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## Investors rush for dollars as Fed continues to plug market holes

◆ Federal Reserve starts program to lend to money market funds as dislocations continue.

◆ ECB increased its bond-buying program by 750 billion euros and Christine Lagarde pledges “no limits” to action.

◆ Yields on Italian and Spanish bonds retreat as US Treasury yields spike amid interventions.

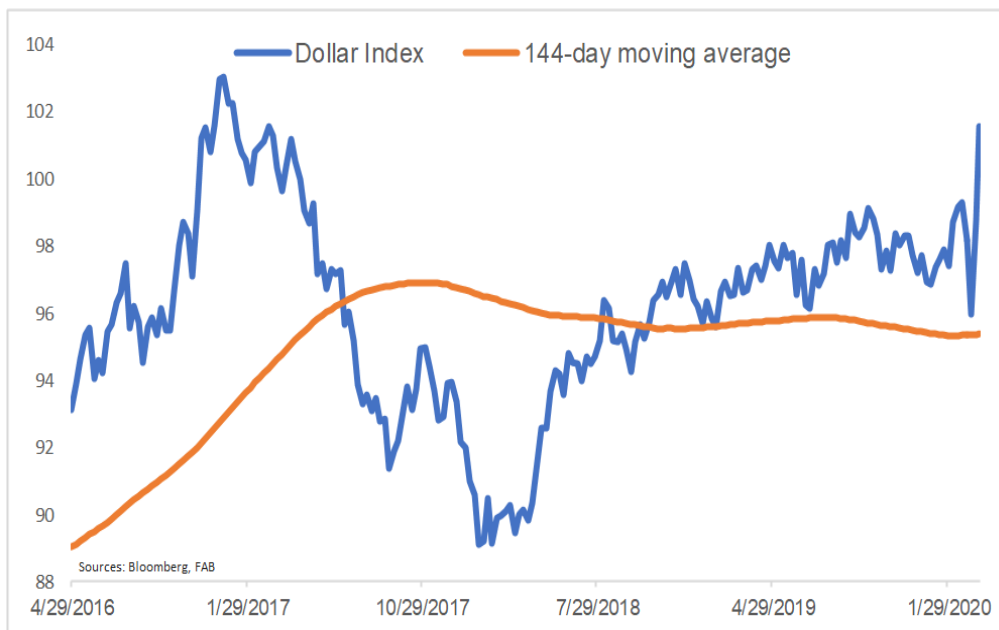
◆ Dollar index sees the biggest spike in at least five years as banks and funds across the world seem to be demanding more US dollars.

◆ Norwegian kroner sees record drop, basis swaps and libor rates see sharp moves amid rush for dollar funding.

◆ FAB AAC remains underweight in equities and overweight in gold.

The round of deleveraging that has hit the US stock market is spreading more widely and seems to be prompting a global rush for dollars. The dollar index saw its biggest spike in a decade over the past week, with key currencies such as the Norwegian kroner and the Australian dollar seeing record drops. Liquid emerging market currencies such as the Korean won and the Mexican peso have also seen historic drops, with these two down 3.1% and 2.8% over the past 24 hours alone.

In a similar vein, Libor rates, which gauge dollar funding costs outside the US, shot up 16 basis points yesterday to 1.05%, their biggest one-day move since September 2008, when Lehman Brothers declared bankruptcy. The jump could have ripple effects across asset classes.



Higher costs of borrowing for banks are likely to be passed on, which then makes many leveraged investments less attractive. That, in its turn, prompts more deleveraging, which could translate into more selling of assets, which then triggers more margin calls and liquidations. Put simply, the spike in interbank borrowing costs could prompt another leg of weakness in global risk assets.

Perhaps preempting that movement, the Federal Reserve yesterday announced a special lending facility aimed at money market funds. These cash-like investments very seldom trade below 100 cents on the dollar but they may have been at risk of doing so because of some of the dislocations in the short-term funding markets. The Fed acted quickly to avoid it.

The moves came on the back of new lending facilities for primary dealers and other extreme measures the Fed implemented over the past few days,

### The dollar's recent sharp move higher signals a temporary global liquidity squeeze

which had not been seen since the 2008 financial crisis. The ECB has now also joined the fray, having announced 750 billion euros of additional bond buybacks, which helped reduce the spreads of Italian and Spanish sovereign bonds.

The recent moves, however, suggest that the Fed may have to open new swap lines with other central banks, besides the nine it announced on Sunday, to ensure global dollar liquidity. Such a measure could help calm global markets.

Still, with jobless claims in the US today likely to presage a spike in unemployment, stock markets could see some more volatility as investors continue to price in the economic impact of Covid-19.

# Investment Strategy Update

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