

Weekly Macro Themes – 21 December 2016 - Volume 1, Edition 13

Welcome to the end of year special edition!

While it's only been about 3 months since I started Topdown Charts, this edition takes a different format and looks at some of my favourite charts and themes of the year from the weekly report, including the charts that worked (and those that didn't work), charts to watch in 2017, the "people's choice" charts, and a few fun charts at the end.

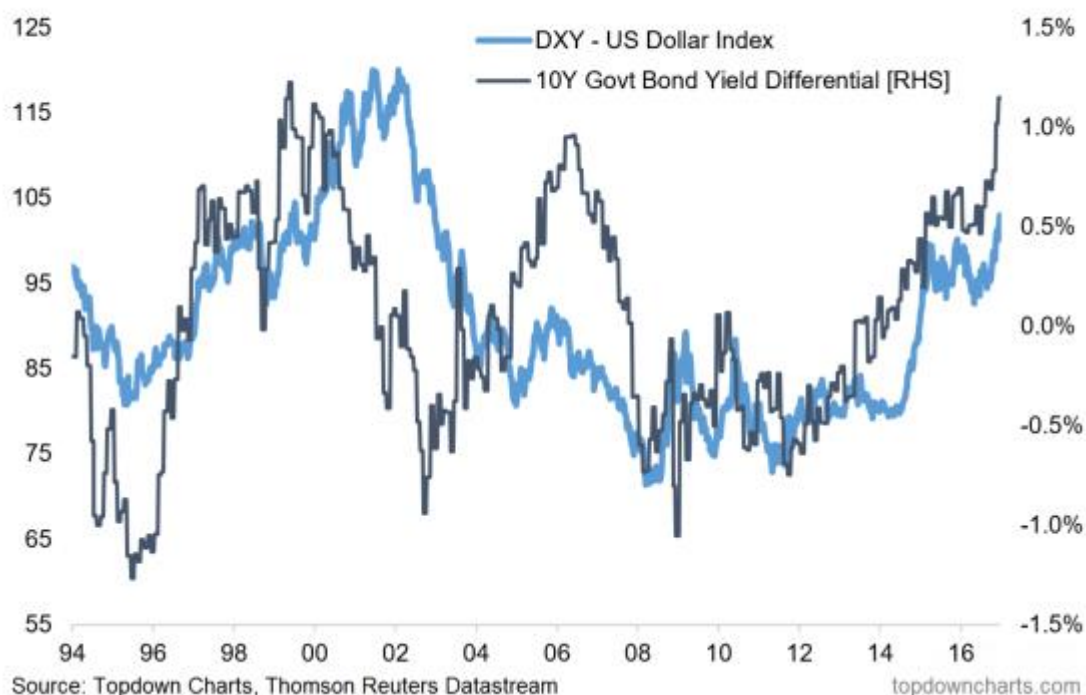
NOTE: This particular edition is being made available for free, **so I would be happy for you to forward this edition to friends and colleagues.**

1. Charts that worked...

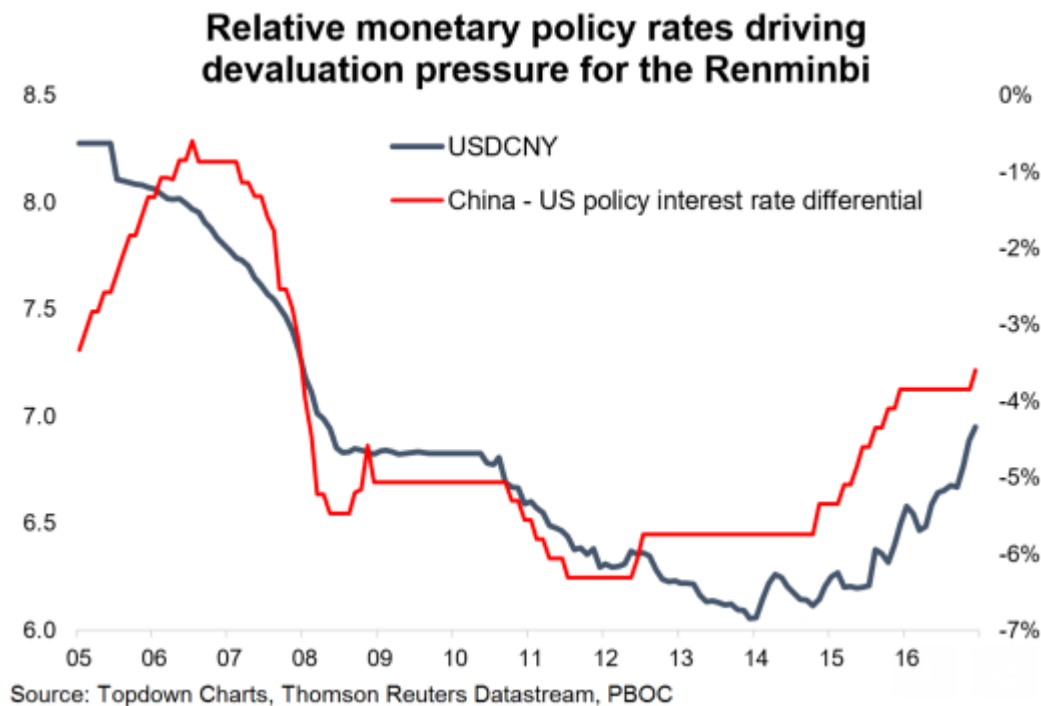
First up is a look at some of the charts that worked

The 10-year government bond yield differential (average across G10 vs US) provided a good lead on the direction of DXY (this is also one to watch for 2017!).

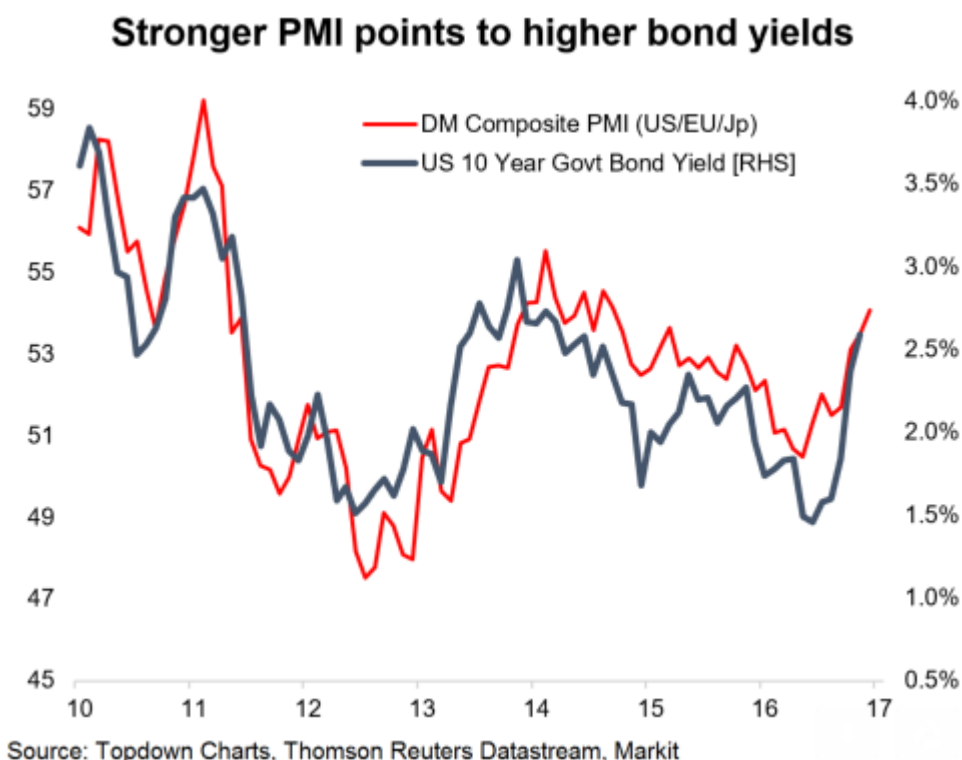
US Dollar: Interest Differentials



On a similar note, the policy rate differential has clearly been steering the ship on USDCNY, as flagged back in early October (despite it not necessarily being a freely floating currency).



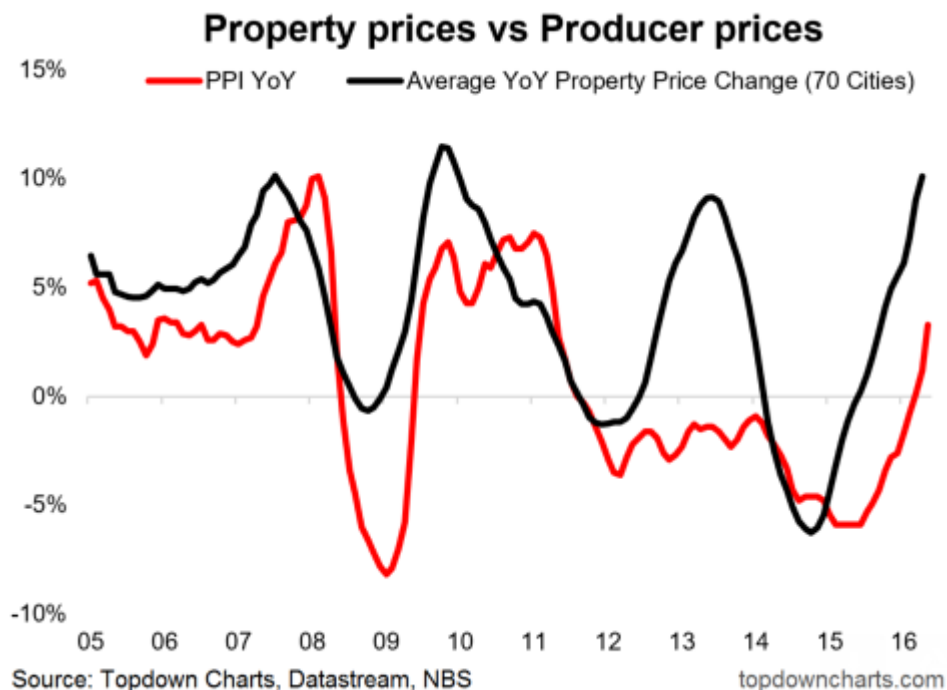
Another chart that worked really well was the DM (Developed Markets) manufacturing PMI vs US 10 year government bond yield - the chart was saying the yield would go to at least 2.5% back when the move was barely getting under way ("this is not a tantrum").



When I first talked about this one I pointed also to charts showing the substantial 'adjustment' in the real price and the uptrend in futures positioning, but the magnitude of the move on this breakout even took me by surprise.



On a similar note, the turnaround in China's PPI (Producer Price Index) from deflation to inflation. While there were a few other factors in play, the surge in property prices was one of them (it didn't work so well in 2013, but then the excess capacity and excess supply of commodities issue was more important at that time and the combined fiscal-monetary push not as forceful as it is now)

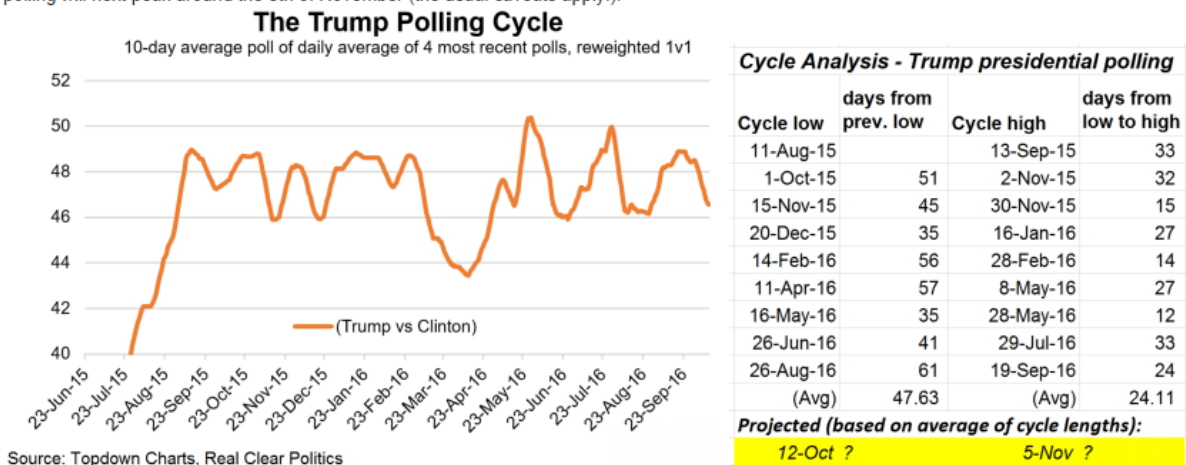


The turnaround in the earnings outlook (and exit from the earnings recession): this chart is looking even better than it did when it first appeared back in edition 1



That "cycles analysis" chart that picked Trump to win:

Trump's polling appears to under go a series of cycles. By measuring these cycles we can perform a simplistic and unbiased projection that his polling will next peak around the 5th of November (the usual caveats apply!).



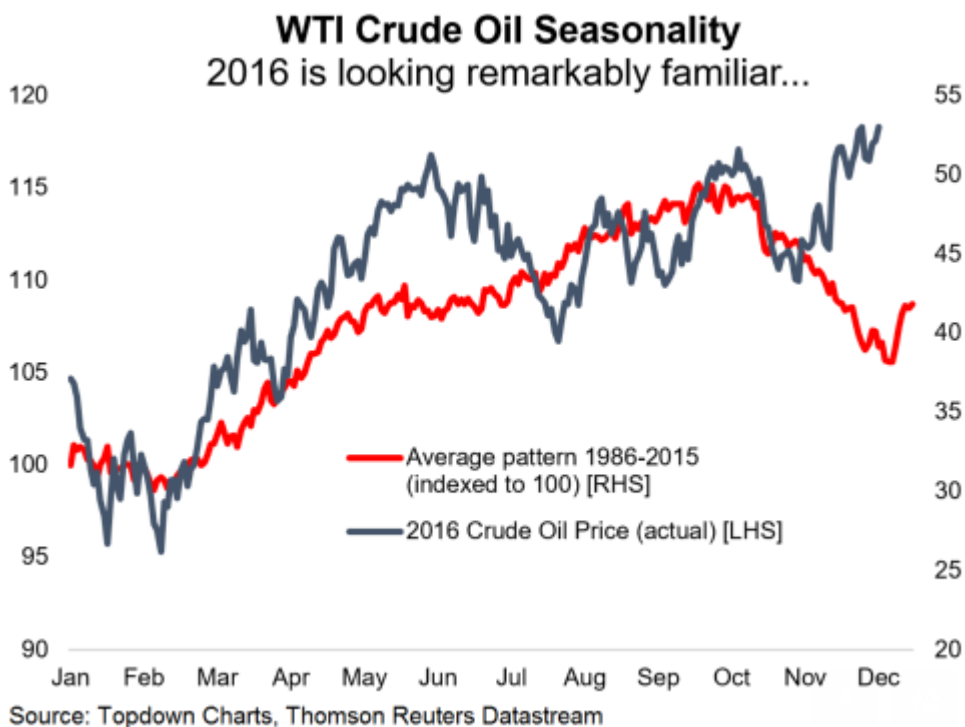
But then again, as I noted at the time, you could have just gone with the TIME magazine cover indicator:



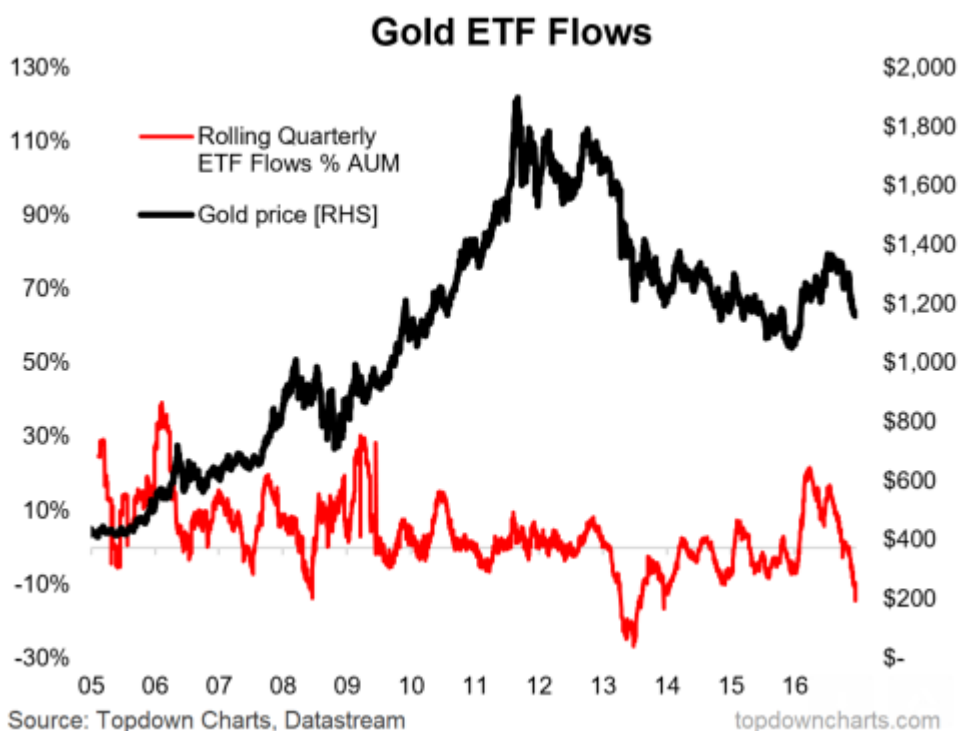
2. Charts that didn't work...

It wouldn't be complete without a look at some of the charts that didn't work (again, it's only just over 3 months in, so I'm sure the list will be longer when we do it again this time next year!)

OPEC did their best to stop the seasonality effect from working in Nov/Dec.



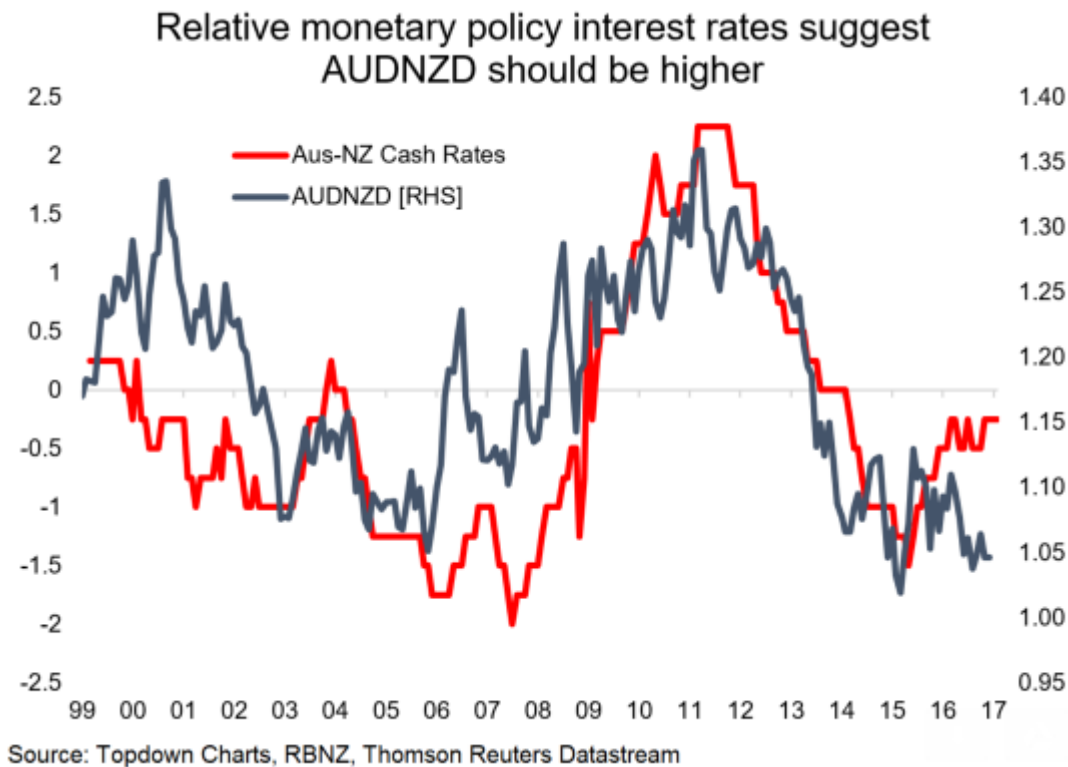
Gold ETF flows - not safe to buy the dip while real yields are on the rip.



REIT relative value - "best value since 09" (although it came with caveats at the time)... relative value is a curious metric when one of the values is overvalued



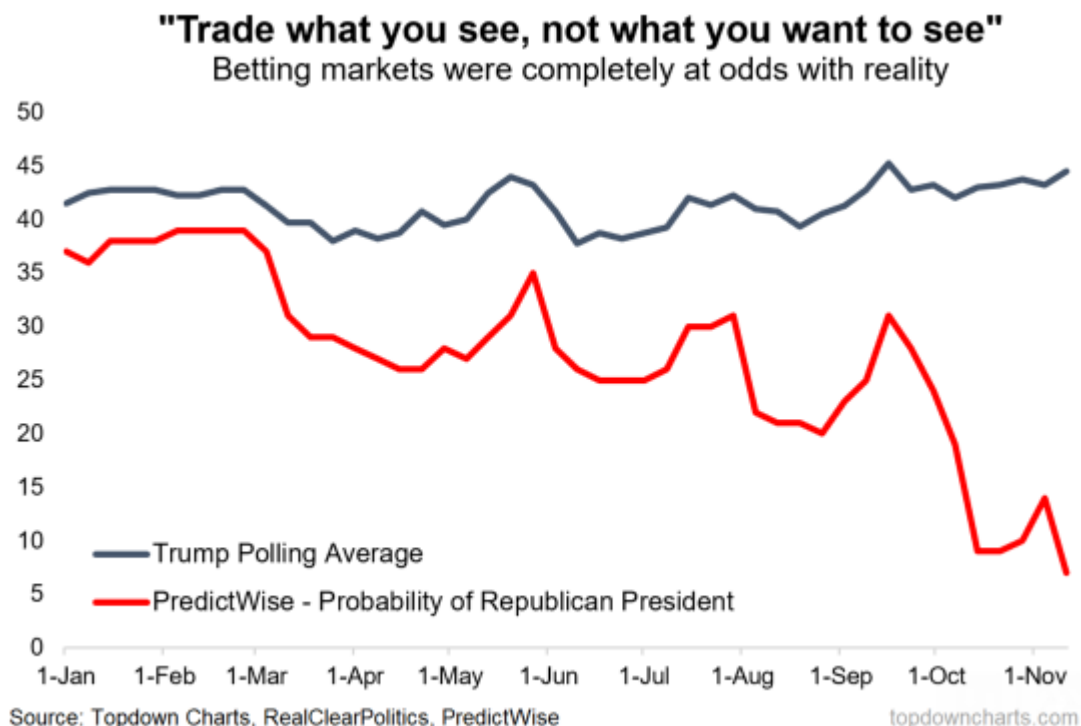
I'm putting this one in the "charts that didn't work" file... but would call it one that didn't work... *yet* - AUDNZD still looks like a mispricing given relative interest rates (but I will admit it could still take some time to play through)



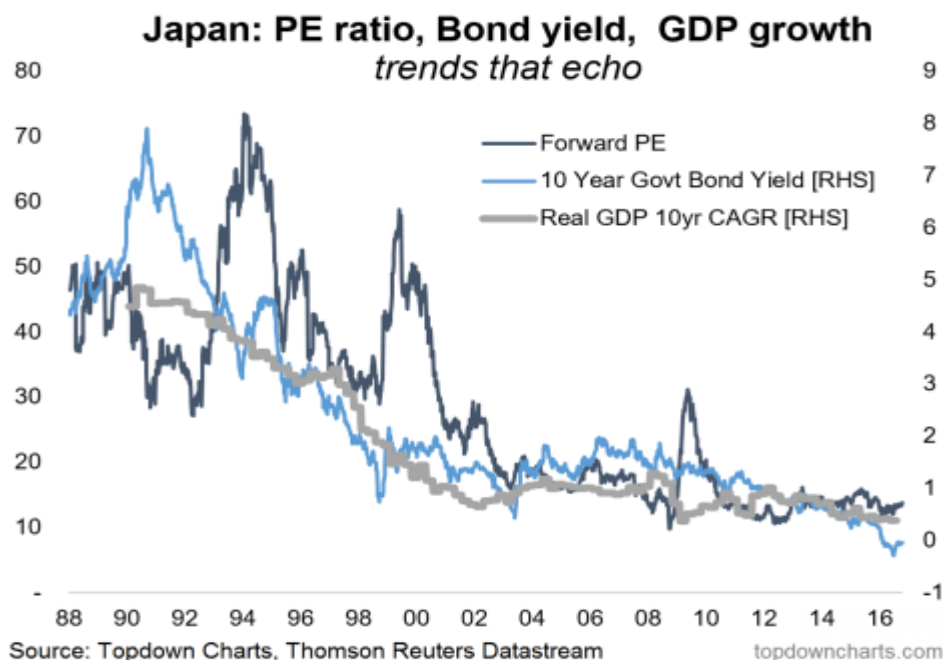
3. Favourites

A couple of charts that I particularly enjoyed putting together. Those that know me know I love charts, and I really get a kick out of coming up with something new or something that creates that "ah huh" moment.

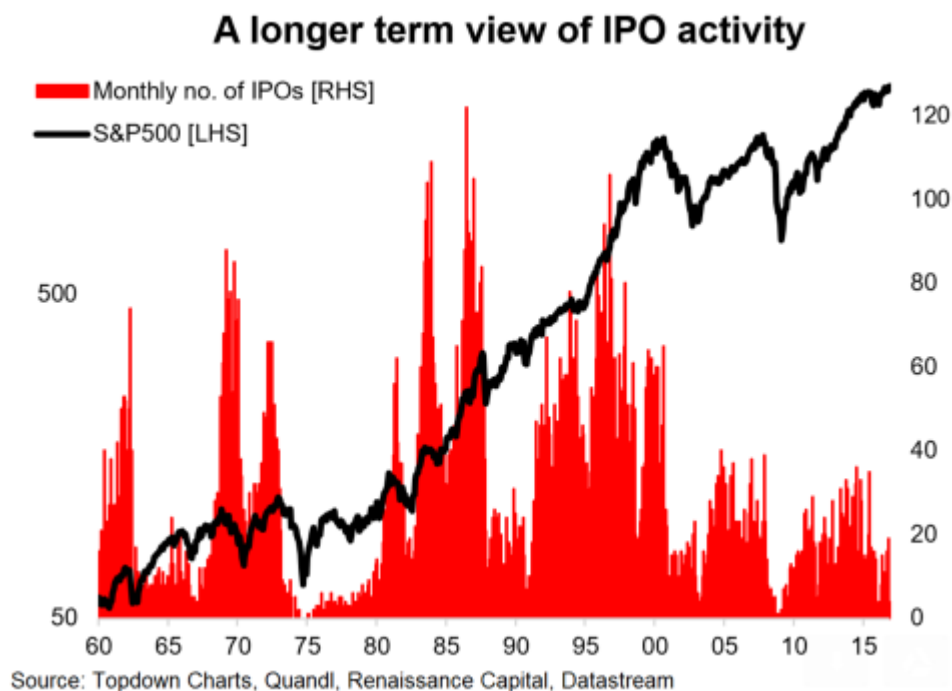
The Trump Mispricing: (my composite poll tracker vs betting market pricing of Trump odds) - a classic case of cognitive biases blinding market participants where the "obvious defects" of Trump caused people to completely overlook the *observable* realities of the polls. I won't say I picked Trump because I didn't bang the table about it - but in the weeks before I *did* bang the table about it being 50/50 and Brexit-like.... certainly not 5%



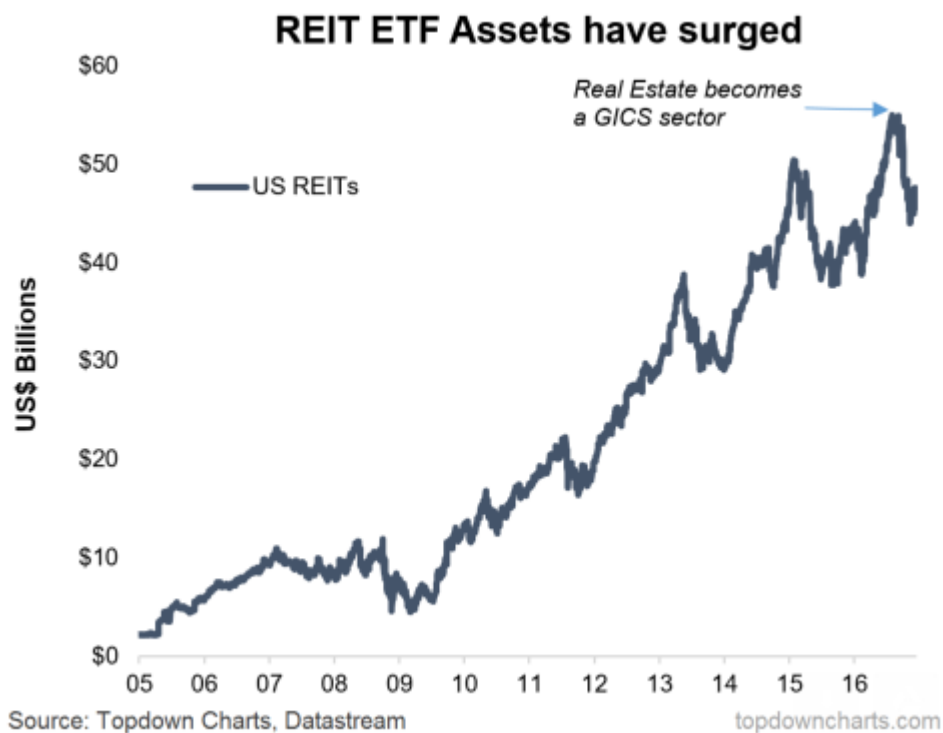
Trends that echo: Sometimes lower bond yields don't mean higher valuations. I had a feeling these would move similarly, but I was surprised how well these 3 seemingly disparate indicators correlated (GDP growth, bond yields, and PE ratios).



Long term view of US IPOs - I find this one fascinating, and can offer a few explanations like the rise of PE/VC, capital-lite firms, M&A, etc, but it's actually shocking how compared to the 80's and 90's (and even late-60's to early-70's) IPO activity has gone into decline in the new millennium



Timing is everything - real estate became a separate GICS sector this year (yes there's now 11 sectors - it got split out from financials), the chart below shows when it came into effect (no further comment).



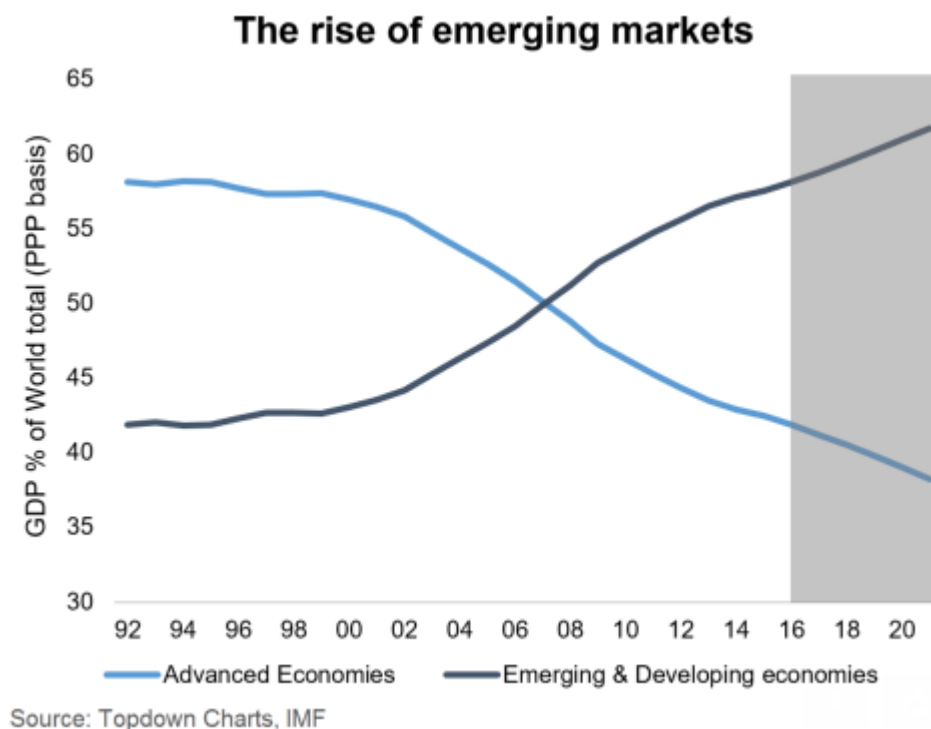
China's coordinated stimulus - here's a great example of fiscal policy and monetary policy working together.



Related - the biggest economic surprise in 2016?



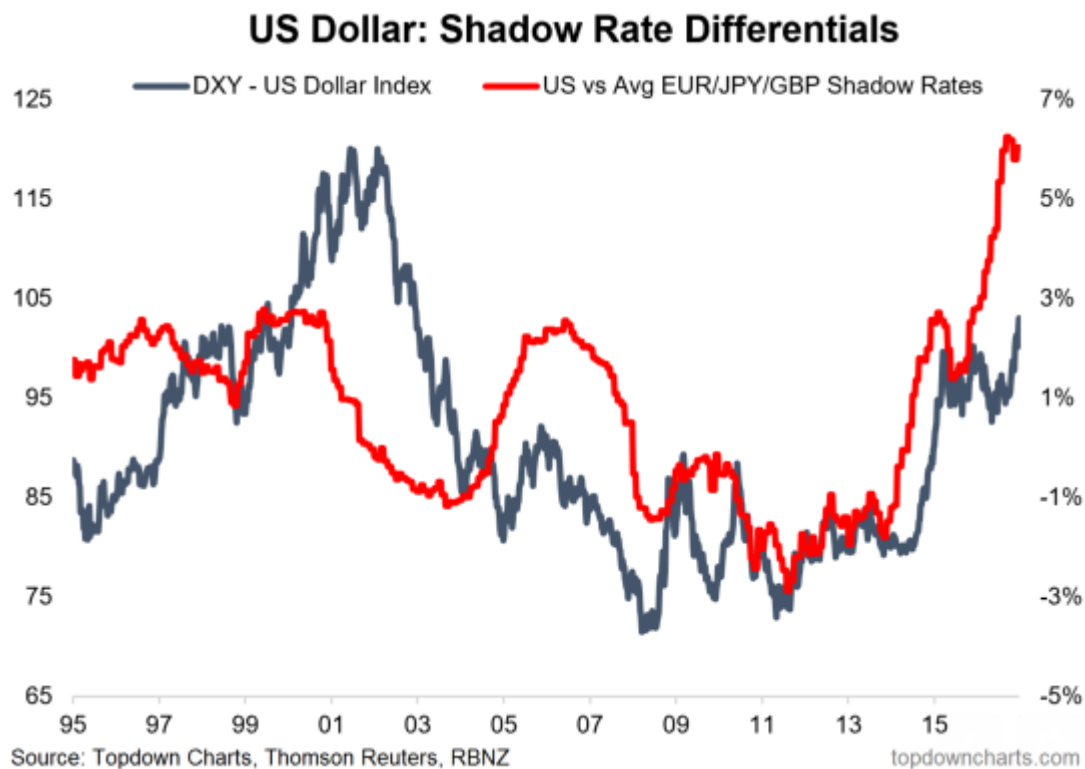
Emerging markets have become the dominant economic force and the primary contributor to world GDP growth, this has important macro implications as we've already seen, and is only just starting to have important geopolitical implications too. I could easily write an essay or even a book on the importance and implications of this chart, but for now I'll let it speak for itself.



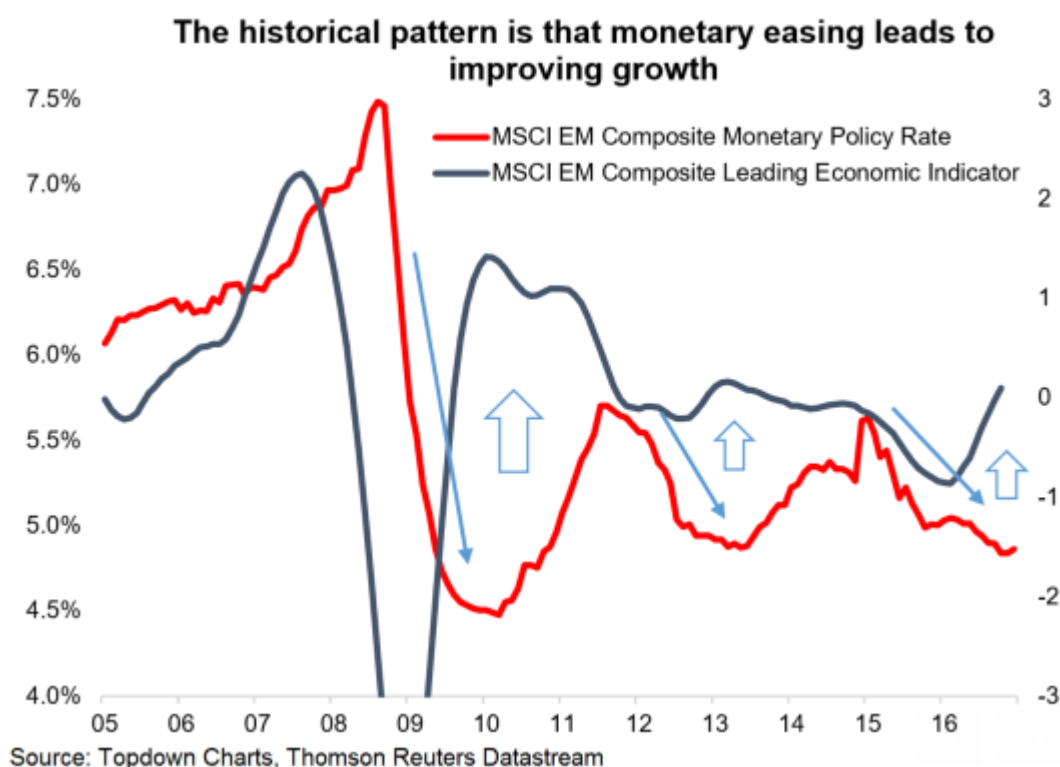
4. Ones to watch in 2017

I've picked out a few charts from the Weekly Macro Themes that I think will be particularly relevant in 2017 and flag potential risks and opportunities...

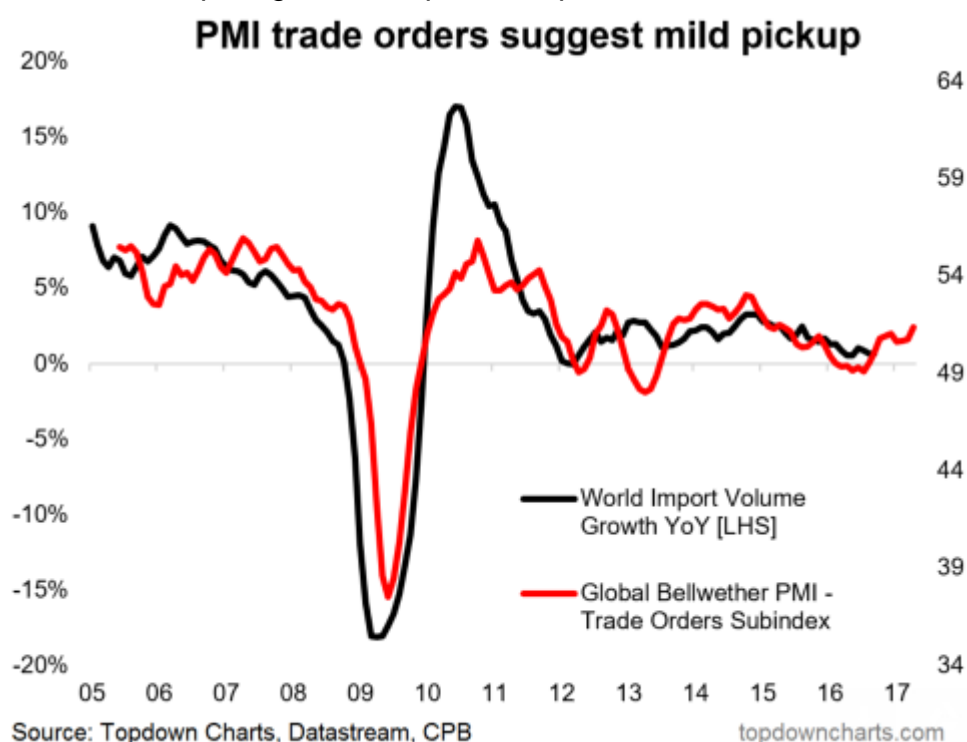
First one is similar to the one at the start, but uses "Shadow Monetary Policy Rates" (which were invented by Leo Krippner of the RBNZ) - while the link between the shadow rate differential and DXY is loose at times, an implied 15-20% surge in the US dollar would certainly create risks and opportunities!



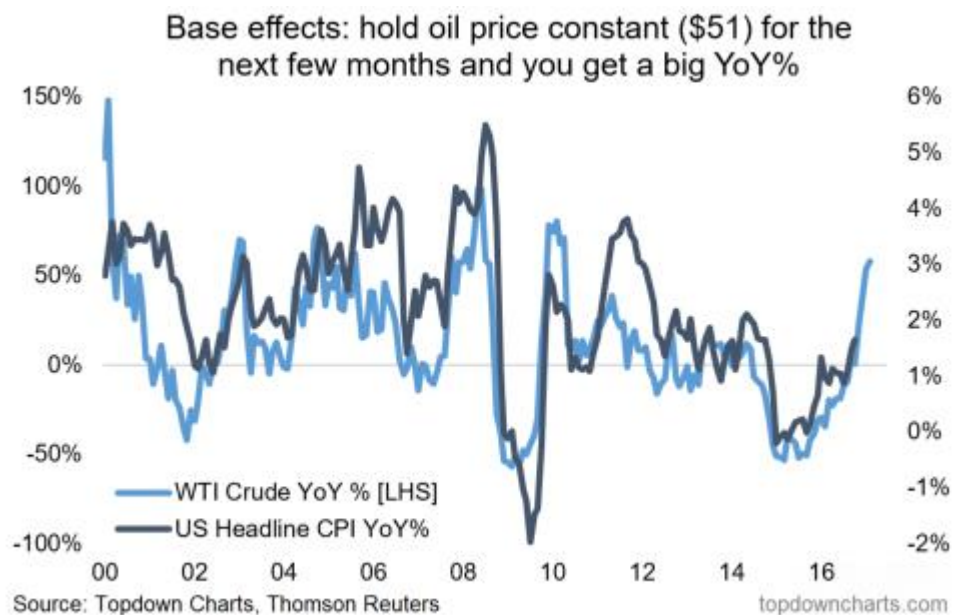
A logical flow-on, the previous stabilization of the US dollar helped clear the way for monetary policy easing across emerging markets - the existing stimulus will help support growth over the coming months and quarters, but if the USD surges again it may force them to start hiking - and the cycle seems to be turning already.



Global trade rebound? The below indicator based on export/import indexes from the PMIs points to a potential rebound in global trade growth - maybe not something most would expect given the spectre of protectionism.

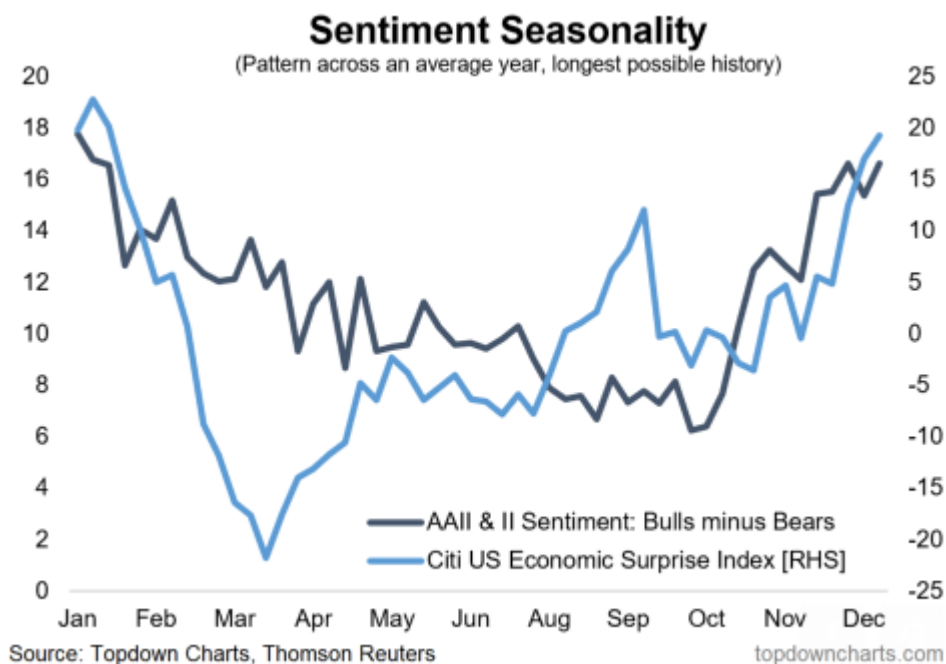


What will make the early part of 2017 really interesting is that the same time you have this improving growth momentum you'll have some powerful base-effects kicking in e.g. oil:



Finally, a heads up: the historical seasonal pattern is for the US economic surprise index to dump in the latter part of Q1. Will this time be different?

The chart also shows the bulls-bears investor sentiment spread seasonality; historically investors tend to lose enthusiasm as the year wears on

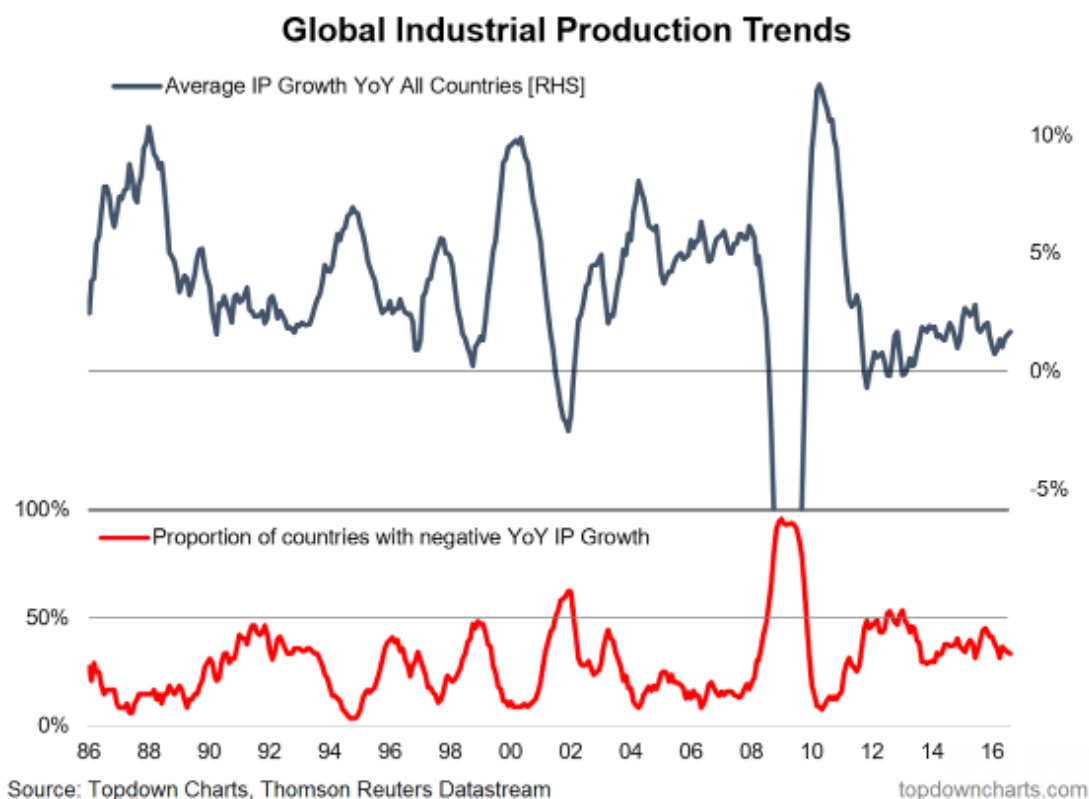


5. Honourable mentions...

Global earnings breadth: this chart shows the proportion of countries with declining NTM EPS estimates vs 12 months ago. Previously this indicator only rose during times of crisis and recession, but look at the last 5 years - through most of that time at least 50% of countries had falling earnings or at least ongoing downward revisions. That's starting to change.



The same trend can be observed for industrial production growth across (60) countries



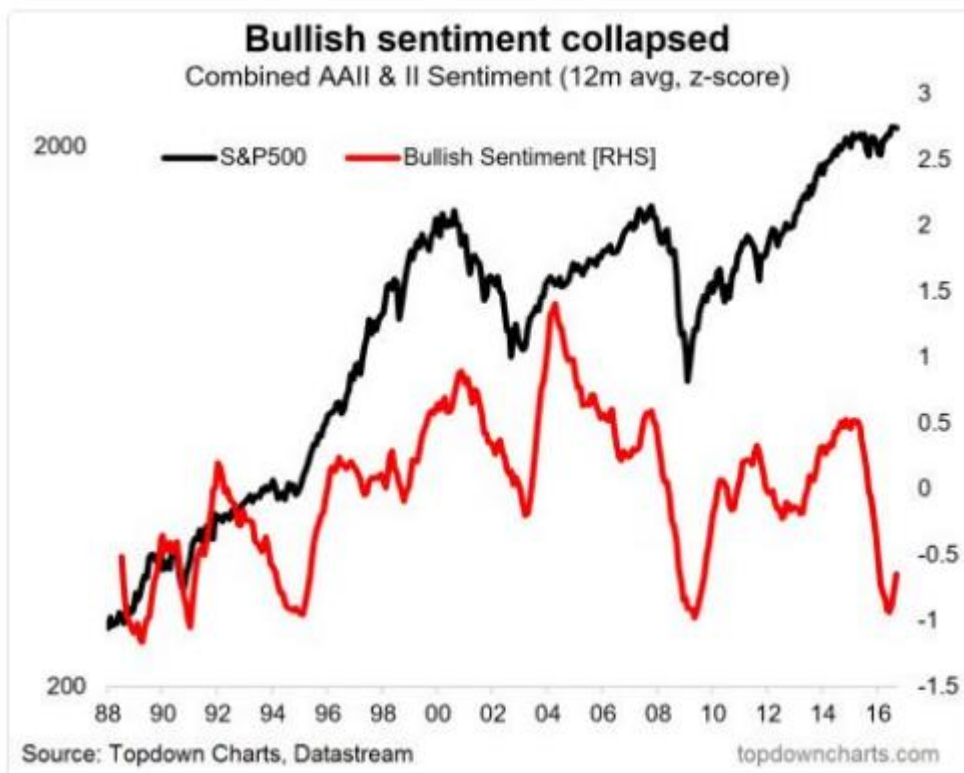
6. People's choice charts

I thought I would also throw in the top 5 charts I posted on my personal account (@Callum_Thomas) on Twitter (as ranked by views)

1. An interesting chart of human vs corporate lifespan (from BCG)



2. A longer term/slower moving view of bullish sentiment



3. That seasonality chart that work uncannily well this year

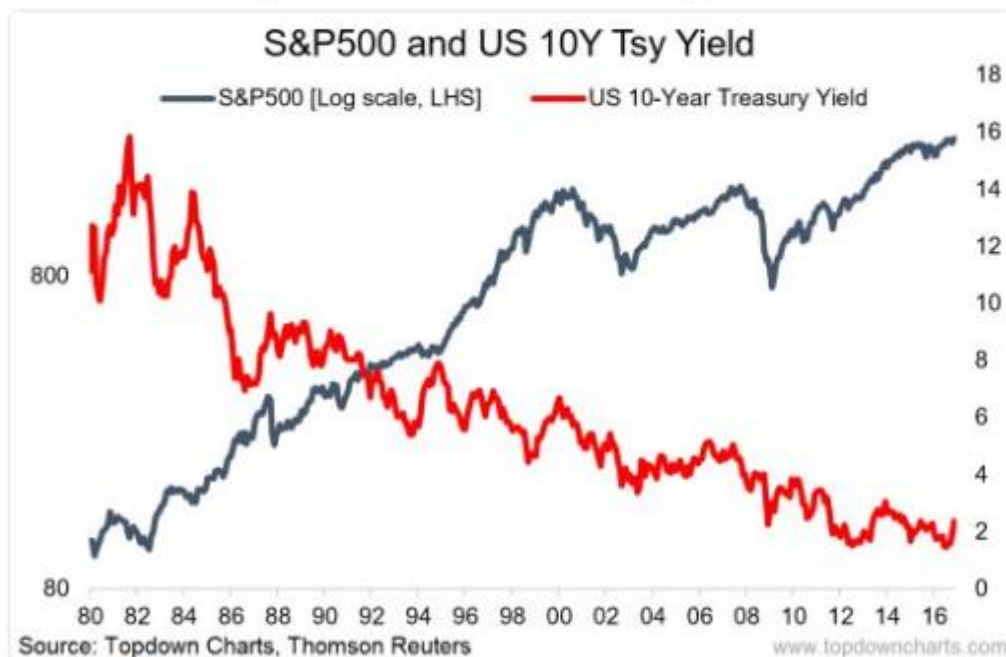


4. Some, slightly facetious, thoughts on asset allocation

Since 1980... How to do:

Stocks: Be optimistic unless good reason not to

Bonds: Be pessimistic unless good reason not to



5. The Japanese government bond yield going positive again

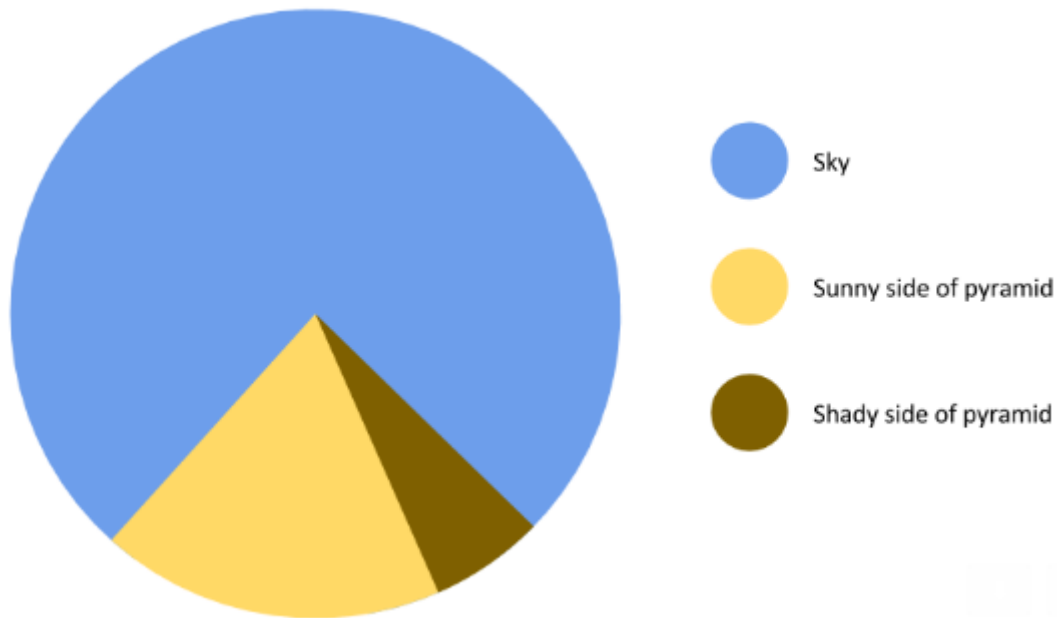
#PhilosophyQuestion - is the JGB 10Y going (just about) positive a sign of **#Abenomics** failure or success?



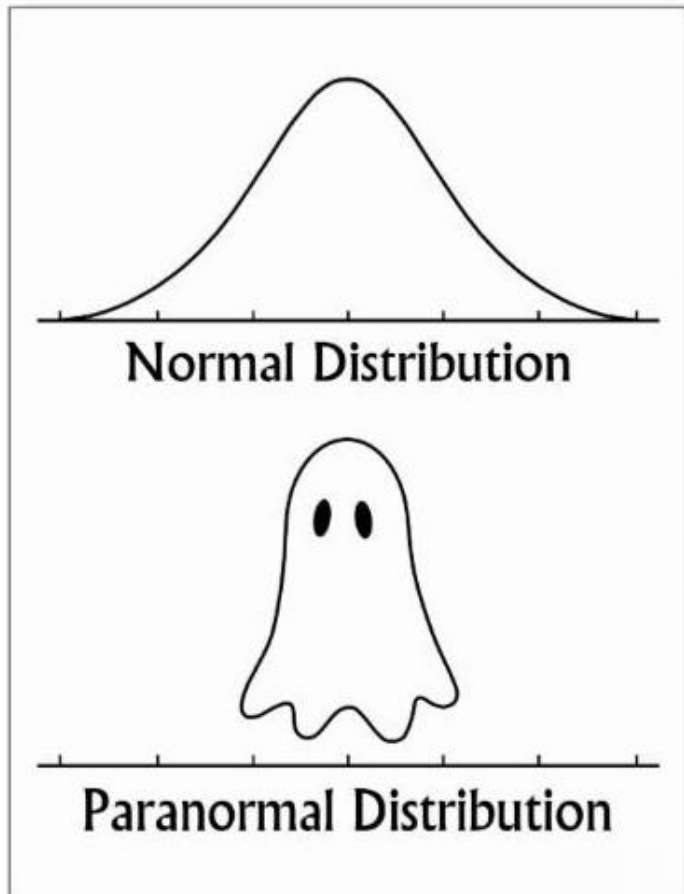
7. Fun with charts

No end of year special would be complete without some silly charts for the silly season... (the below charts are pinched from the internet)

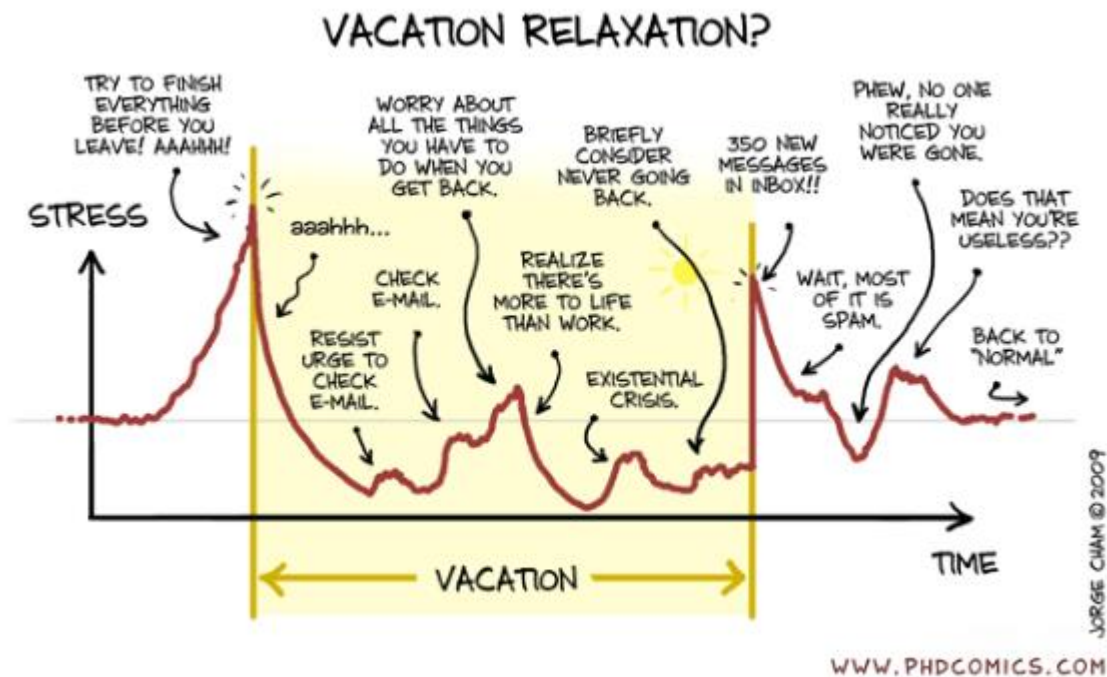
Perspective is important, particularly when it comes to interpreting charts:



I think we all know which distribution is most relevant to financial markets:



Holiday trends - look familiar?



Finally, the most important Pie Chart for the next couple of weeks:



Have a safe and enjoyable festive season! Thanks for your support in 2016 and I wish you all the very best for 2017.

NOTE: the Weekly Macro Themes will take a break for the next two weeks and will recommence on Friday the 13th of January 2017.

I'll continue to put updates on Twitter, and the occasional blog post - I'll forward these to subscribers if it's a major development.

Thanks for reading, if you have any questions about the above, or if you have not yet subscribed and would like to then please contact me (details below).

Best regards,

Callum Thomas

Head of Research

Topdown Charts Limited

info@topdowncharts.com

www.topdowncharts.com

[+64 22 378 1552](tel:+64223781552)

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