Monday, December 06, 2021

am

FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Powerwashing is oddly satisfying

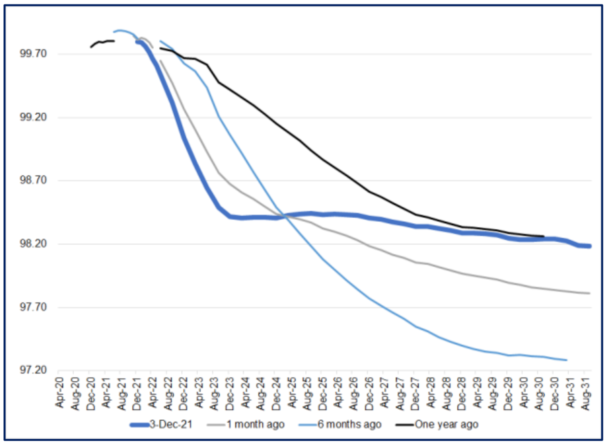
Current Views

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

Oddly shaped curve

The US curve is kinked as EDZ3 and EDZ5 now trade at the same price (98.37). This chart shows the curve now, and also 1, 6 and 12 months ago.

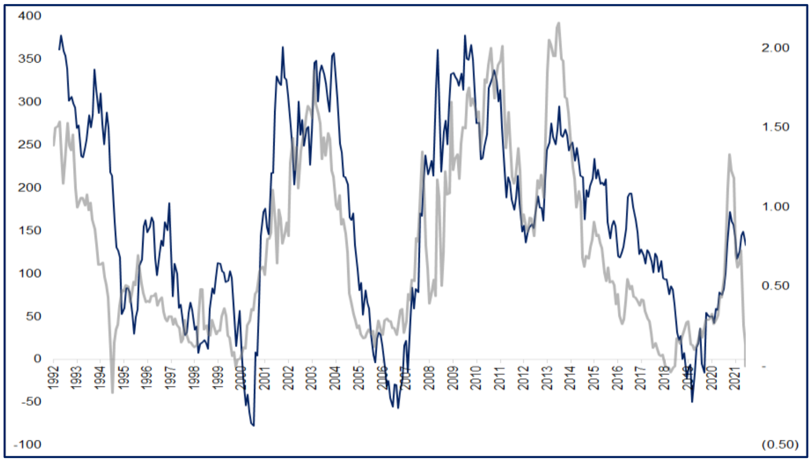
The US Eurodollar curve is oddly shaped



That kink around 2024/2025 suggests a world where the Fed hikes a bunch of times then quickly stops. This is the exact path of rates one might expect in a world with a massive debt overhang, because the cost of servicing the debt mountain is only feasible at extremely low levels of rates. We saw that last cycle as rate hikes quickly impinged upon indebted consumers and sovereigns and now sovereign debt is much, much worse than it was in 2018.

Many reputable economists say the shape of Z3 vs. Z5 is not particularly alarming and what you really want to watch is the 3m/10y spread. That makes sense—there is a ton of empirical support for the notion that 3m/10y is the best US recession predictor. Still, have a look at that ED spread (currently EDZ3 minus EDZ5) vs. the 3m/10y spread:

USA: ED9 vs. ED17 vs. 3m/10-year



Right now, ED9 is EDZ3 and ED17 is EDZ5

You can see there are leads and lags but generally they move together. The last four times ED9 vs. ED17 went down here were March 2000, February 2006, and June 2018, and September 2019.

These are all times when Fed policy was close to restrictive. And these were all very bad times to be short bonds. I'm honestly not sure what it means this time, though, since the Fed hasn't even started hiking rates yet and we are already heading towards various types of inversion. Kind of confusing.

US 10-year rate

Maybe it's nothing yet and we just wait for 3m/10y to invert. Right now, this is just something to monitor. It caught my eye because it seems like the market is getting all beared up on bonds again just as US 10-year rates look toppy, oil looks done and USDJPY appears to have put in a major top (again) in the 115.00/50 area.

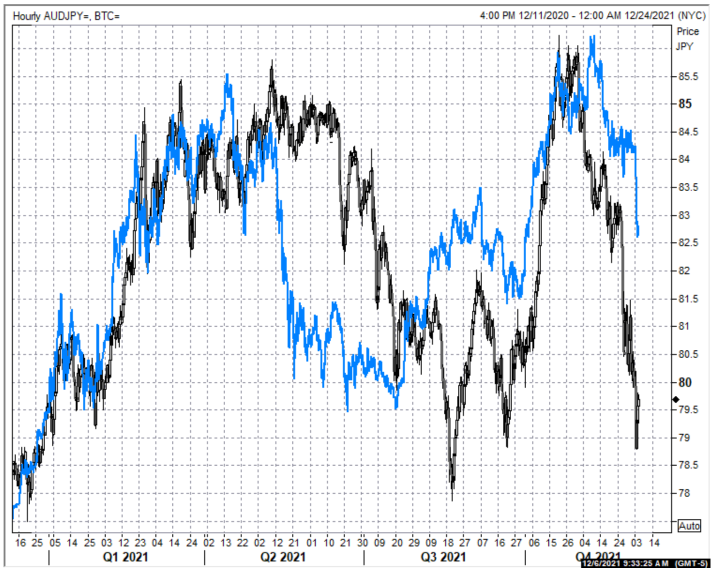
No call to action here, just some stuff to think about. It would not be super crazy surprising if the inflation and bond yield cycles peak at the most ironic time: right after the Fed capitulates on the transitory message.

The rinse cycle continues

Finally, despite the huge weekend bounce off 42069, bitcoin is doing its best to catch down to AUDJPY. Regardless of the big post-crash rebounds in crypto this weekend, the pressure should remain heavy on everything in that space. The three most hyped stories of 2021 are "Meme stocks!" "Disruptors and innovators!" and "Web3!". You know how it's going for the meme stocks and for the "disruptors and innovators".

Web3 probably next. ETH is the epicenter of the Web3 trade.

AUDJPY vs. BTC



Have a satisfying and clean week.

good luck ⇅ be nimble

Powerwashing is so satisfying, they made it into a video game.

[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/.