The Strong Dollar is Our Currency but Your Problem

Week Ending July 12

Ari
Jul 12

	7/12/2022	7/5/2022
BTC	19865	19481
ETH	1075	1090
BTC Implied Yield (Qtly)	1.85%	2.0%
BTC 1M Implied Vol	67	75
BTC 7 Day Realized	59	51
BTC 1M 0.5 std dev skew	-8.25	-10.75
Implied 1 Std Dev Move	696	764
Avg Daily Move	527	337
Avg Daily Range	1053	1048

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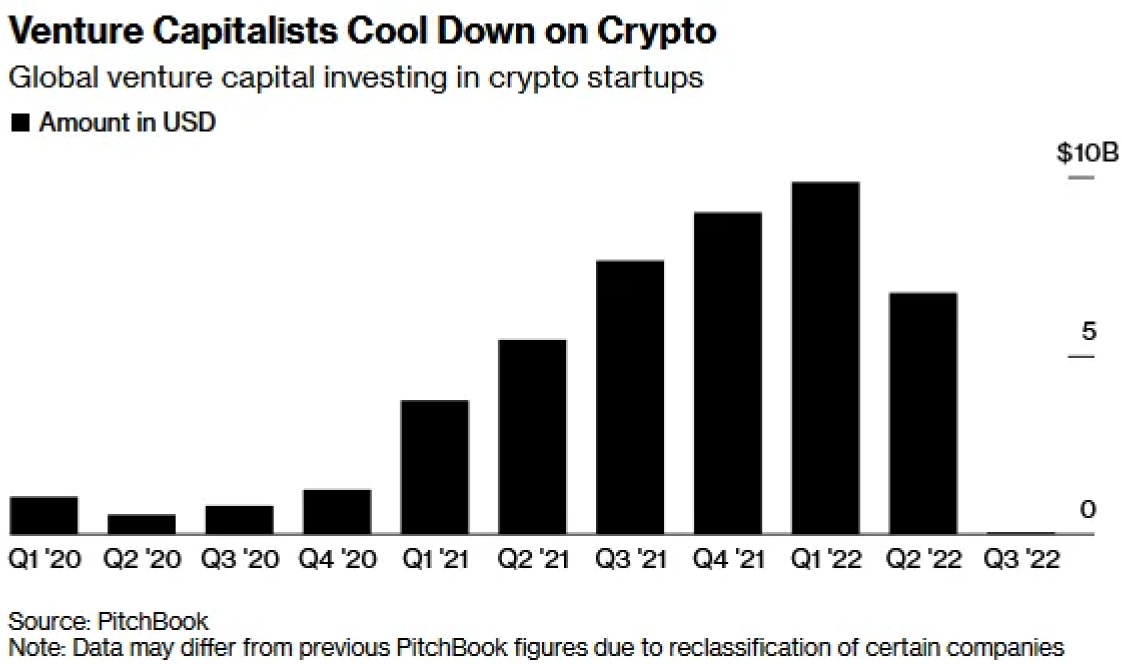
Hi All,

As of this writing, EURUSD is trading just above $1. That represents a 13%-ish decline just from the start of the year. The ICE Dollar Index is above 108 and, unsurprisingly, is 13% higher than the start of the year (funny how that works when EUR is by far the largest part of the index). What's different now?

1. Crude oil is having a dramatic move lower today and is almost at pre-Ukraine war levels; GSCI (overall commodity index) looks exactly the same
2. The yield curve (2s-10s) is 10bps inverted
3. Perma-dove Lael Brainerd wants 75 and Esther George makes her first ever dovish dissent
4. Eurodollar futures curves predicting a quick retreat from tightening into easing in less than a year
5. M2 (the money supply) declining, albeit slightly. To put this in perspective M2 growth has been "numba go up" for, idk, like 10 years
6. Emerging markets are stressed

I know that I did not mention the great jobs number. Why? Because non-farm payrolls are not a leading indicator. The market's expectation is for 75bp move next meeting. Clearly things are breaking or close to breaking in multiple areas. It is far from clear based on the evidence that the Fed is strictly looking at this from the perspective of stability of the dollar (up 13% in 7 months!) or full employment (household survey is deviating from NFP number). To figure out the Fed's move, consider that it may be working with Treasury as a foreign policy tool. Before you dismiss it, how different would that be than sanctions?

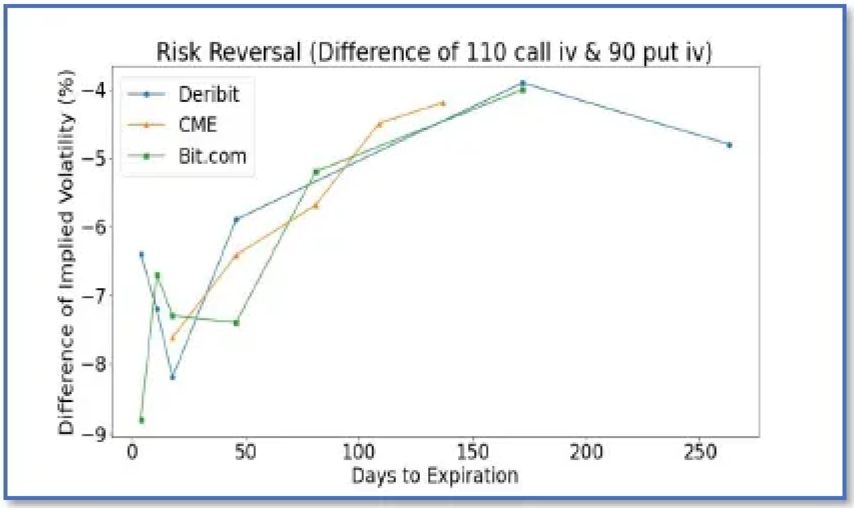
Although the headline to this story is "Crypto Startup Funding Falls to One Year Low", I don't feel that is the main theme one should take away from the actual data:

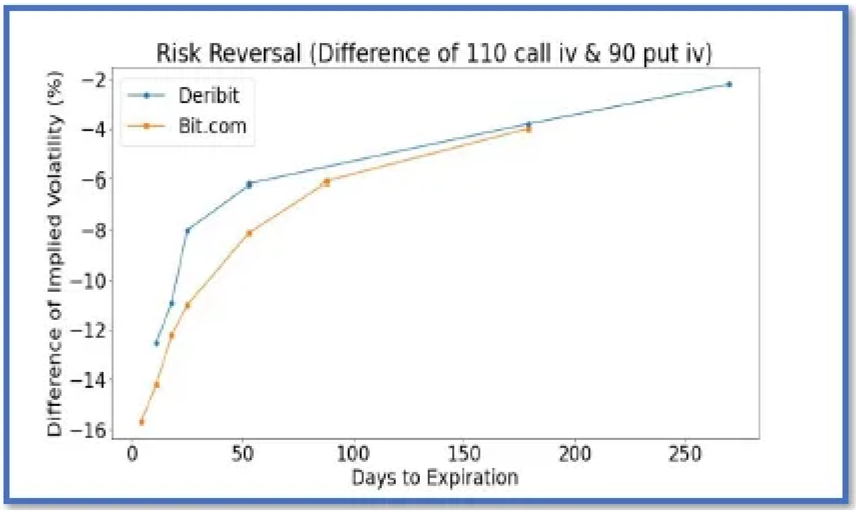


Honestly, that looks pretty strong considering. I'm guessing it falls further, but that still seems like a strong institutional commitment to crypto. Also, MakerDAO sets up $100M stablecoin vault for traditional bank.

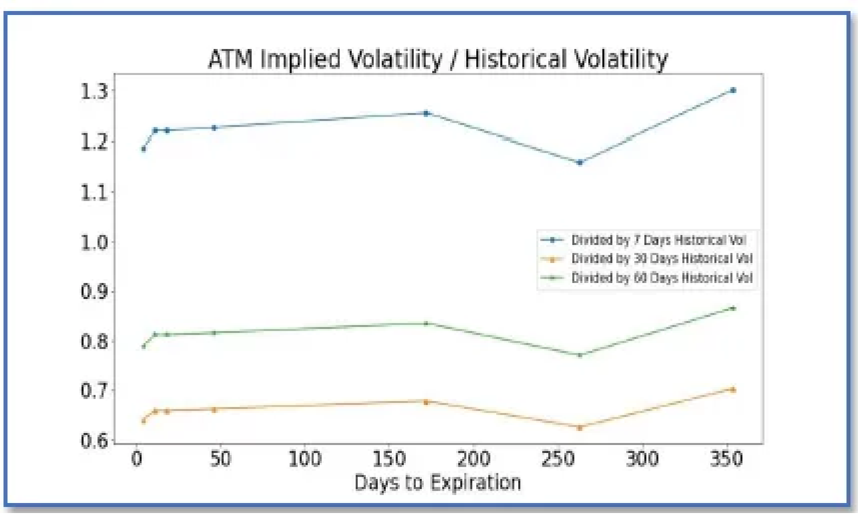
Markets look like:

1. Basis more of the same with BTC & ETH sporting low yields and alt-coins negative
2. Put skew has subsided considerably (this week above last week):





3. Vol is lower and is under 30 day realized volatility



One thing I'm worried about: Tether. Honestly, it is not that I think things are worse for USDT. And I'm not predicting anything. Outstanding Tether (Tethers?) have fallen by

25%. From, roughly $80B to $60B. If there is a shortfall, then it is still there and it now represents a larger proportion of assets. Any withdrawal is getting 1:1 with USD. So that leaves everyone still in the pot with the same absolute dollar amount of badness but with fewer USDT to share the loss with. Again, I'm not predicting anything, just thinking about the math.

Good read / introduction to hedging & shorting:

	Pros			Cons		
	1	2	3	1	2	3
Short the stock	No upfront cost	Timing not as critical	Profit increases as stock falls all the way to zero	Can get stopped out before the stock falls	Gap risk--you might lose more money than you expected (risk of ruin?)	Negative carry
Near or at-the-money put	Don't have to worry about getting stopped out	Don't need a huge move lower to get to your strike	Liquid with volume and reasonable bid/ask, usually	The longer dated the option, the greater the chance the stock goes down but you still lose money	A straight cash position is often better for most outcomes	Not much leverage
Low delta put		Big leverage gives it home run potential	High % returns when you are correct	Easy to be correct (stock falls) but lose money (it didn't fall enough)	Longer dates can still be expensive	Timing has to be good
Put spread		Cheaper than vanilla and nice compromise between low delta and ATM strategies	Less premium and more precision if you have a high-confidence downside target	P&L is capped by the short strike	Wide bid/offer if you change your mind it's expensive to square up	Can be tricky to manage short strike at expiry

From Don't Get Squozen

Best

Ari

Comments

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