Macro Dinner Notes

We had a fun Spectra macro dinner last night at Milos in Hudson Yards. In attendance were Claudia Sahm, Jon Turek, myself, Matt Gittins, and a bunch of smart senior hedge fund PMs. It was nice to get out with everyone. This was the first macro dinner in two years for most in attendance (including me). It's trickier getting everyone together these days because of COVID and because **half the hedge fund community has moved to Miami** or is working from home in Maryland or Pittsburgh or wherever.

As you might imagine, there was much talk about the Fed, the US economy and next week's FOMC meeting. Here are my takeaways:

- **Nobody knows what's going to happen!** Not Fed experts, not me, not you and not the 400+ PhD's at the Fed. Forward guidance is meaningless at this point as the speed of the pivot accelerates and the inflation goal is more than met. The Fed's tapering speed is the last scrap of forward guidance as the end of taper = the earliest possible date for a hike. After that, anything can happen. To me that was the biggest takeaway from the dinner: keep an open mind. There is a scenario where CPI is 5.5% in H2, and the Fed hikes 6 times in 2022. This is not the slow-moving boring stuff we saw last rate hike cycle 2015-2017
- **There are (non-base case) scenarios where the Fed hikes more than 100bps in 2022** and even opening the door to hikes of 50bps. With 7 Fed meetings, starting in March, it's extremely unlikely more than 175bps of hikes will be needed, so most agreed that while the idea of a 50bp hike could get tossed around by markets, it is extremely unlikely such a hike will happen.
- As was the case last Fed meeting, **the dots will be super interesting next week**. Getting a sense of how aggressive members think they need to be now that inflation is not transitory is important and there is a wide range of approaches members could take. Some will be incremental, but some dots may move dramatically. The pivot could be extremely aggressive now that the Fed stopped out on "transitory". Or the dots could look super dovish if there is a ton of inertia/anchoring.
- Given the en fuego US data, **three or four hikes was most people's base case** but every meeting after January is expected to be live. The market is priced for three hikes in 2022 so the dinner crew was a bit more hawkish than pricing.
- **The economy is stronger now than it was pre-COVID**, even considering the reduced number of jobs. Consumer and business balance sheets are fortress like as all the debt has moved onto the sovereign balance sheet. I passed about a grillion help wanted signs on my 5-minute walk to the subway.
- I have had this discussion with other people at the Fed before, but one point that really came out last night is that **the Fed does not care about markets as much as markets think they do**. Outside of the New York Fed, the number one priority is measuring the real economy and markets are secondary. I think as traders we sometimes forget that markets are just one piece of the puzzle. The real economy is what matters most. By a wide margin. The real economy is the North Star and markets are kind of, but not that important. There is no appetite for the Jeremy Stein stuff where the Fed addresses financial excess.

am

FX

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A Friday riddle

Someone tells me
9 + 19 = 4

They are telling the truth.

How is that possible?

Current Views

Long USDCAD @ 1.2691
Stop loss 1.2589 / Take profit 1.2809

Short ES @ 4684
Stop loss 4741 / Take profit 4545

Short ETHUSD @ 4210
Stop loss 4902 / Take profit 3010
(From MacroTactical Crypto #4)

- **The reliability and usefulness of Fed forecasts is lower than ever, and the Fed knows this**. Again, nobody knows what's going to happen! There are base effects that will put some downward pressure on inflation in 2022, but we could still be staring at 5% inflation this spring.
- There was a ton of discussion about the structural changes that are roiling the economy since COVID. It is unclear how many of the huge changes in the economy are structural vs. temporary. Dinner participants disagreed considerably on this question and that fed through to people's expectations on inflation. Are we going back to demographic headwinds and debt mountain deflation eventually? Or have we turned a structural corner and the lows in bond yields have been printed? Businesses now expect a fiscal put and are more confident investing now.
- **Expectations are hawkish for the December meeting**. With recent statements from Daly, Bullard, and Clarida, there are not many real doves left on the committee. It's one of those "we know it's going to be hawkish, we just don't know *how* hawkish" kinda things.
- **It's almost impossible to imagine what a dovish meeting would look like next week**, which is sometimes a danger sign. I remember some of the 2015 meetings felt like that and the FOMC managed to find a way to be extremely dovish! Completely different scenario here though. Inflation is the number one political issue in the US and there is mainstream inflation angst. A passive CB in the face of raging inflation makes no sense. FAIT is accomplished on any reasonable look back and the Fed are still buying bonds! Maybe it's time for a mini Volcker moment as the Fed cements its inflation-fighting credentials? I suppose the easiest dovish scenario to imagine is sticky dots.
- Jon Turek made the interesting point that the **RBNZ and BOE were both super hawkish but then backed off a bit when it came time to pull the trigger**. It's worth considering that possibility with the Fed, too, at some point when the first hike nears. Obviously COVID was the reason with RBNZ, but it's still an interesting point. These CBs don't have much recent practice at hiking.
- **Jon is turning mildly bearish USD** as he feels further hawkish pricing of the Fed will be difficult (i.e., going from 3 to 4 hikes will be much harder than going from 1 to 3 hikes). He also observes that Fed hawkishness hasn't been pushing the USD higher lately.
- I did a quick poll before we started eating. Here are the questions and answers:
    - **What is your favorite trade for Q1?**
      Short gold (two votes)
      Short EDZ3 (two votes)
      Short EDZ2 vs. long EDZ4
      Short EUR
      Long China A Shares
      Short ETH
      Long oil
      Long QQQ
      5-year TIPS yields higher.
    - **What month do you expect the first Fed hike?**
      4 votes for March
      2 votes for May
      6 votes for June
    - **How many bps will the Fed hike in 2022?**
      7 votes for 75
      4 votes for 100
      1 vote for 150
    - **Where will EURUSD close Q1 2022?**
      4 votes for higher and 7 for lower. The "lower" votes were mostly 1.10 so not much expected from EURUSD and this was a boring question with a boring answer.

Amazingly, just about zero focus on omicron at the dinner. Thanks Claudia, Jon, and everyone who attended.

Have a great weekend!

good luck ⇅ be nimble

Nine o'clock plus nineteen hours equals four o'clock

The practice of saying “o'clock” is simply a remnant of simpler times when clocks weren't very prevalent and people told time by a variety of means, depending on where they were and what references were available.

Generally, of course, the Sun was used as a reference point, with solar time being slightly different than clock time. Clocks divide the time evenly, whereas, by solar time, hour lengths vary somewhat based on a variety of factors, like what season it is.

The word “clock” is thought to have originally derived from the Medieval Latin “clocca,” meaning “bell,” referencing the ringing of the bells on early town clocks, which would let everyone in a community know what time it was. Source.

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