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Today's non-sequitur intentionally left blank.

Current Views

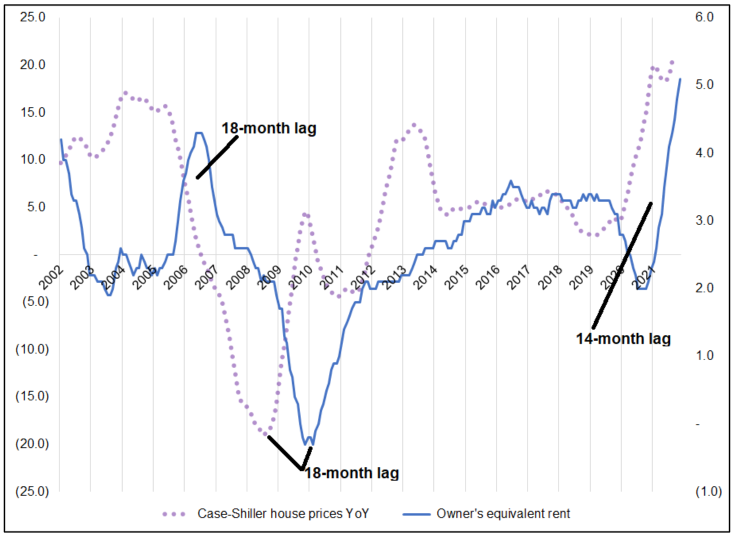
Short USDJPY @ 136.11
Stop loss 137.15
Take profit 133.15

OER and Sintra

We have transitioned from a regime of unambiguous inflationary fire to one where we now debate whether the next regime is a room temperature soft landing or recessionary ice. There is a mix of fear and relief around the housing cooldown, the web3/crypto implosion, commodity softness, and less hot inflation expectations. While we certainly want lower inflation expectations, we don't want them for the wrong reasons.

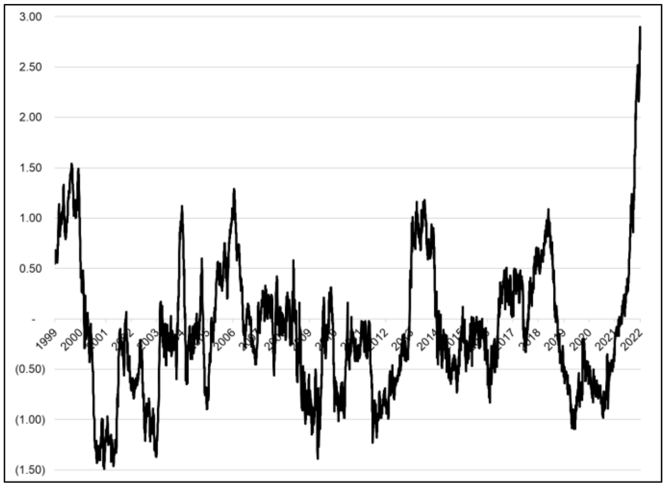
With copper, wheat, zinc, palladium, gold, and most other commodities except oil near six-month lows, the main inflationary pressure in future CPI releases will be services and especially OER. We know the OER series is sticky and tends to respond with a roughly 18-month lag to changes in home prices. Here is the chart:

OER moves about a year-and-a-half after house prices



Markets are sophisticated enough to know this, and the distribution of future house price moves is skewed flat to lower now because of this:

US 30-year mortgage rate, 1-year change, 1999 to now



But the logic around Fed policy is more difficult to analyze now that they have reduce or cut reliance on economic forecasting and are instead responding almost in real time to spot CPI data. This means Fed policy will probably err on the tight side from here, even as inflation is set to cool, because the Fed will be focused on lagging data like OER and CPI while leading data like commodity prices and mortgage rates show the way towards a less inflationary future. This is good for the back end of the bond market and bad for front end US rates.

For your info, if someone has the means to make a $3,000 / month mortgage payment… in mid-2021, at a 3% mortgage rate, they could afford a house that costs: **$710,000**. Today, with a 6% mortgage rate, they can afford a house that costs **$500,000**. That's a mind-boggling change!

Sintra

The market has grudgingly priced a bit of optimism for the antifragmentation package. I agree with this cautious optimism. While the initial response to the emergency ECB antifrag meeting was "kekekekee, lol" there is more sober analysis at this point and some people thinking "wow, they are getting ahead of a problem instead of waiting for it to become an emergency… that's good!"

The issue of raising rates in Germany while capping rates in Italy (and other peripheral nations) remains a huge logistical / operational challenge and reveals why most countries have their own monetary policy, and their own currency. When you try to apply the same monetary policy across an array of radically different economies with completely different structures, languages and cultures, you find the average rate is meaningless and most countries need tighter or looser than average policy. The ECB needs a bunch of levers for rates, but they only have one.

There is a lot on the line here because the ECB is trying to land the quadruple axle of monetary policy:

- Higher rates in Germany
- Stable rates in Italy
- Smaller balance sheet
- Stable currency

And of course, they need those four things to happen first, then they need all that to lead to lower inflation… And lead to a cooler global climate. Easy enough?

I am not expert in technical aspects of European monetary policy, but it seems like what they need is *Operation der Twist*. This would be a program where the ECB has the option but not the obligation to Sell Schatz (2-year Germany) and buy BTPs (10-year Italy) when spreads widen. Selling Schatz keeps upward pressure on German rates and helps the transmission of the overnight rate at the short end but BTP buys reduce pressure on Italian rates… While keeping the ECB balance sheet the same size. Thing is, this will put pressure on the capital key, and you could argue that it creates easing pressure because it extends duration on the ECB balance sheet. There is no obvious answer here!

Anyway, the market is eager to scour for clues on this as Lagarde spends a few days at the ECB Forum on Central Banking. The best I can surmise, Lagarde's appearances are:

28JUN	4am NY (9pm LDN)	Introductory speech "Challenges for monetary policy in a rapidly changing world"
28JUN	845am NY (145pm LDN)	Press conference. This is listed on Bloomberg, but I cannot find it anywhere else.
29JUN	9am NY (2pm LDN)	Panel on "Challenges for monetary policy in a rapidly changing world"
29JUN	11am NY (4pm LDN)	Closing remarks

If anyone knows anything about that press conference listed on Bloomberg, please let me know as the ECB website does not confirm its existence. Thanks. Clearly the 28JUN 4am (overnight tonight) speech would be the place for the antifragmentation trial balloon. If there is nothing there, I think that would be a mild disappointment and EURUSD falls 50 pips or so. A specific and realistic plan outline could take the EUR 2% higher across the board, and my guess is it's 15% priced in.

Final thought

Japan keeps selling USDJPY and London keeps buying it. Stay bearish. Have an inspired day.

good luck ⇅ be nimble

JOURNAL OF APPLIED BEHAVIOR ANALYSIS 1974, 7, 497 NUMBER 3 (FALL 1974)

THE UNSUCCESSFUL SELF-TREATMENT OF A CASE OF "WRITER'S BLOCK"[1]

DENNIS UPPER

VETERANS ADMINISTRATION HOSPITAL, BROCKTON, MASSACHUSETTS

REFERENCES

[1]Portions of this paper were not presented at the 81st Annual American Psychological Association Convention, Montreal, Canada, August 30, 1973. Reprints may be obtained from Dennis Upper, Behavior Therapy Unit, Veterans Administration Hospital, Brockton, Massachusetts 02401.

Received 25 October 1973.
(Published without revision.)

COMMENTS BY REVIEWER A

I have studied this manuscript very carefully with lemon juice and X-rays and have not detected a single flaw in either design or writing style. I suggest it be published without revision. Clearly it is the most concise manuscript I have ever seen—yet it contains sufficient detail to allow other investigators to replicate Dr. Upper's failure. In comparison with the other manuscripts I get from you containing all that complicated detail, this one was a pleasure to examine. Surely we can find a place for this paper in the Journal—perhaps on the edge of a blank page.

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1311997/

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