

am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



On October 4, 1982, Jean-Michel Basquiat first met Andy Warhol. Enthused by the encounter, Basquiat left immediately and, according to Warhol, "within two hours" his assistant, Stephen Torton, appeared with a double portrait of the two artists, *Dos Cabezas* (1982).

Current Views

Buy 05JAN USDJPY call 142.50
for ~28bps off 141.66 spot

Long EURCHF
9am to 11am TWAP today

Stop loss 11am level minus 70 pips
Take Profit 11am level +130 pips

2 Trades 1 Poem

First up, two 1-week time horizon trade ideas as we sneak up on 2024.

Trade 1: Long EURCHF

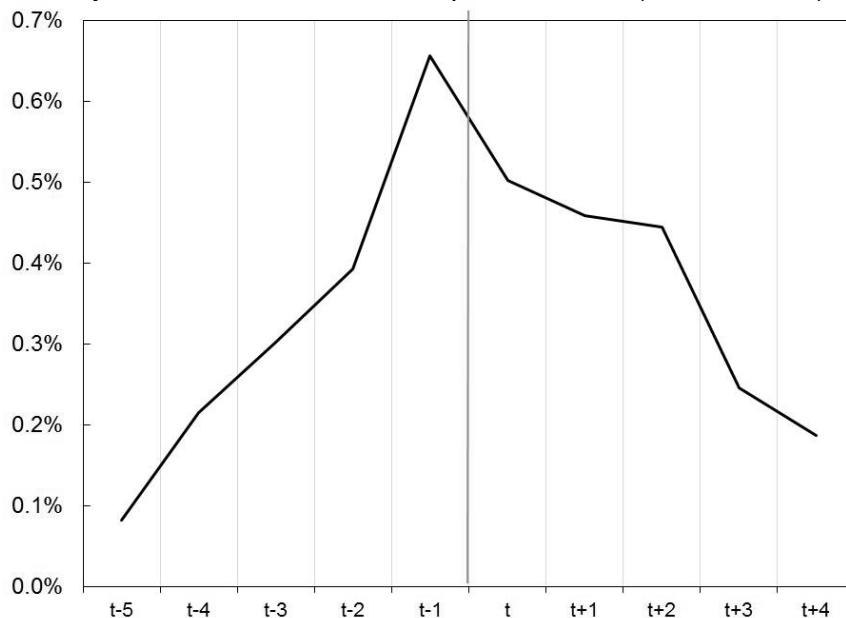
EURCHF has gone wild to the downside as a huge flow has been going through over the past few days. My observation from price action, data, and from trading flows as a market maker for 20 years is that many large flows are timed to coincide with the end of a period.

This means that there is a natural mean reversion aspect at the turn of the day, week, month, and year. If you are fading a flow, the best timing for entry is as a period ends. For example, this is how GBPUSD traded around the turn of the month when the month-end models used to work (excerpted from [Alpha Trader](#)):

Often you will notice that trends exhaust themselves and turn around at the end of the day, week or month. For example, in months where the US stock market is up 3% or more, GBPUSD frequently rallies into month end and then sells off in the first week of the new month. Here is a chart of how GBPUSD trades around the turn of the month, at the end of months where US stocks rallied 3% or more:

Average performance of GBPUSD in the 10 days around the turn of the month

Only months where SPX was up 3% or more (2010 to 2020)



*t = the first business day of the month. Sample size is 37 months.
GBPUSD on the last five days of the month and first five days of next month*

I took a look at how EURCHF performs around the turn of the month when the RSI is extremely low (as it is now) or high. Here are the results:

EURCHF performance when RSI is <25 or >75 on last day of the month (2000 to now)

	RSI below 25 at month end					RSI above 75 at month end				
	x+1	x+3	x+5	x+10	x+20	x+1	x+3	x+5	x+10	x+20
count	5	5	5	5	5	2	2	2	2	2
average	0.4%	0.5%	0.3%	0.6%	1.0%	-0.1%	0.6%	0.0%	-0.3%	-0.8%
median	0.3%	0.4%	0.5%	0.9%	0.7%	-0.1%	0.6%	0.0%	-0.3%	-0.8%
win	4	5	3	3	3	1	2	1	0	0
lose	0	0	2	2	2	1	0	1	2	2
win%	100%	100%	60%	60%	60%	50%	100%	50%	0%	0%

Small sample size, but nice results. There is a non-zero chance the SNB will get involved at some point too, as they may want to smooth things out as this CHF appreciation is large enough to be disinflationary and contrary to their policy goals.

The strategy (see sidebar) is to TWAP a long from 9am to 11am NY time today as there could be another chunk of the flow to do into 11am, but there might not be. If the flow does not appear, value hunters will be chasing EURCHF higher all morning. If there is a flow, you want to fade it close to 11am. The TWAP is a compromise between a) the risk there is no flow and EURCHF grinds higher, and b) the risk there *is* a flow and it tanks. My guess is that spec flows will offset much of any LHS flow and as such I want to start on the early side.

Trade 2: Buy 1-week USDJPY calls

As I have been writing for a few days, I think we are in overshoot territory for bonds, and in fact, yields have already bounced off the lows. We had a nice reversal formation on the failed collapse attempt yesterday in USDJPY and I think early January will bring new sellers of bonds and buyers of USDJPY as the market becomes wary of a 6 cut theme that could be shattered by a few strong data points. Obviously, the data is king, but I think the market will run bonds lower and USDJPY higher into ISM and NFP as the bar for further cuts is high and the bar to reprice to, say, 4 cuts is pretty low.

Then, trade the data orthodox when it comes. ISM and NFP are both captured by a 1-week option.

I like 1-week 142.50 for about 28bps off 141.66 spot.

2023 in Review

2023 had ~23 themes
 Each briefly in our brain like 23 dreams
 Each narrative not as good as it seems
 Bonds down / bonds up / convexity extreme
 Everybody buy high / sell low / revert to the mean

Higher for longer gave the bond shorts thrills
 Then they all got crushed cuz Yellen ♥ bills
 Yellen likes bills and the dots like cuts
 Fed playing poker
 Flip the cards
 Got the nuts

China reopened but China stocks red
 Xi's got no stimmies China housing still dead
 Demographics short Pampers© and long Depends™
 Balance sheet recession like this never ends
 Regional banks die / VCs panic on twitter
 Oil down, USD mixed, gold's got the glitter

Every single month we got a new surprise
Every single month we gonna dedollarize

Dollar's always dead but it never did die
SPX, megatech all time high
AI, AGI, GPT3, boom
MAG7 to the moon just like p(doom)

SBF is guilty / crypto's dead
Crypto falling down like the economist said
Oh whoops winter's over now it's summer instead
Solana too sexy for Milan again Right Said Fred
60/40's back like Lazarus woke from the dead
FCI on the fly risk parity spoke in class (hey)
and the shorts bleed red

Nvidia hysteria
30X sales ain't scarin' ya
YC inverted, but nobody caring yea
Carry trade pumping loud like stereos blaring yea
Number one carry is short dollar / long Mexico
Peso been like fire pour on gasoline from Texaco

Housing en fuego too / XHB moonshot
The Economist said housing was doomed too but ermmm... it's not
Logic said sell / magazine cover capital bought

Get rich or die trying cuz you gotta have fun
Write / trade / laugh / pray/ I'm too old to die young
I rap like Kendrick, I mean Anna, not the other one
So that's me, MBD, driving across the border of '23
in a blacked out M3
blasting Prodigy

Sometimes I'm wrong / Sometimes I'm right
But I always write feverishly
I write like I'm running out of time that's just me
I talk FX spot and Fed dot plots and take my shots and
sometimes thoughts
arrive like butterflies

Win or lose, tomorrow the sun will rise

"The End of '22" by Max Capitulation
We're all bulls now / smells like extrapolation
Maybe just cynical *I'm bullish at the highs* desperation?

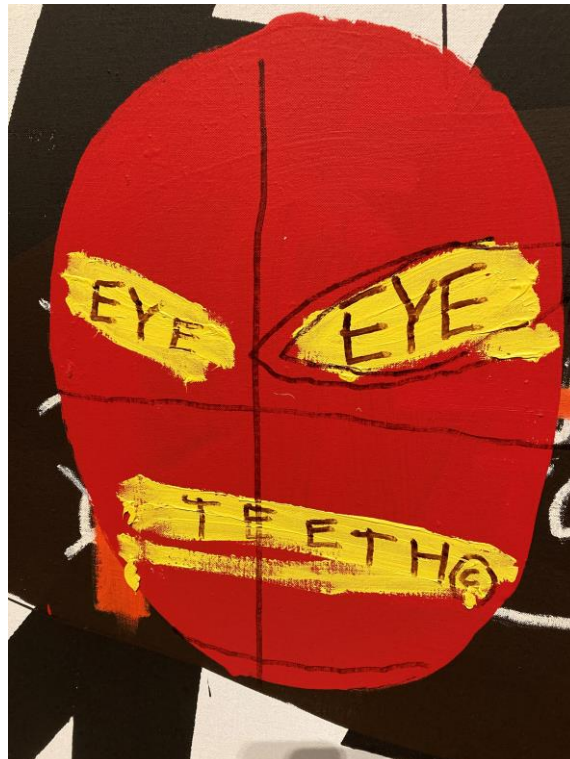
Anyway, that's it, thanks for everything
I'm out the door
Lucky '24

good luck ↑↓ be nimble



The Basquiat x Warhol exhibit at the Brant Foundation space in the village runs until January 7. I checked it out yesterday, it's worth the trip. It's 20 dollars and takes an hour, so... Small investment both time and money-wise.

<https://www.brantfoundation.org/exhibitions/basquiat-x-warhol/>



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