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Expert Commentary

Peter Boockvar, Chief Market Analyst at Lindsey Group, on US Economy and Dollar

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***Peter Boockvar
Chief Market
Analyst
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Although the Federal Reserve has viewed the most recent economic data as unreliable, analysts remain optimistic and forecast the Fed to raise its benchmark interest rate in June. Do you share this point of view or not and why?

The US economy has slowdown a lot in the Q4 of 2015 and in the Q1 of 2016, and I do not expect much rebound in the Q2. It is unlikely that the Fed will be raising rates in June, and moreover, I believe the Fed will not be raising rates at all this year.

The degree of integration of the United States into the world economy has grown significantly over the past few years. According to the latest data, the IMF has recently revised downwards its global growth outlook to 3.2%, following January's 3.4% forecast. To your mind, will the US economy slip into a recession in 2016 if the rest of the world fails to perform successfully?

I believe the question of whether it will happen or not actually is going to be the markets. We have a very asset price depending global economy, and we surely have another price depending US economy. That is the bear market which I suppose began in the middle of last year intensifies, and this year the impact on consumer spending would be enough to tap the US economy into recession. Either way the US economy is barely growing, as nominal GDP is sparsely above zero, and whether it is a technical recession or not may not indicate that much difference. In terms of earnings, US earnings are already in a recession. The Q1's earnings which are going to come out in earnest over the next couple weeks are expected to be down year-on-year for the fourth straight quarter.

What factors will influence the performance of the Greenback through the rest of the year?

I believe it may solely be what the Fed does and in some rights the Fed is not raising rates again. Then I assume the strong Dollar rally, which pretty much ended in March of last year, is over and it will give certainly a respect to other emerging markets that have been under a lot of pressure now. The Fed, the Bank of Japan and the European Central Bank certainly do not want their currencies' rally, but if the Fed is not raising rates again there are very little keys to make on a bull side for the US Dollar.

What are your forecasts for USD/CAD, EUR/USD and USD/JPY by the end of 2016?

I suppose that the bear market in commodities is over. Therefore, I like the Canadian Dollar against the US Dollar. We are just talking about three currencies that are highly manipulated by their central banks and what one does against another is that those three central banks are racing to the bottom. Who is going to win, I am not exactly sure, because they all are doing a good job on their currency, and I understand the argument that negative interest rates at least in the Euro zone and in Japan is negative for their currencies.

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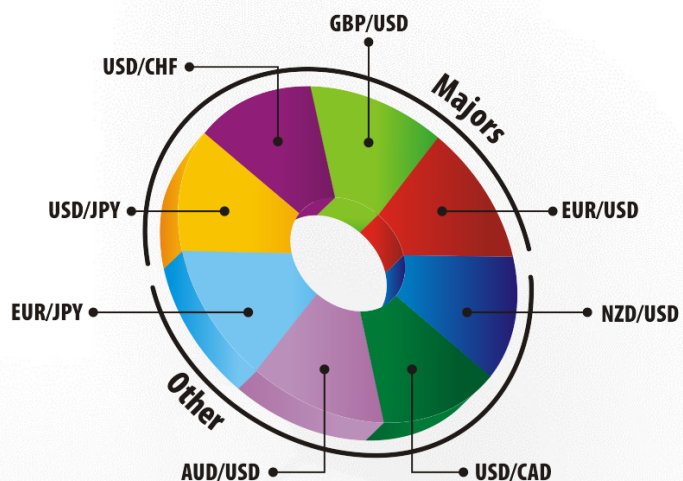


However, the Fed is not going to embark on a multi-rate hike cycle, which is a headwind for the Dollar. My bottom line to the question on currencies is that the real currency that wins in the entire scenario is gold. That is the currency that I will be most focused on.

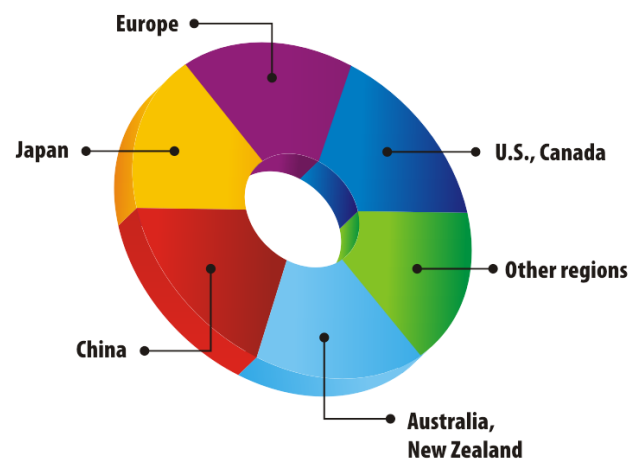
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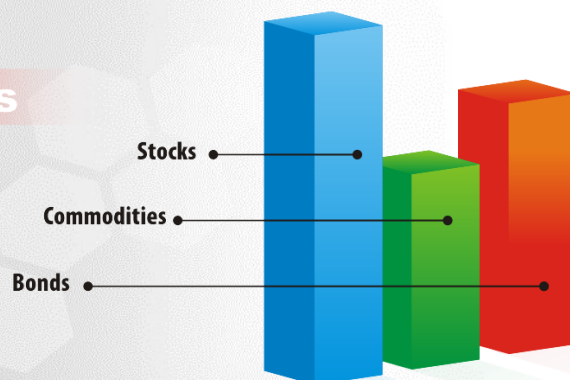
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