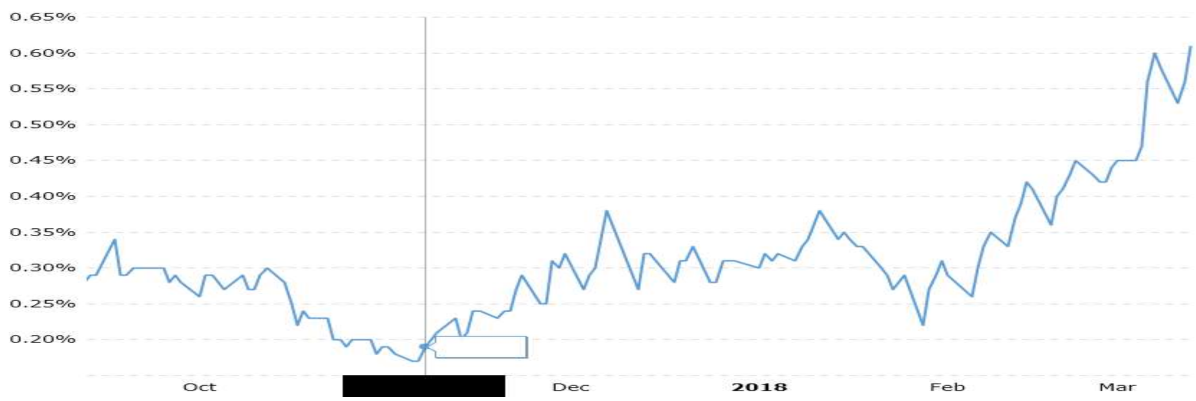
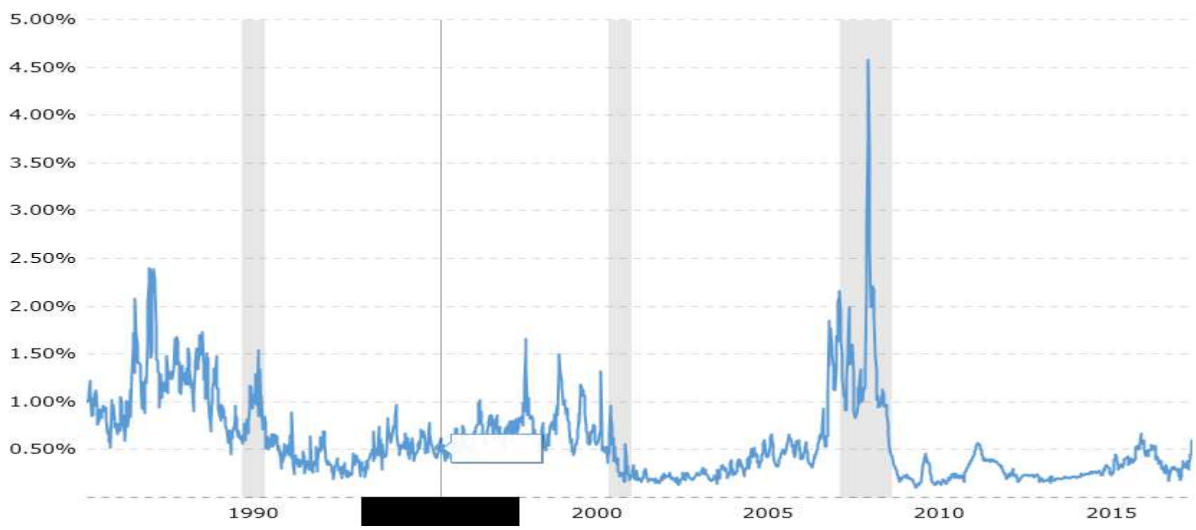
Starboard Weekly Report Ending April 6, 2018

TED Spread - Historical Chart

This interactive chart tracks the daily TED Spread (3 Month LIBOR/3 Month Treasury Bill) as a measure of the perceived credit risk in the US economy. LIBOR measures the interbank lending rate so as the spread between LIBOR and the T-bill rate increases. it shows an accelerating lack of trust between banks and a corresponding tightening of credit for all other counterparties. The current value of the TED spread as of March 28, 2018 is 0.61%.

Charts of the Week





These two charts are both on the TED Spread (explained above) and the top chart represents a much shorter time period from October 2017. The bottom chart is a quarterly depiction of the long term forecasting value of this crucially important interest rate comparison. Charts provided by Macro Trends.

TECHNICAL
The acceleration of LIBOR over the 3 month US Treasury comparison, known as the TED Spread, is a very serious economic indicator. LIBOR rate increases affect much of the multiple trillions of debt, both with individuals as well as non-financial corporations. US Consumer debt is $12.68 trillion. That is a 168 billion increase over the previous high reached in the third quarter of 2008. In addition, non-financial corporations added $2 trillion in debt since 2008 for a total of 8 trillion. A great deal of that increase found its way into the stock markets for buy backs. When markets decline then this money will be down the proverbial “rat whole”. Another huge problem with LIBOR loan rate increases is that they will offset the benefits both to individuals and corporations that the economy is expecting from the tax reduction. Supposing that all consumer and corporate borrowers were subject to LIBOR increases (and it is not) with that assumption we have had $400 billion costs to the economy since Trump took office. Whatever the exact number may be, it is a huge drain on the economy and one that in the past and near future could cause a recession, despite the supposed benefits of the tax reduction. The vertical grey lines on the bottom chart represent recessionary periods with the last housing crisis causing a huge spike in the TED spread.

FUNDAMENTAL
Automobiles loans and house mortgages are often tied to LIBOR. The increases in payments caused by its rising rate will continue to stymie growth in those two important economic growth engines. In addition to this commercial rate increase, we still have to factor in the FED raising rates and the additional pressure that they will cause by increasing the cost of higher Treasury bond interest. The federal government debt is currently $21.48 trillion and is expected to grow annually, along with a rate rise of 2% over next 10 years. If these estimates are accurate, then the US budget will be sporting a trillion plus annual interest cost in 2028. In a world awash in debt, rising rates will create enormous economic problems. The largest problem is how currencies will be affected by a combination of slow growth and rising rates. Rising rates is causing the declining stock market; not tariff wars as the media would have you believe. The US dollar movement should be an effective barometer on monitoring the interest rate problem. Gold will likely be another inverse gauge for checking on how currencies are coping with higher rates.

ASIDE
“A system of capitalism presumes sound money, not fiat money manipulated by a central bank. Capitalism cherishes voluntary contracts and interest rates that are determined by savings, not credit creation by a central bank.” Ron Paul

Our system has not had a structure of sound money since 1971 when Nixon took the dollar off of its gold backing. It has been all central bank manipulation of fiat money since then. If we are ever going to get back to sound money, then a new world wide monetary gold backed system will be needed.

Please note:
It’s the client’s responsibility to notify Starboard of any changes that would in any way influence their financial requirements.