

**Atlanta Fed GDPNow real time forecast** - Last February it was 3.4% (vs. the 2.2% consensus) but as of April 17<sup>th</sup> it was just 0.5% (vs. the 1.3% consensus) - *the preliminary First Quarter US GDP growth rate will be reported on April 28<sup>th</sup> (the Bank of Canada just announced that our GDP grew at an annualized 4% rate in the First Quarter<sup>1</sup>, the fastest among the G-7 countries).*

**French presidential election** - The first round will be this Sunday & the run-off two weeks later. With the polls continuing to give both the ultra-right-, anti-immigrant-, anti EU-, Marine LePen & the youthful (age 39)-, centrist-, pro EU-, 'having come out of nowhere'-, Emmanuel Macron (who created his own "movement" to run) slightly over-, and the conservative François Fillon & the ultra-left Jean-Luc Mélenchon slightly under-, 20% voter support, the CW remains that the second round will involve the former two (with Macron then nosing out LePen in the run-off), Mélenchon, who long trailed the others, has had 'late stage momentum', like Macron appeal for younger voters, done well in his public appearances and, like Trump & Bernie Sanders in the US, tapped in a deep vein of dissatisfaction among blue collar voters. So the long shot possibility of a 'nightmare' runoff between LePen & Mélenchon has begun to worry some observers (the latter is pro-EU, although he wants to have it changed along more pro-worker-, rather than pro-business-, lines). But perhaps most importantly, what seems to have largely escaped media attention is the demise of the two traditional, Socialist & Conservative, parties; for while at this stage of the game in 2007 they had 57% voter support in the polls between them (& 56% in 2012), this time in the latest polls Conservative François Fillon had 19%-, & Socialist Benoît Hamon 8%-, voter support (i.e half their traditional voter base had deserted them) - *and it remains to be seen what effect the April 21<sup>st</sup> terrorist event on the Champs Élysées will have although the CW is that it will boost first round support for LePen.*

**Georgia 6<sup>th</sup> District Special Election results** - Last November 8<sup>th</sup> incumbent Tom Price beat his Democrat opponent 61.6-38.4. But in Tuesday's overcrowded<sup>2</sup> Special Election, necessitated by Price becoming Secretary of Health, 30 year-old Democrat newcomer Jon Ossoff beat Republican former Georgia Secretary of State & former US Senate hopeful Karen Handel 48.1-19.8 (vs. the 42.8-17.0 average of the last pre-election polls)<sup>3</sup> - *Still, Ossoff was short of the 50% (as did the total 48.9% voter support for all five Democrat candidates) needed to avoid a June 20<sup>th</sup> run-off &, even though the 50.8% total Republican vote was 10+ points below Price's five months ago, the CW still holds that it would be surprising if he were to emerge victorious from the next two months' all-out fight to the run-off in what remains a GOP bastion.*

**More bad news for the GOP?** - In recent Illinois local elections the city of Kankakee (pop. 30,000) elected an Afro-American Democrat mayor-, & West Deer Township a 100% Democrat board-, both for the first time ever, while Elgin Township had a "complete change-over" to an all-Democrat board & Normal Township replaced four Republican incumbents with a Democrat supervisor & three Democrat trustees (*the first time in over a century that any Democrat has held such posts there*) - *but in Illinois Hilary last November trounced Trump 56-39 & since WW II it has 'gone Democrat' 10 x in presidential elections (incl. six times in a row since 1992) & Republican only 8x.*

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<sup>1</sup> Although it expects 'only' 2.6% for the year as a whole.

<sup>2</sup> With 5 Democrat-, 10 GOP-, & 2 Independent candidates.

<sup>3</sup> With Trump tweeting afterwards "Despite major outside money, FAKE media support and eleven Republican candidates, BIG R win will run off in Georgia ... Glad to be of help!".

**More rain on the Trump parade?** - Actively-managed funds made a bundle since November 8<sup>th</sup> from “Trump bets” on financial-, & infrastructure-, companies. But growing doubts he can deliver on his tax-, & infrastructure-, campaign promises has made them take their profit & run.

**One little appreciated ‘time bomb’ aspect of Europe’s refugee problem** - In the floundering former East German community of Bitterfeld-Wolfen (whose population has shrunk from 75,000 in 1989 to 40,500 today), of the 2,600 asylum -seekers who arrived in the area in 2015 & 2016, fewer than one-third are now registered as ‘capable of working’ & only 40 are ‘fully employed’ - *a sine qua for the successful integration of newcomers from other cultures is that adult males are in the work place, not on public support & lounging on sidewalks, gossiping &, in the case of those of Middle Eastern descent, smoking ‘hookah’ pipes.*

**Shifting global economic power** - In 1996 global GDP grew, according to the World Bank, by 3.3% with, according to The Economist, the US accounting for 34% thereof, China 25%, the developing world (incl. India) by another 25% & “the other rich countries” by 16%. Two decades later (i.e. last year), according to the same sources, global GDP grew by 2.8%, with the various contributors thereto being China 40%, the developing world (ex India)<sup>4</sup> 25%, India 18%, the US 9% & the “other rich countries” 8%.

**‘The Pentagon has dropped the largest ever non-nuclear bomb in Afghanistan’** - This made me chuckle. For in WW II I lived in a town 7½ miles/12 kms from the Dutch fishing port of Ymuiden where the Germans had built a U-boat ‘pen’ with a reinforced concrete roof umpteen feet thick that RAF Lancaster bombers in 1944/45 plastered several times with specifically-designed six-, & later ten-, tonne “Tall Boy” bombs. While they didn’t succeed in putting it out of business, dropping them these bombs there made our house shake as if a 1,000 lbs bomb had dropped in our neighbour’s yard - *but I guess, since this involved the Brits, it doesn’t count in the Pentagon lexicon.*

**Vice President Pence’s visit to Asia** - The purpose of his 10-day visit to Seoul, Tokyo, Jakarta & Sydney is said to be to “reinforce regional security alliances... (and US) commitment to economic engagement in the region ... (and to) give foreign leaders an opportunity to better understand US policies” - *if Pence can achieve the latter, he’s a better man than he has so far appeared to be and, as to the other two, actions speak louder than words and it will take more than a brief visit by an, albeit high-ranking, ‘gofer’ to undo the political & economic damage done to US interests in the region by the President’s jettisoning of the TPP.*

**GLEANINGS II - 706**  
**Thursday April 20<sup>th</sup>, 2017**

**US RETAIL SALES FELL 0.2% IN MARCH VS. 0.1% EXPECTED (Reuters)**

- The Commerce Department reported on April 14<sup>th</sup> that in March they had been down MoM for the second month in a row, in part due to softening demand for automobiles, and that it had revised the February number downward from -0.1% (the first negative number in nearly a year) to -0.3% (But they were nevertheless up 5.2% YoY, & ex automobiles, gasoline, building materials & food services up 0.5% MoM, vs. 0.2% in February). This has led to expectations that First Quarter consumer spending grew at a mere fraction of the Fourth Quarter’s 3.5% annualized rate & that as a result,, with the

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Despite the dismal (negative) growth of the biggest two among them (Brazil & Russia).

economy operating at what many economists deem 'full employment', the Fed will continue to have a rate-raising mind set.

*Both the Conference Board's & the University of Michigan's Consumer Confidence readings are at levels not seen in over a decade (due to the improvement in household finances & the expectation of faster growth under Trump?). And J.C. Penney, that is closing 138 of its 1,000+ stores, announced that, due to better-than-expected sales at those outlets, the onset of liquidation sales at-, & the final closing of-, them will be delayed by a month or so. On the flip side, the April National Association of Home Builders/Wells Fargo Builder Sentiment Index released April 17<sup>th</sup> at 68 (short of the expected 70) was down from March's post-June 2005 peak of 71 (likely driven in part at least by the news that in March national new housing starts had dropped 6.8% to a 1.22MM saar as new single-family home starts in the US Midwest recorded their biggest decline in 3 years..*

### **CONSUMER PRICES DROPPED IN MARCH BY THE LARGEST AMOUNT IN MORE THAN 2 YEARS (CNBC)**

- On Friday April 14<sup>th</sup> the Labor Department reported that, due to a 6.2% decline in gasoline prices and lower phone plan-, new & used automobile-, and clothing prices, the CPI had dropped by 0.3% in March (following a 0.1% increase in February). This was the first monthly decline in 13 months & the biggest monthly drop since prices declined by 0.6% in January 2015. But core inflation (ex food & energy) was only down only 0.1%. Barclay's called this result "much weaker than expected" & therefore cut its First Quarter GDP growth estimate by 0.2% to 0.8%, citing the weak inflation-, & retail sales/inventory-, numbers.

*Be all that as it may, in March prices were up 2.4%-, & 'core inflation' 2.0%-, YoY. And this news came three days after the Department had announced that in February job openings had increased by 118,000 to a seven months' high of 5.7MM as the pace of new hiring had slipped.*

### **'WARNING SIGNS ARE GETTING DARKER' FOR U.S. ECONOMY (Bloomberg, C. Stein)**

- Thus spake Larry Fink, CEO of BlackRock Inc., with AUM of US\$5+TR the world's largest money manager, in an April 19<sup>th</sup> interview on Bloomberg TV. He attributed this to the lacklustre growth of the US economy ("the slowest economy among the G-7 nations"<sup>6</sup>) and, to support his contention, pointed to uncertainty about the Administration's ability to quickly pass key reforms, the pullback in car sales & the slowdown in M&A activity

*But he hedged his bet by saying that these headwinds "can be worked out".*

### **BANKER COHN MOVING TRUMP TOWARD CENTRE (Reuters, James Oliphant)**

- Former Goldman COO & now the White House economic guru Gary Cohn, a Democrat, is muscling aside some of Trump's hard-right advisers & pushing more moderate, business-friendly economic policies. Since he was never involved in Trump's campaign, this rankles some of *the more hardline* conservatives. And his prime focus in tax reform is on cuts in the corporate tax rate **and** on tax relief for middle-, & low-, income

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<sup>6</sup> It's hard to know where he got this idea; thus the OECD, for instance, is forecasting 0.9% growth for the Japanese economy in 2017 vs. 2.4% for that of the US.

Americans (which the conservatives think would do less for economic growth than cuts focused solely on businesses & entrepreneurs<sup>7</sup>); thus Adam Brandon, president of the conservative group Freedom Works is disappointed Trump isn't charging ahead with the plan (shaped by the conservative Heritage Foundation think tank that now has been shelved) that he unveiled during the campaign to slash taxes for businesses & wealthy individuals.

*Associates of both Trump & Cohn say they have 'developed a bond' & that Trump now refers to Cohn as "one of my geniuses" because he is loyal, direct & assertive (and was successful in the snake pit that is Goldman Sachs?), qualities that appeal to him. And it likely also helps that Cohn has gained the trust as well of Jared Kushner & his spouse, Ivanka Trump (the latter of whom has now officially moved into the West Wing as an unpaid presidential adviser).*

### **U.S. CRUDE WENT TO MORE DESTINATIONS (Workboat Magazine)**

- According to the USEIA in 2016 the US exported crude oil to 26 different countries, up from only 10-, & its crude oil exports averaged 520,000 bbl., up 55,000 bbl (12%)-, YoY. And, while in 2015 92% of US crude oil exports went to Canada, in 2016 its share dropped to just 58% [with the other top 5 destinations being the Netherlands (40,000 bbl), Curaçao (where Venezuela's PDVSA has a 330,000 bbl refinery that blends the US light-, with its own heavy-, crude), China & Italy (slightly less than 30,000 bbl. each) & the UK (15,000 bbl)].

*Part of the increased US exports were a function of more domestic consumption being met from increased oil imports (although at last report US domestic oil production was 9.252MM bbl, up 9% from 8.493 bbl seven months ago).*

### **ARAMCO CEO OPTIMISTIC ABOUT OIL MARKET DESPITE U.S. BOOM (Bloomberg, Jessica Summers)**

- While at Columbia University on April 14<sup>th</sup>, Amin Nasser opined that the global oil market is moving closer to balance even as higher US oil production continues to put pressure on prices in the short-term. For he said the oil inventories of the OECD countries are flattening & poised to drop, while Saudi Arabia is cutting output as it leads efforts to eliminate the global crude glut & bolster prices. His company is pro-actively moving 'downstream'; thus last month it paid Shell US\$2.2BN to break up their 19-year, 50-50 refining partnership Motiva Enterprises LLC (a leading refiner, distributor & marketer of fuels in the Eastern-, & Gulf Coast-, US whose assets include the largest US refinery in Port Arthur, TX). And, with 60-70% of its oil going to Asia it is discussing several refining & marketing joint ventures there (as part of its plan to grow its direct & indirect global refining & marketing capacity to 8-10MM bbl, up from today's 5.4MM bbl). And it is continuing to plan for what it expects will be the world's largest-ever IPO in the Second Half of next year, (of 5% of Aramco) that the King's favourite son, Deputy Crown Prince Mohammed bin Salman expects will value Aramco at US\$2TR (i.e. 7x ExxonMobil, the world's largest oil company).

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<sup>7</sup> Which is, of course, utter self-serving nonsense; for middle-, & low-, income Americans have a higher 'propensity to consume', i.e. they will spend more of a dollar of incremental disposable income than high income earners, and consumption is a major driver of the US economy.

*In an obvious move to 'puff up' the value of the IPO, the Saudi government last month slashed Aramco's corporate tax rate from 85% to 50%.*

### **SAUDI ARABIA, IRAQ, KUWAIT AIM FOR \$60 A BARREL PRICE (Albilad<sup>8</sup>)**

- The three countries have been targeting \$55 a barrel (close to US\$5 above current market prices) by having OPEC cut output by 1.2MM bbl/d (& getting a number of non-OPEC producers, first & foremost Russia, to cut theirs by half that amount). But Iraqi Oil Minister Jabbar al-Luaibi said in a recent interview that "Iraq wants prices to rise to \$60. This is our aim" and people familiar with Saudi & Kuwaiti oil policies confirmed they too now are shooting for the same price target (according to Fitch Iraq needs \$60 oil to fund its war with ISIS, while Saudi Arabia wants \$60 ahead of its Aramco IPO & Kuwait thinks \$60 will help stabilize its economy). But OPEC officials are concerned about the effect of \$60 oil on US shale producers; so last month OPEC Secretary-General, Mohammad Barkindo, visited Houston to learn more about how US shale oil producers work & adapt to price changes.

*Members of OPEC, incl. Saudi Arabia & Iraq have signaled that on May 25<sup>th</sup> in Vienna at their 172<sup>nd</sup> meeting they will push, as provided for in their original production cut agreement, to have the agreed-to cuts extended for up to six months beyond their current June 30<sup>th</sup> expiry date. But last February the Houston, Texas-based World Oil magazine reported on an analysis by Oslo-based Rystad Energy<sup>9</sup> of the recent evolution of US shale producers' "break-even" prices (BEPs) that, if correct, would likely rain on the OPEC producers' price target parade; for in recent years the BEPs for producers in the five main US shale oil basins have been reined in as follows :*

	2013	2016
<i>Bakken (North Dakota)</i>	\$66	\$29
<i>Permian Delaware (New Mexico)</i>	\$81	\$33
<i>Niobara (Colorado)</i>	\$73	\$34
<i>Eagle Ford (Texas)</i>	\$85	\$38
<i>Permian Midland (Texas)</i>	\$98	\$39

*In other words such a 9% higher crude price would generate 18%-31% wider profit margins for US shale oil producers (which will prompt them to keep the output "pedal to the metal") & anyone he doesn't think so must have been smoking something that ain't tobacco..*

### **OBSERVER SAYS 2.5 MILLION TURKISH REFERENDUM VOTES COULD HAVE BEEN MANIPULATED (Reuters, Shadia Nasrallah)**

- On April 16<sup>th</sup> the Turkish referendum *that will vastly expand President Erdogan's powers & possibly enable him to stay in power for another 12 years* ended with a tight (51.3%)

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<sup>8</sup> A Saudi Arabia-based English language online news portal.

<sup>9</sup> A decade plus-old, eight partner, seventy employee company with branch offices in Houston, New York, London, Moscow, Rio, Singapore, Dubai & Stavanger & a high quality client list that supposedly has the world most complete data base of oil & gas fields, complete with their technical & financial profiles, and that last summer made the headlines when it reported that the US now had greater recoverable oil & gas reserves than either Saudi Arabia & Russia.

“Yes” vote. Two days later Alev Korun, a Green Austrian MP & a member of the 47-member Council of Europe<sup>10</sup> referendum observer mission, told Austria’s ORF Radio that as many as 2.5 MM votes (5.26%) may have been ‘manipulated’. While the mission had, even prior to the vote, called it an “uneven contest” since support for the ‘Yes’ side had dominated campaign coverage after the arrest of opposition journalists & the closure of opposition media outlets had silenced other views, Korun said there were questions about the actual voting as well; thus “The law only allows official voting envelopes ... *but* the highest election authority decided ... against the law ... that envelopes without an official stamp should be admitted ... so there is a suspicion that up to 2.5 million votes<sup>11</sup> could have been manipulated.” And she said that police in the majority Kurdish town of Diyarbakir had stopped two of her mission colleagues from entering voting locations & drew attention to some videos that appeared to show individuals voting more than once.

*Erdogan, of course, denies all such allegations. But it would have been out of character for him not to have sought to make sure he would get the outcome he wanted. Longer term, this could prove a Pyrrhic victory; for following his ‘razor-thin’ victory his 80MM inhabitant country is now more polarized than ever between his, mostly rural, followers and the ethnically Turkish opposition, the 14MM Kurds & the 23MM people in the country’s largest three cities (incl. the capital Ankara) that who voted NO more often than YES (which means he may have to increasingly have to resort to violence to get his way). And while the media have made much of the referendum outcome killing Turkey’s chances to join the EU, doing so has for some time already no longer been on Erdogan’s list of priorities.*

### **CHINA’S RECOVERY PICKING UP MOMENTUM (AP, Kelvin Chan)**

- The First Quarter’s 6.9% annualized GDP growth rate reported on April 17<sup>th</sup> exceeded forecasts & was an improvement over the Fourth Quarter’s 6.8% and the fastest such rate since the Third Quarter of 2015. This prompted Mao Shengyong, a spokesman for the National Bureau of Statistics, to tell reporters in Beijing “Currently, China’s economy is demonstrating good signs of a pickup in growth, overall price stability, expansion in employment and improvement in the international balance of payments.”

*During the quarter investment in fixed assets, such as factories, was up 9.2% YoY & , retail sales 10.0%, but industrial production only 6.8% (incl. a stronger-than-expected 7.6% YoY in March). And while there was a sharp improvement in exports, the GDP growth is a bit suspect by being too conveniently close to where Xi needs it. In addition much of the current growth is due to the fact that, to meet its official growth target, Beijing has been powering growth by credit expansion which, in an economy already significantly over-leveraged, may not be the optimum policy option. But President Xi doesn’t have much choice; for this fall the 19<sup>th</sup> quinquennial National Congress of the Communist Party of China will meet to select its leaders for the next five years and, while he himself has nothing to worry about, it will replacing some, much or most of the current membership of the top decision-making Politburo Standing Committee & of the Central Commission for Discipline Inspection (the top anti-corruption agency) because they are in the informal retirement age ‘zone’ (& may be ‘holdovers’ from the pre-Xi era?).*

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<sup>10</sup> The continent’s leading human rights body.

<sup>11</sup> I.e. about twice the winning margin.

## **OFFSHORE WINDPOWER FARMS OFFER SUBSIDY-FREE POWER FOR FIRST TIME (Bloomberg, Tino Andresen)**

- On April 13<sup>th</sup> Germany's electricity grid regulator approved bids for North Sea windpower farms with a capacity of 1,490 MW to supply power to the national grid at a record-low-, & "far below expectations"-, price of 4.40 Euros/US\$4.67 per MW. According to David Hostert, a wind-energy analyst at Bloomberg New Energy Finance in London "This is a big warning shot across the bow for other renewables and really great news for German rate payers ... Subsidy-free offshore wind *power* ... is a moon-landing moment", & to Dirk Guesewell, head of generation expansion at EnBW (Energie Baden- Wuerttemberg AG), one of the successful bidders, "The bid's underlying power price assumptions are moderate ... *and* the expected return is significantly above our capital costs." (*which right now, of course, are unrealistically low but can be 'locked in' with proper hedging*).

*The growing spread & competitiveness of wind-, & to a lesser extent solar-, power is often not fully appreciated. Thus in 2016 in the US installed solar power capacity nearly doubled (albeit from still a modest base), five US states (Kansas, Oklahoma, Texas and North-, & South-, Dakota<sup>12</sup>) now meet 20+% of their electricity needs from wind, and solar power now employs 260,000 workers nationwide (40% of them in California alone), almost 4x the number in Trump's much-vaunted coal mining industry (in fact in 2016 the increase in the number of workers employed in the solar industry alone was about the same as the **total** employed in coal mining).*

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## **LAWSUIT AGAINST TRUMP OVER FOREIGN PAYMENTS EXPANDS (Reuters, J. Stempel)**

- Last January a nonprofit watchdog, the Washington-based Citizens for Responsibility and Ethics launched a law suit<sup>13</sup>, accusing President Trump of violating the Constitution by letting his hotels & restaurants accept payment from foreign governments (which the Trump lawyers said had no merit but to which they had to respond by April 21<sup>st</sup>). And an amended complaint filed on April 18<sup>th</sup> added a restaurant trade group, the Restaurant Opportunities Centers (ROC)<sup>14</sup> whose membership includes the nationally known chefs Tom Collichio & Alice Waters, and Jill Phaneuf (who works for a hospitality company that books events near Washington's "Embassy Row" & who claims Trump is costing her commissions) as plaintiffs (to address earlier concerns as to whether the watchdog entity had been harmed by Trump & hence had the standing needed to sue). The amended complaint alleges Trump violates the Constitution's "emoluments" clause that bars him from accepting gifts from foreign governments without Congressional approval by maintaining ownership of his business empire despite ceding day-to-day control thereof to his sons Eric & Donald Jr. And more specifically it alleges that ROC members have improperly lost business, wages & tips to Trump's competing businesses. Furthermore, it says the plaintiffs are injured when foreign governments try to "curry favor" with him by

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<sup>12</sup> Interestingly enough, many of the states where wind & solar have the greatest market penetration are 'Red' (i.e. Republican) ones (which ought to dampen support within the GOP for President Trump's efforts to boost employment growth in the coal mining industry).

<sup>13</sup> Citizens for Responsibility and Ethics in Washington et al v Trump, (U.S District Court, Souther District of New York, No. 17-00458).

<sup>14</sup> That represents over 200 restaurants & nearly 25,000 workers

favoring his businesses (such as when China granted him trademark rights after he pledged to honor the “One China” policy of his predecessors<sup>15</sup>).

*According to Erwin Chemerinsky, Dean of the University of California at Irvine’s Law School & one of the plaintiffs’ lawyers, the law suit seeks to “uphold one of the most basic aspects of the rule of law : no one, including the president, is above the law.”*

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<sup>15</sup> Thus “When asked why defendant changed his position on the One China policy, and whether he had gotten something in exchange from China, White House Press Secretary Sean Spicer answered ‘The President always gets something’ “