

am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



Recently discovered:
Tens of thousands of cave
paintings by the first humans to
live in the western Amazon

Current Views

Flat

Dangerously dovish

Here are my thoughts on the market implications of Brainard vs. Powell:

- Still very few of my contacts expect Brainard. I think she should be a tiny favorite at this point. PredictIt has Powell 65/35 and was briefly 50/50 yesterday. I would say 90% of the people I talk to think it's Powell.
- The inflation tail is bigger with Brainard in charge as she is more likely to stay too lower for too longer. While this Powell Fed is clearly dangerously dovish already, Brainard's focus on financial inclusion, climate scenarios, and Fed patience all open the door for even slower normalization. Maybe she will become more pragmatic if inflation fear turns to outright panic in the streets, but the market's initial read will be that she will normalize even slower than Powell. Nuts!
- Stocks might rally for two seconds on Brainard, but **a Brainard nomination is bad for stocks**. Sell any kneejerk rally. Brainard, with her climate and inclusion focus, and dovish lean, is the wrong person for the Fed job when an inflation fighter is needed. Much as Bernanke was the perfect person for a financial crisis, Brainard is the antithesis of what's needed during an inflation scare. Brainard is also pro-regulation. She has dissented many, many times on regulatory issues and always in the direction of more or tighter rules. I could see a decent fear trade emerge if Brainard is chosen. 5% down in stocks, over a week or two.
- A Brainard nomination introduces meaningful uncertainty because it's not clear whether she will clear confirmation. The process will drag on for weeks and markets will be left to wonder if some other Fed chair ends up taking over if Brainard's can't get through.
- The market wants to be long USDJPY but is scared of the 115.00 level and the Fed nomination risk. In 2016, USDJPY skyrocketed from 103 to 118.60 on the Trump victory and fiscal excitement. Once it stabilized, 114.70/115.50 became a huge band of resistance. That is resistance again. I think the market wants to be long USDJPY as rates continue to move higher, but is scared that Brainard could be nominated. **If Powell is nominated, the market will buy USDJPY**. With the event risk out of the way, the market will be free to put on all the USDJPY it wants. So even though Powell is expected, it's still a bullish USDJPY outcome.
- EURUSD shorts are big enough now that a Brainard win will hurt. I would think you could see 100 pip EURUSD rally on Brainard over one or two days.
- Front end should rally a lot on Brainard and sell off a bit on Powell.

The delays and leaks and indecision are borderline unprofessional at this point. Biden should have decided ages ago. LeBron James' "The Decision" on ESPN should have been a lesson that drawing out a major decision like this fuels annoyance and adds nothing.

Gold is weird

The market left gold for dead as crypto was the new and preferred shiny thing. Now, gold has rocketed despite a higher USD and lower US front end. Very strange behavior. My feeling is that gold is wrong, and you want to sell it if Powell is nominated. If Brainard wins, the gold rally makes more sense. Have an artistic day.

good luck ↑↓ be nimble

In late 2020, archaeologists discovered tens of thousands of highly detailed cliff drawings in a remote part of Colombia.



<https://www.forbes.com/sites/suzannerowankelleher/2020/12/03/photos-sistine-chapel-of-the-ancients-cliff-drawings-revealed-in-colombia/?sh=72ac44593425>



Clarifications on yesterday's non sequitur

- Maple syrup is volatile because sometimes you order it and get table syrup instead.
- When you order ketchup, you always get Heinz, but I agree that off-Heinz, ketchup variance is alarmingly high.

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