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amFX

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Dude, you got peanuts?

Current Views

2/2/22: move all stop losses to entry point

Short USDJPY @ 115.31
Original stop loss was 116.11
Take profit 113.92

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

Tree, meet sky

In early 2000, I was trading single name equities and there were frequent screams of terror on the trading floor after YHOO or CSCO or whoever released an OK earnings report (usually beating by 1 cent) and the stock dropped 10% or 20% for “no reason”. That is now happening again in tech. While there are plenty of ex-post reasons for many of the drops in the stocks, the commentary on Twitter last night was mostly like: “Facebook’s earnings weren’t even that bad!”

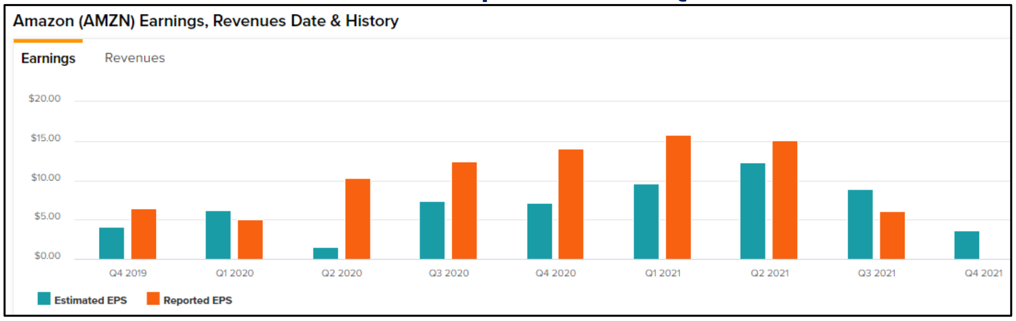
When it’s time for the air to come out of tech, it just comes out. It doesn’t have to make sense. I am not saying this is a replay of the 1999 dotcom bubble, I am just saying this current repricing of tech does have a vaguely similar texture on a micro level. These overnight 15%/20% drops were the beginning of the end for dotcom mania but could simply be part of a 20%/25% tech correction this time (vs. 85% in 2000).

I’m not much of a single name equity guy anymore, but I’m particularly interested in tonight’s price action in AMZN as a harbinger of whether or not this could be a major top for tech. Or at least the start of a massive correction that shakes the confidence of investors expressing wild overconfidence in the permanent ability of large tech to go to infinity and beyond.

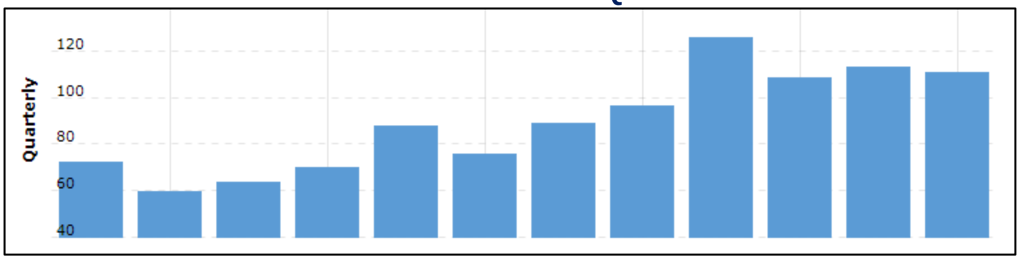
If you sat down and made a list of “What stocks and companies do people think benefited most from COVID19” I think it would look something like:

ARKK, NFLX, PTON, HOOD, MNRA, DASH, ZM, and AMZN. If you have even a passing interest in the stock market, you probably know what the charts of all those stocks look like. I understand that Amazon was an absolute beast before the pandemic and that is certainly a big difference, but you could also argue it was the most obvious beneficiary of COVID and probably attracted unruly amounts of cash for that reason. All the Peter Lynch protégés saw the Amazon boxes on the front steps and bought the stock. Meanwhile, here’s the evolution of their EPS and revenues since Q4 2019:

AMZN EPS vs. Expected since Q4 2019



AMZN revenue since Q1 2019



Source: macrotrends.net

Momentum has peaked for now on both metrics.

If you look at the top 10 companies by market cap over the past 50 years, you will see that trees do not grow to the sky. No matter how unassailable Cisco and GE looked in 2000, or Citi looked in 2004, or Petro-China and Exxon looked in 2009… They all eventually ran out of gas.

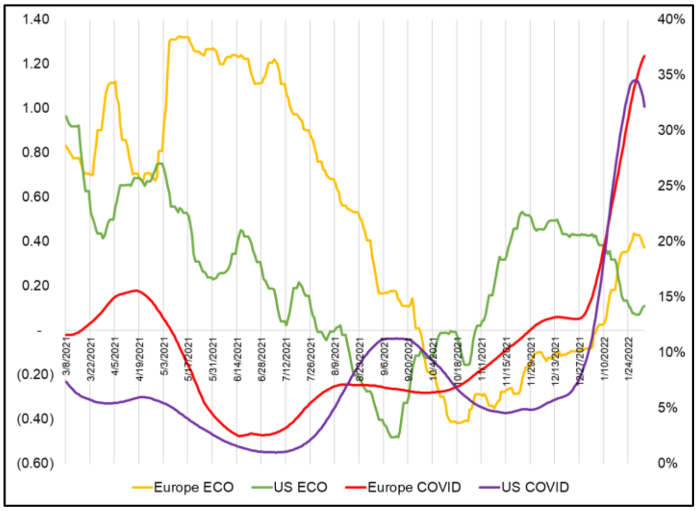
Anyway, be at your desk tonight after the close. Perhaps AMZN will follow the path of the other COVID favorites or maybe it's more like AAPL and GOOG (two stocks that rallied after earnings). As the economy transitions away from massive overconsumption of goods, it makes sense to me that peak AMZN sentiment should be right about now.

I don't know enough about Amazon's business lines to speculate on whether cloud margins will be higher or lower and all that. All I can see is that the market is in a punishing mood. Get your popcorn.

Europe vs. USA

Here is a visual representation of the rise of COVID cases (omicron) in Europe and the USA, along with the economic surprises in each area. You can see the explosion of omicron cases has not impacted the European data while US data has rolled over in the past few weeks as highlighted in a variety of colorful tables I have posted of late.

Economic surprises in Europe and the USA vs. COVID cases



This theme will take a while to play out because this month's NFP is meaningless given we already know it is likely to be weak. The next four weeks of US data are more important than usual as we try to see through the fog of seasonality and omicron distortions.

Strange brew

The Bank of England almost hiked 50bps and yet the commentary is pretty dovish!

*BAILEY: THERE IS MUCH UNCERTAINTY ON OUTLOOK
*BAILEY: MISTAKE TO ASSUME RATES ON INEVITABLE LONG MARCH UP
*BOE'S BAILEY SAYS WE HAVE NOT RAISED INTEREST RATES BECAUSE ECONOMY IS ROARING AWAY
*BAILEY SAYS ENERGY PRICES WILL WEIGH ON INCOMES AND SPENDING
*BAILEY: NOT A STANDARD DEMAND-DRIVEN RISE IN BANK RATE

It almost feels like he's apologizing for hiking into an energy shock. Despite the 5-4 vote and what looked like an extremely hawkish outcome initially, I don't read this as all that hawkish. It reads more like they are hiking because they feel they have to ... but it's front-loaded and may or may not be the start of a true cycle. Certainly sounds more data dependent than autopilot to me. If I was long GBP, I would be taking profit here.

Remember Currency Wars?

In the first part of the last decade, the problem was too-low inflation around the world, and this led many central banks to pursue a weaker currency. In September 2010, Brazilian Finance Minister Guido Mantega accused China and the USA of engaging in currency wars by keeping their currencies persistently undervalued. Global governments accused the US of intentionally devaluing the dollar via QE while China was constantly criticized for currency manipulation.

After that, Switzerland got into the act, initiating a costly and pointless effort to weaken the CHF and Japan engaged in full scale currency devaluation via a policy called Abenomics. HUF and CZK got into the game a bit later.

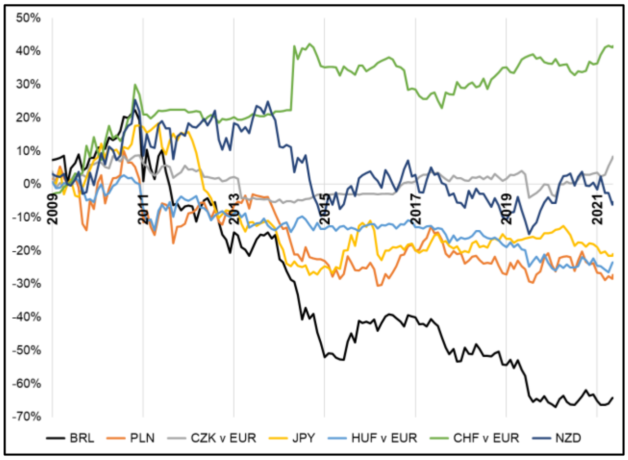
Now, with global inflation roaring, a weak currency strategy makes no sense. The SNB have slowed their EURCHF buying, Japan has made mixed statements on the costs and benefits of a weak JPY, and yesterday Polish CB Glapinski rattled the PLN market as he said he would welcome zloty appreciation. Currency wars are over. Peace at last.

I was curious to see who "won" the currency wars. The chart on the left shows currency performance since 2009 while the one on the right is the exact same chart, but volatility-adjusted. Hungary and Brazil "won" the currency wars while Switzerland clearly lost. I didn't put CHF on the right chart because vol-adjusted, its outperformance blows up the y-axis.

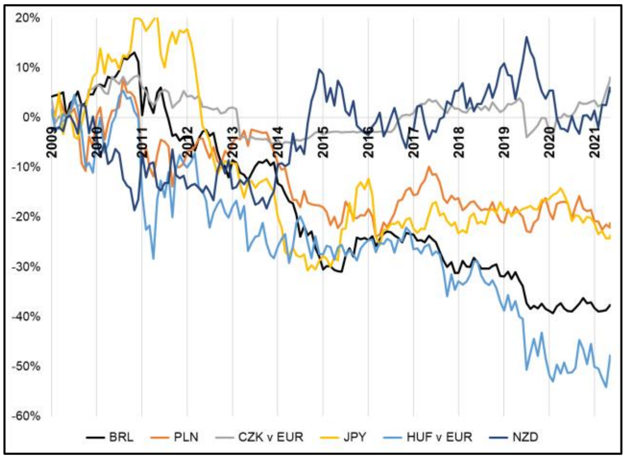
We have seen strong demand for BRL in recent weeks as real rates there look reasonable, there is optimism about Lula, and the currency has been pounded for 10 years.

Currency war participants: Currency performance since 2009

Absolute



Volatility Adjusted



All vs. USD unless otherwise indicated

Do you like free things?

Are you a trader with less than 5 years of experience? I am starting a free trader education Substack to help you level up your tactics, strategy, mindset, and risk management. Walkthroughs + detailed analysis of one real trade idea, once per week. Learn more and sign up here: https://50in50.substack.com/p/what-is-50-in-50

I will try to make it interesting for professionals too… Anyone can sign up. Low risk with upside.

View unchanged

I stick with the short USD trades as per the sidebar. Rate differentials, global (hawkish) monetary policy convergence, and outflows from NASDAQ continue to work in favor of the short USD view. Have a nutty day.

good luck ⇅ be nimble

Wild crows trade cigarette butts for peanuts to keep Swedish streets clean

More than 1 billion cigarette butts are tossed onto the streets of Sweden, constituting half of all of the country's litter

Courtney Greenberg
Feb 02, 2022 • 6 hours ago • 2 minute read • 15 Comments

A bird brings a cigarette butt to a machine in exchange for food. PHOTO BY CHRISTIAN GÜNTHER-HANSSEN/CORVID CLEANING

https://nationalpost.com/news/wild-crows-trade-cigarette-butts-for-peanuts-to-keep-swedish-streets-clean

HT Hatnerell

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