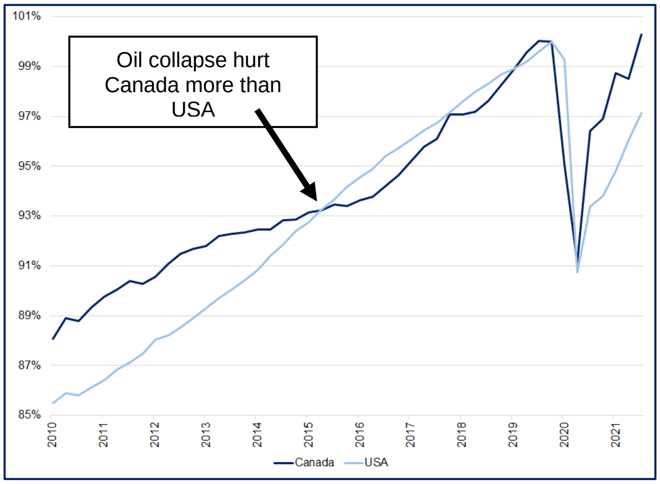
Short USDCAD into BoC

Bank of Canada

People like to play the “too much is priced in” game at this stage of the cycle. The problem with that approach is that very often central banks *will* hike less than the market has priced, but the risk premium remains large, hikes get rolled out the curve and it is hard to make money unless you ride the very front end right through the meetings. I think the Bank of Canada may not hike quite as fast as the market pricing, but the market pricing will stay rich and the BoC will not push back much. CAD-positive.

The setup in USDCAD is interesting here as positioning remains subdued despite a raging energy market, strong Canadian data, and a somewhat hawkish central bank. When it comes to Canada, this chart says it all:

Canada total employees vs. US total employees, December 2019 = 100%



The Canadian jobs market has more than fully recovered COVID losses. Meanwhile, two of three core CPI numbers are high, Retail Sales strong, Business Outlook Survey details positive, headline CPI 4.4%, WCS hitting 6-year highs, and so on. It is strange to me how the CFTC is still short CAD and hedge funds don’t seem to be onboard. I think it sets up for a good trade into tomorrow. It’s quite a setup with such a strong story, a legitimate catalyst, and positioning neutral. **Short USDCAD here (1.2355) with a stop at 1.2444 looking for a test of 1.2200**. See sidebar.

ECB

The ECB is an exception to the setup I described in paragraph one. I doubt they are hiking in Christine Lagarde’s term(s). Thing is, the market kind of knows this and the expectation for Thursday’s meeting is that there will be pushback on pricing. It all leads to a situation where European rates are mostly just low beta global rates and the pricing is more a reflection of global momentum than ECB policy. I would say Thursday’s ECB meeting will be a non-event.

When it comes to ECB policy, Lane is always a good and relevant read. His most recent speech highlights the conditions that must be met before the ECB raises policy rates. We are not there yet. Here is the key paragraph:

am

FX

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Which has a larger area:

A. Greenland or
B. Algeria?

Current Views

Short USDCAD @ 1.2355
Stop loss 1.2444
Take profit 1.2201

Short AUDNZD @ 1.0476
Stop loss 1.0622
Take profit 1.0200

Short 01NOV and long 15NOV 1.3550 GBP put
Calendar spread
Price 21bps off 1.3730 spot

At its 21 July monetary policy meeting, the Governing Council revised its forward guidance on policy rates in line with this new strategic orientation. In particular, the new forward guidance specified three conditions that need to be met before we would start raising our policy rates. The first condition is that the Governing Council "*sees inflation reaching two per cent well ahead of the end of its projection horizon.*" The second condition is that the two per cent target is reached "*durably for the rest of the projection horizon.*" The third condition is that the Governing Council "*judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at two per cent over the medium term*."

The speech is worth a read. It's 1200 words / 6 minutes.

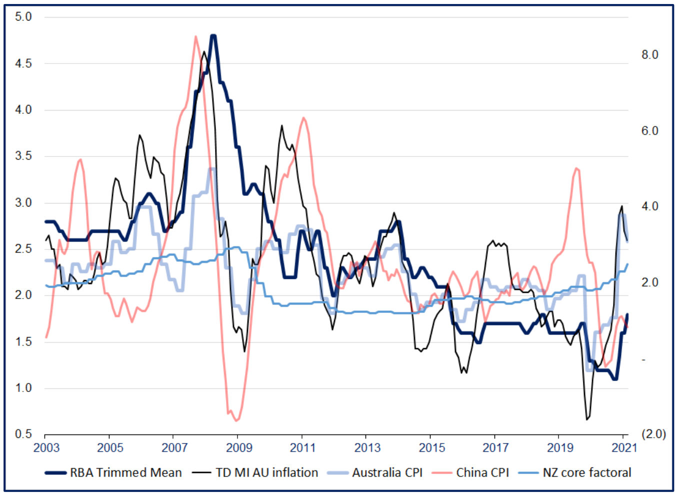
AUD CPI is a mess

I like to publish the results when I do some research and come up with nothing because then you know that there is a greater probability that when I come up with something, it's meaningful. That is, publishing results that yield the null hypothesis is the honest (but sometimes boring) thing to do.

There are various ways of predicting Australian CPI using higher-frequency data because the AU CPI figure only comes out quarterly and there are plenty of monthly data points like TD-MI inflation (Australia), China CPI, and NZ food prices. In the past, I have made money using these to predict the Australian outcome, but the current state of play is extremely jumbled.

You can see in 2008/2009, China CPI and the TD MI gauge were excellent lead indicators. Now, any regression model you build or lead/lag you look at is a mess. No takeaways here.

RBA CPI and Trimmed Mean CPI with some other indicators

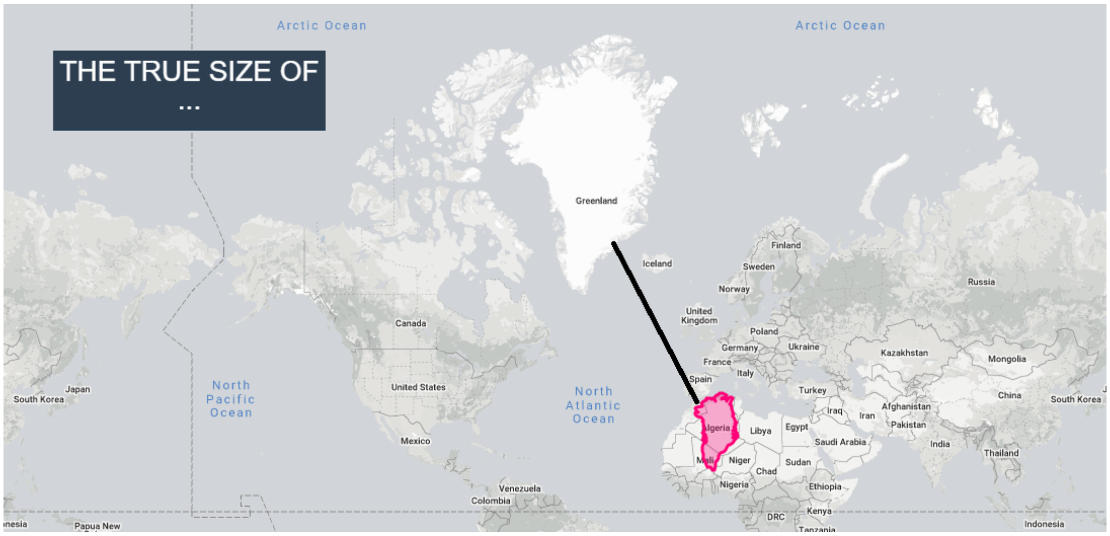


Good short read

[Exante Data: The greatest peacetime surge in household wealth]

Have a correctly-sized day.

good luck ⇅ be nimble



Algeria is slightly larger than Greenland.

Algeria: 2.4 million km^2
Greenland: 2.2 million km^2

Go to www.thetruesize.com to see how the Mercator Projection has been lying to you your whole life!   :]

https://en.wikipedia.org/wiki/Mercator_projection

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