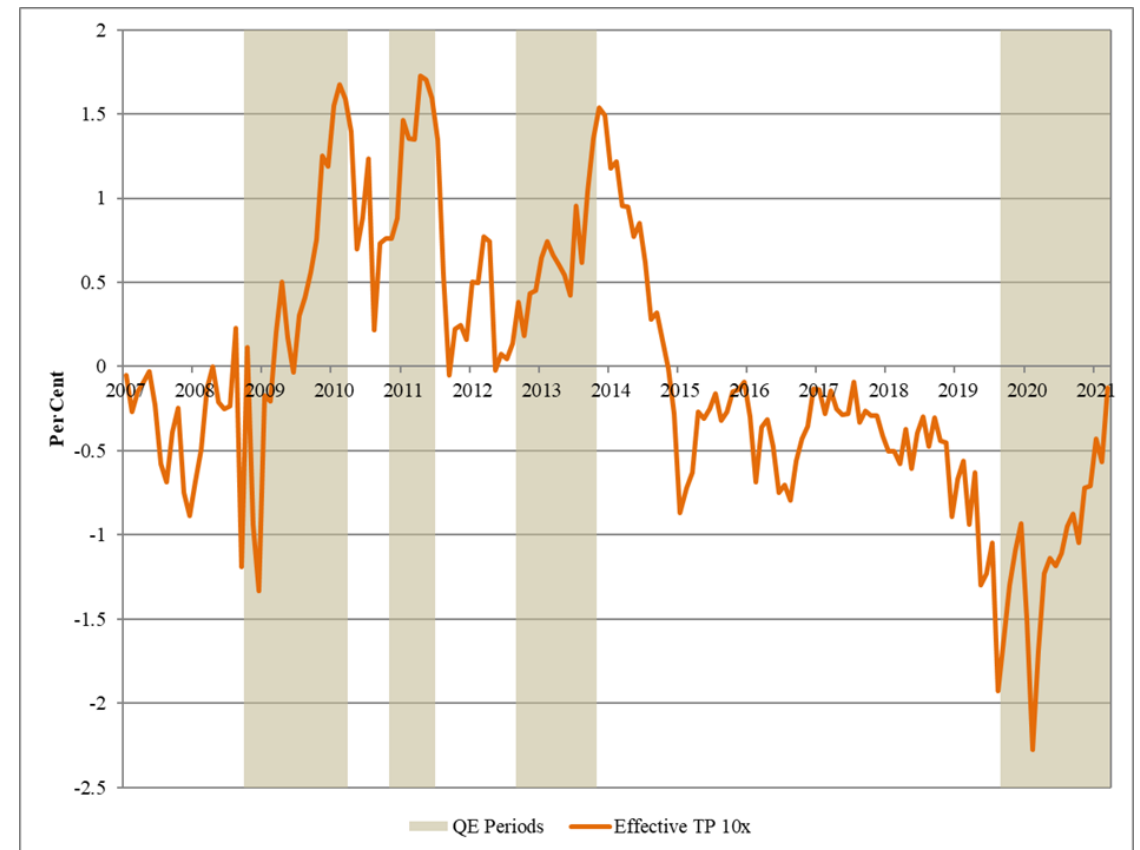
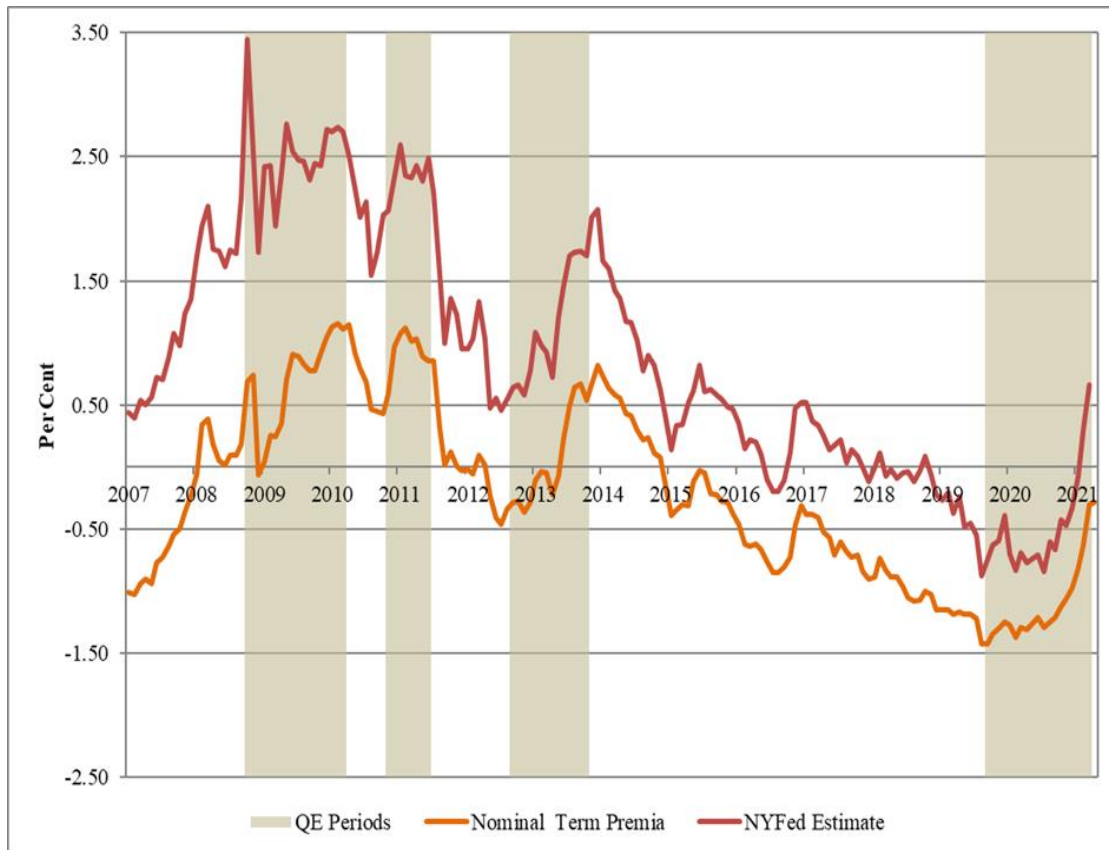


US 10-Year Term Premia: Nominal & 'Effective' Adjusted for Vol/ Inflation

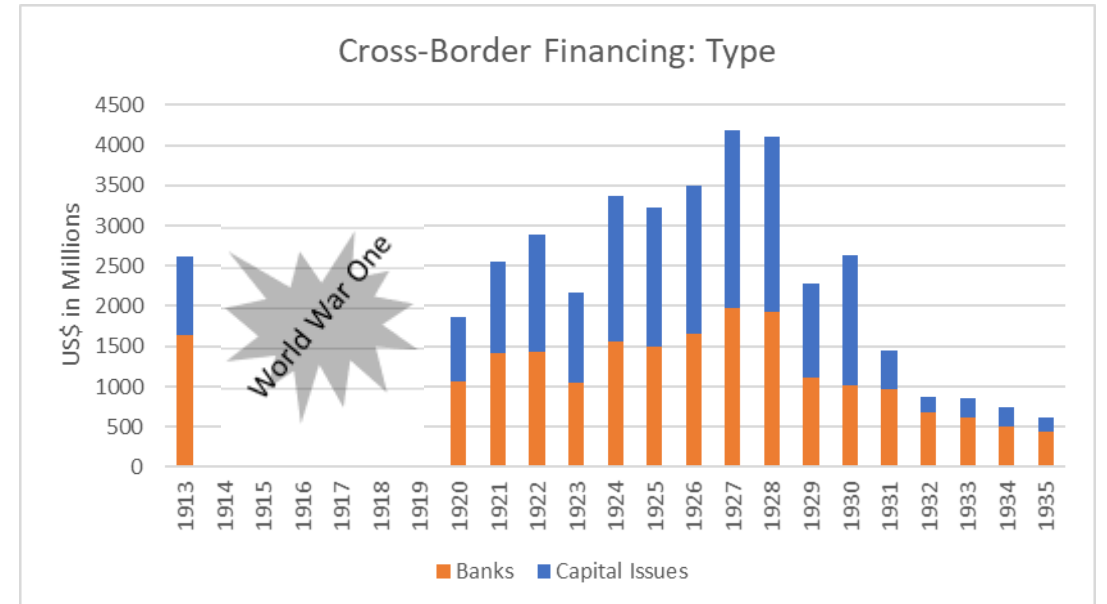
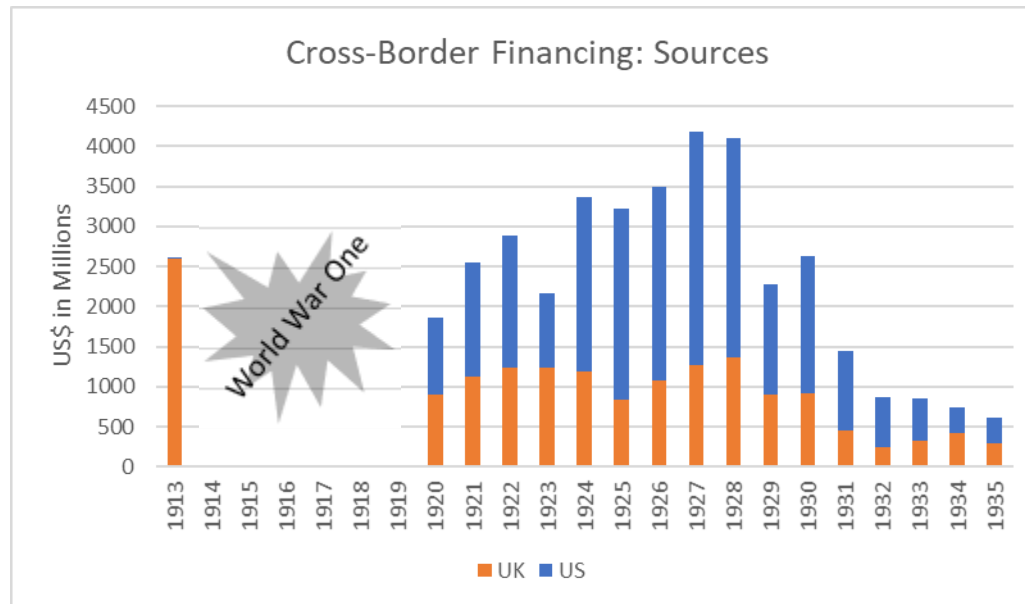
- Demand Effects:* Contrary to 'event study' literature term premia rise during QE periods and fall during QT periods



Source: New York Federal Reserve (ACM data), CrossBorder Capital

Never Say Never! Cross-border Funding in 1920s & 1930s

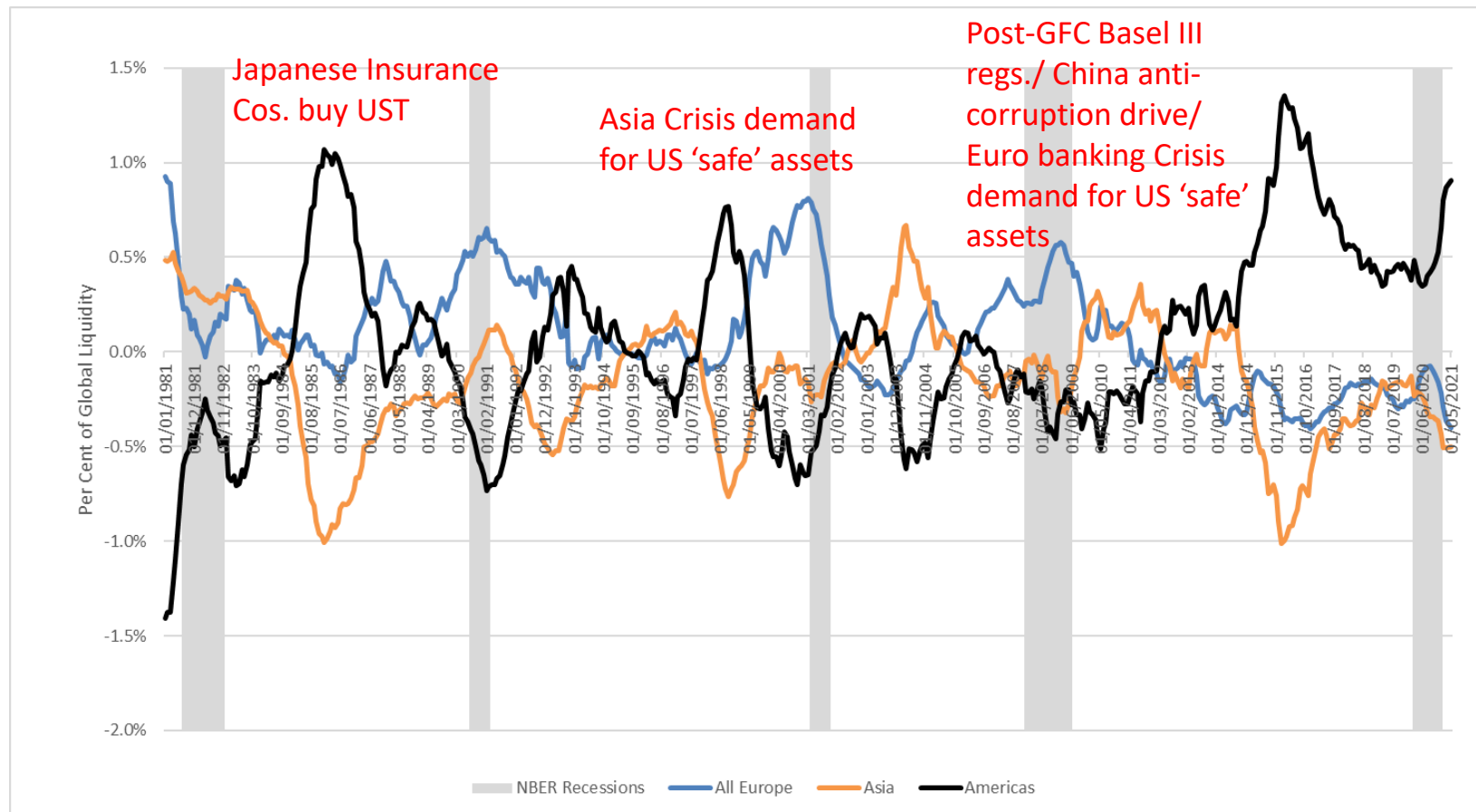
- *Substitution*: US quickly eclipsed Britain as key source of cross-border flows in 1920s only to lose mantle in 1930s as her capital markets collapsed



Sources: US Federal Reserve, Bank of England, London & Cambridge Economic Bulletin, E. Victor Morgan (1951), Charles P. Kindleberger (1973)

Regional Cross-border Financial Flows (ex FDI) as % World Liquidity

- Three surges in demand for US 'safe' assets: (1) Japan mid-1980s; (2) Asia late-90s & (3) Europe/ China mid-2010s



Source: IMF(IFS data) US forced to be residual, CrossBorder Capital



US Dollar 'Safe' Assets & The International Monetary System: Supply Versus Demand

- Experience from QE periods show importance of fast-changing **'safe' asset demand**
- Reinforced by **alacrity of switch** to USD in 1920s and switch-back to GBP in 1930s
- US dollar 'safe' assets have enjoyed **three major waves of capital inflow** since early 1980s
- Biggest future threat posed by China, her up-coming *financialisation* and her need to stop re-exporting USD and start **exporting Yuan**, viz:

"...we should promote the Renminbi to be the primary currency of Asia, just as the US dollar first became the currency of North America and then the currency of the World ... Every globalisation was initiated by a rising empire ... As a rising super power, the 'One Belt, One Road' strategy is the beginning of China's own globalisation ... it is a counter-measure to the US strategy of shifting focus to the East."

(Excerpts from a speech by Major-General Qiao Liang, Chinese PLA, April 2015)

- **Trade credit market** and re-denomination of trade in Yuan
- Open-up **bond** (and equity) market to foreign capital
- Develop **digital-Yuan** money and architecture for peer-to-peer transfers
- **LoLR support** to off-shore Yuan markets, e.g. via swap-lines (32 now in place)