GCU Bulletin

8 news-treats on exchange rates, money and monetary policy

Dear Colleagues and Contacts,

First of all let me wish all of you a Happy and Prosperous New Year.

On December 24 Bloomberg gave us the article '*Trichet Sees G-7 Opportunity for Currency Accord*'. Trichet's initiative to speak out on the need for a new currency system can become a catalyst accelerating the process moving towards actual development. It is definitely highly relevant and a fully legitimate matter to put on top of the agenda. The increasingly dysfunctional current system hampers growth in trade and investment, as it does not meet the requirements of today's international monetary reality.

Trichet is not alone in addressing the need for a new currency system, former Fed chairman Paul Volcker recently did the same when delivering the speech '*A New Bretton Woods???*' (a must-read), and as Nobel laureate Robert Mundell stated at the Fortune Global Forum, '*We should establish a global mechanism to manage the current increasingly divided currency exchanges'.*

However, I don't believe in a new accord among the G7 simply because they don't have any common interest in cooperating on this. What I do believe in is consensus on a common interest in developing new exchange rate systems and mechanisms which, on the basis of better performance, can be offered to interested states - not only among the G7.

Exactly that is what we do (see our website). Please let me direct your attention to our newly developed Trade-Weighted Equilibrium Exchange Rate System, and what better currency to illustrate its potential for providing stability these days than the ruble - see charts and rates here, updated daily.

Best regards,
Jesper Toft

P.S. This time we passed 5,000 recipients.
Thanks!

Read previous newsletters

The echo of Gekko: Greed is good!

Manipulation of the FX market echoing business ethics from the 80s, has led to five of the global banks being fined a multi-billion dollar amount by various national authorities. While many countries still support 'market-determined rates' it seems that reality is that the fox has been set to guard the henhouse, resulting in 'financial sector determined rates' rather than the former.

Imagine if the motorists made the traffic rules: their own interests would probably also be served first, ending in problems and disaster for other road-users. Article

Related: Billion $ fine for Wall Street over currency manipulation

Trichet sees opportunity for new currency accord

Looking at current circumstances, former European Central Bank President Jean-Claude Trichet said there could be a chance for the world's advanced economies to strike a fresh accord against competitive devaluations.

'Maybe we have a sort of *window of opportunity* to go a bit further than we have in the stabilization relation between large convertible currencies," Trichet said in an interview in Paris.

Bloomberg

Kazakhstan to de-dollarize its economy

Due to the world economic crisis Kazakhstan has to cut its state budget and de-dollarize its economy, says President Nazarbayev. De-dollarization can happen by switching to mutual settlements using national currencies, as Prime Minister Karim Masimov suggested at the meeting of the prime ministers of the Shanghai Cooperation Organization (SCO) member states held recently.

The Times of Central Asia

Related: Saudis counting on $745 billion to defend riyal peg

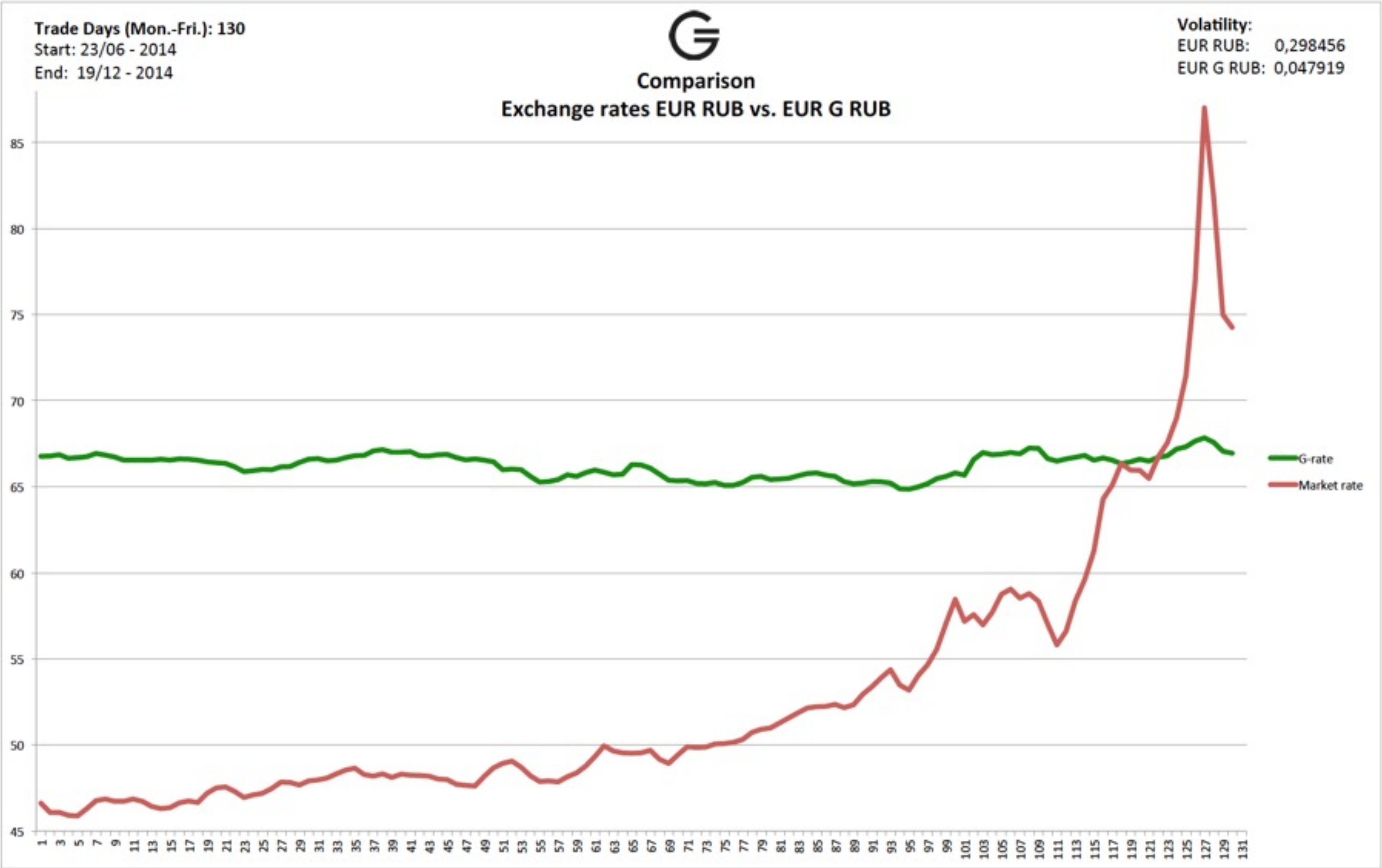
Baht-yuan swap agreement grabbing global attention

Thailand's trade activities and finances have for generations been under the spell of the US dollar, but that now looks set to change as a recent meeting in Beijing between Prime Minister Prayut Chan-o-cha and his Chinese counterpart, Li Keqiang, yielded an agreement which will allow businesses to drop the dollar and instead use yuan and baht in bilateral trade and investments.

The Nation

Related: Russia and China launch swaps, forwards in national currencies
Related: Ruble swap shows China challenging IMF as emergency lender

Introducing the Trade-Weighted Equilibrium Exchange Rate:



See the potential of improved stability provided by the system and follow daily updates of the G-rates on our website

'Should I stay or should I go now?
If I stay there will be trouble - if I leave it will be double' (The Clash)

Greece: Poll leader, Alexis Tsipras of the Syriza party's song is not music to Draghi's ears, when he says he wants to renegotiate Greece's debt burdens and as this is expected to be met with little understanding from other Eurozone members, the Greeks may be left with a choice of whether to stay or go. Meanwhile, the ECB's Mario Draghi is said to be considering buying Eurozone government debt, something which is not ideal when one member is effectively threatening to leave the common currency.

Bloomberg

Euro’s share of global currency reserves shredded

The total amount of reserves held in euros fell 8.1 percent in the third quarter, while declining 7.8 percent against the dollar. The last two times the euro depreciated 7 percent or more in a quarter, in 2011 and 2010, holdings declined by much less.
The data suggest reserve managers are passing up the chance to buy euros while they’re cheap, thereby removing a key pillar of support for the euro.

ekathimerini.com

Related: New Zealand to add Chinese yuan as reserve currency

Currency wars on the horizon

As growth is not picking up around the world as desired, more and more countries now realize that a state of currency war is in fact reality and find themselves powerless due to other nations' currency interventions directly or indirectly aimed at currency value. The risk of monetary retaliation is imminent.

These articles, from Korea and from the US, put it well in perspective:

- The Korea Herald: Currency wars on the horizon
- MarketWatch: Will 2015 see a currency war?
- The Korea Herald: Korean firms cite weak yen as risk to exports

The Depression that was fixed by doing nothing

The often forgotten 1920-21 economic crisis suggests that sometimes the best stimulus is none at all. Please find this interesting essay by James Grant published in Wall Street journal last week here.

The Wall Street Journal