# ALTER-EUROPA

**Euro Area (19) - Statistical Databases: 31/12/2010 and 2016 Update: 30/09/2017**

# Should we prohibit the access of all Financial Markets to High Finance (Euro Area)? Part IV: The Forex Exchange and Derivatives Market in the Euro Area.

## REMINDER.

In a first article, entitled: ***"Part I: closing of the Financial Markets at the end of 2016",*** we had estimated all the financial markets at more than 24,000 billion euros for the Euro Zone alone.

In a second article, entitled: ***"Part II: the stock market at the end of 2016",*** we demonstrated that the stock market has become an almost useless financial market: while masses of several hundred billion euros are brewed every day in the euro zone to constantly "stir" the stock of existing shares, new shares were issued for less than €560 billion between the end of 2007 and the end of 2016; and to top it all off, It was Haute Finance that issued two-thirds of these new shares (€364 billion).

In a third article, entitled: ***"Part III: the Other Securities Market at the end of 2016",*** we noted that this market, which no one ever talks about, represented almost three times (€17,548 billion) all the shares listed on the euro zone stock exchanges (€6,567 billion). Same observation in these analyses as in the previous ones: High Finance had issued 36.2% of outstanding securities against 8.2% for companies (corporations) and 55.6% for the State and Collectivities.

Clearly, without these analyses of the financial markets, and especially without an anticipation of the decisions to be taken in this area to avoid the fatal pirouette, Europe and the entire Western world are running to their loss. **Against the backdrop of all this fight that we are waging in "deafening silence", there is also a message of hope: we have all the necessary tools and knowledge, not only to get Europe out of these deadly cataracts but, above all, to make it one of the most attractive regions in the world.**

## THE FOREIGN EXCHANGE MARKET AT THE END OF 2016.

In this fourth article, entitled: ***"Part IV: The Forex Market and FOREX Derivatives",*** we will talk about the currency practices that are likely to "shake" the European Central Bank in the coming months.

We will also determine the threshold of resistance of the euro because it is not enough to decree that the euro is a bad currency (which is the case) to program its weakening against other currencies, all as bad as each other, and even less to anticipate its disappearance...

It is indeed necessary to "get into the mechanics" to understand the logical sequences that risk leading to the break-up of the euro zone.

## A MARKET TECHNICALLY NARROWED SINCE THE EURO.

Before the introduction of the euro on 1 January 1999 (for High Finance but only on 1 January 2002 for the general public), the Foreign Exchange Market was the most active financial market in Western countries, especially within the Zone, and especially since the first oil crisis (1973-1975).

Explanation: Technically, all spot quotes of European currencies (between them) required two mandatory passages by the dollar.

Since the disappearance of these transactions of buying or selling in cash Of European currencies, grouped today under the banner of the euro, the financial center of New York has lost all this traffic of "European" pivotal dollars representing several hundred billion dollars a day.

If a Dutchman wanted to buy 10,000,000 Belgian francs, he had to:

1. Sell 250,000 dollars against 10,000,000 Belgian francs (retained price: US$ = 40 FB) in Brussels 2.

Buy 250,000 dollars against 550,000 guilders (retained price US$=2.2 NLG)

3. For forward transactions, the Dutchman also had to borrow 250,000 $US (see below). In other words, American banks recorded between two to four flows of 250,000 dollars before 2002, whereas the same transaction between a

Dutchman and a Belgian is now in euros, without going through the dollar.



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Forward hedging operations (buying or selling European currencies) were even more complex: it was necessary (in addition to the passage through the dollar) through the markets for loans and interbank borrowings, and these were limited at the time by prudential rules specific to each bank (authorized credit lines).

This organization of the foreign exchange market was linked to the fact that the dollar was the preferred pivot currency of traders because it is quoted directly on all markets in the world.

The slightest mistake or delay could lead to a significant cash loss for the bank and its foreign exchange dealers. **This organization of the foreign exchange market was linked to the fact that the dollar was the preferred pivot currency of traders because it is quoted directly on all markets in the world.**

At the time, the pound sterling could still play this role of pivotal currency but the MARSCHALL PLAN (EUROPEAN RECOVERY PROGRAM) had implanted the dollar in the minds, in the hearts (the dollar, currency of the liberators), and in the accounts of High Finance (which had fled Europe long before the war).

From the years 1965-1970, a new market developed in London with exponential growth: the "Eurodollar Market". For americans, this market for "dollars held by European High Finance in American accounts" was both an asset (the dollar-king) and a risk (the creature risked escaping its creator).

And, to make matters worse, American donations and loans had become assets on the balance sheets of European High Finance, and therefore debts for Americans.

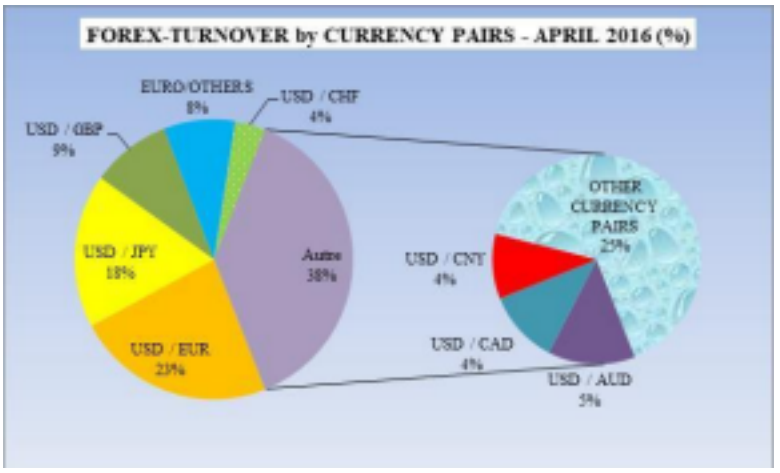
Since 1999 with the creation of the euro, the CITY has once again rushed into the breach of opportunities not to be missed by creating many Clearing Houses essential to the security of these OTC markets (Over The Counter) or "over-the-counter markets" in euros: for foreign exchange, debt securities, raw materials, and later for multiple derivatives. IT SHOULD BE NOTED THAT THESE PRUDENTIAL RULES HAVE COMPLETELY DISAPPEARED TODAY: THE RISK HAS THEREFORE BECOME GLOBAL AND MORE IMPORTANT.

Indeed, risk is drowned everywhere: in all financial products; in multiple "financial vehicles"; in more than a hundred tax havens (official and unofficial); on the balance sheets and in the "off-balance sheet" of banks; in state portage structures; and even in the ECB's accounts.

We will devote particular analyses to this global risk, which must be brought to the **"great liabilities" of the euro**, the ECB and, of course, the political "irresponsible", right and left, who have favoured such a development. On the other hand, among many other advantages, the creation of the euro has simplified all these operations and, ultimately, it has greatly reduced the financial costs imposed on multinationals: foreign exchange fees, costs of postponements or deports in the long term, management costs related to the complexity of the system, costs related to the volatility of European currencies.

**Despite this "natural decline" in the Eurozone, the dollar remains the most used currency in the couples formed.**

**TOTAL NET-NET BASIS : 2016 = 5.067 MD$ - TOTAL NET-NET BASIS : 2001 = 1.239 MD$**




Dollar against other currencies = 87.6%;

Euro against other currencies (non-dollar): 8.3%.

Yen against other currencies (non-dollar and non-euro): 1.9%

Other (including CHY) against various regional currencies (non-dollar, non-euro and non-yen): 2.2%



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**ACTIVITY OF THE FOREIGN EXCHANGE MARKET: VOLUME OF TRADE IN APRIL 2016.**

The BANK FOR INTERNATIONAL SETTLEMENTS (BIS-BIS) is doing a remarkable job of quantifying the various markets and derivatives in the world by asking several stakeholders to declare OTC (Over the Counter) operations, or "over-the-counter".

Note: the Foreign Exchange Market is an OTC Market and, in addition, it serves as a basis for very large Derivatives operations as we will see.

Its statistics are now quarterly and semi-annual, but the triennial version (which we comment on) is the most complete. Registrants are "dealers" or "currency dealers" (banks), brokers, Financial-Non-Monetary Institutions, central banks and even non-financial clients.

This operation is much more complex than the simple statement of transactions recorded in the "back rooms" because the duplicates are numerous and the financial instruments are very different.

This is why the BIS introduces two evaluations: "net-gross basis" **()**[1] and "net-net basis" **():**[2] concepts that we will explain. In other words, the BIS collected for the month of April 2016 a set of declarations that it has reprocessed with great professionalism.

For now, we are content to give an idea of the masses of money brewed DAILY in the world on this **FOREIGN EXCHANGE or FOREX MARKET.**

On the following chart, it appears that the **AVERAGE VOLUME TRADED ON FOREX PER DAY** has continued to climb: from $1.7 trillion in April 2001 to $6.686 billion in April 2013 and $6.514 billion in April 2016.

**IN OTHER WORDS, CURRENCIES ARE BEING BREWED MORE AND MORE, AND FASTER AND FASTER: THIS IS ALREADY A BIG DRIFT IN ITSELF.**


So, if we extrapolate over a year this survey (punctual and incomplete survey), we obtain a "turnover" (exchanges but not turnover) equivalent to: 6.5 T$ US (April 2016) X 250 working days = 1,625 TUS$ or 1,625,000,000,000,000,000 dollars PER DAY.

1. Knowing that global GDP is estimated at around 75 TUS$, this means that the Foreign Exchange Market "stirs" global GDP at least 21 times a year.
2. Almost twice a month (if working days are taken into account).

On the following graph, we see (right scale) the two biggest speakers:

1. United Kingdom: $2,406 billion in April 2016;
2. United States: $1.272 billion.

The Eurozone comes in third place: €554 billion.

1. Adjusted for local inter-dealer double-counting (ie "net-gross" basis)[1]
2. Adjusted for local and cross-border inter-dealer double-counting (ie "net-net" basis). [2]



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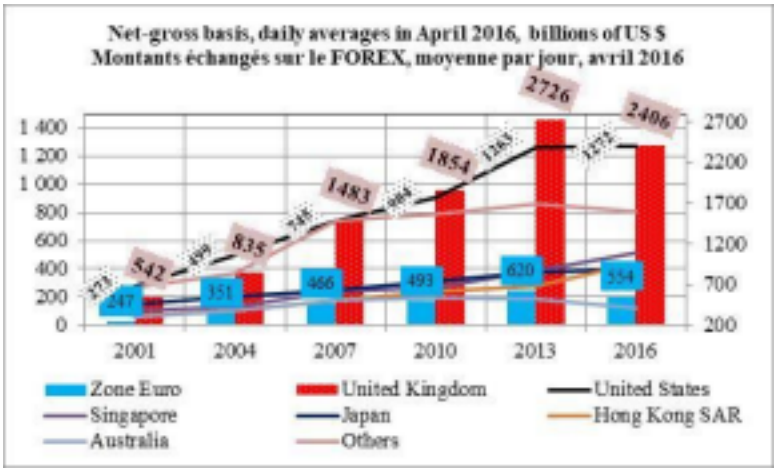
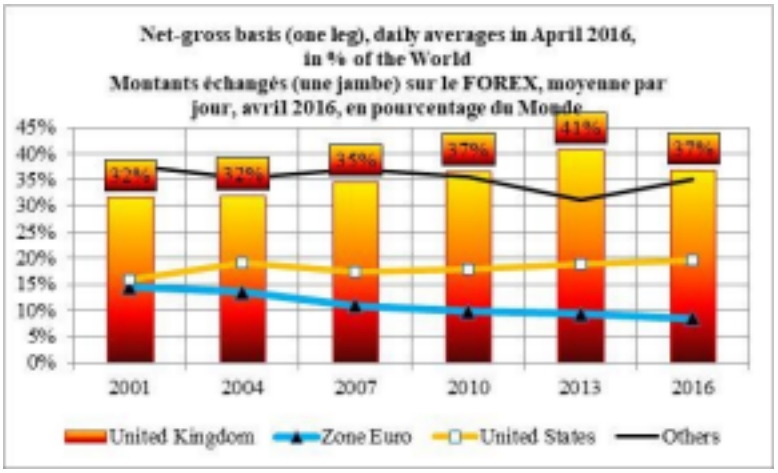
**Net-gross basis : total daily averages : 6.514 BUS$ (April 2016)**




Between them (United Kingdom, United States and Eurozone), they accounted for ±65% of trade.

**Net-gross basis : total daily averages : 6.514 BUS$ (April 2016)**




**The Net-Gross Basis version** corresponds to the LOCATIONAL BANKING STATISTICS, or territorial statistics: all banks declare in their country of residence their claims and commitments vis-à-vis their contractors in 200 countries. Subsidiaries of international banks are in this perspective "declarants" like the others.

On the other hand, **the Net-Net Basis version** corresponds to the CONSOLIDATED BANKING STATISTICS: it is the parent companies that declare the same claims and debts by eliminating intra-group transactions (with their subsidiaries, and between their subsidiaries). The reporting country is therefore unique, it is that of the parent company, and the figures, TURNOVER and OUSTANDING AMOUNTS, are of course lower than the territorial version as we will see.

The CITY of LONDON wins the prize with ± 40% of the exchanges for three fundamental reasons: 1. LONDON has kept a great expertise in the foreign exchange market, and it benefits from an extensive network of relationships linked to its former empire.

Concretely: at any time, multinationals and all financial operators in the world can obtain a quote in the slightest "exotic" currency; in addition, LONDON takes care of securing all transfers related to these operations. 2. The United Kingdom, a partner within the European Union, had obtained the domiciliation of a multitude of ancillary activities by developing clearing houses for foreign exchange transactions, shares, debt securities, raw materials, precious metals, derivatives, ...

And so, without being part of the Eurozone, LONDON "manages" virtually all euro transactions in 2016. For the record, the chambers "interpose" between the buyer and the seller in order to guarantee them the smooth running of operations by checking the solvency of each other, and by asking them for security deposits – such as a deposit – calculated according to the size of the net transactions.

3. Various European associations, now based in LONDON, are also in the sights of European countries - Euro Zone: this is the case of the EUROPEAN BANKING AUTHORITY (EBA) but also that of the EUROPEAN MEDICINES AGENCY (EMA).



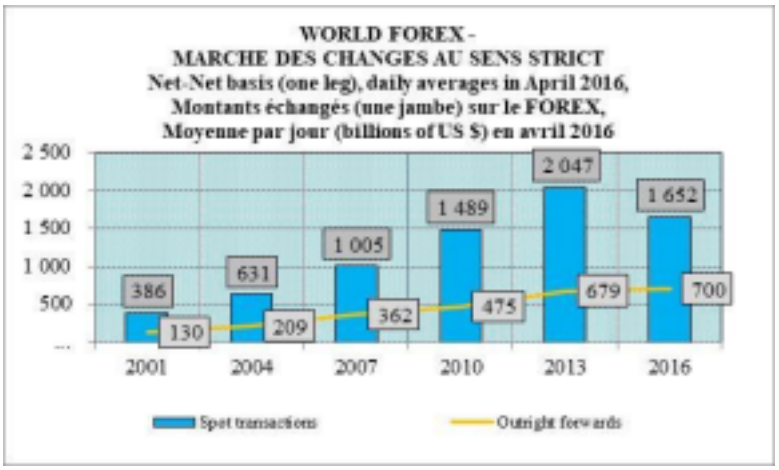
All these activities represent a huge "business" that "explains" the low statistical activity of the EURO ZONE in the field of FOREX, and these activities outside the control of the ECB or the European Commission are of course called into question since BREXIT.

**FOREX AND DERIVATIVES: TRADING VOLUME IN APRIL 2016**

**TYPICAL OPERATIONS OF THE FOREIGN EXCHANGE MARKET ARE:**

**1. SPOT TRANSACTIONS : $1.652 BILLION PER DAY, IN APRIL 2016**

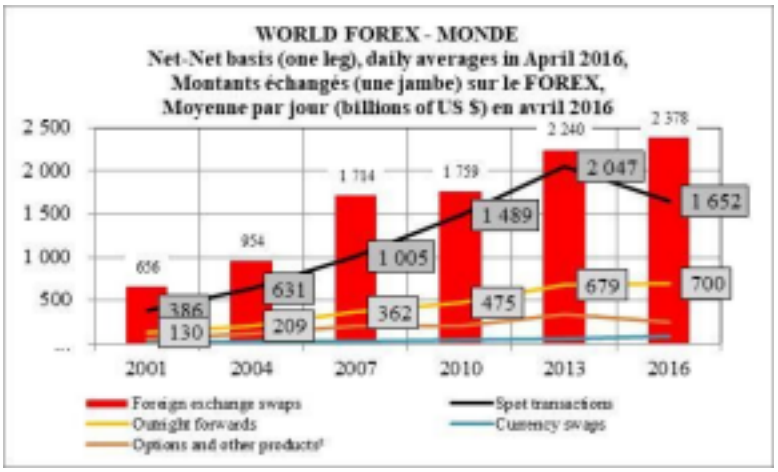
**2. OUTRIGHT FORWARDS CONTRACTS: €700 BILLION PER DAY, APRIL 2016**




**FOREIGN EXCHANGE SWAPS** and **CURRENCY SWAPS** are exchange transactions that (in principle) have no impact on exchange rates; **OPTIONS AND OTHER PRODUCTS** are much more "insidious" derivatives (see later).

**In NET-NET-BASIS**, the pure "Foreign Exchange Market" (in the strict sense) represented a DAILY TRADING VOLUME of $2,352 million (1,652+700) in April 2016, or 46% of TOTAL FOREX TRANSACTIONS, INCLUDING DERIVATIVES, detailed in the chart above and below ($5,067 million).

**Net-net basis : total daily averages : 5.067 BUS$ (April 2016)**




**REMINDER:** the statistics come from the parent companies and their country of residence.

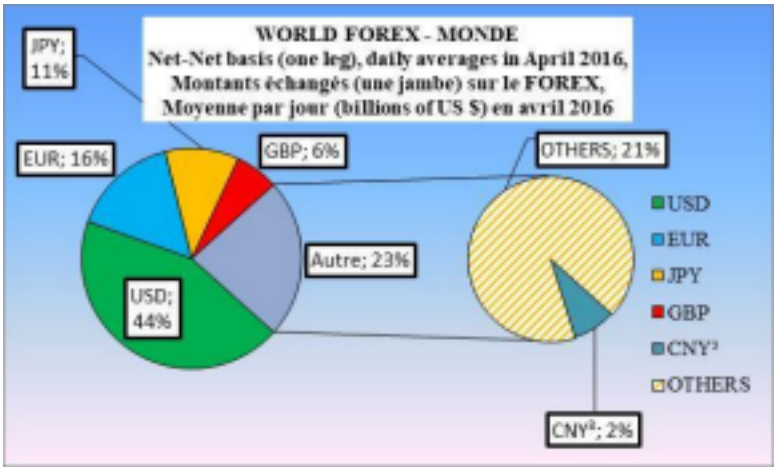
This implies three things: these statistics "eliminate" all INTRA-GROUP transactions; specialized operators are used to working together, and therefore they master their "one leg - two legs" reporting to the BIS; statistics are less "rich" in information than territorial statistics... but they are more reliable.

On the next chart, we clearly see that the DOLLAR still serves as the pivot for 44% of global transactions while the POUND-STERLING represents only 6% of transactions.

The EURO, dealt with in LONDON, is therefore a major issue for the future of the United Kingdom. At the other end of the chain, the Renminbi-Yuan now appears on the radar of FOREX with 2% of transactions. HARD BREXIT? SOFT BREXIT? NO BREXIT AT ALL? Is the "GREAT BRITISH EMPIRE" losing "its" CITY? *"That is the question"*.



TOTAL PER DAY : 5.067 BUS$ or 100%




## THE INSTRUMENTS OF THE FOREIGN EXCHANGE MARKET: TECHNIQUES USED.

After several hesitations, we decided to introduce this additional analysis on foreign exchange market instruments, and for at least one good reason: **we want to quantify foreign exchange positions as of 30/06/2016 because "the Tsunami" can come from there.**

**However, so far, we have talked about THE VOLUMES EXCHANGED DURING THE MONTH OF APRIL 2016.** We must now comment on the statistics on FINANCIAL INSTRUMENTS to avoid "soft mixes" between (pure) Foreign Exchange Market Instruments (SPOT, OUTRIGHT FWD) and mixed instruments (SWAPS) to be classified in THE DERIVED PRODUCTS.

**REMINDER: the (pure) instruments of the foreign exchange market are "spot" transactions on the spot market(s) and outright forward contracts on the futures** market **.**

## ON THE SPOT MARKET: SPOT CONTRACTS

The exchange rates of one currency against another currency are all offered in "bid" and "ask" mode in an incessant parade of numbers on screen, by phone, by speaker (a broker), on screens, on charts, by alerts of all kinds, ... Whatever the mode of representation, the principle is the same.

The applicant proposes to buy at a price (ask) lower than the price offered by one or more traders (bid); the spread between the two is the "spread", expressed in "pips".

For a "euro against dollar" transaction, the market displays for example: 1.1125 (ask)-1.1135 (bid). In other words, the quote incorporates a spread of 10 pips (35-25).

You have to be very attentive all the time because the announcements are made in the style: "twenty-five; thirty-five" with from time to time "figure one" to remind that the euro is currently quoted on the basis of "1" (hundred pips) and to avoid the most distracted to confuse the €/$ quote with the €/FS quote which is traded at "25-35, figure 9". In other words, at the same time, the euro is quoted 1.0925-1.0935 against the Swiss franc.

Then, suddenly, two announcements sound: "buy fifty at 35, figure one" and "buy twenty at 35, figure nine". One trader has just bought fifty million euros at 1.1135 in D+2 value and another has just bought twenty million euros against Swiss francs at 1.0935.

Instantly, other traders change their prices in style: 1.1130-1.1140 and 1.0932-1.0942.

The euro is "ask(ed)" or "up" against the dollar and the Swiss franc. Caution is required for bearishs and bullishs. In the April 2016 polls, the "currency pairs" concerned (for one leg, one leg) the US DOLLAR in 87.6% on average, including the 23.1% of the Dollar-Euro couple; the euro in couple with other currencies (non-dollar) accounted for only 8.3% of global transactions.

For a contract, negotiated between two "dealers" (foreign exchange dealers), on D-Day, the outcome is (mostly) provided for in D+2 (cash settlement) to give the staff of the "back rooms" time to carry out all the mechanics of procedures, controls, confirmations, transfers and reports...

In many countries, these "accounting mechanics" operations are also carried out in the CLEARING HOUSES (those of brokers), responsible for ensuring the smooth completion of operations, but large operators (who know each other well) often work "directly" and without intermediaries.

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**ON THE FUTURES MARKET: OUTRIGHT FORWARD CONTRACTS**

OUTRIGHT FORWARD CONTRACTS use more complex techniques, usually handled by experienced traders, intended to set the price of buying or selling one currency against another, at a fixed maturity ranging from three days to several months and even several years. It is therefore always "tailor-made".

1. These contracts are mainly established with (large) commercial customers who have planned the collection or disbursement of a "risky" operation in the future (weeks, months, years): they want to "hedge". As soon as the transaction is completed, customers know the true value (in euros or other) of their future receivables or debts, on a specific date; they therefore know their selling price, or their cost price, and their margin – after hedging.
2. These contracts are also used by financial speculators... but more and more rarely because the "open" transaction sooner or later requires an oncoming transaction (closing of position) which can be more difficult to negotiate depending on the amounts, dates, times and circumstances.

   If, on January 4, 2017, a trader bought 100,000,000 euros against 110,000,000 dollars in value January 4, 2018, he may encounter difficulties in August 2017 to find a partner who buys him 100,000,000 to 1,115 (his initial target) in value January 4, 2018.

   They now prefer Derivatives Markets, with their multiple OPTIONS (infra).
3. Technical details: as of 17/09/2017, a French multinational wants to buy 550,000 euros against pounds sterling in value 17/09/2018; its treasurer contacts several exchange rooms (international banks) to obtain the best exchange rate.

   The spot price is the same for everyone at the time of the call: £0.8800 <€1 < £0.8820

   THE LIBOR GBP ONE YEAR rate = +0.50% < GBP < +0.85%

   The LIBOR EURO ONE YEAR rate = - 0.25% < Euro < +0.10%

   The selected foreign exchange trader reasoned as follows: if the multinational wants to buy euros, he must sell them... but, he must sell them on the date of value D+367.

   He will therefore buy euros against pounds sterling in value D + 2 at the rate of $ 1 = £ 0.8800 that he will resell in D + 367 at 0.8820 - DEPORT or + REPORT.

   In D+2, he must therefore borrow: €550,000 X 0.8800 = £484,000 over a period of 12 months at the rate of +0.85%.

   In a year, he will have to pay interest of: £484,000 X 0.85% X12/12= -£4,114.

   In the meantime, he will place €550,000 at -0.25% and, in a year, he will have to pay (negative) interest of:

   550.000€ X (-0,25%) X 12/12 = -1.375€ or -1.217£.

   Loss in pounds sterling = -£4,114 - £1,217 = -£5,331

   In D+367, he will deliver 550,000 euros and he should claim: £484,000 + £5,331 = £489,331. **Or 1€ = 0,88 + CARRY FORWARD = 489.331£**

   **Or 1€ = 0.88 + 0.0097 = 0.8897 £**

   In reality, he will claim his margins in addition:

   In Pounds Sterling (D+2 course): price charged = 550.000€ X (0.8850) = +486.750£

   Borrowing in Pound Sterling (D+367): fees charged = £484,000 X (1.15%) = +£5,566

   Placement in euros (D+367): fees charged = €550,000 X (-0.5%) =€2,750 or €2,434

   TOTAL CLAIMED IN THE FUTURE: £494,750

   **Or 1€ = 0,885+REPORT+SPOT MARGIN = 494.750£**

   **Or 1€ = 0.88+ 0.0145+ (0.885-0.880) = £0.8995**

   BENEFICE = (550.000)*(0.8945-0.8897) +(550.000)*(0.885-0.880)= +2669+2.750=+£5.419

   BENEFIT (verification) = £494,750 - £489,331 = +£5,419

**IN PLAIN LANGUAGE:**

It should be remembered that specialists in this type of quotation (outright fwd) are mainly addressed to international treasurers of large groups; and therefore, the requests of these customers can be "abracadabrant": very precise amounts, to the nearest comma, unconventional deadlines, crossing of quotations with exotic currencies ... There is therefore no market in the strict sense for this kind of request: the operations are "hand-sewn" every time.

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To access the status of specialist, called "arbitrageur" (in French) or "arbitrageur" (in English), it is of course necessary to master all the markets adjacent to the simple "spot markets", managed by local banks which are above all specialists in spot quotes of "their" currency. As we have seen, the first adjacent market is the interest rate market...

## ON THE MARKET FOR DERIVATIVES: FORWARDS AND SWAPS.

OUTRIGHT FORWARD CONTRACTS are also used by "arbitrageurs" to take advantage of inconsistencies between the quotations of various markets and products due to fluctuations that are too rapid or too large. 1. In this case, traders carry out operations that are not "pure" foreign exchange operations but "derivative operations", linked to other markets (usually, that of interest rates).

If the arbitrageur has spotted that the German Bund has fallen so much in the equivalent of "dollars" that the effective rate has become too high compared to other "rate markets", he buys it but he has to go through the foreign exchange market.

2. This operation is ultimately linked to the "interest rate market" but it requires two (or more) passages through the "foreign exchange market", spot and forward.

SWAPS are currency exchanges but not "pure" foreign exchange transactions: for the BIS, they are (rightly) DERIVATIVE PRODUCTS.

1. If it is a simple currency exchange, <u>without a foreign exchange transaction</u>, the transaction is a pure "rate operation". The operation corresponds to two loans: one currency in one direction, another currency in the other direction.

Principle: the price paid by one of the two agents represents the profit he receives by receiving a currency offering a higher investment rate than that offered by the currency given to his partner.

The price of the transaction is therefore a kind of compensation, payable on delivery in D+2 or D+367. 2. If it is a currency exchange, <u>with foreign exchange operation</u>, the transaction is still a "rate operation": the first leg (short leg) in D+2 is a SPOT EXCHANGE operation; the second leg (long leg) cancels this same operation a year later (for example) based on the rate of D+2.

3. So, no blow for FOREX! Indeed, the same exchange rate is applied to the spot and term, with one difference: the compensation, "due" or "to be owed" for the more interesting remuneration of one currency against the other, results in a DEPORT TO TERM or a POSTPONEMENT TO TERM.

If A – the European receives dollars that he can invest at 2% per year, and if B the American receives euros that he can invest at -1% per year, taking the "central" exchange rate of $ 1.0 = $ 0.9 at the moment t, the operation will be done at the price of US $ = € 0.9 in D + 2 but at the price of (0.9 - offset) in D + 367. A - the European (who receives $ 1,000,000) delivers $ 900,000 in D + 2.

B - the American (who receives 900,000 euros) delivers $ 1,000,000 in D + 2.

B - the American is therefore the big loser of the operation: he records a shortfall of -20,000 US$ (the possible investment of 1,000,000 $ to +2% for a year) and he loses -9,000 € because of the (bad) investment of his euros (investment of 900,000 €, possible at -1%).

In equivalent euros, he loses -[(20.000 US$)*0,9)] - (9.000€) = - 27.000€

A year later, the American will return (900,000 € -27,000 €) = 873,000 € in D + 367 to his European colleague.

In terms of exchange rate (seen from the point of view of the US seller):

B - the American, sells $ 1,000,000 at $ 0.9 and receives € 900,000 in D+ 2

B - the American, buys $ 1,000,000 at $ 0.873 and delivers € 873,000 in D + 367.

The DEPORT A TERME is -0.027

**<u>IN PLAIN LANGUAGE:</u>**

The mechanics of the quotations are strictly the same as for the OUTRIGHT FORWARD CONTRACTS.

However, there are notable differences:

1. Requests are standardized: conventional amounts (in tens of thousands, or even hundreds of millions); conventional maturities (rollover, week, month, year).

2. The partners are seasoned professionals, and therefore the margins are very tight.
3. Il must be fast, question of professional image ...
4. The slightest mistake is immediately sanctioned by the (transparent) markets.



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**EVALUATION OF "OPEN POSITIONS": NOTIONAL VALUE**

**NOTIONAL OUTSTANDING AMOUNT**

*"This is the Gross Nominal or Notional Value of all derivative contracts concluded and not settled at the date of declaration (notional outstanding)".*

Recall that the BIS could not distinguish OUTRIGHT FORWARD CONTRACTS from FX-SWAPS, for the good reason that:

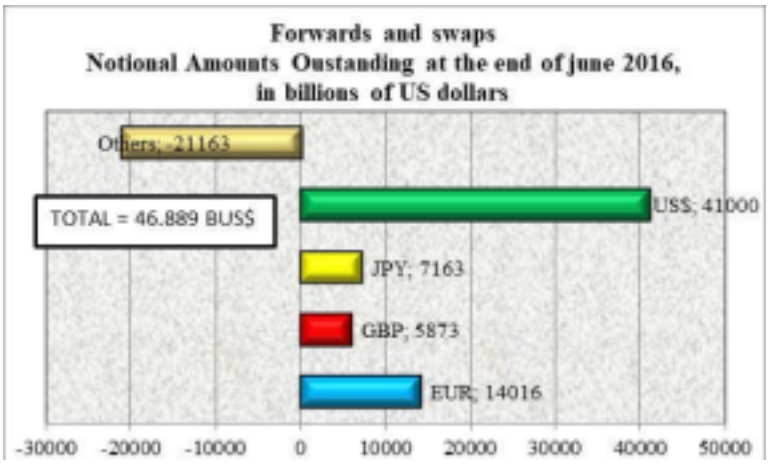
1. the FX-SWAP transaction in D+2 is identical to a SPOT transaction in D+2
2. the FX-SWAP transaction in D+367 is quoted in the same way as an OUTRIGHT FORWARD transaction. 3. A priori, there is nothing to distinguish these transactions either in cash or in the future... 4. The BIS therefore asks registrants to classify SWAPS as "FXA" (Forward Exchange Agreement) to distinguish them.
5. In addition, it neglects the FX-SWAP transaction of D+2 by considering it as an ordinary SPOT operation, and it asks everyone to declare ONLY their LONG-leg.

Indeed, as we have just seen, FX-SWAPS consist of two legs (short and long legs) on a couple of currencies (usually, the dollar and another currency);

1. if we add the two legs (one positive, the other negative), the pivot currency (the dollar in 88% of cases) disappears but the companion currency does not disappear completely.
2. There remains the DEFER or DEPORT for futures contracts.
3. The declaration to the BIS therefore relates only to the "long leg" (real position in the long term). Let's go back to the previous example:
    1. B - the American, sells $ 1,000,000 at $ 0.9 and receives € 900,000 in D+ 2
    2. B - the American, buys $ 1,000,000 at $ 0.873 and delivers € 873,000 in D + 367.
    3. The deport in the long term is -0.027 and it is "declared" de facto in the "reporting": the American is "long" in D+ 367 for $ 1,000,000 and the European is "short" for € 873,000.
    4. The processing of this operation, declared "FXA", will be done according to two calculation methods: NOTIONAL or NET-NET-BASIS.

At the end of June 2016, the **open positions** in nominal terms (NOTIONAL) represented 46.9 TUS$, of which 14 TUS$ for the euro (29.9% of the total): in other words, the main operators had "brewed" mainly dollar and euro.

**JUST FOR COMPARISON - EURO AREA END OF 2016 -**
DIRECT INVESTMENTS IN THE WORLD = 10.237 B€ = 11.260
BUS$ GNP = GDP = 10.745 B€ = 11.820 BUS$




In this case, our American and our European are in the statistics for a single amount: 1,000,000 dollars. Indeed, "double" accounting would mean that one is "long" and the other is "short" when they had only made a SWAP trade (neutral from the perspective of FOREX).

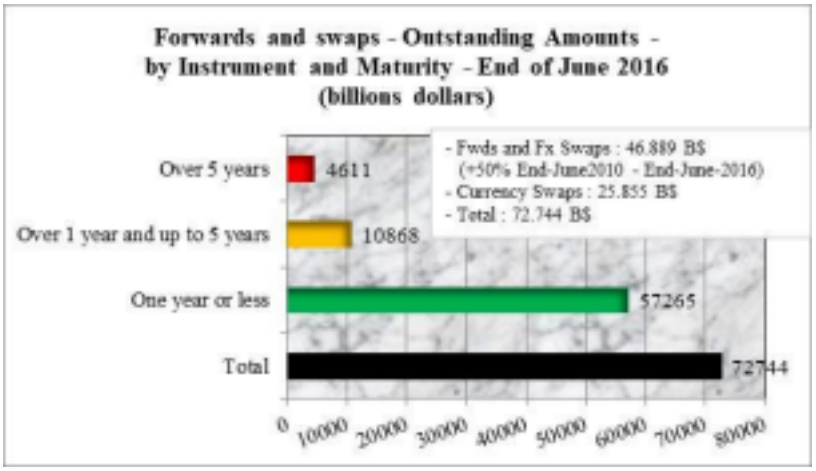
For the record, we are in a "**position at the end of the day**" with the amount of (only) +$46.889 billion as of 30/06/2016 while the TURNOVER had been $5.067 **billion, on average per day**, during the month of April 2016. We are therefore in the presence of a "market" that represents nine days of various brews (turnover is not turnover), and the dollar still stands out as "the" currency most often traded.



In this case, there is a small downside: the dollar is by definition "the" accounting currency, and the "others" are not identified. So, it is difficult to subtract them from the "turnovers" of the most processed currencies: dollars, yen, pounds sterling, euros.

**Another important note: this is the duration of these "open positions".**

The following graph shows that "outstanding amounts" can be durable (and therefore dangerous). Small problem: the BIS gives these benchmarks for FORWARDS AND SWAPS (46.889 B$) + CURRENCY SWAPS (25.855 B$) = 72.744 B$




Sums can be "outstanding" for more than ONE YEAR and even for MORE THAN FIVE YEARS.

**VALUATION OF "OPEN POSITIONS": GROSS MARKET VALUE.**

**GROSS MARKET VALUE**

*'Sum of the absolute values of all outstanding derivative contracts, whether their replacement value is positive or negative, as valued at market price on the date of reporting.*

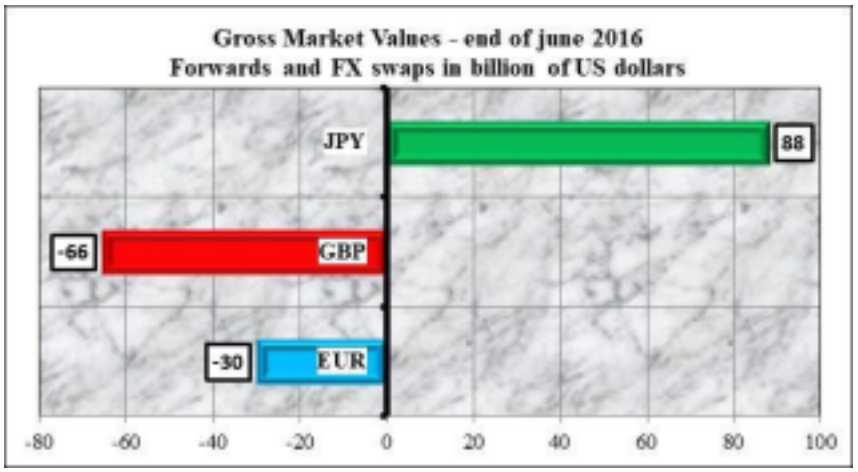
*Thus, the positive gross market value of an operator's outstanding amounts is the sum of the replacement values of all contracts on which the declarant would make a gain at market prices (if settled immediately, these contracts would be claims on counterparties).*

*The negative gross market value is the sum of all contracts potentially showing a loss at the reporting date (if settled*

*immediately, these contracts would result in a debt owed by the trader to its counterparties). The term "gross" means that contracts with a positive and negative replacement value with the same counterparty are not offset.*

*The sums of positive and negative values within the same market risk category (e.g. foreign exchange contracts, interest rate contracts, equities and commodities) do not compensate each other either.*

*The gross market value provides information on the potential level of market risk of derivatives transactions and the financial risk transfers to which they give rise. In addition, it is a measure of economic importance that is directly comparable between different markets and products."*






Clearly, there were big winners on the "long positions" taken in favor of the yen.

These long positions are typical of "CARRY TRADE".

And this is the result of Mario DRAGHI's "unconventional" policies: the overabundance of liquidity immediately leads to a flight of the currency even if the spreads "to be grabbed" abroad are small.

In other words, the ECB's policy (like that of the other Central Banks) is simply suicidal: High Finance specialists can escape at any time from a currency, the euro in this case, for amounts and durations much longer than traditional commercial operations.

Under these conditions, the euro (like all currencies) has become a bad currency that does not respect the most basic rights of European citizens.

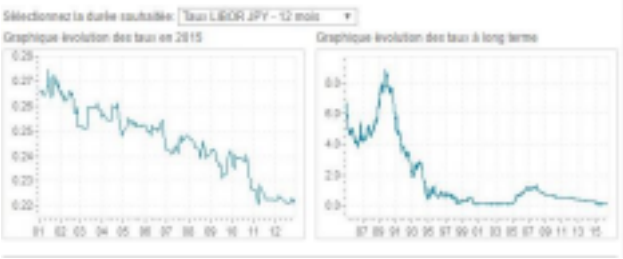
While High Finance is allowed to leave the territory for hundreds of billions of euros, and for periods of more than one year and even five years, "ordinary" citizens can no longer even transfer five thousand euros a week without being denounced by the banks to TRACFIN, or even supervised by EUROPOL.

NOTE: these results were calculated as of June 30, 2016 and, at that date, arbitrageurs still had large "open positions" of decline of the euro against the yen: from the end of 2014, they had been more and more numerous to sell the euro from 1 € = 148 yen up to 115 yen.

For an amount of 100,000,000 euros, exchange gains ranging from +25% (at the highest) to +5% (at the lowest); on the other hand, those who reported their gains against the yen at the end of June 2016 had to face a rise in the yen as early as the second half of 2016.


To show that these foreign exchange transactions were linked to interest rates (Mario DRAGHI's "unconventional" policies), here are two graphs on interest rates.

On the left, 12-month EURO LIBOR rate cut Right, 12-month YEN LIBOR rate cut



Since the announcement of the massive interventions of the ECB (a good ten "irresponsible" decisions), the Euro rate has quickly moved into the negative zone: it was therefore interesting to go into debt in euros.

At the same time, the Yen offered yields ±0.20% higher than those of the euro, and its rates never moved into the negative zone.

For Europeans, it was therefore profitable to go into debt in euros, then sell the euros against yen, then place their yen at even very modest rates.

We can therefore see that SWAPS and FORWARDS have allowed Europeans to gain "open positions" in yen.

Mario DRAGHI's "unconventional policies" have fueled a vast "rate trade" that we will study in a future article.



# ALTER-EUROPA

**Euro Area (19) - Statistical Databases: 31/12/2010 and 2016 Update: 30/09/2017**

**THE RISKS (OF CENTRAL BANKS) RELATED TO THE FOREIGN EXCHANGE MARKET.**

In stock, the ECB's foreign currency claims amounted to €345.6 billion at the end of December 2016 but, in return, its External Position in euros was negative by -€186.6 billion (net liabilities to non-residents):

Ecb's external position in foreign currencies (net foreign currency receivables): +€345.6 billion: To Non-Residents: €327.9 billion

To Residents: €27.1 billion

Ecb's external position in euro (net liabilities in euro):

To Non-Residents: -€186.6 billion

Seen in this light in the ECB's accounts, the foreign exchange market appears derisory but very favourable to the euro despite some underperformance on the various foreign exchange markets.

Nevertheless, the foreign exchange market remains to be monitored very closely.

We have just seen the (only) part of SWAPS and FORWARDS because these risks for the ECB are linked to external commercial and financial transactions that are far from stable or marginal:

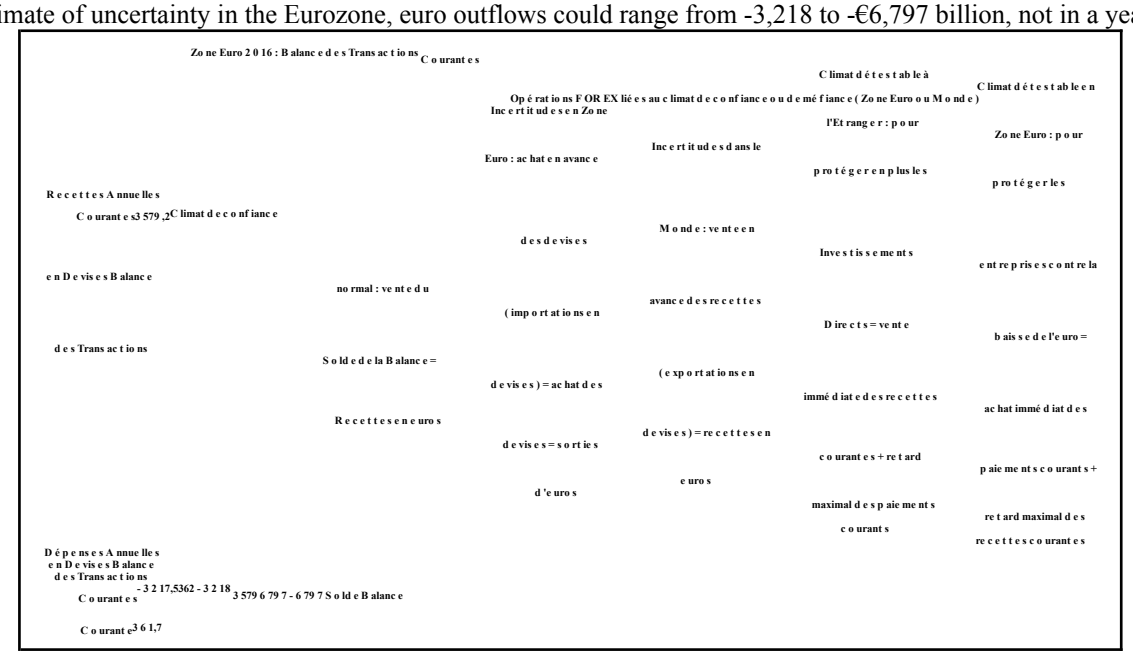
1. Foreign Trade.
   Without going into detail, the Current Transactions Balance (balance of goods and services + income balance + transfer balance with the outside the euro zone) generated flows of about +€3,600 billion in 2016 in entry and -€3,200 billion in outflows (positive balance of +€400 billion).
2. Direct Investments and Reinvested Profits: the Eurozone experiences net direct capital outflows each year (of - €400 billion in 2015) to the point that "Euroland" companies had assets of nearly €±10,000 billion worldwide, while foreign investors had Direct Investments in the Euro Zone of €±8,000 billion at the end of 2016.
3. Indirect Investments were favourable: the Eurozone had attracted €±5,400 billion in foreign investments against ± €4,800 billion in the other direction.
   Are concerned: investments in shares (without equity participation), in Treasury Bills (and similar) and in Securities issued by Commercial Banks and Financial Intermediaries, in and out of capital. As foreign exchange risk concerns both revenues and expenditures, as well as assets and liabilities, denominated in foreign currencies, Foreign Trade and Indirect Investments can give rise to hedging movements on the foreign exchange market (spot or forward) from a few billion euros (coverage of balances by major players) to several tens of billions of euros per day (hedging of claims). and assets, and/or hedging of debts and liabilities).

They can even cause changes in the choice of the billing currency: choice or rejection of the euro as soon as a contract is signed.

In this case, even Direct Investments in countries with weak currencies can give rise to currency hedges of several hundred billion euros.

**In the following table, we have included only exports and imports of Goods, Services and Revenues of the Euro Zone (estimated) for 2016 to understand the reactions of foreign exchange traders to different climates of confidence.**

The Foreign Exchange Market can be very calm, and therefore be solicited for the regular sale of "natural" current account balances = request for euros = + €362 billion per year.
a few months or even days.
In a climate of uncertainty in the Eurozone, euro outflows could range from -3,218 to -€6,797 billion, not in a year but in




On the other hand, in a climate of uncertainty in the world, requests in euros could range from +€3,579 billion to +€6,797 billion. However, the trade context would be unchanged for the Eurozone: the same exports and imports therefore serve as the basis for these different scenarios.

**Clearly, the importance of trust in the business community is not an intangible concept: trend reversals can be brutal and disproportionate.**



# ALTER-EUROPA

**Euro Area (19) - Statistical Databases: 31/12/2010 and 2016 Update: 30/09/2017**

**In international treasury language, the policy of "leads and lags" can be rapid and violent, or structurally installed in behaviors.**

*A very concrete example of "Leads and Lags" on the BLOG of MAROC LEAKS, 7 July 2017*

***Devaluation of the dirham in Morocco: One drop too many !***

*The fear of an imminent devaluation has, moreover, raised a wind of panic on the money markets, pushing national speculators to quickly position themselves to protect themselves, but also to take advantage of the gains that this reform can generate.*

*Hence Abdellatif Jouahri's anger against the banks that have copiously pumped the Kingdom's foreign exchange reserves to the tune of 44 billion dirhams in less than a month.*

*Hold on: over the last 20 days, some banks have built up reserves of up to 5 years of imports on behalf of certain customers!*

http://maroc-leaks.com/devaluation-dirham-maroc-goutte-de/

**THE FOREIGN EXCHANGE RESERVES OF THE EUROSYSTEM.**

All operations combined, the Eurozone has benefited in recent years from net foreign exchange inflows, mainly thanks to its Foreign Trade surpluses (current account), and it has benefited from a revaluation of its gold holdings. Overall, the net position of the EUROSYSTEME is therefore positive at +€668.4 billion.

This is little compared to China, which had more than $4,000 billion at the end of 2016 (but more than $10,000 billion at the end of 2008), and it would be insufficient coverage if the prospects for the break-up of the euro zone gained momentum.

The main valuation items of foreign exchange reserves, as final on 31/12/2016, were as follows (in millions of euros):

**POSITION DE CHANGE EUROSYSTEME AU 31/12/2016** en Mn€

Avoirs et créances en or 382 061
Créances en devises sur les non-résidents de la zone euro 327 854
Créances en devises sur les résidents de la zone euro 30 719
Engagements en devises envers les résidents de la zone euro -3 644
Engagements en devises envers les non-résidents de la zone euro -9 301
Contrepartie des droits de tirage spéciaux alloués par le FMI -59 263
**Avoirs Nets de l'EUROSYSTEME en or et en devises 668 426**

ESBC (Euro Area) : translation from top to bottom

Assets in Foreign exchange and gold holdings
Foreign currency claims on euro area non-residents
Foreign currency claims on euro area residents
Liabilities in foreign currencies on Eurozone residents
Liabilities in foreign currencies on non-Eurozone residents
Counterpart to IMF Special Drawing Rights
Eurosystem net assets in gold and foreign currencies

Officially, everything is fine.

Unofficially, the situation deserves some "treacherous" comments:

1. There is practically only one locomotive for "mercantilist hoarding": Germany.

   And this is not good news because this country practices a dangerous mercantilist strategy, *"Poor your Neighbors",* whose outcome we all know: war.

2. At 31/12/1998 (just before the introduction of the euro on 1/01/1999), the Net Assets of EUROSYSTEME (eleven members) were estimated at +€328.1 billion, of which +€99.6 billion in gold assets and receivables. At that time, the EUROSYSTEME had been entrusted with 404,131 million ounces of gold, valued at €246.5/ounce. In addition, the Reserve Position of the eleven members with the IMF was positive at +€23.4 billion, a net position to which had to be added Special Drawing Rights of +€5.2 billion.
3. At the end of 2016, the EUROSYSTEME had only 346,782 million ounces of gold, valued at €1,120/ounce. In addition, the Net Position with the IMF had moved into a negative zone at -€59.3 billion.
4. Finally, the valuation of debts and debts in foreign currencies is made on a month-to-month basis by the European Central Bank, based on the balance sheets of commercial banks: the Euro Zone had accumulated net foreign currency receivables of €345.6 billion at 31 December 2016 against €199.9 billion at the end of 1998.





In short: net holdings of gold and foreign currency, which are on the rise, have been practically obtained thanks to a single member country....

And with what risks? That of a break-up of the Eurozone.

## CONCLUSION: BEYOND ALL THESE FIGURES, WHAT TO REMEMBER.

High Finance, multinationals and mass distribution are weakening the Eurozone.

Certainly, these companies "bring in" currencies but at what price?

Indeed, the Conquest of the World is their priority, and it is European consumers who are paying the price: overpriced prices of the goods and services they now import from their foreign factories; loss of jobs and income for employees and for States; steady reduction of public services; widespread misery in the most advanced countries (Germany, France) and, of course, total misery in Greece, Portugal and elsewhere...

Better still, our trading "partners" (China for example) know better than we do how to defend their own long-term interests: when they have to import high-tech goods, services and know-how, they demand multiple counterparts: local manufacturing; technology transfer; long-term credits; sale of their manufactured products at low prices... **By using**

**globalization and "liberalization" to reap easy capital gains, these major players are destroying jobs, incomes, purchasing power and the very future of our populations.**

**Clearly, THEY ARE DESTROYING OUR DEMOCRACY**: equality of opportunity and rights is moving further away every day, fraternity (solidarity) is disappearing, and freedom is reduced, for a growing number of citizens, to the life of a vegetable, condemned to immobility and "junk food".

**It is a strategy of greedy merchants: the wealth of a nation, and ultimately their wealth, is built over the long term. The more they grow a desert around them, the more they will impoverish themselves, and the stronger "others" will become.**

Having adopted a system comparable to ours, which ARISTOPHANES had baptized PLUTOCRACY (in reference to the god PLOUTOS), ATHENS lost the war against SPARTA, then against macedoine, then against ROME, then against itself, to the point that, two thousand later, Greece is still an economic and financial desert.

If such bad news piles up on a day-to-day basis, it is only because the currency is too abundant and because, in addition, it is very badly used.

Let us not beat around the bush, this double drift is due to the policy of the ESCB, and therefore of the ECB.

However, it had demanded full powers by promising us so many wonderful things.

Let us mention a few, in disorder: a protective euro, a strong euro, a strong Europe, converging national economies, absolute control of inflation (it is both the controller and the controlled; therefore its figures are doctored), more egalitarian purchasing powers, quality jobs and incomes, international influence...

Twenty years later (*), the break-up of the euro zone becomes a highly probable hypothesis.

Thank you for reacting,

JUNO Moneta

## ALTER-EUROPA

*For another Europe...*

*And (of course) for Another Euro...*

(*) Creation of the euro for High Finance on 1/11/1999 (eleven members);

On 1/1/2001, entry of Greek High Finance into the club of the "wealthy" (embezzlement of GOLDMAN SACHS);

On 1/1/2002, creation of the euro for the general public (12 countries);

On 1/11/2011, Mario DRAGHI (former Vice-President Europe of GOLDMAN SACHS from 2002 to 2005) was appointed Governor of the ECB.

So thank you to Mario DRAGHI and GOLDMAN SACHS for plunging the Greek population into total chaos by tampering with Greece's national accounts!

Since his appointment, Mario DRAGHI has not stopped "tampering" with the euro with his "unconventional interventions" and negative interest rates to the point that social disaster is beginning to be seen everywhere in the Eurozone.

From now on, BREXIT is a reality, ITALEXIT is likely, FREXIT is programmable...