

Global Markets, Global Risks

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Systemic Risk Conference: What Are the Odds of a Financial Collapse?

NY Society of Security Analysts and CFA Institute

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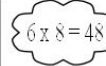































Global Markets, Global Risks

- I. The odds of a financial crisis are worth active monitoring.
- II. Unintended risks from recent policy measures actual threaten financial stability and hinder growth.
 - Despite ample *monetary liquidity*, there is a shortage of *financial market liquidity*.
 - Backdoor *currency wars* risk sharp market gyrations.
- III. Solutions are in sight.



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Lessons from Parenting for Global Markets: Behaviors and Consequences

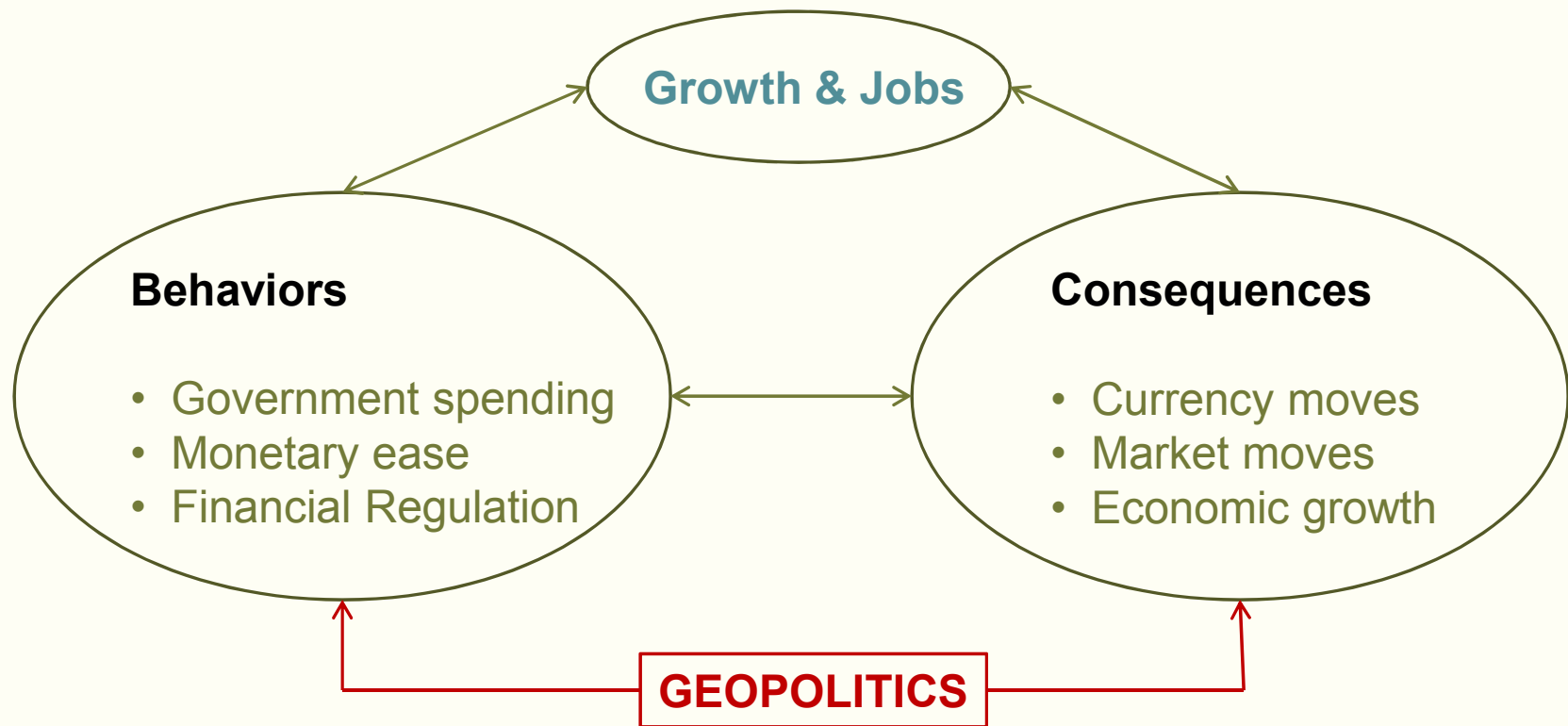
REWARDS	# TICKETS GIVEN		CONSEQUENCES	# TICKETS TAKEN AWAY	
 Extra Math	+5		 HITTING	-3	
 Getting along WELL with others	+3		 BULLYING	-4	
 Good Table Manners	+4		 TEASING	-1	
 LOVE & RESPECT	+5		 LYING	-2	
 Obeying the FIRST TIME	+3		 THROWING A FIT	-3	
 Calm & Quiet in STORE	+3		 Ignoring Parents	-4	
 Extra Reading	+2		 SCREAMING or YELLING	-1	
 CLEANING up after PLAYING	+2		 BAD SPORT	-2	

Source: Gail Smith / Gael's Treasures.



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Global Risks for Economies and Markets...



Source: Center for Financial Stability.

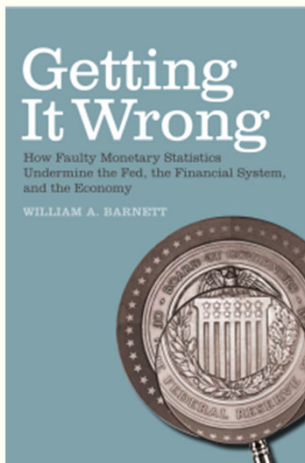


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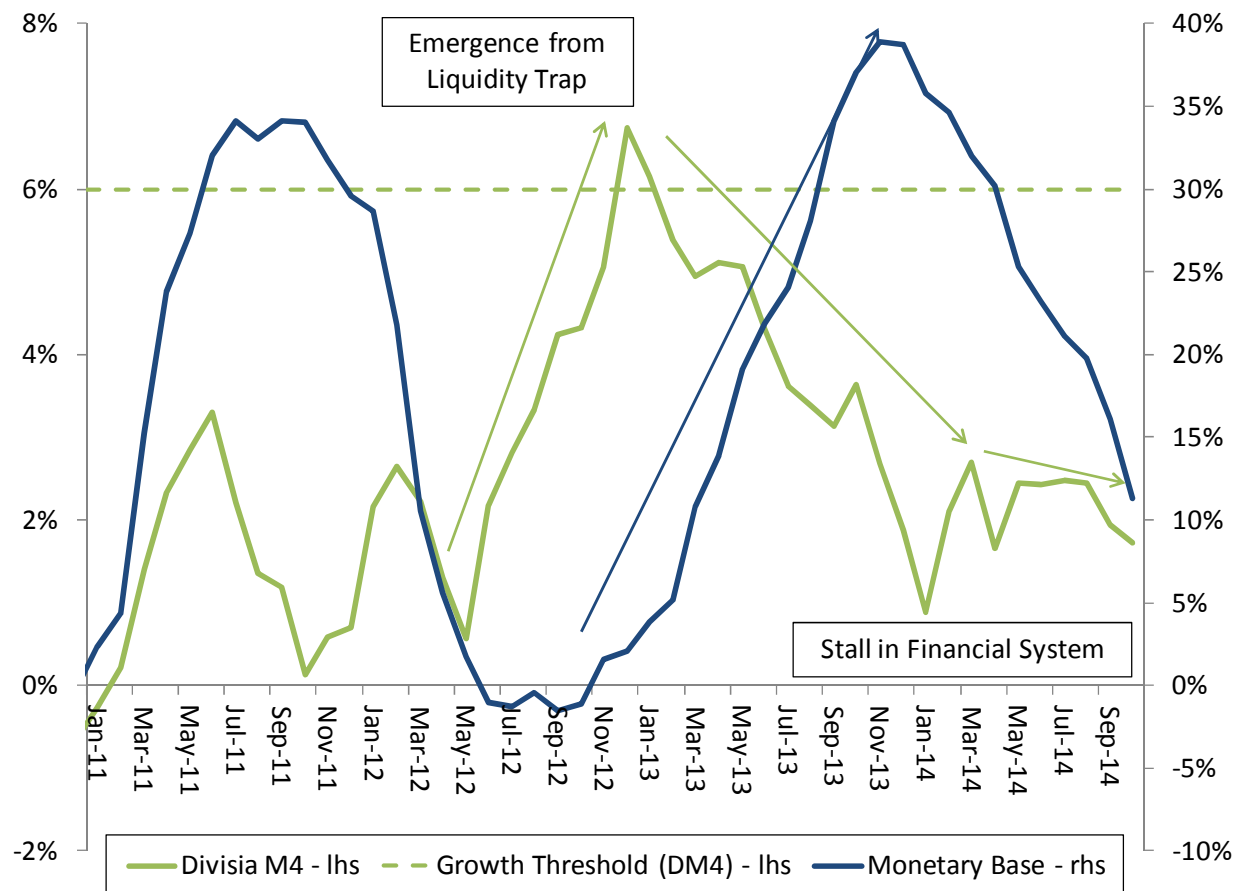
It's the Financial System that Matters: Monetary Ease and CFS Divisia Financial Data (y/y)

"There is too little economic risk-taking, and too much financial risk-taking."

Christine Lagarde
Managing Director, IMF
October 12, 2014



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With thanks to William Barnett, Director of Advances in Monetary and Financial Measurement at the Center for Financial Stability Inc.
Source: Federal Reserve Board, Bankrate, and the Center for Financial Stability.

1/ Cyclical peak-to-trough in months.

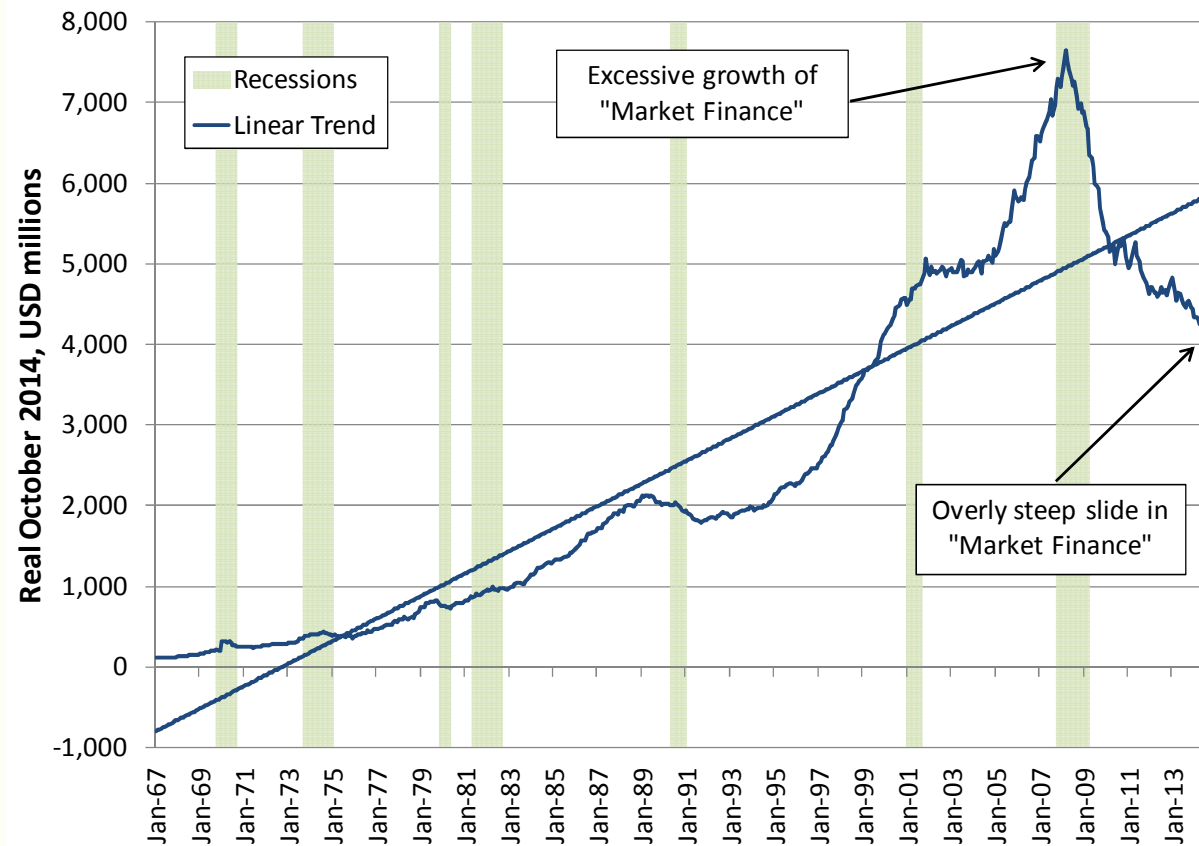
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Plunge in Market Finance (Shadow Banking) Overshoots

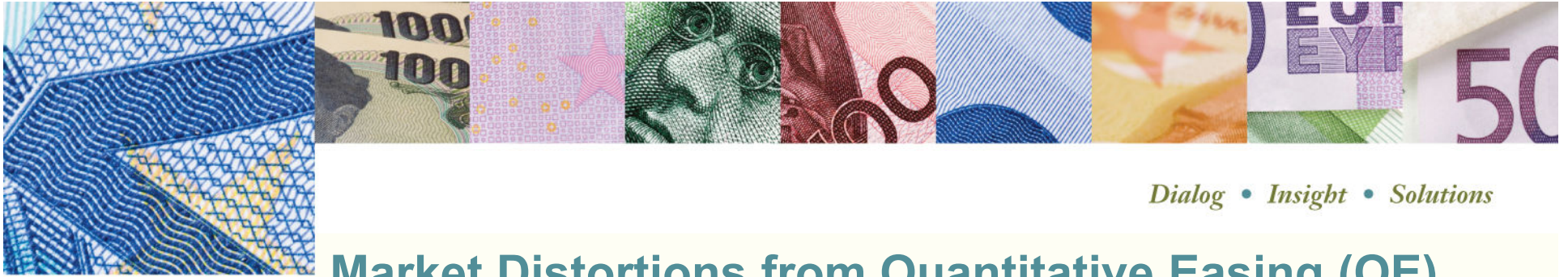
CFS Measure of Market Finance, Real October 2014, USD millions

Peak	Fall	Decline /1
1970	-25%	16
1974	-17%	16
1979	-13%	7
1982	-5%	3
1989	-16%	29
2001	-4%	11
2008	-45%	79
Avg ex '08	-9%	13

1/ Cyclical peak-to-trough in months.



Note: The CFS definition of market finance includes: money market funds, repurchase agreements, and commercial paper.
Source: Federal Reserve Board, Bankrate, and the Center for Financial Stability.



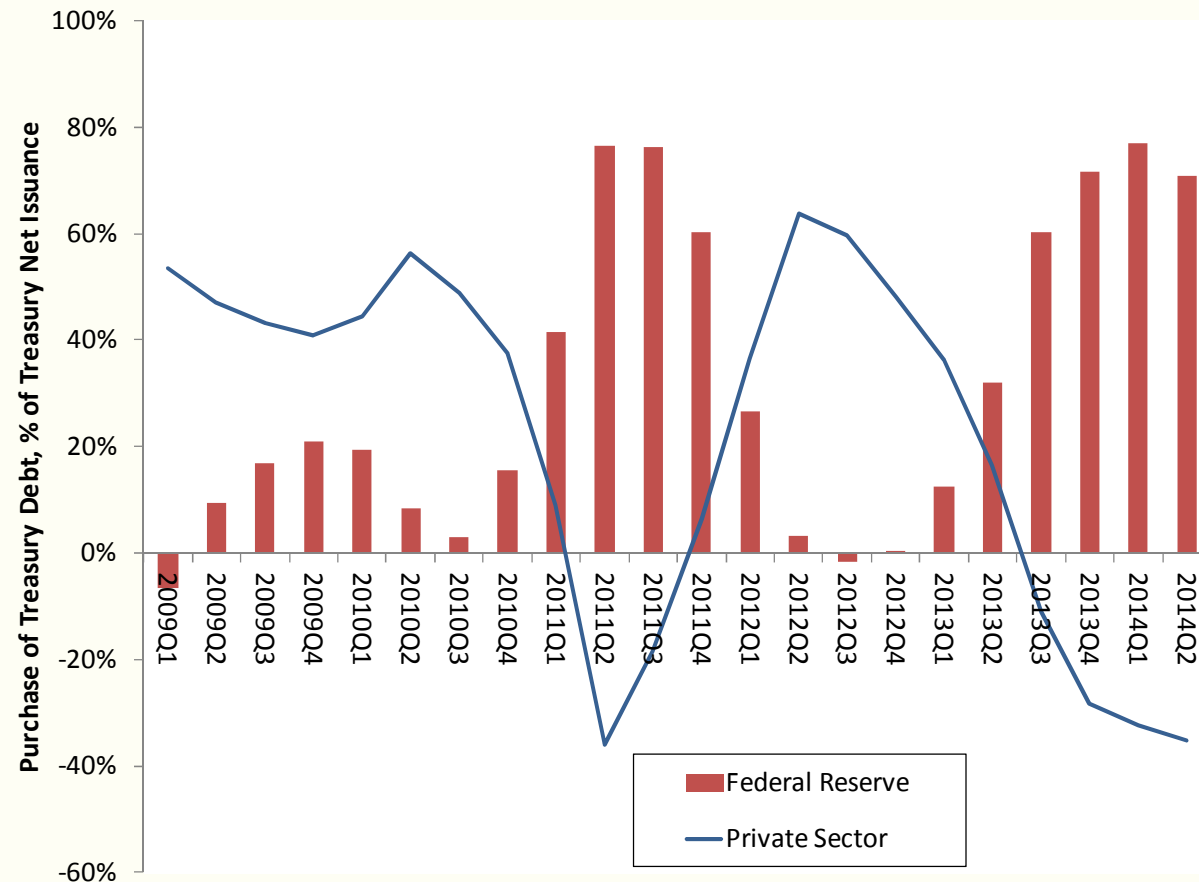
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Market Distortions from Quantitative Easing (QE)

“Demand for U.S. Debt Is Not Limitless”

The Wall Street Journal
March 28, 2012

<http://online.wsj.com/articles/SB10001424052702304450004577279754275393064>

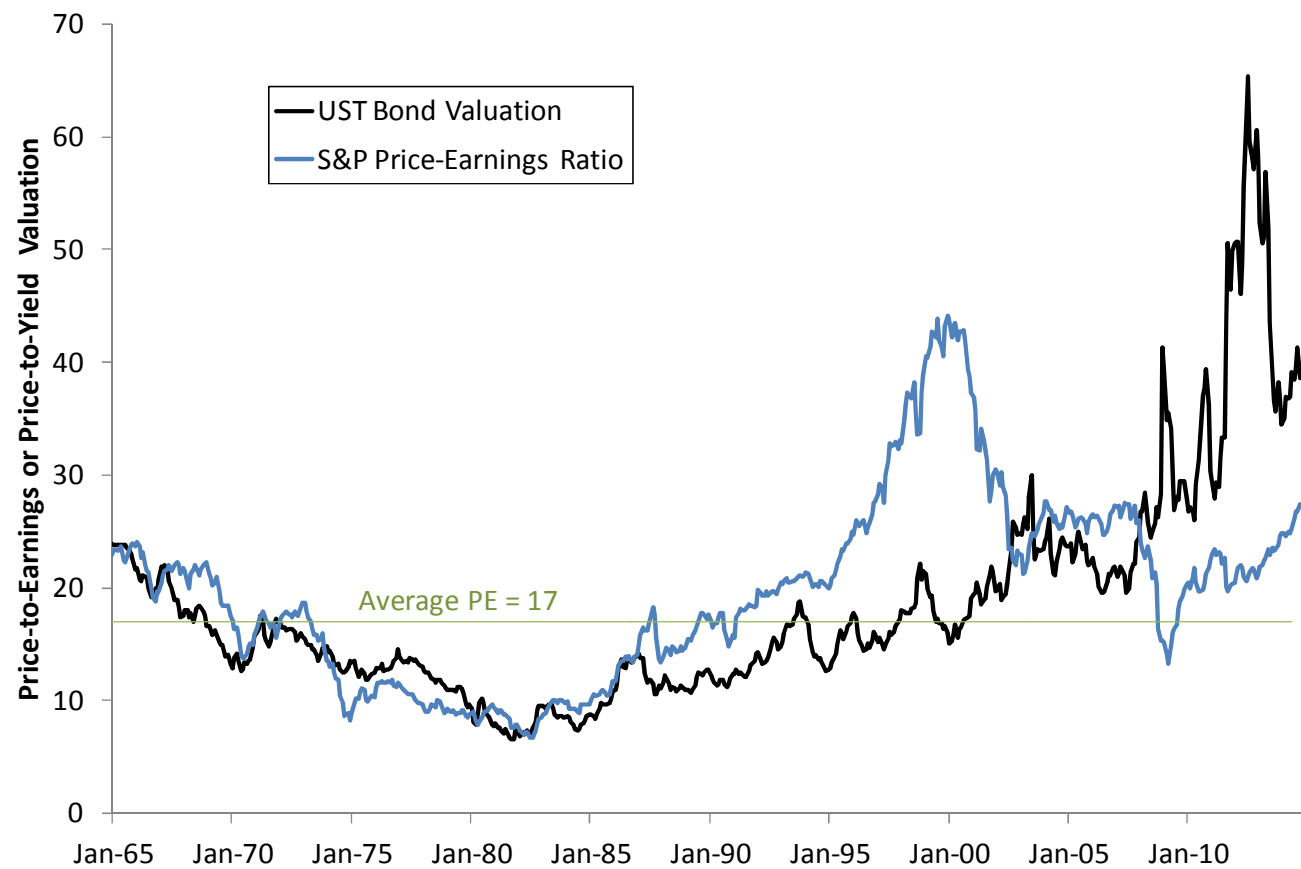


Source: Federal Reserve Board and the Center for Financial Stability.



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Policy Distortions: Risks for Markets

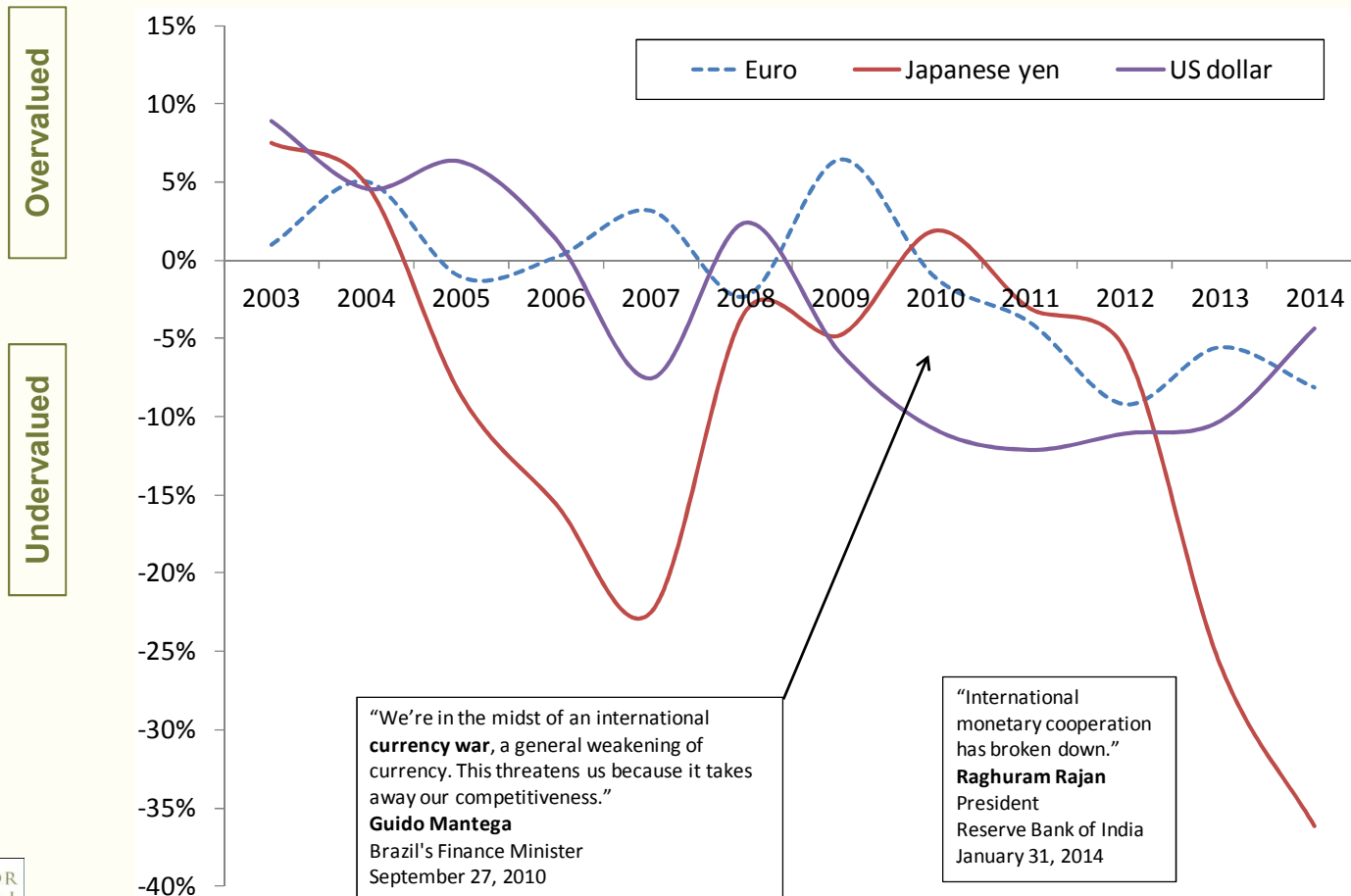


Source: Robert Shiller (Yale University), Bloomberg LP, and Center for Financial Stability.



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Mantega was right... “Beggar-thy-Neighbor” Currency Depreciation



Overvalued

Undervalued

“We’re in the midst of an international **currency war**, a general weakening of currency. This threatens us because it takes away our competitiveness.”
Guido Mantega
Brazil’s Finance Minister
September 27, 2010

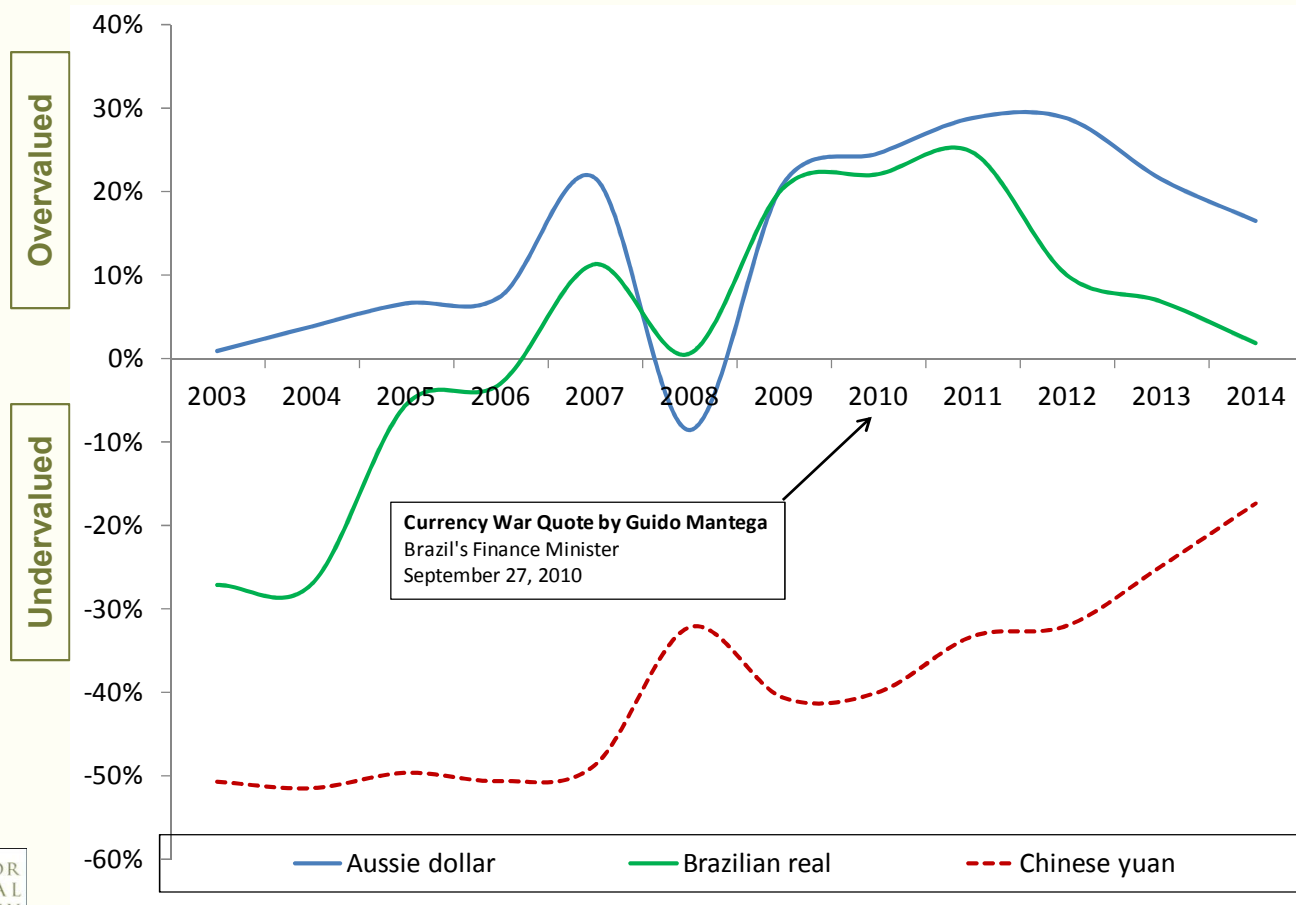
“International monetary cooperation has broken down.”
Raghuram Rajan
President
Reserve Bank of India
January 31, 2014



Source: IMF, Bloomberg LP, and the Center for Financial Stability.



Slightly Different “Beggar-thy-Neighbor” Picture in Emerging Markets



Source: IMF, Bloomberg LP, and the Center for Financial Stability.



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Concluding Views

Policy behaviors will have consequences – shaping the future for global markets.

...to reduce risks...

- I. Implement measures to partially restore financial market liquidity.
- II. Exit smoothly and resolutely from distortionary monetary policies.
- III. Embrace international cooperation.

- IV. NYSSA / CFA: Systemic Risk Conference!!!!



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