Friday, June 03, 2022

am
FX

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INPUT: "A still of Kermit the Frog in the Simpsons"

OUTPUT from DALL-E 2.0, the AI system:

Current Views

Short EURUSD @ 1.0702
Stop loss 1.0801
Take profit 1.0520

Jobs, Sam and JPY

This morning's headlines are a microcosm of the US economy.

a) Elon Musk has a "super bad feeling" about the economy and needs to cut about 10% of jobs at the electric carmaker, he said in an email to executives seen by Reuters.
b) *AMERICAN AIRLINES SEES 2Q REV UP 11% TO 13%; SAW UP 6% TO 8%

The daily drumbeat of tech layoffs continues. Can services (especially travel and hospitality, which are booming) can take up the slack?

For more on employment and the Fed, I want to bring in Sam Rines. He wrote a nice piece yesterday and has allowed me to republish it here. I did a big guest post yesterday and I acknowledge it's weird that I'm excerpting other people two days in a row. It's just a coincidence; I'm not being lazy.

Sam Rines is a Managing Director and Corbü. He is an economist who looks at the world using traditional but also alternative data like company conference calls, sector-specific websites, and other nonstandard sources. I find his approach puts him ahead of the curve as economic narratives turn. His writing is clear, not wonky.

I believe that official US economic data is more and more backward looking and less useful as superior higher frequency, more timely approaches emerge. Good economists and analysts like Sam are using better data than the US Census or BLS provide to make more informed and more timely calls.

Here's Sam Rines' "PolyMacro" piece from yesterday. It's titled "The Brainard 3". I kept all the fonts as is because he has a unique way of formatting his stuff that I find useful. It's a janky courier font, but somehow (like his lunatic poker approach) it kinda works. If you like the piece, you can email him at samuel.rines@corbu.co to get on his list for free.

The Brainard 3

Last week the **FOMC Minutes** were taken as a dovish(ish) sign. The Fed had explicitly given themselves an out. And that remains true.

But providing the ***possibility of pause*** is distinctly different from the ***act of pausing***. Fed watchers nearly instantaneously interpreted the notion of assessing the impact of rate hikes "later in year" as a pause in September. Thanks Bostic.

(Brainard Over Bostic)

If there is one person to pour ice cold water on that notion, it is Vice Chair **Brainard.** In her CNBC interview this AM, she made is distinctly clear ***a September pause was not the base case.***

Repeatedly, Brainard pointed to a "better balance" in the labor market. This may have been the most direct statement that some pain in the labor market will be tolerated – if not praised – by the Fed.

Broadly, there are 3 takeaways from Brainard.

- Inflation needs a "**string**" of decelerating **core** readings.
- Expect to see a **cooling economy**.
- **Labor market** needs a **better balance** as measured by job openings.

When it comes to Fed Speak, this is about as explicit and remarkably straight-forward to interpret as it gets.

"There are too many job openings, and the economy is running too hot. We are willing to take some pain in the labor markets to see consistent downward pressure on the inflation dynamics our policy can directly affect."

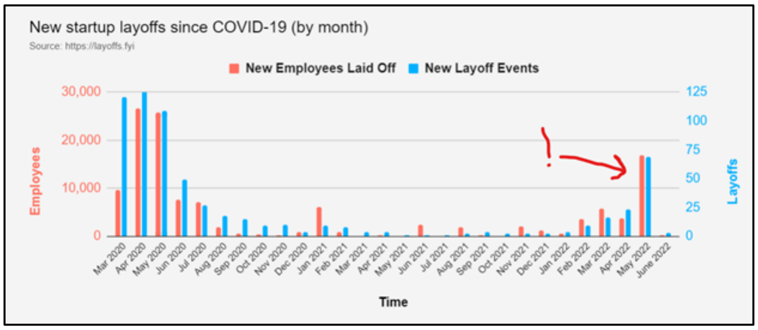
This means:

- Disappointing ADP? **Does not matter.**
- Disappointing jobs report today? **Does not matter.**
- Few job openings, decelerating average hourly earnings, and slowing inflation? **Matters.**

Brainard laid out the game plan. Now it is simply all about execution. In a way, the ADP Report is indicative of exactly this game plan.

(ADP Employment Report)

Slower hiring is what the Fed wants to see. Construction leading the way gives them incremental confidence their policy is filter through to the real economy.



(Tech layoffs accelerating too)

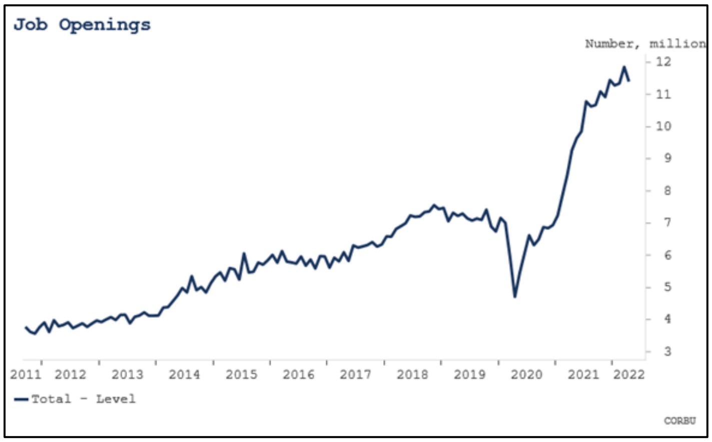
PolyMacro pointed out that Amazon was not alone in being overstaffed in Silicon Valley. **San Francisco is not San Marco.** Again, the Fed is not going to fear some froth coming out of tech hiring.

The **Brainard 3** data points for understanding Fed policy trajectory:

- A **deceleration** in **average hourly earnings** to lessen the fear of a "wage price spiral".

(3% would be more comfortable)

- **Job openings falling** without significant spillover to hiring. Emphasis on significant. Some pain would be welcomed for "better balance".



(Losing nearly 50% of job openings would be pre-Covid levels)

- Most importantly, **core PCE decelerating** consistently back toward 2%.

(Needs to "string" together several decelerations)

A September pause is off the table as none of the above indicators are going to move to the Fed's comfort zone at a quick enough pace.

IF inflation decelerates, the Fed **might** decelerate its pace of hiking from 50 to 25 bp increments. But that is now the definition of **"pause" – slowing not stopping** – tightening.

- **Good news** for the labor market (hiring solid, wages solid, so on) means more tightening coming.
- **Bad news** on the labor market (slowing hiring, fewer job openings, weaker wage gains) is indeterminate for tightening.
- **Bad news** on inflation means more tightening.

Simply, the **Brainard 3** could cause a tempered pace of tightening later in the year. ***But the tightening will continue until the desired results are realized in the data.***

As always, comments are appreciated, feedback taken to heart, and critiques welcomed. Samuel Rines | Managing Director CORBŪ

Thanks for reading Sam's thoughts; I hope you found them useful.

Final thoughts

Here's my quick view on payrolls:

The market has a holiday feel, despite NFP. Market psychology leans toward a weaker number given ongoing tech layoffs, Initial Claims small creep higher, weak ADP, etc. So, on a strong number, I think USDJPY can extend quite a lot. I am bullish USDJPY right now and a strong NFP would be like the strong ISM and catch people leaning the wrong way. The trade is not in the sidebar as it's a bit tactical and NFP-dependent. My multiday view is higher USDJPY regardless of NFP but tactics highly contingent on the number.

Very few long USDJPY possies out there and oil and rates have both stopped going down. USDJPY is a nice bull flag 129.50/130.20. First stop is 2022 high of 131.34 and then 135 probably coming soon.

USDJPY bull flag on the short-term chart

Have a muppetless day.

good luck ⇅ be nimble

This is the Dall-E AI's interpretation of:

"A still of Kermit the Frog in Blade Runner 2049"

See more here (@HvnsLstAngel on Twitter)

https://openai.com/dall-e-2/?labs

HT Ben Hunt, who should really be working, not scrolling Kermit photos

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