s Gleanings II ~650**Quote of the week -** “Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.” - Warren Buffett (a lesson that central bankers might take to heart)

**Quote of the week No. 2 -** “I have been involved in politics for a long time, and I regret every minute of it. I wasted the best part of my life in futile efforts serving vain and selfish men who placed their interests above those of the people they pretended to serve. Politics, in my experience is nothing but a racket to steal money from the poor.” - William Smith [a ‘Colored’ veteran of the ICU (the Industrial and Commercial Workers Union), South Africa’s first black trade union] gave this advice in 1943 to then 25 year-old Nelson Mandela who fortunately ignored it & proved him wrong, although his successors, & many politicians elsewhere, have since proven that Smith was not too far “off the mark”.

**China -** Earlier this month Moody’s changed the outlook for China’s Aa3 credit rating from “stable” to “negative”, official PMI is negative, industrial production & retail sales are weak, credit expansion remains high, mortgage down payments have been cut & the PBOC weakened the yuan the most in two months. So on March 23rd Premier Li went on record as saying US$77BN in tax cuts were coming & his government had enough policy tools to keep the economy stable despite “deep-rooted structural problems” & downward pressures, & Li Daokai, Director of Tsinghua’s Center for China & a former PBOC monetary policy committee member, said China bears don’t understand the country’s economy - *when senior officials start denying rumours the best option is to assume that “where there is smoke, there’s fire.”*

**Democratic delegate count -** The media count is Hilary 1,681 (vs. 2,383 needed) vs. Sanders’ 927. But, as often the case ‘the devil is in the detail’ : these numbers include the ‘pledged’ super-delegates (her 467 & Bernie’s 26 out of a total 714 - (*the latter number fluctuates slightly, depending on the source*); so the **real**  count is more like 1,214 to 901 - *the truth of the matter is that neither can count on the support of superdelegates come convention time; and her ‘pledges are based on a loyalty to a Clinton mafia that could evaporate overnight if its control over the party machine appeared to be eclipsing; in politics loyalty can be here today & gone tomorrow : since time immemorial its ruling principle has been : “Le roi est mort, vive le roi!”.*

**March 22nd Arizona & Utah primaries -** In Arizona Clinton got 58% of the vote & 49 delegates, and Sanders 40% & 31, whereas on the Republican side Trump got 47% & all 58 delegates, and Cruz got 25% & Kasich 10%, but in this ‘winner-take-all’ state, no delegates. But in Utah things were reversed :Clinton got 21% & 6 delegates vs. Sanders’ 78% & 17 delegates, and Cruz 69% & all 40 delegates, vs Trump’s 14% & Kasich’s 17%. And in the fifth primary that day, the Democratic one in Idaho Clinton got 21% & 6-, & Sanders 78% & 17-, delegates. *These numbers must concern the Clintonians; for not only did Sanders pick up more delegates in these three primaries than she did (72 vs her 62) but, more importantly, the vote tally deviated sharply from the polls. Thus in Arizona while she improved her support from the poll referenced ‘below the line’ in Gleanings 658 from 50% to 58%, Sanders went from 24% to 40%; i.e. he attracted two undecided voters for every one she did*[[1]](#footnote-1)1*. And Idaho was even more startling; for there she went to 21% from the poll’s 45% while Sanders went from 47% to 78%, with there being a similar pattern in Utah (she went from 51% to 20% & Sanders from 44% to 79%) - these discrepancies may in part be due to the fact that polling still depends unduly on landlines while growing numbers of (younger?) people are cell phone-oriented, & in part to many Latinos being averse to telephone polling for language reasons (& Afro-Americans less responsive to telephone polling than ‘old white folk’?).*

**Outlook for Canadian natural gas prices -** The US price is at a multi-year low of US$1.10 as natural-gas-in-storage levels are almost off the map : at least report (March 4th) they were up 67.4% YoY & 48.3% over their five-year average. And in Canada they’re up 30% YoY & at the upper end of their five-year average range. And most disconcertingly for Canadian producers has been the talk South of the border of dumping its excess by exporting it to Canada.

**US retail sales -** In February they were down 0.1%, in part due to lower gasoline sales that were down 4.4% MoM, despite the average price of gasoline having risen 3.7% MoM (& 15.6% YoY). While this meant their sales volume was down something like 8%, this was more than accounted for, however, by February having two fewer days than January). Elsewhere Gallup reported that its *daily* Economic Confidence Index had averaged -9 during the week ended March 20th, up from -13 in February & -17 last September, but well down from +1 in February 2015 (the only time it has *briefly* been in positive territory since 2008); furthermore that, while 26% of those surveyed said current economic conditions were “excellent” or “good”, 29% rated them “poor”, & 41% that the economy was “getting better” & 51% it was “getting worse”.

**GLEANINGS II - 659**

**Thursday March 24th, 2016**

**YELLEN HAS A MINI REVOLT ON HER HANDS (CNBC, Steve Liesman)**

* Four of the FOMC’s 17 members have now publicly disagreed with the dovish guidance in its policy statement last week & with her comments that “Proceeding cautiously in removing policy accommodation at this time will allow us to verify ... the labor market is continuing to strengthen despite the risks from abroad ... Such caution is appropriate given that short-term interest rates are still near zero, which means that monetary policy has greater scope to respond on upside than to downside changes in the outlook.”
* Kansas Fed President Esther George is the only one of the four to have a vote this year & at last week’s meeting dissented, calling for a rate hike. She has now been joined by San Francisco’s John Williamson & Atlanta’s Dennis Lockhart (*both ‘centrists’*) who earlier this week said a rate hike should be on the agenda for the April meeting. And on Tuesday night Philadelphia’s Patrick Harker told *the Money Marketeers of New York University* the Fed should “get on with” rate hikes & consider a move in April (while “I supported last week’s decision to leave policy alone, there is a strong case that we need to continue to raise rates” & personally would like to “see three rate hikes by year end.”)

*Yellen had the votes to carry the day last week, & will have them in April. But the question is how many dissenting votes it takes to make a consensus a charade; for Cleveland’s Loretta Mester is a hawk, Vice-Chairman Stanley Fisher is becoming wobblier in his moderately dovish stance, & the extremely dovish Minnesota Fed President Narayana Kocherlakota has been replaced by the more hawkish Neel Kashkari*[[2]](#footnote-2)2*. And the closer the election, the greater the risk, especially with Trump in the mix, that any rate hike would make the Fed a ‘political football’***.**

**THERE’S ONLY ONE BUYER KEEPING S&P’S BULL MARKET ALIVE (BB, Lu Wang)**

* The S&P 500 Index companies this quarter plan to buy back US$165BN of stock, close to the 2007 record. Meanwhile, mutual fund-, & ETF-, clients, who cashed in US$40BN YTD, are headed for one of their biggest quarterly withdrawals ever. So when buybacks were suspended during the earnings reporting season, the stock market had a record bad start to the year but recovered after they resumed, although questions are being raised about the recovery’s sustainability since profits have been down for three quarters running and a fourth would make it the longest streak in six years. The S&P 500 has seen daily swings of > 1% in 26 of the 48 trading sessions since December; if this were to continue, it would make 2016 the most volatile year since 1938. According to David Costin, Goldman Sachs’ Chief US Equity Strategist, “Corporate buybacks are the sole demand for corporate equities in this market” although Joseph Tanious, an investment strategist at the Los Angeles-based, US$100+BN AUM Bessemer Trust, maintains they will be seen as a sign of confidence that will draw investors back into the market. Since 2000 the S&P 500 companies have repurchased US$2+TR of their own stock, contributing to a tripling of share prices, but the rate is slowing as profits are slipping : thus, after increasing an average 37% in the previous five years, they grew by just 4% in 2015 and, if profits were to decline for a fourth quarter, this would make it only the third time in two decades that earnings contractions have lasted this long.

*With the price of oil still below the level many oil producing countries need to balance their budgets, there will be continued selling of US equities by SWFs (souvereign wealth funds), an increasing share of whose assets in recent years have been invested in more illiquid forms. And, while the decline in total corporate profits has been so far been attributed to the energy sector, there are growing signs it has begun to spread into other sectors of the economy.*

**GOLDMAN SACHS PROBED IN ALLEGED TREASURY RIGGING (NY Post, Kevin Dugan)**

* Last June we reported the Justice Department had started investigating banks for rigging prices in the US$13TR UST market; now it seems to have narrowed its focus to just a few banks, incl. Goldman, & the European authorities have started an investigation of their own. Investigators in DoJ’s Fraud Division have apparently obtained chats & emails from Goldman that seem to implicate it in manipulating the price of UST securities.

*Goldman has become the ‘Tar Baby’ of financial sector malfeasancem which makes one wonder why anybody would still want to do business with them.*

**U.S. CRUDE EXPORTS GO MAINSTREAM (Bloomberg)**

* Three months ago the US lifted the 40-year ban on oil exports. Overseas sales started on December 31st with the Bahamas-flagged, 73,021 dwt tanker Theo T &, with American stock piles at record levels, have picked up since as big players like ExxonMobil & China Petroleum & Chemical Corp. have joined into the fray. Tankers loaded with US crude are now headed for-, or have already reached-, among others ports in France, Germany, the Netherlands, China & Panama. According to Amrita Sen, Chief Oil Analyst at London-based Energy Aspects, the “growing volumes of exports” from the US are “spooking the markets.”

*Brent Crude that dipped < US$30 in mid-January only to recover to US$36 by month’s end & slip back to US$31 by mid-February, at last report was US$39.81, vs. US$42 a few days earlier.*

**OBAMA PRIVATELY URGES DEMOCRATIC DONORS TO BACK CLINTON**

**(Politico. Nick Gass)**

* The NYT reported on March 17th he had met the week before with Democratic donors in Austin, Texas & acknowledged the shortcomings of his 2008 primary rival, but had urged them against supporting Sanders, saying they should unite behind Clinton. And, while he didn’t call on Sanders to drop out or explicitly endorse Clinton, attendees said his tone suggested urgency & awareness many Democrats aren’t “excited” about her candidacy.
* In that day’s news briefing White House Secretary Josh Earnest said he had been there & didn’t deny the story, noting “What I’ll just say in general is that President Obama made the case ... that as Democrats … we need to be mindful of the fact that our success in November in electing a Democratic president will depend on the commitment and ability of the … party to come together behind our nominee, and that the president did not indicate or specify a preference ... In fact, the president pointed out ... that both ... Democrats ... running ... (*who*) have demonstrated an understanding and a commitment to building on the progress we’ve made thus far, will be far better presidents than anybody that’s been put up on the Republicans side.” His remarks echo those he made in an interview with our Glenn Thrush last January when, while he wouldn’t discuss differences between Clinton & Sanders, he seemed to be leaning toward the former & said that”[The] one thing everybody understands is that in this job right here, you don’t have the luxury of just focusing on one thing”, a comment widely interpreted as a swipe at Sanders for his intense focus on inequality & Wall Street greed.

*“Hold your nose” is not a ringing endorsement, but a sign of weakness. Josh Earnest’s clarification suggests this may have been an “Oops Moment”* *for Obama*[[3]](#footnote-3)3*. Be that as it may*, *Bernie’s ‘intense focus on inequality and Wall Street greed’ is at the very heart of his popular appeal, & of his differentiation from Hilary (& from both party establishments).*

**NO, NOT TRUMP, NOT EVER (NYT, David Brooks)**

* The Republican voters who want to make him their nominee have lost jobs, wages & dreams; so the system isn’t working for them & they want change. Not being socially intermingled with them & not listening carefully enough, the media failed to understand this & expected him to fizzle. For me this means I must change the way I do my job.
* But he is epically unprepared to be president. He lacks realistic policies & advisers, and the capacity to learn. He doesn’t know what he doesn’t know & is not interested in finding out. He is perhaps the most dishonest person ever to run for high office; all politicians stretch the truth but he is oblivious to accuracy : Politico fact-checked 4.6 hours of his speeches & press conferences, and found 60+ untruths. He is a childish man running for a job requiring maturity, a boastful little boy who surrounds himself with sycophants & incessantly brags about his prowess in the smallest things, like how far he can hit a golf ball. He has shredded the rules of political civility that makes conversation possible. And Republicans who support him are making a political error; for they are backing a loser : 60% of Americans disapprove of him, a rate unchanged since he began his campaign. And while his supporters deserve respect, for they feel left out, he doesn’t.

*The media’s 24/7 coverage of him has contributed greatly to his success to date & preened his ego. The Washington Post carried the text of his meeting with its Editorial Board; it’s all bombast & fluff, and little, if any, substance. It’s scary to think of him with his finger “on the button”.*

**THE GOP - AND ITS BIG FUNDERS - SCRAMBLE TO INSULATE CONGRESS FROM TRUMP (WP, Matea Gold & Paul Kane)**

* Headed by the Koch brothers who are willing to spent US$900 MM on the election, establishment Republicans are rushing to protect Senate & House candidates since, if Trump becomes its nominee, the party could lose control of Congress. Hoping this will inoculate them against any backlash against Trump, they plan to roll out a wave of TV ads slamming Democrats & touting Republican candidates as more attuned to local concerns. This effort is being backed by donors & fund raisers who have seen their favorite candidates drop out; thus Idaho nutritional-supplement executive Frank VanderSloot, a Rubio backer, says “The biggest concern for me is the next Supreme Court justice and that we do not lose the Senate ... If Donald Trump is the nominee, we could see a lot of people stay home”, and Mike Shields, president of the Congressional Leadership Fund super PAC, that “What we see at the top of the ticket has a lot of them (*i.e. donors*) concerned ... We’ve got to keep the House; we’ve got to keep the Senate.”
* In the Senate the GOP faces a challenge. Its 2010 success means that it must defend 24 of the 34 Senate seats at stake. Losing just three seats will cost it its majority & two of its incumbents (Sens. Mark Kirk of Illinois & Ron Johnson of Wisconsin) are struggling, with five more in states Obama won twice, some with comfortable margins. And if Trump is the nominee, the Democrats plan to link him to every Republican running this fall or, as the head of one Democratic super Pac puts it, “all Congressional Republicans are going to be dragged down by the anger of Trump around their necks.”

*While Trump has pre-empted all media attention, the Congressional races may be more significant; for without a cooperative Congress, a President is limited in what he can achieve.*

**WE CHOSE THE NOMINEE, NOT THE VOTERS : SENIOR GOP OFFICIAL**

**CNBC, Matthew J. Belvedere)**

* Curly Haugland, an unpledged delegate from North Dakota & Republican convention rules committee member, told CNBC’s Squawk Box on March 23rd “The media has created the perception that the voters choose the nomination ... (*But*) the rules are still designed to have a political party choose its nominee at a convention” And he said he had sent a letter to each campaign alerting them to a rule change he will propose to let any candidate who got at least one delegate’s support in the primaries be nominated from the convention floor. On the other hand, Gary Emineth, another unpledged North Dakota delegate, after pointing out that after the first ballot delegates can vote any way they wish, said on the same Squawk Box program he worries party officials may pull “some shenanigans” and that “You have groups of people who are going to try to take over the rules committee ... [That] could totally change everything and mess things up with the delegates. And people across the country could get very frustrated.”

*Haugland appears anti-, & Emineth pro-, Trump; the Convention could become a real cat fight.*

**TRUMP HAS RECEIVED NEARLT $2 BILLION IN FREE MEDIA ATTENTION**

**(Huffington Post, Micheal Calderone)**

* Portland, Oregon-based mediaQuant tracks media coverage of luminaries from Pope Francis to everyone who ran, or considered running, for President this year in over 20,000 English-language media outlets. In computing its value it runs the raw data through an algorithm that assesses the tone of the coverage, good, bad or indifferent, & each outlet’s reach & advertising rates. Paul Senatori, its Chief Analytics Officer said that, while others may have come & gone, *sometimes more than once*, Trump never faded from the headlines around the world because his ability to generate controversy & his unmatched availability, especially by phone[[4]](#footnote-4)4, caused TV to cover him non-stop ever since he entered the race last summer. Its calculations resulted crediting Trump with US$1.9BN in free air time (second only to Obama’s US$2.58BN), Clinton with US$746MM & Sanders with US$321MM, which made others look like pikers, incl. Kim Kardashian (US$250MM), Kanye West (US$234MM), Vladimir Putin (US$229MM), Pope Francis I (US$128MM), Peyton Manning (US$29MM) & Golden State Warriors’ star Stephen Curry (US$15MM).

*Another source, mrcNewsbusters, that prides itself on “exposing and combating liberal media bias” reported that in February alone, the ABC-, CBS-, & NBC Evening News had given Trump 187 minutes of airtime (up from 157 minutes in January), Rubio 67 (up from 10) & Cruz 62 (down from 79), and Jeb Bush, Kasich, Christie & Carson between 29-, & 5-, minutes each.*

**CHINESE TYCOON CRITICIZES LEADER, AND WINS SURPRISING SUPPORT**

**(NYT, Chris Buckley)**

* Ren Zhiqiang (age 65) is a ‘princeling’ (son of a senior revolutionary) & hence long an ‘elite’ CPC member. When Deng Xiaoping introduced reforms in China in the 1980s, he went into business, first selling rabbit pelts & later making a fortune in Beijing real estate. He was a friend of China’s now powerful anti-corruption chief, Wang Qishan, who was his political instructor in school &, according to Mr. Ren in 2013, still “occasionally called late at night” for a chat. But his big mouth has caused him to be called China’s Mr. Trump, & he went too far when he publicly derided President Xi for demanding unstinting loyalty for the CPC[[5]](#footnote-5)5 from the media : his blogs that that have tens of millions of followers were erased overnight, party websites erupted in an orgy of criticism, calling him a ‘capitalist traitor” in language reminiscent of the Mao era purges, & the authorities vowed to punish him. But then something unexpected happened. Journalists, scholars & *even* party insiders came to his defense. A professor at a top university spoke out (*in his defense*). A prominent magazine rebuked the censors. A letter by a staff member of the state news agency went viral. And even a party newspaper warned about the risks of crushing all dissent. This sent a shiver through the political landscape, exposing a deepening unease about the adulatory promotion- & unquestioning public obedience-, President Xi is demanding.

*The Mao ‘playbook’, that President Xi seems to be increasingly adopting as his own, calls for tolerating such behaviour for a while so as to identify all serious malcontents before crushing them so as to demonstrate that such foolishness would not be tolerated (like Mao with his 1956 “Let a hundred flowers bloom & a hundred schools of thought contend” campaign* - *but times have changed & urban dwellers with full bellies, upward mobility ambitions & environmental concerns are a different kettle of fish than ignorant, illiterate, starving peasants; historically successful revolutions have more often than not were started by the former, not the latter. .*

1. 1 Although much can, & will, change by June 5th, a similar pattern may be developing in California. For, while the poll referenced in Gleanings 658 had her leading Sanders 46-35, with 19 undecided, the latest poll, published on March 23rd, saw her still leading him, but only by 48-41; once again twice as many as of the undecided voters seem to have gone his way rather than Clinton’s. [↑](#footnote-ref-1)
2. 2 An aerospace engineer with an MBA from Wharton, he worked for Goldman Sachs until then Treasury Secretary Henry Paulson in 2006 made him, at age 37, Assistant Treasury Secretary, in which function he played a key role in dealing with the fallout from the Financial Crisis. [↑](#footnote-ref-2)
3. 3 Something said, or done, publicly that after the fact one wished one hadn’t done. [↑](#footnote-ref-3)
4. 4 After cancelling a recent Friday night rally, he dominated TV for 48 minutes of the next hour by calling into CNN, MSNBC & Fox News - *that’s not “being available’ but trolling for free air time.*  [↑](#footnote-ref-4)
5. 5 More specifically, he asked on one of his blog sites “When does the people’s government turn into the party’s government?” [↑](#footnote-ref-5)