



Totem Pole Made of Redcedar

PACIFIC REDCEDAR

The Pacific redcedar, or western redcedar, is a conifer that grows abundantly in Oregon, Washington, and up the BC coast to Alaska. Redcedars can live over 1,000 years, can grow over 200 feet high, and can grow at elevations over 7,000 feet.

Before this week's lesson from nature, I want to highlight the relationship between the native peoples of the Pacific Northwest (PNW) and the Pacific redcedar.

The following is from a [“Forests of Oregon” publication](#) created by the state of Oregon explaining the Pacific redcedar's meaning to PNW Indian tribes.

The western redcedar is often referred to as “the cornerstone of northwest coastal Indian culture.” Among the names given this tree were “tree of life” and “life giver,” and some tribes called themselves “People of the Cedar.” Groves of ancient cedars were symbols of



power, and gathering places for ceremonies, retreat, and contemplation. All parts of the tree were used, providing shelter, clothes, weapons, tools, medicines, art, and transportation. Lodges, lash-house timbers, planks, posts, and roof boards – gave shelter to many coastal tribes. Clothes, including skirts, capes, and dresses; weapons, such as arrow and spear shafts; tools and utensils like baskets, ropes, fishing nets, bowls and boxes; and medicinal remedies including poultices and teas were all made from parts of this sacred tree. Much of this early use involved stripping the outer bark, leaving the tree itself still healthy and standing. Trees that have been scarred by this type of use are known as culturally-modified trees. In British Columbia, where many of these trees are found, they are considered archeological sites protected under the province's Heritage Conservation Act. Whole trees were felled for making the distinctive totem poles that were an integral part of some tribal culture, and for the extraordinary, well-known dugout cedar canoes necessary for transportation along the edges of the ocean's coastal forests. The western redcedar is so well known for this that another of its many names is "canoe cedar." From the past through today; part of our culture and our heritage; symbols from long ago, and products we use and admire every day. In the Pacific Northwest, this beautiful, sturdy, and versatile tree gracefully showers us with all of this and more.

As you can see the natives of the PNW made amazing art from redcedar – and you too can make amazing art out of what you grow in the shade.

INVESTING IN THE SHADE

I am a trader that strikes like an alligator at trades I deem worthy of my precious energy. I do not manage other people's money or run a traditional portfolio - I just stalk great trades and strike them in order to make a total return kill. However, from time to time I love an idea so much I am willing to allocate some of my capital to a long term idea that I know will find itself sitting in the shade for months or even years at a time. I have been long uranium stocks for over two years which has included some significant time in the shade (drawdown).



Typically traders rarely counter-trend trade and for good reason. I think that is the right approach most of the time, but every few years there is a pile of money sitting in the corner that you have to go and pick up. For example, when oil was under \$30 that demanded that we all take a chunk of our trading capital and put it to work in the shade until the market sorted itself out.

Keep most of your money where the sun is shining and keep your hands away from knives – but when an opportunity you believe in deeply shows itself – take a small percentage of your capital and be willing to tolerate some shade for the chance at triple digit returns. *Be willing to grow in the shade like the redcedar.*

MARKETS - SOUTH AFRICA & TURKEY

I wanted update the situation in South Africa and go over an important data point to keep an eye on in the macro world moving forward. Anyone that follows my work (especially on twitter) knows that I have been extremely bearish on EM, especially South Africa and Turkey. I never write about Turkey because it is all too obvious to even write about. The country is run by one man who is seemingly executing the perfect plan to devalue his currency into oblivion. It is the easiest short a currency trader could ever ask for.

I think one of the most important numbers to watch in the weeks and months ahead is Turkey's food inflation. Erdogan is trying his best to be a tough guy and stare down Trump in a war he cannot win. Sometimes the ego of a world leader is so big that he can actually oversee a meltdown of his own economy and society. It sure appears that is what is happening right now. Typically leaders do not have so much power that they can make truly grand mistakes. They have advisors and checks and balances that prevent national suicide. Erdogan does not have these limits and to me, he appears to be on a collision course for a true calamity. While everyone focuses on FX reserves, the current account, even the currency – I will be watching food inflation. Erdogan has a lot of political support – plenty is coerced but plenty is also organic and real. The thing is, whenever



food gets so expensive that the folks can barely eat – political support becomes a tricky thing. Any democratic veil remaining over Turkey will soon be lifted when the people take to the streets and they are put down with disturbing levels of force followed by shocking levels of paranoia from the top. Nothing puts regular people in the streets like food inflation. If Erdogan stays true to no rate hikes (or even limited hikes) and blows through the remaining reserves trying to fight off IMF help, he is certain to watch food inflation take off to levels guaranteed to bring about popular revolt. Here is what the numbers are looking like right now – about to break 20%. I am not sure what the magic number will be, but we are already at the highest since before 2004. The next numbers could be over 25% and could even hit 50% in the months to come. I will report back on the new numbers and be watching for protests and Erdogan’s response to them.



Okay onto South Africa. I am still extremely bearish and I think the crisis is still in front of us. The real trigger will be the final ratings downgrade. I keep war gaming my thesis and I cannot find any reason to be optimistic on South Africa. On a technical basis take a look at the monthly chart of \$USDZAR: If this was a daily chart of something you fundamentally liked – you would say new highs...



SA is a political, economic, and financial disaster. Despite this it has been a recent darling amongst the investment community. What about SA stocks?



When I covered this on my June 10th letter here is what I posted (click the chart for the full letter).



EZA - SA Equity ETF



We have a broken uptrend, a retest and failure of that uptrend, a failed bounce off of a previous downtrend and a new lower low in the move to end last week. EZA was stick saved by an important horizontal line that has acted as support or resistance at least 20 different days. Price has now tested that line (orange) twice in the move down. If this line gives way, I think a nasty move lower in EZA is likely. I have a stop at \$67 and an initial target at \$50. My position is small but I will add if we get a daily close under that orange line.

As you can see we did break my orange line (I added) and recently we retested the orange line as well as the trendline and both failed. Those were great opportunities to take a position or in my case add more. I said my first target was \$50 and if nothing changes I will only take off a small portion of the trade. I want the windfall from the downgrade before covering much of this short. These trades go back to my dollar bullish view which has played out well and will continue to until something major changes. I have been taken to task for calling this dollar move reflexive and for staying short EM while the twitteratti



and the investment banks buy the EM dips. This is NOT a normal pause or bear market – this is a crisis brewing. Most US investors with bearish inclinations have spent a decade looking under every rock for Fed induced bubbles and they all ignored the fact that EM was having a dollar debt orgy and deteriorating current accounts. The 2014 dollar bull market only dented EM and it gave investors and EM leaders perhaps unwarranted confidence. This dollar bull market has been smaller, but it's taking its toll on EM, especially in concert with sanctions and tariffs. *Until the US gets real trade concessions and devalues the dollar, this will be a problem.*

We all know you cannot sell US stocks because valuations are high, yet many investors are buying EM because valuations are low. This will be a great trade when the dollar cycle is over, but I just see no catalyst for that being the case in the near future. For now we are in a reflexive dollar bull that will continue to feed on QT/inflation/capital inflows/rate differentials/weak ROW growth.

Many investors are already positioning for the Fed to stop hiking or even flip and yet the Fed Funds rate on a real basis IS STILL NEGATIVE! Financial conditions are still quite accommodative. The ISM will roll over and the Fed may guide down the pace of hikes, but the Fed still has a lot of work to do and they know that.

Europe is getting some inflation which will likely fool some investors into getting bullish the euro, but the growth is not coming with the inflation. Stagflation is unlikely to get the ECB very enthusiastic to tighten. Even if they did it would possibly break a very fragile recovery and lead to more dovishness which would only further reinforce the dollar's move.

I will leave you with a chart posted by Sunchartist on twitter. I blew up the chart for your viewing pleasure.

This chart adds a lot of longer term perspective and shows the potential for a destructive bull market in the dollar. The dollar is eventually headed much much lower, but only after it surprises most to the upside in my view.



That is all for this week – enjoy this week’s Stoic quote:

Let the part of thy soul which leads and governs be undisturbed by the movements in the flesh, whether of pleasure or of pain; and let it not unite with them, but let it circumscribe itself and limit those affects to their parts.

Marcus Aurelius
(Meditations, 167 A.C.E.)





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