am FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

An interesting tweet over the weekend

I have so many questions!

Current Views

Short NZDCHF @ 0.6240
Stop loss 0.6365
Take profit 0.6085

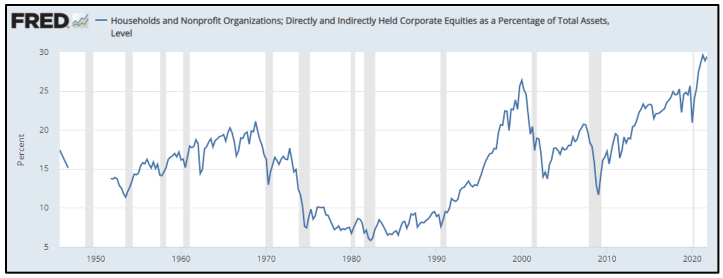
17JUN 157/154 GBPJPY put spread
Cost around 37bps
Spot ref. 160.20

NZDCHF lower

The slow-motion peak in the dollar continues with another lurch higher in EUR overnight. I have missed this dollar turn and while I get the logic (peak US labor market, peak Fed, peak US rates…) I am not 100% convinced yet that it's real. The main issue I am having is that the USD is an equity proxy to some extent these days vs. certain pairs like CAD, AUD, and GBP. And one interesting thing about this down move / bear market in stocks is the continuous impulse from traders to buy the dip.

It's a weird one, because broad sentiment measures in equities are undeniably bearish… But the traders I talk to and follow on Twitter are almost always getting long on dips dip, not short on rallies. That is: raging bearish sentiment in trader land is absent. This probably explains why the rallies are so weak… Traders are long on every big dip and then sell into any rally. So with S&Ps up 1.8% on the day at 3970, anything correlated to equities looks mildly suspect. Meanwhile, this chart of household allocation to equities as a percent of total assets is another reason rallies in stocks are so muted. **Retail is trapped long at bad levels and selling on rallies**.

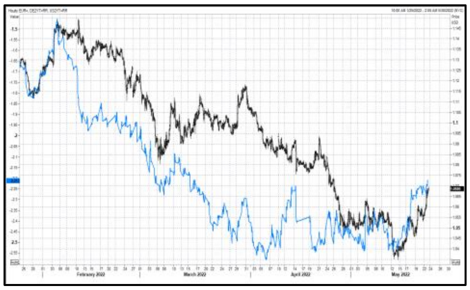
US Households: Equities as a percentage of total assets, 1960 to now

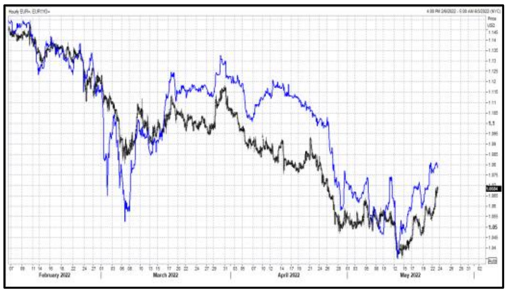


HT: A version of this chart was featured in John Authers' piece today

The tricky part with the USD is that I am kind of onboard with the general USD-bearish vibe given the economic news and rates moves, and so I don't want to fade the USD selloff either. Rate differentials and EURUSD vol, which have been leading EURUSD throughout most of this year, both say EURUSD makes sense up here, though they don't really argue for higher. Equilibrium kinda thing.

EURUSD vs.
Germany/USA 2y rate diffs and… **1-year implied EURUSD volatility**





Perhaps the trade from here is *short USD and short stocks*, and I would be more excited about that than a USD short on its own. That said, my guess is that this week is quiet and mean reverting, even with month end approaching, because critical themes like UK stagflation (lower GBP), higher US rates, crypto weakness, and commodity strength have all lost some momentum but have not reversed in any meaningful way. Not enough momentum for continuation of trends but not enough new information to trigger massive reversals, either.

Donde estan los estabilizadores automaticos

Normally, when you get equity market weakness and concerns about the job market like we're seeing now, you get weakness in commodities, especially oil. This occurs because demand is falling. But when commodities are supply driven, not demand driven, the story changes. A weakening economy with permabid oil markets is not a great recipe for higher stocks as the Fed put remains far away (due to inflation stickiness), while the automatic stabilizer where lower gas prices act as a tax cut for consumers is non-existent this cycle. Even with major rebalancing into month end (buy stocks, sell bonds), **my view is that we will finish the month of May on the ding dong lows in stocks**.

Trades

My GBPJPY short view has been similar to the CADJPY trade where it looked wonderful for about 36 hours, then reverted back to the entry point in extremely disappointing fashion. I still like GBJPY lower, and **I also think NZDCHF lower is a good play** as the RBNZ story turns more balanced just as the SNB has finally awoken to the global inflation threat.

RBNZ tomorrow night (10pm NY). The RNBZ was an early mover and is front-loading hikes. The SNB is a late mover and has just turned rather hawkish (off an admittedly low base!)

50bps is locked in for tomorrow's RBNZ meeting, and the FX move is all about the path going forward. My feeling is that **global central banks are moving towards a less gung-ho and more "balanced risks" approach** and as such the risk of a dovish RBNZ (relative to say Westpac's expectation of 50bps in May, July, and August) is another reason that short NZDCHF makes sense. Bullard gave the first hint of a more balanced global CB look with his mention of 2023 cuts.

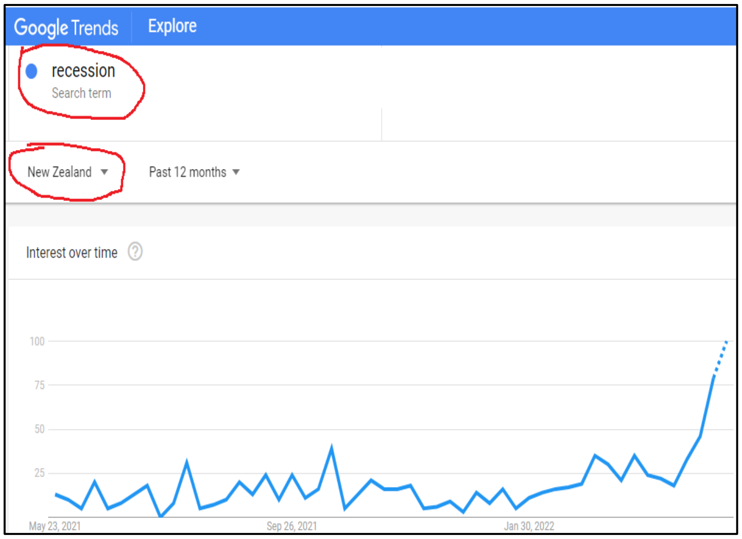
There are nuances in every country, but clearly global inflation risk is not the ONLY risk anymore. In NZ, house prices are coming off fairly sharply and recession talk is picking up a bit as you can see from Google search trends (top chart on right). This more balanced outlook requires a more balanced message from the CB and that could easily sound dovish.

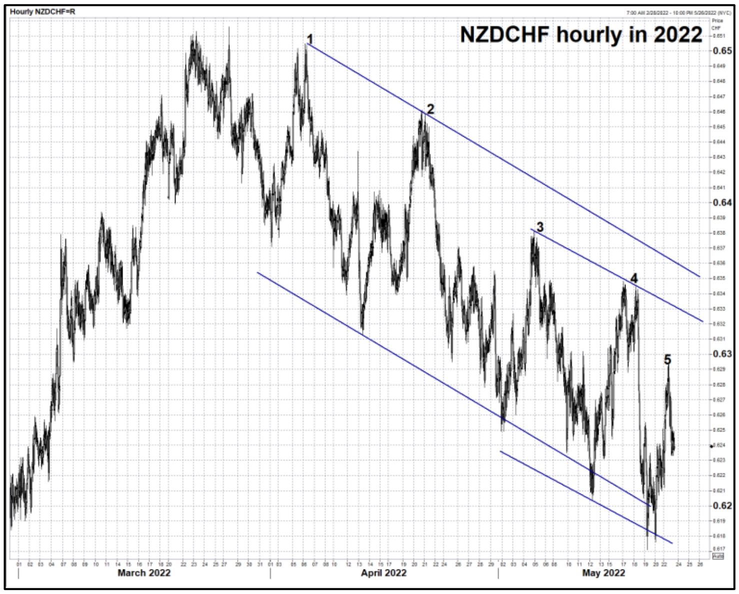
Techs: This is subtle but note in the hourly chart of NZDCHF (at right) how each rally in that blue channel is a bit weaker than the last. The first two touches hit the high channel (1,2), then the next two (3, 4) can't get there (so I drew a new channel) than the last rally (5) doesn't even get to that new, lower channel.

Short NZDCHF here (0.6240) with a stop loss above both channels (0.6365) makes sense to me. The take profit in NZDCHF is the year low base at 0.6085. Note NZ Retail Sales are out tonight (645pm NY) though I'm not sure they matter too much.

To summarize: I like NZDCHF lower on RBNZ, stocks (lower), SNB (tighter) and technicals (bearish)…

Have a frank afternoon and evening.





good luck ⇅ be nimble

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Costco is selling its hotdogs at a loss. We can exploit this

In 1985, Costco introduced a deal at its food court: for the price of just $1.50 you could get a quarter pound hotdog and soda. Now, 37 years later, the price still hasn't changed, even as the cost of beef, labor, and other inputs has dramatically increased. With the rampant inflation that we are experiencing today, that same combo deal should cost >$5 meaning that Costco loses about tree fiddy per hotdog.

Wallstreetbets is big and stronk. We have over 12 million members. If each WSB redditor goes out and buys 1000 hot dogs from Costco, we can lose Costco 12 million * $3.50 * 1000 = 42 billion dollars. If we also short Costco before their next earnings report, we can 1) Recover the cost of the hotdogs 2) Make a profit and 3) Get a lot of hotdogs

Tl;dr A plan for WSB to turn hotdogs into tendies while Costco foots the bill. Might also solve world hunger, too.

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