MASSIMILIANO SILLA
MULTI FAMILY OFFICE

CONTENTS

01 MACRO
The week that should have been inflation's

02 EQUITY
A week to sell artificial intelligence

03 FIXED INCOME
Bonds fear growth, not prices

04 COMMODITIES
Silver no longer follows gold

05 FOREX & CRYPTO
Central banks buy time

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01

Macro

Prices above estimates, and briefly the market bet on a Fed hike. Then the debt that finances artificial intelligence took inflation's place: hedge funds sold, systematic funds gained, and the money kept flowing in.

IN THIS CHAPTER

Analysis · Charts · Takeaways · Glossary

READING TIME

~ 5 minutes

WHAT HAPPENED

September consumer (CPI) and producer prices above estimates: the probability of a Fed hike in October rose above 50%, then fell to 13%.

- The Nasdaq 100 lost almost 6%, its worst week since the tariff “Liberation Day” of April 2025; the Dow Jones was the only index to rise.
- On Thursday the US ten-year yielded close to 5.09%, a three-week low; the whole curve was on average 20 basis points below the highs reached after the data.
- Systematic funds gained 0.5% on CPI day and 21.7% year to date; gross leverage among Goldman Sachs clients stands at 310.3%.
- According to Michael Hartnett of Bank of America, 64.5 billion dollars went into equity funds and 11.8 into bond funds; 53.1 billion left cash.

The Nasdaq 100 loses almost 6% in the week inflation came in above estimates

For a moment inflation raised expectations of a Fed hike; then the debt of artificial intelligence prevailed and the ten-year yield fell to a three-week low.

The figure that was meant to matter

On paper it was the week of inflation: September consumer and producer prices came in above estimates, the probability of a Fed hike in October rose above 50% and oil climbed back towards 98 dollars. Yet on Thursday the US ten-year yielded close to 5.09%, the three-week low: for the bond market the most important question had become the financing of artificial intelligence, and yields fell on average 20 basis points from the highs reached after the data.

CoreWeave's credit default swaps priced in a probability of default of about 63%; the neoclouds, the companies that rent out computing capacity for artificial intelligence, lost a fifth in five sessions; according to Goldman Sachs, hedge funds have sold all the artificial intelligence stocks bought since January 2025; the Korean stock market, the KOSPI, lost 20% in a week. The Nasdaq 100 lost almost 6% while the Dow Jones was the only index to rise: the gap between the two is the widest in 24 years. Whether the credit market's judgement on artificial intelligence holds will be told by the quarterly results of the large technology groups.

Systematic funds and leverage

Systematic funds gained 0.5% on CPI day and lead the hedge fund rankings with 21.7% year to date. In the portfolio of Goldman Sachs clients, gross leverage fell by just 0.4 points to 310.3%: over five years that is the 94th percentile, higher than 94% of readings. Net leverage fell by 1.5 points to 73.3%, 4.3 points less over the month, at the 6th percentile of the past year.

> A rate hike is not needed when markets tighten financial conditions on their own: the cost of money for artificial intelligence has risen without any decision by the Fed.

A fund with gross exposure of 310% and net exposure of 73% has far more to sell than the second figure suggests. When the most crowded long positions, namely artificial intelligence, and the most crowded short positions move together against the fund, cutting gross exposure is the only way out, all the more so if many funds are selling the same stocks. It happened at the end of July: can it happen again?

The road to the Fed

According to Michael Hartnett of Bank of America, in the week ended Wednesday 64.5 billion dollars went into equity funds and 11.8 into bond funds, and 53.1 billion left cash. US Treasuries received 3.6 billion, the sixteenth consecutive week of inflows; high-quality corporate bonds 3.5 billion. At the current pace the year would be a record: 480 billion into the latter, 1,300 billion into global equities, 636 billion into US equities, 196 billion into technology funds, which received 10.7 billion in the week of the selling in artificial intelligence.

Fed Chair Kevin Warsh gave no guidance and said the world has “substantially conformed” to the Fed's expectations: Goldman Sachs reads it as a pause in October, and the probability of a hike has fallen to 13%. Warsh arrives at the meeting of 27 and 28 October, the last before the midterm elections, with no obligation to hike: yields falling together with artificial intelligence stocks speak of a fear for growth, not for prices. A cut, with oil at these levels and core inflation (PCE) that Goldman estimates at 3.12% for September, is not in sight.

TAKEAWAYS

01 Monday 19, China and Korea.

China publishes its data after the holiday week: GDP, industrial production, investment, foreign direct investment, unemployment and retail sales. Then South Korea auctions its ten-year bond after the automatic trading halts on the KOSPI.

02 Tuesday 20, the Japanese twenty-year.

The auction of the 20-year bond could be the first source of tension of the week, by a paradox: strong demand would say that the repatriation of Japanese capital continues, that is, that foreign bonds are being sold to buy domestic ones.

03 Thursday 22, Seoul and jobless claims.

The Bank of Korea decides on rates after the 20% collapse of the KOSPI. In the United States come the unemployment benefit claims, initial and continuing, ahead of the meeting of 27 and 28 October.

04 Friday 23 and Sunday 25.

On Friday Japanese inflation, the PMI indices (surveys of manufacturing companies) for almost every country and the University of Michigan index, with five-year inflation expectations after the CPI data. On Sunday Brazil votes in the presidential run-off.

↑ CONTENTS

Two charts on the week in which inflation lost centre stage: artificial intelligence stocks and yields falling together, and hedge fund leverage that stays high.

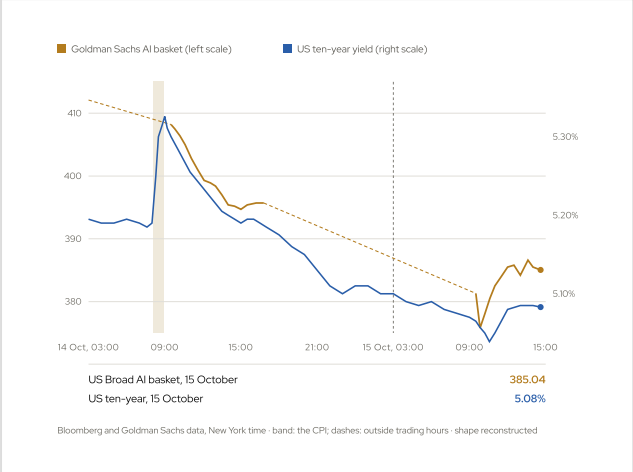


FIG. 1.1

On 14 and 15 October artificial intelligence stocks and the ten-year yield fell together: the basket at 385.04, the bond at 5.08%

Source: reconstructed from Bloomberg and Goldman Sachs data, US Broad AI basket

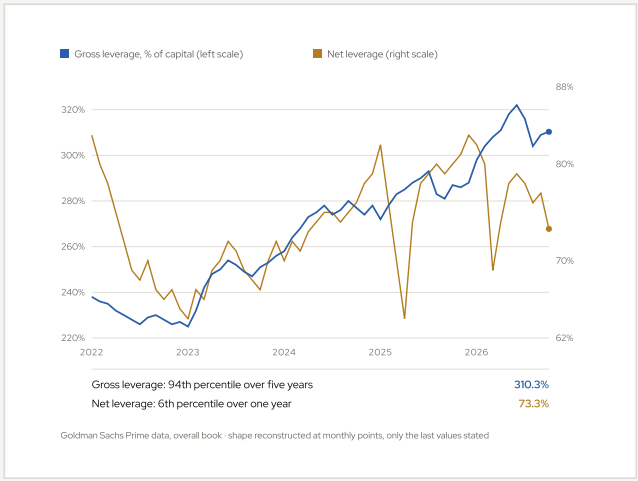
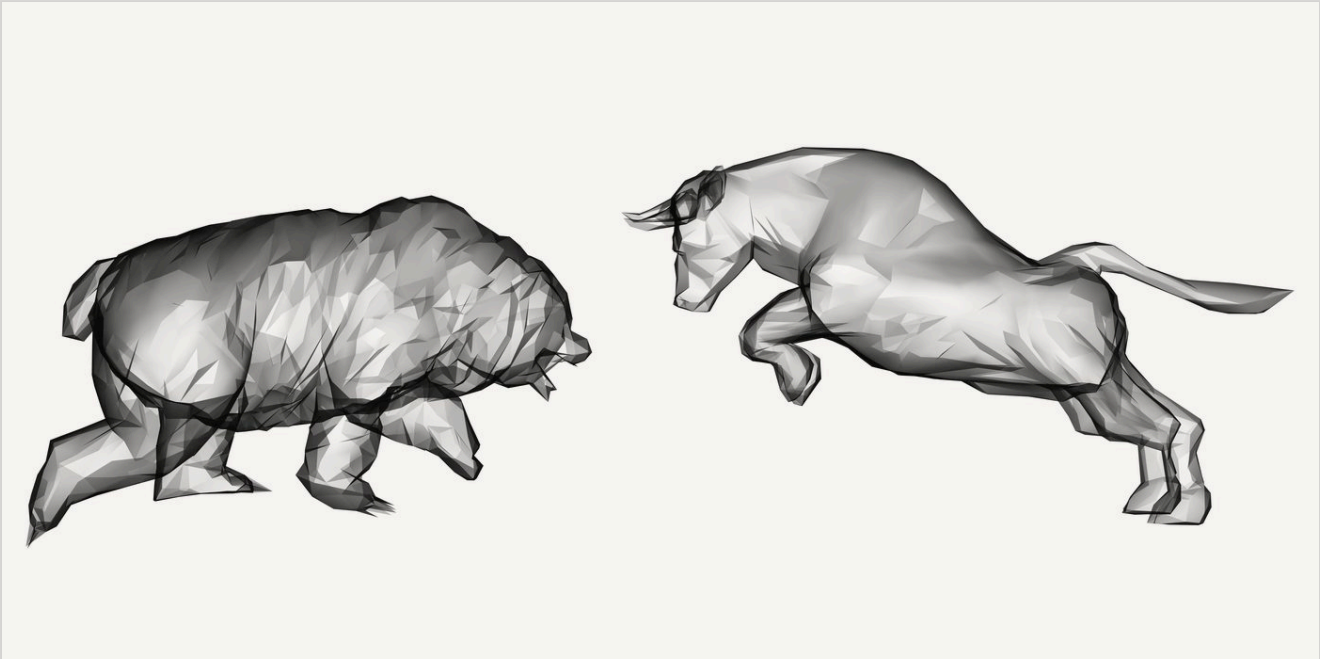


FIG. 1.2

Gross leverage in Goldman Sachs' Prime book is at 310.3%, the 94th percentile over five years; net leverage at 73.3%, the 6th percentile over one year

Source: reconstructed from Goldman Sachs Prime data



02

Equity

Vincent Lin of Goldman Sachs has measured the hedge funds' unwinding of artificial intelligence: what remains in their portfolios is still a great deal. Around it, Anthropic's listing hanging in the balance, two historical parallels and the signs of a rebound.

IN THIS CHAPTER

Analysis · Charts · Takeaways · Glossary

READING TIME

~ 5 minutes

WHAT HAPPENED

Hedge funds sold artificial intelligence for five sessions, from 8 to 14 October: for Goldman Sachs, the net purchases since 2025 have been undone.

- The Nasdaq 100 lost almost 6% over the week, its worst since the “Liberation Day” of tariffs; only the Dow Jones rose.
- Net allocation to artificial intelligence has fallen to 26.1% from 31.7% in early June: 49th percentile over one year, 83rd over three.
- Gross leverage among Goldman's fund clients stands at 310.3%, the 94th percentile over five years; net leverage at 73.3%, the 6th over one year.
- On Polymarket, a prediction market, the probability that Anthropic lists by November has fallen from 89% to 56%; valuation cut from 2,000 to 1,500 billion dollars.

In five sessions, hedge funds sold the artificial intelligence they had bought since 2025

The ratio of long to short positions has fallen from 4.34 to 3.27, but exposure remains about three times that of early 2023: has the unwinding just begun, or is it already over?

Net exposure sold, gross exposure remains

Vincent Lin of Goldman Sachs starts from the sharp fall of Wednesday 14, triggered by consumer prices. Hedge funds, funds that take long and short positions at the same time, sold artificial intelligence for five sessions: the second-largest volume of net selling in the past year after late July, with long positions liquidated at a ratio of 3.5 to 1. Eleven weeks on, cumulative flows since January 2025 are back to zero.

The selling touched eight of eleven American sectors; healthcare and consumer staples were bought, for Goldman a defensive stance. The point is gross leverage, the sum of long and short positions: down by just 0.4 points but up by 0.6 points over the month, while net leverage, the difference between the two, sits at the 6th percentile over one year. In my view the first phase, cutting the net, is over; the second, cutting the gross, began on Thursday.

Anthropic, 2008 and 1997

Anthropic has admitted a sharp slowdown, the head of New York's pension fund has called for the listing to be withdrawn, and the company is offering Blackstone a yield above 10% to finance 60 billion dollars of chips. On Saturday Bloomberg reported an open channel with the city's comptroller, Mark Levine; no comment, and no date ever set.

> The purchases of 2023 and 2024 are still in the hedge funds' portfolios.

For Chris Wood of Jefferies, investment is increasingly financed with debt: the five hyperscalers have issued 229 billion dollars of bonds this year against 108 billion dollars in 2025. As with mortgage credit in 2008, data centres are built on a promise of future payment by the tenants, and of the roughly 2,300 billion dollars of orders still to be fulfilled at Microsoft, Alphabet, Amazon and Oracle, about half is owed by OpenAI and Anthropic, which lose money. Goldman estimates that Amazon, Microsoft and Google need about 1,000 billion dollars of revenue in 2028-30: without the two laboratories the threshold is far away.

Albert Edwards of Société Générale looks at the Asian crisis of 1997: gross investment by American companies is around 14% of gross domestic product, net investment, after depreciation, around 3% for a decade: more is being spent to stand still. The pattern is a narrative that attracts abundant, cheap capital, badly allocated, until the creditors notice.

A rebound, or something bigger

For Rich Privorotsky of Goldman, the neocloud basket has lost 20% in five sessions, around the 1st percentile over ten years: the most painful trade was being long artificial intelligence and short bonds, and now both are being unwound. The Nasdaq 100's ratio of price to expected earnings is at about 21 times, the lowest since 2023.

The signs of a rebound are there: on Thursday the Nasdaq 100 closed well above its lows, short positions on the Russell 2000 of smaller companies are crowded, and Korea's KOSPI is at its most extreme excess of selling since October 2022. JPMorgan leans towards buying on the declines, and the calendar helps: buybacks in November, 166 billion dollars of new money in money market funds, foreign investors returning after the vote.

Louis Miller of Goldman proposes five trades for a “frightening market”, and Brazil belongs in the chapter on currencies: the broadening of the rally, because the S&P 500 without artificial intelligence has beaten the index by 5.86 percentage points since 6 October; then quality, healthcare and Taiwan. With net exposure at the 83rd percentile over three years and gross leverage at the 94th over five, to me the unwinding looks closer to its beginning than to its end.

TAKEAWAYS

01 Anthropic's date.

For George Saravelos of Deutsche Bank, the greatest systemic risk of 2027 is not France but an accident in artificial intelligence, a failed listing included. If Anthropic were to deny it by setting a date, a short squeeze would be possible; Polymarket is at 56%.

02 The hyperscalers' accounts.

Quarterly results will tell whether the credit market's verdict holds. What to look for is the weight of OpenAI and Anthropic: for Jefferies they accounted for about 45% of Google Cloud's revenue and 25% of Azure's in the second quarter.

03 Taiwan and Korea.

TSMC lost 2.3% despite raising its forecasts, and foreign investors withdrew a record of about 9.3 billion dollars from Taiwan in a single day: Goldman proposes short positions on Taiwanese semiconductors. On Thursday 22 the Bank of Korea decides on rates.

04 Semiconductor prices.

For Michael Hartnett of Bank of America, the signal is the price of chips: producer prices of American semiconductors are rising again after a long decline. Further rises are positive; a reversal would herald tighter credit and a peak in investment growth.

↑ CONTENTS

Four charts on the unwinding of artificial intelligence positions: a price that is rising after thirty years, how much hedge funds sold in a single day, how much remains in their portfolios, and American investment as Albert Edwards sees it.

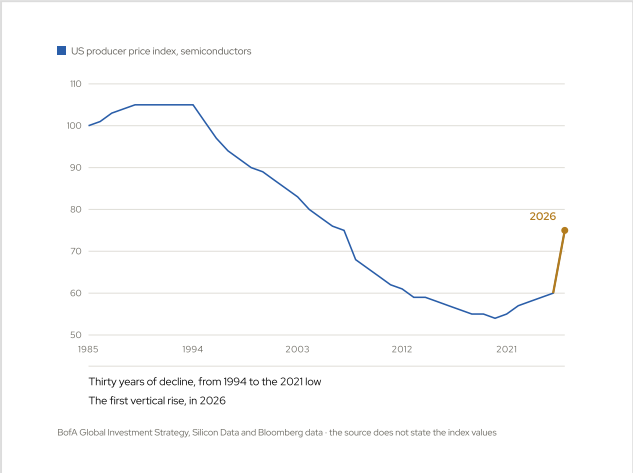


FIG. 2.1

US semiconductor producer prices rise vertically after thirty years of decline

Source: reconstructed from BofA Global Investment Strategy, Silicon Data and Bloomberg data

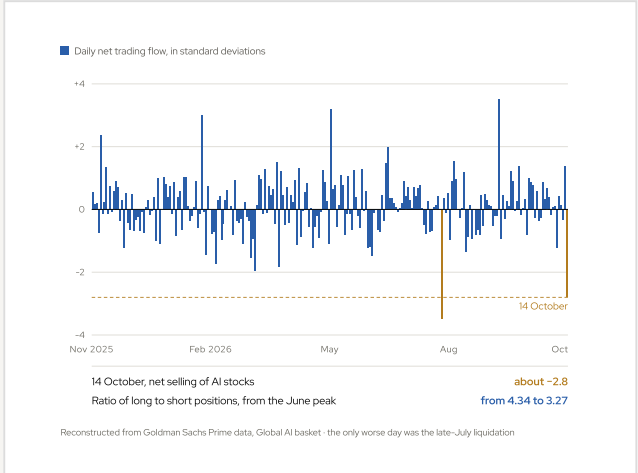


FIG. 2.2

On 14 October hedge funds sold AI stocks by about 2.8 standard deviations: only the late-July liquidation was worse

Source: reconstructed from Goldman Sachs Prime data, Global AI basket

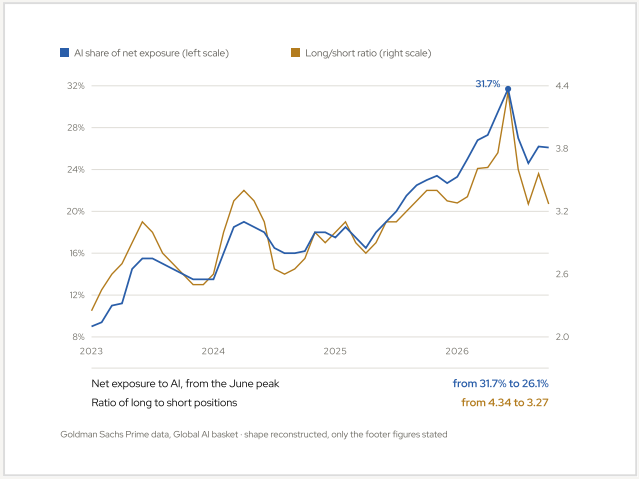


FIG. 2.3

Hedge funds' net exposure to AI has fallen from 31.7% to 26.1%, still about three times the level of early 2023

Source: reconstructed from Goldman Sachs Prime data, Global AI basket

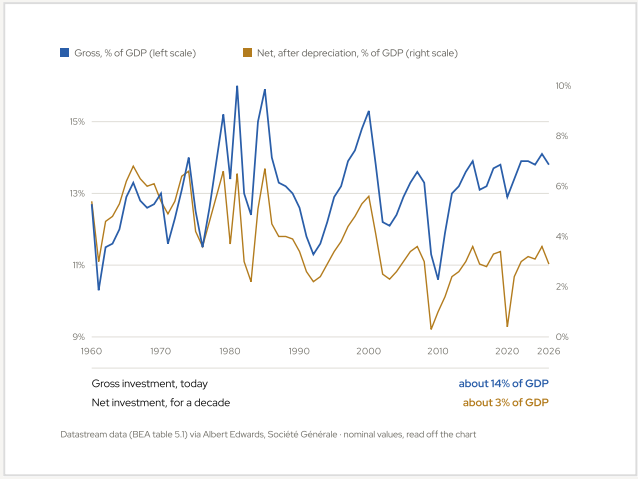


FIG. 2.4

US business gross investment amounts to about 14% of GDP, net investment to about 3% for a decade

Source: reconstructed from Datastream data, via Albert Edwards (Société Générale)



03

Fixed Income

US yields fell in the week of the highest inflation data in months, because the market is looking at artificial intelligence debt. Then the Treasury future that has turned into a mortgage-backed bond, and Spain going to the polls.

IN THIS CHAPTER

Analysis · Charts · Takeaways · Glossary

READING TIME

~ 5 minutes

WHAT HAPPENED

The US ten-year, from the 5.36% touched a week earlier, stood at 5.08% on Thursday morning, a three-week low; on Friday morning it climbed back to around 5.11%.

- Across the 20 high-yield data center bonds tracked by Goldman Sachs, investment advisers have gone from 3.7 at the end of 2025 to 18.2 billion dollars, insurers from 0.5 to 2.8.
- Their average price has fallen from 101.5 on 30 June to 94.7 on 14 October, almost 7 points, against about 3.7 for the whole high-yield index.
- With the US twenty-year close to 5.68%, the bond that is cheapest to deliver into the Treasury future has a duration (sensitivity to rates) of 13.24 years; above 6% it would exceed 17.
- Pedro Sánchez has called early elections for 29 November: the 40dB poll puts the PP at 31.6%, Vox at 18.4% and the PSOE at 27.4%.

The US ten-year at 5.08% while artificial intelligence debt loses value

Prices above expectations, yields falling: artificial intelligence debt weighs more than inflation, and the losses on data center bonds sit in savers' funds.

From inflation to growth

The Treasury market sold off on consumer prices, then reversed course on fears about the financing of artificial intelligence: on Thursday long yields fell by as much as 11 basis points (hundredths of a point). Record artificial intelligence issuance was competing with government bonds: if that flow stops, supply falls, expected growth worsens and long bonds are bought. For Praneet Shah of Goldman Sachs that system, laden with debt, could be close to the level of yields beyond which it becomes far more sensitive to rates.

Seven of the 20 high-yield data center bonds depend on a single tenant, CoreWeave, and yield about 14-16%. For Goldman, investment advisers, that is, those who manage the money of private clients and retirement accounts, hold about 78% of the disclosed positions. Rates explain about half of the fall in prices, the rest is artificial intelligence: on 18.2 billion dollars, paper losses in the order of 1.2 billion dollars.

The future that lengthens

For Harley Bassman, creator of the MOVE index of bond volatility, the future on US government bonds, that is, the forward contract, behaves like a mortgage-backed bond. Whoever sells the contract can deliver at expiry any one of 59 Treasury bonds between 15 and 25 years, and chooses the cheapest. The exchange makes them comparable with a conversion factor calculated as if rates were at 6%: below that threshold it pays to deliver one of the shorter ones, above it one of the longer ones.

> A contract that for almost twenty years behaved like a single bond becomes a basket again: whoever holds it discovers the risk while it is changing.

The duration of the contract is that of the bond that is cheapest to deliver: 11.03 years at the start of July; 13.24 today; 16.84 with another 35 basis points, 17.47 with another 35. A 70 basis point fall in yields takes away 2.2 years, an equal rise adds 4.2 (negative convexity): whoever wants to keep their risk unchanged has to sell when prices fall, and every sale pushes yields towards the next switch.

For Bassman, above 6% the bond switch would be equivalent to 110 billion dollars of new twenty-year issuance in four months. William Marshall of Goldman Sachs judges that amplification largely exhausted, with about 60 billion dollars in ten-year equivalents of mortgage-related hedging and 10-15 billion in futures since September, and the bank turns more favourable to duration.

Does French stress stay French?

Pedro Sánchez has called early elections for 29 November, about eight months before the end of the term, after Parliament rejected the housing decrees; Feijóo, of the PP, has signalled that he could govern with Vox. Spanish markets reacted little, with the stock market unchanged and the Bonos, the government bonds, little changed: the market had been pricing in a change of government for months.

For Mike Cahill of Goldman the euro loses on average about 4-5% for every extra 100 basis points of spread, but only in acute stress. For the bank's economists the ECB has a much lower threshold for shielding an “innocent bystander” such as Spain from contagion than for intervening on France. I note that the ECB is raising rates with inflation at 3.8%, and that the Bonos would follow Paris more than the polls.

TAKEAWAYS

01 The twenty-year and the MOVE.

The twenty-year Treasury, about 30-35 basis points from 6%, and the MOVE index of bond volatility: for Bassman volatility can push hedge funds, the speculative funds, to unwind the basis trade, about 830 billion dollars in September 2025, by selling Treasuries.

02 Friday's CFTC data.

The report from the CFTC, the US derivatives regulator, will say whether asset managers keep selling the longest futures: in the two weeks to 6 October they sold about 38 billion dollars in ten-year equivalents. If they slow down Goldman is right, if they speed up Bassman is.

03 Tuesday 20, the long auctions.

Japan sells a twenty-year bond, Germany five- and thirty-year Bunds. The US twenty-year auction in September closed at 5.420%, the highest since 2020, with indirect demand at a record low of 52.5%; Citi expects cuts of 3 billion dollars per auction.

04 Spain at the short end.

The two-year spread between Bonos and Bunds, up from single digits to about 20 basis points, is where contagion shows first; on Monday 19 France sells BTFs, Treasury bills at 3, 6 and 12 months.

↑ CONTENTS

Four charts on the fragile side of fixed income: who is left holding the data-centre bonds, why 6% on the US 20-year is a threshold, the future that fell below 110, and the basket of deliverable bonds.

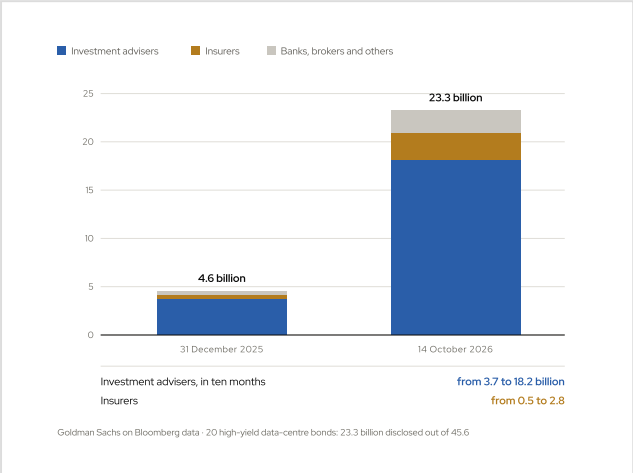


FIG. 3.1

Investment advisers went from 3.7 to 18.2 billion dollars of high-yield data-centre bonds in ten months

Source: Goldman Sachs Global Investment Research on Bloomberg data

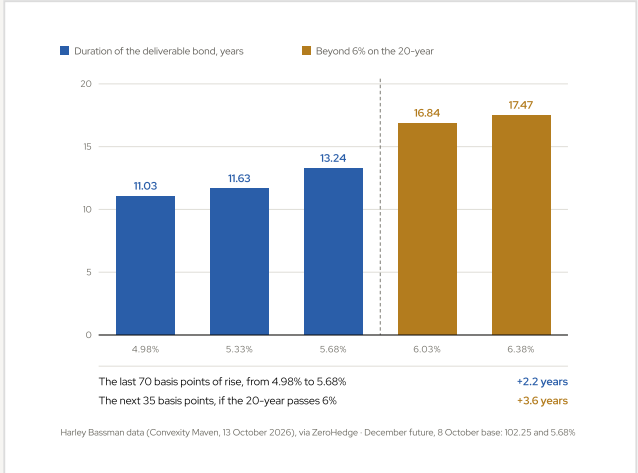


FIG. 3.2

If the 20-year passes 6%, the duration of the bond deliverable into the future jumps from 13.24 to 16.84 years

Source: Harley Bassman, Convexity Maven, via ZeroHedge

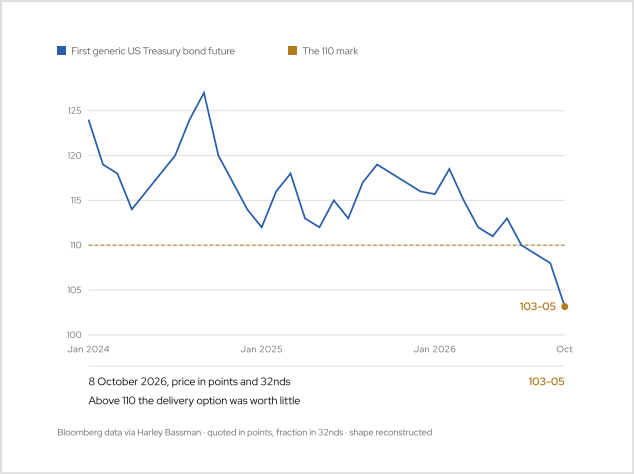


FIG. 3.3

The Treasury future fell to 103-05 on 8 October 2026: below 110 the delivery option is active again

Source: Bloomberg, via Harley Bassman (Convexity Maven)

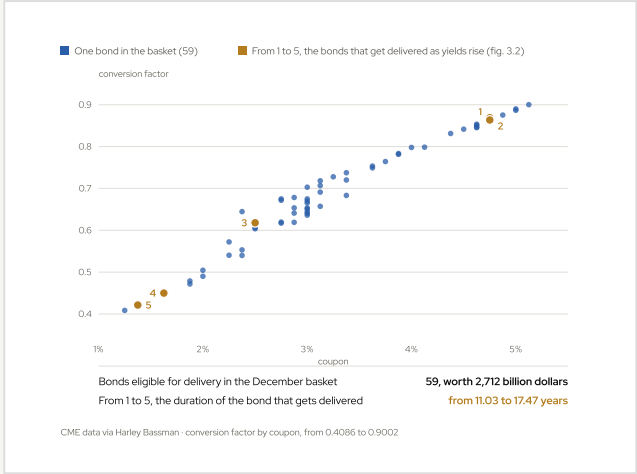


FIG. 3.4

The December basket: 59 bonds worth 2,712 billion dollars, and the five delivered as yields rise

Source: CME, via Harley Bassman (Convexity Maven)



04

Commodities

For much of the year silver amplified gold's moves. This month it falls even when the factors that should support it improve. A Goldman Sachs note measures who sold, and what could unlock it.

IN THIS CHAPTER

Analysis · Takeaways · Glossary

READING TIME

~ 5 minutes

WHAT HAPPENED

In the week ended 29 September speculators sold 1.6 billion dollars of silver futures, the largest weekly amount since February: 800 million dollars of closed positions, 800 million dollars of new short positions.

- Net speculative long positions have almost halved, from about 24 billion dollars at the January peak to about 12 billion; the price from over 115 dollars an ounce to less than 60 dollars.
- From 29 September to 7 October the Data Center basket rose 4.2% and the Solar basket 2.4%; the dollar strengthened by 0.8%, silver fell 1.4%.
- CTA funds, the ones that follow trends, have moved from about 1.2 billion dollars net long at the start of September to about 1.4 billion net short, the lowest in at least a year.
- Gross long positions of managed funds, without subtracting the short ones, have fallen from about 6.9 billion dollars to about 5 billion since the start of September; in the note the dollar index stands at 102.5, a six-month high.

Silver below 60 dollars, the largest speculative selling since February

For Robert Quinn of Goldman Sachs the metal is stuck: industrial demand is improving, but a dollar at six-month highs and rising real rates weigh more.

Who sold, and how much

Robert Quinn is the Goldman Sachs analyst who follows buyers and sellers of metals on COMEX, the New York futures exchange, and he titled his latest note “Silver Futures: Stuck”. At the end of September the Commitment of Traders shows a downward turn in speculative positions; at the start of October the indicators of structural demand improved, but the macroeconomic picture prevailed, and the negative flows appear to persist.

The selling in the week ended 29 September came from the report's three speculative categories, managed funds (Managed Money), other operators and small traders, and half of it was new short positions. The net long position of managed funds is 29,500 contracts below a year ago, and the price has followed the positions: both roughly halved from the January peak.

The CTA funds sold too, a reversal of about 2.6 billion dollars in five weeks, and options have moved from euphoria to fear: the put skew is in the highest 10% of the last two years, while three-month implied volatility, the expected size of price moves, has fallen to about 33% from over 100% in January. Few expect large moves, and those who do expect a fall: a combination that often precedes the opposite.

The dollar weighs more than demand

Quinn uses two of the bank's equity baskets as indicators of demand: Data Center, tied to artificial intelligence infrastructure, and Solar, photovoltaics, a large industrial use. For six months both have moved together with the long positions of managed funds. At the start of October both rose, and speculators should have come back. They did not: American real rates, yields net of expected inflation, rose slightly and the dollar strengthened.

> A market that has sold, opened short positions and bought protection almost to the limit does not need good news: it is enough that no new bad news arrives.

Since August long positions have been the mirror image of the DXY index, the dollar against the main currencies. In mid-September Quinn showed the opposite case: silver down 4.7% with the Data Center basket losing 6.9%, after the sector's doubts about the pace of artificial intelligence expansion. At the time that thesis weighed; now it is favourable and silver is not rising. For me the Federal Reserve and the dollar decide.

What could unlock it

For Quinn the decisive factor is the dollar. The Goldman Sachs currency team is cautious on further dollar strength in the short term, because of extreme positions in several currencies and the patience the Federal Reserve declares on rate rises. In its minutes, however, most officials consider another rise before year-end probably appropriate, expected by Goldman in December; the selling in artificial intelligence stocks has cut the probability of a rise in October from 55% to 13%.

The physical market says otherwise. For Lina Thomas and Daan Struyven, strategists at the bank, the fear of tariffs brought so much metal to the United States that much of it will stay there, with limited stocks elsewhere: the conditions for a repeat of the volatility seen between the second half of 2025 and the first half of 2026, should investors return. China bought on the decline, and for the bank's traders Chinese physical demand is a key factor.

TAKEAWAYS

01 The next Commitment of Traders.

It will say whether the 800 million dollars of new short positions from late September are being closed or increased. The last time Quinn recorded positioning this low, at the end of July, silver rose 15% in six weeks.

02 The dollar before the Fed.

In the note the dollar index stands at 102.5; the Federal Reserve meets on 27 and 28 October with the probability of a rise down to 13%. A dollar that stops rising is the only way out that Quinn indicates.

03 Brent and artificial intelligence.

If Brent, the benchmark crude, rises further because of Iran, a decline in silver towards the mid-50s in dollars is possible. If instead yields fall because artificial intelligence stocks give way, industrial use can weigh on the metal: from 55 dollars, 40 dollars is close.

04 China and the gold/silver ratio.

The ratio between gold and silver, how many ounces of silver one ounce of gold is worth, is around 70 from 66 at the start of September. The People's Bank of China buys gold, not silver: worth watching whether Chinese physical buying on the decline continues.

↑ CONTENTS



05

Forex & Crypto

The collapse in Asian technology spread from shares to currencies in a few hours, and for Goldman Sachs the won, the Taiwan dollar and the US dollar form a bloc of their own. The real rises, a week before the run-off.

IN THIS CHAPTER

Analysis · Takeaways · Glossary

READING TIME

~ 5 minutes

WHAT HAPPENED

On Thursday Korean shares fell by more than 8% at one point, Taiwan's by more than 3%; foreign investors pulled a record of about 9.3 billion dollars out of Taiwan.

- The won and the Taiwan dollar lost about 1%, the worst in Asia: beyond 1,350 won per dollar, and towards 32.30 Taiwan dollars, the weakest level of 2026.
- Taiwan's state-owned banks, the Reserve Bank of India and Bank Indonesia sold dollars: the Indian rupee rose 0.2%, the Indonesian rupiah remains close to 18,000.
- The Philippine peso, with no visible defenders, crossed 63 per dollar for the first time; the US dollar, at its highest since May 2025, closed the week lower.
- The Brazilian real has risen about 3.5% against the dollar since the first round on 4 October; expected volatility on the EWZ ETF is at its highest since Covid.

Asian central banks sell dollars, but the AI currencies fall all the same

Taiwan, India and Indonesia put dollars into the market at the height of the collapse, and only those with no artificial intelligence positions to unwind held up. Brazil is moving in the opposite direction.

Dollars sold at the height of the collapse

A few hours after the automatic trading halts in Korea and the record outflow from Taiwan's shares, the collapse spread to currencies. According to Bloomberg, Taiwan's state-owned banks were selling dollars, the Reserve Bank of India likewise, and Bank Indonesia confirmed its intervention on the rupiah. The cause is the same as for the collapse of the KOSPI: the unwinding of artificial intelligence positions, ever since Wednesday's higher-than-expected US inflation turned into fear for growth and for the financing of data centres.

The interventions worked in part, only where the problem was not technology. The won and the Taiwan dollar, by contrast, kept falling despite the dollars sold by the state-owned banks: for Christopher Wong of OCBC they are indirect indicators of the technology cycle, and for Philip McNicholas of Robeco the currencies suffering are those exposed to technology and those most sensitive to risk.

The artificial intelligence currency bloc

Praneet Shah, head of currency options at Goldman Sachs, reads the moves after the inflation data this way: the currencies most exposed to artificial intelligence, the US dollar, the won and the Taiwan dollar, weaken together, while the funding currencies, the euro, the Swiss franc and the yen, strengthen. For Shah it is an adjustment in the terms of trade: the currencies tied to the financing of AI and to its supply chains are sold together, whatever their sensitivity to risk. AI has a currency bloc of its own, and the dollar is part of it.

> A central bank can sell every dollar it holds: if its currency follows the technology cycle, that cycle sets the price.

Goldman, however, draws a distinction: its currency desk has told clients to buy the won, positioning against the weakness caused by the stock market. For Sun Lu, of the same bank, even with foreign outflows from the stock market of 13 billion dollars a month, Korea still takes in about 4 billion dollars net a month, assuming exporters convert 75% of a monthly trade surplus above 40 billion dollars; and every 5% fall in the KOSPI unwinds foreign investors' currency hedges worth about 9 billion dollars. Seoul can let the won swing; Taiwan has no such support: the won is up almost 7% on the year, the Taiwan dollar is at its weakest level of 2026.

India is spared, Brazil rises

Outside North Asia the contagion hit, as usual, the currencies of countries with an external deficit. The exception is India: the Nifty index rose 1.9% to above 23,000, on the rotation out of AI and the fall in oil, and the rupee, supported by the RBI's dollar sales, rose for a fourth session. It is the only Asian market with no AI positions to unwind. For Eugenia Victorino of SEB, interventions dampen volatility in the short term, not a weakening that comes from the fundamentals: they buy time.

The real has strengthened by about 3.5% since the first round on 4 October, despite the dollar's general rise: the market is giving ever more weight to a possible reform of the public finances under Flávio Bolsonaro, with a proposed adjustment of about 1.5% of GDP. I note that the reform is being bought before the vote that decides it. The Ibovespa is flat, but expected volatility on the EWZ ETF, the Brazil fund, is at its highest since Covid; small caps and rate-sensitive sectors have risen by about 15-20% since the first round, and after the 2018 vote, Goldman recalls, they rose 30-40% in six months.

TAKEAWAYS

01 Thursday 22, the Bank of Korea.

It decides on rates with the KOSPI down 20% in a week, after Governor Shin called for a stronger won. To watch: whether the exchange rate stays between 1,350 and 1,380, the band that according to Goldman the authorities will probably defend to avoid 1,400.

02 Taiwan, foreign selling.

To follow: net foreign selling in Taipei and the Taiwan dollar towards 32.30. The net position of hedge funds was higher than in 93% of the past year, and if Goldman is right the state-owned banks will sell many more dollars.

03 Sunday 25, the run-off.

Flávio Bolsonaro is the favourite, but Gerp gives him a ten-point lead and Palver just one; for Goldman the probability of a Lula win has risen from about 12% to 24%. TS Lombard expects two quarter-point cuts by December, with the Selic policy rate at 13.25%.

04 Indonesia and the MSCI index.

Jakarta risks exclusion from the MSCI emerging markets index: the stock market has lost 11% over this technical and political affair, and the rupiah is close to 18,000. The affair is one to follow, together with the exchange rate: it is the shock that risks being underestimated.

↑ CONTENTS

A glossary is not read from the first entry to the last: it is consulted. The words marked in the text lead here.

A – B

Basis trade

Buying the government bond and selling the future, collecting the small price difference with a great deal of borrowed money. In March 2020 its unwinding forced the Fed to expand its balance sheet by 3,000 billion dollars.

C – D

Cheapest to deliver

The least costly among the bonds that the seller of a future can deliver. The contract behaves like that bond: if it changes, the risk of whoever holds it changes.

Commitment of Traders

The weekly report of the CFTC, the American derivatives regulator, which divides open positions in futures by category of operator: managed funds (Managed Money), other operators and small traders.

Credit default swap

A contract that insures against a borrower's failure to pay: the buyer pays a premium, the seller pays out if the borrower defaults. From the premium one derives the probability of default estimated by the market.

CTA

Commodity Trading Advisors: funds that buy what is rising and sell what is falling by automatic rules, with no judgement on fundamentals. For this reason they amplify moves in both directions.

E – F

Funding currencies

Low-interest currencies, such as the euro, the Swiss franc and the yen, borrowed to invest elsewhere. When positions are closed, the loans are repaid and these currencies rise.

G – I

Gross and net leverage

Gross is the sum of long and short positions relative to capital, net is the difference. High gross and low net: little bet on direction, but many stocks to sell in a crisis.

Hyperscaler and neocloud

Hyperscalers are the large providers of computing capacity, such as Microsoft, Alphabet, Amazon and Oracle; neoclouds are younger companies, such as CoreWeave, that rent out capacity for artificial intelligence and finance themselves with debt.

Implied volatility

The swing that the options market expects from a security. The VXEWZ measures it for the Brazil ETF: high even with the price flat, because the uncertainty of the vote is being paid for.

N – P

Negative convexity

A bond that, for the same change in rates, loses more than it gains: for Bassman, it gains 6 points and loses 12. Typical of mortgage-backed bonds, which yield 75-100 basis points more than ten-year Treasuries.

Percentile

It says where a value stands relative to its own history: at the 94th percentile it is higher than 94% of the readings. The same figure can be normal over one year and extreme over three.

Put skew

The price gap between options that protect against a fall (puts) and those that bet on a rise (calls). When it is high, protection costs much more than the bet: the market fears a decline.

Q – S

Short squeeze

Forced covering: those who have sold short, that is, bet on a fall, must buy back when the price rises, and push it higher. The more crowded the short sellers, the more violent the rebound.

Systematic funds

Hedge funds that buy and sell according to programmed rules, with no discretionary decisions by the manager. Also called quant funds: on CPI day they gained without owning any artificial intelligence stocks.

T – Z

Terms of trade

The ratio between the prices of what a country exports and what it imports. If the value of Korea's and Taiwan's exports falls, so do their currencies.



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