

GLEANINGS II - 746
Thursday February 1st, 2018

Mood at Davos - This year it was a mix of growing optimism & anxiety, the former because of bullish global economic growth expectations &, above all, the 'above long-term trend rate of growth' in North America¹, the Eurozone, Japan & China' (*that between them account for 60+% of global GDP*), & the latter due to the political-, & policy-, uncertainty in many countries. But there was at least one discordant note; it came from Oliver Bate, the CEO of Munich-based *Allianz, the world's largest, financial services group that owns Newport Beach, CA-based PIMCO & has AUM of US\$1.8TR & 86MM clients worldwide*, who in a talk acknowledged the improving health of the global economy but warned "We just don't know when a *stock market* correction is going to happen ... *but it's absolutely clear ... it is going to happen.*"

Percentage of US families that directly hold stocks - According to the Fed's Survey of Consumer Finances only 17% did so in 1989. That went up to 21.4% by 2000 (*presumably hyped into doing so in the dot.com bubble*) only to decline again to 14% by 2015 (*although it likely has risen again since as 'retail rubes' have been sucked into the equity market vortex*).

Possible trigger for a stock market correction? - Amazon, Apple, Facebook & Microsoft account for 10.89% of the S&P500 weightings but :

- **Amazon (2.41%)** acquired Whole Foods last August 24th since when customers have complained its shelves are often 'noticeably near-empty' (*due to its inexperience with 'bricks & mortar retail?*). But its share price has gone from US\$945 to US\$1,451 despite its sky-high 363x P/E, anemic profit growth & a 4x market cap/revenue ratio;
- **Apple (3.56%)** has since 2007 lived off Steve Job's introduction of the iPhone & is said to "have lost its Mojo". After lower-than-expected 4Q/17 iPhone10 sales, it cut its First Quarter production 'guidance' for suppliers by 50% to 20MM. Its share price has gone from US\$2.22 in mid 2004, via US\$12.86 on January 26th, 2007, 17 days after Jobs unveiled the iPhone, and intermediate peaks of US\$97.20 on September 7th, 2012 & US\$128.94 on May 1st, 2015, to an all-time high of US\$179.26. At 1:51 p.m. EST February 1st, 2017 was US\$167.56, giving it an 18.2x P/E & a market cap/annual revenues' ratio of 3.75x. And its 'brand' took a hit recently from allegations it had interfered with the battery lives-, & efficient operation-, of older iPhones' batteries to get users to buy newer, more costly models;
- **Facebook (1.84%)** reported that in 4Q/17 it had 2,129 users worldwide, *over twice their number five years earlier*, but that they were using it less &, most significantly, that the number of North American subscribers had declined, for the first time ever, by one million to 184MM, *up from 99MM in 2010 (which will have a disproportionate impact on revenue since North Americans generate revenues of US\$26.76 each, vs. US\$9.00 in Europe, US\$2.00 in the Asia-Pacific region & US\$1.50 elsewhere)*. Meanwhile its price has gone from US\$18.05 on August 31st, 2012 via US\$130.97 on February 3rd, 2017 to an all-time high US\$192.91 at 2:26 pm EST today, February 1st, at which price it has a P/E of 35.8x & a market cap/revenue ratio of 13.8x²;
- **Microsoft (3.08%)** has lost much of its onetime 'star' lustre & become a company resting on its laurels. But investors do not seem to have gotten that message yet. For

¹ Which now is deemed to be in the 1.6% range, less than half of that three decades ago.

² And its Chinese counterpart, Tencent, now has a higher market cap with only half its subscribers

while its share price went from US\$3.87 on February 1995 to US\$58.75 on December 23rd, 1999, a price level it didn't regain for 17 years until October 2016, it after which it went in 27 months to US\$94.54 at 3:12 p.m. EST on February 1, 2018, at which level it has a P/E of 64.0x & a market cap/annual revenue ratio of 8.1x (its 2017 revenues were US\$89.95BN, up from US\$85.32 in 2016 but down from US\$93.58 in 2015).

Following are, for comparison purposes, the market cap/revenue-, & P/E-, numbers for three 'boring' DJ 30 companies : Boeing - 2.2x & 33.1x, Disney - 1.9x & 19.4x and Exxon - 1.7x & 28.8. And the January 20th Economist leader on page 20 was a 'spoof' open letter to the CEOs of Amazon, Facebook & Google, with copies to those of Apple, Microsoft & Netflix, warning them of the heavy regulatory weather ahead for them since they had become too "BAADD" (i.e. Big, Anti-competitive, Addictive & Destructive to Democracy).

Pyongyang 2018 Winter Olympics - Two interesting developments. Russia is officially barred from them because of its state-sponsored doping-, & elaborate cheating-, schemes at the 2014 Sochi Winter Games, as a result of which 42 Russian Olympians were barred for life from the Olympics³ and Russian officials forbidden to attend, or its flag displayed-, & national anthem played-, at these Games. But after the IOC announced on January 19th that 389 Russian athletes had been "cleared" to compete at Pyongyang, Moscow announced six days later it was sending a 169 member team⁴ there to compete as individual "Olympic Athletes from Russia". Secondly, on January 25th 12 North Korean women ice hockey players, accompanied by a group of North Korean 'sport' officials, crossed the border into South Korea (& were followed one week later by ten skaters & skiers **plus 22 more officials**) for joint training with their South Korean counterparts with whom they will march under a unified peninsula flag in the opening-, & closing-, ceremonies, and play as a team under South Korea's head coach Sarah Murray⁵ wearing unity jerseys - *this was the outcome of the first official face-to-face talks between representatives of the two Koreas in two years.* Not long after North Korea sent out an announcement that "all Koreans at home and abroad" should make a "breakthrough" for unification without the help of other countries & "promote contact, travel, cooperation between North and South Korea", and that Pyongyang will "smash" all challenges against reunification of the Korean peninsula." - *While South Korea was primarily driven by a desire to reduce the incentive for Kim Jong-un to do anything provocative during the Games, there is little doubt that there was also an element of an 'up-your-nose' gesture for President Trump by President Moon Jae-in for his bullying trade talk, & that this will undermine Trump's attempts to demonize Kim & isolate the North. But it also underlines the deep-seated desire on both sides of the border for reunification (that in the final analysis may do more to make the North less of a geopolitical aneurism (even though Beijing will do its utmost to limit the growth of the West's influence on its*

³ Many of whom appealed to the Court of Arbitration for Sport that in some cases overturned their bans on February 1st, albeit no necessarily in time for them to compete in these Games.

⁴ Down from the 232 in Sochi in 2014 (where, cheating & all, it had dominated the medal standings) & the 177 in Vancouver in 2010.

⁵ Age 29, a Canadian-US dual citizen & the daughter of former NHL LA Kings' & St. Louis Blues' head coach Andy Murray, she played university hockey for the Minnesota-Duluth Bull dogs & professionally for the Zurich-, & Lugano-, based teams in the Swiss National League. She recently told CP that, while the two countries coming together at the Olympics was "great for the politics and world relations", she would have preferred "this had been done three or four years ago when we started this journey (of fielding a Korean ice hockey team for the Olympics), and that she had mixed feelings about this combination.

border, just as-, & for the same reason that-, Moscow has long done its utmost to undermine the Ukraine's drift into the Western camp.

Sign of the times, in Switzerland of all places - The sign on the door of the once 'disabled-accessible' bathroom in Davos' Main Congress Center this year bore a sign "THIS RESTROOM MAY BE USED BY ANY PERSON REGARDLESS OF GENDER, IDENTITY OR EXPRESSION".

Trump's State of the Nation address - In the past year the world has seldom seen "Teleprompter Trump" or "Salesman Trump"-, but almost daily their evil, angry & divisive stepmother "Twitter Trump". But on this occasion she was absent, & the other two front & centre, and very, very good, if not outright Presidential. Nevertheless, in his carefully-, & beautifully-, choreographed presentation, there were at least a few occasions when he seemed to be embellishing reality, to wit :

- "For the last year we have sought to restore the bonds of trust between our citizens and their government";
- "Tonight I am extending an open hand to work with members of both parties ...";
- In recent months my Administration has met extensively with both Democrats and Republicans to craft a bipartisan approach to immigration reform";
- His bragging about ISIS' defeat was reminiscent of Bush 43's May 1st, 2003 "Mission Accomplished" declaration on the deck of the USS Abraham Lincoln; and
- "As we strengthen our friendships around the world".

Two kinds of bonuses - Most bonuses are of a recurrent nature & seek to induce & reward performance, & hence productivity. But the one-time, 'pro bono' ones that President Trump brags have been prompted by his 'tax reform package & that some companies are handing out to their employees in response thereto, are a different kettle of fish. For they are akin to giving a soother to a crying baby to temporarily quieten it, while not providing long-term satisfaction. And from a corporate-, but not from an employee-, perspective, they are attractive since they are non-recurrent & therefore don't add to fixed overhead. And their impact on productivity is zip.

US dollar effect on corporate valuations - While the US stock market boom is seen by President Trump as a vote of confidence for his policies, first & foremost his "tax reform" package, the US dollar has in the past year lost a great deal of its value on a 'trade-weighted' basis; so US multinationals, & their foreign earnings flows, are now worth more in US dollars than before. And the flip side is true for foreign investors : while over the past year the S&P 500 was up 26% in US dollar terms, in Euro terms it's up just 9%. Something similar is true for commodity prices ⁶ : while they have been strong in US dollar terms, they have been much less so in other currencies, thereby favouring foreign producers rather than US users/consumers already being hit by the weaker dollar's effect on US inflation⁷. And when on Wednesday January 24th Treasury Secretary Steven Mnuchin, a *Goldman alum*, went on record in Davos as saying a weaker US dollar 'helped' US trade (thereby reversing previous US administrations'

⁶ And for Bitcoin, while as of January 25th it was down 41.9% in US\$ terms from its peak last month, it was down 45.3% in Euro-, 44.0% in Yen-, 44.3% in Yuan-, & 43.6% in won-, terms - significant since the lion's share of Bitcoin demand is of Asian origin.

⁷ According to the OECD the weaker US dollar has, in the past year, boosted the USGDP growth rate by 0.5% and its CPI by 0.3%.

position that a strong dollar was ‘a good thing’⁸), this prompted an angry retort the very next day by ECB President Mario Draghi (*another Goldman alum*) that any attempt to ‘talk down’ the dollar violated international rules (as well as the usual contradictory observation by President Trump⁹ that he ‘ultimately’ wants a stronger dollar”).

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AN INDICATOR WITH A PERFECT TRACK RECORD JUST SENT A ‘POWERFUL’ SELL SIGNAL (CNBC, Jeff Cox)

- The tsunami of cash roiling the stock market caused BAML (Bank of America Merrill Lynch)’s Bull & Bear Tracker¹⁰, that has given 11 correct SELL signals in a row since 2002, to issue another SELL signal, after, in the week ended January 23rd, investors poured US\$33.2BN into equity- (but only US\$7.7BN in US-, & US\$12.2BN in ‘actively managed’-) funds (vs. 278BN - US\$5.36BN/week - in all of 2017). According to Michael Hartnett, BAML’s Chief Investment Strategist, this could lead, in the near future, to a 6% ‘technical pullback’ in the S&P500. YTD equity-based funds have taken in US\$77BN (US\$19.3BN/week), most of it going into ‘passively managed’ funds, incl ETFs, while the (bearish?) flow into gold funds, at US\$1.5BN, was also the highest in nearly a year.

Being right 11 times out of 11 doesn’t guarantee being right the 12th time; in fact, one can argue it shortens the odds on being wrong, especially since, with so much money going into ‘passive’ funds, continued bull market conditions create a ‘self-fulfilling prophecy” since it forces their managers, who always should be 100% invested, to keep buying regardless. Goldman’s Chief Global Equity Strategist Peter Oppenheimer said on January 29th “correction signals are flashing” & told clients to prepare for a pullback, while the firm noted elsewhere “in a sharp correction, where stock prices fall 20% in Q1 and stay flat afterwards ... we estimate ... the GDP growth impulse from the high-flying stock market’s 0.6 bps boost to go to a -0.5 bps drag by early 2019 ... all other things equal this bear market would still result in positive GDP growth in 2018 of 1.9% on a QoQ basis¹¹ ... below our 2.6% baseline forecast- but will have only a minor effect on growth in 2019¹²

⁸ Since it had serious, but intangible, benefits for the US from its reserve currency role.

⁹ Who has accused the Chinese of the very same thing, i.e. ‘cheapening’ the yuan’.

¹⁰ It has a scale ranging from zero for “extremely bearish”-, to 10 for “extremely bullish”-, investor sentiments, with intermediate 2.0 BUY-, & 8.0 SELL-, stops, and in the past two years has gone from 2.8 in February, 2016 to, at last report, 7.9.

¹¹ As is so often the case, the devil is in the detail; for if the Commerce Department’s preliminary Fourth Quarter 2.6% GDP reading were to stand, the 4Q 2018 number would in absolute terms be significantly below what it would have been if it had been in the expected 3+% range.

¹² Which is only partially correct since it would start the year from a lower GDP ‘baseline’.

And while corporate earnings are strong (78% of S&P 500 companies surpassed their earnings-, & 77% their revenue-, expectations), much of that had already been 'priced in'.. On reports that Apple had notified its suppliers that, due to "disappointing holiday season sales", it was cutting First Quarter iPhone production by 50% to 20MM units, by 1:23 p.m. Monday January 29th its share price had tumbled 2.65% from US\$169.90 at the opening (down from its all-time high US\$179.26 on January 18th, albeit well up from US\$90.52 on May 13th, 2016 & US\$5.63 on February 4th, 2005), and by the close on February 2nd was down another 5% to US\$160.29. Meanwhile, in the bond market the yield on the 'benchmark' 10 year UST bond hit a post-April 2014 high of 2.70% (& by the end of the week was 2.85%), due to the Commerce Department's Friday January 25th lower than expected preliminary GDP growth rate report, growing inflation fears (hourly wages are up 2.9% YoY), concerns other central banks may be follow the Fed's lead in tightening monetary policy, & "a ton of bond market supply coming down the pike" , as the Treasury will need to fund infrastructure-, & tax bill-, spending), prompting a jump in 30-year mortgage rates to 4.38% on Monday January 29th , up from 4.15% the previous Friday, 4.00% on January 2nd, 3.78 on September 7th, 2017 & 3.42% on September 29th, 2016¹³. And to quote three other sources, Morgan Stanley opined "With the markets already pricing in a March rate hike as certain, and incoming data largely in line with the FOMC's December outlook, we can hit the snooze button until the March meeting", London-based Capital Economics "The party in the market has remained in full swing while the Fed has emptied its punch bowl slowly¹⁴ ... This year, though, the US central bank is likely to draw it down more quickly ... And in some other economies monetary policy is also likely to be tightened further, or at least become less expansionary. Admittedly, the music may not stop until the second half of 2018¹⁵, when significantly higher interest rates start to weigh on the U.S economy just as fiscal stimulus is fading. But once growth in the US starts to slow. risky assets there are likely to start to come under pressure that would probably be contagious, even if growth remains healthy elsewhere", while Jason Voss of the CFA Institute, the professional body for money managers, added "If you are feeling nervous about the US stock market ... you are in excellent company since a key indicator of the market's valuation, the so-called 'equity risk premium', is now at 0.52%, nearly as low as the 0.36% in 2006, not long before the onset of the "Great Recession" - the main difference in Morgan Stanley's more relaxed attitude & that of the other two is due to the fact it operates on the 'SELL' side of the equity market & its revenue flow is commission-driven (so it is indifferent as to whether their clients sell or buy stocks as long as they do one or the other), while the other two are on its "BUY" side & hence focused on "capital preservation".

THE MARKET'S RISE MAKES THE DOT.COM BUBBLE LOOK SANE **(Barron's, Ben Levisohn)**

¹³ This is bad news for a housing market going into its prime spring selling season since the growth in house prices has significantly outpaced that in buyers' incomes & even a one quarter percent increase is believed to infringe on buyers' ability to finance the purchase of their 'dream home'.

¹⁴ The 'punchbowl' concept harks back to an observation on October 19th, 1955 by the legendary, then Fed Chairman William McChesney Martin to the New York chapter of the Investment Bankers Association of America in which he compared the role of the Fed to the "position of a chaperone who ordered the punchbowl removed just when the party was really warming up."

¹⁵ This is the GOP's nightmare scenario for the Second Half of this year, a slowing economy & a cratering stock market in the run-up to the mid-term elections (Remember the 1992 campaign slogan "It's the economy, stupid" coined by James Carville Bill Clinton's 1992 campaign manager).

- Stocks are surging today (*Friday January 26th*) even as a weaker-than-expected GDP growth reading sent investors back into fast-growing tech names while the falling dollar boosted the commodity-exposed sector. So at 2:09 p.m. that day the S&P500 was up 0.7% on the day, the Dow Jones 0.4% & the NASDAQ Composite 0.9%, all of them to all-time highs (& *the S&P500 was up 7.1% YTD*). This had Doug Ramsey, Chief Investment Officer of the Minneapolis, MN-based, nearly four decades-old, Leuthold (*independent financial research*) Group, looking wistfully back to “saner days” like the dot.com bubble when one-third of the 3,000 stocks it tracks traded at < 14x earnings whereas today the median P/E ratio for many of them is almost double their February 2000 level (*near the peak of the dot.com bubble market after which the S&P500 declined by nearly 50% over the next 18 months*). By 1.33 p.m. today (*January 26th*) Amazon’s shares were up 1.5% and there were 48 analysts’ BUY recommendations on the stock, 3 HOLDS & 1 SELL (*despite the fact that at these levels Amazon’s P/E ratio is in the stratospheric 360x range*). And on January 24th W.W. Grainger, a Lake Forest, IL-based Fortune 500 industrial supply company, *a boring low-tech business if there ever was one, opened at US\$263, up from the previous day’s US\$230 close & ended the day at US\$275 (& the next day at US\$290), for a 26% two-day gain, only to slip back to US\$273.76 by 2:25 p.m. on January 30th.*

Historically it has been proven time & again that the most dangerous words in the stock market are “This Time It Is Different”. It also should be noted while that last year, on August 10th, Ramsay said he expected a market downturn in 6-8 weeks (i.e. by September 21st), one month later Jim Paulsen, the Group’s Chief Investment Strategist, opined “the market will continue to grind higher if we don’t get inflation and interest rate pressures” (that now are emerging?).

STOCKS GET CRUSHED IN ONE OF THE WORST DAYS SINCE BREXIT (Business Insider, Akin Oyedele)

- *The Dow Jones closed on Friday January 26th at 26,609.99 (down from its all-time 26,616.71 high earlier in the day) & two days later, on Tuesday January 30th, at 26,078.30, (i.e. it was down 2% in two days^{16 17}). This was its weakest performance in six months, constituted a pause from recent rallies that some strategists call “parabolic” & was due to a sell-off in the bond market that took the yield on the benchmark 10-year UST bond to a four-year high 2.70% which some investors fear will drive up companies’ borrowing costs (& create wage cost pressures that will fuel inflation).*

A simpler explanation came from Carmel Wellso, Director of Research at London-based global asset manager Janus Henderson (AUM of US\$361BN) : “We’ve had such a huge move in one month (that) it’s scaring people ... Some people might be saying ‘Wow, I just made 10 percent, that’s what I wanted to make for this whole year. Maybe I’ll take some money off the table’.”

MICROSOFT PRESIDENT BRAD SMITH SAYS THE US SHOULDN’T GET TOO ISOLATIONIST (Business Insider, Kara Chin et. al.)

- In an interview in Davos with our Sara Silverstein he said, among others, “It’s one thing to say ‘we’re going to put our country’s interests first’ (which every country always says

¹⁶ While many other indices were also off, most of them declined by less than 1%.

¹⁷ Which was followed, exactly one week later to another 2.6% drop to 25,520.66.

and always does) ... (*and that*) we're going to be tough negotiators'... but we also need to stay connected. I do believe that this is a world that still wants, and is well-served by, American leadership on many issues" (*that America has massively benefitted of?*).

This idea may be beyond the intellectual grasp of the septuagenarian occupant of the Oval Office who 'made his bones' as the king of his own empire & was a self-avowed star on the real estate firmament of a city that its denizens think of as the "centre of the (financial) universe".

HAS THE TIDE TURNED AGAINST GERRYMANDERING¹⁸ (The Atlantic, David A. Graham)

- The courts have always been reluctant to strike down *state governments'* redistricting of *federal voting districts to favour their party*, not wanting to be accused of having a political bias . But on January 22nd the Pennsylvania Supreme Court ruled that the state maps for its US House of Representatives' districts violated the State Constitution's guarantees of free expression & association & of equal protection, & ordered them revised in time for the mid-term elections, threatening that if that were not done promptly, it would do so itself. This came a couple of weeks after a federal court in North Carolina had made a similar ruling, the first time that a federal court has ever done so. And currently there is similar legal action ongoing in, among others, Maryland, Texas & Wisconsin. But the Pennsylvania case is most likely to succeed since it is based on the state's constitution. If so, it will be a boon for the Democrats since it would likely alter the current 12-5 split in the state's representation in the House by between one & five seats (the 18th seat is currently vacant after a sex scandal engulfed the GOP incumbent but will be filled in a Special Election in March (that the Democrats hope to win).

Gerrymandering has resulted in a situation in which the Democrats must have as much as a 6-8 point edge in the nation-wide popular vote to get control of the House. So any change in Pennsylvania's districting will give them a (small?) leg up in mid-term elections that some Democrats are starting beginning to say may turn into a "wave election" for them, given the trend in polling data, the growing excitement among Democrats as a result of the recent Special election results, the rate of GOP incumbents' retirements & Trump's God-awful approval ratings.

TRANS-MOUNTAIN PIPELINE WILL BE BUILT, PM VOWS (G&M, Wallis Snowdon)

- In town as part of his Western Canada 'townhall tour', Justin Trudeau said on February 1st on the CBC Edmonton AM program that he is "standing his ground" (*whatever that may mean for the weasel he is*) in the Trans-Mountain Pipeline expansion feud between the Alberta-, & British Columbia-, *fellow socialist* governments over the restrictions that the latter has imposed on the shipment of Alberta bitumen via pipeline across British Columbia to the Pacific Coast, a \$7.4BN project Ottawa approved *back* in 2016. For he said that "getting our resources to new markets across the Pacific is absolutely essential ... we can't be trapped with the price differential we have in the American market."

At yearend the Western Canada Select benchmark oil price was C\$43.97 & WTI US\$64.73, making for a C\$35+ discount from WTI, triple what it had been just six weeks earlier, & the biggest in a long, long time (& what a sweet deal this is for the US, whose own daily oil output

18

For examples of spider-like voting districts, just google "Map of a Gerrymandered District".

just broke the 10MM bbl/d. mark¹⁹, buying Canadian oil at rock bottom prices, processing it for relative peanuts while increasing the efficiency of their refineries, & then pocketing a big, fat middleman's cut as it exports the refined product at world market prices. But Trudeau got one thing right : maxing out the value of Alberta's (& Canada's) resources is in the nation's interest &, to do so, they must have access to deep water by the shortest-, & most cost-effective-, route (& neither the much-vaunted Keystone XL pipeline to the US Gulf Coast nor the, once equally-hyped but now apparently dead, Energy East one, meet those criteria, nor does moving oil by rail). But one must have some sympathy for the BC government; for a number of years ago there was a spill of ill-smelling, glutinous 'dilbit' (the name for the bitumen-diluent mix created to make bitumen pipeline-friendly) in Burnaby, BC, after a city contractor's backhoe punctured the existing pipeline. Moreover, since only about one-third of the line's current 300,000 bbl/d daily throughput is exported, tripling its capacity could lead to as much as an 8x hike in oil tanker traffic within a stone's throw of Vancouver's iconic Stanley Park. Furthermore, when the existing pipe was put in the ground over half a century ago this took place in farmland that now is wall-to-wall suburbia. And last, but by no means least, with the Burnaby tank farm hemmed in by the Fraser River, residential housing & the Fraser University campus, any extension thereof needed to handle the line's increased throughput must be built in the Fraser River. There are two possibly better solutions than shipping dilbit to the Burnaby tank farm. One would be to build the section of the pipeline expansion to Blaine, WA (rather than Burnaby) where there is significant idle oil-for-export handling capacity due to the reduced flow of Alaska North Slope-produced oil from Valdez, Alaska; and since Kinder Morgan, the pipeline's owner, already owns a border-crossing right-of-way it likely will run into fewer problems than TransCanada's lack thereof caused for the Keystone XL and, in some ways most importantly, doing so would get the Prime Minister 'off the hook' with respect to his previous claim of "no more tankers of our Pacific coast" since from Blaine tankers could start their voyage to deep water through US-, rather than Canadian-, territorial waters. And the other-, possibly better-, one would be not to ship 'dilbit', but higher value-added products after the bitumen has been processed in Alberta. This would have several advantages: more economic activity in Alberta, less scope for political opposition along the pipeline route, increased FX proceeds, reduced construction costs from eliminating the need for a second, smaller inbound pipeline carrying the diluent needed to mix with the bitumen to produce the dilbit, and increased pipeline efficiency since in this case 100% of the pipeline's capacity can be used to export Canadian product, rather than having to devote 30% thereof to re-export the previously imported diluent in the dilbit mix. But this would take vision & statesmanship likely beyond the political will of the three sets of politicians involved, qualities that today seem in short supply in the world's self-serving 'political class'.

THE TURKISH GAMBIT IN AFRIN (G&M, Bessma Momani)

- For years the Turks have told the Americans that in supporting & arming the *Kurdish* Syrian Democratic Forces (SDF) with its fig leaf Arab component it was giving succor to the terrorist Kurdistan Workers Party (PKK), as evidenced by the fact that the image of Abdullah Ocalan, the PKK's founder & de facto leader, was hoisted all over IS territory as it was being liberated by the SDF. But with no one else willing to commit ground troops, the US had little choice &, with aerial support from the US & some of its allies, the SDF has indeed played a key role in trouncing IS. And the international community ignored all this even as the SDF expanded its control over ever more (*Syrian*) territory, much of it populated by Arabs, Turkmen & Assyrians

¹⁹ So it is now < 1MM bbl/d short of replacing Russia as the world's largest oil producer & less than 200,000 bbl/d short of replacing No. 2, Saudi Arabia.

- And while the Turkey often threatened to act, it did not do so until the Pentagon announced on January 26th that the US would train & arm a 30,000-strong SDF “Border Security Force” (as a counterweight to the Iranian presence in the region?); for it is along Turkey’s Southern border that much of the SDF-controlled lands are located. But, while Turkey’s incursion into Syria’s Afrin region to root out the SDF’s baby cousin, the Democratic Party Union (PYD), is not Ankara’s ultimate objective, it could become a quagmire for it since it will face fierce resistance in this mountainous region from people who would sooner live under PYD-, rather than Syrian-, or Turkish-, rule; so, despite what President Erdogan claims, this may not be a “brief military campaign”. And if & when the Turks take on the *far more numerous* SDF forces in the Manbij region, *with its overwhelmingly Arab & Kurdish population, about 100 kms East of Afrin*, they will risk coming face-to-face with the US forces there helping to ‘train & guide’ the SDF, with the result forces of two NATO members could come to clash. And the *January 31st* Trump-Erdogan phone conversation settled nothing, with the disagreement over who said what only adding to the stress on their bilateral relations. And now, with the State Department gutted, there are few other options on the ground; so the next US move will be telling.

On Monday January 29th Gen. Joseph Votel, commander of Tampa, FL-based Central Command responsible for all US military operations in the Middle East, North Africa, & Central Asia, told reporters that “withdrawing from Mabi^j²⁰ is not something we are looking into.” As to the Trump-Erdogan phone call two days later, while the White House reported the President had “urged Turkey to exercise caution and avoid any action that might risk conflict between Turkish and American forces”, & Pentagon spokesman Eric Pahon “the US is engaged with the Turkish government at all levels to develop a solution which addresses Turkey’s security concerns and ensures there is no decrease in pressure on ISIS”, both were quickly contradicted by Turkey’s Foreign Minister who told reporters that President Erdogan had asked Trump to withdraw the US forces from the city - The writer is a (full) professor at Waterloo University’s Balsillie School of International Affairs & a Senior Fellow at its Centre for International Governance Innovation, and a Non-Resident Fellow at the Washington-based Stimson Center

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Alberta’s Liberal Members of Parliament - In the 2015 federal election Alberta elected, for the first time in many a moon, Liberal MPs, four of them, two in Calgary & two in Edmonton. And a surprising lot they were for ‘red neck’ Alberta : a Sikh, a former city bus driver of Indian extraction, a quadriplegic in a wheel chair (with a huge chip on his shoulder since a drive-by shooting turned him from an NHL prospect into a cripple) & an openly gay male. But now in, what a friend calls the current “lynch mob” sexual harassment environment, both of Calgary’s MPs, the Sikh & the quadriplegic (who was a Minister of the Crown), have been kicked out of the Liberal caucus after sexual harassment allegations were levied against them.

Threat to a robust democracy in Canada? - In 2013 Canada’s photogenic but lightweight Justin Trudeau became leader of the Liberal Party at a time it had only 35 seats in the 279 seat House of Commons &, for the first time in human memory, had been relegated to third party status, behind the right-of centre Conservatives & the socialist NDP. Shortly after he spearheaded a move to reverse a party tradition that its sitting MPs didn’t have to suffer the trauma of an open constituency nomination meeting but would simply be renominated by the Leader, on the grounds that “open nomination meetings wouldn’t ‘help to develop’ the on-the-

²⁰ The all-important ultimate target of President Erdogan’s ‘military action’.

ground organization the party needed to claw its way out of the political wilderness & back into the voters' good graces". But now, in a Sunday January 28th caucus meeting, he permitted-, or led the charge for?-, a return to the pre-2013 practice. So for the next (October 2019) election well over half the House's current members will just be appointed as the party's candidates, without any local constituency input (provided its 'war chest' is at least half full & the MP "had made a concerted effort to stay in contact with its voters") - *this is a self-serving move that suffers from the same flaw as does PR (proportionate representation) in that it makes it all-important for sitting MPs to be "tight" with Ottawa Party Head Office that will rule on his/her efforts to "stay in contact with the voters", instead of having to engage in the ongoing cumbersome, tiring & sometimes demeaning constituency work of the present system, but that in a country spread over five time zones like Canada constitutes the only real link that many voters have with their national government*²¹. And it constitutes a centralization of power in the party's Ottawa-based Head Office & a diminution of the constituency associations' influence, quite contrary to Trudeau's 2013 bafflegab about the need to strengthen 'the party's organizational grass roots' - This validates once again,, the First Lord Acton's observation (himself in his twenties an MP in the UK from 1859 to 1865), that "power tends to corrupt, and absolute power corrupts absolutely".

²¹, If the Canadian Parliament ever had the utter stupidity to switch to PR, my prediction is that Western Canada, if not both Western-, & Atlantic -, Canada, would go their own way within two-, if not just one-, decade since Canadians are likely made of sterner material than New Zealanders (for there, a number of years ago, politicians made such a switch on a 'two election trial basis' while, once the eight years were up, the politicians conveniently ignored the trial basis part, since they liked not having to do demeaning & burdensome constituency work any more