



Blue Line Futures

Macro Corner

Climbing The Macro Mountain

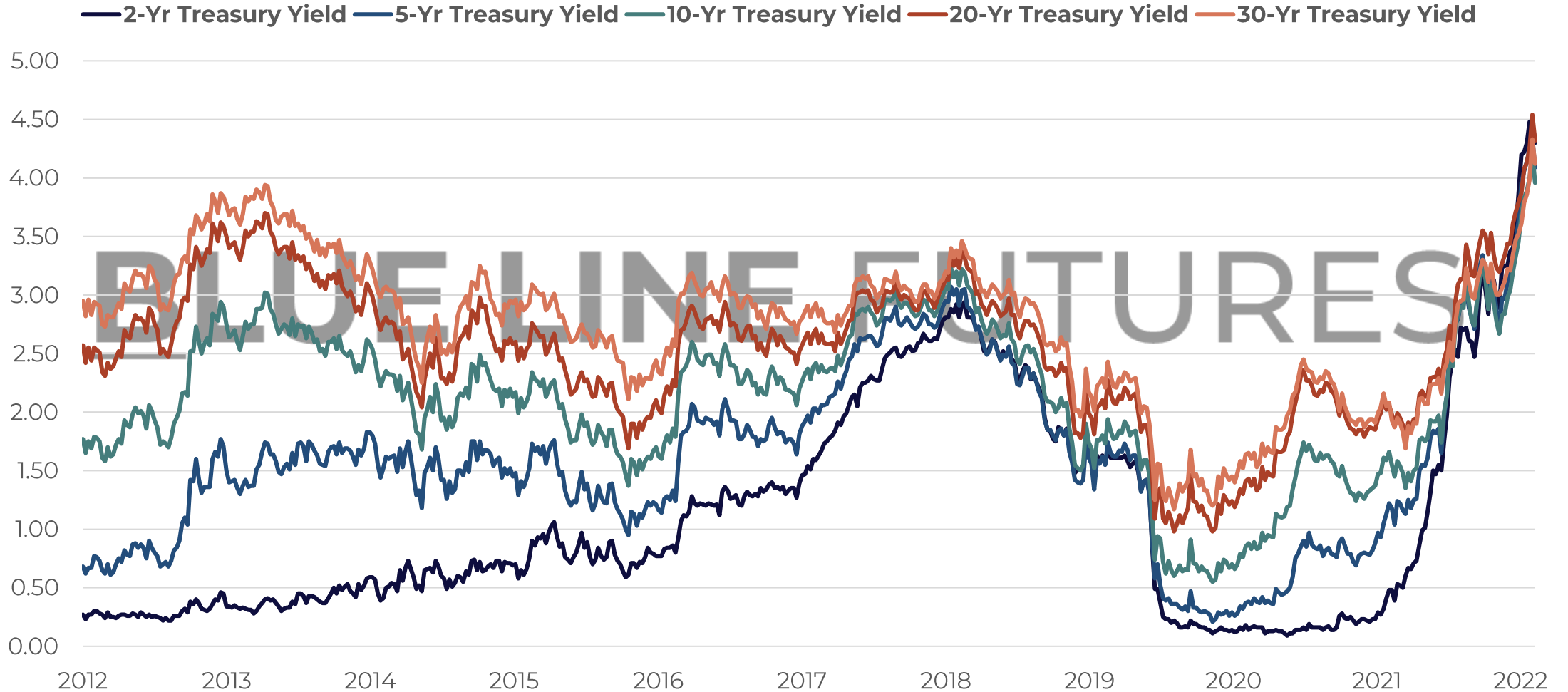
Episode 22

Paul Wankmueller, CMT & Jannis Meindl

Top Things to Watch 10/30/2022
Macro Corner Episode 22

U.S. Treasury Yields

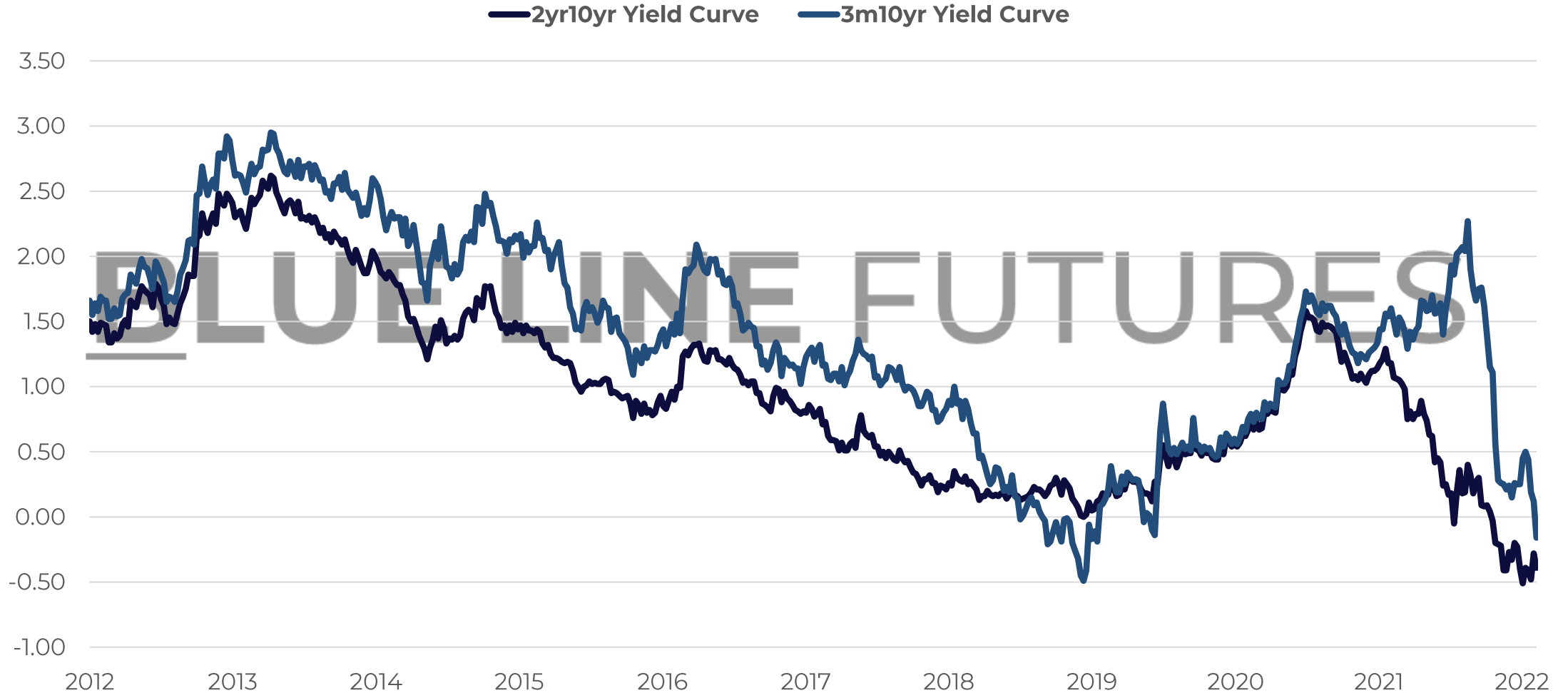
Treasury yields have remained extremely sticky with the 10yr above 4%. The question now becomes: Has the Fed crushed demand enough for us to see a rollover in yields or are structural forces resulting in a structural reset higher?



Sources: FRED, Blue Line Futures

Yield Curves Flashing Red

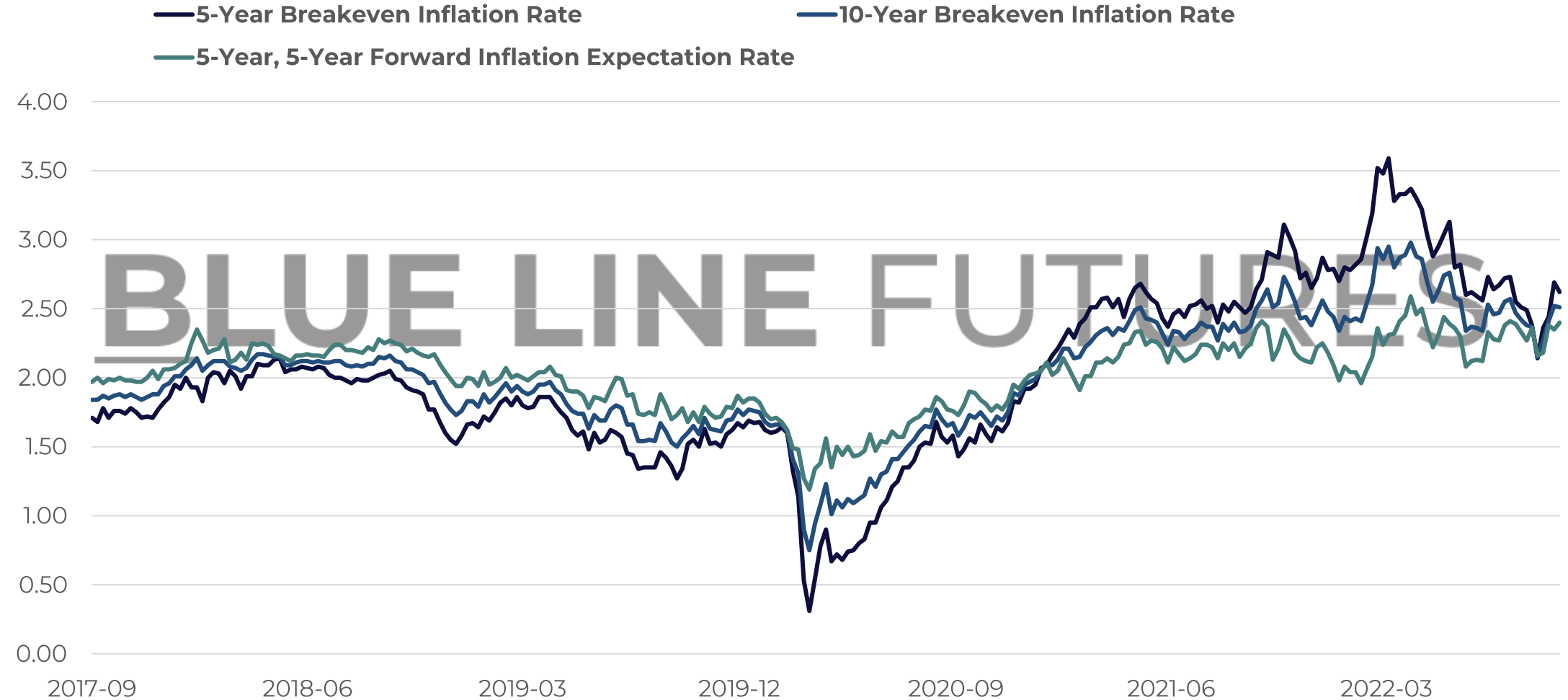
Both the 2s10s as well as the 3m10yr are now flashing red and screaming at the Fed to slow down the pace of hikes. If they keep ignoring market signals, unintended consequences may result (namely financial stability.)



Sources: FRED, Blue Line Futures

Breakeven Rates Higher Again

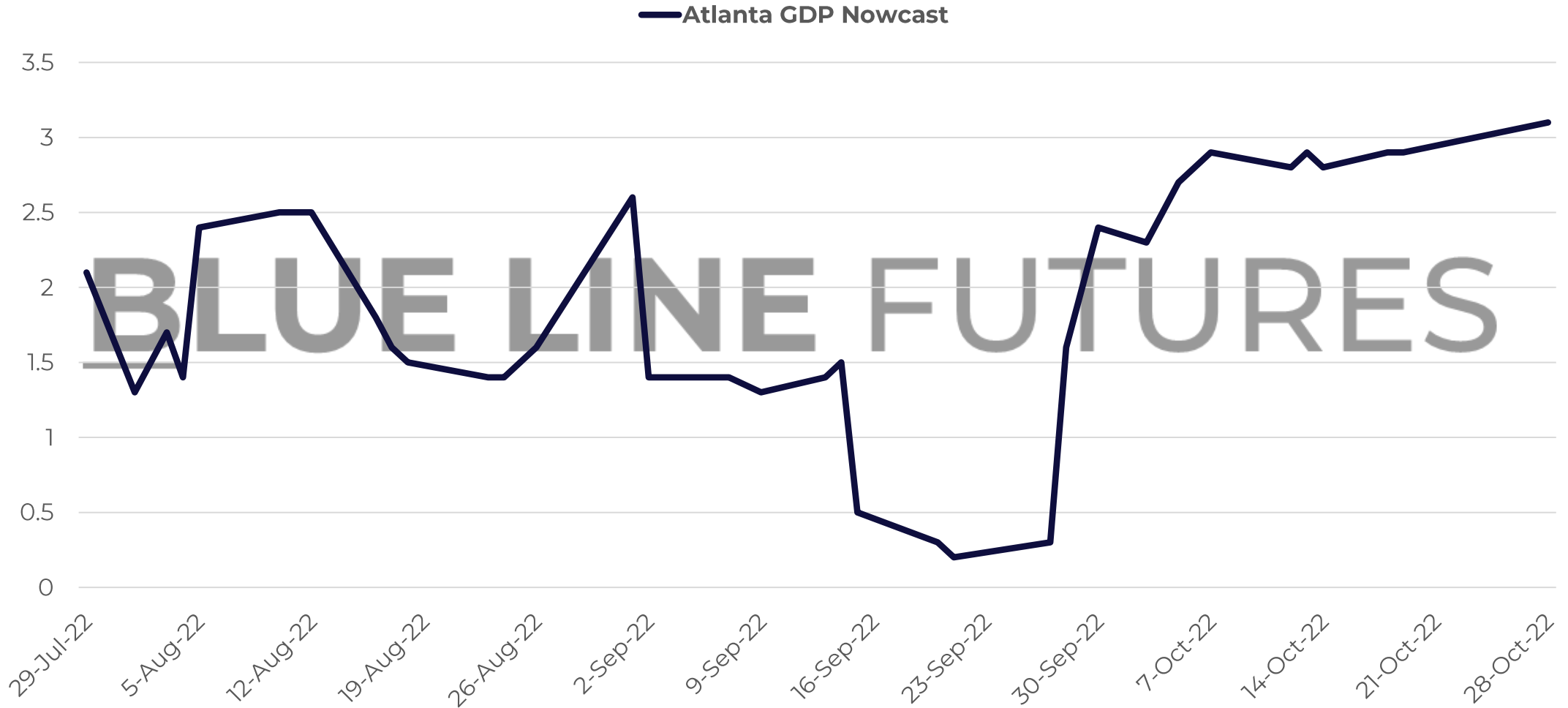
After a significant decrease from the highs, breakeven rates are signaling higher for longer on inflation for the time being. Perhaps, we are talking about a structural reset that the Fed needs to fight for longer.



Sources: FRED, Blue Line Futures

Strong Real & Even Higher Nominal Growth

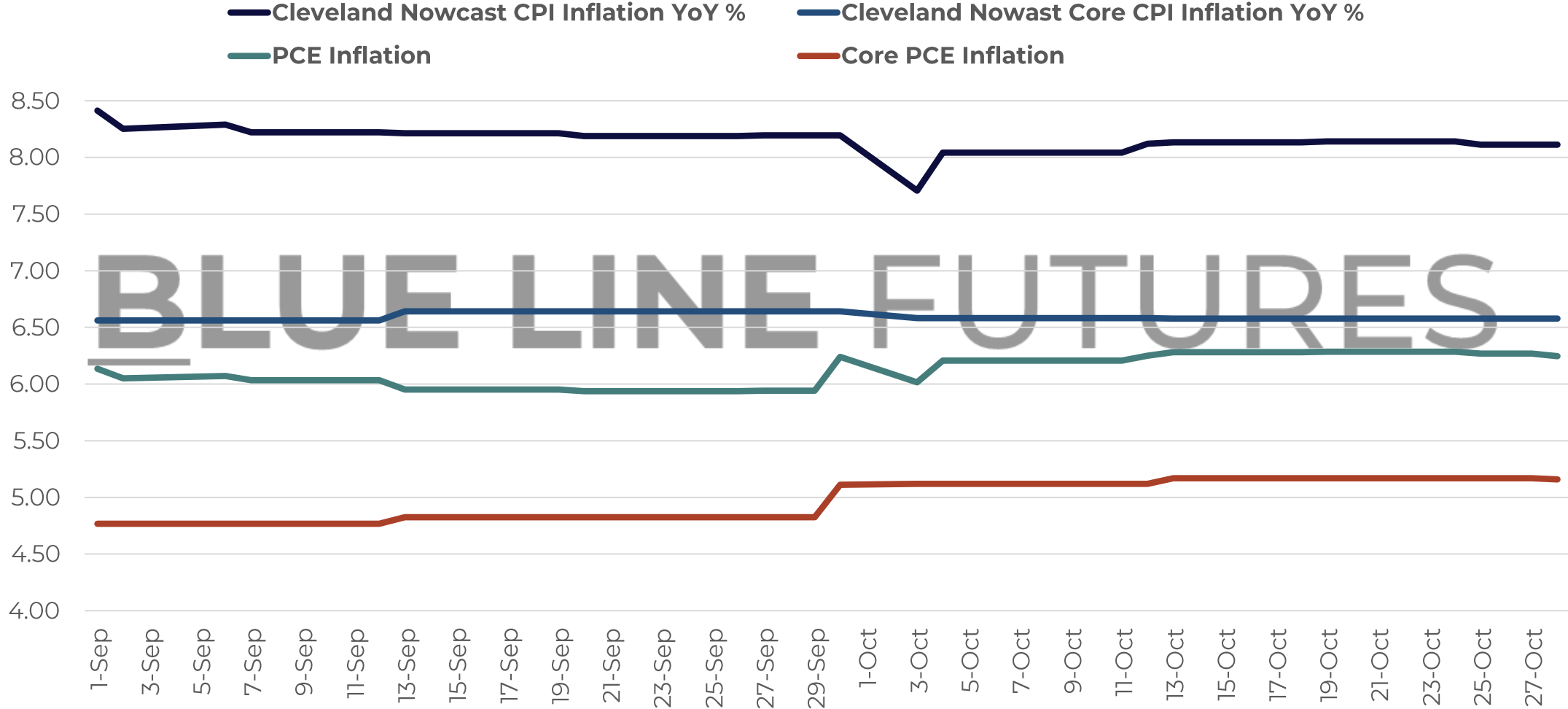
While recession fears are well justified, growth remains stable for the time being. Current growth is driven by services.



Sources: Atlanta Fed, Blue Line Futures

Inflation Resiliently High

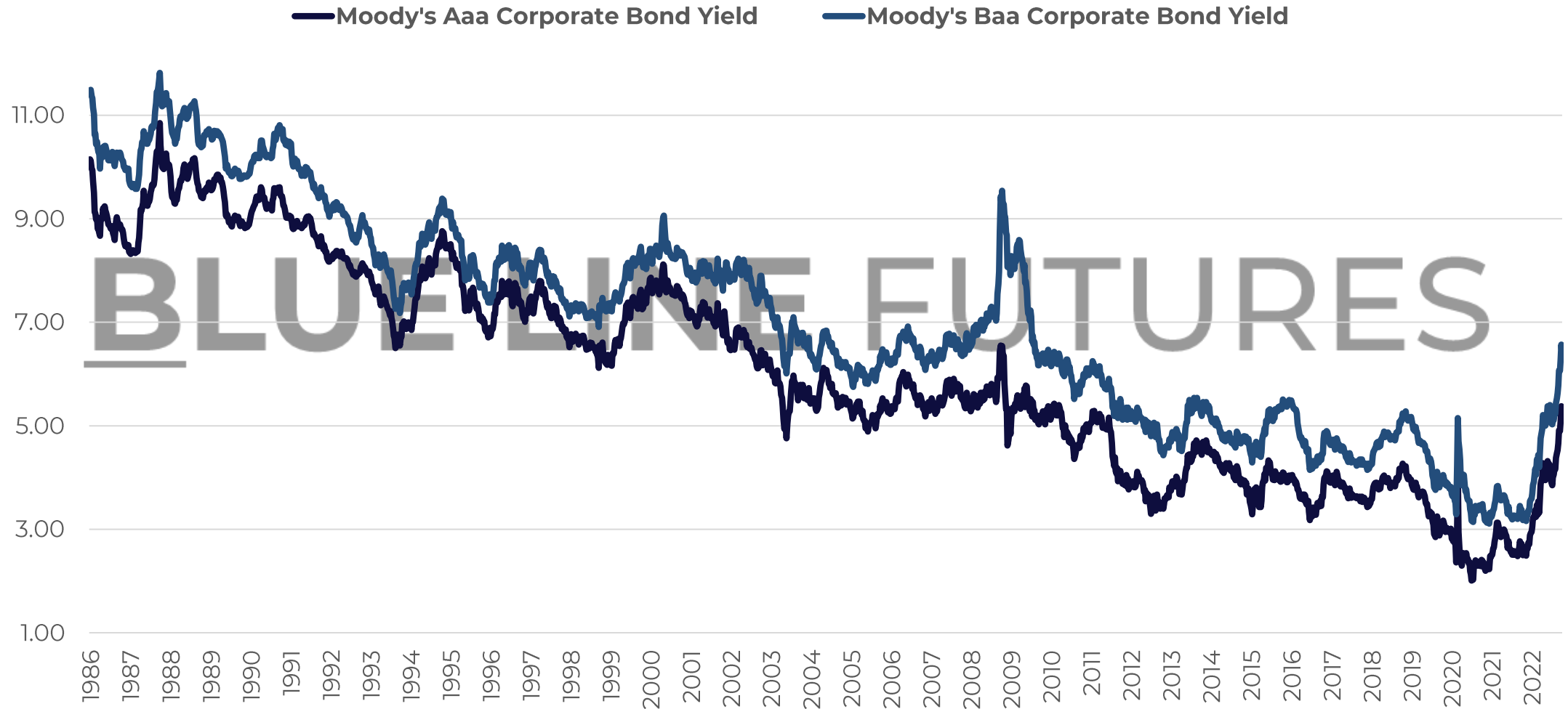
The assumption appears to be that inflation has to converge to the Fed's 2% average inflation target. The Cleveland Inflation Nowcast has remained extremely sticky, however.



Sources: Cleveland Fed, Blue Line Futures

High Yields Put Burden On Firms

While credit spreads have behaved very orderly, the nominal side of things does matter. In an economy with ample zombie companies, we are in territory where some business models simply don't work anymore.

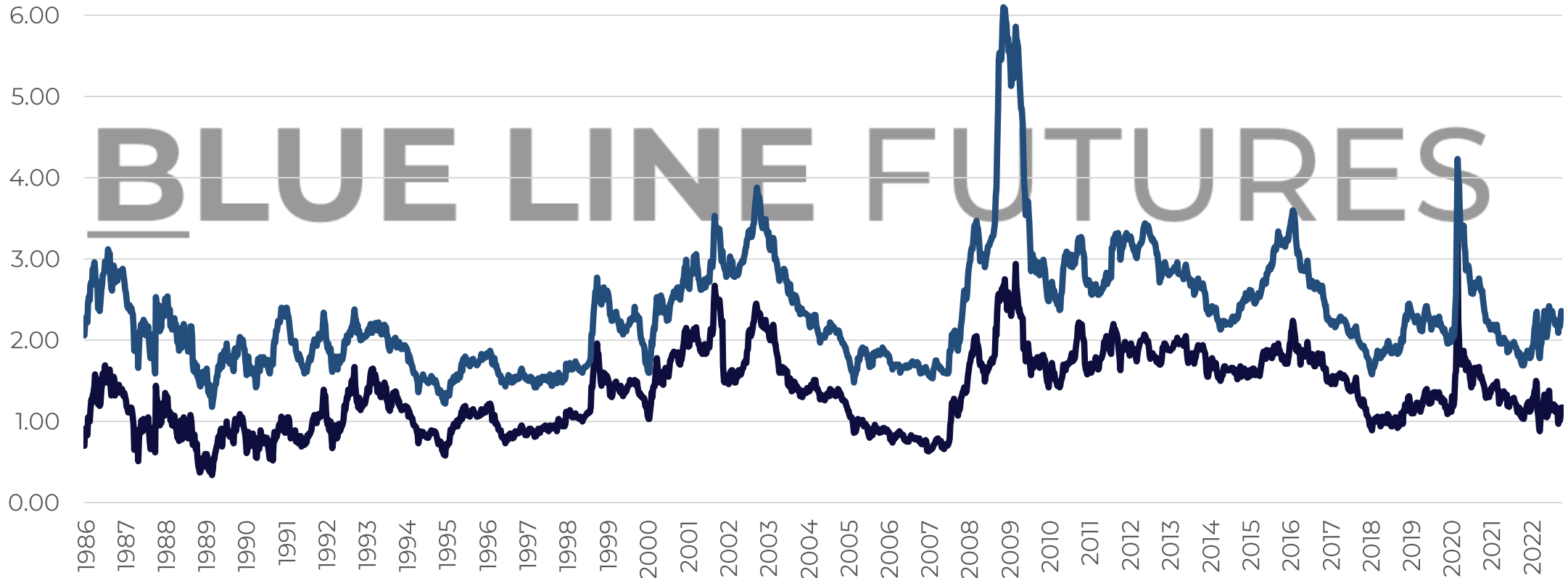


Sources: FRED, Blue Line Futures

Credit Spreads Well Behaved

Credit spreads are slightly higher than in previous weeks but still extremely orderly in the grand scheme of things. The Fed's financial stability mandate is nowhere near getting triggered at the moment.

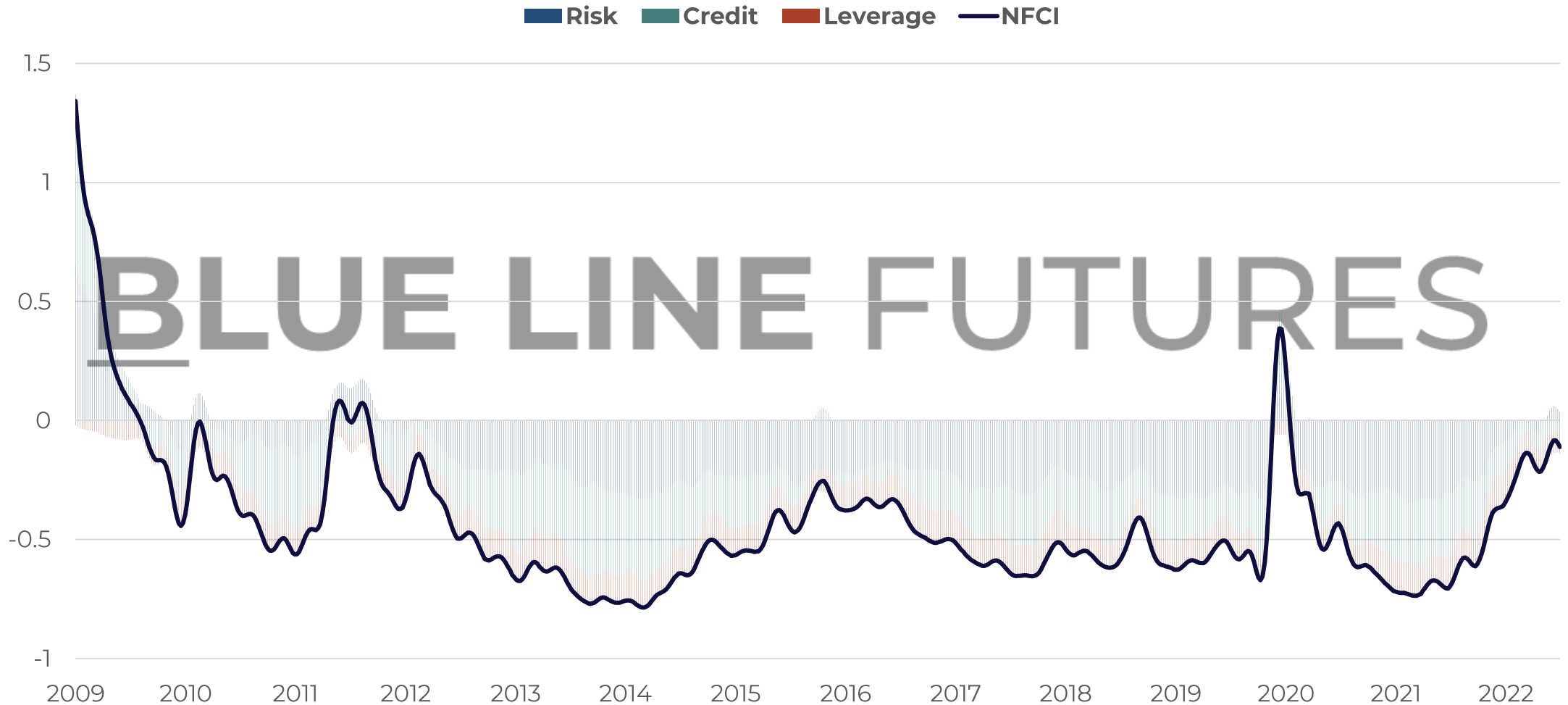
- Moody's Aaa Corporate Bond Yield Relative to Yield on 10-Year Treasury
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Sources: FRED, Blue Line Futures

Financial Conditions

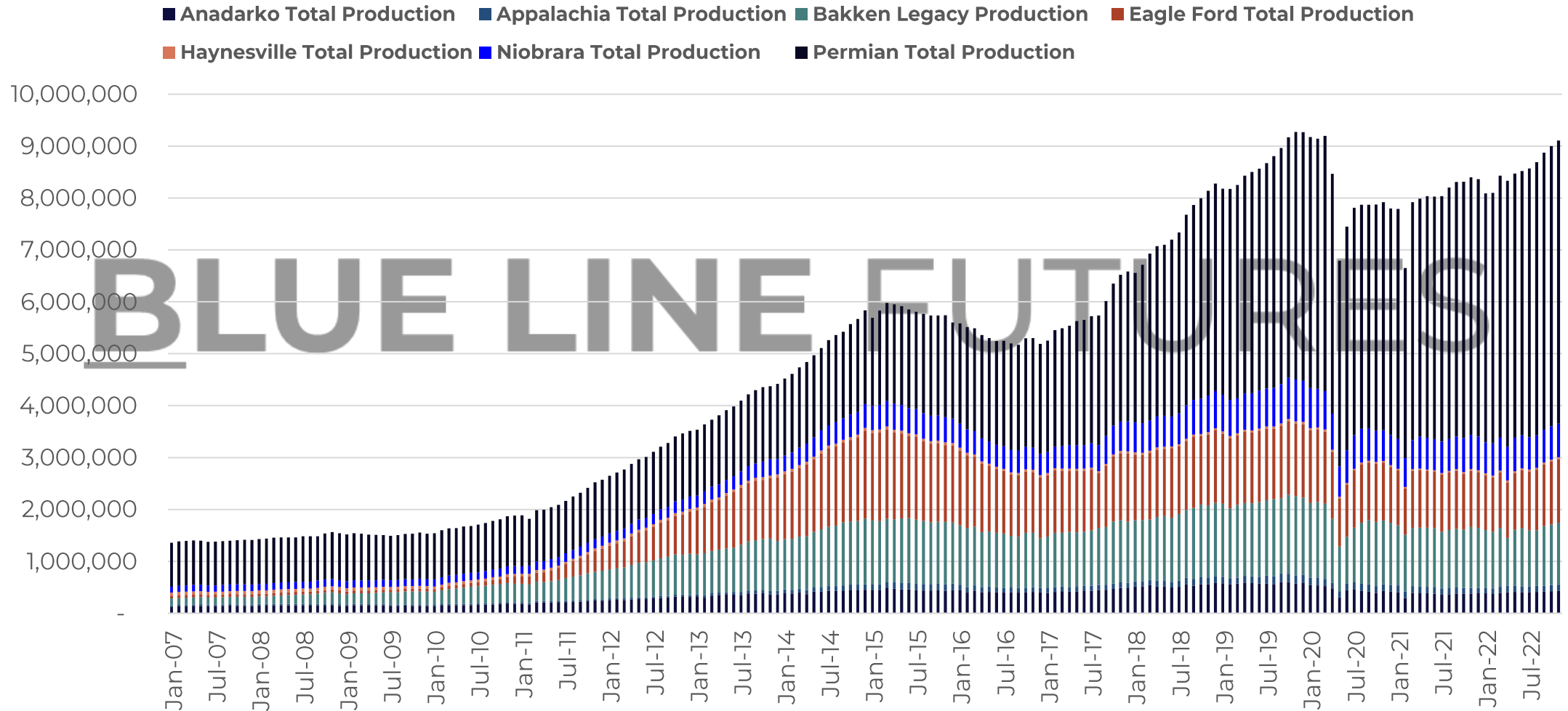
The Fed is currently facing the challenge of trying to maintain restrictive financial conditions while simultaneously slowing the pace of rate hikes.



Sources: Chicago Fed, Blue Line Futures

U.S. Crude Oil Production

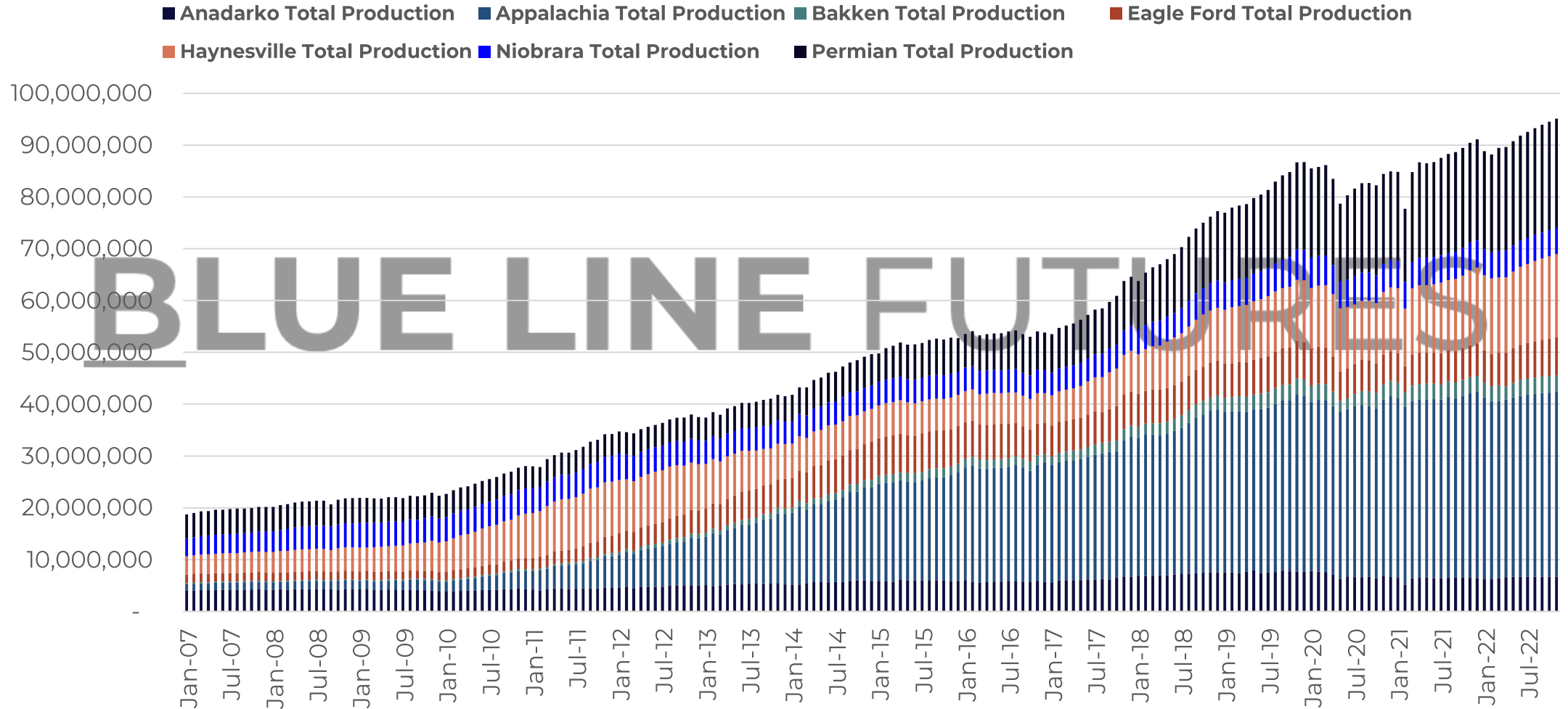
Total U.S. Crude production in July was at 11.8m bbl/day compared to an all time high of U.S. production at 13m bbl/day in November of 2019. We do know that a combination of underinvestment for years, a difficult regulatory environment, and a priority to return cash to shareholders may make future production increases a bit more challenging.



Sources: EIA, Blue Line Futures

U.S. Natural Gas Production

The U.S. keeps increasing natural gas production as the Henry Hub benchmark gets driven by the equilibrium between production and export capacity. The bulk of export capacity will come online in 2025 and beyond (60% increase from current levels.)



Sources: EIA, Blue Line Futures

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