SPECTRA MARKETS

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am

FX


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Some salsas are good… Some are bad

Condiments like soy sauce and ketchup have vastly different risk/reward profiles compared to salsa or maple syrup.

## Current Views

**Flat**

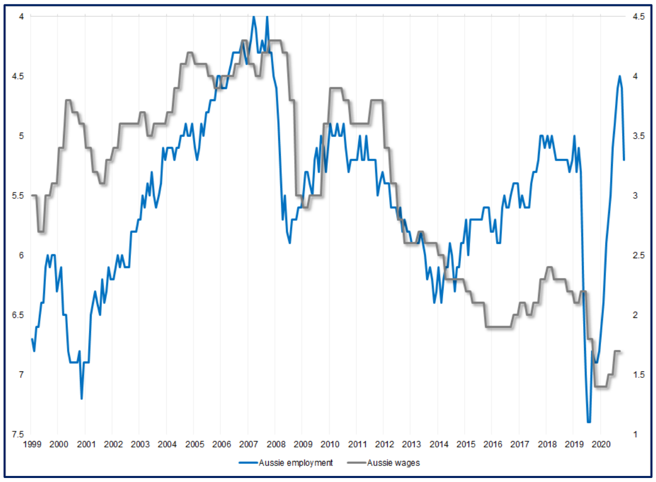
# 3 point something

### Oz

RBA Governor Philip Lowe has put substantial emphasis on wage growth as a necessary condition for normalization. Yesterday, for example, he said wages will need to grow at "3 point something" to sustain inflation around the middle of the central bank's 2-3% target. The silly thing is, wages are a lagging indicator with Aussie unemployment (and faster moving series like ANZ job ads) providing direction before the lagged, quarterly wages data. Anyway, he's watching wages, so we're watching wages.

The release is tonight at 7:30 p.m. NY time and is expected at 0.6% QoQ and 2.2% YoY. This is a far cry from 3-point-something, and it will probably take a few more quarters for Aussie wages to achieve a 3 handle (if they ever do). We are clearly headed in that direction, see Aussie employment…

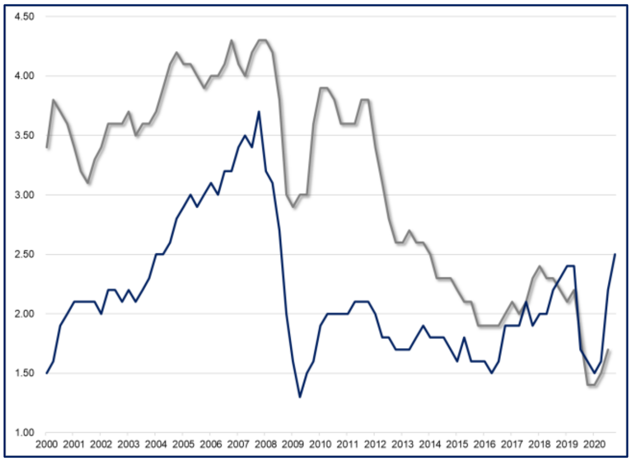
**Aussie wages vs. Australia employment (1999 to now)**




*Employment = Unemployment rate, inverted*

… And NZ wages…

**Aussie wages vs. New Zealand wages (2000 to now)**



Note you can see in the first chart that the Philips Curve broke down somewhat in the 2015-2019 period (blue line (employment) rising, but gray line (wages) struggling to rise) and this is why Lowe is setting policy off that lagging gray line instead of the leading blue line. He is simply in no rush. The last time Australian unemployment went below 5%, wages barely touched 2.5% YoY and so Lowe is demanding more proof before removing what the market views more and more as wildly dovish policy.

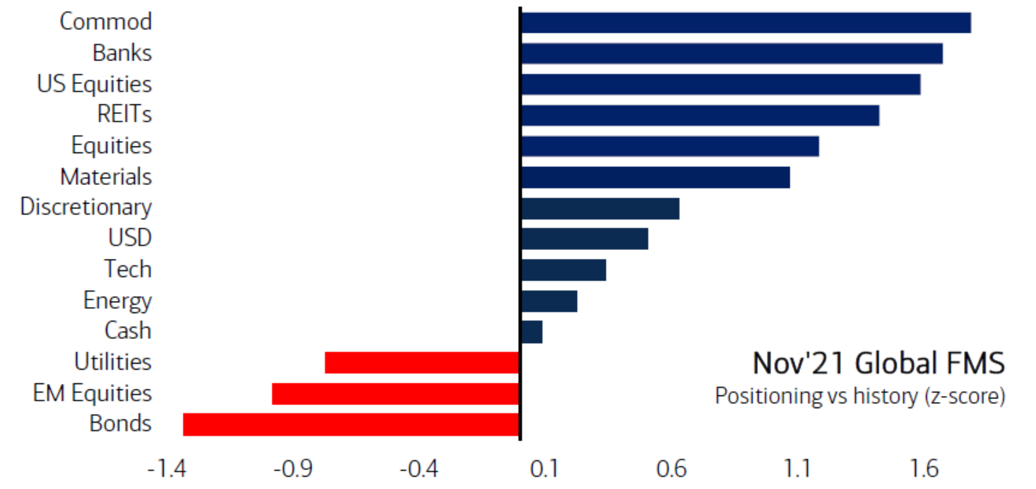
Lowe's efforts to push back on market pricing could be hurt by a strong number, but I'm inclined to think the economist forecast of 2.2% is reasonable or even a bit high considering the slow-moving nature of the wages series and the 1.7% figure last quarter. A 0.5% move higher from 1.7% to 2.2% would be one of the largest moves ever in the series. Not unreasonable, given the move in the UR, but a high bar nevertheless.

Also, Q3 wage data have tended to be weaker than economist forecasts with seven of the past nine numbers for Q3 coming in below expectation. Risks are modestly to the downside for this particular release, though bigger picture all the risk is to the topside.

## BAML FMS

BofA's Fund Manager Survey (FMS) is always a great read, and this month was no exception. Here are two charts I found interesting, along with a quick comment on each.

**Chart 12: FMS investors are still long inflation assets and short taper assets...**
Positioning vs history (z-score)



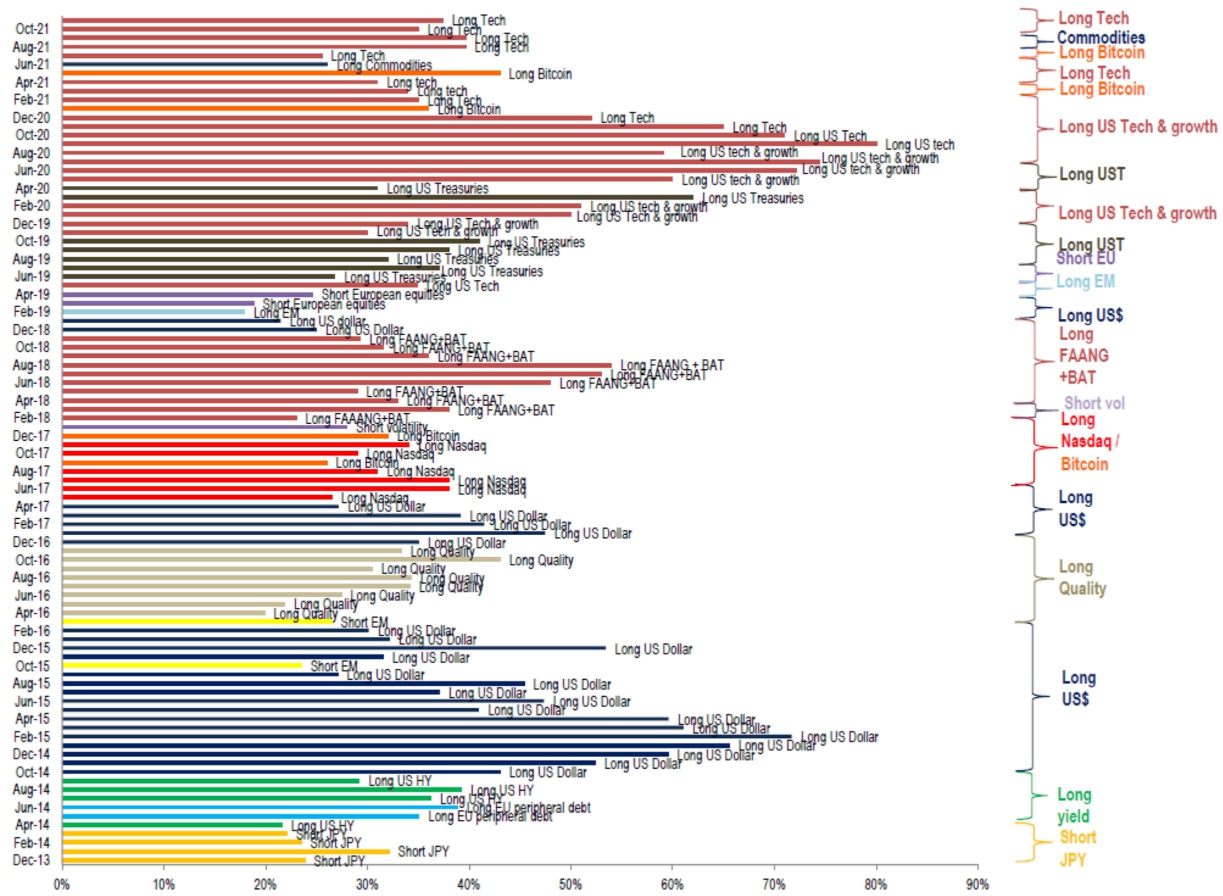

**Source:** BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Commodities as an asset class are the ultimate inflation play. Since commodities are a major driver of all major inflationary cycles, they clearly represent a good hedge / trade for inflation! The underweight in bonds makes sense, too, with yields still near zero relative to history and inflation exploding.

I am surprised to see tech positioning so low. This conflicts with the consensus view in the same BAML FMS that "Long Tech" is the most crowded trade. It's the old "Nobody can be long because everybody is long" setup. Also known as the "**Nobody goes to that restaurant anymore, it's too crowded**" scenario. Here is chart of "Most crowded trade" from the FMS:

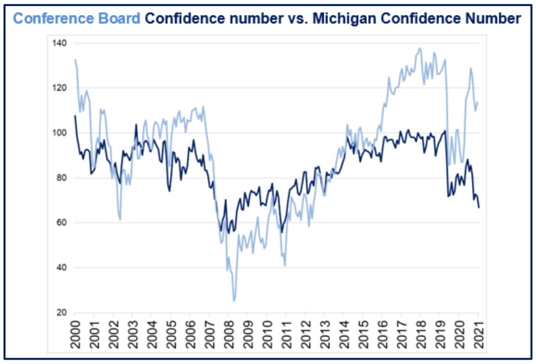
**Chart 23: Evolution of Global FMS "most crowded trade"**
History of Global FMS "most crowded trade" answers




Worth noting: If you scan the history of "Most crowded trades", you will see that you could have made a lot of money GOING WITH the most crowded trade, not fading it. You would mostly be long USD, long FANG, long NASDAQ, long bonds, long bitcoin… So the survey is interesting, but not contrarian. It is especially interesting to me to see the disconnect between actual and perceived positioning in tech. That specifically is a bullish setup for the NASDAQ into year-end, though I would need more than one input to actually do the trade.

## Michigan vs. Conference Board divergence is easily explained

There has been some head scratching on why Michigan Sentiment and the Conference Board's measure of Consumer Sentiment are broadcasting radically different messages on the US Consumer[1]. It is important to understand the divergence, especially as some are using the Michigan data to pump a story of a weak consumer or falling demand.

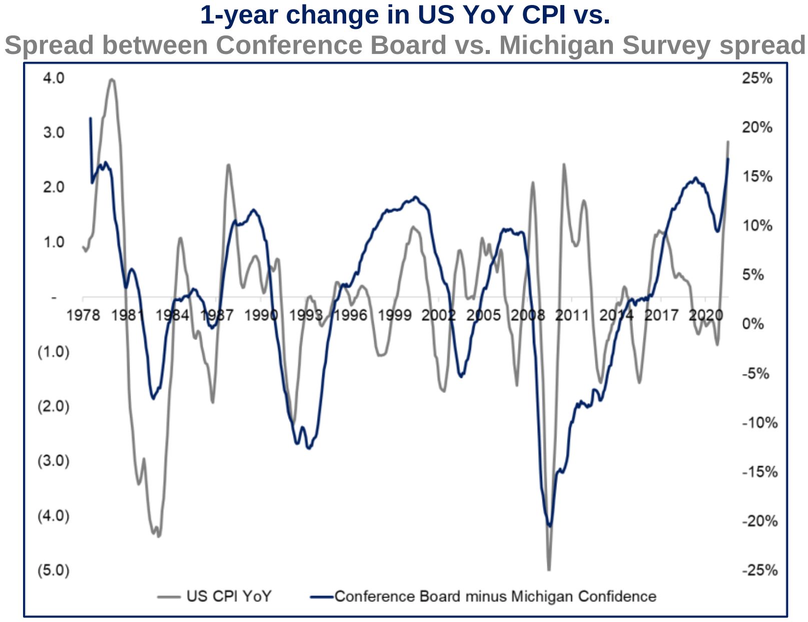



**The reason the two series have diverged has nothing to do with demand. It is a story of survey methodologies and inflation. Not demand.**

[1] *Cam Crise wrote a nice piece on this topic yesterday, for example.*

The Michigan Survey focuses much more on inflation while the methodology of the Conference Board Survey emphasizes jobs. There are other important methodological differences too (for example, Conference Board talks to new people every month, while Michigan surveys 60% new and 40% prior respondents).

Net net, regardless of all the nuances and methodological differences, it's easy to see that Michigan is a much more inflation-sensitive survey. When inflation goes up, Michigan confidence dumps and the Conference Board measure does not. Here is a chart:




***CPI change, left y-axis, Confidence spread, right y-axis***

*Gray line = 12-mo. average of (Conference Board # minus Michigan Confidence #) / Sum of both = % spread*

So whenever inflation goes up or down, expect Michigan to react more.

## Brainard

I still can't find many Brainard Believers. If she is nominated, it will be a meaningful surprise to almost everyone I talk to. Bullish front end, bearish USD. Hard to position for it, given the timing uncertainty, but we have entered the final countdown now that the infrastructure bill has passed.

10, 9, 8, 7….

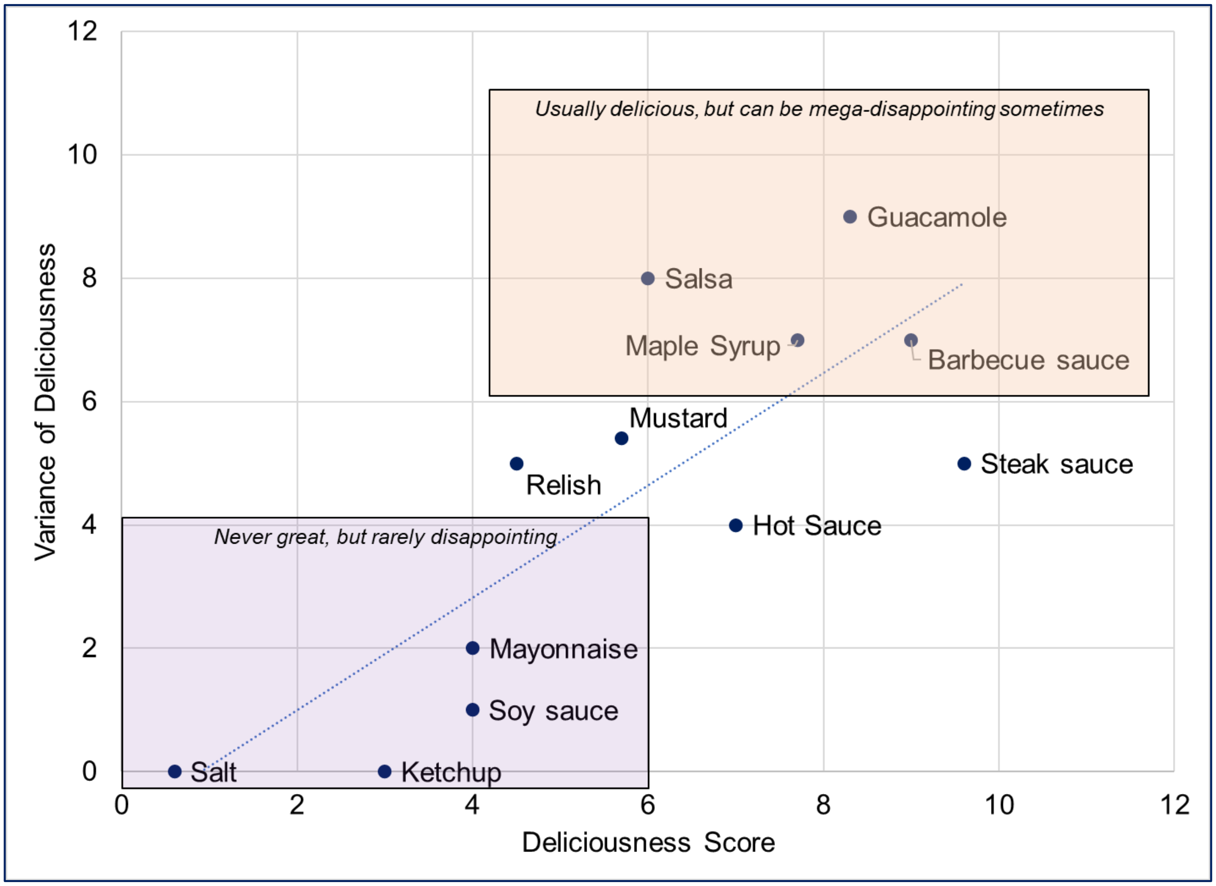
Have a delicious day.

good luck ⇅ be nimble

## The more delicious a condiment is, the more volatile its deliciousness tends to be.

Ketchup, for example, isn't very delicious, but when you order it, you know what you're going to get. Guacamole, on the other hand, is much more delicious, but deliciousness varies considerably from order to order.

**CONDIMENTS: Deliciousness vs. variance of deliciousness**




*Scores are subjective and determine by my personal experience. Mustard volatility higher in USA than Canada. (when you order mustard in America, you might get spicy, or yellow… who knows. In Canada, you'll get French's yellow.)*

*When my son asks me what I did at work today, how do I explain this?*

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