**MARKETPLACE TWISTS AND SHOUTS: AS THE WORLD TURNS**
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In the film "Blood Simple" (Coen Brothers, director), private detective Visser declares: "The world is full o' complainers. An' the fact is, nothin' comes with a guarantee. Now I don't care if you're the Pope of Rome, President of the United States, or Man of the Year; somethin' can all go wrong."

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## CONCLUSION AND OVERVIEW

Not only have emerging marketplace growth rates slowed. Many sentinels fear the substantial fall in emerging marketplace equities and currencies has "reached crisis proportions". (Financial Times, 9/8/15, p3; citing the Institute of International Finance). The World Bank's chief economist warned the Federal Reserve risks creating "panic and turmoil" in emerging marketplaces if it raises rates in its September 2015 meeting (Financial Times, 9/9/15, p1). However, in today's globalized economy, central bankers and other important regulators and politicians also fear insufficient growth in many advanced nations. They also worry about further substantial increases in the United States dollar and drops in stock benchmarks such as the S+P 500. Some probably dread that an international crisis akin to the 2007-09 one, even if much less devastating, is underway or may soon appear.

The verbal barrage recently unleashed since late August 2015 by key central bankers and their comrades displays their fears and goals regarding these financial fronts. In any case, their enthusiastic wordplay at times raises marketplace hopes significantly. Their windy talk perhaps for the near term will stabilize the dollar around its recent highs and stop benchmark stock marketplaces from substantially breaching the lows reached in the past few weeks.

However, the foundations of worldwide growth nevertheless remain shaky, despite about seven years of highly accommodative monetary policy by the Fed and its allies. In addition, substantial debt and leverage troubles still confront today's intertwined global economy. Consequently, this magnificent rhetorical display aiming to boost real global economic growth, significantly alter currency patterns (reverse the dollar's strength, or at least significantly slow its appreciation) and substantially rally (or at least successfully support) stocks probably will not achieve long-lasting success.

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The sustained rally in the broad real trade-weighted US dollar since mid-2011, and particularly its recent climb slightly beyond March 2009's crucial peak, has played a key part in encouraging (confirming) weakness in emerging marketplace stocks and commodities "in general". The S+P 500's slide since its 5/20/15 pinnacle indicates that its major trend probably will not diverge significantly from those of emerging equity marketplaces.

Focusing on the trials and tribulations of emerging/developing countries and their stock and foreign exchange playgrounds indeed helps analysis of other marketplaces around the globe. However, concentrating on and comparing exchange rates of "commodity currencies" offers additional notable insight into various interrelated financial marketplace trends. "Commodity currencies", associated with countries with large amounts of commodity exports, are not restricted to emerging nations. Commodity exports are significant to the economies of advanced nations such as Australia, Canada, and Norway, so they likewise can be labeled as commodity currencies.

Paying attention to the currency trends of important emerging and advanced nation commodity exporters highlights the similar trends among them during the 2007-09 worldwide economic disaster era as well as nowadays. Such past and current collective effective exchange rate weakness contrasts with the robust strength of the trade-weighted US dollar. The feebleness both in 2007-09 and in recent times for the commodity currency group, as it involves both advanced and emerging marketplace domains, hints at global (not merely emerging marketplace) crisis. The exchange rates of many commodity exporters are at or near their lows achieved during 2008-09.

Thus noteworthy rallies, if any, in these commodity (exporter) currencies from their recent depths will tend to confirm (inspire) climbs in commodities "in general" and emerging (and advanced) nation stock marketplaces. Renewed deterioration of the effective exchange rates of the commodity currency fraternity "in general" probably will coincide with renewed (additional) firming of the US dollar. Such depreciation in the commodity currency camp likely will signal worsening of the current dangerous global economic situation and another round of declines in global stock marketplaces.

## RESCUE RHETORIC: CENTRAL BANKERS AND THEIR FRIENDS

The Beatles sing in "Twist and Shout":
"Well, shake it up, baby, now (Shake it up, baby)
Twist and shout (Twist and shout)
C'mon, c'mon, c'mon, c'mon, baby, now (Come on baby)
Come on and work it on out (Work it on out)"

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"Playing Percentages: Stock Marketplace Games" (7/13/15) and "Wall Street Marketplace Violence" (9/1/15) discussed in detail Federal Reserve rhetoric and actions if the S+P 500 fell five, ten, or twenty percent or more from its 5/20/15 peak at 2135. The S+P 500's 1867 low on 8/24/15 was a 12.6 percent collapse from its May pinnacle. For example, read the shouts of the NY Fed President (8/26/15) and the Fed's Vice Chairman (8/28 and 8/29/15).

Other strategic rhetorical efforts in the past few days underline how scared central banks, and presumably many other regulators and politicians (and stock investors), are regarding slowing global economic growth and related marketplace movements. On 9/3/15, the European Central Bank's President lamented "downside risks have increased [for the Eurozone] and emerging market economies' challenges are unlikely to be quickly reversed." He indicated the ECB's willingness to expand its current quantitative easing program if in its opinion conditions warrant doing so. The Managing Director of the International Monetary Fund paraded on stage and proclaimed: "Downside risks to the outlook have increased, particularly for emerging market economies". Among policy measures, she stresses the importance of "continued accommodative monetary policy in advanced economies" (IMF Press Release, 9/5/15). The Group of 20 finance ministers and central bank governors likewise believes downside risks to the global outlook have increased and "Risks are tilted to the downside". They holler: "Strong mutual policy action is needed to raise growth and mitigate risks"; "Advanced economies should maintain supportive policies". ("Global Prospects and Policy Challenges", "Executive Summary", 9/4-5/15). Their Communique (9/5/15) notes "global growth falls short of our expectations", but "We have pledged to take decisive action to keep the economic recovery on track".

The People's Bank of China Governor added to the chorus. He said on 9/5/15 (bank's website, cited by Bloomberg) that the rout in Chinese equities was close to ending. He claimed China's state intervention had prevented systemic risk and stopped a free-fall.

What about Japan? "Tokyo eyes extra Y2tn extra fiscal stimulus amid Asian growth fears", headlines the Financial Times (9/9/15, p3).

And keep in mind the cries by the World Bank's chief economist (Financial Times, 9/9/15). "The world economy is looking so troubled that if the US goes for a very quick move [raising rates in September] I feel it is going to affect countries quite badly." And: "Overall we are going to get into a slower global growth phase. What has happened over the past two weeks with the Chinese markets leads one to believe the scenario is looking worse than it did even in June."

Investment leaders also captured the limelight. After all, they have a stake in the trends. "I'm bullish on China", Warren Buffett, the revered chairman and largest shareholder of Berkshire Hathaway Inc., bellowed in a Bloomberg Television interview on 9/8/15. "Overall we've kept moving forward and China will be the same way."

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The Federal Reserve convenes 9/16-17, 10/27-28, and 12/15-16/15.

## DEALING WITH THE DOLLAR

"Moreover, it is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress." Former Federal Reserve Chairman Alan Greenspan's response to "Question: Is There a New Economy?" (Remarks at the University of California, 9/4/98)

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Marketplace history of course need not entirely or even substantially repeat itself. However, the long-running substantial appreciation of the United States broad real trade-weighted dollar ("TWD") confirms and warns of further erosion in global economic output growth rates.

The TWD established a major bottom at 84.2 in April 2008 (Federal Reserve Board, H.10; monthly average, March 1973=100). After ascending to 86.7 in August 2008 and 88.8 in September 2008, it bounded to over 93.8 in October 2008. Recall the noteworthy acceleration of the worldwide financial crisis after mid-September/October 2008. The S+P 500's major peak occurred 10/11/07 at 1576, but its final high was 5/19/08 at 1440, close in time to the April 2008 TWD bottom. The S+P 500 collapsed from around 1313 (8/18/08)/1265 (9/19/08). The S+P 500's major bottom at 667 on 3/6/09 occurred the same month as the broad real TWD pinnacle.

After deteriorating to its major trough around 80.5 in July 2011, the TWD danced sideways within a narrow path for about the next three years. Its high over that span was June 2012's 86.3. Yet as it did beginning in April 2008, the broad real trade-weighted dollar marched steadily higher. September 2014's 86.6 broke through June 2012's barrier. Significantly, its August 2015 level at 97.3 not only exceeded October 2008's height, but also surpassed March 2009's 96.9 major elevation.

Its March 2009 pinnacle around 96.9 represented a 15.1 percent rally relative to April 2008. How does the TWD climb since July 2011 compare? The bull leap from July 2011 to August 2015 is

20.9pc. A 25pc climb from the July 2011 bottom is 100.6 (May 2004's 101.7 was a notable interim drop-off point from the major high over a decade ago, February 2002's 112.8. A 33pc skyrocket from July 2011's base is 107.3.

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Note the trend (and timing) in the broad real trade-weighted dollar alongside emerging stock marketplaces (MSCI Emerging Stock Markets Index, from Morgan Stanley; "MXEF") and the broad Goldman Sachs Commodity Index (which is heavily petroleum weighted). Much of world trade in commodities is conducted on a US dollar basis.

| | **MXEF** | **Broad GSCI** |
|---|---|---|
| **Peak 2011** | 1212 (4/27/11) | 762 (4/11 and 5/2/11) |
| **Recent High** | 1104 (9/4/14) | 673 (6/23/14) |
| **Recent Low** | 763 (8/24/15) | 334 (8/24/15) |
| **Percent Fall From the 2014 High** | **30.9** | **50.4** |

[For base metals in general, note the timing of the London Metal Exchange's LMEX index low, 2276 on 8/26/15.]

As the TWD motored to new highs in 2015; the S+P 500 slipped downhill and China's Shanghai Composite stock index crashed.

| **S+P 500** | | **China Shanghai Composite** |
|---|---|---|
| **Recent High** | 2135 (5/20/15) | 5178 (6/12/15) |
| **Recent Low** | 1867 (8/24/15) | 2851 (8/26/15) |
| **Percent Fall** | **12.6** | **44.9** |

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Underscore the late August 2015 timing of these assorted marketplace lows and the subsequent moves in the context of the Federal Reserve and other marketplace rescue rhetoric.

## COMMODITY CURRENCY HISTORY: 2007-09 ECONOMIC CRISIS ERA + TODAY

"If it keeps on raining, levee's going to break
When the levee breaks I'll have no place to stay". "When the Levee Breaks", Led Zeppelin

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In the currency universe, most financial, political, and media storytellers concentrate on cross rates between two nations, such as the US dollar versus the Canadian dollar. However, analysis of the broad real trade-weighted effective exchange rates for a given country offers better insight into the overall situation for that nation's currency.

What do FX movements (trade-weighted, effective exchange rates) within the key commodity exporter universe reveal nowadays? The recent travels for advanced and emerging marketplace commodity currency nations differ to some extent from the 2007-09 crisis adventures. As in 2007-09, the timing (start dates, end dates) and percentage extent of moves in the various commodity currencies is not precisely the same. However, as during the darker days of that worldwide economic disaster, the current currency voyages of key commodity currencies generally display depreciation. Although the times of their effective exchange rate turning points do not always exactly coincide with the rally in the broad real trade-weighted dollar (whether within the 2007-09 global disaster era or in the current marketplace theater), those commodity currency travels (especially when interpreted together) clearly display a pattern in relation to the TWD's major trend.

Looking forward, the bearish commodity currency pattern alongside TWD strength does not merely confirm the TWD bull move. It also emphasizes the likelihood of further slowing of global real GDP.

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What are present-day percentage weights within the broad real TWD for the eight key commodity currencies listed in the table below? (Federal Reserve, H.10). Canada's represents 12.7 percent, Mexico 11.9pc. Others are relatively minor. Brazil constitutes 2.1pc, Russia 1.4pc, Australia 1.3pc, and Chile merely .9pc. Norway and South Africa's shares are so tiny that they do not make the Fed's table.

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The Bank for International Settlements provides real effective exchange rates ("EER"; CPI based; monthly average, 2010=100; data back to January 1994) for numerous nations around the globe. The latest BIS release (8/17/15) provides data through July 2015. The BIS EER statistics are less current than the Fed's H.10 for the broad real TWD, which extends through August 2015.

Various recent dollar cross rates suggest the greenback from the broad real trade-weighted perspective remains quite sturdy. Assuming that dollar trade-weighted strength generally will tend to coincide with EER weakness in the commodity currency crew, it is reasonable to conjecture that the longer run current bearish patterns for commodity currency nations in the following table have not changed dramatically relative to those shown through July 2015.

The appreciation in the broad real trade-weighted US dollar from July to August 2015 was about 1.7 percent. The USD of course is not necessarily a key trading partner for all commodity currency nations. Its importance within a given EER varies. However, the greenback's major role in the world economy and trade suggests that the August 2015 EER for the various commodity (exporter) currencies in general did not appreciate, and in actuality probably fell, from July 2015 levels. Also, the bear trend for the broad GSCI continued into calendar August 2015, with the average GSCI level (settlement basis) roughly ten percent under July 2015's.

Since China's devaluation occurred in August 2015, that move does not appear in the BIS's EER statistics.

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The trading patterns for the broad real TWD (Fed, H.10) are very similar to those reported by the BIS for the US dollar EER. After the US EER achieved a major low at 96.4 in April 2008, it jumped to 101.2 in September 2008. It soared to 106.8 in October 2008, peaking at 110.6 in March 2009. Compare the US EER 93.0 July 2011 bottom and June 2012's 99.7 interim top with those for the TWD. In September 2014, the EER smashed its way up to 100.5. July 2015's EER is 111.9.

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The table below includes both advanced/developed (OECD) and emerging marketplace nations. The countries differ in varying ways regarding their commodity exports (as well as in their overall economic policies and political situations). Some are more petroleum focused, others more metals oriented; some are significant agricultural exporters. Some nations also export a substantial amount of manufactured goods and services. The list is not exclusive, for it omits several notable commodity exporters. However, in regard to many important exporters not included below, their currency is not freely traded (floating).

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It is significant that many commodity currencies in their current trend are around or beneath their 2008/09 troughs. For the depreciation of commodity currency EERs in general since "around" mid-2014, keep in mind not only the rally in the TWD, but also the timing of the broad GSCI's key drop-off point in its bear move (6/23/14), as well as that in emerging marketplace stocks ("MXEF", 9/4/14).

Underline another consideration. In regard to recent TWD strength and its links to the S+P 500 (and related weakness in commodity currencies), a minor low in the nominal TWD (which has daily data; Fed, H.10) occurred 5/15/15 at 112.8, shortly before the 5/20/15 peak in the S+P 500.

In addition, the nominal TWD's most recent data point, 9/4/15's roughly 120.6, has edged above its high during late August 2015 (8/26/15's 120.2). That 8/26/15 nominal TWD level was achieved right around when the S+P 500 (and many other marketplaces) made its recent low and the Federal Reserve unleashed its rhetoric to support the S+P 500. Further rallies in the broad real TWD will be bearish for the S+P 500, emerging marketplace stocks, and commodities in general.

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**THE CURRENT FX (EER) TREND** **GLOBAL CRISIS ERA (2007-09)**

**AUSTRALIA**

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 111.8; August 2012 | 89.8; July 2015 | 99.3; July 2008 | 74.7; Feb 2009 |
| 19.7 percent decline | | 24.8 percent decline | |

[August 2012's effective exchange rate level represents the all-time high for the 1994-present span. Australia's EER established an initial peak 110.0 in July 2011; compare the timing of the 2011 tops in the broad GSCI and MXEF. An important interim retracement high in the EER's overall downward spiral was July 2014's 101.5. The record bottom is March 2001's 64.6.]

**BRAZIL**

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 110.0; July 2011 | 76.5; July 2015 | 96.8; Aug 2008 | 72.2; Dec 2008 |

| | | | |
|---|---|---|---|
| 93.2; July 2014 | | | |
| | 30.5pc decline | | 25.4pc decline |

[July 2011 is the 1994-2015 Brazil EER record high. The all-time low for that span is October 2002's 42.0. July 2015's EER is rather close to December 2008's bottom.]

## CANADA

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 104.3; April 2011 | 82.8; July 2015 | 106.8; Nov 2007 | 84.6; Mar 2009 |
| 20.6pc decline | | 20.8pc decline | |

[Recall the lower Canada EER high at 102.4 in September 2012. Keep in mind the further slump from the minor high in July 2014 at 93.7. Its current level slithered under March 2009's trough. The record peak for Canada's EER over the 1994-present period is November 2007's height. The low is November 2001's 71.7; Canada had another noteworthy bottom at 72.2 in December 1998.]

## CHILE

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 106.9; March 2013 | 90.5; Sept 2014 | 109.3; March 2008 | 86.0; Dec 2008 |
| 15.3pc decline | | 21.3pc decline | |

[Chile's initial top in its bear trend was 105.2 in December 2010, with September 2012's 105.7 close to it. Chile's EER has twisted sideways since its September 2014 low. It bounced up to 96.7 by May 2015 (recall the high in the S+P 500 that month) but thereafter fell to July 2015's 92.6. Its all-time EER high occurred in October 1997 at 115.1, with its record trough 81.6 in June 2003.]

## MEXICO

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 106.9; April 2013 | 89.7; July 2015 | 113.8; Aug 2008 | 87.5; Feb 2009 |
| 16.1pc decline | | 23.1pc decline | |

[Note Mexico's EER erosion from May 2014's 102.0 and November 2014's 102.1 minor tops.

The peso EER rallied in the early stage of the 2007-09 crisis. From a bottom during the Goldilocks Era at 104.0 in June 2006, it mounted to its August 2008 peak (compare the timing of the pinnacle in the broad GSCI). However, the Mexican EER then turned lower, cratering following September 2008's 109.9. The all-time EER high is March 2002's 133.1, the record bottom March 1995's 62.4.

Nowadays Mexico of course is not the only Latin American nation enduring significant economic problems. In addition to Brazil, picture Argentina and Venezuela.

In the Mexican peso crisis of two decades ago, the Mexican EER suffered about a 47.9 percent devaluation. From 119.8 in January 1994, the EER fell to 95.3 in December 1994, crashing to 62.4 in March 1995.]

## NORWAY

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 102.4 February 2013 | 85.1; July 2015 | 102.9; Oct 2007 | 88.0; Dec 2008 |
| | | 102.8; May 2008 | |
| 16.9pc decline | | 14.5pc decline | |

[Norway's EER also stood at 102.4 in April 2010. In the current bear move, a renewed slide commenced from minor highs at 96.4 in May 2014 and 95.0 in September 2014. The July 2015 low is under December 2008's and is a record for the 1994-present era. The Norwegian EER's all-time high is January 2003's 110.5.]

## RUSSIA

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 110.1; Feb 2013 | 68.8; January 2015 | 104.0; Nov 2008 | 84.4; Feb 2009 |
| 37.5pc decline | | 18.8pc decline | |

[Like many other commodity exporter currencies, Russia's EER tumble accelerated in mid-2014, deteriorating from 104.4 in June 2014. Recall the broad GSCI's breakdown from its interim high of 6/23/14 at 673. Despite the EER's January 2015 low, it resumed a decline from May 2015's interim top at 92.6 (recall the S+P 500's May top). July 2015 was 83.6; an important level relative to February 2009, and still 24.1pc under the February 2013 peak. February 2013 is 1994-2015's all-time plateau.

Although October 1994's 40.9 represents the record depth for the ruble in the BIS data series, recall January 1999's 43.5, a 52.0 percent crash from January 1998's 90.6 peak.]

## SOUTH AFRICA

| Recent High(s) | Recent Low(s) | High | Low |
|---|---|---|---|
| 103.3; July 2011 | 74.4; Feb 2014 | 94.6; Oct 2007 | 71.9; Oct 2008 |
| [Dec 2010 top 105.3] | | [Oct 2007 was drop-off point, but earlier tops 111.1 Dec 2004 + 109.8 Feb 2006] | |
| 28.0pc decline from July 2011 | | 24.0pc decline from Oct 2007 | |
| [29.3pc from Dec 2010] | | [35.3pc decline from Dec 2004] | |

[South Africa's July 2015 EER is 78.7. This hovers modestly above the 74.4 low, but South Africa's EER remains in a bear trend. Its July 2015 EER still is very distant from its July 2011 peak. It stands relatively close to October 2008's 71.9 low. The high since February 2014 is April 2015's 80.7. The all-time EER high for the January 1994-present horizon is January 2014's 130.7. The record low is December 2001's 64.1.]

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During the 2007-09 global economic disaster era, the broad GSCI attained its major low at 2/19/09 at 306. Emerging marketplace stocks (MXEF) made their major bottom at 446 on 10/28/08, with a final low at 471 on 3/3/09. That final low occurred around the time of the S+P 500 major low on 3/6/09 at 667. China's Shanghai Composite stock index established its major trough at 1665 on 10/28/08.

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Everyone knows China is a crucial commodity importer. China's EER achieved a record high at 132.1 in July 2015 (far over its February 2009 high at 107.4). China's August 2015 devaluation not only indicates its desire to spur its economic growth, but also hints at its willingness to engage in a currency battle with industrial nations such as Japan. A five percent slide from the July 2015 peak is 125.5; a ten percent fall gives 118.9. After its August 2015 devaluation, the renminbi's recent cross rate low against the US dollar level, near 6.45, rests about 6.8 percent beneath its 1/14/14 cross rate high of 6.04.

## CURRENCIES: BIG SHAKES

The recent G-20 meeting's Communique peacefully promises: "We will refrain from competitive devaluations" (9/5/15). Should we believe them?

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For any given nation's EER, whether that of a commodity currency or any other, noteworthy devaluation is in principle a risk. Also, a big depreciation (whether by one or several countries) can reflect or encourage global crises, not merely national ones. Anyway, even fairly recent history discloses that a roughly 50 percent devaluation by a given nation, even if unlikely, is not inconceivable. Recall the Mexican peso crisis (47.9 percent Mexican EER depreciation). Also remember the Asian financial crisis and its spread. This began in July 1997 with the Thai bhat devaluation of about 42.3 percent (March 1997 EER peak 117.1, June 1997 EER 115.8; bottom January 1998's 67.0). Problems continued well into 1998, eventually involving a huge depreciation of the Russian ruble (Russia EER nosedived 52.0pc).

Suppose that nowadays the broad real trade-weighted dollar continues to strengthen. Suppose also that currency wars (competitive devaluations) become more widespread.

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Though the Japanese Yen obviously is not a commodity (exporter) currency, Japan of course is a giant exporter of manufactured goods. Thus its EER history is worth a look in relation to the current global economic situation in general and in relation to other currencies in particular.

The Japanese Yen EER's disintegration during its bear move over the past couple of years contrasts dramatically with its bull trend during the 2007-09 worldwide financial crisis. During the 2007-09 worldwide economic disaster, the Yen EER advanced from 79.4 in July 2007 up to its January 2009's summit at 106.6.

After retreating to 94.3 in April 2010, the Yen EER ascended to 105.7 in October 2011, close to January 2009's major high. But the Yen EER began to break down from July 2012's interim high at 102.7. By January 2013, it was 86.9. After August 2013, it sagged below 80.0.

Over the past couple of years, has Japan engaged in competitive depreciation and currency warfare? Japan's EER for June 2015 at 68.2 is the low in its recent bear move, down 36.0 percent from January 2009's major peak (July 2015 is 69.1). Moreover, June 2015's abyss collapses about 54.6pc from April 1995's all-time high at 150.3. Shouldn't central banks and other marketplace players be screaming about this gigantic Yen depreciation (and more loudly about Japan's gigantic government debt)?

In any case, Japan, despite its monumental currency depreciation and mammoth quantitative easing, still has mediocre economic growth and suffers from deflation/too low inflation. Japan's economic sluggishness and low inflation in the face of its sustained depreciation and money printing policies represent a further danger signal regarding prospects for worldwide economic growth.

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