SPECTRA MARKETS

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am FX

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Central bank convergence

It's central bank policy madness out there:

1. **Are we seeing central bank convergence here?** Could that help put a top in the dollar? It's worth thinking about. Big double top USDCHF etc. I'm not ready to get short USD yet but it feels like we might be ready. There are worse ideas than short USD here with a 0.7% stop loss.

2. Fed tries to play the same trick they played last meeting by lobbing some random dovish forward guidance into the hawkish message. "Don't expect 75BP point moves to be common" was the verbiage this time, vs. "75BPS isn't something FOMC is actively considering" last time (uttered 42 days before a 75BP hike). The strategy is clear here:

   Listen to the data, not the Fed.

   The path of least resistance is lower stocks and higher USD. The Fed don't know where inflation is going, and neither do we. Their guidance is not credible. It can change two days before a meeting. Trading off it makes no sense. AUDUSD did exactly the same thing both FOMC meetings: it ripped on the silly dovish throwaway line and peaked at 10pm NY time. As you can see here:

   AUDUSD hourly chart around the last FOMC

3. The BOJ news has become deafening and **the situation tonight is binary**. Will they, or won't they? The BOJ would like to continue powerful easing (why? I don't know) and also want JPY to stops weakening. Much as the ECB would like to reduce its balance sheet and buy BTPs. Central banks are having trouble adapting to the new reality where you can no longer have your cake, and eat it too. Somewhat related, this latest piece from Stephen Kirchner is great.

4. **SNB!** They hiked 50bps (vs. 20 or so priced) and, more shockingly: *JORDAN SAYS SNB CAN USE INTERVENTIONS `IN BOTH DIRECTIONS'. Wow! I don't think I have ever seen a central bank buy high and sell low, ever. Truly historic. Take a look around at what is happening right now… History is happening. We will be talking about 2021/2022 twenty years from now. Negative rates, the Disruptor Bubble, Web3 Mania, GameStop, 8% inflation, and so on. Such crazy. Much amazing. So wow.

Current Views

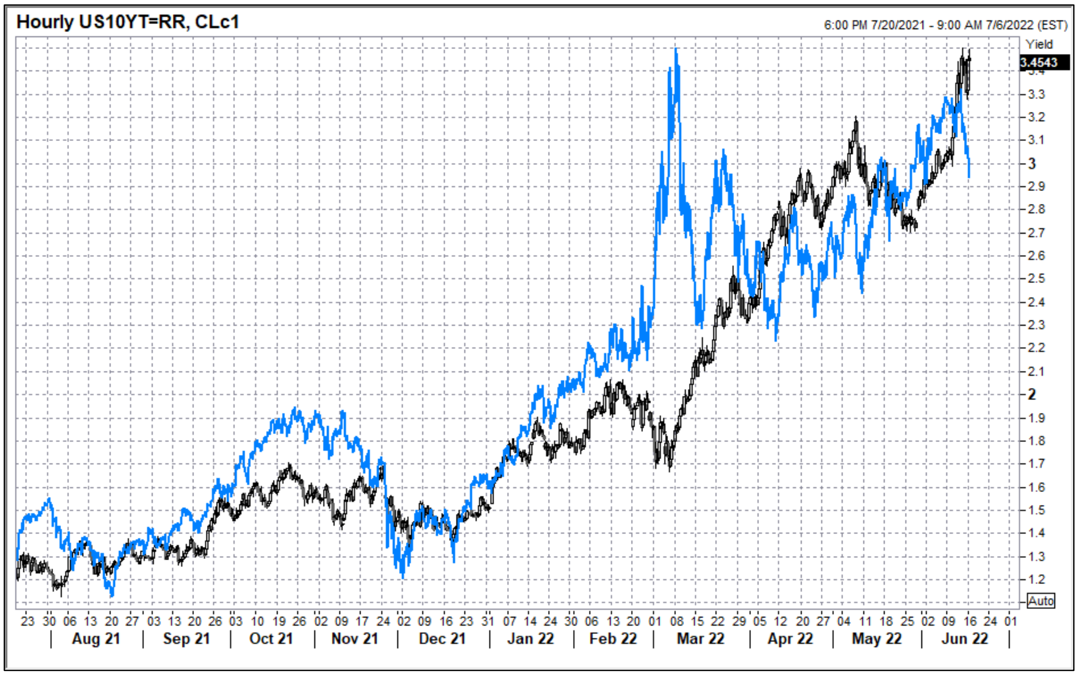
Short EURJPY @ 141.25
Stop loss 144.44
Take profit 137.77

Rates

The idea in the hiking cycle is that the Fed keeps hiking until they break something. What they need to break in this cycle is the price of oil, gas, heating oil, and diesel. There is some light evidence that the recent acceleration in Fed tightening is starting to do the trick.

I think that is good for bonds. There is a point where hawkish central banks and aggressive tightening is good for bonds. Maybe we are at that point. Something to monitor, at least. Here is the overlay:

US 10-year yields vs. NYMEX crude



Crypto

I sent MacroTactical Crypto (MTC) #22 out to paid subscribers yesterday. If you would like to subscribe, please click here (MTC is not related to am/FX, it's a separate, paid product). Here is a significant excerpt to whet your appetite.

MTC22: The next two weeks are critical *(reprinted with author's permission)*

The most stunning feature of this bear market in crypto is its monotonic relentlessness. There is no sneaky underlying bull narrative to catch the market short. Nobody cares how oversold things get. The bounces are miniscule. What was once a massive flood of FOMO money trying to get in is now an equally raging torrent the other way.

Recent news that Three Arrows Capital is struggling and unconfirmed reports that it may be insolvent is the tip of the iceberg as many smaller funds quietly liquidate levered positions. The nature of the biz is that most crypto hedge funds are run by true believers and as such, there is very rarely much of a short base on the institutional side. Long only, pretty much.

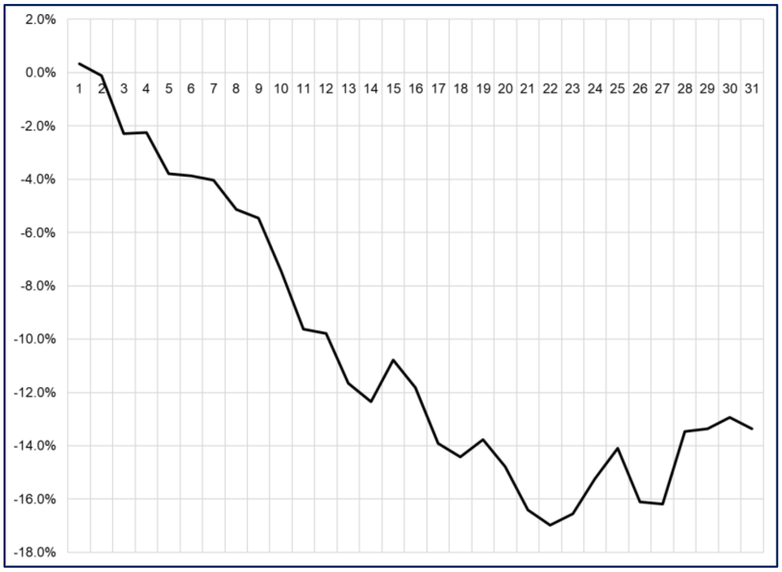
The tide takes a while to turn in a bear market because allocators and real money flows are slow. You have a meeting in October, another meeting in December, authorize the $40 million disbursement in February and the money gets deployed in March. Flows into and out of hedge funds always lag performance and market prices because there are delays in the process in both directions. You can't just drop money in and take it out on a whim like an ATM. There are gates, lockups, and other measures that mean when an asset class turns lower, it will still see inflows for 3-6 months before the outflows start.

Crypto inflows look to have stopped in April. The outflows are coming soon.

Tracking flows

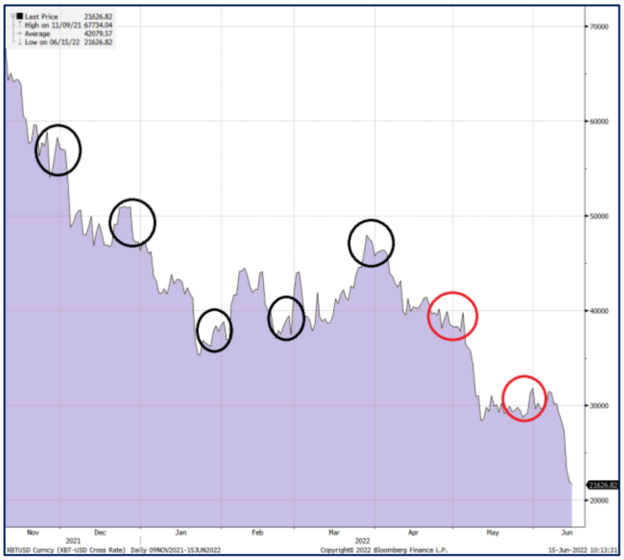
You can track crypto flows various ways but my favorite way to track flows in any market is to look at the movement of price by day of the month (and sometimes by time of day). Here is the cumulative return of bitcoin by day of the month since crypto peaked in November 2021.

BTC cumulative performance through the month (since November 2021)



This shows that bitcoin is sold continuously at a steady pace throughout the month but then bounces in the final week. This is most likely new institutional inflows being put to work ahead of the turn of the month. This next chart displays the same idea in a different format. I have circled the last week of each month so you can see how the end of month effect has dissipated.

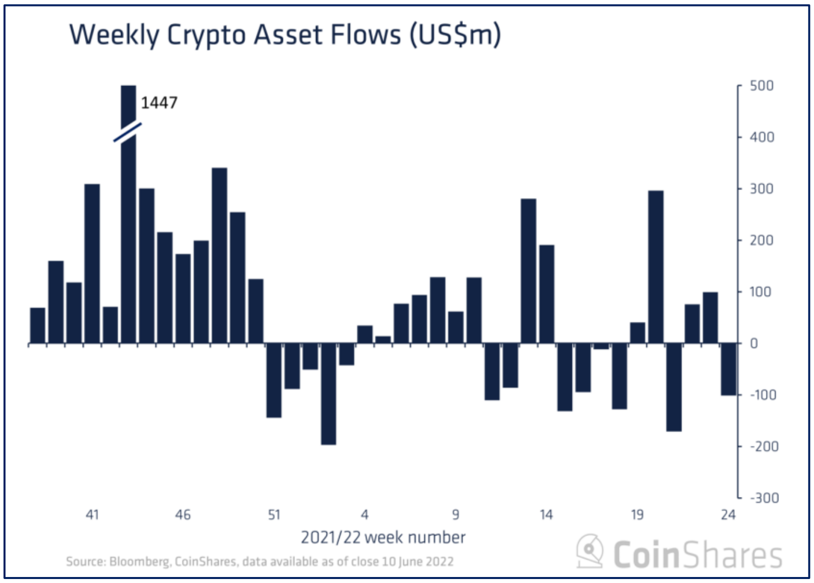
BTC since November 2021 with end of month circled



You can see that inflows appear to continue until March… and then April and May there's pretty much nada. This is consistent with institutional flow stories such as:

March 29: Institutional crypto funds see largest capital inflows for 3 months

The last big surge of institutional inflows was at the end of March. This is confirmed by news stories, price action, and Coinshares data. Here is that Coinshares data, which shows massive inflows at the peak in late 2021 and a slow move to outflows with the exception of some big inflows at the end of Q1. Those are the last of the late-approved allocations into crypto for a while.



https://blog.coinshares.com/volume-84-digital-asset-fund-flows-weekly-report-72f7fdda557b

Keep monitoring this data, but also watch out at the end of this month as the LUNA debacle, Celsius, 3AC and other scary things could have triggered many withdrawal requests since May and some of those withdrawals will be satisfied as we approach the end of the month, the quarter, and the half.

Quarter end and half-year end are always most important when looking at flows because most gates and redemption agreements are timed around these points on the calendar. Whether it's equities, crypto, bonds, or FX… Quarter end and half-year end are go time for flows.

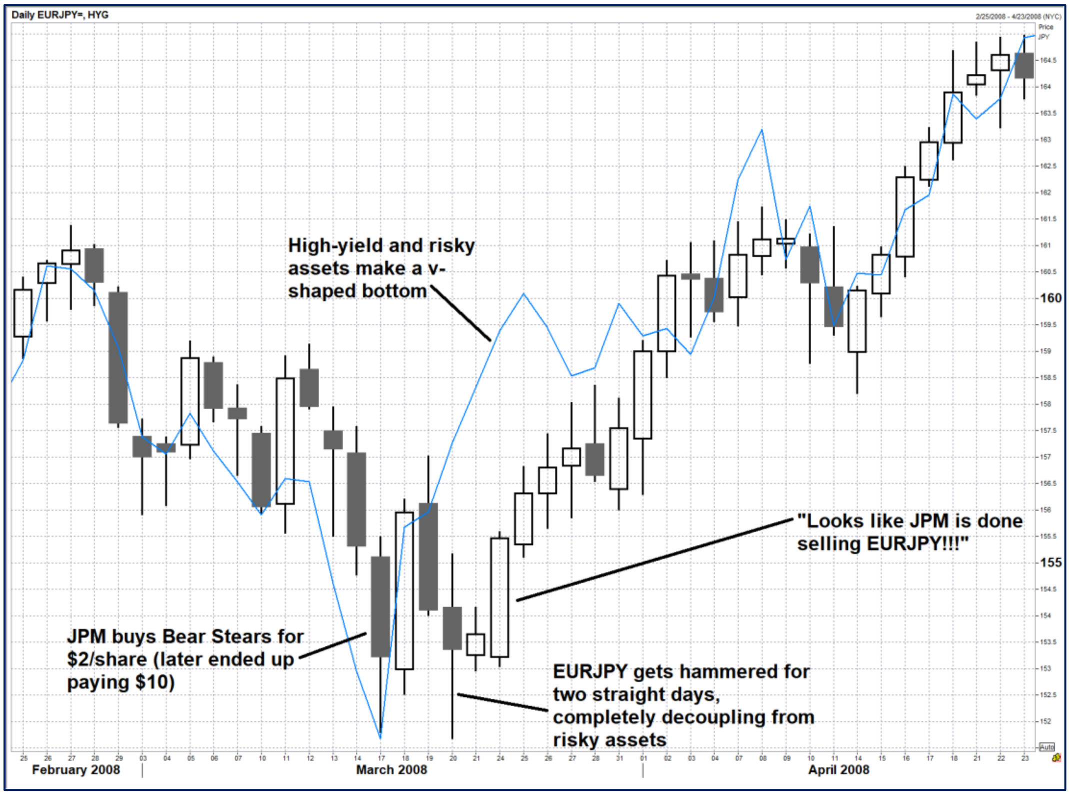
If BTC can hold the 20000 level through the turn of the month, that would be a super bullish sign. I have been eyeing this 20k level for six months and it's a good level to be adding to long-term bullish exposure BUT… If you are a trader, I would be extremely cautious with longs into half-year end because the volume of outflows to process could be large and those flows are not price sensitive. Those flows will hit literally whatever bid they can.

Flashback

I still remember the Bear Stearns liquidations by JPM in March 2008. Those were a fierce example of how markets can go completely nuts and dislocate completely from correlated variables, oversold signals and so on when forced liquidation happens. The execution person doesn't really care about what bid they hit. The risk manager behind them is yelling: "Just hit a bid!"

In 2008, I was trading EURJPY at Lehman Brothers, and the currency pair was just about 100% correlated to high-yield credit and the S&P 500. The market was in complete disarray. Volatility was at all-time highs. EURJPY was a risky asset proxy so if SPX and HYG went up, EURJPY would go up… 99 times out of 100 (and vice versa). I actively traded these correlations and I still have vivid memories of how boggled my mind was as HYG ripped and EURJPY would just keep getting pummeled by JPM in wave after wave of selling.

EURJPY vs. HYG *(February to April 2008)*



You can see in the chart, EURJPY "should have been" 500 points higher on March 18th, but it got slammed over and over. Finally, once the outflow was done:

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Apparently, they sold 10 billion EURJPY over three days as part of an unwind, or something absurd like that. The takeaway here is that forced selling doesn't care what price it trades at, it doesn't care what other markets are doing, and it doesn't care wen Lambo.

Be on high alert for high volatility, forced selling, and potentially nonsensical moves as we approach end of month, end of quarter and the end of H1 over the next 15 days. If crypto can weather the storm—I forecast a period of summery crypto sunshine for early July.

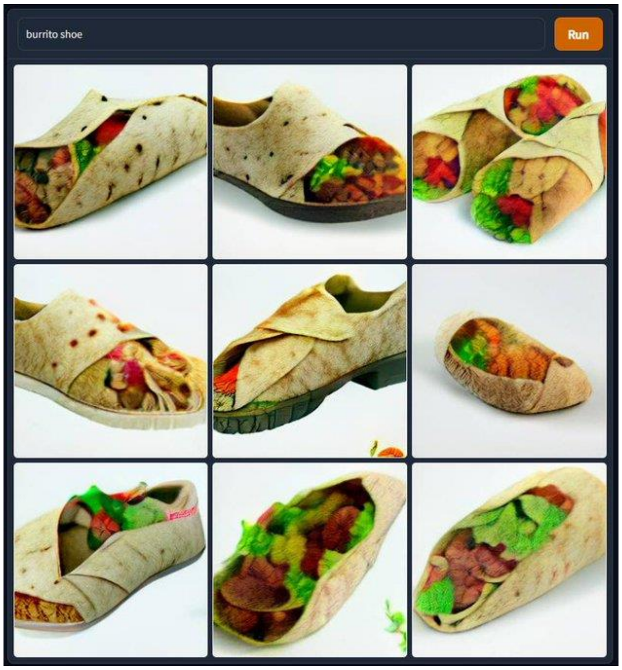
Subscribe to MTC here.

Final thought

PwC's crypto hedge fund report contains interesting information.

Have an artificially intelligent day.

good luck ⇅ be nimble



Oh mighty A.I. overlord, why do you punish us??

https://twitter.com/weirddalle

Dall-E is the AI that generates realistic images from a string of natural language text.

You can read about it here.

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