



LET'S TALK ABOUT...

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Twisting

The term is being often cited in the financial press, as it informally applies to the latest non-conventional action which has been designed and implemented by the Federal Reserve in Washington D.C., in order to support the economic growth and the financial markets.

The current twisting solution is a further proof of the vivid creativity the institution of Constitution Avenue is able to express, although something similar was adopted about fifty years ago, after exhausting all other tools of monetary policy, that is setting reference rates, the levels of bank reserves and acting with open market operations, and after completing two rounds of "quantitative easing", thus issuing fresh money against the acquisition of more of less problematic (that is illiquid or uncertainly priced) public and corporate securities. Such creativity, by the way, seems to be absent in the European Central Bank of Frankfurt.

The twisting operation is the almost contextual sale, although spread on a certain period of time, of short term public instruments (Treasury Bills and Bonds with expirations of less than 3 years) and purchase of similar long term ones (with expirations between 6 and 30 years), for a total amount of about 400 billion US dollars.

Its main purpose is to reduce long term rates, being a goal that ordinary monetary tools fail to achieve if portfolio average maturities are not extended. Borrowing by small and mid firms is also favoured and a very dangerous upturn in mortgage rates is avoided, when the US real estate market is still very depressed and negatively affects household consumptions and investments.

For many operators the goals that the FED has set with such new action are too ambitious and hard to be achieved, all the more in the current emergency phase, both at domestic and international levels. Its outcomes are not so defined, as the ones posed after QE1 and QE2. For such reasons the "twisting" solution may likely be just a prelude to a newly coming huge phase of QE3. - *GLT*

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