

Quote of the week - “Americans deserve a president who speaks grammatically correct English” - Brett Stephens on Fareed Zakaria’s August 7th GPS program on CNN. *Such supercilious attitudes could hurt Hillary’s cause with the still undetermined voter crowd (that is said to be starting to include growing numbers of traditionally Democrat-voting blue collar workers) & help Trump with ethnic voters who don’t speak ‘proper English’ either.*

Corporate earnings - According to the WSJ companies will “quietly nudge” analysts to tweak their earnings forecasts prior to the earnings’ reporting season to ensure they will “beat expectations” (& that securities laws don’t “prohibit” this) - *Corporate EPS (earnings-per-share) growth has for years been-, inflated by more & more corporate share buybacks^{1 2} & EPS-driven P/E (Price-Earnings) ratios are high in historical terms. Part of many corporate buybacks are now funded with borrowed money (that is “dirt cheap”)³ rather than from net operational cash flow &, generally speaking, & all inflate EPS (since the same amount of profit is spread over fewer shares) & borrowing increases the leverage in corporate balance sheets (which, while advantageous in the short run, can be troublesome longer term). Corporate buybacks in the First Quarter of this year, at US\$166.3BN, were up 15.6% QoQ & 15.1% YoY. Since 2009 the number of S&P500 companies doing share buybacks has risen from 270 to 380 & the value of quarterly buybacks quadrupled. And this year buybacks have helped to prop up the market at a time that low oil prices are driving sovereign wealth funds to sell hundreds of billions of dollars in US equities.*

‘Dipping the flag’ at the Olympics - During the opening-, & closing-, ceremonies each national contingent is dressed in a team uniform & preceded by a flag bearer. The latter dips their national flag as they march in turn past the host country’s flag with one exception, the United States; for it won’t dip its flag to any other nation’s. Thus “bad manners are elevated to a *matter of national pride*”. This information came from George Friedman (age 67) who in 1996 founded, & for 19 years was CEO of, the highly regarded Austin, TX-based Stratfor private intelligence & forecasting company, until last year he quit that rat race to start another entitled This Week in Geopolitics, an online, by-subscription publication to throw light on global events, the latest edition of which, Nationalism, Technology and the Olympics, focuses on how the modern day Olympics have transformed what once focused on individual athletes’ achievement into a joust between nations in which individual athletes are mere props. And in support of this, he offers the following personal experience : “I will never forget the 1980 “miracle on ice” at Lake Placid when the United States played the Soviet Union in hockey. A team of American amateurs took on Russia’s best and defeated them⁴ *in the finals*. The US had lost the Vietnam war. Inflation and unemployment were running above 10%. Mortgage rates on home loans stood at 18%. The US was in decline & the Soviets were invincible (???). Yet, *all that mattered was that we beat them in hockey.*”

¹ The fewer shares outstanding, the higher EPS the same absolute earnings will generate.

² Much of which are funded with the proceeds of borrowed money (rather than operational cash flow), which increases the leverage in the companies’ balance sheets (which can come to haunt the companies in question when the economic environment turns sour).

³ Although there is some empirical evidence that suggests that over time shares of companies that borrow money to fund buybacks tend to ‘lag the market

⁴ Actually; going into the Games Canada, the Soviet Union, Czechoslovakia & Sweden were the top teams and the US bested them all and won every one of the seven games it played..

Trump's credibility - The Guardian highlighted-, & put a negative spin on-, 19 claims in his economic program speech. And yet on the basis of its own observations on them, eleven were valid, or close to valid, six not badly off-base & only two outright wrong - *Not an admirer of either Trump or Clinton, I am distressed by the inability of the US political system to produce, from its 319MM people, no better choice for voters than that between a buffoon who is riding a wave of deep-seated popular discontent with the political system as it has evolved & an epitomic example of what is wrong with that system (which is, in & by itself, evidence of its moral bankruptcy?), while the media portrays him as he is & glorifies her as if she can walk on water.*

US Supreme Court, a grossly overlooked key election issue? - Following is the composition of the *geriatric* US Supreme Court (which since the death last March of Justice Scalia, a Reagan appointee, has had one vacancy⁵):

	Age	Appointed by
Chief Justice John Roberts	61	Bush 43
Justice Anthony Kennedy	80	Reagan
Justice Ruth Bader Ginsburg ⁶	80	Clinton
Justice Stephen Breyer	78	Clinton
Justice Clarence Thomas	68	Bush 41
Justice Samuel Alito	66	Bush 43
Sonia Sotomayor	62	Obama
Elena Kagan	56	Obama

So while the last four US Presidents only were able to pick two justices, the next one, during his/her first four-year term may be able to name as many as four (a number equaled only twice &, exceeded only once since WW II, by Truman & Nixon, and by Eisenhower respectively, and most importantly, may have an opportunity to replace the two not of his/her political bent with politically more congenial ones & hence will have an opportunity to drastically alter the Court's 'political philosophical moral moorings' ⁷, for two decades, or more⁸.

U.S elections - Nate Silver has a track record of calling the odds on election outcomes. He does so on three bases : "now-cast" (i.e. if the election were held today), "polls-plus" (i.e. when poll results are adjusted for economic-, & historical-, data) & "polls only" (poll-

⁵ In April, one month after Judge Scalia's death, the President Obama named Judge Merrick Garland (age 63) to replace him but the Senate has stalled considering him (as it has dozens of others), although some argue that, since the Constitution reads in part that the president "shall nominate, and by and with the Advice and Consent of the Senate, shall appoint ... Judges of the supreme Court, and all other officers of the United States", he doesn't **need** Senate approval.

⁶ Who in 2009 was treated for early stage pancreatic-. & colon-, cancer, and is rumoured to be contemplating retirement..

⁷ As of January 1st Justice Thomas was deemed by far the most 'conservative' Justice, followed by the late Antonin Scalia, Samuel Alito & Chief Justice John Roberts, while Justice Bader Ginsburg was deemed the most 'liberal', followed by Sonia Sotomayor & Elena Kagan & Stephen Breyer, while the Reagan-appointed Justice Anthony Kennedy's often was the 'swing vote'.

⁸ At the time of his death Justice Scalia had been on the Court for 30 years, and Justices Kennedy & Thomas have been so for 28-, & 27-, years respectively.

driven prognostications). As of August 7th his odds on Hillary being victorious on November 8th were :

- “now cast” - 91.6%;
- “polls only” - 83.1%; and
- “polls plus” - 76.0%.

The latter suggests matters may not be as cut & dried as the media CW holds.

His latest Congressional prognostications are :

- House - 229 Reps (down from 247) & 206 Dems (up from 188); and
- Senate - 52 Reps (down from 54), 46 Dems (44) & 2 Independents⁹ (no change)

This suggests the outcome could be the worst of all worlds : a Hillary Presidency & a GOP-controlled Congress that, after a nasty campaign &, given many Republicans' visceral hatred of her, would have little reason to cooperate with her, i.e. continued political stalemate.

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Thursday August 11th, 2016

SALES STALL FOR U.S. AUTOMAKERS (Bloomberg, Keith Naughton)

- While total sales in July were up 0.7% YoY, VW-Audi's were down 3.7%, Ford's 3%, GM's 1.9% & Toyota's 1.4%, while Hyundai's were up 6.0%, Honda's 4.4%, Nissan's 1.2%, & Chrysler Fiat's 0.3% (vs. 1.9% expected), According to the AutoTrader affordability has become the biggest impediment to buying a new car, with its analyst Michelle Krebs commenting “The people who could afford a car, got a car ... If you look at the stagnation of wages and the increase in the price of everything, cars included (*new-vehicle prices are up 2.5% YoY*), there's a lot of demand on household income that isn't increasing.”

A year ago the YoY vehicle sales growth growth rate was well into the double digits.

PRODUCTIVITY SLUMP THREATENS THE ECONOMY'S LONG-TERM GROWTH (WSJ, Ben Leubsdorf)

- The Labor Department reported on August 8th that in the Second Quarter, partly due corporations' low rate of investment in new equipment & facilities, non-farm business productivity had declined, in the longest streak of declining productivity in almost 40 years, at a 0.5% seasonally adjusted annual rate to a level down 0.4% YoY. This was well down from the 1.3% annual rate of growth in productivity in the years 2007-2015 (which in turn had only been about half the annual rate of productivity growth in the 2000-2007 years.

Longer term low productivity will undermine the US economy's potential growth rate & its ability to provide Americans with higher standards of living.

U.S. DRILLERS ADD RIGS FOR THE SIXTH STRAIGHT WEEK (Reuters)

- This was the longest period of increasing numbers of drilling rigs in a year; according to Baker Hughes their number has by 51 since June 24th.

⁹

Presumably incl. Bernie Sanders who is still listed on the Senare roll as an Independent.

Higher rig numbers are not evident in North Dakota's Bakken & Texas' Eagleford & are almost exclusively limited to Texas' Permian Basin where the output from new wells is in the 600 bbld. range,(triple what it had been in mid-2014 when the price of oil first started nosediving and where the field's total production has increased 10+% to 1.8MM bbld in the past two years. According to the EIA US drillers (obviously ex-Permian?) "need \$60 oil to stage a comeback" (although it has shaded down its estimate of the drop in US oil production this year from 820,000-, to 700,000 bbld.). But much higher oil prices than the current US\$43.49 may not come permanently anytime soon since in July Saudi Arabia's average daily oil production was a record 10.67MM bbls (up 123,000 bbls YoY), beating its previous record set of 10.56MM bbld set in June 2015, & Iran keeps boosting production. And since demand growth remains sluggish, the glut, while it may moderate, may not disappear anytime soon.

HACKERS FOR HILLARY (BBCNews, Dave Lee)

•Jake Braun's attempted fund raiser for Hillary during the Black Hat conference for both hackers & cybersecurity pros held in Vegas for the past 19 years, this year from July 30th to August 4th, initially drew little interest. But after Trump's call for the Russians to find the 30,000 emails missing from Hillary's personal email server "RSVPs hit the roof". Still, she doesn't have the hacker vote in her pocket : one fundraiser attendee called the voters' choice one between "bad and evil" & another said "You've got one guy who doesn't know what he is talking about ... and one lady who knows what she is talking about but ... is really not on our side." Concern is growing the integrity of the vote may be at risk; Kevin Haley of the Mountainview, CA-based security firm Symantec warns "some of the biggest concerns are manipulation of the cards used to vote, allowing people to vote multiple times ...There's also the collection of the ballots itself. The ballots sit on the electronic voting machines , unencrypted" (as one of his colleagues demonstrated how a tiny card reader costing US\$10 could potentially be used to let voters vote more than once.

Proponents of voting machines ignore the "KISS" principle (remember the "hanging chad" problem with the now outlawed punch card ballots in Florida in 2000?). And a Florida District judge ruled, a couple weeks before the 2004 election, that state officials had no legal obligation to provide voter-verifiable paper trails for electronic voting machines although "it would be better if they did".

WHY CHINA CAN'T SOLVE ITS DEBT PROBLEM (Bloomberg, Christopher Balding)

•The stereotype about China's economy has been that if growth slowed, Beijing could revive it with fiscal stimulus. But that is changing. For it's fiscal situation is worse than commonly understood & the government's ability to boost growth ever more precarious. While according to the IMF China has a budget deficit of 3%-, & a debt load of 46.8%-, of GDP, these numbers are flawed. For the former doesn't include that of the local governments (that account for over 80% of all public spending); so, if their debt is included, the public sector debt-to-GDP ratio doubles to 94% (while according to Goldman Sachs the deficit-to-GDP ratio is triple the IMF's 5% estimate). Moreover, the public debt number may be a 'lowball' one since the local governments have done much of their borrowing

'off-balance sheet' & the numbers don't include the debt owed by SOEs (State-Owned Enterprises). While Beijing could deal with this by restricting local government borrowing, allowing zombie firms to collapse and slowing the rate of investment & accepting slower growth, Beijing instead is 'praying' to Keynes, hoping to grow its way out of its problems, just as it did a decade ago. But times have changed and if it doesn't act, mounting bad debt, double-digit deficits & a rickety financial system will make for an increasingly volatile situation.

Matthew 7 : 3-5 may apply¹⁰. For many Western countries are in a similar fiscal fix as Beijing, display the same lack of political will to make hard choices & pray to the same God. And growing evidence that economic policy-wise President Xi & Premier Li are not singing off the same song sheet could further complicate things & endanger the situation (Christopher Balding is an associate professor of economics & business at the HSBC Business School in Shenzhen).

WHAT IS DRIVING BEIJING'S MOVE IN SOUTH CHINA SEA (G&M, Charles Burton)

•Russia's move to join the PLA Navy for exercises in the South China Sea, announced three weeks ago, after a The Hague tribunal had rejected, on the basis of the UN Law of the Sea to which China has been a party since 1982, its claim to virtually all of the South China Sea & its building of new 'islands' therein (a decision one Chinese official called a "piece of trash paper") was intended as a shot across the bow for the US & Canada : the exercises will be a tailor-made precursor for Putin's dreams of claiming Arctic waters that have long been acknowledged to be Canada's¹¹. After assuming office in 2012 President Xi proposed that Washington & Beijing should establish a "new kind of major power relationship", with the US acknowledging China as an equal power & withdrawing from East Asia so that China could reassert its 'traditional role' as the region's sole dominant power. Xi is an admirer of Mao's & this is in line with the latter's assertion at the 1949 meeting establishing the CPP rule in China that "Ours will no longer be a nation subject to insult and humiliation. We have stood up! ... China's civilization is ancient and great. China was weakened and victimized by amoral Western forces. China will rise again and set things to rights." (a feeling that still sells well at home).

The writer is an Associate Professor of Political Science at St. Catharines, Ont.-based Brock University & a one-time counselor at the Canadian Embassy in Beijing.

¹⁰ "Why beholdest thou the mote in thy brother's eye but considerest not the beam in thine own..."

¹¹ But where Canada, given the dismal shape of its navy (that at the end of WW II had the world's third-largest navy, the country with the world's longest coast line (152,100 miles), is in no way capable of enforcing its sovereignty. And now, with the retirement of HMCS Athabaskan, its last Iroquois class destroyer, it is left with a dozen 20+ year-old frigates, 4 submarines bought second hand from the UK in the early 90's in what must have been the worst deal of the century (one broke down on the way here & all have spent more time since in drydock than at sea), and a dozen "maritime coastal defense" vessels that, with crews of at most 47, are too small to matter. Small wonder that in 2011 already, the Royal Canadian Navy was downgraded from Category 3 'blue sea' navy category to Category 5 (the top 'non-blue navy ranking) on a par with the navies of Israel, Norway & Saudi Arabia), behind the blue water navies of the US, France, the UK, India, Brazil, China, Japan, Australia, South Korea & Germany.

RUSSIA, TURKEY MEND TIES (Reuters, Alice Astakhova & Nick Tattersall)

- After having phoned him following the failed putch a month ago to express his solidarity, on August 10th Putin received President Erdogan in a czarist-era palace outside St. Petersburg during what was the latter's first foreign trip since last month's coup attempt. It was closely watched in the West, concerned they may use any rapprochement to exert pressure on Washington & the EU, and create tension within NATO (while Turkey is a member, Ankara is incensed by the West's concern about the post-coup crackdown¹² & its indifference to the bloody putch itself). Putin said that Moscow would relax the sanctions it imposed on Turkey after it shot down a Russian jet near its border nine months ago & that cooperation will be increased between their two defense sectors & in projects incl. a planned new US\$20BN gas pipeline and a nuclear power plant to be built in Turkey by the Russians (that was started in 2013 but work on which was halted after the downing of the Russian jet). They also discussed, behind closed doors, the situation in Syria, where Putin is backing President al-Assad while Turkey want him gone. Erdogan's meeting with Putin was only his second with a foreign leader (an August 5th visit to Ankara by the President of Kazakhstan was the first) & Turkish officials have questioned why no Western leader has shown up as a sign of his/her solidarity with their President.

Putin may well have paid a price for seeking to fish in troubled waters.

SOUTH AFRICA LOCAL ELECTIONS : ANC LOSES IN CAPITAL PRETORIA (BBCNews)

- The opposition Democratic Alliance (DA) party got 43%-, & the ANC (*African National Congress*) 41%-, voter support in the Tshwane Metro area that includes the nation's *fifth-largest city* & capital, Pretoria; so it will end up with 93-, & the ANC 89-, seats in its 214-seat municipal council (but must form a coalition to run it). The two major parties are locked in a tight race in the largest city, Johannesburg (*where the ANC eventually won 45-38*). The DA also gained control of the Nelson Mandela Metro Area that includes *the Port Elizabeth manufacturing hub (electing a white mayor, Athol Trollip, who made his victory speech fluently in the Xhosa Bantu language, & kept its 10-year grip on power in the 3.7MM Capetown metro area, the country's second-largest.*
- Twenty-two years after the end of apartheid people are starting to vote more on issues & less on race, and the big issues in this election were a widespread feeling that the Zuma government had mismanaged the economy, that the economy is now in near recession & corruption rife, and that Zuma had spent US\$20MM of taxpayers' money on his private residence complex. The official ANC reaction was that it would "reflect and introspect where our support has dropped" while Zuma, before the final results were in, praised the conduct of a largely "peaceful, free and fair" vote, pontificating "Our democracy is maturing ... Let us get back to work and build our country together."

While the ANC in the 2014 national election got the same 62% voter support as in the 1994 first post-apartheid national election under Mandela, this was down from a high of 70% in 2004, & this local election's 54% was well down from 60% in its 2000 counterpart). Since Africans account for 76.4% of South Africa's population, growing numbers of them must be voting for

¹² During which according to Bekir Bozdog, Turkey's Minister of Justice 16,000 people were formally arrested & remain in custody.

parties other than the ANC (especially among younger people¹³ with less emotional attachment to the ANC for its role in ending apartheid & more interest in economic issues?) If so, that ought to be of concern to the ANC, since the annual rate of growth of the African population has been, growing at 4+% while among the whites it is (marginally) negative & among the Coloureds & others less than 1.4%.

¹³

28.9% of the population is aged 15-14 & another 29.6% less than 15.