Starboard Weekly Report Ending March 18, 2016
Charts of the Week

This week's StockChart.com presentations represent a daily relationship between the recent rally in Copper expressed through the Copper Stock ETF (COPX), versus the decline in the US Dollar that is denoted by the US Dollar Index symbol ($USD).

TECHNICAL

The price of Copper is known as a commodity with a PHD or Dr. Copper. It is perceived to have the ability for predicting overall economic behavior because it is used in so many industrial applications. Copper has been extremely weak since July of 2011 when it directly corresponded with a bottom for the Greenback. Today's charts show the short-term daily relationship between the Buck and Copper. Copper stocks have had an incredible run from its recent bottom on January 20th when COPX was selling at $8.66. Now it is selling at $15.12 (it's almost doubled in less than 2 months) and at a pace that is not likely to continue. Meanwhile, the Dollar has fallen in a slightly less volatile manner from just under $100 on its index to $94.80. The US currency is at an important holding level since it has breached the support line indicated by the blue line on its chart above. Further and more serious breakdown would be enough to pull it into bear environment by having its 50 day average drop below the 200 day. At that point we could expect a sustained rally in Copper and all other commodities. This is a very important charting relationship to monitor because it will have strong implications regarding the current world-wide deflation, a problem that Central Bankers just can't seem to make go away despite the gobs of quantitative easing and zero interest rates.

FUNDAMENTAL

Favorable or negative economic trends are often based on simple supply demand relationships such as the strength or weakness of the World's reserve currency (the Dollar) versus commodity prices. Much of the World deflation is being caused by the strong Dollar because it is slowing growth in the emerging economies where a strong demand exists for commodities. Dr. Copper knows the prescription for deflation; a cheaper Dollar. And if that occurs, there will be enormous opportunities in the Emerging Markets (EM) as well as commodities that supply their growth. EM growth is not a panacea; however, commodity inflation will help the Developed World inflate away some of its debt. It is more likely that the ivory tower PHD geniuses of the Developed World's Central Banks would rather use short-term monetary methods to fight secular economic issues rather than unleash the EM growth engine. The majority of the buying in the recent market rally came from short covering, especially in the commodity stocks mentioned above, and the activity seems related to the spike in oil prices. Gold has also participated, but in my view, Gold will be the only commodity to continue its rally due to its intrinsic value relationship to currencies; not its supply demand as a commodity. However, if commodity inflation increases, then Gold will accelerate.

ASIDE

"For every complex problem there is an answer that is clear, simple, and wrong."
H. L. Mencken

World politicians and Central Bankers have had a clear and simple answer to our complex economic issues; debt and quantitative easing. I strongly believe that they will be found wrong in how they handled this *complex problem*.