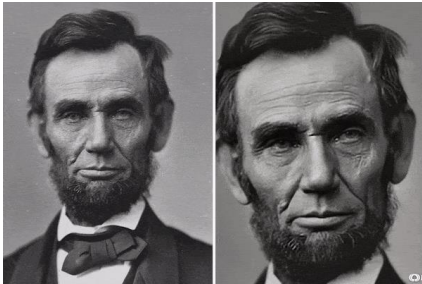


am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



Abes together strong

Current Views

**Long 22FEB 0.91 AUDCAD
call at 26bps
Spot ref 0.9050**

*2/2/22: moved the stop losses on
two spot trades to entry point*

**Short USDCHF @ 0.9300
Original stop loss was 0.9381
Take profit 0.9111**

**Long AUDUSD 0.7041
Original stop loss was 0.6984
Take profit 0.7219**

Adding AUDCAD

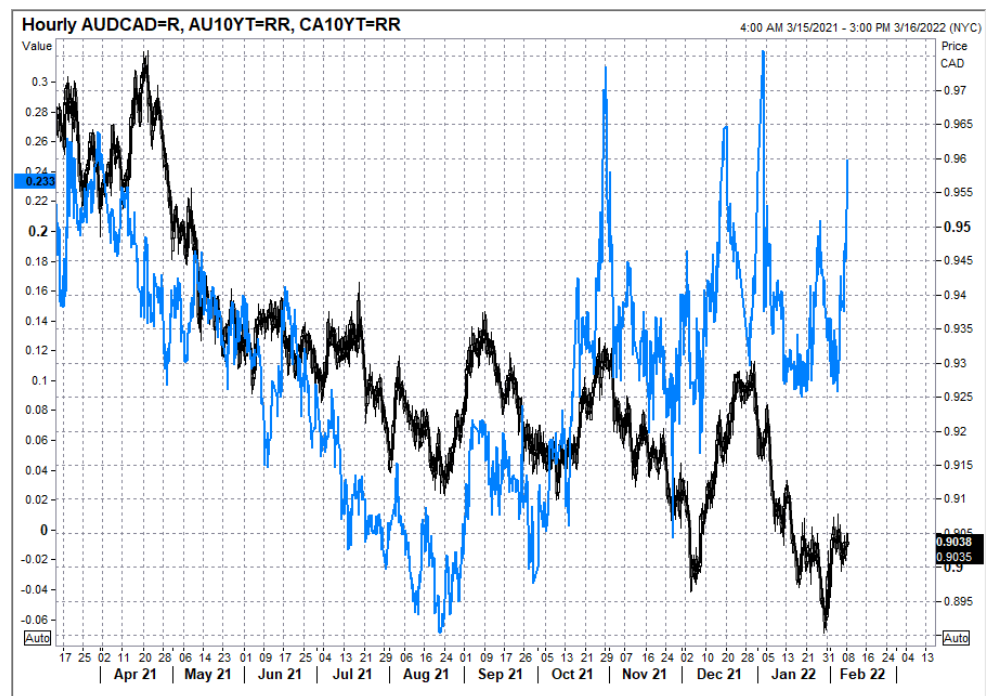
Interest rate curves around the world will always look like there is a lot priced in because there is an embedded option in rates pricing for sticky inflation that requires a much more aggressive response in H2. If CPI is still 5.5% in July or August, anything goes for rates. This makes it very hard to play the “too much is hiked in!” game.

Still, the market has been consistently wrong on the Bank of Canada, expecting a much more aggressive pivot, and to me it just seems like nobody is listening to the Bank. They said that slack would be removed in mid-2022 and yet people priced in a rate hike for January. Now, the BoC still sound like cautious hikers (the January BoC was mixed / dovish) and yet the market has them priced to go six times in seven meetings this year.

Six hikes are certainly possible given inflation and oil prices and all that, but there is nothing but short-term bad news as the massive trucker protest is gumming up the Canada / US border just as inventories in the US were already on the rise and Canadian jobs just missed by a mile on Friday. The border closures due to trucker protests are spotty and unlikely to make a major dent in the economic data, but it’s just another brick in the wall on top of lockdowns and the general malaise gripping the Great White North.

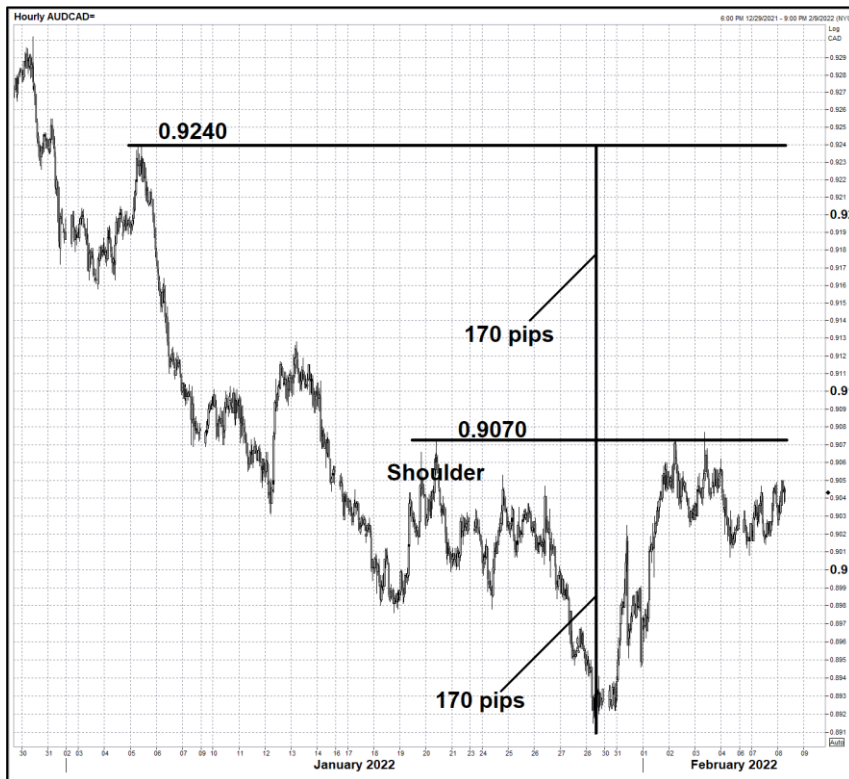
AUDCAD is forming a base down here and rates markets are starting to move in favor of Oz as Canada reaches max pricing and the RBA finally gives up on its widely-criticized lower for longer policies. The market broke the back of the RBA’s yield control gambit and now a wide array of critics are trying to shame the RBA into four hikes this year. Here is the evolution of Aussie vs. Canada 10-year yields. 2s and 5s look similar.

AUDCAD vs. Australia/Canada 10-year yield differential



If you zoom in on the black bars, you can see a little inverse head and shoulders that looks to me like it could generate a perfect symmetrical reversal back up to 0.9240. Here is the chart:

AUDCAD hourly back to late December 2021



Here is the same chart but zoomed out quite a lot.

AUDCAD hourly back to May 2021



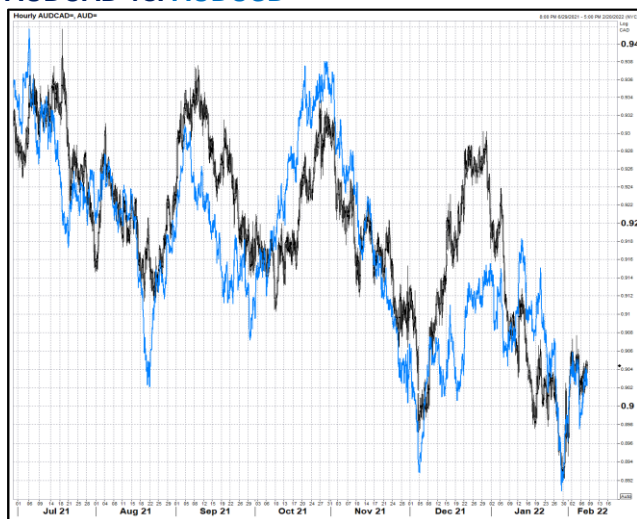
Long AUDCAD looks good to me as rate differentials move in favor of the oz and this has already triggered some Japanese buying of Australian bonds. I would expect more switching out of Canadian assets and into Aussie assets and more downside risk to upcoming Canadian data than to Aussie data. It is also notable to me that USDCAD has not gone down since the BoC meeting, despite another \$10 climb in crude.

Positioning works mildly in favor of this trade as stale AUD shorts remain medium/large and new CAD shorts are relatively small.

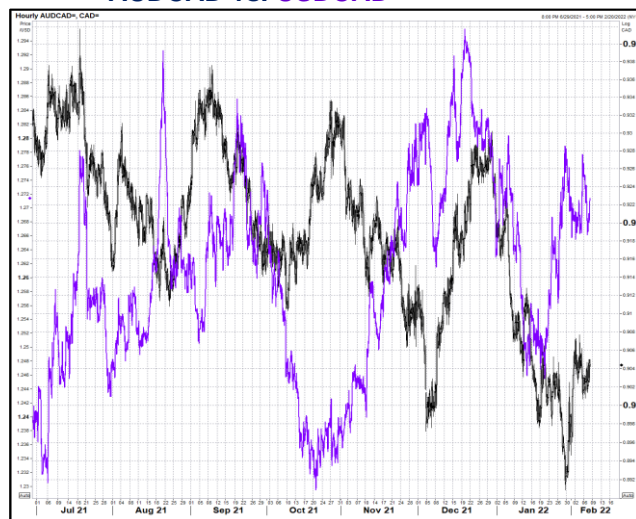
The problem with AUDCAD as a relative country fundamentals play is that AUDUSD is much more volatile than USDCAD. Therefore, AUDCAD is just an AUDUSD proxy. This is true when you pair any volatile asset against a less volatile one. An extreme example would be something like BTC/JPY, where nearly all the returns would come from the BTC side, and the JPY denominator would be close to irrelevant.

In this example, the correlation between AUDUSD and AUDCAD is usually in the +60%/70% range while the correlation between AUDCAD and USDCAD averages close to zero. This is important to know when trading any cross. AUDUSD 1-month volatility trades around 10% and USDCAD 1-month vol is around 7%. Since I am bearish USD anyway, and have no super strong view on equities, AUDCAD is fine. Here is the visual evidence of how AUDCAD is mostly driven by AUDUSD, not USDCAD.

AUDCAD vs. AUDUSD



AUDCAD vs. USDCAD

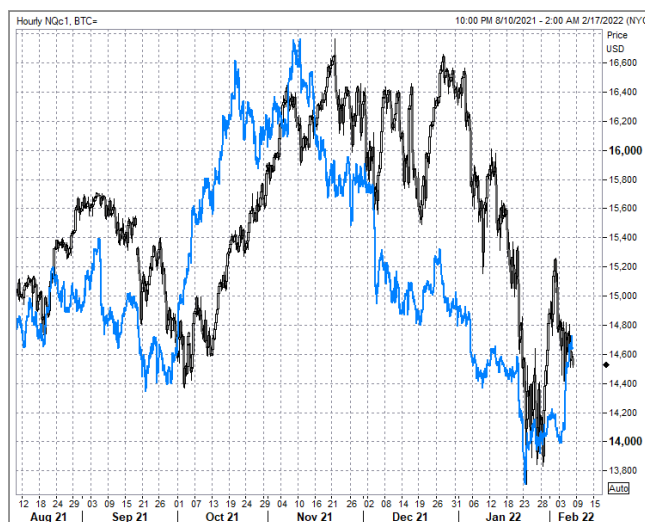


By adding AUDCAD to my trades, I'm adding more AUD exposure. That's fine. I put this in the sidebar: **Buy 2-week AUDCAD 0.9100 call for around 27bps**. That's using a spot ref of 0.9050. Price is indicative.

Crypto loco

The crypto bounce feels big, but BTC is really just making up for prior weakness. BTC has recovered 29% of the drop from 69k to 33k while NASDAQ has recovered 26% of the drop from 16767 to 13706. They remain in line despite leads and lags.

NASDAQ futures vs. Bitcoin



CPI

CPI is on Thursday and the market is trying to play it up as a major risk event but with the lower CPI base effects about to kick in, I can easily see almost any figure being shrugged off. When a data point is clearly about to be superseded by future data points, the market tends to fade the move on the release. I'll see where everything is trading going in and decide whether to hold the short USD trade or not.

Play to earn

Free GameFi conference if you are interested in such things.

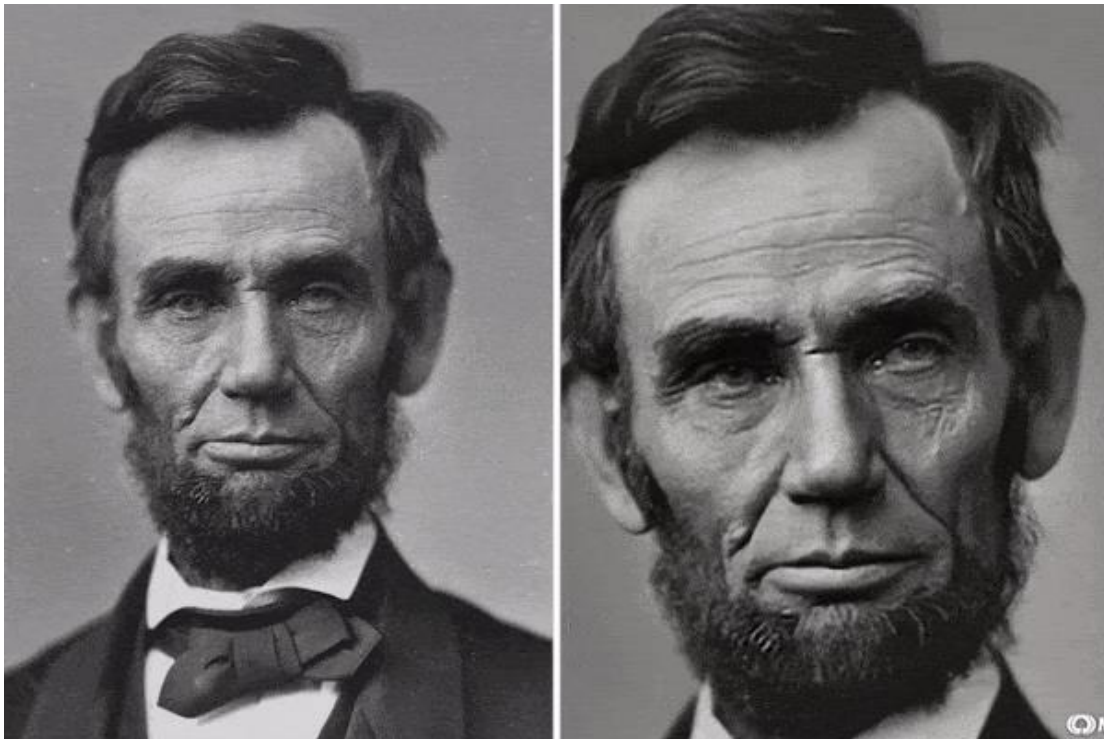
<https://crowdcreate.us/mastermind/gaming/play-to-earn/>

Have an uncanny day.

good luck ↑↓ be nimble

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