

am
FX

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[Clock version here](#)

Current Views

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

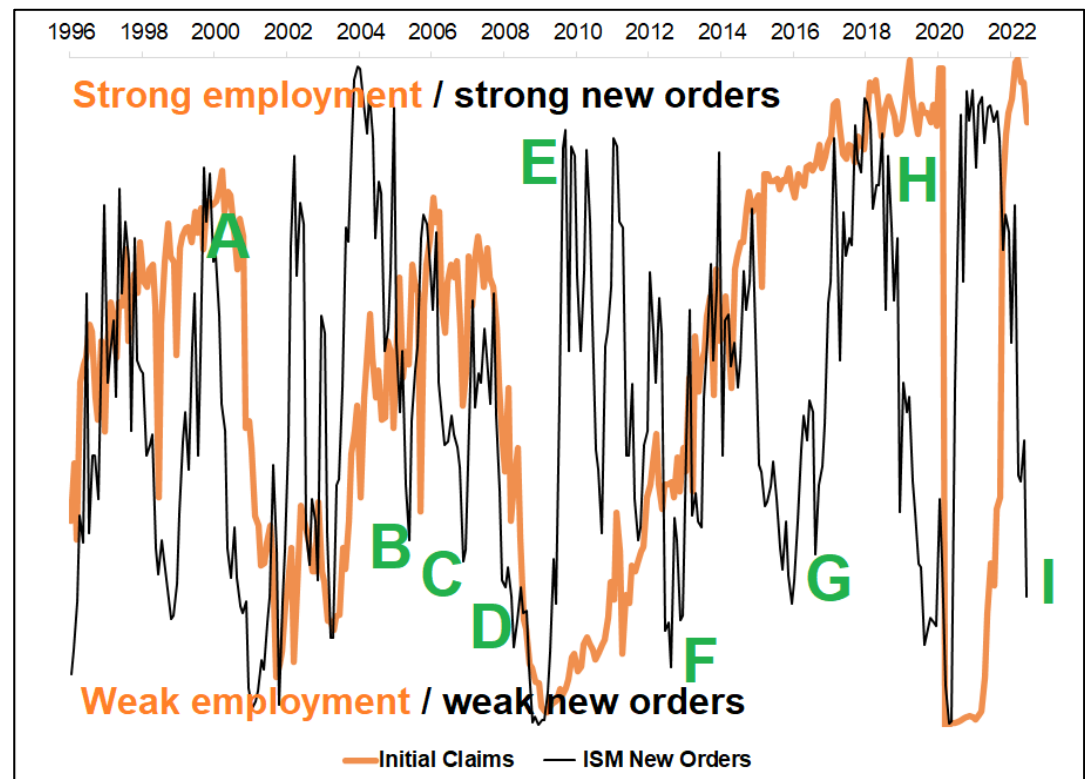
Soft leads hard (usually)

The survey data is bad! US and European PMIs overnight along with Philly Fed yesterday show a business community that now expects the worst. While Initial Claims tick higher, the hard data is still relatively robust. It is not unusual for hard and soft data to diverge, this was a feature of [the narrative in 2017](#) (people confident, but economy lagged for a while) and 2019 (people losing confidence, but hard data stayed strong).

There are a few things to think about here:

1. Negative consumer sentiment is probably driven to a large part by inflation. This is captured by the difference in Michigan and Conference Board data as the Michigan Survey is much more impacted by inflation than the Conference Board's. Therefore, consumer sentiment is less important than business sentiment.
2. Business sentiment should be less impacted by inflation because higher prices can be either good or bad for businesses, depending on their pricing power, labor intensity and so on. Therefore, I would not expect the real vs. nominal dichotomy to distort business sentiment all that much.
3. Hard data is supported somewhat by inflation. If I spend \$60 to fill up my tank and I was spending \$40 before, that's a 50% increase in Fuel Sales. Not really bullish.
4. Soft data almost always leads hard data. But not always. There are occasions, in mid-cycle slowdowns, where the soft data turns, and the hard data holds firm.

I gathered ISM New Orders (most timely and reliable soft data) and Initial Claims (most timely and reliable hard data) and ranked each month since 1996 according to its percentile in the series. Then, I created a chart so you can see the ebb and flow over time. I know the chart is wild and wooly, but don't worry, the takeaways are labelled with green numbers (!)



Takeaways:

- A. In 1999/2000, ISM new orders was a great lead indicator. Peaked November 1999.
- B. 2005 ISM false alarm (mid-cycle).
- C. 2006 ISM early warning.
- D. 2007/2008 sentiment good lead indicator.
- E. Sentiment was an excellent bullish lead indicator at the turn in 2009/2010.
- F. 2013 ISM false alarm on taper tantrum, slowdown fear.
- G. 2015/2016 ISM false alarm on China deval and global growth dump.
- H. 2019 ISM good lead indicator but COVID obviously random wildcard.
- I. TBD but not looking bueno.

With global soft data moving uniformly and rapidly weaker, the base case has to be that US employment and inflation is about to turn aggressively weak. That said (as discussed a few days ago as I tried to consider the alternative hypothesis of a better outcome), there are so many distortions in the current economy and things are moving so quickly... An open mind is always good.

If we are entering a meaningful (not just technical) global recession, USDJPY and cross/JPY are probably 10 big figures too high. If you are a macro person looking for multi-month ideas, short EURJPY and AUDJPY are sensible. The BOJ YCC story is moot if yields collapse.

Coinbase

I don't usually talk much about crypto in am/FX because I have another publication for that ([MacroTactical Crypto](#)). But there is so much interesting stuff to chew on in the Coinbase inside trading story, I'm going to comment here today.

You can read the full complaint here:

<https://sec.gov/litigation/complaints/2022/comp-pr2022-127.pdf>

This case is interesting as it provides specific token-by-token reasoning from the SEC arguing why each of nine crypto tokens is a security by law (list below). This has broad implications for most crypto ex-BTC. I'm definitely not a lawyer, but it seems to me that bitcoin is ~100% NOT a security under the Howey Test.

Key excerpt from the complaint:

A digital token or crypto asset is a crypto asset security if it meets the definition of a security, which the Securities Act defines to include "investment contract," i.e., if it constitutes an investment of money... in a common enterprise, with a reasonable expectation of profit derived from the efforts of others. As described below, Ishan provided material, nonpublic information about, and Nikhil and Ramani traded in, nine crypto asset securities that meet this definition.

Boom

"Our message with these charges is clear: fraud is fraud is fraud, whether it occurs on the blockchain or on Wall Street. We are not concerned with labels, but rather the economic realities of an offering," said Gurbir Grewal, SEC's Director of Enforcement.

"In this case, those realities affirm that a number of the crypto assets at issue were securities, and, as alleged, the defendants engaged in typical insider trading ahead of their listing on Coinbase. Rest assured, we'll continue to ensure a level playing field for investors, regardless of the label placed on the securities involved."

Pages 23 to 59 of the document go into great detail, applying the Howey Test to explain why AMP, RLY, DDX, XYO, RGT, LCX, POWR, DFX, KROM are securities. Each explanation includes detailed history showing how the issuers of the tokens emphasized the security-like properties of the tokens.

Instead of ruling on tokens or providing guidance in advance (like they should have done ages ago), **the SEC could be using this case as an end-around / back door** to kill 2 birds with 1 stone. Prosecute the Coinbase guys, and establish precedent on what crypto assets are (or are not) securities. The entire complaint is worth a read, tons of interesting stuff in there. For example:

Ahead of multiple listing announcements in 2021 and 2022, in breach of the duty he owed to Coinbase, Ishan repeatedly tipped his brother, Nikhil, and his close friend, Ramani, with material, nonpublic information about those listings' timing and content. Ishan communicated ... by phone and text with both Nikhil and Ramani during 2021 and 2022, including exchanging phone calls and messages with both that would not be captured in U.S. phone company records because... among other things, Ishan was using a phone with a non-U.S. phone number (the "Foreign Phone"). For example, on October 20, 2021, the same day as a Coinbase listing announcement, Nikhil messaged Ishan's Foreign Phone: "\$ 🙄🙄🙄."

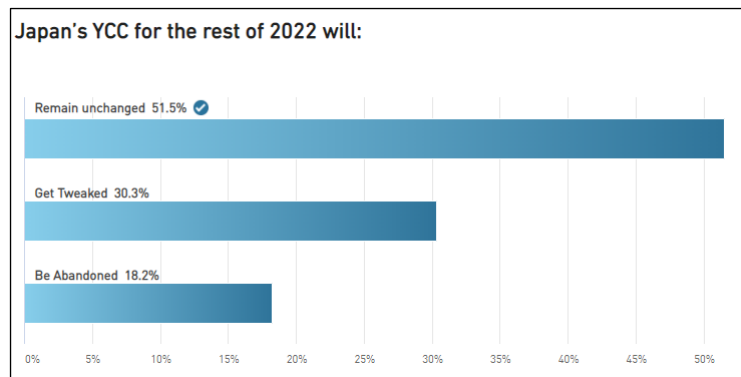
****Don't use a foreign phone to do crimes!****

Nikhil's and Ramani's suspicious trading drew attention. On May 11, 2022, Coinbase's Director of Security Operations emailed Ishan to schedule an interview with Coinbase's Legal Department in connection with ... an "ongoing company investigation into Coinbase's asset listing process." Ishan - using the Foreign Phone - then sent a screen shot of the interview request to both Nikhil and Ramani, and stated that he needed to speak with them urgently... On Monday, May 16 - the day of his scheduled interview - Ishan emailed coworkers that he would be "out indefinitely" as he "had to fly back to India overnight." Ishan did not appear for his scheduled interview, but was prevented from leaving the country by law enforcement.

Now, because the SEC never provided clear guidance, lawyers will try to reverse engineer this and other SEC charges and complaints to guess which tokens are next to be named "crypto asset securities" by the SEC. Fun times!

BOJ

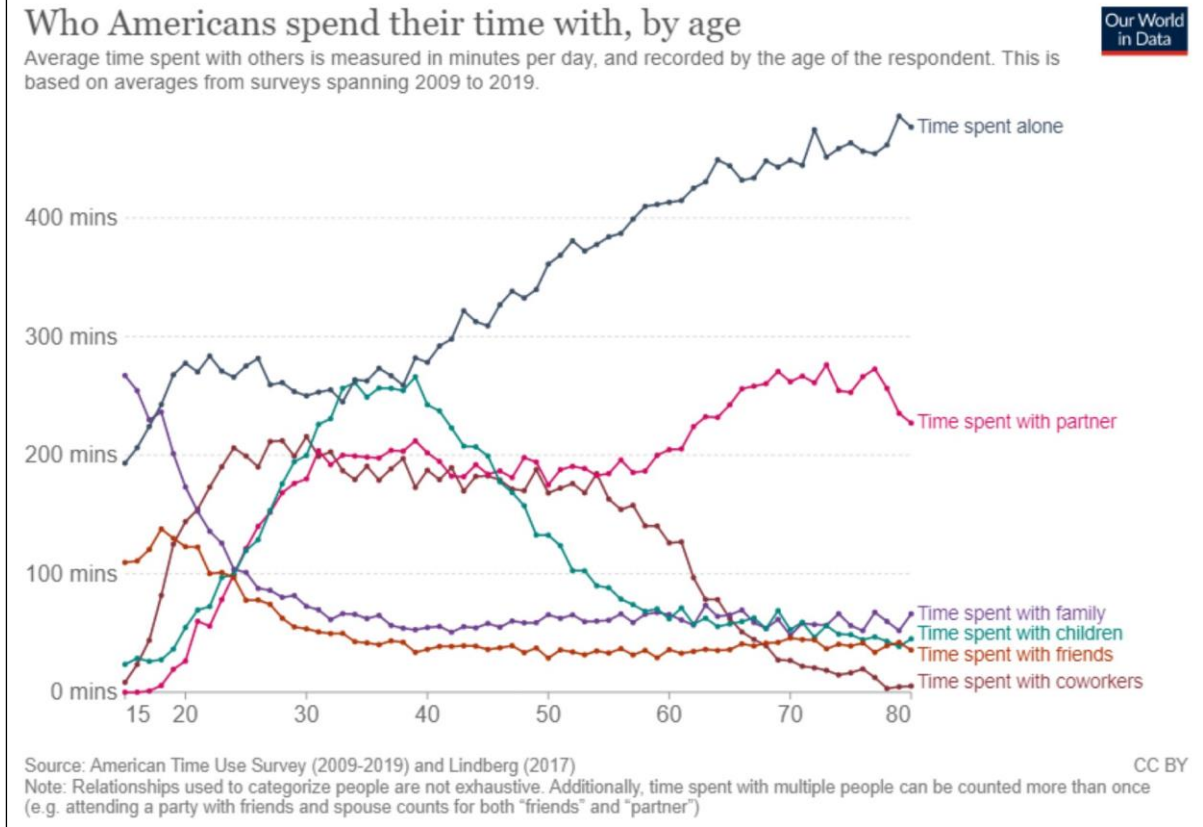
The inestimable Fred Goodwin runs a weekly poll and this week he's asking about BOJ. The results are interesting as the market has mostly given up on the end of YCC at this point. Perhaps Kuroda will ride it to the end of his term in April 2023. Here are the survey results:



Final Thoughts

Make some time to hang with friends.

good luck ↑↓ be nimble



The “time spent with friends” line is disappointing

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