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# A US$ 'SHORT SQUEEZE'

## The Carry Trade Hedging Scramble

**MACRO INSIGHTS - November 2014**

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# A US$ SHORT SQUEEZE

## *The Carry Trade Hedging Scramble*

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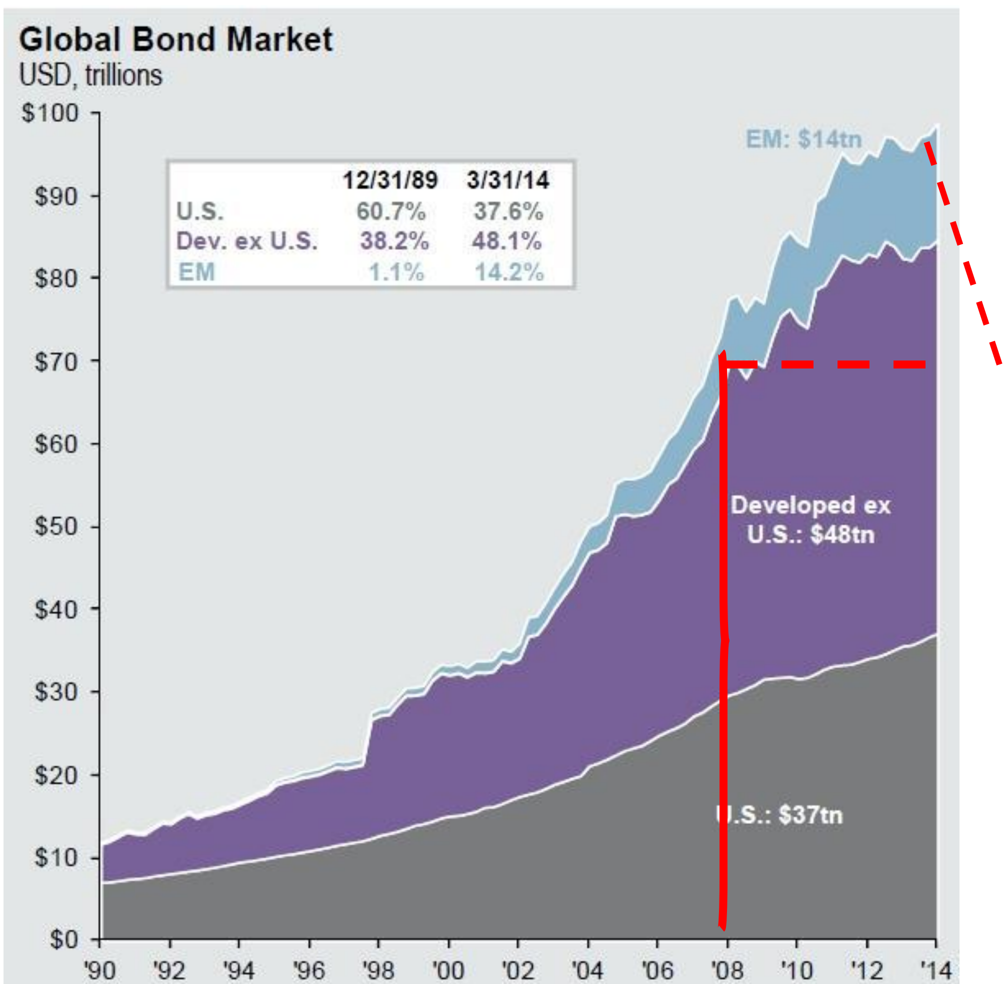
We have major cracks appearing in the $3 Trillion US Dollar Carry Trade which came into existence in 2008 with the Federal Reserve's aggressive expansion of its' balance sheet.

**A $3T US$ CARRY UNDER ATTACK**

Since 2008, banks, private equity, hedge funds and major speculators couldn't borrow the almost free money from the Federal Reserve fast enough and invest it in higher yielding assets outside the US. The Fed' monetary policy has proven to be of little value to the US economy, but it pumped $3T into foreign assets.

The biggest recipient was emerging market economies that received approximately 2.3T. This was an unprecedented investment surge of hot money. The Hot Money was predicated on low rates and a depreciating US$, or minimally a US dollar which was not appreciating in value.



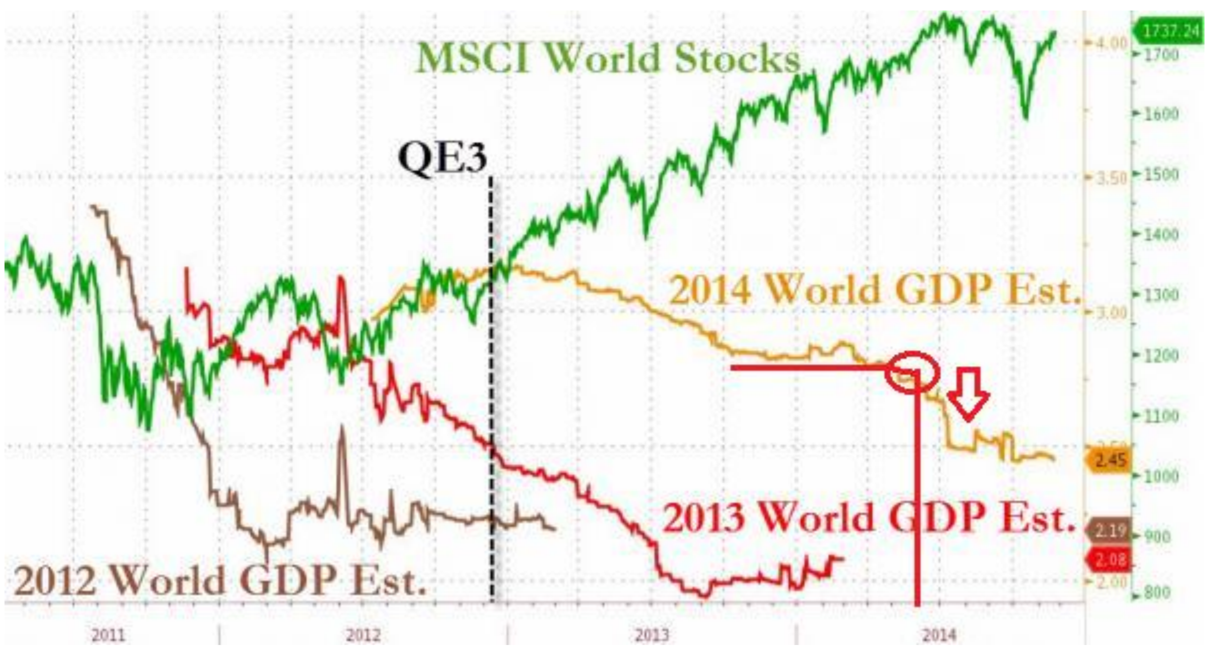
The cardinal sin of the Carry Trade is to borrow in a currency which might strengthen. There appeared little chance of this and with yield spreads so great the profits were too great to pass up.

**THINGS BEGAN TO COME APART IN JUNE 2014**

As the global economy began to rapidly slow earlier this year the carry trade became nervous, especially has the US appeared determined to fully implement its TAPER program. The US equity markets may have still been going up but the economies and markets around the world had already begun to fall.

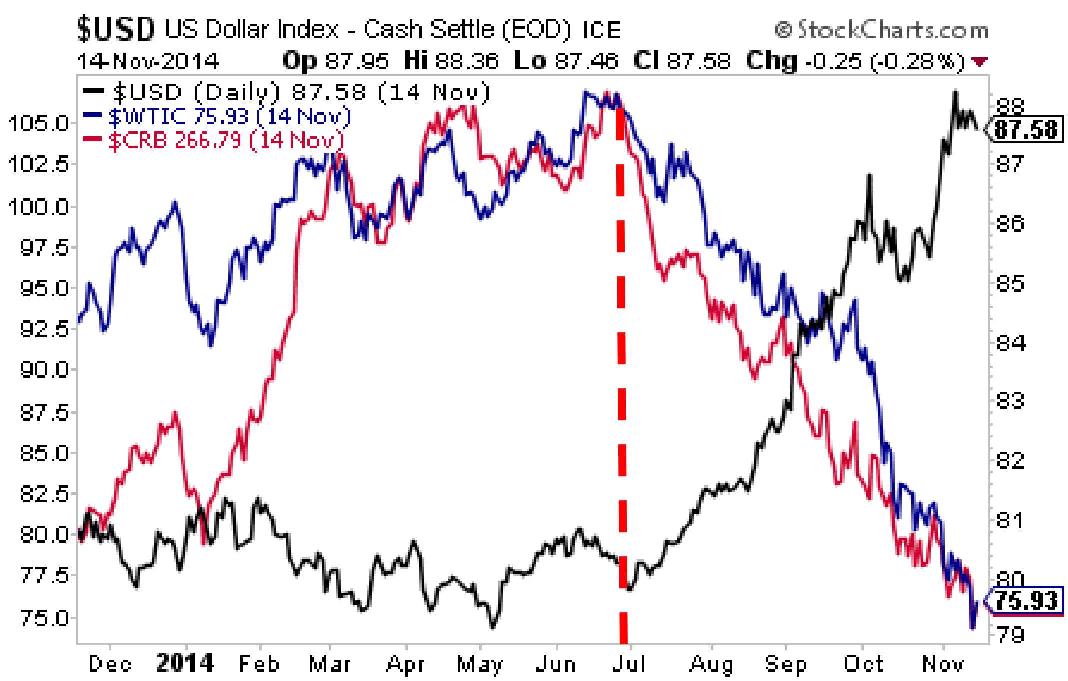
Slowing economic growth meant that the EU, Japan and others would have to reduce their tightening policies and increase liquidity. With the Fed nearing completion of TAPER and firmly suggesting it was not going to fold on its implementation, it meant a stronger dollar was likely compared to other reserve currencies. The Carry Trade was exposed and breaking the cardinal sin a strong possibility.

Action had to be taken and the hedging (short squeeze) began.



# CDX HY Index Has Anticipated S&P Declines


*Source: Bloomberg* BloombergBriefs.com



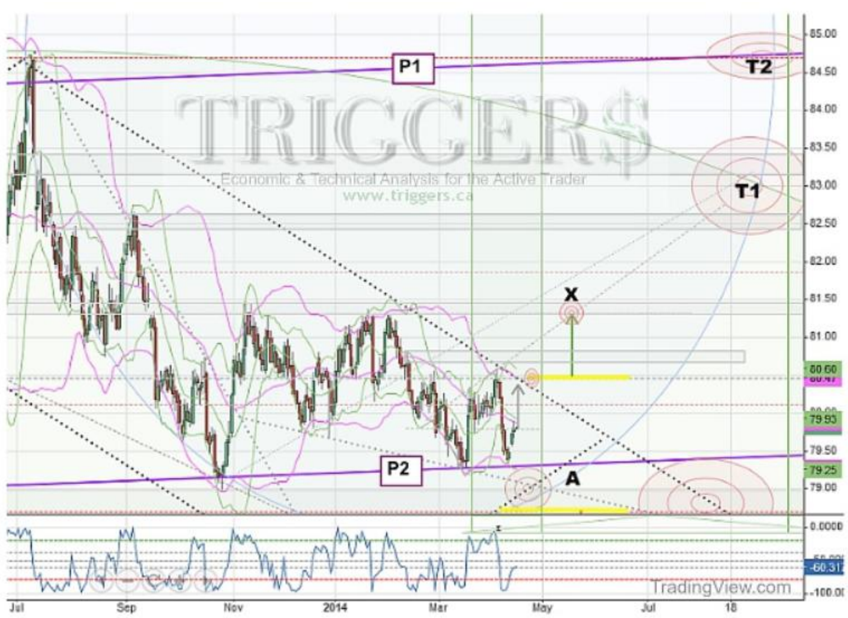
**TRADING THE US$**

I encourage reader to review the TRIGGERS US Dollar Report which the following graphs are taken from.

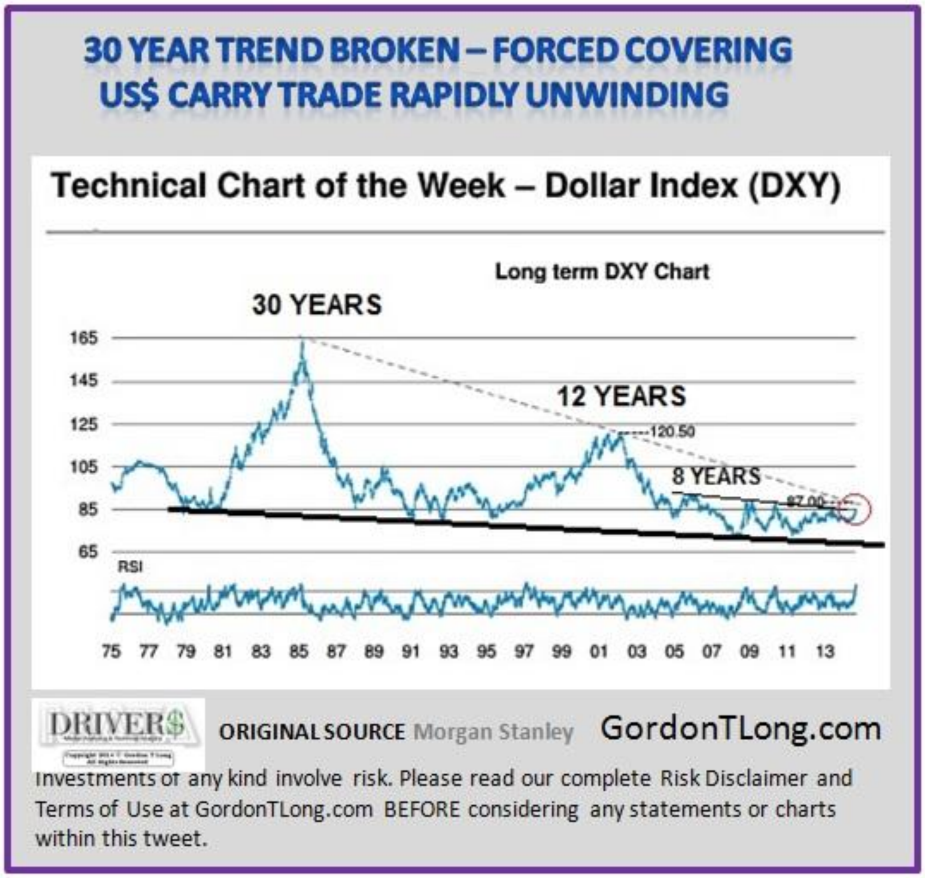
TRIGGERS US$ REPORT   *PDF VERSION*

We saw all this in the spring timeframe and our TRIGGERS calls reflected the potential moves ahead. Our MACRO BIA$ (shown below via green arrow over the expected time frame) was very clear.


Our detailed technical analysis identified the expected "High Probability Target Zones" (HPTZ) along the expected path.



We saw major Long Term Trend lines being broken and felt the ramifications could be explosive.




**$2.3T IN EMERGING MARKET IN A US$ HEDGING SCRAMBLE**

Most importantly, as we mentioned above, we felt we had (and still have) $3T on the wrong side of the trend and these loans would have to be hedged. This would effectively amount to a global short squeeze on the US dollar

The expected explosive move was ––––


**HIGHER US$ AHEAD**

So what happens next?

We still see a much higher US$ ahead with increasing volatility. We are early in this secular move.

Follow the details as they unfold at TRIGGERS.CA.

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