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am

FX

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The Dojima Rice Exchange

Make sure you read today's non-sequitur it's nuts

Current Views

Short USDJPY @ 115.00
Stop 115.76
Take profit 113.81

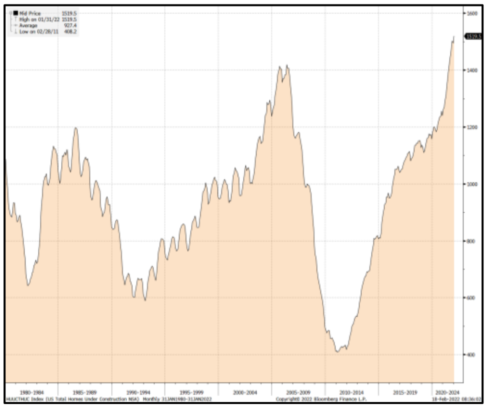
Bullish EURGBP
Long 18MAR 0.8550 EURGBP digital call at 24% (spot ref. 0.8426)

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

Short USDJPY

This chart was circulating on Twitter yesterday and it plays into the idea that free markets will take care of the many scarcity problems in the US at some point. Retail goods inventories are building, more homes are being built, and so on. We have just seen a dramatic period where US consumers binged on goods and homes and the mean reversion after the overshoot could be interesting.

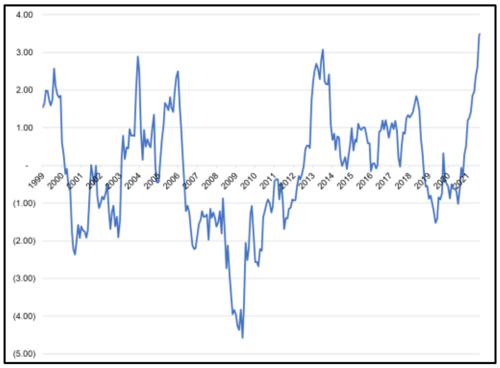
US new homes under construction



On average, it takes 7 to 8 months to build a US home

This rise in new supply is happening just as US mortgage rates rip from 3.0% to 3.8% in a straight line. The next chart shows the combined 12-month change in new homes under construction and change in mortgage rates is epic.

Z-score of 12-month change in US new homes under construction + z-score of 12-month change in US mortgage rates



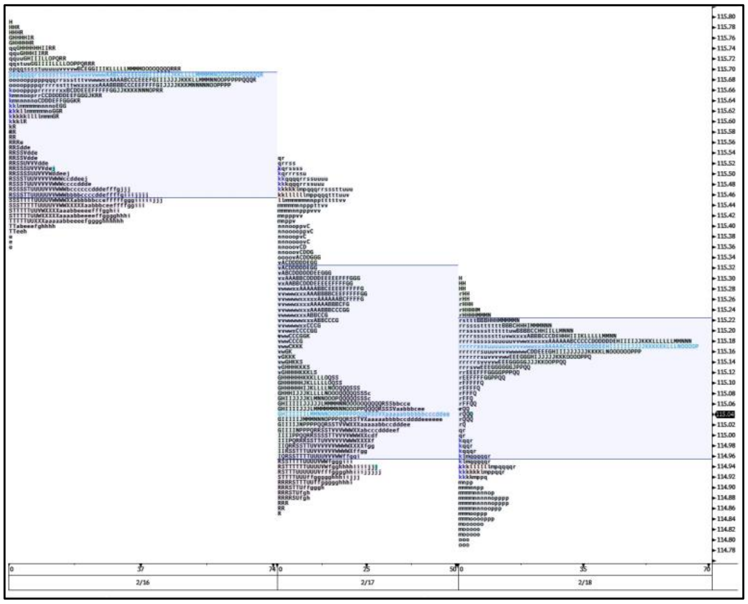
In isolation, this means very little as demand for housing remains robust and supply is super tight for now. But as financing gets more expensive and new supply comes in, the rapidly inverting yield curve does not looks rational. 12-18 months from now, the supply / demand dynamic for goods and housing in the US is not going to look like it does right now.

Zooming in, USDJPY is starting to look interesting. Wednesday's remarkable straightl line failure on strong retail sales release sets up a nice, clear pivot and the subsequent breakdown through 115.60 adds conviction that we won't be going back through there anytime soon.

I like to use Market Profile for short-term technical analysis as it strips out some of the noise. A market profile chart tallies how much time an asset spends at each price level. In the USDJPY chart below, the bulky areas are zones where USDJPY spent a lot of time, and the skinny areas are places where USDJPY barely hung out at all. Each letter in the stack means USDJPY was at that price point for five minutes. The large piles of letters are equilibrium zones.

You can see in the 2/16 market profile (first column), that USDJPY gapped through 113.55/60 (it spent almost no time there). Then, in the 2/18 market profile (third column), you can see how USDJPY spent a long time in a 115.12/20 range after the Russia news overnight but failed to hold on to that equilibrium zone (bearish). For more on Market Profile, check out this PDF or the book Mind Over Markets.

USDJPY market profile for the past three days



The gap down after Retail sales (2/16) and the 2/17 high are resistance (115.60)

Meanwhile, US equities continue to massively underperform as we are following the 2018 playbook where the market slowly catches on to the fact that the Fed is going to hike until something breaks and QT is bearish for assets just like QE was bullish. Meanwhile, demand for USDJPY topside is fading; the risk reversal is returning to normal levels. Less bullishness near the highs when the market is still long USDJPY is bearish.

My general lean is bearish USD anyway, as we approach the first Fed hike[1] but it's still kind of early for that. I have been highlighting the 2.05/2.15% zone as monster resistance in US 10-year yields, and we failed right there. Now, I am going with the view that the high is in and now we pull back to 1.80% or something. That should be bearish USDJPY and with the clear pivot in the 115.60/70 area, I like this as a spot trade.

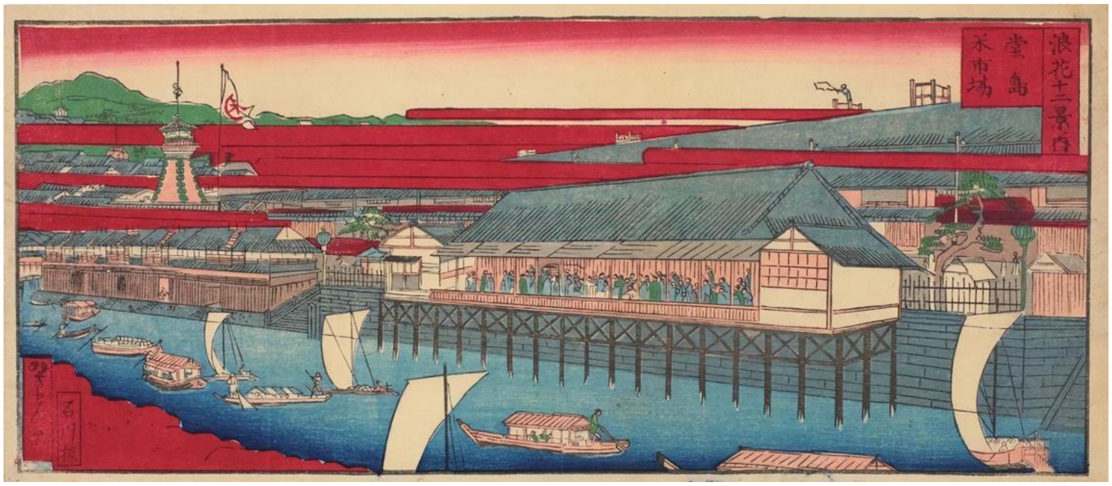
I am ignoring Russia risk here because it's too hard to quantify and I'm not sure it's the big driver of USDJPY anyway. It might be more of a red herring and the real story is flattening curves, abysmal top of book equity market liquidity, devaluation of overhyped and overvalued US assets, no Fed put until inflation drops, and so on. It's like late 2018, but without the Fed put.

Therefore, **I like short USDJPY here, with a stop at 115.76 and take profit at 113.81. Risking 75 to make 125.**

I hope your weekend is pure fire.

good luck ⇅ be nimble

[1] The USD almost always sells off in the months after the first hike.



The Dojima Rice Exchange

This 15-pager from HBS is a rip roaring read.
[The Dojima Rice Market and the Origins of Futures Trading]

Crazy excerpt:

A wooden box containing a fuse cord was hung at the ridgepole of the exchange building. Exchange officials put fire on the cord and allowed trading to continue as long as the box was on fire. The prevailing price at the moment the fire went out became the day's official closing price, called the 'fuse cord price' (hinawa-nedan).

However, traders were little impressed by the official closing of the market and had to be stopped from continuing their transactions by the 'watermen' (mizukata) who splashed water all over the marketplace in order to disperse the trading crowd. Because splashing was also of limited effectiveness, in their second attempt the watermen would dash whole buckets of water over the crowd, which usually stopped the day's trading.

The prevailing price at this time, the 'bucket price' (okenedan), was the actual daily trading price which was registered in the books and used for mark-to-market or settlement. On the other hand, the official fuse cord price became the opening price of the following day's session. This price fixing system included a settlement obligation: if no price was found at the time the fire went out, or if the box did not burn down completely by itself for some reason, all transactions of the day were declared void and open positions that had been kept overnight had to be cleared by the fuse cord price of the preceding trading day.

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