

Mapping macro to markets

Even with 100% foresight of macro data, there is no guarantee that you could currently trade such knowledge profitably, unless you could also map how the market narrative will interpret it



In a parallel universe, Friday's payrolls would have caused bond yields to rise

My colleague James Knightley (JK) has the unenviable task of forecasting US non-farm payrolls these days, something I was singularly bad at when that used to be my job (though I'd argue, not substantially worse than anyone else). But he also has the task of forecasting US bond yields. While that is no simple task, at least in the past if you knew where the macro data was heading, and non-farm payrolls was and still is the biggest macro market mover out there, then it was not such a big leap to say which direction and how much 10Y US Treasury yields would go. Not any more.

So for a little background to Friday's US numbers, [here's a link to the post-payrolls write-up from JK](#). And for those who can't find the strength to click the link on this fine Monday morning, the gist is this - the numbers were great, but it's a bit disappointing that the participation rate didn't pick up. Let me put my own spin on this though, which is that markets have become exceptionally picky about the data - nitpicking over what was actually a very good report with strong upwards revisions too. Yes, participation didn't really change, but it didn't decline, and as JK has previously noted at some length - a large chunk of the participation drop during Covid was permanent. It isn't coming back. That isn't going to change month to month. And so we can't keep blaming participation as a reason for piling into Treasuries.

I personally think that right now, the Treasury market would rally on almost any data release - good or bad. A rally on weak macro data would be normal, but to rally on good data, you have to believe that this will result in faster hikes, though not necessarily higher peaks in policy rates, ending the growth cycle earlier. But even for that narrative to work, you would probably have expected 2Y Treasury yields to have risen while back end yields fell, and that didn't happen on

Friday either, as both fell.

I've taken a look at the commitment of traders data this morning, which for boring legal reasons, I cannot chart in this note - but have a look if you have access. And I was surprised by what I saw. I was trying to find some short-term positioning argument for the latest Treasury moves. And there does indeed seem to be some correlation with speculative 10Y Treasury note longs and net positions, though not in the direction you might imagine. Since mid-October, long 10Y US Treasury note positions have fallen very sharply, though shorts have been much steadier. This sounds like a counterintuitive move to the way the market has actually been trading. But it remains the case that such indicators are often the most useful directional indicators at turning points, not during the build-up. Furthermore, it is not clear that we have yet reached such an extreme position to be able to call such a turning point, either relative to history or indeed in terms of how the market is responding to incoming data. At some point, we will likely see figures such as those released on Friday actually driving bond yields higher. But we clearly aren't there yet, and we may only be able to realize this after the fact.

What about other markets?

This oddly behaving Treasury market does have some spillovers into other markets - but not massively so. At the moment, whatever you believe about the macroeconomy, lower bond yields are helping equities to stay bid, lifting valuations through a lower risk-free discount factor.

But there isn't much read-across to foreign exchange markets. I think the main EURUSD drivers lie outside this bond market headscratcher, though at the margin, the lower bond yield environment and firmer equity backdrop may boost risk appetite and help Asian EM FX. We can see a bit of evidence for this in the recent behaviour of the PHP, THB, IDR and INR which have been quite good compared to some of their regional peers.

Apart from this, there are still some circulating issues that suggest we should be on our guard for a more downbeat switch, possibly, accompanying any switch in the bond yield environment. OPEC+'s resistance to calls from the US to expand supply more forcefully are helping to keep oil prices bid. And helped by ongoing supply constraints, this is keeping Asian LNG and coal prices elevated. We probably haven't seen the full effect of this in local inflation figures yet, and this could sour investor moods as we head into the year-end. It is also notable how Chinese markets are doing their own thing right now. Ongoing anxiety about the property development sector and further movement restrictions to quell Covid are likely to keep weighing on sentiment in the near term. While in FX space, the CNY remains firm to provide a cushion to rising commodity prices.

The economic calendar is exceptionally quiet today in both the G-7 and Asia as far as macro numbers go, so today's markets are likely to be fairly quiet, reflecting further digestion of Friday's US labour market data.

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