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FX

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Wyoming is the squarest state in the USA but it's not a perfect square (or rectangle) because state lines are drawn on an oblate spheroid, not a flat plane. This is because of the curvature of the globe.

As such, its northern border is about 20 miles shorter than its southern boundary and it's actually kinda trapezoidal.

### Current Views

**1-month 0.99 EURUSD digital put at 18%**  
Expires August 18

## Correlated Parlay

One of the few ways to bet on sports with positive expected value is to find correlated parlays. To take a simple example, let's say Team A, a very high scoring team, is playing a weaker opponent, Team B. Team A is favored by 14 points. If Team A wins the game, and covers the spread, the outcome is much more likely to be OVER the total than UNDER. An even more extreme example is if you bet on a team to cover the spread in the first half, they are much more likely to cover the spread in the full game and therefore most sports books will not allow you to parlay two correlated bets like that<sup>1</sup>.

The reason I bring this up is that the outcomes for tomorrow's ECB (25 or 50bps, antifrag or no antifrag?) appear to me to be correlated. The two main scenarios appear to be:

1. The antifragmentation tool is not ready as Germany pushes back too much on conditionality and other features. The debate is fractious and the dovish majority gets their wish for a 25bp hike. The ECB looks fractured and suffers another hit to its credibility, just like the last ECB meeting.
2. Germany negotiates a 50bp hike in exchange for a less conditional (and thus more credible) antifragmentation tool. The quid pro quo shows a cohesive ECB and a strong, consistent normalization framework. I have yet to see a convincing description of what a credible antifragmentation tool might look like, so if you have seen such a write-up, I would appreciate it if you could send it over to me.

The other outcomes in the quadrant (25bps and strong antifrag, and 50bps and no antifrag) look much less likely. Here is the matrix of how I see the outcomes and probabilities:

		Rate hike	
		25bps	50bps
Credible antifragmentation tool?	No	60%	5%
	Yes	10%	25%

This helps explain why EURUSD volatility is so high. There is potential for a big move! Lagarde's pre-announcement of a 25bp hike followed by the ECB sources story on Bloomberg suggesting 50bps is in play adds a further layer of intrigue and then you spread Draghi's confidence vote (today at 18:30 CET) and the Nordstream stuff over that you get a multi-layered cake of outcomes.

Here are my guesses for how much EURUSD moves in each instance, remembering that EURUSD dropped 170 pips high to low at the June 9 ECB meeting and 1-week vol was 10% then and 14% now.

		Rate hike	
		25bps	50bps
Credible antifragmentation tool?	No	-1.8%	0.3%
	Yes	0.4%	2.0%

<sup>1</sup> For a full explanation of correlated parlays, please see here: <https://www.boydsbets.com/correlated-parlays/>

If you run my percentages against the expected moves, it gives you an expected value of -0.5% for EURUSD, which is a pretty big negative number for this type of analysis. It's also worth noting a few other things:

- Nordstream will be a source of uncertainty no matter what Putin or Lavrov said yesterday and whatever they say tomorrow or next week. It's a big lever they can pull whenever they want.
- Draghi and Italy are an ongoing wildcard / source of volatility.
- EURUSD dropped significantly on June 9, but then dropped another 240 pips in the days after, too. Chart at right.



**All this makes me think there is a trade here to be short EUR.**

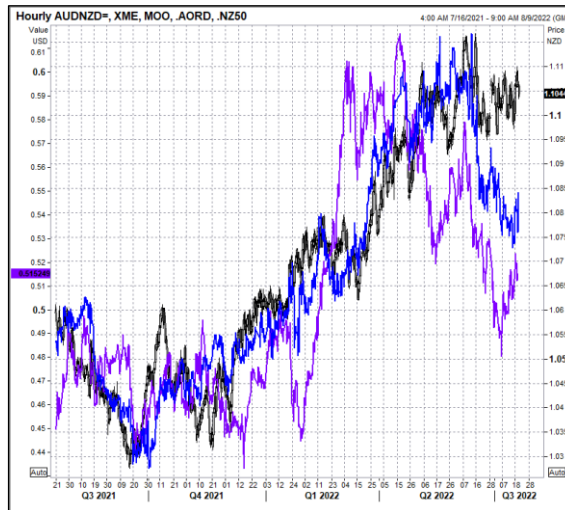
Something super simple like a **1-month 0.9900 digital put** for 18% (ballpark price off 1.0190 spot reference) is the easiest/best expression of the view. I am adding that to the Current Views.

## AUDNZD

Does anyone have any opinions on AUDNZD? Or any good write-ups on RBA (02AUG) and/or RBNZ (16AUG)?

AUDNZD is starting to look topy with hard commodities underperforming soft commodities and Aussie stocks underperforming NZ stocks. Seems like an easy trade to risk manage in spot given the many, many tops 1.1100/1.1167.

## AUDNZD vs. XME/MOO ratio and Aussie/NZ equities ratio



Then again, there is a nonzero chance RBNZ signals a pause or peak hawkishness at the August meeting. And maybe hard commodities are trying to find a base here as many metals (and commodities in general) are tickling major support. I discuss this possibility of a bottom in hard commodities (XME particularly) in my latest educational piece: [50in50, Week 21: Overshoots and Pullbacks](#). No call to action for now, but I will keep the AUDNZD short idea on my radar and investigate more today.

## Final Thoughts

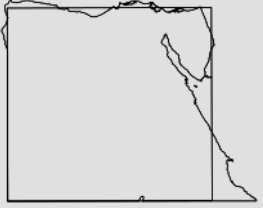
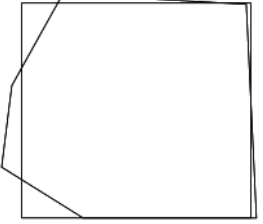

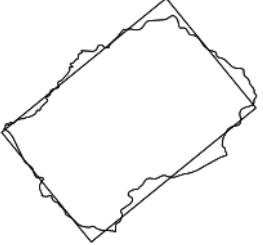
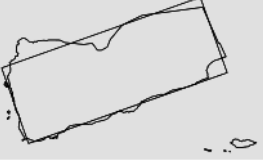
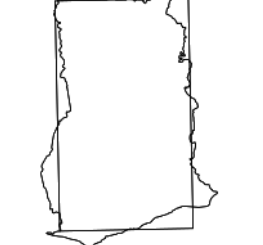
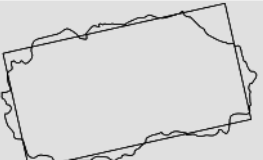
ICMYI, [Brainard speech on crypto and Defi](#).

[Proof is emerging that bees are sentient](#).

Have a square day.

good luck ↑↓ be nimble

## World's squarest countries

Rank	Index	Country	Map
1	0.955	Egypt	
2	0.948	Vatican	
3	0.937	Sint Maarten	
4	0.936	Lesotho	
5	0.928	Yemen	
6	0.924	Ghana	
7	0.921	Macedonia	

<https://pappubahry.com/misc/rectangles/>

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