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The Final Question

The dollar is not in a bull market because of faith and confidence in the Biden Administration. There is a vast amount of foreign borrowing in dollars and that even includes Evergrande. This amounts to a huge short position on the dollar in the FX markets.

Dollar bond issuance by non-US companies has dominated foreign borrowing since the global crisis of 2007-2009 as many issued dollars debt to take advantage of the cheap interest rates. In many emerging markets, higher leverage and FOREX spreads have increased the risk of corporate insolvencies and created new threats to the balance sheets of local banks.

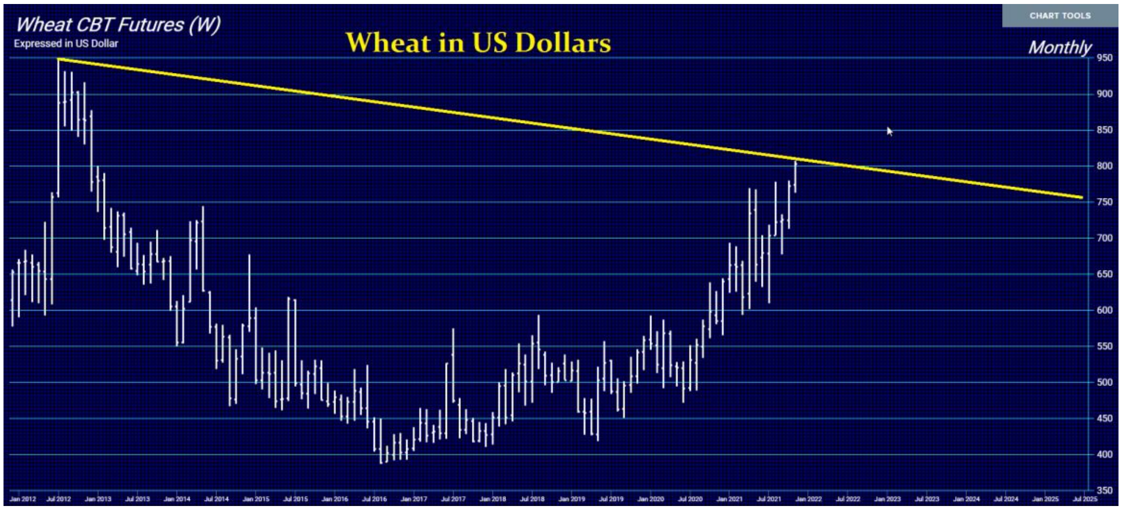
The financial risks created by this same old pitch by bankers to borrowing in foreign currencies to save interest have always blown up as in Australia when they borrowed in Swiss francs, and more recently when they sold Swiss mortgage-based loans throughout Europe prior to the collapse in the peg. China did warn its companies and local governments that they were taking on risk borrowing in dollars but nobody seemed to listen.

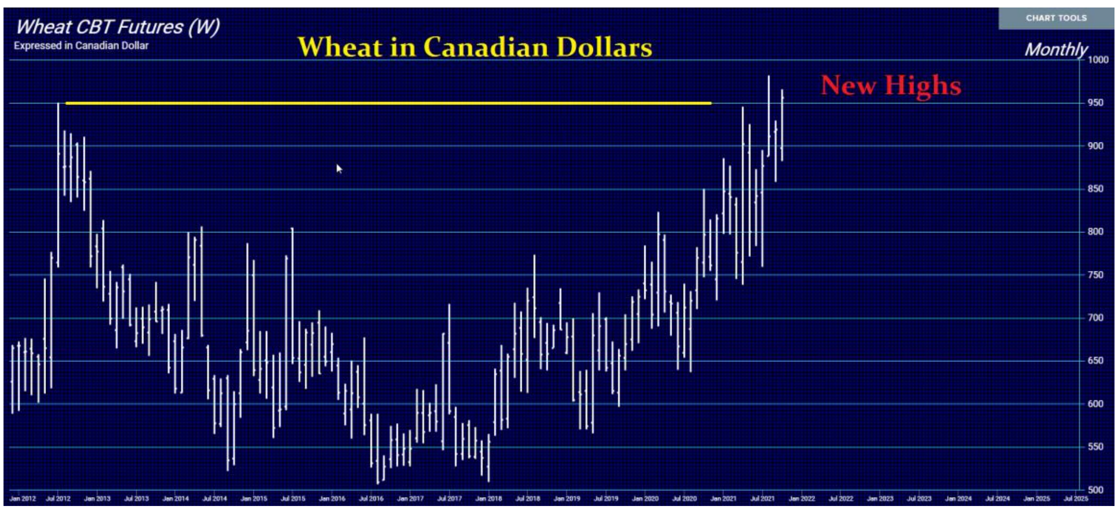
Of course, governments then step in with regulation that has only complicated matters and created financial fragilities have added to demands for fiscal stimulus. This led some emerging market central banks to ease monetary policy by buying government bonds, creating new links with fiscal policy. The entire global financial market is walking on hot coals.

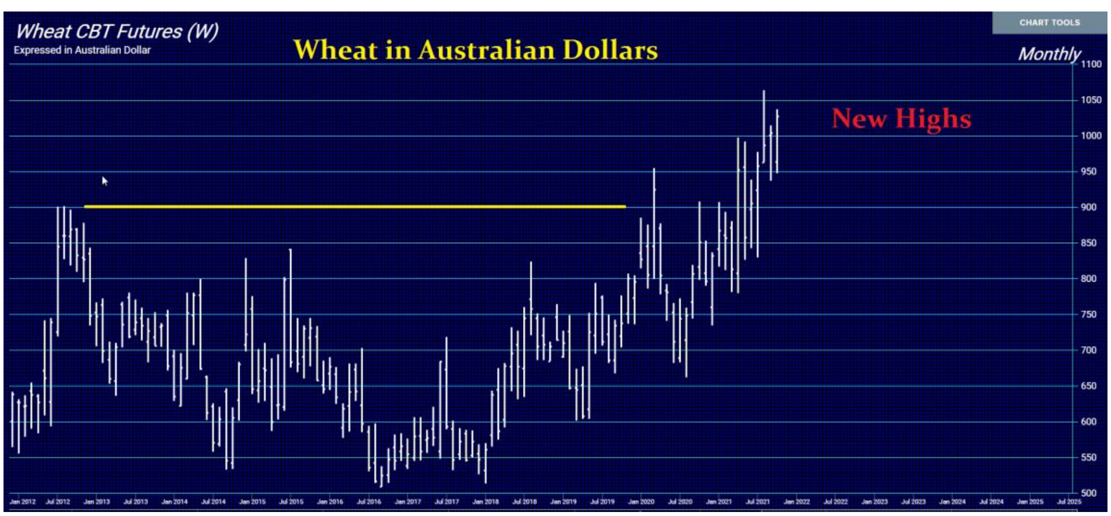
So, the strength in the dollar is not due to any confidence in the Biden Administration but due to the fact that we are looking at the largest currency short in modern history.

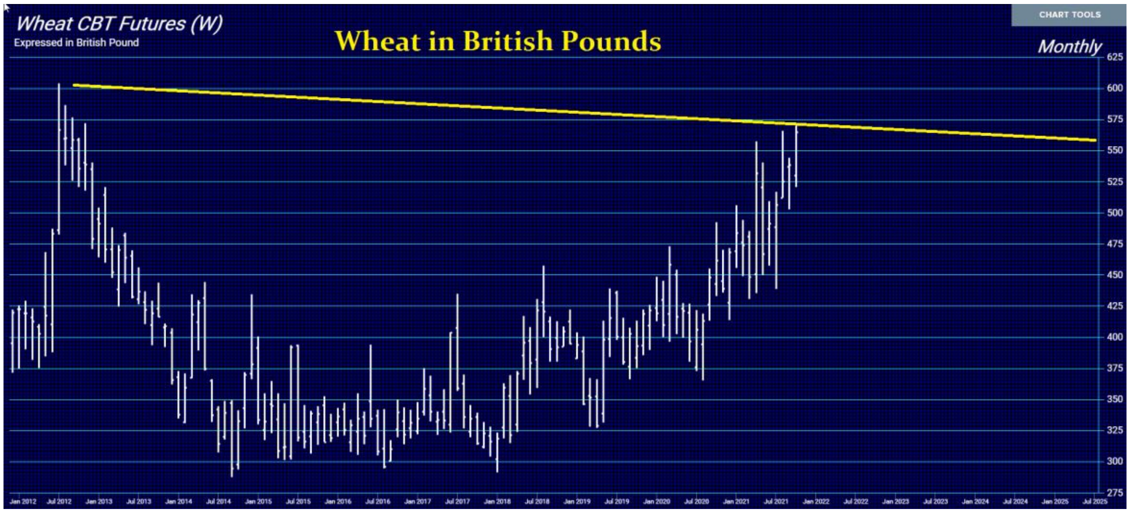
Then There Is INFLATION

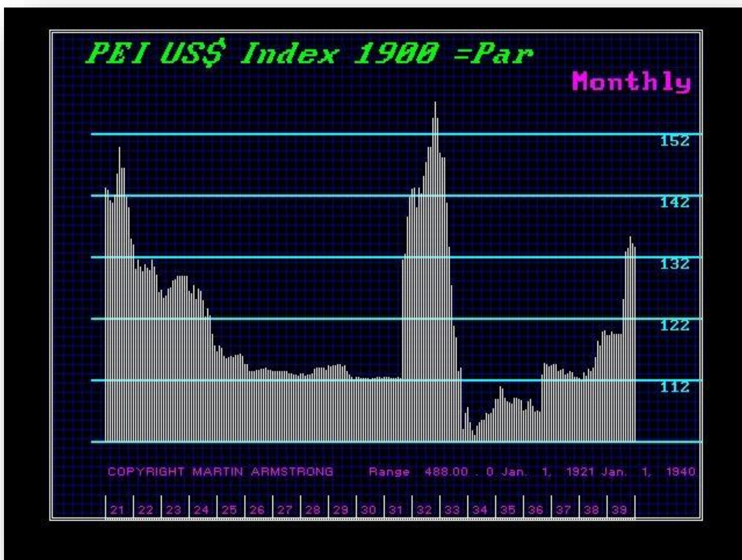
Because commodities are priced in dollars, we have introduced a third element to this chaos – shortages & inflation. Since the commodities are priced in dollars, those countries where their currency is falling sharply against the greenback, will experience inflation on steroids. This will only further put pressure on their currencies and this will further add to the dollar short pressure.


Wheat CBT Futures (W)
Expressed in US Dollar
Wheat in US Dollars
CHART TOOLS
Monthly


Wheat CBT Futures (W)
Expressed in Canadian Dollar
Wheat in Canadian Dollars
CHART TOOLS
Monthly
New Highs


Wheat CBT Futures (W)
Expressed in Australian Dollar
Wheat in Australian Dollars
CHART TOOLS
Monthly
New Highs





Consequently, Despite the collapse in confidence with respect to the Hoover administration during the Great Depression, the collapse in confidence was far greater externally to the United States and the capital flowed poured into the USA which then led to the history high for the dollar that provided the reason for FDR's confiscation of gold so he would devalue the dollar against gold from $20.67 to $35. Hence, the dollar can rise because of capital flows shifting from public to private on a global scale into dollar-based assets.