28-30 November, 2014

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GCU Bulletin

8 news-treats on exchange rates, money and monetary policy

Dear Colleagues and Contacts of GCU,

Having just taken the Chair of the G20, Turkey now has a unique opportunity to fulfill her potential as an important hub providing balance and integration between East and West and between industrialized and developing countries.

Recent monetary initiatives around the globe show us that, as one could only expect, individual market participant will prioritize national domestic objectives. They have neither interest nor responsibility for the state of affairs elsewhere. The increasing number of one-sided monetary actions, whether executed through central banks' purchases of bad debt, lowering of interest rates or old-fashioned straightforward devaluation, will bring more frictions and instability between the various monetary systems, meaning higher volatility in exchange rates.

Mitigating excess volatility and disorderly exchange rate movements will be an important component for achieving stability and a better basis for increasing trade and growth. To document the potential of removing current exchange rate inefficiency and improving stability, GCU has prepared the attached analysis which documents that the risk/cost of exchange rate deviations for Turkish businesses when trading with the UK, China and Russian can be reduced by 50%-60%. This reduced cost corresponds to a net value of more than $ 1.2bn annually, which could be seen as a direct contribution to growth between Turkey and these three major trading partners if implemented.

We hope that Turkey will seize the opportunity at hand and follow through on her declared intentions of reforming the global economic system. If not for anything else, do it for the money!

Best regards,
Jesper Toft

GCU - exchange rates innovated

Read previous GCU Bulletins:
- Exhange rate service pack 2 now available
- Turkish Delight?
- The exchange rate no-man's land
- Redback vs.Greenback.

Global currency wars rage Turkey remains steadfast - for how long?

For now Turkish decision-makers, headed by central bank Governor Erdem Basci, remain steadfast and have kept the interest rates unchanged for a fourth month. Exports grow as the Turkish lira depreciates against the USD. However, the market is now expecting that the central bank will have to follow the global trend and lower its interest rate. So steadfast for now - or for how long?

These two articles provide more details:
- Global currency wars rage, but Turkey remains steadfast
- Lira Analysts See Dovish Signals Tilting Turkish Policy

The G20 should aim for a new monetary and commercial system - Celim Ertem

'Developing countries should introduce an alternative monetary and trading system to the current one', says the economist Dr. Cemil Ertem. The current system lacks the dynamics that will meet the requirements of the global economy going forward. One way of improving the situation for developing countries would be for them to conduct their commercial transactions with their own currency.

Daily Sabah

[South Korea ruling party leader urges vigilance over currency war]

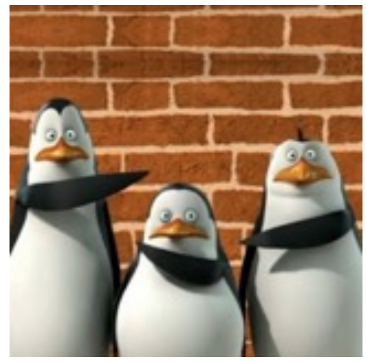
As many countries are pumping more money into their financial systems and depreciating their currencies, the leader of South Korea's ruling party, Kim Moo-sung, has called on the government and central bank to actively respond to what he sees as a 'global currency war'. This could be seen as a natural move after the Bank of Japan's shocking expansion of its massive stimulus spending. The move prompted the yen to slump to multi-year lows against the dollar.

Reuters

"In Japan, as in the United States and the United Kingdom, currency stability isn't the role of the central bank. The government is in charge of achieving exchange-rate stability".

- Kuroda, Bank of Japan, Tuesday Nov 25

Reuters



See the results and documentation from GCU's analysis of the potential benefit for Turkey, when using GCU's Exchange Rate Mitigation Function instead of pricing in USD:

TURKISH TRADE VIA US DOLLAR TO: (2013)		ENGLAND (USD)	RUSSIA (USD)	CHINA (USD)	*Total* (USD)
Cost of risk TRY Exports using USD as intermediary currency		111.907.700	88.826.830	45.925.710	246.660.240
Cost of risk TRY Imports using USD as intermediary currency		199.092.600	795.738.300	783.769.700	1.778.600.600
Total		311.000.300	884.565.100	829.695.400	2.025.260.800
Cost of risk TRY Exports with GCU Split (50/50)		59.663.390	75.495.930	32.775.960	167.935.280
Cost of risk TRY Imports with GCU Split (50/50)		100.246.000	278.698.000	288.336.100	667.280.100
Total		159.909.400	354.194.000	321.112.100	835.215.500
Advantage from reduced risk/cost to Turkish trade using GCU Split (50/50) vs. pricing in USD		**151.090.900**	**530.371.200**	**508.583.300**	**1.190.045.400**
Total Trade		15.048.160.000	32.030.520.000	28.288.660.000	75.367.340.000
Saving as percentage of Total Trade		1,004049	1,655831	1,797834	0,015790
Saving using GCU Split compared to using USD in percentage		48,582230	59,958410	61,297590	0,587601
	USDTRY	GBPTRY	RUBTRY	CNYTRY	
Variance	0,011195	0,011921	0,012600	0,011123	
Standard error	0,105809	0,109182	0,112250	0,105466	
Trade (TRY export+import)	NA	15.048.160.000	32.030.520.000	28.288.660.000	
Total volatility in total trade - using USD (AC+BC)	NA	0,155890	0,195330	0,122976	
Total volatility in total trade - using GCU Split (AB)	NA	0,109182	0,112250	0,105466	
Reduction of volatility in percentage	NA	29,962100	42,533110	14,238050	
Trade-weighted volatility for Turkey, based on trade with GBP, CNY, RUB - using GCU Split	0,054546				
Trade-weighted volatility for Turkey, based on trade with GBP, CNY, RUB - using USD for pricing	0,105809				

Savings using GCU method vs. pricing in USD: **1.2 bn USD**

See results when pricing in Euro   See documentation

Nigerian central bank devalues naira, hikes rates

Sliding oil prices have brought Nigeria's central bank to take action to combat speculation against the currency. Although previously dismissed as a possibility, the central bank has now significantly devalued the naira's peg to the dollar to 168, widened the trading band significantly and jacked up its main interest rate to a record high.

Financial Times

[Ukraine gold reserves all but gone]

Tons of gold bars - 87% of reserves - have 'vanished' from the National bank of Ukraine and the Governor has not been able to explain where they have gone. The situation is that Ukraine's gold stock has fallen from $987 to $123.6 million, which barely covers 1 percent of the national reserves.

As gold does not really 'vanish' the question is: Where is it?

Sputnik

SNB's Jordan warns of danger of voters passing gold initiative

In Switzerland the referendum this Sunday which could demonstrate a lack of confidence in the existing monetary system has prompted the Swiss National Bank president Thomas Jordan to warn voters that a minimum gold reserve of 20% would weaken the SNB's maneuverability in times of crisis. Meanwhile, distrust in the current system may not be confined to Switzerland ...

Bloomberg

Putin: Russian economy won't be dominated by 'Dollar Dictatorship'

'We are leaving the dictatorship of the market where oil goods are based on the dollar and will increase the possibilities of using other national currencies like the ruble and the yuan,' President Putin said in a recent interview.

Sputnik

Related: China signs currency swap deal with Qatar in the heart of the petrodollar system

The Exchange Rate Mitigation System, namely GCU Reports, is the first system made available by GCU.

The first commercial transaction between two business partners using GCU Reports took place in August 2014.

Find out how GCU Reports can help companies in your country to mitigate the adverse effects of such sudden change in exchange rates.

GCU Reports – *reduced risk and equal impact*

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