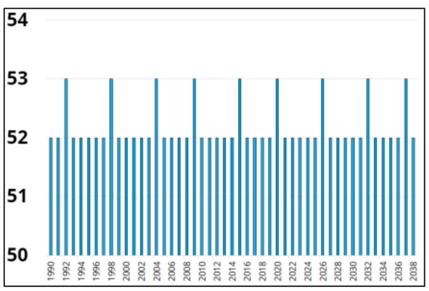
Spectra MARKETS

May 2, 2024

amFX

Current Views

Flat



Can you guess what this chart shows?

Yellow Flags

There is enough softness in US data to raise eyebrows. But not enough to conclude that anything has changed. Yet.

US softening?

There has been a spate of US economic warning signs of late, starting with the S&P PMI commentary on jobs and more recently with weak GDP, weak Consumer Confidence, a stunning drop in construction job listings (JOLTS), weak Chicago, and stark warnings on the consumer from Amazon, Starbucks, CVS, McDonald's, YUM, and others.

Thinking back to yesterday's huge data grid, there are four main explanations for why abysmal survey data never fed through to the hard data in 2022/2023:

1. The inflation shock crushed sentiment. As Americans experienced rapidly-rising prices for the first time in their lives, they hated it. This was clear as you could see inflation-oriented surveys like Michigan were much weaker than non-inflation-oriented surveys like Conference Board Consumer Confidence. As inflation came off, these surveys stabilized and there is quite a lot of evidence that inflation was a prominent driver of low consumer confidence
2. Rising rates put fear into the hearts of business operators. Economists were mostly calling for an imminent recession throughout 2022 and 2023. That bearish outlook from forecasters was reflected in a bearish outlook from business leaders.
3. Business leaders mostly vote Republican and are disillusioned by three years of a Democratic rule.
4. Negativity bias is getting worse and worse in financial and all media.

The first two should have much less impact now, even as inflation reaccelerates a bit in the US. Number three should be dissipating as red voters' hopes rise with an election on the horizon. Four is never going to change.

So, could it be that with real wages stabilizing and interest rates no longer rising, the driver of the weak data is falling demand or truly falling economic confidence for the individuals and businesses surveyed? I think that's a reasonable thesis.

I have so far avoided the trap of looking at secondary data while ignoring the primary, perennially useful US economic data in order to confirmation bias my way to a bearish outlook for the economy. The workhorse hard data (Claims, Retail Sales, Initial Claims, and GDP) has been consistently strong for almost two years but now you have Retail Sales and GDP rolling over a bit, and a flurry of corporate warnings on the consumer. **It's time to be on high alert for a turn in NFP and Claims.** The US consumer might be softening but it's way too early to say so for sure.

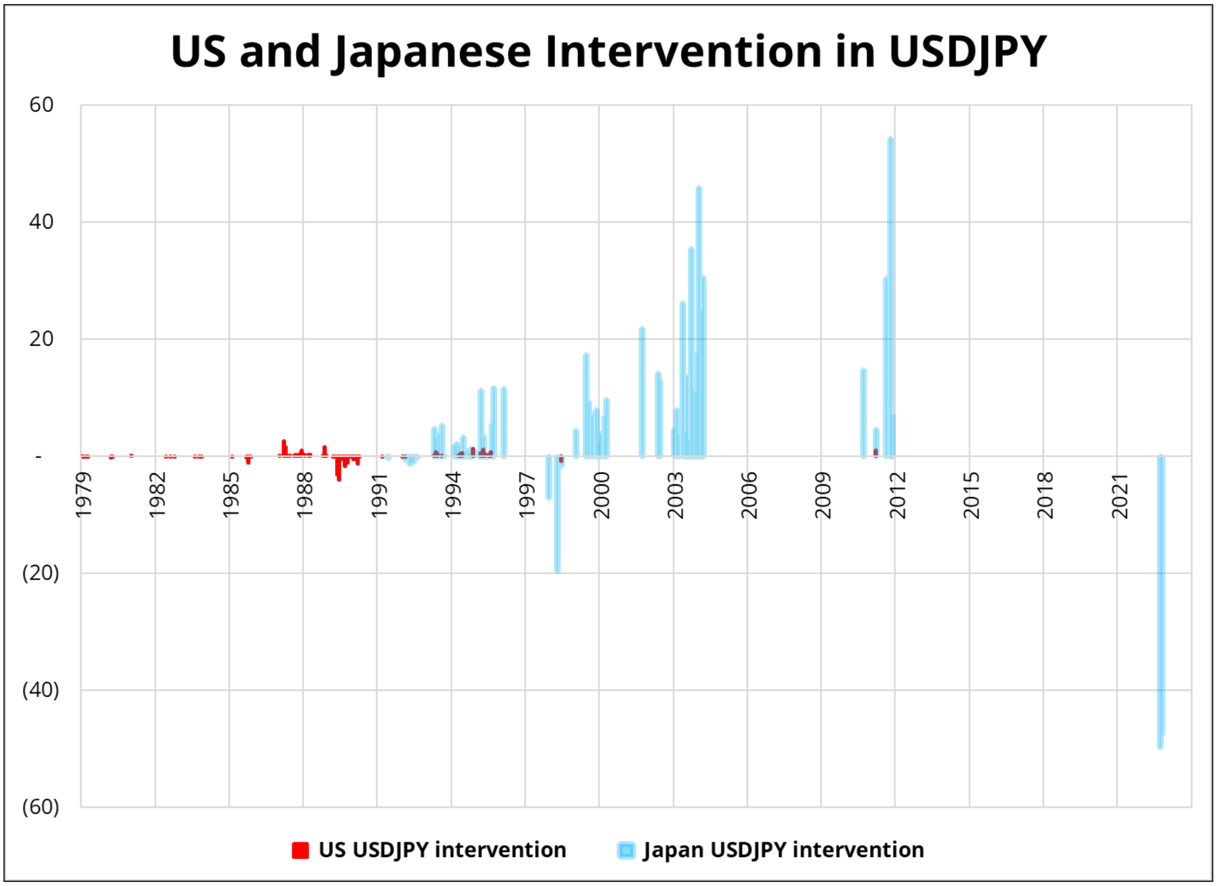
Japan

Those who were trading FX in 2005 will remember how the US Homeland Investment Act (HIA) boosted the dollar all year, right in the middle of the raging, structural USD down trade that dominated the rest of the 2002 to 2007 period. Could we get HIA, Japan style? Something for your radar.

https://www.reuters.com/markets/currencies/japan-may-introduce-tax-breaks-spur-repatriation-into-yen-sankei-reports-2024-05-01/

Speaking of Japan, the standard response to central bank intervention is to say: "Meh, the FX market is too big. They are going to fail." My memory of the 2010/2011 USDJPY interventions is that they succeeded, but that is muddied by the arrival of Abenomics in late 2012. The interventions in the 75.00/80.00 zone stabilized USDJPY, but did not succeed in turning it higher. Unilateral FX interventions tend to slow the trend, but not reverse it. Eventually, policy factors, other central banks, and/or monetary policy need to cooperate.

For fun, I decided to look at all the USDJPY interventions back to 1980 and see if authorities won or lost. First, here are all the interventions. It's interesting to see the tiny size of US interventions in the 1980s when FX markets were so much smaller, and jawboning and signal were enough to move the market.



To dig more deeply into the various intervention episodes, I made a table.

		Billions of USD bought or sold		USDJPY								
Start	**End**	**USA**	**Japan**	**3 months later**	**1 year later**	**2 years later**	**3 years later**	**Coordinated?**	**Did US yields cooperate by going the right way in next 6 months?**	**Win or Loss?**	**Start to end (months)**	**Notes**
Feb-1985	Nov-1985	**(2)**	**-**	-3%	-26%	-41%	-51%	Yes	Yes	Win	9	Plaza Accord to weaken USD
Jan-1987	Dec-1988	**9**	**-**	-8%	-17%	-19%	-6%	Yes	Yes	?	23	Louvre Accord to stabilize USD
Mar-1989	Apr-1990	**(14)**	**-**	8%	20%	7%	-2%	No	No	Loss	13	BOJ hiked but it didn't work
Jan-1992	Aug-1992	**(0.2)**	**(5)**	6%	-1%	-11%	-21%	Yes	Yes	Win	7	
Apr-1993	Sep-1993	**2**	**17**	-3%	-8%	-22%	-3%	Yes	Yes	Loss	5	
Feb-1994	Nov-1994	**3**	**14**	0%	-8%	0%	16%	Yes	Yes	?	9	
Mar-1995	Sep-1995	**4**	**45**	-2%	22%	39%	46%	Yes	No	Win	6	Kobe earthquake 17JAN95
Dec-1997	Jun-1998	**(1.0)**	**(28)**	-3%	-13%	-21%	-15%	Yes	Yes	Win	6	LTCM carry trade
Jan-1999	Apr-2000	**-**	**69**	3%	-12%	-1%	14%	No	No	?	15	Dotcom bubble burst
Sep-2001	Oct-2001	**-**	**22**	4%	-1%	-6%	-8%	No	No	?	1	11-Sep
May-2002	Mar-2004	**-**	**267**	-3%	-4%	-11%	-16%	No	No	Loss	22	Dotcom bubble burst continues
Sep-2010	Nov-2011	**1.0**	**111**	0%	-8%	-6%	17%	Yes	Yes	?	14	Fukushima earthquake, then Abenomics
Sep-2022	Oct-2022	**-**	**(97)**	-5%	3%	7%	7%	No	No	Loss	1	Fed hike cycle

The pattern that emerges is that coordinated interventions mostly worked, while unilateral ones did not. That said, it's a bit hard to definitively conclude that the unilateral interventions failed simply due to lack of coordination because not one of the unilateral USDJPY interventions got cooperation from US yields. Still, it seems fair to say that intervention is just one of many factors impacting USDJPY and without global coordination, there is a substantially lower chance of MOF success.

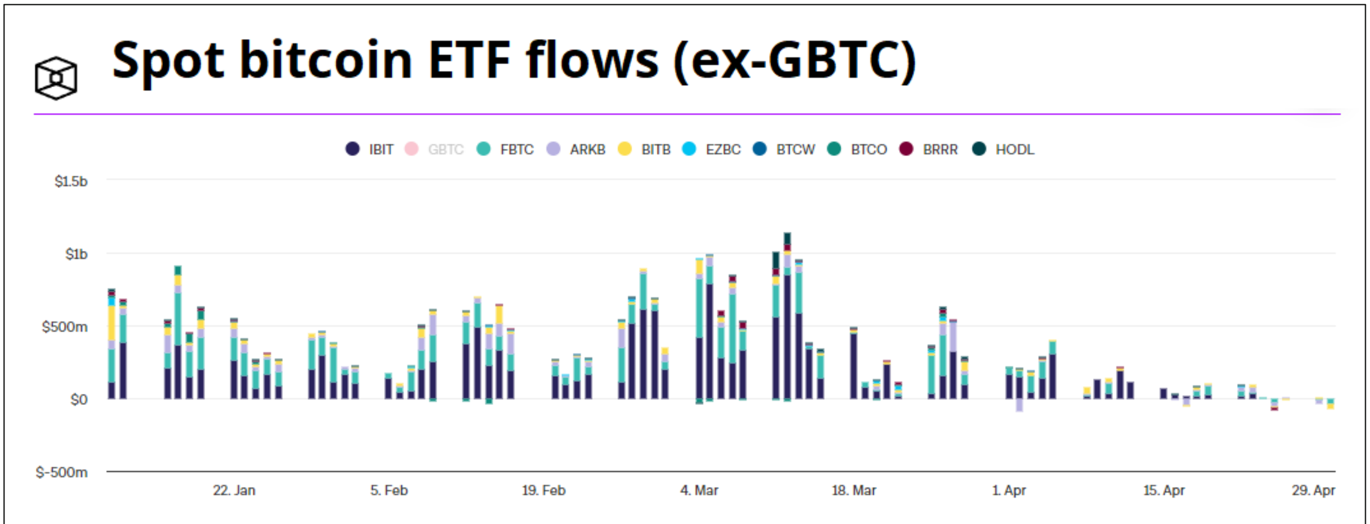
I remember the intervention from 2002-2004, for example, where they tried to keep USDJPY above 115 and then above 105 for ages and then finally simply gave up. See chart.

Just like the direction of US monetary policy will be dictated by the economic data, not Powell's whims, the direction of USDJPY will be decided by US yields, not the MOF. They can slow things down and buy some time, but unless they get help from the USA and/or macro, that's all they can hope for.

Given the level of yields, the massive Fed depricing of cuts, and what looks to me like **yellow** flags that *might* portend a meaningful turn towards a soft patch in the US… I think risk/reward favors USDJPY down and the USD down in general. But not because of the MOF. I am choosing to remain on the sidelines through NFP, though, as I don't see any particular asymmetry to the release.

Final Thoughts

Bitcoin ETF inflows have completely dried up.

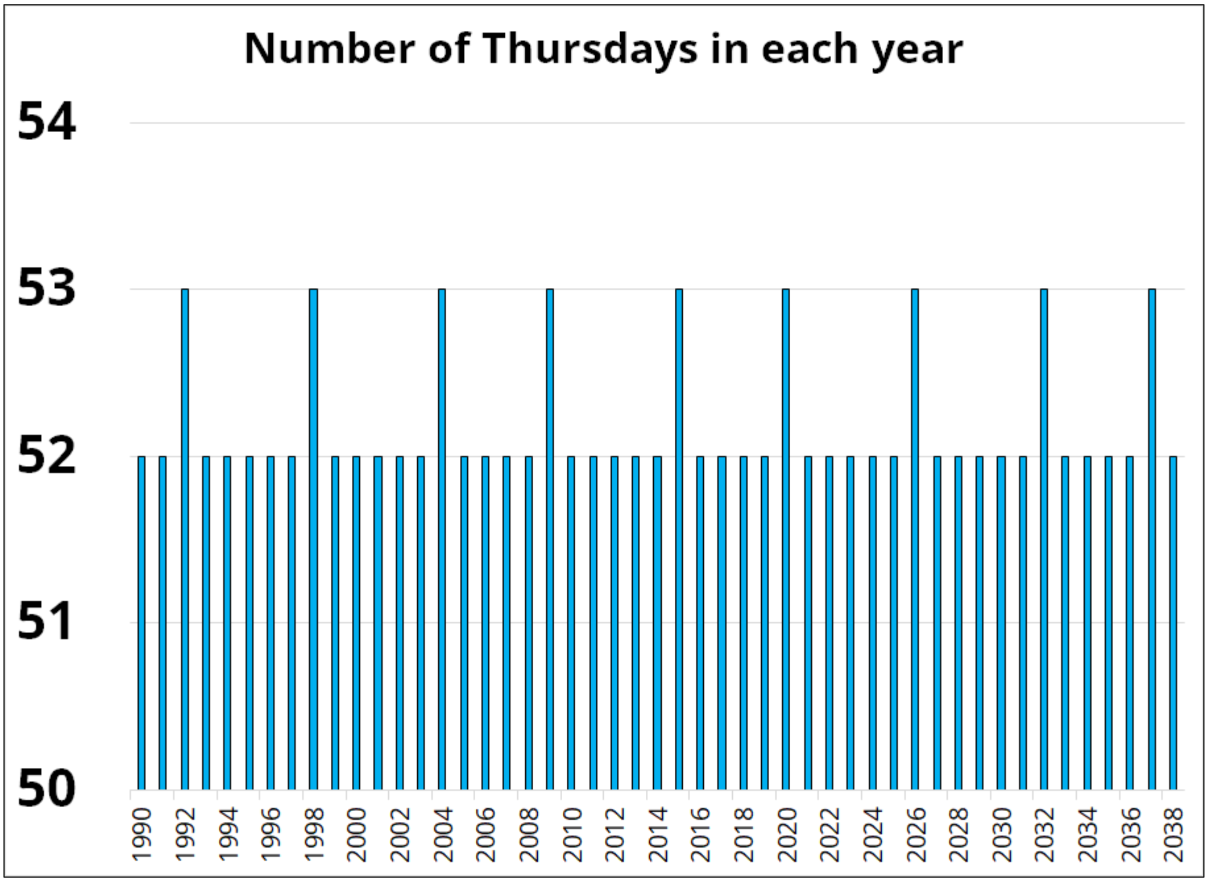


x-axis shows January 2024 ETF launch date to now

It's notable that the BTC ETF inflows peaked the same week as the NASDAQ. More evidence that flows into bitcoin behaves in the same way as flows into technology stocks and other high-beta risky assets.

Have a thurs day.

good luck ⇅ be nimble



52 weeks = 364 days.

All years that start on Thursday have 53 Thursdays.
January 1st and December 31st are Thursdays in those years.

But also! Leap years have 366 days.

Therefore, leap years that start on Wednesday also have 53 Thursdays.

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