



Risk Versus Speculation

September 14, 2023

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MARKET MOVING HEADLINES

- Oil prices rise to a 10-month high on supply tightness.
- Nickel falls after lithium discovery in the US
- 10-year Treasury yield approaches a 15-year high.
- The annual inflation rate increases above forecasts to 3.7% in August.
- Mortgage applications in the US continue to fall.
- Eurozone industrial output falls more than forecast.
- Hong Kong manufacturing output growth slows in Q2.
- UK GDP shrinks more than expected in July.
- Sterling at over 3-month low on weak GDP data.
- UK imports hit 17-month low.

INTEREST RATES



Interest Rates

US TREASURY MARKET

MATURITY	YIELD	7-DAY CHANGE
3M	5.47%	0.18%
2Y	4.97%	3.33%
5Y	4.38%	-0.23%
10Y	4.24%	-0.47%
30Y	4.33%	-0.46%

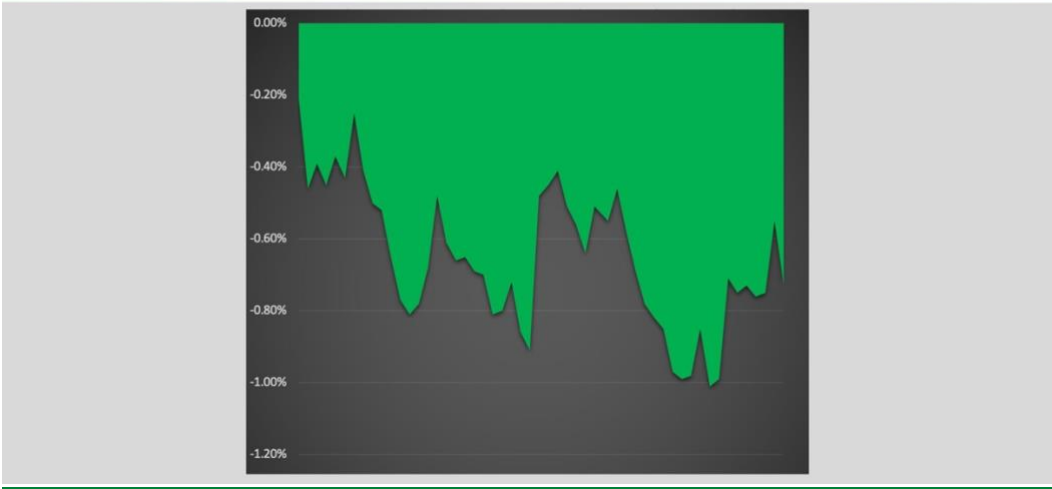


Interest Rates

2Y - 10Y SPREAD

DATE	SPREAD
7/27/23	-0.99%
8/3/23	-0.71%
8/10/23	-0.75%
8/17/23	-0.73%
8/24/23	-0.76%
8/31/23	-0.75%
9/7/23	-0.55%
9/14/23	-0.73%

2Y-10Y SPREAD - PAST 12 MONTHS



CURRENCIES



Currencies

CURRENCY PAIR	PRICE	7-DAY CHANGE
EUR/USD	1.074	0.56%
USD/JPY	147.360	0.12%
GBP/USD	1.249	0.24%
AUD/USD	0.642	0.78%
USD/CAD	1.356	-0.88%
USD/CNY	7.269	-0.95%
USD/CHF	0.893	0.00%
USD/HKD	7.826	-0.15%
USD/MXN	17.138	-2.53%
USD/KRW	1326.100	-0.69%

COMMODITIES

 **Commodities**

COMMODITY	PRICE	7-DAY CHANGE
Brent Crude Oil	91.736	1.79%
WTI Crude Oil	88.598	2.21%
Natural Gas	2.678	3.96%
Gold	1909.200	-0.58%
Silver	22.839	-0.67%
Copper	3.755	0.78%
Steel	3723.000	0.19%
Coffee	150.700	-1.12%
Sugar	26.540	3.87%
Cocoa	3874.000	9.16%
Cotton	85.500	-1.93%

CONCEPT OF THE WEEK: RISK VERSUS SPECULATION

There are many types of derivatives that are used for taking on risk – that speculate on the movement of interest rates, currency exchange rates, and commodity prices. When hedging, one is ***not*** guessing the direction that interest rates, currency exchange rates, and commodity prices will move. Instead, they are mitigating the risk of loss should any of those items move in a direction that negatively impacts the organization. ***Not hedging a risk is speculation.*** If an entity decides to not hedge an exposure, that entity is in effect speculating that rates, currencies, or commodities will not move in a direction that will adversely impact their institution.

HEDGING	SPECULATING
Pursuing a strategy to prevent a pre-existing risk, due to changing market dynamics, from impacting earnings	Betting on the direction that interest rates, currency exchange rates and commodity prices will move with the hope of earning profits
Managing the volatility of adverse price and rate movements	Seeking out volatile markets, and trading in and out of underlying assets whose value is impacted by the movement of rates and prices
Seeking protection against undesired fluctuations in rates and prices	Taking on risk to generate profits from fluctuating rates and prices
Seeking risk adverse outcomes – securing income and margins	Take on risk deliberately with the hope to earn profits

QUOTE OF THE WEEK

“If you’re going to panic, panic early.” – Nassim Taleb

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