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Jeffrey Snider's Eurodollar University

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How Dollar becomes 'Dollar'

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> The downside of a “dollar” as a opposed to a dollar is that so much is now unobservable in the form of bank activities that never see the light of day (again, the bank at the center). Since we cannot even define a wholesale “dollar” we cannot think to even attempt its measure as it amounts to **chasing a phantom.**

AIP Research
January 21, 2015
What Is A Dollar?

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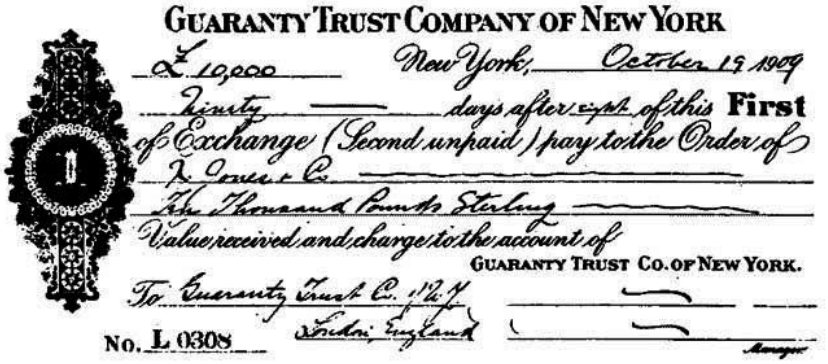
> The market for bankers' acceptances was one of the first tasks of the Federal Reserve. There was a flourishing financial trade in acceptances in sterling which was purely a matter of the British pound being something like the global reserve currency, at least for a vast portion of global geography. With the United States becoming an industrial and trading power, American interests in financing trade from the point of view of the dollar were relatively uncontroversial. The Fed's role in acceptances was to provide liquidity as "needed", as the Fed was authorized to buy them with some discretion.


GUARANTY TRUST COMPANY OF NEW YORK

£ 10,000 New York, October 19 1909

Sixty days after sight of this First of Exchange (Second unpaid) pay to the Order of

J. Jones & Co.

Ten Thousand Pounds Sterling

Value received and charge to the account of

GUARANTY TRUST CO. OF NEW YORK.

To Guaranty Trust Co. of N.Y.

London, England

No. L 0308

AIP Research
January 5, 2016
Forward China

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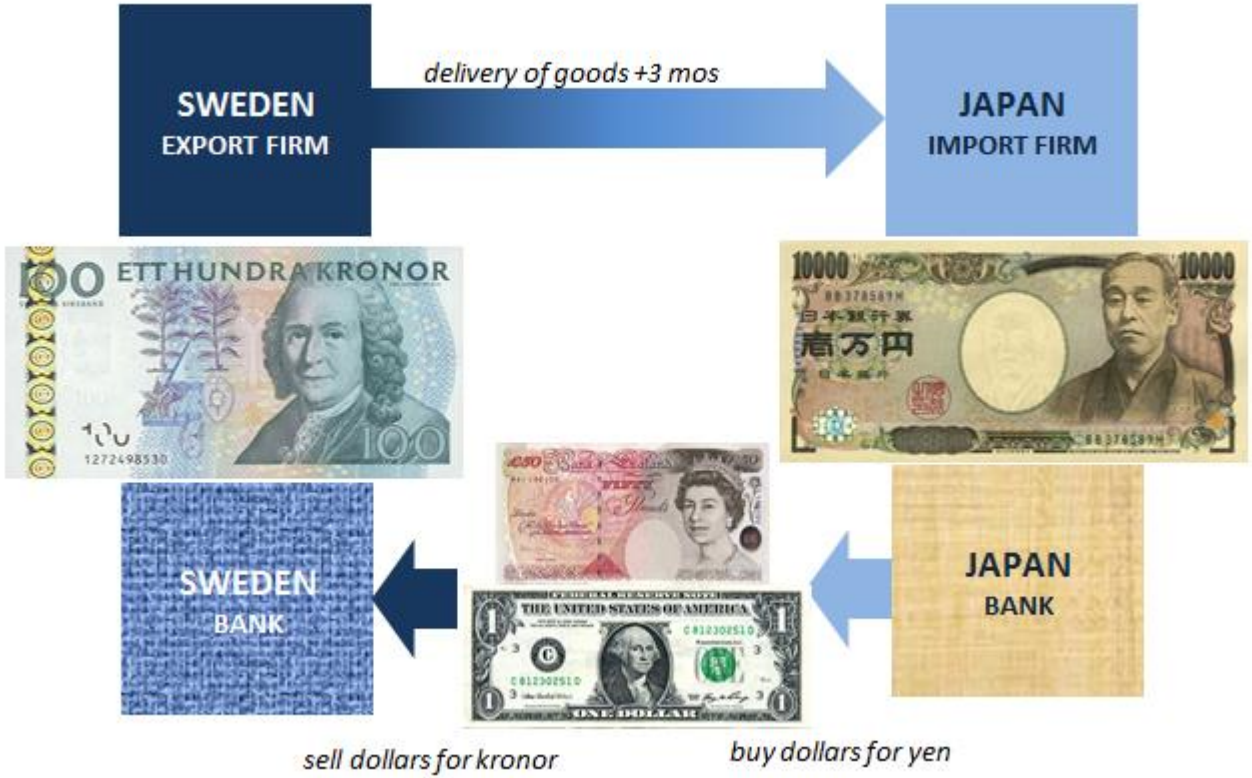

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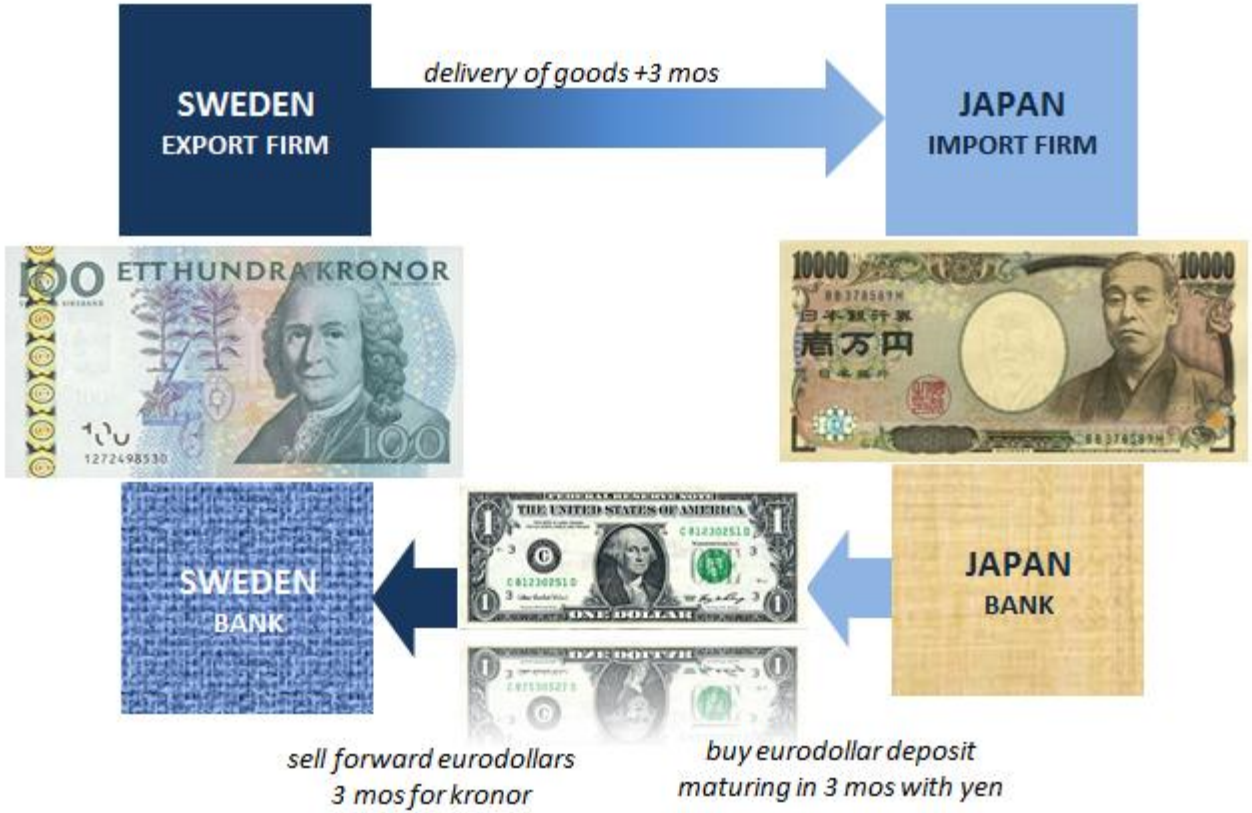

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Where Do Eurodollars Come From?

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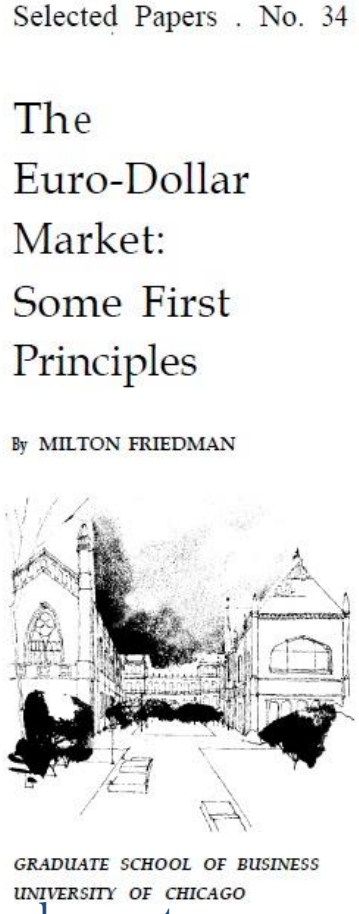
> Recently, I heard a high official of an international financial organization discuss the Euro-dollar market before a collection of high-powered international bankers. He estimated that Euro-dollar deposits totaled some $30 billion. He was then asked: "What is the source of these deposits?" **His answer was: partly, U.S. balance-of-payments deficits; partly, dollar reserves of non-U.S. central banks; partly, the proceeds from the sale of Euro-dollar bonds.**

This answer is almost complete nonsense.

Milton Friedman
Re-Published July 1971



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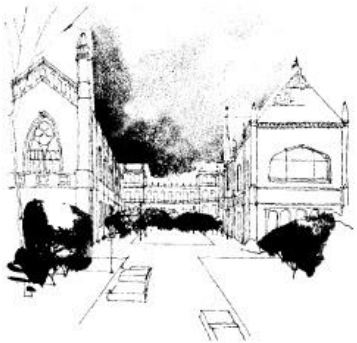
> The correct answer for both Euro-dollars and liabilities of U.S. banks is that **their major source is a bookkeeper's pen.**

Selected Papers . No. 34

The Euro-Dollar Market: Some First Principles

By MILTON FRIEDMAN



GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF CHICAGO

Milton Friedman
Re-Published July 1971

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EURODOLLAR

Bank H of London

Assets		Liabilities	
Cash	$ 1,000,000	Deposits	$ 10,000,000
+	100,000	+	1,000,000
US$ Loans	7,000,000	Due to other Banks	300,000
+	900,000		
US$ Bonds	2,500,000	Capital Accounts	200,000
Total Assets	$11,500,000		$ 11,500,000

Morgan Guaranty NYC

Deposit Balances - Liabilities of Morgan

-	1,000,000	Sheik's Account
+	100,000	Bank H of London
+	900,000	UK Ltd. Account

$0 Total Change for Morgan Guaranty NYC

Calculated Money Supply of the US

-	1,000,000	Sheik's Account
+	100,000	Bank H of London
+	900,000	UK Ltd. Account

NO CHANGE

TOTAL WORLD SUPPLY OF US$

+	1,000,000	Sheik's Deposit at Bank H London
-	100,000	Interbank Liabilities Between H & Morgan NYC

Change in Total Supply Available to World $ 900,000

NOTE: $100,000 is transferred from NYC to London, Interbank double counted

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EURODOLLAR

Bank H of London + Bank R, Cumulative

Assets		Liabilities	
Cash	$ 1,000,000	Deposits	$ 10,000,000
	+ 100,000		+ 1,000,000
	+ 90,000		+ 900,000
US$ Loans	7,000,000	Due to other Banks	300,000
	+ 900,000		
	+ 810,000		
US$ Bonds	2,500,000	Capital Accounts	200,000
Total Assets	$12,400,000		$ 12,400,000

Morgan Guaranty NYC

Deposit Balances - Liabilities of Morgan

- 1,000,000	Sheik's Account
+ 100,000	Bank H of London
+ 90,000	UK Ltd. Account to Bank R to Morgan
+ 810,000	Loans from Bank R to Someone back to Morgan

$0 Total Change for Morgan Guaranty NYC

Calculated Money Supply of the US

- 1,000,000	Sheik's Account
+ 100,000	Bank H of London
+ 90,000	Bank R of London
+ 810,000	Ultimate Disposition of Loans
NO CHANGE	

FULL MULTIPLIER EFFECT (ASSUMING 10% RESERVES HELD BACK due to BANK CONSIDERATIONS)

TOTAL WORLD SUPPLY OF US$

+ 1,000,000	Sheik's Deposit at Bank H London
- 1,000,000	Interbank Liabilities Between
... total multipliers	Eurodollar Banks & NYC
$ 9,000,000	Change in Total Supply Available to World

To **EVERY** banker in the multiplier chain, the additional Eurodollar deposit came in the form of a check from Morgan Guaranty NYC. There are now $10 of eurodollar claims on each $1 of Morgan Guaranty 'money.'

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NEW YORK PARENT OFFICE

Assets		Liabilities	
Deposits at FRBNY	$ 6,000,000	Time Deposits	$ 100,000,000
Other Cash Assets	4,000,000	(CD's)	
Loans	76,000,000		
Bonds	14,000,000		-
Total Assets	$100,000,000	Total Liaibilities	$ 100,000,000

Required Reserves (in 1969 before change in Regulation M) $6mm

London Subsidiary Branch - Eurodollar Operation

Assets		Liabilities	
	$ -		$ -

SHEIK CD matures of $10mm, wants higher rates but NYC office unable to pay due to Regulation Q.

To save the relationship, NYC notes that its London sub is not prohibited and can pay competitive rates.

NYC issues a check to London sub for $10mm

NEW YORK PARENT OFFICE

Assets		Liabilities	
Deposits at FRBNY	$ 6,000,000	Time Deposits	$ 100,000,000
Other Cash Assets	4,000,000	(CD's)	- 10,000,000
Loans	76,000,000		
Bonds	14,000,000	Due to London sub	+ 10,000,000
Total Assets	$100,000,000	Total Liabilities	$ 100,000,000

Required Reserves (in 1969 before change in Regulation M) $5.4mm

Not required to reserve against liabilities to foreign branches

London Subsidiary Branch - Eurodollar Operation

Assets		Liabilities	
Due from NYC parent	$ 10,000,000	Time Deposits	+ $ 10,000,000
		(CD's)	

On a consolidated basis, NYC bank books are wholly unchanged.

However, NYC Parent was able to pay competitive deposit rate and reduce its reserve requirement at the same time.

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Not a single Federal Reserve Note moves anywhere

everything remains interbank liabilities

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THE WORD

EURODOLLAR

IS NOT

A TECHNICALLY PRECISE

TERM

,

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> In reply, Mr. Coombs said an effort could be made to develop such a measure, but he doubted that it would be successful. The volume of funds which might be shifted back and forth between the of the monetary statistics arose in connection with Euro-dollars; **he suspected that at least some part of the Euro-dollar-based money supply should be included in the U.S. money supply. More generally, he thought M1 was becoming increasingly obsolete as a monetary indicator**. The Committee should be focusing more on M2, and it should be moving toward some new version of M3--especially because of the participation of nonbank thrift institutions in money transfer activities. Some of those institutions were offering 5-1/4 per cent on time accounts from which funds could be transferred into a demand deposit by making a telephone call.

FOMC
September 1974
Memorandum of Discussion

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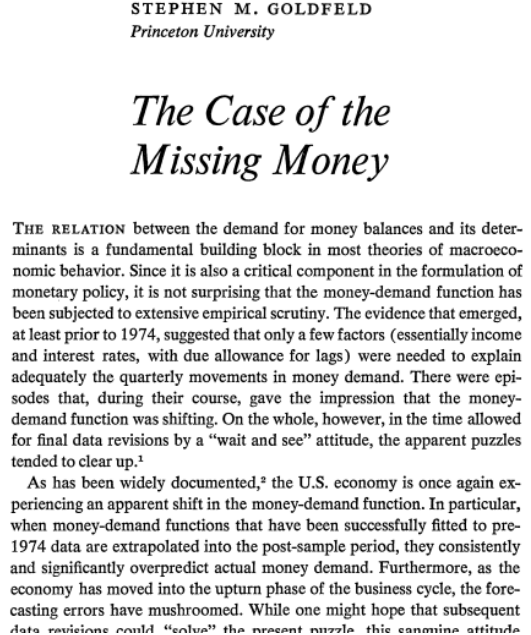
> For example, in the mid-1970s, just when the FOMC began to specify money growth targets, econometric estimates of M1 money demand relationships began to break down, predicting faster money growth than was actually observed. This breakdown--dubbed "the case of the missing money" by Princeton economist Stephen Goldfeld (1976)--significantly complicated the selection of appropriate targets for money growth. Similar problems arose in the early 1980s--the period of the Volcker experiment--when the introduction of new types of bank accounts again made M1 money demand difficult to predict.

Chairman Ben Bernanke
Nov. 10, 2006
Speaking at 4th ECB Conf.



STEPHEN M. GOLDFELD
Princeton University

The Case of the Missing Money

THE RELATION between the demand for money balances and its determinants is a fundamental building block in most theories of macroeconomic behavior. Since it is also a critical component in the formulation of monetary policy, it is not surprising that the money-demand function has been subjected to extensive empirical scrutiny. The evidence that emerged, at least prior to 1974, suggested that only a few factors (essentially income and interest rates, with due allowance for lags) were needed to explain adequately the quarterly movements in money demand. There were episodes that, during their course, gave the impression that the money-demand function was shifting. On the whole, however, in the time allowed for final data revisions by a "wait and see" attitude, the apparent puzzles tended to clear up.[1]

As has been widely documented,[2] the U.S. economy is once again experiencing an apparent shift in the money-demand function. In particular, when money-demand functions that have been successfully fitted to pre-1974 data are extrapolated into the post-sample period, they consistently and significantly overpredict actual money demand. Furthermore, as the economy has moved into the upturn phase of the business cycle, the forecasting errors have mushroomed. While one might hope that subsequent data revisions could "solve" the present puzzle, this sanguine attitude

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> The results of this paper are difficult to characterize. Insofar as the objective was an improved specification of the demand function for M1, capable of explaining the current shortfall in money demand, the paper is rather a failure. Specifications that seem most reasonable on the basis of earlier data are not the ones that make a substantial dent in explaining the recent data.

Stephen Goldfeld

The Case of the Missing Money

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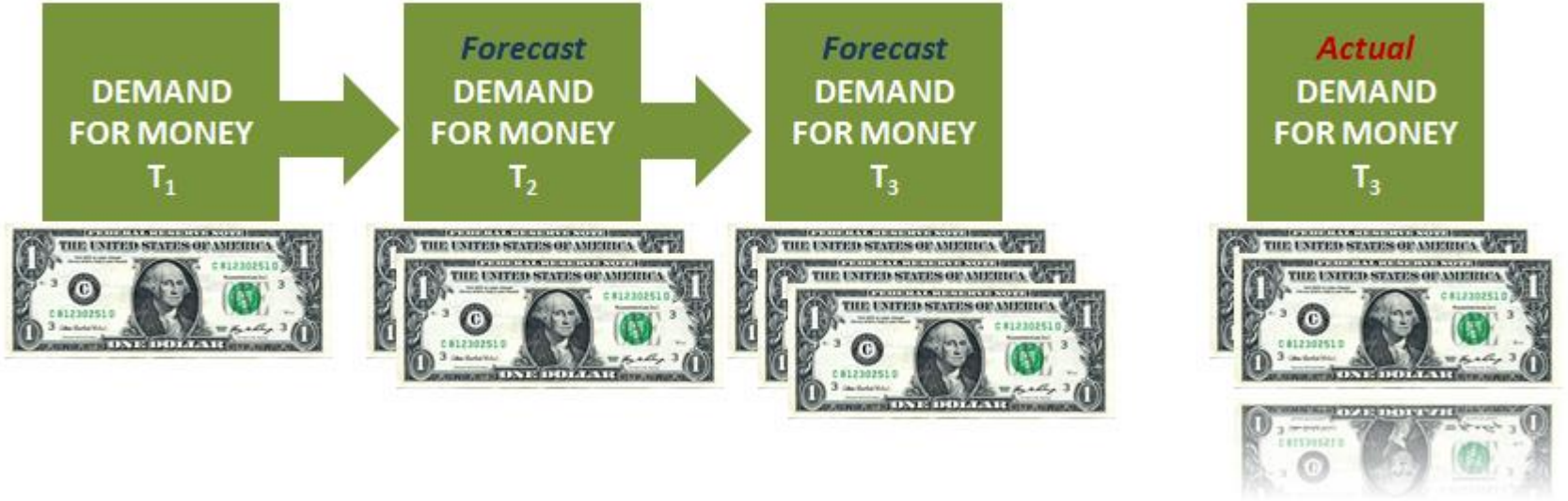

EURODOLLAR IS NOT STRICTLY OFFSHORE DEPOSITS OF OTHERWISE DOLLARS. IT INCLUDES THE TRANSFORMATION OF BANKING INTO A **WHOLESALE** MODEL OFTEN FREE OF DEPOSITS ALTOGETHER.

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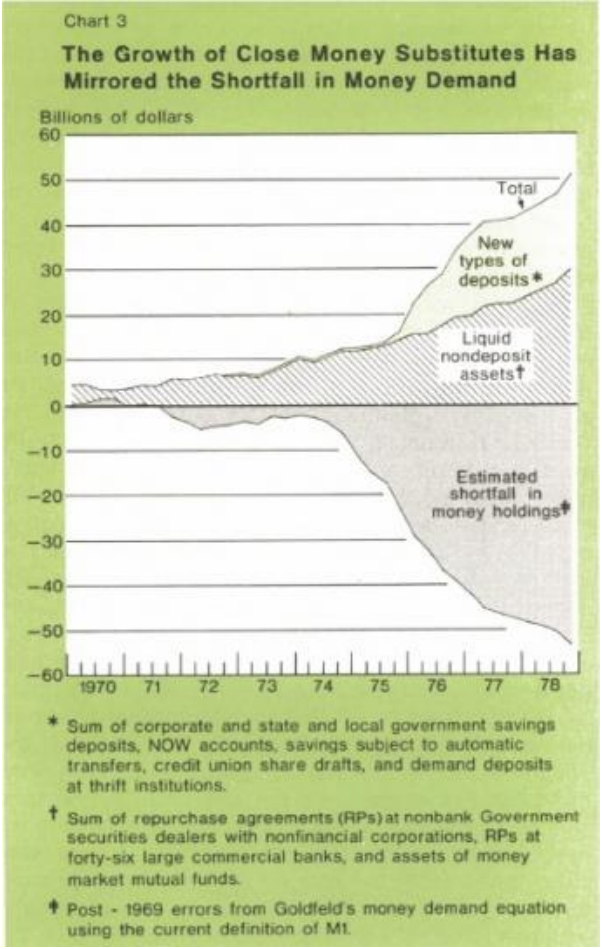
> Large corporations are able to minimize their demand deposit balances by placing excess funds each day in the short-term money market. One way to do this is by arranging an RP – a secured placement of immediately available funds in which the borrower sells securities to the lender and agrees to repurchase them at a predetermined price at a future date (often the next day). **Such a transaction between a corporation and a commercial bank would convert a corporation's demand deposit asset into an interest-bearing asset that would not be counted in any of the current or proposed aggregates**. Yet, since the funds can be committed for periods of time as brief as just overnight, they are still readily available for transaction purposes.



FRBNY
Spring 1979
Quarterly Review

www.alhambrapartners.com

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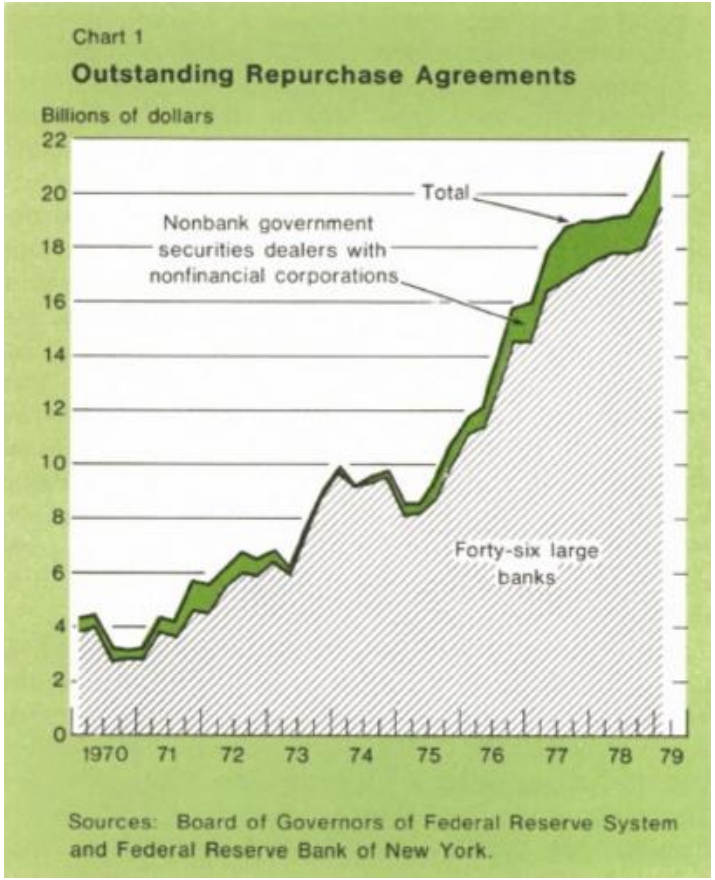
MISSING MONEY = WHOLESALE

ANY NON-TRADITIONAL ACCOUNT TRANSACTION THAT SATISFIES MONETARY NEEDS OUTSIDE THE CLASSIFICATION OF TRADITIONAL MONEY AND THE FRAMEWORK OF TRADITIONAL MONEY MECHANICS.

TRADED **BANK LIABILITIES**



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EURODOLLAR

IS TWO PARTS: WHOLESALE + OFFSHORE

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EURODOLLAR

WHOLESALE, OFFSHORE WHAT?

TRADED

BANK LIABILITIES

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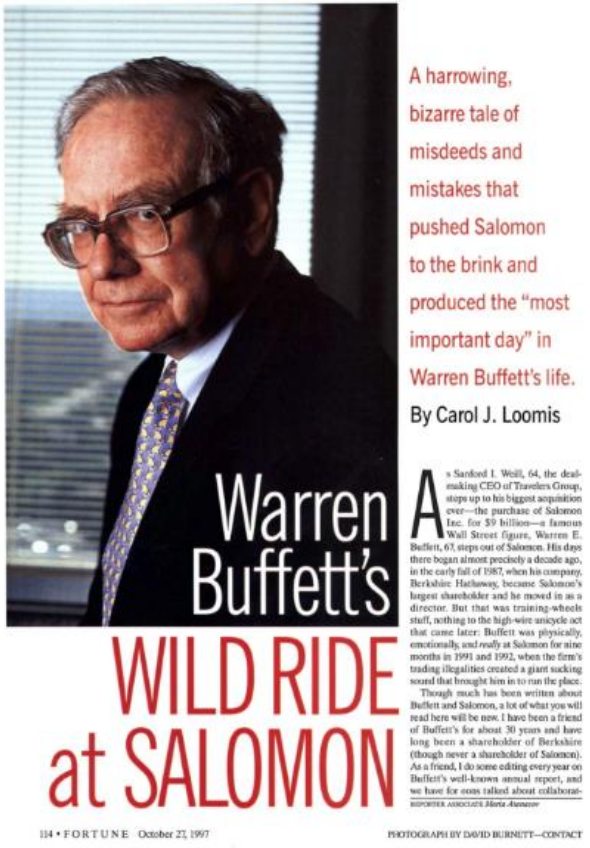
> In April 1991, Salomon bid for $3 billion of a $9 billion five-year note auction, being awarded that full allotment plus an overbid on a customer account which was not again authorized (Mozer placed $2.5 billion in bids for a customer that claimed it only approved $1.5 billion, which placed $600 million into Salomon's account and thus more than 35%). But it was the May 22, 1991, auction that went not just too far, causing more than a little consternation and attention. All told, Salomon placed bids for its accounts and those of customers, plus an undisclosed existing long position, for more than 100% of available two-year notes. Further, these bids were highly aggressive, priced a full 2 bps through the when-issued price.

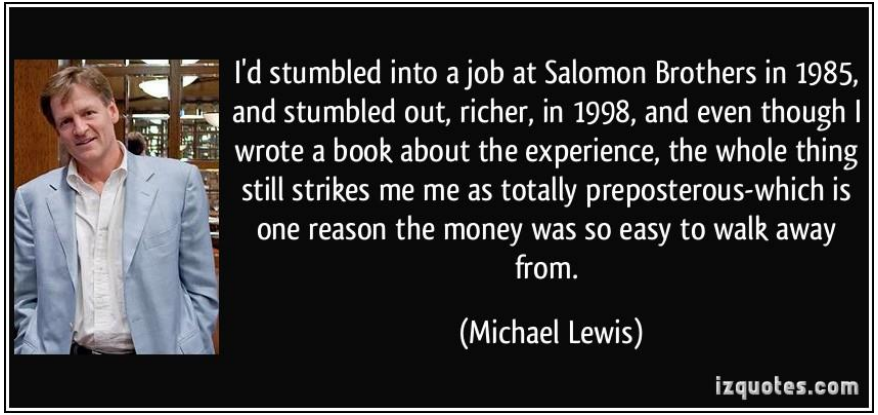


Jeffrey P. Snider
July 10, 2015

The Crony Pretense Behind Warren Buffet's Banking Buys

Alhambra Investments

> Investigations are continuing, but findings so far indicate that the crisis escalated far out of proportion to the money involved. **Mozer's inept little scam** had netted the firm only a pittance, between $3.3 million and $4.6 million, and cost taxpayers nothing in interest. Contrasted with the billion-dollar looting of the stock market by convicted felons Ivan F. Boesky and Michael Milken, Mozer's crime **was small potatoes**--but it was enough to bring his swaggering company to the brink of ruin.



LA Times
February 16, 1992
Taming The Bond Buccaneers at Salomon Brothers

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> The world's currency markets, it seems, are no longer governed by central bankers in Washington and Bonn, but by traders and investors in Tokyo, London and New York, as the chaos in the currency markets this past week has shown…
> As of February 1990, the daily worldwide volume of currency trading had reached $650 billion, more than the market value of the 10 largest American companies, according to the most recent figures from the Bank for International Settlements in Basel, Switzerland. Improved technology, new financial instruments and the growth of international investment have combined to make the currency markets ever more fluid.

NY Times

Sept. 17, 1992

Agility Counts in Currency Chaos

> In former times, powerful central banks could usually frustrate speculators. They did so by simply buying massive amounts of the weaker currency and flooding the market with the stronger currency. But times are changing. While the central banks can mobilize tens of billions of dollars, trading in foreign currency markets now runs to a trillion dollars a day.

Forbes

Nov. 9, 1992

How the Market Overwhelmed The Central Banks

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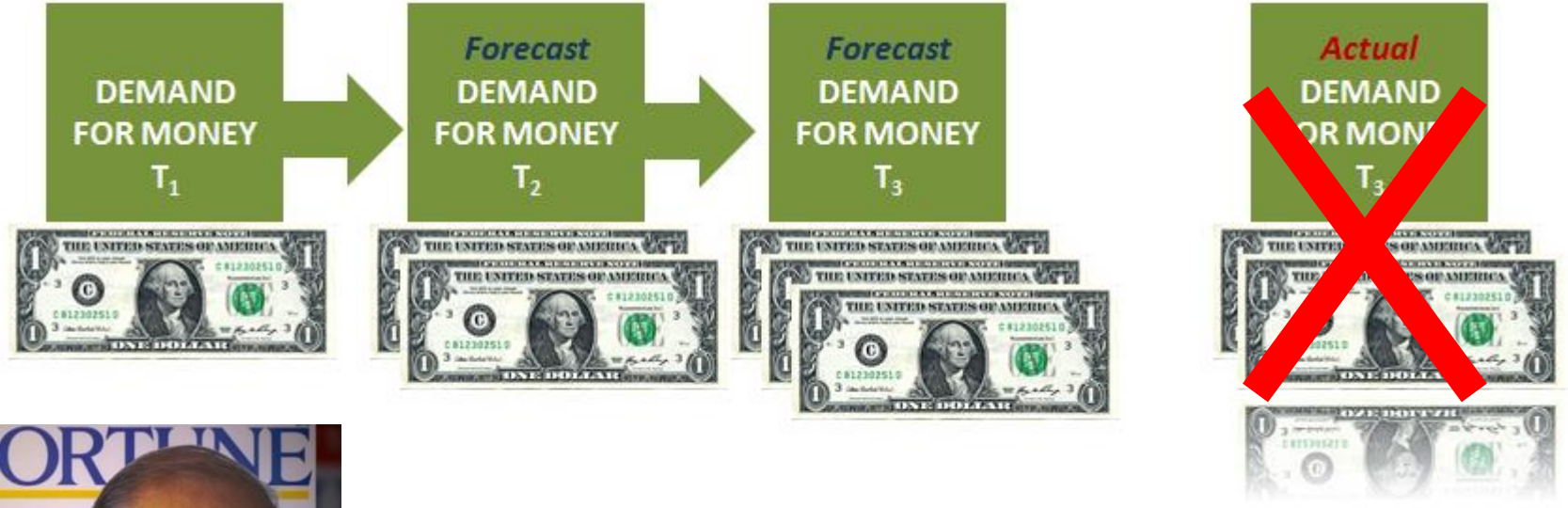

Forget money, money demand, or whatever it might be in the future. Alan Greenspan's Fed would control every single bit of it by targeting one single interest rate. Like something out of a Tolkien novel, it was one rate to control it all.

The **federal funds** rate.

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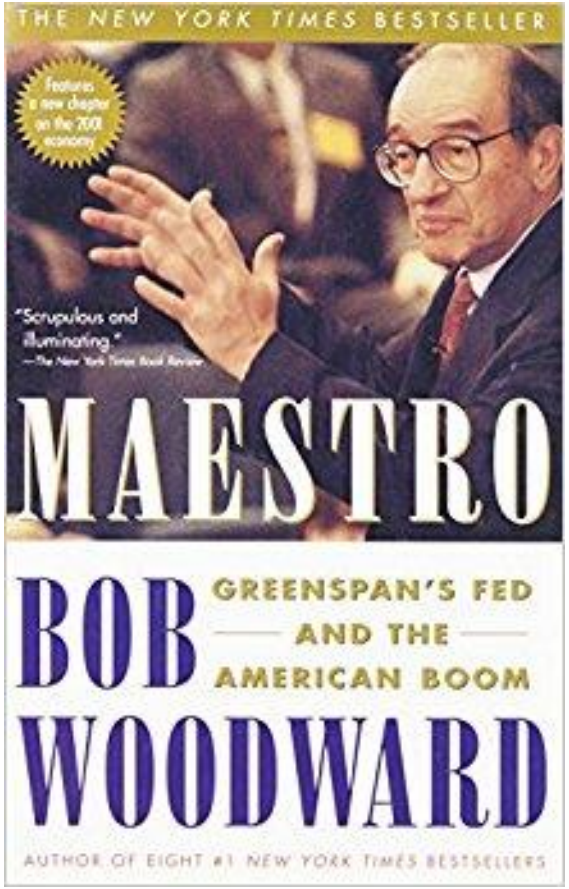

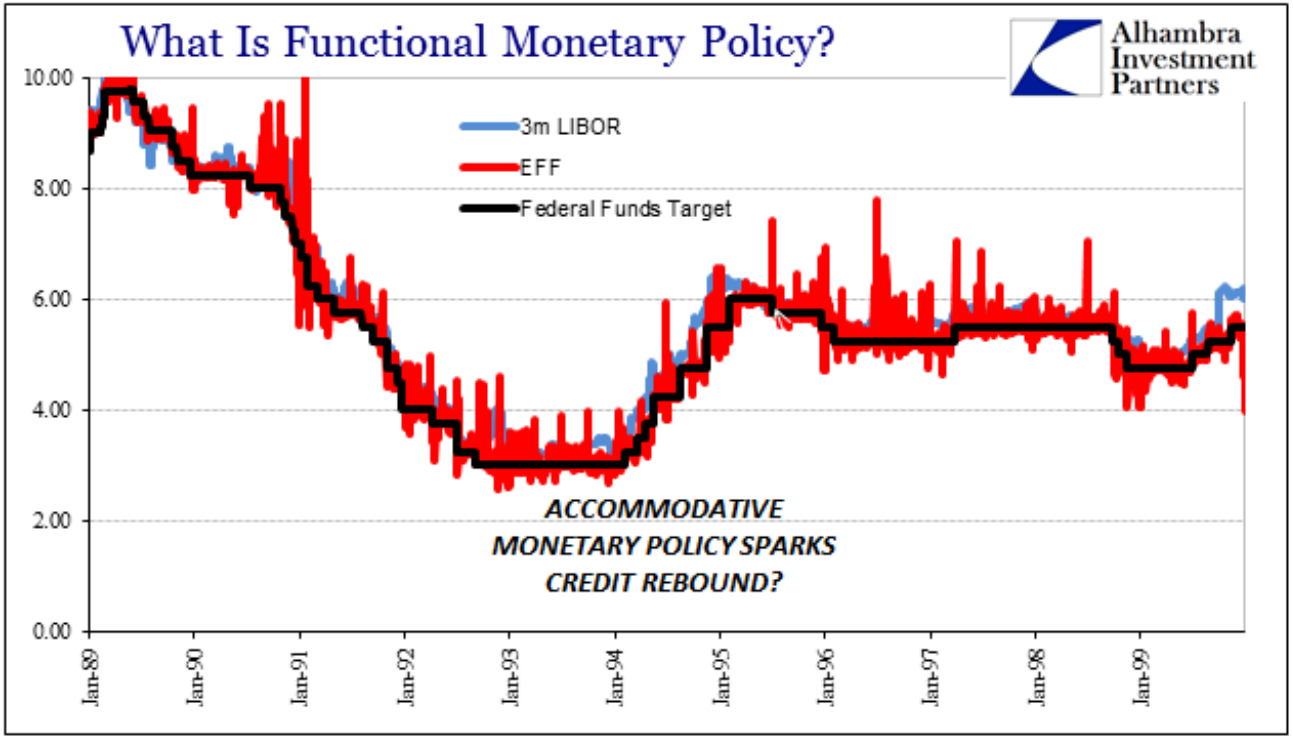

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That's what we were told, and what today many (most?) people still believe.

How Did/Does It Really Work?

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According To Basel Accords

Assuming capital sufficiency of 8%:

	$1 billion Mortgages	$1 billion A-rated MBS tranche	$1 billion AAA-rated Super Senior MBS	
	$1bln x 100% =	$1bln x 50% =	$1bln x 20% =	
RWA	$ 1,000,000,000	$ 500,000,000	$ 200,000,000	$ -
x 8% Capital				
Reserve "Charge"	$80 million	$40 million	$20 million	$0 million

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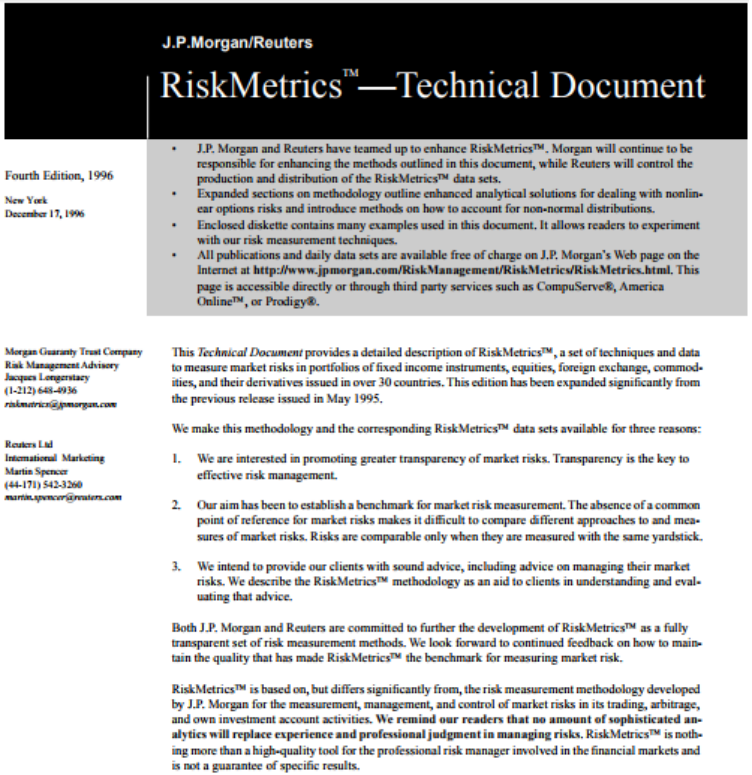
> The consequences were and still are enormous. For example, in the initial framework residential mortgages were assigned to the 50% bucket. However, "claims or guarantees" provided by "qualifying" banks and entities (primarily, at the start, the GSE's) would be assigned instead to the 20% bucket. Thus, a bank for a given amount of statutorily-defined "capital" could hold two and a half times more assets if they could "somehow" define those assets by the "claims and guarantees" of "qualifying" counterparties.

Jeffrey P. Snider
Sept. 30, 2016

Banking Really Hasn't Changed Much Since the Panic

Alhambra Investments

> The growth and adoption of VaR in the 1980's was more limited, but by the 1990's as the shadow system sprung up and took over out of the ashes of the S&L crisis, VaR became common across every major firm in some form or another. A big break came in 1995, coincident to the rise in speculative eurodollars (i.e., the birth of the serial bubbles) when JP Morgan for the first time allowed total public access to its extensive (and quite impressive) database on variances and covariances for a far-reaching and meticulous set of securities and asset classes. Morgan called it RiskMetrics, allowing software to be developed and marketed on that basis.



J.P.Morgan/Reuters

RiskMetrics™—Technical Document

Fourth Edition, 1996

New York
December 17, 1996

- J.P. Morgan and Reuters have teamed up to enhance RiskMetrics™. Morgan will continue to be responsible for enhancing the methods outlined in this document, while Reuters will control the production and distribution of the RiskMetrics™ data sets.
- Expanded sections on methodology outline enhanced analytical solutions for dealing with nonlinear options risks and introduce methods on how to account for non-normal distributions.
- Enclosed diskette contains many examples used in this document. It allows readers to experiment with our risk measurement techniques.
- All publications and daily data sets are available free of charge on J.P. Morgan's Web page on the Internet at **http://www.jpmorgan.com/RiskManagement/RiskMetrics/RiskMetrics.html**. This page is accessible directly or through third party services such as CompuServe®, America Online™, or Prodigy®.

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This *Technical Document* provides a detailed description of RiskMetrics™, a set of techniques and data to measure market risks in portfolios of fixed income instruments, equities, foreign exchange, commodities, and their derivatives issued in over 30 countries. This edition has been expanded significantly from the previous release issued in May 1995.

We make this methodology and the corresponding RiskMetrics™ data sets available for three reasons:

1. We are interested in promoting greater transparency of market risks. Transparency is the key to effective risk management.
2. Our aim has been to establish a benchmark for market risk measurement. The absence of a common point of reference for market risks makes it difficult to compare different approaches to and measures of market risks. Risks are comparable only when they are measured with the same yardstick.
3. We intend to provide our clients with sound advice, including advice on managing their market risks. We describe the RiskMetrics™ methodology as an aid to clients in understanding and evaluating that advice.

Both J.P. Morgan and Reuters are committed to further the development of RiskMetrics™ as a fully transparent set of risk measurement methods. We look forward to continued feedback on how to maintain the quality that has made RiskMetrics™ the benchmark for measuring market risk.

RiskMetrics™ is based on, but differs significantly from, the risk measurement methodology developed by J.P. Morgan for the measurement, management, and control of market risks in its trading, arbitrage, and own investment account activities. **We remind our readers that no amount of sophisticated analytics will replace experience and professional judgment in managing risks.** RiskMetrics™ is nothing more than a high-quality tool for the professional risk manager involved in the financial markets and is not a guarantee of specific results.

Jeffrey P. Snider

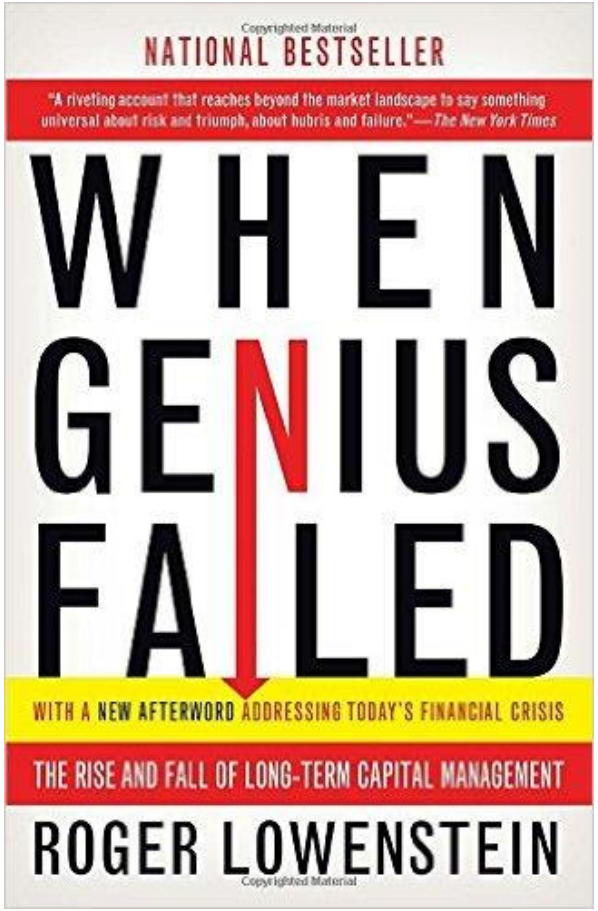
June 19, 2015

Americans Are Sheltered And Wholly Unaware

Alhambra Investments

> CHAIRMAN GREENSPAN. Somebody mentioned to me that Bankers Trust had an August balance sheet for LTCM. Is that true?
>
> VICE CHAIRMAN MCDONOUGH. Yes, but the balance sheet is a relatively small piece of the whole action because so much of the latter is off-balance-sheet.

FOMC
September 1998



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BASIC INTERBANK FUNCTION
FIGURE 1-1

BANK A				
Assets		Liabilities		
Reserves	10	Deposits	100	
Loans	50			
Due from Bank B	40			
Securities	10	Capital	10	10x1

BANK B				
Assets		Liabilities		
Reserves	50	Deposits	100	
Loans	90	Due to Bank A	40	
Securities	10	Capital	10	10x1

SYTEMIC LEVERAGE (BANK A + BANK B)

(180 Loans + 20 Securities) / 20 Capital

10x1

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*
FIGURE 1-2

Bucket	Add'l Face Amt.	Risk Weight	RWA
UST	40	x 0%	0
AA MBS	40	x 20%	8
Qual. Res Mtgs	40	x 50%	20
Mortgages	40	x 100%	40

BANK B

Assets			Liabilities		
Reserves	-40	10	Deposits		100
Loans		90	Due to Bank A		40
←	+40				
Securities		10	Capital	Leverage 14x1	10

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*
FIGURE 1-2

Bucket	Add'l Face Amt.	Risk Weight	RWA
UST	40	x 0%	0
AA MBS	40	x 20%	8
Qual. Res Mtgs	40	x 50%	20
Mortgages	40	x 100%	40

BANK B

Assets			Liabilities		
Reserves	-40	10	Deposits		100
Loans		90	Due to Bank A		40
←	+40				
Securities		10	Capital	Leverage 14x1	10

CAPITAL BASE or TIER 1 RATIO

10 Capital / (90+10+40) RWA

7.14%

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*
FIGURE 1-2

Bucket	Add'l Face Amt.	Risk Weight	RWA
UST	40	x 0%	0
AA MBS	40	x 20%	8
Qual. Res Mtgs	40	x 50%	20
Mortgages	40	x 100%	40

BANK B

Assets			Liabilities		
Reserves	-40	10	Deposits		100
Loans		90	Due to Bank A		40
←	+40				
Securities		10	Capital	Leverage 14x1	10

CAPITAL BASE or TIER 1 RATIO

10 Capital / (90+10+20) RWA

8.33%

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*

FIGURE 1-2

Bucket	Add'l Face Amt.	Risk Weight	RWA
UST	40	x 0%	0
AA MBS	40	x 20%	8
Qual. Res Mtgs	40	x 50%	20
Mortgages	40	x 100%	40

BANK B

Assets			Liabilities		
Reserves	-40	10	Deposits		100
Loans		90	Due to Bank A		40
←	+40				
Securities		10	Capital	Leverage 14x1	10

CAPITAL BASE or TIER 1 RATIO

10 Capital / (90+10+8) RWA

9.25%

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*

FIGURE 1-2

Bucket	Add'l Face Amt.	Risk Weight	RWA
UST	40	x 0%	0
AA MBS	40	x 20%	8
Qual. Res Mtgs	40	x 50%	20
Mortgages	40	x 100%	40

BANK B

Assets			Liabilities		
Reserves	-40	10	Deposits		100
Loans		90	Due to Bank A		40
←	+40				
Securities		10	Capital	Leverage 14x1	10

CAPITAL BASE or TIER 1 RATIO

10 Capital / (90+10+0) RWA

10.0%

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*
FIGURE 1-3

BANK A

Assets		Liabilities	
Reserves	10	Deposits	100
Loans	50	Unrealized Loss CDS	0
Due from Bank B	40		
Securities	10	Capital	10
Unrealized Gain CDS	1		

10x1

Off Balance Sheet

Gross Notional CDS	40

BANK B

Assets			Liabilities	
Reserves	-40	10	Deposits	100
Loans		90	Due to Bank A	40
	+40			
Securities		10	Capital	10

Leverage 14x1

Bucket	Add'l Face Amt.	Risk Weight	RWA
AA MBS	40	x 20%	8
Qual. Res Mtgs	40	x 50%	20
Mortgages	40	x 100%	40

SYTEMIC LEVERAGE (BANK A + BANK B)

(241 Loans + Securities + Other) / 20 Capital

12x1

CAPITAL BASE or TIER 1 RATIO

10 Capital / 108 RWA

9.25%

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*
FIGURE 1-3

BANK A

Assets		Liabilities	
Reserves	10	Deposits	100
Loans	50	Unrealized Loss CDS	0
Due from Bank B	80	Due to Bank C	40
Securities	10	Capital	10
Unrealized Gain CDS	2		

14x1

Off Balance Sheet

Gross Notional CDS	80

BANK B

Assets			Liabilities	
Reserves	-80	10	Deposits	100
Loans		90	Due to Bank A	80
	+80			
Securities		10	Capital	10

Leverage 18x1

Bucket	Add'l Face Amt.	Risk Weight	RWA
AA MBS	80	x 20%	16
Qual. Res Mtgs	0	x 50%	0
Mortgages	0	x 100%	0

SYTEMIC LEVERAGE (BANK A + BANK B)

(322 Loans + Securities + Other) / 20 Capital

16x1

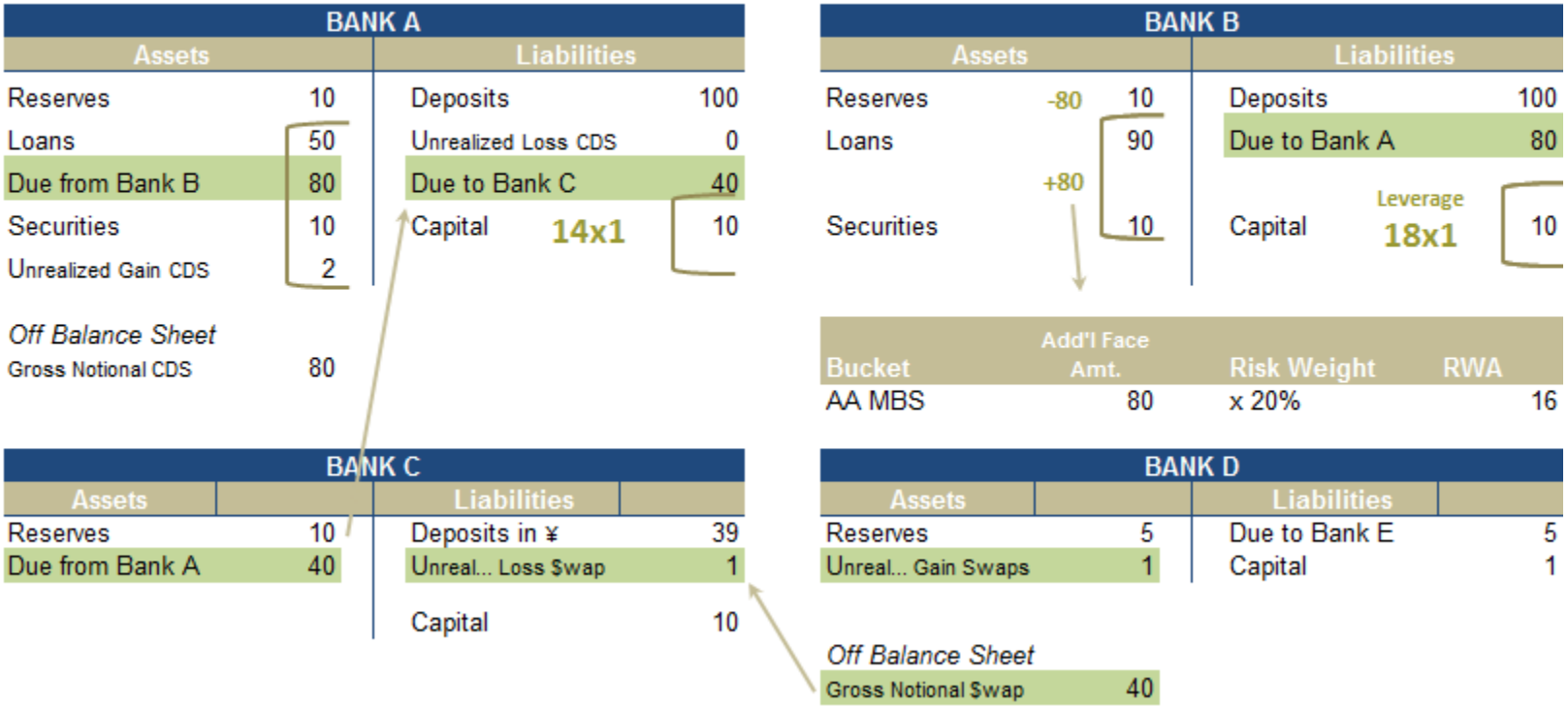
CAPITAL BASE or TIER 1 RATIO

10 Capital / 116 RWA

8.62%

Alhambra Investments

BASIC INTERBANK FUNCTION - *Basel 'Conjuring'*
FIGURE 1-4



Alhambra Investments

PRIMUS GUARANTY, Ltd

in thousands of $s

ASSETS	December 31, 2005	December 31, 2004
Cash and Equivalents	69,355	320,989
Available-for-sale Investments	560,147	161,101
Accrued Interest Receivable	5,127	1,381
Acrued Premiums on Credit Swaps	3,369	3,349
Premiums Receivable on Credit Swaps	92	197
Premiums Receivable on Fin'l Guarantees	300	800
Asset Management Fee Receivable	2	15
Prepaid Expenses	954	868
Unrealized Gain on Credit Swaps, at Fair Value	25,342	46,517
Fixed Assets, net	1,682	1,800
Internal Software Costs, less Accumulated Amortization of $7,744 in 2005 and $5,893 in 2004	3,311	4,297
Other Recievables	254	279
Debt Issuance Costs, net	3,147	1,125
	$ 673,082	$ 542,718

Off Balance Sheet

NOTES: A/O December 31, 2005, **$13.5 billion** gross notional CDS written on 535 single name entries across 40 industries and 25 countries.

LIABILITIES & EQUITY	December 31, 2005	December 31, 2004
Accounts Payable and Accrued Expenses	3,026	904
Compensation Payable	4,833	5,317
Brokerage Fees Payable	9	14
Taxes Payable	54	12
Interest Payable	404	364
Long-term Debt	200,000	75,000
Unrealized Loss on Credit Swaps, at Fair Value	3,521	259
Deferred Rent Payable	416	455
Deferred Fin'l Guarantee Premiums	401	806
Deferred Credit Swap Premiums	46	69
Total Liabilities	212,710	83,200
Stockholders' Equity:		
Common Stock, $0.08 par value, 62,500,000 shares authorized, 43,176,511 and 42,780,033 shares issued and outstanding at Dec 31, 2005 and 2004	3,691	3,535
Additional Paid-in-capital	265,729	264,860
Warrants	612	612
Accumulated Other Comprehensive Loss	(4,254)	-
Retained Earnings	96,073	91,990
Total Equity	361,851	360,997
Total Liabilities, Preferred Securities of Subsidiaries and Stockholder's Equity	$ 673,082	$ 542,718

Alhambra Investments

> The business was something like an insurance company, where the "guarantees" are all off the balance sheet. Primus only carried $200 billion in long-term debt, no short-term, which meant that those guarantees were potential fractional claims on about $630 billion in cash and investments (which were also at risk). Nowhere does that $13.5 billion appear (which ballooned to $24.3 billion by the time of the panic), yet counterparties were counting on those guarantees as if they were real.

AIP Research

July 7, 2015

More Important What Is Not There Than What Is

Alhambra Investments

> Approximately $379 billion of the $527 billion in notional exposure on AIGFP's super senior credit default swap portfolio as of December 31, 2007 **were written to facilitate regulatory capital relief for financial institutions primarily in Europe**.

AIG 2007 Annual Report
Management's Discussion and Analysis of Financial Condition and Results of Operation
Notes, Page 33

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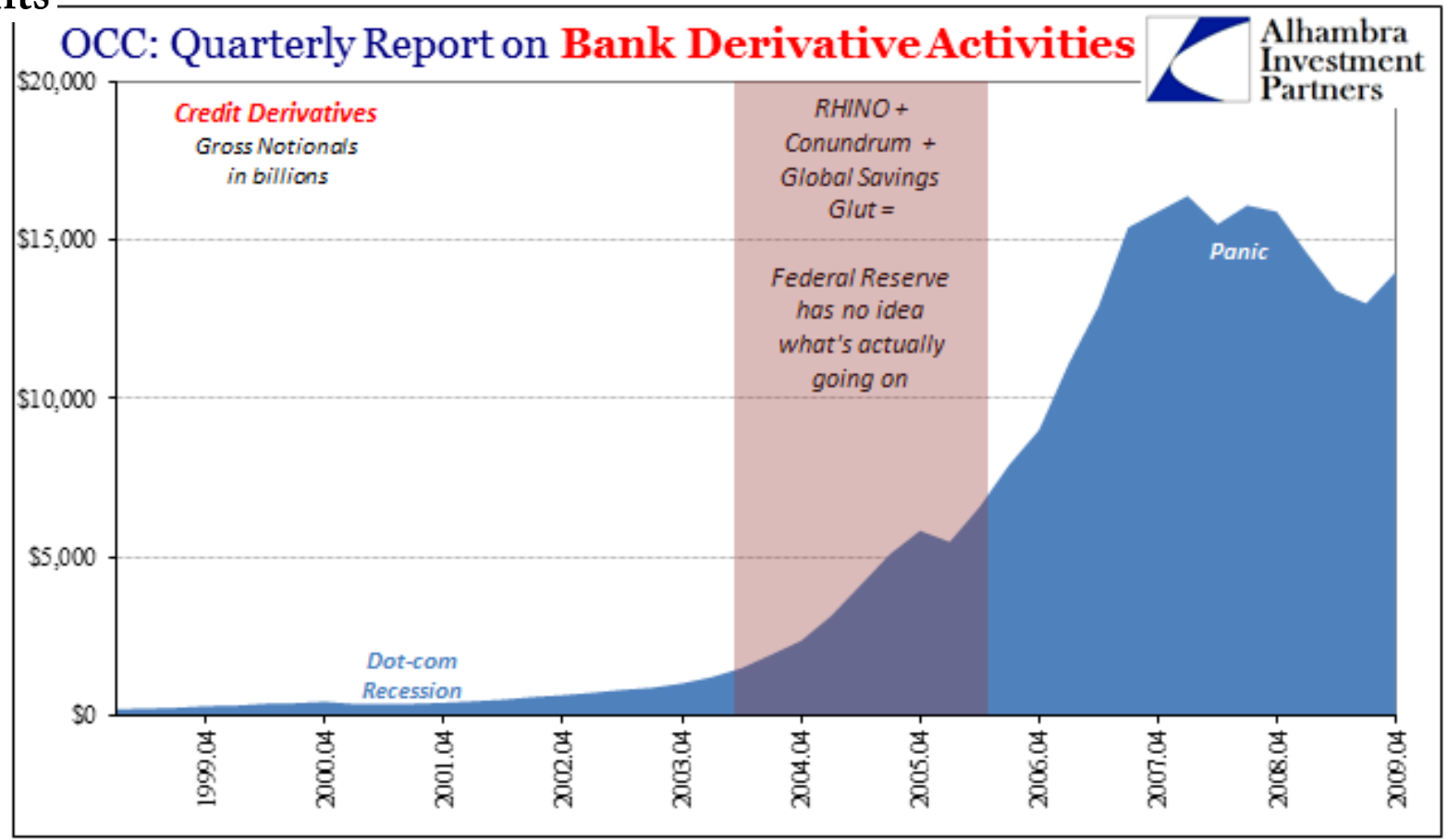
THE STRENGTH TO BE THERE.℠

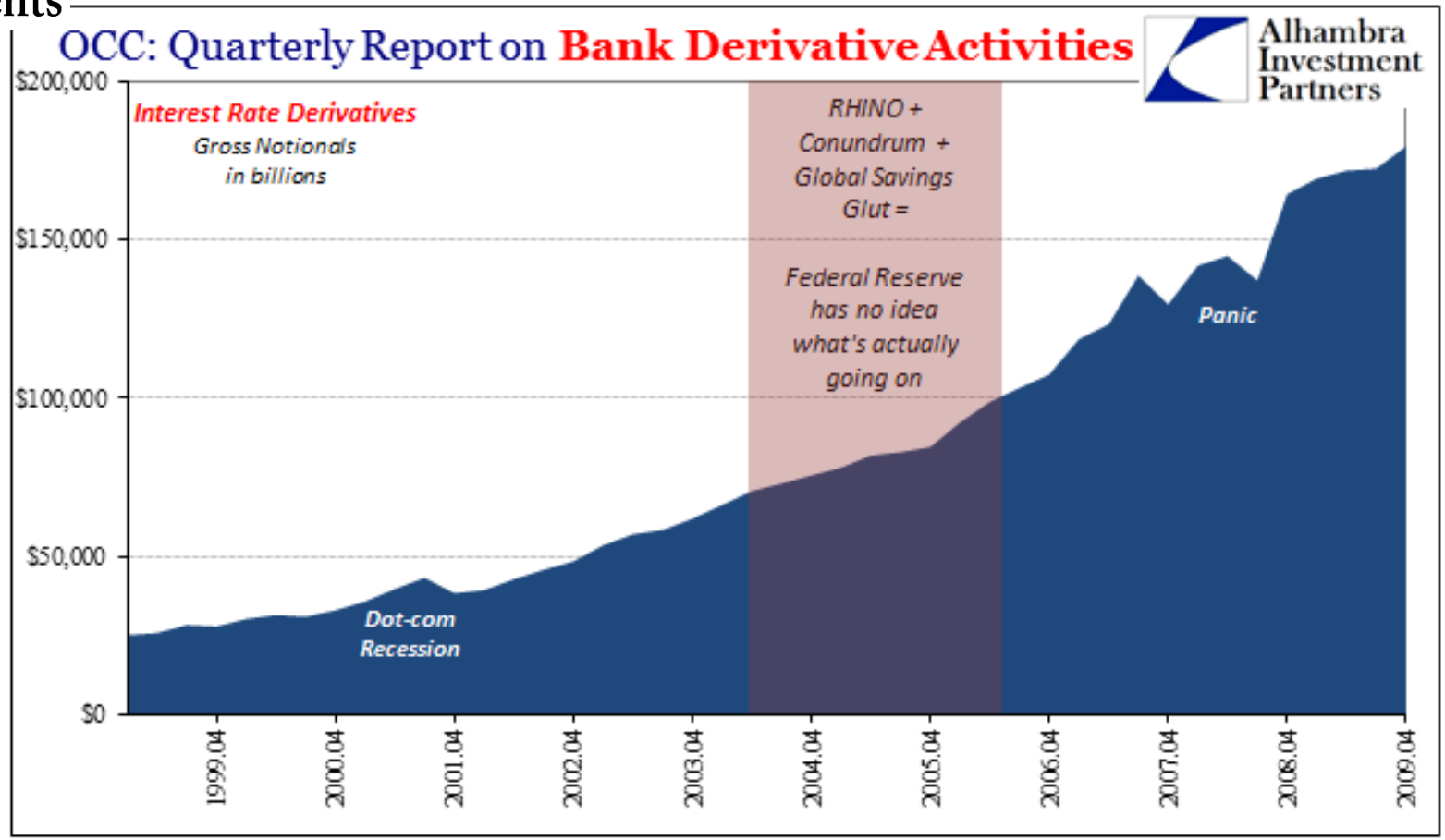
www.aig.com

> In the latter half of the 1990's when banks agitated for an end to Depression-era legislation, Gramm-Leach-Bliley was the result of wholesale intentions rather than how it was sold to the public. From what the industry said, and what was debated publicly in Congress, banks simply wanted to be able to offer their customers a one-stop shop for all financial products; to sell mutual funds and life insurance inside bank branches because people wanted to be able to get all their services in one place. It was the happy talk of synergy and lower costs to the public.
>
> As usual, the real motivation was nothing like that. Citigroup in 1998 practically dared Congress to act on repealing Glass-Steagall by purchasing Traveler's Insurance on a two-year compliance waiver from the Federal Reserve. Though I don't want to completely set aside Citi's profit motive of selling Traveler's insurance products directly to Citi's depositor base, in truth what Citi really sought was a greater blend in the whole bank's overall funding portfolio; to be more and more free from the vertical money multiplier to be able to purse avenues of horizontal balance sheet expansion. **Every other major bank followed suit because they all wanted the shadow bank model as the marginal avenue for expansion and all the far greater (eurodollar) profit opportunities that would open up as a result.**

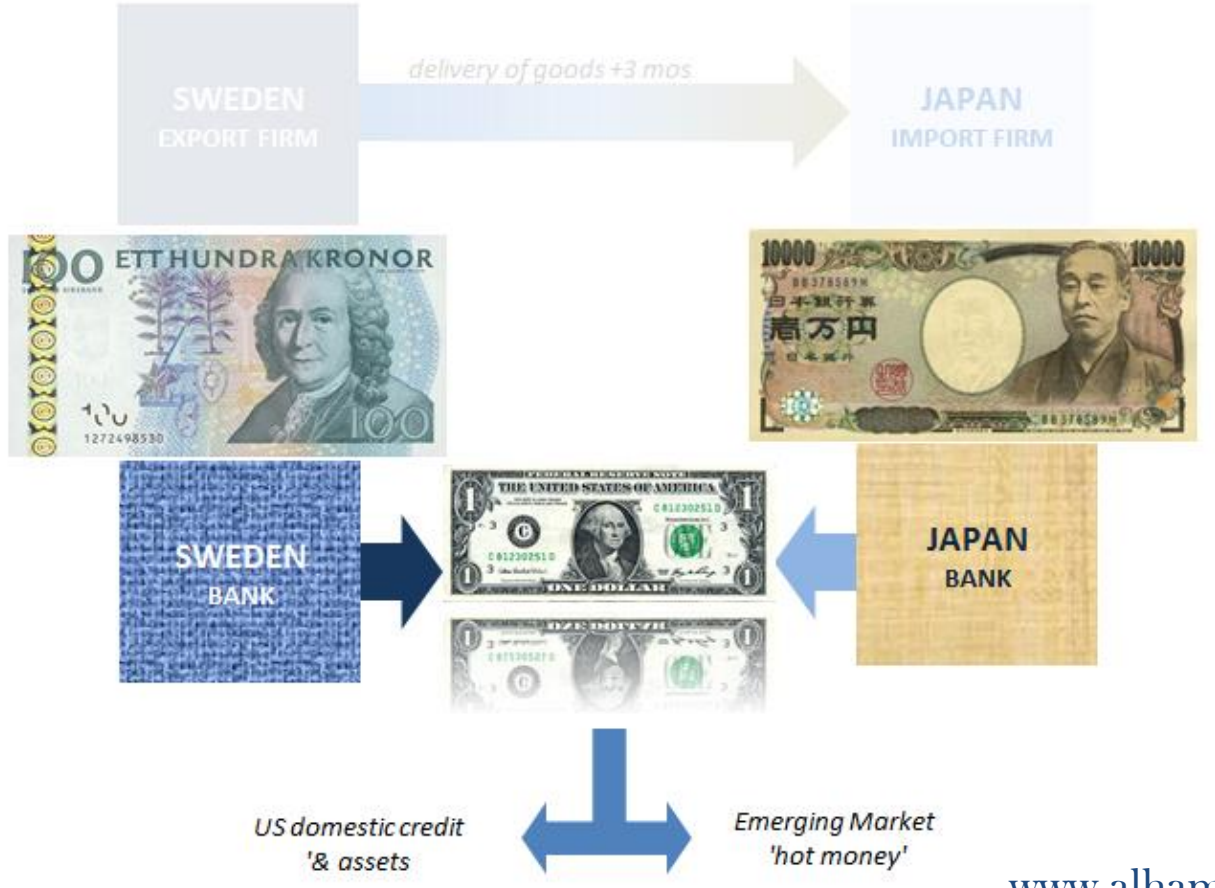
AIP Research
Nov. 25, 2016
A Brief History of Money

Alhambra Investments




OCC: Quarterly Report on Bank Derivative Activities
Alhambra Investment Partners
Interest Rate Derivatives
Gross Notionals in billions
RHINO + Conundrum + Global Savings Glut =
Federal Reserve has no idea what's actually going on
Panic
Dot-com Recession
$200,000
$150,000
$100,000
$50,000
$0
1999.04
2000.04
2001.04
2002.04
2003.04
2004.04
2005.04
2006.04
2007.04
2008.04
2009.04

Alhambra Investments



> The origins of the US dollar shortage during the crisis are **linked to the expansion since 2000 in banks' international balance sheets. The outstanding stock of banks' foreign claims grew from $10 trillion at the beginning of 2000 to $34 trillion by end-2007**, a significant expansion even when scaled by global economic activity. The year-on-year growth in foreign claims approached 30% by mid-2007, up from around 10% in 2001. This acceleration took place during a period of financial innovation, which included the emergence of structured finance, the spread of "universal banking", which combines commercial and investment banking and proprietary trading activities, and significant growth in the hedge fund industry to which banks offer prime brokerage and other services.

BIS Working Paper
October 2009

The US Dollar Shortage In Global Banking

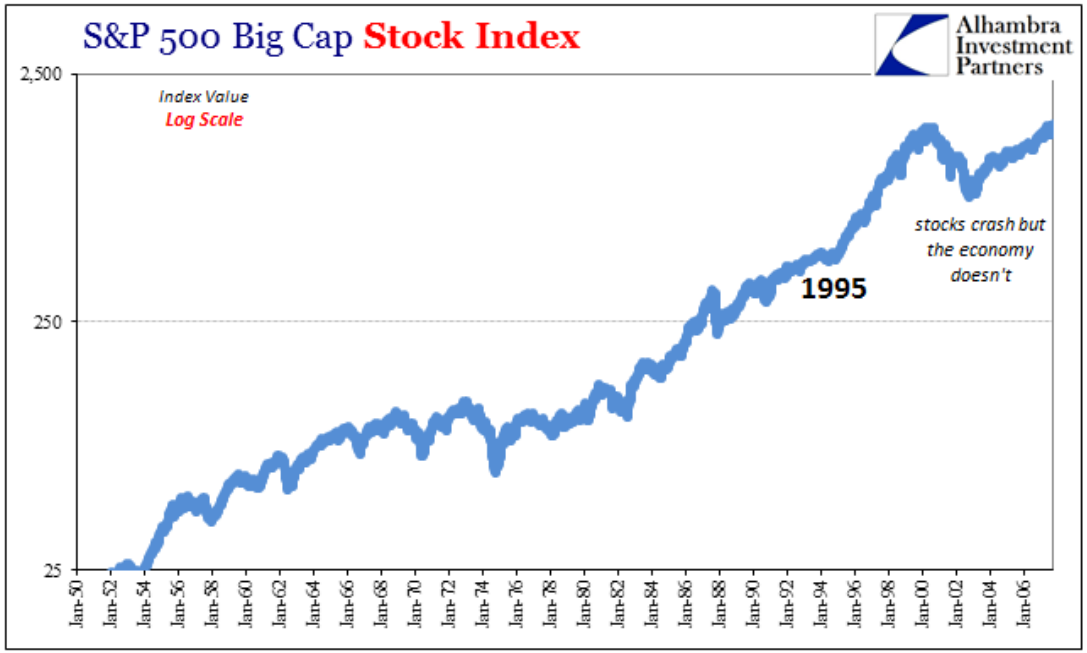
Alhambra Investments

> Or, paraphrasing Dickens, a bank that has no dollars, gets another bank that has no dollars, to guarantee that everyone has dollars.

Jeffrey P. Snider
April 1, 2016

Central Bankers Prefer Wreckage To Recovery

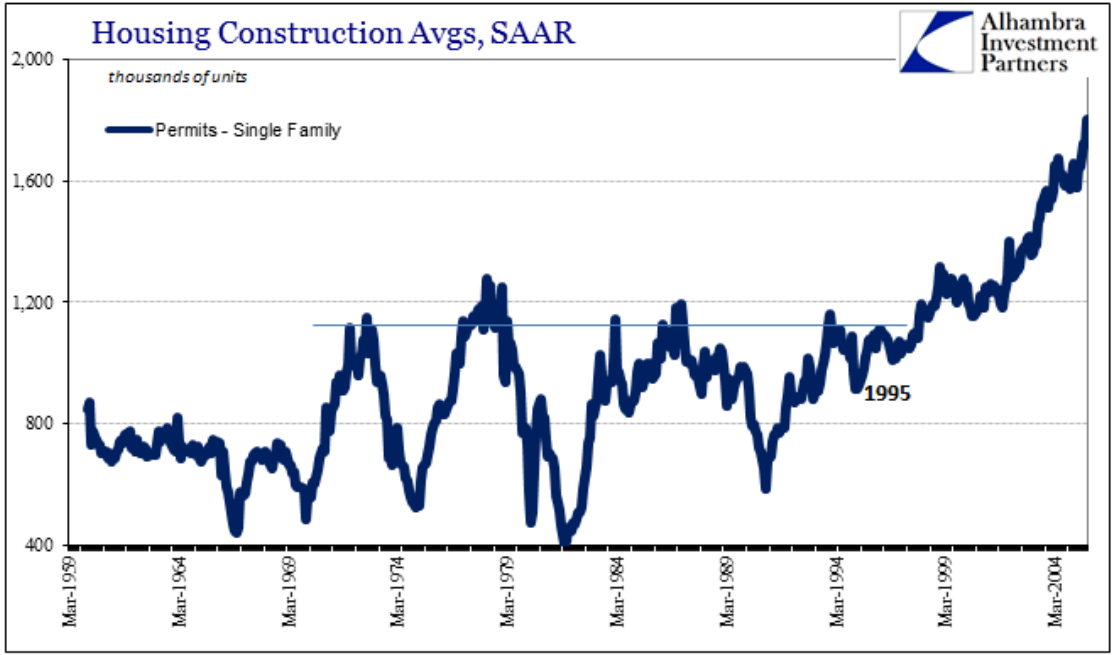
Alhambra Investments



TRADED

BANK LIABILITIES

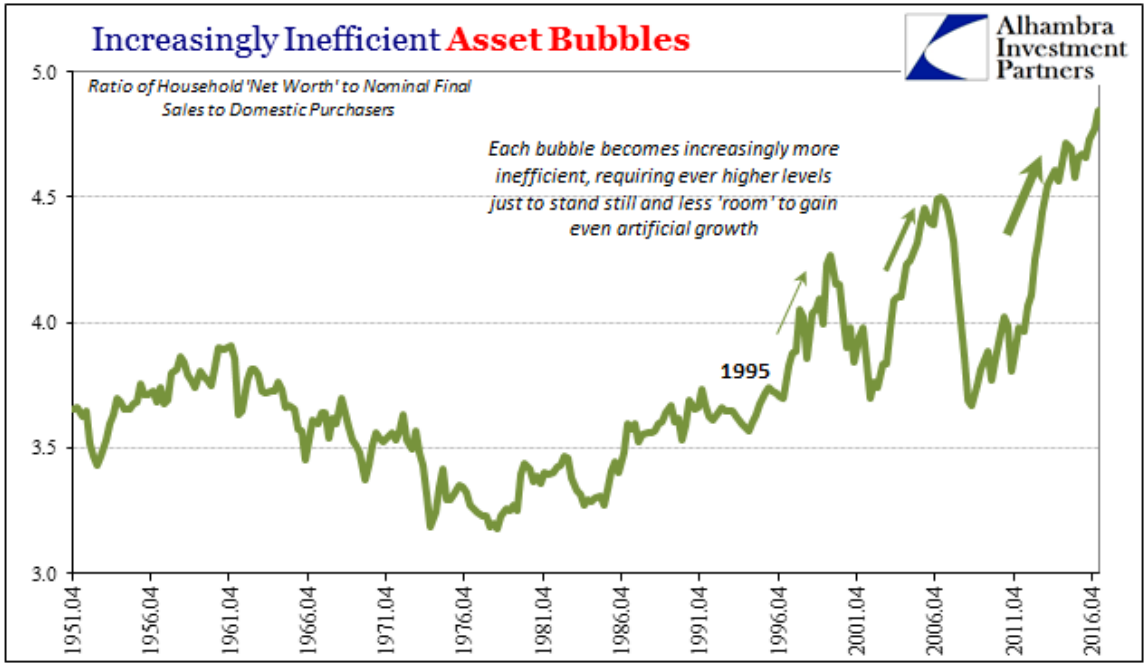
Alhambra Investments



TRADED

BANK LIABILITIES

Alhambra Investments



TRADED

BANK LIABILITIES

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“…chasing a phantom.

AIP Research
January 21, 2015
What Is A Dollar?

Alhambra Investments

How Dollar becomes 'Dollar'

Qualitative Expansion before Quantitative Expansion

Missing Money for the 21st Century

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How Dollar becomes 'Dollar'

Eurodollar = wholesale + offshore

Liquidity = non-traditional traded liabilities, including those (math as money) intended to manage balance sheet assets, leverage, and efficiency

Alhambra Investments

Eurodollar University

Concluded

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