

The End of a 3 Year Shortage of US Dollars

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Among the seven macroeconomic rules selected by TrackMacro to anticipate equity risks, world liquidity in USD is the only monetary rule. TrackMacro analyses the US monetary mass (M2), as well as the US dollars deposited at the Federal Reserve by foreign central banks. The objective is to measure whether the amount of dollars in the world is high, about right, or too low.

The world has suffered from a shortage of dollars from the end of May 2014 to the end of April 2017, according to TrackMacro. Insufficient liquidity can weigh on various economic and financial factors and trigger an upward pressure on the USD, difficulties in funding the expansion of world trade, as well as the service or reimbursement of international debts in dollars. World equities tend to suffer in such an environment, especially non-US domestic assets.

**TrackMacro™ is a software tool
providing equity risk signals in 40
countries**

Throughout this recent 3Y period, the USD rose +7.3% p.a., the MSCI world resisted well and gained +5.8% p.a., but the MSCI Emerging Markets stagnated, posting a mere +1% p.a.

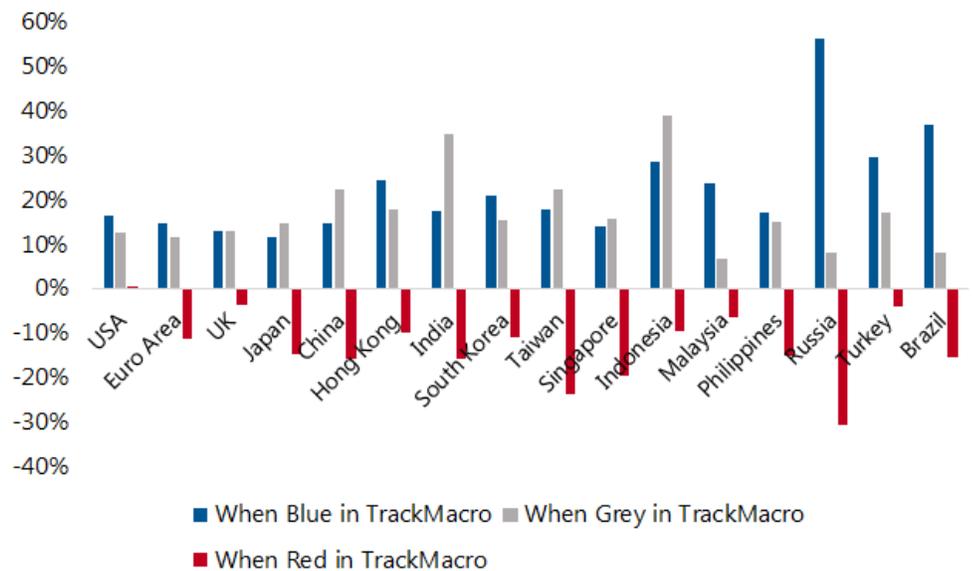
The USD shortage has now been over for three months in a row according to TrackMacro, and the flipping of this rule into positive territory should have favorable consequences on risk assets.

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Improvement on the liquidity front accompanies an anticipated resurgence of world trade, following a potential weakness in Q2, which was officially confirmed by the CPB Netherlands Bureau for Economic Policy Analysis for the month of April (the YoY world trade in volume decelerated from +6.2% in March to +3.4% in April). Abundant liquidity should now favor lagging markets such as Europe, or Emerging markets, in the foreseeable future.

The following chart illustrates the statistical influence of the liquidity rule in isolation, within TrackMacro.

Fig1. Equity Indices’ Annual Returns in Local Currencies, as a Function of World Liquidity, measured by TrackMacro



Source: TrackMacro, Bloomberg data, longest available historical period by country, ranging from 31/12/1960 for the USA to 31/12/2000 for Turkey

The liquidity rule’s switch from red to blue, as expressed since the end of April, is one that has historically produced a universally positive influence on equity returns. The world ex-USA has benefitted the most from this rule in the last 50 years.