

Starboard Weekly Report Ending September 16, 2016
Table Chart of the Week

— THE ROLE OF THE SDR

		OLD	OCT 1 2016
Dollar	41.9	41.73	U.S. Treasury Bill.
Euro	37.4	30.93	Central government bonds with AA rating and above. 2/
Pound	11.3	8.09	U.K. Treasury Bill.
Yen	9.4	8.33	Japanese Treasury Discount Bills.
Renminbi		10.92	Benchmark yield for China Treasury bonds. 3/

Buying and selling SDRs (SDR is an acronym for Special Drawing Rights)

IMF members often need to buy SDRs to discharge obligations to the IMF, or they may wish to sell SDRs in order to adjust the composition of their reserves. The IMF may act as an intermediary between members and prescribed holders to ensure that SDRs can be exchanged for freely usable currencies. For more than two decades, the SDR market has functioned through voluntary trading arrangements. Under these arrangements a number of members and one prescribed holder have volunteered to buy or sell SDRs within limits defined by their respective arrangements. Following the 2009 SDR allocations, *the number and size of the voluntary arrangements has been expanded to ensure continued liquidity of the voluntary SDR market. The number of voluntary SDR trading arrangements now stands at 32, including 19 new arrangements since the 2009 SDR allocations.*

INTERNATIONAL MONETARY FUND

Information taken from the web site for the International Monetary Fund (IMF)

TECHNICAL

Gloom-doom pundit Jim Rickards refers to SDR as world money. He is using the October 1st change in the SDR to broadcast an immediate crash in the dollar. He also believes that the stock market will crack and that gold will soar. It would certainly be good for our portfolios if he is correct. However, I do not believe that the SDR change will be a push the button event. It does have the possibility of being a monetary game changing event because of China's new roll in the SDR. In order to create room for China's renminbi, other currencies had to take a diminished role of their standing in the SDR. The biggest percentage hit is going to be the pound at 24.4% lower than its current status. The Euro takes a 17.2% haircut while the Japanese Yen is diminished by 11%. The Dollar virtually remains unchanged. The problem for the buck will arrive if the SDR's start being used instead of the Dollar for world trade. That could cause a huge supply of dollars that would send the price down dramatically. The inflationary effects could be extremely unpleasant for American citizens.

FUNDAMENTAL

The dollar has built up quite a few enemies due to its recent increase that has caused many emerging nations, as well as oil trading nations, to be economically hurt by the dollar's strength. That could cause a trend toward using SDR's instead of dollars for world trade. Note the increase use since 2009, a trend that is not favorable to the dollar as the reserve currency. In my opinion, the developed nations of US, England, EURO Union and Japan that have been living beyond their means building dangerous amounts of debt will eventually have to be bailed out by the IMF. The economic and political implications from such a reset may be the real reason for the new bull market in gold. Come October 1st the Pound, EURO and Yen will be worth much less in world money. Combined they take an 18.5% theoretical reduction in world buying power for their currencies. To the extent that the SDR gets used for transactions, which China will be encouraging, they will have an actual buying power loss. Converting Pounds, Euro's and Yen to gold creates a way for the citizens who use these currencies to preserve buying power. The world is focused on the FED's next move in interest rates and its effect on the dollar whilst there is another evil lurking that could send the dollar into a tailspin. Increase in SDR activity could have serious economic ramifications that could prove to be much greater than the over published FED action on interest rates.

ASIDE

"What people fail to appreciate is that the currency of corruption in elective office is, not money, but votes." James L. Buckley

What a very astute observation from this past US Senator and brother of conservative author and commentator William F. Buckley. Debt money and its effects take a back seat to vote getting by politicians. This has unfortunately become a major problem throughout the developed world.

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