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FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



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Current Views

Long NZDUSD @ 0.6692

Stop loss 0.6614
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Long BTC @ 38220

Stop loss 31400
Take profit 49900

Bullish EURGBP

Long 18MAR 0.8550 EURGBP digital call at 24% (spot ref. 0.8426)

New World Order

I try my best not to be overly hyperbolic in here because there is so much hyperbole out there all the time. But it is hard not to overstate the massive, dramatic changes happening in the global economy and financial systems. Here is a quick list off the top of my head:

The old way	The new way	Implications
<p>The US dollar and reserve currencies are safe stores of value</p>	<p>The financial system has been weaponized. This is not exactly new as Iran and other smaller countries have felt this in the past.</p> <p>But it's coming into focus as giant reserve holders Russia and China become clear US adversaries.</p>	<p>Global reserve holders who are friendly with the US are fine. Those who are not will be reconsidering their pace of dedollarization. A known threat has materialized, and SWIFT and other sanctions will be deployed again in future.</p> <p>This applies particularly to China as the PBoC has always known this is a possibility but is now seeing it play out in real time. As such, career risk for PBoC risk managers who perpetuate China's reliance on SWIFT has gone up.</p>
<p>Money in the bank is a safe store of value</p>	<p>Real rates are persistently below zero, and freedom to transact is being compromised here and there (China and Canada).</p> <p>Sovereigns and individuals: Your money is not as safe as you thought it was. Funds can potentially be seized without a warrant or legal process.</p> <p>Inflation is running at 7% and interest rates are zero. Savers are losing money as central banks intentionally run inflation hot in an attempt to burn off monster debts.</p> <p>Keynes: "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."</p>	<p>Saving is illogical. This has meaningful societal implications going forward as debt and consumption become even more a part of the culture and gambling and speculation become more and more of a rational response to the inability to keep up with the declining value of money.</p> <p>Government insurance of bank balances is not as reassuring when that same government can seize your funds without a warrant.</p> <p>Bitcoin in cold storage has never looked better though it's worth noting that you need fiat to transact. A bunch of BTC on a Trezor isn't going to help you if you need gasoline or food.</p>

[Here is a good thread](#) on why the freedom to transact is important and necessary in a democracy.

The old way	The new way	Implications
War is obsolete in Europe	Russia invades Ukraine. Germany increases defense spending to counteract Russia threat. Not exactly new as 2014 was the sneak preview.	This could be good for European integration. A shared threat can bring countries together. Also allows more fiscal spending.
US government spending is countercyclical and anchored by revenue from taxation.	<p>The US government increased deficits in 2017/2018 despite a very strong economy and low unemployment. Fiscal does whatever it takes during crisis and whatever it wants in the good times. TCJA, MMT and COVID snipped the cord.</p> <p>“How will we pay for it?” is not a question many people ask. Unless they are looking for a laugh.</p> <p>Deficit concerns are mythical.</p>	<p>Trust in government and trust in money are making new lows.</p> <p>MMT is fun to talk about in textbooks but outrageously risky in real life. More and more government and fewer and fewer checks or balances.</p> <p>Fiat currencies are sus.</p>
Nation states have a monopoly on the issuance of currency	Anonymous, shadowy super coder creates currency by harnessing the burned energy of a million ASIC miners.	Long-term reserve status of the USD possibly threatened by bitcoin if the long-awaited (but never seems to happen) collapse in trust of the USD ever materializes. Don't hold your breath for this, but don't discount it to zero either.
Cash is king	<p>Cash is slowly on the way out.</p> <p>CBDCs will eventually replace cash.</p>	<p>Deeper negative rate policy can be implemented as cash is banned.</p> <p>Government surveillance of transactions increases. Expiring money, local money (you can only spend in a given area), restricted purpose money (can't be used for gambling or alcohol, for example) and other new fiscal experiments using programmable digital currency will enter the conversation.</p>
Globalization is great!	Globalization is... Not as great as we thought?	Renationalizing supply chains. Higher inflation, more inventories, lower profits.
Cheap energy is best	Externalities matter and ESG is king	Global trade is great when it's between partners that agree on basic ethical and legal principles. When they don't, you get Germany depending on Russia for 50% of its oil. Similar to the problems the US used to have with reliance on Middle East, now Europe has too much reliance on Russia. This will take years to fix.

That's the big picture. Now let's zoom in.

Zooming in

Zooming all the way in now, I see the market doing all the same trades that didn't work last week again this week. Sure, selling EURUSD makes sense as a kneejerk, but one can also argue that this is all leading to greater European integration and faster dedollarization by China. Sure, selling SPX feels right, but are US corporate earnings likely to be affected by Sberbank and VTB getting booted from Swift? I think it's more in the unknowable category and the answer is not at all obvious.

Sure, there could be some crazy weird settlement issues that smash EU banks. Or maybe Russia has been preparing for this by dedollarizing and bracing themselves for various types of sanctions since 2018... And life in the markets goes on. I don't want to be overly blasé about the potential economic impacts here because there is certainly plenty of hard-to-measure risk here. Then again, the market has been selling stocks all year, we held the lows in everything (EURUSD included), and oil is unchanged from two weeks ago despite unanimous market calls for \$110 and \$120.

Zooming in even more, today is month end and that (in theory) should mean some USD buying into 11am NY time. The month end model has not worked amazingly well of late, but I would still be on high alert for random waves of USD buying across the board. The one exception is that USDJPY should see selling as it tends to trade opposite to the rest of G10 on month end. With multiple USDJPY highs around 115.70 (Retail Sales day, Friday, and overnight) that level has gained some importance.

EURUSD has now made a clear triple bottom at 1.1105/20. A clean gap fill will take us to 1.1270.

Hourly EURUSD triple bottom



5-minute EURUSD gap



Views

I maintain my view that risky assets are oversold, and we need a rebound to the 200-day in SPX (4500). The Russian invasion of Ukraine and subsequent sanctions are scary but selling risk assets or buying dollars on the news does not look like the right play to me. I still think NZDUSD goes to 0.6820 and bitcoin goes to 50k. I think the USD struggles overall as the US exceptionalism trade is over and rate differentials suggest modestly lower USD.

China PMI tonight could be interesting (possible bullish NZD catalyst), and I expect the Bank of Canada to deliver a hawkish 25 bp hike on Wednesday, much as the RBNZ did. Short USDCAD looks good to me, but I don't feel compelled to add risk today as it's hard enough to stay bullish world with all the scary stuff going on.

The GBPCAD trade hit the take profit. That was a good trade.

What is t-2?

Finally, on Friday, some asked: "what is t-2?"

t is the last business day of the month. **t-2** is two days before that (because spot FX is 2-day settlement, with a few exceptions such as CAD and TRY.) If a corporation wants to buy USD for value date 31JAN, they will generally trade on 29JAN. Many US corporates buy USD on t-2 (especially megatech and big pharma.)

Have a brainy day.

good luck ↑↓ be nimble



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You can buy some weird stuff on eBay

Fun fact, the systems at the bank that I worked at in 2004 ran on a Unix platform that was no longer serviced by its manufacturer so sometimes when things stopped working, IT had to buy replacement parts on eBay.

"Sorry guys, functionality will be restored in 3 to 5 days, depending on shipping times."

HT GITT

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