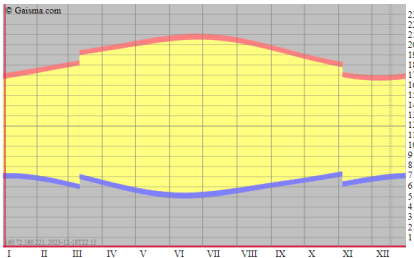


am
FX

Brent Donnelly

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Can you guess what this graphic is showing?

Answer on last page.

Current Views

Long EURCHF @ 0.9444

Stop was 0.9339.
Moved it up to 0.9434.

Take profit 0.9644

Round Trips

Before we get started...

[Please click here to complete a quick 2024 survey](#)

It should take about 90-120 seconds. Results in am/FX. Thanks!

The BOJ refused to throw the JPY bulls a bone and we're in another wipeout mode here but given USDJPY is mostly just a US 10-year yield proxy, we're awfully high now at 144.40. Technically, it's a mixed bag as we are now above the 200-hour moving averages and they are crossing up, but we are about to revisit the breakdown level post FOMC (145.00/60). See here:

USDJPY vs. 200-hour MAs (simple and EMA) plus US 10-year yield

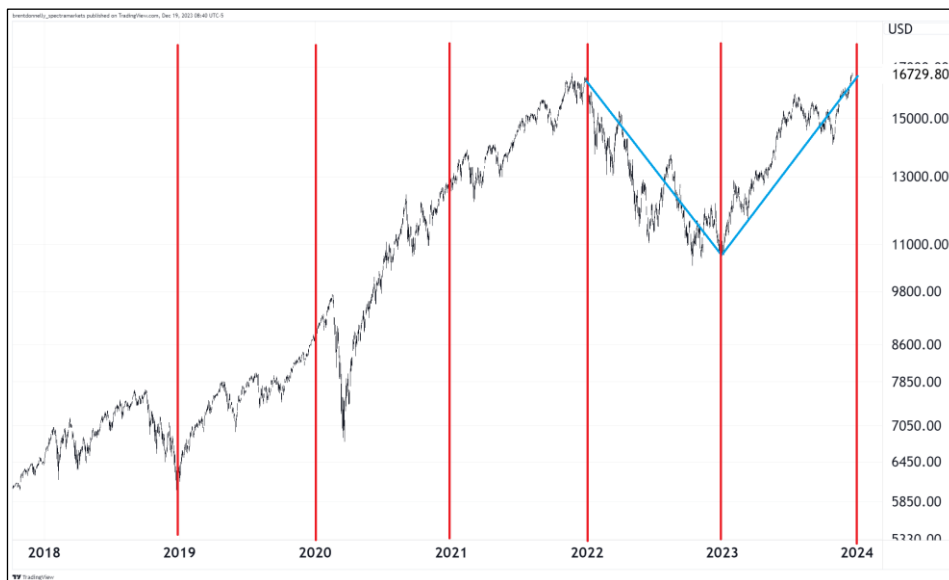


As such, I don't think there is a trade because we're in no man's land. If you are keen to sell USDJPY into 2024, your best bet is to sell just ahead of 145 with a stop at 146.25. The first buy zone is the converging moving averages at 144.00 and I expect a consolidation inside the big levels (144.00/146.00). Note that 10-year yield at the lows works as a bit of a drag on upside USDJPY but with the Fed pushing back on cuts and the short-term inflationary impact of the Red Sea attacks, I think yields are done going down for now.

The NASDAQ has just done a perfectly symmetrical round trip from 16700 to 10400 to 16700. The move down took exactly one year and covered 2022 while the rebound took exactly one year and covered 2023. We close the year in a mirror image of how we closed last year: Equity sentiment fully bullish, CNN Fear and Greed at Extreme Greed, megatech overweights locked in, investment banks raising their S&P forecasts, and recessionistas in hiding.

This creates a strong temptation to think about going short in the new year, but it's hard to make a convincing argument for lower stocks right now, other than positioning and a few tech levels.

NASDAQ daily, 2018 to now



I was curious if finishing the year low like this in VIX means much for future returns. The results are in that long table at right. It does look like there's a bit of a regime break at 20 VIX, but otherwise not too much to see here. As one might suspect, when the year ends in a more fearful state (VIX above 20), returns in Q1 and for the year are, on average, significantly higher.

	Year ahead average return	Q1 ahead average return
Year-end VIX < 20	8.5%	0.5%
Year-end VIX > 20	11.6%	2.8%

Year	Year end VIX	Next year return	Q1 return
2017	11.04	-6%	-1.2%
2006	11.56	4%	0.2%
1993	11.66	-2%	-4.4%
2005	12.07	14%	3.7%
2023	12.50		
1995	12.52	20%	4.8%
1992	12.57	7%	3.7%
1994	13.20	34%	9.0%
2004	13.29	3%	-2.6%
2013	13.72	11%	1.3%
2019	13.78	16%	-20.0%
2016	14.04	19%	5.5%
2021	17.22	-19%	-4.9%
2010	17.75	0%	5.4%
2012	18.02	30%	10.0%
2015	18.21	10%	0.8%
2003	18.31	9%	1.3%
2014	19.20	-1%	0.4%
1991	19.31	4%	-3.2%
1996	20.92	31%	2.2%
2022	21.67	23%	7.0%
2009	21.68	13%	4.9%
2007	22.50	-38%	-9.9%
2020	22.75	27%	5.8%
2011	23.40	13%	12.0%
2001	23.80	-23%	-0.1%
1997	24.01	27%	13.5%
1998	24.42	20%	4.6%
1999	24.64	-10%	2.0%
2018	25.42	29%	13.1%
1990	26.38	26%	13.6%
2000	26.85	-13%	-12.1%
2002	28.62	26%	-3.6%
2008	40.00	23%	-11.7%

This is logical, but does not scream "bear market!" It just means that starting points matter and we are at an extremely euphoric starting point going into 2024.

With the dovish FOMC meeting and then pushback from the Fed deputies, I think the best approach to Q1 is to **simply ignore the Fed communication and focus on the data**. If we get a strong run of data, the market will move closer to the deputies' wishes and if we get weaker data the market will press its bets. The data matters more than the Fed comms.

Final Thoughts

Don't forget to [order your Spectra Trader Handbook and Almanac](#) so you get it before the new year!

It's going to be a bright, bright, sunny day.

good luck ↑↓ be nimble

The Spectra FX Positioning and Momentum Report

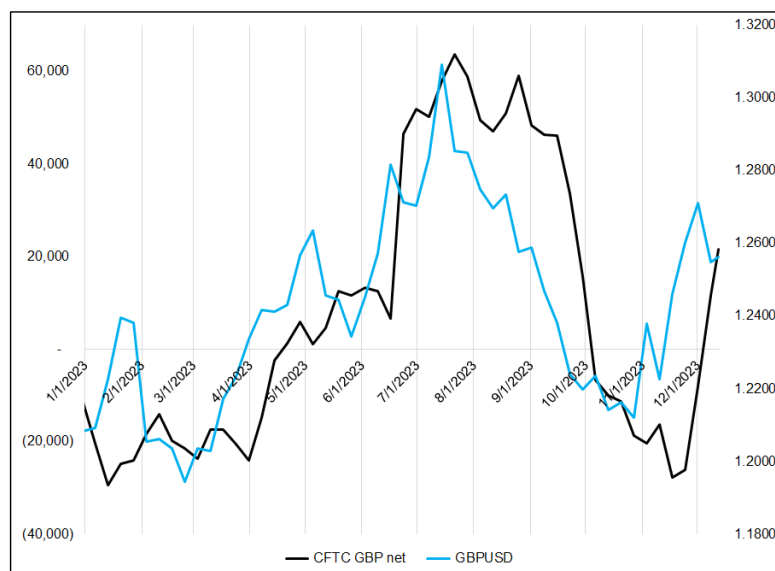
GBP Flipper

Hi. Welcome to this week's report. The market is modestly and nervously short USD as we approach the end of a year where seasonality and positioning have been more reliable than macro narratives. The CFTC had a huge GBP long earlier in the year, finally bottled it and went short... And has now flipped back to long with a major purchase of GBP over the past few weeks. Odd.

Three Observations

1. When we map CFTC GBP positioning against GBPUSD price action this year, you can see that GBPUSD (the cyan line) is close to unchanged, and positioning has been chasing the price all year. As GBPUSD rallied in April, positioning followed, and months after GBPUSD peaked in July 2023, positioning capitulated. Now, GBPUSD started rallying again in November and we see a concomitant ratchet up in positions again. This is the nature of trend-following systems; they don't do very well in up/down markets. The GBP position is not yet large enough to send out a contrarian signal.

CFTC GBP position vs. GBPUSD



2. EUR has less momentum than the other currencies in this dollar sell off because:
 - a. The data continues to come in soft and that smacks the EUR back when it tries to rally.
 - b. Speculators are immediately on edge when they buy EUR. Their confidence and staying power are low because there is not much of a EUR-bullish thesis right now, other than the fact that EUR is an anti-dollar.
 - c. It's easy to imagine the ECB cutting rates soon as inflation there is falling so fast. Despite the ECB and Fed path being priced similarly out to June 2024, most people in the market have an easier time imagining an ECB cut in March 2024 than a Fed cut.
3. The huge JPY short in the market is sufficiently pared back that positioning is no longer a relevant consideration in USDJPY. It can go either direction from here, without facing any impediment from positioning. This is in contrast to the large short yen highlighted in this report during November (when USDJPY was above 150). While some are betting on a hawkish BOJ, others are thrice bitten four times shy and would rather just leave the JPY alone. The net position is small long JPY, mostly via options, and nothing to be concerned about.

Positioning and momentum data on the next page.

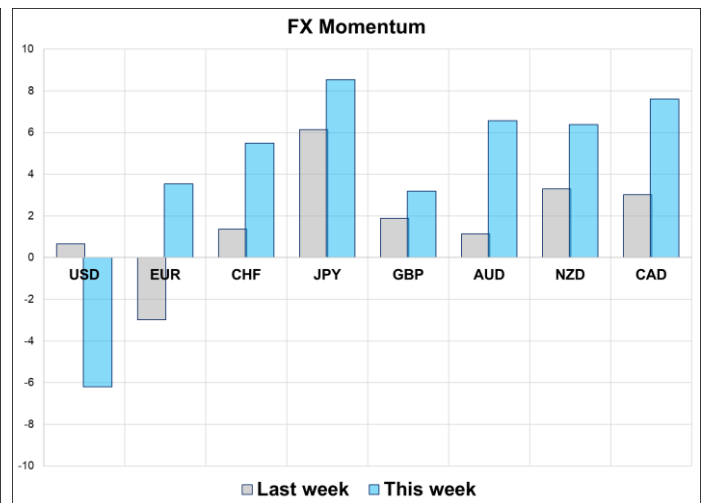
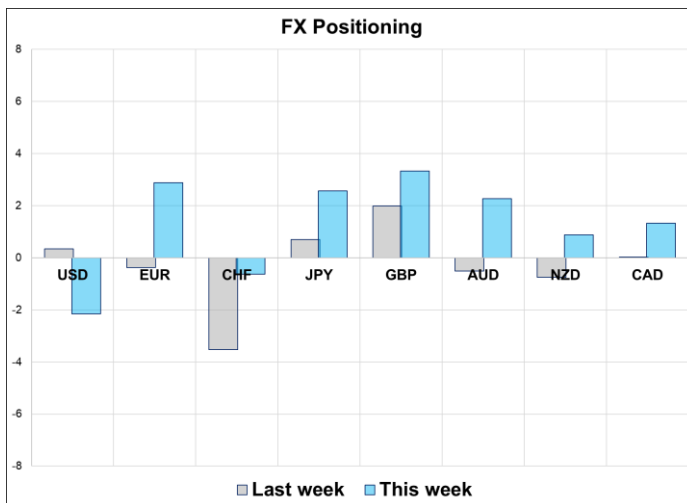
G10 FX Positioning and Momentum Scores

All scores -10 to +10 scale, all currencies vs. USD (that is: JPY means yen, not USDJPY)

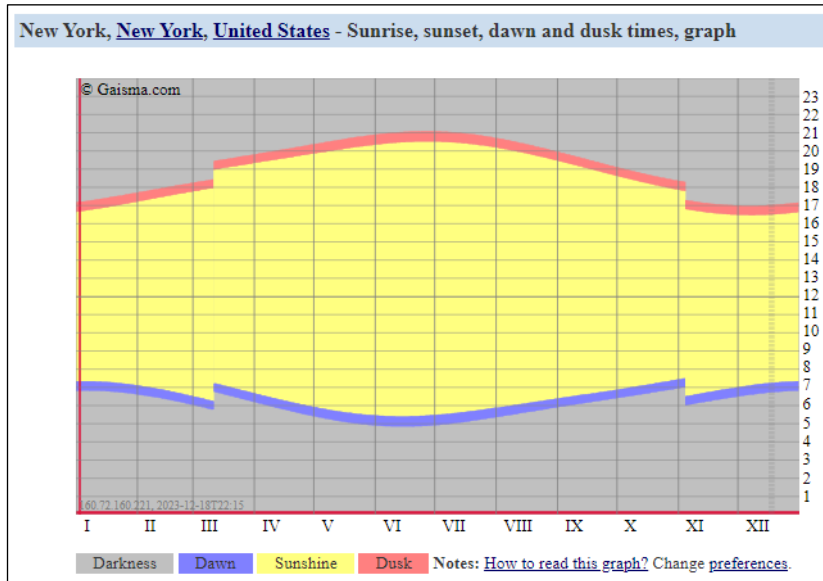
Summary scores								
	USD	EUR	CHF	JPY	GBP	AUD	NZD	CAD
Positioning	-2	3	-1	3	3	2	1	1
Momentum	-6	4	5	9	3	7	6	8

Positioning and Sentiment								
	USD	EUR	CHF	JPY	GBP	AUD	NZD	CAD
CFTC Level (% of OI)	2	5	-3	-4	4	-5	-7	-7
CFTC 4-Week Change	-6	3	6	7	9	6	5	4
Daily Sentiment Index	-2	2	4	1	1	2	0	3
Risk Reversal (1-month lookback)	-4	2	6	8	2	3	1	1
Risk Reversal (6-month lookback)	-6	6	-5	10	8	8	7	9
Spectra FX Positioning	-2	-1	-2	1	-2	4	3	0

Momentum								
	USD	EUR	CHF	JPY	GBP	AUD	NZD	CAD
RSI	-6	5	8	8	5	8	8	9
Deviation from 20-Day	-6	3	4	9	2	6	5	8
Deviation from 100-Day	-6	4	5	8	3	6	6	5



That's this week's report. Thank you for reading.



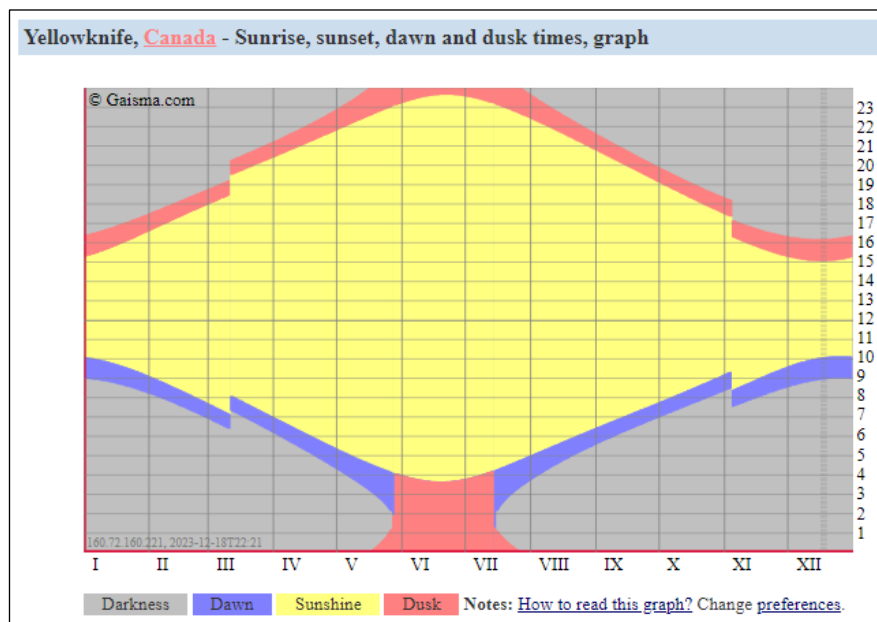
<https://www.gaisma.com/en/location/new-york-ny.html>

Pretty cool way of showing the length of the day, by time of year.

Yellow is daytime.
Gray is night.

X-axis is the time of year (roman numerals represent the month) and y-axis is time of day.

The one for Yellowknife is cool (extreme Northern Canada)



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