SPECTRA MARKETS

Tuesday, March 15, 2022

am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Graphic design fail

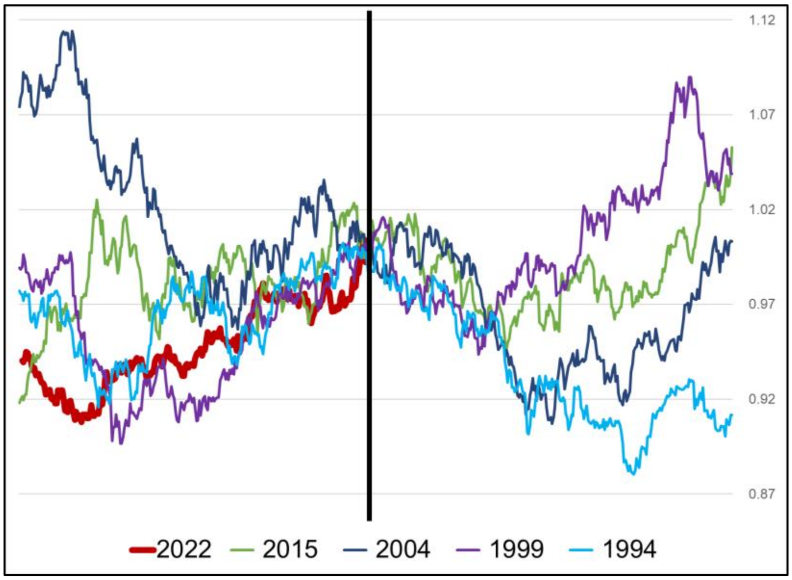
Current Views

Buy X AUDUSD at 3pm tomorrow
Buy X EURUSD at 3pm tomorrow
Sell X USDCHF at 3pm tomorrow
Sell X USDCNH at 3pm tomorrow
Buy 2X USDJPY at 3pm tomorrow

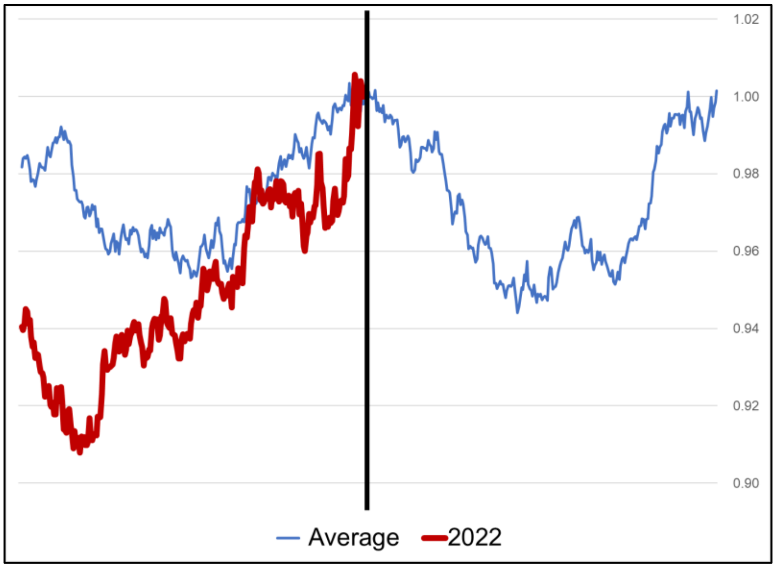
Sell USD on first Fed hike

History says sell USD on the first Fed rate hike. It's a sample size of four, so clearly not a statistical truth or anything, but logical. It is classic "buy the rumor / sell the fact". Here are two charts to give you a sense of it.

DXY 250 days before and 250 days after the first Fed hike



Same chart, just average and 2022



Takeaways:

- The trade is 4-for-4 and you only needed a 2% stop loss to survive each time.
- Bottom is about 120 trading days after the hike (6 months approx.)
- 2022 rally over the past six months is following a pattern similar to the average.

I am about to go away for a week (holiday booked in late 2019 which was rolled from March 2020 to March 2021 to this week(!)) so this is interesting timing to put on the trade and let it simmer. I could see the Fed sounding hawkish tomorrow in an attempt to rescue whatever gossamer-thin strands of credibility they have left. As such, I don't think there's a huge rush to sell USD right here right now. Then again, the levels are pretty good!

Here's the plan:

- Buy X AUDUSD at 3pm tomorrow.
- Buy X EURUSD at 3pm tomorrow.
- Sell X USDCHF at 3pm tomorrow.
- Sell X USDCNH at 3pm tomorrow.
- Buy 2X USDJPY at 3pm tomorrow.

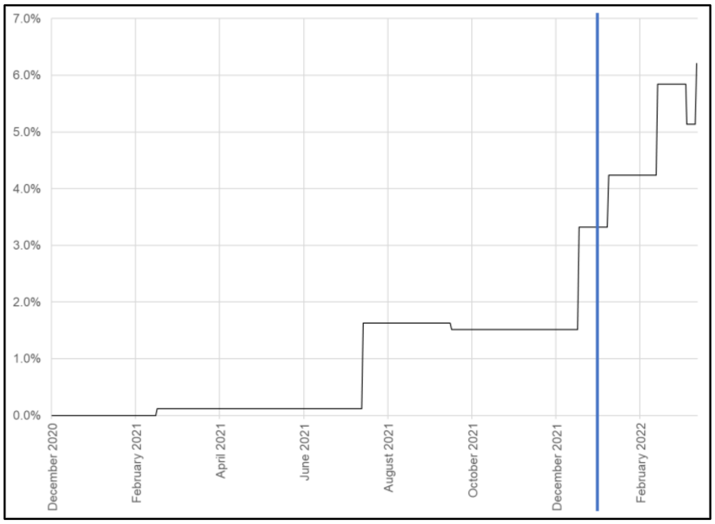
X means units so if you buy 10 million AUDUSD you buy 20 million USDJPY (etc). USDCHF and USDJPY volatility are much lower than AUD and EUR vol right now, but as a basket, I think the ratios there (1:1:1:1:2) make sense in combination. You have mostly short USD beta and a bit of long cross/JPY beta. I will put a 1.8% stop loss on all the trades while I'm gone and then I will reevaluate when I get back (if not stopped out).

If the Fed's dovish, fine, the entry point could have been better, but I don't like the risk/reward of short USD into 2pm tomorrow. 3pm feels much safer. If this trade works, it is extremely unlikely that I will ride it for more than a week or two. I'm trying to get on board with the narrative after the hike which will almost certainly be "peak Fed" and "sell USD after the first hike". Note the position is opposite in USDJPY because the seasonal is super bullish USDJPY into April 5th. This yields a net short USD with a bit of a cross/JPY angle. See the March 10th am/FX on JPY seasonals for the full explanation of USDJPY.

Bright eyes

Here's the update on Turnaround Tuesday (TT) P&L for the past 15 months, including today. The rule is: For SPX… If all three of Thursday, Friday, and Monday down—buy at Monday close and cover (sell) at Tuesday close. The strat is up 1.3% for today. This thing doesn't trade very often, obviously, but you can see that since the SPX peaked at 4808 on January 4, 2022 (blue vertical line) there have been many more TT's. This is pretty logical. Bear markets produce copious TTs; bull markets do not.

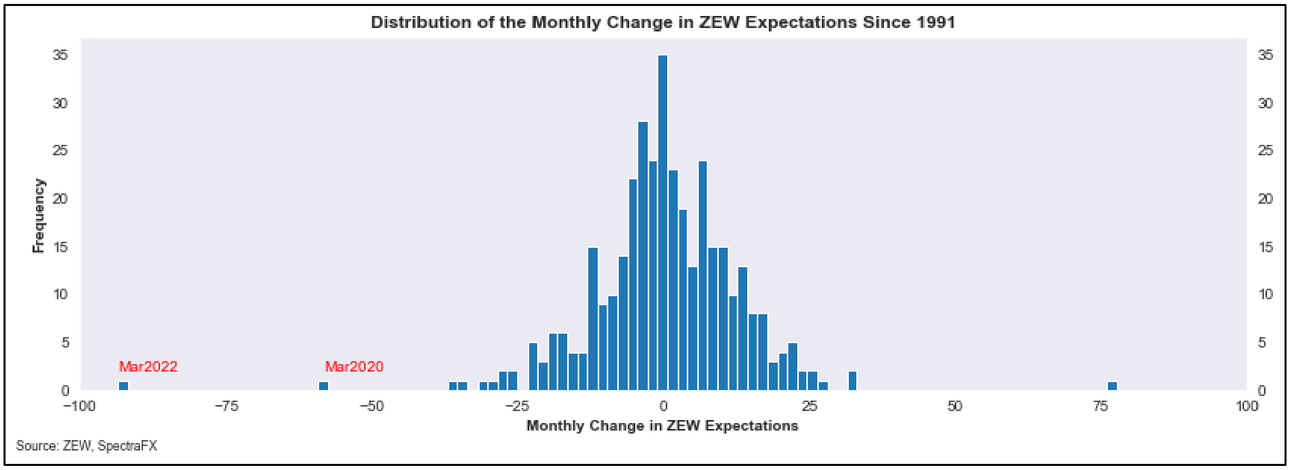
TT P&L since the end of 2020



Speaking of bear markets. There is no bigger bear market than German financial market expert sentiment. Check out the change in the ZEW expectations index this month! Chart from Tanguy on the next page.

Surprising

I get there's a commodity crisis and a war next door, but I am still surprised expectations dropped more than March 2020. That was the scariest month of my life, by a huge margin.



My first instinct when I saw this chart was to think either a) the chart is wrong (it's not) or b) ZEW made a data collection error (they don't seem to have). The blip over there on the right is April 2020; the March 2020 giant miss mean reverted. But that was because of Fed and CB and fiscal and all that stuff. Policymakers went nuclear to reverse March 2020. They are not going to be doing that this time.

I don't think this is tradable, it's just so epic I thought it was worth sharing.

Also surprising!

This paper is noteworthy because it's so counterintuitive. "Stock Volatility and the War Puzzle" by Cortes, Vossmeyer and Weidenmier. Here's the key excerpt:

> U.S. stock volatility is 33 percent lower during wartime and periods of conflict. This is true even for World Wars I and II, which would seemingly increase uncertainty. In a seminal paper, Schwert (1989) identified the "war puzzle" as one of the most surprising facts from two centuries of stock volatility data. We propose an explanation for the puzzle: the profits of firms become easier to forecast during wartime due to massive government spending.

Gonzo

I will be stepping off the desk for a bit. Back in 168 hours. am/FX returns next Thursday.

AMC buys 22% of a Nevada gold mining company. Let the madness continue! Apes gonna GODL.

Have a well-designed day.

good luck ⇅ be nimble

An accident waiting to happen

Bad designs on Reddit is chuckle-worthy.
https://www.reddit.com/r/BadDesigns

Actually, please don't.

Is it 0-0 or 1-1?

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

Markets and Trading Commentary Disclaimer

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/.