

Investments - Flash

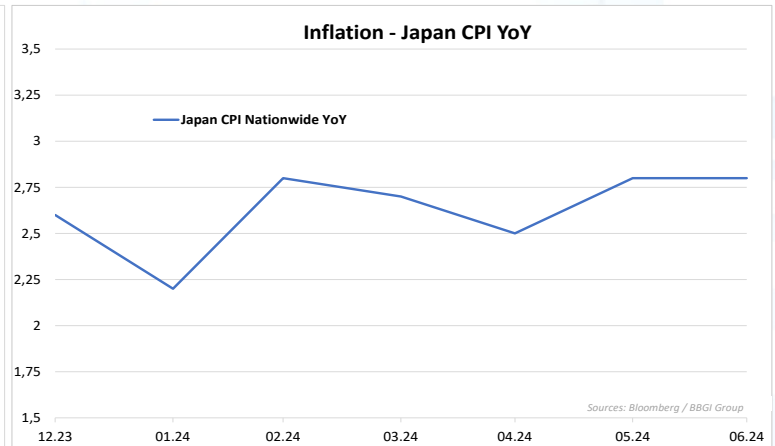
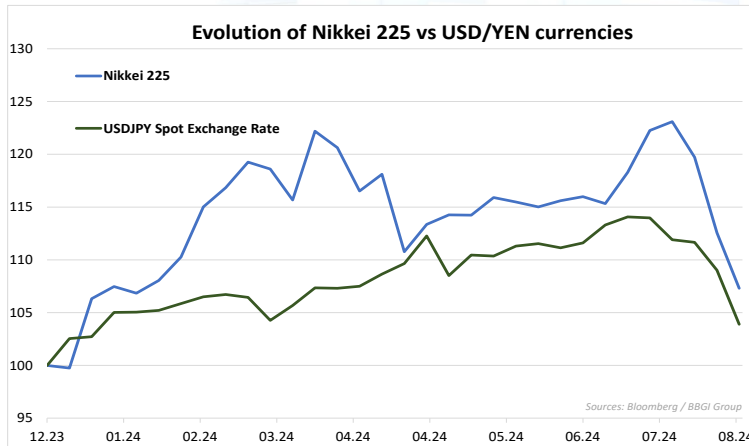
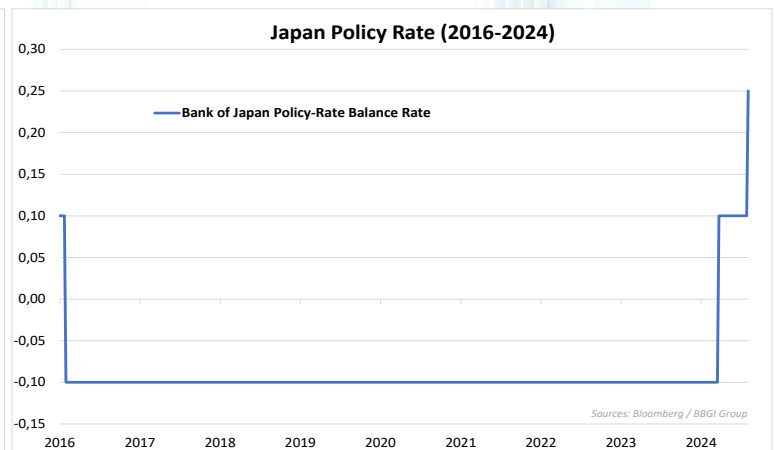
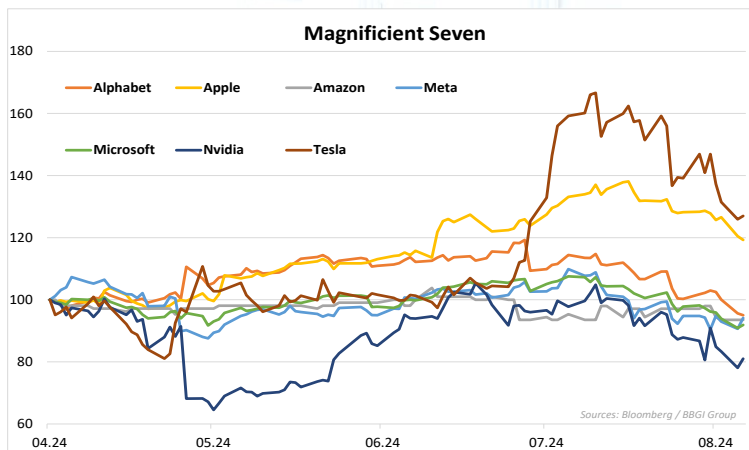


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THE BOJ CAUSES AN EARTHQUAKE IN THE MARKETS Japanese rate hike kills ongoing carry trade

We had announced a probable rate hike in Japan on July 31, but this had extremely rapid repercussions on the exchange rate and on the ongoing carry trade, sending many markets around the world tumbling rapidly. The BOJ decided to raise rates by 0.25% in an attempt to regulate the foreign exchange market and control inflation driven by the falling yen. The BOJ was far from imagining that such a small monetary policy adjustment could have such an effect on the markets, and was certainly astonished to discover that, having terminated its mutual fund purchase program, it no longer had the means to prevent the Nikkei's disorderly fall, while the yen appreciated by a very strong +10%. This change in monetary policy and its impact on the Japanese currency caught speculative investors off-guard, as they thought they could continue to borrow at zero rates in a declining currency to

finance profitable investments in equities and other asset classes in other currencies. Many hedge funds thought that this free lunch could still last, but woke up on August 1 to a new, less favorable context. The yen's rapid rise has killed off the ongoing carry trade, forcing many of them to unwind their positions very quickly by buying massive amounts of yen and selling all the assets they held in exchange for this trade, particularly those that had produced positive returns, such as US technology stocks (Magnificent 7). We believe that the unwinding of transactions financed by cheap yen credit from large hedge funds will not last long. Forced sales should soon offer new, rational investment opportunities.



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