



Dollar Index

The Dollar Index stabilized during 2018, recovered its 2016/2017 lows and resumed an up trend above all major moving averages. In my opinion, this is the dollar recovering from the effects of President Trump and Treasury Secretary Mnuchin. I believe they were aware their policies would be positive for the U.S. economy, positive U.S. yields, and positive for the dollar. They tried to get ahead of it with “weak dollar” rhetoric. FX markets chose to respect the new Administration.

The U.S. is experiencing enough economic strength and inflation fear to march yields higher. The 20-year monthly DXY chart below shows the dollar holding 100 and 200-month moving average support and recovering. I will be operating under the terms that dollar strength will persist through year-end.





Non-Yielding Assets

USDJPY is an appealing chart pattern and fundamental setup. Given the BOJ's posture of "balance sheet expansion and securities purchases ad infinitum" and a long-term demographics issue, it's easy to be short, and bet against Japan.

The chart below INVERTS USD/JPY in white and overlays the gold price in gold. As you can see, non-yielding assets and currencies perform alike. Given gold's third failure at \$1400 in the span of 2 years, I expect an imminent attack on gold's ascending trend line. I think money will be better treated in crypto currencies over the next few decades.

There, I said it.





Unrepentant Oil Bull

My original bullish thesis was based on 1) Saudi Arabia's effect on the oil market ahead of the Aramco IPO, 2) OPEC compliance (94% in February) to production cuts; 3) U.S. inventories draining as a result; 4) spreads tightening as a result; 5) attracting more investment as a result; and then 6) the reverse head and shoulders technical base that formed from 2015 through 2017.

The first WTI chart illustrates my target in WTI crude oil around \$84. That target is derived from measuring the move from the head to the neckline and projecting it forward. The second chart illustrates the forward curve tightening as the DEC18/DEC19 spread migrates from \$2 contango to \$6.50 backwardation.

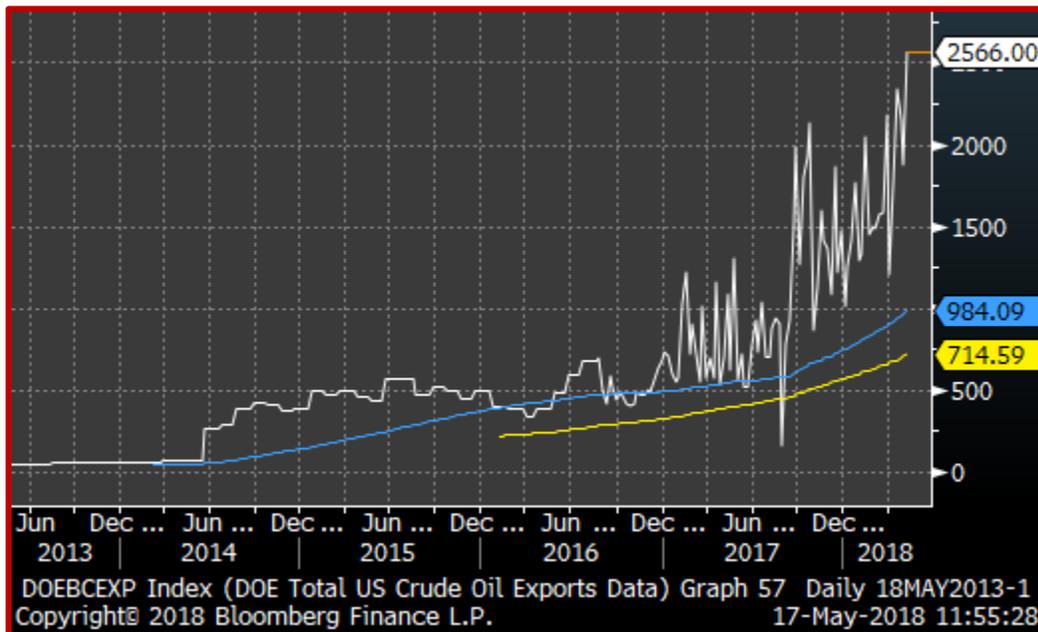




U.S. Crude Oil Exports

As we lifted the export ban December 2015 – the U.S. began exporting crude around the world. Asia & Latin American demand hit an all-time high in May as seen in the top chart.

The Swap Dealer Position is shown on the second chart. As the export ban was lifted, and production expanded, a record amount of forward production has already been sold (hedged) by swap dealers. Producers with high production costs are hedging forward production at a record pace to pay off their loans.





Submerging Markets

With a bullish dollar view I have a concurrent view that EEM, the emerging markets etf is in danger of mean reverting. Across the same span of time, it's easy to observe how EEM's success was based on a strong/consolidating JP Morgan Emerging Market Currency index. Now that the consolidation within a larger downtrend ended, I expect the down trend to resume at a ferocious pace.

If that happens, I could see a 50% retracement in EEM to the \$40.00 area.





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