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Starboard Weekly Report Ending March 13, 2015

Charts of the Week

This week's charts, along with supporting indicators, represent monthly or long term views of the dollar versus gold.

TECHNICAL
When observing a longer-term chart like the ones above, we are looking at the structural price action of a given stock or market as well as commodities. The short term or cyclical charts of these two long-term commodity charts are direct opposites of each other. This is especially significant when we compare the 50 and 200 period averages. This week's monthly charts indicate that gold's structural upside 50 day crossed over to the upside in early 2005, whereas the dollar has been in a long-term downside crossover since the first quarter of 2006. The shorter term depiction has the dollar 50 day in a bullish trend. The gold chart negative has the 50 day below the 200. In a recent Weekly Report, we showed the daily gold chart struggling to get back into an uptrend by having the 50 go over the 200 day. Meanwhile, the current cycle of the dollar that began last August, with an upside cross over, is showing signs of topping. The supporting Relative Strength and MACD are indicating an end to the dollar rally and a turnaround for gold. Currently the dollar is the most crowded trade on the planet and when everyone goes to the same side of the boat, the boat sinks. These charts are very important to Starboard's thesis: gold is in a long-term bull market while any short-term activity, like the current dollar rally, is just noise.

FUNDAMENTAL
"The dollar is the most attractive currency in the glue factory". This often used quote is quite fitting. There is one major reason the dollar is so strong. It is because we have finished with our Quantitative Easing, while Europe just started and Japan is pumping out Yen through a fire hose. Europe and Japan make up over 60% of the dollar index; however, every other currency in the world is also down against the dollar. Making money available now and then retracting in the future is what Quantitative Easing is all about and this is nothing more than a sophisticated means of debt. This type of Keynesian credit expansion has worked for the past 75 years, but this is an end game due to the low level to which it has driven interest rates. Each country uses its banking institutions to lend money that Central Banks make available and then that credit is in turn used to create economic growth. That no longer works for two reasons: the banks are using the Central Bank money to buy its sovereign debt and banks do not want to lend to the public sector because of such a low rate of return on loans. When this almost century long credit boom ends, and it will before too long, gold will replace or be pegged to currencies. That is what our long-term charts of the week are still showing us. Should the 50 month versus the 200 month averages change from the current chart relationships, then we would have to change our opinion. But unless that occurs, then the dollar rally is just noise.

ASIDE
"In the long run, we are dead" said John Maynard Keynes in the early 1920's. He said this quote to defend against critics on his philosophy of controlling short-term cycles through government intervention. His thinking has created massive worldwide wealth on the back of equally colossal amounts of debt. The death of Keynesian philosophy started in 2008 when the public banking sector got a severe cold. And now, due to trillions of sovereign debt from that cold, the world economies have contracted pneumonia; which will likely be terminal.