Title: Seat of the pants math around Reverse Repo, Market collapse and interest rates
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Sort of a "long" post on the current market deterioration and some of the things I watch to try to get a sense for "when" the shit hits the fan. (Trust me, this is NOT it...yet)

Three metrics we will talk about:

Dow Jones avg.

Reverse Repo market

Federal Reserve rate hikes

For simplicity sake, the Dow Jones average is a "health" indicator. Reverse Repo is a "pressure gauge". And the interest rates are the thing I am trying to correlate to the Dow and RRP market.

The Fed has hiked rates 3X in 2022:
25 basis points on 3/14
50 basis points on 5/3
75 basis points on 6/14

For convenience sake, I am rounding Dow and RRP numbers.

Dow 35,500 ->34,000 -> 30,500
RRP $1.5T -> $1.8T -> $2.2T

Currently, the Fed is burning down the treasuries via Quantitative Tightening. That number is $4.9T, and will burn down 0.1T in the next two months, and then $0.1T every month until "inflation" is back under control. The $4.9T is the amount of collateral available. The RRP # ($2.2T) is the amount being used.

What happens when there is no more collateral to be borrowed?

Armageddon. Think 1929.

So, let's try to forecast "the end" based upon what we know historically?

In round numbers, each 25 basis point hike causes the market to fall by 1500 points. We just got a 75 basis point hike, so we're looking at 4500 points between now and the July Fed meeting.

That puts the Dow at 25K, give or take. (we will come back to this)

RRP is a little harder to correlate, but even just simple "best fit" curve says $2.7T give or take. And QT will remove $0.1T to make it $4.8T

The thing is, if the Dow and the market do actually fall that fast, there might be a much higher RRP demand because the collateral they hold (stocks on the Dow) will be worth less, so they may need it to avoid a margin call.

What starts Armgeddon?

A margin call that cannot be met, and the liquidation of that companies assets to pay their creditors. The liquidation of their stock positions will drive those stocks lower, putting more nd more companies into margin call territory. Think dominoes, where only one needs a push...and they all fall.

Anyway, back to the math.

Inflation still raging in July, and Jerome Powell stacks another 75 basis points on them... maybe they hold off August and September? It's going to be REALLY hard and things will be very sketchy. (They've been sketchy as fuck for a year and a half, but too many people worried about Kim and Marilyn Monroe's dress, or Johnny Depp... but I digress)

What can you do?

Well, my bet is on GameStop squeezing. The rest of your assets should be cash. There's no guarantee this works out, but IT IS THE SAFEST POSSIBLE POSITION (in a potentially terrifying outcome... where the USD goes to $0.)

Your friends and family need to know how little time there is left to act. I have the bottom of the market being Dow 3,000-5,000 and the NASDAQ around 2,000-2,500 (if they let what NEEDS TO HAPPEN actually happen). That's about 80-90% down from here.

May the odds be forever in OUR favor.