Tuesday 15 December, 2015

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Dear Friends and Contacts of GCU,

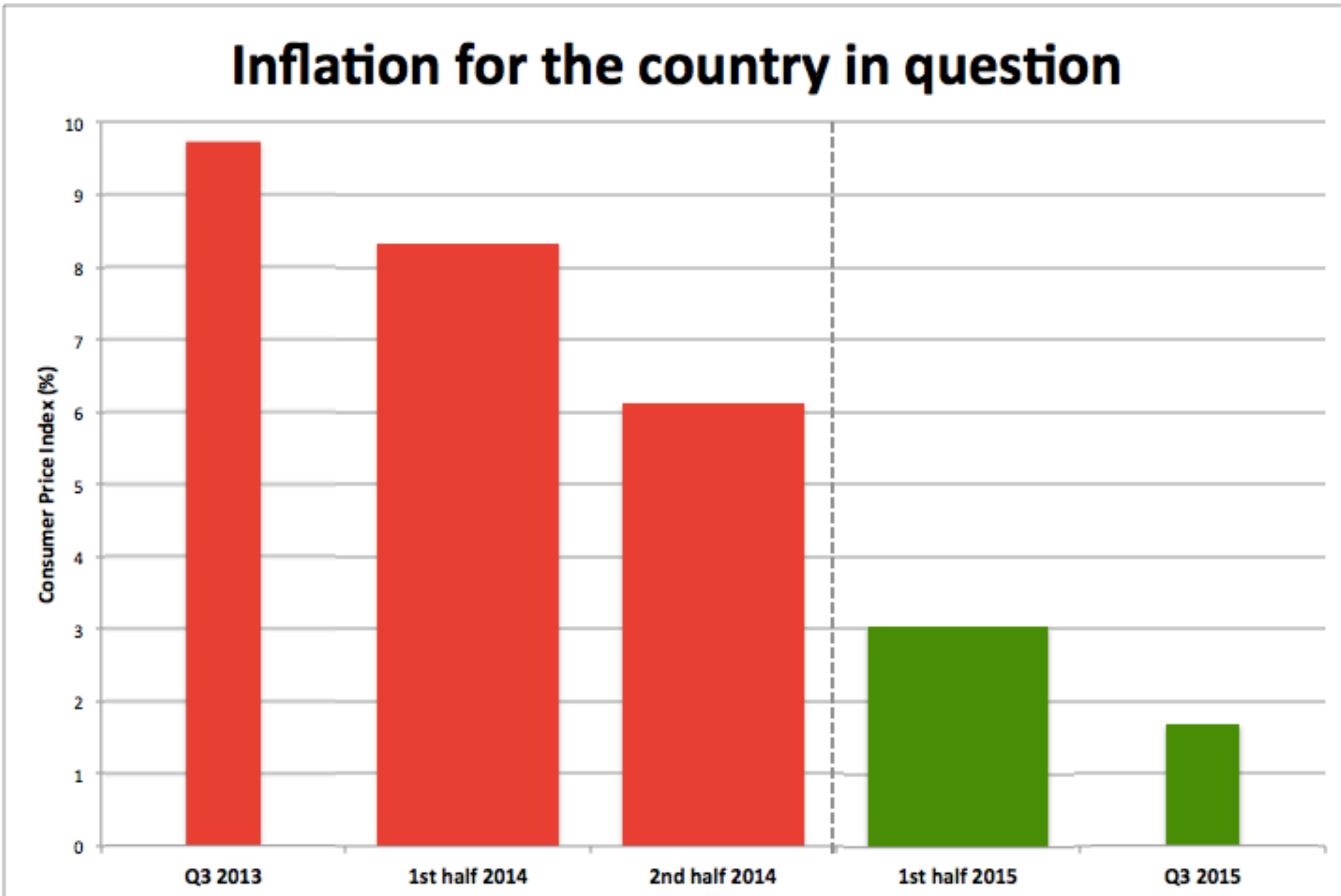
At the beginning of the year GCU was contacted by a central bank with the words "*We want to replicate this Exchange Rate system for [name of country]*" referring to the GCU Trade-Weighted Equilibrium Exchange rate system. A dialogue with the central bank started and a series of questions were raised, all of which were answered in full.

An almost mandatory question we are asked, when discussing the potential of moving towards use of the GCU Trade-Weighted Equilibrium Exchange Rates, is: "Has anyone implemented these exchanges rates yet?" Now we can answer: "**Yes!**".

As we are nearing the end of the year, I will share these charts with you and ask you a question:
"Can you see where the red line (market rates) and the green line (GCU rates) mesh with each other?"

The charts below show the alignment of market rates and GCU rates for this first country.

So what is the outcome? This country, which less than two years ago experienced a monthly y/y inflation of +10%, has reduced this to a level of around 2%. And at the same time growth has accelerated.




**The tail trying to wag the dog - in the inflation-targeting confusion and the exchange rate denial**

What dominates what? Will improved inflationary stability lead to improved exchange rate stability, or is it in fact the other way around, that better exchange rate stability leads to improved inflationary stability!

Believing that the exchange rate market, **52:1** times larger than the total value of global annual trade, is the tail and inflation is the dog … is the tail trying to wag the dog. However the larger of the two, and where stability must originate, is the exchange market.

Stability is exactly what the GCU Trade-Weighted Equilibrium Exchange Rate system targets. It does not target a specific exchange rate, it enables the most-stable market-determined exchange rate - nor does it target a specific number for inflation, it enables it. The target is stability.

I'll let the charts do the rest of the argumentation for now.

Best regards,
Jesper Toft

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