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amFX

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Dealer Training Program
RBC
May 1991 – Sep 1991 · 5 mos

Manager, Customer Service and Operations
RBC
Sep 1987 – Aug 1990 · 3 yrs

Co-op Work Placements
RBC
May 1983 – Jan 1987 · 3 yrs 9 mos

RBC CEO Dave McKay's first three jobs. Neat.

Current Views

Long TYH2 @ 127^24
Stop loss 126^24
Take profit 129^24

Long 03FEB CADJPY
90.00 put
Spot ref: 90.80 /// Price 75 pips
(stale for now, but you never know!)

No Fear

I received much more feedback than usual yesterday, mostly from economists and traders who are deep in the economic weeds. What was most interesting to me was that most smart people *agreed* with the idea that the recent US economic data are a major concern. This is interesting because with US rates at the highs, I would have expected the opposite. I would have expected tons of pushback because bearish economic news does not fit the current market pricing / narrative and non-confirming information tends to be batted away, not embraced.

Your kneejerk might to think that this vibe is contrarian and just means rates keep going even higher. But I don't think so. As a general rule, bearishness at the highs and bullishness at the lows are not contrarian in my book. When smart money is thinking about a new narrative, that's a sign of a potential reversal. If more evidence appears to confirm a slowdown, there is a lot of firepower to back that trade. Here is a grid from Alpha Trader that summarizes how I view sentiment and positioning:

Figure 10.12: The six sentiment vs. market price regimes

Sentiment	Bull Market	Bear Market
Bullish and increasing	Very Bullish	
Bullish and stable	Bullish	
Bullish but falling	BEARISH	
Bearish and stable		Bearish
Bearish and getting more bearish		Very bearish
Bearish but getting less bearish		BULLISH

The feedback from my piece yesterday says to me that sentiment on the economy and US rates is most likely in ROW 3: Bullish but falling. That could be a sign of a bottom in bonds. TY is forming a mini inverted head and shoulders as you can barely see in the chart below. The blue line is the 200-hour MA and that has defined the down trend pretty well so far. Given the state of the data, this weekend's Russia risk, the sentiment set up I mentioned above, and large short positions, I like long TYH2 here (127^24) with a stop below the lows. I added that to the sidebar. I am supposed to be an FX guy, but G10 FX is too hard right now. Short USDJPY probably works too.

TYH2 hourly

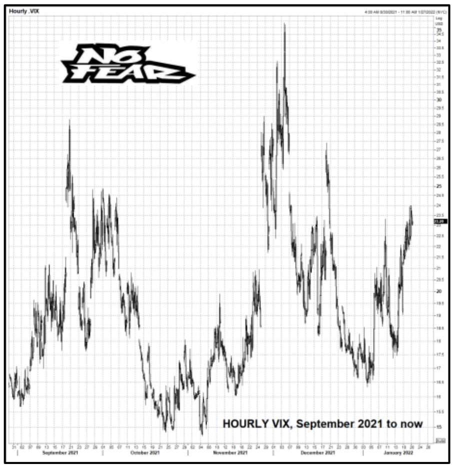
It's too early to fire up the economic fear trade, I think, but economic data is important again. For a long time, we had a pretty good handle on the economy (strong growth, supply shortages, rising wages, strong consumer, etc.) and now it's not as obvious. While I acknowledge this could all be omicron, we didn't see a collapse like this in any regional Fed survey when Delta hit. So why would omicron trigger it? Maybe something bigger is happening.

Are consumers tapped out as fiscal support ends? Is the US consumer fortress balance sheet narrative a mirage and savings are nearly fully drawn down? Could we see a fiscal rug pull here in combination with labor and materials shortages? Are obscenely above-trend retail sales and uncertain inventories about to trigger a reckoning? Are higher wages finally leading to margin compression?

The answer to all of these questions could easily be yes.

Don't buy 'til you see the whites of their eyes

One amazing feature of 2022 has been the unrelenting complacency in equity and crypto markets despite the rapid acceleration of the Fed pivot. We can see the dark QT clouds out there on the horizon now, yet many are still taking solace in the fact that the sun is still out as the Fed continues to buy assets. Markets: forward looking. My view has been you sell rallies in risky assets until we get a legitimate fear trade.



I was talking about this with a client yesterday and she asked: "What exactly do you mean by 'fear trade'?" My answer: when we see two or three of the following:

- VIX through December high (35). See chart at right, no fear this year.
- NASDAQ down 5% in one day
- Crypto down 15% in one day

There have been 5700 trading days since June 1999, and 73 of them saw the NASDAQ drop 5% or more (1.3%). Those days cluster, as all volatility tends to do. See next page for a chart of the 5% drops since 2016.

NASDAQ since 2016: Up 337%

Gray lines indicate one-day drops of 5% or more

y-axis is log

Wonky Town 1

If you are an economist or wonky economics person… Check out this lesser-known, experimental data from US Census Bureau: The Household Pulse Survey (HPS). The HPS is designed to provide near real-time data on how the pandemic has affected people's lives. If you want to try to better understand what is going on under the hood of the US economy, check it out. Tons of cool information in there including this factoid[1]:

> In the Household Pulse Survey from Dec 1-13, **~3 million** people said they were not working because "I was caring for someone or sick myself with coronavirus symptoms."
>
> When the same question was asked Dec. 29-Jan 10, **8.8 million** people gave this answer.

Will be some weirdness in the data for some time.

Wonky Town 2

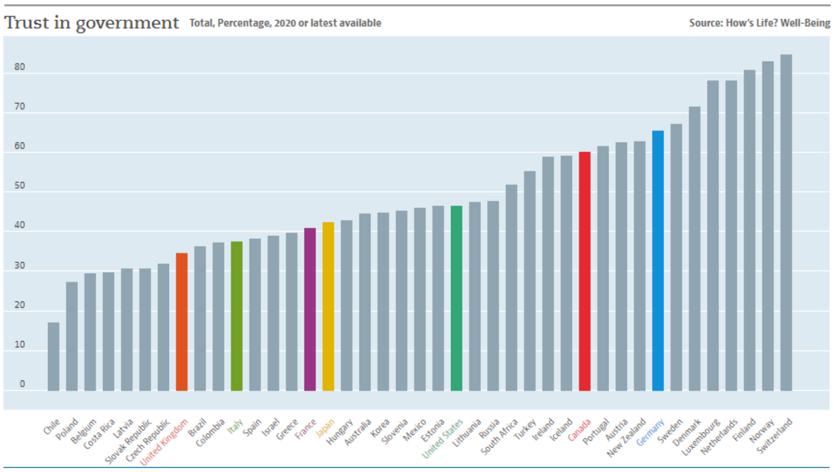
Sticking with economics, this paper from the NBER (The $800 billion Paycheck Protection Program: Where did the money go and why did it go there?) is worth a read or at least a skim. It highlights what I've often found to be true: US government is particularly bad at executing when compared to other developed nations. This is part of the root cause for the distrust of government in the USA relative to other countries.

The paper highlights superior, more targeted programs in Canada, for example. If you're too busy to read the paper, here's the takeaway excerpt:

> A key lesson from these cross-national comparisons is that targeted business support systems were feasible and rapidly scalable in other high-income countries because administrative systems for monitoring worker hours and topping up paychecks were already in place, prior to the pandemic. Lacking such systems, the United States chose to administer emergency aid using a fire hose rather than a fire extinguisher, with the predictable consequence that virtually the entire small business sector was doused with money. This approach may have been necessary, but it was desirable only because the U.S. lacked viable alternatives. By building administrative capacity in the years ahead, the United States could more deftly target, calibrate, and deploy its emergency business response systems when most needed.

On the next page is a chart of "Trust in government" scores across the OECD. These percentages are pre-pandemic. My guess is you can probably divide all the numbers by 2 or 3 to get current levels (!)

OECD Trust in government (percentage)



[1] *Via CR via Catherine Rampell, Washington Post*

A very ugly trade idea

Sometimes, as a trader, your timing is bad, and you just have to cut your loss and move on. Tuesday's short gold idea was poorly timed not just because the market went straight up after I sold, but because my overall view on the economy shifted pretty substantially the next day. Once I had time to go through the details of Empire State and then look at prior times when oil, yields and equities behaved the way they are behaving right now[2]… I regretted my gold trade.

Once I got the feedback on my piece yesterday, I hated the gold short even more. If the market is willing to embrace a slowdown/stagflation trade with open arms, short gold is going to be unfun. Not to mention, Blinken meets Lavrov tomorrow and that makes this weekend pretty high on the event risk monitor as pressure continues to rise on Russia/Ukraine. An invasion would be bullish bonds and gold.

I hate flip flopping in here because it makes for a confusing read. But sometimes it just has to be done. So I cut the gold trade here at 1847. Still watching that huge triangle.

Have an old school day.

good luck ⇅ be nimble

[2] *See chart on page 3 of yesterday's am/FX.*

Old school style rise to the top! Impressive.

Dave McKay · 2nd
President & CEO at RBC
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131,694 followers

RBC
The University of Western Ontario - Richard Ivey School of Business

2004 to now

Experience

RBC
28 yrs 2 mos

President & CEO
Aug 2014 – Present · 7 yrs 6 mos

President
Mar 2014 – Jul 2014 · 5 mos

Group Head, Personal and Commercial Banking, Canada, USA, Caribbean
Nov 2012 – Mar 2014 · 1 yr 5 mos

Group Head, Canadian Banking
Apr 2008 – Nov 2012 · 4 yrs 8 mos

EVP, Personal Financial Services
Nov 2006 – Apr 2008 · 1 yr 6 mos

Head, Personal Banking
Nov 2005 – Nov 2006 · 1 yr 1 mo

SVP, Credit Cards, Personal and Business Financial Products
Oct 2004 – Oct 2005 · 1 yr 1 mo

1994 to 2004

SVP, Financing Products
Nov 2003 – Oct 2004 · 1 yr

VP, Portfolio Management, Credit Scoring and Cards Risk
Apr 2001 – Nov 2003 · 2 yrs 8 mos

VP, Portfolio Management
Mar 1998 – Apr 2001 · 3 yrs 2 mos

Senior Manager, Country and Sectoral Risk
Sep 1996 – Mar 1998 · 1 yr 7 mos

Senior Account Manager, National Accounts
Feb 1995 – Sep 1996 · 1 yr 8 mos

Account Manager, Commercial Markets
Jun 1994 – Feb 1995 · 9 mos

Manager, Corporate Banking
Dec 1993 – Jun 1994 · 7 mos

1983 to 1991

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