

am
FX

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My dad worked here for a couple of years

Alert, Northwest Territories (aka Nunavut)

Current Views

Bullish EURGBP

Long 18MAR 0.8550 EURGBP digital call at 24% (spot ref. 0.8426)

Bullish AUDCAD

Long 22FEB 0.91 AUDCAD call Cost 26bps, spot ref 0.9050

10X31 Grid

In am/FX: USA less exceptional, I made a grid to show we are at an absurd starting point for this Fed tightening cycle as demonstrated by metrics such as PCE, JOLTS, UR, Claims and more. Today, I created something conceptually similar but different. This grid shows UMich, Crude, 2s10s, SPX and CPI... 3 months, 1 year and 3 years before and after the Fed started to tighten.

	change from before or after Fed starts tightening	MAR72	DEC76	DEC86	FEB94	JUN04	DEC13	Now	Average
Michigan*	-3m	14.8	4.4	(2.8)	12.0	(0.2)	5.0	(5.7)	3.9
	-1y	(2.9)	55.7	(4.8)	6.6	5.9	9.6	(15.1)	7.9
	-3y		23.2	(5.1)	22.8	3.0	8.0	(32.1)	3.3
	+3m	16.9	(0.7)	1.7	(0.4)	(1.4)	(2.5)		2.3
	+1y	-	5.8	(2.3)	1.9	0.4	11.1		2.8
	+3y	14.6	(38.4)	3.9	6.8	(5.2)	16.0		(0.4)
Crude oil	-3m	-3%	18%	4%	-6%	4%	-4%	41%	8%
	-1y	-2%	27%	-5%	-29%	23%	7%	51%	10%
	-3y	-8%	250%	-10%	-24%	41%	8%	63%	46%
	+3m	0%	5%	5%	26%	34%	3%		12%
	+1y	0%	7%	-7%	28%	52%	-46%		6%
	+3y	209%	124%	26%	41%	111%	-46%		77%
2s10s	-3m	15	12	(21)	(13)	(36)	36	-48	(8)
	-1y	3	(6)	(14)	(64)	(31)	114	-88	(12)
	-3y		(9)	(11)	52	66	(5)	19	19
	+3m		(13)	4	(32)	(40)	(35)		(23)
	+1y		(10)	20	(110)	(163)	(114)		(75)
	+3y		(228)	(72)	(96)	(168)	(140)		(141)
SPX	-3m	7%	2%	5%	1%	1%	10%	-3%	3%
	-1y	16%	19%	15%	5%	17%	30%	16%	17%
	-3y	28%	10%	47%	27%	-7%	47%	59%	30%
	+3m	0%	-8%	20%	-2%	-2%	1%		1%
	+1y	4%	-12%	2%	4%	4%	11%		2%
	+3y	-19%	6%	36%	62%	28%	23%		23%
CPI Index	-3m	0.7%	1.4%	0.7%	0.5%	1.0%	0.5%	1.9%	1.0%
	-1y	3.5%	5.0%	1.2%	2.5%	3.2%	1.5%	7.50%	3.5%
	-3y	14.7%	26.1%	9.3%	8.8%	6.3%	6.5%	11.70%	11.9%
	+3m	0.7%	2.1%	1.3%	0.5%	0.5%	0.6%		0.9%
	+1y	4.8%	6.7%	4.3%	2.9%	2.5%	0.7%		3.6%
	+3y	28.0%	33.6%	15.1%	8.9%	9.9%	3.8%		16.5%

*I used Conference Board data for 1972 and 1976 because it's pre-Michigan

Takeaways (going down the list of the five metrics):

- Consumer has never fallen at anywhere near this rate into the start of a tightening cycle. It usually falls more after tightening begins.
- Fed hikes don't do anything to rising crude.
- 2s10s flattens after tightening starts. This obviously makes sense, but I think it could be different this time since we're starting from much lower levels and many at the Fed have added YC targeting as a 10th mandate. There seems to be a strong camp for earlier QT, mostly motivated by yield curve concerns, but it's not clear whether this camp constitutes a majority on the committee.
- SPX performance is tepid in the 3 months and 1 year after tightening starts.
- On average, CPI rises **more** in the one and three years after the start of tightening than it rose before. Kind of points to this idea that nobody really understands how inflation works and that Fed policy operates not only with long and variable lags but also with random and excruciating levels of uncertainty.

Messy

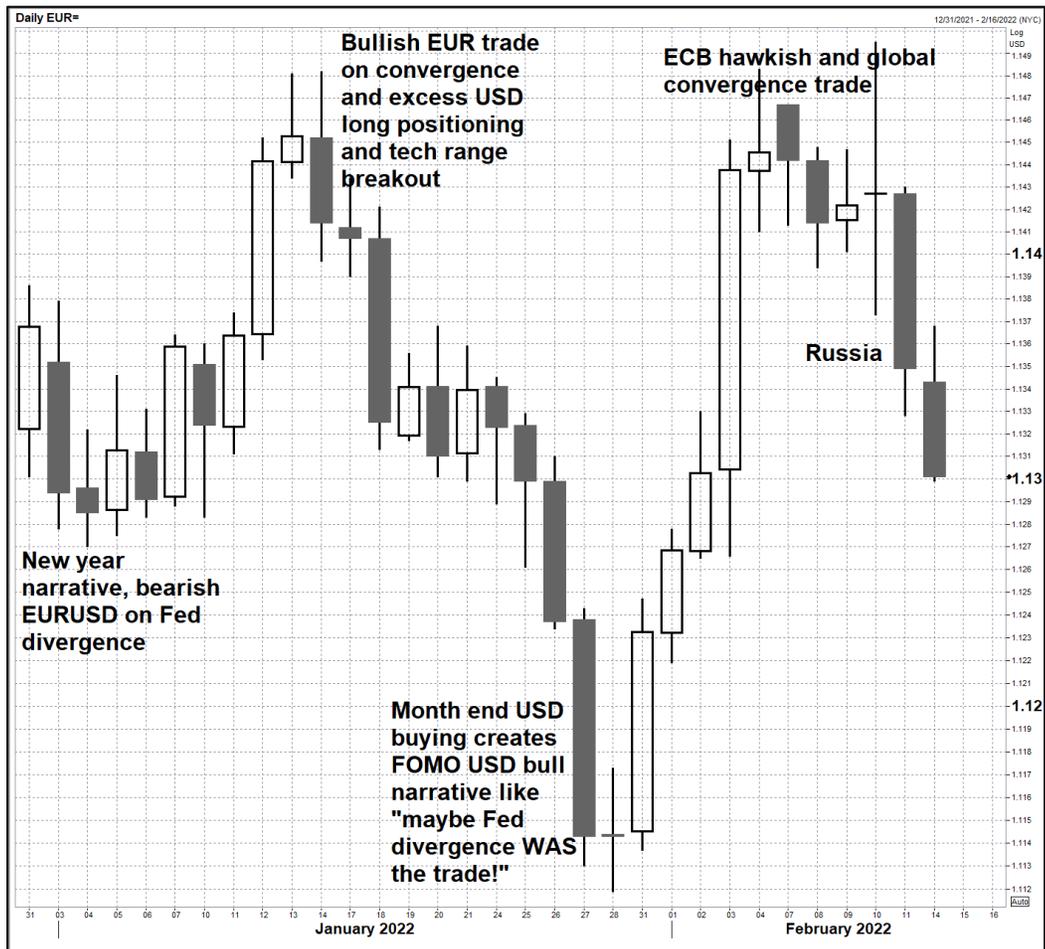
The Russia news has been devastating for EUR longs, including my EURGBP long. Not great for AUDCAD either. At this point, there is a meaningful risk that Russia/Ukraine becomes a grinding story that goes on and on for ages. While an imminent invasion is what we're pricing for now, there is a meaningful chance of no invasion AND no resolution so I don't see any point in altering course, strategy-wise.

A sword of Damocles in the form of 200,000 boots on the Ukraine border looks like a potentially game theory optimal solution. Or not. Extremely hard to trade either way so we have to just wait and see, really.

Considering USDRUB is still pretty calm around 76, my guess is that Russia/Ukraine is a partly a red herring, the way omicron was a red herring in the last big selloff. Each leg lower in equities (and risk parity) is more about global central bank tightening than COVID waves or geopolitical concerns. Either Russia invades this week, or this story likely turns into background noise that is impossible to quantify, hedge, or trade.

We have already had four semi-legit narratives in EURUSD this year and we're six weeks in. Difficult.

EURUSD narrative whipsaw



Current gamma pockets in EURUSD are 1.1250 and 1.1400.

Have a frosty day.

good luck ↑↓ be nimble

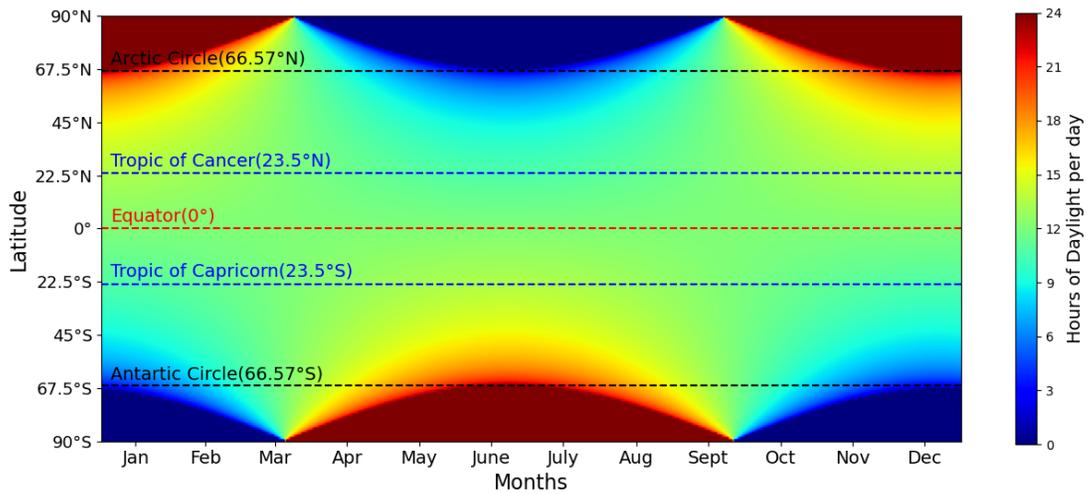


Alert
Nunavut
Canada

Light snow -25°F
10:09 AM

brrrr

Hours of daylight per day, by Latitude and time of year



https://www.reddit.com/r/dataisbeautiful/comments/sscbkg/hours_of_daylight_per_day_throughout_the_year/

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