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The new Batman movie comes out today.

<https://www.rogerebert.com/reviews/the-batman-movie-review-2022>

## Current Views

**Short USDCAD @ 1.2690**

Stop loss 1.2806  
Take profit 1.2502

**Long BTC @ 38220**

Stop loss 31400  
Take profit 49900

## CAD weirdness +

It is not every day you lose 100 pips in USDCAD and your NZDUSD take profit hits on the topside, all in 12 hours, but the somewhat mysterious CAD weakness continues even as the long-simmering bullish AUD and NZD terms of trades stories take control. EURAUD and EURNZD are absolutely collapsing now, and gold is outperforming vs. EUR and USD as a market consensus forms around China's need to rethink whether its FX reserves are safe.

If FX reserves are not fully certain to be money, we are in for quite a ride over the next little while. Sell reserve currencies and buy hard assets as global reserve holders hedge future sanctions and seizure risk. There is game theory involved as specs anticipate what could be a multi-year theme and reserve managers huddle in offices and attempt to make geopolitical and economic calculations.

### What's up with CAD?

USDCAD is a weird one these days. It's not getting a tailwind from the commodity ripper even as AUD, NZD and NOK are at the highs. Here is a big correlation matrix for CAD vs. different types of crude over the past year and over the past two months. Scan the first column (CAD correlations) and note the huge differences.

#### CAD correlation (1-year look back)

Security	CAD	AUD	CADJPY	CL1	CL3	CL10	CL20	CL40	WCS	CO1	CO3	CO10	CO20	CO40
CL1	-40%	29%	46%	100%	99%	95%	91%	79%	94%	97%	97%	94%	91%	78%
CL3	-41%	31%	47%	99%	100%	98%	94%	82%	93%	97%	98%	96%	93%	81%
CL10	-43%	33%	50%	95%	98%	100%	99%	88%	88%	94%	97%	99%	98%	88%
CL20	-42%	33%	50%	91%	94%	99%	100%	94%	85%	90%	94%	98%	99%	94%
CL40	-35%	27%	42%	79%	82%	88%	94%	100%	72%	77%	81%	87%	93%	99%
WCS	-39%	30%	43%	94%	93%	88%	85%	72%	100%	90%	91%	88%	85%	73%
CO1	-43%	29%	52%	97%	97%	94%	90%	77%	90%	100%	99%	96%	92%	80%
CO3	-44%	31%	53%	97%	98%	97%	94%	81%	91%	99%	100%	99%	96%	84%
CO10	-46%	33%	54%	94%	96%	99%	98%	87%	88%	96%	99%	100%	99%	90%
CO20	-46%	33%	54%	91%	93%	98%	99%	93%	85%	92%	96%	99%	100%	95%
CO40	-39%	29%	47%	78%	81%	88%	94%	99%	73%	80%	84%	90%	95%	100%
CAD	100%	-73%	-78%	-40%	-41%	-43%	-42%	-35%	-39%	-43%	-44%	-46%	-46%	-39%
AUD	-73%	100%	45%	29%	31%	33%	33%	27%	30%	29%	31%	33%	33%	29%
CADJPY	-78%	45%	100%	46%	47%	50%	50%	42%	43%	52%	53%	54%	54%	47%
EURCAD	61%	-21%	-72%	-37%	-36%	-36%	-36%	-29%	-31%	-41%	-43%	-43%	-42%	-36%

#### CAD correlation (2-month look back)

Security	CAD	AUD	CADJPY	CL1	CL3	CL10	CL20	CL40	WCS	CO1	CO3	CO10	CO20	CO40
CL1	4%	-16%	-2%	100%	97%	78%	70%	60%	95%	93%	92%	78%	73%	57%
CL3	1%	-8%	1%	97%	100%	87%	80%	69%	90%	94%	95%	86%	81%	65%
CL10	-3%	5%	2%	78%	87%	100%	97%	85%	65%	84%	91%	98%	97%	85%
CL20	-26%	15%	27%	70%	80%	97%	100%	94%	59%	75%	83%	94%	99%	94%
CL40	-18%	14%	23%	60%	69%	85%	94%	100%	54%	62%	68%	81%	92%	98%
WCS	5%	-22%	-6%	95%	90%	65%	59%	54%	100%	84%	82%	66%	61%	51%
CO1	-2%	-19%	10%	93%	94%	84%	75%	62%	84%	100%	97%	88%	79%	60%
CO3	-4%	-10%	6%	92%	95%	91%	83%	68%	82%	97%	100%	94%	88%	68%
CO10	-22%	-2%	21%	78%	86%	98%	94%	81%	66%	88%	94%	100%	97%	84%
CO20	-5%	7%	5%	73%	81%	97%	99%	92%	61%	79%	88%	97%	100%	94%
CO40	-15%	10%	15%	57%	65%	85%	94%	98%	51%	60%	68%	84%	94%	100%
CAD	100%	-74%	-81%	4%	1%	-3%	-26%	-18%	5%	-2%	-4%	-22%	-5%	-15%
AUD	-74%	100%	55%	-16%	-8%	5%	15%	14%	-22%	-19%	-10%	-2%	7%	10%
CADJPY	-81%	55%	100%	-2%	1%	2%	27%	23%	-6%	10%	6%	21%	5%	15%
EURCAD	33%	-27%	-8%	-35%	-34%	-33%	-25%	-18%	-28%	-39%	-42%	-32%	-37%	-19%

### CAD correlation grids, takeaways:

1. USDCAD remains correlated to back-end crude contracts, but front end crude has decoupled from USDCAD due to the supply shock. Russian crude has become difficult to access/pay for and this is squeezing the front months, but the back end is what matters more for CAD in the long run.
2. Normally, for trading purposes, CAD correlation to all crude contracts is about the same. It doesn't matter which contract you follow. That is, unless the front is doing something super, super weird like when it went negative in April 2020 (or like it's doing right now!). CL is NYMEX, CO is Brent Crude, WCS is Western Canada Select.
3. CAD correlation to contracts a bit further out is almost always higher, which makes sense. Oil producers don't hedge in the very front. Also, the long run estimate of crude prices given by contracts further out is probably a more reasonable guess as to the long-term GDP contribution of oil to the Canadian economy.
4. CL20 (NYMEX 20<sup>th</sup> contract) or CO20 (Brent 20<sup>th</sup> contract) look like approximately the best contracts to follow if you care about CAD. CL1 is certainly NOT the right contract to follow. The current CL20 contract is CLX3 (November 2023).
5. AUD is also strongly correlated with crude because of its LNG production and also because all commodities are correlated with each another, and Australia exports all kinds of other stuff.
6. You get a slightly better crude corr if you do CADJPY instead of USDCAD. This makes sense because higher oil hurts Japan's current account and forces oil importers to buy more USDJPY in Japan time.

Unfortunately, none of this helps explain why USDCAD is so bid right now. I ran a bunch of experiments, sorting different regimes like: Credit wider vs. credit tighter. SPX up and down. Mortgage rates up and down. And could not find any regime style explanation for why CAD is weak even with oil and other commodities flying up and out of the atmosphere and towards Earth's only natural satellite.

Sometimes when you run an experiment or series of experiments, your result is the null hypothesis. That's the case here. I cannot explain why CAD is so weak. The persistence of the weakness is unnerving and the rapid USDCAD drop and recovery after I went short USDCAD pre-BOC is unnerving but I'm just going to stick with my parameters. Perhaps there's a large CAD selling flow going through and when it's done, USDCAD goes clunk like a heavy object.

### Speaking of clunk

The euro has decided to collapse, out of nowhere.

We have had four hot euro narratives this year (two up, two down) but the one that is most impulsive is this one—the one few foresaw. A combination of sanctions, Russia contagion, unwind of hawkish ECB bets, and real money hedging of euro assets has knocked the single currency on its butt, especially against AUD and NZD.

Parity coming in EURCHF!

### Weekend viewing

And finally... Sure, you *could* watch The Batman this weekend, and it will probably be excellent. Or... You could watch me in conversation with Danielle DiMartino Booth [right here](#). Topics include the evolution of the FX market, trading and investing without bias, Daft Planet, and tons of other stuff.

Have a muscular day.

good luck ↑↓ be nimble

EURAUD collapse





Dope

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