

GLEANINGS II - 807
Thursday April 25th, 2019

Quote of the Week - “We still expect oil prices to fall this year, as sluggish *global* growth weighs on oil demand, US shale oil output grows strongly and investor aversion to risk assets like commodities increases.” - London-based Capital Economics. *Other reasons they may well be proven right. US crude oil inventories are high & rising. Last December the US, for the first time in 75 years, became a net oil exporter. This year’s expected increase in US crude oil production was just raised by Washington’s EIA to 1.43MM bbl/d, up 16% YoY while according to the Paris-based IEA global oil consumption will grow this year by 1.4MM bbl/d (1.5% YoY) to an annual 100.6BN bbl/d rate (the first time ever it will have exceeded 100MM bbl/d); in other words, the higher US oil production alone will this year be sufficient to meet the entire increase in global demand. And some time later this year Norway’s new Johan Sverdrup North Sea field (where the all-in cost of production will be in the US\$25 range or less) will come on stream with an initial 440,000 bbl/d output*¹.

Canada’s smallest province makes history - On April 23rd Prince Edward Island’s 100,000 or so voters turned out in droves to send the Liberals, who had been the government for the past 12 years, packing, with the Premier even losing his own seat. For they elected a minority Conservative government, **and** made the Green Party, that hitherto had only a single seat in the Legislature, the Official Opposition. The final seat count was Conservatives 12, Greens 9 & Liberals 5, with there being one vacancy since one Green party candidate drowned in a canoeing accident & the election in that riding postponed until July - *Another potential headache for Prime Minister Trudeau whose party in the 2015 election captured all 31 seats in Canada’s four Easternmost provinces & now has lost the reins of power in three successive provincial elections, in June 2018 in vote-rich Ontario, in September 2018 in New Brunswick & now in PEI, and whose party is now fighting for survival in the May 16th election in Newfoundland (although it seems safely ensconced in Nova Scotia for at least another couple of years).*

Colombo bombings – This has turned into Sri Lanka’s 9/11, not just because of the number of casualties & its careful planning but, more importantly, because of the identity of the eight men & one woman bombers. For, like the 9/11 perpetrators, they were not young, impressionable human flotsam and jetsam but educated mature people from ‘good’ families that had somehow joined an extremist Muslim sect that looked upon other religions as a blemish on their country, if not the world. Several had university degrees, & in at least one case a graduate one, and two were early thirties’ businessman sons of one of a prominent Sri Lankan businessman, one of whom owned the factory where the suicide vests were made, whose wife when the police came to call on her, blew herself, her three sons & three police officers into Kingdom Come.

¹ Two interesting thing about Johan Sverdrup : a) it will have sleeping accommodation for no fewer than 560 people and b) whereas most offshore drilling platforms depend on diesel-powered generators to meet their electricity needs,, its electric power will come from the mainland so that, since 98% of Norway’s power comes from renewable sources, the greenhouse gases produced by the platform will be very significantly reduced.

First Quarter US GDP growth rate - The Commerce Department's Bureau of Economic Analysis (BEA) on Friday April 26th announced its first estimate thereof. At 3.2%, it was well up from the 2.2% in both of last year's first & last quarters, and from the 2.5% Wall Street had expected. It was also the first time in four years that the First Quarter GDP growth rate has been over 3% - *But it may be too early to bring out the bubbly. For this is only the first of three calculations thereof by the BEA (with the second due on May 30th) &, since it is based on preliminary & incomplete data, the first estimate is often revised up or down in the next two calculations. And there are reasons to expect that in this case the revisions may well be on the downside. First because January's government shutdown gave the quarter a bad start. Secondly, because, while the Atlanta Fed's latest (April 25th) GDPNow reading is 2.7%, it was as low as 0.3% earlier in the Quarter. Thirdly because there seems to be weird anomalies in the statement making the preliminary First Quarter result public. While in its first paragraph it refers to the positive contribution made by PCE (Private Consumption Expenditure),, a concept popular with the Fed, to the growth rate, in the next & final paragraph it refers to the deceleration of PCE growth during the quarter (& it does the same for non-residential fixed investment, first saying contributed to growth & then that its rate of growth had decelerated). Secondly, there is the mention of the positive impact of the build-up in inventories & the decline in consumer imports (both of which boosted the rate of growth calculation), both of which can have a negative impact on future quarter(s) growth potential. Thirdly, it mentions that current personal dollar income growth had slowed down significantly from the Fourth Quarter, as had disposable income, while the real disposable income growth rate had been nearly halved. And finally it reported that the savings rate had picked up steam. Add to that a 7.8% QoQ decline in the number of cars built during the quarter, & one cannot help but wonder if the BEA was 'playing to the 'political gallery'.*

Putin- Kim Summit - This week Kim endured another long train ride, albeit this one of only twenty hours' duration, to take advantage of Putin's invitation to meet him in Vladivostok. He was able to do so without having to go into China because in its very Northeast corner North Korea has a 17 km/11 mi shared border with Russia. Putin's invitation was likely driven by a desire to fish in troubled waters & Kim was gung-ho to accept it for ego reasons (i.e. to add to his status as an 'international statesman') and to try & weasel some much-needed food aid out of Putin (that could be brought to North Korea overland, outside the reach of anyone else), while both had a common interest in poking a stick in Trump's eye - *Vladivostok is a city of 600,000 that is Russia's Eastern-most port that is home to its Pacific Fleet and that, while not ice-free year around is, with help from icebreakers, open year-around for business. It is also home to several universities & is the Eastern terminus of the Trans-Siberian Railway.*

Russian oil exports to Europe suspended - The Druzhba pipeline is the world's longest, & one of its biggest. It moves 1MM bbl/d of oil several thousand kilometers east from beyond the Urals North of Kazakhstan to markets in Ukraine, Belarus, Poland, Hungary, Slovakia, the Czech Republic & Germany. On April 25th, Germany & Poland, and later the Czech Republic, suspended accepting its oil for "quality reasons".

Japan's Prime Minister Shinzo Abe & his wife Akie will be in Washington this weekend - They arrive on Friday & their dinner with the President that evening will also be Melania Trump's 49th birthday dinner. The two are expected to mainly discuss North Korea & trade - *The latter could get sticky for Abe; for after Trump pulled out of the TPP upon first becoming President, and engaging in his trade fight with China & slapping punitive tariffs on Chinese imports (that cost US consumers dearly), the other eleven TPP partners, with Abe as the driving force, have been cutting tariffs on each other's imports while Japan also cut a trade deal with the EU (as a result of all of which European & Chilean wine now enter Japan duty-free & Australian wine with a 5.6% tariff (that will too go to zero) while American wines face a 15% tariff barrier (and Japan has also shifted the source of some food imports from the US to the EU & Australia (the latter being one of the reasons why the price of US wheat has dropped 25% in the past six months). But Abe may not get that much of a hard time from Trump because he knows how to shmooze him, the US has a significant positive bilateral balance with Japan on services and, most importantly, Trump has a May 25th-28th State Visit to Japan scheduled, during which he will meet the new Emperor!*

Joe Biden (finally) gets 'off the pot' & on April 25th officially threw his hat in the ring - But rather than doing so in a measured elder statesman manner, as many had expected, he did so with an "incendiary" announcement video focused on Charlottesville & portraying Trump as a stain on America that must be removed - *He might have been better off staying out of the melee & making like a 'king maker' (although he still may do so by first running & then at a critical moment throwing his support behind someone else); for, like Bernie Sanders, he suffers from a fatal weakness for any Democratic candidate, namely that for three key Democratic voter constituencies, the young, the women & the non-white, he will just be just "another old white man". And it may also not be the smartest thing to do to engage Trump on his terms (that are custom-fitted to Trump's 35% voter 'base') rather than his own, by taking the 'high road' & presenting voters with a less negative & divisive, and more uplifting & unifying message.*

Ukrainian elections - As expected, on Sunday April 21st the comedian, political novice & school teacher turned president star in a locally popular TV series, 41 year-old Volodymyr Zelenskyy, beat the incumbent Petro Poroshenko in the second round run-off Presidential election 73-24 (i.e. he got the support of just about everyone who hadn't voted for Poroshenko in the first round) - *While the popularity of his TV personality was a factor in his success, there is little doubt that the Europe-wide anti-establishment mood & his promise to fight corruption, improve business conditions & 'reunite' his country (i.e. get Putin out of the Donbass region ²) were also major factors (& fulfilling the latter may well be helped by the fact the Donbass adventure has been a huge drain on the Russian treasury at a time it could ill afford it ³, although Putin may just have put the kibosh on that by signing, on April 24th, a bill to expedite Russian citizenship applications from Ukrainians (most of them ethnic Russians?) living in the part of the*

² But not out of the Crimea Peninsula.

³ For in the past five years its GDP has grown by 0.8%, -2.8%, -1.5%, 1.5% & an estimated 2.5% respectively; in other words, its GDP today is actually marginally smaller than in 2014).

Ukraine controlled by the Russian-backed separatists) who, to become Russian citizens would be required to swear allegiance to 'Mother Russia'.

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TRUMP APPROVAL RATING SINKS 5 POINTS AFTER MUELLER REPORT, TYING AN ALL-TIME LOW (Politico, Steven Shepard)

- According to a POLITICO/Morning Consult poll, conducted over a three day period ended Sunday April 21st, 39% approved of the job he is doing (the same number as after the mid-August 2017 Charlottesville, VA debacle *when it suffered from him having defended the white nationalists by saying there are "very fine people on both sides"*), while 57 percent disapproved. According to Morning Consult Vice President Tyler Sinclair "President Trump's approval rating has dipped to the its lowest point of his term in the immediate aftermath of the redacted Mueller release ... This week 57 percent of voters disapprove and 39 percent approve of the president's performance - a net approval rating of -18 - compared to 55 percent that disapproved & 42 percent who approved - a net approval rating of -13 percentage points - one month ago in the aftermath of Attorney-General ... Barr's summary of the Mueller report to Congress."
- Meanwhile only 34% say Congress should start impeachment proceedings (down from 39% in January), vs. 48% who say it should not; in a way this mirrors the Mueller report itself that *on the one hand* cleared Trump from criminally conspiring with the Russian government but then *on the other* documented numerous cases of his efforts to stymie the investigation ⁴. The Democrats are painted in a corner by 59% of their support base wanting impeachment proceedings *to start* right away while only one-third of voters do, and by 73% of Democrats wanting to keep investigating, while among independents the keep-investigating-vote count is 39-37 & the impeachment one 31-44. Meanwhile, as to whether the Mueller investigation was handled fairly, the overall count is 46-29, a feeling that's pretty unanimous across the political spectrum since 48% of Democrats-, 46% of Republicans-, & 43% of Independents think so.

A more interesting Politico report is the one entitled "What you missed in the Mueller Report"; for it reports on the content of some of its 2,000+ footnotes (that may not have been redacted as rigorously as the text itself).

TRUMP SUES IN BID TO BLOCK CONGRESSIONAL SUBPOENA OF FINANCIAL RECORDS (AP)

- On Monday April 22nd he sued his accounting firm Mazars USA LLP, a subsidiary of a Rouen, France-based company, & Rep. Elijah Cummings, the Democratic House Oversight Committee Chairman, in what's deemed an "unusual tactic", to block a subpoena issued by the Committee so as to stop the firm from giving the

⁴ Which raises the question why he would have bothered unless he had something to hide?

Committee details about his past financial dealings. Trump's case is based on assertions that Rep. Cummings "has no legitimate purpose" for issuing the subpoena & that the Democrats "are harassing" him - *Meanwhile his 'goose may already have started to be cooked' elsewhere as Deutsche Bank*⁵, in response to a subpoena, has begun to provide New York's Attorney General Letitia James with many years of emails & loan documentation related to its financial relationship with Trump (incl. those related to several of his hotels & his unsuccessful attempt to buy the Buffalo Bills in 2014⁶). Interesting that, while eight of the world's Top Ten accounting firms are US-based, this "Make America Great Again" president employs a France-based accounting firm ranked 11th in the world, that in terms of its number of employees & countries in which it operates, and with annual revenues of just US\$1.5BN (< 5% of those of the two top US firms), is a mere 'pigmy' compared to the industry's Big Four giants (PricewaterhouseCooper, Deloitte, Ernst & Young & KPMG).

TRUMP'S STRANGE TENSE CAMPAIGN AGAINST IRAN **(New Yorker, Robin Wright)**

- According to both Western & Iranian officials, at the 2017 UN General Assembly meeting Trump asked France's Emmanuel Macron to relay a private message for him to Iranian President Rouhani, namely that he wanted to meet him, in secret⁷. When Macron did so, he surprised the Iranians since it came hot on the heels of a blistering speech Trump had made at the UN in which had declared Iran a corrupt dictatorship whose leadership had turned a wealthy country into "a economically depleted rogue state whose chief exports are violence, bloodshed and chaos" & had warned Iran that "Oppressive regimes cannot endure forever." *Small wonder that, according to Mohammed Javad Zarif, Iran's Foreign Minister, Iran's reaction to Macron had been along the lines of "Are you joking?"*
- One year later, when Macron met Trump again at the UN & asked him, since he was meeting Rouhani later that day, if he had a message for him, Trump's reply was "No ... They have to suffer more first." And in the last month the Administration has been "dramatically accelerating its efforts to inflict more pain on Iran" by the unprecedented move to designate part of the armed forces of another nation, in this case Iran's Revolutionary Guards, as a terrorist organization (to which the Iranian Parliament promptly retaliated by giving the US Central Command the same designation). And this week, it went one big step further to extend "maximum pressure" on Iran by announcing that, *effective May 1st*, it will sanction any country or company buying Iranian oil (the main ones being China, India, Japan, South Korea & Turkey), with the goal of ending all

⁵ To whom, according to Vanity Fair, he owes US\$340MM.

⁶ In which case, according to Michael Cohen, his former lawyer, in testimony in the House in early March, he had given the Deutsche Bank a set of financial statements for the years 2011 through 2013 that had inflated the value of his assets & understated the magnitude of his liabilities.

⁷ It was totally delusionary of him to think he could meet anyone anywhere "in secret".

Iranian oil sales & crippling its economy ⁸. This led to Secretary of State Mike Pompeo saying on April 21st “ We will continue to apply maximum pressure on the Iranian regime until its leaders change their destructive behaviour, respect the rights of the Iranian people ⁹ and return to the negotiating table.”

- Two days later, Iran’s Foreign Minister Zarif told the Asia Society in New York that “President Trump believes that by pushing us, by imposing pressure on us, we will sell our dignity. Not gonna happen ... We don’t look at history in terms of two-, four-, or six-year terms as usually people do over here.” And last month, two Democrat Senators, Richard Durbin of Illinois & Tom Udall of New Mexico had an Op-Ed piece in the Washington Post warning of the similarities between the language used against Iran today & that against Iraq under Saddam Hussein, saying “sixteen years after the US invasion of Iraq, we are again barreling towards another unnecessary conflict in the Middle East based on ... misleading logic ... The Trump Administration’s Iran policy is based on the failed Iraq strategy and pushing us to take military action aimed at regime change in Iran (*regime change didn’t work so well in Iraq & Libya, did it?*). We must not repeat the mistakes of the past, and Congress must act urgently to ensure that”.

On April 24rd Iran’s Foreign Minister Zarif also went on record as saying he doesn’t believe President Trump wants a war with Iran but that others in the White House & countries with influence at the White House (what he calls “the B-Team”, i.e. National Security Adviser John Bolton ¹⁰, Israeli Prime Minister Binyamin Netanyahu, Saudi Crown Prince Mohammad bin Salman & his UAE counterpart Prince Mohammed bin Zayed, do & “I wouldn’t discount the B-Team plotting an accident ... in the region, particularly as we get closer to the [2020] election”.

OVERSEAS SHOPPING PROTECTS CANADA’S AAA RATING **(G&M, Esteban Duarte)**

- According to Fitch Ratings (*the No. 3 US credit rating agency*) Canada’s overseas assets, &, more specifically, the foreign airports & road systems abroad Canadian pension funds have been investing in, help protect its AAA top credit rating. For, as of the end of 2018, Canadian-owned assets abroad were valued at \$4.96TR, exceeding foreign liabilities by \$529BN while Canada has historically been a debtor nation, with, according to StatsCan, net foreign liabilities that peaked at \$333BN in 2011. But recently it has seen its foreign assets more than

⁸ But if he thinks that will bring Iran to heel, he may be sadly mistaken; for among nations Iran has a relative low ratio of imports to GDP. And if he really thinks that China, & possibly Turkey, will give a tinker’s damn about him threatening sanctions when they can get Iranian oil on the cheap, **and** make Trump up as a ‘paper tiger’ in the process, he may be disappointed . On the other hand, this could easily lead to an international incident if Trump were to decide to interfere with China-bound oil tanker traffic in the Persian Gulf.

⁹ It is ironic to see Pompeo using this argument when his master seems to admire (& want to consort with?) every dictator in the world that habitually trumps all over his people’s human rights, incl, but not limited to, Russia’s Putin, China’s Xi, the Philippines’ Duterte, North Korea’s Kim, Egypt’s el-Sisi (& *Israel’s Netanyahu?*).

¹⁰ Who, like Bush 43, avoided service in Vietnam fifty years ago by joining the National Guard (&, in his case, got out as soon as the coast was clear to do so).

double in value & its foreign liabilities grow by just 72%, and since 2014 has been a net creditor-, rather a debtor-, nation.

*This judgment call have been influenced by James McCormack, Fitch's Global Head of the Sovereign & Supranational Group being both a Goldman alum & a former Bank of Canada official. For much of this 'improvement' is a mirage, a function of the fact that the weak Canadian dollar boosted the Canadian dollar value of all foreign assets. And it is not a good sign for the outlook of an economy if local institutional investors are 'voting with their feet' in their investment decisions by shipping their money out of the country, especially so when FDI (Foreign Direct Investment) inflows are also soft [while there was some cheering in government circles last year when FDI more than doubled YoY, this was misplaced; for while it did so all right, from \$11.0BN in 2017 to \$26.8BN in 2018, both were far short of 2013's \$43.5BN. Moreover, Canada's public sector (i.e. federal **plus** provincial) debt-to-GDP ratio is in the (tipping point? ¹¹) 90% range, while on average it's only 40% in the other 11 countries rated AAA by Fitch (moreover, most of these countries have current account surpluses, while Canada has had current account deficits for the past decade).*

A QUARTER OF US STRUGGLING TO PAY BILLS, SURVEY FINDS (FP)

- A quarterly IPSOS survey for MNP Ltd (an accountancy cum bankruptcy trustee firm) found 48% of Canadians/(*Canadian households?*) are each month \$200 away from financial insolvency (over half of whom even say they have no wiggle room at all since they already cannot meet their bills & debt payments). According to MNP President Grant Bazian, "This is not simply a matter of people living beyond their means ... Canadians appear to have maxed out *on their borrowing* with no real plan for paying back what they have borrowed".

*In the US the equivalent number is US\$400. The difference is likely a function of the fact that since 2008 the US household debt-to-disposable income ratio has **declined** from 96% to 76%, while in Canada it has merrily kept on **rising** from 150% to 176%.*

ZELENSKIY WANTS TO CUT THE ELECTION CALENDAR, HAVE EARLY VOTE FOR RADA (Ukraine Business Journal, James Brooke)

- Buoyed by their big win on April 21st, the Zelenskiy forces want to advance the RADA/parliamentary elections from the currently scheduled October 27th date (in the face of opposition of the sitting members), so as to ride his current support wave into enabling him to start the next session of Parliament with a big bloc of supporters in it.

By all accounts the Presidential elections were 'clean'. As to the parliamentary one, it must be held this year but not on any specific date. There are 450 seats in the Prada,

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In their 2010 seminal study [Growth in Time of Debt](#), former IMF Chief Economist Kenneth Rogoff & his then Harvard colleague Carmen Reinhart on the basis of extensive historical developed country data concluded that government debt-to-GDP ratios of over 90% seem to lead to sharp declines in economic growth rates.

half elected by PR (with a 5% 'threshold' on getting any seats) & half on a 'first past the post' basis. With the loss of the Crimea & the (temporary?) loss of control over the Donbass region, the election will be for only 424 (since that means that 12% of eligible voters cannot participate in the first-past-the post elections) - The 64 year-old Brooke was for many years an NYT foreign correspondent, and after that in succession Editor-in-Chief of the English language Khmer Times in Cambodia, Bloomberg's Bureau Chief in Moscow & a columnist for Voice of America before becoming Editor-in-Chief of this free, Kiev-based English language digital business magazine.

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CAPITALISM IN CRISIS : US BILLIONAIRES WORRY ABOUT THE SURVIVAL OF THE SYSTEM THAT MADE THEM RICH (WP, Greg Jaffe)

- For decades both Republicans & Democrats hailed America's business elite as saviours; for, while the government may be gridlocked and the electorate angry & divided, America's innovators would keep on creating new companies producing new products that would keep GDP growing, thereby addressing some vexing problems, provided government stayed out of their way. But no more; there is now a growing angst among the business elite in Silicon Valley, Davos & the Harvard Business School (*but not on Wall Street that still thinks it's "too big to fail"?*) that the capitalism that once made America great now causes the inequality & anger that's tearing the country apart¹².
- While the 2008 Financial Crisis revealed the Achilles heel of capitalism, it was Trump's election & the *apparent* well of pent-up popular anger that he tapped into that has made America's billionaire class fearful for capitalism's future. So it's not surprising that one of the most popular classes at HBS now is "Reimagining capitalism", attendance at which has soared from 28 to nearly 300 in seven years, with Rebecca Henderson, who teaches it, saying the students taking it have become increasingly cynical about both the corporate-, & the public-, sectors and "are really worried about the direction in which the US and the world are heading". And some of those students spent their winter break reading "Winners Take All : The Elite Charade of Changing the World", a best seller by former McKinsey consultant & longtime journalist & writer, and now Visiting Scholar at NYU's Arthur L. Carter Journalism Institute, Anand Giridharadas. It is a withering attack on America's billionaire class and on the notion they will use their wealth & creativity to solve the social & economic problems the governments hasn't *been able to*. It trashes Mark Zuckerberg ("I am glad he's trying to get rid of all the diseases ... but wish Facebook wasn't a plague"), Starbucks CEO Howard Schultz (for trying to protect the interests of the uber-

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With their attitude reminding me a bit of one I witnessed nearly 52 years ago in Rio de Janeiro, when I was there as a *quite junior* member of the Canadian delegation to the IMF/World Bank Annual meetings. For at a black tie dinner at the sumptuous home of the President of a major Brazilian, then Canadian-owned, company (of which Mitchell Sharp, then Canada's Minister of Finance & hence the leader of the Canadian delegation, had previously been Chairman), someone had the bad taste to ask the hostess if it didn't concern her that the dirt poor favelas (slums) were on the hillsides just a couple of hundred yards from her home, to which her answer was "That's why a keep a couple of big dogs and guns in my home!"

wealthy) and the notion of people like Bill Gates & Barack Obama that the Silicon Valley innovators would disrupt old hierarchies and then spread capitalism's rewards ("Really ... Now we have five companies control America, instead of 100! A lot of those companies are white and more male than the ones they disrupted").

- So the billionaires in Silicon Valley are now consumed by a different worry; for amid their optimism about disrupting *the past* and inventing the future is now a growing sense that *in doing so* the tech economy has broken capitalism by building huge global companies without creating jobs for the majority (as in the industrial era), resulting in more wealth concentrating in fewer hands & giving rise to fears that matters may only get worse as robots eliminate workers' jobs, online commerce decimates retail & self-driving vehicles phase out truckers (*and "thinking computers" revolutionize healthcare & the legal profession by eliminating much of today's need for human input?*).

My pessimistic side tells me that the West certainly, & likely the world as a whole, is now at a point not unlike France in the 1780's when someone told Marie Antoinette the poor didn't have bread to eat only to have her (supposedly) respond by saying "Let them eat cake!", while less than a decade later she & her hubby, King Louis XVI, were hauled off, on a cart, not in a carriage, to the guillotine to be beheaded. On the other hand, my dominant optimistic half tells me that "the darkest time of the night is just before dawn", and that, after centuries in which Man thought he could control Nature, we are now learning, the hard way, that our past abuse of Nature has caused it bite back ...HARD!; so that, if we want to survive as a species, we must learn to live WITH Nature! Thus, once we get serious about addressing the environmental mess my generation & the ones behind me have created & are endowing my grandchildren's generation with, online shopping will be recognized for what it is, very, very environmentally unfriendly (& only more so given the 30% return ratio!), and factory farming & ' Frankenfood' will lose ground to the 100 Mile Diet. But this is not the time or place for going into detail; so I hope in the not too distant future to spend much, if not all, of an entire issue bending your ear on this.