

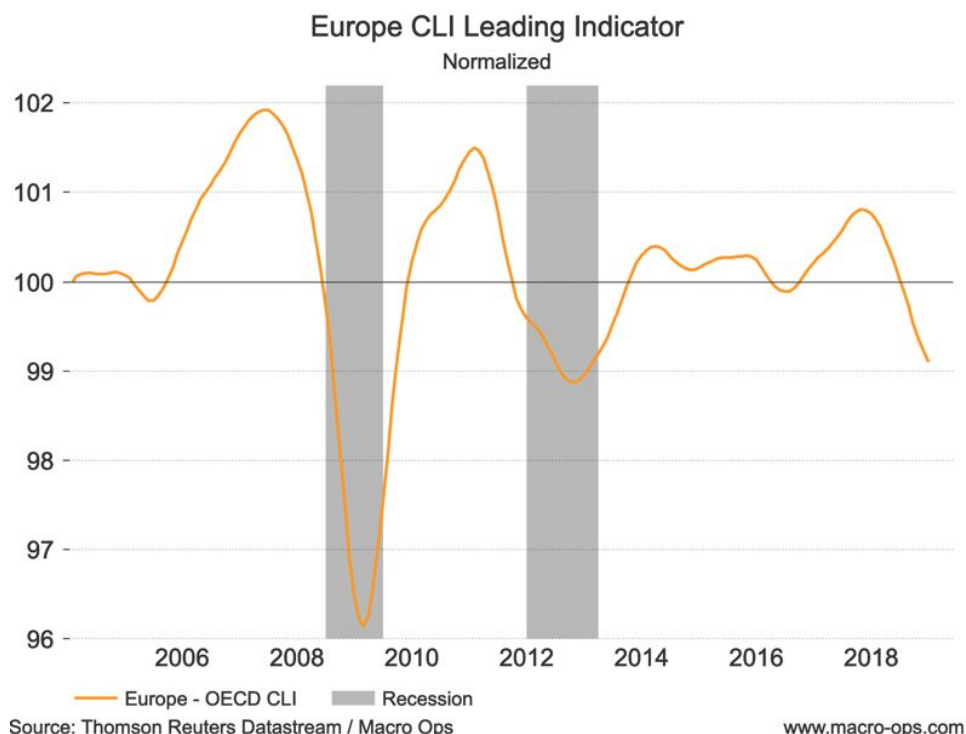
Euro on a Fence

In last week's Brief titled [Low Vol to High Vol](#) we talked about how EURUSD volatility was at multi-year lows and how these low vol regimes tend to precede high vol trending ones.

Well, on Thursday, the ECB made two key policy changes. Both dovish. First, they announced a new TLTROs package (TLTROs are just a means for the ECB to provide low-cost funding to banks in order to counteract the negative impact of NIRP and hopefully encourage banks to lend). And secondly, they pushed back their interest rate guidance signaling that the first hike is unlikely to come this year. They also lowered their growth and inflation forecasts.

EURUSD sold off on the news and closed below the key 1.1250 level. As I outlined in that report, there are a number of reasons to be bearish the euro right now. Growth differentials are deteriorating, relative financial performance is ugly, and interest rate differentials support a lower exchange rate.

Data such as the OECD's CLI suggests a recession may be around the corner for Europe.



But I also pointed out that there's a number of reasons to be bullish. In the short-term at least.

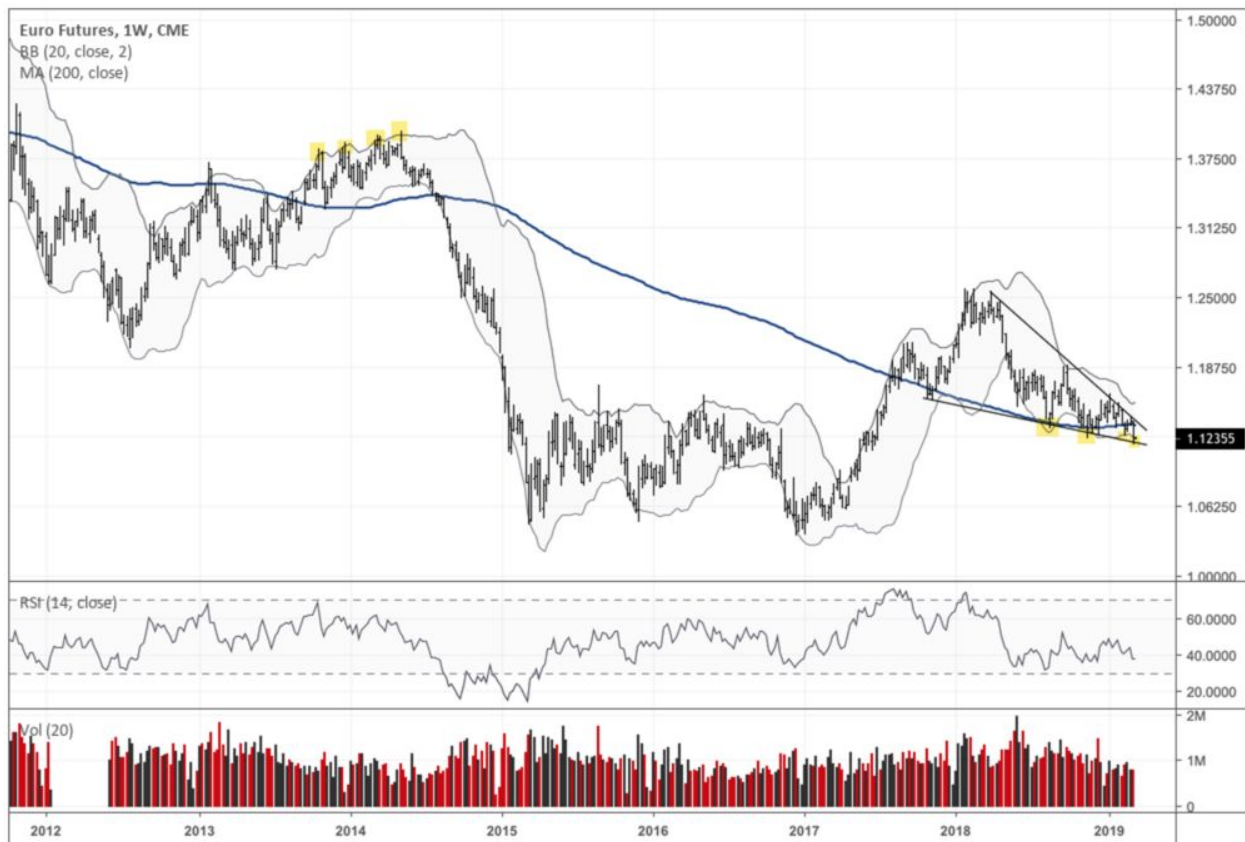
The bullish case boils down to positioning/sentiment and technicals. And over the short-term (ie, 1-3 months) it's these inputs that matter most in analyzing the FX market. This is why I remain wary of plunging to the short side (conversely, going long USD) too aggressively.

Take a look at the following charts and I'll show you what I'm struggling with.

First, EURUSD is up against multiple resistance points on a daily timeframe (1) it's at its lower BB (2) it's at the lower line of its 12+ month coiling wedge and (3) its RSI is showing oversold conditions (marked by the red vertical line).



It's also on its lower weekly BB. And the weekly pattern is a downward sloping coiling wedge which is typically bullish. In the FX market, we usually see currencies experience multiple false breakouts to the other side before reversing and starting a major trend. See the yellow highlights of EURUSD testing its weekly BB in 2014, the last time its average volatility was this low.



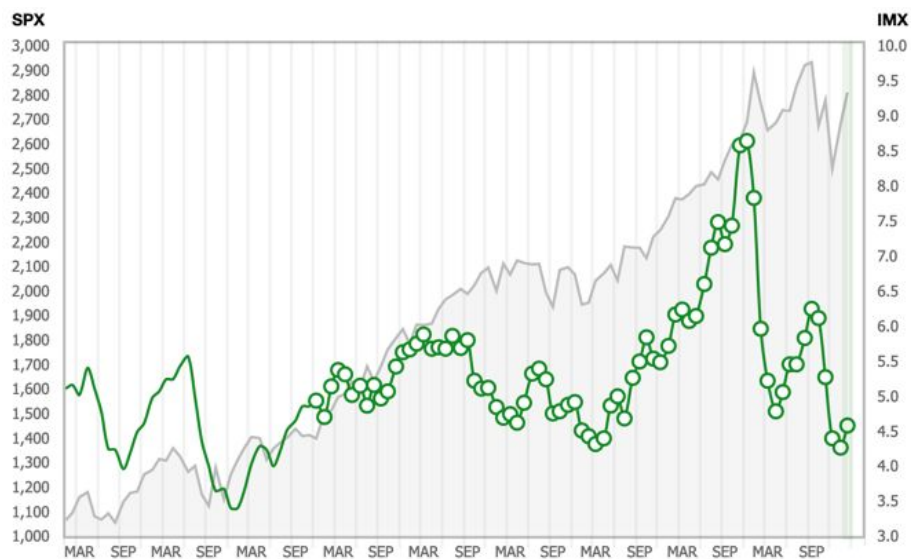
Combine this with the stubbornly crowded bullish positioning in USD and I have to entertain the possibility that EURUSD could be gearing up for a 14' style breakout trend. Just this time in the other direction.

I'm open to either possibility and I'm going to wait for the market to tip its hand before putting on a trade.

Equity markets sold off last week following the NASI sell signal we mentioned. US markets are in the process of working through their overbought conditions. I'm expecting a period of up and down chop, similar to what we saw in early 16'; the last time conditions resembled those of today.

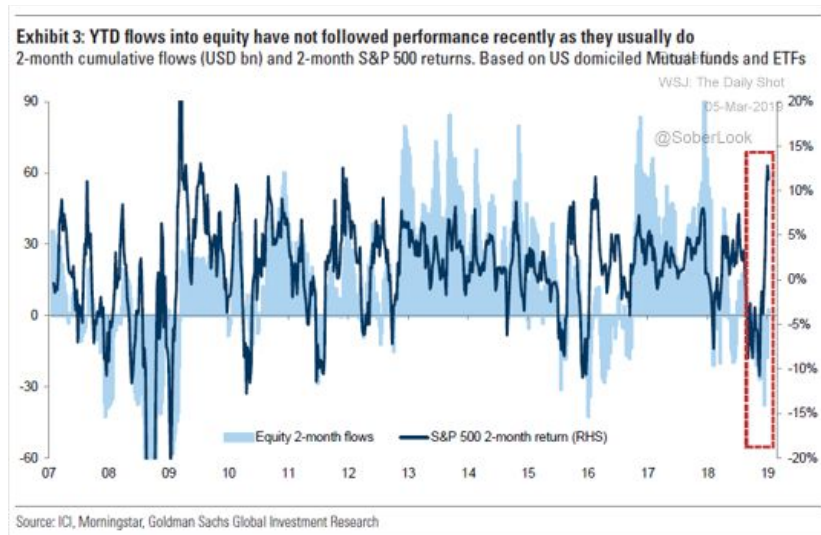


The latest Retail Movement Index (IMX) numbers came out for the month of February. The index increased for the first time in five months but not by much. And they noted that the positive move was due to increased flows into bond-like instruments, while investors remained net-sellers of stocks.



Overall, sentiment and positioning data remain very supportive of the primary trend higher in stocks.

Another interesting data point via GS shows that year-to-date equity flows have not followed the leg up in the market, which is unusual.



Sentiment Trader notes the following regarding similar past occurrences:

This has been one of the few times in over a decade that the S&P has rallied so strongly without a coincident jump in inflows to equity funds. It's actually one of the few times since 1996, but there were rarely outflows prior to the past decade. Inflows have increased lately but are still negative over the trailing two months. The table on the next page shows the only other times that has happened.

S&P 500 when up > 10% in 2 months and fund flows < 0 (2007-2019)

Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score of +/- 2 suggests significance; • = Signal dates

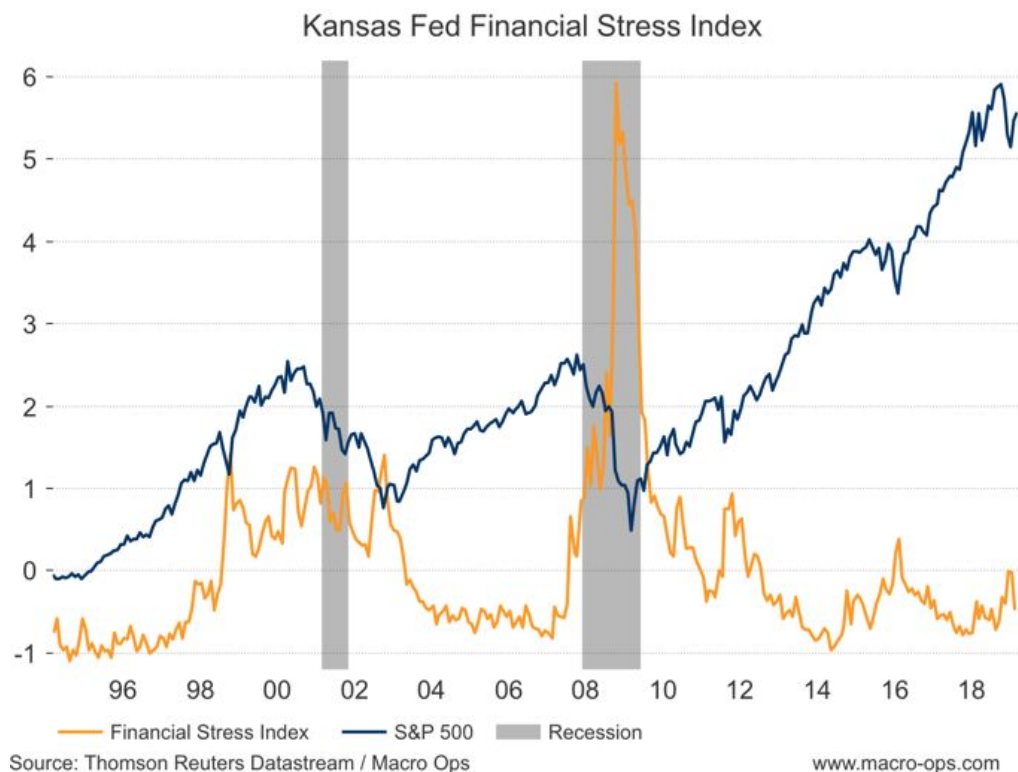


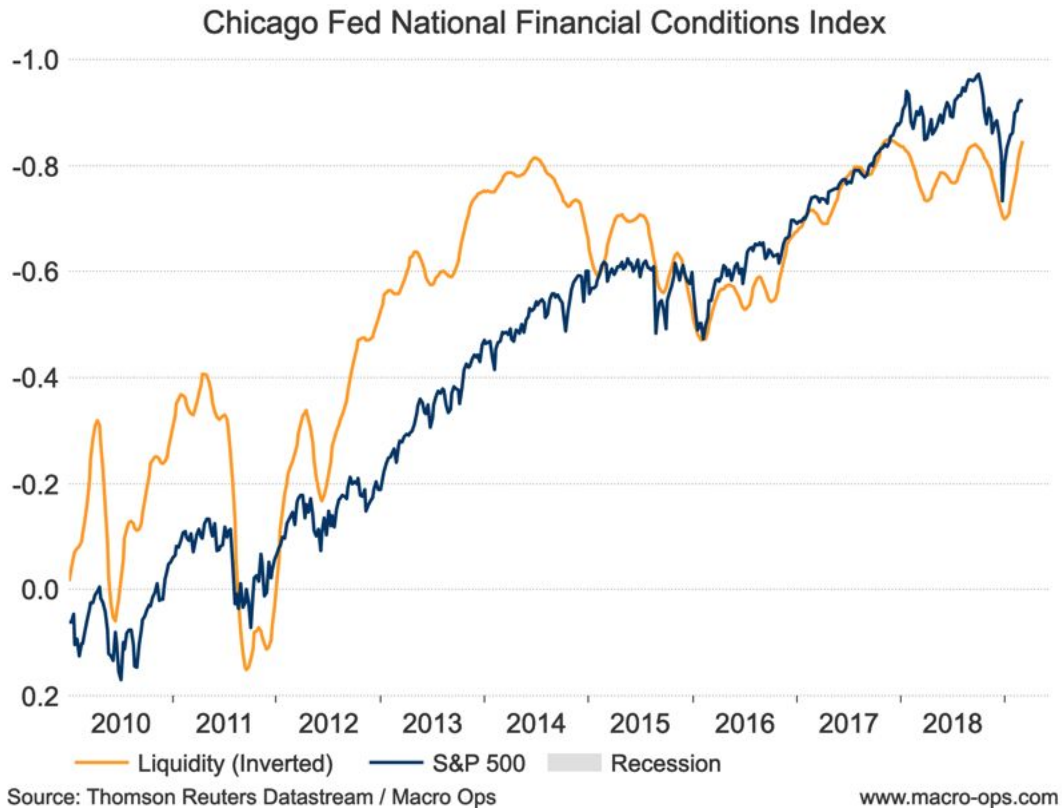
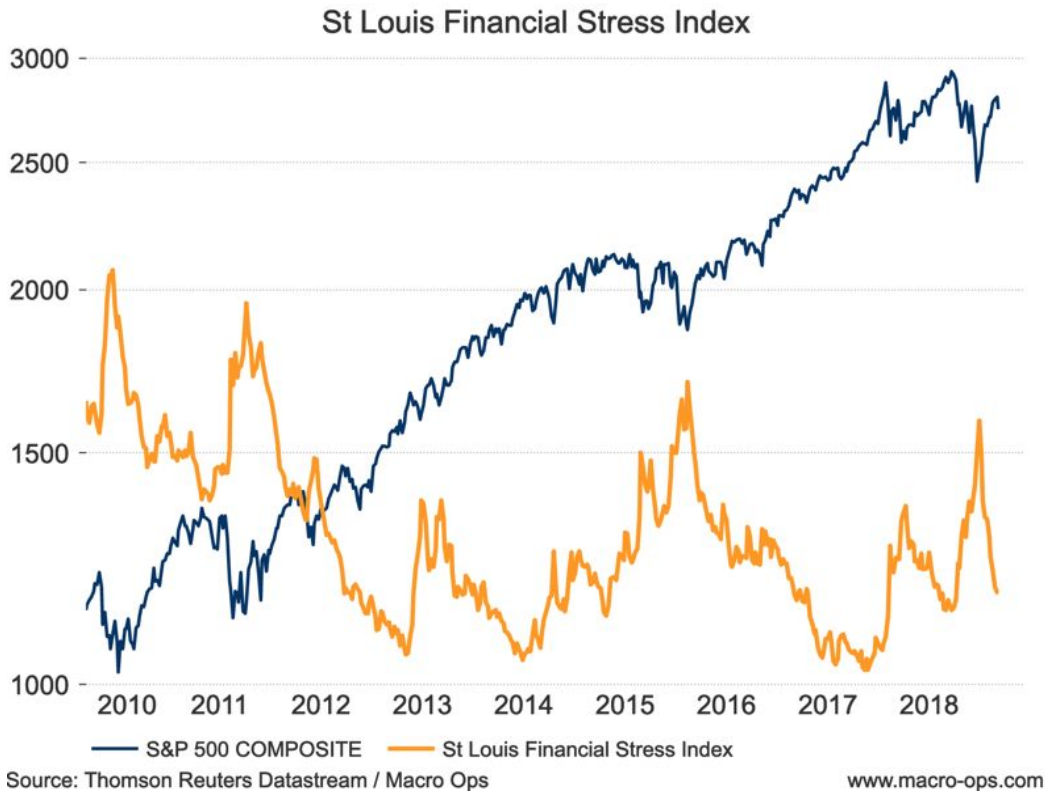
Signals	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
2007-10-10	-1.4	-3.0	-5.6	-3.0	-9.1	-14.7	-41.8
2009-04-22	3.6	9.0	5.3	5.9	13.1	29.3	43.3
2009-09-02	5.0	7.1	3.1	4.8	11.5	14.5	9.6
2009-09-09	3.4	2.7	3.1	3.5	5.7	11.3	6.9
2009-09-16	-0.7	-1.1	2.6	2.3	3.7	9.1	5.2
2010-10-20	0.4	1.7	1.6	5.8	8.7	12.9	2.7
2012-01-18	1.4	1.2	3.8	7.8	5.9	4.9	13.6
2012-02-08	-0.5	1.0	1.5	0.6	0.3	3.9	12.4
2019-02-20	0.3						
2019-02-27							
Median	0.4	1.5	2.8	4.2	5.8	10.2	8.2
% Positive	67%	75%	88%	88%	88%	88%	88%
Risk	0.0	0.0	-0.3	-0.3	-0.3	-1.5	-3.3
Reward	1.0	1.5	3.8	6.0	8.0	10.2	14.8
Z-Score	0.3	0.8	2.0	2.6	1.7	1.5	0.1

Future returns in the S&P were impressive, better than random on every time frame, and significantly so over the next two months. But the numbers don't really tell the whole story. While returns were mostly positive through the medium-term, every time except for 2009, shorter-term gains were erased at some point by a subsequent pullback. This isn't negative per se, but it's hard to consider it an unconditional positive.

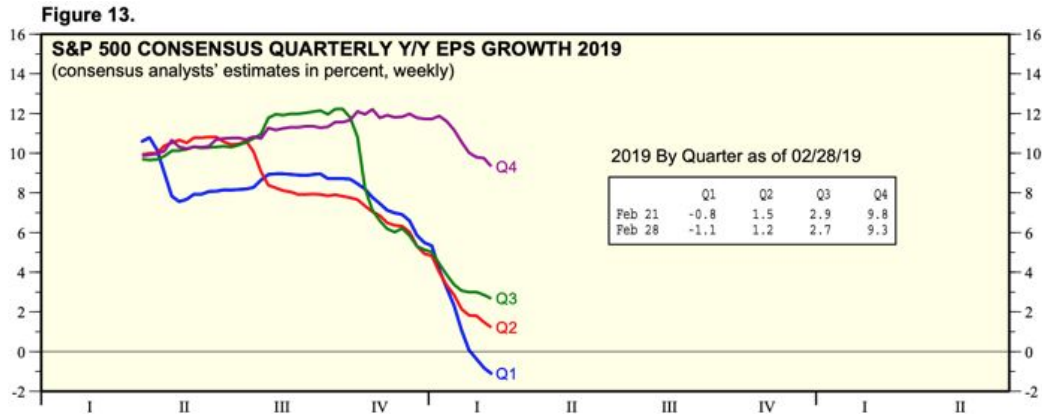
So, bullish, but... expect some up and down chop ahead. Pretty much squares with everything else we're seeing.

The latest liquidity/financial conditions data shows that liquidity is flush in the system and no financial stresses are yet rearing their bearish heads.



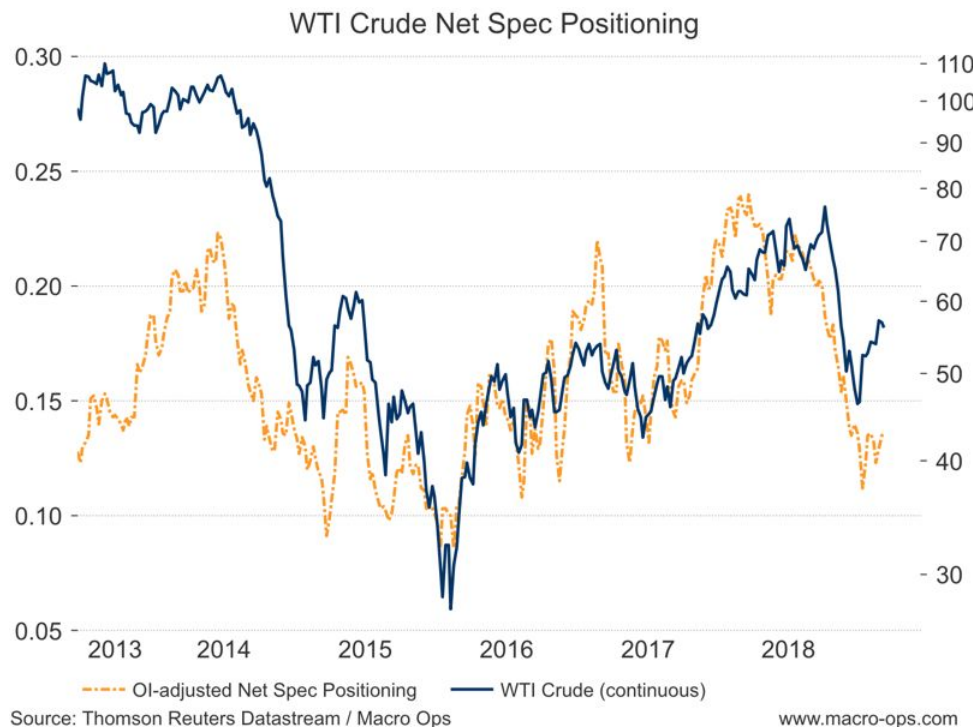


And finally, the latest S&P 500 quarterly Y/Y growth estimates show that the consensus is now predicting negative EPS growth for the quarter (Q1). Counterintuitively, this is bullish as it gives the market a low hurdle to clear.



So, maybe some more downside ahead. But, probably not much. And the overall environment supports the primary trend higher in US markets which means we should use this volatility to add to our holdings at opportune times (I'm looking to add more to our FB position soon).

One area I'm looking at is the energy space. Net Spec positioning in WTI is back at 2016 levels and has not followed the recent move higher in crude.



The chart is also forming a nice bullish wedge pattern.



If we see the EURUSD bullish scenario (USD bearish) that we outlined above, we could see oil rip significantly higher. I'm considering going long the underlying as well as some equities I've been tracking for a while (DO, RIG, TDW).

We'll send out a note if/when we do.

That's all I've got for this week!

If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex

Macro Ops Portfolio		YTD					
		6.13%					
Big Bet Macro							
Asset Class	Position	Position Size	Cost Basis	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	4,500	\$12.07	\$10.80	\$17.00	\$12.04	-0.25%
Equity	Gaia (GAIA)	4,500	\$12.07	\$10.80	\$20.00	\$11.58	-4.06%
Equity	Facebook (FB)	216	\$138.00	\$119.50	\$144.19	\$165.99	20.28%
Equity	Fiat (FCAU)	2,666	\$15.20	\$13.70	\$28.00	\$14.57	-4.14%
Equity	Box Inc (BOX)	1,095	\$19.25	\$15.60	\$35.00	\$19.83	3.01%
Equity	Sharpspring (SHSP)	859	\$13.71	\$10.80	\$20.00	\$15.01	9.48%
Equity	Garrett Motion (GTX)	5,630	\$15.11	\$13.80	\$25.00	\$16.75	10.85%
Equity	Criteo (CRTO)	3,333	\$25.47	\$23.00	\$45	\$27.26	7.03%
Equity	Grupo Financiero (GGAL)	1,536	\$26.13	\$21.00	\$44.00	\$29.31	12.17%
Equity	Stratasys (SSYS)	2,335	\$24.76	\$20.50	\$50.00	\$27.11	9.49%
Equity	Discovery DISCA	1,300	\$28.09	\$26.70	\$60.00	\$29.07	3.49%
Equity	Google GOOGL	195	\$1,129.78	\$1,100.00	\$1,400.00	\$1,162.47	2.89%
Equity	Disney DIS	2,146	\$102.34	\$108.50	\$150.00	\$113.77	11.17%
Equity	Yatra Online YTRA	13,877	\$7.24	Investment	\$15.00	\$4.08	-43.65%
Equity	TSLA Jan '20 150 Put	5	\$15.01	\$0.00	\$60.00	\$11.25	-25.05%
Equity	TSLA Jun '19 220 Put	4	\$18.01	\$0.00	\$60.00	\$9.75	-45.86%
Equity	FCAU Mar '19 24 Call	135	\$0.25	\$0.25	\$2.50	\$0.00	-100.00%
Equity	SPX Mar '19 3150 Call	7	\$8.10	\$0.00	\$80.00	\$0.00	-100.00%
Equity	DIS Jan '20 165 Call	205	\$1.11	\$0.00	\$10.50	\$0.25	-77.48%

**Updated 3/3