

On October 2<sup>nd</sup>, 2018  
 Powell uttered the  
 infamous words, “we are  
 a long way from neutral.”

Fixed income markets  
 tightened for three days  
 until market participants  
 realized Powell had finally  
 tightened to the point  
 where he had broken  
 something.

## 3-month Eurodollar Futures Spread (June 2019 vs June 2020)



For the next three months the stock market sold off hard until finally bottoming on the Xmas-Eve massacre when Powell threw in the towel on maintaining his hawkish stance.

Since abandoning his tight monetary bias, the stock market has rallied all the way back to previous highs.

But fixed-income markets are still pricing in easier monetary policy.

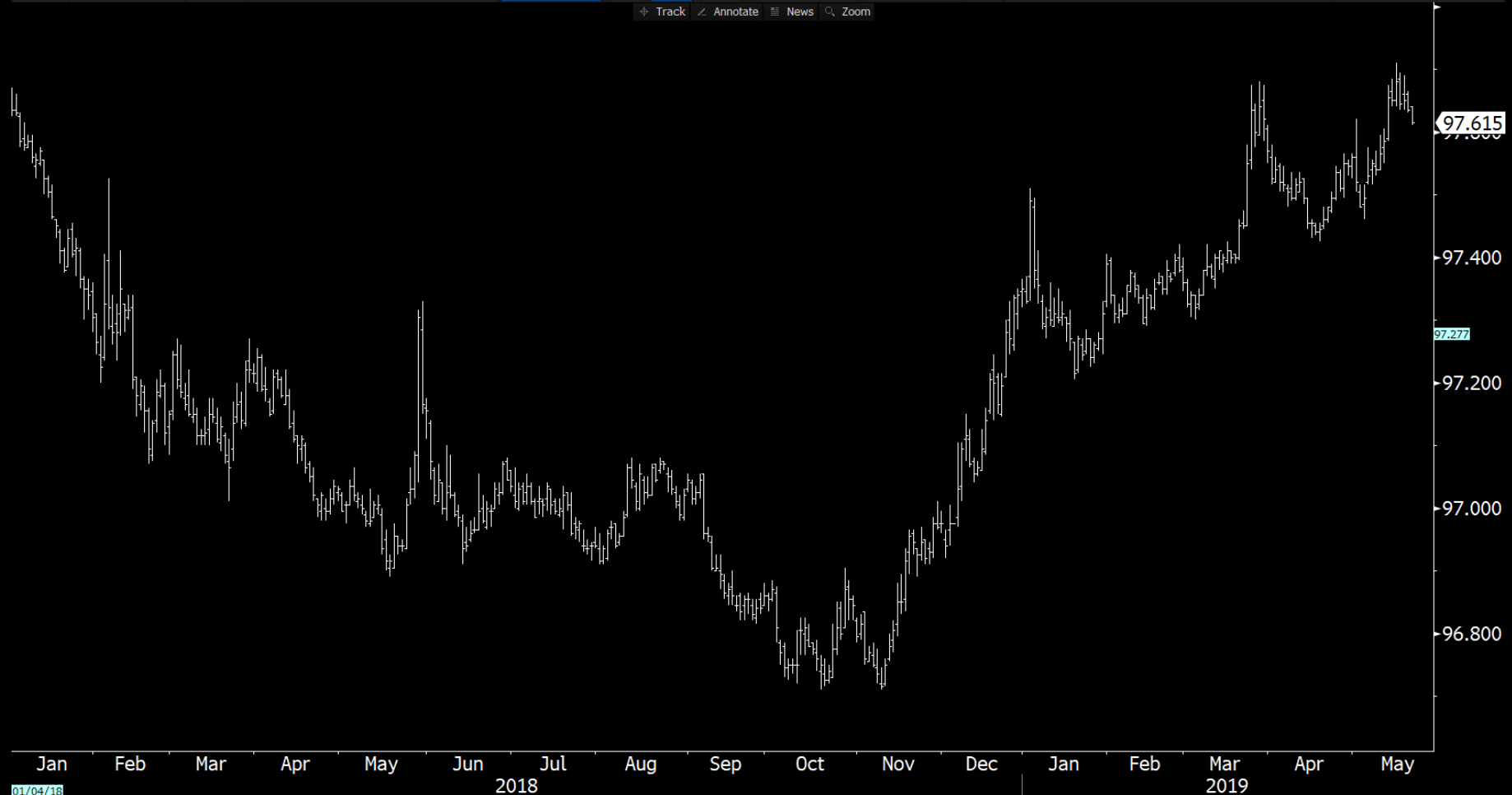
## 3-month Eurodollar Futures Spread (June 2019 vs June 2020) With S&P 500 on bottom panel



The December 2019  
 futures contract  
 bottomed at 96.70 in  
 early November but has  
 now rallied almost 100  
 bps!

## 3-month Eurodollar Futures Contract – December 2019

EDZ9	↑ 97.615	-.020	ic 97.615 / 97.620 ic	450x48805	Prev 97.635
At 8:42d	Vol 141930	Op 97.640	Hi 97.640	Lo 97.610	OpenInt 1595646
EDZ9 ELEC Comdty	95) Compare	96) Actions	97) Edit	Bar Chart	
01/02/2018	-	05/21/2019	Last Price	USD	Mov Avgs
1D	3D	1M	6M	YTD	1Y
5Y	Max	Daily	Table	Chart Content	



At last week's Mauldin conference, the most common recommended position was long fixed-income of various duration.

Everyone is convinced the Fed has pushed the economy over and that Powell's dovish shift was too little too late.



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Here is the [#SIC2019](#) Day 4 Recap of [@MarkYusko](#) [@HowardMarksBook](#), Bill White, and Carmen Reinhart. I hope y'all find it informative.

Big takeaway: entire 4-day lineup was long bonds of various duration. Who wants to be the contrarian?

[\\$TLT](#) [\\$SPY](#) [\\$GLD](#) [\\$DXY](#)



#### SIC 2019: Day 4 Recap

The fourth day of SIC 2019 featured a rapid fire presentation from Mark Yusko, who is bullish bitcoin, bullish commodities, bullish emerging markets, and bearish US equities. Bill White present...

[fibonacci.com](#)

7:30 PM - 16 May 2019

10 Retweets 39 Likes



4



10



39



EDZ9P		96.875	ELEC	s0.0025	--/0.0050	
As of Close		20 May	Vol	--	OpenInt 306614	
EDZ9 Comdty		95) Actions		97) Settings		Option Monitor
90DAY EURO\$ FUTR Dec19		↑97.615	-.020	-.0205%	97.615 / 97.620	Hi 97.640 Lo 97.610 Volm 149207 HV .45
Center	97.615	Strikes	5	Exp Dec-19 on EDZ9	Related Products	EDA Comdty
Calc Mode						
81) Center Strike		82) Calls/Puts		83) Calls	84) Puts	85) Term Structure
				86) Straddle		
		Calls		Strike	Puts	
Ticker	IVB	Bid	Ask	IVA	Last Volm	Ticker
3) EDZ9C 96.75		.8500	.8800	28.99	.8850y	Dec-19 (209d 12/16/19); CSize 1000000; EDZ9 97.615
4) EDZ9C 96.875		.7250	.7550	26.06	.7600y	55) EDZ9P 96.5
5) EDZ9C 97		.6100	.6250	21.23	.6350y	56) EDZ9P 96.625
6) EDZ9C 97.125		.4850	.5000	18.03	.5125y	57) EDZ9P 96.75
7) EDZ9C 97.25		.3650	.3800	15.71	.3925y	58) EDZ9P 96.875
8) EDZ9C 97.375	14.13	.2650	.2800	17.02	.2875y	59) EDZ9P 97
9) EDZ9C 97.5	17.19	.1900	.2000	18.65	.2075y	60) EDZ9P 97.125
10) EDZ9C 97.625	19.73	.1350	.1450	21.14	.1475y 500	61) EDZ9P 97.25
11) EDZ9C 97.75	21.37	.0900	.1000	22.92	.1050y 5250	62) EDZ9P 97.375
12) EDZ9C 97.875	23.28	.0600	.0700	25.12	.0750 252	63) EDZ9P 97.5
13) EDZ9C 98	26.52	.0450	.0500	27.64	.0450 28378	64) EDZ9P 97.625
14) EDZ9C 98.125	28.59	.0300	.0350	30.03	.0350y	65) EDZ9P 97.75
15) EDZ9C 98.25	30.82	.0200	.0250	32.72	.0250y 250	66) EDZ9P 97.875
16) EDZ9C 98.375	31.24	.0100	.0200	36.54	.0175y 33438	67) EDZ9P 98
17) EDZ9C 98.5	36.65	.0100	.0150	39.89	.0100 24048	68) EDZ9P 98.125
18) EDZ9C 98.625	37.54	.0050	.0100	42.47	.0100y 250	69) EDZ9P 98.25
19) EDZ9C 98.75	43.26	.0050	.0100	48.80	.0075y 32438	70) EDZ9P 98.375
Mar-20 (300d 3/16/20); CSize 1000000; EDH0 97.760						71) EDZ9P 98.5
20) EDH0C 97.5	19.51	.3200	.3350	21.63	.3475y	72) EDZ9P 98.625
21) EDH0C 97.625	22.40	.2550	.2650	23.67	.2725y	73) EDZ9P 98.75

In March, the MOVE index ticked at an all-time low level!!!

Markets are pricing in an exceptionally tame bond market.

# Merrill Lynch Option Volatility Estimate MOVE Index





The VIX Index is no where near the all-time lows.

In fact, on this recent trade spat news we spiked back up above 20%.

## VIX Index

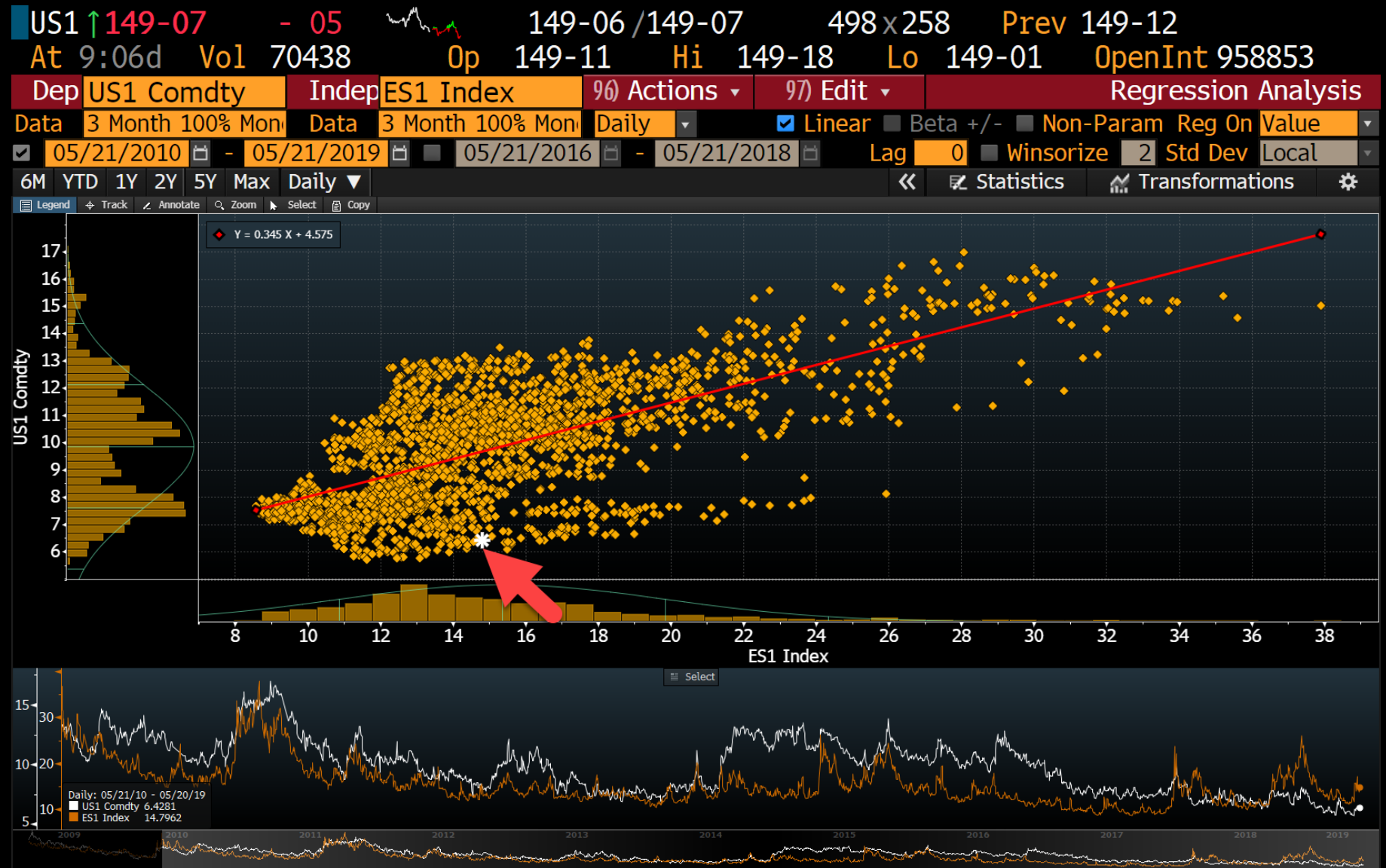


Implied volatility for the US long bond future is sitting near all-time lows, while the S&P 500 implied volatility is running around 15% - much above the low.

For this level of stock volatility, bond volatility is shockingly low. Almost all recent readings have been above this level.

Take away? Buy bond vol sell stock volatility looking for this relationship to normalize.

## 3 month 100% Strike Implied Volatility – US Long Bond Future vs. S&P 500 Future





Two weekends ago there was a breakdown in the trade talks between China and the United States.

Stocks gapped down on the news.

Even though the trade war has only gotten worse since then, the S&P 500 is well off the lows.

## S&P 500 Future since recent Trade War Development



Although the China / US trade situation will most likely get worse before it gets better, shorting US stocks is not a clear cut winning trade.

Shorting Apple versus a long position in the S&P 500 is a better risk-reward.

# Apple vs. S&P 500 Index



Who is Australia's largest trading partner?

China.

Who is Canada's largest trading partner?

The United States

Shorting AUDCAD is one of the best ways of playing America winning the trade war versus China.

## AUDCAD Cross Rate

