Eoin Treacy

From: Eoin Treacy (FT MONEY LTD) <eointreacy@bloomberg.net>
Sent: Friday, March 20, 2020 10:31 AM
Subject: (BN) Margin Calls Hit Wall Street Like ‘30 LTCMs Out There’ at Once

---

Margin Calls Hit Wall Street Like ‘30 LTCMs Out There’ at Once
2020-03-20 17:01:32.275 GMT

By Yakob Peterseil
(Bloomberg) -- If you’re sensing market players are overcome with shoot-first-ask-questions-later palpitations, you’re not alone. Wall Street says margin calls are at work in this week’s market meltdown, and it’s stirring dark memories.
Wells Fargo & Co. strategists join a growing chorus seeing “accelerating” broker demands for investors to post more collateral to cover losses in their leveraged accounts.
That’s fueling disorderly trading conditions that at one point recalled the blow-up of one of the most infamous hedge funds in modern finance, according to the San Francisco-based bank.
“One investor said it felt like ‘there were 30 LTCMs out there,’” a team led by Chris Harvey wrote in a Thursday note.
Long-Term Capital Management, or LTCM, became the poster child for the dangers of leveraged investing more than two decades ago. As the Asia crisis of the late 1990s unfolded, its relative value bets in fixed-income markets imploded, prompting margin calls the firm couldn’t meet. Fearful that its collapse could bring down others on Wall Street, the Federal Reserve hastily organized a bail-out.
In recent weeks, markets have been rocked by unprecedented volatility as the spreading coronavirus upends traditional havens. In just one example of many, 10-year Treasuries suffered their biggest two-day yield surge since the 1980s this week.
Margin calls are the likely culprit behind a slump in Treasury futures that sunk a popular hedge fund trade in recent weeks. Funds who had been making highly-leveraged bets on price moves between Treasury futures and bonds saw their positions collapse when investors hit with margin calls sold the contracts.
Some of the recent dollar strength may also have been driven by margin demands. South Korean brokerages who hedge their exposure to structured products with dollar-denominated derivatives positions are facing calls, forcing them to scoop up dollars. In gold, investors liquidating bullion holdings to raise cash have been blamed for the metal’s epic slump.
Wild moves reign among risky assets like corporate bonds and oil -- opening up the possibility of more margin stress.

“Half the people we talk to think the current environment is worse than the financial crisis,” the Wells Fargo strategists wrote.

--With assistance from Sid Verma.

To contact the reporter on this story:
Yakob Peterseil in London at ypeterseil@bloomberg.net
To contact the editors responsible for this story:
Sam Potter at spotter33@bloomberg.net
Sid Verma