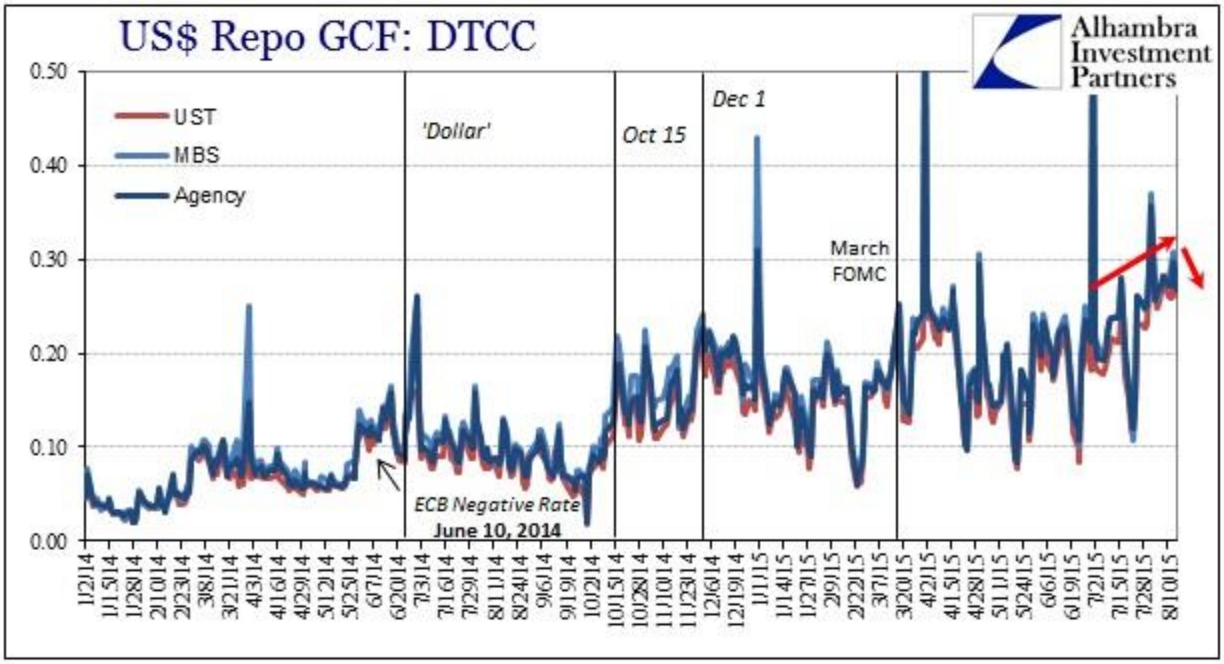
MONTHLY CHART REVIEW

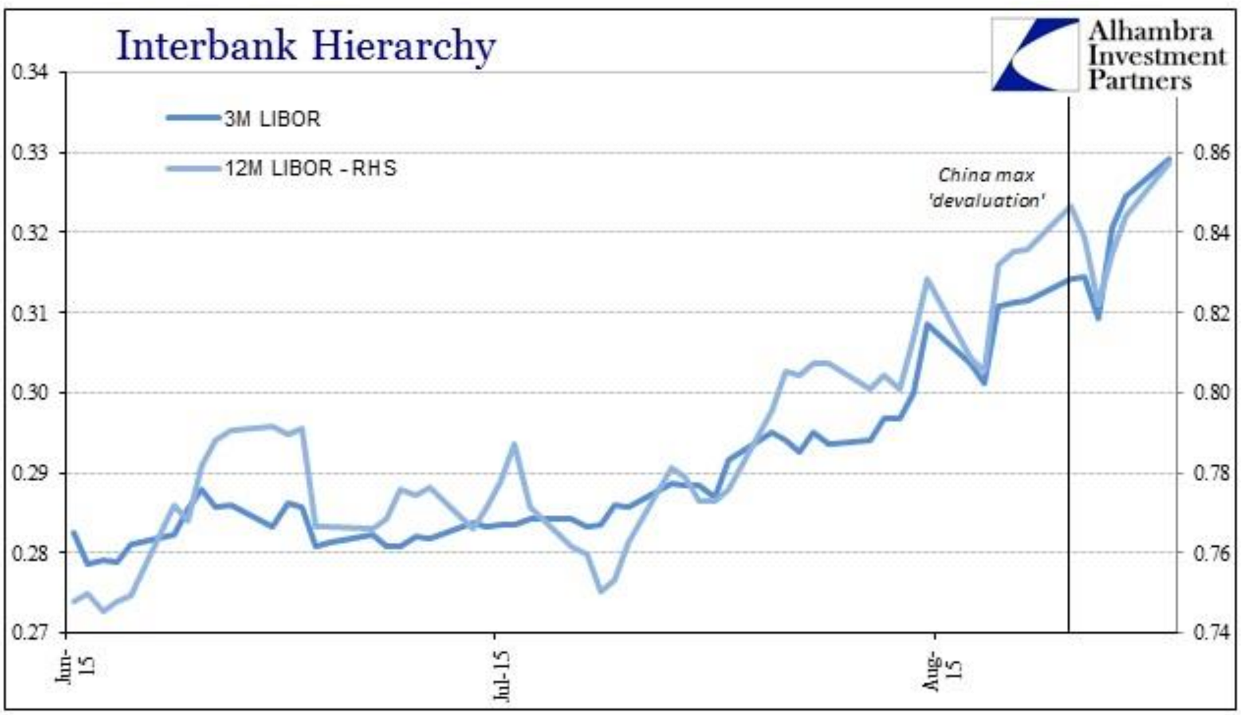
GLOBAL 'DOLLAR' RUN

What just happened and why; what that might mean next

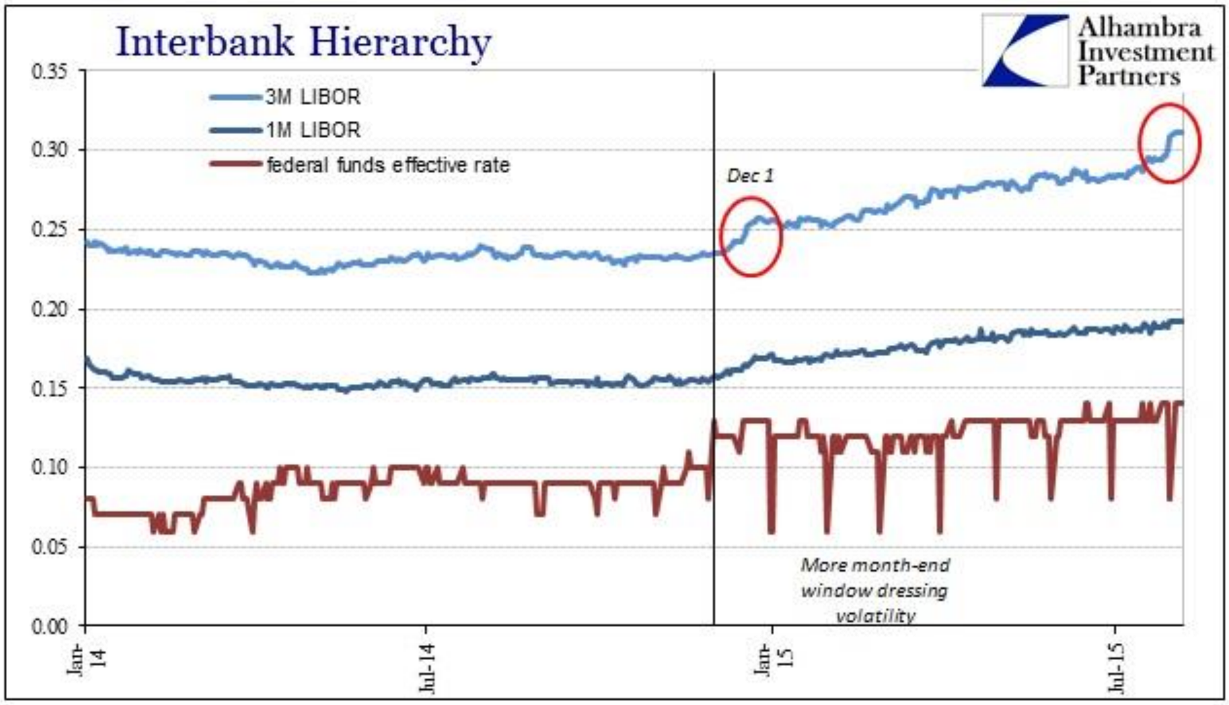
Mainstream commentary continues to focus on China as 'devaluing' the yuan, as if some kind of monetary 'stimulus.' The fact that the yuan was doing increasingly nothing more than suggested financial and funding issues related to the 'dollar' short



In the weeks leading up to the PBOC's break, repo rates (for 'dollars') had been steadily and unusually rising – reaching a three-year high just as the PBOC was forced out of its hidden 'dollar' supply efforts (selling UST)

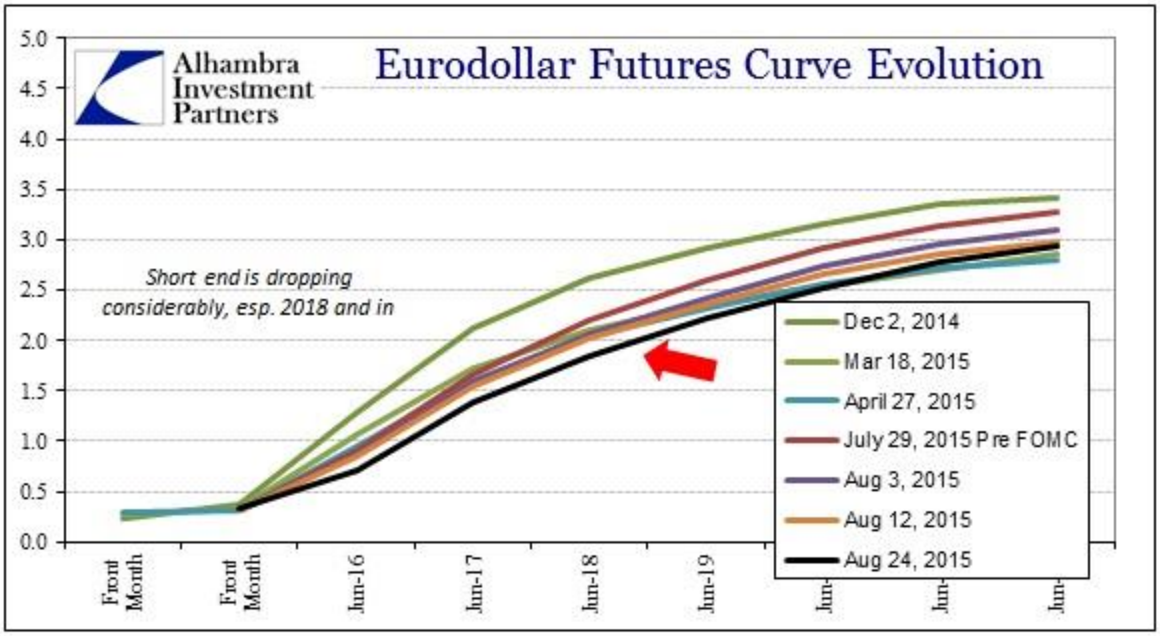


LIBOR rates (eurodollars) had also suddenly achieved a sharp upward trajectory beyond just the outer maturities. 3M LIBOR spiked 3 bps in a matter of a few weeks before the PBOC move, having risen the same amount over five months prior.

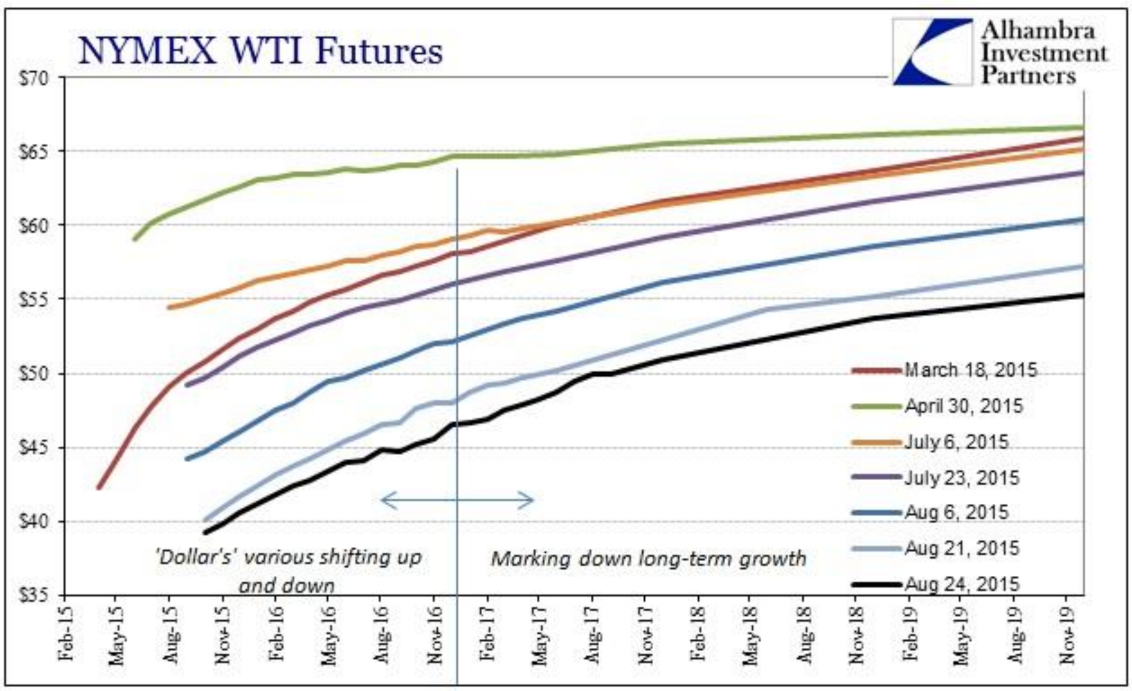


Even the nearly dead federal funds market was into illiquidity, as the effective federal funds rate moved to 15 bps also for the first time in three years.

This increasing 'dollar' tension was in certain places becoming almost as severe as the 'dollar' trouble in 2011



The eurodollar futures curve, one expression of the global eurodollar condition, had continued steady flattening right up and into the stock market crash on August 24.



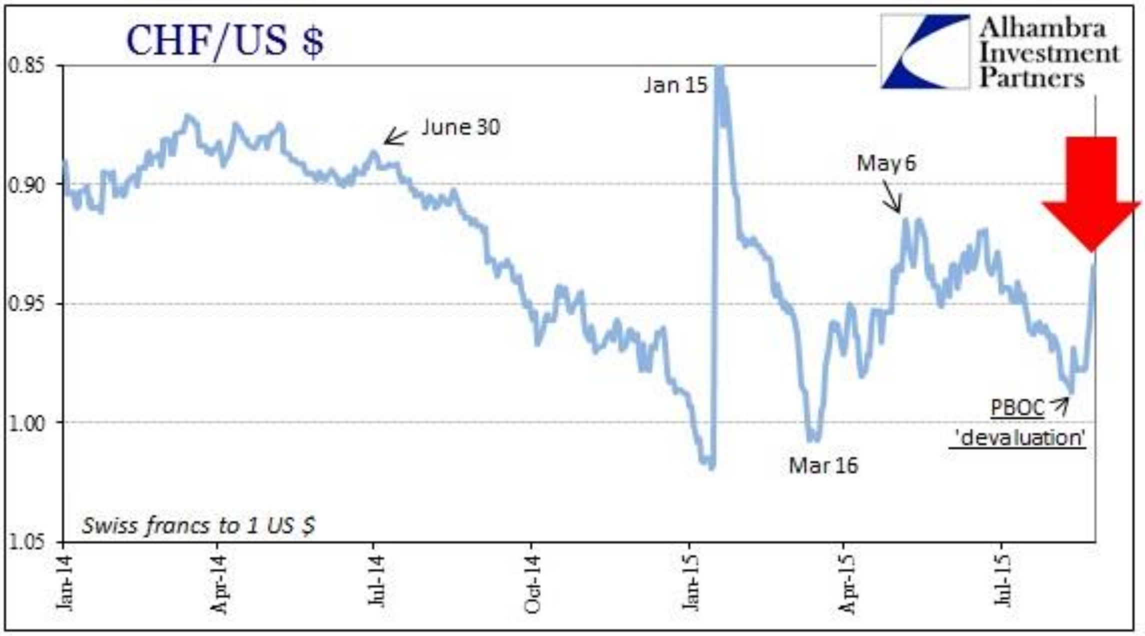
That 'dollar' run prompted immense commodity pressure under general liquidation terms; the entire WTI curve was sold off even in the outer maturities that had resisted under the first 'dollar' disruption to March.

Copper too, again 'dollar' liquidations; front month was taken down to $2.205 at the worst point on Aug 24.

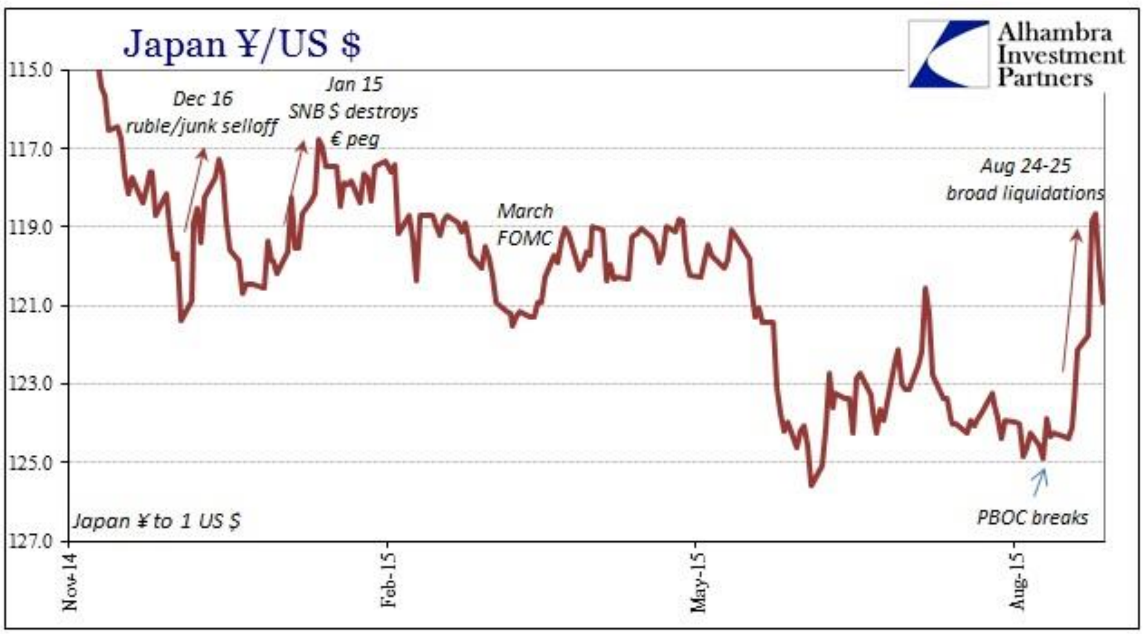
Currencies totally dependent on 'dollar' funding, those wholesale 'dollar' shorts, were completely battered before and after the PBOC's break. Ruble found a new crisis low on Aug 24.

Brazilian real with huge 'dollar' short exposure.

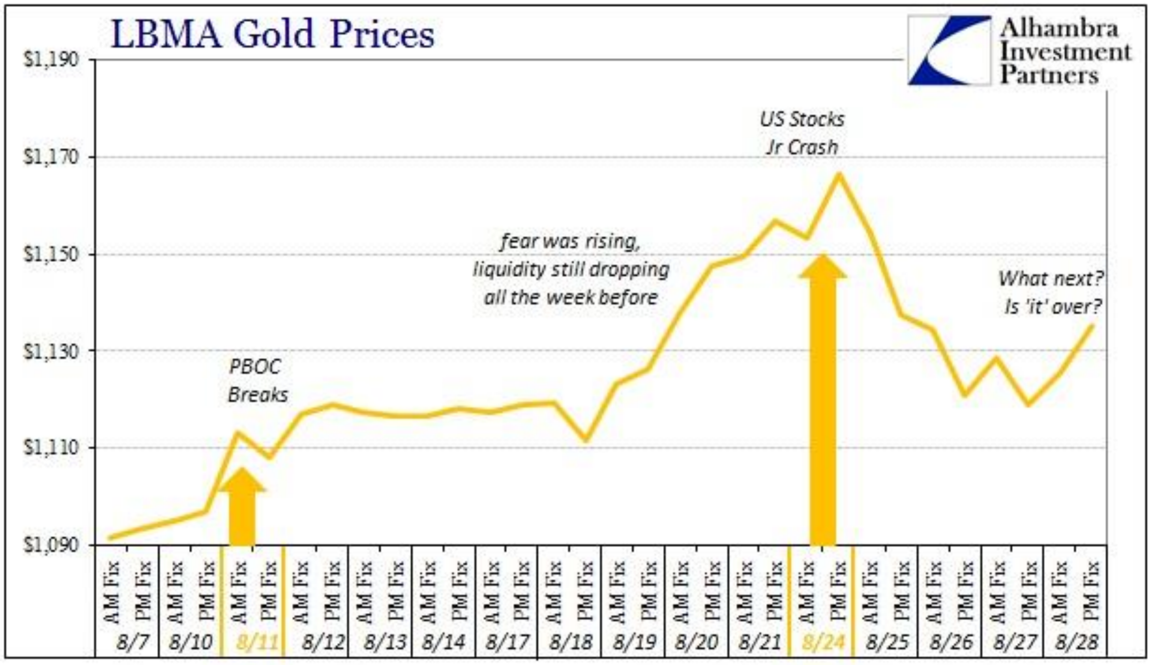
Even the Indian rupee, which had been seemingly calm after its 'dollar' run in 2013, has been caught up in the 'dollar's' downdraft, again, both before and after the PBOC.



The Swiss franc was a notable exception, as it had been performing like prior 'dollar' episodes (devaluing under short pressure) suddenly turning once the PBOC was forced into the open. That seemingly interjected fear (to reverse as it did suggests as much) since the 'dollar' run could break the PBOC.

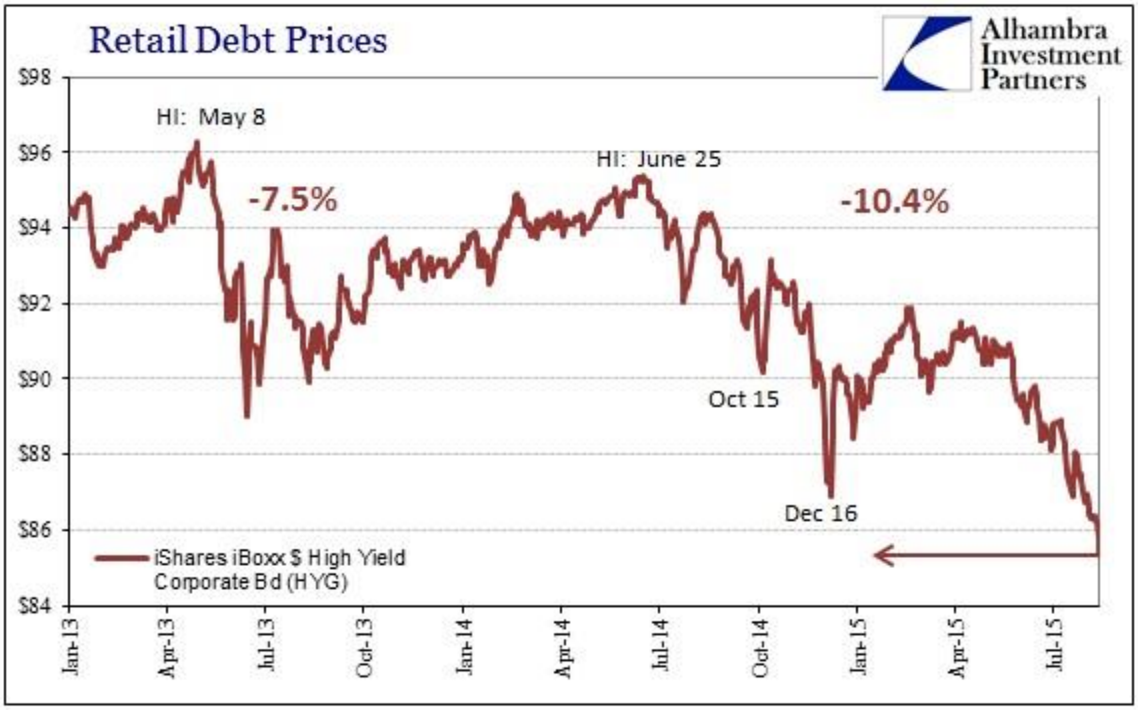


That counter 'fear' trading extended to the yen. That is a substantial development as the yen was afforded 'safe haven' against dollar assets quite against conventional views on US market safety and relative assurance.



Gold, too, was reversed into clearly a safety bid. It was a warning that illiquidity had spread and that it was accompanied by general fear before the market crashed on Aug 24.

Junk debt parts of the corporate credit bubble have tracked closely these ‘dollar’ waves. New lows on junk prices which brings closer the greater reinforcing disruption once leverage becomes threatened by changing risk perceptions (which is just another expression in and of the ‘dollar’ since June 2014)

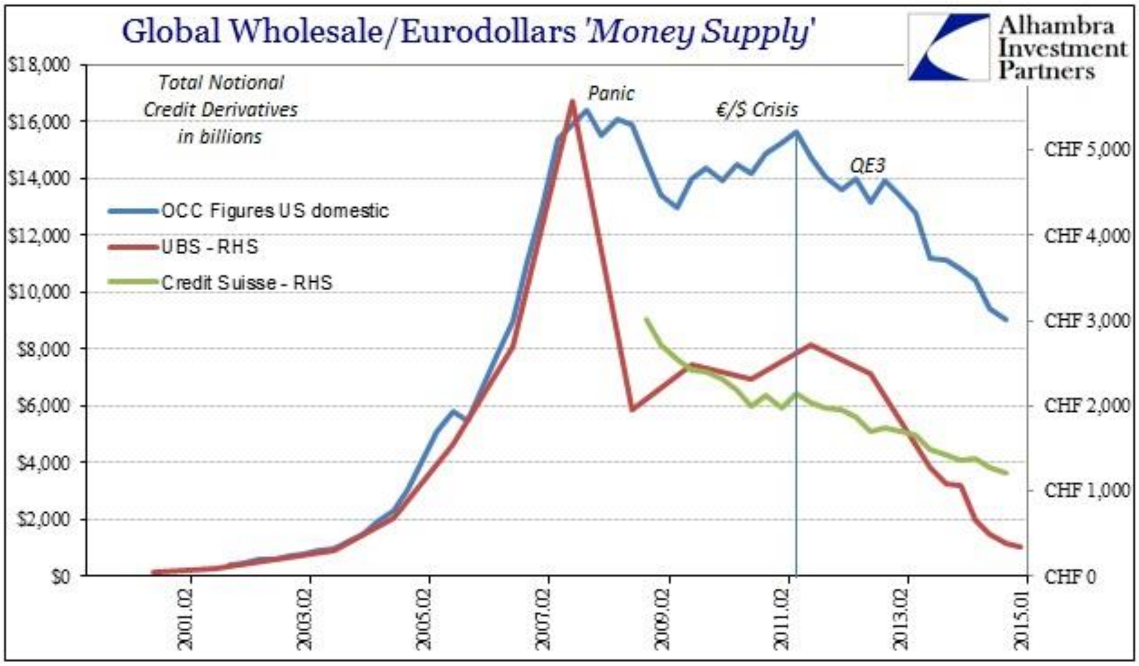


Retail Debt Prices
Alhambra Investment Partners
HI: May 8
-7.5%
HI: June 25
-10.4%
Oct 15
Dec 16
iShares iBoxx $ High Yield Corporate Bd (HYG)
$98
$96
$94
$92
$90
$88
$86
$84
Jan-13
Apr-13
Jul-13
Oct-13
Jan-14
Apr-14
Jul-14
Oct-14
Jan-15
Apr-15
Jul-15

I presented this chart on July 22, writing:

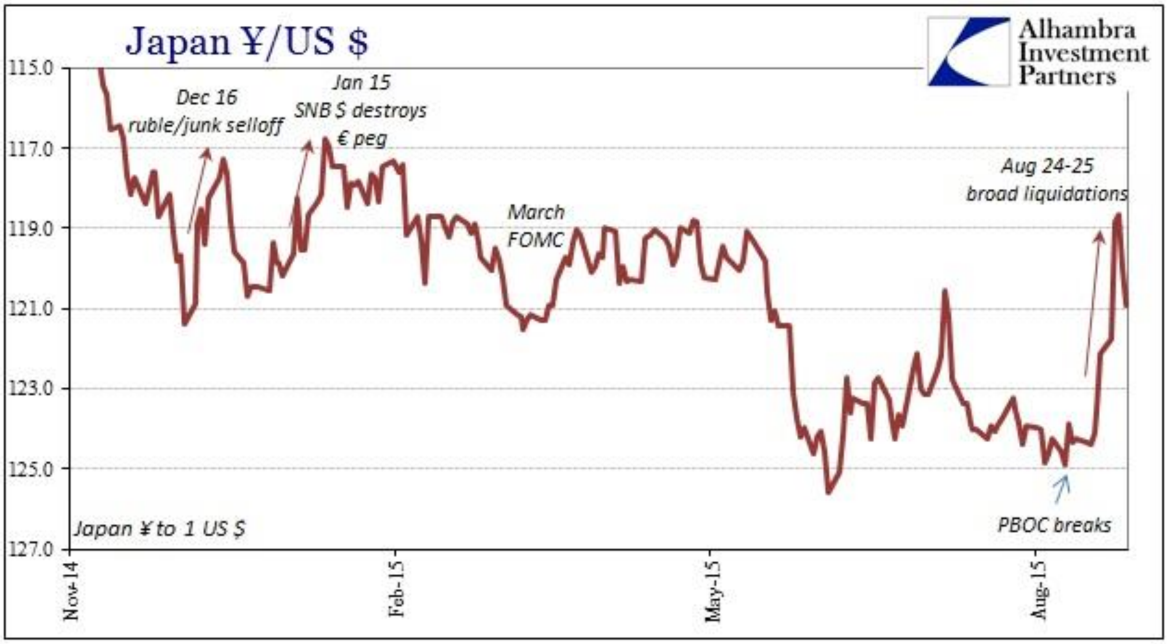
"The yuan has suddenly, right at the March FOMC meeting, gone limp. Trading has been confined, except for very brief, intraday outbursts, to an increasingly narrow range. Given its behavior particularly as a full part of the reform agenda to that point, this amounts to what can only be hidden and *inorganic* factors. Whether that means PBOC intervention is unclear, though suggested by even TIC, but this is the most important and unexplained dynamic in the "dollar" world at present."

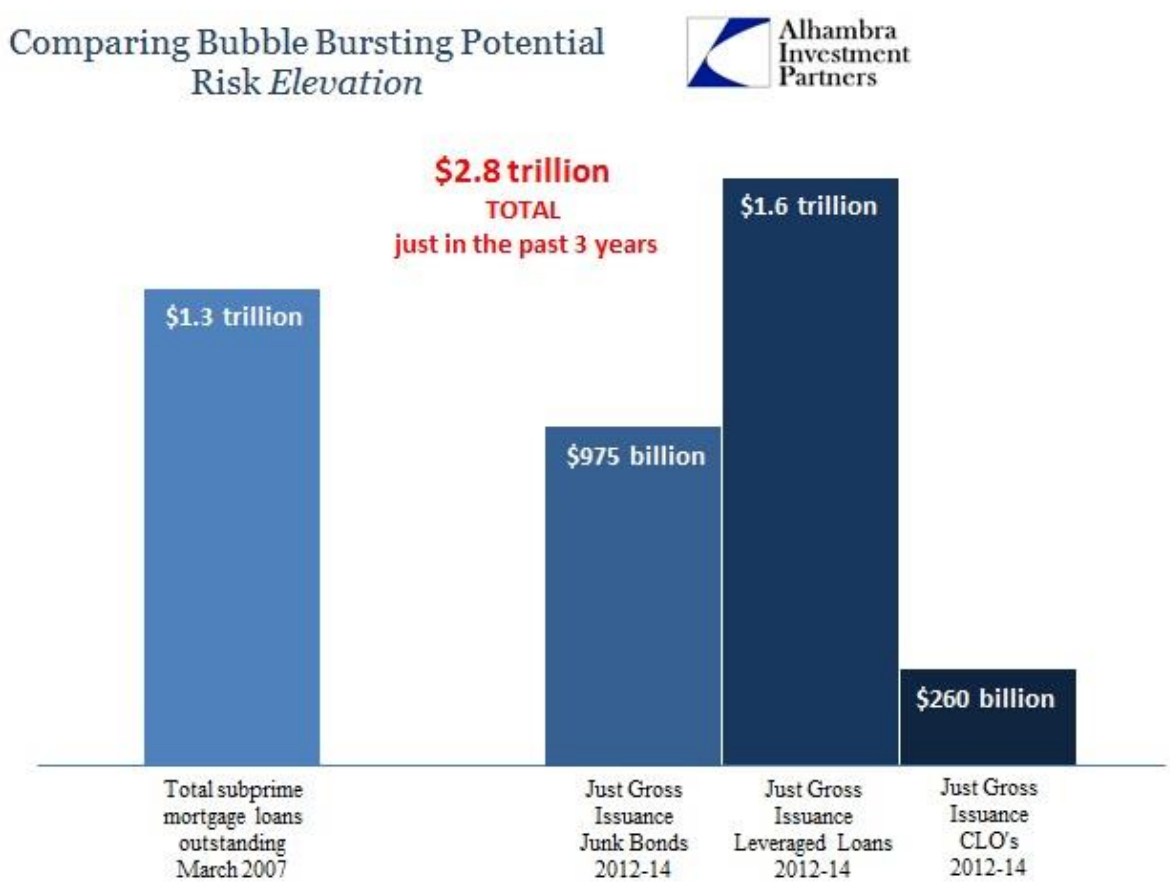
In other words, again, it was the PBOC trying to hide its participation against the gathering 'dollar' run. All signs indicated as much prior, and have been confirmed by everything since (including the PBOC's desperate attempt at internal-yuan liquidity tied to its 'dollar' activities).



It's a eurodollar world.

For a brief moment, even stocks couldn't ignore it.

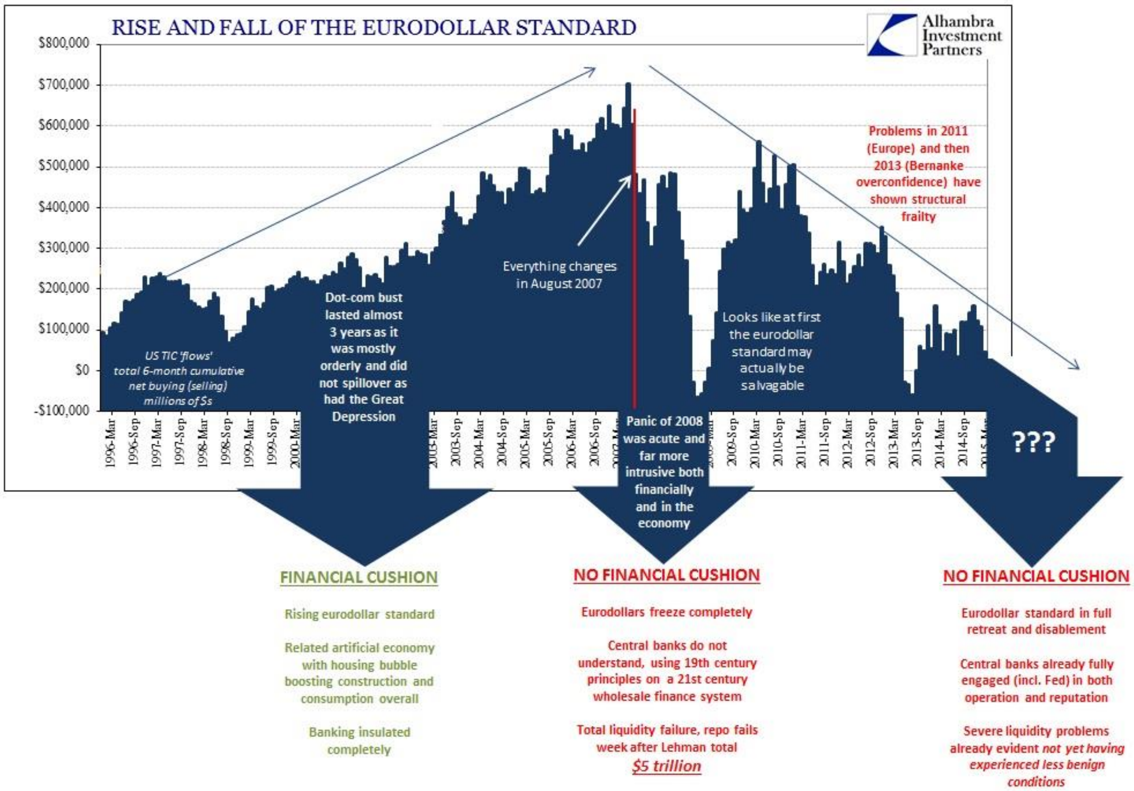




One reason for that may be Japan and the mythical 'carry trade.' Notice the yen's 'safety' bid on December 16 as that was one endpoint of the prior selloff in junk debt. The link is then obvious as suggesting the 'carry trade' as one of the primary participants in the 'reach for yield' corporate bubble.

Thus, thinking ahead to the next possible pathology, 'dollar' liquidity strains corporate debt pricing, interrupts JPY as safety counter to 'dollar' which correlates strongly with stock prices. So the greater the junk reversal, the more intense the JPY the more involvement of stocks. That seems to be the case ultimately of Aug 24 (though I am not suggesting the stock liquidation was totally from yen carry, only that it was likely amplified).

The bubble potential in that regard or possible channel for reversal remains immense and quite unsteady, which is what this latest 'dollar' episode really means.



As long as the wholesale eurodollar standard continues to retreat, 'this' isn't over. These are a continuing series of warnings that the governing disturbance is getting more unstable with time.