Wednesday, December 01, 2021

am

FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

A gigantic Roman mosaic found in the East Midlands!

Current Views

Short ESZ1 @ 4632
Stop loss 4677
Take profit 4521

Short AUDCHF @ 0.6731
Stop was 0.6816, moved to 0.6701, now 0.6617
Take profit was 0.6577 move it to 0.6517

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

Is the Fed put still a thing?

Fed put

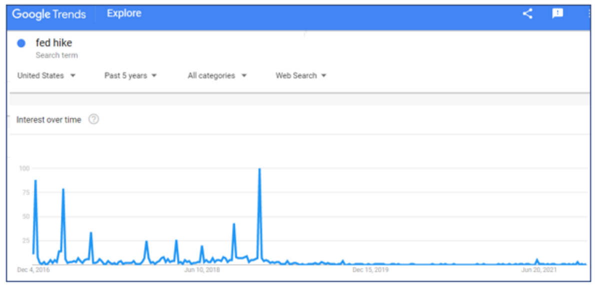
This market feels a bit like late 2018. Then, the Fed pivoted to a much more aggressive hawkish stance in late October and volatility increased markedly after Jerome Powell's erroneous "We're a long way from neutral" comment. Yesterday's commentary from Powell could not have been any clearer and I applaud the chair for clearly announcing "I'm wrong: I'm stopping out of my transitory view and getting ready to hike rates, ASAP!"

I remember the 2018 hawkish Fed episode well because after stocks collapsed in December 2018, well-known analyst Alex Patelis announced his strong view that the Fed would cut by mid-2019 in response to the 20% drop in SPX.

At the time, I thought it was a crazy call as the economy was humming along just fine and as of December 1, 2018, the market was still priced for almost two rate hikes in H1 2019. His logic was pretty simple: Stocks were down 20% from the highs and that means the Fed's gonna cut. He got a lot of super negative feedback as many thought his analysis was overly simplistic. But… He stuck to his call, even as the economy looked OK in early 2019… And he was right! #legend

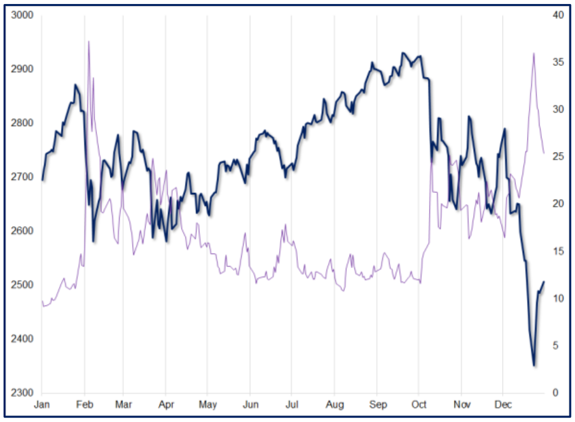
Four months later, the Fed stopped hiking and fired up the rate cut language. They cut rates in July 2019. Here is a nice February 2019 recap, in case you don't fully remember. And a chart…

Fed changed policy after the December 2018 stock market wipeout



Thing is, inflation in late 2018 was 2%, now it's 6%. So, the Fed put should be further away now than it was in the past. This is not a reason to be bearish, but it is a reason to have a game plan and an open mind as the left side of the SPX distribution here looks much different than it looked most days since 1990. The Fed can't ride to the rescue if inflation remains sticky and stocks cave in. For what it's worth, my base case for equities in 2022 is we get something similar to 2018. Volatile, directionless, and returns near 0%.

SPX vs. VIX in 2018: Stocks were volatile and went nowhere in 2018



The primary caveat to all this is that (as we saw over the past week), if stocks drop 20%, oil and other commodities will probably drop enough to take the pressure off inflation. That's what happened in 2008 and was the reason the Fed could cut massively even though inflation was ripping in mid-2008. Still, inflation is much worse now than it was in 2008 and that was purely commodity driven, while today's pressures are broad-based. The Fed put is not 100% guaranteed anymore. Plan accordingly.

Oil

I am intrigued by the tepid bounces in crude. We are near critical support in NYMEX ($65) and a few bucks away in Brent ($68). Les graphiques:

NYMEX crude oil

Brent crude oil

Risky asset dip buyers are not going to get any real love until oil can properly recover. A NYMEX daily close below $65 is probably meaningful (bearish) and would be a major surprise as the commentariat is spinning the oil move as purely a temporary positioning adjustment and not much more. Looks a bit nefarious to me and I would not be surprised to see one more huge wipeout to clear out the Wüsthof catchers.

Fed

It's amazing how much Fed pricing has moved since June. FAIT looks like a bit of a disaster, timing-wise, as the Fed decided to run the experiment just as a generational wave of inflation crashed onto US shores. Careful what you wish for and all that.

The market is now pricing one full hike by June 2022. This makes sense and there is a case to be made for May (currently about ½ hike priced). Some people are talking about paying March 2022 but that feels aggressive to me. In fact, receiving March and paying May could be a nice "pin the tail on the donkey" trade. "Taper ends in March" is now a logical base case and while The Fed could certainly hike at that meeting too, I would think they use the March meeting to tee up a May hike. There is no April meeting.

Fed meeting dates for 2022:

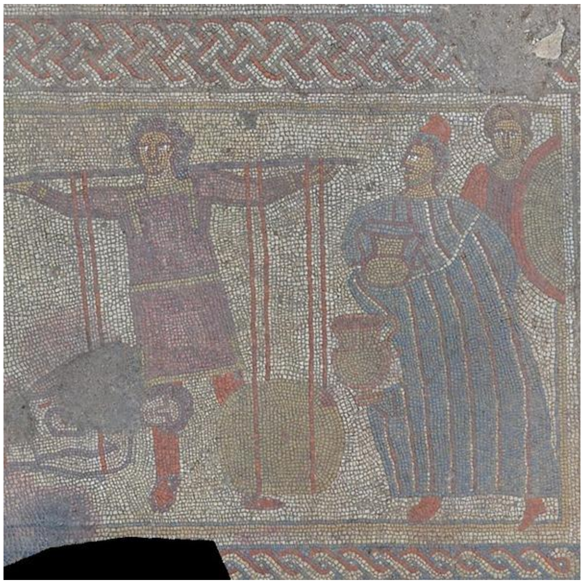
26JAN . 16MAR . 4MAY . 15JUN . 27JUL . 21SEP . 2NOV . 14DEC.

Have an artistic day.

good luck ⇅ be nimble

First, they found a dead king's body.

Now they've uncovered an ancient mosaic



https://www.npr.org/2021/11/26/1059341809/leicester-england-archaeologists-ancient-roman-mosaic

HT Bose Stereos

[Subscribe to AM/FX here]

Markets and Trading Commentary Disclaimer

This material has been provided by Spectra Markets, LLC ("Spectra Markets"). This material is confidential and therefore intended for your sole use. You may not reproduce, distribute, or transmit this material or any portion thereof to anyone without prior written permission from Spectra Markets.

This material is solely for informational and discussion purposes only. Spectra Markets is not a registered investment advisor or commodity trading advisor. This material should not be viewed as a current or past recommendation or an offer to sell or the solicitation to enter into a particular position or adopt a particular investment strategy. Spectra Markets does not provide, and has not provided, any investment advice or personal recommendation to you in relation to any transaction described in this material. Accordingly, Spectra Markets is under no obligation to, and shall not, determine the suitability for you of any transaction described in this material.

To be clear: Your individual circumstances have not been assessed. You must determine, on your own behalf or through independent professional advice, the merits, terms, conditions, risks, and consequences of any transactions described in this material. Securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. This material may also contain information regarding derivatives and other complex financial products. Do not invest in such products unless you fully understand and are willing to assume the risks associated with such products. Neither Spectra Markets nor any of its directors, officers, employees, representatives, or agents, accept any liability whatsoever for any direct, indirect, or consequential losses (in contract, tort or otherwise) arising from the use of this material or reliance on information contained herein, to the fullest extent allowed by law.

The opinions expressed in this material represent the current, good faith views of the author at the time of publication. Any information contained in this material is not and should not be regarded as investment research or derivatives research as determined by the U.S. Securities and Exchange Commission ("SEC"), the U.S. Commodity Futures Trading Commission ("CFTC"), the Financial Industry Regulatory Authority ("FINRA"), the National Futures Association ("NFA") or any other relevant regulatory body. The author is currently employed at a trading desk. The opinions may not be objective or independent of the interests of the author. Additionally, the author may have consulted with various trading desks while preparing this material and a trading desk may have accumulated positions in the financial instruments or related derivatives products that are the subject of this material.

Spectra Markets does not guarantee the accuracy, adequacy or completeness of the information presented in this material. Past performance and simulation data do not necessarily indicate future performance. Predictions, opinions, and other information contained in this material are subject to change continually and without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and Spectra Markets assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements. The value of any investment may also fluctuate as a result of market changes.

Spectra Markets is affiliated with Spectra FX Solutions LLC, an introducing broker that is registered with the NFA; Spectra FX Solutions LLP, which is a registered entity with the U.K.'s Financial Conduct Authority; and SpectrAxe, LLC, a swap execution facility that is currently in the process of registering with the CFTC. The disclosures for Spectra FX Solutions LLC and Spectra FX Solutions LLP related to the separate businesses of Spectra FX can be found at http://www.spectrafx.com/.