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KEY TAKEAWAYS

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**A DIVE INTO CURRENCIES AND YIELDS:
HOW THESE AFFECT THE MARKETS**

08.16 @ 11am EST



Special Guests: Blake Morrow, Stelios Kontogoulas
and Ryan Littlestone



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FULL EPISODE**



CHIGRL'S KEY TAKEAWAYS

1. On 30K foot view of currency markets:

Blake: Currency markets are where the heartbeat of all markets. It is the largest market in the world and where all the money is at. Currencies give us a clue on what is happening in the broader markets. Main drivers of currencies are interest rates and interest rates expectations. Divergent CB's will add to currency volatility and opportunities for traders.

Ryan: Talked about currencies linked to commodities and other markets.

Stelios: FX pairs are the main drivers, yields, interest rates and FX is are interconnected.

2. On the Yen and why everyone is laser focused on it:

Blake: BOJ has had rates at zero for 20 years but now with other CB's raising rates= unintended consequences in the carry trade

Carry trade: Many institutions buy dollars and sell yen to buy dollars and capture the interest rate differential between the two. This is common practice with institutions in a bullish market.

As BOJ makes tweaks to yields via YCC this leads to repercussions

Ryan: Yen keeps weakening as the BOJ stays pat (not raising rates). Everyone is watching 150 level, because last time it hit 152 that is where the BOJ started intervening last time.

Stelios: Because rates have been at zero or negative for years, Yen has been a funding currency. Institutions will borrow yen because it costs nothing and buy another currency thus making a carry trade. Yen been a funding currency for a long time, it gets dangerous if BOJ ever raises rates because the trade is all on one side, the unwind would be brutal.

3. On Yuan weaponization, it is well over 7 where they usually like to reign it in:

Ryan: China is usually pretty clear when they will put the brakes on it, he believes this makes it a bit easier to trade. They reigned it in in June, but they are not reigning it in as hard right now. One reason is that it makes exports cheaper and they are trying to spur the economy (thus weaponizing the yuan).

Blake: China is like OPEC in the currency market, at least in the Yuan (they can tighten or loosen supply) China trade numbers are deteriorating as they are trying to move to a consumer based economy, they are having a hard time right now turning into a consumerism economy (they are still a saver based economy). They can use yuan as a lever for trade (how exports are doing).



CHIGRL'S KEY TAKEAWAYS

4. Currencies to look at as far as stagflation: EUR, JPY, GBP?

Blake: We haven't been in a stagflationary environment in decades. The best one to look at right now is GBP (British pound)

BOE seems paralyzed right now, do you fight inflation or address slowing growth.

UK will be the poster child heading into stagflation

Ryan: Way to look at the stagflation trade is same way as the inflation trade. Who is going to be the best of the bad bunch? US out in the front as in terms of economic performance with Germany looking very weak. UK looking middle of the road.

Stelios: Talked about second round inflation effects in the UK, he is bullish GBP, on back of central bank divergence

5. On Rising Rates

Stelios: Rising dollar is a problem for global markets, especially emerging markets. Zero rates ended up a huge boom for equity markets because you can borrow at 1% or less. Companies issuing bonds and buying back stocks. Now with yields going up equities under pressure. He doesn't think equity markets are factoring in these high yields yet as they ran up so fast. If 10 yield breaks higher here, could easily see 5%

Ryan: Higher rates, back to more regular risk on/risk off environment.

Blake: Lower S&P 500 into end of year, could mean higher USD. Risk off, and into "risk free" bonds. We could have several years of consolidation.

6. On Mexican Peso and relationship to US markets

Blake: Carry trade darling of the carry trade ...similar to yen, because the market is so liquid.

Thinks Mexican peso will continue to strengthen over time. However we have gone pretty far, and when you see stocks coming down, first place you are going to see air coming out of is EM currencies. May see a bit of unwind of the carry trade and MXN may weaken again.

Also watch this in LatAm countries, if this EM currency trade starts to unwind, pretty strong indication that people are getting cold feet in the equity markets and we are nearing a top.



CHIGRL'S KEY TAKEAWAYS

There was so much in this episode, I highly recommend you listen to the entire episode, but if you can not at least listen to the last 10 minutes of our guests final thoughts!

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