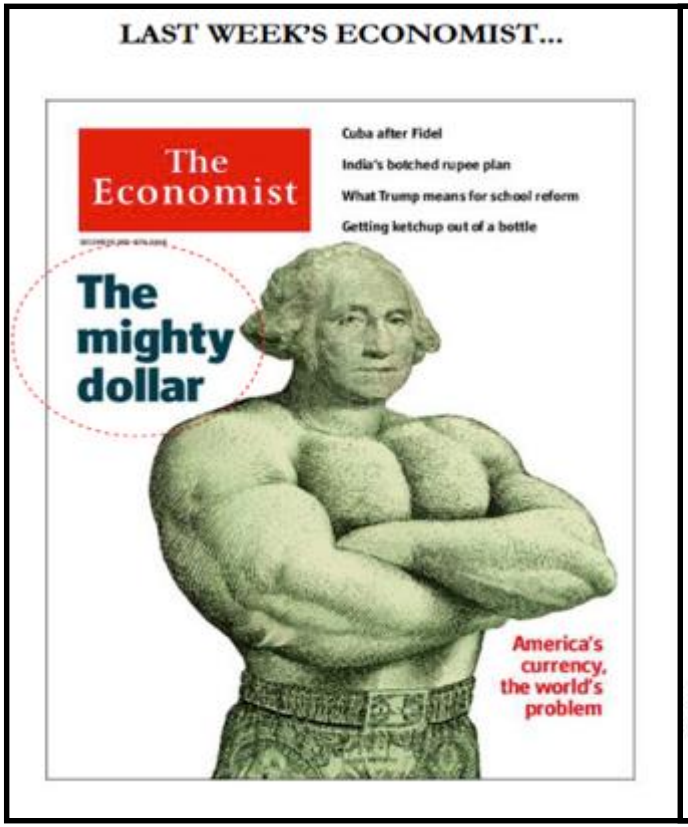
MORGAN CREEK
CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS



Source(s): Economist.com, DaryleCagle.com

The Not So Almighty Dollar

MacroVoices Podcast #DollarDebate #FXFeud #CurrencyClash #BuckBrawl #KingDollarDethroned #YuanAPieceOfMe

November 2017

Words of Wisdom

"The almighty dollar is the true divinity, and its worship is universal…"

Isabella Bird – Explorer & Naturalist

"In a word, the almighty dollar, that great object of universal devotion throughout our land, seems to have no genuine devotees in these peculiar villages..."

Washington Irving – Writer & Historian

"A nickel ain't worth a dime anymore…"

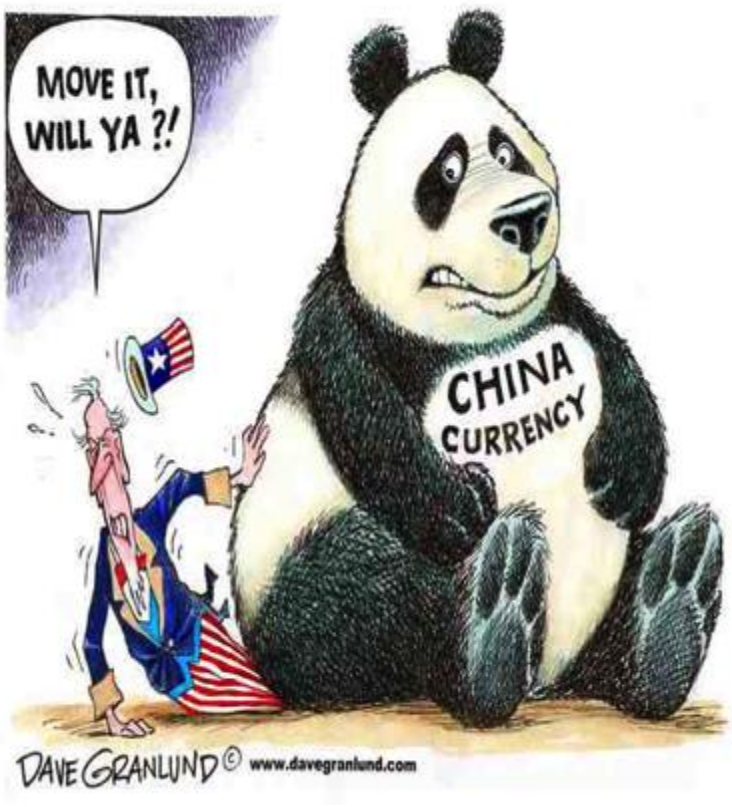
Yogi Berra – Baseball Legend

"I would as soon leave my son a curse as the almighty dollar…"

Andrew Carnegie – Industrialist

Back In 2016 We Made Case King Dollar Gets Dethroned

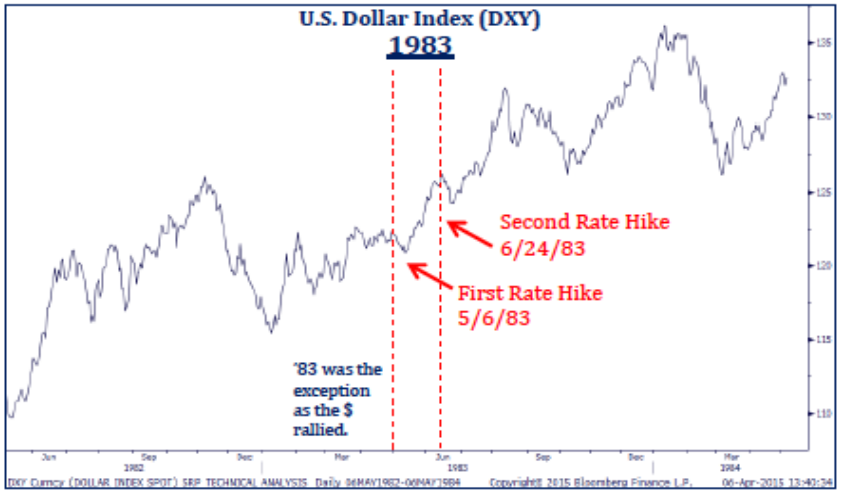
Contrary to the powerful narrative that the U.S. Dollar must continue to appreciate in the face of the Fed taking a different monetary policy course (or at least threatening to take a different course…) than the ECB & BOJ, the old saw "Buy the Rumor, Sell the News" turns out to be true once again and the USD peaks and actually begins to weaken against other global currencies. The surprising Dollar weakness takes some pressure off of the Chinese to further weaken the RMB and the Yuan continues on a path toward becoming a World Reserve Currency.

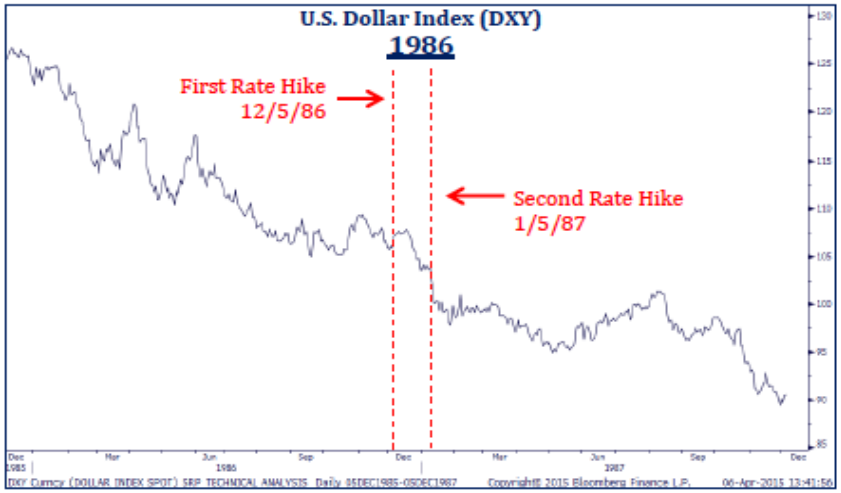


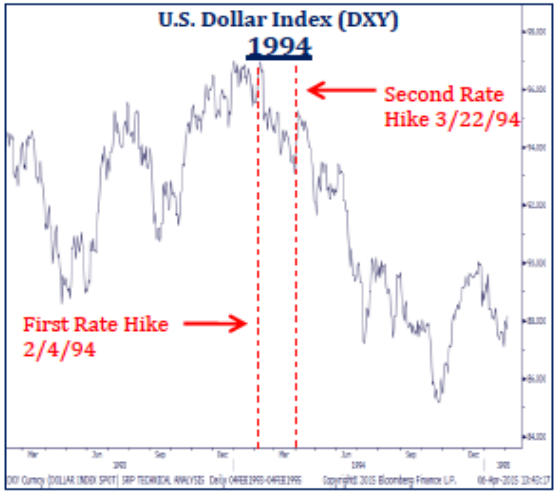
Source(s): China-Mike.com

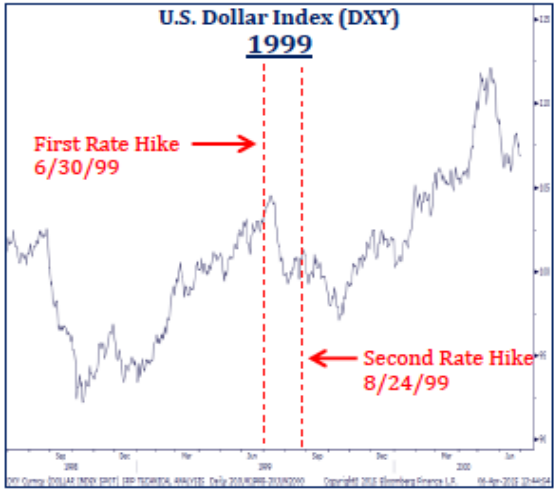
Dollar Tends To Peak When Fed Actually Raises Rates

DOLLAR HAS OFTEN CORRECTED POST-RATE HIKE









Source(s): Strategas.com

King Dollar Appeared To Have Peaked After 1st Fed Hike

Source(s): MarketWatch.com, NeubergerBerman.com

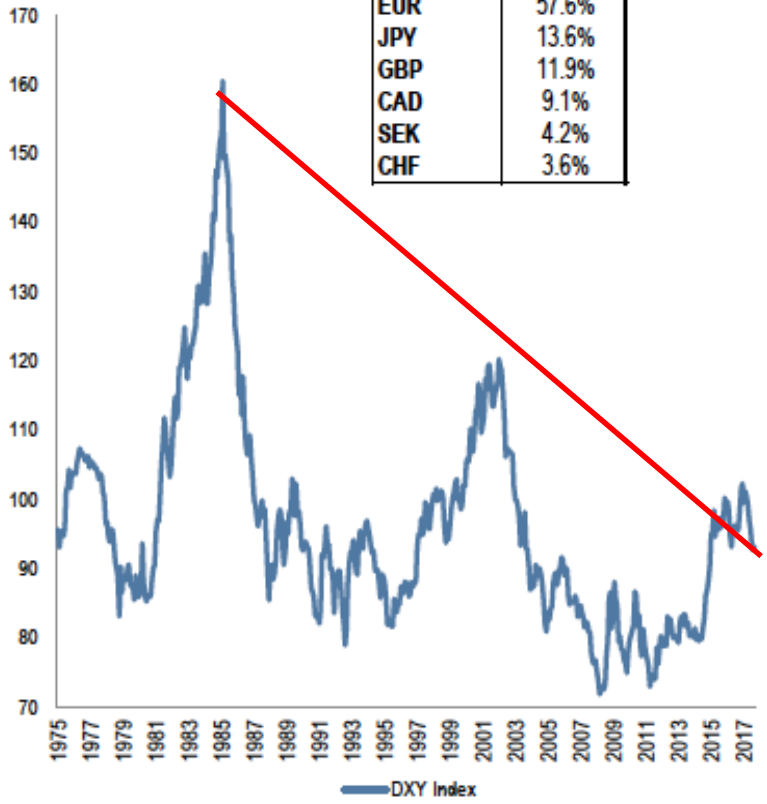
Dollar in Secular Decline, China Goal For RMB Is Stability

Currencies – Dollar Stabilizes Versus Major Developed Markets

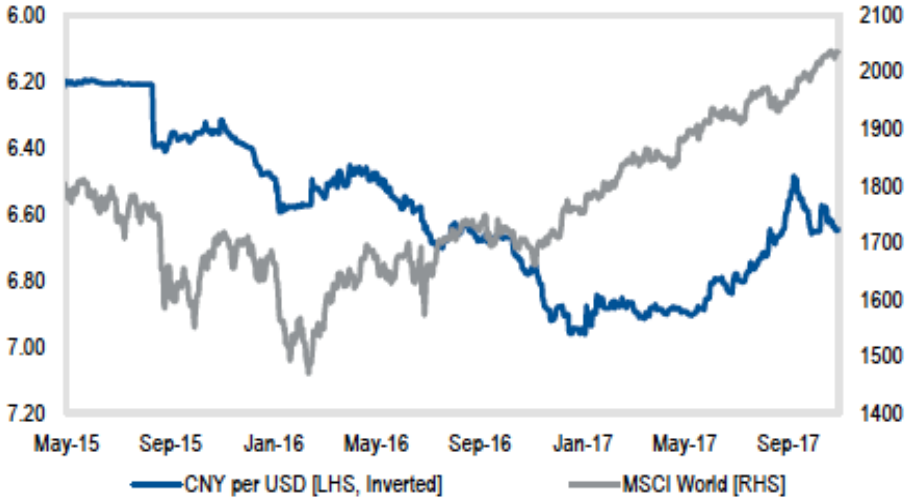
Key focus is on Chinese currency and impact on global growth perception

U.S. DOLLAR INDEX (DXY)

Weight in DXY Index	
EUR	57.6%
JPY	13.6%
GBP	11.9%
CAD	9.1%
SEK	4.2%
CHF	3.6%



CHINESE CURRENCY HAS GENERALLY BEEN CORRELATED TO DEVELOPED EQUITY MARKETS IN THE PAST YEAR



Sources: Bloomberg, Monthly DXY data from January 1975 – Sep. 2017. CNY vs. MSCI World data from May 2015 – Sep. 2017.
The DXY Index is a measure of the value of the USD relative to a basket comprised of major world currencies.

Source(s): NeubergerBerman

Chinese Long-Term Plan To Supplant Dollar Hegemony

The first general fallacy is that China did not devalue the Yuan against the US$. They removed the peg and have since taken the currency into a managed float. There are many Chinese and foreign economists who talk about a further float downwards of the Yuan. First, this would assume a continued strengthening of the U.S. dollar which we don't think will last beyond early 2016. Such an assumed change will work heavily on their currency planning.

Yuan Trade Weighted Index

Source: BIS

Second, China focuses much more on its trade weighted index than it does against the U.S. dollar. Against the trade weighted index the Yuan has appreciated by 2% so far this year and since January 2014 by 9.8%. Focusing on the trade weighted index is hardly surprising since only 17% of the country's exports went to the USA last year with 16% destined to the EU, 12% to ASEAN, 16% to Hong Kong, 4% to S Korea and 2% to both India and Russia.

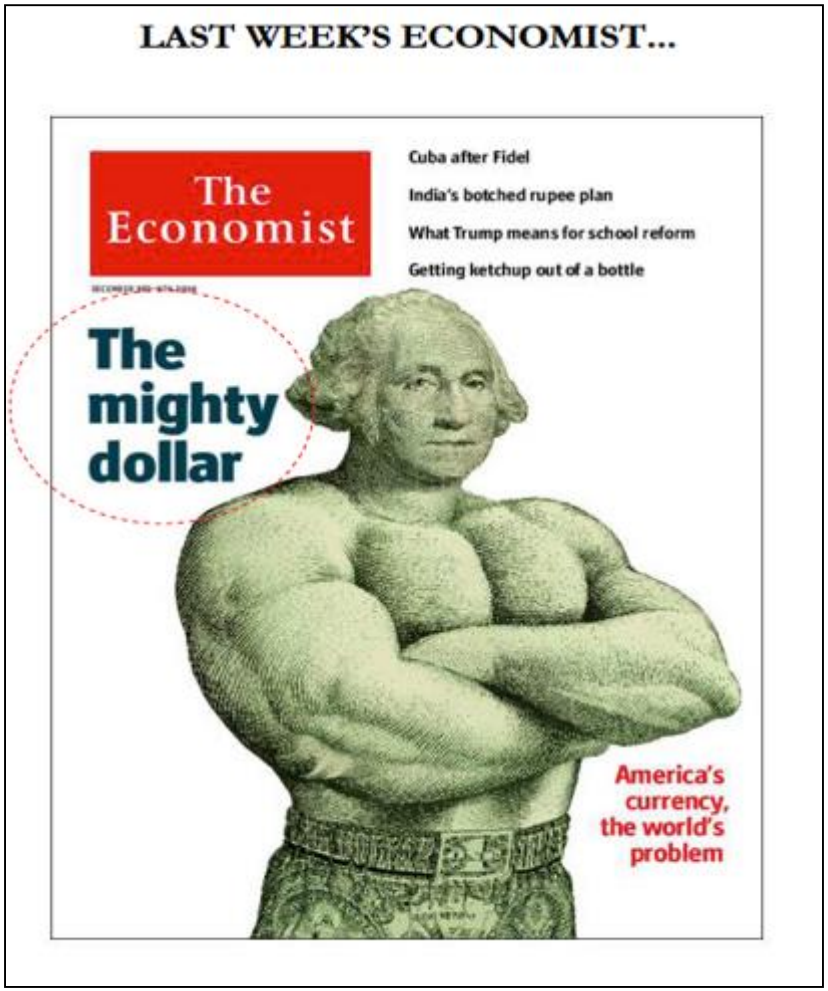
Third, China's objective is not to follow the devaluation route of other countries but for the Yuan to be seen as a stable unit of appreciation that central banks and financial institutions feel comfortable in holding in their portfolios.

It is the trade weighted index that is far more relevant than the U.S. dollar rate against the Yuan.

Source(s): TIS Group

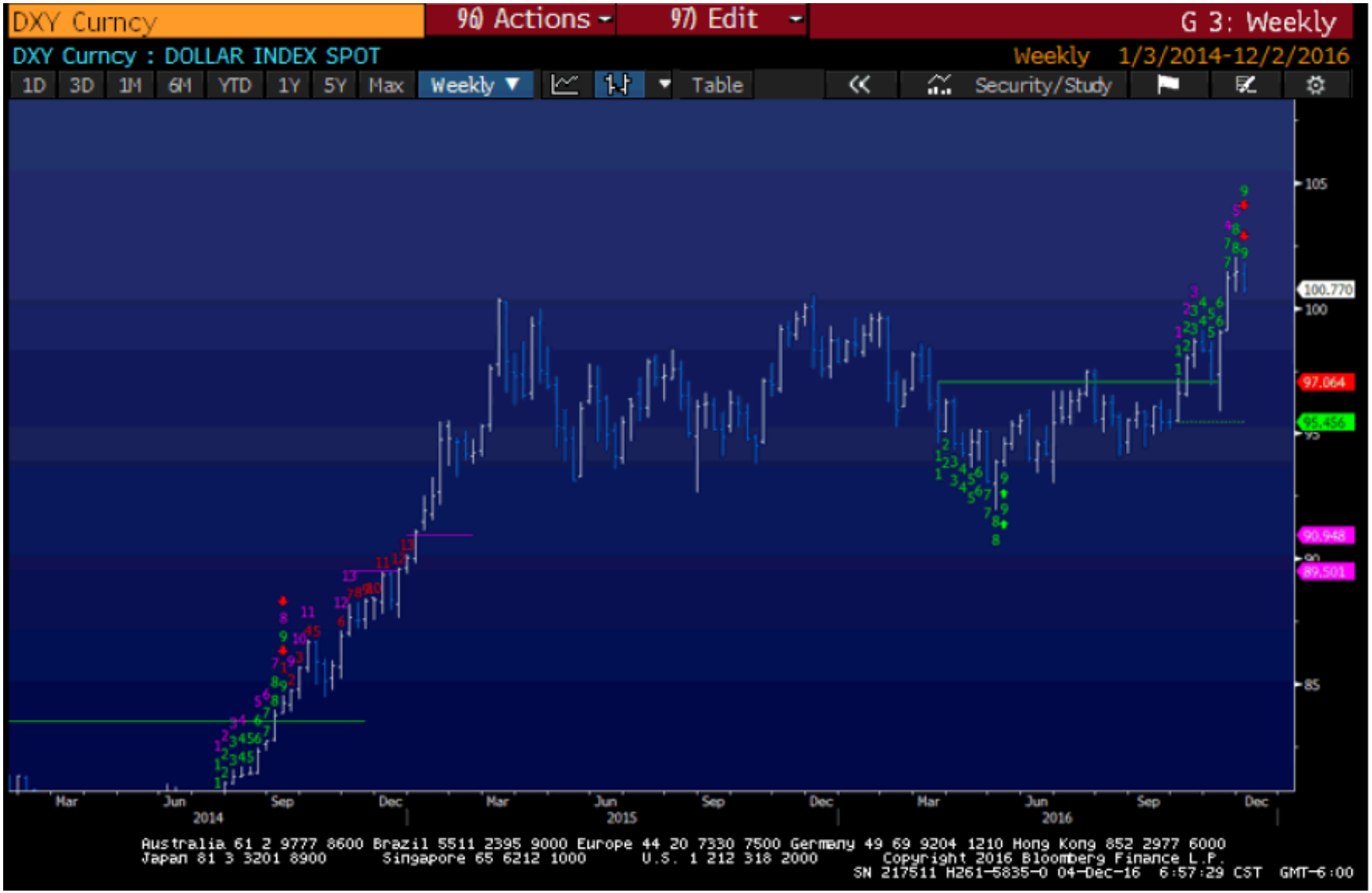
January 2017 We Said #KingDollar Has Made Last Stand

There is broad consensus that the U.S. Dollar must appreciate as the Fed takes a different Monetary Policy course than the ECB & BOJ and begins to normalize interest rates (despite DXY being up only a couple percent since the Dec 2015 hike). [Interestingly, if not for a strong Dollar rally after the surprise Trump election victory, the DXY would have finished down for the year.] That final surge, perfectly commemorated by the Economist cover last month, turns out to be King Dollar's Last Stand and USD actually begins to weaken against other global currencies in 2017.



Source(s): Strategas, Economist.com

DXY Demark 9 Count Same Week As Economist Cover



Source(s): GMI

Dollar Follows Cyclical Pattern Within Secular Downtrend

Cycle Period	96 months
Look Back Period	41.5 years
Correlation to Sine Wav	34.24%
Most Recent Turn Date	3/31/2017 (P)
Next Turn Date	3/31/2021 (T)

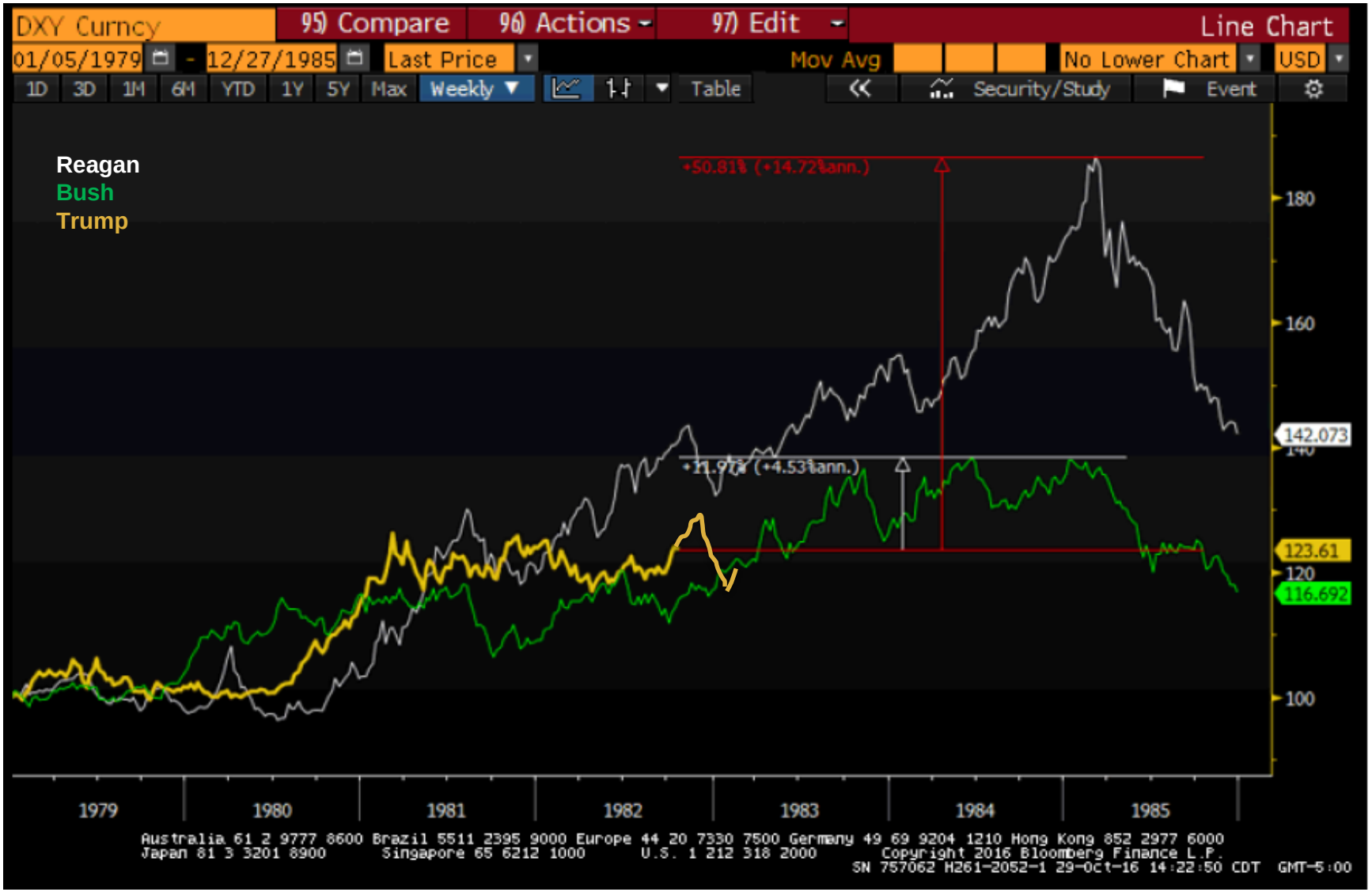
	Annualized Return	Sharpe Ratio	T-Stat in Mode	Wins / Trades
Cycle Strategy (long & Short)	3.88%	0.48		9 / 11
Long Only (trough to peak)	4.01%	0.49	1.76	4 / 5
Short Only (peak to trough)	3.76%	0.46	-1.75	5 / 6
Buy & Hold	-0.29%	0.01		

NAUTILUS INVESTMENT RESEARCH

Data Source: Bloomberg 08/29/2017 03:57

Source(s): @NautilusCap

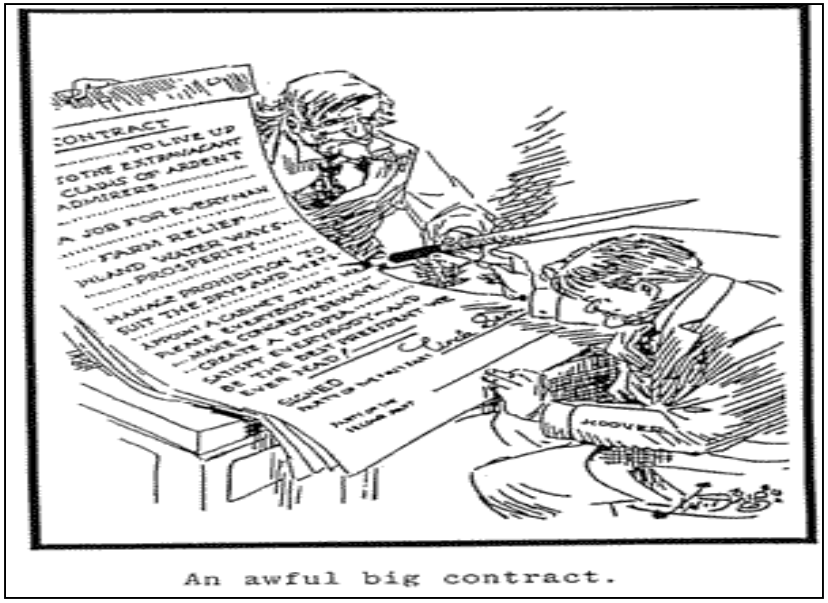
Dollar Bulls Thought Trump Like Reagan; Bush At Best



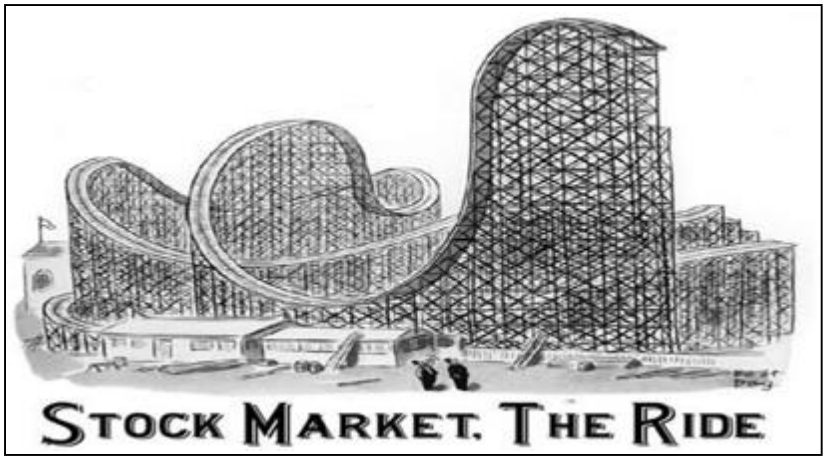
Source(s): GMI

Surprise #10 #WelcomeToHooverville

Donald Trump, like Herbert Hoover, made a lot of promises in order to win the Presidency. Also Like Hoover, Trump comes to office with no political experience and finds it difficult to deliver on those promises. But just like in 1929, equity markets believe those promises and surge to a Bubble top (S&P 2650) within months of his taking office. With a U.S. Recession triggering an unwinding of massive debt burdens and the stock market swooning, Trump repeats the Policy mistakes of Hoover on Trade, Immigration & Taxes and Hooverville is back with a new name, Trumptown.

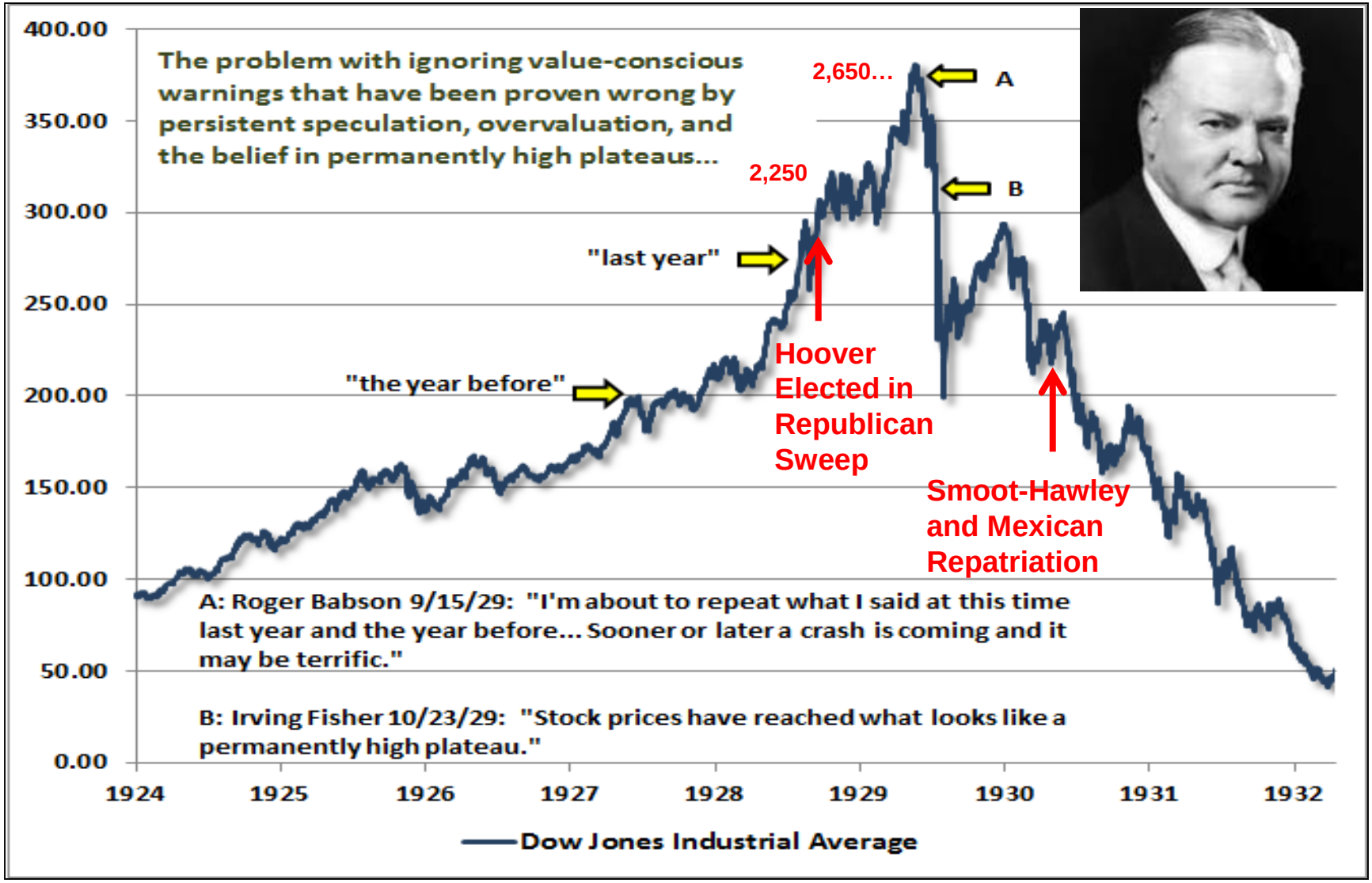


An awful big contract.



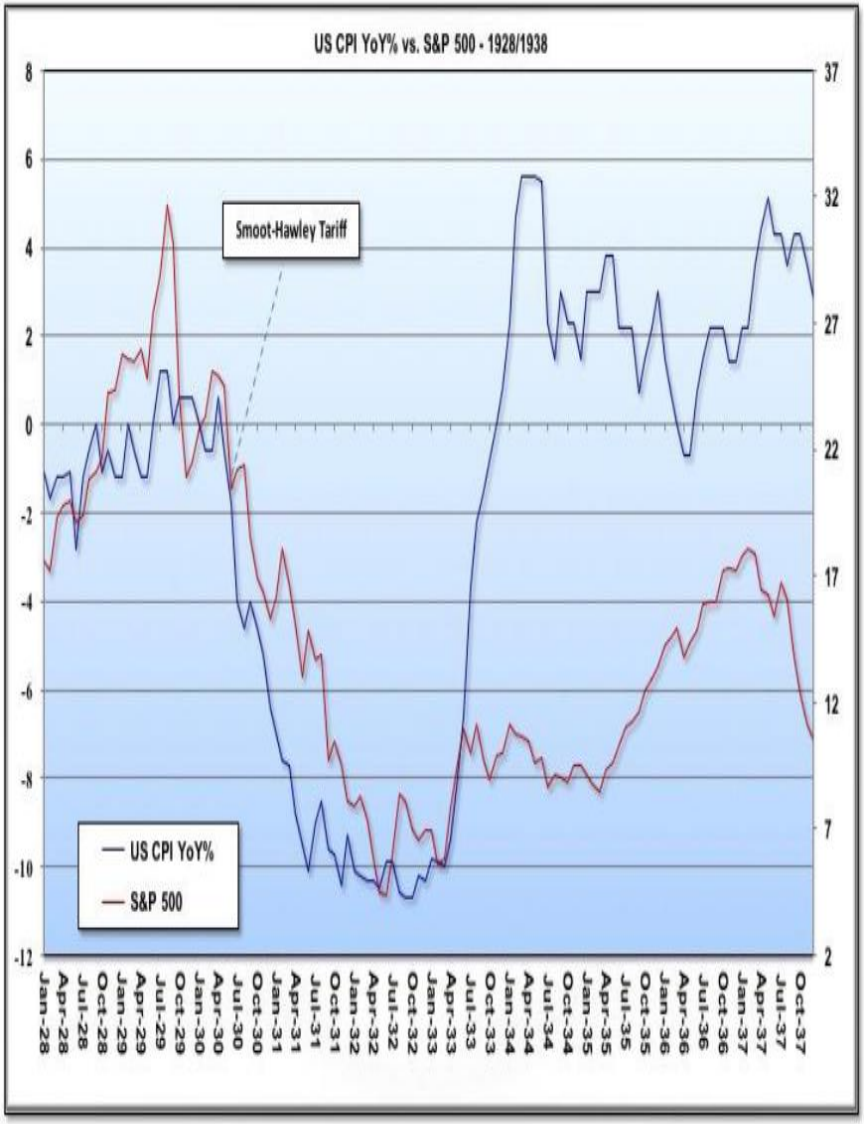
Source(s): , thebuffalotrader.com

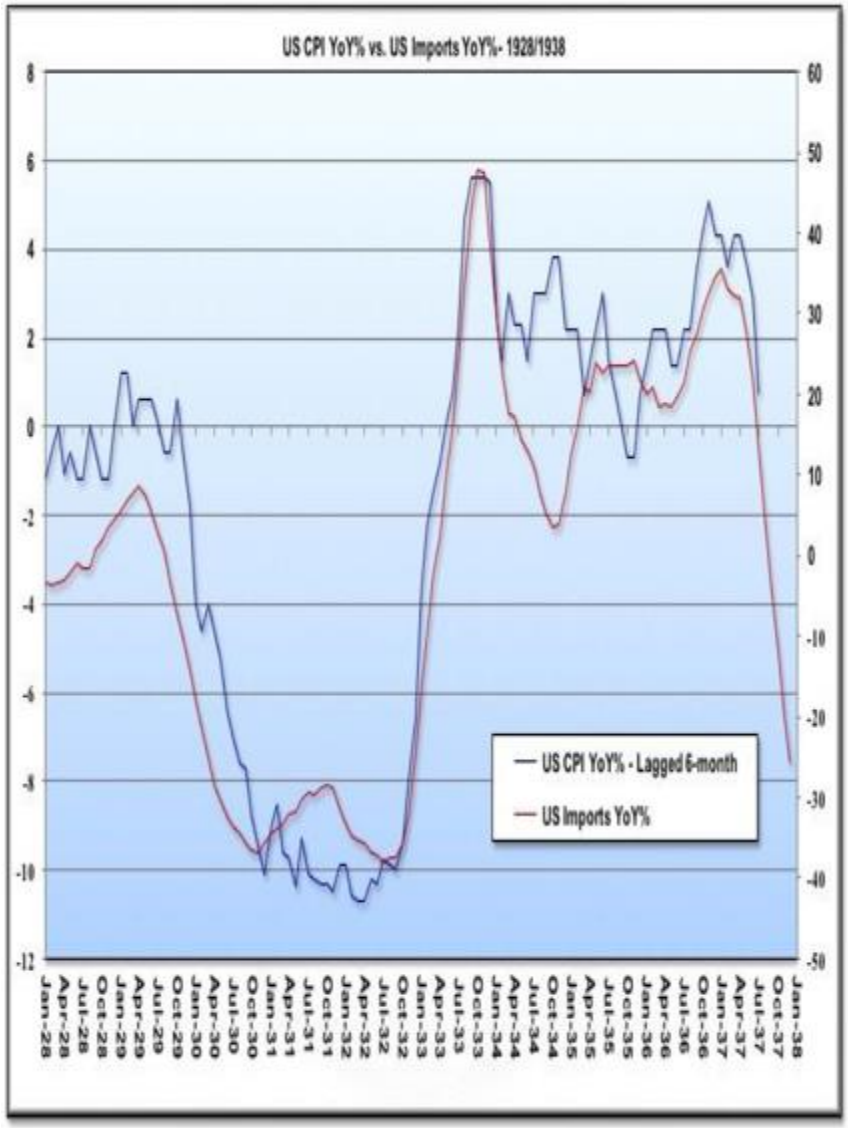
We Have Seen This Movie Before, Don't Like The Ending



Source(s): babypips.com, ftense.com

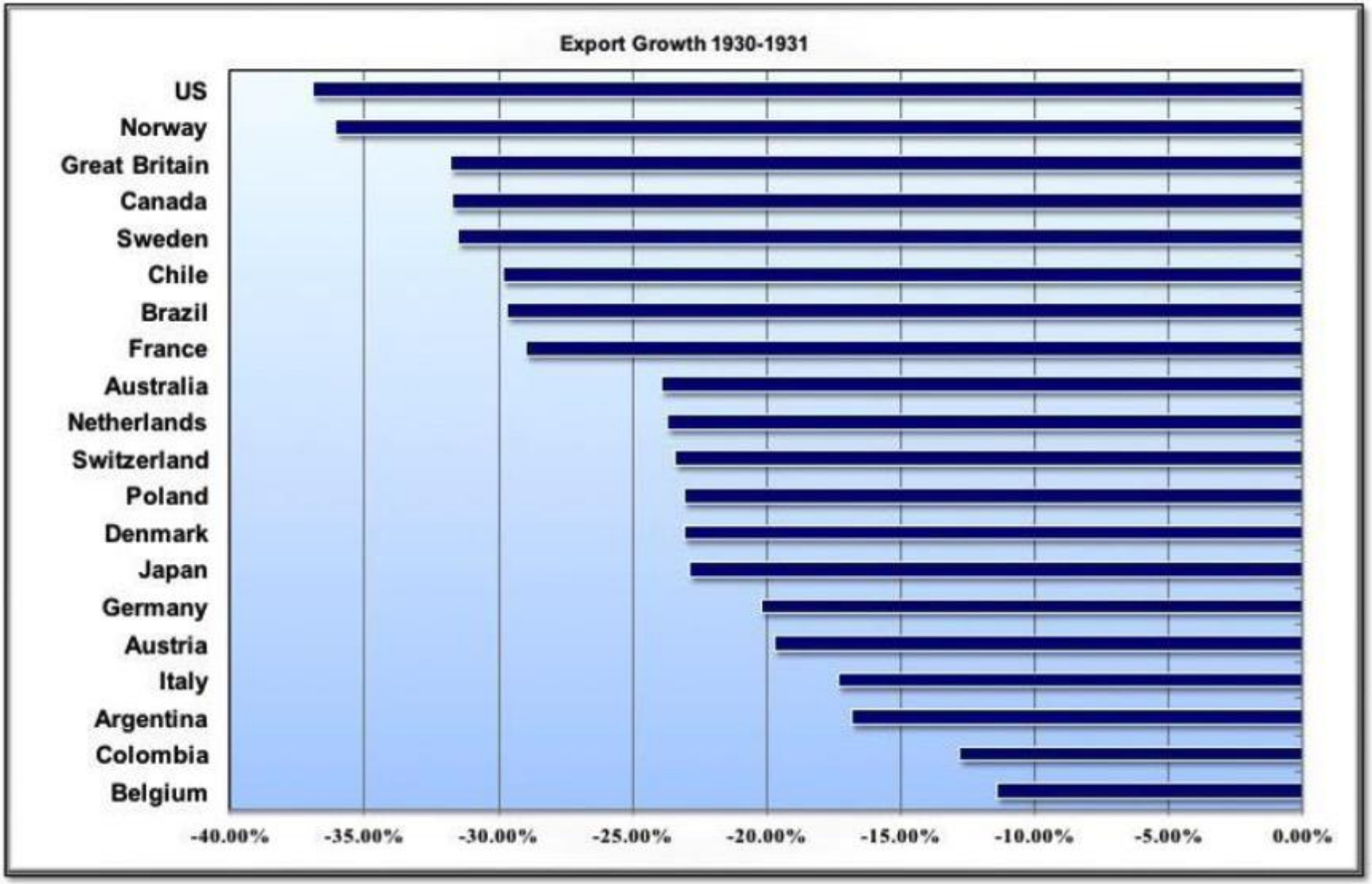
Trade Decision After 1929 Bubble Burst; Bad To Worse





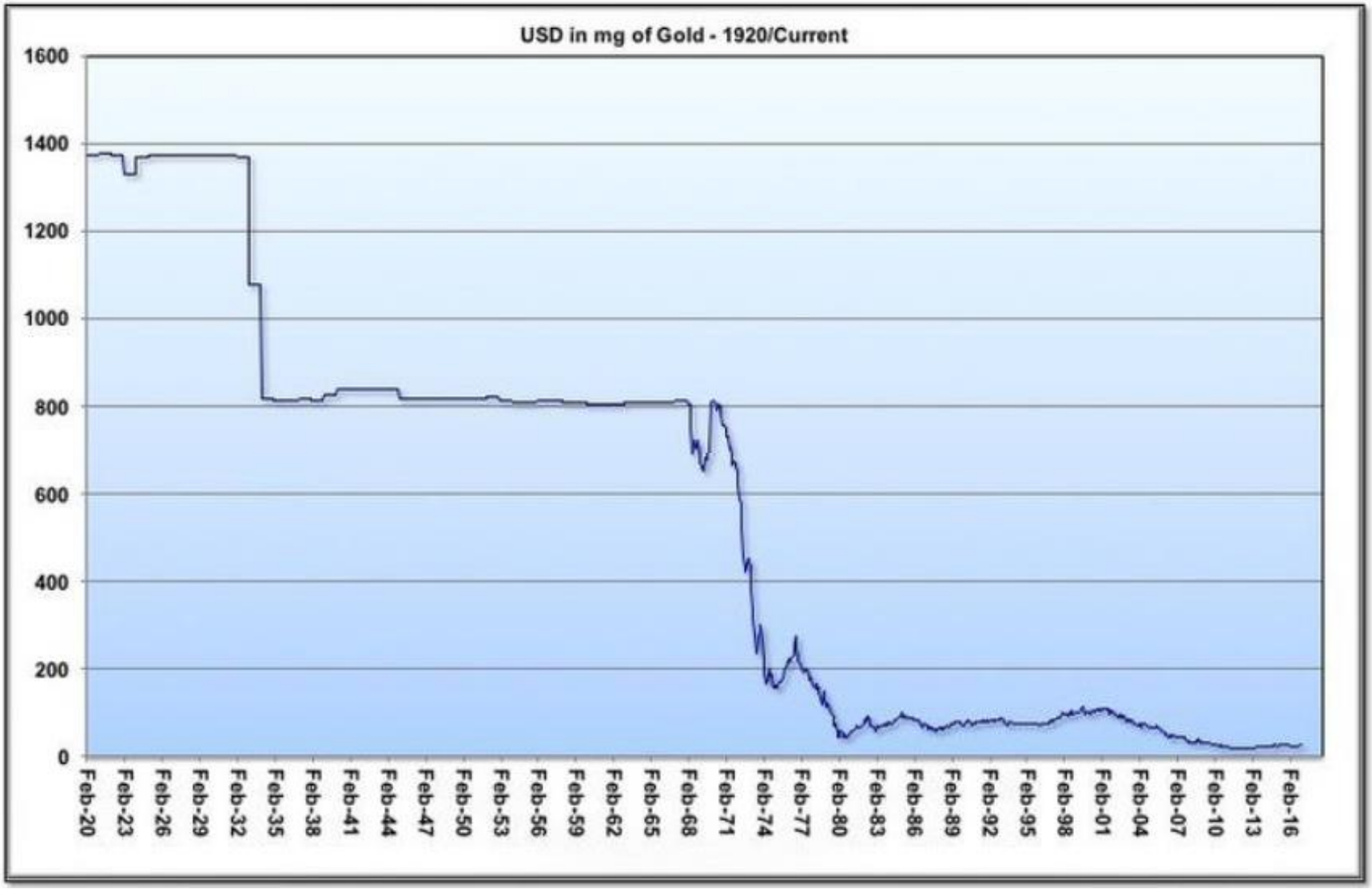
Source(s): GMI

Tariffs Triggered Trade War, Everyone Lost, US Lost Most



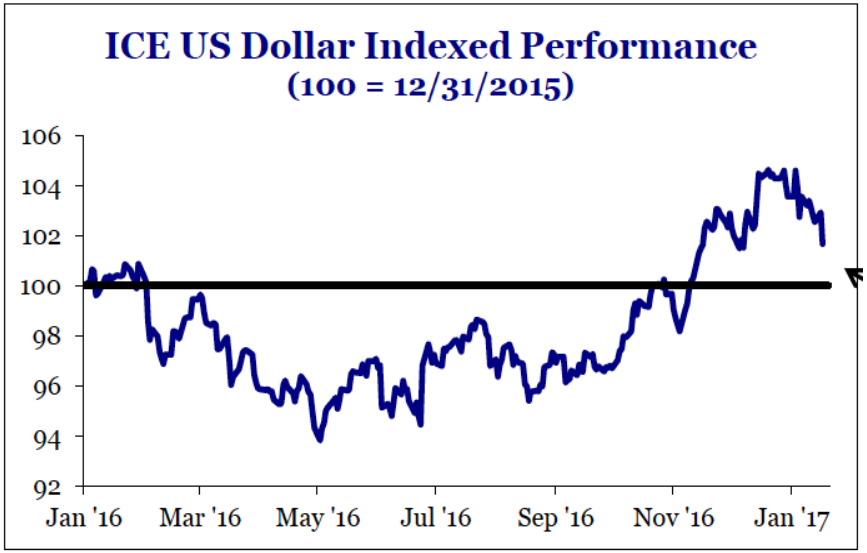
Source(s): GMI

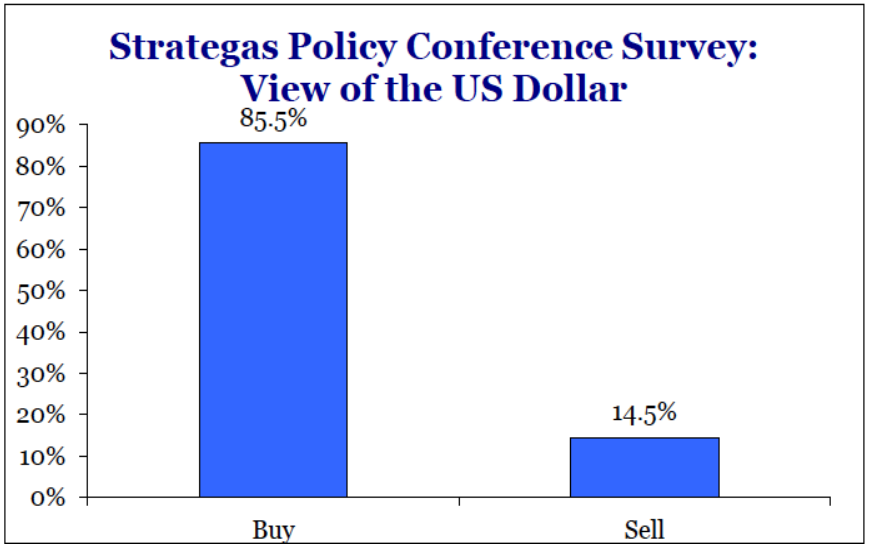
Gold Was Equivalent to Dollar, Collapsed w/ Trade War



Source(s): GMI

Everyone Believes Something Will Occur, Opposite Does

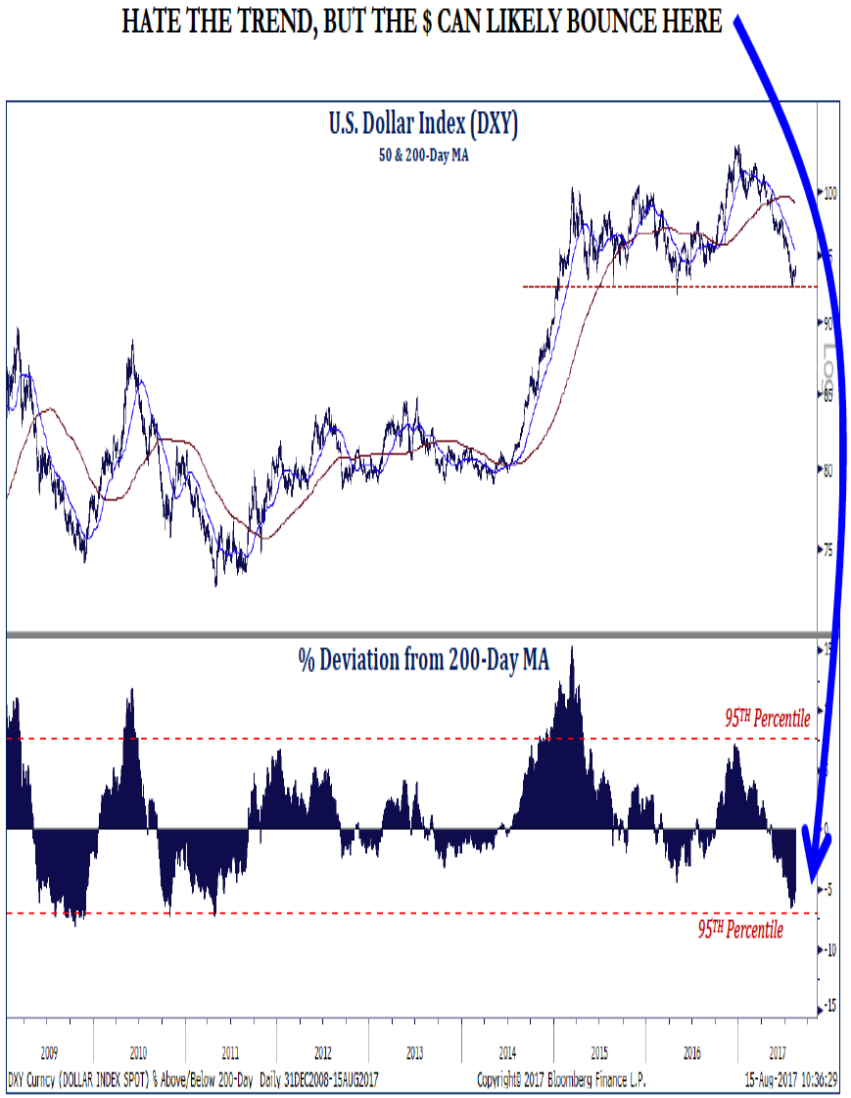




DOLLAR INDEX BACK TO SUPPORT, LESS IMPRESSIVE UNDER THE SURFACE

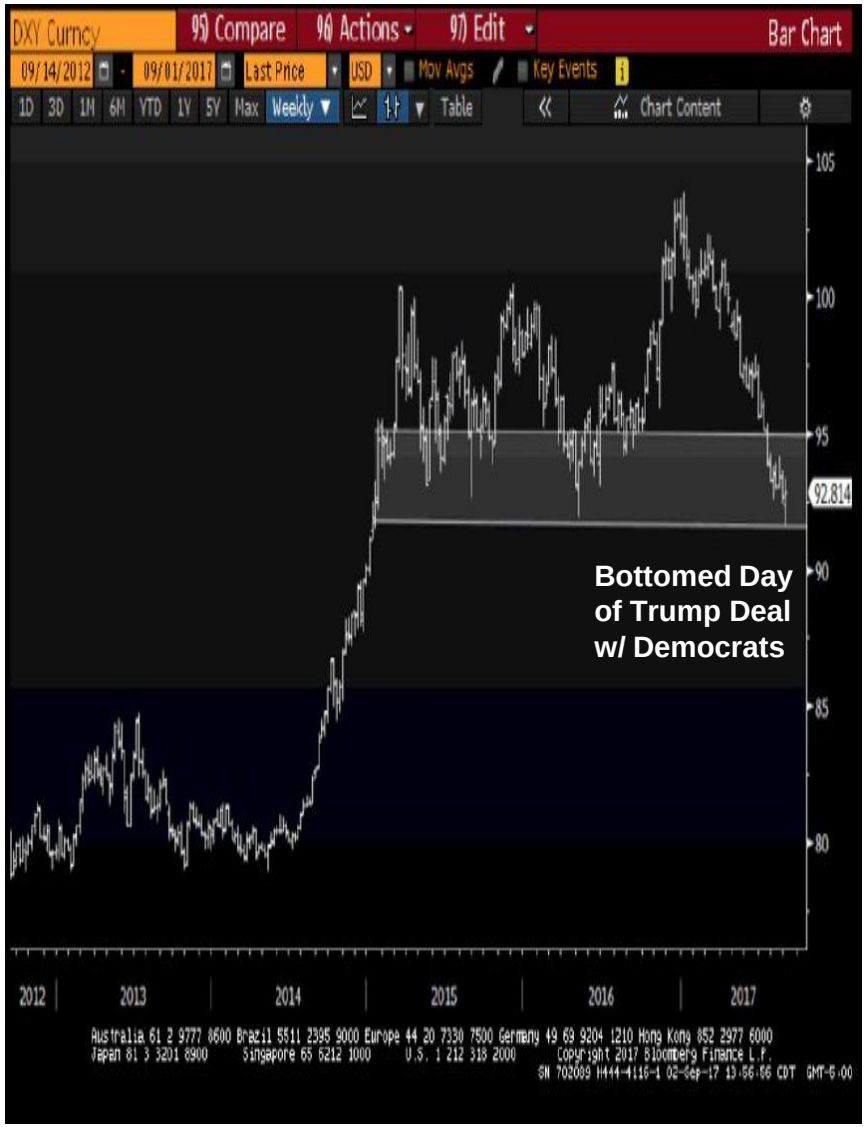
Source(s): Strategas

Dollar Went Into Free Fall In Dec 2016, Oversold In Sept?



Source(s): Strategas, Stockcharts.com

Demarks Signaled King Dollar May Have One More Rally



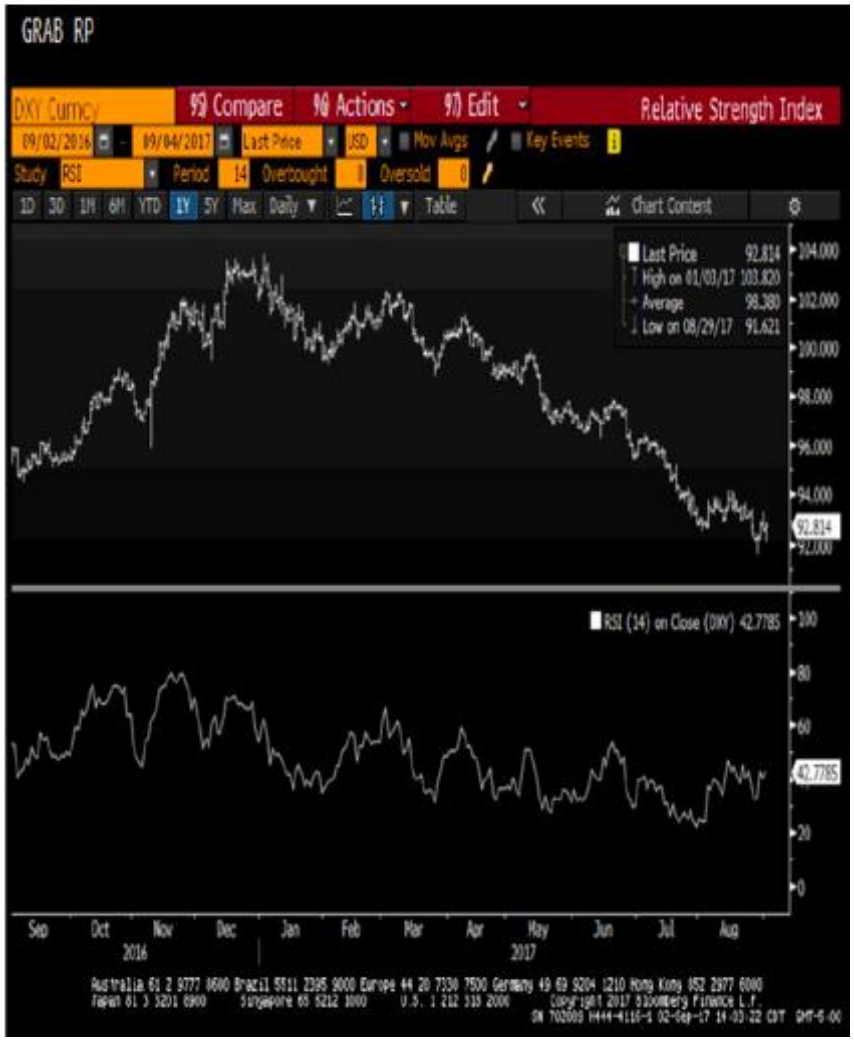
The weekly Demark 9-count is in place...

A daily 13-count is in place...

Source(s): GMI

Dollar Made Divergences That Signaled Short-Term Rally

It is diverging massively on the daily RSI...



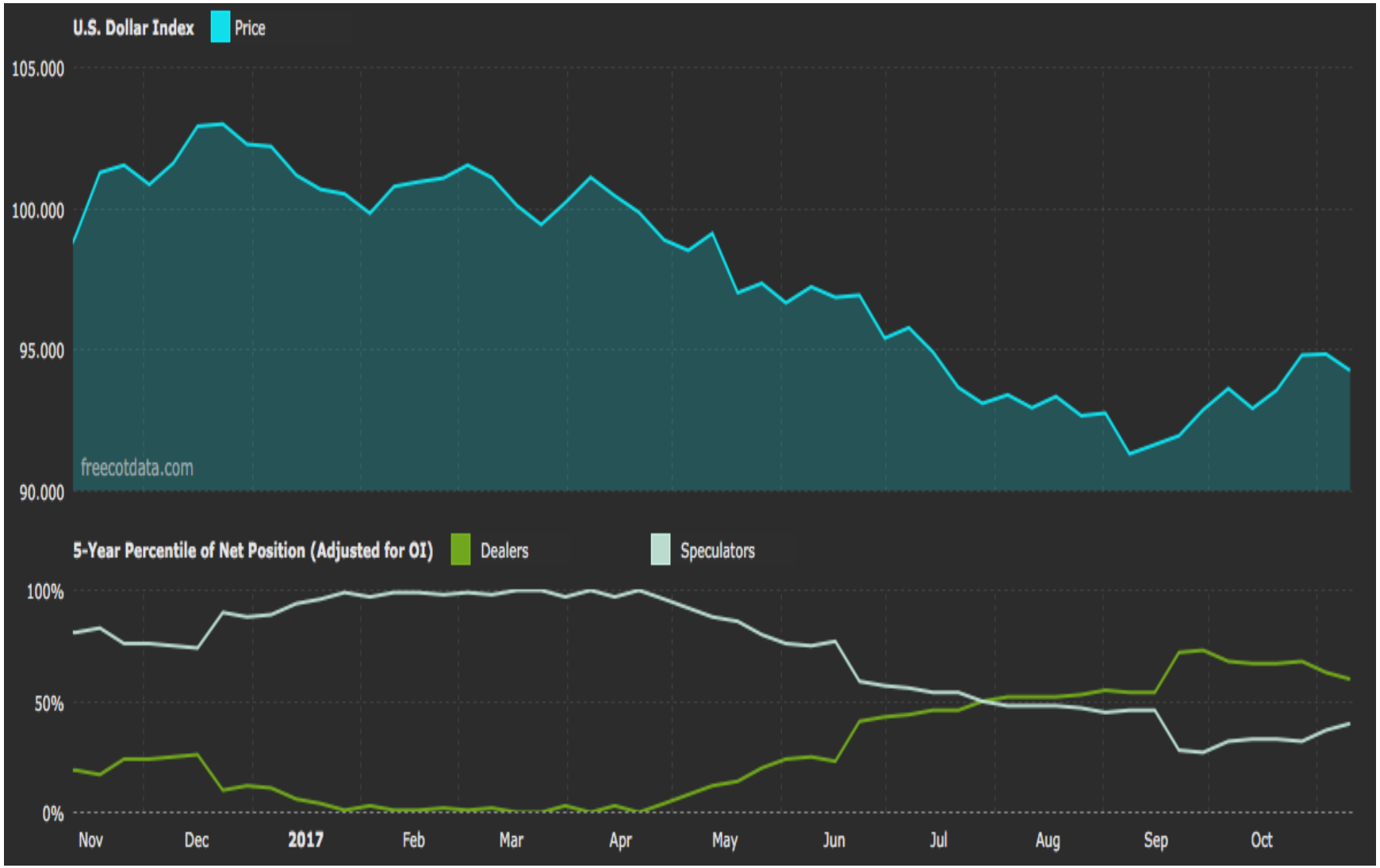
The weekly RSI is as low as it's ever been...

Source(s): GMI

Dollar Was Getting Thrashed In Early September, Turned

Source(s): @DavidInglesTV, BigCharts.com

Traders Had Reversed Long Bias On Dollar, Neutral Now



Source(s): FreeCOTData.com

He Who Has The Gold Makes The Rule, Oil For Yuan Plan

Across Eurasia, the Pivot Area described by Mackinder in his theory of where the next world conflict would occur, lies about 50% of the world population and in some Eurasian countries, their populations are growing rapidly. Roughly 50% of the FX reserves also reside in the Pivot Area, as do more than ½ the world energy reserves. It is for the settlement of energy trades and other commodities, where BRICs members will substitute other methods of payment than the Dollar. China's futures exchanges have started to trade gold contracts, which provide for physical delivery settlements. Qatar has sold energy for Yuan. Russia would like to settle some energy trades in multiple currencies.

The Natural Seats of Power

Pivot Area-wholly continental *Outer crescent-wholly oceanic* *Inner Crescent-partly continental, partly oceanic*

Source(s): TIS Group

Emerging Market FX Are 0.2 Standard Deviations Cheap

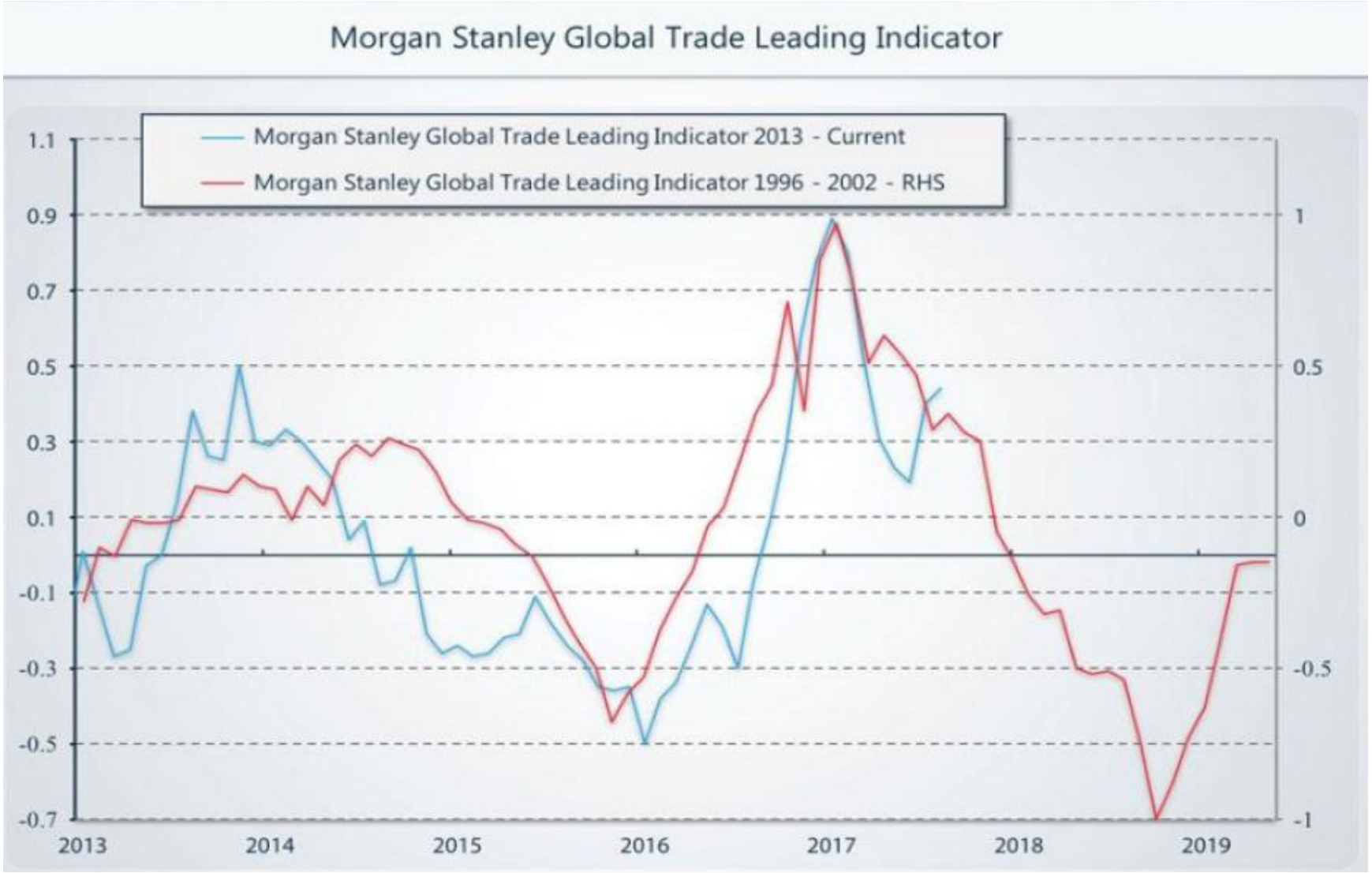
Emerging Markets Currencies

J.P. MORGAN EMERGING MARKETS CURRENCY INDEX

Source: Bloomberg, JP Morgan. Monthly data January 2000 – Sep. 2017.

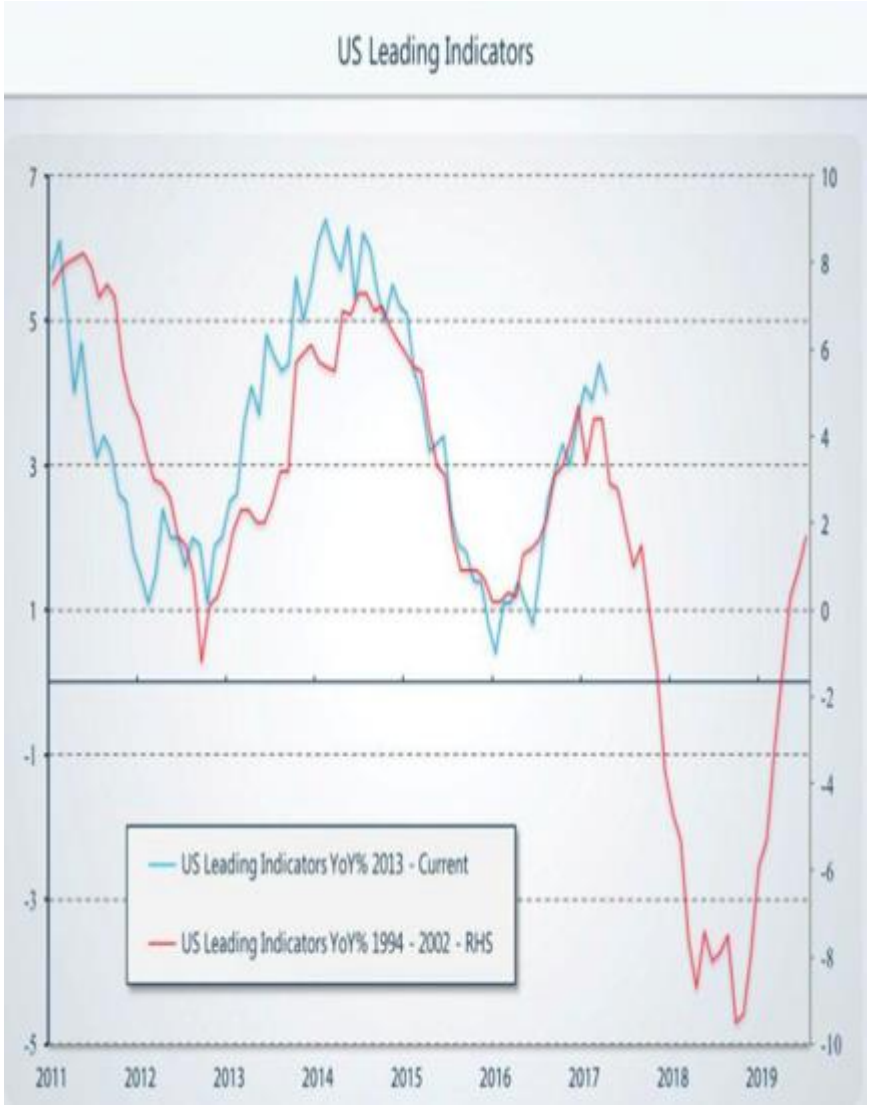
Source(s): Neuberger Berman

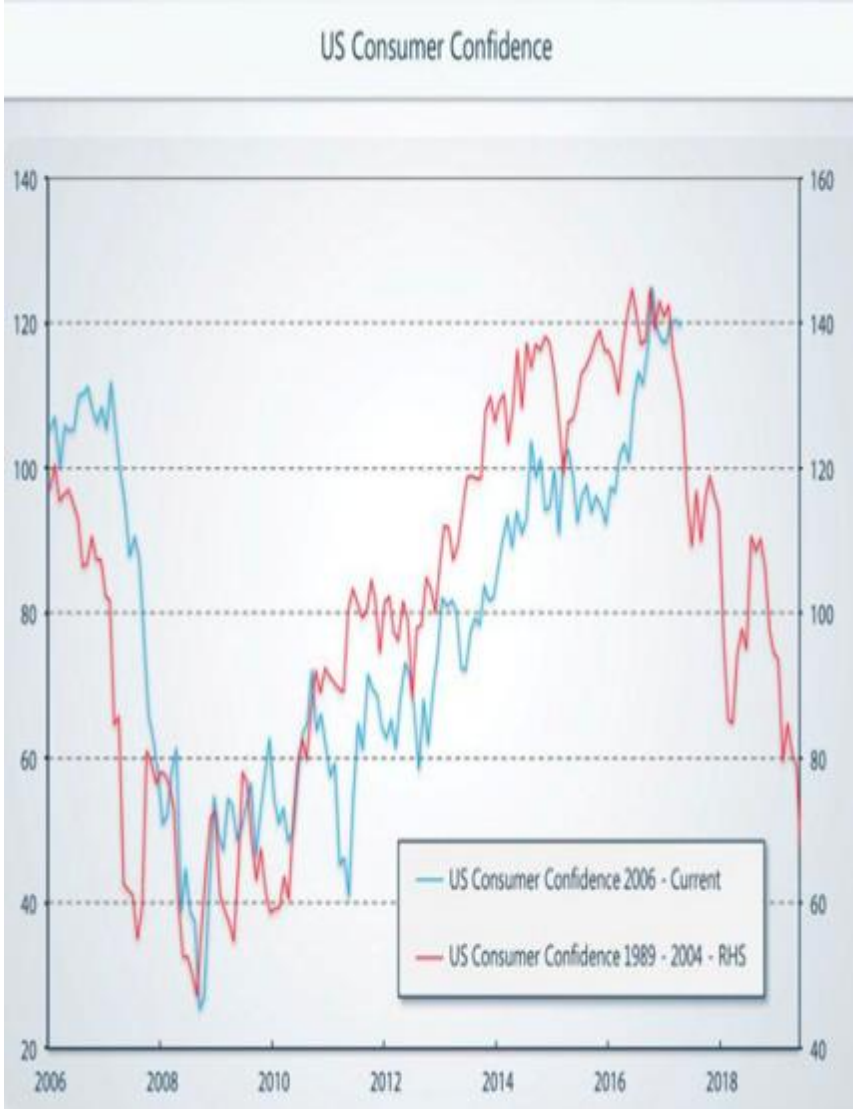
Collapsing Global Trade Not Positive For Dollar Strength



Source(s): GMI

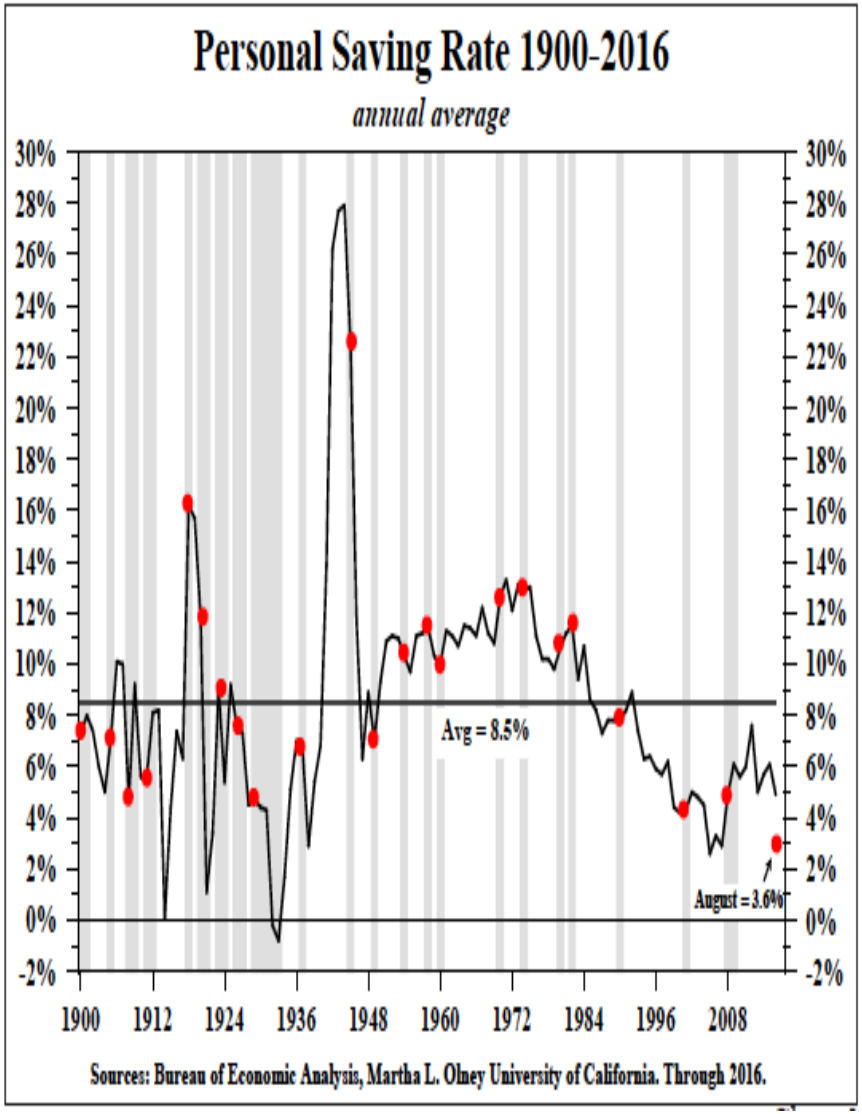
U.S. Economy May Be Entering Period Like 2000 to 2002

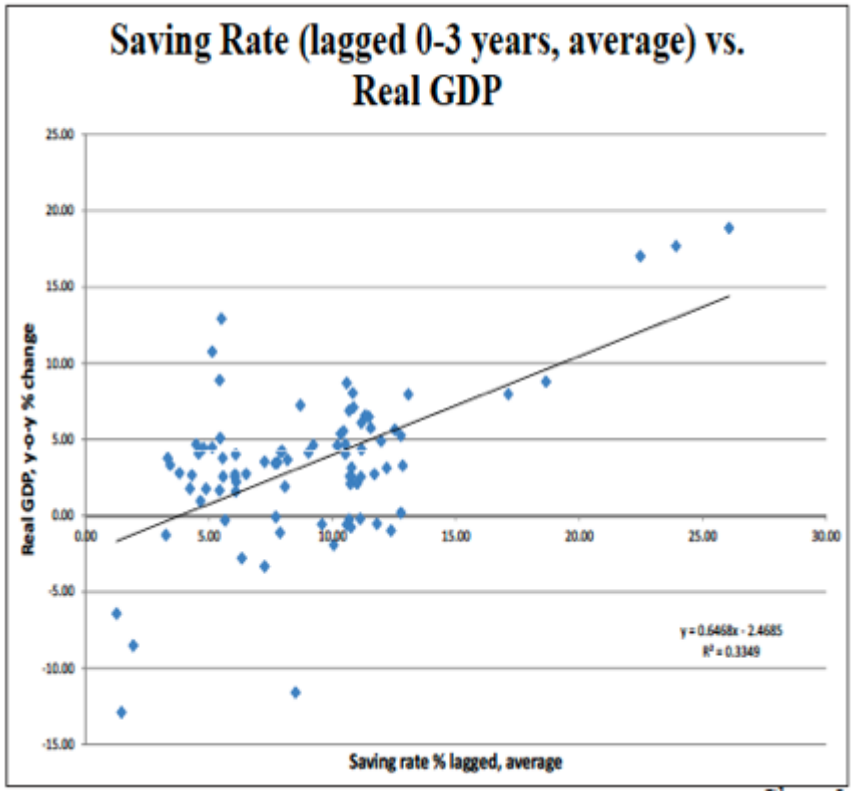




Source(s): GMI

Savings Rate Collapse Signals Much Lower GDP Growth

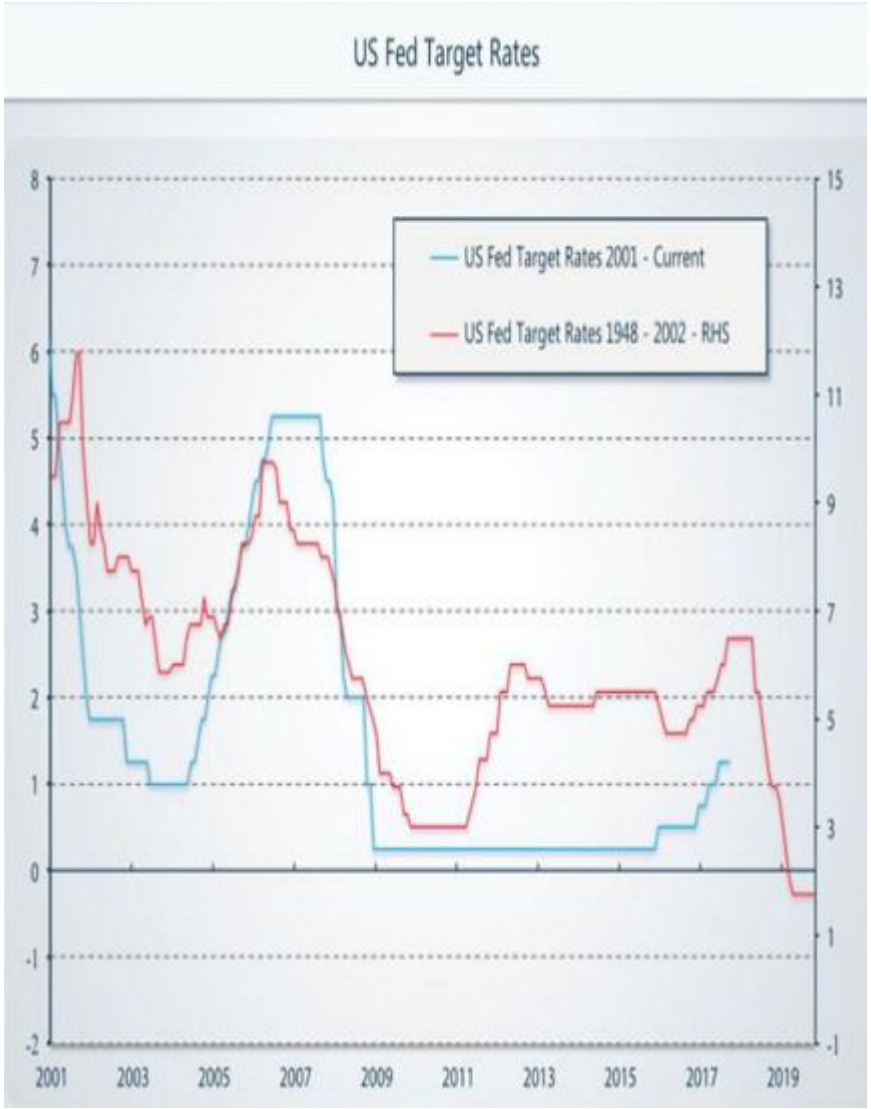


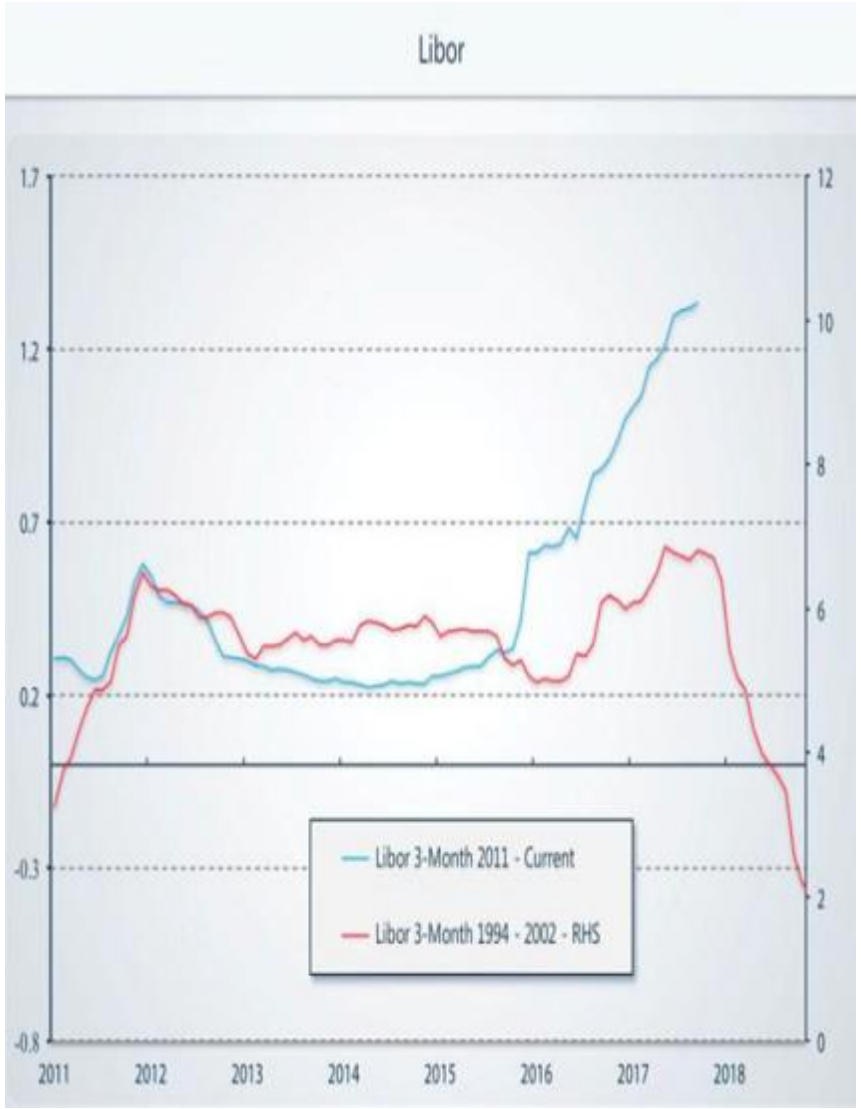


Since 1930 the regression coefficient indicates that a 1% drop in the personal saving rate in the current and prior three years will lower the real GDP growth rate by a substantial 0.65%. Considering that the present 3.6% saving rate is lower than all of the initial starting points of economic contractions since 1900, the outlook for ebullient growth is problematic particularly in the context of slow and diminishing income growth.

Source(s): Hoisington Capital Management

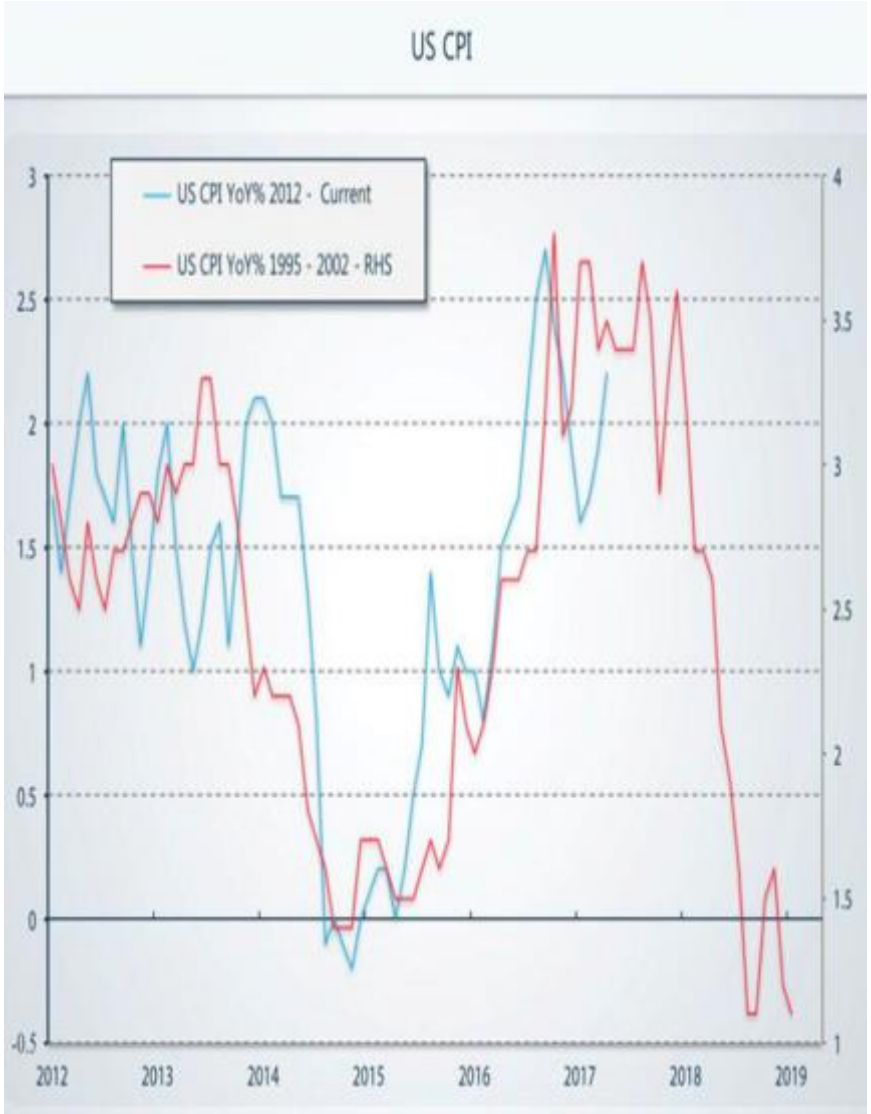
Rates May Not Rise As Much As Some People Expecting

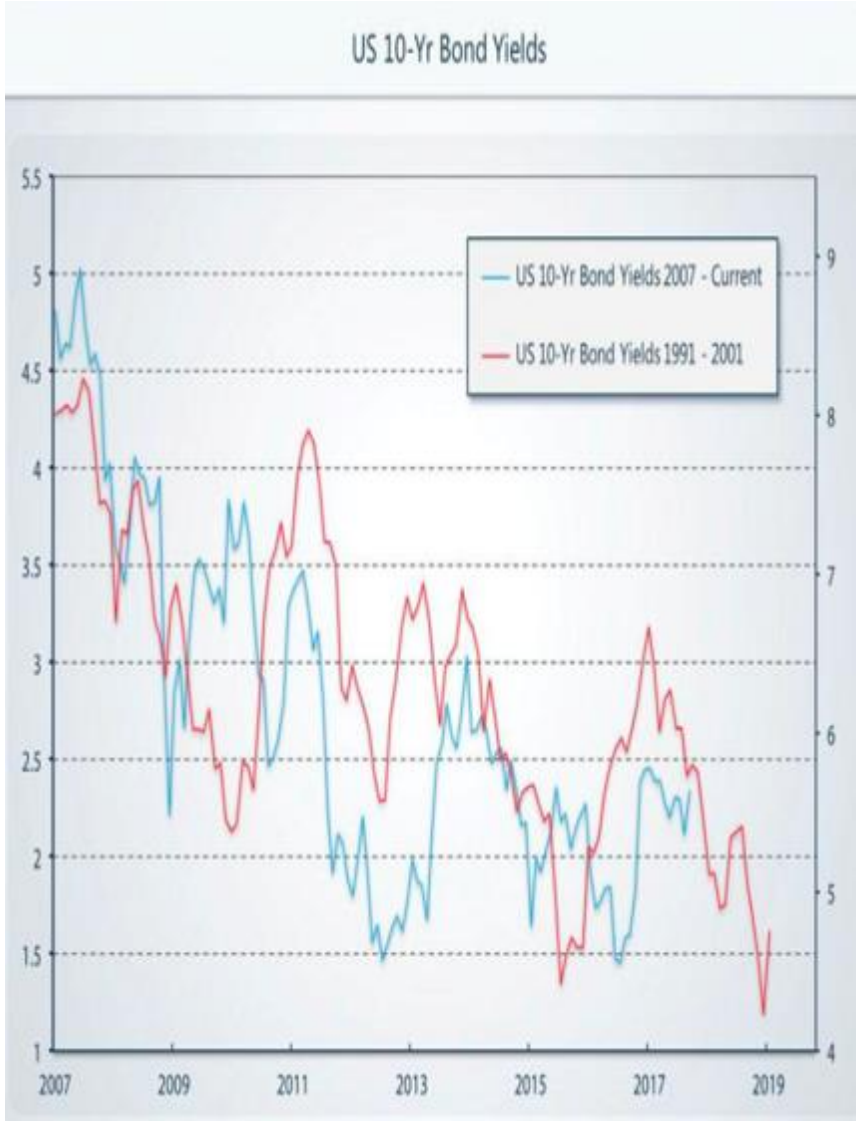




Source(s): GMI

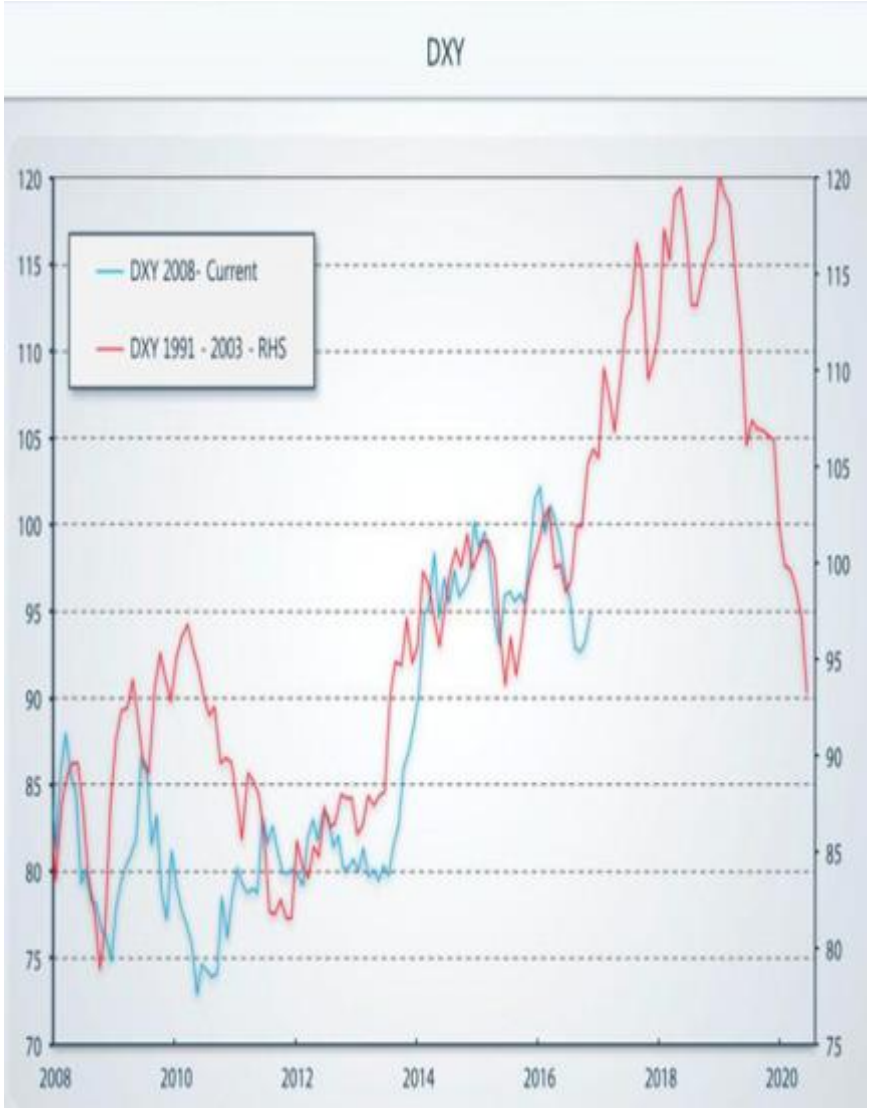
Poor Demographics Lead To Deflation & Lower Rates





Source(s): GMI

2000 to 2002 Dollar Was Strong After Inverse H&S Pattern



Source(s): GMI

Gann Financial Time Table & Benner Cycle Point To 2019

W.D. Gann's Financial Time Table — extended and adjusted

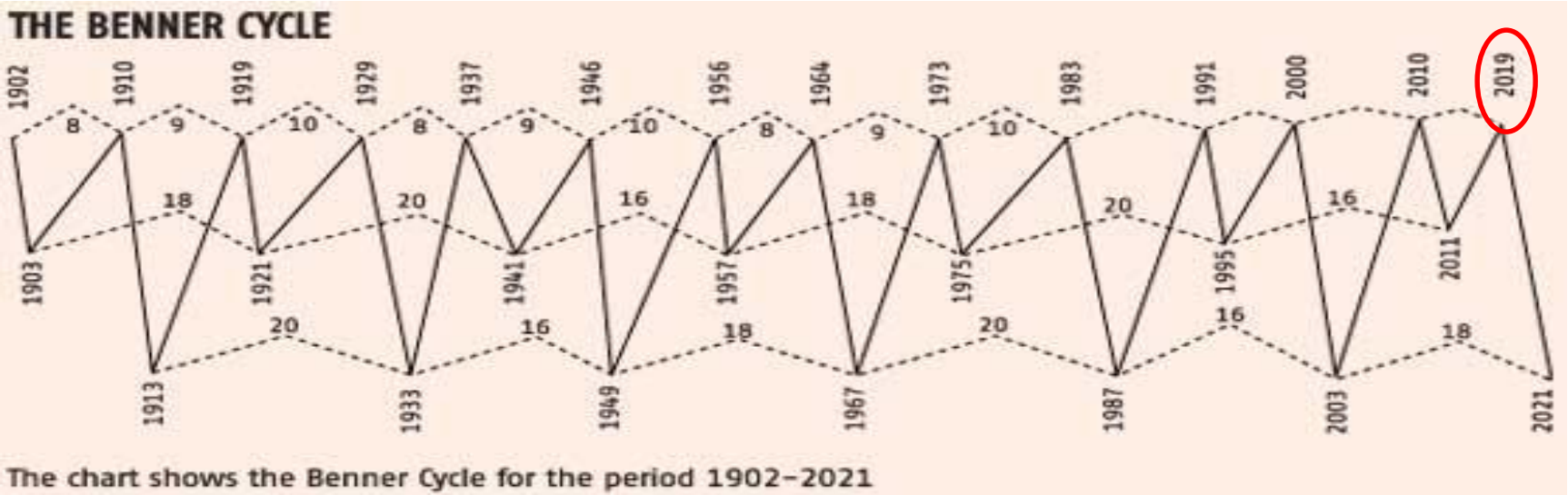
TPR©

Financial Time Table [originally compiled by W.D. Gann, 1909]

1784	1803	1821	1840	1858	1877	1895	1914	1932	1951	1969	1988
1785	1804	1822	1841	1859	1878	1896	1915	1933	1952	1970	1989
1786	1805	1823	1842	1860	1879	1897	1916	1934	1953	1971	1990
1787	1806	1824	1843	1861	1880	1898	1917	1935	1954	1972	1991
1788	1807	1825	1844	1862	1881	1899	1918	1936	1955	1973	1992
1789	1808	1826	1845	1863	1882	1900	1919	1937	1956	1974	1993
1790	1809	1827	1846	1864	1883	1901	1920	1938	1957	1975	1994
1791	1810	1828	1847	1865	1884	1902	1921	1939	1958	1976	1995
1792	1811	1829	1848	1866	1885	1903	1922	1940	1959	1977	1996
1793	1812	1830	1849	1867	1886	1904	1923	1941	1960	1978	1997
1794	1813	1831	1850	1868	1887	1905	1924	1942	1961	1979	1998
1795	1814	1832	1851	1869	1888	1906	1925	1943	1962	1980	1999
1796	1815	1833	1852	1870	1889	1907	1926	1944	1963	1981	2000
1797	1816	1834	1853	1871	1890	1908	1927	1945	1964	1982	2001
1798	1817	1835	1854	1872	1891	1909	1928	1946	1965	1983	2002
1799	1818	1836	1855	1873	1892	1910	1929	1947	1966	1984	2003
1800	1819	1837	1856	1874	1893	1911	1930	1948	1967	1985	2004
1801	1820	1838	1857	1875	1894	1912	1931	1949	1968	1986	2005
1802	1821	1839	1858	1876	1895	1913	1932	1950	1969	1987	2006
1803	1822	1840	1859	1877	1896	1914	1933	1951	1970	1988	2007
1804	1823	1841	1860	1878	1897	1915	1934	1952	1971	1989	2008
		1842									

1990	2008	2027	2045	2064	2082	2101
1991	2009	2028	2046	2065	2083	2102
1992	2010	2029	2047	2066	2084	2103
1993	2011	2030	2048	2067	2085	2104
1994	2012	2031	2049	2068	2086	2105
1995	2013	2032	2050	2069	2087	2106
1996	2014	2033	2051	2070	2088	2107
1997	2015	2034	2052	2071	2089	2108
1998	2016	2035	2053	2072	2090	2109
1999	2017	2036	2054	2073	2091	2110
2000 E	2018	2037 E	2055	2074 E	2092	2111 E
2001 F	2019	2038 F	2056	2075 F	2093	2112 F
2002	2020 F	2039	2057 F	2076	2094 F	2113
2003	2021	2040	2058	2077	2095	2114
2004	2022 H	2041	2059 H	2078	2096 H	2115
2005 H	2023	2042 H	2060	2079 H	2097	2116 H
2006	2024	2043	2061	2080	2098	2117
2007	2025	2044	2062	2081	2099	2118
2008	2026	2045	2063	2082	2100	2119
2009 K	2027	2046 K	2064	2083 K	2101	2120 K
2010	2028 K	2047	2065 K	2084	2102 K	2121

LEGEND	
A	Extreme low stock prices, strikes, repression, despair beginning of new business generation of 18.6 years, 4 years of rising stock prices and improving business. Markets bare of goods. Young men becoming prominent.
B	High stock prices
C	Panic
D	Low stock prices
E	High stock prices
F	Panic
G	Low stock prices
H	Very high stock prices, most prosperous year, most money in circulation, most speculation.
I	Major panic CRASH! 4 years of falling prices, business stagnated, breadliness, soup kitchen, despair, unemployment.
K	Same as A plus strikes, unemployment, many prominent deaths.



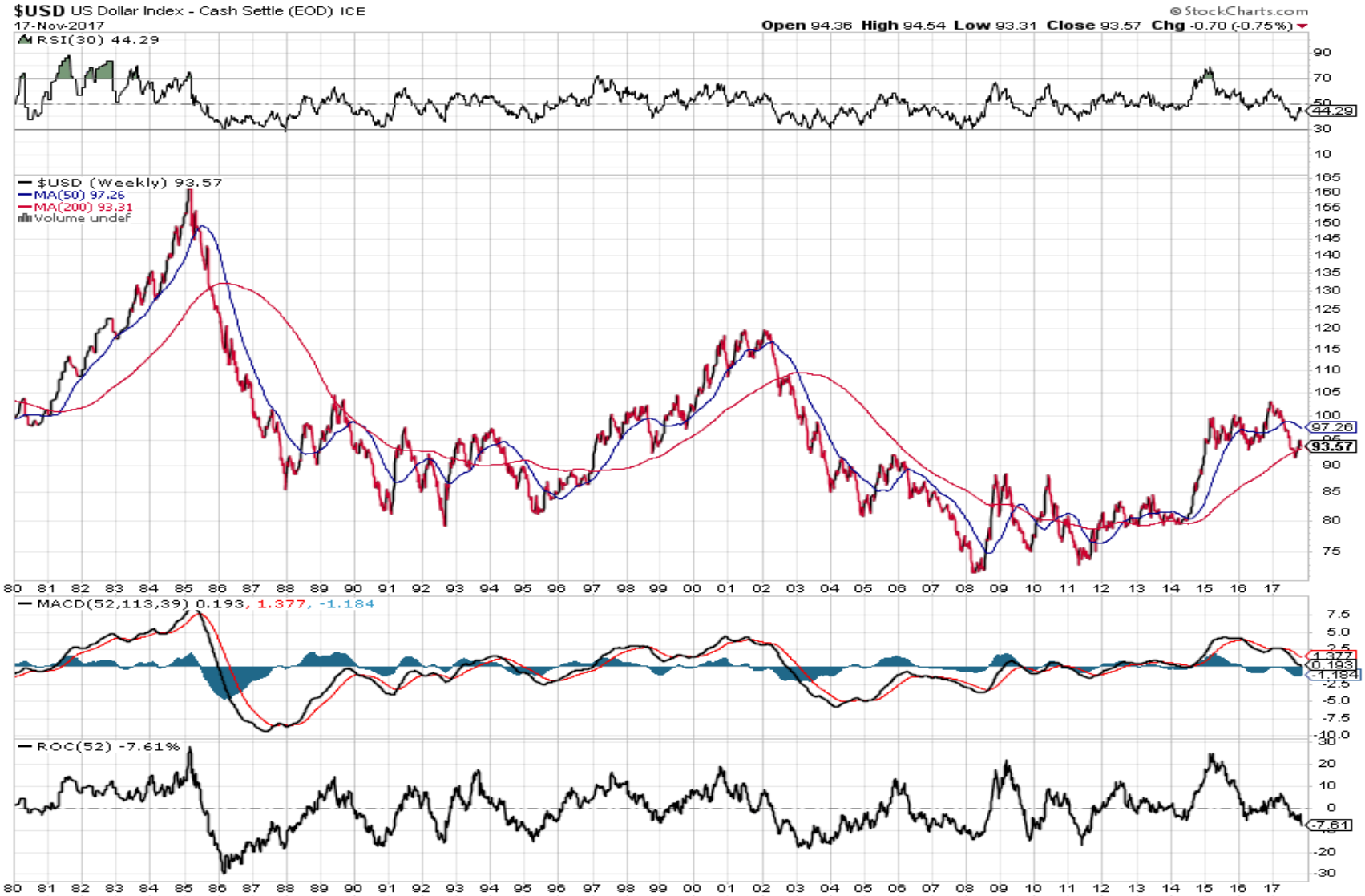
The chart shows the Benner Cycle for the period 1902-2021

Source(s): Time-Price-Resaerch.com

History Rhymes? DXY Inverse H&S Pattern, Turned Down

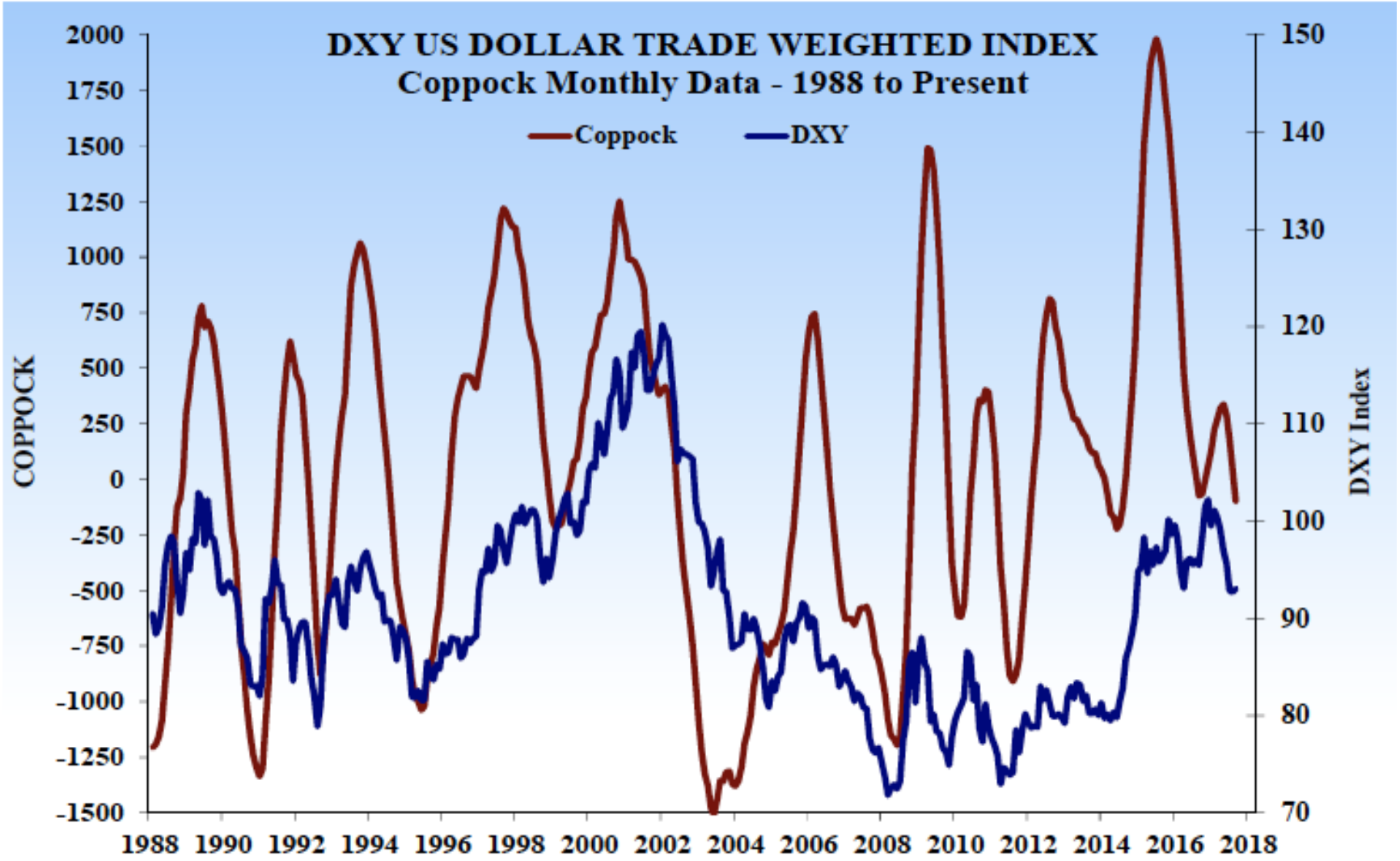
Source(s): GMI

DXY Hanging By A Thread On 200dma, Look Out Below



Source(s): Stockcharts.com

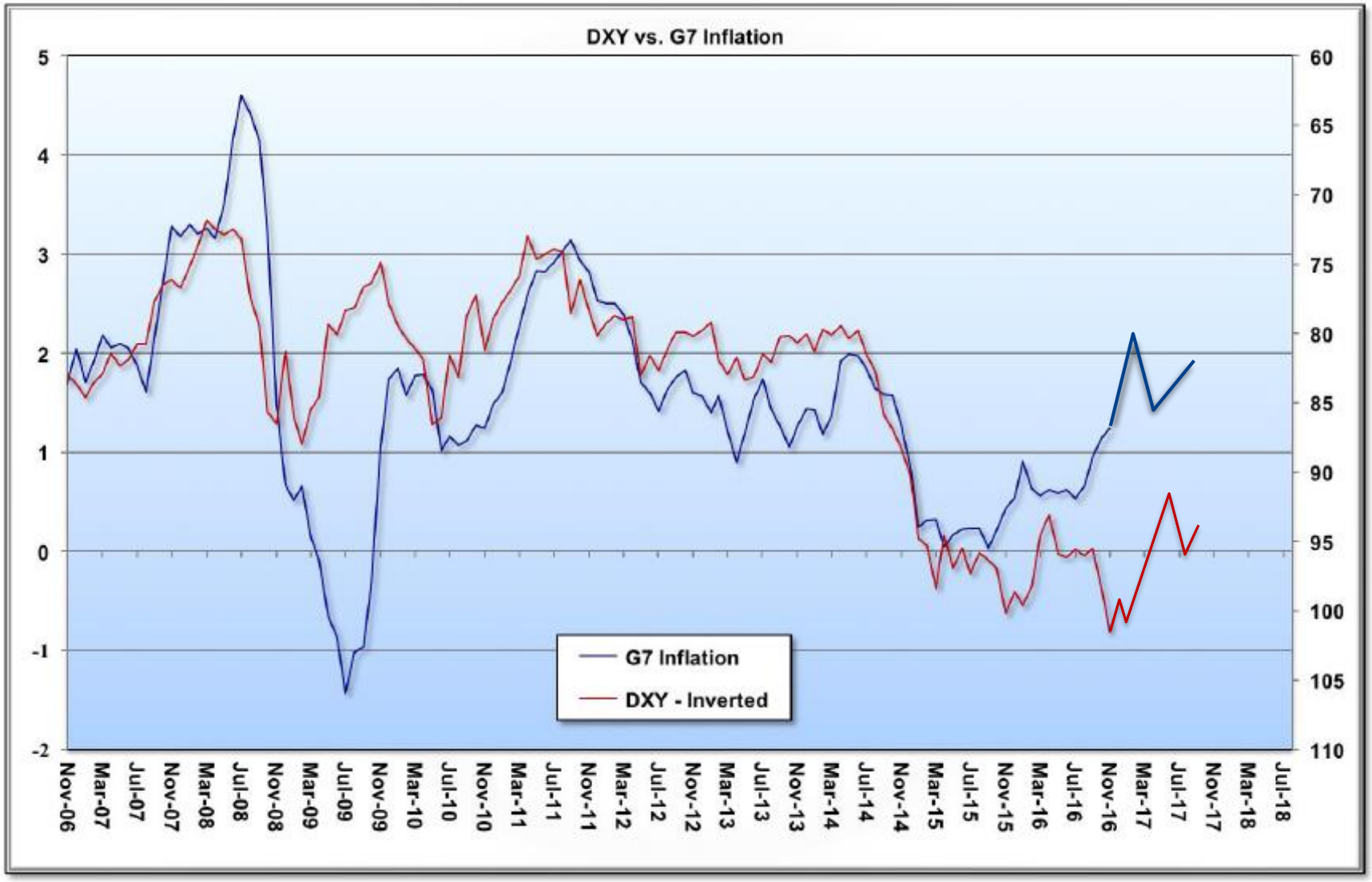
TIS Group Sees Downside For Dollar, DXY Target 75 - 85



Our view is that the U.S. Dollar has another 20% to go on the downside over the next several years.

Source(s): TIS Group

Acceleration in G7 Inflation Signals Lower DXY, Target 80



Source(s): GMI

Dollar Does Not Fare Well On Key Currency Drivers Test

Our Investment Philosophy: Key Currency Drivers

FUNDAMENTAL FACTORS

GROWTH	• Countries with strong growth prospects should see their currencies outperform	X
STABILITY	• Overvaluation of a currency should lead to deterioration in the current account balance and risk of mean reversion behaviour. Countries running large fiscal deficits increase their currency vulnerability	X
YIELD	• Currencies with higher interest rates are attractive	X
MONETARY POLICY	• Monetary policy expectations influence short term dynamics	=
CAPITAL FLOWS	• Investment opportunities attract capital. Developments in equity markets and commodity markets have a significant influence on currency performance	+
RISK AVERSION	• Volatile markets reduce the attractiveness of carry trades, investors look for currencies with strong fundamentals when risk aversion is high	+

Investing entails risks, including possible loss of principal. See Additional Disclosures at the end of this presentation, which are an important part of this presentation.

Source(s): Neuberger Berman

#KingDollarDethroned, Welcome To Multi-Polar FX World

Monetary Re-Set Elements

New SDR Basket – October 2016

Negative Yields – Will Be More Negative Yield Countries When Next Recession Hits

A Cashless Society – Sweden and India/India Tests De-monetizing

A Helicopter Drop – Finland, Basic Income?

Fiscal Spend Which Circumvents Banks – Frees Up Fed/CBs to Hike Rates

Fin Tech

Japan Re-Finances via Perpetuals? U.S. to Extend Maturities

New Monetary System by 2020-2021?

China to Pay for Saud Oil in Yuan

Monetary Re-Set Implications

Dollar No Longer Sole Reserve Currency/Multi-Polar System Evolving – Will U.S. Allow?

Capital Forced Out of Banks, Money Funds/Low Risk Investments to Higher Risk Investment/East vs. West Banking/Trade/Payment Systems/Gold Eventually Reasserts Its Role

Growth of Electronic Transfers/Online Banking, Apple Pay, Alibaba, Google Wallet, Bitcoin, Bitgold; India Is a Test Case

Source(s): TIS Group

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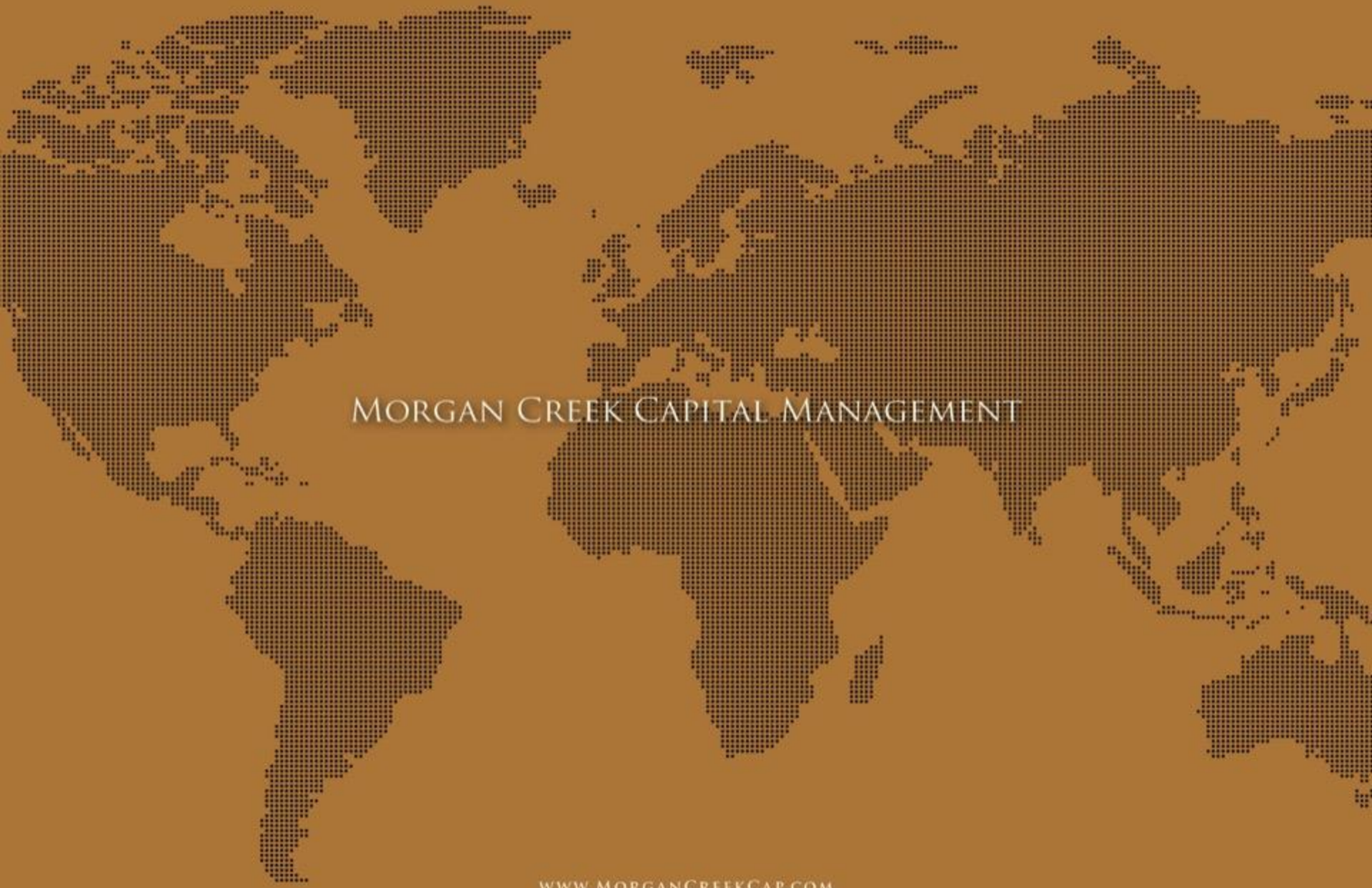
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