

am
FX

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Solid

Current Views

Short CADJPY 101.21

Stop 102.61

Take profit 97.11

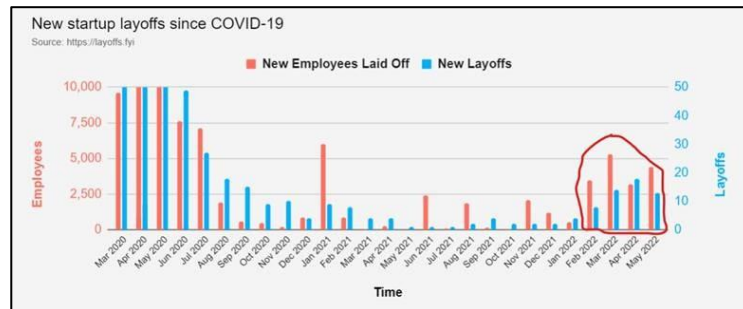
Regime shift

It looks like the regime shift I described in the last few am/FXs is here. We are out of inflation panic (bonds down / stocks down) and into the liquidation, slowdown panic. US 10s got to within 6bps of the 3.26 target from the last cycle. Amazing.

US 10-year treasury yield

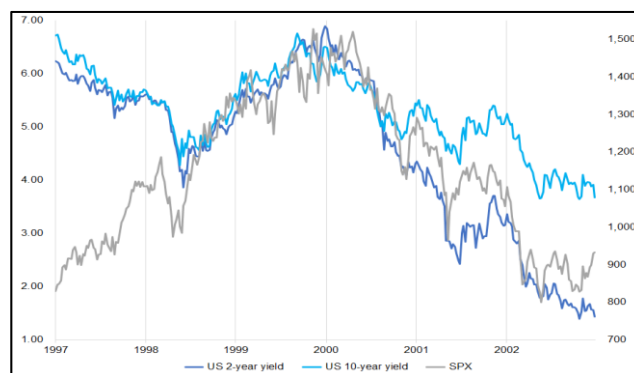


It looks like the market is coming to the perfectly reasonable conclusion that the Fed is hiking into a downturn. This chart from [Sam Rines](#) at Corbu (original [source here](#)) is a nice look at how Amazon is not the only overstuffed tech company in the US.



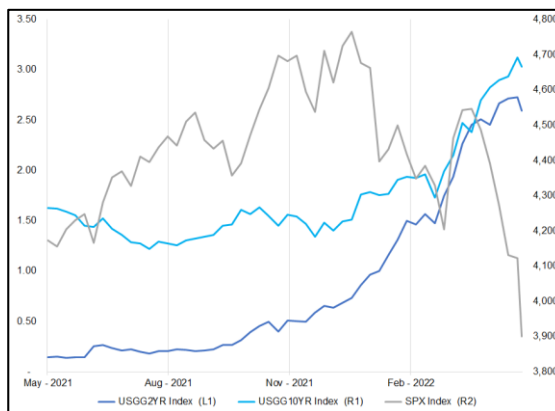
The reflexivity of lower stock prices, option-based compensation, and falling confidence is rhyming pretty closely with 2001 for now. One major difference now is inflation, of course, and that is why bonds did not top out when stocks did. In 2001, it was all one trade as you can see here.

US 2-year and 10-year yields and SPX 1998 to 2003



Here's the same chart for the past year:

US 2-year and 10-year yields and SPX since May 2021



Stocks down but yields remain firm. That's the difference between an inflationary bust and a disinflationary one. At this point, though, even as it looks like we are transitioning into a more disinflationary stock/bond correlation regime, I don't think US 10-year yields will go much below 2.65%/2.70%, so we trade a 2.65%/3.05% range for a while. The really interesting question is whether the Fed can stick to the autopilot 50 bp plan or do they get cold feet as the economic vibes and stock market point the other direction? I am sure the June hike is a done deal, for example, but will they stay hawkish at that meeting or back off?

The Fed is in this difficult spot because of the extreme asymmetry of policy action speed. They cut instantly and massively, but they make any excuse not to remove accommodation and therefore by the time they are finally ready to hike, the economy is near or past peak.

Now what?

There has been some mildly messy stuff going on in markets, but not enough to achieve a cathartic end to this asset repricing. I still like CADJPY and other cross/JPY lower because:

- Regime shift in bond / equity correlation (see [am/FX: Sniffing out a corr flip](#) is bearish USDJPY and bearish cross/JPY as long as stocks are suffering, and I think they will continue to sag. This episode probably needs to end with a big scary down day.
- Post-BOJ positioning in cash was large and is now out of the money.
- 127.00 is bare minimum downside target in USDJPY. That is a HUGE level. It was the Tokyo open when the big rally started and there was a strong retest and hold in late April. If you are short USDJPY or cross/JPY I would exit in the 127.00/25 zone. That is probably around my 97.00 target in CADJPY.



Coins

Tether did this last night:

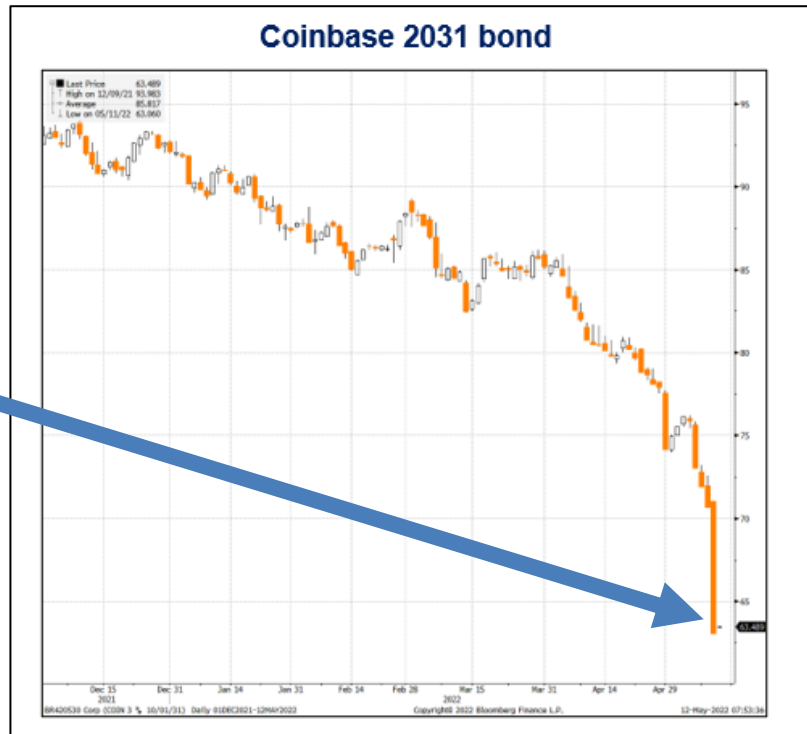


Chart from FTX

Tether broke to 0.9500 overnight and has come back. I find it hard to imagine anyone would keep their money there so there should now just be wave after wave of selling as institutions and individuals exit.

There have been transparency and fraud concerns with Tether for years but now that the liquidity tide is going out, we will find out how liquid the supporting collateral is. Let's hope it's not Coinbase bonds, which currently look like this

Have a money day.



good luck ↑↓ be nimble



I am fascinated by bills with cool and erroneous serial numbers

<http://www.coolserialnumbers.com/forsale.aspx>

<http://www.coolserialnumbers.com/Solids.aspx>



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