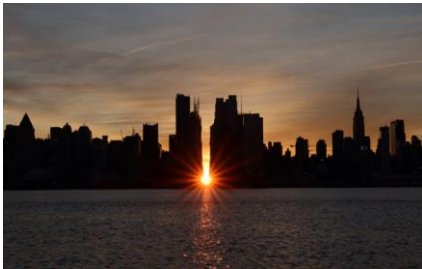


am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



What percent of Americans live in New York City?

Current Views

Short GBPUSD at 1.3215

Stop loss at 1.3353
Take profit 1.2811

The picture has changed

First of all, I'm cutting all the trades from March 15. The idea was to get long cross/JPY as the market turned toward a weaker dollar and weaker JPY in combination after the FOMC meeting. This was predicated on the historical pattern of the market selling USD after the first hike and on strong and reliable bullish USDJPY seasonality at this time of year.

The "Sell USD after the first hike" trade tends to last around 60 days, but for me this was more of a Keynesian beauty contest trade. Everyone knows the USD sells off, so everyone sells the USD. That kind of thesis is good for two weeks but probably not for two months. The AUD and JPY trades were huge winners, and the others were close to scratch. Furthermore, the picture has now changed.

ONE: USDJPY is getting sloppy in a short gamma pocket as we near the Abenomics highs. The BOJ's 25bps 10-year cap is facing pressure as once again the procyclical QQE policy makes no sense (they are printing more money when the economy is strong, and the JPY is weak). Anyone who watched the RBA "cap" blow is probably excitedly (and logically) short JGBs right now hoping for a similar move in Japan rates.

Re Japan pushback... Other than emergencies, BOJ/MOF will usually wait until Tokyo time to jawbone, so 4pm to 6pm NY is the first window to be careful (Nikkei, Asahi articles come out around that time). And then policymakers making comments would usually be 5pm to 10pm NY time (Japan morning). It is possible, but much less likely, we see any comments earlier than that. I am out of the USDJPY long the take profit hit, and I think risk/reward is poor near 125 as verbal intervention risk rises and the 25bps 10-year level in JGBs feels Vesuvian levels of pressure. The moves in JPY vols and riskies are also symptomatic a blowoff top.

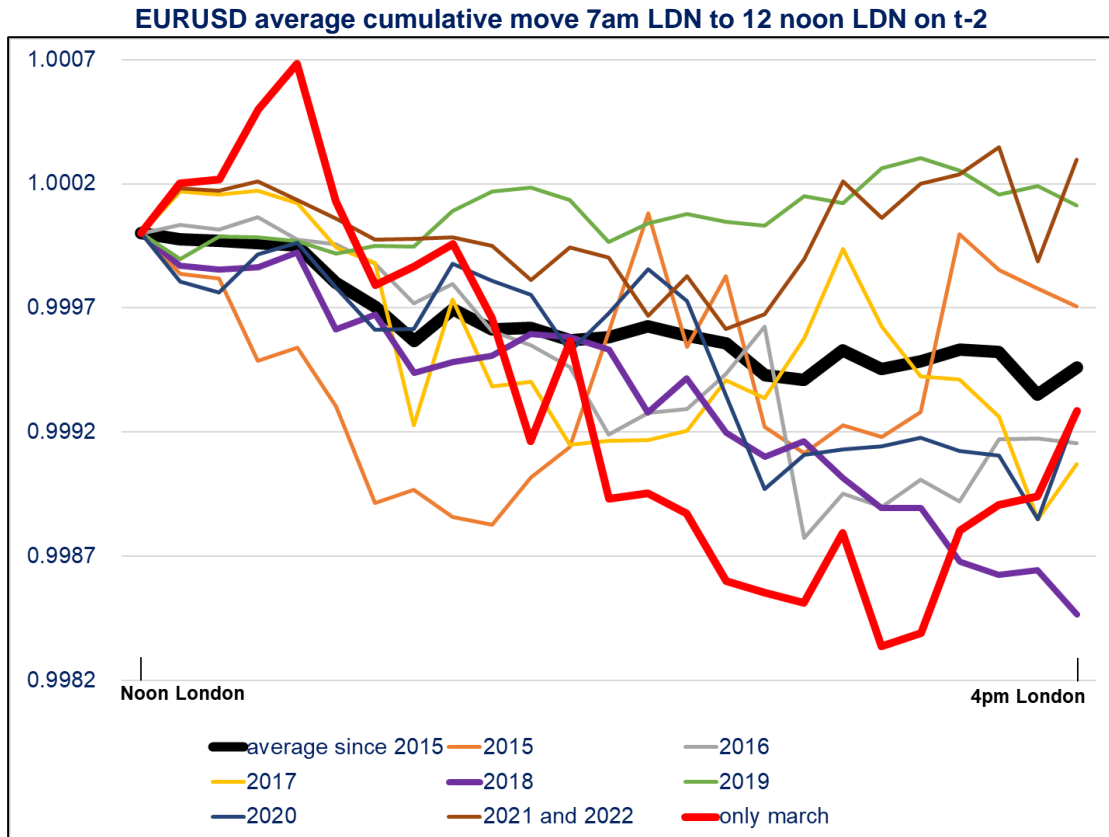
TWO: AUDUSD looks much less attractive now for a bunch of reasons.

- Terms of trade as a narrative is hot like Hansel again. AUD is owned.
- AUDUSD many important tops right around here (0.7555, 0.7600/17). See chart at right.
- The lower highs in copper and oil make me a bit concerned about commodities.
- Palladium melting, wheat 30% off the limit up highs.
- Many people are sending me podcasts and blogs about the global monetary system (Gromen, Alden, etc.) and all of them conclude that gold is a screaming buy. Presumably that means many retail traders and investors have been buying a ton of gold recently ... and yet it can't rally. As long as gold is above 1880 the chart looks fine. Below that, it's not good. Price action in gold is mildly suspect.
- Possible double top in AU vs. US rate differentials.
- Shanghai lockdown. Maybe irrelevant but definitely not bullish!



None of this says it's time to get short AUD, but the bull case looks questionable in the short term.

THREE: Corporate month end is coming up. We are entering the window where US corporations tend to buy USD. They do this in order to settle before the last day of the month (spot FX is 2-day settlement). The majority of the impact of corporate USD buying is felt on t-2, which is tomorrow. Guido asked me how the month-ends have been doing lately so I dug up the data and here are the results:



Note that the effect was particularly strong in 2018 as the TCJA incentivized more repatriation than normal and 2019 then saw less of an effect as corporates overhedged in 2018.

These are very strong results for an average FX move over a four hour period. To be clear, tomorrow is t-2, not today, but corporates often start the day before their month end if they have large balances. Also, note that the March USD buying tends to be large as it's quarter end as well and some large multinationals like pharma only hedge quarterly not monthly.

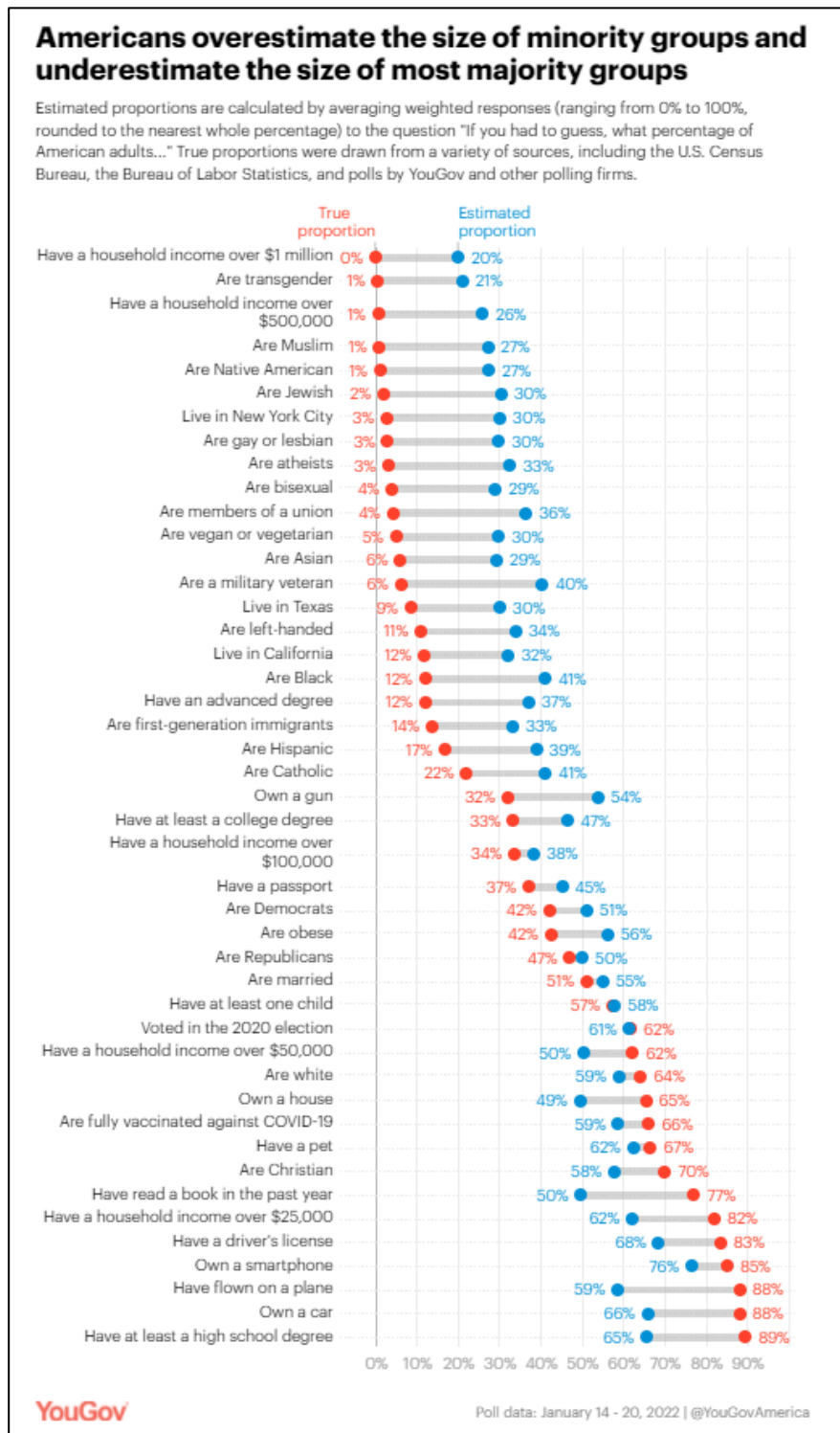
Corporate month end is normally bullish USD across the board and good for USDJPY... But as mentioned, I think the short gamma, policymaker blowback, volcanic JGB yield potential, the move in JPY vols and riskies, and the major tops around 125 during Abenomics make long USDJPY a bad bet up here. Better to sell USDJPY calls via a structure with P&L limited downside, in fact! Call your Spectra FX Solutions expert for ideas!

I still like GBPUSD lower, so that's now the only trade in the sidebar. Target is 1.2811. As mentioned last week, I think RKO's are the best way to play it (and I usually hate RKO's). Even at this level of spot, the idea still makes sense. Grinding lower as Fed is a motivated hiker and the BOE is extremely hesitant. There is a well-known bullish GBP and bearish USD seasonality pattern in April, but I'm not a huge fan of that one. The tax-related explanations I have heard have never been all that satisfying, and my guess is that the effect is an artifact of randomness, not some persistent flow that dominates all of April. The effect is only 2 for 4 in the last four years in GBP anyway. I wouldn't worry about it.

Have a well-calibrated day.

good luck ↑↓ be nimble

Some of the numbers near the top of this are so ridiculous I find them hard to believe but whatever.



<https://today.yougov.com/topics/politics/articles-reports/2022/03/15/americans-misestimate-small-subgroups-population>

[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/>.