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am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Chipmunks are the smallest members of the squirrel family.

I thought they were a different species. I thought wrong.

Current Views

Short USDJPY @ 115.31
Stop 116.11
Take profit 113.92

Short USDCHF @ 0.9300
Stop 0.9381
Take profit 0.9111

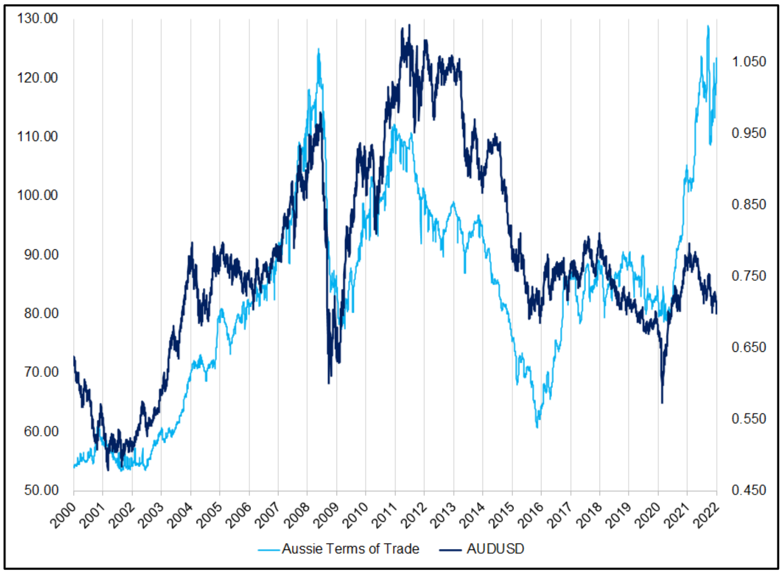
Long AUDUSD 0.7041
Stop loss 0.6984
Take profit 0.7219

Long 03FEB CADJPY
90.00 put
Spot ref: 90.80 /// Price 75 pips
Take profit 88.65

Blown Transmission

A fun game to play if you were bullish AUD in 2020 or 2021 was to bring up the AUD vs. Terms of Trade chart and ogle it like Sméagol greedily ogling The One Ring. With coal and all commodities back to their 2008 highs (not inflation adjusted), AUDUSD looks persistently low. The thing is though, there are reasons. Before I get to the reasons, let me show you the divergence.

AU Terms of Trade vs. AUDUSD since 2000

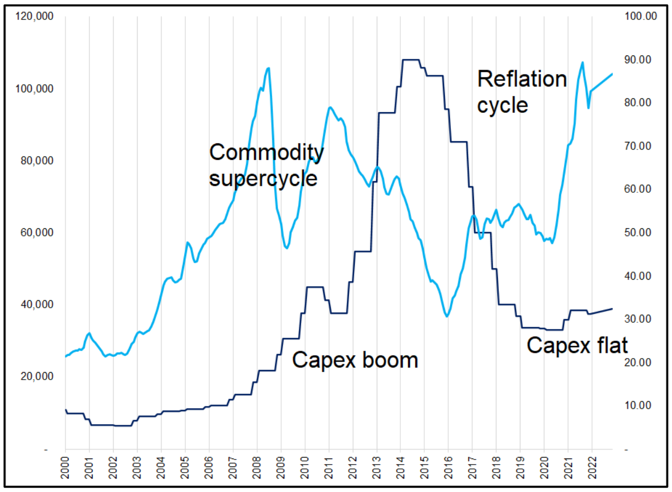


Hello my precious

There were three primary reasons the divergence didn't close much in 2020/2021:

1. This isn't like the commodity supercycle when rising prices led to a massive capex cycle. The mines are already setup and built and it's all about extraction now, not capex. Extraction doesn't create jobs and economic growth the way capital expenditure does.

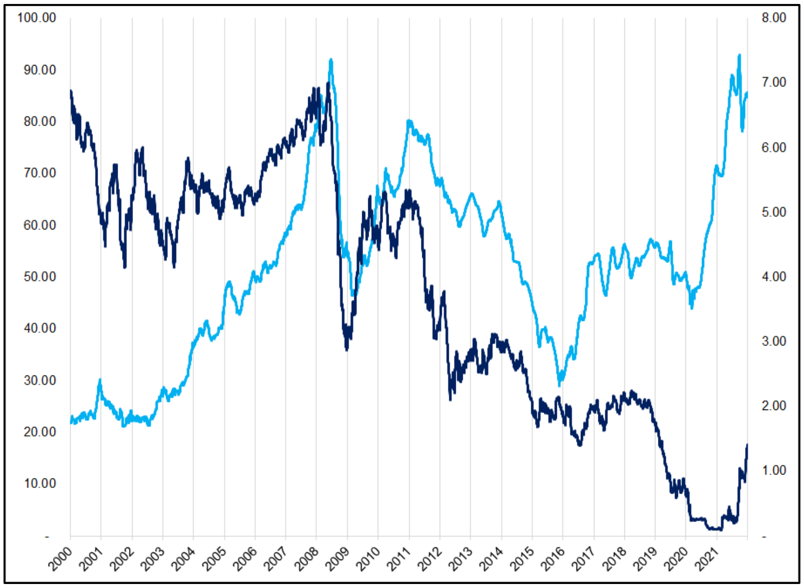
AU Terms of Trade vs. AU Capex since 2000



2. Before 2020, RBA monetary policy was the transmission mechanism for stronger commodities or weaker commodity prices into a stronger or weaker currency. By instituting QE, yield control, and forward guidance after COVID, the RBA blew out the transmission. Part of this is logically related to the first point (on the prior page) which is that this commodity rally didn't create jobs and spending like the 2009 to 2016 supercycle did. BTW, can you believe AUDUSD was above 1.00 for a good chunk of 2011-2012? Crazy.

   Here, you can see the lack of transmission from terms of trade to yields. In this context, AUD's inability to rally makes much more sense. In isolation, terms of trade looks bullish, but if it doesn't feed through to higher rates due to a broken transmission mechanism… Who cares?

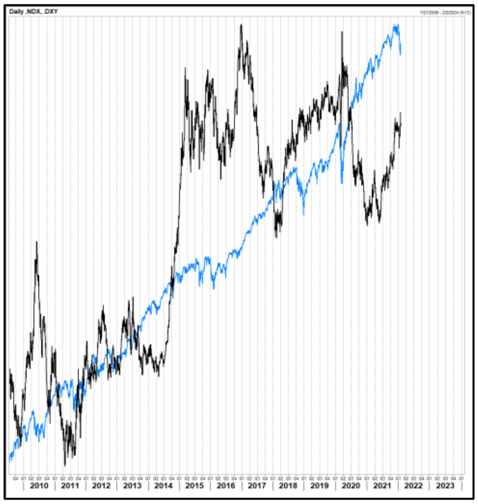
AU Terms of Trade vs. Australian 3-year yield vs. since 2000



3. US exceptionalism and USD rally. This is a well-known story since 2017 or so. Much like 1999, wave after wave of cash money has been flowing into US tech and this has driven the NASDAQ and the dollar higher in tandem. This is not to say it's the same setup as 1999 and tech is about to drop 85%... It's just to say the flow dynamic is a bit similar. Here's the DXY vs. NASDAQ in the dotcom bubble and the current tech bull market.

NASDAQ vs. DXY 1997 to 2003

NASDAQ vs. DXY 2010 to now



You can see the dynamic was clearer in the 1990s while divergent monetary policy is more of a driver of USD over the past decade. Anyway, of the three things that have been keeping AUD from rallying, we could get short-term relief on two. 1) The RBA looks like it's ready to normalize as it faces withering criticism over lost credibility. And 2) the US exceptionalism story looks tired as posting your Wordle results on Twitter.

All this is bigger bullish AUD stuff, but zooming way in, you could not ask for a better micro set up as discussed yesterday in "am/FX: Nice setup for short USD." Not only is the dollar turning right on schedule as the mutant month-end USD buyers go home, you have the RBA last night and Lowe tonight as volatility catalysts. The initial reaction to the RBA was bearish AUD but subsequent price action has been mega bullish. I'm mixing my time horizons yesterday and today but that's fine because it all points one way: Higher AUDUSD.

Negatorious z-scores

I have been harping on about the weakness in the US economic data and I decided to make sure that I wasn't just cherry picking the bad data to suit some preexisting unconscious bias. I looked at all the major data released since Retail Sales on January 14 and added up the z-scores to see how we are doing this month relative to other months back to 2015. I was not cherry picking!

I know this is what the Citi Surprise Index does, basically, but I think it's easier to see what's going on in a heatmap, not a single number. The current run of US data is the worst month in the entire spreadsheet. Note, I chopped out 2020 and will usually do that with most economic data analysis going forward. Similar to how you chop out 2008 when looking at most price time series because the volatility was so bonkers it distorts the standard deviations and ruins your analysis.

This snapshot of 2022, 2021, and 2019 gives you a sense of the bad outcomes we have seen so far. You don't really need to read all the rows, just look at far left and see January 2022 and then scan the bottom row for the sum of all the z-scores. Empire, Markit Services PMI, and Retail sales add to -5.9 and the total is -14.1 so it's by no means just those three driving the overall weakness.

US data releases of the last two weeks, 2022, 2021 and 2019

		2022	2021												2019											
		Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Jobs	initial claims	(1.0)	(0.8)	1.2	0.4	(2.1)	0.3	(0.1)	1.6	0.1	2.6	(2.9)	0.3	3.3	(0.1)	0.8	(0.2)	(0.3)	(0.1)	(0.1)	0.1	(0.2)	(1.0)	0.8	(0.3)	(2.5)
	eci sa%	(1.3)	(1.3)	2.6	2.6	2.6	(1.3)	(1.3)	(1.3)	1.3	1.3	1.3	1.3	1.3	-	-	-	-	(0.6)	(0.6)	(0.6)	-	-	-	(0.6)	(0.6)
Surveys	Markit manu	(1.0)	-	(2.2)	(2.2)	0.5	(0.3)	0.8	(1.4)	1.6	(0.5)	-	0.3	0.3	(0.3)	1.1	(0.5)	0.3	0.8	0.8	1.4	(0.3)	0.5	(0.3)	(1.9)	-
	Markit services	(2.0)	0.1	0.9	0.5	0.5	(0.1)	0.1	(0.2)	0.3	1.5	0.2	0.8	0.8	0.6	-	(0.4)	-	(0.2)	0.7	0.7	-	0.1	0.5	(0.2)	-
	empire	(2.9)	0.8	1.0	(0.6)	1.9	(1.2)	2.9	(0.6)	0.0	0.7	0.3	0.7	(0.3)	(0.1)	(0.4)	0.3	(0.2)	0.3	0.3	(2.2)	1.1	0.2	(0.7)	0.2	(0.7)
	chicago	0.8	0.2	(1.1)	1.0	(0.1)	(0.3)	2.0	(0.8)	1.6	1.5	1.1	(0.3)	1.1	0.2	(0.2)	(1.0)	(0.6)	0.6	(1.4)	(0.8)	0.0	(1.3)	(0.5)	1.6	(1.0)
	dallas fed	(0.8)	(0.7)	(0.4)	1.1	(0.8)	(1.9)	(0.6)	(0.2)	(0.2)	1.0	1.6	1.6	(0.7)	(0.4)	0.3	(0.8)	0.1	0.9	(0.0)	(1.3)	(1.5)	(1.1)	(0.1)	1.1	0.5
	philly	0.5	(1.5)	1.7	(0.1)	1.3	(0.4)	(0.7)	(0.0)	(1.1)	1.0	3.2	0.3	1.7	(0.9)	0.5	(0.2)	0.2	0.8	1.9	(1.1)	0.9	(0.3)	1.0	(2.0)	0.9
	michigan sentiment	(1.6)	0.2	0.5	0.3	1.8	(0.5)	0.4	(1.0)	(0.1)	0.8	1.3	0.3	(0.4)	0.1	1.1	(0.5)	1.1	(2.7)	(0.1)	0.3	(1.5)	0.2	0.6	(2.2)	0.5
	conference board	0.5	0.9	(0.3)	1.1	(1.1)	(1.8)	1.0	1.6	(0.3)	1.7	2.4	0.2	0.1	(0.4)	(0.3)	(0.4)	(1.5)	1.2	2.0	(1.8)	0.8	0.5	(1.6)	1.2	(0.7)
Real economy	rs ex autos and gas	(2.4)	(2.4)	(0.6)	0.7	0.3	2.1	(0.6)	0.6	(0.8)	(1.1)	1.9	(2.9)	5.5	0.1	(0.4)	(0.2)	(0.3)	(0.1)	0.4	0.4	0.1	(0.5)	0.5	(0.9)	0.6
	durables ex trans	(0.2)	(0.2)	0.8	-	0.2	0.2	0.2	0.4	-	-	0.6	-	(0.2)	-	(1.4)	(0.2)	(0.2)	1.8	-	1.8	0.6	(0.2)	0.4	(0.4)	(0.2)
	IP chng	(0.6)	(0.6)	(0.2)	1.5	(3.0)	(0.2)	0.8	(0.4)	0.2	(0.4)	(2.3)	(5.3)	1.1	(0.2)	0.5	(0.8)	(0.4)	0.8	(0.6)	(0.2)	0.4	(1.1)	(0.6)	(0.6)	(1.5)
	capital goods ex aircraft	(0.5)	(0.5)	(0.5)	0.2	0.3	0.1	0.1	0.8	0.2	(0.1)	0.3	(0.1)	(0.1)	0.1	(0.6)	0.3	(1.4)	(1.2)	(0.6)	0.7	(0.3)	(1.8)	0.6	(0.9)	-
Housing	existing home sales	(1.5)	(1.5)	(0.5)	0.9	1.2	(0.1)	1.0	(0.3)	0.5	(1.4)	(0.6)	(1.7)	0.6	0.7	(0.6)	(0.2)	(0.5)	0.7	0.1	(0.3)	0.3	(1.0)	(0.6)	2.6	(0.4)
	housing starts	0.6	0.6	1.4	(0.7)	(0.7)	0.8	(0.8)	0.7	(0.7)	(1.7)	1.6	(1.7)	(1.0)	2.8	0.2	(0.1)	(0.8)	1.4	(0.8)	(0.1)	0.4	0.3	(1.1)	(0.6)	0.4
	hew home sales	1.0	1.0	(0.5)	(1.1)	0.9	0.5	0.2	(2.4)	(1.9)	(1.7)	2.7	(1.9)	1.3	(0.7)	(0.3)	0.6	(0.0)	1.1	(0.2)	(0.2)	(1.1)	(0.0)	0.8	0.9	(0.3)
	pending home sales	(1.2)	(1.2)	(1.1)	2.4	(1.0)	2.4	(0.8)	(0.7)	3.3	(1.7)	(0.9)	(2.8)	(1.0)	(2.0)	(0.1)	(0.7)	0.2	0.2	(0.9)	0.8	0.0	(0.7)	0.9	(0.2)	1.3
	NAHB	(0.4)	-	1.1	1.9	0.7	(1.9)	(0.4)	(0.7)	-	-	(0.7)	0.4	(1.1)	2.2	(0.4)	1.1	0.7	0.4	0.4	(1.1)	0.7	-	(0.4)	1.1	0.7
		(14.1)	(7.0)	3.8	9.8	3.4	(3.3)	4.3	(4.4)	3.8	3.3	11.0	(10.4)	12.3	1.8	0.1	(4.0)	(3.6)	6.2	1.2	(3.7)	0.4	(7.1)	0.3	(2.0)	(2.9)

There is one huge caveat with this sheet: The left column under "2022" is the most recent release for each item. Most of them are January 2022, but a few are December because that's the most recent release. Wherever you see the same number for both December and January, it means we don't have January data yet so I'm using December. The takeaway is: economic data released in the last two weeks in the United States has been unambiguously weak.

This could all just be omicron and seasonals but given:

a) we just went off a bit of a fiscal cliff,
b) there's no real omicron effect visible in European data,
c) you can't see the delta variant anywhere on that grid

Economists' Spidey Senses should be tingling at least a little bit. The best "don't worry" argument is that the weakness is not real, it's just a seasonal / COVID quirk. This is a reasonable counterargument because the seasonality of COVID probably generates excess seasonal noise in the data. Last year, we saw wacky strength in January 2021 and then mega weakness in February 2021. You can see that dark red and dark green near the middle of the table above.

The jury is still out for now. I would guess today's ISM manufacturing figure is a coin toss (beat or miss), but Thursday's ISM Services is heavily skewed to the weak side. Economists' estimates look way too high on that one with Markit already coming in at 50.7. The survey is 59.7 while something more like 56/57 looks likely to me. Today's ISM figure is important and there's about a 15% chance today's JOLTS # could be interesting.

Since I know you love spreadsheets almost as much as I do, here's the whole sheet back to 2015 for your eyeballing pleasure:

US data releases of the last two weeks, back to January 2015

Huge white areas are where there is no historical data in Bloomberg (Markit PMI)

Red zones at the bottom clearly identify the rapid December 2018 slowdown and the major slowdown in Q3/Q4 2015 after the China deval. Anyway, I remain on high alert for a shift in the narrative in response to this shift in the data but for now, the old narrative (US economy is strong) remains in control.

Tactics

AUDUSD dipped right into my limit order at 11 a.m. NY month end yesterday (low was 0.7037, my order was 0.7041) and then bottomed at 0.7033 after the RBA so you have a bit of a tradable double bottom there now. I feel like 0.6984 is the still right stop for now, but I'll move it up if AUD goes much higher.

The EURUSD limit buy order did not get filled so I'm killing that one. The USDCHF short is working well so far, and the Jordan comments yesterday make me think that the SNB is getting a *tiny bit* nervous. The comments confirm to me that weak CHF is not a policy tool anymore and USDCHF shorts will be more fun than EURUSD longs. I added some take profits in the sidebar on page 1; it is up to date with all relevant parameters. The take profits are all selected based on some kind of symmetry move in the USD.

HT NJ today as he inspired some of my AUD thoughts + he sent me the Costello article.

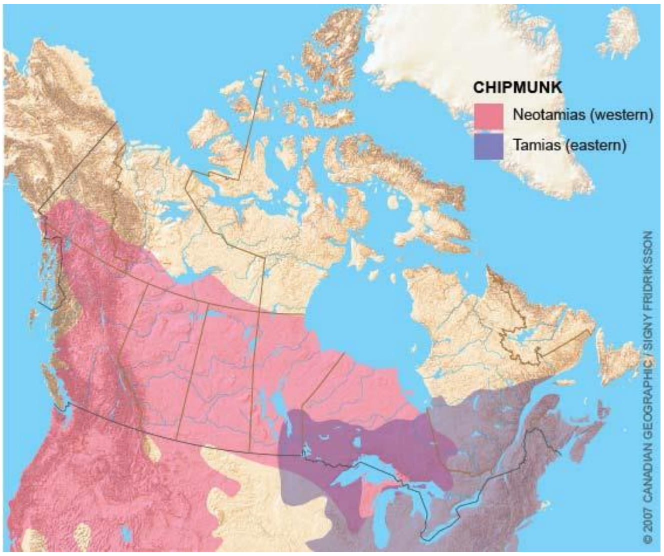
Have a small, furry day.

good luck ⇅ be nimble

An Eastern Chipmunk placing food in its cheek pouch
By Gilles Gonthier from Canada – CC 2.0

Chipmunks have different calls to warn about different predators: a chip for terrestrial foes and a cluck for aerial ones, plus a chip-trill when they're being pursued. This National Geographic page on chipmunks includes a video with these three calls.

Of the 25 species of chipmunks, all but one is found in North America.



The range of two common chipmunks

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