am FX

Current Views

Short EURUSD and USDJPY 02SEP vol as described in am/FX on 26AUG (pin trade)
1.1650 vs. 1.16/1.17 and 159.30 vs. 158.80/159.80

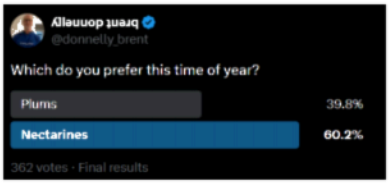
Short EURJPY @ 184.80
Stop loss 186.37

09SEP USDCNH call spread
6.7300/6.7400 for 42 CNH pips

10SEP CHFJPY put spread
199/196 for ~37bps off 200.50 spot

30NOV Long 1.23/1.25 AUDNZD c/s vs. short 1.18/1.19 p/s
Cost 2.5 bps off 1.2093

bdonnelly@spectramarkets.com



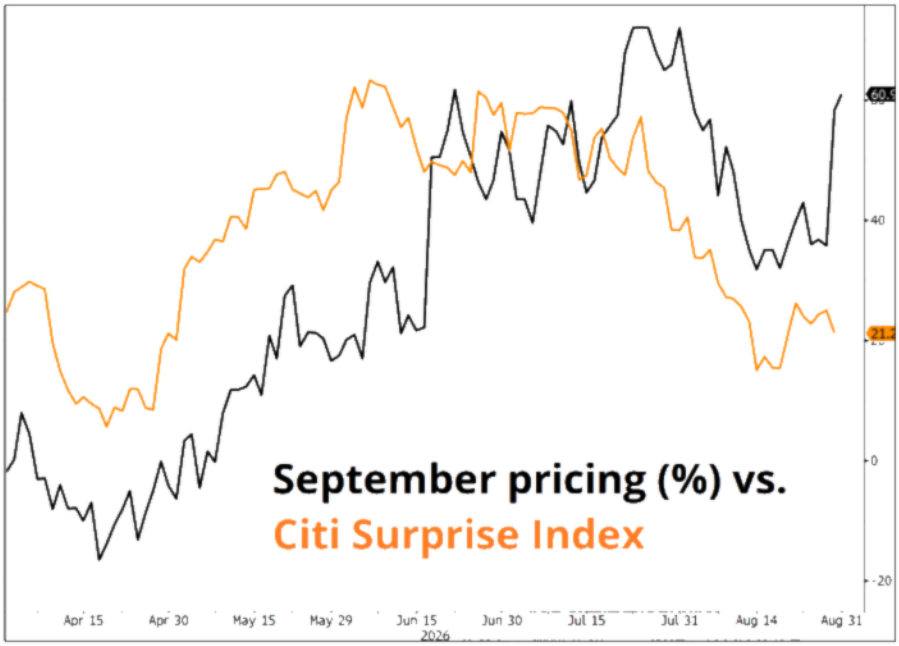
Parsing

Going through Warsh's statements to land on PPI

Jackson Hole

The market responded to the Warsh speech with a zippy move in 2s, DXY, and gold, while stocks and crypto shook it off. I understand the hawkish market response, though I remain a bit skeptical because much of the language is a repeat of June FOMC. Still, the hike bar just dropped a bit.

Take a look at the black line in my first chart and you will see that September hike odds closed at 61% after the June FOMC, and after Warsh's recommitment to the inflation target and reiteration that 65 months above target is not good last week... September hike odds spiked back to... 61%.

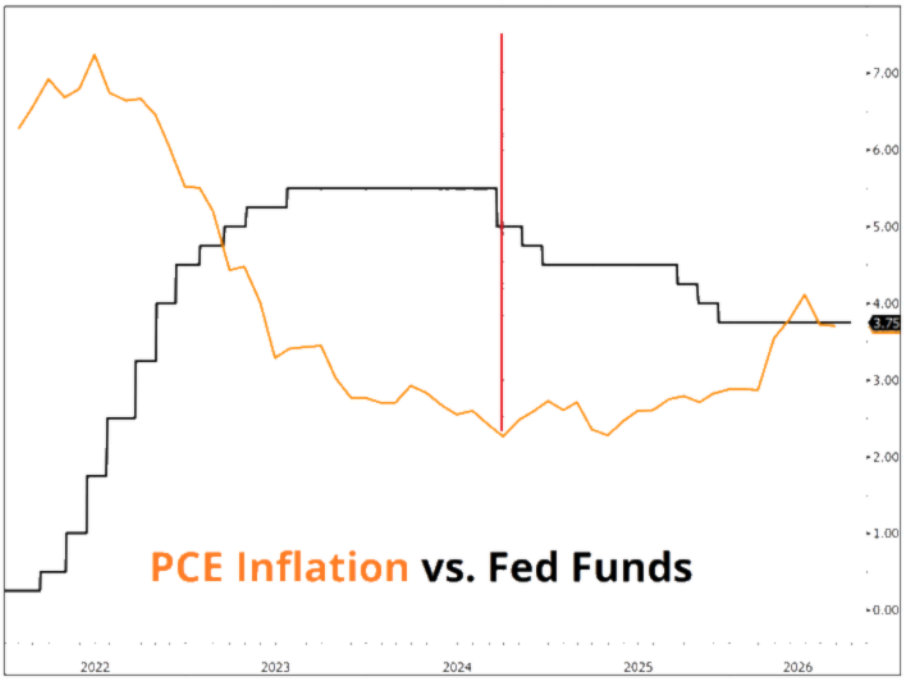


This is meaningful in the context of softening economic surprises. Warsh is saying the bar for a hike is lower than people thought. We appear to be at one of those ridiculous moments where the next monetary policy decision will come down to one data point, right before the meeting.

Given that Warsh gave very specific guidance as to what data points he will be watching from here on in, and the market took that guidance to mean the odds of a September hike have increased, I figured it might be useful to parse the speech so that I know which macro data points are worth monitoring and which are not into and after the FOMC.

The speech, titled "In Our Time," Warsh offered this closer: "Here is my standard: We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do."

It's an interesting statement because it leans towards the idea that change is good enough, even if the target level (2%) is not achieved. That is, there is an assumption that if there is downward momentum, it will continue, and so a reasonable forecast is to simply extrapolate the current rate of change. This is important because it's one of the main reasons the Fed keeps missing the inflation target: As soon as inflation starts to improve, they ignore the level, cheer the rate of change, loosen up policy and trigger looser financial conditions that push inflation back up.



The red line on that chart shows the bottom in U.S. inflation and the start of the two mini rate cut cycles. Maybe a coincidence that inflation bottomed at the same time as the Fed started cutting, but... Probably not? War made things worse, of course, but inflation bottomed in 2024 and the war was in 2026, so you can't blame it entirely for the Fed's inability to reach the target. You know what the pharmacist says:

Don't stop taking your medication just because you start to feel better! To quote a random health website:

> Many medications don't have a noticeable effect when you take them, but they're still important to take. For example, if you're prescribed antibiotics, you should make sure to finish out the prescription—even if you feel better. Stopping early could leave germs alive that might reinfect you and become harder to treat.

So, for now, the market appears to believe that the bar for a rate hike is low and it comes down to NFP and CPI. What if I told you **the key release is not NFP or CPI, but PPI**? Let's look at all the most important data points Warsh discussed and see what that might mean.

Inflation data

- On speed being the variable, not just level: "We want to gauge whether underlying inflation is rising, falling, or stuck in place. We also want to understand not just the direction of travel, but also the speed."
- "And while this summer's PCE and CPI readings were better than expected, they do not tell me that underlying trends have meaningfully improved."

- "To try to gauge underlying inflation, I find it instructive to disaggregate the 199 individual components of the PCE price measure. Over the past 12 months, 54 percent of goods and services in the PCE basket showed price increases above 3 percent."
- "The job for policymakers is to capture underlying trend inflation—that is, the generalized change in prices in the economy, unaffected by idiosyncratic factors."

Inflation expectations

- "The good news is that measures of inflation expectations in the medium term, by and large, look stable. And inflation compensation measures from the swaps market send a strong and similar message."
- "The thing about market measures of inflation expectations in economic history is that they tend to look strong and durable until they don't. Those expectations are not pushed around easily, and right now they are well anchored. But they must be closely minded. It's the Fed's job to make sure that inflation expectations do not get unanchored."
- "market prices show confidence that we will deliver price stability. And I can assure you . . . they're right." This is his message from June, repeated just about word for word.

Financial conditions

- "The Fed needs clear market signals, as unfiltered as possible . . . from market internals . . . the level and change in asset prices across sectors . . . the prices and trading volumes of Treasury securities. . . the foreign exchange value of the dollar . . . the cost and availability of credit . . . and the price of a broad set of commodities."
- "Credit spreads on corporate bonds and leveraged loans are near the low ends of their historical ranges, and issuance volumes in these markets have been quite strong this year."
- "Credit and loan markets are showing few signs of policy restraint."
- "Certain sectors—like housing and agriculture—are showing strains. But, on balance, I would be hard pressed to describe broad financial conditions as restrictive."

This is more hawkish than his past statements, which have been all over the place. Here are Warsh's characterizations of financial conditions in June, July, and August. Note that measures of financial conditions from GS and Bloomberg show almost no change in financial conditions over this period.

June: Financial conditions are mixed, or uneven.

> COLBY SMITH. So just following up, I guess on the current policy settings then, I am curious how restrictive you think things are at the current moment, given the flow of data that we've seen and, you know, forecasts that are coming down the pipeline.
>
> CHAIRMAN WARSH. Yeah. I—I've heard characterizations, both inside in the Fed about that. I'll give you my own. It's uneven. And, if I look at the housing markets as one example, Fed policy isn't the, the single determinant of the state of the housing market, but broadly I would say, there, Fed policy appears to be somewhat restrictive. I would have a hard time managing to say those words if I were to see what's happening in financial markets, so I'd say it's uneven.

July: Financial conditions have tightened.

> We're going to deliver on the remit. You don't have to take my word for it. If you look broadly at market prices, they are certainly not saying "all clear," but they are working in concert to, to keep us on our toes, and they have tightened financial conditions in this intermeeting period. And, and that has given us a—that has provided us some—some comfort that, that we've got the ability and capability to deliver.

August: Financial conditions, on balance, are not restrictive.

> Credit spreads on corporate bonds and leveraged loans are near the low ends of their historical ranges, and issuance volumes in these markets have been quite strong this year. Looking beyond fixed-income markets to the banking business, in the July Senior Loan Officer Opinion Survey on Bank Lending Practices, banks tell us that standards for commercial and industrial loans are on the easier end of their historical range. That helps explain the growth we've seen this year in those loans. Credit and loan markets are showing few signs of policy restraint. Certain sectors—like housing and agriculture—are showing strains. But, **on balance, I would be hard pressed to describe broad financial conditions as restrictive.**

While Warsh still gives a nod to housing weakness, he spends most of his time talking about low equity vol, tight corporate spreads, easy lending practices and so on. Instead of the uneven financial conditions he saw in June, and the tightening ones he saw in July, he now finds it hard to describe financial conditions as restrictive. I suppose he could have just said "financial conditions are loose."

For context, at right is a look at financial conditions at the open on the three Warsh speaking dates.

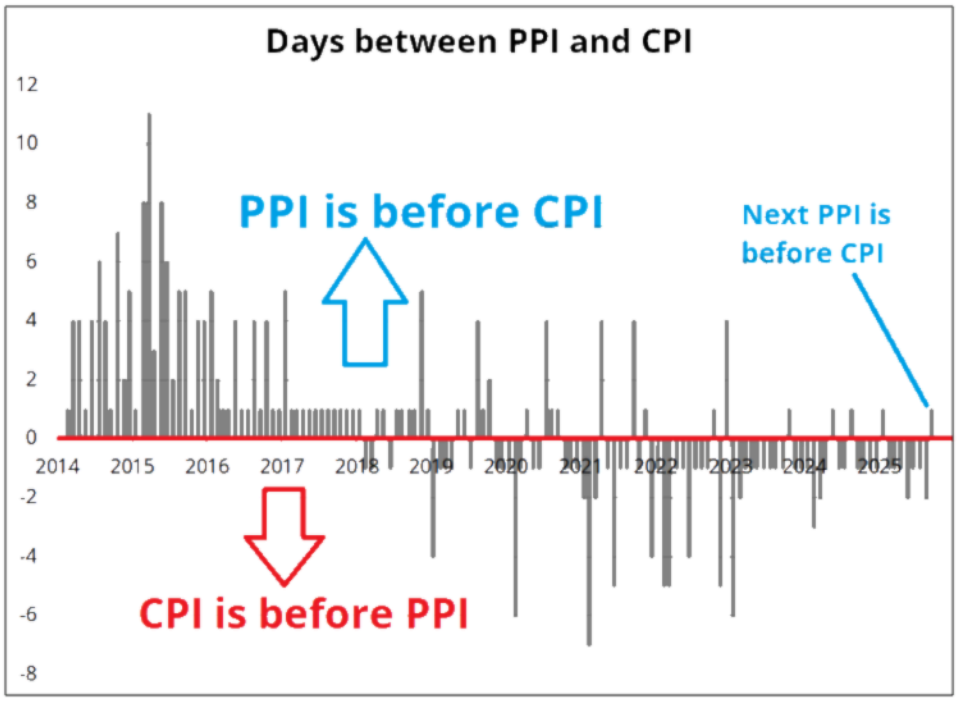


Labor market

- "So the Fed's predominant focus right now should be on prices."
- "I believe the labor markets are consistent with full employment."
- "When labor supply is barely growing, monthly job gains are naturally going to run low."
- "The data also show moderate wage growth. But in tracking underlying inflation, wage growth has not proven a reliable indicator of future inflation for a very long time."
- "The jobless rate, at 4.1 percent, remains low by historical standards and has not changed much for a couple of years."
- "Unemployment claims, on a four-week average—an empirically robust real-time indicator—are near their lowest level in decades."

BOTTOM LINE: We have a slightly more hawkish central bank and a laundry list of data points to watch. With September FOMC still close enough to 50/50, and Warsh saying he is not at all worried about jobs, the answer to

hike or no hike is most likely to come from the inflation data. The FOMC is before the next PCE release, so it's only CPI and PPI that matter. **This month is one of those weird ones where PPI comes out before CPI. The market does not always fully appreciate how correlated the misses are between PPI and CPI, so there is an edge in going hard after PPI if it signals a particular direction for inflation.**



The market is used to PPI being a nothingburger, but that is mostly because it normally comes out after CPI and thus contains very little new information. When PPI comes out first, it matters. I will discuss this more as the PPI date (September 10) nears, but for now just know that the miss in PPI is an excellent predictor of the miss in CPI.

While the preceding pages get us to the point of knowing that **PPI is probably the most important release for traders before the next FOMC**, the bigger picture question is whether any of this matters much (or at all). One or two hikes from the FOMC will have essentially zero impact on, or transmission to the real economy. So, while rates and FX are logically moving in response, it also makes sense to me that equities should give little or no concern to a tiny recalibration cycle. Even if the Fed hikes in September, this is not a meaningful change in monetary policy. They are fiddling around with the dials.

Calendar

This week's calendar has some interesting moments. The RBNZ meeting will be particularly important for the long AUDNZD trade because that trade rests partly on the idea that too much is priced in for the RBNZ given rising unemployment, weakish growth, and soft housing. If the RBNZ lowers the rate track, that should unlock some AUDNZD topside.

The BoC is less interesting.

WEEK OF AUGUST 31–SEPTEMBER 4, 2026 | All times New York / ET					
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	31-Aug	1-Sep	2-Sep	3-Sep	4-Sep
Before NY open	Germany CPI 4:00 - 8:00	EU Flash CPI 5:00		Switzerland CPI 2:30	
NY AM	UK Summer Bank Holiday and real money month-end	US Manufacturing ISM 10:00 US JOLTS 10:00	US ADP 8:15 Bank of Canada Interest Rate Decision 9:45 Bank of Canada Press Conference 10:30	US Initial Claims 8:30 Fed Waller 8:30 US Services ISM 10:00	US NFP 8:30 Canada Jobs 8:30
NY PM		PANW DELL	US Beige Book 14:00 AVGO SNOW	LULU PATH	
Asia		Australia GDP 21:30 RBNZ Interest Rate Decision and MPS 22:00 RBNZ Press Conference 23:00			Fed blackout begins Labor Day on Monday

Have a peachy week. Positioning Report on pages that follow. Thanks.

good luck ⇅ be nimble

The Spectra FX Positioning and Momentum Report

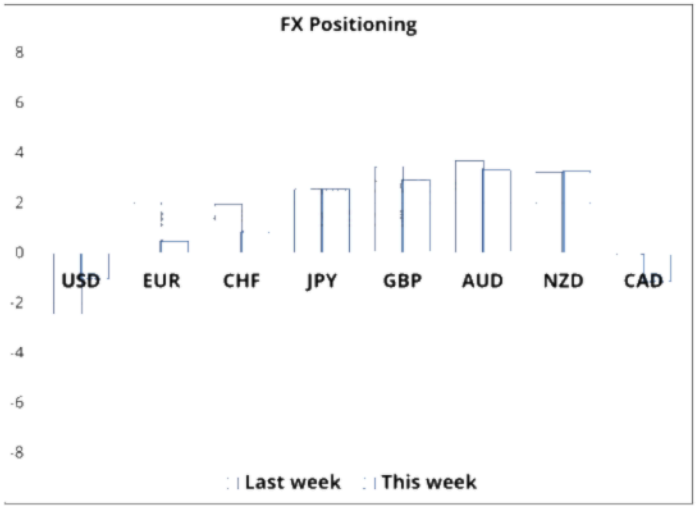
Hi. Welcome to this week's report. *(To read about how I use and trade this report, see here.)* The USD bear trade has been stamped out by Warsh's most recent attempt to convince the market that the Fed is serious about rate hikes. AUD has become quite popular on the crosses, while the CFTC is rapidly reducing its mega short JPY. 1.1600/75 is jammed with EURUSD strikes. Ags dominate the top left corner of the RSI table as El Niño and other factors take hold. Crypto has dropped out of the top rankings as ETH and BTC consolidate.

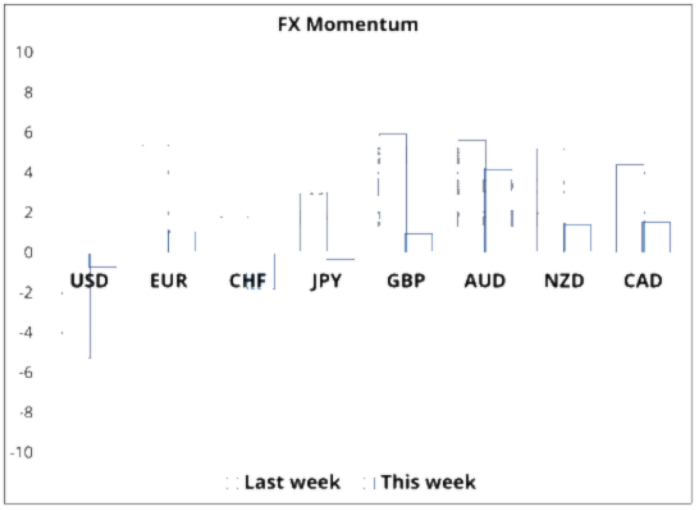
G10 FX Positioning and Momentum Scores

All scores -10 to +10 scale, all currencies vs. USD (that is: JPY means yen, not USDJPY)

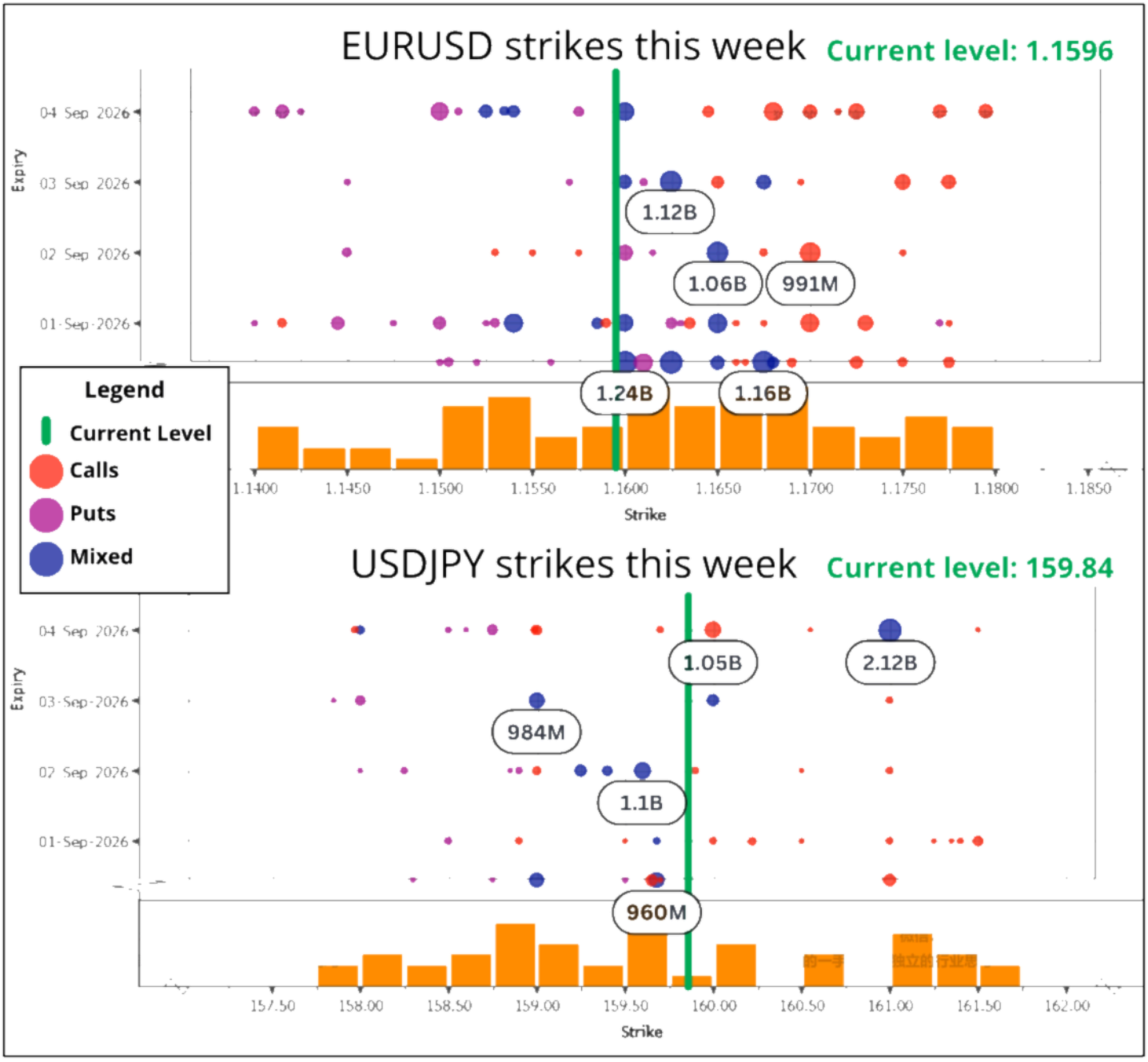
Summary scores								
	USD	EUR	CHF	JPY	GBP	AUD	NZD	CAD
Positioning	-1	0	1	3	3	3	3	-1
Momentum	-1	1	-2	0	1	4	1	2

Positioning and Sentiment								
	USD	EUR	CHF	JPY	GBP	AUD	NZD	CAD
CFTC Level (% of OI)	3	-3	0	-1	-3	-3	-5	-8
CFTC 4-Week Change	-6	4	6	8	6	3	9	5
Daily Sentiment Index	5	-4	-6	-3	3	4	5	1
Risk Reversal (1-month lookback)	-2	0	2	4	2	3	3	-4
Risk Reversal (6-month lookback)	-7	6	6	9	9	9	9	2
Spectra FX Positioning	0	0	-2	-2	0	4	-1	-2
Momentum								
	USD	EUR	CHF	JPY	GBP	AUD	NZD	CAD
RSI	-2	3	-1	1	2	7	2	3
Deviation from 20-Day	0	0	-1	-3	0	3	0	1
Deviation from 100-Day	0	0	-4	1	1	2	2	1





Big Strikes

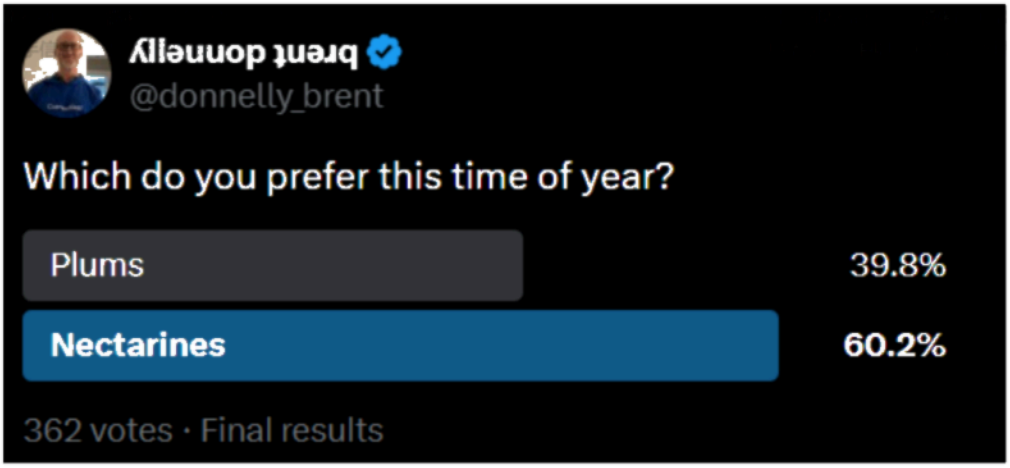

EURUSD strikes this week
Current level: 1.1596
04 Sep 2026
03 Sep 2026
02 Sep 2026
01 Sep 2026
Expiry
1.12B
1.06B
991M
1.24B
1.16B
Legend
Current Level
Calls
Puts
Mixed
1.1400
1.1450
1.1500
1.1550
1.1600
1.1650
1.1700
1.1750
1.1800
1.1850
Strike
USDJPY strikes this week
Current level: 159.84
04 Sep 2026
03 Sep 2026
02 Sep 2026
01 Sep 2026
Expiry
1.05B
2.12B
984M
1.1B
960M
157.50
158.00
158.50
159.00
159.50
160.00
160.50
161.00
161.50
162.00
Strike

RSI

Global RSI Heatmap

Current 14-day RSI

MSFT 73	Corn 73	Soybeans 72	NOKSEK 68	XOP 62	USDMXN 60	AAPL 57	JNJ 56	CADJPY 55	Brent Crude 54
Wheat 72	ETH 70	Iron Ore 67	XLE 62	AUDNZD 60	XLV 57	Silver 56	USDCAD 55	Nat Gas 54	EURGBP 52
BTC 69	V 66	EURSEK 62	AUDCAD 59	XLB 57	CNHJPY 56	USDSEK 55	Gold 54	USDJPY 51	XLP 50
AUDCHF 64	AUD 62	DAX 59	WTI Oil 57	AMZN 56	EWZ 55	EUR 53	TSLA 51	TSMC 50	EURCNH 47
AUDJPY 61	XLF 58	EWC 57	USDCOP 55	Copper 55	NZD 53	XLY 51	Milk 49	Nickel 47	CN1 43
EURCHF 58	SPX 56	EWA 55	EFA 54	GBPJPY 53	EWW 51	CHFJPY 48	USDZAR 46	XHB 42	TY1 40
CADCHF 56	GBPCHF 55	EURJPY 54	XLK 53	MU 51	XOM 48	USDBRL 46	HD 42	USDNOK 39	TU1 37
JPM 55	NZDJPY 54	GBP 52	Hang Seng 51	GOOG 48	USYC2Y10 45	UNH 42	EURAUD 39	EURNOK 36	DU1 36
EuroStoxx 54	USDCHF 52	NZDCAD 51	DXY 48	US1 45	G 1 42	XLI 38	XLU 36	JB1 36	WMT 33
NDX 52	Nikkei 50	EURCAD 47	VIX 43	XM1 41	FV1 38	USDCNH 36	IK1 34	OE1 33	RX1 33



The nectarine shown in this next link is less shocking than I had hoped.

Extremely disappointing, to be completely honest.

https://www.guinnessworldrecords.com/world-records/heaviest-nectarine

