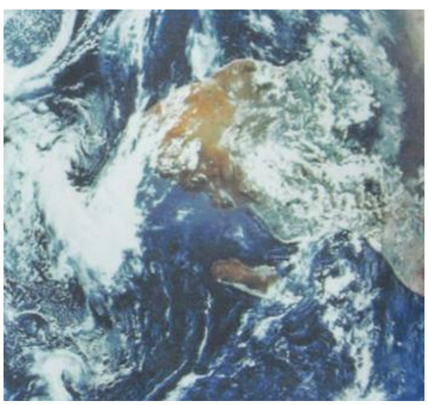
amFX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



Current Views

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

Unwinding

Fed outcome looks like a losing bingo card

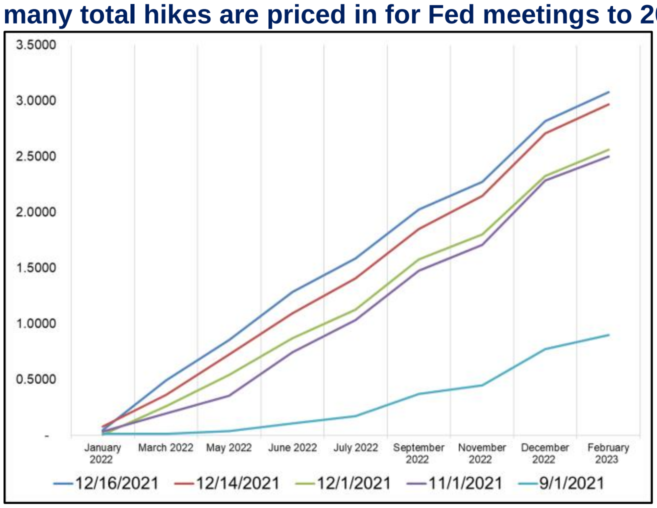
Below is my Fed grid from yesterday with the actual outcomes marked in yellow. I would have assumed going in that the columns would have huge correlation and the yellow would be mostly all in one column, but that was not the case.

	Dovish		Neutral		Hawkish	
Median number of hikes	1	5%	2	70%	3	25%
Taper ends in	June 2022	5%	March 2022	70%	Before March (they end MBS buying today?)	20%
Total hikes for 23 and 24	6	30%	7	40%	8*	30%
Implied liftoff	September 2022	10%	June 2022	50%	March/May 2022	40%
Best trade	Long AUDUSD		Sell vol until year end		Long USDCAD	
	Why?		Why?		Why?	
	High beta, RBA pivoting		Need to wait for CPI and jobs in January		BoC dovish, policy divergence	

*small outlier possibliity of more than 8, which would signal extreme hawkishness, faster pace

The result was a gigantic unwind of hawkish Fed bets in SPX, AUDUSD, EURUSD and everywhere else. The ED market is stable as market pricing is somewhat ratified. You can see in the next chart that Fed pricing continues to grind more hawkish even as risky assets rip and the USD dumps. The chart shows pricing snapshots for five dates (today, two days ago, 01DEC, 01NOV and 01SEP).

How many total hikes are priced in for Fed meetings to 2023?



From WIRP on Bloomberg

OK, but that's all backward looking. Now what? While it's tempting to pile into risky assets and short USD here on the reflexive ripper reversal, my guess is that most of this is unwinding of hawkish bets and we now transition into a choppy, frustrating two weeks. Certainly, though, there is no strong reason I can see to be short risky assets anymore. I just don't like long, either.

My S&P short was stopped out at flat yesterday. This is consistent with the idea that I have believed for the past few years: it's easier to predict behavior going into major events than it is to predict the outcome of the event itself or the reaction afterwards. Over the last 24 months or so, my runup trades performed much better than my "hold it through the event" trades. Meanwhile, the ETH short is feeling kind of stale but I'm sticking with it since it's bigger picture compared to my normal time horizon[1].

Into the weeds on the Bank of Canada

The pricing in the very front end of the BoC curve looks strange to me. The guidance framework the BoC are using says:

> The Governing Council judges that in view of ongoing excess capacity, the economy continues to require considerable monetary policy support. **We remain committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved. In the Bank's October projection, this happens sometime in the middle quarters of 2022.** We will provide the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation target.

I bolded the most important part. <u>They are saying that they won't hike until the slack is absorbed</u>. The next meeting is January 26, and that meeting is an MPR meeting where new forecasts will be presented. The only scenario where they hike at the January meeting is if they deem that their prior estimate for full slack absorption, which was "middle quarters of 2022," is suddenly "NOW!". It is much more likely they maintain their estimate of the timing, or they pull it forward to "End of Q1" at the earliest. That would tee up a March hike and send a consistent and logical message.

In this context, I think a rate hike by the Bank of Canada in January is extremely unlikely. Yet, it is priced as a 50% chance of a hike. This is similar weirdness to December when 33% chance of a hike was priced and yet that was in reality about as close to a zero as you could ever get a for a central bank meeting. **Receiving the January BoC meeting (i.e., betting against a BoC hike in January) looks like spectacular risk/reward.**

Given the structure of the BA market, the way to receive January BoC is through OIS and liquidity can be a problem there. If you can get the trade on, I think it's a 90/10 bet that pays 1:1. That is: 90% chance the BoC does not hike in January. The even better trade is receive JAN, pay MAR.

Have a harmonious day.

good luck ⇅ be nimble

[1] *If you are in Canada, there is an interesting bearish ETH expression if you short ETXX/B and sell puts against it to fund the carry (and improve your entry).*

https://www.montessoriservices.com/earth-flag

[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/.