

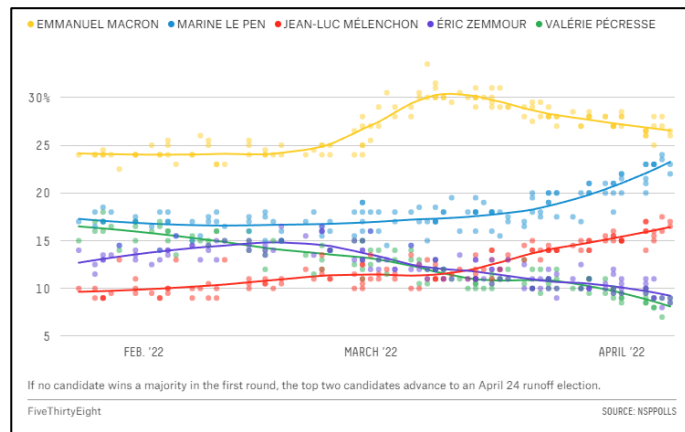
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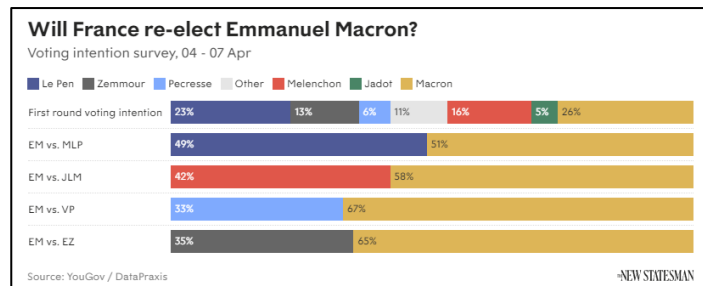
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## Round 1 goes to

The first round of the French presidential election is this weekend and polling momentum suggests it's too close to call. This is in sharp contrast to the consensus view just a month or two ago which was that Macron was cruising to victory. Here is the evolution of the polls:



And here's the most recent poll conducted April 4 to April 7. The graphic is a bit confusing; gold is Macron, dark blue is Le Pen.

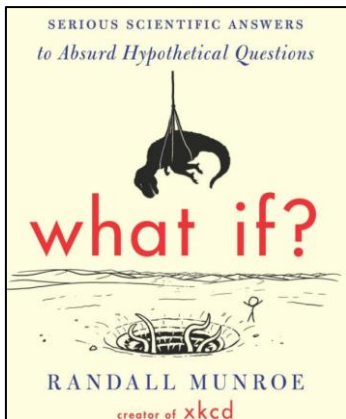


You can [read a good article on that poll and the election here](#). The three main outcomes to watch for on Sunday:

Macron wins by 4% or more: Sigh of relief  
 Macron wins by 2% or less: Nervous two weeks ahead into Round 2 (24APR)  
 Le Pen wins Round 1: Ruh roh

There are other scenarios that are possible, but they are unlikely (e.g., Macron 1<sup>st</sup>, Mélenchon 2<sup>nd</sup>). We should know the results before the markets open Sunday as the exit polls in France have a good rep and should come out at 2pm whereas markets open at 3pm. Nobody seems to think Le Pen can win Round 1 but why not? Should at least be a 10 delta?

EURUSD options are trading around 13 vol equivalent vs. 10 recently. This seems like a rare instance where options are underpriced for an event. 85 times out of 100, options for an event like this are overpriced. This time, however, Monday 1.0800s trade for less than 15 pips off 1.0860 spot and that doesn't seem unreasonable to me from an expected value point of view. Note: price probably trades quite a bit better than 15 pips, I'm just being conservative, please contact Spectra FX Solutions for live pricing.



If you have kids aged 8-14, this is a fun and educational book to read with them.

And Radiolab is a great podcast to listen to with them.

### 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

Here's a simple expected value calculation that seems reasonable to me:

	EURUSD	P&L	Odds	Payoff
Macron by 4 or more	Unch or up	(100)	45%	(45)
Macron by 2 or less	Range 1.0780/1.0850	-	45%	-
Le Pen	Cover at 1.0685	667	10%	67
				<b>22</b>

My assumption is that on a very tight round 1 victory for Macron (the second row in the xls), you can trade the gamma and break even. If Le Pen is ahead of Macron in Round 1, EURUSD goes to 1.0685 and your 15 pips yields 115 pips of profit  $(115 \text{ pips profit} - 15 \text{ pips cost}) / (15 \text{ pips cost}) = 6.67:1$ .

I have oversimplified here and the overall performance of (Le Pen + Zemmour + Mélenchon) will also factor into the market reaction. But I don't think that my grid is a million miles off. Feedback always welcome.

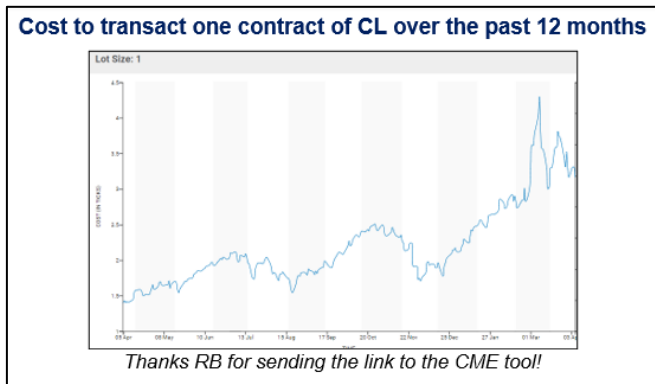
Where I could be wrong here is on how big of a market reaction there will be to Round 1 given there is a debate coming up and two weeks before Round 2. My bet is that a Le Pen scare is a big enough deal that the market will price it pretty aggressively right away. I could be wrong on that and maybe that explains why I think the option is cheap and the market doesn't.

### Readers reply on liquidity

Readers came to me yesterday with examples of places where liquidity is terrible right now. Transaction costs in energy markets, for example, have exploded. USDJPY in Asia time is weirdly illiquid these days. I did not mean to completely pooh-pooh the liquidity question in my piece... My point was more that liquidity is dynamic and not static so to ask broadly "how is liquidity?" is not as drilling down more specifically.

Liquidity is a function of:

- Asset class
- Time of day
- Product volatility and overall global macro volatility
- Events (bid/offer widens around known events as most algos turn off)
- Random order flow (a central bank TWAP buying 2 billion euros from 7am to 11am means... it's going to be easier to sell than to buy!)
- Resting orders (are there a ton of stops on one side of the market? If yes, that side is the weak side)
- Idiosyncratic tail risks (counterparty risk in VXX, convexity in rates markets, barriers in FX, short squeeze in GME, SNB "floor", RSX delisting, etc.). Basically: "This isn't what you thought it was" risk.



It is difficult to capture all these things in aggregate data like top of book volume especially when there are sneaky algorithms playing hide and seek. Aggregated data often does not mean much.

This [CME liquidity tool](#) is fun to play around with. You can dig into various products and see how cost to transact has evolved over time. I built that chart up right with the CME tool.

### Closing thoughts

If you never quite TOTALLY understood what Roblox is exactly... [This deep dive will help](#). Have a fun weekend.

good luck ↑↓ be nimble



MY PROJECT TO SPEAK ONLY IN WEIRD HEADLINE WORDS DIDN'T LAST LONG.

[xkcd](http://xkcd.com) is still the best. Happy Friday

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