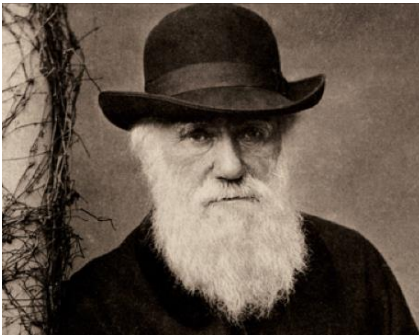


am  
FX

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Do you ever feel like your mind has become a kind of machine for grinding general laws out of large collections of facts?

## Current Views

**Long BTC @ 38220**  
Stop loss 31400  
Take profit 49900

## Antiantifragile

The first week I sat down at Citibank New York in 1996, there was some crazy stuff going on in the AUD market. It was a seminal moment in my trading career as this scene lit the first spark of my passion for cross-market analysis. The conversation went like:

Stoney: Mate, get me calls in AUD, I'm a seller. 200 AUD, 80 or better.

Me: OK, who is the customer?

Stoney: Nobody. I'm getting short. See that Sumitomo headline?

**\*COPPER FALLS 9% AS SUMITOMO ANNOUNCES MASSIVE LOSS ON UNAUTHORIZED TRADES**

Me: Why would lower copper make you want to sell the Australian dollar?

Stoney: I'll tell you later. Get me calls.

Here's the chart:

Copper prices around the time of the Sumitomo copper affair



[https://en.wikipedia.org/wiki/Sumitomo\\_copper\\_affair](https://en.wikipedia.org/wiki/Sumitomo_copper_affair)

This came to mind because of the recent shenanigans in the nickel market. Classic “tide out, who is naked?” kind of stuff as the paper positions dwarf the real-world market and lead to market fragility. The massive leverage in the derivatives market is all fun and games until someone loses everything. Margin calls like the one in nickel tend to happen towards the end of the move, not the beginning, but whatever happens to nickel... The endless series of rolling commodity shocks that started more than twelve months ago in the lumber market continues. Amazing.

The fringe gold and silver manipulation peeps who have been circling like big cats with zoonosis since at least 2005 must be feeling more confident now as they see how disconnected the paper and physical markets have become over at atomic number 28. There's a reason Buffett called derivatives “weapons of mass destruction”.

I know some call Buffett a hypocrite for both criticizing and utilizing derivatives, but I think it's smart to play the optimal metagame, even if you don't like the rules. You might think "the shift" in baseball or "mankading" in cricket, or "the trap" in hockey are stupid, but if they are the optimal strategy in a given situation, you should still use them as long as the ethics and rules of the game allow it. In case you're curious, here is the full quote from [Buffett's 2002 letter](#):

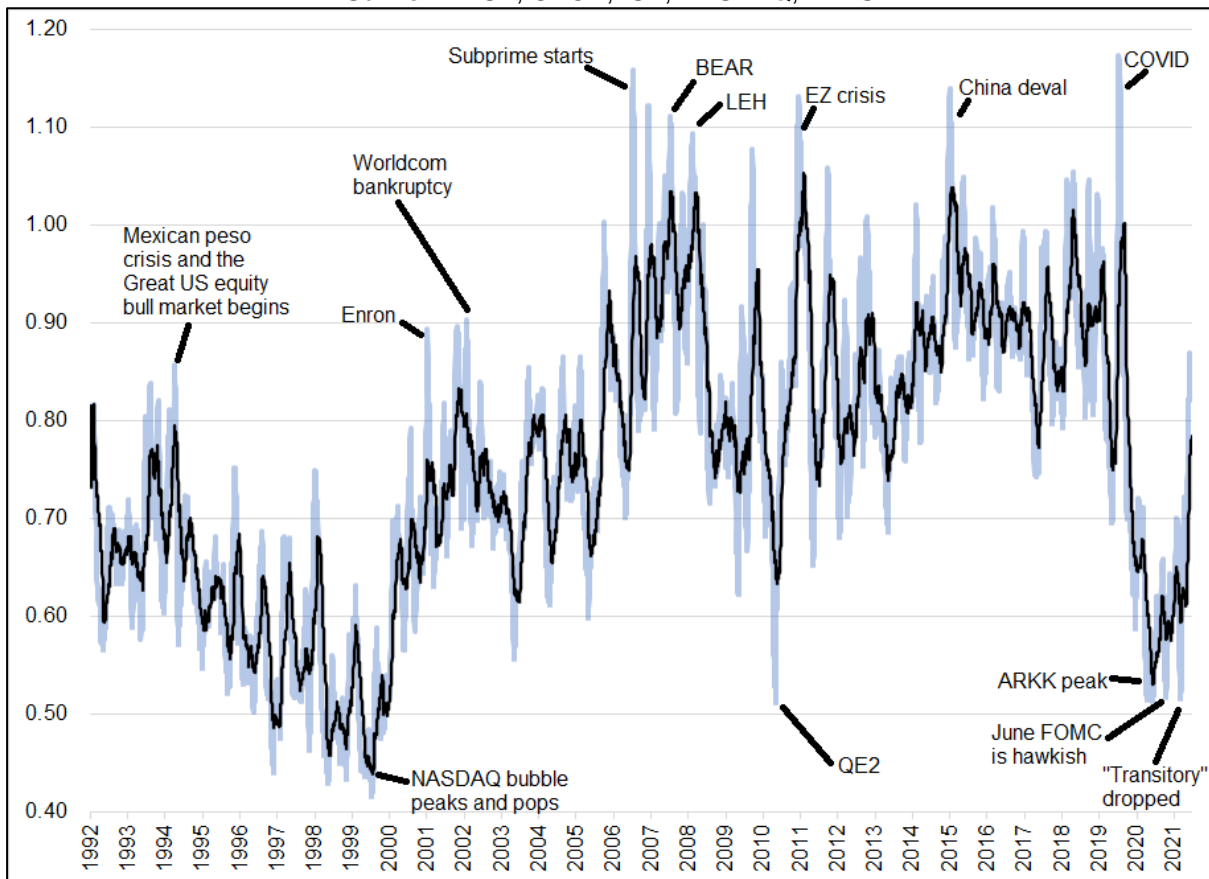
In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal.

It is amazing to me how much leverage and fragility we allow in the financial system, but when a flight is overbooked by 5%, or the internet goes down for 90 seconds, everyone freaks out.

**Apes together were actually pretty weak**

Speaking of derivatives, we have seen a dramatic turn in the US equity options market as the apes have reduced their demand for calls and now reach their leathery hands out for puts. Here is a chart of put volume vs. call volume in US equity markets since 1992.

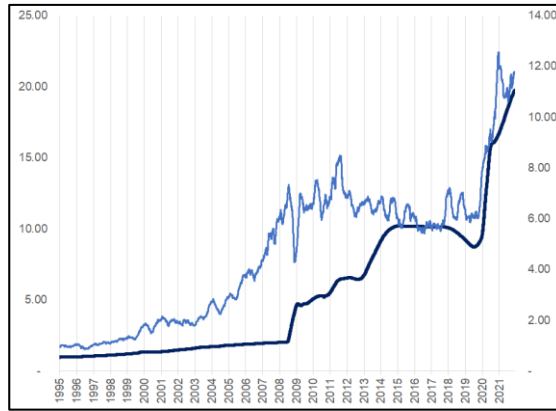
**20-day and 60-day average of put volume / call volume**  
Sum of: NYSE, CBOE, ISE, NASDAQ, BATS



I annotated the chart so you can see the driver of the major extremes. The takeaway to me is that the Disruptors/WFH™ Bubble of 2020/2021 had similar qualities to the dotcom bubble in terms of option market participation (retail call buying domination) and the current unwind is getting to be almost as large as the 2000 reversal that climaxed with the bankruptcies of Enron and Worldcon. This is another sign that we're close to, but not necessarily at, a major bottom in sentiment and risky assets. You can add EUR Daily Sentiment Index at 5% bulls (which is in the bottom 1% of the entire sample) and massive retail equity capitulation this week to that as well.

And for fun, in case you need another chart for your “QE leads to rampant speculation” presentation at the conference... Here’s total volume traded in US equity options divided by GDP compared to the Fed’s Balance Sheet. Moar money flying around = moar speculation. Then again, you can’t blame QE for the 1999 debacle so perhaps my chart simply reflects that whatever nominal numbers you look at... They’re going up like mad. Money ain’t what it used to be.

**(Total US options volume traded / GDP) vs. Fed Balance Sheet**

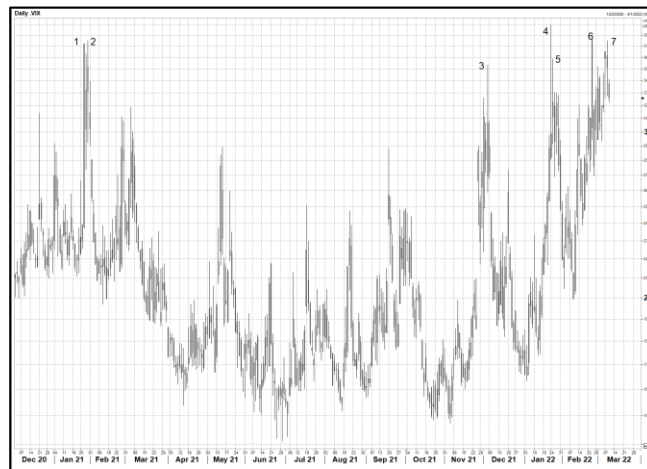


**Views**

The bottoming process is well underway. Regardless of news flow, the retail degrossing, VIX septuple top 36/39, wheels-off moves in commodities and 3-sigma sentiment in EUR (bearish) and CL (bullish) have set the table for a base in risky assets. Given the levels in EURUSD, EURCHF, and so on, it’s hard to participate here but at some point I’m going to have to get involved in more than just BTC.

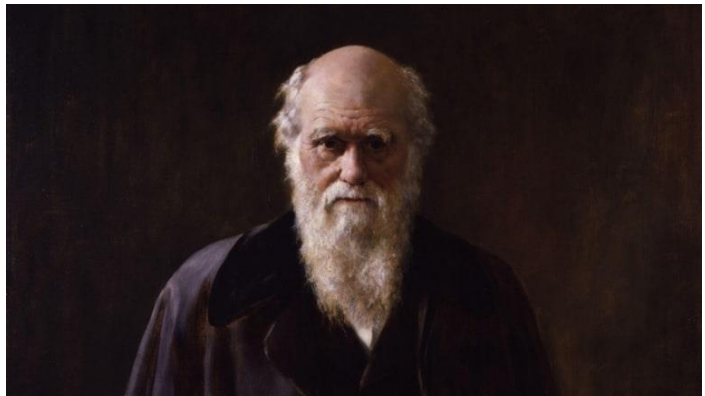
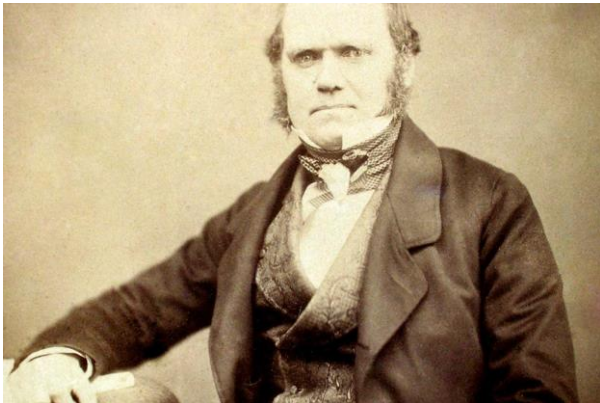
On high alert for some bottom picking, but not ready to engage at current levels. Bottom picking right now means: Buy EUR against whatever. Or buy euro vs. CL as the gangster trade. There is obviously still a ton of headline risk, and we have CPI tomorrow, but there is a point where stuff just rallies on bad news anyway and we are probably within a few days of that setup. **The actual imposition of the SWIFT disconnection (March 12) could provide a bit of an all-clear signal** as the majority of pre-hedging and repositioning and rehypothecating should be done ahead of that date.

**VIX: Seven tops**



Finally, if you are curious how to think about the decision of whether to structure a trade as options or cash, that is the topic of [my latest educational Substack](#). It’s targeted at traders with 0-5 years of experience but some of my senior peers have said they find it useful as well. As they say in St. Catharines: Check it oot. Have a poetic day.

good luck ↑↓ be nimble



*From Charles Darwin's autobiography:*

"My mind seems to have become a kind of machine for grinding general laws out of large collections of facts.

If I had to live my life again, I would have made a rule to read some poetry and listen to some music at least once every week... The loss of these tastes is a loss of *happiness*, and may possibly be injurious to the intellect, and more probably to the moral character, by enfeebling the emotional part of our nature."

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