

HIGH BETA CURRENCIES: RISK ON SENTIMENT CATEGORY ONE (TRUE RISK ON)

Definition:

This is a **full-spectrum global optimism event**. Market is pricing in **economic expansion, strong demand from Asia, and/or commodity super-cycle themes**.

High-beta FX like NZD, AUD, and CAD rally strongly as capital rotates into risk and growth assets.

Often, this follows dovish Fed communication, China stimulus, or soft-landing narratives.

Key Structural Ingredients You Must Confirm:

1. Strong Global Growth Narrative

- **S&P 500 futures break previous high** → signals genuine risk appetite
- **U.S. 10Y yields rise alongside equities** → risk appetite confirmed (NOT bond panic)
- **China PMIs beat** expectations or **new stimulus headlines** drop
- **G10 central banks** talk up growth or hint at policy normalization (carry trade friendly)

2. Commodity Rally Confirmed

- Iron ore +1.5% or more → **AUD boost**
- Copper rally (global demand barometer)
- Oil +2% with rising equities → **CAD boost**
- Dairy prices firm or rise (Fonterra auctions) → **NZD gains**
- Monitor futures: CL1! (oil), HG1! (copper), DC1! (iron ore), NZDUSD, AUDUSD, USDCAD

3. China Resurgence / Asia Strength

- **Strong China data** (NBS/Caixin PMIs > 50)
- Tourism spike headlines → NZD strength
- **PBoC rate cuts or stimulus injection**

If **iron ore + China PMIs beat**, NZD and AUD both rally, with NZD often outperforming.

4. Volatility Drops + USD Weakens

- **VIX drops 3–5% in NY open hour** → textbook risk-on signal
- Fed speaks dovishly or U.S. data misses → **USD softens**, carry trades surge
- USDJPY might rise, while DXY weakens from EUR, AUD, NZD strength

5. High-Beta Currency Volatility Behavior (ATR)

- On your **4H chart**, check **ATR percentile** on AUDUSD, NZDUSD, USDCAD
→ If **ATR > 80th percentile**, that pair is "in play"
- Compare AUDUSD vs NZDUSD ATRs → tells you where the speculative flow is
- Example:
 - **NZDUSD ATR spiking** → NZD = leader
 - **USDCAD flat ATR** → CAD not being used in this round

Checklist Format Before NY Session

Signal	Indicator	Confirmed?
S&P 500 > prior high	ES1!, SPX500 chart	✓X
U.S. 10Y yield rising with stocks	US10Y, SPX	✓X
VIX drops 3–5% in NY open	VIX TradingView chart	✓X
China PMIs beat / stimulus	Calendar or headlines	✓X
Commodities up +1.5%	Copper, Oil, Iron Ore futures	✓X
NZD/AUD/CAD outperform	Relative strength scans	✓X
DXY weakens from top	DXY chart	✓X

When 5+ of these hit → **pure Category 1 Risk-On** in play.

PAIR BEHAVIOR TO WATCH:

PAIR	Behavior in Cat 1 Risk-On
NZDUSD	Leader – Strongest rally; high beta
AUDUSD	Follows NZD; strong if iron ore + risk bid
USDCAD	Drops IF oil + stocks rally simultaneously
NZDJPY / AUDJPY	Explosive upside if VIX drops
EURAUD / EURNZD	Short these – reflation outflows from EUR
CADJPY	Rips if oil rallies + risk flows hit
GBP, EUR	May rise, but underperform high-beta

Execution Notes:

- Look for **NZD breakouts** above prior day highs when PMIs or risk rallies are confirmed
- **AUD/NZD pullback buys** into NY open work well if China & commodities are firm
- For CAD, avoid long until **both crude and equities rally**—if only one moves, CAD disappoints
- Add to positions only after confirming **VIX down + ES1! up + weak DXY**

Triggers Summary Table:

Trigger	Effect
China PMI > 50 + Iron Ore ↑	NZD, AUD long
Oil +2% + SPX up 0.5%+	CAD long
Fed dovish comments	USD ↓ → Carry trades ↑ (AUD/NZD)
VIX drops 3–5%	Risk-on confirmation; AUDJPY/NZDJPY fly
Global GDP upgrades (IMF, etc)	Commodities + beta FX rally

Summary Structure

Element	Category 1 Risk-On Behavior
Growth Narrative	Global, positive, expansion pricing
VIX	Falls rapidly (<16 ideal)
USD	Softens on Fed dovishness
Commodities	Rally (Iron, Oil, Dairy)
China	PMI beat, stimulus
FX Leaders	NZD > AUD > CAD
Bonds	Yields up with equities
Best Plays	NZDUSD, AUDJPY, CADJPY, short EURAUD

G10 FUNDING" OR "FUNDING-CURRENCY": RISK ON SENTIMENT CATEGORY TWO (RISK ON 2)

Definition:

This risk-on flavor is **not driven by global commodity demand**, but rather **localized strength** in the **Eurozone or UK**. Markets are pricing in **European/UK recovery, fiscal tailwinds, or hawkish ECB/BoE**, making **EUR and GBP shine without requiring commodity currency strength**.

These are **funding-currency unwind scenarios**:

When risk sentiment improves *and* EUR/GBP are supported by local catalysts, investors start to close out funding shorts (EUR, GBP) and rotate back into them.

Key Structural Ingredients You Must Confirm:

1. Localized Growth Optimism (Europe / UK Specific)

- **Eurozone fiscal stimulus** (e.g., Recovery Fund top-up, green subsidies, state-backed loans)
- **Strong EU/UK macro data:**
 - German Industrial Production / Factory Orders
 - French GDP or Services PMI
 - UK Services PMI / Retail Sales / Wage Data
- **BoE or ECB Hawkish Communication:**
 - Hints of rate hikes, QT extensions, or inflation persistence
 - Surprise minutes showing hawkish dissents

2. EUR & GBP Unwind of Funding Role

- In **true global risk-on**, EUR & GBP are often **used as funding currencies** (to fund long positions in AUD, NZD, EM FX).
- But when **local data improves**, these currencies **rally from within**, not as a result of capital flow outflows.

EUR/GBP rallies in this scenario while AUD/NZD remain neutral unless commodity demand also rises.

3. Equities + Risk Metrics Confirmation

- **S&P 500 futures +0.5% or more**
- **VIX down 3–5%** → market feels safe, risk flows resume
- Combine with **EUR/GBP rallying** for confirmation

4. Cross Behavior Tells the Story

- **EUR/GBP rising** = Europe gaining relative strength
- **EURJPY / GBPJPY rising with low VIX** = safe risk-on
- **AUDNZD or AUDUSD muted** = not a commodity rally
- **EURAUD, EURNZD breaking up** = confirms funding unwind play

Checklist Format Before NY Session

Signal	Indicator	Confirmed?
SPX / ES1! Futures +0.5%	Global risk bid	✓X
VIX drops -3% or more	Low fear	✓X
EUR/GBP up or breaking range	Local strength confirmed	✓X
German/UK PMI or GDP beat	Macro catalyst	✓X
ECB/BoE hawkish	Risk-on EUR/GBP long justification	✓X
EURAUD / EURNZD rising	Relative growth divergence	✓X
Oil, Iron Ore flat	Confirms non-commodity risk-on	✓X

PAIR BEHAVIOR TO WATCH:

PAIR	Behavior in Cat 2 Risk-On
EURUSD	Grinds higher slowly; fueled by data and ECB tone
GBPUSD	Can spike if UK data beats; more volatile than EUR
EURGBP	Rises if Eurozone outpaces UK; key tell
EURAUD / EURNZD	Spike higher – commodity bloc left behind
EURJPY / GBPJPY	Rise steadily on global risk appetite
AUDUSD / NZDUSD / USDCAD	Often neutral unless commodities join in

Volatility Behavior:

- Check **ATR(1H or 4H)** for **EURUSD, GBPUSD, EURGBP**
- If ATR > 75th percentile, and rallying into high-timeframe resistance → institutional flows entering

Pro Tip:

EURUSD and GBPUSD volatility tends to **expand post-London open** if macro tone is euro-area led.

Watch **EURJPY** and **EURGBP** for clues in relative strength — when EURGBP spikes while SPX is green → *Europe is leading the risk-on*.

Execution Notes

- **EURGBP longs** on clean technical breakout + supportive macro = ideal in this category
- Focus on **pullback buys in EURUSD or GBPUSD**, but only if macro backdrop aligns
- Avoid AUD/CAD/NZD unless commodity futures are up 1%+
- **Short AUDNZD or AUDCAD** if commodity data is soft but equities are rising

Triggers Summary Table:

Trigger	Effect
S&P 500 rally + VIX -3%	Confirms risk-on mood
German PMI or Retail Sales > exp.	EURUSD, EURJPY rise
BoE hints at tightening	GBP gains, especially vs. USD
EUR/GBP spikes while DXY drops	Strong EUR-driven risk rotation
Oil/Commodities flat or down	AUD/CAD/NZD underperform

Summary Grid

Element	Category 2 Risk-On Behavior
Risk Tone	Optimistic, but region-specific

VIX	Down 3–5%
Commodities	Neutral or weak
USD	Mixed to weak
Bonds	Yields rise modestly
FX Leaders	EUR > GBP
FX Laggards	AUD, NZD, CAD unless joined by commodity strength
Key Pair Setup	EURGBP long, EURJPY continuation, EURAUD breakout

PRO TIP: If you see EUR/GBP rising *while* S&P futures are green, *stop and check headlines*. Something's up in Europe

☞ CATEGORY 1 vs CATEGORY 2 RISK-ON COMPARISON

Element	Category 1: High-Beta Risk-On	Category 2: G10 Funding-Currency Risk-On
Macro Driver	Global optimism: growth, dovish Fed, China stimulus	Regional optimism: Eurozone/UK fiscal & data strength
Commodities	Strong rally (Iron, Oil, Copper, Dairy)	Flat or muted; not commodity-driven
FX Leaders	NZD > AUD > CAD (high-beta rally)	EUR > GBP (funding currencies revalued)
FX Laggards	EUR, GBP unless growth spreads to Europe	AUD, NZD, CAD (unless commodities catch up)
Equity Behavior	S&P 500 breakout confirms global risk appetite	SPX +0.5% confirms sentiment but not commodity-driven
VIX Behavior	Drops 3–5% → confirms global risk-on	Drops 3–5% → confirms market comfort, not necessarily global flows
Bond Behavior	Yields rise with stocks = expansion pricing	Yields rise modestly = reflects policy shift, not reflation
Key Confirmation	Commodity surge + China PMI + weak USD + high-beta FX spike	Strong EU/UK data + ECB/BoE hawkish + EURGBP rally
Best Pair Setups	NZDUSD, AUDJPY, CADJPY, short EURAUD/EURNZD	EURGBP long, EURJPY continuation, EURAUD breakout
Volatility Focus	ATR > 80% on NZDUSD/AUDUSD → speculative flow is there	ATR > 75% on EURUSD/GBPUSD/EURGBP → macro-backed revaluation
Execution Edge	Pullback buys in NZD/AUD on China & commodity strength	EURGBP technical breakouts + EURJPY momentum with low VIX
Theme Summary	<i>True global reflation and demand-led rally</i>	<i>Localized European/UK optimism driving revaluation of funding FX</i>

TL; DR:

- **Category 1 = Full global reflation.** Commodities + High-Beta FX fly.
- **Category 2 = Localized strength.** EUR & GBP shine *without* commodity or global beta.

A RISK-OFF ENVIRONMENT CATEGORY 1 DEEP PANIC

Definition:

This isn't just risk-off. This is **full-blown macro fear**—the market starts violently de-risking **across all cyclical and commodity-sensitive assets**, often driven by **China, oil, or global growth fears**. Safe havens **don't just rally—they become parabolic**.

Key Structural Ingredients You Must Confirm:

1. Volatility (VIX)

- **Threshold:** VIX > 30 = Panic Confirmed
- **Behavior to Look For:**
 - Spiking intraday with **momentum**, not a slow climb
 - Confirm on TradingView: CBOE:VIX > 30. Draw the line, observe acceleration
 - VIX rising **while S&P500 and Nasdaq are dumping hard** (>1.5% daily loss)

2. Equity Markets

- **SPX / NASDAQ / Dow Jones:**
Look for a **broad-based sell-off**, especially in **cyclicals and tech**
→ SPX500 / NAS100 red candles that are long-bodied = liquidation
→ Check SPX, NDX, and DJI for aggressive downside volume

3. Bond Yields & Curve

- **10Y US Yield (US10Y):** Should be falling rapidly → "Flight to safety" in Treasuries
- **2s10s or 5s30s yield curve:** Flattening or inverting = recession pricing in
- Confirm with:
 - TVC:US10Y (falling below 4% in panic is common)
 - Use yield spread overlays if possible to spot inversion

4. Safe Haven Response (Direct Asset Confirmation)

- **JPY/CHF:** Explosive strength, especially vs AUD, NZD, CAD
→ Look at **AUDJPY, CADCHF, NZDJPY** = these collapse fast
- **Gold (XAUUSD):** Should be up >1% intraday
- **USD Index (DXY):** Surges as global liquidity demand spikes

5. Commodity Carnage

- **Oil (WTI/Brent):**
 - 2% daily drop = CAD highly vulnerable
 - Confirm with TVC:USOIL or TVC:UKOIL
- **Iron Ore / Copper:**
 - Weakening = AUD & NZD vulnerability
 - Watch China proxies like SSE Composite Index, or ETF like FXI for confirmation

6. China-Driven Fear

- Chinese equities selling off hard (Hang Seng down >2%)
- Yuan weakening sharply (USDCNH rising fast)
- Iron Ore prices down heavily
→ AUD and NZD crash due to export vulnerability

7. Central Bank Divergence

- Safe haven CBs (BoJ, SNB, Fed) sounding **dovish or accommodative**
- Risk-linked CBs (RBA, BOC, RBNZ) staying hawkish → market doesn't believe them = carry trades unwind
- Watch **carry collapse in AUDJPY, NZDCHF**, etc.

PAIRS TO WATCH FOR SIGNALS:

PAIR	Behavior in Cat 1 Risk-Off
AUDJPY	Collapses hard (most sensitive)
CADCHF	Tumbles if oil + risk off
NZDJPY	Sharp decline; China exposure
XAUUSD	+1.5% is common if Fed not too hawkish
USDJPY	Mixed—JPY gains but USD strength can hold it steady
EURCAD / GBPCAD	Outperform due to CAD sensitivity
AUDUSD	Bearish; especially below key FIBs or previous week lows

Checklist Format for You Before NY Session

Signal	Indicator	Confirmed?
VIX > 30	CBOE:VIX	✓X
SPX500 down >1.5%	SPX500USD	✓X
US10Y falling fast	US10Y	✓X
Gold > +1.0%	XAUUSD	✓X
Oil down >2%	USOIL	✓X
Iron Ore / CNH weakening	USDCNH, iron ore futures	✓X
AUDJPY / NZDJPY collapsing	AUDJPY, NZDJPY	✓X

If you check off 4–5 or more → **That's a confirmed Category 1 Risk-Off.**

How You Trade It (Execution Angle):

- Look to **sell rallies on weak commodity pairs** (AUD, NZD, CAD)
- Favor **JPY/CHF strength**; layer into continuation trades only on clean breakouts
- Gold longs can be used as a **hedge and directional play**

Avoid trying to long risk currencies unless there's a major Fed pivot

CATEGORY 2 RISK-OFF ENVIRONMENT — REGIONALIZED PANIC (EUROPE/UK-FOCUSED)

Definition:

This is a **localized risk-off event**, where fear is not globally systemic but is **focused on Europe or the UK**.

Safe-haven flows **still rise**, but instead of hitting AUD/NZD/CAD hardest, the market **targets EUR and GBP** due to **specific regional economic/political triggers**.

Key Structural Ingredients You Must Confirm:

1. European Bond Market Distress

- Italian 10Y bond yields spike > 4% or BTP-Bund spread widens massively
→ Sign of Eurozone **sovereign risk** resurfacing
→ Watch IT10Y, DE10Y, or ETF proxies like BTP vs BUND
- Look for **bond spread charts** widening between core (Germany) and periphery (Italy, Spain)

2. GBP Weakness from Domestic Fundamentals

- Dovish BoE shift due to **UK recession fears, weak GDP, or unemployment spike**
- UK data misses expectations significantly (GDP, retail sales, PMI, jobs)
- Real yield collapse or **BoE dovish minutes** spark a sell-off in GBP

3. European Geopolitical Escalation

- Russia–Ukraine war escalation** (missile attacks, NATO involvement, gas pipeline sabotage, etc.)
- Any threat to **energy supply chains** into the EU
- Civil unrest, migration panic, terror threats

Headline-driven volatility is big here. Use Newsquawk, ZeroHedge, or Bloomberg terminals for geopolitical alerts.

4. VIX Behavior

- VIX may rise**, but usually stays **sub-30** unless global risk sentiment also shifts
→ In pure Cat 2, VIX might hover around **20–26**, enough to lift CHF/JPY but not cause global de-risking

5. DXY Behavior

- USD strengthens—but the **move is EUR- and GBP-centric**
- DXY gains led primarily by EURUSD and GBPUSD collapsing
- Commodity pairs (AUDUSD, NZDUSD) may **hold sideways** or even **rally slightly** if China or commodities are stable

6. Commodity Market Holds Firm

- Unlike Category 1, **iron ore, copper, oil** remain stable or even bid
- AUD, NZD, and CAD** are spared the hardest selling unless commodities begin to fall in tandem

Checklist Format Before NY Session

Signal	Indicator	Confirmed?
Italian yields spike > 4%	IT10Y	✓X
UK GDP / jobs / retail weak	GBP macro calendar	✓X
Geopolitical threat in EU	Headlines / risk monitor	✓X
VIX ~ 20–26	CBOE:VIX	✓X
EURUSD, GBPUSD down	Check 4H / 1D momentum	✓X
AUD/NZD/CAD stable or bullish	AUDUSD, NZDUSD, CADJPY	✓X

If 4–5 of these confirm, you're likely in **Category 2 Risk-Off**.

PAIR BEHAVIOR TO WATCH:

PAIR	Behavior in Cat 2 Risk-Off
EURUSD	Heavy weakness; direct sell
GBPUSD	Weak if UK-specific → pair sell
EURJPY	Sell as JPY gains + EUR weak
GBPCHF	One of the best tells—CHF strength + GBP drop
EURCAD / EURAUD	Short bias if commodities hold firm
AUDJPY / NZDJPY	Rangebound or slightly bullish (no heavy risk-off)
DXY	Rises but EUR-weighted rally

How You Trade It (Execution Angle):

- Short EUR and GBP** against safe havens: **EURJPY, GBPCHF, EURCHF, EURUSD**
- Avoid shorting AUD/NZD unless commodities turn
- Keep risk tight—**Category 2 can morph into Category 1 quickly** if fear spreads globally
- Monitor headlines **closely** during NY session; these are often **ad hoc event-driven panics**

Summary Comparison (Category 1 vs. Category 2)

Trait	Cat 1 Risk-Off	Cat 2 Risk-Off
VIX	>30	20–26
Major Panic	Global (U.S. + China + Oil)	Europe/UK
Main Currencies Hit	AUD, NZD, CAD	EUR, GBP
Safe Havens Rally?	Yes, aggressively	Yes, but less intensely
Commodity Market	Crashing	Stable
DXY Movement	Broad surge	EUR/GBP-led