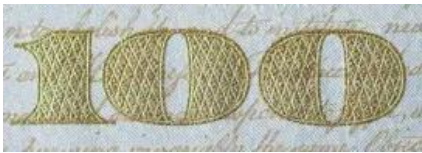


am
FX

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Means

120

Current Views

Short USDSEK @ 9.8350

Stop loss 9.9610
Take profit 9.5510

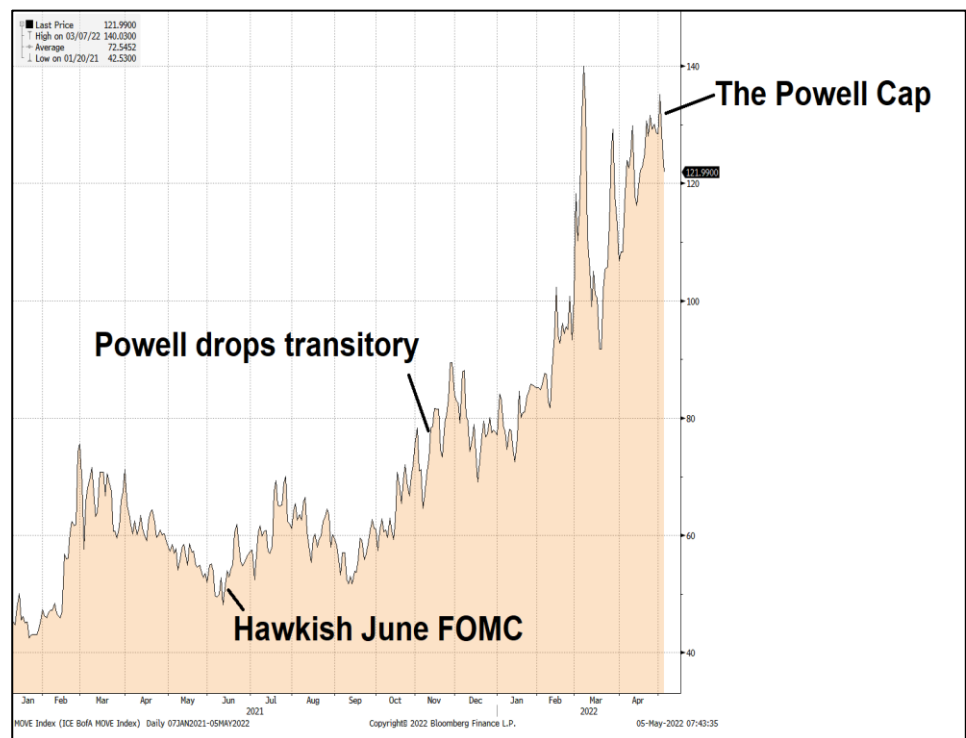
Original stop was 10.0110
Moved it down 05MAY22

The Powell Cap

There was a lot of skepticism on Twitter in the last 12 hours about whether or not it matters that Powell rules out 75 bp hikes. I do not think it's a watershed event, but it is important for one main reason. **It puts a speed limit on US interest rate volatility.** Fixed income volatility has been an important driver of overall asset market volatility as it has risen steadily since the Fed turned hawkish in June 2021 (see chart).

When Powell dropped transitory in November 2021 and the faster QT discussion started soon after, it lit a fire under rates vol. Yesterday's emphatic rule out of 75bps hikes should now help cap that trend. The Powell cap means a lot more certainty on rates because if he opened the door to 75, the market would try 100. Now, the central bank is pushing back against my long-held view that the market tells the Fed when and how much to hike. This was true until yesterday, but less so today.

MOVE index of interest rate volatility, January 2021 to now



Markets dislike uncertainty and as such this is also good at the margin for risky assets. The problem with getting raging bullish risky assets is that QT starts in June and that will lead to more drainage of liquidity and that is generally *bearish* risky assets. That said, I still think we get a few weeks of calm here as the market prices in the Powell cap and concomitant peak in rates volatility. Buy the dip, sell the rip.

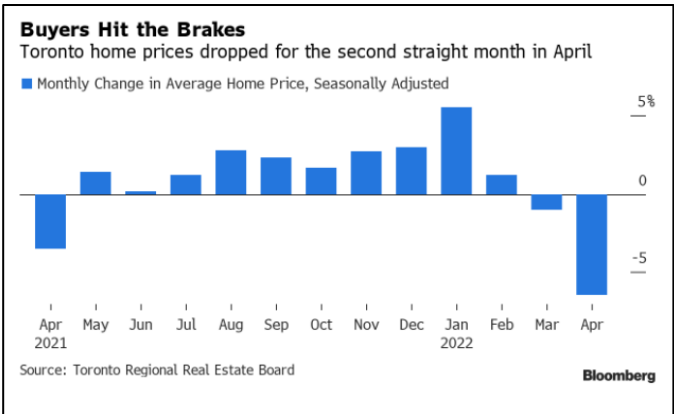
The dovish Bank of England is another brick in the wall for rates as what was a uniform global hawk story for ages is now a tiny bit less uniform. With US 2-year yields well above the Fed Funds neutral rate and US 10's having touched the bottom of the 3.04%/3.26% target zone, **I would be taking profit on bond and Eurodollar shorts** and dabbling long EDM2 as an asymmetric lotto ticket into payrolls.

Warning signs on US jobs

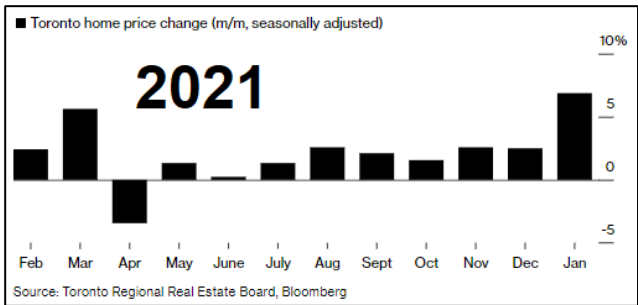
Amazon's somewhat surprising pronouncement that they have gone from wildly understaffed to mildly overstaffed is certainly an eye-opener. There is some question whether this is symptomatic of a peaking labor market, or simply the shift from goods back to services. Thing is, small companies like the [once-hot Cameo](#) are laying people off. [Facebook is freezing hiring](#) (not a goods company, obv. (thanks Anmol)). Netflix is [pulling back on pay commitments](#). It's a bit like a miniature version of 2001 when the bursting of the bubble led to much employment pain after a wicked overbuild.

This stuff probably won't show up in payrolls this week, but it does raise the alert level on economic data going forward as there is a growing divergence between some of the data now with ISM jobs component falling fast but JOLTS still pinned to the highs. Friday's payrolls is especially interesting as there is an asymmetry with Powell capping rate hike increments at 50 and more than 50 bps priced for June. Hard to imagine June pricing goes higher but it could certainly come off back to 42/45bps or so.

Canada real estate is worth keeping an eye on as March saw a small drop in prices and April saw a larger drop.



For context, this is 2021. Note that prices also fell in April 2021, so we need more data before we get excited.



Update on trades

The dovish Fed AUDUSD trade was good. The take profit hit and we're on to the next one. That trade is a good example of how the negative feedback on my Fed idea can be a decent indicator. If everyone hates your idea, that can be indicative of the bias or positioning into an event. The USDSEK was good for a bit but the BoE has given the USD a big push higher this morning. I am moving the stop loss down to 9.9610 as that is the recent high and through there is not good.

Have a 100/100 day.

good luck ↑↓ be nimble



The 100 points emoji

The word "hundred" is derived from the Old Norse word "hundrath," which meant 120

In Old Norse hundrath meant 120, that is the long hundred of six score, and at a later date, when both the six-score hundred and the five-score hundred were in use, the old or long hundred was styled hundrath tolf-roett ... meaning "duodecimal hundred," and the new or short hundred was called hundrath ti-rætt, meaning "decimal hundred."

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