

GLEANINGS II - 830
Thursday January 30th, 2020

Quote of the Week - “Overall ... we see the economy as structurally less recession-prone today ... While new risks could emerge, none of the main sources of recent recessions - oil shocks, inflationary overheating, and financial imbalances - seem too concerning right now. As result, the prospects for a soft landing look better than widely held.” - Jan Hatzius, (age 51), Goldman’s Senior Economist ¹ - *Goldman has a well-deserved reputation for telling clients & the world one thing & doing the very opposite for the firm’s own account. Meanwhile, the bloom may be coming off the shale oil rose as Brent crude is down 20% from last April 26th, in December the US CPI was 2.3% YoY , up from 2.1% in November, 1.8% in October & 1.7% in September, while “core” CPI (i.e. ex food & energy) was up 2% or more throughout the 12 months to last November 30th (& in December also was up 2.3% YoY). And as far as “fiscal imbalances” are concerned, nothing much has changed since the IMF reported last October that “Many advanced economies are ‘living dangerously’ because the legacy of high debt burdens is weighing on economic activity and balance sheets, keeping risks to financial stability elevated. At the same time, many emerging market countries risk ... overheating and building up financial imbalances ... in the context of rapid credit growth, increasing asset prices, and strong and volatile capital inflows.”*

Quote of the Week 2.0 - “Naiveté about China’s global intentions can no longer be our excuse” - Charles Burton, December 12th, 2019. *Now an Associate Professor at St. Catharines-based Brock University, he got a Ph.D. from the UofT in 1987, after studies at Cambridge (in Oriental Studies) & at the Shanghai-based, prestigious Fudan University (in the History of Ancient Chinese Thought) and has served as Counselor at the Canadian Embassy in Beijing in 1991-1993 & again in 1998-2000. This came after his December 3rd blog “Resetting Canada’s Approach to China” & his November 28th one “Trudeau Government at a Cross Roads in its Dealings with China”.*

Another “elephant” off South America’s North Coast? - In 2015 ExxonMobil [in a JV with Hess Corp. (30%) & China’s CNOOC (25%)] struck oil at its Liza -1 15,000+ feet deep well in 5,500 foot deep water on its 10,000+ square mile Stabroek bloc in offshore Guyana (*on South America’s North Coast immediately to the East of Venezuela*) in what one of its executives called a “fairy tale” discovery. It has since drilled at least 15 more successful wells nearby that have identified 8+BN bbls of recoverable light oil in place, with the Liza - 1 discovery well now in the process of ramping up production to a 120,000 bbl/d rate. And on January 7th it was announced by Apache Oil that the Maka Central - 1 well of its 50-50 JV with France’s Total in its 2,000 square mile Block 58 offshore the one-time Dutch colony Suriname directly East of Guyana had found significant amounts of high quality (40 API) oil, prompting Kevin McLachlan, Total’s Vice President Exploration, to go on record saying “We are very pleased with this first significant oil discovery ... (*that*) proves the extension of the prolific world-class Guyana Cretaceous oil play into Surinam waters.” - *Both these countries would certainly meet President Trump’s “shit hole country” definition, Guyana has a population of about 800,000 & a per capita GDP of less than US\$6,000, and Surinam a population of less than 600,000 & still smaller GDP per capita; and while better days should be ahead for these countries [thus the IMF is expecting a (what must be a record-breaking) 86% GDP growth rate for Guyana this year], the record of small countries experiencing resource windfalls using the benefits thereof wisely has been anything but stellar [with Norway, & possibly Dubai, perhaps being the only exception(s) thereof].*

¹ German-born & an Oxford D.Phil, after being a Research Fellow at LSE. he joined Goldman in its Frankfurt office in 1997, moved to New York two years later, and became its Chief economist in 2005 & a partner in 2008). He ‘made his bones’ by correctly predicting the 2008 financial crisis.

Boeing's Fourth Quarter was its first money-losing quarter in 23 years - It reported a "core operating loss" of US\$2.33 per share for the quarter, down from a US\$5.48 per share profit YoY & negative free cash flow of US\$2.67BN down from a positive US\$2.45BN YoY. And its total 2019 fiscal year results were equally dismal, with Total Revenues down 24.3%-, and Gross-, & Pre-Tax-, Income down 77.2% & 80.6% YoY respectively YoY, and EBITDA down from +US\$13.92 to - US\$391MM & EPS from US\$17.85 to minus US\$1.12-, YoY. And to make matters still worse it had earlier announced plans to cut the monthly production rate of its main cash generator, the 787 Dreamliner, from 14 to 12 in late 2020 (& possibly to 10 by early 2014) – *And waiting in the wings are tens of billions of law suits by crash victims and airlines.*

China's baby problem - In 1979 Deng Xiaoping introduced China's One Child Policy to temper the growth of the population (that had increased almost 50% to 970 MM in the previous two decades, i.e. at a 2.2% CAGR) & it certainly was successful since the CAGR in the forty years since has been just 0.9% as the population grew to 1,386MM). But this accelerated the aging of the population, with its median age going from 19.3 years in 1970 via 21.4 in 1979 to 36.7 years in 2015]. And in the latter year the National Health and Family Planning Commission reported "our country has the most serious gender imbalance that is most prolonged and affecting the most number of people" ². So in 2016 Beijing abandoned the policy & started permitting, *if not outright pressuring*, couples to have a second child. But women of child bearing age haven't responded and, as often the case, a trend, once it has gained momentum, is like a ULCC oil carrier, very slow to change course; thus in 2019 14.7MM babies were born in China (the fewest since 1961 when the population was half today's size) down from 15.2MM in 2018, 17.2MM in 2017 & 17.9MM in 2016) - *Along with the African Swine Fever disaster, the Hongkong situation, the still decelerating economy & rising unemployment, & the coronavirus debacle (and the growing threat of financial instability?), this is one more, albeit less urgent problem, plaguing President Xi (& risking the earlier approval of his plan to become 'President for Life' once his two five year terms are up?). And longer term it will become the real policy 'elephant in the room' for the Chinese leadership in years to come, the double-barreled demographic problem that the one-child policy endowed it with, the fact that during the 37 year one-child policy era the average life expectancy went **up** from 67 to 75 years & the fertility rate **down** from 2.8 to 1.7 (i.e. deep into negative replacement rate territory).*

Coronavirus update - At the time of writing (Sunday February 2nd at 22:20 GMT) the total number of cases worldwide had risen to 16,763 (up by 2,201 DoD to more than twice the number of those infected by SARS in 2003) and the number of deaths to 361 (304 of them in China), up by 57 DoD (i.e. to a level still less than half the nearly 800 killed by SARS). Of this total 16,582 were accounted for by China [where **every one** of its 39 provinces has now reported cases & that that now has shut down the 9MM inhabitant city of Wenzhou 800 kms from Wuhan in Zhejiang Province (the one with the highest number of cases outside Hebei Province, where Wuhan is located)], bringing the number of Chinese in cities under 'lockdown' to over 60MM. The disease has now spread to two dozen other countries incl. Japan (20 cases), Thailand (19), Singapore (18), South Korea (15), Hongkong (14), Germany (10), US (9, one of them a brand new one), Macao (8), France (6), Canada (2), and Finland, Cambodia, Sweden, Nepal & Spain (1 each). The first death outside China was that of a 44 year-old Wuhan man who died in a Philippine hospital, one week after being admitted. Dai Yuming, China's Acting Ambassador to Switzerland

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In China today, among children age 0-6 there now are 118 baby boys vs 100 girls, well up from a global 103/100 (a number that is distorted by the fact that in India the ratio 108 per 100 girls), a ratio that may lay the seeds for social unrest down the road when young men are unable to find mates.

got his tits in a wringer when, at a press conference in Tel Aviv, he compared the closure of national borders to Chinese visitors to the turning away of Jewish refugees during the Holocaust, & Hubei Province's Vice Governor Xiao Juhua may well in for getting his knuckles rapped for telling a press conference that the situation in his province remained "severe and complicated" & that the medical resources at the country level are "relatively weak". And now the disease outbreak & the government's response thereto has started affecting the Chinese economy with many employers extending the post Chinese New Year's break, incl. Honda, half of whose motor vehicle production in China comes from Wuhan city.

Fox News presidential polling - On January 26th it published polls that showed that every likely Democratic standard bearer was outpolling President Trump : Biden by 50-41, Bloomberg by 49-41, Sanders by 48-42, Warren by 47-42, Buttittie by 45-41 & Klobuchar by 43-42,

Germany's economic outlook - The 0.6% 2019 GDP growth rate was down from 2018's 1.5% & a post-2013 low and on January 29th the government is expected to forecast a doubling thereof for this year (while partly due to the fact that this year, for the first time since 2016, there will be 254 working days in the year (& in 2021 there will be 255, whereas in 2019 there were just 251 and there had been 252 in 2018 & 251 in 2017), in part it's a function of this being a leap year but in part also since in Germany the number of public holidays varies from year to year) - *In the event, it was not positive news that on January 29th the government's forecast 2020 GDP growth rate was raised by just 0.1% to 1.1%, only half the increase needed to "double" it to 1.2%.*

Global economic outlook - In January, April, July & October of each year the IMF publishes its World Economic Outlook. Last October it described the situation "a synchronized slowdown with escalating downside risks that could further derail growth." Its latest version, made public on the 20th, projects the global economic growth rate going from 2.9% in 2019 to 3.3% in 2020 & 3.4% in 2021 [down from its October call by 0.1% for 2019 & 2020 and by 0.2% for 2021]. Much of it due to the slower growth in India (where it has slid from 8.17% in 2016 to 6.12% last year ³), a *situation that was to have started to reversing this year*]. But it warns such a recovery cannot be taken for granted, given the uncertainty thereof in stressed & underperforming emerging market economies & the expectation growth in the advanced economies will stabilize at current levels [it expects the US GDP growth rate to go from 2.3% last year (*down from 2.6% six months ago*) via. 2.0% in 2020 to 1.7% in 2021, with the corresponding numbers for the Euro area being 1.2%, 1.3% & 1.4%, for Latin America & the Caribbean 0.1%, 1.6% & 2.3%, for the Middle East & Central Asia 0.8%, 2.8% & 3.2%, for Sub-Sahara Africa 3.3%, 3.5% & 3.5% and for 'emerging & developing' Asia 5.6%, 5.8% & 5.9% - *Earlier, on January 2nd, it had reported total global debt was an all-time high US\$184TR, 225% of global GDP & on a per capita basis over 2½ x global average income), with the US, China & Japan accounting for over half thereof (nearly twice their 29% share of global GDP ⁴).* And it warned "with financial conditions tightening in many countries ... prospects for bringing debt down remain uncertain ... and the high levels of corporate and government debt built up over years of easy global financial conditions ... constitute a potential fault line." And the coronavirus-prompted First Quarter disruptions of normal economic activity

³ According to the Press Trust of India, GDP growth in the First Half of the fiscal year ending in two months was 4.8% & the rate for the year as a whole is expected to be 5%, much of it due to financial stress among rural households & sluggish job creation caused by the credit crunch among non-bank financial institutions, the major providers of retail-, & small business loans.

⁴ In 2018 the US accounted for 15.0% of global GDP, China for 9.3% & Japan for 4.1%, whereas seven decades earlier, in 1950, their shares had been 27.3%, 4.6% & 3.0%.

cannot help but have a negative impact on this quarter's growth rate, thus depressing the base for economic growth for 2020 as a whole.

Global population growth - The following originated with the Population Division of the United Nations Department of Economic and Social Affairs :

	2019	2030	2050
World	7,683MM	8,516MM	9,696MM
Sub-Sahara Africa	1,066	1,400	2,118
North Africa/West Asia	517	609	754
Central/South Asia	1,991	2,227	2,496
East/Southeast Asia	2,335	2,427	2,411
Latin America/ Carib.	648	706	762
Oceania	12	15	19
Europe/North America	1,114	1,132	1,136

In summary, the UN expects the world's population to grow 26% over the next 30 years & Asia's by 13%, but that of Sub-Sahara to nearly double. This will have a major geopolitical impact (and demographic forecasts have a very high credibility since those who will validate the forecast, i.e those in the 0-15 year-old female age cohort, are already "on the ground").

Netanyahu out of running room? - Israelis will in five weeks have to traipse once again, for the third time in less than 11 months, to a voting booth. And, going by the polls, nothing much has changed; for while the Blue & White opposition continues to have popular support in the 32-35% range, Netanyahu's Likud Party keeps trailing it with core support in the 30-32 % range, the Arab Joint List remains on course to be the third largest voting bloc in the Knesset with a higher voter turnout among the Arabs having boosted its support to the 13%-14% range, and potential kingmaker Avigdor Lieberman's Yisrael Beiteinu party remaining mired in the 8% range. Moreover, Netanyahu has now abandoned his attempts to get the Knesset to give him immunity from the three fraud-, bribery-, and breach of trust charges he faces - *While in recent days, the Israeli polling data seem to have moved the Likud's 'needle' to the upper end of its popular support range & that of the Blue and White to the middle of range, which may not be enough to give either Netanyahu or Gantz a clear shot at the Prime Ministership after the March 2nd election, & could lead to a further political impasse.*

Only in the now nearly three century-old Jack & the Beanstalk British fairy tale do trees grow to the sky - Today, January 23rd, 2020, the share price of Apple is up 102.4%-, of Microsoft 55.6%-, of Facebook 50.1%-, of Alphabet/Google's) 34.7%-, & of Amazon a measly 12.8%-, and of the S&P 500 25.7%-, YoY. To put this in perspective :

- these five companies account for 17.4% of the S&P 500 Index weighting, so the average YoY price appreciation of its other 495 stocks must have been well below 25.7%;
- three of these stocks pay no dividend (Apple & Microsoft have dividend yields of 0.96% & 1.22% respectively, the best thing about which that can be said is that this is better than the 0.16% average money market rate of interest;
- one of the very first things I learnt about the stock market, now over 60 years ago (*from a fraternity brother who was an investment analyst*) was that any Price/Earnings (P/E) ratio less than 10x or over 20x should be an amber red flag, a rule of thumb that has long stood me in good stead. So I look with a jaundiced eye at Apple's 27x, Microsoft's 31x, Alphabet's 32x, & Facebook's 35x, never mind Amazon's 83x - since then Facebook's latest results showed that while Revenues had been up 25% YoY, its rapidly rising security & privacy protection costs had depressed its Net Income growth rate to just 7% YoY (thereby raising its P/E ratio to Amazon's 'nose bleed' 80+% rate);
- the average S&P 500 P/E ratio is currently in the 25x range, a level at which it has been on only a few occasions in modern history : during the onset to the 2008 Great Recession, in the run-up to the late 90's 'dot.com bubble, prior to the 1992 market correction &, long ago, before the 1893 & 1896 stock market panics;
- something else that may be worth remembering is that only one of these five companies, i.e. Amazon, can be seen as catering, at least in part, to people's **needs** rather than their, these days often artificially-stimulated, potentially 'here today & gone tomorrow', **wants**. And the trouble with wants is that they are a) by their very nature fickle & can change overnight, & b) part of consumers' "discretionary spending", that is the first to be cut back when times get tough & money becomes scarcer; and
- market bubbles are not a new phenomenon. 170 years ago Charles Mackay, a Scottish journalist, documented several, going back to the 1630's Dutch Tulip Craze (*when a single tulip could be 'worth' as much as a house*); in his marvelous book Extraordinary Popular Delusions and the Madness of Crowds [*that Bernard Baruch (1870-1965), who started life as a stock broker, then went into business with, among others, John D. Rockefeller & became a multimillionaire, and finally morphed into a philanthropist & adviser to Presidents Woodrow Wilson, FDR & Truman, credited for his decision to sell all his stocks before the 1929 crash*] - What Mackay points out is that often "the price of an object is determined not by its intrinsic value, but rather by the irrational beliefs and expectations of market participants." In financial markets this is known as the "Greater Fool Theory of Investment", when people know they may be foolish to invest in an iffy investment but expect someone even more foolish to come along to take them out at a profit before the roof caves in (today's variant whereof is known as FOMO - Fear Of Missing Out). And, for as long as I can remember, the ultimate "marks" are always enticed into the 'game' by insiders with assurances that "This time it is different" [which has seldom, if ever, been so - to date two plus two has always remained four).

In the case of the Dow Jones 30, the five most heavily weighted stocks are Boeing, Apple, United Health, Goldman Sachs & Home Depot (with Microsoft in 9th place). These five account for 32.94% of its weightings & have P/E ratios of 50x⁵, 27x, 20x, 12x & 23x (the last of which is right on the Index's average P/E ratio).

⁵ One would have to be wild optimistic about the Company's prospects, or utterly looney, to buy this stock at this P/E ratio.

State of the US economy - On January 21st, on the first of the four-day 50th Annual World Economic Forum in Davos, & before a packed auditorium, President Trump painted a rosy picture of the US economy, crediting his administration's policies with achieving "an economic boom the likes of which the world has never seen before". But as he was doing so, Prof. Anya Schifrin, the Director of Technology, Media and Communications at New York City-based Columbia University's School of International and Public Affairs, & wife of Columbia Economics Prof. Joseph Stiglitz ⁶, was circulating among his listeners handing out a treatise by her husband seeking to debunk Trump's claims by, among others, noting that 44% of American workers have jobs that pay less than US\$18,000 a year, that *in real terms* the median wage of full-time male workers is 3% less than it had been four decades ago, that "Little progress has been made in reducing racial disparities in wages ... *and that* by 2026, when Trump's tax cut takes *full* effect, taxes will increase for almost 70% of middle income families." ⁷ - *In 2018 Prof. Stiglitz authored a 'scathing critique' of the WEF saying, among others, that "these economic elites barely grasp the extent to which this system [i.e globalization] has failed large swaths of the population", thus seemingly failing to grasp that he, as a tenured professor with job security & a secure pension, and author of several books & a US\$350,000 2001 Nobel Prize payout two decades earlier, is part of the "10%" elite himself. Moreover, as a prominent critic of capitalism his objectivity is questionable. And, finally, his choice of data with which challenge Trump's rhetoric left something to be desired; since :*

- **the US itself has seen much better periods of GDP growth in the post-WW II era than since 2016** - for in last decade the annual US GDP growth rate **never** reached 3% (ranging from 1.55% in 2011 to 2.93% in 2018, and for 2019 is expected to come in at less than 2.5%). On the other hand, during the 1970s the US GDP growth rate was over 3% in seven out of the ten years & as high as 6.50% (in 1966), with the corresponding numbers for the next four decades being 7x & 5.65% (in 1973), 6x & 7.24% (in 1984), 6x & 4.75% (in 1999) & 2x & 3.80% (in 2004);
- **abroad a number of countries have had equally long, if not longer, periods of positive GDP growth, often with peak annual growth rates that American policy makers can only dream about. Thus :**
 - China's 2018 6.57% GDP growth rate was a 27-year low;
 - India experienced uninterrupted 5+% GDP growth for 9 years;
 - Australia didn't have a recession for nearly three decades, during which its annual GDP growth rate was in excess of 3% in 18 of the 27 years; and
 - Singapore had 18 consecutive years of positive GDP growth, with the rate peaking at 14.53% in 2010, with the corresponding numbers for "shithole countries" like Kenya being 26 years & 8.41% (in 2010) & for Ghana 8 years & 14.05% (in 2011);
- **new job creation** - according to the BLS (the Commerce Department's Bureau of Labor Statistics) 6,900,000 new jobs were created in the three years ended December 31st, 2019 while in the previous three-, i.e. President Obama's last three-, years 8,0563,000 new jobs had been created. Moreover, while during the last three Obama years there had been 23

⁶ A former Chairman of the White House CEA (Council of Economic Advisers) under President Clinton) & World Bank Chief Economist (1997- 2001) and winner of the 2001 Nobel Prize in Economics. He has since 2001 also taught at Columbia & over the years has collected more Honorary Doctorates than a dog has fleas,

⁷ Still, the word is that White House in working on a plan to have a Tax Reform Package 2.0 to be made public over the summer to buy votes in next November's election (& further boost the deficit in years to come?).

months in which > 200,000 jobs had been created (incl. six in which the number had exceeded 300,000), while in the past three (Trump) years there were 14 & 1 respectively.

Just more of the usual braggadocio from Trump's imaginary world that undermines his, & his country's, global stature.

Trump peace plan - It will most likely fizzle but will nevertheless be mercilessly hyped in a Goebbels-like fashion. Anyone who had expected even a slightly more positive outcome had to be naive beyond words. The 'fix' had been in from the getgo; for the two movers & shakers behind it are Jared Kushner, Trump's Orthodox Jewish son-in-law, whose family has long financially supported Jewish settler causes, & the 61 year-old David M. Friedman, the US Ambassador to Israel, whose father was a Conservative rabbi & he himself a bankruptcy lawyer who had acted for Trump & the Trump Organization in their Atlantic City Casino bankruptcies. And he once headed the American Friends of Bet El Institutes, a New York-based anti-two state solution entity that over the years has poured millions of dollars into the now 6,000 inhabitant Bet El settlement in the West Bank, built since 1977 on 378 acres of, mostly once privately-owned, Palestinian land, whose nomination was confirmed by the Senate in March 2017, despite a letter from five former US Ambassadors to Israel declaring him "unqualified" for the job & the fact he had the gall to tell Senators during his confirmation hearings he was "in favour of a two-state solution".

When hard on the heels of the plan's publication Netanyahu started making noises about getting the Knesset moving forthwith on annexation, Kushner lost no time, in a January 30th video interview on Gzero Media, a subsidiary of Ian Bremmer's highly-regarded, NYC-based Eurasia risk analysis group, to try & put the kybosh on any such plans by saying "Let's see what happens ... The hope is that they'll wait until after the election." Unfortunately this came after he had accused the Palestinians of "playing the victimhood card (that no one plays better than Netanyahu himself with the Holocaust) ... and passing up an opportunity for a state", ignoring the fact that his plan had just given a green light to someone who, as one of his detractors put it a few years ago, "doesn't even stop for a red light." - I am an avid fan of Fareed Zakaria's Sunday morning GPS program on CNN, but this morning turned it off after he had given Jared Kushner half an hour to prattle vapid nonsense that demonstrated how little he understands how the real world works and, not surprisingly, how much of a Trump apologist he is (thus at one point, within 30 seconds, he first bragged how the President's approval rating was now, "for the first time since his inauguration over 50%" only then, when (mildly) challenged by Zakaria, with 30 seconds to refer to it as 46% (which was still overstating the case).

US monetary policy - On January 28th-29th the Fed's policy-making FOMC (Federal Open Market Committee) will meet for its regular six-weekly meeting. Prior to it Bloomberg reported that while no major policy changes (*i.e. no rate changes*) were expected (& *there were none*), its members have become increasingly pre-occupied with what they will be able to do, & what tools they will have at their disposal, "when", & not "if", the next downturn arrives - *Historically monetary policy has proven far more effective in throttling economies threatening to go into overdrive than in reviving them when they're on the ropes, a matter of simply psychology ; for when an economy slows, a 'batten down the hatches' attitude starts prevailing among financial decision-makers, large & small, that precludes much, if any, new borrowing, no matter how low its cost.*

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U.S. FAILS TO HIT GROWTH BULL'S EYE FOR SECOND CONSECUTIVE YEAR
(Lucia Mutikani)

•On Tuesday January 28th the CBO (Congressional Budget Office) forecast that this fiscal year (ending September 30th) the government's budget deficit will be US\$1,002BN (*which may well be optimistic since that would just be a 1.8% YoY increase after hikes of 26.3%, 17.0% & 13.5% in the preceding three years*). And two days later the Department of Commerce reported that, *as a result of annualized 2019 quarterly GDP growth rates of 3.0%, 2.0%, 2.1% & 2.1%*, its initial reading of 2019 GDP growth was 2.3%, down from 2.9% YoY. Growth had benefited from increased new home sales, higher government defense spending & a 1.48% boost from slower imports but had been adversely affected by a continuing drop in business investment, non-residential construction spending being at a three-year low level & a slower rate of growth in consumer spending (down to 1.8% annualized from 3.2% QoQ as the 1.5% real personal income growth rate had been little more than half the previous quarter's 2.9%). Included among the other headwinds this quarter were Boeing's production cutback announcements, confidence among corporate CEO's being at a 10-year low & the continued impact of the trade tensions on business confidence generally. And *longer term*, according to Gregory Dao, Chief US Economist at Oxford Economics in New York, "The new decade will bring about sub-potential GDP growth of around 1.7% ⁸ as numerous headwinds keep businesses sidelined while households reduce their outlays in line with gently cooling income." (underlining added)

In his press conference after the January 28th-29th FOMC meeting (that left rates unchanged) Fed Chair Jerome Powell indicated it expected "moderate economic growth to continue", confirmed its "commitment to higher inflation rates" (& thus higher interest rates?) & conceded that, due to the coronavirus, there will "likely be some disruption to activity in China and possibly globally ..."

U.S. ECONOMY TO COAST, NO BIG BOOST EXPECTED FROM U.S.-CHINA TRADE DEAL **(Reuters, Rahul Karunakar)**

- A January 16-22 Reuters poll of 100+ economists, as business leaders were gathering in Davos for the annual World Economic Forum & the IMF, *for the fifth time in a row* cut its global economic growth forecast, found that the phase one trade deal between Washington & Beijing was not expected to provide a significant boost to the US economy (& at best would only reduce the risk of an all-out trade war). Thus, according to Janwillem Acket, Chief Economist at the 130 year-old, US\$400BN AUM, Zurich-based private bank Julius Baer "The recent Phase 1 deal between the U.S. and China suggests decreasing odds of an escalation to a full bloom trade war. However, the deal so far isn't comprehensive enough to significantly boost economic momentum", to James Sweeney, Credit Suisse's Chief Economist, "Our views for 2020 are upbeat but cautious. A rebound from last year's manufacturing and trade slump is likely, but business will be hesitant to invest amid a host of ongoing uncertainties", to Kevin Sloane, Senior Economist at London-based Fathom Consulting "The growth slowdown has probably troughed but we do not anticipate a V-shaped recovery", & to Senior BMO Economist Sal Gualtieri "While recent progress is encouraging, we remain skeptical ... a broad accord can be reached this year as complex issues, such as state subsidies and forced technology transfers, still need to be resolved."

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It may not be all that "sub-potential", for the San Francisco Fed last September published a study that estimated that going forward the 'new normal' pace of GDP growth could be in the 1.50% -1.75% range. For it is a function of two major factors : growth of the labor force & of productivity, both of which have slowed down in the past two decades, the former to one-third of the 1.5% in the year 2000 and the latter to one-fifths of the 2.5% average for the decade ended December 31st, 2004.

Despite the partial trade agreement the consensus probability of a US recession this year appears unchanged from the earlier 20-25% for this year & the 30-35% over the next two years. And while there seems to be a greater sense of near-term optimism among economists generally than a year ago, nearly 75% of poll respondents, up from 60% a month ago, expect growth of the US economy this year to be below that previously expected for 2021.

WORLD LEADERS REACTION TO TRUMP'S MIDDLE EAST PLAN (Al-Jazeera)

- Some denounce it as “aggressive” and “one-sided” while others say it “could prove a positive step forward”. While Trump, side-by-side with Netanyahu at the White House, said “My vision presents a win-win solution for both sides”, Turkey called it “stillborn & Iran “doomed to fail”, while Qatar (*that is Al-Jazeera’s home base & whose government funds it*) welcomed the effort to broker a “long-standing and just peace”. On the other hand, Saudi Arabia, while it said that it appreciates Trump’s efforts, called for direct Israeli-Palestinian talks, while Egypt urged a “careful and thorough examination of the US vision” (*both observations were likely coloured by Egypt being financially-, & Saudi Arabia politically-, beholden to Washington*). Among the Europeans the UK gave it the warmest reaction (since *Boris Johnson doesn’t want to antagonize Trump going into the post-Brexit era?*), with Foreign Secretary Dominic Raab calling it a “serious proposal reflecting time and effort”, while the top EU diplomat, *Spain’s* Joseph Borrell, said that it must “study and assess” it & Heiko Maas, Germany’s Foreign Minister, that “only a negotiated two-state solution, acceptable to both sides “would work”. And elsewhere Shah Mehmood Qureshi, Pakistan’s Foreign Minister, issued a statement saying that “Pakistan continues to support a just and lasting solution to the Palestinian issue through dialogue and negotiations that leads to the realization of the legitimate rights of the Palestinians, including the right to self-determination”. And on February 1st, the Arab League formally rejected it.

Perhaps possibly the most interesting reaction was that of Saudi King Salman who first spoke himself to Palestinian President Mahmoud Abbas by phone after the plan was made public & then had his Foreign Ministry issue a statement that Saudi Arabia “appreciates the efforts of President Trump’s administration to develop a comprehensive peace plan” but nevertheless called for direct peace negotiations. And the media’s reaction wasn’t very positive : the NYT called it “A Deal That Has Two Elections, Rather Than Mideast Peace, As Its Focus”, the Washington Post under the headline “Trump’s ‘Deal of the Century’ is No Deal At All” noted that “Rather than working to bridge the profound gap between the Israelis and Palestinians that has bedeviled US policy makers for decades, the Trump administration has spent the past three years doling out concessions to the former, while placing its boot on the latter, while the London-based, and, like Fox News, Rupert Murdoch-owned The Times under a headline “Trump’s Plan for Peace between Israelis and Palestinians : Middle Eastern Promises” pointed out that it would give Israel full sovereignty over the hill known to the Jews as the Temple Mount & to Muslims as Haram al-Sharif, which is holy to both ... and while promising a Palestinian capital in East Jerusalem ... describes the city as the “undivided capital of Israel”, pointing out it cannot be both.

TRUMP’S PEACE PLAN HAS 99 PROBLEMS BUT ISRAELI ENGINEERS SAY A TUNNEL AIN’T ONE OF THEM (Times of Israel, Josefin Dolsten)

- Since its release on January 28th, President Trump’s long-awaited peace plan has met with plenty of skepticism as to whether it could actually settle a decades-long conflict, where so many other American presidents have failed, with a plan that was devised without consulting the Palestinians. But some critics zeroed in on one specific aspect of

the plan, the proposed 30 mile high speed rail tunnel that would connect the geographically distinct territories of a potential future Palestinian state that has been widely mocked on Twitter as “crazy”. But that may be the least of the peace plan’s problems, at least according to Arnon Rozen, an Israeli engineer who has specialized in tunnel building for 30 years, who told the Jewish Telegraphic Agency the next day “This is something which from an engineering point of view ... can be done - no problem”, pointing to the US\$ 21BN 31 mile *Chunnel* tunnel between France & England that was completed 25 years ago & the US\$9BN 34 mile railway tunnel now being built under the Alps to link Austria & Italy.

And there may be other problems with the tunnel idea. First of all, its above-noted 30 mile length is at odds with the official 60km/37 mile “as a bird flies” distance. Secondly, Rozen’s estimate that it might cost “several tens of millions or more” likely is a vast underestimate. While it cannot help but be a tiny fraction per mile of that of the two examples mentioned above (that posed world class engineering challenges), in 2014 Israel completed construction of a 7.6 mile, four-lane highway link between Highway 4 & the Trans-Israel Highway at a cost of NIS700MM/ US\$210MM (i.e. US\$27.8MM per mile); this seems to suggest that the cost of building a technologically far more challenging high speed rail tunnel could easily be a multiple of that US\$27.6MM/mile; in other word, the cost of the tunnel project could easily go to, or significantly exceed, US\$1BN (which then raises the question as to who would fund it). Having said that, it is a pity the paper didn’t make even an itty, bitty attempt to highlight the other 98 problems with the Trump plan.

HAS THE US ALREADY LOST THE BATTLE FOR THE SOUTH CHINA SEA? **(SCMP, John Power)**

- During his April 2018 Senate confirmation hearings the now Commander of the US-Pacific Command, Admiral Philip S. Davidson, told Senators “China is now capable of controlling the South China Sea in all scenarios short of war with the United States”. And today there is a growing sense he didn’t go far enough; for experts contend Washington’s *once* strategic advantage in this critical waterway has diminished so much that now it would be powerless to prevent Beijing from restricting access to it during peacetime & would struggle to gain the upper hand in the event of an outright conflict with China. And according to James Kraska, a former US Navy Commander who now lectures at the US Naval War College “The US has lost advantage throughout the spectrum of operations, from low-level interaction against China’s militia to higher-end conflict scenarios ... In other words, China has escalated dominance *in the region*, because it has the power to deter any US turn towards escalation. The US is outmatched in all scenarios.”⁹
- Since 2012 Beijing has *laid claim to*-, & constructed military bases & outposts on-, over two dozen disputed reefs & islets *within the 200 mile EEZs (Exclusive Economic Zones)*

⁹ Calling him a “former US Navy Commander who now lectures at the US Naval War College” is not unlike calling a Ferrari or a Rolls Royce “a car”. For he is the Chairman of-, & Charles H. Stockton Professor on International Maritime Law at-, the US Naval War College in Newport RI, a Distinguished Fellow at the Law of the Sea Institute at the UoC (Berkeley), a Senior Fellow at the Center for Oceans Law & Policy at the University of Virginia Law School & an Honorary Visiting Professor at India’s Gujarat National Law University and has been a Visiting Professor of Law & John Harvey Gregory Lecturer on World Organization at the Harvard Law School, the Mary Derrickson McCurdy Visiting Scholar at Duke University & a Naval Research Fellow at the Woods Hole Oceanographic Institution. And as to his naval service, it included time at the Pentagon as its Director of International Negotiations at its Joint Staff.

under the 1982 UN Convention of the Law of the Sea ¹⁰ of the Philippines, Vietnam, Malaysia, Indonesia, Brunei & Taiwan, enabling it to deploy missile batteries, radar systems & military aircraft hundreds of miles from China's mainland ¹¹. And China's 'blue water' naval buildup has reached the point where the US Naval College projects that by 2030 it will have over 430 surface vessels (& 100 subs), *as many, albeit with a much smaller tonnage, as the US Navy*, & according to Tong Zhao, a Senior Fellow at the Beijing-based Carnegie-Tsinghua Center for Global Policy "China's capability to mass produce modern naval vessels and advanced coastal ships at a faster rate than anyone else also contributes to Beijing's confidence that it can gradually shift the military balance in this region to its favor". Washington's waning dominance in the region has not gone unnoticed among the Southeast Asian claimants of sovereignty in the South China Sea that are at loggerheads *over the issue* with Beijing; according to a report by the Singapore-based ISEAS-Yusof Ishak research Institute entitled The State of Southeast Asia : 2020 nearly half the citizens of the ASEAN member countries (*Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand & Vietnam that have a total population of 625+MM*) have little or no confidence in the US providing regional security (& over three quarters believe US engagement in the region has declined during the Trump administration), even though 54%, *most of them in the Philippines, Singapore & Vietnam (that account for slightly less than half the group's total population)* still said they would opt for the US, if forced to align themselves with either Washington or Beijing.

In December Beijing officially put its first home-grown aircraft carrier, the Shandong, into service (& started construction of the second of what is planned to be series of six). Its the first voyage of which was a provocative "showing the flag" one in the Strait of Taiwan. While about two-thirds the tonnage & the airplane-carrying capacity-, and less than half the cost-, of the US mega carriers, it now (sort of) qualifies China as having a "blue water" navy that within years will have more numerous vessels than the US Navy. And to increase the odds even more in its favour, Beijing has developed anti-aircraft carrier missiles that will target America's behemoth counterparts from space at speeds in the 5+ Mach range that the US Navy has yet to figure out how to effectively protect its carriers against.

CHINA LEADS THE RACE TO EXPLOIT DEEPSEA MINERALS (Reuters, Nerijus Adomaitis)

- The Kingston, Jamaica-based ISA (International Seabed Authority) is an intergovernmental body created two decades ago to organize, regulate & control all mining-related activities in the international sea bed regions (i.e. the 43% of the sea bed beyond individual nations' 200 nautical mile 'economic zones'). Ghana's Allotei Dunton, a UN staffer & an expert in the so-called 'polymetallic nodules' found on the seabed, was its founding Secretary-General & was succeeded on January 1st, 2017 by his Deputy, Britain's Michael Lodge, an international lawyer with a background in the UN Law of the Seas. It currently has 167 member countries, incl. Canada & the EU (the US has 'observer' status) & targets having seabed mineral exploitation rules in place by mid-2020, a seemingly daunting, if not unrealistic, task for an international agency with a budget of < US\$10MM & a staff of 37.

¹⁰ Thereby not just militarily-, but also economically-, encroaching on these countries' sovereignty, given the fishing stocks -, in, & the supposed oil & gas reserves underneath-, these waters.

¹¹ And in Brunei's case 750 nautical miles from the nearest PRC landfall on Hainan Island, nearly 3x the national territorial waters' limits under universally agreed-to international law.

The US Geological Survey believes that the deep sea holds over half the world's reserves of cobalt, nickel, copper & manganese, and of rare earth metals critical to many hitech electronic applications & car batteries. Last July Greenpeace called for a moratorium on all deep sea mining until more could be learnt about its potential long term impact on the deep sea eco system(which, of course, was rejected out of hand by the ISA that as of last October had signed 30 contracts with governments, research institutions and commercial entities, five of them with China alone & others with Belgium, Bhutan, Germany, Poland & Middle Eastern countries) and wants to start issuing exploration permits in two or three year, despite the fact that agreement on royalty payments (by whom, how much & to whom) will likely prove a major sticking point.

'A SYSTEM FOR OVERSEAS PEACE' (NP, Douglas Quan)

- The China Daily, a Chinese Communist Party-run English language newspaper, published an article in 2016 announcing plans for launching *groups of "consular liaison volunteers" abroad* to aid Chinese embassies & consulates (*because of the "increasing number of Chinese people traveling abroad for business or tourism ... who encounter problems as they go"*) & that 27 Chinese residents from abroad had *already* been in Beijing for 11-day training programs. And recently the Chinese Consulate-General in Vancouver announced the formation of such a group there to "assist Chinese nationals who had run into legal trouble or physical danger in Canada" & that it had already recruited some prominent Chinese-Canadian community leaders, "in keeping with the watchful solidarity of the Chinese people", for what it called "an honour and a responsibility". But when the National Post invited Chinese consular officials to explain the role of the volunteer corps & to respond to critics' concerns, they were told in an email "Please refer to our official website". And then on December 11th the consulate posted, on the Chinese language version of its website, a link to an article about a 'training symposium' held earlier for volunteer recruits that was accompanied by a picture of the more than a dozen people ¹² holding up their certificates, *stating that* defending the safety & legal rights of overseas Chinese citizens "is an important duty of the Vancouver consulate and a responsibility the consul general cannot shirk ... Greater Vancouver has many Chinese emigrants, exchange students and tourists, and incidents of injury, illness, disappearance, detention, fraud and so forth involving Chinese citizens remain frequent. In order to adapt to a new era, and new higher expectations of excellence in overseas public service and effectiveness in overseas legal defense, it is necessary to innovate new approaches and elevate the effectiveness of consular protection." But according to David Mulroney, a former Canadian ambassador to China *from 2009 to 2012* & a former Ottawa 'mandarin', and now a Senior Fellow at the UoT's Munk School of Global Affairs, "I believe that there's more to the consulate's efforts than simply training consular volunteers, and that they may be looking to enlist Chinese citizens, and even Canadians, to promote the Communist Party's political agenda"

It's ironic that the Chinese consulate in Vancouver can come up with such errant nonsense when it has ready access to the one Chinese citizen in Vancouver who was arrested there (pursuant a

¹² Incl. Hilbert Yiu & James Chu, the current & former presidents of the Chinese Benevolent Association of Vancouver, an umbrella group for more than 100 Chinese associations, that earlier this year made the headlines when it took out large ads in Chinese language newspapers denouncing the Hong Kong protesters as "radicals" and supporting the proposed extradition bill *that had prompted the protests*, saying it was not doing so to promote the Chinese government's point of view but to "support peace in Hong Kong".

US warrant issued under a Canada-US extradition) and who, while out on bail, is living a relatively normal life in her \$16MM mansion, with Chinese diplomats & her battery of lawyers having ready access to her, while the two Canadian citizens arrested in retaliation on trumped-up charges are incarcerated in Beijing under far less pleasant circumstances, with little ready access to legal beagles or Canadian diplomatic staff while the Canadian government has lacked the balls to demand, for the sake of reciprocity, equal treatment for them. And according to Brock University's Prof. Charles Burton "This program would play into the PRC rhetoric that Canada is a dangerous and hostile place for persons from China and (that) therefore they should identify with China and seek protection from the PRC authorities" - It is also in line with President Xi's position that the first loyalty of all ethnic Chinese anywhere in the world is to China, not to their country of residence and/or citizenship, no matter how many generations their family may have lived there". This likely is a sentiment with roots in Xi's early 20's, when, half a century or so ago, he had been "sentdown" youth (with undesirable rebellious streak) who was made to live for seven years among Yanan peasants in Shaanxi Province, 1,000 kms East & South of Beijing (during which time, according to François Bougon in his 2018 book *Inside the Mind of Xi Jinping*, he had turned from an "embittered teenager" into someone "so committed to party service that he would apply ten times for party membership.") Thus in 2004 Xi once described his time in the Yanans' yellow loess ¹³ country as "seven years of rural life that [gave] me something mysterious and sacred ... Even now ... many of the fundamental ideas and basic features I have formed were formed in Yanan", while expanding on that two years later with "Wherever I go, I will always be a son of that yellow earth."

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According to the IMF the informal economy is shrinking everywhere (as a % of the total) -

	1991-99	2000-09	2010-17
Sub Sahara Africa	40%	38%	33%
Latin America/Carib	39	37	32
South Asia	33	32	27
Middle East/North Africa	26	22	18
East Asia	24	22	18
Europe	23	20	17
North America	10	8	7
OECD	17	15	13

While governments welcome this, it may well, in a purely macro-economic terms, be detrimental to the world's overall wellbeing; for, being "grass roots based", the informal economy is entrepreneurial & efficient, while government, by definition, is neither.

Iowa & New Hampshire Democratic primaries - The media hype about them may be misplaced. For both are about as unrepresentative of the nation as imaginable. Population-wise Iowa & New Hampshire, with 0.95% & 0.40% of the US total respectively, are irrelevant. While at last report

¹³ A soil type that is a mixture of clay, silt & sand that is among the most fertile in the world.

(2010) 80.7% of Americans lived in urban areas, the comparable ratio for Iowa was 64.0% & for New Hampshire 60.7%. Neither has any cities of significant size; their biggest, Des Moines IA & Manchester NH, have populations of 217,000 & 111,000 respectively. Few, if any, US states are more ethnically homogeneous : Iowa is 93.2%-, & New Hampshire 94.8%-, white (and *at National Democratic Conventions Afro-Americans account for one-fifths of all voting delegates, a similar proportion as college-educated whites & the far-lefties.* And the New Hampshire population's average age is 4+ years (10%) higher than the US average.

New source of inflation & public health hazard? - The IMO (International Maritime Organization) is a *low profile* London-based UN Specialized Agency responsible for the safety & security of the international shipping industry & for limiting its impact on the environment. So in October 2016 it ruled that, effective January 1st 2020, all ships would have to be powered by fuels with a sulphur content of 0.5% or less (*down from the current 3.5% limit*) or be fined. This is expected to affect the price of many consumer goods since it will affect diesel fuel prices & since today the vast majority of consumer goods are carried to market by ships.

But an exemption will be made for ships fueled by high Sulphur content bunker oil provided they have water-based, 'sulphur scrubbers' in their exhaust systems (which begs the question how the resultant sulphur-laden waste water will be disposed of). And there could be another problem; the lower sulphur content fuels have a higher carbon content that could raise marine engines' "carbon black" emissions by as much as 85%. And carbon black stays in the air for only a two weeks or so before coming down to earth & so is environmentally-unfriendly to a degree second only to CO₂. For it speeds the melting of snow & ice in the Arctic & Antarctica and on the world's glaciers, speeding up the raising of global sea levels and, in addition, has a public health cost since the small size of its particles means they are easily inhaled & lodged deep in people's lungs.

THE WORLD'S LOOMING WATER CRISIS (National Bank of Canada, Angelo Katsoras)

- There is lots of water on earth. But 97.5% of it is salt water & much of the remaining 2.5% is locked into glaciers &, to a lesser extent, the Arctic permafrost, leaving about 0.75% available for human use in ground-, or surface-, water, or in the atmosphere. Worldwide, agriculture accounts for 69% of all water consumption, a percentage that varies widely by region : in Europe it is 20%, in North America 42% & South America 70%, in Asia 80% (but in South Asia 93%), & in Africa 83%. Of the remaining 31%, industry accounts for two-thirds & municipalities for 12% (with the latter expected to account for a growing share thereof in the years to come due the still growing trend towards urbanization);

The geographical distribution of the world's fresh water resources is very uneven. China & India account for 36% of the world's population but for only 11% of its readily available fresh water resources (*with a significant portion thereof locked in the now rapidly shrinking Himalayan glaciers*). And more specifically, the global water imbalances are :

	% of global population	% of available fresh water
Africa	16	10 ¹⁴

¹⁴ And, given the above-noted population growth forecasts, it is obvious that any incipient global water crisis is going to bite far hardest in Sub-Sahara Africa than elsewhere.

Asia	60	33
N. America	5	20
L. America	9	16
Oceania	1	3
Europe	10	8

- According to the Washington-based World Resources Institute (with offices elsewhere in the US and in China, Indonesia, Brazil & India), 17 countries (that are home to one-quarter of the world's population) are now experiencing 'high water stress' (i.e. drawing down 80+% of their available water supply) while another 44 countries are experiencing 'water scarcity' (i.e. doing so at a 40+% rate);
- In 2017 UNESCO estimated that 80% of the world's waste water is not treated;
- In Europe the % of water "lost" through system leakage before delivery to end users varies from 47% in Ireland via 26% in the UK & 20% in France to 5% in Holland; and
- In China the number of *flowing* rivers has declined from 50,000 in 1988 to 28,000 in 2013.

According to India's Water Board ground water provides 40% of the country's water supply while by all accounts withdrawals thereof have been excessive to the point that the country now faces a serious "ground water crisis". And India's water situation may in the years to come be made worse by Beijing's ambitious South-North Water Transfer Project that will move water to its water-deficient Northeast from rivers springing on the Tibetan Plateau (incl. the Indus & Brahmaputra, India's second & fourth largest rivers, that since time immemorial have been major sources of surface water for the Indian sub-continent). And on January 22nd the Trump administration moved on one of his campaign promises by reducing federal restrictions on the nation's streams & wetlands, a move welcomed by farmers & developers but opposed by environmentalists who are afeared that this will affect the availability of clean water for human consumption purposes.

DEATH OF RUSSIAN OLIGARCH LAST WEEKEND SPARKS RUMOURS THAT PUTIN HAS ORDERED ANOTHER KREMLIN HIT IN THE UK (The Times, Heidi Blake)

- Last weekend (or more precisely on Monday November 25th) when police arrived at a tranquil lane in the Surrey countryside they found a dead middle-aged man & his dog who had been mowed down in a three vehicle accident. The man was 49 year-old *billinaire* Dmitry Obretesky, who had made his fortune in the chaotic, smash-and-grab of post-Communist Russia & *allegedly, while still in his 20's had been played a role in Putin's rise to power*, but had moved to London in 2001 & become a burr under his saddle by making his £6MM Hamilton House home base in the "8 century, low-density" village of Oxshott, a centre of opposition to his rule. According to one of his business associates "He was specially knocked down ... People drive very carefully in Britain." And this may not so far fetched since Obretetsky is only the latest in a long string of Russian dissidents/Putin critics (& *people with a business relationship with Obretetsky*) who have been gunned down, poisoned, hit by cars, *throttled*, fallen from windows, beaten to death or blown up.

This has been going on since long before Putin came to power. But the actual number of victims may never be known since one way of doing them in was to use a poison whose symptoms masqueraded as heart attack ones. The first such case I can recall dates back to the Cold War

days when in 1976 Georgi Markov, a Bulgarian emigre, while waiting at a bus stop near London's Waterloo Bridge felt a sudden sharp sting in the calf of his leg & died three days later from ricin poisoning (apparently the prick in his leg had been administered by a specially-built umbrella that had a hypodermic needle built into its tip).