

MARKET SNAPSHOT

U.S.	EUROPE	ASIA																
NIKKEI	8,844.50	+59.17	0.67%															
TOPIX	762.66	+5.26	0.69%															
HANG SENG	20,110.40	+167.42	0.84%															
75.80	-0.26%	S&P 500	1,314.65	-0.10%	FTSE 100	5,751.90	-0.53%	STOXX 50	2,432.07	-0.38%	DAX	6,419.22	-0.27%	Oil (WTI)	99.16	+0.21%	U.S. 10-yr	

Our Company | Professional | Anywhere |

Sign in

OP-EDS

Strong Dollar Advocates Make a Weak Case: Schnidman and Nadler



Illustration by Victor Kerlow

By Evan A. Schnidman and Daniel J. Nadler | Jan 24, 2012 7:01 PM ET | [0 Comments](#)

Recommend

Tweet0

Share

0

More

Print

Email



In almost every recent Republican presidential debate, some candidates have advocated for a “strong dollar.”

Among the more extreme views are the push by Representative [Ron Paul](#) for a return to the gold standard and the statement by Texas Governor [Rick Perry](#) that [Federal Reserve](#) Chairman [Ben Bernanke](#) may have committed treason, a crime punishable by death.

What gets lost in this clamor is any discussion of winners and losers from a strong U.S. currency, and the recent correlation between the greenback’s strength and declines in the stock market.

A study we recently conducted indicates that investors -- who constantly look for the most predictive correlations and lead indicators -- could have done little better over the past five years than by tracking the relationship between the dollar and the [Standard & Poor’s 500 Index](#). We found that simply looking for an intermediate high in the dollar could have successfully predicted every intermediate [S&P 500](#) market bottom over the past five years (see attached figures).

This comparison of USD ([U.S. Dollar](#) Index) and the SPX (S&P 500) shows that on each of the seven occasions since 2008 when the [dollar index](#) reached an intermediate high, the S&P 500 hit an intermediate low. Perhaps no other asset in recent years has traded as

Search News, Quotes and Opinion

FOLLOW VIEW OP-EDS

JUST ADDED...

Strong Dollar Advocates Make a Weak Case: Schnidman and Nadler
Q
[Op-Eds](#) | By Evan A. Schnidman and Daniel J. Nadler

Why Singapore Has the Cleanest Government Money Can Buy: View
Q
[Editorials](#) | By the Editors

Europe Can Beat This Crisis but Maybe Not the Next: Clive Crook
Q
[Columns](#) | By [Clive Crook](#)

Romney Must Get Past Himself to Beat Gingrich: Margaret Carlson
Q
[Columns](#) | By [Margaret Carlson](#)

To Shop Smart, Patients Need to Know Price of Care: Peter Orszag
Q
[Columns](#) | By [Peter Orszag](#)

Advertisement

Sponsored Links

[Gold Bullion Coins](#)

Gold Bullion Holds Its Value. Learn More From Industry Experts.
[BlanchardOnline.com](#)

[Honda Hydrogen Fuel Cells](#)

Watch the film to see how hydrogen fuels Honda's Undying Dream.
[www.honda.com](#)

[How to Buy Gold](#)

Physical Gold Shipped to Your Door Free Investor Kit. Since 1960.
[Goldline.com/Buy-Gold](#)

AdChoices

Advertisement

precisely in (inverse) tandem with the market as the U.S. dollar. A weaker dollar might be easy fodder for politicians seeking to score rhetorical points, but it also has provided fuel for every intermediate market rally since 2009.

Stock Prices

Beginning in late 2008, most major financial-news outlets conveyed some variation of a tight correlation between a weak dollar and rising stock prices. Our research finds that since 2008, the correlation has not only persisted but gotten tighter. In particular, since the European debt crisis worsened in the spring of 2010, the correlation has been almost perfect; the dollar drops and stock prices soar.

Various different rationales can be posited as the cause for this correlation but the most obvious is that a [weak dollar](#) means a strong euro, which, in turn, is an indication of elevated confidence that European leaders have come up with a solution to the crisis.

If this is true, then the correlation may disappear as the euro area stabilizes. That doesn't seem likely to happen any time soon and the relationship between a weak dollar and stock-market gains is likely to persist.

Traditionally, American consumers buying cheap imported goods have benefited from the [strong dollar](#). However, in many cases, this benefit is offset because these same consumers of cheap foreign goods also tend to be producers of American goods that are less marketable globally as a result of the strong dollar.

In recent years, however, it has become easier for U.S. companies to produce cheaper goods abroad that are then sold to American consumers. In many cases, the owners of these businesses have benefited from a strong dollar even if American workers haven't. Still, those workers also may directly benefit from a weak dollar because it reduces their personal debt load in real terms.

The U.S. government is perhaps the most obvious beneficiary because a weak dollar means [budget deficits](#) (and the larger national debt) are worth less in real terms, lowering the cost of servicing the debt and potentially making it easier to eventually bring the fiscal shortfall under control.

Yuan Appreciation

Moreover, some politicians (including several who profess a desire for a strong dollar) have, in effect, advocated for a weaker currency by pressing [China](#) to allow the yuan to appreciate.

So who really wants a strong dollar? The Republican presidential candidates made this one of their themes of this election year by issuing threats to the supposedly independent Federal Reserve. Yet this position isn't wholly rational. While some American consumers might benefit, most producers wouldn't and almost all equity investors would be harmed.

If you have a stock portfolio, retirement account or [pension plan](#), you might well benefit from a weak dollar. Alas, "weak" doesn't make for a good political sound bite.

([Evan A. Schnidman](#) and [Daniel J. Nadler](#), both Ph.D. candidates in the Harvard University Department of Government, are co-directors of the upcoming Harvard University Workshop on the Economic Crisis, organized through the Harvard Institute for Quantitative Social Sciences. The opinions expressed are their own.)

Read more opinion online from [Bloomberg View](#).

To contact the writers of this article: Evan A. Schnidman at evan.schnidman@gmail.com; Daniel J. Nadler at daniel.nadler@gmail.com.

KEY RATES

Mortgage

See today's average mortgage rates across the country.
Source: [Bankrate.com](#)

Type	Today	1 Mo
30 yr fixed mtg	3.95%	3.97%
15 yr fixed mtg	3.27%	3.29%
30 yr fixed jumbo mtg	4.51%	4.67%
5/1 ARM	2.90%	2.87%
3/1 ARM	2.84%	2.76%

View rates in your area

Rates may include points.

Advertisements

WSJ.com

To contact the editor responsible for this article: Max Berley at mberley@bloomberg.net

Recommend

Tweet0

Share0

More

Email

Print

ADD NEW COMMENT

[Login](#)

Type your comment here.

Bloomberg moderates all comments. Comments that are abusive or off-topic will not be posted to the site. Excessively long comments may be moderated as well. Bloomberg cannot facilitate requests to remove comments or explain individual moderation decisions.

SHOWING 0 COMMENTS ON STRONG DOLLAR ADVOCATES MAKE A WEAK CASE: SCHNIDMAN AND NADLER

Bloomberg on Facebook

Follow Bloomberg on Twitter

Follow Bloomberg on LinkedIn

MORE FROM BLOOMBERG

Bloomberg Businessweek

Business Exchange

Bloomberg Briefs

Bloomberg Government

Bloomberg HT

Bloomberg Institute

ブルームバーグ(日本語)

Bloomberg Law

Bloomberg BNA

Bloomberg Link

Bloomberg Markets Magazine

BMART

Bloomberg New Energy Finance

Bloomberg Open Symbology

Bloomberg Press

Bloomberg Sports

Jobs by Indeed

Bloomberg Blog

COMPANY

About Bloomberg

Careers

Press Room

Advertising

Contact Us

关于彭博中国

会社概要(日本語)

Help

Sitemap

Trademarks

Feedback

Terms of Service

Privacy Policy

Rate this Page

©2012 BLOOMBERG L.P. ALL RIGHTS RESERVED.

Made in NYC

Q

What is the queue?

More »Items In Your queue

This is your Bloomberg Queue

The queue will help you find news, save stories for later and take them with you

[Learn More](#)[Close](#)

More » New Suggestions

3 of 3

1/24/12 7:31 PM