

am
FX

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An elephant being attacked by a dragon. From the Aberdeen Bestiary, circa 1200.

Current Views

Short EURJPY @ 141.25

Stop loss 144.44
Take profit 137.77

Short EURUSD @ 1.0702

Stop loss 1.0801
Take profit 1.0411

The EUR is broken

ECB

ECB meeting summary, plagiarized from a client conversation yesterday:

- Spot inflation 8.1%
- Forecast inflation > Target inflation for the entire forecast horizon
- “We can hike to neutral by mid-2023, that’s cool.”
- So, for the next nine months they will be below neutral and **placing upward pressure** on inflation.
- Complete tomfoolery.

The EUR is cratering as ECB credibility goes down the toilet. Literally the worst possible outcome for the ECB is this reaction across four asset classes:

- Rates much higher across the curve
- Eurozone banks down 6.5% in two days
- Italian spreads 20bps wider
- EUR much weaker (more upward pressure on inflation)

This morning’s headline:

***ECB’S HOLZMANN: MARKET REACTED VERY WELL TO RATE-HIKE PLANS**

Wut? The EUR looks broken.

BOJ

Then you have this:

***MOF, BOJ, FSA: CONCERNED ABOUT RECENT RAPID YEN DECLINE**

That’s a meaningful escalation in the rhetoric level. You can’t pin interest rates below market equilibrium levels and complain about your currency being weak. You have to pick one or the other. Obviously, the calculus is shifting in Japan and they are going to have to release the 25bp cap in JGB yields if USDJPY keeps going.

An interesting combination of all these factors is short JGBs and short EURJPY. If the JPY weakness further, your odds of a large payoff in the JGB trade rise and if EURJPY tumbles, your JGB position is probably flat to small under water. It’s a tricky one to size because the vol of JGBs is so non-linear but to me, it looks like an outstanding two-line-item portfolio.



Playing the slow escalation of currency rhetoric is double black diamond difficult. The market doesn't just say "OK, we're done then" when policymakers jawbone. The direction of travel doesn't change right away, and choppiness picks up markedly. USDJPY and JPY crosses are going to be super choppy for a bit, especially as we near 135.00. But with the ability to raise the yield cap, and some credibility accumulated from the successful effort to reverse USDJPY off 75.00... I would guess that **we are nearing an intermediate high for USDJPY** and just made the high in EURJPY.

If you work at a hedge fund: Selling a 3-month 145.55 one touch in EURJPY above 55% is a nice low stress way to be short some topside with limited risk.

I rarely do this, and I might regret it, but **I'm moving the take profit on the short EURUSD down**. It was at 1.0520; I'm moving it to 1.0411. And I'm adding short EURJPY with a very wide stop loss at 144.44. If the trade starts to work, I will quickly move the EURJPY stop lower.

When I returned from Miami, I wrote that one of the dominant themes was that 2020s are the mirror image of the 2010s in many, many ways. You can add the inversion of the currency wars now as everyone wants a stronger currency after wishing for a weaker currency for ten years. Here's the original currency war story from back in the day:

<https://www.reuters.com/article/uk-brazil-currency/brazil-says-world-in-a-currency-war-idUKLNE68R00720100928>

Final thought

If you're not familiar with Ben Hunt's writing, [this June 8 note](#) he wrote is a nice entry point. It's a good note, and it contains references to many of the key notes in the Epsilon Theory canon.

I also enjoyed [this piece](#) from Justin Ross via his "Square Man, Round World" Substack.

Have a humorous day.

good luck ↑↓ be nimble



Lupus

Some interesting medieval images of real and fictional animals [on this website](#)



Jaculus: A flying serpent

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