



# MacroVantage

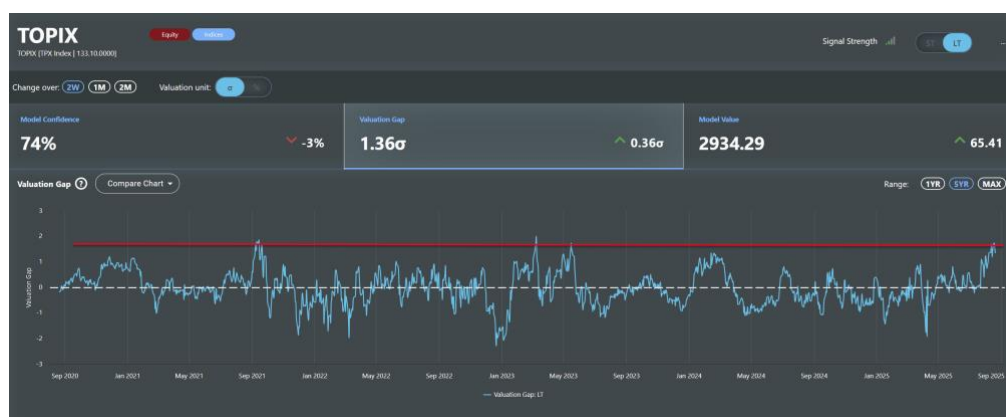
Uncover price dislocations, trade opportunities, regime shifts and sensitivity analysis across asset classes

1. Topix vulnerability
2. Bunds: efficient way to capture European growth de-rating
3. Risk off - EURAUD vs. AUDJPY

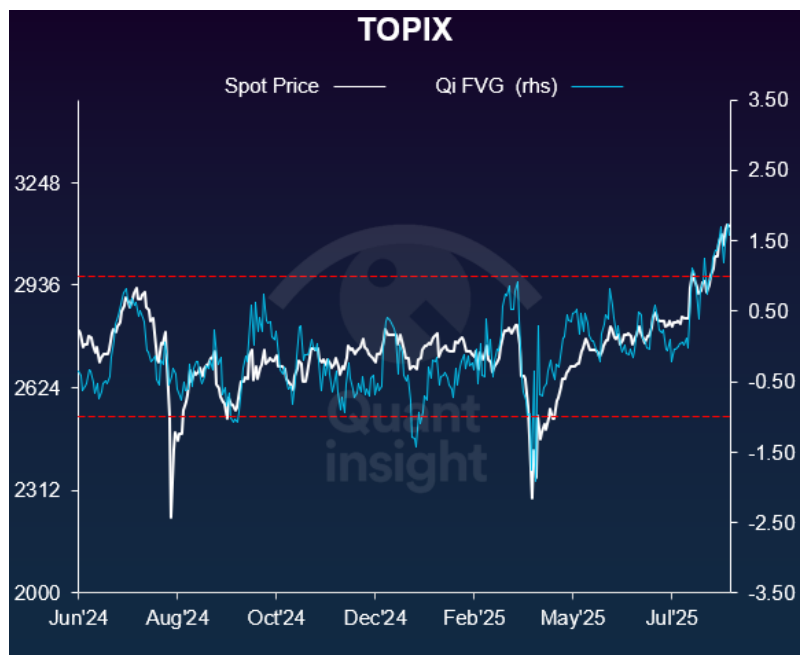
## 1. Topix vulnerability

The Topix is trading +1.4 sigma above its Qi model fair value – that is approaching the upper end of its fair value gap range since 2009! See the first chart below.

Model explanatory power is also high at 74%. The Topix is among the most sensitive of the major indices to risk aversion and CB QT expectations, i.e. rate vol. Amid elevated inflation pressures, expectations are rising that the BOJ will continue to hike interest rates and taper bond purchases.



Further, the Topix FVG has a strong correlation to the Topix spot price. In other words, when the FVG elastic is looking too extreme we should pay attention to mean-reversion risk.



## 2. Bunds: efficient way to capture European growth de-rating

At the end of July GDP growth in the Euro Area was tracking around 1.2% in annualised terms. Today, thanks primarily to a weak German ZEW report, economic growth is virtually flat-lining.



Source: now-casting.com

On Qi, 10y Bund yields now sit 1 sigma or 18bp above where macro conditions say they "should" trade. Decent correlation between spot yields & Qi's Fair Value Gap suggest decent risk-reward on the mean reversion occurring via yields catching down to macro fundamentals.

Looks an efficient trade expression for European growth concerns.

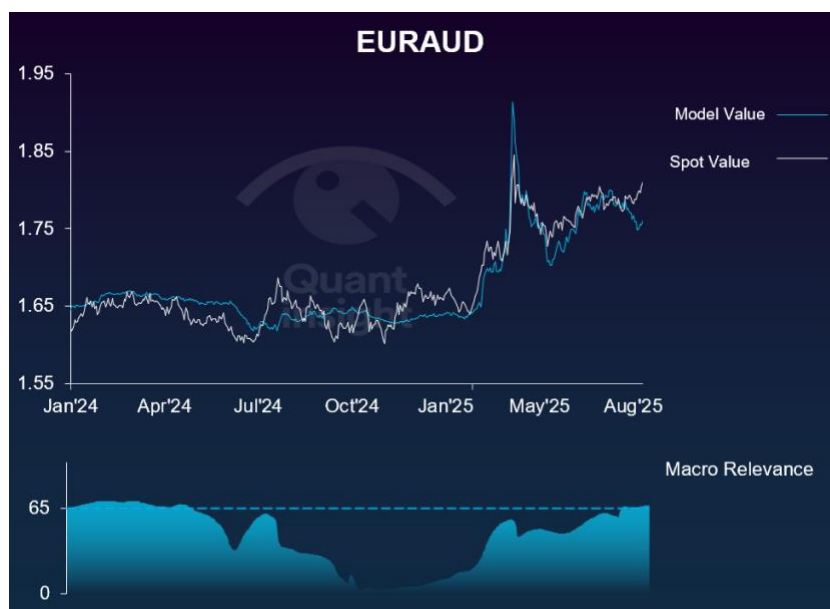


### 3. Risk Off – EURAUD vs AUDJPY

Historically, AUDJPY has been a barometer for global deflation & risk appetite. In times of "risk off" the Yen's safe haven properties combined with Aussie's China / commodity exposure, made short AUDJPY a popular hedge.

In this new world order there's a school of thought that the Euro can steal some of the Yen's defensive properties. That's a function of enhanced credibility in Europe plus increasing question marks over Japanese political stability, fiscal stance & the BoJ falling behind the inflation curve.

This argument means "risk off" equates to EURAUD upside rather than AUDJPY downside.



The argument makes sense; the entry levels may not. On Qi, EURAUD is approaching 1 sigma rich to aggregate macro conditions.

It is noticeable that the cross has just moved back into a new macro regime with RSq over 65% for the first time in 15months.

The biggest drivers of this new macro regime? Interest rate differentials (both real & nominal). But also risk aversion - higher VIX implies higher EURAUD & that sensitivity is at 4 year highs.

Empirical evidence to support the Euro safe haven thesis, but a steer towards maybe waiting for better entry levels.

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