Market Commentary | August 12, 2015

AM

FX

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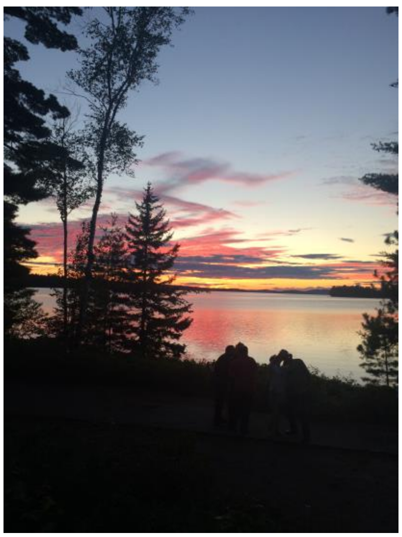

The view from Camp Kotok around 7PM

Current Trades

Short USDJPY @ 124.85
Stop at 125.26
Take profit at 124.11
125.28 was the high but I was not stopped out

Camp Kotok 2015: Bullets

500 miles north of NYC and 10 minutes south of the US/Canada border is the town of Grand Lake Stream, Maine: Population 109. This past weekend I drove up there to attend Camp Kotok, a fishing retreat / economic symposium attended by a group of 64 economists, investors and media. Attendees included Charles Plosser, Paul McCulley, John Mauldin, Barry Ritholz, Jim Bianco, and (of course) David Kotok.

Media coverage here, here and here. My takeaways are as follows (all pre CNY deval):

- **A small majority expect a Fed hike in September**. Contrary to the old model, a majority now thinks that NO HIKE is bearish for equities. This is because Fed on hold reinforces deflationary vibes and delays the first step towards normalization by 90 more days (17SEP to 16DEC). Markets want more normal, not more cowbell.

- **It doesn't really matter when the Fed hikes**. It's easier for an economist than a trader to say this (and most attendees were economists, not traders) but the point is still relevant. It was almost universally accepted that it makes no difference to the US economy when the Fed hikes. Many believe the importance of the Fed Funds rate has never been lower as global factors (especially China and oil) plus structural changes in the US economy (sharing economy = Uber, Airbnb etc. + shale development) are more important than whether Fed Funds is 0 or 0.25 or even 1.0. The link between Fed Funds and US inflation is non-existent and it's the same story with Fed Funds and US unemployment. The Fed is now pulling on a string instead of pushing on a string.

- **US GDP is becoming less reliable as an indicator.** There are a lot of structural changes and other factors that are making GDP data very hard to interpret these days—is the methodology outmoded? Issues include:
  a. Seasonal adjustment issues (well-known)
  b. Structural changes to the economy (technology, sharing economy: Uber, Airbnb, etc.)
  c. Structurally low rates which favor buybacks over capex and R&D
  d. = Lower potential GDP?

  One attendee strongly suggested everyone read: GDP: A Brief but Affectionate History by Diane Coyle for some background on the politics and history of GDP calculation.

- **Interest in FX as an asset class is much, much lower than year**. Some investors are still looking for a bigger devaluation out of Japan (USDJPY to 150.00 or 200.00) but the time horizon is very open ended. There generally was not that much talk about FX as people are much more interested in commodities and (in distant 2nd place) fixed income. The CNY reval happened after everyone left so that was not discussed.

Thanks to David Kotok and the crew at Cumberland for the invite and for their impeccable planning and logistical work.

Good Luck ↕ Be Nimble

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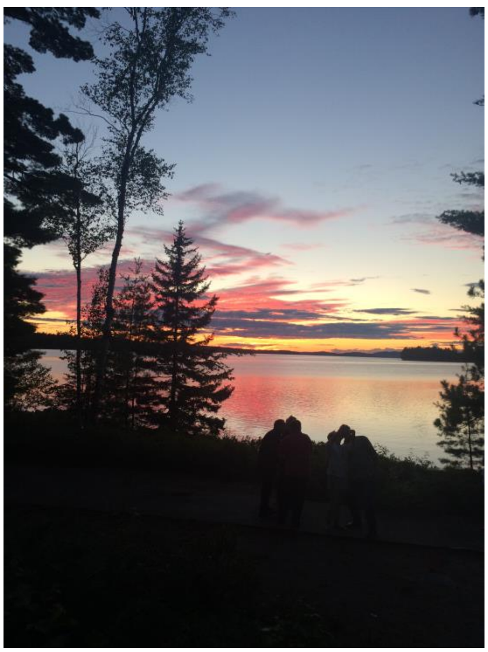
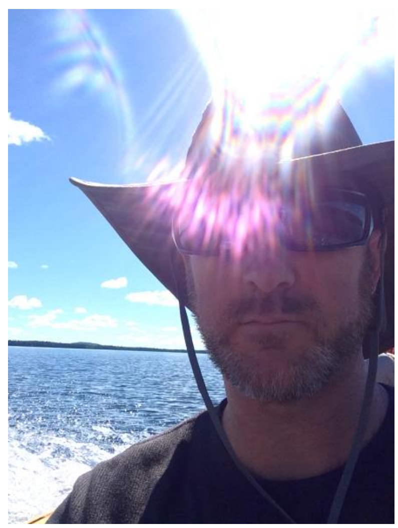
IMPORTANT DISCLOSURES

Contact:
https://icg.citi.com/data/documents/S&T_ExternalDiscl_0209.pdf

Source: my phone





Bullets… Get it?