



## The paucity of top-drawer data releases gives everyone a chance to mull over some side issues

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July 19, 2023

**Outlook:** In the US, all we get today is June housing starts and permits, and a 20-year bond offering. The more important existing home sales is due tomorrow.

The paucity of top-drawer data releases gives everyone a chance to mull over some side issues—side for FX, which tends not to attend to things like corporate issues unless and until they become catastrophic. This time Bloomberg wants us to get scared about bankruptcies and defaults, already up over 360% since 2021. "... if it continues to spread, that could lead to the first broad-based cycle of defaults since the Great Financial Crisis. That's starting to happen already, with more than 120 big bankruptcies in the US alone already this year.

"Even so, less than 15% of the nearly \$600 billion of debt trading at distressed levels globally have actually defaulted..." Bloomberg chooses to take the negative view—"that means companies that owe more than half-a-trillion dollars may be unable to repay it — or at least struggle to do so." This fear-mongering is standard procedure for Bloomberg. A quick internet search finds that Moody's S&P Global, Fitch and others have been predicting a rise in bankruptcies since last fall.

Forecast: We are in the early stages of a classic corrective pullback and as usual, nobody knows whether it has legs and can get to a meaningful retracement, like 50%. Actually, a pullback by even 38% seems not all that likely today—that would be 1.0604, and below the channel and B band. It's more likely that the correction ends before that. We need to see more development, but let's consider support around the 20-day moving average at about 1.1072.

**Tidbit:** We just saw that the ultra-conservative Cato Group wants to revive the Taylor Rule and by its calculations, Fed funds should be 4.866%. Instead we are looking for well over 5%. We do not know how Cato was doing its arithmetic, but we went to the Atlanta Fed, which has multiple versions and was updated May 26, 2023. See the chart—no version of the Taylor Rule delivers anything under 5%, although the rate under various Rules is converging to Fed funds at about 5%.

The main idea—much modified by other economists over the years—is that stable Fed funds rate should be 2% over the rate of inflation, adjusted by real GDP growth. You can't use the Taylor Rule when interest rates are zero or negative, so we have sort of lost sight of it for a while. One criticism is that the GDP adjustment is for the actual vs. the potential, which we say is one of the standard economics creations that should never have been devised. The Taylor Rule may seem out of date but just wait—we will hear a lot more about it in the coming months.

**Tidbit:** Fibonacci retracements are superstitious hooey, but so many traders like or believe them that they often become self-fulfilling prophecies. See, for example, the weekly euro chart and the nearly perfect 62% retracement of the downmove from Jan 2021.

There is also talk of the euro breaking through the B band top, a reversal signal, or the linreg channel, one of our proxies for resistance. But nobody except the most diehard of old fogey position traders uses the weekly indicators. As for the monthly chart, check it out—it has a single message, a wavy and sometime choppy fall in the euro since 2007.

**Tidbit:** Further to yesterday's take-down of the BRICS inventing a new currency, a Reader sent us this splendid piece from Zerohedge: "Things are getting awkward and coming to a head as BRICS countries are now just weeks away from the Aug. 22-24 major summit in Johannesburg, South Africa - and Russian President Vladimir Putin is still committed to attending in person.

"South Africa had even mulled requesting that Moscow opt for Zoom instead, which would have without doubt been taken as an insult by the Russian side. 'President Putin will be asked by South Africa to attend a key summit via Zoom and not in person after Pretoria sought legal advice about its obligations to arrest the Russian leader, who has been indicted for war crimes by the International Criminal Court [ICC],' the Sunday Times reported in May.

"Most recently, the South African government has simply politely asked Putin not to come, something which the Kremlin swiftly rejected."

Mind you, Zerohedge often reports stuff without seeking confirmation from the absolutely necessary second source, which makes it vulnerable to bias and misinformation. This time it has the story right—it was also reported several days ago by CNN, the NYT, PBS and others that do check sources.