

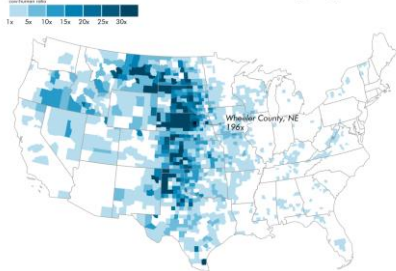
am
FX

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Counties with more **cows** than people



Wheeler County, Nebraska has 196X more cows than people!

Current Views

Short GBPUSD @ 1.2230
Stop 1.2361

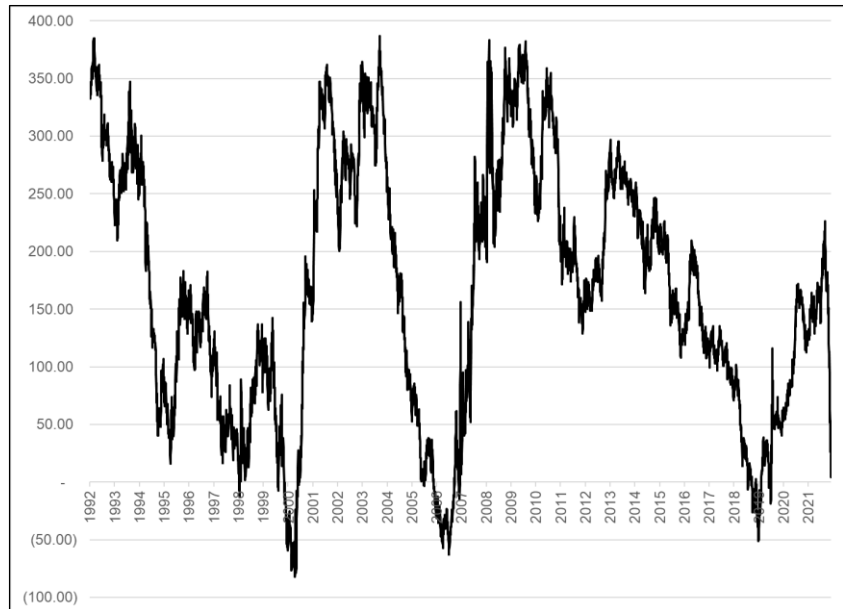
Short EURCHF @ 0.9725
Stop 0.9777

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

Yield curve, JPY and GBP

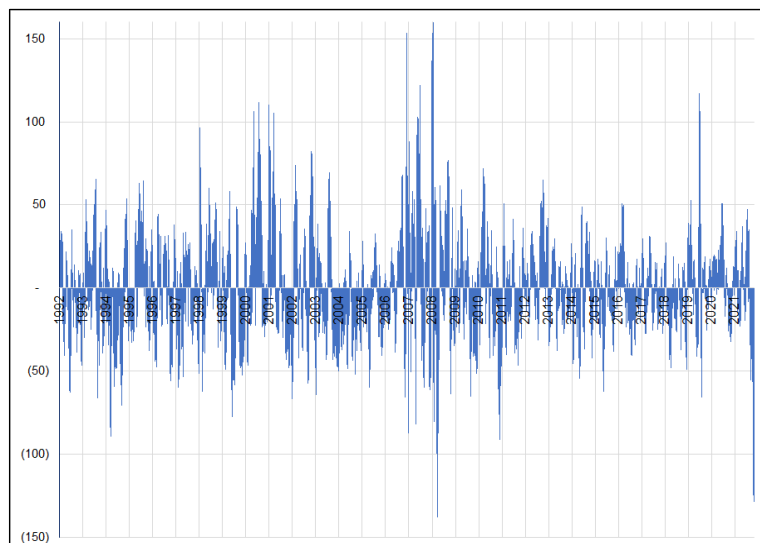
One of the most popular US recession indicators is the 3-month/10-year yield differential. It is absolutely collapsing right now and currently sits at 4 basis points after trading above 200 in May. Here is the chart:

3-month vs. 10-year US yield differential



This is the same data series but showing 1-month change. The only other time things got this nuts was December 2008.

3-month vs. 10-year US yield differential (1-month change)



To give you a sense of what that might mean for FX, I looked at the prior times 3m/10y touched zero for the first time in the cycle and looked at G10 FX performance.

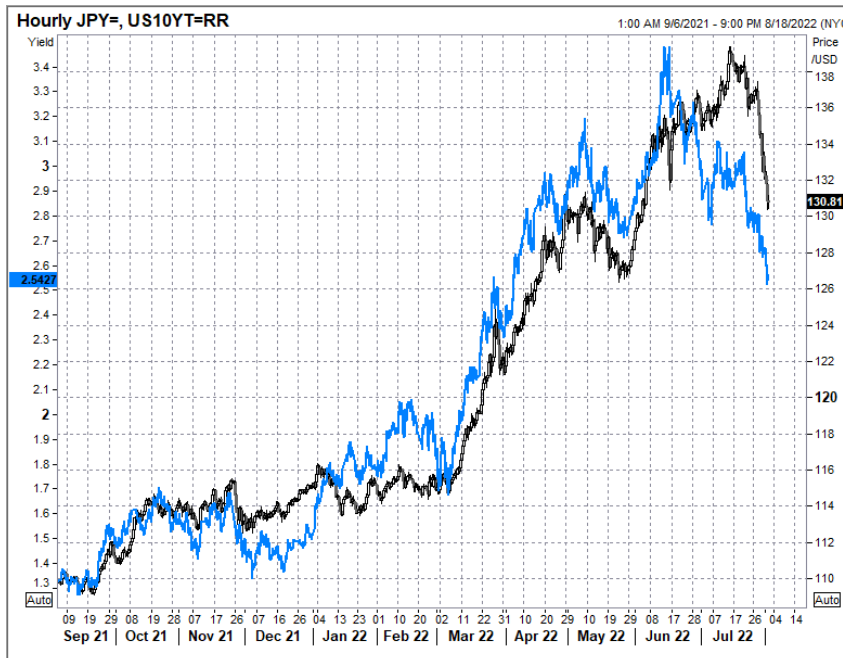
G10 FX performance in the three months after 3m/10y goes negative for the first time in the cycle

	10-Sep-98	5-Jul-00	22-Feb-06	22-Mar-19
CAD	(1.43)	(9.91)	11.40	1.89
AUD	(1.67)	(4.21)	8.85	(1.69)
GBP	3.36	(10.13)	8.38	(3.53)
EUR	4.09	(7.29)	8.22	0.86
NOK	0.18	(1.97)	8.00	0.94
JPY	10.99	(8.60)	6.25	2.44
NZD	1.15	(13.09)	2.97	(3.78)
CHF	4.25	(0.54)	2.34	2.22
SEK	2.80	(8.76)	(5.53)	0.01

There is not a lot to chew on here, because the outcomes varied so much. The only consistent theme I saw when looking at price action around these incidents is that **JPY tended to do very well going into the inversion and also did well for the three months after the inversion**. Not a huge surprise since JPY is a yields trade and 3m/10y is generally driven by moves in 10s. The exception was 2000 as the USD was ripping to the moon as the euro had just been born and people were questioning its solidity. Sometimes, even when the result is no raging call to action, I like to show you anyway so you can see the null hypothesis.

USDJPY cracked what I thought was important support at 131.25/50 yesterday with very little effort and continues to follow the lead of yields:

USDJPY vs. US 10-year yields, hourly since September 2021



The full round trip of the “BOJ YCC OMG!!!” move would be back to the triple bottom in late May (126.60/70). Obviously USDJPY is super oversold, but I can’t see much reason to try to fade it. The outcome of Pelosi’s trip to Taiwan and the litany of Fed speakers will keep things interesting today.

Fed and GBP

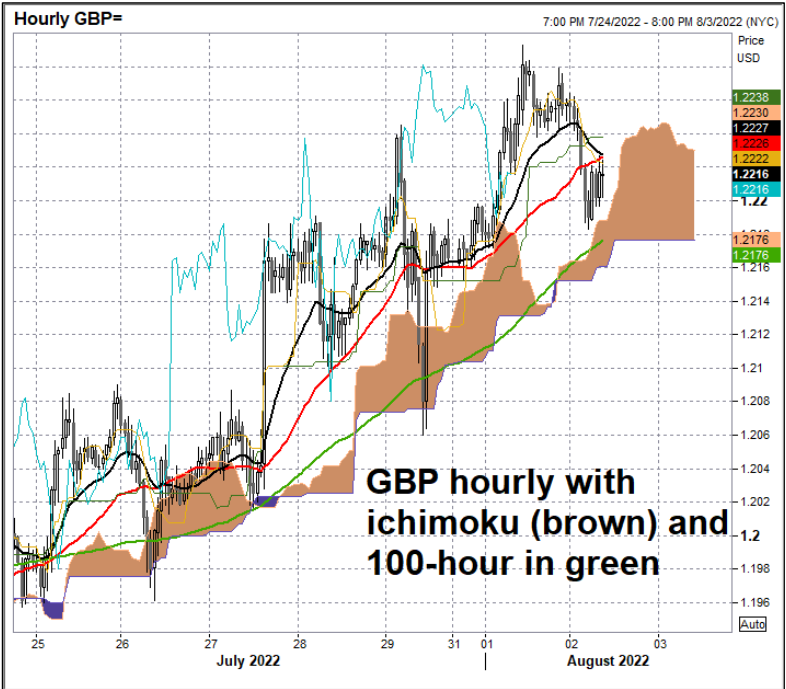
Nobody listens to Kashkari anymore, but my guess is that his message will be echoed by today's Fed speakers and this will light a bit of a fire under the USD vs. GBP, AUD, and NZD.

Fed today (all times are NY): Chicago Fed President Charles Evans (nonvoter) will host reporters for an on-the-record breakfast conversation (10:00), Cleveland Fed President Loretta Mester (voter) takes part in a Washington Post live interview (13:00), and at 18:45 St. Louis Fed President James Bullard (voter) discusses the economy and monetary policy with the Money Marketeers of New York University. Text: yes. Q&A: yes, with audience (no media Q&A). THX CR.

Risk into the Bank of England meeting is lower GBP as the market will take its cue from the RBA. The economic story in Oz is much better than the one in the UK and this should make people think that a dovish 50 is coming from the Bank of England. The rally in GBP has been extremely unimpulsive and grinding, and we could easily be back at 1.20 in a few days. The runup trade is short GBP into Thursday.

GBP has been following the ichimoku cloud and the 100-hour MA (see chart at right) for the last few weeks. **I like short at current levels (1.2230) with a stop at 1.2361 looking for sub-1.2000.** It makes sense to add to shorts on the break of 1.2160 as well, though I kept it simple in the Current Views section and just put the primary idea.

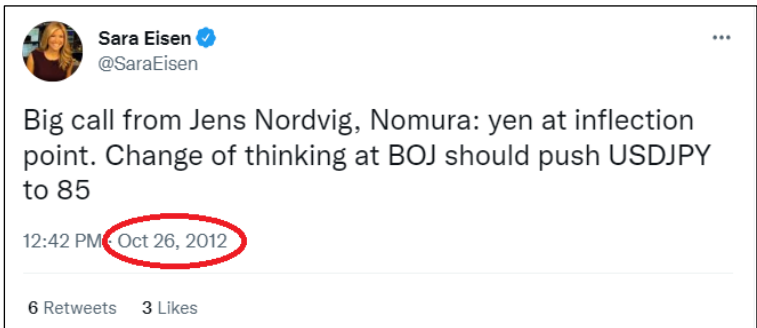
If you are patient, you could also wait for the 100-hour / ichimoku to break before selling, but I would rather just sell here.



Final Thoughts

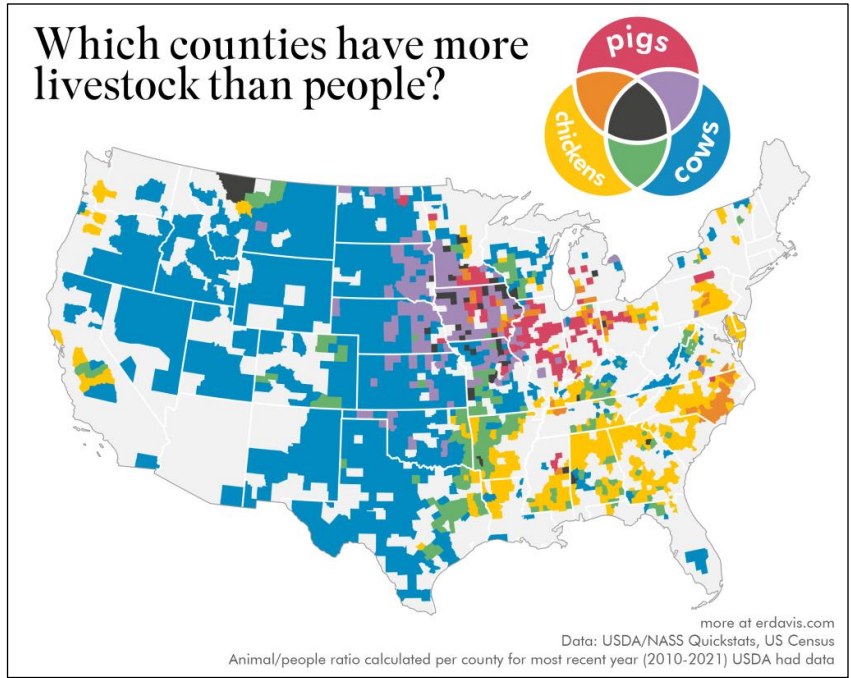
You can read my latest educational Substack here: [“Bear markets are hard to trade, even when you’re bearish.”](#)

Finally, I was searching for something on Twitter today and came upon this by accident. Good call, Jens!

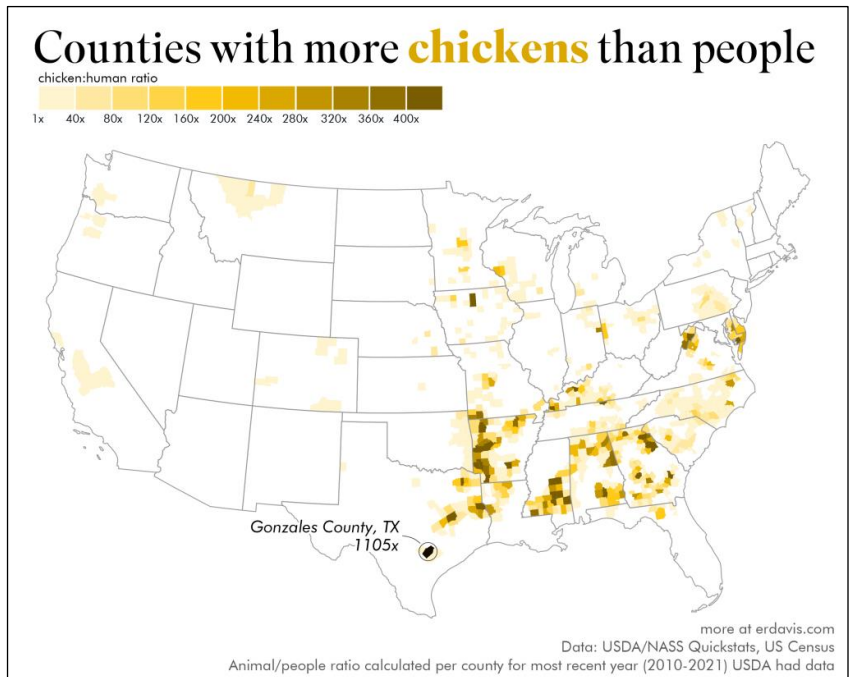


Have a piggish day.

good luck ⇕ be nimble



<https://erdavis.com/2022/06/21/where-is-there-more-livestock-than-people/>



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