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am

FX

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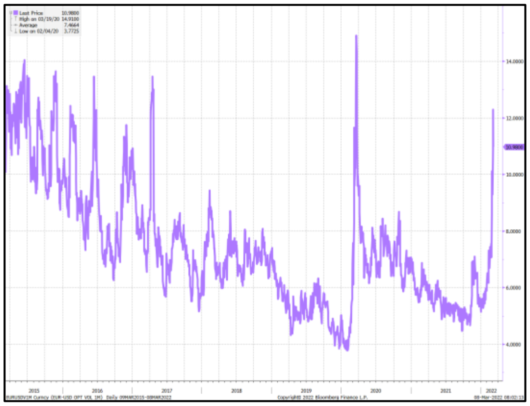
Sometimes the best thing to do is to do nothing

It is hard to ignore how Europe is heading towards more and more integration post COVID and post-Ukraine and yet… It's hard to make money on that view. We will get an announcement later this week on just how much money is involved and whether the cooperation will be at a federal or nation-by-nation level but it seems kind of untradable to me at this point. Here is the story so far. There is also the risk of further sanctions coming, which is kind of the fundamental issue right here with trading EUR. The EUR is:

a) Massively oversold
b) Lots of headline risk
c) Vol is too high to buy. See here:

1-month EURUSD volatility



German defense stocks are taking this whole EU defense story seriously, for what it's worth. This is Rheinmetall, the German automotive and arms manufacturer:

Rheinmetall

My point here is that while the European integration story looks real, I don't think there is a trade. It's too big picture, details are not clear, and the story has already been tried once after COVID and as such is not as likely to trigger animal spirits for a sequel.

Pitch is a viscoelastic polymer which can be natural or manufactured, derived from petroleum, coal tar, or plants. It can have viscosity as high as 230 billion times that of water.

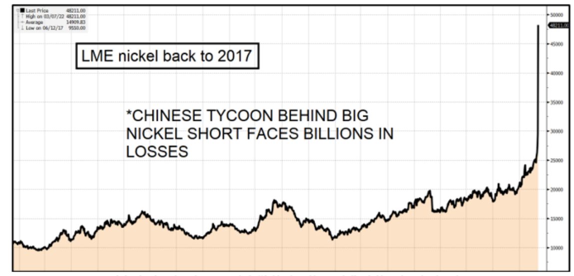
Current Views

Long BTC @ 38220
Stop loss 31400
Take profit 49900

Other thoughts

My USDCAD short has been stopped out as the market goes absolutely nuts the other way now in AUD and dumps the commodity currencies with the same abandon it displayed while buying them a few days ago. It seems like we have hit a rate of change in commodities that markets find unsettling just as the massive EURAUD seller has finished bludgeoning that cross. Wheat, nickel, and everything else are flying to the sun but the commodity currencies are not impressed.

As you may have gleaned from yesterday and today's pieces, I have no strong view here. I think sometimes it's OK to identify that markets are primarily transactional and step aside to let the dust settle. Many of the moves we have seen since the Russian sanctions have been aggressive hurried rebalancing, forced liquidation, risk reduction, or short covering in vol. These flows defy macro logic because they are not driven by rational decision making. For example, see chart at right.



Huh huh, he said "Nickelback". Uh, huh huh.

Any model that uses a normal distribution would tell you that nickel move would occur less than one time in the history of the universe. Not normal! And don't forget: **The SWIFT sanctions have not even come into force yet**. There will probably be more scrambling to unwind positions and align exposures as they go into effect **March 12**. Also, Sberbank and Gazprombank were not included in the de-SWIFTing and could be added at some point (they are key to energy transactions, thus the exemption).

I am on the sidelines for now, awaiting inspiration for the next theme. Right now, the theme is random deleveraging and while it's tempting to dip a toe into the oversold EUR as the EU moves toward further integration, I think details are too sketchy and risk of further deleveraging remains too high for now. Normally, one might dabble in options but vol is too high. Sometimes the best thing to do is to do nothing.

Quarterly trade ideas recap

Today is my quarterly trade ideas recap. On October 24th, 2017, I wrote the following after reading Philip Tetlock's excellent book Superforecasting:

> One of Tetlock's big beefs, which is a pet peeve of mine too, is the litany of forecasts that stream daily on CNBC, Bloomberg and the internet without any scrutiny or follow-up. Specifically, the relentless stream of "Crash Imminent" predictions is a complete joke. These inaccurate, one-way forecasters are not called out, they are instead deified as "the famed economist who correctly predicted the collapse of 2000 and 2008" etc.
>
> Most analysts that get credit like this predict a crash every year or two and then claim credit in the very few years their call is right. There is no verification (and many forecasts are so open-ended they are impossible to verify) so anyone can make any prediction and it is more important how famous they are, not how accurate they are. I don't mean to pick on a specific website or forecaster—As an industry, Wall Street is simply terrible at following up on the flood of forecasts we make every day.
>
> It is pretty weird how we don't even have much data on who is good at forecasting the main US economic data, when this is easily verifiable with a bit of work. Anyone know the Brier Score of the top 10 forecasters of US economic data? Is their forecasting skill persistent? There are many reasons not to follow up on forecasts but most of them suit the forecaster not the users of the forecast.
>
> For example, people sometimes ask me to publish my trade idea outcomes. I hesitate for four reasons:
>
> 1. If I am right a lot in AM/FX but my real-world P&L isn't that great, it looks bad and feels bad. "Great calls, Brent, but what's with your teeny little P&L?"
> 2. If I am wrong a lot, I look stupid. My credibility could be damaged.
> 3. If I am right a lot, it looks like I am bragging. Victory laps are annoying.

4. The purpose of AM/FX is not to publish ideas which readers blindly follow. My goal is to help you make your own investment and trading decisions. The idea is to reveal my process and put stuff on your radar. Hopefully that helps you improve your process and plants the seed for some good trades on your end.

The thing is, though, after reading Superforecasting I feel it's lame and disingenuous to make forecasts and then not follow up. So, I will collect and publish my trade idea results once per quarter. Caveats: My real-world trading P&L can differ dramatically from the P&L of the "Current Views". Also: I cannot guarantee the accuracy of the data (though I present it, in full, on the next page and I'm pretty sure it's accurate). Past performance does not guarantee future results. Ask your doctor if AM/FX is right for you. Results on next page.

On the next page, you will find a detailed sheet that shows my trade ideas since the last update (which was 13DEC21). In order for the trades to be comparable, I assume a portfolio with a $4m stop loss that risks $100,000 on each trade (2.5% of free capital). You could divide all the numbers by 10 if you have a smaller account, and if you have a $40 million stop loss at a hedge fund, you can multiply all the numbers by 10. These trades are all liquid macro, there is not much of a capacity issue.

The $ amounts are not really the point; the point is just to normalize the trades because reporting % returns on trades makes no sense. What makes sense is to normalize risk based on how wide the stop loss is. Tighter stops = bigger positions and vice versa. So, to be clear: I risk $100,000 on each trade, backing out the position size from the difference between the entry point and the stop loss. This is all fully explained in Chapter 11 of Alpha Trader. The main point of this results exercise is: transparency and accountability.

AM/FX Trade Ideas since 12DEC21

		Asset	Entry	Stop loss	Position size	Take profit	Actual exit	P&L	Exit date	Holding period (days)	Notes
21-Dec	L	ES	4,559	4,495	31	4,694	4,684	195,313	22-Dec	1	
3-Jan	S	USDJPY	115.30	115.86	20,589,286	114.01	115.89	(104,848)	4-Jan	1	
6-Jan	B	CADJPY put	75 pips		90.00 strike			(100,000)	3-Feb	28	
7-Jan	S	CADJPY	90.99	91.85	13,600,000		91.87	(103,270)	8-Jan	1	
10-Jan	L	EURUSD	1.1317	1.1174	6,904,644		1.1369	35,904	18-Jan	8	
18-Jan	S	GCG2	1,816	1,891		1,684	1,847	(58,667)	19-Jan	1	
20-Jan	L	TYH2	127.75	126.75		129.75	128.25	50,000	24-Jan	4	
26-Jan	L	USDCAD	1.2575	1.2439	9,246,324	1.2744	1.2744	122,617	28-Jan	2	
31-Jan	S	USDJPY	115.31	116.11	14,413,750		116.14	(103,035)	4-Feb	4	
31-Jan	S	USDCHF	0.9300	0.9381	11,358,025		0.9244	69,136	10-Feb	10	
31-Jan	L	AUDUSD	0.7041	0.6984	17,401,834		0.7200	276,689	10-Feb	10	
8-Feb	B	AUDCAD	26bps		0.9100 strike			219,231	22-Feb	14	
9-Feb	B	EURGBP	24%		0.8550 digi			(100,000)	18-Mar	37	
18-Feb	S	USDJPY	115.00	115.76	15,131,579	113.81	115.07	(8,000)	20-Feb	2	
23-Feb	S	GBPCAD	1.7252	1.7415	10,584,049	1.7010	1.7010	200,105	25-Feb	2	
25-Feb	B	NZDUSD	0.6692	0.6614	12,671,081	0.6818		159,656	4-Mar	7	
25-Feb	B	BTC	38,220	31,400	14.66	49,900	38,700	7,038			
2-Mar	S	USDCAD	1.2690	1.2806	10,939,655	1.2502	1.2808	(100,787)	8-Mar		

Total P&L	**657,081**	8.3	*average hodling period*
Winners	**10**		
Losers	**8**		
Win%	**56%**		
avgWIN	**133,569**		
avgLOSE	**(84,826)**		

Takeaways:

- Some nice trades in here and the metrics line up almost perfectly with my historical average. My historical average since I started tracking my P&L at Lehman Brothers in 2006 is 50% hit rate and 1.7:1 avgWIN to avgLOSE ratio. Over the past quarter the hit rate is 56% with a win/lose ratio of 1.65. Nearly perfectly in line with the 15-year average.

- Long the commodity currencies despite risk aversion was the majority of the P&L. These were good trades recognizing that risk aversion no longer meant sell AUD or sell NZD. This story flipped in recent days, of course and took me out of the USDCAD.
- GBPCAD short was excellent. It went straight down.
- CAD was great overall and it always tends to be one of my best currencies.
- JPY was bad and has been a waste of mental capital for quite a while. The bar to enter JPY trades will be higher for a while as it's going nowhere and responding to nothing right now.
- The big picture EURGBP vs. yield curve idea seemed really smart and… didn't work. This is often the case with trades that seem really smart and have an extra layer of complexity to them. "Smart" and "profitable" are not synonyms!

Fin

Thank you for reading. Have a drippy day.

good luck ⇅ be nimble

This bitumen (aka, “pitch”) is so viscous, it drips about once every 8 years. This thing has been “dripping” since 1930. It’s the longest-running lab experiment in the world.

https://en.m.wikipedia.org/wiki/Pitch_drop_experiment#

If you have kids 10-18, they (and you) will probably find this interesting:
https://www.wnycstudios.org/podcasts/radiolab/episodes/267124-speed

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