



Investment Limits in China and Slow US Housing Growth Lead this Weeks Headlines

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MARKET MOVING HEADLINES

- President Biden to sign an executive order that will limit investment in key parts of China’s economy by American businesses.
- The S&P Global US Services PMI increased to one-year high in April 2023.
- US building permits revised slightly higher in March
- US house price growth the lowest in 11 years
- US new home sales at one-year high
- Copper drops to 1-month low
- Euro remains close to one-year high
- Sugar remains at 11-year high
- Sterling approaches a 10-year high
- US wholesale inventories rise less than expected
- US durable goods orders rise more than forecast

INTEREST RATES



Interest Rates

US TREASURY MARKET

MATURITY	YIELD	7-DAY CHANGE
3M	5.13%	-0.58%
2Y	3.93%	-7.75%
5Y	3.48%	-6.70%
10Y	3.42%	-5.52%
30Y	3.69%	-3.15%

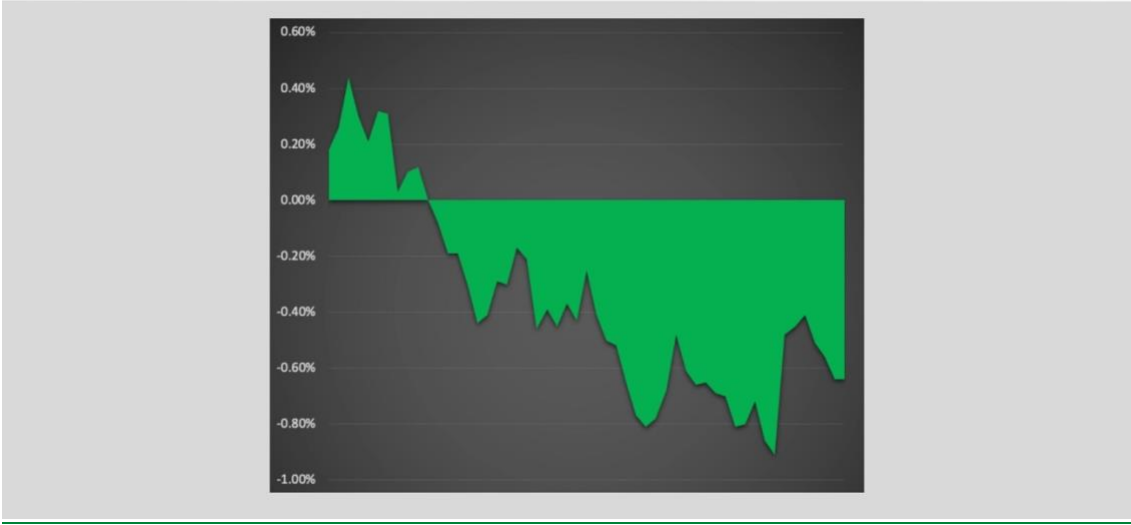


Interest Rates

2Y - 10Y SPREAD

DATE	SPREAD
3/6/23	-0.91%
3/13/23	-0.48%
3/20/23	-0.45%
3/27/23	-0.41%
4/3/23	-0.51%
4/10/23	-0.56%
4/17/23	-0.64%
4/24/23	-0.64%

2Y-10Y SPREAD - PAST 12 MONTHS



CURRENCIES

Currencies

CURRENCY PAIR	PRICE	7-DAY CHANGE
EUR/USD	1.104	0.82%
USD/JPY	133.560	-0.90%
GBP/USD	1.246	0.16%
AUD/USD	0.659	-1.93%
USD/CAD	1.365	1.56%
USD/CNY	6.943	0.71%
USD/CHF	0.891	-0.67%
USD/HKD	7.849	-0.01%
USD/MXN	18.126	0.46%
USD/KRW	1338.150	0.53%

COMMODITIES



Commodities

COMMODITY	PRICE	7-DAY CHANGE
Brent Crude Oil	77.640	-7.10%
WTI Crude Oil	74.259	-6.77%
Natural Gas	2.312	3.12%
Gold	1990.700	-0.24%
Silver	24.866	-1.65%
Copper	3.840	-5.70%
Steel	3686.000	-6.73%
Coffee	195.850	-2.63%
Sugar	26.510	8.92%
Cocoa	3176.000	3.08%
Cotton	78.360	-6.35%

CONCEPT OF THE WEEK: HEDGING STRATEGIES

Earlier this year my HedgeStar colleague, Craig Haymaker, wrote an excellent article titled “What is Hedging?” The full article can be found in the attached link: [What is Hedging? \(hedgestar.com\)](http://www.hedgestar.com/what-is-hedging/). In the article he discusses the various hedging strategies which are summarized below.

Hedging a variable cash inflow or outflow

Hedging strategies have evolved over time but most stem from a few basic concepts. The first involves hedging a variable cash inflow or outflow. Consider, for example, an Original Equipment Manufacturer (OEM) that purchases steel to make widgets. Steel is an input price that fluctuates day-to-day, and thus the OEM’s raw material purchase amounts fluctuate in turn, causing unwanted volatility in its operating income. A long steel futures contract would mitigate the variable cash flow risk and lock-in a price for a specified period of time.

Hedging fixed-rate assets and firm commitments

Another strategy relates to fixed-rate assets and firm commitments. Examples include mortgage loans for financial institutions, or a fixed-price sales contract like a forward delivery agreement issued by a silver mining operation, respectively. Fixed-rate assets and firms commitments have an economic value that changes inversely with a change in the underlying variable – in this case, interest rates and silver prices, respectively. Thus, the financial institution might execute a pay-fixed, receive-float interest rate swap whose value change would offset that of the mortgage loan. Similarly, the silver mine would trade a long silver futures contract that would offset the value change of its forward delivery agreement.

Delta hedging

The last strategy is delta hedging. Delta hedging can be loosely defined as the process of maintaining the delta of a portfolio as close to zero as possible or being “delta neutral”. Delta is a ratio that compares the change in the price of an underlying asset to the corresponding change in the price of its derivative, such as an option or swap contract. Originally an options portfolio management concept, delta hedging has broadened in its application across all instrument types and asset classes. It is used by trading companies and financial intermediaries in almost every industry.

There are thousands of permutations of hedging strategies, tactics, and styles that entities may adopt. This is because every entity has a different risk appetite that it is willing to shoulder in pursuit of its strategic objectives. Regardless of appetite (or lack thereof), risk is a part of doing business. Avoiding risk in its entirety is impossible, but it can be managed, and hedging provides a path for doing exactly that.

QUOTE OF THE WEEK

“Einstein didn’t develop the theory of relativity while he was multitasking at the Swiss Patent Office. Attention matters.” – David Meyer, Ph D. University of Michigan

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