

am
FX

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“Have you heard of the Baader-Meinhof phenomenon?”

“Weird, I just learned about that the other day!”

Current Views

Short EURUSD at 1.1000

Stop loss at 1.1201
Take profit 1.0755

Short GBPUSD at 1.3215

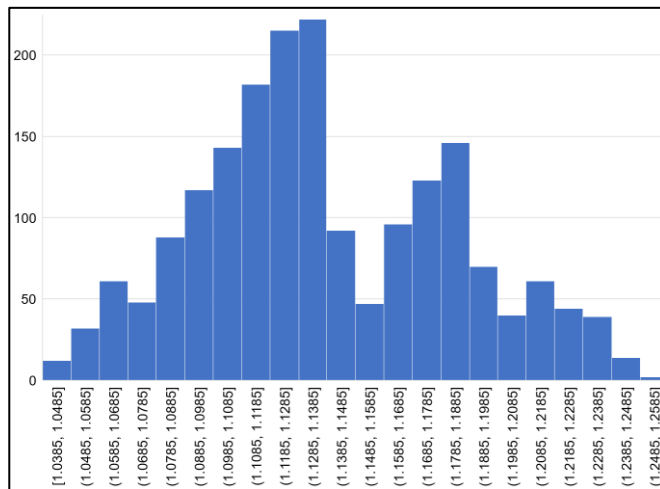
Stop loss at 1.3353
Take profit 1.2811

Ways to play EUR to 1.05

The move from 115 to 125 in USDJPY was a reminder that currencies do actually move, for real, sometimes. Perhaps the move in USDJPY is a sign of things to come in EUR. We are so used to EURUSD just flapping around in this 1.08/1.18 kind of range that it's hard to imagine a larger move.

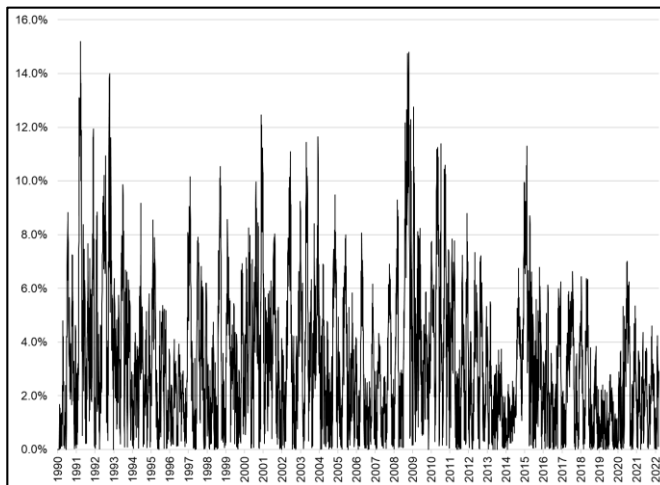
Here is the histogram of daily EURUSD closes since 2015. You can see it's bimodal with not much activity in the 1.15 area as EURUSD either likes to hang out 1.08/1.14 or it 1.16/1.21 and nowhere else, really. I think this long period of calm makes it hard to imagine we go anywhere else.

The distribution of the 1894 daily closes of EURUSD since 01JAN15



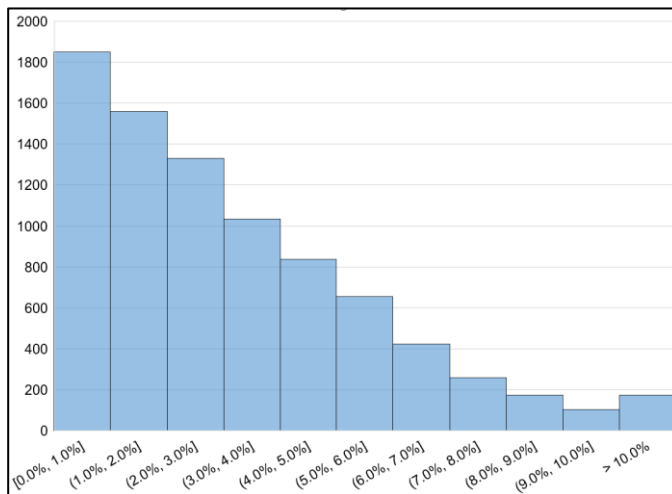
And if this thing were to move, how much could it go? The next chart shows the rolling 2-month change in EURUSD (absolute value). Obviously 2008 should be looked on as an outlier but with a war in Europe, an energy crisis, a French election, and an ECB priced for hikes into all that badness... It's not crazy to think that non-2008 history would be a reasonable guide for what size of moves we might see.

Rolling 2-month change in the price of EURUSD (absolute value)



You can repurpose that data to get an idea of how to define a big move in EURUSD and how often such a big move might happen. Here is the histogram of the 2-month moves in EURUSD:

Number of 2-month moves of various sizes in EURUSD (out of 8394 rolling 2-month windows since 1990)



Converting this data to percentages, you get this table:

Size of 2-month move in EURUSD	% in that bucket	% in that bucket or more
1%	22%	100%
2%	19%	78%
3%	16%	59%
4%	12%	44%
5%	10%	31%
6%	8%	21%
7%	5%	14%
8%	3%	8%
9%	2%	5%
10%	1%	3%
11%	2%	2%

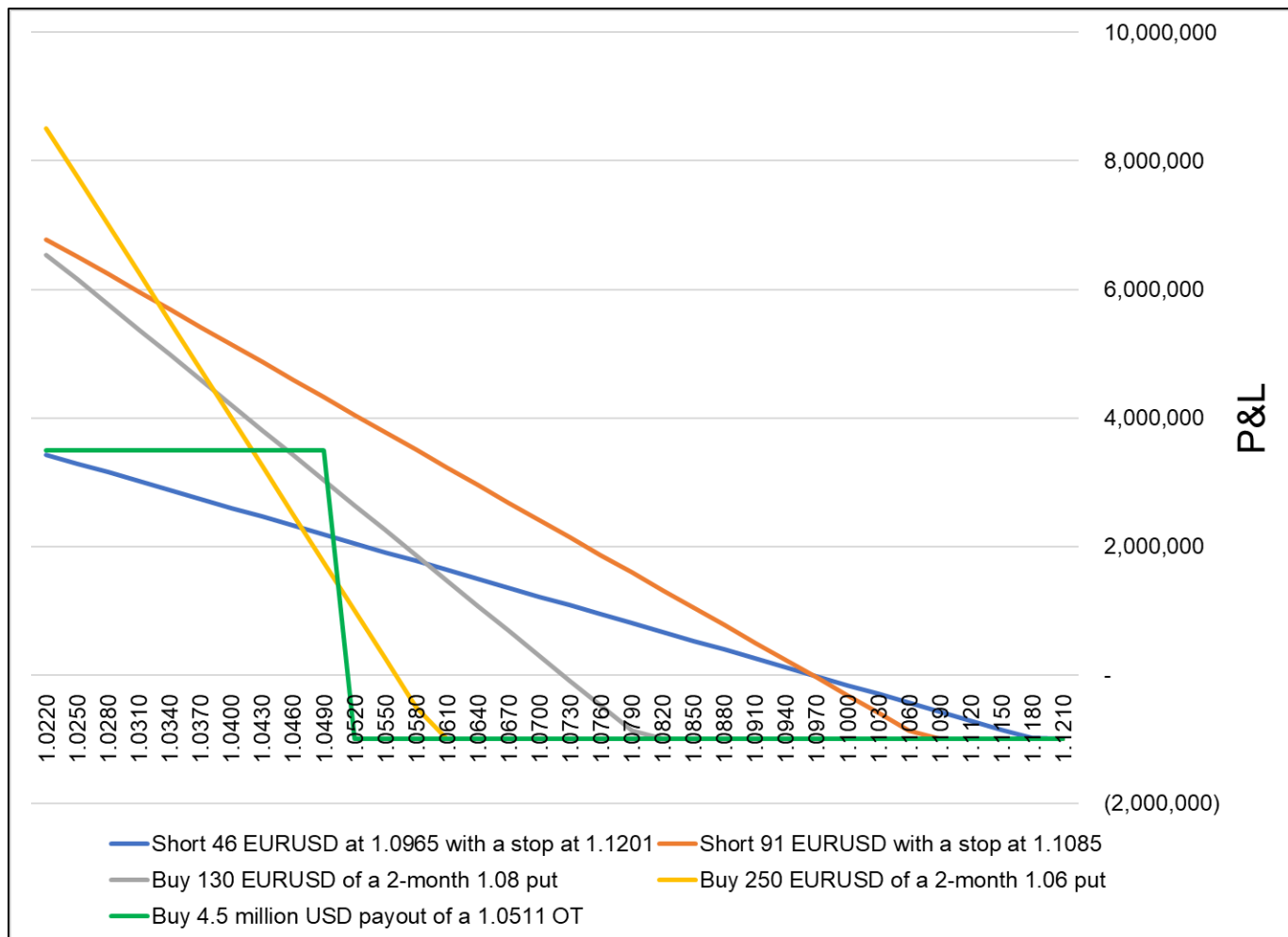
Using this history as a guide, there is around a 31% chance that EURUSD will move 5% or more in the next two months. Now, obviously that means up OR down... But I'm going to focus on down because of rate differentials (as discussed yesterday) and because I think most of the headline and catalyst risk is to the downside. The obvious upside risk is a peace accord in Ukraine, while the downside risks are:

1. Further sanctions
2. French elections
3. ECB backs off at the May meeting as sentiment surveys, the specter of war & sanctions, and demand destruction trigger concern

I also think in a world where the market is focused on current accounts, the downside in EUR feels more exposed than the topside. Further, we tried the hawkish ECB trade a few times now and it failed. I doubt we're going to try it a fourth time. **If EURUSD is going to move 5% lower in two months, that would put us at 1.0420 on June 4.**

Here are the payouts of five strategies that each risk 1 million USD.

Different ways to play EURUSD to 1.05 in two months



Takeaways:

- Short spot with a tight stop is always great leverage but you might get stopped out! Two months is a long time.
- The 1.06 put is aggressive and not really worth it given the 1.08 outperforms in so many more scenarios.
- The one touch isn't that exciting given the size of the move expected (i.e., the vanillas are better).

Closing thoughts

Yesterday, I put out an educational piece about adaptation and the ability to vary your trading style, depending on market regime: <https://50in50.substack.com/p/trade-9-buy-high-sell-higher?s=w>

And I put out a brief crypto piece yesterday too: <https://mtcbd.substack.com/p/macrotactical-crypto-15?s=w>

As an experiment, at the bottom of each piece I said, "please click the like button if you like this piece". The likes went up 300% or so compared to prior episodes. Neat. So, erm... If you liked today's am/FX please forward it to a friend and tell them to subscribe.

Have a highly-recommended day.

good luck ↑↓ be nimble



I have known about the frequency illusion for a while but was surprised to learn that it was only named in 1994 (Baader-Meinhof) and 2005 (Frequency Illusion). Did we not know about it before that?

The Frequency Illusion or Bias, also known as the Baader-Meinhof Phenomenon is a cognitive bias in which, after noticing something for the first time, there is a tendency to notice it more often, leading someone to believe that it has a high frequency of occurrence. It occurs when increased awareness of something creates the illusion that it is appearing more often. Put plainly, the frequency illusion is when "a concept or thing you just found out about suddenly seems to crop up everywhere."

The latter coining was apparently by a newspaper reader in Minnesota, US, who, in a letter to the newspaper in 1994 described it as a phenomenon in which, after the first time you learn a new word, phrase or idea, you see that word, phrase or idea again within 24 hours.

It was named after an incident in which the reader, Terry Mullen, was talking to a friend about the once notorious West German Baader-Meinhof gang, and the next day, the friend referred Mullen to an article in that day's newspaper in which the left-wing terrorist organization was mentioned, decades after it had any reason to be in the news.

<https://science.howstuffworks.com/life/inside-the-mind/human-brain/baader-meinhof-phenomenon.htm>

Doctors who learn about a certain diagnosis may consequently make that diagnosis more often. An article in *Academic Radiology* from June 2019 discusses one medical student's experience diagnosing "bovine aortic arch," an embryologic condition that could contribute to thoracic aortic disease. Once he learned about this condition from a radiologist, he spotted it three times in the next 24 hours.

<https://news.ucdenver.edu/what-is-the-frequency-illusion/>

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