



# OFF THE NEWS

*Dear Nicolas, very briefly and respectfully,*

- 1) I am by your side to serve you and serve your plans for France.*
- 2) I tried my best and might have failed occasionally. I implore your forgiveness.*
- 3) I have no personal political ambitions and I have no desire to become a servile status seeker, like many of the people around you whose loyalty is recent and short-lived.*
- 4) Use me for as long as it suits you and suits your plans and casting call.*
- 5) If you decide to use me, I need you as a guide and a supporter: without a guide, I may be ineffective and without your support I may lack credibility.*

*With my great admiration, Christine L.*



*In 2011, then-French President **Nicolas Sarkozy** shakes hands with International Monetary Fund Managing Director **Christine Lagarde** after a meeting at the Élysée Palace in Paris.*

## The Issue of Political Independence

In light of her selection as next president of the European Central Bank, the global financial policy community has been abuzz about a letter written by Christine Lagarde to then-French President Nicolas Sarkozy. The letter was discovered in 2013. The contents of the letter were revealed in the newspaper *Le Monde* at the time Sarkozy was under deep scrutiny by the French legal system for dealings related to the large government-owned French bank *Crédit Lyonnais*.

The surprise was the degree to which Lagarde presented herself on paper as subservient to the French government. In her now-published letter, Lagarde said things such as, “Use me for as long as it suits you and suits your plans and casting call.” The undated letter was likely written between 2007 and 2013, during which time Lagarde served as French finance minister and then head of the International Monetary Fund. The revisited letter has created sensitivity at a time when the independence of central banks is under challenge worldwide.

## Tokyo's Ugly Choice

**T**okyo policy strategists note that in any trade war between the United States and China, Team Trump is almost certain to try to draw Japan into the fray. That's because in technology—particularly technology involving the retail sector—China is highly dependent on Japan to complete its supply chains.

## Trillion Euro Bond Buy

**C**hanges are about to be implemented in the ECB's operating procedures that will allow the central bank to buy a whopping €1 trillion more in assets when all is said and done. The central bank's issuing share limits of 33 percent will now be allowed to rise to 50 percent. The central bank issue share limit refers to the maximum share of a single eligible security the ECB is allowed to buy. The European Court of Justice has given the green light on such expansion.

As one ECB policy strategist put it, "In September, the markets will be surprised by how much leeway the ECB has on its purchases of government and corporate bonds."

## The Fed's Neutral Rate

**T**HE asked several U.S. monetary officials whether under current global conditions, they could identify with any accuracy the level of the so-called neutral interest rate.

The answers were all similar. Before the 2008 financial crisis, the nominal neutral rate was between 4 percent and 5 percent. After the crisis, the nominal neutral rate seemed more like 2–3 percent, but now it is more like 2 percent. But they quickly added that there are no absolute feelings of certainty about the neutral rate at this time.

## The China Connection

**C**hinese debt is made up of two-thirds bonds and one-third bank loans. If Chinese companies default on their bank loans, European and Japanese banks in particular will suffer big time. If the Chinese default on bonds, the fear is that industrialized-world pension funds will be hurt big time.



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