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amFX

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Long before rap battles, there was *flyting*, the exchange of witty, insulting verses.

These verbal throwdowns were popular in Scotland from the 5th to 16th centuries.

Current Views

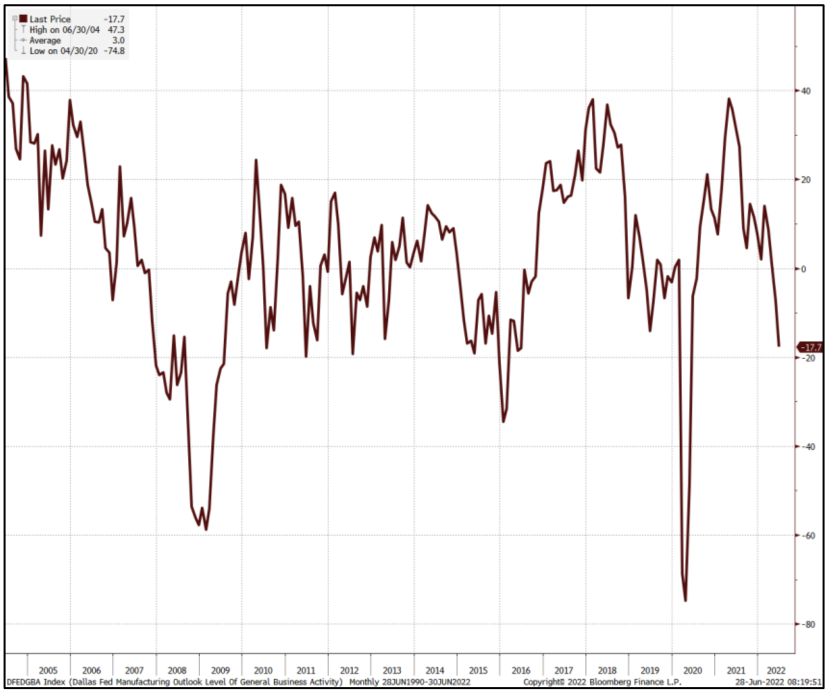
Short USDJPY @ 136.11
Stop loss 137.15
Take profit 133.15

Down but not out

We are in a bit of a market lull here as volatility comes off, risky assets stabilize, rates move back up, and oil rallies. The main narrative has gone from inflationary fire to a choice between soft landing and recessionary ice. My feeling is that we continue to chop around for a bit as we await ISM at the end of this week.

Most of the data looks something like yesterday's Dallas Fed number.

Dallas Fed Manufacturing Outlook (2004 to now)



It's not a pretty picture, but it doesn't say anything about the recession vs. soft landing question. The rate of change is concerning, but the level is consistent with the 2010-2015 regime of slow but not disastrous growth. Down, but not out. I am only choosing Dallas Fed because it came out yesterday… Most of the charts look similar. Here's NFIB business optimism and Philly Fed, as two other examples.

NFIB small business optimism

Philly Fed Outlook

For trading, I think this is a good time to be light on risk and wait for something interesting to happen. There is no clear theme right now and we are in a transition period that should see rates in a range (2.85/3.35 in US 10s), oil in a range (100/115 NYMEX) and a clear bias for inflation trades to top out. I think it's very unlikely that oil takes out the recent high at 124 (NYMEX) or that US 10's take out the 3.50% double top in yields. This is a corrective move higher in both oil and yields and is part of a consolidation off the highs, not a resumption of the upward trend.

Month-end is typified by transactional randomness, so I would brace for that sort of chop and remain on the lookout for a durable, tradable theme.

Antifrag

Lagarde's speech this morning gave us nothing new and continued with marble-mouth, detail-free descriptions of a package that sounds like it's still in early-stage development. Here is the key excerpt (bold is mine).

> **Transmitting the policy stance**
> For these changes in our monetary policy stance to be effective, we need to preserve the orderly transmission of our stance throughout the euro area.
>
> The ECB is conducting monetary policy in an incomplete monetary union, in which its policy has to be transmitted through 19 different financial and sovereign bond markets. The yields on those sovereign bonds provide the benchmark for pricing all other private sector assets in the 19 Member States – and ultimately also for ensuring that our monetary policy impulse reaches individual firms and households.
>
> If spreads in some countries respond in a rapid and disorderly way to an underlying change in risk-free rates, over and above what would be justified by economic fundamentals, our capacity to deliver a single monetary policy is impeded. In this situation, a change in the policy stance can be followed by an asymmetric response of financing conditions, regardless of the credit risk of individual borrowers.
>
> In such conditions – when we have what we describe as unwarranted fragmentation – preserving policy transmission is a precondition for returning inflation to our target. The normalisation of our monetary policy will naturally lead to rising risk-free rates and sovereign yields. And, as euro area sovereigns are starting from different fiscal positions, it can also lead to a rise in spreads.
>
> But in order to preserve the orderly transmission of our policy stance throughout the euro area, we need to ensure that this repricing is not exacerbated and distorted by destabilising market dynamics, leading to a fragmentation of our original policy impulse. That risk of fragmentation is also affected by the pandemic, which has left lasting vulnerabilities in the euro area economy. These vulnerabilities are now contributing to the uneven transmission of the normalisation of our policy across jurisdictions.
>
> The Governing Council is therefore acting in two ways.
>
> First, we will use flexibility in reinvesting redemptions coming due under the pandemic emergency purchase programme (PEPP) to preserve the functioning of the monetary policy transmission mechanism.
>
> **Second, we have decided to mandate the relevant Eurosystem committees, together with the ECB services, to accelerate the completion of the design of a new instrument for consideration by the Governing Council. The new instrument will have to be effective, while being proportionate and containing sufficient safeguards to preserve the impetus of Member States towards a sound fiscal policy.**

Flexible reinvestment is zzz. The new instrument remains to be seen. Definitely makes the July meeting interesting!

BIS

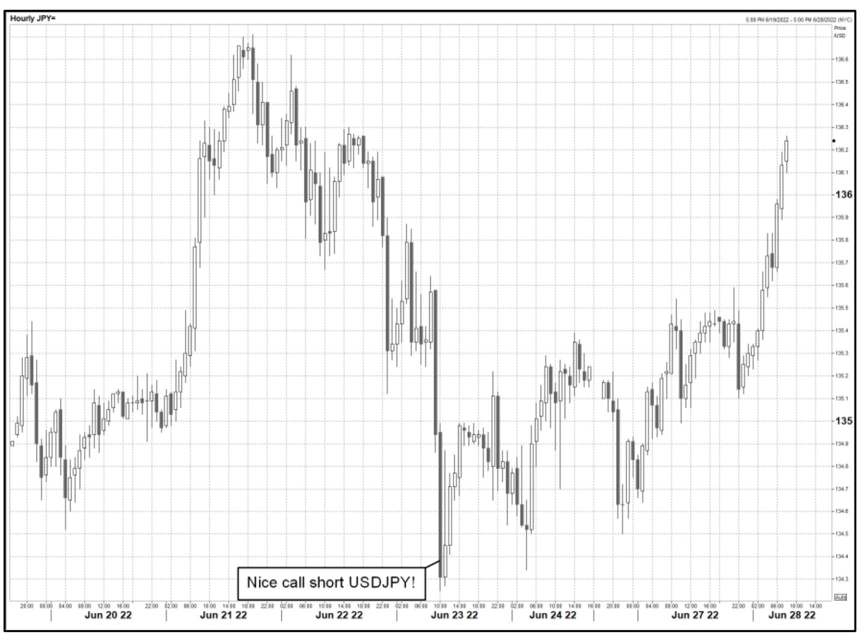
The BIS Annual Economic Report is always a long must-read and this year is no exception. This bad boy is 138 pages, and requires multiple hours, but I generally find the BIS is the gold standard of charting and plotting the current economic state of play. Here's their forward-looking intro:

> ## Near-term prospects
>
> What are the near-term prospects for the global economy?
>
> Context is of the essence. For the first time in the post-World War II era, the global economy is facing the threat of higher inflation, and hence the need to keep it in check, against the backdrop of elevated financial vulnerabilities. Looming large among these are historically high debt levels, both private and public, and rich valuations, notably for residential property.
>
> There is a narrow path ahead. It is possible to envisage a smooth resolution of the economic tensions. In this scenario, inflationary pressures ease spontaneously due to an end to bottlenecks alongside a reversal in the war-induced increases in commodity prices. This reduces the size of the required monetary policy tightening and mitigates the associated slowdown in economic activity – a soft landing. But the outcome could be less benign. The worst-case scenario would be stubborn inflation pressures that prompt a stronger tightening. This could trigger a larger slowdown, including a recession, alongside financial stress – a stagflationary hard landing.
>
> Hence a natural sequence of questions. Will higher inflation become entrenched? How far could growth falter? Will the financial sector come under strain?

Adam Tooze provides an excellent summary here.

Cheer hedge

Friday I wrote about the cheer hedge in my piece: How to succeed as a sell side trader. If you missed the piece, it's one of my most popular notes in ages, so I guess it's worth a read! The cheer hedge is the psychological phenomenon where cheering for an in-the-money trade leads to a reversal as it signals an emotional apex and market turning point. Here is the updated chart after someone cheered loudly and publicly for my short USDJPY on Friday. Life is so rich.



Final thought

USDJPY is not very fun, but I'm sticking with it. Tokyo sells, London buys. Rinse, repeat. Have a convivial day.

good luck ⇅ be nimble

flyting, (Scots: “quarreling,” or “contention”), poetic competition of the Scottish poets of the 15th and 16th centuries, in which two highly skilled rivals engaged in a contest of verbal abuse, remarkable for its fierceness and extravagance.

https://intranslation.brooklynrail.org/middle-scots/the-flyting-of-dunbar-and-kennedy/

Said Dunbar regarding Kennedy:

The earth shall tremble, the firmament shall shake,
And all the air with venom quickly stink,
And all the devils of hell in fear shall quake
To hear what I shall write with pen and ink;
For when I flyte, some man for shame will sink;
The seas will burn; the moon will be eclipsed;
Rocks will split; the world will lose its grip;
The bells will clang in bitter loud lament.

Scrawny sterile sponger, crabbed throughout;
Fie! scorched skin, you are all scratched and wrinkled;
For he that roasted Lawrence had your snout;
And he that hid Saint John’s eyes with a wimple
And he that struck Augustine had your pimples;
And your foul front had he that flayed Bartholomew;
The gallows gape for your disfigured dimples,
As you gape for haggis, like a ravenous mew.

Puny paltry pig-man, slave for half a glass,
Henpecked coward, not worth a drunkard’s oath;
Your commissar Quentin bids you come kiss his ass,
He holds no loves for such a useless loaf;
He tells me that you beg more beer and oats
Than any cripple in all of Carrick’s town;
Other poor paupers are forced to fight you off;
Old women weep when Kennedy comes around.

You can revel like the Devil, but level and surrender,
Thief, or grief and mischief shall come courting;
Grovel for grace, dog-face, or I shall chase you all winter;
Howl and yowl, owl; I shall foul your fame and fortune;
Naked capon, fed and bred against a b*tch’s side,
And like a mongrel, criminal, no man sets aught by you.
****-bit, sorry sh%t, worthless git, hardened hide,
Wasted wether, tawdry tether, evil adder: I defy you.

Maggoty mutton, gorged glutton, scurrilous certain heir to Hillhouse,
Rank beggar, oyster-dredger, dismal debtor on the lawn,
Lily-livered, soul-shivered, cheap as slivers in the millhouse,
Bard baiter, thief of nature, false traitor, devil’s spawn,
Melted wax, heckled flax, by these attacks you are defeated;
Sheep driver, lobster diver, nag lover, may earth expel you:
Heretic, lunatic, pickpocket, your fortune is cheated;
Bloody b*tch, muddy ditch, quail, cock, or I shall quell you.

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