

am
FX

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Wait, Moai have torsos?!

Current Views

Short EURUSD @ 1.0702

Stop loss 1.0801
Take profit 1.0520

Short NZDCHF @ 0.6240

Stop loss 0.6365
Take profit 0.6085

3800 4300

First of all, I hope you have an excellent June. This is a big week in the Donnelly household as I will see my dad for the first time since before COVID, my oldest son graduates high school, and my youngest turns 14. Exciting trifecta.

In yesterday's note, I talked about how there is a bit of a dampener on each side of the equities market now as acceleration to the downside encourages a less hawkish Fed while acceleration to the topside juices oil and jams rates higher. So, one could say that the Fed is handing out both puts and calls at this point, not just puts like in ye olden days.

The Fed put is contingent on the relationship between unemployment and inflation, and we saw it kick in to some extent as S&Ps took out 3900 and tech sprayed some water on the raging employment inferno. The Fed call is contingent on the relationship between oil and equities. If equities were to rally on, say, peace in Ukraine and oil at \$95... That's not inflationary. But if stocks rally on a less hawkish Fed (like now), that probably helps oil make a run toward new all-time highs.

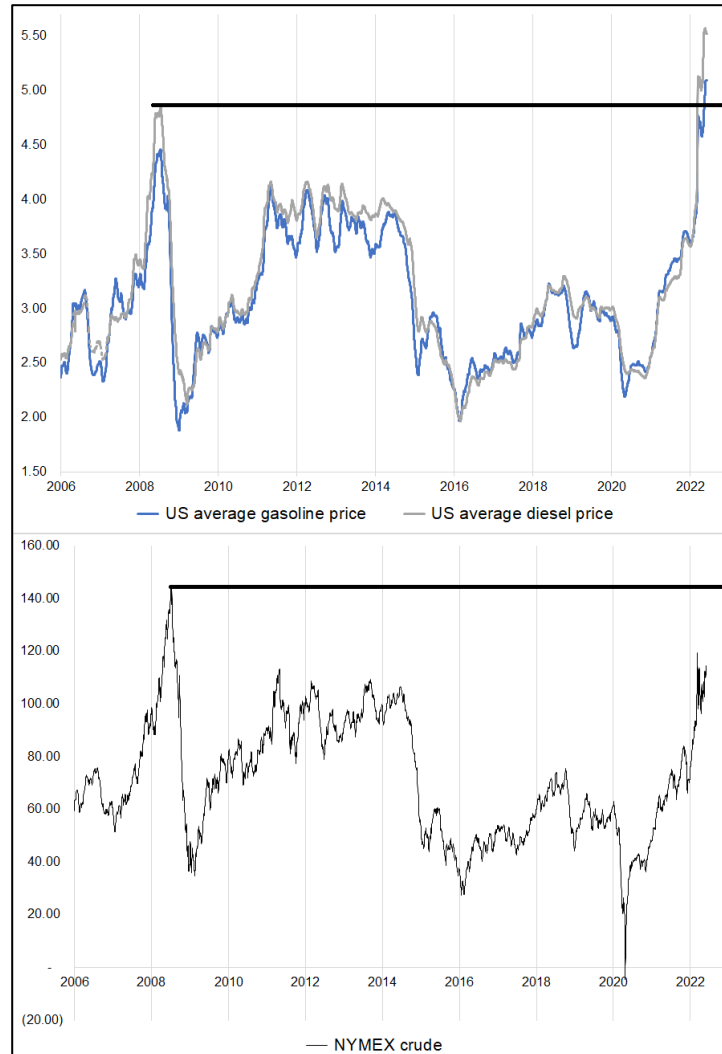
Speaking of stocks, I think SPX 4305 is probably the maximum point where you can still argue this is a short squeeze. Above there, we take out the major pivot and perhaps something bigger is happening. You can see in the chart that 4305 was key support in September 2021 and January 2022 and then we made a quintuple top there at the start of last month. A daily close above 4305 would be überbullish.

S&P futures, August 2021 to now



Speaking of oil, in case you don't follow this stuff... Even though oil is nowhere near its all-time high (\$148 in 2008), gasoline and diesel prices are making all-time highs as I type this. There is a ton of stuff happening in the weeds of the oil and gas market with refinery capacity issues and product spreads exploding. Here is a comparison of oil, gas, and diesel back to 2006:

US average gasoline and diesel prices (top) and NYMEX crude (bottom)



The idea of crude up through \$130 is a bit scary given the other issues going on in that space, though it's worth noting that adjusted for the fast-withering purchasing power of today's dollar, gas prices are nowhere near the all-time highs.

One-paragraph semi non sequitur. I'm a huge fan of people that embark on crazy, ambitious super long-term projects and stick with them. For example, in 2007, Mike Winkelmann (aka, Beeple) decided he would create a unique work of art, from scratch, every day. [This article](#) shows the progression of the work and you can see more [recent works here](#). 5510 consecutive days! Unreal. Anyway, this came to mind because when I was searching for long-term gasoline price charts (Bloomberg only goes back to 2005).. [I came across this guy](#), who has **kept track of all his gasoline purchases for the past 42 years!** Nice. That's true dedication to a task.

Trades and views

I still think that yields go higher from here on the back of the resilience in crude and perhaps because 2.70% was a bit of an overshoot on the tech employment worries. There is definitely plenty to be worried about on the growth front with new orders tumbling and so on, but there is still enough to worry about on the inflation front that I think rates in general and Fed policy will be sticky.

Next time I tell you I think rates go higher and oil goes higher... And I sell EURUSD instead of buying USDJPY... Please slap me on the side of the head. USDJPY obviously a much better performer in the last 24 hours with my EURUSD trade trading water.

Meanwhile, my GBPJPY view is dead. The put spread is pretty much a zero, and I'm bullish USDJPY, so I removed it from the sidebar. It expires June 17, so in theory it's possible it comes back to life, but it is essentially worthless now. I don't mind short GBPUSD, but GBPJPY makes no sense anymore. It was an excellent trade—for about 24 hours.

I'm sticking with NZDCHF despite a bit of boredom. I still genuinely like the trade and I'm sticking to the plan. Perhaps the trick is to survive the equity squeeze and then NZDCHF can head back down. It hasn't exactly exploded higher given the performance of JPY crosses and equities, so that is mildly encouraging.

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Final thoughts

When I wrote my piece yesterday, I was picturing S&P mean reversion to a single strike (i.e., a straddle) but it's more like Fed policy has created a put and a call somewhere in the region of 3800 and 4300. So for good order, my title yesterday should have been "The Fed Strangle" not "The Fed Straddle".

Finally, I enjoyed [this macro trading piece from Alfonso Peccatiello](#). Especially the stuff at the end. Alf is a good guy, nice guy, good read.

Have a stone-faced day.

good luck ↑↓ be nimble

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