

FANTASTIC VOYAGES: THE US DOLLAR AND COMMODITY CURRENCIES

© Leo Haviland, 646-295-8385

April 3, 2016

In the 1966 movie “Fantastic Voyage”, the character Cora declares: “We’re going to see things no one has ever seen before. Just think about it.” (Richard Fleischer, director)

In “On the Road” (original scroll version), Jack Kerouac writes: “But no matter, the road is life.”

CONCLUSION AND OVERVIEW

The substantial rally in the broad real trade-weighted United States dollar (“TWD”) that embarked in mid-2011 played a key part in encouraging (confirming) and accelerating bear movements in emerging marketplace stocks and commodities “in general”. The S+P 500’s majestic rally over its spring 2011 interim high diverged for about four years from the trends in emerging equity realms and commodities. However, the TWD’s 2015 ascent above its March 2009 peak was a crucial event; this dollar climb helped propel the S+P 500 downhill following its 5/20/15 pinnacle at 2135 in conjunction with the emerging stock marketplace and commodity trends.

In January/February 2016, these linked price patterns partly reversed. The TWD has depreciated and stocks (emerging marketplaces as well as those of America and other advanced nations) have rallied. Commodities (particularly oil) jumped. The benchmark United States Treasury 10 year note yield ascended from its low. This relatively unified reversal across marketplace sectors paralleled the entwined moves since mid-to-late 2015. Highly accommodative central bank rhetoric and action by the Federal Reserve Board and its allies aimed at achieving their targeted two percent inflation destination will continue for an extended period. For example, note the Fed’s 3/16/16 meeting and its Chairman’s very dovish speech, “The Outlook, Uncertainty, and Monetary Policy” (3/29/16). Underline the expansion of the European Central Bank’s easing scheme (most recently 3/10/16) and the lax policies of the Bank of Japan. Consequently, the current marketplace interrelationships (“roughly trading together”) probably will persist for the near term, regardless of whether the pattern of mid-2015 to first quarter 2016 resumes or that since mid-first quarter 2016 continues. Marketplace history of course need not entirely or even substantially repeat itself.

Concentrating on and comparing exchange rates of “commodity currencies” alongside the broad real trade-weighted dollar trend offers additional notable insight into the assorted interconnected marketplace relationships. Commodity currencies, associated with countries with large amounts of commodity exports, are not confined to developing/emerging nations. Because commodity exports are significant to the economies of advanced countries such as Australia, Canada, and Norway, the currencies of these lands likewise can be labeled as commodity currencies.

The bearish currency paths (effective exchange rate basis) of important emerging and advanced nation commodity exporters up to first quarter 2016 resembled the similar trends among them during the 2007-09 worldwide economic disaster era. However, these commodity currencies depreciated notably more in their recent dive than during the 2007-09 turmoil. In addition, the lows attained by most of them decisively pierced the floors achieved about seven years previously. Moreover, the TWD rallied more sharply in its bull move to its January 2016 elevation than it did during the past crisis.

The feebleness in recent times for the commodity currency group, as it involved both advanced and emerging marketplace domains (as it did in 2007-09), reflected an ongoing global (not merely emerging marketplace) crisis. Substantial debt and leverage troubles still confront today's intertwined worldwide economy. The bear trip of many commodity currencies into early first quarter 2016, especially as it occurred alongside big bear moves in emerging marketplace stocks (and in the S+P 500 and other advanced stock battlefields) and despite long-running extremely lax monetary policies, underlines the fragility of the relatively feeble global GDP recovery.

Thus noteworthy rallies 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" likely will coincide with renewed firming of the US dollar. Such depreciation in the commodity currency camp probably will signal worsening of the current dangerous global economic situation and warn that another round of declines in global stock marketplaces looms on the horizon.

Therefore key central bank captains, concerned about slowing real GDP and terrified by "too low" inflation (deflation) risks, have fought to stop the TWD from appreciating beyond its January 2016 top and struggled to encourage rallies in the S+P 500 and related stock marketplaces. Yield repression (very low and even negative interest rates) promotes eager hunts for yields (return) elsewhere. Indeed, rallies in the S+P 500 (and real estate) may help inflation expectations (and inflation signposts monitored by central banks such as consumer prices) to motor upward. Given their desperate quest to achieve inflation goals, central banks probably approve of at least modest increases in commodity prices in general.

THE US DOLLAR'S ODYSSEY

In the "Star Trek" episode "The Omega Glory", Spock advises: "Try to reason with them. Keep trying, Captain. Their behavior is highly illogical."

The broad real trade-weighted US dollar ("TWD") established a major bottom at 84.1 in April 2008 (Federal Reserve Board, H.10; monthly average, March 1973=100, 4/1/16 release). After ascending to 86.6 in August 2008 and 88.7 in September 2008, it soared to 93.8 in October 2008. Recall the noteworthy speeding up of the worldwide financial crisis after mid-September/October 2008. The S+P 500's major peak occurred 10/11/07 at 1576, but it reached its final ceiling on 5/19/08 at 1440, close in time to April 2008's TWD bottom. The S+P 500 capsized and sank 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 at 96.8.

After stumbling to its major trough around 80.5 in July 2011, the TWD walked sideways within a narrow avenue for about the next three years. Its high over that span was June 2012's 86.1. Yet as it did beginning in April 2008, the broad real trade-weighted dollar marched steadily higher. September 2014's 86.4 broke through June 2012's barrier. Significantly, its August 2015 level at 97.0 not only exceeded October 2008's height, but also surpassed March 2009's 96.8 major elevation.

Its March 2009 pinnacle around 96.8 represented a 15.1 percent rally relative to April 2008. How does the TWD bull charge from July 2011 to January 2016 compare?

In this review, 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”), the broad Goldman Sachs Commodity Index (“GSCI”; which is heavily petroleum weighted), and the Bloomberg Commodity Index. Much of world trade in commodities is conducted on a US dollar basis.

	<u>Broad GSCI</u>	<u>Bloomberg Comm. Index</u>	<u>Emerging Market Stocks MXEF</u>	<u>US Dollar (“TWD”)</u>
Peak 2011	762 (4/11 and 5/2/11)	175.7 (4/25/11)	1212 (4/27/11)	Major low 80.5 July 2011
2014 High	673 (6/23/14)	138.7 (4/29/14)	1104 (9/4/14)	86.4 in September 2014 moved over 86.1, June 2012’s interim ceiling
Recent Low	268 (1/20/16)	72.3 (1/20/16)	687 (1/21/16)	101.2 (January 2016)
Percent Fall From 2011 Peak	64.8	58.9	43.3	TWD rally 25.7pc since July 2011 bottom
Percent Fall From 2014 High	60.2	47.9	37.8	TWD rally 17.1pc since September 2014
Percent Rise from 1Q16 Low (high level; date achieved)	27.2 (341; 3/18/16)	12.9 (81.6; 3/18/16)	22.1 (839; 3/31/16)	TWD decline 3.4pc since January 2016

Marketplace history may not repeat itself, but it should not be forgotten. The broad real US TWD has made a few very important highs during first quarter (monthly average, Federal Reserve, H.10). Recall March 1985’s 128.4, February 2002’s 112.8, and March 2009’s 96.8 (S+P 500 major low in March 2009). Also, the dollar fell from highs in first quarter 1973 as exchange rates were liberalized (January 1973: 107.6).

The broad real TWD was 99.8 in February 2016, with March 2016 at 97.8. The March 2016 level thus neighbors the March 2009 pinnacle at 96.8.

The GSCI’s percentage bear move from spring 2011 to January 2016 was about the same as that in its 2008-09 crash. From around 894 on 7/3/08, the GSCI slumped 65.7 percent to 306 on 2/19/09 (initial low 308 on 12/24/08). The MXEF collapse in its recent bear move, though huge, fell short of that of the 66.8pc shipwreck during the global economic disaster. The MXEF attained its 1345 plateau on 11/1/07, touching bottom at 446 on 10/28/08 (final low at 471 on 3/3/09).

Did the tide finally turn for the petroleum complex in early 2016? The NYMEX crude oil (nearest futures continuation) initial low occurred at \$26.19 on 1/20/16 and its second trough at \$26.05 on

2/11/16. ICE Brent/North Sea crude oil (nearest futures) made its bear low at \$27.10 on 1/20/16, with a second one at \$29.92 on 2/11/16. The LME index (London Metal Exchange) is a yardstick for much of the base metals complex. Its recent low, 1/12/16's 2049, occurred slightly before those in the petroleum complex (recent LME high 3/4/16 at 2369).

The broad real trade-weighted dollar's sharp climb from its September 2014 level connected closely with the bearish commodity and emerging marketplace stock tumbles, and eventually with a fall in the S+P 500 and other OECD (advanced nation) stocks. The nominal broad TWD, unlike the broad real TWD, has daily data. Its 5/15/15 interim low at 112.8 shortly preceded the 5/20/15 S+P 500 peak at 2135. In August 2015, the broad real TWD averaged 97.0, thus breaking over the March 2009 summit.

The nominal broad TWD's high occurred 1/20/16 at 126.2. Compare the dates for recent lows in commodities in general and emerging marketplace stocks.

What about the dates of recent lows in advanced nation stock marketplaces? The flagship S+P 500 made bottoms at 1812 (1/20/16)/1810 (2/11/16; MXEF second low 2/12/16 at 708). The S+P 500 thus endured a 15.2pc decline from its glorious 5/20/15 high-water mark at 2135 (much less than its 2007-09 plunge). It thereafter has raced higher, up 14.6pc to its recent high, 4/1/16's 2075. The SXXP is the STOXX Europe 600 European Stocks Index; its trough was 2/11/16 at 302.6. Canada's S+P/Toronto Stock Exchange Composite Index ("SPTSX") bottom was 1/20/16 at 11531. Japan's Nikkei, which peaked 6/24/15 at 20953, achieved its recent low 2/12/16 at 14866 (29.1pc bear move). What about Chinese stocks? China's Shanghai Composite stock exchange plummeted about 49.1pc from its dizzying 6/12/15 height at 5178 to its 1/27/16 depth at 2638 (2/29/16's low was 2639).

The US Treasury 10 year note yield's recent low was 2/11/16's 1.53 percent. This stands close in time to key turns made in assorted other financial marketplaces. Its yield climbed to a high of 1.98pc on 3/11/16.

How well anchored are US inflation expectations?

Significant American political divisions risk further weakness in the US dollar. Also, suppose Donald Trump captures the Republican Presidential nomination. Imagine he wins the Presidency. Comments from overseas (and numerous domestic) leaders suggest lack of confidence in his abilities and policies; such attitudes are a bearish factor for the dollar.

The big addition to future US budget deficits agreed upon by Congress and the President in late December 2015 is a bearish variable for the dollar.

The nominal broad TWD fell 4.9 percent to 3/18/16's 120.0; compare the date of the recent highs in commodities (broad GSCI's 341 on 3/18/16).

What would be the consequences for stock, interest rate, currency, and other commodity marketplaces if petroleum resumed its downtrend and challenged its first quarter 2016 depths?

NYMEX crude oil's (nearest futures) recent high was 3/22/16's \$41.90; ICE Brent/North Sea's was 3/18/16 at \$42.54. Despite the rally in the broad GSCI and the oil complex, the worldwide petroleum marketplace remains substantially oversupplied. Will OPEC and non-OPEC players agree to freeze production in their anticipated upcoming April 2016 gathering?

Survey the CFTC's Commitments of Traders for the NYMEX petroleum complex (benchmark crude oil, heating oil (diesel), and RBOB (gasoline) combined, futures and options combined) in conjunction with recent price moves in oil and the broad GSCI. Its net noncommercial long position significantly expanded following its recent low of 271,000 contracts (8.3 percent of total open interest) on 1/12/16. The net NCL position's recent high is 3/22/16's 457m contracts (13.9pc of open interest). The ICE Brent/North Sea noncommercial position shifted from net short about 6,000 contracts on 1/19/16 to net long 178,000 contracts on 3/22/16.

COMMODITY CURRENCY TRAVELS: 2007-09 ECONOMIC CRISIS ERA + TODAY

“He was an honest Man, and a good Sailor, but a little too positive in his own Opinions, which was the Cause of his Destruction, as it hath been of many others.” “Gulliver's Travels”, by Jonathan Swift (Part IV, “A Voyage to the Country of the Houyhnhnms”, chapter 1)

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 ocean reveal nowadays? The recent travels for advanced and emerging marketplace “commodity currency” nations differ to some extent from their 2007-09 crisis adventures. As in 2007-09, the timing (start dates, end dates) and percentage extent of moves in the various commodity currencies are not precisely the same. However, as during the darker days of that worldwide economic disaster, the currency voyages of key commodity currencies since their major highs a few years ago generally manifested 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, commodity currency patterns probably will not merely confirm TWD ones. They will entangle closely with those in key stock, commodity, and interest rate marketplaces and offer signs about global GDP and inflation trends.

The Bank for International Settlements provides broad 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 (3/16/16) provides data through February 2016. The BIS EER statistics are less current than the Fed's H.10 for the broad real TWD, which extends through March 2016.

The US dollar of course varies in its EER importance for the various commodity currency nations. Although America is not a very large trading partner for all commodity currency

countries, it is for some of them. The depreciation in the broad real trade-weighted US dollar from February to March 2016 was almost two percent. And the greenback's plays a major role in the world economy and trade. So the March 2016 EER for the various commodity (exporter) currencies in general probably rose from February 2016 levels. In addition, the rally for the broad GSCI continued into calendar March 2016. The monthly average GSCI level for February 2016 (settlement basis) was about 294 (January 2016 was 290), rising over 10.5 percent to 325 in March 2016 (up 12.1pc from January to March 2016).

The trading patterns for the broad real TWD (Fed, H.10) closely resemble 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 101.1 in September 2008. It soared to 106.8 in October 2008, peaking at a lofty 110.7 in March 2009. Likewise compare the US EER 93.0 July 2011 bottom and June 2012's 99.8 interim top with those for the TWD. In September 2014, the EER smashed its way up to 100.1. The US EER high in its bull move occurred January 2016 at 116.6. In February 2016, it dipped to 115.1. As the TWD fell about 3.4pc from its January top, a similar fall in the US EER leaves it at about 112.6 for March 2016.

What are present-day percentage weights within the broad real TWD for the eight key commodity exporter currencies listed in the table below? (Federal Reserve, H.10). Canada's represents 12.7 percent, Mexico 12.1pc. Others are relatively minor. Brazil constitutes 2.1pc, Russia 1.4pc, Australia 1.2pc, and Chile merely .8pc. Norway and South Africa's shares are so tiny that they do not make the Fed's table.

However, even if these eight commodity currency nations are modest or very small parts of the TWD boat, this does not mean the United States is a small share of those nation's own EER trade weights. Review the BIS statistics for broad indices (based on 2011-13 trade). The US is a gigantic 57.6 percent of Canada's EER and a massive 52.7pc of Mexico's. America is 14.3 percent of Australia's EER, 17.5pc of Brazil's, 17.1pc of Chile's, 6.1pc of Norway's, 5.7pc of Russia's and 11.9pc of South Africa's.

Compare China's 21.6 percent share in the TWD (H.10). The Euro FX represents 16.6pc (United Kingdom 3.3pc) in the TWD, Japan 6.5pc.

The advanced/developed (OECD) and emerging marketplace countries in the table below 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).

COMMODITY CURRENCIES: TWO BEAR TRENDS (EER BASIS)

RECENT YEARS

GLOBAL CRISIS ERA (2007-09)

AUSTRALIA

High(s)	Low(s)	High	Low
111.6; August 2012	85.5; September 2015	99.3; July 2008	74.7; Feb 2009
	23.4 percent decline		24.8 percent decline

[Australia's February 2016 effective exchange rate level is 87.2. On a cross rate basis versus the US dollar, the Australian Dollar made its initial low (daily prices) at AD 1.449 on 9/7/15. Although the EER did not make a new bottom (monthly average) in January 2016, the AD did (daily basis), on 1/15/16 at AD1.464.

August 2012's effective exchange rate level represents the all-time high for the 1994-present span. Australia's EER established an initial peak 110.1 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 100.8. The record bottom is March 2001's 64.6.]

BRAZIL

High(s)	Low(s)	High	Low
109.8; July 2011	63.8; September 2015	96.9; Aug 2008	72.1; Dec 2008
92.7; July 2014	41.9pc decline	25.6pc decline	

[Brazil's February 2016 EE is 69.2. On a cross rate basis against the US dollar, the Brazilian real made its initial low on 9/24/15 at 4.248. However, note the time of an important following low, 1/21/16 at 4.172.

July 2011's plateau represents the 1994-2016 Brazil EER record high. The all-time low for that span is October 2002's 42.0. September 2015's EER sailed under December 2008's bottom.]

CANADA

High(s)	Low(s)	High	Low
104.3; April 2011	76.3; January 2016	106.8; Nov 2007	84.6; Mar 2009
	26.9pc decline	20.8pc decline	

[Canada's February 2016 EER is 78.5. Its cross rate low against the US dollar since April 2011 occurred in first quarter 2016 on 1/20/16 around 1.47.

Recall the lower Canada EER high at 102.5 in September 2012, as well as the further erosion from the minor high in July 2014 at 93.6. Its January 2016 level retreated well beneath March 2009's trough. The record peak for Canada's EER over the 1994-present period is November 2007's height. The all-time low is November 2001's 71.7, with another noteworthy bottom at 72.2 in December 1998.]

COMMODITY CURRENCIES: TWO BEAR TRENDS (EER BASIS)

RECENT YEARS

GLOBAL CRISIS ERA (2007-09)

CHILE

High(s)	Low(s)	High	Low
105.9; March 2013	86.7; November 2015	107.9; March 2008	85.1; Dec 2008
	18.1pc decline		21.1pc decline

[Chile's February 2016 EER is 88.6.]

Chile's initial top in its EER bear trend was 105.2 in December 2010, with September 2012's 105.4 bordering it. In that downward venture, Chile's EER eroded to 89.1 in September 2014. It bounced up to 94.6 in May 2015 (recall the high in the S+P 500 that month) but thereafter withered. Its all-time EER high occurred in October 1997 at 113.6, with its record trough 80.5 in June 2003.]

MEXICO

High(s)	Low(s)	High	Low
106.7; April 2013	80.7; February 2016	114.0; Aug 2008	87.6; Feb 2009
	24.4pc decline		23.2pc decline

[The Mexican peso attained its cross rate low against the US dollar on 2/11/16 at 19.45.]

Note Mexico's EER erosion from 2014's minor tops at 101.8 in May and November. The peso EER rallied in the early stage of the dreadful 2007-09 storm. From a bottom during the Goldilocks Era at 104.0 in June 2006, it mounted to its August 2008 peak (compare the timing of 2008's broad GSCI pinnacle). However, the Mexican EER then turned lower, cratering following September 2008's 110.2. The all-time EER high is March 2002's 133.1, the record bottom March 1995's 62.6.

In the Mexican peso crisis of two decades ago, the Mexican EER suffered a 47.7 percent devaluation. From 119.7 in January 1994, the EER fell to 95.1 in December 1994, crashing to March 1995's 62.6.]

NORWAY

High(s)	Low(s)	High	Low
102.2 February 2013	81.2; December 2015	102.8; Oct 2007	88.1; Dec 2008
	20.6pc decline	102.7; May 2008	14.3pc decline

[Norway's February 2016 EER, 82.6, edges up from the December 2015 low.]

Norway's EER stood at 102.4 in April 2010, just over February 2013's high. Recall that April 2011's 102.0 top occurred close in time to 2011's major high in the broad GSCI. In the recent bear move, a renewed slide commenced from minor highs at 96.2 in May 2014 and 94.7 in September 2014. December 2015's low is significantly under December 2008's and is a record for the 1994-present era. The Norwegian EER's all-time high is January 2003's 110.3.]

RUSSIA

High(s)	Low(s)	High	Low
109.6; Feb 2013	65.2; February 2016	104.0; Nov 2008	84.5; Feb 2009
	40.5pc decline		18.8pc decline

[On a cross rate basis against the US dollar, the ruble attained its recent low at 86.0 on 1/21/16 (second low on 2/11/16 at 80.6).

Like many other commodity exporter currencies, Russia's EER tumble accelerated in mid-2014, deteriorating from 103.9 in July 2014. Recall the broad GSCI's breakdown from its interim high of 6/23/14 at 673. Russia's EER, after attaining an interim low at 67.5 in January 2015, resumed its decline from May 2015's interim top at 91.7 (recall the S+P 500's May 2015 peak). July 2015's level was 83.0; beneath the important bottom in February 2009. February 2013 is 1994-2016's all-time summit.

Although October 1994's 40.6 represents the record depth for the ruble in the BIS data series, remember January 1999's 44.5, a 50.7 percent crash from January 1998's 90.3 peak.]

SOUTH AFRICA

High(s)	Low(s)	High	Low
103.2; July 2011	62.3; Jan 2016	94.4; Oct 2007	71.7; Oct 2008
[Dec 2010 top 105.5]		[Oct 2007 was drop-off point, but earlier tops 111.0 Dec 2004 + 109.7 Feb 2006]	
	39.6pc decline from July 2011		24.0pc decline from Oct 2007
	[40.9pc from Dec 2010]		[35.4pc decline from Dec 2004]

[South Africa's February 2016 EER level is 63.8. The rand achieved an important low in its cross rate against the US dollar around 1/11/16. Though estimates for that abyss vary, it probably was at least 17.50.

South Africa's January 2016 EER pierced October 2008's 71.7 support. The all-time EER high for the January 1994-present horizon is January 1994's 131.4. The January 2016 EER rests slightly beneath the prior all-time record low, December 2001's 64.5.]

What's the bottom line in this review of the EER's for the eight commodity currencies during these two major bear markets? The arithmetic average fall for the group of eight currencies in their EER bear move through February 2016 is 29.4 percent. During the global crisis era, the average was 21.6 percent. (Highs selected for South Africa: July 2011 and October 2007). The effective exchange rates lows reached in 2016 (or 2015) by six of the eight commodity currencies decisively breached their 2009 (or 2008) EER bottoms. Chile's neighbored its prior low. Only Australia's EER remained well above its global crisis era trough.

Thus the recent downtrend in the EER commodity currency complex was more severe than that during 2007-09's worldwide economic disaster (as the TWD's percentage rally from its July 2011 major low exceeded its bull voyage during the preceding crisis). The recent substantial bear move in commodity currencies, especially when interpreted alongside related trends in commodities, stocks, and interest rates thus emphasized (and helped to encourage) the fragility of the current

worldwide economic recovery. The anxious rhetoric and actions of the Fed, ECB, Bank of Japan, and other leading central banks partly reflected (reacted to) the recent period of substantial commodity currency feebleness (and TWD strength).

Arguably nowadays many leading central banks would tend to support a rally in the commodity currency complex. If commodities in general and various commodity currencies should again begin to slide downhill significantly, that would be a warning flag for other financial marketplaces and the global economy/

A QUICK VISIT TO CHINA

Everyone knows China is a crucial commodity importer. Indeed, bullish trends for commodities in general belonged to the miraculous growth embodied in the “China story”.

Many Chinese currency watchers concentrate on the cross rate for the Chinese renminbi versus the US dollar. The renminbi peaked against the dollar on 1/14/14 around 6.04. After China’s August 2015 devaluation (8/10/15 close 6.21, 8/11/15 settlement 6.33), it quickly traveled to an intraday low around 6.43 on 8/26/15. After around mid-December 2015, the renminbi depreciated further against the dollar. Its 1/8/16 low at 6.60 represents a 9.3 percent fall from its January 2014 top. Yet paying attention to the renminbi’s decline against the dollar should not cause viewers to overlook the overall strength of China’s currency.

China’s EER achieved a record elevation at 130.9 in both July and November 2015 (far over its February 2009 high at 107.5). At times in recent years, various nations around the world have engaged in competitive devaluations and currency wars. China’s August 2015 devaluation not only indicated the country’s desire to spur its economic growth, but also suggested its willingness to engage in a currency battle with industrial nations such as Japan.

However, China’s February 2016 EER is 130.6, right near its 2015 summits. China’s elevated EER indicates it probably will continue to have trouble arresting its GDP growth slowdown. Suppose commodity prices in general, despite their advance from 1Q16 lows, remain depressed relative to their 2014 (and even 2015) highs; that will tend to reflect relatively sluggish Chinese economic output.

This essay is furnished on an “as is” basis. Leo Haviland does not warrant the accuracy or correctness of this essay or the information contained therein. Leo Haviland makes no warranty, express or implied, as to the use of any information contained in this essay in connection with the trading of equities, interest rates, currencies, or commodities, or for any other use. Leo Haviland makes no express or implied warranties and expressly disclaims all warranties of merchantability or fitness for a particular purpose. In no event shall Leo Haviland be liable for any direct, indirect, special, incidental, or consequential damages (including but not limited to trading losses or lost profits) arising out of or related to the accuracy or correctness of this essay or the information contained therein, whether based on contract, warranty, tort, or any other legal theory.

All content copyright © 2016 Leo Haviland. All Rights Reserved.