Central Banking
East and West since the Crisis

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Remarks at “Changes of Pattern in Global Finance and their Implications”
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Central Banking East and West since the Crisis

I. Measuring Costs of Extraordinary Monetary Policies

• *Three ‘Never Befores’*

II. Central Bank Liquidity Provision


III. Impact on Financial Markets

• *Review of speculative positions in financial markets … greater market volatility and larger net long positions.*
Challenges for the Future…

“Never before” has there been such:

• Large scale intervention by central banks and governments,
• Growth in the financial regulator apparatus and labyrinth of rules governing markets,
• Distortions across a wide range of financial markets.

“The Unwind: What’s Next for Global Markets”
Center for Financial Stability
May 27, 2015

http://www.centerforfinancialstability.org/speeches/unwind_052715.pdf
Major Central Banks: Stock of Liquidity

Major Central Banks: Flow of Liquidity

Accommodative Monetary Policy spurs Speculative Investor Behavior

Real policy rates fell below 0 in 2002 and remained there until 2006.

Major Central Bank balance sheets expended from roughly $8 to nearly $18 trillion.

Note: Includes futures positions in NYMEX crude, S&P 500 index, JPY, gold, CHF, Nikkei, and GBP held by speculative investors. Source: CFTC, Bloomberg LP, and Center for Financial Stability.
Accommodative Monetary Policy boosts Volatility and Long Bets

Volatility ('93 - '01) = 98k contracts
Volatility ('01 - '08) = 113k contracts
Volatility ('09 - '18) = 166k contracts

Note: Includes futures positions in NYMEX crude, S&P 500 index, JPY, gold, CHF, Nikkei, and GBP held by speculative investors. Source: CFTC, Bloomberg LP, and Center for Financial Stability.
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