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## King of all it surveys: the dollar sweeps all before it

It may not be wholly satisfactory to President Trump, but at the moment the dollar is sweeping all before it. A quick look at the DXY shows that the dollar hit a 12 month high against the basket of currencies it's measured against in the latter part of April, and that it is on course currently to go through that high and on into waters not charted for nearly two years.

A host of negative factors elsewhere are contributing to the positivity towards the dollar, not the least of which is the latest plunge in sterling on further Brexit uncertainty. But there's also the ongoing confusion about who really runs the Eurozone, as Italy pushes back on mandated debt ceilings and imminent elections threaten to boost the power of right wing populists.

Meanwhile the yen remains in thrall to Japan's deflationary trap, and the floating Chinese currency, for what it's worth, is weaker as the trade war with the US intensifies.

Political instability in the Middle East and the whiff of war in the air around Iran is also adding to uncertainty, but whereas in other circumstances that might make investors pile into gold in a serious way, at the moment, the dollar is king.

How long this state of affairs will last is a moot point. After momentum built last year for rate rises from the Fed, some analysts have now taken a full about face and are forecasting that the Fed will actually cut rates later in the year. On the whole, that won't be that good for the dollar, although markets, which have taken a battering over the last ten days on the US-China tensions, would get a boost.

The Fed itself, or more particularly certain members of its Open Markets Policy Committee, remains non-committal on rate cuts. Indeed the official view remains that in due course, when the current spate of turbulence in the wider global economy is past, rates will once again start to rise.

But that seems a long way off at the moment.

Between now and then there could be a full-blown trade war with China, which in turn could escalate into heightened geopolitical tensions over Huawei or the Spratly Islands; there could be military clash with Iran, which looks more likely now that Saudi oil installations have developed a sudden and unexplained habit of exploding; there could be a hard Brexit to disrupt the European Union still further; and indeed it's entirely possible that the Eurozone itself could spiral into recession.

Set that against the strong growth the US economy continues to turn in, alongside some relatively robust productivity numbers, and there's no real question as to why buyers are coming in for the dollar.

If certain factions of the Democrat Party get anywhere with their efforts to impeach Mr Trump then some of the shine would certainly come off the dollar. And if the US economy suddenly took sick in the second half of the year, then likewise, the dollar could slide.

Neither of those outcomes looks especially likely at the moment, although to be sure the latest round of Chinese sanctions is likely to have an uneven effect, hitting US farmers particularly severely. But as Mr Trump rightly points out, China exports more to the US than the US does to China - this dynamic allows him to stand firm in regard to the



negotiations since the impact on China of impasse is always going to be more severe.

Equity markets don't like the current stand-off, of course, but they've had a very strong run of late and were perhaps due to give up some gains anyway. Commodities have also given up ground, with copper in particular weaker on the latest trade tensions.

Those who worry that things may get a lot worse before they get better could do worse than consider the current gold price, of around US\$1,285 a good entry point. More speculative-minded punters might light to take a look at iron ore too, which several analysts think is likely to go over US\$110 per tonne now, on strong steel output from China matched against supply constraints.

But for those taking the broader view, for now the dollar remains the only place to be.

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