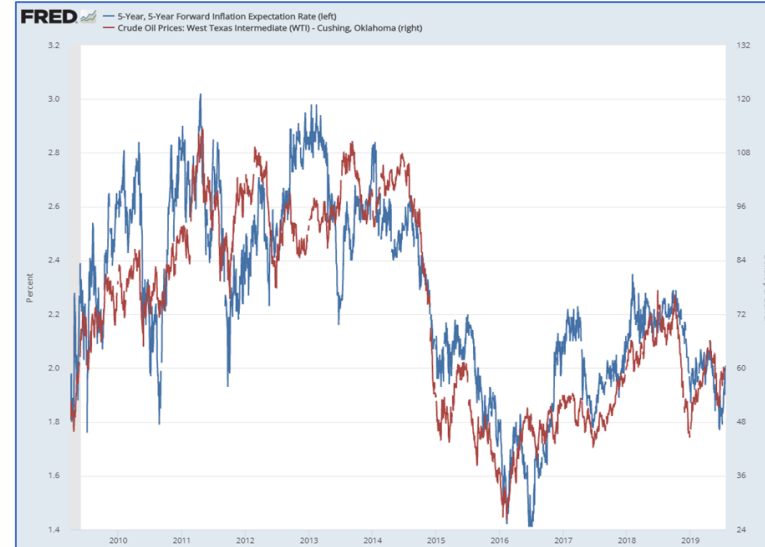
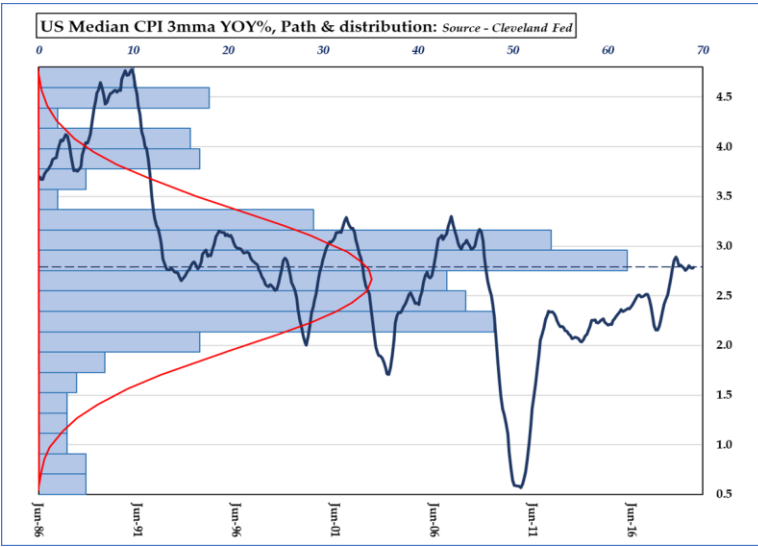
Free comp for High Rollers

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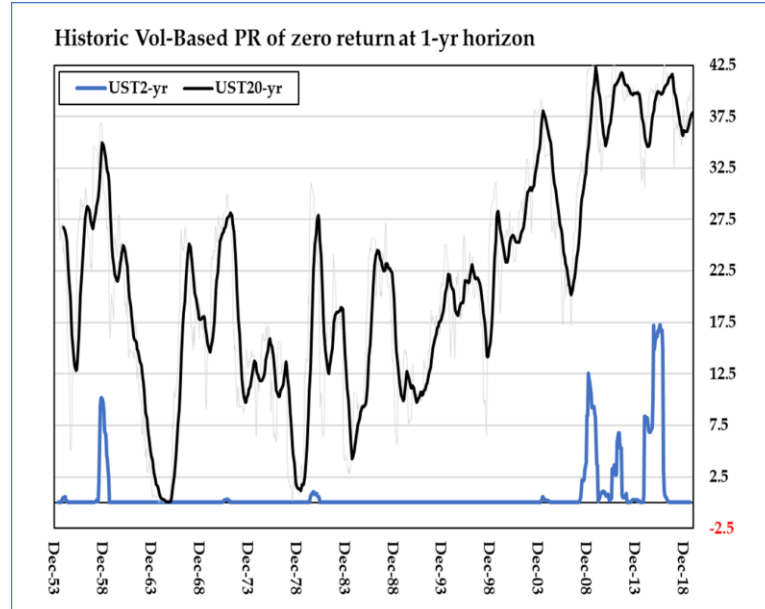
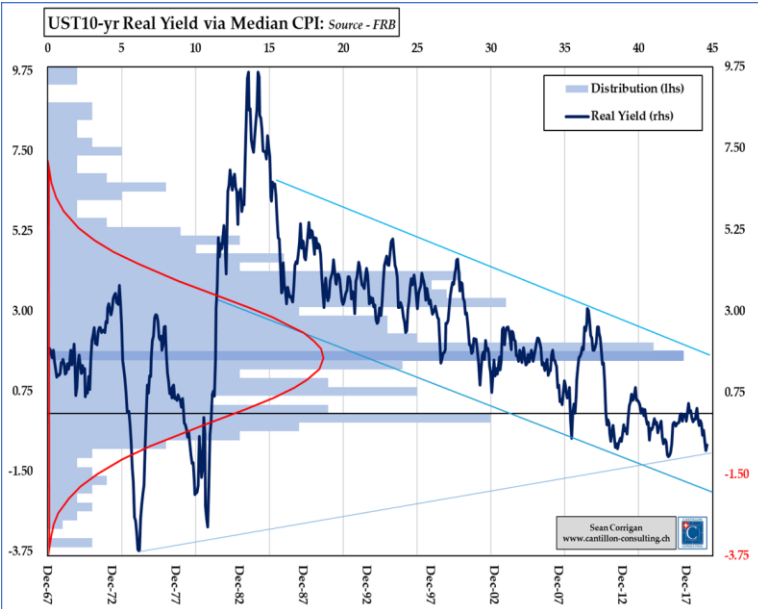
Why Powell was justified in halting the hikes

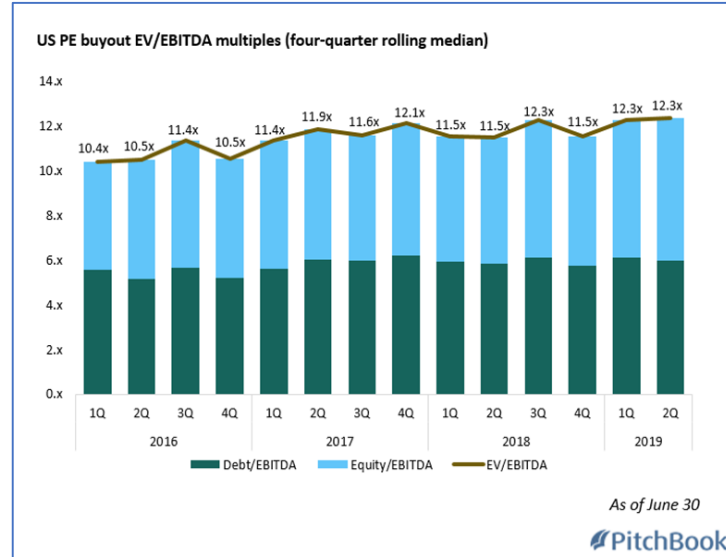
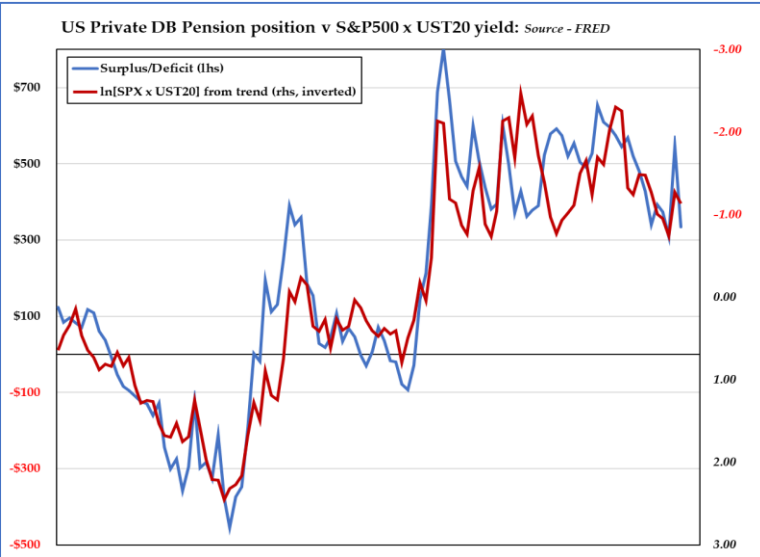
- Trade –and supply chains- are in flux
- Wage growth has fallen sharply below the historic ~5% Fed hike threshold
- Business Revenues have slowed well below their ~6% trigger rate
- Private construction spending is notably weak



Why Powell is not justified in implementing cuts

- The pace of price rises is back in the middle of a three-decade range
- 'Expectations' via 5y5y are a false, largely oil-driven signal
- Real yields are uncomfortably low
- Bond risk is extremely elevated





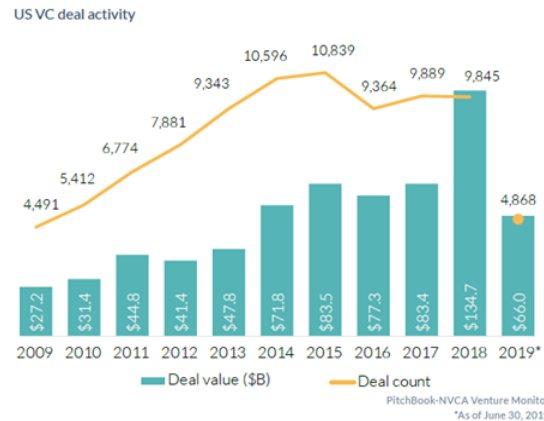
Why Powell would be mad to implement cuts

Risk is rising as Grandpa's retirement prospects are being sacrificed to:-

- Pirates
- Unicorns
- & Zombies

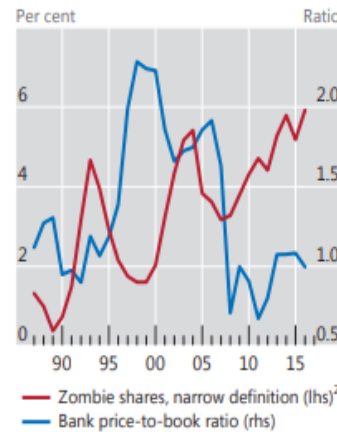
Capital invested on pace to match 2018's colossal record

Mega-deals have pushed VC investment to roughly \$66 billion through 2Q—nearly half of last year's record-breaking amount. 2019 could mark the second consecutive year in which VC investment tops \$100 billion.



Causes and consequences of rising zombie shares

Nexus with bank health¹



Nexus with interest rates¹

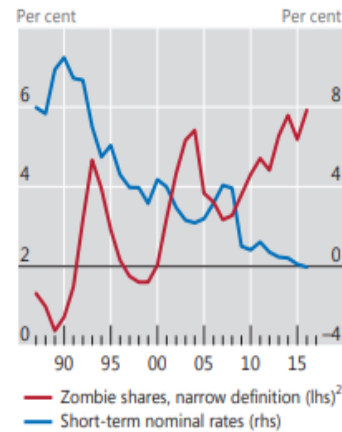
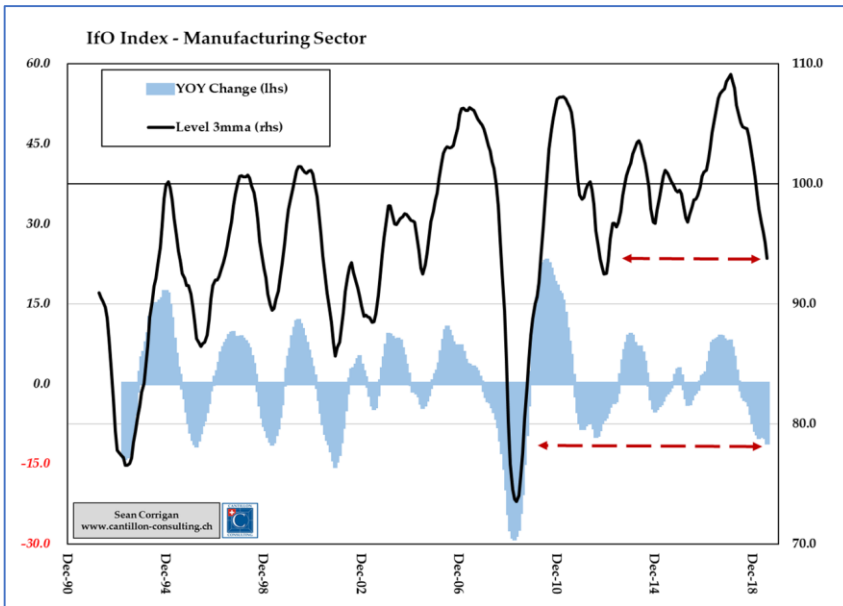
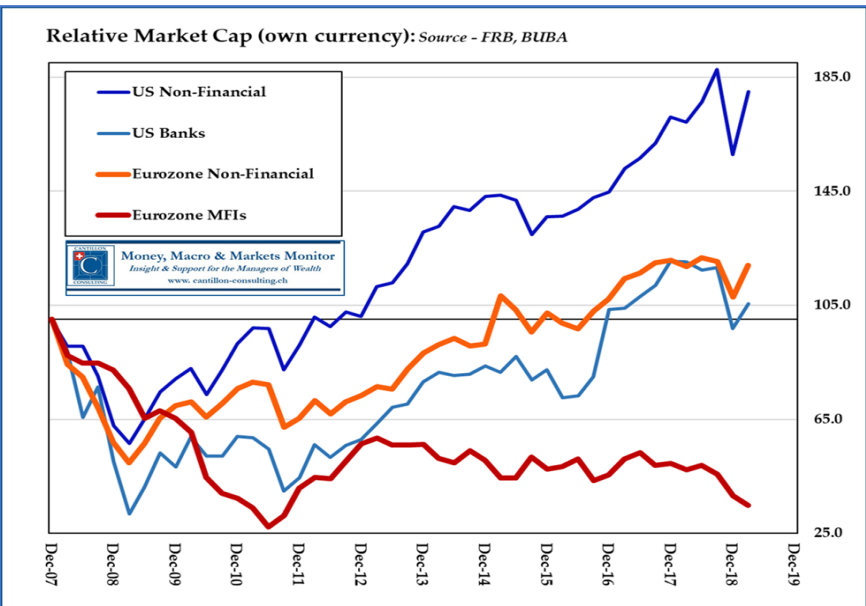
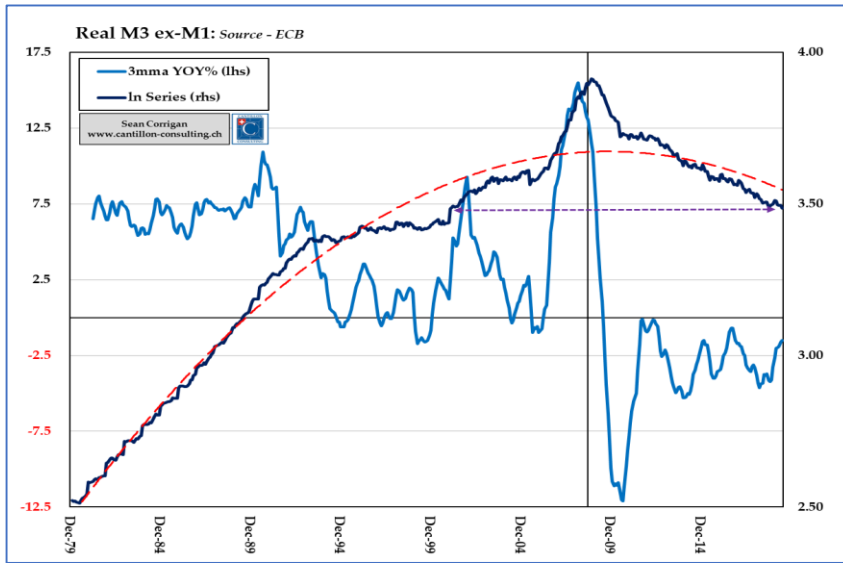
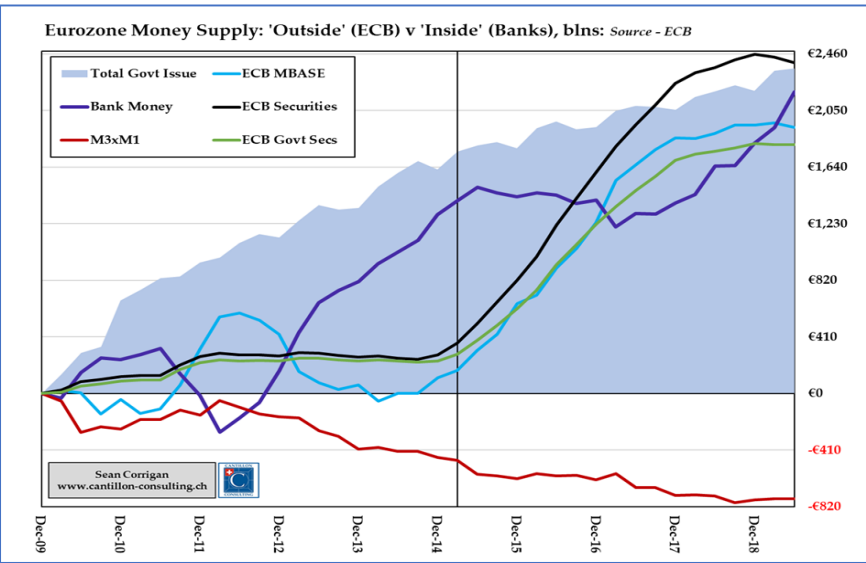


Chart 4: Cap Rates, equal weighted, four-quarter rolling average





Why Draghi's easing will be wearily counterproductive

- The ECB has dominated money provision, largely through state finance
- But banking itself has been bled dry
- As both financial and nonfinancial firms have badly lagged their US peers
- That –plus the Greta factor– has left firms with little cushion to external disruptions

FOMC – Decision Time



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