Basis Points – November 15, 2022

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Above the Fold

U.K. Pensions Embracing Derivatives After Bond Rout

Sovereign debt such as (shorter duration) U.S. Treasuries and the United Kingdom's gilt bonds have long been considered "cash-equivalents," but investors now have to rethink these classifications. Today, some of the world's most wealthy economies are seeing the trading values of their debt fluctuate more like a stock than a stable, cash-like instrument. Here in the states, the 3-Month Treasury Bill has seen its yield go from 0.05% at the beginning of the year to 4.11%, a substantial change in the "discount to par" value. And while volatility is one thing, liquidity issues are another. Across the pond, the British bond market recently experienced a crisis as pensions were essentially forced into derivative- and liability-driven investment strategies (LDIs) in order to meet certain risk requirements as it's a hedge against big moves in the bond market. Unfortunately for regulators, their LDI push likely fueled the mayhem that triggered a bond market rescue from the Bank of England.

That said, derivatives are not a bad thing when used properly. And given the current volatile investment climate, some U.K. pensions are turning to derivatives such as futures and total-return swaps to reduce and better balance risk. These assets can synthesize investments in credit or debt markets, including corporate debts, and they can be structured to offer very precise modulation of risk and leverage, freeing up cash and collateral requirements for the investor to put to work elsewhere and hopefully improve returns.

Three Things

Cutting the Cord Now Makes Much Less "Cents"

For several years now, traditional cable customers were ditching their bundled TV subscriptions in order to "stick it to the man" by getting costs down and only paying for what they wanted to see. But now, much of the preferred content has been segregated to specific platforms, who in turn want you to pay an ever-increasing monthly premium for their services. Disney, which now has 220 million subscribers across all services, is the latest to dramatically hike its prices by about 30% for Disney+ and Hulu starting in December. Purchased alone, Disney Plus, Hulu and ad-supported ESPN Plus (without UFC access) will cost a combined $34 per month. These trends are reverberating throughout the streaming platform industry, so check your subscriptions to ensure your monthly costs don't exceed a comparable cable bundle.

Will Climate Help Moderate Coffee Costs?

Prices for both arabica and robusta coffee beans have been soaring since the pandemic due to changes in consumer habits and unfavorable weather (drought and frost) in Brazil, the world's largest coffee exporter. Coffee futures peaked at an 11-year high of $2.58 a pound in February of this year but have dropped precipitously as the weather in Brazil has normalized and coffee demand moderates. But while prices for coffee beans are down more than 30% from their highs, don't expect beverage prices at Starbucks, Dunkin' Donuts and others to drop. Analysts see beverage powerhouses such as Nestlé SA and Starbucks maintaining prices as the market stabilizes.

A Potential Hack at FTX Adds to an Already Tricky Situation

Cryptocurrency exchange FTX entered bankruptcy last week, prompting CEO Sam Bankman-Fried to step down. The decline of the company added to what's been a growing public relations nightmare for the crypto space, but a potential hack and potential theft of more than $370 million worth of funds adds yet another wrinkle to this dramatic tale. Crypto analytics firm Elliptic Enterprises Ltd. was the first to break the news, and now FTX is asking customers to stay off their website. A rival crypto exchange also said that it knows the identity of the alleged hacker and is cooperating. More than $220 million of the tokens were immediately converted to Dai stablecoin or Ethereum, via a decentralized exchange, which is a common practice among currency thieves.

In the Know

The First Stock Ticker!

On this day back in 1867, the first ticker tape was unveiled to investors in New York City. Created by Edward Calahan, the first ticker was a reconfigured telegraph machine that printed stock information (such as volume, last price, change and direction) on long streams of paper. The New York Stock Exchange, which previously disseminated stock quote data by messenger or mail, was the first to use the ticker. Eventually, the technology was adopted across the globe, with the last ticker machine debuting in 1960. Investment firms often had dozens of ticker machines so they could quickly get information on large groups of stocks.