

**Quote of the week** - "It's a pattern with him (*i.e. Trump*) - he sometimes counterpunches so hard he hits himself." - Ari Fleischer, Bush 43's press secretary for 30 months starting January 20, 2001 & today a media consultant for mostly sport organizations, incl. the NFL.

**Ban on 'large electronic devices' as 'carry-on luggage' on planes** - This was prompted by intelligence ISIS is developing bombs to be built into portable electronics, like laptops - *be that as it may, it seems like a dumb, knee-jerk reaction idea; for is there any difference in traveler safety between a bomb going off in a plane's passenger cabin or its luggage hold? And Alexandre de Juniac, the CEO of Montreal-based, 268 airline-member IATA (International Air Transport Association), & prior to that CEO of Air France KLM, agrees for earlier this week he told a Montreal audience that the ban was not effective as a security measure & creates commercial distortions and, more specifically that it was "not acceptable as a long-term solution whatever the threat they're trying to mitigate. Even in the short term it is difficult to understand its effectiveness."*

**FBI Director James Comey** - A long-time registered Republican, he is a 'straight arrow' (as *behooves someone with a degree in religion as well as law*) with a reputation for probity & independence. In 2004 he was Acting Attorney-General when a senior White House aide sought to bring in a warrantless wiretapping program, at which point he told Bush he'd resign first, making him back off. And the FBI has at other times been a 'burr under the Presidential saddle' : thus in the Nixon era a senior FBI official was the prime leak about Watergate, in Reagan's the FBI caused 14 administration officials to face criminal charges in the Iran-Contra affair, & in Clinton's its officials helped the special investigator in the Monica Lewinski affair that led to impeachment proceedings against him - *While his term as FBI Director has another six years to go, Trump could fire him at anytime, but this would be controversial (&, in some people's eyes, be an admission of guilt?)*

**Rail station inside a highrise** - Chongqing is a 50MM inhabitant urban municipality in Western China. Its downtown is festooned with highrises & space limitations have made its officials creative in their infrastructure solutions, nowhere more so than in having its *elevated* Rail Transit No. 2 monorail run **through** a 19-story high rise, with tenants having a station on the sixth-to-eighth floors & noise suppression measures allegedly keeping train noise down to that of a dish washer).

**The Keystone pipeline now a reality?** - Don't hold your breath! It still faces legal & other hurdles at the state & local government-, landowner-, & environmentalist-, levels. Secondly, from the get-go it was driven by Gulf Coast refineries needing cheap heavy oil to replace the increasingly scarcer & more costly supply from Mexico & Venezuela<sup>1</sup>, & some of these, with shale oil now increasingly plentiful, have since been reconfigured to handle lighter oils. Thirdly, it's importance to Alberta is overrated; rather than "taking 800,000 bbl of Alberta bitumen to market", it will carry 800,000 bbl of "dilbit", a mix of 70% Alberta bitumen & 30% imported diluents. Finally, the real future for Alberta oil lies in direct access by the shortest route, *i.e.* via the West Coast, to world markets with greatest growth-, & price-, potential, *i.e.* those in Asia<sup>2</sup>,

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<sup>1</sup> Thus in 2013, while Hardisty Alta.-based price (*i.e.* before the cost of pipelining it nearly 4,000 kms from Hardisty to Cushing, OK) of Western Canada Select (heavy crude) was at a US\$30 **discount** from WTI, at a time Mexican Maya heavy crude was priced at a US\$6 **premium** over WTI

<sup>2</sup> Thus in recent years, Dubai Heavy crude has been priced in China at a US\$2-4 discount from Brent Light (*i.e.* basically at a par with, or more expensively than, WTI).

rather than in acting as a discount price 'captive supplier' to US refineries that, after skimming off a 'middle man's cut', would just ship the finished product to those very same markets.

**U.S. car sales** - On March 23<sup>rd</sup> Ford Motor Co. said it expects lower 2017 profits, in part due to overall US sales declining from 17.9MM units in 2016 to 17.7MM this year & 17.5MM in 2018.

**GLEANINGS II - 703**  
**Thursday March 23<sup>rd</sup>, 2017**

**TIME TO LIGHTEN UP ON YOUR EQUITY EXPOSURE (G&M, Don Coxe)**

- Trump became president because many voters believed him when he promised them the moon & because he was the most politically incorrect candidate (since they were alienated by Democrats infatuated with political correctness). And once elected, he captivated investors by providing a high-earnings-ratio stock market with the tonic it needed in a low-speed economy; so US stocks soared & multiples went to their second-highest level since the runaway insanity of the 2000 'tech bubble'. But, if he is *going to be* seen as a president with little common sense or chance of getting his program through Congress, investors will start wondering why they're holding stocks priced for perfection in an imperfect economy with an imperfect President & an imperfect Congress, and powerful foreign enemies & rivals itching to take advantage of any US 'navel-contemplating-induced' weakness.

*If Trump thought healthcare legislation was "complicated", the tax version may make his head spin - Coxe, a historian by training & BMO's one-time, long-time Investment Strategy Adviser, has long proven himself to be worth listening-, & paying attention-, to.*

**WORLD STOCKS ... MOST OVERVALUED IN 17 YEARS (Reuters, Jamie McGeever)**

- A Merrill Lynch's poll of investors that collectively have AUM of US\$592BN was conducted between March 10<sup>th</sup> & 16<sup>th</sup>. 48% of them, a two-year high, are now overweight the market & 34% think equities are overvalued (a post-2000 high). *But it always pays to read the fine print; for*, while according to 81% of them the US market is most **overvalued**, a net 23% thinks that the Euro-, & 44% that emerging-, markets are **undervalued**. Furthermore, 35% think higher interest rates-, & 21% weak corporate earnings-, pose the greatest risk to stock markets, 36% that UST yields must rise above 3.5% before a bear market in stocks will ensue & 18% that a global bond market crash *driven by higher interest rates* poses the biggest risk to the stock market.

*One must wonder if the recent 2.9% decline in the Dow in 18 trading days, after its had risen 10.5% in 76 trading days, was just a temporary hiccup or a harbinger of things to come.*

**SOME FED CHIEFS EYE SHRINKING BALANCE SHEET THIS YEAR (Reuters, Ann Safar)**

- The Fed has said it wants to remove accommodation gradually & that shrinking its balance sheet (*that has quintupled in size since 2008*) would push up long-term borrowing costs. And at the press conference after the last FOMC meeting (that raised short-term rates for the second time in three months) Janet Yellen noted it had discussed an "eventual" reduction in it without reaching a decision (& a New York Fed poll shows Wall Street expects no change until mid-2018, with Goldman telling its clients it expects the Fed to publish a plan for tapering it by year-end). And yet Cleveland Fed

President Loretta Master said early last week she would favour steps this year to start shrinking it & on March 23<sup>rd</sup> San Francisco Fed President John Williams told the WS that he *too* would want it to start shrinking by late this year (when US short rates are expected to be over 1%).

*The 'good news' is that neither is a voting member of the FOMC this year & the 'less good' news that, while Master is among the more "hawkish" of Fed Presidents, Williams, her counterpart in San Francisco & Janet Yelled's successor there, tends to be closer to Yelled's dovish posture.*

### **DO THESE 29 WHITE MEN RUN AMERICA? (BBCNews, Katie Shepherd)**

- The 'Freedom Caucus' emerged in 2015 & drove then House Speaker John Boehner (R.-OH) to resign as such after it accused him of not being *fiscally* conservative enough. It has only one, *double-barreled* objective : balance the budget & shrink the size of government. Its membership is secret & by invitation only. With a 273-193 Republican/Democrat split in the House, their support, or that of quite twenty or so Democrats, is critical to Speaker Ryan getting any legislation through the House. And according to Dr. Laura Blessing, a Senior Fellow at the Georgetown Government Affairs Institution the members of the Freedom Caucus "don't have a history of negotiating" (& *have no incentive to do so; for they are polling better than the President*).

*So far their intransigence has caused the healthcare bill to be aborted & why should it be any different for other promised Trump major spending programs like tax cuts, the Mexican Wall & infrastructure? So the CW in Washington is increasingly that, if Trump wants to get any of his programs through Congress, he'd better start reaching out to Democrats to support them.*

### **INSIDE TRUMP'S WHITE HOUSE, NEW YORK MODERATES SPARK INFIGHTING AND SUSPICION (WP, Philip Ricker & Robert Costa)**

- Outspoken, worldly & polished, a group of Manhattan business types turned presidential advisers, led by two Goldman alums, Gary Cohn<sup>3</sup> & Dina Powell<sup>4</sup> [both close to Ivanka Trump<sup>5</sup> & her husband Jared Kushner (now an unpaid Senior Presidential Adviser with an office just a few doors away from Trump's own) & to former industry barons Commerce Secretary Wilbur Ross, Treasury Secretary Steve Mnuchin & Secretary of State Rex

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<sup>3</sup> Now President Trump's chief economic adviser, he was recruited by Goldman in 1990 as a trader, became its President & Co-COO in 2006 & recently got US\$285MM-worth in 'walking-away' money from it, much of it in the form of Goldman shares.

<sup>4</sup> Born in Cairo, Egypt to middle class Coptic Christian parents, she came at age 4 to the US in 1977 with her parents who settled in Dallas, Texas. She is fluent in Arabic & a graduate in poli sci from the University of Texas at Austin. After a decade as a political staffer on Capitol Hill & with the Republican National Committee, and a Bush 43 White House staffer, she joined Goldman in 2007 as a Managing Director & in 2010 became a partner, where she most recently was in charge of the education-, & health-, focused, US\$200+MM Goldman Sachs Foundation and global head of the firm's Office of Corporate Engagement (that since 2008 has spent US\$1.6BN helping, in consort with 100+ academics & non-profits, communities address the social & environmental issues facing them. She was first brought in as the President's Senior Counsel for Economic Initiatives but last week was also named Deputy National Security Adviser for Strategy.

<sup>5</sup> Who now, despite having no official government status has an office in the 'West Wing'.

Tillerson], is *derisively* dismissed-, & the target of suspicion, loathing & jealousy-, by the 'ideological populists' clique led by White House Chief Strategist Stephen K. Bannon (who, to counter 'the New Yorkers', has buried his enmity towards White House Chief of Staff Reince Priebus, thereby creating an "Odd Couple" political marriage between the former's anti-establishment, populist network & the latter's among the GOP old guard.

*Throughout Trump's career internal competition has hallmarked all his businesses. While the ideologues so far seem to have had the upper hand, the New Yorkers with the Kushners in their corner may have more staying power, especially so since Trump tends to hie close to successful business people. And the ideologues won't be helped by latest Gallup poll that showed him having a 37% - 58% approval/disapproval rating, well off his post-Inauguration Day 45-45 split & from Carter's 75% approval rating two months after his Inauguration, Reagan's 60%, Bush 41's 56%, Clinton's 53%, Bush 43's 58% & Obama's 63%. Moreover, while the average of ten polls conducted between March 12<sup>th</sup> & 18<sup>th</sup> was 42.5-51.7, the Fox News poll therein was 43-51. His latest approval rating was even marginally lower at 36%.*

### **NEIL GORSUCH SAYS DONALD TRUMP'S ATTACKS ON FEDERAL JUDGES OVER TRAVEL BAN "DISHEARTENING" AND "DEMEANING"** (The Telegraph, Barney Henderson)

- On Monday March 20<sup>th</sup>, at his first confirmation hearing, the Oxford-educated judge nominated by Trump to fill the US Supreme Court vacancy created by the demise of the conservative Mr. Justice Antonia Scalia, noted "When anyone criticizes the honesty, integrity, the motives of a federal judge, I find that disheartening ... demoralizing, because I know the truth." And when asked by Sen. Richard Blumenthal (D.-Conn.) whether "anyone" included the President, he replied "Anyone is anyone." While Trump wanted a judge who would overturn Roe vs. Wade (the landmark ruling that every state must provide access to abortion), according to Judge Gorsuch a woman's right to abortion has been upheld in court many times & that, if Trump had asked him to overturn the 1973 US Supreme Court ruling, "I would have walked out the door ... A good judge will consider ... a precedent of the US Supreme Court worthy of treatment as precedent like any other. Once a case is settled, that adds to the determinacy of the law. When I became a judge, they gave me a gavel, not a rubber stamp ... I am my own man."

*His nomination was to have been confirmed on March 27<sup>th</sup>, but the Senate Democrats forced a delay until April 3<sup>rd</sup>. With only 52 GOP Senators, it will take the support of 8 Democrats to confirm Judge Gorsuch with a 60% majority [otherwise it would take the so-called 'nuclear option', confirmation by just 50% of the Senators, that, while not uncommon (the Democrats used it three years ago in another controversial nomination)], is nevertheless not without controversy. And a growing number of Democrat Senators, led by Senate Minority Leader Chuck Schumer (D.-NY), are saying they will never vote for him since "he had in the past been 'too often against workers & in favor of corporations' ... (and) because he has refused to give his personal views on campaign finance & abortion" (sic!), but in reality in retribution for the Republicans' earlier failure to approve Obama's nomination of Merrick Garland to fill this Supreme Court vacancy.*

### **TRUMP IMMIGRATION LAWYER ON TRAVEL BAN : WHAT HAPPENS TO MUSLIMS CAN HAPPEN TO JEWS** (JP, Danielle Ziti)

- Michael Welders is a yarmulka-wearing immigration lawyer who has long represented Trump interests (incl. during the election campaign when he gave the media the

assurances it sought about Melania's immigration status). He told this paper on March 20<sup>th</sup> at the Manhattan Jewish Experience, a entity dedicated to helping young Jewish adults headed by his brother Rabbi Mark Welders, "If we have a problem, we shouldn't be picking on six countries to make our point, we should be doing it across the board ... The immigration laws are very political and very selective ... this is not an improvement ... Shame on the Republicans, and the media ... for running scared and scaring people ... I take comfort from the fact that it's only a temporary ban and hopefully they'll put in place a better vetting process to make everybody safe ... What happens to a Muslim can happen to a Jew and we have to take our responsibility to our biblical cousins very seriously,"

*He also noted that as an observant Jew he believes his community has a responsibility to stand up for marginalized people, with his brother adding "the solution is to have a better immigrant & refugee vetting system, not to 'throw the baby out with the water, which this ban seems to do' "*

### **TO AVOID A FIASCO AND STAND THE BEST CHANCE OF DEFEATING THE ISLAMIC STATE, THE US MUST STAY ON ITS CURRENT, STEADY COURSE (G&M, Steve Yetiv)**

- President Trump claims ISIS poses an existential threat to the US (which it doesn't) & US officials are planning to nearly-, & possibly more than-, double US forces in Syria. While it is a heinous group engaged in medieval butchery on an epic scale, & the President may be rightly concerned about its potential for launching terrorist attacks *elsewhere*, it's a small group that has lost so much of its territory & lustre as a powerful movement that its potential for attracting new recruits has diminished in the past 18 months. And exaggerating its terror threat can lead to extremist policy reactions in the US & problems abroad, and drag the US & its allies into the very Middle East quagmire that ISIS wants them to. For too much military force on the ground gets the US involved against Sunnis in the region's Sunni-Shia sectarian struggle, which would alienate many Sunnis who hate the Shiites more than ISIS; moreover, a too-muscular approach against ISIS may convince many in the region that Washington wants to steal their oil (according to years of surveying a long-standing fear of many locals that was only heightened by President Trump's comments on the subject). Moreover, ISIS, & Sunnis generally, oppose & challenge the Shia Iran-led alliance (incl. Russia, Syria, Hezbollah in Lebanon & *the Houthi rebels in Yemen*) that will be emboldened by a demise of ISIS. In other words, Washington is caught between a rock & a hard place; if it doesn't check ISIS enough, this may result in more terrorists attacks on its soil & that of its allies, and if it were to over-militarize its approach, it could strengthen the Shia alliance & alienate the (majority) Sunnis. So the best strategy may well be 'steady-as-you-go'

*Another form of the 'hard'-, vs. 'soft'-, power debate with the same outcome (which runs counter to the Trump policy of hiking the military-, & scrapping the foreign aid-, budgets - the writer is Louis I. Jaffe Professor of International Relations at the Norfolk, Va-based Old Dominion University, a one-time consultant to both the Departments of State & Defense and twice, before age 30 (in 1992 & 93), winner of Harvard University's Award for Excellence in Teaching.*

### **SYRIA DAM NOT DAMAGED (Reuters)**

- On March 26<sup>th</sup> ISIS militants announced the TAQBA Dam, forty miles up the Euphrates river from Raqqa, was at risk of collapse. But later a Syrian rebel spokeswoman, Jihan Sheikh Ahmed, said this wasn't so, & that engineers had inspected its operations, accusing ISIS of spreading rumours to panic civilians (after the US-backed Syrian

Democratic Forces that are fighting ISIS for control over it also had also said it wasn't crumbling). And Col. Joseph Scrocca, a spokesman for the US-led coalition that is supporting the SDF said it was making every effort to ensure the dam's integrity & "We do not assess the dam to be in imminent danger unless ISIS plans to destroy it... the SDF is in control of a spillway North of the dam ... which can be used to alleviate pressure on the dam if need be."

*The (earth) dam was built in 1973, is 60 metres/200 feet high and 4.5km/ 2.8 mi long, and the 610 sq/km Lake Assad behind it is Syria's largest water reservoir; if it were to crumble it would cause much damage & human tragedy downstream.*

### **CHINA'S NPC & CPPCC MEETINGS (G&M, Nathan VanderKlippe)**

- The annual meeting China's 3,000 elected delegate National People's Congress' that got underway on March 3<sup>rd</sup> will discuss the budget, vote on the leadership, and propose & amend legislation. But it's a rubber stamp body of Party members that won't defy decisions made behind closed doors; ditto for the concurrent Chinese People's Political Consultative Conference; while it seeks to show the system is open to smart outsiders with good ideas, in reality it consists of movie stars & corporate leaders whose success is a function of their being a member of the 'club'. Both mark an important date on China's political calendar; in fact on March 2<sup>nd</sup> the state media proclaimed them "gatherings with global influence" in which China's people "exercise their power as the 'master of the state' ". And this year, since they are the last such meetings before this fall's 19<sup>th</sup> quadrennial National Congress of the Communist Party of China, where the real decisions will be made about the next generation of leaders & the direction they will take, foreign diplomats & businesses are watching them closely for clues as to what may lie ahead. The key issue will be the GDP growth rate : will it target 6.5% (*the perceived lowest rate not triggering social unrest*) or "about 6.5 percent", suggesting Beijing is prioritizing other issues, such as SOE<sup>6</sup> reform, urbanization, & financial management (i.e. whether to continue to add to its mountain of public-, and private-, debt) - *the expectation is for slower credit growth & hence slower GDP growth*. And the defense budget will be the second-most scrutinized number with the key question being whether it will continue growing faster than GDP or if slower GDP growth will, despite President Trump's pledge to hike US defense spending, prompt slower military spending - *since President Xi Jinping needs the continued support from the military, it is expected he will continue the People's Liberation Army's 'modernization'*.

*While both sessions enable Beijing to brag about its "democracy", they also give thousands of local & foreign journalists, as they mingle with delegates in the halls, a rare opportunity to peek into the turbulence of debate inside a political system normally kept from public view. Thus last year political advisers & media employees used this to call for free speech & decry the suppression thereof that had constrained dissidents, academics & reformers alike ( although, with repression now more intense, it's doubtful anyone will do so this year).*

### **ITALY TO TEST EU RULES AGAIN WITH BAILOUT (Reuters, Stefano Bernabei)**

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<sup>6</sup> State-owned Enterprises.

- Italy wants to resort to ‘pre-cautionary recapitalization by the state’, a mechanism to get around EU rules preventing the use of taxpayers’ money to save banks, to bail out its fourth largest-, & *the world’s oldest*-, Monte dei Paschi bank with 6.6BN Euros/US\$9.5BN of public funds. But, as EU regulators are still fussing over whether to allow this, three months after giving it preliminary approval, two regional, Veneto-based banks, Banca Popolare di Vicenza & Veneto Banca, announced on March 24<sup>th</sup> they want similar treatment; so Rome now wants to inject another 5BN Euros in them, after they had already received funding last year from the government-sponsored but privately-funded bailout fund Atlante. Rome is keen to avoid their depositors & bond holders having to ‘take haircuts’ under the EU ‘bail-in’ rules. But since the ECB hasn’t disclosed the outcome of its stress tests on these small banks, there is a question mark over the Veneto banks’ financial health.

*So now the ECB must reveal if these banks (between them < half the size of Monte dei Paschi), are viable, & determine the size of their capital shortfall, and the European Commission decide whether to give Rome an exemption to its bail-in rules (which may set a bad precedent).*

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### **DONALD TRUMP’S WORST DEAL (The New Yorker, Adam Davidson)**

- In central Baku, Azerbaijan’s capital, sits an empty a 33-story building, curved like a sail, first planned in 2008 as a high-end apartment building. But in 2012 the Trump Organization (TO) signed contracts with its Azerbaijani developers to turn it into an “ultra-luxury property”, the Trump International Hotel & Tower Baku, with 13 floors of “expansive guest rooms” & 20 of residences with “spectacular views of the city and the Caspian Sea.” It is badly located; a former top official of the country’s Ministry of Tourism says that when he first learnt of the project he asked himself “Why would someone put a hotel there? Nobody who can afford to stay there would want to be in *that* neighbourhood.” And the Azerbaijanis behind the project are close relatives of Transportation Minister Ziya Mammadov<sup>7</sup>, one of the wealthiest & most powerful oligarchs in a country that according to Transparency International is among the most corrupt in the world.
- While the TO never had any money directly invested in it, Ivanka Trump personally was involved in it’s development to a degree unusual for a mere lessee of a name to the point where according to a local lawyer who worked on the project the TO had not just licensed the family name, but had “approved the smallest details” of its development. And while no evidenced has surfaced to suggest Trump or his employees (incl. Ivanka?) participated in bribery, money laundering or other illegal behaviour, the 1977 Foreign Corrupt Practices Act (FPCA) forbids American companies from participating in schemes that reward foreign government officials with material benefits, and even makes it a crime for a US company to unknowingly benefit from a partner’s corruption if it could have discovered illicit activity but didn’t (thereby closing the so-called “head in the sand” loophole).
- And, while as far back as 2009 & 2010 a series of cables sent from the local US Embassy to the State Department & leaked by Wikileaks raised questions about Trump’s

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<sup>7</sup> Who had become Transportation Minister in 2002, about the time Azerbaijan had begun to receive huge oil profits from its fields in the Caspian Sea, and who despite earning only about US\$12,000 annually as Transportation Minister had become a billionaire the Trump Hotel was being built.

involvement in the project, the view of Alan Garten, the TO chief legal officer is that it raised no ethical issues for Donald Trump since his company had never engaged directly with Mammadov. And while he doesn't deny there was corruption &, his view is that from a legal point of view TO is blameless & that the FPCA doesn't apply, even if corruption did occur, since "We didn't own it ... We had no equity ... We didn't control the project ... We didn't pay any money to anyone ... Therefore it could not be a violation of F.C.P.A.", Jessica Tillipman. Assistant Dean at George Washington University Law School who specializes in FPCA disagrees, saying "You cannot go into business deals in Azerbaijan assuming you are immune of FPCA ... Nor can you escape liability by looking the other way".

*This is a short synopsis of a nine page, 6,000+ word article (on page 48 of the magazine's March 13<sup>th</sup> issue) that could be a potential trip wire for President Trump (& Ivanka)? It may be worthy of note that the Swedish government is now investigating bribery allegations involving Canada's Bombardier's Swedish subsidiary related to a 2013 US\$350MM sale of railway signaling equipment to Azerbaijan (that presumably would have involved, however peripherally, Minister Mammadov & his lot).*