

am
FX

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Frozen squid ink pizza... Oishiii!

What do: Processed pizza, roast pork, yakitori, carpools, septic tank cleaning fees, scissors, and fried chicken box lunch have in common?

Current Views

Short GBPUSD at 1.3215

Stop loss at 1.3353

Trades from 15MAR am/FX
(entered 3pm 16MAR)

Long 2X USDJPY at 118.65

Trail stop loss to entry point

Take profit 123.33

Long AUDUSD at 0.7258

Trail stop loss to 0.7340

Long EURUSD at 1.1000

Move stop to 1.0874

Short USDCHF at 0.9422

Trail stop loss to entry point

Short USDCNH at 6.3623

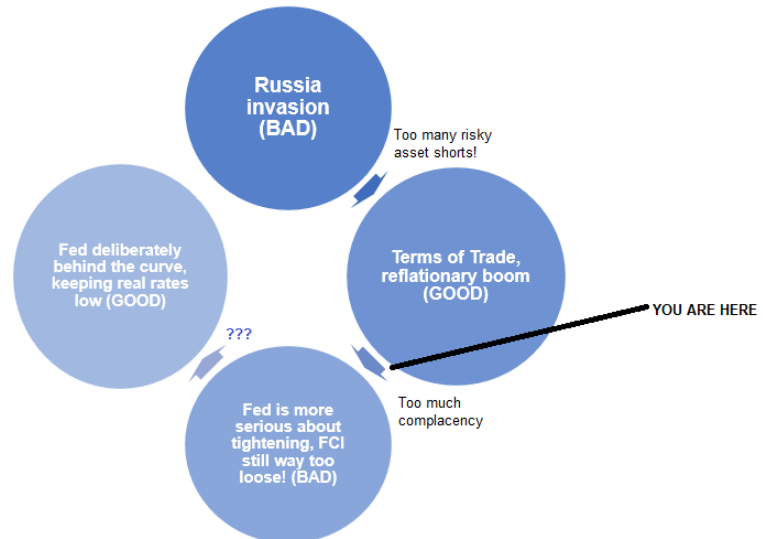
Stop loss at 6.4310

Stocks - JPY - Cable

Stocks continue to rally as the market unwinds Russia hedges, WW# shorts and extreme bearish sentiment. It's a classic red herring situation as the market focused on a geopolitical story that has limited impact on the US economy or asset prices and now has completely forgotten about a much more important narrative: QT and faster Fed hikes. The market can only focus on one thing at a time, but at some point, the focus will return to loose, but rapidly tightening financial conditions. 50 beep meaty chunks are coming!

The market has cycled out of a poorly-conceived Russia risk aversion trade and into the ongoing Terms of Trade / reflationary boom trade but I think we're about to transition back into "Fed is serious about tightening and FCI is way too loose!".

Not my best diagram ever, but you get the idea:



A series of 50 basis point hikes is spicy and it's going to arrive right as QT is about to begin. The 2018 analog remains the simplest and the best: Choppy, volatile equity and crypto markets as the Fed drains the punchbowl and reduces the size of its balance sheet.

Sell SPX between here and the huge double top at 4585. The chart is at right. I am not putting that in the official trade ideas section because it's more of an overarching view on all risky assets (sell the rally, soonish). There might be a better expression of the trade when 4585 hits. My main argument is that we are in the late stage of a bear market snapback.



It's raining yen

A batch of headlines came out last night and the market was caught off guard by USDJPY selling into what should have been buying in most people's minds. **I do not think the drop in Japan time is meaningful... In fact, it's backward.** The comments from Suzuki and Kuroda give a green light to further USDJPY topside. The move lower in USDJPY was probably just a micro flush of bad longs looking for a big topside gotobi thrust that never came¹. Here are the most important headlines:

- *SUZUKI: WATCHING FX MOVES AND EFFECT ON JAPAN ECONOMY CAREFULLY
- *JAPAN'S SUZUKI: FOREX STABILITY IS IMPORTANT
- *KURODA: DESIRABLE FOR FX TO REFLECT FUNDAMENTALS
- *KURODA: RISING U.S. RATES SAID TO BE BEHIND RECENT WEAK YEN
- *KURODA: WILL KEEP WATCHING FX MOVES VERY CLOSELY
- *KURODA: WEAKER YEN REMAINS POSITIVE FOR JAPAN'S ECONOMY

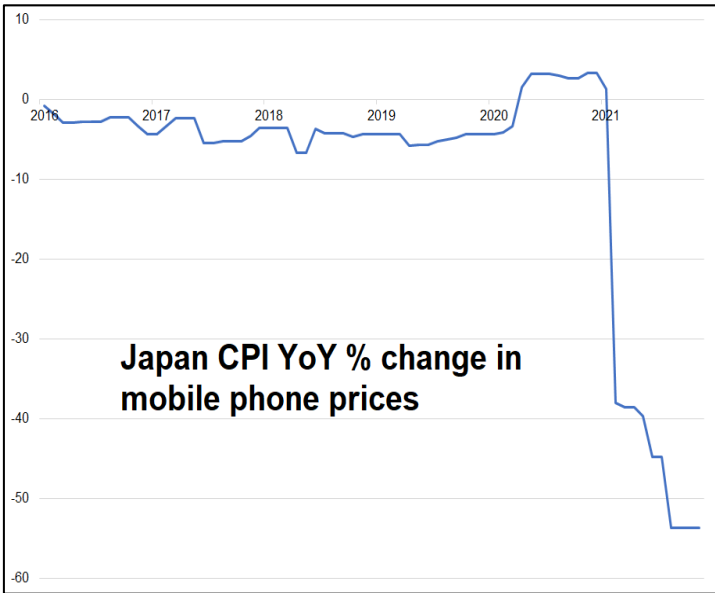
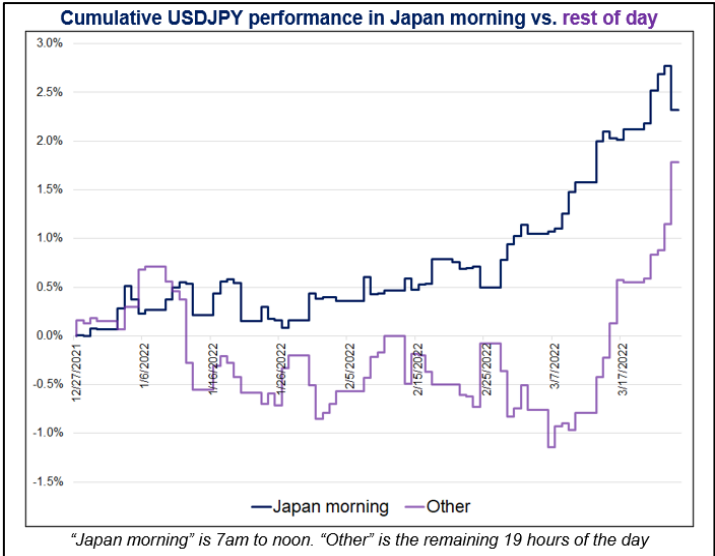
This is not the stuff that should panic USDJPY longs... These headlines coming out with USDJPY at 122.00 is bullish... Now, 125.00 is probably the place to get worried, not 123.50/70 as I had said yesterday. The policymaker threat is reduced by these comments in the short run, though it opens the door for gradually escalating concern levels as the 125 level approaches. This is how it always works... They start with quick, weaker comments and build intensity as the market pushes them harder and harder.

For your reference, at right is USDJPY performance in Japan time (7am to noon) and USDJPY performance outside that window. You can see last night's drop stands out, but demand for USDJPY is not only in Japanese time. I'm inclined to think last night was an aberration. That said, keep an eye on Tokyo morning next week as a big part of the argument for higher USDJPY rests on Japan's rapidly disappearing current account surplus. As such, importer USDJPY buying should generally dominate Tokyo selling. If it doesn't, something is potentially wrong with the thesis.

AM/FX is on the late side today because I went into a rabbit hole on Japan CPI. I didn't really come up with anything all that interesting other than that chart at right on mobile phone pricing and a collection of weird items for today's non sequitur.

Take a look at the blue line at right. It started collapsing last March and is a huge drag on Japan CPI. The base effect will disappear soon, and Bloomberg calculates this will push Japanese core CPI above 2.0% soonish. This doesn't matter for the JPY thesis right now, I just thought it was interesting and good to know for future.

This stuff might matter when USDJPY is at 125.00 but it doesn't matter now as Kuroda has signaled no policy change despite roaring USDJPY.



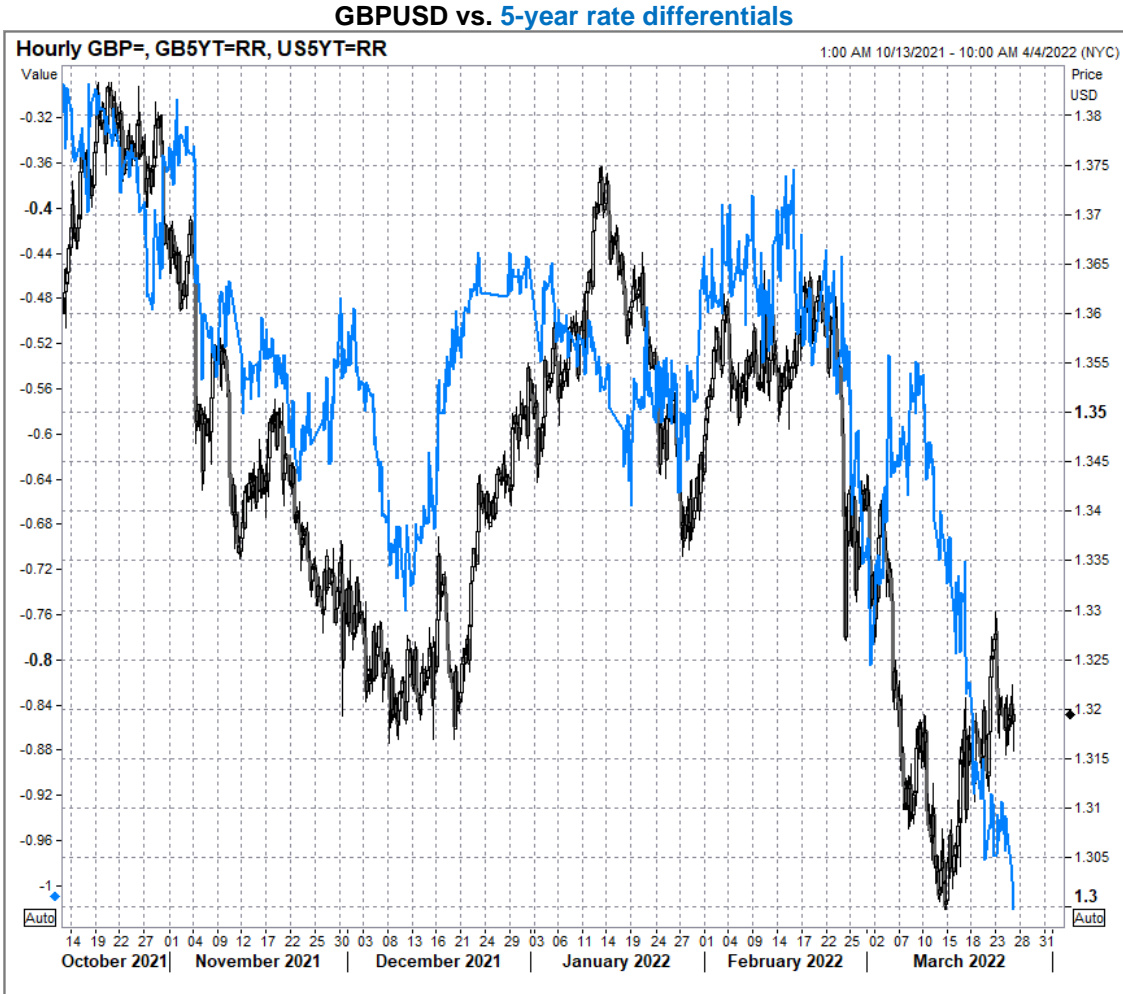
¹ Gotobi days are days that end in 5. Some believe importers are more active buying USDJPY on those days. It used to backtest pretty well but to be honest, I have not backtested it in years. If you want to backtest it and send me the results... The effect to measure is the 10 minutes and one hour leading into Tokyo fix (8:50am Tokyo). Thank you in advance. :]

Betty Grable

I find it hard to get SUPER excited about short GBPUSD because it just always makes sense and hasn't worked all that well. Primary thesis is generally: The Fed is a motivated hiker and the BOE is a very hesitant one.

That said, **rate differentials now suggest GBPUSD could be ready for the next leg lower.** I like options structures that play for a grinding move to 1.28 or something similar over the next month or two.

Short spot GBPUSD works nicely against all my other USD shorts, so I'm adding it to my big jumble of trades. I realize the portfolio is getting a bit complicated, but it's not really a portfolio, just a bunch of individual ideas that have some decent diversification benefit USD-wise. Stop loss 1.3333.



That's it! Thanks for reading; sorry I'm late.

Have an eight-legged weekend.

good luck ↑↓ be nimble

Japan CPI: Additions and removals in the 2015 review
Worth a read because of the curious randomness

10 major groups	Addition	Removal
Food	"Shiranui", citrus fruits(*1) "Tsuyu", liquid seasonings Roll cakes Sushi (box lunch)-B(*2)[Inarizushi] Box lunch -B(*3)[Fried chicken box lunch] Processed pizza Roast pork Coffee beverages-B (*4) [self-service in convenience stores] Soy milk "Soba", Japanese noodles (eating out) Ginger pork set meals (eating out) Coffee (eating out)-B (*5) [Coffee at cafes (self-service)] "Yakitori", grilled chicken (eating out)	Flounder Liver "Azuki", red beans Lemons Iyo-mandarins Chicken & eggs on rice Lunch for children
Housing	Carports External wall coating Parking lot construction Wallpaper reupholstering	Paint Locks Plastering Sheet glass replacement Installing air conditioner
Furniture & household utensils	Air cleaners Canteens Clothes drying hangers Septic tank cleaning fees	Electric pots Electric irons Electric carpets Coffee cups & saucers Glasses Wine glasses Vinyl hose Clean water equipment Charges for treatment of human waste
Medical care	Health fortification-B (*6)[Green juice] Masks Hearing aids Supporters	Bathroom scales Thermometers
Transportation & communication	Bicycles-B (*7) [Electric-power assisted bicycles] Road services	Car wax Electronic Toll Collection system tool
Culture & recreation	Scissors Athletic shoes Pet toilet supplies Potted plants	Marking pens Papers for office automation Cellophane adhesive tape Pencil cases Flowerpots Tennis court charges Admission fees to the racecourse
Miscellaneous	Toilet lotion-A (*8)[Counseling toilet goods] Home security services	

Wanna go into the Japan CPI rabbit hole like I did? These links are both more fascinating than you might expect!

<https://www.stat.go.jp/english/data/cpi/1585.html>
<https://www.stat.go.jp/english/data/cpi/pdf/2015base2.pdf>

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