SOM
Macro
Strategies

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State Of the Markets: Macro Commentary

The Updates on My Recommended Strategies

I am closing my 1/7yr Euro receiver (+364%)

The European yield curve has rallied to the point where there is little left for upside in a receiver trade-- roughly about 10 to 20 bp. The market has repriced the curve to reflect slowing growth, and the potential for further ECB action. I guess the curve could morph into the German curve, then you have some upside from negative rates. However, that does not seem the high probability path. In addition, Euro economic growth could rebound from a pop in German export growth driven by a surge in Chinese credit stimulus, although my base view is China credit stimulus is later in the year. More importantly, the next stage in the EMU struggle will be Italy and the resulting existential questions. My guess is that after negotiation with Italy, the ECB will cave and start up QE, or some variant, and to start buying Italian sovereign debt. Without ECB buying Italian yields will rise substantially and put even more pressure on the EMU. My Euro short should capture that event rather than through rates.

I am closing my 1/2yr USD receiver and opening a 2-yr on a 2-10 ATM curve cap (+300%)

The rally in the US curve has been substantial. The market is starting to price in Fed rate cuts given slower growth trajectory in the US and the potential impact of the China/US trade war. Having said that, my central view is that there is substantially more in this trade. US growth will slow with Fed cuts even without the impact of the trade war. The trade war just gives the Fed an excuse to cut, and they will have plenty of reasons given, at least my view, that the trade war will last for an extended period. Given this view, I would normally just restrike my original trade. However, this is not as appealing vs alternatives since implied vol has taken a lot out of the trade. Fortunately, curve caps still look compelling as a bet on Fed cuts. First, the curve has flattened further making forward strikes more attainable. Second, historically the yield curve is driven by the Fed. Consequently, if the Fed starts to cut for real, the curve will steepen. Third, I get some beta to the long end of the curve backing up if growth picks ups.

I am turning my RUB call into a purchase of a basket of high yield local currency sovs (RUS, Mexico, Brazil) (+0)

This was going to be my original trade when I put out my long RUB call trade. However, I had not completed my analysis of the entire EM sector. Now I have and will be putting out a piece later in the month on the sector. The pitch is the same. First, the USD will weaken as the Fed cuts rates/starts up QE. Second, EM FX and EM economies typically do better in this Fed scenario. Third, commodities typically rally in this Fed scenario as well. Consequently, so should EM commodity countries. Fourth, local currency sovereign debt in the +8% range could rally the impact of the first three points. If you are looking for a long short version that takes out the EM factor, I would short South Africa. South Africa could be the next Turkey. Reforms are unlikely to work and more likely put downward pressure on growth and upward pressure on political risk, e.g. land reform (confiscation), minimum wage (higher than prevailing wages in most industries), further bailouts of the utility sector. Basically, little has changed in South Africa since the end of apartheid. Might even add a long CDS trade on SA.

Extending my expiring 1-yr CNH short for another year (+260%)

My central continues is that the China/US trade war will go on for an extended period of time. There is no easy solution to this war because it is not a trade war it is an economic war. Accordingly, I believe in the near term, China will slow, cut rates and suffer capital outflows. All of this points to a weaker CNH. Consequently, I am extending my CNH/USD swap for another year. I am looking for variants of this trade both versus the long USD (e.g. gold, swiss franc, yen), as well as potential more fast acting shorts rather than CNH (e.g. TWD, HKD or Saudi dollar peg)

Recommended Straties And Historical Performance

Positions	Number Trades	June 3, 2019 Initial Invest (MM)	Current Invest (MM)	Total Return
Open	4	20	18	-9.3%
Closed	35	175	484	176.5%
Total	39	195	502	157.5%

SOM Strategy	Trade	Initial Position Date	MM/ Shares	Price	Invest (MM)	Current Valuation June 3, 2019 Status	Price	Invest (MM)	Total Return
US Follows The ROW Into Global Slowdown/ Buy EM High Yield Commodity Countries	Buy Basket of Local Currency Sovs (Russia, Brazil and Mexico)	3-Jun-19	100	100.0	5.0	Updated	100.00	5.0	0%
The Return of The King/EMU Slowdown	Buy 6-month Euro Puts/Dollar Calls, 1.11 strike	24-Apr-19	515	0.97	5.0	Updated	0.61	3.1	-37%
The Coming Economic War Between The US and China/ The "China" Model	Sell CNH One Year Forward vs USD (strike 6.96)	3-Jun-19	300	100.0	5.0	Updated	100.0	5.0	0%
US Follows The ROW Into Global Slowdown	Buy 2-year maturity 10-2-yr curve cap (strike of 45 bp)	3-Jun-19	3125	0.16	5.0	Updated	0.16	5.0	0%
The Coming Economic War Between The US and China/ The "China" Model	***Sell CNH One Year Forward vs USD***	***22-Jun-18***	***330***	***100.0***	***5.0***	***Closed 6/03/2019***	***106.5***	***18.0***	***260%***
US Follows The ROW Into Global Slowdown	***Buy 1/2 Receiver USD Swap (Strike = 2.0%)***	***21-Mar-19***	***2500***	***0.20***	***5.0***	***Closed 6/03/2019***	***0.80***	***20.0***	***300%***
The Return of The King/EMU Slowdown	***Buy 1/7 Euro Receiver Swaption 0.45 Strike***	***25-Jan-19***	***1000***	***0.50***	***5.0***	***Closed 6/03/2019***	***2.32***	***23.2***	***364%***