GS Basics - Methodical Supply. Week Ahead. High Bar for Insurance Cuts.

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China IP and retail sales beat although a notable/unusual uptick in unemployment to 5.4% . Stories over weekend about boosting consumption (devil in the details). Capital continues to flow into the geography, tech driving the change in views. Yet another China tech innovation: Baidu's Ernie 4.5 delivers similar results as DeepSeek, outperforms ChatGPT and at a fraction of the cost. Meanwhile, US futures giving back part of their bounce on Friday. Comments over the weekend haven't helped bring much support with Bessent once again challenged to reaffirm a put for growth only to be met with more indifference. "… saying the country needs to be weaned off what he called massive government spending." (Bbg) Tariffs and spending cuts are the modal policy path and despite oversold conditions the broad US market will remain balancing act between the pace of economic deceleration and the relative downgrade already discounted. Flaring Houthi conflict, threatening heightened travel restrictions and reaffirming punitive tariffs on April 2nd have not helped sentiment over the weekend.

That said, I'd argue from a technical perspective we have exhausted a lot of the near term pockets of supply. CTA is max short. Vol control has aggressively cut back their exposure and we've already seen some notable de-grossing/risk reduction amongst the l/s community.

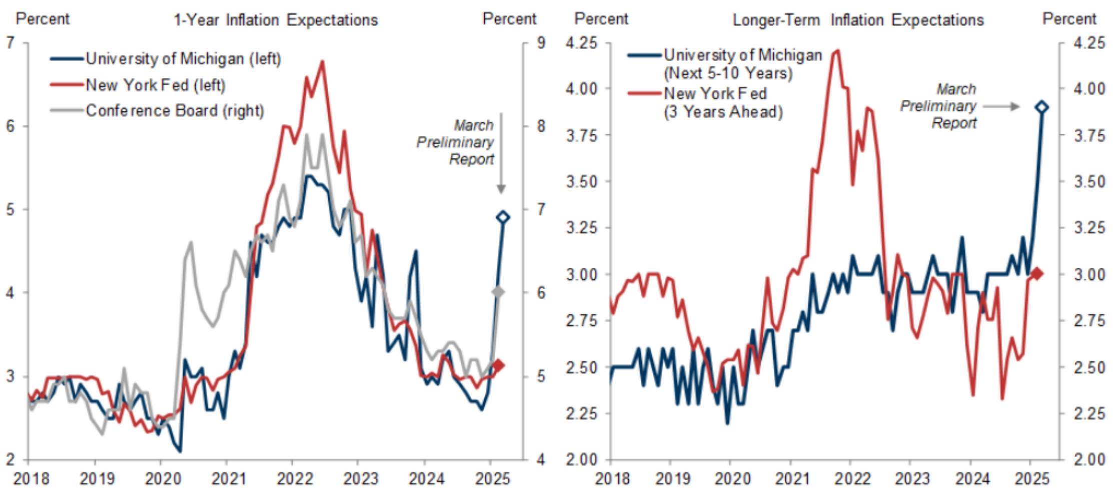
Focusing on the week ahead. A slew of central bank meeting which most are expected to be unchanged in their policy stance (SNB lone exception). Fed dots and economic projections will be watched carefully (GIR calling for modest cuts to growth and upgrades to inflation). "The longer-run or neutral rate projection might continue to creep higher from 3% to 3.125%. We expect the FOMC's median economic projections to show a 0.3pp upward revision to 2025 core PCE inflation to 2.8% and a 0.3pp downgrade to 2025 GDP growth to 1.8%, mainly reflecting the tariff." Market desperate for a put, if the Fed can begin to tell us their focus is growth over inflation it would count for a lot (too early…see below).

In micro, the NVDA GTC event will be a focus this week with the Jensen Keynote late on Tuesday. Also have FDX, NKE and MU on Thursday. In geopolitics we have a vote in the Bundestag on Tuesday on the fiscal package seemingly agreed by the Greens and CDU/SPD on Friday. Equally Trump/Putin call likely to happen tomorrow as well which could be a prelude to a ceasefire accord.

Stepping back I think we're oversold and trying to bounce. CTA is at/near fully short US index and vol control supply has dried up. Overall vol activity has quieted as well (desk saw limited appetite for hedges by the later part of the week...look at how vol underperformed spot). Funding spreads went bid into last part of the sell off and I think that's consistent with the global flows which were more long only/institutional supply. From US desk: "From a flow perspective, LOs and HFs finished -$7b and -$1b net sellers on the week, respectively. Overall flow theme is best categorized as 'methodical LO supply' in an orderly fashion up until Friday" View is for oversold bounce to continue a bit more this week while Europe/China outperformance is more structural. Retail sales in focus today given all the question marks on US consumer last week (GIR a bit ahead of consensus).

Side-note:

Exhibit 6: The Increase in Survey-Based Inflation Expectations Means the Bar for "Insurance Cuts" Will Be Higher Than in 2019



Source: Goldman Sachs Global Investment Research