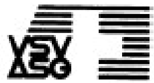
Corriere del Ticino 2009/04/16



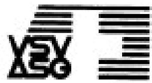
LET'S TALK ABOUT...
FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Quantitative Easing

(Part Five) The most disputed features of quantitative easings and other non-conventional tools adopted by central banks, are the acceptance as guarantees of uncertainly priced and non-negotiable assets, for loans granted to banks in order to favour their credit operations as well as the creation of new money, both virtual and in the form of freshly printed banknotes.
Obviously the main reason for worry is the potential danger such policies carry in terms of future inflation and money devaluation for involved countries. Many readers certainly may ask about the destiny of those toxic securities which central banks take as guarantees. The question is good but there is no real defined answer for it. Possibly the assets may be held until a future time when market conditions make it easier to negotiate them at better prices, or make them however negotiable again. As for that matter a just issued law in the United States make the evaluation of toxic assets pretty flexible for financial institutions which hold them, and that is no good news in terms of transparency and reliability of their balance sheets. The toxic assets may also be transferred to some newly created "bad banks", sort of mixed public-privately financed institutions, aimed at managing those instruments while expecting rosier times ahead. Such proposals are currently under review for their implementation. As for the inflation and devaluation potentials which quantitive easings involve, those may be no great source of worries for some governments: they could actually consider moderate inflation levels as positive in taking economy out of the marshes, and currency devaluation even more favourable in favouring exports and partially adjusting public accounts' unbalances, of course at the expenses of government debt investors and taxpayers. It is most likely indeed that the mirage of competitive devaluations is now alluring many countries, both money printers and non-printers, major or minor actors of quantitative easing, whose benefits are, by the way, not to certain to assess in terms of amplitude and time to reach effectiveness. ***(end)***

The views expressed are not necessarily those of the Swiss Association of Asset Managers

Corriere del Ticino 2009/04/09



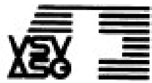
LET'S TALK ABOUT...
FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Quantitative Easing

(Part Four) In the few latest articles we reviewed quantitative easings as non-conventional actions taken by central banks, when their traditional moves – short term rate cuts, reserve decreases, ordinary open market transactions on treasuries – show not effective enough in face of the deteriorating financial and economic scenarios. Indeed quantitative easings may be considered as innovative extensions of classical “open market” transactions, in that they are aimed at creating liquidity and supplying it to the banking system, although such goal is achieved through the purchasing of types of securities they would not take under “normal” circumstances. Such has been and still is the case for toxic assets, meaning those securities which are hardly tradable and all the same hardly priced, as related to mortgages and other hardly hit credit sectors. Quantitative easings are thus the last resort in the liquidity crisis which has been locking up the banking and financial sectors in many countries. However, supplying liquidity to “ill” or problematic institutions, accepting low-quality assets as guarantee, certainly is an unortodox move, and also a case of doubts and open criticisms by many. Moreover, if the quantitative easing also implies the printing of large amounts of fresh money, criticisms and worries are all the more justified. Even if emergency conditions may require unusual solutions, printing money may take to medium-to-long-term relevant damages, first of all in terms of inflation and currency devaluation. The US Federal Reserve is particularly active in quantitative easing. We may just cite the TALF prorogram and other targeted interventions in the mortgage and consumer credit sectors. Some more limited quantitative easings are being operated by the Bank of England and the Bank of Japan (and actually the US, the United Kingdom and Japan are often labeled as “printer nations” – of paper money of course), whilst the European Central Bank and the National Swiss Bank have shown more cautious attitudes, so far at least. *(to be continued)*

The views expressed are not necessarily those of the Swiss Association of Asset Managers

Corriere del Ticino 2009/03/26



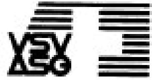
LET'S TALK ABOUT...
FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Quantitative Easing

(Part Three) We noted how the US Federal Reserve is not only a leading central bank in terms of reactivity and operational flexibility, but also in creating and implementing new forms of actions aimed at fighting the current dramatic financial crisis. No surprise the Federal Reserve is also a major actor in quantitative easings, with both general and specifically targeted strategies.
At the beginning of March the FED detailed the TALF-*Term Asset-Backed Securities Loan Facilities*, a 200 billion USD program of lending against securities backed by student, automotive and credit card loans. The program is expected to be expanded to 1 trillion USD by including troubled mortgage and other more or less “toxic” debt instruments which badly affect banks and other financial institutions.
In the previous months the FED had already purchased over 100 billion USD of housing-related government agencies’ securities and other similar programs had been implemented for the troubled mortgage sector.
Other central banks have been more cautious in operating unconventional actions, namely quantitative easings, and particularly if such moves were to take to the creation of fresh money. Actually the risk of inflation is always round the corner. However the European Central Bank has recently stated to be open to any solutions should the economic environment furtherly deteriorate in the coming months. Some central banks are studying new forms of interventions or are just on the verge of implementing them, while monitoring the outcomes of traditional monetary measures, low rates in particular, and pondering the negative consequences that quantitative easings may have on the longer run. *(to be continued)*

The views expressed are not necessarily those of the Swiss Association of Asset Managers

Corriere del Ticino 2009/03/12



LET'S TALK ABOUT...
FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Quantitative Easing

(Part Two) Unconventional actions are more and more implemented by central banks, or at least part of them, aimed at generating liquidity for the banking system, the financial markets and the economy, in order to make lending possible again in favour of firms and households. Quantitative easings are among such innovative practices and are becoming particularly relevant due to the current extremely low rates, which leave little room indeed for further cuts.

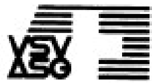
After increasing the range of their operational counterparts, as well as the range of securities to be accepted as guarantees, including some low quality ones, quantitative easings are viewed as the "last resort" in supplying liquidity to the depressed financial system, through the purchase of different instruments, government and corporate bonds and notes, commercial paper and so on, directly from the banks, and giving them money, both virtual or physical, by printing fresh new banknotes (although such action is not so much disclosed).

Quantitative easing was largely carried on by the Japanese central bank in the years 2001-2006, when the classical tool of cutting rates was no longer usable, having the rates themselves reached a zero level, with other traditional monetary actions having produced poor results.

Now the world leader in applying quantitative easing is the US Federal Reserve, which in the afterwards of September 11 and the dramatic subprime crisis with all its spreading consequences, has flooded the market with lots of liquidity, so to double its balance sheet up to 2 trillion USD in the latest years. Besides direct purchases of securities – including "toxic" ones, that is untradeable and uncertainly priced instruments – from banks and non-banking financial institutions, the FED has carried on specific interventions in favour of those sectors which had been particularly affected by lacks of liquidity or overwhelmed by huge amount of toxic assets. *(to be continued)*

The views expressed are not necessarily those of the Swiss Association of Asset Managers

Corriere del Ticino 2009/03/05



LET'S TALK ABOUT...
FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Quantitative Easing

(Part One) Most readers certainly know the three classical instruments central banks use in carrying on their monetary policies: 1) moving the short term (reference or discount) rates up or down, so expanding or restricting credit; 2) changing the level of reserves to be held by commercial banks; 3) open market operations, that is purchasing or selling government bonds so to drain or expand the monetary base.
However, since the subprime crisis erupted, then progressively and dramatically spreading to the overall financial and credit markets, some central banks have adopted new creative strategies aimed at increasing liquidity, sustain troubled financial institutions and avoid their bankruptcies, so fighting the malevolent influence of the toxic assets they hold. The US Federal Reserve has widened the range of counterparts able to benefit from its facilities and even the list of securities which may be accepted in guarantee is now much longer, also including some low quality or doubtly priced instruments as collaterals. After all, desperate ills demand desperate remedies ! Among such extreme remedies we can also include the so called quantitative easings: it is just a neologism (and euphemism) applied to the creation of fresh money by a central bank through means other than the above mentioned classical ones. Quantitative easing has two goals, according with the prevailing strategies of the Federal Reserve and the Bank of England: to sustain both the economic cycle and the financial system. Thus they create new money, not necessarily by printing new banknotes although often that is indeed the case, in order to purchase government and corporate securities, commercial papers and similar instruments, so to supply the banks with funds and make them able to stay in the market and normally lend to families and firms. Quantitative easings may be seen as extensions of open market traditional operations, but the relevant feature is that they *de facto* generate new money, both real or virtual, with many consequences over time. *(to be continued)*

The views expressed are not necessarily those of the Swiss Association of Asset Managers