SPECTRA MARKETS

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am/FX

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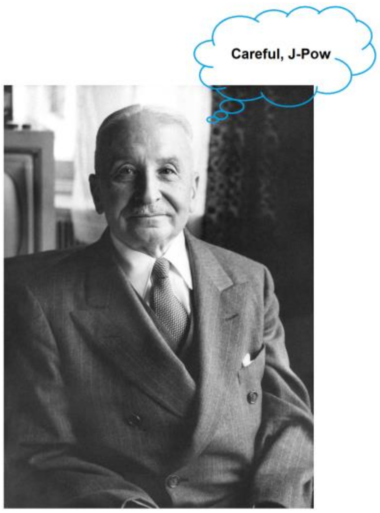


Current Views

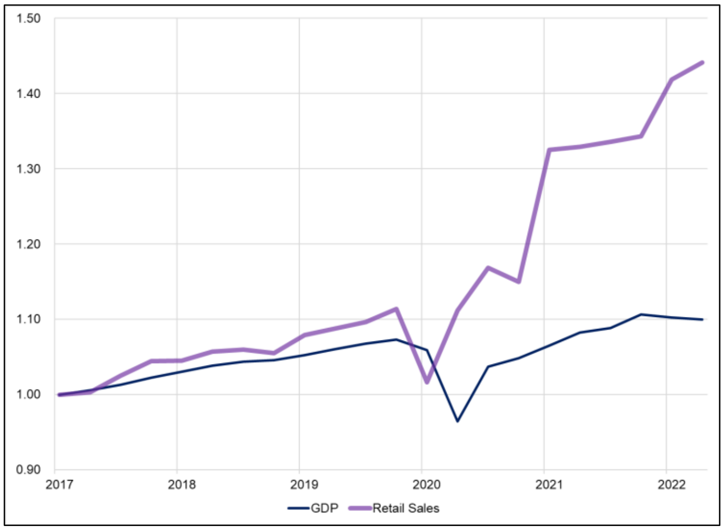
Short EURCHF @ 0.9725
Stop 0.9777

1-month 0.99 EURUSD digital put at 18%
Spot ref. 1.0210
Expires August 18
This feels stale, tbh.

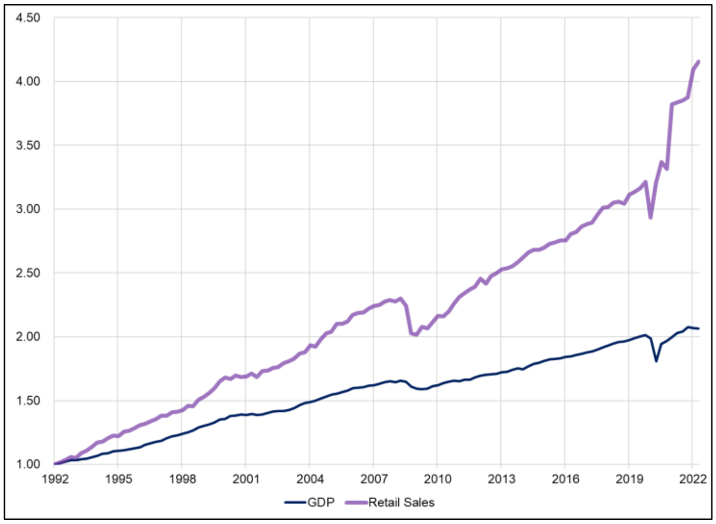
Expansionary contraction

There is a simple reason for the confusion over whether or not we are currently in a recession. Discussion and analysis of the nominal and the real economy used to be interchangeable. Now they are not. So, while we are in a recession in real terms, the nominal economy is still pretty juiced. Here are two charts that give you a sense of the difference:

US Retail Sales vs. US GDP, 2017 to now (January 2017 = 1.0)



US Retail Sales vs. US GDP, 1992 to now (January 1992 = 1.0)



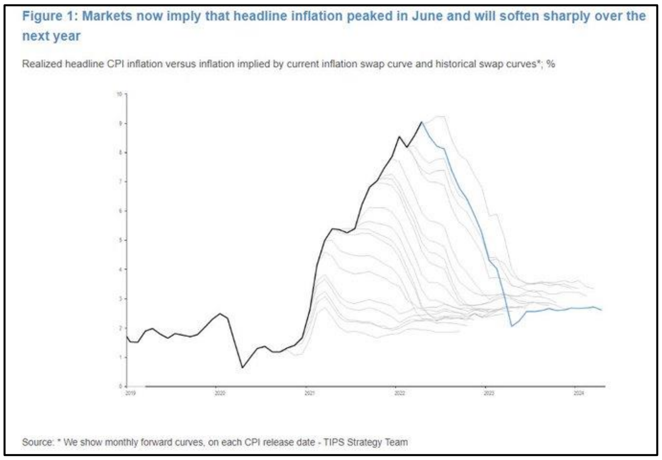
I wrote about the nominal / real divide in "am/FX: Monetary Derealization" (July 8) and I think this will continue to be an important concept to have front of mind as it substantially explains the wildly different realities unfolding simultaneously in the US economy. We are in recession, but it's so unlike any recession we have ever experienced, we really need a different name for it. Realcession? Expansionary contraction? Anyway, just keep this in mind as you process wildly inconsistent variables simultaneously flashing red, yellow, and green for the US. Also keep in mind that assets are priced in nominal terms, not real.

Taiwan

I find it surprising that the market is ignoring this morning's headlines confirming Nancy Pelosi will visit Taiwan on Tuesday. I find it hard to imagine that there will not be at least one fear trade at some point this week around that theme. **With EURCHF failing to bounce at all on this rally in risky assets, I like selling here (0.9725) with a stop at 0.9777.** The trade is trending and makes sense anyway, so it's a fine hedge for any geopolitical conflagration. *Note, I wrote this with SPX at 4130 and now SPX is 4105 so maybe the market is paying attention a bit now?*

CPI Fixings

I spent a decent part of last week talking about the CPI Fixings market because a) it's interesting and not that many people know about it and b) US CPI is the most important thing in finance right now. Several traders told me that the nearby CPI fixings market is more accurate than the Bloomberg median forecast (that is, it's a useful indicator when looking at the upcoming release). On the other hand, someone sent me this chart from JPM which shows how the market just always assumes CPI is going to come off, any day now!   :]



This chart was the inspiration for my pointlessly alarmist Mises quote in today's non sequitur.

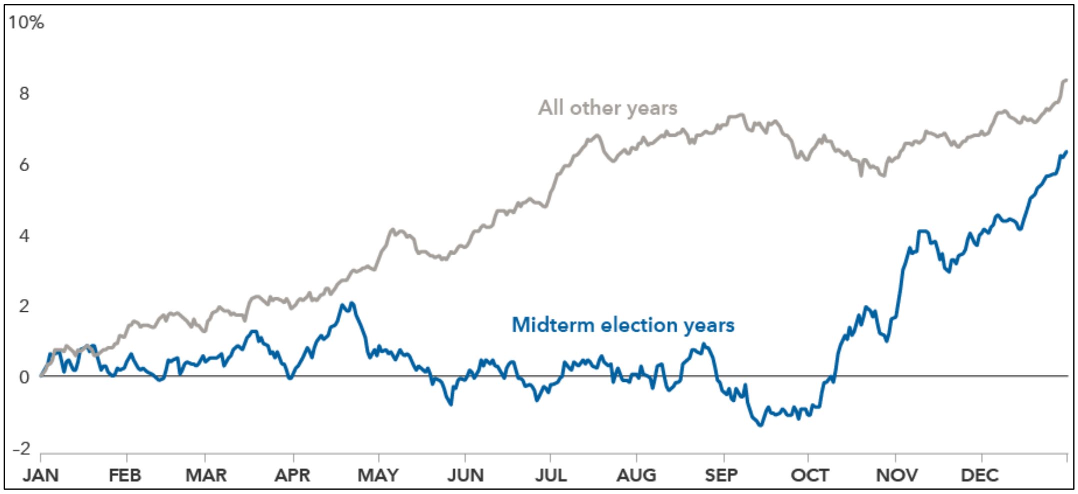
Stocks

This rally in stocks is easy to understand given bombed out sentiment and momentum last month, but we're getting to the fade zone. If you're bigger picture bearish, which I am, the key is always to make sure you are selling rallies, not holes. The current rally is in the sell zone now. The final four highs in early June were 4160/4200 as you can see here:

S&P futures, hourly since late October 2021

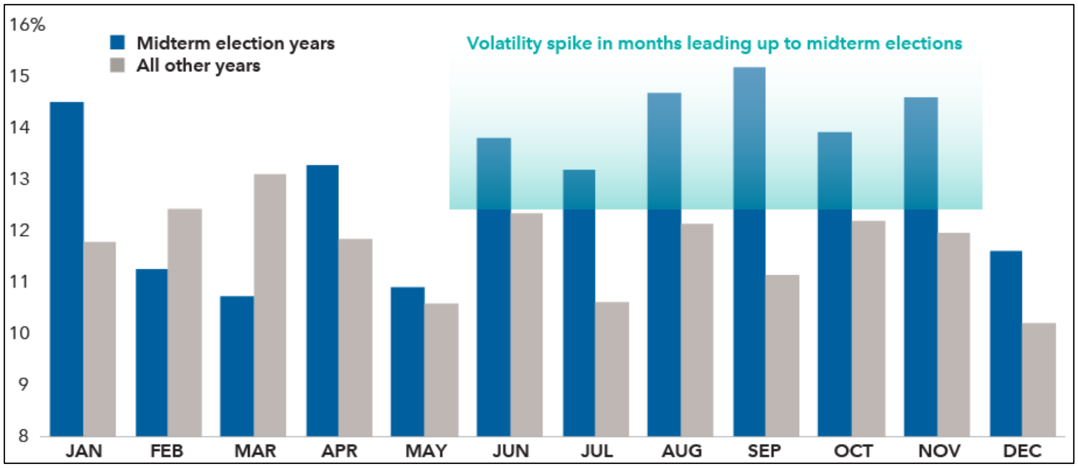
And seasonality during mid-term years is bearish from here as you can see in this chart from Capital Group:

S&P 500 Index average year-to-date return (1931-present)



This chart also highlights how volatility is higher in mid-term years:

S&P 500 Index annualized monthly volatility since 1970



Both charts are from this Capital Group blog post

If you have the patience to scale in from here to 4150 with a stop above 4200, I think that's the right strategy. I don't usually talk about single names much, but the universal disdain for the "new Instagram" and numerous posts such as this one from Ryan Broderick make me think that the relentless series of execution issues experienced by META (not to mention their pivot to the metaverse at the worse possible time, and the resignation of Sheryl Sandberg) may catch up to the stock. It's down a lot already but looks like it might finally be following in the footsteps of MySpace.

Final Thought

Super cool microstructure piece.

Have an Austrian day.

good luck ⇅ be nimble

“This first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices, although the extent of this rise will not be the same in the various commodities and services.

These people still believe that prices one day will drop.

Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy. **But then finally the masses wake up.** They become suddenly aware of the fact that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. The crack-up boom appears. Everybody is anxious to swap his money against "real" goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.”

https://mises.org/library/human-action-0

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