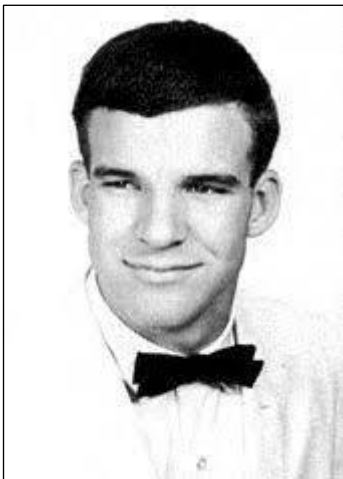


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FX

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Current Views

Short EURUSD @ 1.0702
Stop loss 1.0801
Take profit 1.0520

Nine-dollar milkshake

The ECB is taking forward guidance to a whole new level of absurdity as they signal the exact move and timing for the next hike. Why not just hike today then? Odd. Inflation above 7% and rates below zero. Madness.

The anti-fragmentation discussion was a disappointment while the suggestion of 50bps in September was hawkish, so EURUSD is unchanged. Italy spreads are widening and are back at levels last seen in May 2020 while Germany/US pushes to a 2-month high. Stalemate for the currency as its buffeted by dual crosswinds.

The widening in Italian spreads is a reflection of the fact that Italian yields are higher vol than Germany yields. The currency impact depends on how widening spreads impact sentiment, and how much of the BTP selling comes from unhedged foreign holders.



CPI

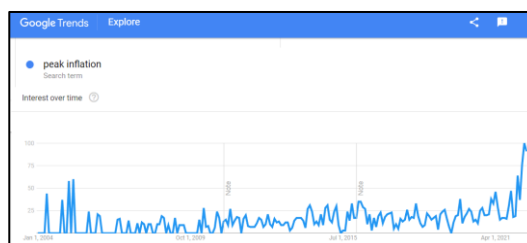
Tomorrow's CPI release is even more important than usual because we were supposed to be getting the disinflationary benefits of base effects around now. If we do not get the expected relief, it's big news.

I feel like the psychology of the number tomorrow is heavily tilted. People expect inflation to roll over and that is kind of assumed at this point. The conversation is now mostly whether we go back to 3% or bottom out at 5%. If inflation stays sticky, markets are going to be in for a shock.

Food, energy and rent prices are showing no sign of backing off, so the question really is how much those impact core. New York City average rent is now north of \$4,000 per month. I went for a walk with my son the other night and we popped into a diner so he could grab a vanilla milkshake to go. It cost \$8.85.

I would be ready for a strong number tomorrow and a big hit to the risk parity trade. Not because of the milkshake, but because the psychological impact of a strong number will be meaningful now that the long duration trade is somewhat well subscribed, many traders are tactically long equities, and peak inflation is common knowledge.

Google searches for "peak inflation"



Chuckle-worthy

This note from Gilliam Byron of Blockworks made me chuckle so I thought I would share it (with his permission).

I was on a London trading desk in the mid aughts when the hedge fund Marshall Wace introduced the concept of “alpha capture.”

Instead of every equities sales person calling them on the phone with their idea of the day, Wace asked for the best ideas to be submitted via a website so that 1) they wouldn’t have to pick up the phone so much and 2) they could track everyone’s performance over time.

We all naturally assumed that Wace would then buy the longs and sell the shorts submitted by the people with the best track records.

But their quants were, of course, more sophisticated than that, slicing and dicing the data in all sorts of unexpected ways.

My favorite takeaway from the alpha capture quants was that they ignored recommendations submitted by managing directors.

Typically the highest-paid people on an equities floor, managing directors tended to be older, spent a lot of time in meetings, went to a lot of lunches, were maybe riding on their laurels a little bit and were probably a lot overconfident in their trading abilities.

(No, I’m not bitter I never made M.D. Why do you ask?)

Basically, the quants found that whatever qualities it was that made people ascend to the rank of M.D. at an investment bank were not those that made for great stock picking.

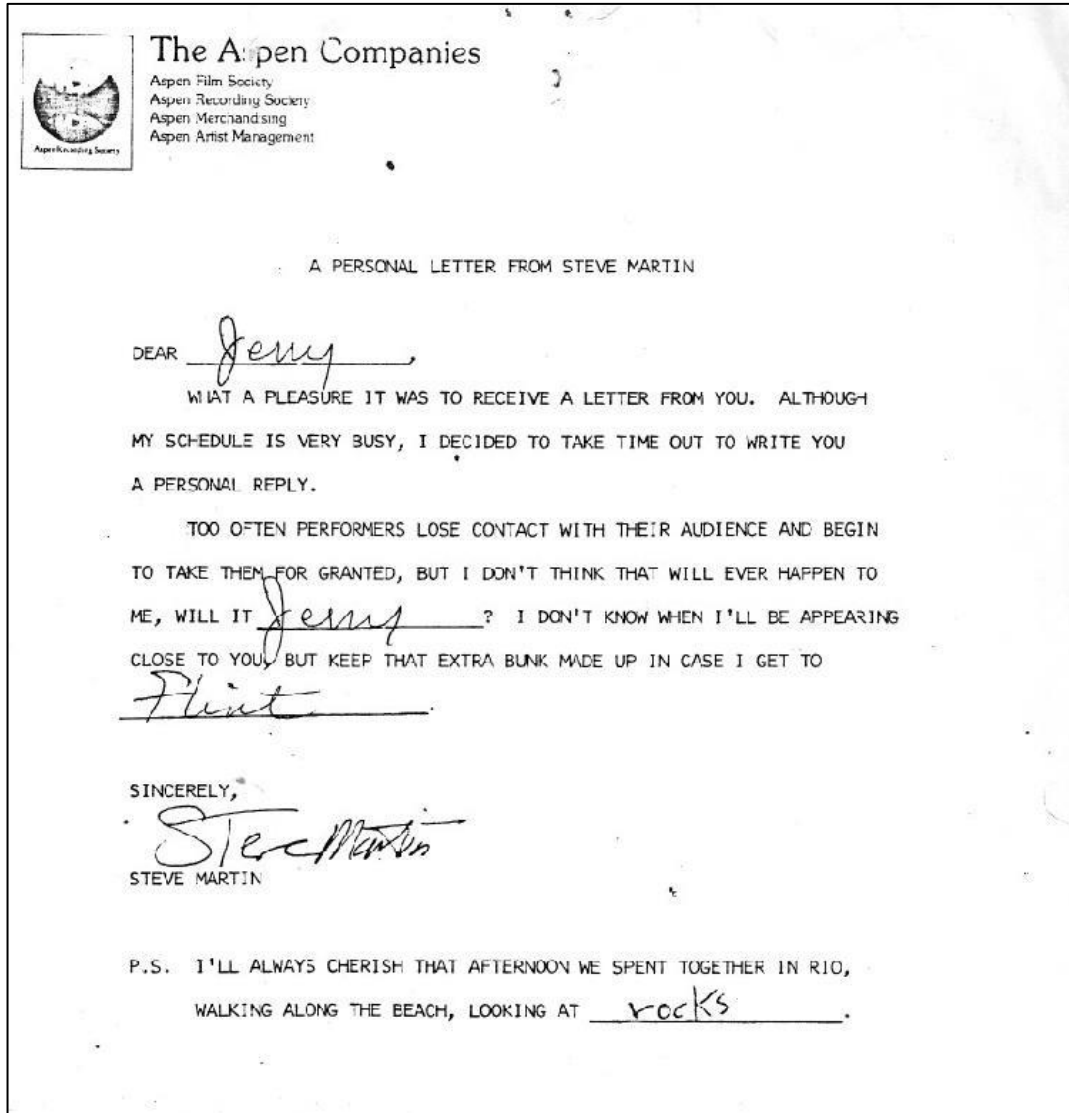
The worst trading performance of my career was the two years I was an MD at Nomura. Trading requires focus and when you’re off the desk half the time in IT and HR meetings, you can’t focus. I have so many memories and stories of bad trades by senior management over the years, I could fill 25 pages. It’s not that senior managers are necessarily bad at trading; they are just not on the desk enough to have an edge.

Final thought

July 6, the SEC finally makes a ruling on Grayscale’s spot bitcoin ETF application. Could be exciting! Probably won’t be. But could be! [Here’s an article.](#)

Have a humorous day.

good luck ↑↓ be nimble



A “personal” letter from Steve Martin

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