CapB

The Data-Driven
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Treasury Finance

Promoting Financial Prudence

Advisory & Consultancy Services

Thoughts & Provisions

The abundance of global liquidity has been subject to ever-tightening strains following the 2008 debacle and subsequent recurrent failures in global interbank operations. Economic performance, especially when measured at the rate (i.e. speed) of growth, is now a mere fraction of what economic prosperity meant before the Great Financial Crisis.

We are well aware of the fact that a congregation of prime broker-dealers, specifically commercial banks, have adopted a strictly risk-off tone when providing liquidity through varying means of banking operations. All this can be attributed to the primary and ensuing fear of counterparty risk within the Eurodollar system. Some measures, which we faithfully refer to, indicate ongoing troubles within this system, wherein chronic "eurodollar" shortages persist in the shadows, translating into weak and fable economic performance.

Indeed, post-2008, there still exists some minor form of continuous liquidity provisioning from said banks; however, it is merely not enough to create a meaningful rebound and a subsequent metaphoric takeoff for the gradually de-globalizing world economy. As time progresses, monetary conditions deteriorate, forcing the involuntary squandering of reserves and monetary resources of the world's private and public treasuries.

Unfortunately, as of this publication, neither a proposed systemic solution is present, nor a competing monetary order seems inevitable. All that matters in this recurring sequence of events since 2008, and of this "silent depression" is to focus on a strategic and sovereign approach to money, policy, and treasury finance. Broadly speaking, and under this paradigm, money, in its current shy state of abundance, is certainly hard to come by.

We thank you for the time taken to read this publication. Your continued trust in CapB is what keeps us moving forward and beyond.

Sincerely,

George Al Bcherraoui
Founder

Contents & Highlights

Money, Vision, Policy & Strategy

Through an optimal combination of vision and strategy, the policy is born, and through it, ample results emerge. The craft of managing a treasury's finances through strategic reserve allocation, regulatory adjustments, and monetary and trade policy may well propel a nation's economy into prosperous conditions and time of growth.

Untold losses are incurred due to misguidance of governmental or corporate policies and mismanagement of their respective treasuries. Much can be said about the alternative routes which said policies could have taken. However, if the initial and crucial understanding (i.e. vision) of the current monetary paradigm is at fault, then failure is guaranteed, as result, for both public and private treasuries.

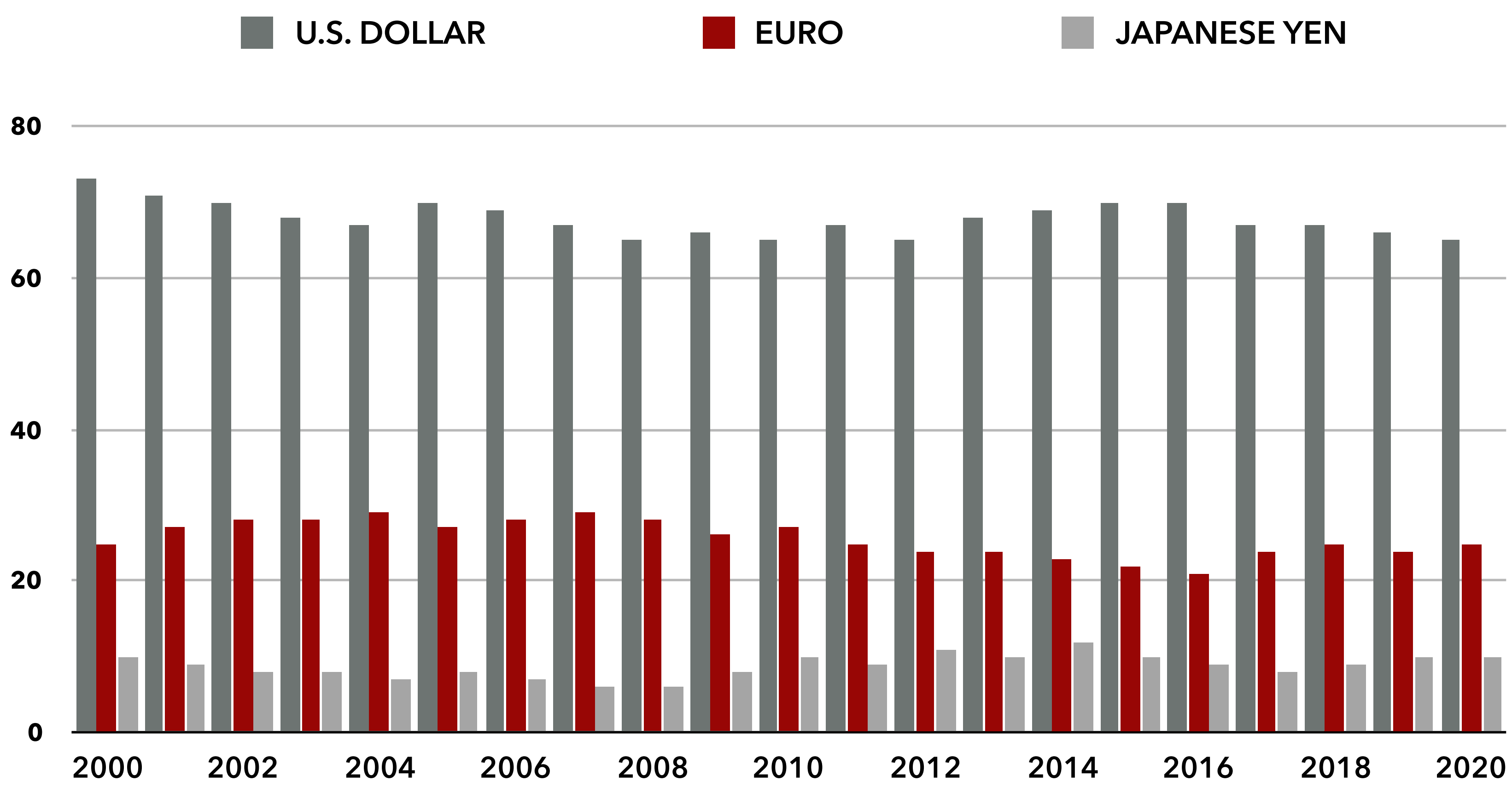
Sovereignty In Finances

We ultimately aim to promote responsible and mature management of scarce monetary resources, of said public and private treasuries, thereby preserving the wealth of nations under a monetary order plagued with overwhelming structural and economic constraints.

Foregone Situation

As widely and most famously known, the overwhelming majority of commercial transactions and trade operations are settled upon the U.S. dollar. A solid and clear mismatch between the USD and other standing currencies can be easily recognized in global capital markets when touching upon U.S. dollar share of international reserves, share of export invoicing, and share of foreign currency debt issuance.

Since the late-50s, national banking clusters have tremendously grew and evolved into a global system, left offshore, operating subtly, manufacturing and creating liabilities and assets in the most incentivized and efficient way possible. Upon such foundations, and during the rising hegemony of the U.S.A., the U.S. dollar, for one



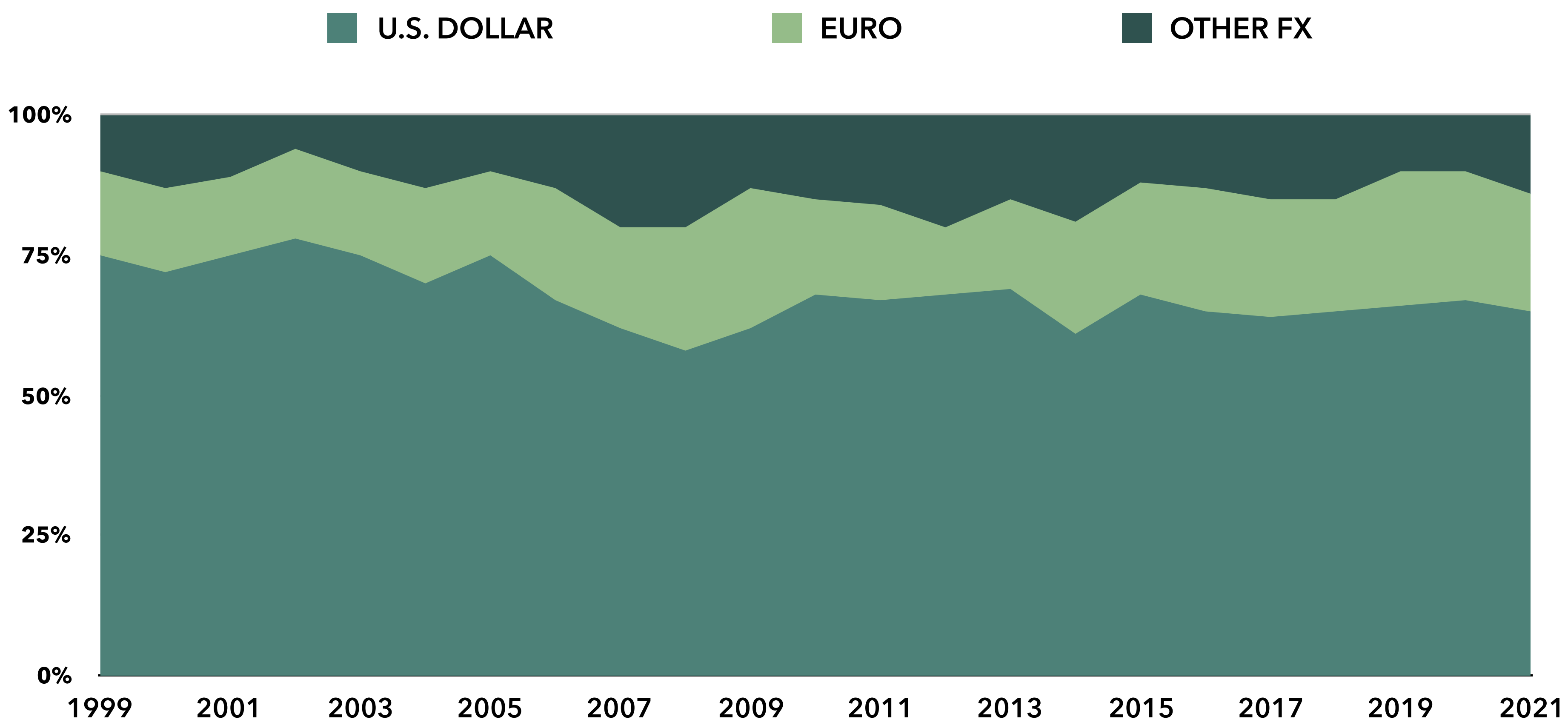
Index of International Currency Usage

Source: IMF COFER; BIS Triennial Central Bank Survey of FX and OTC Derivatives Market; Dealogic; Refinitiv; BIS locational banking statistics

reason or another, became the benchmark "currency" to rest upon when trade and commerce were of concern. Of course, we speak of the U.S. dollar as the official and undisputed property of its respective government. However, in terms of global finance, especially when a rising international system of banks is of concern, this shallow fact no longer holds any truth.

Assuming that banks are entitled to outright credit creation and extension, and we already recognize their taste for regulatory arbitrage (i.e. operating offshore and in the shadows,) then we can directly point to their incentive of denominating their balance sheet items in so-called U.S. dollars which by the mid-60s was in full developing use. Indeed, as the newly-created American-led system was on the rise, and as the recently-formed LIBOR rate gained traction amongst banks as a prime reference rate, use for the U.S. dollar, at face value, expanded thereby prompting a vast number of lending opportunities to developing and lesser-developed nations, based of course upon perceived economic incentives. In plain terms, there was money to be made, especially through privately-created “dollars” which we most commonly refer to as the eurodollar, offshore dollar, or international dollar.

The eurodollar alone, as a unit of account, exchange mechanism, and system, resting and operating outside any hindering jurisdiction had, by the early-60s, co-opted the status of the "proper" U.S. dollar. Without a doubt, both these monetary measurements are equally and perfectly paired, but sources and context of their creation differ greatly. We can examine the results of the “eurodollar takeover" from the mid-60s til the lat-70s by looking at the “Great Inflation” alone in the U.S., which officials had failed to identify cause and origin of this almost-decade-long event.



Share of Foreign Currency Debt Issuance

Source: Dealogic; Refinitiv

Without delving too deep into the remaining history of events, the decades that succeeded the 70s were simply developmental and maturing stages that fomented systemic and operational efficiencies (i.e advent of financial derivatives) into the Eurodollar system. Such positive attributes extended the reach of globalization and the consequent integration of markets, thereby promoting economic prosperity around the world until the unfortunate breakdown of the whole system on August 9th, 2007.

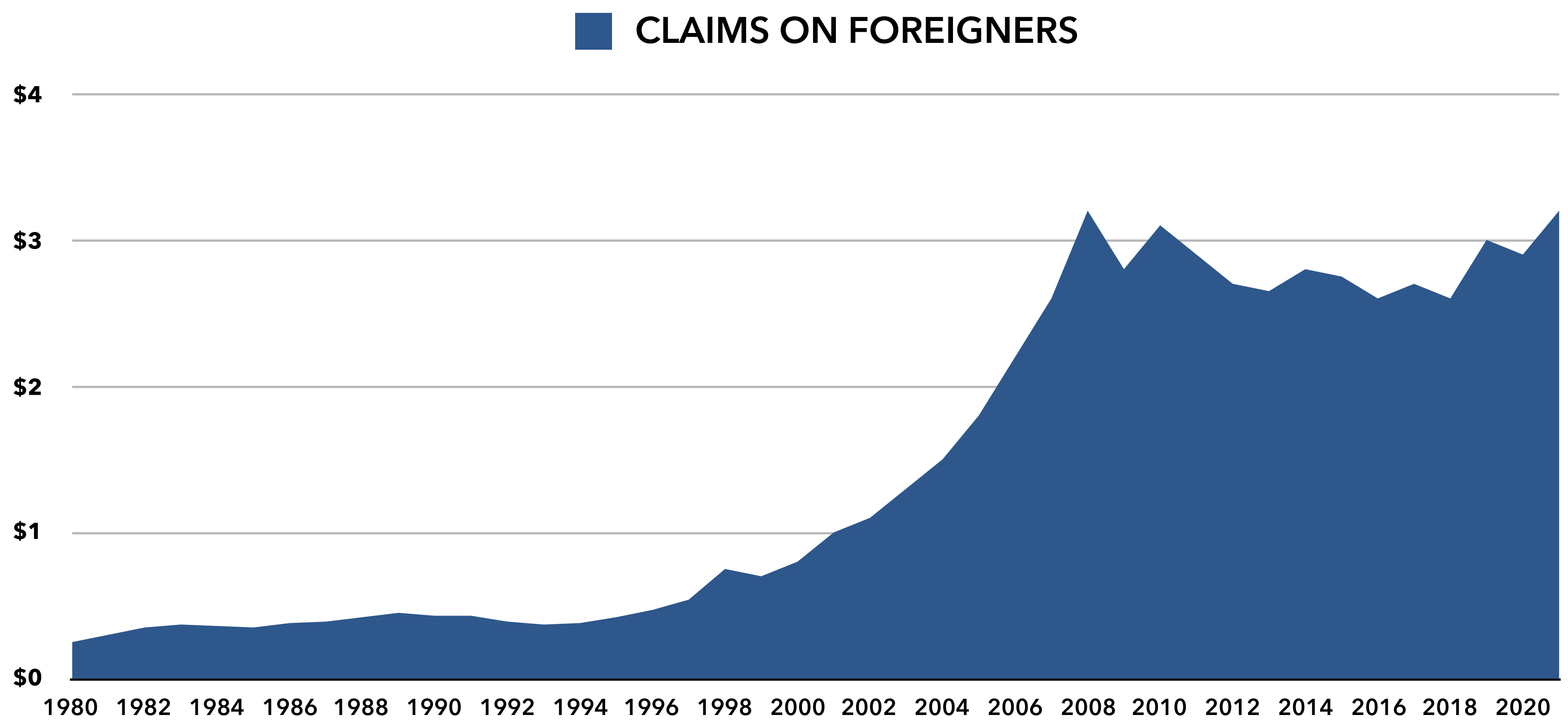
Global monetary conditions had tremendously deteriorated following that day.

New Paradigm

An attestation to the significance and infamous status of August 9th, 2007, is nothing short of a new and unanticipated shift in paradigm for a new monetary order, but one plagued with defects and restrictions. It is, of course, simple to discern by the growth rate of any subject economy, be it advanced or developing.

The recurrent instances of mere and short-lived incursions of credit impulses had emerged quite sporadically, directing such monetary resources towards Ponzi-like schemes (i.e. unproductive investments), therefore resulting in mild and regional real estate booms, venture capital malinvestments, private equity leveraged buyouts, debt-driven corporate stock buyback programs, and misuse of investment vehicles. Such prevailing examples are natural in a broadly-risk-averse environment like ours, post-2008. Only reputable and economically-significant entities are entitled to private credit extension, whereas the rest of the "real" economy (i.e. small and medium-sized enterprises) lack the unattainable qualifications. The ensuing detriments may not have been accurately documented, but we can realize and acknowledge the results of the Eurodollar breakdown as time progresses.

The problems that cause such widespread systemic malfunctions and recurring failures (i.e. wave of U.S. dollar strengthening) in this system are many and may be perceived as far too complex to explain briefly. Yet, they all mainly revolve around some key principles, in Banking and Finance, such as: Risk Management, Incentive & Opportunity, Balance Sheet Mechanism & Constraints, and Counterparty Risk.



TIC - U.S. Banking Data

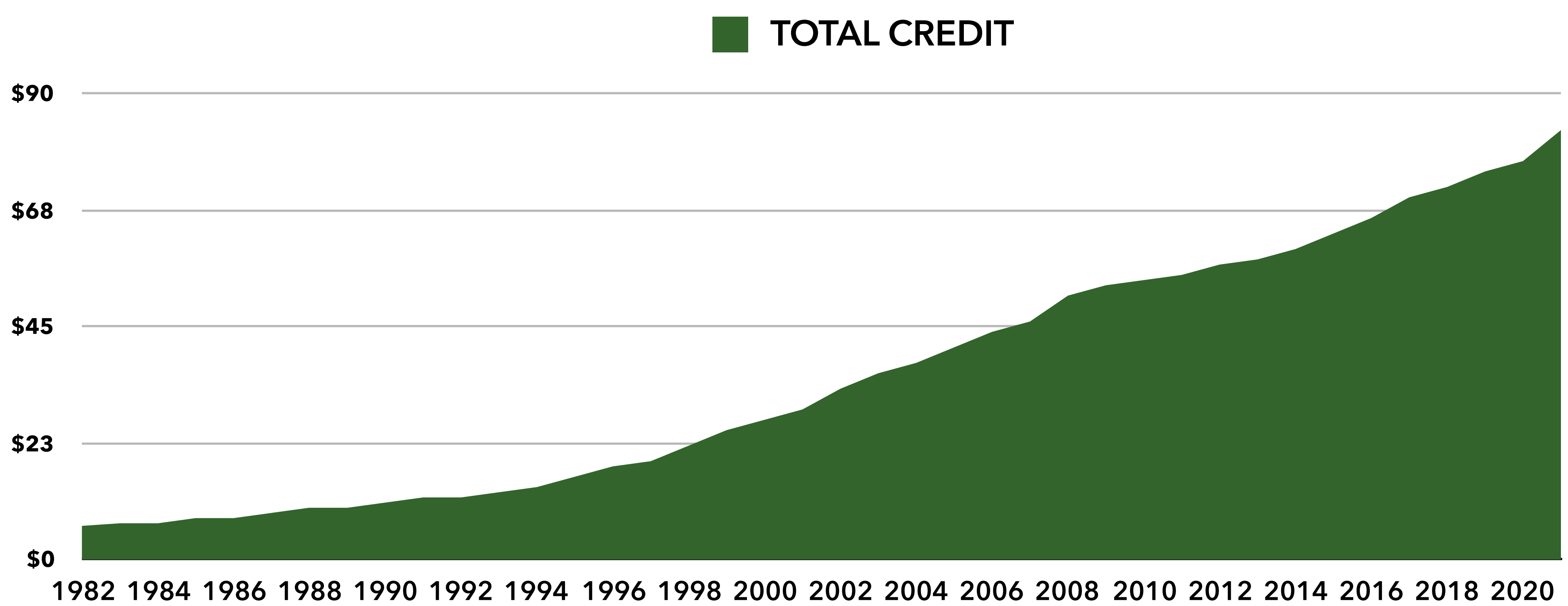
Trillions in USD's (Gross Notional Amounts) - Source: U.S. Department of the Treasury

Eurodollar Effect & Influence

As the system evolved into a seemingly smooth and efficient one that had been primarily designed to facilitate the movement of capital, by varying facets of regulatory arbitrage, its developing sphere of eurodollar influence had ushered in a mode of convenience for a globalizing world. As credit, and therefore liquidity, had been in abundant condition, global trade and commerce functioned eloquently, with minor frictions.

The precursor to this all, that is, global aggregate bank credit and other discretionary forms of financing, grew to the fine tune of some healthy sustainable range, although with some nuances along the way (i.e. late-70s, mid-80s, and late-90s), since the earliest days of the system's establishment in the mid-50s. By noting the offshore dollar as the defining unit of exchange that practically underpins all transactions logged onto the system's private ledger, its availability and consequent provisioning becomes necessary to progress within this paradigm. However, if the underlying mechanics of eurodollar funding and liquidity break down, for one reason or a consortium of such, we my find ourselves in a "dry" monetary situation characterized by ailing economic growth, selectively segregated credit extension, unproductive Ponzi-like investments, and **involuntary squandering of public and private treasuries**.

In this issued publication of CapB; Advisory & Consultancy Services, we touch upon the prevailing constraints on global finance. Public and private treasuries are under increasing pressure to maintain what precious monetary resources they still hold in a severely risk-averse environment, deprived of liquidity and plagued with systemic inefficiencies, such as the one of Counterparty Risk.



Financial Accounts of the U.S. (Z1)

Trillions in USD's - Source: U.S. Department of the Treasury

Consequence & Strategy

Essentially, private credit embodies the undisputed cause to wealth creation. Without such a concept in finance, as a profession, and banking, as an application, no mere form of possession, property, estate, or material would transcend into existence. ”Bank money” is the absolute resolve to our economic despair and misfortune.

In a debt-based system, the eurodollar unit of account, as it is the most efficient clearing mechanism we currently have, is engineered to “lose value” over time, for it has only been, since its inception, a medium of exchange purposed for revolving around in a subject economy. In this type of system, neither limitations are applied to the quantity of created “money”, nor on its availability between conflicting jurisdictions. These facts of reality showcase the benefits of such a system by simply looking at the wealth created for all participating nations of the world from the 50s and up until 2008.

However, following 2008, matters shifted dearly. As the Eurodollar system had now began to show signs of restraints, granting the world some recurring wave of a “strong dollar” with all its accompanying detriments, nations now had to readjust their respective economies to a shy rate of growth, fueled only by meager foreign direct investments, and doomed subsidization programs of all sorts (i.e. infrastructure plans, tax incentives, and export-driven policies).

In this monetary paradigm of global eurodollar illiquidity, public and private treasuries shall inevitably suffer the tremendous consequences when attempting to manage the eventual decline in trade, commerce, public and private finance, and overall economic performance by spending on, and subsidizing, what options they have in order to artificially maintain ongoing economic standards. There seems to be no way out of this situation since no eligible substitute to the Eurodollar system exists as of this publication. Yet, we view all forms of strategic and well-informed mitigating measures as the best possible initiatives to take for the foreseeable future.

As an example of applying such wisdom, we believe in adopting a strict mercantilist approach to trade, commerce, and other discretionary economic policies to be the most optimal initiating point at the hierarchy of strategic reserve management.

In essence, our sovereign and money-focused view on such overwhelming problems grants us proper assessment of global monetary and economic conditions. If no strategy is put in place, and no vision is built for the purpose of achieving sovereignty in finances, then outright bankruptcy and insolvency is certain.

An Excerpt From Our Work

Through this publication, we exhibit our work on matters related to finance. Though a modestly brief demonstration, we believe this is essential to present what kind of content, ideas, and perspective we project onto our clients, sponsors, and advisors.

Our wisest advice we give to investors is to "***follow the money***."

In our material world, wherever and whenever credit flows, there is life to be seen.

Motto

The Dominance
Within Free Enterprise

Promises

Held

Privately

B

Our Mission

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