

**SANTIAGO
CAPITAL**



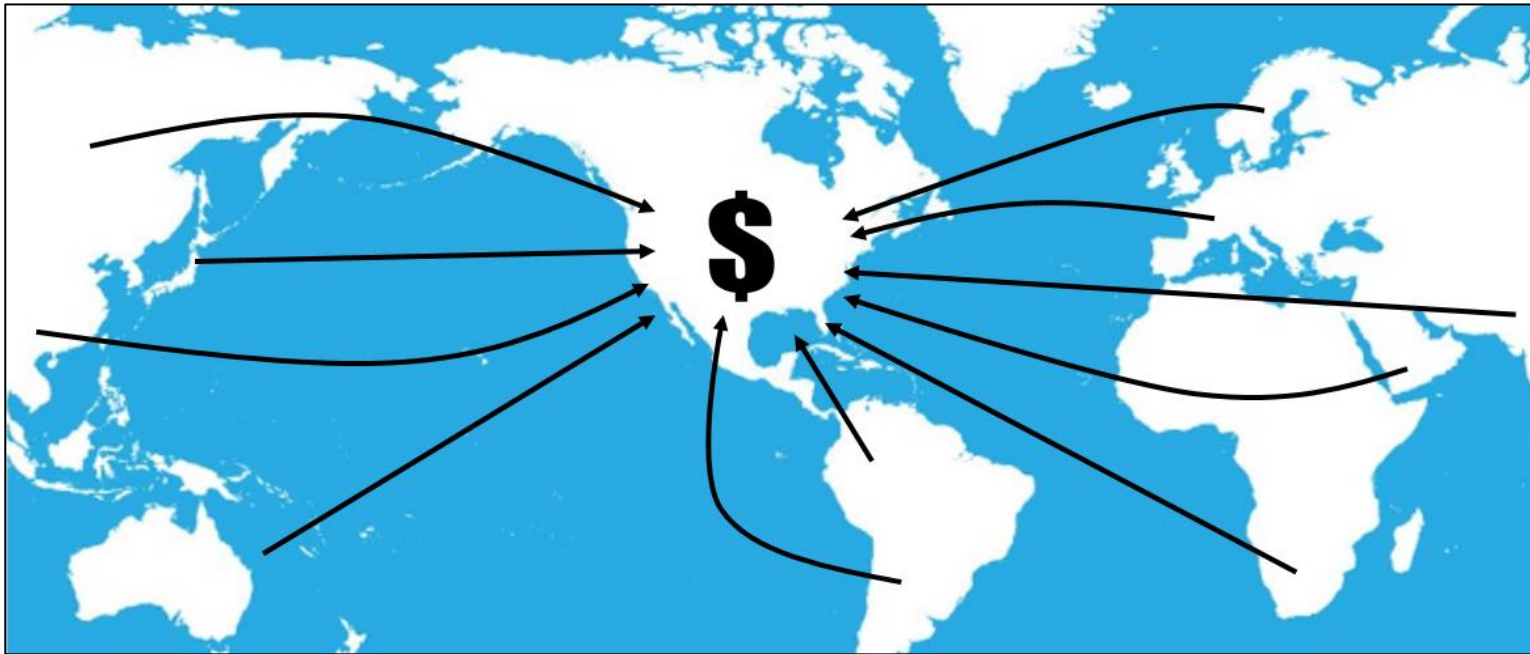
MACROVoices

October 2024

The U.S. Dollar

All financial roads go through the USD.

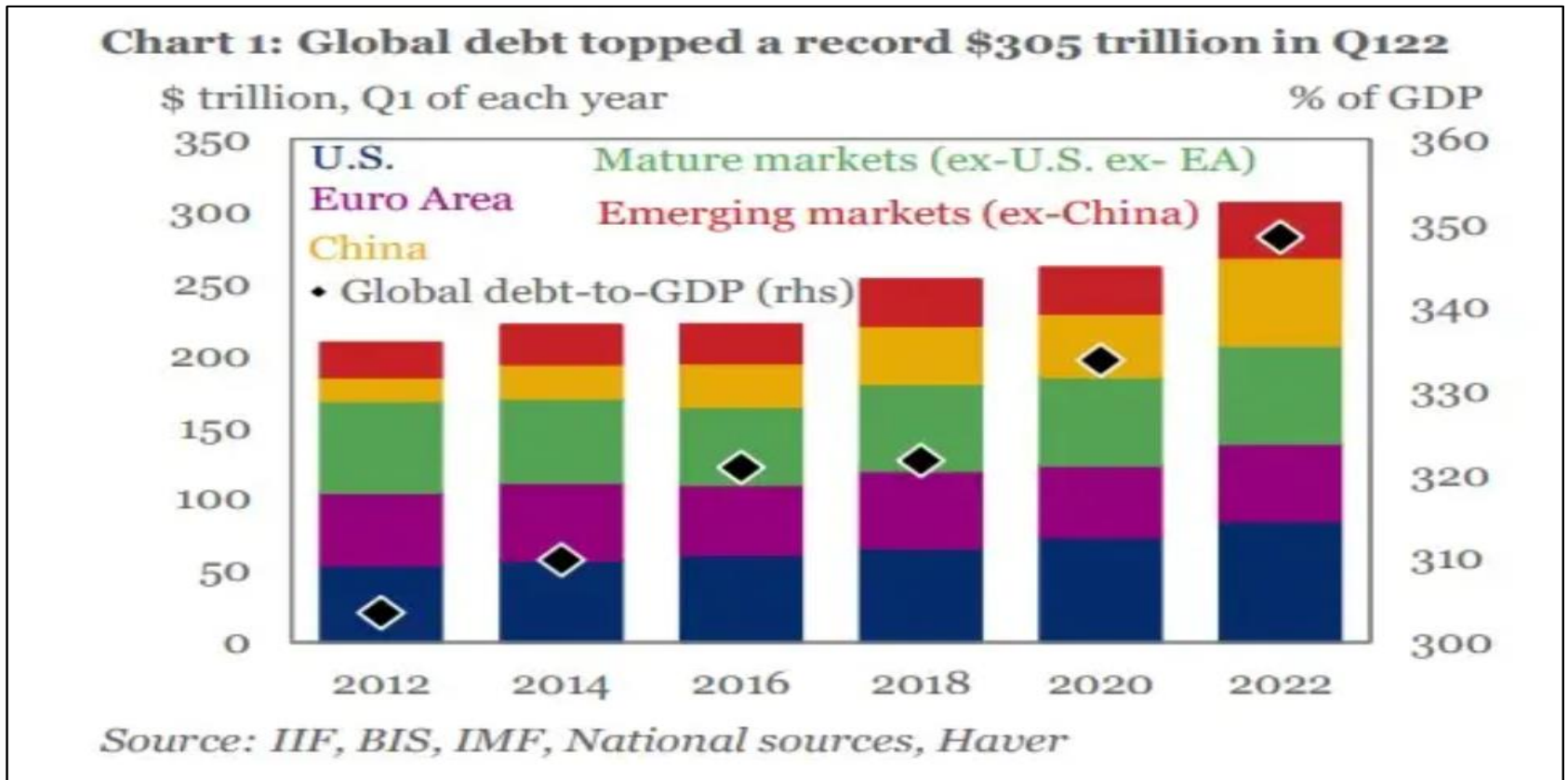
I focus on the USD because it is the single most important factor in getting the Macro picture right.



If you get the USD wrong...the odds of your portfolio doing well...are greatly diminished.

The Dollar Milkshake Theory

The DMT is an event driven thesis based on the consequences of too much Global Debt.



I think everyone sees the problem. In my opinion many get the knock-on effects wrong.

The Dollar Milkshake Theory

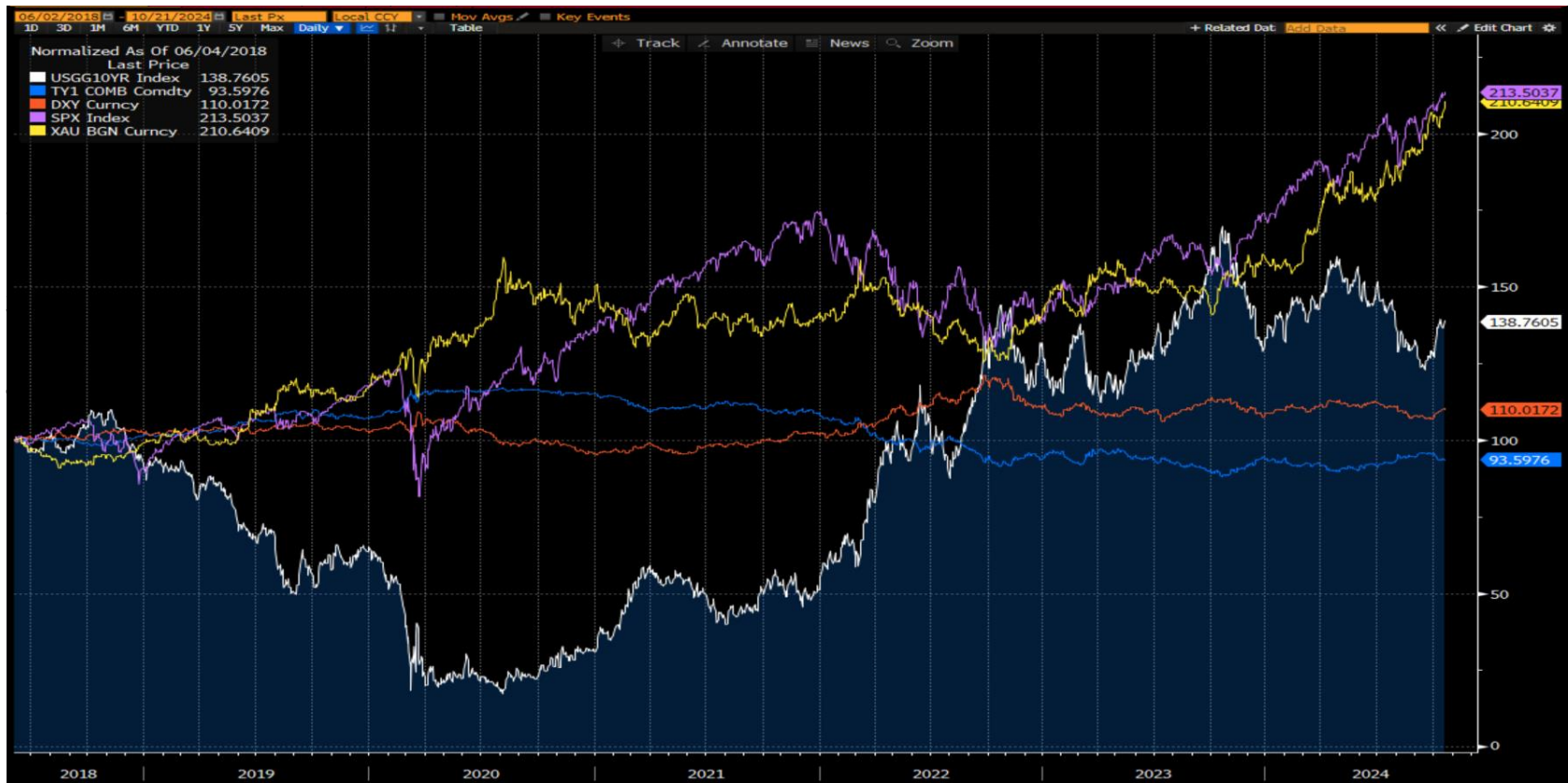
From the very beginning, there were 6 main points...

1. Interest Rates headed higher
2. Bonds Break
3. Dollar Rises
4. US Equities Rise
5. Gold Rises
6. The US outperforms the Rest of the World

...I wanted to get across.

The Dollar Milkshake Theory

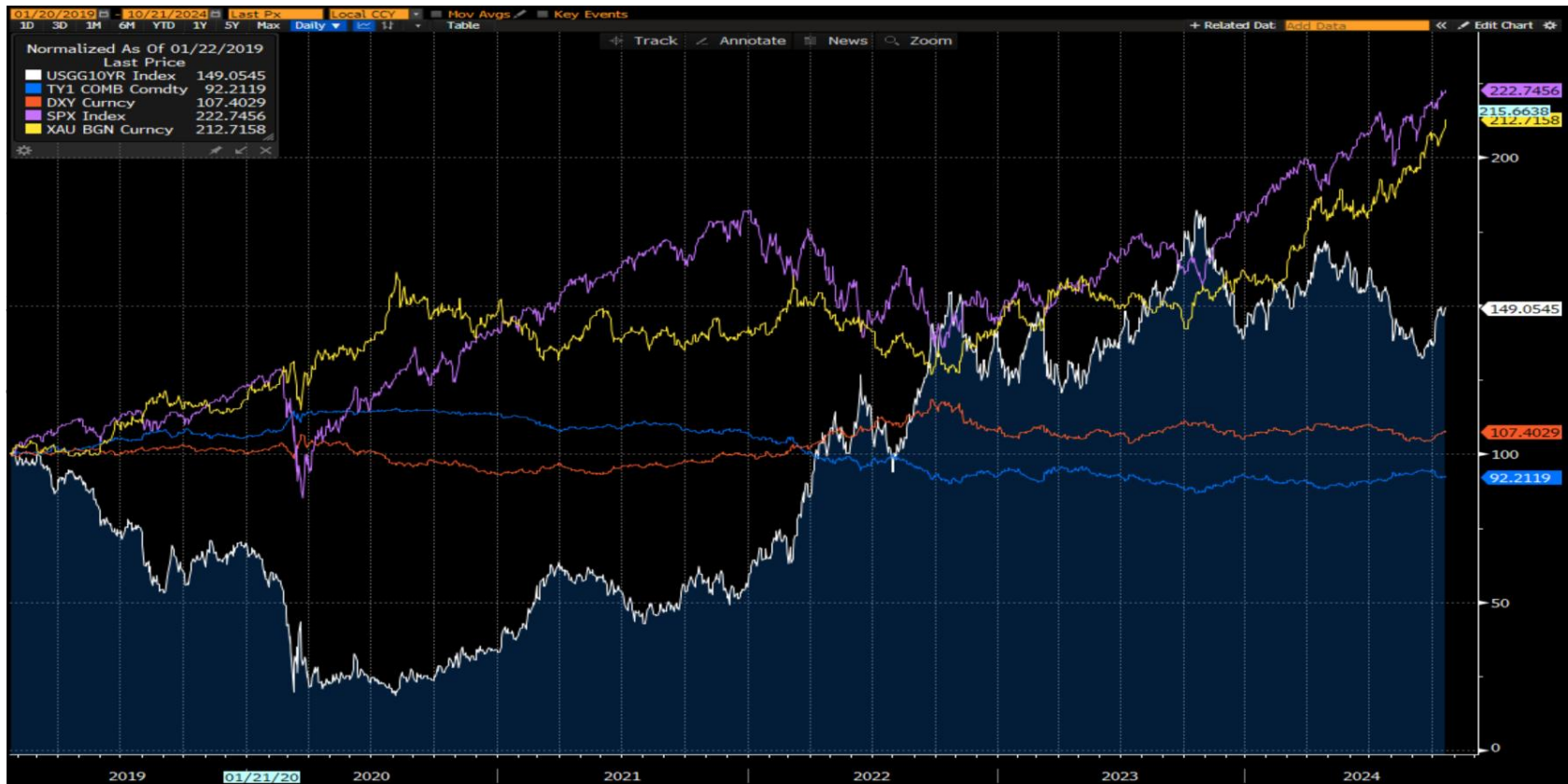
Since I first discussed this in summer of 2018...



...rates higher, bonds lower, dollar higher, US equities higher & Gold higher.

The Dollar Milkshake Theory

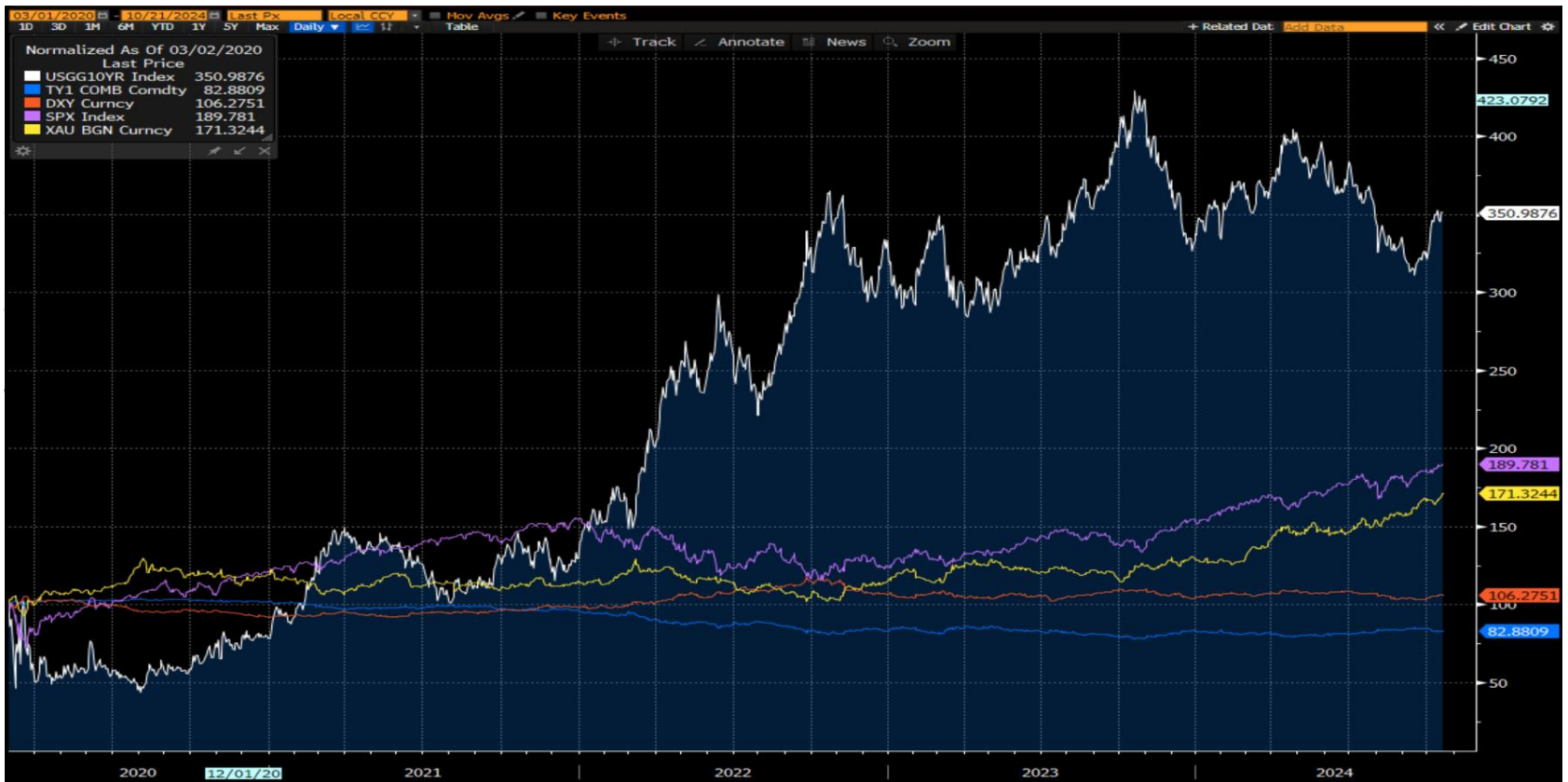
Since I said at Macro Voices conference in 2019...



...rates higher, bonds lower, dollar higher, US equities higher & Gold higher.

The Dollar Milkshake Theory

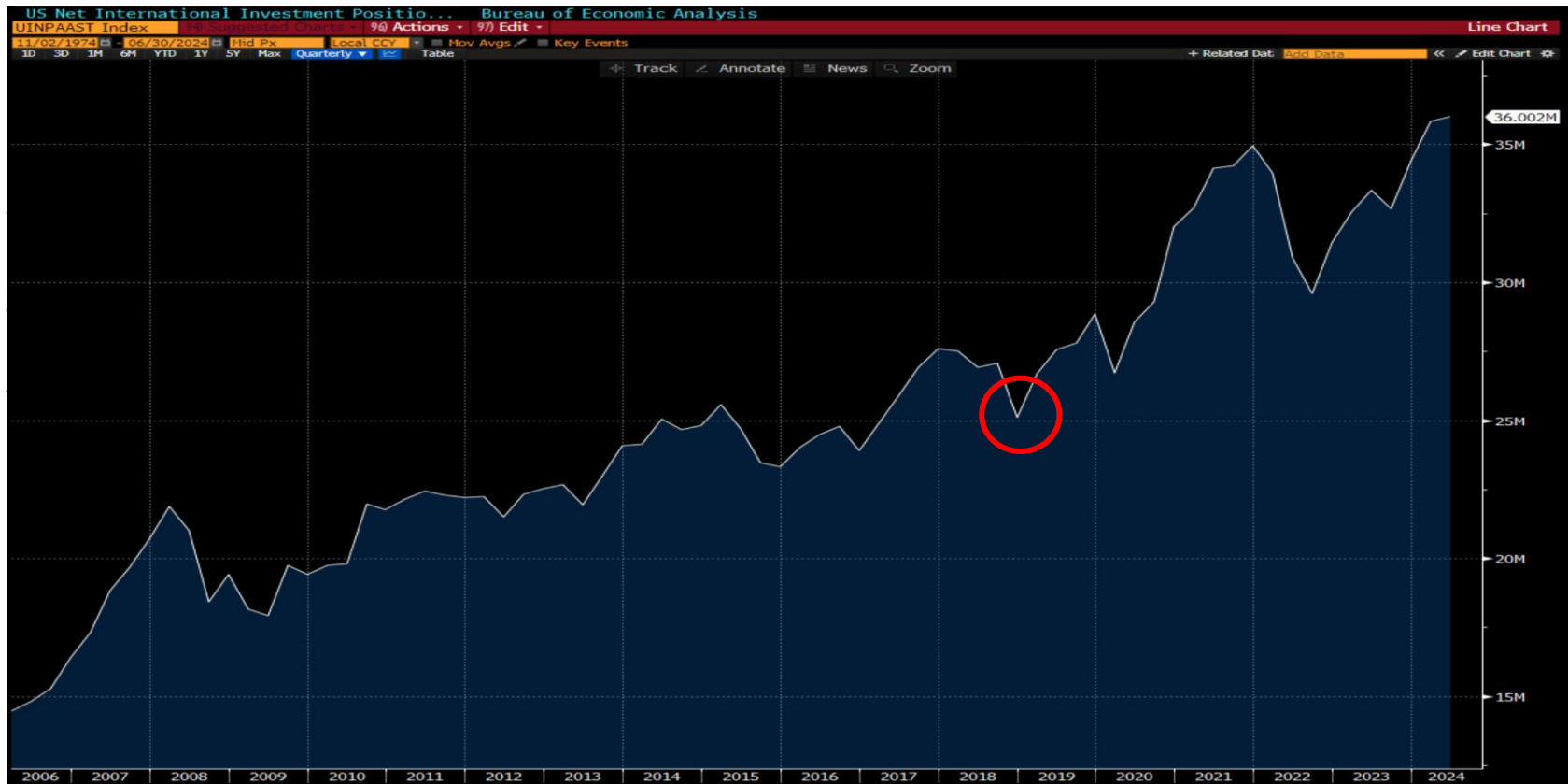
Since Covid in 2020...



...rates higher, bonds lower, dollar higher, US equities higher & Gold higher.

The Dollar Milkshake Theory

The U.S. Net International Investment Position since mid 2018



...has risen over 30%.

The Dollar Milkshake Theory

SPX vs Emerging Market Equities since 2018



The Dollar Milkshake Theory

In my very first interview on this topic...

I said Dollars and Gold would rise together...

So as far as gold and the dollar rising together, I know that seems kind of contradictory. But at the end of the day, I really don't think it is. They're both currencies, and they're both measured against all other currencies in the world. And I think in the same way that the yen and euro could rise together, dollars and gold could rise together against a number of of different fiat currencies.

When markets start melting down, and when chaos starts to happen, and confidence starts to get lost, and you can feel the panic in the streets, that's typically great for gold. So, whether or not things panic and break down in the United States, if they panic in Europe, or if they panic in Africa, or they panic in Asia, that's a good opportunity to provide a chaos trade, so to speak, or a safe haven trade. And I think dollars will benefit from that, but gold will benefit too. And again, we don't need everybody to sell everything they own and go buy gold. The gold market's very small on a per capita basis. We just need the rest of the world to put 1% or 2% of their assets in gold, and gold doubles. So we don't need a mass exit out of fiat currency into gold for gold to do very well."

"The other reason that gold and the dollar can rise together is that we talked about gold being a small market. Well, if the dollar is rising a lot-- and I mentioned other currencies would be going down a lot-- if those investors do start seeking out gold, if Europeans start buying gold en masse, or the Asian continent starts buying gold en masse, that can have dramatic implications for supply of gold. And so again, we don't need it to be really big for it to impact. And that's another reason why, even though the dollar may be getting a safe haven trade, that gold can get a safe-haven trade as well."

...vs other fiat currencies.

The Dollar Milkshake Theory

Can the DMT be wrong...? YES!

If the world goes into a Sovereign Debt & Currency crisis, & the USD does not rise vs its fiat peers...



...the theory will be proven wrong. Until then...

The U.S. Dollar

When I was last on MacroVoices, the DXY was at 105.
It is now slightly lower.



The Fed wants to Cut...but can will they out Dove the rest of the world?

The U.S. Dollar

Why is the level of the USD so important?

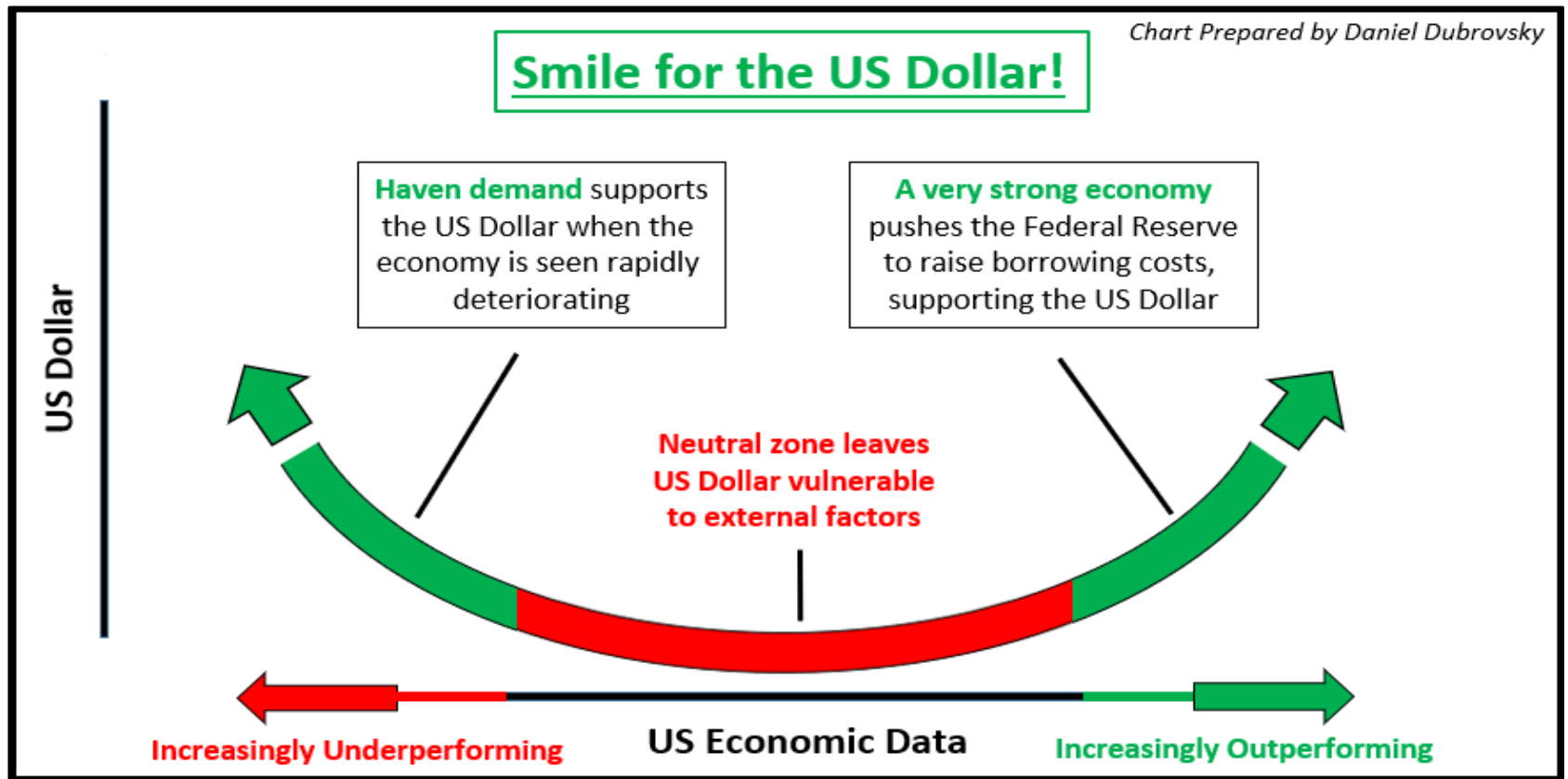
Because every economic slowdown & crisis of the last 25 years has coincided with a rising DXY...



...and I don't think it will be "different this time".

The U.S. Dollar

Based on the Design of the Monetary System, the USD benefits from dual drivers.
The “USD Smile”...



...sees the USD benefitting in both economic extremes.

The U.S. Dollar

Despite many years of QE, multiple bailouts, stimulus programs and helicopter money...



...the DXY is still almost 20% higher than it was at the beginning of 2008 & the GFC.

The U.S. Dollar

Does this mean the dollar is guaranteed to continue its rally here...?



Of course not. But let's look at a few of its competitors.

The Euro

The Euro broke its long-term support in 2022 and retested the break-down zone earlier this year.



I expect the euro to go back to parity with the USD before ultimately falling to 80.

The Yen

The Yen also broke long term resistance in 2022 and earlier today tested it next critical level.



The BOJ is likely to defend it but I expect the Yen to go to 200...and then 250.

USD vs Fiat Peers

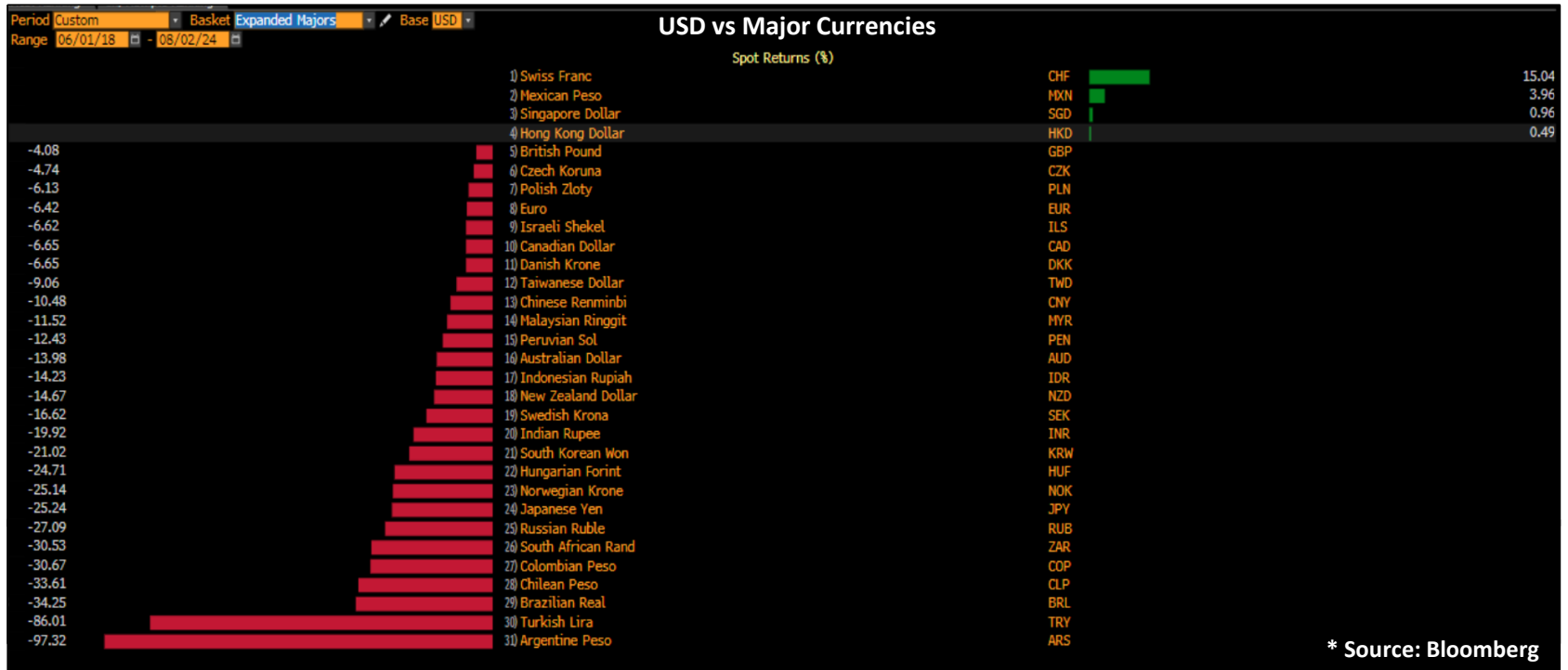
The U.S. has committed many Fiscal sins...



...but it is not alone.

USD vs Fiat Peers

The USD has not only risen vs the Euro and the Yen...



...it has risen vs almost every currency on the planet.

BRICS Currencies vs the USD

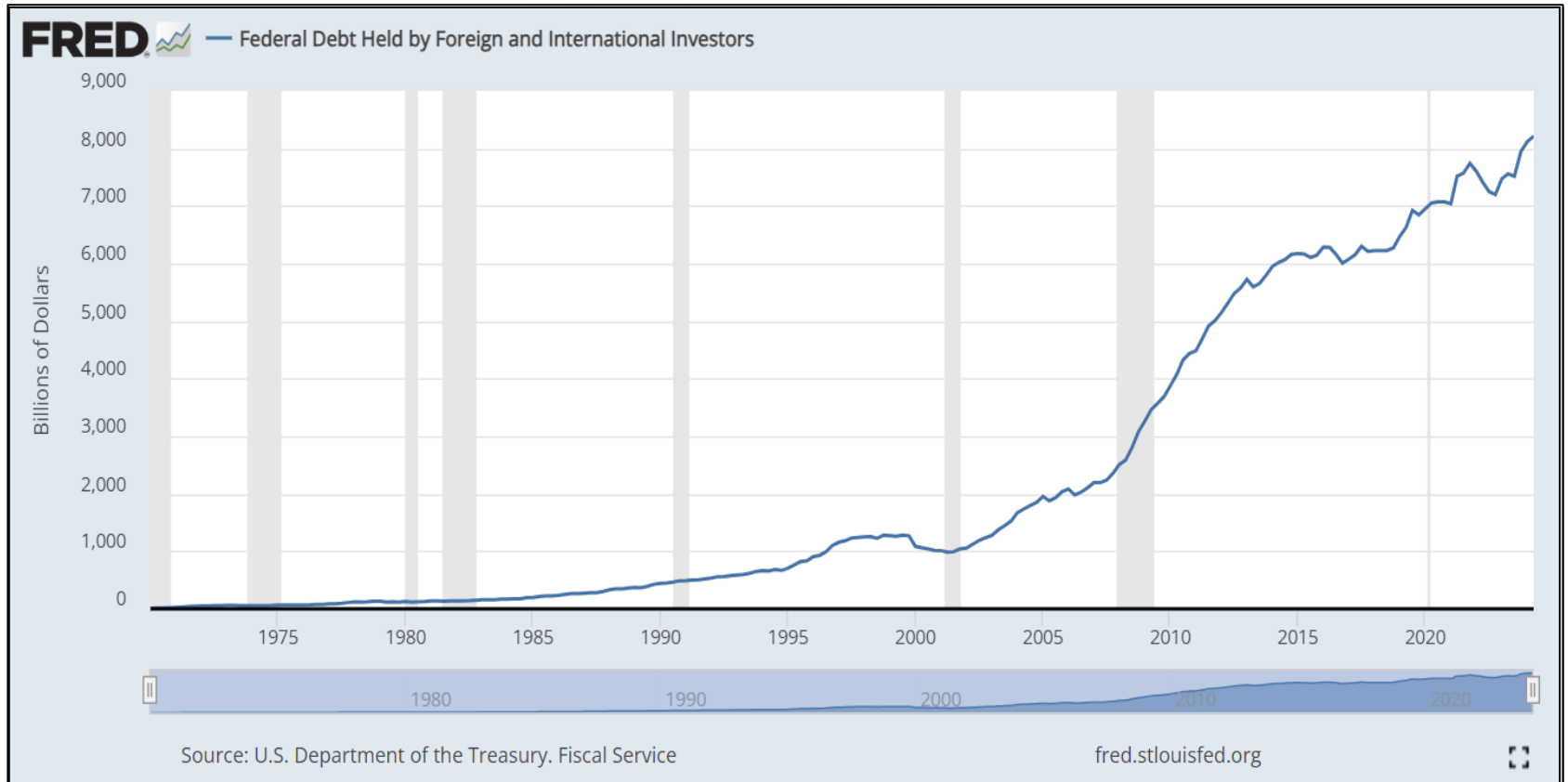
Since the BRICS was founded, the currencies of the BRICS countries have fallen over 50% vs USD...



...the one exception is the Yuan, and that's because it is a pegged currency.

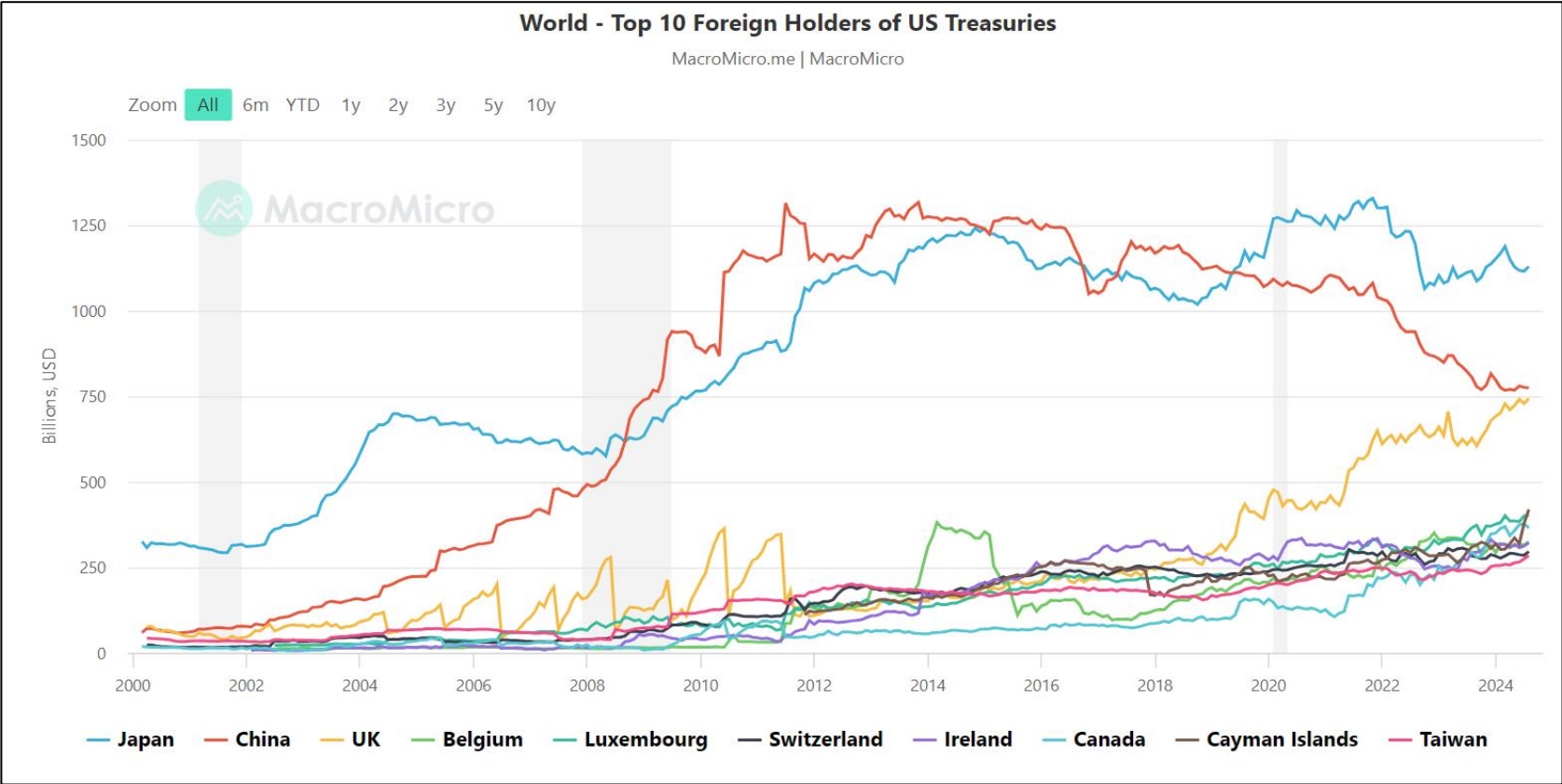
Foreign Holdings of US Treasuries

At an all time high...



Foreign Holdings of US Treasuries

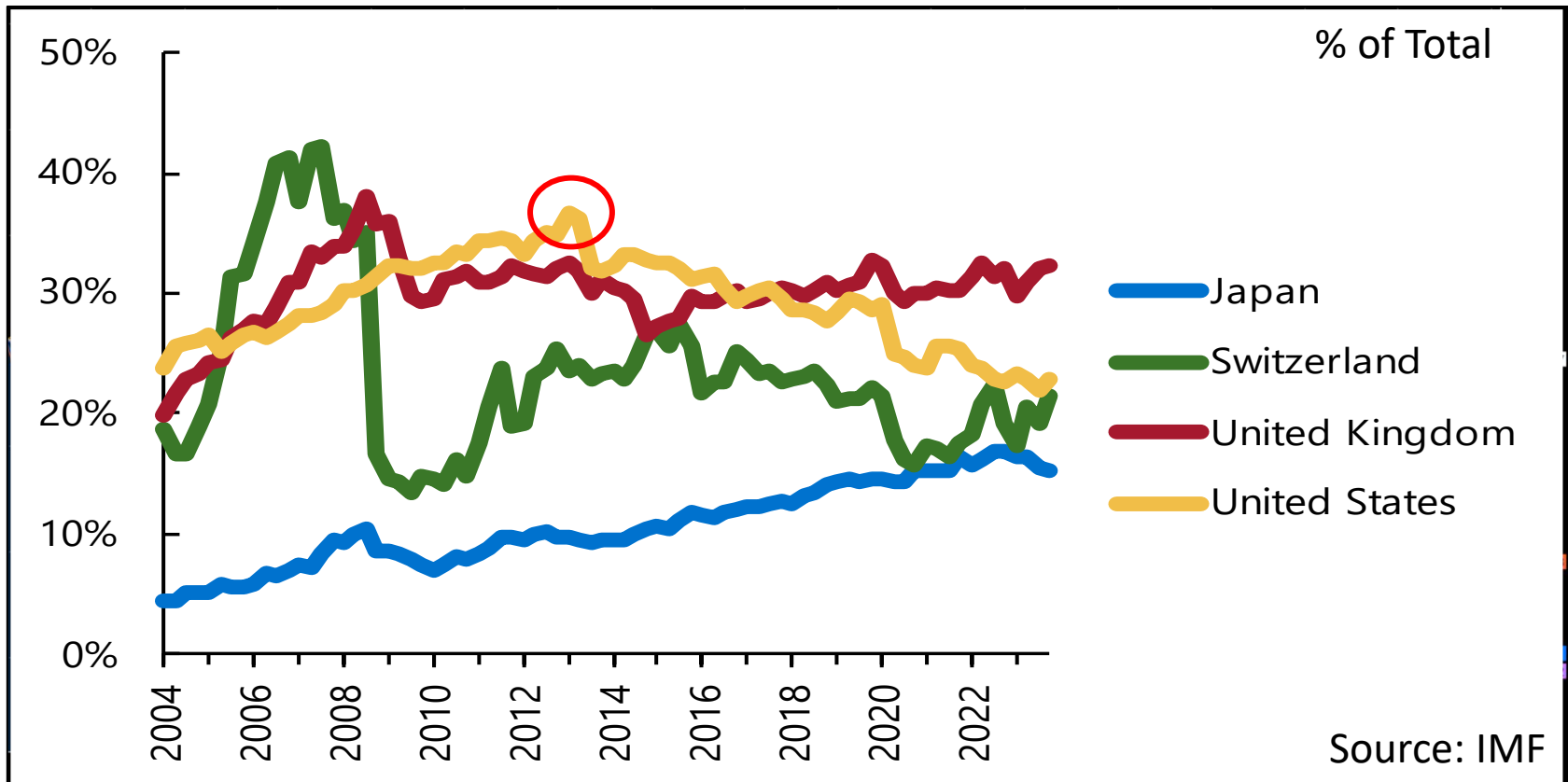
It is also often pointed out that many of the large Foreign Holders of USTs are offshore tax havens



There is a reason for this.

Foreign Holdings of Global Sovereign Bonds

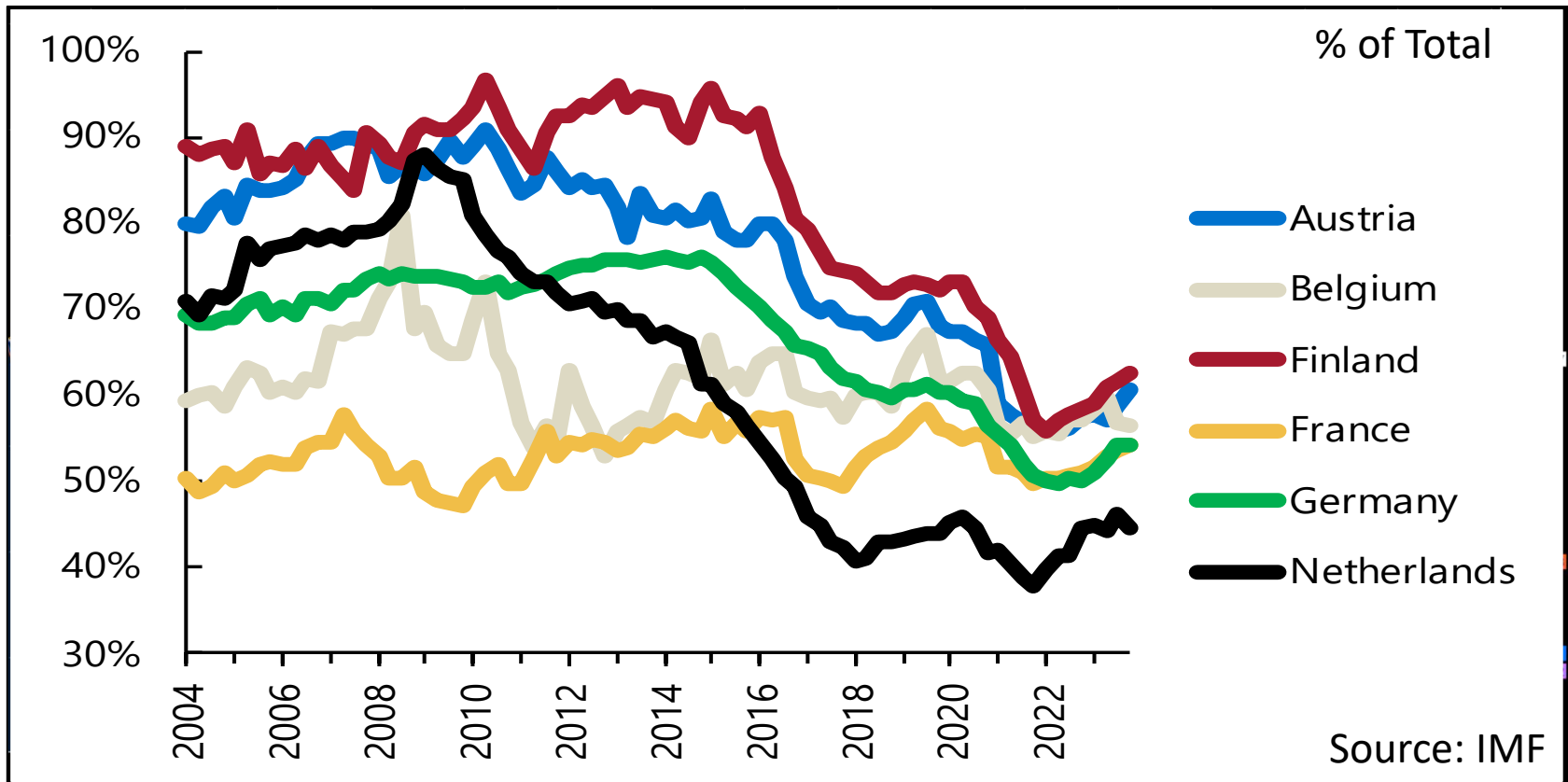
It is often pointed out that Foreign Central Banks stopped buying USTs in 2014



What isn't often mentioned is the same is true for Switzerland.

Foreign Holdings of Global Sovereign Bonds

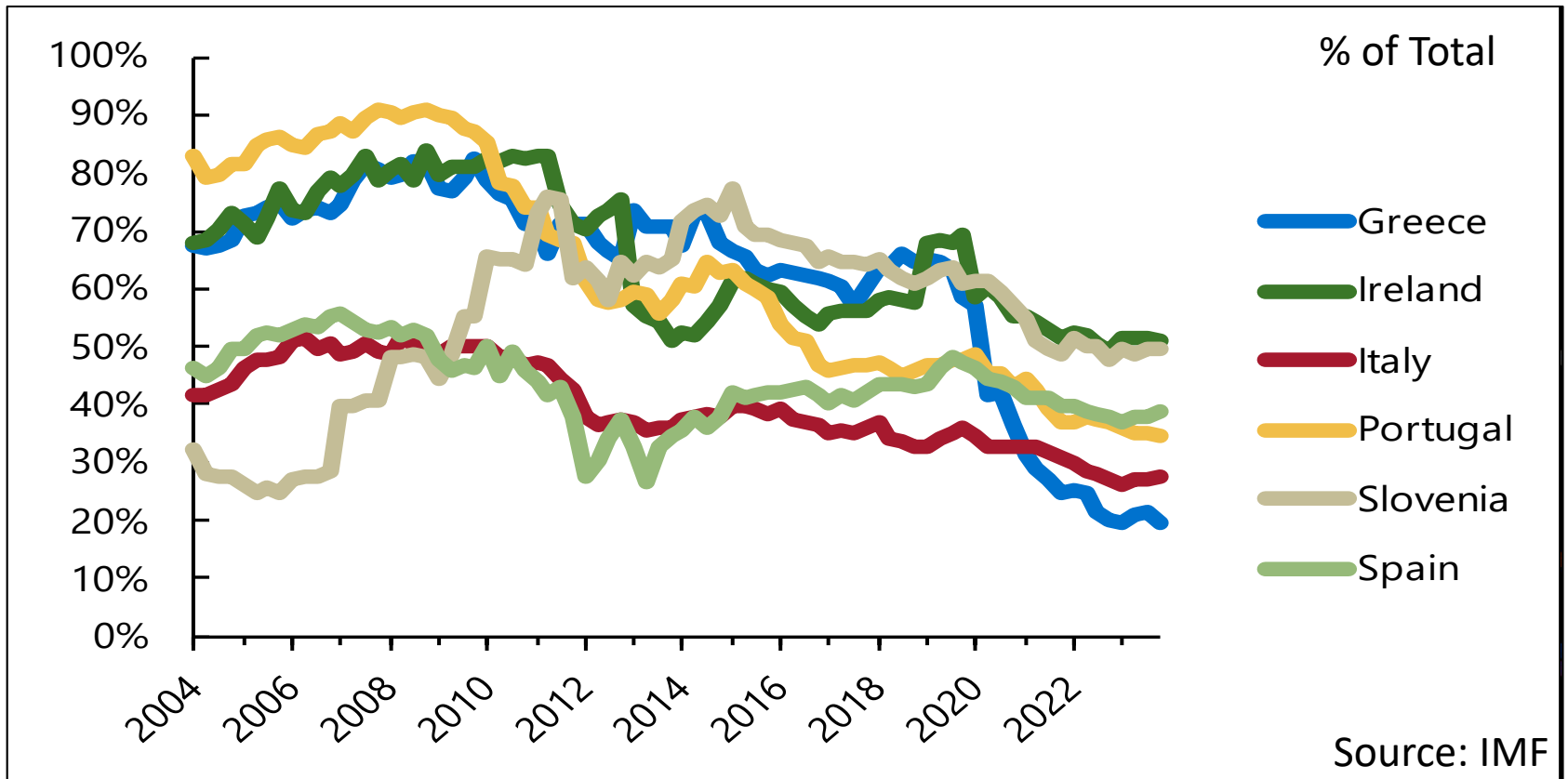
It is often pointed out that Foreign Holdings of US Treasuries have fallen since 2014



And Austria, Belgium, Finland, France, Germany, and Netherlands.

Foreign Holdings of Global Sovereign Bonds

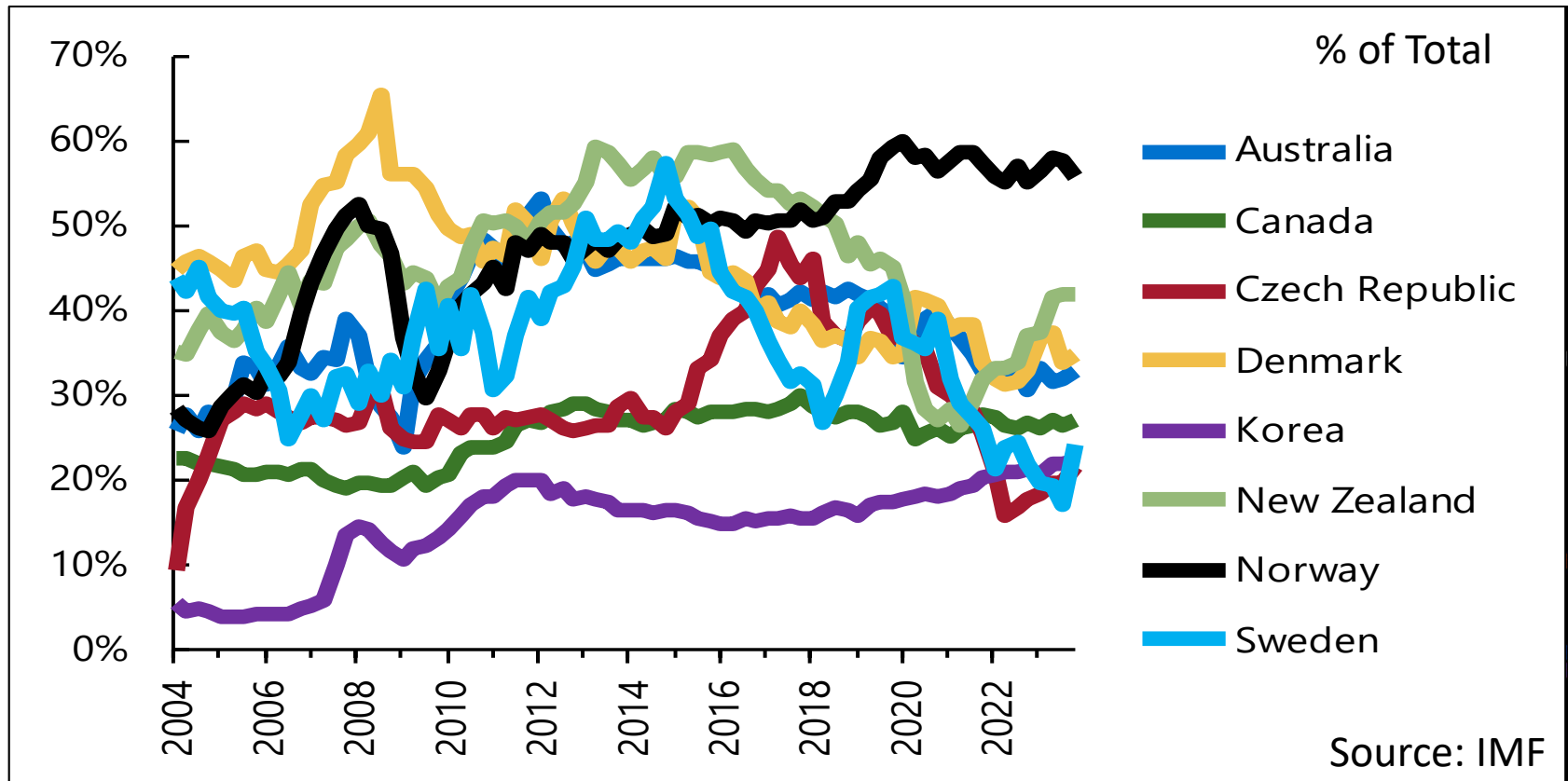
It is often pointed out that Foreign Holdings of US Treasuries have fallen since 2014



And Greece, Ireland, Italy, Portugal, and Slovenia.

Foreign Holdings of Global Sovereign Bonds

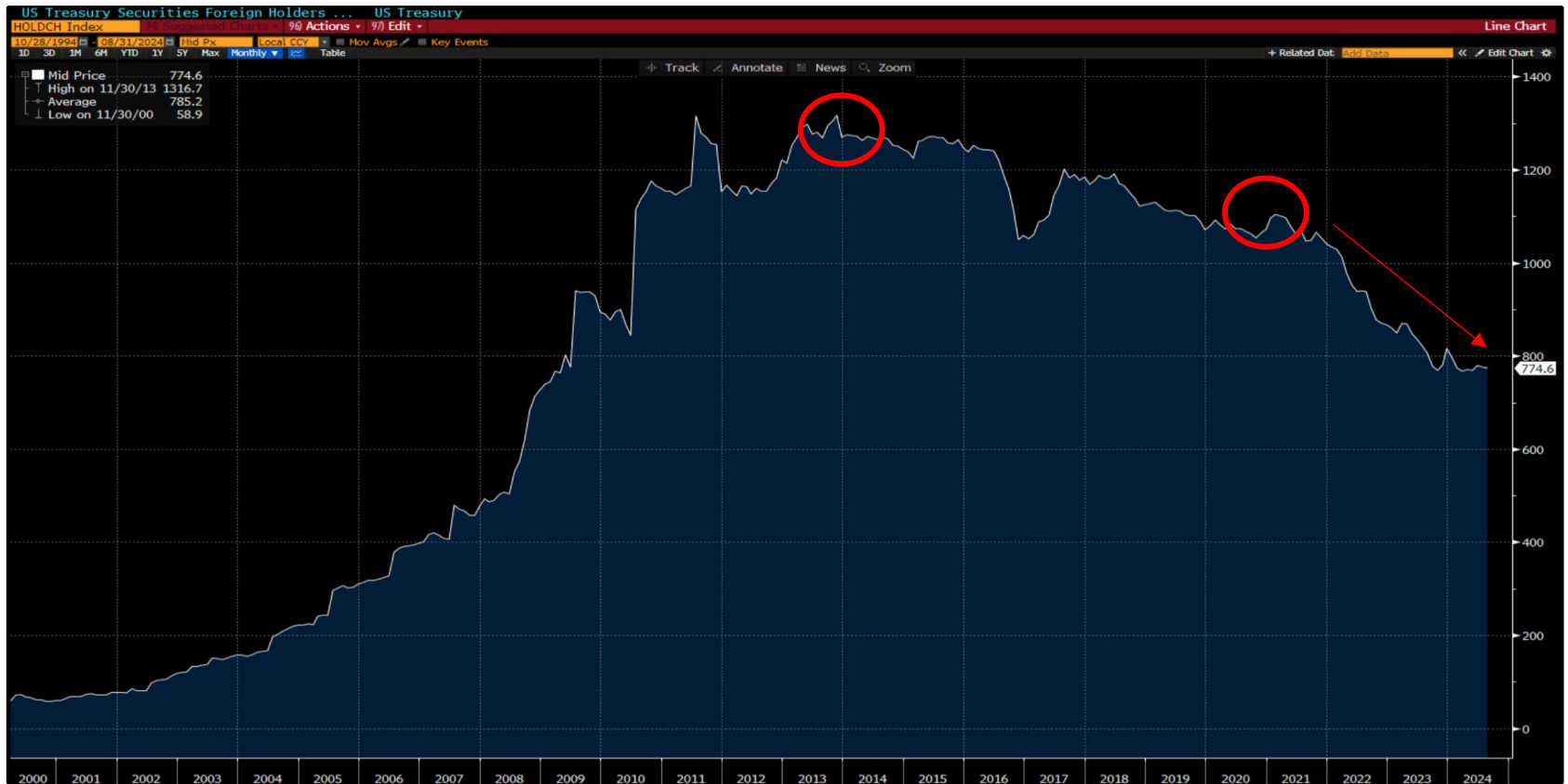
It is often pointed out that Foreign Holdings of US Treasuries have fallen since 2014



And Australia, Czech Republic, Denmark, New Zealand, & Sweden.

Chinese Holdings of US Treasuries

It is often pointed out that Chinese Holdings of US Treasuries have fallen since 2014



...And the decline really picked up speed in 2021 as they sold US Treasuries.

Foreign Holdings of US Treasuries

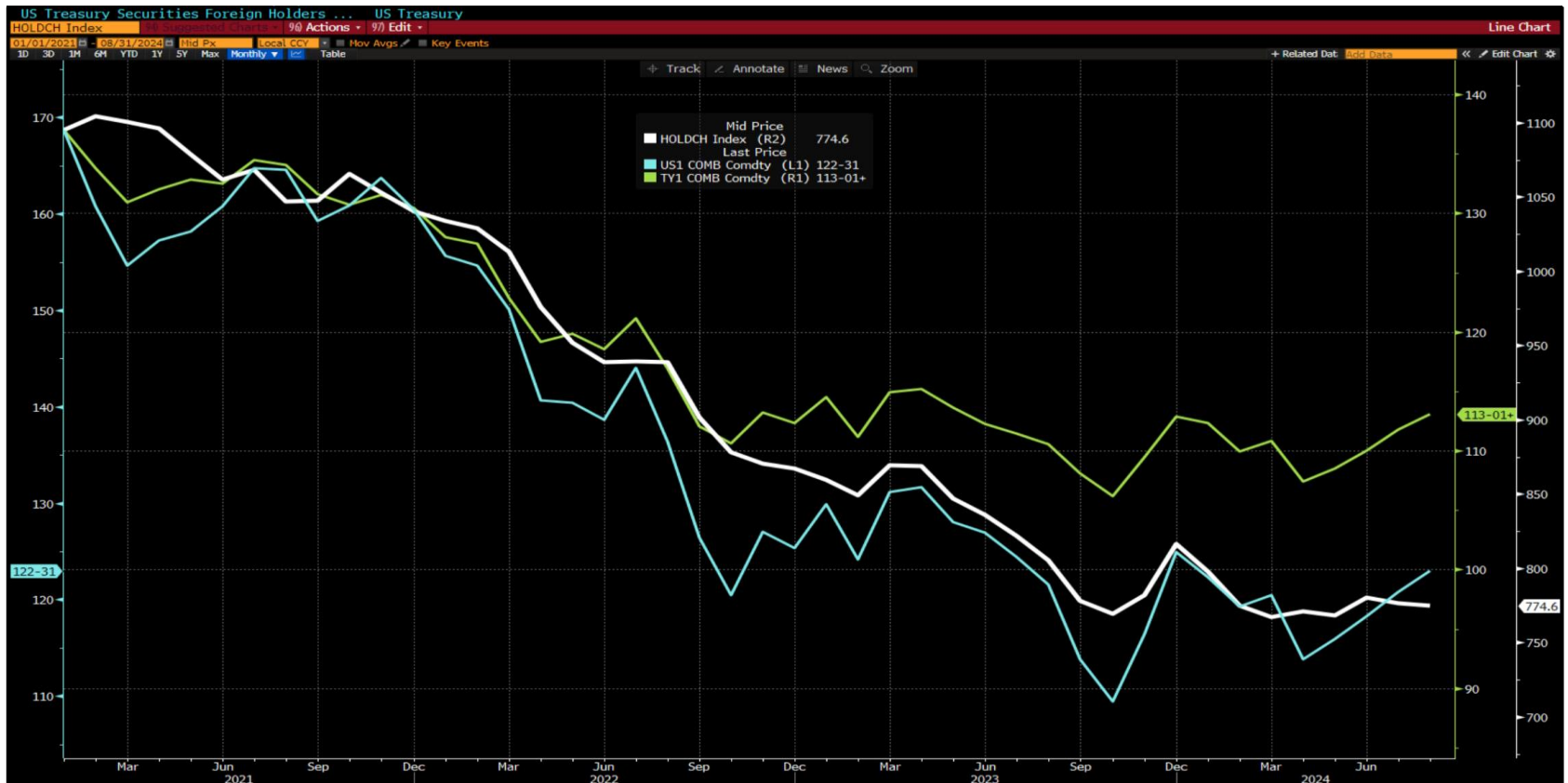
These charts showing the falling UST Holdings uses TIC Data from the US Treasury as its source.

Notes:	
The data in this table are collected primarily from U.S.-based custodians and broker-dealers. Since U.S. securities held in	
overseas custody accounts may not be attributed to the actual owners, the data may not provide a precise accounting of	
individual country ownership of Treasury securities	
(see TIC FAQ #7 at: http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/ticfaq1.aspx).	
Estimated foreign holdings of U.S. Treasury marketable and non-marketable bills, bonds, and notes reported under the Treasury	
International Capital (TIC) reporting system are based on monthly data on holdings of Treasury bonds and notes as reported on TIC Form SLT, "Aggregate Holdings, Purchases and Sales, and Fair Value Changes of Long-Term Securities by U.S. and Foreign Residents"	
and on TIC Form BL2, "Report of Customers' U.S. Dollar Liabilities to Foreign Residents."	

The TIC Data is based on Purchases, Sales, AND FAIR VALUE CHANGES.

Foreign Holdings of US Treasuries

The fall in US Treasury Holdings has largely tracked the falling value of US Treasuries



In other words, the decline is largely due to valuation and not solely due to US Treasury sales.

Gold

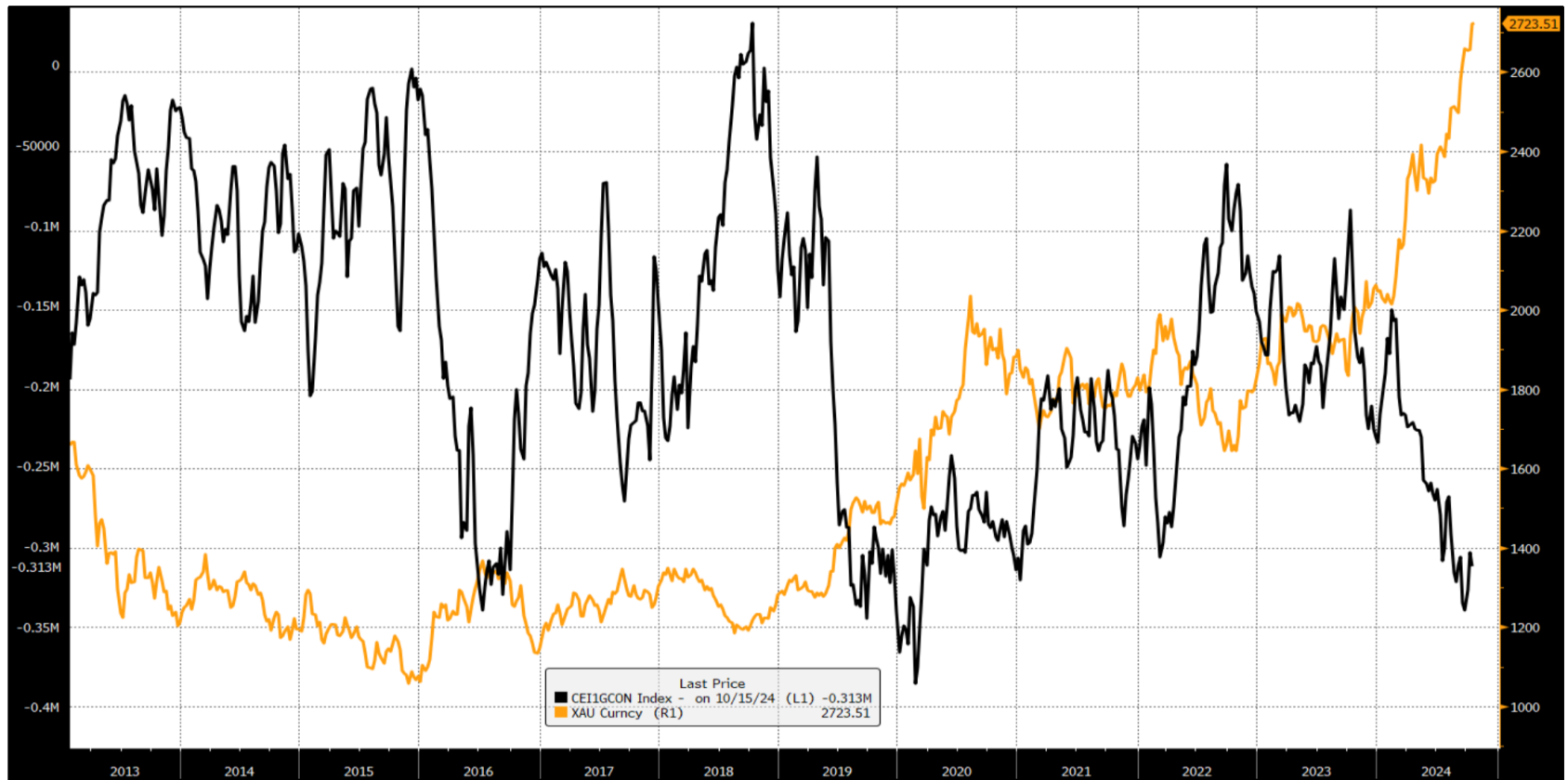
The long-term chart of Gold looks great.



It has recently broke-out of its 4-year range. But caution is warranted.

Gold

Gold vs the COT Net Commercial Short Position.



The Commercials are near their all-time biggest short position.

Silver

Has broken through its five-year channel...



...and the chart looks amazing.

Silver

Silver vs the COT Net Commercial Short Position.



The Commercials are near their 2nd biggest short position.

Gold

Last fall you asked if I thought the dollar was going higher, why I wouldn't short gold.

Erik: Hang on a minute because I'm concerned about it rising against non fiat currencies, specifically gold, because if we were to just look at your chart on page 15. If you're expecting a move to new highs on the dollar index, this is not over yet then in theory you ought to be bearish gold, it's time to short gold, I got a strong feeling Brent, that you're not shorting gold. So tell me how to think about gold, when frankly, what it's been trading as, at least in the last few years, is primarily an anti-dollar. It's mostly been trading inversely to the dollar index. Why wouldn't you be short gold if you see what you see?

Brent: Well, I think you could be on a tactical basis, but I would just wouldn't recommend doing it if you're not extremely nimble. And let me explain what I mean by that. is I think we are now at a point where it's not just one kind country that's in crisis and one country that's going to have to go back to QE or extreme monetary measures. And it's not just the US that will have to do it either. I think, largely, we're not, I don't want to use the word end game, because I feel like everybody uses that. And it's a little bit overplayed. But I think we are kind of at a point where everybody is starting to realize that these countries around the world, all of them have kind of gotten over their skis, they've kind of exhausted a lot of the different things that they can do as far as monetary policy or fiscal policy. And that as a result, fiat currencies are going to lose value versus real things as we enter another crisis. And the governments have to quote unquote, print their way out of it. And so I think what's likely to happen is we are going to get into a situation where all Fiat, not just the US dollar, but all Fiat is being debased versus real things. The dollar is rising versus foreign currencies, but gold is rising versus all of them. And that's how you get if you're in a foreign if you're in the Euro, and you're looking up and you see the dollar and gold above you, that's their dollars and gold rising together versus all the other currencies. I don't know if we're there yet, Erik.

I'll give a similar answer now. But I do have Put options.

Gold

When I have been on Macro Voices in the past, I've often said I was expecting a pullback in Gold.



And every time, it did pull back. It only recently broke out of its 4-year range.

The S&P 500

I expect a pull a retracement in US Equities...



...but I think it will be short lived and they will then move to new highs.

US Treasuries

The 10 Year US Treasury yield has broken above its long-term channel.



Barring a hard landing/black swan type event, I expect yields to rise.

Commodities

The Bloomberg Commodity Index is flat YTD...



...and has remained a frustrating trade for many.

Oil

Oil is basically flat YTD...



...and while I have no current position, I expect it to trade lower into the fall.

How to follow Santiago Capital



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<https://www.youtube.com/@MilkshakesPod>



<https://www.macroalchemist.com/>

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