

am
FX

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Tomorrow is Tuesday

In case you missed it: Contagion from Evergrande to other China real estate companies accelerated last night. See chart. Oops. Onshore markets in China were closed Monday and will be closed Tuesday. They reopen Wednesday. Hong Kong is open Monday and Tuesday, then closed Wednesday.

All this is helping my CNH view, of course, but it's worth noting that tomorrow is Turnaround Tuesday. In case you are a new reader, below is the basic description of how that setup works (excerpted with permission from my book "[Alpha Trader](#)"). If you already know what Turnaround Tuesday is, you can skip ahead to page 3.



START OF EXCERPT

Turnaround Tuesday

During periods of market fear, there is a common intraweek pattern that stock markets often follow. Markets don't always follow this pattern, but they do follow it a surprising proportion of the time.

Anatomy of a sell-off	
Thursday	<i>Hmm, I'm getting a bit nervous here, maybe I should reduce a bit of my stock market exposure.</i>
Friday AM	<i>I need to hedge; this looks really bad.</i>
Friday PM	<i>I better sell some S&P futures to hedge my weekend risk. Wow, what a brutal close.</i>
Saturday	Everyone reads the alarming media coverage of the scary thing(s) that hit the market Friday
Sunday Asia / Monday morning	Markets gap open lower and selling builds as Asia selling cascades into Europe. NY traders press their shorts.
Monday around 4PM	The low.
Tuesday	Turnaround Tuesday as shorts get squeezed.
Wednesday	See saw battle between bulls and bears.
Thursday	<i>Hmm, I'm getting a bit nervous here, maybe I should reduce a bit of my stock market exposure.</i>

cnbc.com

FEDERAL RESERVE

After years of being 'squeaky clean,' the Federal Reserve is surrounded by controversy

PUBLISHED FRI, SEP 17 2021 2:51 PM EDT

Not a great weekend for the global elite

Inquiry finds World Bank officials, including now-I.M.F. chief, pushed staff to inflate China data.

Current Views

If SPX closes down 1.5% or more today, buy ES at close (4 p.m. NY) with a stop loss 1.1% below entry... and buy AUDUSD with a 50 pip stop loss. TP TBD.

↑USDCNH @ 6.4488
Stop loss 6.3990
Take profit 6.5590

The most reliable part of this pattern is “Turnaround Tuesday”. This is the tendency for stocks to rip higher on Tuesday if they sold off the Thursday, Friday and Monday before. It is a simple human pattern that occurs because when the news appears bad, traders get nervous into the weekend and sell some of their holdings on Friday. Then, they read all kinds of negative media reports about the big scary thing and that scares them into selling more on Monday.

Investor selling pulls in momentum traders who go short on Monday. This adds to the selling pressure. Then, Tuesday comes and there is nobody left to sell. The shorts get squeezed and that triggers Turnaround Tuesday.

In case you think this sounds silly, have a look the evidence. First, at right is how the S&P performs in the most extreme Turnaround Tuesday setup which is when it falls Thursday and Friday and then is down more than 5% on Monday. That’s rare, but check out the returns.

**Tuesday 1-day S&P 500 return after:
(down Thursday, down Friday, down >5% Monday)**

9/13/1932	-4.3%
10/19/1937	3.2%
5/29/1962	4.6%
10/20/1987	5.3%
10/27/1987	2.4%
10/28/1997	5.1%
9/1/1998	3.9%
8/9/2011	4.7%
3/10/2020	4.9%
Average	3.3%

In contrast, if you study all days after a 5% one-day drop, the average return the next day is just +0.9%. Not terrible, but nothing amazing.

Second, to give you more evidence supporting Turnaround Tuesday, the next chart shows SPX performance for Tuesday vs. all other days in 2008. Note that 2008 was one of the worst bear markets in history yet Turnaround Tuesday was a thing almost all year. If you traded in 2008, you probably find this chart pretty mind-blowing.

Total cumulative performance of Tuesdays (solid line) vs. rest of the week in 2008

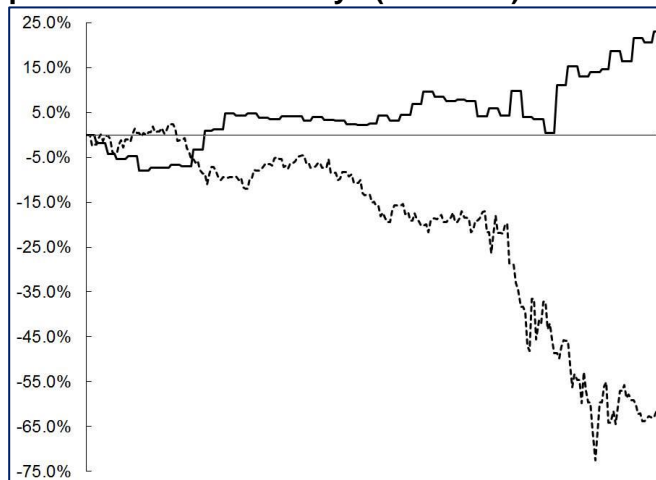


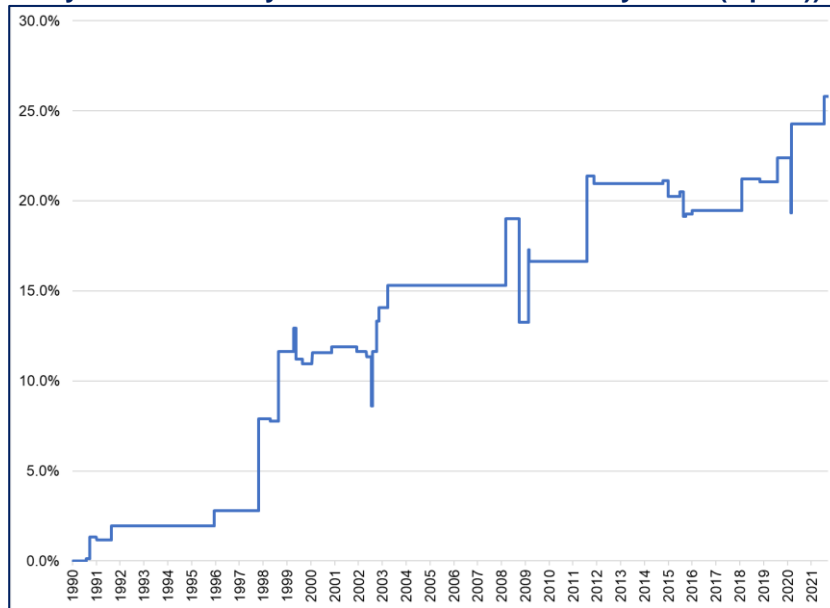
Image: Donnelly, with data from Refinitiv

END OF EXCERPT

The example in the excerpt shows results after a 5% drop on Monday, but the results are similar in direction (with lower magnitude), even when the drop Monday is just 1.5% (SPX futures currently down 1.7%).

This setup (Thursday negative, Friday negative, Monday down 1.5% or more) has happened 40 times since 1990. Going long at the close on Monday has made money the next day (Tuesday) 64% of the time with an average rally of 0.6% on the Tuesday. Here is the cumulative P&L of the strategy since 1990:

Cumulative P&L of the strategy: (if SPX 500 negative Thursday and Friday and -1.5% or more Monday: Buy SPX at Monday close and cover at Tuesday close (4 p.m.))



This is, of course, contingent on today's SPX close and it's also worth noting it works 64% of the time not 100%!

AUDUSD = beachball under water

You can see from the price action (and from the CFTC data!) that **the AUDUSD market is extremely short** so as a short-term trade (and a decent hedge if you're long USDCNH)... Going long AUDUSD or NZDUSD at today's close for the Turnaround Tuesday trade probably makes sense. Trade your own view and trade at your own risk. I'm just here to provide you with ideas. Current Views always in the sidebar of page 1 (those are my strongest views, not all my views).

Finally, in case you are wondering, Turnaround Tuesday also works in crypto. BTC was not down Thursday AND Friday, however so there is no signal today.

The Fed setup is now completely different

Finally, finally: The Fed setup looks completely different now than it did when I started talking about long USD and hawkish Fed a week ago. Almost everyone has come over to my side now with that. I will discuss this tomorrow.

Have an ethical day.

good luck ↑↓ be nimble

Tough weekend for the global elite

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Finance

Fed's Powell orders sweeping ethics review after officials' trading prompts outcry

<https://therevolvingdoorproject.org/powells-carlyle-past-meets-the-feds-ethics-scandal-present/>

<https://twitter.com/epsilontheory/status/1438880920208093190>

☰ FINANCIAL TIMES

Evergrande Real Estate Group Ltd

Evergrande bosses face 'severe punishment' after securing early redemptions

Chinese property group battling to repay investors, banks and bondholders



Daily Business Briefing
Sept. 16, 2021
Updated 4 hours ago

- **Inquiry finds World Bank officials, including now-I.M.F. chief, pushed staff to inflate China data.**

An investigation focused on accusations that top World Bank officials pressured the team conducting an annual survey to improve China's standing.

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Brent's huge network of hedge fund, real money, central bank, and trading contacts give him unique insight into what's driving markets today, and what will move markets tomorrow.

Brent offers actionable analysis, clear directional views, and real trade ideas as he helps you surf the current narrative. He puts new themes on your radar before they hit the mainstream.

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