

GLEANINGS II - 849
Thursday August 27th, 2020

Atlanta Fed's GDPNow current reading – On August 28th it was 28.9% annualized, vs. 25.6% on August 26th & 11.0% on August 1st - If this were to hold for the entire quarter, *which, being two-thirds through it, is unlikely*, it would bring the annualized YTD GDP growth rate to minus 2.5%.

Buffett buys into Barrick Gold - Berkshire Hathaway's Second Quarter report to the SEC revealed it had sold US\$3+BN worth of US bank stocks, incl. its entire US\$300MM holding of Goldman Sachs shares, & had bought 20.9MM ¹ (US\$564MM worth) Barrick Gold shares.

China - This week Foreign Minister Wang Yi is touring Europe to restore China's now "somewhat tattered" reputation there. He will *try* & make the case for increased multilateral & improved Sino-European relations & warn against the self-defeating dangers of economic decoupling since "A forced decoupling is like a boomerang ²". Meanwhile, back home the fallout from the pandemic, the ongoing efforts by the US to cut China off from Western markets (& *the Yangtze flooding?*) are necessitating some deep thinking in Beijing on economic policy.

So on Monday August 24th Xi Jinping gathered *nine* top economic officials & economists (*not including Premier Li Keqiang, who supposedly is in charge of economic policy*) to discuss 'China's economic challenges' & what to do about them, telling them "International economic, technical, cultural, security and political structures are undergoing profound adjustment, and the world has entered a period of turbulent change". And he thinks the "main task" is to make China's economy more resilient to external shocks since "In the future, we will face a more adverse external environment, and ... must be prepared to deal with a series of new risks and challenges", his answer to which is what he calls "dual circulation", making the economy more resilient to external shocks by making domestic demand its main driver (*long known to the West as "isolationism"?*)

According to Xi this is merely an acceleration of trends already in motion; for as he explains it, "Since the 2008 global financial crisis, our economy has been transforming to one where internal circulation plays the main role ³ ... In the future, the distinctive feature of the domestic market guiding the national economy will become even more obvious ... For other countries, it will provide even larger market opportunities and become a tremendous gravitational field attracting international goods and factor resources."

His dual circulation theory emphasis on domestic consumption suggests self-sufficiency at the expense of openness. But according to Xinhua he has also expressed the belief that "international

¹ I.e. 1.2% of the total outstanding.

² A wooden, often L-shaped, wooden "throwing stick", most commonly associated with the Australian aboriginal culture, but also known to have once been used in India, Europe, North America & North Africa, that has the unique feature of returning to its thrower when it misses its target.

³ This century exports as a share of China's GDP went from 20.9% in 2000 to a 36.0% high in 2006 & to 18.4% last year in a process that started long before Xi became President - *This information comes from an interesting old, 20,000 employee Dutch information services company. Wolters Kluwer that since 2003 been headed by an American female CEO who regularly makes Fortune's & the Financial Times' lists of the 50 Most Powerful Women in the World, in 2011 was named to China's Foreign Consultant Committee & has done well for the Company's shareholders since its share price since 2003 has increased 627% vs. the S&P 500 375%.*

economic connectivity and exchanges are still the objective requirements of world economic development ... An important driving force for our country's sustained and rapid economic development is opening up ... (and) our country's ... connection with the world economy will be closer ... We must actively cooperate with all countries, regions and companies that are willing to cooperate with us, including American states, localities and companies."

The above summarizes the views of a Beijing-based strategic policy advisory group that has been, & will remain, the source of some observations on China reported on in here. That said, my sense continues to be is that Xi will be hard pressed to maintain his status after 2022, if only because the 1Q/20 -6.8% & 2Q/20 3.2%, and the IMF's forecast annual 1.2 % rate for 2020, are not just a long way from the post-1989 peak GDP growth rate of 12.2% in 1Q12, but well below the 6.5% rate Beijing policy makers have long deemed a potential tipping point into social unrest. To make matters worse, despite Beijing's recent years' efforts to financially delever its economy, according to the Washington-based IIF (International Institute of Finance) China's total (i.e. government + corporate + household) debt had grown at an annual real double digit rate since 2008, & in the First Quarter alone went from 300% to 317% of GDP, with consumer debt (for mortgages & consumer loans) the fastest growing of the three sectors (in 1Q/20 it was 54.3% of GDP, up from 51.4% QoQ). And, while since 2013 China has "invested" in/loaned to 112 countries US\$730BN in pursuit of Xi's Belt & Road dream, it may in the years have difficulty getting a return on those 'investments or collecting payment on those loans. And his plan to remake the Chinese economy on a "Marxist model" ain't going to help & neither does him talking out of both sides of his mouth. Last but not least, his seeking to attract foreign capital reminds me of efforts by financial empire builders like IOS' Bernie Cornfeld in Europe in the 1960's & in Canada's Dome Petroleum's Jack Gallagher in the 1980s who, when faced with financial crunches that later killed their empires, went into the financial community looking for new money from suckers who got their just deserve. So any Western entity or person that is going to invest in China may well end up getting a costly lesson in not listening to snake oil vendors.

GNN (Golf Net News) factoids :

- Since President Trump spent at least part of the day on one of his golf courses on 22% of his days in office;
- As of August 22nd he had played golf on 288 days since becoming President whereas President Obama had played 333 rounds in his eight year Presidency. So, since "Trump was particular critical of how many rounds of golf President Obama played in office ... now he looks somewhat hypocritical in retrospect"; and
- "He seems to struggle with basic golf etiquette, as he has driven golf carts on a green".

Interest rate & inflation outlook - On April 27th, at the Kansas Fed's, *this year virtual*, annual Jackson Hole WY policy symposium, Fed Chair Jerome Powell announced a major shift in the way it intends to achieve maximum employment and stable (???) prices, based on 'lessons learnt from the most recent expansion'. Emphasizing its goal of reaching maximum employment, he said that, after it had debarked on a long review of its monetary policy framework, it had concluded that inflation could temporarily run a bit over its 2 percent target, if that meant more Americans could stay in or join the work force, saying "Our revised statement reflects our appreciation for the benefits of a strong labor market, particularly for many in low- and moderate-income communities and that a robust job market can be sustained without an unwelcome increase in inflation." (so *the Fed is giving official notice it believes employment can run stronger & the economy run 'hotter' without setting off unwanted spikes in inflation*). Adam S. Posen, president of the Washington-based PIIE (Peterson Institute for International Economics) has two reservations : "One ... does inflation ever come back? ... and two, if it does come back , will the committee (i.e. the FOMC) ... carry through on this commitment ... not to worry too much? And those are great unknowns."

On Wednesday August 12th the BLS reported that in July on a YoY basis its “all items index” for the CPI had been up 1.0% & its “all items less food and energy index” 1.6%. But the fine print is a bit scarier: for it shows that on an MoM basis the “index for all items less food and energy” had, for the second month in a row, been 0.6% (i.e. 7.44% annualized), a post-January 1991 high. YTD the US money supply has grown 20.4% & industrial production declined 11.3%; this means there will be more money chasing fewer goods, a recipe for the emergence of inflationary pressures. On the other hand, there are economic ‘undertows’ that may affect that simplistic conclusion. First of all, on the supply side US imports from China that after declining 40.5% to US\$19.8BN in the First Quarter, had grown by 89.9% to US\$37.6BN in the Second (thus adding to the supply). Secondly, the US personal savings rate increased from 7.9% in January to 32.2% in April (although at last report, in June, it had declined again to 19.0%) for a negative effect on demand. And finally the income inequality situation means that upper income families generally experienced less income “erosion” than those lower on the totem pole (although the consumption ‘propping-up effect’ thereof is muted by them spending less of their income on consumption).

Powell’s “long review of its monetary framework” statement is balderdash, as is his claim the economy can run hot without setting off unwanted spikes in inflation. Both more likely were almost spur-of-the-moment decisions, as did the FDA & CDC, sixty-odd days before a critical presidential election, to dance to the incumbent president’s political tune, hoping that it/they can somehow later undo the resultant long-term damage to their credibility.

Historically, it’s been proven time & again that, once it gains a foothold, controlling inflation is easier said than done. And Powell is old enough to remember the late 1970s ‘Stagflation’ (combination of high inflation & slow growth) era that was brutally ended by Paul Volcker’s double digit interest rates.

Kenosha shooting - The entire world must have seen on TV the bystander’s video of how a white Kenosha city policeman, *supposedly holding him by his shirt*, pumped seven rounds into Jacob Blake’s back. Shortly after the Democrat Wisconsin Governor Tony Evers issued a statement that Blake had been shot in the back in “broad daylight” & urged all to take a stand against “excessive use of force & immediate escalation when engaging black Wisconsinites”, Pete Deates, the president of Kenosha’s police union, had the gall to issue a statement that called Evers’ statement “wholly irresponsible” (since “the video may not capture all elements of the incident”). And not surprisingly ever since there has been a flow of ‘ass covering evidence’ that Blake was a “bad dude” & that the shooting had been the culmination of a series of events, none of which is relevant in the context of the core issue (namely that Blake was ‘overdosed’ with lead in his back from a point blank range) - *One problem in the US is that police are often not well paid, although the Kenosha police officers’ base pay is above the national US\$56,800 average. And another is their weaponry; for the Glock 22 pistol, now carried by 60+% of US police officers, is semi-automatic (& can easily be made fully automatic?), has a 15 round magazine (gross overkill for officers other than SWAT team members?) & no safety lever [marketed as “advantageous” since officers in need can fire their weapons without having to flick a switch first (or to think about whether firing it can be justified as the use of “appropriate force”⁴?)]*

Shaking up the DJIA - In its 124 year existence there have only been 56 changes in its 30 company make-up. But next week there will be three, to ‘better reflect the current landscape in

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In a law enforcement terms “The amount of effort required by police to compel compliance by an unwilling subject.”

the market and the economy'. Most prominent among them is ExxonMobil; in the Index since 1928 when still *Standard Oil*)⁵, it will be replaced by Salesforce, a San Francisco cloud-based software company with 49,000 employees, US\$55BN in assets, US\$17.1BN in annual revenues & a P/E ratio of 106.21. And Pfizer will be replaced by AmGen, & Raytheon by Honeywell.

US China trade talks - On Tuesday April 25th China's Vice Premier Liu He finally had his phone conversation with Messrs. Lighthizer & Mnuchin. Afterwards Xinhua reported "The two sides conducted a constructive dialogue on such issues as strengthening bilateral coordination of macroeconomic policies and the implementation of the China-US phase one *trade* agreement", while Lighthizer's office issued one that just noted "The parties ... discussed ... future actions needed to implement the agreement ... (*and*) both parties see progress and are committed to taking the steps necessary to ensure the success of the agreement."

Beijing is obviously more anxious to cross the t's & dot the i's - The text of the Lighthizer statement can be googled by "Statement on Call between the United States and China."

US Consumer Confidence - In August the Conference Board's reading was 84.8, down from 91.7 in July, 132.6 in February & 85.9 in May, as well as from the 93.0 expected, with the Present Situation sub-Index down to 84.2 from 95.9 MoM & the Expectations one from 88.9 to 85.2. According to Lyn Franco, its Senior Director of Economic Indicators, both business & employment conditions had deteriorated in the past month & the short-term outlook & financial prospects continued their downward path. Furthermore, that, while consumer spending had rebounded in recent months, growing consumer concerns about the economic outlook & their financial wellbeing would "likely cause *their* spending to cool in the months ahead." - *The Board's findings shouldn't have surprised anyone, given the ending of the US\$600 special unemployment benefit payments, the ineffectiveness of Trump's EO initiatives, the Congressional gridlock, the fact that 30 or 40MM 'renter' households are now vulnerable to eviction & the number of unemployed (16.4MM) is down only 30% from April's 23.1MM, while the participation rate, at 61.4%, although up from April's 60.2% 47-year low, is still well below February's 63.4%.*

US Deficit - According the FRED, *the St. Louis Fed's 750,000 economic time series data base*, YTD the federal government's expenditures are running at an annualized US\$9TR rate & its tax receipts at a US\$3.5TR one, i.e. they running at a US\$5.5TR annual deficit rate, 5x last year's.

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DID JOE BIDEN SUCCEED IN MAKING HIS CASE? (BBCNews, Anthony Zurcher)

- He has billed his campaign as a "battle for the souls of the nation", not unlike Warren Harding who in 1920 ran (successfully) for the presidency on a platform of healing the nation's post WW I trauma.
- Since Trump & the Republicans are building their campaign around marketing the 77 year-old Biden is too age-related incapacitated, "diminished" is the term they use⁶. The pressure was on Biden to prove them wrong & he succeeded by telling the Biden story & that Trump's shortcomings were facilitating his job and by flashing the appropriate anger

⁵ It's a sign of the times that the S&P 500 Index energy weighting is now 2.5% down from 28% in 1980 & 15% in 2009.

⁶ This could be a dicey platform plank since Trump is just 4 years & 159 days younger than Biden.

when attacking Trump for his handling of the COVID-19 crisis & condoning the 2017 Charlottesville white supremacists', and by having the right tone when talking to those who had lost loved ones or are facing economic hardship. And he must have touched a nerve with Donald Trump, for during his speech, he called it "just words" on Twitter.

- His speech also suggested that, in the face-off between progressives who want new programs to address social ills such as income inequality, racial injustice & environmental degradation & pragmatists who want incremental change & bipartisan consensus, he feels he can hold his left flank by just not being Donald Trump but to win must reach out to those in the middle, disaffected Republicans & Independents ⁷, promising them 'I will "work as hard for those who didn't support me as I will support those who did."
- It's now clear the Democrats' strategy to defeat Trump will focus on character differences as speaker after speaker *during the DNC 'convention'* sought to establish that Biden had been toughened by personal tragedy & that the 13 year-old Brayden Harrington (*who Biden helped deal with his stuttering problem*) would make voters see the contrast with Trump, who has been known to mock people for their physical disabilities.
- And while he perhaps didn't go far enough into specifics as to what he wants to accomplish as President, he did go into detail on his COVID-19 response plan (a topic that many Americans may at this stage most care about, & *where Trump is most vulnerable*).

In seven Approval/Disapproval polls taken between August 25th & 28th the FiveThirtyEight average polling result was 9.7 points in favour of Biden while in 34 'generic voting' polls taken August 22-28 Biden's average lead was 13.9% (with in both cases Biden's lead during the RNC 'convention having widened significantly in his favour in the most recent-, from the earlier-, polls.

ROOM RENTALS, RESORT FEES AND FURNITURE REMOVAL : HOW TRUMP'S COMPANY CHARGED THE US GOVERNMENT FOR MORE THAN \$900,000 (WP, Joshua Partlow)

- Since becoming President, Trump has visited his own properties 271 times, most recently on Thursday August 20th when he met with GOP donors at his DC hotel (*each one generates a slough of charges for his often quite numerous Secret Service & other entourage, incl. Trump Campaign Committee staff*).
- *Earlier* federal spending records revealed this had cost the tax payer over US\$900,000 since he took office, And now new federal spending documentation obtained by the Post via a public records law suit have provided a great deal more detail. Thus during his frequent visits to Mar-a-Lago, the Trump Organization not only charged the usual rentals, but also "resort fees" for his entourage, incl. his Secret Service agents.
- Campaign finance records also show the Trump Organization received at least US\$38MM in fees from the 37 times that Trump headlined a political event at one of his properties. And then there was the case of Vice President Pence's Ireland trip; for, after it had been 'suggested' to him he stay at a Trump property there, he had to shuttle *daily* from that property across Ireland for government business to Dublin at tax payers' expense.
- And in response to questions for this report, White House spokesman John Deere issued a statement that Trump "had turned over day-to-day responsibilities of running the company ⁸ though he was not required to, & had sacrificed billions of dollars "because of

⁷ This is what I have been unable to comprehend about the Trump strategy of continuously appealing to his base; for they constitute about 35% of the voter base and he needs at least 50% to win.

⁸ Cleverly-chosen words. For it is doubtful that ever since he became CEO of the family firm as age 25, he ever had demeaned himself with day-to-day operations; that's what he hired gofers for!

discarded deals” and warned “The Washington Post is blatantly interfering with the business relationships of the Trump Organization and it must stop” and “Please be advised that we are building up a very large ‘dossier’ on the many false David Fahrenthold and others stories as they are a disgrace to journalism and the American people.”

Who does Deere think he’ fooling? Even taking Trumps’ reported Net Worth at face value, he’s just the 259th richest in the world, while Jeff Bezos, the owner of the Washington Post, is the richest & has 120x as much money as Trump with which to retain more & better lawyers.

KUWAIT IS RUNNING OUT OF MONEY TO PAY PUBLIC SECTOR SALARIES (OILPRICE.com, Irina Slav)

- Kuwait had a US\$18.44BN deficit in the fiscal year ended last March (*the sixth annual deficit in a row*). And the current year’s deficit was in last January’s Budget, based on US\$55 oil, projected at US\$3.3B, but was subsequently revised, first to US\$25.18BN & then to US\$45.78BN. According to the Finance Minister by November she ⁹ will have no money to cover salaries, unless oil prices rise (*very, very significantly so since the Kuwait budget break-even price is \$81 Brent, about twice its current level*); for the General Reserve Fund that has been used to pay them will by then be totally depleted. So as to be able to keep paying salaries, Kuwait’s Parliament is now debating a debt law to borrow US\$65.4BN over 30 years (*a picayune amount given the above deficit numbers?*).

As of last March Kuwait had socked away US\$500+BN (3x GDP) in its two sovereign wealth funds, US\$489BN in its Reserve Fund for Future Generations & US\$27BN in its General Reserve Fund. But the latter declined US\$13.04BN in the 100 days after the pandemic first hit. And the outlook is not promising. An ongoing power struggle between the now 91 year-old Emir & parliament has resulted in eight Cabinets in as many years. Expatriate workers (who do all the real work) have been leaving en masse. And OPEC’s 5th largest-, & the world 9th largest-, oil producer, it is by far the most dependent on oil for its wellbeing, for its 721,000 bbl/d per million inhabitants’ daily oil production is more than twice that of Saudi Arabia & the UAE. And the country must have parliamentary elections this year which likely will result in yet another Cabinet.

KAVALNY WAS POISONED, GERMAN DOCTORS SAY (WP, William Glucroft)

- Citing clinical results, doctors at Berlin’s Charité Hospital on Monday August 24th issued a statement confirming this ¹⁰ & noted the substance used was likely a cholinesterase inhibitor, the presence of which, an enzyme needed for the nervous systems’ proper functioning, had been confirmed by several independent laboratories. Furthermore, that “another broad analysis has been initiated”, that he remains in a medically induced coma but “there is no acute danger to his life” & he is being given atropine, a medication used to treat certain types of nerve agent-, & pesticide-, poisonings and that “longer-term effects, especially in the area of the nervous system, cannot be ruled out.”
- Since arriving at the hospital Navalny has been under the protection of Germany’s Federal Criminal Police Office, that also is responsible for Chancellor Angela Merkel’s safety.

⁹ In the latest Cabinet that was named last December, Mariam Al-Aqeel, an accountant by training became the first female Finance Minister in the region.

¹⁰ This gave rise to a newspaper cartoon showing Putin, in a get together with China President Xi & Saudi Crown Prince Mohammed, tea pot in hand asking “Tea Gentlemen?” & both in unison responding “No Thanks!”

This contradicts the Omsk doctors who claimed there was no evidence of him having been poisoned & that his condition was due to a steep drop in his blood sugar, and who have been accused by Navalny's associates of having tried to block his move to Berlin due to pressure from above seeking to avoid third party investigations of his condition.

EUROPE'S TENSE STAND-OFFS WITH TURKEY AND RUSSIA (WP, Eshaan Tharoor)

- On Europe's periphery tensions are rising. The Belarus situation is sparking fears of armed intervention by Russia as strikes & mass demonstrations rock the country. And a stand-off in the Eastern Mediterranean pits Turkey against Greece, Cyprus & France.
- On August 28th Putin, after a request by President Lukashenko, said Russian forces were ready to go to Belarus ¹¹ &, when the EU governments called for a dialogue between the two sides, accused them of 'meddling in Belarus' internal affairs'. There was an awkward US-Russian confrontation in Syria *when a Russian armoured car rammed an American one & injured 4 American soldiers*. When German Foreign Minister Heiko Maas told ZDF TV "We expect Russia to join our efforts to clear up what happened", the Russians acted as if their noses bled. And Sweden, not a NATO member, stepped up its defense operations in the Baltic Sea as Russian jets & naval vessels are going further afield, as in the days of the failed 1991 coup against the then Soviet President Mikhail Gorbachev.

But it is in the Aegean Sea where tensions are nearest their breaking point. For there is a dispute between Greece & Turkey. Natural gas has been discovered in the Aegean Sea. Greece claims that every one of its numerous, often quite small, islands serves to delineate its national "economic zone" while according to President Erdogan of economically hard-pressed Turkey many are on its continental shelf & hence in its economic zone. Along the way a Greek frigate collided with a Turkish vessel & damaged it, causing President Macron to despatch French naval vessels to the region, infuriating Pres. Erdogan & having him light the flames of Turkish nationalism.

¹¹ After a clever move by the opposition to put their women folk front & centre in the demonstrations had undermined the willingness of his police & armed forces' personnel willingness to interfere.