



The Bond Vigilantes

BLOG TEAM



ANDREW
CHORLTON

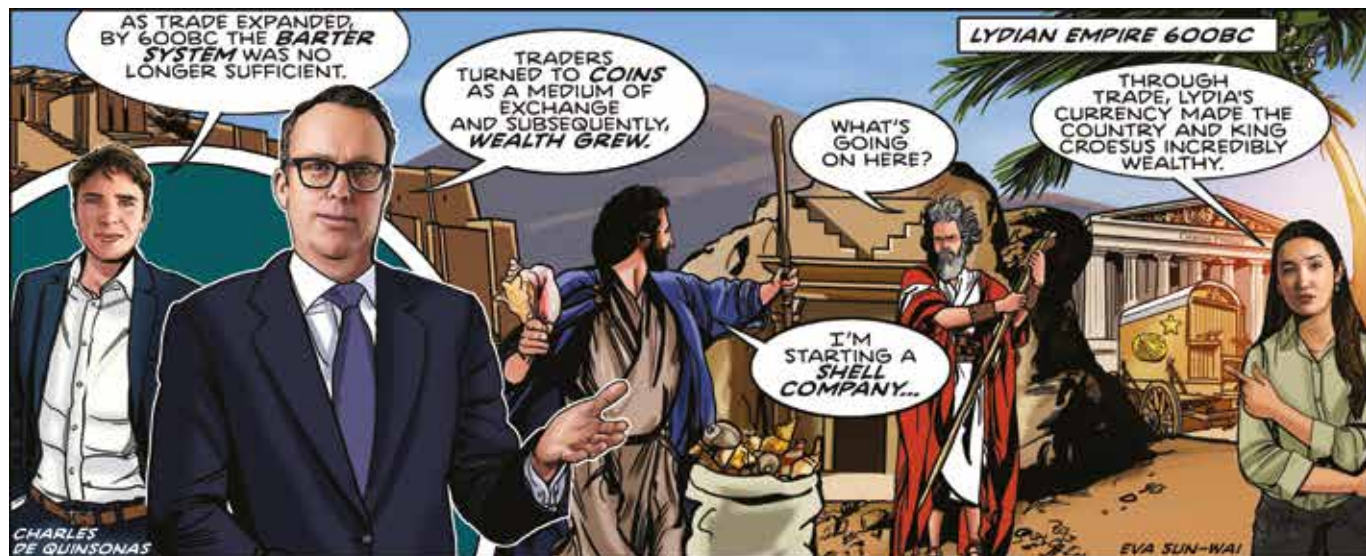
MONEY HAS
BEEN PART OF HUMAN
HISTORY FOR 5,000
YEARS, FROM SEASHELLS,
TO PAPER, TO A STRING
OF CODE.

ITS VALUE
IS ABOUT PEOPLE,
PERCEPTION AND
EXCHANGE.
NEVER MORE SO
THAN TODAY.

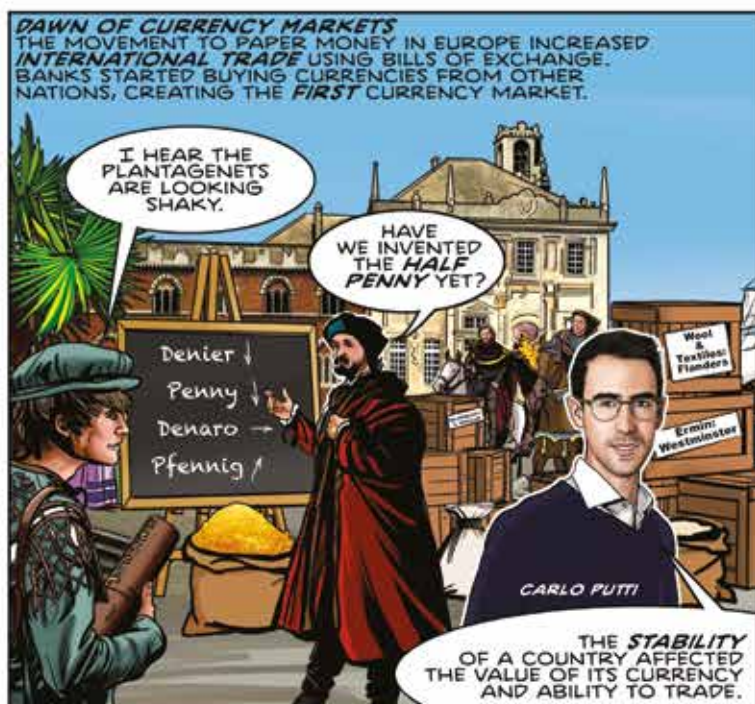
THE PERCEPTION GAME

HOW CURRENCIES ROSE, FELL AND
ENDURED, SHAPING ECONOMIES,
MARKETS AND INVESTMENT ACROSS CENTURIES.

EDITION 7



A PROMISE TO PAY
IN 1260 AD, THE YUAN DYNASTY OF CHINA MOVED FROM COINS TO PAPER MONEY, WHILE IN EUROPE, BANKS AND PRIVATE INSTITUTIONS STARTED USING PAPER BANKNOTES FOR DEPOSITORS AND BORROWERS. THESE NOTES COULD BE EXCHANGED FOR THEIR FACE VALUE IN METAL - **"I PROMISE TO PAY THE BEARER ON DEMAND..."**



THE GOLD STANDARD

BEGINNING IN THE 1800S, THIS **TIED** A COUNTRY'S CURRENCY DIRECTLY TO GOLD, MEANING IT WAS BACKED BY A PHYSICAL COMMODITY RATHER THAN GOVERNMENT TRUST. HOWEVER, IN THE 20TH CENTURY, POLITICS, WAR AND ECONOMICS SAW THE GOLD STANDARD BECOME **REDUNDANT**.



RICHARD WOOLNOUGH

THE GREAT DEPRESSION OF THE 1930S RESULTED IN THE COLLAPSE OF THE GOLD STANDARD AS INVESTORS FLOCKED TO **WITHDRAW DEPOSITS**. TO STEM THE TIDE OF OUTFLOWS, THE US GOVERNMENT REVALUED GOLD TO SUPPORT ITS ECONOMY AND IN DOING SO, CORNERED THE WORLD'S GOLD MARKET.

THE BRETON WOODS AGREEMENT
AFTER WWII, WESTERN POWERS DEVELOPED THE BWA, A FRAMEWORK FOR GLOBAL CURRENCY MARKETS. THE US GOVERNMENT PLEDGED TO CONVERT USD INTO GOLD AT A **FIXED RATE** OF \$35 AN OUNCE.



JACK RIDGE



BY 1973, THE BWA COLLAPSED AND COUNTRIES SWITCHED TO THE **FREE-FLOATING** FINANCIAL SYSTEM, ALLOWING EXCHANGE RATES TO ADJUST TO ECONOMIC AND MARKET DEVELOPMENTS.

KING DOLLAR

THE USD REMAINED KING THANKS TO DEEP FINANCIAL MARKETS, INSTITUTIONAL TRUST AND GLOBAL DEMAND. USD STRENGTH STILL SHAPES BOND MARKETS, INFLUENCING CAPITAL FLOWS, BORROWING AND INVESTMENT RETURNS. IN TIMES OF TURMOIL, INVESTORS HISTORICALLY **FLOCK** TO THE USD.



EXORBITANT PRIVILEGE?
FRENCH POLITICIAN **VALÉRY GISCARD D'ESTAING** COINED THE PHRASE, DESCRIBING A DOLLAR AT THE CENTRE OF THE GLOBAL ECONOMY.



KING DOLLAR
STILL REIGNS BUT RISING DEBT, GEOPOLITICAL TENSIONS, LOSS OF INSTITUTIONAL CREDIBILITY AND THE RISE OF ALTERNATIVES COULD SLOWLY RESHAPE THE GLOBAL MONETARY ORDER.

FOR TOO LONG, THE US HAS HELD THIS **EXORBITANT PRIVILEGE**.

WHERE SHOULD THE NEW CENTRE BE?

PARIS!

BEIJING!

ALTERNATIVE WORLD?
IMPETUS TO REDUCE DOLLAR
DEPENDENCE HAS INCREASED,
WITH COUNTRIES SUCH AS
THOSE IN THE **BRICS**
ORGANISATION WORKING TO
ESTABLISH AN ALTERNATIVE
FRAMEWORK.

THE **DE-DOLLARISATION** TREND HAS
GATHERED PACE AS THE US HAS BECOME
INCREASINGLY PROTECTIONIST AND
POSITIVE DEVELOPMENTS OUTSIDE THE US
HAVE BOOSTED THE CREDIBILITY OF
COMPETING CURRENCIES.

HUFF!
AND PUFF!

DECENTRALISED & DIGITAL
THE IDEA OF CURRENCY
FREE FROM CENTRAL
CONTROL IS NOT NEW.

ROBERT
BURROWS

FINANCIAL INSTITUTIONS,
INTRIGUED BY **DECENTRALISED**
DIGITAL CURRENCIES, ARE
LOOKING TO STABLECOINS,
BLENDING DIGITAL INNOVATION
WITH THE RELIABILITY OF
RESERVE-BACKED MONEY.
THE US IS INTRODUCING A
FEDERAL FRAMEWORK.

BITCOIN
QUICKLY MOVED FROM A
FRINGE EXPERIMENT TO A
WIDELY TRADED CURRENCY. THE
FIRST REAL-WORLD
TRANSACTION TOOK PLACE IN
2010 WHEN 10,000 BITCOINS
WERE EXCHANGED FOR TWO
PIZZAS WORTH \$41.

SPECIAL OFFER

TWO LARGE DEEP CRUST
\$41 \$576,869,717*
*PRICES MAY
VARY BY THE
SECOND.

THE FX DRIVER
CURRENCY MOVEMENTS TEND TO BE
VOLATILE. BOND INVESTORS IGNORE
FX MOVEMENTS AT THEIR PERIL BUT
THEY HAVE CHOICES - HEDGING CAN
BE AN IMPORTANT TOOL TO REDUCE
RISK.

Bond
Returns
→

FX IS A HIDDEN DRIVER OF BOND RETURNS.
CURRENCY MOVES SHAPE CAPITAL FLOW,
INFLATION DYNAMICS AND YIELDS. CURRENCY
MANAGEMENT ALLOWS INVESTORS TO EXPRESS
MACRO VIEWS, CAPTURE OPPORTUNITIES AND
IMPROVE **RISK-ADJUSTED** RETURNS.

THE FUTURE

CURRENCIES HAVE EVOLVED
OVER THOUSANDS OF YEARS,
BUT MORE RECENT CHANGES
HAVE SEEN THE MARKET
MOVE AT PACE.

**NEW TECH, SHIFTING
GEOPOLITICS AND CHANGING TRADE
PATTERNS ARE ALL PART OF THE STORY.**
FOR BOND INVESTORS, **CURRENCY** IS A KEY
TOOL, AS WELL AS DETERMINING THE RISK
PROFILE OF GOVERNMENT BOND INVESTMENTS.

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