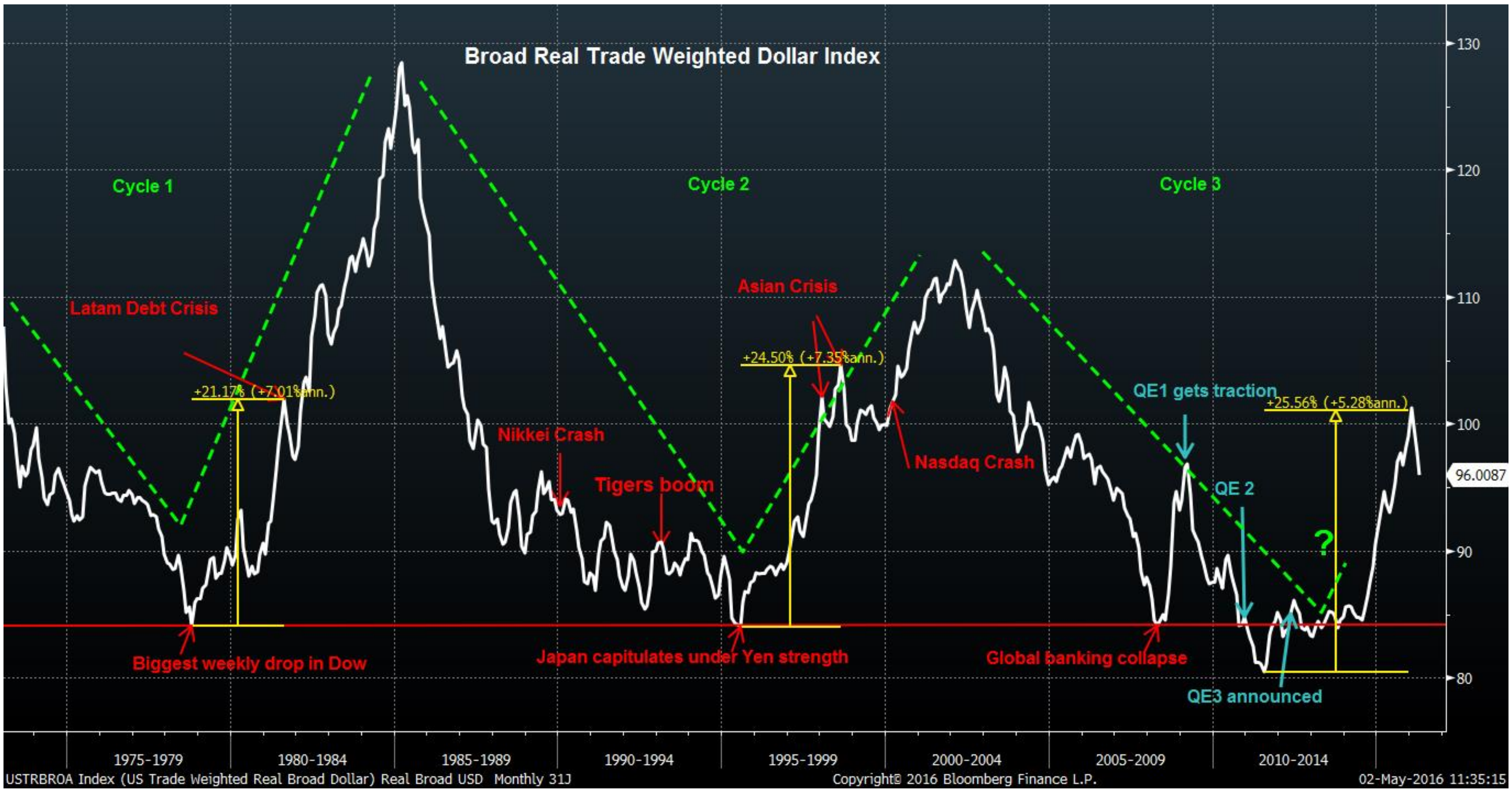
Macro Voices
May 2016

The $ sets the cycle in everything from EM to commodities

The $ rally has now hit levels associated with prior crises and a correction/pause



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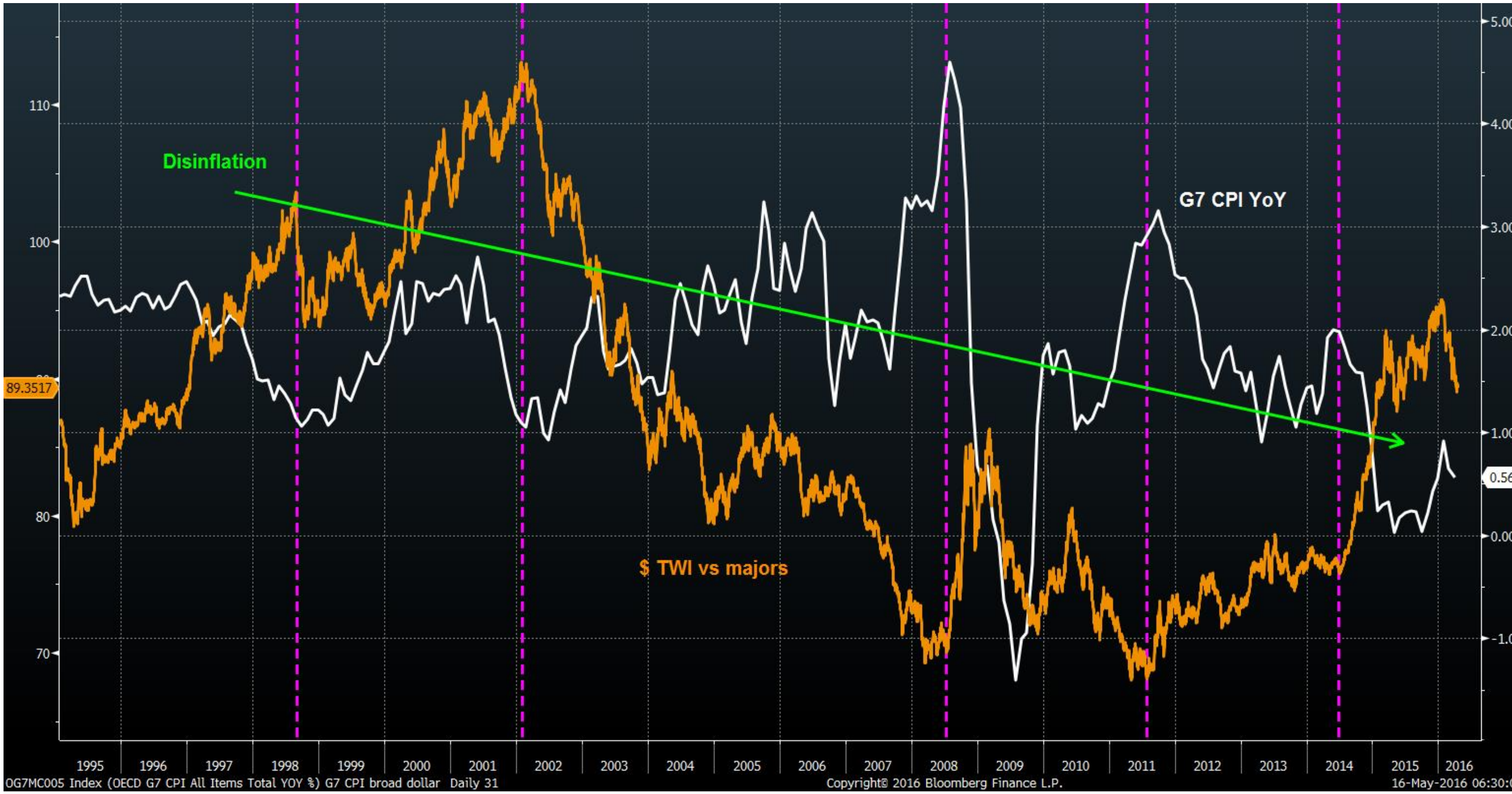
As in the past this has caused the $ to pause
A pause that refreshes

It's literally reflationary

Within the context of broad deflation the highs and lows of the $ set the cycle for inflation in the developed world



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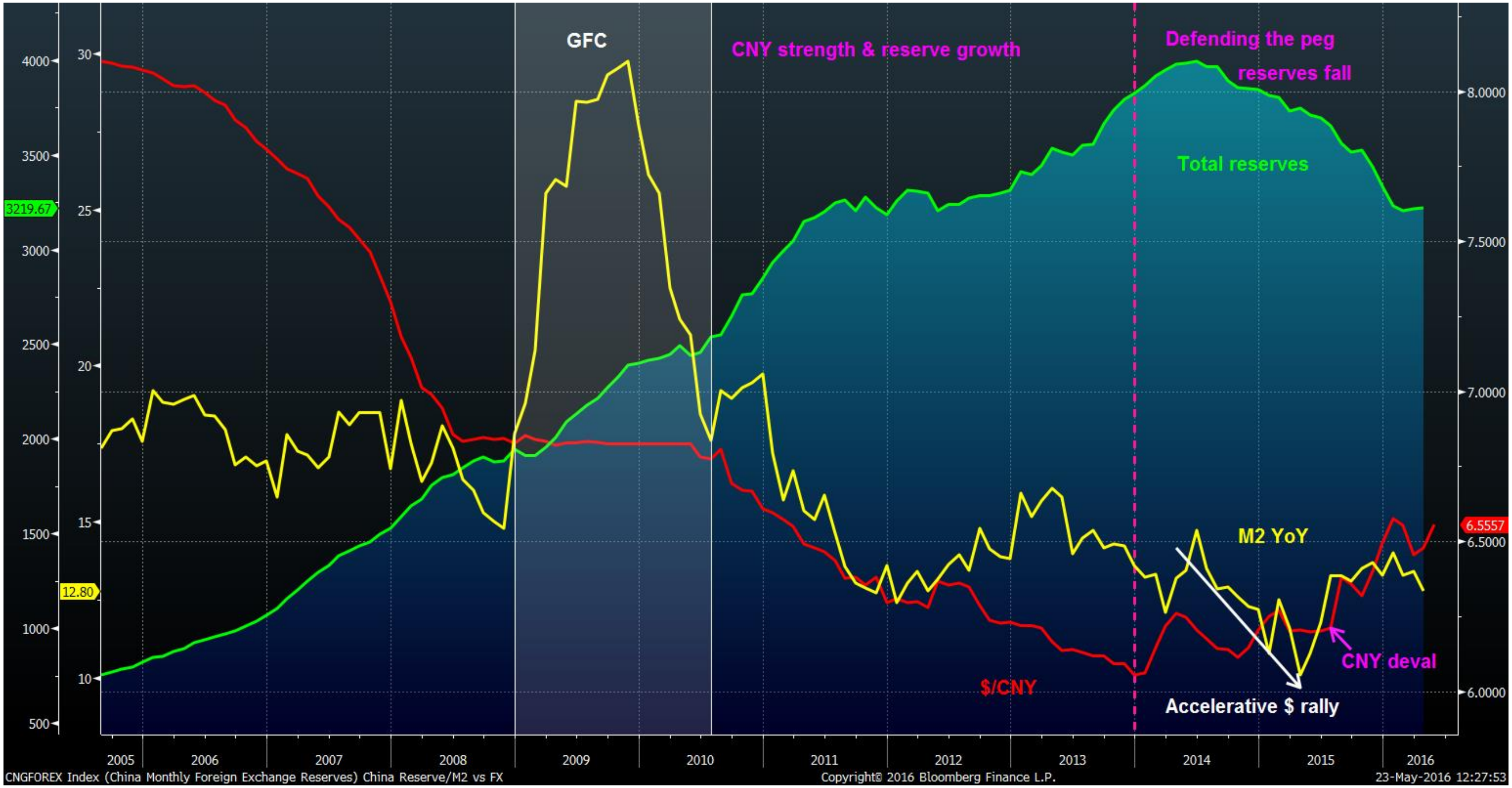
For the pegs and dirty floats of SE. Asia dollar stability is a welcome respite

A strengthening dollar = intervention = lower reserves = slower money supply growth
Hence why last summer with M2 growth threatening to slip under 10% YoY China had to devalue



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Precious metals as a pure dollar play have been clear winners

Silver is a fully busted bubble but is now bouncing off its long term trend at 13.75 the initial target is 18.60-80

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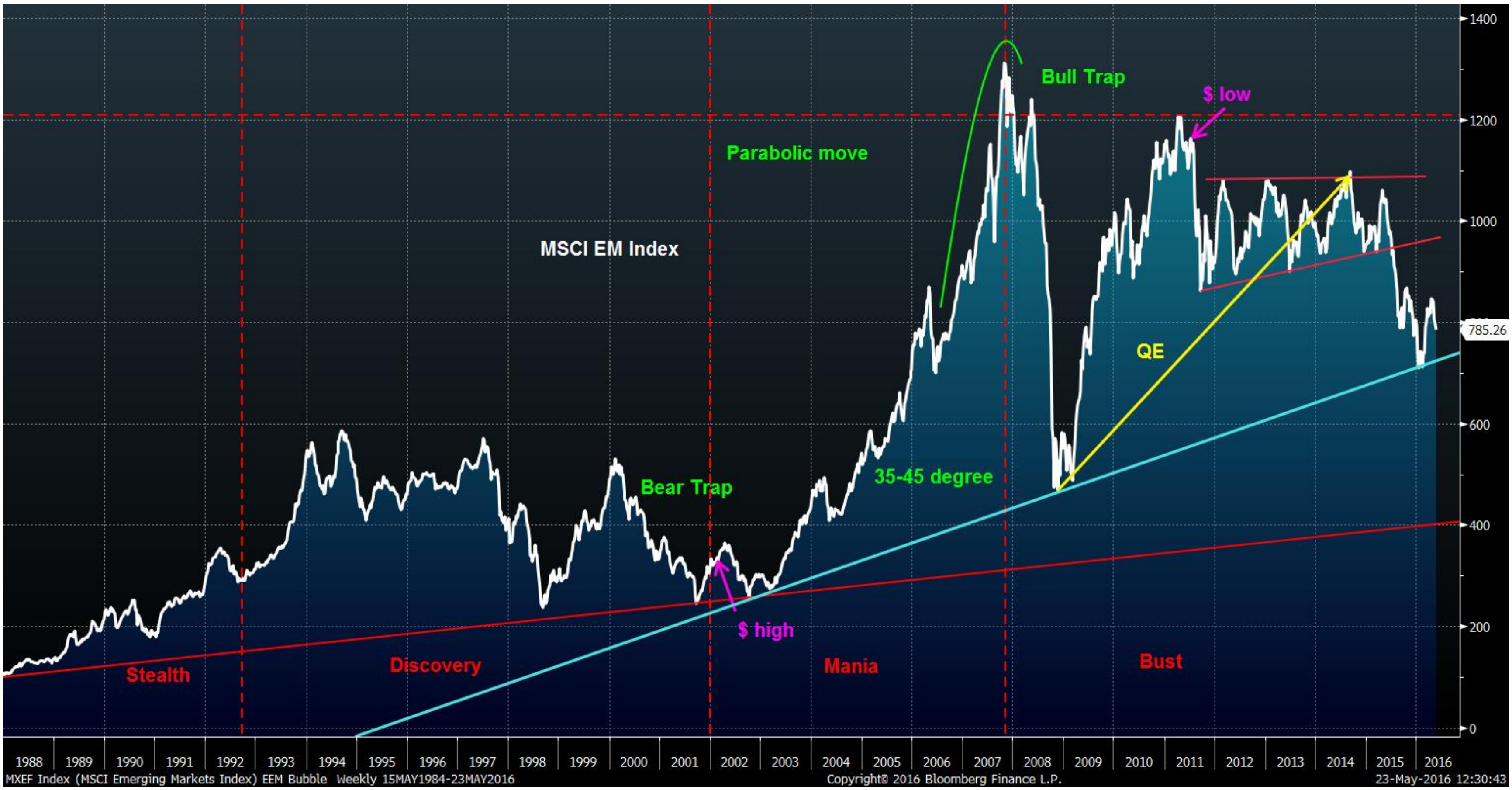
For EM rising commodities and a weaker $ have been good news for stocks

The MSCI EM index is bouncing off its long term trend but is still a "classic bubble"

This is a 4 stage technical pattern that would suggest the long term target for the MSCI EM index is 400



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While hope for "reflation" has also bolstered DM stocks

Heavy rotation into energy, mining and resources since January has helped support the broad market

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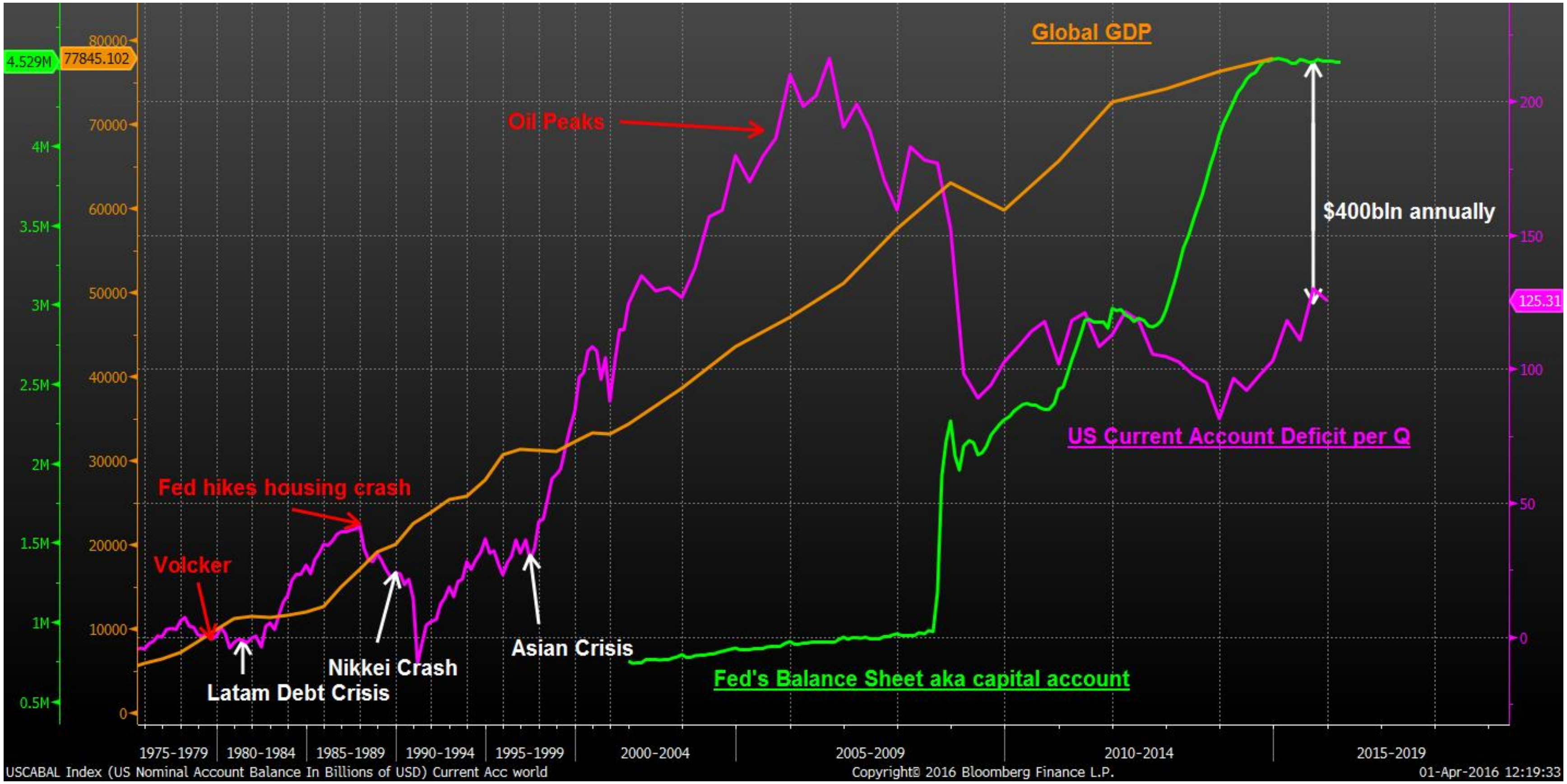
But we shouldn’t expect too big a correction in the dollar because its “different this time”

The mechanics for a dollar rally are always the same i.e. a shortfall in supply. In the past, Fed tightening curtailed consumer spending tightening the $ supply via the current account but this time the issue is more structural thanks to shale which has replaced energy imports



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This is where the inflation gets interesting

We haven't had deflation but an oil shock triggered by the $

The fallout and disinflation from the dollar's rally has caused the Fed to delay hikes
Yet since January the $'s pause has unleashed an 80% plus rally in crude
If that's sustained into 2017 energy CPI goes from falling 20% YoY to rising 20%

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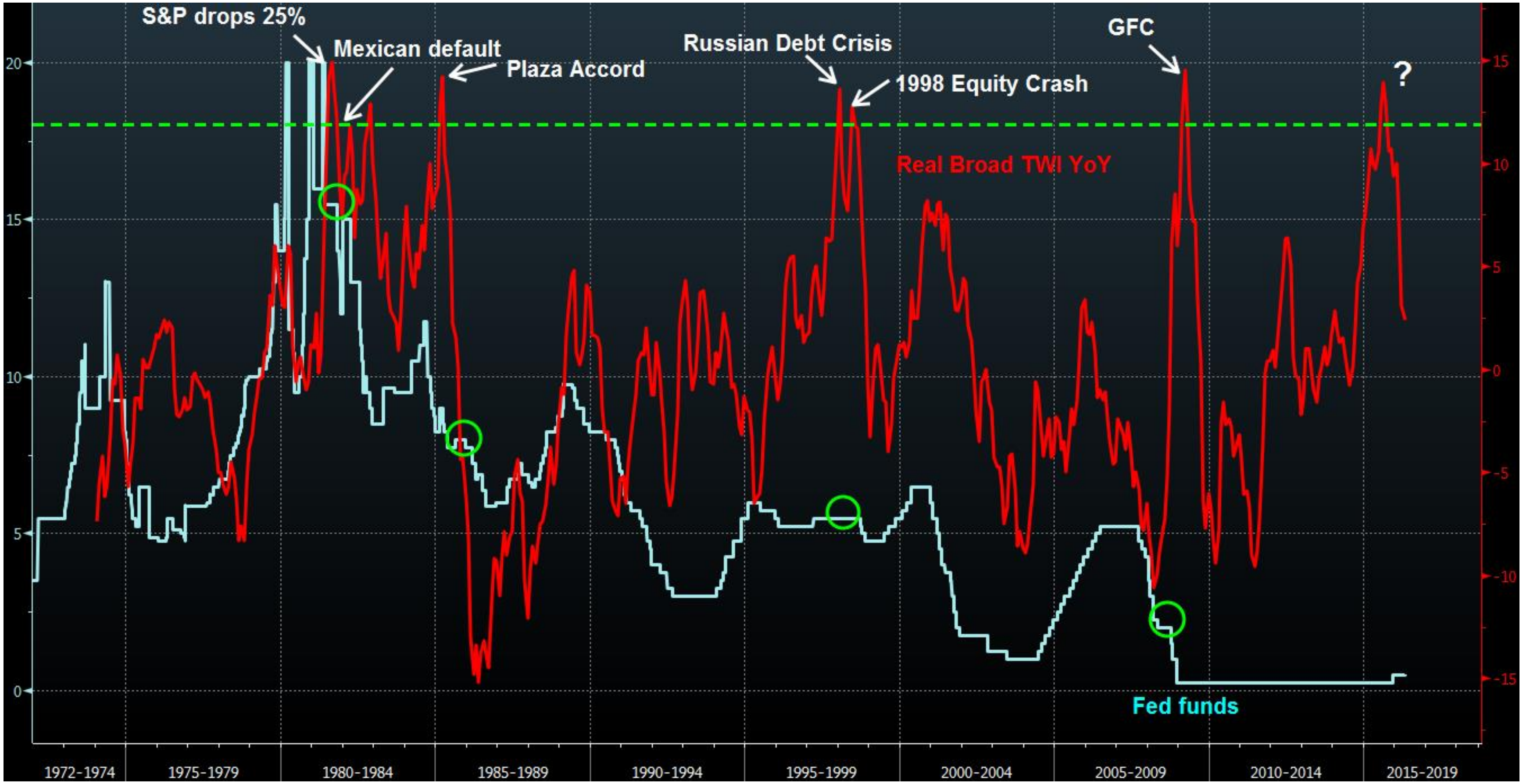
Either the Fed hikes or the second half of the year the bond market does it for them!

Higher rates would reinvigorate the dollar

In the Latam and Asian Crisis the dollar declined ≈ 9% vs Majors, 4.5% vs EM and the decline lasted 4 months
The end of Fed rate cuts or renewed hikes stopped the correction

The problem is history suggests the next rise in the $ is a "risk off" rally

Having hit crisis rates of change last year the dollar's rise has lost a lot of momentum
But only post Plaza and the GFC have we ever gone negative YoY. On every other occasion the $ has reaccelerated and that second acceleration is very toxic



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