

**GLEANINGS II - 809**  
**Thursday May 9<sup>th</sup>, 2019**

**Atlanta Fed GDPNow** - Its latest reading was 1.6%, up from 1.0% on May 2<sup>nd</sup> but well down from 2.4% on April 17<sup>th</sup>.

**Banner year for Canada's Green Party** - In the 2017 BC provincial election it tripled its seat count to three (that is giving & the NDP government its paper-thin majority in the Legislature. Then last month, with 8 seats out of 27, it became the Official Opposition in the PEI Legislature in its provincial election, relegating the provincial Liberals, who had been the government for 12 years to (distant) third place status. And then in a May 7<sup>th</sup> by election in BC's Nanaimo-Ladysmith riding, Paul Manly won with 37% voter support (up from 20% in 2015 vs the Conservatives 25%, with the Liberals & NDP trailing badly), thereby doubling the party's seat count in Ottawa - *This is generally seen as a bad omen for both the Liberals & Justin Trudeau and for the NDP & Jagmeet Singh (who finally, after having been born-, educated-, a lifelong resident-, & for a while a member of the legislature of-, Ontario) is since a February 25<sup>th</sup> by-election win, with 38.9% voter support, in Burnaby, BC, now a sitting MP).*

**Canadian fresh vegetable prices** - In March they were up 15% YoY (the fourth month in a row of being up by double digits YoY), with celery the record setter; for while a year ago its supermarket price had been \$3.99 per kg., it's now more like \$5.99). The culprits are the "*El Nino effect*" of unseasonably cold temperatures & heavy rainfall in major growing regions (incl. California) & the growing popularity of a dietary fad that promotes its use - *According to a Dalhousie-, & Guelph-, University team that tracks vegetable prices it was up 4% last-, & had been expected to be up another 4-6% this-, year. And this comes at the very time that the latest Canada Food Guide is "strongly encouraging" Canadians to eat more plant-based foods.*

**China's gold holdings** - In official FX reserve terms China is the world's No. 6 holder with 1,864 tonnes (23% of the US' supposedly 8,134 tonnes in Fort Knox KY). But that's just the top of the iceberg; for to quote Winston Churchill in October 1939 in a comment on Russia, the real Chinese gold holdings' story is "a riddle, wrapped in a mystery, inside an enigma" - *But we know at least three facts. For two decades there has been, to quote Ross Perot in the 1992 Presidential debate, a "great big sucking sound" in the world's gold market with as much as-, & often more than-, 1,000 tonnes of gold per year moving from Western-, into Eastern- (Chinese-, & to a lesser extent Indian-) hands. Secondly, last year Switzerland, the world's biggest gold refiner, exported a gross 1,359-/net 123-, tonnes of gold to China. And finally, China is now the world's top gold producing country (with an output in the 400 tonne range but with only a few years of reserves left) & has produced well over 6000 tonnes of gold this century with no evidence that any of that having left the country. Hence the estimates that non-reported Chinese government-controlled gold holdings are well in excess of 10,000 tonne are likely 'in the ball park' - So, if the scenario mooted in the item immediately below were to come to pass, the situation in this century's world gold market may have been a replay of sorts of the 1930s when year after year American freighters steamed West under San Francisco's Golden Gate Bridge to Japan, loaded to their 'Plimsol Lines' with scrap metal that a few years later, during WW II, came back to haunt the US in the form of Japanese war materiel.*

**Taiwan Presidential election** - They will be held next January 11<sup>th</sup>. The incumbent, Tsai Ing-wen, Taiwan's first female president, was the first-ever non-KMT party <sup>1</sup> President in 68 years.

<sup>1</sup>

The Kuomintang party that Tsiang Kai-chek had brought with him in 1949 when he fled Mainland China.

But her stand on same sex marriage, dissatisfaction with economic conditions (most Taiwanese think they are no better off today than four years ago, even though officially GDP per capita is up 10.6% in just the past two years) & her leanings towards independence (while over half the hoi polloi favour closer ties with Mainland China, *albeit it not necessarily to become part thereof*) contributed to a reversal of fortune for her DPP party in last fall's local elections; for while in 2014 it had won in 13 districts vs. the KMT's 6 (with the Taipei mayoralty going to an independent), last November 24<sup>th</sup> it won in just 6 vs the KMT's 13 (while the Taipei mayor was re-elected<sup>2</sup>). And a couple of weeks ago Taiwan's richest man, Terry Gou (estimated Net Worth US\$7BN) became the KMT candidate she most likely will face nine months hence - *He is the founder of Foxconn, the world's biggest electronics contract-manufacturing company that employs 1MM people, albeit mostly in Mainland China where wages once were lower than in Taiwan. And this week he responded to widespread criticism that as President Foxconn's huge exposure to China would make him vulnerable to blackmail from China's rulers by announcing he will move some of the Foxconn production lines currently on the Mainland in Shenzhen & Tianjin to the major Southern Taiwan port city of Kaohsiung (one of the municipal districts that the KMT controls), telling the CommonWealth (business) Magazine that this would help Taiwan becoming the major information technology manufacturing venue for Foxconn outside China.*

**Trump's tariff bombshell** - On Sunday May 5<sup>th</sup> he tweeted "For 10 months China has been paying Tariffs ... of 25% on 50 Billion Dollars of High Tech and 10% on 200 Billion on other goods ... These payments are partly responsible for our great economic results (???) . The 10% will go to 25% on Friday (*i.e. May 10<sup>th</sup>*). 325 Billions of Dollars of additional goods sent to us by China remains untaxed but will be shortly at a rate of 25% ... The Tariffs paid to the US have little impact on product cost, mostly borne by China continues ... but too slowly as they attempt to renegotiate. NO!" - *The effect on the stock market was prompt : on Monday the 6<sup>th</sup> the Dow Jones opened 1.3%- , & the Nasdaq Composite 2.2%- , off Friday's close & both have struggled since. But Trump may have overplayed his hand & underestimated the importance of "face" to Beijing, and ignored the fact Chinese decision makers are now well aware that the days of its export-driven economic growth model are waning & that the next stage of its development, into an 'upper middle income' country, must be driven by growth in domestic consumption (that accounts for < 40% of GDP in China vs. > 65% in the US & > 55% in more export-dependent Canada). Thus the South China Morning Post reported that "Chinese state media and other sources say China will give up no more ground in the face of Trump's tariff threats ... Liu He's trip (for negotiations with Treasury Secretary Mnuchin & Trade Representative Lighthizer, who last week, before the Trump tweet, had met with him in Beijing) to Washington this week will go ahead but will be shorter than expected."* And Trump's talk that the cost of tariffs is "borne by China" is claptrap, if only since, for instance, 70% of Wal-Mart's revenues come from the sale of China-made goods, with it having no option but to pass their incremental cost on to its (largely lower income) customers, and no scope, certainly not in the short run, to source from other suppliers. But the US revenue impact of the higher US tariffs may be less than perceived since, while last December's Washington's revenue from tariffs had doubled YoY, this was to just US\$7BN, which is meaningless in the context of Washington's US\$2.8TR in total revenues, its all-time high US\$1.7TR individual income tax collections (up 5% YoY while corporate tax collections were down 31% YoY) & its US\$779BN deficit (up 17% YoY). And there may be a real risk that in response Beijing will move to "pull Trump's chain" twice & administer a double whammy blow to America's already faltering global stature in the process, by first ignoring his tariff initiatives & then his latest anti-Iran sanctions by gorging itself on Iranian oil at fire sale prices (& circumventing the global US dollar-dominated financial system by paying with gold : one tonne of gold <sup>2</sup> pays for 500,000 + bbls; so its non-reported 10.000+ tonne gold holdings

<sup>2</sup>

i.e. 80.6 'bricks', or a single cube 37 cms/14.2 inches to a side.

could pay for many years to come, especially at 'firesale' prices <sup>3</sup>). And the secondary US sanctions may have little impact on the movement of Iranian oil to China since 5 years ago already 50-60% of China's oil imports were carried by Chinese-owned tankers & it has been rapidly adding to its oil tanker fleet since. And while the US could possibly interfere in the Persian Gulf with the flow of Iranian oil to China, one can only hope that Trump & his super-hawk NSA John Bolton would both not be so foolhardy as to try & do so. And the effect on the cost of Chinese goods for US consumers may be muted by the fact that as a result of the escalating US-China "trade war" the yuan might start depreciating in US \$ terms. Last, but not least, after the Washington trade talks were reported to have ended "with little progress" nobody took seriously Trump's effort to 'put lipstick on the pig' by saying there is "no need to rush on the China talks."

**US-China trade negotiations** - Late Wednesday May 8<sup>th</sup> China's Ministry of Commerce finally acknowledged the existence of the US plans to hike its tariffs on US\$200BN of Chinese imports from 10% to 25%. Doing so just before the trade talks were to resume in Washington on the 9<sup>th</sup> was seen as an attempt to strengthen Liu He's hand during the talks starting twelve hours later since having continued to censor the news might have been taken as a sign Beijing was concerned, & hence vulnerable. And by not immediately announcing counter measures, Beijing apparently sought to give him more leeway in these talks (without a 'loss of face'), while it also expects the stock markets' reaction to further delays will weaken the US hand (which, however, hadn't happened as of 1535 hrs EDT on Friday May 10<sup>th</sup>).

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### **TRUMP WANTS CHEAP OIL. IMF DATA SHOW SAUDI ARABIA NEEDS HIGHER PRICES** **(Bloomberg, Mohammed Sergie)**

- An April 29<sup>th</sup> IMF opined Saudi Arabia needs US\$85 oil (up from September's US\$73) to balance its budget, while Trump boasted on Twitter four days later that he had spoken to Saudi Arabia & others about hiking output *to get oil prices down as his action on Iran, if successful, & events in Libya & Venezuela over which he has no control, risk raising the price.* This comes at a time MBS (Crown Prince Mohammad bin Salman) seeks, *despite the Jamal Khashoggi assassination,* to forge closer ties with the Trump administration despite his 'commitment' to balance to budget by 2023 & narrow this year's budget deficit to 4.2% from 4.6% of GDP (while boosting spending this year by 7%?) - *And while he thus needs higher prices, other major OPEC producers & allies, incl. Russia, can generate budget surpluses at the current price levels (that YTD have averaged US\$62 while Brent crude in the last week weakened from US\$74 to US\$71).*

*In Forbes Ellen R. Wald <sup>4</sup>, a widely cited consultant on geopolitical-, & global energy-, issues, called the IMF claim "outlandish and inaccurate", since Saudi Arabia "does not base its oil policy on the budgetary break-even price per barrel of oil" & Aramco has the lowest cost of production, and the government still has significant cash resources, is trying to spend less on welfare & has access to cheap debt, and "there is nothing wrong with Saudi Arabia running a deficit, especially*

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<sup>3</sup> I.e. 10+ years of China's current total annual oil consumption.

<sup>4</sup> A Senior Fellow with the [Atlantic Council](#) with her own consulting business & author of a book entitled [Saudi Inc. : The Arab Country's Pursuit of Profit and Power](#), she has a Ph.D. in History from Boston University and an AB from Princeton in Near Eastern Studies &, get this, Creative Writing (& who is just a 'gun for hire?').

when interest rates are low.” - In so doing she spouted MMT (Modern Monetary Theory) that holds that the more government debt the better since governments can always buy their way out of trouble by using its monopoly over money creation by creating more of it <sup>5</sup>, while in the real world the facts are that 63% of Saudi Arabia’s budgetary revenues come from Aramco, that its ‘cash resources’ have gone from US\$731BN in August 2014 to US\$489BN as of March 31<sup>st</sup> (i.e. that it has had a “burn rate” of US\$4.4BN per month/US\$53BN per year) & that MBS’ hold on power depends very much on the government’s largesse to the Saudi Millennials.

## **TRUMP TESTS LIMITS OF REPUBLICANS’ PATIENCE ON FED, TRADE WARS** **(Bloomberg, Steven T. Dennis)**

- By sinking Trump’s latest Fed picks (*both Herman Cain & Stephen Moore withdrew their nominations once it became clear there wasn’t a hope in hell the Senate would confirm either of them*), Senate Republicans are showing there are limits to their tolerance for his unorthodox approach to filling top posts. While not (*yet?*) in open rebellion, they are urging him to modify his approach to nominations to avoid more such embarrassments. And they have also started a fresh challenge to the tariffs he has imposed on friends & foes alike, with Sen. Jodi Ernst (R-IA) <sup>6</sup> playing a leading role in urging him to swiftly end the trade conflict that has roiled America’s farm country & many Republican have been sending Trump a message that the more vetting & consulting on nominations & the fewer tariffs, the better; to quote Sen. John Cornyn (R-TX) <sup>7</sup> “I think it’s pretty obvious that a little collaboration up front (*on the President’s part*) would go a long way” & to Sen. Richard Shelby (R-AL) “I am sure the White House has heard from a lot of us.”
- But Trump still seems not to have gotten the message, even after Sen. Chuck Grassley (R-IA), the Senate Finance Committee Chairman, warned him his ‘NAFTA 2’/USMCA trade agreement won’t get through Congress unless he drops his tariffs on imports from those countries. Still, support from *his base* remains robust and GOP lawmakers remain united, crediting him for the humming economy & supporting his praise of the Attorney-General & handling of the Mueller report.

*The “Trump’s bombshell” item above suggests that he doesn’t appreciate the growing anti-tariff sentiment among lawmakers, that he still is not ‘into Sen. Cornyn’s “cooperation” mode & that he still lives in the dream world in which the US President is all-powerful. But the support he enjoys from GOP lawmakers could evaporate overnight if, for instance, it were to turn out that the economy is nowhere near “humming” as much as purported and/or if Republican lawmakers up for re-election next year were to overcome their fear that, unless they kowtow to his every whim, they could face Trump-inspired challengers in next year’s Republican primaries in their districts/states. And it may be relevant in this context in more ways than one that the Senate Intelligence Committee that on May 9<sup>th</sup> subpoenaed Donald Trump Jr. is headed by a*

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<sup>5</sup> While the MMT may, or may not, be valid in the case of domestic debt (& I think it isn’t; for history is chock-a-block with examples of governments doing what it advocates, most recently Zimbabwe and, now, Venezuela), it is definitely not valid in the case of foreign debt, even for the likes of Saudi Arabia, whose economy generates huge FX cash flows but still in recent years has incurred major payments’ deficits.

<sup>6</sup> A state in which, on April 24<sup>th</sup>, 69 year-old Andy McKean, with 40 years under his belt, the longest-serving (Republican) member of the State Legislature, made the headlines by announcing he was leaving the GOP & joining the Democrats due to his growing discomfort with its stance on many high-profile issues (“it has veered very sharply to the right”) & his unwillingness to support President Trump in the 2020 election.

<sup>7</sup> Who is one of the 22 Republican Senators up for re-election next year, albeit in a state that hasn’t elected a Democrat in a statewide election since 1994.

Republican, 63 year-old Sen. Richard Burr (R-NC) <sup>8</sup> (who doesn't, however, have to run for re-election next year & who in 2016 ,when he ran for his fourth term, indicated it would be for his last term in the Senate.

### **OVER 400 FORMER PROSECUTORS SAY TRUMP WOULD BE INDICTED IF HE WEREN'T PRESIDENT (Axios, Zachary Basu)**

- They have signed a public letter, co-signed by 20 US Attorneys & 100+ former Justice Department officials from as farback as the 1953-1961 Eisenhower Administration, asserting that, if the Justice Department's OLC (Office of Legal Counsel) didn't prohibit a sitting president from being indicted, President Trump would be charged with obstruction of justice. In doing so it cites the episodes Mueller detailed in his report as "acts that satisfy all of the elements for an obstruction charge", incl. his efforts to fire Mueller & falsify the evidence thereof and to limit the scope of Mueller's investigation to exclude his conduct & prevent witnesses from cooperating with investigators probing his campaign.

*The President must have been unhappy about the May 7<sup>th</sup> NYT revelations that detailed, based on his tax returns, that his businesses had lost so much money, a total of US\$1.17BN in the decade to 1994 that in 8 of those years he had paid no income tax. And his unhappiness must have grown multi-fold the next day when the Democrat-controlled New York State Senate passed a bill to allow his State tax returns to be released to Congress - Axios is an online news & information website founded in 2016 by Politico co-founder Jim VanderHei.*

### **KUSHNER PREVIEWS 'IN-DEPTH OPERATIONAL DOCUMENT' FOR MIDDLE EAST PEACE, SAYS TRUMP 'WILL BE PROUD' (CNN, Betsy Klein et. al.)**

- In a 45 minute discussion at the Washington Institute *for Near East Policy* on Thursday May 2<sup>nd</sup> entitled "Inside the Trump Administration's Middle East Peace Effort : A Conversation with Jared Kushner" he didn't say much about the plan (*that is expected to finally see the light of day next month*) other than to call it an "indepth operational document ... *that is realistic ... and will leave both sides being much better off ... We've put together, I would say, ... an in-depth operational document that shows what we think is possible, how people can live together, how security can work, how interaction can work, and really how you try to form the outline of what a brighter future can be*" & have created a "business plan" outlining our economic vision for the region. While he conceded that Middle East peace is "probably one of the hardest problems that may exist in the world" <sup>9</sup>, he projected optimism, saying that "If people look at it with a fresh perspective, I think there will be a lot of opportunity to start a new discussion and hopefully that leads to a breakthrough."
- A senior diplomatic source from a US ally familiar with discussions about the plan says "Don't expect a two-state solution" & the Trump administration feels now is the time for the Arab world to be ... on board with a "take it or leave it approach to the Palestinians" that includes no division of Jerusalem as discussed by previous US administrations, and that is "an economic-centered plan, with the (*really hard?*) political element (*i.e. things*

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<sup>8</sup> A distant (12<sup>th</sup>) cousin of one-time US Vice President Aaron Burr, who on July 11<sup>th</sup>, 1804 killed Alexander Hamilton in an 'affair of honour' duel.

<sup>9</sup> This is a self-serving exaggeration; it's just one of many that have one feature in common, namely that for one or both sides in the conflict it's all about "my way or the highway" including, but by no means limited to, ISIS, Israel & the Palestinians, Afghanistan, Venezuela, Turkey, and Brexit & many Western political parties.

*like boundaries) ... left pretty open-ended ... left to the parties to negotiate...*” And a second source from another US ally familiar with the discussions confirmed the emphasis on economics & the absence of a two-state element & that would meet all of Israel’s security elements, incl. an Israeli security presence in all Palestinian areas (that would be demilitarized with the exception of the police force), with the right to intervene in-, & control over the borders of-, those areas; in exchange for which (*i.e. a continuation of the status quo, if not worse*) the Palestinians would get “at least 30 to 40 billion dollars initially, mostly Arab money but some from US as well.”

*If the Palestinians reject the plan (as they almost certainly will, since they’ll see it, as the Old Testament puts it in Genesis 25 : 29-34, as selling their “birthright for a mess of potage”<sup>10</sup> that will leave them worse off than now, third party thinking is that Netanyahu would build on Trump’s support for Israeli control over the Golan Heights by “annexing even more land in the West Bank” and that the Trump camp expects this plan will gain him Jewish votes in 2020.*

### **POMPEO SLAMS CANADA’S CLAIM TO ARCTIC ROUTE (CP, Mike Blanchfield)**

- *On May 7<sup>th</sup>, in a major speech at a meeting of the Atlantic Council in Rovaniemi, Finland (that Canadian experts said was full of factual errors) US Secretary of State Mike Pompeo called Canada’s claim over the Northwest Passage “illegitimate”, warned that China’s growing Arctic presence threatened North American security & reiterated long-held US concerns about Russia’s military buildup in the Arctic. According to Fen Hampson, Head of the International Security Program at the Centre for International Governance Innovation in Waterloo, Ont.<sup>11</sup>, & the author of a book on former Canadian Prime Minister Brian Mulroney’s foreign policy, Pompeo bringing out in the open the long-time disagreement on Arctic policy between Canada and the US is a “stunning rebuke” of the 1988 Arctic Co-operation Agreement between the two countries<sup>12</sup> [that along with the original Canada-US FTA (Free Trade Agreement) of the same year had been the result of the “special bond” that, according to Mulroney had existed between himself & President Reagan, since “We were both Irish, we both enjoyed life (and) our wives got along extremely well”] and “underscores the ‘upset-every-applecart’ approach by the Trump Administration to Canada-US relations and to just about every other shibboleth of US foreign policy.*

*The best Chrystia Freeland, Canada’s Foreign Minister, could do was to waffle that the two countries have a close & fruitful relationship & that “as we see the conditions of the Northwest Passage changing with our changing climate, I think that’s actually grounds for closer cooperation with the United States.” As far back as 1969 the US challenged Canada’s claim the Northwest Passage is ‘part of its internal waters’ with the voyages through it by the SS Manhattan, that were made without Ottawa’s formal approval (but with help of Canadian ice breakers). But successive Canadian governments have done little, if anything, to substantiate its claim to the point where our Canada’s only two Class 4 ice breakers, the now 53 year-old,*

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<sup>10</sup> A one-time, upfront US\$30BN would be equivalent to US\$10,700 per capita, much of which, however, would likely be syphoned off by various vested interests before it could percolate down to the grassroots.

<sup>11</sup> A global think tank created in 2001 by the founders of Blackberry with a \$60MM endowment, half of it their money & the other half from a Government of Canada grant.

<sup>12</sup> That achieved the seemingly impossible by allowing the US to designate the Northwest Passage *through the Arctic* as an international waterway **and** Canada to claim it as part of its sovereign territory.

11,345 tonne, Louis St. Laurent & 36 year-old, 4,233 tonne Terry Fox, both of them conventionally powered, can only operate in the High Arctic for four months in the summer & can't hold a candle, icebreaking capacity-wise, to Russia's nuclear-powered 22220 Class 33,540 tonne ice breakers, or even the 30,000 tonne nuclear-powered icebreaker now under construction in China (for service in the Canadian Arctic?). And what weakens Canada's case even more is that its Northwest Passage claim is now caught up in the backwash of the US' 'freedom of navigation' claims in China's "Three Seas" (the South-, & East-, China Seas & the Sea of Japan).

### **WITH LESS THAN TWO HOURS TO SPARE, NETANYAHU SECURES A COALITION** (Times of Israel)

- With a May 8<sup>th</sup> legal government formation deadline staring him in the face, he managed, at the last moment to hammer out a deal with Naftali Bennett, the Jewish Home Party leader, under which Bennett will again become Minister of Education & his party will get the agriculture & justice posts as well <sup>13</sup>. This enabled him, with two hours to spare, to inform President Reuben Rivlin that he had formed a coalition government (*albeit one with only 61 seats in the 120 seat Knesset*). But that didn't stop him from asserting that it would be a "strong, stable government", saying "61 is a good number, 61-plus is a better number. But it starts with 61, and we will begin with that ... Good luck to us and to the Israeli nation".

*But Bennett was Netanyahu's desperation 'fallback' after he failed to convince Isaac Herzog & his Zionists Union (that has 10 Knesset seats) to join the coalition. And after the coalition formation was announced, Herzog commented "it lacks responsibility, stability and governance" & is "a national disaster of a government. A weak and narrow government, susceptible to blackmail that will advance nothing and will quickly be replaced by a responsible and hopeful alternative."*

### **PIG 'EBOLA' SENDS SHOCK WAVES THROUGH GLOBAL FOOD CHAIN** (Bloomberg, Dan Murtaugh)

- It started inconspicuously enough last August with one sick pig in a small (400 head) pig farm on the outskirts of Shenyang, a city of 8.2.MM & the capital of Liaoning Province, 390 mi/630 km East Northeast, as the bird flies, from Beijing. But after African Swine Fever was diagnosed & their number swelled quickly to 47, mass culling & a quarantine prompted the government to declare the outbreak "effectively controlled". Nevertheless the virus has spread quickly hither & thither on people's clothing & vehicle tires, and now has a nationwide presence & has spread to Mongolia, Vietnam & Cambodia. And while 1MM pigs have so far been culled, estimates are that as many as 100MM may have to be 'put down' (*if not more : for the USDA, that has been counting China's pigs for 40 years, estimates that 134MM, a number equal to the total US annual 'slaughter, will die or be killed, i.e. nearly one-third of China's 440MM pig herd, that's accounts for 56% of all the domestic pigs in the world.*

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<sup>13</sup> Now age 47, he is a software multi-millionaire who a decade ago served as Netanyahu's Chief of Staff but who, along with his party, never quite lived up to the ir high expectations after they had burst on the Israeli political scene when his party got 12 seats in the 120 seat Knesset in the 2013 elections.