

am  
FX

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Jupiter

**Current Views**

**Short USDSEK @ 9.8350**

Stop loss 10.0110

Take profit 9.5510

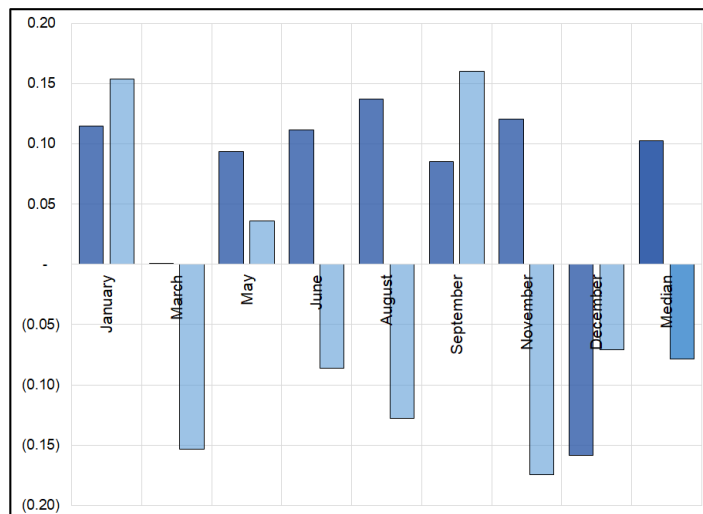
## Short USDSEK for dovish Fed

Is it time for the FOMC to give the market a reprieve? There is enough angst on the demand side at this point and even a few nascent signs of a peak labor market (AMZN comments, ISM jobs component) that the soft landing logic might suggest the Fed hikes 50 tomorrow and assures the market that more is coming but that the situation is under control and there is not going to be 75bps or 100bps hikes anytime soon.

2018 was a lot like 2022 on the monetary policy side as the Fed took away the punch bowl after a fiscal bonanza and turned the E in QE into a T. Same thing this year. It is notable though, that even as rates went from the 2.04% lows in 2017 to a high of 3.26% in 2018, the Fed managed to sound dovish at many 2018 FOMC meetings.

Here is the change in US 10-year yield into and after each FOMC meeting in 2018. The median **move in the 10 days before was +10bps** and the median **move in the ten days after was -8bps**. I could see something similar tomorrow.

Change in US 10-year yield, 10 days into and after each 2018 FOMC meeting



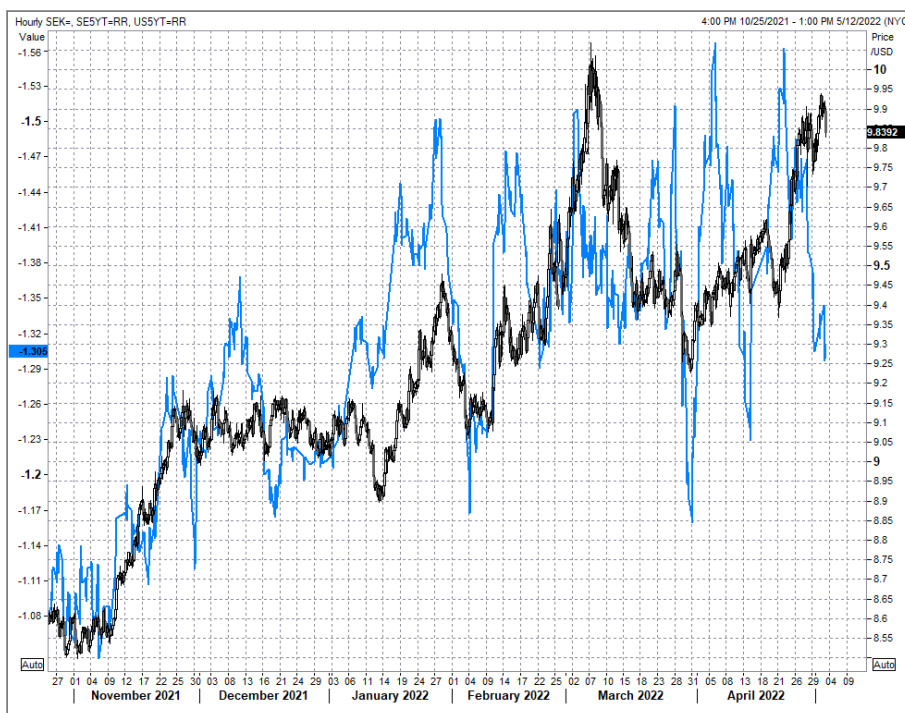
This is especially compelling to me as US 10-year rates have met the long-awaited target as they finally printed above 3.



It's a bummer that I didn't pull the trigger on the dollar short yesterday. But all is not lost. USDSEK is still in a nice location to put on a short and I'm going to do that today because:

- I think the Fed will sound dovish as they throw a life raft to the market in an attempt to engineer a soft landing<sup>1</sup>. Similar to 2018, where the talk is tough and then the meeting doesn't QUITE match the tough talk.
- SEK is a risky asset but the blowup in EURSEK has been contained (vs. EURNOK, for example). This says to me that positioning in SEK is light. A dovish Fed would lead to an equity squeeze that will bolster SEK.
- DSI in EURUSD is 10% bulls. That is extreme bearishness (aka USD-bullishness)<sup>2</sup>.
- DXY perfect failure at the 2016 highs. Looks like a potentially epic range top.
- Rate differentials already say USDSEK is too high. Here is the chart.

### USDSEK vs. US/Sweden 5-year differential



This is an OK spot or options trade. Either buy 1-week USDSEK 9.75s or sell spot here with a 10.01 stop loss. Details in sidebar on page 1. Let's go!

### Closing thoughts

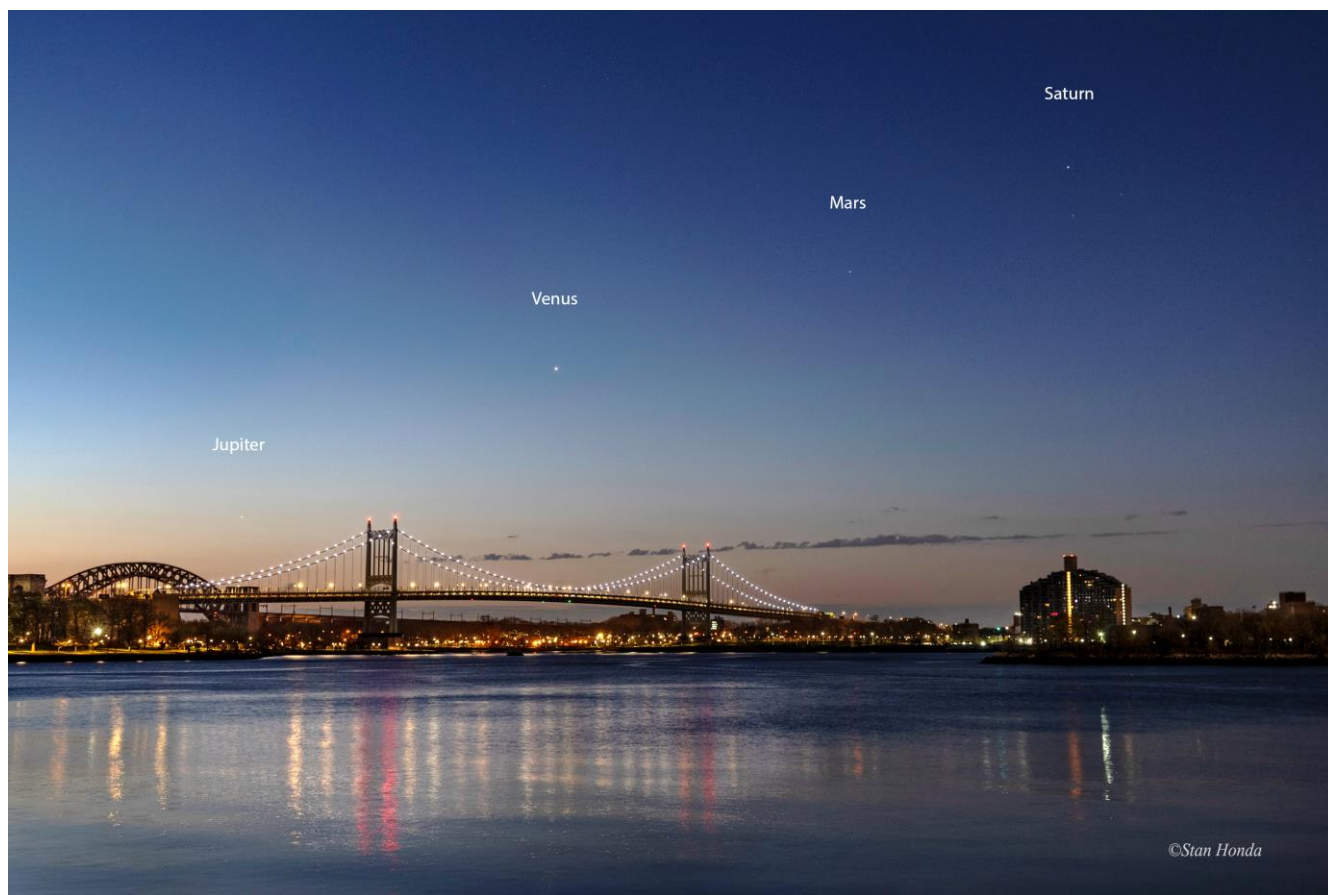
Going to keep it short and sweet today. Other possibilities if you like short USD would be: buy AUDUSD, sell USDCAD, sell USDNOK, or buy (the much-hated) NZD.

Have a galactic day.

good luck ⇕ be nimble

<sup>1</sup> Speaking of life rafts, [this is an incredible and haunting song](#) (you need to listen to the lyrics)

<sup>2</sup> Daily Sentiment Index is a subscription sentiment service. Below 10 and above 90 are extreme readings that tend to be contrarian.



*Image used with permission of the photographer, Stan Honda*

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