

am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Real excerpt from a real news story

“I can’t find Rice Krispies anywhere in town!,” my friend Beth proclaims, with unaccustomed panic in her voice.

“Try corn flakes or oatmeal,” I suggest.

“They won’t work,” she replies.

Current Views

Long 03FEB CADJPY
90.00 put
Spot ref: 90.80 /// Price 75 pips

Take profit 88.65

Aftermath

The week is done. What a week. The Fed opened the door for more rate hikes and the BoC slammed the January door shut. People have been wondering if we can ever get more than one 25 basis point hike priced in for an FOMC meeting this year and now we’ve already got it. For March! Here is number of hikes priced for the March FOMC:

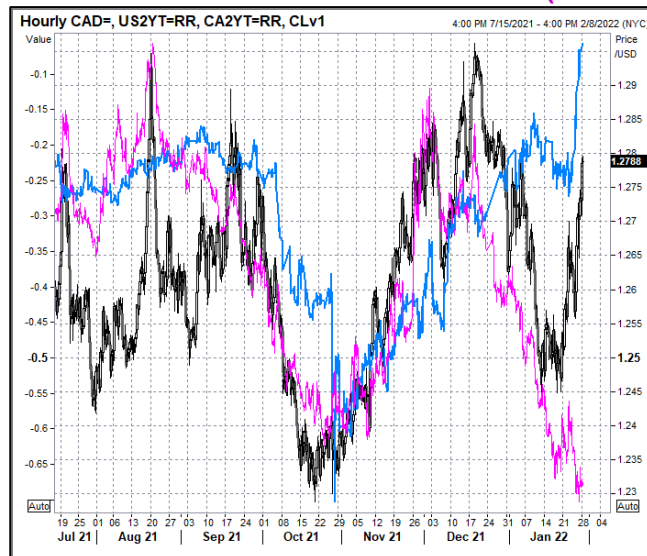
Expected change at March FOMC, in # of hikes



Using average of Fed Funds and OIS from Bloomberg

This Ottawa/DC monetary policy divergence has turned the tide in USDCAD for now. The pair has been the FX equivalent of a double black diamond run at Whistler as it was following oil just about tick-for-tick until Mr. Macklem released the doves. Here is a chart of USDCAD with oil and US/Canada 2-year rates overlayed. Note the pink line (oil, inverted) was mostly leading since July but now USDCAD is drawn back higher by the zippy move in rate differentials.

USDCAD vs. US/CA rate differential and oil (inverted)

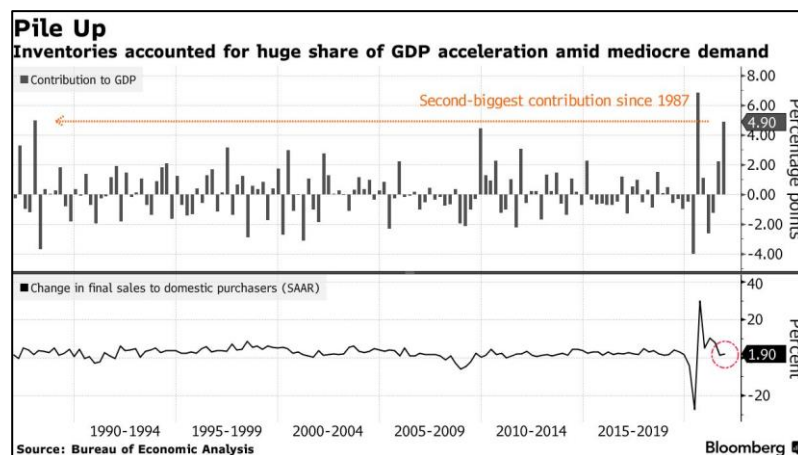


Canadian 2-year yields traded 65bps premium to the US at the extreme in October (the lowest point for the blue line) and now US and Canadian 2-year rates are basically the same. That's a huge move in relative rates and reflects a significant unwind of the nonsensical pricing divergence between Canada and the USA¹. The Canadian economy is more rate sensitive than the US (weaker consumer balance sheet, more reliant on housing and autos) and last cycle the Fed outthiked the BoC 9-5. Things look more rational now.

Pas de shortages

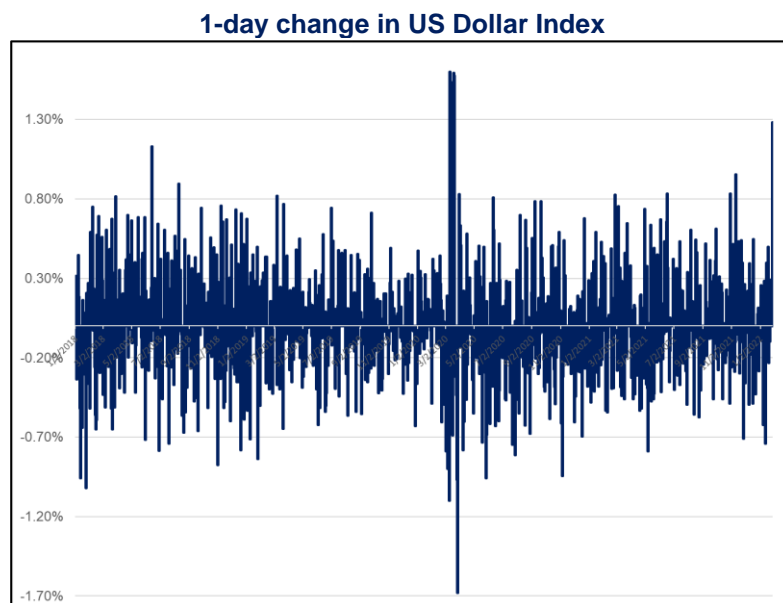
A theme that I have been pounding because I think it's important and super countertrend right now is the apparent rollover in US data. It could be omicron or seasonals, or it could be the fiscal cliff. I'll keep following this closely and will try to stay unbiased. I'm not all-in on "ECONOMY ROLLING OVER!" so I think I can stay balanced. If the Fed is hiking into economic weakness, that's going to be one heck of a trade.

More evidence of weirdness yesterday... Wednesday's retail inventories surge is confirmed by the massive contribution of inventories to yesterday's GDP number. Here is a chart from Bloomberg:



<https://www.bloomberg.com/news/articles/2022-01-27/u-s-economic-growth-quickened-last-quarter-with-inventory-boost>

It's alive!



¹ Not hindsight. I have been writing about this since mid-December. See page 2 of, [am/FX: Unwinding 16DEC21](#)

It's a perfect storm for dollar bulls as mutant month end USD demand, a false topside break in EURUSD last week, relentless EUR selling by EU corporates each morning, wicked hawkish Fed, impulsive move in interest rate differentials, plummeting gold prices², and crypto wintriness have triggered a shortage of greenbacks. That chart on the last page shows you yesterday was the first move of more than 1% in the DXY since COVID. Before COVID you have to go back to 2018 to get another one.

I have been writing about this month-end USD demand for a while and it's setting up nicely as a fade next week (I think) but I'll write about that Monday.

Views update

The USDCAD take profit hit at 1.2744 yesterday. That was a good trade.

Short USDJPY probably makes sense here. Corporate USD demand is done, and month end real money USDJPY signals tend to be opposite to the primary direction. That is, real money should buy USD vs. all G10 into month end, but sell USDJPY. Cross/JPY lower and USDJPY lower both make sense. I'm not putting them as official ideas because the time frame is too short. If it works, the idea would be to cover at 11 a.m. NY (4 p.m. LDN) on Monday.

I have been bearish crypto and equities since November and particularly bearish since January 6 ([QT2: With a Vengeance](#)). I am starting to think we are getting near a tradable bottom for equities as sentiment is finally (FINALLY!) turning bearish. AAIL is the most extreme example but I'm noticing now the vibe overall is getting more nervous and "sell rallies"ish. I would still stay a million miles away from anything with a price / sales ratio over 10, but it might be time to start dabbling on the most blown out stuff like PTON (equity) or SOL (crypto). If you missed my latest crypto piece, I have a specific idea on where to put bids in SOL. [You can read it here](#). None of this is investment advice. Just ideas for you to chew on as you develop and trade your own view.

In case you are curious which large cap, high price-to-sales equities continue to walk through the tech rubble, here are a few. I always liked price-to-sales better than P/E because sales are harder to fudge than earnings. V and MA stockholders haven't got the memo about how crypto is going to facilitate frictionless global payments!

US large caps with price-to-sales over 15

Ticker	Name	P/S	Market Cap (\$B)	Total Return YTD
TSLA	TESLA INC	15.20	833.00	-21.54
NVDA	NVIDIA CORP	22.50	548.60	-25.39
V	VISA INC-CLASS A SHARES	15.69	446.58	-4.87
MA	MASTERCARD INC - A	18.33	343.52	-2.32
NOW	SERVICENOW INC	17.76	105.21	-18.55
SNOW	SNOWFLAKE INC-CLASS A	70.44	74.96	-27.76
TEAM	ATLASSIAN CORP PLC-CLASS A	30.12	73.52	-23.71
MSCI	MSCI INC	19.86	40.55	-19.73
DDOG	DATADOG INC - CLASS A	44.76	39.98	-28.05
CRWD	CROWDSTRIKE HOLDINGS INC - A	28.02	36.65	-21.95
VEEV	VEEVA SYSTEMS INC-CLASS A	18.60	32.99	-16.01
ZS	ZSCALER INC	40.25	31.25	-30.58
U	UNITY SOFTWARE INC	25.98	27.68	-33.77
OKTA	OKTA INC	21.75	27.31	-21.67
NET	CLOUDFLARE INC - CLASS A	42.10	25.85	-38.90
PLTR	PALANTIR TECHNOLOGIES INC-A	15.99	24.62	-32.56
MDB	MONGODB INC	28.49	23.46	-33.60
HUBS	HUBSPOT INC	16.81	20.17	-35.24
PAYC	PAYCOM SOFTWARE INC	17.55	18.07	-27.51
BILL	BILL.COM HOLDINGS INC	44.60	16.01	-37.36
DT	DYNATRACE INC	16.97	13.97	-18.81
MKTX	MARKETAXESS HOLDINGS INC	17.71	12.55	-19.73
WOLF	WOLFSPEED INC	16.87	11.06	-19.95

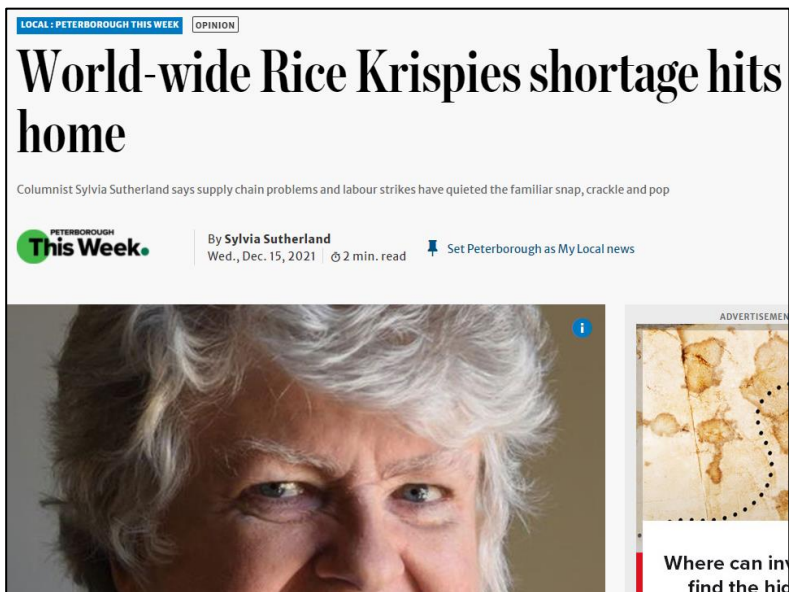
I hope your day snaps, crackles, and pops.

good luck ↕ be nimble

² Oops, I had a good short gold trade there and I bottled it.

Happy to say today's non sequitur is the first one ever sent in by my Mom!

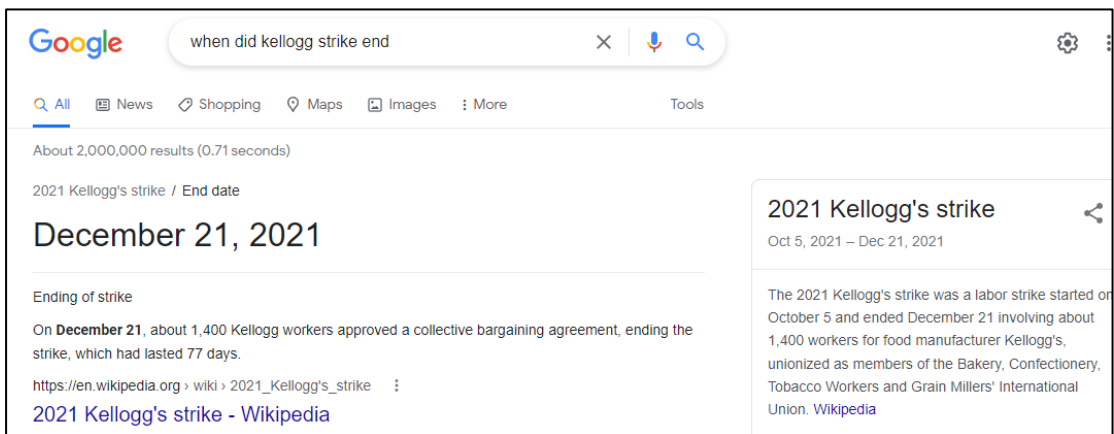
That picture is not my mom.



<https://www.thepeterboroughexaminer.com/local-peterborough/opinion/2021/12/15/world-wide-rice-krispies-shortage-hits-home.html>

Don't panic mom! The main cause of the shortage is fixed... Should be back to normal soonish.

Get long marshmallows and butter.



[Click here to subscribe to am/FX!](#)

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/>.