

SOM Macro Strategies

Macro Commentary: Further Downside To The USD From Fed QE

July 21, 2020

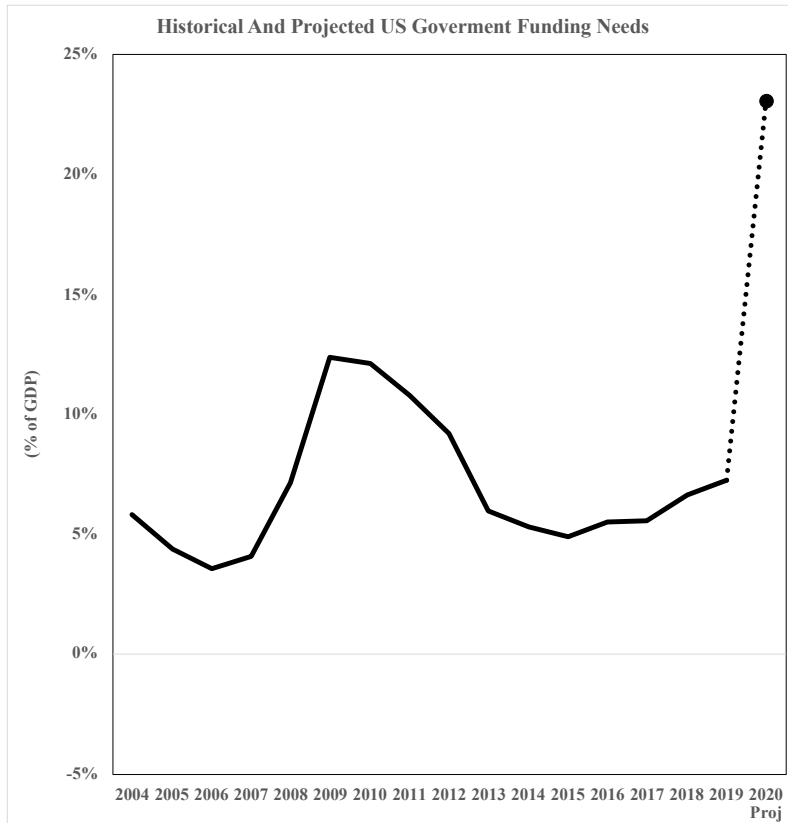
Alan Brazil

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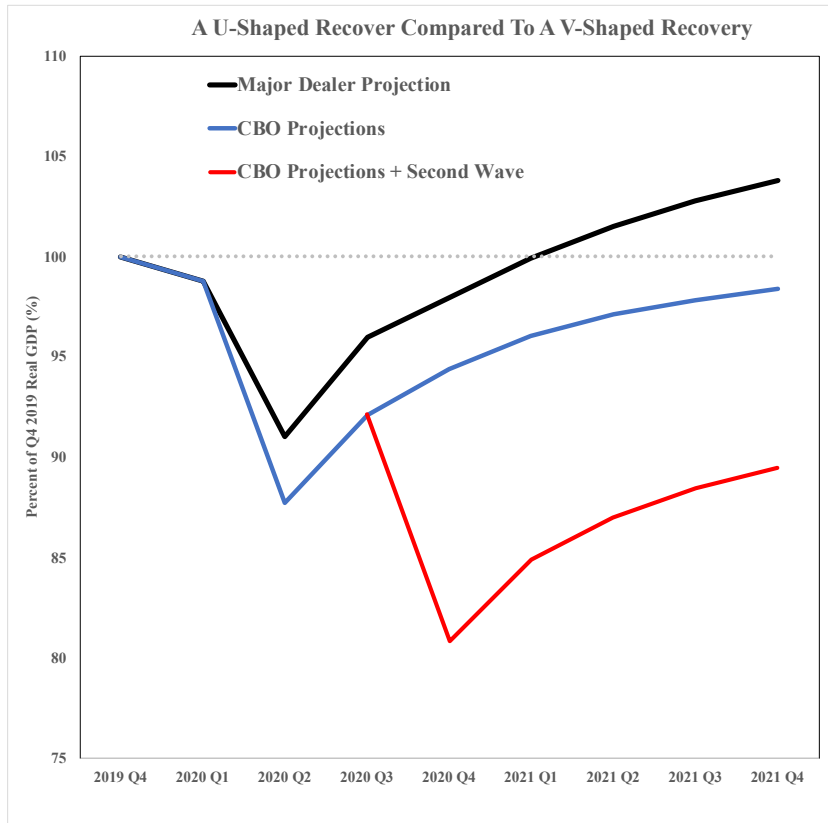
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Virus Stimulus Has Doubled Deficit vs GFC-- What Happens Next Year With A U-Shaped Recovery?¹

Project US Deficit Will Surge With Virus Stimulus In 2020



Deficit Could Still Be Substantial In 2021 As Well



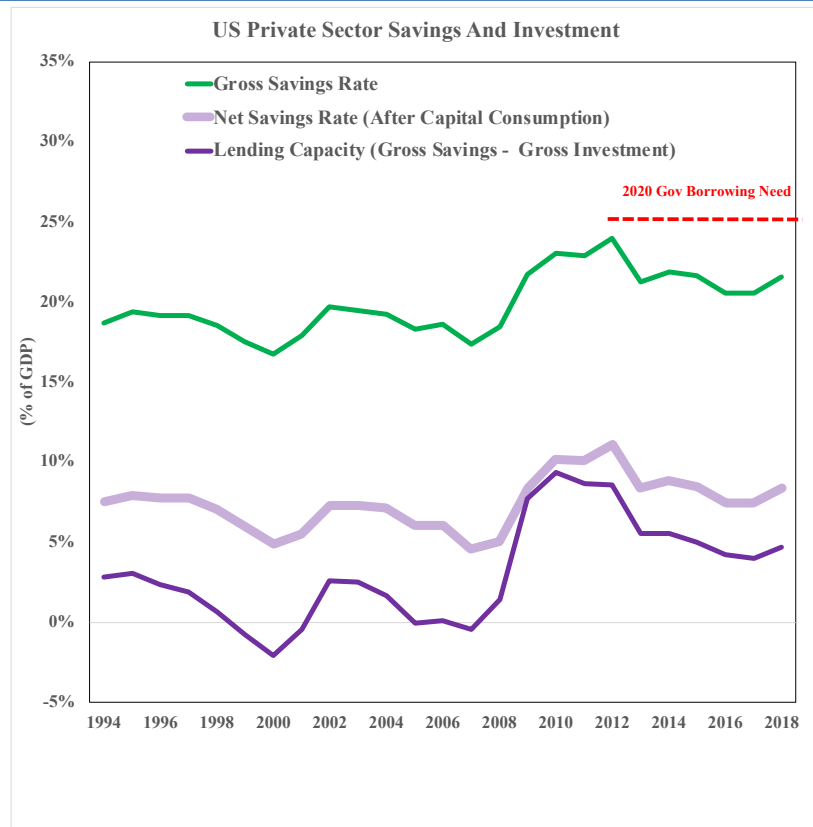
1. CBO Budget Projections 2020

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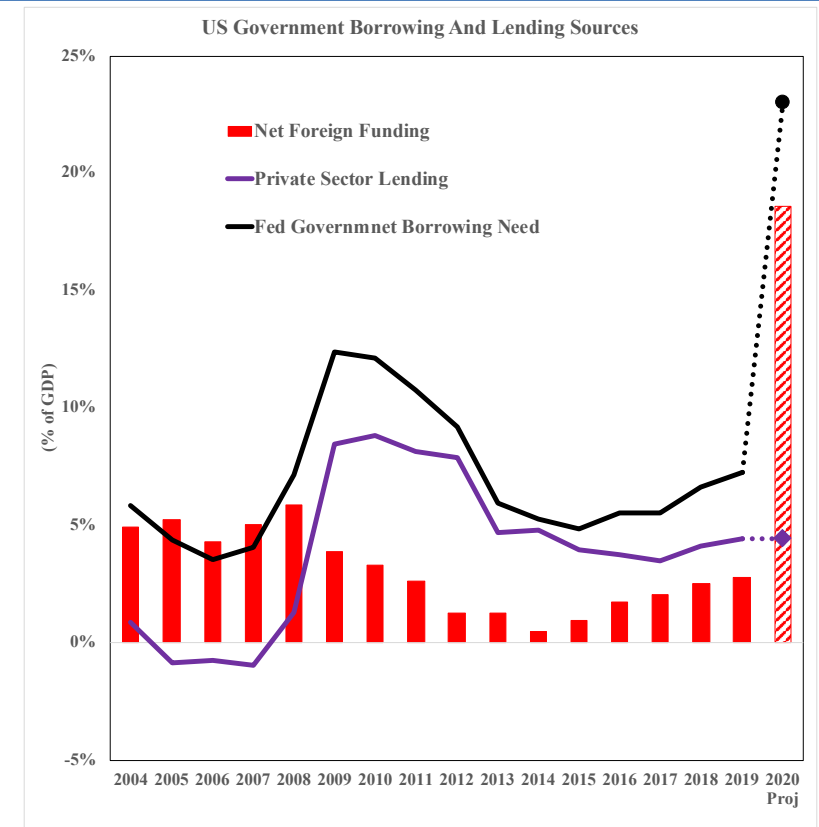
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Federal Borrowing Will Be Almost 5-times The Levels of The GFC, Increasing Foreign Funding Needs¹

Federal Borrowing Will Swamp Domestic Private Lending Capacity



Substantial Increasing The Reliance On Foreign Capital

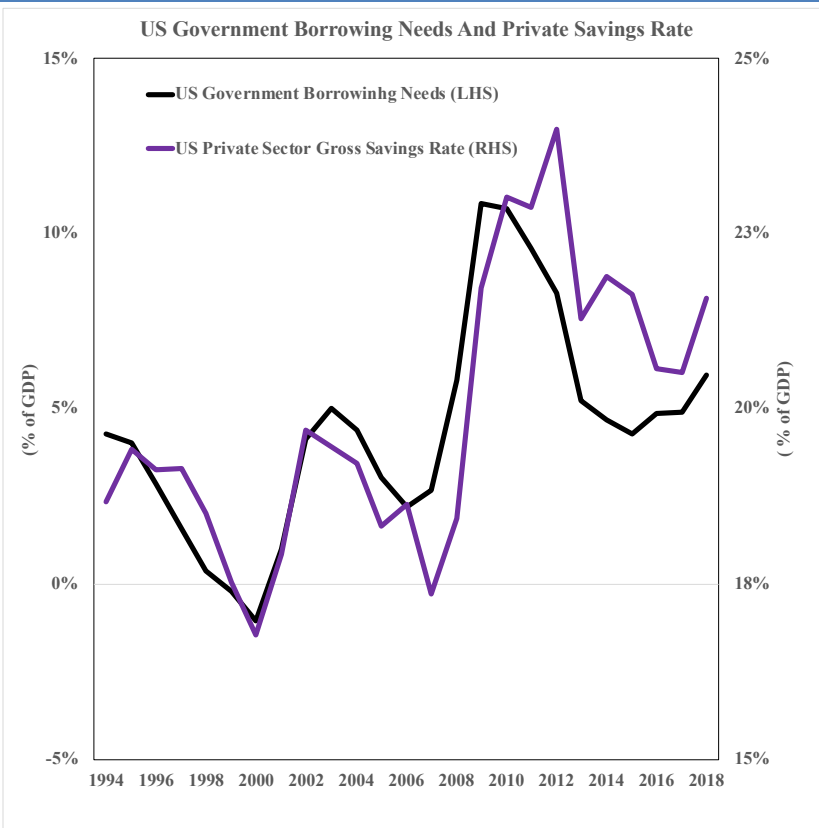


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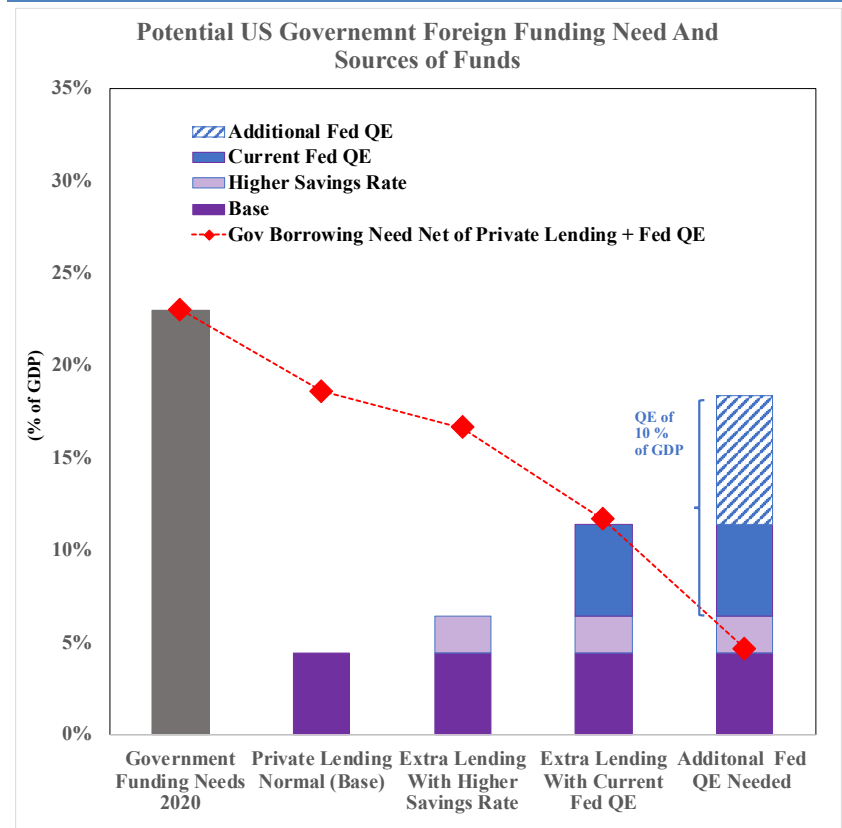
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The Fed Will Need to Expand Current QE Plans To Plug the Gap Even With Increased Private Savings

Private Sector Savings Will Increase But Just Not Enough¹



The Fed Needs To Ramp Up QE Substantially^{1,2}



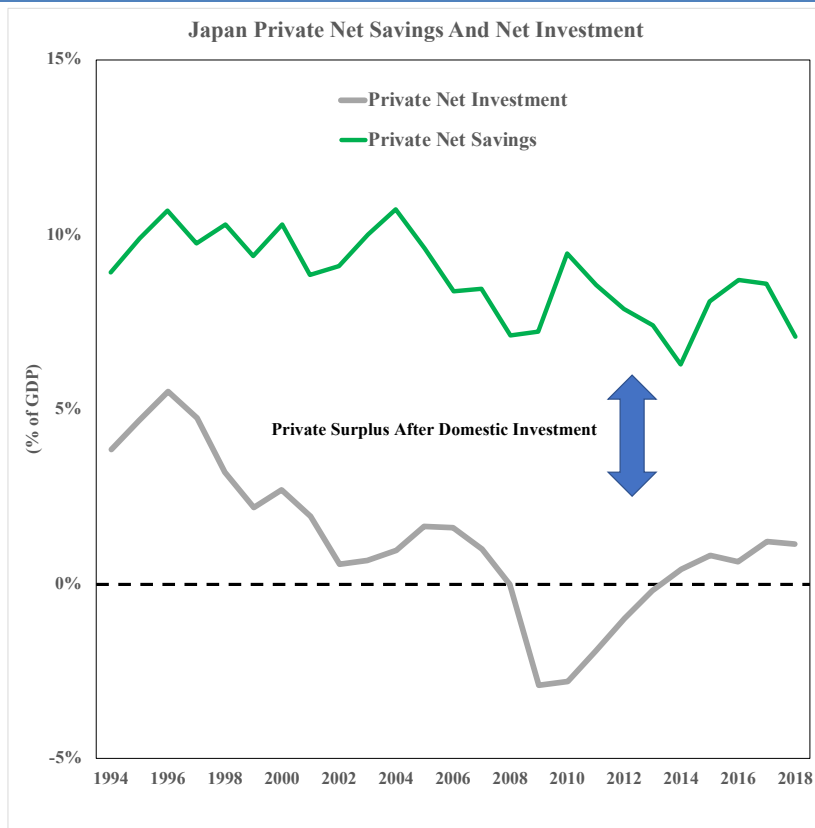
1. BEA GDP Reports
2. Bloomberg

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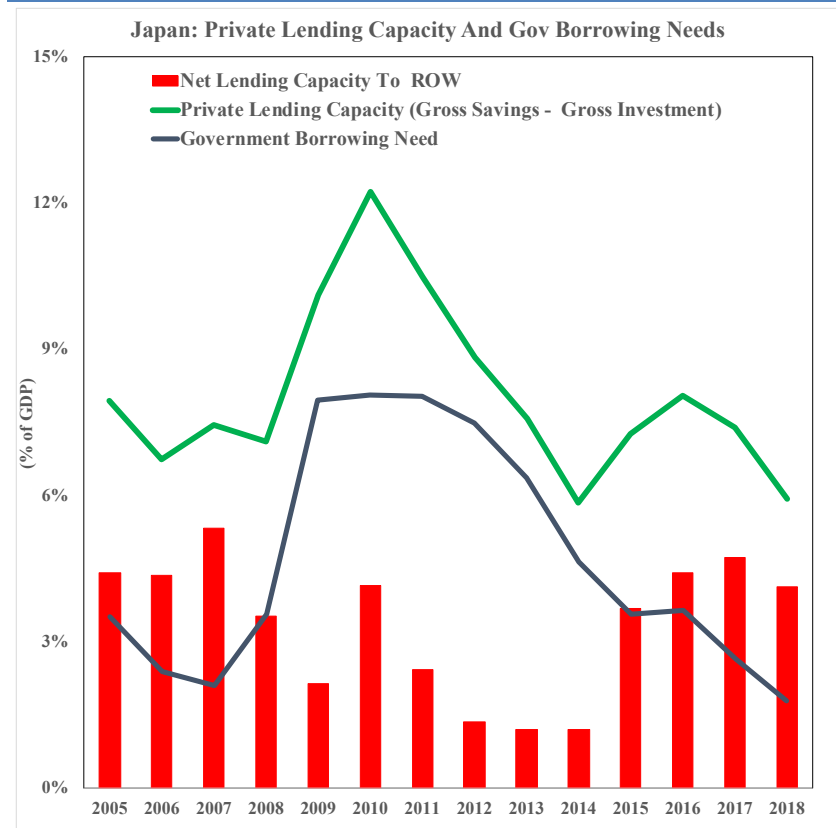
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Capital Flows Could Determine The Fate Of The Dollar Particularly Flows From Japan¹

Japan Is A Key Source of World Capital



Japan Capacity To Invest/Lend Overseas Is Substantial

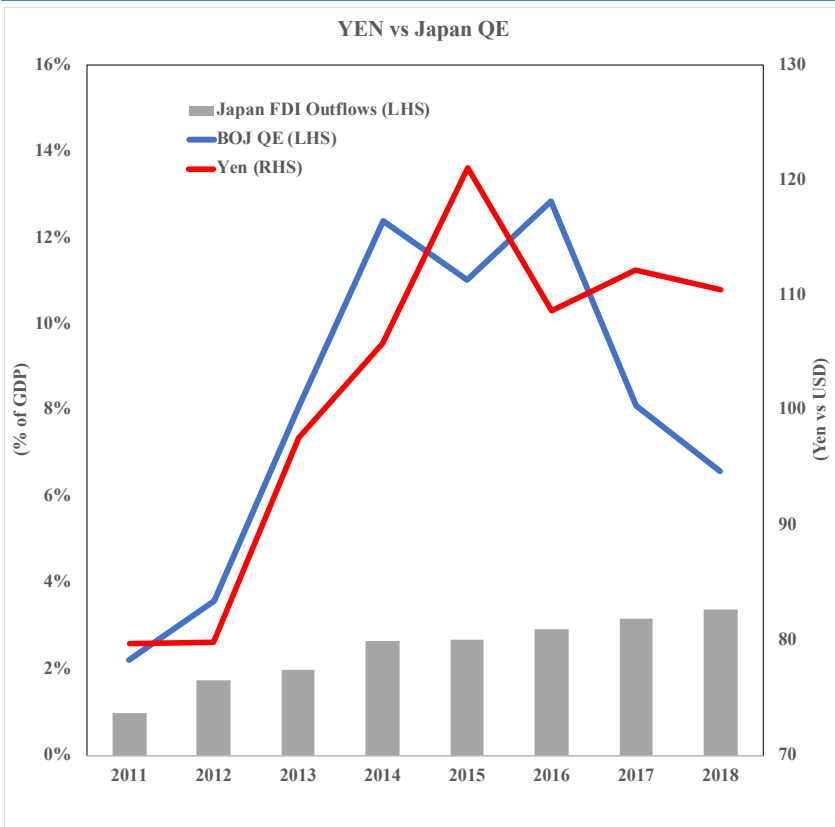


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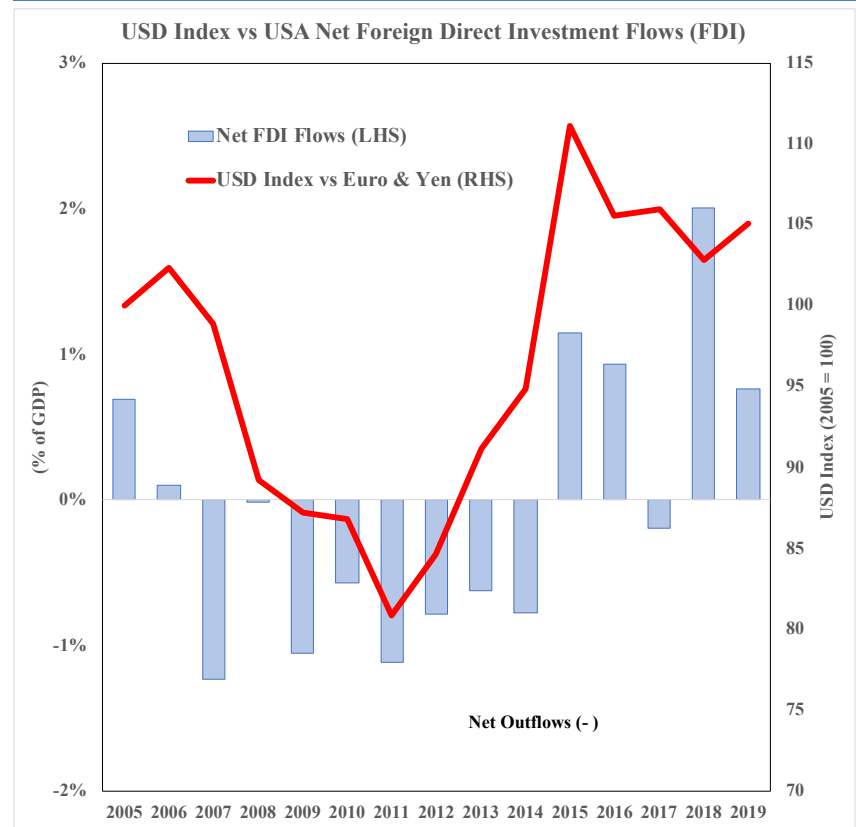
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Japan QE Drove Capital Out and The Yen Down: Where Does It Go As The Fed Ramps Up QE?

Japan QE Pushed Capital Out And The Yen Down^{1,2}



Those Flows Came To The US, But What Happens After US QE?^{1,2}



1. OECD, FDI Data Base
2. Bloomberg

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