SURGETRADER
ACCELERATED TRADER FUNDING

SURGETRADER DECEMBER 2022 **MARKET OUTLOOK**

PRESENTED IN COLLABORATION WITH BKFOREX

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EQUITIES

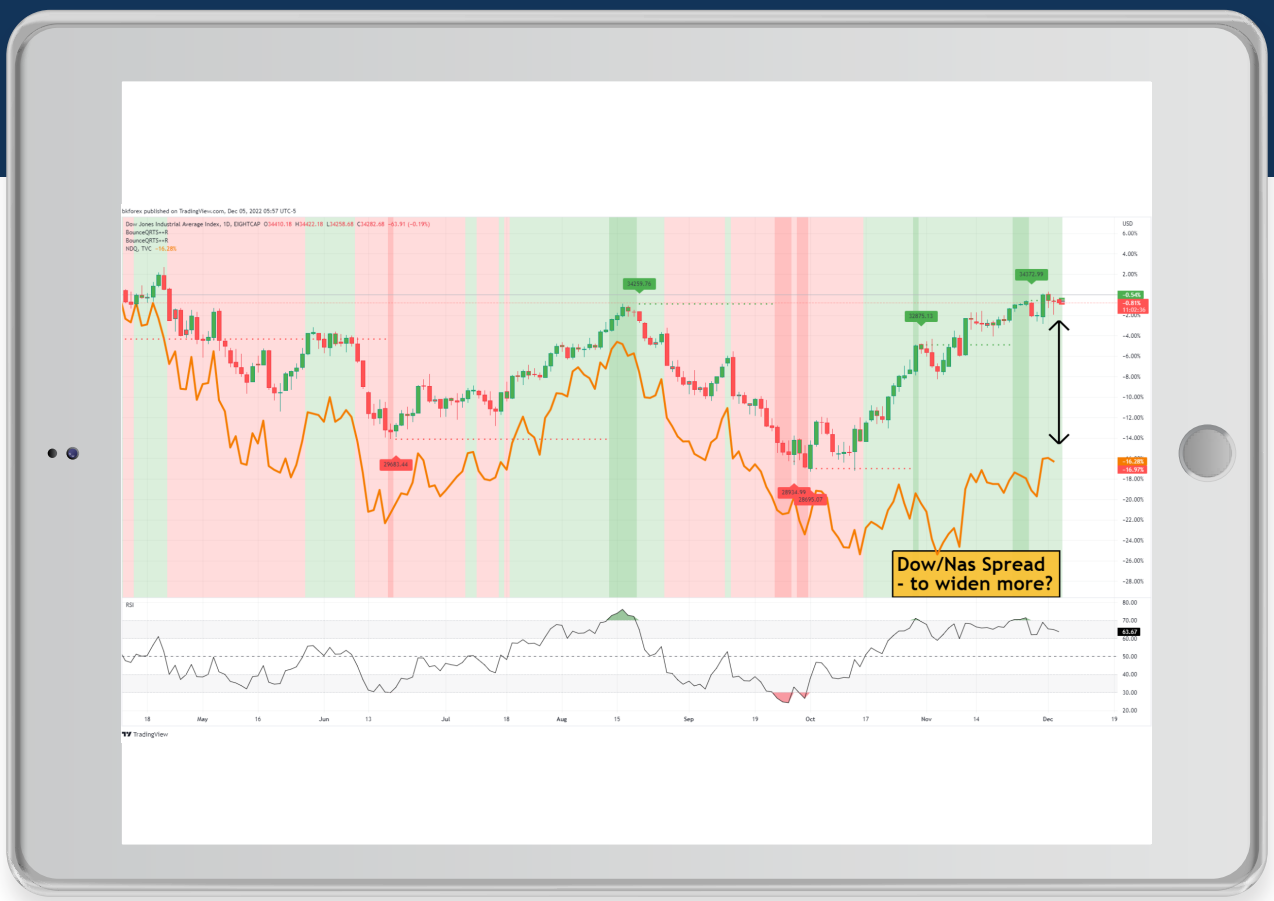
Is there a single analyst out there who thinks that stocks will stage a melt up? That may be perhaps the best reason for why they may do just that.

The conventional wisdom is that we are headed for a recession in the U.S. in the first half of 2023 as the Fed's relentless hiking will finally strangle the economy, achieving their objective of curing the patient by killing him.

Certainly, there is reason to worry. Tech appears to be in a recession already with layoffs and job freezes amongst almost every major company in the sector. Housing too is slowing down markedly as mortgage rates have doubled from the pandemic lows, taking affordability out of the reach of many. But the broader economy remains surprisingly resilient with NFPs last week printing at **263K** versus **200K** eyed. More importantly, wages grew at 5.1% versus 4.6%.

That's of course a double-edged sword, as the Fed is unlikely to pause given the healthy wage gains, but it also means that personal income and consumer balance sheets will remain in better shape than anticipated, especially as month-over-month goods inflation begins to slow markedly.

Perhaps the most surprising and most important signal comes from the market itself, with indices essentially shrugging off the hotter than expected wage data and rallying into the close. For now, equity traders remain nonplussed, with price action suggesting that the markets are not anticipating recession just yet. The wide gulf between Dow and Nasdaq is signaling the Revenge of the Old Economy and for traders who may not feel strongly about the directional moves over the next few months, a relative bet of long Dow/ Short Nasdaq may be the best way to go.



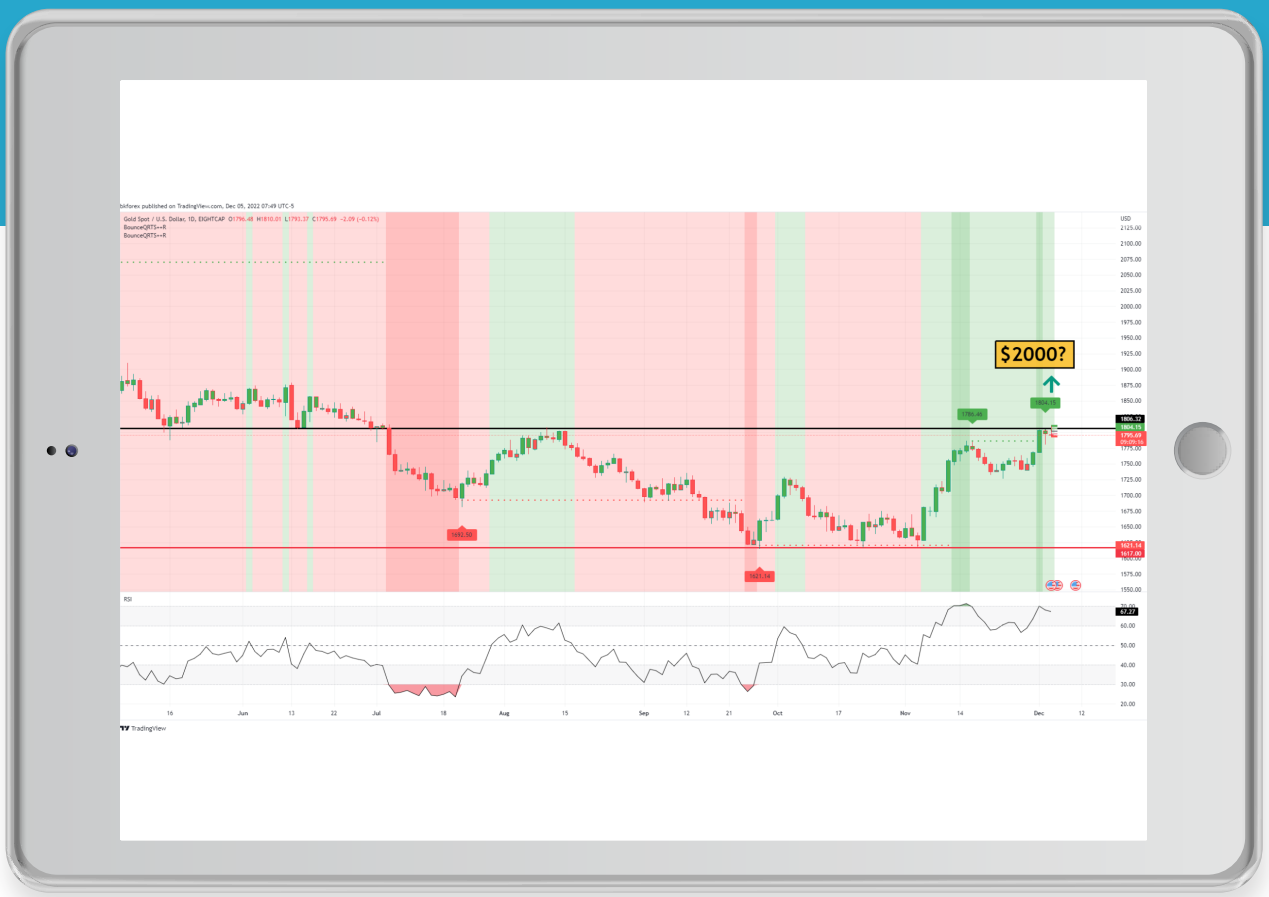
OIL

Where is my **$200** per barrel oil? According to every oil market guru, we were supposed to be on the verge of civilization apocalypse by now, as the lifeblood of the global economy was to become as scarce as water in the desert. Instead, oil turned out to be the biggest losing trade of 2022 as prices drifted ever lower in a classic bear market pattern.

But before bears begin to pat themselves on the back, they should be much more wary of the trade looking forward. For the first time in a year, oil has formed a clear double bottom and could be basing for a rally back to the 90s, as China begins to ease restrictions, while OPEC continues to hold the line of production and U.S. stockpile reserve limits further releases of crude. At very minimum, the easy money on the short side of the trade appears to be gone and crude is likely to be range-bound with an upward bias into the start of next year.

Gold

Gold meanwhile remains bid, but the **$1,800** per ounce level clearly remains the key near-term barrier to overcome. Having now formed a broad **$1,600-$1,800** range, the yellow metal will be watched like a hawk by breakout traders as any pierce of the upside would open the way for a run to **$2,000** on renewed speculation that inflation will remain a persistent problem.



CRYPTO

The Netscape browser came out in 1994. Ten years later, Amazon was doing nearly **$7 billion** dollars in sales over the internet, while Google was booking nearly that much from their advertising business. Bitcoin has been around nearly fifteen years and there is still no single viable business that requires a distributed ledger in order to operate. In fact, a very reasonable case can be made that crypto is even less useful than gold which at least has industrial and cosmetic applications.

Can crypto decline to zero and go the way of the pet rock? Without a doubt, but in the meantime it remains a somewhat liquid market for speculation on a future that may never come to be. Certainly that future was put into an ever greater doubt after the dramatic collapse of FTX and although many crypto diehards have pointed out that it was the collapse of centralized exchange rather than the flaw of the decentralized protocol — at this point, it is a distinction without a difference, as retail speculative flow has essentially left the market, while institutions view the asset as a financial equivalent of a Fukushima reactor.

One key measure of market disinterest is the huge compression in daily volatility. Long gone are the days of **10%** volatility, as Bitcoin now carries all the speculative frenzy of a utility stock.

Still, despite all the Sam Bankman-Fried bombs that the market had to absorb, Bitcoin has managed to hold the **$15,000** level and that price point will now become the point of control between the bulls and the bears. A break there could force a final wave of capitulation.

FOREX

Last month we wrote:

Dollar peak? Well, if you go by USDJPY, that may be the case at least for the near term. The pair has been the poster child for dollar strength, but recent price action suggests that we may be entering a corrective phase as the FX market runs ahead of everyone else and anticipates a Fed pause.

With USDJPY now holding below the 150.00 mark, the greenback may have carved out a short term top and as long as that level holds every rally in the dollar is a sell opportunity.

That turned out to be quite prophetic, as USDJPY declined seventeen big figures before finally finding some support near the 133.00 level. The big move was clearly a function of positioning rather than fundamentals as the interest rate spread between the two is likely to expand for the foreseeable future. Indeed with nominal wage growth at **5%**, markets continue to price in a terminal Fed funds rate at **5%** or higher, suggesting that there is still plenty of carry to be squeezed from the pair.

With USDJPY now carving out a bumpy bottom around the 135.00 figure, the pair may now be a scale down trade all the way to 125.00, as the positive carry provides a modicum of cushion while the price action continues to consolidate.

ABOUT SURGETRADER

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2. No time restrictions
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