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am FX

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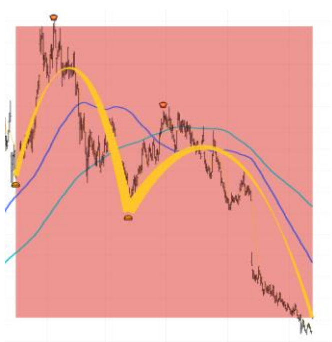


Did somebody say McDonald's Formation in Peloton stock?

Current Views

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

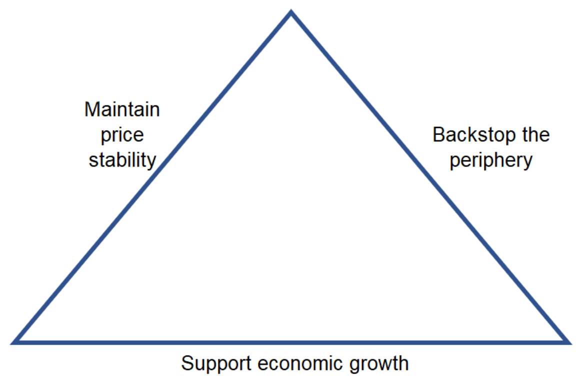
Short USDCHF @ 0.9300
Original stop loss was 0.9381
Take profit 0.9111

Long AUDUSD 0.7041
Original stop loss was 0.6984
Take profit 0.7219

▲, ⯃ and M

The fragility of the global system is one of the primary limiting factors for rate hikes post-2008. Two days into the ECB pivot, we already seeing nerves in the European peripheral debt markets as the buyer of last resort is no longer a reliable backstop into perpetuity. As much as core European rates went up last week (a lot!) … Peripheral European rates are rising even faster. Not great news for the ECB as they now attempt to navigate their own very special trilemma:

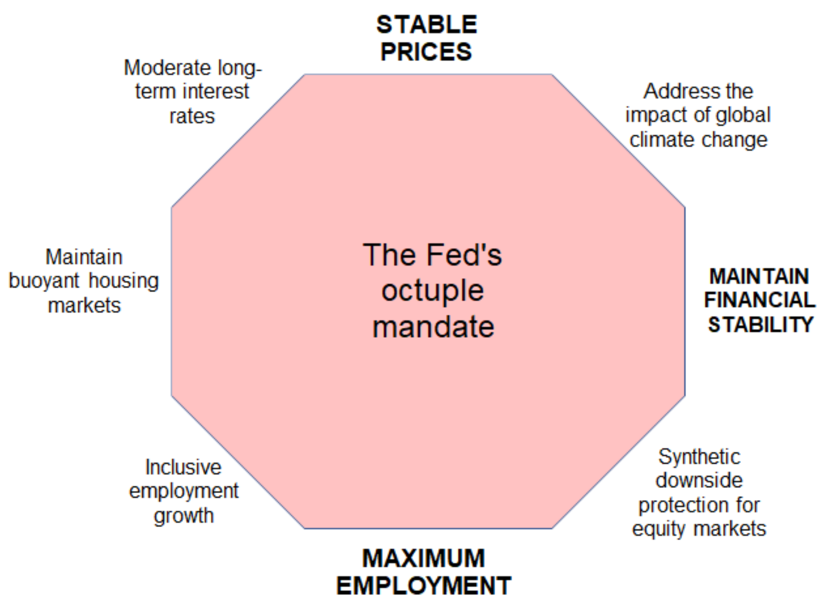
The ECB trilemma



I forgot to put climate change in there, so it's really a quadrilemma. Anyway, when global inflation is low, there's no problem. Lower for longer, baby! And this is why Draghi's "Whatever It Takes" gambit to save the periphery worked in 2012. CPI was 2% and falling. If inflation was 5% in 2012, they would have had to deal with tradeoffs. It's very hard to buy bonds and maintain price stability when inflation is high.

This, of course pales in comparison to the Fed's octuple+1 mandate:

The Fed octolemma



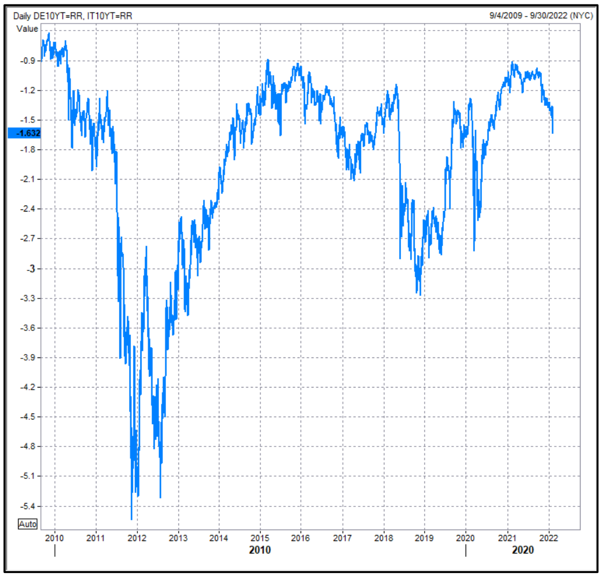
The 9th Fed mandate is, of course, to finance and monetize massive US government spending at the lowest possible interest rate. Mission creep is fine in a stable world of secular stagnation but it's not with CPI up here.

One core common sense argument against MMT is that fiscal policy with no limiting factor will inevitably push through the boundaries of available slack and trigger uncontrolled inflation. Now, MMT supporters are scrambling to control the narrative as nicely outlined in this NYT piece, "Is This What Winning Looks Like?" MMT effectively began in 2017 with the Trump tax cuts and continued through the pandemic. The bill is coming due now as central banks need to truly worry about tradeoffs for the first time since 2008 and arguably since Arthur Burns[1].

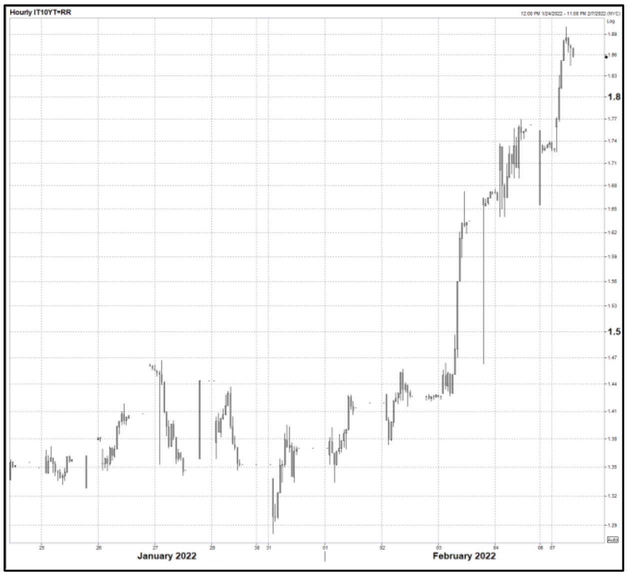
Back to the periphery

Here is the Italian peripheral debt situation on two time frames.

Germany vs. Italy 10-year differential (2010 to now)



Italian 10-year yield last 20 days



It's very hard to say at what point the peripheral widening feeds through to the currency. It's similar to the situation in Canada, where an extremely levered consumer and housing-reliant economy can take only so many turns of the vise before higher yields crack the fragile system.

Three reasons long EURGBP is better than long EURCHF

The insta-widening in peripheral spreads is **reason number one** I think EURGBP long is much better than EURCHF long. EURCHF is going to be more sensitive to any fear of peripheral widening while EURGBP will be less responsive. CHF is a safe haven and GBP is not. **Reason number two** I like EURGBP better than EURCHF is that the BOE is further into the hiking cycle than the SNB. Historically, the SNB tends to follow the ECB on rates and very little is priced in. In contrast, the BOE almost delivered a 50bp hike and then showered the market with dovish commentary. BoE are reluctant hikers with tons priced in. SNB is not even in the hiker mix, but they have been making a few hawkish noises and don't need currency weakness anymore.

The **third and final reason** I like EURGBP better is the technical setup. I showed the chart on Friday so I won't show it again, but 1.0600 is a massive level in EURCHF. Friday's and today's high are both 1.0600/05. So you are long right into a major resistance area in EURCHF whereas in EURGBP it's pretty much open sky to 0.8700.

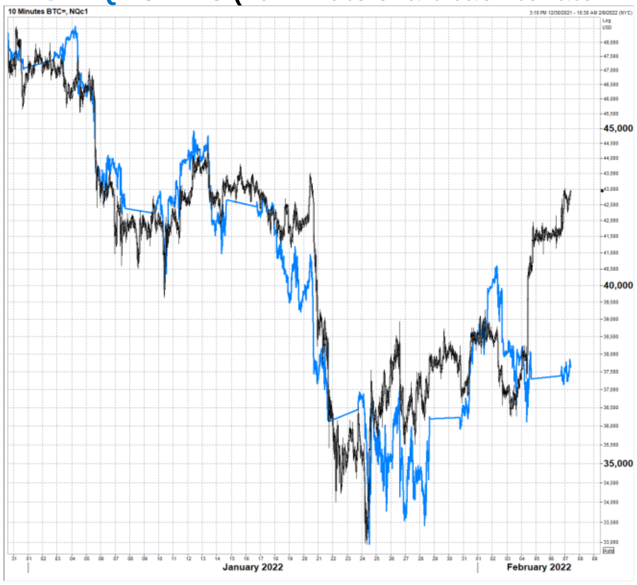
[1] *In 2008, everything collapsed so quickly, there were no tradeoffs for central banks to worry about. Inflation was high going into the crisis but by the time everything started to unravel, inflation was not a credible threat.*

Idiosyncratic

The move in crypto on Friday was interesting as BTC and friends rallied 3X a full average day's range in about eight hours. Meanwhile, the NASDAQ only managed to rally 2% in that period (a bit more than 1X a full average day's range). These divergences are definitely worth keeping an eye on because a drop in crypto's correlation to NASDAQ would make it much more useful as a portfolio diversifier. On the left, you can easily see the divergence on a 10-minute chart. In contrast, this is nothing new if you look back to March 2020. There are ebbs and flows, the two don't move tick for tick every single day. Anyway, something to watch. Maybe Russia is adding BTC to their reserves in stealth fashion before the big announcement??

Maybe I'll write about that tomorrow.

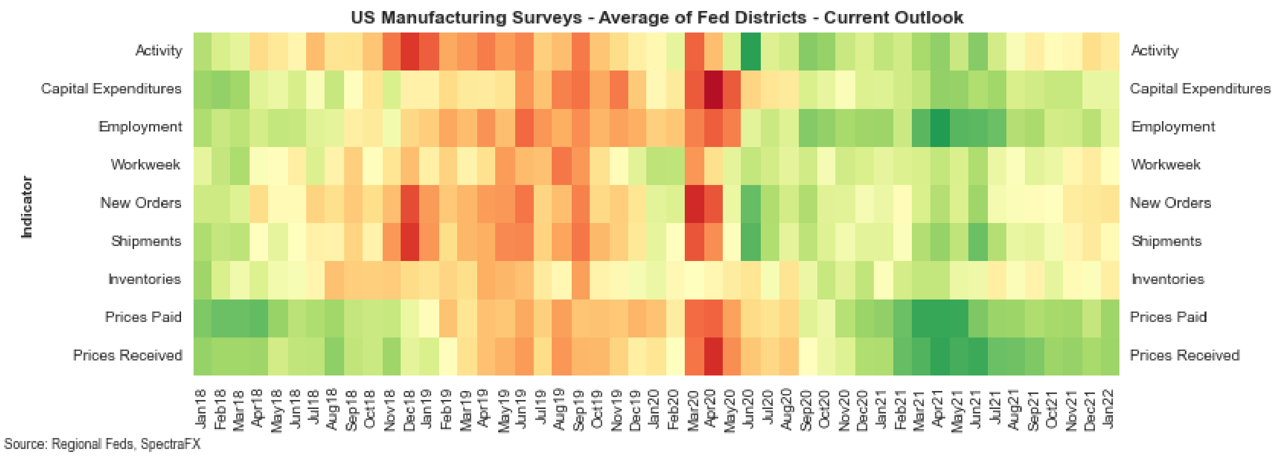
NASDAQ vs. BTC (10-minute chart back to late DEC)



NASDAQ vs. BTC (daily chart back to JAN2021)

This is a nice grid

Finally, this grid from Tanguy is a nice representation of the evolution of the manufacturing surveys.



Have a greasy day.

good luck ⇅ be nimble

TradingView adds "McDonald's Pattern" to its list of indicators.

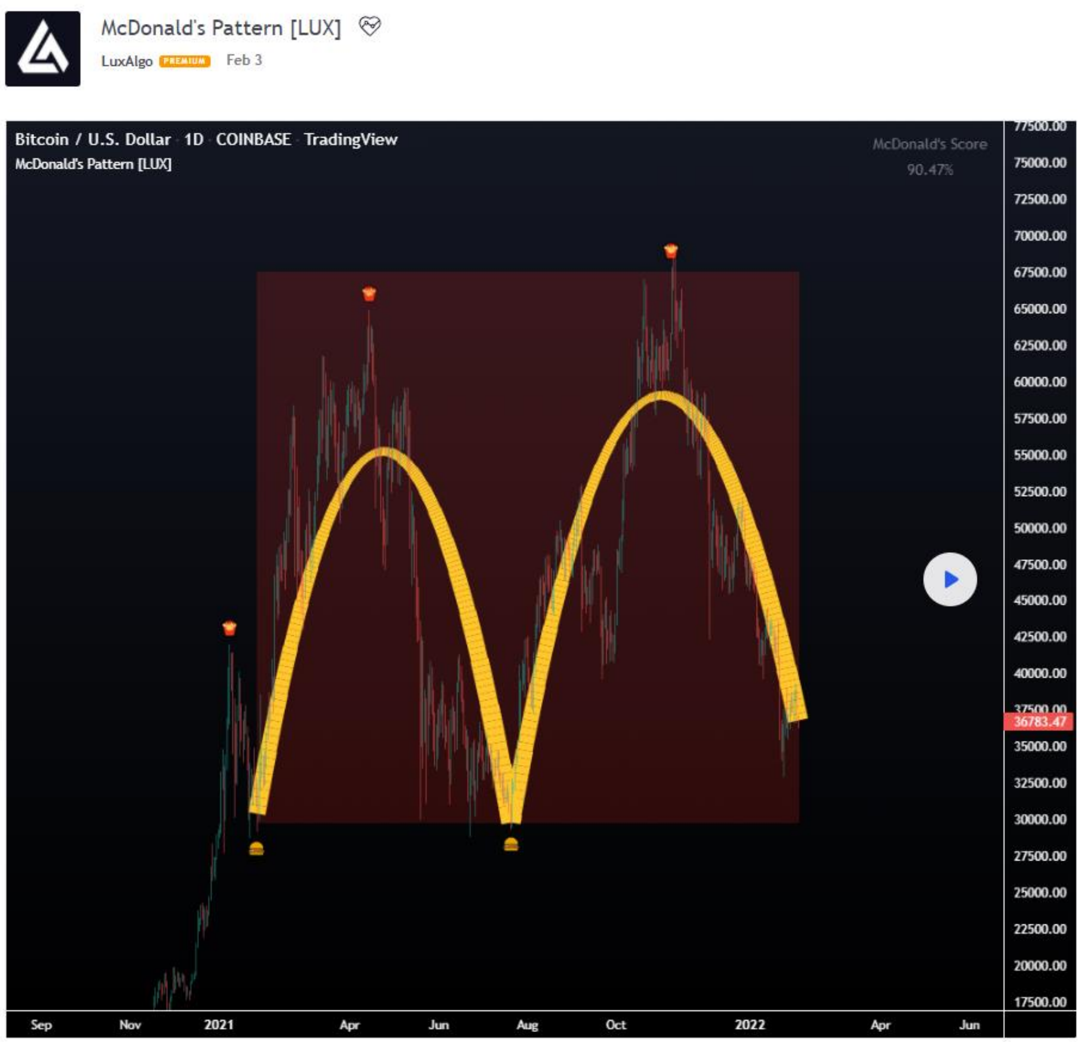
https://www.tradingview.com/script/BbHc0nIt-McDonald-s-Pattern-LUX/

🍟I'm lovin' it!🍟

🍟**I am a huge fan of TradingView. It's an excellent product. This is BEYOND excellent.** 🍟

"TradingView asked, we delivered. This script fits a cubic Bezier curve using tops/bottoms in order to approximate a McDonald's pattern, a popular meme pattern in the crypto trading community.

Traditionally the McDonald's pattern is described by an M pattern with deep retracement (> 50%), forming a McDonald's logo."



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