

Globale Ungleichgewichte und Globale Liquidität: Drohen Gefahren?

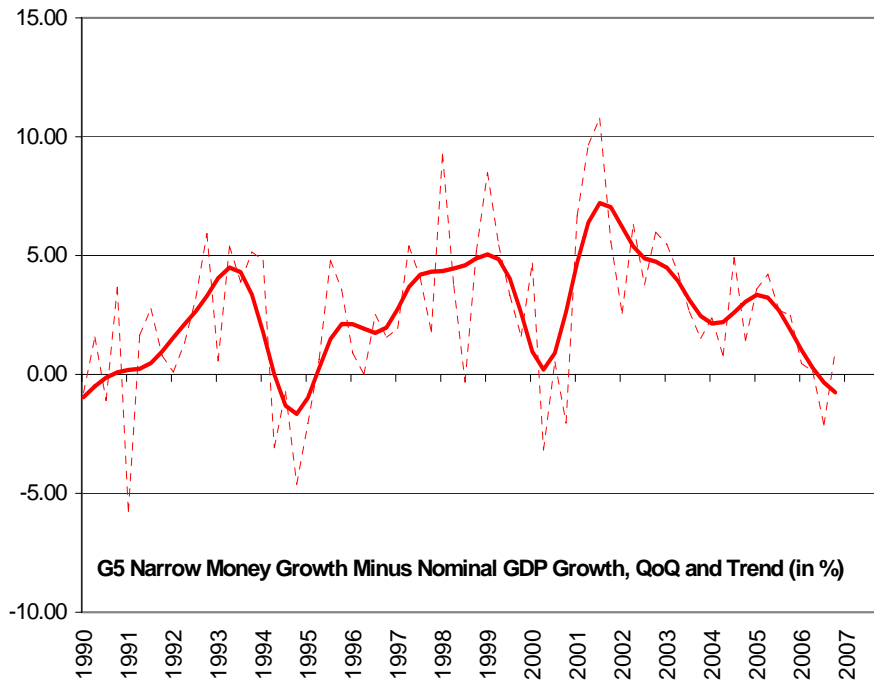
Joachim Fels

Chief Global Fixed Income Economist

3 Mai 2007

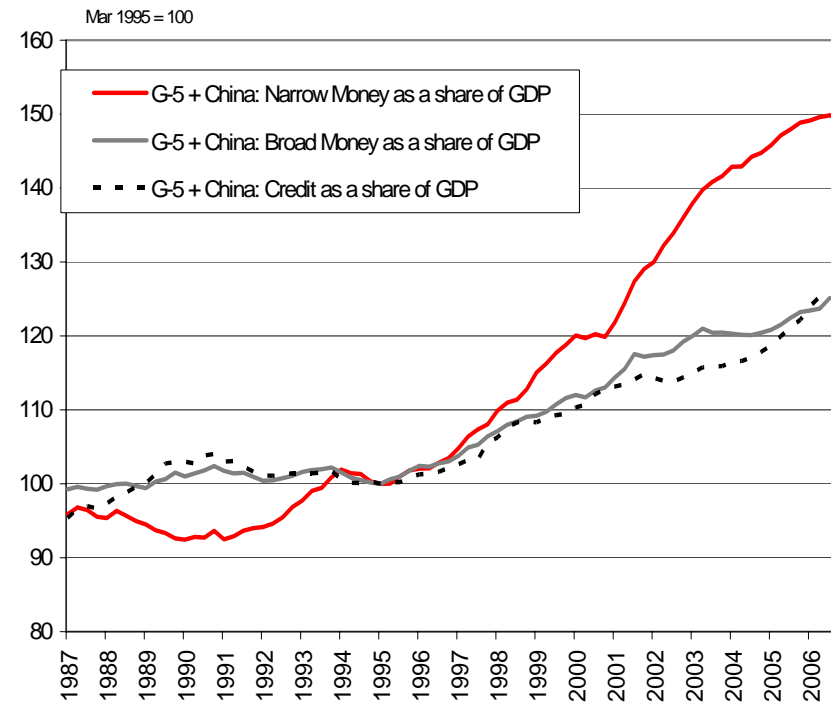
The Turn of the Global Liquidity Cycle

Global Excess Liquidity Has Started to Shrink



Source: IMF, Morgan Stanley Research estimates

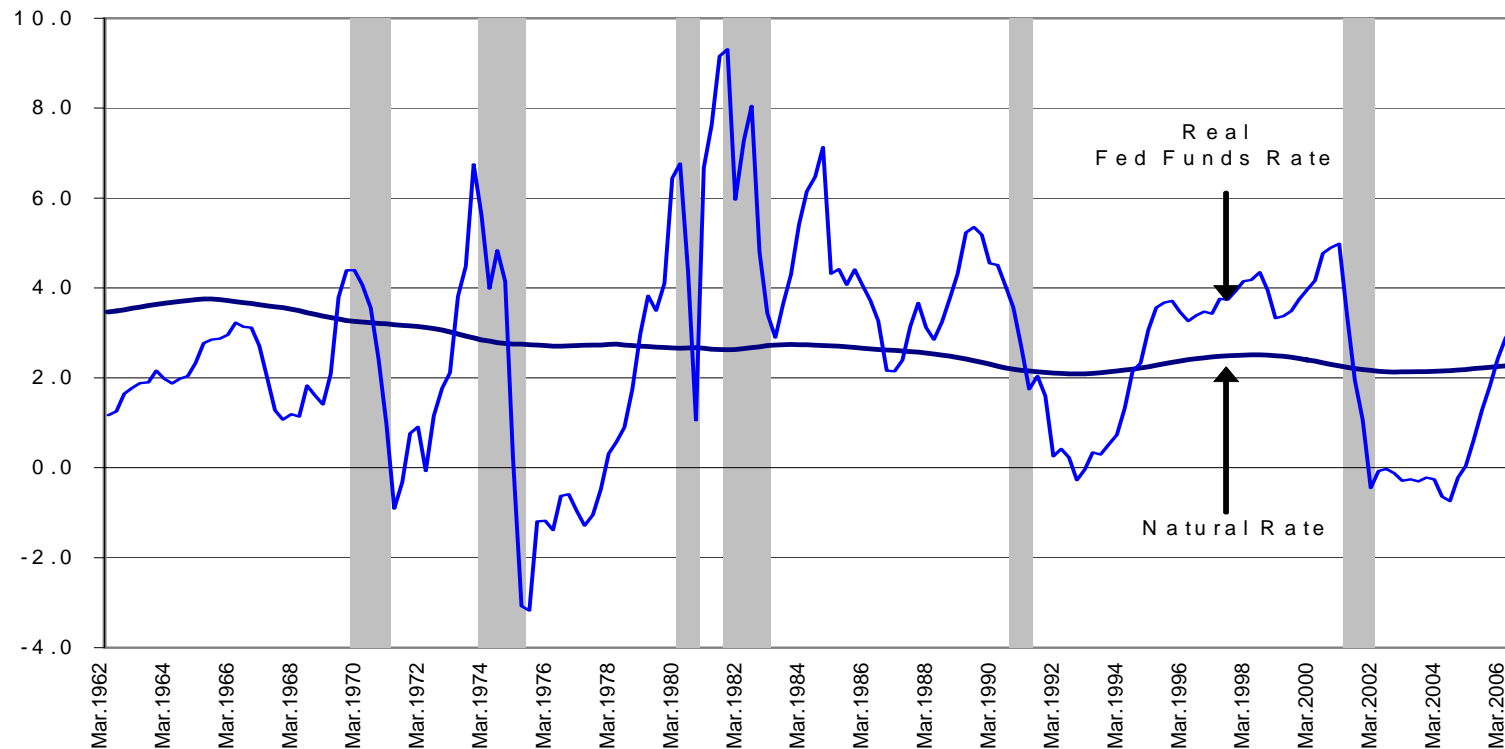
But the Level of Liquidity is Still Close to Record Highs



Source: IMF Morgan Stanley Research estimates

Fed Remains in Restrictive Territory

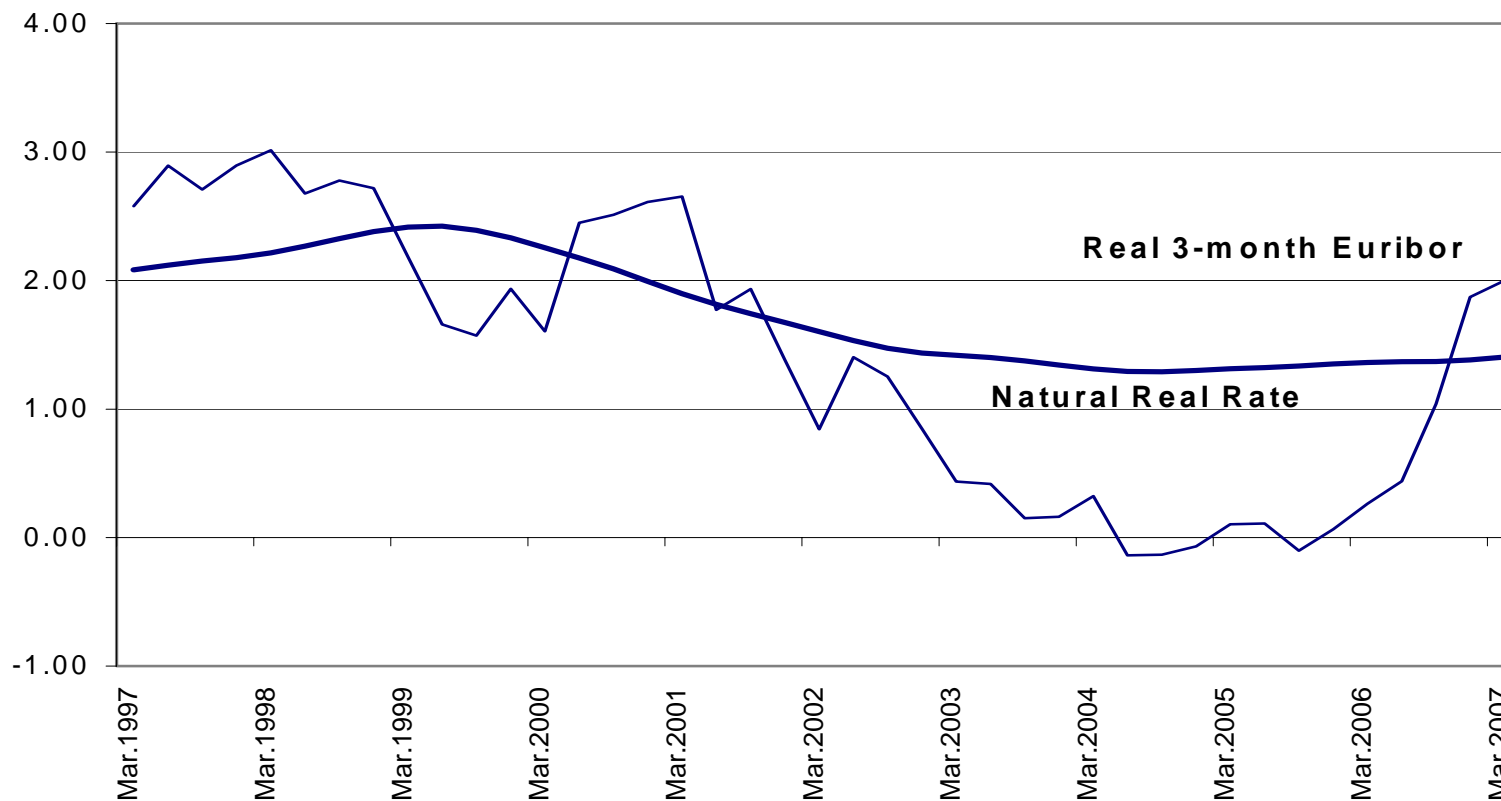
Real Fed Funds Rate and Morgan Stanley Estimate of the Natural Real Rate



Source: J. Fels & M. Pradhan, *In Search of the Natural Rate of Interest*, February 10, 2006

ECB 'On the Accommodative Side' ??

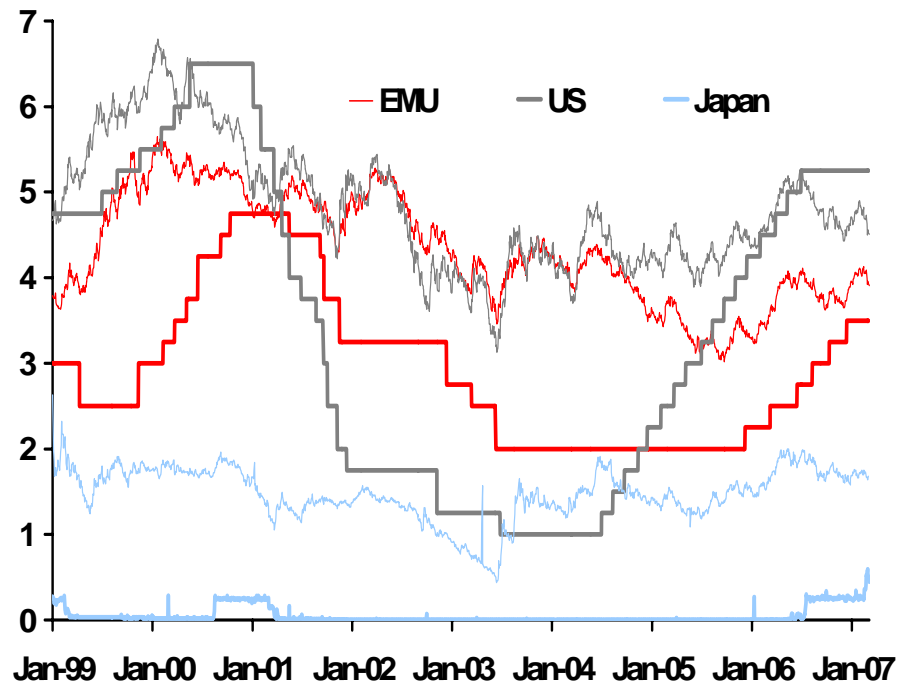
Euro Area Real Short Rates and Natural Rate Compared



Source: J. Fels & M. Pradhan, *The Nat-EUR-al Rate of Interest*, 2 May 2006

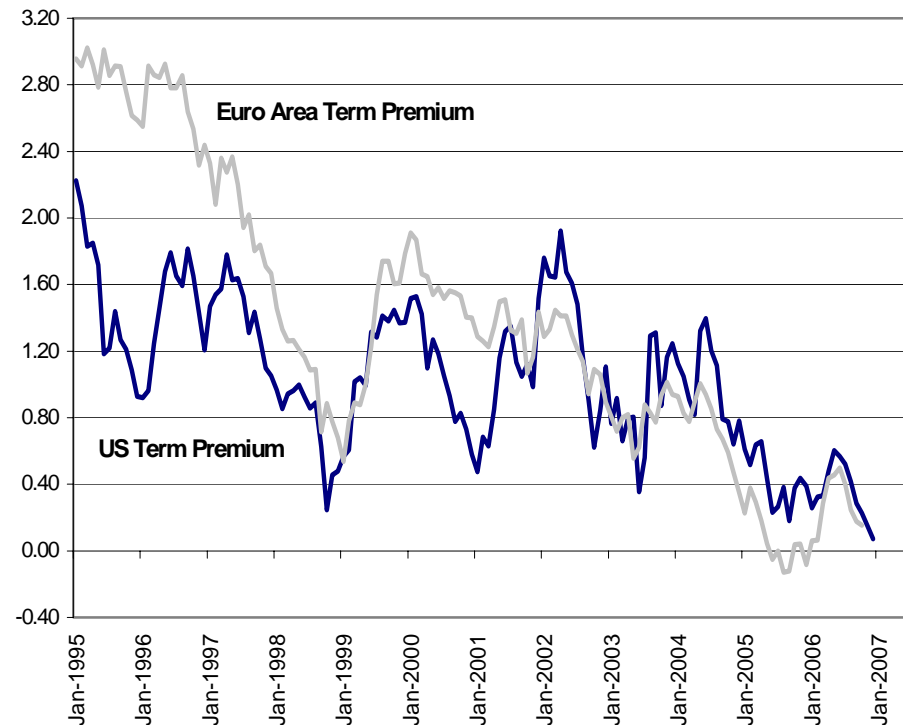
Bond Term Premiums at Record Lows

Despite Monetary Tightening,
Bond Yields Have Remained Low



Source: Haver Analytics, Morgan Stanley Research

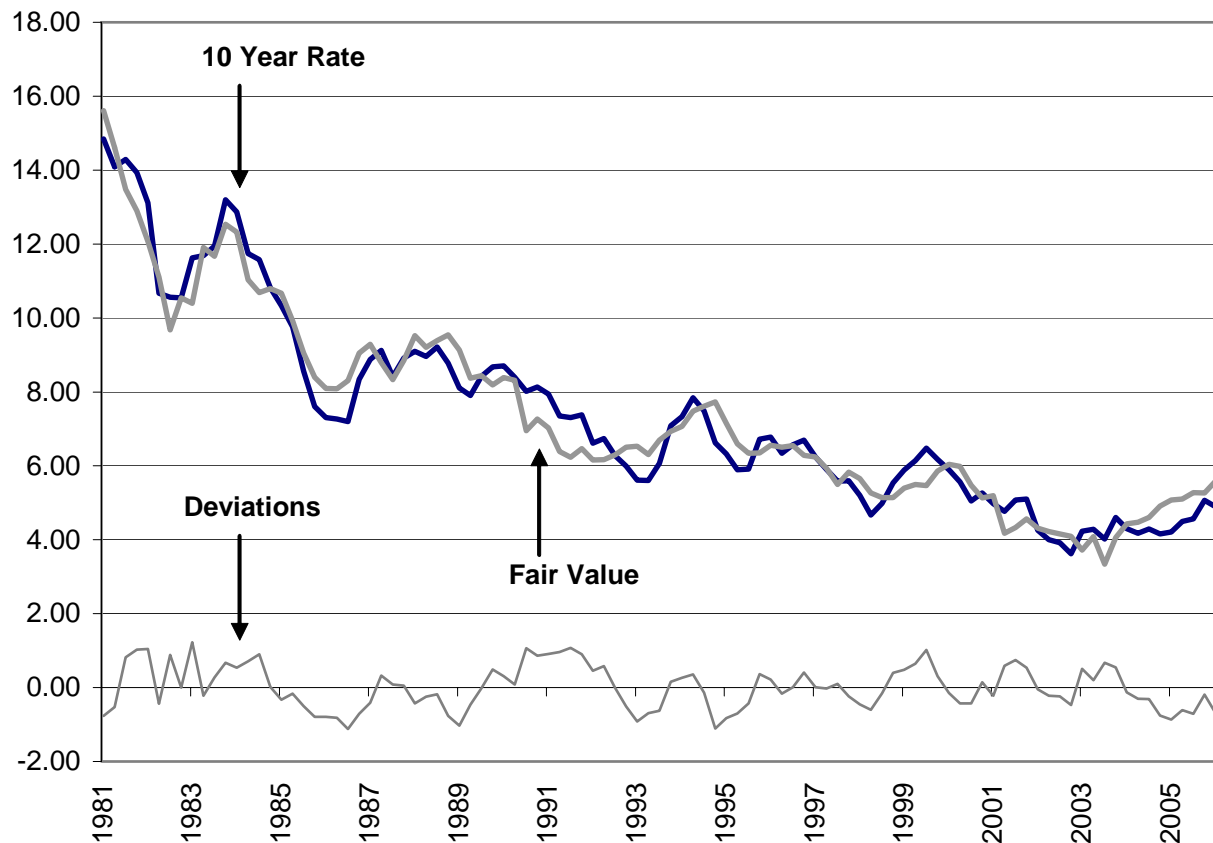
This is Reflected in a Decline in
the Bond Term Premium



Source: BIS, US Federal Reserve, ECB

Government Bonds Clearly Overvalued

MS FAYRE says 5.5% is Fair for US 10Y Yield



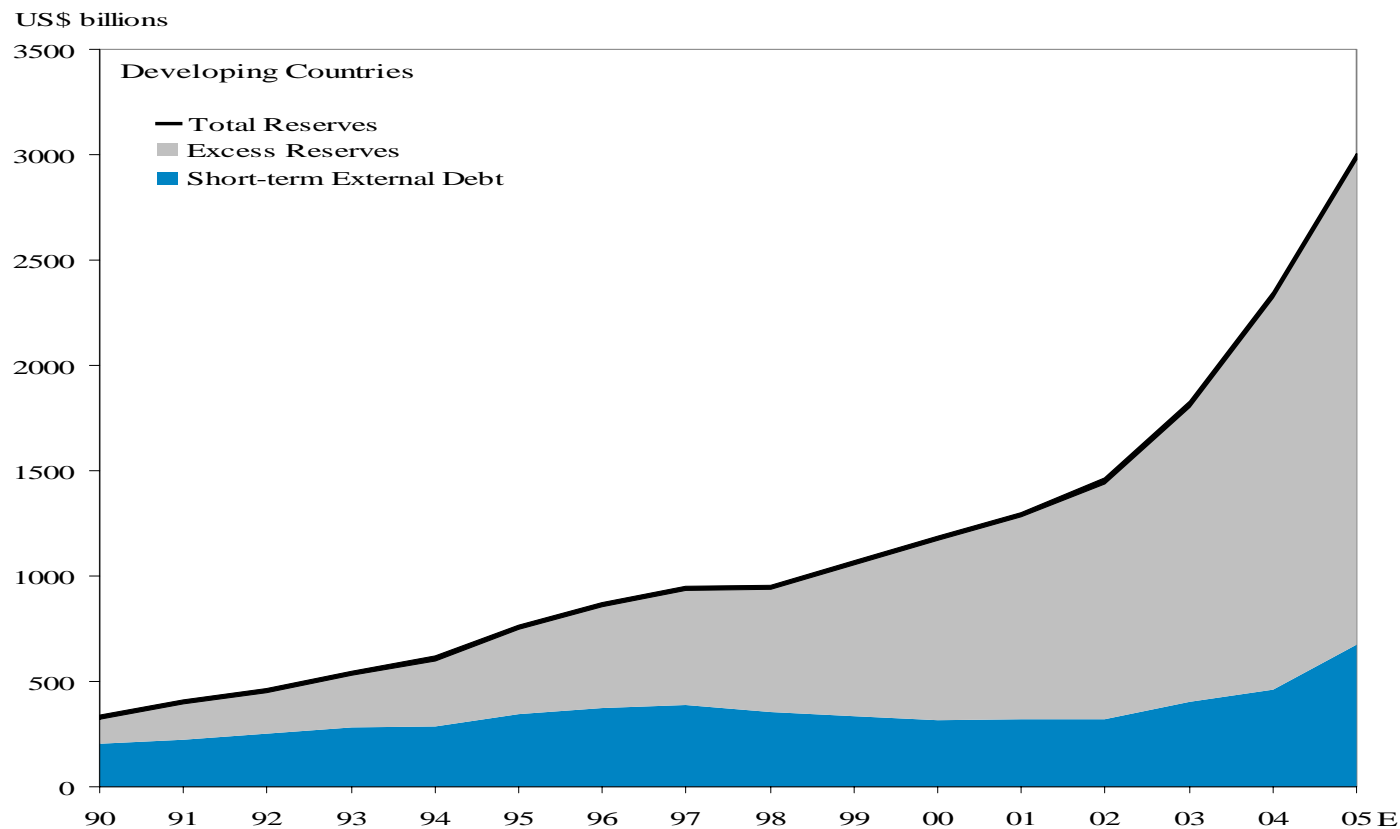
Source: J. Fels & M. Pradhan, *Fairy Tales of the US Bond Market*, 26 July 2006

Morgan Stanley

- Our econometric fundamental fair value model uses 3 factors:
- Real Fed funds rate; 1-year ahead inflation expectations; and inflation volatility.
- 2005 conundrum period was not unprecedented
- Current fair value: 5.5%. Bonds are Overvalued!

The 'Non-Economic' Buyers of Bonds

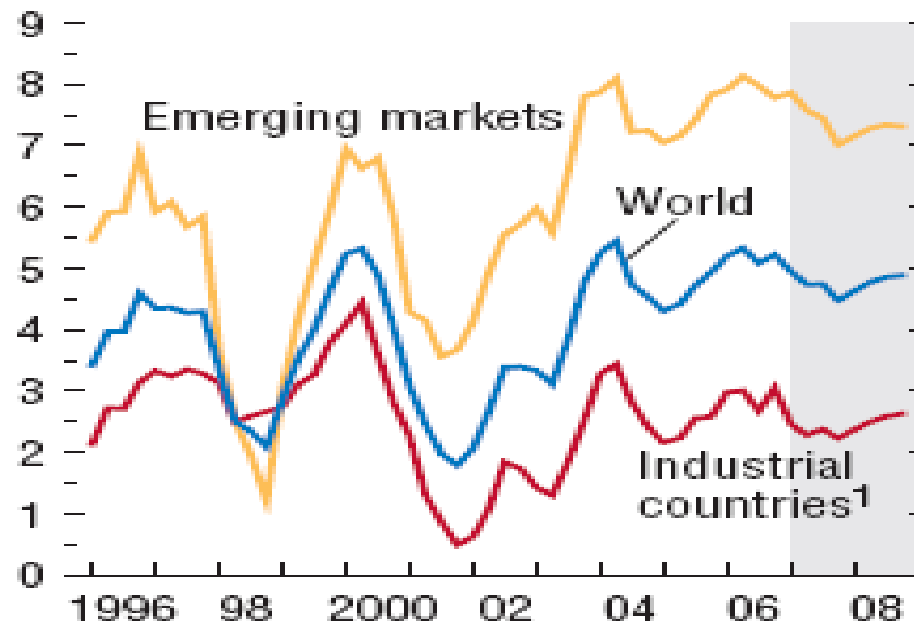
EM Foreign Exchange Reserves Soared



Source: IMF, World Bank, Morgan Stanley Research

Strong Growth in Emerging Markets

Real GDP Growth

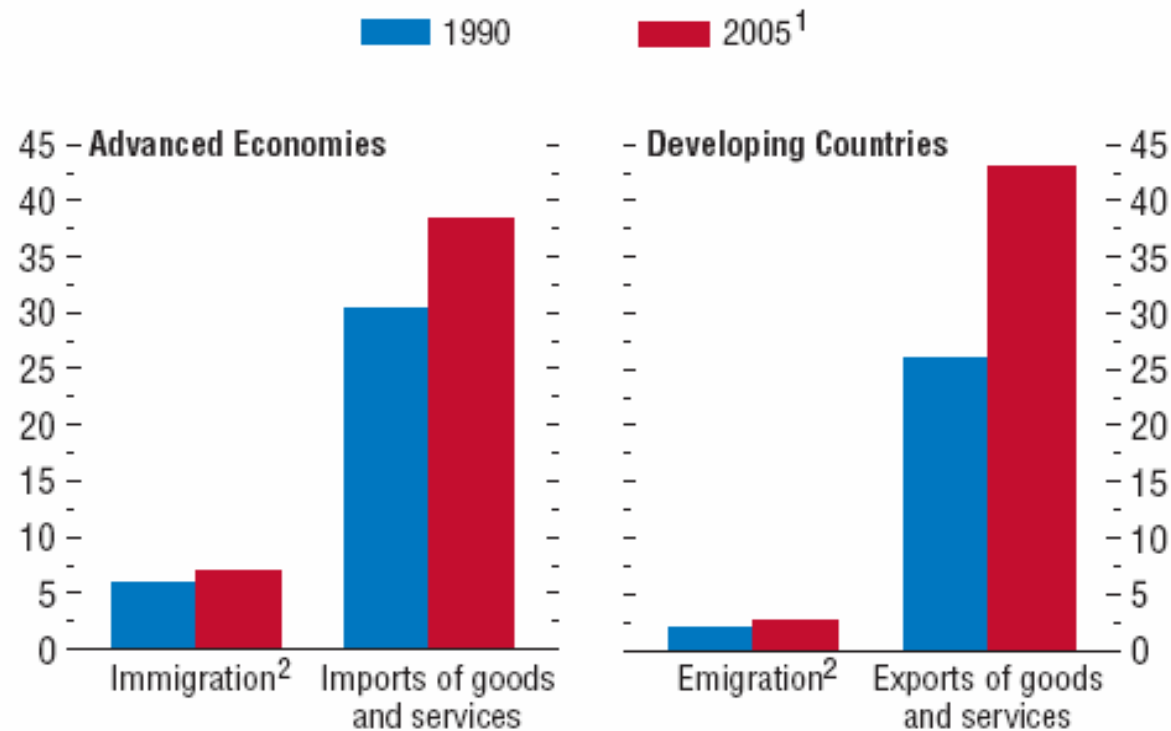


Source: IMF, Morgan Stanley

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Global Labour Supply on the Rise

Migration and Trade (Percent of Labour Force and GDP, Respectively)



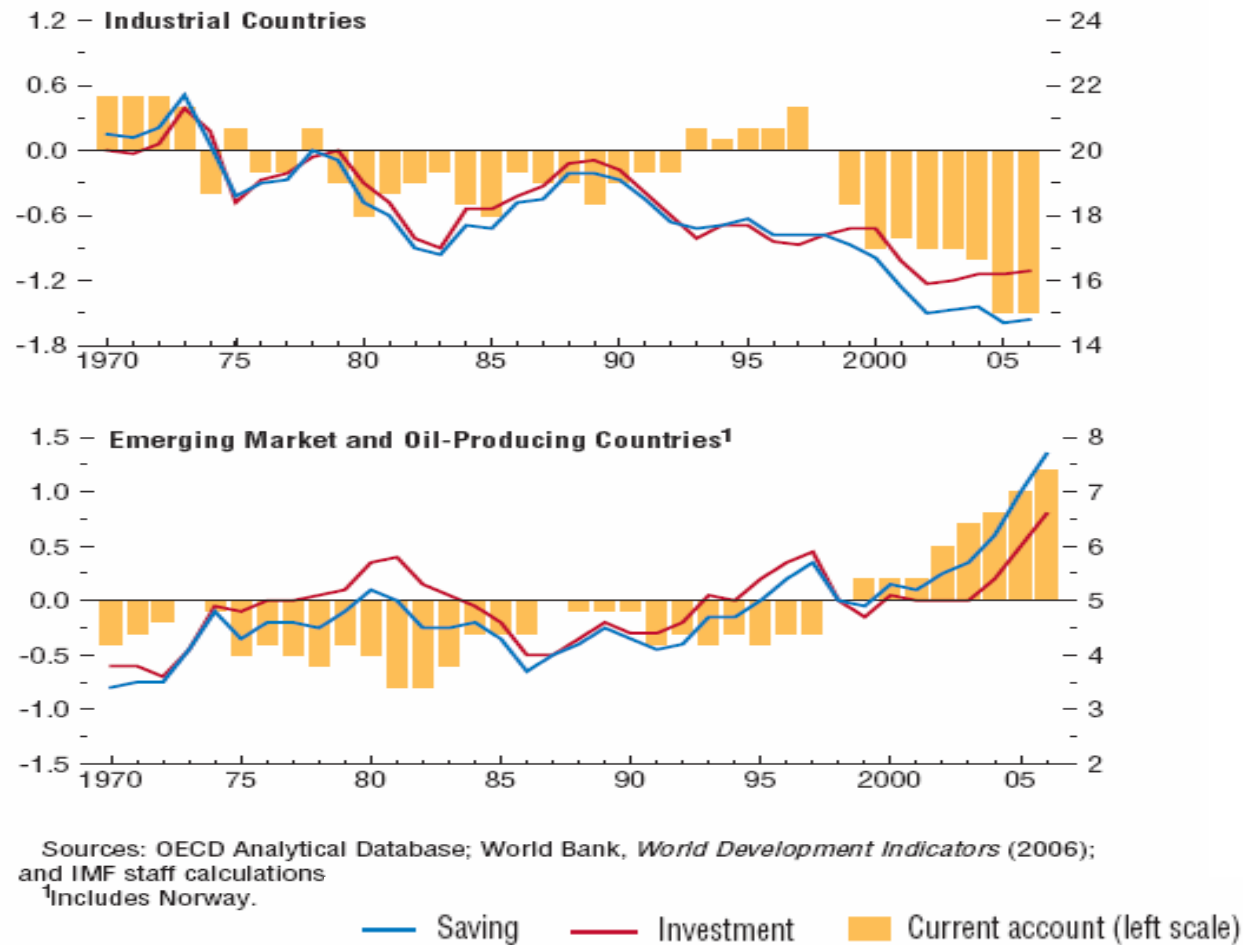
Sources: Docquier and Marfouk (2005); OECD, International Migration Data; U.S. Census Bureau; and IMF staff calculations.

¹2000 data for immigration and emigration.

²Hong Kong SAR, Greece, Israel, New Zealand, Singapore, and Taiwan Province of China are not included in average immigration due to data limitations. Russia and Slovak Republic are not included in average emigration due to data limitations.

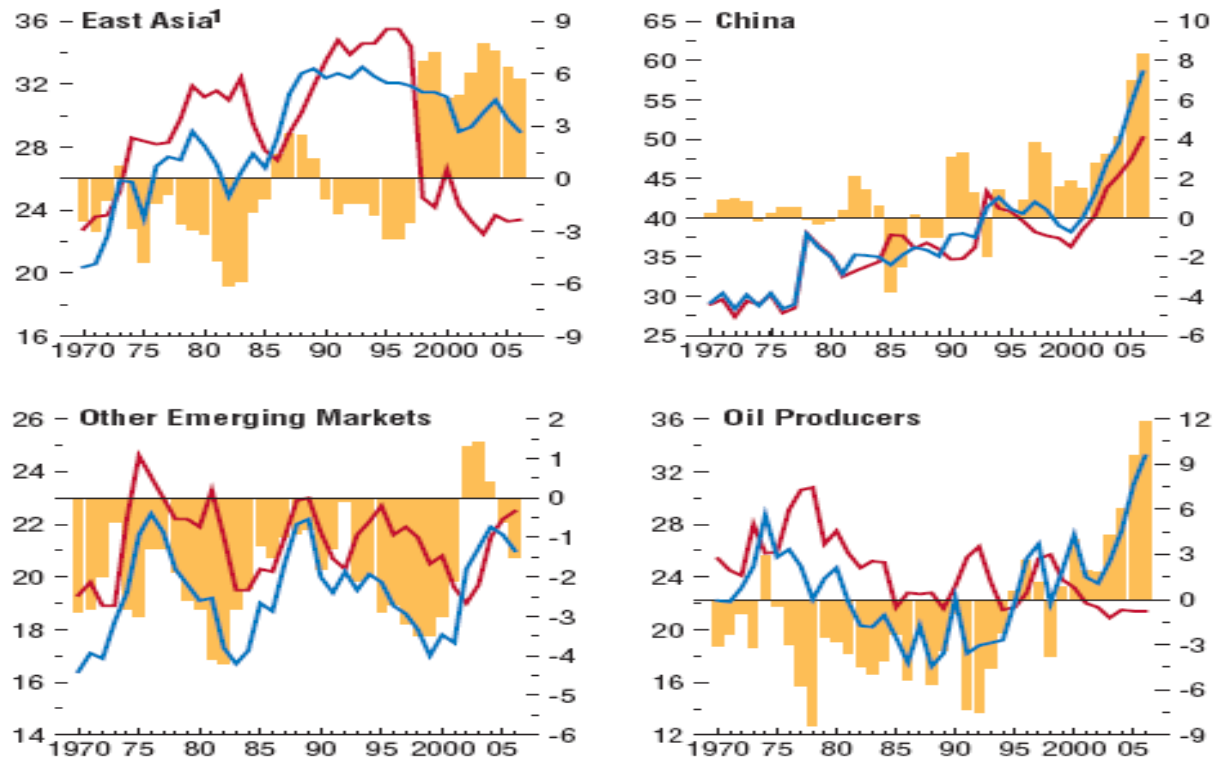
Widening Global 'Imbalances'

Saving, Investment, and Current Account



Excess Savings Made in China & OPEC

Saving, Investment, and Current Account



Sources: OECD Analytical Database; World Bank, *World Development Indicators* (2006); and IMF staff calculations.

¹East Asia emerging markets excluding China.

— Saving — Investment — Current account (left scale)

'Imbalances' the Solution, not the Problem

- **Asian and commodity producers' savings grow strongly, but their financial markets are underdeveloped**
- **Hence, excess savings flow into developed financial markets (US, Europe), inflating the prices of 'good' assets**
- **Wider C/A surpluses/deficits are the equilibrium solution to the mismatch between abundant savings and scarce 'good' assets**

Asset Shortage (Ricardo Caballero 2006)

- **Shortage of financial assets in the world**
- **Underdeveloped financial markets in EM**
- **Slow creation of ‘good’ assets in G10 due to shrinking budget deficits, low corporate bond issuance, share buybacks**
- **Strong demand for assets from EM due to rapid income growth and high savings rates**
- **Strong demand for assets from financial institutions as collateral for financial innovations**

Rational Bubbles

- **Low bond yields and term premia**
- **Slim credit spreads**
- **Rising equity prices**
- **Rising commodity prices (gold)**
- **Real estate boom**

Policy Responses

- **Develop local EM capital markets and banking systems to produce more ‘good’ assets**
- **Stop worrying about global ‘imbalances’ – they are an equilibrium phenomenon!**
- **Avoid pricking rational bubbles, but also don’t help inflating them further via excessively loose policies**
- **Acknowledge global dimension of monetary policies**

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