SPECTRA MARKETS

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am
FX

Brent Donnelly

bdonnelly@spectramarkets.com
(212) 398-6230

Why is Haiti so much worse off than the Dominican Republic? Tourism, sure, but there is much more to it.

Good read in today's non-sequitur.

Current Views

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

Trends resume tomorrow?

I feel like the market is still locked into the old Fed framework which was: Fed turns dovish at the first whiff of trouble. I don't think that is the right framework anymore and the Fed is likely to remain much stickier and more hawkish than people currently think. This week's Fed meeting will reveal whether I'm right or wrong.

I don't see any scope for the Fed to back off at this week's meeting as the remaining scraps of their credibility are in jeopardy after a horrendous twelve months of bad forecasts (understandable, forgivable), slow pivot (still buying MBS in 2022, etc., nonsensical), and a spate of trading scandals and resignations (deplorable). For them to declare any sort of mission accomplished here with headline CPI at 9%, PPI at 18% and Biden wishing gas prices lower on Twitter every day seems premature. Jackson Hole at the earliest.

The current market setup is:

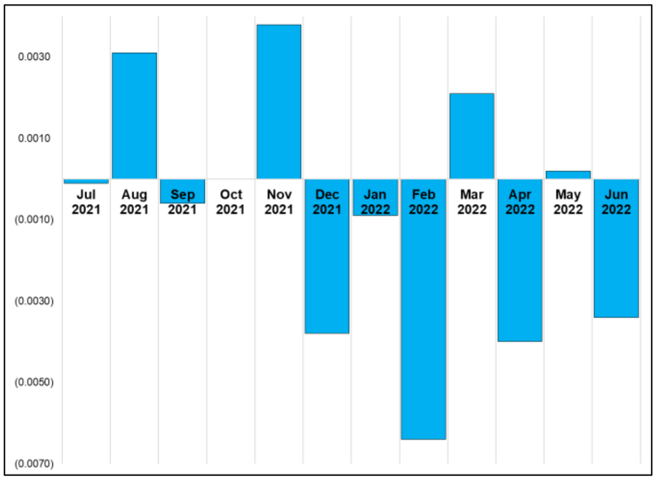
- Everything got oversold
- Market got short and got squeezed
- Growth is slowing faster than economists thought
- QT is just starting and will double in September

The same way they bought MBS in February 2022 even though housing was blasting through the moon and towards Mars, they will be doubling QT in September even as the US economy may well be entering a third straight quarter of negative growth at that point. **The implication for markets is that this year's primary trends—lower stocks and a higher USD—should resume Tuesday or Wednesday.**

Today and tomorrow look like nothingburgers, so the optimal time to put on these trades would be tomorrow at noon or so. At that point, the tactical risky asset longs (which there are many, I think) will probably start to get nervous, corporate month end dollar buying will start, and then the Fed will deliver an autopilot message on Wednesday that concedes little or nothing to the doves.

FYI, here is EURUSD performance on corporate month end over the past 12 months:

EURUSD 7am to 11am NYC on corporate month end (past 12 months)



Excludes October 2021 because that was ECB day. Corporate month end is (t-2), the last day to settle FX in the current month—where "t" is the last business day of the month because spot FX is 2-day settlement. 7am to 11am NYC is peak corporate activity window.

Twitter is free!

Twitter is an incredible place. Yesterday, I read a piece by self-described “aspiring US Rates Strategist” Hugo Devere (763 followers) that included this excellent, detailed rundown of each Fed members current tone. It’s a useful cheat sheet. Here it is (shared with his permission):

DE VERE RESEARCH

FOMC Committee Tone Guide as of 7/23/2022

	Name***	Updated*	MKT React	Tone**	Beyond Nuetral?	Growth Cautious	Neutral	Tone Score scale***	Notes
	Bullard	7/15/2022	Hawkish	Hawk	yes	no	3.5		Sees the terminal rate at 3.50% and mentions "possible cut after that. "A lot of folks are mistaking slowdown for recession". Does not ruled out 100 bp. When from 3.5% YE to 4%
	Mester	7/13/2022	Hawkish	Hawk	yes	no	2.5		Told BBG that the Fed has no choice, there is no trade off. Flags retail sales data and UoM inflation exp data to determine 100 bps hike.
	Barkin	7/12/2022	Hawkish	Hawk	yes	yes	3		He supported the 75 bps hike in June amid the rise in U-mich longer-term inflation expectations data. But it's more concerned about recession at his July speech
	Williams	7/8/2022	Hawkish	Centrist	yes	no	2.5		Said he is not seeing signs of dysfunction in the Treasury market. He sees rates at 3% to 3.5% by year end but there's a lot of uncertainty after that. Sounds more hawkish
	Bowman	6/23/2022	Hawkish	Centrist	yes	no	2.5		Supported 75 in July then 50 bps after that to 3.75 to 4 by year end. Biggest 2022 rate hawk
	Daly	7/15/2022	Hawkish	Centrist	yes	no	2.5		She says that the Fed is not overdoing hikes
	Powell	6/29/2022	Hawkish	Centrist	yes	no	2.5		Mentions that soft landing is out of the Fed's hands. Says at the ECB forum that inflation risk > current growth risks. "market is right pricing 3% to 3.5% by YE. Then 2023 3.5%-4%
2022 Committee Members	Bostic	7/13/2022	Hawkish	Hawk	yes	yes	2.5		Is going to take time for excess cash to flow out of household bank accounts. Went from expecting a pause at Sept meeting to favoring 75 bp hike in July citing strong labor market to everything is at play...
	Brainard	6/2/2022	Hawkish	Dove	yes	no	2.5		Based on household rent component on June data, core PCE probably hasn't peaked he argues. Therefore, more aggressive rates to 4% by YE he argues.
	Waller	7/14/2022	Dovish	Hawk	yes	no	2.5		He said that it might be prodent to raise 100 bps at July if incoming data on retail sales point to resilient consumer spending. Does not ruled out 100 bp. What look dovish is that he said market got ahead of themeselves
	Harker	6/22/2022	Dovish	Hawk	yes	no	2.5		Says he favor moving back rapidly to neutral but he not so fast that it disrupts market ability to respond
	Evans	6/22/2022	Dovish	Dove	yes	no	3.5		Mentions that rates most be restrictive. Support 75 bps in July but no need to go above 100 bps. He expects that by YE will be in 25s.
	Kashkari	6/17/2022	Hawkish	Dove	yes	yes	2		Said that it backs 75 in July but 50s more prudent as he worries about too much front-loading. Says that the Fed need to hike by more than 300 bps
	George	7/11/2022	Dovish	Hawk	no	yes	2.5		said if consumption changes (for example) the Fed might not need to go as far (in hiking rates). Worried about inflation risks and Tsy market functioning. Likely to dissent at July FOMC meeting.
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*Speech date. Green highlight means that the speech was after the last inflation data release so it should be interpreted as a more credible of the direction of the committee

**Tone extracted from IFR Fed commentary

** +ve = dovish and -ve = hawkish.Computed using the estimated of his FFR forecast for YE relative to his estimated neutral projection, his growth outlook, his expected neutral relative to the median of the committee, and rates price reaction in its last speech.

*** 2022 voters are in bold

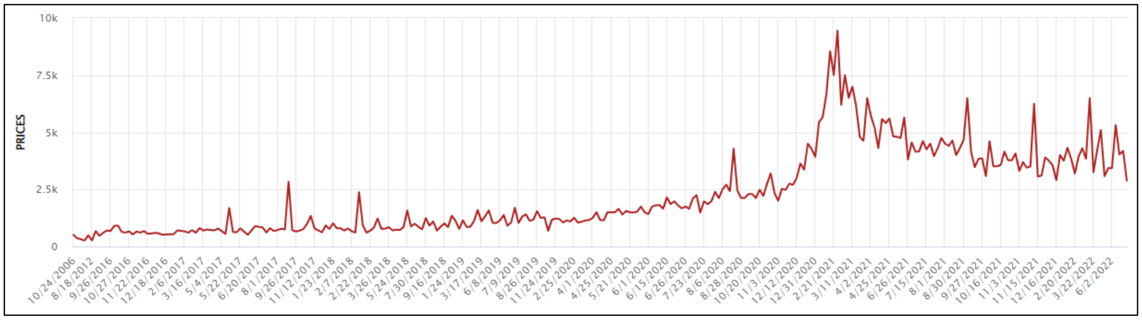
Final Thoughts

In January 2021, I wrote a piece called “Too Few Gretzkys”, which included this:

> While Wall Street’s attention is focused on stratospheric valuations and crazy moves in tech and bitcoin, there is similar frantic action in baseball cards, Polka Dot, residential real estate, and all sorts of other mainstream and fringe assets.

The everything bubble was creating a shortage of Gretzky rookie cards just like everything else. Here’s an update:

Wayne Gretzky O-Pee-Chee rookie card, PSA 6, transaction prices on eBay:



https://www.psacard.com/auctionprices/hockey-cards/1979-o-pee-chee/wayne-gretzky/values/321695#g=6

In a similar vein… From Peter Boockvar’s note today:

> If you didn't see the article over the weekend in the WSJ titled "Flipping Air Jordans is No Longer a Slam Dunk", the limited edition sneaker business is another example of another hot asset class coming back to earth. "Air Jordans, Nike Dunks and Air Force 1s soared in value last year as investors snapped up basketball-inspired sneakers, hoping to flip them for a profit. The hang time for this market is over. Some of these limited-edition shoes are now reselling for 30% less than just a few months ago as owners unload high-end footwear at reduced prices." https://www.wsj.com/articles/flipping-air-jordans-is-no-longer-a-slam-dunk-11658548817

Have a verdant week.

good luck ⇅ be nimble

From Google Earth

"Haiti is poor, but compared to what?"

https://www.thefitzwilliam.com/p/hispaniolas-great-divergence

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