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Let me begin this special FOMC update by saying that all three very short-term markets trends based on the Fed's meeting ending today have lower probability of success this week although there may be a sign pointing to lower prices by the end of the week. Stay tuned.

Without a crisis like 2008, Janet Yellen & Co. will find it tougher and tougher to discuss an interest rate hike during the heat of the political season. While the Fed is supposed to be apolitical, we all know that couldn't be farther from the truth. It has even become blatantly public as Fed Governor and Clinton family buddy, Lael Brainard has donated to three times. Want to guess who would be Hillary's treasury secretary or successor to Yellen?!?!

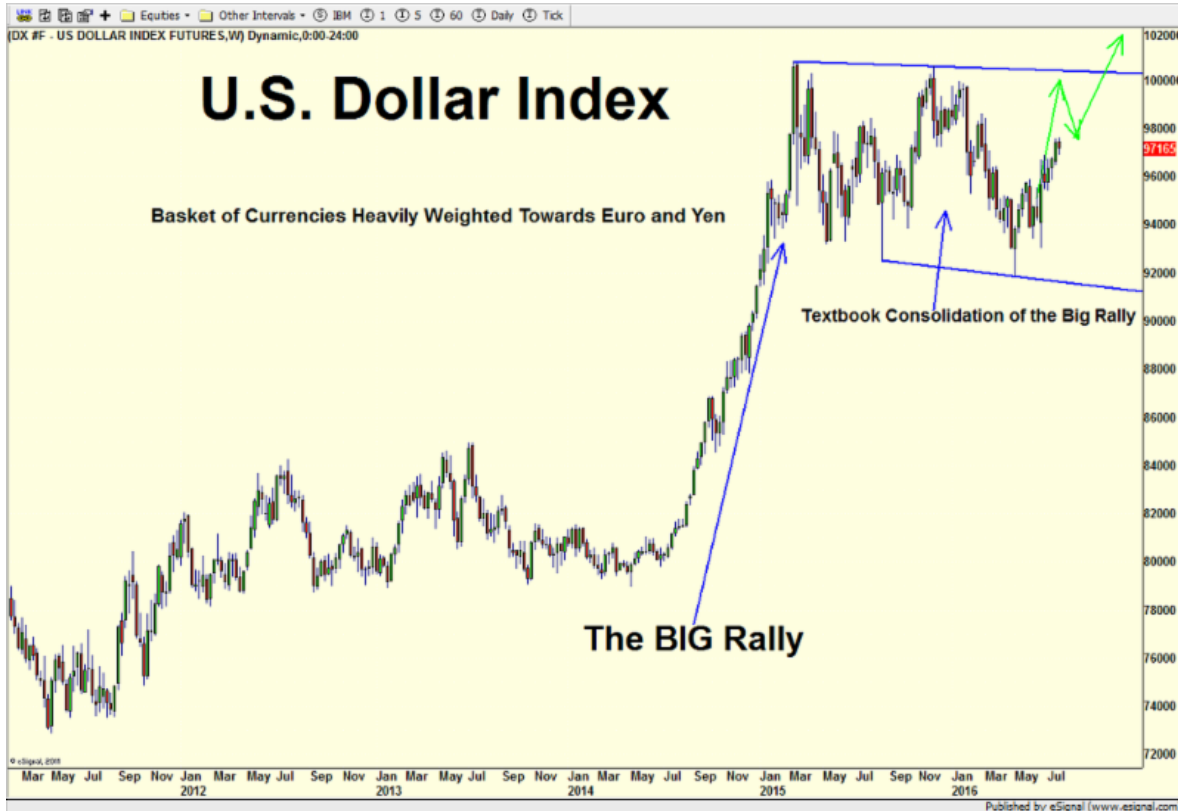
Anyway, here we are again; six weeks hence from the last meeting with the world not ending after the vote to BREXIT. Stocks are at all-time highs and the employment picture improved dramatically in June. While the economy is not back to trend growth, it's certainly stable and able to withstand a rate hike. However, the Fed heads have been very quiet this month, very unusual if a rate move was being seriously considered. As such, the markets are expecting no hike today with a bit more positive (hawkish) statement from the FOMC.

Long-time readers know that I am record since 2008 that the Fed should NOT raise rates until the other side of the mild recession that will follow the Great Recession. The world is a dramatically different place post-financial crisis and we are seeing some of things I was very concerned about start and continue to proliferate, like negative interest rates in Europe and Japan.

As I mentioned several times before, I believe the real reason that Yellen and the smart folks in the room are so scared to raise rates is that it would set in motion something I have been discussing since 2008. That is a tech-like blow off in the dollar only seen during the mid 1980s when globalization was only a fraction of what it is today. You can see this on the long-term chart below.



Fed officials rarely discuss currencies, but I believe this is something done a lot behind closed doors. Should the dollar take off above 100, which I think is a lock, 110, 120 and even higher become likely and possible. A shorter-term chart is below where you can see the big rally in 2014 and 2015 followed by an 18 month consolidation so far. Once the dollar breaks out to new highs and stays there for a few weeks, 100 or so will become the floor.



Most of you are probably thinking "so what". Stronger dollar should equal a higher standard of living. How bad could a strong dollar be? That is true. However, there are all kinds of chain reactions to understand.

A surging dollar would mean a collapsing euro, yen and pound. Along with my long-term dollar and Dow forecasts, I also have predicted the euro to parity against the dollar on its way to sub 80. The pound looks like it will see the 90s with the yen eventually declining another 25-50% from here.

With those central banks easing and/or accommodative, how could they fight back? While exports would benefit, their standard of living would further suffer. Much more importantly, I believe we would see massive capital outflows from much of the world into the U.S. First, this would manifest itself in short-term treasuries. I then believe money would flow into large and mega cap blue chip stocks along with real estate. That would make my longstanding target of Dow 20,000 seem bearish. I wouldn't rule out 25,000 or even higher under that scenario.

While a stock market melt up would be enjoyed for a time, these massive capital flows and currency collapses would likely lead to historic market dislocations around the globe ending worse than the crash of 1987. In other words, it's all good until it's not and then look out as the elephants all try to exit the room at once.

With so much more still to say, I need to hit the send button without comments much about the stock market. As you know, I pounded the table hard at the BREXIT lows, May lows and February bottom to buy stocks for a run to new highs. That's worked out well. The market is pausing to refresh here and that's not a bad thing. Until proven otherwise, weakness should be bought.

Leadership is changing from the defensive utilities, staples, REITs and telecom to more aggressive sectors like semis, software, materials and discretionary. Even the "left for dead" banks and biotech are starting to show signs of life. Don't underestimate this as a sign of fresh leg higher in the bull market.

As I write about all the time on www.investfortomorrowblog.com, I care much more about the markets' reaction to the news over what the news actually is. Keep a close eye on what leads and lags from 2:30 to 4 pm today.

To Your Financial Success,



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