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Deglobalization Opportunities in Foreign Exchange Markets

1. Introduction

Successfully navigating a borderless world with fractured institutions requires a deep understanding of unravelling and linking processes in foreign exchange. Although foreign exchange markets are where sophisticated multinational corporations rebalance global risk and townspeople buy travel cash, they disproportionately trade assets for dollars, euros, yen, pounds, and the Chinese renminbi. This essay zooms into deglobalisation (with voluntary and involuntary components) and what that means to conduct business across borders in a changing world. As a starting point for our claims about deglobalisation freeing currencies from what they should now do, it describes many powerful forces that created unprecedented international linkages from 1980 to 2020 and now struggle against domestic populism sponsored by social media. The essay also motivates a closer study of the currents in government debt as a fraction of taxpayers' incomes, credit with unlimited borrowing ability, and other rates of return on the resources fed into enduring economic relationships worldwide. Many of our claims will be controversial, challenging the reader to consider alternative viewpoints. Readers could easily conclude from their doorstops, news, or reliance on headlines that we misunderstand our surroundings. Along with drawing on other sources, where do we draw our alternative view of foreign exchange markets? Why do these markets continue to grow? And what do surveys and models say that market participation depends upon? As we assess how to shed light on foreign exchange transactions' price and quantity patterns, we also evaluate whether purged narratives of outsourcing, fallibility, volatility, a currency hierarchy, and basis risk are observable. Can a narrow industry perspective help us divine felony conduct – typically only from informative trading exercises? What would happen if currencies lost their overabundance of patsies?

2. Concept of Deglobalisation

Deglobalisation, the decreasing degree of economic and social ties between countries worldwide, is a trend that cannot be ignored. It includes the 'de-embedding' of societies: the higher the degree of deglobalisation, the fewer relations between participants. Political shifts, economic policies, and technological changes are the primary drivers of this trend. As we navigate these changes, it's essential to understand the potential long-term trends resulting from deglobalisation. The proliferation of cross-border activities that led to an exponential growth in global trade volumes has stopped, and international trade volume is now decreasing. 'Back-pedalling' describes the drop in global trade and other supportive phenomena. 'Meshing in gear' is a coined term to denote the potential multi-decade trend of decreasing global trade openness resulting from the repositioning of national economies alongside domestic market supply chains, accompanied by some level of reshoring of internationally located production facilities. By understanding these potential trends, we can better prepare for the future and make strategic decisions in the face of deglobalisation.

Deglobalisation marks the beginning of changing dynamics in the market as global trade and investment volumes slow down or even decrease. International relations are being recast in the process. In the financial markets, deglobalisation and its myriad trends have far-reaching implications. This report focuses on the impact of globalisation on foreign exchange markets. It briefly explains the complex interaction between deglobalisation and globalisation in various market spaces and the various macroeconomic data sets that would help us understand the changing trend. The main implications and early warnings for market stress points are also provided.

2.1. Definition and Key Drivers

2.1. Deglobalisation: Definition and Key Drivers

2.1.1. Definition

The concept of deglobalisation—or the "reduction of cross-border economic, financial and political activity and interdependence"—is complex and nuanced. One should also consider the deeper motivators and influential parties when using the term to depict the recent, empirically observed trend towards increased national economic policy—such as import quotas, capital controls, rigid fiscal aid, industrial policy, trade barriers, embargoes, or export restrictions. Another

relevant process of "deglobalisation" is the adoption of beggar-thy-neighbour economic policy results, which may later be transformed into actual policy measures. In addition to the external drivers of deglobalising motivation, internal motivators may also lead to protectionist sentiments and the rejection of foreign partners.

As a commentary on the policy impacts and fluctuations of initial and current deglobalisation waves, another valuable definition of "deglobalisation," more encompassing of political sentiment and less reductive, is the movement, both in the hearts and votes of a disillusioned citizenry, toward cutting back on the incentives and institutions established over that quarter century to integrate the world's economies. This multidisciplinary definition accounts for political disenfranchisement, theories, and discussions in cultural anthropology, history, psychology, political science, international relations, sociology, political economy, and development economics. Therefore, a suitable definition and categorisation of the term according to its explicit or implicit meaning are necessary. Finally, it seems that the broader tendency to consider national interests may also point to a tendency to increasingly question the rules of the markets—especially regarding equitable ownership, control, and global governance—and that this shows increasing signs of favouring regionalism over multilateralism. The measures discussed here are, in part, countermeasures in response to the egoism now de facto agreed upon. Thus, we can differentiate between a border-closing and a border-opening deglobalising tendency.

3. Impact on Foreign Exchange Markets

Disintegration, fragmentation, and protectionism are characteristics of deglobalisation that lead to various social, legal, and economic changes, including in foreign exchange markets. They entail new opportunities for currency market participants, policymaking, and businesses using foreign exchange. For many, however, they bring along increased uncertainty and risks. One of the critical technical challenges that one can immediately consider is the alternatives to monitor currency volatility and find an effective trading strategy for an investor who wants to hedge and improve their investment. Trade policies, FDI policies, exchange rate policies, and increased home bias in the form of increased repatriation of profits, issuance of domestic bonds, etc., increasingly map into transaction and cross-border portfolio flows. A structurally different development of fund flows does not play an important role either now or in the historical

experiences of deglobalisation in this context. Fragmentation that results from transborder direct portfolio investments and trade transactions will result in a more prominent speculative component of transaction flows. The need to shift strategies regarding a haven, relative value, and emerging market themes arises. Currency issues would resonate with the growing importance of external risks in any investment project. Geopolitical tensions and the increase of interest rates are usually important drivers behind a downward shift of broad currency indices. The fact that there are internal drivers behind the downward adjustments of currency may sometimes be overlooked in the governance of firms and governments. It may also be necessary, not only for the U.S. trade and current account balance, to remember some of these deglobalisation dynamics: general debilitation of trade, lower import growth of trading partners, and external costs, such as risk premiums on imported inputs. In general, not least by long-term development, any economic reordering of today's global value-added chains is essential for import management.

3.1. Volatility and Risk Management

Changes in fundamentals whipsaw foreign exchange (FX) markets as deglobalisation causes massive spikes in volatility. Deglobalisation affects short-run transaction costs, long-run financing costs, bilateral trade costs, and working capital and changes the structure of international trade. Increased risk and volatility correspond across these dimensions. Volatility is pseudo-predictive in that high values today signal even higher values tomorrow. Just as with Portfolio II, increased capital costs drag on profitability, and the possibility that the firm will experience a liquidity crisis also increases. Sophisticated risk management is necessary to remain competitive in this environment. Facing the increased probability of such whipsaws, the FX trader needs to be able to answer the following questions: How do we measure risk in currency markets? What measures have the most significant predictive power? What events lead to the release of hidden dangers in Forex markets? Forex price data is complicated for technical trading ideas because the market is often unusually volatile in ways not seen in other asset classes. When this happens, a trader can’t profit from the standard rules. Trading models must adapt to long periods of low volatility and quickly to high volatility. Political events provided evidence of events that cause massive whipsaws, showing how traders should approach risk management and stay current on current events. However, the sharp movement on 24th June is the

perfect example of a market that suddenly suffers a massive supply shortage. Hedging can backfire terribly in disadvantageous markets.

4. Opportunities for Traders and Investors

6. Deglobalisation Opportunities in Foreign Exchange Markets 4. Opportunities for Traders and Investors in a Deglobalised World of Finance 4.0 Opportunities for Traders and Investors

Deglobalisation—opportunities for individual investors? Based on the structure already indicated, the following passages will be dedicated to identifying specific deglobalisation opportunities for traders and investors. Automatic, systematic trading ideas may be profitable but do not claim to be superior to discretionary trading decisions in any way. Above anything else, an investor's or trader's task will be to assess various indicators of deglobalisation to see what is happening and decide if and when to take profits or end a promising trade before fundamentals finally set in.

New profit opportunities for investors often emerge when old profit-driving dynamics cease to exist: Emerging markets and currencies can rise and fall due to changes in deglobalisation dynamics. For example, in the second half of the 19th century, establishing new players and reorientating the old made some markets vista virgins. It can significantly mitigate the adverse impacts created by shifting world-order dynamics. Traders in currency and money markets might find exciting opportunities in emerging market valuations, especially once exchange rate dynamics no longer exclusively depend on carry trade potential. And as cross-country parties most often offer higher interest differentials than pairs of developed economies, traders will have found an exciting playground. When choosing to bet on or hedge against currency movements, they do not need to know or understand the economic prospects of specific countries inside out. They must find a method or a trading system that acknowledges specific risk dynamics offered by increasing currency pair volatilities, including correlations in currency and money markets. In our follow-up discussion, we will elaborate on the usage value of applying only the most straightforward and best-known risk management tools to make them applicable to future, potentially volatile trading strategies.

4.1. Diversification Strategies

Traders and investors use diversification strategies to exploit the opportunities and mitigate the risks arising from the uncertainty engendered by deglobalisation. Diversification is, therefore, a critical risk management approach in volatile markets. Given that most investors and companies are used to systematically investing in assets, there is a danger that deglobalisation will increase the connections between assets as economies become more regional. However, differing geographical events that impact different assets are less correlated than those that impact similar asset classes. Besides, four important asset classes were highlighted as investment opportunities: investing in currencies, stocks, private equity, and commercial real estate. The currency markets were also identified as providing opportunities. Investors can create diversified portfolios in different geographic markets. For example, a US investor could invest in European fixed-income assets when they perceive the European economy outperforming the US. Emerging markets are another option; they provide another geographic dimension to a portfolio and may have a low correlation with the developed markets. A diverse range of asset classes provides a basis for a portfolio to meet long-term asset liability objectives. Traders diversify their strategies to try and make a return; for example, traders might trade different currency pairs simultaneously. Another way would be to trade using various trading strategies or other periods. Investing in currencies provides diversification and offers varied return opportunities. For example, an investor might hold European stock but have a currency denominated in yen to hedge against currency risk. If the US market is overvalued, an investor might buy the S&P but sell the USD against the Japanese yen to reduce the currency exposure. Finally, if one currency is going through a significant devaluation or revaluation, a global macro investor may take a punt on the direction of world currency markets. The difficulty with equity markets is that they are not only intra-sectorally correlated but also correlate with other asset classes. Nevertheless, multinational companies with most of their assets and business in a country with a stronger currency are more likely to outperform those likely to lose. Managing currency risk can add value to the investment process depending on how it interacts with the investment mandate. An international mandate invariably offers more hedging opportunities than a domestic one. Hedging is usually counter-cyclical to the economy; asset growth is priced harder in a good market but offers successful hedging opportunities when markets turn. Hedging choices are best seen as playing the whole field. Currencies

like the Swedish krona or Swiss franc can cause a drag on performance if they demonstrate subtle signs of strength. Such strength is linked to more excellent export performance and the need for increasing interest rates.

5. Regulatory Implications

5.1 Governance Frameworks envisaging the setup of foreign exchange markets in which capital cannot freely cross national borders differ from market structures with free capital movements. As deglobalisation evolves, the way foreign exchange markets operate will attract the attention of policymakers, and it is easy to envisage that governance will adapt to different societal needs. 5.2 Compliance, Reporting and Scrutiny The growing polarisation at the geopolitical level also makes it difficult for financial institutions to support the compliance requirements imposed by the jurisdiction of the market intermediary when operating in a foreign jurisdiction. Increased reporting and scrutiny of financial transactions in foreign exchange markets linked to deglobalisation trends may thus pose some severe problems to traders. Given the widespread mistrust among countries, such deglobalization-related measures or sanctions would possibly include finance and, hence, foreign exchange markets with tight reins on the cross-border movement of funds or strict guidelines for financial institutions to share data. 5.3 Regulations: Outlook In recent years, some political parties, predominantly from the right spectrum, started demanding stricter rules on foreign exchange transactions to prevent corporations that are potent boosters of the local economy and employment from capital flight and resulting plant closures when the exchange rate moves against their interests. The technocratic approach to foreign exchange transactions, which believed in daily fully liberalised transactions, has slowly replaced the belief in a government-regulated daily transactions market. However, policymakers are still hoping for ultimate freedom of trade and payments, leaving only investments to the watch of governments to regulate. Increase bilateral and multilateral forums to discuss rule changes or amendments to existing regulations. Hence, the War on Finance can be outright seen in bilateral or multilateral treaties and regulations.

5.1. Changes in Compliance and Reporting

The past decade has seen both calls for regulatory reform of foreign exchange markets and new regulatory standards that might accommodate market deglobalisation. Increased compliance efforts have necessitated that FX and other cross-geography financial market participants change their operations. Regulators

may increasingly focus on some aspects more than others as a hedge against the growing size of these markets. Specifically, they have increased attention to the transparency and clarity of reporting. Moreover, new regulations impose possible costs of non-compliance. Investment companies have had to ensure their onboarding of clients is sufficiently rigorous to satisfy their anti-money laundering obligations, including enhanced customer due diligence. Robust compliance can reassure market participants of the stability of their counterparties as they navigate difficult market situations. In turn, this benefits a firm's longer-term competitiveness or, at the very least, reduces its financing costs. Compliance is not a one-off process; firms need to remain compliant continuously.

Foreign exchange markets are evolving. One consequence is that a firm might observe opportunities in the market today that may not be present tomorrow. We have established two key points. First, compliance with new regulations should underlie both case studies. Not all the potential implications of this are apparent or yet experienced. Second, it is essential to appreciate that this compliance effort is not likely static. Neither is it a circumstance where the company is at full liberty to do so with minimum cost if they want to survive. Increased regulation and new supervisory arrangements are possibilities shared by the market.

6. Case Studies and Examples

6) Case Studies and Examples

6.1. Example: Hong Kong Thematic Arbitrage - Opportunistic Deglobalization Recent statements show possible policy concern over large capital outflows leaving behind lower FX reserves. External demand suggests higher potential returns on mainland bonds than US bonds. However, with the CNY at a fifteen-year high, the Asian financial crisis in mind, and the current China policy towards Korea (among other countries), many large investors are reluctant to invest in the mainland. For any wishing to transfer funds outside of HK for investment elsewhere, these outflows will provide an attractive opportunity to gain extra returns over world spot FX rates. This is the currency equivalent of the dual-class A+H shares situation in the mainland market. Whereas most investors like Chinese high yields, many of the mainland government's subjects strive to become political refugees and ransack the world to the maximum. The clearing systems are connected through CNY, the offshore RMB, and faster offshore RMBN. I like this trade and would do it: write it up in Asia Equity.

6.2. Case Study on the Global Initiative Trade

Global trade drives economic growth and fosters international cooperation in an increasingly interconnected world. One initiative that has gained significant attention in recent years is the Shanghai Free Trade Zone (FTZ). Established in 2013, the Shanghai FTZ has emerged as a critical hub for international trade and investment, offering a range of incentives and opportunities for businesses looking to expand their global footprint.

The Shanghai FTZ: A Catalyst for Global Trade

The Shanghai FTZ was created to promote economic reform, liberalise trade, and attract foreign investment. Spanning 120 square kilometres, it is divided into several zones, each catering to specific industries and activities. One of the critical features of the Shanghai FTZ is its liberalised regulatory environment, which allows for greater flexibility in areas such as foreign exchange, customs procedures, and investment regulations.

The FTZ also serves as a testing ground for new policies and initiatives to facilitate international trade. For example, the zone has implemented a "negative list" approach, which specifies the industries that are restricted or prohibited while allowing all other sectors to operate freely. This streamlined approach has helped simplify setting up businesses in the FTZ and attracted a diverse range of companies worldwide.

Benefits for Businesses

Businesses operating within the Shanghai FTZ enjoy various benefits that make it an attractive destination for global trade. These include preferential tax policies, simplified customs procedures, and access to a skilled workforce. The FTZ also offers various financial services, such as offshore banking and financing, to support international business operations.

Furthermore, the Shanghai FTZ promotes innovation and technology transfer. The zone has numerous research and development centres and technology incubators, facilitating collaboration between domestic and foreign companies. This exchange of ideas and expertise helps drive innovation and competitiveness in the global marketplace.

Global Trade Opportunities

The Shanghai FTZ provides businesses a gateway to the vast Chinese market and access to the broader Asia-Pacific region. By leveraging the FTZ's strategic location and infrastructure, companies can establish a foothold in one of the world's largest economies and expand their reach across borders. The FTZ also serves as a hub for e-commerce and logistics, offering seamless connectivity to global supply chains.

In conclusion, the Shanghai Free Trade Zone represents a significant milestone in China's efforts to promote global trade and economic integration. The FTZ has become a key player in the worldwide trade landscape by providing a conducive environment for businesses to thrive and innovate. As companies continue to seek new opportunities and markets, the Shanghai FTZ stands out as a beacon of growth and prosperity in the ever-evolving world of international trade.

The Shanghai Free Trade Zone (FTZ) was established in September 2013 as a pilot project by the Chinese government to promote economic reforms and liberalise trade and investment in the region. The FTZ covers an area of 120.72 square kilometres and is located in the eastern part of Shanghai, China.

Objectives:

The primary aim is to attract significant foreign investment and actively promote various international trade opportunities to enhance economic growth.

To thoroughly test and effectively implement innovative and forward-thinking new economic policies and the necessary reforms for progress and development.

To create a more business-friendly and supportive environment for various companies operating successfully within the designated zone.

Facilitating the smooth and efficient flow of goods, services, and capital across various borders and regions, ensuring that trade and commerce function seamlessly, is crucial for fostering economic growth and development on a global scale.

Key Features:

Liberalised Trade Policies: The FTZ facilitates easier market access for businesses, significantly reduces trade barriers, and provides simplified customs procedures for companies operating within the designated zone. This encourages growth and enhances competitiveness among various trade sectors.

Financial Reforms: The FTZ has successfully implemented various significant economic reforms, including liberalising interest rates, which has enabled a more competitive and efficient financial environment. Additionally, facilitating cross-border capital flows has encouraged international investments and economic collaboration. Alongside these efforts, introducing innovative financial products and services has expanded the options available to investors and consumers alike.

Service Sector Opening: The FTZ has officially opened several vital service sectors, including finance, healthcare, education, and logistics, to encourage foreign investment and active participation in these areas.

Intellectual Property Protection: The Free Trade Zone (FTZ) offers a range of enhanced intellectual property protection measures specifically designed to attract and support technology and innovation-driven companies, creating a favourable environment for their growth and success.

One-Stop Service Platform: The FTZ provides an efficient one-stop service platform designed specifically for businesses. This platform is intended to help companies streamline their administrative procedures, making it much easier to obtain the necessary licenses. Additionally, companies can access various essential government services more efficiently and conveniently, ensuring a smoother operational process.

Impact:

Increased Foreign Investment: The Free Trade Zone has attracted considerable foreign investment from numerous multinational companies seeking to enhance their presence and operations in China's rapidly growing market.

Trade Facilitation: The FTZ has significantly facilitated trade by effectively reducing bureaucratic hurdles, streamlining and improving customs procedures, and promoting cross-border e-commerce initiatives to enhance market access.

Policy Experimentation: The Free Trade Zone (FTZ) has notably been an essential testing ground for innovative economic policies and reforms implemented nationwide.

Business Environment Improvement: Establishing the Free Trade Zone (FTZ) has significantly enhanced the overall business environment in Shanghai by actively promoting competition, fostering innovation, and increasing efficiency across

various sectors. This positive shift encourages enterprises to thrive and collaborate more effectively.

Challenges:

Regulatory Uncertainty: Frequent changes in policies and regulations within the Free Trade Zone (FTZ) can lead to significant uncertainty for businesses operating there. This unpredictability can affect long-term planning and investment decisions, making it challenging for companies to navigate their operations effectively.

Competition: In addition to the Shanghai Free Trade Zone, various other free trade zones located within China and neighbouring countries present significant competition to attract foreign investment. These alternative zones may offer different incentives and benefits that could entice investors from the Shanghai FTZ.

Infrastructure Development: The Free Trade Zone (FTZ) requires continuous investment in essential infrastructure to effectively support the increasing number of businesses and residents thriving in the area. This ongoing development is crucial for enhancing connectivity and ensuring economic growth.

The Shanghai Free Trade Zone has been instrumental in promoting economic reforms, attracting foreign investment, and facilitating regional international trade. By creating a more business-friendly environment and testing new policies and reforms, the FTZ has become a model for economic development and globalisation in China. However, ongoing challenges such as regulatory uncertainty and infrastructure development need to be addressed to ensure the FTZ's sustained success in the long run.

6.5.1. Case Studies and Examples Several recent cases of the disappearance of the “dollar smile” and subsequent return are an opportunity to prove the revision of the offsetting mechanisms we have provided above. The period from October 2016 to January 2017 is bookmarked as a rolling abnormal period before the presidential election. Additionally, the two Q3 2018 and Q3 2019 feature unexpected and “timing bombed” mile analogies during the core of the global de-rating of the surplus countries' rate of return.

6.1. Recent Market Developments

The deglobalisation narrative has pushed global equity markets into a structural correction, which looks set to force a revolution in trading foreign exchange. In the last month, the prospects of a US-China settlement have declined, leading to a sell-off in global equity markets. The AUD and the GBP have been the front-line currency markets. Over the past two weeks, as the US-China deal has looked increasingly less likely, the AUD/USD has declined by 1.2%, outpacing other currencies' performance. Sterling has outperformed, rising 1.3%, putting to rest one of the worst-performing currencies over the year, aside from the dollar.

The prospect of a change in trading has also forced another revolution in trading. The JPY and VIX went out, and the GBP and CNH came in. Even if the world is complex, the currency pair identifies how foreign investors want to express their political views and opinions on US tariffs. Geopolitical risk rises, and investment capital splits between the NATAMs and BLEPs, a move corresponding to a steep decline and a higher rise. Over the past week, the market enemy has returned and has been selling the JPY again. Traders use the gold and silver levels to highlight investor indecision if the price is trading between the open and closing price. The fact that trading is 'flipping' is based on our breakout strategy.

This situation is critical, given that it highlights the extent to which the geopolitical themes of recession, contagion, and economic controls caused concern and begat the deglobalisation narrative. It also highlights how quickly the deglobalisation theories are falling apart as markets continue to 'chase the carries.' The current analysis can only be used by traders to identify what has happened in the market, and we rule out that there have been no bearish signals; we assume they are still short on sterling.

7. Conclusion and Future Outlook

In conclusion, we can stress again how dependent the behaviour of all markets is on several different areas: internal trade subjects, legal regulation, the mentality of investors, etc. However, it is primarily determined by the global dynamic environment. This environment is the subject of an imminent process that many experts call deglobalisation. It is caused by economic, climatic, political, technological, and demographic factors. The change can be triggered voluntarily by countries' policies or naturally due to events like political conflicts or climate changes. Despite the trajectory the world and financial markets head for, one must remember that changes bring new challenges and opportunities. The enormous

difficulties of deglobalisation in financial markets include significant market volatility, loss of profits, bankruptcy, and obsolescence of many traders in the FX. Any insignificant change in global transactions or international trade will, and already does, significantly impact our markets. Consequently, investors should be cautious and adjust their strategies accordingly. Indeed, uncertainty and significant regulations will comprise Forex's further life of funds. To improve your trading in Forex, develop strategies that include risk management tools and procedures at their core. Additionally, be aware that international regulations can be subject to significant changes shortly. Simultaneously, the future of the FX lies in the close interrelations between technology and global finance, especially between FX and crypto markets.