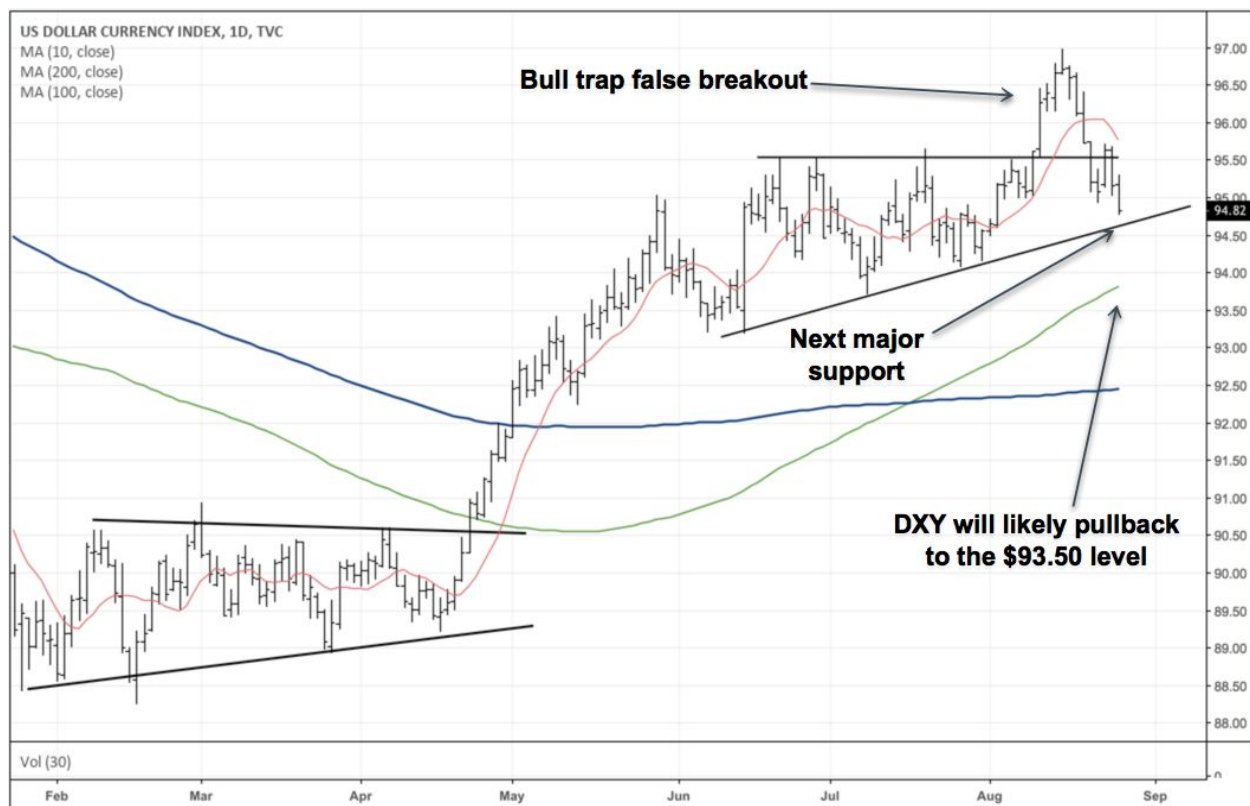


On The Fence

The dollar (DXY) breakout in early August was clearly a bull trap.

The next significant level in the dollar is the \$94.80 level where the bottom trendline of the wedge is. If price breaks through this then the dollar will likely fall until at least \$93.50/93.75 range.



We were half expecting this pullback because positioning and sentiment had become crowded over the last two months.

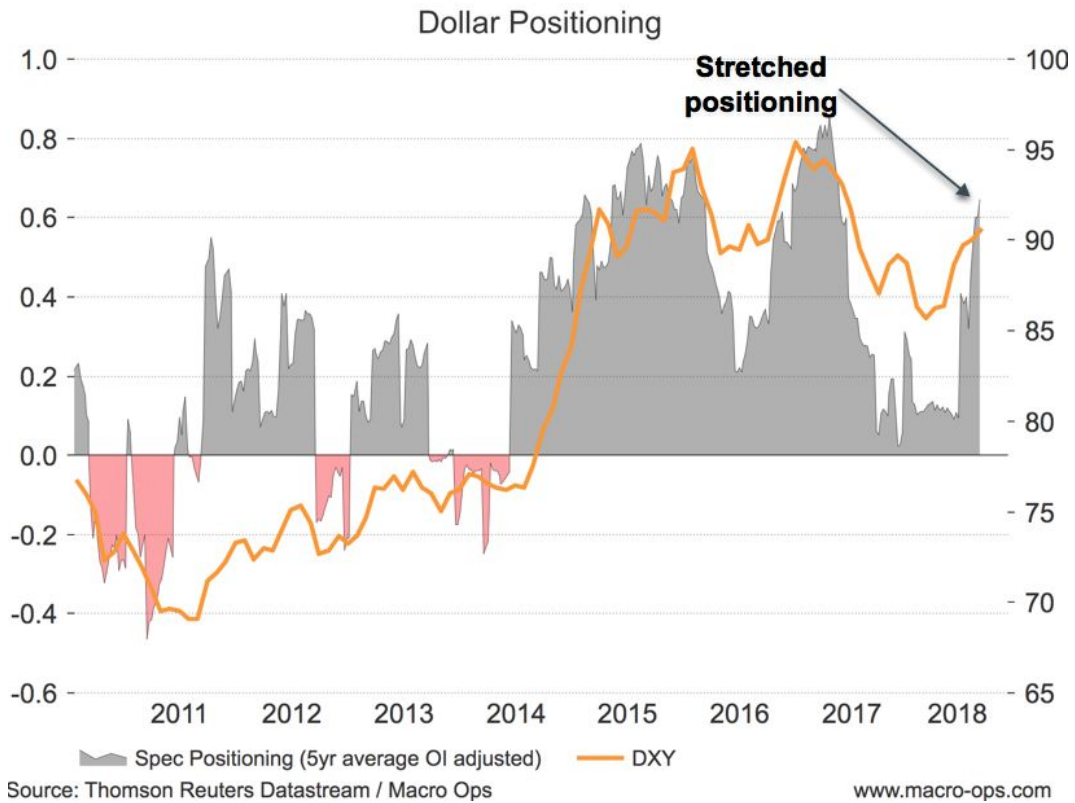
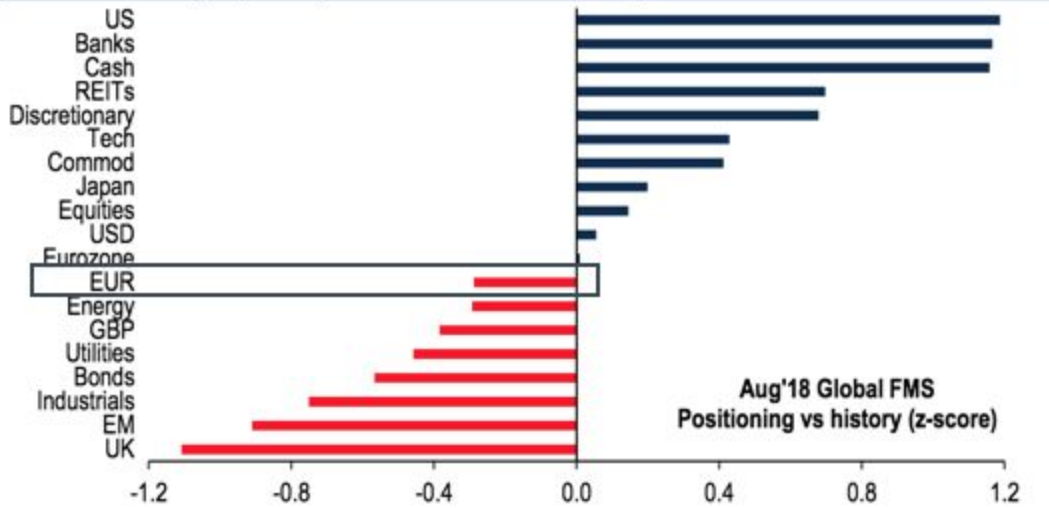


Exhibit 1: The Longs & Shorts, relative to Global FMS history*



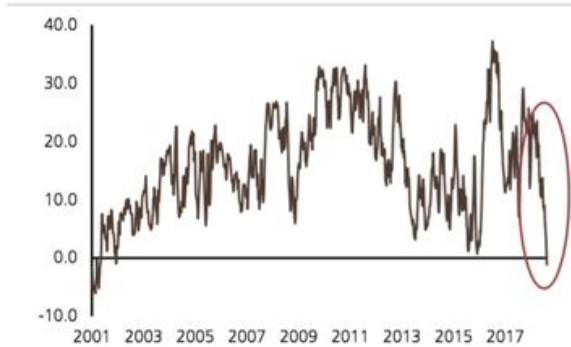
It's the same case of crowded positioning/sentiment in our short gold trade, which has the same macro drivers long the dollar.

Technically gold has become overextended on the downside and is susceptible to a snapback rally here.



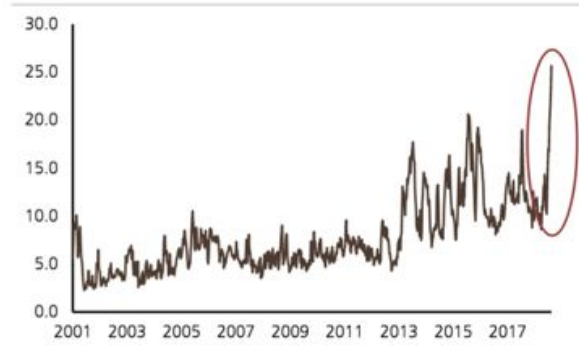
Positioning and sentiment have also become crowded on the short side.

Figure 7: Gold net positioning on Comex, moz



Source: Bloomberg, CFTC, UBS

Figure 8: Gold gross shorts on Comex, moz

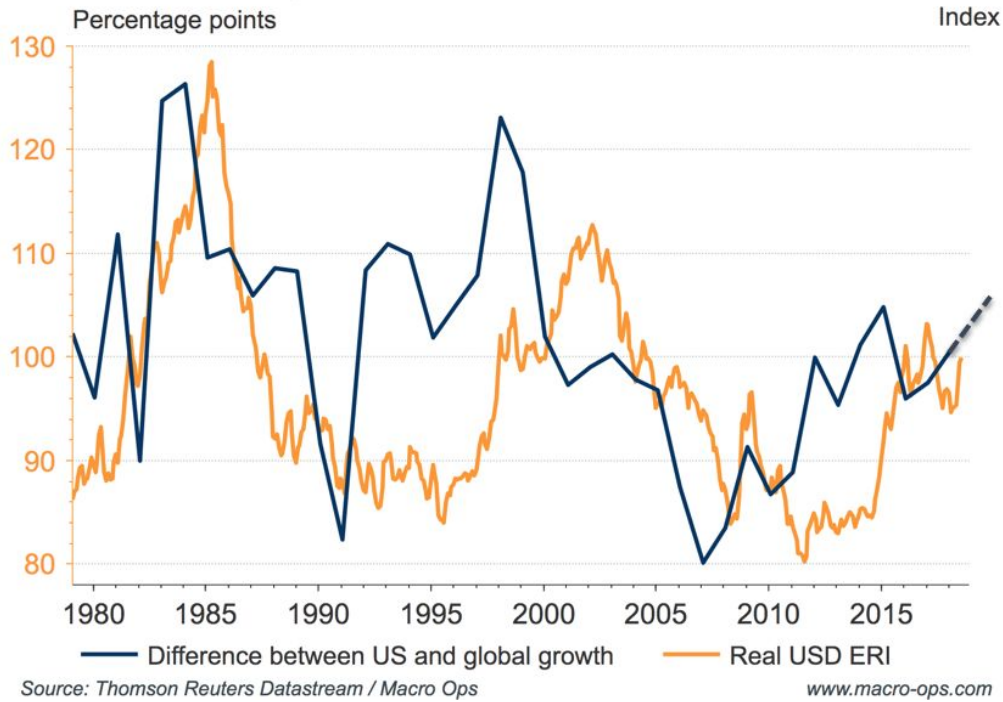


Source: Bloomberg, CFTC, UBS

My bias is that we're just seeing a counter-trend rally in both the dollar and gold that will reset sentiment and positioning.

US growth is still set to outpace the rest of the world.

US relative growth and the dollar



And that should continue to drive speculative capital flows into the dollar and US stocks and bonds.

US Stock + Bond Total Return vs. Europe

Relative asset momentum favors a stronger dollar



The counter argument to this thesis — one that I’m becoming more open to — is that emerging markets have become extremely oversold and sentiment/positioning overly bearish (here’s the BofA FMS chart again).



The charts are certainly giving weight to this thesis. The emerging market etf (EEM), shown below on a monthly basis, came down and perfectly retested its multi-year support level and is close to round tripping to being breakeven on the month. This is a very bullish looking tape...



A sustained advance in EM would need the support of a liquidity injection from the Chinese. I haven't yet seen this in the data but I wouldn't be surprised if they started aggressively easing soon in response to the trade war.

And there are a number of great Chinese companies now selling at 20-30% discounts to where they were trading at just a few months ago. Some of these charts look great.

Here's IQiyi (IQ) which we've talked about before. IQ is China's Netflix. Hayden Capital wrote up a great bull case for the stock, [here's](#) the link.



Tencent's (TCEHY) chart is also setting up nicely.



There's a number of others we're looking at, Weibo (WB) and YY Inc (YY) have strong technicals. Jesse Stine shared a list of some good ideas in his latest letter which you can find [here](#).

Fairfax India Holdings (FIH.U), which we wrote about in our April MIR ([link here](#)), continues to coil in a long bullish wedge pattern. We're going to start slowly building a position in this stock. It's illiquid, so we'll have to accumulate slowly over time and treat it as an investment with a lot of wiggle room (ie, wide stop).



In short, I'm on the fence in regards to the dollar, gold, and US vs. EM trades.

My bias is that we're seeing counter-trend moves right now but I can see things ultimately playing out either way. So in respect to the current price action and in order to lock in the profits we've made on the above trades, we cut these positions today. And we will even consider reversing our positioning (going short dollar and long gold).

We're also going to look to add some EM stocks to our book because the technical picture is too good to ignore for the stocks we discussed above.

Moving on from EM stocks, another trade that has set up nicely is the Japanese Nikkei. It just broke out of an 8-month coiling wedge (chart below is a weekly).



Japanese earnings momentum (analyst revisions) shown by the red line below have recently turned positive.

Regional earnings momentum



The trade may be worth taking a punt on, I need to think about it some more.

Portfolio Review

Markets are making new highs, like we've been saying they would, and our book is making new NAV highs along with it.

Our long trade in AMD is up 85% or so now, since we put it on just 3-months ago. This stock still has tons of upside but it's also extremely overextended from a technical standpoint.

If you look at past bull markets in AMD, it has a tendency to run vertical like this and then reverse sharply back down to around its 50-week moving average before starting up again on its next leg.

We'll likely see a similar pattern play out here. So I think we'll take some profits soon on our stock position — we won't touch our DOTMs which have nearly doubled — and then add back on pullbacks.



The rest of the portfolio is sitting nicely. We may make some slight changes to our US stocks to free up capital — if we think this rebound in emerging markets will have some legs. I've moved up stops on all of our positions. You can find the new risk-points below.

That's all I've got.

If you've got any questions for us in the meantime, let us know in the Comm Center.

Your Macro Operator,

Alex

Macro Ops Portfolio		YTD	Inception (16')				
NAV	\$3,019,123	11.67%	50.28%				
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	NVR Inc (NVR)	104	\$2,765.58	\$2,545.00	\$14,204	\$4,000.00	\$2,681.58
Equity	Yelp (YELP)	6,667	\$45.10	\$40.65	\$39,935	\$80.00	\$46.64
Equity	Stratasys (SSYS)	12,396	\$24.76	\$20.50	\$56,898	\$50.00	\$25.09
Equity	Discovery DISCA	3,450	\$28.09	\$26.70	\$6,659	\$60.00	\$28.63
Equity	Stitch Fix SFIX	1,750	\$32.96	\$27.00	\$17,500	\$60.00	\$37.00
Equity	Advanced Micro AMD	14,818	\$14.84	\$19.00	\$86,833	\$25.00	\$24.86
Equity	United Insurance UIHC	13,000	\$16.98	\$19.20	\$19,760	\$20.00	\$20.72
Equity	Google GOOGL	332	\$1,073.37	\$1,100.00	\$48,435	\$1,400.00	\$1,245.89
Equity	Disney DIS	5,694	\$102.34	\$108.50	\$23,516	\$150.00	\$112.63
Equity	Yatra Online YTRA	36,819	\$7.24	Investment	~	\$15.00	\$4.75
Equity	SPX Mar '19 3150 Call	19	\$8.10	\$0.00	\$19,380	\$80.00	\$10.20
Equity	MU Jan '19 70 Call	118	\$2.12	\$0.00	\$11,328	\$10.50	\$0.96
Equity	FB Jan '19 260 Call	35	\$2.59	\$0.00	\$1,085	\$20.00	\$0.31
Equity	AMD Jan '19 28 Call	192	\$0.40	\$0.00	\$45,504	\$3.90	\$2.37
Equity	BCS Jan '19 15 Call	574	\$0.35	\$0.00	\$8,610	\$3.50	\$0.15
Equity	DB Jan '19 30 Call	670	\$0.30	\$0.00	\$1,340	\$3.00	\$0.02
Equity	CCJ Jan '19 17 Call	236	\$0.41	\$0.00	\$2,360	\$5.00	\$0.10
Equity	FCAU Mar '19 24 Call	360	\$0.25	\$0.00	\$10,800	\$2.50	\$0.30
Equity	FCAU Jan '19 25 Call	108	\$0.90	\$0.00	\$1,620	\$5.00	\$0.15
Equity	JD Jan '19 70 Call	108	\$0.92	\$0.00	\$1,512	\$7.00	\$0.14
Equity	TRIP Jan '19 75 Call	108	\$0.89	\$0.00	\$16,200	\$7.00	\$1.50
Equity	CHK Jan '19 10 Call	750	\$0.14	\$0.00	\$14,250	\$1.00	\$0.19
FX	UUP Jan '19 27 Call	1,230	\$0.13	\$0.00	\$18,450	\$1.20	\$0.15
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Commodity	GLD Sep 2018 128 Straddle	24	\$15.10	\$0.00	\$33,000.00	\$30.00	\$13.75

Risk Budget				
	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1,845	655	73.78%
Big Bet Macro	2250	1735	515	77.12%
Volatility	250	109	141	43.72%

**Updated 8/27