

am FX

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Bonnie and Clyde

TAX TIP: Always declare all goods you steal, in the year you steal them. Use fair market value.

Current Views

Short USDJPY @ 115.30

Stop loss 115.86
Take profit 114.01

Initiated November 17

Short ETHUSD @ 4210

Stop loss 4902 / Take profit 3010
(From [MacroTactical Crypto #4](#))

Notable Unanimity

A new trading year has begun in the USA, even as markets remain shuttered in many countries. First, let's look at the G10 FX market consensus for the year ahead. The two grids below offer a great summary of the notable unanimity into 2022.

2022 bank outlook summary for G10 FX

	BOA	BARC	CITI	GS	HSBC	JPM	MS	NOM	NWM	SG	UBS	BNP	SCB	DB
AUD		+	-	-	+	+		-	+	+				-
CAD		-		+		+	+	+	+	+	+		+	
CHF			-				-		-	-	-	-		
EUR	-	+	-	-	-	-	-	-	-	-	-	-	-	-
GBP					-	-			+		+			
JPY	-	-	-	-		-		-		+	+	-	-	-
NOK	+	+			+		+		+					
NZD					-					-				
SEK	-			+	-				-	-				
USD	+	-	+		+	+		+	+	+		+		+

	BOA	BARC	CITI	GS	HSBC	JPM	MS	NOM	NWM	SG	UBS	BNP	SCB	DB
CB Divergence	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Inflation & Supply Chains	+	+	+	+	+	+	+		+	+	+	+	+	
Political Risks	+				+	+			+	+				

Both grids courtesy of Deepak R. via his epic New Year piece¹

The view across the board is bullish USD and bearish the non-normalizing central banks like EUR and JPY. The consensus loves CAD too, which seems weird to me given the juice in the rates market (5 full hikes priced for 2022). If rates turn lower, CAD has the most to lose. If they keep going up, it has the least to gain. A big part of the CAD love seems to be a general love of reflation and oil. NOK is loved too.

I did a survey on Twitter and the result is similar. My question relates to Q1, while the grids above are extracted from full year ahead outlooks published by the banks.

Where do you think EURUSD will close March 31, 2022?



578 votes

Where do you think USDJPY will close March 31, 2022?



298 votes

OK, so the market is bullish USD, bearish EUR and JPY, bullish NOK and CAD and mixed on everything else. That's the consensus view. What about positioning? Tanguy Bretagne is the best in the business when it comes to quantitative analysis of market positioning. The two grids on the next page show positions now vs. this time last year.

¹ Email me if you would like a copy.

Year-end positioning

	Hedge fund FX positions			CTA bond positions	
	2021	2020		2021	2020
EURUSD	-5	6	US 2yr note	-7	2
USDJPY	8	-1	US 5yr note	-5	2
GBPUSD	-1	3	US 10yr note	-3	-1
USDCHF	2	-3	US long bond	-2	-1
EURCHF	-8	2	CA 10y bond	-1	-1
AUDUSD	-1	7	EU Schatz	-3	-1
NZDUSD	-2	7	EU Bobl	-3	0
USDCAD	1	-4	EU Bund	-3	0

It is hard to ignore that the market is leaning the exact opposite direction in December 2021 vs. December 2020. And of course, the 2021 USD short position was a disaster as the USD opened near the lows in January, went down for two days, then went straight up from there, pretty much all year. 2021 was marked by persistent, grinding USD strength, the exact opposite of what was expected. Then again, I feel like the USD bull view this year is pretty tepid and more a feature of strategist talk, not trader talk. Last year traders had a visceral and aggressive USD bear view.

Still, this consensus USD bull view feels more like extrapolation to me, not necessarily any real forward-looking insight. In other words, the consensus view mostly describes what has already happened (CB divergence, inflation and supply chains, hawkish Fed) and not necessarily what is *going to happen*.

Should we fade the consensus, then? And go short USD? It is worth thinking about! I will admit, though, it's not 100% clear what the USD bear macro narrative would be right here other than positioning and technicals. Not a bad start for a trade idea, just not a fully completely kind of macro trade. The beauty of taking the other side in USDJPY here, though, is that you can do it with a 50 point stop loss. You get to take the other side of the most crowded, consensus view of 2022 right at the top of the range, with the 2021 and March 2017 highs just overhead. See here:

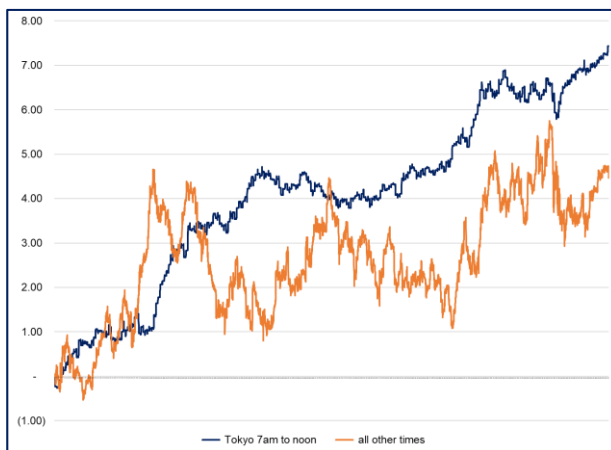
USDJPY resistance is just above here at 115.50



I like this idea and I'm adding it to the sidebar. I would say it's a medium-conviction idea as it lacks any real macro rationale but looks fantastic from an entry point and positioning point of view. I'm excited to get started, so let's go. The stop loss is 115.86 to give it a bit of room if it wants to do a quick and messy false break 115.50.

It is useful for you to know that 2021 was an unusual year for USDJPY because it rallied in Japan time almost all year. Normally, USDJPY has a strong tendency to sell off in Tokyo time. Here is a chart of USDJPY performance from 7am to noon Tokyo time (blue line) vs. all other times (orange line). About 70% of '21 gains came in just 5 hours of the day.

Cumulative hourly performance of USDJPY, comparing (Tokyo 7am to noon) vs. (rest of day)



Hourly data for 2021

To give you a sense of how unusual this is, here is cumulative USDJPY performance in Japan time since 2015:

Cumulative hourly performance of USDJPY, comparing Tokyo 7am to noon vs. rest of day



Daily data back to 2015

Note the turn higher January 2021. It makes sense that USDJPY should go down in Japan time as they run a current account surplus. Ceteris paribus, the net domestic flow should be JPY buying (selling USDJPY and selling cross/JPY). 2021 was an exception as rising US rates attracted large real money USDJPY buying for much of the year while ripping oil prices led to nervous oil importer hedging (and possibly even overhedging). JPY performance in Japan tends to ebb and flow with the current account and I would expect Japan time to go back to the normal JPY buying pattern this year.

Whether I'm right or wrong, this is an important phenomenon to watch, particularly around the Tokyo fix at 8:55AM Tokyo time. Much of the USDJPY buying has been focused around that fix.

EM grid

In case you're interested in EMFX, the next grid is the same as the G10 grid on page one, but shows the bank views for the **EM** currencies. You can see a strong bullish oil vibe here again, just like in G10, as the banks are most in love with CAD, NOK, and RUB. MXN also gets quite a few thumbs up, though whether MXN is an oil currency anymore is debatable.

	BOA	BARC	GS	HSBC	JPM	NOM	NWM	SG	UBS	BNP	SCB	DB
BRL				+			+		-			+
CLP				-				-				
CNH			+	-		+	+					
COP	-			-	-		-	-				
CZK	+		+		+					-		
HUF	+							+		-		
IDR				+							+	
ILS						+						+
INR				+							-	
KRW						-	-	-	-		+	
MXN		+	+	+	-			+				
PEN					+							
PHP	-	-			-						-	-
PLN			+	+				+		-		-
RUB		+	+	+	+			+				
SGD		+	+	+							+	
THB	+		+	+		-			+		+	
TRY		-			-							-
TWD						+	-			-		
ZAR					-		-	+	-			

Alright, that's it for today. The USDJPY short idea is a bit of a wise guy trade, but I think the set up is worth a shot. It's a tactical trade with a fairly short time horizon. Stop loss 115.86 and take profit 114.01. The good news is, I'll know pretty quickly if I'm wrong. Note to new subscribers: I summarize the trades and performance once/quarter around the 7th of SEP, DEC, MAR and JUN.

Thank you to everyone who has shelled out their hard-earned skill to subscribe to AM/FX. And a particularly warm welcome to all the new subs who signed up over the last 7 days!

I hope you have an amazing 2022 and that art, good health, and joy beat politics, illness, and fear.

good luck ↑↓ be nimble

Honest thieves, take note:



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Stolen property. If you steal property, you must report its fair market value in your income in the year you steal it unless you return it to its rightful owner in the same year.

Transporting school children. Don't include in your income a school board mileage allowance for taking children to and from school if you aren't in the business of taking children to school. You can't deduct expenses for providing this transportation.

Union benefits and dues. Amounts deducted from your pay for union dues, assessments, contributions, or other payments to a union can't be excluded from your income.

<https://twitter.com/priapusiq/status/1476192671437885445?s=27>
<https://www.fbi.gov/history/famous-cases/bonnie-and-clyde>

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