Cues: Uses and Abuses

1-23-15

All through 2014 concern was expressed that China's GDP growth would be worse than the 7.7% of the year before. As the months and quarters progressed growth was stuck at 7.4%. And then moments before the official announcement the expert consensus came in at 7.3%. Finally, the official announcement of Chinese GDP growth for 2014 -- it was 7.4%! With those words speculators immediately arose from those few moments of despair and stormed the equity markets with a burst of buying. It didn't matter that growth was the slowest in 24 years, no, the growth rate beat the consensus, and that meant "*buy*." Here was one of the best crafted and executed cue-to-buy charades. It was impossible for speculators to be stunned by the boringly consistent 7.4%, they required the equity game equivalent of fantasy football to pinpoint a reaction.

Unfortunately, the holiday meant a miss for American markets. The shills at home tried to stretch the news more than a day but by then oil was dropping, drills were halting, and thousands of oil workers were being laid off. But by Wednesday they were able to make up a good one of their own. Headlines in bold type: Netflix earnings up 12%! All over the financial pages and web sites. Then down in the lower left corner in 8 point type: IBM earnings down 11%. The Specs knew the time was right to grab more of the already over priced Netflix -- it was all there in black and white. What difference did it make that Netflix earnings for the quarter was a measly $83 million while IBM's totaled $5.7 billion, or that one was a disseminator of cheesy TV and Cinema while the other was a master builder of America's electronics structure. It takes a skillful trader to choose rubbish as the best buy.

The really big one came on Thursday. The Eurozone was in trouble; the point had been reached where 7 years of "revival" failure needed a new injection of hope. Finally even Germany caved in on a QE program similar to those of the US, UK and Japan. There was at least the basis for a plausible lie because QE in those countries doled out vast sums to the richest folks. Even a bit of dribbling down was something. But the need for QE was telegraphed so far in advance there was some fear it wouldn't come aboard with a prolonged burst of market enthusiasm. So word was mysteriously spread that Draghi was going to propose a disappointingly low half trillion dollar program, not the trillion expected. Finally the day of the announcement arrived and Draghi threw down his winning hand -- 60 billion Euros a month through September 2016, and possibly longer if inflation has not risen to around 2%. That's 1.24 trillion dollars. The markets boomed, and why not, the "wealth effect" had been gifted to them. So they've done something, even if already shown to be a demonstrable failure in terms of helping the people that matter.

Meanwhile, avatars of revival have shifted from the once pumping and now slumping oil industry, and from the once zooming and the now sputtering auto industry, to the old standby home buying and flipping business. Housing starts were up 7.2% in December. It has previously been noted that "starts" does not necessarily mean"built," but a claim to some revival is plausible in that interest rates have to be increased before long. Not doing so after a long period of expectation can well have a negative impact since much of it is time sensitive mental massaging. Thus we may see something like the Japanese period before the large increase in their national sales tax. Existing home sales were actually down 3.1% in 2014 from 2013 -- less than 5 million -- more than 2 million below a good year. New home sales are still near their trough at about 450,000 annualized compared to the 1.4 million peak. But it's important to understand that many of the homes are not being bought by regular folks. Home ownership fell to 64.4%, the lowest since 1994. Many of those homes were sold on spec and then rented. If sales do not increase even though higher rates are looming, and even though Fanny and Freddie will guarantee some mortgages even though secured by only a 3% down payment, then we will have more evidence that real economy has not only developed a resistance to unreal economy stimulation but has moved close to outright immunity. Perhaps then the disease will dissipate like smallpox.

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