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Washington

September 16, 2020



# What's with the Weak USD?

Currency Influencers | Sept 2020

**Our Xe Team Has Your Currency Concerns Covered.**



*In partnership Association for Financial Professionals*

# Messages of the U.S. Dollar's Demise are Everywhere

## Bloomberg Opinion

### A Crash in the Dollar Is Coming

"The world is having serious doubts about the once widely accepted presumption of American exceptionalism."

## FINANCIAL TIMES

Mounting risks in US will weigh on the dollar, analysts predict

Aggressive monetary policy, combined with political risk, point to a weaker currency

## THE WALL STREET JOURNAL.

### Gold Prices Hit Record as Dollar Drops

Weakening dollar adds momentum to gold's summer surge, propelling metal above 2011 intraday peak



Weaker USD to reverse Asia's capital outflows: Credit Suisse

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Microsoft News > Filipe Pa...



USD Weaker On The Day As It Tracks The Market's Moderating Risk Tone

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Vimeo > Trading Media Ltd



Barclays: Generalized Consensus on Weaker Dollar 'Overdone'

2 weeks ago  
Bloomberg.com



Weaker USD to reverse Asia's capital outflows: Credit Suisse

2 months ago  
CNBC > CNBC Asia Source



USD mildly weaker, but will the sell off continue after today's FOMC meeting Vid...

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USD/CAD Daily Forecast – Weaker Oil Puts Pressure On The Canadian Dollar

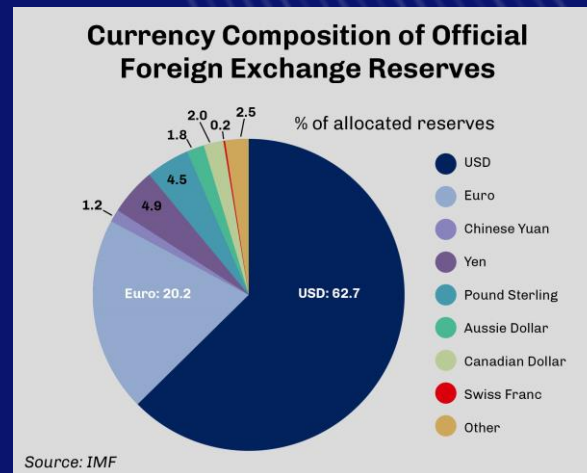
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# Let's Understand How the USD Got Here

Gold Standard	WWI, Great Depression, WWII	Bretton Woods Agreement	EuroDollar Market Evolves	Free-Floating Exchange Rates
<p><b>Pre-WWI</b></p> <p>Countries defined monetary units by specific quantity of gold</p> <p>December 23, 1913 US Federal Reserve created</p> <p><b>Free conversion between paper money and gold</b></p>	<p><b>1917 - 1944</b></p> <p>Wars and depression left some economies weakened while others boomed</p> <p>Germany, UK, France, Italy and other countries were decimated</p> <p>European countries begin abandoning gold standard in effort to weaken currencies</p> <p><b>The United States was in the best economic position at the end of WWII</b></p>	<p><b>July 1944</b></p> <p>Allied governments wished to avoid the economic mistakes of 1920's &amp; 1930's</p> <p>Step 1 was to re-construct the global monetary system</p> <ul style="list-style-type: none"> <li>Adjustable Peg introduced</li> <li>IMF &amp; World Bank created</li> </ul> <p><b>National currency values were tied to gold but the system hinges on the USD's convertibility into gold at \$35/oz with a +/- 1% band</b></p> <p>Example: GBP-USD traded at 1£ = \$2.80 from 1947 - 1967</p>	<p><b>1945 - Today</b></p> <p>Commodity markets begin being priced in USD winning out over the Russian ruble (RUB)</p> <p>Soviet Union amassed large USD reserves but worried that, as Cold-War escalated, that the US could confiscate funds</p> <p>USD deposits are moved to European banks that then placed funds on deposit with U.S. banks</p> <p><b>Created the off-shore USD market further establishing USD as primary global currency</b></p>	<p><b>1971 - Today</b></p> <p>W. Germany and Japan rapidly evolve</p> <p>Trade deficits and Vietnam War's debts lead capital outflows of USD selling for gold, triggering the "<b>Nixon Shock</b>" in August 1971 abandoning \$35 gold peg</p> <p>Dec 1971 G-10 nations devalue USD to \$38/oz and other currencies revalue 10%</p> <p>This doesn't last. By October 1973 selling pressures lead US to abandon gold standard peg. Other nations follow.</p> <p><b>Freely traded flat-rate currencies are born!</b></p>

# The USD's Current Role in the World

- USD most important currency since WWII
- USD dominant trade and finance currency
- USD comprises 62% of global central bank reserves
  - EUR is next at 20%; Japan 6%; UK Pound at 5%
  - Chinese yuan still only 2% of global reserves
- Emerging Markets primarily USD-funded
- USD still primary safe-haven currency
- Long-viewed as “exorbitant privilege” currency



# A look at USD Cycles

## USD Cycles the last 45 years

- USD cycles tend to average 6-7 years with a +/- 34% change in value
- **1980-85:** Paul Volcker's high interest rates trigger a bull-run... and recession
- **1985: Plaza Accord** – Ronald Reagan orchestrates -50% devaluation vs JPY and DEM and 10-year bear cycle
- **1995-2002:** Robert Rubin's "Strong Dollar" policy leads to 7-year bull run
- **2002-2011:** ballooning US trade deficits weaken USD -40% in bear cycle (with GFC safe-have hiccup)
- **2011-2017 and 2018-2020:** global low interest rates and strong US recovery propel equity rally strengthening the USD on MPK (Marginal Propensity of Capital)



# What's happened in 2020?



- **"Risk-on" returned!** USD highly correlated to U.S. equity market returns – nothing else has mattered!
- **"Safe-haven/Risk-Off"** peaked on March 23rd
- **Historic** economic data shocks
- **Massive fiscal and monetary stimulus** responses (Modern Monetary Theory)
- **USD safe-haven being unwound** as economic data improves

# Looking Forward: Drivers of USD Weakness

## Short-term drivers of USD weakness

- FED's landmark inflation policy change
- Concentration Risk in US assets
- Loss of interest advantage
- Risk-On correlation starting to crack
- Portfolio re-allocations shifting out of USD assets with EU bond deal
- US Presidential election uncertainty
- Covid-19 differentials

## Keys to a Long-term Cycle-change for the USD

- US growth projections must lag rest of world
- Substantial interest rate differentials
- ***Rising US twin deficits***
- High global trade and manufacturing growth
- Money being put to work in ROW





# What are the Doomsayer's Projecting?

How long do currencies tend to stay in power? "Recent" history shows about 94 years!

Portugal	Spain	Dutch	French	British	United States
1450 - 1530	1530 - 1641	1641 - 1720	1720 - 1815	1815 - 1920	1920 - Today
Age of Discovery	Spanish Influence	Dutch India Trading Co.	Napolean / French era	British East India Co	American era
<b>80 years</b>	<b>111 years</b>	<b>78 years</b>	<b>95 years</b>	<b>105 years</b>	<b>100 years</b> Will it collapse?

Other projections to replace the USD?

- China? Overtures with Russia, Digital CNY and Belt & Road Initiative ... but not yet. China's markets aren't big and deep enough, the CNY is not fully convertible and global markets don't fully trust the legal system.
- Crypto-currency? Not very likely as a global reserve currency -- central banks can't control it.
- Return to the **Gold Standard**? Not with Modern Monetary Theory in place!



## **Conclusion: The USD is here to stay (for now!)**

- With global central banks all aligned, the United States' fiscal and monetary responses are not really outliers
- The current -10% USD move since March 2020 is still relatively small -- only -24% still to go to be a long-term cycle
- The EUR will remain #2 – Europe has many of the same issues as the US
- The USD remains the global Safe Haven currency in a crisis

**It seems for the near future, the USD will remain the “King Dollar”**



A man in a red shirt is standing by a large window in an office, looking out. The scene is overlaid with a semi-transparent blue filter and white decorative lines. The text 'Questions?' is prominently displayed in the center, with a stylized 'xe' logo to its right.

Questions? xe



Thank you for attending today's  
webinar

Next Meeting October 21, 2020



**Thank You.**

**North America:**

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