INVESTMENT NOTES - July 29th, 2019

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The USD according to media reports, was the subject of a White House meeting last week at which its future was debated. The devaluation crowd lost this round. There is nothing which would cause American and Chinese trade partners across Asia more problems than a strong dollar.

The dollar is the nuclear option in trade talks. Asian borrowers have raised around $10 trillion in USD denominated debt since the Global Financial Crisis. These borrowers, with their local currency revenues, would be at huge risk if the dollar appreciates.

Currencies have not been volatile this year and the recent breakdown in the dollar has not been followed through leaving me to believe the USD could be winding up for an upside run. A DXY over 99 will be a real problem for USD borrowers. The problem will arise when Central bank policies diverge or if global fiscal policies begin to diverge, money would flow toward the currencies where economic growth is accelerating. Draghi is pushing Germans to spend. Trump and the US Congress has packed up fiscal discipline in favor of spending into an election and China is set to renew economic growth in the second half of the year and into 2020. Therefore where the money flows is anyones guess at this moment but an important indicator.

Although we have purchased the silver mentioned last week, we are hesitating to buy stocks at these levels. Key indexes are at levels where corrections are due. The S&P 500 runs into meaningful resistance in 1-2%. The next Fed rate cut (this week) is priced in. I don't think the Fed is thinking about the economy as much as global financial stability. Therefore everything that can be done to avoid financial/economic instability will be done over the next 15 months.

Gold is moving sideways, but it is my belief that the upside is much greater than the downside. When the ECB comes out with a statement that further stimulus is needed and essentially there is no lower band for interest rates, the Fed must follow or risk a spike in the USD. Both Japan and China would also love to lower rates. The lower negative yields go, the better levels gold will see.

The ECB only worries about the financial/pension/insurance system with these negative rates and rightly so. Lagarde's problem in a recession is no tools or very few monetary tools to use to reflate the economy. Therefore will the next move by the ECB be to buy European equities like the Swiss National Bank has done? The SNB has nearly $1 trillion in liquid assets. Switzerland's economy, if not the strongest is in the top tier of Europe. Asian Central banks are already buying stocks in large amounts like the SNB- I believe it is only a matter of time before the ECB does as well. The lower yields go, the sooner the buying program will start.