

**SANTIAGO
CAPITAL**



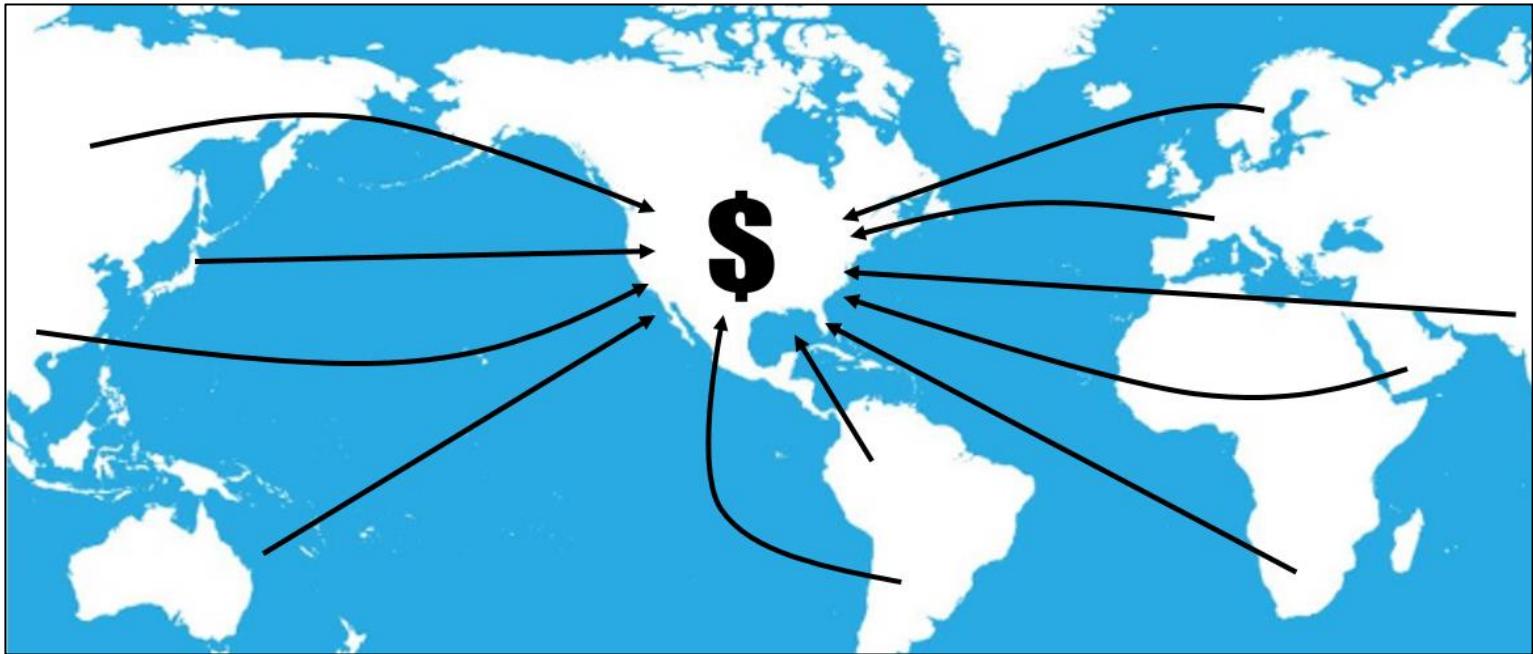
MACROVoices

May 2, 2024

The U.S. Dollar

All financial roads go through the USD.

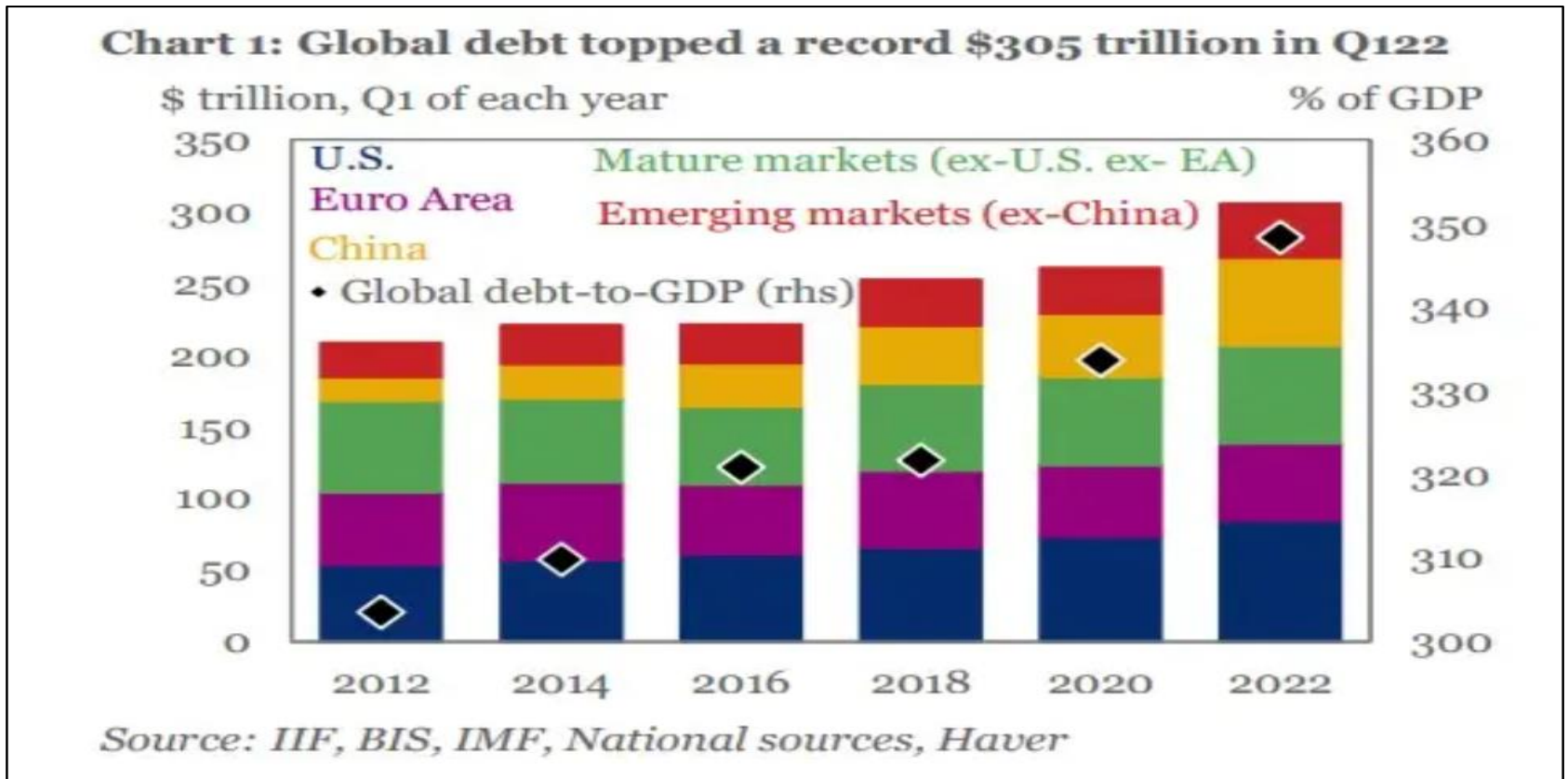
I focus on the USD because it is the single most important factor in getting the Macro picture right.



If you get the USD wrong...the odds of your portfolio doing well...are greatly diminished.

The Dollar Milkshake Theory

The DMT is an event driven thesis based on the consequences of too much Global Debt.



I think everyone sees the problem. In my opinion many get the knock-on effects wrong.

The Dollar Milkshake Theory

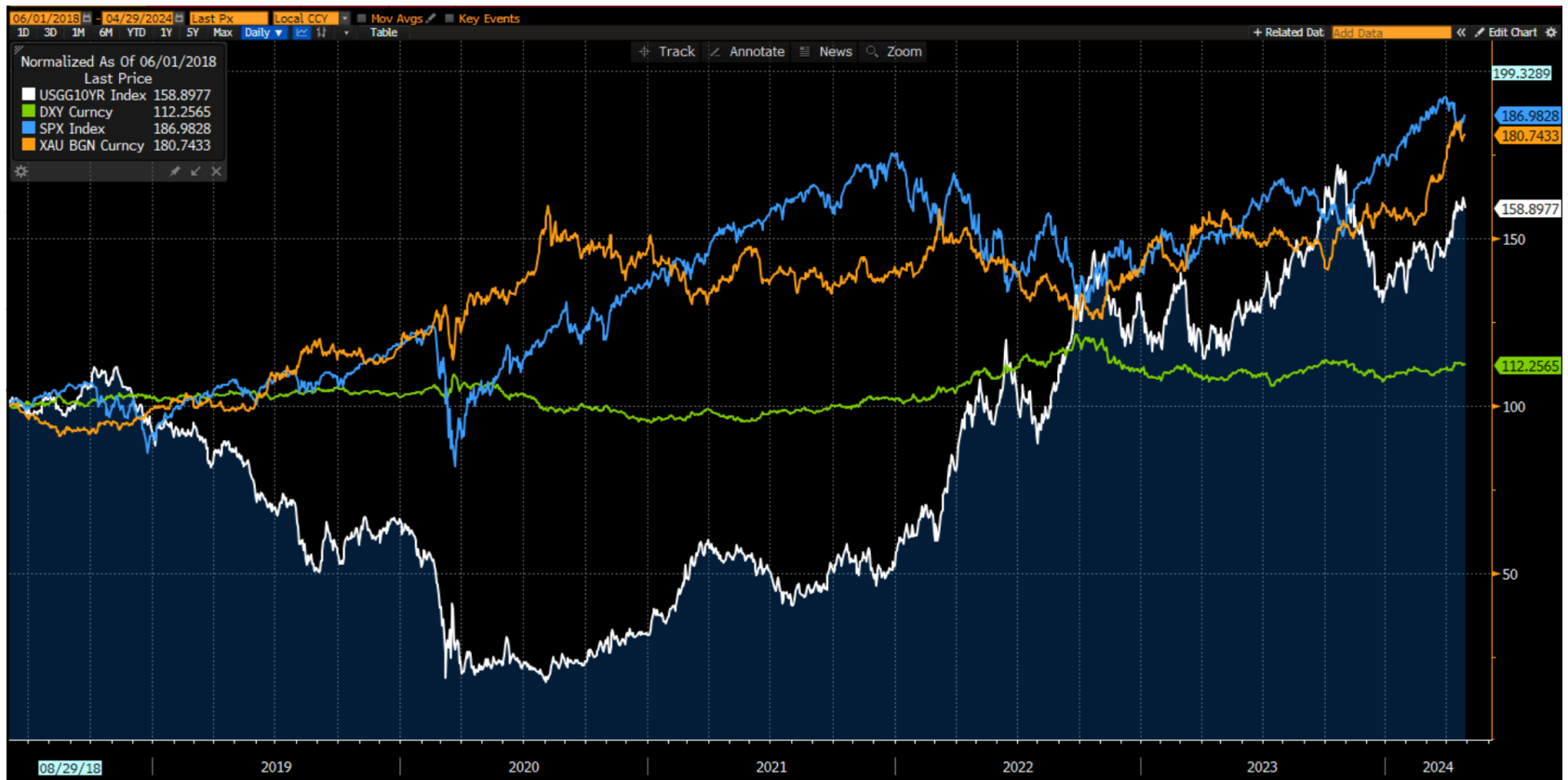
From the very beginning, there were 6 main points...

1. Interest Rates headed higher
2. Bonds Break
3. Dollar Rises
4. US Equities Rise
5. Gold Rises
6. The US outperforms the Rest of the World

...I wanted to get across.

The Dollar Milkshake Theory

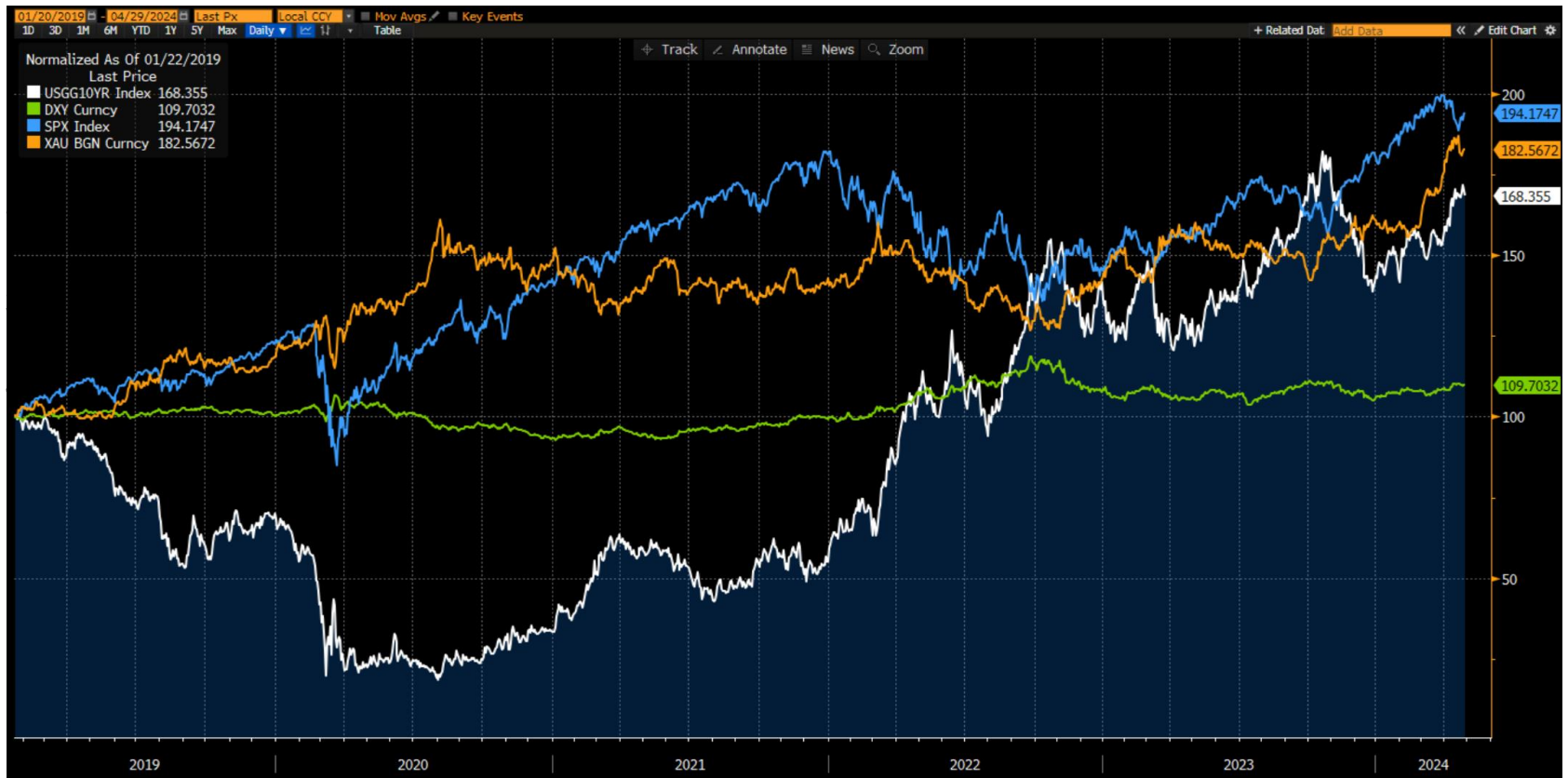
Since I first discussed this in summer of 2018...



...rates higher, bonds lower, dollar higher, US equities higher & Gold higher.

The Dollar Milkshake Theory

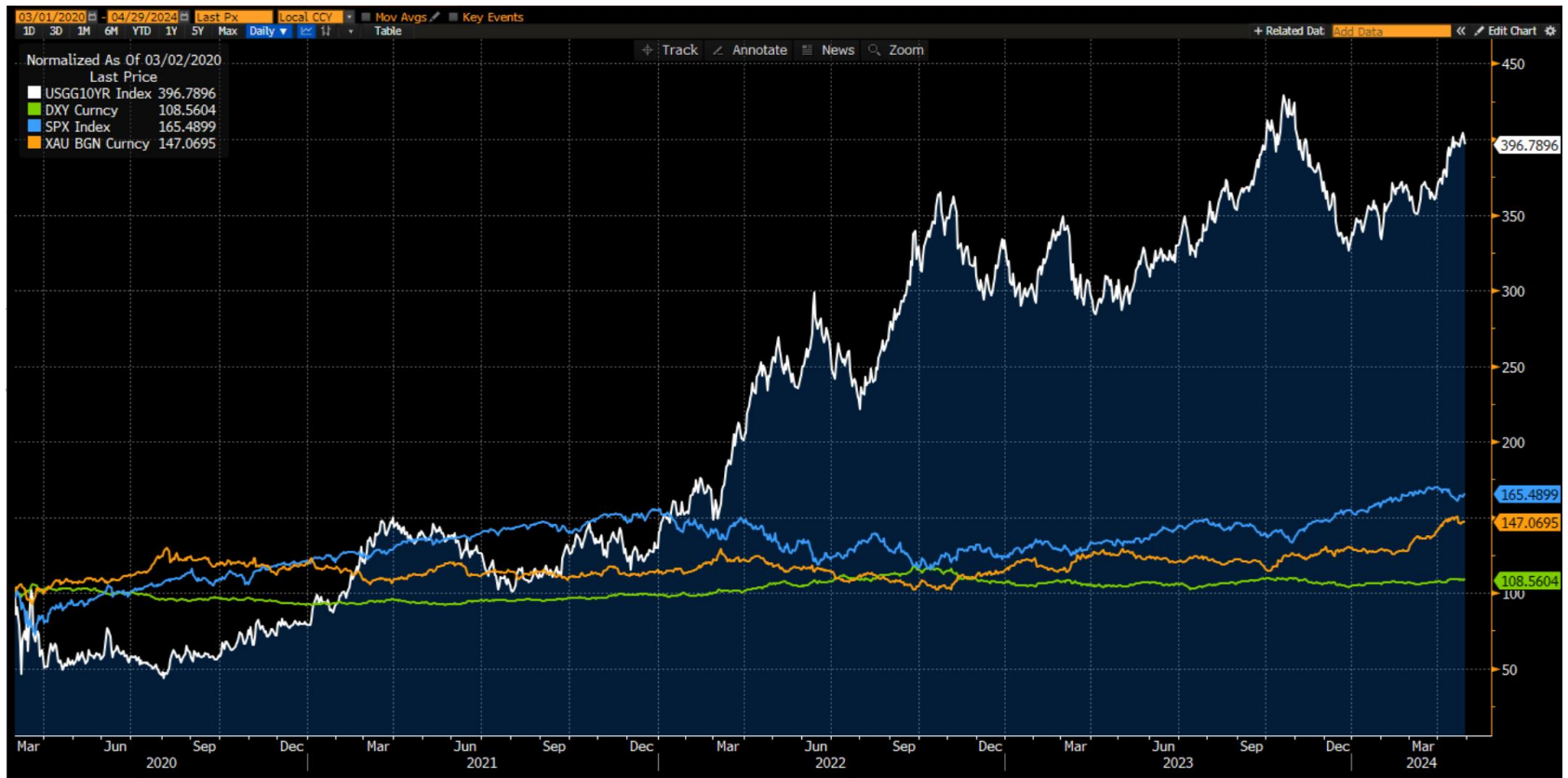
Since I said at Macro Voices conference in 2019...



...rates higher, bonds lower, dollar higher, US equities higher & Gold higher.

The Dollar Milkshake Theory

Since Covid in 2020...



...rates higher, bonds lower, dollar higher, US equities higher & Gold higher.

The Dollar Milkshake Theory

In my very first interview on this topic...

I said Dollars and Gold would rise together...

So as far as gold and the dollar rising together, I know that seems kind of contradictory. But at the end of the day, I really don't think it is. They're both currencies, and they're both measured against all other currencies in the world. And I think in the same way that the yen and euro could rise together, dollars and gold could rise together against a number of of different fiat currencies.

When markets start melting down, and when chaos starts to happen, and confidence starts to get lost, and you can feel the panic in the streets, that's typically great for gold. So, whether or not things panic and break down in the United States, if they panic in Europe, or if they panic in Africa, or they panic in Asia, that's a good opportunity to provide a chaos trade, so to speak, or a safe haven trade. And I think dollars will benefit from that, but gold will benefit too. And again, we don't need everybody to sell everything they own and go buy gold. The gold market's very small on a per capita basis. We just need the rest of the world to put 1% or 2% of their assets in gold, and gold doubles. So we don't need a mass exit out of fiat currency into gold for gold to do very well."

"The other reason that gold and the dollar can rise together is that we talked about gold being a small market. Well, if the dollar is rising a lot-- and I mentioned other currencies would be going down a lot-- if those investors do start seeking out gold, if Europeans start buying gold en masse, or the Asian continent starts buying gold en masse, that can have dramatic implications for supply of gold. And so again, we don't need it to be really big for it to impact. And that's another reason why, even though the dollar may be getting a safe haven trade, that gold can get a safe-haven trade as well."

...vs other fiat currencies.

The Dollar Milkshake Theory

Can the DMT be wrong...? YES!

If the world goes into a Sovereign Debt & Currency crisis, & the USD does not rise vs its fiat peers...



...the theory will be proven wrong. Until then...

The U.S. Dollar

When I was last on MacroVoices, the DXY was at 103.
It is not slightly higher...



...but chart looks constructive and barring CB intervention I expect it to continue higher.

The U.S. Dollar

Why is the level of the USD so important?

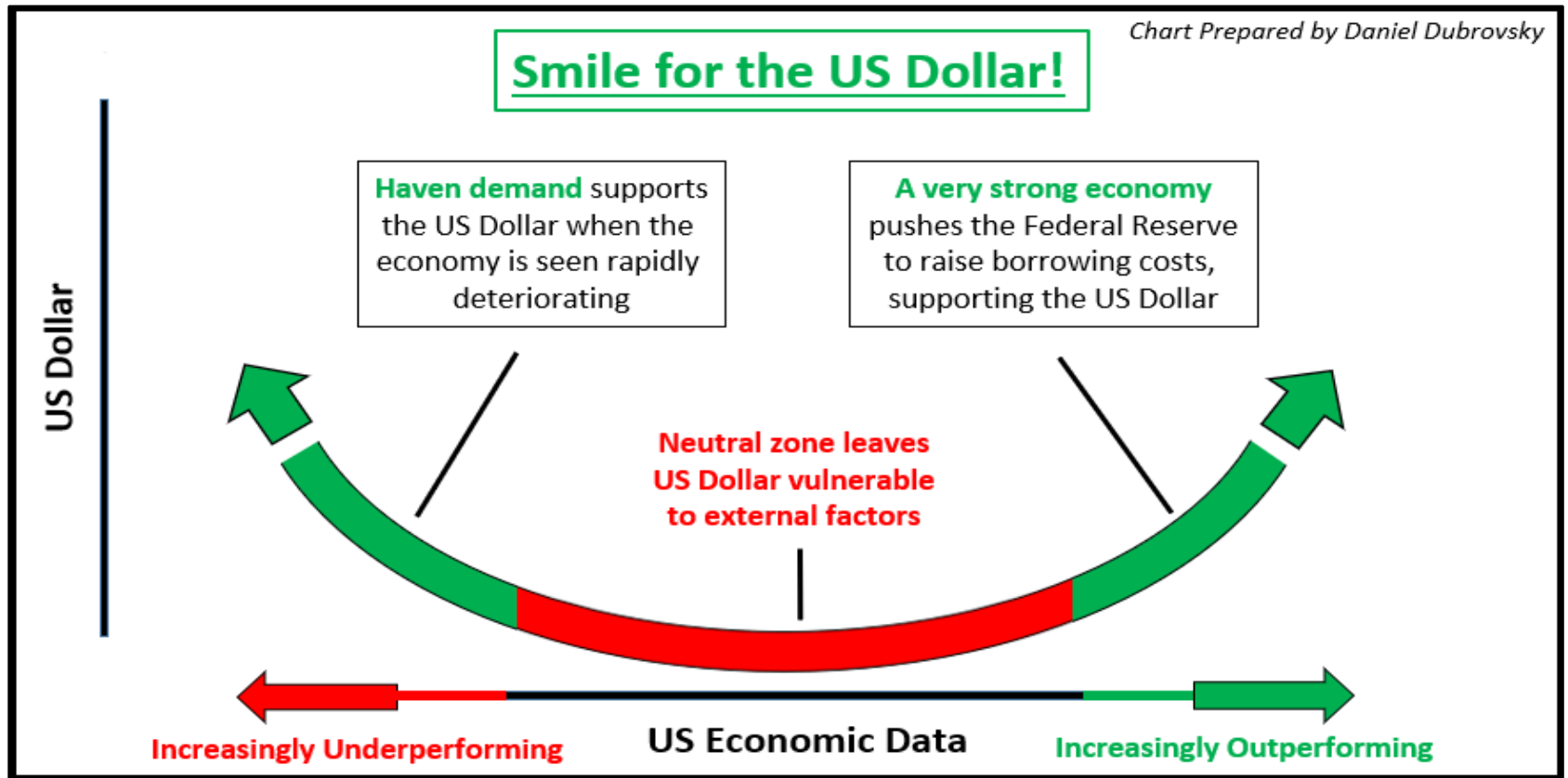
Because every economic slowdown & crisis of the last 25 years has coincided with a rising DXY...



...and I don't think it will be "different this time".

The U.S. Dollar

Based on the Design of the Monetary System, the USD benefits from dual drivers.
The “USD Smile”...



...sees the USD benefitting in both economic extremes.

The U.S. Dollar

Despite many years of QE, multiple bailouts, stimulus programs and helicopter money...



...the DXY is still almost 20% higher than it was at the beginning of 2008 & the GFC.

The U.S. Dollar

Does this mean the dollar is guaranteed to continue its rally here...?



Of course not. But let's look at a few of its competitors.

The Euro

The Euro broke its long-term support in 2022 and retested the break-down zone earlier this year.



I expect the euro to go back to parity with the USD before ultimately falling to 80.

The Yen

The Yen also broke long term resistance in 2022 and earlier today tested it next critical level.



The BOJ is likely to defend it but I expect the Yen to go to 200...and then 250.

USD vs Fiat Peers

The U.S. has committed many Fiscal sins...



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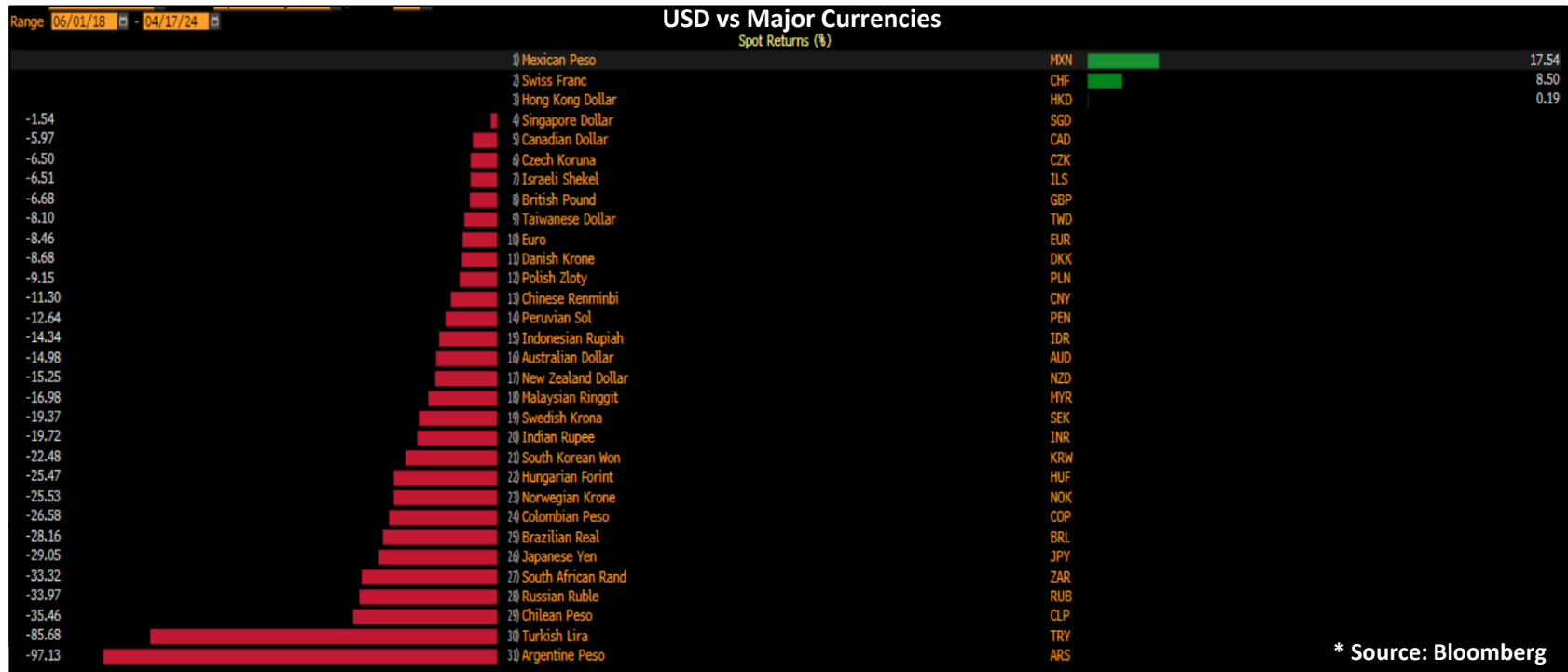
Periodic reminder that everything you are worried about one day happening to the Fed & Dollar is already happening with the ECB & Euro as well as with the BOJ & Yen.

10:34 AM · Jun 10, 2022 · Twitter Web App

...but it is not alone.

USD vs Fiat Peers

The USD has not only risen vs the Euro and the Yen...



...it has risen vs almost every currency on the planet.

USD vs Fiat Peers

The Rest of the World cannot use financial repression to get their way out of their bad debts...



...because they have massive debts in a currency they cannot control.

Fiat Currency

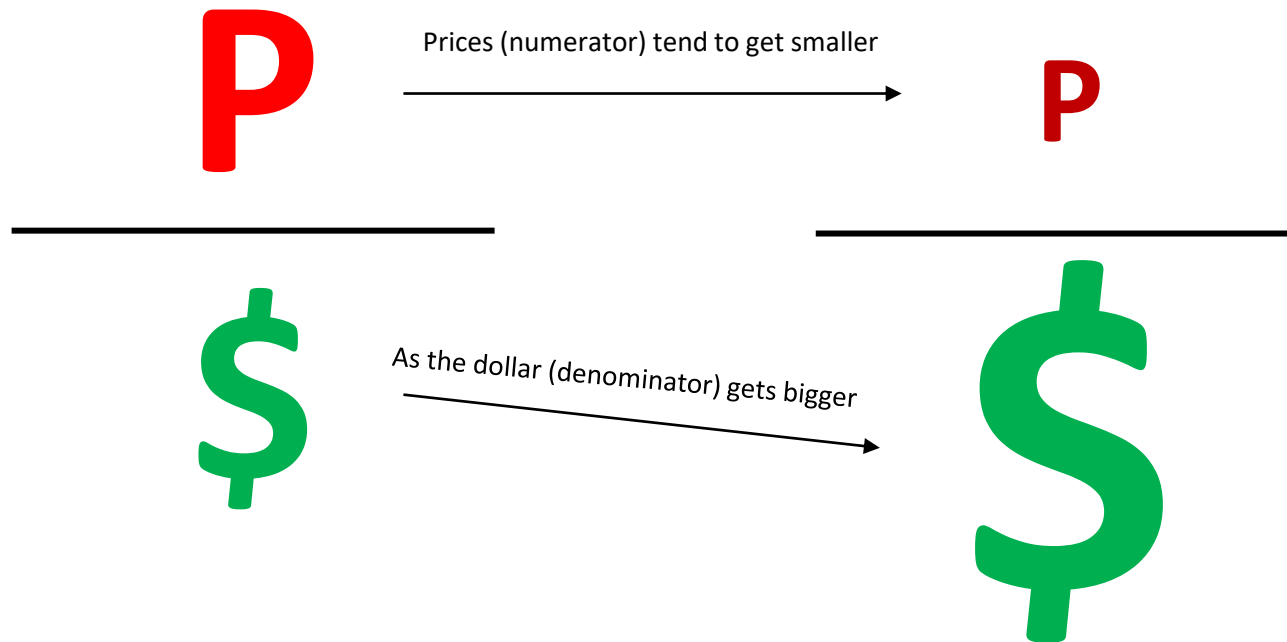
“Since they are all being devalued...I don’t need to worry about the relative strength of the USD.”



No...

Fiat Currency

“Since they are all being devalued...I don’t need to worry about the relative strength of the USD.”



In a debt based monetary system...this DOES matter.

China

The Yuan is sitting against long term resistance...



...as China is battling both inflationary and deflationary forces.

China

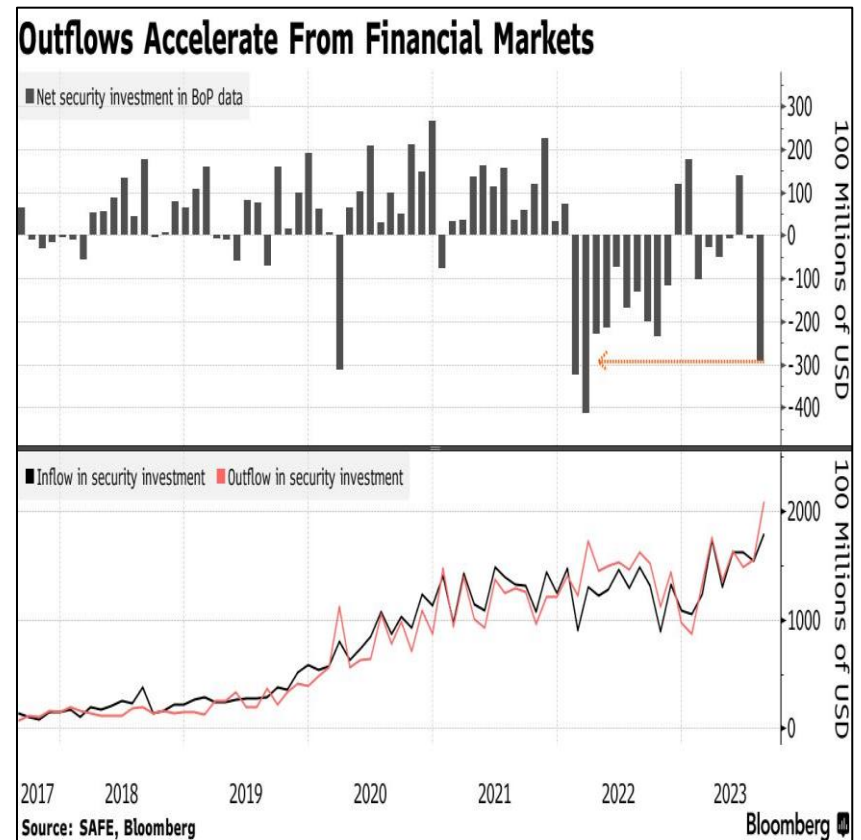
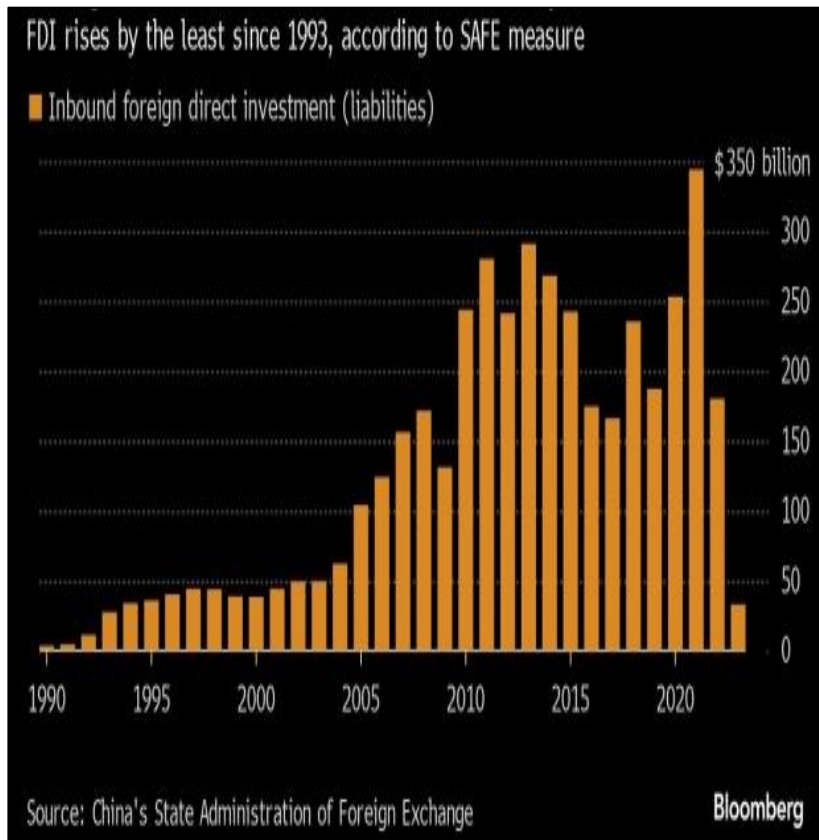
Chinese equities are down 38% over last 9 years and down 17% from its post Covid highs...



...and this is despite a recent 18% rally from the lows.

China

Foreign Direct Investment into China has collapsed...



...and capital outflow is accelerating.

Gold

The long-term chart of Gold looks great.



It has recently broke-out of its 4-year range. But caution is warranted.

Gold

Last fall you asked if I thought the dollar was going higher, why I wouldn't short gold.

Erik: Hang on a minute because I'm concerned about it rising against non fiat currencies, specifically gold, because if we were to just look at your chart on page 15. If you're expecting a move to new highs on the dollar index, this is not over yet then in theory you ought to be bearish gold, it's time to short gold, I got a strong feeling Brent, that you're not shorting gold. So tell me how to think about gold, when frankly, what it's been trading as, at least in the last few years, is primarily an anti-dollar. It's mostly been trading inversely to the dollar index. Why wouldn't you be short gold if you see what you see?

Brent: Well, I think you could be on a tactical basis, but I would just wouldn't recommend doing it if you're not extremely nimble. And let me explain what I mean by that. is I think we are now at a point where it's not just one kind country that's in crisis and one country that's going to have to go back to QE or extreme monetary measures. And it's not just the US that will have to do it either. I think, largely, we're not, I don't want to use the word end game, because I feel like everybody uses that. And it's a little bit overplayed. But I think we are kind of at a point where everybody is starting to realize that these countries around the world, all of them have kind of gotten over their skis, they've kind of exhausted a lot of the different things that they can do as far as monetary policy or fiscal policy. And that as a result, fiat currencies are going to lose value versus real things as we enter another crisis. And the governments have to quote unquote, print their way out of it. And so I think what's likely to happen is we are going to get into a situation where all Fiat, not just the US dollar, but all Fiat is being debased versus real things. The dollar is rising versus foreign currencies, but gold is rising versus all of them. And that's how you get if you're in a foreign if you're in the Euro, and you're looking up and you see the dollar and gold above you, that's their dollars and gold rising together versus all the other currencies. I don't know if we're there yet, Erik.

I'll give a similar answer now.

Silver

The 4-year chart of Silver looks like more of the same for me as it has made a similar move above \$25 every year for the last 5 years...



...and has now again rejected the top of its 5-year range. I currently own puts on silver.

Silver

If it were to break through the high of the range and then back test the breakout...



...I would likely be a buyer.

Gold

When I have been on Macro Voices in the past, I've often said I was expecting a pullback in Gold.



And every time, it did pull back. It only recently broke out of its 4-year range.

I expect a pull a retracement in US Equities...



US Treasuries

The 10 Year US Treasury yield has broken above its long-term channel.



Barring a hard landing/black swan type event, I expect yields to rise.

Commodities

The Bloomberg Commodity Index is down slight since I was here last but up 3% YTD.



...and has remained a frustrating trade for many.

Oil

Oil is up 15% YTD and I believe it is at a critical level...



...and while I have no current position, I expect it to trade lower into the fall.

Copper

Copper is up 18% YTD but I believe it is due for a pause...



...I currently own puts on Copper (futures) and Southern Copper (equity).

Wheat

Wheat had had a huge break-out in 2022...but had large retracement.



I have owned it since last August and it has been violently sideways since then.

Corn

Corn also moved higher in 2022 but also pulled back hard...



...I bought it last August and it has been a frustrating trade...!

Soybeans

Similar story for Soybeans. A break-out in 2022...but had large retracement.



I have also owned it since last August and it has also been frustrating...

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