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Q&A-DXY to close 2021 lower, breaking the 90-mark; Strong earnings to bolster U.S. equities; Gold in upward momentum: Peter Cardillo, Spartan Capital



The dollar will continue to decline but is expected to pick off one more time before the second leg of the downward move begins, **Peter Cardillo, chief market economist at Spartan Capital**, told the Reuters Global Markets Forum on Thursday, April 22.

Cardillo said deficit spending, Biden's infrastructure bill and entitlement spending will result in the dollar index breaking below the 90-level convincingly.

"I feel it will trade around 83.50 by December 2021."

The two-day selloff in the S&P 500 was a "technical adjustment," and its rally will continue as companies report good earnings, Cardillo said.

He also said gold was in an upward momentum due to a weaker dollar and expected it to reach \$1,875-\$1,900 per ounce in the two months.

Following are edited excerpts from the conversation:

Q: What is your expectation on the Fed policy next week, on Wednesday, March 28?

A: I don't expect the Fed to change monetary policy. Neither do I expect them to hint an end or tapering too. They might speak about higher inflation; it will be a nonchalant talk on it. There were no surprises from Fed Chair Jay Powell's 60-minutes interview too.

Q: Bank of Canada (BoC) yesterday became the first major economy to scale back emergency monetary stimulus. Canada is behind the U.S. in both vaccinations and GDP recovery, and this is opposite to the Fed's stance. Your thoughts?

A: I think that is a good indication -- with Canada taking a harder stance on reversing monetary policy. This indicates the U.S. may need to think about tapering policy sooner rather than later. I was a bit surprised with the BoC especially with rollout of vaccines not as quick as the U.S.

Q: Do you expect any other countries to follow Canada soon?

A: No, I don't see many central banks doing it. I think the PBoC (People's Bank of China) may indicate something on those lines. If we look at the latest growth rate reported by China -- even though lower than expectations, it still is quite explosive.

Q: The European Central Bank (ECB) is pinning borrowing costs near record lows via massive bond purchases and the expectation is for them to keep policy unchanged. Will ECB President Christine Lagarde say anything different?

A: No, I don't think so. Europe has had a slower rollout of the vaccine.

Q: Moving to markets -- With the S&P 500 on a relentless rally, do you see any froth in the markets, especially in tech?

A: I think markets will continue to rally. I have been bullish, and I continue to be. A two-day selloff was just a technical adjustment. While some good news may be discounted, I expect good earnings to help with the momentum. There might be some (earnings) misses, but those situations are pandemic specific. That would not be meaningful.

The Nasdaq will continue with the market. To a certain degree, though, I think the Nasdaq has already had an internal correction.

I think from time to time you will see rotation between value and growth.

Q: The U.S. dollar index is 3% lower in the last 14 trading sessions. Do you expect it to break 90, or a pullback from here?

A: I do expect the dollar decline to continue. I do, however, think we will pick off one more time before the second leg of the downward move begins. I think we will break 90 convincingly. I feel it would trade around 83.50 by December 2021.

Q: Why are you expecting such a sharp decline?

A: My reasons are that the deficit spending will continue. I believe that we will get an infrastructure bill. A lot of the entitlement spending will continue. All of these are dollar negative.

Q: Are there any specific currencies you're betting on against the dollar?

A: I would look at the CHF (Swiss franc) and perhaps the CNY (Chinese yuan). I think we could go as high as 6.40 on the yuan.

Q: What happens to the U.S. fiscal deficit then?

A: I think the fiscal deficit continues to balloon. No stopping it.

Q: What is the risk of inflation spiraling out of control?

A: I absolutely think inflation will move higher to around 3.0%-3.5%. We have already heard from some companies that they will increase prices in September 2021.

Q: What is your view on bond yields now that they seem to have come off? Where do you see the 10-year by the year-end?

A: I think they (will) move higher. And by the end of December 2021, we should be at around 2.25%. This will affect equity markets, not in the immediate future but in around five to six months.

Q: A weaker dollar has finally given gold a chance to shine. Will it break the \$1,800/oz-level convincingly?

A: Yes. We are in an upward momentum right now. Bulls are in charge. I think \$1,875-\$1,900/oz is coming within the next 60 days.

Q: Both WTI and Brent are over \$60 per barrel, but there are still concerns about demand coming back fully -- what is your view from here, and where do you see price by the year-end?

A: Although there are concerns about India with respect to demand due to COVID-19, I believe that prices will stabilize within the \$60 area. By year end, I see crude between \$65-\$70.

Q: Any parting thoughts for us?

A: Investors should stay the course and have some gold in their portfolio as hedges.

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