

Bolic

2021-22 Macro Expectations Report

Introduction

This is a compilation of analysis I have given in my current role as a market analyst. Worth noting that the writing is shaped around the intended audience, which is a discord community of relatively uninformed speculators. The writing was done with an intention to take big ideas and make them small without changing their essence.

There will be timestamps and can provide screenshots of the posts if prompted. I would also like to point out that for a number of these posts I could not use a keyboard as my fingers were crushed in November of last year, the voice transcribed posts will be noted.

Enjoy.

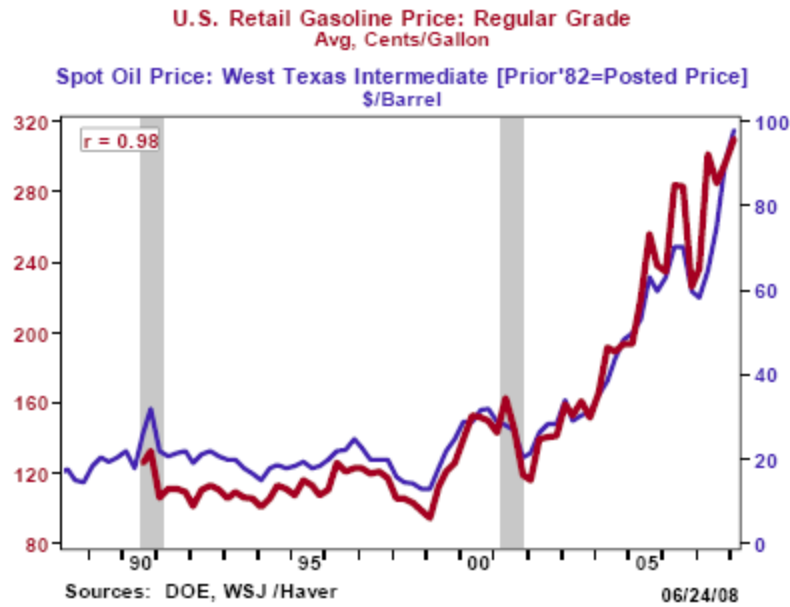
10/08/2021 – CRUDE hitting 7-year highs, summary on historical CRUDE highs and the music potentially slowing down.

Crude oil is currently trading at prices it hasn't been at since it dropped drastically in 2014. What does this mean for the macro economy and equity markets?

Well, maybe not what you think. The price of oil does have a direct impact on consumers, and that could be the biggest impact here. The first thing many think of with oil prices rising is the price of gasoline, and considering gasoline is considered a 'necessity' to a lot of consumers and households when gas prices rise a larger share of discretionary cash on hand is taken by a necessity. Leaving less money to spend on goods, services, and most importantly to all of us here risk assets.

That cost is easy to understand, the other thing at play here is the increased cost this creates on maintaining supply chains, and the impact that can have on businesses. Increased cost for supply chains, makes production more expensive for businesses, and therefore the price of consumer goods goes up as well. As functionally, an increase in crude oil prices acts as a tax on those consuming it.

Worth noting the price of crude oil has nearly a 97-98% correlation factor with US gasoline prices historically.



Correlation going up to the 08 financial crisis:

All of that can be what is considered impact on the micro economy, resulting in inflation and reduction in economic growth. The price impacting economic growth has a relatively large impact on the macro economy, as it shifts the supply curve for goods and services that oil is a necessary condition for.

There have been 7 recessions over the past century in which global GDP decreased by at least 3%. Here is what the price of crude oil did running up to those recessions:

Dec 2006 - Jun 2008 (financial crisis of 08): +65%

Dec 1998 - Sep 2000 (dot-com bubble): +245%

Oct 1978 - May 1980: +118%

Mar 1973 - Feb 1974: +144%

Sep 1955 - Mar 1957: +7%

Apr 1946 - Nov 1948 (WW2, outlier): +84%

Jan 1936 - Mar 1937: +3%

Currently: Apr 2020 - Oct 2021: +340%



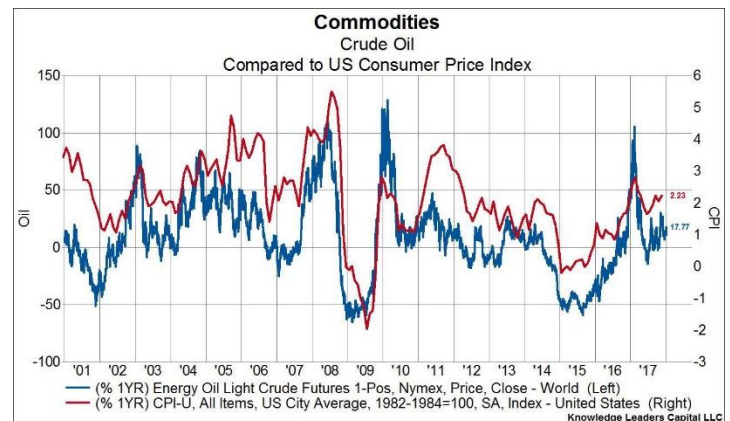
Of course, there is more to markets and the macro economy than crude oil, but this is the most traded commodity in the world, and is a good indicator historically for inflation, which of course has an impact on the economy and markets. So, on the other hand, this should not be brushed away as a one off indicator.

This is not concrete damning evidence that a recession is imminent, but rather acknowledging its possibility. It is objectively true that a run up in the price of oil impacts consumers spending, inflation, and has been a leading indicator of a recession for 5 of the last 7 major recessions.

However, this is the day of modern monetary policy in which debt ceilings get un-ironically risen to the heavens, monetary stimulus seems to never end, and quite literally you could have been long in any equity market in 2011, went into a 10-year coma, wake up today and outperform probably 80-90% of all traders/investors.

The music which keeps the market dancing, albeit irrational to the contrarians in the crowd, seems to be continue endless, and in the short term now. So, I will dance with it. The short-term market outlook does not seem to include that music stopping from what I can see now... so it would be suboptimal if I sat on the sidelines while everyone else is benefiting from dancing to that irrationality.

On the other side of mind is evidence such as this, the 'rational' part of me. Knowing that the FED 'has' to begin tapering soon and likely will, interest rates having a >90% chance of getting raised by 2023, and of course as we discussed the biggest run up in crude oil in basically the history of commodities that will cause blow back on next month's CPI report.



So, short term, I will continue to dance as if I don't know any better. With the understanding the 'rational' part of me may end up right in the end, but until that part of me is slapping me in the face... I move.

No need to panic... for now. Dance on.

11/03/2021—Short callout and reaction to resulting FOMC meeting

Morning of

Volatility dying off rather quickly, OI still quite high. Hedging my spot up here.

FOMC meets today. Could be a choppy day in traditional markets. Expect a lot of talk about tapering to mitigate some of the 'transitory' inflation dangers. Could even begin to taper this month, which would initially be quite bearish and cause a dump. I don't think it's that bearish mid-long term though, so I'd expect a recovery next week or the end of this week if that's the main takeaway from this meeting.

Post Meeting report

We were on track with the timeline staying the same and the FED announcing the tapering of bond purchasing starting in November, and it looks like that number is as expected to be at scaling back \$15B this month, and \$15B in December.

There's a whole lot to be said about the next FOMC meeting though, as that will begin to lay out what is most important for the market, the FED's 2022 plan and whether the tapering of asset purchasing will continue in January and the future beyond that, as well as more interest rate talk.

While US equities were not really impacted by the meeting and press conference, BTC (and therefore, crypto was).

As I noted in the morning, I expected choppy waters in risk assets during and around the FOMC statement and press conference. It's clear that big players had planned to sell off BTC to wipe stops and liquidate positions right at the exact moment that FOMC statement was put out (as shown on the following chart).

Then as the SPX reacted positively to the 'nothing new' statement from the FOMC, BTC recovered along with it. However, that 1m candle on BTC at that moment in time, was about a 2.5k candle, or about 4%. Exact reason why I spoke about hedging, because if that sell off continued and/or the FOMC statement was unexpectedly bearish, who knows where this would have stopped.



As for moving forward, sell offs like that do tell me the market is prepared to sell off at any hawkish FED statements or potentially bearish events. I think the EV+ position to be in up here is increasingly net short as time goes on, at least on BTC.

Today was a great example of why I continue to on showing why this market is not and has not been independent from external economic factors and the more liquid 'traditional' markets. Markets aren't walled off from on another, they aren't the same entity either— rather somewhere in the middle of the two.

11/10/2021 CPI misses high again, highest in more than 3 decades.

I had mentioned previously that median forecast for the Consumer price index was 0.6% (up from 0.4%) and the forecast for Core CPI was 0.4% (up from 0.2%). Forecasts were already calling for the highest CPI reading in 31 years, so expectations were already high from an inflation standpoint.

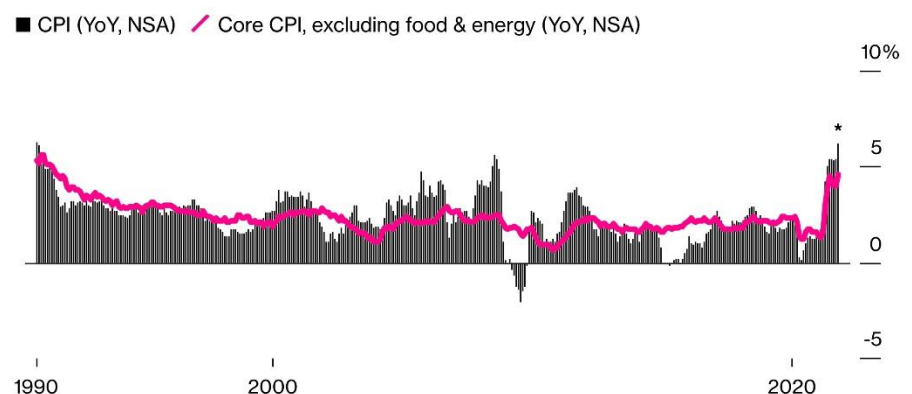
Today's actual monthly increase in CPI was 0.9% (vs 0.6%)

The real data has now exceeded expectations/forecasts for several consecutive months, which showcases that inflation within the US is getting somewhat out of control. The FED has stated now that their language surrounding inflation being 'transitory' was incorrect.

A key thing in my mind here is that core CPI is typically a better macro view of inflation in general as it leaves out the rather volatile priced industries such as energy and food which heavily weighs on short term supply chain conditions. As shown by the following visual, Core CPI tends to be a bit more consistent in its overall reading. That level is still nearing multi decade record highs, but its less drastic.

Partially why the FED was hesitant to deem inflation as being beyond 'transitory'.

This time around, most of this sharp rise in inflation was driven by the volatile sectors which faced hiring shortages and supply chain problems which caused production (of food and energy) to not keep pace with demand from consumers, which caused the price hike.



That is what market forecasts and the FED underestimated, and partially why I think the timeline on raising interest rates to curb demand from consumers may come quicker than I initially expected. The FED has only just started to taper its purchasing of bonds this month, and in fact the conductor of this orchestra Jerome Powell this week said it's still not the time to raise rates. I think that may change in the next month, and we could have a tumultuous end of the year in markets.

The longer supply chains and production more generally are unable to keep up with the rising demand from consumers and the FED is not incentivizing less spending (by raising rates), inflation will continue to soar... and everyday consumers will continue to get smoked every time they go into the grocery store, heat their house with natural gas, etc. I will continue to say this repeatedly, markets are not the most important thing that is impacted by inflation. The bottom 40-50% of the economy will be impacted far more than any one of us who have the freedom to spend in this speculative early-stage market trading the risk assets we do.

From everything I can tell and see right now, the music could be beginning to slow down. I'll continue to dance, but I am making sure I have somewhere to sit when the music stops playing... hopefully you at least consider finding a spot to sit as well.

(Everything from here on was voice transcribed after I crushed my fingers in a hydraulic press... still grateful I have fingertips)



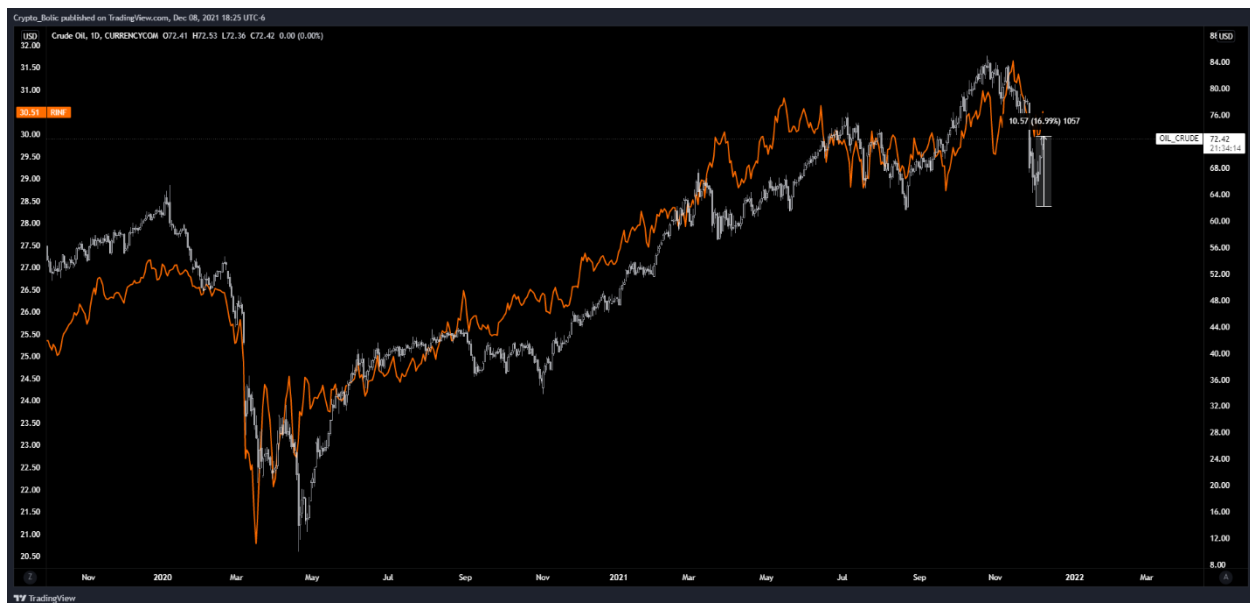
Luckily no fractures or lost fingers, but some long term nerve damage :/

12/08/2021 CPI data dumps and its relationship with BTC

As I have spoken previously, the price of CRUDE OIL is a relatively 'good' way of tracking inflation, or at least inflation expectations. As cost of transport goes up, consumers pay more for necessities, businesses must charge more for products that are more expensive to make, and of course it's hard on supply chains generally.

Inflation expectations can be tracked by the ProShares inflation expectations ETF called RINF. This ETF is designed to provide exposure to 30-year breakeven inflation (a widely followed measure of inflation expectations). Of course, it doesn't have a corr of 1 with CPI, but it gets us relatively close and has similar PA to the rise in CPI over the past year.

As you can see, it tracked loosely with CRUDE since the crash March 2020 and has continued to move upward as we near year end.



RINF compared to CRUDE

Now why am I showing you this?

Well, when the 30-year breakeven inflation rate is expected to continue to move up we can expect the inflation data dump on Friday with a relatively likely outcome to continue trending upward as this ETF has correctly assumed for the past year.

What does that mean for BTC?

Well, let me show you what BTC has done on a day like Friday for the last 13 times. I've tracked the last year of CPI data release days, and 6 of them have ended in a % gain in XBTUSD, and 7 of them have resulted in a % decline in XBTUSD.

Well, that seems random, so I investigated whether the FOMC median forecast underestimated CPI, overestimated CPI (only twice), or was spot on (5 times).



To which, I found during a bearish CPI data dump, 4 out of the 6 days resulted in a bearish day for BTC, and a bullish (either priced in already because forecast was spot on, or better than expected) 4 out of the 7 days resulted in a bullish day for BTC.

What does this mean for Friday? Well, the median YOY forecast for November 2021 is 6.7%, so if you see that number either be met or overestimated? It's relatively a good expectation that we see % gain for BTC on the day... and same goes for a bearish CPI data dump.

12/13/2021 US Bond Yield, Crypto Marketcap visual β (quick update)

US treasury bond yields also beginning to take hits as demand rises for safer assets. As well as investors increasingly seeing the reality of negative 'real returns' on debt obligations from the US government. Typically, shorter term (5, 7, 10 year) bond yields can act as β to longer term (20, 30 year) yields as shown by the visual.



Why does this matter for crypto?

Well, add in the total market capitalization of crypto (purple, marked as "TOTAL") and you see it acts very similar to the β bond yields as shown on this visual. As crypto is and will continue to be tied to (and potentially lead) risk indicators in traditional markets, as it is arguably the purest form of risk asset exposure currently available to investors.

