



Lietuvos investuotojai

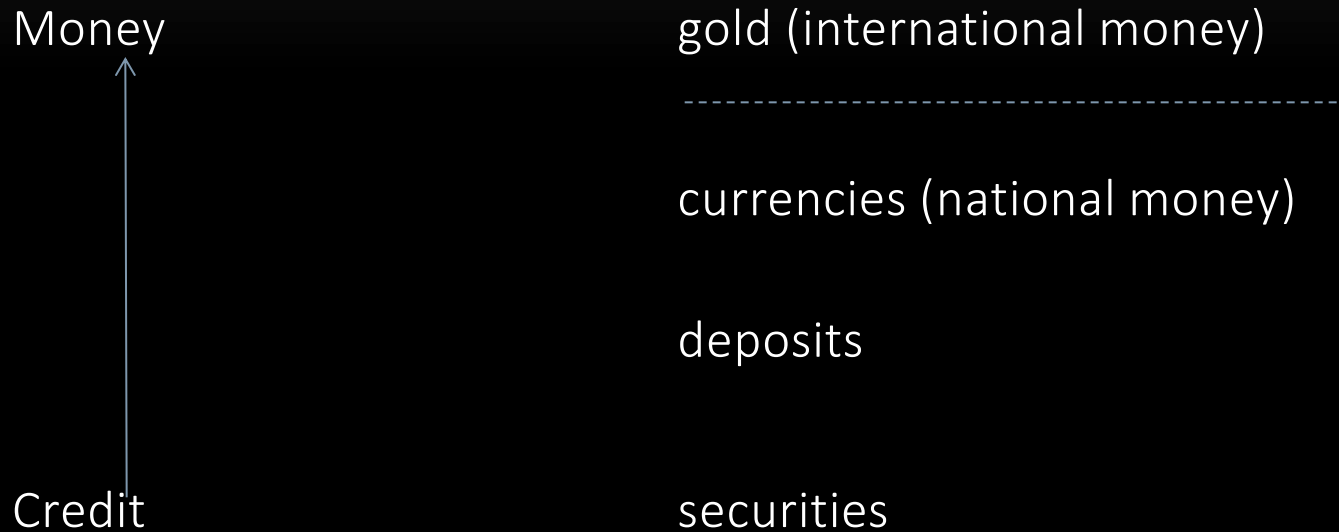
BACK TO BASICS: financial Instruments market vis-à-vis money system

THE BIG PICTURE

Reykjavik 2014-06-27

Giedrius Steponkus, Lithuanian Investors Association

HIERARCHY OF FINANCIAL INSTRUMENTS



International money is an assets. National money and below is some form of credit.

HIERARCHY OF FINANCIAL INSTITUTIONS

Central Banks

Gold	Currency
reserves of int. money	reserves of nat. money

Banking system

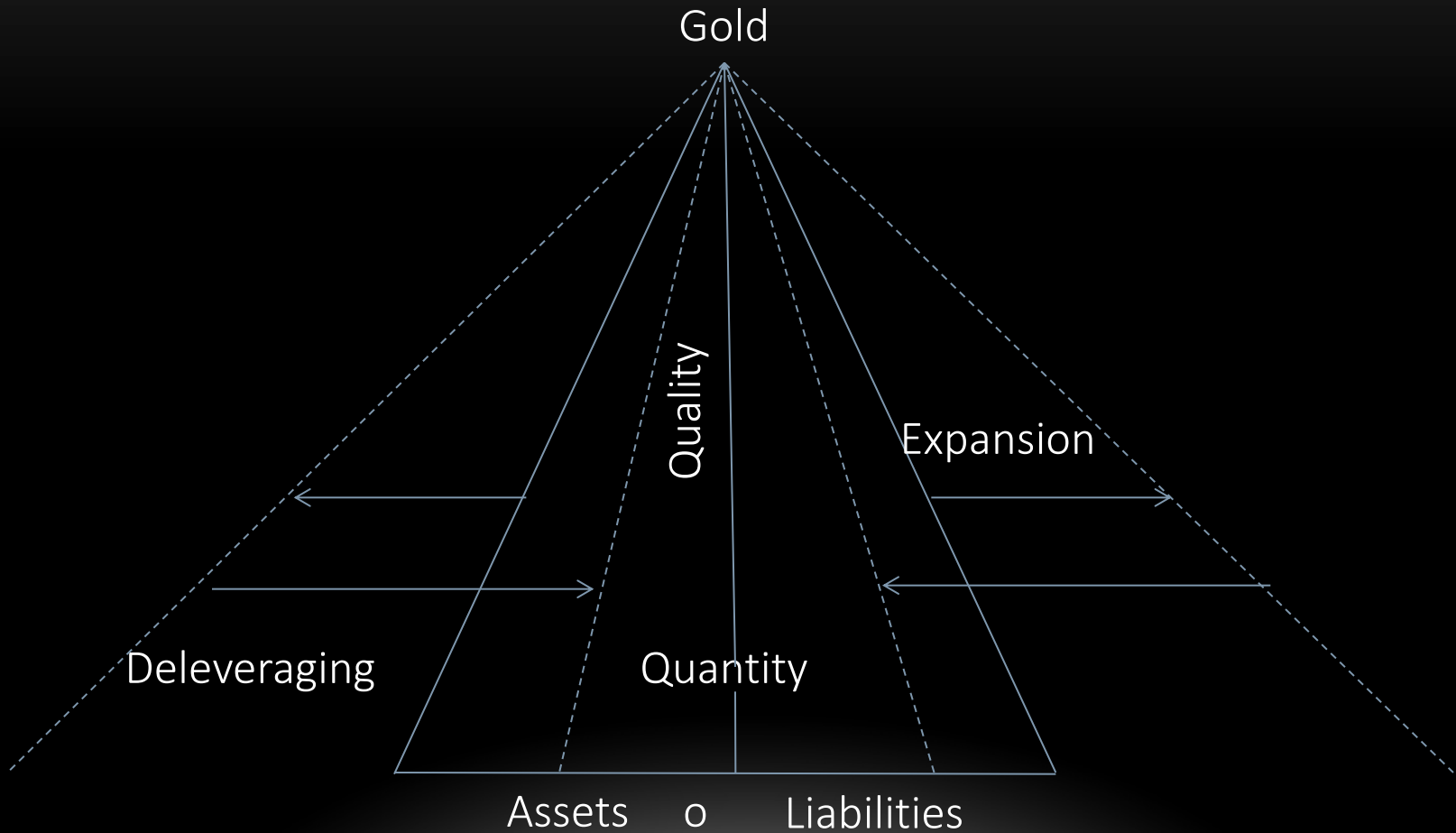
Currency Deposits

Private sector

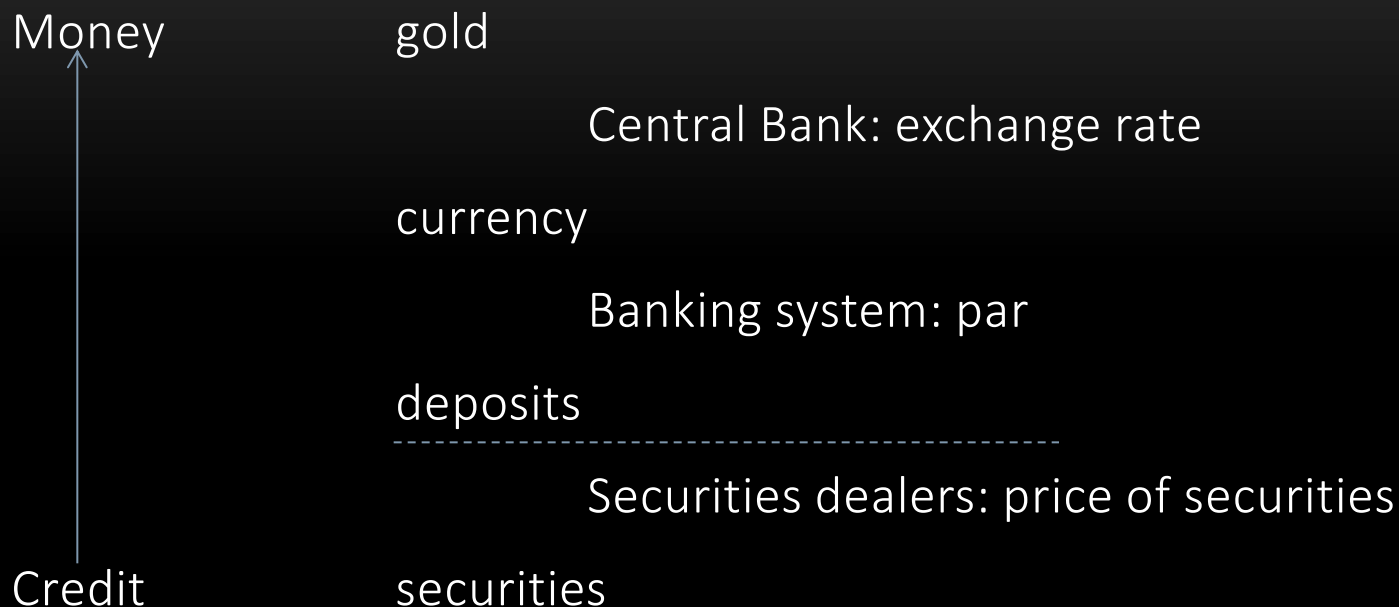
Deposits Securities

DYNAMICS OF THE HIERARCHY

Discipline versus elasticity: scarcity of (ultimate) money versus Elasticity of (derivative) credit - IOU



MANAGING OF THE HIERARCHY



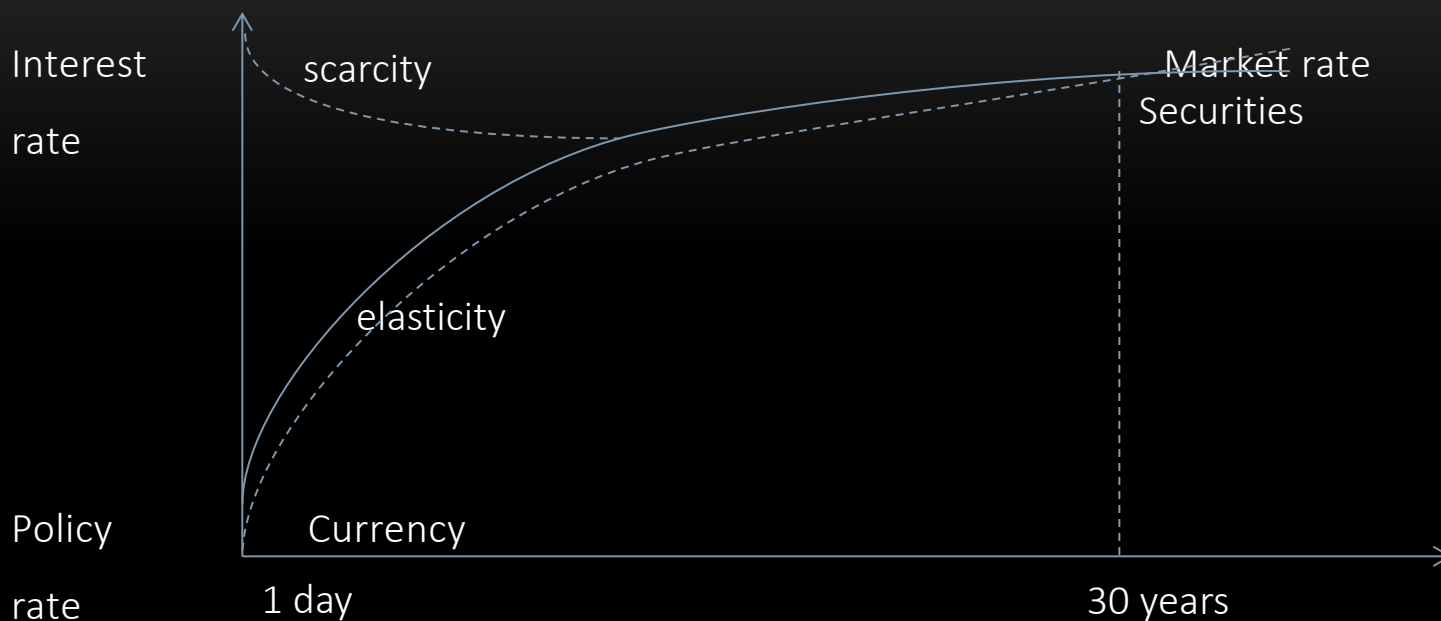
Monetary policy is all about creating artificial hierarchy in order to maintain financial stability.

Counter cyclical policy: then too much discipline then Central Bank to injects more elasticity.

How:

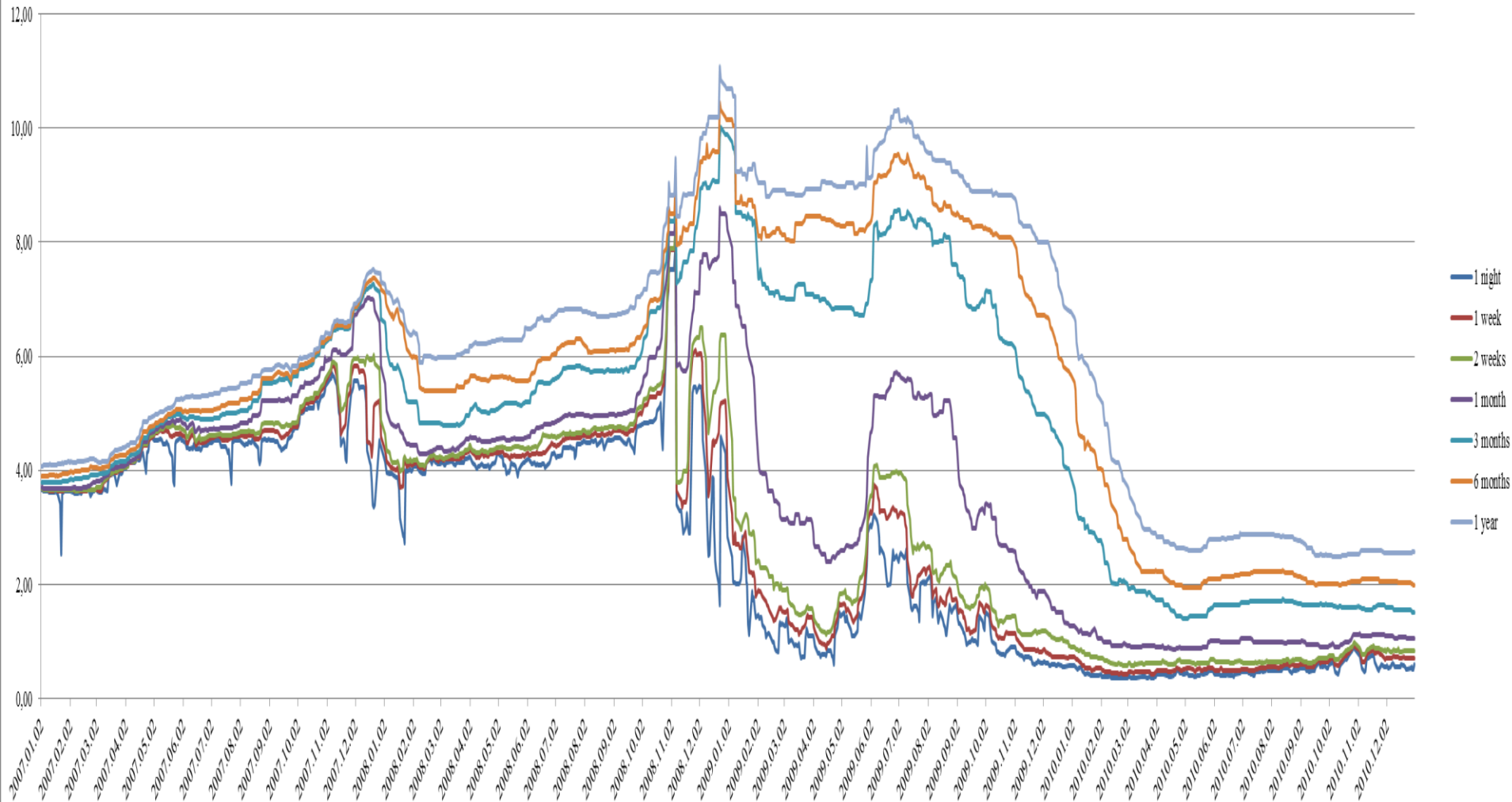
- manipulating overnight interest rates to regulate market interest rate helping banking system to maintain deposits
- currency exchange "at par";
- deposit facility rates (up to negative)
- open market operations - direct investments into financial instruments

MANAGING OF THE HIERARCHY- MANIPULATING THE STRUCTURE OF INTEREST RATE



1. Monetary policy – creating of artificial hierarchy.
2. Exchange rate – maintain pas-economic stability.
3. Policy rate – open market operators can define market rates.

2007-2010 VILIBOR - ADDING DISCIPLINE



DELEVERAGING – ADDING MORE DISCIPLINE

Banking System

(sell) loans

(plus) cash

capital (required to raise)

Private Equity

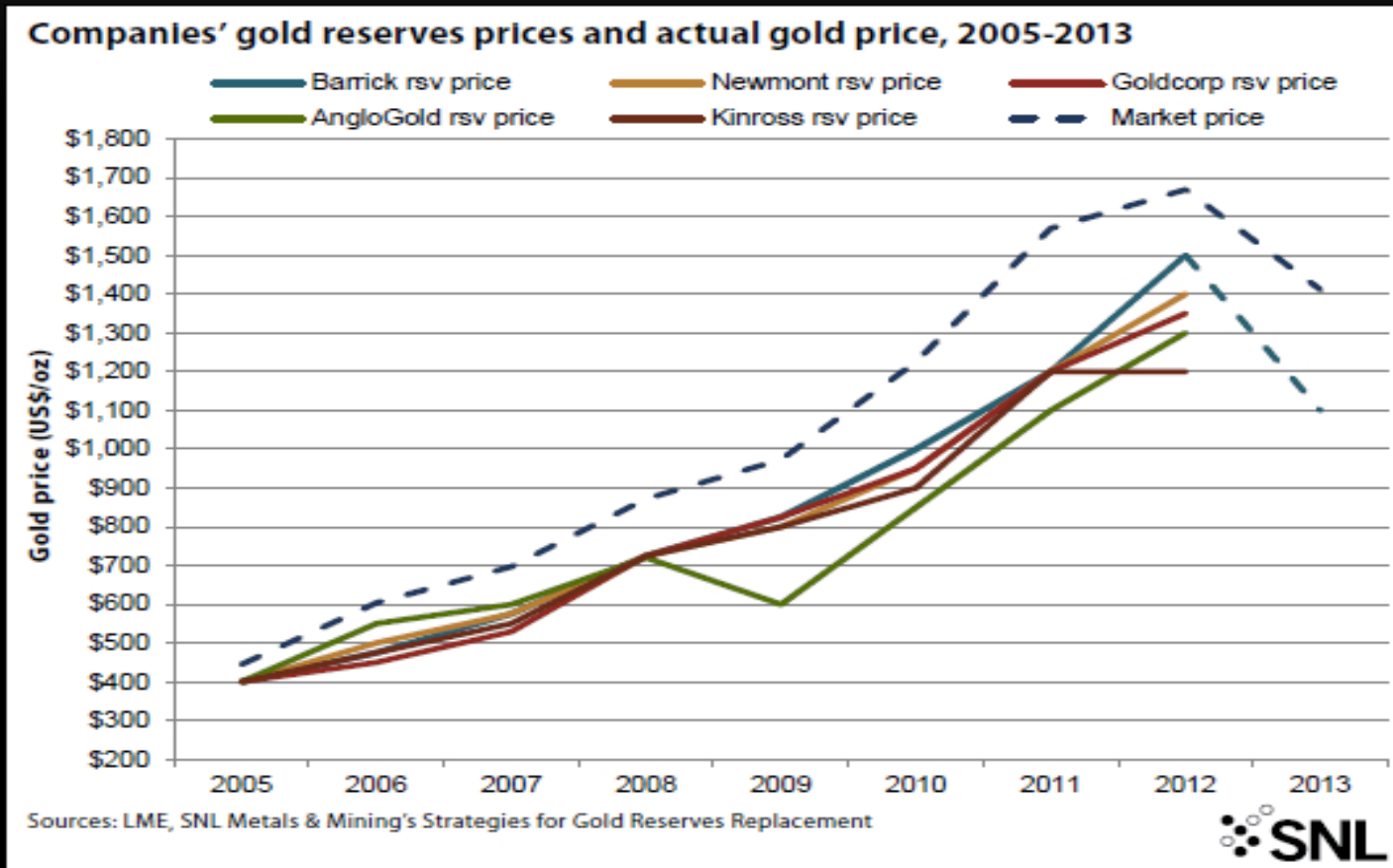
buy loans

minus cash

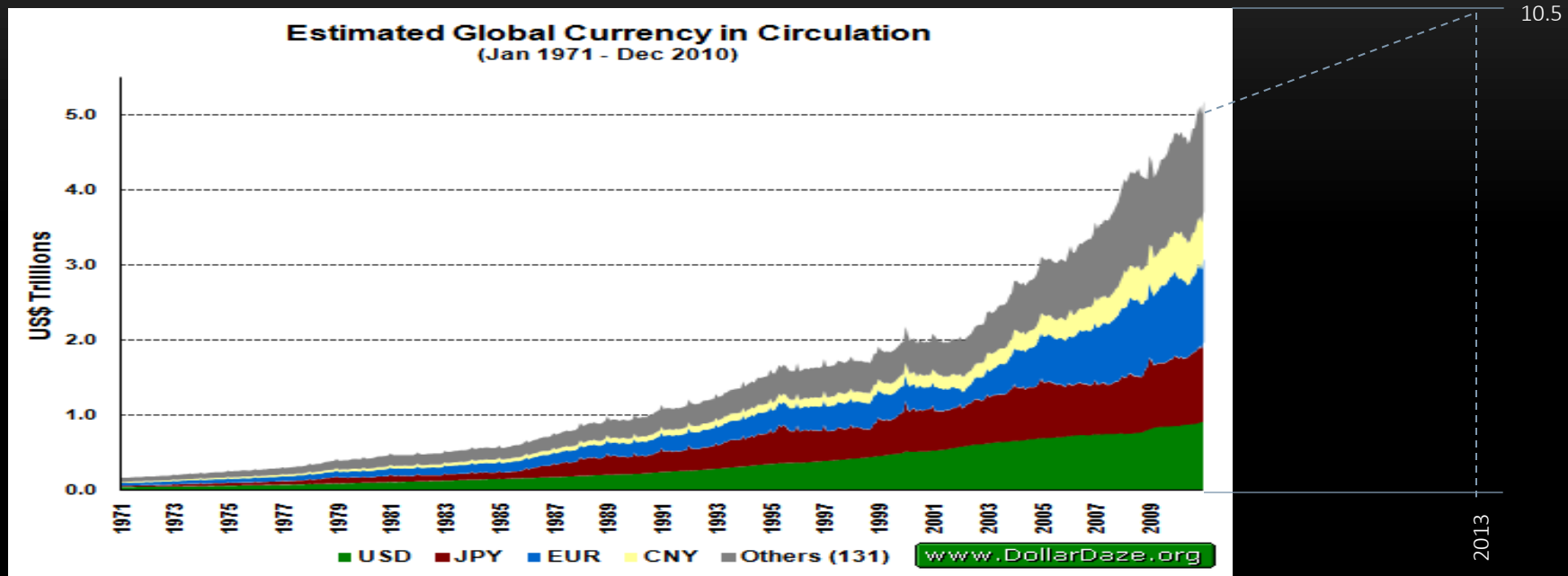
Shrinking of balance sheet on both sides to achieve desirable loans to capital ratio

TOTAL VALUE OF GOLD RESERVES

The gold mined by the end of 2011 totaled 171,300 tones. At a price of US\$1500 per troy ounce, reached on 12 April 2013, one tone of gold has a value of approximately US\$48.2 million. The total value of all gold ever mined would exceed US\$8.2 trillion at that valuation.



TOTAL VALUE OF CURRENCIES IN CIRCULATION



M0 money supply: includes the bills and coins in people's pockets and mattresses, the money on hand in bank vaults and all of the deposits those banks have at reserve banks 1,2 trill. USD July, 2013

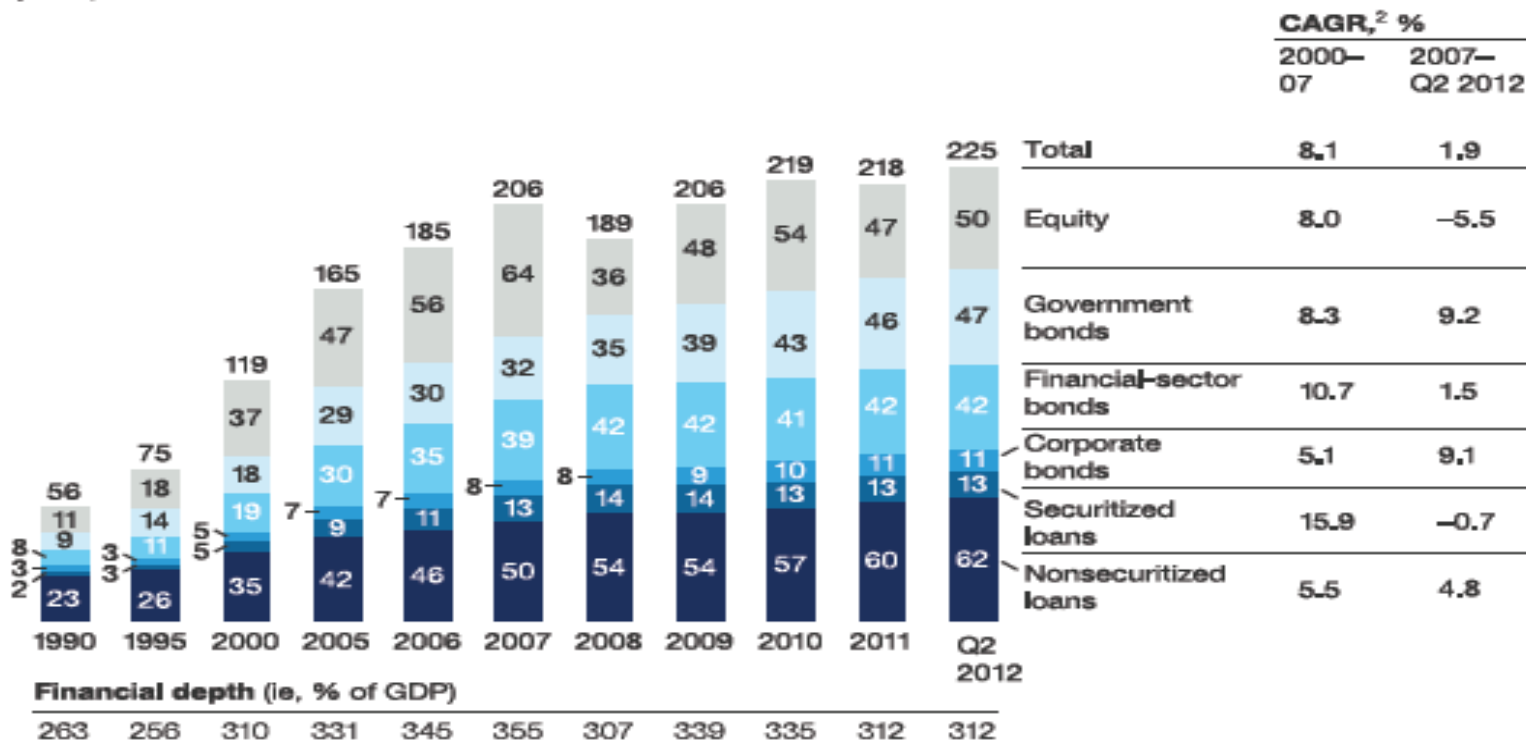
M1 represents all of the currency in the M0 money supply, plus all of the money held in checking accounts and other checkable accounts, as well as all of the money in travelers' checks. In June 2013, the M1 money supply for U.S. dollars equaled about \$2.5 trillion [source: Federal Reserve].

M2 is the M1 supply, plus all of the money held in money market funds, savings accounts and CDs under \$100,000. In June 2013, the M2 money supply was about \$10.5 trillion [source: Federal Reserve].

GLOBAL FINANCIAL STOCK-RISING

Global financial assets have grown to \$225 trillion, but growth has slowed since 2007.

Global stock of debt and equity outstanding, \$ trillion¹

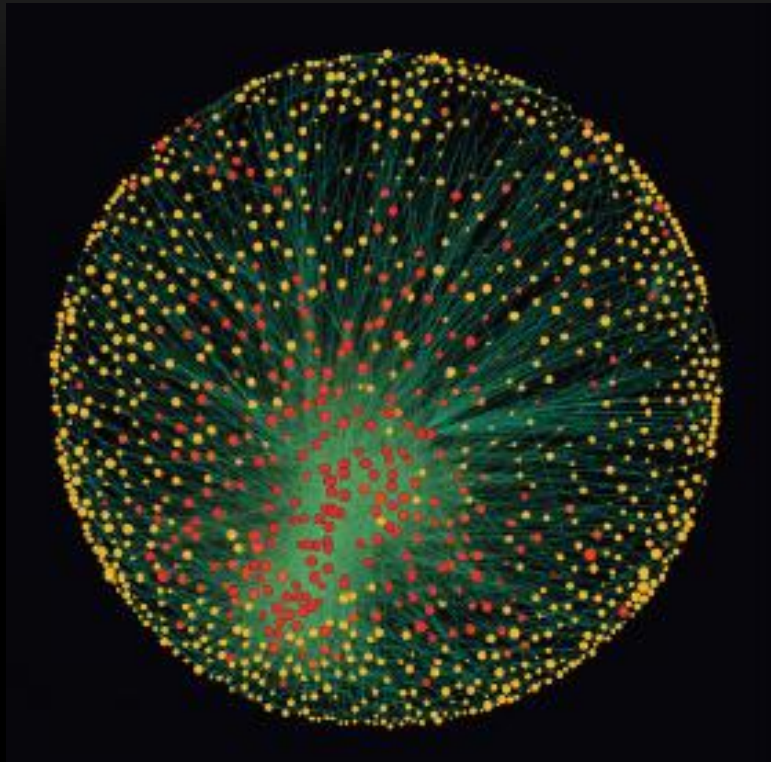


¹End-of-year figures for a sample of 183 countries, based on constant 2011 exchange rates. Figures may not sum to totals, because of rounding.

²Compound annual growth rate.

Source: McKinsey Global Institute analysis

THE CAPITALIST NETWORK THAT RUNS THE WORLD



The top 50 of the 147 superconnected companies:

1. Barclays plc
2. Capital Group Companies Inc
3. FMR Corporation
4. AXA
5. State Street Corporation
6. JP Morgan Chase & Co
7. Legal & General Group plc
8. Vanguard Group Inc
9. UBS AG
10. Merrill Lynch & Co Inc
11. Wellington Management Co LLP
12. Deutsche Bank AG
13. Franklin Resources Inc
14. Credit Suisse Group
15. Walton Enterprises LLC
16. Bank of New York Mellon Corp
17. Natixis
18. Goldman Sachs Group Inc
19. T Rowe Price Group Inc
20. Legg Mason Inc
21. ...

The 1318 transnational corporations that form the core of the economy. Superconnected companies are red, very connected companies are yellow. The size of the dot represents revenue (Image: PLoS One)

SOURCES

1. Institute for new economic thinking.
2. McKinsey Global institute.
3. The Bank of Lithuania.
4. The Riksbank.
5. Federal Reserve Bank.
6. Securities Industry and Financial Markets Association.
7. New Scientist <http://www.newscientist.com/article/mg21228354.500-reveale#.Uv3adfJWHDc>
8. Credit Suisse <https://publications.credit-suisse.com/tasks/render/file/?fileID=BCDB1364-A105-0560-1332EC9100FF5C83>