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@crazyphoton

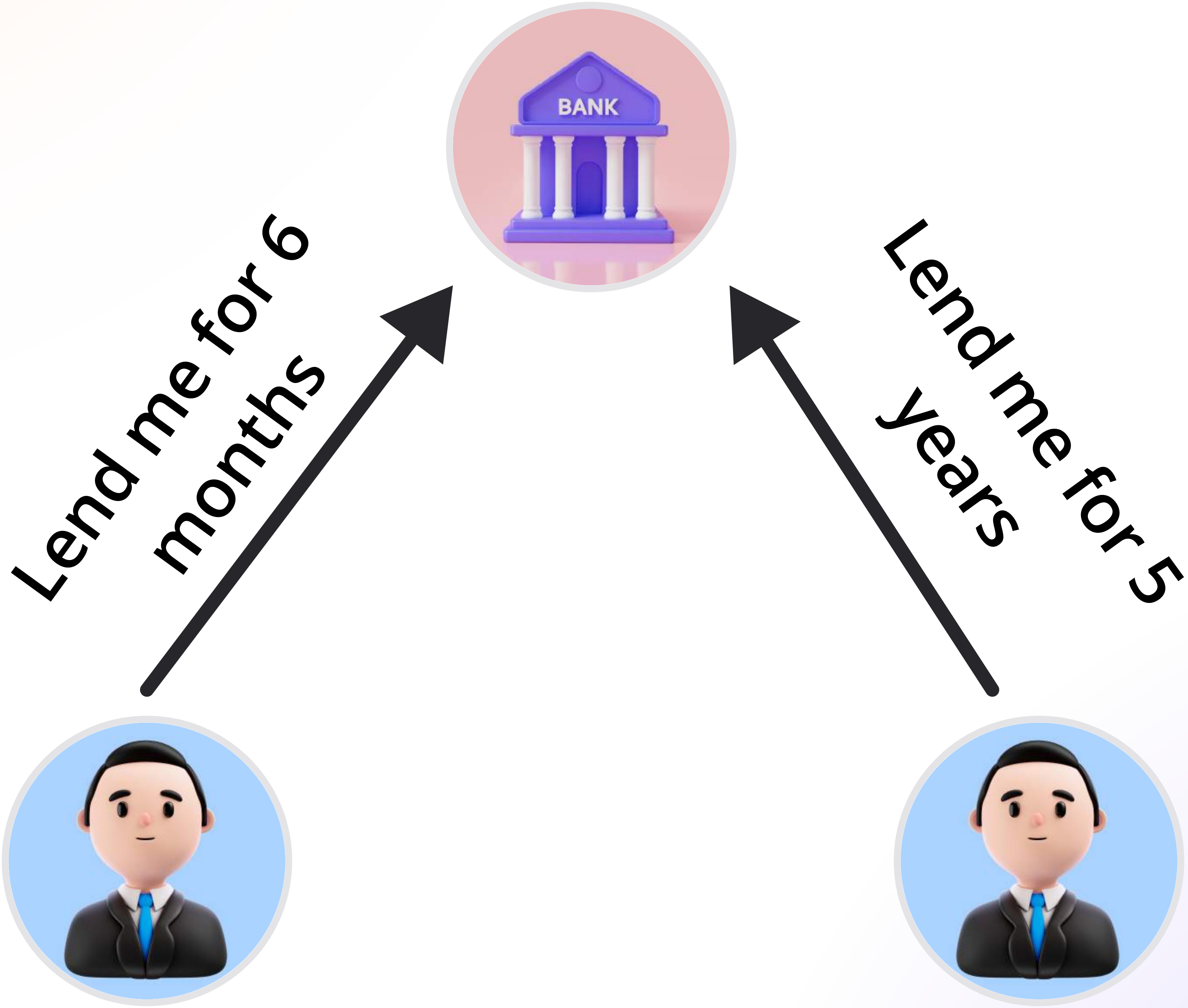
Why are banks getting into trouble these days?

svb Silicon Valley Bank

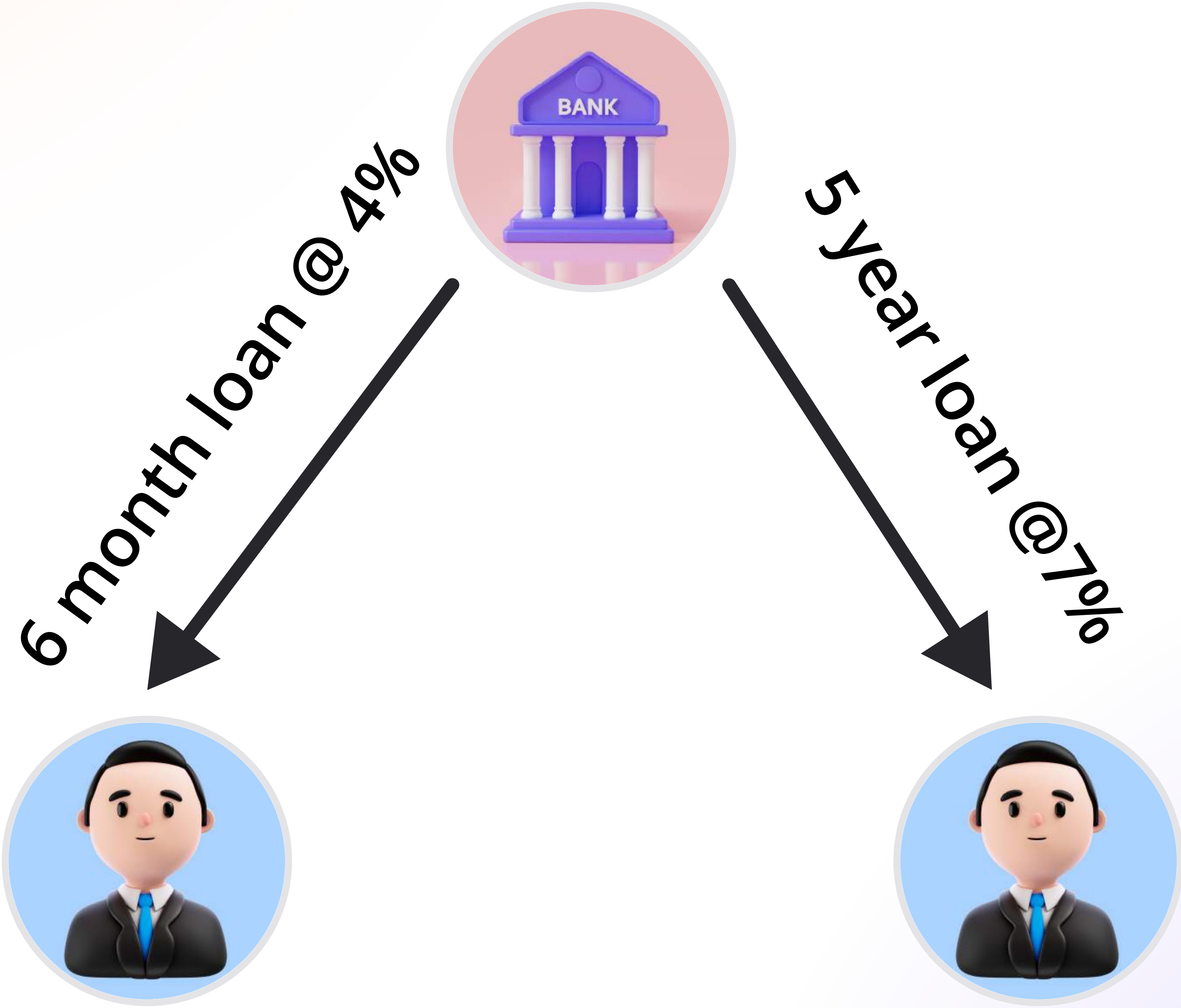
Credit Suisse

Deutsche Bank

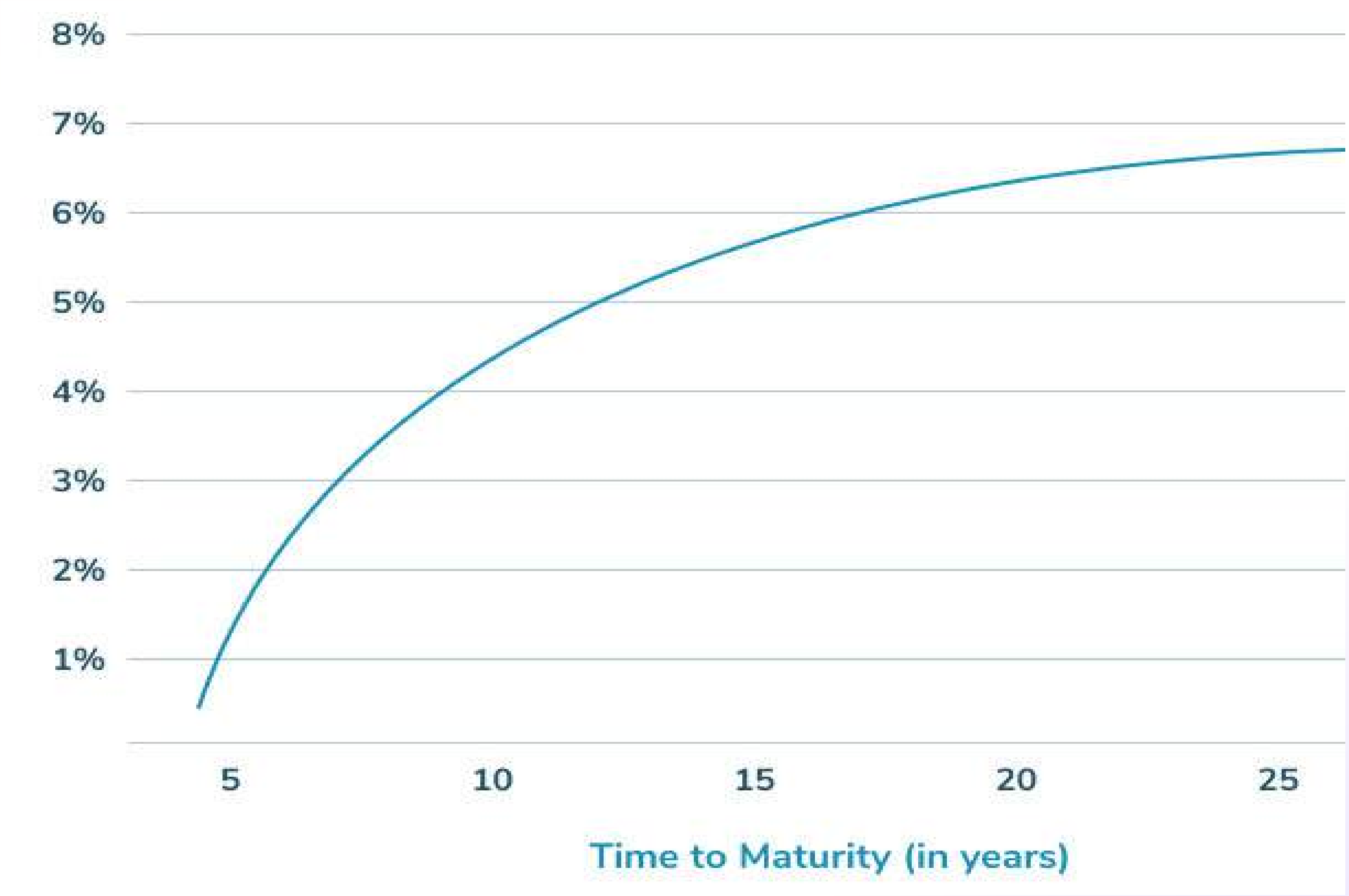
Long term lending is riskier than short term. So more risk premium is charged on it!



That is why short term interest rates are lower than long term.



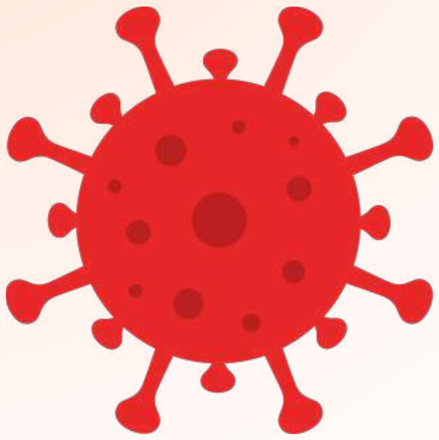
So the normal yield curve slopes up!



I can make tons of money if I lend for 5 years @ 7% and borrow every 6 months @ 4%!

After 6 months, I will borrow again @ 4% and thus will keep on earning a handsome 3% profit!

And thus... the CARRY TRADE is born!



But after covid, Fed printed tons of money...

Russo - Ukraine war jacked up global food and fuel prices...

Inflation

As a result, inflation came back with a bang!

Oops... I printed too much money! I gotta take it back...

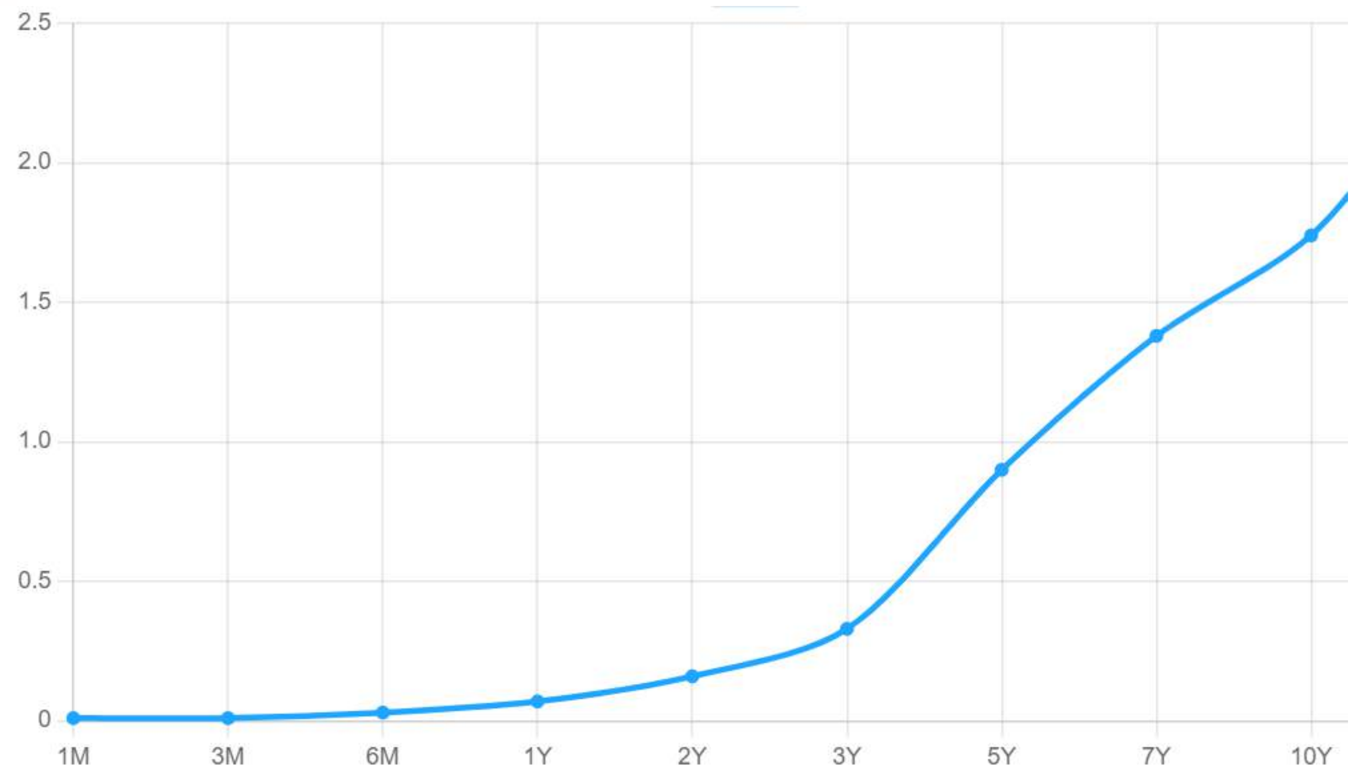
So Fed had to increase overnight rates from 0% to 5% in record time!

The short term rates shot to 5% as they are influenced more by Fed.

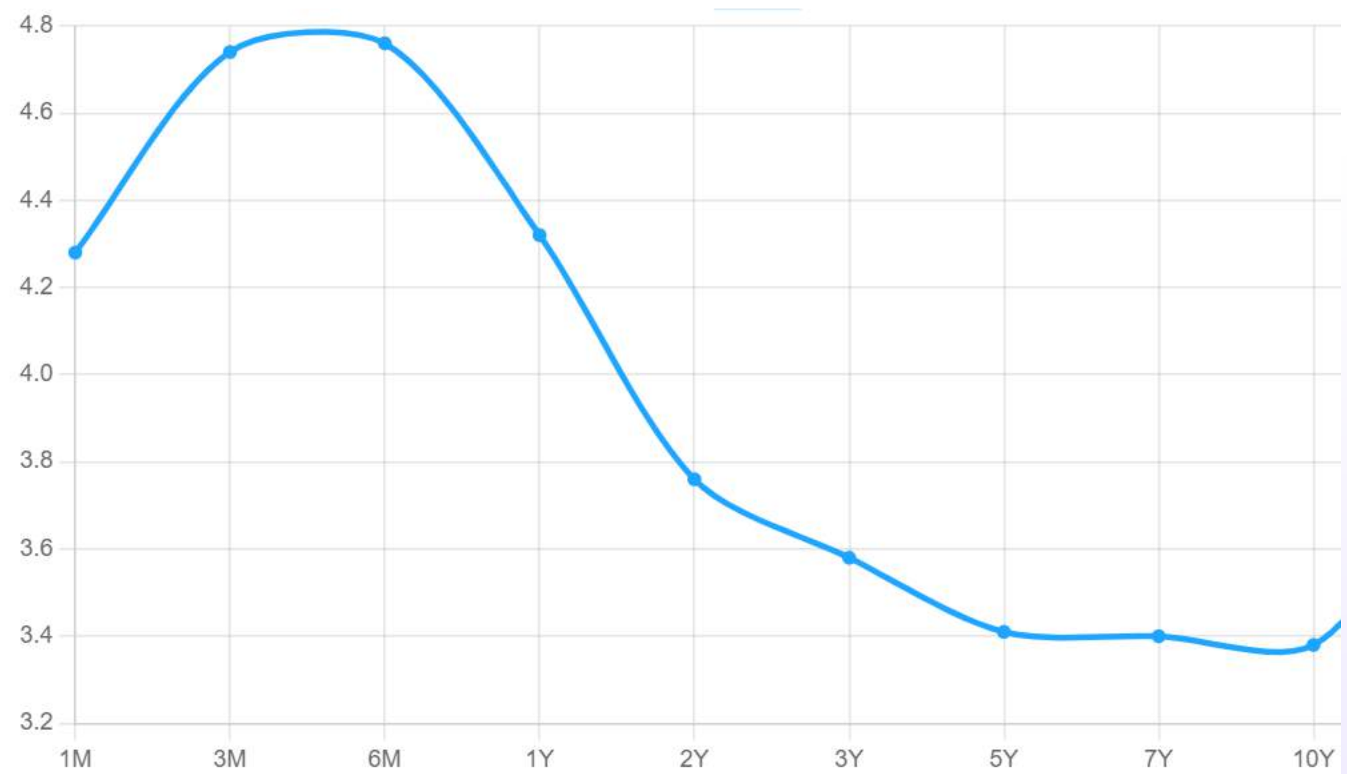
Long term rates stayed at 3.5% as they are influenced more by inflation

The yield curve **INVERTED !!**

Yield Curve 2 years ago



Yield Curve now



Oops! I was borrowing at short term whose costs are higher now.

The CARRY TRADE turns loss making and the weak banks face the music!