

am
FX

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Guess how many cars were sold in Shanghai last month

Current Views

Short CADJPY 101.21

Stop 100.86

Take profit 98.11

Stop lowered from 102.61 and take profit raised from 97.11 on 13MAY

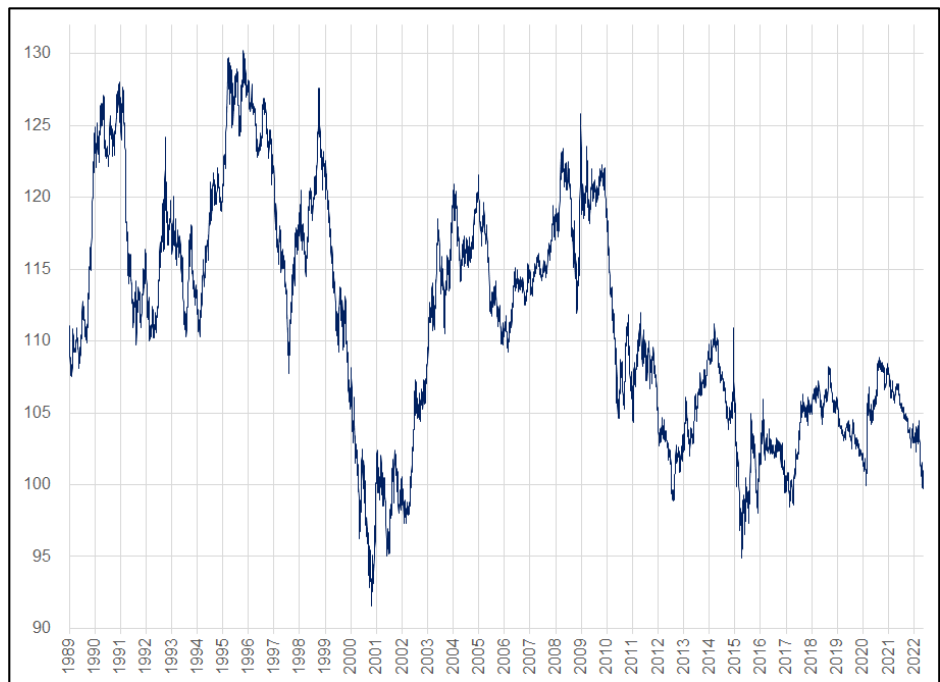
EUR VIX XAU GBP

First up, we got the first real mention of the weak EUR from the ECB overnight. France's Villeroy said:

*VILLEROY: ECB IS CAREFULLY MONITORING EFFECTIVE EXCHANGE RATE
*VILLEROY: TOO-WEAK EURO GOES AGAINST ECB PRICE-STABILITY GOAL

Here is the real effective exchange rate back to 1989.

Broad Real Effective Exchange Rate for the EUR



CTTWBREU Index on Bloomberg

We are around the same levels as the depths of the Eurozone crisis and the mega ECB QE period in 2015. Nothing overly cataclysmic at this point, but the change is not going the right way if the ECB cares about inflation. The real exchange rate is where policymakers tend to focus when assessing the effect of exchange rates on international trade and export competitiveness. Changes matter more than levels as there is pass through to the change in overall prices and inflation.

Does one comment from Villeroy matter? Not really. The comment, however, now opens the door a tad for the market to start to care. Substantial falls in the currency from here will put upward pressure on EU rates as the market will play a feedback loop where weaker REER increases the likelihood and magnitude of ECB rate hikes.

Risky asset relief

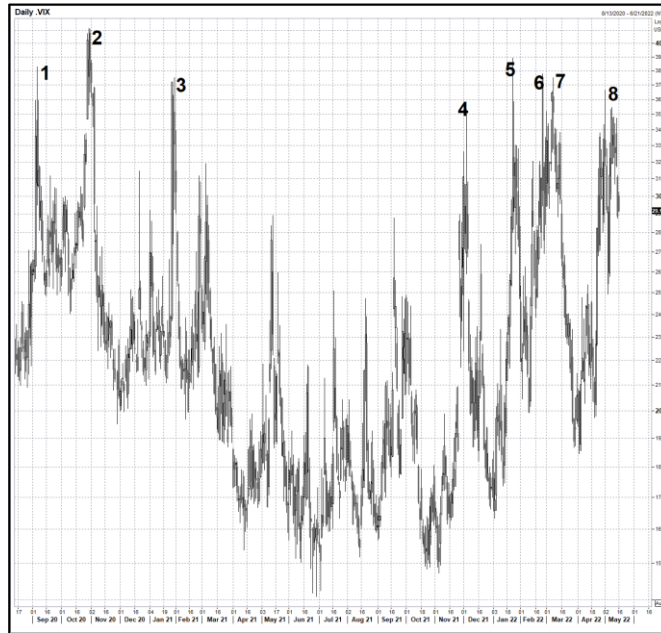
We are getting a bit of relief in risky assets as oversold conditions attract another round of buy-the-dippers. My feeling is that we are still in a sell rallies mode as economic data worsens (more recession worries over the weekend, etc.) and prices refuse to pull back fast enough to provide any semblance of hope for a Fed put.

Wheat, corn, oil and other commodities refuse to pull back, even as US GDP is revised down, and China data looks abysmal. The stagflation theme is gaining traction in the USA.

<https://www.nytimes.com/2022/05/16/business/ben-bernanke-predicts-stagflation.html>

I think you sell rallies in risky assets until we get a true wipeout and capitulation. The number one signpost for that capitulation would be a break through the octuple top in VIX.

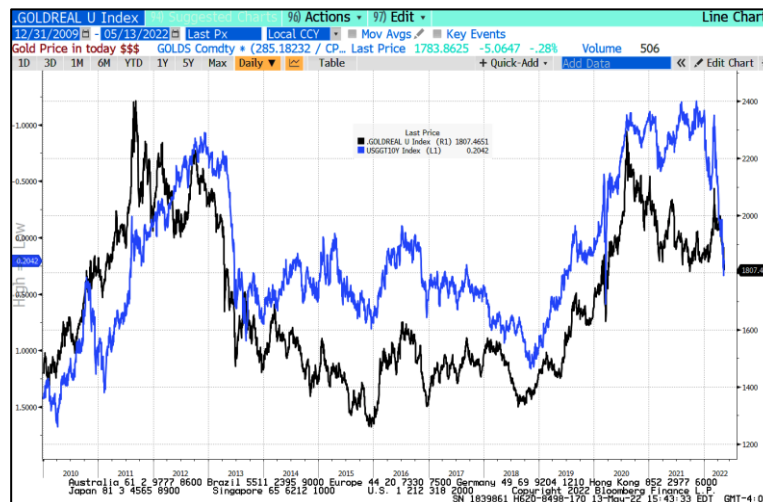
VIX through 40 would be the first signal of true capitulation



Gold responses

I mentioned Friday that gold looks rather high when compared to the recent move in real rates. A few readers pointed out that if you adjust the price of gold for inflation, real gold prices vs. real rates looks about right. I think that is a good point. Here is a chart one reader shared:

US real rates vs. the real price of gold (2010 to now)

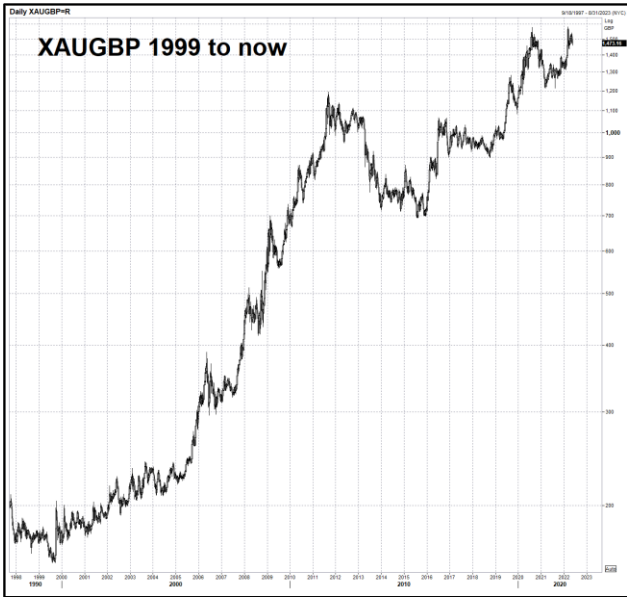


The “I wanna be paid in X” indicator

Historically, when people ask to be paid in a different currency than the one they normally receive, it is a reverse indicator. It’s the equivalent of the shoeshine boy giving a stock tip—the every man reacting to a currency move means that move has been large, and it is more likely to reverse or mean revert than it is to continue. Similar to the [Magazine Cover Indicator](#). Giselle in 2007 is the best-known example, but remember all the people asking to get paid in bitcoin in 2021? It was a stampede at one point.

Asking to get paid in another currency is a simple marketing ploy and has no economic logic. If you want bitcoin, you can just buy bitcoin with your USD. Getting paid in bitcoin serves no economic purpose. Either your employer or you need to take USD and buy bitcoin and pay the associated fees. Anyway, at right is the timing of a few high profile “pay me in bitcoin” stories last year. Peak hype was literally the exact peak in BTC.

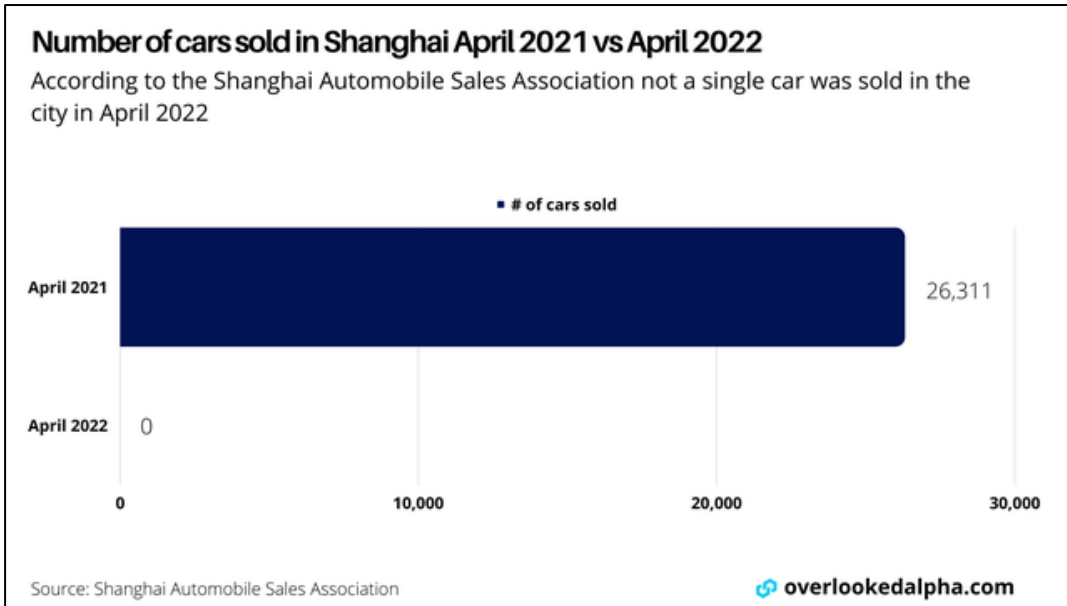
I mention this because I came across this gem over the weekend: [“Best chance of keeping ahead of inflation” UK boss pays employee wages in gold](#). If ever there was a signal to buy GBP and sell gold... This is it. The UK employer is loudly bullish this pair, after a 10X rally over the past 25 years. Sure, it’s an amazing trend, but the “I wanna get paid in X” indicator suggests it may be nearing an end. This is not tradable, just something for your GBP sentiment radar. Call level at: “Wayne Rooney asks to get paid in USD.”



Closing thoughts

I still believe in CADJPY lower, though the rally off 98.00 is obviously hugely disappointing. I will stick with the plan. Have a stunning day.

good luck ↑↓ be nimble



Zero.

<https://www.bloomberg.com/news/articles/2022-05-16/not-a-single-car-was-sold-in-shanghai-last-month>

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