Dollar Index Smart Report

2016

DOLLAR INDEX MARKET REPORT 2016

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TABLE OF CONTENTS

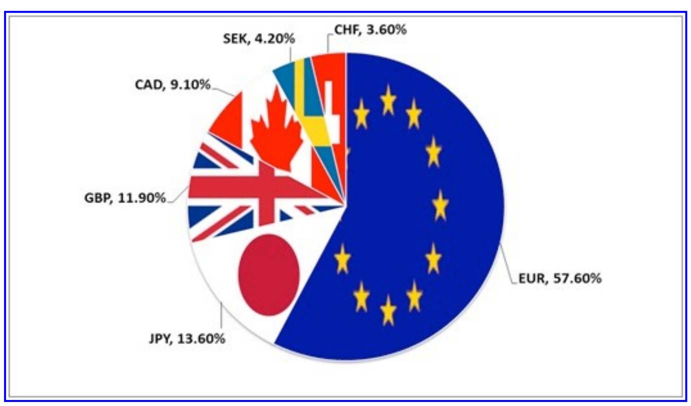
What is the U.S. Dollar Index (USDX)?

The U.S. Dollar Index® (USDX®) provides the world with a comprehensive barometer of the value of the U.S. Dollar, 24 hours a day. Similar in many respects to the Federal Reserve Board's original trade-weighted index, the USDX is calculated continuously by Reuters using foreign exchange quotes from hundreds of banks around the world.

Just as the Dow Jones Industrial Average provides a general indication of the value of the U.S. stock market, the U.S. Dollar Index (USDX) provides a general indication of the international value of the U.S. Dollar. The USDX does this by averaging the exchange rates between the U.S. Dollar and six major world currencies. These 17 countries (12 countries of the Euro zone plus the five other nations whose currencies are represented in the USDX) constitute the bulk of international trade with the United States and have well-developed foreign exchange markets with rates freely determined by market participants. In addition, many currencies not included in the USDX move in close correlation with those that are included. The USDX is computed 24 hours a day, seven days a week based on exchange rates supplied to Reuters by some 500 banks worldwide.

Which currencies are included in the U.S. Dollar Index?

The U.S. Dollar Index contains six component currencies: the Euro (57.60%), Japanese yen (13.60%), British Pound (11.90%), Canadian dollar (9.10%), Swedish krona (4.20%) and Swiss franc (3.60%).



Before the creation of the euro, the original USDX contained ten currencies—the ones that are currently included (but not the euro), plus the West German mark, the French franc, the Italian lira, the Dutch guilder, and the Belgium franc. The euro replaced the last five of these currencies.

Why I should invest in the U.S. Dollar Index?

Investing in the US dollar and US treasuries was an even better deal as progressively lower rates at weekly auctions has raised the value of treasuries in hand. Confidence in the US dollar has risen as confidence in other currencies (e.g. the Euro) has fallen. The dollar has traditionally been the safe haven currency of choice.

American Recovery

In the world of currencies, the dollar is starting to look like a safe haven home in a tough neighborhood. A strengthening American economy, combined with a gloomy outlook for growth, i.e.: Europe, China, Japan, is pushing the U.S. currency sharply higher. Geopolitical events in the Ukraine and Russia, Iraq and Syria, are driving international flows to the US Dollar, designated as the world's safe haven, and increasing its value. The dollar is up 6.4 percent against a group of major currencies since the start of May, and has risen in 3 of the past 4 months. The U.S. currency climbed to its highest level in 6 years against the Japanese yen, and it's trading at its highest level in 14 months against the euro. A continued run---up could mean lower prices for imported cars and crude oil. A stronger dollar starts with a healthier U.S. economy. Construction, manufacturing and auto sales have all posted solid numbers. The U.S. stock market continues to post record highs.

Unemployment is at a 6 year low and inflation is almost non---existent. These healthy signs have allowed the Federal Reserve to wind down its economic stimulus. The Fed's next step will be to raise short---term interest rates from their near---zero levels, a move that is expected early next year.

Improving growth and the prospect of higher interest rates make the U.S. a more attractive place to invest, prompting people to buy dollars and push up the currency's value. At the same time, the outlook for Europe, China, and Japan is less encouraging.

The US dollar has been rising against all major currencies and several previously stronger minor currencies. That happened for the first time in a number of years. A big part of the rise of the U.S. dollar can be attributed to worldwide investors seeking the dollar as a safe haven currency.

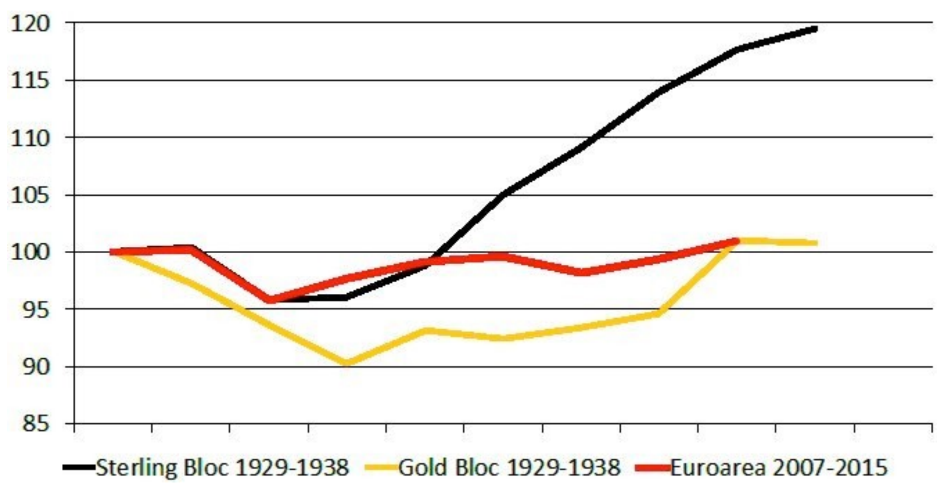
Forex traders are purchasing dollars because of liquidity as well as the prospect of the currency rising. The flight to quality by investing in the US dollar may be more a flight to liquidity in the face of perils in the world economy.

Europe’s Austerity

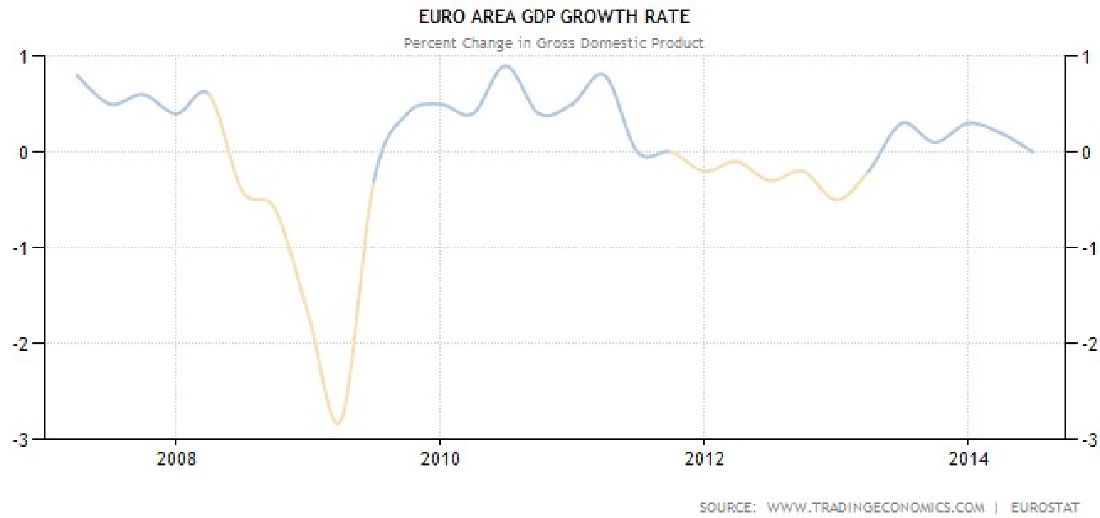
The European Central Bank (ECB) slashed interest rates, and launched emergency stimulus measures, but 6 years too late, and not enough to counter the austerity that has Europe in a worse mess than the Great Depression in the early XXI century!

The ECB surprised markets by cutting its largest short---term interest rate to basically zero. The ECB also plans to buy bonds to push longer---term rates lower, too – an echo of the U.S. Federal Reserve’s many rounds of “quantitative easing”, used in recent years to goose the U.S. economy.

Good job, good effort, ECB, except this comes nearly 6 years after the Fed cut its own rates to zero and launched QE. In other words, the ECB is way behind the game. Europe’s current slump as mentioned before is worse than the Great Depression. Here is a chart to back this up:



The red line represents Europe's current GDP growth and the forecast for the next year or so. As you can see, it's flat lined. The black line shows the growth of European countries that wisely dumped the gold standard during the Great Depression of the 1920s and '30s. The yellow line shows the countries that stuck with gold for too long. Europe is currently doing just about as well as those miserable countries. Europe's GDP has relapsed lately, raising fears of a triple---dip recession, as this graph from Trading Economics shows:



U.S. GDP hasn't exactly been gangbusters, but it's at least managed to stay positive:

Europe's unemployment rate, meanwhile, is 11.5 percent, compared with 6.2 percent for the United States. European inflation is also dangerously low, near zero percent, while U.S. inflation isn't far from the Fed's target of 2 percent. Low inflation sounds great, unless you consider the case of Japan, or the U.S. in the Great Depression. In those cases, prices kept falling, so people stopped buying stuff because they expected prices to fall ------ which they did, which made people continue to not buy stuff. All the while, the economy got worse. That's the path Europe is on. It's largely the fault of Europe's fiscal policy makers, who have stubbornly refused to spend money to stimulate the economy, aside from a paltry stimulus package that amounted to just 1.5 percent of GDP in 2008. By comparison, the U.S. stimulus plan in 2009 was worth more than 5 percent of GDP. Europe has also imposed strict austerity measures on Greece and other countries struggling with high debt loads. The ECB hasn't helped by waiting too long to act aggressively. And now it's playing catch---up.

Asian Markets Slowdown

Asian stocks have been falling on China's projection for slowing growth. Japan's machinery orders fell the most in the last decade. Long term growth issues remain with some leaders begging for more stimuli.

When Asian, as well as European economies show slowing, the equity capital increases toward the U.S. Dollar.

CHINA

The Chinese growth rate and GDP (Gross Domestic Product), has slowed to the point where Asian growth is still strong, however many analysts believe that it has peaked.

For example China's economic expansion was at 9% several years ago and now is within the 7% range. This is not entirely negative; however it is a slowing of the positive.

JAPAN

The Japanese government and the bank of Japan have instituted a policy to purposely devalue the yen in their effort to stimulate their stagnant economy. With an economy one---third the size of that of the United States, Japan has committed itself to a fiscal program that's almost double the U.S. Federal Reserve's recent $85--- billion a month stimulus. This monetary policy is making the US Dollar more appealing for international investors.

Geopolitical Turmoil

Russia / Ukraine

The events unfolding in the Ukraine, with Russian expansionism under way, is being met with economic sanctions being levied on Russia by the United States and Europe. The result is a crippling of the Russian economy sending the Ruble (Russian currency) to historic lows against the US Dollar. The fear of reprisals and further expansionist measures are causing a massive global capital flow into the US Dollar, raising its value, as the US is considered the safest location in these times of chaos.

ISIS

The battle against extremist terrorism in the Middle East has now entered a new phase – war! The actions by ISIS have allied the United States with neighboring Middle Eastern countries to fight this threat. The fear of further escalation and of the unknown is producing massive capital flow into the US Dollar as a safe haven.

FUTURES CONTRACT SPECIFICATIONS

Units of Trading	One futures contract (USD$100,000.00)
Contract Symbol	DX
Quotation	US Dollar Index points, calculated to three decimal places .010 = $10
Tick Size	.005 = $5
Contract Listings	Four months in the March/June/September/December quarterly cycle and the nearest two calendar months. For a serial option, the futures contract underlying the option is the next quarterly futures contract
Price Limits	The DX contract has no price limits
Strike Price Increments	Intervals of one US Dollar Index trading point (1.00)
Price Quotation	Price quoted in US Dollar Index points out to 3 decimal places.
Last Trading Day	Two Fridays before the third Wednesday of the expiring contract month
Final Settlement	The US Dollar Index is physically settled on the third Wednesday of the expiration month against six component currencies (euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc) in their respective percentage weights in the Index. Settlement rates may be quoted to three decimal places.
Position Limits	The DX contract has no position limits.
MIC Code	IFUS
Clearing Venue	ICUS

TRADING HOURS

Exchange	Trading	Pre---Open
NEW YORK	8:00 PM---5:00 PM * 20:00---17:00	7:30 PM 19:30
LONDON	1:00 AM---10:00 PM 01:00---22:00	12:30 AM 00:30
SINGAPORE	8:00 AM---5:00 AM * 08:00---05:00	7:30 AM 07:30

* Next Day

13 Year USD Dollar Index Movement Chart

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