

Intro to Macro Investing

Brain Teaser

A large bag of coins contains pennies, dimes, and quarters. There are twice as many dimes as pennies and three times as many quarters as dimes. An amount of money that could be in the bag is

- A. \$306
- B. \$333
- C. \$342
- D. \$348
- E. \$360



Solution: Brain Teaser

Let there be x pennies. Therefore, there are $2x$ dimes and $3(2x)=6x$ quarters. Since pennies are \$0.01, dimes are \$0.10, and quarters are \$0.25, the total amount of money is $0.01x + (2)(0.10x) + (6)(0.25x) = 1.71x$.

Therefore, any amount of money must be a multiple of 1.71

Answer: C $\rightarrow 1.71 * 100 * 2 = \348

Creds to MAA





Macro Investing

- ❖ Analyzing broad market trends, political events, and global economies
- ❖ Developing a view on how something should trade based on a well researched opinion
- ❖ Identifying potential mispricing's' in different asset classes and trading on it



Review of Different Asset Classes

❖ Forex

❖ Rates

❖ Fixed Income (Bonds)

❖ Derivatives

❖ Commodities

❖ Equity Indexes

❖ As a portfolio, we look at all classes, but most of our trades involve fixed income (bonds) and forex

Overview of Fixed Income Markets

- ❖ Relationship between bond price and yield
- ❖ Indicator of capital flows in a country
- ❖ Moves on economic data, geopolitical events, central bank policy changes
- ❖ Good reflection of “risk” priced into a country

Why would people buy US Treasuries?

- ❖ Return ?
- ❖ Risk profile ?
- ❖ How do people interpret the Treasury yield?

Overview of Currency Markets

- ❖ What drives currency movements?
 - ❖ Supply and Demand
- ❖ Think of currencies appreciating and depreciating against each other
(relative valuation)
- ❖ Importance of currencies : Use currencies to trade a lot of other ideas
 - ❖ For example: how would you invest in a bond ?

Currency Trade Overview

- ❖ How are currencies quoted?
 - ❖ USD/EUR (base currency- currency against which exchange rates are generally quoted)
 - ❖ Buying one currency, selling the other (long/short pair)
 - ❖ Make money when currency appreciates or depreciates

Thought Exercise : USD / EUR

- ❖ What do you think drives people to buy the US Dollar right now ?
- ❖ Why would people short the EUR ?
- ❖ Do you think this is a good trade?

Overview of Commodities

- ❖ Moves on supply and demand and expectations of supply and demand
disruptions
 - ❖ Which do you think matters more- supply or demand?
- ❖ Trade commodities through futures typically
 - ❖ What are other assets exposed to commodity prices ?

Commodities Continued





Fun & Famous Macro Trades!

How George Soros Broke the Bank of England (1992)

- ❖ British pound was pegged to German mark as apart of Europe's Exchange Rate Mechanism System
- ❖ Germany was stronger economically than Britain → German mark should have been fundamentally stronger
 - ❖ To keep up with German economy, the BoE set high interest rates and the UK economy had very high inflation
- ❖ Soros, along with other speculators realized the Bank of England could not keep their currency tied to the mark and started shorting the currency (Soros borrowed a lot of money to establish a large position)
 - ❖ In response, BoE raised interest rates to strengthen currency)
- ❖ Eventually British government realized they couldn't keep up with short sellers and was forced to devalue the pound
- ❖ Moral of the story : Soros made a LOT of money \$\$\$\$\$



How George Soros Broke the Bank of Thailand(1997)

- ❖ Asian Financial crisis- begins with the fall of the Thai baht and financial crisis in Thailand
 - ❖ Before the Asian Financial Crisis of 1997, Thai baht was pegged to USD.
 - ❖ USD kept getting stronger and stronger, and the Thailand government was encouraging banks and large companies to borrow US dollars without hedging their exposure
 - ❖ The central bank of Thailand couldn't maintain the peg eventually because they were running out of reserves to defend the peg and didn't have enough dollars to pay their debt
 - ❖ Central bank tried to raise rates and restrict speculation, but it still wasn't enough
 - ❖ Soros realized that something of this magnitude could happen and shorted 1bn of the Thai baht



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Reach Out If You Have Questions

Feel free to reach out to us over Facebook or email if you have any questions

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