

am FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230



François-Marie Arouet
(nom de plume: Voltaire)

"Un sage Italien dit que le mieux est l'ennemi du bien."

Current Views

Short EURUSD at 1.1000

Stop loss at 1.1201
Take profit 1.0755

Short GBPUSD at 1.3215

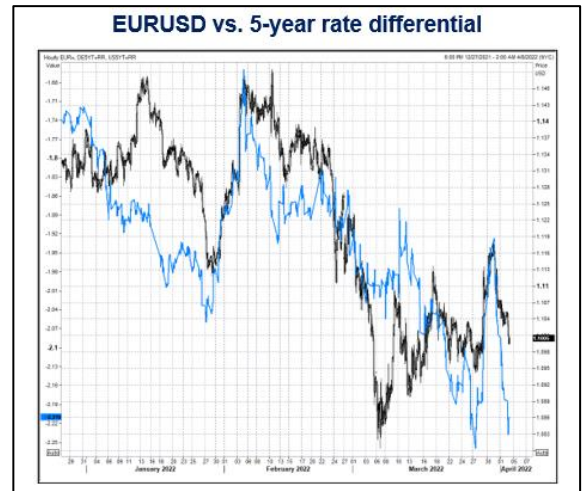
Stop loss at 1.3353
Take profit 1.2811

Long EURGBP at 0.8460

Stop loss at 0.8369
Take profit 0.8599

Pressure

The story going into 2022 was supposed to be interest rate divergence as the US hikes aggressively and many other central banks (ECB, BOJ, etc.) remain on hold. That thesis has worked, but it surely doesn't feel like it! The idea has been repeatedly interrupted by a competing thesis that the ECB would normalize and/or the BOJ would widen the yield target. Despite the noise, though, rate differentials and EURUSD have trended lower in 2022 (see chart at right).

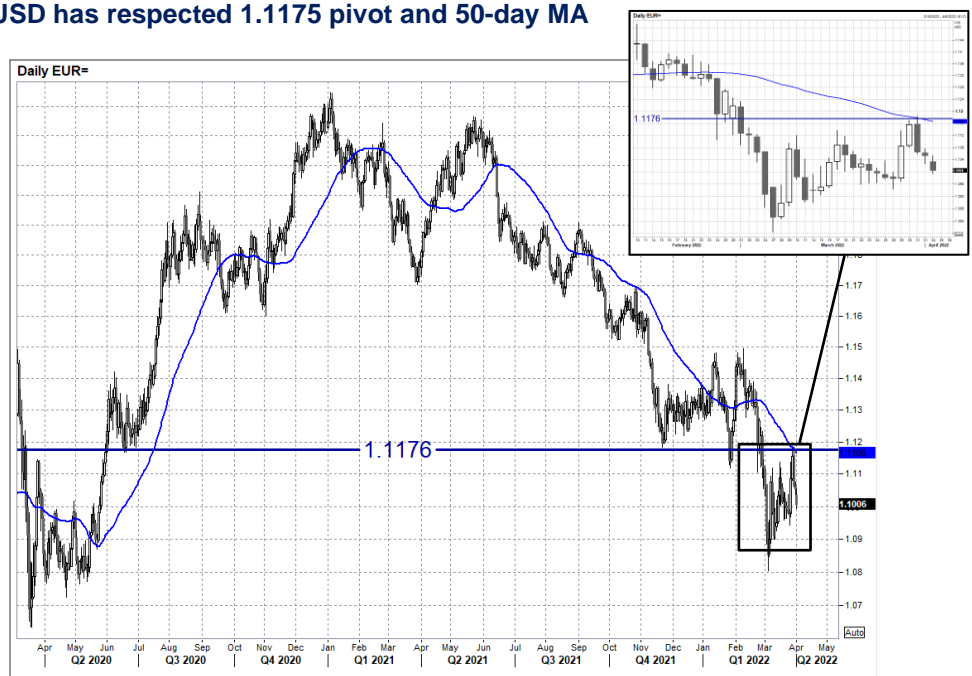


As much as real rates are flying around and often diverging from nominal rates... The standard 5-year nominal yield differential remains a pretty good fair value anchor for EURUSD.

The images out of Bucha put more pressure on Europe to up the sanctions pressure, regardless of how much gas cutoff might hurt the EU economy. As the European consumer feels an epic squeeze, the ECB hiking story is not nearly as certain as the US one. The moves in nominals are not small. The 2-year Germany/US spread, for example, opened the year at +1.5% for the USA and is now around +2.5%.

On the charts, I like how EURUSD made a clean touch and rejection of the 50-day MA and respected the 1.1175 pivot perfectly.

EURUSD has respected 1.1175 pivot and 50-day MA



Meanwhile, speaking of rate differentials... Have you seen US vs. China lately?

USDCNH vs. 5-year US/China rate differential



USDCNH is the opposite of “the gift that keeps on giving” ... It’s the trap that keeps on trapping. Since I started at Spectra in September 2021, there has been at least one “BUY USDCNH” recommendation in my inbox every day (approx.) and the trade persistently makes sense. The problem is, there is a potential structural trade happening (moving towards bipolar reserve world and away from purely USD reserve world) and USDCNH is both a market price and a heavily-steered Chinese political and policy instrument. The trade has been a loser.

That said, it’s cheaper than ever to go long USDCNH now as US and Chinese 5-year yields are about the same for the first time since 2009. China 5-year yields were 2.5% higher than US yields at the extreme in late 2020 (see chart).

EURGBP

My long EURGBP trade looks like it’s going to get stopped out. I joined a hawkish ECB frenzy that never followed through and there is a pretty good argument to simply cut the trade, especially now that I am bearish EURUSD. My preference, though, is to stick with the plan as much as possible and the stop loss is only 30 pips away so I will just leave it and let the FX gods make their capricious ruling on my fate.

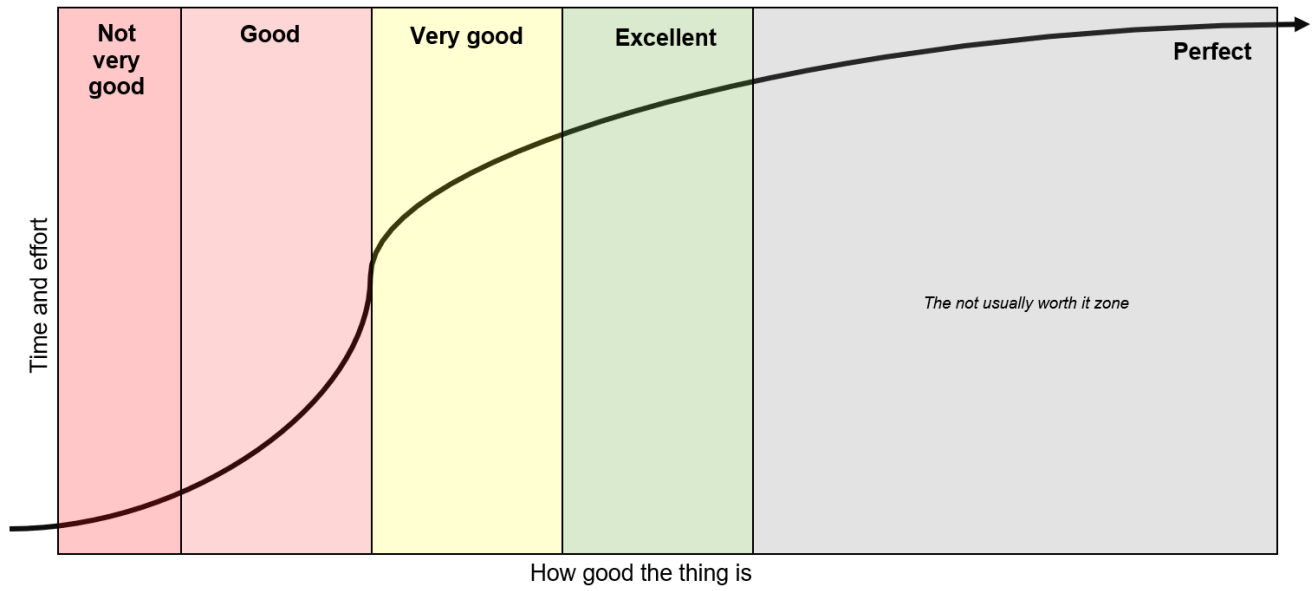
For the moment, short EURUSD + short GBPUSD + long EURGBP = double short GBPUSD but if and when the EURGBP is stopped out I will be long USD vs. short EUR and GBP.

Closing thought



Have an almost-perfect day.

good luck ↑↓ be nimble



[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/>.