MMT and Real-World Financial Market Practitioners

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FEDERAL DEBT AND DEFICITS

Not as scary once it’s understood

Source: Pixar Animation
Common Knowledge and Assumptions Aren’t Always Correct

Source: Adweek, adweek.com

Source: Tobacco Stanford, tobacco.Stanford.edu
Challenge for MMT Practitioner

- Defending my view against otherwise highly credible people who are tragically misinformed

Source: Business Insider, businessinsider.com
The fact that we are here today to debate raising America's debt limit is a sign of leadership failure. America has a debt problem and a failure of leadership. Americans deserve better. I, therefore, intend to oppose the effort to increase America's debt.

(Barack Obama)
Challenge for MMT Practitioner

The United States has a huge budget deficit so taxes are going to have to go up and I certainly agree they should go up more on the rich than everyone else. That - that's just justice.

— Bill Gates —

“I could end the deficit in 5 minutes. You just pass a law that says that anytime there is a deficit of more than 3% of GDP, all sitting members of Congress are ineligible for re-election.”

— Warren Buffett —

Source: The Photographer 4 You, thephotographer4you.com
Utilizing MMT
Misinformation Example 1

S&P 500 vs. Fed’s Balance Sheet around 3 Months Advanced

Source: Deutsche Bank, Bloomberg Finance LP
“I think that the runoff of the balance sheet has been smooth and has served its purpose,” he said during a news conference. “I don’t see us changing that.”

Moving to the present, Powell said he does not think the balance sheet runoff has played a role in recent market volatility and rate fluctuations.

“We’re alert to these issues, watching them carefully,” he said. “We don’t see the balance sheet runoffs as creating significant problems.”

- Jay Powell, Chair, Federal Reserve System
Utilizing MMT
Misinformation Example 1
S + P 500 Index

- A quick 8% drop in what is normally the least volatile period in the year
Utilizing MMT
Misinformation Example 2

- U.S.A. Debt Downgrade – August 2011
- Downgrade caused stock sell-off

Italian Credit Default Swap

Source: Bloomberg Finance LP
Utilizing MMT
Understanding the Interplay Between Fiscal and Monetary Policy

• 2 Heads of the same body
• Which one is dominant?
What does this mean?
- Fed is buying fewer securities
- Treasury is issuing more securities
- Or both

** WHY IS THIS IMPORTANT? **
Utilizing MMT
Understanding the Interplay Between Fiscal and Monetary Policy

- US Treasury Repo Rate vs. IOER Rate
  - Treasury Collateral Markedly Cheaper as Balance Sheet reduces

What does this mean?
1. Stories this week regarding US$ funding market stress is greatly overblown.
2. Fed can resolve this SIMPLY and EASILY by expanding its balance sheet...what is QE then?
3. Tragically – Bank Capital rules like LCR, SLR, etc. constrain fiscal policy unless both heads work together.