

# BUSINESS CYCLE DEVELOPMENTS

Dollar strength and the building evidence of a cyclical bottom in output provides a trading opportunity to short the dollar.

The *Total Index of Industrial Production* peaked in 9/18 at 104.1 and the three successive peaks and troughs in output have been lower. That's 69 months of no growth in output! First came the Covid Recession and then two subsequent economic slowings. We're currently in that 2<sup>nd</sup> slowing. There are five of eight **Business Cycle Trough Indicators** signaling a recovery centering in 8/24 (May thru Nov.). Another **BCTI** will slightly re-adjust forward the center point of recovery. To offset slowing there's been seven spending bills totaling \$12T, from the Cares Act to the Omnibus Spending Bill.

The current dollar strength to 124 – relative to other currencies – confirms this current slowing. The dollar has cyclically peaked an average of three months (+/- 4 months) before the cyclical trough in output. It peaked at 123 on 10/22 before the last slowing ended on 12/22 and then dropped to 113.

Lately it has been advancing, which is not unusual for a few reasons. First, when the U.S. approaches a slowdown/recession smaller countries and exporting countries suffer greater degrees of weakness, which explains some of China's current slow growth and their currency relative to the dollar. Second, these emerging markets, or large exporting nations, sell their currency (i.e. buy \$) to weaken its parity against the dollar, to maintain the flow of goods shipped to the US. Third, and likely the best

<b>DOLLAR PEAKS BEFORE THE TROUGH IN OUTPUT</b>		
<small>St. Louis Fed Trade Weighted U.S. Dollar Index &amp; Industrial Production Index – first mfg. sector to trough</small>		
<u>DOLLAR PEAK</u>	<u>BUSINESS CYCLE TRGH.</u>	<u>LEAD (-) / LAG (+): DOLLAR to BCT</u>
1/74	5/75 (r)	-16 mo*
12/76 Mexico's devaluation	--	--
4/80	7/80 (r)	-3 mo
11/82	12/82 (r)	-1 mo
3/85 \$ Jawboned in 2/85 - coincided with...	7/85 (sd) ...the BCT.	-4 mo
9/89	7/89 (sd)	+2 mo
6/91	3/91 (r) Gulf War	+3 mo
1/94 Chinese devaluation	--	--
--	1/96 (sd)	--
8/98 Russian devaluation & LTCM	--	--
2/02	11/01 (r)	+3 mo
--	8/03 (sd)	--
11/05 Katrina	--	--
2/06	11/06 (sd)	-9 mo*
3/09	6/09 (r)	-3 mo
7/12	10/12 (sd)	-3 mo
6/10	2/11 (sd)	-8 mo*
7/13	2/14 (sd)	-7 mo*
1/16 Shanghai Accord, dollar peak...	3/16 (sd/r) ...and BCT coincide.	-2 mo
9/19	10/19 (sd)	-1 mo
4/20	4/20 (r)	-0-
	<b>Average:</b>	-3 mo (+/-4 mo)
<b>10/22</b>	<b>12/22</b>	<b>-2 mo.</b>

sd = slowdown; r = recession

explanation of recent dollar strength, is debtor countries are suffering after 14 months of Powell's 5%+ FF's policy. Real interest rates flush out a marginal/zombie country or company and a flight to dollars.

Watch for weak, but real growth ahead and led by dollar weakness.