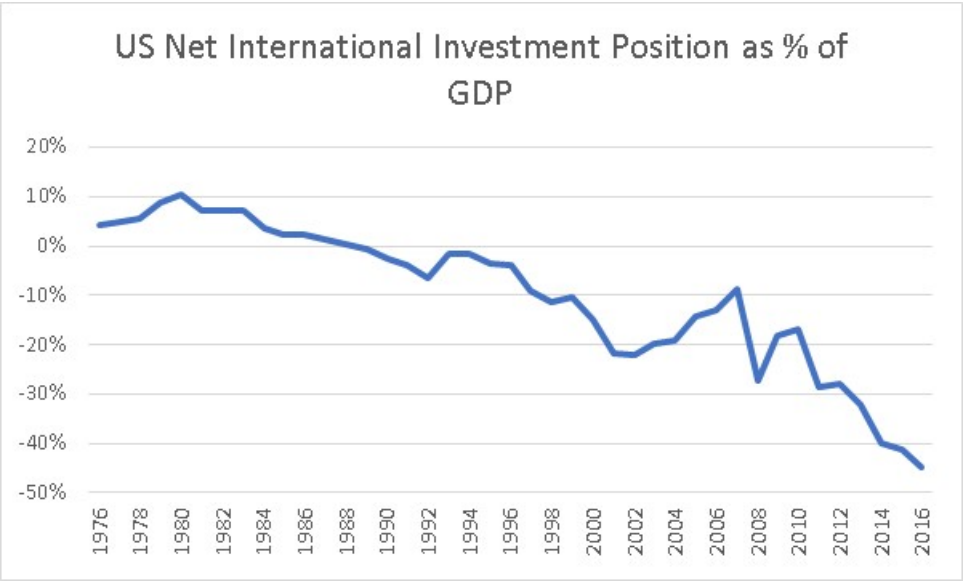


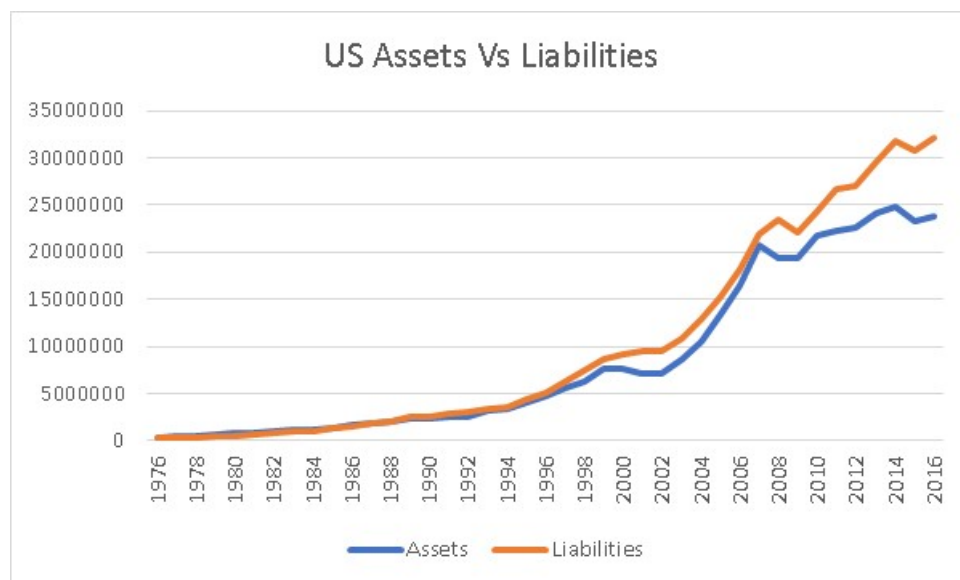
US DOLLAR AND US NET INTERNATIONAL INVESTMENT POSITIONS



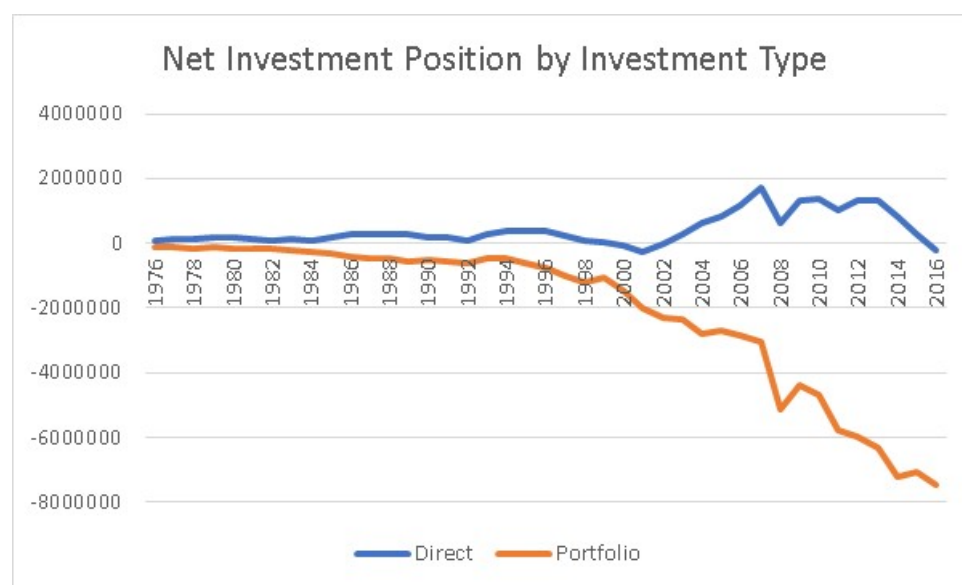
The Net International Investment Position (NIIP) is a data point that in essence captures the net assets of a nation versus the rest of the world. One of the features of recent years has been significant deterioration of the US NIIP. US NIIP data is taken from Bureau of Economic Analysis.



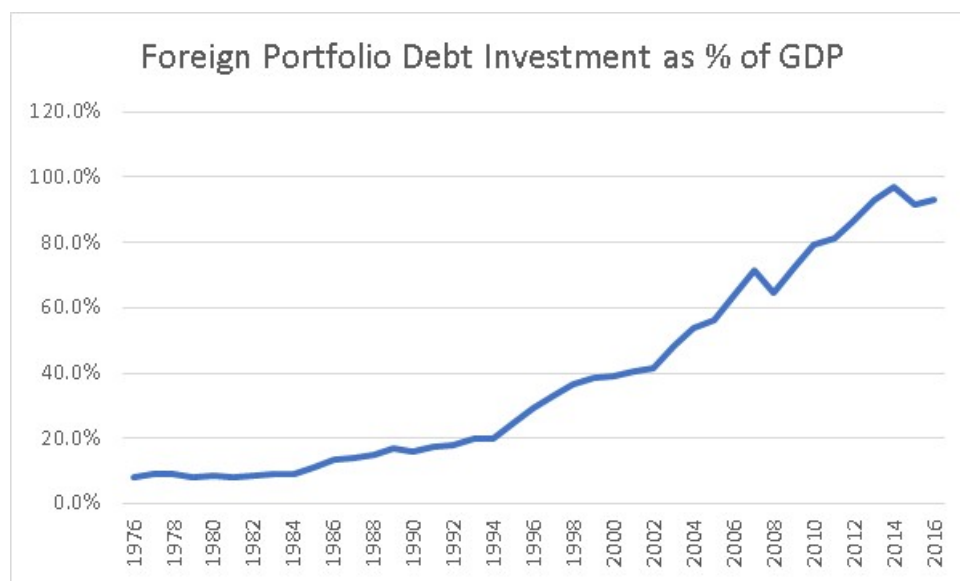
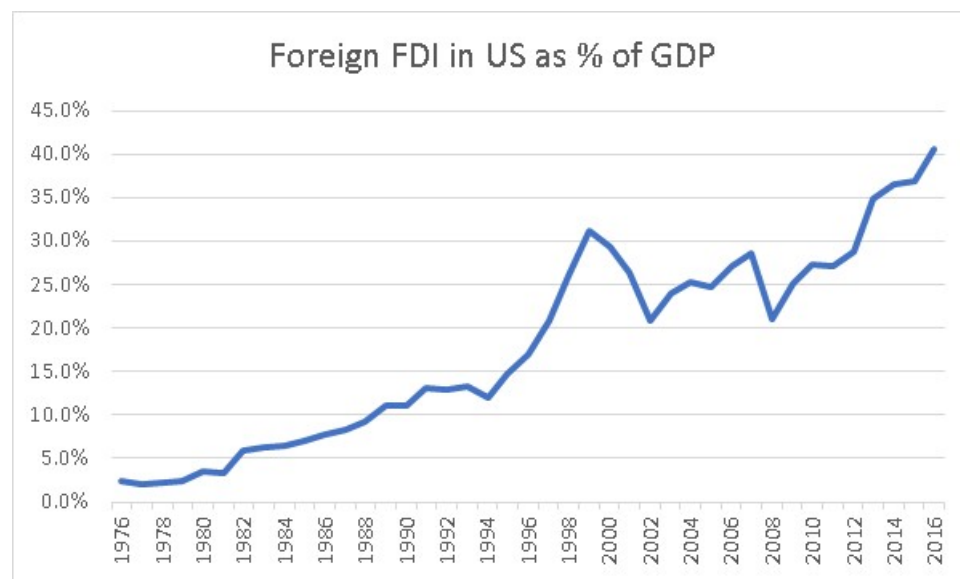
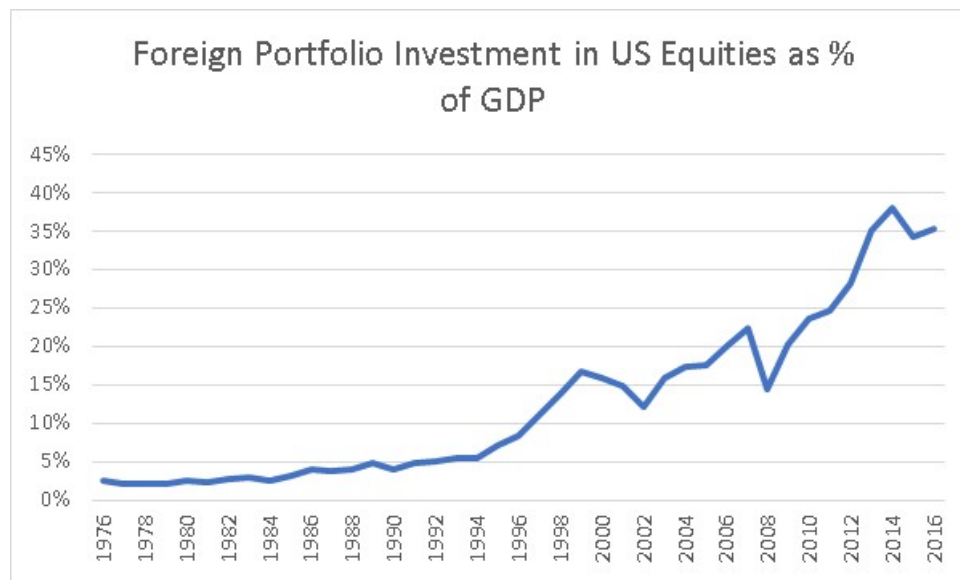
The recent widening of the NIIP has been driven by growing liabilities while asset growth in foreign nations has slowed substantially.



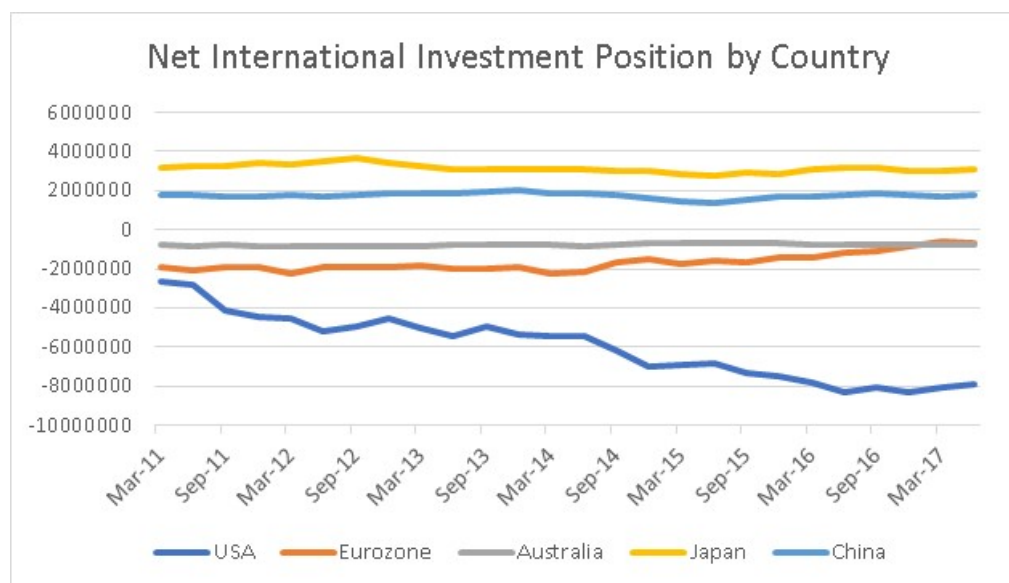
Data on NIIP is broken down even further, into direct investment and portfolio investment. Intriguingly, recent data has shown that for the first time since 2000, on a foreign direct investment basis (FDI), the US has now fallen into deficit.



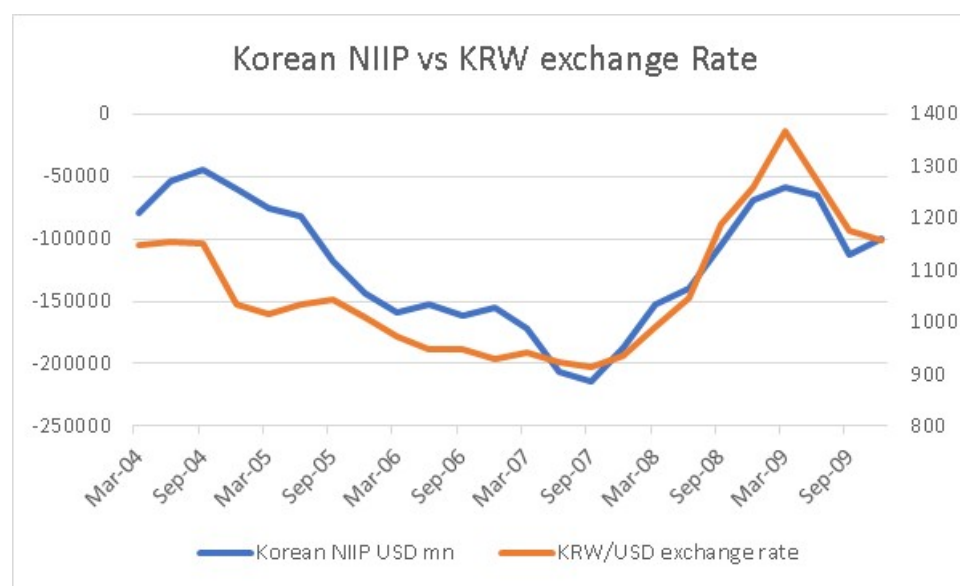
Of course, these numbers are all nominal, and so do not account for changes in GDP or inflation. If we take foreign participation in US equities, direct investment and debt, we can see that we are at extremes on all measures.



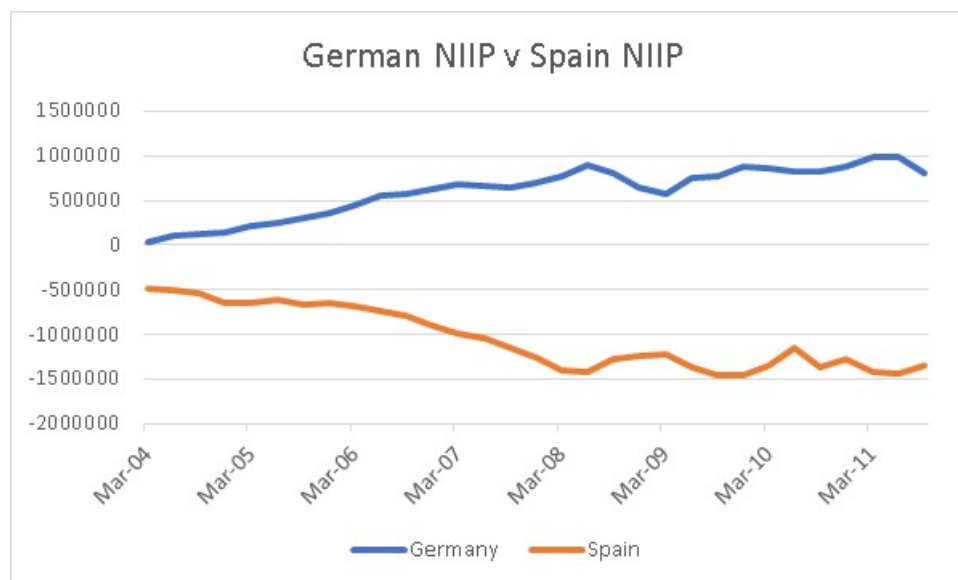
The IMF provides data on most countries NIIP which allows us to compare like for like. Using IMF data, the extent of foreigners long positions in US assets becomes clear.



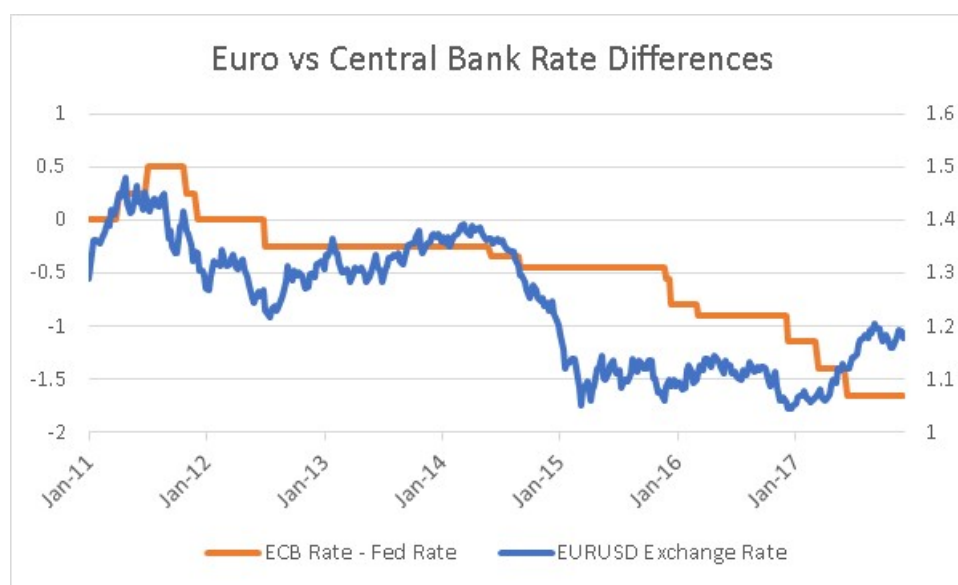
In essence, the world has never been longer US assets. The bigger question is whether changes in NIIP even matter? In my experience, they tend to be good signs of potential currency weakness (see my [Sterling Market View](#)) or of potential weakness in bonds where currency cannot make the adjustment. This was the case with Korea in 2007.



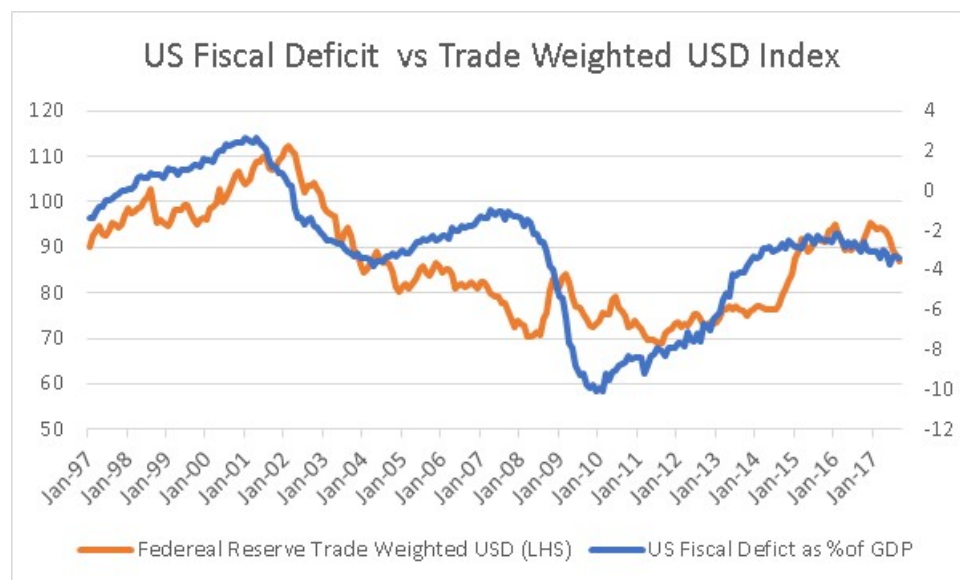
Similar analysis would have pointed to problems in peripheral Europe prior to the Eurocrisis.



Given the extended nature of the US NIIP, severe dollar weakness remains likely in my view. There already signs of this working its way into the financial system. Even as the US has raised rates, and widened the rate differential to Europe the dollar has markedly weakened.



Given higher rates, and the potential for more rate increase in the US, why has it not strengthened? What have investors seen that is worrying them about the US dollar? Perhaps is the deterioration in the US fiscal deficit despite strong asset prices and very low unemployment. A deteriorating US fiscal deficit tends to indicate inflection points for the US dollar.



Investors should consider the possibility of a weak US dollar on their portfolios.

INFORMATION

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 Source: Bloomberg, unless otherwise stated
 Investor Relations: Alain Zakeossian, Samantha Dunn
 Email: info@russellclarkim.com
 Telephone: +44 (0)20 7838 7580
 Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

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