DavisCommodities LLC

June 2024 Macro Commentary

The month of June was frustrating from a performance standpoint, but even more frustrating from an intellectual one. As the month evolved, data continued to roll in that supported the core thesis of a slowing US economy and easing inflation, but the markets moved against the positions that should have benefited. Finally, at the end of the month, the yield curve started to move in the correct fashion and should be near breaking out of its recent range.

On July 5, the Bureau of Labor Statistics (BLS) issued their monthly estimate of non-farm payrolls at 206,000 vs an average guess of 190,000. On the surface, it was a bullish surprise. However, digging further into the data leaves one with a different opinion. While the total number was larger than expected, the private payrolls only increased by 136,000 vs the avg est. at 160,000 (meaning more government jobs). In addition, the June estimate was revised lower by 54k jobs and May revised lower by 57k. With all of this data, the jobless rate increased from 4% to 4.1%. With the weaker internal data and the uptick in the unemployment rate, that market is now pricing an 80% chance of the Federal Reserve (Fed) cutting interest rates by the September 18 meeting and two cuts by the end of the year. In addition to the non-farm payrolls data, the ISM reports showed both manufacturing and services indexes in contraction. The bottom line is the softening US economic data should allow for the Fed to cut interest rates before the election which will help the yield curve steepening trade with two-year yields falling faster than the ten-year note.

In addition to the data supporting the steepening trade, the data also supports the long silver trade. While gold is trading at all-time highs, silver remains ~$20 below it's all-time high near $50. The current US Federal deficit is in excess of 6% of GDP and no sign of slowing. With the US government continuing its spending like sailors in a port of call, the weakening economy should add further to dollar debasement. As the dollar loses its spending power, the precious metals should continue their slow march higher. With gold very near its recent high and silver ~40% under, the run in silver could be amazing.

Positions in currencies have been pared for the simple reason that they are all dirty shirts. All of the G7 currencies have their own issues. The yen continues to struggle with a government and central bank unserious about stabilizing the breathtaking fall in value. The euro is mired with political landmines (as the recent elections in France have shown). Canada has similar political issues to the dollar and euro. Lastly, the UK has moved the Labour party back into power which is rarely friendly. Trying to pick out the cleanest dirty shirt is difficult to say the least. As such, without a glaring economic outlier, those positions will be left alone.

Sincerely,

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