SPECTRA MARKETS

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FX

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Never doubt a Doctor who is also a CFA and ACCA.

Current Views

Long 15NOV 1.3550 GBP put
Was a calendar spread
Price 21bps off 1.3730 spot
Short leg expired worthless

Skeptical of gradual

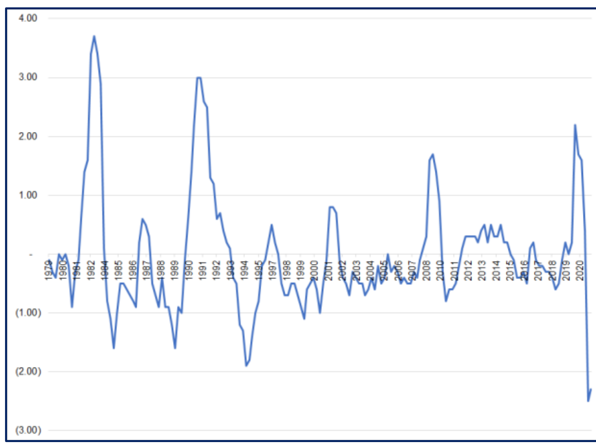
RBA

The RBA statement last night acknowledged the rapid rise in market rates and the irrelevance of the old state-contingent YCC policy as inflation comes off the lows. The focus for policy has turned to wages as the RBA says:

> Wages growth is expected to pick up gradually as the labour market tightens, with the Wage Price Index forecast to increase by 2½ per cent over 2022 and 3 per cent over 2023. The main uncertainties relate to the persistence of the current disruptions to global supply chains and the behaviour of wages at the lowest unemployment rate in decades.

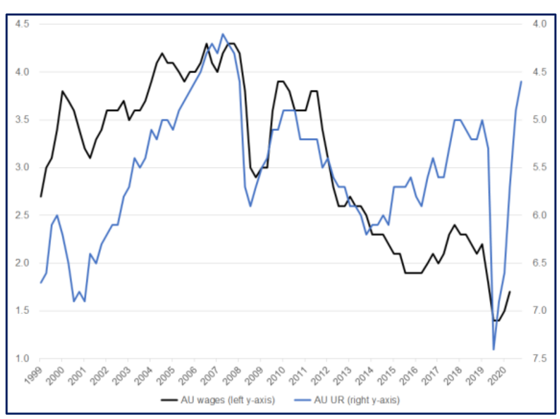
I doubt wage growth will pick up gradually. The Philips Curve is not dead. Aussie wages are a lagged function of the unemployment rate. Here is the YoY change in Aussie unemployment:

Nothing gradual about the drop in Australian unemployment



And here is the UR mapped against wages, with a 3-month lag.

AU wages vs. AU unemployment rate (inverted)

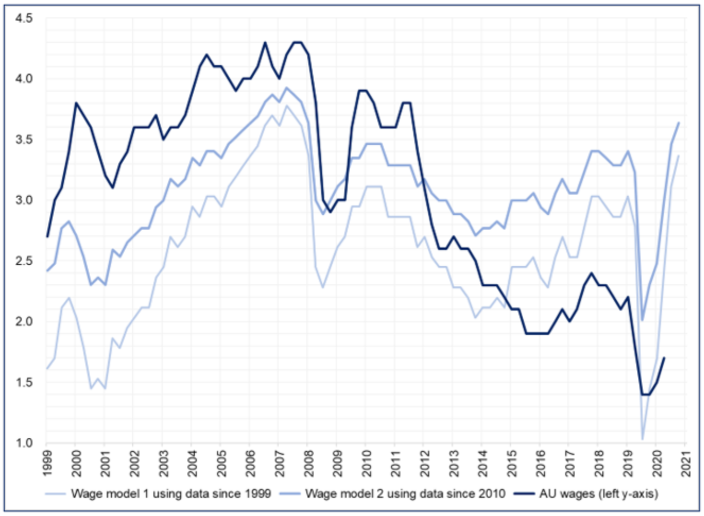


If you build a couple of basic regression models (one using data post-GFC, one using data back to 1999), you get results like that chart at right.

Plenty of caveats are in order, most notably that Aussie wages have been surprisingly sticky (on the low side) compared to peers around the world. Furthermore, this is a simple one-factor model and economics is way more complicated than that.

On the other hand, Mr. Lowe points out there are reasons to expect some upward momentum in wages: “The main uncertainties relate to the persistence of the current disruptions to global supply chains and the behaviour of wages at the lowest unemployment rate in decades.”

AU wages vs. two simple AU wage models using UR



There is nothing gradual about the drop in unemployment and so there should be nothing gradual about the rise in wages. The first test of this theory comes November 16th as Aussie wages data comes out—it should move above 2%. By the time we get the Q4 print on February 22, 2022, wage growth could have incredible upside momentum on its way above 3.0% by the May 17, 2022 release. I would not bet that this front-end rally in Australia lasts very long.

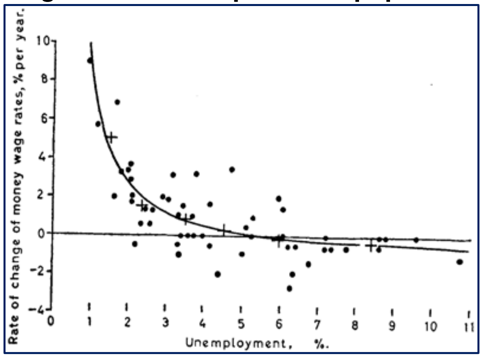
The Philips Curve never died

The Philips Curve is a relationship between wages and unemployment. It has nothing to do with CPI or goods inflation. I see some commentators, even professional economists, comparing CPI to UR and using that as a reason to say the Philips Curve stopped working. That’s not what the Philips Curve is. Wages and the UR have remained pretty closely tied through just above every cycle in most countries around the world.

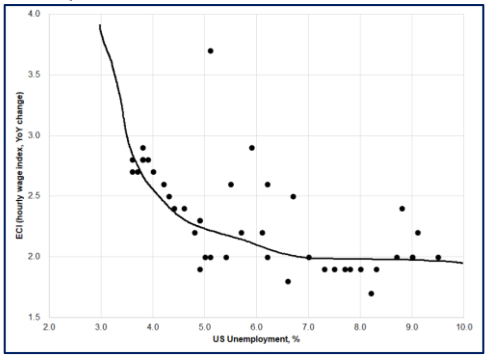
Philips’ hypothesis was that the relationship between unemployment and the rate of change in wage rates is likely to be non-linear. That continues to be true, I think.

Here is the original diagram from Philips 1958 paper and wages vs. UR since 2010 in the United States:

Original 1958 Philips Curve paper



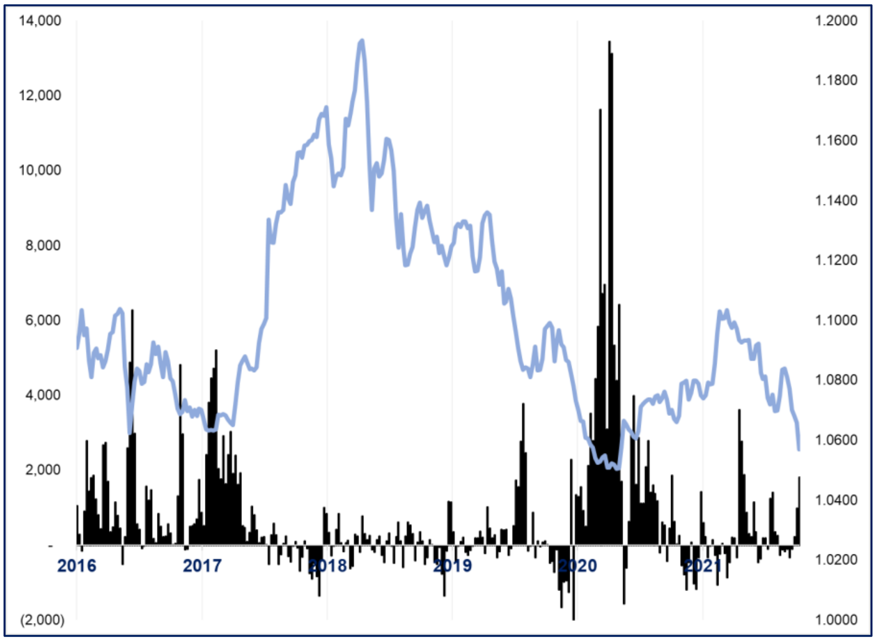
USA, 2010 to now



The SNB finally showed up

The SNB has not been very aggressive so far, but they have finally showed up, so there is a modicum of hope for EURCHF bulls. Since 2016, the SNB has intervened aggressively every time EURCHF went below 1.0700. Here is the chart:

EURCHF vs. SNB Sight Deposits (2016 to now)



Note **it always looks bad at the lows**. That's why they have to intervene! This week's Sight Deposits data (released every Monday) imply the SNB intervened last week to the tune of around 1.8 billion CHF. The size of weekly intervention has been a strong predictor of 3-month forward returns in EURCHF.

Change in sight deposits (million)	Average change in EURCHF in the next 3 months
< -1000	-0.5%
-1000 to 0	-0.4%
0 to 2000	0.0%
2000 to 4000	0.5%
4000 to 6000	1.6%
>6000	1.3%

As far as I can see, EURCHF intervention remains a critical part of the SNB's toolkit. While it has obviously been soul-sucking to trade it from the long side in recent weeks, I doubt the flurry of recent short positions and bearish EURCHF calls will pan out either.

A daily close below 1.05 or a series of one or two disappointments in the Sight Deposit data will open up the downside but that's not the base case. For now, I would rather be long (via limited downside trade) or flat.

Trades

The USDCAD has been stopped out for a small loss. I cut the AUDNZD here for a small profit as the trade is stale and I doubt the market will care what the RBA says for more than about 24 hours. Australian policy will be determined by the economic data, not the RBA's wishes.

good luck ⥮ be nimble

Almost there! $1,208 the high so far.

This Dr. Parik Patel tweet from December 2020 becomes more and more legendary each day.

Another one for the “Cycles of Capitalism” scrapbook.

The days when it was in-group super funny to post ridiculous valuations for tech disruptors using ludicrous methodologies… and then those valuations were achieved a year later.

Dr. Parik Patel, BA, CFA,… · 12/21/20 ···

Good morning everyone. Since $TSLA hit my previous price target I spent last night doing some more analysis. I am proud to say I am very bullish. My revised price target is $1,264. I calculated this by taking the current share price and adding the $600 stimulus check. See below:

TSLA Valuation		
Share Price	$	664
Stimulus Check	$	600
Fair Value	$	1,264
Upside		90.4%

814 2,643 23.5K

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