

**Antarctica's Larsen Ice Shelf** - It's located in the part of the continent closest to the South America's Southern tip. It has been 'calving' pieces for over two decades. In 1995 what is called "Larsen A" broke off & in 2002 "Larsen B", and since November 2010 "Larsen C" that once was attached to the main shelf for close to 1,000 kms. has developed a crack that has been lengthening at a 17 km. weekly rate to the point where its link to the rest of the Larsen ice field now is just 13 kms. And when it breaks away it will create see the largest ever, 5,000 sq. km. iceberg. And when, in due course the whole Larsen shelf falls into the ocean, global sea levels are expected to rise 10 cm.

**"Axis of Adults" in the Trump Administration** - This refers to Secretary of State Tillerson, Secretary of Defense Mattis and Secretary of Homeland Security John Kelly (& National Security Adviser McMaster?)<sup>1</sup>, who according to a senior administration official "realize that this is a tumultuous White House and are serving as a leveling influence over the *other more fractious personalities*" & according to another one "have introduced an efficient process to debate ideas, put them before the president and come to fairly swift decisions" (*with the former, in view of the NATO speech incident – see below - being more a propos than the latter?*)

**Toronto house prices** - In May their average selling price was \$917,500, nearly twice that in 2010 & up 15% YoY but down 6.2% MoM; so anyone who bought such a house in May rather than April would have saved him/herself \$56,881 (\$234/month on a five year 2.5% mortgage after a 10% down payment) - *reports like this are what can turn sellers'-, into buyers'-, markets in one hell of a hurry (the last time this happened in Toronto, in 1989, average house prices cratered 40+% over the next seven years).*

**US nuclear power plants at risk of becoming 'stranded assets'?** - There is such an abundance of cheap natural gas in the US today that the owners of the infamous Three Mile Island nuclear plant in Pennsylvania are threatening to close it down in 2019 unless the state government comes across with an annual subsidy to 'help it remain competitive' (which given the states' greater interest in emission controls than Trump, the state may well acceded to; for while gas-fired power is 'cleaner' than coal-fired power, it's not as 'clean' as nuclear power.

**US trade deficit the result of "bad deals"** - Last February Germany's Trade Minister & her deputy visited Washington and met, among others, with Vice-President Pence & Secretary of State Tillerson. They returned home shocked by the extent to which the new administration is blaming exogenous (i.e. "bad deals")-, rather than endogenous [i.e. consumer choices (of cheaper imported goods) & low productivity]-, factors for its trade deficits.

**Usual mixed signals from Washington's Queen Bee & his worker bees** - On Monday June 5<sup>th</sup>, in the aftermath of the Saudi blackballing of Qatar, Secretary of States Tillerson & Secretary of Defense Mattis hastened to downplay the seriousness of the situation & counsel restraint, with the former counseling the parties to "sit down together and address their differences", only to be 'thrown under the bus' at 6:08 a.m. the next morning when Trump tweeted to applaud Saudi Arabia & take credit for its *newfound* assertiveness.

**GLEANINGS II - 713**  
**Thursday June 8<sup>th</sup>, 2017**

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<sup>1</sup> The latter three all being retired generals (Kelly of the Marines) & hence aware of the strategic importance of the US Al Udeid military base in Qatar

## **WHY GLOBAL OIL PRODUCTION LOOKS SET TO GROW IN 2018, DESPITE OPEC-LED OUTPUT CUT (Market Watch, Myra P. Saefong)**

- Trump's walking away from the Paris Accord will make fossil fuel more respectable. US shale oil output will continue to grow & *is profitable at these price levels*. And Russia is concerned about losing market share (*in Europe?*) to the US. And as time goes on non-compliance with the Saudi-brokered production cut deal is likely to grow (as the national governments involved need the cash flow).

*And in the short run, Saudi Arabia's row with Qatar is making the market nervous.*

## **US JOB OPENINGS HIT 16-YEAR HIGH IN APRIL (AP)**

- The Labor Department reported on June 6<sup>th</sup> that in April job openings had risen 4.5% to over six million, the most since December 2000 (when the government first started tracking these data), while new hirings had fallen 4.8% to over five million.

*And yet, during the month the unemployment rate dropped (unexpectedly) from 4.5% to 4.4% MoM (& declined another 0.1% in May) - Go figure!*

## **DONALD TRUMP'S TRIUMPH OF STUPIDITY (Der Spiegel)**

- At the May 26<sup>th</sup> afternoon meeting at the Taormina, Sicily hotel the other G-7 leaders took turns trying to get President Trump to change his mind about walking away from the Paris Accord. France's new president Emmanuel Macron led off, telling Trump : "Climate change is real and it affects the poorest countries." Canadian Prime Minister Justin Trudeau reminded him how successful the fight against the ozone hole had been & how it had been possible to convince industry leaders to reduce emissions of that harmful gas. And Angela Merkel told him that renewable energy presents big economic opportunities & "If the world's largest economic power were to pull out, the field would be left to the Chinese" since Xi Jinping was clever & would take advantage of the vacuum created, & that even the Saudis are preparing for the post-oil era. But none of this had any effect on Trump who declared "Environmental constraints were costing the American economy jobs and that's all that matters, jobs, jobs, jobs." At this point it was clear to all present that they had lost & Macron summed up their feelings when he said "Now China leads." So now it's a matter of America, Syria & Nicaragua (the only two other countries not to have signed the Paris Accord) against the Rest of the World, and the G-7 has *in effect* become the G-6.
- For three-quarters of a century the US has led & protected the others. That is now no longer the case as this President appears more comfortable participating in a Saudi sword dance than caring about his NATO allies.

*In its aftermath there was open public gloating in Russia as Putin's dream of driving a wedge in the trans-Atlantic alliance between the US & its European partners, seems to have borne fruit<sup>2</sup>. And on June 7<sup>th</sup> the EU's Economic Council was to be presented with a paper that played out a number of scenarios as to how stronger military cooperation in the EU might look like by 2025 if its member states were to closer coordinate their military activities*

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<sup>2</sup> Generally speaking his dream of restoring the Soviet Union's past glory is a 'pipedream'; for just the four largest NATO members (France, Germany, Italy & the UK) have 2x the population, 7x the GDP, about the same size armed forces, & almost 3x the military budget of his Russia.

## **TRUMP'S NATIONAL SECURITY TEAM BLIND SIDED BY NATO SPEECH** **(Politico, Susan Glasser)**

- He surprised & disappointed the NATO leaders by failing to re-affirm America's commitment to the mutual defense of its members under Article 5. But he did the same, *only in spades*, to his top national security officials when he failed, *without having given them a 'heads-up'*, to include in his speech the language specifically written into it that re-affirmed US support for Article 5 (that Messrs Tillerson, Mattis & McMaster had for weeks worked hard to ensure would be included & that a White House aide had confirmed to the NYT, in the morning of the day he made it, was in the speech).

*The deletion was the work of Trump himself, either as a result of one of his spur-of-the-moment decisions or, more likely, of one he had made earlier but had kept to himself (which would be much more dangerous since those involved cannot help but take as a sign of his lack of loyalty to them, & loyalty is a two-way street. So the saying is now making the rounds in Washington's that "they may be the adults in the room ... but he is not (necessarily) in the room with them).*

## **FOUR TOP LAW FIRMS TURN DOWN TRUMP** (The Hill, Jacqueline Thomson)

- All turned down requests to act for him in the investigation into ties between his administration & Russia, pleading earlier commitments and/or potential conflicts but in reality over concern he wouldn't take their advice & make their life difficult by his tweeting, or as a lawyer close to the White House put it :”the guy won't pay and he won't listen).

*This apparently has put the kybosh on his plans to have a White House 'war room' to handle the investigations & resulted in him designating his long-time New York lawyer, Marc Kasovitz<sup>3</sup> to 'handle all Russia-related matters'. Those who know both say that, like Trump, he loves to be in the media spotlight & who, while Trump trusts him, brings out the worst in him by "spinning him up".*

## **FOX NEWS HOST TEARS INTO TRUMP : NEWS MEDIA IS NOT YOUR PROBLEM - IT'S YOU** (Business Insider, David Choi)

- Fox News host Neil Cavuto tore into him on Tuesday night June 6<sup>th</sup> for his social media outbursts targeting the news media and, in recent days, members of his own administration, saying “Mr. President, it's not the 'fake-news media that's your problem ... it's you. It's not just your tweeting - it's your scapegoating. It's your refusal to see that sometimes you're the one who's feeding your own beast ... I bet they're too afraid to tell you ... They're not perfect, but they do have your back. Do you have theirs?”

*The significance of this, if any, is that surveys have shown that much of Trump's core support base solely depends on Fox News for its view of the world.*

## **GEORGIA GOP CANDIDATE : 'I DON'T SUPPORT A LIVABLE WAGE'** (The Hill, Anna Merod)

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<sup>3</sup> Who is currently busy defending Fox News' Bill O'Reilly against sexual harassment allegations.

- *The Georgia 6<sup>th</sup> District will hold a Special Election on June 20<sup>th</sup> to replace the former Rep. & now Secretary of Health and Human Services Tom Price. A long time Republican stronghold, it re-elected Price last November with 61.6% voter support (roughly the same margin as that by which Mitt Romney beat Obama there in 2012, although last November Trump barely beat Hilary in the district). Last April 18 in an 18 member<sup>4</sup> all-party primary to determine the top two candidates to square off in the Special Election a newcomer, 30 year-old Jon Ossoff, a documentary film maker & former political aide, handily beat former Georgia Secretary of State Karen Handel (age 55) 48.1-19.8 (i.e. he fell just short of the 50% that would have eliminated the need for a run-off).*
- In a Tuesday June 6<sup>th</sup> debate after Ossoff declared “Americans are having trouble making ends meet and deserve a livable wage if they’re working 40 hours a week”, Handel responded by observing “This is the difference between being a liberal and a conservative. I do not support a livable wage ... What I support is making sure that we have an economy that is robust with low taxes and less regulation”.

*At last report they were running neck-on-neck & one wonders if her comment helped or harmed her cause; if she were to lose it would be a blow to the GOP & an adrenalin shot for the Dems.*

### **TROUBLING TRENDS IN U.S. JOBS CREATION (Bloomberg, Mark Whitehouse)**

- The answer to the question as to how the US economy can keep creating jobs & still grow so slowly is found in the latest employment data.; for the sectors creating the most new jobs are among the least productive. I took 14 industry sectors and divided them into three productivity groups, based on how much their output per hour had increased in the decade to December 31<sup>st</sup> of last year (by taking the Bureau of Economic Analysis real gross output data & dividing them by the annual hours worked data from the Bureau of Labor Statistics. The results were not encouraging. The high-productivity group (incl. manufacturing & information) YTD had seen only a 0.4% job gain (& is still 1MM jobs away from the job losses they incurred in the last recession), while the slow & middle productivity growth sectors (incl. education, hospitality & construction) had 1.8% & 2.6% job gains respectively. These trends are troubling since producing more per hour worked is crucial to boosting wages & increasing the standard of living.

*While measuring productivity is a tricky & very judgmental business, it slowing down likely is a factor in the US economy’s declining long term ‘trend growth rate’ that Trump seems to think he can fix by dictum - Whitehouse now writes editorials on global economic & financial matters for the WSJ, before that was its Deputy Bureau Chief in London, and before that was the founding Managing Director of the Russian business daily Vedomosti in the days it was a JV between the Dow Jones, Financial Times & Moscow Times (the former two sold out before a new Russian media ownership law came into effect last year, & the paper is now 100% Russian-owned).*

### **CALL OFF TRUMP VISIT, LONDON MAYOR URGES (DT, Barney Henderson)**

- On June 5<sup>th</sup> Sadiq Khan, the Mayor of London, said on Channel 4 that the government should cancel the US president’s scheduled UK State Visit this autumn because “I don’t think we should roll out the red carpet to the president of the U.S.A. in circumstances where his policies go against everything we stand for”.

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<sup>4</sup> That featured 10 GOP-, 4 Democrat & 2 Independent hopefuls.

*He is justified in feeling the way he does. For right after the Saturday June 3<sup>rd</sup> terrorist incident Trump sought to make him look inept when in a tweet he quoted out of context from his message of reassurance for Londoners & then, on Monday June 5<sup>th</sup>, accused him of having made a “pathetic excuse” for the presence of more (heavily armed) police on London’s streets.*

### **IRAQI KURDS PLAN INDEPENDENCE REFERENDUM ON SEPTEMBER 25<sup>th</sup>** **(Reuters, Maher Chmaytelli)**

- Kurdish leader Massoud Barzani announced that on September 25<sup>th</sup> a referendum will be held on independence (with voters being asked simply : “Do you want an independent Kurdistan?”), with his *senior* assistant, Hermin Hawrami subsequently tweeting that it would include the Kirkuk, Khanqin, Sinjar<sup>5</sup> & Makhmor regions (all of which are also claimed by the central government). Baghdad has long maintained it would strongly oppose any such move & these four regions’ inclusion will make it just that much more dug in on the matter, especially since in April Ammar al-Hakim, the President of the Shia-led coalition government in Baghdad, told Reuters it would oppose any such referendum & warned the Kurds were just trying to snatch oil-rich Kirkuk.

*Another potential ethnically/religiously-driven friction point in a geopolitically important region that already has a surfeit thereof. And a future Kurdistan would be a land-bound entity with problems getting its oil to market. For in the past a lot went South (that Baghdad could prevent), some went West through Syria, which may not now be an option, or Turkey that would be unlikely be too accommodative for a Kurdistan lest doing so would give its own Kurds ideas. The only other option would be via Iran that has a Kurdish problem of its own & may not be prepared to do anything to undermine the position of the Shia-dominated Iraqi government.*

### **SOUTH AFRICA TUMBLES INTO RECESSION (Reuters, Mfuneko Toyana)**

- In the Fourth Quarter of 2016 the economy contracted by 0.3% & did so by another 0.7% in this year’s First Quarter. So now, for the first time in eight years, it is officially in recession, complicating matters even more for a government already besieged by credit downgrades & allegations of corruption. This was attributed to a weak performance by the manufacturing & trade sectors, which in turn was said to be a function of high unemployment & stagnating wages dragging down the country’s long-resilient consumer buying power that for years had been the key driver of economic growth. According to Standard Chartered Bank’s Chief Africa Economist Razia Khan these “awful” numbers showed weakness where none had been expected, and to the Treasury “the current state of the economy puts more pressure on us as government, business, labour and broader society to intensify our growth program and improve confidence as a matter of urgency to arrest the decline and set the economy on a higher growth trajectory”.
- Last March President Zuma (who, six month before he is scheduled to step down, is up to his ass in alligators, most of them of his own making) in a massive late night Cabinet shuffle, replaced ministers with spine, incl. the highly regarded Finance Minister Pravin

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<sup>5</sup> Home to the Yazidi Kurdish religious sect ISIS has been dealing with particularly brutally.

Gordhan, with party hacks<sup>6</sup>, which prompted credit downgrades to “junk” status by S&P & Fitch<sup>7</sup>, a weakening Rand & increasing allegations of influence peddling.

*At the onset of the post-Apartheid era, the optimists were predicting South Africa would become the ‘engine of African economic growth’. But it has suffered from weak leadership ever since : Nelson Mandela was a world class figure but not an administrator, his successor Thabo Mbeki was outright incompetent & Zuma, to put it mildly, is a vacuous, uneducated scoundrel and a living example of the ‘Peter Principle’, i.e. of being promoted beyond his level of competence. And according to the IMF sub-Sahara Africa growth in 2016 slumped to 1.4%, a 20-year low, as growth decelerated in two-thirds of the 52 countries in the region which, since population growth is twice that rate<sup>8</sup>, resulted in per capita GDP declining for the first time in that many years*

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Following are two comments on the Saudi-Qatar ‘imbroglio’. One is mine & the other that of a “Deep Throat” friend of mine who has long worked (in the financial sector) in the region.

#### **MINE :**

The credibility of the group that has blackballed Qatar leaves is suspect. It accuses Qatar of supporting terrorism while Saudi Arabia’s Wahhabbi community, & government have for years, if not decades, spent millions, if not billions, to spread the jihadist message around the world, the Maldives have the dubious distinction of having produced, on a per capita basis, more cannon fodder ISIS fighters from among its 400,000+ population than any other country, Egypt’s grievance is not just that Qatar has long been close to the Muslim Brotherhood but also that, after having given Egypt US\$8BN in aid after the Arab Spring, Qatar’s emir cut it off after its military overthrew President Morsi, the “internationally recognized government of Yemen” doesn’t even control its nation’s capital &, generally speaking, all of them have at one time or another supported rebel groups in other countries.

Qatar occupies a 4,000 sq. mi. peninsula<sup>9</sup> jutting out into the Persian Gulf from Eastern Saudi Arabian mainland. It has a population of 2.6MM, of whom only 300,000 are Qatari nationals, & the rest ex-pats from 63 different countries<sup>10</sup> (with about half being from India, Nepal & the Philippines, and the former two groups each outnumbering the Qatari nationals). According to the World Bank it has the world’s second highest per capita GDP (US\$73,653 in current dollars) exceeded only by Switzerland’s US\$80,899 and way ahead of, among others, the US’ US\$56,116, the UAE’s US\$40,439, the OECD’s US\$36,095, the EU’s US\$32,018, Saudi Arabia’s US\$20,481 & the Arab world’s US\$6,537- *so this move was in part, if not largely, driven by envy of a small nation ‘punching above its weight’.*

<sup>6</sup> Thus Gordhan’s successor Malusi Gigaba told reporters, not long after he became Finance Minister, “I don’t ask questions. I simply comply with the instructions given to me.”

<sup>7</sup> While South Africa still is rated Baa2 by Moody’s, i.e. two steps above junk, it too has let it be known that it is reviewing South Africa for a possible downgrade.

<sup>8</sup> The region will account for over half the 2+BN global population growth in the next 30 years.

<sup>9</sup> I.e. roughly half the size of Connecticut & twice that of Prince Edward Island.

<sup>10</sup> Its population is 67.% Muslim (90% Sunni. 10% Shia), 13.8% Christian & 13.8% Hindu, and 4.7% other.

Qatar's current ruler is 37 of age & became Emir in 2013 four years ago this month upon the abdication of his 63 year-old father. He seems intent on following in the footsteps of his father who founded al-Jazeera, was able to get Western universities & cultural entities to establish satellite operations in his country, ensnared the 2022 FIFA World Cup & provided it with a modicum of democratic trappings (thus while criticism of the Emir is still constitutionally prohibited, Qatar is the only Arab country to at least have a constitution of sorts and, with Bahrain, one of two Arab countries that permits the presence of non-Muslim places of worship).

It produces 1.5MM bbl/d of oil (i.e. 4% of OPEC's total) & accounts for 4% of its oil reserves. But in natural gas it's a different story : it is the world's largest LNG producer & ,with 13% of the world's total, has its third largest proven natural gas reserves (after Russia & Iran) & accounts for 25% of OPEC's total natural gas reserves. While the coalition is right, up to a point, about Qatar being too cozy with Iran, part of this is a matter of necessity, not necessarily choice; for the world's largest natural gas/condensate/"wet gas" (South Pars/North Dome) field<sup>11</sup> straddles the Iranian/Qatar territorial waters' boundary line. Ditto for its support for terrorists & support for Hamas in Gaza (but in the case of the latter so have, at various times & ways, & at various times, many others including, but not limited to, USAid, UNWRA, the UAE, Egypt, the EU, the UK while on one occasion, in 2009 (i.e. after Hamas seized power in Gaza) Saudi Arabia's late King Abdullah accounted for US\$8MM of the US\$26.7MM raised in a "National Telethon for the Relief of the Palestinian People in Gaza. And on the whole, the Qatari government has been better at 'sharing the wealth' & doing so more long-term constructively than many other governments incl. Saudi Arabia's.

There is no doubt that in recent months significant amounts of money have flowed from Qatari coffers to entities not favoured by Saudi Arabia, incl. Iran. According the Financial Times the roots for this go back to late 2015 when an Iraqi Shia militia group with links to Hezbollah kidnapped a number of Qatari nationals to give themselves leverage to negotiate the release of some of their group who had been captured in Syria by the Sunni, al-Qaeda-associated Tahrir al-Sham rebel group, but reached crisis proportions after a Qatari falconry hunting party that included members of the Royal Family was kidnapped on April 26<sup>th</sup> in Southern Iraq.

And it is worth noting that one of Saudi Arabia's key demands is for the muzzling al-Jazeera (that has long irritated many Arab 'leaders' both for being critical of them and for 'causing the Arab Spring'. And ironically this move has driven Qatar closer into Iran's arms; for it imports most of its foodstuffs via Arab ports (40% of Saudi Arabian ones) and, with it banned from them, Iran has been only too happy to spring into the breach, by having its ports used as 'entrepots' for Qatar foodstuff imports.

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### Qatar GCC rift

The current situation between Qatar and the GCC (excluding Kuwait and Oman) has its origins way back in time even before the grandfather of the current Emir. The following perspective may help in a better understanding of events happening today:

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<sup>11</sup> According to the IEA it measures 9,700 square kilometers, 3,700 of it in Iranian territorial waters (South Pars) & the rest (North Dome) in Qatar's, and holds 51 TR cubic meters of gas & 50BN bbls of condensate.

The GCC (*Gulf Cooperation Council*), and indeed the entire Arab world, is very, very, tribal to this day. This is something central to their DNA; more often than not, tribal loyalties extend seamlessly across today's political borders. (Remember, the map of the region was drawn by western powers who divvied up exploration rights with no local participation in the process).

Casual visitors to the region are taken up with all the artefacts of a modern civilization – fantastic skyscrapers, high standards of living, beautiful townships etc; however, the local mindset is still back in the era of camels and living in the desert.

While the GCC as a whole itself is a nouveau riche society, within this sub-set the Qataris are the most recent parvenus; the pecking order being Saudi Arabia, UAE/Kuwait, Bahrain and Oman. Therein lies Qatar's problem.

Saudi Arabia is the only real 'country' within the GCC by far. There has always been a certain amount of deference to its leadership within the region. This was a consequence of size and 'first mover' advantage in the discovery of oil.

Qatar's main source of wealth is natural gas. Even before gas started flowing, when Qatar was even poorer than Bahrain, the then Emir was reported to have stated he would not rest till the House of Saud was brought down – this hearkens back to the tribal mindset mentioned earlier. This sentiment has been passed down to future generations, and with the rise in incredible wealth came the realization they (the Qataris) could punch well above their weight both on the regional and global stage.

Once one recognizes this fundamental aspect, everything else falls into place. In fact even after joining the GCC, Qatar has always exhibited a deliberate independent streak, sometimes just to thumb its nose at its partners. For example, it first established commercial relations with Israel in 1996! Furthermore, at one time both countries had mutual embassy representation; (not sure if they still do.)

Qatar's obsession with displacing the House of Saud, increased in direct proportion to its wealth accretion; through the garb of generous charitable donations and world class broadcasting (al jazira) it began a systematic proxy war on several fronts; if Saud backed the Wahabbis then Qatar backed Muslim Brotherhood knowing the two groups were anathema to each other and so on.

The dalliance with Iran, however, has more than meets the eye. What is not generally known is that Qatar and Iran share joint ownership of the South Pars/North Dome Gas Condensate field – reportedly largest natural gas fields by far with recoverable reserves almost equal to the combined reserves of all other fields globally. Hence the 'support' extended to Iran in some of its 'extra curricular' activities in the region; support that, while initially covert, has recently taken more increasingly overt and public forms including statements on the internet attributed to the Qatari leadership; this was the proverbial last straw on the camel's back. While it was one thing to challenge leadership within the GCC privately, to openly support Iran was completely unacceptable. If evidence were needed this was part of a long term strategy – look no further than the agreement signed between Qatar and Iran in 2010 (yes 2010!) whereby Qatar could seek Iran Revolutionary Guard Corps (IRGC) support whenever needed. (Support for what and from whom?)



In retrospect, signing this agreement and 'supporting' in all its incursions within the region has paid off somewhat. 40% of Qatar's food imports enter by land through Saudi Arabia. With all points of entry closed off, there were reports of food shortages and Eid around the corner, Iran has offered to allow imports both overland and via its seaports! To-day's local newspaper stated that IRGC troops are in the Qatar Emir's palace 'protecting' the Emir!

**NOTE** : Those who after all this are still thirsting for more knowledge about the ins & outs of Middle East politics, may wish to consult the Washington's Institute Spring 2014 article by Simon Henderson's entitled [Understanding the Gulf States](#).