



## GORDON T LONG

### Advanced Technical Analysis



**Gordon T Long**

Global Macro Research |  
Macro-Technical Analysis



**Technical Analysis**

Market Road Maps | HPTZ  
Methodology



**SII**

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Market Road Maps

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# CENTRAL BANKS v THE FORCING FUNCTIONS

*“Expect the best. Prepare for the worst. Capitalize on what comes!”*

# AGENDA

## THE CENTRAL BANKERS' STRATEGY

THE "G" IN THE GDP FORMULA

## CORE PCE & REAL RATES

CENTRAL BANK RATES v CORE PCE  
RISING REAL RATES

## KING DOLLAR

THE INDESPENSIBLE DOLLAR STANDARD  
EMPOVERISHED COMMODITY COUNTRIES

## THE FORCING FUNCTIONS

THE TRIFFING PARADOX  
THE EURODOLLAR  
SEVERITY & BREADTH OF COMING RECESSION  
THE REVERSING WEALTH EFFECT  
THE DERIVATIVES COMPLEX

## CONCLUSION

THE "REGULATORY STATE", MMT & FINANCIAL REPRESSION III

## Central Banks v the Forcing Functions



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$$\text{GDP} = \text{C} + \text{G} + \text{I} + (\text{E}-\text{I})$$

TRANSFER PAYMENTS  
SOCIAL NET  
UBI

BALANCE OF  
PAYMENTS

TAXES

BORROWING IS  
+ INVESTMENT

C = CONSUMPTION  
G = GOVERNMENT  
I = INVESTMENT

(E-I) = NET EXPORTS

The diagram shows the GDP equation:  $GDP = C + G + I + (E-I)$ . The terms  $GDP$  and  $(E-I)$  are circled in red. A green arrow points from  $(E-I)$  to  $G$ , labeled "TRANSFER PAYMENTS SOCIAL NET UBI". Another green arrow points from  $(E-I)$  to  $C$ , labeled "BALANCE OF PAYMENTS". Below the equation, two green curved arrows point upwards: one from  $C$  to  $G$  labeled "TAXES", and one from  $I$  to  $G$  labeled "BORROWING IS + INVESTMENT".

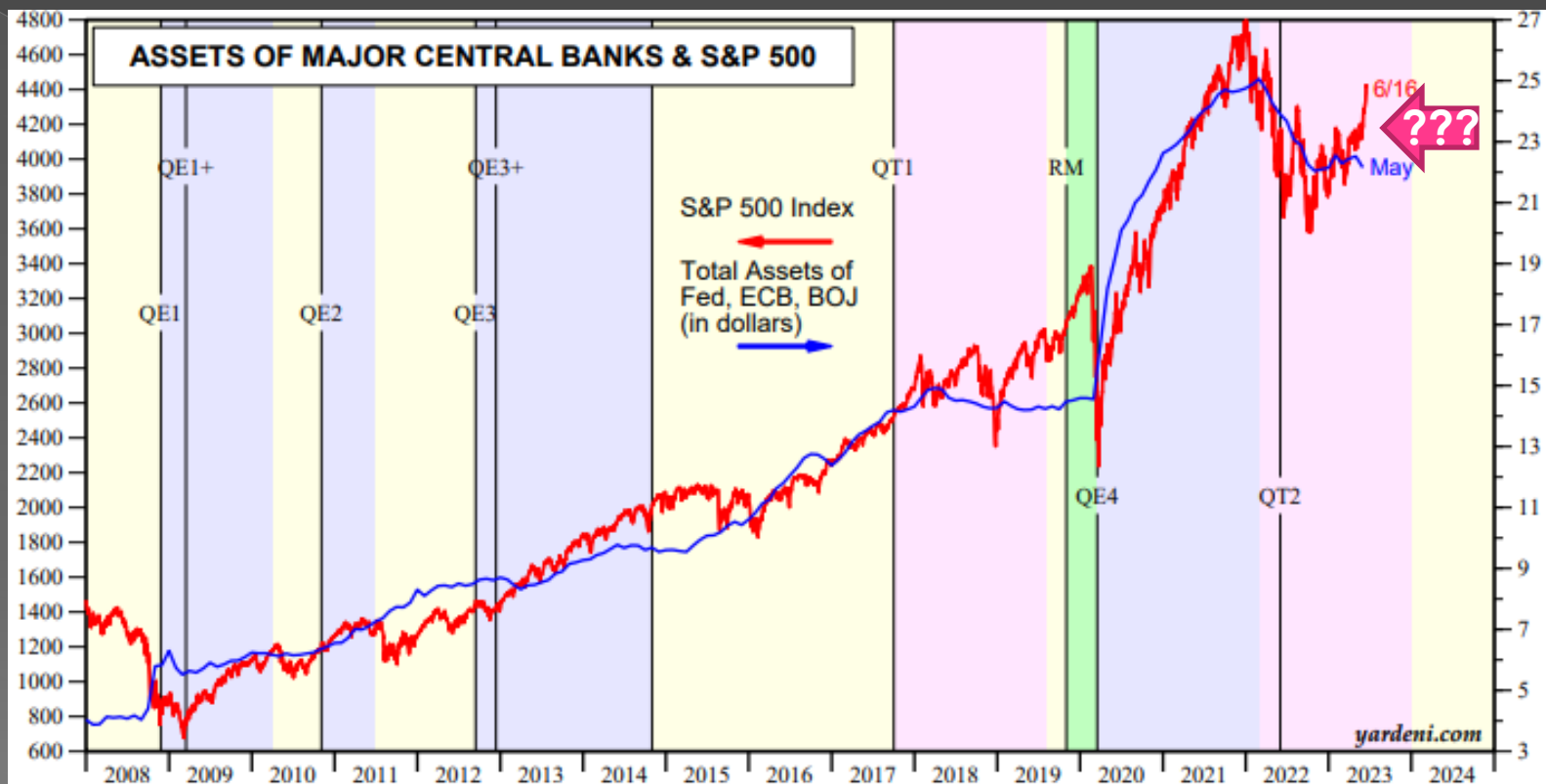
$$GDP = C + G + I + (E-I)$$

TAXES

BORROWING IS  
+ INVESTMENT

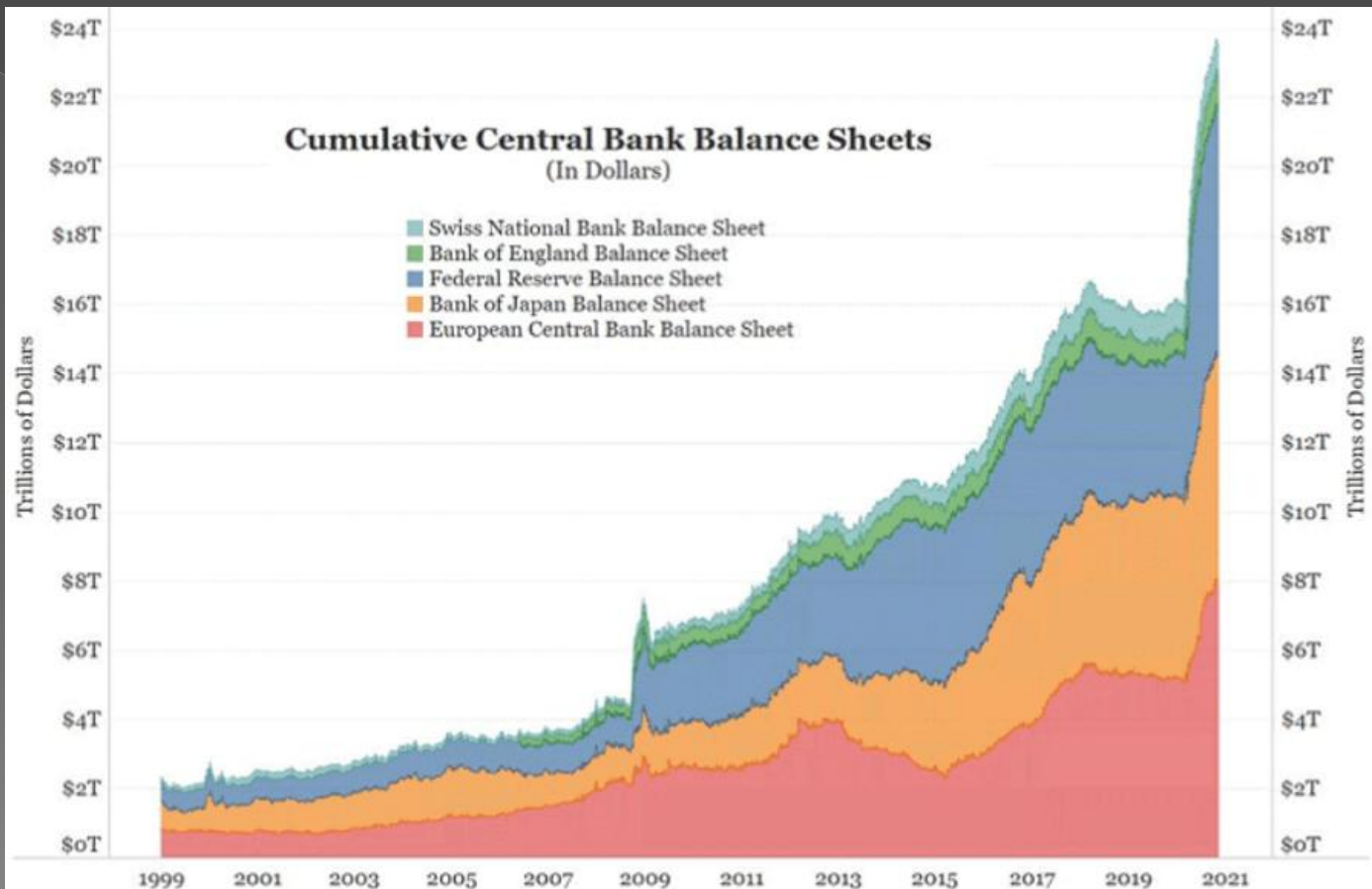
C = CONSUMPTION  
G = GOVERNMENT  
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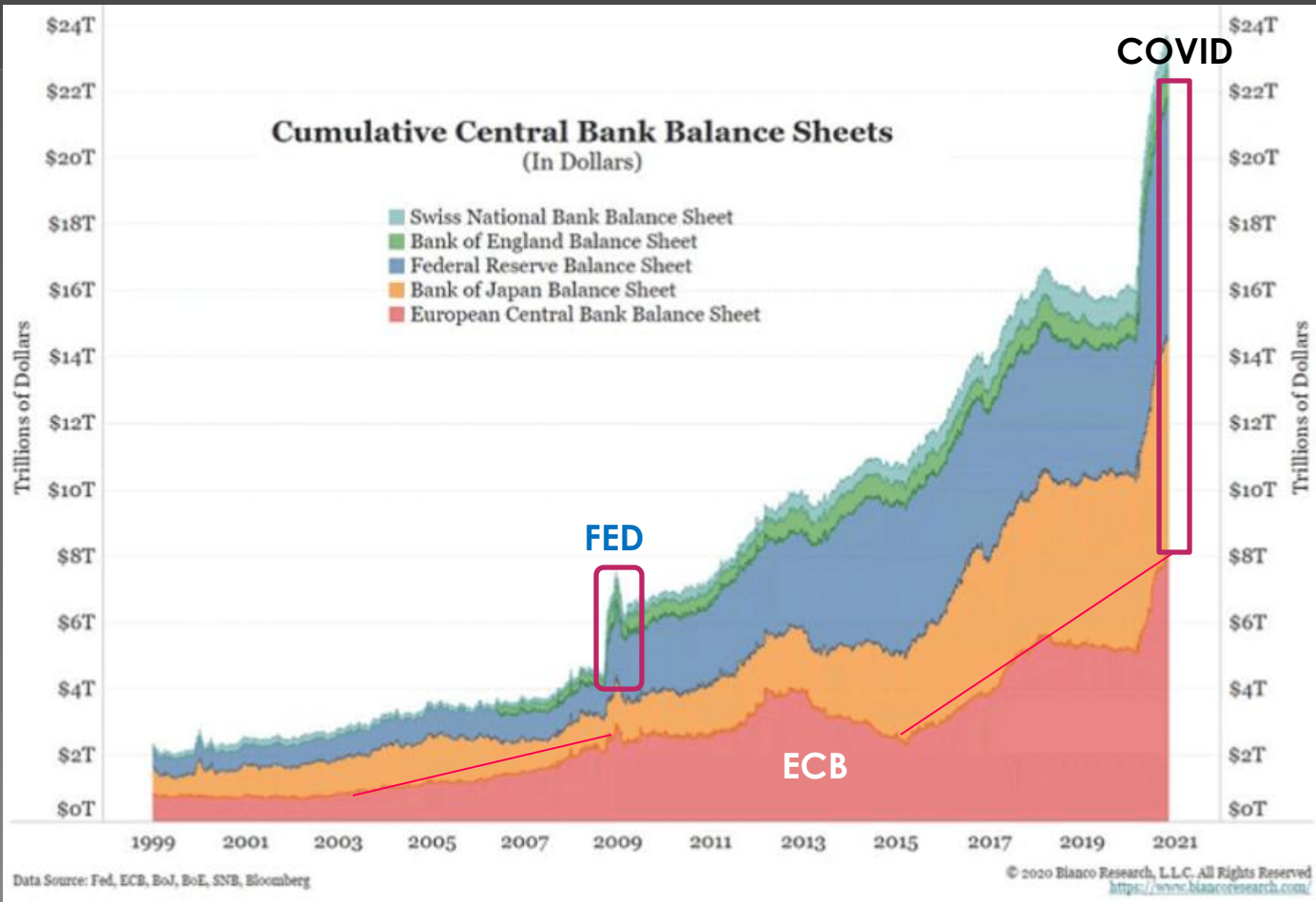
(E-I) = NET EXPORTS

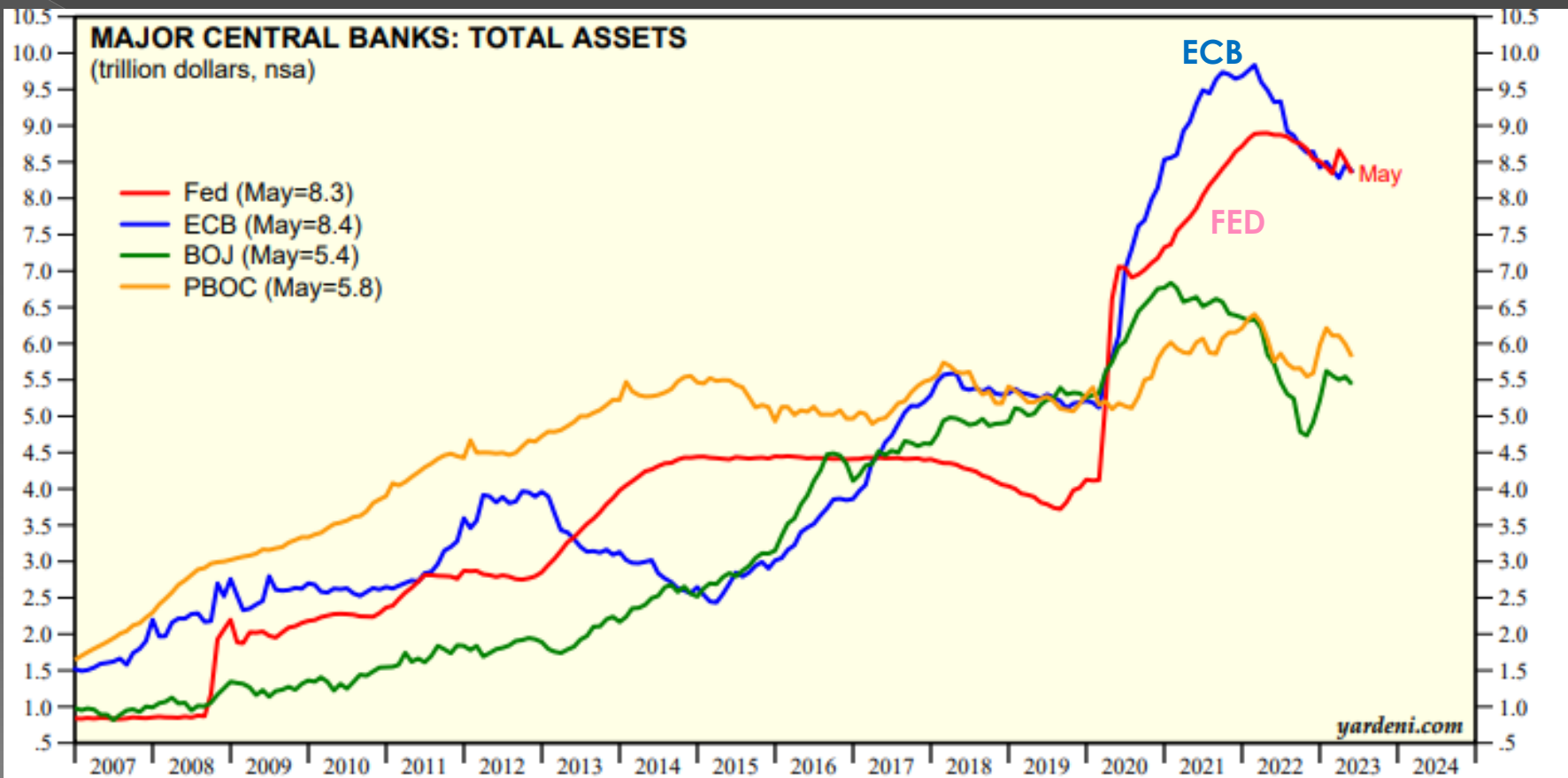


\* Averages of daily figures for weeks ending Wednesday. Securities held by Fed include US Treasuries, Agency debt, and mortgage-backed securities. Note: QE1 (11/25/08-3/31/10) = \$1.24tn in mortgage securities; expanded (3/16/09-3/31/10) = \$300bn in Treasuries. QE2 (11/3/10-6/30/11) = \$600bn in Treasuries. QE3 (9/13/12-10/29/14) = \$40bn/month in mortgage securities (open ended); expanded (12/12/12-10/1/14) = \$45bn/month in Treasuries. QT1 (10/1/17-7/31/19) = balance sheet pared by \$675bn. RM (11/1/19-3/15/20) = reserve management, \$60bn/month in Treasury bills. QE4 (3/16/20-infinity). QT2 = balance sheet pared by \$95 billion per month. Source: Federal Reserve Board.



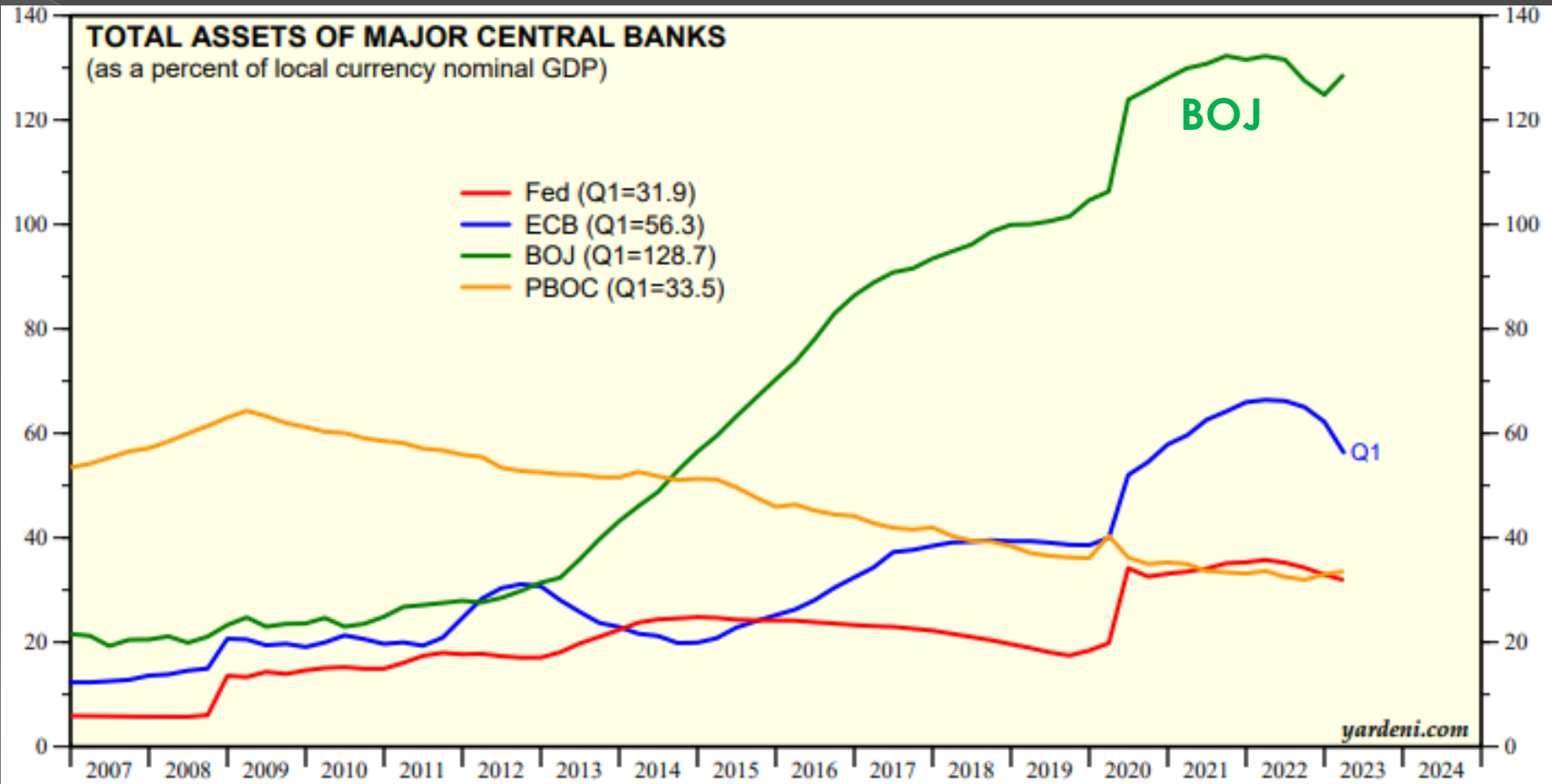




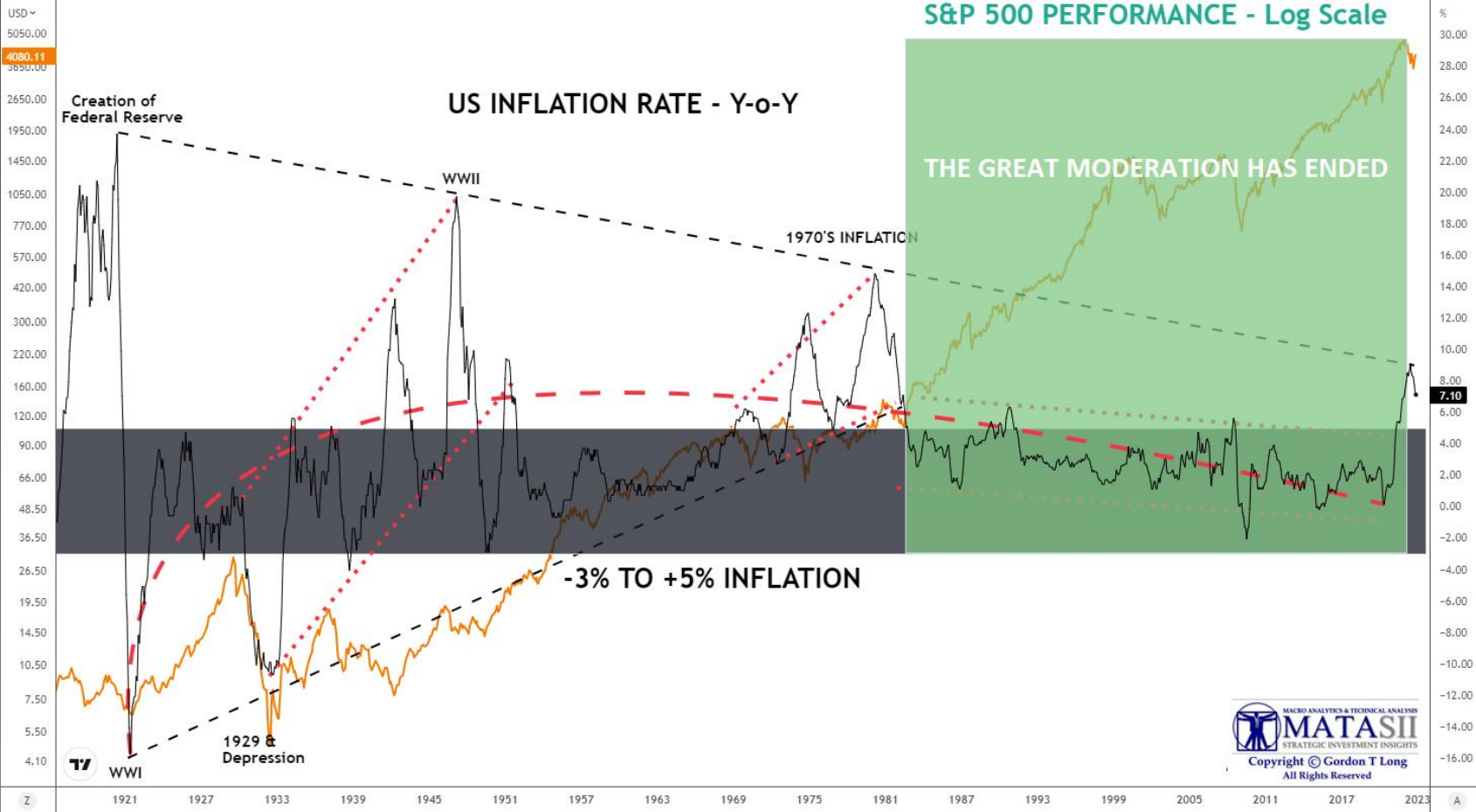


Source: Haver Analytics.

yardeni.com



# S&P 500 PERFORMANCE - Log Scale



June 21st, 2023

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# THE CORE PCE

## ☆ Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index) (PCEPILFE)

Observation:  
Apr 2023 **4.7**  
(+ more)  
Updated: May 26, 2023

Units:  
Percent Change from Year Ago,  
Seasonally Adjusted

Frequency:  
Monthly

1Y | 5Y | 10Y | Max

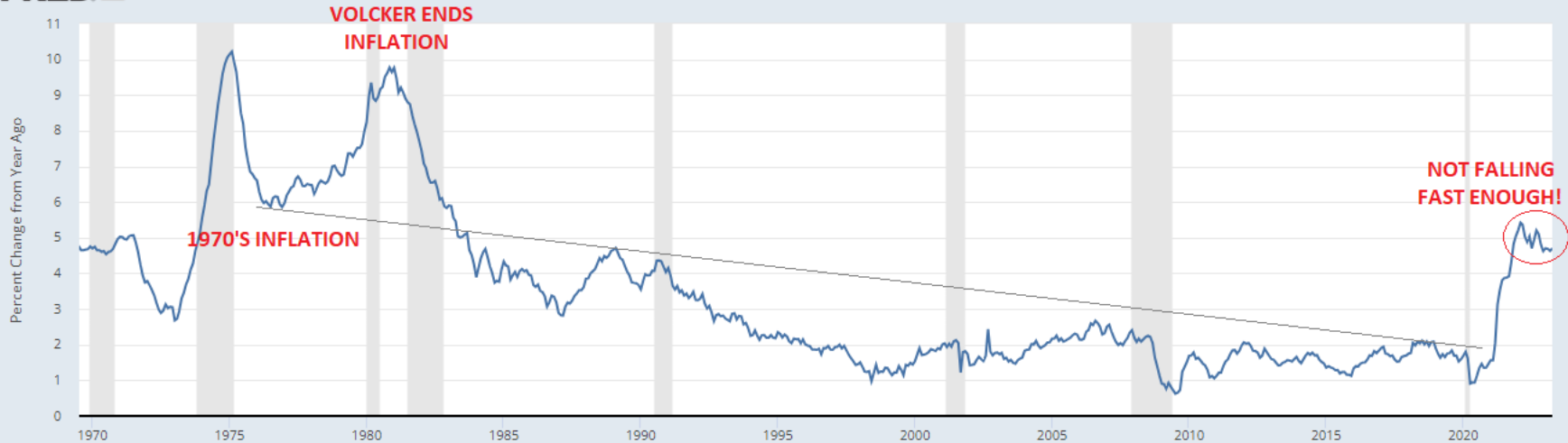
1969-07-07

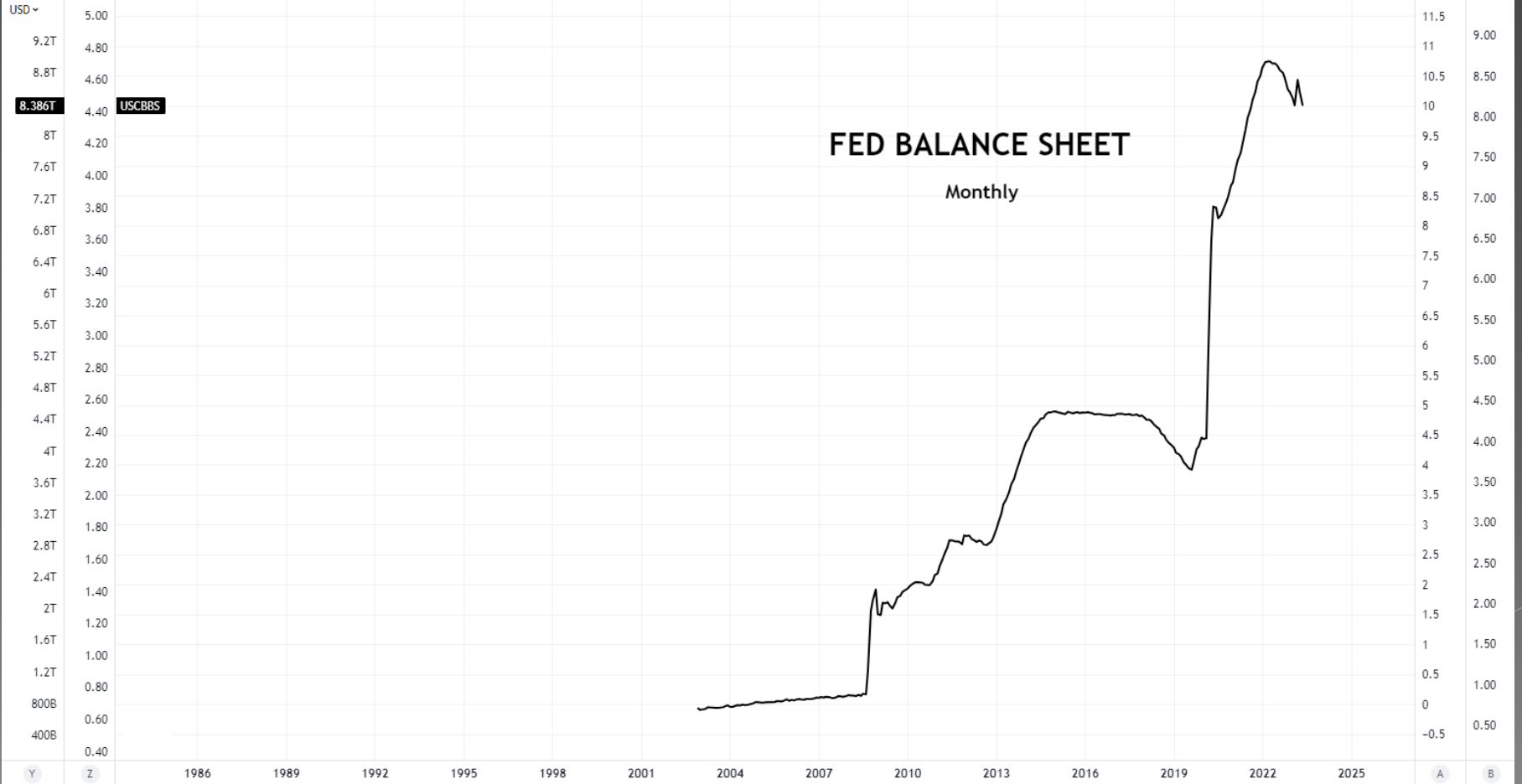
to

2023-04-01

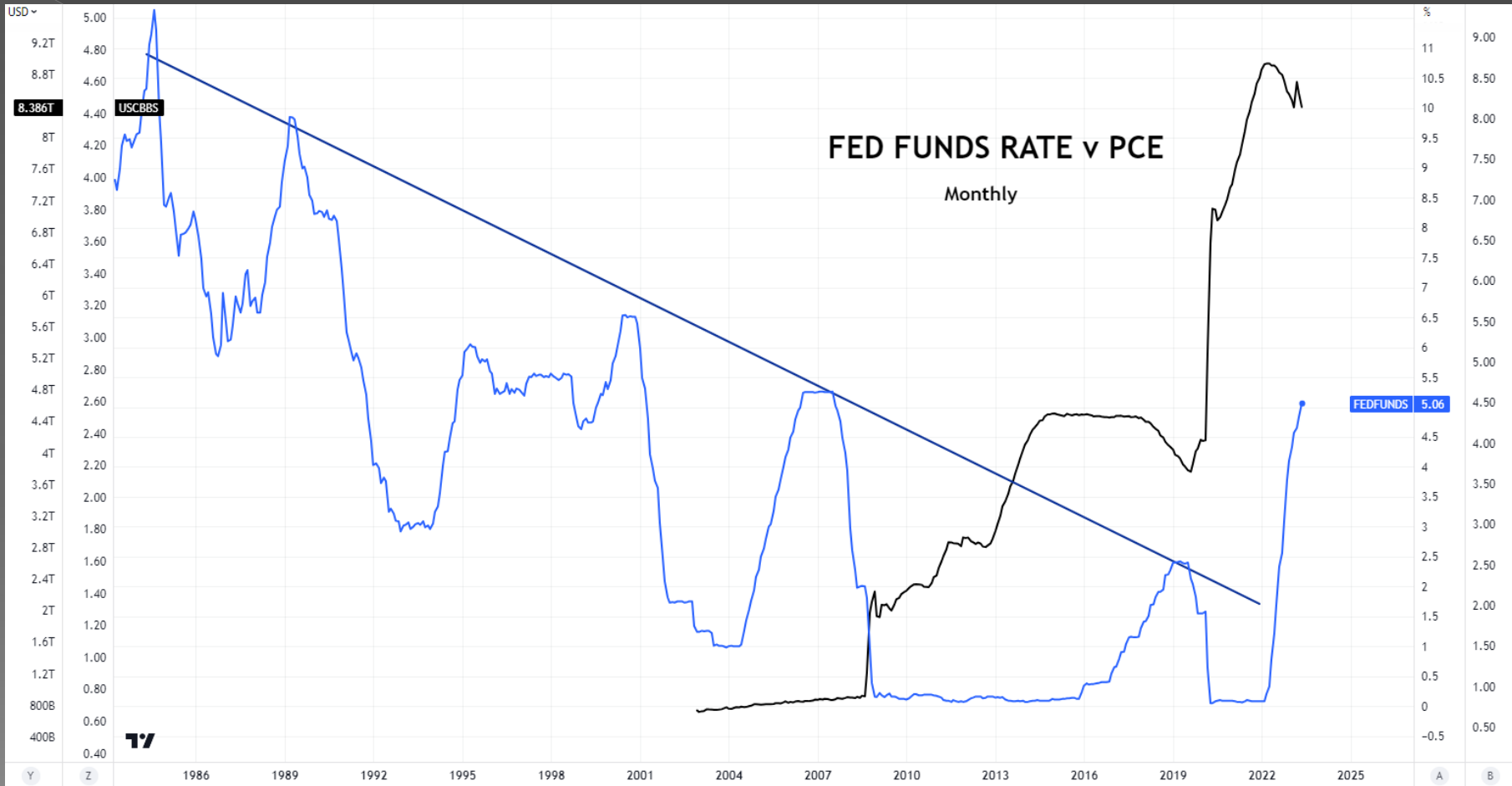
FRED

— Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



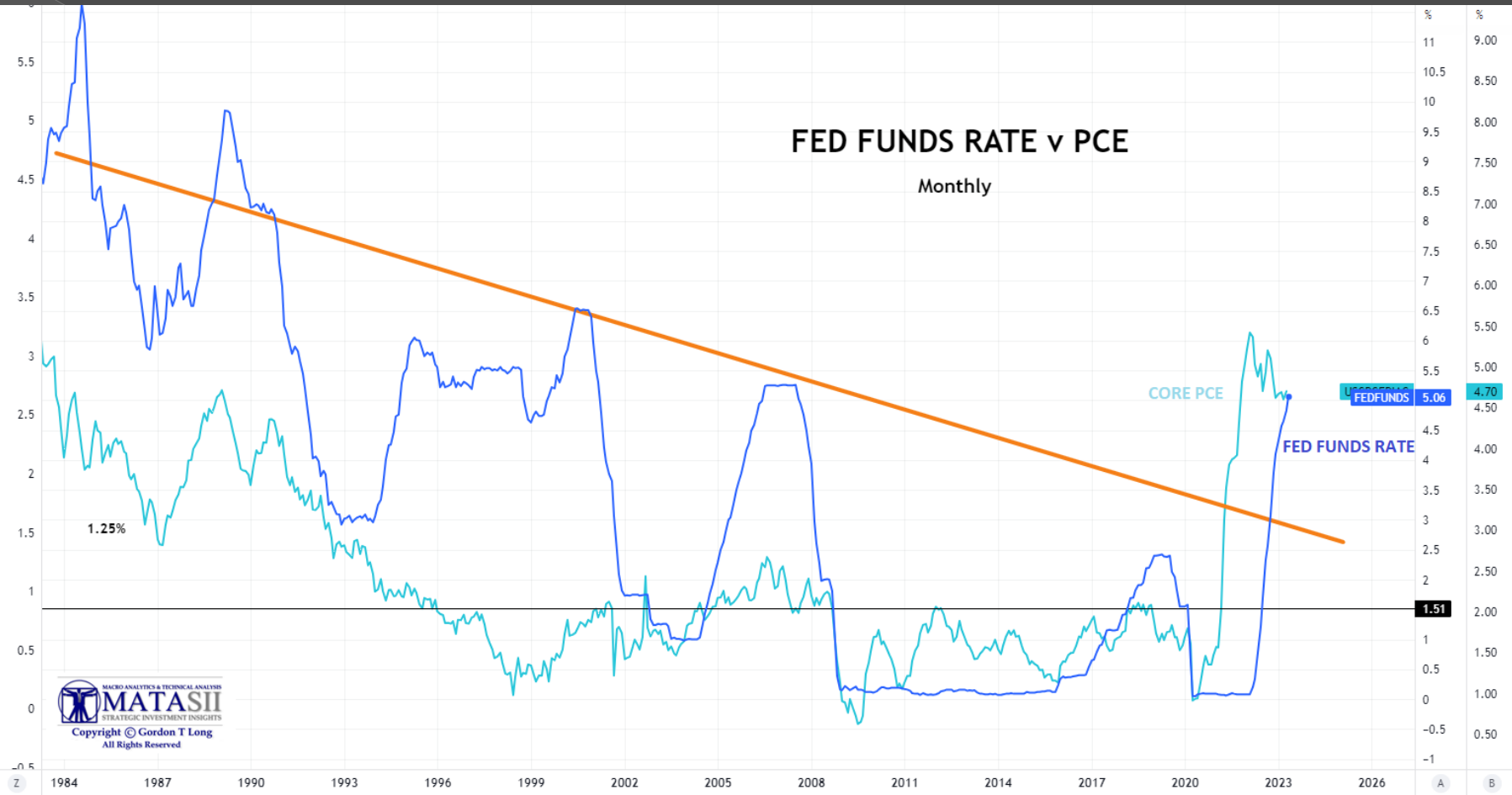






# FED FUNDS RATE v PCE

Monthly



1.25%

CORE PCE

FEDFUNDS 5.06

FED FUNDS RATE

1.51



The Trimmed Mean PCE inflation rate is an alternative measure of core inflation in the price index for personal consumption expenditures (PCE). It is calculated by staff at the Dallas Fed, using data from the Bureau of Economic Analysis (BEA).




ECONOMIC DATA | ST. LOUIS FED

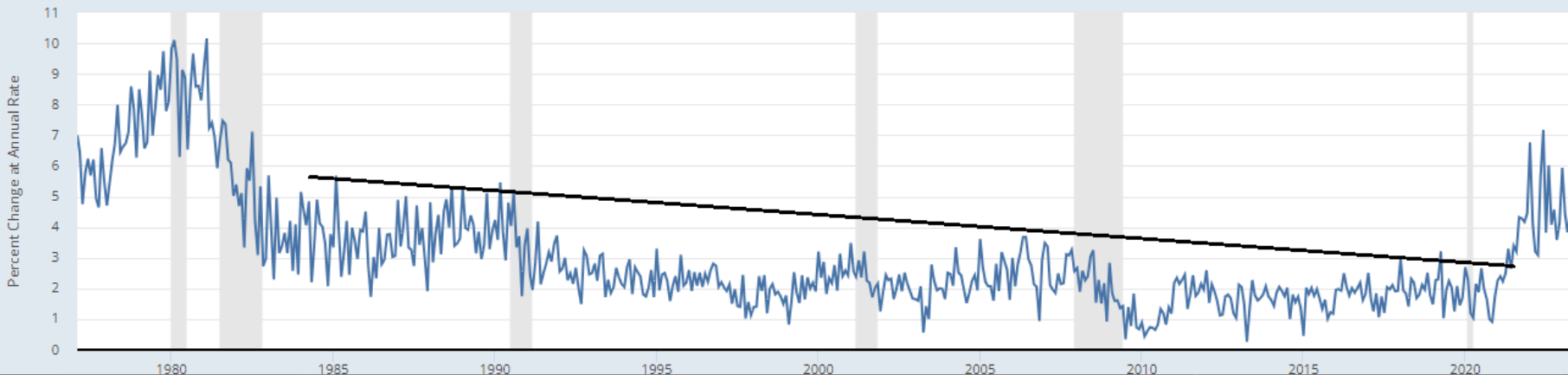
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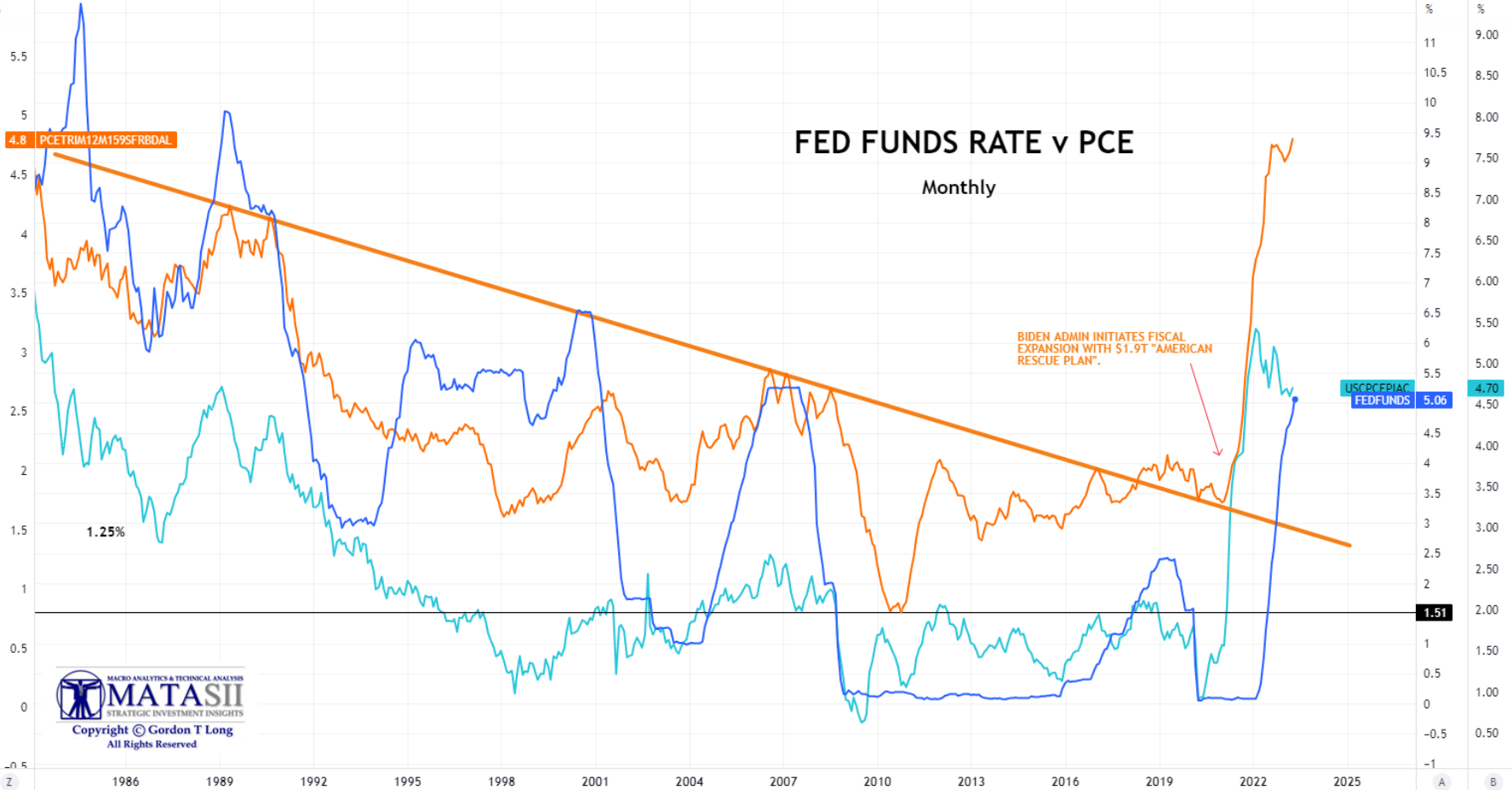
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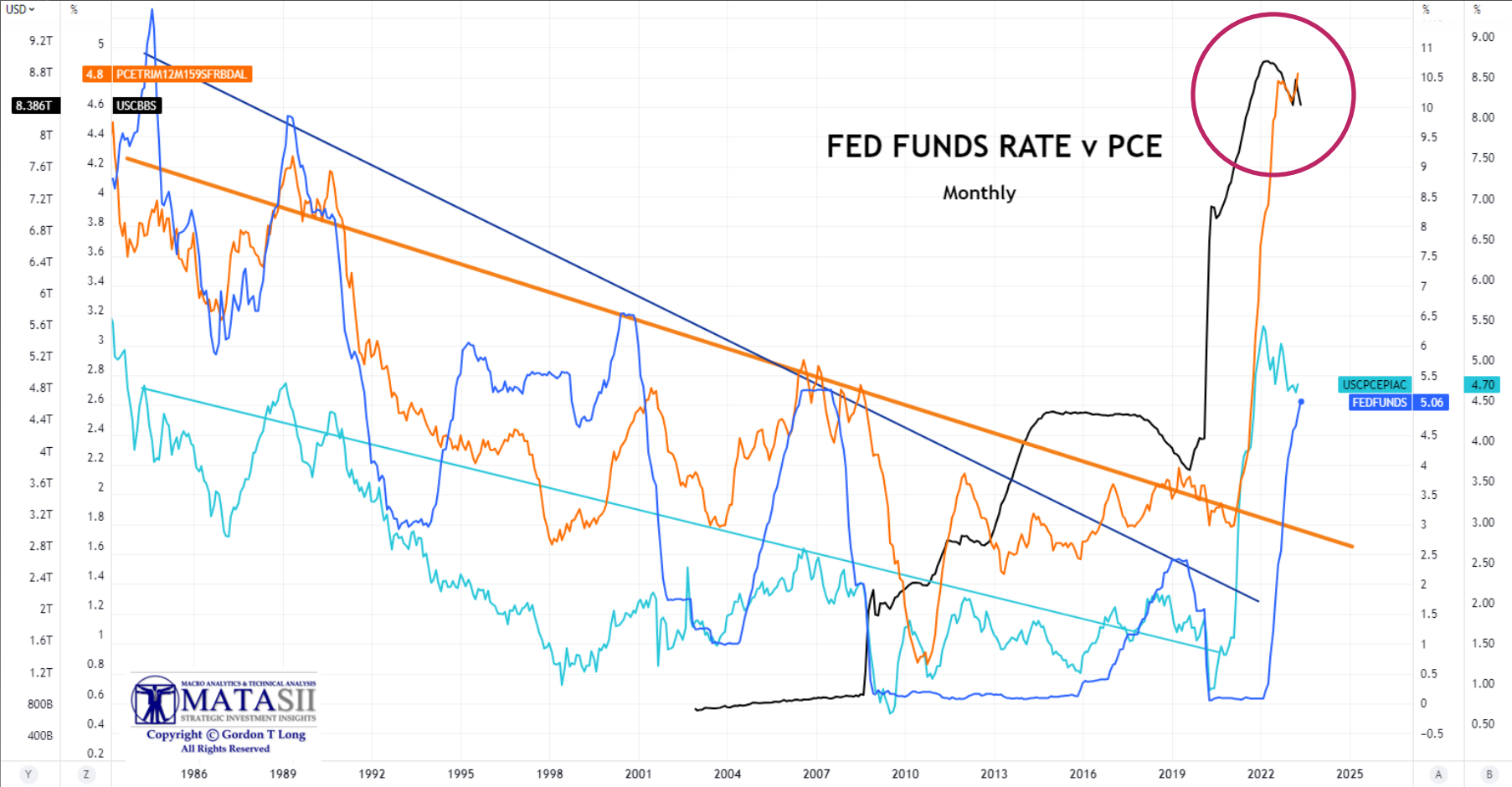
FRED  — Trimmed Mean PCE Inflation Rate



# FED FUNDS RATE v PCE

Monthly

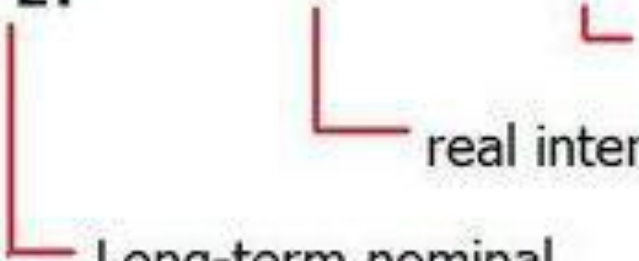




# FISHER'S EQUATION

## The Fisher Effect

$$i_{LT} = r + \pi^e$$



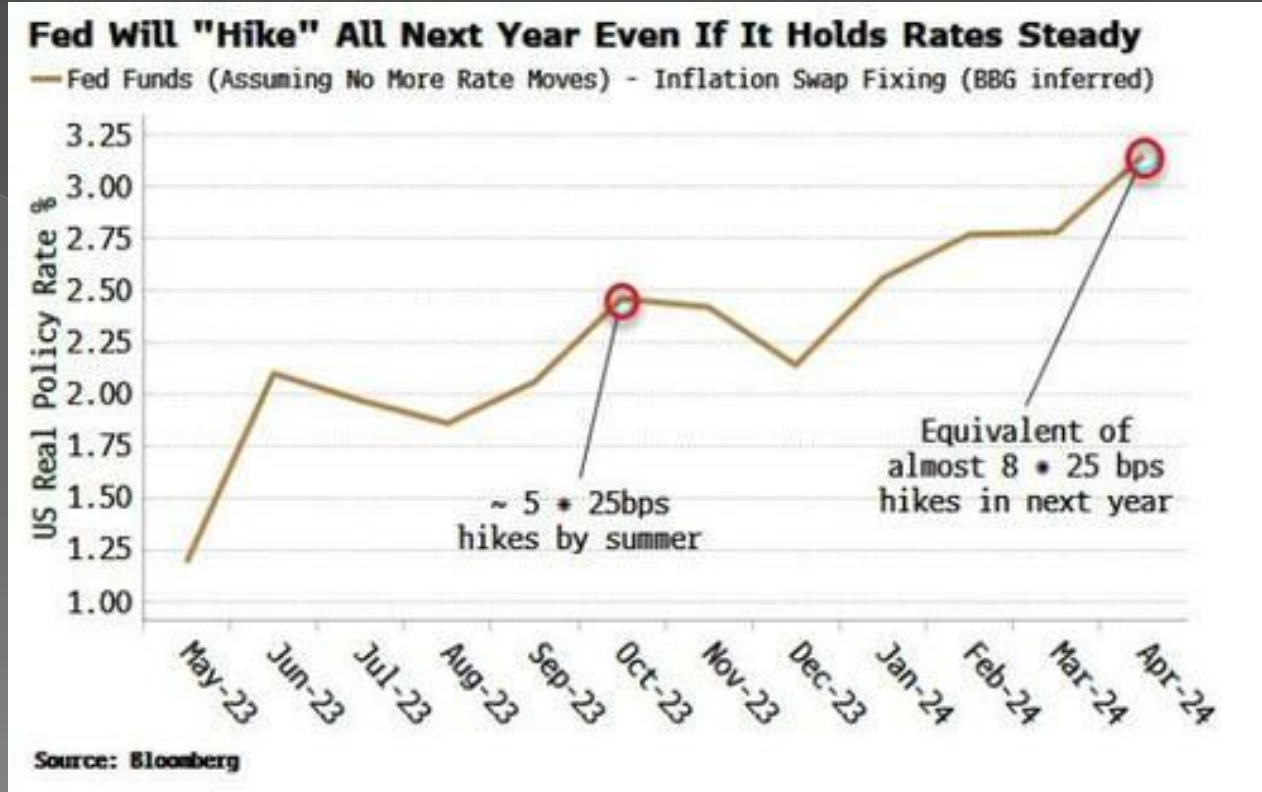
Long-term nominal interest rate

real interest rate

expected inflation(/deflation)

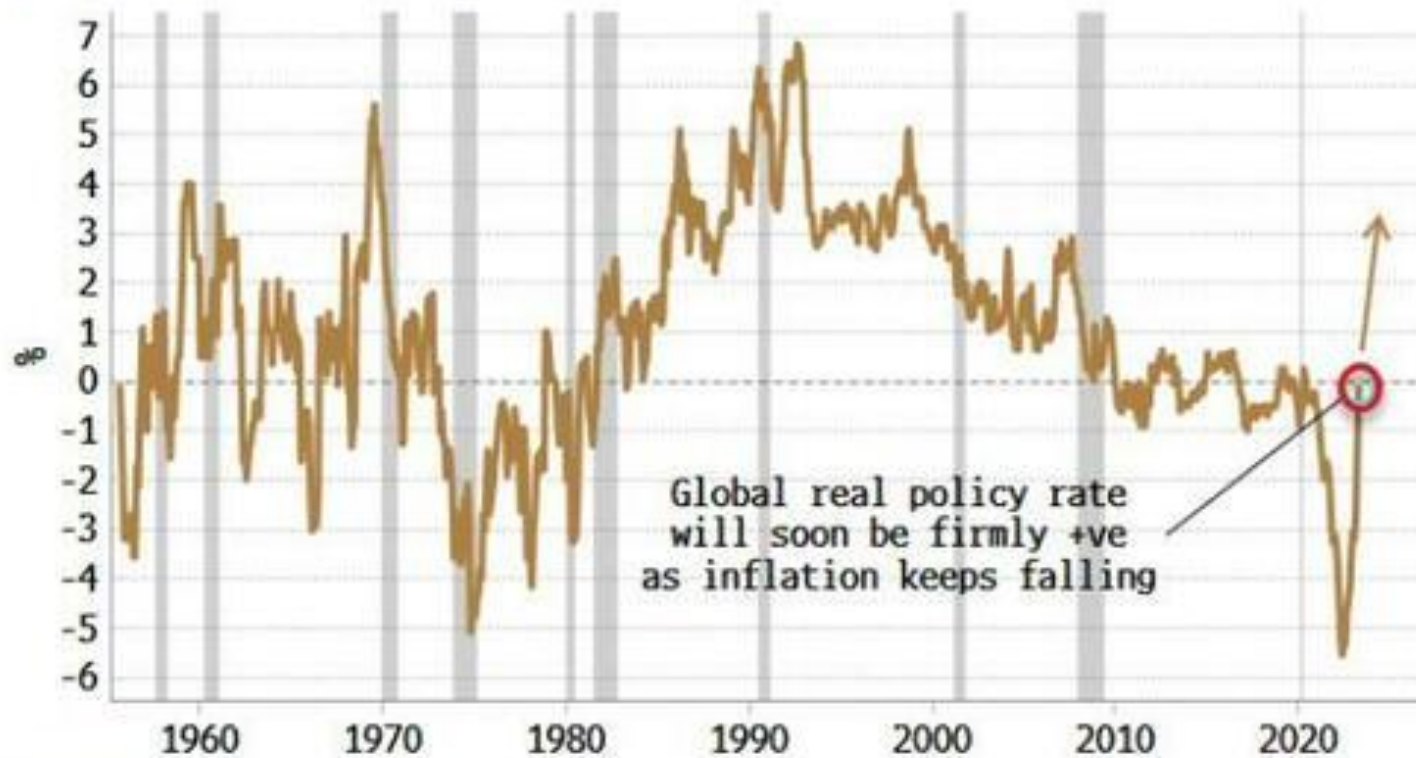
# RISING REAL RATES

The US. CPI-fixing swaps shows that even if the Fed holds rates steady, **slowing inflation ensures the real rate will rise the equivalent of five more rate hikes by the late summer, or eight by next April.**



## Global Real Policy Rate Now Flat and Soon Positive

— Median Real Central Bank Policy Rate



Source: Bloomberg



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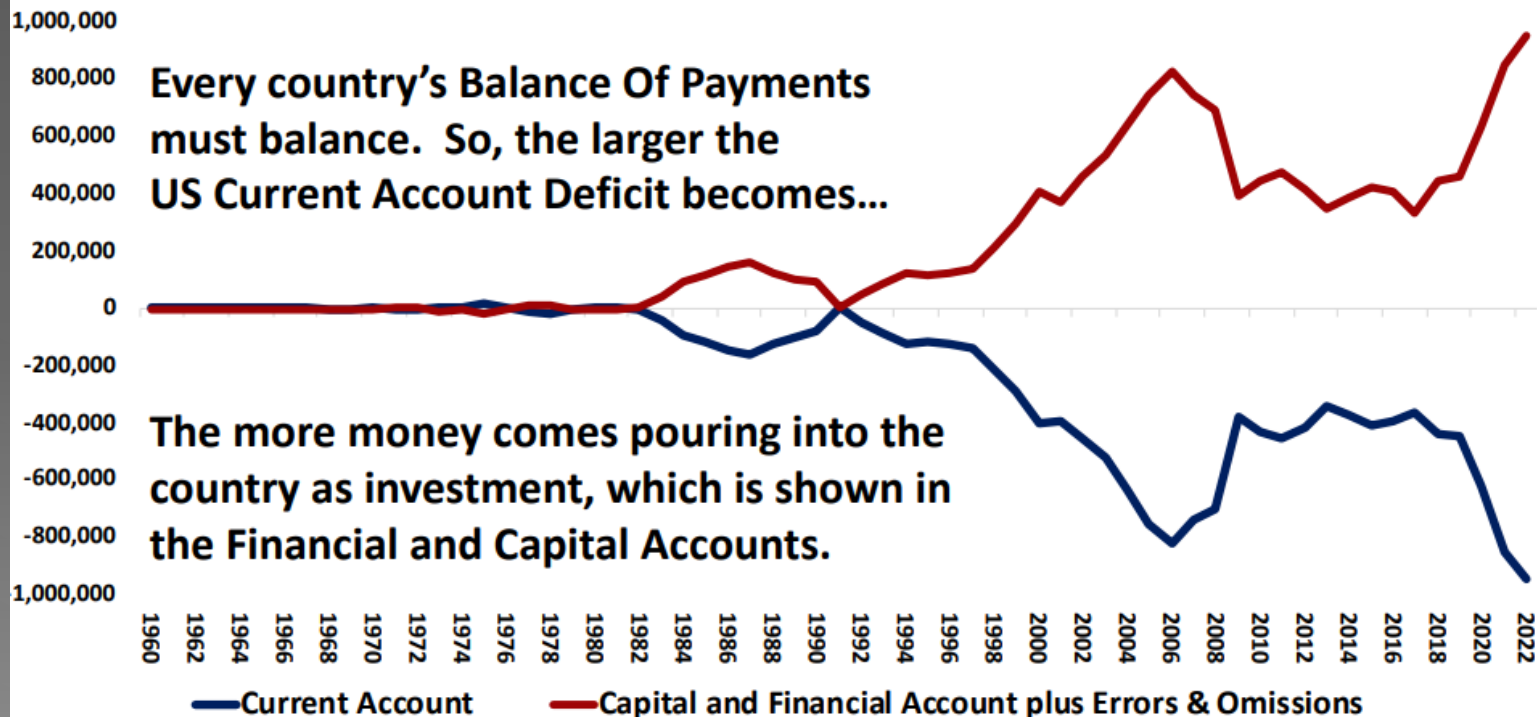
THE "REGULATORY STATE", MMT & FINANCIAL REPRESSION III

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## Mirror Image

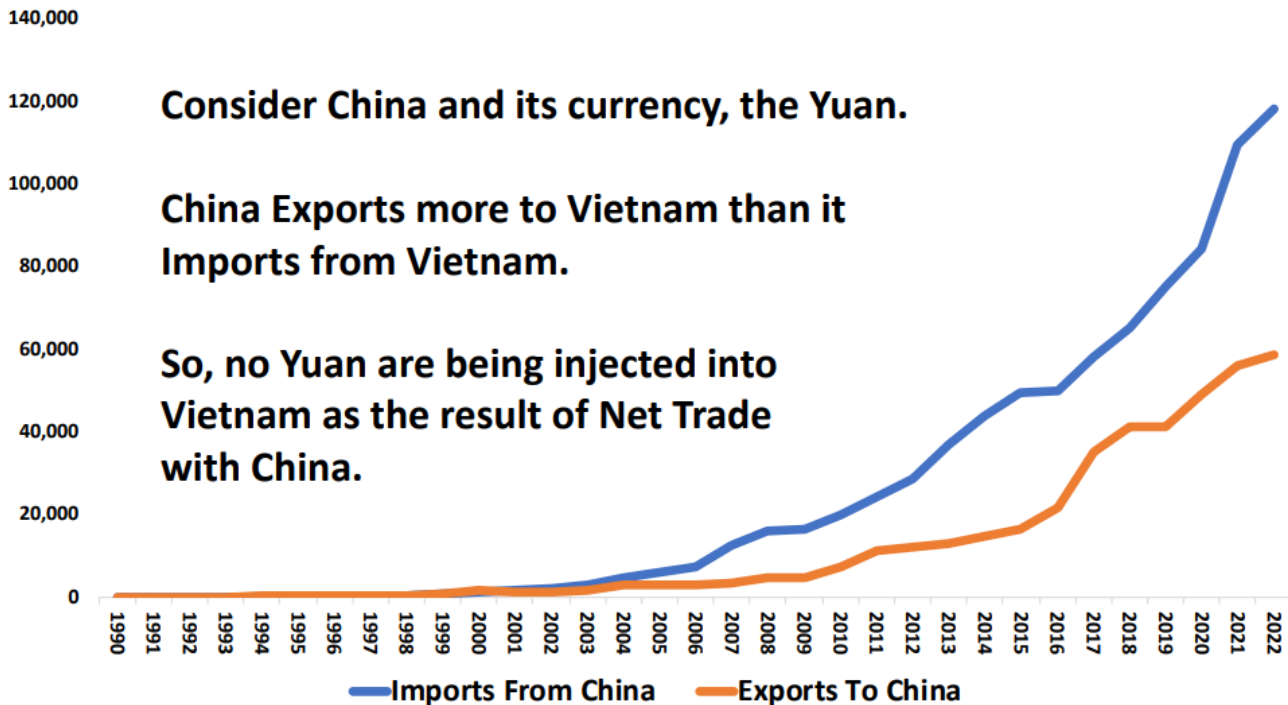
The US Current Account Deficit Must Equal  
The Surplus on the Capital and Financial Accounts  
US\$ Millions, 1960 to 2022



# IMPORTANCE OF DOLLAR TO MOST COUNTRIES

## EXAMPLE: VIETNAM

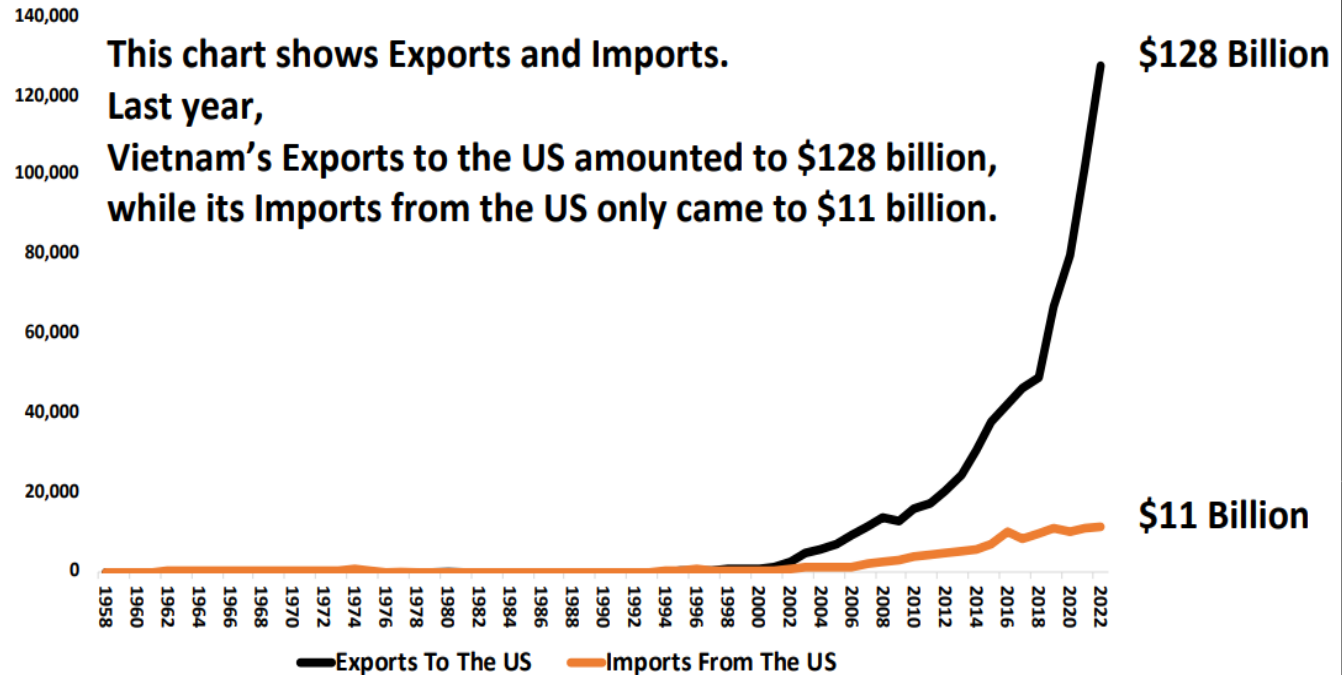
### Vietnam's Exports to and Imports from China US\$ Millions, 1990 to 2022



# IMPORTANCE OF DOLLAR TO MOST COUNTRIES

## EXAMPLE: VIETNAM

Vietnam's Exports to and Imports from  
The United States  
US\$ Millions, 1958 to 2022

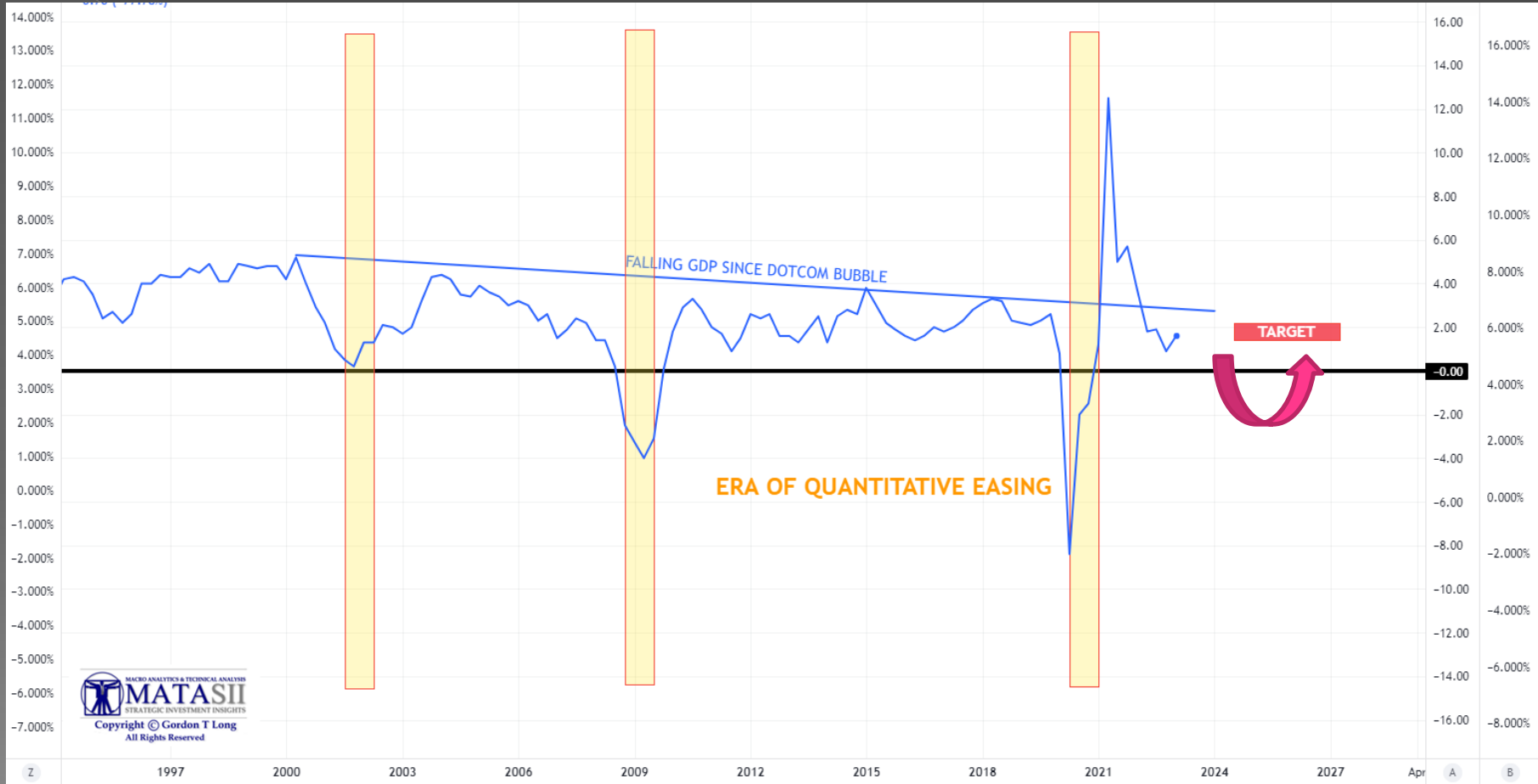


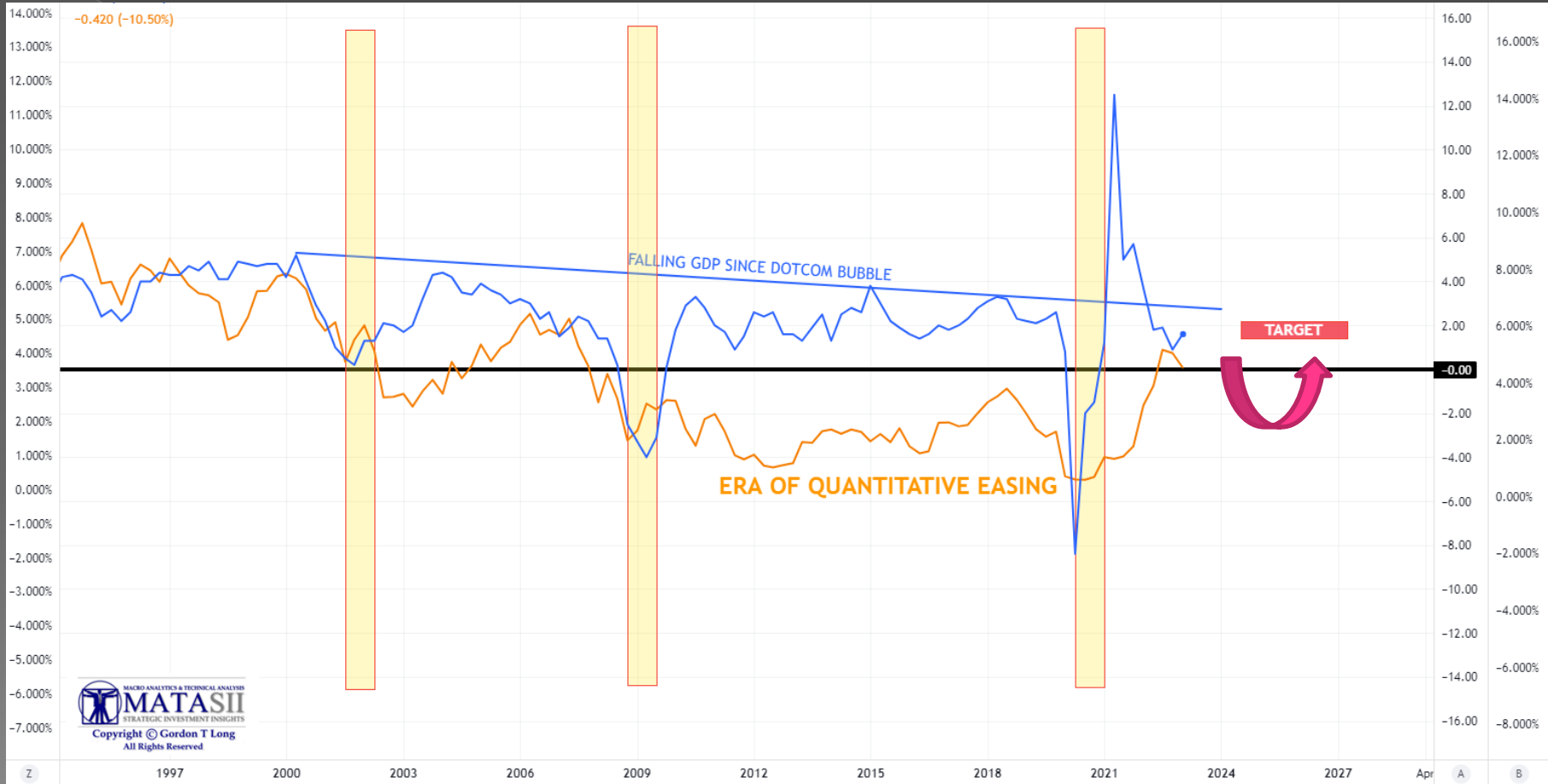
Source: CEIC

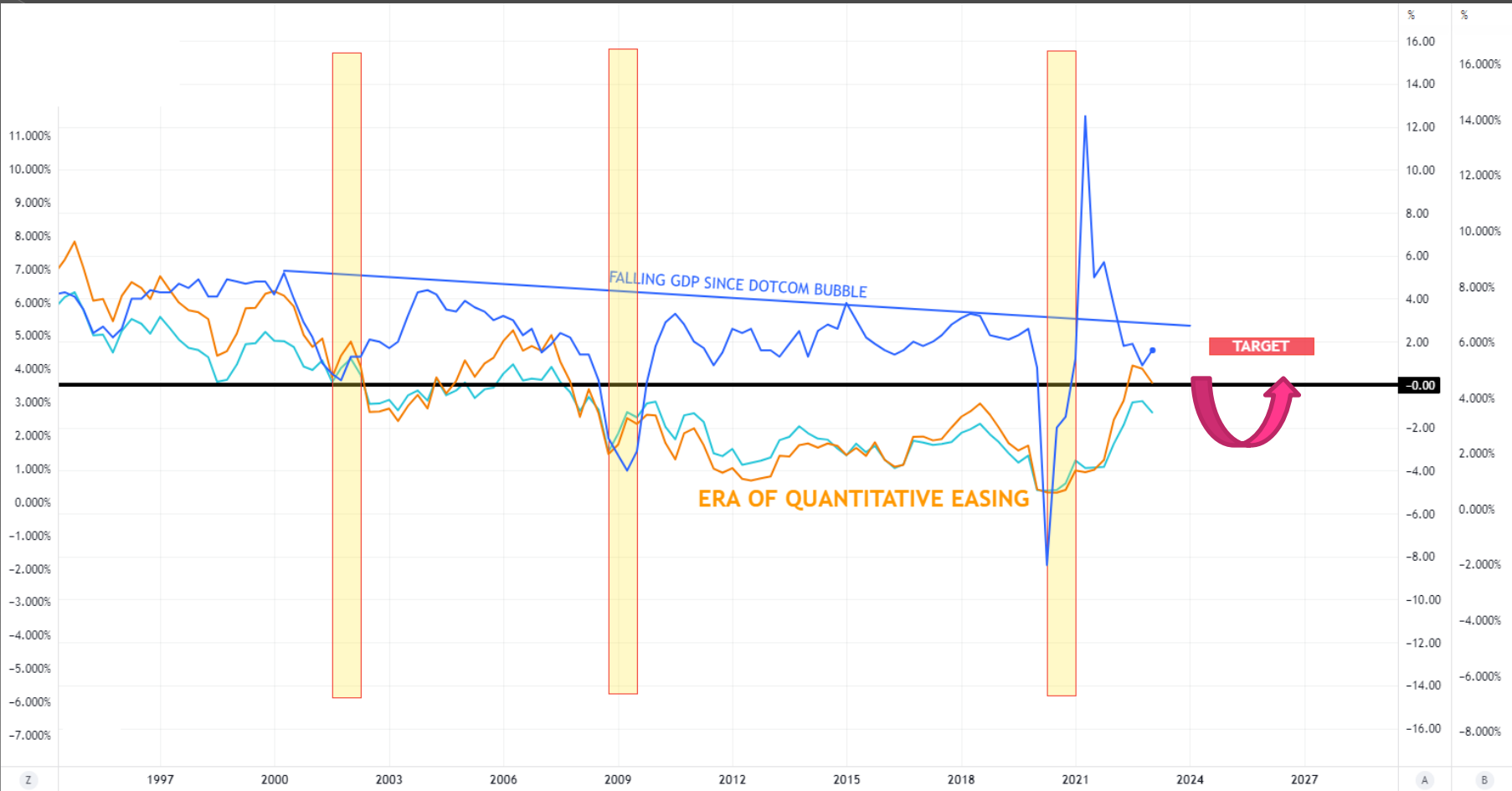
# IMPORVERISHED COMMODITY COUNTRIES

Top Export (Category)	# of countries	% of countries
Fuel	53	28.3%
Metal, Mineral and Organic	50	26.7%
Food and Produce	35	18.7%
Transportation	24	12.8%

*Note: Dataset is from the Observatory of Economic Complexity (2015)*









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# THE TRIFFIN PARADOX

If the United States stopped running balance of payments deficits, the international community would lose its largest source of additions to reserves. The resulting shortage of liquidity could pull the world economy into a contractionary spiral, leading to instability.

## Triffin's Dilemma

Testifying before the U.S. Congress in 1960, economist Robert Triffin exposed a fundamental problem in the international monetary system.

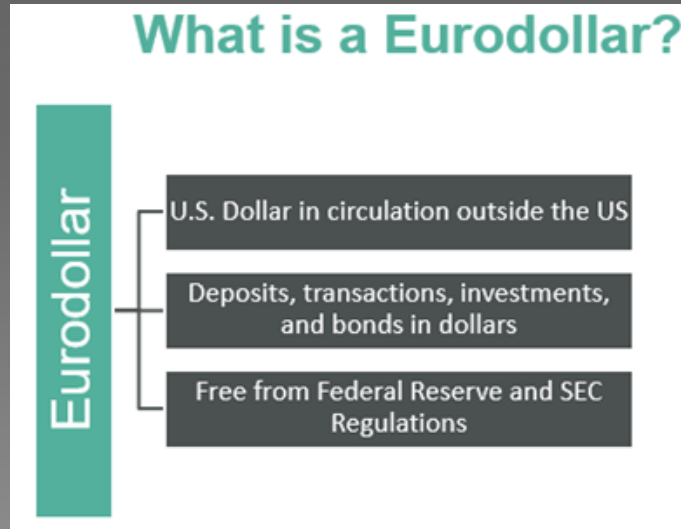
If the United States stopped running balance of payments deficits, the international community would lose its largest source of additions to reserves. The resulting shortage of liquidity could pull the world economy into a contractionary spiral, leading to instability.



If U.S. deficits continued, a steady stream of dollars would continue to fuel world economic growth. However, excessive U.S. deficits (dollar glut) would erode confidence in the value of the U.S. dollar. Without confidence in the dollar, it would no longer be accepted as the world's reserve currency. The fixed exchange rate system could break down, leading to instability.

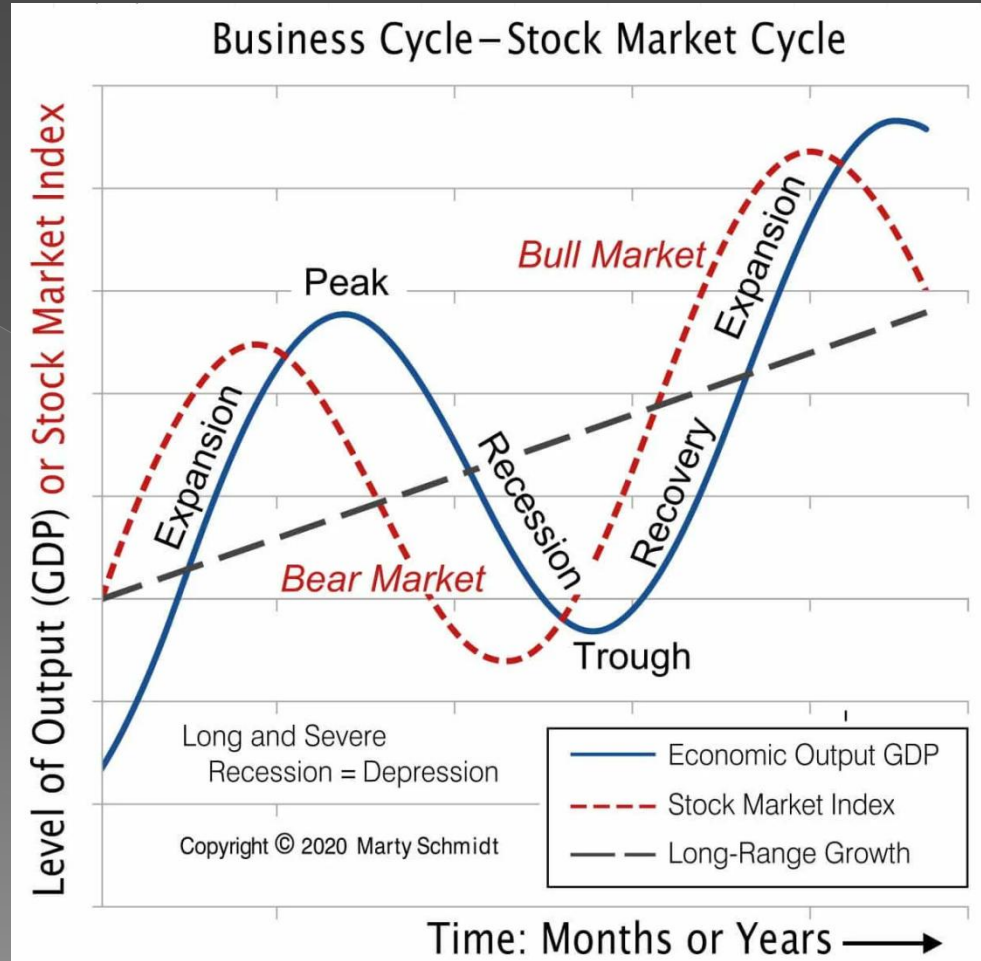
# THE EURODOLLAR

The term Eurodollar refers to U.S. dollar-denominated deposits at foreign banks or at the overseas branches of American banks. Because they are held outside the United States, Eurodollars are not subject to regulation by the Federal Reserve Board, including reserve requirements.



Eurodollar futures provide an effective means for companies and banks to secure an interest rate for money it plans to borrow or lend in the future. The eurodollar contract is used to hedge against yield curve changes over multiple years into the future.

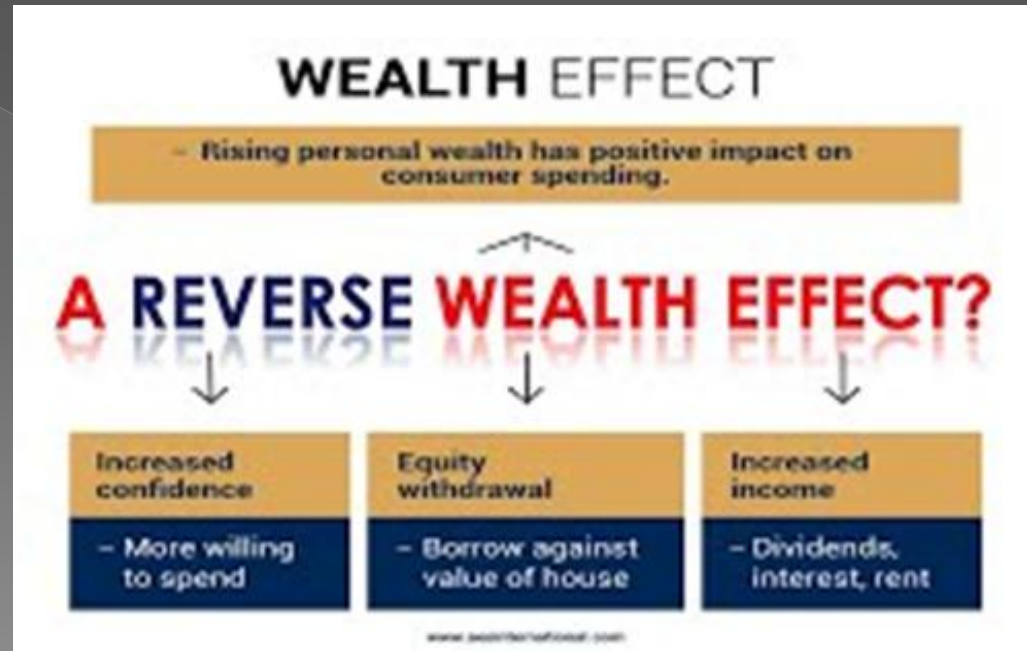
# A RECESSION OR WORSE?



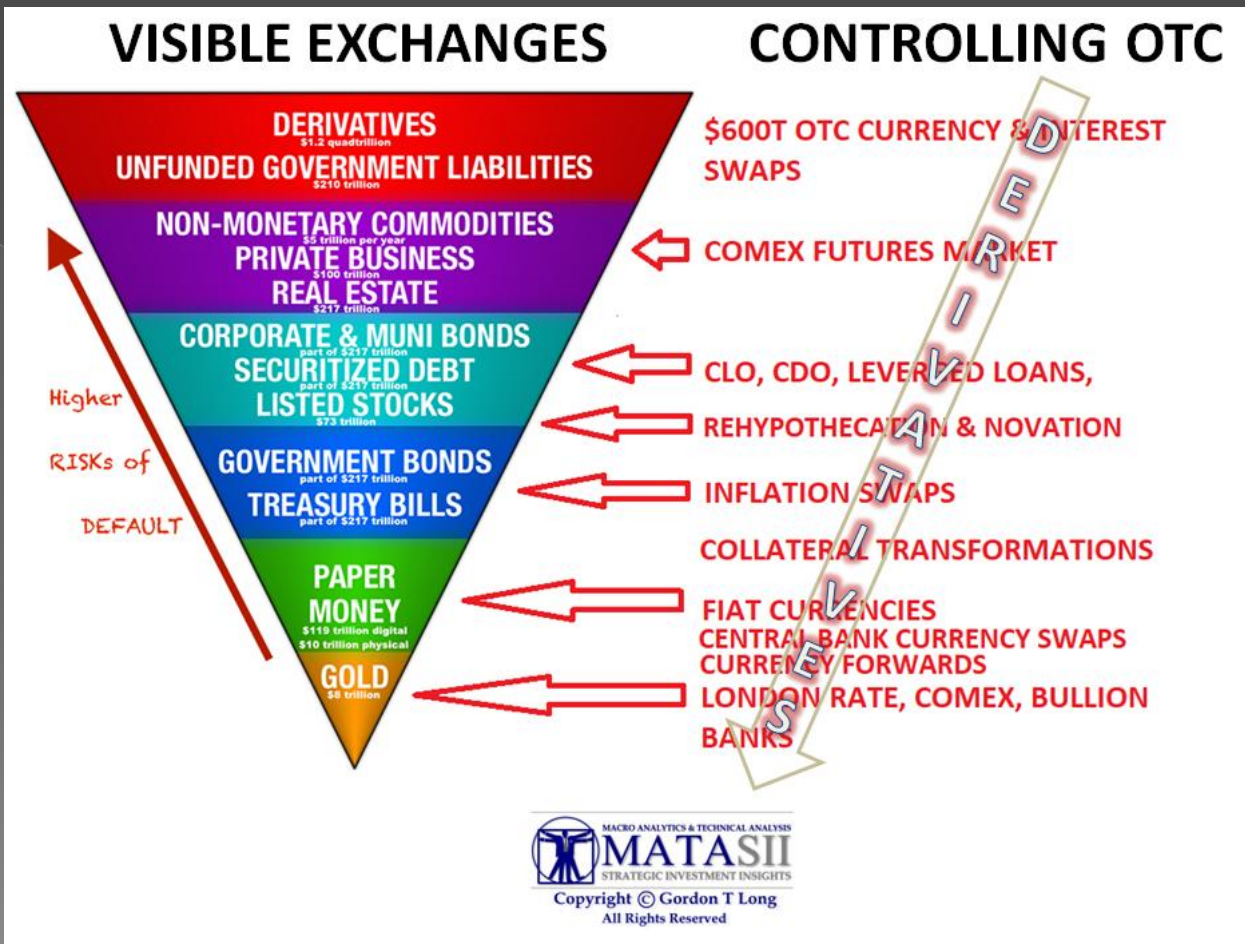
# A REVERSING WEALTH EFFECT?

MACRO ANALYTICS - 06-04-20 - A Reverse Wealth Effect?

[https://youtu.be/\\_4ZXQzmabsc](https://youtu.be/_4ZXQzmabsc)



# THE DERIVATIVES COMPLEX



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The diagram shows the GDP equation:  $GDP = C + G + I + (E-I)$ . The terms  $GDP$  and  $(E-I)$  are circled in red. The term  $G$  is highlighted in green. Annotations include: 'TRANSFER PAYMENTS SOCIAL NET UBI' with a green arrow pointing left from  $G$ ; 'BALANCE OF PAYMENTS' with a green arrow pointing left from  $(E-I)$ ; 'TAXES' with a green arrow pointing up from  $C$ ; and 'BORROWING IS + INVESTMENT' with a green arrow pointing up from  $I$ . There are also two green curved arrows pointing from  $C$  and  $I$  towards  $G$ .

$$GDP = C + G + I + (E-I)$$

TAXES

BORROWING IS  
+ INVESTMENT

C = CONSUMPTION  
G = GOVERNMENT  
I = INVESTMENT

(E-I) = NET EXPORTS



# THE REGULATORY STATE & FINANCIAL REPRESSION III

- 1- AN INCREASING REGULATORY / ADMINISTRATIVE STATE,
- 2- GUARANTEES & CONTINGENT LIABILITY ACCOUNTING,
- 3- MODERN MONETARY THEORY (MMT) ADOPTION,

*The Apparent Turmoil and Chaos Today Are Signs Of Thins To Come*

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- 5- LOWERED STANDARD OF LIVINGS & EXPECTATIONS,

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- 4- NATIONALIZATION / CONSERVATORSHIPS,
- 5- LOWERED STANDARD OF LIVINGS & EXPECTATIONS,
- 6- OPEN BORDERS,
- 7- UNIVERSAL BASIC INCOME (UBI),
- 8- DOMESTIC ON-SHORING PRODUCTION & REDUCTION OF FOREIGN SUPPLY CHAINS

*The Apparent Turmoil and Chaos Today Are Signs Of Thins To Come*

**ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES ...**

**DON'T WORRY, THEY WILL PRINT THE MONEY!**

**EVERYONE IS NOW IN PLACE & READY!!**



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