

**am**  

---

**FX****Brent Donnelly**bdonnelly@spectramarkets.com  
(212) 398-6230

After about 35 seconds, Shinjo brought the vehicle down to the field.

With a steely-eyed glare and surrounded by swelling, dramatic music befitting the climactic moment of an action movie, he dismounted the hovercraft, threw his jacket to the side and set off with purpose to win a baseball game.

Unfortunately, the Nippon-Ham Fighters lost to the Saitama Seibu Lions, 4-0, to fall to 0-4 on the season. But if Shinjo keeps making these types of entrances, we are all winners in some small way.

## Current Views

### **Short GBPUSD at 1.3215**

Stop loss at 1.3353  
Take profit 1.2811

### **Long EURGBP at 0.8460**

Stop loss at 0.8369  
Take profit 0.8599

## Hovercraft

A retail trader friend of mine whose target is to make \$1m this year trading mostly FX was up \$500,000 as of two weeks ago then drew down to \$300,000. Yesterday he pinged me as he had his best day ever and is now +\$570,000 YTD. He was like "Party time! I'm gonna be up a buck by May 1!" My advice to him was: "Cut your risk by 75% for a week and chill out."

When you are overearning, you can go on tilt much as you go on tilt when you are losing money. This is a less-known leak that can be a huge problem for me and is evident in my friend's situation/attitude.

Traders should operate close to the middle of the emotional spectrum most of the time. If you are feeling invincible; you are probably about to lose a ton of money. Many traders will feel more and more confident as they perform well and then finally blow up as the building confidence turns to a feeling of invincibility and excessive risk appetite. Just like market prices, P&L can overshoot.

Most traders and poker players are aware of the standard tilt concept. This is when you are trading or playing very poorly or have just hit a run of bad luck and your performance goes off the rails because your emotions get the best of you. You start making stupid plays out of frustration. You add to losing USDRUB longs. You shove with 10/7 off-suit. You are betting to recoup losses, not because the opportunity set looks good. This is the standard definition of tilt.

*But be aware there is another type of tilt: Winner's tilt.*

For me, winner's tilt is more of a problem than loser's tilt. When I am trading poorly, I have no trouble tightening up and cutting risk because I understand that controlling the left side of the P&L distribution is what lets me survive in the long run. And I want to do this job as long as I can because I love it. But when I am doing very well, I get this rush of excitement and overconfidence and go on tilt the other way. I get cartoon dollar signs in my eyes.

To manage this, I set up conditional formatting in my P&L spreadsheet to highlight when I am significantly overearning relative to budget. These orange cells light up and tell me to settle down and reduce my risk.

You are never invincible. The market wants your money, and it will figure out all sorts of ways to take it. Always exercise caution if you feel the urge to cheer or high five or celebrate or sing out loud. If you feel this way, it is very likely you are near an emotional zenith. Get flat and reset. In the Appendix today, I have included a short story about winner's tilt that I published in 2020.

## USDJPY

More Tokyo madness in USDJPY last night as the market is nervous about the possibility of an April 1 end to the 25bps 10-year YCC target. The BOJ pre-announced 28 29 30 31 March bond buys but not April 1, so there is an obvious air of mystery around what happens into the new Japanese fiscal new year. Friday in Japan will be an interesting session for JGBs and USDJPY.

I think the USDJPY market is much more in balance short-term and while I have been talking about selling topside for the past 48 hours I think now that trade looks much less

attractive at current levels of spot. Reality is that Kuroda is not pushing back enough on USDJPY strength to justify a true reversal.

- \*KURODA: KISHIDA MADE NO PARTICULAR REQUEST ON POLICY
- \*KURODA: DESIRABLE FOR CURRENCIES TO REFLECT ECON FUNDAMENTALS
- \*KURODA: YEN HAS WEAKENED ON RISING ENERGY PRICES

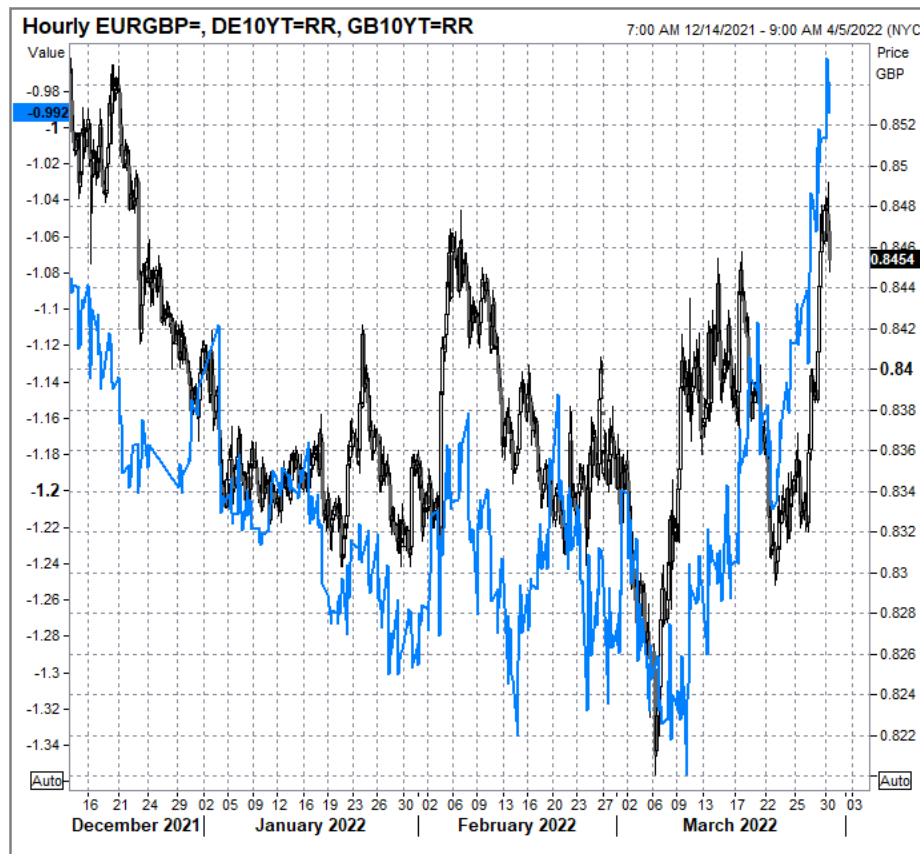
These comments are a one or two out of five in terms of concern and intensity. Direct policymaker action is not happening until >125. 120/125 range is probably the play for now. Vol should settle down as we have passed peak madness and once April 1 is out of the way, the chaotic energy in the market (and chaotic price action) will probably calm somewhat.

## EURGBP

The Spanish CPI numbers confirm the ECB is now like the Fed was last November: radically miscalibrated for the current macroeconomic/inflation outlook. EURGBP looks very low relative to rate differentials and the differential moves in German vs. UK yield curves are slowly placing upward pressure on EURGBP. EURGBP could easily go to 0.87 in the next month or two as the UK remains one of the most dovish hikers and GBP positions have been reduced on what I feel is a bogus April seasonality narrative.

German 2-year rates are now trading above zero and rate differentials look like this:

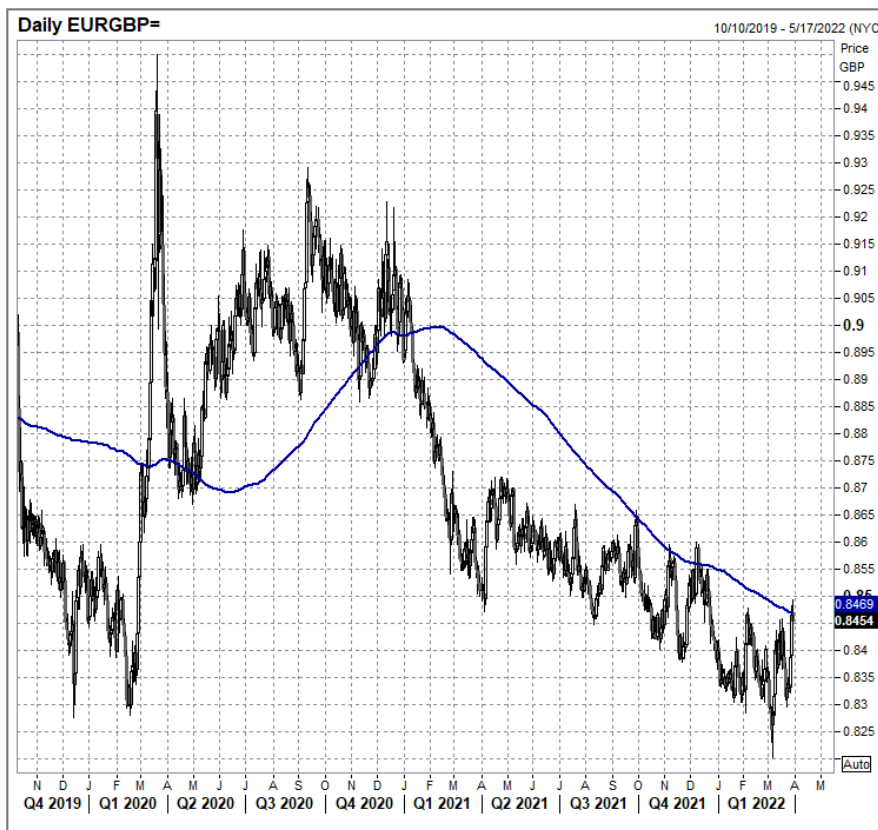
### Germany vs. UK 10-year rate differential



I have mostly been bullish EURGBP over the last two months, and it's been a frustrating view as the mega moves in relative yield curves have not translated to moves in FX. That said, old school rate differentials are almost always your friend (as opposed to fancier stuff like yield curves which only seem to work when they work). A close above the 200-day could add a bit of technical life to the trade.

The 200-day is at 0.8469. That line has been a decent (though far from perfect) indicator since COVID.

### EURGBP vs. 200-day MA



I like long EURGBP with a stop at 0.8369, looking for 0.8600. I have added that to the sidebar. Another way to express it is call spreads or buy a 2-month 0.8620 EURGBP digital for sub-30%.

### Closing thoughts

It's make or break for NASDAQ futures up here. I am bearish at these levels and will give up on the idea if 15660 breaks. Not an official trade for the sidebar BUT definitely a thing I do believe. I think we rotated from "FED OH NO!" to "RUSSIA OH NO!" to "REFLATION YAY + SHORT SQUEEZE OF RUSSIA TRADES" and the narrative will soon be "FED OH NO!" again.

Have an incredibly spectacular day.



good luck ↑↓ be nimble

## APPENDIX

### Joyful yelling signals imminent P&L crash

One of the underappreciated features of working on a trading floor is that you are allowed to yell; pretty much whenever you want. In contrast, at other jobs I have held in the past (pizza maker guy at Little Caesar's, data entry clerk at Statistics Canada, gas pumper at Texaco) ... It would be super weird to randomly yell out (for example) the number 32 at max volume. It would generally be frowned upon if I suddenly screamed: YOU'RE DONE!!! from a government office cubicle.

But on a trading floor, random yelling is perfectly fine!

As much as it is fun to yell on a trading floor, though, it can sometimes be a sign of euphoria and overconfidence. Overconfidence leads to overtrading, poor sizing, confirmation bias and a failure to see alternative hypotheses (because you know you're right, why bother thinking about how you could be wrong, right?) Overconfidence is also one of the main reasons men underperform women in trading.

Anyway, I am generally a fairly humble guy and I like to think about alternative hypotheses and all that... But one of my leaks is a particular type of momentary overconfidence. When I am doing abnormally well, I get excited; I want to add risk even though I should be reducing. I am momentarily swept up by a wave of irrational exuberance and should be thinking about reversion to the mean, not further upside momentum. Many traders commit this error.

Example: Last Thursday I could sense the market putting on a bit of a deflation trade (or, more accurately, taking off the popular reflation trade) and so I bought a USDMXN call to hedge a predicted flurry of coming risk aversion. Almost instantly, USDMXN ripped higher from 18.76 to 18.85 and our franchise lit up. All at once, a flood of client trades came through from sales.

Excited about my good timing and all the flow coming in, I yelled "FX IS BACK!" across the trading floor... A hopeful nod to the idea that the recent long and painful months of low FX volatility might be over. Then, I looked over to my chat log and saw one of my brokers had just typed "Hey Brent: NICE CALL MXN!". A trader on the options desk congratulated me a few seconds later. I glanced at my P&L and saw one of my best days in the past two months. And then...

You can probably guess what happened next. Sad trombone. It all went terribly wrong. Here is the chart:



This is a phenomenon I call the Cheer Hedge. When you cheer for a position or yell or sing or fist bump on the trading floor—watch out. Your P&L is about to crash. The reason I call it the Cheer Hedge is that when I was a manager, whenever one of my traders started singing or cheering for a position, I always hedged the position in the management book right away. And the hedge always made money!



<https://www.mlb.com/news/tsuyoshi-shinjo-flies-hovercraft-on-field-in-japan>



Brought to you by the original NJ

[Click here](#) to subscribe to am/FX

### Markets and Trading Commentary Disclaimer

This material has been provided by Spectra Markets, LLC (“Spectra Markets”). This material is confidential and therefore intended for your sole use. You may not reproduce, distribute, or transmit this material or any portion thereof to anyone without prior written permission from Spectra Markets.

This material is solely for informational and discussion purposes only. Spectra Markets is not a registered investment advisor or commodity trading advisor. This material should not be viewed as a current or past recommendation or an offer to sell or the solicitation to enter into a particular position or adopt a particular investment strategy. Spectra Markets does not provide, and has not provided, any investment advice or personal recommendation to you in relation to any transaction described in this material. Accordingly, Spectra Markets is under no obligation to, and shall not, determine the suitability for you of any transaction described in this material.

To be clear: Your individual circumstances have not been assessed. You must determine, on your own behalf or through independent professional advice, the merits, terms, conditions, risks, and consequences of any transactions described in this material. Securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. This material may also contain information regarding derivatives and other complex financial products. Do not invest in such products unless you fully understand and are willing to assume the risks associated with such products. Neither Spectra Markets nor any of its directors, officers, employees, representatives, or agents, accept any liability whatsoever for any direct, indirect, or consequential losses (in contract, tort or otherwise) arising from the use of this material or reliance on information contained herein, to the fullest extent allowed by law.

The opinions expressed in this material represent the current, good faith views of the author at the time of publication. Any information contained in this material is not and should not be regarded as investment research or derivatives research as determined by the U.S. Securities and Exchange Commission (“SEC”), the U.S. Commodity Futures Trading Commission (“CFTC”), the Financial Industry Regulatory Authority (“FINRA”), the National Futures Association (“NFA”) or any other relevant regulatory body. The author is currently employed at a trading desk. The opinions may not be objective or independent of the interests of the author. Additionally, the author may have consulted with various trading desks while preparing this material and a trading desk may have accumulated positions in the financial instruments or related derivatives products that are the subject of this material.

Spectra Markets does not guarantee the accuracy, adequacy or completeness of the information presented in this material. Past performance and simulation data do not necessarily indicate future performance. Predictions, opinions, and other information contained in this material are subject to change continually and without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and Spectra Markets assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements. The value of any investment may also fluctuate as a result of market changes.

Spectra Markets is affiliated with Spectra FX Solutions LLC, an introducing broker that is registered with the NFA; Spectra FX Solutions LLP, which is a registered entity with the U.K.’s Financial Conduct Authority; and SpectrAxe, LLC, a swap execution facility that is currently in the process of registering with the CFTC. The disclosures for Spectra FX Solutions LLC and Spectra FX Solutions LLP related to the separate businesses of Spectra FX can be found at <http://www.spectrafx.com/>.