SPECTRA MARKETS

Thursday, January 27, 2022

am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Current Views

Long USDCAD @ 1.2575
Stop loss was 1.2439
Move stop to entry point
Take profit 1.2744

Exit at 11 a.m. NY on 31JAN no matter what

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

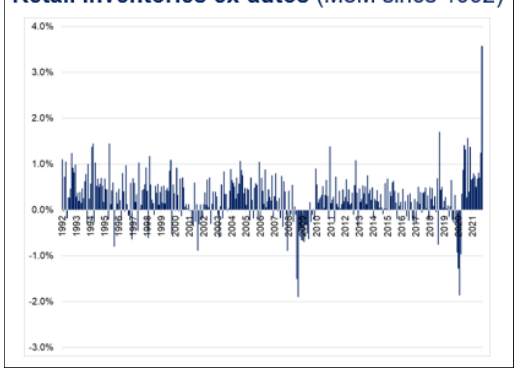
Take profit 88.65

jet ski : aircraft carrier

The 2021 US economic narrative was massive demand, strong consumer, goods demand through the roof, crashing unemployment rate, record lows in claims and so on. There was not much ambiguity on the direction of travel.

Now, there is. Yesterday we got another multi standard deviation move in a US economic number and this continues the run of US data coming in either "OK" or "Wow, that's incredibly shockingly bad!" Retail Sales Control Group, Empire State, and Initial Claims fit the shockingly bad heading while Philly and a few others came in as expected. The claims number is probably distorted and omicron is messing with all the data, but still.

And yesterday, while everyone was preparing for the hawkish Fed… We got a massive jump in US inventories (see chart at right).

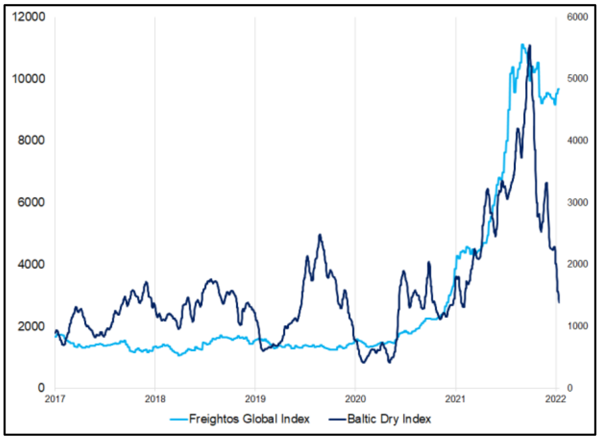

Retail inventories ex-autos (MoM since 1992)

If you are looking for more detailed and professional economic analysis than I provide here, by the way, Danielle DiMartino Booth's Daily Feather is readable, detailed, and timely. She analyzes the big economic news every day and publishes short, useful commentary in my inbox before I get to work at 630 a.m. This is not a paid promotion! I just like DDMB's work and so I'm mentioning it. In her piece today, by the way, she shows US *wholesale* inventories are jumping just as much as retail inventories.

A commonsense interpretation of this jump in inventories might be: transport bottlenecks have come unstuck and goods are gushing through the system just as demand for them is about to collapse as households want services, not goods once omicron burns herself out. But I'm not an expert on global supply chains! If you are, tell me how to interpret this explosion of inventories.

Here are two shipping price indexes. Freightos (Global shipping rates) and the oft questioned but commonly cited Baltic Dry Index (shipping rates for various vessels).

Shipping costs have stopped going up and some have gone down



Shipping costs have either stopped going up or started coming down. Let's see. There is some dissonance between the increasingly hawkish Fed and the apparent turn lower in the US data, but this is easily explained:

1. The Fed is setting policy off lagging data like CPI and UR. The leading data looks different.
2. Fed policy is a jet ski while easing and an aircraft carrier when tightening. Central bank strategy since 1987 has been insta-reaction to economic threats and the patience of Vladimir and Estragon when it's time to tighten. As explained in the memoirs: "Too Low for Too Long" by Ben Bernanke and "How to Ignite and Fuel Asset Bubbles that Eventually Lead to a Debt Trap" by Alan Greenspan. The problem with the strategy is that by the time the Fed tightens, things could be rolling over or heating up like crazy and policy operates with long and variable lags. Lagging policy reacting to lagging data means a lotta lags. I will say though, it's more like a battleship not an aircraft carrier in this cycle.
3. A very brief run of bad data does not negate a full-on raging inflation problem. Recent data could also be distorted by seasonal factors and omicron. There is no reason for central banks to be worried about it yet. While central bankers will short-term trade their PA, they have a longer-term focus when setting policy.

I don't want to overstate the US economic weakness narrative. I just think it's important to have it on your radar. Also, I do find the narrative logical given fiscal cliff, credit impulse arguments, exhausted consumer, and the sheer humongousness of some of these US economic data misses out of nowhere.

Whether you are an investor or a trader, you should know **there is some multi-standard deviation weirdness going on in the US economic data right now and it behooves everyone to be prepared for any scenario**. Next week's Non-Manufacturing ISM will be weak given the Markit number, and we need to keep an eye on all the US data from here on in. A Fed aggressively tightening into a fiscal cliff would be bad.

Powell

Now… Doing a complete 180 the other way… Powell's refusal to bat away questions about 50bp hikes or consecutive meeting hikes means that if US data revert back to strength, the market might feel inclined to price more than 25bps for March or a subsequent meeting. The idea that March goes to 32bps or something is interesting to think about!

The right tail of the hiking distribution remains fat and despite my one-off call on yesterday's BoC, I don't like playing the "too much is priced in" game very often. Yesterday was a specific instance where the BoC's guidance did not match the market pricing and so it made sense to call "no hike"—but that doesn't mean I'm going to be screaming "too much is priced in!" all the time. That's mostly a bad strategy when a central banker is telling you "this ain't like last time, kids."

Two FYIs

ONE: Long-time readers know that I am wrong a lot and that is part of trading. Recent readers may have a false impression of my accuracy as I have been in the zone and had a good feel. Trade your own view and incorporate my thoughts and ideas into your framework when it makes sense to do so. I did manage to whiff on the USDCAD take profit as 1.2727 was the high and the TP was 1.2744… I'm sticking with the trade. Moved the stop to break even (see page 1 sidebar for trade specifics, as always) but I will be pretty sad if we get down there. **I expect 1.2600/30 will be strong support in USDCAD now**.

TWO: If you would like to share am/FX with a friend here and there, that helps me get the word out—that's good. Please do. But if you autofwd every day, that's bad. If you are receiving this free via forward and find it useful, I respectfully ask that you sign up here: https://www.spectramarkets.com/subscribe/. It costs $49/month or less. And if you are autoforwarding, please don't. Thanks.

Have a collaborative day.

good luck ⇅ be nimble

POWELL: WE WILL BE NIMBLE ABOUT THIS

Powell: Monetary Policy Will Need To Be 'Nimble

Morgan Housel
@morganhousel

Buy when there's blood in the tweets.

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

Markets and Trading Commentary Disclaimer