Starboard Weekly Report Ending December 16, 2016
Charts of the Week

This week we are observing two weekly charts of the PIMCO Index (STPZ) on the 1 to 5 year US Treasury Protected Securities (TIPS). The top chart is the actual weekly chart while the second chart is its weekly relative strength to gold. The movement of the TIPS government bond has a direct relationship to the price of gold because the shiny metal does not pay a yield and the TIPS yield represent what investors are losing by holding gold. In reading the charts, please keep in mind that as the price of a bond rises, then the yield drops. Lower TIPS yields are bullish for gold and the opposite is true as we have witnessed since Trump's election. Both charts this week were taken from StockCharts.com.

TECHNICAL
The green dotted line starting in December 2015 in the top chart shows the price of TIPS rising (yields dropping) from early January to the July high; then sideways until Election Day. The red arrows show the weekly price drop of the TIPS starting early November. However, during that period the 50 week moving average actually turned positive indicating higher bond prices long term. The bottom chart is very volatile, reflecting the sharp decline in gold. This relative strength picture is indicating a severe oversold condition that argues for a short term reversal for gold. Please note the red arrows in January 2015 and again in July 2016 as they indicate how the price relationship between gold and TIPS topped out. The reverse of those tops occurred in December 2015 (green arrow) and currently. These arrows point out how the price direction changed when the price relationship exceeded the upper Bollinger Bands (BB) (red arrow). The BB's are denoted by two green lines above and below a moving average dotted green line. We recently had a chart movement below a BB which is an early sign of reversal.

FUNDAMENTAL
The most serious macroeconomic question would be: has anything really changed? The FED did not seem to think so. Their only forecasting change was three rate hikes next year instead of the expected two. The stock market rally and bond price decline, along with the gold pull back are all about hype, not substance. The election excitement cannot make 20 trillion of debt in the US (and even more ridiculous amounts abroad) disappear by hype. Trump is up against huge headwinds and thus far his choice of Goldman Sachs advisors represents nothing more than a status quo. As outlined, his economic program will not pass through Congress. Until we have a clear idea of the ramifications on our deficit, it is difficult to make an accurate economic forecast. Trump is definitely better for the economy, especially from a regulatory standpoint, but worldwide deflation will not go away as he makes "America Great Again". Deflation means lower interest rates and as the current price decline in bonds abates, then gold will rally again. That will occur sooner rather than later and drive the dollar down because higher US rates cause worldwide dollar demand in order to purchase our higher interest rates and stocks. Elevated dollar and interest rates are not only harmful to economic growth here, but they are especially damaging for emerging markets that are the world's growth engine.

ASIDE
"The unfolding time for the end of globalization or a worldwide deflation is much longer, certainly measured in years, if not decades". John L. Casti (1943) author, mathematician and entrepreneur.