RV Pro

Steno Signals

with Andreas Steno

Steno Research

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The war moves in sinus waves, but the market doesn't

Trump has paused the HUGE attacks because "the perimeters of a deal has been agreed to"… exactly like last time. But the real story of the weekend was not in the Gulf, it was in Tokyo, where Bessent literally wrote "Buy Japanese Yen $5-10 bil" on his to-do list, and then DID it. We stay short the USD…

If you're having the funny feeling that you've read this newsletter before, it is because you basically have.

Everything in this conflict repeats itself with the reliability of a metronome. Rhetoric crescendos into threats of HUGE attacks "at levels of Military Terror, Strength, and Power not seen since World War II" (his caps, not mine, and I am the guy who writes in caps), and then, at the exact moment the market braces for impact, the pause: we have just been asked to hold off, "in that the perimeters of a deal has been agreed to", including the "Immediate, Complete, and Total OPENING OF THE HORMUZ STRAIT" and an end to Iran's nuclear threat. Cancel the attack, subject to rapidly making a DEAL. Get to work, everybody, and get it DONE.

Donald J. Trump
@realDonaldTrump

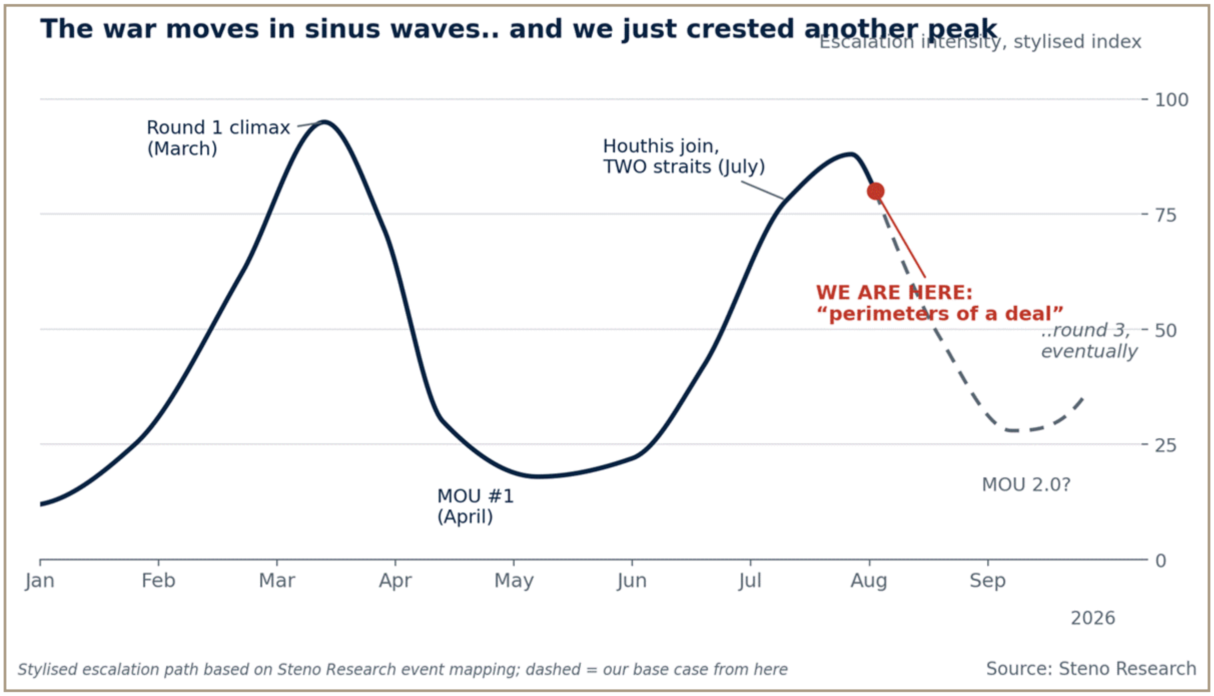
The U.S.A. is locked and loaded and ready to go against the Islamic Republic of Iran, at levels of Military Terror, Strength, and Power not seen since World War II. Despite this, we have just been asked by Iran, and other Middle Eastern Countries, to hold off any attack in that the perimeters of a deal has been agreed to. This would include the Immediate, Complete, and Total OPENING OF THE HORMUZ STRAIT, and an end to Iran's nuclear threat. Based on this request, I have agreed, for the future benefit of the WORLD and, likewise, the survival of a successful and prosperous Iran, to cancel the attack, subject to being able to rapidly make a DEAL. The Country of Israel joins me in this commitment. Get to work, everybody, and get it DONE. Thank you for your attention to this matter! President DONALD J. TRUMP

We flagged two weeks ago that the “1 bridge per ship” rhetoric was EXACTLY the rhetoric deployed just before the early-April crescendo, and that this war moves in sinus waves.

Well, here is the crest, right on schedule. So what is next? The same as last time, most likely: a framework/MOU announcement with great fanfare, a partial normalization of flows through Hormuz, months of squabbling over enforcement and sanctions details, and then, eventually, a round three, because none of the underlying disputes actually get resolved by a Truth Social post. The wildcard this round are the Houthis, who joined the party late, declared their own blockade against Saudi Arabia, and do not always take dictation from Tehran. A deal signed in the Gulf does not automatically demobilize Yemen, which is precisely why we now track TWO straits instead of one.

My base case: de-escalation into an MOU 2.0 over the coming weeks, a lull, and a lower-amplitude round three somewhere down the line after the mid-terms. The waves continue, they just get smaller… and that last part is the market story.

Chart 1: The war moves in sinus waves… and we just crested another peak

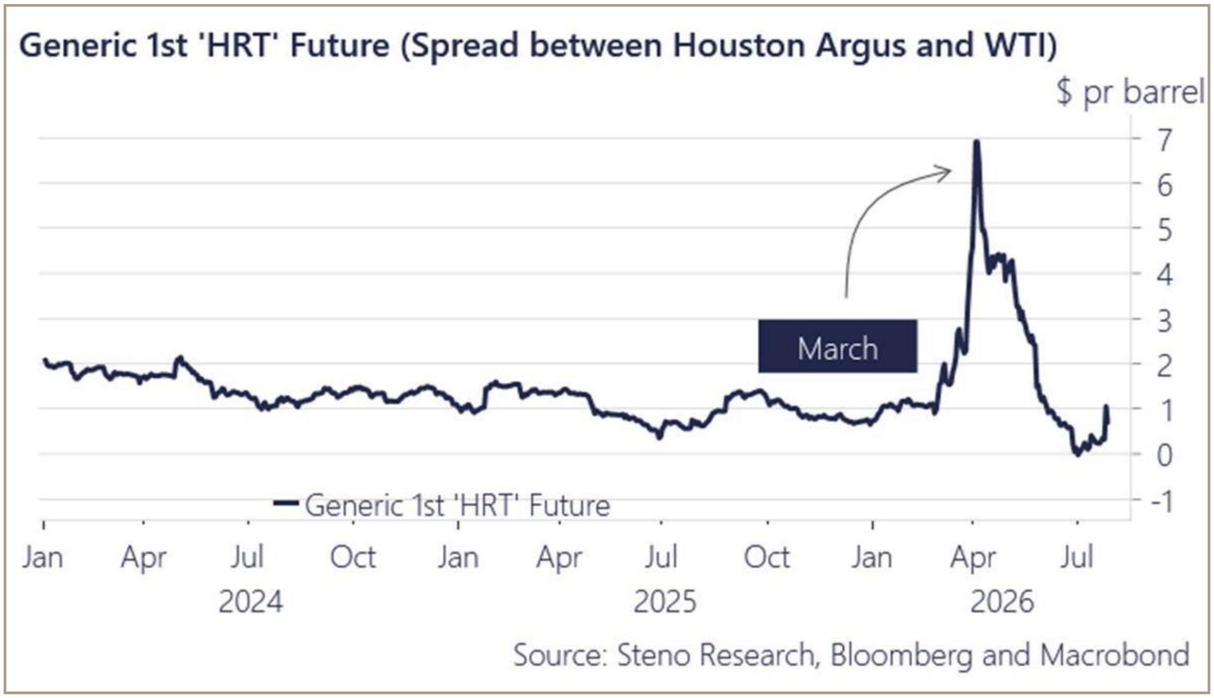


Much less automatic hopeium in the deal this time...

Here is the thing about deal number two, though: there is WAY less automatic hopeium that one can harvest, for the simple reason that the market never panicked on the way in. In March/April, the panic premium was everywhere, dated Brent at $120+, the Houston premium at $7 as the world screamed for US barrels, prompt spreads in backwardation hysteria, and so a mere whiff of a deal was worth a $30 unwind.

This time? The Houston premium sits around ONE dollar. Dated oil never got anywhere near the old peaks. The physical market treated round two as a known risk from day one, exactly as we argued it would, which mechanically means there is no fat panic premium left to give back on a handshake. You cannot unwind a panic that never happened.

Chart 2: The panic premium that never was... Houston at ~$1 vs $7 in March means little to unwind



The one place a genuine reopening of the strait WOULD matter is in products. Crack spreads are still trading past their 2022 peaks, the refiners have been having a blast all year, and a full normalization of Gulf flows, freight and insurance would take some of that product-market stress out, so gasoline and diesel margins have room to come down a bit. But that is a crack-spread story, not a crude story, and certainly not a risk-on-everything story.

Even a shiny new MOU should have a much more muted market impact than round one, and positioning for a repeat of the April relief rally is, in my view, fighting the last war... quite literally.

The REAL story of the weekend: Bessent's to-do list

Far more interesting for our book: while everyone stared at the Gulf, the US and Japanese authorities intervened JOINTLY to strengthen the JPY on Friday, the first coordinated action since 2011, and both sides confirmed it on Sunday with a promise to "not hesitate" to do it again.

And the build-up was pure 2026: a Reuters photographer caught Bessent's notepad at the Camp David cabinet meeting with a handwritten to-do list reading "Buy Japanese Yen (JPY) $5-10 bil". He then went and DID it.. but look closely at HOW.

Per the FT, the New York Fed sold EUROS and bought JPY on behalf of the Treasury, executed through Goldman and Morgan Stanley, while Japan itself may have burned close to $59bn of its own reserves on the JPY side. Bessent called the JPY "substantially undervalued", encouraged an upsizing of the FIMA repo facility as a structural backstop, and cheered the BoJ towards what is now its most explicit early-hike signal to date. South Korea joined by buying the won on Thursday. Trump summed it up as helping a friend. USD/JPY has come off the 40-year highs near 164 to around 157 on the whole affair.

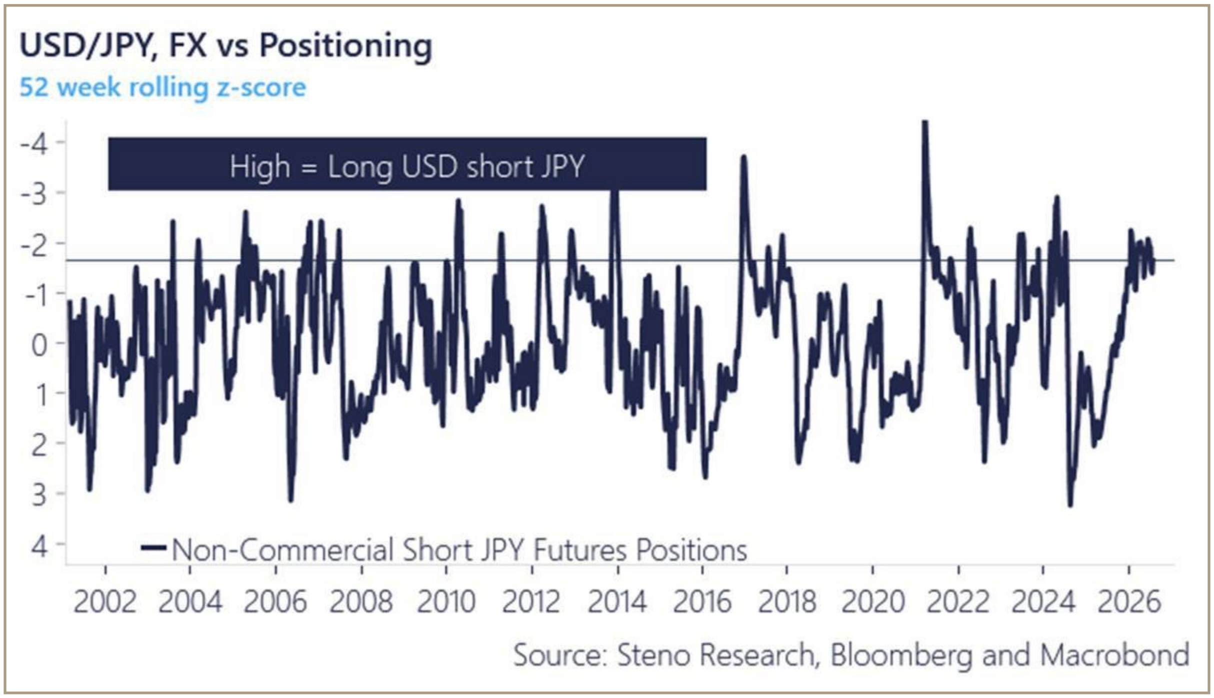
Understand what this entails, because it is a regime marker, and a devilishly clever one. The 2011 joint intervention was about capping a too-STRONG yen. This one is about capping the DOLLAR.. without officially touching the dollar. By funding the JPY purchases out of the ESF's euro holdings (the fund's foreign ammunition is ONLY yen- and euro-denominated, so euros were the one bullet in the chamber that wasn't a dollar), Bessent gets to put a ceiling on the world's most-watched dollar pair while the "strong dollar policy" survives untouched on paper.

Not a single dollar was sold, and yet USD/JPY dropped seven big figures. The euro, meanwhile, was drafted as the involuntary funding leg: the JPY rescue was literally paid for IN EURs, which is mechanically EUR-negative on the crosses, and tells you that if this becomes a program rather than a one-off, EUR/JPY is the designated pressure valve.

But do not let the plumbing distract from the signal: The US Treasury (again) actively sponsoring a weaker dollar against its major funding pair, blessing foreign hikes, and promising more, lands at the precise moment our nowcasts show the biggest US-vs-Euro-zone inflation divergence in years pointing the SAME way.

A soft Plaza, one notepad at a time... just settled in euros.

Chart 3: JPY shorts are still stretched with the US Treasury hunting them



So yes, we are STILL leaning short USD, and frankly with more conviction than a week ago, though the plumbing above refines HOW.

The JPY leg is now the tip of the spear: US inflation nowcasts rolling over hard, a Fed that will be overtaken by its own data whatever Warsh refuses to say, speculative JPY shorts stretched at levels that historically precede unwinds, and now a Treasury that is literally a co-buyer of JPY with a standing promise of more.

Positioning, policy and fundamentals all pointing the same direction is not a combination we get very often, and when we do, we size it up. The EUR leg we keep as well, on the inflation-divergence story, but we express it against the DOLLAR, not against the yen.. no need to stand on the tracks of the ESF's funding leg while Bessent is reloading.

And the macro regime backs it all up...

Finally, the regime picture.

Our regime model has US growth probabilities finding a floor, the rising-inflation probability COLLAPSING (in stark contrast to the Fed's rhetoric, see last week's letters), and liquidity remaining an outlier support, with no issuance cliff-edge coming from Bessent's refunding update this week given how well-behaved the TGA has been.

That cocktail, improving growth odds, falling inflation odds, decent liquidity, is historically friendly to risk assets and UNfriendly to the dollar. It is the same regime that rewarded buying dips in the hardware complex all of last year, and it is the regime that says the July carnage was technical, not fundamental. De-escalation in the Gulf just removes one more excuse.

Chart 4: The regime model.. inflation probability collapsing while liquidity holds up

So to sum up the week ahead: fade the deal-euphoria in crude (there is little premium to unwind), respect the crack-spread normalization if Hormuz genuinely opens, stay short the USD against JPY and EUR while the Treasury does our marketing for us (also bodes well for an early stage comeback for metals), and keep patiently accumulating the stuff the tourists were forced to sell in July. The war moves in sinus waves. The market, mercifully, does not have to.

Andreas Steno

Andreas is the core macro consultant in Steno Research. Building on years of experience as Global Chief Strategist at Nordea Bank, he is one of the most quoted and sought-after macro analysts out there. Andreas' expertise is the FX/rates, energy, real estate and equity spaces, but doesn't shy away from hot takes on other topics if the underlying analysis is strong enough. Andreas anchors the weekly editorial 'Steno Signals'.

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