Wednesday, June 08, 2022

amFX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

"Though chickens are the most numerous and ubiquitous domestic bird, their origins, the circumstances of their initial association with people, and the routes along which they dispersed across the world remain controversial."

Current Views

Short EURUSD @ 1.0702
Stop loss 1.0801
Take profit 1.0520

USDJPY: Ride into the danger zone

USDJPY is getting close to the 135 target. Exit USDJPY longs between here and 134.50. Here's why:

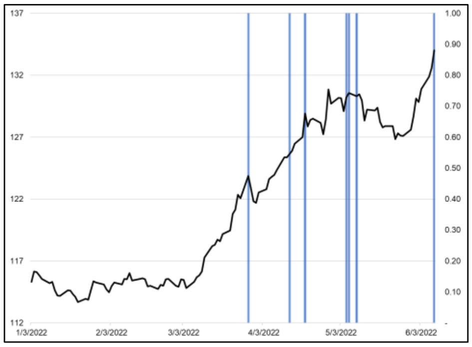
1. USDJPY is currently 262 pips above its 100-hour moving average. I call the difference between spot and the 100-hour MA "The Deviation". When The Deviation exceeds 250 pips, you are in the danger zone for a USDJPY reversal[1]. You can see the other times we got >250 pips above the 100-hour in this chart. The top panel is USDJPY and the 100-hour. The bottom panel is the difference between the two. The vertical cyan lines help line up the 250+ zones in the deviation with what spot did. Time for consolidation or reversal soon.

USDJPY (top) and its deviation from the 100-hour MA (bottom)

Vertical lines mark points where deviation exceeds 250 pips

2. The 1-month USDJPY risk reversal is trading 0.33 bid for USD calls. It's unusual for calls to be more expensive than puts in USDJPY and 0.33 is a large premium. This chart shows the other times the risk reversal exceeded 0.30.

USDJPY with vertical lines to mark when risky >0.30



[1] Deviation danger zone varies depending on vol. 250 pips is valid when vol is around here (1-month USDJPY vol in the 10/12% area)

3. The round fives have been stall points in USDJPY (115.00 and 125.00) and 135.10 is a Godzilla level. I would also suspect that GPIF and other MOF / BOJ agents will be smoothing at 135.00. While Kuroda continues to push the dovish policy, a high-speed or disorderly collapse of the yen would not be welcomed.

   Zooming out, the next chart shows a similar overbought situation on the weekly chart. The chart is a weekly with the 100-week MA and the deviation from that moving average on the bottom panel. The blue vertical lines mark each time USDJPY was 20 big figures above the 100-week. Caution in USDJPY is warranted at all levels of zoom!

   Please note that the deviation from the weekly moving average is highly imprecise and is not a good timing mechanism. If you look closely, you'll see USDJPY sometimes overshot by 3-5 yen on this chart. Still, it's another brick in the wall of worry as we approach 135.00 for the first time.

   The main risk is not an inverted-V blowoff top, but a frustrating consolidation 130/135.

USDJPY (top) and its deviation from the 100-week MA (bottom)

Vertical lines mark points where deviation exceeds 20 big figures

ECB

The ECB meeting tomorrow is more interesting than usual. After tomorrow's meeting, there are four meetings left this year. There are 135bps of hikes priced in. 135 divided by 4 is 33.8.

My feeling is that tomorrow's meeting is unlikely to lead to more hawkish pricing but could very possibly lead to less. Unless the ECB hikes tomorrow (extremely unlikely, though not impossible) there needs to be a signal of 50bps to ratify 33.8bps of hikes per meeting. Even 50 in July then 25, 25, 25 doesn't get you 135bps. I lean on the dovish side vs. market pricing for tomorrow's meeting.

The other wildcard tomorrow is whether the ECB can credibly signal some kind of plan to backstop the periphery with an anti-fragmentation tool. I am skeptical that anything will come of this. It's worth considering that **a large rate hike with a credible anti-fragmentation tool would be massively bullish EUR** but I don't think we are anywhere close to that yet, despite this FT article last week. I am keeping the EUR short through ECB.

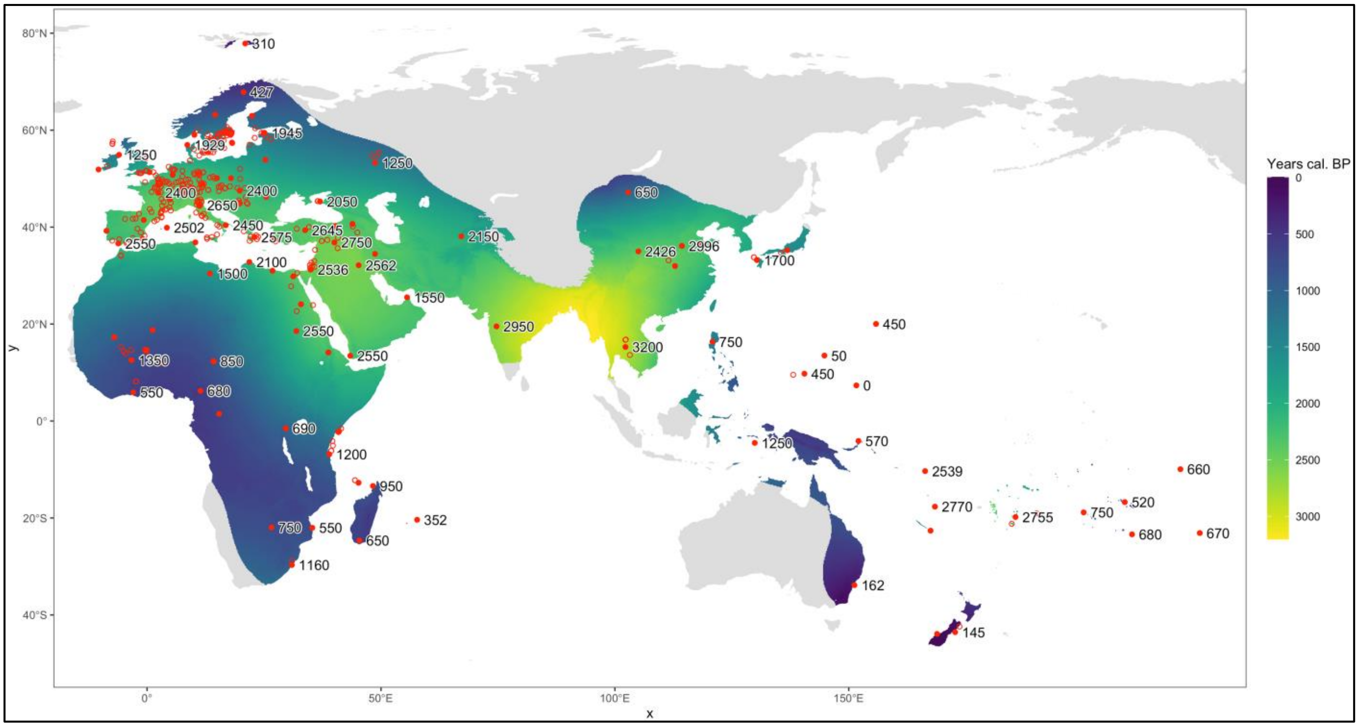
Final thought

Paging Tyler Vigen.

Probably not a coincidence

Don't be a chicken today.

good luck ⇅ be nimble



A map depicting the earliest confidently assigned chicken remains across Eurasia, Africa, and Oceania alongside a spatial kriging interpolation of the timing of the arrival of chickens.

The oldest chicken remains were found in Thailand.

From: The biocultural origins and dispersal of domestic chickens

Click here to subscribe to am/FX

Markets and Trading Commentary Disclaimer

This material has been provided by Spectra Markets, LLC ("Spectra Markets"). This material is confidential and therefore intended for your sole use. You may not reproduce, distribute, or transmit this material or any portion thereof to anyone without prior written permission from Spectra Markets.

This material is solely for informational and discussion purposes only. Spectra Markets is not a registered investment advisor or commodity trading advisor. This material should not be viewed as a current or past recommendation or an offer to sell or the solicitation to enter into a particular position or adopt a particular investment strategy. Spectra Markets does not provide, and has not provided, any investment advice or personal recommendation to you in relation to any transaction described in this material. Accordingly, Spectra Markets is under no obligation to, and shall not, determine the suitability for you of any transaction described in this material.

To be clear: Your individual circumstances have not been assessed. You must determine, on your own behalf or through independent professional advice, the merits, terms, conditions, risks, and consequences of any transactions described in this material. Securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. This material may also contain information regarding derivatives and other complex financial products. Do not invest in such products unless you fully understand and are willing to assume the risks associated with such products. Neither Spectra Markets nor any of its directors, officers, employees, representatives, or agents, accept any liability whatsoever for any direct, indirect, or consequential losses (in contract, tort or otherwise) arising from the use of this material or reliance on information contained herein, to the fullest extent allowed by law.

The opinions expressed in this material represent the current, good faith views of the author at the time of publication. Any information contained in this material is not and should not be regarded as investment research or derivatives research as determined by the U.S. Securities and Exchange Commission ("SEC"), the U.S. Commodity Futures Trading Commission ("CFTC"), the Financial Industry Regulatory Authority ("FINRA"), the National Futures Association ("NFA") or any other relevant regulatory body. The author is currently employed at a trading desk. The opinions may not be objective or independent of the interests of the author. Additionally, the author may have consulted with various trading desks while preparing this material and a trading desk may have accumulated positions in the financial instruments or related derivatives products that are the subject of this material.

Spectra Markets does not guarantee the accuracy, adequacy or completeness of the information presented in this material. Past performance and simulation data do not necessarily indicate future performance. Predictions, opinions, and other information contained in this material are subject to change continually and without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and Spectra Markets assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements. The value of any investment may also fluctuate as a result of market changes.
Spectra Markets is affiliated with Spectra FX Solutions LLC, an introducing broker that is registered with the NFA; Spectra FX Solutions LLP, which is a registered entity with the U.K.'s Financial Conduct Authority; and SpectrAxe, LLC, a swap execution facility that is currently in the process of registering with the CFTC. The disclosures for Spectra FX Solutions LLC and Spectra FX Solutions LLP related to the separate businesses of Spectra FX can be found at http://www.spectrafx.com/.