

# THE NOT SO ALMIGHTY DOLLAR

By Adrian Douglas

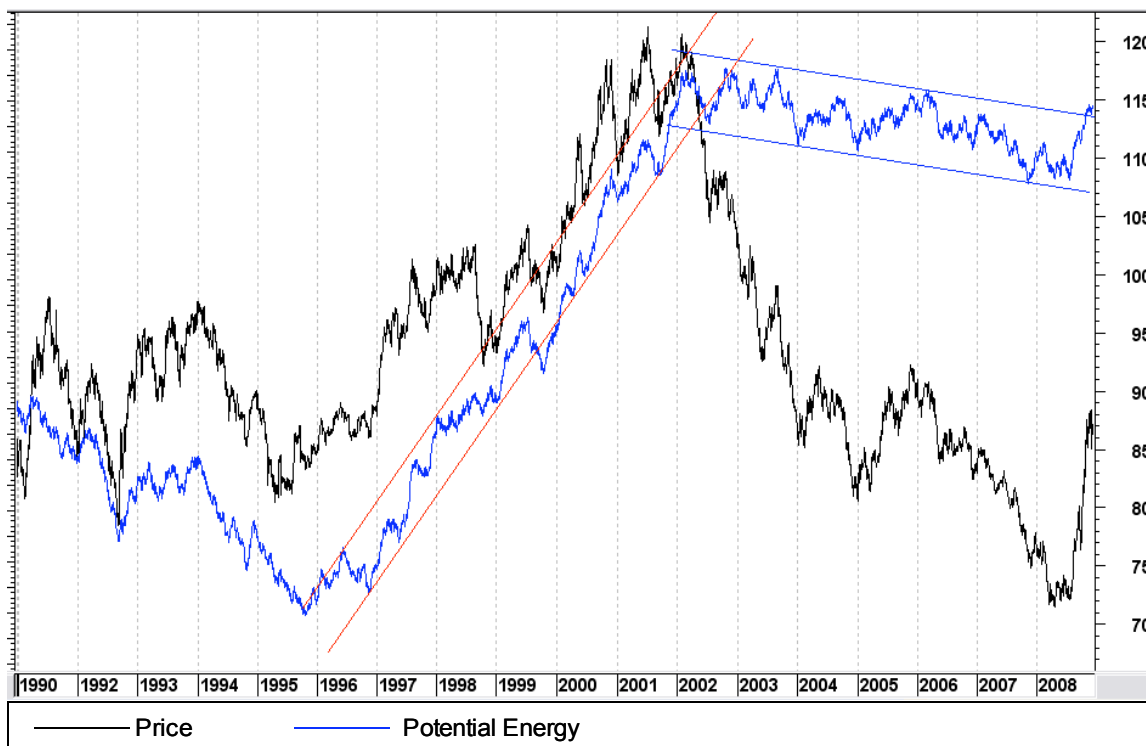
In an ideal world investors would be smart enough to realize that in an environment where all fiat currencies are being created in unprecedented quantities to provide “liquidity”, a euphemism for currency debauchery, that these currencies should be avoided like the plague.

Unfortunately we live in a less than ideal world. We can not yet bring ourselves to think how many ounces of gold are required to buy a house or to buy a gallon of gasoline, we still think in terms of dollars. The perceived “strength” of the US Dollar has an inverse influence on commodity prices because they are priced in dollars. The dollar’s performance is measured by how much of a basket of other currencies it can purchase in the index called the USDX. This is comical. It is like saying that Johnny is 10% more intelligent than Fred, but when we find that Fred’s IQ is only 60 suddenly Johnny doesn’t seem so smart!

Gold is reaching new ALL TIME highs in most of the world’s major currencies except the US Dollar. This means that the purchasing power of those currencies is being destroyed. The fact that the USDX has been rising tells us that the dollar is performing better than these horrible benchmarks and is not being destroyed as fast! No matter how ridiculous such a comparison may be it is what is monitored by traders. When the dollar’s purchasing power declines faster than its peers traders are obliged to bid up commodities that are priced in dollars. It is important, therefore, to keep a close eye on the USDX.

I have developed an indicator that I call Potential Energy. It measures where the end of day price close is with respect to the high and low of the day. If something is in a bull market the daily close tends to be consistently much closer to the high of the day than the low due to rallies being bought by investors. In a bear market the daily close tends to be consistently closer to the low of the day than to the high as investors sell into rallies.

## POTENTIAL ENERGY – US DOLLAR



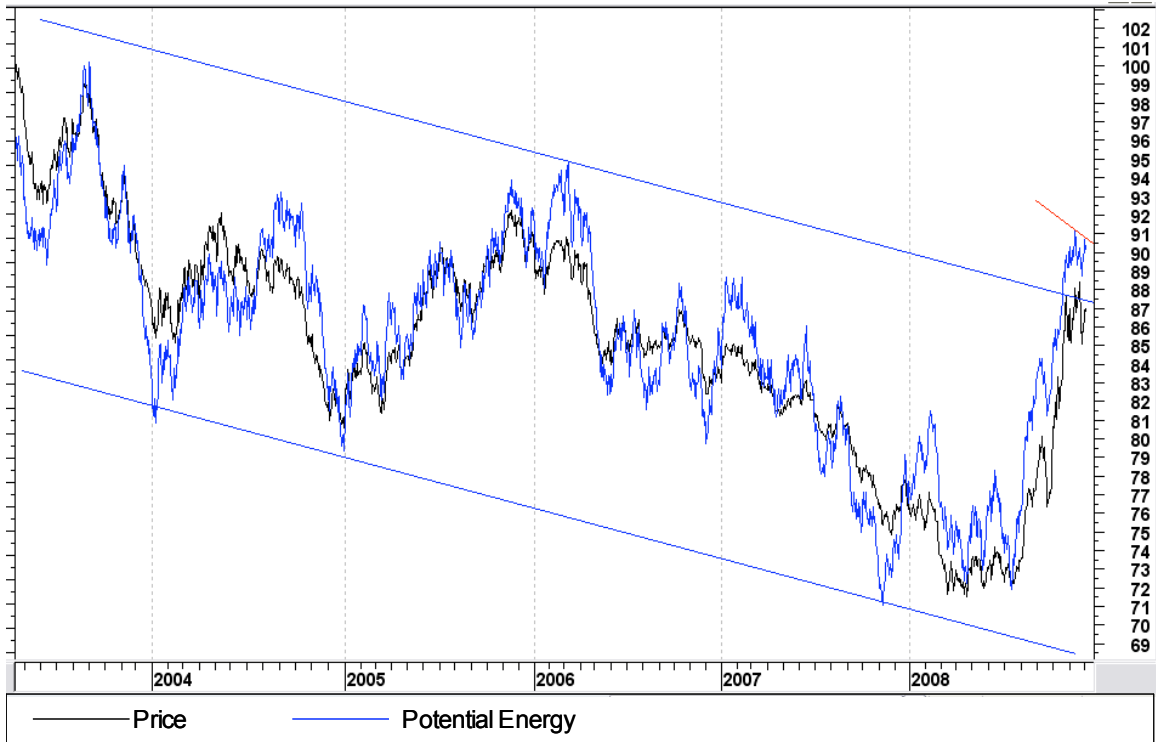
**Figure 1**

In figure 1 the potential energy is charted for the USDX. It can be seen that when this was rising from 1995 to 2001 the USDX was in a bull market (the “strong dollar policy” era) and when it started falling from 2001 to the present the USDX has been in a bear market.

It can be noted that this indicator remains very linear over long periods of time and is generally contained within a rising or falling channel. Since 2001 the Potential Energy (PE) has shown no change in trend and indicates the USDX is in a bear market. The oscillations from the lower trend line to the upper trend line indicate the bear market rallies that from time to time punctuate the otherwise persistent decline.

Recently the PE has reached the top of the declining blue channel. When we examine this on the zoom-in chart in Figure 2 we can see that the PE has rolled over and is making lower highs. This is a strong indication of a top. The conclusion is that the bear market rally in the dollar is over having topped at 88.4 on 11/21/08 and the dollar should start to drop quite precipitously. This is also in line with what we would expect from the multi-trillion dollar money creation orgy that is on going at the Federal Reserve!

## POTENTIAL ENERGY – US DOLLAR (ZOOM IN)



**Figure 2**

There have been some violent swings in gold and silver in the last three days but these are most likely induced by the Large Commercials trying to flush out as many long players as possible at this turning point. The dollar is now resuming its bear market major trend. The commodities and especially gold, silver and oil will be major beneficiaries. Big upward moves are close at hand.

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