

Scribbler's TSP & Economic Report

A Publication of Brookside Economic Comment LLC
by Kenneth Bateman



Allocation Change: None

October 15, 2009

Taken from the October 15, 2009 Report:

As I have described over the past few letters, we are currently in the strange situation of all asset prices going up, except the US dollar. I view it as extremely likely that this trade will reverse in the near future. The US dollar weakness has been the catalyst for many of the markets movements, especially commodity and stock appreciation, over the course of the last several months.

So I have turned bullish -- on the US dollar, and bearish for all other asset classes except Treasuries. Given the absolute certainty that the dollar is an asset that is sure to depreciate in perpetuity, some will question my bullish stance right now. But the simple fact is that the abject disdain for the US dollar among the investor class rivals that of stocks in March 2009. Much like we had a rush for stocks once the smell of a bottom was in, we should have a similar situation with the US dollar.

The exact timing of a US dollar turn is questionable, but I would expect to see it start moving higher in the next 10 trading days, as part of a much greater move higher. We may not be at the absolute lowest level right now, but I view the risk-reward as favorable.

I do not expect the correlation of the movements in asset classes to change with respect to the dollar -- so as the dollar strengthens, we should expect weakness in the asset classes that have recently become enamored with the weak dollar thesis.