

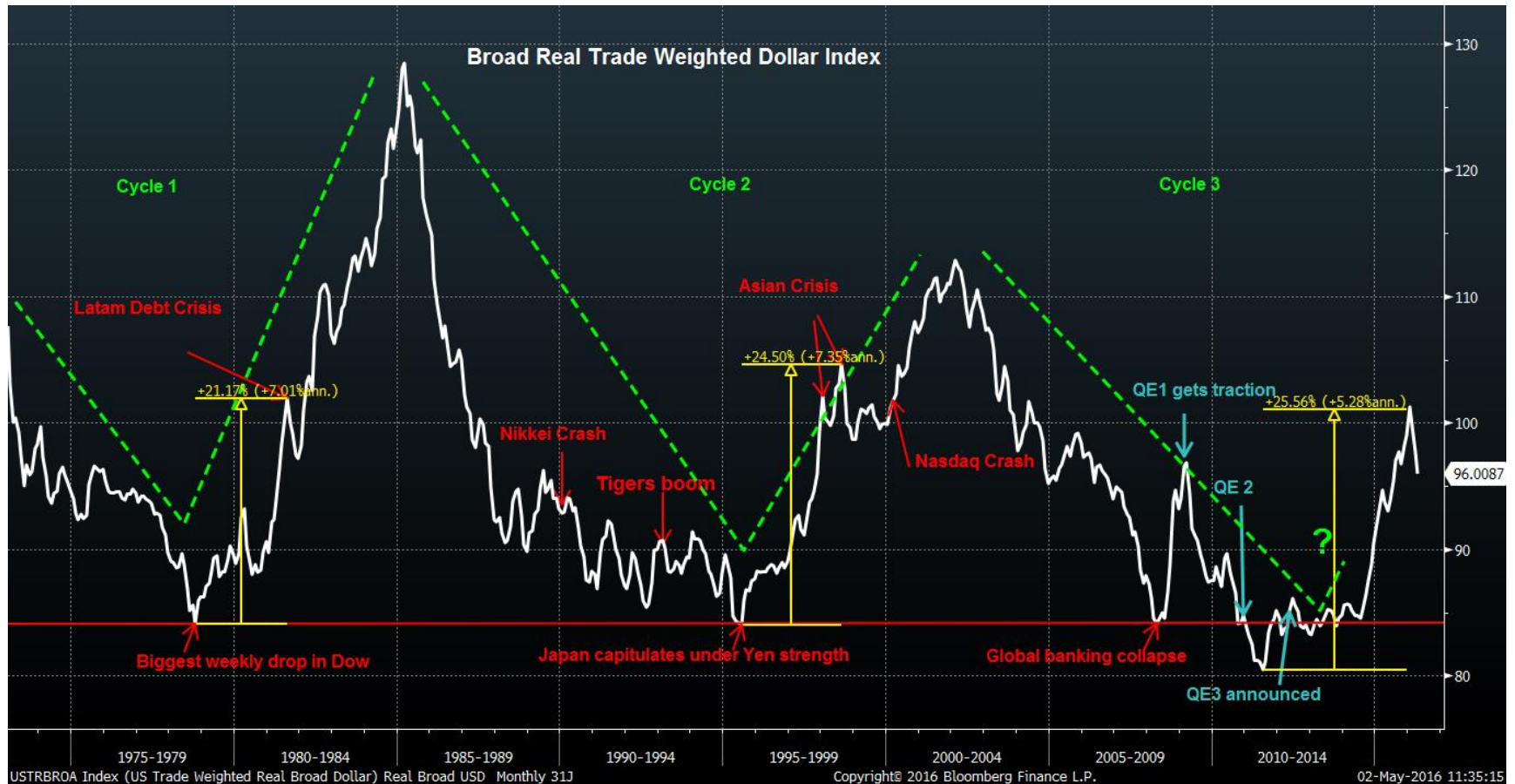


Macro Voices

May 2016

# The \$ sets the cycle in everything from EM to commodities

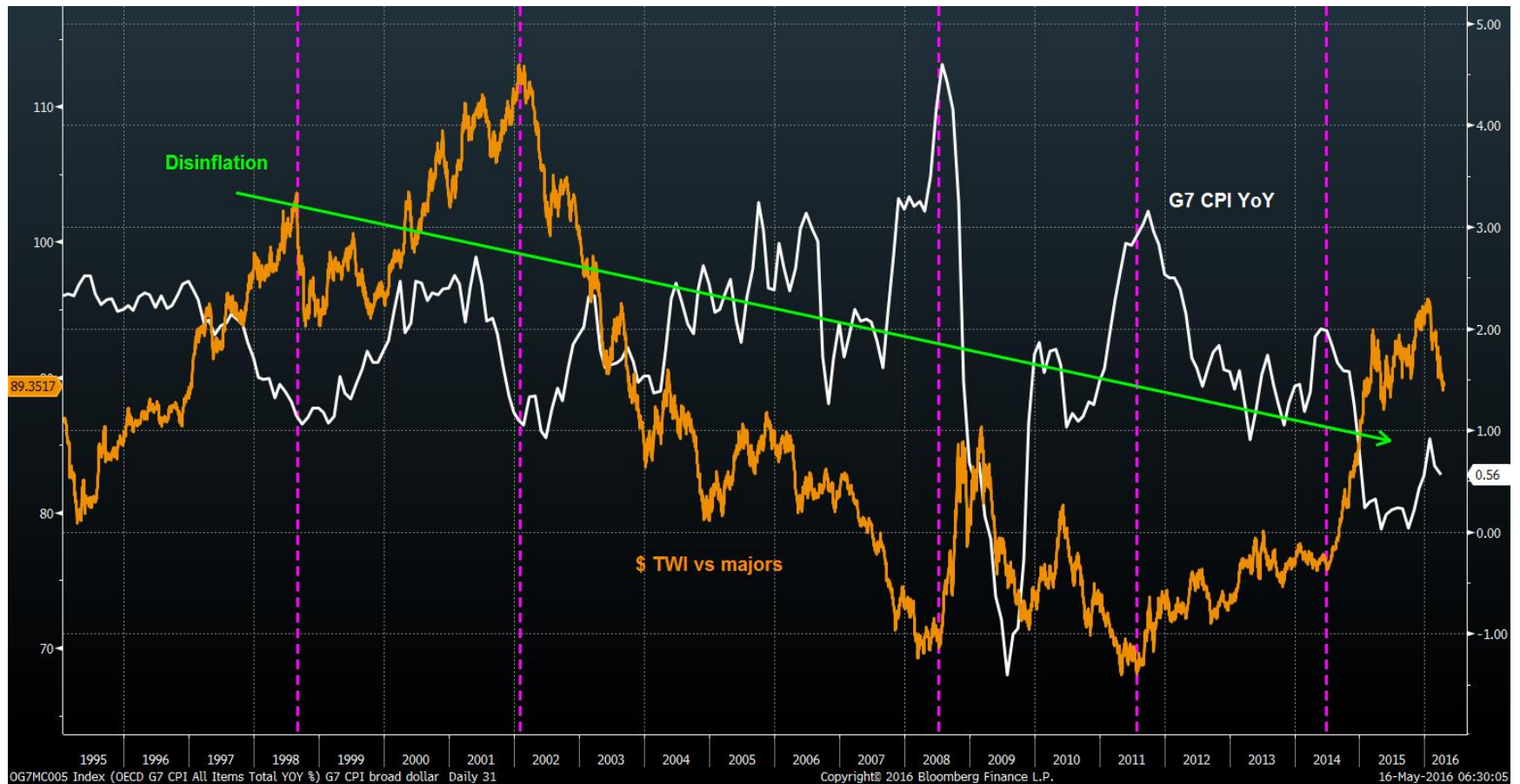
The \$ rally has now hit levels associated with prior crises and a correction/pause



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

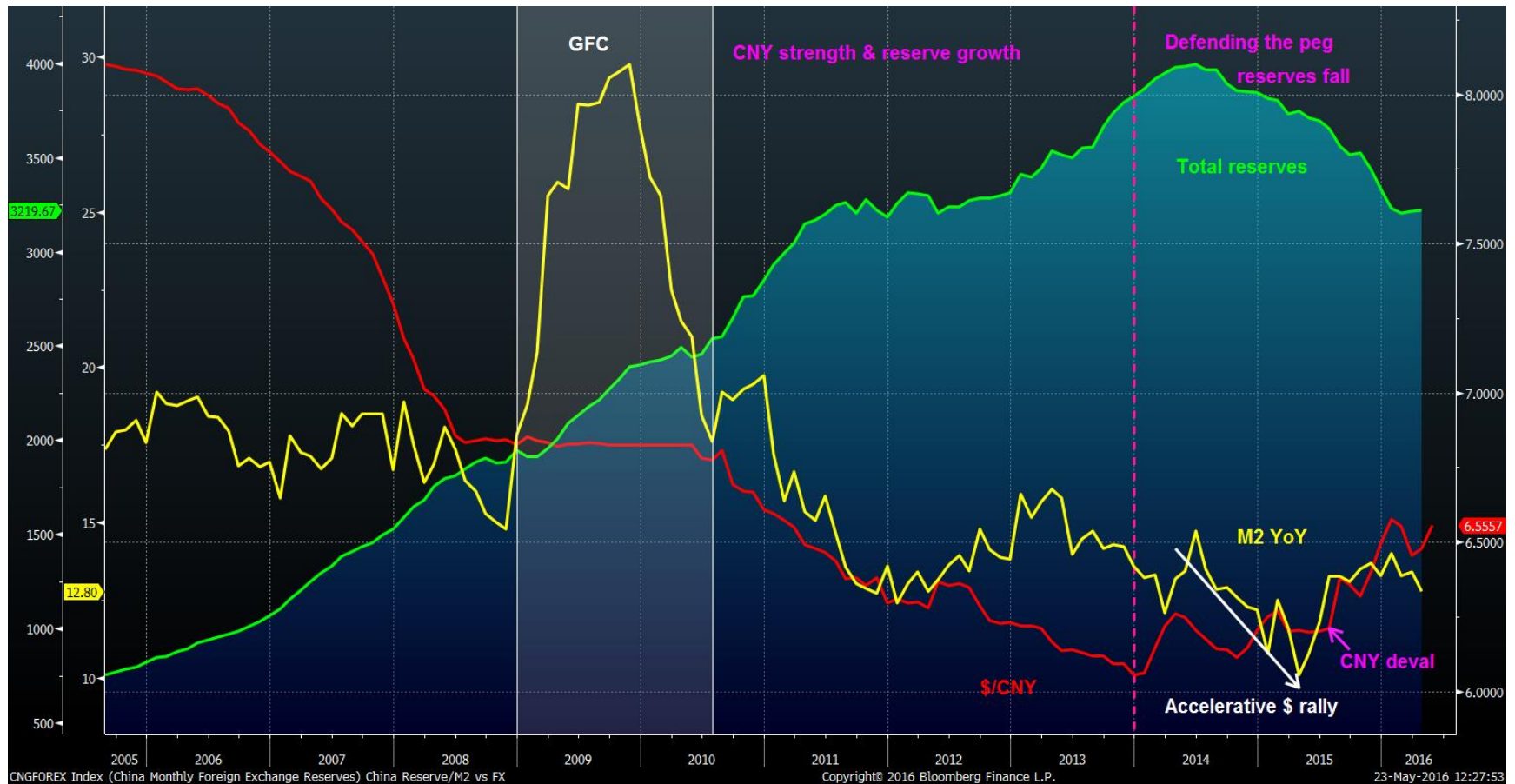
# It's literally reflationary

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



# 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



# Precious metals as a pure dollar play have been clear winners

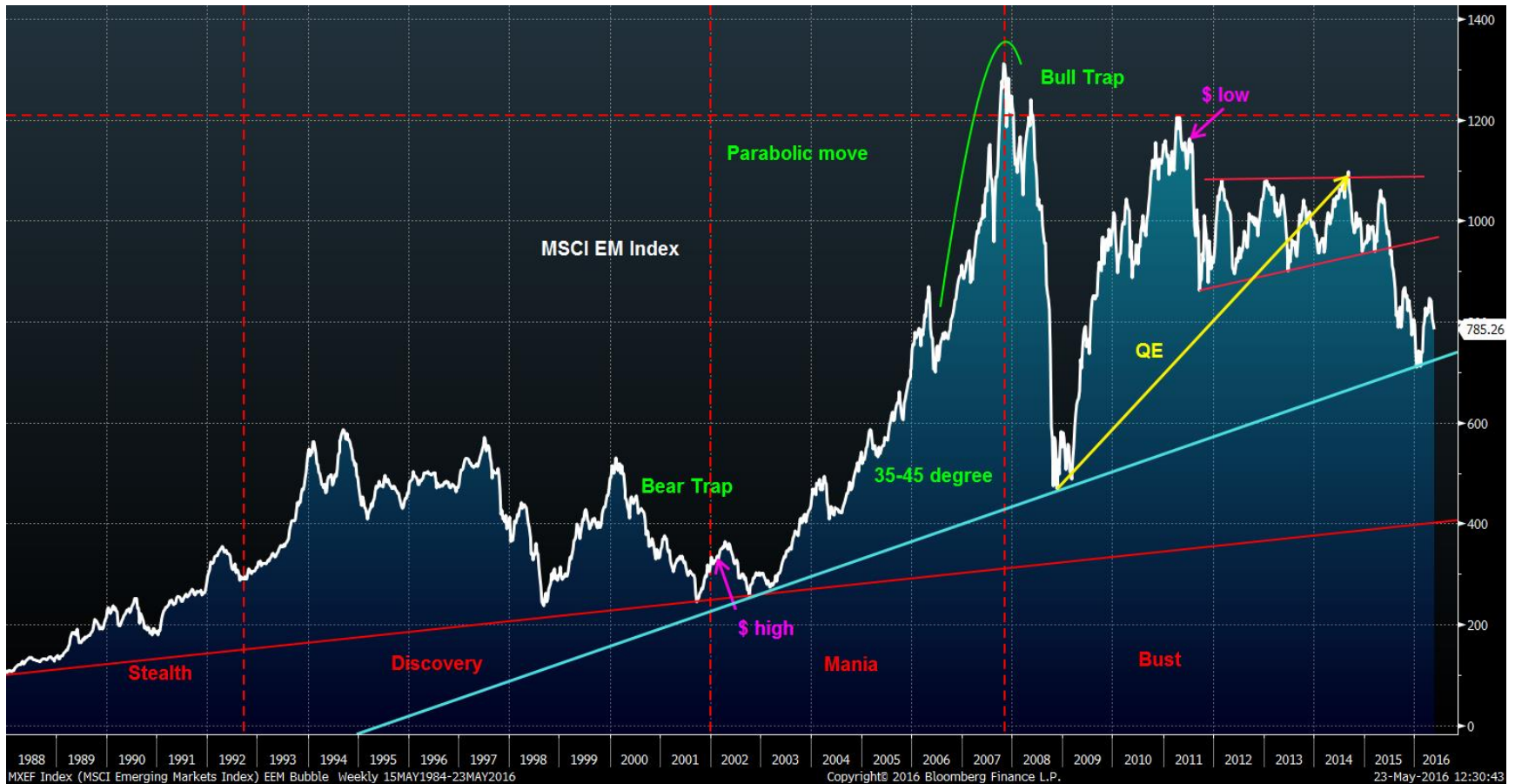
Silver is a fully busted bubble but is now bouncing off its long term trend at 13.75 the initial target is 18.60-80



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

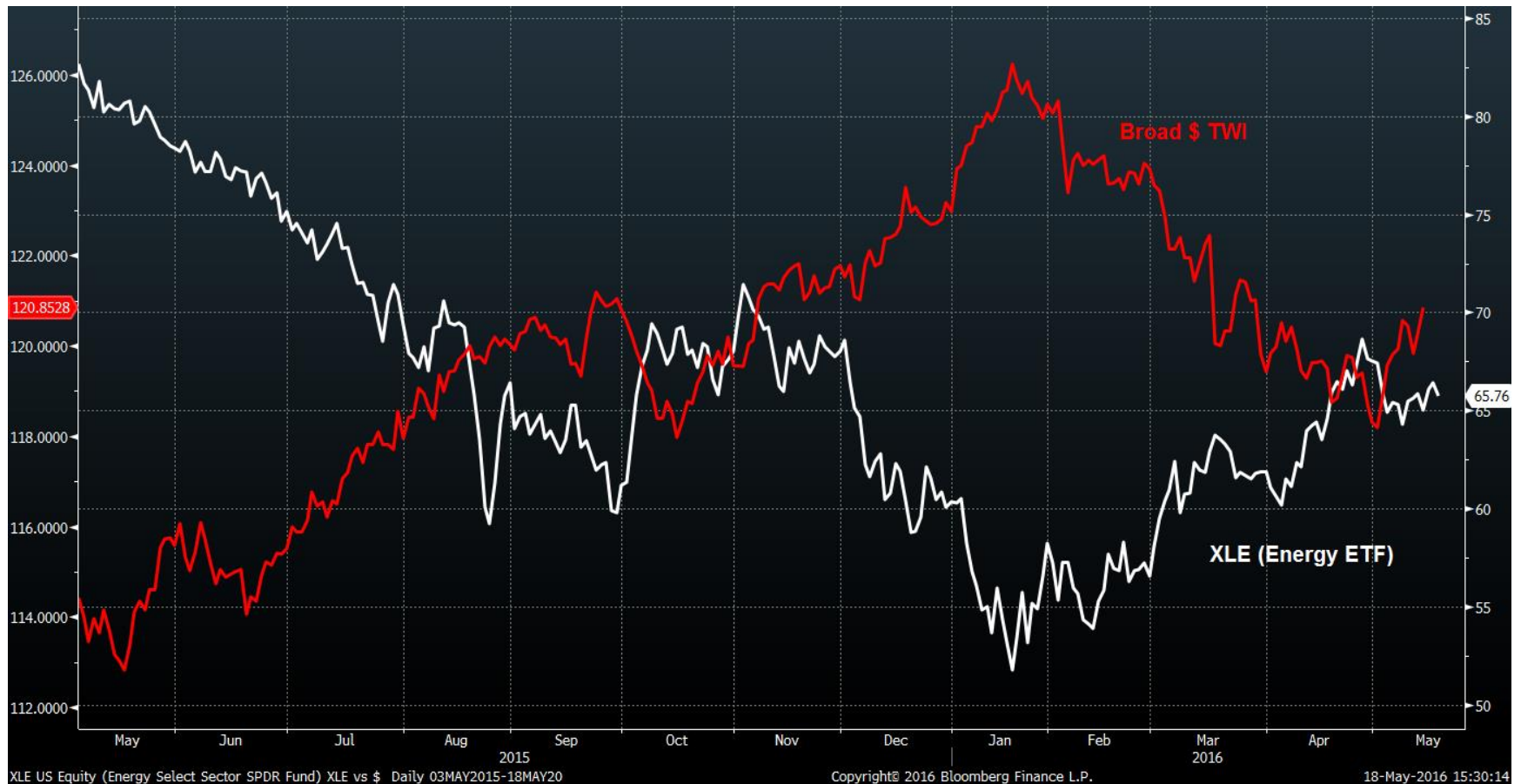
The MSCI EM index is bouncing off its long term trend but is still a “classic bubble”

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



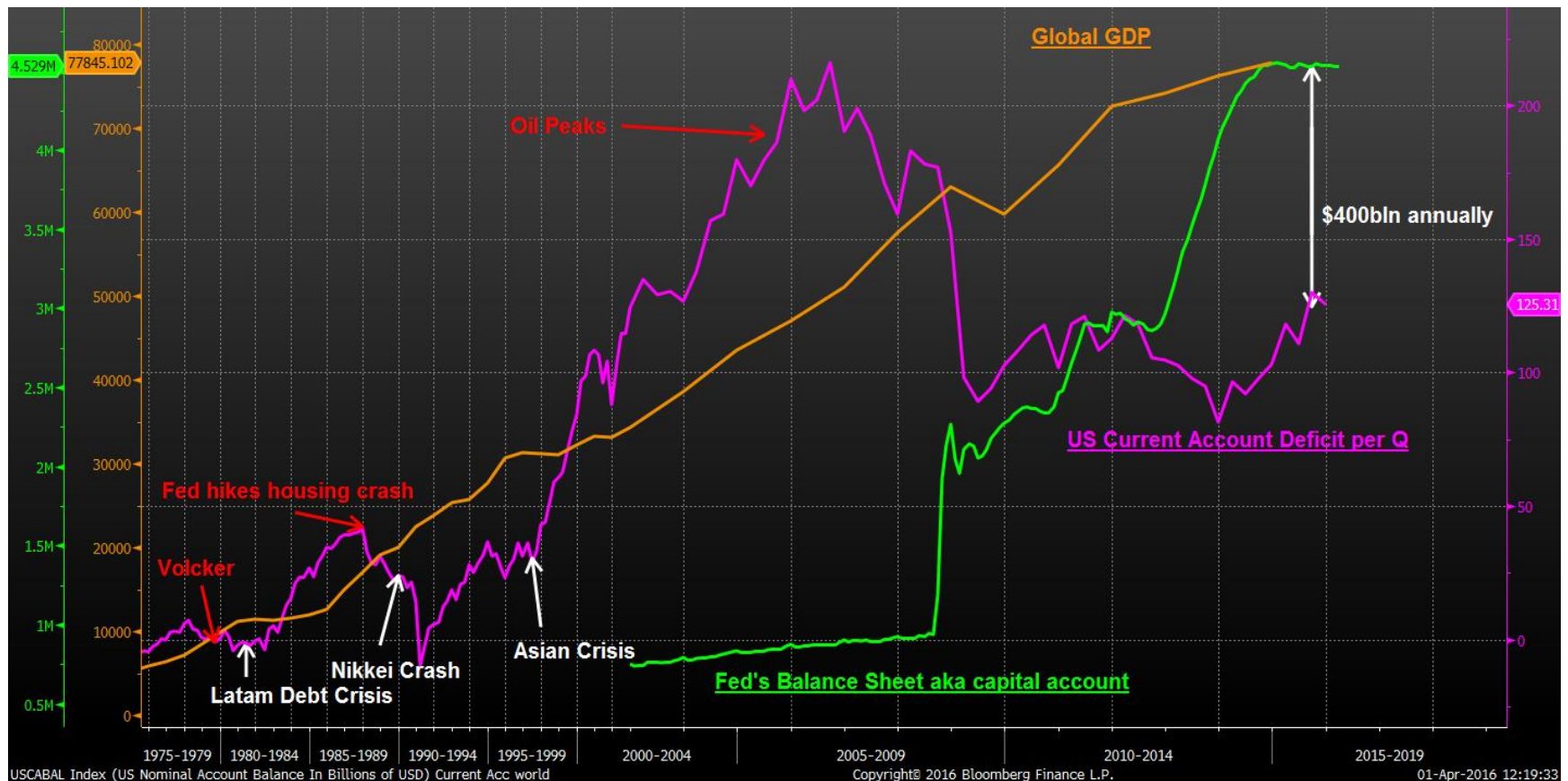
# While hope for “reflation” has also bolstered DM stocks

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



# 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



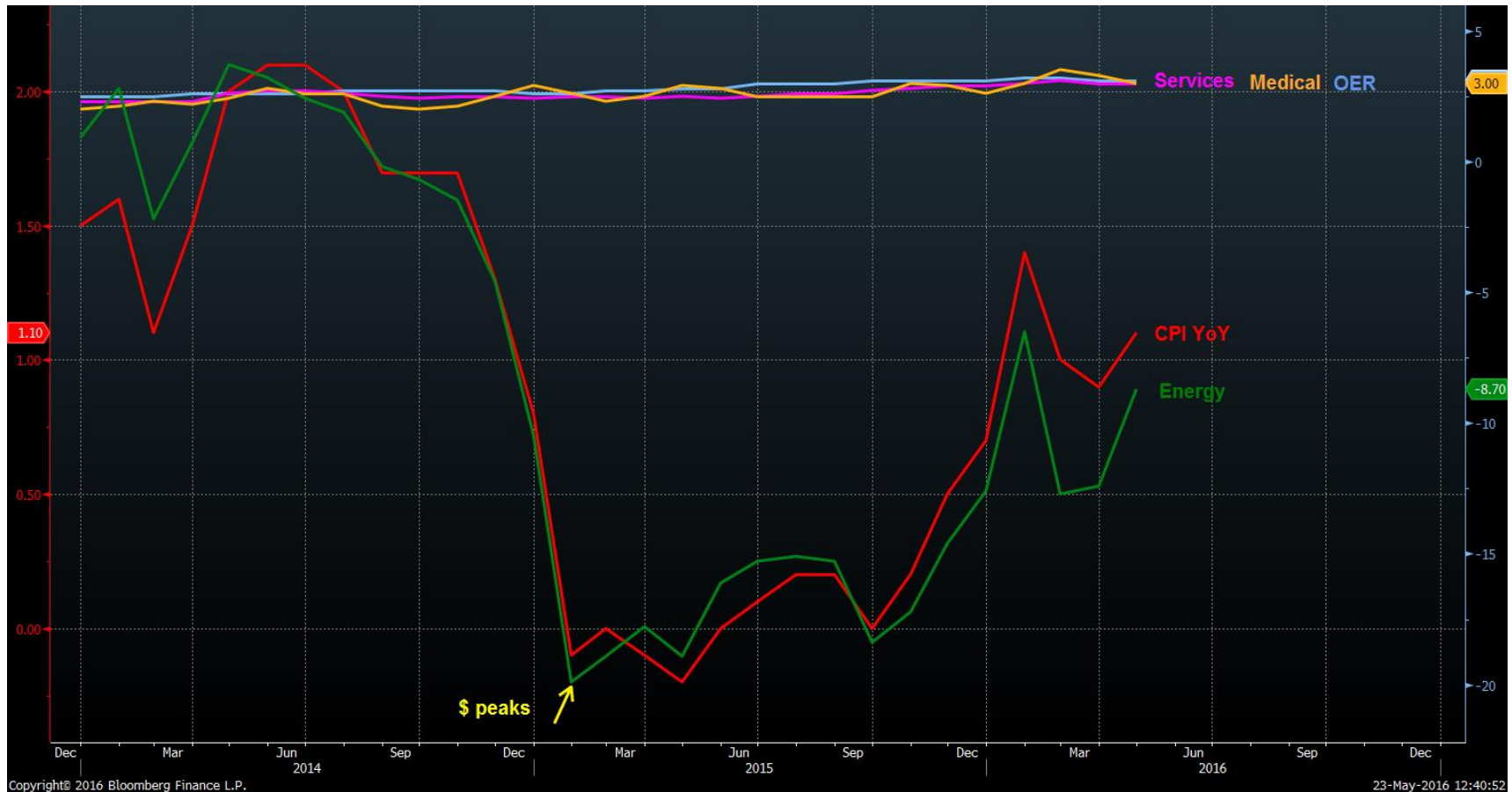
# This is where the inflation gets interesting

## 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%



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

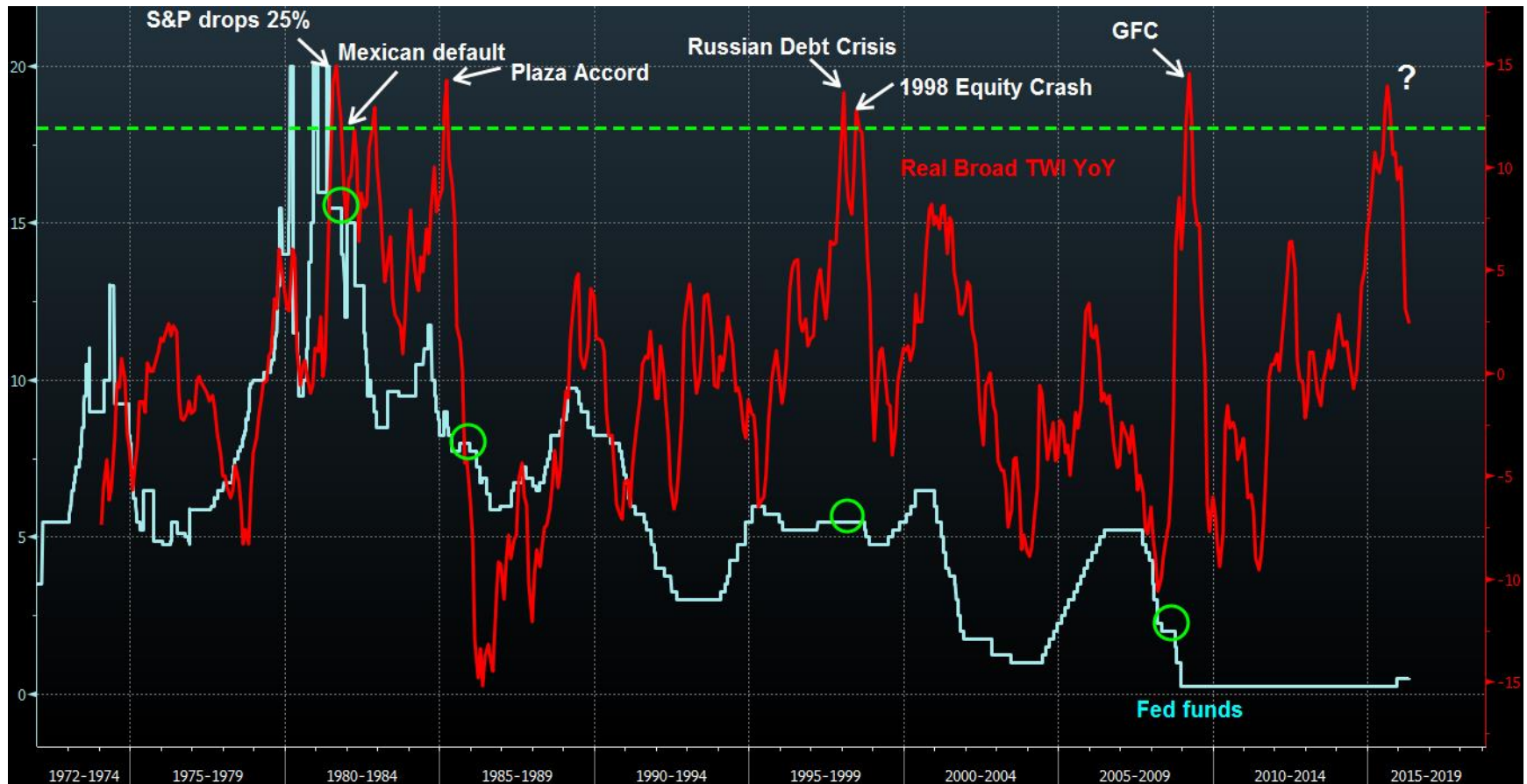
# Higher rates would reinvigorate the dollar

In the Latam and Asian Crisis the dollar declined  $\approx 9\%$  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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