SPECTRA MARKETS

Wednesday, April 06, 2022

am FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Archillect is an AI bot that finds images it thinks humans will like and then distributes them on Twitter and Instagram.

Current Views

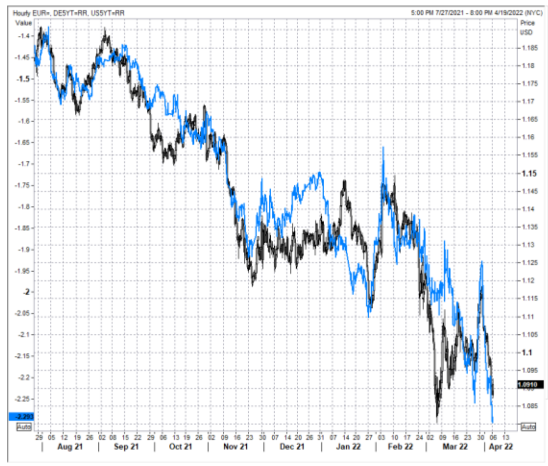
Short EURUSD at 1.1000
Stop loss at 1.1201
Take profit 1.0755

Short GBPUSD at 1.3215
Stop loss at 1.3353
Take profit 1.2811

Reality Bites

Germany vs. US rate differentials made another new low today as US 5-year rates are now 2.25% above those of Germany. My view is that one or many of the risk factors weighing on euro will lead to an acceleration lower and we will go into FOMC at the lows in EURUSD and the highs in the USD. The reality that QT starts in a few weeks is slowly starting to hit home.

EURUSD vs. German/US 5-year rate differential



There remains an endless stream of voices trying to reassure everyone that "a lot is priced in" but it's worth noting that people have been saying that since November 2021 or earlier. The cold reality is that in a regime where **the central bank is following the pricing**, and not the other way around as we are generally used to… It's never all priced in because the market can just price in more. That is to say, if you think the Fed believes it's behind the curve and it wants to normalize as much as possible (I believe this), then they will take whatever the market gives them.

The market was only giving them 25 in March because of Ukraine, so they took it. Now the market is giving them 50 in May, so they'll take it. And throw on some QT. The "too much is priced" framework is the wrong framework here and people that have been using it have been getting torched over and over in trade after trade.

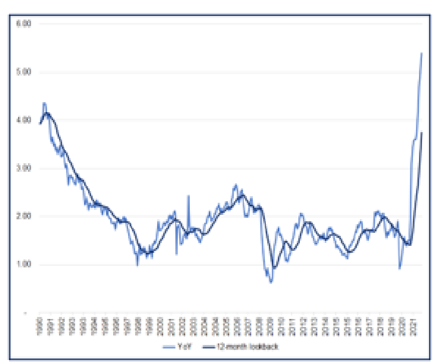
History

Sometimes, when I'm living through history, I like to look at the economic data going way back to remind me of where we are. The Fed has lost control of inflation.

The obsession with trying to find the point where "it's all priced in!" is badly misplaced in a regime where we are watching history unfold.

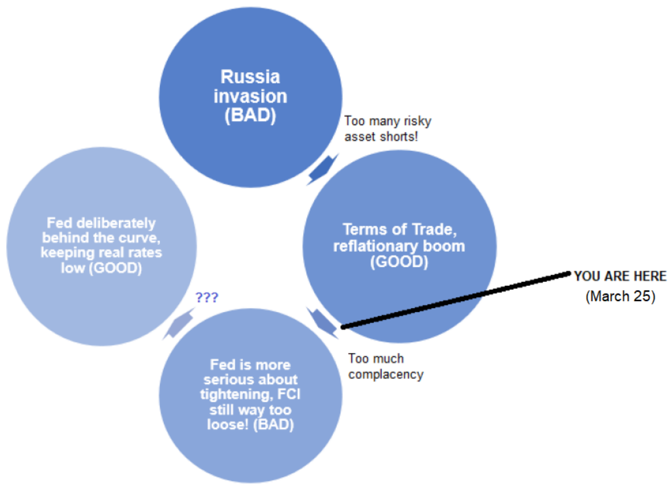
You might catch the ultimate overshoot one day, but fading this Fed story is like fading Abenomics. Sure, it will work one day but it's so much easier to just go with.

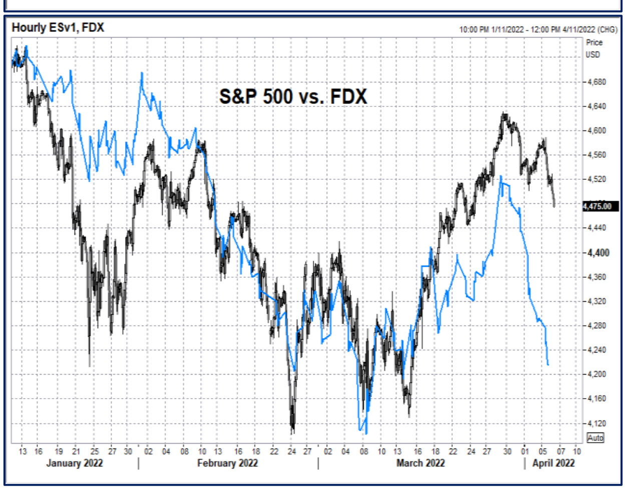
US Core PCE YoY



Stocks

Stocks look increasingly suspect as the narrative rotation is working out somewhat as outlined in my ugly graphic from March 25. Here is the graphic again:





The selloff and short squeeze on Russia were red herrings that distracted markets from the real story: The Fed. Now, the market is going back to selling stocks on Fed worries. There are a few other reasons to think we keep going lower in stocks for a bit:

1. QT is coming and nobody is bearish. Kind of amazing when you think about it. The best framework for trading stocks since 2010 has been the delta of FARBAST. It probably still is the best framework.
2. Perfect touch and hold of the 100-day and 200-day moving averages just as the 100-day turns lower and crosses below. See chart at left. Bearish.
3. FDX and transports look abysmal as GDP estimates fall. FDX was dirtnapping last week as you can see in this chart (blue line) but S&Ps didn't get the memo right away

Today's FOMC Minutes take on much more importance than usual. I think the market has been numbed by decades of 2% inflation and the reality is taking forever to set in.

Brainard referenced Arthur Burns and Paul Volcker in her speech yesterday. This is not the Yellen Fed! It's not the Powell FAIT Fed. It's an inflation fighting Fed. The insane fact that The Fed were still buying assets even as they turned mega hawkish damaged their credibility significantly because you can't take someone's hawkish message seriously when they are in the market buying assets. It makes no sense.

It's like an alcoholic telling you they promise to get sober, but they're holding a bottle of Jack Daniels in their hand. It is going to take a while to believe their future sobriety claims, even once that bottle is gone.

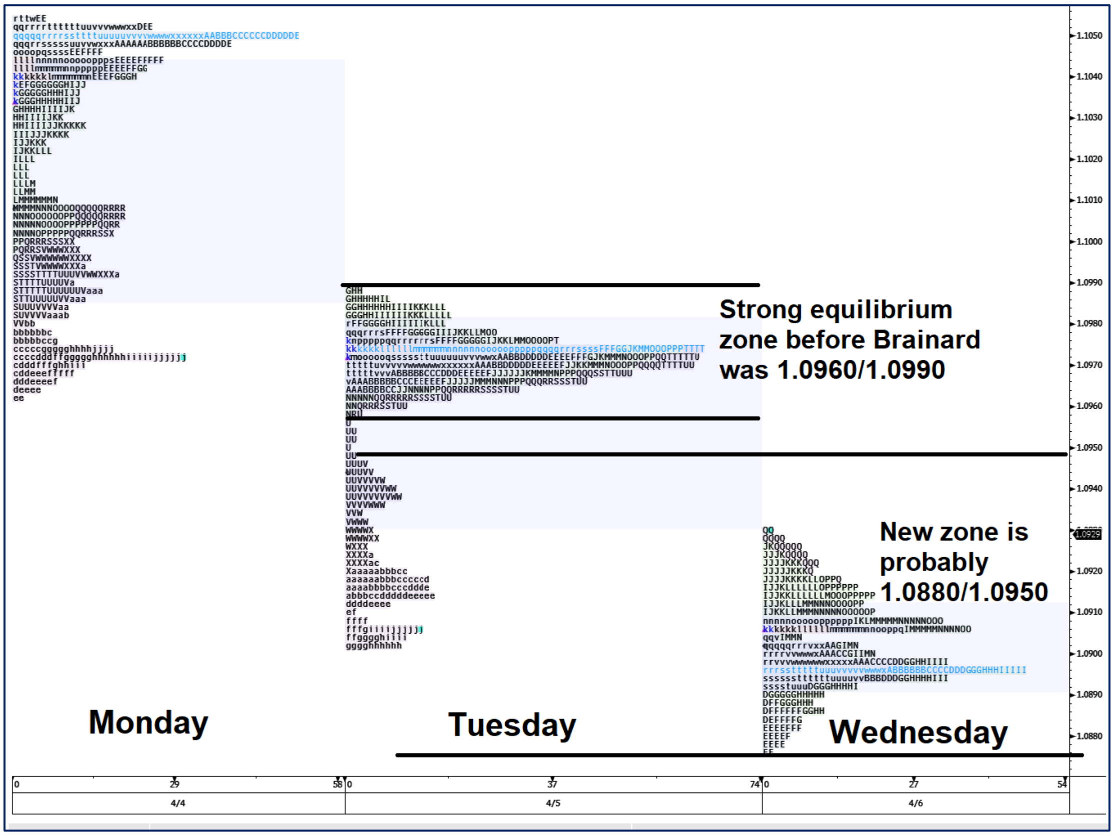
Stocks back to the lows (NQ ~13000) makes sense to me into May 4 FOMC.

Micro

Looking at the micro EURUSD picture, the 1.1960/65 level is now important. That is where EURUSD was trading when the Brainard speech came out and we tumbled immediately lower. The market profile chart (which essentially shows how much time price spends at each price level) shows a clear 1.0960/1.0990 equilibrium zone in the middle section (yesterday's price action). Once we left that equilibrium zone, we made a new zone 1.0880/1.0930 and the top of that zone should be the gap area after Brainard (1.0950).

If you have euros to sell, 1.0945/55 is probably the place to do it.

3-day market profile for EURUSD



Closing thoughts

Finally, if you would like to learn more about Market Profile, I recommend the book "Mind Over Markets" by Dalton or this free Six-Part Study Guide to Market Profile from the CBOT.

Have a rock-solid day.

good luck ⇅ be nimble

This is an image of part of a marble statue Bernini completed at the age of 23. *Incredibly real!*

It depicts the abduction of Proserpina, who is seized and taken to the underworld by the god Pluto.

Via the Archillect

Archillect is an AI created to discover and share stimulating visual content.

https://twitter.com/archillect

How does she work?
Archillect has an algorithm that is fed a list of keywords. Instead of posting the search results directly, she wiki-walks between pages and posts, collecting data on various items: image, poster, recent interactions and the visible audience of the post. She maps the social structure of these items by mining as much data as possible from each one of them. This abstract structure helps Archillect find positive results but more importantly, allows her to discover related keywords and eventually learn.

Spectra Markets

[Click here](#) to subscribe to am/FX

Markets and Trading Commentary Disclaimer