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amFX

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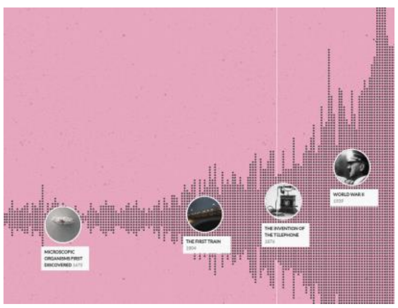


Current Views

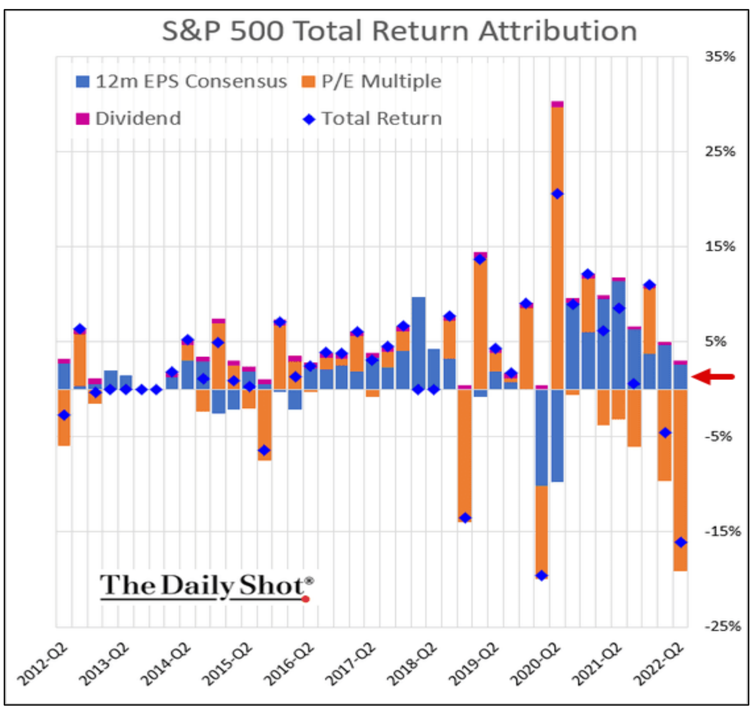
Short EURJPY @ 139.55
Stop loss 141.11
Take profit 136.66

Short USDJPY @ 136.11
Stop loss 137.15
Take profit 133.15

Bad news is bad news

The market is trying to play the "bad news is good news" game too early. Worsening economic data around the world is pushing commodities down and reducing inflationary heat, but the problem for risky assets is three-fold.

1. **There will be no quick pivot to central bank easing**. The lagged nature of US inflation figures (specifically CPI, which relies on OER, a lagging house price tracker) means the Fed can slow or pause hikes once they get to neutral, but it will be very difficult for them to cut or resume QE. The starting point of this hiking cycle is so wildly different from prior cycles that anyone with the 2018 / 2019 hikes-to-cuts pivot in their mind has the wrong framework.
2. **There is still a Pavlovian compulsion to buy the dip**. 2010 to 2021 was the greatest "buy the dip" era in my lifetime. Anyone under 34 years old or so has never traded a real bear market. 2020 was not a real bear market, it was a flash crash with a V-shaped government intervention bottom. We're not getting that this time. There is no room for fiscal or monetary expansion right now as inflation is everywhere a political phenomenon (including Japan!) Friday and Sunday price action in equities show the market remains in buy-the-dip mode all the way down. VIX is still just 29. Still no fear.
3. **Stocks have not priced in lower earnings**, in fact earnings were still a positive contributor to stock prices in Q2! This chart from the Daily Shot (via Twitter) gives you the idea. This to me says that stocks have repriced based on DCF considerations as the risk-free rate skyrockets but have not yet acknowledged the Europe, UK and USA recession stories. Micron is probably a hint of things to come. TSMC too, perhaps? All this stuff is great for whipping inflation, now, but not great for earnings or stock prices.



Bad news is bad news. And I'm not saying this because stocks are lower today, I was saying it Friday, too.

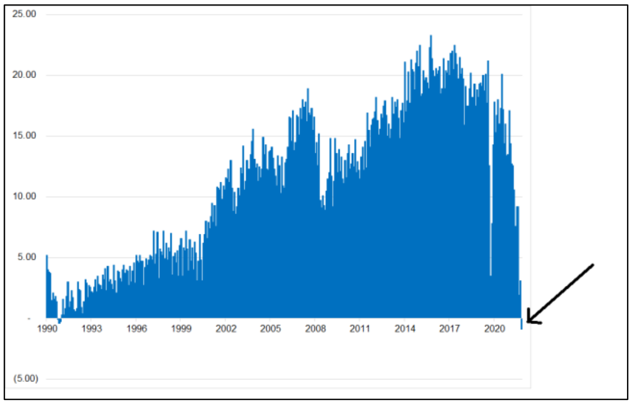
The yourso

2001: The dotcom bubble had burst, but the US dollar continued to reign supreme as the equity boom of 1999/2000 had first triggered a flood of US asset and USD buying and then the burst of the bubble and subsequent recession triggered a new flood of safe haven USD buying. The situation was exacerbated as investors viewed the euro and its structural deficiencies with great skepticism. USD was an all-weather play.

EUR (unlike its father, the DEM and its cousin, the CHF) was viewed as a soft currency with no safe haven properties. The rapid flip from good news USD buying to bad news USD buying caught many off guard as they expected the turn in US stocks to trigger a turn in the US dollar. It took G7 intervention (buying euros) and the rise of China to turn the dollar as it finally peaked in Q2 2002.

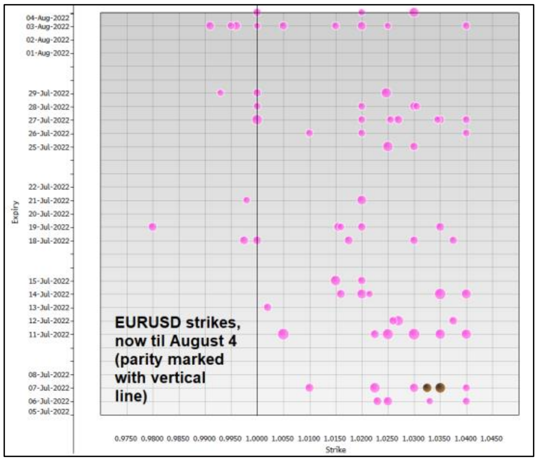
2022: Same story, basically! Instead of an existential story about a new, soft currency, we have an existential story about a monetary framework that requires the central bank to flawlessly execute a magic trick as it manages interest rates across wildly different sovereign credits on a continent where worker mobility is severely limited by language and culture and investors flip in and out of panic mode on BTPs at the first sign of a 25bp hike towards zero rates in a world of 44% PPI. Monetary union is hard. Oh, and there's an energy crisis that has flipped Germany into trade deficit for the first time since the release of Terminator 2: Judgment Day. See here:

Germany Trade Balance, 1990 to now



While my bias is often to buy low and sell high, it probably makes sense to get short EURUSD down here on the break of the massive 1.0330 level and stop out if we take out 1.0360. Given the moves in yields, and the likelihood these moves continue, I like short EURJPY a bit better and will add that now. Short here (139.55) with a stop at 141.11 and take profit at 136.66. I acknowledge the entry point is not amazing after the huge drop, but sometimes I think it's OK to plug your nose and jump in the cold water. I think this is one of those times.

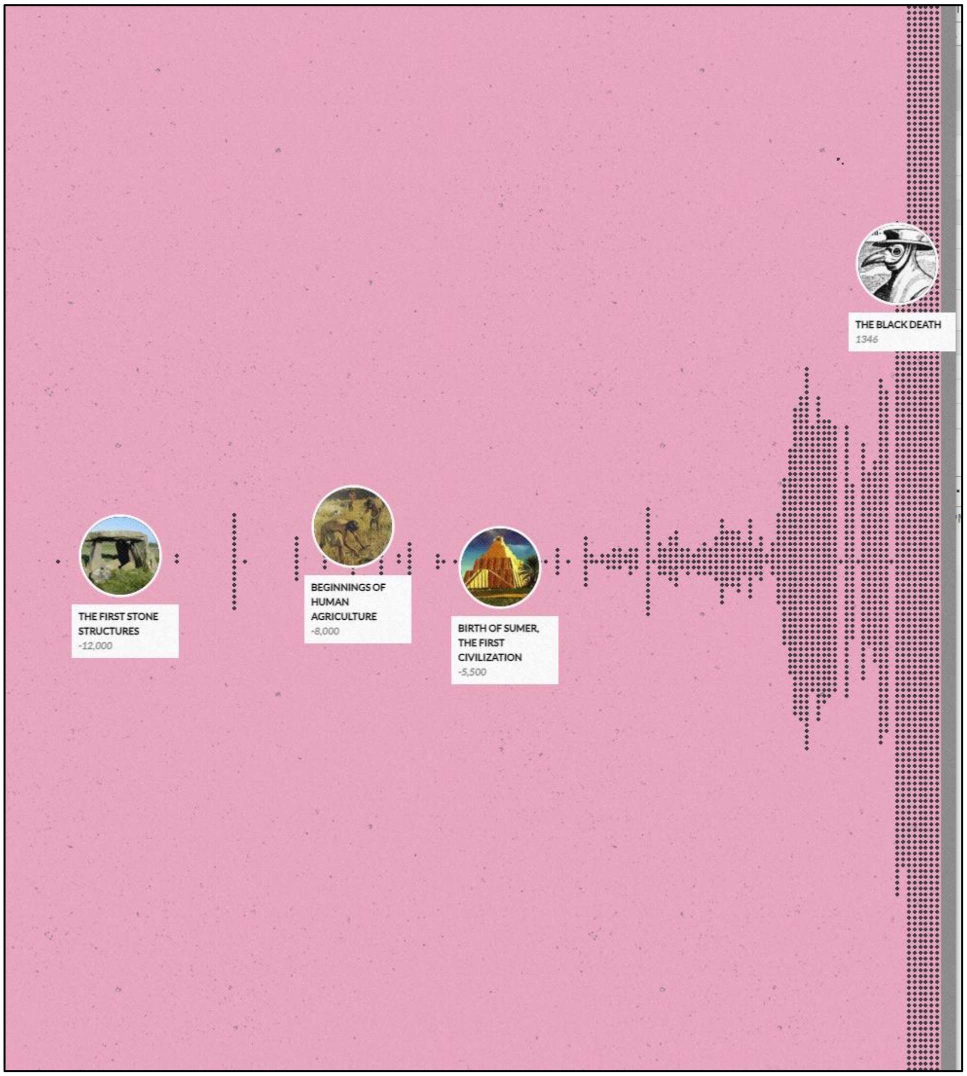
At right, you can see all the big EURUSD options expiring in the next month. The standout information there is the lack of strikes below 1.00. This suggests to me that EURUSD will be super sticky on the approach to 1.0000 and once we get a day or two of trading below 1.00, the move to 0.9500 should be quick.



Final thoughts

Please join me in welcoming Justin Ross to Spectra Markets. He is here to add his voice and help me build the business in coming years. Justin is a 32-year-old resident of Ohio, and his two main interests are financial markets, and helping people. He's also a musician and an excellent writer. You can read his Substack here. Have a historic day.

good luck ⇅ be nimble



https://www.blueshoon.com/wednesday-websites-we-love-histography/

This website was created by a student as a final project for a class in art school. I'm guessing this person got an A. Histography.io is a comprehensive interactive timeline starting from the beginning of time to today. Every historical event on Wikipedia is pulled into this timeline automatically and self-updates whenever a new historical event is added.

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