

GLEANINGS II - 717
Thursday July 6th, 2017

Quote of the Week - "You are entitled to your own opinions, but ...not ... to your own facts." - Daniel Patrick Moynihan (*a Democratic Senator from New York for 24 years to 2000 until, at age 70, he wouldn't run again & thereby made room for Hilary Clinton*).

Quote of the week No.2 - "The building of Europe has been weakened by the spread of bureaucracy and by the growing skepticism that comes from it ... I believe firmly in Europe. But I don't find the skepticism unjustified." French President Emmanuel Macron *in his speech to both Houses of Parliament at the palace of Louis XIV, the "Sun King", in Versailles (which he has promised will be an annual event), but the venue of which annoyed his opponents, especially those on the far left (who say he's 'putting on too many airs' & who were offended by being transported there by bus, i.e. not a way commensurate with their status.*

Quote of the week No. 3 - "Voters are no longer prepared just to vote and hand the key to politicians" - Michèle de Vaucoleurs, the 53 year-old successful candidate for Macron's En Marche! movement in a district on the Northern Parisian outskirts.

China eases access to its corporate bond market for foreign investors - The total size of its bond market now is US\$9.7TR (*with foreign investors holding 1.2% thereof*), making it the world's third largest after the US & Japan. Its corporate bond sector [half of which is rated AAA (????) by Shanghai Wind Info, a local financial data provider] accounts for 25% thereof. *With Moody's five weeks ago having cut China's sovereign credit rating, for the first time in three decades, from Aa3 to A1 due to its high (& still growing) debt levels in its economy & there having been many reports of financial troubles in the country's corporate sector, this looks like a case of a borrower potentially in deep financial doo-doo that the market has not yet realized seeking to attract new suckers¹ into the game before his house of cards implodes.*

Volvo to be the first major car manufacturer to totally abandon the internal combustion engine? - The now China-owned (by Hangzhou-based Geely) firm has announced that starting in 2019 all its cars will be fully electric or hybrid.

Xi Jinping's Leit Motiv - According to the Economist's Banyan "Mr Xi, whose late father was a comrade of MaoZedong, nourishes a nostalgic sense of the 1950's being a golden era, when the party was ... driven by zeal, purity and purpose ... whereas Today he sees its pervasive cynicism, self-interest and corruption as threats not only to the country's economic transformation, but to the very survival of the party itself ... and Since Mr. Xi cannot conceive of any other body running the country, to save the party is to save China." - *He is also said to be driven by a desire to avoid the fate of the Soviet Union & the Russian Communist Party after Gorbachev in the mid-1980's sought to launch them on a new path of "perestroika" (listen) & "glasnost" (openness). Hence the importance to him of this September's 19th Congress of the Communist Party of China where he expects not just to get his Presidency confirmed for another five years but also to stack the all-powerful Politburo Standing Committee & the (corruption-fighting) Central Commission for Discipline Inspection with congenial individuals.*

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And, with yields on Chinese bonds currently at their widest spread in two years over similar maturity US 'product', there undoubtedly will be some.

OPEC OUTPUT CLIMBS AS EXEMPT NATIONS OPEN TAPS

(Bloomberg News, Angelina Rasquet)

- In June it was up 230,000 bbl/d MoM to a level 390,000 bbl/d above the ‘cap’ agreed to last November. Half of this was accounted for by Nigeria & Libya (*with the latter’s output now being in a 1MM bbl/d. four-year high range*), and the rest by Saudi Arabia (90,000 bbl/d) and Angola & the UAE (40,000 bbl/d each).

A misleading headline. The production cut ‘compliance rate’ is now only 73%. Still, the Brent crude price has held up pretty well (in part due to reports the US’ crude oil inventories were declining) : on June 1st it was US\$50.80 & on July 1st US\$49.60 (after hitting an intra-month low US\$44.99).

CARNEY WARNS OF RISK FROM “REFORM FATIGUE (Reuters, Huw Jones)

- In a June 3rd letter to the G-20 leaders (in time for their Summit in Hamburg starting July 7th), Bank of England Governor Mark Carney, in his capacity as Chairman of the Financial Stability Board², warned global growth would suffer if the *national* regulators failed to complete the overhaul of the world’s banking system and that, while “immense” progress had been made in making banks safer, “nascent risks” remained that needed to be addressed, particularly as related to implement the tougher “Basel III”³ rules.

This letter targets Washington where Treasury Secretary Steve Mnuchin⁴, under pressure from the GOP’s right wing, Wall Street & the too-big- to-fail banks, is in the van of those who are trying to undo as much as possible of Obama’s US bank regulatory reform in the aftermath of the, largely US bank-prompted, 2007/08 financial crisis, especially as it relates to Basel III.

G-20 SUMMIT SHAPING UP TO BE A SHOWDOWN (CP)

- In a speech last week to the German Parliament Chancellor Merkel laid out her priorities for the Summit she will host this weekend, delivering a powerful critique of Trump’s now famous “America First” doctrine without ever saying his name when she said “Whoever believes that the world’s problems can be solved by isolationism and protectionism is mistaken.” Her G-20 agenda calls for stronger, *not less*, global cooperation to fight climate change & terrorism, and more robust international trade (in an apparent effort to further isolate on the world stage a Trump, who keeps talking about the “massive trade deficit” the US has with Germany & threatening to slap import taxes on German goods). This could be in a rerun of the G-7 Summit in Italy in May when Trump stood alone as the other six leaders were unanimous in their support for the Paris Accord.

He may well isolate himself by aggressive talk on North Korea.

² An international body created by the April 2009 G-20 Summit to monitor & make recommendations on reforming the global financial system and promote the reform of banking regulation worldwide

³ The global voluntary regulatory framework governing bank capital adequacy, stress tests & liquidity

⁴ Mnuchin (age 65) is a 17-year Goldman alum, after which he became a hedge fund manager (who personally benefitted from the financial crisis by buying a failed residential lender &, selling it at a big mark-up almost a decade later to the CIT Group.

FORGET THE TRUMP RALLY, ANOTHER FAR MORE POWERFUL TRADE IS 'OVERWHELMING EVERYTHING' (CNBC, Michelle Fox)

- Never mind the Trump rally says Mohamed El-Erian, the stock market is really in the throes of a very powerful liquidity trade that has “totally overwhelmed” all else. And he warns that unless investors’ focus shifts back to fundamentals it could end badly. The liquidity trade *he is talking about* is fueled by lots of corporate cash, some of which finds its way into the market via share buybacks & dividend hikes & by income inequality that puts the incremental dollars *generated by the growth of the economy* in the hands of those with a high propensity to invest *and, thirdly, by massive central bank security purchases.*

El-Erian (age 58) was educated in a English boarding school and at Oxford & Cambridge (he has a doctorate from the former). His career path has included stops at the IMF, Citigroup, Pimco, the Harvard Management Company (that manages the university’s nearly US\$40BN endowment fund, where in one of the two years he managed it it had a staggering 23% return), and back to Pimco that he left a few years ago after a falling out with its founder, the legendary Bill Gross (who was soon thereafter ‘shown the door’). He now is the Chief Economic Adviser to the Board of Munich-based AllianzSE, Pimco’s parent, that, with US\$150BN in annual revenues (almost half as much again as much as JPMorganChase) & 150,000 employees worldwide is the world’s third-largest financial services company

WORLDWIDE, FEW CONFIDENT IN TRUMP OR HIS POLICIES
(Pew Research Center, Richard Wike)

- Pew’s Spring 2017 Global Attitudes Survey found that, when asked the question “How much confidence do you have in US President Donald Trump to do the right things regarding world affairs?”, only 22% of people across the world (*or at least in the 37 countries surveyed⁵*) said they did. He was also seen by most as arrogant & intolerant, and even dangerous (although by many also as “a strong leader”). And the prevailing view was that during his term in office the relationship between the US & their own country would not change while among those who do expect it to change most expect it to worsen).

Ranked highest among the countries where the public lacks confidence in Trump are Mexico & Jordan with 93%, followed by Spain - 92%, Sweden - 90%, Germany - 87%, France - 86%, Turkey - 82%, Chile & the Netherlands - 81% each, Columbia - 80%, South Korea 78%, Lebanon - 77%; Greece - 76%, and the UK & Canada - 75% each; on the other hand, in the Philippines 69% is confident he will do the right thing, followed by Vietnam - 58%, Israel & Nigeria - 56% each & Russia - 53%.

TRUMP'S CRUDE TWEETING WOULD GET MOST SACKED (AP, Barbara Ortutay)

- Social media experts & workplace experts say that if Donald Trump were anyone else, he’d be fired for his latest tweets attacking a female TV host and that, if he were in the job market, these & past tweets would raise red flags for companies doing *increasingly*

⁵ Eleven in Europe, seven in Australasia, five in the Middle East & North Africa, six in sub-Saharan Africa, seven in Latin America, as well as Canada.

more common social media background checks on new hires. According to Mike Driehorst, a social media expert at the Lambertville MI-based marketing agency Weaving Influence “Mr. Trump would be fired for his tweets of today and nearly every day ... Most companies have a thin skin when it comes to public criticism and media reports”, & to Nannina Angioni, an employment lawyer, *founding partner & 2009 Super Lawyers’ Rising Star recipient* at the Newport Beach, CA-based Kaedian law firm, that “while certain speech is protected, such as posts about a workplace grievance or organizing a union, ... if you take to twitter to call your boss a ‘psycho’ or say ... your CEO has a ‘low IQ’ that could absolutely get you fired”. And this applies to equally to CEOs; for according to Kara Alaimo, a public relations professor at the Hempstead, NY-based Hofstra University, “Any good outside adviser would tell the company’s board that they would have no choice but to terminate the CEO ... Today, more than ever before, citizens expect companies to espouse and uphold values”

Trump is the living proof that in recent decades in top business & political circles ‘leadership by example’ has become a quaint, antediluvian concept.

TIME MAGAZINE ASKS TRUMP TO REMOVE FAKE COVERS

(The Telegraph, Barney Henderson)

- Framed copies of a March 1, 2009 Time magazine front cover featuring a picture of a steely-eyed Trump with his arms folded & reading “Donald Trump : The ‘Apprentice’ is a television smash ... Trump is hitting on all fronts ... even TV!” are hanging in Trump golf course club houses all over the U.S., Ireland & Scotland. But as first reported by the Washington Post & later confirmed by Time, he never was on any of its covers in 2009 & the magazine has asked the Trump Organization to remove them.

Fake news by Trump or “sharp marketing?

QATARI MINISTER CITES ‘AGGRESSION’ AS GULF STATES CONSIDER SANCTIONS

(Reuters, Karin Strohecker)

- As the Foreign Ministers of the four states involved were meeting in Cairo *earlier this week* to consider Qatar’s *negative* reaction to their 13 demands as their price for ending the cutting all diplomatic & transport links with Qatar one month ago, Qatar’s Foreign Minister was telling an audience at the Chatham House think tank in London that they (*the demands*) were “clearly designed to create anti-Qatar sentiment in the West ... (*that*) Qatar continues to call for a dialogue despite this violation of international laws and regulations ... Reading between the lines, the blockading countries were demanding that we ... surrender our sovereignty to end the siege , something ... Qatar will never do.” He saw little hope of a rapid reconciliation & said his country was preparing for a protracted rift, and that the accusation Qatar is too close to Iran ignores the fact it shares a major offshore gas field (*one of the largest in the world*) with Iran while his officials maintain that the 13 demands are so stiff they suspect they were never seriously meant as a basis for negotiations.

Three events in the past few weeks may further cloud the situation (and not necessarily in favour of Saudi Arabia et. al). The French oil company Total made a multi-billion dollar, multi-year deal with Iran for the development of the massive gas field on its side of its marine boundary with Qatar, Qatar, that was recently was surpassed by Australia as the world’s No. 1 LNG exporter, announced plans to boost production from its part of the field by 30% so as to

recapture the crown (which means that tiny Qatar's sovereign wealth fund will soon outstrip that of the Saudi Royals (that is being eaten into by the low oil prices) and in a phone call from Air Force One (en route to Poland & then Hamburg for the G-20 Summit) President Trump called Egypt's President Abdel Fattah El-Sisi to reiterate the need for all countries (in the region) to follow through on their commitments made at the Riyadh Summit (during his visit there last month) "to stop all terrorist funding and discredit extremist ideology" (seemingly a significant shift in his position away from his previous whole-hearted endorsement of the Saudi-led Qatar boycott).

WHY INDIA'S NARENDRA MODI CAN AFFORD TO IGNORE THE PALESTINIANS

(Haaretz, David Rosenberg)

- Israel has long complained that India treats it like a mistress, glad to partake of its charms (i.e. access to its defense industry & technology) but embarrassed about it & unwilling to make it public. But Modi's visit to Israel starting July 11th, the first ever by a sitting Indian Prime Minister, will change that; for it won't include a visit to Ramallah, as world leaders typically do *when they visit Israel* (incl. India's President Prabab Mukherjee & External Affairs Minister Sushama Swaraj last year). While this is said not to mean that India has abandoned the Palestinians, it certainly will leave them worse off.
- Both India & China were hostile to Israel during the Cold War era as part of their fight against Western dominance. But both established relations with Israel in 1992 that deepened over time due to Israel's prowess in the defense industry-, & technological-, fields, but whereas Washington's concerns limited any Israeli weapons deals with China India got off scot-free as it sought to wean itself off arms imports from Russia. And since Modi does not just want to upgrade India's military capabilities but also wants to build a world-class indigenous defense industry, Israel's willingness to help it do so has been a factor [Israel Aerospace Industries alone currently has three JVs (joint ventures) with Indian firms, most prominently one involving India's Barak⁶ 8 air defense system⁷]. While in Israel, Mody will sign a number of innovation-, development-, science & technology-, & space agreements with Israel & the state of Uttar Pradesh deals related to the clean-up of the Ganges River & the launching of a US\$40MM industrial R&D fund.
- Even while marginalizing the Palestinians. since neither India or China is a major political player in the region, they think they are in a good position to be good friends to both sides, & have strong commercial relations-, with Israel.

Mody's BJP party has long been pro-Israel & since he became PM India has abstained in all anti-Israel votes in the UN Human Rights Council. And when Abbas visited India in May, it was kept low key & the joint statement, while supporting a two-state solution, made no mention of East Jerusalem.

BOJ TO CUT INFLATION FORECASTS, HOLD OFF ON EASING (Reuters, Leika Kihara)

- People familiar with the matter say that *at its July 19-20 meeting* it will cut its inflation forecasts but hold off on expanding stimulus, another sign it's retreating from the pledge by Governor Haruhiko Kuroda, whose term ends next year, to 'do whatever it takes' to achieve his ambitious 2% inflation target. This underscores the challenge it faces in

⁶ The Hebrew word for 'Lightning'.

⁷ A knock-off of the US-invented-, but widely-copied SAMs.

using monetary stimulus to lift prices & convince people its policies are working. Sources familiar with its thinking say it is struggling with the question why the strength in the economy (*with a GDP growth rate at 1.0% annualized?*) & business confidence at a three-year high are not translating into more inflation and why prices remain so stubbornly weak.

At the BoJ's April policy meeting its working assumption was that inflation would be 1.4% this-, & 1.7% next-, fiscal year (ending March 31st) whereas a recent survey conducted by Reuters found a consensus projection of 0.7% for this-, and 0.8% for next-, year.

ABE'S RULE SEEN SHAKEN BY TOKYO ELECTION LOSS (AP)

- In the July 2nd Tokyo municipal elections his scandal-laden party took a big hit when the new Tokyo First party of the maverick, reformist governor Yoriko Koike (since last July 31st) got 49 of the 127 seats while his LDP went from 57 to 23 seats. So now, together with the Komei party's (*Abe's long-time coalition partner in the national government!*) 23 seats Koike has more than enough seats to push through her ambitious reform program.

Koike, age 64, has a degree in Sociology from the University of Cairo, has worked as an Arabic translator and has long dreamt of being Japan's first female Prime Minister. She was a member of the Lower House from 1993 until last year (since 2002 for Abe's LPD party) & served as Minister for the Environment in the Koizumi-, & for 57 days as Minister of Defense in Abe's first-, governments. But she upset LPD power brokers last year when she announced plans to run for Governor of Tokyo & still more when the 'Leit Motiv' of her campaign was that the time had come to replace the LPD-dominated, but scandal-laden, city government & to control the budget for the 2020 Tokyo Summer Olympics . While this may weaken Abe & shatter his ambition to be Prime Minister during the Olympics, she is nevertheless said to be on friendly terms with him. Last March the magazine Japan Forward had an article headlined "the Queen of Japanese Politics Keeps Getting Stronger" when her approval rating hit 79.3% (up 1.8% MoM & from 60% last December).

BRITAIN TAKES 'HISTORIC STEP' TO WITHDRAW FROM INTERNATIONAL FISHING AGREEMENT (Business Insider UK, Tom Murray)

- The UK is withdrawing from the 53 year-old London Fisheries Convention (LFC) that, aligned with EU Fisheries Policy, allowed Danish, Irish, French, German & Belgian fishing vessels to operate within 6-12 miles of its coast line (supposedly harvesting 10,000 tonnes of fish annually from it) & vice versa. This prompted the Environment Minister, Michael Gove (who has been in the job for only a month) to observe this was "a historic first step towards a new domestic fishing policy as we leave the EU ... Leaving the LFC is an important moment as we take back control of our fishing policy."

A first, unilateral step towards the Brexit exit.

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Please, please, let her have her wish! - On June 6th police was called urgently to the Canadian Tire store in the Cedarbrae Mall in Scarborough (*an eastern suburbs of Toronto*). Upon their arrival they found a woman wearing a niqab, 32 year-old Rehab Dugmosh, a mother of two young children, being restrained by the staff that she had threatened with a golf club and then, when they sought to restrain her until the police arrived, had pulled out a large knife from

under her robe & cut one of them, fortunately not life-threateningly so. This led to her being held & charged with two counts of assault with a weapon, assault uttering threats, carrying a concealed weapon & two counts of possession of a weapon. In court four days later, in prison garb but still wearing her niqab, she declined her right to a bail hearing & chose to stay in jail. She now faces 13 “terror-related” charges incl. one for trying to leave Canada, in April 2016, for the purposes of committing a crime (joining ISIS) And at her hearing on June 21st she told the court “I meant to harm those people” and, if released, will attempt do so “again and again”, and “I reject all counsel here. I only believe in Islamic Sharia law. I would like to revoke my Canadian citizenship I received ... From my perspective, I’m not guilty. In your perspective *only* I might be guilty.” And when asked by the judge if she was willing to take responsibility & plead guilty, her answer was “I would like to be guilty right now ... When the Canadian coalition countries attack [IS] and we defend ourselves, that’s not considered an attack, that’s considered a defense ... I renounce Canadian law. I renounce any man-made law. I only believe in any law made by Allah ... And I will go on and will keep fighting. And I will fight anyone who will fight against Islamic beliefs.” - *Fulfilling her wish & revoking her citizenship would no doubt be decried by the politically correct crowd (that is already arguing that she is “sick” but would set a useful precedent & be a first step towards rejection of the politically correct notion that once a Canadian citizen, always a Canadian citizen; for this ought not be so for non Canadian-born citizens like myself who came here by choice or necessity; for there is an inconsistency in the political correct thinking since Canada doesn’t have an ‘open door’, ‘come one, come all’, immigration policy.*