

am
FX

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Janet Yellen's husband (and Nobel Prize winner) George Akerlof.

Born lucky?

Current Views

Short AUDNZD @ 1.0476

Stop loss 1.0622
Take profit 1.0200

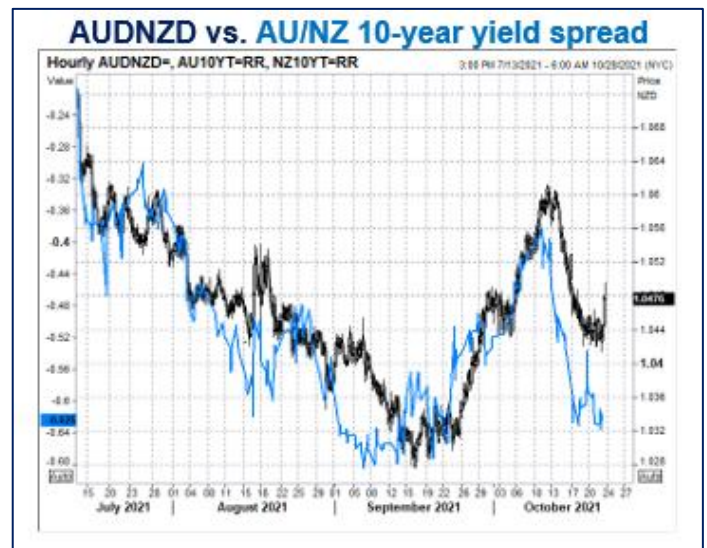
Short 01NOV and long 15NOV 1.3550 GBP put

Calendar spread
Price 21bps off 1.3730 spot

Short AUDNZD

AUD should be a "sell rallies" now. Momentum in the terms of trade contributors (coal, copper, WPL equity, etc.) has turned and the RBA operation in 3-year bonds puts a more definitive capper on the spike in AU vs. rest-of-world rate differentials. The operation last night (RBA bought a billion 2024 bonds to defend the yield target) is a reminder that the RBA is at a radically different point in the monetary policy cycle compared to its peers.

I am not sure what I think about risky assets right now in general, so AUDNZD lower makes more sense to me than AUDUSD. The RBNZ narrative continues to look much more hawkish than the RBA. The random rip higher in AUDNZD today off 1.0400 offers a nice entry point for shorts. This chart shows AU vs. NZ rates, and you can see there is a bit of a decouple there. Not huge, but enough to give you a decent entry. I'm adding it to the sidebar, with a stop at 1.0621.



There is a lot of weirdness going on in AU rates given the short prohibition etc., but any measure of AU vs. NZ rates I look at (3-year OIS, govvie yields, 1-year forward points, etc.) all shows the spread at the lows for AU. And I would think the very low 3-year government yield due to intervention means sovereign and other bond buyers will prefer NZ bonds to AU.

UK rates

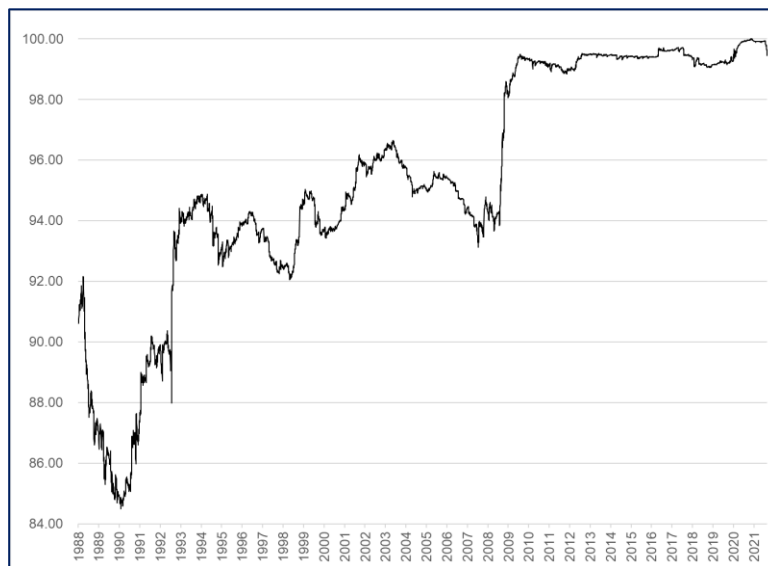
The big story of late has been UK rates and I see a lot of analysis that looks at BoE communication around hikes (and non-hikes) since 2009. It's probably worth remembering that we have been in a historically unprecedented regime in the front end since 2009 and there is at least a chance we are exiting from that regime.

My view is that bottlenecks will be resolved and demand will come off enough to reduce inflation pressure in 2022, but there are so many conflicting structural forces at play, anything can happen¹.

I wanted to get a sense of how the front end used to move before we were stuck at the zero bound so I fired up the full history of short sterling futures, back to 1988. First, here is the price:

¹ Deglobalization is inflationary / demographics deflationary, tech productivity deflationary / political imperative for higher wages inflationary, strong consumer balance sheet good / bloated government balance sheets bad. And so on.

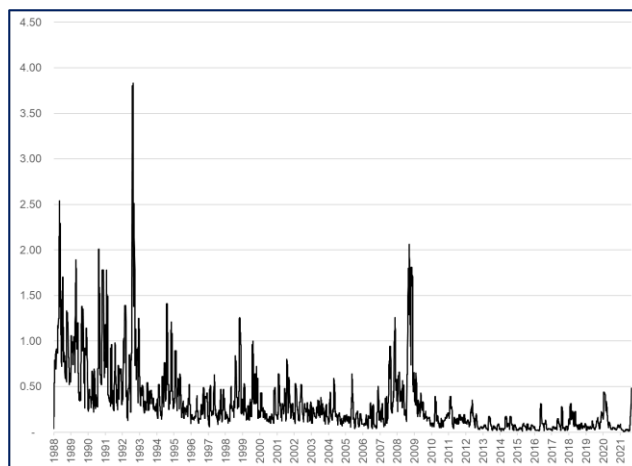
First short sterling future, rolling 20-day range, 1988 to now



If I didn't know what that chart was, I would say it looks like a free market until 2009 and then it looks like a pegged market after that. If inflation stays sticky, could we go back to a more slippery, volatile regime that resembles pre-2009? I doubt it, but it is certainly possible. Here is the rolling 20-day range in that same contract.

First short sterling future, rolling 20-day range, 1988 to now

Recent moves are huge compared to recent history but not compared to pre-2009



The takeaway is: Be mindful of a possible regime shift in front end volatility if inflation stays sticky. Risk management spreadsheets that assume the 2009 to 2021 regime continues will suggest position sizes that are inappropriately large. Any system using lookbacks will yield forward volatility estimates that are too low. Same applies to all global front ends. Something to consider.

Have a Nobel winning weekend.

good luck ↑↓ be nimble

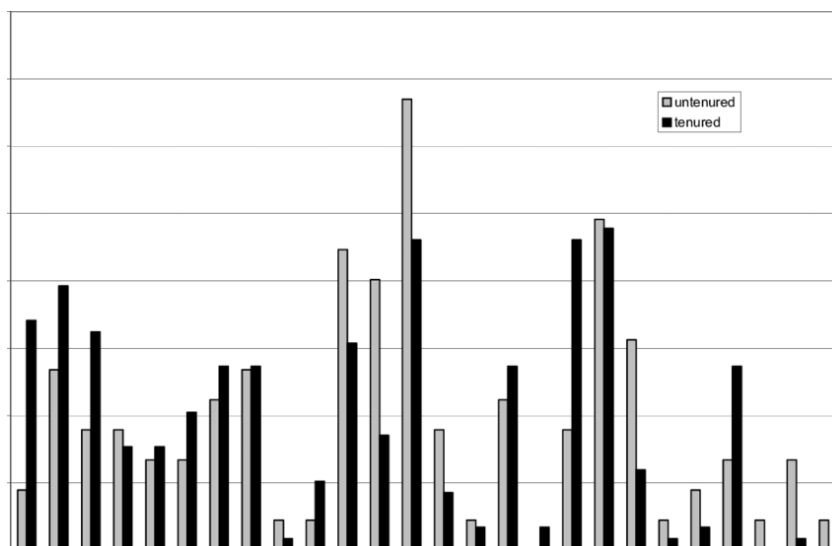
What's in a Surname? The Effects of Surname Initials on Academic Success

<https://www.aeaweb.org/articles?id=10.1257/089533006776526085>

Faculty with earlier surname initials are significantly more likely to receive tenure at top ten economics departments, are significantly more likely to become fellows of the Econometric Society, and, to a lesser extent, are more likely to receive the Clark Medal and the Nobel Prize. These statistically significant differences remain the same even after we control for country of origin, ethnicity, religion, or departmental fixed effects.

We suspect the “alphabetical discrimination” reported in this paper is linked to the norm in the economics profession prescribing alphabetical ordering of credits on coauthored publications. As a test, we replicate our analysis for faculty in the top 35 U.S. psychology departments, for which co-authorships are not normatively ordered alphabetically. We find no relationship between alphabetical placement and tenure status in psychology.

Distribution of surname initials in Top 10 Economics Departments



Guy: Thanks for sending me this.

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