



MACROVoices
with hedge fund manager Erik Townsend

Holiday Special 5 Part Mini Series

Anatomy of the US Dollar End Game

December 24th - Jan 4th



YUSKO

SNIDER

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This Slide Deck is to Accompany
Parts 1 and Parts 2 of the 5 Part Series



Dollar BULLS vs BEARS

(nobody wins)





What is a 'rising' 'dollar'?

Nothing Bullish



Main instruments to provide foreign currency on a repayable basis are **auctions**. The Bank of Russia holds these operations as *FX repo auctions* and *auctions to provide FX loans secured by a pledge of claims on FX loans*.

The Bank of Russia also determines the aggregate debt ceiling of credit institutions on FX repos and FX loans secured by a pledge of claims on FX loans. Currently, the ceiling is set at \$50 billion in US dollars but it can be increased, if necessary.

The Bank of Russia links the minimum interest rates on auction-based operations to provide foreign currency to LIBOR³ in respective currencies for comparable terms. The Bank of Russia determines market rate spreads for each specific instrument ([Interest rates on the Bank of Russia FX operations](#)) taking account of the situation in the domestic FX market. Meanwhile, the interest rate at which banks receive funds is determined by the auction results.



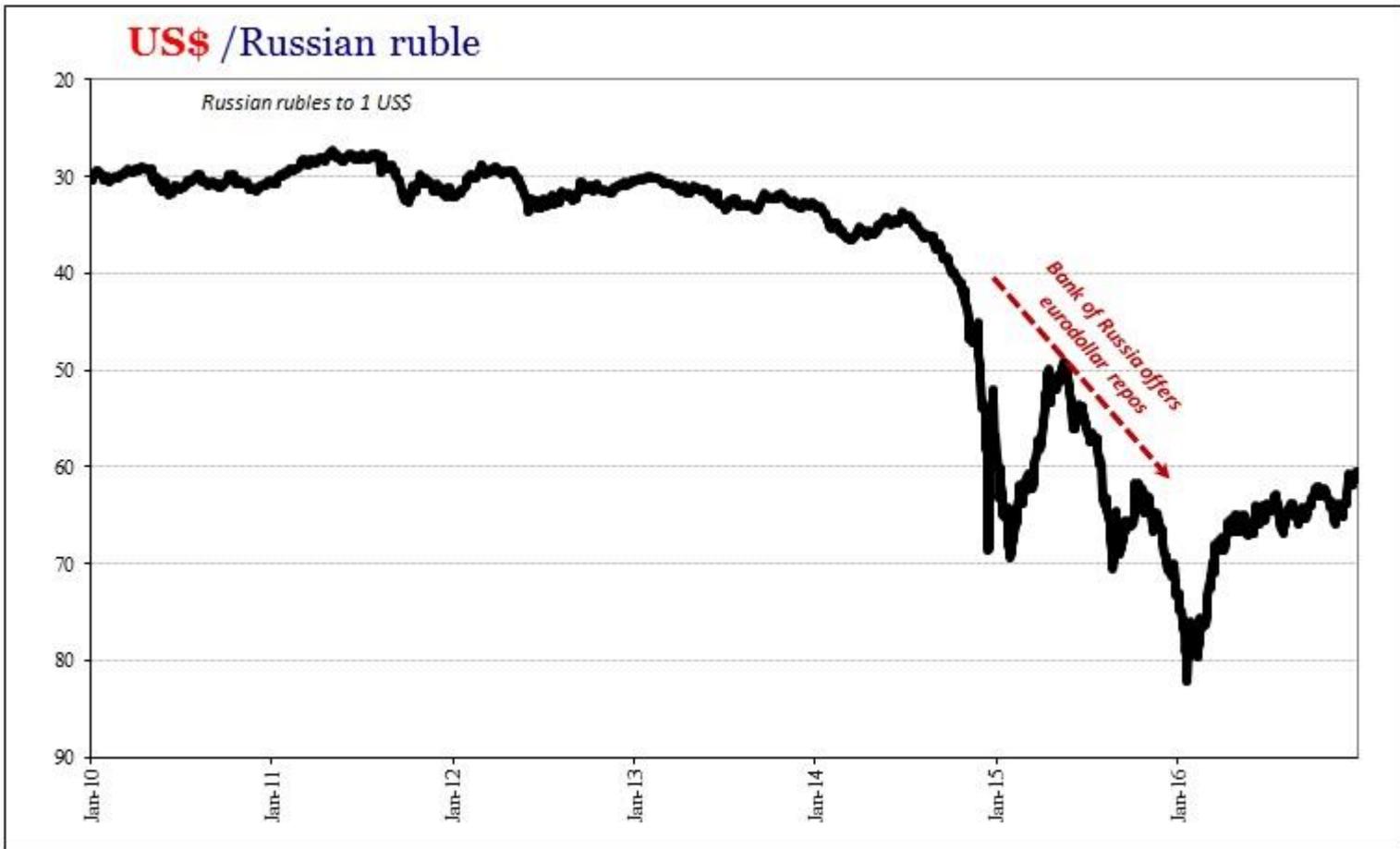
Interest rates on the Bank of Russia FX operations

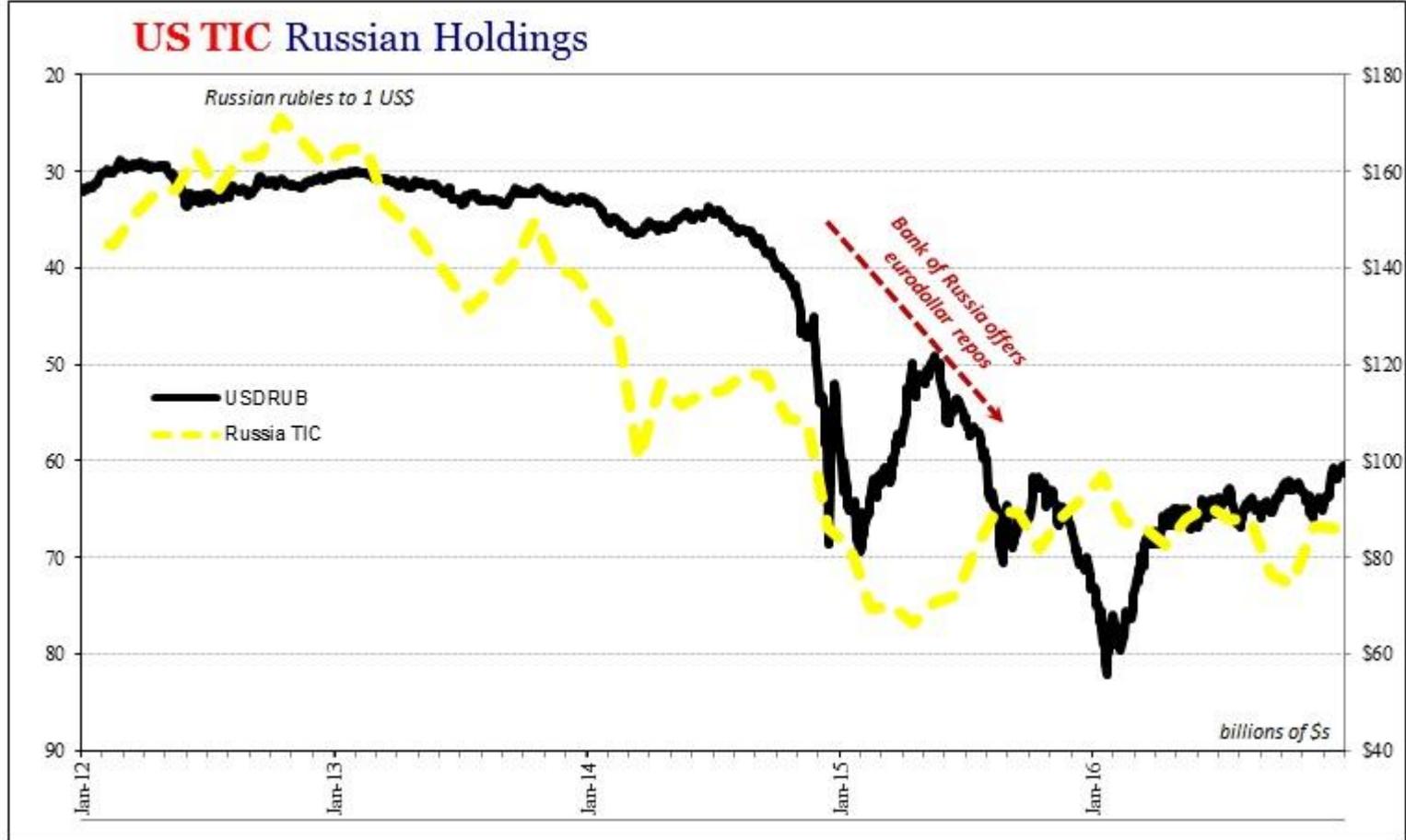
% per annum

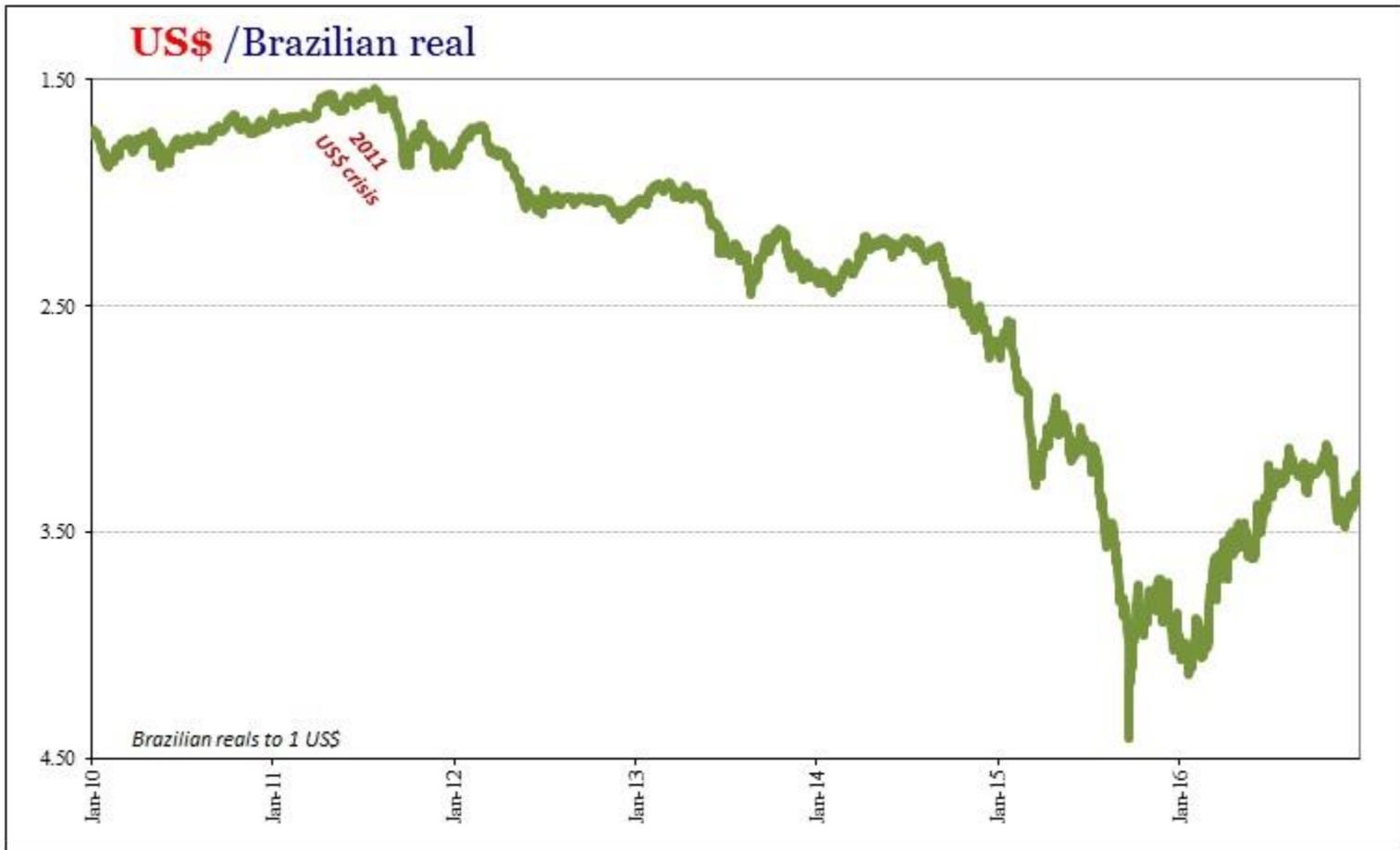
Instrument type	Instrument	Term	Deal leg	Rate since 17/09/2014	Rate since 27/10/2014	Rate since 05/11/2014	Rate since 04/12/2014	Rate since 23/12/2014	Rate since 30/03/2015	Rate since 13/04/2015	Rate since 21/04/2015	Rate since 14/12/2015
Standing facilities ¹	USD/RUB sell/buy FX swaps	overnight	RUB ²	<u>Key rate</u> – 1.00								
			FX	1.50								
Auctions ³	USD and EUR repos ⁴	1 week		—	LIBOR + 2.00	LIBOR + 1.50	LIBOR + 0.50	LIBOR + 1.00	LIBOR + 1.50	LIBOR + 2.00		
		28 days		—	LIBOR + 2.25	LIBOR + 1.50	LIBOR + 0.50	LIBOR + 1.00	LIBOR + 1.50	LIBOR + 2.00		
		12 months		—	—	LIBOR + 1.50	LIBOR + 0.50	LIBOR + 1.00	LIBOR + 1.75	LIBOR + 2.50	LIBOR + 3.00	
	USD and EUR loans ⁵	28 days		—	—	—	—	LIBOR + 0.75	LIBOR + 1.25	LIBOR + 1.75	LIBOR + 2.25	
		365 days		—	—	—	—	LIBOR + 0.75	LIBOR + 1.25	LIBOR + 2.00	LIBOR + 2.75	LIBOR + 3.25

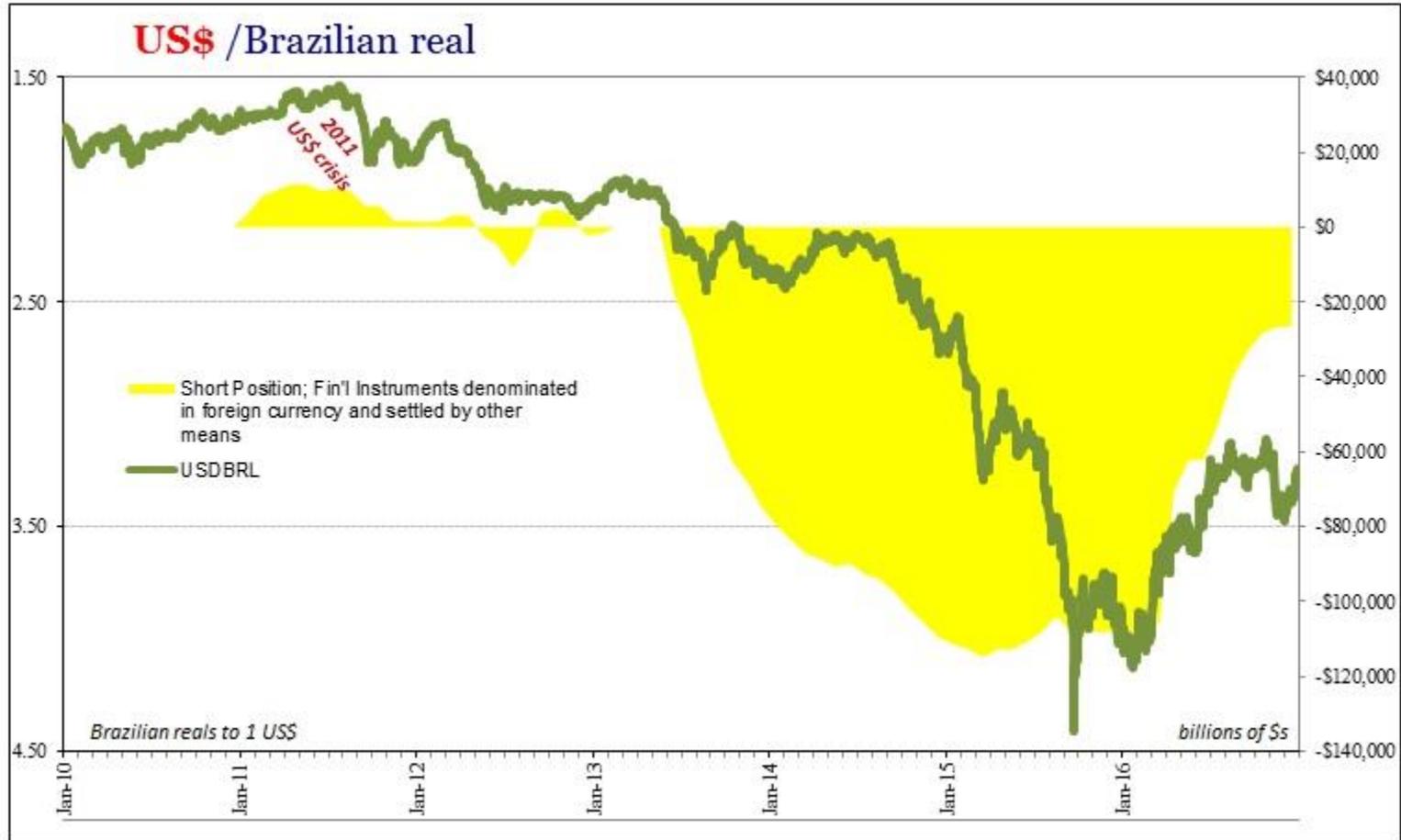


The Central Bank
of the Russian Federation









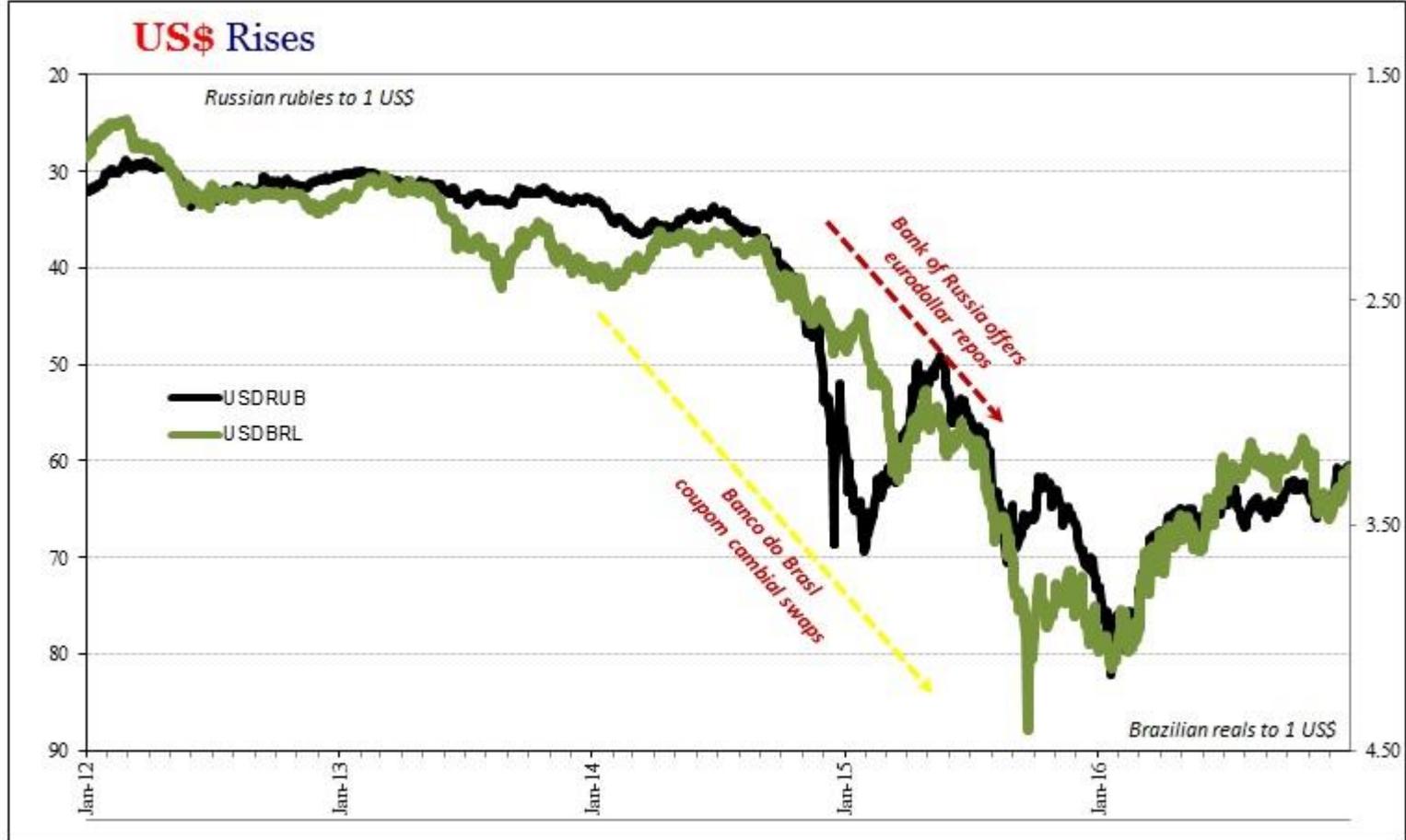
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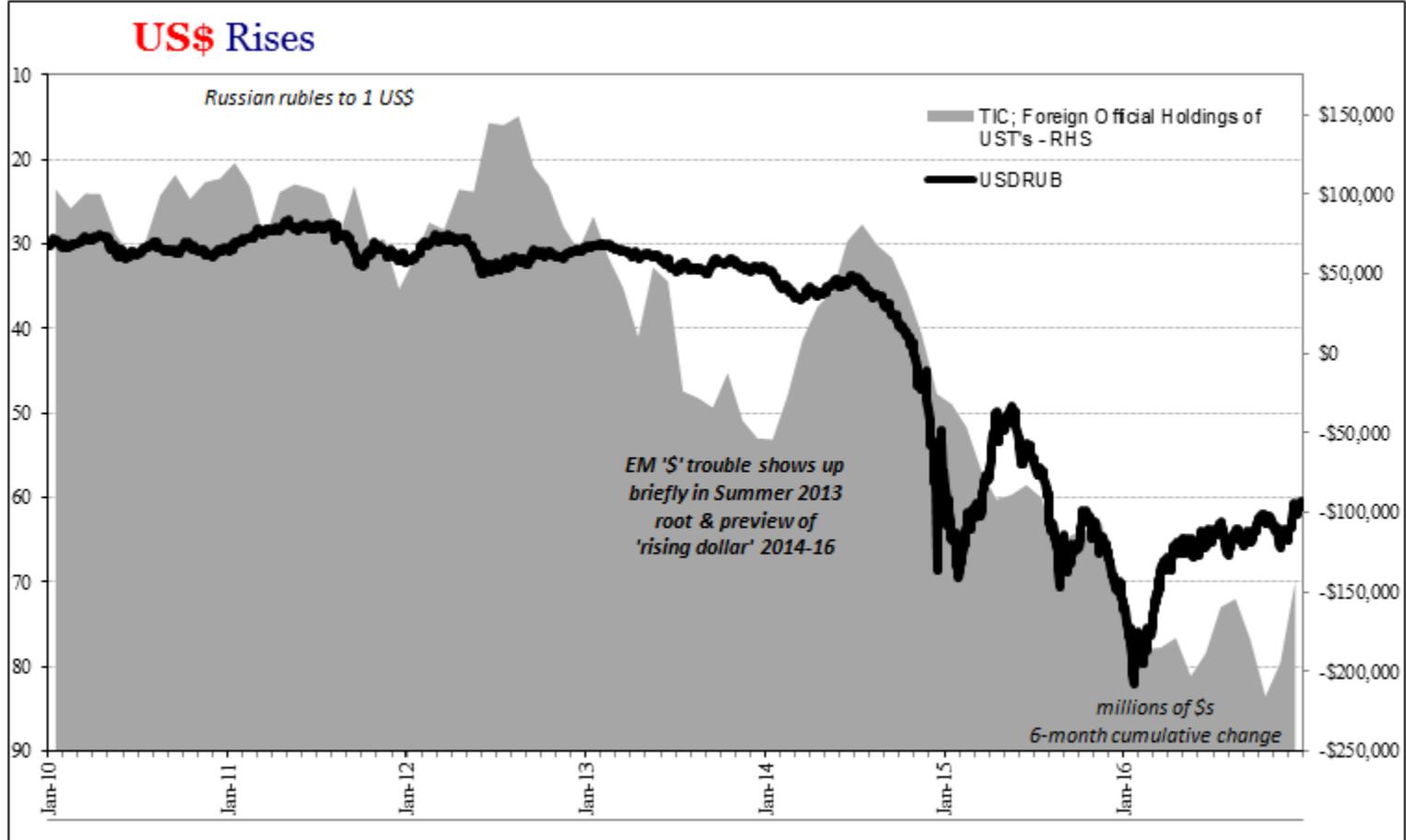
The way the Brazilian derivatives market works is different than what is implied in mainstream commentary. Without getting too far into those weeds, the Brazilian monetary authorities realized, from past experience with currency depreciation-type emergencies, that they did not necessarily need to offer dollars. Instead, the Brazilian treasury sells, continuously, domestic public debt indexed to US dollar rates.

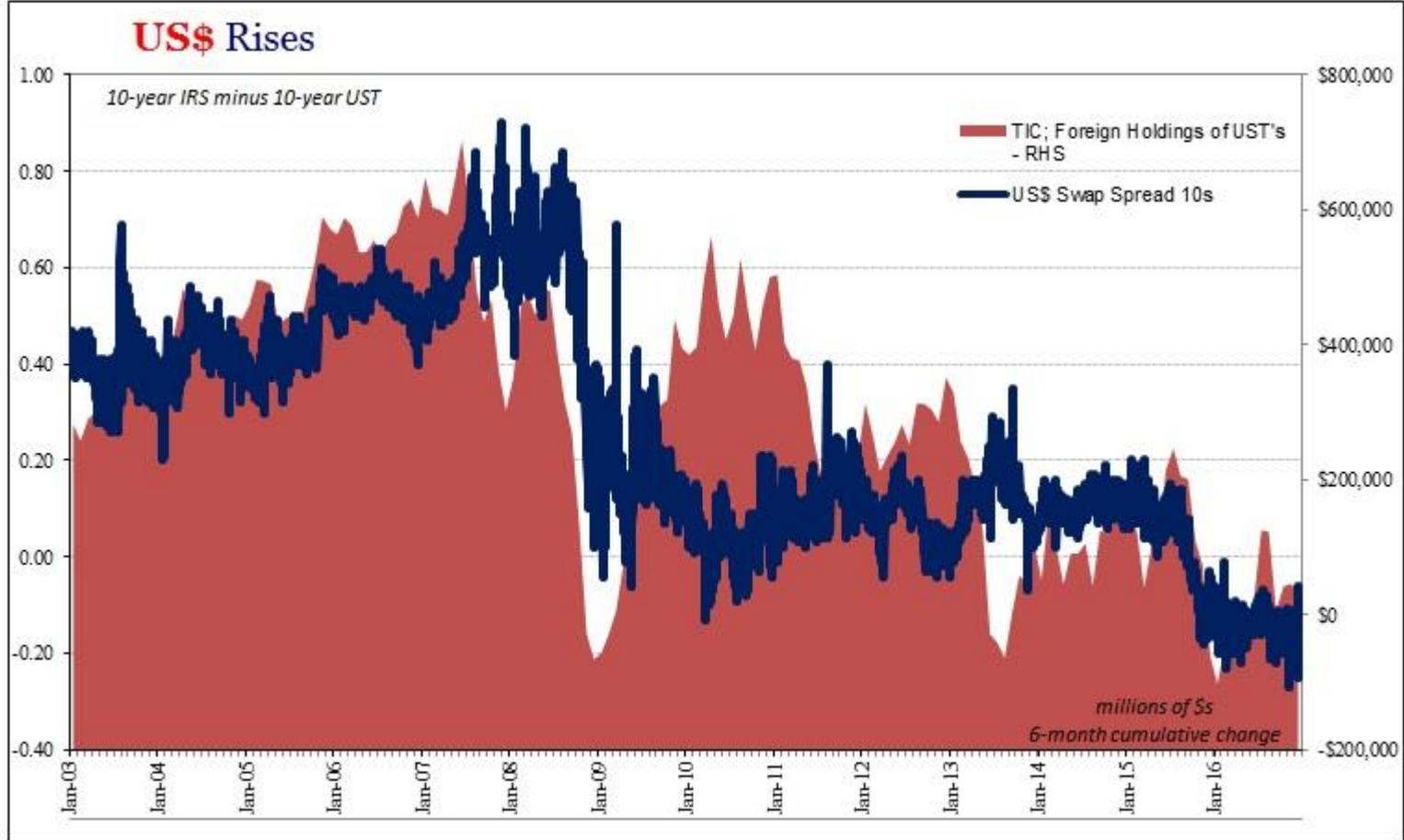
The Banco's "swaps", then, act only on implied future dollar rates, increasing the cupom cambial (the onshore dollar rate implied by currency futures and spreads with dollar rates). In other words, since the central bank "swap" reduces the futures price of dollars in relative comparison to the spot price, there is a greater incentive for banks (both Brazilian and foreign) to borrow US dollars on foreign markets and import them to take advantage of the cupom cambial spread. The swap isn't really a swap in the conventional sense since the central bank is only swapping dollar indexed securities – deliverable in reals. In short, it is the old central bank axiom of getting the "market" to do your dirty work for you.

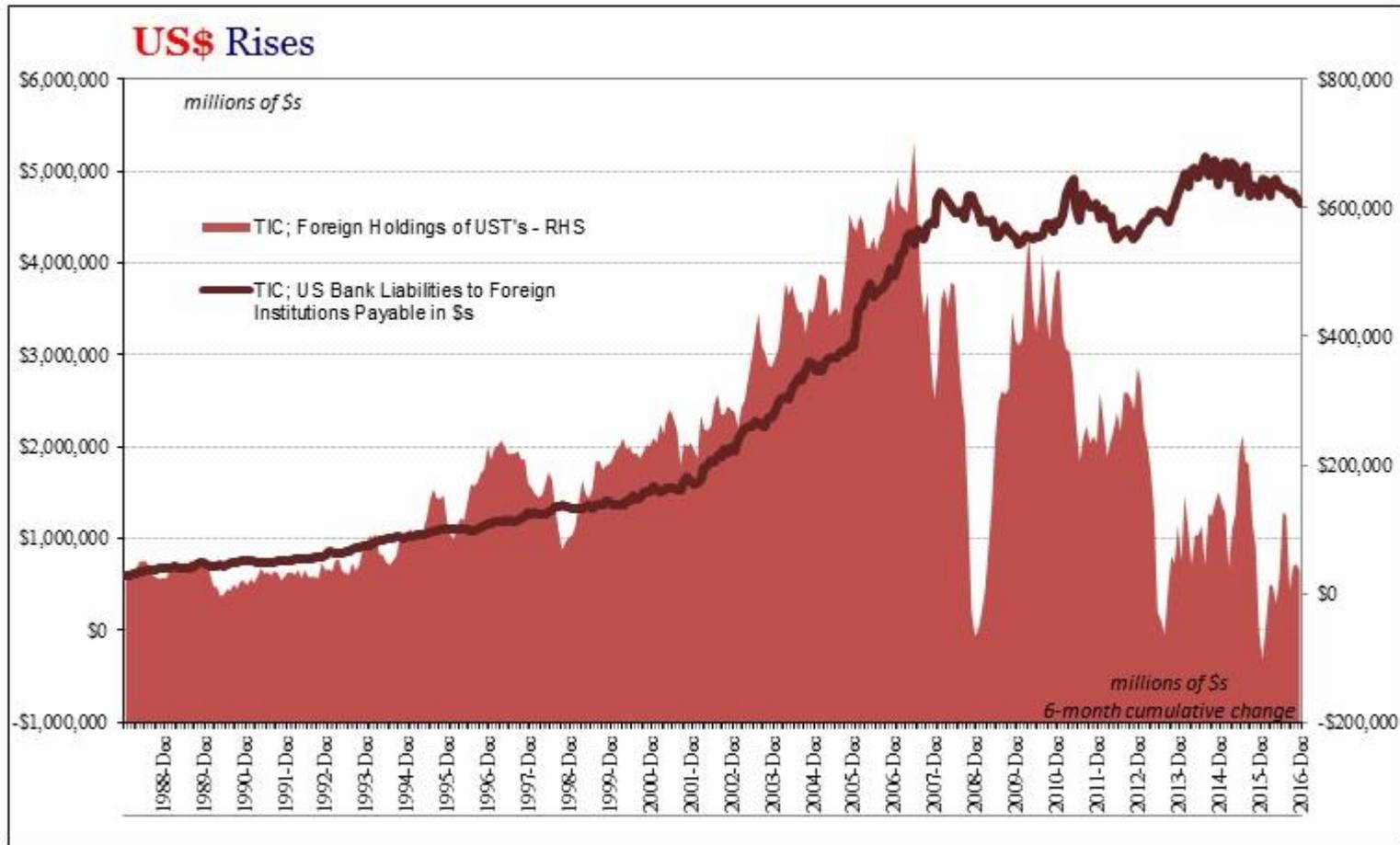
Alhambra Research, October 21, 2013

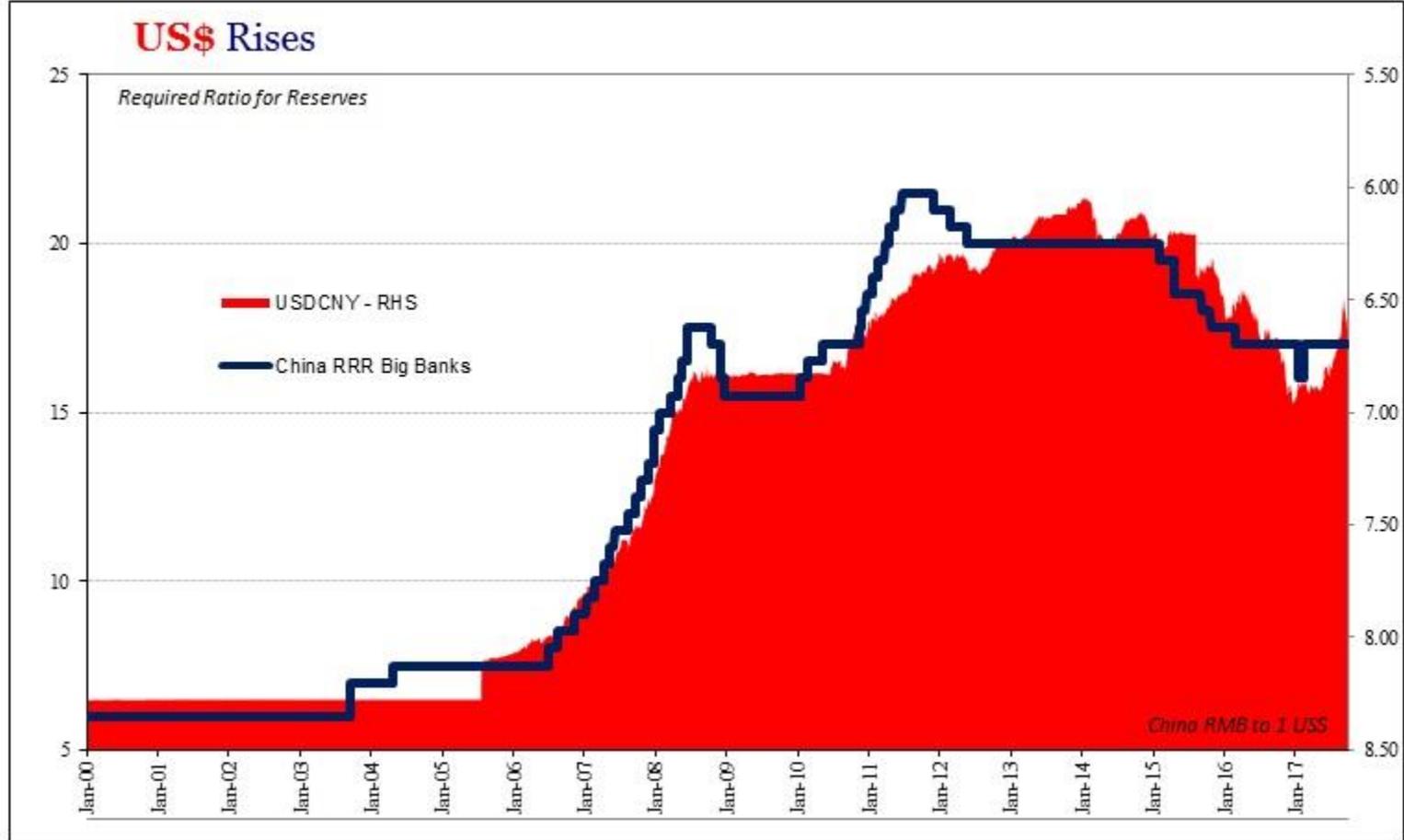


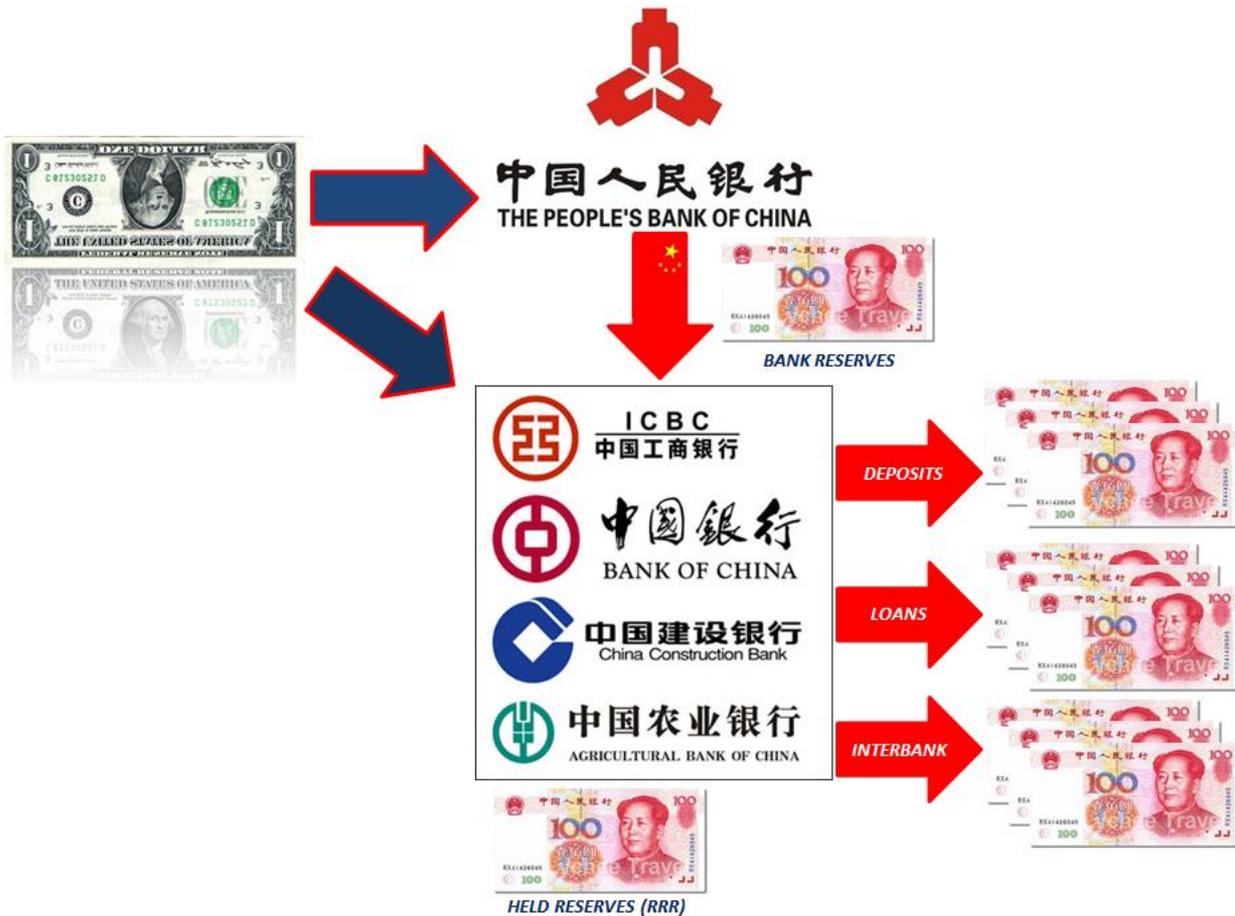


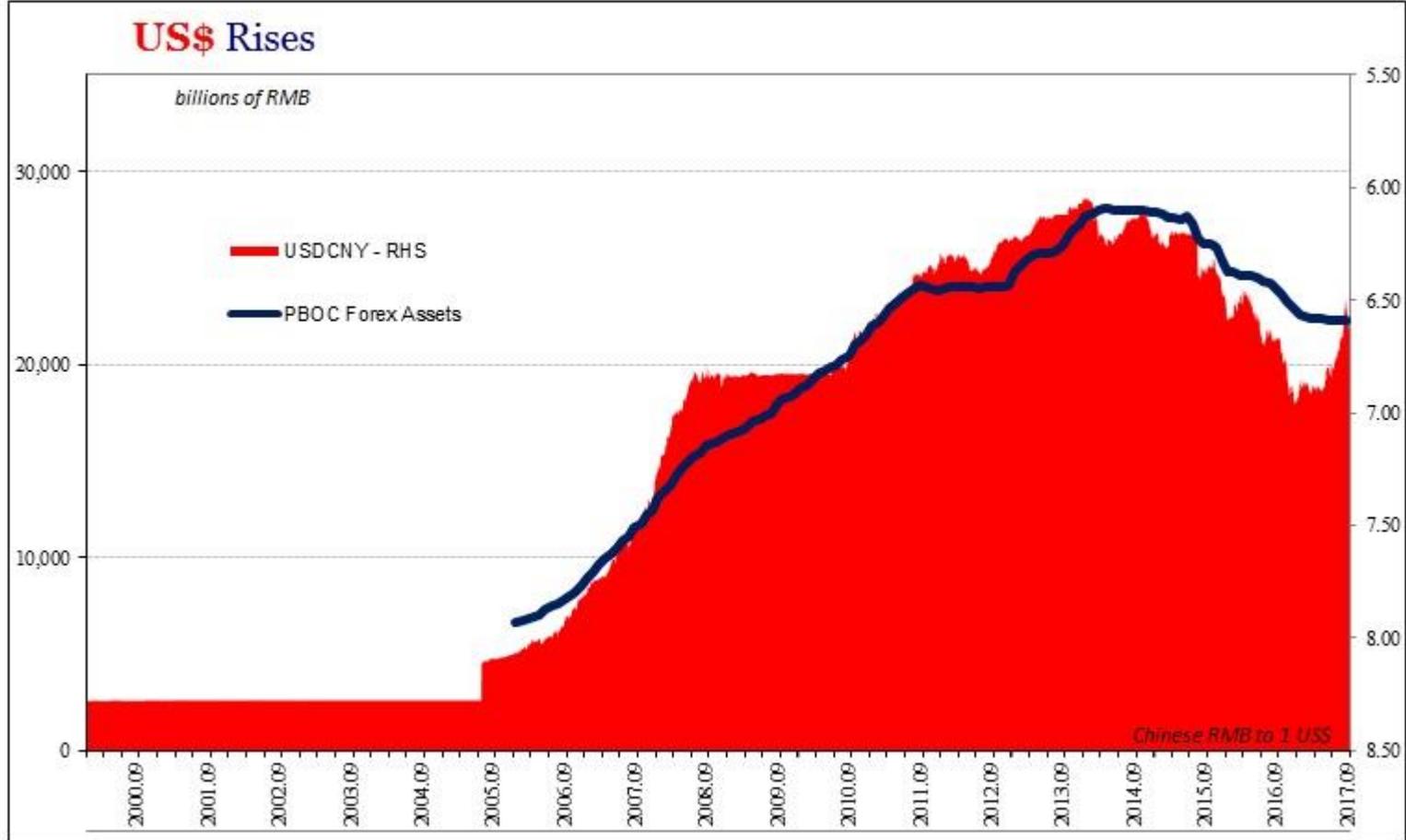


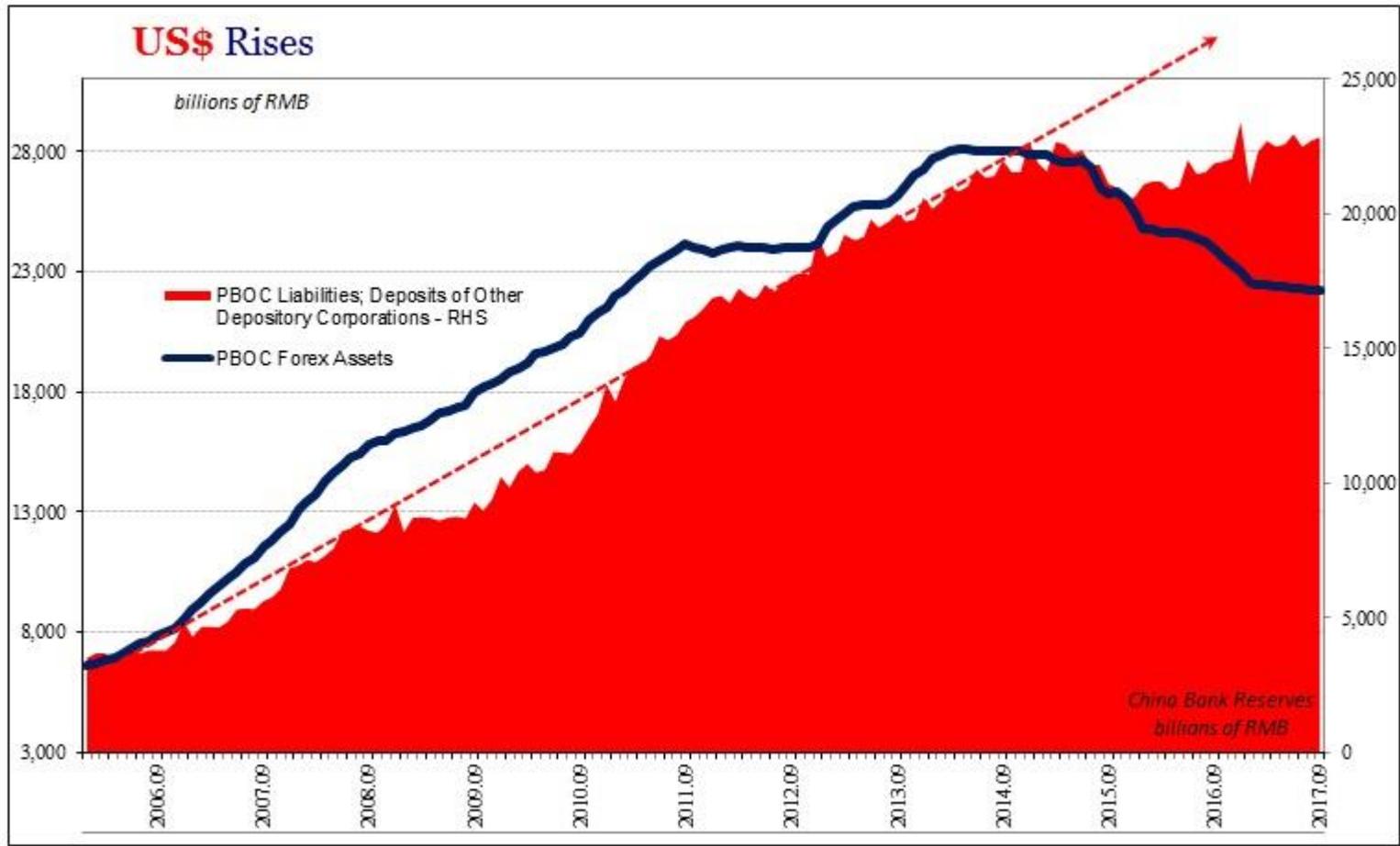


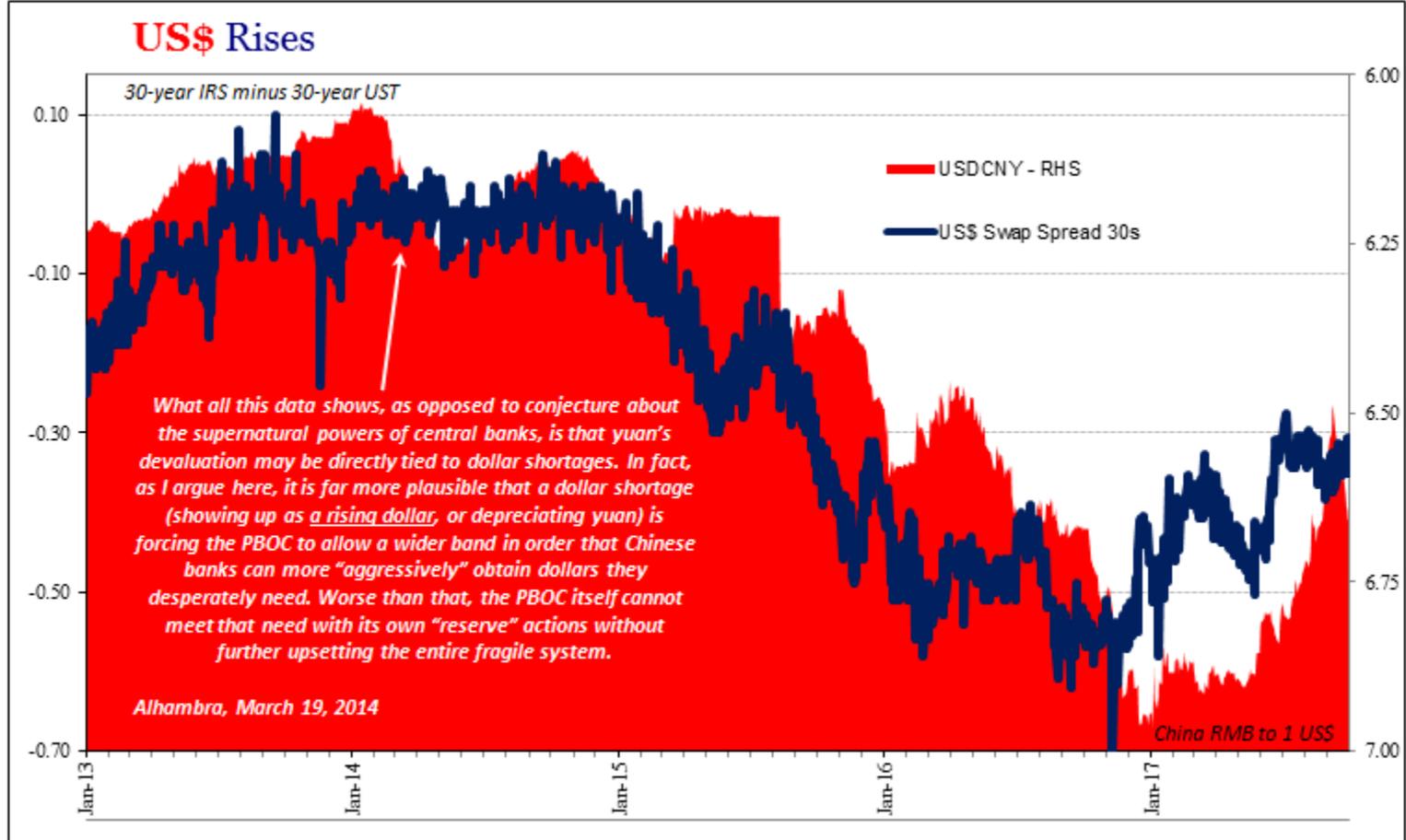














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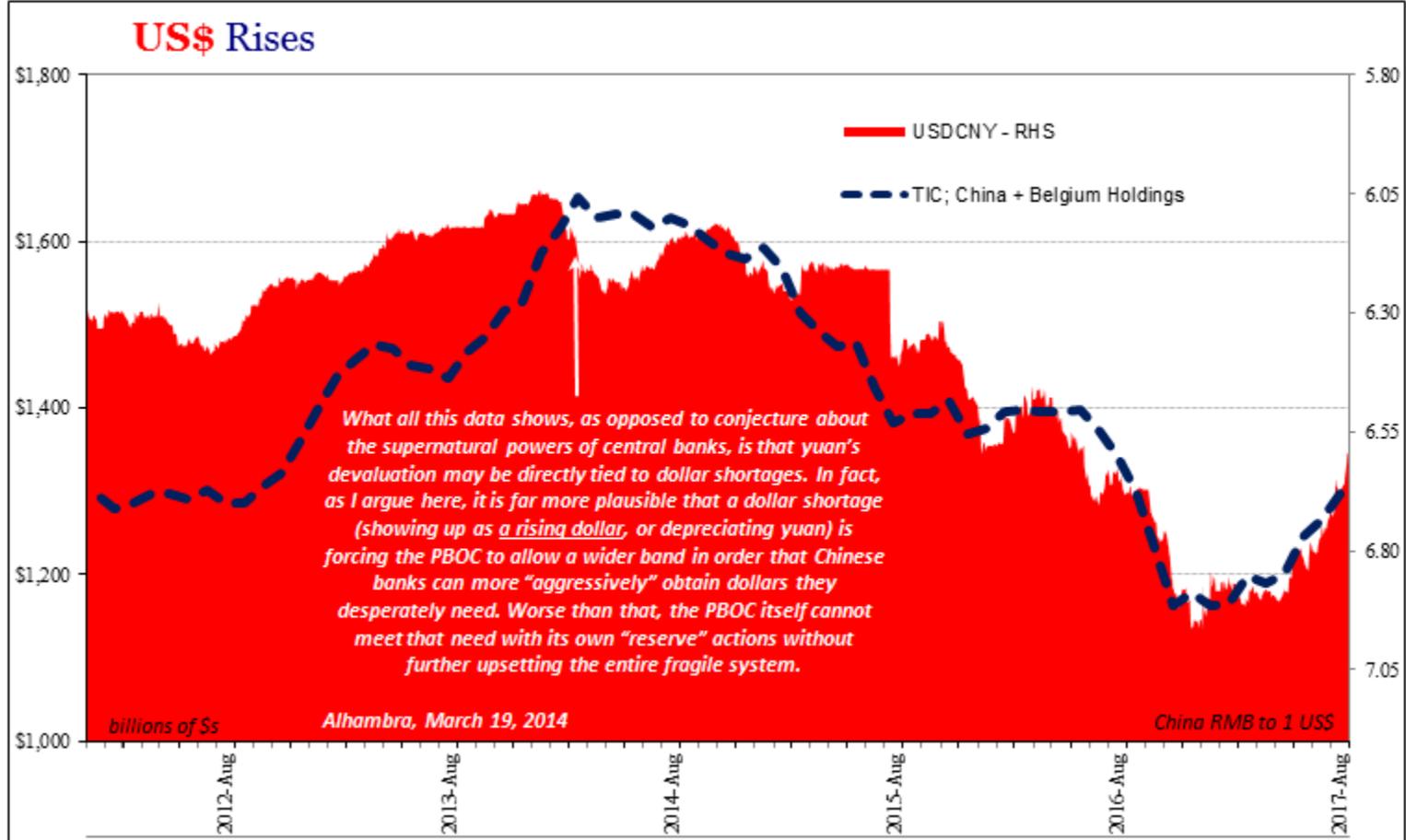
Evolving Chinese Response

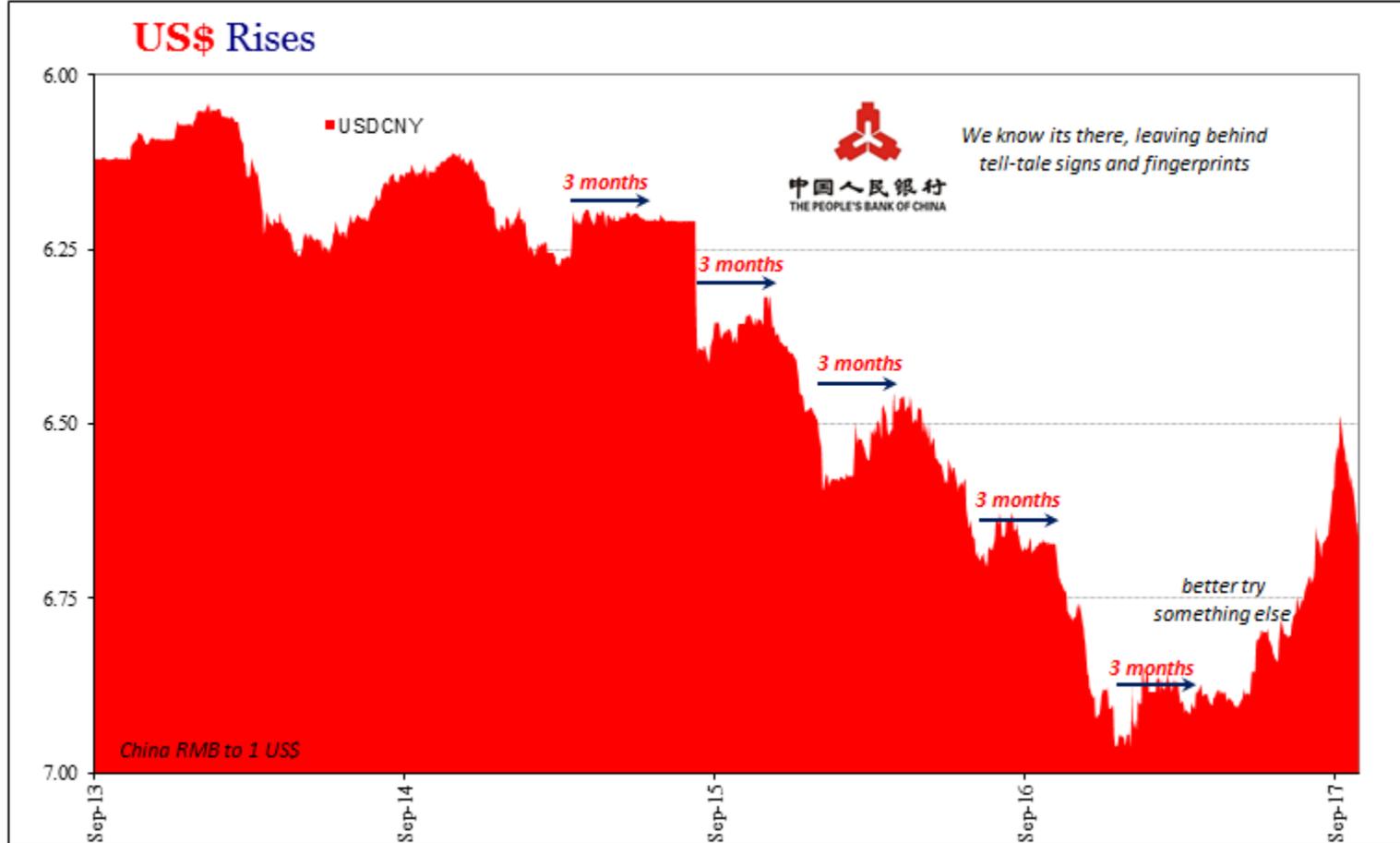
Tells Us Quite A Lot About The Intractable Nature Of The 'Dollar' Problem

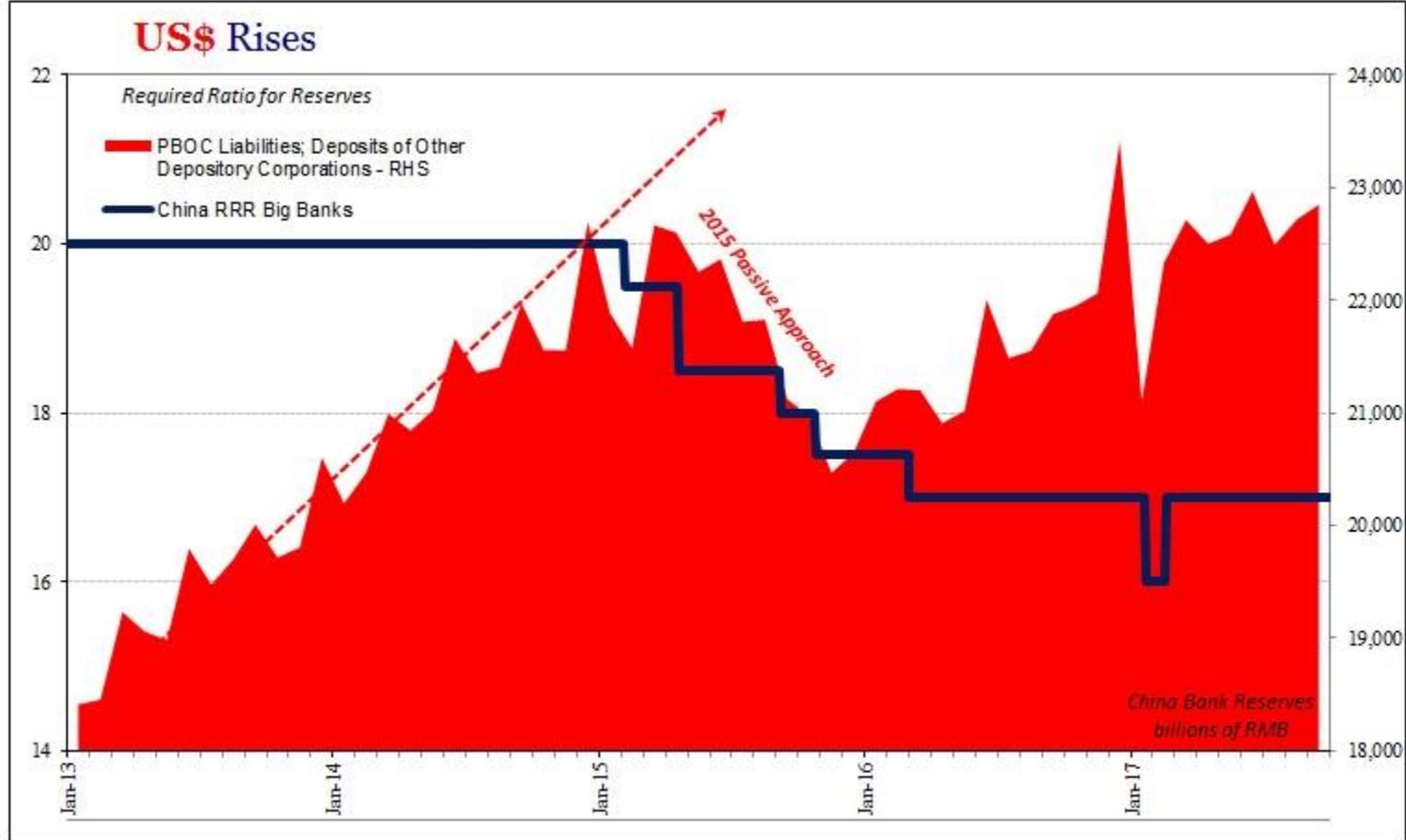


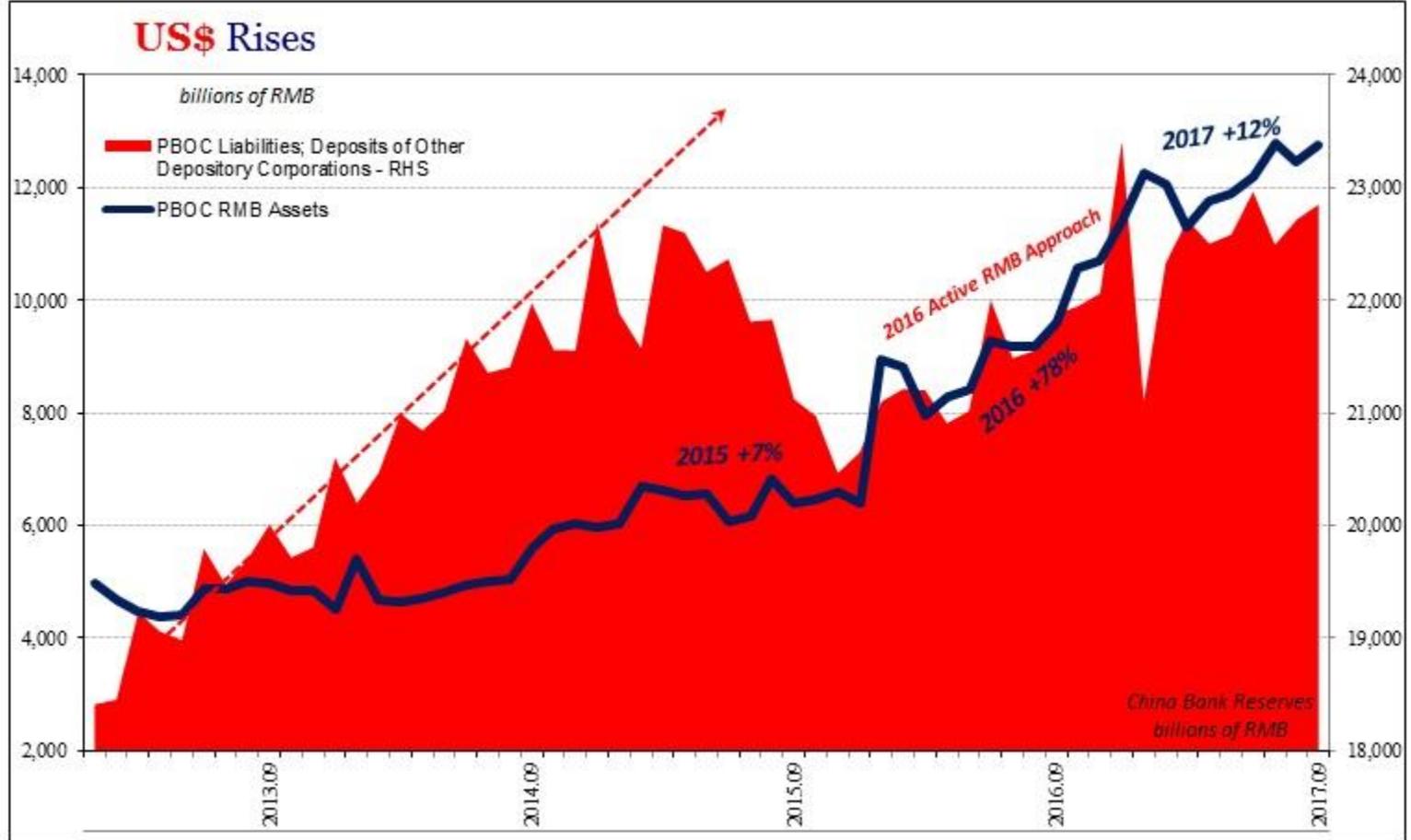
中国人民银行
THE PEOPLE'S BANK OF CHINA

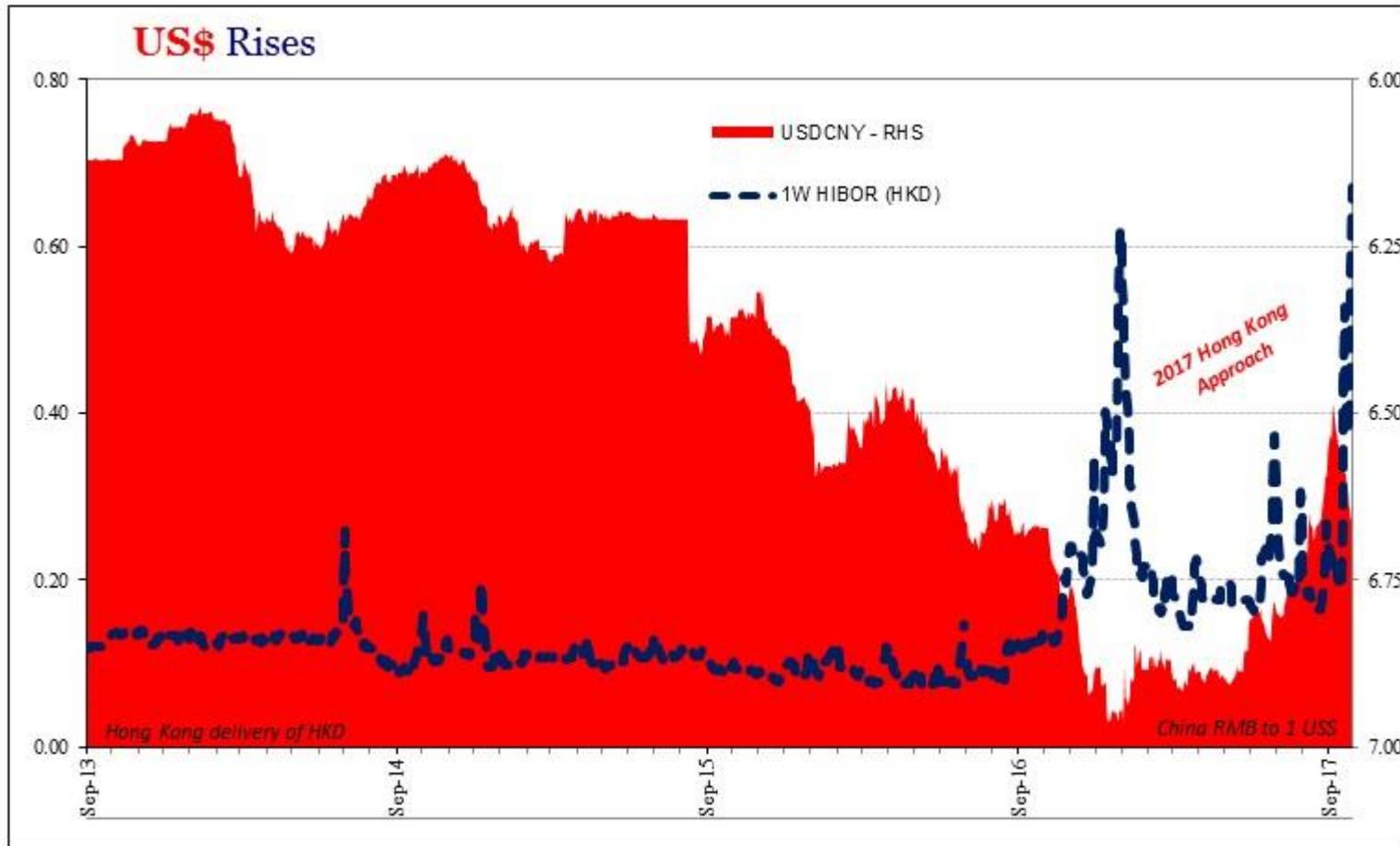








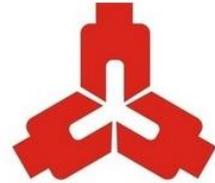




“ Overall, the financial situation in our country is good. However, **at present and for a period in the future**, China’s financial sector is still in a period of high risk-prone period [sic]. Under the pressure of multiple factors at home **and abroad**...

Latent risks that are, “**hidden, complex, sudden, contagious and hazardous.**”

PBOC Governor Zhou Xiaochuan, November 4, 2017



中国人民银行
THE PEOPLE'S BANK OF CHINA

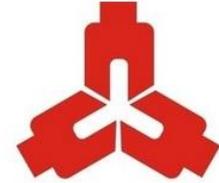
“

The outbreak of the current crisis and its spillover in the world have confronted us with a long-existing but still unanswered question, i.e., what kind of international reserve currency do we need to secure global financial stability and facilitate world economic growth, which was one of the purposes for establishing the IMF?

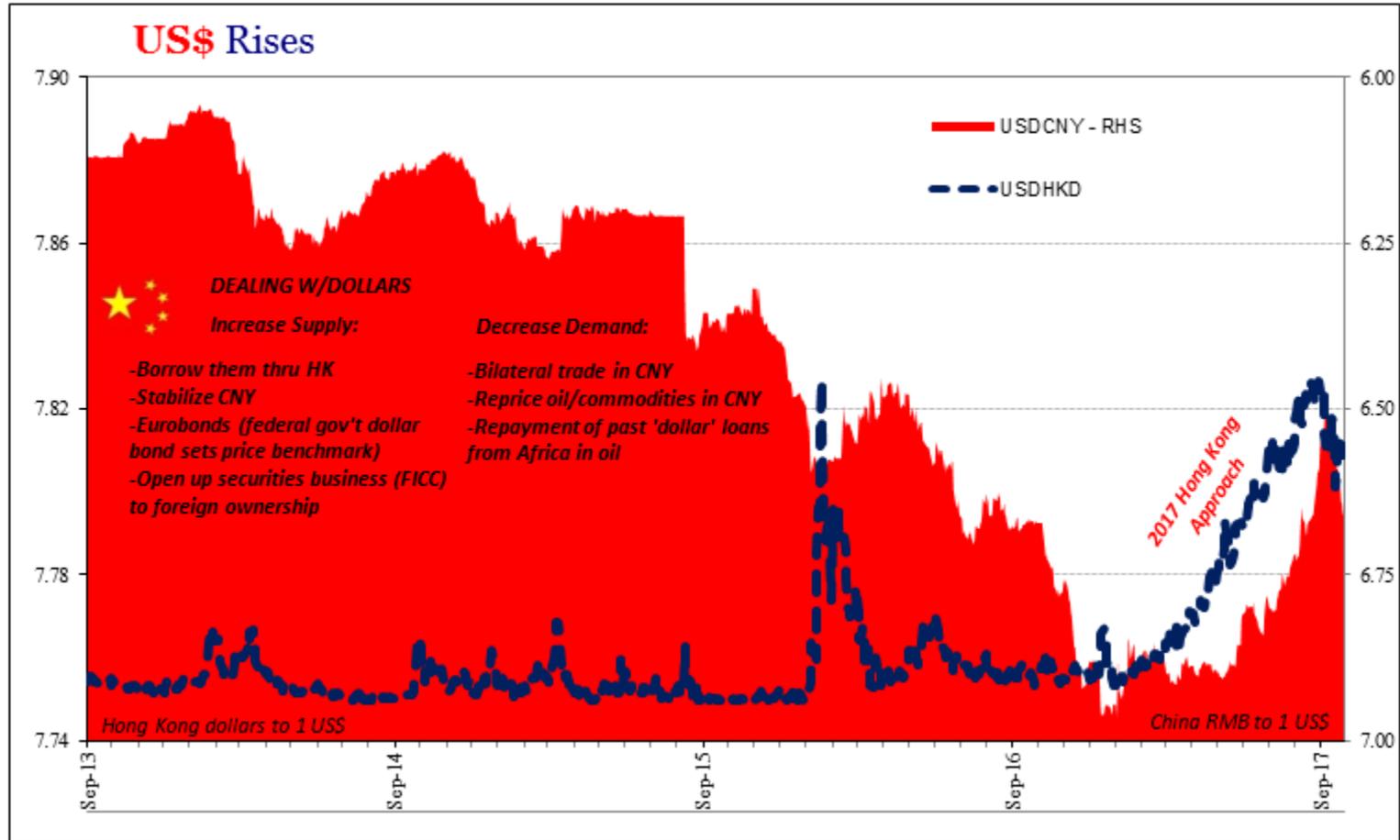
The acceptance of **credit-based** national currencies as major international reserve currencies, as is the case in the current system, is a rare special case in history.

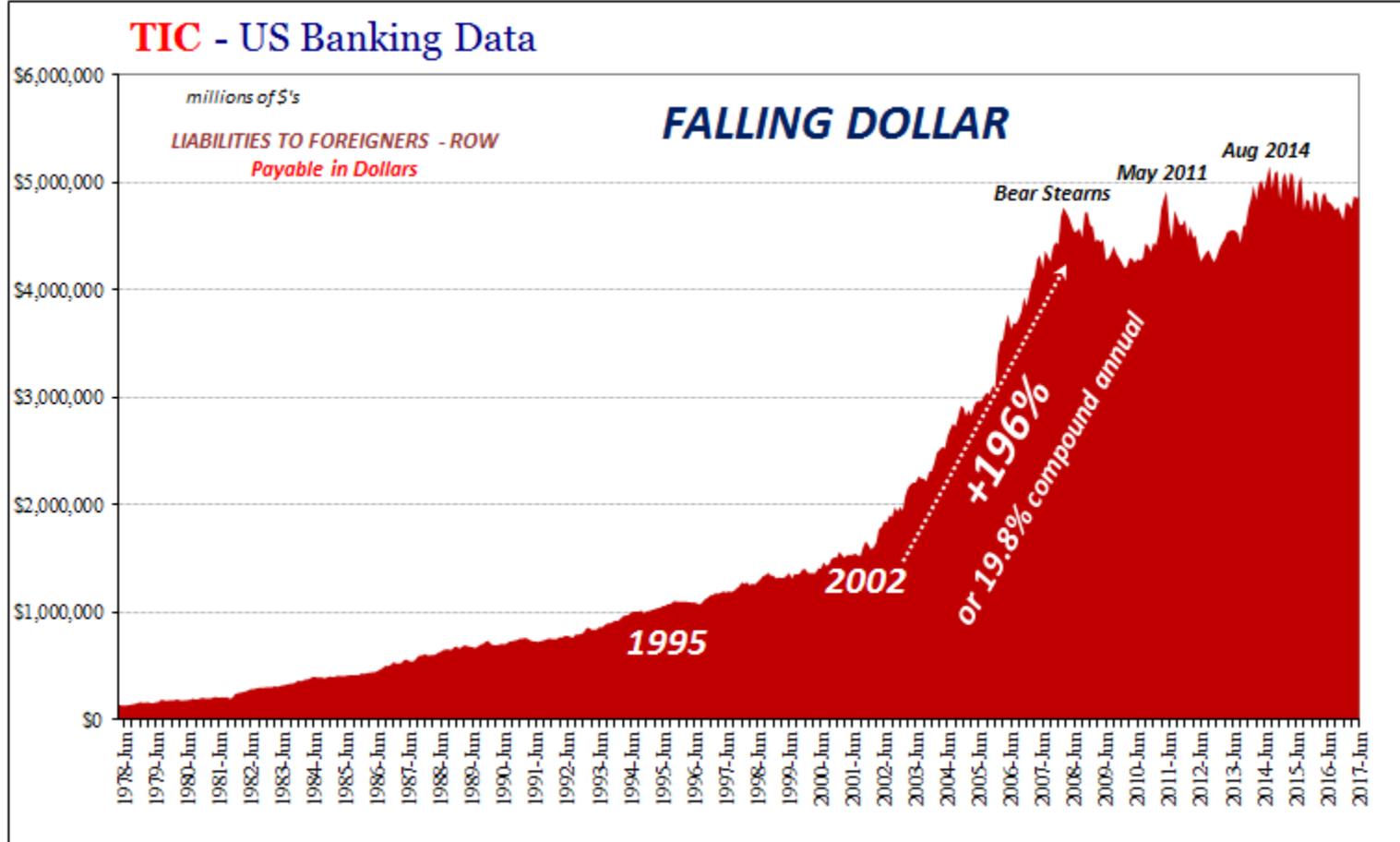
The desirable goal of reforming the international monetary system, therefore, is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using **credit-based** national currencies.

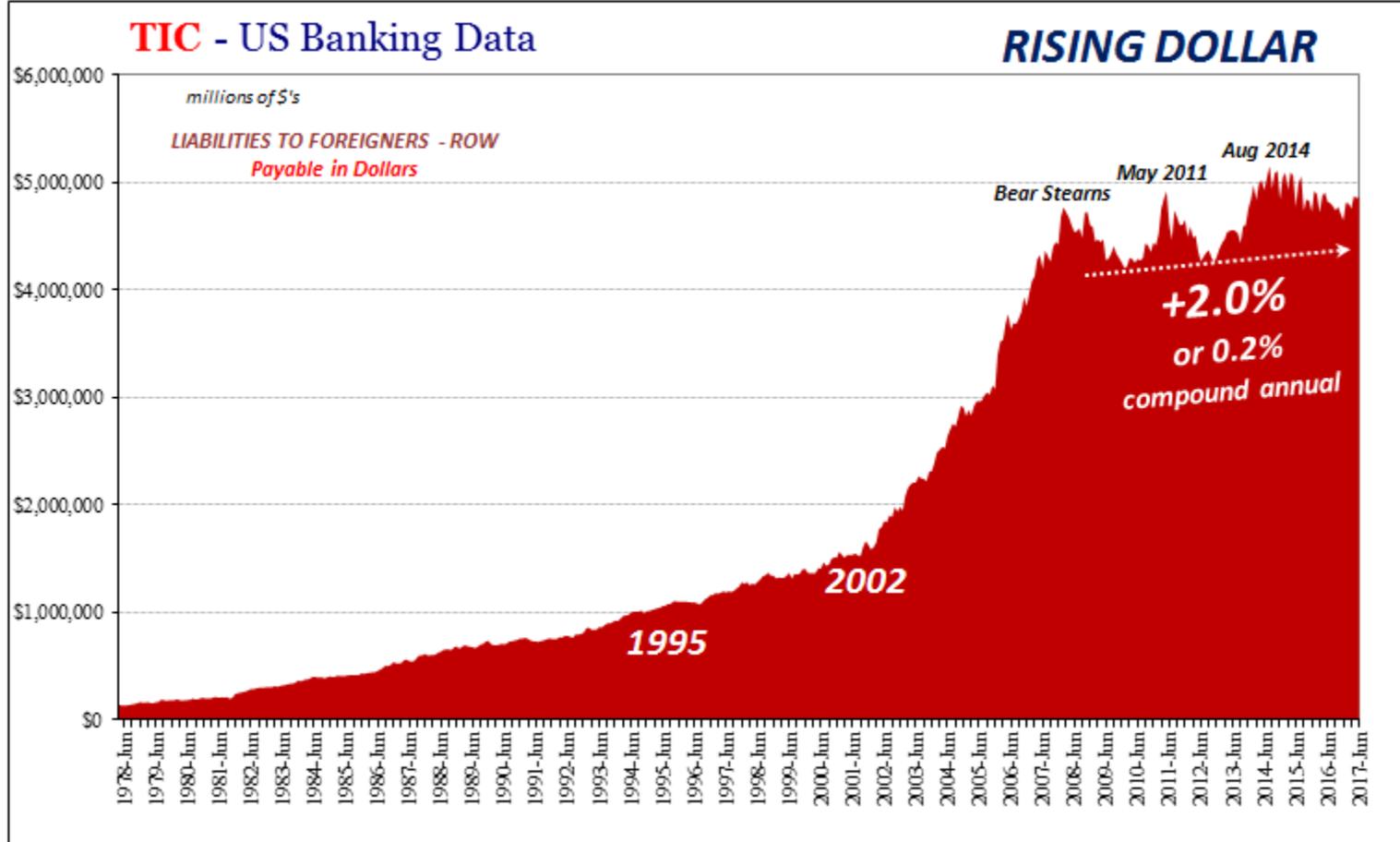
PBOC Governor Zhou Xiaochuan, March 23, 2009

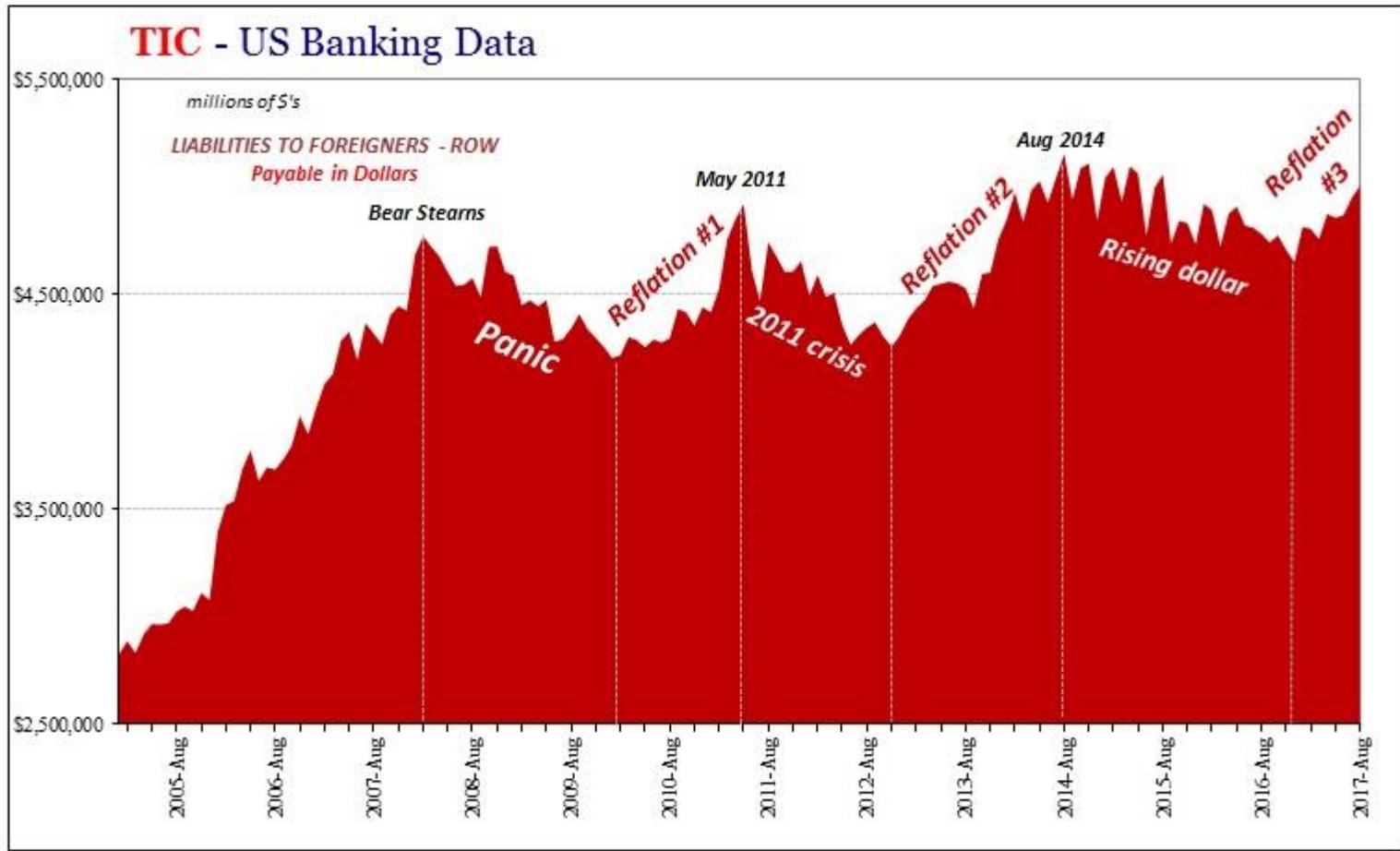


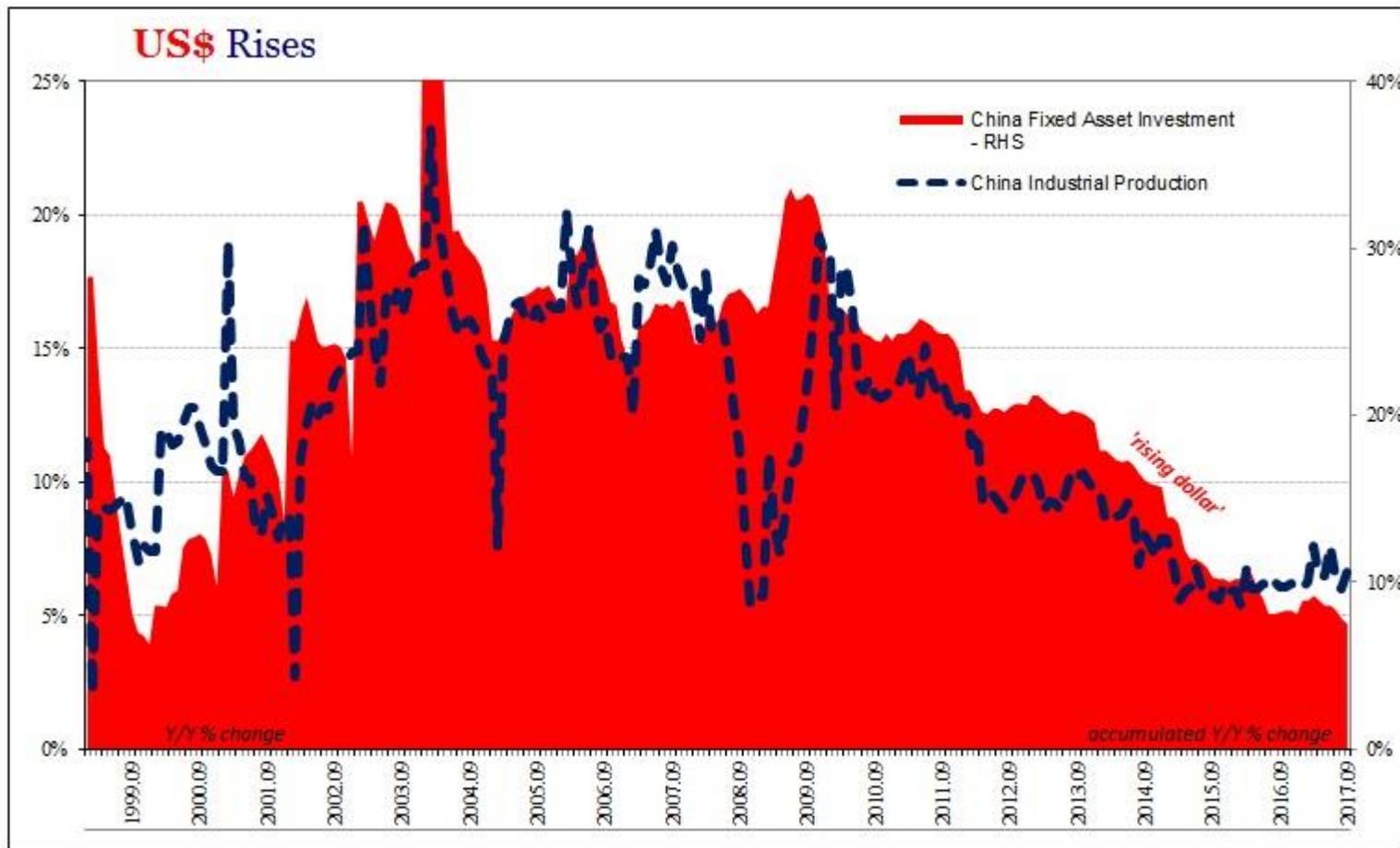
中国人民銀行
THE PEOPLE'S BANK OF CHINA

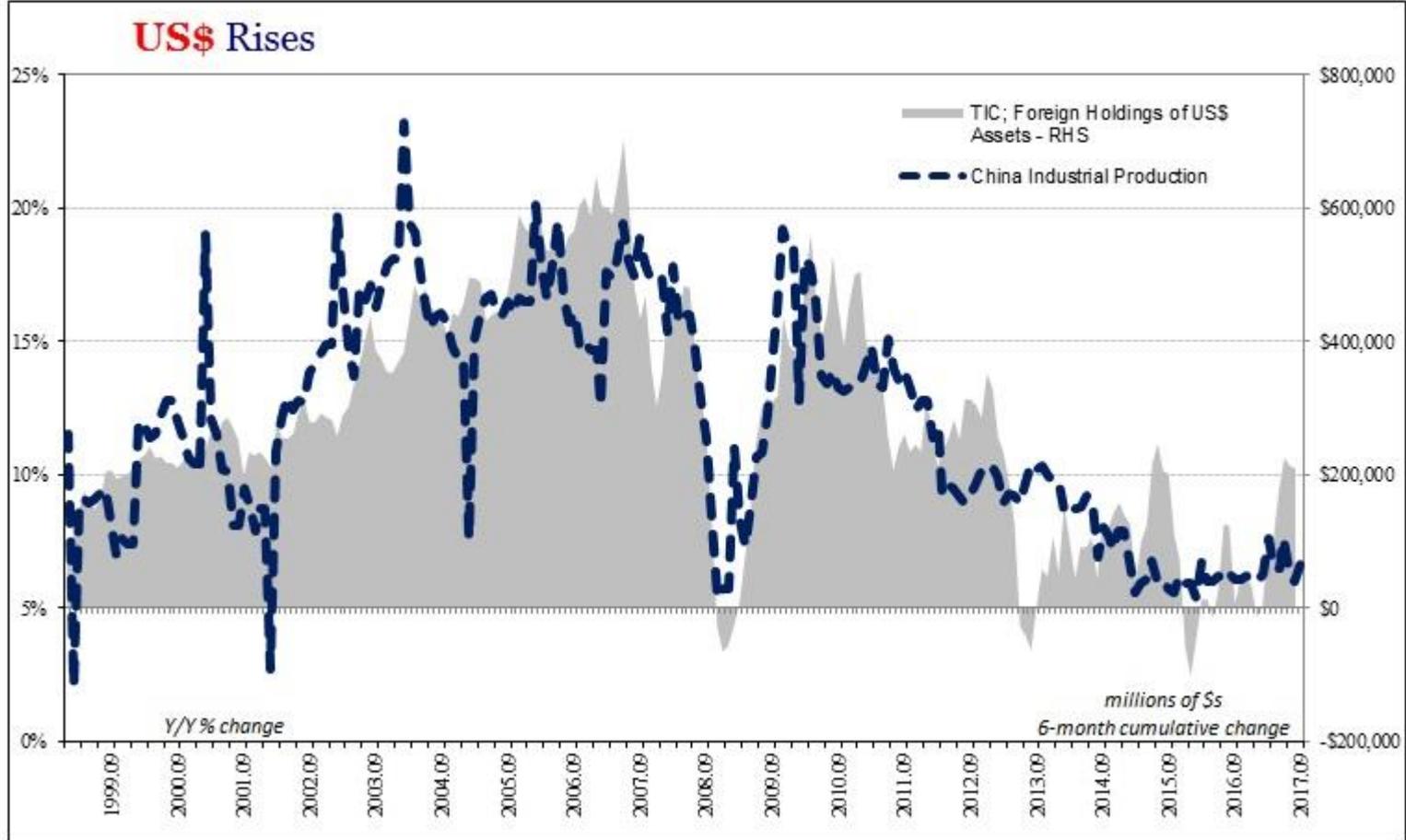


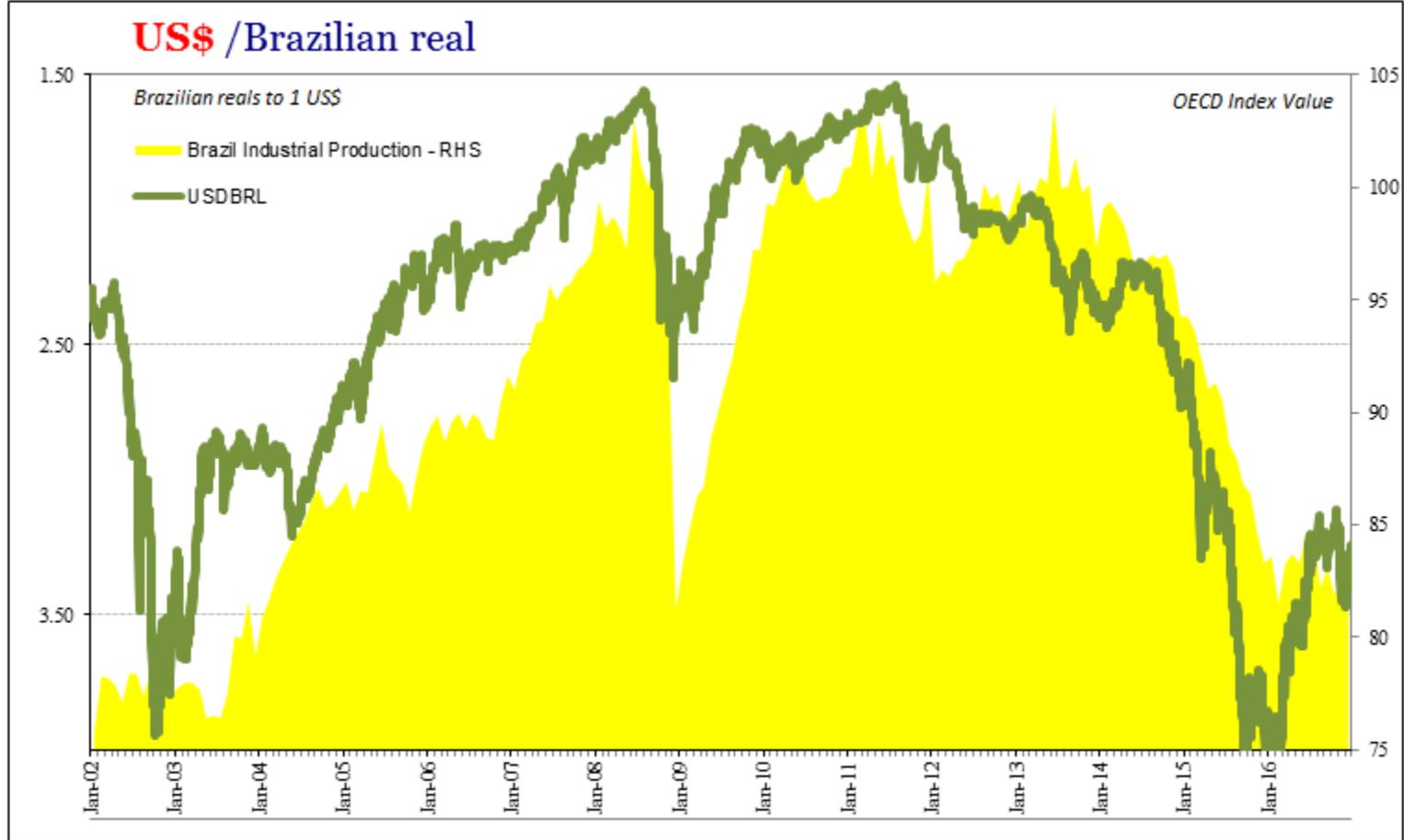


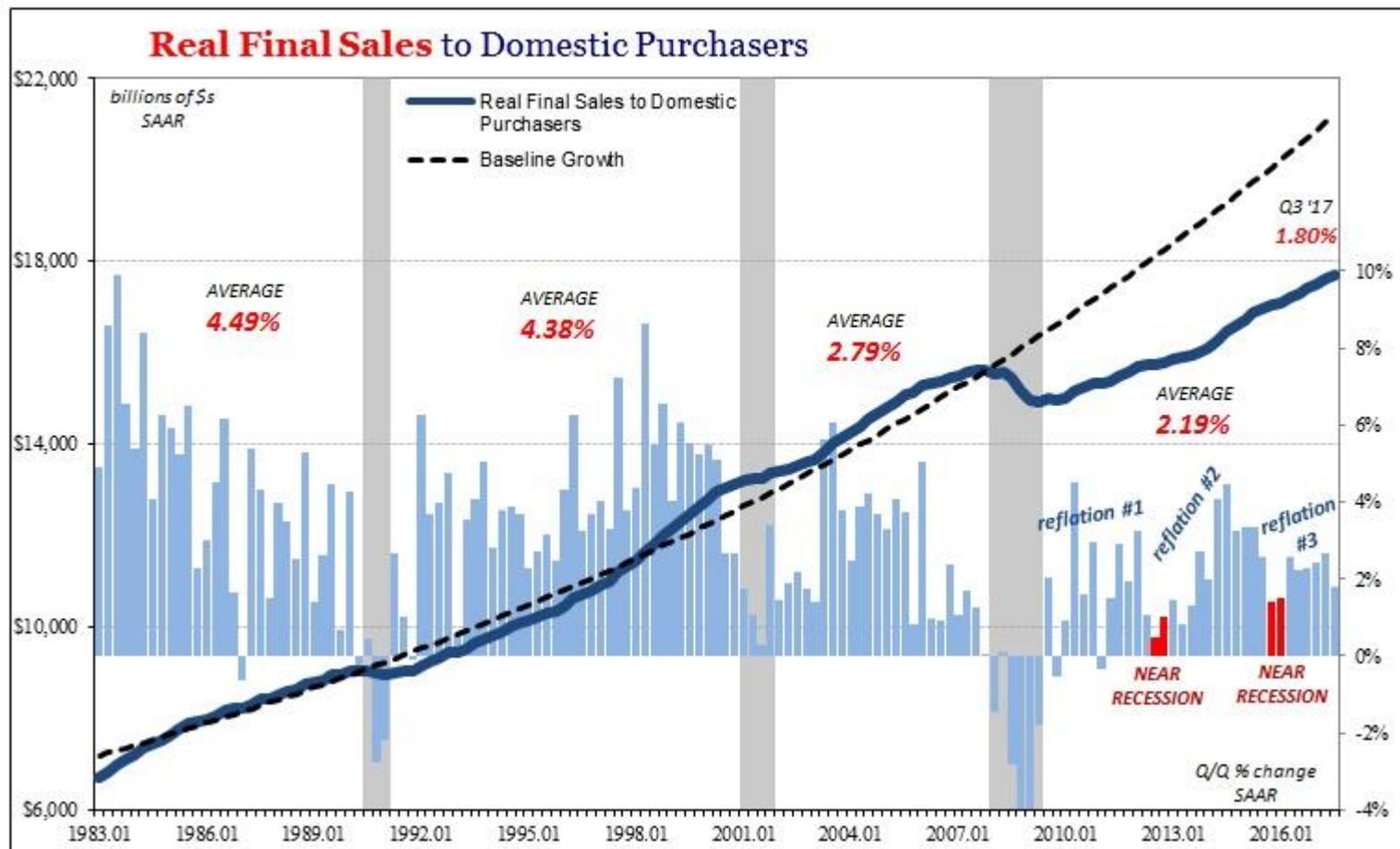


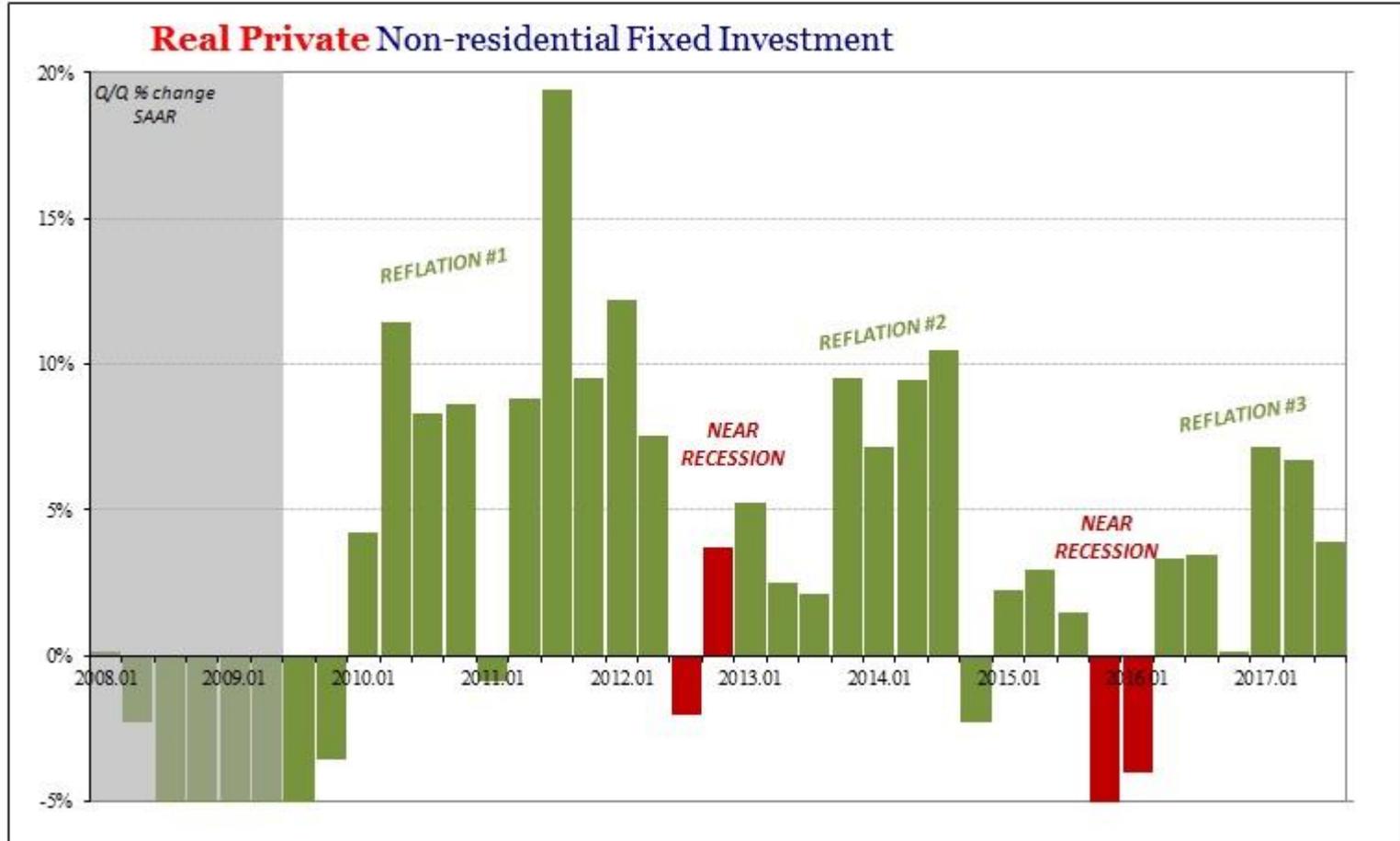


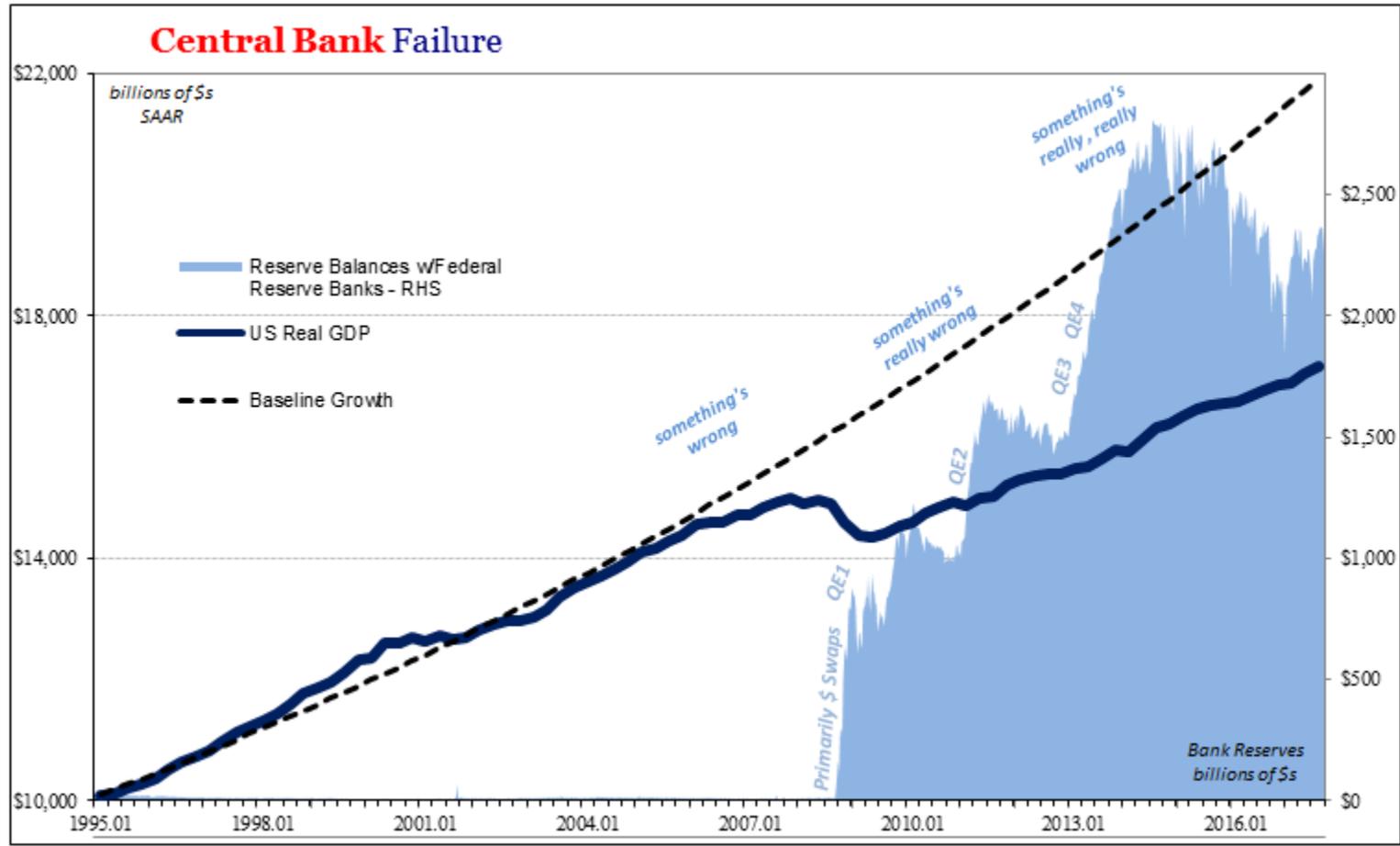


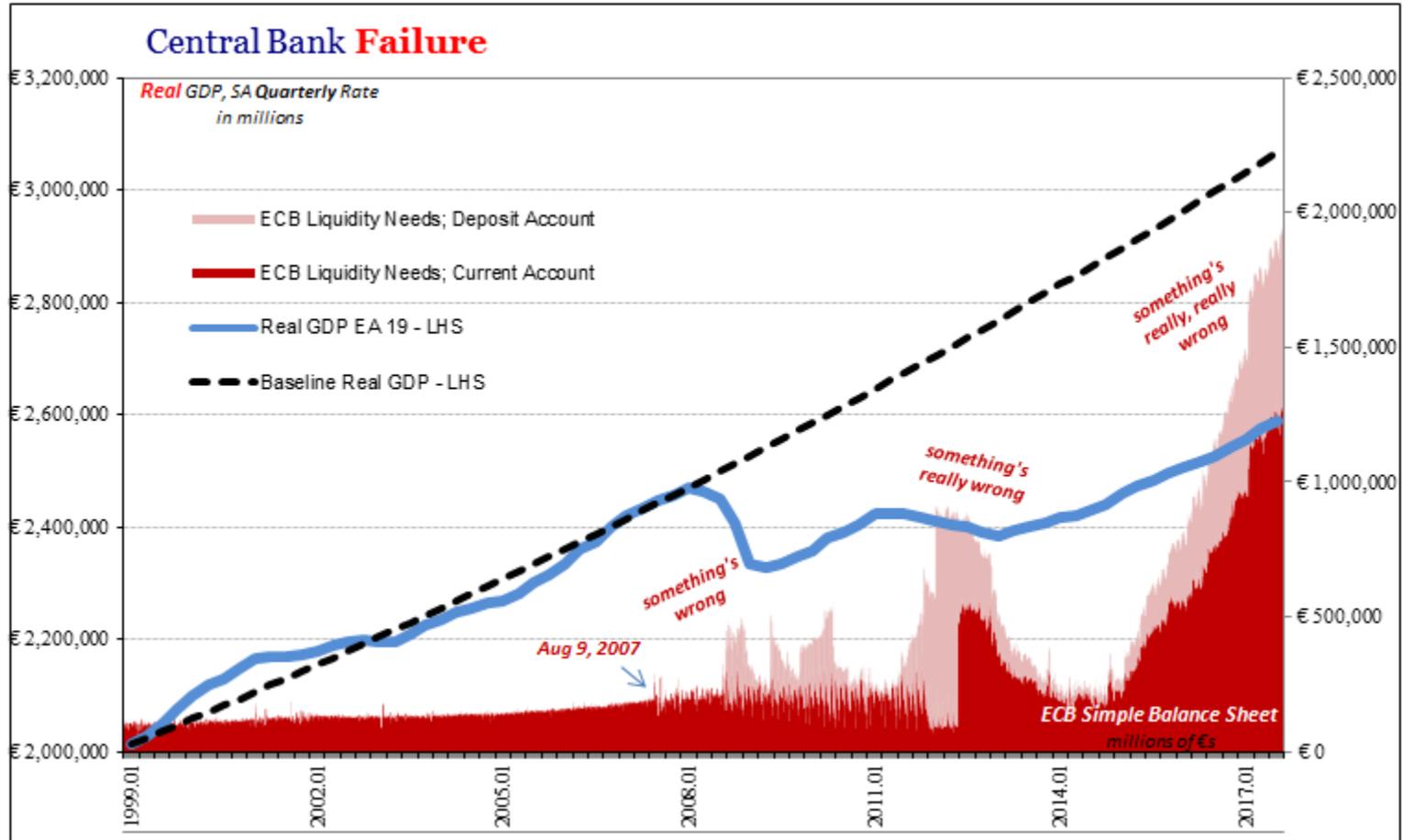








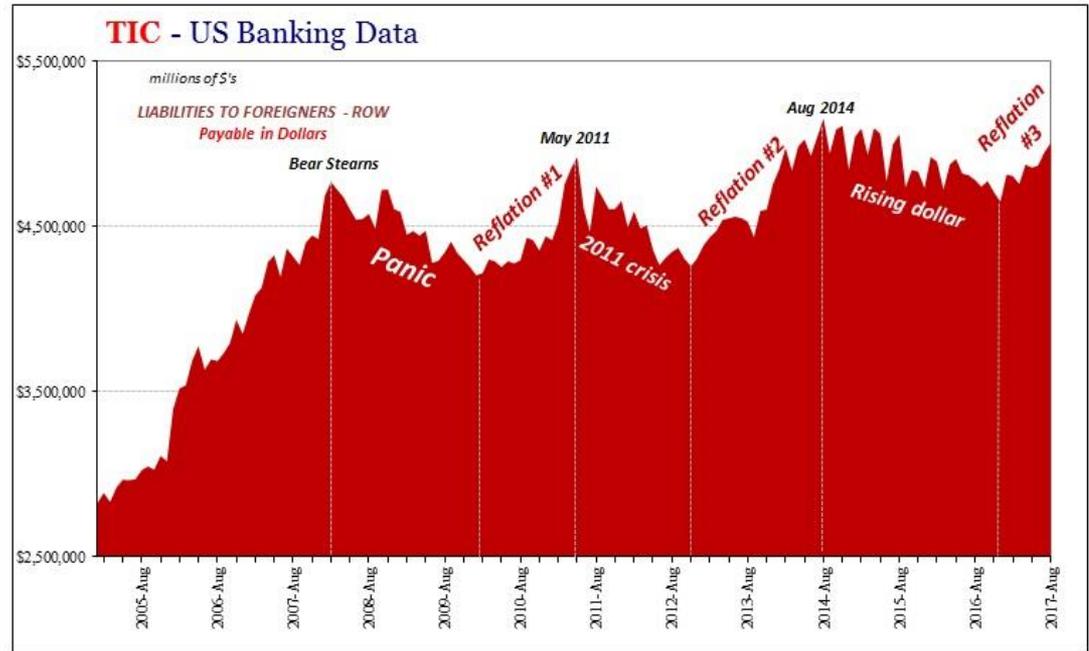


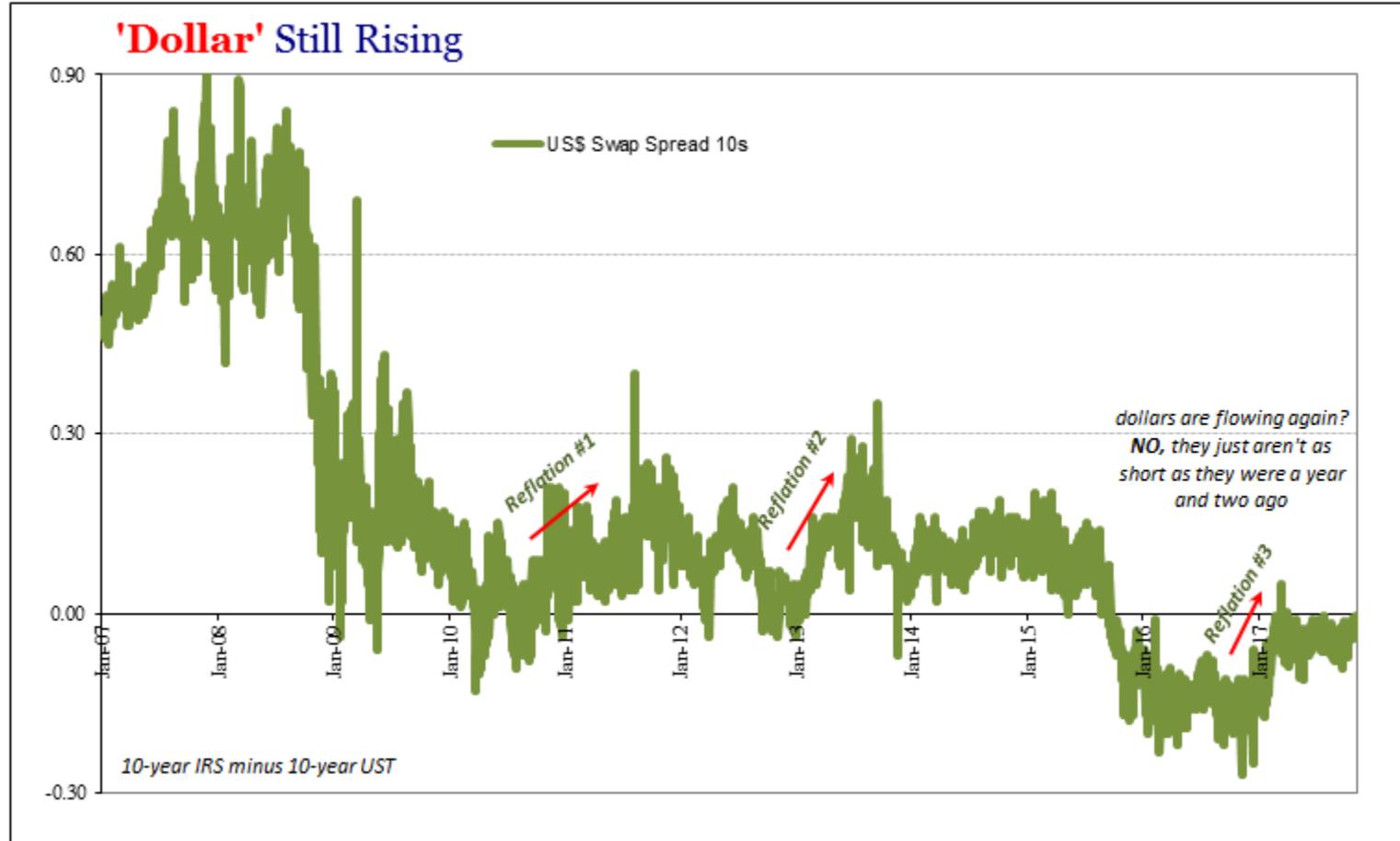


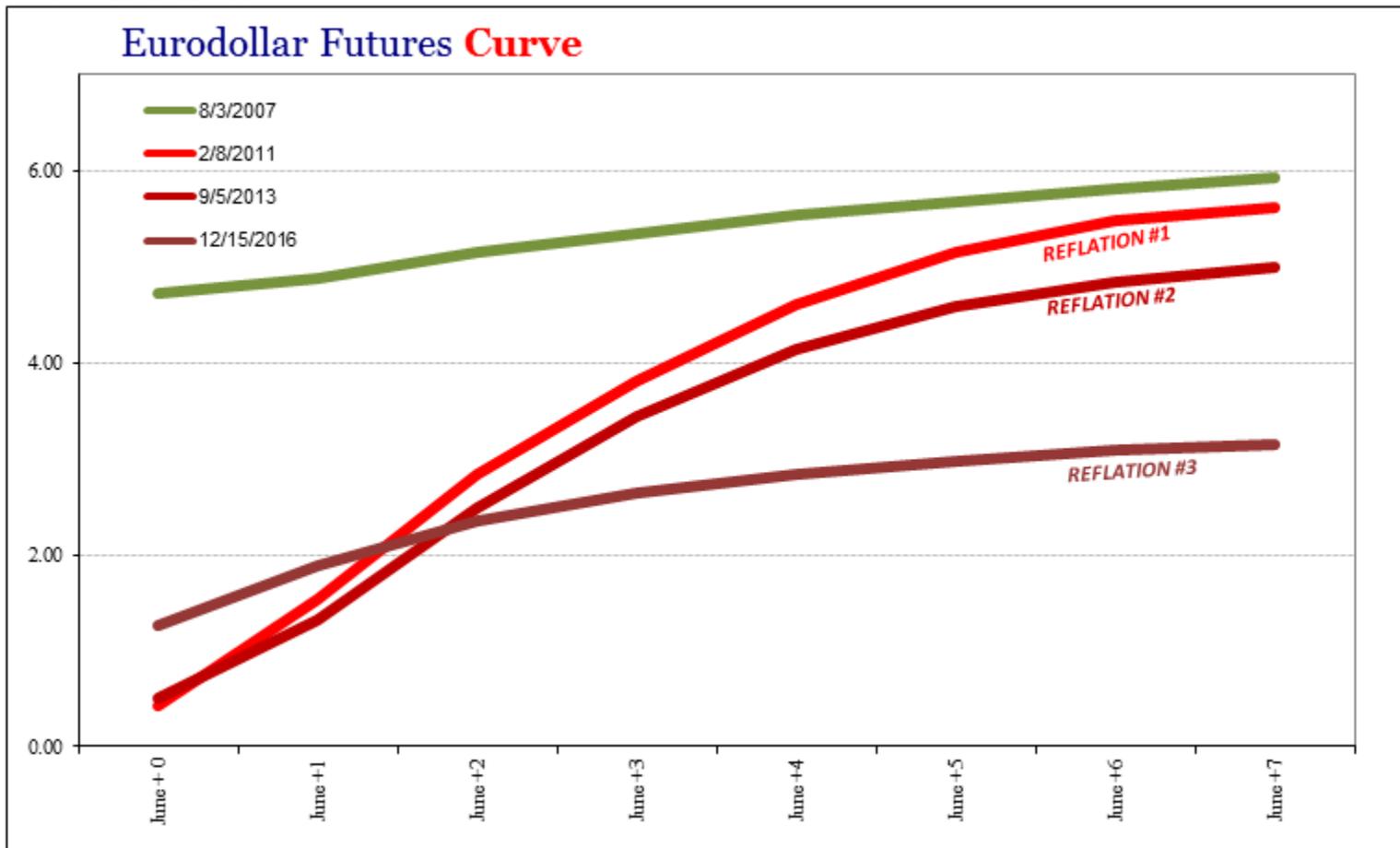
Nothing Goes In A Straight Line

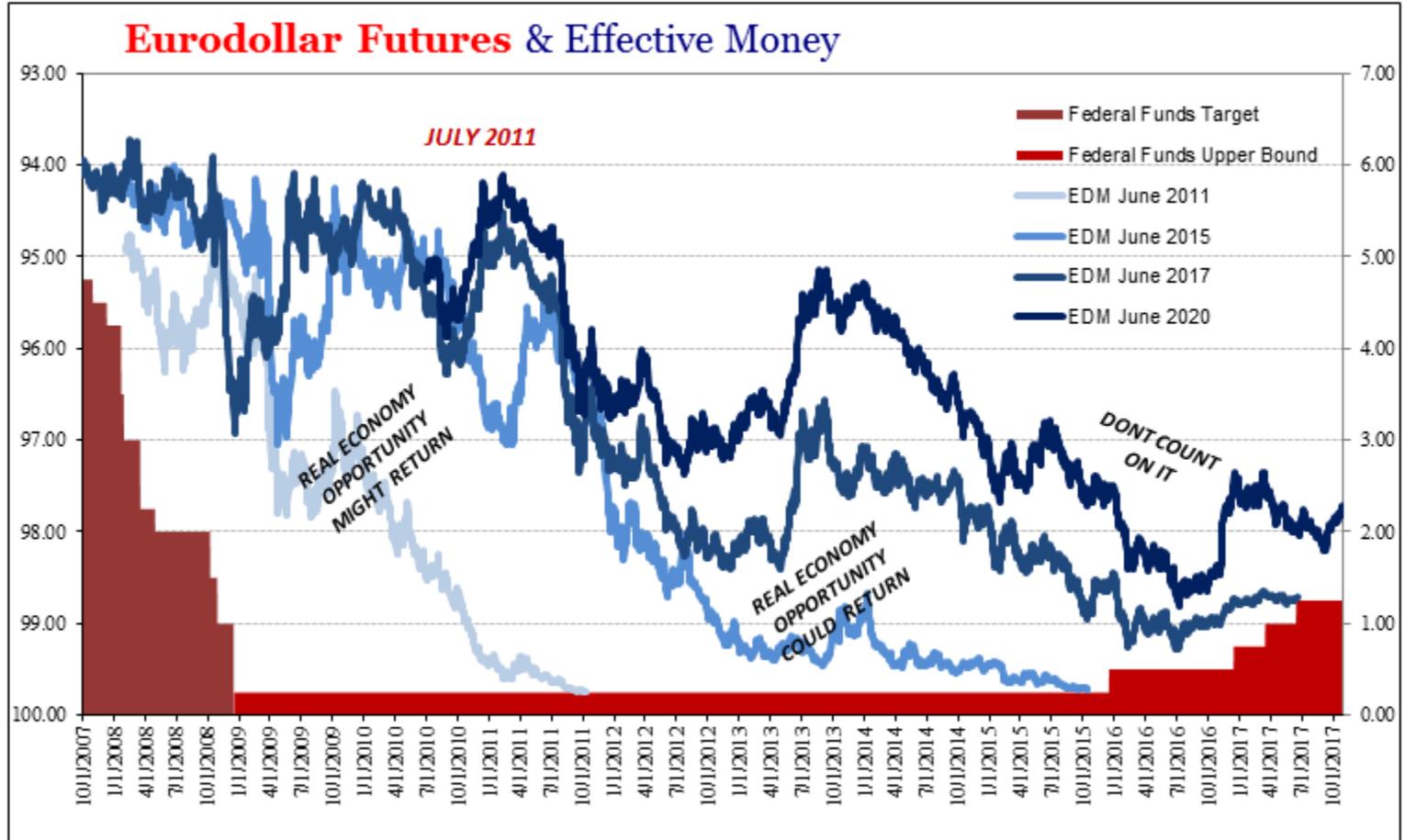
What Counts As 'Loose' In 2017 Is Nothing More Than Relatively Less 'Tight'
In Comparison To 2014-16

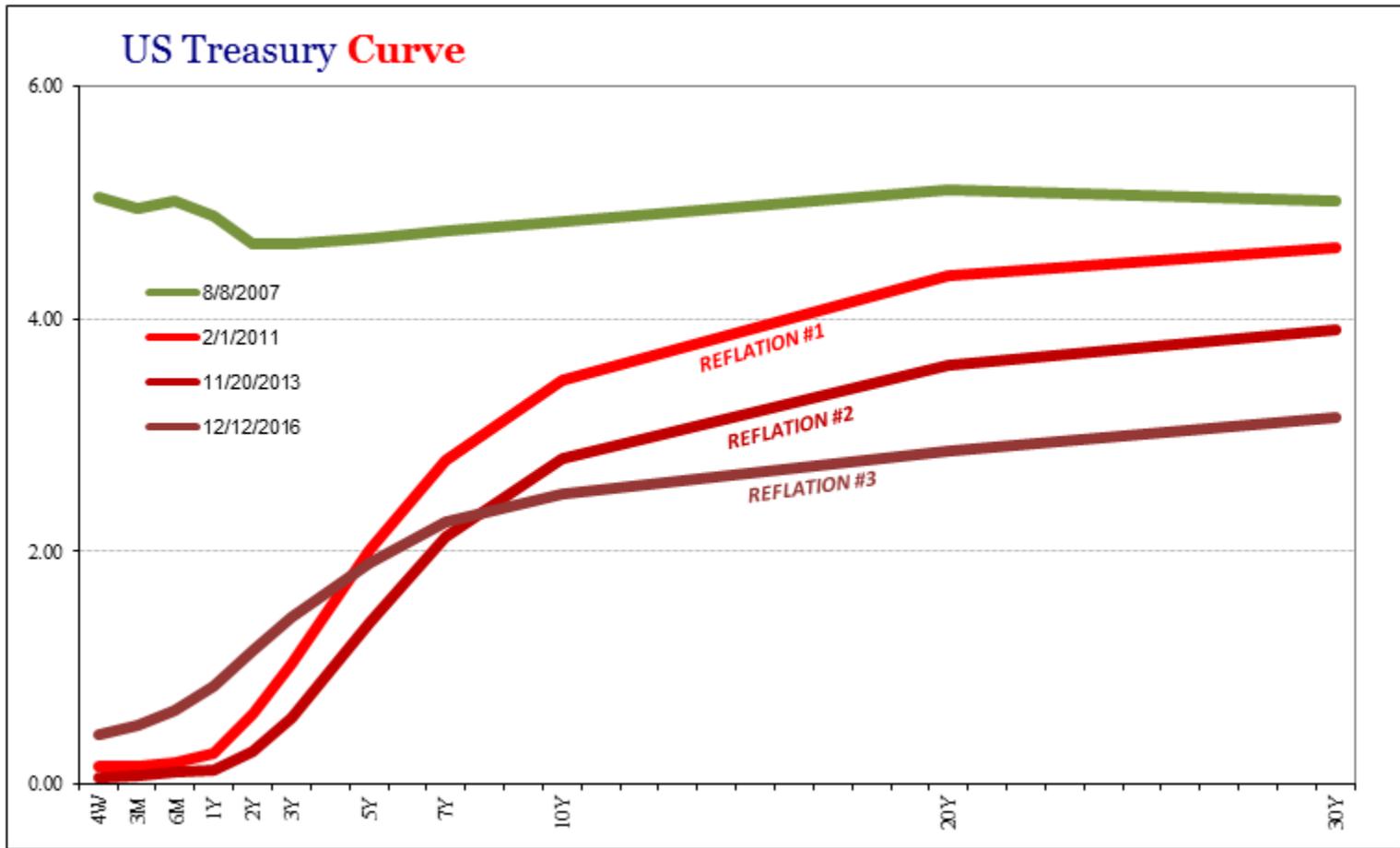

**RIGHT
NOW IS
JUST A SPACE BETWEEN
BETWEEN
ICE AGES**





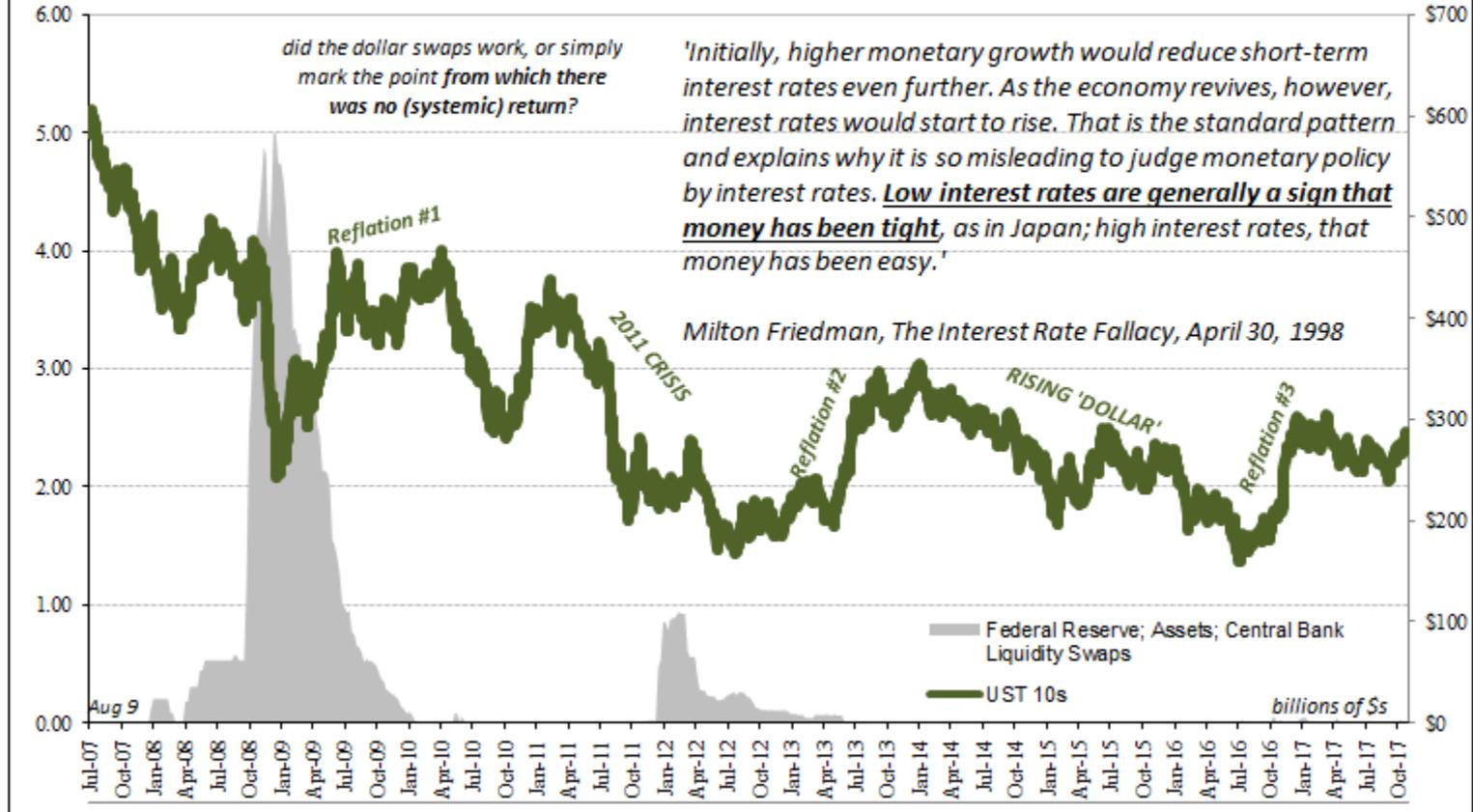


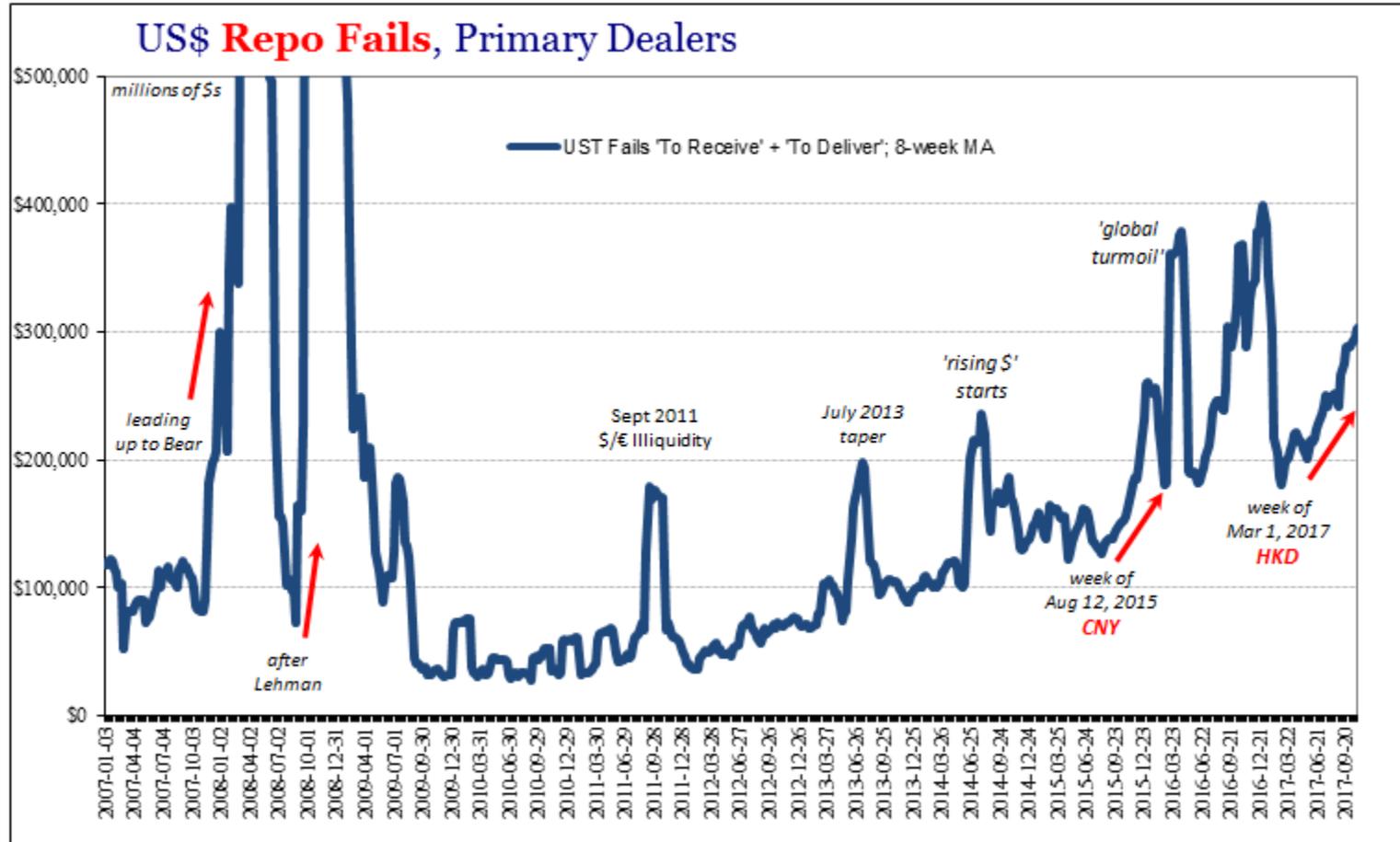


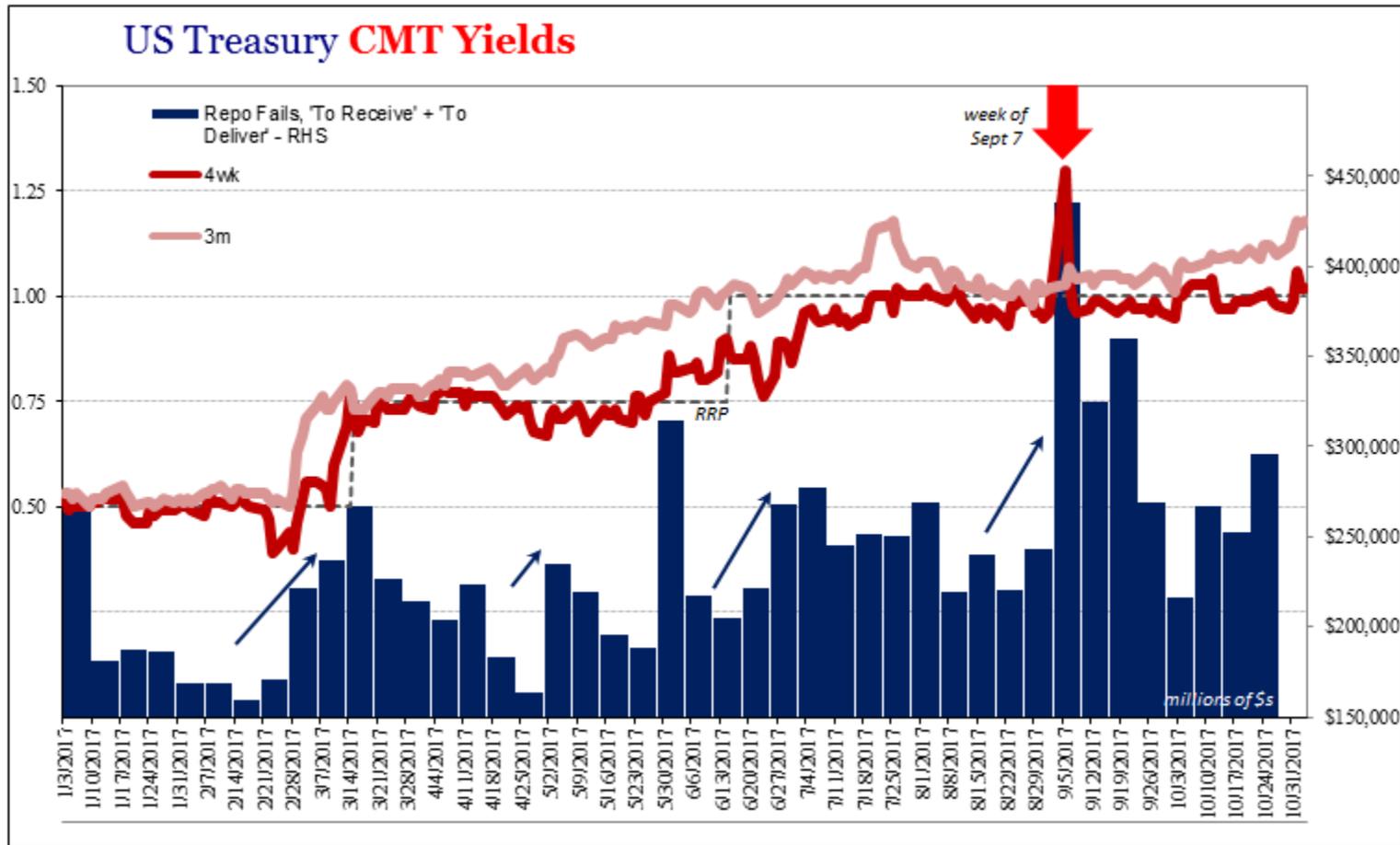


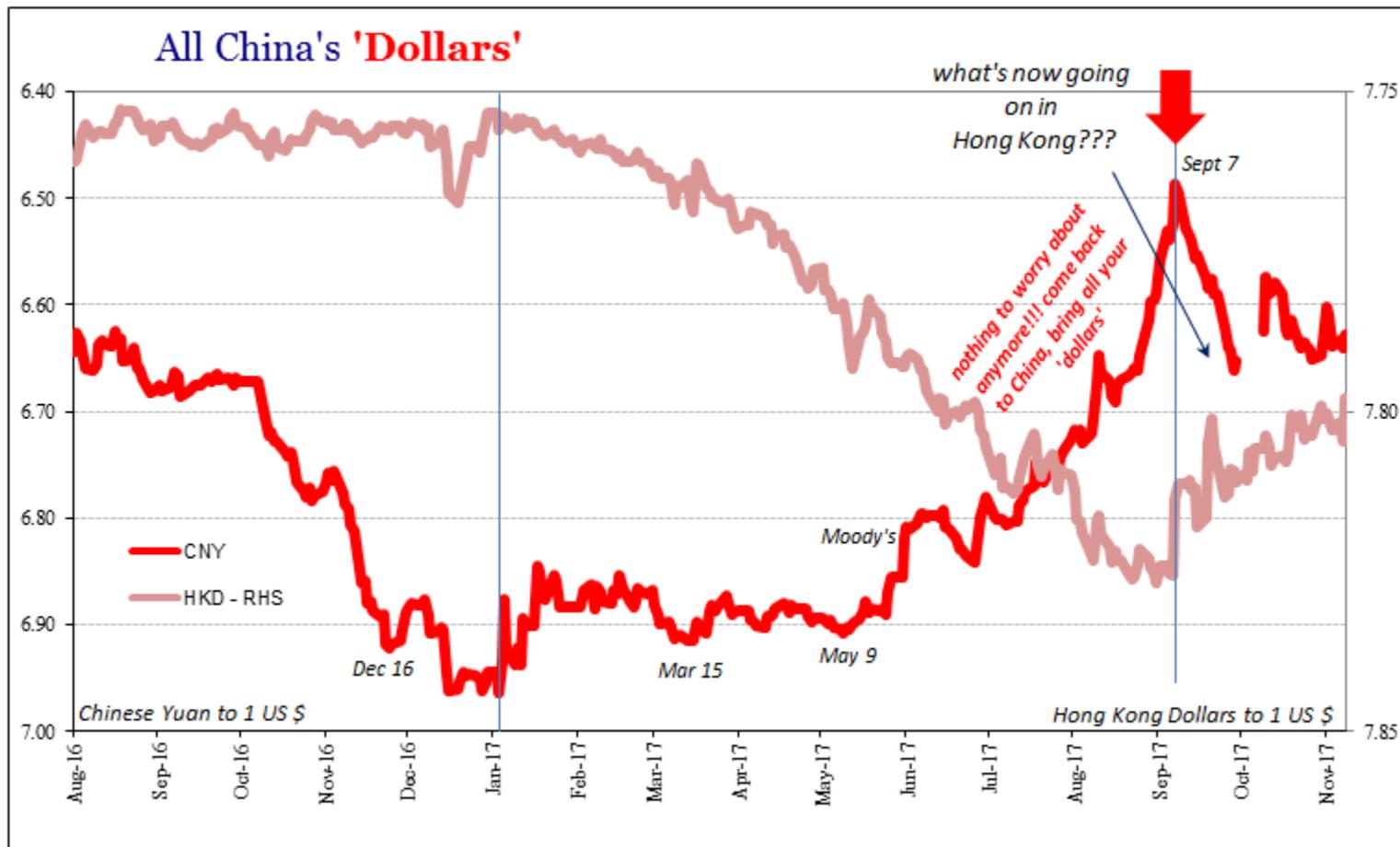


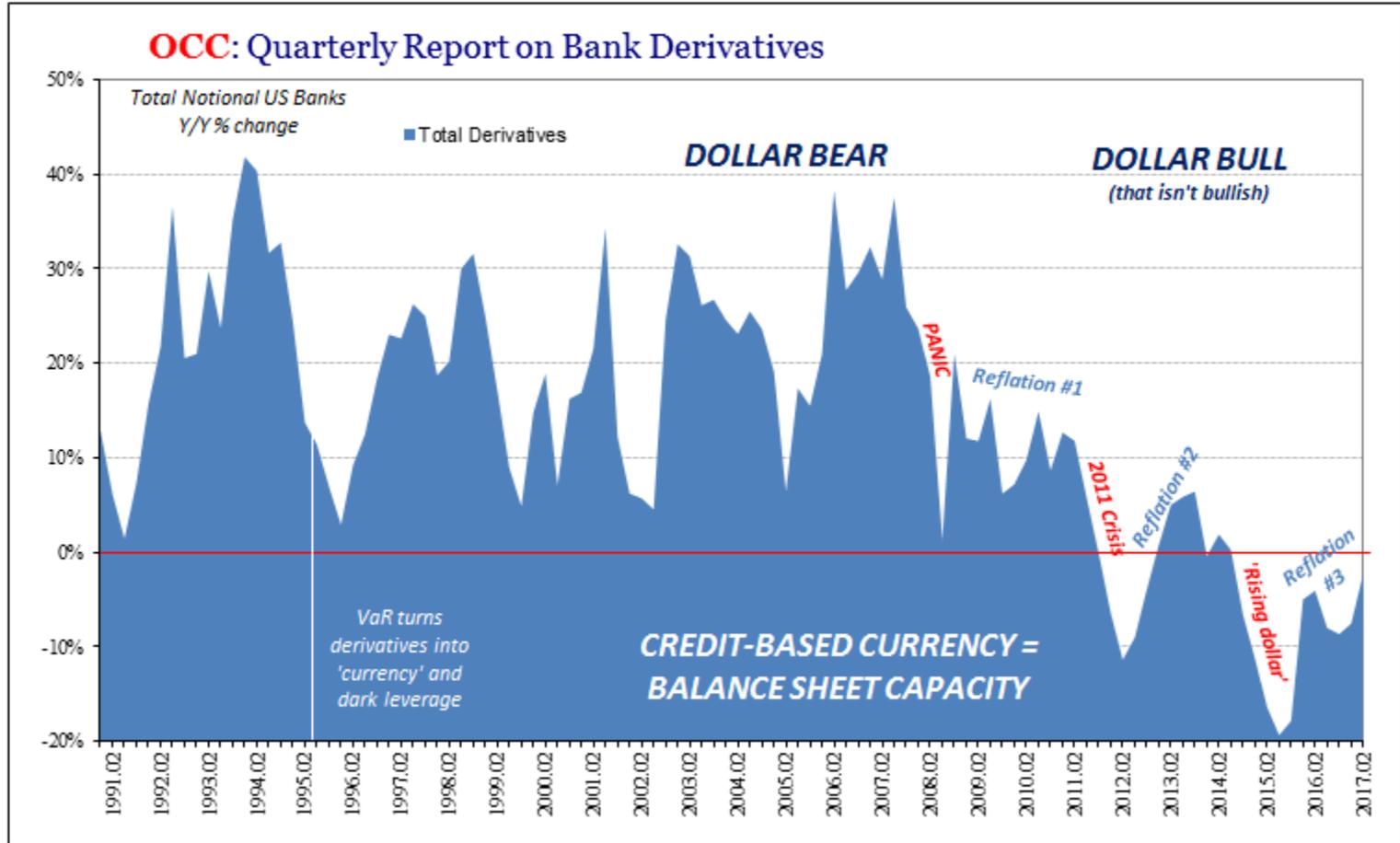
Dollar Swaps Fail To Loosen













Dollar BULLS vs BEARS

(nobody wins)



concluded