SPECTRA MARKETS

Friday, January 14, 2022

Russia and BoJ

Yesterday we got a variety of headlines sounding something like this:

13-Jan-2022 15:07:36 - **U.S. AMBASSADOR TO OSCE CARPENTER SAYS THE DRUMBEAT OF WAR IS SOUNDING LOUD AND THE RHETORIC HAS GOTTEN RATHER SHRILL**

***SULLIVAN SAYS U.S. READY TO DEFEND ALLIES FROM AGGRESSION**

Russian officials to brief Putin on "extremely negative" security talks

For context, in case you're not a Russia or geopolitics expert, here's the 76-word summary of what's going on:

> Russia has forward-deployed hundreds of tanks, self-propelled artillery and even short-range ballistic missiles from as far away as Siberia to within striking range of Ukraine's borders. US intelligence has said Russia could launch an offensive by the end of January with as many as 100 battalion tactical groups (BTGs), comprising an estimated 175,000 troops. Current estimates say Russia has about 50 BTGs in the border region, already a significant force that could overrun Ukrainian defensive positions.

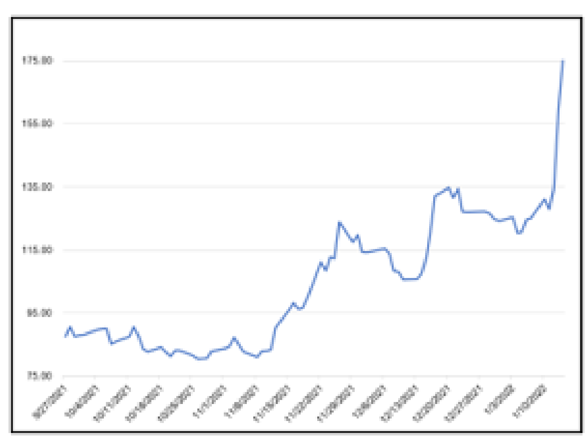
That quote is from this Guardian article, which I strongly suggest you click simply for the plethora of amazing satellite images and useful maps. The conflict has gone from a slow simmer in November to its current bubbling, medium-heat status.

As a rule, I tend to be a seller of geopolitical angst. There is a whole industry of experts, media pundits, and publications devoted to geopolitical analysis, and they get fired up really fast. Geopolitical issues are simmering all the time and if you look back on history, very, very few geopolitical events impact markets for more than a few days. There are exceptions, of course, and this is a bit like saying: "Very, very few earthquakes destroy cities." When the exception happens, it's huge.

The obligation in global macro is not to estimate the probability of an attack, or to position in advance for it. The requirement is to get it on your radar, estimate its probable impact, and determine how to trade it. Maybe you can assign a range of probability estimates to the event, but you don't need to. There are experts out there who can crowdsource that for you.

A few charts of Russian markets, starting with Russia CDS at right.

Russia 5-year CDS
September 2021 to now



RUSSIA CDS USD SR 5Y

am
FX

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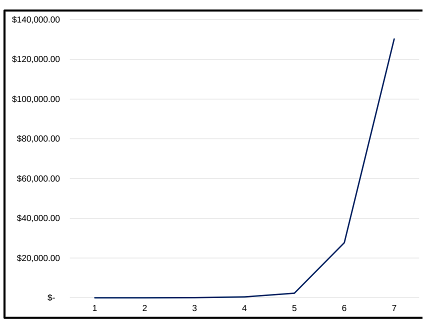


"How to turn 50 cents into $130,000 in four hours", by Guy V. Lucky

Current Views

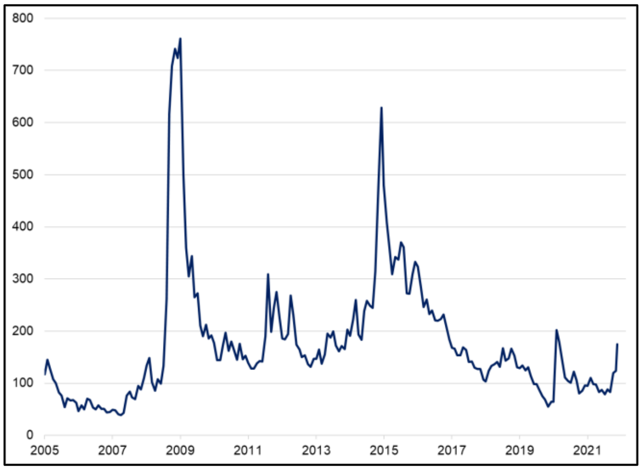
Long EURUSD @ 1.1317
Original stop loss was 1.1174, moved it up to 1.1369 now

Take profit 1.1579

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

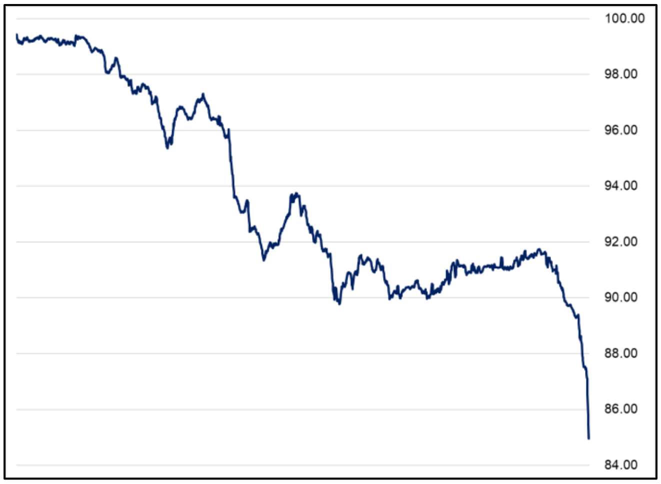
That's a decent move in CDS, but for perspective, here is a longer-term chart.

Russia 5-year CDS
September 2021 to now



Zooming back in, here's how Russian bonds look over the past six months. That move from 92 to 85 happened over the course of the last two days.

Russia 2031 Government Bond (6.9% coupon)
100-day intraday chart back to August 2021



On Bloomberg this chart is: RFLB 6.9 07/23/2031 Corp GIP 100 {GO}

You can see there is meaningful angst, but nothing like 2014-level angst of course as that was an actual confrontation, not just a troop buildup. 2014 also saw a collapse in the price of oil, so there was a double whammy for Russian assets. Like I said on page one, I don't usually get excited about geopolitical events but in this case, I have a lot of smart people asking me about it and worrying about it so I feel it makes sense to be ready for anything.

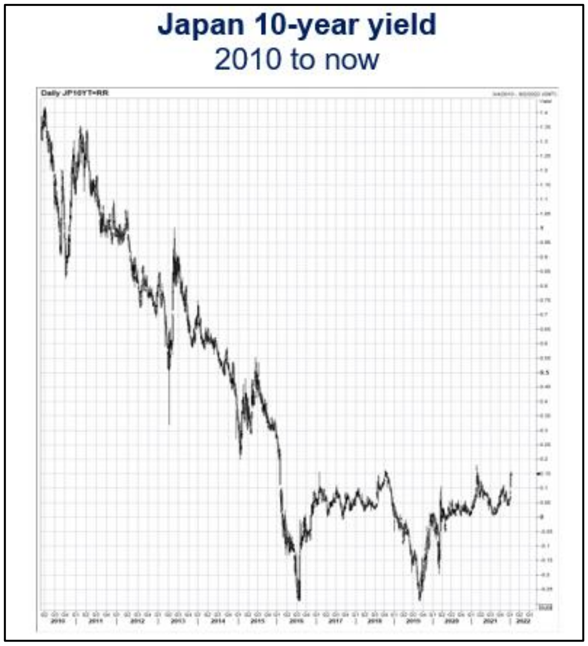
If Russia invades Ukraine, the trade is buy TY (US 10-year bond futures). The market is short bonds, the narrative is getting stale anyway, and actual serious geopolitical events are always "buy bonds". I also think EURCHF goes down to 1.03 on a frozen rope if Russia moves. In theory, the event should be bullish oil, but my guess is the oil rally is short-lived as risk aversion tampers topside. USDCHF and USDJPY lower and leave the rest of G10 alone.

In 2014, US equities had some meaningful downdrafts on Ukraine (March and May) but shook off the story rather quickly. I don't think equities are a good way to play this scenario.

Views update

The price action over the past few days is a perfect example of a scenario where options work better than spot. My CADJPY spot position was stopped out, the option looked dead in the water, and now one day later, CADJPY is 100 pips lower and it's game on again for the option (maybe).

The last time the BOJ hiked rates (2007), I was still at Lehman Brothers, and I had one son, not two. But this Reuters article last night makes it look like we are moving tiny baby steps closer to a rate hike in Japan. The easy pushback on an article like this is "meh, they ain't hiking dude" but markets are made at the margin. Sure, they're not hiking for ages, but the article is credible (plus all the other smoke signals I wrote about last week). Chart of JGB yields at right. My brief foray to neutral in USDJPY lasted 12 hours. I'm bearish again, though the location for shorts is not attractive and cross/JPY might be safer. You can't be long USDJPY into BoJ.



There is a point where GPIF and other long-term investors will see value in JGBs and repatriate. Whether it's here or 20bps or 50pbs I don't know. But a more hawkish BOJ, even at the margin, signals a priority shift in Japan. The BOJ meeting next week is going to be interesting and the event vol should be owned.

EURUSD is consolidating gains, even as the NASDAQ sags. Here is the updated chart, which suggests EURUSD higher, DXY lower, as US Exceptionalism falls again.

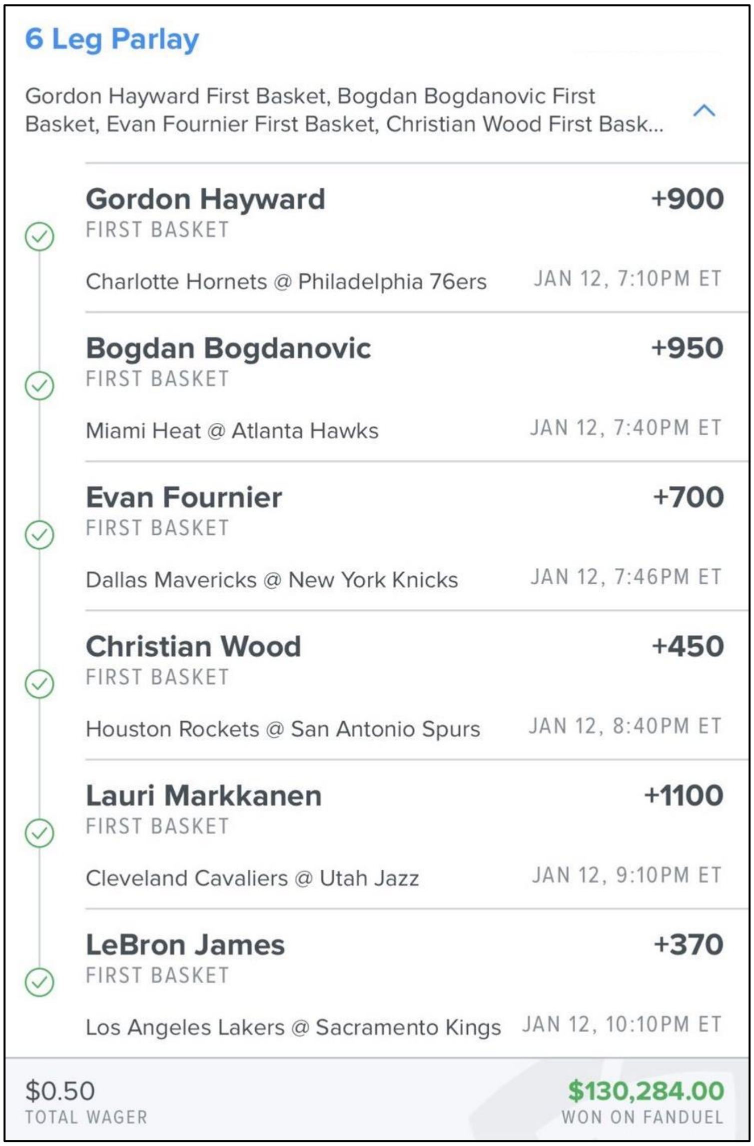
DXY vs. NASDAQ/EAFE ratio (aka US Exceptionalism)

USDCAD daily is a bull hammer, AUDUSD is some kind of shooting star, doji type thing, and USDMXN looks like a narrowing pincer that could deliver explosive topside if and when it breaks. Long EUR, CHF and JPY … short CAD, AUD and MXN all make sense to me.

I hope your weekend offers an exponential payoff.

good luck ⇅ be nimble

This must be one of the greatest sports gambling parlays of all time



6 Leg Parlay

Gordon Hayward First Basket, Bogdan Bogdanovic First Basket, Evan Fournier First Basket, Christian Wood First Bask...

Gordon Hayward FIRST BASKET	Charlotte Hornets @ Philadelphia 76ers	**+900** JAN 12, 7:10PM ET
Bogdan Bogdanovic FIRST BASKET	Miami Heat @ Atlanta Hawks	**+950** JAN 12, 7:40PM ET
Evan Fournier FIRST BASKET	Dallas Mavericks @ New York Knicks	**+700** JAN 12, 7:46PM ET
Christian Wood FIRST BASKET	Houston Rockets @ San Antonio Spurs	**+450** JAN 12, 8:40PM ET
Lauri Markkanen FIRST BASKET	Cleveland Cavaliers @ Utah Jazz	**+1100** JAN 12, 9:10PM ET
LeBron James FIRST BASKET	Los Angeles Lakers @ Sacramento Kings	**+370** JAN 12, 10:10PM ET

$0.50 TOTAL WAGER

$130,284.00 WON ON FANDUEL

https://twitter.com/ActionNetworkHQ/status/1481640624923111434?s=20

HT dug

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