

Starboard Weekly Report Ending July 6, 2018 Charts of the Week



This week we have two charts on the monthly commodity futures market. The top one is on the Commodities Research Bureau Index (CRB) while the bottom grouping is on the 10-Year US Treasury Yield (UST10Y).

TECHNICAL

It is interesting to note how price increases via the CRB Index and interest rates on the 10-Year US Treasury Yield move in lock step. As is apparent within both of the charts blue circles, the two ascending patterns have had a steady rise since bottoming in July 2016. Both ascents have stalled over the past two months. They are likely to continue their escalation as oil price increases affect the CRB; thus causing FED interest rate hikes to take their negative toll on the 10 year bond price. Both rises can be attributed to a better economy and as long as cost of living prices accelerate, the FED will have to raise rates. Inflation as reflected through the CRB Index is a normal late cycle happening despite how much politicians rail against it occurring. Price and rate increases were on their way higher before Trump was elected but a complicit FED held back until late 2017 before starting quantitative tightening and regular rate increases. Last week Trump official Larry Kudlow nagged the FED about raising rates to soon and this was not based on sound FED policy as much as it was on the upcoming election. Both of the charts are showing a near term slowdown in their previous surges if this is political rather than supply demand related. Then the inevitable rise will be an upward explosion instead of a steady increase.

FUNDAMENTAL

A crucial midterm election is just around the corner and the administration currently in power does not want a weaker stock market or a weaker economy caused by higher rates; thus Mr. Kudlow's tirade. What Trump and Kudlow are trying to accomplish reminds me of Nixon's 1971 wage and price controls to keep inflated cost at bay for his upcoming election. They want to do the politically expedient thing despite the future economic consequences. When you hold back an inevitable supply demand trend, it is comparable to shaking a carbonated beverage and then opening the top. The rampant inflation and interest rate rises of the 1970's were the result of Nixon shaking up the predictable significances of self-serving political actions. Hopefully President Trump is not another Nixon; otherwise, he would not have much of a historical legacy to feel good about since history can be a harsh judge of abusive power.

ASIDE

"Public policy is designed by spin doctors who air to keep our heads below the water. The public good is not a consideration, and their self-serving agendas prevail over common sense." American author, editor and public speaker Marilyn Ferguson

The spin doctors create narrative that drives both markets and elections. However, it is important to look beyond their self-serving agendas to extract what is beneficial for the economy, accompanied by the common good.

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