SPECTRA MARKETS

Wednesday, June 15, 2022

am FX

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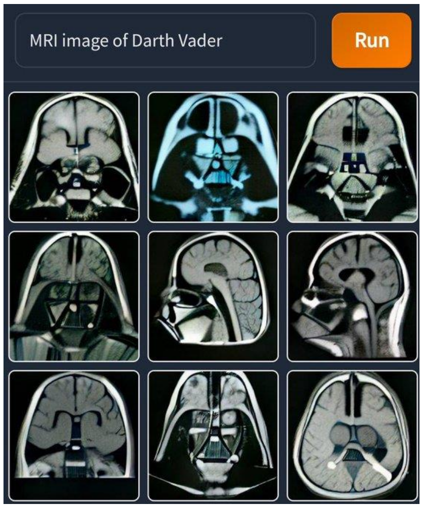


Current Views

Short EURJPY @ 141.25
Stop loss 144.44
Take profit 137.77

Who watches the Watchmen?

Remember last Fed meeting, on May 4, stocks ripped, and the USD got smoked for a day because Powell reassured the market that a hike larger than 50bps was off the table? It's six weeks later, and it looks like they are going to hike 75bps. This is another example of pointless forward guidance. The Fed either has to stick to the guidance or implement the correct policy. It can't do both.

AUDUSD hourly chart around the last FOMC

Most outside observers have concluded that central bank forward guidance has become completely pointless, but those inside the central banks haven't got there yet.

Assuming someone at the Fed leaked today's FOMC result to Nick Timiraos, it would be a violation of the Fed's blackout policy, I think? Here are two key paragraphs from the FOMC Policy on External Communications of Federal Reserve Officials.

> "No confidential information may be released except pursuant to Committee instructions or with written authorization from the Chair and prompt notification to the Committee."

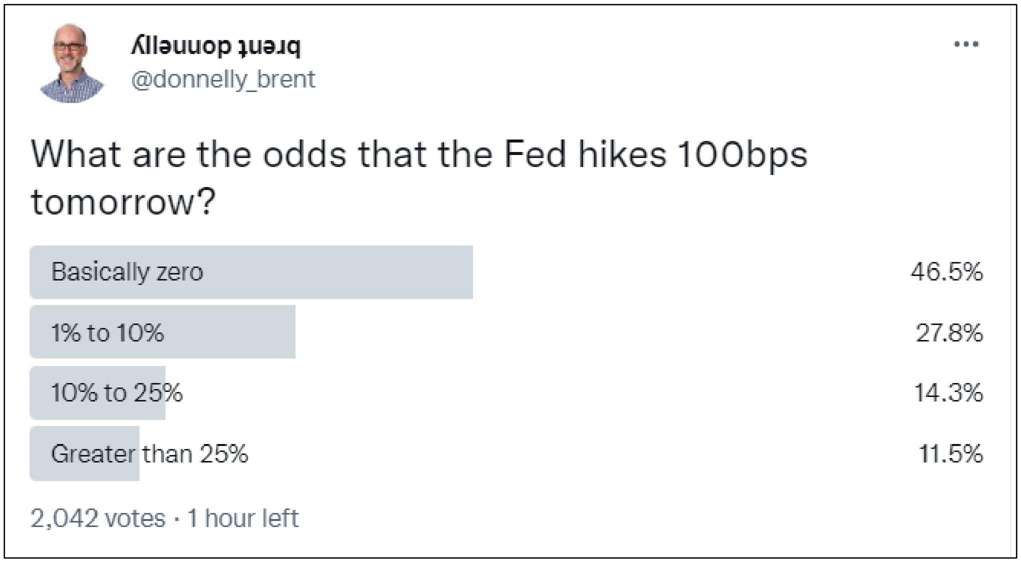
> "During each blackout period, FOMC staff officers as well as staff who have knowledge of information that is classified as "Class I FOMC – Restricted Controlled (FR)" and that is related to the previous or upcoming FOMC meeting will refrain from expressing their views or providing analysis to members of the public about current or prospective monetary policy issues."

I could be wrong here, but it looks like someone at the Fed offered confidential information to the public (via a journalist) during the blackout period. Unless it was offered with written authorization of the Chair, it seems super unprofessional and probably in breach of policy. I get they use leaks to manipulate market expectations, but that doesn't make it kosher, does it? It will be interesting to see if this is investigated like the 2012 leak that lead to Lacker's resignation.

This paragraph from GS captures the silliness pretty well:

> An article in the Wall Street Journal by Nick Timiraos reported that Fed officials are likely "to consider surprising markets with a larger-than-expected 0.75-percentage-point interest rate increase at their meeting this week." The article is a departure from another article that Nick Timiraos published yesterday that characterized such a move as "unlikely."

If the Fed hikes 50 today, I retract all of the above. Anyway, the Timiraos leak drains much of the excitement out of the meeting at this point. If they had left the market alone and hiked 75bps, it would have given them a nice shot of credibility as a hike > market pricing would show the Fed is setting policy with the real economy and the inflation target in mind, not financial markets. Still, there is a non-zero cohort of people that think 100bps is still possible.



I find this meeting particularly hard to handicap and I think the markets will be super choppy on almost any result. Say they go 75 and signal 100 is off the table. Are we supposed to believe that? Probably not. Unless the Fed goes 50bps today, they have confirmed that forward guidance has a shelf life of less than 42 days.

I think on 50bps or 100bps from the Fed, the first move will be the wrong move. If they hike 50bps, the kneejerk will be to buy risky assets and sell the USD, but I think the back end of the bond market will sell off aggressively as Fed credibility becomes an even larger problem as they fail to get to neutral despite months and months of raging, consumer sentiment-destroying inflation. **If the Fed goes 50bps, the trade is to sell the kneejerk rally in stocks.**

In contrast, if they go 100, they are taking a proactive approach and finally recognizing the inflation threat. While that is short-term painful, it is bigger picture positive as there is some end in sight as the Fed kicks its addiction to gradualism. **If the Fed goes 100bps, the trade is to buy bonds with both hands.**

I want to emphasize that the data is in control here, not the Fed. Whatever reaction we see today is likely to be a one-day thing (just like last FOMC). The Fed has no idea where inflation is going, and neither do we. The economic data is what matters, not Fed dots or forecasts or guidance.

Quick trades update

The USDJPY got stopped out by 5 pips. Annoying. I still think we consolidate in USDJPY and double no touches are good value with vol way up here. 128.80/136.50 DNT costs around 15%/20% depending on spot and vols (the trade has a bearish USDJPY bias, which I like given the change in currency policy—Japan no longer wants a weak JPY).

Quarterly trade ideas recap

Today is my quarterly trade ideas recap. On October 24th, 2017, I wrote the following after reading Philip Tetlock's excellent book Superforecasting:

> One of Tetlock's big beefs, which is a pet peeve of mine too, is the litany of forecasts that stream daily on CNBC, Bloomberg and the internet without any scrutiny or follow-up. Specifically, the relentless stream of "Crash Imminent" predictions is a complete joke. These inaccurate, one-way forecasters are not called out, they are instead deified as "the famed economist who correctly predicted the collapse of 2000 and 2008" etc.
>
> Most analysts that get credit like this predict a crash every year or two and then claim credit in the very few years their call is right. There is no verification (and many forecasts are so open-ended they are impossible to verify) so anyone can make any prediction and it is more important how famous they are, not how accurate they are. I don't mean to pick on a specific website or forecaster—As an industry, Wall Street is simply terrible at following up on the flood of forecasts we make every day.
>
> It is pretty weird how we don't even have much data on who is good at forecasting the main US economic data, when this is easily verifiable with a bit of work. Anyone know the Brier Score of the top 10 forecasters of US economic data? Is their forecasting skill persistent? There are many reasons not to follow up on forecasts but most of them suit the forecaster not the users of the forecast.
>
> For example, people sometimes ask me to publish my trade idea outcomes. I hesitate for four reasons:
>
> 1. If I am right a lot in AM/FX but my real-world P&L isn't that great, it looks bad and feels bad. "Great calls, Brent, but what's with your teeny little P&L?"
> 2. If I am wrong a lot, I look stupid. My credibility could be damaged.
> 3. If I am right a lot, it looks like I am bragging. Victory laps are annoying.
> 4. The purpose of AM/FX is not to publish ideas which readers blindly follow. My goal is to help you make your own investment and trading decisions. The idea is to reveal my process and put stuff on your radar. Hopefully that helps you improve your process and plants the seed for some good trades on your end.
>
> The thing is, though, after reading Superforecasting I feel it's lame and disingenuous to make forecasts and then not follow up. So, I will collect and publish my trade idea results once per quarter. Caveats: My real-world trading P&L can differ dramatically from the P&L of the "Current Views". Also: I cannot guarantee the accuracy of the data (though I present it, in full, on the next page and I'm pretty sure it's accurate). Past performance does not guarantee future results. Ask your doctor if AM/FX is right for you. Results on next page.

On the next page, you will find a detailed sheet that shows my trade ideas since the last update (which was 08MAR22). In order for the trades to be comparable, I assume a portfolio with a $4m stop loss that risks $100,000 on each trade (2.5% of free capital). You could divide all the numbers by 10 if you have a smaller account, and if you have a $40 million stop loss at a hedge fund, you can multiply all the numbers by 10. These trades are all liquid macro, there is not much of a capacity issue.

The $ amounts are not really the point; the point is just to normalize the trades because reporting % returns on trades makes no sense. What makes sense is to normalize risk based on how wide the stop loss is. Tighter stops = bigger positions and vice versa. So, to be clear: I risk $100,000 on each trade, backing out the position size from the difference between the entry point and the stop loss. This is all fully explained in Chapter 11 of Alpha Trader. The main point of this results exercise is: transparency and accountability.

AM/FX Trade Ideas since 08MAR22

Risking $100,000 on each trade   Free capital: 4,000,000   2.5% of free capital on each trade

		Asset	Entry	Stop loss	Position size	Take profit	Actual exit	P&L	Exit date	Holding period (days)	Notes
16-Mar	L	USDJPY	118.65	116.51	5,555,556	123.3300	123.33	223,149	28-Mar	12	
16-Mar	L	USDJPY	118.65	116.51	5,555,556	123.3300	123.33	223,149	28-Mar	12	
16-Mar	L	AUDUSD	0.7258	0.7127	7,516,610		0.7511	190,170	28-Mar	12	
16-Mar	L	EURUSD	1.1000	1.0802	4,959,596		1.0966	(16,863)	28-Mar	12	
16-Mar	S	USDCHF	0.9422	0.9592	5,424,656		0.9357	69,136	28-Mar	12	
16-Mar	S	USDCNH	6.3623	6.4768	6,042,539		6.3855	(21,954)	28-Mar	12	
25-Mar	S	GBPUSD	1.3215	1.3353	7,322,048	1.2811	1.3010	150,102	18-Apr	24	
30-Mar	L	EURGBP	0.8460	0.8369	8,453,085	0.8599	0.8366	(103,297)	5-Apr	6	
4-Apr	S	EURUSD	1.1000	1.1201	5,066,033	1.0755	1.0825	88,656	13-Apr	9	
11-Apr	L	USDCAD	1.2606	1.2539	18,714,925	1.2777	1.2537	(99,516)	14-Apr	3	
12-Apr	S	AUDNZD	1.0875	1.0976	15,232,292	1.0667	1.0945	(69,307)	14-Apr	2	
19-Apr	L	AUDUSD	0.7362	0.7289	13,562,797	0.7480	0.7377	20,344	21-Apr	2	
3-May	S	USDSEK	9.8350	9.9610	7,857,143	9.5510	9.9650	(102,502)	5-May	2	
4-May	L	AUDUSD	0.7135	0.7049	11,487,753	0.7245	0.7245	126,365	5-May	1	
9-May	S	CADJPY	101.21	102.61	7,229,286	97.11	100.88	23,250	17-May	8	moved stop way lower
18-May	Buy	GBPJPY	put spread	157/154				(100,000)			
24-May	S	NZDCHF	0.6240	0.6365	7,360,000	0.6085	0.6260	(16,000)	1-Jun	8	
31-May	S	EURUSD	1.0702	1.0801	10,194,451	1.0411	1.0411	296,659	13-Jun	13	
10-Jun	S	EURJPY	141.25	144.44	4,427,900	137.77	140.9500	9,197			
11-Jun	S	USDJPY	134.05	135.55	8,936,667	130.55	135.5700	(100,212)	15-Jun	4	

Total P&L	**790,526**	8.3 *average hodling period*
Winners	**11**	
Losers	**9**	
Win%	**55%**	
avgWIN	**129,107**	
avgLOSE	**(69,961)**	

Gray trade is still alive

Takeaways:

- An excellent quarter. The big trades were long USDJPY from 118 to 123 and short EURUSD most of the way from 1.10 to 1.04. Pretty good P&L for low-leverage approach risking only 2.5% of capital on each trade.
- In GBP, I had a nice short but was way too early on the EURGBP long and that was costly. GBPJPY also didn't work because the JPY leg kept going as rates kept going.
- You can't get JPY or JPY crosses right unless you get bonds right.
- The good trades mostly took around 10-14 days to pan out. The only exception was the bang bang AUDUSD long May 4 FOMC.

Final thought

When I searched "Timiraos leak" on Google. I found this…

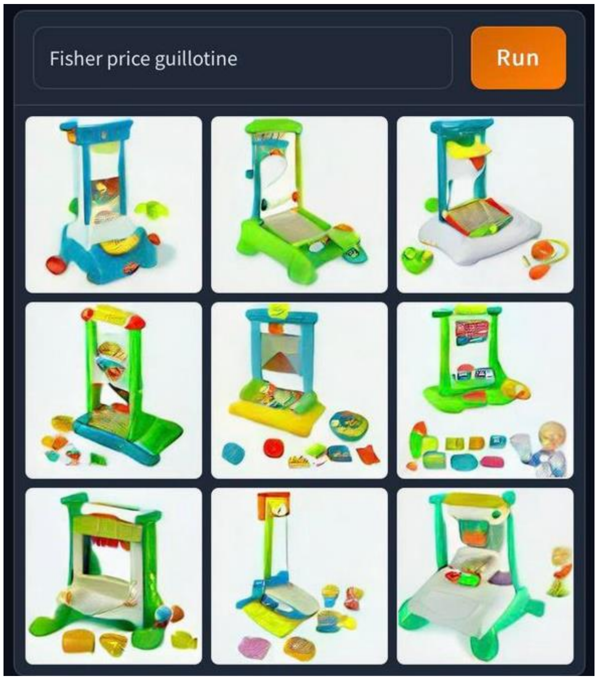
good luck ⇅ be nimble

Dall-E is the AI that generates realistic images from a string of natural language text.

You can read about it here.

There is a good follow on Twitter called: Weird Dall-E Generations.

It's a treat.



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