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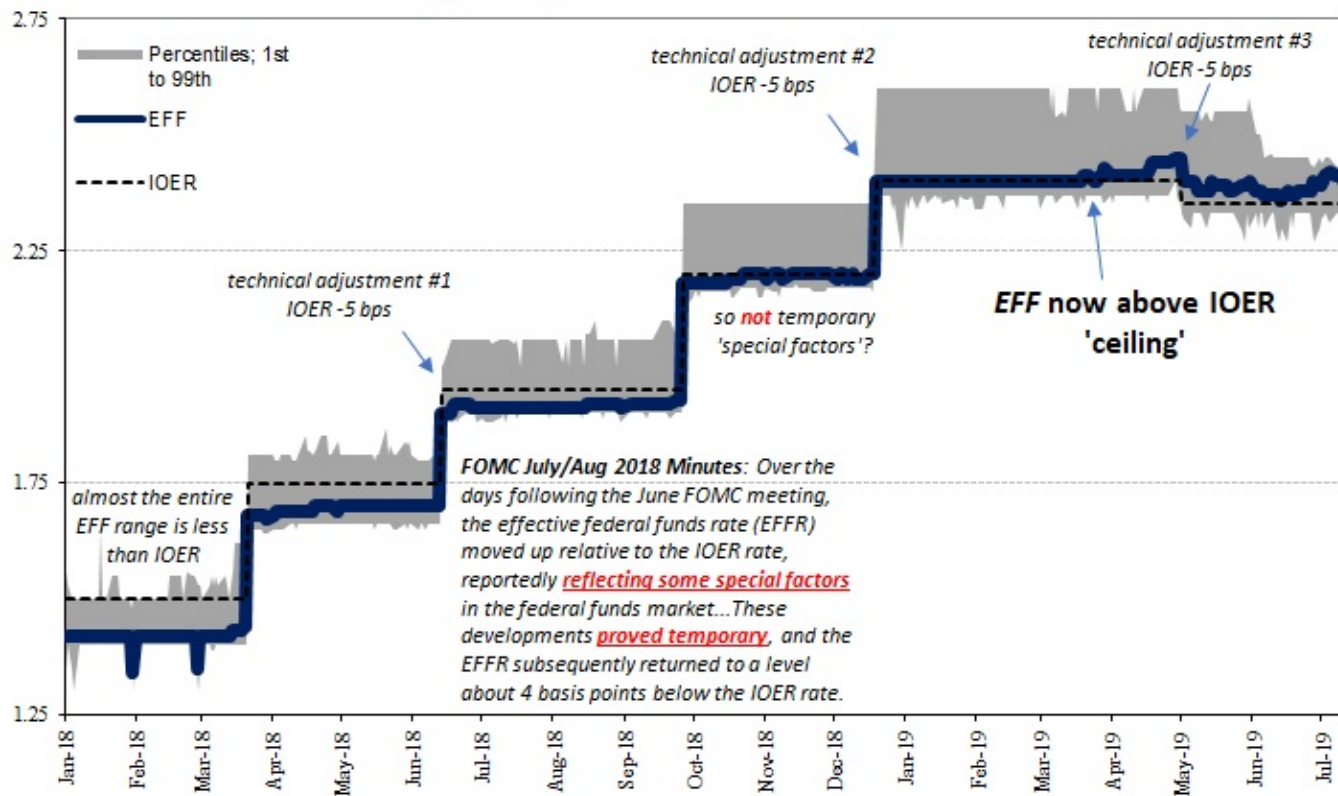
Reviewing EFF THE DOLLAR SQUEEZE

(‘dollars’ and economy)



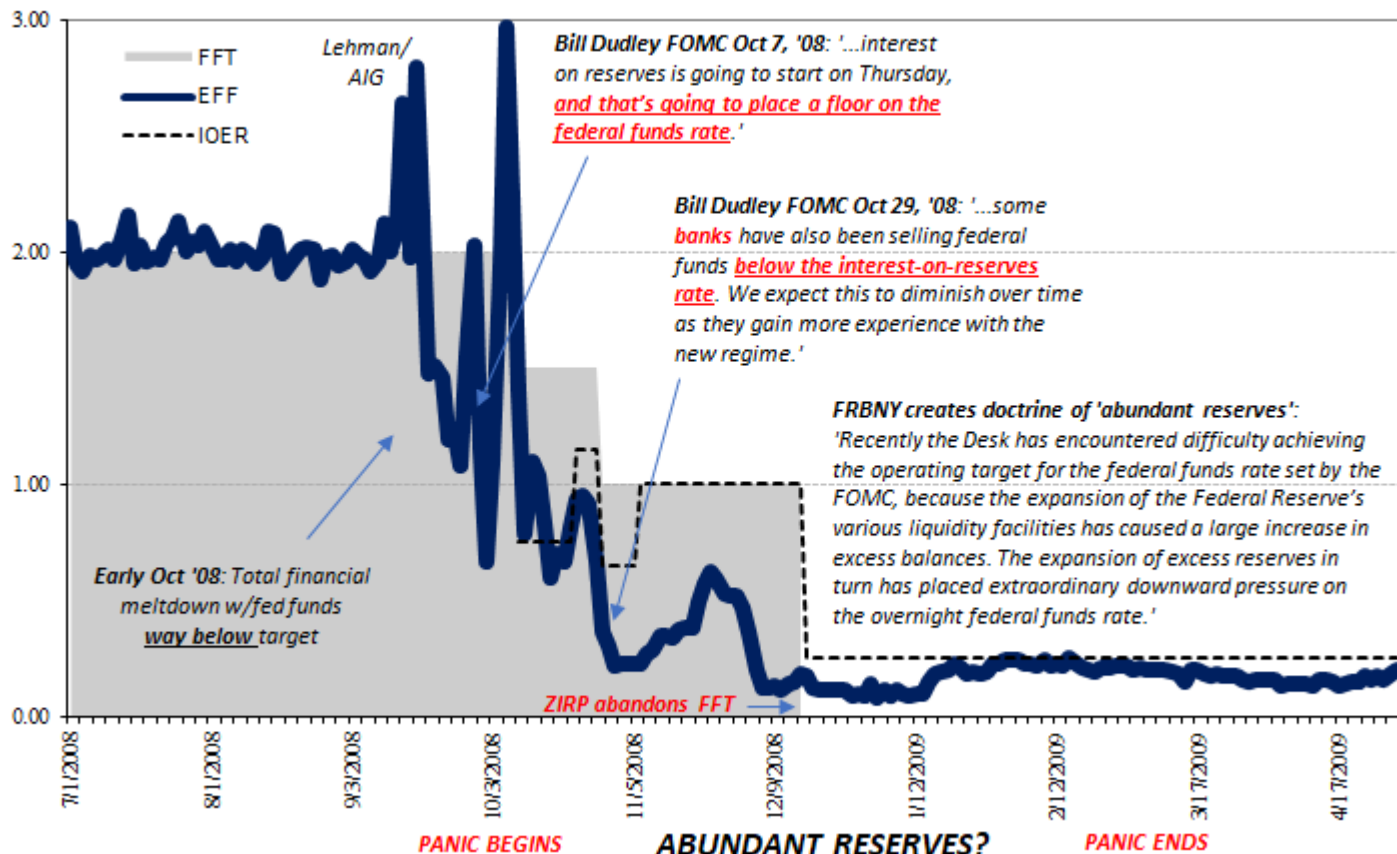


Federal Funds: Trading Range





US\$ Money Markets: 'Equivalent' Rates





Theory of Abundant Reserves



The overnight reverse repo program (ON RRP) is used to supplement the Federal Reserve's primary monetary policy tool, interest on excess reserves (IOER) for depository institutions, to help control short-term interest rates. ON RRP operations support interest rate control by setting a floor on wholesale short-term interest rates, beneath which financial institutions with access to these facilities should be unwilling to lend funds.

FRBNY

Monetary Policy Implementation



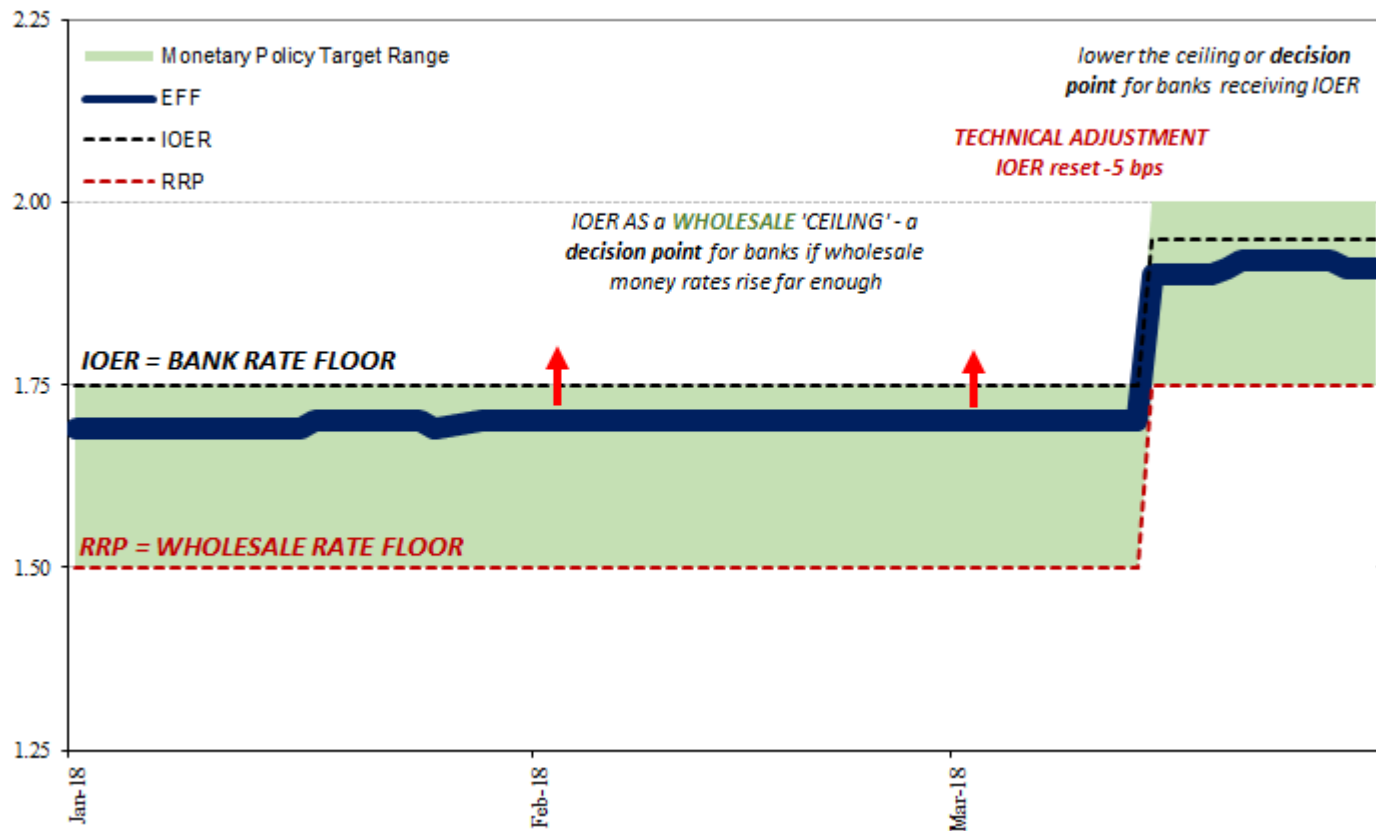
In response to substantially lower fed fund trading activity, the Fed introduced two new monetary policy tools, **interest on excess reserves (IOER)** and the overnight reverse repo program (ON-RRP); **the former acting as a ceiling** – banks will not invest elsewhere at a lower rate, while the latter acts as a floor – banks must pay at least this rate to attract deposits.

JP Morgan Asset Management

Global Fixed Income

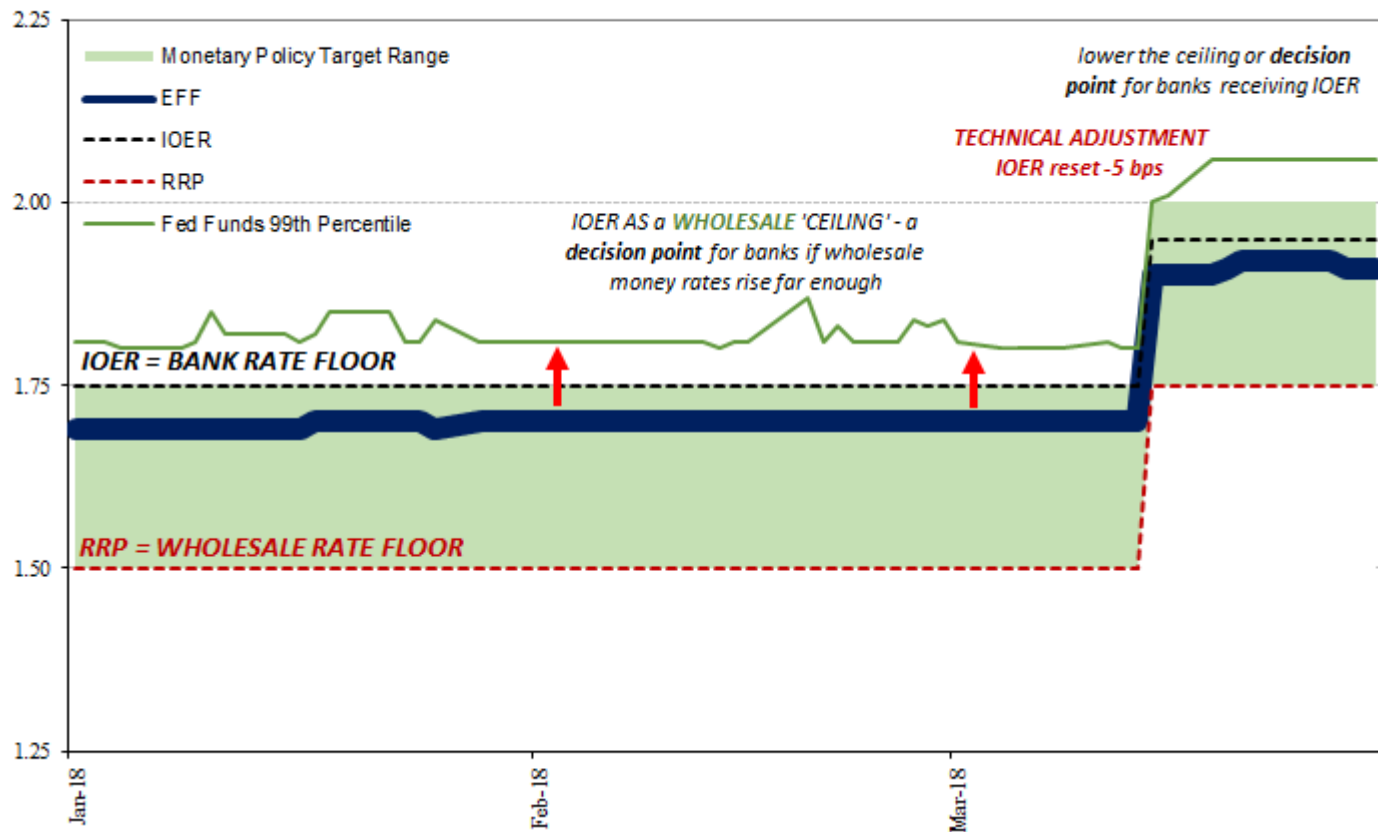


Federal Funds: Double 'Floor'



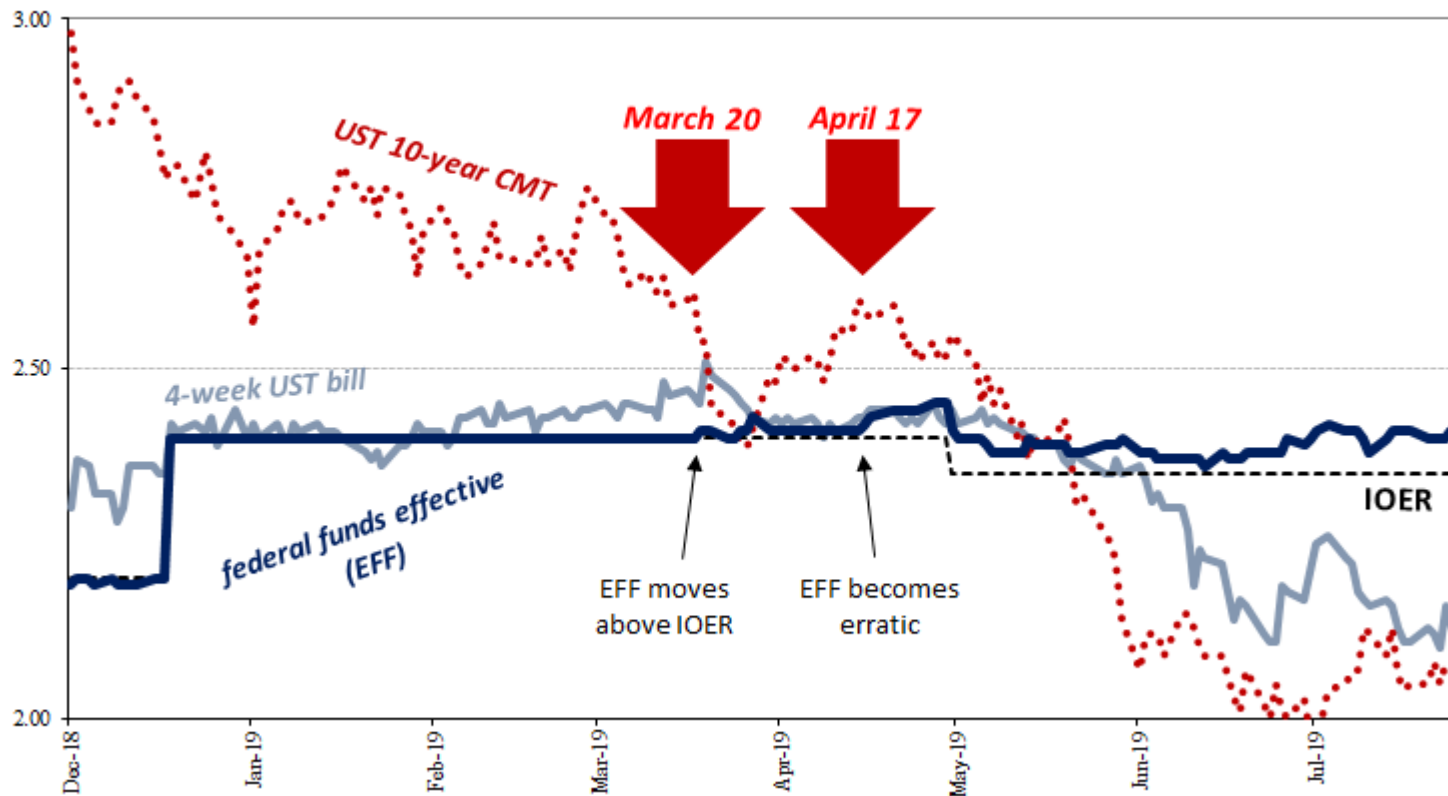


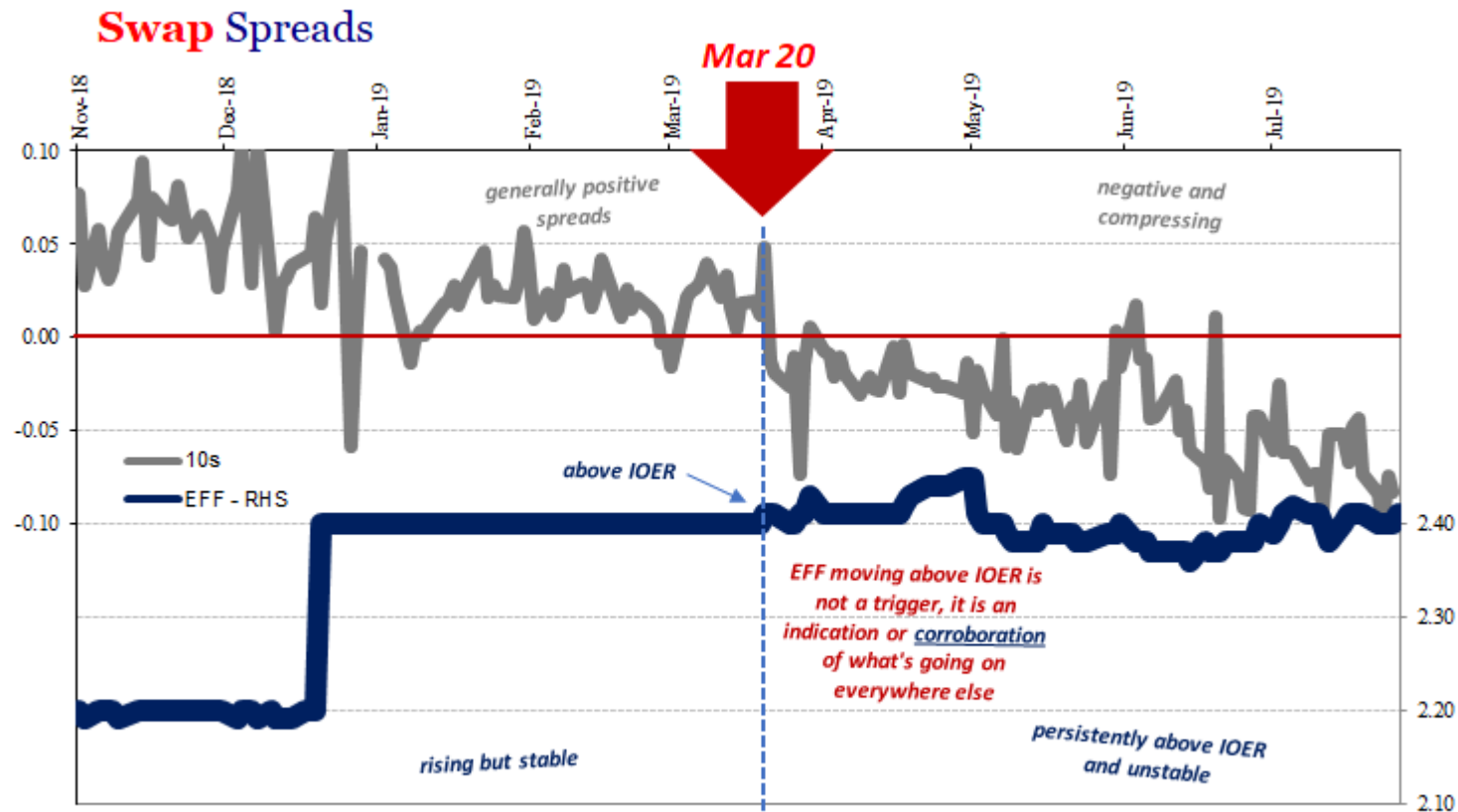
Federal Funds: Double 'Floor'





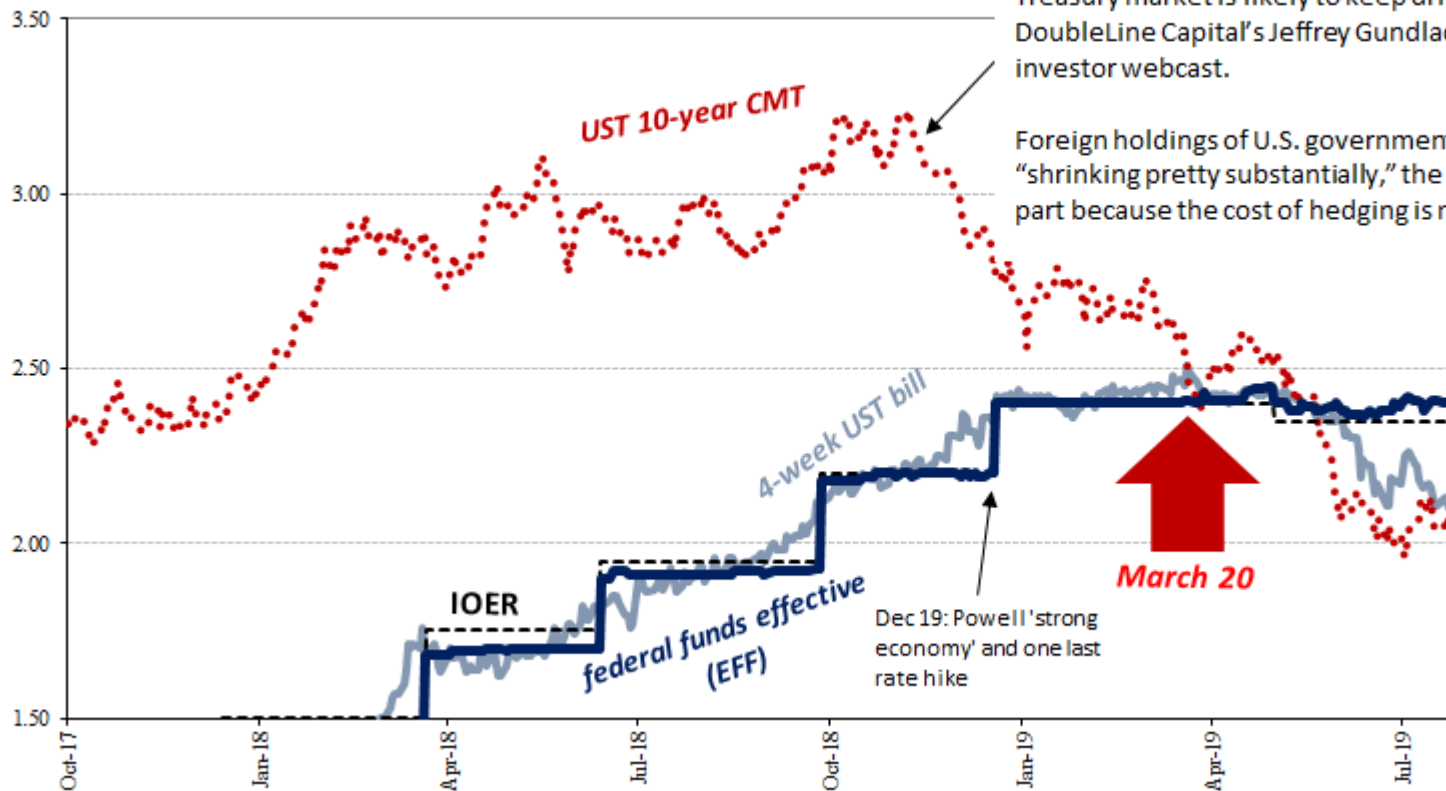
Treasury & Money Rates







Treasury & Money Rates

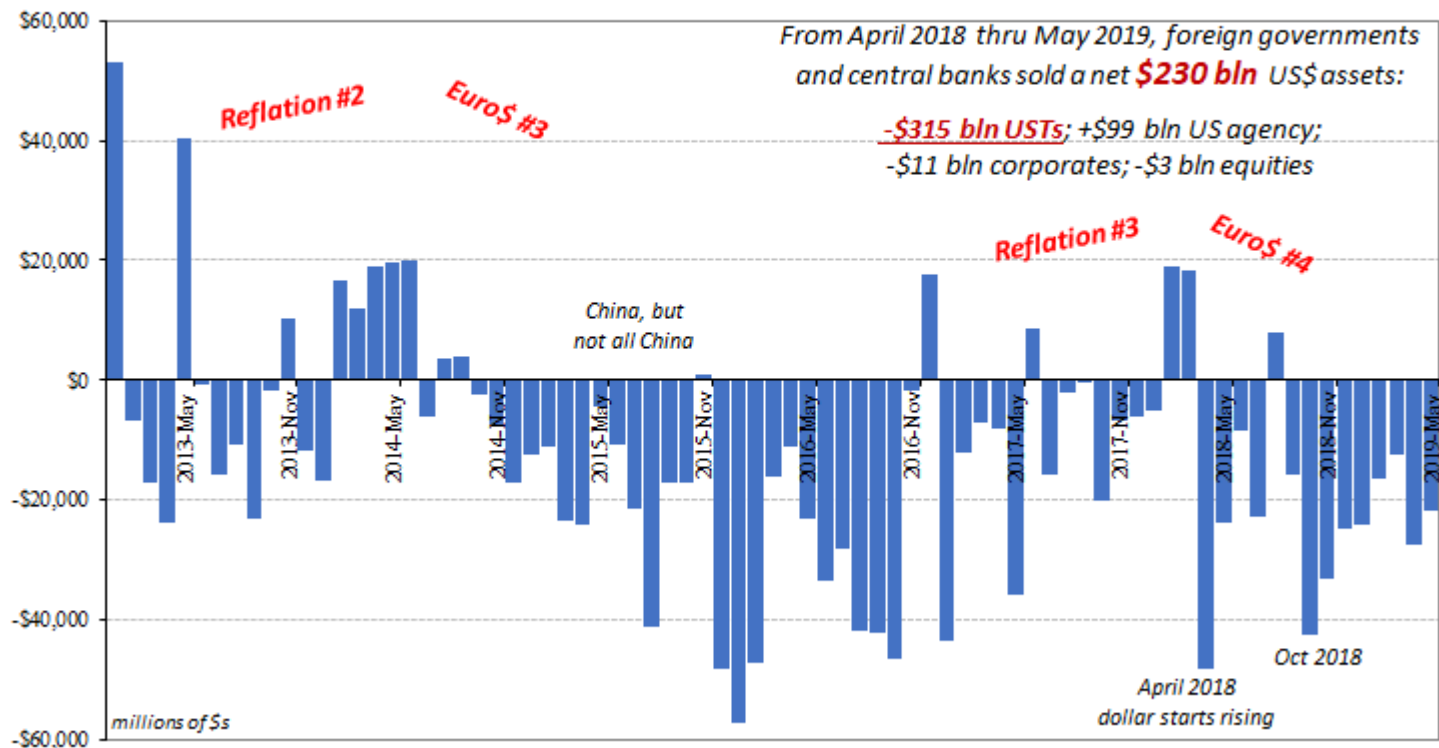


Nov 13: 'A mismatch between supply and demand in the Treasury market is likely to keep driving yields higher,' DoubleLine Capital's Jeffrey Gundlach said Tuesday on an investor webcast.

Foreign holdings of U.S. government securities have been "shrinking pretty substantially," the bond manager said, in part because the cost of hedging is making the trade

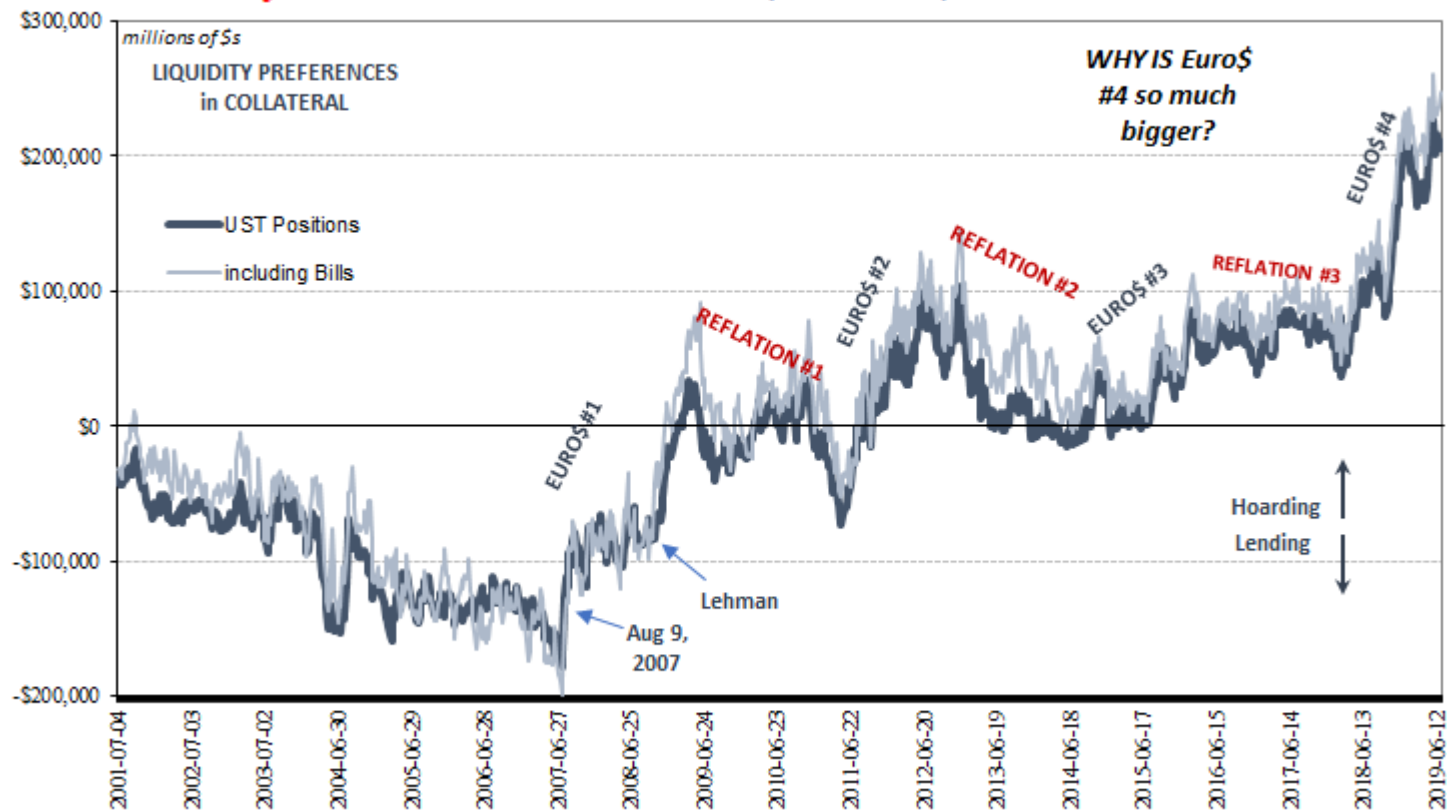


US TIC - Official Buying (Selling)
of US Treasury Bonds & Notes





Primary Dealers Net UST Positions (excl. TIPS)



The Lingering Lesson of Bear

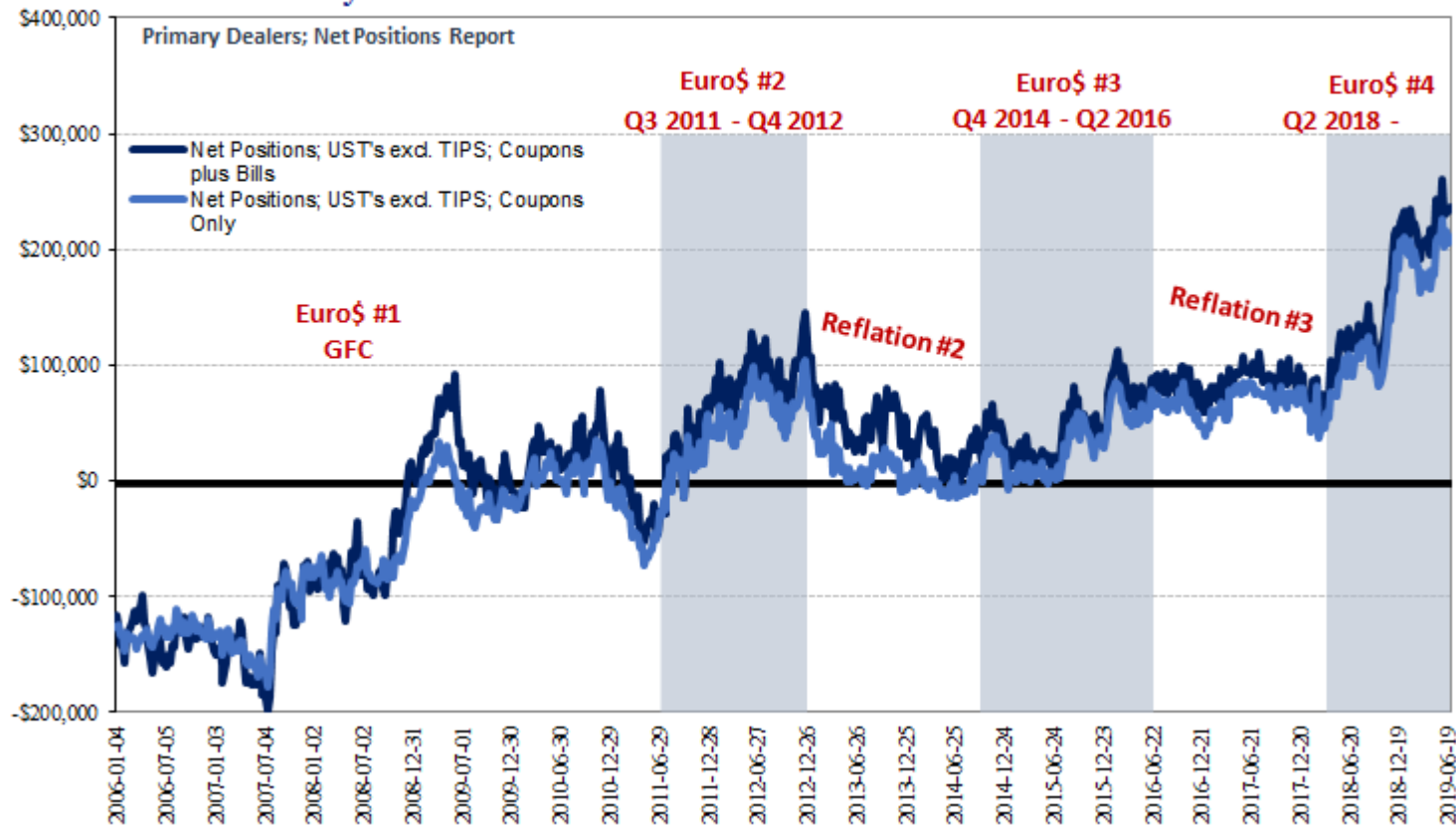
“ The fact that to the extent that there is stigma, they are not going to want to come, and that is going to reinforce the deleveraging process that is clearly under way, as is the fact that they just saw Bear Stearns go **from a troubled but viable firm to a nonviable firm in three days. The lesson from that for a lot of firms is going to be, oh, I need more liquidity**, I need to be less leveraged, and that lesson, from what happened to Bear Stearns, isn't going to go away.



Bill Dudley
Manager, System Open Market Account
Transcript FOMC Policy Meeting
March 18, 2008

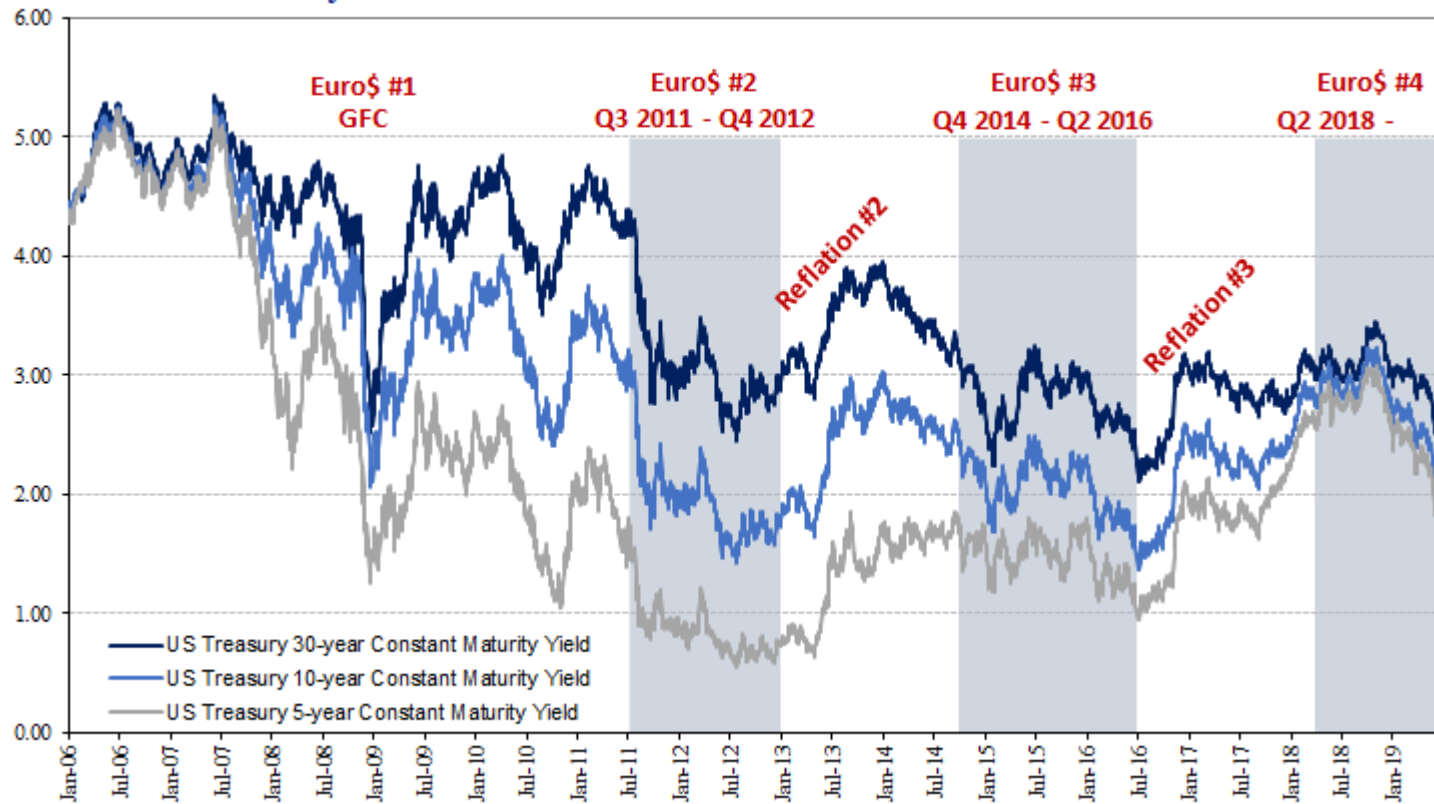


US Treasury Yields **Correlations**



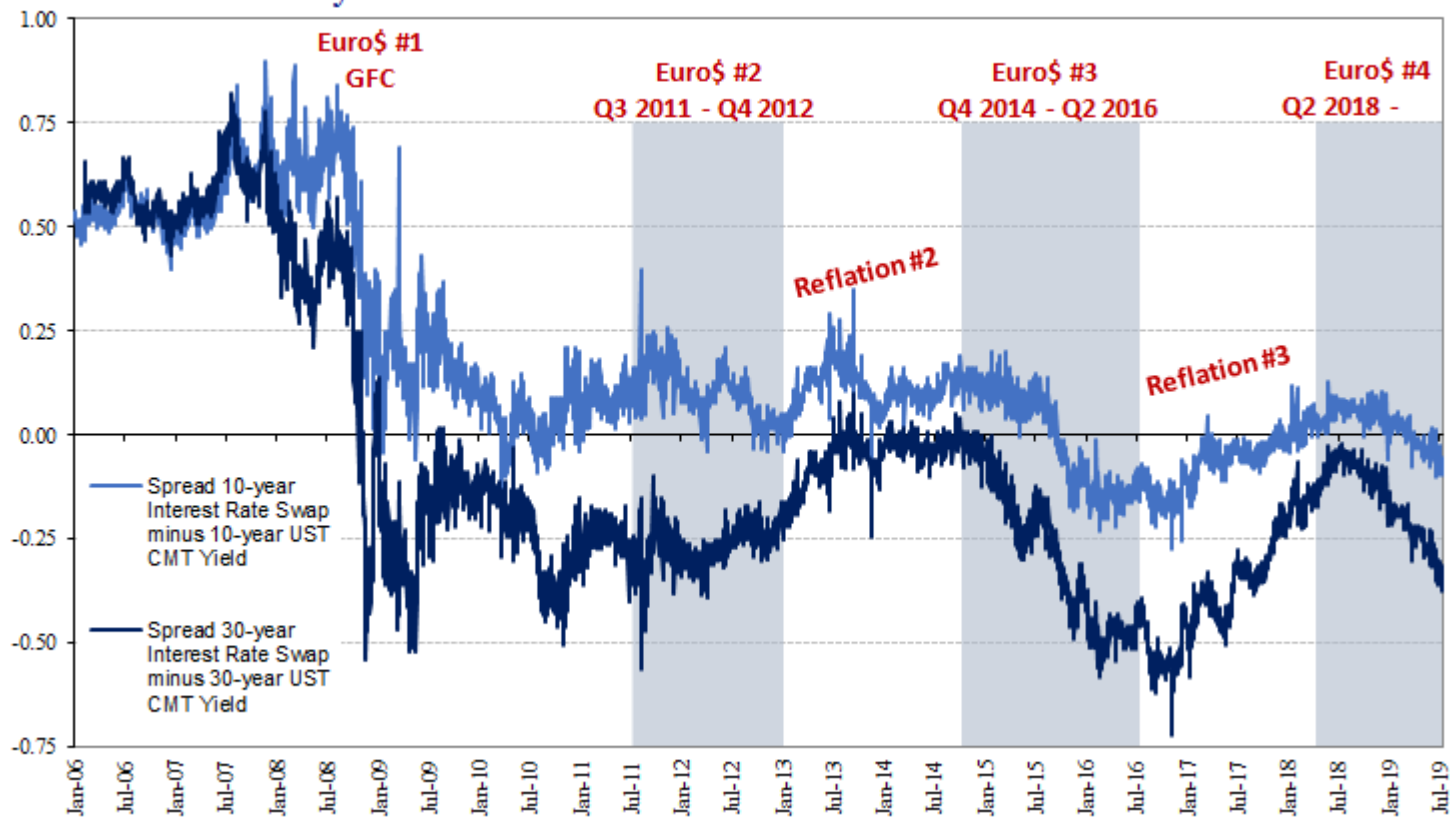


US Treasury Yields **Correlations**



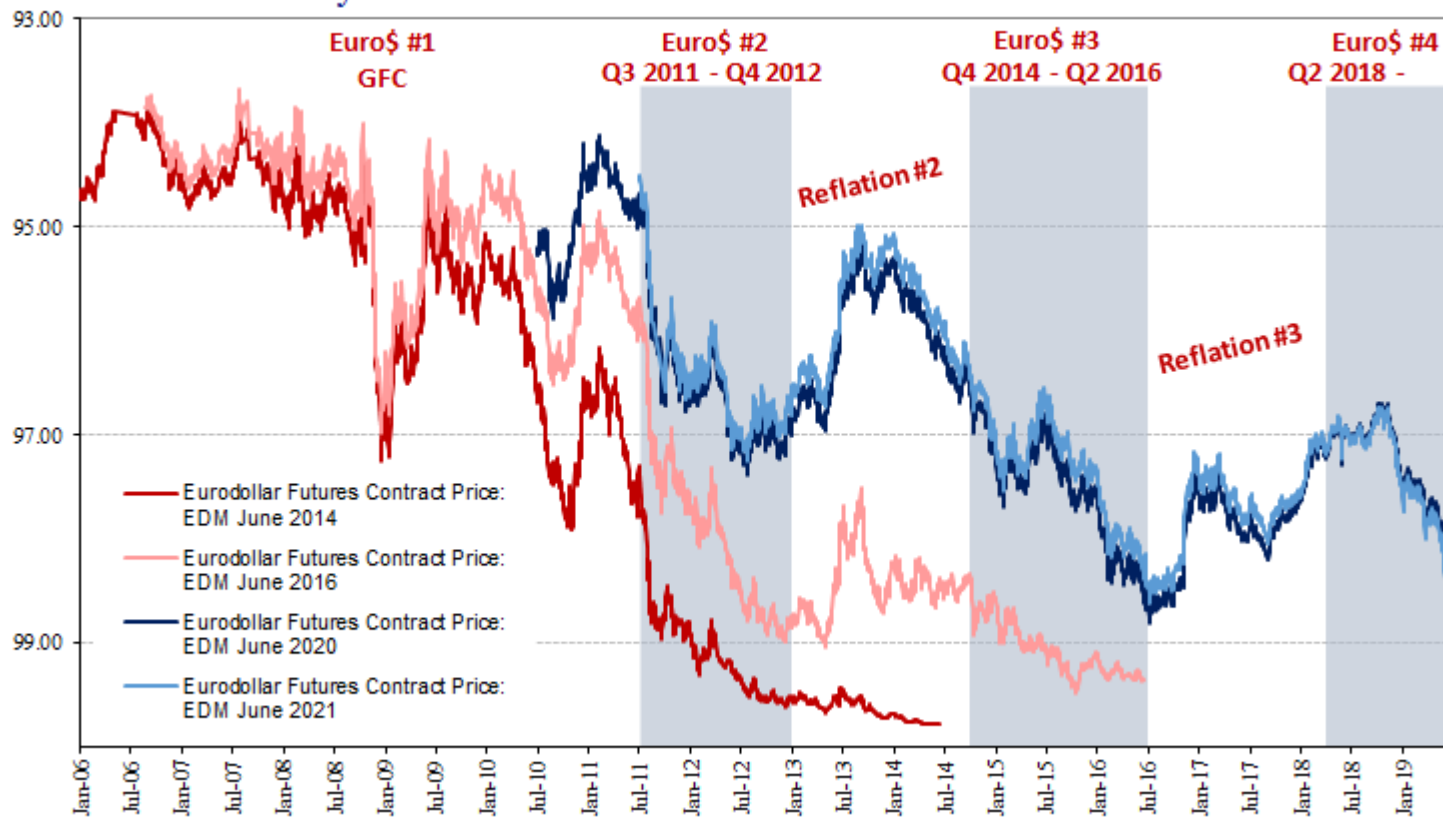


US Treasury Yields **Correlations**



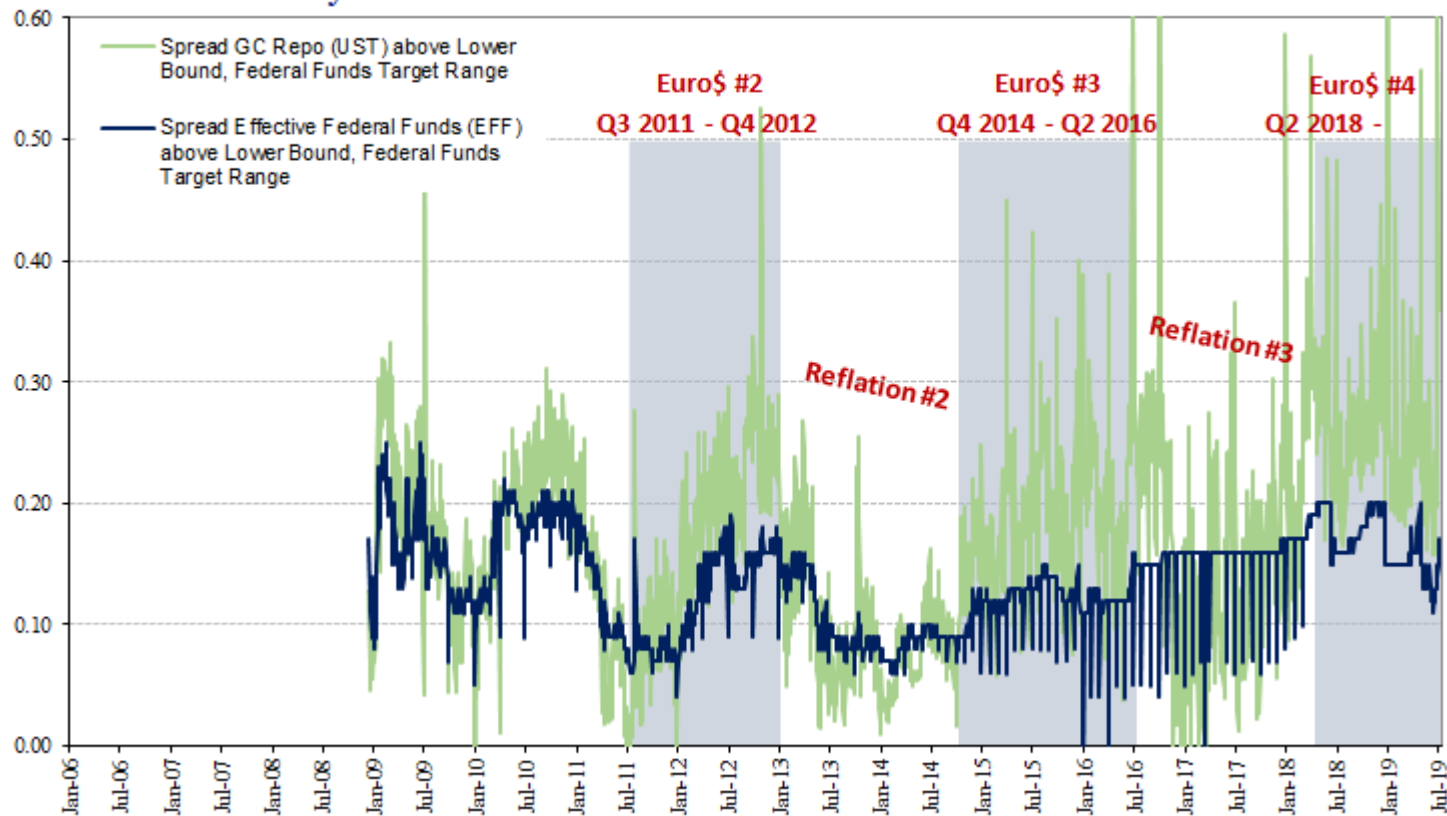


US Treasury Yields **Correlations**

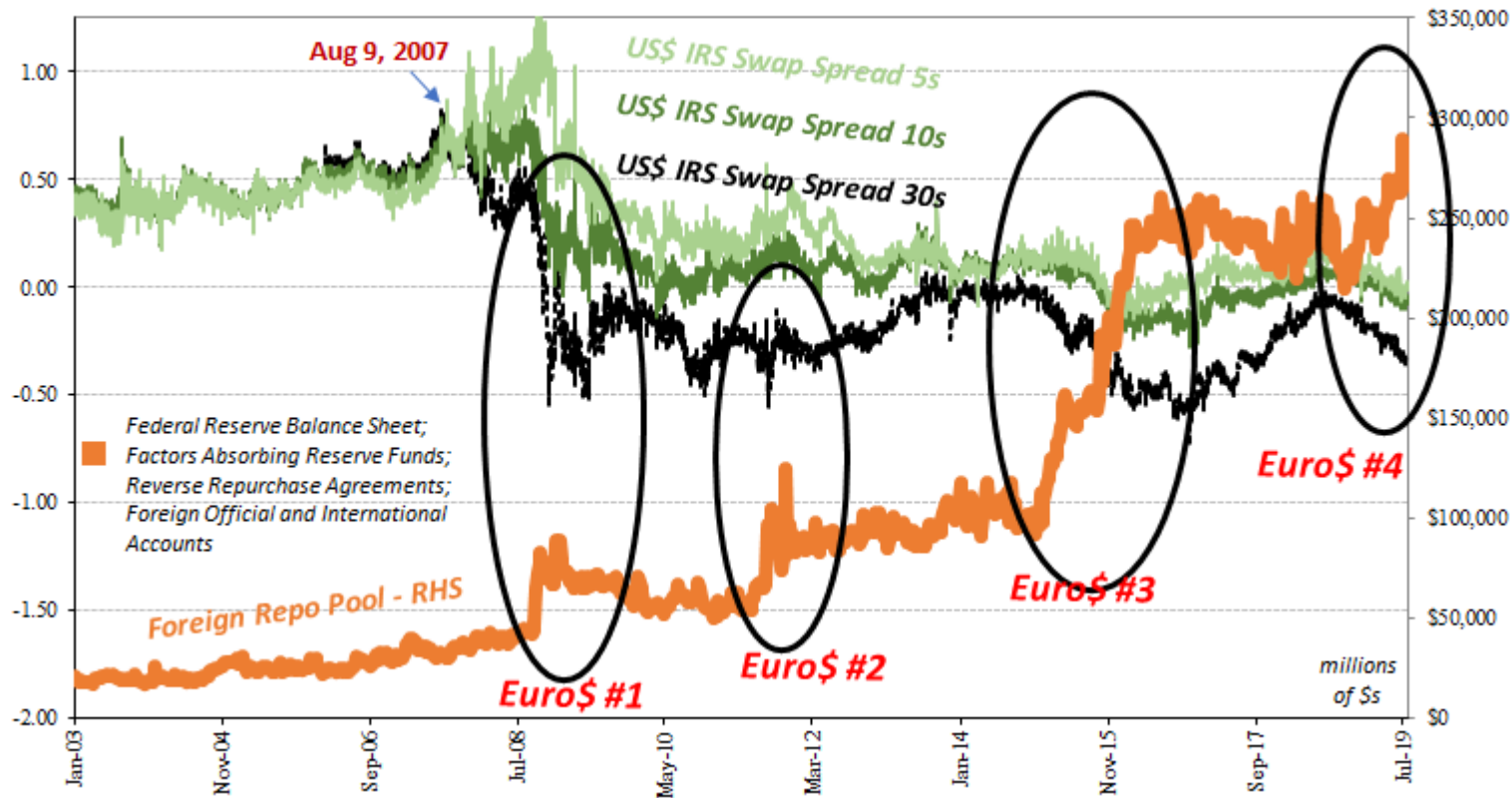




US Treasury Yields **Correlations**



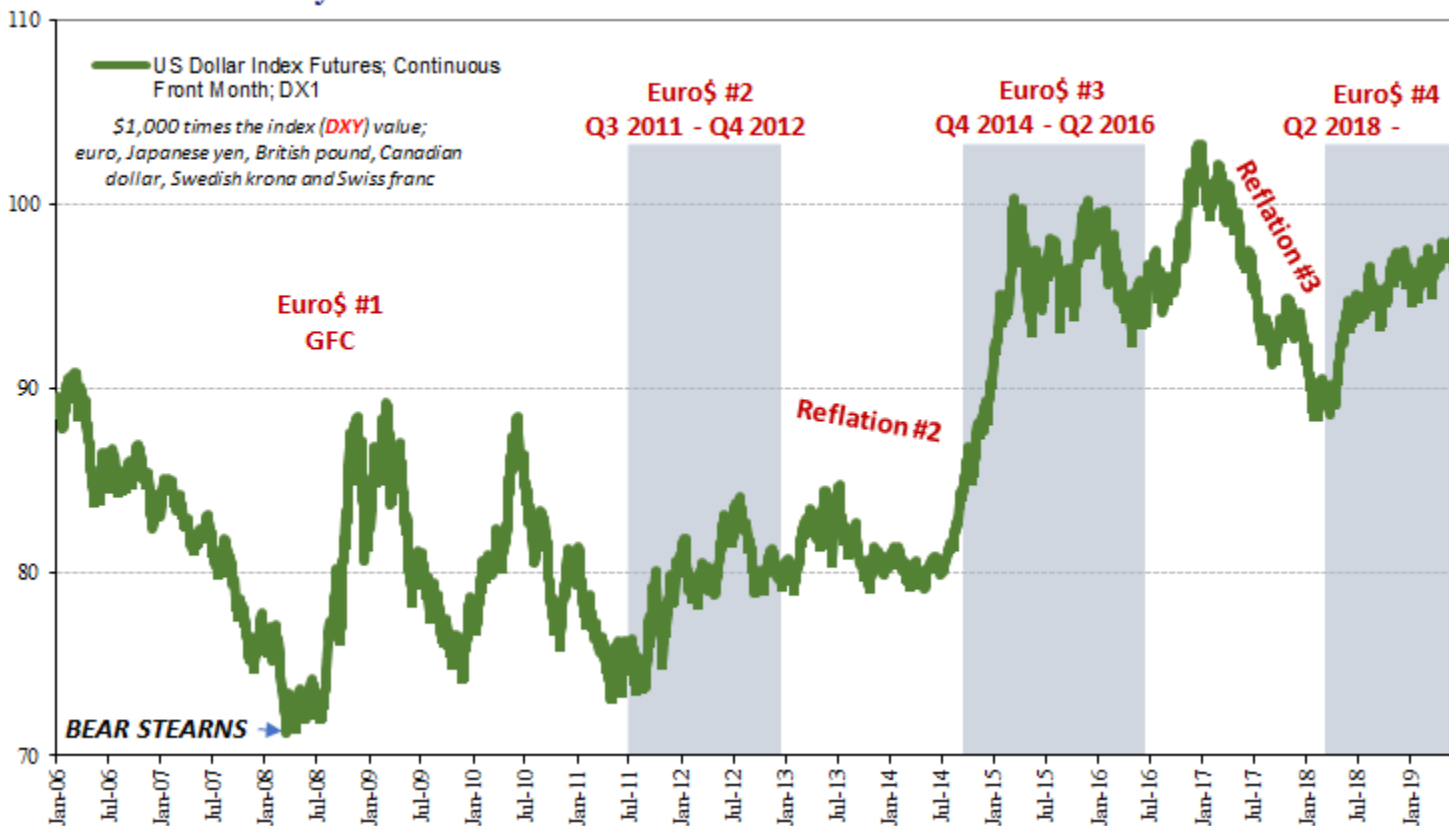
US\$ Interest Rate Swaps



*FRBNY: 'Accounts at the Federal Reserve provide foreign official institutions with access to immediate dollar liquidity to support operational needs, to clear and settle securities in their accounts, and to **address unexpected dollar shortages or exchange rate volatility.**'*



US Treasury Yields **Correlations**





Rising Dollar Squeeze



The focus on the US dollar as the currency underpinning global banking lends support to studies that have emphasized the US dollar as a bellwether for global financial conditions.

Bruno, Valentina and H Shin

Capital Flows and the Risk-Taking Channel of Monetary Policy (2013)



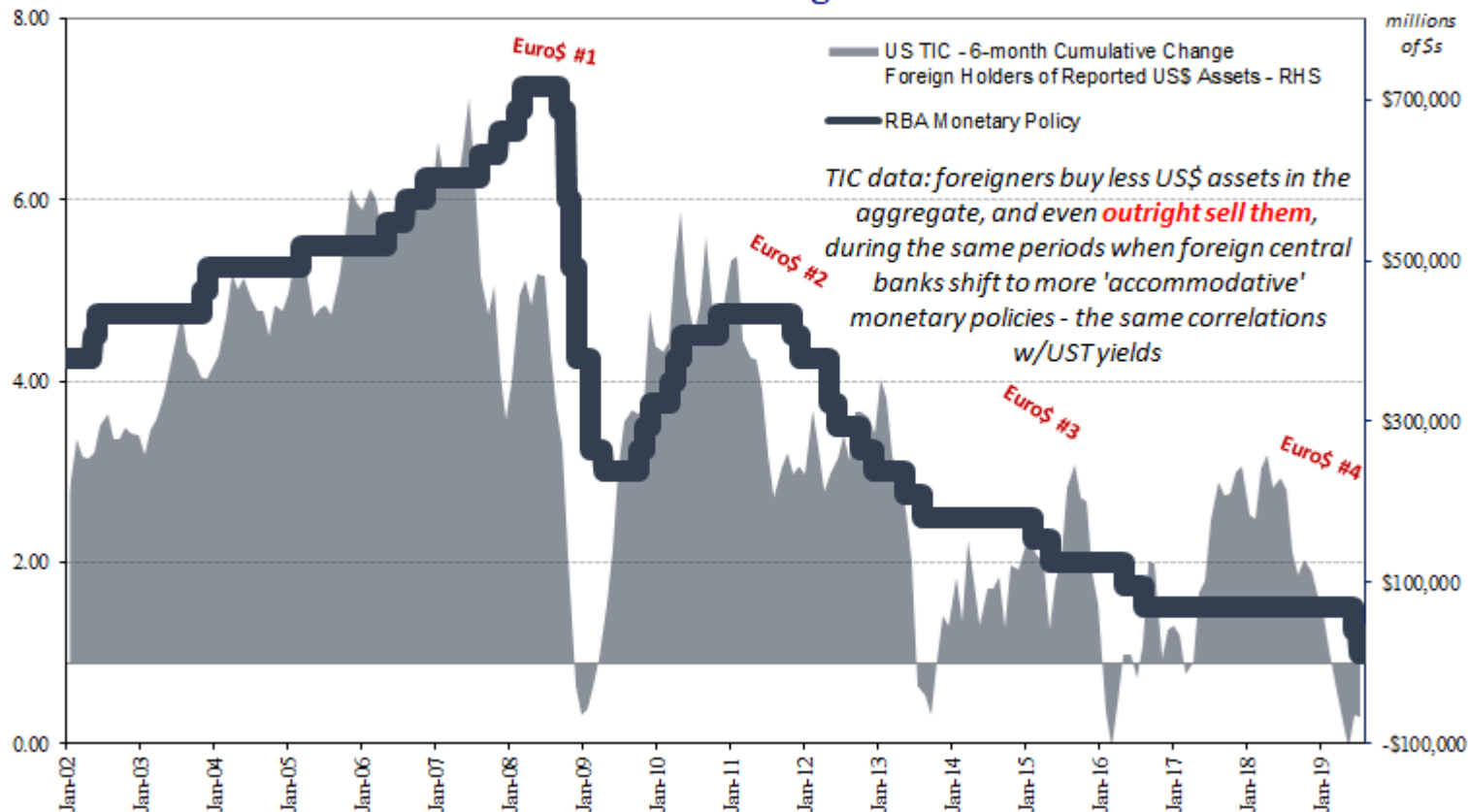
First, there is **a strong negative relationship between the US dollar and cross-border bank lending denominated in US dollars**. Second, an increase in US dollar denominated cross-border lending to a given EME is associated with greater real investment in that EME. Finally, a decline in the value of a country's currency against the US dollar triggers a decline in real investment in that country.

Avdjiev, Stefan, V Bruno, C Koch, and H Shin

The dollar exchange rate as a global risk factor: evidence from investment (2018)



Reserve Bank of Australia Cash Rate Target





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CONCLUDED

