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Espresso with Dave

9.9.2019
Economics & Strategy

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Morning Macro/Market Musings

We kick off the week with an upward tilt in global equities

There seems to be little consternation over the fact that Boris Johnson still intends to go ahead with his Brexit plan, even in the face of mounting dissent and defections

On the data front, France continues to be a positive outlier in Europe

The rally in gold and in Treasuries has stalled out of late, and the surge in prices in both asset classes has been so breathtaking that a respite is in order

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Highlights

01 Positive start to the week for equities

02 Bonds sell off again

03 Weak Chinese trade data muted by stimulus hopes

04 China is buying gold en masse...

05 ...while Japan does the same for Treasuries

06 Oil prices get a bid amidst Saudi shake-up

07 France emerges as economic-leader in Europe

Morning Macro/Market Musings

We kick off the week with an upward tilt in global equities. Dow futures, at the moment, are up about 50 points. Europe is barely above the zero line, but there is a slight upward bias across the individual markets. The gains in Asia, mind you, were broadly-based — China (+0.8%), Japan (+0.6%), Korea (+0.5%), India (+0.4%) and Taiwan (+0.2%) among others. All in, the EM stock market complex rallied 0.3% to a five-week high.

The yield on the 10-year T-note has backed right back up to 1.60% and yields across the pond have risen by 3 to 5 basis points. **Visions of policy stimulus have triggered a shift to risk-on trading — which we have seen before and is likely to prove brief.**

There seems to be little consternation over the fact that Boris Johnson still intends to go ahead with his Brexit plan, even in the face of mounting dissent and defections within his own party (sterling doesn't like this too much). And add on the failure of Carrie Lam in Hong Kong to quash the unrest, which has turned violent.

What has caused the jubilation overnight is the rising investor expectation of added stimulus, as I mentioned above — following the PBOC's latest move to cut banking sector reserve requirement ratios. **We also have the ECB on Thursday and the vast majority see Draghi taking out the big bazooka** — there is a lot riding on this meeting from a bond market perspective. I also see on Bloomberg News here in the wee hours of the morning that the BoE is contemplating a renewed round of QE of its own.

And of course, we had Jay Powell do a classic "on the one hand, but then on the other" routine on Friday — claiming there is no recession in sight and then clearly hinting that another round of easing is coming our

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way very soon (as in, the September 17-18 FOMC meeting). If there's one thing we know about today's class of equity investors, there isn't a stimulus program around that doesn't get them excited.

There wasn't much action today in the FX market — the DXY U.S. dollar index is holding steady above the 98 mark. Within the commodity space, WTI has jumped 0.6% to just under the $57 per barrel mark ahead of the monthly OPEC meeting and is also partly a response to the move by Mohammad bin Salman to solidify his control in this area by replacing his former energy minister with a member of the Royal family. Membership has its privileges in Saudi Arabia.

On the data front, France continues to be a positive outlier in Europe even as the U.K., Germany and Italy look to be slipping into recession. The Insee survey of services stayed elevated at 100 in August but the real kicker was the bump-up in the manufacturing index to 99 from 96 in July.

Japan's Q2 real GDP growth was marked lower to a +1.3% annual rate from the initial release of +1.8%, but the revision was bang-in-line with consensus views.

But the big news is the Chinese trade data for August, which came in disappointing with a capital 'D'. This puts the nail in the coffin regarding the view that there are no losers in a trade war (sorry, Mr. President). Exports slipped 1.0% YoY, swinging back to negative terrain from +3.3% in July (consensus was +2.2%). Outbound shipments to the USA plunged 16 % YoY — a much deeper downturn than the -6.5% reading in July. Total Chinese imports fell 5.6% compared to a year ago, a signpost of sagging domestic demand — and their buying activity from Americans plummeted 22.4%. **The gap between the export and import trend with the USA would otherwise suggest that the White House is not winning this battle one bit.**

The rally in gold and in Treasuries has stalled out of late, and the surge in prices in both asset classes has been so breathtaking that a respite is in order. **But the narrative of the next chapter of this story being one of deflation and recession is still very much relevant and the lows in bond yields and peak in precious metals will be revisited.** This is why the PBOC has been so aggressive in bolstering its gold reserves — adding 100 tons year-to-date and almost 6 of that build occurred in August. And we know the Russians are doing the same. Follow the money, as Deep Throat advised Woodard and Bernstein some 47 years ago.

And it just came out that Japanese investors went on a bond-buying spree in July, tacking on $25 billion of U.S. Treasuries to their portfolio — the most in three years. Like the Chinese central bank, the institutional investors in Japan have very deep pockets.

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There are some definite must-reads today in the WSJ:

Private Data Show Sharper China Slowdown on the front page (one reason for the PBOC to try to ride to the rescue).

Companies Invest Less in Their Factories on page B1 (our main theme for 2019 was a capex-led turndown).

Rising Global Debt Helps Keep Rates Low, also on page B1 (from the peak of the last credit cycle in 2007 to today, the rapid expansion of global debt at all levels from households to businesses to governments has outstripped global GDP by a factor of nearly 5x, and is acting as a deflationary tourniquet on global economic activity. This is why, for the first time ever, a Fed tightening cycle got snuffed out at such a low 2.5% peak).

Negative Yields Bring Positive Returns on page B9 (ahhhh…the power of convexity at these low levels of bond yields).

Women's Clout in Spending Grows on page B10. My old pal, Richard Yamarone, was on to this gender theme early and discovered how female spending patterns are a leading economic indicator (especially on Sundays in the Fall when their hubbies are perched on the sofa with clicker in hand).

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Acquired by Onex Corporation in 2019, one of the oldest and most successful private equity firms

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DIVERSIFIED & GLOBAL INVESTING

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CLIENT EXPERIENCES

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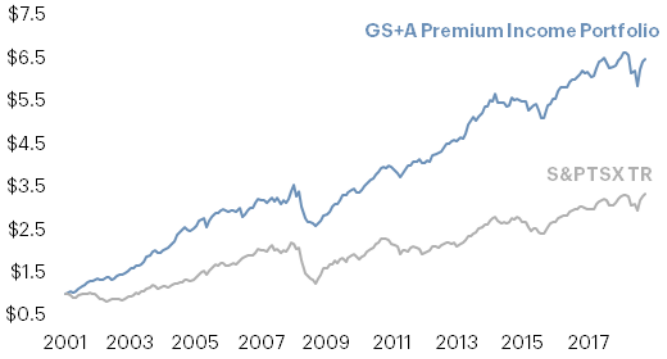
ALIGNED

Collectively, employees are among the largest investors in our own portfolios

GS+A PREMIUM INCOME PORTFOLIO GROWTH OF $1 MILLION TO $6.7 MILLION



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