

Quote of the Week - "I like Steve (*Bannon*), but you have to remember he was not involved in my campaign until very late ... I had already beaten all the senators and all the governors, and I did not know Steve. I'm my own strategist, and it wasn't like I was going to change strategies because I was facing crooked Hilary ... Steve is a good guy but I told him to straighten it out or I will." - President Trump in an April 11th exchange with the New York Post's Michael Goodwin¹- *this suggests the populist, foreign policy hardliner Steve Bannon has lost a power struggle with son-in-law Jared Kushner, National Security Adviser Gen. (Ret.) H.R. McMaster & the 'Goldman crowd' (Treasury Secretary Steve Mnuchin, Chief Economic Adviser Gary Cohn & Ivanka pal & Senior Counselor for Economic Initiatives and Deputy National Security Adviser², Dina Powell³.*

March US new job growth - At 98,000 it was less than half the previous two months' 235,000 & 216,000, well below the 150,000 needed for healthy economic growth & only the third month in five years it had dipped below 100,000. *The big loser was retail (-29,700) & among the winners were healthcare (+16,700, down from +36,900 MoM), manufacturing +11,000 (up from -20,000 MoM), mining (+11,000, mostly from oil), temporary services (+10,500), government (+9,000 vs. -2,000 MoM), leisure & hospitality (+9,000 vs. +27,000 MoM) & financial services (+9,000).*

Chemical attacks in Syria - Back in 2013 President Obama warned Bashar al-Assad that another gas attack on his citizens would have serious consequences for his regime. But he was bailed out from his 'red line warning' by Putin undertaking to 'force Assad to surrender his chemical arsenal for destruction'. On April 4th Syrian planes made a gas attack on the rebel-held town of Khan Sheikhoun, with the pictures of little kids choking to death afterwards so upsetting President Trump that he ordered, & US Navy vessels in the Eastern Mediterranean on April 7th executed, a 59 cruise missile attack on the Shayrat Syrian/Russian air force base near the city of Homs⁴ that was home to the airplanes involved in that attack⁵ - *But in the April 8th Toronto Globe and Mail Zaher Sahloul, a Chicago-based Syrian-American physician & former President of the Syrian-American Medical Society, and & a participant in a "dozen medical missions to Syria", makes a more startling claim, namely that the Assad regime has made "175 attacks ... with chemical agents" & that last year his Society had published a report A New Normal, Ongoing Chemical Weapons Attacks in Syria with details of 161 such attacks since December 2012, two-thirds of them after the stockpile of chemical weapons was to have been destroyed in September 2013, and that he himself had testified multiple times at the UN Security Council about chlorine attacks, all of which had prompted little real action - If even remotely correct, this makes many, first & foremost Obama, Putin & the media, look really, really bad, if not actually complicit in a cover-up of a series of 'crimes against humanity'.*

¹ This exchange prompted one media headline that read "Trump just threw Steve Bannon under the bus and then backed it up over him"

² After H.R. McMaster unceremoniously dumped his predecessor Michael Flynn's appointee & former Fox News national security analyst Kathleen T. McFarland (who is supposed to be fobbed off with an appointment as the US Ambassador to Singapore).

³ A Coptic Christian born in Egypt, her antecedents were outlined a couple of issues ago.

⁴ Located about 40 kms off the Northeastern tip of Lebanon, this city for years was a rebel stronghold until the rebels, after a prolonged Syrian siege, evacuated it in 2015.

⁵ This was more a matter of token 'sabre-rattling' than a serious attempt to put it out of business; for only two days later the airfield was fully back in operation.

China's coal imports - On April 7th Beijing issued an order for vessels loaded with North Korean coal for Chinese power plants, some of which were already in Chinese port, to go back to where they came from without unloading, thereby interrupting Kim Jong-un's primary source of FX cash flow . With the supply of Australian coal interrupted by climatic conditions, Beijing is importing more US coking coal : after having imported none in 2014-2016, YTD it has imported 400,000+ tons of the stuff from the US (*thereby (marginally?) furthering President Trump's plans to boost the US coal industry*⁶) - other evidence of "China showing rising unease with North Korea" is that this week Xi sent his top nuclear negotiator to South Korea's capital, Seoul, for discussions about North Korea.

French election - The campaign⁷ has been livened up by the surge in the polls of 65 year-old Jean-Luc Mélenchon (who got voters' attention by telling Marine LePen in a recent debate 'you have no business being here ... you are scaring people unnecessarily & are just another corrupt politician who is part of the system'. Called by some "the last Communist dinosaur of France", he doesn't like the media, is a fan of the late Venezuelan President Hugo Chavez, the Castro brothers & Russia, and a Euroskeptic (although he only wants to reform the EU to generate more benefits for workers, not leave it⁸) and wants France to get out of NATO - *while he may have touched a nerve with many disgruntled blue collar voters, he is unlikely to alter the second round featuring the far right, anti-EU Marine LePen & the centrist, pro-EU Emmanuel Macron (that the latter is still expected to win).*

US auto sales - In March they came in at a disappointing 16.5MM annualized rate (well below the 17.3MM rate expected & the lowest monthly rate in two years) - *This is attributed to lenders tightening up their auto loan lending criteria; for, driven by 'cheap credit', in 2016 "auto debt" was up 9% YoY & close to 50% since 2012, while the 'sub-prime' share thereof is now in the 25% range & the share of car loans at least 90 days in arrears is closing in on pre-Great Recession levels. And since new auto sales account for 25% of total US consumer spending, lower new car sales cannot help but impact on it (that accounts for two-thirds of US GDP).*

GLEANINGS II - 705
Thursday April 13th, 2017

FED OFFICIAL SEES RATE HIKES, BLASTS TARIFFS (Reuters)

San Francisco Fed President John Williams on April 11th said in an interview in the Boersen-Zeitung, Germany's financial market-focused daily newspaper, that the US 4.5% unemployment rate has already overshot what he views as full employment & that "We (i.e. the Fed) need to further raise our benchmark interest rate ...three or four times this year to ... bring it back to a normal level over this year and next year, and we should also begin to normalize our balance sheet towards the end of this year." And in a separate interview with Handelsblatt, Germany's top business daily, he took aim at

⁶ In 2016 total US coal exports were in the 50MM ton range, down from 74MM tons in 2015, 97MM tons in 2014 & a high of 125MM tons in 2012.

⁷ The first round will be on Sunday April 23rd & the second round run-off two two weeks later.

⁸ In sharp contrast to Germany's more pro-business bias in EU matters.

President Trump's campaign promise to impose tariffs on China & other countries with trade surpluses with the US (*incl. Germany whose trade surplus with the US last year set a record*), saying it would be "bad for growth, bad for jobs and bad for inflation ... because supply chains are more globally integrated than might be widely appreciated."

And the Fed last week was subject to some unwelcome publicity, first when 61 year-old Jeffrey Lacker, the Richmond Fed's President for the past 13 years, abruptly resigned on April 4th effective immediately, six months before he was to retire, confirming he may have leaked confidential FOMC information to a third party in 2012 (& had lied about that in legal investigations on two occasions). And this prompted allegations by the New York Post's John Crudele that in 2011 "I caught William Dudley, the President of the New York Federal Reserve Bank, having meetings with some of Wall Street's top players ... (in which he) could have easily passed along all sorts of confidential information." and that, unlike Jeffrey Lacker's, these meetings had occurred during Fed "black-out periods" (that start one week before the next FOMC meeting) - Dudley, the New York Fed's President since 2009 (when Timothy Geithner quit to become Obama's Treasury Secretary) is vulnerable because he was with Goldman Sachs for 19 years to 2007, much of it as its Chief Economist & a partner in the firm, and because (by some weird arrangement) Wall Street banks pay his salary.

OPEC FIGURES SHOW OIL OUTPUT CUTS IN MARCH EXCEED PLEDGE **(Reuters, Rania El Gamal)**

- *Late last year 11 of the 13 OPEC members agreed to cut their output by 1.3MM bbl/d for six months from January 1st to reduce a glut & prop up prices, while Russia & 10 other non-OPEC members agreed to cut theirs by half that amount. And the latest OPEC figures show that in March the output of the 11 had averaged 29.757MM bbl/d, i.e. slightly below their 29.804 MM bbl/d. target.*

And, even though the Paris-based IEA believes global oil markets are moving (slowly?) towards balance, it is not all sweetness & light. For total OPEC production (inclusive of Libya's & Nigeria's) was 31,939 bbl/d, the 11 non-OPEC members have not cut their production as much as they had undertaken to do (largely because Russia has been dragging its feet) & Kuwait's Oil Minister Essam al-Marzouq expects overall compliance to have risen to 94% in March (much better than the cynics had expected but still at least a couple of hundred thousand barrels over target). Besides all this, the OPEC numbers are not necessarily of a Gospel Truth quality.

IMF MORE UPBEAT ABOUT GLOBAL ECONOMY THIS YEAR THAN IN 2016 (Reuters)

- After meeting in Berlin with Chancellor Merkel & the heads of other leading global economic organizations, IMF Managing Director Mme. Christine Lagarde declared “Our forecast for 2017 and 2018 is certainly more favourable than what we have seen in 2016 and probably a bit better than we had forecast previously ... So there is a positive short-term outlook on the horizon⁹, which is unfortunately tainted by the risks that are still there, and that lead us to be concerned about the risk of complacency ... I have also identified two key concerns that we at the IMF have : one is persistent low productivity (*growth?*) And second, excessive inequalities that grow together with that low productivity.”

Not exactly the ringing endorsement the headline touts!

CAN TRUMP’S CONGRESS SOLVE THE RUBIK’S CUBE OF TAX REFORM? (NYT, Neil Irwin)

- The last comprehensive rewrite of the US tax code was in 1986, took two years & had many false starts. For tax reform has many moving parts & involves many losers (*who will exert pressure on ‘their’ law makers*). And the political environment is now far more polarized than it was then, the Trump Administration is much lighter on policy expertise & so far hasn’t shown much ability to pass complex legislation, while the GOP majority in both the Senate & House is tenuous & the Democrats will resist giving it a policy win

And the Democrats would resist to the death the lower tax rates for the wealthy that are a sine qua non for many Republicans (& for the President himself?). Meanwhile Sen. Chuck Schumer (D.-NY) muddled the tax reform picture even further this week by saying that ‘comprehensive tax reform will be difficult to achieve if Trump doesn’t release his personal tax returns.’

WHY TRUMP’S \$1 BILLION INFRASTRUCTURE PLAN COULD WIND UP IN A DITCH (Politico, Lauren Gardner)

- President Trump is counting on it (since *it was also part of Hilary’s platform*) for the kind of bipartisan victory that has so far eluded him . But it is running into the same road blocks as his healthcare proposals : suspicious Democrats, a divided GOP & questions about its math. And here are five more reasons it too may come to nought :
 - **Democrats don’t like what they’re hearing** - while initially quite positive, their enthusiasm has waned as it becomes clear it will involve tax breaks rather than direct spending & as his low approval ratings lessen the incentive for cooperation;
 - **Republicans are still unsure about its details** - law makers in both parties from outside the cities don’t like the P3 aspects of what he is flogging;
 - **The return of the ‘shovel-ready criterion** - Trump last week told building trades’ unions “We’re going to say, if you don’t spend the money

⁹ A bad case of “mixed metaphors” : “short-term ... on the horizon”.

quickly ... if you have a job that cannot start within 90 days, we're not going to give you the money" - the problem is that the most needed & deserving infrastructure projects by their very nature have long lead times¹⁰;

- **Where does the money come from?** - while it supposedly would be funded from the proceeds of tax changes, that raises a whole lot of other issues; and
- **Infrastructure vs. immigration** - Some cities with the greatest infrastructure needs have declared themselves 'sanctuaries' for illegal immigrants (& Trump has vowed to cut such cities off from any federal funding unless they change their ways).

And his low approval ratings don't help his cause (while on April 11th Gallup reported it had recovered to 41% from its March 28th low of 35%, this is still well below the approval ratings of the last seven presidents after their first 100 days in office.

SENATE CONFIRMS GORSUCH FOR TOP COURT (Reuters, Lawrence Hurley)

- It did so on April 7th by a vote of 54-45, with three Democrats joining the Republicans¹¹. In so doing it ended the longest Supreme Court vacancy since 1862 (during the American Civil War) : almost 14 months since Justice Antonin Scalia died one year ago last February 13. According to Sen. Jeff Merkley (D.-OR), who earlier in the week had delivered a 15½ hour anti-Gorsuch diatribe in the Senate, "Today, for the first time in history, the theft of a Supreme Court seat has been completed, profoundly damaging the integrity of the court."

While Justice Gorsuch is expected to maintain the Court's 'slightly to the right' bias for the next two decades or more (he's 49), the addition of Merrick Garland, Obama's nominee, whose confirmation was successfully obstructed by the GOP last year, would have shifted it slightly to the left.

HOUSE DEMOCRATS WANT KUSHNER'S SECURITY CLEARANCE SUSPENDED (Politico, Kyle Cheney)

- Just hours after the US Navy's 59 Tomahawk missile attack on Syria's Shayrat air force base, an article emerged in the NYT that Jared Kushner had failed to disclose¹² on his national security clearance *application* form dozens of the foreign contacts he had during Trump's transition to the White House, two of which stood out like sore thumbs : a meeting with the Russian Ambassador Sergei Kislyak & another with Sergey Gorkov, the FSB¹³-trained head of a

¹⁰ Thus construction of New York City's 60 mile, US\$6BN Water Tunnel No.3, that in places is 600 feet underground, was started in 1970 and still won't be finished for a few years.

¹¹ Montana's Joe Donnelly, West Virginia's Joe Manchin & North Dakota's Heidi Heitkamp, all of whom are up for re-election in 2018 & represent states that 'went Trump' last year.

¹² Intentionally failing to report such information on a national security form is a felony).

¹³ The successor agency to the NKVD (that spawned Putin).

Russian bank subject to US sanctions. This prompted five Democrat members of the House led by Rep. Don Beyer (D.-VA), with the others being Reps. Ted Lieu (D.-CA), Jerrold Nadler (D.-NY), Jamie Raskin (d.-MD) & Peter Welch (d.-VT) to demand Kushner's security clearance be suspended because his "lack of candor about meetings with Russian officials appears to be part of dissembling and deception on Russian contacts from the Trump team, and we believe the public deserves the truth about what connection, if any, exists between these."

Kushner's lawyer indicated the omissions were "inadvertent"¹⁴ & Kushner will provide additional information to the FBI, and his aides told the NYT that he has been operating under an "interim" security clearance. Since the Senate Intelligence Committee had already said it would have Kushner appear before it (to testify under oath) as part of its probe into any connections between the Trump team & Moscow (at which point he can expect to be subjected to some rigorous questioning?), the 'Beyer Five' can expect to have their wish fulfilled to have the public hear all the facts of the matter; so this whole exercise looks like a bit of needless grandstanding intended to aggravate Trump.

SPECIAL ELECTION IN DEEP RED KANSAS IS SCARING REPUBLICANS **(Huffington Post, Daniel Marans)**

The GOP is pulling out all stops in the April 11th Special election in Kansas¹⁵ Fourth Congressional District to *replace the former Rep. Mike Pompeo (now Head of the CIA)*. It pits the Republican State Treasurer Ron Estes against a Democrat outsider, civil rights lawyer & Army Veteran cum former Presidential Honor Guard member James Thomson.

This is noteworthy since the seat has been solidly Republican for over two decades & last November Mike Pompeo was re-elected with a 31% margin over his opponent. But three things are making the GOP leary : the President's approval rating, fear of a local backlash against Gov. Sam Brownback who last week consolidated his position as the country's second most unpopular state governor by vetoing a law passed by the Republican-controlled State Legislature that would have expanded Medicaid coverage in the state &, finally, the fact that this is only the first of six Special federal elections scheduled for the next few months, of which only one, California District 34, is a 'gimmy' for the Democrats (due to its heavily Latino-weighted population). Of the other five one is for the Alabama Senate seat vacated by Jeff Sessions when he became Trump's Attorney-General, and the four others are in Kansas' 4th District, Georgia's 6th (Secretary of Health and Human Services Tom Price's old seat) , South Carolina's 5th [a vacancy created upon Rep. Mick Mulvan becoming Director of the OMB (Office of Management and Budget)] & a Montana-at-large seat formerly held by now Secretary of the Interior Ron Zine. Most of these involve states in which Trump had healthy double digit majorities over Hilary last November and any shrinking thereof would make it look as if the bloom was coming off the Trump rose. And what really is unnerving the GOP is that in Georgia's 6th District (a state in which last November Trump just 'nosed out' Hilary 48-47 & that he lost in the Republican primaries to Marco Rubio), with its young, financially

¹⁴ Which likely was largely, if not totally, true since Kushner, like Trump himself, didn't have the slightest clue about the rules in the "swamp" he was getting himself involved in.

¹⁵ The home base state of the 'ultra-right', 'mega donor' Koch Brothers.

well-off, well-educated & articulate electorate, the Democrat Jon Ossoff, a 30 year-old documentary film maker, has been attracting bags of campaign funding & outpolling his Republican adversaries by a street length (polling 40+% voter support vs. that in the low double digits for the best of the Republican candidates)(& if he were to get 50% voter support next week, which is not expected but not inconceivable (thereby obviating the need for a run-off), it would be more than just a slap in the face for the GOP for it has 'owned' this seat for nearly 38 years. In the end the Republicans' nervousness about the Kansas seat was justified; for, while Estes did win, he did so by just an 8 point margin over Thompson, well off Pompeo's 31 points last November (according to the WSJ, "If the Kansas shift happened nationally, Democrats would have a stranglehold on the House".) So all eyes are now on Georgia's 6th District's primary on Tuesday April 18th, where a win by Ossoff would be not be helpful for the GOP & a 50% win the political equivalent of a 'four-alarm fire'.

CANADA AT RISK OF HOUSING CORRECTION, MOODY'S WARNS **(G&M, J. McFarland)**

- It is one of four countries (the others being Australia, New Zealand & Sweden) most exposed to this because over the last three years they, among the advanced economies, have experienced the largest increases in house prices & household debt levels.

But, somewhat surprisingly, Moody's also says this would be unlikely to impact on their (increasingly rare) triple-A credit ratings.

SOUTH CHINA SEA ; DUTERTE ORDERS PHILIPPINES MILITARY TO OCCUPY ISLANDS (CNN.com, James Griffiths)

- On April 6th, during a visit to a military camp on the Philippines island of Palawan, President Rodrigo Duterte said that he had ordered military personnel to occupy all Philippine-claimed (Spratly) islands in the disputed South China Sea, saying "We tried to be friends with everybody but we have to maintain our jurisdiction now, at least in the areas under our control. And I have ordered the armed forces to occupy all these".

The islands have long been a bone of contention between the Philippines & Vietnam, Malaysia, Taiwan, Brunei and, since 1980, China, with the issue becoming more high profile after China adopted the "Nine-Dash Line" claim of Taiwan for the entire South China Sea (& even more so since it aggressively started turning reefs & banks into militarized islands). While the Philippines may have the best claim on at least some of the islands since it was there first and, more importantly, since they are located within its International Law of the Sea's 200 miles "exclusive economic zone", its claim has been weakened over the years by its relative tardiness in developing a physical/military presence in the islands (please take note, Canada!). And while this move seems to runs counter to Duterte's recent 'nuzzling up' to-, & may not be well-received by-, Beijing, Ashley Townsend, a 'regional expert' at the University of Sydney, says "By cozying up to China and trash-talking America, Duterte has achieved something that Washington couldn't deliver : a (possible?) peaceful resolution to the Scarborough Shoal stand-off."

RUSSIA RALLIES - PUTIN CAN ONLY PLAY POPULARITY GAME FOR SO LONG WITHOUT DELIVERING REAL SUBSTANCE (Vue Weekly, Gwynne Dyer)

- In 2011-2012 the crowds against Putin's rule in Moscow (50,000 or so) & other Russian cities prompted opposition leader Alexei Navalny to boast "I see enough people here to take the Kremlin ... right now, but we are a peaceful people and won't do that just yet." But the recent protests against official corruption were smaller in number in most cities & < 10,000 in Moscow's Pushkin Square, and Navalny was arrested before he could even join it. And Putin still has 80% approval ratings & is not doing badly abroad (recently he met with Marine LePen, his favourite Western leader after Trump since she supported Crimea's annexation & promises, upon becoming President, to end the EU sanctions against Russia & orchestrate a Frexit (& the EU wouldn't survive the loss of two of its biggest members).
- For the first time in a half century Russia is now the dominant outside power in the Middle East, having achieved that status at a far lower cost in blood & money than the US. But no matter how skillfully he plays his hand internationally, Russia is weak. It's economy is smaller than Italy's (*the EU's No. 4*)¹⁶ &, other than oil & gas, and weaponry, produces little that anyone wants. While oil & gas revenues once let him to play in the 'big league', their price collapse¹⁷ since mid-2014 has put him in a financial bind &, although the low cost of his intervention in Syria has given him high diplomatic returns, he will lack the resources to play a major role in its rebuilding; so Moscow's influence in the region will fade over time. And in Europe he can do no more than maintain a defensive posture & couldn't handle a new Cold War and, while he has neutralized Ukraine's pro-Western government by his separatist war in its eastern provinces, he cannot go much further, even with Trump in the White House.
- His real vulnerability is at home. While (*by his playing on the hoi polloi's xenophobia & genetically imprinted tolerance for despotic leadership*) his popular support has held up despite three years of economic hardship & may even carry him through next year's presidential election, oil & gas prices may not recover any time soon to the level he needs to play in the big league, especially since it is quite possible that Russia will face another three years of economic deprivation & declining incomes (from a basis that never was that high to start with). And while many Russians are still grateful to Putin for ending the decade of chaos that followed the collapse of the Soviet Union, for the younger half of the population this matters not, and neither do his triumphs in foreign places they don't care about; for they are more interested in their own economic wellbeing now & in the immediate future. Having had a 17 year run & *being 64 years of age*, his future also is likely shorter than his past. And, most telling, the recent protests were not

16 On a per capital basis it now 73rd in the world, with US\$26,100 (*down about 5% in the past three years*), after Italy (53rd & US\$36,300), the EU (47th & US\$37,800, Canada (32nd & US\$46,200), Germany (27th & US\$48,200), Saudi Arabia (21st & US\$54,100) and the US (18th & US\$57,300)

17 While Alexei Miller, Gazprom's CEO & a Putin 'bud', bragged last June at the St. Petersburg Economic Forum Europe was buying more of its gas than ever (almost one-third of its total need), he failed to mention that its selling price was one-third of what it had been four years earlier

just in the big cities but in places like Chita¹⁸ & Barnaul¹⁹, suggesting a lot of Russians are running out of patience.

Dwyer obviously shares my view Putin's Russia is a "Potemkin Village", a "giant with a golden head, silver arms and chest, brass thighs and body and iron legs but feet of clay" - Daniel 2:31-32.

¹⁸ A city of 300,000+ in Southeastern Siberia, on the border with China.

¹⁹ A city of 600,000+ in Southern Siberia, on the border with Iran.