

Precious Metals Summit: A Conversation on Gold

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A key factor: the US dollar

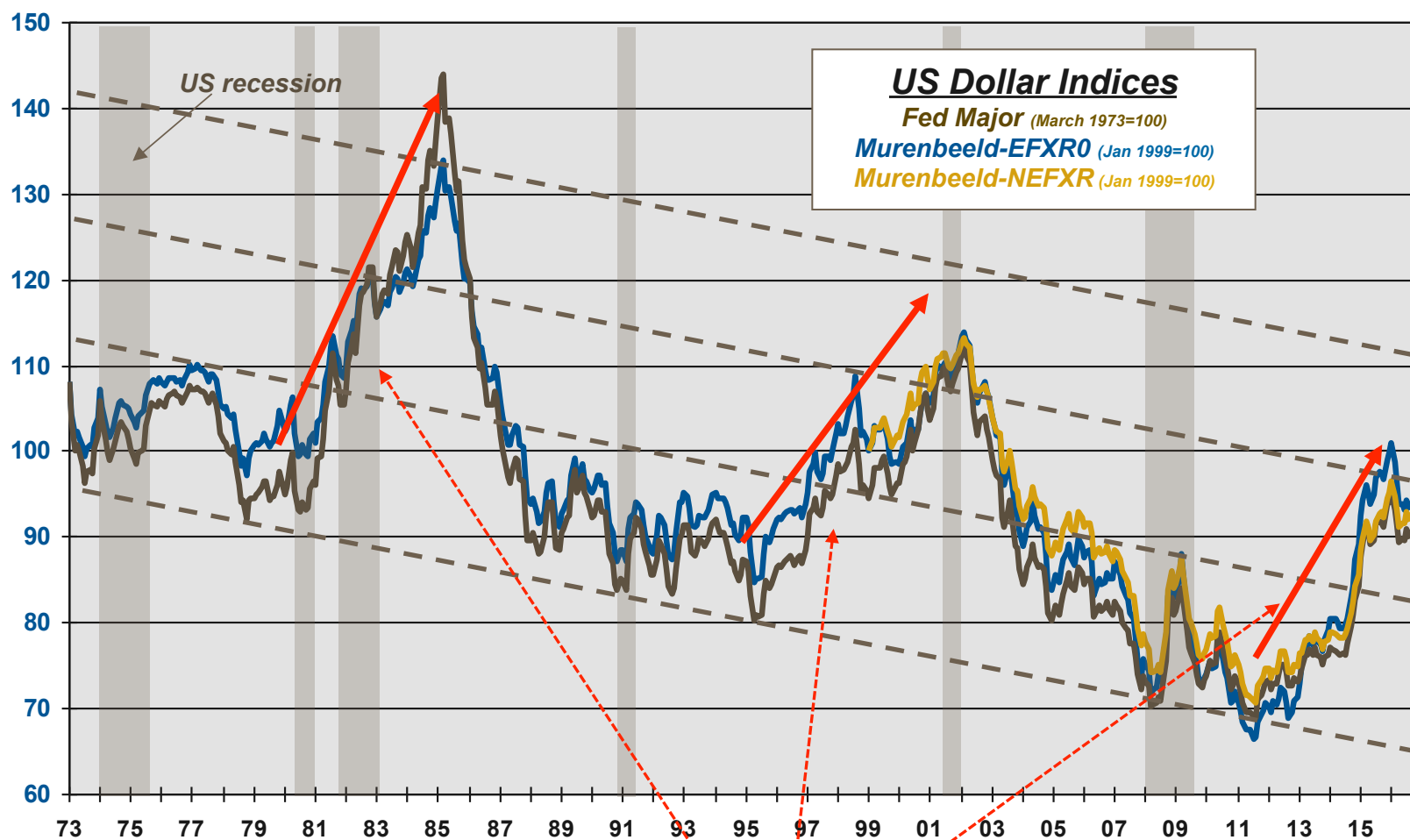


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ECONOMICS™

Dr. Martin Murenbeeld
September 15, 2016

The Dollar is Very Important for Gold

Periodic dollar uptrends are hard on gold ...!

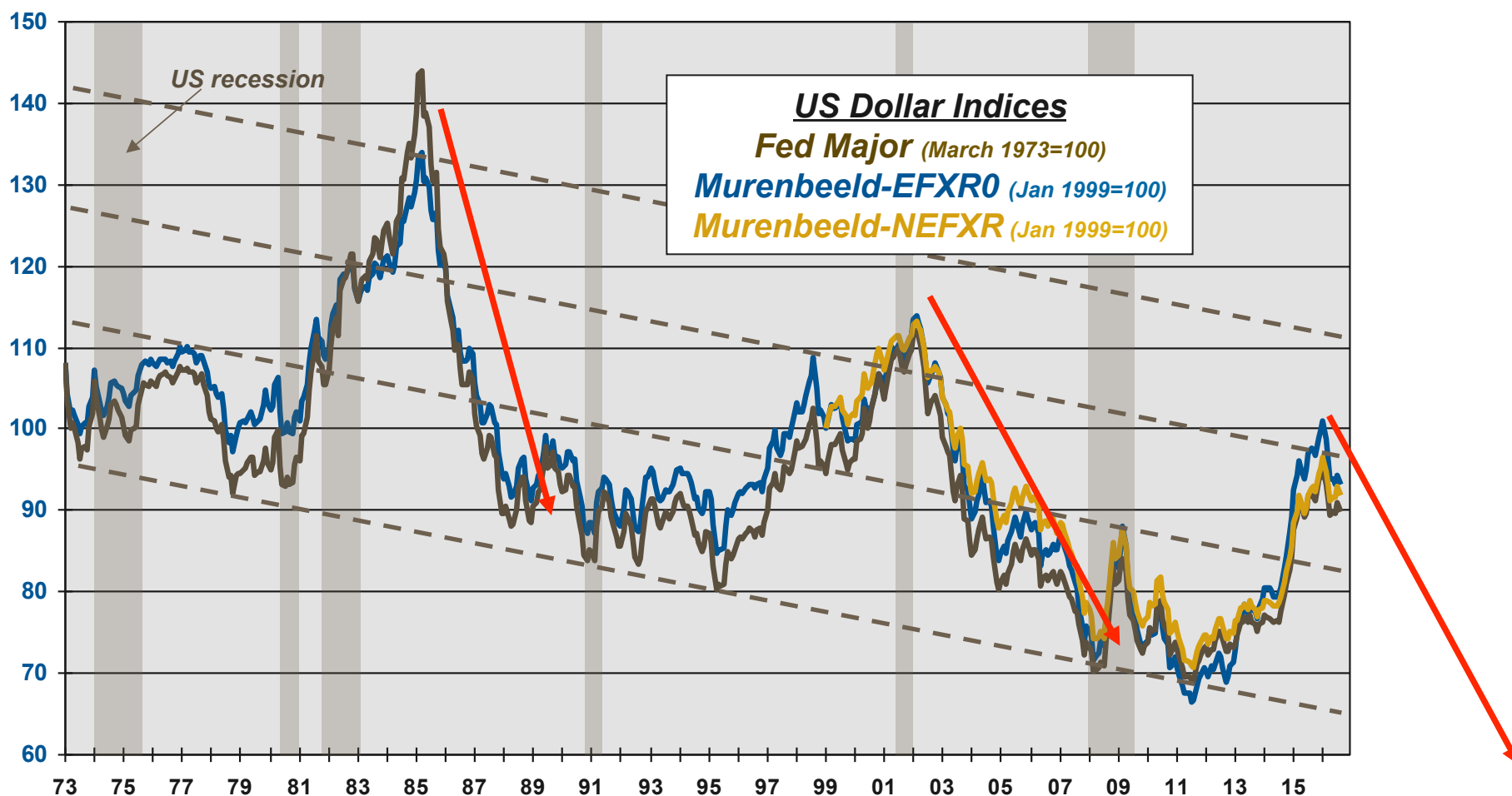


Source: Wall Street Journal, Federal Reserve, Dundee Economics

Last month: August 2016

The Dollar is Very Important for Gold

The dollar in LT-downtrend – and will roll over again!

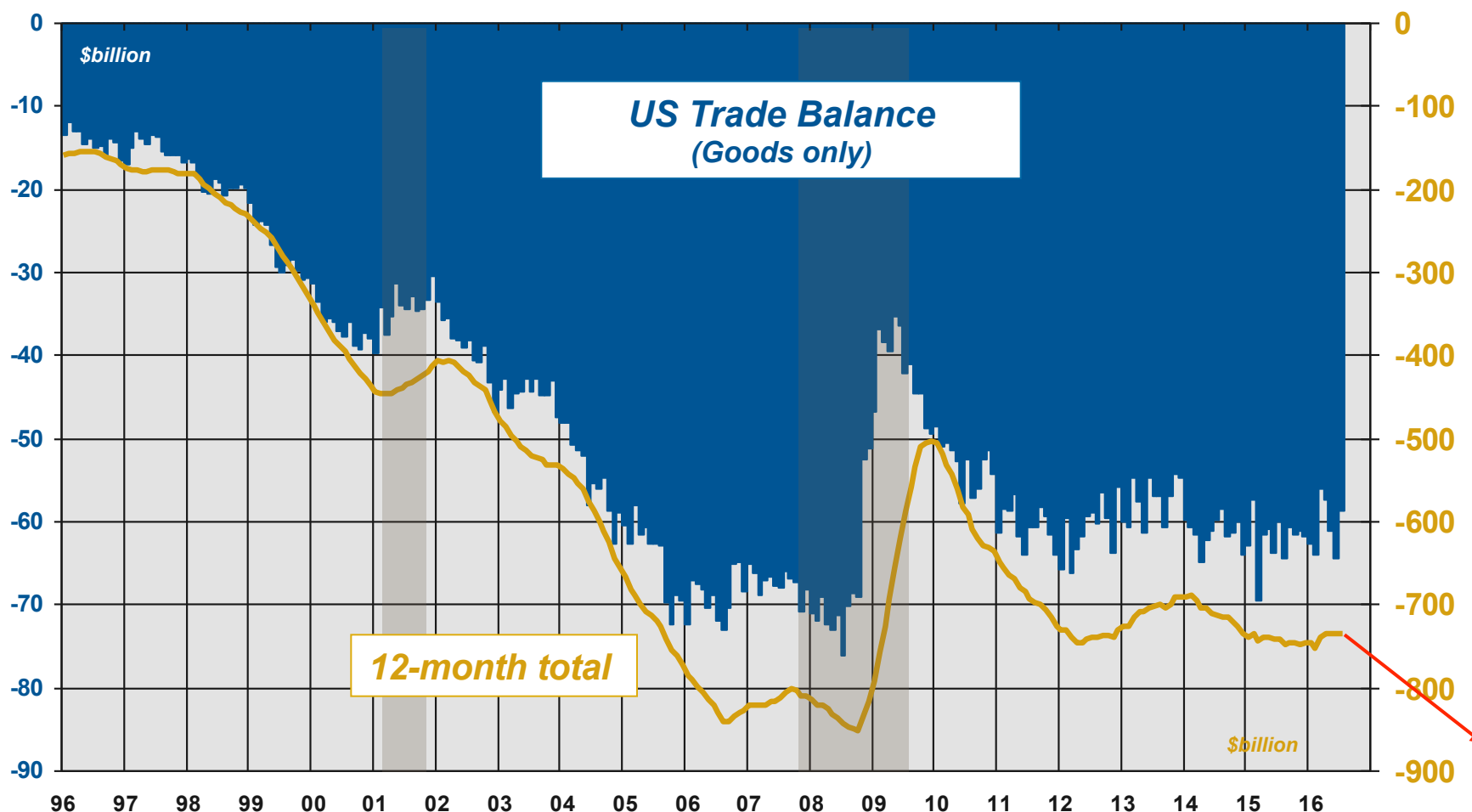


Source: Wall Street Journal, Federal Reserve, Dundee Economics

Last month: August 2016

The Dollar is Overvalued

The US trade deficit is large and will rise again ...

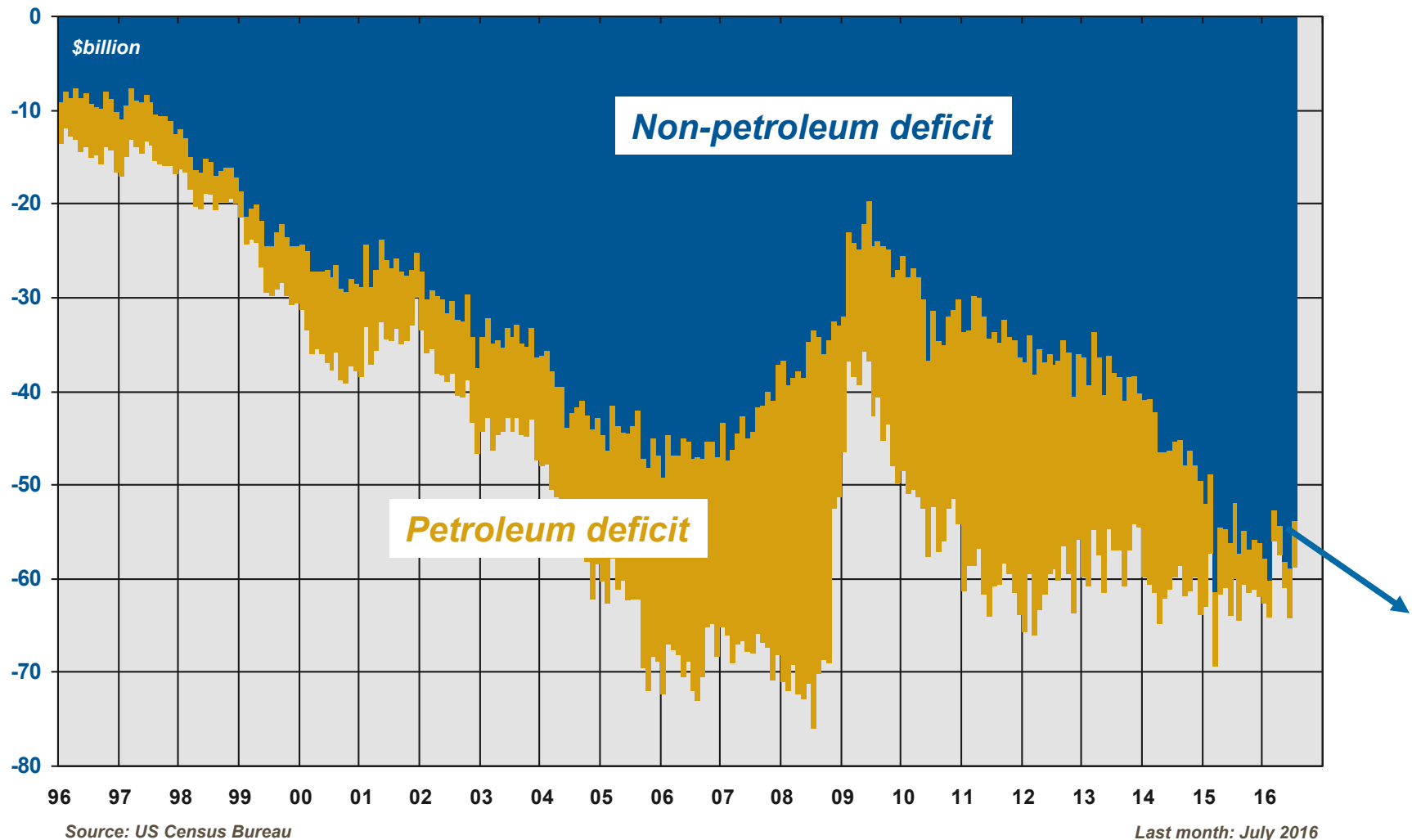


Source: US Census Bureau

Last month: July 2016

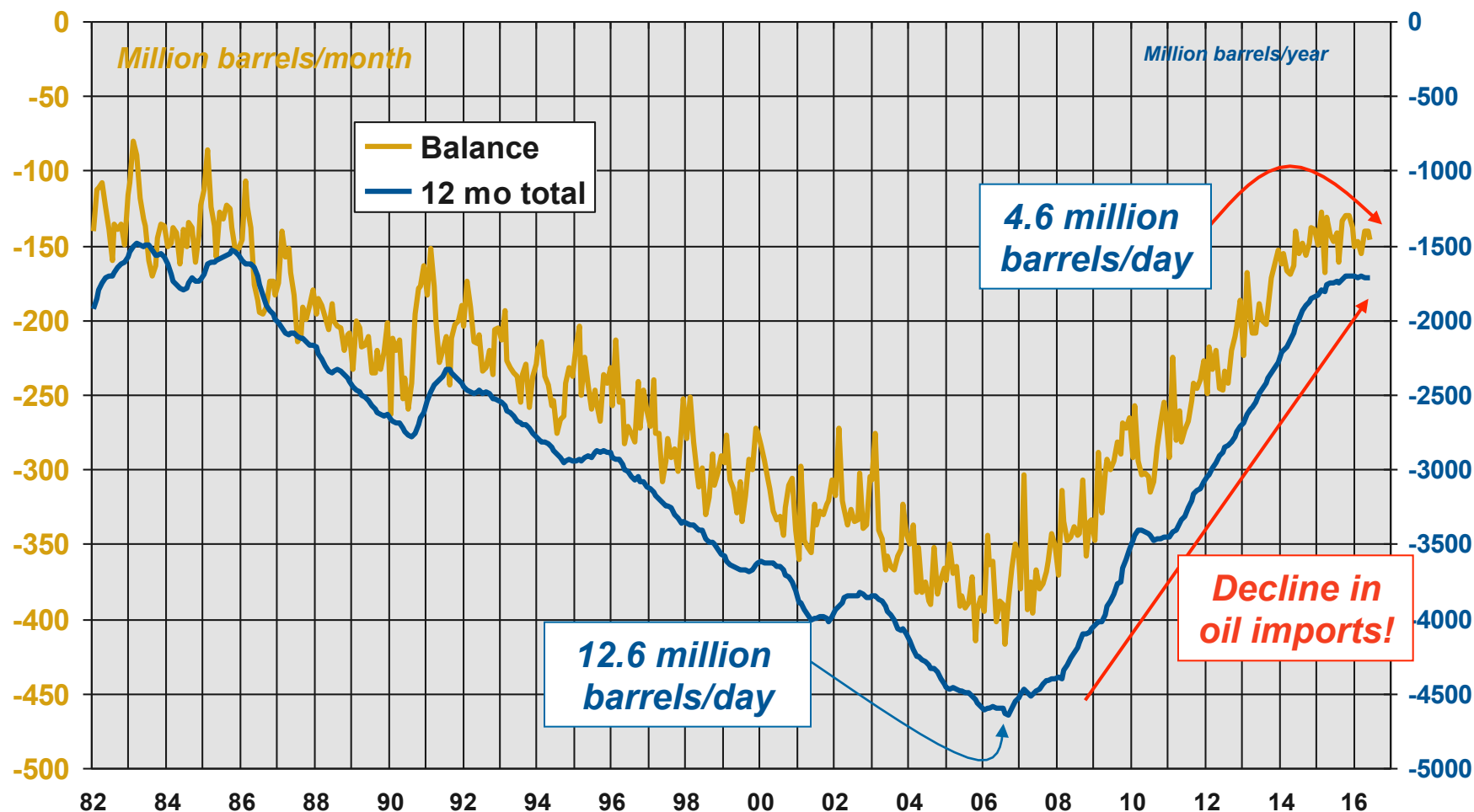
The Dollar is Overvalued

... because the non-petroleum deficit will rise ...



The Dollar is Overvalued

... and petroleum deficit may rise again too ... !

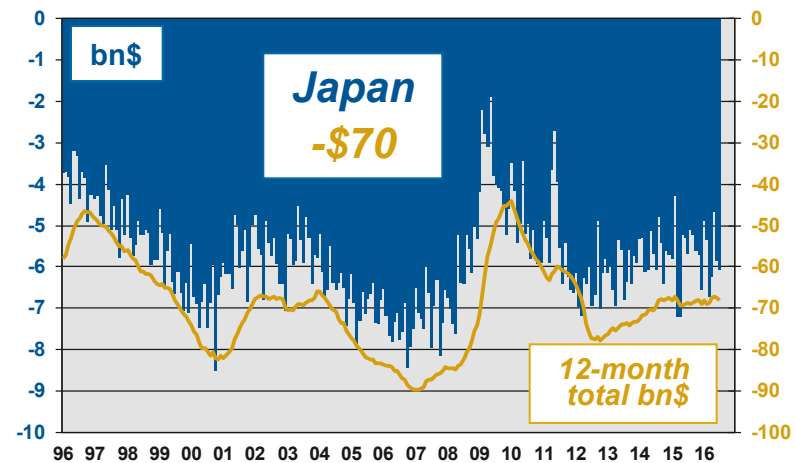
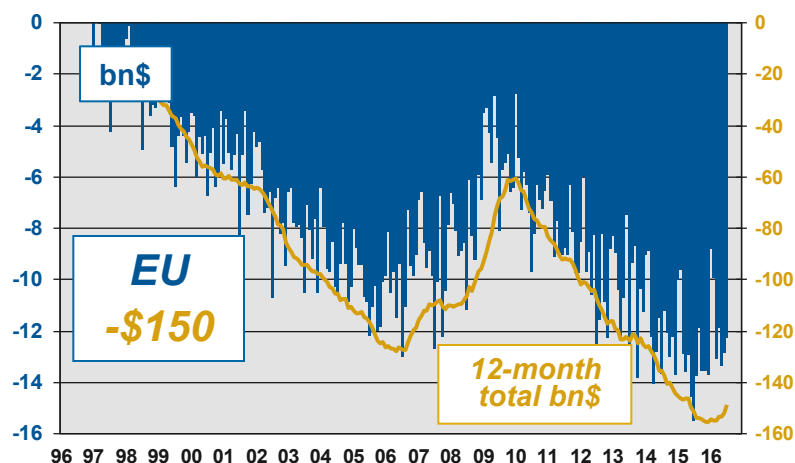
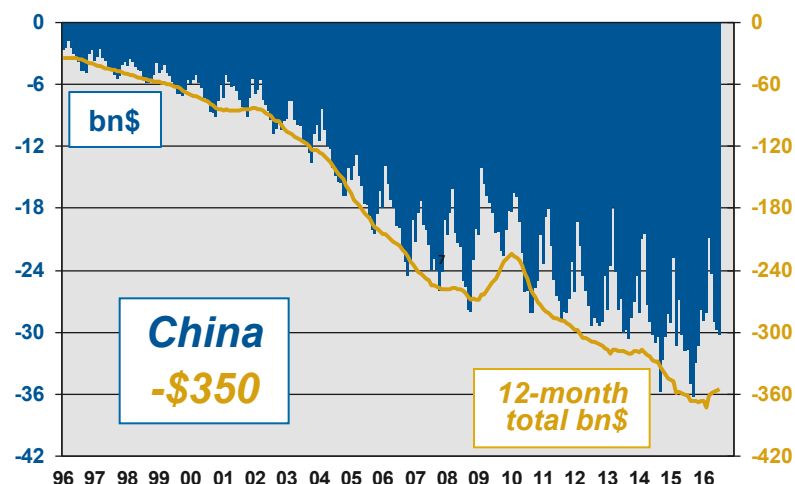
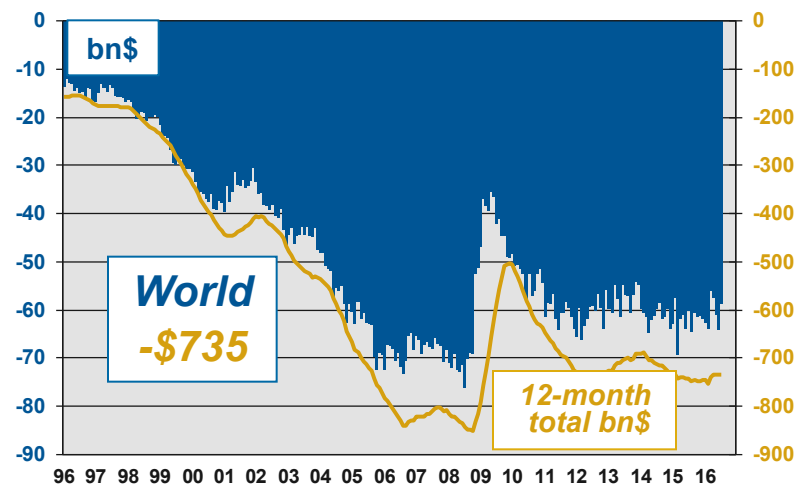


Source: US Energy Information Administration

Last month: June 2016

The Dollar is Overvalued

Deficits with most countries excessively large ...



Source: Thomson Reuters Datastream

Last month: July 2016

Foreign Currencies are Undervalued

Some are undervalued by 30-40-50% ... !

ESTIMATES FOR DOLLAR - FEER

Country	Actual Dollar Rate April 2016	PIIE Analysis		Dundee Estimates	
		FEER plus/minus 3% CA	Percent Change**	FEER Zero Current Account	Percent Change**
China	6.48	5.95	8.8	4.82	34.3
India	66.50	61.80	7.6	56.50	17.6
Indonesia	13173	11728	12.3	10810	21.9
Japan	110	98	12.2	73	51.0
Korea	1147	1007	13.9	799	43.5
Malaysia	3.90	3.45	12.9	2.84	37.2
Philippines	46.30	41.50	11.7	32.44	42.8
Singapore	1.35	0.97	39.7	0.80	67.9
Taiwan	32.30	24.00	32.3	19.70	64.1
Thailand	35.10	32.00	9.7	25.74	36.3
Euro area*	1.13	1.21	6.6	1.58	39.0
Canada	1.28	1.26	2.0	1.29	-0.9
Mexico	17.50	17.00	2.9	17.31	1.0
Average			13.3		35.1

FEER = fundamental equilibrium exchange rate (US dollar rate)

* dollars per currency - all others are currency per dollar

** the percent currency must rise against dollar to establish FEER

Source: PIIE Estimates of Fundamental Equilibrium, May 2016 (PB15-8)
Estimates by Dundee Economics

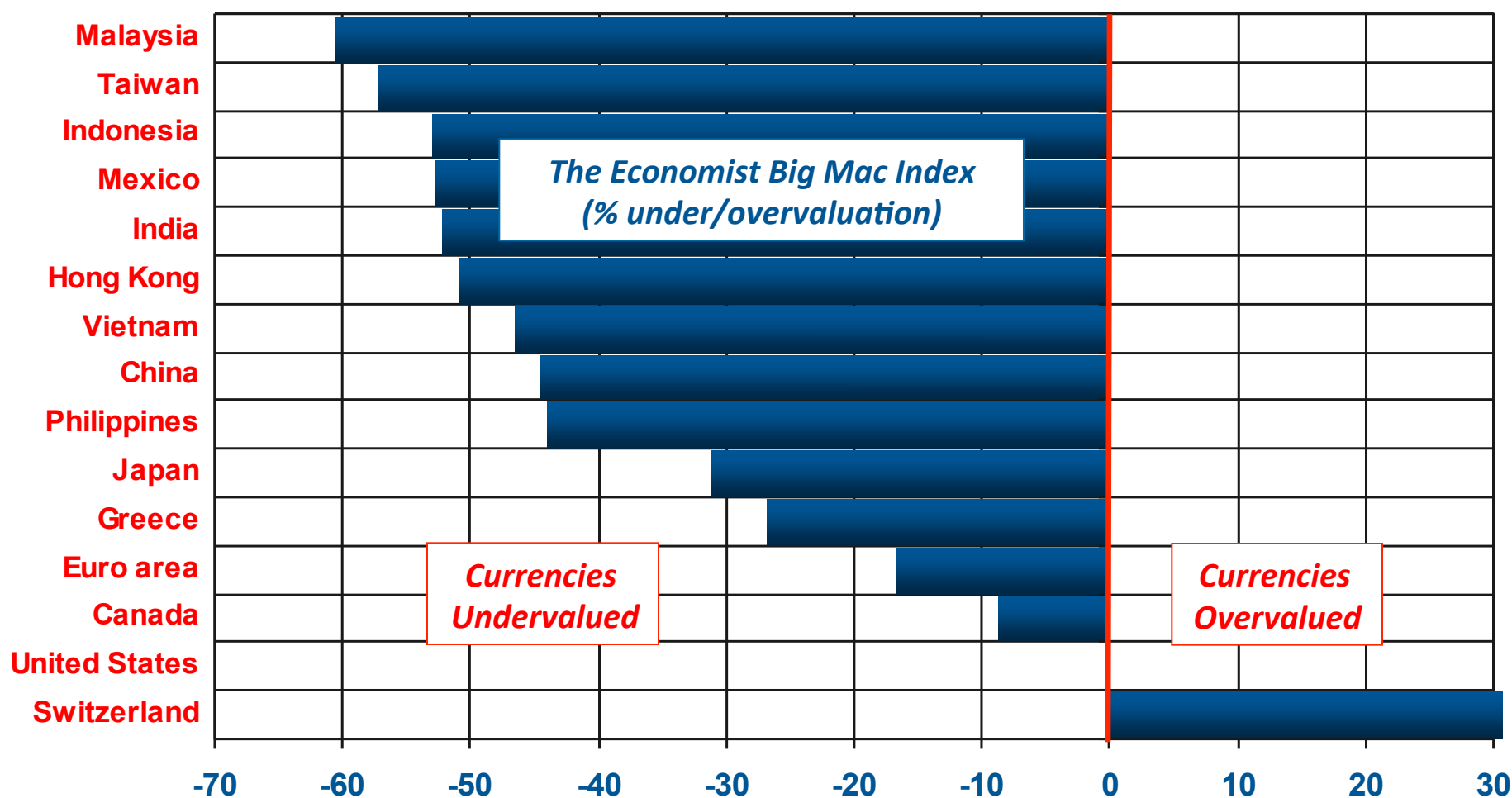
Asian currencies generally are seriously undervalued ...

... and even the Euro is undervalued by some 40% vs the US dollar!

This table is based on the PIIE's FEER analysis, modified to target zero current account balances.

Foreign Currencies are Undervalued

The Big Mac Index is generally a good index ... !



Source: The Economist

The Dollar Will Roll Over

The economic arguments are compelling ...

High dollar dampens US GDP:

- ***(X-M) Exports minus Imports will deteriorate, which subtracts from GDP***
- ***(I) Investment (non-residential) weak which also subtracts from GDP***

High dollar suppresses inflation:

- ***US imports deflation which frustrates Fed efforts to boost inflation***

The Dollar Will Roll Over

The political arguments are building ...



1. I'm going to direct the Secretary of Commerce to **identify every violation** of trade agreements a foreign country is currently using to harm our workers. I will then direct all appropriate agencies to use every tool under American and international law to end these abuses

2. I am going to instruct my Treasury Secretary **to label China a currency manipulator**. Any country that devalues their currency in order to take advantage of the United States will be met with sharply and that includes tariffs and taxes

3. If China does not stop its illegal activities, including its theft of American trade secrets, I will use every lawful presidential power to remedy trade disputes, including the application of **tariffs**

***"Declaring America's Economic Independence"** - June 28, 2016*

The Dollar Will Roll Over

Even Clinton is sounding protectionist ... !



1. “I will prevent countries like China from **abusing global trade rules** and reject trade agreements that don’t meet our high standards of raising wages, creating good paying jobs, and enhancing our national security” (<https://www.hillaryclinton.com/issues/manufacturing/>)

2. “China is, by far, the **worst rule breaker** in the world ... China dumps cheap products in our markets, subsidizes state-

owned enterprises who undersell in the global market to hurt our companies, and it **discriminates against American companies** ... We all know we are losing jobs. ... China wants to keep people employed while they try to figure out what to do about their economy ... **They’re trying to solve their domestic economic problems on the backs of American workers** ...

3. “We have to prevent China/other countries from manipulating their currencies to gain an unfair price advantage” (<https://www.hillaryclinton.com/speeches/>)

The Dollar Will Roll Over

Devaluation is always better than protectionism

1. Devaluation expands domestic output and expands consumer demand abroad

- ***The US needs to invest more domestically***
- ***Chinese consumers need a more powerful currency***

2. US protectionism may expand domestic output

- ***It will not expand consumer demand abroad***
- ***It will likely lead to a global trade war***
- ***And global trade will likely contract***

Dundee Economics

www.dundeeeconomics.com

