

**GLEANINGS II - 762**  
**Thursday May 24<sup>th</sup>, 2018**

**Quote of the week** - "If all the economists were laid end to end, they'd never reach a conclusion"  
- George Bernard Shaw (likely a bit too harsh a judgement in today's context; for the one-time common breed of 'on the one & on the other' economists seems to be pretty well extinct).

**According to Toronto mortgage broker David Larock (who "has seen it all in the mortgage market") "Right now, you're looking at almost a percentage point *spread* between your best variable and your best fixed-rate"** - So, while on his advice 90% of his clients had been choosing five-year fixed rate mortgages, recently, given the ferocious competition between banks on variable rate mortgages, he has started talking up variable rate ones - *Unfortunately, while he says "he has seen it all", he is not old enough to remember 1980 when the Bank of Canada's prime rate (that drives the variable mortgage rate) peaked at 22+% & the five year fixed mortgage rate at 21.75%. And his latest advice is particularly unfit for those many home owners/buyers whose households, are 'over-borrowed', many of whom, survey after survey shows, would have difficulty coping with even modestly higher mortgage costs.*

**Facts and Fears - Hard truths from a life in intelligence** - A new book by the now 77 year-old Air Force Lt.-Gen. (Ret.) James Clapper (the former Director of National Intelligence, whose nomination by President Obama was approved unanimously by the Senate on August 5<sup>th</sup>, 2010, & who retired late last year & now is at the now decade-old Washington-based Center for a New American Security) according to CNN "Begins and ends with a bitter appraisal of the Russian plot to put him (*i.e. Trump*) in power".

**Following Liu He's visit to Washington last week & an offer of a US\$200BN import package of US goods to reduce the US trade deficit", one headline read "Trump claims new accord with China on trade negotiations"** - Three old sayings should serve as a warning to him : "There's many a slip twixt cup and lip" ... "never count your chickens before they're hatched" ... & "Beware of Greeks (*or in this case Chinese?*) bearing gifts" . The main thing he seems to have achieved is to kick open an already open door for US Farm Belt exports that China needs. For just two weeks ago a seriously high-powered US delegation returned empty-handed from Beijing after the two sides' positions had been found to be miles apart, and President Xi is known to be confident China has what it takes to win a trade war with the US. The Chinese media reported that the Washington talks had resulted in agreement on a "framework" for future negotiations (& *typically in such cases "the devil is/can be in the details"*). And does anyone really believe China is going to buy Boeing 737s, when Comac, its very own aircraft manufacturer, already has a 785 order book from leasing companies, incl. GE, & airlines for its C-919 737 'clone' that made its first flight last December 5<sup>th</sup> & will enter in full-fledged commercial service in 2021?

**Initial Coin Offerings (ICOs)** - They are the most common way of funding cryptocurrency ventures, of which there are now over 1,600. But according to the Beverly Hills-based Satis Group ICO advisory firm four out of five are scams created by con artists, charlatans & swindlers looking to take your money & run. And Jay Clayton, the Chairman of the US SEC recently made it clear that he regards all cryptocurrencies, with the exception of Bitcoin (which he deems a "commodity"), as (unregistered) securities and hence technically illegal, a view apparently shared by Gary Gensler, Obama's \Chairman of the Commodities Futures Trading Commission .

**"Lower longer ... (but not forever)"** - This phrase was coined in early 2015 (i.e. six months after the oil price collapse) by BP CEO Bob Dudley as a warning that the world might be in for a protracted period of cheap crude. And while today many investors are titillated by the current

nearly US\$80 spot price for Brent crude (down from US\$115 in mid-2014 but up from US\$30 in early 2016 & US\$48 in early 2017), it's worth keeping in mind that the Brent forward prices are US\$75.84, US\$71.21, 67.97, 65.58 & 64.42 for one-, two-, three-, four-, and five years respectively.

**More tax cuts in store?** - President Trump said on May 22<sup>nd</sup> he would be "submitting additional tax cuts sometime prior to November. It's going to be something very special" & is planning to meet with Rep. Kevin Brady (R-TX), the Chairman of the House Ways and Means Committee (which is responsible for drafting new-, incl. tax-, legislation) - *if so, it would be a move of extreme fiscal irresponsibility (& a desperation move that may, or may not be successful; for there is a saying about 'going to the well once to often'). Is he, in ignorance or by design, to undermine, if not destroy, the financial-, as well as constitutional-, underpinnings of American society?*

**Puppycide** - According to Police Magazine 25-30 dogs are shot each day in the US by law enforcement officers, often on calls that have nothing to do with a dog - And since hitting their target often doesn't seem to be their 'long suit', it's not surprising they have been known to hit bystanders, other police officers or even themselves in the process - *So it was a welcome change that, after a 42 year-old man who lives nearby entered the lobby of the Miami area Trump National Doral Golf Club & started shouting about the president & shooting at a chandelier, Miami-Dade police officers 'neutralized' him by shooting him in the legs before taking him into custody (although they just may have been bad shots, for their training teaches them to aim at "center mass", i.e the body that is easiest not to miss but most likely to kill or seriously injure the target individual.*

**U.S. inflation** - The Labor Department reported on May 11<sup>th</sup> that, while in March import prices had declined 0.2%-, in April they had been up 0.3%-, MoM (whereas the economists polled by Reuters had forecast a 0.5% gain) & on a YoY basis 3.3%, while the Fed's preferred personal consumption expenditure (PCE) index had been up 1.9% YoY in March, up from 1.6% in February. But a survey by the Philadelphia Fed found the PCE was now running at a 2.0% rate rather than 1.9%, & was expected to average 2.1% in this year's Second Half. This prompted observations by Kathryn Asher, an economist at West Chester, Pa.-based Moody's Analytics that "Import prices are consistent with our view that domestic inflation will continue to gradually develop." & another by Joel Naroff, Chief Economist at Holland, PA-based Naroff Economic Advisors "Inflation is running neither too hot or too cold ... It is running just right for rate hikes every other meeting."

*Naroff's observation may discombobulate investors since the Common Wisdom still is that the Fed will initiate three-, or at most four-, rate hikes this year. And there seems to be something else odd going on; for according to the source article "the moderate inflation theme<sup>1</sup> was also highlighted in the University of Michigan's Consumer Sentiment Survey which showed households' inflation expectations over the next 12 months edging up to 2.8% in early May from 2.7% in April although their longer-term expectations were unchanged at 2.5%", and the St. Louis Fed's current PCE reading is 4.41% (up from 3.14% in March 2016 & 2.15% in April 2013).*

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## **ICOs : WELCOME TO A WORLD OF CHARLATANS AND FRAUDS (G&M, Nuriel Roubini)**

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When the Fed's target rate (the one at which it will feel justify becoming more hawkish, is 2%?

- ICOs (Initial Coin Offerings) now are the most common way of funding cryptocurrency offerings (of which there are now over 1,600). But according to the *Beverly Hills-based Satis Group* 81% of ICOs are scams created by con artists, charlatans & swindlers looking to take your money & run, and it is small wonder that only 8% of cryptocurrencies end up being traded on an exchange. *And to deepen the plot even further*, SEC Chairman Jay Clayton (a *Trump appointee*) recently made it clear that he regards all cryptocurrencies, except Bitcoin (which he deems a “commodity”) as unregistered-, and hence technically illegal-, securities, a view shared by Gary Gensler, a former Chairman of the CFTC (Commodities and Futures Trading Commission), who currently teaches a course on blockchain (the technology underlying cryptocurrencies) at MIT.

*It's likely no coincidence that 40 US state-, & Canadian provincial-, regulators have banded together in Operation Cryptosweep to warn-, & issue alerts to-, investors about cryptocurrency schemes - Roubini teaches at NYU & is Chairman of his own economic consulting firm. Of Iranian Jewish descent, he grew up in Turkey & Italy, has a BA in Political Economy from Italy's Bocconi University & a Ph.D. in Economics from Harvard. He has taught at Yale & been a 'visiting researcher/advisor at the IMF, Fed, World Bank & Bank of Israel and 'made his bones' by being one of the few economists who 'rang the bell' (i.e. predicted) the 2007/08 housing bubble crash.*

### **TRUMP WARNS KIM TO END NUCLEAR-WEAPONS PROGRAM OR RISK BEING OVERTHROWN (AP, Lolita Baldor & Zeke Miller)**

- On May 17<sup>th</sup> President Trump laid out a stark choice from North Korean Leader Kim Jong-un, abandon nuclear weapons & receive “protections” or risk being overthrown, maintaining that the scheduled June 12<sup>th</sup> Singapore Summit remains on track & that North Korean officials are discussing logistical details about it “as if nothing had happened”. And while NSA John Bolton had earlier explicitly cited “the Libya model of 2003-2004” as the basis for the talks, President Trump said that if Mr. Kim were to agree to denuclearize “he'll get protections that would be very strong ... But that model would take place if we don't make a deal”... *while saying elsewhere* The Libyan model isn't the model we have at all. In Libya we decimated that country ... There was no deal to keep Gadhafi”. And later, speaking in an Oval Office meeting with NATO Secretary-General Jens Stoltenberg, Trump said he will not discuss US troop levels in South Korea during his meeting with Mr. Kim.

*It sort of looks as if the President may eventually face a choice between two evils : have that pip squeak Kim stand him up or meet with him & risk ending up with egg all over his face. And if he thinks that regime change in North Korea is really a possibility, he is truly geopolitically naive; for Kim needs no protector other than President Xi and there is no way the Beijing would tolerate a state allied with the US on its Southern border. And, while Beijing may not have overly warm feelings for Kim, he is serving its purpose, keeping Western influence from China's border (just as Moscow once looked upon Ukraine as buffer zone protection against NATO & the EU & found it making googly eyes at both deeply disconcerting). Menawhile, just one week after Kim's visit to Beijing on May 7<sup>th</sup>, a high ranking North Korean delegation was spotted in Beijing on May 14th.*

### **MIKE POMPEO THREATENS 'STRONGEST SANCTIONS IN HISTORY AND VOWS TO 'CRUSH' IRANIAN PROXIES (The Telegraph, Ben Riley-Smith & Nick Allen)**

- The other signatories to the 2015 Iran deal (Britain, France, Germany, the EU, China Russia & Iran) all have said they will try *their hardest* to keep it alive and have been 'have been clamouring' for the Trump Administration to explain its' Plan B after the US

unilaterally quit the deal. So, in his first major foreign policy speech as Secretary of State (to 45 year-old Heritage Foundation, a Washington-based conservative think tank) Mike Pompeo did so, threatening Iran with the “strongest sanctions in history”, calling for a new deal with Iran & issuing a list of 12 conditionalities thereto (many of which Iran would be unlikely to agree to<sup>2</sup>). He also said the 2015 deal had allowed Iran to increase its “malign influence” across the Middle East on the back of its renewed trade with the West *after the sanctions had been lifted*, accused the Iranian regime of “playing with house money that has become blood money”, told the regime “your current activities will be met with steely reserves” and observed “The Obama administration made a bet ... a loser with massive repercussions ... a bad one for the US, for Europe, and for the world. Iran’s leaders saw it as a starting gun for the march across the Middle East ... We will track down Iranian operatives and their proxies around the world and ...will crush them.”

- But he also *held out a quasi carrot when he* said if Iran made “major changes” the US would be willing to lift all sanctions, to restore full diplomatic & commercial ties & to support the modernization of Iran’s economy to help it reintegrate into the global financial system & that “A *new treaty would be our preferred way to go.*”
- According to Mr. Pompeo “Our demands on Iran are not unreasonable<sup>3</sup>” (*sic!*) but also “Should they choose to go back, should they begin to enrich, we are fully prepared to respond to that as well. I hope they will make a different decision, choose a different path”.
- Much of the effectiveness of this US ‘Plan B’ depends on European business cutting economic ties with Iran, with senior Trump Administration officials having threatened to impose ‘secondary sanctions’ on European businesses that refuse to cancel their *existing contracts with Iran (but with EU exports to Iran having grown by two-thirds from 2015 to 2017<sup>4</sup>, it has reactivated a 1996 Cuban “blocking statute” to protect European businesses against unwanted attention from the US authorities).*

*One US commentator’s observation was along the lines of ‘If this is Plan B, they’d better start working on Plan C right away since this will never fly’. And to be truthful, with the EU countries lukewarm at best & China likely to look upon this US bullying as creating a geopolitical void to be filled , in a ‘best case’ scenario the US may come out of this looking like a ‘paper tiger, while in a ‘worst case scenario it may lead to more US military adventurism in the Middle East.*

### **TRUMP CAN’T BLOCK TWITTER FOLLOWER, FEDERAL JUDGE SAYS** **(CNBC, Kevin Breuniger)**

- On May 23<sup>rd</sup> Naomi Reice Buchwald (age 74, a Senior United States District for the Southern District of New York & a Clinton nominee), ruled that he is violating the US Constitution by preventing certain Americans from viewing (& *responding to?*) his tweets on @realDonaldTrump on the grounds that the social media platform is a designated public platform, thereby rejecting the Department of Justice argument that the president

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<sup>2</sup> Incl. an undertaking to stop uranium enrichment & a promise never to pre-process plutonium, allow unqualified access to all [nuclear] sites throughout the country, end intervention in regional affairs and conflict (incl. ending its support of the Houthi rebels in Yemen, withdrawing all its forces from Syria, sustaining Hezbollah in Lebanon & stopping issuing threats to Israel).

<sup>3</sup> This doesn’t jive with his promises that the US would “apply unprecedented financial pressure on Iran ... and to sent teams of specialists to its allies around the world to explain its policy.”

<sup>4</sup> And while US annual trade with Iran is US\$300MM tops, EU trade with Iran in 2017 amounted to US\$25BN (up from US\$7.4BN in 2013) and China’s US\$18BN.

has the right to do so because of his “associational freedoms”. This ruling was in response to a law suit filed last July by Columbia University’s Knight First Amendment Institute & seven other plaintiffs who Trump had personally ‘blocked’<sup>5</sup> from following him, incl. one journalist who had tweeted him that Russian won the election for him, a surgeon & a Texas police officer, with one plaintiff telling CNBC that she is aware of at least 150 verified Twitter users who have been blocked by the President.

*One can only wonder what the President’s reaction was upon getting this news. And, if it were to be upheld on appeal (& it will no doubt-, & should be-, appealed), ought to demonstrate that there are limits to even Presidentail Powers.*

### **HIRING TRUMP’S LAWYER WAS A ‘BIG MISTAKE’, AT&T CEO SAYS IN A MEMO**

**(Reuters, Jessica Toonkel & David Sheapdson)**

- On May 11<sup>th</sup> the No. 2 US wireless carrier fired Bob Quinn, its top Washington lobbyist, with CEO Randall Stephenson saying in a memo it had been a “big mistake” to hire Michael Cohen, President Trump’s personal lawyer, for advice on working with the Trump administration. The memo further noted that it had not hired him to lobby on its behalf, that the contract, at US\$50,000 monthly for calendar 2017, had been limited to consulting-, & advisory-, services, and that it had never asked Mr. Cohen to set up meetings with anyone in the Trump administration & that he had never offered to do so. So according to Mr. Stephenson, “To be clear, everything we did was done according to the law and entirely legitimate ... But the fact is our past association with Mr. Cohen was a serious misjudgement”. *Be that as it may*, all this is a major embarrassment at a, for AT&T, awkward time just weeks ahead of a US judge’s decision, due June 12<sup>th</sup>, as whether or not it can go through with its purchase of Time Warner (a deal denounced by President Trump).

*“Methinks the lady does protest too much”?*

### **ISRAEL CALLS ON SYRIA TO EXPEL IRANIAN FORCES (AP, Ian Deitch & Sarah el Deeb)**

- Last week Israel in overnight strikes attacked numerous suspected Iranian targets in Syria *in response to Iranian rocket attacks on the (“illegally occupied?”) Golan Heights*, which prompted a call by UNSG Antonio Guterres late Thursday April 12<sup>th</sup> for an immediate halt to “all hostile acts” to avoid “a new conflagration” in the region. The next day Israeli Defense Minister Avigdor Lieberman while touring the Golan Heights said Israel is not looking for friction & called on Syrian President Bashar al-Assad to “get rid” of the Iranian forces in his country, warning him that their continues presence would only cause trouble. And the Iranians, in their first official reaction to the Israeli attacks, came back claiming that the Israeli attacks had been made under “fabricated & baseless excuses”, with Foreign Ministry spokesman Braham Ghasemi adding that Damascus has the legitimate right to respond to what he said were repeated violations of his country’s sovereignty and a hardline Iranian cleric adding that Iran would retaliate if Israel “does something foolish”.

*The Israelis may not like it but Iranian forces (& the Russian mercenary forces sent by Netanyahu’s buddy Putin, saved Assad’s ‘bacon’ albeit at the cost of the lives of 400,000 Syrian citizens (almost 2% of its population), of an estimated 5.6MM having fled abroad & of another*

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<sup>5</sup> ‘Blocks’ on social media networks prevent the plaintiffs from viewing-, & responding to-, the president’s tweets when logged into their own Twitter accounts.

6.0MM internally displaced, and monumental damage to the country's infrastructure (the reconstruction of which Iran could not-, and the US & Russia would be unlikely to be willing to-, fund; so 'Big Whoopee' for Assad who can look forward to presiding over a human-, & physical-, charnel house.

### **DETAINED SAUDI WOMEN'S ACTIVISTS BRANDED AS TRAITORS (AP, Aya Batrawi)**

- The Saudi State Security Agency<sup>6</sup> announced on May 19<sup>th</sup> that it had detained five women (several of them mothers or grandmothers) & two men (with five of the seven being among the country's most outspoken women's-rights' issues' campaigners) for working with "foreign entities" (*on women's rights' issues*).

*It's hard to know what to make of this since women will in a few weeks get the right to drive, a key demand of the Saudi womens' rights advocates : is it a warning by the 'religious old guard' to the supposedly 'reformist' 32 year-old Crown Prince Mohammad bin Salman, King Salman's youngest-, & favourite-, son, to control his reformist 'zeal', a warning by the Crown Prince to his followers not to expect him to push too far too fast, or a combination of both? Either way, it suggests that all may not be quite well in the country & that the Crown Prince's current status may be hanging by a thread (i.e. may at risk when the 82 yea-old King, who is known to be in uncertain health, totally fades from the scene).*

### **ONCE LATIN AMERICA'S RICHEST NATION, VENEZUELA CONTINUES TO FALL APART (Epoch Times, Emel Akan)**

- The country is experiencing the worst economic recession in its history, with the economy having shrunk by half since 2013. The IMF expects inflation to hit 13,865% this year while according to Bloomberg the price of a cup of coffee has in the past six months gone from 5,500-, to 250,000-, bolivars<sup>7</sup>. This has resulted in an estimated 1.5MM Venezuelans (i.e. 5% of the population) having left the country, the lion's share of them to Columbia, to escape poverty, insecurity, violence and a lack of food & medicine<sup>8</sup>.
- According to the UNHCR (United Nations High Commisioner fort Refugees) the rate at which Venezuelans are now leaving has reached 5,000 per day and since 2014 the total number of them seeking asylum worldwide has increased by 2,000 percent. And while President Maduro claims that there is no humanitarian crisis, *child malnutrition is said to be as high as 70%* & US Vice President Mike Pence on May 7<sup>th</sup> told a meeting of the OAS (Organization of American States) that Maduro had been blocking humanitarian assistance to his country, urging him to open up his country to international aid immediately since "nearly 9 out of 10 Venezuelans live in crushing poverty" (*and while the*

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<sup>6</sup> That was created less than a year ago, in July 2017, by King Salman by merging the then separate agencies for counter-terrorism & domestic intelligence as part of an extensive shake-up in what was then deemed a move inspired by the then brand-new Crown Prince Mohammad bin Salman.

<sup>7</sup> And in the past two years the cost of basic groceries went up 10x & the minimum wage only 2x.

<sup>8</sup> Venezuela has historically imported most of its consumer goods & medicines; but with oil output down 25% YoY & nearly half over the past two years, and some of the oil produced going to China to service the debt incurred by the late president Hugo Chavez, and the government struggling not to default on its other foreign debt, it simply doesn't have the financial wherewithal to for importing consumer goods, incl. food & medicines (with the results that a recent survey by three Venezuelan universities found that nearly two-thirds of those interviewed had lost over 20 lbs in the past year.

US is providing US\$2.5MM in aid for Venezuelans living in Columbia & will devote another US\$16MM for Venezuelan immigrants across the wider region, *at about US\$13 per capita this really accounts for little more than peeing on a hot stove*).

*On May 20<sup>th</sup> Venezuela had a Presidential 'snap' election (under aegis of the 'Constituent Assembly' Maduro created to undermine a Parliament that since the last General Election has been controlled by the opposition; so it has been rejected as an illegal "show" election rather than the real thing by, among others, the US, EU & OAS, supported only by Antigua & Barbuda, Cuba, Ecuador, Nicaragua & Russia, and expected to be boycotted by many Venezuelan voters, with the results further manipulated by President Maduro (whose approval rating currently is in the 20% range) with many "phantom voters", after already having stacked the deck in advance by jailing most of the opposition leaders & declaring others ineligible to run<sup>9</sup>. And to add to President Maduro's problems a court in the Dutch Antilles recently authorized Houston-based ConocoPhillips to seize US\$636MM worth of assets of PDVSA (Venezuela's state oil company), & then its US\$1.94BN oil storage terminal on the nearby island of Bonaire, in its dispute over US\$2+BN-worth of company assets in Venezuela that its government had expropriated.*

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**In Edmonton it's safer to jaywalk than to use official 'cross-walks'** - At least that's what the city's official statistics seem to suggest. For in 2017 there were a total of 284 vehicle-pedestrian 'incidents', 182 (five fatal) "with *them* (i.e. *the pedestrians*) having the right of way" (i.e. in 'official', marked cross walks), 60 (four fatal) "without *them* having right of way (i.e. when jaywalking) & 42 others. So the city has identified 500+ official crosswalks as "dangerous" & promised a crash program to fix the problem - *But 'fixing this problem' has nothing to do with the crosswalks & everything with pedestrians who mindlessly enter a crosswalk without checking for oncoming traffic and/or equally, if not more, with inattentive drivers, incl. two city bus drivers (who last year accounted for two of the fatalities in cross walks), who don't pay attention to what's going on ahead of them (with the bus drivers & their union blaming "blind spots" on their vehicles, which is sort of dis in genuous since both were making left turns and hence their blind spots were moving)..*

### **PARENTS WIN RIGHT TO HAVE DEADBEAT SON EVICTED (AP)**

- Last February a Camillus, NY (a town of 25,000+ in upstate New York West of Syracuse) couple decided they wanted their 30 year-old unemployed son, who was not paying rent or doing any chores around the house, to move out. So his father wrote him several letters asking him to do so, even offering him money to get settled in elsewhere. But all to no avail. So they took him to court, with the result that a local judge ordered their lawyer to draft an eviction order, decision the son found "outrageous" & plans to appeal.- *Further to*

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In the event, he reportedly won with 67.7% voter support (& the opposition candidate only 12.2%). But the official 46% turnout was a mere shadow of the nearly 80% in 2013 (and according to the opposition had been more like 30%). And while his supporters jubilated "the revolution is here to stay", on Monday Maduro was congratulated by only Russia, El Salvador, Cuba & China, while there was a massive international backlash that had 14 countries, incl. Argentina, Brazil & Canada, recall their ambassadors, a number of others, incl. Mexico, Columbia, Panama & Peru saying they would "scale back their diplomatic relations with Venezuela, and the US imposing new sanctions, a move that Jorge Arreaza, Venezuela's Foreign Minister called "madness, barbaric and an absolute contradiction to international law." This, if anything will accelerate the torrent of Venezuelans fleeing their country.

*this issue, a recent study by the Seattle, WA-based real estate data group Zillow found that 22.5% of American adults aged 24-36 still live with their parents, up from 13% in 2005.*

*This need not all be 'bad'. In some cases it may be cultural, in others a convenient way of providing 'eldercare' and/or in still others mutually agreeable & driven by economic reasons. But there must also be a significant number like this in which spoiled, self-centered overgrown 'brats' have an undue sense of 'entitlement' & disregard for their elders (that in some, or many, cases may well be a function of years of "helicopter parenting").*