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FX

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Arthur Burns knew a thing or two about the 2022 economy

Current Views

Short USDJPY @ 134.05
Stop loss 135.55
Take profit 130.55

Short EURJPY @ 141.25
Stop loss 144.44
Take profit 137.77

Addicted to gradualism

It is rare that we see two gaps in a row in the NASDAQ where the day's high is more than 1% below the previous day's close. It looks like this:

NASDAQ double gap this week

Looking back to 1991, this pattern has occurred only four times. Each time, it was in the midst of a crisis and each time, the trend going in continued soon after. Here are two of the four instances in March 2020. The black lines with percentages marked are the day after the two gaps (i.e., day 3, which would be today). You can see there were enormous rallies on those days, but then the trend continued.

Two NASDAQ double gaps with day 3 marked (March 2020)

Next, I show the other two instances. You can see that in all cases, the primary trend resumed after the double gap.

NASDAQ double gaps with day 3 marked

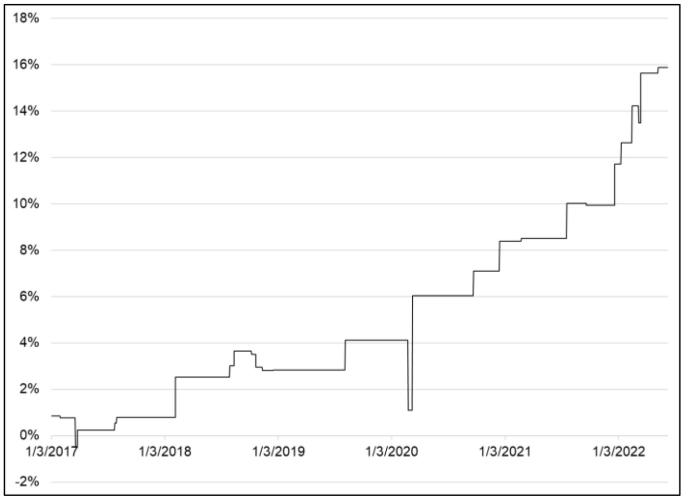
March 2009

March 2001

The implication for today would be that **there is abnormal risk today for a large one-day equity rally**, especially because today is Tuesday. As you may be aware, Thursday, Friday, and Monday were all down days for the SPX which means that statistically the odds of an up day today are much higher than usual. This is known as Turnaround Tuesday or TT. This is the P&L of going long on Monday and exiting at the close on Tuesday when the setup triggers.

Cumulative P&L of long SPX at close Monday after Thursday, Friday and Monday were all down

Exit at Tuesday close



Quick trades update

The EURUSD take profit was hit at 1.0411. I will send a quarterly trades recap tomorrow. This is the rare time when I move my take profit and it works. Zing. EURJPY and USDJPY shorts remain in the sidebar. I also think a 1-month 128.84/136.16 double no touch at 15% or so makes a lot of sense. It's a bearish USDJPY, bearish vol play.

Anguish

I would rarely recommend something that takes more than 30 minutes to read, but I found this 1979 speech from Arthur Burns to be absolutely mind-blowing. It’s as if he wrote it yesterday. Central banks are making all the same mistakes under the same conditions as the late 1970s. I will give you a few choice excerpts but it’s worth a full read on the weekend or some time when you’re bored.

Mr. Burns said that he could not express confidence that any constructive and forceful program for dealing with inflation, will be undertaken in the United States or elsewhere in the near future. He said he was not even sure that many of the central bankers of the world, having become accustomed to gradualism, would be willing to risk the painful adjustments that he fears are ultimately unavoidable. The **addiction to gradualism** (not when loosening, only when tightening) continues to plague central bankers. Their asymmetric approach has given us this bubble and pop economy.

The speech is part postmortem and part mea culpa as it was written just 18 months after Burns left his post as Chair of the Fed. Eerily prescient is how I would describe it. A few choice quotes. The first quote, he’s talking about central bankers:

> By training, if not also by temperament, they are inclined to lay great stress on price stability, and their abhorrence of inflation is continually reinforced by contacts with one another and with like-minded members of the private financial community. And yet, despite their antipathy to inflation and the powerful weapons they could wield against it, central bankers have failed so utterly in this mission in recent years. In this paradox lies the anguish of central banking.

> I have no quarrel with analyses of this type. They are distinctly helpful in explaining the American inflation and, with changes here and there, that in other nations also. At the same time, I believe that such analyses overlook a more fundamental factor: the persistent inflationary bias that has emerged from the philosophic and political currents that have been transforming economic life in the United States and elsewhere since the 1930s. The essence of the unique inflation of our times and the reason central bankers have been ineffective in dealing with it can be understood only in terms of those currents of thought and the political environment they have created.

But the rapid rise in national affluence did not create a mood of contentment. On the contrary, the 1960s were years of social turmoil in the United States, as they were in other industrial democracies. In part, the unrest reflected discontent by blacks and other minorities with prevailing conditions of social discrimination and economic deprivation—a discontent that erupted during the "hot summers" of the middle 1960s in burning and looting. In part, the social unrest reflected growing feelings of injustice by or on behalf of other groups—the poor, the aged, the physically handicapped, ethnics, farmers, blue collar workers, women, and so forth. In part, the unrest reflected a growing rejection by middle-class youth of prevailing institutions and cultural values. In part, it reflected the more or less sudden recognition by broad segments of the population that the economic reforms of the New Deal and the more recent rise in national affluence had left untouched problems in various areas of American life—social, political, economic, and environmental. And interacting with all these sources of social disturbance were the heightening tensions associated with the Viet Nam War.

In the innocence of the day, many Americans came to believe that all of the new or newly discovered ills of society should be addressed promptly by the Federal Government. And in the innocence of the day, the administration in office attempted to respond to the growing demands for social and economic reform while waging war in Viet Nam on a rising scale. Under the rubric of the New Economics, a more activist policy was adopted for the purpose of increasing the rate of economic growth and reducing the level of unemployment. Under the rubrics of the New Frontier and the Great Society, broad-scale efforts were made to stitch up open seams in the fabric of affluence—inadequate or unequal education, housing, medical care, nutrition. Under the rubrics of civil rights and citizen participation, minorities and other disadvantaged groups were given political weapons to maintain, consolidate, and extend their gains.

The interplay of governmental action and private demands had an internal dynamic that led to their concurrent escalation. When the Government undertook in the mid-1960s to address such "unfinished tasks" as reducing frictional unemployment, eliminating poverty, widening the benefits of prosperity, and improving the quality of life, it awakened new ranges of expectation and demand.

Once it was established that the key function of government was to solve problems and relieve hardships—not only for society at large but also for troubled industries, regions, occupations, or social groups—a great and growing body of problems and hardships became candidates for governmental solution. New techniques for bringing pressure on Congress—and also on the state legislatures and other elected officials—were developed, refined, and exploited. Congress responded by pouring out a broad stream of measures that involved government spending, special tax relief, or regulations mandating private spending. Every demonstration of a successful tactic in securing rights, establishing entitlements, or extracting other benefits from government led to new applications of that tactic. Various groups found a powerful ally in the federal courts, which repeatedly struck down legislative or administrative limitations on access to government benefits. Even government employees, particularly at the state and municipal levels, discovered the pecuniary rewards of shedding genteel notions of public service and pressing economic demands with a strident militancy.

Also troublesome were the newer social regulations—those concerned with health, safety, and the environment—that kept multiplying during the 1970s. However laudable in purpose, much of this regulatory apparatus was conceived in haste and with little regard to the costs being imposed on producers. Substantial amounts of capital that might have gone into productivity-enhancing investments by private industry were thus diverted into uses mandated by the regulators. Improvements in productivity were also slowed by the discouragement of business investment that resulted from the increasing burden of income and capital gains taxes. Progress in equipping the work force with new plant and equipment proceeded much less rapidly during the 1970s than during the 1950s or 1960s, and this shortfall contributed to the productivity slump and thus to the escalation of costs and prices.

Viewed in the abstract, the Federal Reserve System had the power to abort the inflation at its incipient stage fifteen years ago or at any later point, and it has the power to end it today. At any time within that period, it could have restricted the money supply and created sufficient strains in financial and industrial markets to terminate inflation with little delay. It did not do so because the Federal Reserve was itself caught up in the philosophic and political currents that were transforming American life and culture.

My conclusion that it is illusory to expect central banks to put an end to the inflation that now afflicts the industrial democracies does not mean that central banks are incapable of stabilizing actions; it simply means that their practical capacity for curbing an inflation that is continually driven by political forces is very limited. Historically, central banks have helped to slow down the pace of economic activity at certain times and to stimulate economic activity at other times. They have also contributed to economic stability by serving as lenders of last resort or even going beyond that traditional function. During this decade alone, the Federal Reserve moved on at least two occasions to prevent financial crises that otherwise could easily have occurred. I have in mind particularly the failure of the

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The intellectual ferment in the world's democracies is having its influence not only on businessmen and investors, but also on politicians, trade union leaders, and even housewives; for all of them have been learning from experience and from one another. In the United States, for example, people have come to feel in increasing numbers that much of the government spending sanctioned by their compassion and altruism was falling short of its objectives; that urban blight was continuing, that the quality of public schools was deteriorating, that crime and violence were increasing, that welfare cheating was still widespread, that collecting unemployment insurance was becoming a way of life for far too many—in short, that the relentless increases of government spending were not producing the social benefits expected from them and yet were adding to the taxes of hard-working people and to the already high prices they had to pay at the grocery store and everywhere else. In my judgment, such feelings of resentment and frustration are largely responsible for the conservative political trend that has developed of late in the United States. And I gather from the results of recent elections elsewhere that concern about inflation and disenchantment with socialist solutions are increasing also in other industrial countries. Fighting inflation is therefore being accorded a higher priority by policy-makers in Europe and in much of the rest of the world.

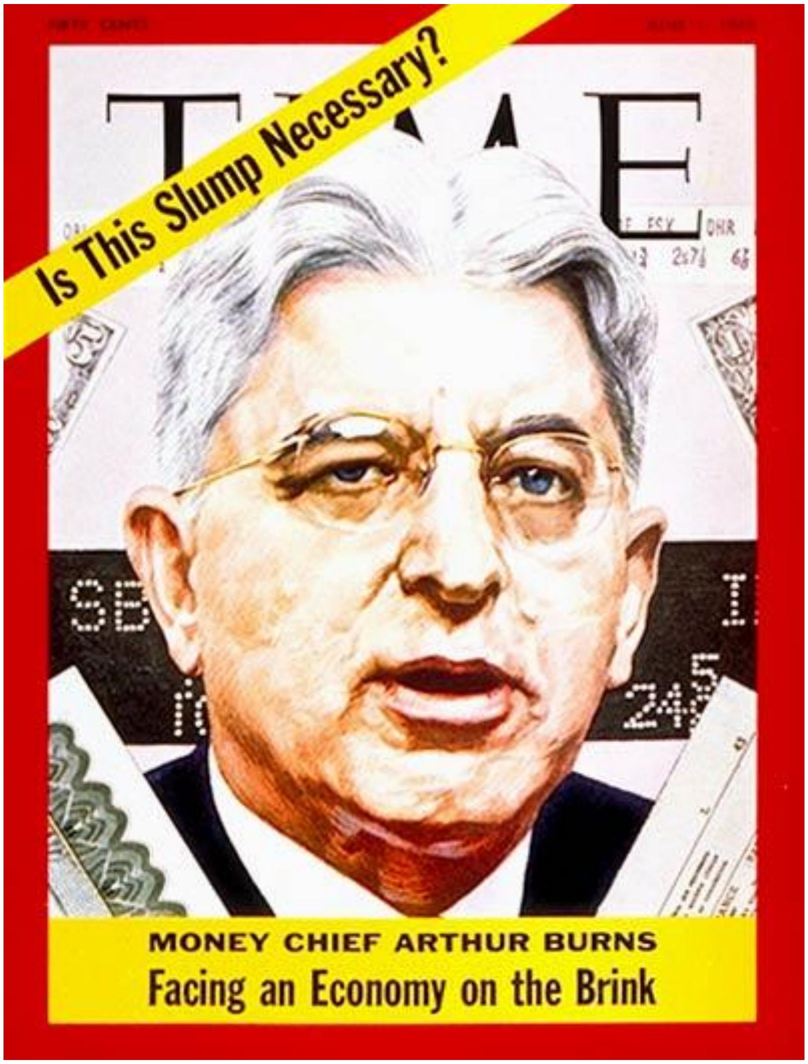
If the United States and other industrial countries are to make real headway in the fight against inflation it will first be necessary to rout inflationary psychology—that is, to make people feel that inflation can be, and probably will be, brought under control. Such a change in national psychology is not likely to be accomplished by marginal adjustments of public policy. In view of the strong and widespread expectations of inflation that prevail at present, I have therefore reluctantly come to believe that fairly drastic therapy will be needed to turn inflationary psychology around.

Final thought

20000 was a massive breakout level in BTC. I find it hard to imagine it breaks without a huge fight.

Have a retrospective day.

good luck ⇅ be nimble



June 1970: Just the beginning!

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