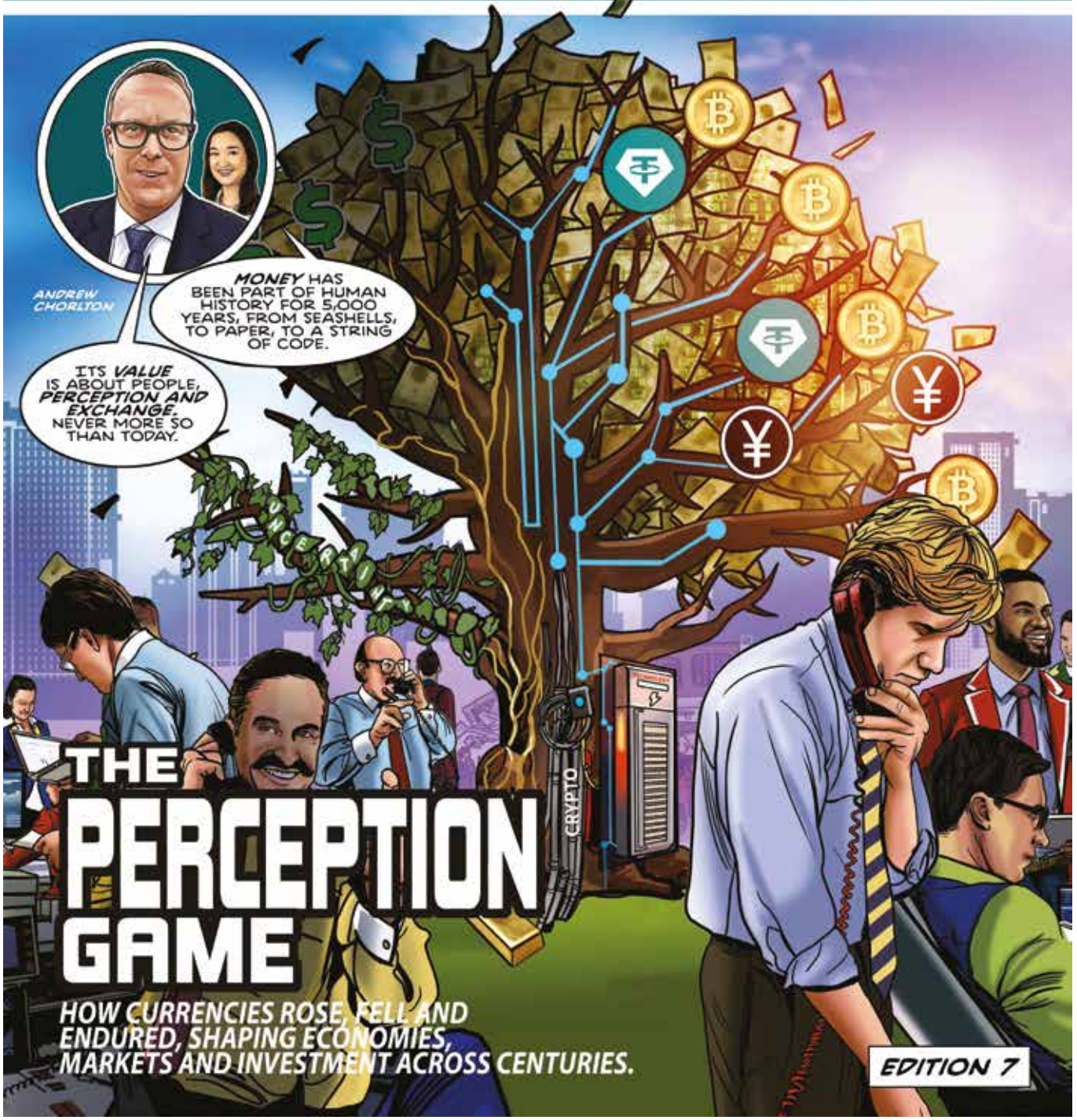
M&G Investments

The Bond Vigilantes

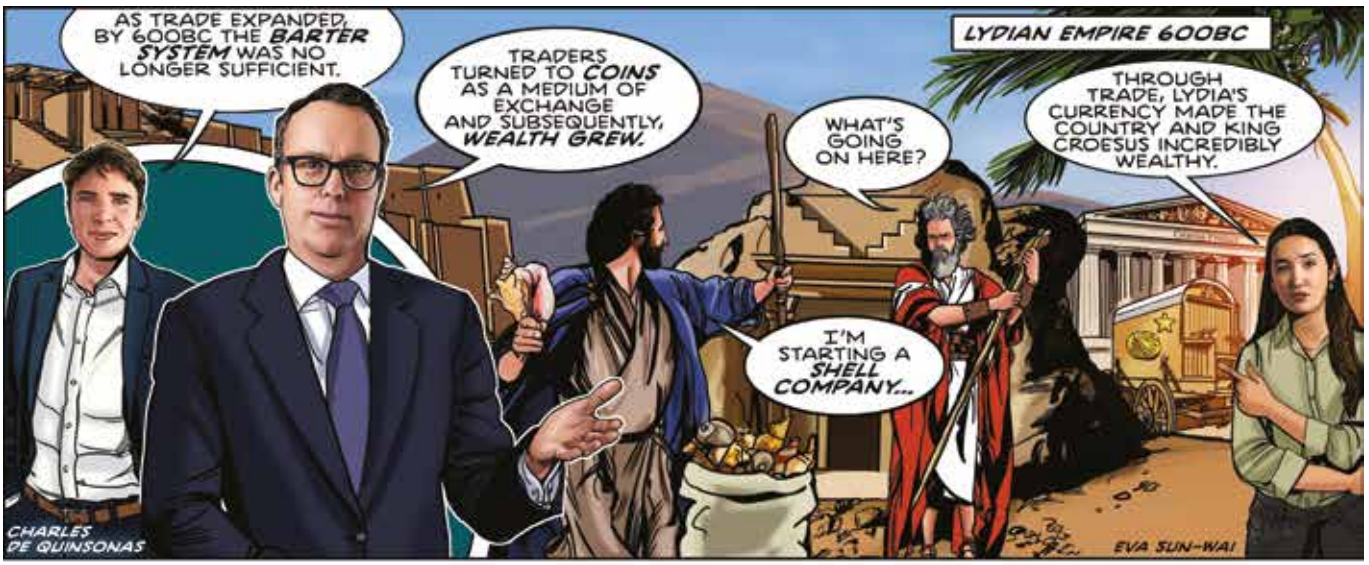
BLOG TEAM



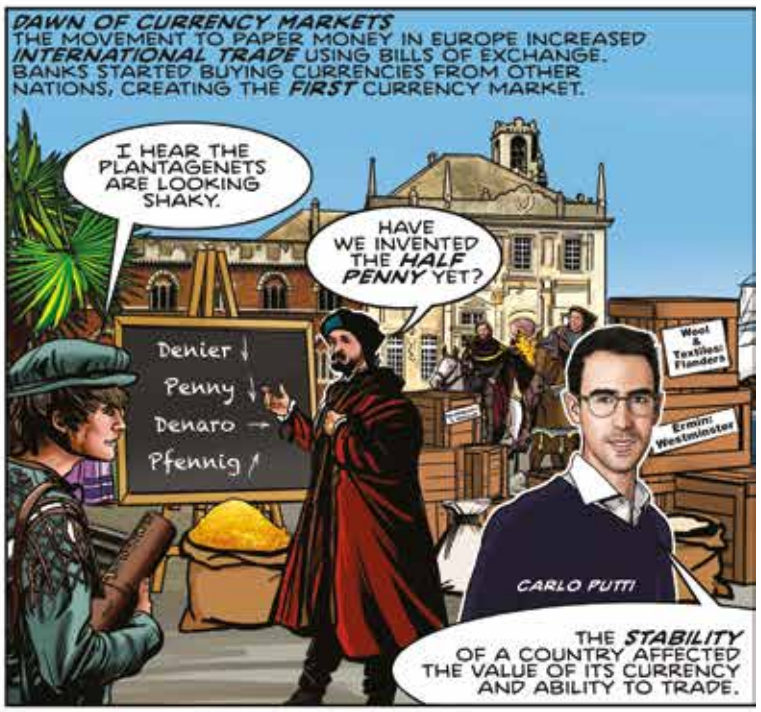
THE PERCEPTION GAME

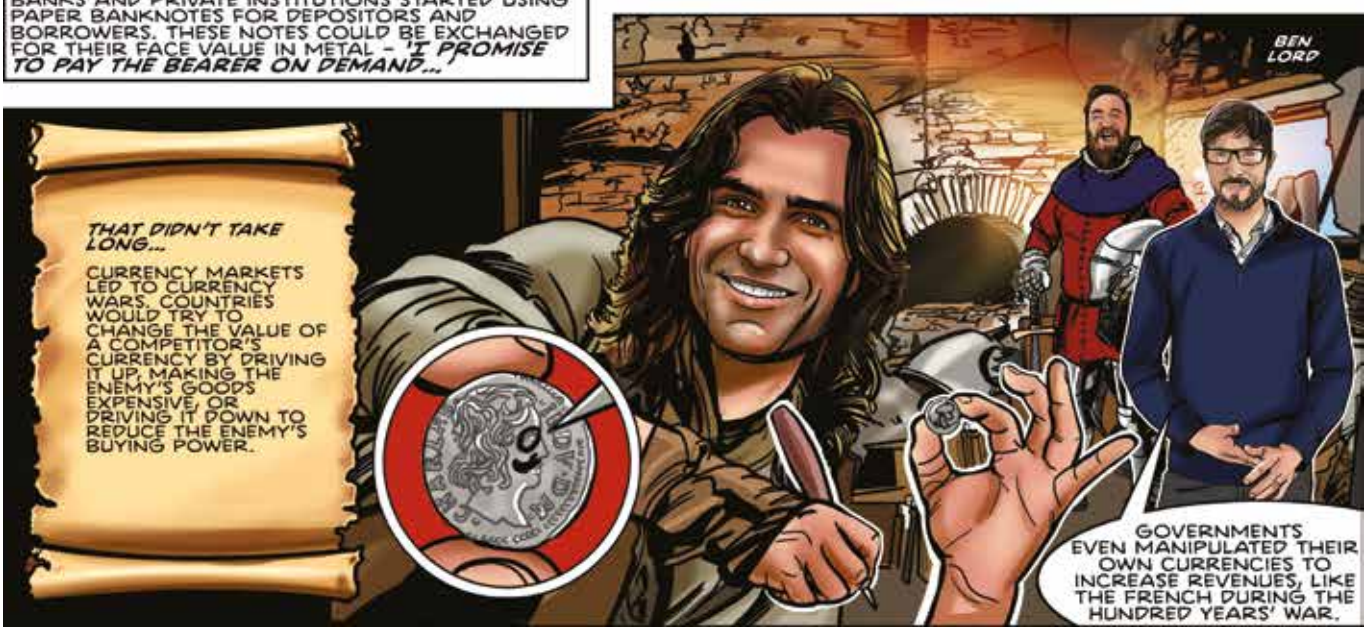
HOW CURRENCIES ROSE, FELL AND ENDURED, SHAPING ECONOMIES, MARKETS AND INVESTMENT ACROSS CENTURIES.

EDITION 7

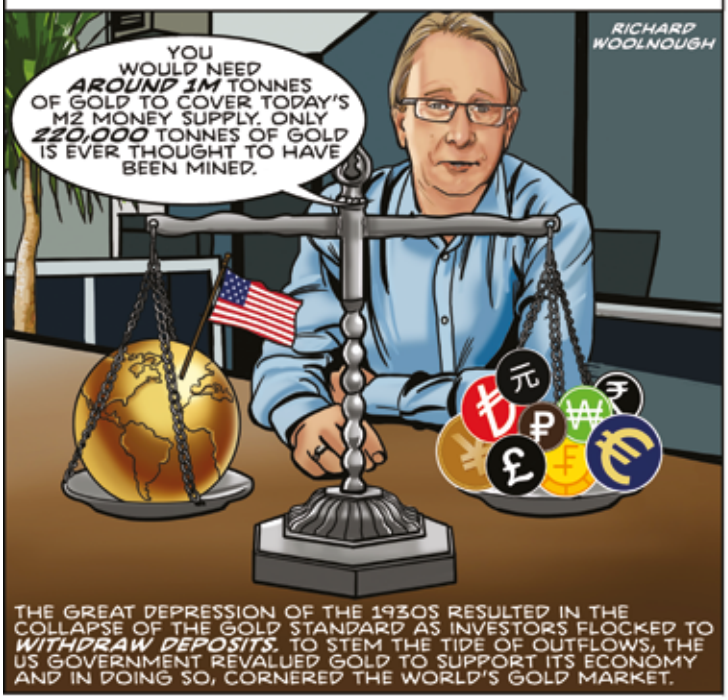


A PROMISE TO PAY
IN 1260 AD, THE YUAN DYNASTY OF CHINA MOVED FROM COINS TO PAPER MONEY, WHILE IN EUROPE, BANKS AND PRIVATE INSTITUTIONS STARTED USING PAPER BANKNOTES FOR DEPOSITORS AND BORROWERS. THESE NOTES COULD BE EXCHANGED FOR THEIR FACE VALUE IN METAL - *'I PROMISE TO PAY THE BEARER ON DEMAND...*

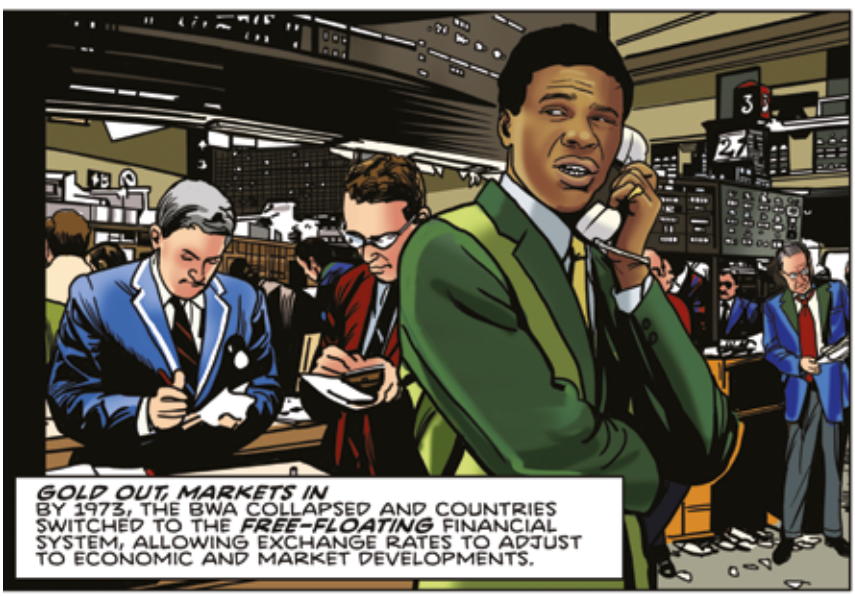




THE GOLD STANDARD
BEGINNING IN THE 1800S, THIS ***TIED*** A COUNTRY'S CURRENCY DIRECTLY TO GOLD, MEANING IT WAS BACKED BY A PHYSICAL COMMODITY RATHER THAN GOVERNMENT TRUST. HOWEVER, IN THE 20TH CENTURY, POLITICS, WAR AND ECONOMICS SAW THE GOLD STANDARD BECOME ***REDUNDANT.***



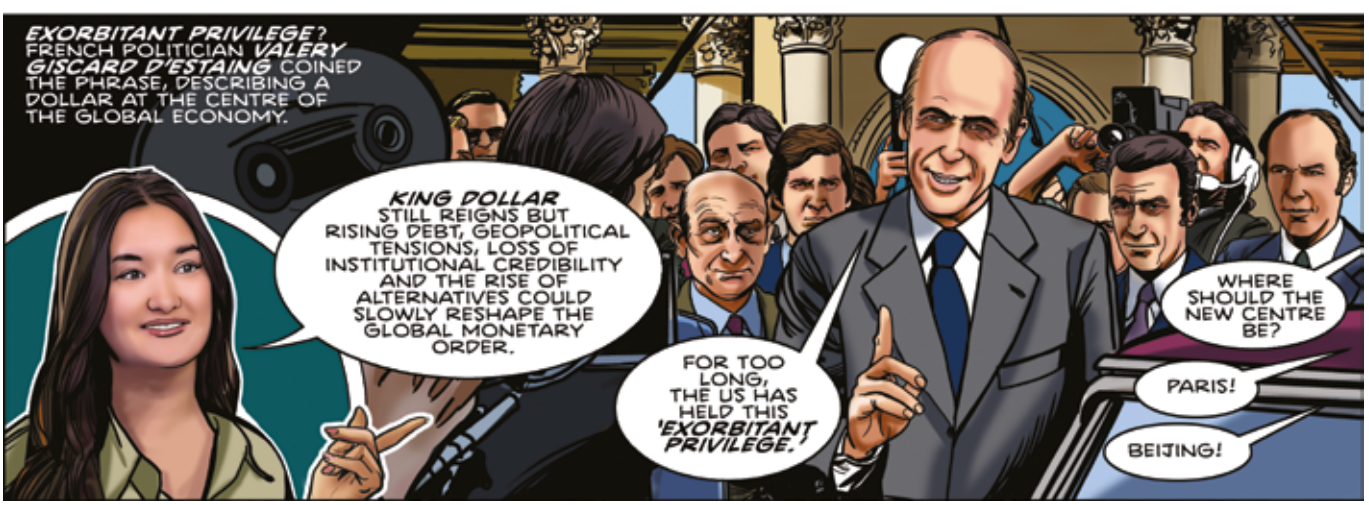
THE GREAT DEPRESSION OF THE 1930S RESULTED IN THE COLLAPSE OF THE GOLD STANDARD AS INVESTORS FLOCKED TO ***WITHDRAW DEPOSITS.*** TO STEM THE TIDE OF OUTFLOWS, THE US GOVERNMENT REVALUED GOLD TO SUPPORT ITS ECONOMY AND IN DOING SO, CORNERED THE WORLD'S GOLD MARKET.

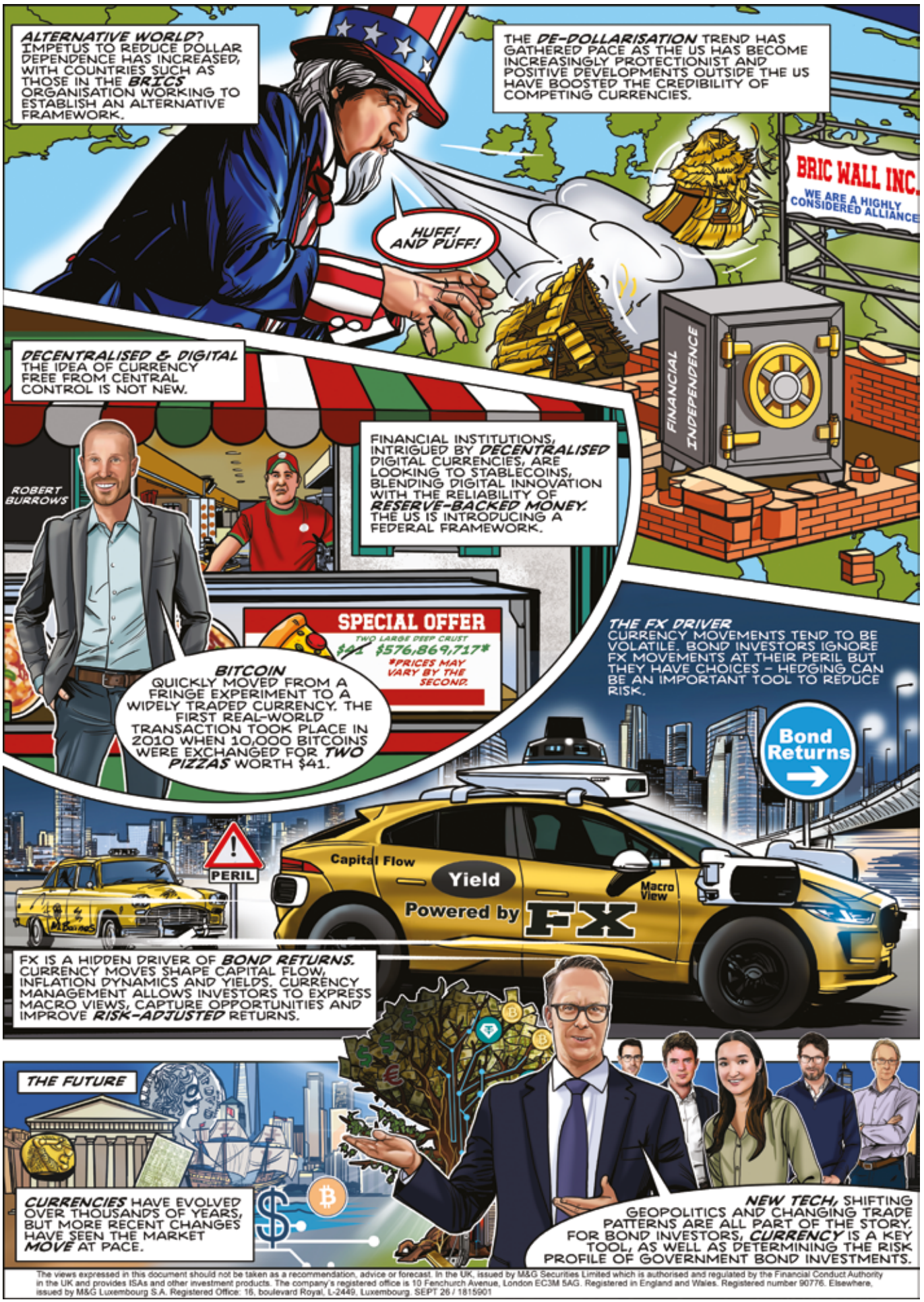


GOLD OUT, MARKETS IN
BY 1973, THE BWA COLLAPSED AND COUNTRIES SWITCHED TO THE ***FREE-FLOATING*** FINANCIAL SYSTEM, ALLOWING EXCHANGE RATES TO ADJUST TO ECONOMIC AND MARKET DEVELOPMENTS.

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 ***VALERY GISCARD D'ESTAING*** COINED THE PHRASE, DESCRIBING A DOLLAR AT THE CENTRE OF THE GLOBAL ECONOMY.





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