Spectra Markets

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am FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Guess how many varieties of apple there are.

Current Views

Long USDCAD @ 1.2691
Stop loss 1.2589 / Take profit 1.2809

Short ES @ 4684
Stop loss 4741 / Take profit 4545

Short ETHUSD @ 4210
Stop loss 4902 / Take profit 3010
(From MacroTactical Crypto #4)

Even hawkisher?

Friday Macro dinner note

A few readers reached out to me to make an excellent point about Friday's note: There was essentially no talk at the Thursday macro dinner about the left tail of the Fed distribution. The question everyone asked was "how many hikes?" The idea that zero or even 1 or 2 hikes is possible was not discussed. This is an interesting observation and clearly shows that sentiment is leaning (logically) towards a rapidly more hawkish Fed. This could theoretically set off some alarm bells with regard to sentiment, but to me it's logical given the incredibly strong US jobs data, 40-year high price increases, and raging politics of inflation.

If anything, the **expectations at the dinner were not all that hawkish**, in my opinion, with 8 out of 12 votes for May or June as the first Fed hike. There is certainly plenty of room for the Fed to outhawk that.

The Fed is getting absolutely ripped to shreds at this point as Republicans, Warsh, El Erian, and others pile on. Here is Mohammed El Erian's comment from this weekend, which captures the moment:

> "The characterization of inflation as transitory -- it's probably the worst inflation call in the history of the Federal Reserve," El-Erian said on CBS's "Face the Nation" on Sunday.
>
> "It results in a high probability of a policy mistake," he said. "So the Fed must quickly, starting this week, regain control of the inflation narrative and regain its own credibility. Otherwise, it will become a driver of higher inflation expectations that feed off themselves."

And El Erian is not hindsight harry here. He was saying inflation is not transitory back in July. And here's a snip of Kevin Warsh's WSJ oped:

> *The Fed Is the Main Inflation Culprit*
>
> The central bank has enabled price increases that may soon pose a risk to financial stability. If price stability is squandered, financial stability is put at risk. If financial stability is lost, the economy is imperiled, and the social contract is threatened.

Given the Brainard statement's prioritization of inflation and the incredible pressure to show some real hawkish teeth… **I think you should determine whatever you think is the most hawkish possible outcome from the Fed this week—and then imagine a scenario that is even more hawkish.** The Fed is a cornered animal about to attack. Long USDCAD and short risky assets into and through the Fed continue to make sense to me.

We have spent the past 18 months immersed in the greatest monetary policy experiment of all time. Now it's about to be unwound. What do you think is going to happen?

Quarterly trades ideas recap

Today is my quarterly trade ideas recap. On October 24th, 2017, I wrote the following after reading Philip Tetlock's excellent book Superforecasting:

> One of Tetlock's big beefs, which is a pet peeve of mine too, is the litany of forecasts that stream daily on CNBC, Bloomberg and the internet without any scrutiny or follow-up. Specifically, the relentless stream of "Crash Imminent" predictions is a complete joke. These inaccurate, one-way forecasters are not called out, they are instead deified as "the famed economist who correctly predicted the collapse of 2000 and 2008" etc.
>
> Most analysts that get credit like this predict a crash every year or two and then claim credit in the very few years their call is right. There is no verification (and many forecasts are so open-ended they are impossible to verify) so anyone can make any prediction and it is more important how famous they are, not how accurate they are. I don't mean to pick on a specific website or forecaster—As an industry, Wall Street is simply terrible at following up on the flood of forecasts we make every day.
>
> It is pretty weird how we don't even have much data on who is good at forecasting the main US economic data, when this is easily verifiable with a bit of work. Anyone know the Brier Score of the top 10 forecasters of US economic data? Is their forecasting skill persistent? There are many reasons not to follow up on forecasts but most of them suit the forecaster not the users of the forecast.
>
> For example, people sometimes ask me to publish my trade idea outcomes. I hesitate for four reasons:
>
> 1. If I am right a lot in AM/FX but my real-world P&L isn't that great, it looks bad and feels bad. "Great calls, Brent, but what's with your teeny little P&L?"
> 2. If I am wrong a lot, I look stupid. My credibility could be damaged.
> 3. If I am right a lot, it looks like I am bragging. Victory laps are annoying.
> 4. The purpose of AM/FX is not to publish ideas which readers blindly follow. My goal is to help you make your own investment and trading decisions. The idea is to reveal my process and put stuff on your radar. Hopefully that helps you improve your process and plants the seed for some good trades on your end.
>
> The thing is, though, after reading Superforecasting I feel it's lame and disingenuous to make forecasts and then not follow up. So, I will collect and publish my trade idea results once per quarter. Caveats: My real-world trading P&L can differ dramatically from the P&L of the "Current Views". Also: I cannot guarantee the accuracy of the data (though I present it, in full, on the next page and I'm pretty sure it's accurate). Past performance does not guarantee future results. Ask your doctor if AM/FX is right for you. Results on next page.

On the next page, you will find a detailed sheet that shows my trade ideas since I started at Spectra on September 7. In order for the trades to be comparable, I assume a portfolio with a $4m stop loss that risks $100,000 on each trade (2.5% of free capital). You could divide all the numbers by 10 if you have a smaller account, and if you have a $40 million stop loss at a hedge fund, you can multiply all the numbers by 10. These trades are all liquid macro, there is not much of a capacity issue.

The $ amounts are not really the point; the point is just to normalize the trades because reporting % returns on trades makes no sense. What makes sense is to normalize risk based on how wide the stop loss is. Tighter stops = bigger positions and vice versa. So, to be clear: I risk $100,000 on each trade, backing out the position size from the difference between the entry point and the stop loss. This is all fully explained in Chapter 11 of Alpha Trader. I like that the risk management Chapter happens to be Chapter 11. Get it?

Also note this is not an actively-managed portfolio, it's just a series of trade ideas. I went periods of two weeks with zero risk in the sidebar. The main point of this exercise is simply: accountability.

AM/FX Trade Ideas since 07SEP21

Risking $100,000 on each trade   Free capital: 4,000,000   2.5% of free capital on each trade

		Asset	Entry	Stop loss	Position size	Take profit	Actual exit	P&L	Exit date	Holding period (days)	Notes
16-Sep	L	USDCNH	6.4488	6.3990	12,849,398	6.5590	6.4510	4,382	20-Sep	4	
21-Sep	L	ES	4,345	4,297	42	4,414	4,345	-	22-Sep	1	
23-Sep	S	ES	4,408	4,451	47	4,301	4,453	(104,651)	23-Sep	0	
5-Oct	L	EDZ3	98.8950	98.7900	381	99.0300	98.785	(104,762)	7-Oct	2	
5-Oct	L	2-month AUD digital call	20%				46%	130,000	20-Oct	15	Spot ref. 0.7285
18-Oct	B	GBP calendar spread	0.23				0.64	178,261	4-Nov	17	Sell 01NOV and buy 15NOV 1.3550 GBP put (spot ref 1.3730)
22-Oct	S	AUDNZD	1.0476	1.0622	10,072,522	1.0200	1.0456	29,625	2-Nov	11	
26-Oct	S	USDCAD	1.2355	1.2444	9,029,215	1.2201	1.2413	(42,084)	2-Nov	7	
17-Nov	S	ETHUSD	4,210	4,901	145	3,010					
18-Nov	B	6-day AUDNZD 1.0300 put					0	(100,000)	24-Nov	6	Spot ref. 1.0340
22-Nov	S	AUDCHF	0.6731	0.6816	10,823,529	0.6577	0.6517	251,546	2-Dec	10	
29-Nov	S	ES	4,632	4,677	44	4,521	4,521	246,667	2-Dec	3	
9-Dec	S	ES	4,684	4,741	35	4,545					
9-Dec	L	USDCAD	1.2691	1.2589	7,787,689	1.2809					

Total P&L	**488,983**
Winners	**6**
Losers	**4**
Win%	**60%**
avgWIN	**140,080**
avgLOSE	**(87,874)**

6.9 *average hodling period*

Takeaways:

- A good start. The AUD and GBP in October were great and the ES and AUDCHF in November were excellent. The rest was a bunch of noise with three trades stopped out and 6/10 winners. The ES, ETH and USDCAD in gray are still alive. I didn't mark them to market in the sheet, but if I did, the results would be a bit better.
- The 23SEP ES trade got stopped out near the high and would have been a big winner otherwise. The 29NOV ES trade was within 6 points of getting stopped out. My stop losses, therefore, appear to be a bit too tight on the S&P trades. When stopped out, I assume normal slippage. The assumption used on stop loss slippage is not material to the results.
- Average holding period is 7 days. Winners average 10 days, losers 4 days.
- The AUDNZD put was the worst trade. Never in the money for one second. Selling AUDNZD at the lows is not usually a good idea and it was a bad idea here.
- Had no trades in the sidebar at all for more than half the days this quarter. I will aim for more trades next quarter: 15-20 instead of 10.

Thanks for reading. Feedback is always appreciated.

good luck ⇅ be nimble

There are about 7,500 varieties of apple. That seems unnecessary.

Black Diamond apple

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