GLEANINGS II - 722
Thursday August 10th, 2017

Quote of the week - "Nobody is standing around waiting for *oil* prices to go up substantially ... The industry is in the middle of re-engineering its processes and its technologies to be a $50 industry, not a $100 industry." Daniel Yergin, Vice-Chairman of London-based IHS Markit[1], *a 13,000 employee, US$2.7BN revenue firm that provides information-, & analysis-, services to a wide range of industries, incl. energy.*

Most sensible thing heard about Trump todate – With the TV in my living room always turned to a news channel, the other day I heard some CNN 'talking head' declare "Trump has yet to appreciate the difference between campaigning & governing : when campaigning you must do your best to destroy your opponents while in governing you must work with them."

Outlook for oil prices - According to Wall Street's Bernstein Research, in the First Quarter eight major Western oil companies [Britain's BP (the world's 8th largest by revenues), America's Chevron (# 14), ExxonMobil (#5), Spain's Repsol, Holland's Shell (#6), Norway's Statoil, and France's Total (#9)] had an aggregate positive cash flow of US$14BN, after having incurred cumulative negative cash flows of US$105BN in the previous nine quarters. The reason for this was elucidated in a July 25th Bloomberg article entitled "Big oil bosses are learning to live with $50 crude"[2]. And recently senior people at both BP & Shell revealed their five-year planning frameworks are now based on US$50 oil - *This has major geopolitical implications; for it will create massive fiscal challenges, & scope for domestic social unrest, for major oil producing, less-than-fully democratic countries like Iran, Iraq, Mexico, Russia, Saudi Arabia & Venezuela (but less so for beleaguered Qatar; in part since its fortunes depend on LNG (while its world price now too is about half that three years ago, global demand is growing more rapidly than for oil : Shell recently estimated it will do so by 4%-5% annually until at least 2030) & in part, & more importantly so, since it has a safety valve against economic hard times; for it can send some of the 'expats' in the country (87% of its population) in "want" occupational activities back to their 86 countries of origin[3] (thereby 'exporting' their social unrest potential[4]).*

Straw in the wind? - Shell CEO Ben van Beurden (age 59) recently told the media his plans are for his next car to be an electric one.

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1 Now aged 70, with a Ph.D. from Cambridge, Yergin is an energy scholar & Pulitzer Prize winner, who in 1983 founded Cambridge, Mass.-based <u>Cambridge Energy Reseach Asocciates</u> (that more that a decade ago became part of the IHS family)

2 A good example thereof is the 120,000-140,000 bbld. Phase 2 of 60.5% Chevron-owned 4BN bbl Mad Dog project 320 kms. South of New Orleans in 5,011 feet of water. Its original cost estimate in 2012 was US$20BN; but after that rose to US$22BN & work on it was suspended, it was revived last year, albeit it now with just US$9BN price tag..

3 At last report there were 2.4MM people in Qatar; of this number only 313,000 were 'Qataris' & among the rest there were 650,000 Indians, 350,000 Nepalese, 280,000 Bangladeshis, 260,000 Philippinnos, 200,000 Egyptians, 145,000 Sri Lankans & 125,000 Pakistanis, at least some of whom are not even Muslims.

4 Thus at last report remittances from their citizens abroad accounted for 29.7% of Nepal's GDP, 10.2% of that of the Philippines & 8.9% of Sri Lanka's.

Straw in the wind 2.0 - In an auction conducted by BAML & Goldman, Mexico's Tlalnepantla-based Mexichem outbid Everett, WA-based Fortive, two Chinese funds & Singapore's wealth fund to acquire, for US$1.6BN, 80% of Israel's kibbutz-founded Netafim, the world's biggest manufacturer of drip irrigation systems. The sellers were London-based, US$30BN AUM Permira (61.3%), kibbutz Hatzerim (12.7%; it will keep 20%) & kibbutz Magal (6%) - *Mexichem is NYSE-listed with a market cap of US$5.8BN, last year reported revenues of US$5.3BN & EBITDA of 0.884BN & is 42%-owned by Chairman Antonio del Valle Ruiz (who, with a net worth of US$3BN, is among the 15 richest Mexicans.*

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US LABOUR GROWTH PRESAGES FURTHER FED TIGHTENING (Reuters)

- On August 4th the Labour Department reported that in July 209,000 new jobs had been created, more than expected & a revision of its June number from 222,000 to 231,000, and that average hourly earnings had grown 9 cents in July (i.e. 3%, the most in five month, up from 2% in June) &, on a YoY basis an average 2.5% for four straight months.

This came after reports that the June growth in job openings had hit a record high 461,000 to a total of 6.2MM, both of which ought to give the Fed policy makers some assurance that they can continue nudging interest rates up since inflation should soon hit their 2% target[5]. On the other hand the current FOMC is very dovish & aware that in the past its predecessors had been more successful in bringing economic growth to politically unwanted, if not highly unpopular, screeching halts than in blowing new life into an economy "on the ropes". And to put all the employment growth 'hype' into perspective, it's worth remembering that the participation rate is still in the 63-% range, well off the 67% twenty years ago & a level last seen in the mid-1970s

CONGRESS WILL HAVE 12 WORKING DAYS TO PREVENT A DEBT DEFAULT AND KEEP THE GOVERNMENT OPEN (WP, John Hohmann)

- When the Congress resumes sitting in September, the House will have only 12 'legislative days' to raise the debt limit & avoid default, and to approve some sort of spending bill to keep the government's doors open. While a challenging task under the best of circumstances, now it will be a real challenge since the GOP lawmakers are still smarting from their failure to deal with Obamacare **and** because there is a group of a dozen, or more, GOP lawmakers in the House who wouldn't vote for the former unless the accompanied by an equal-sized-, *i.e. 15%*, spending cut (while there is growing pressure to hike defense spending even more than Trump had promised earlier) nor for a higher than last year's spending bill.

The only possible good thing that may come from this is that the more moderate Republican lawmakers would have to start working with their Democrat counterparts to get things done.

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5 And while a Reuters headline this week trumpeted "U.S. productivity increases, keeps labour costs in check", since in the Second Quarter it had grown at a 0.9% annual rate (up from 0.1% in the First Quarter & zero in the Fourth Quarter of 2016, the fact is that in the post-WW II period it had consistently average 2%, or more during each business cycle while during the current one it has, on average, been significantly less than that.

<u>US INFRASTRUCTURE BORROWING DROPS AS STATES AWAIT DETAILS ON TRUMP'S PLAN</u> (Reuters, Robin Despaut)

- The Trump campaign promised a massive US$1TR infrastructure investment plan to create jobs & help local governments improve the quality of the nation's long-crumbling road-, bridge-, airport-, & transit systems. But almost seven months into his Presidency his administration has made little progress with this &, worse still, in one version of his Budget draft proposed ending popular transportation-funding programs. Meanwhile, in part due to higher interest rates, state & municipal governments have YoY borrowed 13.1% less money & announced 19.4% fewer new infrastructure projects.

While this ought to put a damper on economic growth, the Atlanta Fed's GDPNow 'real time' guage of current growth just soared to 4%, double the private sector economists' consensus. But elsewhere, the economy is sending mixed signals; demand for 33,000+ pound Class 8 trucks (that has some 'leading indicator' qualities) that until last November had slid for 20 straight months, has been on a tear since, surging 81% YoY last month, while demand for cars & light trucks has been weak & in July plunged 7% YoY, the biggest monthly decline in 7 years[6].

<u>US IMMIGRATION CUTS WON'T FREE UP JOBS, ECONOMISTS SAY</u>
(NYT, Binyamin Appelbaum)

- In the 1960's, when the US government banned their use of Mexican workers, California tomato growers replaced them with tomato-picking machines, not American workers. Be that as it may, on August 2nd the Trump administration moved to cut legal immigration to 'preserve jobs & foster higher wage growth', a move prompted by the same *misguided* arguments that had motivated the Kennedy & Johnson administrations do the same half a century ago. But economists say that a host of other related evidence shows there's no clear link between less immigration & more jobs for Americans, with Giovanni Peri, a University of California, Davis economist, going as far as saying "The average American worker is more likely to lose than to gain from immigration restrictions."

Two facts doom this initiative to fall short of its deluded proponents' expectations. First, few, if any, self-respecting Americans would, or could, stoop as low as spending his/her days doing the menial-, & often hard-, work involved, often under unappealing working conditions, at the prevailing-, even possibly raised minimum-, wage rates. And for decades politicians have skewed the tax system to make capital cheap & labour expensive; so business common sense dictates replacing people with machines (that don't unionize or demand holidays, sick days and/or pensions & thus provide a more predictable future input cost stream). All this measure may achieve in the case of food stuffs, for instance, is to export the production thereof to lower-wage countries like Mexico, depressing, not hiking, US GDP & worsening its trade deficit.

<u>OPERATION CLEAN UP TRUMP'S MESS</u> (The New Yorker, John Cassidy)

•It began early on August 9th, *the day after Trump's hawkish, sabre-rattling "fire and fury"* remarks on North Korea when the *normally* media-shy Secretary of State Rex Tillerson in an airplane over the Pacific on his way back from Manila gave a rare interview addressing his boss' previous day's incendiary comments. After noting that, with the

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6 Although in Canada it is still very strong.

UNSC's sanctions resolution on North Korea, that neither China nor Russia had vetoed, "the international community actually has had a pretty good week", he said that what the President had done was to send Kim Jong-un a message in a language he might understand; in so doing, while he implied there had been method behind Trump's apparent madness, he failed to address the question of how Trump could expect to be a credible threat to a third party abroad when back home he was telling people that the language he had used was just "rhetoric". Moreover, while Tillerson seemed to be saying that Trump's message had been part of a carefully thought-out strategy, as the day wore on, it became increasingly evident it had been anything but & that it had instead been an irresponsible 'off-the-cuff outburst without the White House staff, incl. its national security staff, having been given a 'heads-up' of, rather than a carefully drafted policy statement (prompting Politico's Josh Cassidy to say "Don't read too much in it"). And matters were made only worse when on August 10th Pentagon Chief Gen. Mattis (*in an attempt to give Trump some cover?*) in a public statement echoed Trump's reasoning.

One can only wonder when people like Tillerson & Mattis, used to a highly disciplined work environment, can tolerate being Trump's 'bum boys'. Meanwhile North Korea is a country with a population 7.8%-, & a GDP of 0.15%-, of that of the US. Kim is setting a world record for 'punching above his weight', based on his perception that his regime has as much military personnel 'on active service' as the US & 10x as many reservists, more artillery pieces and submarines than the US. And 33 year-old Un is megalomaniac psychopath who, if his underlings "anger" him has them executed by anti-aircraft gun fire, who is a product of a culture in which 'loss of face' is the worst thing that can befall a man & who thrives on the (undeserved) global attention bestowed on his pipsqueak tinpot dictatorship by world leaders with ***real*** *power & influence as a result of his missile/nuclear sabre-rattling. Furthermore, it may not have escaped Un's notice that Libya's Muammar Ghadaffi laste less than eight years after he gave up his nuclear weapons. And anyone who seriously believes that sanctions against his people matter a whit to Un is 'several bricks short of a load' [the only reason Moscow is upset with the sanctions against it is because they target (& affect) the lives of individual policy decision makers/power brokers & their families, rather than their hoi polloi]. Those who have to deal with this matter have an unenviable, if not impossible, task since Un is not, & will not be, amenable to reason & his ego is fed by his being the centre of attention, even if negative. No one knows how this is going to end, although many, including yours truly, fear it will do so badly. And while the US has the military & technological skill set to deliver a knock-out punch to the threat to world peace posed by Kim & at some point will have to make up its mind whether to 'fish or cut bait, the fact that the finger on the trigger is that of a the equally megalomaniac Trump is enough to give any thinking person nightmares.*

EX-NETANYAHU AIDE TO TESTIFY IN BRIBERY PROBE (Reuters, Dan Williams)

- Four-term Israeli Prime Minister Benjamin Netanyahu (age 67) has been questioned 'under caution' by police about one case of gifts given to him & his family by businessmen and another related to conversations he had with an Israeli publisher (& it is also investigating his wife over her use of official funds). Ari Harow is a former Netanyahu Chief of Staff who has turned state's witness as part of a plea bargain in his own, separate corruption case & will provide testimony for the state in both cases[7] [8]. A

[7] He served two stints as Netanyahu's Chief of Staff but resigned in 2015 amid allegations he had improperly handled private business affairs and, as part of his plea deal, will confess to fraud & breach of trust and be sentenced to six months' imprisonment (to be commuted to community service) & a US$244,066 fine

spokesman for Netayahu said he would be able to withstand this "witch hunt" to drive him from office, while in a Facebook video posting Netayahu dismissed these developments as "the inevitable scandal of the week", declaring "I would like to tell you, citizens of Israel, that I do not heed background noises ... I continue to work for you."

He is right, up to a point : for in his 11 years in office (eight years to date & three in the 1990s) he has weathered many major scandals[9] & police inquiries without undue damage to his approval rating (which, however, can make politicians over-confident & cause them to "go to the well once too often"'). The key piece of evidence in the second-noted case is a tape, made by Mr. Harow at Netanyahu's request, of the latter's phone discussion with Arnon Mozes, the publisher of Yedioth Ahronoth, a major Israeli newspaper, during which the latter undertook to give Netanyahu more positive than usual coverage in his paper in exchange for Netayahu putting roadblocks in the road of Israel Hayom, the handout daily newspaper of Sheldon Adelson[10] that had been Netanyahu's mouth piece since it's creation a decade earlier, but that had cut severely into Yedioth Ahronoth's once large national circulation (a case of Netanyahu 'biting the hand that fed him'; for Adelson has long been a strong fan of his who is said to have spent US$250MM over the years in publicity campaigns to keep him in power. In a narcissistic fashion Netanyahu lashed out at the media on August 9th, charging them with "pushing for an indictment because they cannot beat him at the ballot box." (ignoring the fact that in the 2015 election his Likud Party for the second election in a row had garnered just 23.4% voter support, which the Times of Israel blog neverthless headlined as a "crushing victory".

CHINA TESTS ANTI-BALLISTIC MISSILE AMID ESCALATING TENSIONS IN REGION
(Epoch Times, Paul Huang)

- On the night of July 23rd & all the next day people across Western China uploaded photos on Chinese social media of a bright & curve-shaped contrail in the sky and/or of a mushroom-shaped smoke cloud such as produced by a rocket launch, seemingly evidencing the launch of an ABM (Anti-Ballistic Missile) missile. Many of these sightings occurred near the city of Urumqi, the capital of the *Uighur* Xinjiang Autonomous Region & it cannot have been a coincidence that during the night of the 23rd China's official aviation authority issued a series of NOTAMS (Notices to Airman) declaring the airspace in the region temporarily off-limits to civilian aviation. Earlier this year Beijing had vehemently opposed the US deployment of the ABM-like THAAD system in South Korea to defend it against North Korea nuclear missiles (*but that could also be used to intercept missiles launched from China*) and had blackballed Lotte, the South Korean conglomerate that had provided land for the THAAD sites.

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8 Prompting a Haaretz headline this week 'there is now little doubt that Netanyahu will be indicted.'

9 The current sequence dates back to 2013 when the press got wind of the fact that the Netanyahu household spent US$2,560 a year of taxpayers' money on 14 kg per month of ice cream in his favorite flavours, vanilla & pistachio, through the news last year the police had recommended that charges be laid against Netanyahu's wife Sara for using public funds to, among others, buy food & pay staff for family functions, pay for Netanyahu's s father's caregiver (Benzion Netanyahu died in 2012 at age 102, and had been a Revisionist Zionist icon but had spent most of life in the US as a History professor at Cornell) & repairs to the PM's residences in Jerusalem & Caesarea, and to purchase expensive lawn furniture, liquor & make-up.

10 The now 84 year-old Las Vegas billionaire who is the founder, chairman & chief executive of Vegas Sands betting conglomerate.

Since this paper is the voice of the Falun Gong, which is out of favour with-, and banned & persecuted by-, Beijing, its opinions must be treated with caution; on the other hand, by its very nature it has a HumInt (Human Intelligence) network in China that's second to none; so its coverage of factual events in China is is likely better than most.

<u>OFFICIAL VOTE COUNT OFF BY ONE MILLION</u> (AP, Fabiola Sanchez)

- The London-based, Venezuelan-owned, electronic voting technology <u>Smartmatic</u> multi-national has provided such technology to Venezuela since 2004. *After the results for the July 30th controversial election for an all-powerful 'constituent assembly came out,* CEO Antonio Mugica[11] told reporters in London the results recorded by Smartmatic systems & those reported by Venezuela's National Election Council show "without any doubt" that the official turnout figure of more than eight million (*little more than half the 15MM who voted in the 2013 election*) had been tampered with[12], but did not go into any detail as to whether his company's figures were greater or smaller, & then went on, *rather puzzlingly*, "Even in a moment of deep political conflict and division we have been satisfied with the voting process and the count has been completely accurate".
- Be that as it may, the 545 members of the new assembly were quickly installed on August 3rd with Tibesa Lucena, Head of the National Electoral Council, dismissing Mugiga's claim as just an "opinion" of a company that had played "only a secondary role in the election and had no access to complete date *& …*located outside the country does not guarantee the transparency and credibility of the Venezuelan electoral system"

*The Assembly's very first move was to fire the Attorney-General (who had been critical of President Maduro). Venezuela produces little by way of consumer goods that its citizens **need**, virtually all of which must therefore be imported. But its oil-generated US dollar cash flow has suffered from the lower oil prices, the growing inefficiency of the state oil company & the massive burden of the debt to China that Chavez incurred in his twilight years (that is serviced by payments-in-kind, i.e. oil). So the Maduro regime has had to resort to printing money to keep going, as a result of which the black market value of the Venezuelan bolivar has declined 99% against the US$ in three years & the inflation rate is now in the 1,000% range. And matters have been made worse for the locals by Maduro having prioritized the meeting of foreign debt servicing payments over importing consumer goods, so the hoi polloi now lack access to the most essential of food stuffs & medicines, increasing the desperation among them. Chavez was a mid-level military officer when he led a coup attempt in 1992 for which he spent two years behind bars but that gave him the profile needed to get elected President in 1998, after which he bought the working classes' loyalty with welfare programs. But Maduro, a former bus driver whom Chavez named as his successor before he died in early 2013, bypassing his Vice - President, lacks Chavez's charisma, & the financial wherewithal to continue buying the hoi polloi's support, and so has been regularly reshuffling the Armed Forces' upper echelons so as to give more of them a chance to enrich themselves & ensure their loyalty But sooner of later the absence of even the barest essentials of life on store shelves & in hospitals will lead to an alliance between hoi polloi at home, their cousins in the diaspora & Armed Forces' junior cadres*

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[11] Age 42, the has an Electronic Engineering degrre from Venezuela's Simon Bolivar University & holds nine patents in his name in the USA.

[12] In its August 5th the <u>Economist</u> said that according to a leaked official document only 3.7MM people had voted, rather than the 8MM claimed by the government - this number would seem not implausible since the opposition had boycotted the vote

fed up with being told time & again to beat up on their fellow hoi polloi in mufti, that will spell the end the Maduro regime. And it is disconcerting to have President Trump starting to tout the 'military option' in the context of this situation, there is likely no need for this at all.

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<u>CITY UNDER ECONOMIC SIEGE</u> (EDMONTON, Graham Hicks)

- Business people say government reports that Alberta's economy is getting better are true if a 10% recovery from a 50% crash can be called an improvement. Thus Cold Lake, Alberta's population declined in the two years to last December from 15,736 to 14,961. While those on the public sector payroll are still financially secure, everyone else has had to accept 30-50% wage cutbacks. The once 5,000 jobs for locals in the oil patch have been trimmed to 3,000. There is little, if any, new construction. House prices have dropped 25% (a once $500,000 house in a new subdivision now sells for $350,000 & one that once had a $700,000 asking price recently sold for $511,000). Bob Buckle who owns the Original Joe's restaurant has seen its annual revenue drop from $3.3MM in 2014 to $2MM in 2015, & remain flat since. While Imperial Oil wants to expand its daily heavy oil output from 160,000 to 210,000 bbld using technologies that would dramatically reduce water usage & greenhouse gas emissions, and hence costs, but the approval process is slow & 20 'intervenors' are *already* registered (*most, if not all, of them hostile?*). While the city has some tourism activity & tourism is just a three months' activity, and reviving a leaner, meaner oil sector that's profitable in a US$50 environment is the only real solution to Cold Lake's, and other Alberta cities' & towns'-,challenges.

Cold Lake is a (small) city 296 kms. ENE of Edmonton & an industry 'hub' for (heavy) oil production. The stability of the local economy is only partially underwritten by the nearby busiest Air Force fighter base in Canada. While the locals appreciate the price of oil is beyond the provincial government's purview, they do fault it for introducing a carbon tax & emission caps that have made Alberta a less attractive place for the industry to invest in compared to Saskatchewan, a couple of hundred miles to the East.

GOLDEN YEARS, IRON BARS (National Public Radio, Elise Hu)

- Japan has the world's oldest population : 25% of its people are over age 65 and, according to Mochizuku Morio, a staff member of a Tokyo private security firm, "Shoplifters are grandmas and grandpas in their 80s and 90s" & to the National Police Agency arrests of elderly persons now are 162 per 100,000 population, double that a decade ago, & people over 65 account for 20% of all arrests made. So the government is spending oney to make some prison wards more elderly-friendly while one researcher of aging believes this may prove counter-productive by encouraging more petty crime among the elderly for whether an elderly person can keep the stolen money or groceries, or gets caught & jailed, and "gets a roof over your head ... three meals a day and ...health checkups (*& become part of a societal group?*), it is a win-win situation"

Oft well-intentioned political initiatives fall victim to the 'Law of Unintended Consequences'. And, while not knowing the cost of incarceration in Japan, in Canada this method would be a costly way of eldercare; for three years ago the annual cost of keeping someone in jail was $117,000 annually, i.e. $321/day), up 46% in a decade & unlikely to have gone down since).

ONLY TWO ROLLS OF TOILET PAPER A WEEK? - Last week the management of a privately-owned New Brunswick home for the aged made the papers for giving its residents notice that, for reasons of cost, they would henceforth be limited to two rolls of toilet paper per week, thereby raising an uproar of indignation among its residents' families - *Their indignation seems displaced; for the Purex brand, for instance, has 256 'sheets" per roll & two rolls would thus allow a resident to use 144 sheets daily which since, according to the industry, average use is 8.6. sheets per visit, would permit one of its residents to make 17 'pit stops' per day.*