

am  
FX

Brent Donnelly

bdonnelly@spectramarkets.com  
(212) 398-6230



White at the 1988 Emmy Awards

Betty White

From Wikipedia, the free encyclopedia

(January 17, 1922 – December 31, 2021)

**Current Views**

Initiated November 17  
Short ETHUSD @ 4210  
Stop loss 4902 / Take profit 3010  
(From MacroTactical Crypto #4)

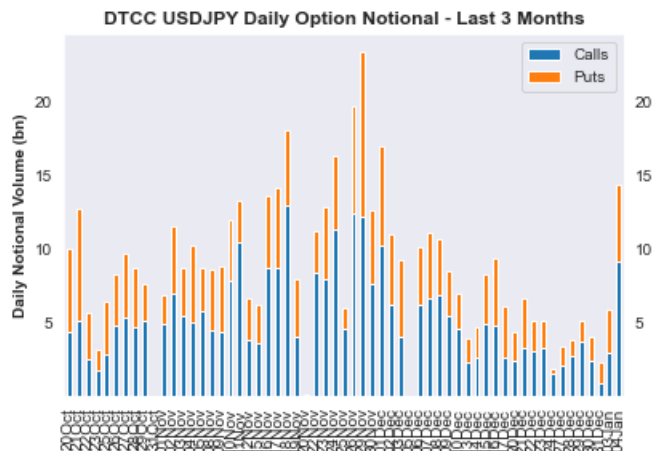
# CB convergence would be a surprise

**BOJ**

There is a Bloomberg sources story suggesting the BoJ might ditch the words “price risks are mainly on the downside” from its statement when it meets January 17/18. On paper, this is mildly interesting and potentially marginally hawkish.

Why it probably matters:

1. The BOJ doesn't change direction of policy very often. The last time this wording was changed was 2014 and really there has been Abenomics, then end of Abenomics and not much else from the BOJ. The cut to negative in early 2016 was the end of Abenomics and the high in USDJPY.
2. The big theme of 2022 is supposed to be central bank divergence. People are remembering back to 2015 when the year started out bullish USD as the Fed was moving towards normalization while the ECB was unleashing massive QE and the BOJ and GPIF were double-teaming USDJPY. But the risk here would be the Fed is priced for a lot and the BOJ is priced for nothing so at the margin, there is room for convergence in market pricing, instead of the much hoped for divergence.
3. Market positioning is heavily long USDJPY. This continued yesterday as there was a huge surge of topside buying in USDJPY all over the street. Tanguy created this chart to give you a sense of the USDJPY activity yesterday:



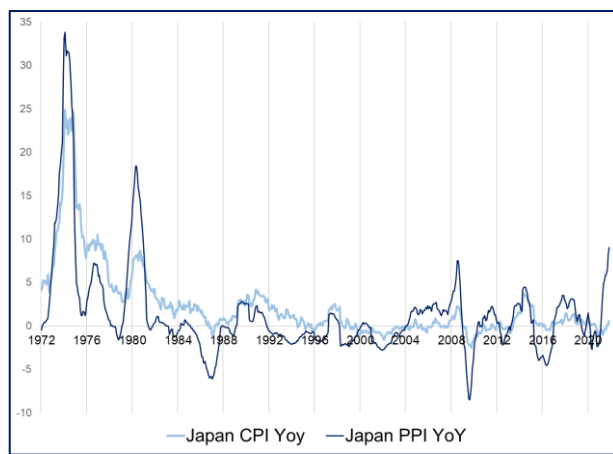
The chart shows USD calls in blue and USD puts in orange. You can see that USDJPY call buying volumes were high, though certainly not epic. Similar to the USD call buying ahead of December 2021 FOMC.

4. Last year, the BIG TRADE OF THE YEAR was short USD. The USD went down for the first three days of January and then ripped higher all year. Anyone who is long USDJPY right now will certainly remember that price action last year and feel a tad twitchy right now. This feels like a potential mirror image of Week 1, 2021 just as we enter a window of event risk. FOMC minutes and NFP are on deck.

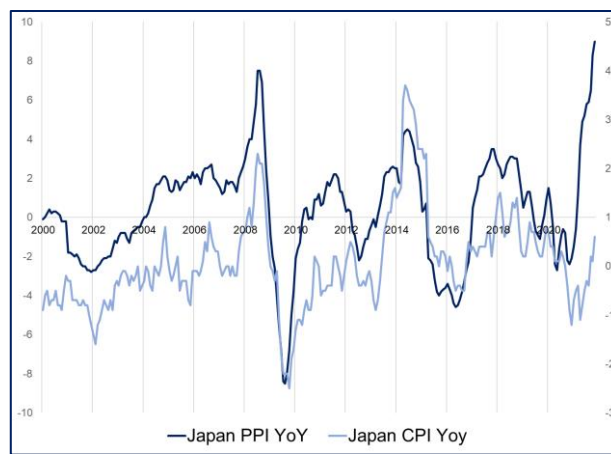
- On the face of it, you might see Japan CPI at 0.6% YoY and chuckle to yourself at the madness of this potential wording tweak. On the other hand... Check out the two charts below which show Japan CPI and PPI. Both use the same data, but I have served it two different ways for your visualizing pleasure. Sometimes, when it's not obvious to me which time frame or which scaling methodology (one y-axis or two separate y-axes) best delivers the information in the most Ed Tufian way, I simply serve the chart two different ways and let you decide. The message, especially given the current inflation surge is a global event, is that the BOJ would almost certainly be correct to say that price risks are no longer to the downside! Mostly, PPI is a very high beta, faster-moving version of CPI.

### Japan CPI vs. Japan PPI

1972 to now (one y-axis)



2000 to now (PPI on left y-axis, CPI on right)



#### Counterarguments:

- Fed is hiking, US rates are at the highs, and the US jobs market is mega strong. This is a good argument for why a change in tone at the BoJ might matter super big picture but doesn't change the overall direction of the trend towards higher US rates and stable rates in Japan.
- BOJ isn't changing policy anytime soon, wording change or no wording change. Nobody cares about this story. It's random Bloomberg clickbait.* Honestly, that's a decent argument! Even if the BOJ were to change their messaging a bit, does that have any real policy impact on any reasonable time horizon? Maybe, but maybe not.

Overall, I think the BOJ story moves the needle, just a bit, and makes long USDJPY even less attractive. It's not nothing when the market is heavily positioned, and we have just opened the year and so everyone has nervous flickering P&L eyes. The 115.50 level, which was prior major resistance, is now the pivot to watch and major support. Back below there would be an important and unpleasant false break.

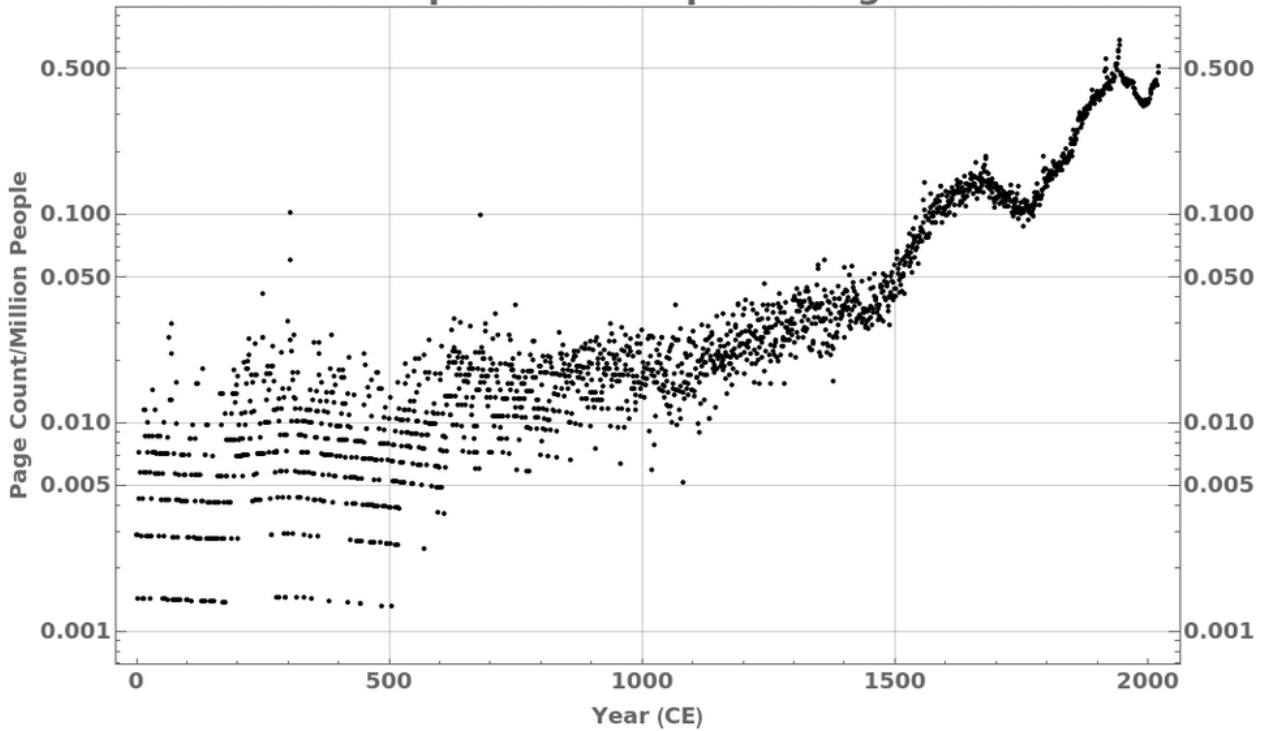
Also: let's see how fixed income trades after that gangbusters ADP figure. Remember that the market has interpreted recent weak headline NFP numbers as a labor supply problem because the UR is grinding lower even with weak headline NFP. Therefore, strong headline job numbers should be treated as relief from the labor supply problem and *mildly disinflationary*. That is: Just like selling USDJPY or buying bonds on weak headline NFP has not worked... I doubt buying USDJPY or selling bonds on strong ADP will work. If anything, strong headline jobs numbers should be interpreted as disinflationary and dovish for the Fed as they signal relief on labor supply.

My lean remains short USD or flat. The only takeaway from today's AM/FX is that if you're long USDJPY, these are pretty good levels to get out. And if you're bearish USDJPY, get short on the rebreak below 115.50. Finally, if you care about USDCNH, [click this story and fire up Google Translate](#). It could be the first sign of an end to the strong CNH policy.

Have a wholesome yet funny day.

good luck ↑↓ be nimble

### Deaths of People with Wikipedia Pages Since 0 CE

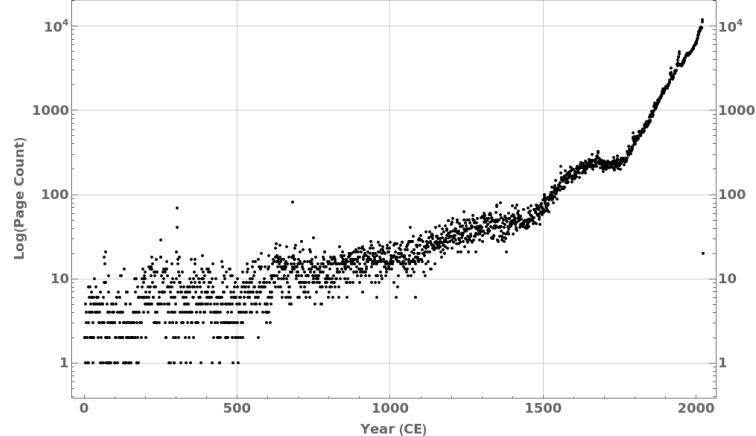


*This chart is normalized for global population*

#### Takeaways:

- Many of those killed in WW2 have Wikipedia pages
- 1650 to 1800 or so was either a boring time in history or a time when society was relatively more important than individuals.
- COVID has killed a lot of famous people

### Same chart, not normalized for population Deaths of People with Wikipedia Pages Since 0 CE



## [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/>.