<u>ADVENTURES IN WONDERLAND: COMMODITY CURRENCIES</u>

© Leo Haviland, 646-295-8385 September 26, 2016

"For, you see, so many out-of-the way things had happened lately, that Alice had begun to think that very few things indeed were really impossible." Lewis Carroll, "Alice's Adventures in Wonderland" (Chapter I)

****

OVERVIEW AND CONCLUSION

Concentrating on and comparing exchange rates of "commodity currencies" offers insight into assorted interrelated marketplace relationships. Since the shocking eruption and terrifying acceleration of the global economic crisis in late 2007/2008, the major price trends for eight "commodity currencies" roughly (and of course not precisely) have ventured forward in similar fashion on a broad real effective exchange rate ("EER") basis. Over that time, this basket of assorted commodity currencies generally has intertwined in various ways with very significant trends in the broad real trade-weighted United States dollar ("TWD"), emerging marketplace stocks in general, and broad commodity indices such as the S&P Goldman Sachs Commodity Index ("GSCI").

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 monumental 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 late 2015 ascent above its March 2009 peak was a crucial event. This dollar climb helped propel the S+P 500 downhill following 5/20/15's 2135 pinnacle in conjunction with the emerging stock marketplace and commodity trends.

In January/February2016, these linked price patterns reversed. The TWD has depreciated modestly and stocks (emerging marketplaces as well as those of America and other advanced nations) rallied. Commodities (particularly oil) jumped. The benchmark United States Treasury 10 year note yield initially ascended from its 1Q16 low. This relatively unified reversal across marketplace sectors paralleled the entwined moves since mid-to-late 2015. These 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.

****

Commodity currencies, associated with countries with large amounts of commodity exports, are not confined to developing/emerging nations. Because commodity exports are important 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 key 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 that recent dive than during 2007-09's extraordinary 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 leap to its January 2016 elevation than it did during the past crisis.

The feebleness up to the 1Q16 lows 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, underlined the fragility of the relatively feeble global GDP recovery.

Therefore key central bank wizards, concerned about slowing real GDP and terrified by "too low" inflation (or deflation) risks, have fought bravely to stop the TWD from appreciating beyond its January 2016 top and struggled nobly 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 crawl upward. Given their desperate quest to achieve inflation goals, central banks probably approve of at least modest increases in commodity prices as well as appreciation by commodity currencies in general.

****

Noteworthy rallies in these commodity (exporter) currencies from their recent depths 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 broad real trade-weighted US dollar. Such depreciation in the commodity currency camp probably will signal worsening of the still-dangerous global economic situation and warn that another round of declines in global stock marketplaces looms on the horizon.

****

"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)

****

Looking forward, numerous entangled and competing economic and political variables generate a substantial challenge for explaining and predicting the interconnected financial marketplaces in general, including the commodity currency landscape. The commodity currency group as a whole ("CC") has appreciated roughly twelve percent from its late calendar 2015/first quarter 2016 depth. What does a review of the adventures in commodity currencies since the assorted late 2015/1Q16 bottoms in the context of other marketplace benchmarks portend? Commodity currencies in general probably are establishing a sideways range. The overall camp of EERs (apart from what may happen to individual ones) will not rally much (if at all) above recent highs. The CC camp eventually likely will renew its overall depreciation, with the various EERs heading toward their noteworthy lows attained several months ago.

Although the CC rally since its 1Q16 bottom retraces some of its prior collapse, the TWD itself has dropped only modestly from its peak and thus remains quite strong. Moreover, note the fall in the broad GSCI (and the petroleum complex) since early June 2016. A still-robust TWD not only underlines potential for renewed weakness in the CC complex, but also confirms commodity feebleness and warns of risks to the recent bull move in emerging marketplace stocks (and even to the astounding S+P 500). China is a key commodity importer. As China's EER continues to ebb (while Japan's has strengthened), the ability of the CC clan to produce only a moderate overall percentage rally in their collective EER to date hints that world economic growth remains sluggish. Emerging marketplace stocks in general, despite their rally since 1Q16, remain substantially beneath their September 2014 summit.

Although leading global central banks devotedly retain highly accommodative policies such as yield repression and money printing, the inability of US Treasury 10 year note yield to rise much above its 7/6/16 low at 1.32 percent tends to confirm this picture of unimpressive (and even slowing) global expansion. Optimists underscore the S+P 500's rally to a new peak on 8/15/16 at 2194 from its 1Q16 trough. Yet that new record elevation merely neighbors May 2015's plateau, exceeding it by just 2.8 percent.

****

There is significant marketplace and political talk of trade wars, growing protectionism, and anti-globalization. Much of this wordplay links to populist challenges to the so-called establishment (elites). But even some establishment politicians have become less enamored of free trade. Fears of trade conflicts and protectionist barriers weigh on the CC domain as a whole.

For commodity currencies, much depends on Federal Reserve policy. At present, although the Fed did not boost rates in September, it currently seems fairly likely to do so in December 2016 (assuming no dramatic drop in stocks occurs before then). Especially as the European Central Bank, Bank of England, and Bank of Japan remain married to their highly accommodative schemes, this Fed action will help to rally the TWD and thus tend to weaken the CC armada. Nevertheless, the Fed and other central banks probably will fight to keep the dollar from surpassing its 1Q16 summit; doing so helps to protect stock (and real estate) prices and thus to reduce populist political advances.

The result of the US Presidential election on November 8 naturally remains uncertain. Unlike the EERs of the other seven commodity currencies, the Mexico EER has slumped beneath its first quarter 2016 low. Mexico faces severe domestic political challenges, and ongoing low oil prices wound its economy. However, the increasing potential for a Trump victory and resulting trade conflicts and immigration disputes also have helped to push Mexico's EER downhill. The Mexican peso crisis of the early 1990s should not be forgotten.

Significant ongoing American political divisions risk further weakness in the US dollar, regardless of who wins the exciting Presidential sweepstakes. The US has a long run budget challenge regardless of who emerges victorious. Though the TWD issue is complex, a Trump victory likely is more bearish for the TWD than a Clinton one. Comments from overseas (and numerous domestic) leaders suggest lack of confidence in Trump's abilities and policies, which arguably would be reflected in reduced acquisition (or net selling) of dollar-denominated assets such as US government securities (and corporate debt) and American stocks. Trump's budget proposals, if enacted, will likely expand the deficit considerably and thus probably would encourage interest rate rises. A Trump triumph likely would be bearish for the US dollar in general, even if the dollar rallied against the Mexican peso on a cross rate basis. However, though numerous respected forecasters predict a close outcome, Clinton probably will defeat Trump. In any case, all else equal, a Democratic victory increases the odds of a Fed rate hike in the near term.

SETTING THE STAGE: THE US DOLLAR AND OTHER MARKETPLACES

Alice asked the Cheshire-Cat: "'Would you tell me, please, which way I ought to go from here?'" The Cat responded: "'That depends a good deal on where you want to get to'". "Alice's Adventures in Wonderland" (Chapter VI)

****

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, 9/1/16 release). After ascending to 86.6 in August 2008 and 88.8 in September 2008, it blasted up 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 almost legendary 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 attacked March 2009's 96.8 major elevation.

The TWD's March 2009 pinnacle around 96.8 represented a noteworthy 15.1 percent rally relative to April 2008. Its awesome bull charge from July 2011 to January 2016, however, was 25.7pc.

****

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.

	Broad GSCI	**Bloomberg Comm. Index**	**Emerging Market Stocks MXEF**	**US Dollar ("TWD")**
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	**46.3**	**24.9**	**35.4**	**TWD decline 4.8pc**
from 1Q16	(392; 6/9/16)	(90.3; 6/9/16)	(930; 9/7/16)	**since January 2016**
Low (high level; date achieved)				

****

The broad real trade-weighted dollar's sharp climb from its September 2014 level interrelated 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; after dipping to 96.8 in October 2015, it thereafter soared over the March 2009's 96.8 critical summit, attained around the close of the horrifying 2007-09 global economic disaster.

The nominal broad TWD (which has daily data; H.10) made its high on 1/20/16 at 126.2. Compare the dates for the 1Q16 bottoms in commodities in general and emerging marketplace stocks. Its low several months ago, 118.2 on 5/2/16, drops 6.3pc from this ceiling. The nominal TWD has meandered sideways since then, with its subsequent high 7/27/16's 122.7 (122.6 on 9/16/16; data available through 9/16/16). Daily data for the nominal TWD for the first half of September 2016 indicates about a .5pc appreciation relative to its August 2016 monthly average.

The broad real TWD attained its recent low at 96.3 in April 2016. August 2016's 97.0 elevation borders this height. Significantly, recent TWD lows thus stand adjacent to the major bottom achieved in March 2009 (S+P 500 major trough in March 2009).

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 swoon from its glorious 5/20/15 high-water mark at 2135 (much less than its 2007-09 plunge). It thereafter has raced higher, up a wonderful 21.2pc to its recent high, 8/15/16's 2194.

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 breakdown in its recent bear move, though colossal, fell short of its 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).

After a murderous retreat, the petroleum complex established a bottom 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. However, NYMEX crude oil, after motoring up to $51.67 on 6/9/16, tumbled 24.2pc to $39.19 on 8/3/16 (GSCI low 8/2/16 at 329), recovering thereafter to the mid-$40s.

Despite the rally since the 1Q16 bottoms in the broad GSCI and the oil playground, the worldwide petroleum marketplace still has massive inventories. Unless OPEC significantly cuts production, current supply/demand estimates suggest these probably will not be reduced significantly for quite some time. Will OPEC and non-OPEC players agree cut, or at least freeze production, in their upcoming end September 2016 gathering? What about their official meeting on 11/30/16?

The LMEX 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. The LMEX high thereafter (through 9/23/16) has been 7/19/16's 2443, a 19.2pc advance.

****

The US Treasury 10 year note yield's recent low was 2/11/16's 1.53 percent, close in time to the key 1Q16 turns made in assorted other financial marketplaces. However, although the UST yield bounced up to 2.00pc on 3/16/16, it broke beneath 2/11/16's trough, reaching 1.32pc on 7/6/16 (and beneath 7/25/12's low of 1.38pc). Nowadays it hovers around 1.60pc.

COMMODITY CURRENCY TRAVELS: A PRELUDE

Alice cried: "'Curiouser and curiouser!'" "Alice's Adventures in Wonderland" (Chapter II)

****

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 fascinating FX movements (trade-weighted, effective exchange rates) within the key commodity exporter sphere reveal over the past decade? The travels for advanced and emerging marketplace "commodity currency" nations in their most recent bear move differ to some extent from their 2007-09 crisis bear adventure. As in 2007-09's worldwide financial bloodbath, the timing (start dates, end dates) and percentage extent of bear moves in the various commodity currencies was not precisely the same. In the bull move for the commodity currency group that began in late 2015/early 2016, the CCs as a whole also have "traded together" (Mexico has been the exception). Although the times of their effective exchange rate major turning points do not always exactly coincide with those in the broad real trade-weighted dollar (whether within the 2007-09 global theater or thereafter), those commodity currency travels (when interpreted together) nevertheless display a pattern in relation to the TWD's major trend.

Looking forward, commodity currency patterns probably will not merely confirm TWD ones. They likely will entangle closely with those in key stock, commodity, and interest rate marketplaces and offer signs about global GDP and inflation trends.

****

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.

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

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 (9/18/16) provides data through August 2016.

The trading patterns for the broad real TWD (Fed, H.10) closely resemble those reported by the BIS for the US dollar EER.

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 every one of the eight commodity currency countries discussed below, it is for several of them. So even if these eight commodity currency nations are modest or very small parts of the TWD package, 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.

The US is 17.8 pc of China's EER and 15.2pc of Japan's.

****

The advanced/developed (OECD) and emerging marketplace countries in the following table differ in varying ways regarding their commodity exports (and 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 constellation of eight CC nations is not all-encompassing, 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 ADVENTURES: TWO MAJOR BEAR TRENDS AND THE FIRST QUARTER 2016 RALLY

"Lately it occurs to me what a long, strange trip it's been". "Truckin'", by The Grateful Dead

****

The following national foreign exchange levels are the effective exchange rates (EER) from the Bank for International Settlements. One major bear trend for the eight commodity currencies is from the international economic crisis period of 2007-09. Some EERs began their slide in fourth quarter 2007, others later. The more recent bear pattern for the individual commodity currencies likewise commenced at various points; the EER depreciation for some nations began in mid-2011, whereas that for others started many months thereafter (as late as Mexico's April 2013).

MOST RECENT COMMODITY CURRENCY MAJOR BEAR TREND		**BEAR TREND: THE 2007-09 GLOBAL CRISIS ERA**	
		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 August 2016 effective exchange rate level is 91.4, a 6.9 percent rally from the September 2015 low, and the high since then. On a cross rate basis versus the US dollar, the Australian Dollar made its initial low (daily prices) at AD1.449 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 100.9. The record bottom is March 2001's 64.9.]

MOST RECENT COMMODITY CURRENCY MAJOR BEAR TREND		**BEAR TREND OF THE GLOBAL CRISIS ERA (2007-09)**	

BRAZIL

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

[Brazil's August 2016 EER is 84.3, a 32.1 percent jump from and the high since its September 2015 low. 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 42.2. The September 2015 depth is about a 50pc rally from that level. September 2015's EER sailed under December 2008's bottom.]

CANADA

High(s)	Low(s)	High	Low
104.3; April 2011	76.4; January 2016	106.8; Nov 2007	84.6; Mar 2009
26.7pc decline		20.8pc decline	

[Canada's August 2016 EER is 83.0, close to June 2016's 83.7 high (a 9.6pc rally) following the 1Q16 low. 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 71.8, with another noteworthy bottom at 72.3 in December 1998.]

CHILE

High(s)	Low(s)	High	Low
106.0; March 2013	86.7; November 2015	107.9; March 2008	85.1; Dec 2008
18.2pc decline		21.1pc decline	

[Chile's August 2016 EER is 92.8. The high since November 2015 is July 2016's 93.9, an 8.3pc advance from November 2015.

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 stellar all-time EER high occurred in October 1997 at 113.6, with its record trough 80.8 in June 2003.]

MOST RECENT COMMODITY CURRENCY MAJOR BEAR TREND		**BEAR TREND OF THE GLOBAL CRISIS ERA (2007-09)**	

MEXICO

"Is there anything a man don't stand to lose,
When the devil wants to take it all away?" "Mexicali Blues", The Grateful Dead

****

High(s)	Low(s)	High	Low
106.8; April 2013	80.9; February 2016	114.0; Aug 2008	87.6; Feb 2009
24.3pc decline		23.2pc decline	

[The Mexican EER rallied slightly to 83.9 in March 2016. However, it collapsed to 77.8 in June 2016, a 27.2 slump from April 2013's pinnacle and 3.8pc under February 2016's EER (78.8 in August 2016). Given the massive weight of the US dollar in Mexico's EER, the Mexican peso's recent slump in its cross rate against the US dollar probably will carry Mexico's September EER average to around or beneath June 2016's level.

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 104.1 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 133.3, the record bottom March 1995's 62.8. Half the all-time peak is 66.7.

In the Mexican peso crisis of two decades ago, the Mexican EER suffered a jaw-dropping 47.7 percent devaluation. From 120.0 in January 1994, the EER fell to 95.4 in December 1994, crashing to March 1995's 62.8.

Though the June 2016's EER low at 77.8 is fairly distant from March 1995's 62.8 abyss, it is sufficiently close to justify paying considerable attention to the potential for a Mexican peso (economic and political) crisis. Is Mexico relatively (merely) peripheral to the United States and the global economy? The appearance and consequences of the crisis on the European "periphery" (recall Greece, Portugal, and other nations) surprised many marketplace sorcerers and political high priests.

The Mexican peso attained a minor cross rate low against the US dollar on 2/12/16 around 19.44, far beneath 3/9/09's 15.59 floor during the mournful worldwide economic disaster. However, the peso recently plummeted to around 19.92 versus the dollar on 9/26/16, a cross rate about equal to twice the peso's 9.86 peak on 8/4/08. The more recent peso depreciation against the dollar preceded the advent of Trump and his rhetoric. Recall the timing of earlier peso highs at 11.48 (5/2/11; 11.53 7/7/11), 11.94 (5/9/13), and 12.82 (6/6/14).

In regard to the potential for (existence of) a Mexican economic crisis, in addition to watching Mexico's EER and cross rate against the US dollar, monitor Mexico's 10 year government note yield. Its 10 year note yield made a low around 4.45pc in early May 2013. The yield on 9/23/16 was almost 6.15pc. A decisive breach of the February 2014 yield high around 6.70pc (which is also represents about a 50pc yield increase from May 2013's yield low) alongside a slumping peso would excite many marketplace players in assorted financial arenas. Also monitor the benchmark Mexican stock marketplace ("IPC") trend. Will it slump from its bull move high to date, 8/16/16's height around 48,955? A five percent fall gives about 46,510, a ten pc drop 44,060, a 20pc slump 39,165. At the end of last week, it stood at about 47,780.]

MOST RECENT COMMODITY CURRENCY MAJOR BEAR TREND		BEAR TREND OF THE GLOBAL CRISIS ERA (2007-09)	

NORWAY

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

[Norway's August 2016 EER, 86.0, is the high since and a modest 5.9pc rally from December 2015.

Norway's EER stood at 102.4 in April 2010, just over February 2013's high. Recall that April 2011's 101.9 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 94.8 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
109.8; Feb 2013	65.5; February 2016	104.1; Nov 2008	84.5; Feb 2009
40.4pc 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).

The Russian EER's high since February 2016 is July 2016's 79.4, a 21.2pc rally (August 2016 EER is 77.9.

Like many other commodity exporter currencies, Russia's EER tumble accelerated in mid-2014, deteriorating from 104.1 in June 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 68.3 in January 2015, resumed its decline from May 2015's interim top at 91.4 (recall the S+P 500's noteworthy May 2015 high). July 2015's level was 82.7; beneath February 2009's important bottom. February 2013 is 1994-2016's all-time summit.

Although October 1994's 40.8 represents the record depth for the ruble in the BIS data series, remember January 1999's 43.5, a heartbreaking 51.9 percent crash from January 1998's 90.5 peak.]

SOUTH AFRICA

High(s)	Low(s)	High	Low
103.2; July 2011	62.4; Jan 2016	93.5; Oct 2007	71.3; Dec 2008
[Dec 2010 top 105.5]		[Oct 2007 was drop-off point, but earlier tops 106.1 Dec 2004 + 106.6 Feb 2006]	
	39.5pc decline from July 2011		23.7pc decline from Oct 2007
	[40.9pc from Dec 2010]		[32.8pc decline from Dec 2004]

[South Africa's August 2016 EER is 74.3, the high since and a 19.1 percent ascent from January 2016's floor. 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 December 2008's 71.3 support. The all-time EER high for the January 1994-present horizon is January 1994's 122.5. The January 2016 EER neighbors the all-time record low, December 2001's 60.0.]

****

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 (this pc thus does not include the fall in the Mexico EER since February). During the global crisis era, the average drop 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 worldwide economic recovery. The anxious rhetoric and fevered 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).

What's the "overall" commodity currency track record since its late 2015/1Q16 low? One can measure this in various ways. The individual percentage shifts have been diverse. Of the eight commodity currencies, seven rallied; however, the Mexico EER stumbled under its 1Q16 low. For the seven nations other than Mexico, add together the various percentage EER moves to their post 1Q16 high and then subtract Mexico's 3.8pc fall from February 2016 to its June 2016 low. The eight commodity currencies thus rallied an average of about 12.4 pc since "around" 1Q16.

****

Currency (economic; political) crises can appear or exist in countries without freely trading currencies. Note key oil exporters such as Nigeria and Venezuela.

****

The Japanese Yen's major high in its cross rate relationship against the US dollar was around Y75.4 on 10/31/11. However, its depreciation accelerated from 11/9/12's Y79.2 (note additional take-off points such as 2/25/13's Y90.9 and 4/2/13's Y92.6). The Yen's trough against the dollar since then was 6/5/15's Y125.9, a 67.0pc collapse versus its October 2011 high. The Yen recently tested the Y100 level (high Y99.0 on 6/24/16; Y99.5 on 8/16/16) but has not smashed through it.

The Yen EER established a major low at 67.9 in June 2015, rallying 24.3 percent to August 2016's 84.4.

A significant sustained Yen bull move against the dollar under Y100 (accompanied by further appreciation in the Japanese Yen's EER) may confirm weakness for many commodity currencies and warn of dangers to global GDP growth.

****

Arguably nowadays leading central banks such as the Federal Reserve, European Central Bank, Bank of England, Bank of Japan and their friends want 2016's EER bull climb in the commodity currency complex to continue (or at least not to reverse itself significantly). If commodities in general and commodity currencies in general should again begin to slide downhill substantially, that will be a warning flag for other financial marketplaces and the global economy.

A QUICK JOURNEY 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 7/18/16 low at 6.70 represents about a 10.9 percent fall from its January 2014 top.

Yet paying attention to the renminbi's decline against the dollar since January 2014 should not cause gurus to overlook the overall strength of China's currency that persisted until second half 2015. China's EER achieved a record elevation at 131.0 in both July and November 2015 (far over February 2009's 107.5 high). 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.

China's August 2016 EER is 120.9, a new low and a 7.7 percent drop since its second half 2015 highs. Compare a take-off point for its appreciation during China's incredible growth era, December 2004's EER at 81.9 (see also May 2006's 83.8); August 2016 also hovers well above November 2009's 95.6 depth. The August 2016 elevation exceeds the February 2009 high at 107.5.

China's current still relatively elevated EER suggests that China probably will continue to have trouble arresting its GDP growth slowdown. If 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. What if commodity prices fall even further relative to their June 2016 top?

The recent high in China's Shanghai Composite stock index occurred on 8/16/16 at 3140. The record S+P 500 elevation occurred 8/15/16 at 2194. Recall that the Mexican stock benchmark achieved its recent high on 8/16/16.

****