SEEKING DIRECTIONS:
US DOLLAR RETREATS, ADVANCES, AND RELATIONSHIPS
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Everlast sings in: "Money (Dollar Bill)":
"I want cash and checks
I want diamond rings…
And mad fly things
I want a stack of fat chips…
I want acres of land…
I want stocks and bonds
All pros no cons…
I want the money y'all
I need the money y'all…"

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CONCLUSION

The broad real trade-weighted United States dollar (TWD) not only will remain relatively weak, but also it probably will test its July 2011 bottom around 80.5 in the relatively near future.

Within and between currency, interest rate, stock, and commodity domains, observers debate marketplace intertwining, convergence/divergence, and lead/lag relationships and issues. In any event, since the economic crisis walked onto the world stage in mid-2007, and especially after its acceleration during 2008, many marketplace gurus ardently have promoted the guideline that a "weak US dollar equals strong US (and many other) stock marketplaces, strong dollar equals weak US stocks". This beloved relationship probably no longer holds. In the current theater, the weak US dollar (and any further deterioration in it) now probably translates into falling American stock marketplace prices (use the S+P 500 as a benchmark). In addition, a still-relatively weak TWD (one not sustaining a venture much above its June 2012 peak at 86.3) will not bolster equities much if at all.

In recent months, and especially in the past several weeks, US dollar cross rates have displayed competing perspectives regarding dollar strength. Thus the dollar sometimes appears to be walking a tightrope. The US dollar has rallied recently against the currencies of many developing (and some rather developed) nations and assorted emerging marketplace nations. Several of these domains represent key commodity producers. However, the US dollar has eroded in recent weeks against the currencies of several of its major trading partners such as the Japanese Yen and Euro FX. The dollar remains relatively feeble against the Chinese renminbi as well. This weakness in these key crosses underlines not only the current weakness in the TWD, but also warns that the TWD is quite vulnerable to renewed declines. Moreover, falls of the US dollar in these key crosses (as does the weakness in the TWD in general) indicate that further declines in the US stock marketplace loom ahead (despite the Federal Reserve's longstanding accommodative policies.

This viewpoint on intertwined US dollar and US equity weakness fits the stories of the dive in emerging marketplace equities (which began in 4/27/11; the "MSCI emerging stock markets index"/MXEF at 1212) and the fall in commodity prices (broad Goldman Sachs Commodity Index's major downtrend commenced in spring 2011 with the 4/11 and 5/2/11 highs at 762), as well as the bear trend in US government notes. Yields for the 10 year UST bottomed 7/25/12 around 1.38pc; they established other important floors at 1.55pc (11/16/12) and 1.61pc (5/1/13).

Note the fall in the MXEF from its 5/9/13 high around 1065 alongside the rise in US rates (especially from the 5/1/13 depth) in the context of the slump in many emerging/developing/commodity producing marketplace cross rates versus the dollar. Keep in mind the timing links (similar directional moves) in recent years between the MXEF and the S+P 500 (even though the S+P 500 climbed to new highs after spring 2011). The renewed faltering in emerging stock marketplaces in recent weeks warns of a notable fall in the S+P 500.

The S+P 500's high on 5/22/13 near 1687 probably represents (or is very close to) a very significant high. A five percent fall in the S+P 500 is 1603, 10pc 1518, and 20pc 1350. Monitor levels relative 10/11/07's major high at 1576 and 3/24/00's 1553 plateau.

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For further analysis, see "Fed Up: Other Exit Strategies" (6/10/13), "Springing a Question: Are Emerging Stock Marketplaces in Bloom?" (4/9/13), "Margin Debt, Fed Policy, and Recent American Stock Price Trends" (3/18/13), "Throwing Curves: the Friendly Fed's Yield Curve Game" (3/5/13), "Federal Reserve Exit Strategies" (2/21/13), "Currency Wars, Dollar and Yen Slides" (2/1/13), and "Commodities and US Stocks: Convergence and Divergence" (1/28/13).

THE BROAD REAL TRADE-WEIGHTED DOLLAR

"But darlin' can't you see my signals turn from green to red
And with you I can see a traffic jam straight up ahead." "Crosstown Traffic", by Jimi Hendrix

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The broad real-trade-weighted dollar has been jammed in a range since stopping at its all-time low in July 2011 around 80.5 (monthly averages, March 1973=100; Federal Reserve Board H.10 statistics). Its high since then is June 2012's 86.3. The TWD rests at 84.2 in May 2013. This levels parks near the prior record valleys near 84.0 (October 1978, July 1995, and April 2008); the dollar has revolved around the 84.0 axis for much of the time since its July 2011 depth. A descent to 84.0 represents a 25.5 percent crash from February 2002's major high at 112.8. The 84.0 signpost lurks 15.4pc beneath March 2009's 96.9 summit. Thus the TWD from the long run and medium term historic perspectives has been in a bear trend, and it has remained weak despite some ups and downs during the nearly two years since the July 2011 bottom.

Recall the currency war talk of recent months. Many nations quest to keep their currencies weak, or relatively weak, and this probably has contributed to confining the TWD close to 84.0.

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The S+P 500 made an interim top on 5/2/11 at 1371. However, the sustained relative TWD weakness since July 2011 has contributed to the US equity bull run that resumed in autumn 2011 (S+P 500 low 1075) and thereafter (lows on 6/4/12 at 1267 and 1343 on 11/16/12). Why? The TWD feebleness entangles with the Federal Reserve Board's awe-inspiring and sustained easy money program, particularly its glorious yield repression policy and rounds of massive quantitative easing (money printing). Since at least around the bottom of the US stock marketplace in March 2009 (3/6/09 at 667), the Fed up to the present implicitly has sought a rather weak dollar. Chairman Bernanke and his fellow Fed traffic managers believe the weak TWD assists the central bank in achieving its goal of sparking and sustaining economic growth, restoring consumer net worth, and propelling stock and real estate marketplace prices higher. Still-substantial federal deficit spending probably also has helped to put a ceiling over the greenback.

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Suppose the TWD remains relatively steady (say between 80.5 and 86.5). Will that help to push the S+P 500's through 5/22/13's recent top at 1687? The S+P 500 probably will not move above its 5/22/13 height by much if at all. In any event, the happy hymn of "weak US dollar means strong US stocks (S+P 500)" probably no longer accurately describes the scene. Instead, a weak (or weaker) TWD probably coincides with declining US equity prices. This of course is a big shift from the "strong dollar equals weak stocks (S+P 500)/weak dollar equals strong stocks" pattern ushered in from the end of the Goldilocks Era (and particularly during the dollar rally/S+P 500 collapse from spring 2008 to March 2009). And so nowadays a weak TWD, and especially further noteworthy withering in it, probably signals slower economic growth in the United States and abroad.

The overall marketplace landscape has altered somewhat, and American stocks and the TWD do not stand alone. The Fed, despite its devotion to sustained accommodation, in recent weeks has seemed somewhat uneasy regarding the strength in some asset marketplaces (search for returns/yields). Perhaps it even may modify (update) its exit strategy policies. The S+P 500 around 1700 may encourage a tapering off of its voracious purchasing of debt securities (money printing). Spectators should monitor US dollar and S+P 500 levels and trends in the context of those of debt marketplaces. Note the current environment of rising (albeit slowly) United States government interest rates. In addition, the decline in emerging stock marketplaces "in general" which began in spring 2011 has sped up in the past few weeks. Keep in mind that a significant bear trend in commodities "in general" has persisted since spring 2011 as well.

Are US government securities really the excellent quality and safe haven they used to be? Suppose the dollar remains weak (or slides lower) alongside significant rises in UST yields. Will the S+P 500 remain as alluring?

There has been a long and winding major bull move in American stocks since August 1982 (S+P 500 major low 8/9/82 at 102). The jagged yet bull move in US Treasury notes and bonds since 1981 (UST 10 year yield 15.84pc on 9/30/81), which thus preceded the major stock marketplace bottom, halted and began to reverse with July 2012's yield low. The broad real trade-weighted dollar's long run bear trend arguably began with March 1985's 128.4. It thus arguably intertwines with the UST and S+P 500 trends that left the station in the early 1980s. In any event, suppose the massive decline in the TWD that began in February 2002 and continued from its perch in March 2009 resumes? Admittedly the TWD (and various dollar cross rates) have had many twists and turns since 2002 and 2009. However, rising UST rates and a withering US dollar (or even a still relatively feeble one) eventually, even if not right away, can spark declines in US equities. Recall 1986-87.

CROSSING PATHS

In "Life During Wartime", the Talking Heads sing: "This ain't no party, this ain't no disco, this ain't no foolin' around."

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The ignition and sustained restoration of economic growth in the aftermath of the worldwide economic disaster that emerged in mid-2007 has not been easy. To some nations, a weak currency apparently offers a welcome source of recovery (and may help to mitigate concerns about widespread unemployment and social unrest as well). Economic and political leaders have warned of currency wars and competitive devaluations.

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The United States dollar intersects with various currencies via individual cross rate relationships. In recent weeks (and in some cases for several months or longer), the dollar's crosses have moved in competing directions. From some vantage points the dollar has traveled in bullish fashion; yet relative to other currencies it has taken a bearish route.

There nevertheless appears to be a rough pattern in these dollar cross moves. On balance, against most key US trading partners not classed as emerging or developing marketplaces (or nations especially reliant upon commodity production for their GDP), the dollar has tended to weaken. Against the emerging marketplaces, most developing ones, and many notable commodity producers, the dollar has tended to rally.

This classification scheme is not perfect. Though China is in some respects a developing nation, it obviously is an economic powerhouse. China's big GDP and substantial role in the TWD indicates that it should be included alongside Japan and the Eurozone. South Korea and Taiwan are significant industrial nations, but in recent weeks their currencies have ebbed lower versus the US dollar. They therefore are placed with those in the emerging/developing/commodity producer table below. Canada, although it is a significant commodity producer, is an "advanced" nation and within the G-7 fraternity, so it probably deserves to be placed alongside Japan and the Eurozone for cross rate analysis purposes.

Which trend is most important for the dollar overall, and thus for related trends in US interest rates (not only UST, but also corporate debt, mortgage-backed securities, and municipal debt) and American (and related) stock arenas? Probably the recent bearish trend for the dollar crosses relative to the developed nations such as Japan, the Euro area (and Switzerland and the United Kingdom), and Canada. One should include the longstanding weakness of the dollar relative to China in this camp.

Thus the dollar's recent bear moves versus the Japanese Yen, Euro FX, and so forth consequently probably warns not only that the TWD in general will remain rather weak (and may wither), but also that that UST (and other interest) rates will continue to rise and that US equities probably will begin a notable retreat from at or around its May 2013 high (even if the stock marketplace stepping down takes a bit more time to do so).

<u>RECENT FX CROSS LOWS VERSUS THE US DOLLAR</u>

In dealing with today's complicated economic battlefield and motions on and related to it, some marketplace warriors and other observers may empathize with the speaker in Robert Johnson's famous song, "Cross Road Blues":

"I went down to the crossroad
fell down on my knees…
Asked the Lord above 'Have mercy now
save poor Bob if you please'".

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The dollar recently has tumbled against several important currencies. A notable start date for such cross rate slumps in the dollar are in parentheses next to the level.

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Japanese Yen 103.7 (5/22/13)
(Japan is 7.3 percent of the broad real trade-weighted dollar)

The Yen apparently ended a massive decline versus the dollar with this Y103.7 bottom. Compare the May 2013 Yen valley against the dollar not only with the interim high at the advent of the latest Bank of Japan easing in April 2013 (4/2/13 at Y92.6), but also with the Yen's major highs at Y75.4 (10/31/11) and Y77.1 (9/13/12). Compare 4/19/95's Y79.8 pinnacle.

The later stage in the S+P 500's dramatic march upward to its May 2013 plateau, like the Nikkei's leap alongside it, connects with Japan's bout of massive monetary easing/stimulus ("Abenomics").

The May 2013 Yen bottom against the dollar coincides with the Nikkei's high at 15942 on 5/23/13, which in turn parallels the 5/22/13 time of the S+P 500's 1687 top. The Nikkei's steep decline since then (like the Yen's related rally) is a warning sign to the S+P 500's bull trend. A twenty pc tumble in the Nikkei is about 12750; compare the actual decline to date (6/13/13 low 12416) since this May top. Looking forward, American (and most other key world) stock marketplace trends probably will coincide with the dollar weakness against the Japanese Yen.

As the decline in the Yen during the initial recovery stage from the worldwide economic crisis only carried to Y101.5 (4/6/09), also watch around this level in the context of declines from 5/22/13's elevation. The Yen made important highs relative to the dollar in the more distant past near Y101.5; recall Y101.3 on 11/26/99 and Y101.7 on 1/17/05.

A five percent rally in the Yen from its Y103.7 trough gives about Y98.6, a 10pc gain produces Y93.4 (6/13/13's low was Y93.8), with a 20pc climb making Y83.0.

Remember that the Yen rallied against the dollar from the end of the Goldilocks Era through the bloody times of the global financial crisis. The Yen established a crucial low 6/22/07 at Y124.1. It flew up to Y95.8 on 3/17/08, but then cratered to Y110.7 on 8/15/18. As the international economic disaster worsened, the Yen motored higher to about Y87.1 (12/17/08 and 1/21/09).

Continued rallies in the Yen versus the dollar probably would indicate that some Japanese institutions are "bringing money back home".

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Euro FX 1.2797 (5/17/13)
(The Euro FX is 16.5pc of the TWD)

The Euro FX admittedly remains beneath its 2/1/13 high at 1.3711 (as well as others in the more distant past- 5/4/11 at 1.4940, 11/25/09 at 1.5144, and 7/15/08 at 1.6038).

However, the Euro FX has advanced steadily since its 1.2043 bottom on 7/24/12. The US Treasury 10 year note made a major low on 7/25/12 around 1.38pc, and its yield has spiked since its low around 1.61pc on 5/1/13.

As the international financial crisis worsened in 2008, the Euro FX on balance swung sharply lower against the dollar. From its 4/22/08 high at 1.6019 and 7/15/08's 1.6038 pinnacle, it reached bottoms on 10/28/08 at 1.2330 and 1.2457 at 3/4/09.

Yet "this time around", assuming there is a significant worldwide economic slowdown or downtrend (even if it is much less dreadful than the prior one), arguably the US versus Euro FX cross rate trend will be different. Europe as a whole in recent years certainly has been weaker than America, and indeed many nations would enjoy seeing a weaker Euro FX. However, the Eurozone fiscal deficit and government debt situation as a whole probably now is healthier than that of the US. Also, the European Central Bank, though it embarked on an easing journey, is more of an inflation fighter than the Federal Reserve.

Within Europe, the Euro FX's ascending path in the past month against the dollar is not lonely. Keep in mind the timing of Swiss Franc and British Pound lows against the dollar.

Swiss Franc **.9839 (5/22/13)**
(The SF comprises 1.7pc of the TWD)

The SF's May 2013 low versus the dollar is close to its 7/24/12 low at .9972 against it. Compare the date of the Euro FX's July 2012 floor.

British Pound **1.4832 (3/12/13**; **then 5/29/13 at 1.5009)**.
(The BP represents 3.4pc of the TWD)

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Chinese Renminbi **Steady advance from 6/11/10's 6.88 (recall 7/20/12's 6.40 low)**
The 5/28/13 high was 6.1203, but the renminbi remains close to this. China is 20.3pc of the TWD.

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Canadian Dollar
The Canadian Dollar made a notable high against the US dollar on 7/26/11 at CD.9407, but then crashed to a low at CD1.0658 on 10/4/11. The CD has oscillated in a range since then against the greenback, with 9/14/12's CD.9633 being the high.

Despite its erosion from around CD1.001 on 5/9/13, the **CD has appreciated since 5/29/13's 1.042**. The CD makes up 12.9pc of the TWD. Given Canada's significant role in the United States broad real trade-weighted dollar, a continuation of its rally since end May 2013 would be ominous for the TWD.

COMPARE SOME RECENT US DOLLAR CROSS STRENGTH TRENDS

"Lay back, enjoy the show…These are the days when anything goes." Sheryl Crow's song, "Every Day Is a Winding Road"

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The US dollar has rallied against some other currencies. Again focus on the recent history in 2013. Starting dates for the recent notable depreciation of these currencies against the dollar are in parentheses. For some of these nations, weakness versus the US dollar began further back in time.

Mexican Peso **11.94 (5/9/13)** (The peso is 11.3pc of the broad real TWD)
Brazilian Real **1.942 (3/11/13)** (2.2pc of the TWD)

Chilean Peso	**466 (4/9/13)** (.9pc of TWD)
Russian Ruble	**29.84 (2/1/13)** (1.2pc of TWD)
Indian Rupee	**53.7 (5/2/13)** (constitutes 1.9pc of the TWD)
Indonesian Rupiah	The steady depreciation against the dollar continued, with the 2013 high **9603 (2/11/13)** (1.1pc of the TWD)
Korean Won	**1082 (5/9/13); 1054 (1/15/13)** (3.9pc of the TWD)
Malaysian Ringgit	**2.96 (5/7/13)** (1.6pc of the TWD)
Taiwan Dollar	**29.34 (5/9/13); 28.91 (1/11/13)** (2.6pc of the TWD)
Thai Baht	**28.56 (4/19/13)** (1.4pc of the TWD)
South African Rand	**8.86 (4/11/13)** (insignificant pc of TWD)

Australian Dollar
The Australian Dollar, 1.4pc of the TWD, established an array of highs against the US dollar beginning with 7/27/11's AD1.108 one (the notable highs- such as 9/14/12's AD 1.0625- gradually drifted lower). Recall that the 2011 pinnacle occurred not long after the major high in the broad Goldman Sachs Commodity Index. The AD slumped sharply in the past couple of months; **note the 4/11/13 interim top at 1.058 and 4/30/12's drop-off point at about 1.039**.

Many consider Australia to be more of a "commodity nation" than Canada.

Substantial political unrest in nations often encourages frantic flights into the US dollar as a so-called safe haven. When these nations capture headlines, even if the countries are not enormous players in world trade terms, their currency fluctuations often attract widespread attention. Note the big **depreciation in Egypt** from around 6.19 Egyptian pounds to the dollar at end 2012 and **Turkey's slip** from about 1.788 on 5/9/13.

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The rally in the US dollar against currencies of emerging marketplaces and many developing nations and commodity producers perhaps entwines with a move of foreign "investment" cash (which originated in the dollar or other major currencies such as the Yen and Euro FX) out of these countries.

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These recent declines in many emerging/developing/commodity producer marketplace currencies versus the US dollar now intertwine closely with the long running bear trend in emerging marketplace equity marketplaces. This encourages talk of a "strong US dollar, weak stocks" rule. However, as the dollar is relatively strong only against these particular currencies (rather than in general), this wordplay currently fits (as a rough guideline) only to the general emerging/developing/commodity producer marketplace category. As discussed above, the feeble TWD (and the weak US dollar versus the key cross rates listed in the "Recent FX Cross Rates Versus the US Dollar" section) nowadays probably leads to a weaker S+P 500 (and many related equity marketplaces).

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Emerging and developing nations in recent years have won praise as being engines for growth. Many of their stock marketplaces have been honored with the "investment vehicle" label. Yet investigate several fluctuations and levels for emerging marketplace stocks "in general" (Morgan

Stanley's "MSCI Emerging Stock Market Index", the MXEF). Its retreat began from 4/27/11's 1212 (compare the timing of the overall commodities peak); the MXEF's April 2011 hill was beneath the prior Goldilocks Era heights of 1345 on 11/1/07 and 1253 on 5/19/08. And note the even lower important MXEF top on 2/29/12 at 1085. Then underscore the MXEF's tops on 1/3/13 at 1083 and (especially, given its timing) 5/9/13's 1065; look at these in relation to the timing of recent key rallies in the US dollar cross rate versus the nations included in the emerging/developing/commodity producing country ensemble.

Weakness in the MXEF category can intertwine with (help to induce) bearish trends in the S+P 500 and other stock playgrounds.

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Compare the timing of the 4/27/11 MXEF peak with that in commodities "in general" (broad GSCI. By the way, the S+P 500 made an interim summit on 5/2/11 at 1371. The GSCI's 2011 peak did not exceed its majestic 7/3/08 pinnacle at 894; the MXEF's one likewise remained below its 11/1/07 top at 1345 (S+P 500 major high 11/1/07 at 1576) as well as its final one at 1253 on 5/19/08 (the day of the S+P 500 final top at 1440). Anyway, in the current US dollar and MXEF (and therefore the S+P 500) stock context, note the GSCI's renewed fall from 2/13/13's 682 level.

Gold arguably deserves a footnote given its reputation as a store of value and investment asset, as well as its frequent association with other financial marketplace trends. Its major high was 9/6/11 at 1921. Lower ones followed, including 10/4/12's 1795. However, in regard to trends in other commodities and emerging marketplace stocks (and maybe eventually for the S+P 500), note the timing of 3/21/13's top at 1617 and particularly 5/3/13's minor high at 1487. During the global financial crisis, gold peaked at 3/17/08 at 1034 (not long before the TWD's key April 2008 low at 84.2 and close to the 5/19/08 final peak in the S+P 500), collapsing to 681 on 10/24/08. Is gold's decline hinting at a renewed global slowdown? This time around, however, if there is widespread worldwide economic weakness, the US dollar probably will remain relatively weak.

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