

TrackMacro Warns: Potential Weakness in World Trade Ahead

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**TrackMacro™ is a software tool
providing equity risk signals in 40
countries**

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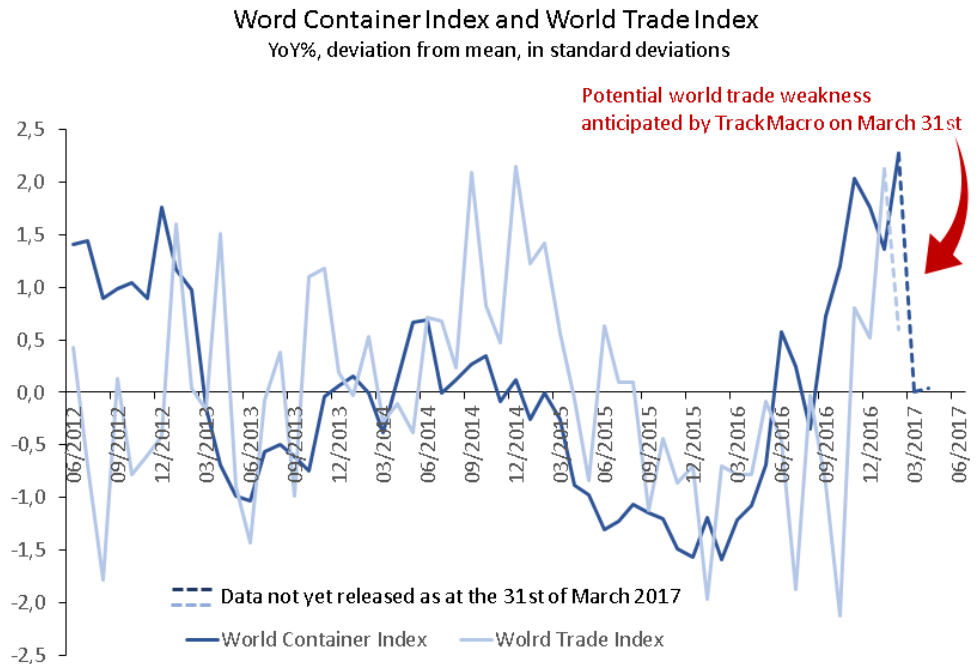
On March 31st, TrackMacro detected a substantial change in the global equity risk profile because of a potential weakness in world trade. The world trade signal turned neutral (grey) from very positive (deep blue) in the previous seven months.

Most economic data, including the world trade volume, is released with a lag and often revised, so that the verification of TrackMacro anticipations requires several months. The latest data releases on global activity and trade, however, present a mixed profile:

- Business surveys and container freight volumes continue to report an improvement in global export orders.
- The Netherlands CPB Bureau reports that global trade fell by 0.6% in volume during February.
- The world container freight price index lost 14% since the end of January.

On Monday, May 15th, TrackMacro intramonth updates concluded that world trade fragility was worsening, with a great likelihood of the neutral signal turning into a negative signal by the end of the month. If this is confirmed, approximately 80% of the countries within the TrackMacro footprint will switch to risk-off mode.

Fig 1. A Potential Weakness in World Trade Moving Forward

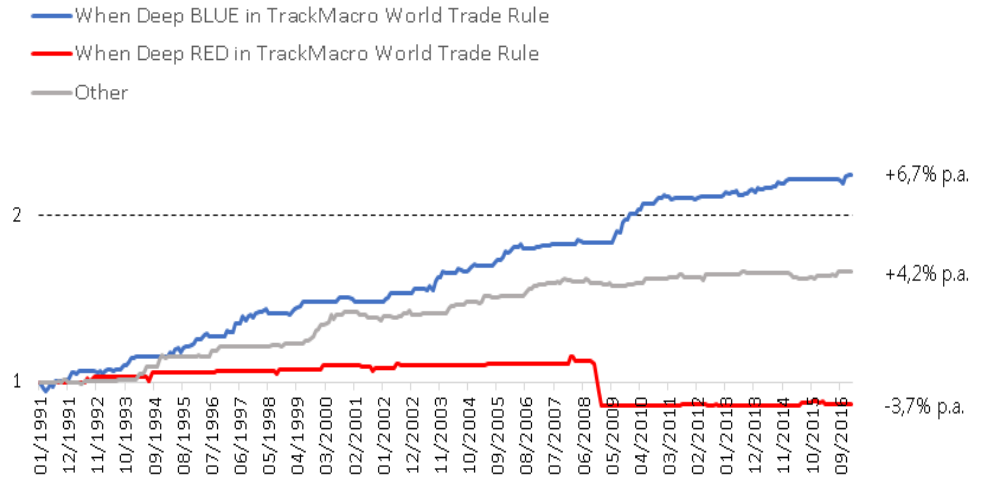


Source: Bloomberg, WCIDCOMP Index and MWT VWT Index

The historical ability of TrackMacro signals to anticipate the dynamics of world trade is illustrated in the following chart. When TrackMacro was highly positive, world trade volume rose at 6.7% per year on average since 1991. When TrackMacro was neutral, world trade rose at the softer pace of 4.2% per year. When TrackMacro was deeply negative, world trade was flat or declining.

The TrackMacro artificial intelligence program only expresses strong opinion when statistically significant. Approximately 60% of the time, TrackMacro has no opinion, or only a slight one, and therefore ignores or underweights the underlying macro factor.

Fig 2. World Trade Volumes Anticipated by TrackMacro



Source: CPB Netherlands Bureau for Economy Policy Analysis, Bloomberg MWT VWT Index

TrackMacro analyses macroeconomic risks for equities through two sets of rules:

Local rules track country-specific factors, such as (1) the combination of growth and inflation, (2) the local equity market valuation (3) the wealth effect of equities and bonds, and (4) the external competitiveness of the currency.

Diffusing rules track the systemic effect of the world on any country through (1) the global USD liquidity, (2) the world trade in volume, and (3) the changes in commodity prices generating transfers of wealth from exporters to importers.

Diffusing rules, by definition, tend to channel global risks, which can spread widely throughout geographical zones, especially when local markets are already fragile. And this is case today for North America and China, and to a lesser extent, Europe.