am FX

Current Views

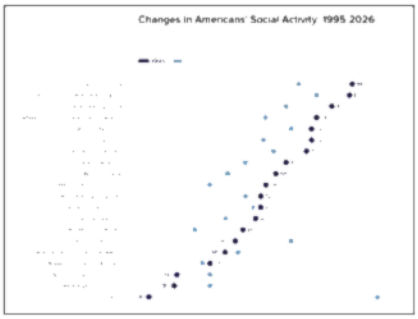
29OCT 1.1280 EUR call
~27bps off 1.1200 spot

Short QQQ at 754
Stop loss 772.55 **TP reached, now flat**

Short 4.95/5.05 USDBRL strangle and buy 4.80/5.20 to protect. Max gain is what you receive: ~1.65% off 4.98 spot. **Max loss is 1.35%.**

Short USDCAD @ 1.4238
Stop loss 1.4327

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Larger version of this graphic on page 6 of today's am/FX.

Plan a picnic or breakfast with a friend!

Have some people over.

Go to a class.

Play cards!

What does the dollar do if AI turns?

The question of the day!

Stocks

My short QQQ trade was good. I am now out with a solid profit. Sometimes with trades like this, I like to flip long right away because I am catching a major technical zone and we are in overshoot territory. But that is not the case here. Yes, we are in a strong support zone for the NASDAQ, but I don't believe we are anywhere close to overshoot territory when it comes to price or sentiment.

In FX, I got stopped out of half my short USD risk near the lows in EURUSD, which is unfortunate, but happens sometimes. I no longer get very upset about a ding donger like that where I am stopped out near the highs or lows. It happens a few times/year and that's just how trading works. Sometimes you get a bit lucky and pick the tippy top in QQQ, and sometimes you get a bit unlucky and get dinged on the picobottom in EURUSD. If you have skill, and your choice of entries, stop losses, and take profits is reasonably well calibrated to volatility, you will find these lucky moments net out over time. They are random variance.

I remain bearish USD and while I am flat Qs now, I would still say I am mildly bearish stocks until we see a capitulation or we get to a full-on Turnaround Tuesday situation next week. The question of the day yesterday was: "How will the dollar react to a reversal in the AI Capex narrative?" I believe yesterday was an incredibly perfect microcosm of the bigger picture USD response to a reversal in the AI story. The USD reflexively rallies on equity weakness, then reverses hard because the rally was effectively wrong.

Before I go through some history to explain why I believe the correct parallel for the USD here is the 1999/2001 analog, let me offer the most simplistic and effective heuristic for what happens to the USD in a crisis or meltdown: Positioning. When the guano hits the fan, the market squares up.

- 1997 to 2000: Massive positions build in U.S. assets as there is no alternative to the NASDAQ. The dotcom bubble builds and builds and the USD rallies like mad starting in 1995/1996. More on this later, because this is the best comp to 2026. **Market long USD** = stocks down / **USD down**.
- 2008: Market has been selling USD for years, hedging all USD assets, and borrowing in USD (corporates and carry trade). **Market short USD** = stocks down / **USD skyrockets**.
- 2020: Market no huge USD position. USD rallies on COVID then sells off on Fed reaction.
- April 2025: **Market mega long USD** as the view was that Trump and tariffs are bullish USD. Market long USD = stocks down / **USD down**.

And now, of course, we have a market that is long USD on European woes, American AI Capex dominance, rising yields, "hawkish" Fed and so on. If we zoom way, way out, there has also been an American Exceptionalism story going on for five years and while that story was similar to 1999, the USD has barely appreciated. **In 1999/2000, the dollar had absolutely no headwinds.** U.S. hegemony was strong and getting stronger, U.S. soft power was at its height, American deficits were gone (!).

So while the USD rallied to the moon in the dotcom bubble, it has struggled to get off the launch pad in this cycle, despite gargantuan buying of U.S. equities and large private FDI into U.S. tech. Despite the similarities to 1999, particularly U.S. tech dominance and rising real yields, note many structural differences:

- China has risen. There was one superpower in 1999. Now there are two.
- Iraq and Afghanistan Wars. The 1991 Gulf War was a cakewalk that boosted U.S. power. Iraq and Afghanistan were expensive, drawn-out quagmires.
- 2008 Global Financial Crisis. U.S. financial system to the brink.
- Deindustrialization and erosion of American industrial capacity.
- Weakened policy continuity, institutional trust, and international perceptions of American stability.
- Rising federal debt and persistent fiscal deficits even during economic boom times. Orthodox Keynesian fiscal policy approach has been tossed in the trash.
- Trade wars and protectionism.
- Weaponization of the dollar.
- Etc., etc. etc.

A few stats, 1999 vs. now:

- U.S. share of global manufacturing — 28% to 15%.
- Dollar share of global FX reserves — 71% to 57%.
- U.S. share of global exports — 14.4% to 10.4%
- U.S. favorability as viewed by citizens of Germany, France, and Canada — ~70% to ~35%

All this to say that the USD had many other legs to stand on in 1999. The other important thing to know or remember about the dotcom cycle in the dollar is that the euro was launched right in the heat of the dotcom bubble (January 1, 1999) and the launch did not go particularly well.

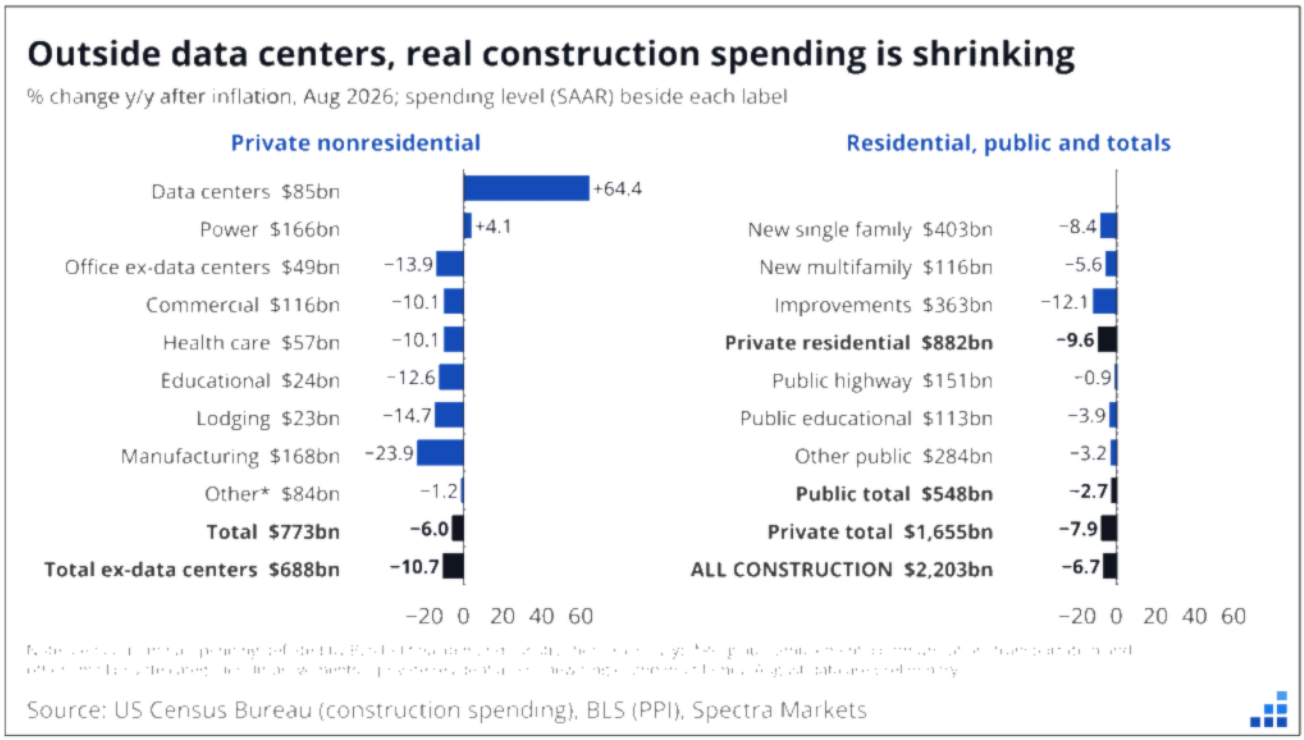
By mid-2000, the market was seeing the euro as a soft currency like ITL or ESP (lowest common denominator) not a hard currency like the DEM. So EURUSD tanked from 1.17 on launch to 0.8300 by October 2000. The ECB and G7 had to intervene and support it a few times before it finally bottomed and people started to believe the euro project was coherent and workable.

This extreme weakness and fear of a fragmented euro muddies the water when you are trying to compare now to back then. The USD peaked much, much later than the NASDAQ because it had many remaining tailwinds, even without tech, and the euro was off like a damn squib. Here's DXY vs. NASDAQ in that period.



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Today, the reaction function of the dollar to a serious repricing of the AI Capex boom should be unambiguously USD bearish. There could be feverish bursts of USD buying like we saw yesterday (partially due to CPI). But if the market is pricing rising odds of peak AI capex, the USD is a sell. The entire U.S. economy is a one-legged stool balanced on the AI trade.



You could argue that there are two legs to the stool as consumer spending is forever strong, but there is a risk that this engine is also powered by AI Capex via the wealth effect from stock market gains. If stocks turn, confidence turns, neocloud bond yields spike, stocks fall, earnings fall due to reval effects, stocks fall more, wealth falls, rich consumers pull back, etc. etc.

I am not saying all this is happening now and the AI bubble / bull market peaked for good this month. Maybe it has, maybe it has not. I don't know. I don't trade that time horizon. What I am saying is that the market reaction function over the past 24 hours is probably correct. **Stocks down, bonds up, USD down is the right framework for a repricing of the AI Capex Machine.**

In the short term, I think the current AI wobble is not over and the market will continue to sell USD first and ask questions later because specs and real money have just spent months getting long USD and yet most people hate the dollar and are much more comfortable short not long. The ferocious turnaround in bond yields yesterday and the Fed's tiptoeing over eggshells style of rate hikes means the euro might have found a base. There is a budget vote in France on October 20, and that might create some turbulence, and there is a Moody's review on October 23, so those are the two key dates you need to survive if you go long euros or short USDCHF etc.

To avoid the chop, but get some short USD exposure, I am going to **buy a 2-week 1.1280 EURUSD call**. To trade this via spot, you really need a stop below 1.1050 because of the French volatility coming, so I believe it's a better option trade than a spot trade. Long with a stop below 1.1050 is similar, but much worse leverage.

Supernatural prescience

Looking at the metadata on The Economist website, you can see the exact time the cover came out. Amazing timing so far!



Final Thoughts

1. An essay (for nerds only) about brackets (aka, parentheses).

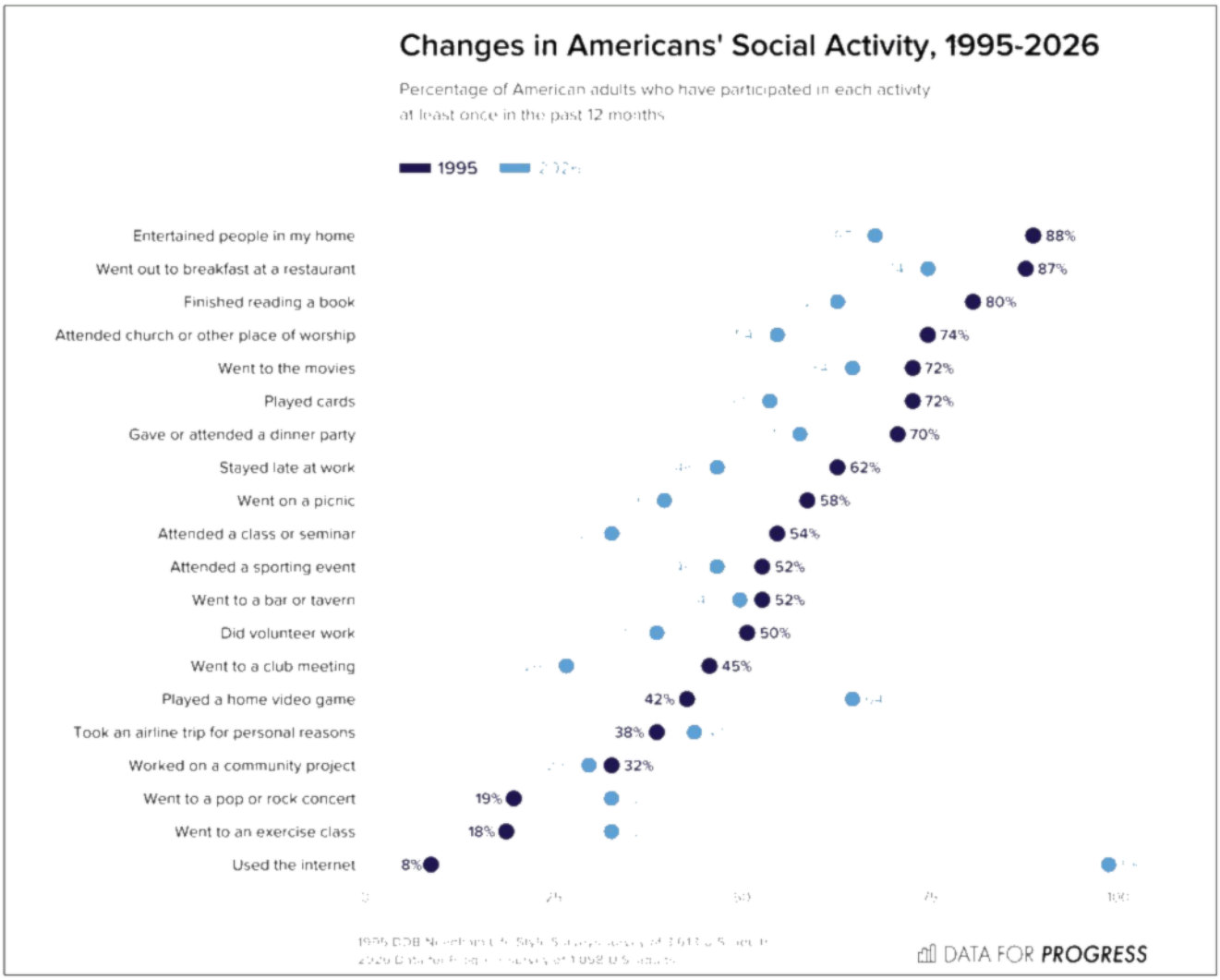
   > There's something mysterious about the "little moons", as Erasmus called them. The moon has represented, in various traditions, creation and destruction, rebirth, eternity, the feminine, time, marking time, mystery, the night, and secrets. And so has the parenthesis. The convex-concave curves of the open and closed parentheses cup something said by the way, whisperings, secrets mouthed into the reader's ear, mumbled under the author's breath.

2. Polemic Paine on the human brain, trading, and spot monkeys.

3. Japan's economic plan update, straight from Takaichi.

May you interact with other humans today IRL.

good luck ⇅ be nimble



Via Chuck thanks