

WORK (DIS)ORDER

Will Another Round of QE
Create Jobs in America?

Ansel Adams: Farm Workers at Mt Williamson | Edited by Gregor Macdonald

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This week on StockTwits.TV:

Brian Shannon
Lays Out the Current
Market Juncture on
AlphaTrends Weekly Wrap

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WORK (DIS)ORDER

US jobs reports are increasingly like IQ tests for economists. Friday's BLS release was no different. Three years after employment peaked and a classic debt-deflation began, many are still wasting their time wondering if housing, wages, or jobs will soon recover. Recover? Well, considering that the US is not even producing enough jobs to cover population growth, then the process of going backwards is still not over.



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A NOTE FROM THE EDITOR

Welcome to StockTwits Macro Weekly, the weekly magazine of the StockTwits investment community. Each issue features a core essay, written by the Editor. Around this, we build in the key news events and observations, from the past week. [To have each issue sent to you, sign up here.](#)

You will also find StockTwits Macro Weekly functions as a live document, that is eminently clickable and is therefore a helpful launching pad to other relevant content. Feedback from readership is welcome, and we are always on the lookout for written contributions from the community: gregor@stocktwits.com

WORK (DIS)ORDER—The United States has entered a new era of structural unemployment. One that's reminiscent of stagnant political regimes, or the developing economies of old. The present government, despite claims from the left or accusations from the right, is classically anti-reformist. There is no tax reform, education reform, banking reform, tort reform, or changes in foreign policy and spending. Accordingly, the US is unable to call upon one of its most reliable recovery allies: broad failure, and the ensuing renewal. The result? Not enough collapsed industries at a time when obsolescence still needs rooting out, and, not enough new business formation. Let's be clear, however: the main culprit is the 25 year credit bubble which burst in 2007. No economic theory or government was going to fundamentally alter that trajectory. But in trying to arrest the pace of the system's decline, both the current and the previous governments have been effective only in protecting their constituencies. And that's not good. The price each political party will have to pay for that lack of courage will be to face a large tranche of Americans, about 15 million in number, who will likely vote them out of office on a serial basis for years to come. Indeed, there is a new constituency now emerging in America: the long-term unemployed. Who will solve their problems?



One possibility is that increasing number of Americans, especially recent graduates will exit the country to find opportunity elsewhere. This has long been a pattern in countries with structurally high unemployment and one can imagine Americatowns springing up in cities like Sao Paulo, Mumbai, Shanghai. While wages will be lower in those cities, so might the cost of living. And besides, wages in the US don't have much chance of ever rising again as the twin forces of expensive energy and global wage convergence bears down not only on the US, but on the rest

Indexes

INDU 11006 TNX 2.38 GOLD 1347.21 VIX 20.71 SPX 1165.15 DXY 77.178

StockTwits.TV: AlphaTrends Wrap w/Brian Shannon



When the market reaches key levels we like to check in with Brian Shannon, of the [Alpha Trends blog](#). Now that the SP500 is trading back above 1150, it seemed like a good time to watch Brian's latest show to get a sense of where the market's heading.

One of Brian's useful gauges is Volume, and in particular VWAP (volume weighted average price). Whether looking at the week's action in the [\\$SPY](#) or [\\$GLD](#), Brian tracks VWAP and shows you how to mark price action to VWAP levels to help you understand probabilities. And probability is largely what Brian's work is about: trying to lay out likely pathways for various sectors, stocks, and the market overall.

Of note to macro investors, Brian continues to wonder why many keep calling for a top in Gold and Silver, when no such break in trend exists as yet. [Watch the show here](#).

[StockTwits.TV](#) can also be taken as an iTunes subscription.

of the OECD. The world is positively awash in labor. And unfortunately for Americans, a lot of world labor has quickly become educated in math and science. As is increasingly reported from US based employers, either Americans don't have the skills required to fill needed job positions, or, the multi-decadal loss of US based manufacturing smothers most attempts to get a virtuous cycle started of innovation and production, domestically. [Andy Grove has explained this problem well](#).

Surprisingly, a great swath of educated professionals in real estate, law, finance, and academia have still not accepted the realities of the present situation—either as to how to properly characterize the depression, or, how to gauge the probabilities for recovery. [Friday's jobs report](#), which contained [the guidance for the benchmark revision](#), was another in a string of uninterrupted confirmations that this is not a recession. Do they no longer teach in economics departments and business schools the difference between a business cycle recession and a debt deflation depression? Perhaps the fresh revelations about the [widespread, flawed paperwork](#) in the mortgage market will explain better how a multi-decade credit cycle ends: with a voluminous production of new paper, that marks every last asset to an impossibly high nominal price.

It's fitting that those who cannot explain what's happened since 2007 are left to waste their time wondering "what happens next" with the US housing market. What's left to wonder? Historically houses have been a function of wages. It was only in the credit bubble that houses became trophies, capital gains vehicles, and in the end, cash machines. Because US houses are destined to realign therefore with US wages, not only do house prices have further to fall, but, they are fated to not appreciate much thereafter. The tier of US housing that has the farthest to fall is high end US residential real estate, which remains tethered to prices that can no

longer be supported by the structural change now unfolding in the economy. This tier has withering support both at the ultra high end where homes are asking above 15-20 million, and, at the 1-3 million range as well. If the low-wage worker in the US has either lost his job outright or been forced to cobble together a basket of even lower paying jobs, the high-wage US worker has lost bonuses, extra consulting fees, partnership profits, and capital gains. All of the *extra*, all of the *surplus*, has been sucked out of the economy enough that the inventory of high priced homes is simply too large to ever be supported again. Those prices will remain “the prices of the previous era.”

Friday’s jobs report, with its [looming downward revision](#) and punk aggregates, was like an IQ test. Unless the US economy can add at least [150 thousand jobs each month](#), then we are continuing to add to the total inventory of unemployed and underemployed workers in the US. Anything less than those levels means the system, with all of its present and future liabilities, *continues to sink further*. There is no progress here. “Less bad” is just a derivative of *bad*. Meanwhile, would the FED be considering another round of QE and would there be a global currency race to the bottom, were a broad based global recovery underway—centered in the OECD? (This is another IQ test question, by the way). It’s truly amazing: the world is engaged in [classical competitive devaluation](#), US employment peaked over 3 years ago, there’s not enough job growth to even handle population growth in the US, OECD consumers are debt-constrained to the point of suffocation, and people keep hoping for a housing recovery or a recovery in jobs? That’s funny.

We shall see whether the pending new round of QE does anything meaningful for private balance sheets, an action that depends on whether the intended refinancing wave is

Up the Columbia

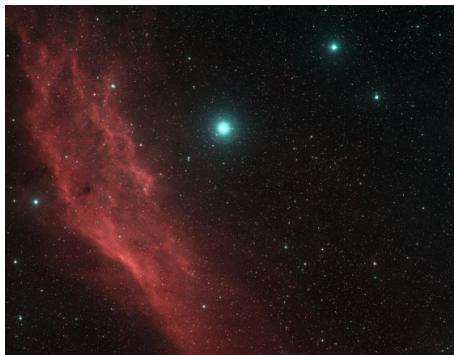


In the StockTwits MacroWeekly 26 September issue, [Food Fight](#), we took a look at potash exports coming down the Columbia River. This week, we check in with activity going up the river.

ExxonMobil’s Kearl Oil Sands Project is under expansion through its Imperial Oil subsidiary. (We keep hearing that expansion of oil sands projects makes little economic sense, but apparently that’s still not the case). Starting this Autumn, a parade of oil sands processing infrastructure will come across the Pacific Ocean from construction sites in Asia, and make its way up the Columbia to Lewiston, Idaho. In fact, the first of the hulkingly large pieces [arrived just last week](#).

It will take nearly a year to complete this riverborne supply chain as the equipment travels over land from Idaho to Alberta. But what’s worth watching here is how the three ports of Vancouver, BC, Seattle USA, and Portland/Vancouver USA are becoming critical nodes as the resource rich Northwest intersects with gargantuan resource demand from Asia. *Roll on, Columbia*.

California Watch



When California hit “peak budget” in 2007-2008 it became clear soon thereafter that a multi-year decline in state revenues would force Sacramento to seek out new sources of revenue. The most obvious untapped areas were offshore oil, and marijuana production. A number of observers thought [new oil production would come first](#). But that’s not how the changes are rolling out. For, California is moving swiftly now towards legalization of marijuana.

[Proposition 19](#) is looking very popular, and will be decided in November, on election day (just weeks from now). Legislators are already getting excited about new taxing powers, as are city and local taxing authorities. But wait. According to professional economists who have followed California for decades, these types of revenue approaches were never necessary. The resilience (and the brilliance?) of the California workforce was supposed to lead the US out of recession...“like” 18 months ago? Alas, it appears that California can’t lead the US out of recession, if it epitomizes the hurdles facing the entire country. Here’s a way California can lead: perhaps legalization of marijuana is set to go nationwide.

broadly distributed. But even if the nation’s homeowners are placed into new 30 year mortgages near 4.00%, it’s not clear that this will offset the other problem the FED is now creating. To wit: the price moves in copper, oil, wheat, corn, and soybeans are easily strong enough to wipe out any hoped-for effects from QE. The FED’s trade is as follows: *the benefits of QE will outdistance the penalties*. But just as Bernanke never saw the housing bubble or the credit bubble, he appears to not see that just three commodities: oil, corn, and wheat could not only sterilize QE but destroy it. Wheat of course drives bread prices. But corn is in many foods, and will only put higher upward pressure on meat. Finally, oil’s broad effects are obvious, and 100 dollar oil would be a killer. Investors and macro observers should now prepare to watch very closely for indications that QE (and anticipation of QE) is blowing up the economy for a second time, driving more people across the poverty threshold, and triggering a serious problem in global stock markets. We are getting closer to a time when the stock market is going to figure out that higher input costs, and a newly pressured consumer, make current index levels precarious.

--Gregor Macdonald, 10 October—Washington, DC

~~The Parting Shot~~



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There is something wondrously appropriate about California selling debt backed by marijuana taxes.

<http://bit.ly/bgjKmT>