SPECTRA MARKETS

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am FX

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Current Views

Short AUDNZD at 1.0875
Stop loss at 1.0976
Take profit 1.0667

Long USDCAD at 1.2606
Stop loss at 1.2539
Take profit 1.2777

Short GBPUSD at 1.3215
Stop loss at 1.3353
Take profit 1.2811

Great Expectations

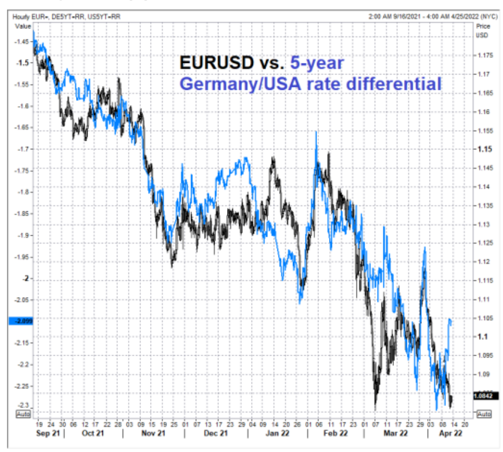
The move in NZD overnight is logical ex-post but I did not have "50 bps hike and NZD drops 1%" on my expected value spreadsheet. Clearly the market cares about terminal rates, not front-end gyrations. And the dollar remains king. My short AUDNZD stopped out in a quick rip of the Band-Aid, and we move on. This result will certainly have CAD bulls on edge as more is priced for today's BoC than was priced for the RBNZ and as such the risk of a weaker CAD looks meaningful. That said, the setups are kind of different as BoC is moving later and the economic data is stronger in Canada than NZ.

I have been bullish USD on the back of a few basic ideas:

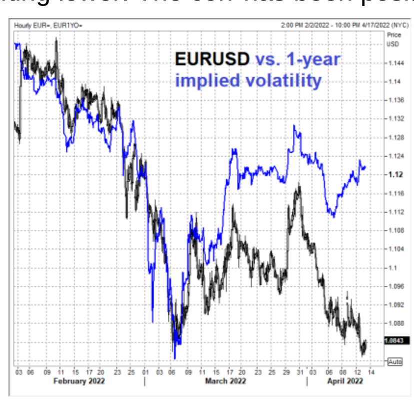
- April "lower USD seasonality" is not real, it's a product of randomness.
- The month running up into FOMC will be bad for risky assets and good for USD as the market slowly realizes that light in the distance is oncoming QT. Market still somewhat in denial.
- Fed hiking is more credible than ECB or BOJ and that should keep rate differentials pressured in favor of the USD.

The trade has worked but I'm getting nervous about the EUR and have decided to square that one up. Here's why:

1. Rate differentials no longer support the trade in the short-term:



2. EURUSD volatility drifting lower. The corr has been positive with EURUSD:

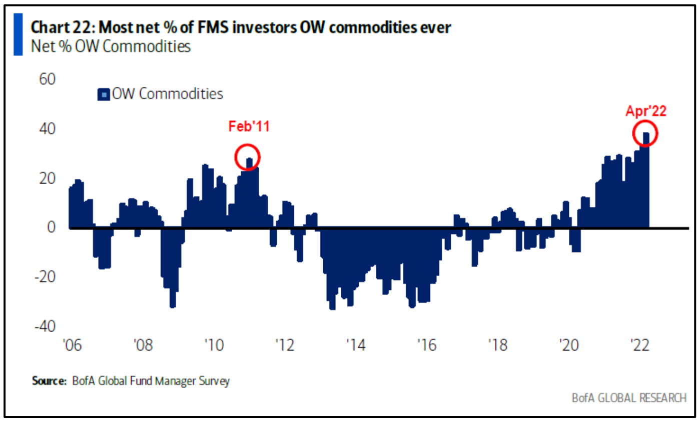


3. ECB tomorrow is a bit of a wildcard. Though I don't expect anything of major interest, the Bloomberg ECB crisis tool story makes me a bit nervous.
4. USDJPY's disappointing break of 126.00 also makes me nervous.

If I am 100% honest, I think **the market is expecting way too much from this ECB meeting** as it's not a forecast meeting and new crisis plans don't emerge out of nowhere and get announced a week later. **I would not be long euros into the ECB meeting,** but it seems like good risk management to cover shorts here and see what happens. The take profit was 1.0755 anyway, so about 80% of the move I was hoping for has already happened. One week 1.08 EUR puts might be nice as a neutral or dovish ECB meeting will put to rest this strange compulsion in the market to buy every dip in EURUSD despite what looks to me like a strong USD up trend.

Is gold the new TINA?

One of the arguments for US equities, and particularly US tech, used to be that "there is no alternative." This is abbreviated to TINA. Obviously, this acronym has proven to be false since November 2021 (when Powell dropped transitory) as global equities and gold have outperformed US equities by a decent margin since then. It seems that gold is becoming the place to put your money when you're not sure what to do with it as stocks and bonds look suspect into QT and commodities are massively overowned already as you can see in this BofA chart:



Source: BofA GFMS: Fast and Furious

I have had a hard time embracing gold after the Russian SWIFT news because US nominal and real rates are ripping, and the pile of negative-yielding debt is dwindling fast. Normally that would be bad for gold. But in a world where stagflation is the number one concern, there is a lack of investable markets, and people are worried about whether FX reserves are fully fungible money… I suppose that makes gold kind of *all weather* right now.

Speaking of all weather, this 2012 Bridgewater article is super interesting.

The ruling on the field stands

More people than you might expect asked me why I called USDJPY a Veblen Good and not a Giffen Good yesterday. Good question! I did spend about 10 minutes deciding which word to use before I chose Veblen. Here's the difference:

> **A Veblen good is generally a high-quality, coveted product, in contrast to a Giffen good, which is an inferior product that does not have easily available substitutes**.

I was a USDJPY market maker for a decent part of my career so perhaps I'm overestimating how luxurious USDJPY is? Nope. I stand by my original decision. USDJPY is a Veblen, not a Giffen Good.

Closing thoughts

The USDJPY breakout has been mucho disappointing so far. I think the correct stop loss if you bought the break is 125.39. Through there, the technical dream is over.

Have a sweet, bubbly day.

good luck ⇅ be nimble

The good old days

https://waitbutwhy.com/2013/08/creepy-kids-in-creepy-vintage-ads.html

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