
International Conference on the CPIS

Bank of Spain

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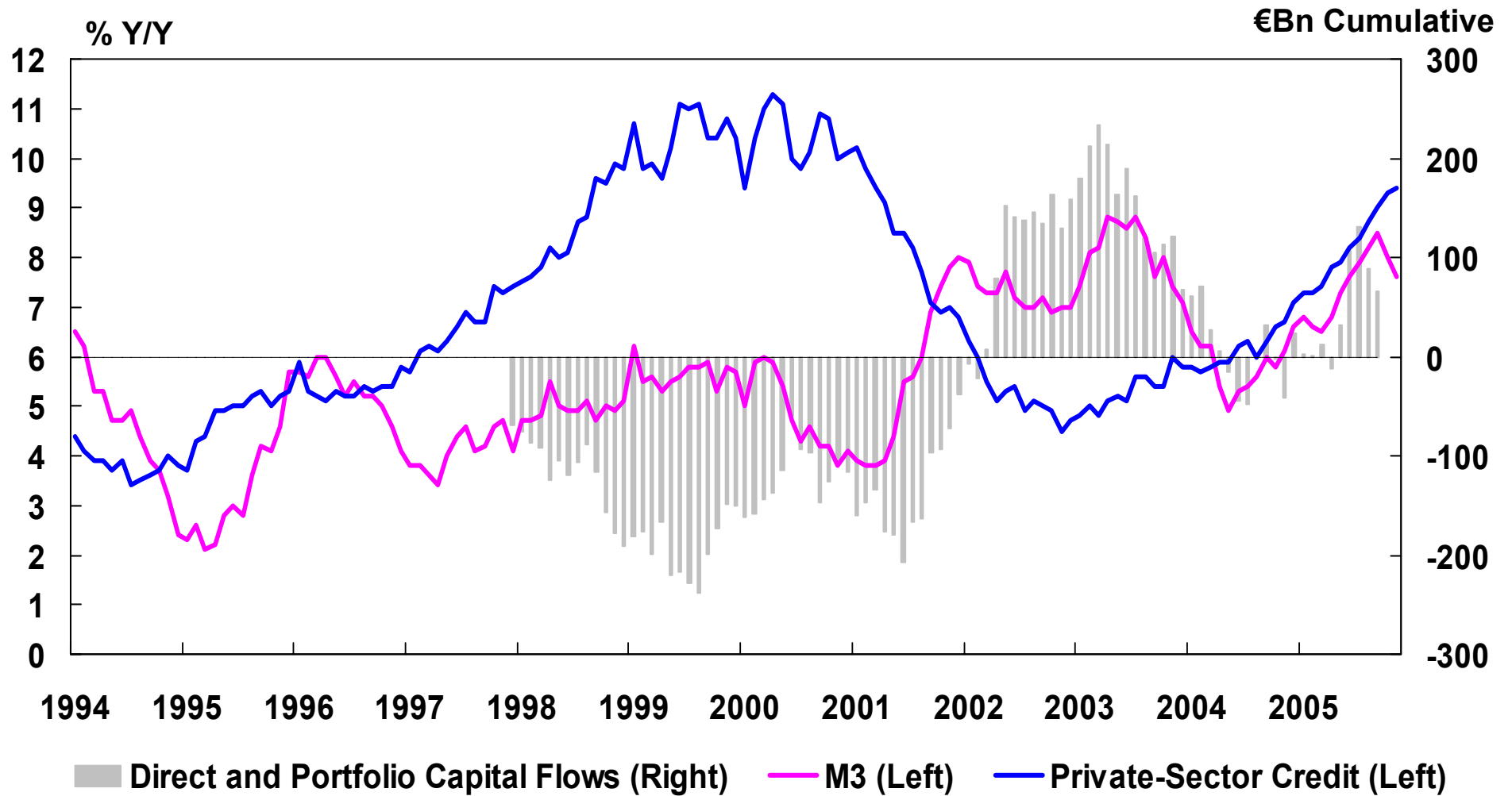
Business Use of CPIS

- The potential use of this survey is relevant in two in areas:
 - Analysis of monetary aggregates
 - Understanding exchange rate trends
- In practice, it has important limitations in its present form:
 - Low frequency and lack of timeliness
 - Stocks instead of flows
- Examples of possible improvements:
 - Japan: International Transactions in Securities (weekly and monthly)
 - U.S.: Treasury International Capital System (monthly and quarterly)

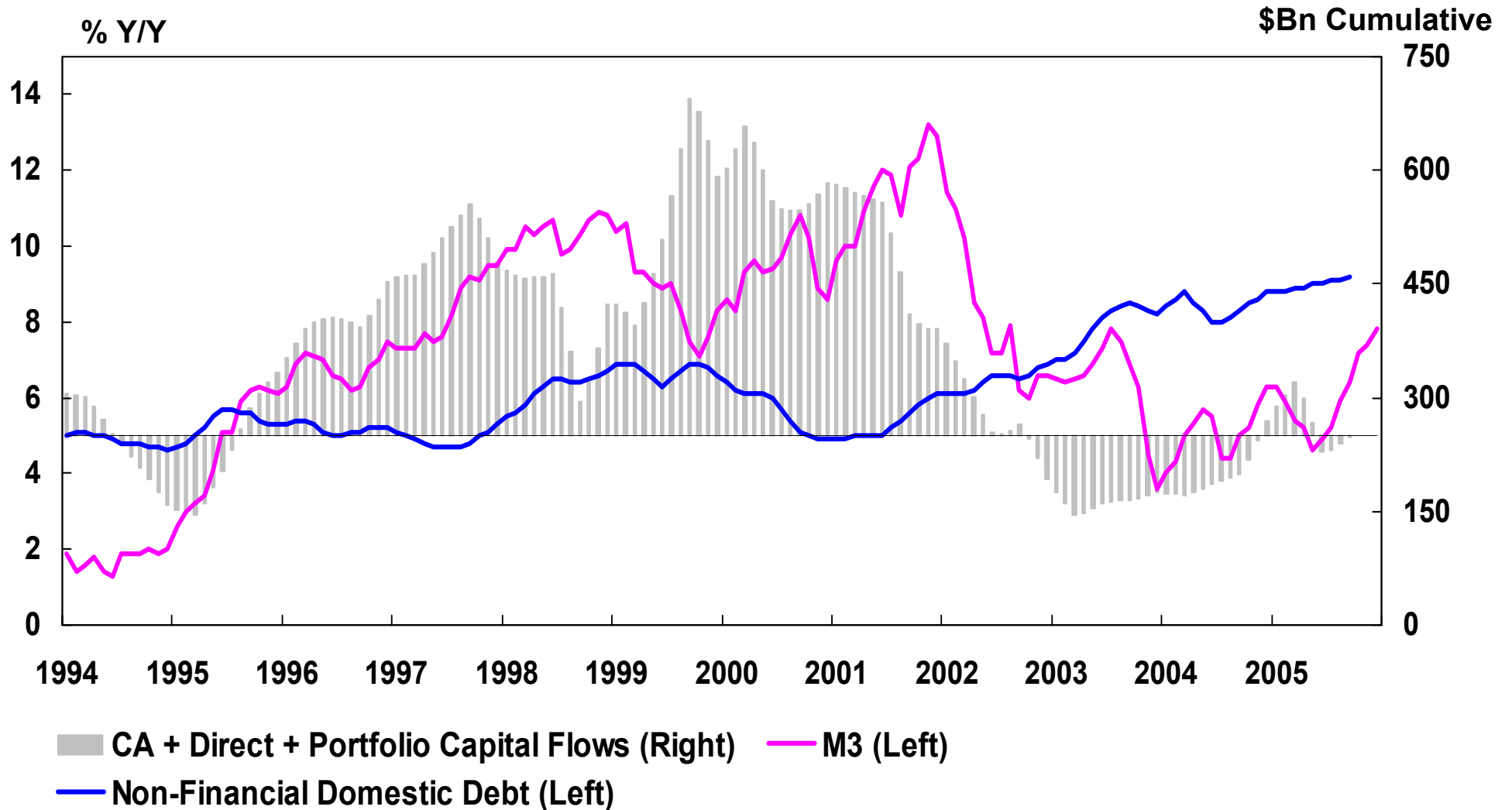
Analysis of Monetary Aggregates

- International capital flows create volatility in monetary aggregates:
 - Distortions are getting bigger and more frequent...
 - ...diminishing their predictive value in the short term
- Timely data on portfolio flows would help to estimate underlying trends:
 - M3 “adjusted” for portfolio shifts (money market funds, repos)
 - Destination/origin of credit (internal vs. external)
- Better portfolio data still would not provide the full story:
 - Bank deposits as potential source of international capital flows...
 - ...both by exporters and retail investors

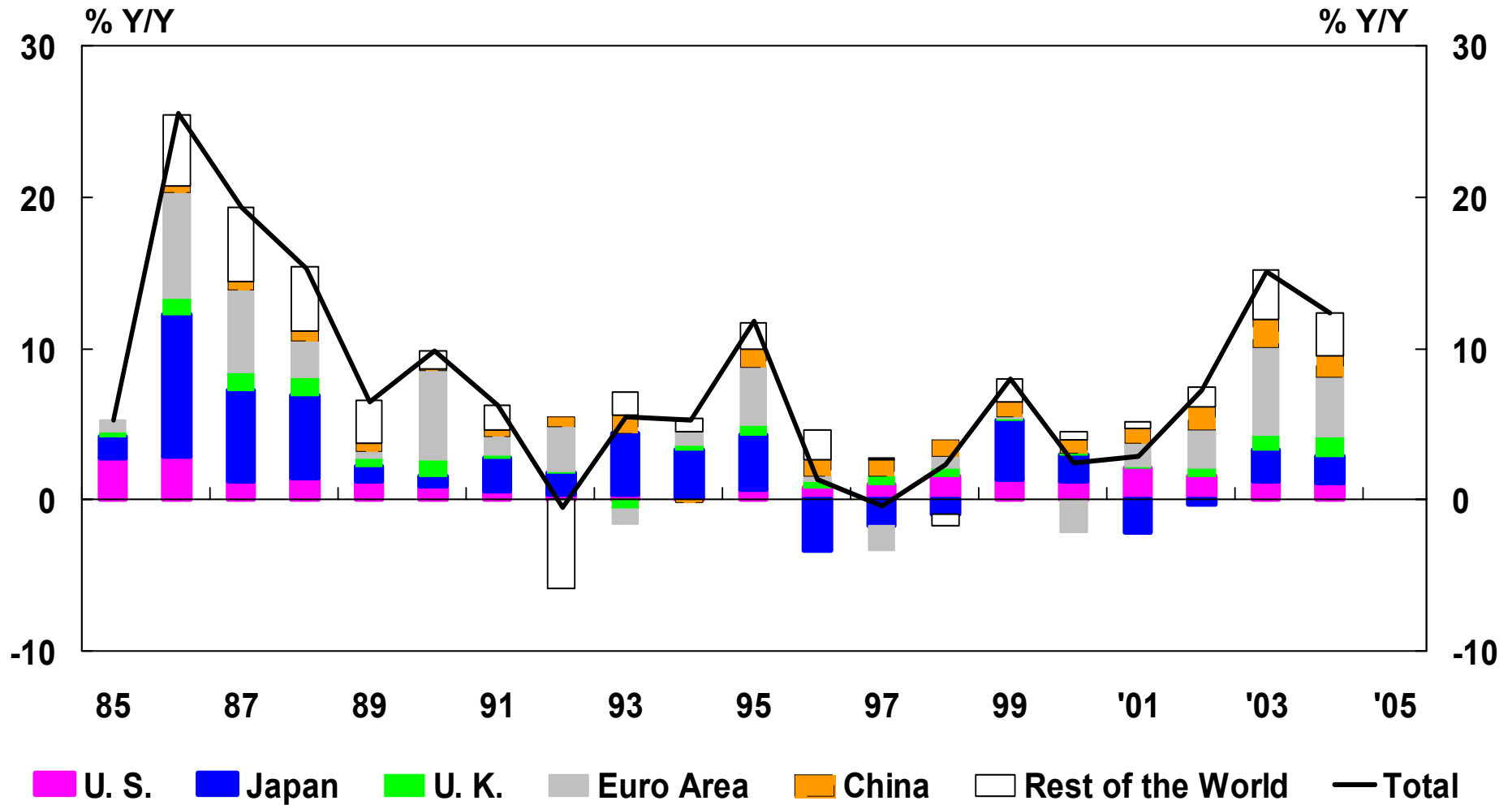
Credit Booms / M3 Behaves in Late 1990s



Credit Behaves / M3 Booms in Late 1990s



Contributions to Global Liquidity By Regions

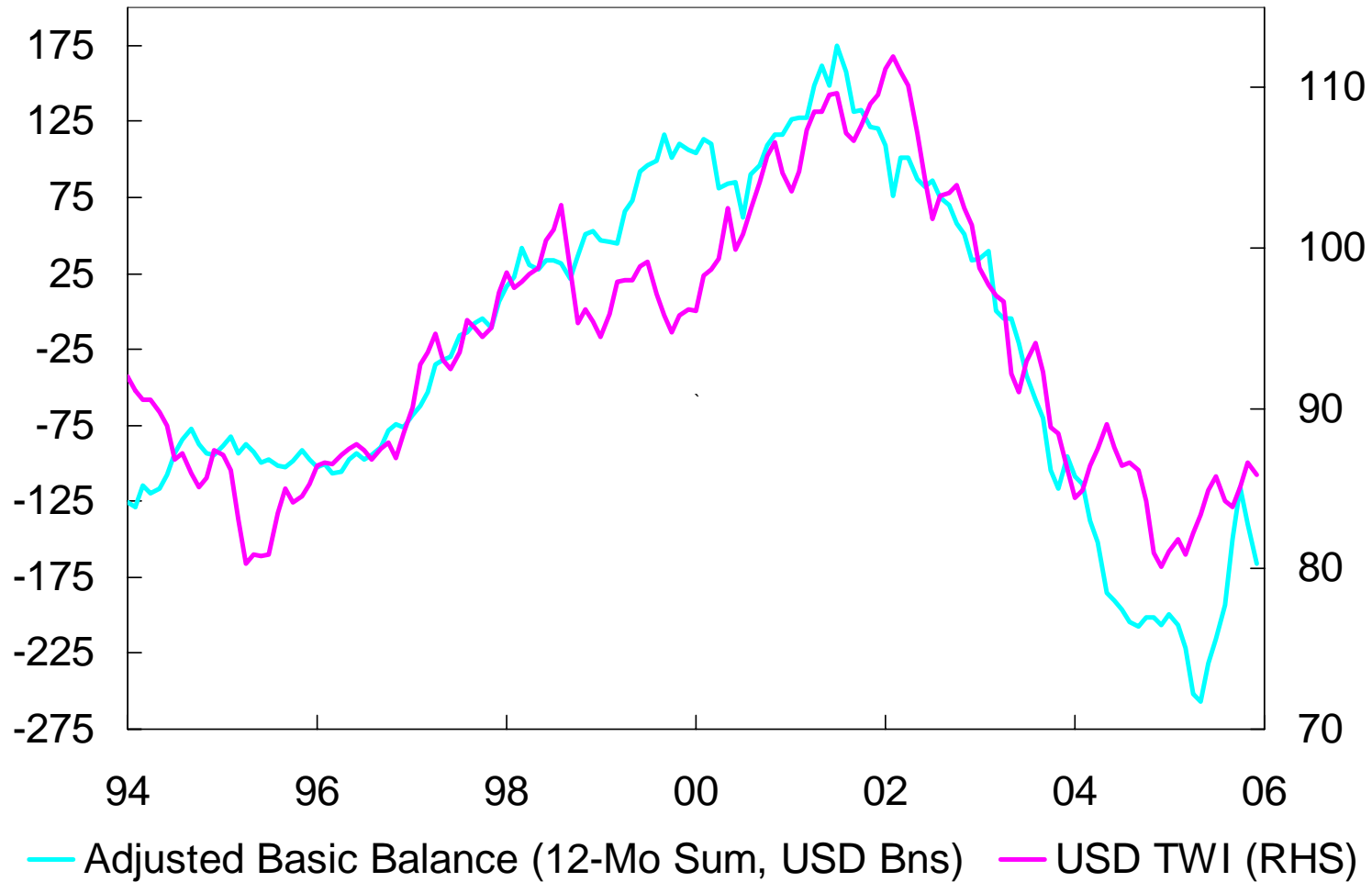


Understanding Foreign Exchange Trends

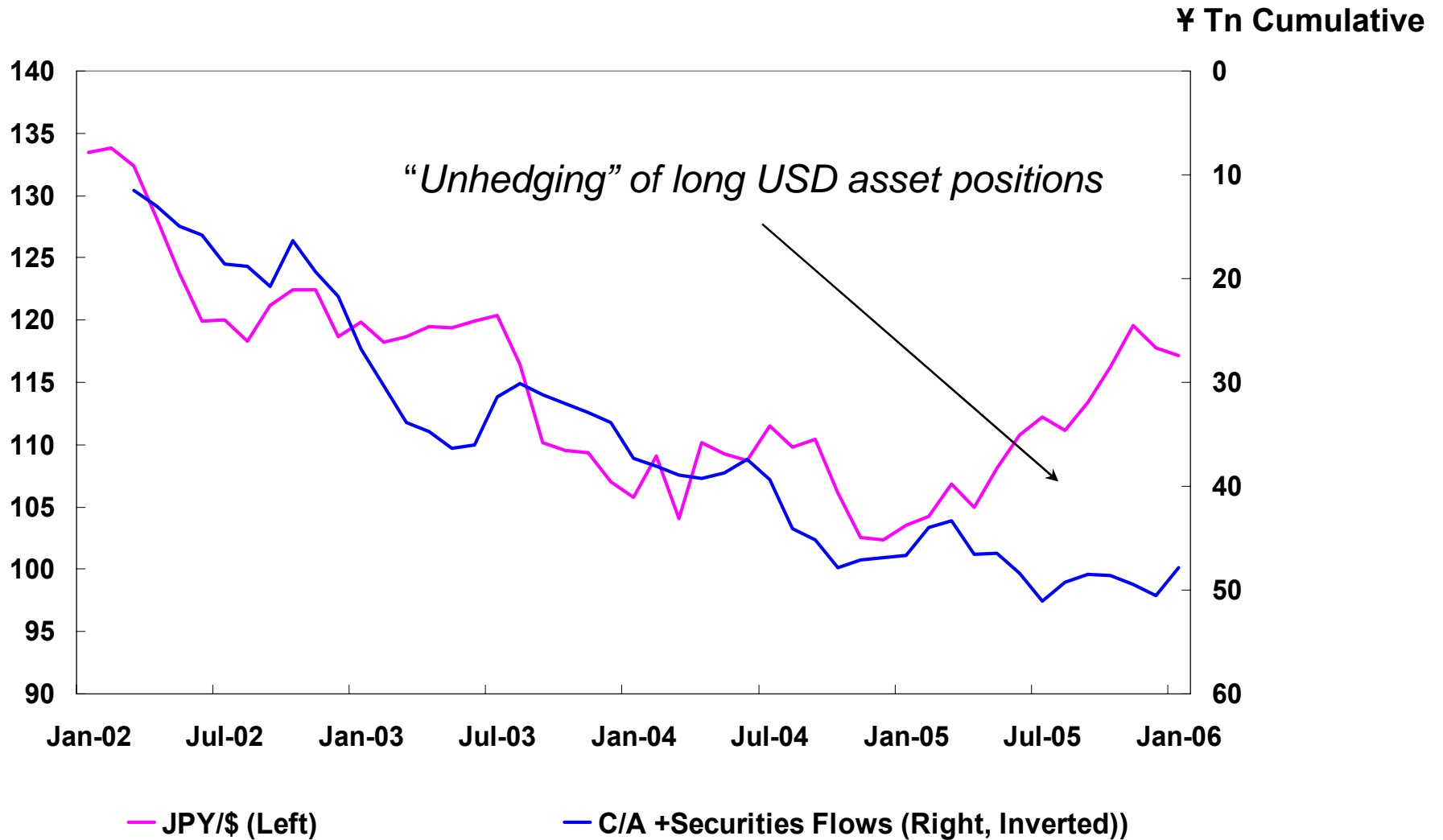
- Asset managers are the primary source of forex market turnover:
 - Massive growth in global financial assets/liabilities
 - Diminishing “home bias” (partly reflecting regime of low rates)
- U.S. international transactions data increasingly are “market movers”:
 - Shape expectations about sustainability of external imbalances
 - Increasing focus on major international asset holders (central banks)
- But even a “fully developed” CPIS would have serious limitations:
 - Increasing separation of management of forex risk (“currency overlay”)
 - Occasional episodes of massive currency shifts by exporters.

Portfolio Flows Usually Dominate Forex Trends

\$ Billion Cumulative

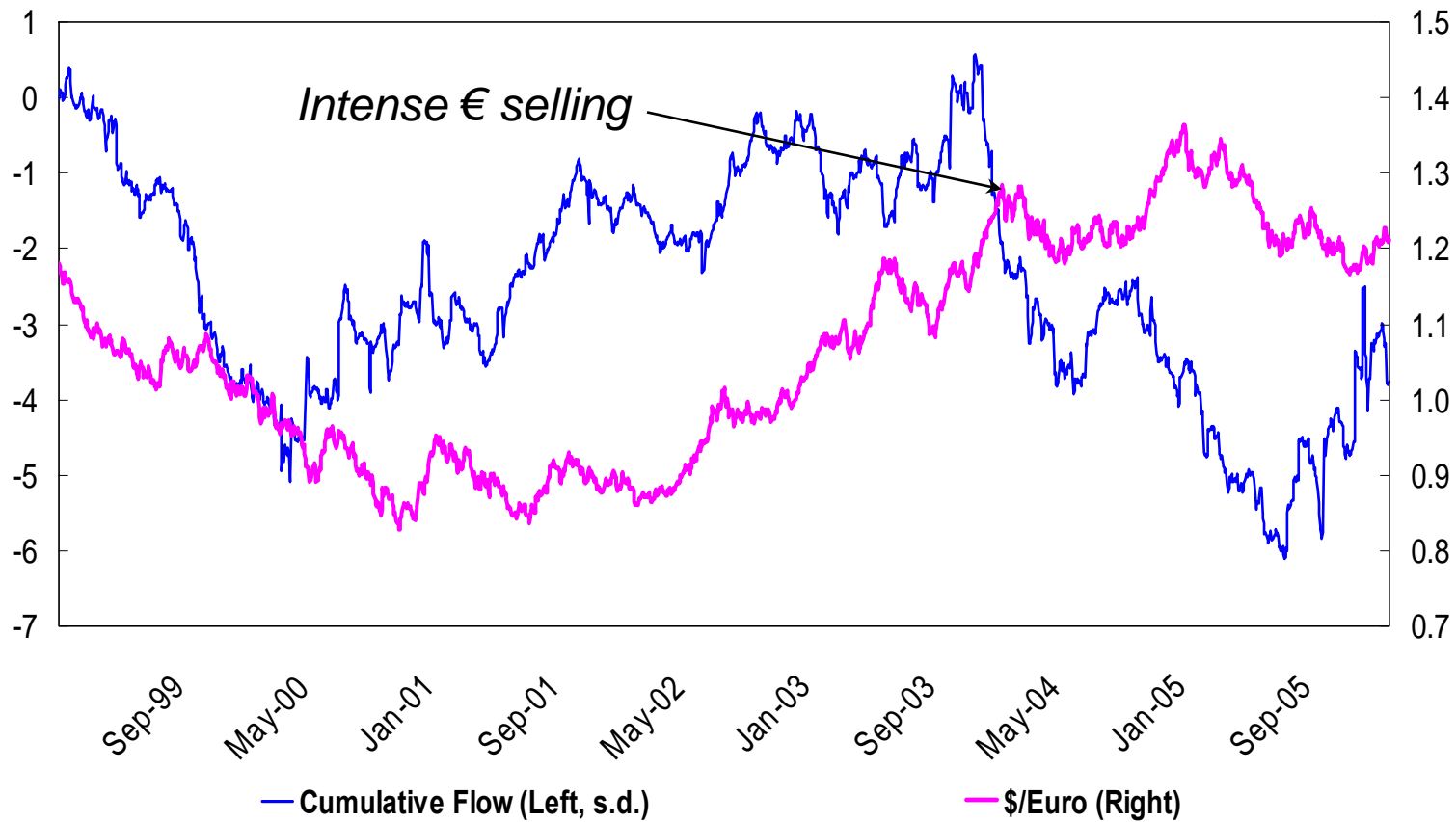


Non-Portfolio Flows Sometimes Take Over



And Exporters Occasionally Act As Counterweight

Flows of North American Non-Financial Companies



Potential Areas for Improvement

- CPIS is a massive effort in calculating IIP, helping policy-makers and regulators:
 - Analyze sustainability of external imbalances
 - Identify trends in international capital flows
- For business purposes, need monthly data in the major financial centres:
 - Minimum: Extend U.S./Japan approach to Euro Area and U.K.
 - Ideal: Include banking flows (including off-balance sheet items)