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am FX

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3 of the 11 highest rated films of all-time were in the theatre at the same time in October 1994.

Can you guess them?

Not Jurassic Park… But that was playing too.

Current Views

1-month 0.99 EURUSD digital put at 18%
Spot ref. 1.0210
Expires August 18

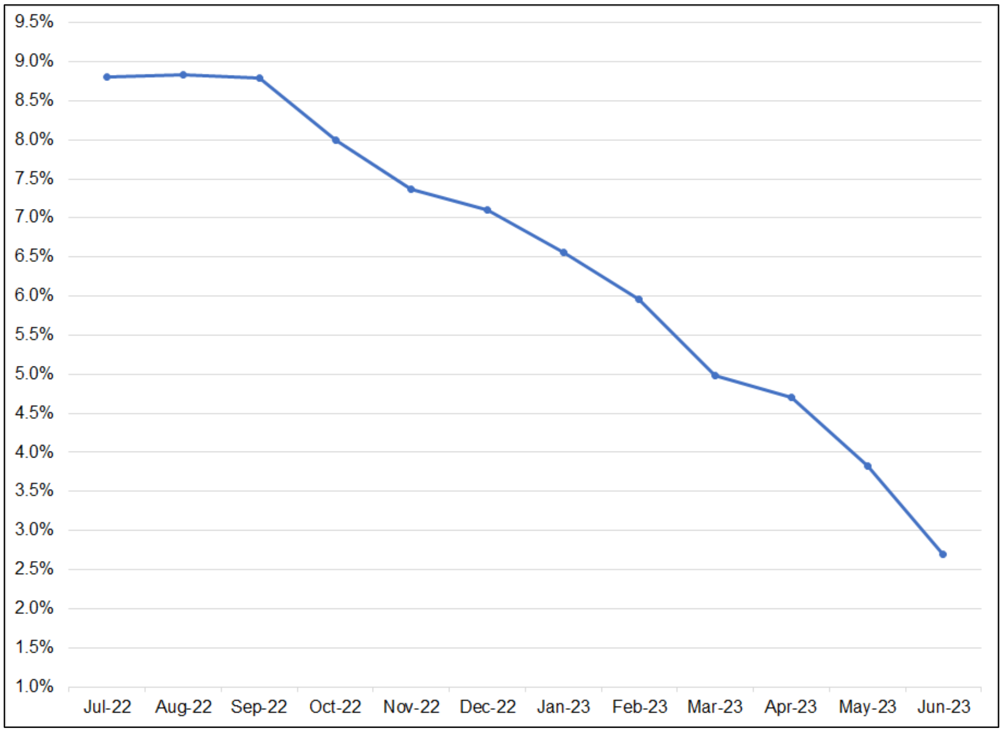
Not another FOMC preview

Yesterday I mentioned the very wide gap between the logic of economist CPI forecasts for 2023 (3.6% median) and rate cuts starting as early as March or May 2023. It seems very difficult for both of those to be correct. Several readers who know much more about rates than I do pointed out that the swaps market is pricing in a much lower outcome for CPI and thus the market pricing is more consistent even as economist forecasts are very high.

There is a somewhat illiquid market for CPI fixings where investors can trade each monthly CPI print. It's a specialized market with TIPS investors as the primary user. While the market is not super active, the **CPI fixings have still been a better predictor of the actual CPI print than the Bloomberg median consensus**. They are available on Bloomberg, but you need a subscription, so I can't see them.

Reader Jim Song was nice enough to send me a chart of where the CPI fixings suggest CPI is headed. Here is the chart:

Evolution of YoY CPI as implied by the US CPI fixings market



Courtesy of Jim Song (used with permission)

Depending on how you slice and dice and annualize it all, the CPI fixings market has YoY CPI below 3% by Q2 2023. While this is meaningfully lower than economist forecasts, it's still pretty high for a central bank with a 2% inflation target to be cutting rates. I'm not sure how we would drop that fast, but I supposed deflation in goods prices via bullwhip issues, and plummeting commodity prices could get us there.

The question of whether the Fed could cut in that scenario depends on how far into restrictive territory they appear to have hiked by that point.

You had one job

My last two notes have been about the FOMC and my view hasn't changed, so today I'm going to give you something different to read as you wait for 2 p.m. to roll around. I am most of the way through writing my crypto weekly (MacroTactical Crypto, aka MTC) and I thought I would share a bunch of it with you today to help pass the time.

If you like the cut of my crypto jib, you can subscribe to MTC here. MTC subscribers will receive the full piece, along with the audio version, later this afternoon.

MacroTactical Crypto #27: Failure to regulate

It's more fun to write about raging bullish or bearish views in MTC, but the dull fact right now is that we have downside stabilization in crypto (as described in my last two notes) but we don't have fuel for any sort of topside acceleration. In other words, while the money has stopped rushing out of crypto… It is unlikely to flow back in anytime soon.

The recent Coinbase news could be huge disincentive for new institutional inflows.

Regulatory uncertainty puts institutional inflows at risk as the existential risk of retroactive prosecution in lieu of clear regulation makes the calculus of investing in non-bitcoin crypto impossibly complex. Capricious, random prosecutions are on the table and with no clear definition of what tokens are, or are not, securities we may enter a bit of a deep freeze here.

What we got here is… Failure to regulate

Remember, it was only April 2021 when the SEC approved the Coinbase IPO in a tacit endorsement of Big Crypto and retail crypto trading. Now, the exchange (and every other crypto exchange, by implication) faces existential risks as nobody knows what is legal or illegal anymore. The SEC complaint asserts that nine random crypto tokens are securities, setting the stage for months or years of hand-wringing by lawyers as everyone tries to get inside the mind of regulatory tortoise.

The SEC was formed in June 1934 in a reaction to the stock market crash of 1929. The agency was meant to protect investors from shady dealings pre-1929 as unscrupulous companies issued worthless securities and then pumped them via paid promoters and dumped the overvalued paper on leveraged retail before the securities crashed.

Sound familiar?

By failing to regulate the thousands of crypto tokens and failing to communicate how crypto fits into the existing regulatory framework, the SEC has now failed to do the exact job it was set up to do. In 2017, they saw the raft of ICOs and cracked down, but the exact same story repeated in 2021 as new security-like offerings were all the rage. Insiders were handed tokens at 0.0001, they pumped them via paid promoters, and then dumped them on leveraged retail for 100X profits (or whatever) before those tokens subsequently crashed to ~0.

I covered this phenomenon in MTC 7: These charts all look like mountains. The appearance of these tokens on US exchanges trading them in broad daylight provided the appearance of propriety to what the SEC has now deemed illegal.

You had one job

The SEC had one job. Provide regulatory clarity. There was a simple solution ex-ante: Establish a commission or committee to rule on each token, before issuance, to provide clear guidance to investors on whether or not that token was a security.

Instead, the SEC said nothing, but allowed the tokens to proliferate into what essentially became a giant multi-trillion-dollar gambling ecosystem where lotto tickets could be bought and sold intraday. Normally, US lottery income goes to public works, education, police, roadwork, and the treatment of gambling addiction. In this case, the lottery proceeds were channeled to influencers, founders, and shills. Instead of funding public works, they funded yachts, parties, and private bank accounts.

I'm not saying every token was a scam, there will be tremendous innovation down the road once we sort through the rubble. But the issue is that if you set up a game where the prize is huge money, and you don't have any rules, the baddest bad actors will win. Much as the inability to properly tax externalities is one of the biggest flaws in capitalism as it drives the worst actors to pollute, embrace moral hazard, send spam email and robocall me 20 times/day … An unregulated crypto ecosystem makes it hard for the good actors to participate fairly.

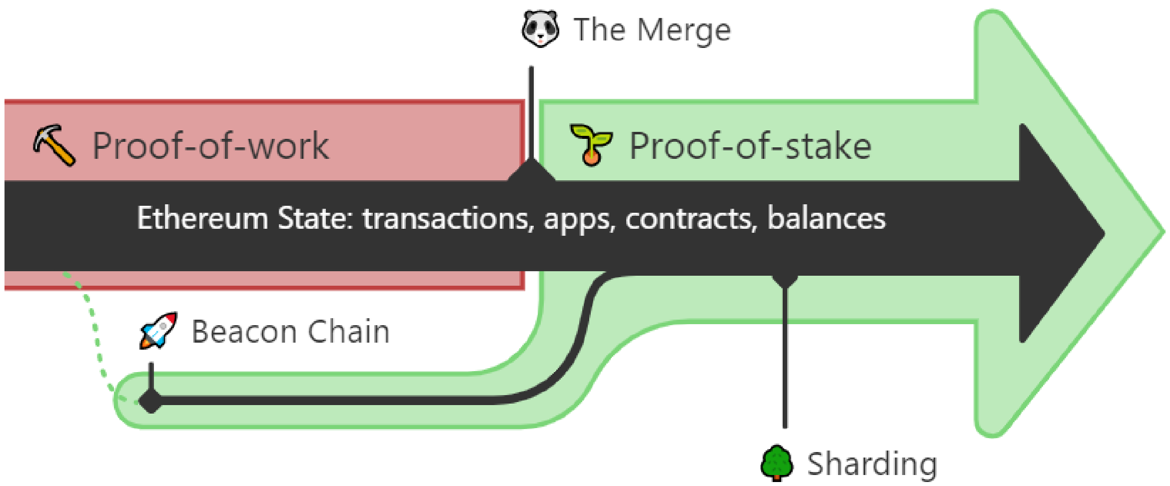
I know from conversations with multiple senior people inside the crypto industry that it is almost universally accepted that if you want to be a good actor who attempts to follow the rules, you are at a massive competitive disadvantage.

Anyway, the ship has sailed. The SEC has lurked while ponderously rubbing its chin for five years as the relentless inflows continued. Now, they are going to establish some precedent by prosecuting where they think they can win, while exchanges, investors, and crypto projects look up at the Sword of Damocles.

Keep an eye on flows going forward as my guess is that retail is tapped out and institutional inflows will slow dramatically until some clarity on regulation is achieved. The stock market crash was in 1929 and the SEC was formed in 1934. The Global Financial Crisis was in 2008 and Dodd-Frank passed in 2010. Regulation takes a long time.

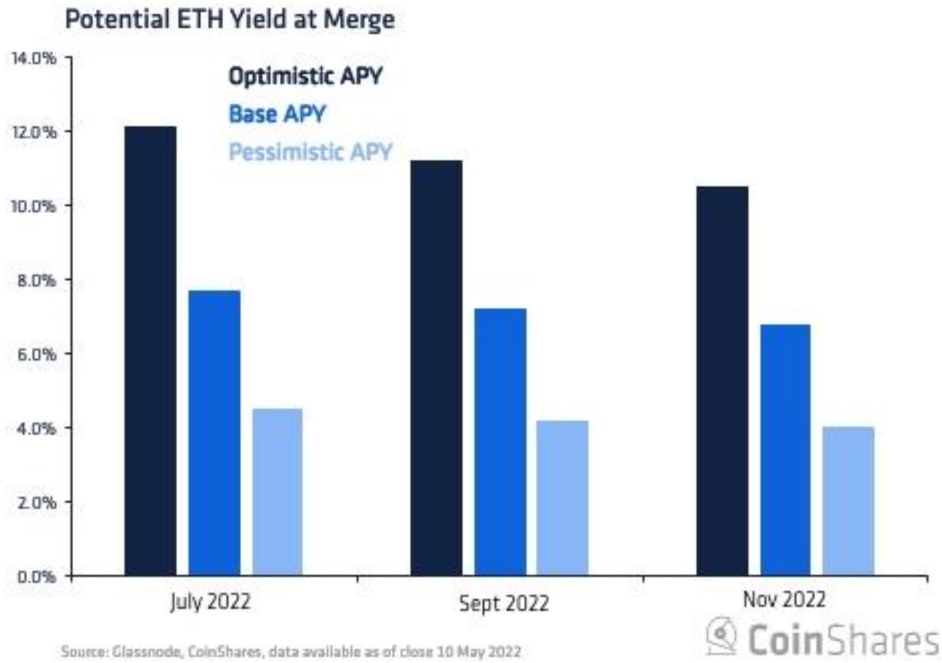
The Ethereum Merge date

It's not all bad news. The Ethereum Merge could be less than two months away. If you are not familiar with The Merge, this explainer is good. Here is a nice visual from that piece:



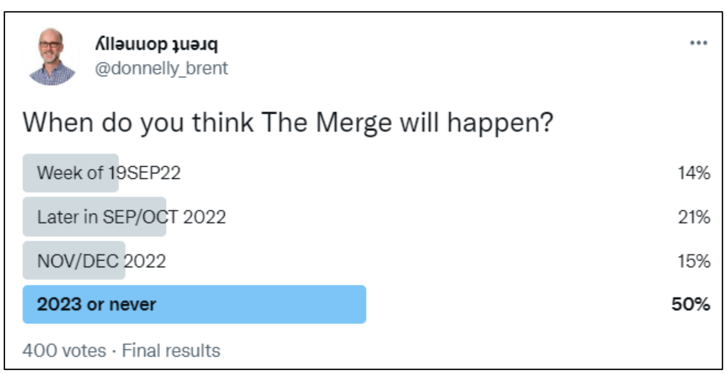
The next critical date in this long-running project is August 10th. That is the expected date for the Goerli Merge and it's one of the last big hurdles before there is certainty that The Merge will happen the week of September 19th.

Why is The Merge bullish? The general view is that Ethereum yields will rise significantly after The Merge and this will make ETH into something like a commodity-linked bond. Estimates vary on what the post-merge equilibrium ETH yield might be, but consensus is: "definitely higher than now." This piece from Coinshares is one attempt to guess post-Merge yields. It includes this chart:



So, while a higher yield is the main bull story (there are others, but that's the main one), you can also make some bearish arguments, for example:

- Yields are hard to estimate and are more an equilibrium supply/demand story than a math equation.
- This is an event the market has been anticipating for six years. It's hard to imagine it's not somewhat priced in. That said, I could see more speculative buying into the event. Then again, it's not fully priced in as there is still quite a lot of skepticism given the repeated failures to launch. This survey is surprisingly pessimistic:



"Buy the rumor / sell the fact" is my base case for ETH prices through The Merge.

- **Moving from proof of work to proof of stake makes ETH more like SOL, ALGO and other PoH/PoS tokens.** It highlights the fact that ETH has competition and BTC does not.
- Last, but certainly not least: If the primary selling point of ETH post-Merge is that it's becoming more of a bond-like yield product… That makes it look more like… A security? Given the highly uncertain regulatory environment, that isn't necessarily awesome.

Of course, the biggest ETH risk in the short-term is another Merge delay. August 10 is key.

Speaking of gambling

I am surprised there are not more successful Betfair clones in crypto. Every sports bet can be seen as buying or selling a token which resolves to 0 or 1, depending on the outcome of the game. As such, it seems pretty easy to program and deliver as a frictionless market. My bet is that this form of sports gambling will eventually prevail as the 5% juice model that has dominated the bookie business since I was a kid seems hopelessly outdated. Five percent? Cmon.

Anyway, check this out:
https://overtimemarkets.xyz/#/markets

I am not associated with overtimemarkets.xyz and I pretty much know nothing about it. The concept is cool, though.

Conclusion

The base still looks decent in crypto, but the topside is capped by regulatory uncertainty and low retail confidence. August 10th is a key date for ETH.

As explained last week, there are two ranges to monitor in BTC. Nearby range is 20000/25000 and 18700/28300 on the wide.

With the big jump on the Merge data announcement, the ETH chart is more interesting. There is a big triangle that capped the first rally, while the old flag break and triple bottom major support at **1700 is now primary resistance**. Support is the 200-hour at 1350 and then the triangle bottom just below 1200. Here's the chart:

ETH with a triangle and the 200-hour MA

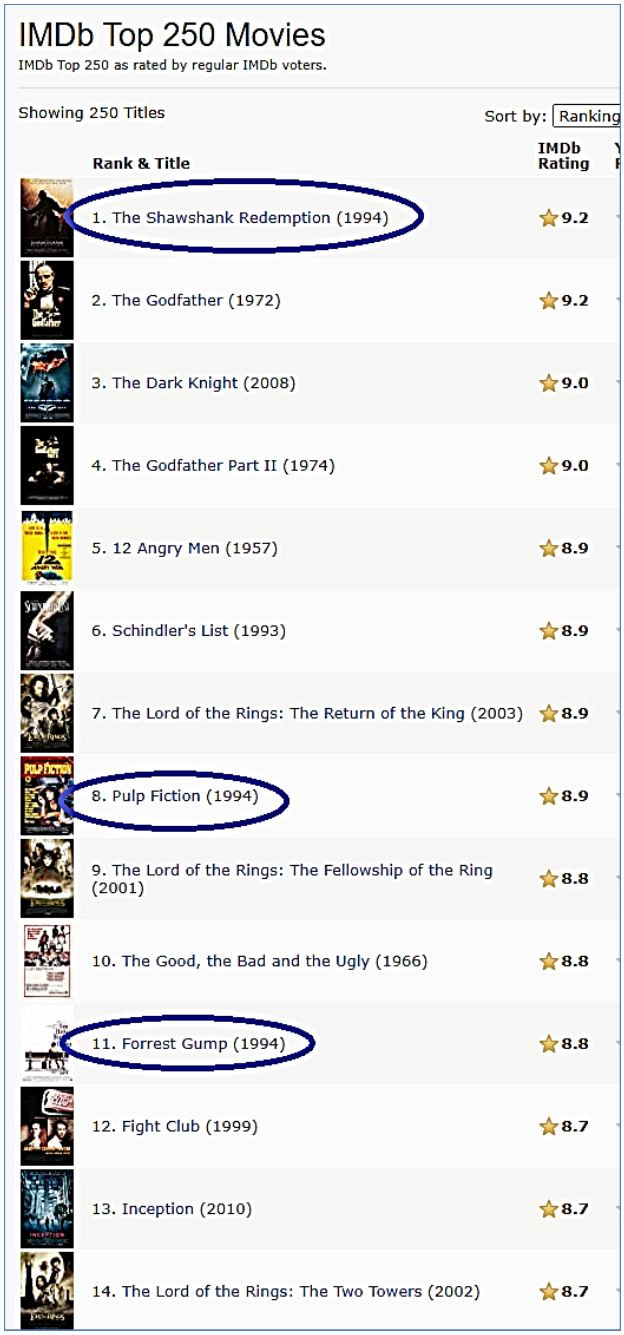
If you're looking to buy the dip into The Merge, entering at 1350 with a stop below 1200 makes sense. That's it! Thanks for reading.

If you enjoyed this free preview of MTC, please subscribe here.

Final Thoughts

Good luck with FOMC. They are almost at neutral. It gets even more interesting from here. Have a Royale with cheese kinda day.

good luck ⇅ be nimble



IMDb Top 250 Movies

IMDb Top 250 as rated by regular IMDb voters.

Showing 250 Titles

Sort by: Ranking

Rank & Title	IMDb Rating
1. The Shawshank Redemption (1994)	9.2
2. The Godfather (1972)	9.2
3. The Dark Knight (2008)	9.0
4. The Godfather Part II (1974)	9.0
5. 12 Angry Men (1957)	8.9
6. Schindler's List (1993)	8.9
7. The Lord of the Rings: The Return of the King (2003)	8.9
8. Pulp Fiction (1994)	8.9
9. The Lord of the Rings: The Fellowship of the Ring (2001)	8.8
10. The Good, the Bad and the Ugly (1966)	8.8
11. Forrest Gump (1994)	8.8
12. Fight Club (1999)	8.7
13. Inception (2010)	8.7
14. The Lord of the Rings: The Two Towers (2002)	8.7

In October 1994… Pulp Fiction, Forrest Gump, The Shawshank Redemption and Jurassic Park were all in theatres at the same time.

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