

Every news item these days seems to be a “hair on fire” event, i.e., best or the worst ever seen in history- we’re seeing an unprecedented use of word “unprecedented.”

Concerns range from the stability of the banking system to the debt ceiling negotiations, from deteriorating geopolitical landscape to a weaker corporate earnings. But there isn’t enough in any of these narratives yet to set a definitive course for markets.

At times like these, it’s often best to react to the shape of the problem rather than try to accurately predict the answer. Fed is doing the former and markets are trying to attempt the latter.

While everyone with a basic grasp of

arithmetic knows how the annual calculation for inflation works, the optical impact of seeing the data for May and June of 2022 (at 0.9% and 1.2% month-on-month US CPI, respectively) falling out of the annual calculation could give less observant market participants further confidence that the inflation problem is coming under control.

Fed raises the cost of funding specifically to disintermediate the banking system and make lending to the economy more expensive. In the absence of achieving the objective to tighten financial conditions, it's prudent to expect more tightening down the road. Not even a single person would agree with this as so far every FOMC has been thought of the final one.

Nature of this decline in US yields has

relevance for FX but this is not the kind of benign dollar decline that benefits all currencies as is being presumed by the markets .

Europe walks tightrope amid inflation & recession, as global economy slows while key components of inflation persist. Today should see a 25bp ECB hike and it is now probably stretched positioning which is the biggest headwind to further EUR/USD gains. EUR/USD could hang around this 1.10 area a little longer -1.0959 test most likely

UK council elections will be a major test for Sunak's credibility .GBPUSD neutral setup .NY afternoon 1.2539 low and then early NY 1.2487 base are initial supports

Better to wait for upcoming payrolls - a

stronger number to lift USDJPY back  
above 135.86 .

USDINR to stay circling around 81.75 -  
positioning squeeze to lift the pair towards  
82.00 if not beyond