

GLEANINGS II - 745
Thursday January 25th, 2018

Alaska Earthquake - At 12:32 a.m on January 23rd the Ford Island, HI-based Pacific Tsunami Warning Center of the Commerce Department's National Oceans' & Atmospheric Administration (NOAA) reported an 8.2-strong earthquake offshore at a 25 km depth 175 miles Southeast of Kodiak Island & issued a tsunami warning. But its strength was later downgraded to 7.9 & the tsunami warning cancelled when the wave action was found to be less than a foot - *Hawaii, Alaska & the US/Canadian West Coast have historically experienced "damaging earthquake shaking" every four decades or so; still, such 'false alarms' cannot help but reduce the agency's credibility among the willfully blind environmental Neanderthals, incl. the occupant of the White House's Oval Office (who may see it as an excuse to cut the Center's funding).*

BlackRock Inc's CEO Larry Fink strikes a raw nerve - With AUM of 5.7TR (20+% in ETFs), BlackRock is the world's largest manager of other people's money (*so anything he says about the corporate world is liable to get a reaction*). Thus, when he recently wrote in the 2018 version of his Annual Letter to S&P 500 CEOs entitled A Sense of Purpose that "we see a paradox of high returns and high anxiety ... as for millions the prospect of a secure retirement is slipping further and further away, especially for workers with less education whose job security is increasingly tenuous. I believe these trends are a major source of the anxiety and polarization we see across the world today" & then a few lines down expanded on that by writing "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all their stakeholders, including shareholders, employees, customers and the societies in which they operate", he gored too many 'let them eat cake' business/societal elitists' oxen & was snowed under by angry messages, not unlike those a few years ago when his letter warned CEOs against relying too much on dividends & buybacks to produce quick returns at the expense of long-term investment, that index funds "had to own some really crummy companies" (whereas actively managed funds could sell a stock if they didn't care for the company's management), and "In the wake of the financial crisis, many companies have shied away from investing in the future growth of their companies ... Too many companies ... cut capital expenditure and even increased debt to boost dividends and increase buybacks ... It can jeopardize a company's ability to generate sustainable long-term returns".

Trump's speech in Davos – In parts of it he was very 'Trumpian', sounding like a 19th century huckster selling snake oil to Alabamians rather than a self-avowed "very stable genius", & as someone who had seriously underestimated the intelligence level of his audience while in others he sounded more Presidential (*because in the former case he 'spoke from his heart', while in the latter he was following the Telepromptered text written by his staff?*).

US Senator to set precedent - Sen. Tammy Duckworth (D-IL) was an army helicopter pilot who lost both her legs in the First Iraq War when her Blackhawk chopper was hit by a missile & crashed, but who continued serving until she retired in October 2014 with the rank of Lt. Col. After serving two terms from 2013 onward in the House of Representatives, where she was the first member of Congress ever who had been born in Thailand (to an American father), she was elected last fall to the Senate. Earlier this week her office announced that, at age 49, she is pregnant with her second child & expects to become the first ever serving Senator to have a baby - *She increased her profile on January 20th when, in a speech on the Senate floor during the shutdown debate, she referred to President Trump as a "five deferment draft dodger" who wasn't going to tell her what to do or how to behave.*

FEW LARGE COMPANIES SAY THEY'LL USE TAX SAVINGS TO BOOST WAGES
(CNBC, John W. Schoen et. al.)

- Only 10 of the S&P100 companies contacted by CNBC said they will use some of their corporate tax savings to hike workers' pay or spend on new facilities & charitable causes

This is really too small a sample to judge the validity of the claims that the 'tax overhaul' will have an 'enormous' positive impact on the GDP growth rate; but time will tell!

U.S. WORKER SHORTAGE GIVES CASE FOR RATE HIKES (Reuters, Ann Saphir)

- Lincolnshire, IL-based HydraForce, a manufacturer of fluid power valve equipment, wants to add 125 people to its 850-strong work force and plans to conduct six job fairs & offer wheels-to-work benefits for non-car owning-, & wage increases for all-, workers to achieve its goal. And its story is an increasingly common, even in states like Illinois whose 4.9% unemployment rate exceeds the 4.1% national average. Still, even 'centrist' Fed policy makers are getting nervous about the labour market getting overheated & inflation going into a higher gear; thus, according to Dallas Fed President Robert Kaplan¹, with the jobless rate at a 17-year low & shortages of workers becoming increasingly apparent, upward pressure on wages is likely to grow (thereby suggesting a possibly more aggressive Fed policy path than its current 2018 three rate-hike prognostication implies), adding that the Trump tax overhaul had added to his conviction of the need for higher rates, saying "What I don't want to us do is delay and then have to play catch up because we are seeing *still* broader signs of strain in the labor market", & adding that he wants deliberate rate hikes "sooner rather than later". And while markets have gradually accepted the Fed's projection of three rate hikes this year, the third one was not fully 'priced in' until after last month's FOMC meeting.

With a staff of 850 in a town with a population at last report (2012) of 7,275, HydraForce's labour challenges may be not be typical of national labour market conditions. Last December 15th the New York Fed raised, based on "revisions of prior data that suggested stronger economic activities", its estimate of Fourth Quarter GDP growth to "close to 4 percent" from "near 3.2%" one month earlier & on January 25th the Atlanta Fed's GDPNow reading of the current GDP growth rate was 3.4%, the same as the week-, but well up from the 2.8% two weeks-, before. And on January 19th San Francisco Fed President John Williams, (a 'moderate hawk') went on record as saying he "expects the tax cuts and other tailwinds to boost economic growth this year" & that three rate hikes "will be a good starting point"². The whole idea of "labor market pressures" seems odd since the participation rate remains stuck at forty year low levels [thus last year it was in the 62.7% (December) to 63.1% (September) range, well down from the 67+% all time high range around the turn of the century]. Then on December 26th the

¹ A 'centrist', i.e. neither 'dove' nor 'hawk' monetary policy-wise', who last year was-, but this year isn't-, a voting member of the FOMC

² After projecting three rate hikes for each of 2015, 2016 & 2017, the Fed delivered only one in each of 2015 & 2016, but was as good as its word in 2017 (& if it were to become really concerned may well 'front-end load' their schedule, i.e. have the rate hikes earlier in the year than the market expects, which would have a real dampening impact on the stock market (& on GDP growth?).

Commerce Department's preliminary Fourth Quarter GDP growth reading (that typically gets revised later) made them all (and President Trump & the "talking heads" who keep prattling about the strong US economy) look silly; for it came in at only 2.3%, well off the 3% consensus), due, says the Department, to the modest pace of inventory accumulation, a decline in private business investment &, most importantly, a 19% QoQ surge in consumer spending (which drove a sharp rise in imports that more than offset the cheaper dollar-driven rise in exports & boosted the monthly trade deficit to levels not seen since 2011). But should it be a source for concern that this surge in consumer spending was funded by more consumer debt & a continued decline in the personal saving rate (that in the Fourth Quarter was 2.6%, down from 3.3% in the Third, (and from 3.7% in November 2016, 6.1% in November 2015, & 8.8% in November 2012); i.e. that today's rapid consumer spending growth is merely "borrowing it" from tomorrow's?

MUELLER'S TEAM GRILLED JEFF SESSIONS FOR HOURS (Business Insider, Michal Kranz)

- The NYT reported on January 23rd, & a Justice Department spokeswoman confirmed, that Attorney-General Jeff Sessions, with Washington lawyer Chuck Cooper at his side, had recently "sat down for hours" with members of the Special Counsel's Office, making him the first member of the Trump Cabinet to have done so (& it was subsequently revealed that former FBI Director James Comey had done so earlier, primarily to discuss the personal memos he had written to document his interactions with President Trump).

White House denizens are said to be nervous about who may next end up in 'the hot seat'.

DEMOCRATS GRAB KEY WISCONSIN STATE SENATE SEAT IN TUESDAY'S SPECIAL ELECTION (Milwaukee Journal Sentinel, Patrick Marley)

- On January 16th the Democrats snagged a State Senate seat in GOP-leaning Western Wisconsin when 57 year-old Patty Schachtner, the St. Croix County Medical Examiner, beat 39 year-old State Rep. Adam Yarchow 55-44 for a seat in the State Senate held by the GOP for 17 years in a district in which Trump last fall crushed Hillary.

At the micro level this matters little' for Gov. Walker's Republicans outweigh the Democrats 18-14 in the State Senate & 64-35 in the Assembly, at the macro-, federal mid term election-, level it ought to give the GOP establishment food for thought.

HERE'S WHY THE IRAN PROTESTS ARE SIGNIFICANT (CNN, Phil Gast et. al.)

- The protests that began on Thursday 28th, 2017 were the largest since the 2009 Green Movement and resulted in 21 deaths & 450 arrests, less access to social media apps, a pushback by the government & public discontent rarely seen in Iran. While supposedly a reaction to Iran's sputtering economy, rampant corruption & high inflation, Iranians (40% of whom are in the 0-24 years age cohort) are said to be angry since they had expected life to improve after the severest sanctions were lifted under the 2015 nuclear deal with the P5+1. And people are said to have lost trust in President Hassan Rouhani³ and "The

³ Who in last May's presidential election beat his prime opponent, hardliner Ebrahim Raisi 57-38, with a 70% turnout, despite Raisi having the support of two major clerical bodies that had refused to endorse anyone in the 2013 election & being a favorite of the Great Leader, Ayatollah Ali Khamenei, whereas he had won in 2013 by just 51% (from a 73% turnout), just enough to avoid a second round run-off. But the voters' mood was reflected in a comment by 32 year-old Aidin Yahyavi who

government is viewed as highly corrupt, increasing inequality and is seen by the population as really a form of injustice ... this was supposed to be a system that delivered justice to the people after the revolution of 1979 and it has failed.” And a decades-long push to secure equal rights for women has gained momentum in recent years; for women in Iran are highly educated & involved in the work force, *far* more so than in any other country in the Middle East, and yet continue to be oppressed. But contrary to the 2009 protests that were largely limited to Tehran & had an organized leadership, the current ones seem spontaneous & a challenge to the Supreme Leader’s rule (*about whom there have, for some time, been rumours that health-wise he ‘has one foot in the grave & the other on a banana peel’*) and country-wide (*incl. in the main oil & gas-producing regions where much of the population is non-Persian and/or non-Shia*).

- Many of the protesters were young Iranians who typically are politically inactive but who are fed up with the lack of opportunity (the unemployment rate among 15 to 29 year-olds is 24+% (& much higher among women). According to Karim Sadjadour, a Senior Fellow at the Washington-based Carnegie Endowment for International Peace, “in 1979 Iranians experienced a revolution without democracy; today they aspire for democracy without a revolution” &, while he believes young Iranians want more liberalism, they won’t, unlike the Syrians or Egyptians, pursue revolutionary means against a government they know will use force to stay in power, but says “The resentment toward the regime will remain (or *will continue to build?*) and eventually resurface in the future.”

Another thing ‘rotting the Iranian hoi polloi’s socks’ is the money the regime is spending on its wars in Yemen & Syria, money, they say, should be spent on improving their lives.

TURKISH TROOPS ADVANCE ON KURDISH ENCLAVE IN SYRIA (AP, Mehmet Guzel)

- On Saturday January 20th Turkish ground & air forces launched Operation Olive Branch against the US-allied-, & supported-,Kurdish forces in the Afrin region of Northwestern Syria (*that has for five years outside government-, & most recently under Kurdish-control to oust them & create a 30 km-wide “secure zone” there (on Syrian territory)*).

This is not good news in general for a region that already has a surfeit of ethnic-, & religion-based infighting, & in particular for NATO; for Turkey is a NATO member (whose links with the EU & NATO have, however, been progressively loosened by Turkey’s one-time Turkey Prime Minister & now President Erdogan since 2002). And while the Kurdish ‘irregulars’ served the US’ purposes by doing much of the ‘heavy lifting’ in America’s ‘on the ground’ fight against IS in Syria & Iraq, they did so in the expectation it would further the cause of an independent Kurdistan in parts of Turkey, Syria, Iraq & Iran. And this Turkish move seems a case of ‘picking the low -hanging fruit’;for the focus of the fight against IS was hundreds of miles to the East of Afrin where the lion’s share of the Kurdish forces remain in control of a large swath of Northeastern Syria, next to Southwestern Turkey where most of its 10+MM Kurds live.

CHINA WILL SURPRISE THE WORLD WITH REFORMS IN 2018 (Bloomberg News)

- Thus spake Liu He, President Xi’s top financial & economic adviser, who last October was promoted to the 25-member Politburo & is said to be in line to become a Vice Premier, of which there are currently four (to undermine Premier Li Keqiang position in

told the press prior to the election “I like Rouhani but I didn’t want to vote at all ... years after graduating I am still unemployed and my parents support me.”

the power structure?), on Wednesday 24th at Davos, one year after President Xi there had urged the world's business & political elite to reject trade wars & protectionism. More specifically, Liu told those present that China will introduce more reform measures this year to open up its economy in a way that will "exceed the expectations of the international community" (*without, however, going into detail*), saying "Opening up is not only important for China but for the whole world."

This is another step in Xi seeking to grab the global leadership mantle so foolishly jettisoned by Trump. But it remains to be seen how "opening up" the Chinese economy to foreigners can be squared with Xi's paramount goal of greater Party control of the economy that he elaborated on at last October's quinquennial 19th National Party Congress. For skeptics who believe China has the makings of a 'Potemkin village' this announcement was a sign of weakness, not of strength (for no matter what Xi thinks or wants, China's demographics are inimical to high rates of GDP growth (& so has historically been state control of an economy). This may well be a national version of a scam artist who late in the day seeks to attract suckers into a failing scheme.

CHINA SAYS U.S. WARSHIP VIOLATED ITS SOUTH CHINA SEA SOVEREIGNTY (Reuters)

- China's Foreign Ministry said on its website on Saturday January 29th that three days earlier the USS Hopper, an Arleigh Burke Class guided missile-carrying destroyer, had come within 12 nautical miles of *the artificial* Huangyan Island (on the Scarborough Shoal) & warned it would take "necessary measures" to ensure protection of its sovereignty. According to its spokesman Lu Kang it had violated China's sovereignty & security interests and threatened the safety of its vessels & personnel in the vicinity, and China "firmly opposes efforts to use freedom of navigation as an excuse to hurt its sovereignty", urging the United States to "correct its mistakes." And later that day China's Defense Ministry weighed in, saying the repeated despatch of US warships to the region "undermined regional peace and stability ... & hurt bilateral trade relations".
- This was not news. For two US officials, speaking on the condition of anonymity, had earlier made this event public, saying the vessel's journey had been in accordance with international law & a matter of "innocent passage" (i.e. when a ship travels through-, but doesn't stop in-, a body of water). According to Pentagon spokesman Lt-Col. Christopher Logan the US routinely carries out "freedom of navigation" operations in accordance with international law to demonstrate that "the United States will fly, sail & operate wherever international law allows." And the US has *for some time* criticized China for constructing islands & military installations in the South China Sea on the grounds they could (*or will?*) be used to restrict free nautical movement in it, as a result of which US Navy vessels have routinely conducted 'navigation patrols' in it (through which moves an estimated one-third of annual global trade).

By current international law standards China is now officially a "scoff law" since, six months ago, in a case brought by the Philippines, the The Hague-based Permanent Court of Arbitration ruled that "there was no legal basis for China to claim historic rights within the (South China) sea falling within the (so-called) 'nine dash' line" (that was drawn up unilaterally by China in 1947, following Japan's defeat in WW II, & that claims almost the entire South China Sea as its own despite the fact that much of it is well outside the 200 nautical mile/230 mile/370 km 'exclusive economic zone' of coastal states established under the 1982 UN Law of the Sea, and that the Scarborough Shoal is a mere 198 kms/123 miles West of Subic Bay on Luzon, the Philippines' main island, that once hosted a major US naval base & now has Economic Freezone status, vs. 957 kms/600 miles from the nearest Chinese landfall, Hainan Island. But that doesn't change the fact that US testing of China's resolve could not, at some point, lead to a dangerous

confrontation due to actions by local Chinese or American commanders (on their own initiative or upon instructions from above).

IN CAPETOWN, 'ZERO DAY' IS COMING VERY SOON - THE DAY THE WATER RUNS OUT (LAT, Robin Dixon)

- Due to its rapid population growth & a failure to plan ahead for alternate water sources to the six dams *that have traditionally supplied it with water*, their usable water capacity is now just 15.2%, down from 77.0% in September 2015. So now South Africa's second largest city's⁴ 'Zero Day', when it will run out of water, is expected to be April 21st, when its residents will have to start getting their water from 200 water stations, *rather than from their taps*, & when the police & the army will start enforcing a per capita 6.6 gallon/29.7 litre daily limit. But, according to Brigetti Lim Banda, who started a Facebook page on the issue, "A lot of logistics (like how one person will carry 26.4 gallons of water home for a family of four, whether the elderly & disabled will & what to do about flushing toilets) are not known ... that's worrying ... and it's causing a lot of alarm. We just never get any answer, which tells us there is no plan."

Capetown is not an isolated case. After three years of drought, cities & towns across Eastern & Southern Africa face water shortage problems⁵. But its situation was made worse by the fact that, for the past decade or so, its city government has been controlled by the Democratic Alliance opposition party, which did not endear it to the ANC-controlled national government.

-0-0-0-0-0-0-0-0-

TRUMP PROMISE TO 'MAKE AMERICA GREAT AGAIN - WORLD SAYS HE'S DOING THE OPPOSITE (USA Today, Ken Hjelmggaard)

- The 2018 version of the annual U.S. News and World Report's Best Countries Survey reported that after just one year in office Trump had a 58% global disapproval rating, worse even than Putin's 44%, that he had fueled perceptions *worldwide* that the United States is "becoming less progressive and trustworthy" & "more politically unstable", and that Australia had replaced it as the 7th best country in the world to live in (with those higher ranked are Switzerland, Canada, Germany, the UK, Japan, Sweden & Australia, that between them have only two-thirds of the US GDP & 10% more inhabitants). And it quoted David Sable, the CEO of New York-based Y&R⁶, that along with the Wharton School had participated in the survey, as saying that "it is once again clear that military vigor and economic power are no longer the key determinants of a country's brand success ...just as *corporate* brands must focus on a wide range of attitudes to ... win over audiences, nations that are multi-dimensional and ... reflect a wide range of qualities, such as innovation and compassion, have the brand appeal that propels them on the global stage." And a separate report by Freedom House, a Washington-based,

⁴ Its population of 3.7MM it is slightly less than half Jo'burg's 7.8MM and between them they hold about one-fifths of the country's 56MM population.

⁵ Thus my No. 1 daughter who lives in Nairobi has water coming out of her taps only two days a week, from Saturday-, until Monday-, morning..

⁶ An advertising agency once known as Young & Rubicam it has 16,000 employees worldwide.

US government-funded NGO founded in 1941, found that under Trump there has been an “accelerating withdrawal by the US from its historical commitment to promoting and supporting democracy” because a) the growing evidence of Russian interference into the 2016 election (& the lack of Trump Administration action to prevent a re-occurrence thereof), b) the violation of basic ethical standards (such as Trump’s failure to divest himself of his private business interests), & c) a reduction in government transparency, (incl. the making of false statements/*outright lying?*, Trump’s failure to report his tax status, & the making of decisions without input from experts).

TRUMP ASKED THE ACTING FBI DIRECTOR HOW HE HAD VOTED DURING OVAL OFFICE MEETING (WP, Ellen Nakashima et. al.)

- Shortly after he had fired FBI Director James B. Comey last May 9th, Trump summoned the former Deputy-, & then Provisional Acting-, FBI Director Andrew McCabe (age 49) to the Oval Office for a ‘get-to-know-you’ meeting. And he soon got to the real reason for the meeting, namely to find out how McCabe had voted in the 2016 election. And when McCabe told him he hadn’t voted, Trump hauled him over the coals for the 100s of thousands of dollars Comey’s wife, a Democrat, had received from a PAC controlled by a friend of Hillary’s to help fund her unsuccessful 2015 bid for a Virginia State Senate seat. According to one White House official Trump had concerns about McCabe’s politics but “consented” to confirm him as Acting FBI Director on the advice of others since “there were no immediate better choices” (the Justice Department had interviewed four others for the job). But in August he named a former Justice Department official, Christopher Wray, as the new FBI Director, who, according to the White House official, has been under pressure ever since to ‘clean out’ the FBI (i.e. get rid of all those with links to Comey, incl. McCabe, who has no intention to hang around much longer & is only waiting to resign in March when he becomes fully pension-eligible).

With his background in a proprietary one man business, Trump is having difficulty accepting that professional public servants’ loyalty, regardless of their political leanings, is first & foremost to the greater good of the nation, rather than to any person senior in the hierarchy.

TRUMP TARGETS ASIA WITH TARIFFS ON SOLAR PANELS (Bloomberg, Andrew Mayeda et. al.)

- On January 23rd he slapped 30% tariffs on imported solar panels, *the price of which has plummeted 30% in the last year alone* (& while he was at it, a 50% tariff on imported washing machines), a move that the Solar Energy Industries Association says will lead to tens of thousands of job losses in an industry that employs 260,000 (5x as many as coal mining). This came as he was about to travel to Davos, where a major topic of discussion will be the ‘apparent backlash against globalization’. The two cases were filed under the seldom-used Section 201 of the Trade Act of 1974 that gives the President broad powers to impose tariffs to protect domestic industries. The solar panel tariffs had been recommended last October by the ITC (U.S. International Trade Commission), acting on a request by *Chinese-owned, Atlanta GA-based solar panel maker Suniva Inc*, that, after, after going bankrupt a year ago following a period of rapid growth, had sought tariffs on imports of competing products, while in the washing machine case he acted on an ITC recommendation last November, acting on a complaint by Benton, MI-based Whirlpool Corp. that Samsung Electronics and LG Electronics [*Korean companies that employ 400,000+ people (i.e. 1.5% of South Korea’s labour force) in the manufacture of a range of consumer goods*] were selling them in the US at below ‘fair-market value’.

The latter case may be bogus since for US tax law purposes the concept of “fair market value” was defined years ago by the US Supreme Court as “the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts”. And, while, in signing the solar panel document, President Trump boasted “You’re going to have people getting jobs again and we are going to make our own products again. It’s been a long time”, the industry maintains it will result in a 23,000 job loss⁷, Sen. John McCain tweeted that it was “nothing more than a tax on consumers”, an analyst at a New York-based investment advisory firm expressed the view that it would be 18 months, if not two years or more, before the tariff on solar panels might start creating new jobs in the US, & it will raise havoc with the Department of Energy’s very successful SunShot Initiative that, launched in 2011 with a 10-ten year objective of driving down the cost of residential photovoltaic power to below US\$1.00, at last report was well ahead of schedule. But then on Friday January 26th, an ITC panel quite unexpectedly ruled 4-0 that Canada’s Bombardier’s pricing of its C Series110-130 passenger jets (for which the company has a 75-unit order from Delta) did not harm Boeing, thus rejecting a Commerce Department recommendation to slap a nearly 300% duty on them for five years. And then, rather interestingly, Commerce Secretary issued a statement that said, among others, that the Commission’s finding “show how robust our system of checks and balances is.”

⁷

For the vast majority of jobs in the industry is generated by the installation-, rather than the manufacturing-, of solar panels. So it makes sense to ‘outsource’ the manufacturing of solar panels to low wage countries if that were to increase the demand for the installation of solar panels that generates more high-paying jobs in the US - *that’s basic Economics 101 theory.*