SPECTRA MARKETS

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amFX

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"Disneyland is presented as imaginary in order to make us believe that the rest is real, whereas all of Los Angeles and the America that surrounds it are no longer real, but belong to the hyperreal order and to the order of simulation."

- Jean Baudrillard
Simulacra and Simulation, 1981

Current Trades

Flat

Controlled Demolition

When does Jay Walk?

Today's table shows you when prior Fed Chair announcements and confirmations happened, right back to the Paul Volcker era. Mr. Powell's 4-year term ends on February 5, 2022. Here is the past timing:

Chair	Appointed by	Nominated	Confirmed	Days to confirm
Powell	Trump	2-Nov-17	23-Jan-18	82
Yellen	Obama	8-Oct-13	6-Jan-14	90
Bernanke2	Obama	24-Aug-09	29-Jan-10	158
Bernanke1	Bush 43	24-Oct-05	31-Jan-06	99
Greenspan	Reagan	2-Jun-87	11-Aug-87	70
Volcker	Carter	25-Jul-79	2-Aug-79	8

Greenspan reappointment dates not included, to reduce noise

The entries in black are the relevant ones and the light gray entries are just there in case you're curious. You can see that the window for the nomination of the three most recent first-time Fed Chair nominations (the relevant comparable sample) is October 8 to November 2. With the confirmation process more fraught and political each cycle, I don't think anything past mid-November is viable. If you count 82 days back from Powell's last day possible day in the seat (February 5, 2022), that's November 15. Expect a Fed chair nomination or renomination announcement in October or early November.

Lael Brainard is the obvious lead candidate if Powell is not renominated. While the uncertainty factor is not all that high on a smooth transition from Jay to Lael, a fumbled baton pass is possible. Brainard, and any new replacements on the Fed, are likely to be dovish-leaning Democrats, and at this stage of the cycle, this probably isn't a watershed story for markets. But it's worth watching.

I said I'm 72%/75% on a Powell renomination yesterday and today I update to 46%/49% because the more I think about the Fed credibility damage from KaplanRosenGate, the more I think a leadership replacement will appeal to Biden. Also, the battle for control of US institutions is a fight politicians on both sides are not shy about waging. Flipping the Fed Chair from Republican to Democrat only makes sense in the hyperpolarized "it's us vs. them" political environment.

You can follow Fed Chair odds here, on BetFair. Market is wide: 69%/83%.

G10 FX thoughts

We are approaching some epic levels in G10 FX. On the next page there are two charts to show you what I mean. Meanwhile:

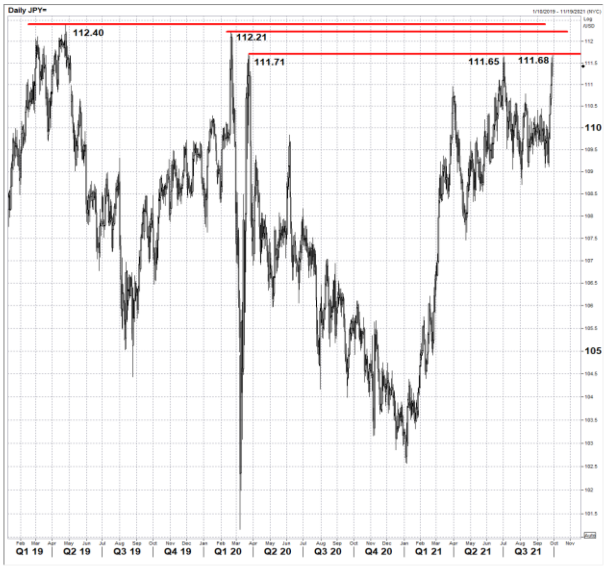
- USDJPY holds in well for now, despite a small rally in bonds and a Kishida win. The market holds out hope that Takaichi could end up as FinMin. USDJPY should just be a rates story from here. Personally, I would be taking off my USDJPY longs here as the risk/reward is sketchy short-term. Especially if you agree with me that more deflationary winds are coming over the horizon.

- GBPUSD is cratering as the market fully embraces the idea that the Bank of England is hiking into a supply problem just before the economy encounters a demand problem. I find it hard to disagree with this, though the narrative chasing is aggressive as we went from “orthodox BoE, buy GBP!” to “GBP is an EM currency!” in less than a week.
- Stocks are down 4% this month, which should lead to USD buying over the next 24 hours, culminating at 11 a.m. NY tomorrow[1].
- 1.1600 was the spike low on the night of the US election. That level is critical.

Here are the two charts that matter most right now in G10 FX:

EURUSD major range bottom and H&S neckline at 1.1600

USDJPY tops galore



Please, not more Evergrande!

I know you’re bored with reading Evergrande essays and threads. But bear with me. This ChinaTalk Substack contains some useful analysis. Thanks to MP for sending it to me. The piece is an interview transript that goes into the causes and probable effects of the epic regime change in Chinese real estate. It hammers all the most important points (demographics, leverage, etc.).

Here is an excerpt. The speaker here is Logan Wright, director of China markets research at Rhodium:

> “I think it's fair enough to say that the markets are starting to reflect upon what it looks like for China to have a very different growth model, and one that likely features lower rates of economic growth in the future if it's less reliant upon the property sector…

[1] *Explanation for anyone who doesn’t trade a ton of G10 FX: This effect comes as foreign owners of SPX need to modify hedges when SPX moves. They like to do that against the 11 a.m. fix benchmark on the last day of the month (tomorrow). The simple example is: Imagine a pension fund in the UK that owns 1 billion USD of S&P 500 and is currency hedged with a short 1 billion USD position. Now, stocks drop 4% and so their hedge is too big (they are short $1 billion but their SPX is only worth $960 million now). They need to buy 4% of their hedge back ($40 million) to rebalance. So, benchmarked to the last 11 a.m. fix of the month, they buy $40m and sell GBP. There is a TON of nuance I have left out here but that’s the basic gist. UK pension funds hold about $3T in total assets and other pension funds around the world operate similarly so these hedges can be huge. I have massively oversimplified here, but that’s the gist of it.*

I think China watchers are considering these changes in the growth model. There is this debate out there about how politically feasible that is. **I think there's generally more coherence right now in Beijing about the critique of China's current growth model rather than coherence around what that alternative would really look like.**

Some recent articles have been talking a lot about the German economic experience, the potential for China to have many small and medium enterprises that are very high tech and at the technological frontier, but still export and manufacturing-oriented. That's interesting."

The piece features this chart. It's a winner.

China land transactions = Controlled Demolition

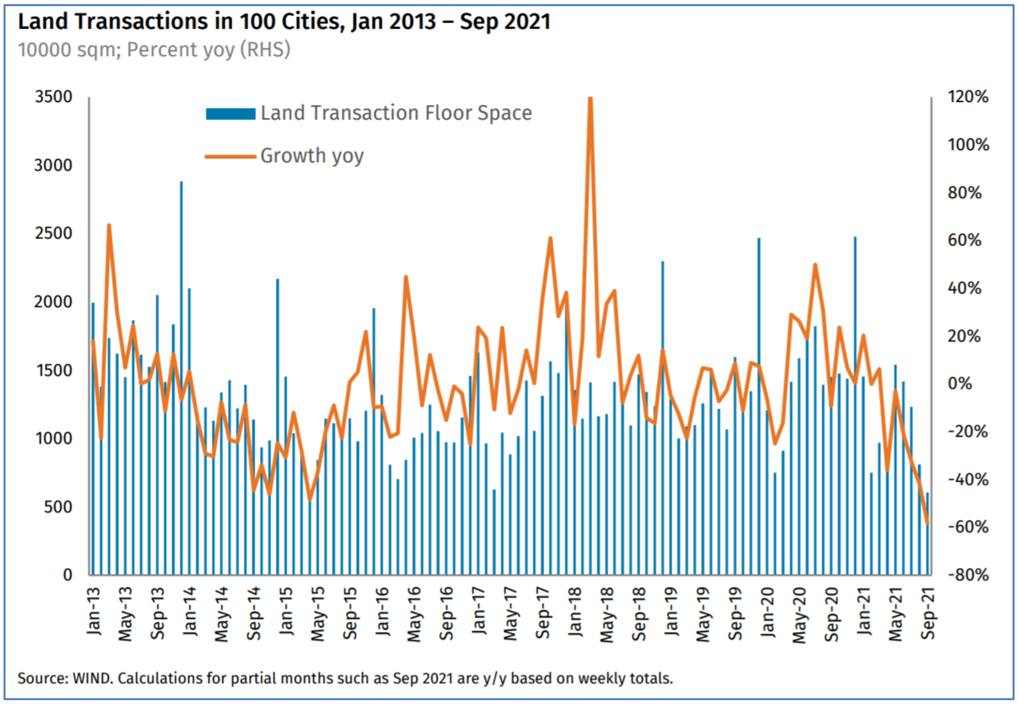


Chart reproduced with permission of the Rhodium Group and ChinaTalk author Jordan Schneider[2].

The reason I like the interview so much is that it overlaps with my thesis, but presents a bunch of data points and observations that are new to me. My view, expressed a few times over the past few weeks, is that Evergrande is a symptom of a massive policy shift in China and not an event unto itself. This change in Chinese macroeconomic policy will be bad for global growth and deflationary overall despite occasional bursts of reflationary hopium injected as necessary by the Authorities as they attempt to engeinner a controlled demolition of a bloated property sector with Chinese characteristics.

Win / win

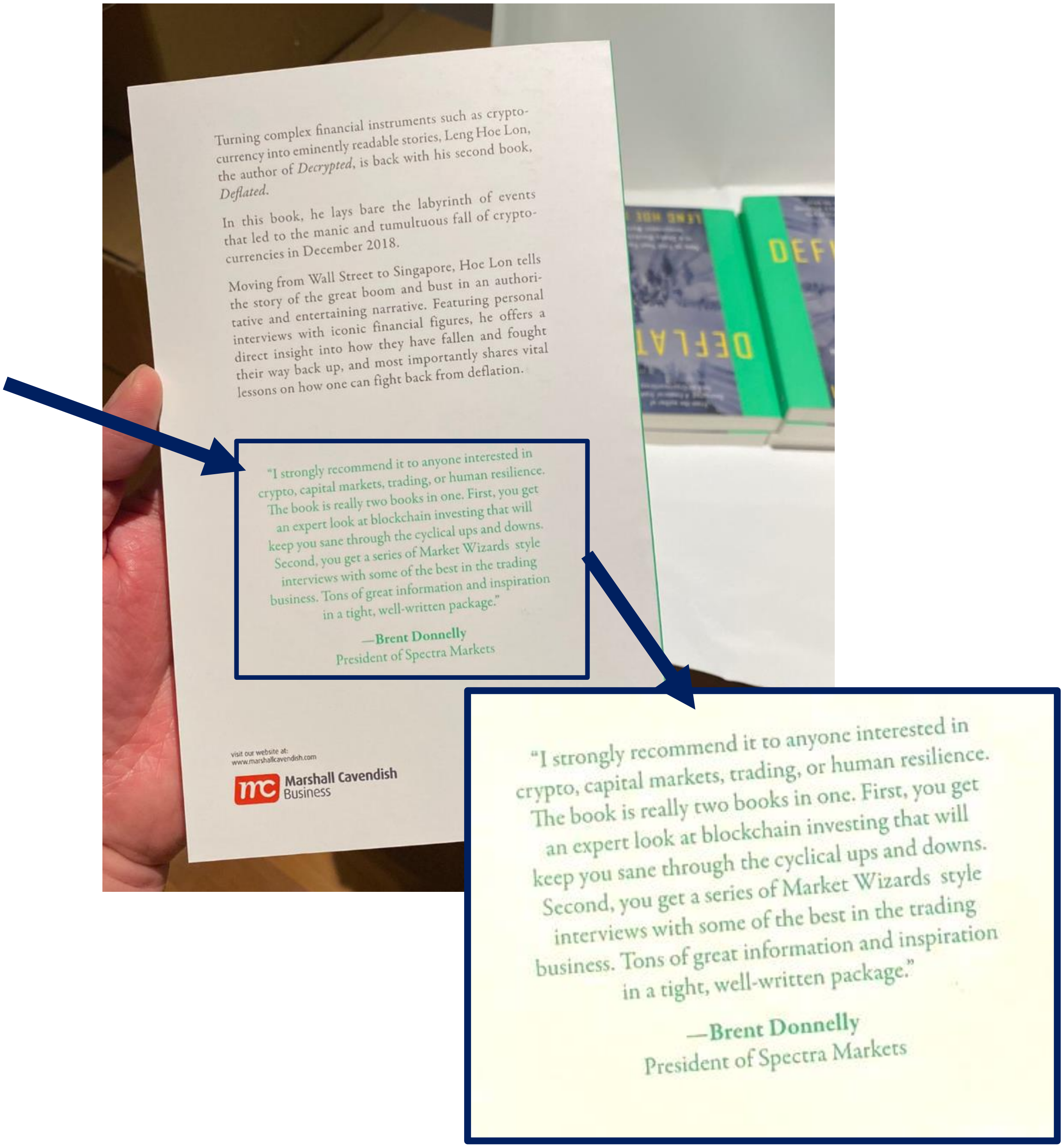
I recently read an advance copy of "Deflated" by Leng Hoe Long. It's an excellent book. All proceeds from the sale of the book go to help disadvantaged youth. Hoe Lon's last book raised more than $120,000.

I strongly recommed "Deflated" to anyone interested in crypto, capital markets, trading, or human resilience. The book is really two books in one. First, you get an expert look at blockchain investing that will keep you sane through the cyclical ups and downs. Second, you get a series of Market Wizards style interviews with some of the best in the trading business (including **Paul Tudor Jones**). Tons of great information and inspiration, in a tight, well-written

[2] Schneider is a China tech analyst at the Rhodium Group. He is ex-Bridgewater and ex-Eurasia Group.

package. [Here is the link](#) where you can buy the book. And… Hoe Lon's employer, Standard Chartered, will match all funds raised for this cause. Winning.

If you won't take my word for it, maybe this blurb on the back of the book will convince you:

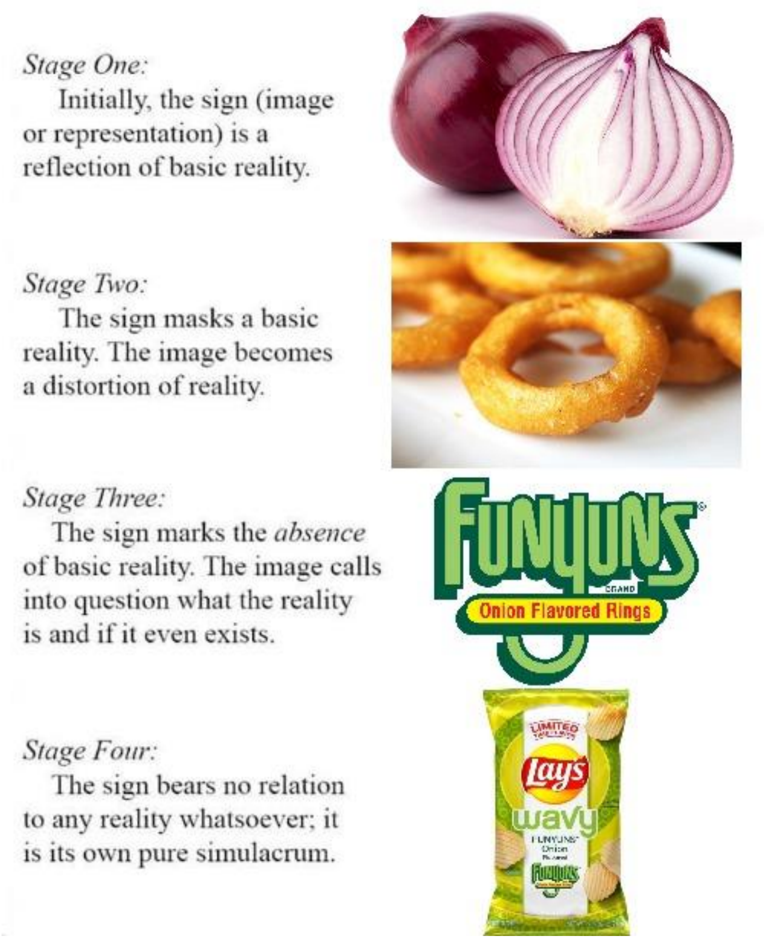


:]

good luck ⇅ be nimble

Continuing with yesterday's Matrix theme…

"The Matrix" is said to be inspired by Jean Baudrillard's "Simulacra and Simulation". The meme below is a riff on that famously cool and dense treatise:



Meme by @Theophite via CR

Page 1 image generated using photomosh.com

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