



Pep in Your Step

Like Navigator subscriber and [PLL Coach](#) Andy Towers, after chugging a 5-hour Energy drink to get fired up for a big game, I've got some pep in my step and roar in my voice this morning. For someone who is exceptionally long natural resources and short technology and retail, I will walk out of this huddle with confidence that we can continue to rack up wins if we stick to our game plan. This is why you play sports your whole life and then get a job on a trading desk, right?

In the retail sector, we've got [Target](#) missing their profit outlook and juicing our retail short for the 2nd time since [May 18th](#), when they saw a 52% drop in Q1 profits and the stock lost a quarter of its value in one session. CEO Brian Cornell told us they faced "*unexpectedly high costs*" back then. Their shoppers are concerned about "*the high and persistent inflation they've been experiencing, particularly in food and energy.*" Whether the "stag" part of stagflation bites or not – the inflation side is starting to hit retail behemoth earnings and with an XRT short on the pad since January, we should sit up in our chairs.

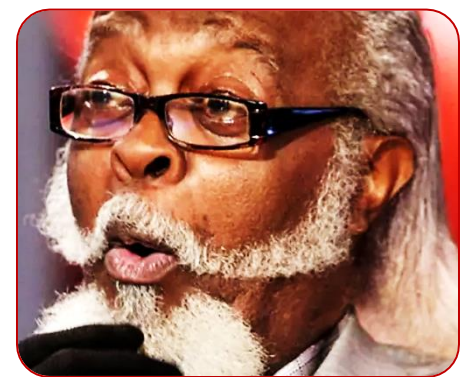
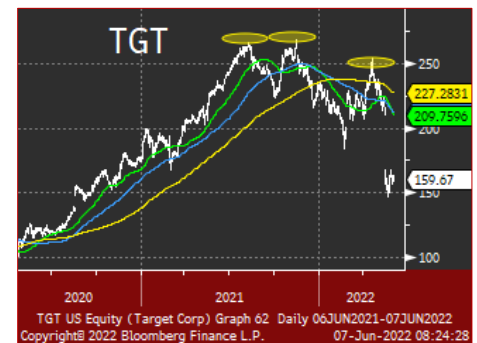
On May 18th Target saw an operating margin of around 5.3%. [This morning](#) they said that it would be closer to 2%. This time around, they've got excess inventory that will have to be marked down, and demand softened for home products that were BID-ONLY during the height of the pandemic. Most people who needed to relocate from crime-ridden blue states, build a home office, and spruce up their yard have done so.

This morning TGT is off about 8% but has not violated the \$145.50 low it carved four days after the guidance stink-burger in May. It's been an orderly move lower in XRT, which will help our cause. It illustrates that retail is challenged looking FORWARD, and that's why I want to stay short.

The fact remains that we are traders. If Target doesn't carve a new low for the move by Friday's close on this second round of lowered guidance, it makes sense to cover some of the retail short on this dip.

A REVERSE JIMMY MCMILLAN !

This morning, I'm bouncing around the room because George Noble posted a great substack on Twitter that helped steel my view on yields. "[3% is not Enough](#)" is a great "*Reverse Jimmy McMillan*" read to hear from like-minded people who do **not** believe inflation will recede from current levels simply because it is too high. If inflation is going to rage





THE NAVIGATOR

Volume: 6 Issue: 102

www.tgmacro.com

June 7, 2022

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on, then 10Y yields will have to exceed 3%. Florian Kronawitter, with the kick-ass name, lays the case out beautifully.

He cites 1) gasoline as **"the financial world's most important metric,"** and I couldn't agree more. I've been calling natural gas the **"tip of the commodity spear,"** but we're barking up the same fossil fuel tree. He knows the Saudis have no spare capacity but massive pricing power and sums up the entire predicament beautifully in one sentence. If you want to explain to someone as if they were an eighth grade or a Golden Retriever, this is how you would do it:

"There isn't enough refining capacity, there isn't enough oil, there is no supply response, so there is no respite in sight."

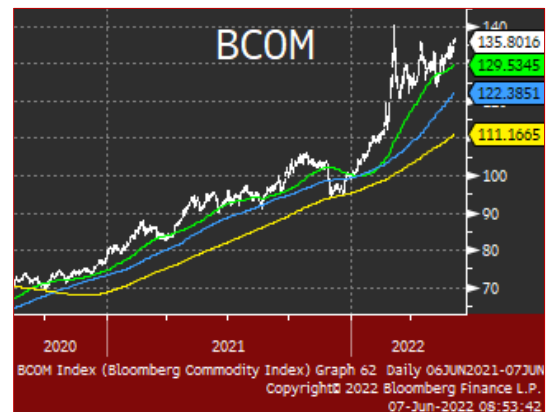
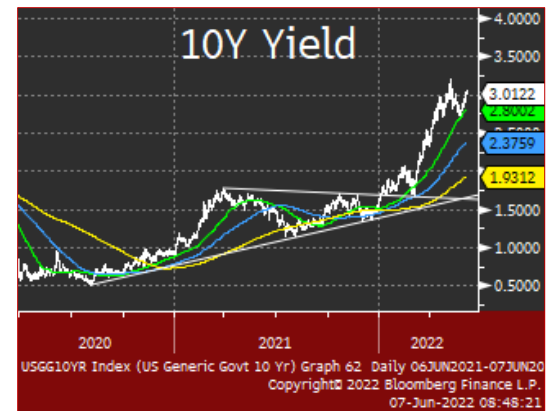
Florian points out in a different form that the cure for high prices is no longer high prices because we have this political (batsh*t crazy energy policy) and investment-driven (Larry Fink's ESG funds) attack on the supply response. When CPI comes out on Friday, don't be shocked to see it reach double digits. We know reality is in double digits. Once the market gets there, yields are going to rise.

Florian cites rent as his 2nd point. There is not much housing inventory, so rents will likely rise, tightening the consumer's inflation predicament even further. His final point is the tight labor market will not help to alleviate inflation pressure. All roads lead to higher treasury yields, which are negative for risk assets unless you pull natural resources from Mother Earth.

If that doesn't convince you, consider the price action of 10Y yields. Dips are steep in price and short in duration. They land on short-term support levels and march to a new high. Everything about this dip in 10Y yields to their 50-day moving average indicates they will do the same, and my man Florian **"This is My Twitter"** Kronawitter will be right in the end.

Treasuries trading lower isn't good for our TLT position, but our TLT position is VERY MUCH a hedge, like utilities are, to that massive pile of natural resource longs we've got on the books.

3% in the U.S. 10Y? Not enough. Take the Bat-Signal (US2Y yields) and the BCOM (Bloomberg Commodities Index) and bid 'em.





STUDY BREAK



I dedicate this Study Break to one of my favorite artists. Prince was ten years my senior and was not done making unbelievable music on the edges of R&B, Motown, rock, and the blues when he died in Paisley Park of an "accidental overdose of fentanyl" on April 21, 2016. Prince was Master Class musician that played every instrument on the studio recording of *Purple Rain* and did it all with style his entire career.

"Dearly beloved. We are gathered here today. To get through this thing called life."
- Prince, born June 7, 1958

"Every day I feel is a blessing from God. And I consider it a new beginning. Yeah, everything is beautiful." – Prince

"God trusts most those who know Him best, and those who know Him best are those who have spent the most time with Him." – Mark Batterson

"Stop whatever is hindering you and discover who you are" - Sunday Adelaja

The best Prince story ever was from the Rock and Roll Hall of Fame rehearsal in 2004. George Harrison was inducted the same year. The show's producer, Joel Gallen, asked Prince to play twice during the induction ceremony. He would play once for his induction and then join Tom Petty and an all-star band on stage to play *"While My Guitar Gently Weeps."* Prince sandbagged the rehearsal. He didn't take the lead when he could have. He let other guitarists step in and play leads. Joel Gallen was steaming. He went up to Prince and said something like, hey man, I put you up to this solo because you're one of the world's greatest guitar players, and I thought you'd crush this entire production for us. Prince was still throwing shade, saying something like, yeah, it'll be fine. I'm sure Gallen was on the ropes for several hours.

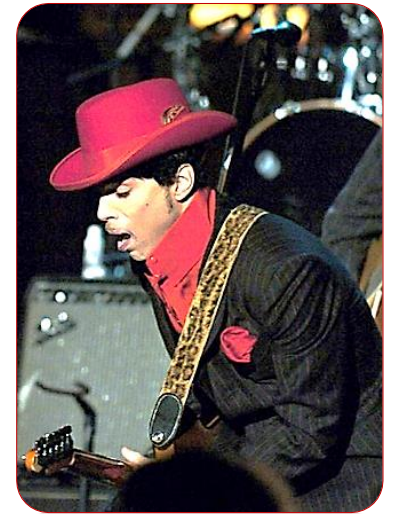


"Just start by creating your day. Then create your life." – Prince

Prince came out and blasted what is now the most memorable guitar solos of all time at showtime. Prince sandbagged the rehearsal so that nobody would know what hit them when he came out and laid that solo down live. In my opinion, it is a perfect piece of guitar work that I haven't seen anything like since Eddie Van Halen played the Garden in '82.

At 5:10 into the video, Tom Petty shakes his head in disbelief. Joel Gallen's dream, and the dreams of many other Beatles and Prince fans like me, came true that night. That was something special. Thank you, Prince.

Take six minutes and twenty-one seconds on Prince's birthday to enjoy these Master Class musicians performing [*While My Guitar Gently Weeps*](#). And then watch Prince slam dunk the solo, toss his guitar into the crowd, and bounce. To this day, nobody knows who caught Prince's guitar.





View Matrix

Cover some retail on a dangling gap lower.

Let the rest ride.

VIEW MATRIX						
LONG	TICKER	Added	REASON	ALL BETS ARE OFF	TARGET	Performance
Aluminum	AA	23-May-22	Buy the 35% pullback into technical support	< 55	\$110	5.70%
Treasuries	TLT	12-May-22	Just for the reversal/retracement trade	< \$110	\$140	-3.25%
Utilities	XLU	12-May-22	Defensive Long	< \$68	\$80	5.79%
Oil	XOP	2-Dec-21	Buy the Omicron Dip	< \$105	\$180	68.84%
Natural Resources	IGE	2-Dec-21	Buy dip to tech support (\$30)	< \$32	\$55	44.26%
UPSIZED	DBA	27-Apr-21	Agriculture breakout/inflation pending	< \$20	\$35	19.27%
Oil	USO	11-Nov-20	Restart prospects are bullish	< \$45	\$100	204.79%
Gold	PHYS	24-Mar-20	CURRENCY HEDGE/INSURANCE POLICY	COLLECTORS	FOR LIFE	9.96%
SHORT	TICKER	Added	REASON	ALL BETS ARE OFF	TARGET	Performance
The Nasdaq	QQQ	12-Apr-22	Nosedive Trading resumes	> \$338	\$250	9.88%
Retail	XRT	11-Jan-22	Technical curlover into HIGH inflation	> \$74	\$50	24.01%
RADAR SCREEN						
BULLISH	NATURAL GAS, XME, OIH, PTON, XOM, REFINERS					
BEARISH	F, FAANG, SOCL					



THE NAVIGATOR

Volume: 6 Issue: 102

www.tgmacro.com

June 7, 2022

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