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FX

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Current Views

Long USDCAD at 1.2606

Stop loss at 1.2539
Take profit 1.2777

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

Risks and more risks

There is much going on this week! EURUSD did a textbook Sunday gap failure, and held the critical Brainard level that I was [highlighting last week](#). The high-percentage play is always to fade the Sunday gaps, as discussed here many times in the past, and yesterday was no different. Now, we remain pinned between epic daily support around 1.08 and meaningful short-term resistance 1.0945/60.

I still think the break will be to the downside as my thesis is more about rate differentials and the shock to European investor and consumer sentiment than it is about the French elections. Round 1 was certainly a kicker on the bearish EURUSD bingo card, but it was never a central part of the thesis.

Given the importance of this band of resistance, I moved the stop loss on short EURUSD way, way lower now. It was at 1.1201 and I'm moving it to 1.0976. The entry point was 1.1001 so this locks in some sort of small gain no matter what.

EURUSD 1.0945/60 is critical



The tax, man

Personal tax payments are due in the United States this week; April 17 is the deadline. I wrote a bigger [short-term bearish crypto piece on this topic here](#). The basic idea is that retail traders do not adequately ringfence money for tax payments as they are disorganized, and they want to keep their account as large as possible to maximize leverage. Then, as tax day nears, they need to sell assets to meet tax obligations.

This was the case in NASDAQ in 1999 and 2000 as there was a massive, unexplained NASDAQ selloff around tax day both years and this also crushed crypto around tax day in 2021. Please read the piece for a full explanation. The reason I mention it here is that the abrupt drop in crypto is another piece of the bearish puzzle for risky assets as we grind toward the May 4 FOMC.

Higher US rates, weak growth and equities in China, massive retail longs in equities and crypto, a Fed that needs to break things, soaring USD, soggy short-term commodity prices... There isn't much reason to like when it comes to risky assets right now. Risks, risks, and more risks.

CAD

The Bank of Canada meets this week and there are 93 basis points of total hikes priced in for the next two meetings. That's a lot! Meanwhile, oil is at \$93.75 after the Sunday spike to \$130.00, and the market is all bulled up on CAD as the "geopolitically safe supplier of crude oil." Problem is, Canada has no way to get extra crude to the USA given pipelines at full capacity and the high cost of shipping by rail. The thesis is not amazingly convincing. Perhaps on a 5-year time horizon, Canada will benefit from the new world order brought on by Russia's invasion of Ukraine, but in the short-term, it probably won't.

USDCAD long into the BoC makes sense to me as the false break of the 2022 lows has now yielded a bull flag that allows you to go long with a tight stop loss at 1.2539. I think the risk around the Bank of Canada meeting is that they sound balanced enough to trigger a wipeout of USDCAD shorts. I have added long USDCAD to the sidebar, giving me three long USD trades now. As I have been saying, I think USD does well into 04MAY FOMC. Here is the USDCAD chart:

USDCAD looks like a bullish setup into Bank of Canada



Big week

Tons on the calendar this week with ZEW, US CPI, RBNZ, UK CPI, BoC, Aussie jobs, ECB, US Retail Sales, and Michigan. My feeling is that these events continue to skew USD-positive as the Fed is on a mission and the path of least resistance is lower risky assets and a higher USD.

Closing thoughts

The big story in ETH is the upcoming merge. There has been a ton of hype about the potential for the merge to unlock [ethereum's potential as a global fixed income security](#). Problem is (ignoring the carry/vol questions inherent in yield-farming a 70-vol asset) the merge date remains squishy. A downside risk for crypto is that the ETH merge gets punted as the centralized decision-making body announces more delays. I have no idea what the probability of a delay is. There is [a meeting of the devs this Friday](#) so just keep an eye on that as a potential risk event for crypto (thx JC). If you would like to learn more about risks surrounding the merge, [this article](#) is a good background.

Finally, USDJPY is ripping, and barely anyone is long. Unusual. Have an artfully-designed day.

good luck ↑↓ be nimble



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HT MG

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