

James Bianco

## Foreign Exchange & Interest Rates

September 29, 2022

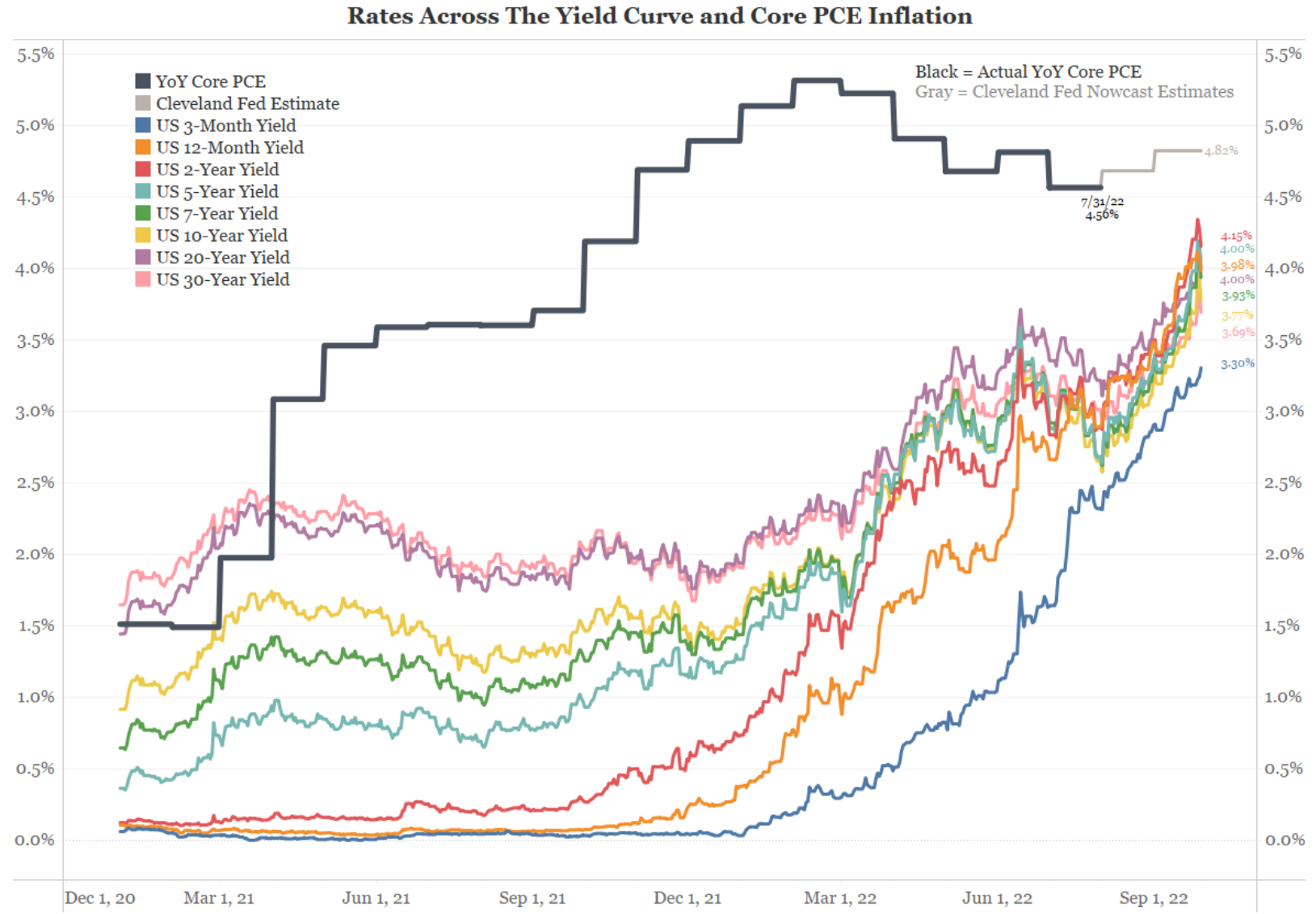


Chairman Powell [last week](#):

*... you want to be at a place where real rates are positive across the entire yield curve*

*I think you would see at that time, you'd see positive real rates across the, across the yield curve, and that is also an important consideration.*

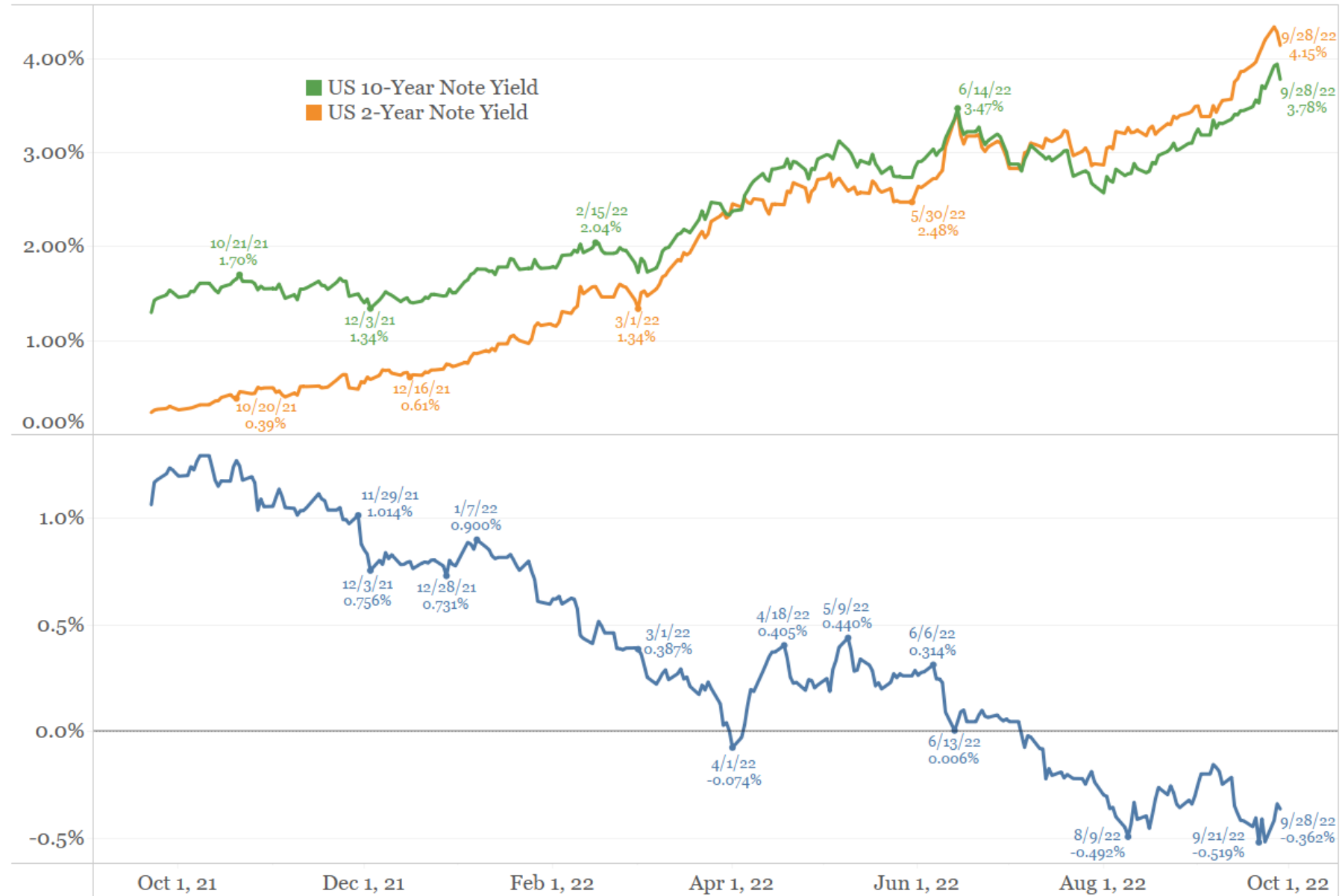
*If you look at core PCE inflation, which is a good measure of where inflation is running now ...*



Source: Bloomberg

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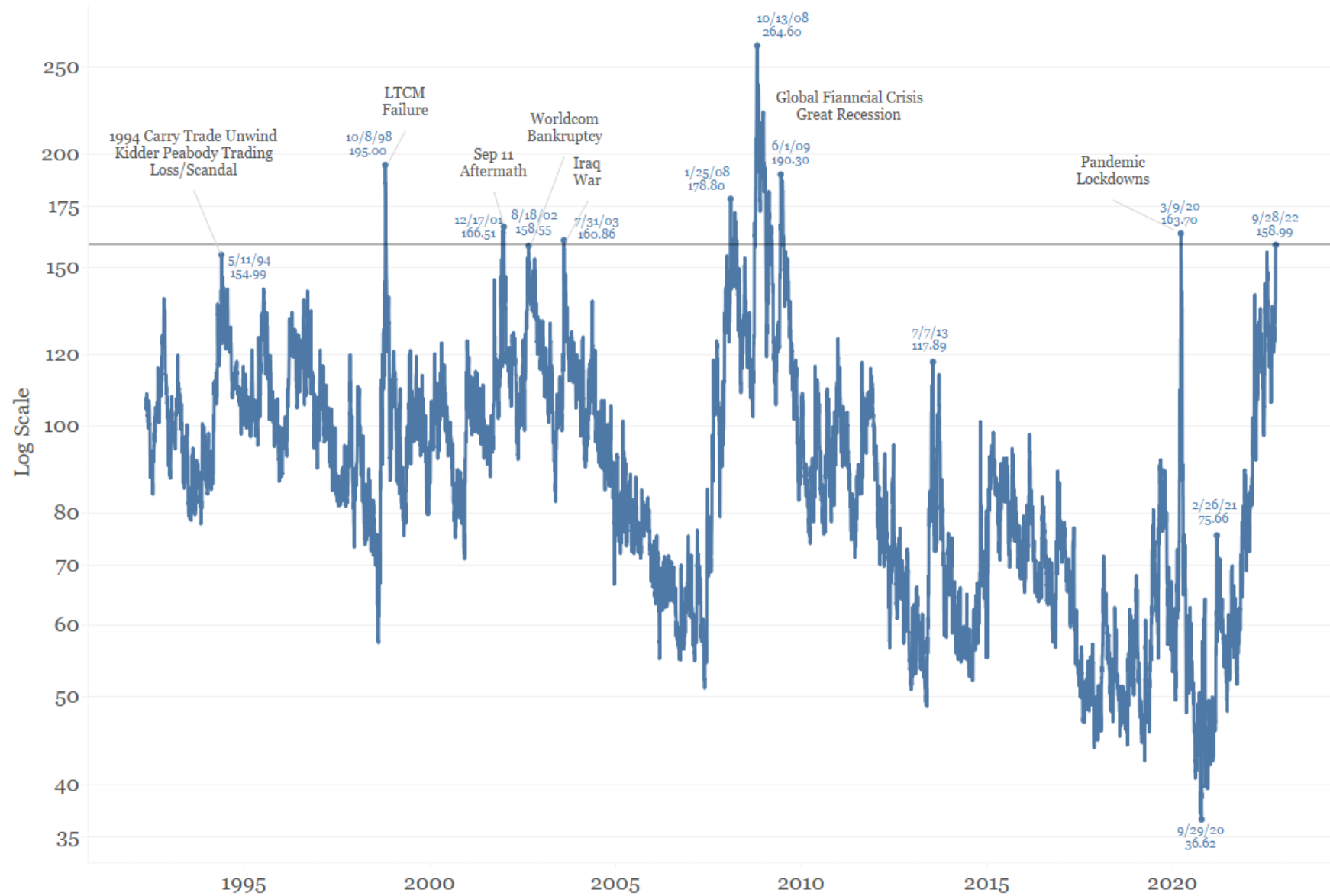
## Rates and the Curve



Source: Bloomberg

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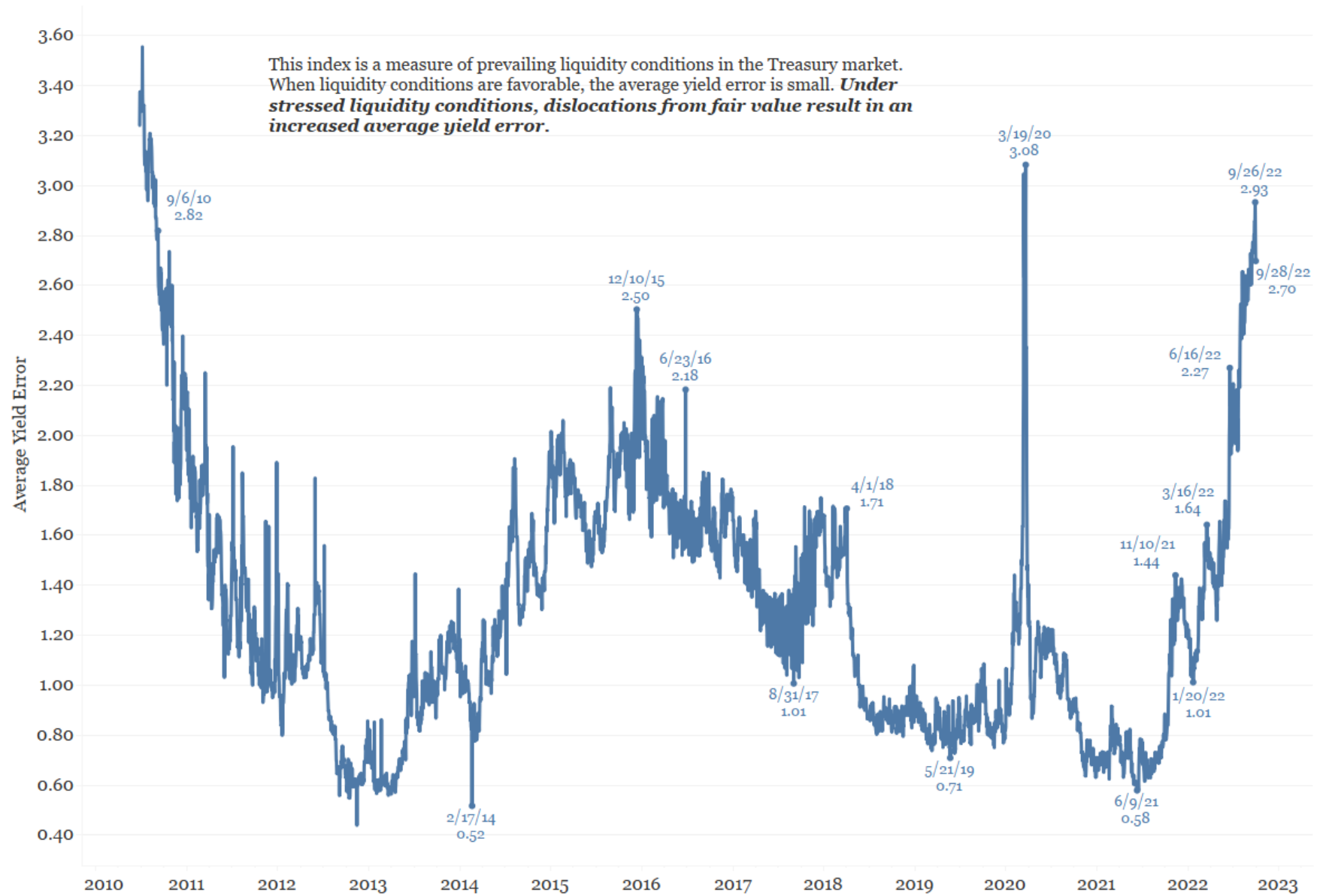
# Bond Market "Move" Volatility



Source: Bloomberg

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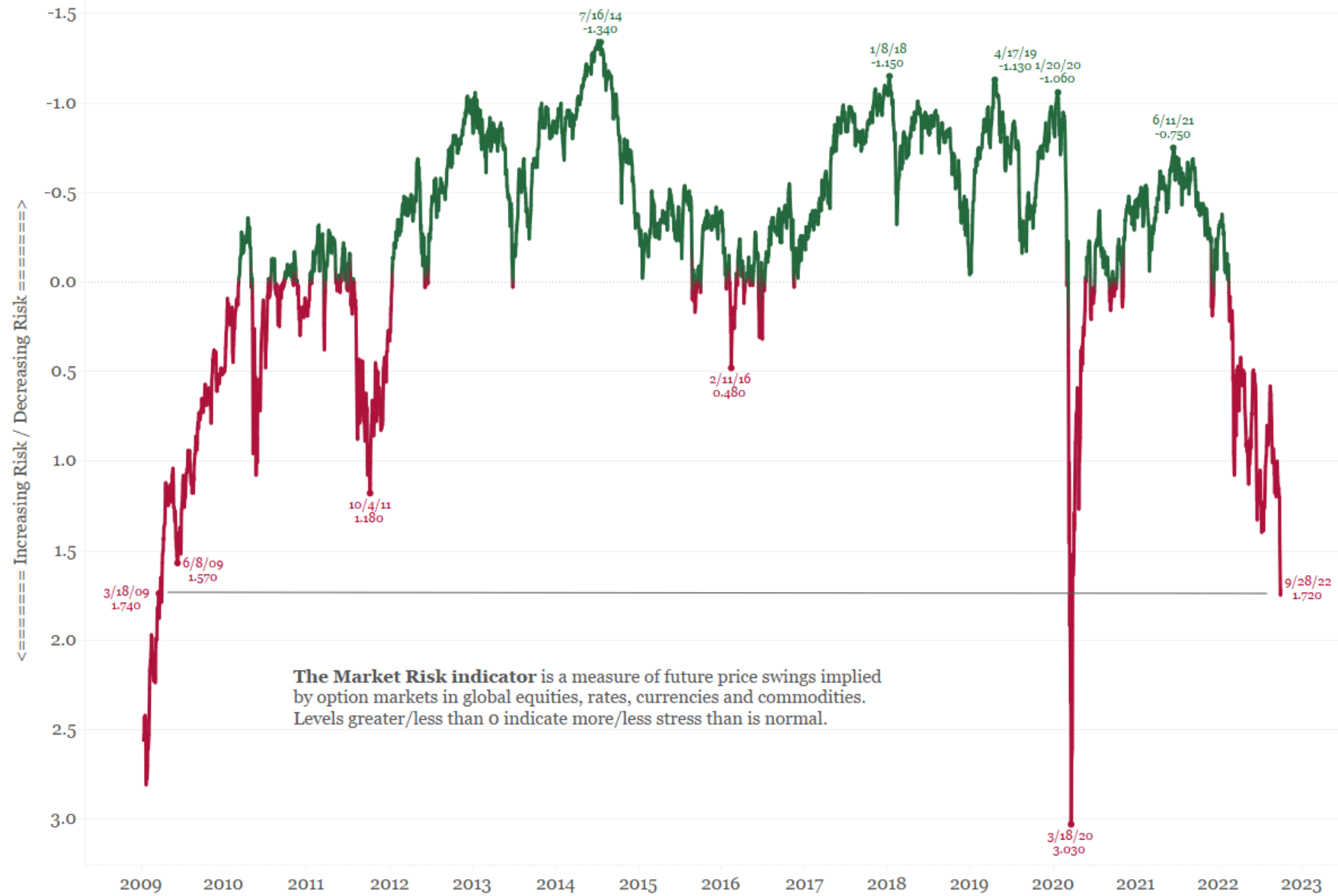
## Bloomberg United States Government Liquidity Index



Source: Bloomberg

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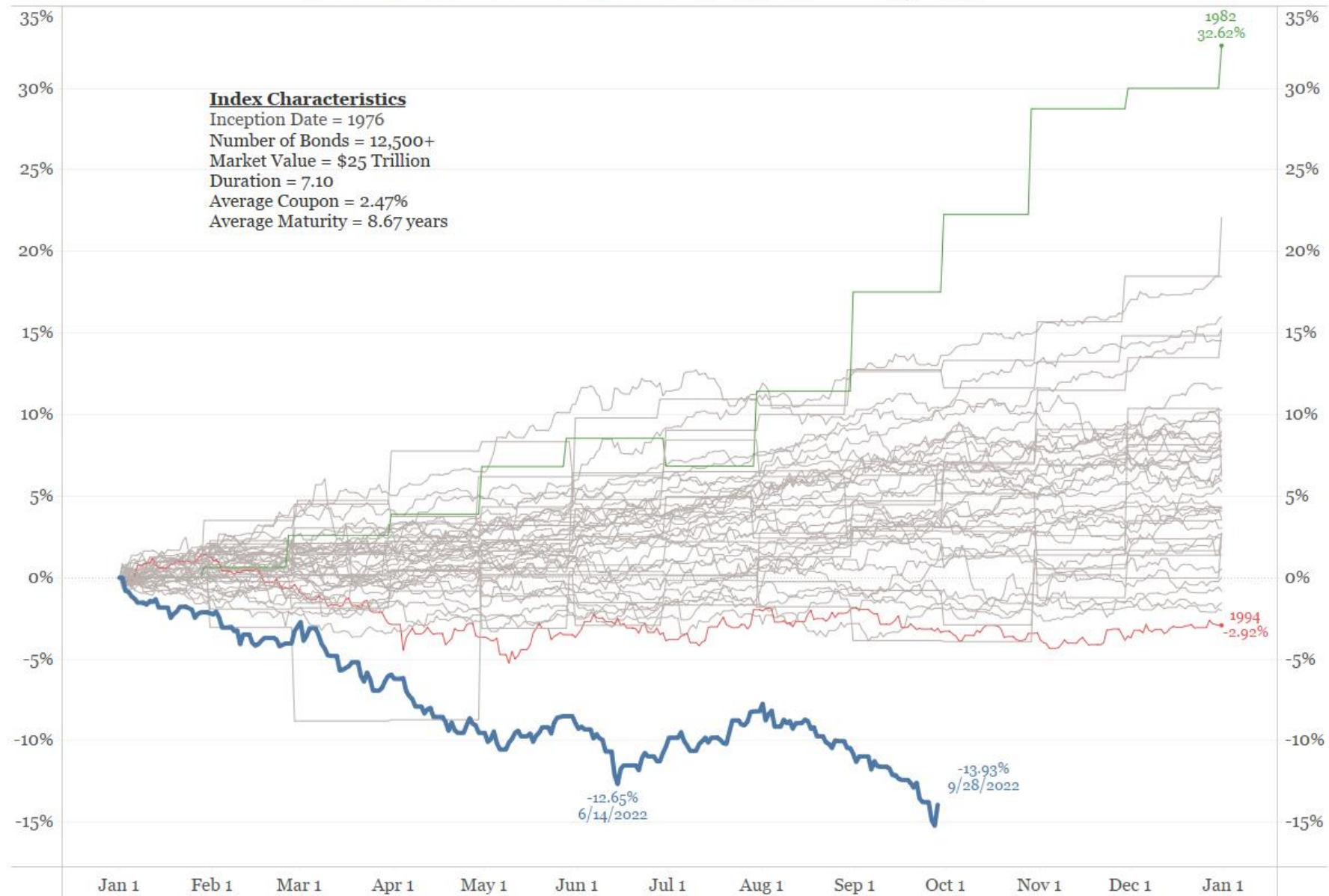
## Global Financial Stress Indicator - Market Indicator



Source: Bank of America, Bloomberg

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## Year-to-Date Total Return for the Bloomberg U.S. Aggregate Index

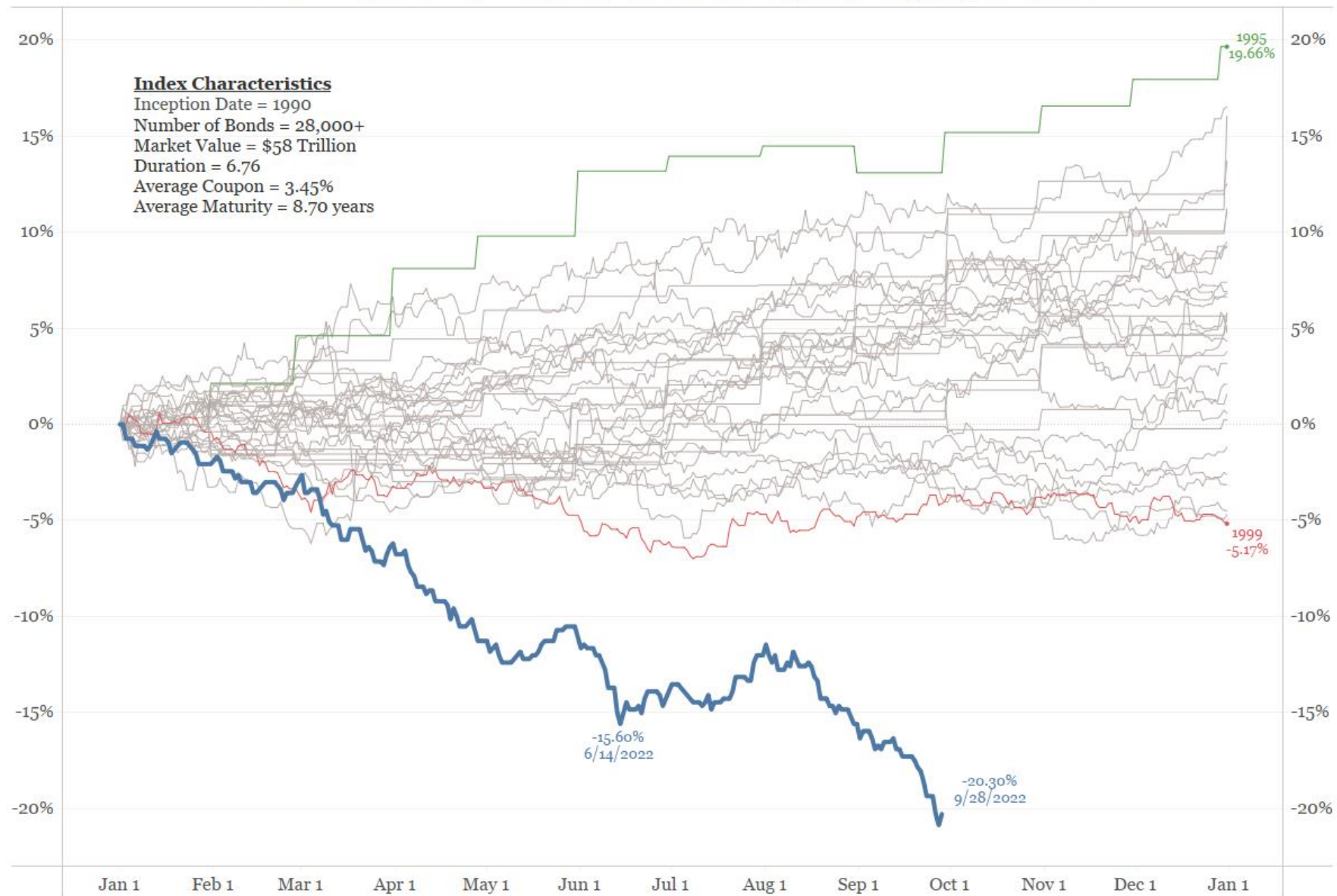


Source: Bloomberg

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## Year-to-Date Total Return for the Bloomberg Global Aggregate Index



Source: Bloomberg

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## Bank of England announces gilt market operation

In line with its financial stability objective, the Bank of England stands ready to restore market functioning and reduce any risks from contagion to credit conditions for UK households and businesses.

On 28 September, the Bank of England's Financial Policy Committee noted the risks to UK financial stability from dysfunction in the gilt market. It recommended that action be taken, and welcomed the Bank's plans for temporary and targeted purchases in the gilt market on financial stability grounds at an urgent pace.



### [The Financial Times - Bank of England launches £65bn move to calm markets](#)

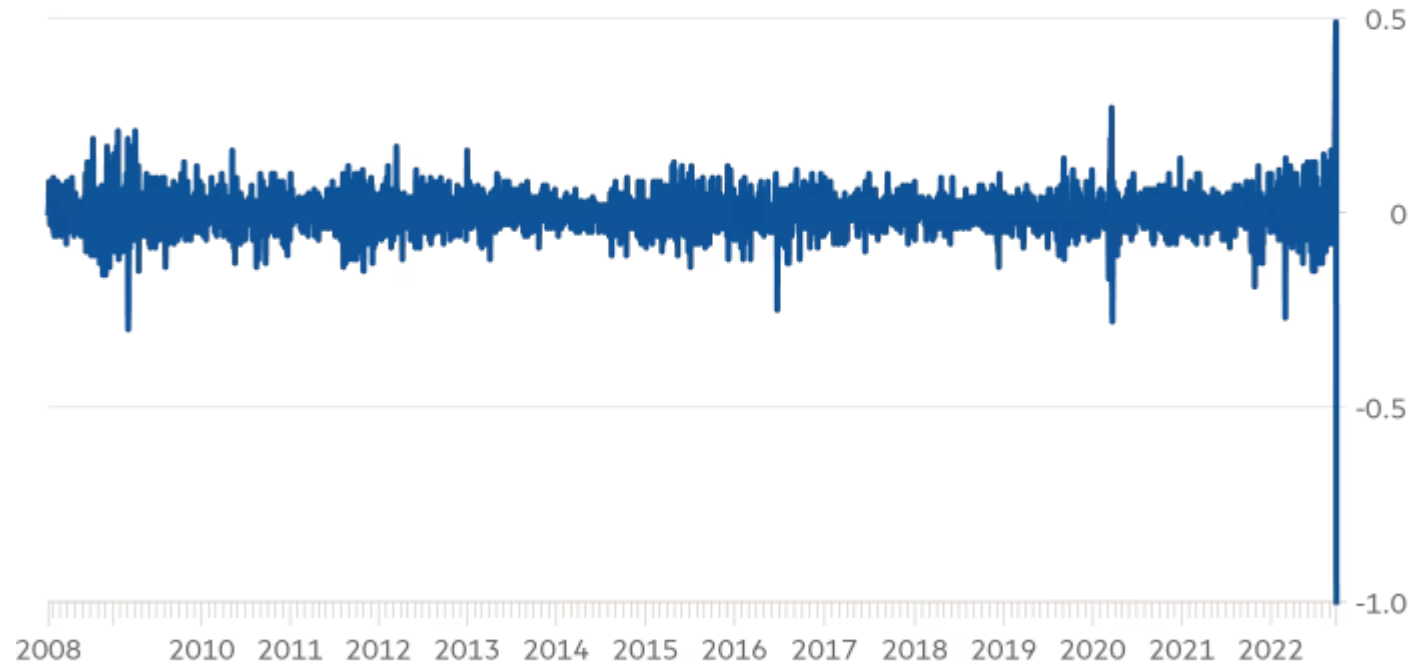
Central bank to spend £5bn a day for 13 days over 'material risk to UK financial stability' and threat to pensions.

“It appears that some players in the market ran out of collateral and dumped gilts,” said Peter Harrison, chief executive of Schroders, which has \$55bn in global LDI business. “We were more conservatively positioned and we had enough collateral to meet all of our margin calls.”

“If there was no intervention today, gilt yields could have gone up to 7-8 per cent from 4.5 per cent this morning and in that situation around 90 per cent of UK pension funds would have run out of collateral,” said Kerrin Rosenberg, Cardano Investment chief executive. “They would have been wiped out.”

### Long-term gilts in historic swing

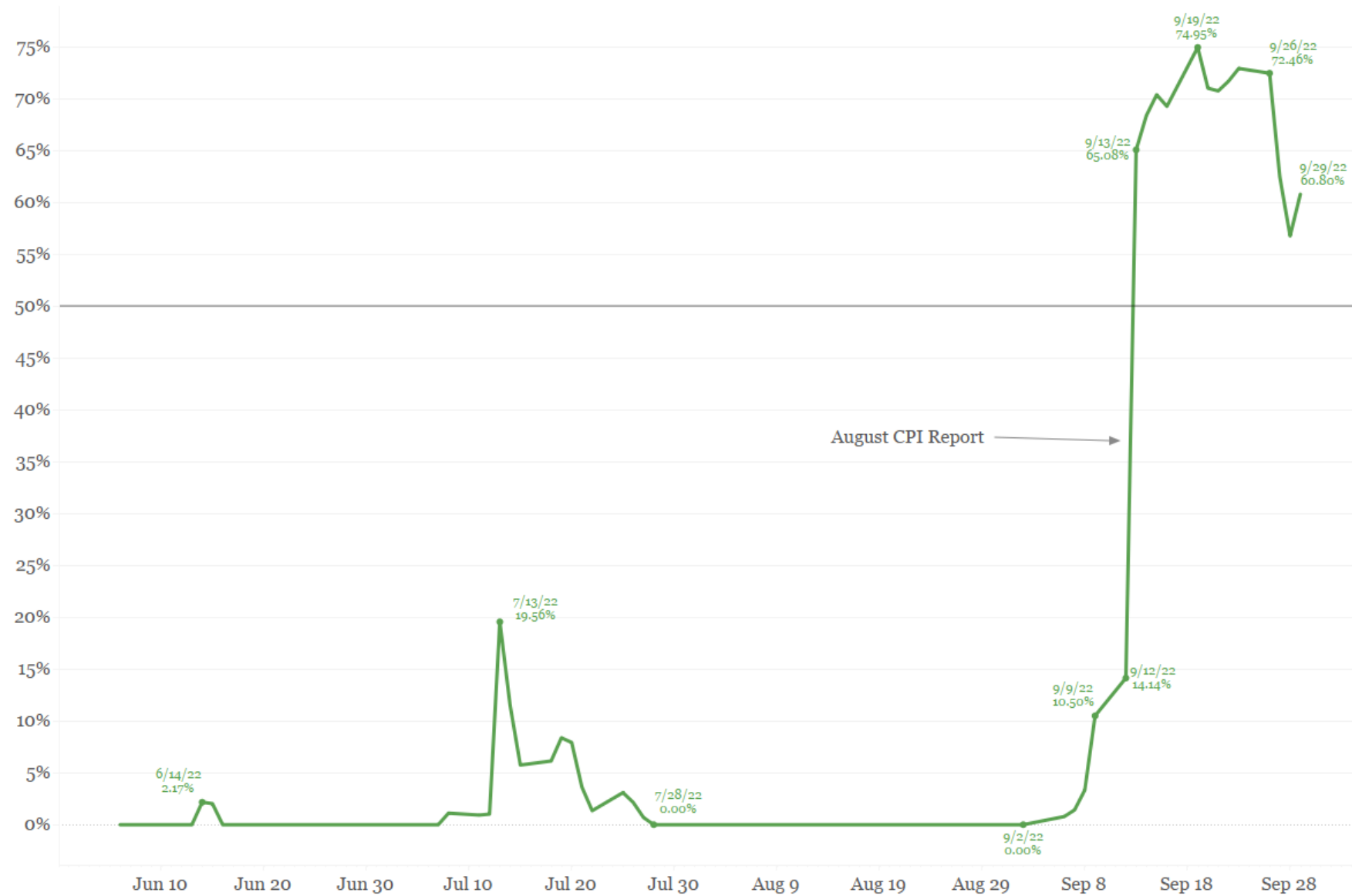
Daily change in 30-year yield (percentage points)



Source: Tradeweb  
© FT

# Probability of 75 Basis Point Hike at the November 2, 2022 FOMC Meeting, to 3.75% to 4.00%

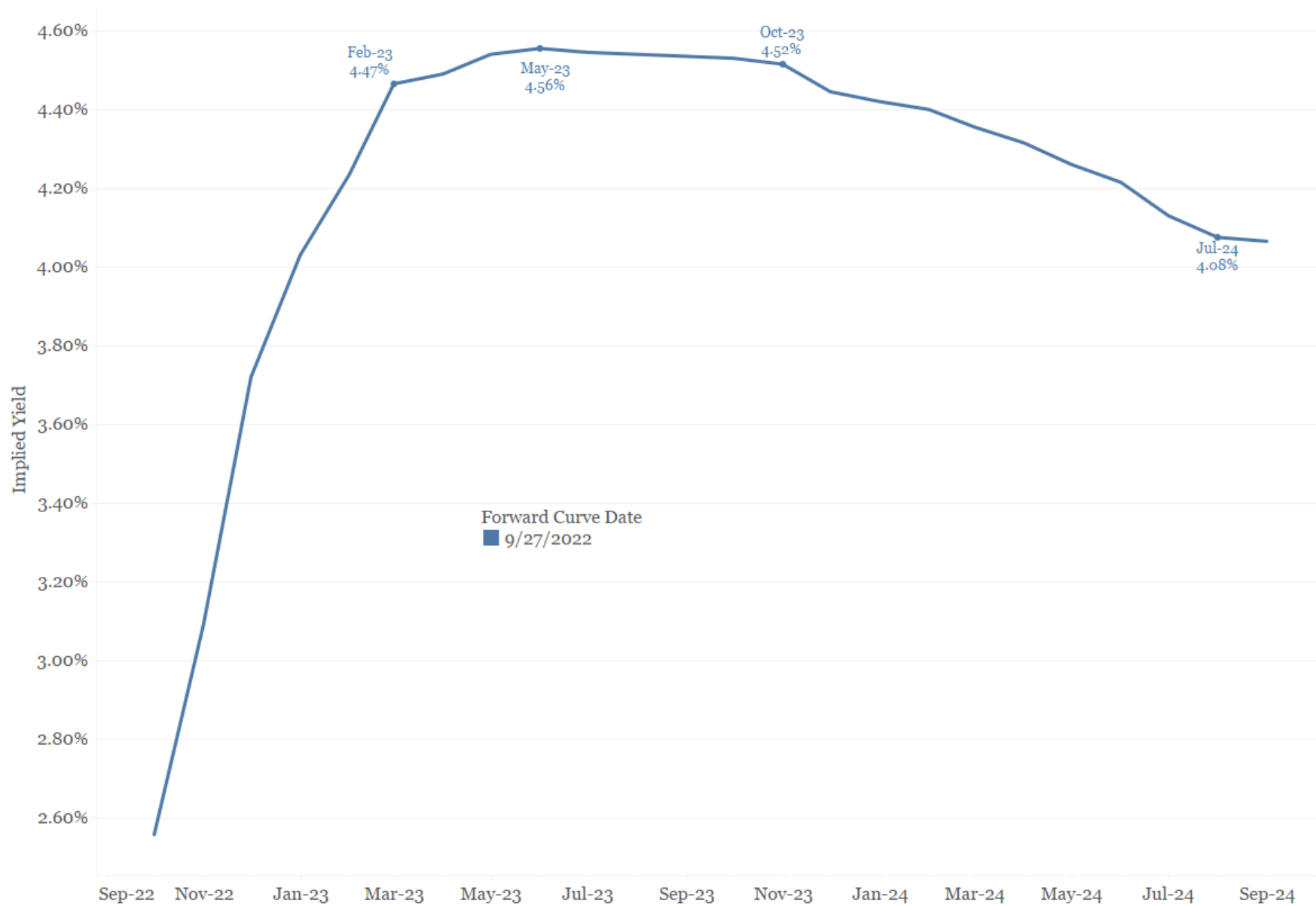
As Calculated by the Chicago Mercantile Exchange's Fed Watch Tool



Source: Chicago Mercantile Exchange  
<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

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## What Is the Terminal Fed Funds Rate?

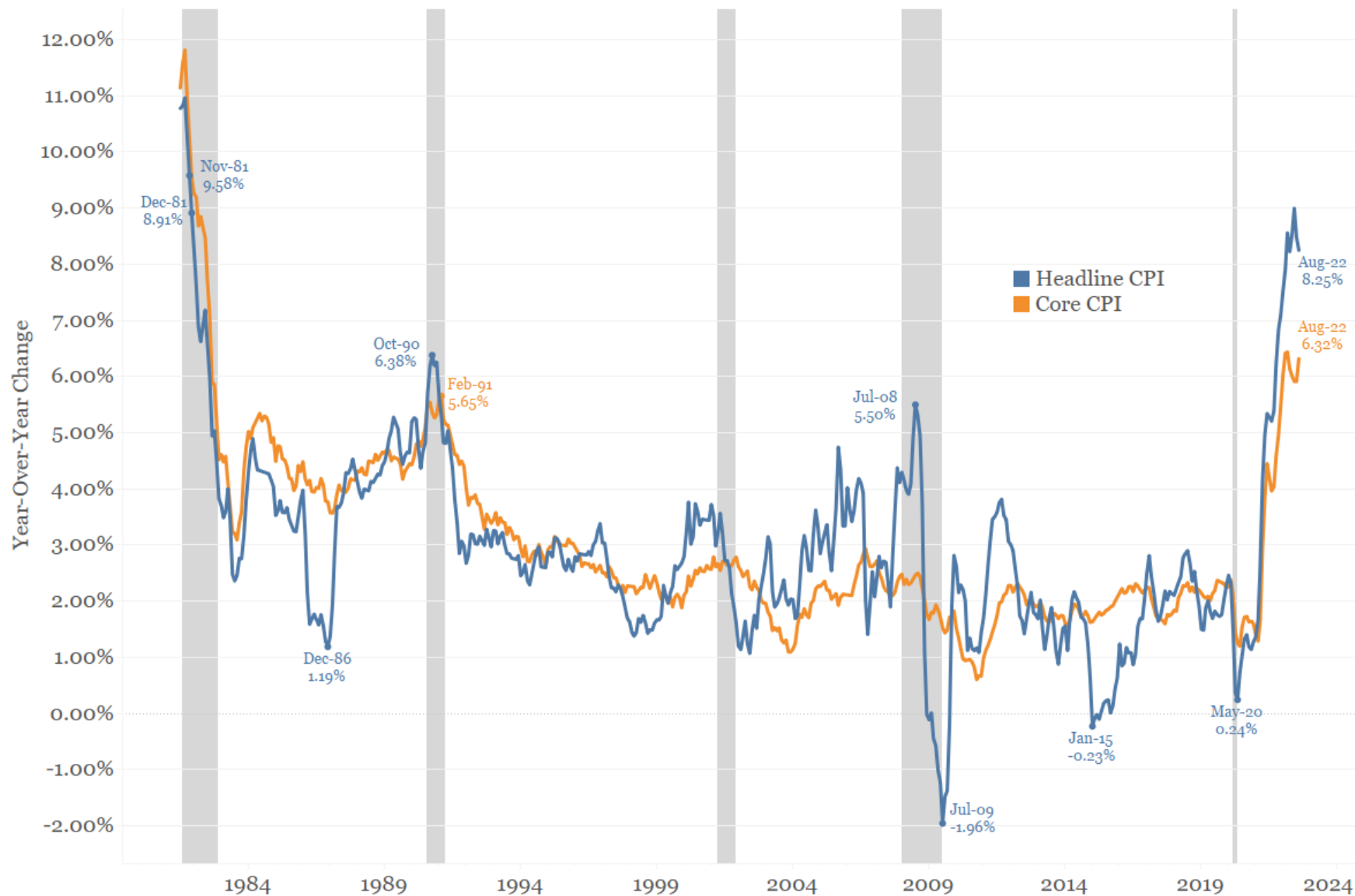


Source: Chicago Mercantile Exchange, Bloomberg

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# Year-Over-Year Change in CPI

Seasonally Adjusted

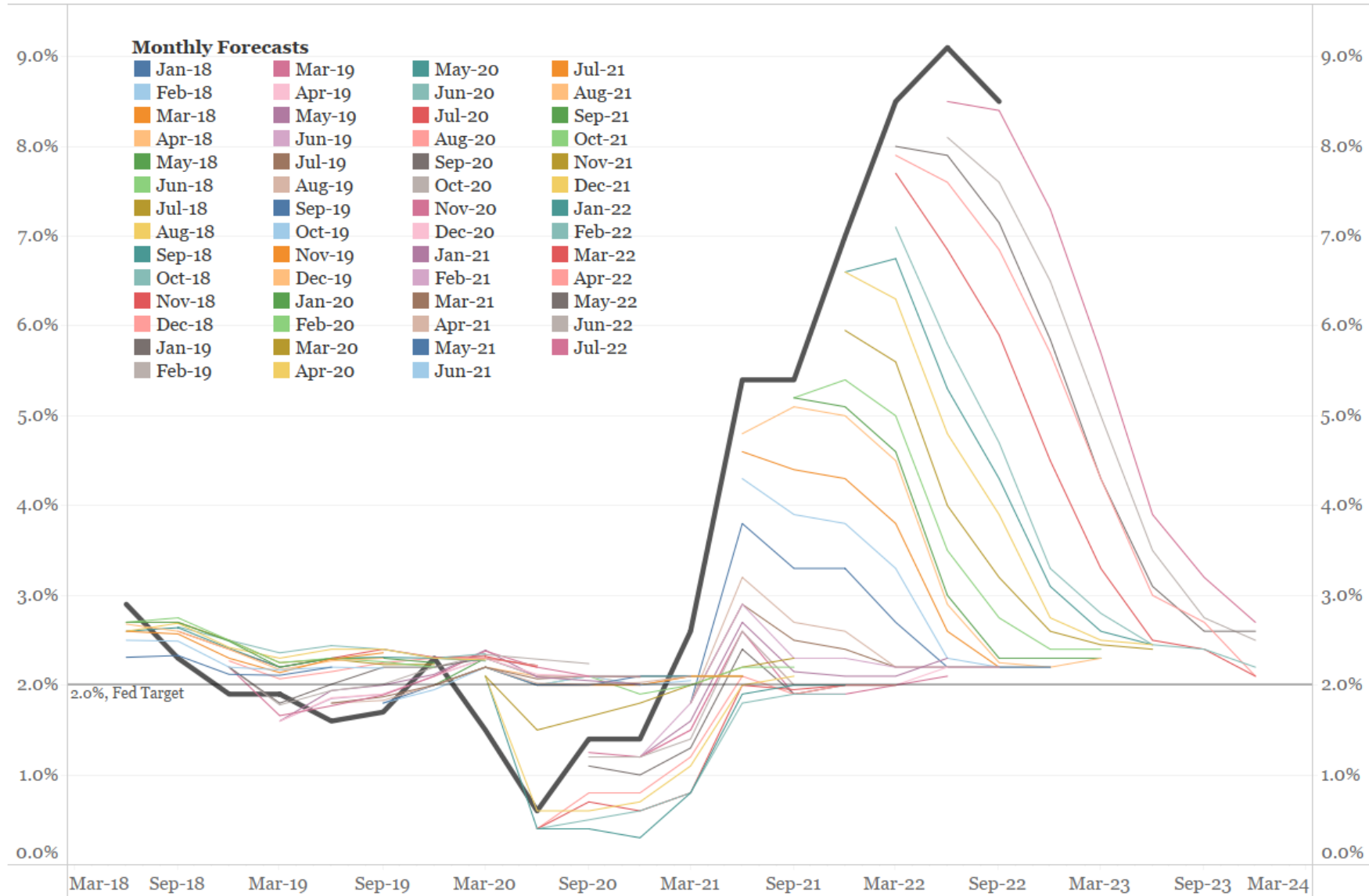


Source: The Bureau of Labor Statistics

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# US Inflation Forecasts Always End at ~2%

Monthly from January 2018 to Date

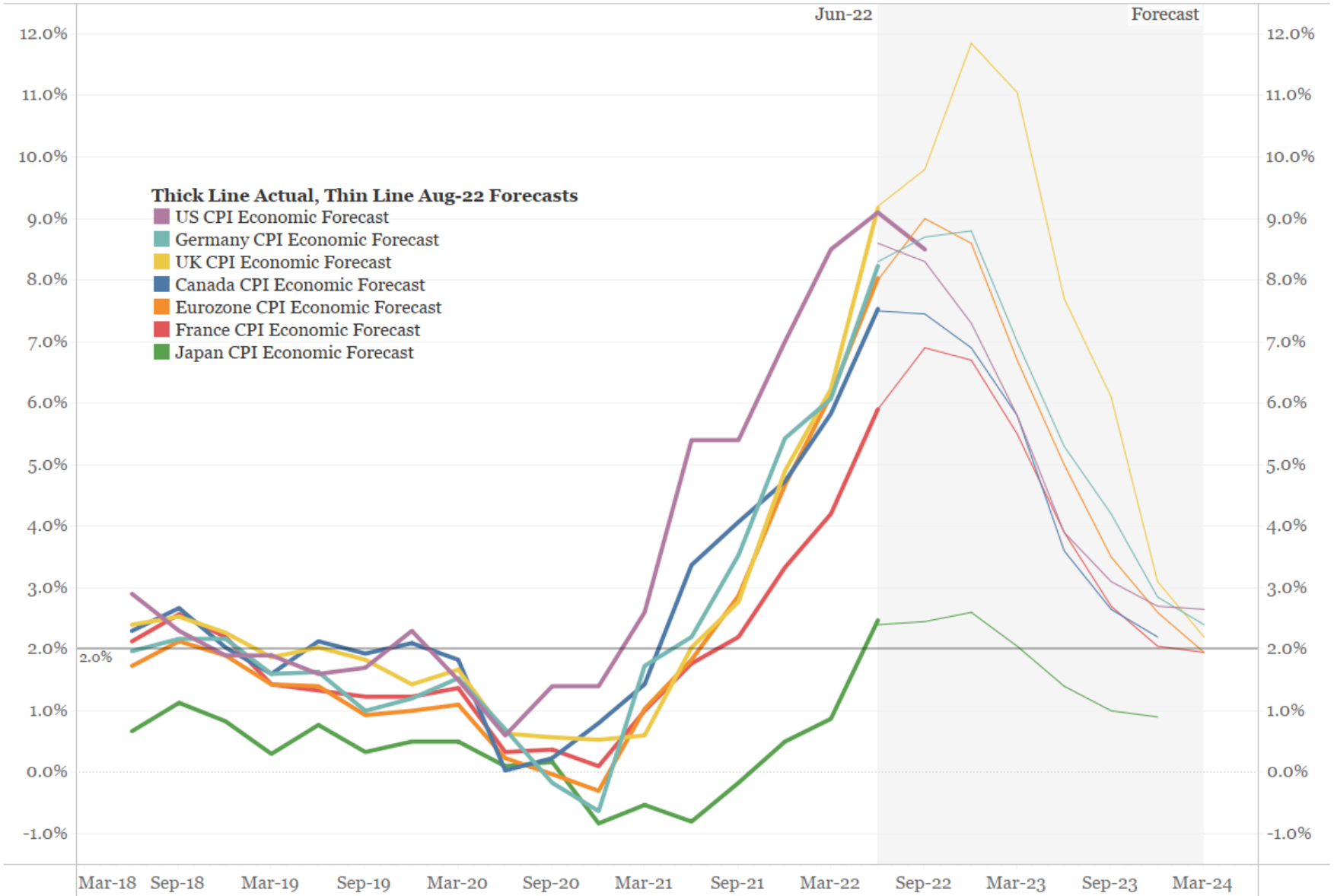


Data Source: Bloomberg, Bureau of Labor Statistics

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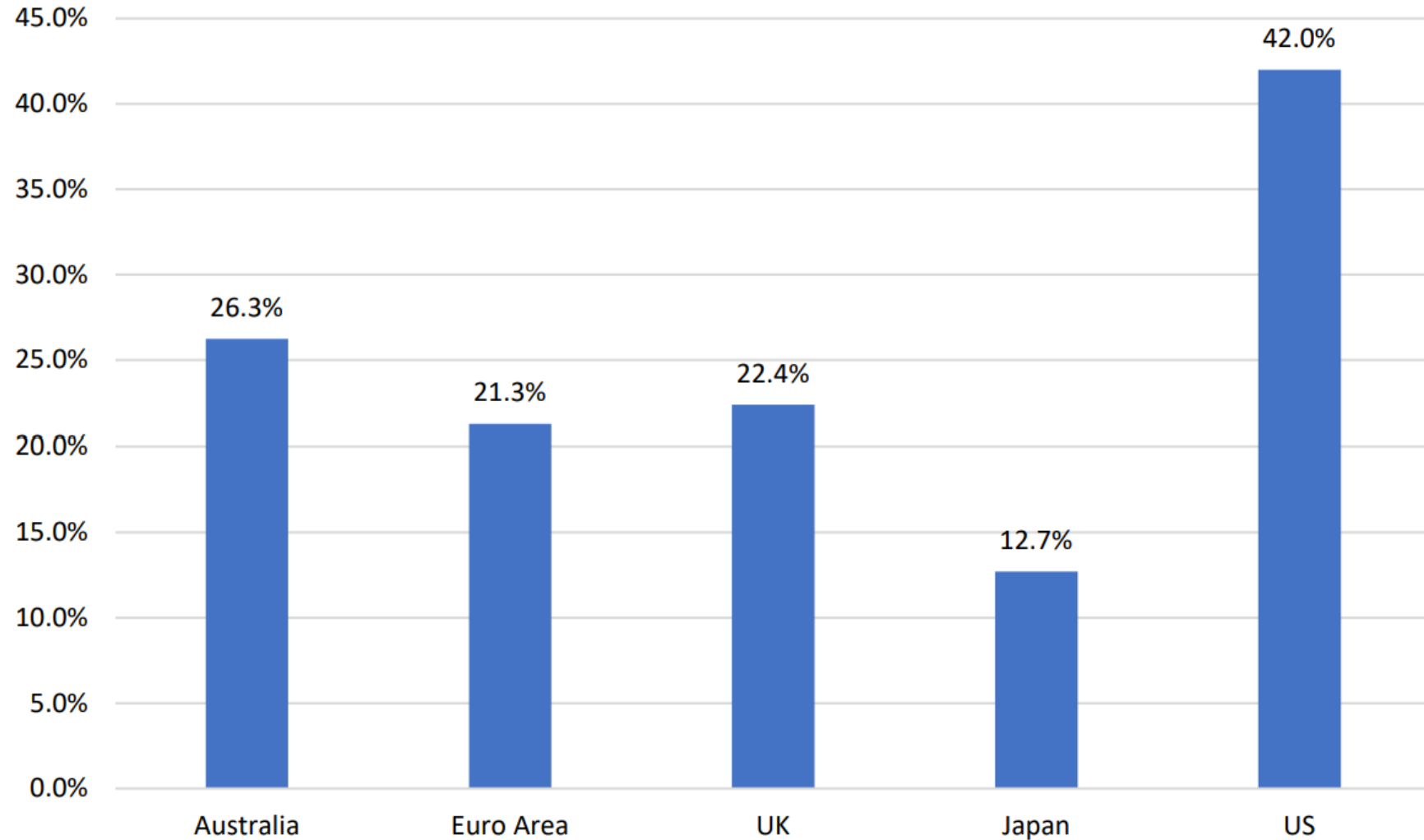
# All Forecasts Lead Back to ~2%



Data Source: Bloomberg, Bureau of Labor Statistics

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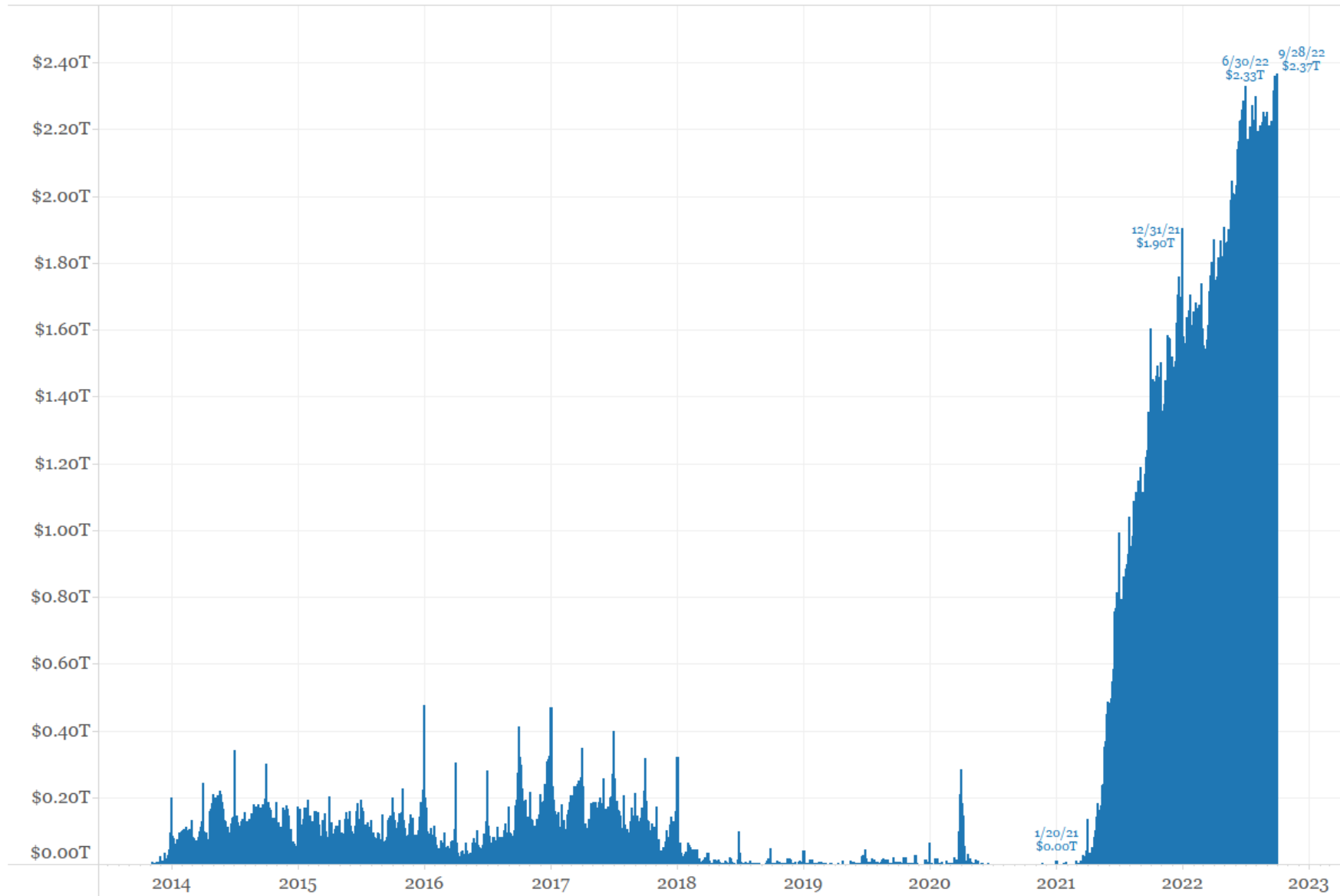
## Increases in M3 between December 2019 and May 2022



Source: OECD "Main Economic Indicators" accessed in July 2022 from the Federal Bank of St Louis website . Each series is seasonally adjusted.

# The New York Fed's Reverse Repo Facility

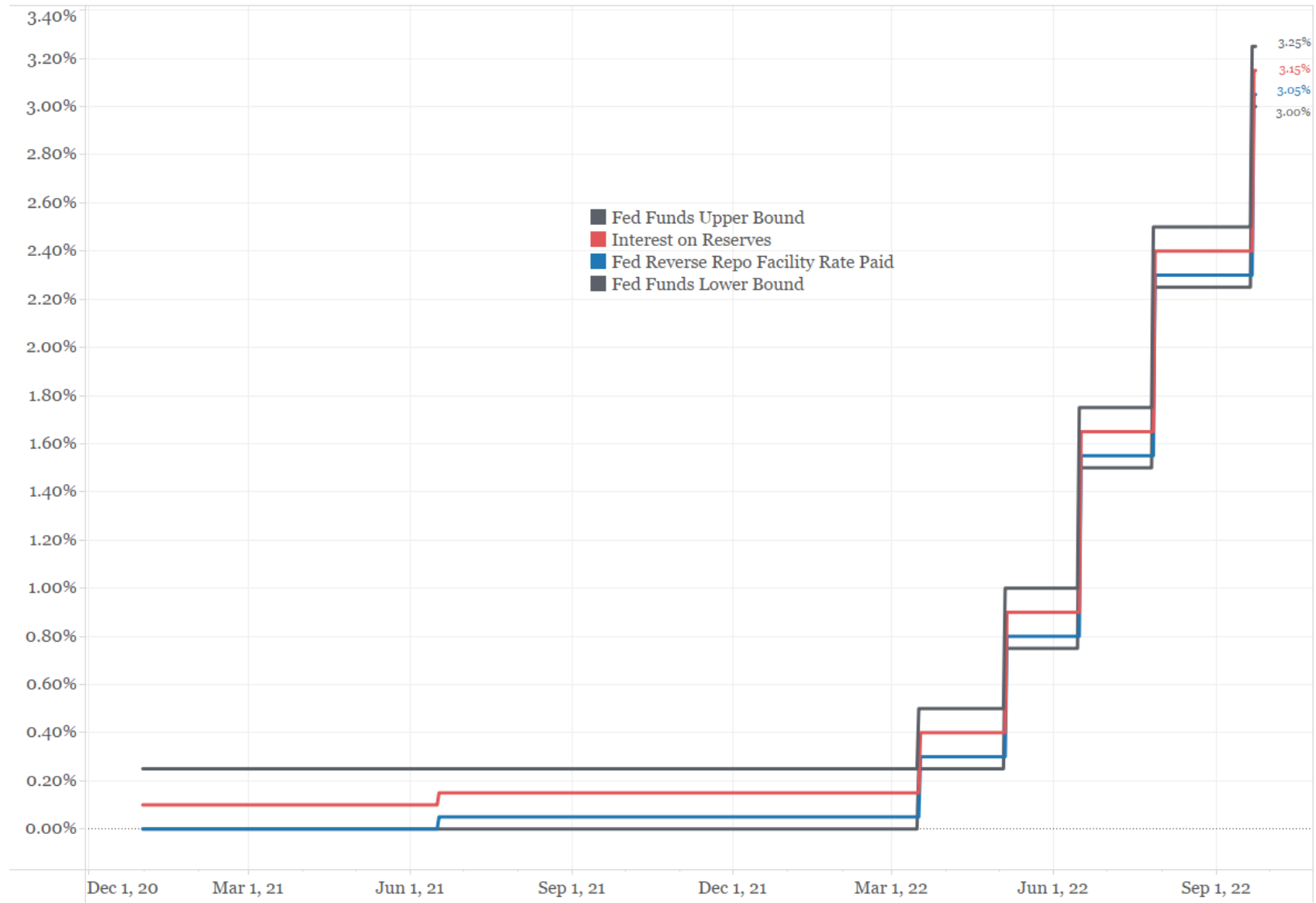
## Daily Amount Taken



Data Source: New York Federal Reserve

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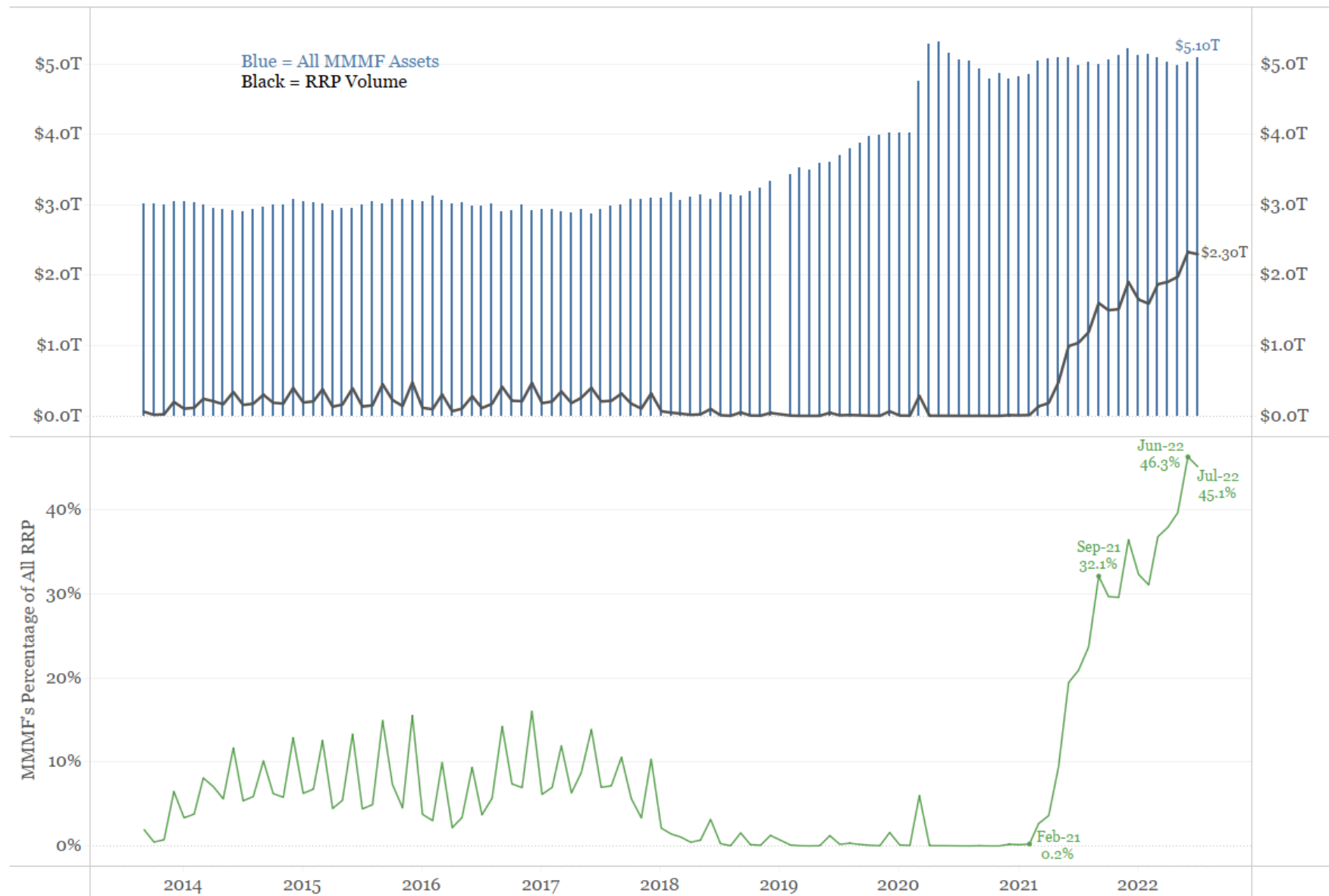
## Fed Funds vs. Interest on Reserves & the Fed's Reverse Repo Facility Rate



Data: The Federal Reserve

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## RRP Compared To All MMMF Fund Assets

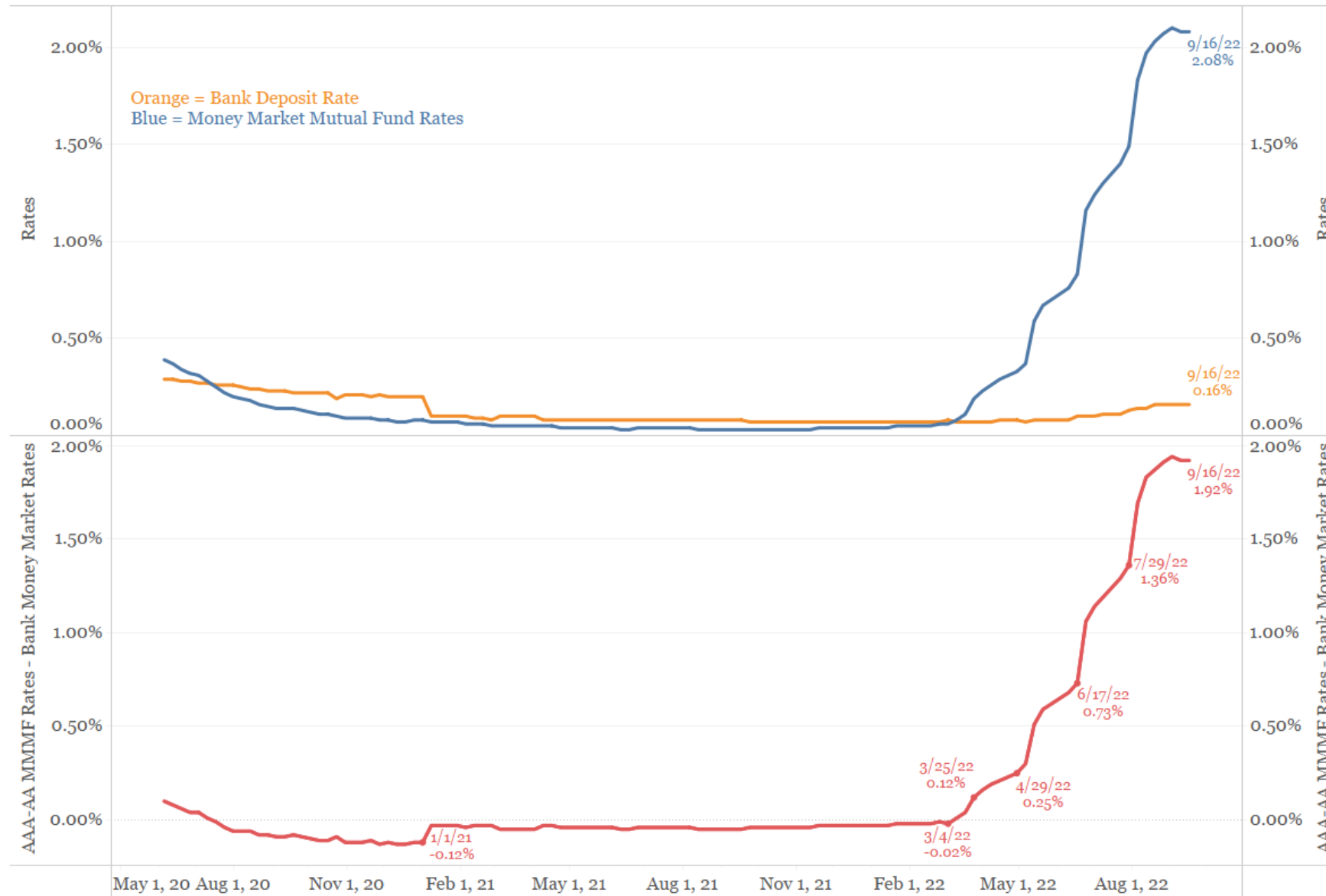


Source: Office of Financial Research, SEC Form N-MFP2  
<https://www.financialresearch.gov/money-market-funds/>

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# The Spread Between Money Market Mutual Fund Rates & Bank Deposit Rates

S&P AAA-AA Money Market Rate - Bankrate National Average Bank Money Market Rates



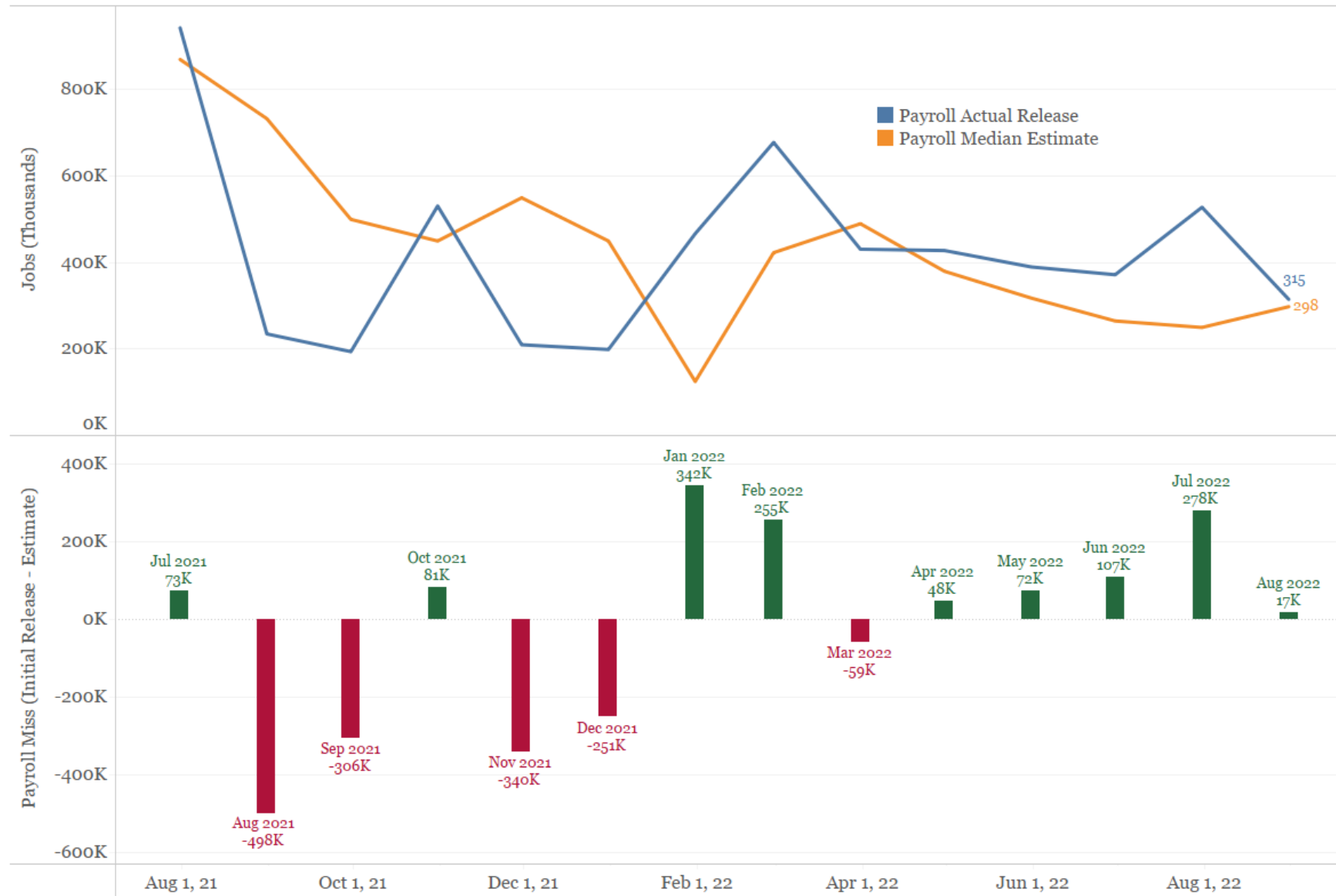
Data Source: Bloomberg, BankRate.com

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## Payroll Misses

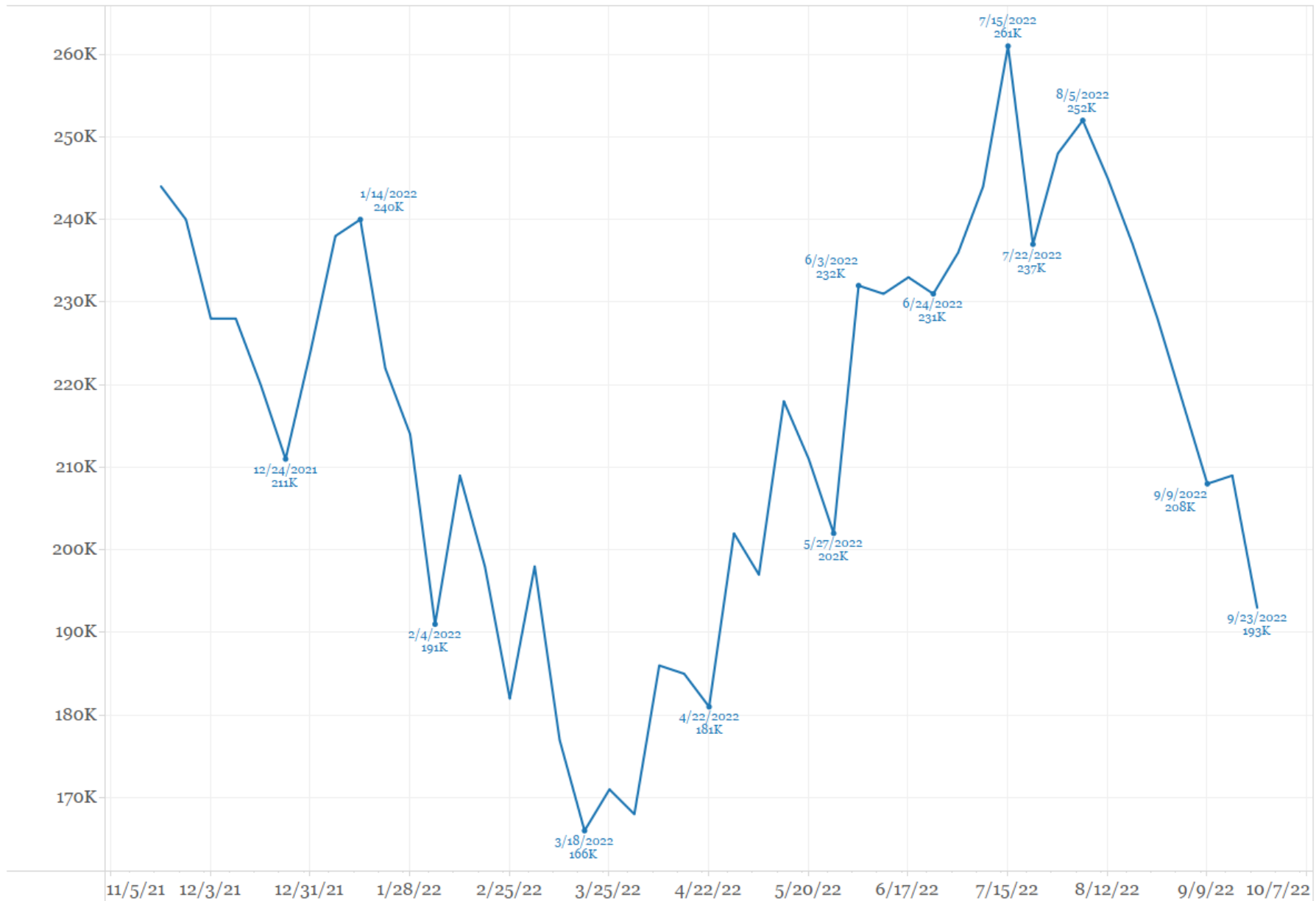
Initial Release Minus Bloomberg's Estimate



Source: Bloomberg

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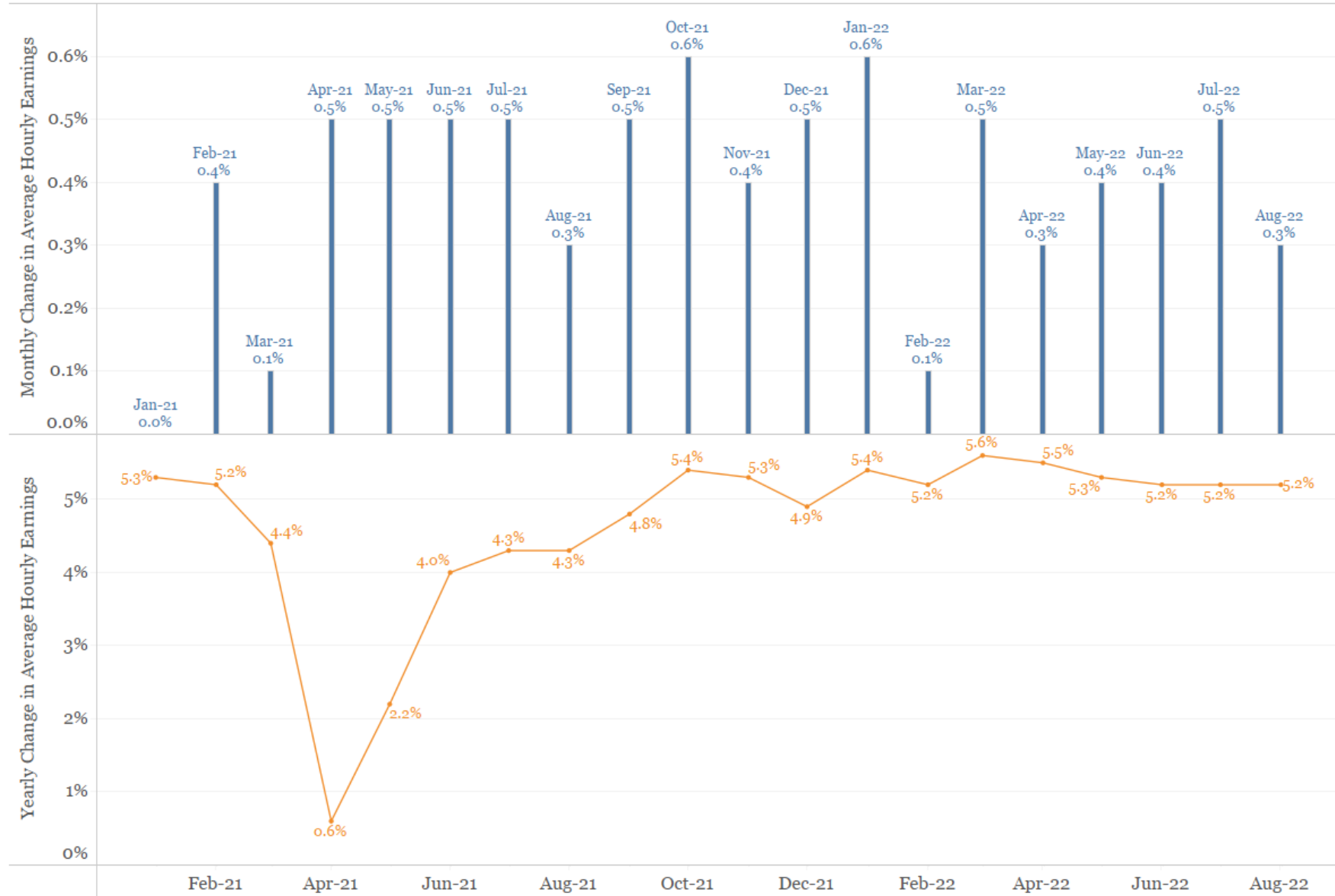
## Weekly Initial Claims



Data Source: Bureau of Labor Statistics

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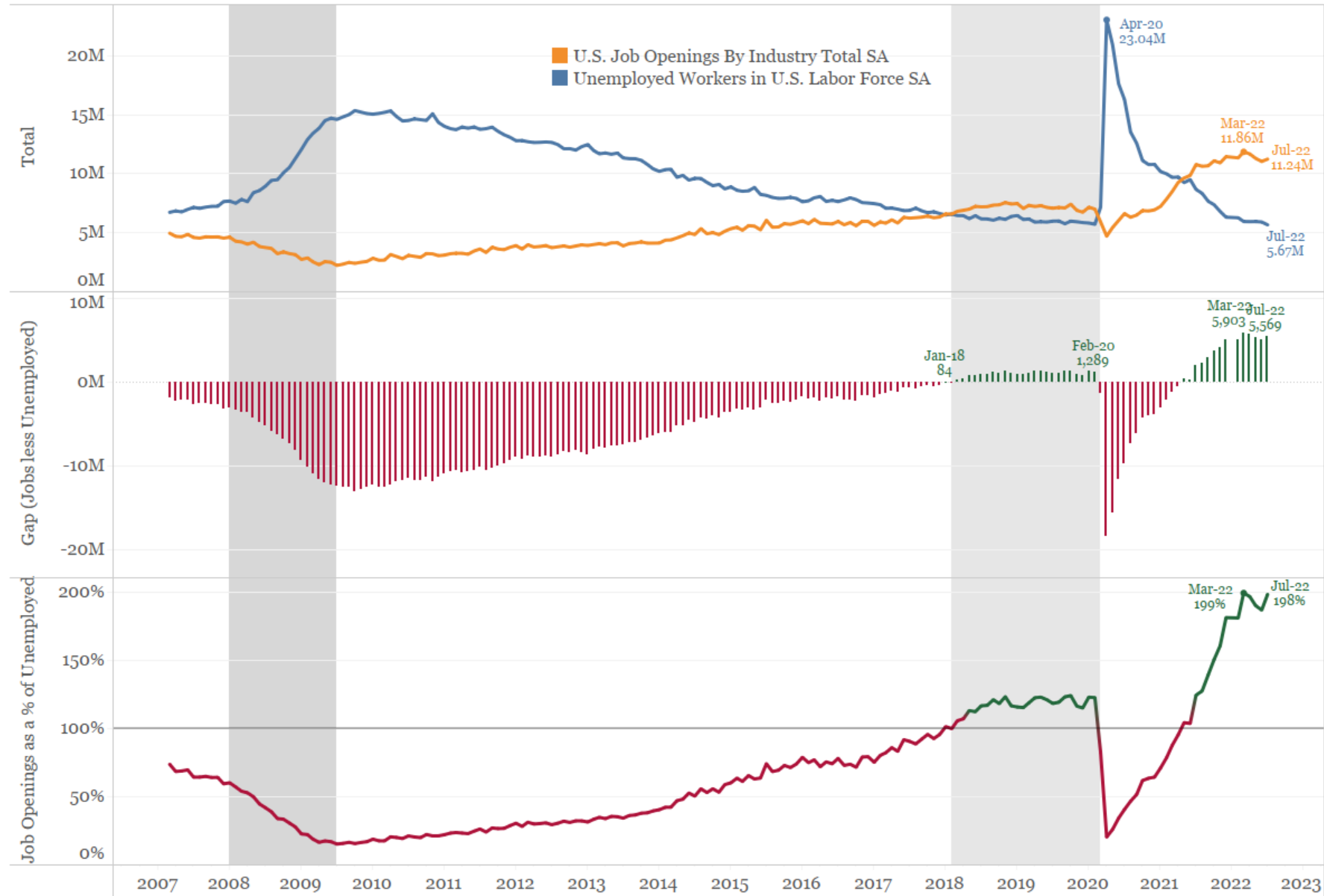
## Average Hourly Earnings Growth



Source: Bureau of Labor Statistics

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## A Shortage of Workers?



Source: Conference Board, Bureau of Labor Statistics, Bloomberg

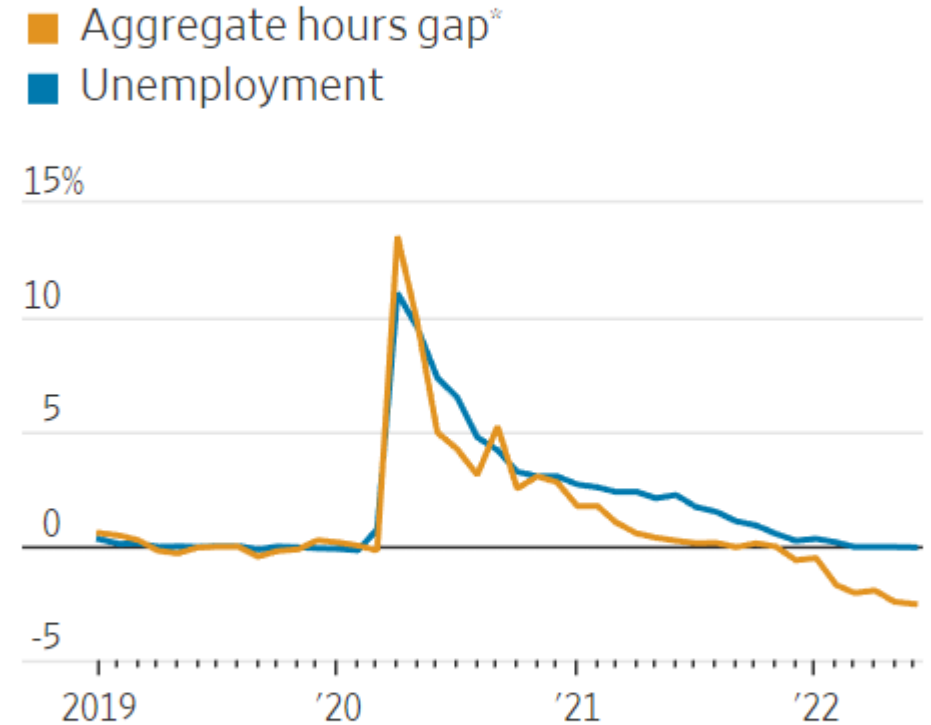
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\* ***The Wall Street Journal*** – [Greg Ip: Workers' Changing Attitudes Tighten Labor Market](#)

*All this suggests workers' attitudes, and leverage, have shifted in important ways in recent years. The effect is to make labor scarcer and more expensive than ordinary economic indicators show. ... **The Covid-19 pandemic might, similarly, have catalyzed a reappraisal of what workers are willing to do, for how many hours, and at what wage. While this mostly consists of anecdotal evidence of a “great resignation” or “quiet quitting,” some empirical evidence points in the same direction.***

## How Tight Is the Labor Market?

Measures of labor-market slack relative to 2019 average



\*Difference between hours people are willing to work and hours they are currently working

Source: R. Jason Faberman, Andreas I. Mueller and Ayşegül Şahin

**Partnership for New York City – Partnership survey finds slow but steady increase in workers returning to the office, topping 50% by the end of the year**

**On an average weekday, 49% of Manhattan office workers are in the workplace as of September 2022.**

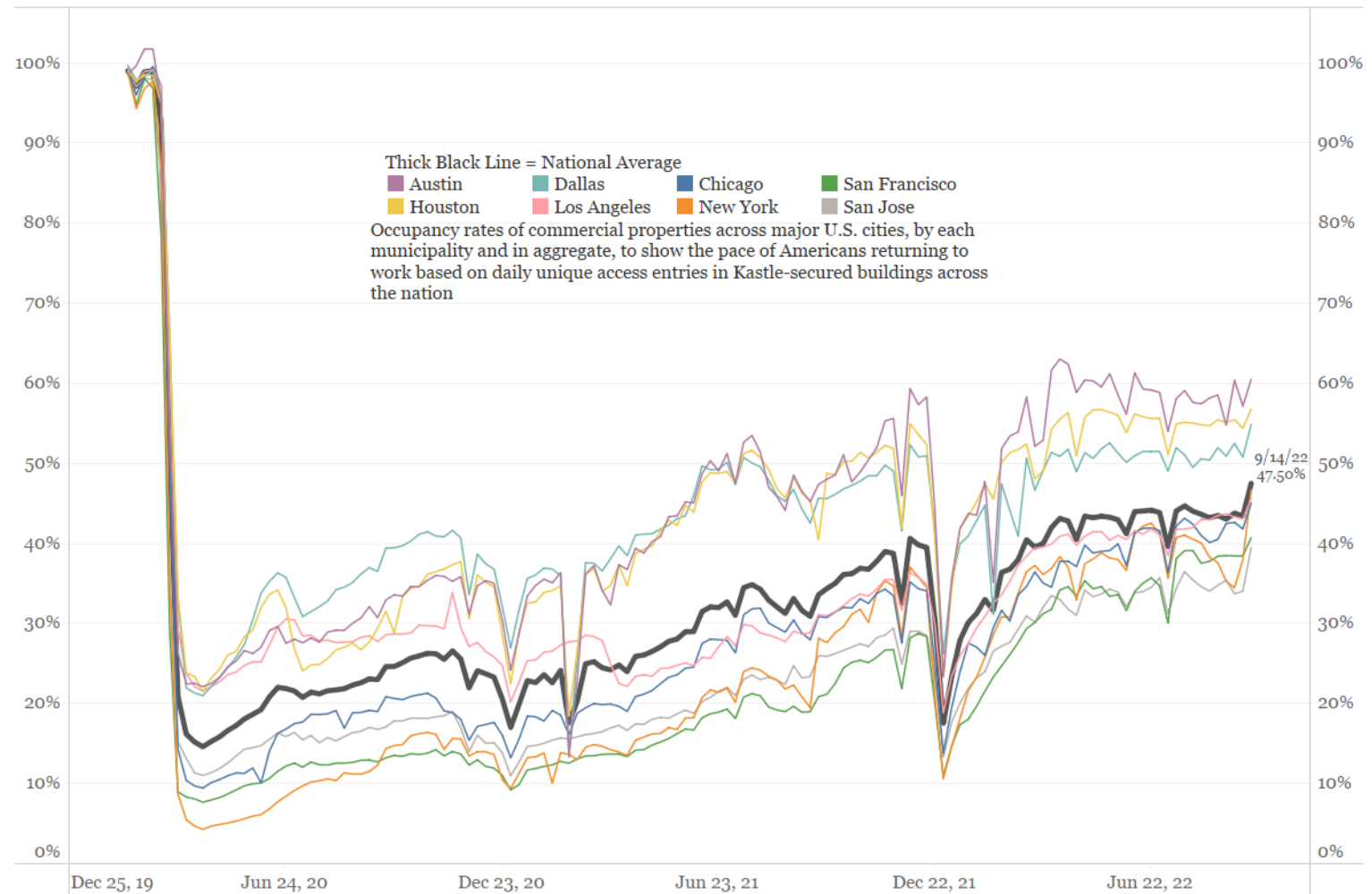
- 9% of Manhattan office workers are in the office full time (five days a week)
- 12% are in four days per week
- 37% are in three days per week
- 15% are in two days per week
- 11% are in one day per week
- 16% of Manhattan office workers are fully remote

**Bloomberg – Sarah Green Carmichael: Quiet Quitting Is the Fakest of Fake Workplace Trends**

**But even if we're not all quiet quitting, lying flat or joining the Great Resignation, these “movements” send a signal about work.**

The reason for bosses to concern themselves with these trends isn't that they're describing real behavior, but that so many people find them appealing. They speak to employees' fantasies, not their actual career plans.

**Kastle Back to Work Indices**  
Percentage of City Office Space Currently in Use

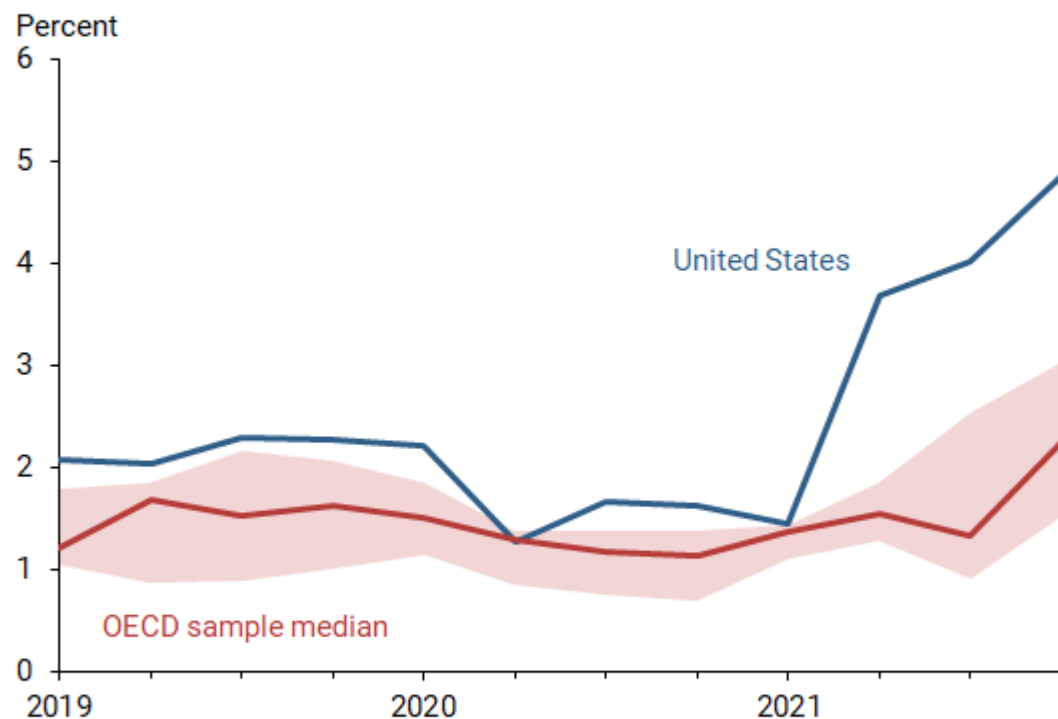


Source: Kastle  
<https://www.kastle.com/getting-america-back-to-work/>

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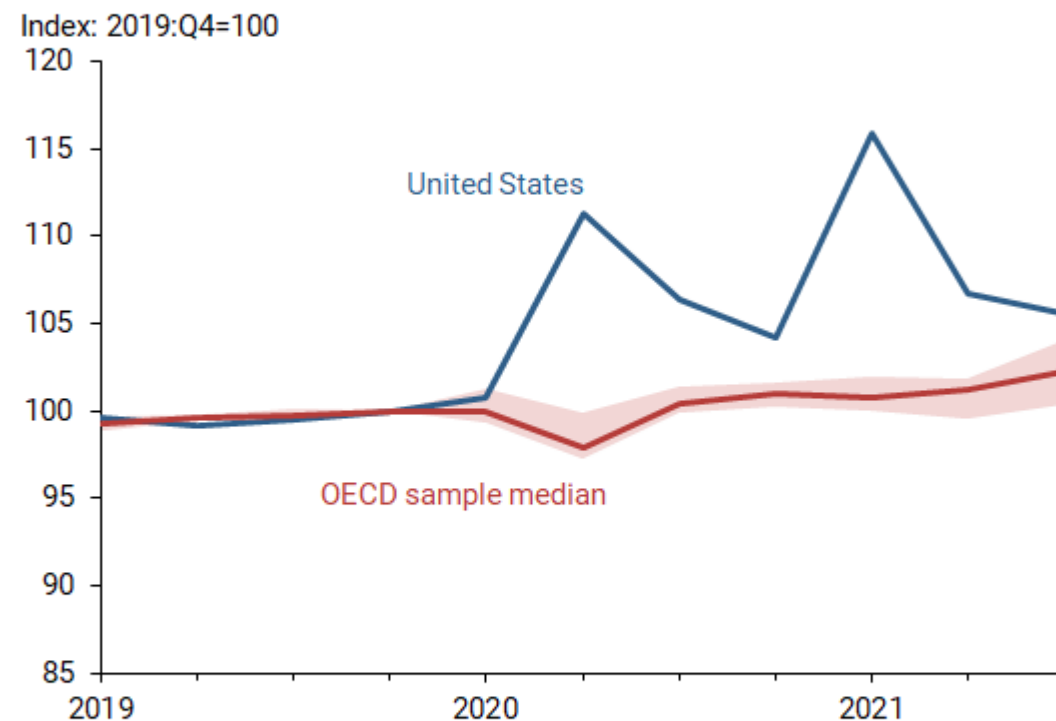


Figure 1  
Annual core CPI inflation: U.S. versus OECD



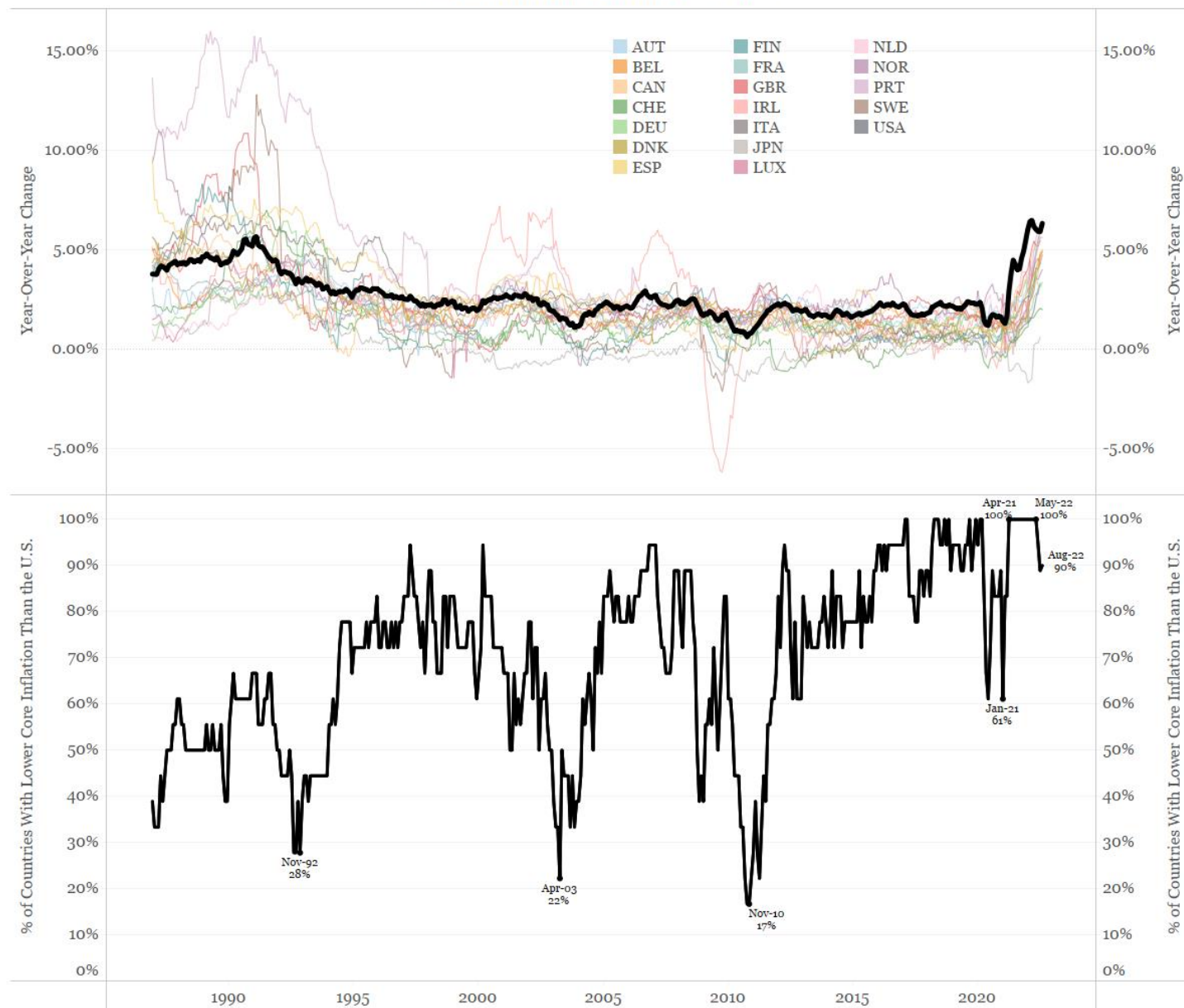
Note: Shaded area reflects interquartile range for OECD sample.  
Source: OECD Household Dashboard: cross country comparisons.

Figure 2  
Real personal disposable income: U.S. versus OECD



Note: Shaded area reflects interquartile range for OECD sample.  
Source: OECD Household Dashboard: cross country comparisons.

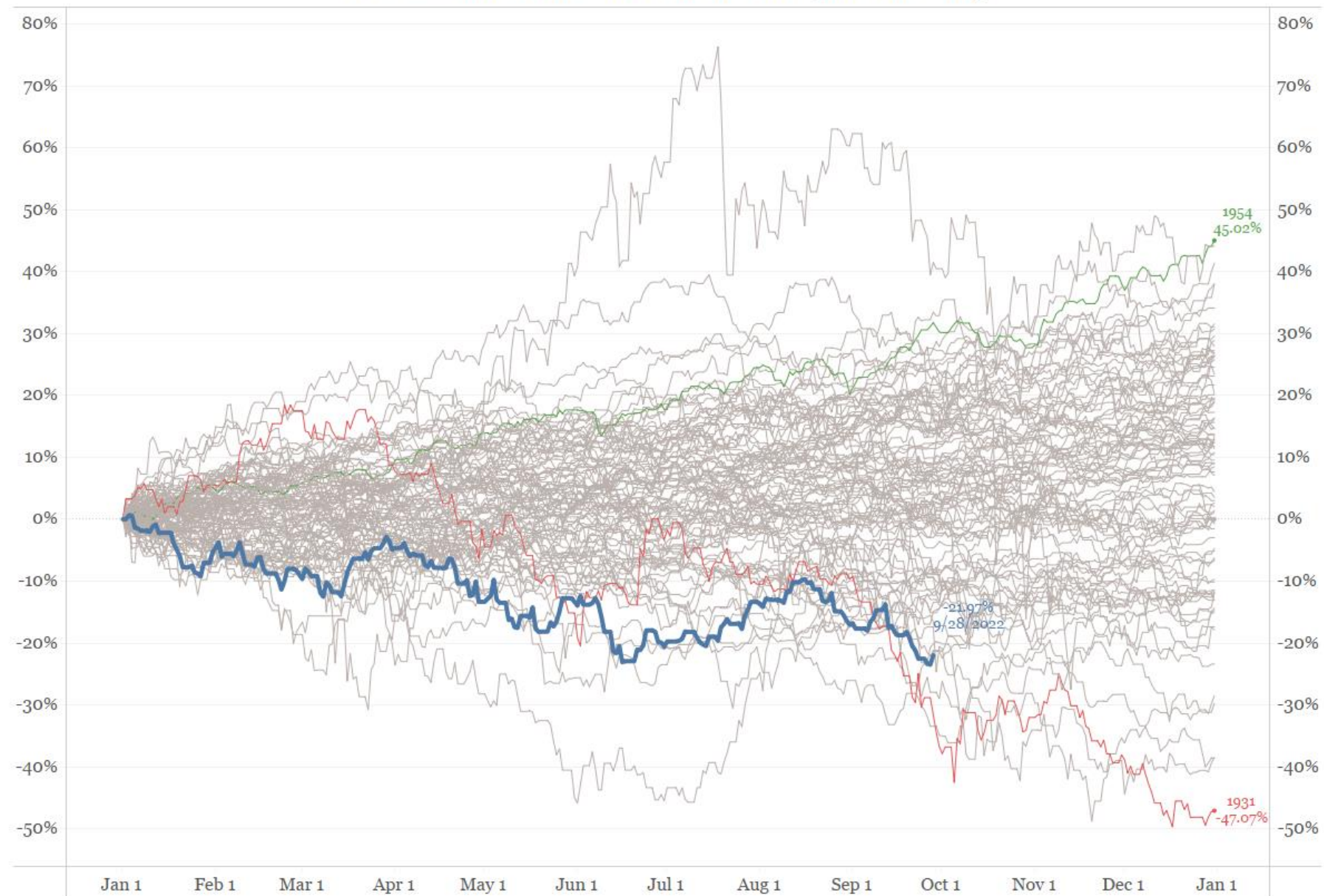
# Core Inflation Around the World



Source: OECD

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# Year-to-Date Total Return for the S&P 500 Price Only

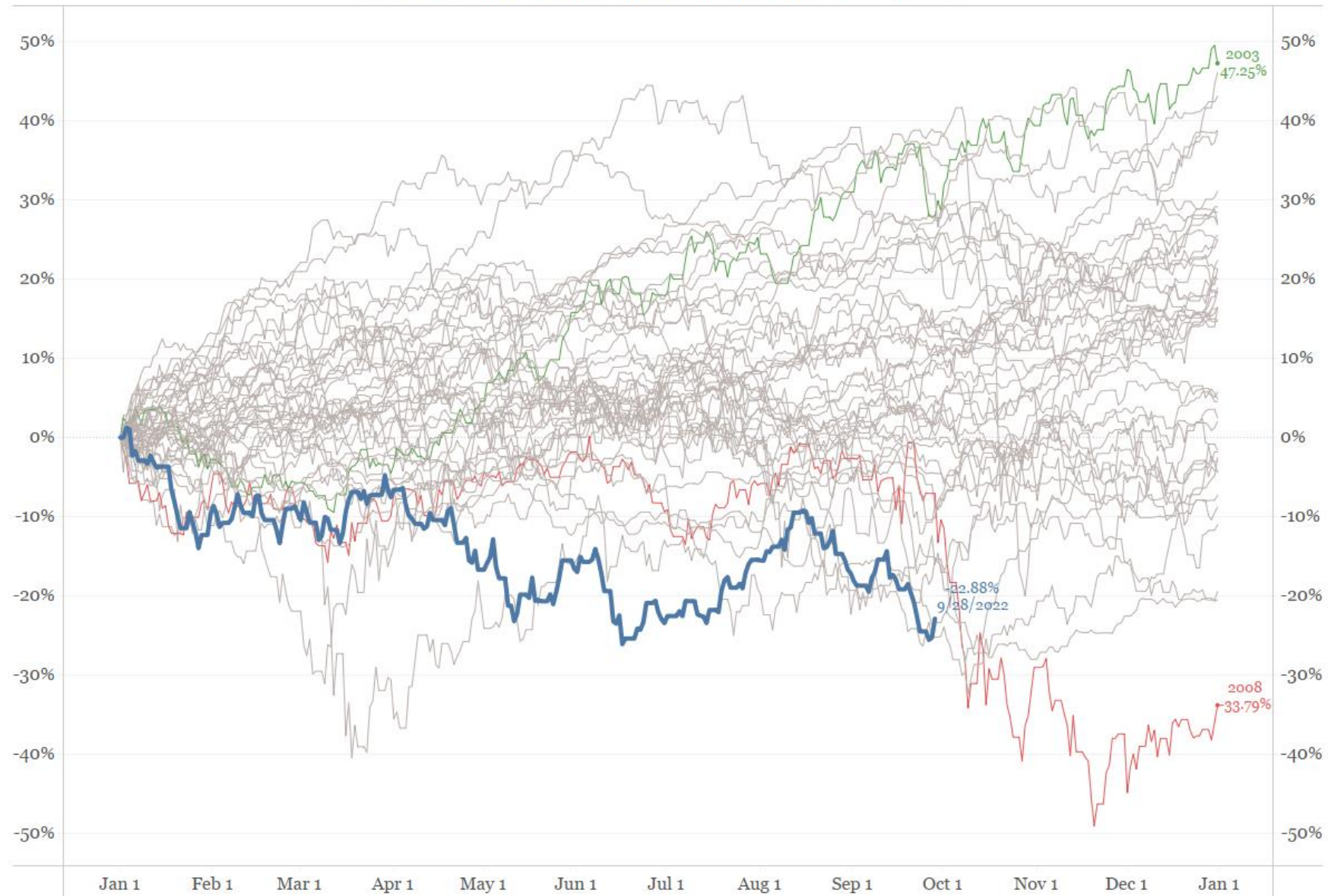


Source: Bloomberg

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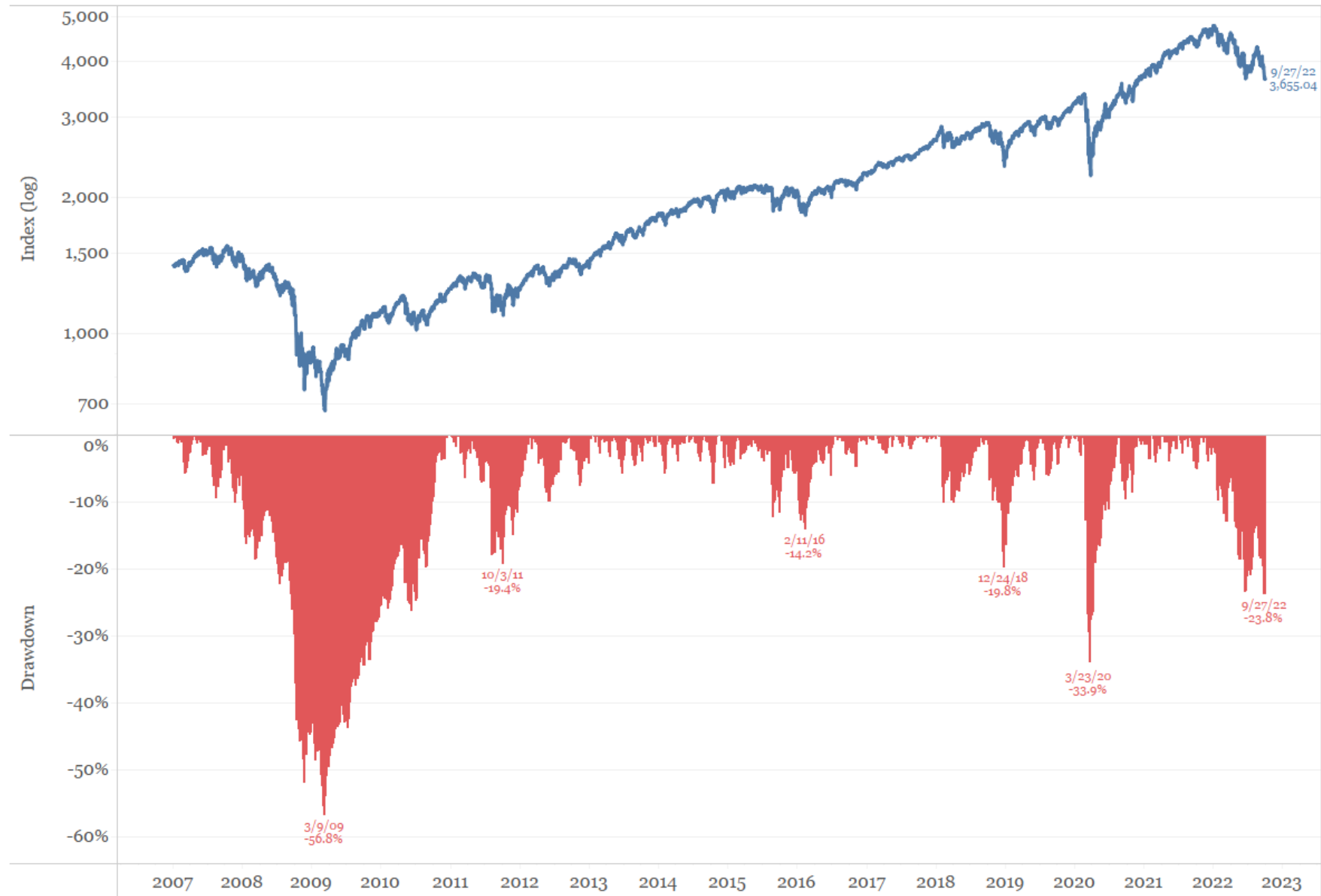
## Year-to-Date Total Return for the Russell 2000 TR



Source: Bloomberg

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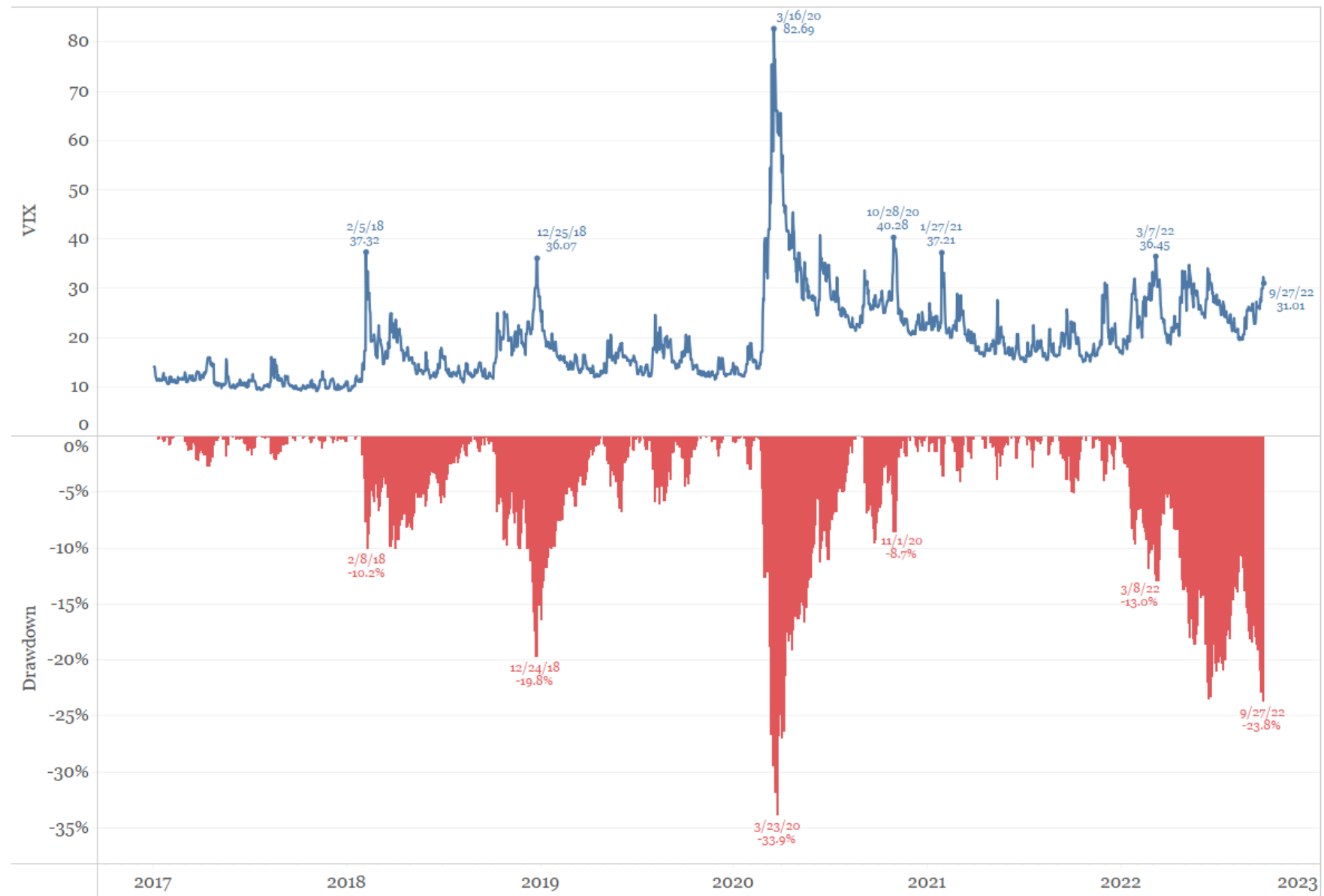
## The S&P 500



Source: Bloomberg

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## Comparing VIX Levels and S&P 500 Drawdowns



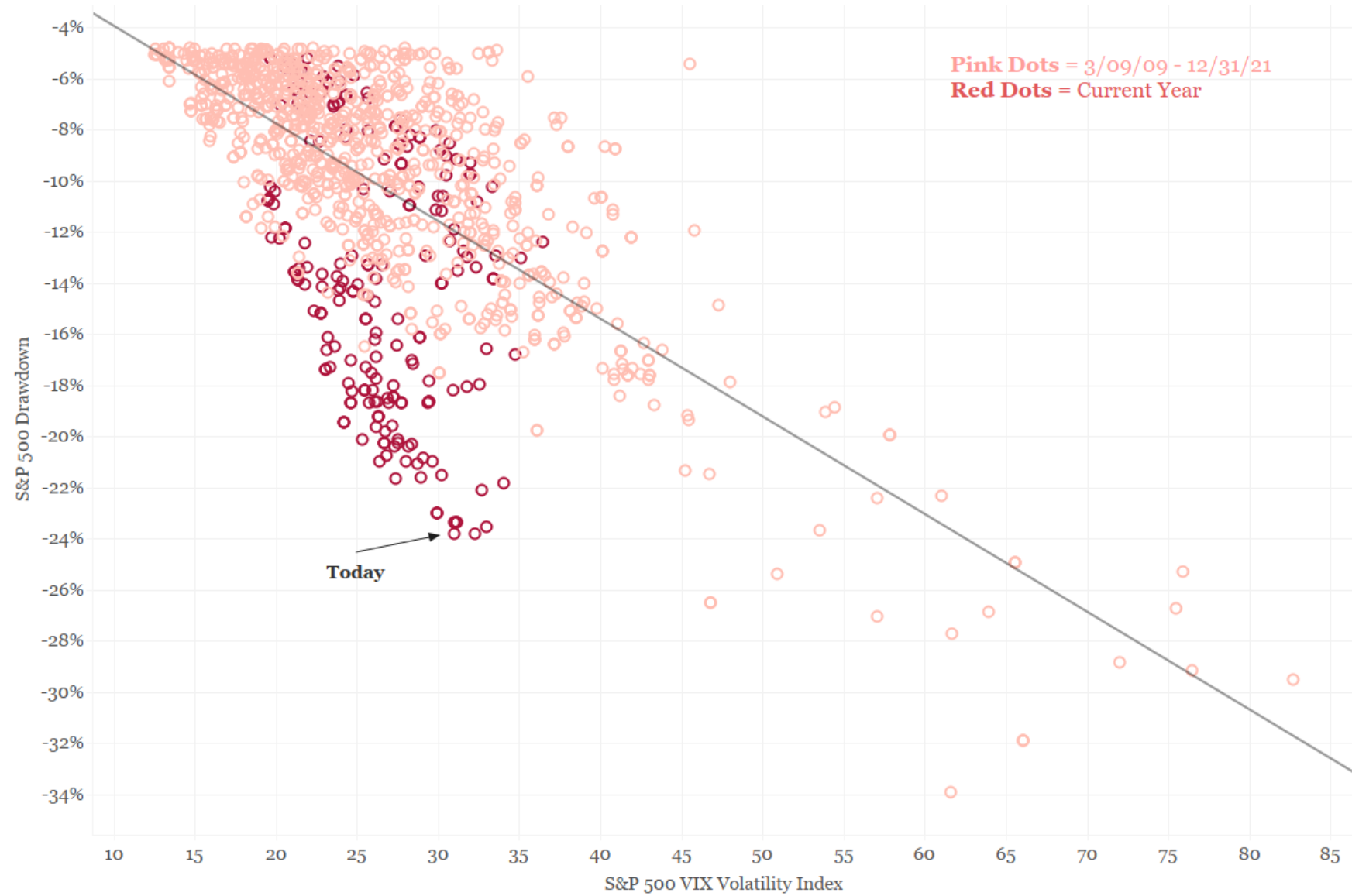
Source: Bloomberg

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## The Fear Index is Not Very Fearful in 2022

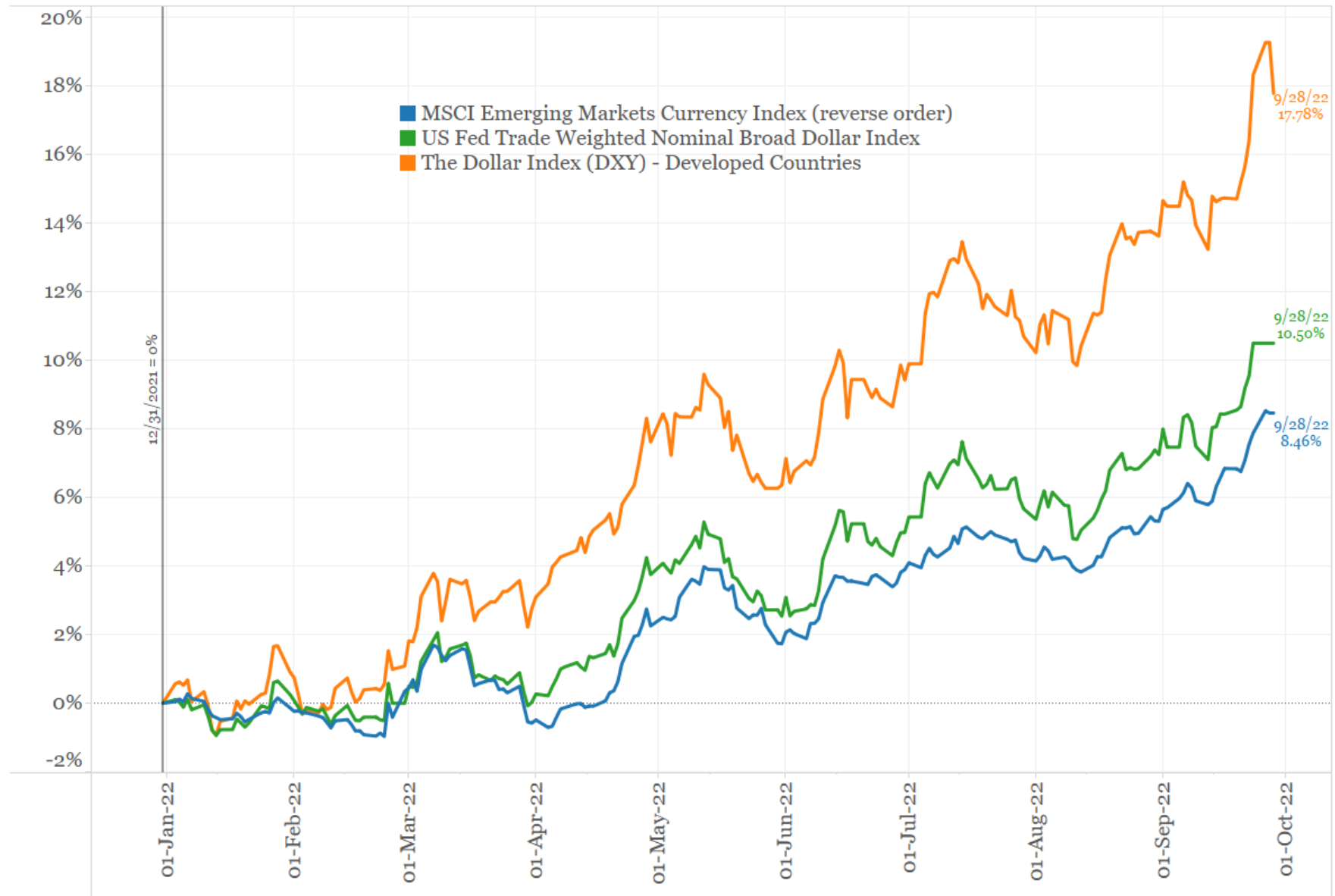
Measuring the Relationship Between VIX level and S&P 500 Drawdown



Source: Bloomberg

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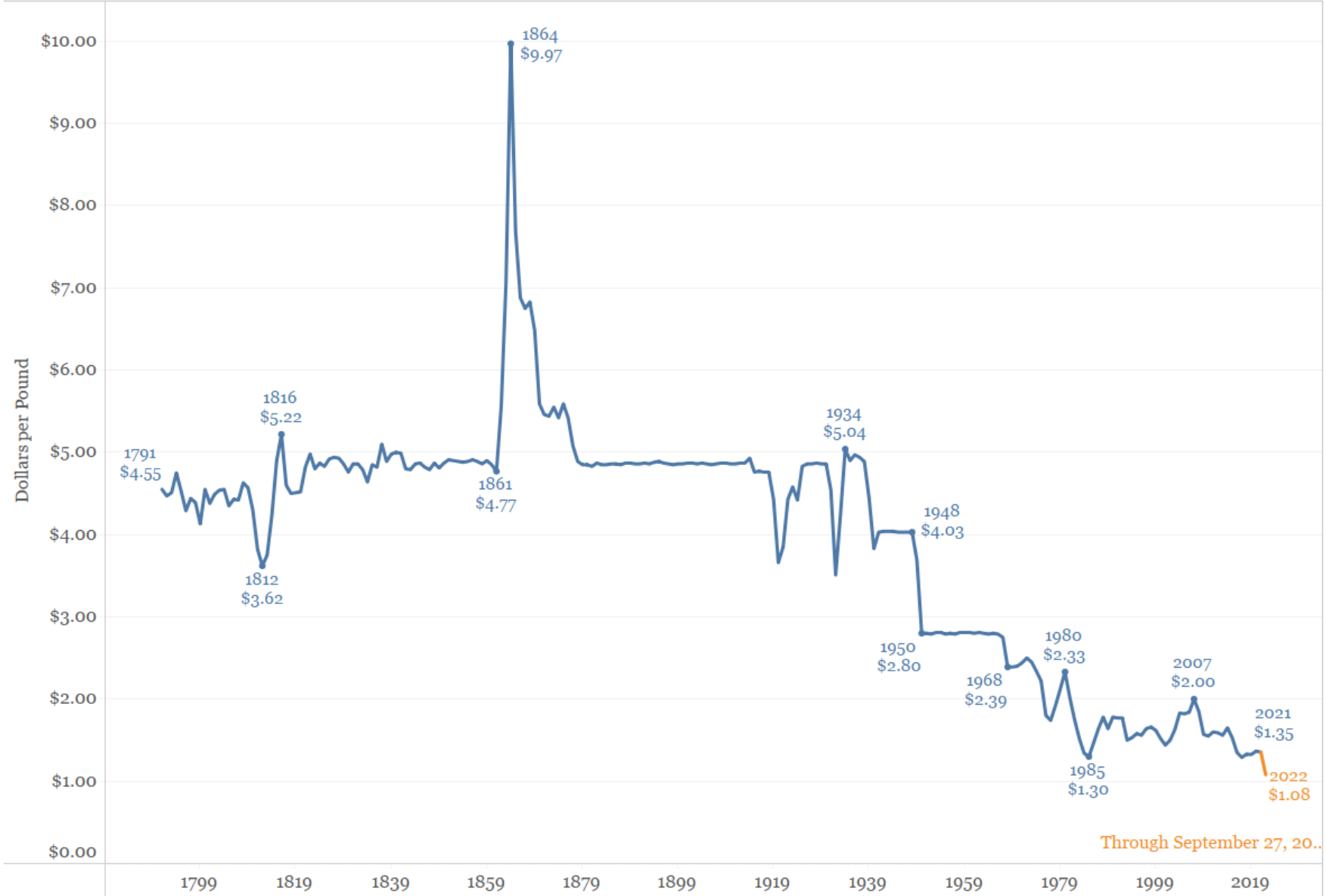
## Measuring The Dollar



Data Source: Bloomberg

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U.S. Dollars per British Pound

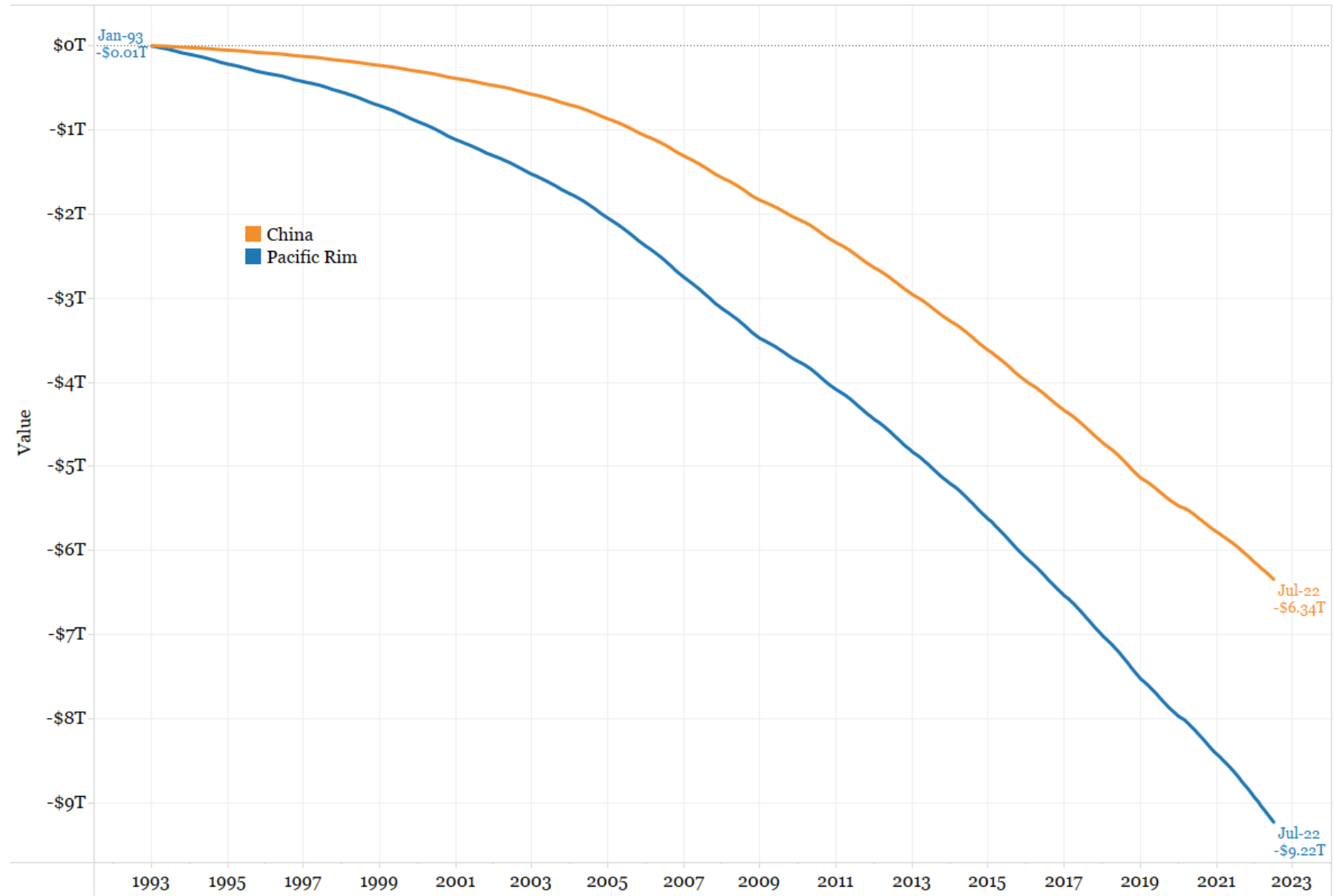


Source: MeasuringWorth.com, Bloomberg

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Through September 27, 20..

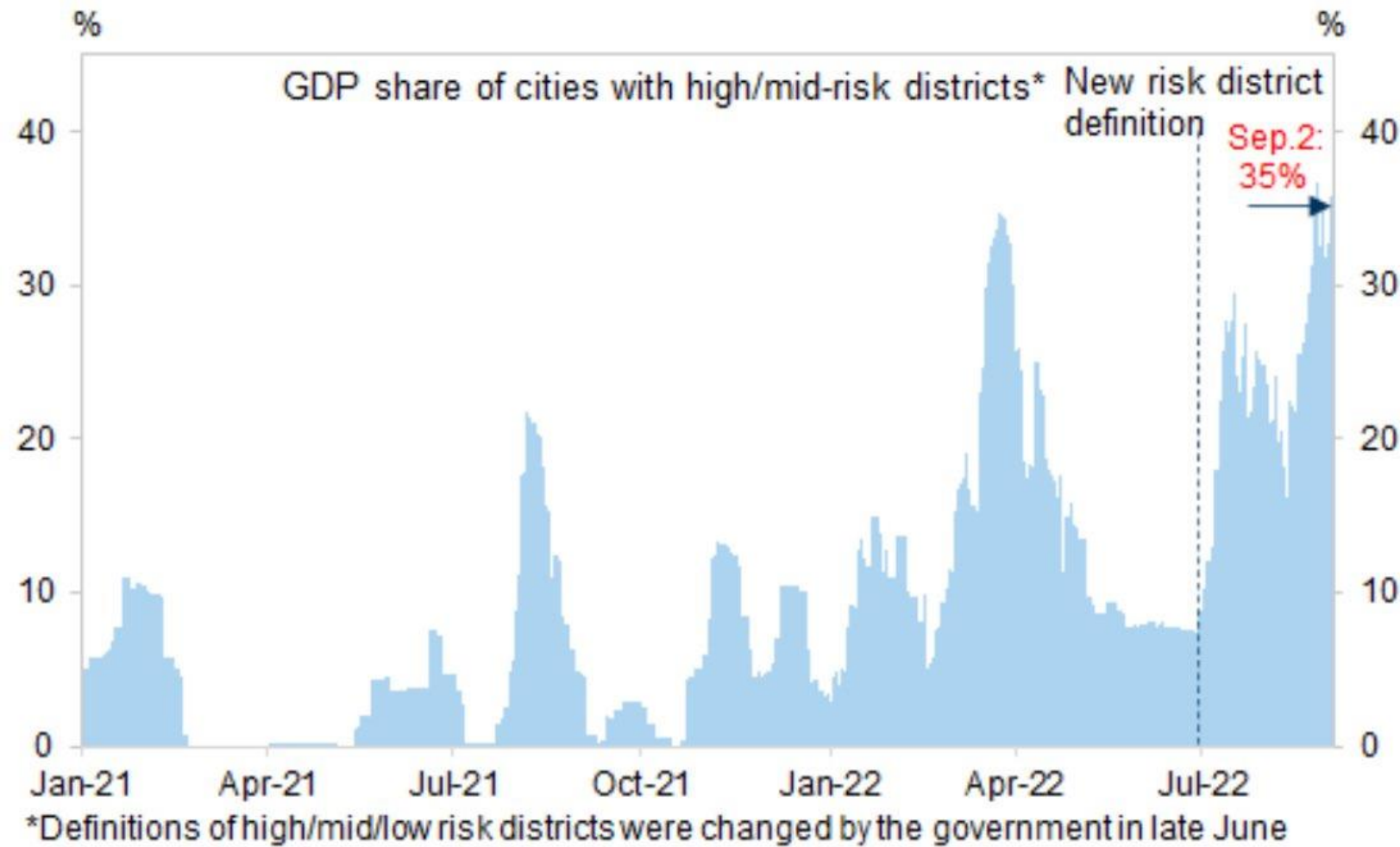
## Cumulative Trade Deficit



Data Source: Bloomberg, U.S. Census Bureau

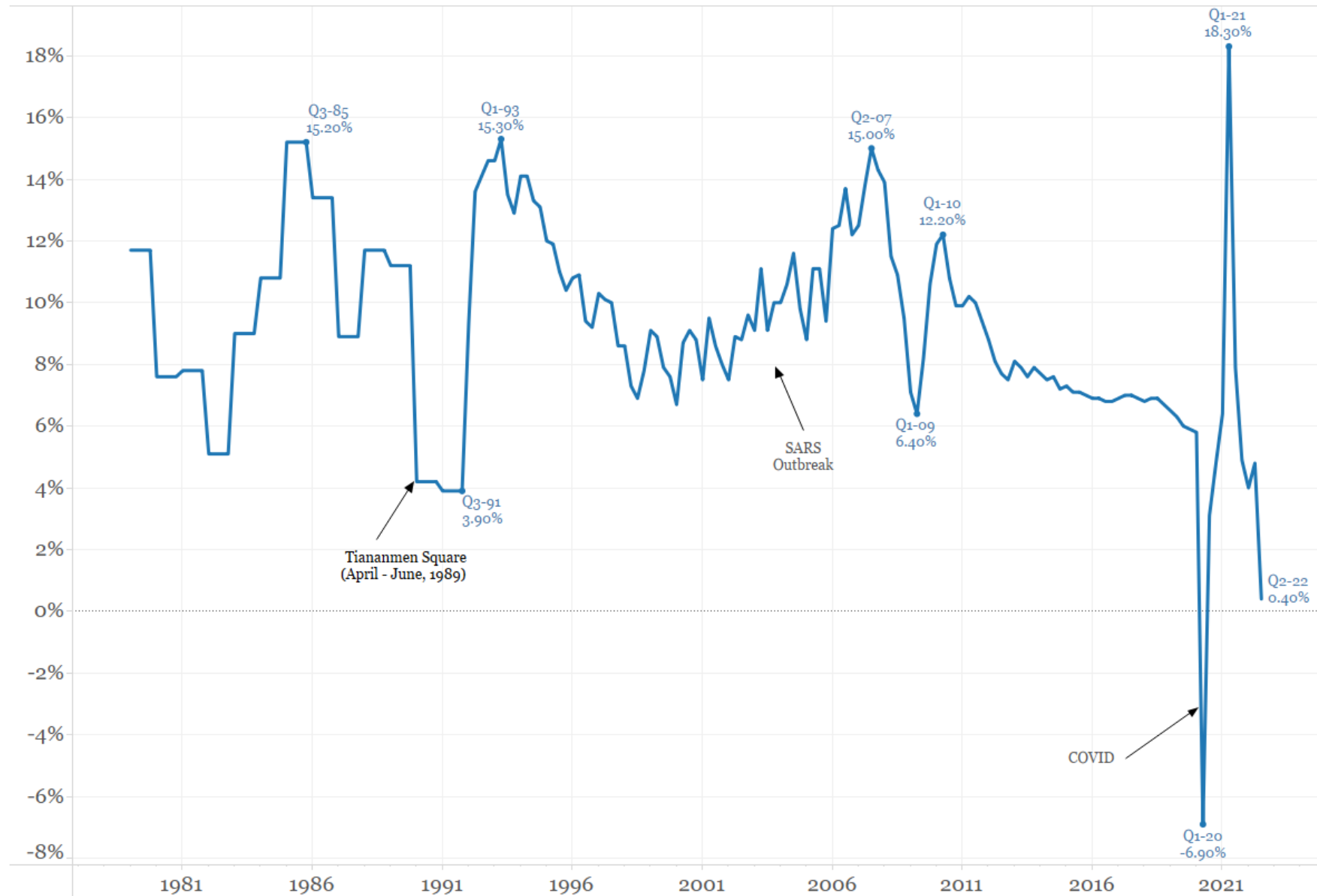
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## Exhibit 4: Cities with high/mid-risk districts increased to around 35% of national GDP



Source: NHC, CEIC, Goldman Sachs Global Investment Research

# China GDP

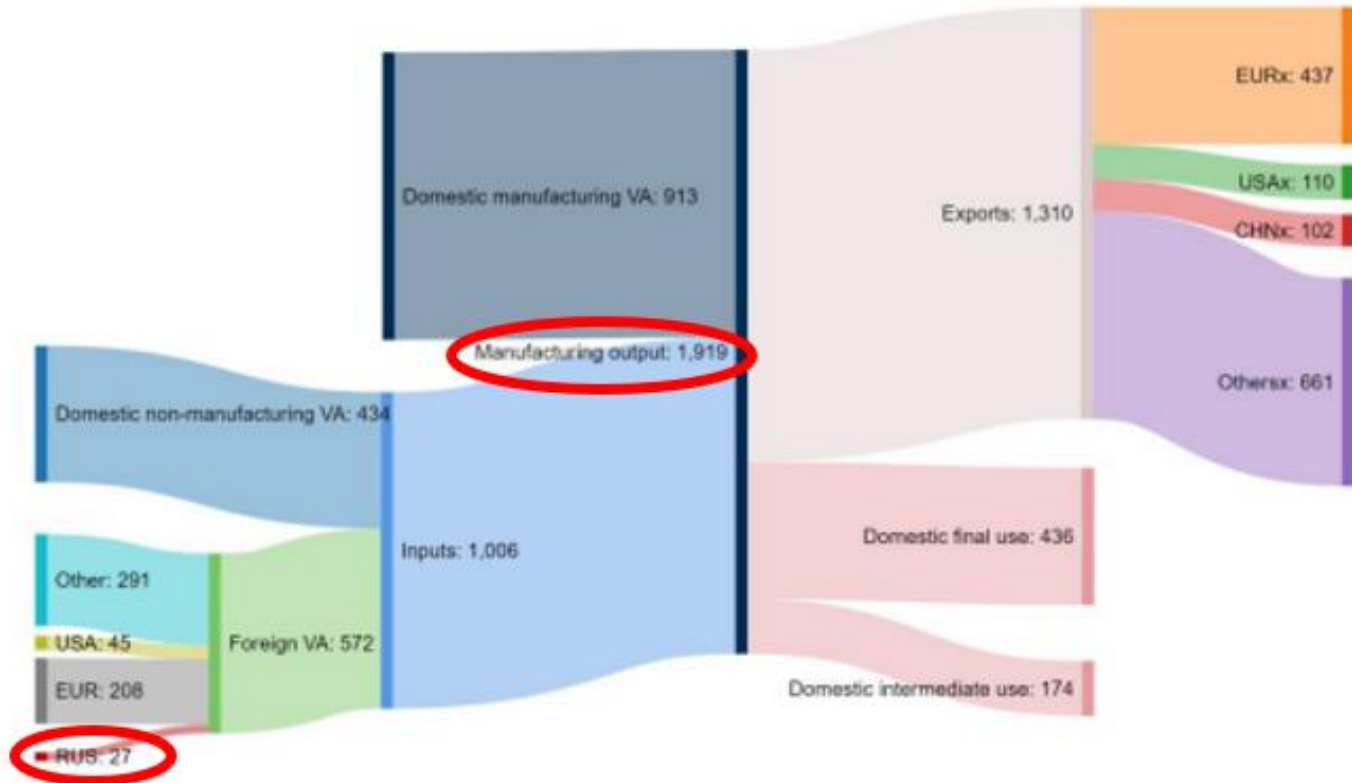


Data Source: Bloomberg, China National Bureau of Statistics

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## Germany's Commodities "Leverage" (2)

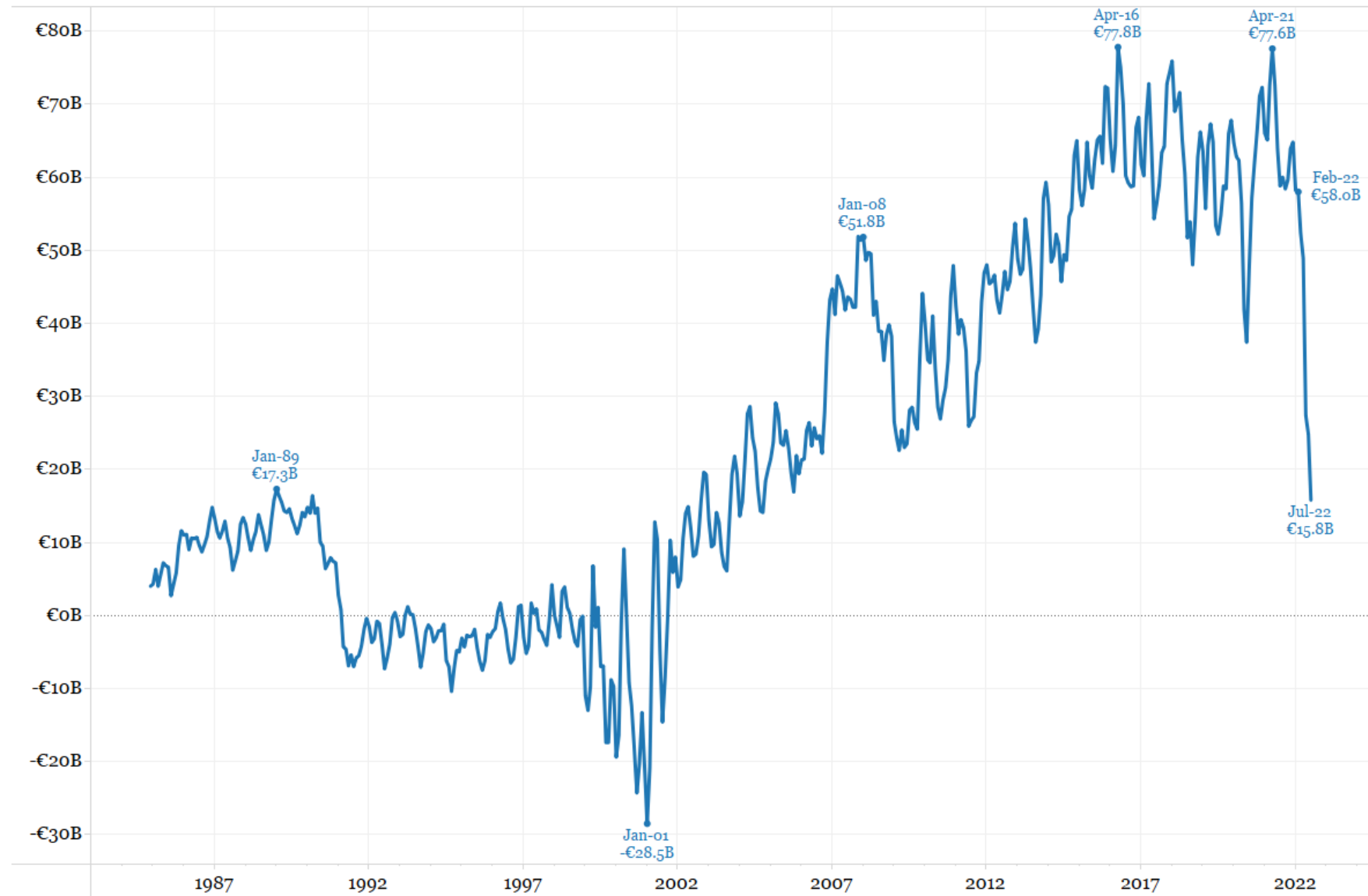
billions of U.S. dollars; sources of value added are shown on the left; sales shown on the right



Source: World Input-Output database, Credit Suisse

# German Current Account Balance

Rolling 3-Month Sum

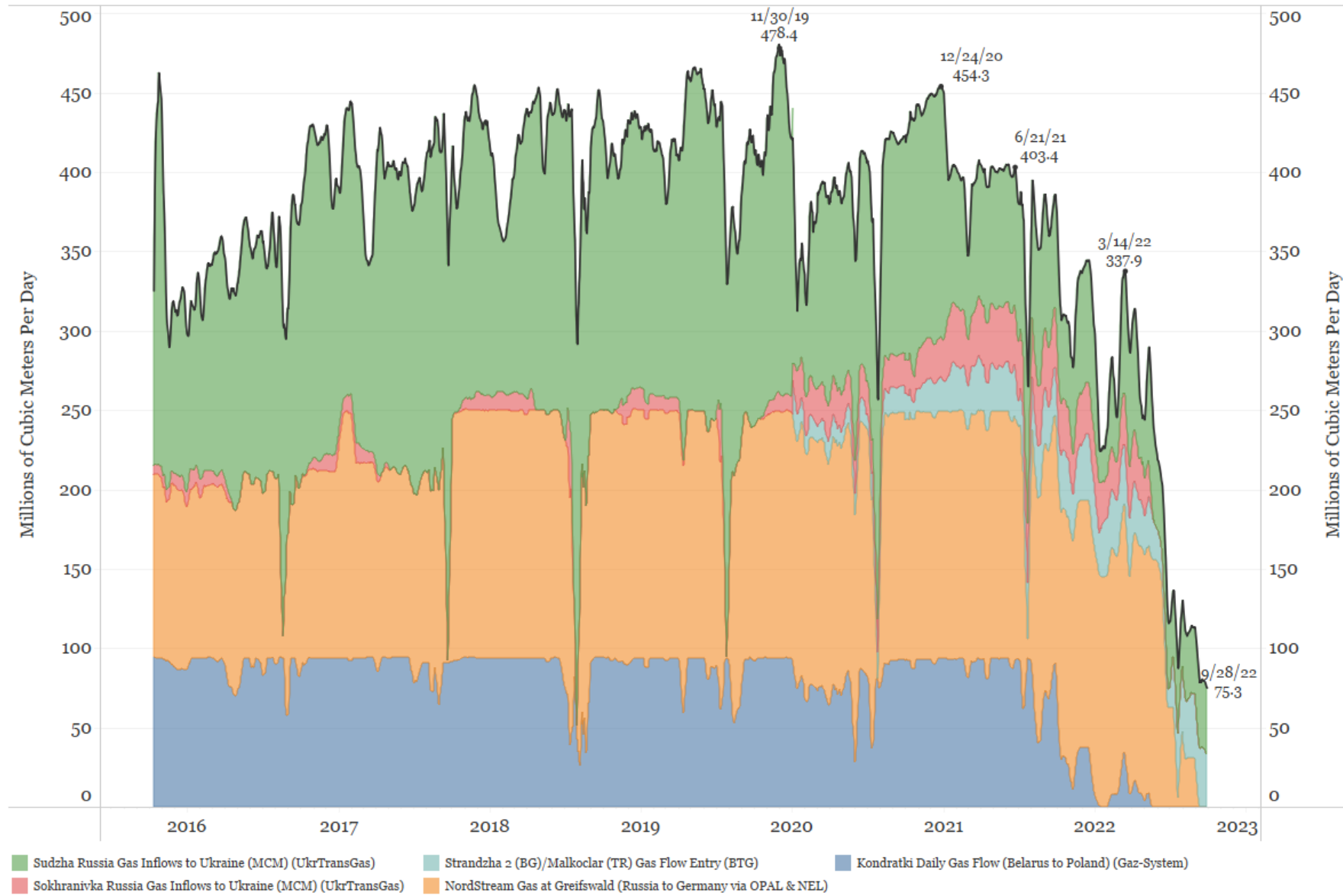


Data Source: Bloomberg, Deutsche Bundesbank

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# Russia Gas Flows To Europe 10-Day Moving Average

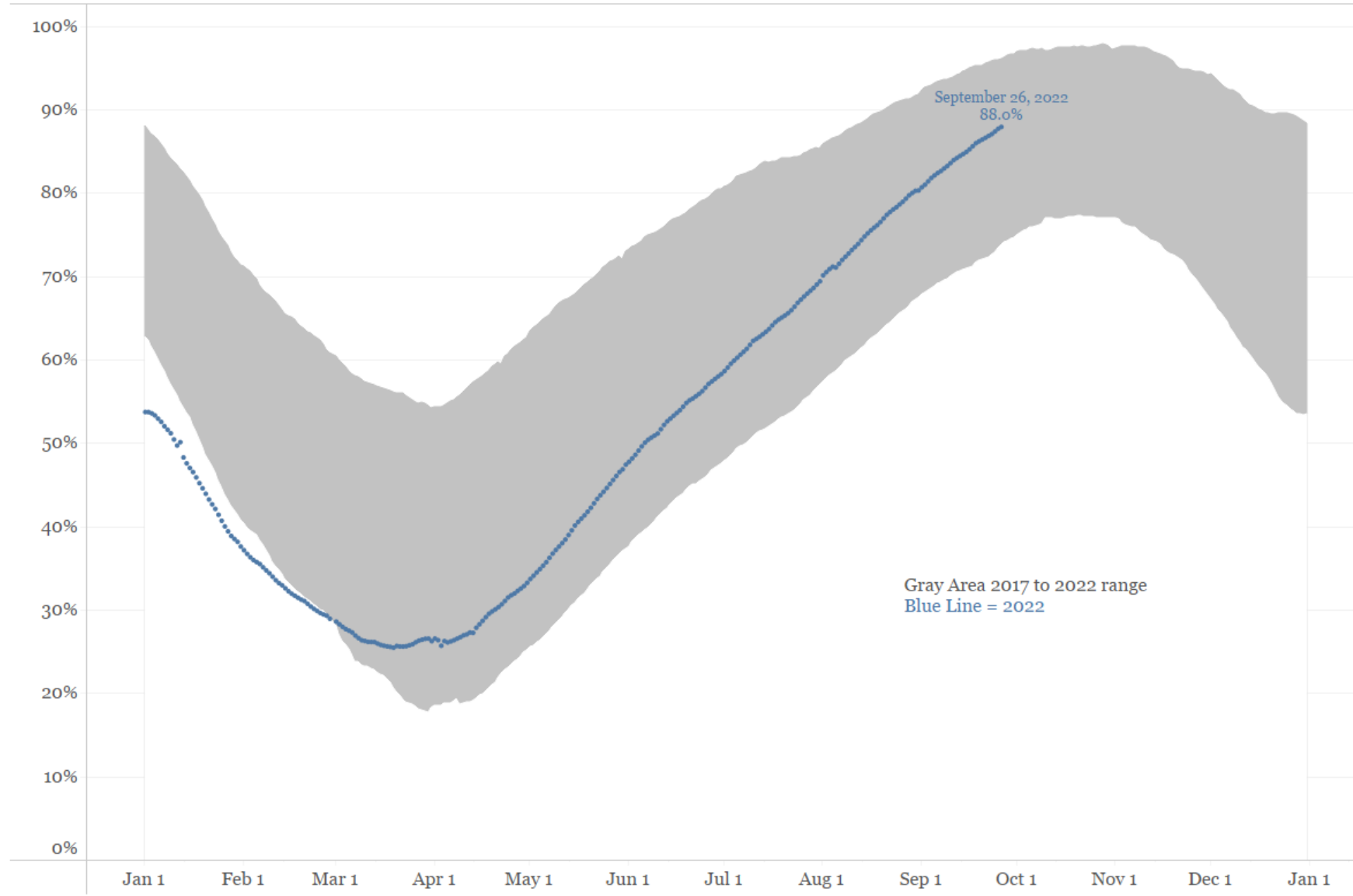


Source: Gascade

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## The Percent of European Natural Gas Storage Filled

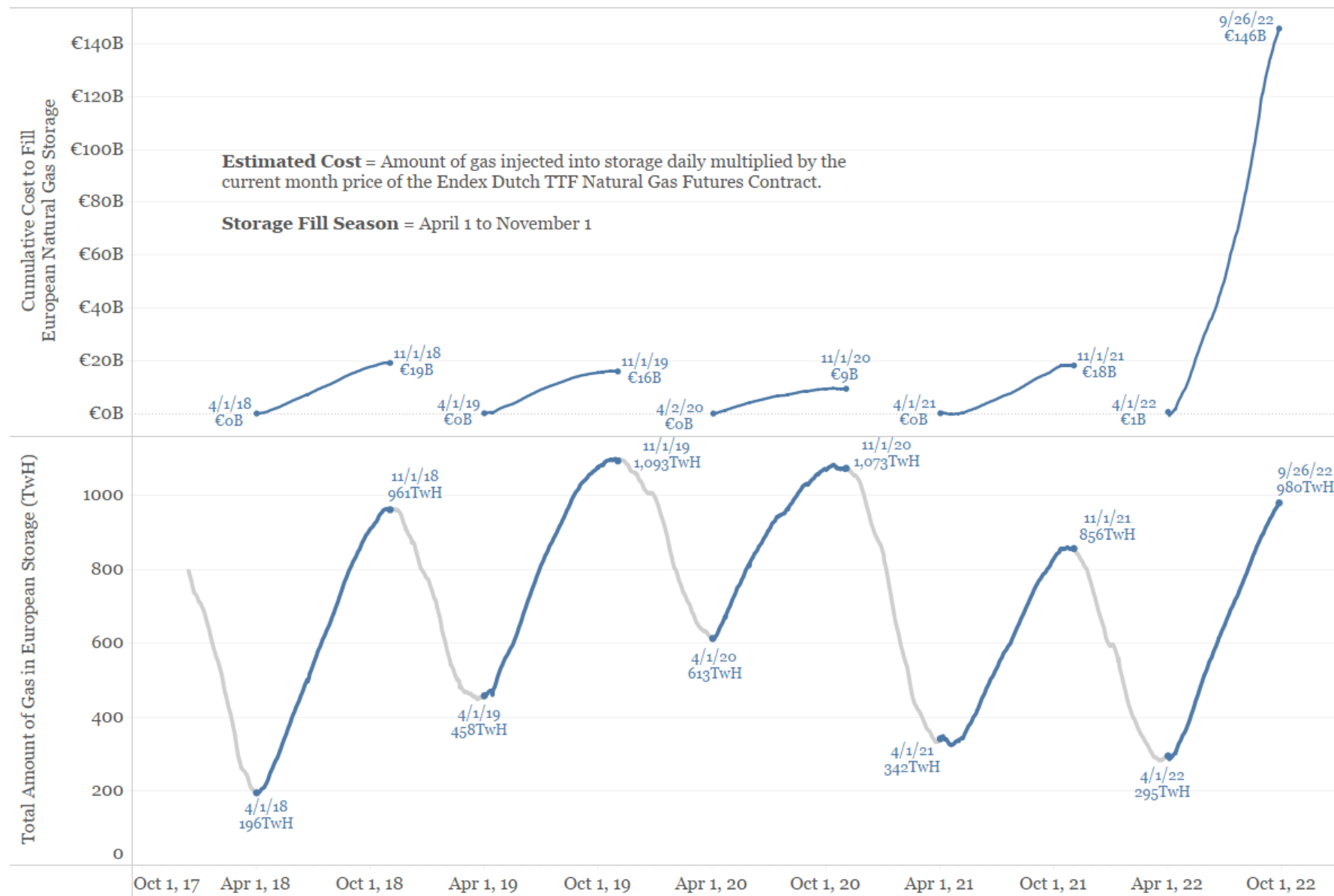
### Seasonal Pattern



Source: AGSI+ Transparency Platform, Bloomberg  
<https://agsi.gie.eu/#/>

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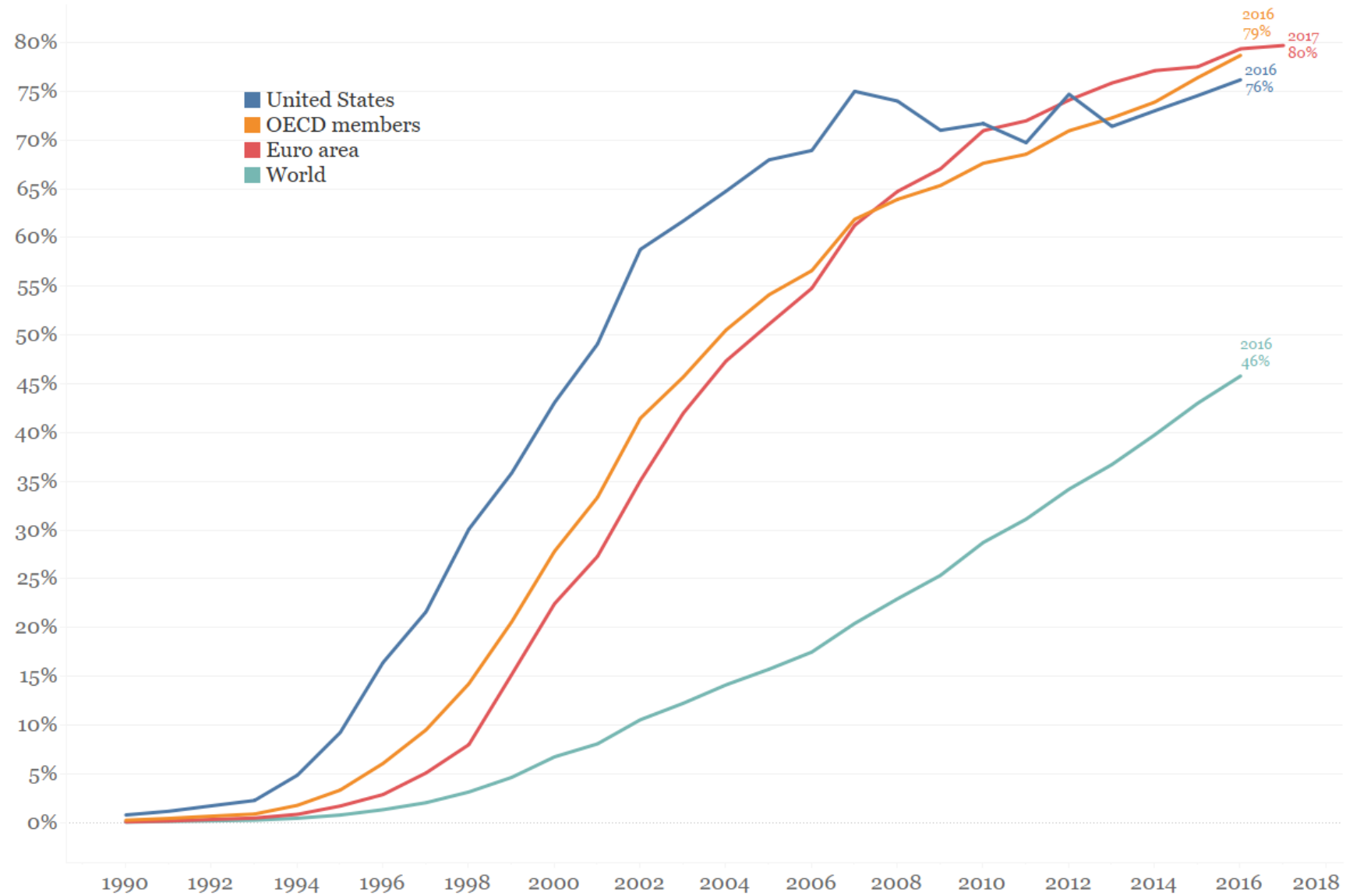
# More Than A 9x Increase To Fill European Natural Gas Storage ... And Counting



Source: AGSI+ Transparency Platform, Intercontinental Exchange, Bloomberg  
<https://agsi.gie.eu/#/> <https://www.theice.com/products/27996665/Dutch-TTF-Gas-Futures/>

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## Percent of the Population Using the Internet



Data Source: The World Bank- World Development Indicators  
[data.worldbank.org](https://data.worldbank.org/)

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