From: charlie.mcelligott@nomura.com
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Date: 11/15/2022 7:55:08 AM
Subject: Nomura Cross-Asset: SIGNS OF REGIME CHANGE BUILD FURTHER

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I'm all out of superlatives able to describe the **scale of the cross-asset "momentum shocks" experienced since the light MoM Core CPI print Thursday**, where YTD "macro trend-trade winners" from the global central bank "FCI tightening impulse" of the past year have since seen a one-way "VaR event" due to stop-outs and position de-grossing ***(only further accelerating now post this PPI print which only builds "dovish relief" and Fed "terminal" repricing further)***

At the highest level and following the Core CPI miss, **the sudden lurch into the "Past-Peak U.S. Dollar" narrative *(not just soft US CPI >> lower Fed terminal, but also the China shift alongside warm European winter start easing the Recession / Energy crisis "worst fears")*** remains at the core of the "trend / momentum" unwind, with USD "Longs" capitulating against G10 and EM crosses then acting as an "impulse easing" in financial conditions, providing a further macro catalyst behind the brutal squeeze in legacy trend "Shorts" Equities / Sovy Bonds *(with bear-flatteners unwinding into bull-steepeners*) / STIRS / Credit Index

Ultimately, the impact of the "light" MoM Core CPI by EOD Thursday had amounted to the third-largest single-day decline "EASING" in US financial conditions on record, while **1y1y OIS is now -53bps since the pre CPI high through today's dovish PPI miss—in other words, a financial conditions EASING equivalent to TWO FED RATE CUTS since the CPI "miss"**

And the Rates re-pricing continues to hold, where despite the well anticipated "Fed push-back" against this FCI easing via Waller's hawkish comments over the weekend, the "easing" continues to hold and has since been spurred-on by "dovish" commentary out of Fed Brainard and ECB Villeroy, **as the market has re-priced global central bank "terminal rates" meaningfully lower (again—further accelerating post dovish PPI)**

Net / Net, the shock reversal in financial conditions trade meant certain (painful) whiplash for all thematic trend trades experienced in 2022, turning "Winners" to sudden "Losers" and vice versa

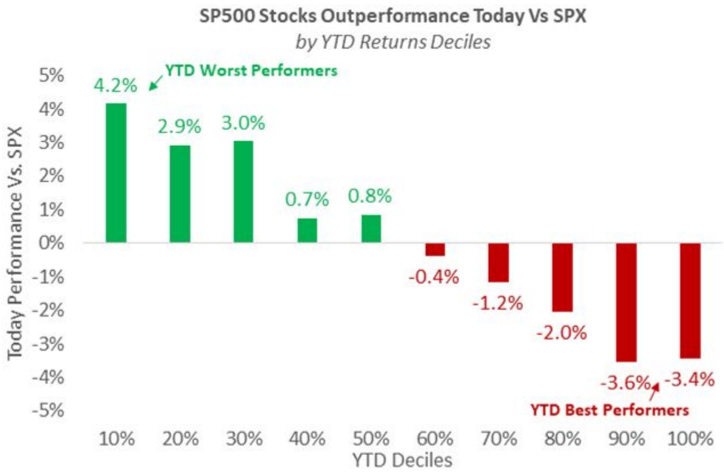
- ***Overall CTA Trend has experienced its worst cumulative six-day drawdown (-6.00%) since Sep '19****, and fourth worst since "Volmageddon" in Feb 2018 on account of the cross-asset reversals / de-grossing*

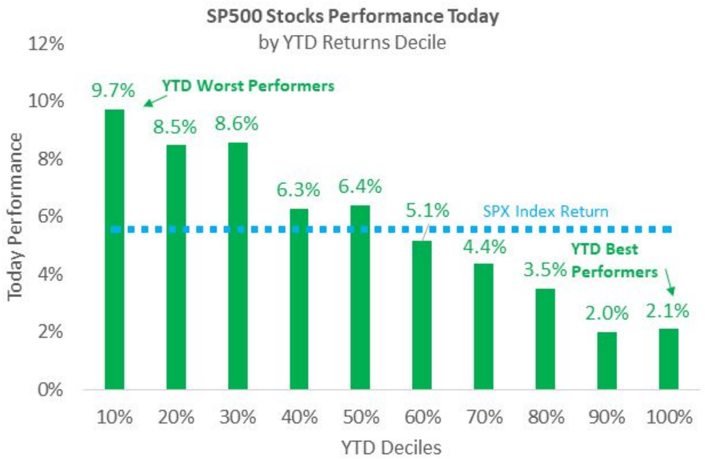
- *To this point on trend 'gross-down,"* ***Nomura QIS CTA Trend model now shows Gross Exposure smashed-down to 3.9%ile since 2011***

- ***The -14.2% Thu / Fri cumulative return in our US Equities "Long Term Momentum" factor was the largest two-day drawdown in the factor since the COVID vaccine news –induced shock in Nov '20, and the fifth largest two-day drawdown since at least 2000***

- ***The -11.5% Thu / Fri cumulative return in our US Equities "Low Risk" factor was the largest two-day drawdown in the factor since Jun '20, and the fourth largest two-day drawdown since at least 2000****—which had been a "2 Sharpe" trade for the past 1Y as a hiding place that just kept going higher…until it didn't*

THURSDAY'S "MOMENTUM" SHOCK IN U.S. EQUITIES





Source: Nomura

Not surprisingly per the factor and book behavior -shocks noted above, it was a signal of calamity for market-neutral shops, **with -3 / -4 / -5 /-6 z-score 1d moves across nearly our entire suite, indicative of "pod stop-outs"**

This however is not just about CPI—where for a full month prior to the last week's inflation print, **we'd already been seeing beaucoup buying of SOFR / ED$ / UST "Upside optionality" on that idea of "past peak hawkishness,"** as well as increased confidence in a "hard landing" recession by mid '23 which would start seeing Bonds / Duration begin to "work" again in 2023

- *This continued again yesterday, Jan SOFR Upside 95.1875 / 95.3125 / 95.4375 / 95.5625 Call Condor 40k bot and still bid...and likely now to push out further into the midyear*
- *Overnight, UST 10Y Call Spreads trading, 20k TYF3 114/116 CS, adds to 13,300 on screens*
- *Overnight the desk also saw front-end Receiving from RM / Bank names, and Pension –related Receiving in the Belly and further interest in curve Steepeners*

Looking at the CTA model, effectively "all" of the signal loading has been in the medium- and long- term windows (3m, 6m and 12m) which remain ITM "Short," which has meant that despite the violent rally which has flipped shorter-term (2w and 1m) signals "Long," **the overall signals remain "Short"….**

BUT NOW, this G10 Bond rally is nearing the point where it is about to **trigger bouts of covering in some of the legacy "Short" Bond positions off their extremes:**

CTA Position Estimates

		Sig(Today)	Sig(1d)	Sig(1w)	Sig(1m)	CurrentLevel	LevelToBuy	LevelToSell	Pos(Today)	Pos(1d)	Pos(1w)	Pos(1m)
Bonds	USD_10Y	-99	-99	-100	-100	112.125	118.594	110.594	-6.45	-7.17	-7.29	-6.69
	EUR_10Y	-100	-100	-93	-100	138.54	138.426	nan	-4.16	-4.3	-4.03	-4.08
	JPY_10Y	-22	-22	-16	-31	149.26	149.559	148.759	-1.08	-1.09	-0.84	-1.62
	GBP_10Y	-99	-99	-93	-100	104.32	115.268	102.107	-1.6	-1.62	-1.55	-1.99
	AUD_10Y	26	26	25	-34	96.23	111.188	96.23	0.53	0.53	0.5	-0.66
	CAD_10Y	-99	-99	-93	-100	124.23	125.071	122.999	-0.32	-0.35	-0.34	-0.38
	CHF_10Y	-100	-99	-93	-100	144.36	144.835	nan	-0.33	-0.33	-0.31	-0.3
	FRA_10Y	-100	-100	-93	-100	133.27	132.865	nan	-0.29	-0.3	-0.28	-0.31
	ITA_10Y	-100	-100	-93	-100	115.98	114.622	nan	-0.25	-0.26	-0.24	-0.27
	ESP_10Y	-100	-100	-93	-100	126.36	125.844	nan	-0.27	-0.28	-0.26	-0.28
MM	ED4	-100	-100	-100	-100	95.04	95.03	nan	-31.35	-34.42	-34.93	-33.63
	ER4	-100	-100	-100	-100	96.92	96.926	nan	-32.18	-32.72	-33	-31.33
	YE4	-99	-99	-93	-100	99.875	99.8825	99.875	-22.24	-22.24	-21	-22.5
	SFI4	-99	-99	-93	-95	95.48	95.7581	95.4027	-12.07	-12.17	-11.46	-12.72

Source: Nomura QIS

For my purposes, however, the most notable of all these aforementioned status-quo / trend-changes are on the VOL -side in both Rates and Equities…

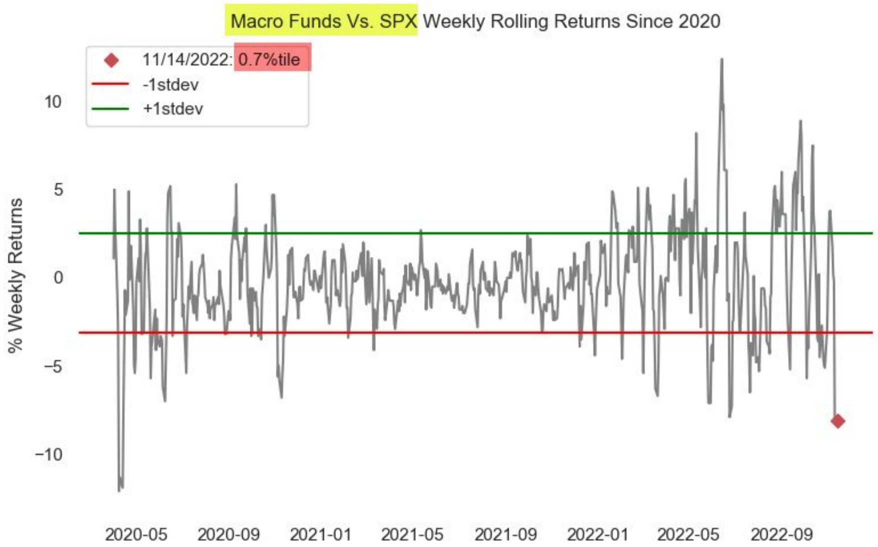
$Rate Vol—which had been impossibly high due the "unknown scenario distribution" during the peak fear of the prior "inflation overshoot" period—**has now been getting absolutely hammered *(especially Upper Left Corner,w/ Fed policy rate "surprises" now viewed as "passe" and in-fact, asymmetrically "dovish")* and trading correlated with the Bond rally / short-squeeze**, as the weak US CPI print in addition to the already established "step-down" seen recently across other G10 Central Banks is a statement that we may have crossed to the other side of the inflation battle, **as the Fed message downshifts from "big upside hiking risk" instead to simply "high for longer"**

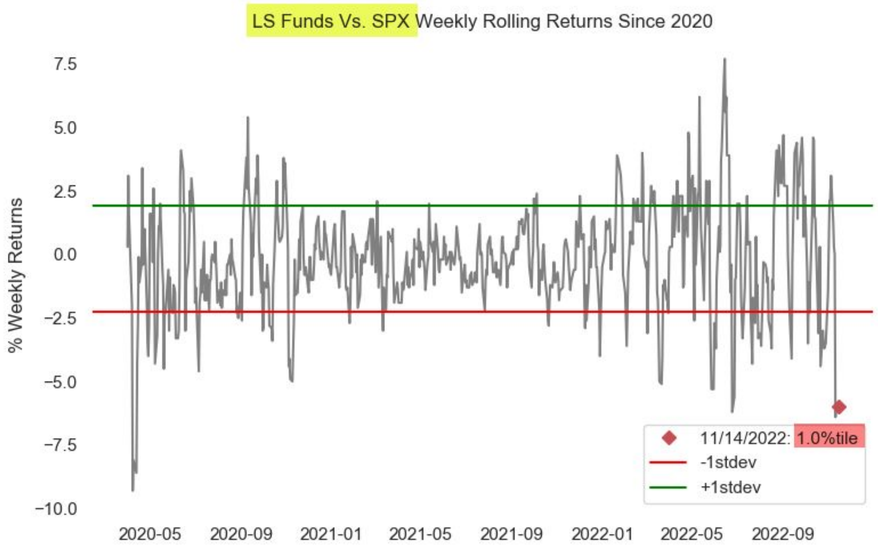
Rate Vol is still at "high" absolute levels here relative to the absurdity of the prior decade's QE era Vol suppression—so the *"Where to from here?"* to me is a question whether the current repricing is just about "Long" monetization…**or instead, a new willingness to go "Short Vol" again, under the idea that it screens historically "rich," and that the distribution of central bank policy rate outcomes is now directionally tilted towards "compressing"**

Turning to the US Equities Vol dynamics in 2022 which I've already been blabbering about in every damn note, bc it's been such a wild regime change story from the past decade +…

As opposed to the QE era, where the Fed incentivized "investors" to be "leveraged Long" financial assets—then necessitating large hedging of downside risks, which meant "Steep Skew"…the recent QT / global central bank "financial conditions tightening era" of the past 1Y has meant the opposite: 0%ile Skew / Put Skew on NO demand for hedges, since you don't have much (if any) underlying Exposure on…versus 100%ile Call Skew, to cover your "right tail" CRASH-UP risk as you were horrified to miss these impulsive +10% Nasdaq / +7% S&P rally type moves seen over the past 3 days LOL *(vol outperf on "up days" only)*

Well it does now seem that **we are beginning to see an increasing number of investors being forced back into adding Exposure / chasing Upside,** either by just forced reduction of "Short" book gross….and / or by also adding outright "Longs" as well, as this rally gets away from funds





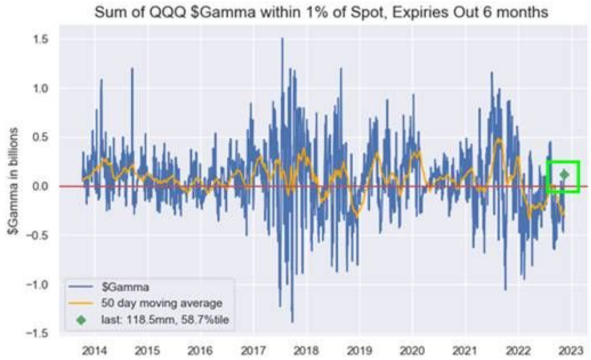
Source: Nomura

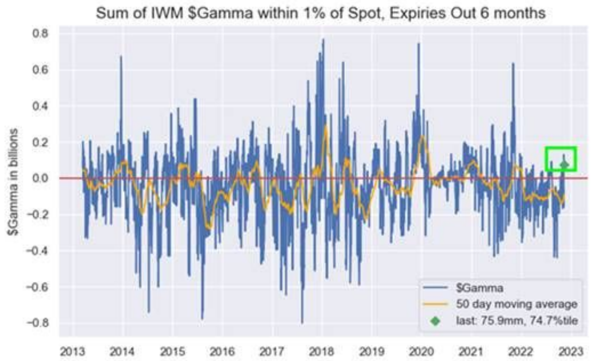
And now with the Spot rally / short-cover melt-up / chase, **that "100%ile Call Skew" in index options we've been speaking about for this very reasons—underpositioned funds**

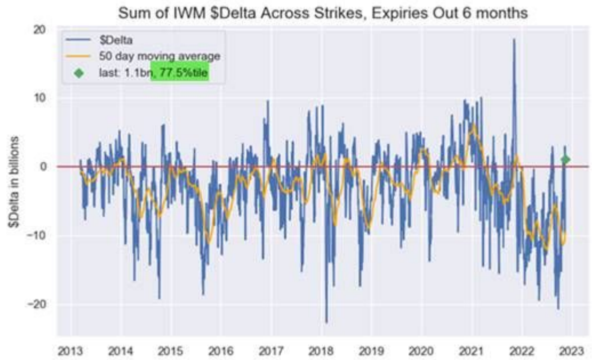
hedging for this very sort of "Right Tail" move—has gone ITM and picked-up impossible $Delta

Before yesterday's very modest US Equities pullback, **the cumulative US Equities Index / ETF Options Net $Delta (across SPXSPY, QQQ and IWM) was +$608B vs 1 wk ago, which was 100%ile / largest 1w $Delta in our data history**…and even with yday's late-session selloff, **US Equities Options cumulative $Delta is now 81%ile back to 2013**

Now, Options positioning has suddenly jolted back-into **"Long Gamma, Positive $Delta"** from what has been **"Short Gamma, Extreme Negative $Delta"** for vast majority of 2022







And with this **adding-back of some actual "Long(er) Exposure" versus prior underweight / high cash / grossed-up Short books**—**it might then too make some sense that it is possible that this legacy "Short Skew" trade that's been THE key US Equities Vol theme of 2022 is now at risk of it's own "regime change" reversal too** *(cringe emoji)*

This is then especially interesting when considering that ongoing VIX Call / Call Spread buying which I've noted on a number of occasions recently…which more going through again yday w a HUGE VIX trade that bot a BUNCH of Vol of Vol—generally some pretty "Tail-y" stuff that is beginning to get loaded-into *(h/t Alex Kosoglyadov for compiling)*

- ***buyer of 104k VIX Feb 60 and 70-strike calls, paying $1.28 for the package (YESTERDAY 11/14)***
- ***buyer of 35k Mar 40/80 1x4 Call Spreads (sold 35k Mar 40C vs. bought 140k Mar 80 Calls)***
- ***buyer of 56k Mar 70 Calls for $0.15 (11/11)***
- ***buyer 25k June 90 calls for $0.57 (11/7)***
- ***Nomura client bought 12.5k Nov 32.5/35 Call Spreads for $0.10 (11/7)***
- ***buyer of 10k Dec 45 Calls for $0.47 (11/5)***
- ***buyer of 40k Nov 37.50 Calls for $0.28 (11/1)***
- ***Nomura client bought 25k Nov 35/37.50 Call Spreads for $0.12 (10/31)***
- ***Nomura client bought 25k Nov 37.5/40 Call Spreads for $0.10 (10/27)***

- ***Nomura client bought 30k Nov 65 Calls for $0.16 (10/25)***
- ***buyer of 73k Nov 90 Calls for $0.12. (10/19)***
- ***buyer of 90k Dec 60 Calls delta-neutral (10/17)***
- ***buyer of 70k Apr 100 Calls (10/14)***
- ***Nomura client bought 20k Nov 65 Calls (10/7)***
- ***buyer of 50k Mar 150 Calls (10/6)***

Point being, "signs of change"—both with underlying positioning and hedging of said "new exposure"—are building, **which *could* set the trap for the next Vol accident, perversely despite so much macro rationale behind this powerful asset rally**

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