The U.S. Dollar Is Once Again Testing The Upper Limits Of Its Recent Range

View from the Observation Deck

1. Today's chart is an update of a previous post we did back in August showing the fluctuations in the U.S. Dollar Index (DXY) since mid-2014.
2. From 6/30/14 through 11/18/16, the U.S. Dollar Index rose from a reading of 79.78 to 101.21, or a gain of 26.86%, according to Bloomberg.
3. From 3/13/15 (high in 2015) through 11/18/16, the U.S. Dollar Index went from a reading of 100.33 to 101.21, or a gain of just 0.88%. The index, however, traded in a broader range, from a low of 92.62 (5/2/16) to a high of 101.21 (11/18/16). The index averaged a reading of 96.50 for the period.
4. A strong dollar can make U.S. goods and services less competitive, with respect to price, in the global marketplace. It can also negatively impact the returns that U.S. investors receive from owning foreign securities. A weak U.S. dollar would have the opposite effect.
5. Ironically, the most recent spike in the index followed Donald Trump's victory on 11/8/16. Analysts initially expected a Trump win would weaken the U.S. dollar due to his protectionist trade policy proposals, according to The Wall Street Journal. That quickly changed to the theory that President-elect Trump’s plans for large fiscal spending could potentially boost inflation to the extent that the Federal Reserve might need to raise short-term interest rates beyond current projections.
6. Higher U.S. interest rates can potentially boost the dollar’s value by making dollar assets more attractive to investors, including foreign investors, in our opinion.
7. We intend to monitor the U.S. dollar closely in the months ahead.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The U.S. Dollar Index (DXY) indicates the general international value of the dollar relative to a basket of major world currencies.