SPECTRA MARKETS

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am

FX

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Chess players playing online play significantly worse than when they are playing live, in person (using within-player comparisons).

There might be a read through to WFH vs. in person work.

Or not.

Current Views

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

Two observations

Stocks

Extremely high volatility like we saw yesterday in the NASDAQ is usually a feature of corrections and bear markets. In contrast, bull markets tend to be characterized by lower vol and grinding moves, not monstrous, high-volume rips. Today's table shows how NASDAQ futures behave in the days after a 2.9% gain (yesterday we were +2.98%, hence my choice of cutoff):

NASDAQ: After a > 2.9% gain				
	x+3	x+5	x+10	x+20
average	-0.5%	-0.5%	-0.1%	-0.2%
median	-0.2%	-0.2%	1.1%	1.5%
win%	48.8%	48.1%	60.5%	55.8%
count	129	129	129	129
stdev	4.5%	6.1%	8.3%	11.2%

NASDAQ: Rest of the sample				
	x+3	x+5	x+10	x+20
average	0.2%	0.3%	0.5%	1.0%
median	0.3%	0.6%	1.0%	1.8%
win%	57.3%	58.6%	60.6%	63.8%
count	5,671	5,671	5,671	5,671
stdev	2.8%	3.8%	5.0%	6.9%

X+3 means three-day performance, etc.

Most notable in that table is the skew, which you see when you compare the averages to the medians on the 10 and 20-day data. Volatility always comes in clusters (it is autocorrelated) and so a big rally one day suggests a bearish EV with large downside skew for the next 10 to 20 days. This study is not RAGING bearish, but it's a good reminder that a 3% rally is usually bad news going forward.

BoC and other CB's

Central bank policy has been hard to trade in FX because the curves are so weird, and markets don't believe the hikes will be sustained. Also, the cyclical ToT stories have reversed in all the nations of hikerland. You saw this high level of difficulty with the October bank of Canada meeting as the BoC was mega hawkish and that was the ding dong low in USDCAD (see yesterday's AM/FX).

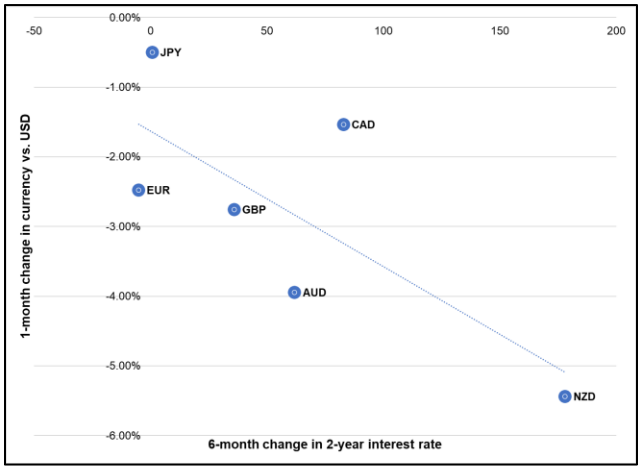
The same story has been true across the board. On the next page, I show the 1-month change in FX plotted against the 6-month change in 2-year rates. The more hawkish the central bank and the bigger the move in the front end, the worse the currency has performed in the last month.

A big part of this has to do with the risk aversion and dump in oil, but the interesting aspect of it is that 2-year yields corrected much less than the currencies.

There are two things happening here:

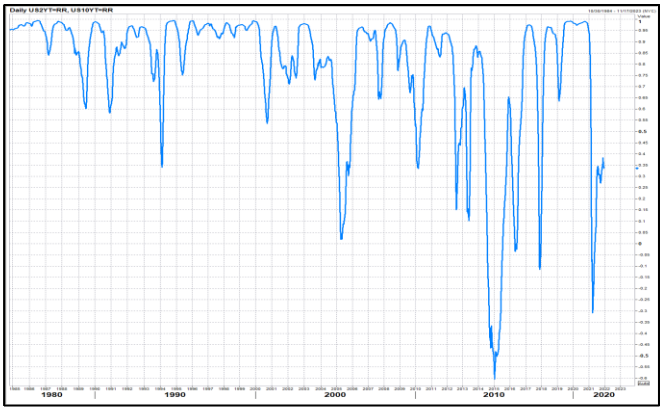
1. Central bank hawkishness is not getting transmitted to the currencies as much as you would think due to inversions and the fact that bond yields are not participating. Short, flat hiking cycles don't mean as much as long steep ones.
2. Recent risk aversion and commodity reversals have triggered unwinds of hawkish favorites.

6-month change in 2-year rate vs. 1-month change in currency
Hawkish CB = weak currency over the last month



This next chart is another way of looking at how extreme the front end vs. bond market moves have been. It's the rolling 1-year correlation between US 2-year and US 10-year rates. You can see those two parts of the curve have not been less correlated since the epic flattening just before taper in 2015.

Correlation of US 2-year yield and US 10-year yield, 1985 to now



The takeaways are:

- Follow 2-year and 10-year rate differentials, but only trade FX if both show the same signal.
- Hikers get smoked on risk aversion. If you are long a currency because the CB is hiking, you need a risk appetite filter or laser focused risk management on the trade.
- If curves steepen, hikers will be more fun to trade in FX.

Have a high-performance day.

good luck ⇅ be nimble

This confirms my priors on WFH, so I'm sharing it. :]

ABSTRACT

Cognitive Performance in the Home Office - Evidence from Professional Chess

During the recent COVID-19 pandemic, traditional (offline) chess tournaments were prohibited and instead held online. We exploit this as a unique setting to assess the impact of moving offline tasks online on the cognitive performance of individuals. We use the Artificial Intelligence embodied in a powerful chess engine to assess the quality of chess moves and associated errors. Using within-player comparisons, we find a statistically and economically significant decrease in performance when competing online compared to competing offline. Our results suggest that teleworking might have adverse effects on workers performing cognitive tasks.

In particular, while we do not find a statistically significant increase in the probability of making an error, the size of an error when playing online increases by 16.8%. Thus, the cognitive performance of chess players is impaired when playing online. This effect might be explained by missing peer pressure as well as the intense atmosphere offline chess tournaments.

HT ChuckR

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