SPECTRA MARKETS

Thursday, February 24, 2022

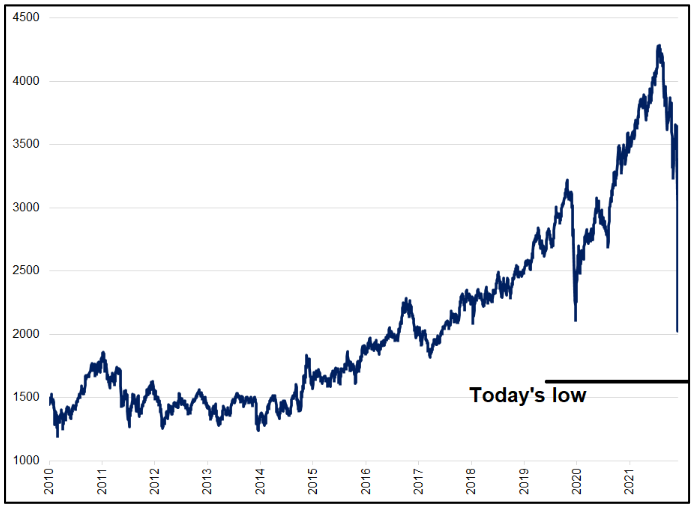
War

Russian equities were down 50% at one point today. 50% on the day. Even after a huge bounce, they have still given back three years of gains in one day. The consensus is that Russia will be uninvestable for some time as sanctions cut deeply into foreign investment and Russia potentially takes on onerous financial obligations related to Ukraine. As Tim Ash put it in his Substack today:

> If Putin forces regime change on Ukraine then that new administration in Kyiv would be a pariah in the West. It will not be able to finance itself in international markets and Russia will have to pay the very big price tag - tens of billions of dollars.

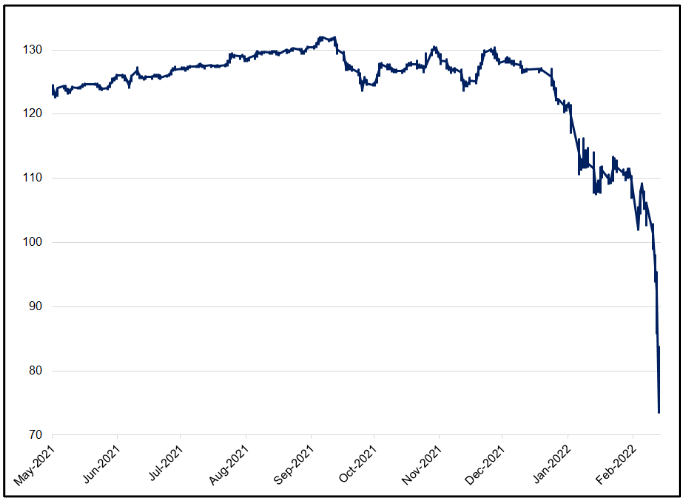
Russia stocks:

MOEX Russia Index, 2010 to now



Some probability of invasion was certainly priced in but the size of the moves in Russian assets is pretty mind-blowing.

Russia 2047 bond



am FX

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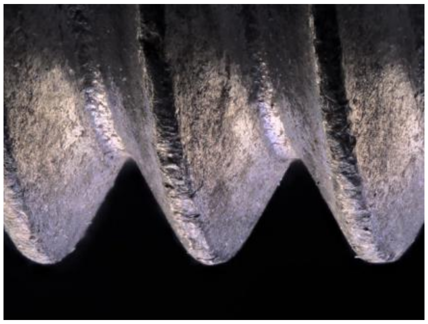


Screw threads in polarized light

Continuing yesterday's theme of cool closeups

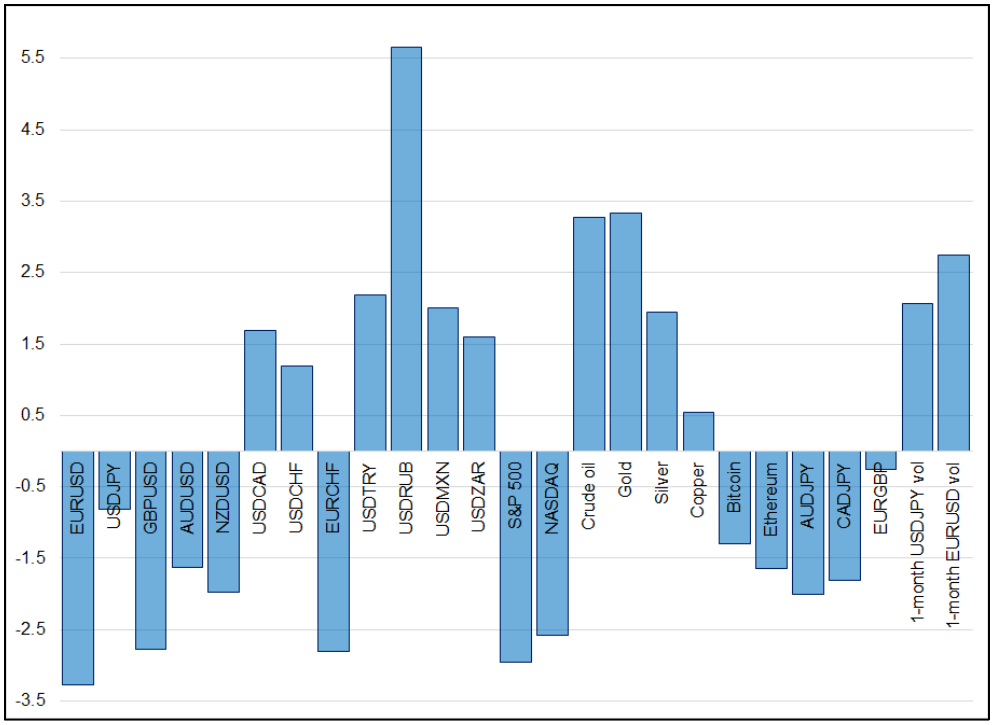
Current Views

Short GBPCAD @ 1.7252
Stop loss 1.7415
Take profit 1.7010

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

Outside of Russia, oil importers and anything near or associated with Russia also got demolished. Here are the one-day moves in some major assets to give you a sense of what is moving and by how much.

Standard deviation of overnight moves in various assets



A few takeaways from this:

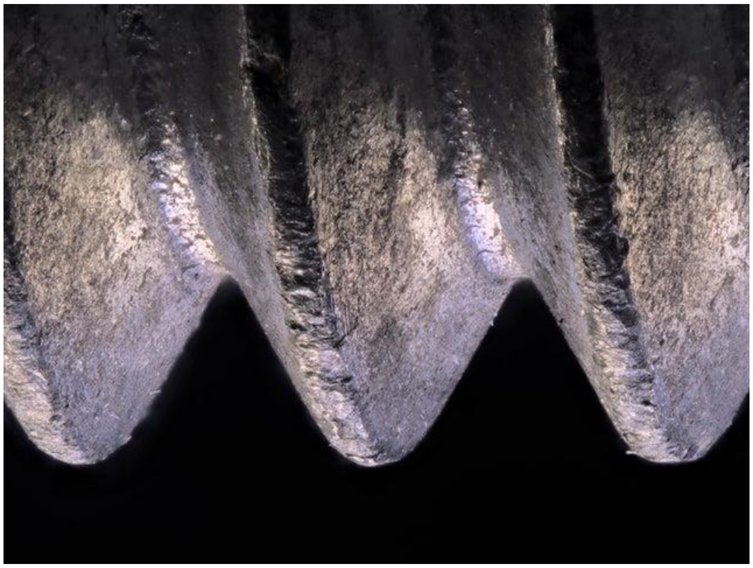
- USDJPY continues to be completely useless as a risk hedge. It barely moved. I understand why USDJPY would not be a good risky asset hedge when risky assets are selling off on Fed fears. In that regime, higher rates push USDJPY up. But with bonds up a full point overnight, it's amazing how little USDJPY has moved. My first instinct would be to think it's a beachball underwater as the market is certainly short and frustrated now, and corporate month end USDJPY buyers are lurking.
- EURUSD one of the largest moves as residual long positions still remained from the bullish ECB narrative.
- Crude and gold continue to be all weather assets these days.
- Crypto continues to trade like the levered risky asset that it is.

While this has become a massive geopolitical event now, it is still not obvious to me that it will have a persistent impact on non-Russian markets. The selloffs in equities at the start of the Vietnam War, Gulf War, Iraq War and Crimean Occupation were all major bottoms and legendary buying opportunities. Wars are terrifying and tragic but don't generally impact corporate earnings, the overall US economy, or equity markets for very long.

The problem is that stocks aren't just weak because of Russia. There is still the matter of reversing the massive Fed-gasoline-fueled spec party of 2021. QT is coming in a few months. The party went on longer than people thought possible in 2021, and now we're dealing with the hangover. And there is no "bad news is good news" aspect to this. As oil approaches triple digits, there's no reason to think the Fed changes course.

Finally, the GBPCAD trade from yesterday makes even more sense in light of the new information about Ukraine. Russians hold significant UK assets and with layer upon layer of sanctions coming, there is more likely to be pressure on GBP than on CAD. The relentless dovish messaging from the Bank of England also continued yesterday after I hit send on am/FX, which helps. Have a safe day.

good luck ⇅ be nimble



Screw threads

Almost anything is cool at extreme close up.

T4 bacteriophage

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