Starboard Weekly Report

The week ending November 7, 2014

Charts of the Week

This week's charts are a tale of two different markets. The top US Dollar chart is in a strong rally stage and the bottom Gold Spot Price chart has been in a tailspin for the past two weeks. Large price spikes or declines in a certain direction can mean the beginning of a trend or a capitulation of a price movement. This week's technical comments will try to ascertain which course each of these charts will be taking in the future.

TECHNICAL COMMENTS

The short term picture for both of these charts does not tell the whole technical story. Gold has been in a decline since 2011 when it was at $1950 and currently it is priced at $1150.
It is at an important support level when viewed from a long term prospective. Gold launched from this level in 2010 to trade on to its 2011 high. The dollar on the other hand had a high of $89.50 in March of 2009, which ironically coincided with the stock market's low. Then the dollar later traded to $88.50 in June 2010 and now we are at $88. There are many technicians who believe that a third top or a third bottom is the end of a bull or bear trend. The dollar is at that top point now and if it cannot break $90, then it is likely headed lower. Gold on the other hand has visited these price levels twice before, so if it can hold at the $1150 range, then it can start a new bull run. Either way, we will shortly know their future direction. The dollar, if it breaks out, will go much higher. Gold on the other hand, if it holds support at current prices, could rally to much higher levels.

FUNDAMENTAL COMMENTS

The dollar is in an ugly step sister contest with the Yen and Euro. All three have serious debt and deflation issues. Presently, thanks to the FED, the dollar has slightly less risk. The recent Republican victory in the Senate will be a game changer regarding how the Federal Reserve Bank will control the economy. US interest rates, although very low, are still higher than Japan and the Euro Zone. Our stock market is also much stronger, accounting for additional dollar strength. Left on its own merits without quantitative easing, it is very doubtful that the US stock market will continue to attract dollar buying from foreigners. Interest rates will continue to fall, which will also make our bonds less attractive to outside buyers. Gold would benefit from a falling dollar and also from a falling stock market. Gold is often viewed as an uncorrelated asset and it should attract money coming out of stocks.

ASIDE

I cannot remember a market which was more overbought than this current one and when the selloff begins, it is going to be ugly. This is the second time in as many months that I'm crying wolf, but maybe like the charts patterns mentioned above, it has to happen three times.