SMBC Capital Markets, Inc.

fxPoetry

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Tasty Like Bacon

In England, a vote will be taken
On whether the PM's forsaken
The outcome's unsure
But stocks have allure
And Sterling is tasty like bacon

In China, the news of the day
Is lockdowns are fading away
So, though PMI
From Caixin was shy
Of forecasts, the bulls came to play

The week is starting off on a positive note despite what could easily have been seen as some ominous news. The first thing to note is that uncertainty has arisen in the UK as the Tories in Parliament have called for a vote of no-confidence in PM Johnson. Always a controversial figure, the most recent issue that has come to a head is the outcome of the Partygate scandal. This refers to the information that in the initial throes of the Covid lockdown in 2020, there were a series of big parties at Number 10 Downing Street, the PM's residence, where nobody wore masks despite laws prohibiting large gatherings and imposing mask wearing rules. Aside from the obvious hypocrisy, as the details emerged it presented Johnson's enemies with yet another cudgel to use against him. There was a formal investigation and though the results were less than flattering, they didn't appear to rise to the level of high crimes and misdemeanors. In the UK, though, all that is needed is 15% of the ruling party to submit a letter of no confidence to a special party committee. The vote is due later today, somewhere between 1:00pm and 3:00pm in NY. However, financial markets are nonplussed by the news as the FTSE 100 has rallied 1.2% while the pound has gained 0.5%. At this point it is unclear how this will resolve itself, but clearly, investors are not overly concerned. All eyes remain on the BOE next Thursday.

Perhaps, though, the news from China is what has the investor community so happy. While the only data seen was the Caixin PMI Services, and it was awful (41.4, exp 46.0), the news that Beijing is lifting more Covid restrictions, allowing dining in restaurants and restarting public transportation, was more than enough to overwhelm the data and encourage investors and traders. Equity markets in Asia generally rallied (Nikkei +0.55%, Hang Seng +2.7%, Shanghai +1.3%) and a full risk-on attitude permeated markets. Another positive was the news that the Chinese tech sector may have seen the end of the political attacks as it appears the probe of Didi Global, China's version of Uber, is set to conclude without destroying the company. (I guess President Xi has figured out that attacking the most successful companies in his nation has not been an economic positive.) The renminbi (+0.3%) rallied as well to complete the positive news.

Now, there are still things of note that are not all that great like the ongoing rise in oil prices. This morning they are higher by 0.5% after news that Saudi Arabia raised its prices to Asian customers by a more than expected $2.10/bbl, taking the premium to $6.50/bbl over the Arab Light index. Obviously, this is not a positive for the inflation story although you would be hard pressed to see that from the recent commentary. While the Fed is, mercifully, in their quiet period, the conversation remains at a fevered pitch as to whether or not inflation has peaked. Come Friday, we will get the May CPI data (currently expected 8.2%, 5.9% core) and both sides are getting increasingly vocal as to why they are correct. In fact, I would contend that the inflation debate is taking on the characteristics of the broad-based political debate, highly polarized with neither side listening to the other.

But other than the CPI data, and two key central bank meetings (RBA tonight, ECB on Thursday), it is actually shaping up to be a quiet week. Of course, that is when the most interesting things happen!

So, let's quickly look at the other markets for a sense of the overall picture. European bourses are all higher (DAX +1.0%, CAC +1.1%) alongside the FTSE 100 with Italy (+1.3%) in even better shape. US futures, too, are in nicely in the green with the NASDAQ (+1.5%) leading the way but both of the others are up around 1.0%.

In the bond markets, Treasury yields (+2.0bps) are pushing ever closer to 3.00% again and that remains the key focus for most investors. If we break through that level convincingly, many believe a run to as high as 4.0% is possible. European sovereigns, however, are showing a different look with Bunds (-0.4bps) and OATs (-1.5bps) rallying despite the risk preference. The only market that is under pressure is the UK (+2.0bps) with that possibly a reaction to the politics.

Besides oil, NatGas (+4.7%) continues to demonstrate its remarkable volatility and is back to pushing $9.00/mmBtu. Gold (+0.2%) continues to hold most of its gains from last week although copper (-1.1%) is surprisingly lower given the more positive risk vibe and China reopening news.

The dollar is under some pressure pretty much across the board as risk is in vogue. Aside from the pound, NOK (+0.4%) is rallying on oil's strength and we see gains in CAD (+0.3%) and SEK (+0.25%) as the commodity complex is performing well today. The same is true in emerging markets with ZAR (+1.5%) the leading gainer although HUF (+1.0%) is next in line as the market responds to news of fiscal prudence with an increase in taxes and spending cuts announced over the weekend. Otherwise, though, movement here has been much more muted.

On the data front, here's what to look for:

Tuesday	Trade Balance	-$89.5B
	Consumer Credit	$35.0B
Thursday	Initial Claims	206K
	Continuing Claims	1305K
Friday	CPI	0.7% (8.2% Y/Y)
	-ex food & energy	0.5% (5.9% Y/Y)
	Michigan Sentiment	58.5

Source: Bloomberg

So, it feels like we will be biding our time until CPI, but don't sleep on that Consumer Credit number tomorrow. While it is typically not a market mover in its own right, it is an excellent harbinger of what is happening in the economy. Recall, that the highest two readings in the series' history have come the past two months as consumers seem to be using their credit cards to pay for their daily necessities as their savings have dramatically diminished. Increasingly it appears that a severe economic slowdown is coming and that the Fed is hiking rates into this slowdown. If that is, in fact, the case, look for risk assets to fall dramatically and the dollar to resume its uptrend. Another factor supporting the buck would be a break above the 3.0% level in the 10-year Treasury bond, so overall, my take is the dollar may consolidate for a little while yet, but still has room to rise.

Good luck and stay safe
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