3/4/2021: Powell Falls Flat

Our TL Score dipped to -3 today, losing an additional point to weakening breadth. We likely have a bit more downside ahead, at least until bonds can halt their descent.

Powell disappointed with his press conference. The market was looking for an actionable response from Powell in acknowledgment of the rise in rates. Instead, all it got was "[the rise in bond yields] was something that was notable and caught my attention" and "I would be concerned by disorderly conditions in markets or persistent tightening in financial conditions that threaten the achievement of our goals."

Granted I think this is the right response for now. It's good for a little air to be let out of the market… you gotta let the YOLO Redditt Brigade who started trading in the summer discover this thing called *volatility*.

Even after this vertical climb, 10-year yields are only back to where they were right before COVID hit, at 1.56%.

With more fiscal on the way, a new monetary policy regime at the Fed, and US GDP growth likely to surpass 6.5% this year (it's strongest in decades)... Is 1.5% the right level for 10s? I certainly don't see why they couldn't trade back up to 2% or more.

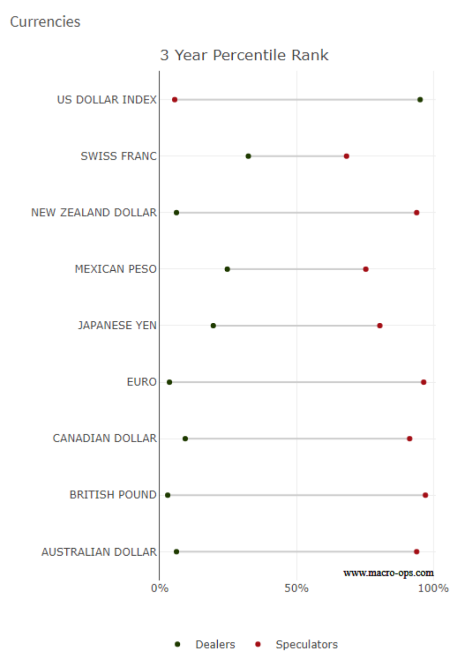
How quickly we get there, I don't know… Yields are knocking on a significant level that has long acted as support and resistance in the past; though I find that technical analysis on yields to be a bit wanting; higher noise, less signal.

The dollar is making some moves. I showed in this morning's note how momentum and yield differentials have been moving in the dollar's favor over the last few months. And I talked about how there's a potential for the US to become a victim of its own success in my *Market Note* a few weeks back, titled "A Fatal Feedback Failure".

The idea is that due to the US's superior vaccination response and its greater ability to aggressively enact expansionary fiscal policy, its growth will accelerate relative to that of the rest of the world. Relative growth dynamics are a big driver of speculative flows and therefore currencies. This is the whole idea behind the "Dollar Smile" theory which I discuss in the note above.

Anyways… in this morning's email, I said we'd get long some USD if we get a breakout. Well, we just got a confirmed breakout. So we'll be shorting EURUSD here, using futures.

Spec positioning is above its 3-year 95th percentile so there's plenty of fuel for the move lower should it get going.



And just to reiterate what I said this morning. This is a counter-trend move so it's a lower probability trade.

I like it because if this risk-off environment accelerates then long USD gives us another hedge. We remain cyclical USD bears so we'll happily close this out should our tight stop get hit (read our [bearish USD thesis here](#)).

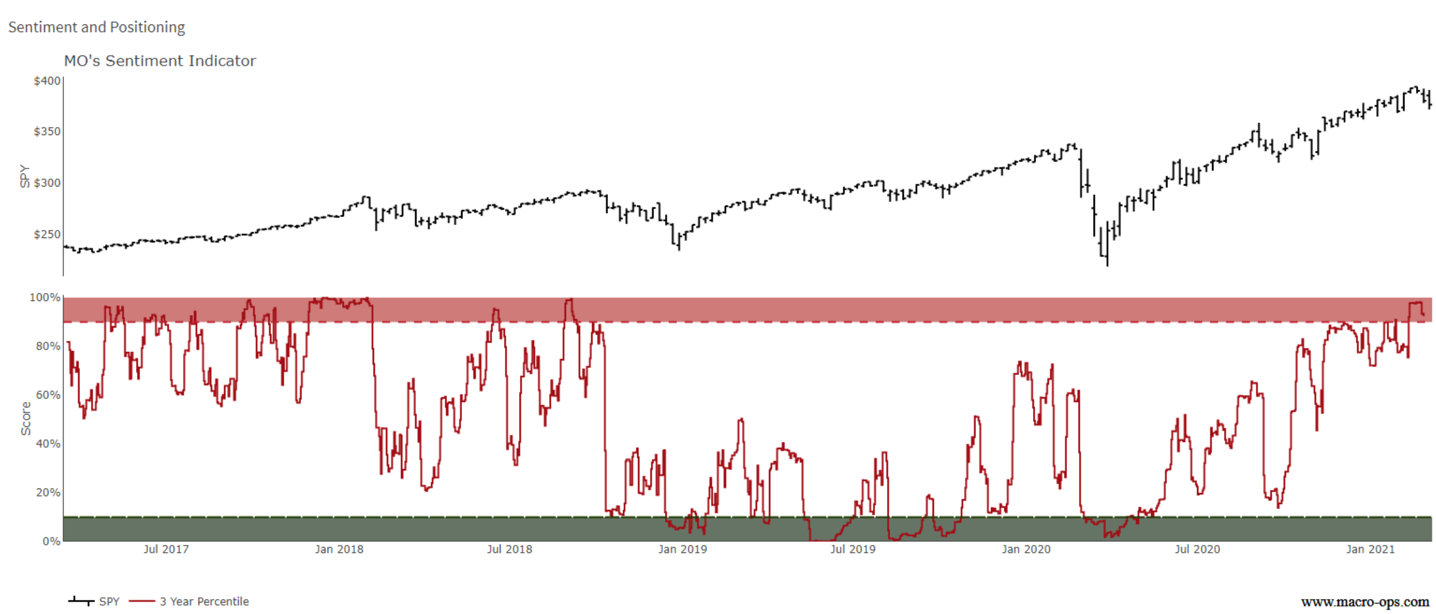
Details for the trade are below.

Short EURUSD via futures (6E_M) / EUO is the ETF alternative

- Enter: $1.19915
- Exit: $1.20610
- At-Risk: 100bps

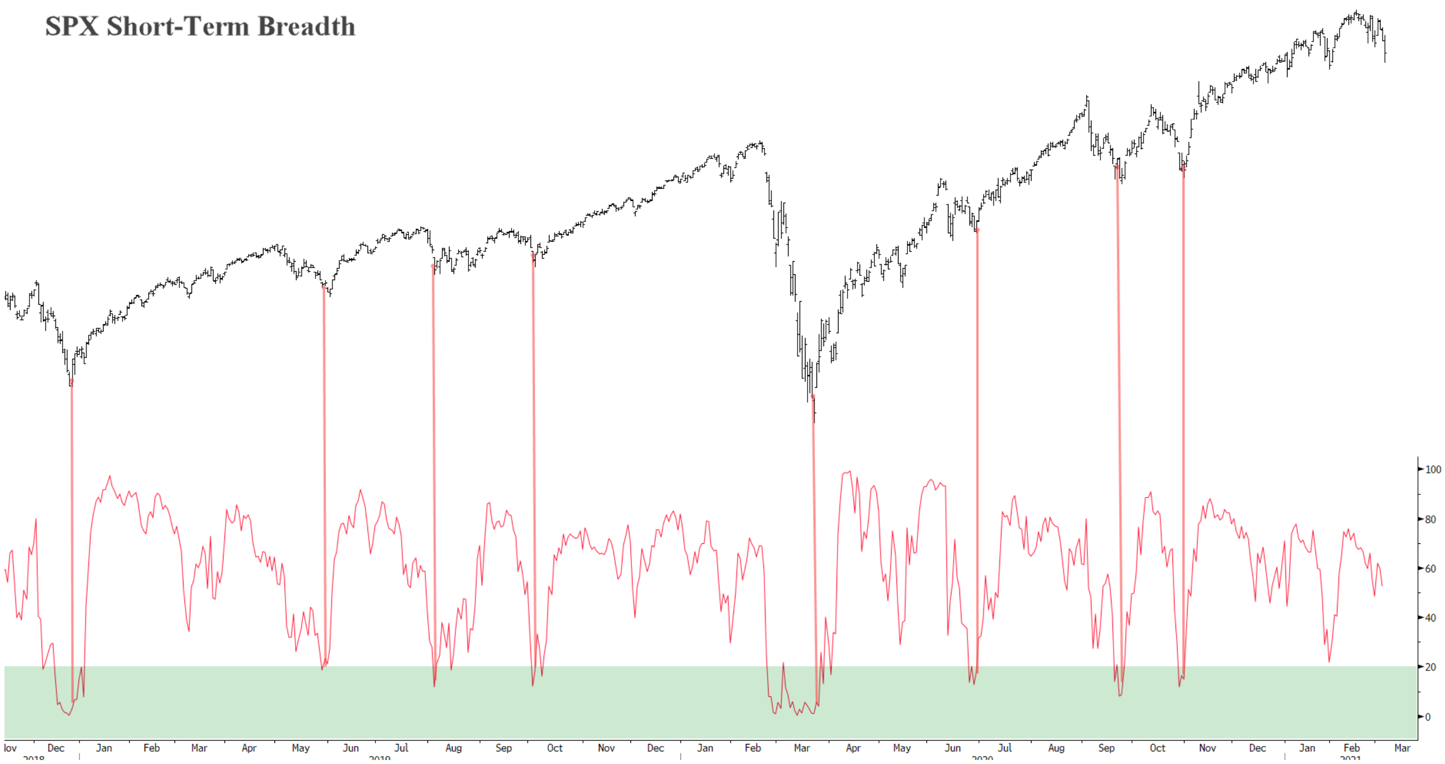
We're also taking profits on our long S&P e-mini position which we've been in since November 20th. We'll put this back on once we get evidence that this bout of volatility is over.

With our sentiment & positioning indicator still above its 90th percentile, there's potential for the market to get squirrely, especially if bonds fail to slow their move.



I'm far from turning outright bearish as I think this will just set up for another great buying opportunity in two weeks. But, **we've gotta be ready for anything and everything when Trend Fragility is this high.**

We'll be looking for signs of oversold conditions (red line dipping into the green zone) as I suspect we'll get there before this move ends.



We'll likely roll over our Nasdaq puts at the start of next week.

Hit me up in the CC if you have any comments or questions.

Stay safe and keep your head on a swivel!

Your Macro Operator,

Alex