SPECTRA MARKETS

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am
FX

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Standard-winged nightjar

Current Trades

Flat

Non-standard

Fed speakers

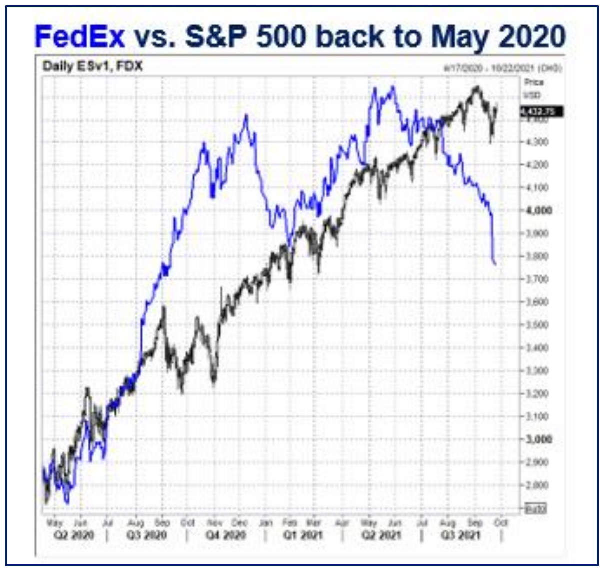
It is a big week for Fed speakers including two three guns today: Evans, Williams and Brainard. It is a particularly interesting time for Fed talk given the distribution of Fed dots and the perception that the dovish core has lost its hold on the more hawkish peripheral members. You can see the rest of the lineup on Bloomberg, and you will probably notice that Kaplan and Rosengren do not appear on the otherwise-packed schedule as they shun the limelight in the aftermath of their controversial trading.

China

I wrote a bit last week about my view on China. Evergrande is not the event that matters, Evergrande is a symptom of a policy change in China and an indicator that the credit contraction that started months ago is finally hitting the ginormous, debt-fueled real estate sector. I doubt global growth will emerge unscathed as China attempts to simultaneously squeeze the capitalism out of the tech industry and deleverage the debt-fueled real estate machine.

Check out this weekend piece from Niall Ferguson for a detailed look at similar themes. The subtitle of the article is: *Evergrande's collapse isn't leading to global contagion, but China's looming economic disaster might.*

Another brick in the wall



On top of negative seasonals in stocks (until October 9 or so) and the threat of deflationary drag from China, the supply shock is starting to hit US earnings. In case you missed it, at right is FedEx stock (blue line) vs. S&P. FedEx is a bellwether and probably offering an early warning that other companies will also find it hard to make money when nobody's showing up for work.

Expect weakness in China real estate and credit, plus worker and energy shortages to hit all the PMIs and US ISM over the next couple of months. Mr. Blonde's substack covers this nicely, including an overlay showing how FedEx stock tends to track and sometimes lead ISM. This, to me, is logical.

Non-standard Fed paper

Research shows that central bank staffers tend to write research that supports existing policy and suffers from groupthink. This criticism, however, absolutely does not apply to this brand new paper from Fed senior adviser Jeremy Rudd. The piece drops a series of bombs, directly contradicting the bossman while lobbing intellectual Molotov cocktails at Rudd's peers (and at capitalism). The most eye-opening line of the paper is in a footnote, right on page 1:

> I leave aside the deeper concern that the primary role of mainstream economics in our society is to provide an apologetics for a criminally oppressive, unsustainable, and unjust social order.

That's like writing an essay critiquing a particular rule in football and adding the footnote: "And by the way, football is the most corrupt and terrible sport in the world." Here is the full abstract of the paper:

> Economists and economic policymakers believe that households' and firms' expectations of future inflation are a key determinant of actual inflation. A review of the relevant theoretical and empirical literature suggests that this belief rests on extremely shaky foundations, and a case is made that adhering to it uncritically could easily lead to serious policy errors.

The tone runs in stark contrast to Powell's Jackson Hole speech a few weeks ago:

> Policymakers and analysts generally believe that, as long as longer-term inflation expectations remain anchored, policy can and should look through temporary swings in inflation. Our monetary policy framework emphasizes that anchoring longer-term expectations at 2 percent is important for both maximum employment and price stability.
>
> We carefully monitor a wide range of indicators of longer-term inflation expectations.

The very first line of Rudd's paper sets the tone and it just gets more fun from there:

> Mainstream economics is replete with ideas that "everyone knows" to be true, but that are actually arrant nonsense.

To be fair, the paper *does* give a nod to the possibility that long-run inflation expectations might matter… But anyway… Whether or not you believe the assertions it makes, the paper is a great read just for the number of very old, snarky quotes from economists of the 20s, 40s, 60s and 80s. And for the courage of its aggressive antiestablishmentarianism.

Views

My broad views haven't changed much over the last two weeks even as my tactical expressions of these views have been meh:

- Bearish stocks into mid-October.
- Bullish USD on more hawkish Fed (note tomorrow is corporate month end[1], which tends to see USD buying, particularly in the US morning).
- Skeptical on the GBP rally (BoE hawkish into an energy shortage and fiscal austerity is not all that bullish for the currency).
- Bullish USDJPY as yields recover, the fractal triangles look ready to break, and Takaichi is a nice potential kicker.

The only change I would point out is that I have talked a bullish EURCHF view in here and in Bloomberg chats a few times as European assets trade very well. But **I am worried that long EURCHF is now crowded** and people are going to get bored of it. USDJPY has also become popular in recent days, but traders will have patience there given the long list of awesome USDJPY trades over the years. EURCHF, on the other hand, tends to be a pair where people are more likely to get bored, and bail.

Have a non-standard day.

good luck ⇅ be nimble

[1] Spot value date September 30, the last day of the month where spot value is September.

Standard-winged nightjars have totally non-standard wings

The adult male has a bizarre and unusual wing ornament during the breeding season which consists of a broad central flight feather on each wing elongated to 38 centimetres (15 in), much longer than the bird's body. 20 centimetres (7.9 in) or more of this is bare shaft. In normal flight, these feathers trail behind, but in display flight they are raised vertically like standards.

Thus, the usage of the word “standard” here means “war flag” or “battle flag” not “normal, or usual”

Video here

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