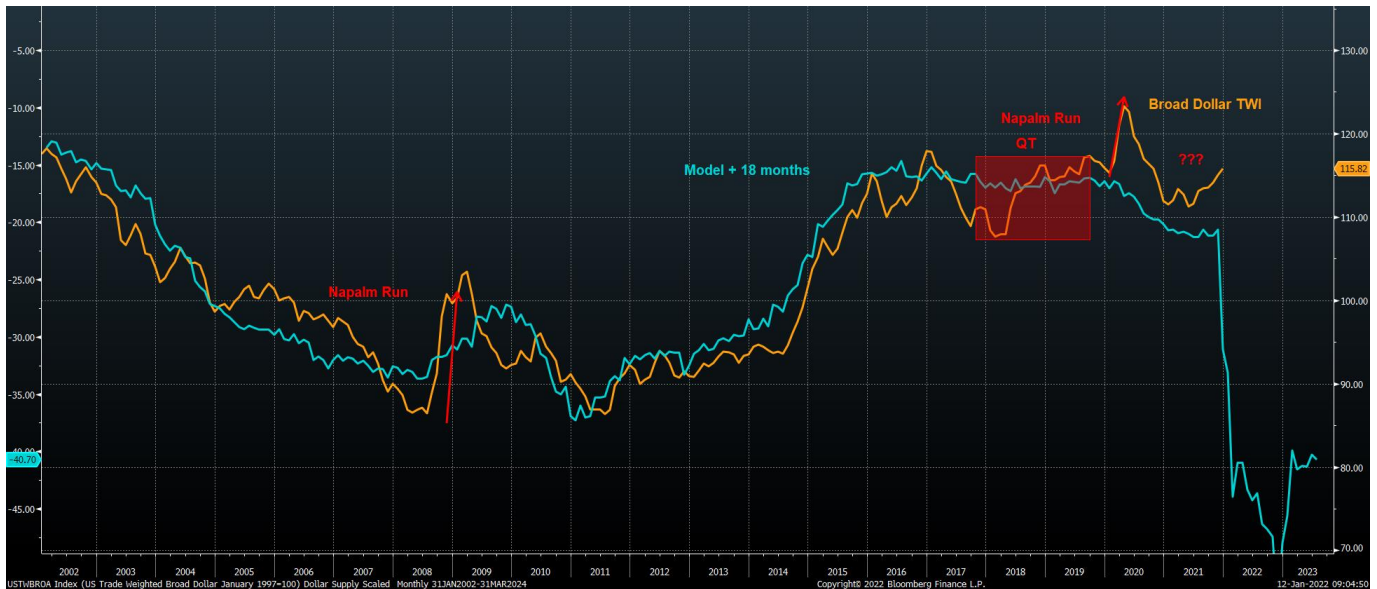


MI2 Trader: Selling the Dollar

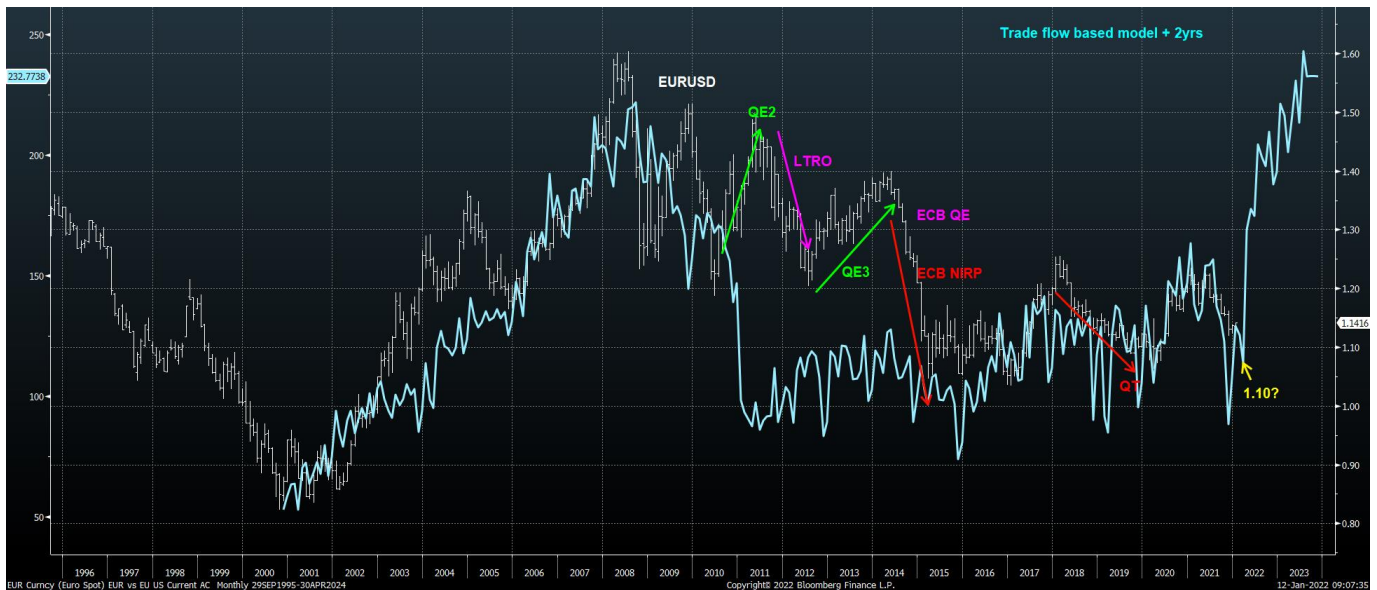
12th January 2022

Comment

In our early November video, “There’s Behind the Curve and There’s This!”, we shared with you our long-term model, which suggested a dramatic weakening of the dollar in 2022.



In the subsequent “Thoughts from the Virtual Road”, we added this chart to the discussion, which suggested an explosive rise in EURUSD. In addition, we explained that in our meetings with clients, they were overwhelmingly bearish but not positioned.



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Numerous possible triggers for potential dollar weakness were proffered. Indeed, over the holidays, we have done some work that suggests there's an unstable, reflexive relationship between US equity outperformance and dollar strength, which, if it breaks down, could unwind horribly. But more on that soon. For now, it would be a stretch to suggest that dynamic is in play.

However, theories aside, what is piquing our interest is price action, where after weeks of consolidation, we are starting to see breaks. For example, USDSEK, one of our favourite canaries in the coalmine, is breaking lower.



This move is mirrored in the Bloomberg USD Spot Index.



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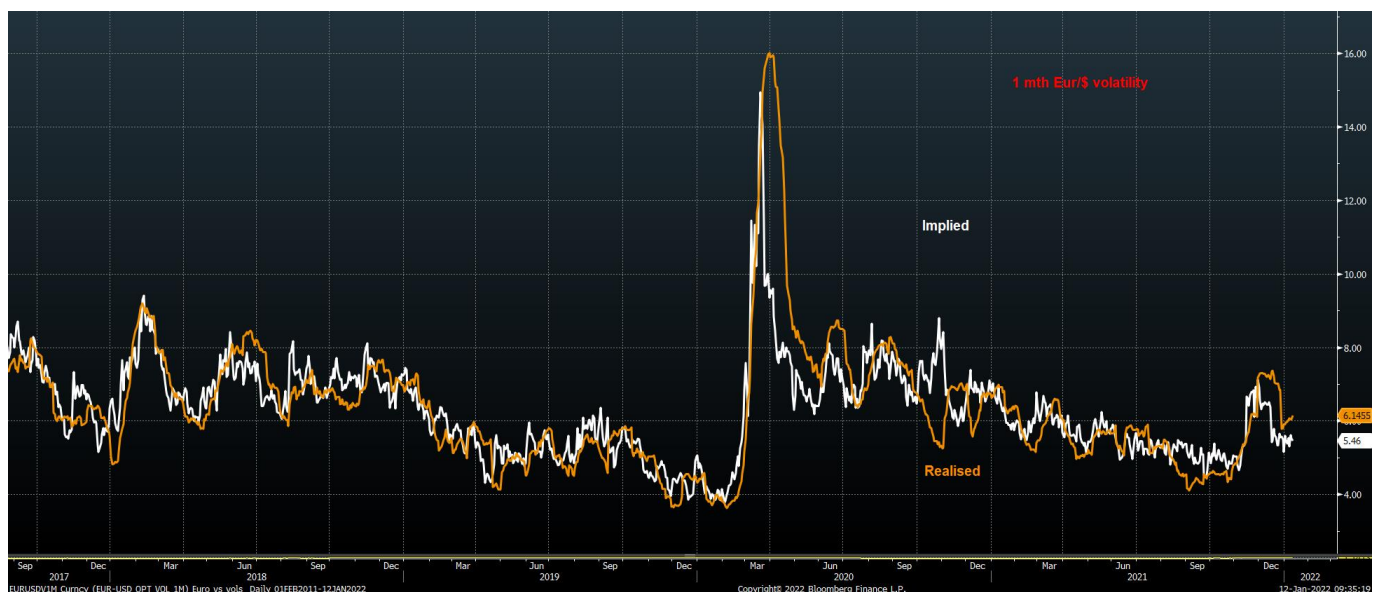
Trade

We suggest it is time to act. EURUSD (in the same vein as USDSEK and USD TWIs) has just popped through the trendline that comes in around 1.1400.



A long here with a stop below 1.1280 would be a plausible way to play a run at 1.18-1.20.

However, with volatility realising just above short-dated implieds, options are worth considering, especially as we have a heavy bias to expect a more volatile year across all asset classes.



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Specifically, with 3-month risk reversals slightly favouring EURUSD downside, you can pick up 3-month 25 deltas around 5.5% (somewhat less than 0.5% of notional), potentially putting you in the driving seat on a swift move north of 1.1600. What's not to like?

