

GLEANINGS II - 8154
Thursday July 4th, 2019

Quote of the week - “As uncertainty around trade policy is unresolved, the impact on the growth outlook is becoming more pronounced ... Business confidence and [corporate investments] have slowed to multiyear lows. We expect global growth to slow even further.” Chetan Kishore Ahya, Chief Economist & Managing Director at New York-based Morgan Stanley.

Atlanta Fed GDPNow reading - It's latest (July 3rd) reading was 1.3%, down from 1.5% in two days. Since April 28th it has been 2%, or slightly better, for 10 days in the latter part of June & at, or slightly above 1.5% for ten days in late April/early May (and in the other 40+ days was < 1.5%). And its “Blue Chip” consensus of private sector forecasters has been 2%, or less, since May 25th - *This is leading to expectations that late this month the Commerce Department's BEA (Bureau of Economic Analysis) will come up with an initial official reading of Second Quarter GDP growth well below First Quarter's 3.2% rate (which had been a nine quarter high).*

German new orders down sharply - In May they were down 2.2% MoM & 8.6% YoY. This was not good news for the EU and, with the German economy so export-dependent, the fact that, while domestic orders were up 0.7%-, foreign orders down were 4.3%-, MoM, is taken as evidence that global economic growth is continuing to decelerate.

More trouble for Boeing's 737 Max project - On June 19th former airline pilot Chesley Sullenberger, who a decade ago had made the headlines after safely landing an Airbus A320 on the Hudson river after losing power when, shortly after takeoff, its engines sucked in some geese, told a House aviation panel that the two Boeing 737 Max disasters never should have happened. A few days later the FAA reported that simulator testing had revealed more potentially dangerous software problems with the 737 Max that Boeing must ‘remediate’ before the plane can be re-certified for service. And then, still another few days later, the NYT ran an article with the screaming headline “Boeing 737 Max software outsourced to \$9-an-hour engineers” - *while nothing is wrong in principle with outsourcing work to lower cost countries (in fact, today that is totally ‘de rigueur’) & much of the information in the article came from US engineers who had lost their jobs in the process, the article's upshot was that Boeing had been bent on unduly aggressively **minimizing-**, rather than **optimizing-**, costs in an irresponsible fashion.*

OPEC+ extends its 1.2MM bbl. production cutback - On July 1st it announced it would do so by

nine months until next March with Saudi Oil Minister Khalid Al-Falih telling reporters “I have no doubt in my mind that US shale oil will peak, plateau and then decline like any other basin in history ... Until it does, I think it’s prudent ... to be adjusting to it.” - *The market didn’t take his comment at face value since Brent crude went down over US\$1 on the news. US shale oil has been a technical innovation-driven phenomenon that appears not yet to have run its course. Global oil production this year is expected to exceed ‘disappearance’ by 30,000 bbl/d. & any global economic slowdown will likely cut into consumption growth this year & next. Later this year Norway’s new Johan Sverdrup field will come on stream at an initial 440,000 bbl/d. production rate & an all-in cost of production that will encourage ramping that up asap to its 660,000 bbl/d potential. And, worst of all for Saudi Arabia, the OPEC+ cutbacks (& it accounting for the lion’s share thereof - Saudi oil production has declined in just the past seven months from 11.1MM-, to 9.7-, bbl/d.) have made it lose market share (despite the sanctions-driven removal of much Iranian oil from the global oil supply picture & the continuing decline in Venezuelan production).*

Recent Presidential polling - According to RealClearPolitics it was as follows :

	Emerson June 25	PPP June 21	Fox News June 16	Quinnipiac June 11	Quinnipiac June 18 Florida only
Trump-Biden	45-55	46-49	39-49	40-43	41-50
Trump-Saunders	45-55	47-48	40-49	42-51	42-48
Trump-Warren	47-53	48-46	41-43	42-49	43-47
Trump-Harris	48-42	47-46	41-42	41-49	44-45
Trump-Buttigieg	48-52	47-44	40-41	42-47	43-44

It’s still early days & as the old saying counsels, “There’s many a slip between the cup and the lip”. Still, Hilary in 2016 beat Trump 48.9-46.7 in the popular vote; so the first four columns seem to suggest that the Democrats have retained their base popular support better than the Republicans. And the fifth suggests the latter may be in deep doodoo in Florida (a state that the CW deems critical to any Republican victory next year, especially so since their support in the northern border states seems to be fraying at the edges); for in 2016 Trump carried Florida 49.0-

47.8. And it may also be worth noting that even the Fox News poll had all five Democrat hopefuls lead Trump.

RV sales a canary in the coal mine? - In December 2016 the Atlantic carried an article “What RVs say about the US economy”, that postulated RV sales were a “leading indicator” of recessions since they are big ticket consumer durables ¹ that people buy when they feel financially secure & have money to spare and/or easy access to credit. In support of this it noted that RV sales had gone from 257,000 in 2001 to 391,000 in 2006 and then had cratered to 166,000 in 2009 only to recover again to 374,000 in 2015. If so, it should be worrisome that according to the Reston VA-based RVIA (Recreational Vehicle Industry Association) in the first five months of this year monthly RV sales were down an average 22% YoY - *It's noteworthy in this context that according to the Commerce Department's BLS (Bureau of Labor Statistics) the unemployment rate in Northern Indiana's the 200,000+ population Elkhart County in April had been 2.6%, up from 2.1% YoY, while nationwide it had declined to 3.6% from 3.9% YoY; for Elkhart County is where 65% of US RVs are made & home to the RV Hall of Fame.*

The June 29th Trump-Xi meeting lasted 80 minutes - According to Xinhua Xi stressed the need for cooperation, telling Trump “One basic fact remains unchanged : China and the United States both benefit from cooperation and lose in confrontation”, to the White House Trump had called it “a very good meeting ... I would say excellent ... We're right back on track” & to the WSJ, “Trump will allow more sales of US components to Huawei” & the Commerce department will soon review its legal measures restricting these exports, while the US also agreed not to place tariffs on a further US\$300 billion of Chinese goods, at least for now, & China to resume buying US agricultural goods” (*albeit apparently not necessarily in the quantities it used to*) - *in other words, Trump may have given up more for a photo op than he got in return. Good for him. But not for the country?*

Today's the day - July 2nd marks the day the current economic expansion becomes the longest since 1854 - *But it has also been among the weaker ones in GDP growth terms; thus today's US GDP is only 20% bigger than in 2007 while during the equal length 1990's boom it grew 41%.*

Trump's two new Fed nominees - One, Chris Waller, should be a “no brainer” for confirmation; he has taught at Notre Dame & the University of Kentucky & since 2009 has been at the St. Louis

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Camper trailer prices start at US\$20,000, Fifth wheel trailers at US\$40,000 & motor homes at US\$100,000.

Fed, most recently as EVP & Director of Research (*at possibly the most research-oriented Federal Reserve Bank*) & is a known ‘dove’. The other, Judy Shelton, may be a longer shot ² and not for a lack of educational qualifications (she has a Ph.D. in Business Administration), nor because she is such a blatant Trump acolyte. But her thinking seems for sale : while during the Obama years she criticized low interest rates, in the Trump era she’s in favour of them and, while once she advocated free trade, she now supports the trade war on China. Moreover, she’s a gold “nut” who earlier this year went on record as saying she was hoping for “a new Bretton Woods ³-style conference where countries would agree to a return to the gold standard” ⁴ (& “if it takes place at Mar-a-Lago, that would be great”). All of this combined should be deemed, & hopefully will be seen, by the Senate as limiting her scope for being a productive Federal Reserve Board Governor.

Trump’s trade war finds new targets - In the last few days, after ‘reaching a temporary truce in the US-China trade war’, US Trade Rep. Robert Lighthizer released a new list of US\$4BN worth of European products (on top of the US\$21BN identified last April) incl. olives, cheese & Scotch whiskey, that may be targeted with retaliatory tariffs, the Commerce Department announced tariffs as high as 456.23% on some corrosion-resistant & cold-rolled steel products manufactured in South Korea & Taiwan that had been sent to Vietnam (that in Trump’s trade war with China has become a major US trade partner) for minor processing before being exported to the US (in what Trump last week described as “almost the single-worst abuse of everybody),and six US companies are under investigation for mis-classifying Chinese-made carbon steel as coming from Cambodia

US new job creation - In June it numbered 224,000 , up from just 75,000 in May (which had been 60+% down MoM & YoY), well above the 162,000 consensus forecast (that was the result of a high forecast of 220,000 by BNP & a low of 100,000 by Scotia Bank). Financial markets are expected to react negatively because this will reduce the likelihood a big rate cut at the FOMC

² Even though the Senate in March of 2018 had confirmed her nomination as the US Director on the Board of the EBRD (European Bank for Reconstruction and Development (*a sinecure if there ever was one*).

³ The November 1944 conference in Bretton Woods NH that resulted in the creation of the IMF & World Bank, and , indirectly, in the post WWII US\$-based international monetary system.

⁴ Which could give Beijing a big leg up in the international monetary system since it supposedly ‘sits’ on far more gold than there is supposed to be in Fort Knox KY & the vaults of the New York Fed.

meeting at the end of the month (& the Dow Jones was indeed down 151 points at the opening). But wage growth was up only 0.2%, vs. the 0.3% expected and the unemployment rate “ticked up” from 3.6% to 3.7% (attributed to more people looking for work). *And to put both the May & June numbers in perspective, in the past year the monthly new job creation has ranged between a high of 320,000 last January & 56,000 in February, while 130,000 new jobs are needed to keep up with the organic growth in the labour force.*

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HOW HEALTHY IS THE US ECONOMY (WP, Heather Long)

- The indicators that leading economic forecasters use include the following :
 1. **Manufacturing** - YTD there has been a sharp deceleration in manufacturing, hiring has flatlined, output growth is slowing, manufacturers’ sentiment has tumbled & the closely watched PMI (Purchasing Managers’ Index) this month fell to a post-2009 low 50.1 (anything <50.0 being a signal of economic contraction) - **Red flag**;
 2. **Trucking** - Nearly everything sold in the US is at some point moved in a truck. According to the Cass Freight Index, after a stellar 2018, shipments have plunged in the past six months - **Yellow to Red flag** [*according to the St. Louis Fed, after reaching an 11 year-high of 1,307 in May 2018, up from 1,005 in January 2017, the Index slid to 1,128 last January but by May had recovered to 1,228 (although that may not change its warning signal status since that is still down 7.0% YoY*];
 3. **18 wheeler sales** - According to Brian Wesbury, Chief Economist at Wheaton IL-based First Trust Portfolios (AUM of US\$76BN), “So far, the data ... does (!!!) not suggest the economy is slowing; on the other hand, according to Boris Stribac, the owner of Milwaukee-based Star Trucking, “I bought four trucks not long ago. I regret that now, believe me”⁵ - **Green flag (???)**;
 4. **Jobless claims** - New jobless claims remain low, although there was a slight uptick in the last reported week (to 227,000 from 217,000 WoW), with most economists saying there’s nothing to worry about ‘until it hits 250,000’ (*but the May*

⁵ And I, for one, have long since learnt to pay more attention to ‘topical’ evidence from the grassroots than do ‘pointy-headed’ economists operating from ivory towers.

participation rate was still only 62.8%, down from 63.2% in February & from the all-time high 67.2% in 2001, & remains stuck in a four decade-low range) - Green flag (???);

5. **Temporary hires** - They are always the first to let go in a slowdown; so the Labor Department measures them monthly. So far, it have slowed but not yet turned negative, consistent with a slowing, not nose-diving, economy - **Green flag** (???)
6. **Business spending** - Business leaders are nervous & companies reducing investment spending - **Yellow flag**; and
7. **Bank lending** - Banks have been easing lending standards, suggesting a big downturn is not imminent - **Green flag** (???) *but there have been reports of banks becoming more cautious in, among others, Australia & New Zealand, Canada, China, India, Singapore & the UK, while according to Reuters late last year “US banks are quietly pulling back on their riskiest loans” & to the WSJ US credit card issuers were becoming “more cautious” .*

Last year’s 2.3% Holiday sales growth was well off the 3.5% 10 year-average. And Matthew Luzetti, Deutsche Bank’s Chief US Economist, while avoiding the use of the word “recession”, opined that the mixed signals lead him to predict “a decline in economic growth in the second half of the year.” (bad news for the GOP if that set the stage for further economic deceleration in 2020).

US CONSTRUCTION SPENDING FALLS IN SECOND QUARTER (Reuters, Lucia Mutikani)

- It dropped unexpectedly in May by 0.8% MoM (whereas the consensus expectation had been for 0.1% growth), the most in six months to a level down 2.3% YoY, as investment in private construction projects dropped to its lowest level in nearly 2½ years. This suggests that economic growth slowed in the Second Quarter after getting a temporary boost *in the First* from exports & inventory accumulation.

Consumer spending, the major driver of GDP growth is growing only moderately as job-, & wage-, growth has slowed, the manufacturing-, & housing-, sectors are struggling, and in May construction spending by state & local governments was down 0.6% MoM (vs. up 4.3% MoM in April) & that by the federal government down 5.2% MoM (vs. up 7.3% MoM in April).

TRUMP MEETS NORTH KOREA’S KIM AT THE DMZ IN LANDMARK VISIT (al-Jazeera)

· Late Saturday June 29th President Trump arrived in Seoul for talks with South Korean President Moon. But prior to that, in Osaka, he had made a spur-of-the-moment offer to meet with Kim, stressing that the meeting would be short, “just a shake of hands and say hello because we haven’t seen each other since Vietnam” (*where their February meeting had been a flop*). And the next day, accompanied by Kim, he stepped over the DMZ border onto North Korean soil, the first US President ever to have been on it. And what was supposed to have been a brief exchange of pleasantries turned into a 50-minute meeting between the leaders of two nations that are legally still ‘at war’. At the following joint news conference Trump said “Stepping across that line was a great honour ... It’s a great day for the world ⁶ ... I think if you go back two and a half years and you look at what was going on prior to me becoming president, it was a very, very bad situation, a very dangerous situation for South Korea, North Korea, for the world ... I think the relationship that we have developed has meant so much to so many people, and it’s just an honour to be with you and it was an honour that you asked me to step over that line and I was proud to step over that line.” And Kim, *taking the opportunity the ‘Great Negotiator’ had just given him ‘free, gratis, & for nothing’ to stroke his ego*, responded by saying “President Trump has just walked across the demarcation line, making him the first US president to visit our country (*by taking one step on its soil?*) ... Meeting in such a place shows that we are willing to put an end to the unfortunate past and also open a new future.”

This culminated what must have been a heady ten days for Kim, with the leaders of the world’s two most powerful nations making their first visits to his country (albeit in Trump’s case as perfunctorily as can be imagined). And while nobody knows what Xi’s visit may have cost Kim, the highly symbolic ‘freebie’ by Trump may well make Kim more-, not less-, intransigent in his future dealings with Washington - the thing to remember about Trump & North Korea is that in his eyes this is his ticket to get a Noble Peace Prize, only that he will that he earned, not get it as a freebie.

TRUMP BELIEVES HE HAS POWER TO DEMOTE FED’S POWELL (BB, Jennifer Jacobs)

· He has accused Powell of not doing enough to boost the economy & called for lower

⁶ And in Trump’s mind an even greater day for his campaign to beat Obama by getting the Nobel Peace Prize, and having earned it by bringing peace to the Korean Peninsula while Obama basically got his as a ‘freebie’.

interest rates (*to offset the headwinds from his China trade war*⁷ & *improve the climate for his 2020 re-election campaign?*). He has told ABC News he disagrees with Powell “entirely” & that “if we had a different person in the Federal Reserve that wouldn’t have raised interest rates so much ... economic growth would have been much stronger”. So in a departure from the White House caution since the Bush 41 days of criticizing the Fed’s monetary policy, he has told confidants he believes he can demote him to *just* a Federal Reserve Board Governor, although Powell told the post-FOMC meeting press conference on June 19th “I think the law is clear ... I have a four-year term, and I fully intend to serve it.”

Bloomberg earlier reported that Trump had asked White House lawyers to explore options for removing Powell (& they apparently think that there is a way to demote him)⁸. White House officials from Acting White House Chief of Staff Mick Mulvaney & Chief Economic Adviser Larry Kudlow down declined to comment on the issue while Kevin Hassett, the departing Chair of the SEA (White House Council of Economic Advisers), when asked if Trump should demote Powell, responded with “No.”

Even after 2½ years in office Trump seems to have difficulty grasping that as US President he has more limited powers over the affairs of state than he had as CEO of the family business’ over its affairs & people. And he may even be unable (or unwilling?) to grasp the reality that Powell has only one vote out of twelve or so on the policy-making FOMC & that demoting him could lead to a political donnybrook if he chose an outsider to succeed him or to a ‘same shit, different pile’ situation if he sought to promote another Governor to replace Powell (both of which would require involving a Senate that so far has ‘put paid’ to all four of his Fed Board nominee choices).

DAN RATHER WARNS DONALD TRUMP OVER ‘DEEPLY STRANGE’ PUT IN MEETING : HISTORY IS WATCHING (Huffington Post, Lee Moran)

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In doing so acting like the spoiled brat teenager who after having killed both his parents pleads for mercy on the grounds that ‘he is an orphan’

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The Federal Reserve Act specifically prohibits the removal of Fed Governors except “for cause” (which the Courts have interpreted as requiring proof of legal misconduct or neglect of basic duties (a bar that a disagreement over monetary policy would not meet) but is not clear as to whether the president can demote a Board Chair person to just a Governor.

· On Friday June 28th the former CBS news anchor told CNN's Anderson Cooper that Trump's conduct at his meeting with PUT IN at the Osaka G-20 Summit (in which he joked with him about election meddling & getting "rid" of journalists), had been "deeply strange, at least borderline bizarre". And he lamented how foreign policy under Trump has "become incoherent and amateurish", criticized his praise at the Summit of Saudi Crown Prince Mohammad bin Salman for doing a "spectacular job" & his tweeted offer to meet Kim Jong Un in Korea's DMZ (Demilitarized Zone) for a handshake, and warned "History is watching through all this ... The president is praising almost any autocrat he can find".

Rather is now 87 years of age & for 41 years of them had a ringside seat in the US political news reporting circus. As a young journalist he witnessed the Kennedy assassination in 1963 & for 42 years thereafter worked for CBS, 2 years (1964-66) as foreign correspondent in London & Vietnam, 15 years (1966-81), incl. the Nixon years, as its White House Correspondent & finally, for 25 years as its 'news anchor'. And after leaving CBS in 2006 he was associated for another seven years, until 2013, with the Dallas TX-based AXS TV cable channel. So his insights ought to carry far more weight than those of any other 'talking head' on CNN or any other news channel.

OUR POLITICS IS IN A PARTISAN DEATH SPIRAL. THAT'S WHY I AM LEAVING THE GOP (WP, Julian Amash)

· I came to America at age 16 as a (*Eastern Orthodox Christian*) Palestinian refugee. My parents both became Republicans at a time the party stood for limited government, economic freedom & individual freedom. But, while the Founding Fathers envisaged Congress as a deliberative body, it has become a formality to legitimize political leaders' dictats. Today's politics is trapped in a partisan death cycle & we owe it to future generations to tell the Republican-, & Democratic-, parties we will no longer let them indulge in their partisan games at our expense. Today I am leaving the Republican Party & ask you to join me in rejecting the partisan loyalties that divide & dehumanize us.

So he will now become the sole formally independent Congressman. This is as succinct a summary of the political situation in many countries today as I have seen yet [and I agree 100% with it, even though I disagree 100% with his political beliefs (that are somewhere way 'to the right of Attila the Hun')]. Still, he is what I would call an "interesting cat". Just 39 years of age, he is a lawyer

that has come up through the State of Michigan's educational system (his law degree is from the University of Michigan). After two years (2009-2011) in the State House of Representatives, he has represented the State's 3^d district in the Washington House since 2011 & in that time has apparently missed only one of its 5,374 roll call votes since. He is a member and/or cofounder of every far right/libertarian caucus among House Republicans & supports cuts in military spending on the (rightful?) grounds there is "significant waste". He once called Trump a "childish bully" whose attacks would be "constructive in the fifth grade ... but that's not how one gets things done..." And last May he angered many of his right wing constituents by being the sole Republican Congressman to support a call for Trump's impeachment.

HAMAS CHIEF OUTLINES TRUCE TERMS (Reuters)

- On June 20th Ismail Haniyeh reported that the truce deal between his group & Israel brokered by Egypt, Qatar & the UN (Israel won't talk to Hamas directly since it is "a terrorist organization") calls for two industrial zones, a new power line (from Israel) & a hospital to be built in Gaza but wasn't clear about when construction would start. The 2+MM Palestinians who live in Gaza have for years suffered from 50+% unemployment caused by Israeli & Egyptian blockades that recently was worsened by (US?) foreign aid cuts and sanctions from the Palestinian Authority, Hamas' rival in the West Bank. And Qatar (that likely will also be 'on the hook' financially for this undertaking), has in recent years funneled hundreds of millions of dollars into Gaza to stave off privation & fighting with Israel.

Increasingly so since Sunni Saudi Arabia's unsuccessful blockade of Sunni Qatar, the latter has been the closest of the Gulf Arab nations to majority Shiite Iran that has long had an interest in Sunni Hamas, because of their shared dislike/hatred of Israel. And I was quite surprised to see in a small map in The Economist how few countries in the region are allied with the US and how many are allied with-, or to varying degrees are sympathetic to Shiite Iran (in essence there are only three of the former, Saudi Arabia, UAE & Israel - total population < 45MM)

PUT IN'S RATINGS SLIP AS LIVING STANDARDS FALL (Reuters)

- In a June 20th Q&A session on TV the now 66 year-old PUT IN conceded that low living standards, poor healthcare & worries about garbage disposal are still Russians' most

acute problems. But he told viewers the years of falling real wages were drawing to an end as his government's programs would deliver higher living standards (prompting one caller from the *Southeastern European Urals* Samara region to tell him it was difficult to raise a family on a 10,000 rubles/US\$210 a month & ask him "So when will life get better?")

Now having been President or Prime Minister for two decades & re-elected President last year in a landslide, his popularity has (finally?) been dented by last year's pension reforms (that raised the pensionable ages from 55 to 60 years for women (down from an initially proposed 63 years) & from 60 to 65 years for men [while, according to the latest (2018) WHO data, their life expectancies are 77.2 years for women & 66.4 years for men (with the latter largely due to a rampant over-indulgence in alcohol consumption - until a decade ago beer wasn't even classified as such).

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Another first for Christine Lagarde - On Tuesday July 2nd the European Council nominated (out of left field?) &, subject to approval later this month by EU lawmakers, two women to two of the most powerful positions in the EU. One was 63 year-old **Christine Lagarde**, a vegetarian & fitness aficionado and Managing Director of the IMF, to succeed the former Chairman of Goldman Sachs International & Governor of the Bank of Italy Mario Draghi as President of the Frankfurt-based ECB next November 1st. This would be her fourth "glass ceiling" breakthrough; a French-educated lawyer, she joined, at age 25, the Chicago-based US international law firm of Baker McKenzie ⁹ where in six years she made partner & from 1999-2004 was its (first ever female) Chairman. Then she returned to France where in due course she became France's-, & the G-7 countries' -, first ever female Finance Minister & in 2011 became the first ever IMF Managing Director. And the second was that of German Defense Minister Ursula Von Der Leyen (age 60) as Head of the Brussels-based European Commission (i.e. its top bureaucrat with the responsibility for proposing new legislation & running the EU's day-to-day affairs). A medical doctor by training & mother of seven, she has served as one of Angela Merkel's ministers since she came to power in 2005, most recently, since 2013, as her Minister of Defense. A severe critic of Donald Trump, she has gone of record as saying, among others that "his strained relationship with Angela Merkel was due to his lack of

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That today is one of the largest such firms in the world with revenues of US\$3BN and 1,550 partners (400 of them women) & 13,000 employees worldwide.

familiarity with strong women ... A woman like Angela Merkel, a globally respected head of government with a long experience, probably did not exist in his world view until now” & “Donald Trump has to say clearly on which side he is : on the side of law, peace and democracy, or whether he doesn’t care about all that and instead he’s looking for a best buddy” (*i.e. PUT IM*). If confirmed, she will set two firsts at once, one by being the first woman ever to hold the post, & another by being the first German to do so since its first incumbent, Walter Hallstein, did so from 1958-1967 - *While Lagarde’s confirmation, despite her being French, should be a shoo-in, if only because of her track record at the IMF & is believed to share Draghi’s rather hawkish views on monetary policy, the same may not be the case for Von Der Leyen, since, upon hearing the news of her nomination, 63 year-old Martin Schulz, now a SPD (left-of-centre) member of the Bundestag & briefly the head of the SPD, and prior to that for 23 years a member-, & for five years the President-, of the European Parliament, dismissed her as Germany’s “weakest minister” (while her tenure was marred by allegations of mishandled contracts, right-wing extremism in the armed forces & ‘gaps’ in their military readiness, she nevertheless served longer in the post than any of her predecessors). But Lagarde’s confirmation may well re-open an international can of worms. For since their creation, the US has had the “right” to name the President of the World Bank & Europe that of naming the Managing Director of the IMF, something that may have made sense 75 years ago but has increasingly become an anomaly in the 21st century that was for the first time seriously challenged in 2011 in the lead-up to Lagarde’s appointment as IMF Managing Director & now may well re-emerge in full bloom.*

The Law of Unintended Consequences strikes again, albeit in a positive way? - On the 27th of this month it will be 66 years since the 2½ mile wide 388 square mile DMZ (that stretches 155 miles from coast to coast across the Korean Peninsula) was created. In the years since it has become a major nature preserve in which over 5,000 species of plants & animals have been identified, incl. over 100 that are protected because they are vulnerable-, near-threatened-, and/or endangered, incl. the Siberian musk deer, white caped-, & red-crowned-, cranes, Asiatic black bears, cinerous vultures & long-tailed gorals (a goat species). And, with the political justification for its existence likely to diminish over time, the South Korean government is making moves, with some input from the North, to have UNESCO name the entire DMZ a “Biosphere Reserve”.

US SETS OFF CRACKS IN KEY INTERNATIONAL POSTAL TREATY (NP, Naomi Powell)

· The Bern, Switzerland-based UPU (Universal Postal Union) has for 144 years coordinated

shipping rates & policies among its 192 member countries (incl. a policy of long-standing that gives emerging countries what the US calls “artificially low reimbursement rates”). So now the US is threatening to throw the system in disarray by, after having given notice last October, proposing to actually withdraw from it this October unless emerging countries ‘start paying their fair share’; for, as White House Trade Adviser, Peter Navarro, has told the Financial Times, this means it costs more to mail a package from Los Angeles to New York than from Beijing to New York (which wasn’t an issue when most international mail involved letters but has become one since Chinese online mail order packages weighing less than 2 kgs sent to US customers have started multiplying faster than rabbits.

But international freight rates are affected by lots of factors other than the UPU rules. A few years ago someone send me, at a cost of 5.60 Euros, a book from Germany’ and, just for the heck of it, I asked the Post Office what it would cost to send it back & was flabbergasted to be told C\$54, about 6x what it had cost the German originator (which I attributed to the Canada Post Office being out of control in its pricing to make for a deadly combo of declining volumes & high overhead). And two decades ago, when I was working on a container port project in Halifax, I learnt that while Heineken paid US\$300 to ship a 20-foot container of beer 4,900 kilometers from Rotterdam to Halifax NS, CN (Canadian National Railway) charged C\$1,500 to take one by water 1,100 kms from Halifax to Newfoundland. It can be due to unbalanced trade flows; thus the cost of shipping a container West across the Pacific is a fraction of an East-bound one & my No. 1 Son, the trucker, years ago hauled peat moss from Alberta to Arizona for \$800 & backhauled fresh fruit & vegetables from California to Alberta for 5x that amount. And I remember the case of someone who in the 1980s bought Mercedes-Benz cars in Switzerland, had them flown over to Houston TX & re-fitted to US emission standards & netted US\$8,000 per unit from their sale in Texas (all made possible by Mercedes-Benz’s pricing policies.