SPECTRA MARKETS

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am FX

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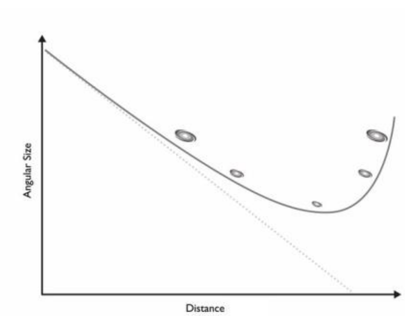


Astronomy is lit

Current Views

Long AUDUSD @ 0.7362
Stop loss 0.7289
Take profit 0.7480

(4/21: Move stop to 0.7379)

Gil Grissom

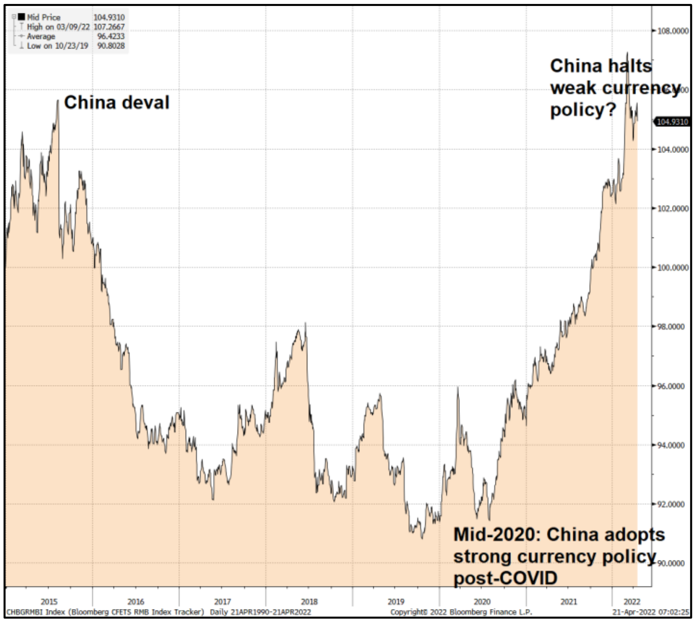
The Chinese currency is falling rapidly while the USD falls against G10. Today, a simple theory that explains what's going on.

In mid-2020, China's currency started to strengthen. One theory was that they were allowing currency strength to offset the massive boom in commodities and to present a picture of stability and strength post-crisis as the G10 battled perceptions of weakness and fiscal irresponsibility.

As 2021 wore on, the policy made sense as an inflation-fighting tool. Much as the SNB abandoned their weak currency policy in the fight against inflation, the PBoC allowed grinding CNH strength to offset roaring global commodities and PPI.

This strength in CNH was persistent, even as Evergrande stumbled last September, and the Chinese economy slowed. Even as the PMIs dropped, China stuck with this strong currency policy. This confounded speculators who have been trying to short CNH since Q3 2021. Here is a chart of the CFETS basket, which is the value of the trade-weighted yuan against 13 main currencies. This basket is an important barometer of the Chinese currency; it smooths out broad dollar moves.

CFETS back to pre-2015 deval



You can see that it recently crossed above the 2015 highs. Last time we were up here, in mid-2015, the PBoC deemed the strength unacceptable and initiated a devaluation that took USDCNH from 6.21 to 6.59 in one month, August 2015.

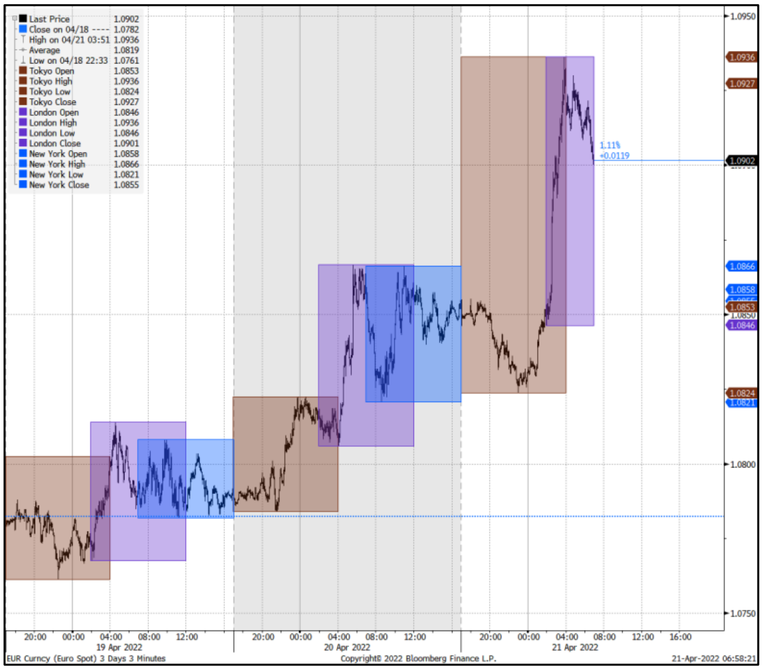
Why are EURUSD and AUDUSD going up when USDCNH is rallying? A simple theory would be that the PBoC are targeting a lower CFETS and thus they are simultaneously:

1. Engineering higher USDCNH via their control of the onshore market.
2. Selling a ton of USD against G10 in the market.

If they were selling a ton of USD in the market, this would probably be happening via TWAP in London time as that is the session they are most active. Liquidity is good starting with the London open so a reasonable guess (if my theory is true) is that they would run TWAPS for (let's say): Buy 2 billion EURUSD, 1 billion AUDUSD, etc… Starting at the London open. Here is EURUSD this week. Purple is London.

EURUSD by time zone this week

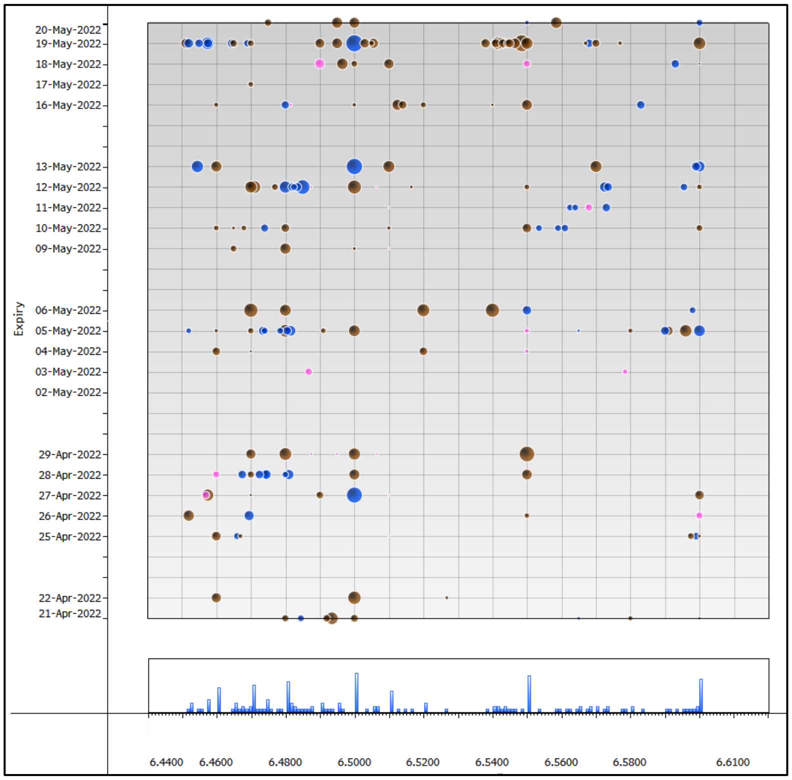
Purple is London, blue is NY and brown is Tokyo



Theory inspired by a conversation with Guido.

You can see the mutant EURUSD buying at the London open each day this week and there is not a strong macro, news, or rate differentials explanation for that buying. So, I think the theory makes sense. PBoC is engineering a weaker CFETS. But I can not prove it. This is just me putting together evidence, CSI-style.

How far can it go? My guess is that this is a stabilization move not a massive deval and the PBoC will not want to lose control of things. As such, **6.5000 will probably be sticky on the first try**, especially as that is the last huge line of option strikes. At right are outstanding CNH options over the next month.



You read that grid bottom to top and left to right. Note all the big bubbles as you go up the 6.5000 column (and not many strikes above 6.5000 as you see mostly blank space, not bubbles). That means specs probably own a lot of those strikes. As such, **if you're long USDCNH and want a micro zone to take some profit, 6.4950/80 is the place.**

For G10, the impact is unlikely to be anything more than temporary. China is a huge player in FX, but they are not going to single-handedly stop EURUSD for more than a week or two max.

In AUDUSD, I think it's prudent to move the stop way up to 0.7379. At that level, the trade still makes money. You can see in the next chart that AUDUSD has cracked above the 100-hour and 200-hour moving averages and my view is that those Mas should now hold, or the trade is probably wrong.

AUDUSD vs. 100-hour and 200-hour MA

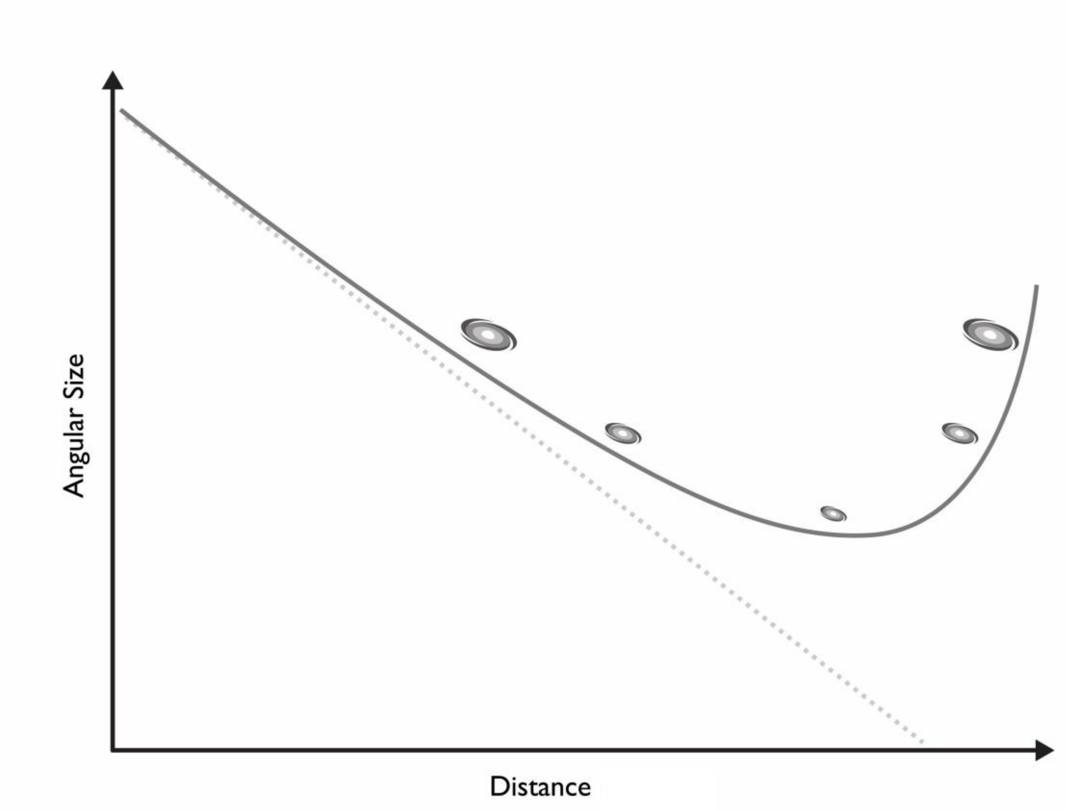
Closing thoughts

A haiku about JPY and Japanese inflation
by Kuroda
There was a bad drought.
For so long. Mizu ga nai.
Now, here comes a flood.

#

Have an astronomical day.

good luck ⥮ be nimble



https://twitter.com/AstroKatie/status/1516548836709343238?s=20&t=lmcfVnkMRvkewkQkDzb72g

From Katie Mack on Twitter:

If you have galaxies of the same size at different distances, beyond a certain distance, the farther away the galaxy is the BIGGER it appears in the sky (!!!)

The intuitive reason that the most distant things look weirdly large is that the light we're seeing from them is from so long ago that the universe was MUCH smaller back then, so they were actually MUCH CLOSER and therefore covered more of the sky than you'd expect.

HT GITT

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