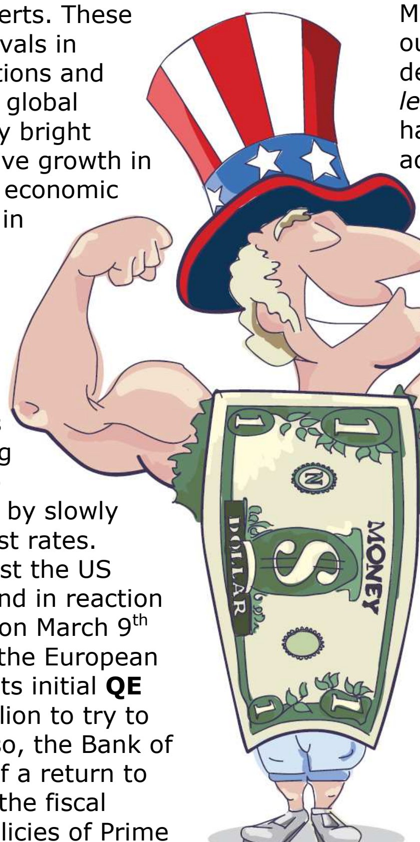
# The Almighty Dollar

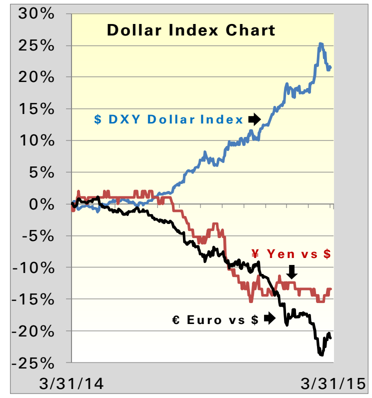
The ***Almighty Dollar*** is soaring. The prospect of tighter monetary policy here at home while extraordinary monetary easing in Europe and Japan has launched the dollar skyward. In the past nine months, the Dollar Index has skyrocketed over 22% against a broad basket of foreign currencies. The Dollar's precipitous appreciation has depressed bond yields, shaken currency markets, and may threaten to push down an already soft US inflation rate into negative territory. Good or bad, it seems the strong ***Almighty Dollar*** may be here to stay, and it may even get stronger.

Today's astonishment over the Greenback's appreciation is reminiscent of last year's surprise plunge in oil prices, as well as, the steep drop in US interest rates which befuddled almost all the experts. These unexpected, dramatic upheavals in global markets cause disruptions and volatility. In this unbalanced global economic landscape, the only bright spot appears to be the positive growth in the US, the antithesis to the economic softness and even recession in Europe and Japan.




Last October our Federal Reserve, led by chairperson **Janet Yellen**, removed the third round of the expansionary, easy money policies known as Quantitative Easing (**QE**) and now is expected to resume monetary tightening by slowly raising the short term interest rates. Perceiving the economic boost the US has experienced under **QE** and in reaction to Europe's slowing growth, on March 9th **Mario Draghi**, President of the European Central Bank, embarked on its initial **QE** program totaling over $1 trillion to try to boost Europe's economy. Also, the Bank of Japan, due to the prospect of a return to deflation, may soon expand the fiscal stimulus and easy money policies of Prime Minister **Shinzo Abe**, dubbed *"Abenomics".*

The strong US dollar is a consequence of the diverging economic paths and monetary policies between the US and major foreign economies and their central banks. Weak foreign growth and easy money policies have slashed foreign interest rates and weakened their currencies. The euro, trading at $1.07, is close to parity with the dollar! The weak euro depresses the cost of exports, making them more competitive. Conversely, these low exchange rates have submerged the profits of US large multi-national corporations which dominate the S&P 500 and have made our exports more expensive.




Analysts have cut their US earnings forecasts and economists have lowered 4th quarter GDP estimates. The economic headwinds caused by the dollar's roaring rally may persist and was boosted by the International Monetary Fund's report last Tuesday that foreign central banks, enamored with the Greenback's earnings, are buying US bonds to effect their easy money policies. With their balance sheets exploding to nearly $12 trillion, central banks are now the main players in the foreign-exchange market.

Many equate the rise and fall of oil prices with the future outlook on global growth. Conventional wisdom for decades has been, *"slower future world growth suggests less demand and lower oil prices."* Slower global growth has slightly depressed demand, but production fueled by advances in the extraction technologies of fracking in the northwest, ultra-deepwater drilling, and refining oil sands have had a far greater impact. The fundamental principal of supply and demand shattered prices.

Today, the world is awash in cheap oil and producers are not cutting back on production. Storage facilities are almost full. Some experts believe that prices will drop further as producers sell at a discount to the few remaining buyers with available storage. Lower energy prices provide a substantial *"tax break"* for the world's consumer, especially in the US as one of the biggest consumers of oil. Some economists unnecessarily worry that lower oil prices might result in negative inflation or deflation, rather these lower prices are a favorable consequence of technological advances providing more discretionary spendable income. The Commerce Department's report for January showed that the personal savings rate increased for the second month to 5.5%.

The **Almighty Dollar's** strength is a conundrum for Yellen's Fed. If rates rise too rapidly the Greenback could become too strong and the economy stall. But she promised to patiently raise rates while keeping the US recovery on track as she pursues a more normal interest rate environment. By loosening the purse strings, the US consumer has the economic force to fortify US growth and may just help jumpstart the rest of the world.

*March 31, 2015*

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