



The Big Daddy

with Raoul Pal

September 21, 2026



In Focus

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RV Pro In Focus, 21 September 2026.

The dollar is on one side of 88% of every foreign exchange transaction on earth. Around 60% of central bank reserves are held in it. Roughly 40% of the world's outstanding debt is denominated in it, and it funds close to 90% of all cross-border loans and bonds. Half of global trade is invoiced in dollars even when America isn't part of the transaction, and most of the world's commodities are priced in it.

You get the point. As I've been saying in GMI for fifteen years, Macro really is all about the dollar...but I've never laid out in one place exactly why. And this week, with everyone staring at the Fed, now is the time to do so.

The Fed meets on Wednesday. It doesn't matter for this piece. Whatever they do, the thing to watch afterwards is not the statement; it's the dollar's reaction to it, because the dollar is the one price that everything else in macro has to clear through. That makes it the most compressed signal we have. Read it properly, and you've read liquidity, rates, trade, lending, and geopolitics at the same time.

One Price Underneath Every Other Price

In the Universal Code, price is compressed collective intelligence: a single number that carries everything every participant knows and does. The Third Law. Every market does this, but because the dollar is the funding currency of the world, the dollar does it for the whole system. A Korean bank lending to a Chinese property developer does it in dollars. A Brazilian exporter prices soybeans in dollars. A Japanese life insurer deciding whether to buy a US Treasury is deciding whether to own dollars.

When any of them changes their mind, the dollar moves. So the dollar's price is the sum of all of those decisions, made at once, netted out. Liquidity, rates, trade flows, credit, the geopolitical bargain of the day... all of it resolves into one number that trades 24 hours a day and can't be revised.

And the dollar has a property nothing else has. It is liquidity itself, because a dollar is the unit that liquidity is created in, and the thing that gets debased when it is. But it's also moved by every other source of liquidity in the system: the PBoC's balance sheet, the ECB, the Treasury's account, bank lending, and the stablecoin issuers buying bills. It sits at both ends of the chain at once — cause and effect in one price — which makes it the perfect compression tool for understanding what is really going on.

Which is why it's the variable I check first every morning, before the ISM, before the bond market, before anything. It's the big daddy. Everything moves off it.

Why the Dollar and Not Rates

People focus on rates so much. Rates are the price of money in one country, set by one committee, eight times a year. And rates are a reflection of potential growth as much as anything else: over time they can't stay above the trend rate of nominal GDP for long without the debt spiralling, so they end up telling you what the economy can bear rather than driving it.

In the Exponential Age, with productivity rising and the price of intelligence collapsing, rates matter less than they did because the growth they're measuring is changing underneath them.

The dollar is the price of the world's collateral and the world's funding. Move it, and you've moved the cost of servicing half the world's debt, the terms of trade for every commodity exporter, the room every emerging market central bank has to ease, and the hedged return a Japanese insurer gets on an American bond.

As I've said many times in GMI: Wall Street is assets, Main Street is income. Assets ride liquidity; income rides rates. The dollar is the liquidity variable, and liquidity explains about 90% of the variance in Bitcoin and closer to 95% in the Nasdaq, so while rates get the airtime, it's the dollar that does the work.

The Mechanism, Step by Step

The dollar is also the root of liquidity, because it's the thing you're debasing. When the US adds liquidity, whether the Fed's balance sheet, a Treasury drawing down its account, bills stuffed into the banking system, or stablecoins hoovering up T-bills, the supply of dollars rises and the dollar's price falls. That is what debasement looks like on a screen.

Then the chain runs. A weaker dollar makes roughly half of the world's debt that is in dollars cheaper to service, so borrowers in emerging markets stop scrambling to hedge and start deploying capital. It lets the PBoC and the ECB ease without having to defend their currencies, so global liquidity rises, not just American liquidity.

Commodity prices rise, which fills the reserves of the exporters. Global trade volumes expand, because trade is priced in dollars and a cheaper dollar is cheaper trade.

All of which means the pool of dollars sitting offshore gets bigger. That pool has to go somewhere, and the natural home is the deepest, safest asset in the world: US Treasuries. The foreign bid for duration returns.

Then it flows into the asset the whole world wants, the US technology and AI complex. US stocks go up. Global growth follows the ISM higher about nine months after the dollar turned, when combined with 3m rates in our GMI FCI...



One thing to be clear about with this chart... the dollar drives FCI, which drives the ISM, and the ISM is likely to have a mid-cycle pause, because this is a supercycle and that is what supercycles do. The 1990s are the template: there were several stretches when the ISM fell, sometimes below 50, and it did no true damage to the economy because the underlying productivity impulse was so strong. What those stretches tended to do was make asset prices trade sideways for a while, and then the cycle resumed. So, a softer ISM into the winter is not the thing to watch. The thing to watch is the next leg lower in the dollar because that resolves most of what is still outstanding on the liquidity side.

That's the loop: weak dollar, global liquidity, Treasuries bought, US stocks bought, global growth; it's like opening a valve in the plumbing of the global financial system. And it runs the other way just as cleanly.

2017 is the case study I always come back to. The Fed was hiking, the balance sheet was shrinking, US M2 was falling. Every domestic measure said tighten.

The Nasdaq had one of its best years, and the ISM finished at 59.7 because the dollar fell 10%, China added \$1.5tn to the PBoC balance sheet, and Europe was still printing. Total global liquidity rose 15%. If you were only watching the Fed, you missed the whole trade.

The cleanest way to see the dollar's grip on the asset that matters most is year-on-year against year-on-year. Invert the dollar, push it forward about a quarter, and it traces the Nasdaq's rate of change through 2015 and 2016, through 2022 and 2023, through the 2025 correction. A falling dollar is a rising Nasdaq, roughly eleven weeks later. Remember, these are YoY charts...



The Paradox: Strong Over Time, Weak for the Machine to Run

Here's the part that trips people up, and it's the part that matters most. The United States wants a relatively strong dollar over time. It needs a weak dollar for the whole system to work properly. Both are true, but at two different timescales.

Structurally, the US is where the world's capital wants to be. It has the deepest collateral market, the strongest legal system, the technology and AI complex everyone wants to own, and now the rails to deliver dollars to anyone with a phone. Every other major economy is debasing its currency too... Japan, Europe, China, all of them running the same refinancing machine... but only one of them issues the reserve currency.

When everybody debases, the one currency the world saves in wins by default. That is why the dollar has been in a secular bull market since 2011, and why I don't think it has ended.

The long chart shows it. From the 1985 peak, the dollar spent thirty years inside a giant descending wedge, with lower highs in 1985 and 2001, and lower lows in 1978 and 2008. It broke out of the top of that wedge in 2015 and has never been back inside it. That was the big breakout, and everything since has been the bull market that follows one...



Put a regression channel on the weekly from 2009, and the trend is a steady 1.8% a year, with the dollar today at 99.65 sitting 7% below the trend line at 107, about 1.3 standard deviations cheap to its own bull market. Run the channel forward, and the mean sits near 119 by the end of 2032. Nothing about the last year has broken the channel; the dollar is cheap inside it, which is exactly where the cyclical phase should leave it...



Tokenization extends it. A dollar stablecoin is the hardest fiat on earth made accessible to anyone, anywhere, without a bank, and the sector already holds around \$200bn of T-bills under the GENIUS Act. Tokenised US stocks put the asset the world wants on the same rails.

So the United States captures the world's savings twice, once as currency and once as equity. A digital yuan is still trapped by capital controls and a digital euro is still hostage to European politics; they orbit the dollar. When the world votes with its savings, it still votes for the dollar.

Cyclically, that same dominance is the problem. A currency the whole world must hold is a currency the whole world must be supplied with. When the supply contracts... when liquidity is being withdrawn... everyone who owes dollars has to buy them at once, and the dollar rallies. That's the shortage signal, and it's what the dollar is telling you when it goes up.

It's what happened in 2014 and 2015, when the \$9.5tn Asian carry trade started to unwind; the borrowers bought back dollars, the dollar went up further, and commodities collapsed. It's what happened in Q4 2024, when the DXY ripped 10% and drove the growth scare that ran into the April 2025 lows.

And it runs the other way in cycles you can draw with a ruler: 2017 to 2018, 103 to 89; 2020 to 2021, 103 to 89; 2022 to 2023, 114 to 100; 2025, 110 to 97. Each one is a liquidity cycle: the dollar is supplied, it falls, the world breathes, and then the supply tightens, and it rallies again.

The current cycle has been elongated, boxed between 96 and 102 for over a year while the plumbing rebuilt, and my read is that it resolves lower, into the low 90s, as the next leg of liquidity arrives...



So the weak-dollar phase is not a policy preference; it's a requirement. For the debts to be rolled, for China to ease, and for the foreign bid to return to the Treasury market, the dollar has to be supplied, and its price has to fall. A cyclical dollar bear market is how the secular dollar bull market survives and, if that sounds like a contradiction, it is also how the whole system works.

The Record

I should say where I stand, because I've had this trade on for a long time.

In 2011 I converted all of my euro savings into dollars at 1.45, switched GMI's billing from euros to dollars at around 1.36, bought dollar assets, and eventually moved to a dollar currency-board country, the Cayman Islands. I then spent three years telling GMI members the dollar was about to embark on an epic rally that could run for a decade or more... while it did nothing... which is about par for me, being always early to the trade, and then 2014 happened.

The yen was the other side of the same idea. I wrote in 2012 that Japan was running out of options, in 2022 that the yen was beginning the collapse I'd waited a long time for – a reversal of twenty years – and in 2024, when the yen had fallen 27% in two years, and the narrative was *"Japan is finished"*, I read it completely differently: Janet Yellen had been to Beijing twice, the yen was being used as a pressure point on China, and a bigger deal on the dollar was coming.

Then this year, Japan and the US intervened jointly to support the yen, and the BOJ was quietly handed access to the Fed's FIMA repo facility so it could borrow dollars against its Treasuries instead of selling them. A dollar shortage in Tokyo would have meant a forced seller of the US long end, and they weren't going to let that happen.

It was the same variable both times, the dollar acting as the pressure valve of a debt-based system.

Bessent Runs the Book

Which brings us to now, and why everything Scott Bessent has done this year makes sense.

The rollover maths leaves one lever. Federal debt is around \$36tn, \$9 to \$10tn of it rolls every year, and net interest already runs above defence spending. Austerity on the scale required is not available to any coalition in Washington, so the only path is financial repression: hold yields below nominal growth for long enough that the debt inflates away, as it did from 1946 to 1955.

But the 1940s had a captive domestic buyer. Today the marginal buyer of US duration past five years sits in Tokyo, Beijing and Riyadh, and their constraint isn't the level of the dollar; it's the cost of hedging it.

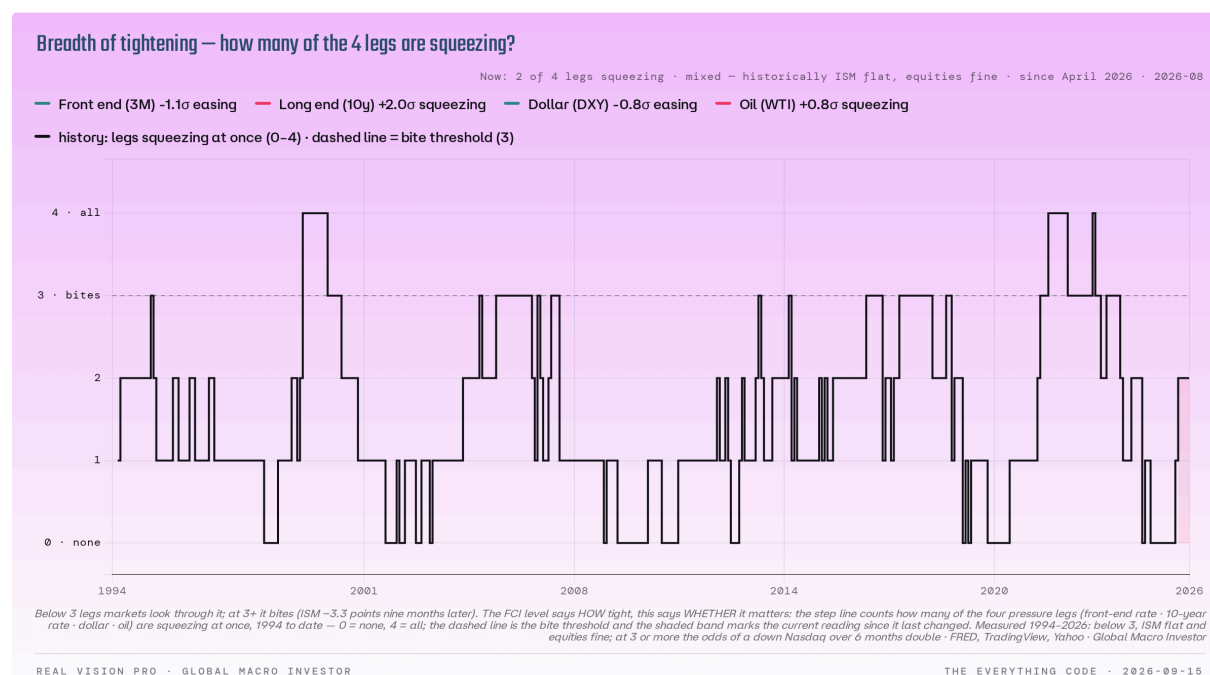
When I ran the maths from Tokyo last month, with Fed funds at 3.50% to 3.75% and the BOJ at 1%, hedging cost roughly 2.9% all-in, so a 10-year Treasury at 4.65% yielded about 1.75% hedged, below the 2.2% on a JGB at home. A \$4tn pool of capital held out of the world's most important bond market by a point and a bit. A weaker dollar and a lower front-end collapses that gap, and the structural Japanese bid comes back.

So the dollar has to fall for the duration bid to return, and Bessent has been wiring it lower deliberately, against the specific currencies whose holders own the duration he needs.

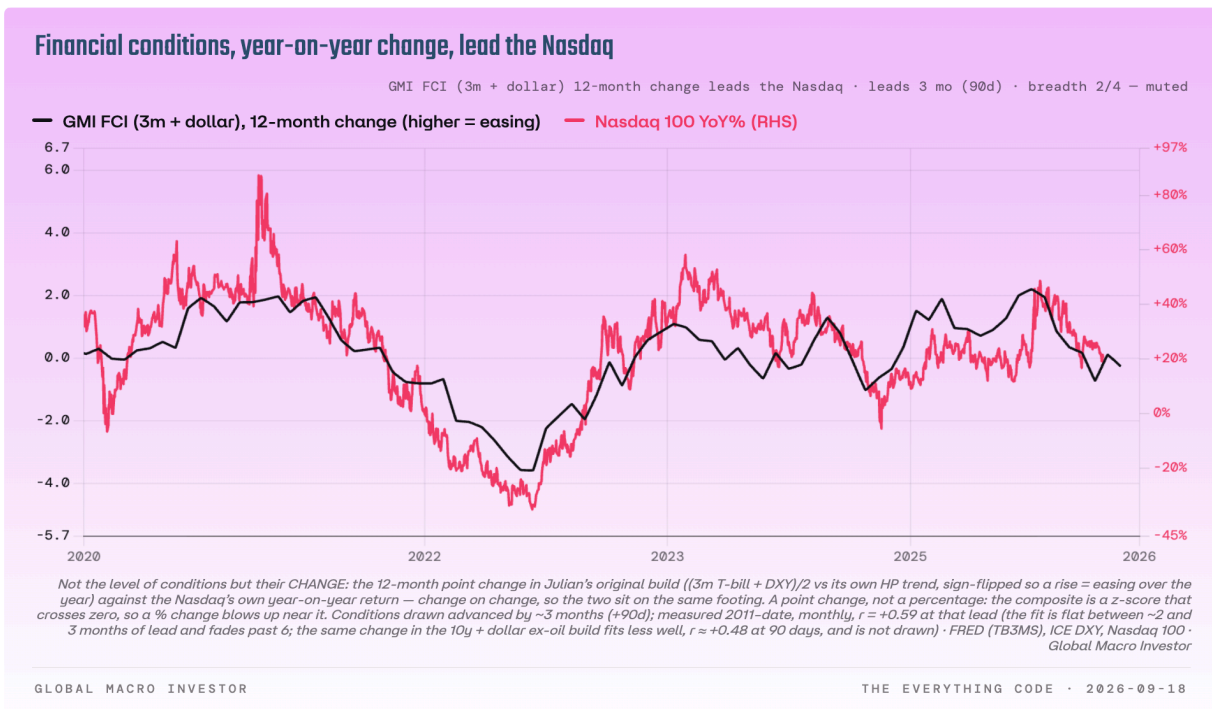
The Beijing summit in May read as a trade deal on the headline and a capital-flow agreement underneath: a stronger yuan is what Beijing wants anyway to fight deflation, and a stronger yuan is what brings the PBoC back to the long-end auctions. The swap lines to Japan, Korea and the UAE plumb the Eurodollar system that funds Asia's dollar debt – including China's \$1.5 to \$2tn of it – because Washington can't hand Beijing a swap line directly, so it plumbs the neighbours. The buybacks, doubled to \$4bn and called a floor, defend the long end from the supply side.

Every piece is the same reaction function: get the dollar lower, protect the long end, let the loop run.

It's also why we keep going back to the old three-month rates + dollar financial conditions index rather than the ten-year version that's tightened so hard. Conditions have four legs: the front end, the long end, the dollar, and oil. Only two are squeezing right now: the long end and oil, and the dollar leg is easing. Historically, below three legs, the market looks through it...



The two indices are giving different answers, and the dollar decides which one is right, which is exactly what it's been doing: the three-month version, the one with the dollar doing the work, is the one the market is trading...



Where the Dollar Is

The DXY closed Friday at 100. From February to July it rose inside a clean channel, from 95.5 to 101.8. It broke the bottom of that channel in August and has spent six weeks backtesting the break from below, stalled under the 100 handle, with a weekly sell exhaustion printed at the 101 to 102 shelf that sits under three years of lower highs from 110. My read is that the February to July rise was an ABC correction of the 2025 downtrend, and that a rejection here completes it...



The levels are simple. A weekly close below 98 confirms the breakdown, and the next leg targets the June 2025 lows at 96.4, then the weekly-13 zone around 93.7. A reclaim above 101 puts it back inside the channel and extends the chop. A weekly close above 102 kills the easing impulse entirely and would likely kill the sequence that gets excess liquidity back above zero, and crypto ignited into year-end.

The ten-year is at 5.00%, and the thirty-year at 5.36%, which is the tightening everyone can see. The dollar under 100 with the front end easing is the loosening they can't.

Wednesday's Fed doesn't change that arithmetic either way. If they hike and the dollar can't hold 100, the market has told you the hike doesn't matter. If they hold and the dollar rallies through 102, it's telling you something has gone wrong with the supply of dollars, and that's the shortage signal.

The Trade

There isn't a separate one to put on, and that's the point. The book already is the dollar trade, expressed through debasement, liquidity, and financial conditions. The Nasdaq, crypto, the Exponential Age Basket, the power names... every one of them is a position that a supplied, cyclically weaker dollar lifts and a scarce, rallying dollar hits.

The June lows in crypto and the 102 level in the DXY are the same line drawn in two instruments.

And all this sits inside the longer trend, the one I put my own savings into fifteen years ago: a secular dollar bull market; the United States is the most attractive place on earth for capital, every other country also debases but without the world's reserve currency to fall back on. The cyclical weakness we need now and the structural strength we'll get over the decade are not in conflict, because the first is the price of the second.

Where Am I Wrong?

Three ways. A shock rally: the dollar was bid through the first quarter on the Iran war as a pure haven, and a fresh geopolitical shock would do it again regardless of the plumbing.

... a Fed that keeps hiking into the front end and drags the dollar up with it, though four separate 4% to 5% dollar rallies in the past year broke nothing, and it takes more than 10% to become a wrecking ball.

... and a failure in one of the legs, Japan or China, that leaves the duration bid unengineered and the long end unanchored. The kill for the whole read is the same in every case: a weekly DXY close above 102.

Would I change my portfolio around any of this? No, unless the FCI keeps tightening, and that would lead me to be forced to take cycle risk off the table in due course, particularly in tech stocks.

... Crypto, on the other hand, is cheap vs tech, has had a big correction already, and will be the first asset to sniff out a need to inject liquidity...

Maybe crypto's recent strength is just that: a realization that the only way out of this mess of tightening conditions and higher rates (which lead to more issuance of debt) is firstly to lower the dollar by coercion. And if that doesn't work, then it's MOAR COWBELL.

– Raoul



Raoul Pal

Raoul is the founder and CEO of Real Vision, a digital media group, and publishes Global Macro Investor, which has provided original, high quality, quantifiable and easily readable research for the global macro investment community since January 2005: hedge funds, family offices, pension funds and sovereign wealth funds.

GMI draws on his considerable 33 years of experience in advising hedge funds and managing a global macro hedge fund, and has one of the very best, proven track records of any newsletter in the industry, producing extremely positive returns since inception.

Previously he co-managed the GLG Global Macro Fund in London for GLG Partners, one of the largest hedge fund groups in the world. Raoul moved to GLG from Goldman Sachs, where he co-managed the hedge fund sales business in Equities and Equity Derivatives in Europe. Other stop-off points on the way were NatWest Markets and HSBC, although he began his career by training traders in technical analysis. He retired from managing client money at the age of 36 in 2004.

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