

Quotable

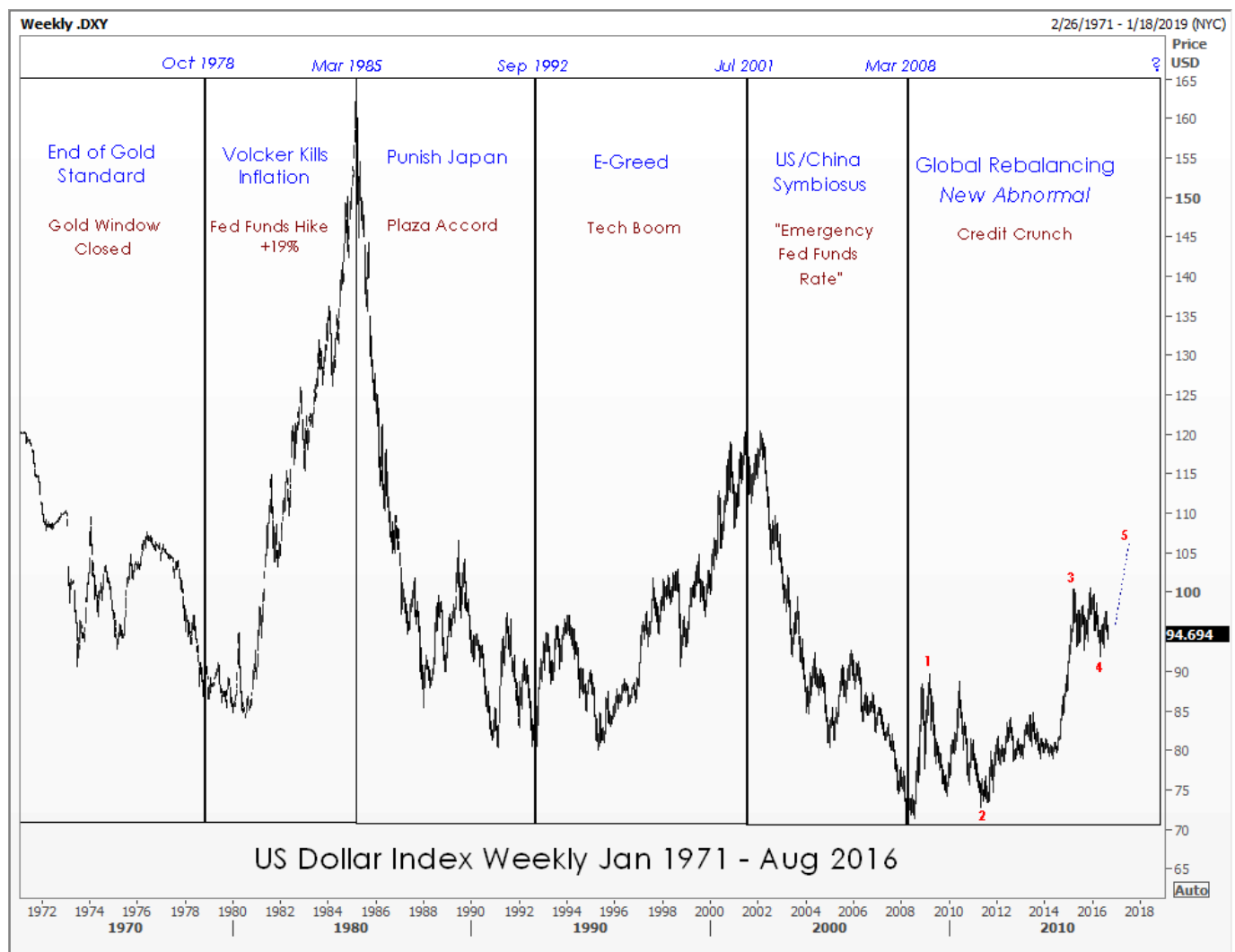
“Well, you can just stop and think of what could happen if anybody with a decent system of government got control of that mainland. Good God.... There'd be no power in the world that could even—I mean, you put 800 million Chinese to work under a decent system... and they will be the leaders of the world.”

— Henry Kissinger, On China

Commentary & Analysis

Dollar Retrospective Chart 1971-2016: Next Major Cyclical Driver?

Here's a retrospective and, hopefully, some perspective on the drivers of the long-term trends in the US dollar index in the era of free-floating after [President Nixon closed the gold window on August 15th 1971](#) and rendering the Bretton Woods system to the dustbin of history. I have added the major macro (blue) events and more specific triggers (maroon) that led to multi-year trend changes; i.e. bull and bear markets, in the dollar.



Also notice I have added an Elliott Wave count to the current US dollar bull market which began back in March 2008, triggered of course by the credit crunch, aka the saturation of the US capital markets a la the massive recycling of the Chinese trade surplus. I am expecting one more wave higher (5) to a US dollar bull market which is getting a bit long in the tooth when measured against the other bull and bear periods.

Besides the technical wave view, there are a couple of other reasons why I think this dollar bull has more juice left:

- 1) We have not reached the stage where soccer moms and grocery store baggers are talking about the US dollar. There is just not enough love yet. The dollar bull won't end until we witness an explicit extreme in bullish sentiment; we aren't there yet.
- 2) This rationale is a bit speculative, but **I have believed for a while the next growth phase in the world economy will be driven by an Asian consumer boom.** We have started to see outlines of that, but we are not there yet. China will have to rebalance first, and that process is still underway. Secondly, this consumer boom will likely be coincident with development of a viable and deeper Asian capital market capable of handling the foreign direct investment flow into Asia part and parcel to a local boom in demand—that hasn't yet materialized.

Why would an Asian consumer boom lead to a change in the cyclical trend in the US dollar? I suspect because both hot money and foreign direct investment will overwhelmingly be targeted to Asia; and additionally China will no longer be concerned about holding US Treasuries to suppress its currency appreciation. A relatively strong Chinese yuan would further enhance the wealth of Chinese consumers and also satisfy China's longer term strategy of challenging the US dollar world reserve currency status. As indicated, this view has to be considered guess work at this stage, but I think has a degree of plausibility.

That said, there is always the Black Swan event lingering out there which may be a driver of a trend change. But the point is, until there is another macro sea-change in the global economy, the US dollar bull market should continue.

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Thank you.

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