

GLEANINGS II - 811
Thursday May 23rd, 2019

Quote of the week - “In China the population is becoming increasingly hostile towards American tactics. There is a widespread belief that Washington is now trying to dismantle China’s interdependence with the American economy, curb its role in global governance, counter its foreign investments, cripple its companies, block its technological advance, punish its deviations from liberal ideology, contest its borders, map its defenses and sustain the ability to penetrate those defenses.” - Charles W. Freeman Jr. - *Now age 76, he served for 30+ years in the State Department, was President Nixon’s main interpreter during his 1972 historic visit to China & capped his career as the US Ambassador to Saudi Arabia from 1989 to 1992. But more important in this context, he is the Co-Chairman of the Washington-based US-China Policy Foundation, an NGO founded in 1995 in the belief that misunderstandings & misconceptions on both sides inhibit cooperation, and that a forum for discussing matters of mutual interest would help. And his litany of popular beliefs in China shows how effective Beijing’s nationalistic brainwashing has been while the existence of the foundation has been about as effective as the ‘clapping of one hand’.*

Quote of the week No. 2 - “Voters abandoned such *once* dominant parties as Brazil’s PT and Mexico’s IRI because they were hypocritical in talking about the public interest while being inward-looking, self-serving and corrupt” - Lawrence Whitehead (now age 74 he is a Fellow at Oxford University’s Nuffield College) - *The phenomenon he describes is not limited to Brazil and Mexico but, possibly with the exception of corruption, has affected much, if not all of Western democracy where the ‘political classes’ have become more interested in the ‘game’ than in public service.*

Australian elections - After trailing in the polls for over two years, the right of centre Liberal National Party managed to hang on to power by beating the odds & winning an “unwinnable election” & at last report was going to again end up with 76 seats in its 151 seat House of Representatives vs the Labor Party’s 65, with six seats going in singles to ‘crossbench’ members, incl. the Greens, and four seats still undecided, while the far right United Australia-, & One Nation-, parties were ‘blanked’. It had basically been a contest between personalities; for while the former union leader Bill Shorten-led Labor Part ran on a fiscal-, & environmental-, policy-heavy platform, voters went for the affable, ‘next door good guy’ image LNP leader Scott Morrison had cultivated. But as the Guardian put it, ‘now comes the hard part’, for the LNP’s platform had, based on optimistic budget forecasts, promised big tax cuts **and** a balanced budget **and** no cut to spending - *But while, due to China’s insatiable appetite demand for its minerals, there hasn’t had been a recession in Australia in nearly three decades, during John Mauldin’s 2019 SIC (Strategic Investment Conference) in Dallas TX last week, Grant Williams¹ predicted that within the next 6-12 months Australia will experience a financial crisis not unlike that in the US a decade ago, since the country’s Chinese-fed real estate ‘bubble’ is about to*

¹ In his 30-year career in the world of finance he has been ‘around the block a few times having worked on ‘both side of the Street’ a few times in, among others, London, Tokyo, New York & Singapore. Currently he is involved in a senior advisory capacity with the US\$400+BN AUM, Zurich-based Matterhorn Asset Management firm (that prides itself on the fact that its 42 country “global client base” store “an important part of its wealth in gold and silver outside the banking system” (i.e. metal form in their own-, or non-bank third party-, vaults) and with the US\$400MM AUM, Singapore-based Vulpes Investment Management (whose Life Sciences A Fund is up 80% YTD after having nearly tripled last year). And he has also, for the last decade, been the author of the popular Things That Make You Go Hmmm financial newsletter.

pop; for residential mortgage loans account for 70% of all bank loans (& in many cases are of the “interest-only” variety) & several of its banks are ‘too big to fail’, and one million (i.e. one-in-eight) households are said to be “under mortgage stress” & unable to keep up with their financial commitments.

Drastically declining auto sales in China - Caixin, China’s leading business media group, reported that according to the CPCA (China Passenger Car Association) in the first week of May passenger car sales had been down 24%-, & transactions between car makers & dealers 44%-, YoY. This extended (& worsened) the 21.4% YoY drop in the first four months of this year, and came after 2018 had been the first year in over two decades that the annual car sales’ growth rate had been negative - *This is not only bad news for the Chinese economy, but also for foreign car makers’ bottom lines (thus, at last report GM derived one-fifth of its profits from China), & not just because of the lower sales volumes but because of the aggressive price cutting & incentive creation the weaker car sales environment has engendered at the retail level.*

Good news, bad news week for Huawei ²- On May 20th the US Commerce Department eased up a bit on it when it issued a statement that it would permit Huawei for 90 days to continue purchasing American technology-, & get software updates for-, existing networks. But two days later, the day after it had debuted its new ‘high end flag ship’ P-30 phones in Japan, Japan’s largest telecom operators announced, without any explanation or timeframe for resumption, that they would put off delay starting to sell them (after their websites had earlier informed the public they would start selling them later this month) - *Meanwhile, the US is apparently considering cutting off the flow of US technology to five more Chinese companies, Megvil, Zhejiang Dahua Technology, Hikvision Digital Technology, Xiamen Meyia Pico & iFlytek because of their role in Beijing’s suppression of the Turkic Uighur Islamic minority in Northwestern China’s Xinjiang Autoumous Region (several of which produce facial recognition software).*

“Housing drop-off in Canada more pronounced and more prolonged than anticipated - This was the reason given by the CIBC for its 2018 anemic 2% profit growth (as of April 30th its real estate secured lending portfolio was down 0.9% YoY to \$223BN. Following are some examples of one-, & five-, year price changes in eight major Canadian cities :

	one year	five year
	-----% change-----	
Greater Vancouver	-8.5	+59.5
Victoria	+0.7	+57.6
Greater Toronto	+3.2	+57.1
Ottawa	+2.8	+23.1
Greater Montreal	+6.3	+20.2
Edmonton	-4.0	- 5.9
Calgary	-5.0	- 6.2
Saskatoon	-1.8	- 8.4

Indian elections - The BJP party of 68 year-old Prime Minister Narendra Modi had 282 seats in the last 542 seat Lok Sabha (Lower House) & had been expected, with a “sputtering” economy & rising unemployment, to lose seats. But, after what was called an “ugly” campaign & an election conducted in seven phases over six weeks in which 600 voters cast ballots (a 67.1% turnout), the BJP appears to have won at least 300 seats, with the Congress main opposition party getting just 50 (while a slight improvement over 2014, its leader, 48 year-old Rahul Gandhi

² In the First Quarter it replaced Apple as the No.2 smart phone manufacturer (after South Korea’s Samsung).

lost the seat he had held for 15 years) & the rest spread over more than two dozen mini-parties)
- *The potential downside of this is that in recent years the BJP has become more Hindu nationalist-oriented and it having an outright majority in Parliament may not be conducive to national unity, especially so since in 2014 Modi had gotten a great deal of voter support from the country's 200MM Muslims.*

Not a good week for Trump - First on Monday May 20th Judge Amit Mehta of the United States District Court for the District of Columbia in a 41 page ruling threw out his appeal of the House subpoena that his accounting firm, the US branch of Paris, France-headquartered Mazars, provide it with six years of financial records of him & his companies, ruling that there were "fundamental" problems with Trump's lawyers' legal arguments and that Congress can investigate the president without starting formal impeachment hearings. And two days later Judge Edgardo Ramos of the District Court of the Southern District of New York gave similar treatment to his appeal of the parallel House subpoenas of Deutsche Bank & Capital One, ruling that while the Trump lawyers had made sufficient arguments that allowing the House Committee to obtain the record of Trump's dealings with these firms could cause "irreparable harm" to Trump & his companies", that impact was outweighed by the constitutionally enshrined investigative authority of the federal government's legislative branch. And to make matters worse for Trump, both rejected his requests for stays pending appeals (*thereby defeating any Trump objective of dragging the court fight out as long as possible, ideally forever?*). And given the apparent quality of judicial reasoning of their rulings, the third party legal consensus appears to be that appealing would be futile.

US Economy - While the CW is-, & the media hype pushes the idea that it is-, 'hot', others believe it is slowing, & possibly fast so since consumer spending & capital investment is 'soft', the build-up of inventory of both the wanted (i.e. imported)- & unintended (i.e. slowing sales-driven)-, kind is exaggerating the growth rate, First Quarter consumer debt was up 0.9% QoQ (up from 0.2% in the Fourth Quarter), vehicle sales were down 4.9%YoY to a 16.4MM annualized rate, in the housing market in April new starts & existing home sales were each down 4.4% YoY and new home sales down 6.7% MoM (albeit from an 11 year high in March) and, last but not least, the latest reported sales of semi-conductors (that are now so embedded in so many products as to be looked upon as a leading indicator) had been down 6.7% MoM & 26% YoY - *And the cynics among them believe the White House is aware of this but is happy to let nature take its course in the belief that a crisis will get the Fed off its duff & initiate another round of Quantitative Easing, balance sheet expansion & rate cutting to revive the economy and thereby better position Trump (& the GOP generally?) for the 2020 elections.*

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TILLERSON QUIETLY MEETS WITH HOUSE LAWMAKERS TO DISCUSS TRUMP **(CNN, Zachary Cohen)**

- The House Democrats are using their power as the House majority party to conduct oversight on Trump's financial dealings & foreign policy decisions and, more specifically, to try & learn more about Trump's meetings with President Putin. So on May 21st Rex Tillerson³ quietly met with the top Democrat & Republican [*Chairman Rep. Eliot Engel*]

³ Who had been Trump's initial pick for Secretary of State (despite the fact that Tillerson, long a regular financial GOP supporter has not financially supported the Trump run at the White House) and who served as such from February 1st, 2017 to March 31st, 2018 (when Trump fired him via Titter).

(D-NY) & Michael McCaul (R-TX), respectively)] of the House Foreign Affairs Committee⁴ for seven hours, with breaks, to discuss his time in the Trump administration⁵ with, according to an aide, the main topics being the administration's dealings with Russia & Trump's meetings with Putin during Tillerson's tenure, and the uncertainty surrounding the role of Jared Kushner in foreign policy (since he for all intents & purposes runs a shadow State Department on Middle East issues from the White House, which had created well-documented tension between the two men, as had the frayed relationship between Tillerson & the President himself). While details of the meeting remain murky, it's clear that Tillerson's visit to Capitol Hill came as a surprise to many in Washington, incl. some members of the House Foreign Affairs Committee, & that several of its members weren't even aware of it happening.

- In a December 2018 interview with CBS News Tillerson had called President Trump "undisciplined", saying that "When the President would say, 'Here's what I want to do and here's how I want to do it'. And I'd have to say to him 'Well, Mr President, I understand what you want to do, but you can't do it that way. It violates the law. It violated a treaty,' " And in January CNN reported that, according to a former State Department official who had been there, after a 2017 meeting with Putin in Hamburg, Germany, Trump took the interpreter's notes & told him not to share anything about the discussion with anyone else, and that, when senior White House & State Department officials who work on the Russian file asked for the notes, they were ignored.

Trump got quite exercised by reports that Tillerson had told the Committee that in Hamburg Putin had been much better prepared than Trump. And while afterwards he tweeted that Tillerson is "dumb as a rock" & "lazy as hell", it likely took a great deal more hard work & moxy on Tillerson's part to climb to the top of the ExxonMobil corporate ladder & become its CEO at age 54 than Trump had needed to become the 'chief poobah' in his family firm at age 25. And while Trump was born with 'a silver spoon in his mouth', Tillerson, born to parents of modest-, albeit not 'hard scrabble'-, means went to university on a scholarship.

FUGITIVE SAYS HE'LL SURRENDER FOR 15,000 'LIKES' (CP)

- 29 year-old Jose Simms is wanted by the Torrington CT Police Department for failing to appear in court to face seven charges ranging from breach of peace to risk of injury to a child. But Torrington Police Lieutenant Brett Johnson posted on May 22nd on the Department's Facebook page that Simms had contacted him on Facebook & had agreed to turn himself in if the Departmental Facebook posting containing his Wanted poster would get 15,000 'likes' (down from his originally demanded 20,000), with Johnson opining on Facebook "It will be difficult but is doable"

An expert in police behaviour called this "unethical" and it is hard to disagree with him for it may well set an example for other deluded souls who yearn for a moment in the spotlight.

CANADIAN HOUSEHOLD DEBT HITS NEW HIGH (CP)

⁴ But according to HuffPostUK several other, but not all, Committee members, & even some staff, were present, and the White House had known about the meeting in advance & had not attempted to block it..

⁵ Appointed by Trump on December 13th, 2016 & confirmed by the Senate on February 1st, 2017 by a 57-43 vote (i.e. with the support of four Democrats), he served until March 31st, 2018 when Trump fired him via Titter.

- According to CMHC (Canada Mortgage and Housing Corporation) at the end of last year the household debt to disposable income ratio hit a record 178.5%, even as new mortgage lending activity had slowed and that, *worse still*, the average monthly required payment was up 4.5% YoY, while disposable income had grown by only 2.5%.

This doesn't seem like a tenable situation, neither in absolute-, nor relative-, terms.

GREEN LASER LIGHT BURNS EYES OF WESTJET PILOT (CP)

- The US FAA announced on Wednesday May 22nd that the previous Saturday, 40 kms. from its destination the pilot of a Westjet flight from Newfoundland to Orlando FL had been hit by a laser light but that the crew had nevertheless managed to land the plane safely.

The pilot has been placed on medical leave & the FAA is investigating.

XI PROMOTES RARE EARTHS (Global Times ⁶)

- On Monday May 20th, *accompanied by Liu He, his confidant, point man in the trade negotiations & sidekick from their Beijing 101 Middle School days*, he visited the 2,000 employee JL Mag Rare-Earth plant in Ganzhou, Jianxi Province *in Southern China, 120 miles Northwest of Hongkong & 500 miles Southwest of Shanghai (& more than twice that South of Beijing)*. According to the South China Morning Post, while there, he called for a new (economic?) Long March, i.e. for China to settle in for a long trade war. *And he visited a monument commemorating the 1934 start (in Ganzhou) of that epic journey as if to make the point that, however hard the struggle, the CPC always comes out on top. And the next day, having traveled 400+ miles North to the Provincial capital Nanchang, he told those at a symposium that "The international situation is increasingly complicated ... We must be conscious of the long-term and complex nature of various unfavourable factors at home and abroad, and properly prepare for the various difficult situations ... On the new Long March we must overcome all kinds of hazardous challenges, both domestic and foreign ... The important thing is for China to do its job well."*

China holds over one third of the world's reserves of rare earth minerals ⁷ & produces 90+% thereof (in 2017 150 tons, vs. Australia's 20-, Russia's 3-, Brazil 2-, & Thailand's 1.6 MM tons). They are critical to the manufacture of many 21st century goods (according to the SCMP, "from iPhones to guided missiles") & vital to low-carbon technology. And JL Mag specializes in the manufacture of Neodymium magnets that have wide application worldwide in energy-saving motors & in the wind power industry. Since Xi's travel & pronouncements are always 'highly-scripted', his travel so far from home to visit such a small factory, & his pronouncements & activities there, are taken as a signal he is going to limit the export of rare earth materials to the US ⁸ to retaliate for Trump restricting the export of hitech components to China and to demonstrate "decoupling can work both ways" (for the US hitech sector is wholly dependent on rare earth imports from China, that were specifically excluded from Trump's various tariff initiatives).

⁶ A tabloid version of the People's Daily focused on international issues from a Chinese government perspective.

⁷ Including, but not limited to, lanthanum (LA/atomic number 57), cerium (CE/58), praseodymium (PR/59), neodymium (ND/60), samarium (SM/62) and gadolinium (GD/64).

⁸ In 2010 Beijing suspended its rare earth exports to Japan for two months over a territorial dispute.

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Nut week in Canada? - In a regional park near Victoria BC, a 29 year-old woman was hiking & minding her own business. At the point where the trail she was on led along the edge of a 12 metre cliff, there was a trio of twenty-something women dressed in bathing suits & sunglasses drinking & when she passed them, they pushed her off the cliff, causing her to fall in the lake below, with her fortunately being able to swim to shore where someone who happened to be there attended to her until she got medical help. Then there was the case of the 51 year-old man who ran naked through a Superstore in Prince Albert BC & hid in a meat cooler. He had apparently smoked something that he thought was pot but really was crystal meth and according to his lawyer had shed his clothes because he thought people had planted electronic tracking devices in them (but the newspaper report did not go into detail as to why he had been arrested the other 67 times - *And Canada is deemed by many abroad to be a dull & boring place ?*