SURGETRADER SEPTEMBER 2022 MARKET OUTLOOK

PRESENTED IN COLLABORATION WITH BKFOREX

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EQUITIES

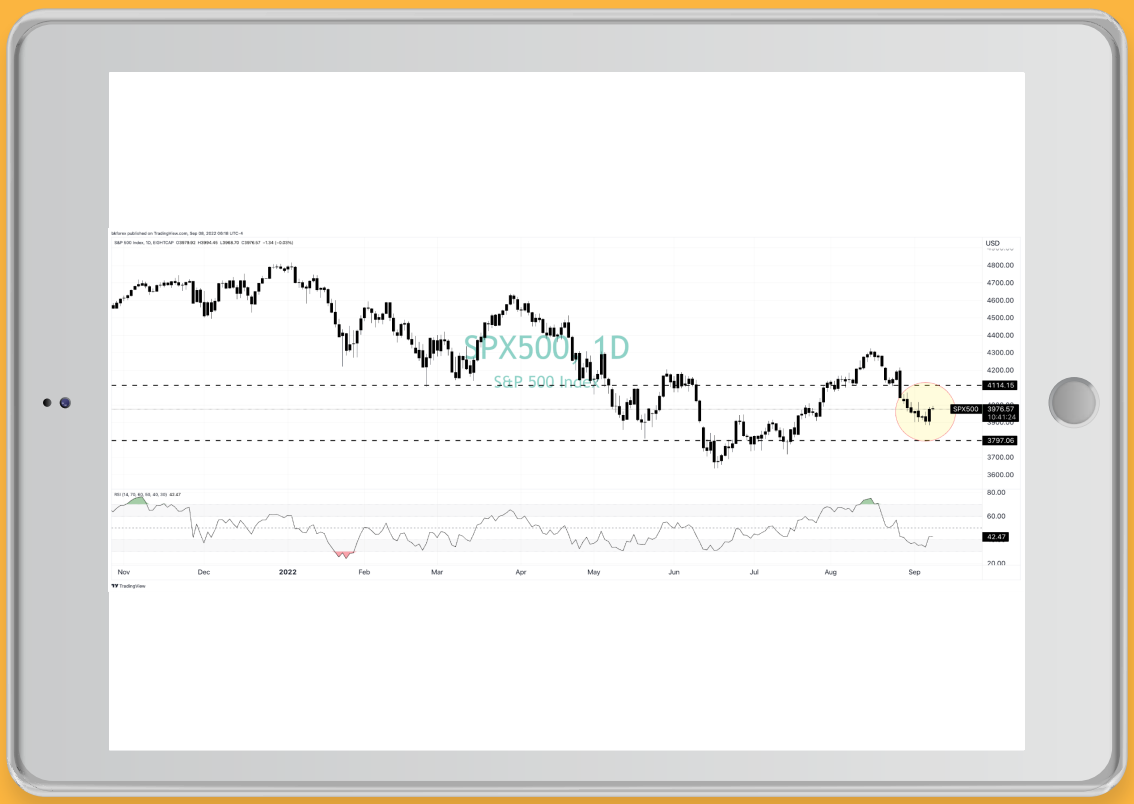
The first rule of the markets is don't fight the Fed. That's as true on the way down as it is on the way up. With the Fed clearly gung-ho on hiking as fast as possible, equities are feeling the pain even though economic conditions remain supportive.

Chair Powell's speech at Jackson Hole last month stopped the equity rally dead in its tracks and price action in equities has been as bearish at the start of the back to work season as it was bullish during the dog days of summer.

The Fed is clearly eager to stomp inflation as quickly as possible, but it has very little room to maneuver as its terminal rate simply cannot rise much above **4%** given US's massive budget deficits which will require debilitating interest service costs much beyond that level. That's why the Fed is trying to front load the monetary tightening policy to essentially stop by the end of the year.

Stocks remain heavy as a result, as every rate hike makes fixed income more competitive as an investment return while compressing the P/E ratios of equities. Much has been made of the fact that the S&P **490** (the 500 minus the ten biggest names) is trading at a lower multiple than historical average but the P/E ratio could compress further until the equity market senses that the Fed is done.

For now, range-bound conditions are likely to persist as traders watch both the political as well as the economic landscape and the key 4000 level in S&P which served as former support will now become a key battle area for both bulls and bears, with prices likely oscillating around that zone for the foreseeable future.



OIL

The louder the oil bulls scream on Twitter, the harder the crude falls. The benchmark contract is now trading at **$81** per barrel, very different from the **$130** per barrel spike we saw at the start of the year. Clearly the world is not ending and Vlad the Impaler has not been able to break the back of the world's energy markets.

Still there are reasons to think that we are at equilibrium levels now and further downside action may be limited. Two of the big drivers in decline of crude have been the persistent COVID lockdowns in China and the steady release of US SPR reserves to bring down the price of gasoline.

With President Xi likely to secure a third term in October, many analysts expect that the lockdown directives will begin to ease, opening the way for more economic activity and greater demand for fuel. Meanwhile, with gas prices now firmly a dollar or more lower than at the start of the year, the US may temper its selling program after the midterm elections.

At the same time, additional supplies of crude may not materialize quickly as OPEC+ struggles to meet the current quotas, while Russia will run into serious logistical problems with its East Siberian production, which requires very advanced technical expertise that only US oil services companies can provide, and their presence is no longer there.

Crude therefore may settle into the **$90-$70** zone and will become a range bound market for now.

GOLD

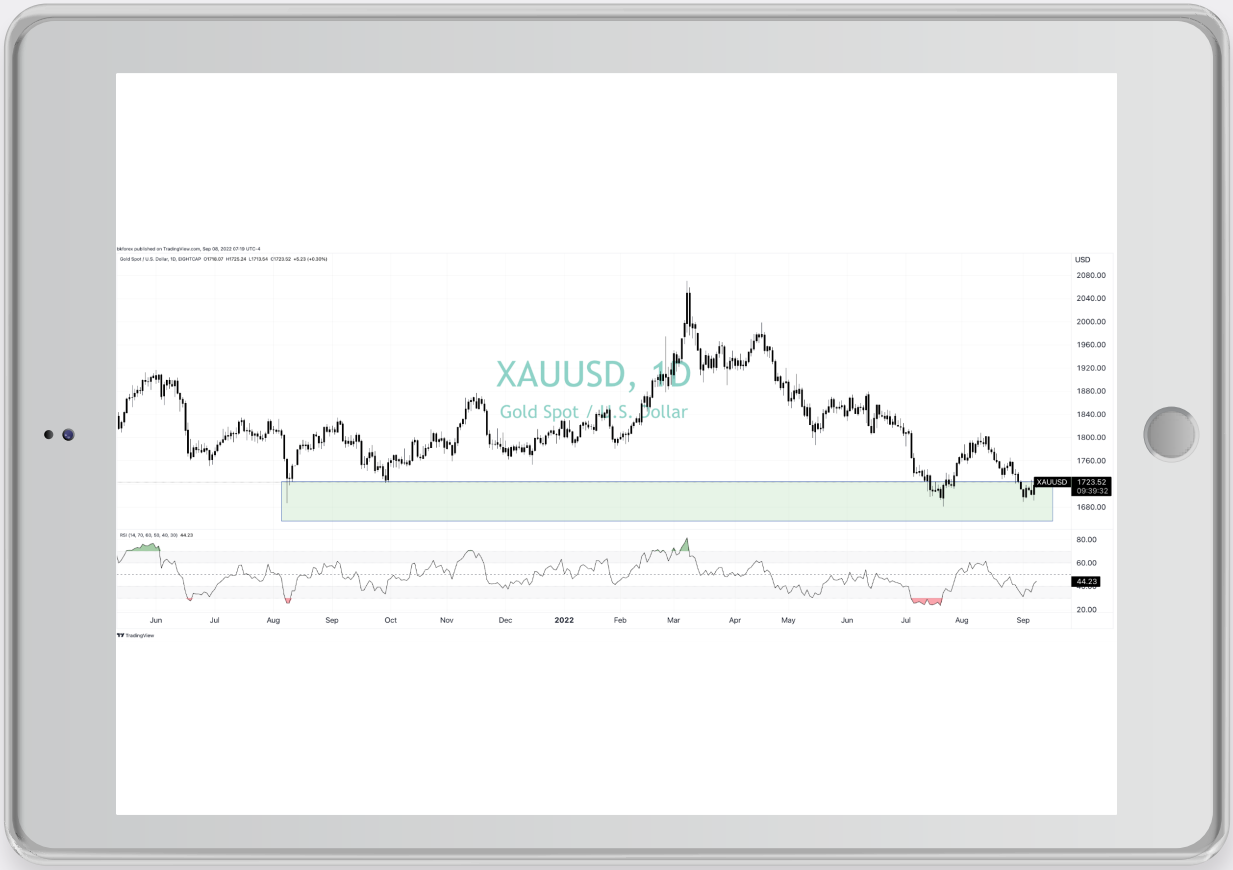
Could gold actually be a buy? We've been negative about the yellow metal much of this year, as it has easily ground lower despite the "Greatest inflation ever!" shouts from the perpetually dour gold bugs. But recent price action suggest that the "precious" metal may be in the process of forming a long-term bottom.

As we noted last month:

"Gold, of course, does not really act as inflation hedge, but rather as a response to real rates and as real rates have risen in reaction to Fed's commitment to monetary tightening, the yellow metal continued to lose its luster in July. Perhaps the only positive thing to say about gold is that it appears to have carved a double bottom at the **$1,680** level as the last of the intermediate term longs capitulated."

That bottom is clearly starting to form, and the reason ironically enough may be Bitcoin. As crypto continues to wallow near its yearly lows with little prospect of a rally, investors may have given up all pretense of using crypto as "portable gold" (i.e., a store of value) and may be starting to revert to the OG defensive asset.

Technically the charts are screaming bottom in Gold now, and that may be the most important signal to listen to in this market.



CRYPTO

"Enjoy being poor" was a taunt that crypto HODLers used throw at the rest of us. Oh, how cruel fate can be! From every dip, a buy. To every rally, a sell. Crypto is displaying all the classic signs of bubble burst.

The big news focus into the Fall is the massive revamp of Ethereum that is meant to make the protocol actually useful (i.e., cheap and fast). But the vaunted move from Proof of Work to Proof of Stake is of course rife with risk as any slight flaw in code could wreak havoc on the ecosystem, make it vulnerable to fraud and destroy the long-term goodwill that has been built up.

Still, the promise of a lighter more flexible programmable protocol has certainly sparked the imagination of the crypto bulls and ETHUSD has performed considerably better than BTCUSD. There is even a strong fundamental argument to be made that ETHUSD could become the standard of the industry and overtake BTCUSD in capitalization should Vitalyk's bold bet pay off. That's why ETHUSD is the asset worth watching in the crypto space and should the fork work, ETH could clear the 2,000 level and be off to the races.

FX

Is the dollar rally overdone? You betcha. Does that mean it's time to get short the buck? Nope.

The greenback has seen one the greatest rallies in the history of FX and if we know anything about FX trends it's that they tend to run far beyond rhyme and reason. The dollar is benefiting from a variety of reasons, not the least of which is that the U.S. is the best positioned region to avoid two of the biggest risks on the macro landscape — soaring energy costs and rolling COVID lockdowns.

The relatively benign US economic landscape has allowed the Fed to be more hawkish, thus creating very positive carry spreads against the rest of the G7 universe. Witness USDJPY, which is still holding on to negative yields. It's easy to see why the pair is at multi-decade highs.

For now, the path of least resistance for the buck remains higher. That means that USDJPY may not top out until 150.00 and EURUSD may trade to **0.9500** if the Fed keeps on raising rates.

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