FX Volatility Threatens The Fed's Plans

The British Pound (GBP) opened trading on Sunday night at 1.08. Within the first hour of trading, the GBP hit a low of 1.04. While a 4% decline may not seem like much to stock traders, FX volatility of that magnitude is extremely rare. The graph below shows Monday?s opening bashing. Statistically, such FX volatility (6.29 standard deviations) should occur once every 500 million trading days.

FX markets are seeing high levels of volatility in recent months as dollar appreciation is gaining momentum. The Fed intends to keep raising rates and doing QT to arrest inflation. However, their plans may be interrupted if they cannot calm FX volatility. While Congress mandates the Fed use policy for maximum employment and price stability, they have self-proclaimed that avoiding financial instability is their third mandate. FX volatility, the likes of which we are experiencing with increasing frequency, may get the Fed to rethink its hawkish plans.


GBP
Sep 26 O:1.0723 H:1.0723 L:1.0701 C:1.0713 Vol:1.72K
-0.0148 (1.36%)
5 MIN
10k
5k
1.1200
1.1100
1.1000
1.0900
1.0800
1.0713
1.0600
1.0500
1.0400
1.0300
6AM 8AM 10AM 12PM 2PM 4PM Sep 25 8PM 10PM Sep 26 2AM 4AM 6AM


GBP
Sep 26 O:1.0723 H:1.0723 L:1.0701 C:1.0713 Vol:1.72K
-0.0148 (1.36%)
5 MIN
10k
5k
1.1200
1.1100
1.1000
1.0900
1.0800
1.0713
1.0600
1.0500
1.0400
1.0300
6AM 8AM 10AM 12PM 2PM 4PM Sep 25 8PM 10PM Sep 26 2AM 4AM 6AM



What To Watch Today

Economy

- 8:30 a.m. ET: **Durable goods orders**, August preliminary (-0.3% expected, -0.1% prior)
- 8:30 a.m. ET: **Durables excluding transportation**, August preliminary (0.2% expected, 0.2% prior)
- 8:30 a.m. ET: **Non-defense capital goods orders excluding aircraft**, August preliminary (0.2% expected, 0.3% prior)
- 8:30 a.m. ET: **Non-defense capital goods shipments excluding aircraft**, August prelim(0.3% expected, 0.5% prior)
- 9:00 a.m. ET: **FHFA Housing Pricing Index**, July (0.0% expected, 0.1% prior)
- 9:00 a.m. ET: **Case-Shiller 20-City Composite**, month-over-month, July (0.20% expected, 0.44% prior)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite**, year-over-year, July (17.10% expected, 18.65% prior)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller U.S. National Home Price Index** (17.96% prior)
- 10:00 a.m. ET: **Conference Board Consumer Confidence**, September (104.5 expected, 103.2 prior)
- 10:00 a.m. ET: **Conference Board Present Situation**, September (145.4 prior)
- 10:00 a.m. ET: **Conference Board Expectations**, September (75.1 prior)
- 10:00 a.m. ET: **Richmond Fed Manufacturing Index**, September (-10 expected, -8 prior)
- 10:00 a.m. ET: **New Home Sales**, August (500,000 expected, 500,000 prior)
- 10:00 a.m. ET: **New Home Sales**, month-over-month, August (-2.2% expected, -12.6% prior)

Earnings

	Company	Time	Estimate		Growth	Surprise
					Show only confirmed?	
JBL	Jabil Inc.	7:30 AM ET	$2.14	$8.39 B	13.2%	+ = -
UNFI	United Natural Foods...	6:45 AM ET	$1.25	$7.33 B	8.8%	+ = -
SNX	TD SYNNEX	7:05 AM ET	$2.69	$15.06 B	189.2%	+ = -
CBRL	Cracker Barrel Old C...	8:00 AM ET	$1.38	$838.28 M	6.9%	+ = -
CALM	Cal-Maine Foods	4:05 PM ET	$2.40	$597.22 M	80.0%	+ = -
DAVA	Endava	7:10 AM ET	$0.40	$208.52 M	11.7%	+ = -
BB	BlackBerry Limited	5:05 PM ET	($0.08)	$690.00 M	294.3%	+ = -
PRGS	Progress Software C...	4:15 PM ET	$0.97	$148.82 M	1.0%	+ = -
NEOG	Neogen Corp.	8:45 AM ET	$0.16	$135.74 M	5.8%	+ = -
AYTU	Aytu BioPharma, Inc.	7:20 PM ET	($0.24)	$25.50 M	8.6%	+ = -
IPW	iPower Inc	4:05 PM ET	$0.03	$21.00 M	42.6%	+ = -

	Company	Time	Estimate		Growth	Surprise
					Show only confirmed?	
JBL	Jabil Inc.	7:30 AM ET	$2.14	$8.39 B	13.2%	+ = -
UNFI	United Natural Foods...	6:45 AM ET	$1.25	$7.33 B	8.8%	+ = -
SNX	TD SYNNEX	7:05 AM ET	$2.69	$15.06 B	189.2%	+ = -
CBRL	Cracker Barrel Old C...	8:00 AM ET	$1.38	$838.28 M	6.9%	+ = -
CALM	Cal-Maine Foods	4:05 PM ET	$2.40	$597.22 M	80.0%	+ = -
DAVA	Endava	7:10 AM ET	$0.40	$208.52 M	11.7%	+ = -
BB	BlackBerry Limited	5:05 PM ET	($0.08)	$690.00 M	294.3%	+ = -
PRGS	Progress Software C...	4:15 PM ET	$0.97	$148.82 M	1.0%	+ = -
NEOG	Neogen Corp.	8:45 AM ET	$0.16	$135.74 M	5.8%	+ = -
AYTU	Aytu BioPharma, Inc.	7:20 PM ET	($0.24)	$25.50 M	8.6%	+ = -
IPW	iPower Inc	4:05 PM ET	$0.03	$21.00 M	42.6%	+ = -

Market Trading Update

The market started out yesterday with a rally to the upside, but such was short-lived as the U.S. dollar exploded higher amidst global foreign exchange (FX) volatility. As discussed in yesterday?s ***3-Minutes Video***, the market is now standard deviations below the 50-dma, and, as noted below, every sector and market is oversold. Such conditions do not last long, and a fairly strong reflexive rally is likely. Use that rally to reduce equity risk and raise cash.

The long-dollar, short-bond trade is now extremely stretched. If you are looking for a place to invest capital, a bet on an unwind of that trade is a high probability outcome over the next 3 months or so.

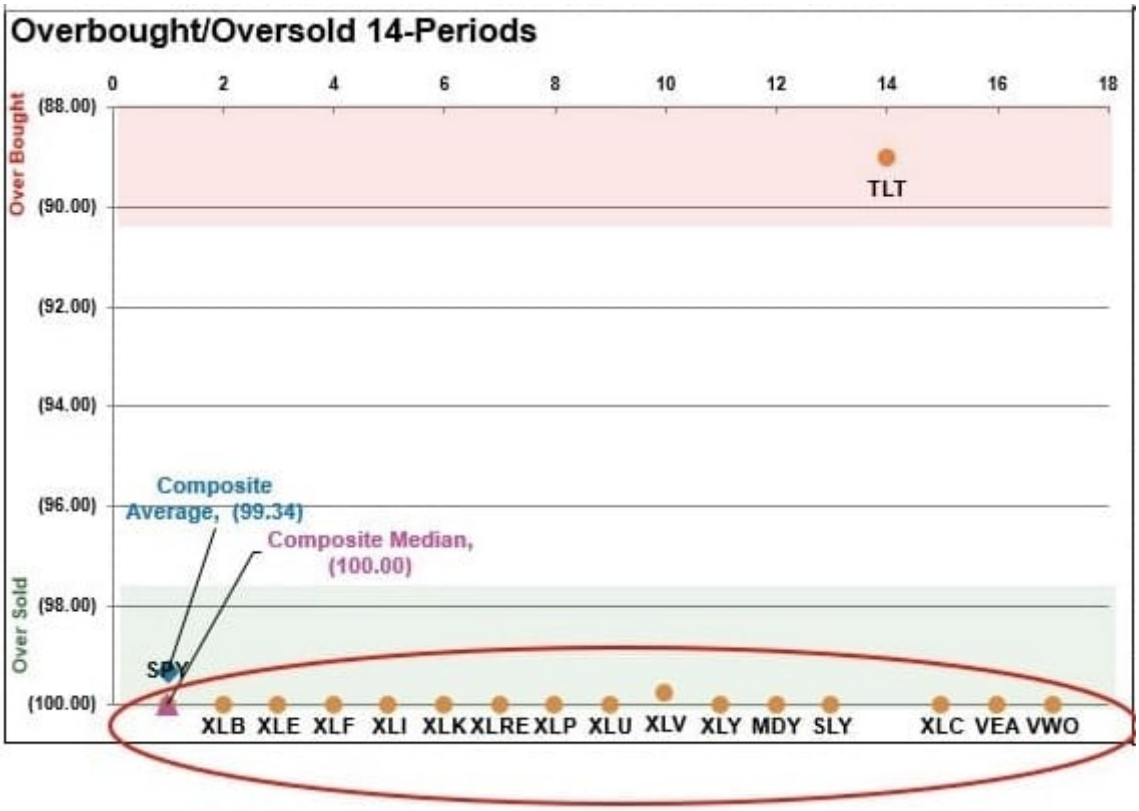


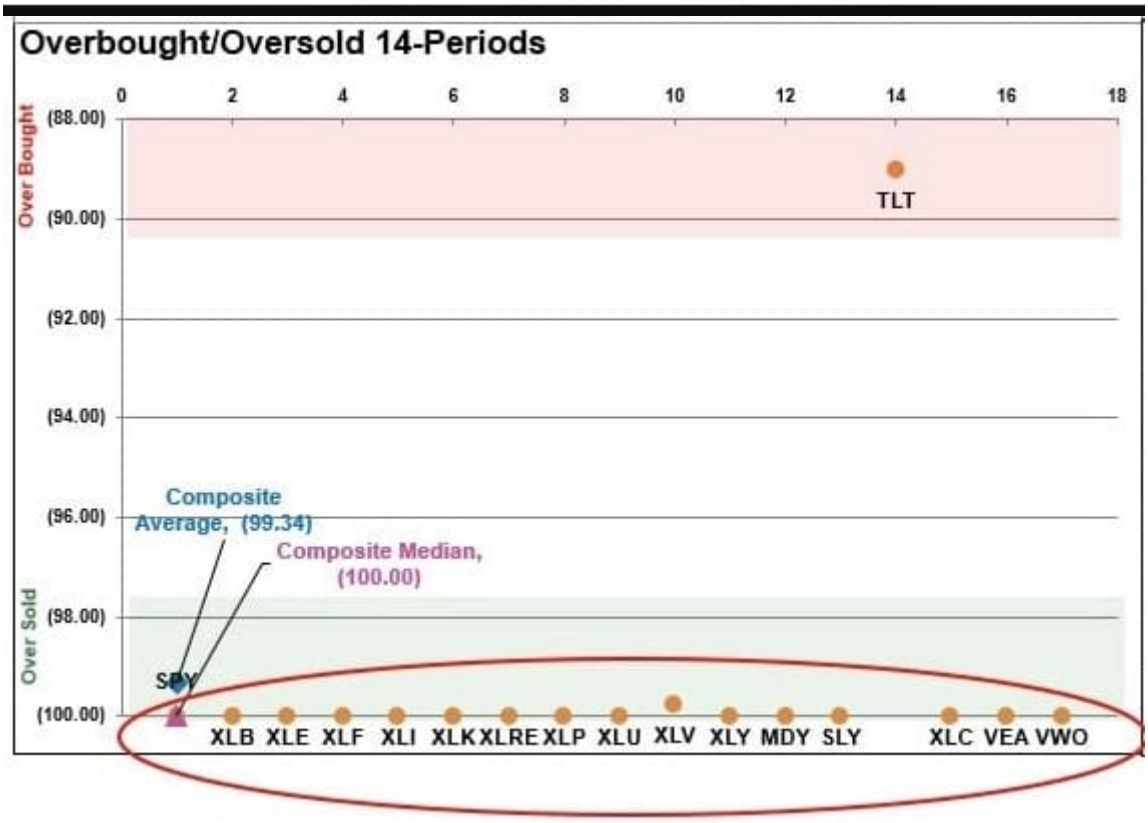
TradingView

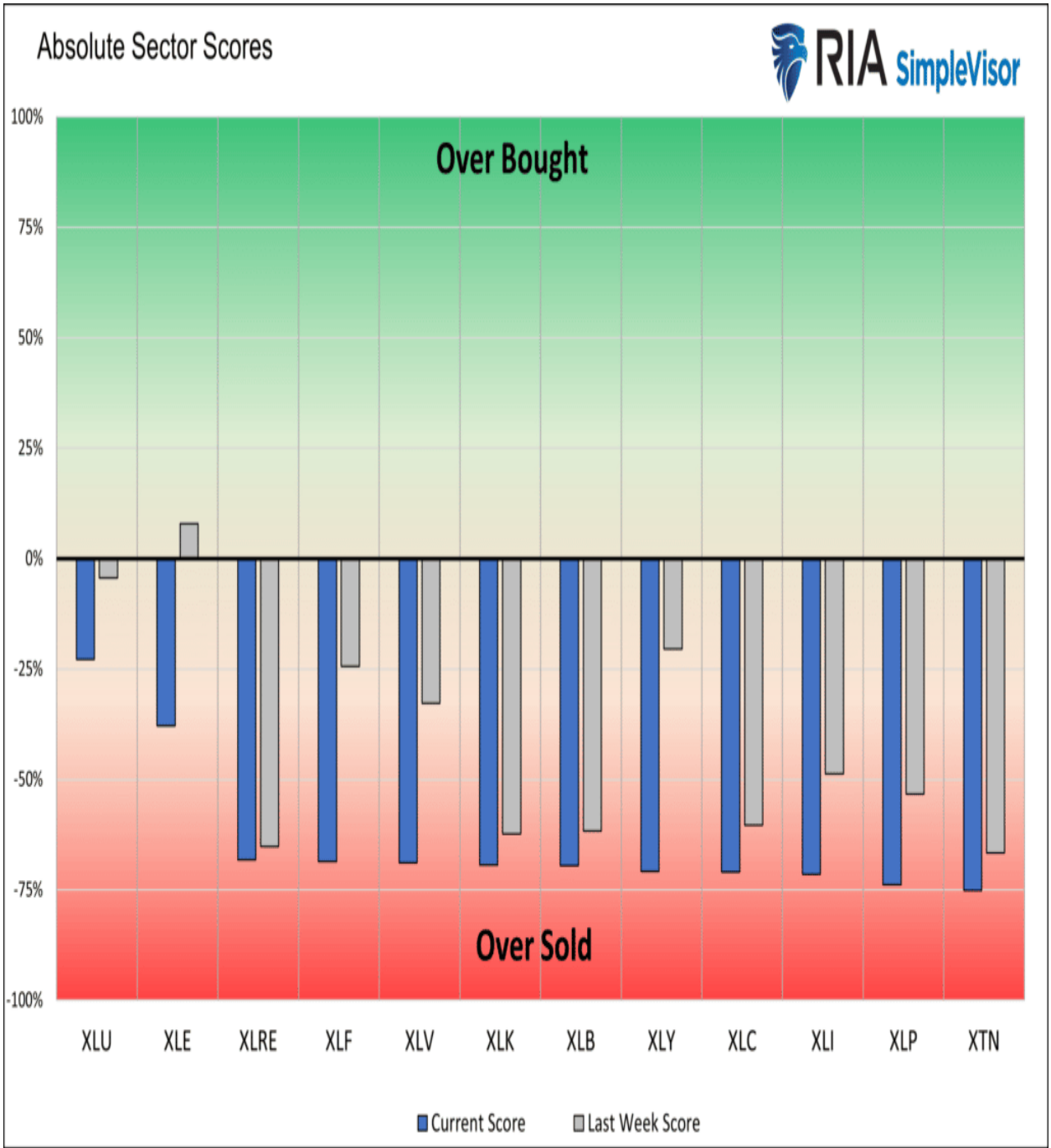


Technical Analysis Calls for a Bounce- Can we Trust it?

In this past weekend?s Newsletter, No Pivot on the Horizon, we shared the graph below. As it shows, all S&P 500 sectors are grossly oversold. The second graph is from our proprietary technical model. It uses 13 technical gauges to arrive at a technical score. Often a score near -.75 signals grossly oversold conditions. Currently, all but two sectors signal such a condition. In typical markets, we would consider a relief rally or oversold bounce is probable. However, remember that the most significant past declines have come from very oversold levels. Trade with caution; these markets are challenging.


Overbought/Oversold 14-Periods
0
2
4
6
8
10
12
14
16
18
Over Bought
(88.00)
(90.00)
(92.00)
(94.00)
(96.00)
(98.00)
(100.00)
Over Sold
TLT
Composite Average, (99.34)
Composite Median, (100.00)
SPY
XLB XLE XLF XLI XLK XLRE XLP XLU XLV XLY MDY SLY XLC VEA VWO


Overbought/Oversold 14-Periods
0
2
4
6
8
10
12
14
16
18
Over Bought
(88.00)
(90.00)
(92.00)
(94.00)
(96.00)
(98.00)
(100.00)
Over Sold
TLT
Composite Average, (99.34)
Composite Median, (100.00)
SPY
XLB XLE XLF XLI XLK XLRE XLP XLU XLV XLY MDY SLY XLC VEA VWO


Absolute Sector Scores
RIA SimpleVisor
100%
75%
50%
25%
0%
-25%
-50%
-75%
-100%
Over Bought
Over Sold
XLU
XLE
XLRE
XLF
XLV
XLK
XLB
XLY
XLC
XLI
XLP
XTN
Current Score
Last Week Score

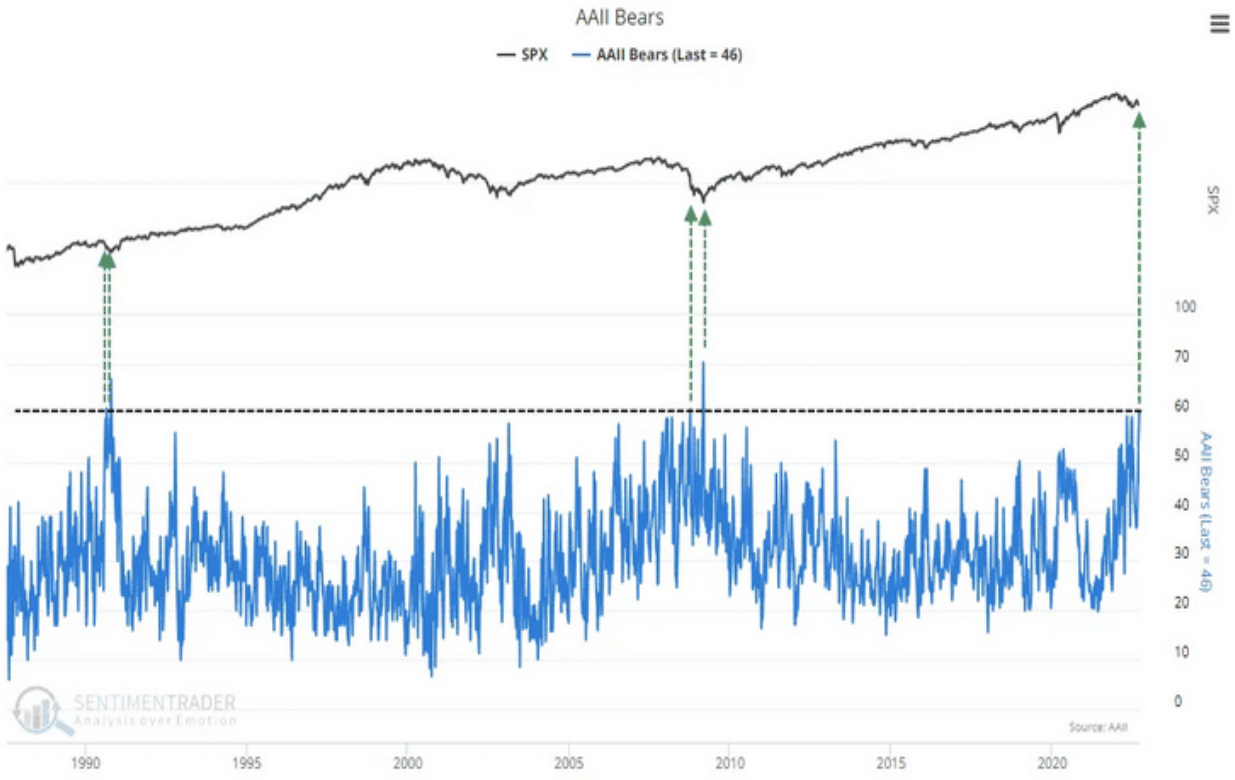

Absolute Sector Scores
RIA SimpleVisor
100%
75%
50%
25%
0%
Over Bought

Most Bearish Market in 13 Years

The graph below from Sentimentrader shows that the AAII individual investor survey reports that 60% of its respondents are bearish. Such a high level is on par with the bear market bottoms of 2009 and the early 90s. Investors were not this bearish in 2020 or in June when markets were last at current levels. The commentary above the graph is courtesy of Callum Thomas.

1. AAII Bears: Most bearish reading since 2009. According to SentimenTrader *"This week joins just 4 others in 35 years with more than 60% of respondents being despondent in the AAII survey. One year returns after the others: +22.4%, +31.5%, +7.4%, +56.9%".*

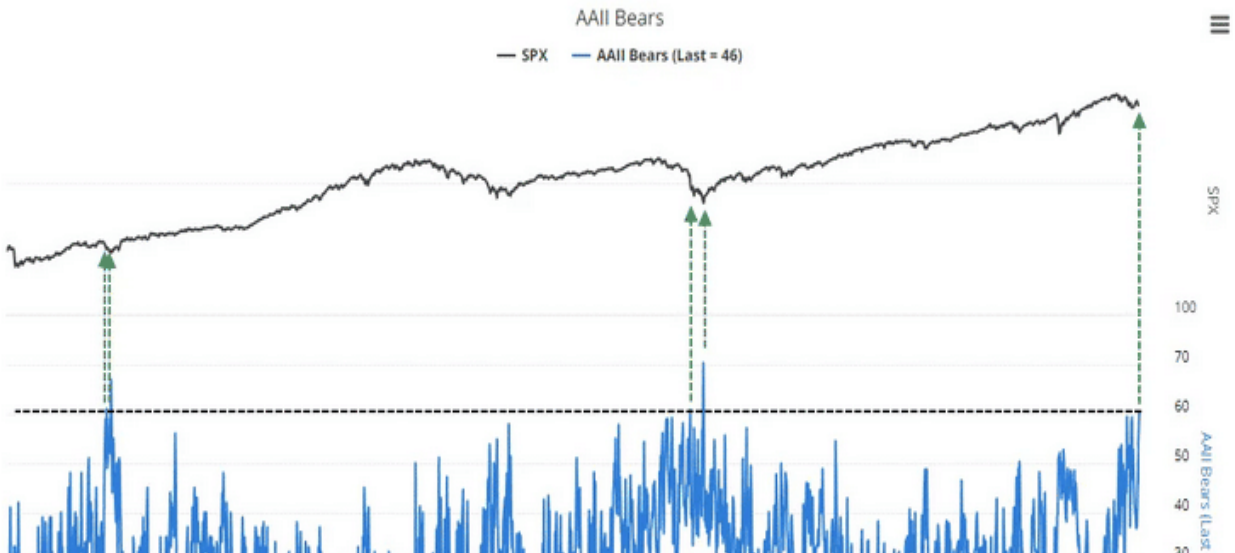
So bearish that it's bullish?



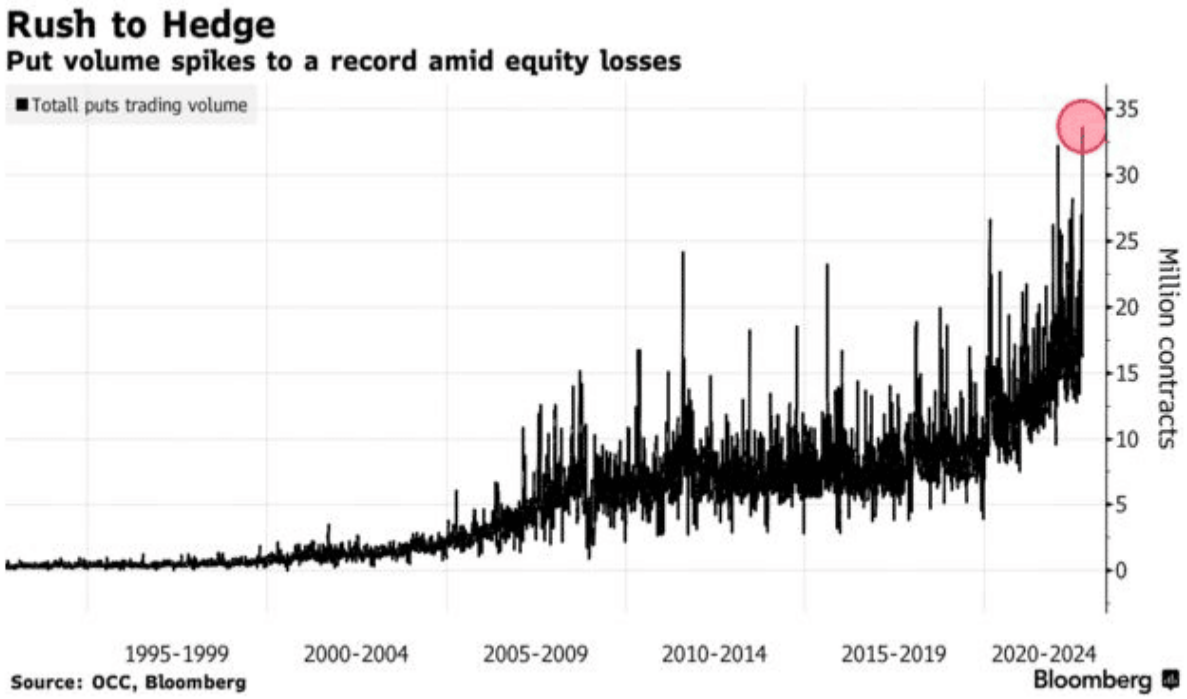
Source: @sentimentrader

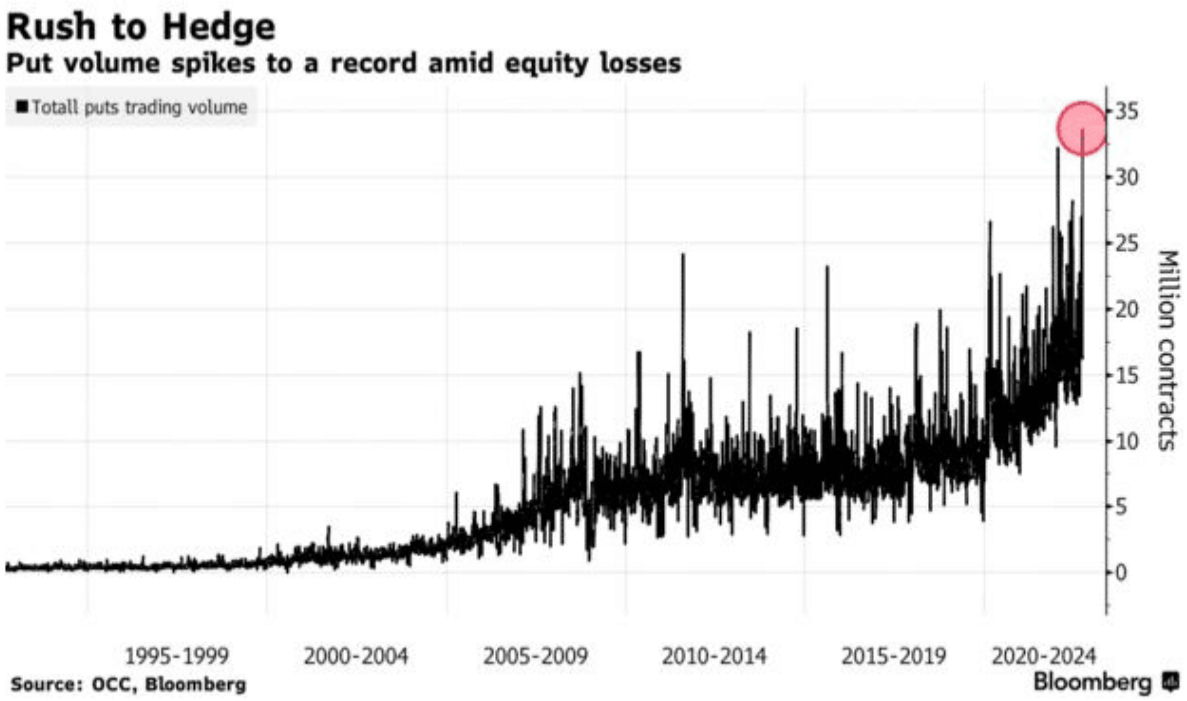
1. AAII Bears: Most bearish reading since 2009. According to SentimenTrader *"This week joins just 4 others in 35 years with more than 60% of respondents being despondent in the AAII survey. One year returns after the others: +22.4%, +31.5%, +7.4%, +56.9%".*

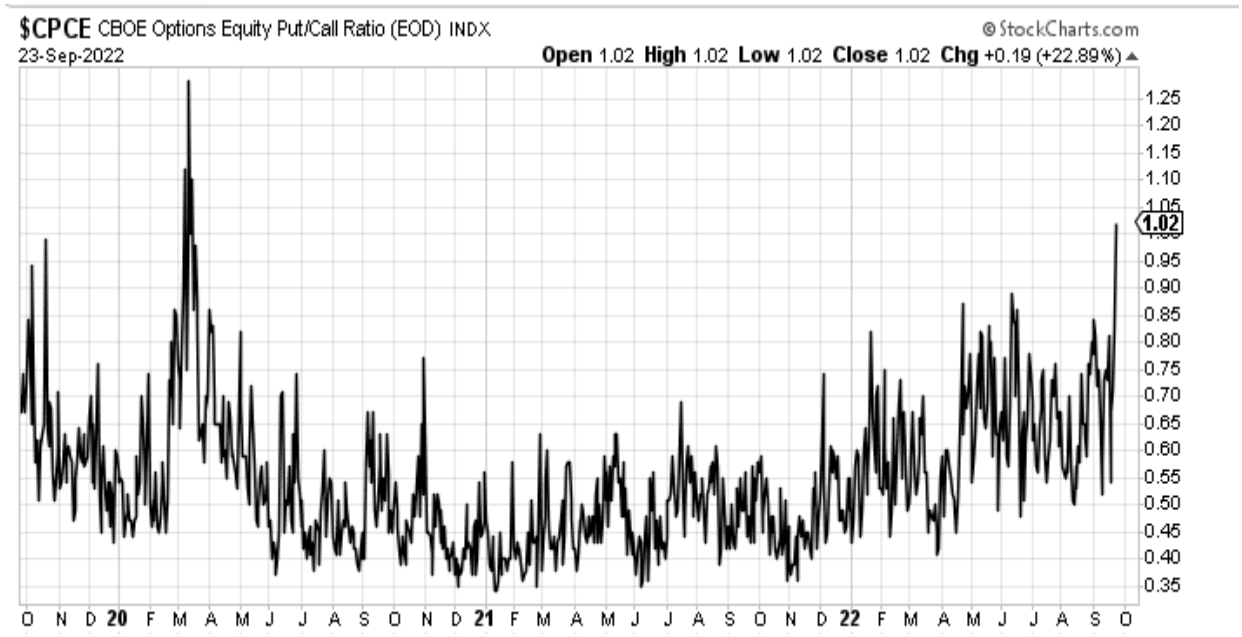
So bearish that it's bullish?

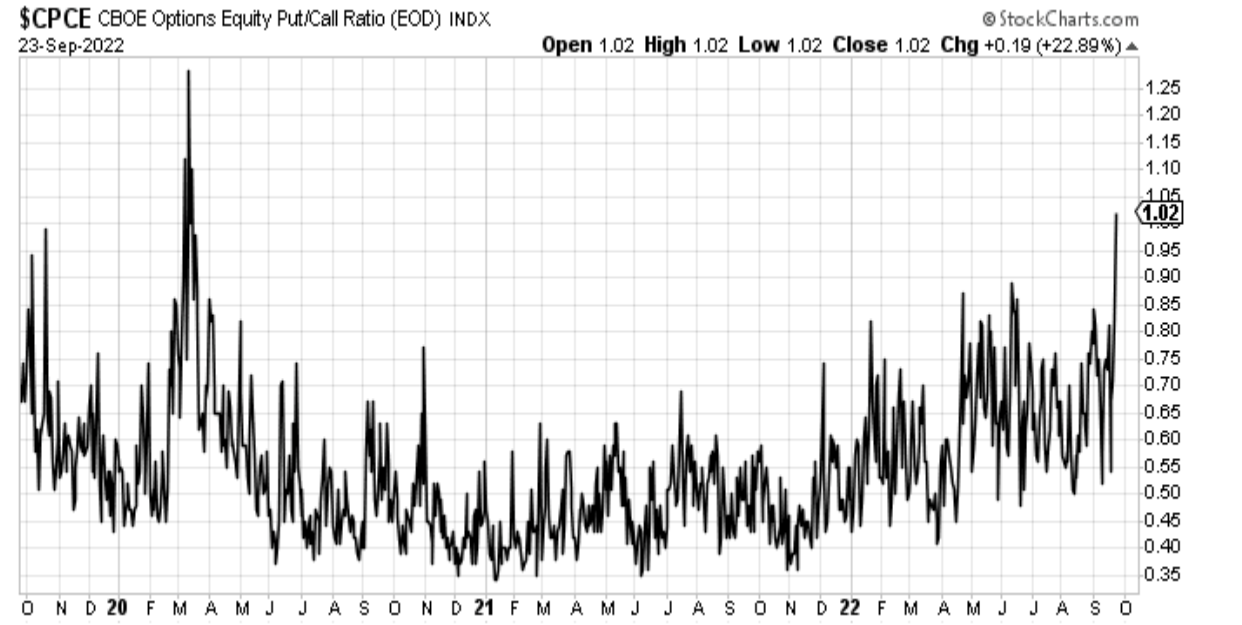


More than 33 million puts traded last Friday. That marks the highest single day of put volume since data was first collected about 30 years ago. The second graph shows the equity put-call ratio is also trading near extreme levels. The ratio measures the number of put options trading versus the number of call options. Lastly, the third graph measures the price premium investors are paying for puts versus calls. Like the information above, Friday?s trading activity marks extreme bearishness and possibly capitulation.

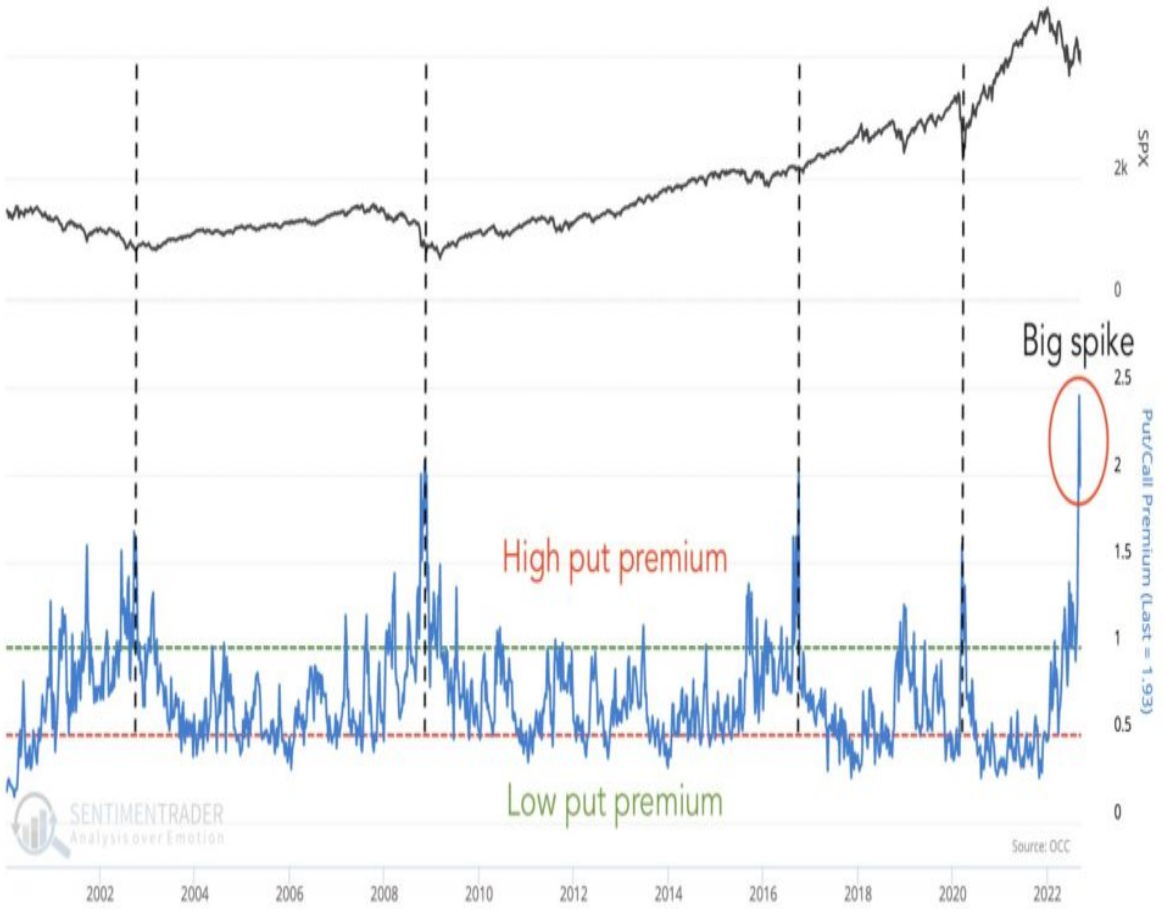




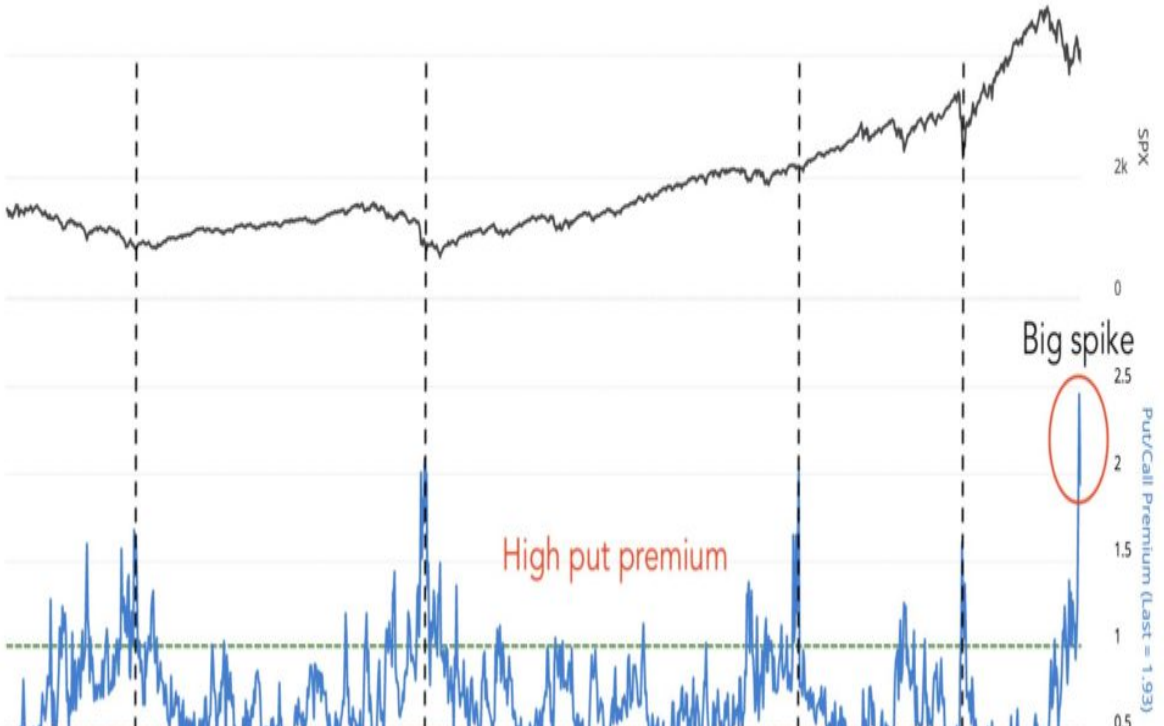

$CPCE CBOE Options Equity Put/Call Ratio (EOD) INDX
© StockCharts.com
23-Sep-2022
Open 1.02 High 1.02 Low 1.02 Close 1.02 Chg +0.19 (+22.89%)
1.25
1.20
1.15
1.10
1.05
1.02
0.95
0.90
0.85
0.80
0.75
0.70
0.65
0.60
0.55
0.50
0.45
0.40
0.35
O N D 20 F M A M J J A S O N D 21 F M A M J J A S O N D 22 F M A M J J A S O


$CPCE CBOE Options Equity Put/Call Ratio (EOD) INDX
© StockCharts.com
23-Sep-2022
Open 1.02 High 1.02 Low 1.02 Close 1.02 Chg +0.19 (+22.89%)
1.25
1.20
1.15
1.10
1.05
1.02
0.95
0.90
0.85
0.80
0.75
0.70
0.65
0.60
0.55
0.50
0.45
0.40
0.35
O N D 20 F M A M J J A S O N D 21 F M A M J J A S O N D 22 F M A M J J A S O

Put/Call Premium

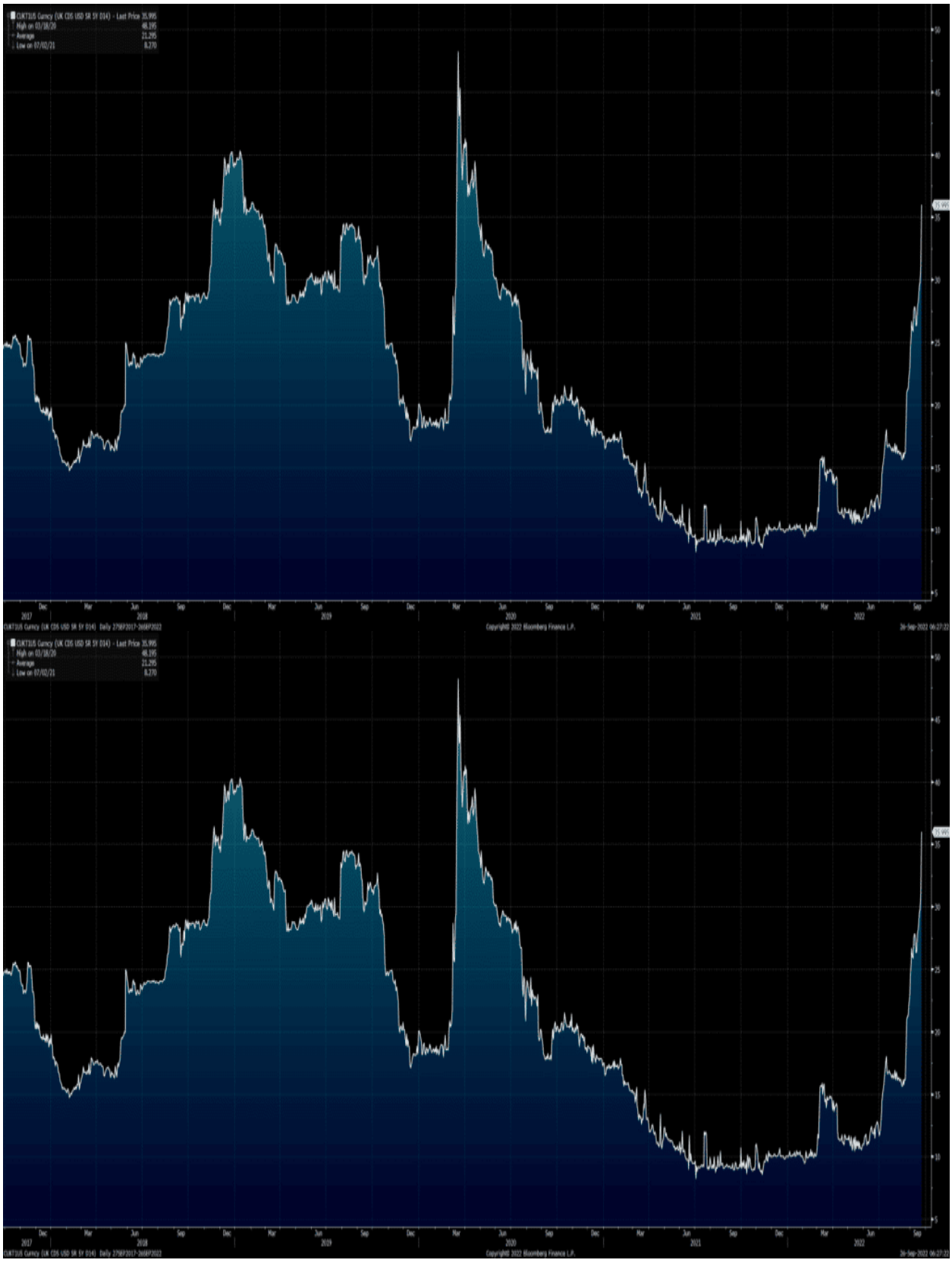


Put/Call Premium



UK CDS Warns

CDS or credit default swaps are financial derivatives that allow participants to buy or sell insurance on the bankruptcy of a corporation or country. The swap is quoted in the annual percentage rate (bps) a buyer of insurance must pay annually. The graph below shows that a 5-year CDS contract on the UK spiked over the last month from 10bps to 35bps. While 35bps is very low, the surge in CDS, and recent FX volatility is worth paying attention to. The UK is not going bankrupt, but investors are showing worrying signs that financial instability is rising.

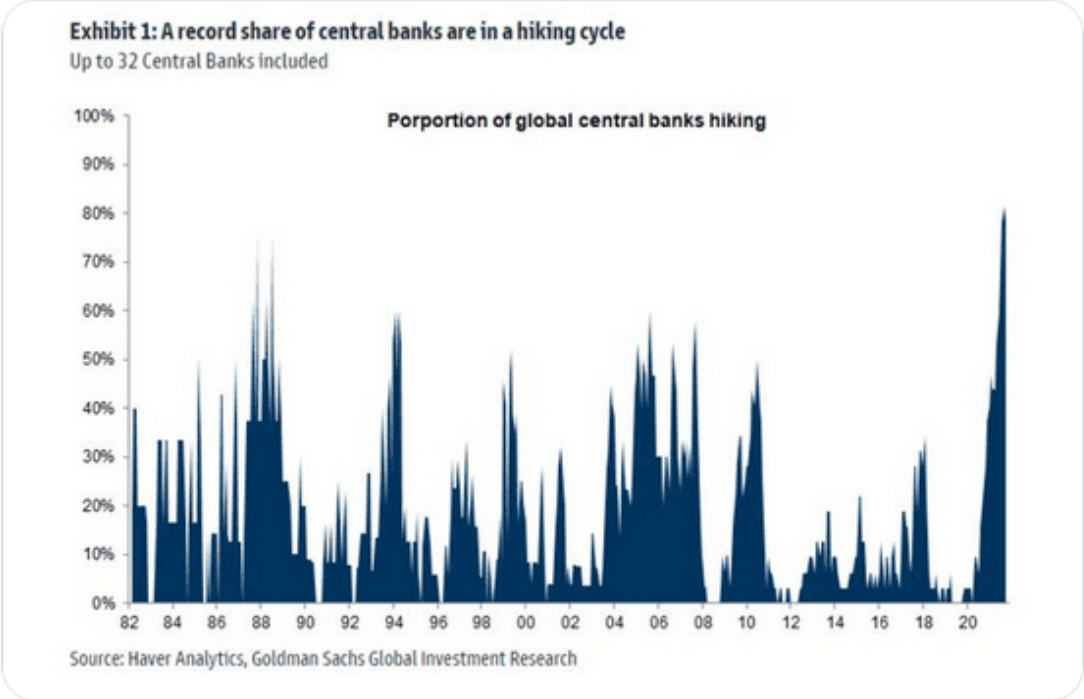


Tweet of the Day



Lance Roberts @LanceRoberts · Sep 23

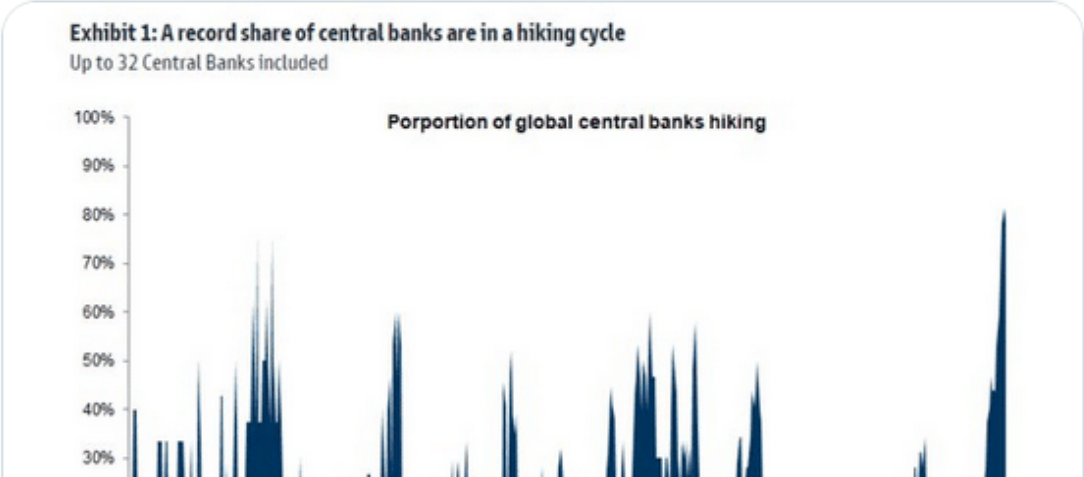
The share of Central Banks tightening #monetarypolicy is at a record.
Previous highs:
1987-88: Market crash and 91 recession
1994 - bond market crisis
1999 - Dot.com
2007-8 - Financial Crisis
2011 - Manufacturing recession
2018 - Taper Tantrum
Today - ???





Lance Roberts @LanceRoberts · Sep 23

The share of Central Banks tightening #monetarypolicy is at a record.
Previous highs:
1987-88: Market crash and 91 recession
1994 - bond market crisis
1999 - Dot.com
2007-8 - Financial Crisis
2011 - Manufacturing recession
2018 - Taper Tantrum
Today - ???



***Please subscribe to the daily commentary* to receive these updates every morning before the opening bell.**

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.