

**GLEANINGS II - 723**  
**Thursday August 17<sup>th</sup>, 2017**

**Quote of the week** - “As George W. Bush’s *former* speech writer put it this weekend, it is one of the ‘difficult but primary’ duties of a political leader to speak for a nation in traumatic times. A space shuttle explodes, a school student goes on a shooting spree, a terrorist flies a plane into a building, a hurricane floods a city. When such things happen, Michael Gerson wrote in the Washington Post, “It falls to the president to express something of the nation’s soul”. Yet if Donald Trump’s words about the violent white extremist mob in Virginia on Saturday - which under pressure the White House was desperately trying to clarify on Sunday - are an expression of its soul, America may be on the road to perdition.” - The lead paragraph of an August 13<sup>th</sup> Guardian editorial headlined “A moral failure that shames America” & subtitled “No previous US president of modern times would have failed to condemn his country’s white nationalists. This one did.” - *My optimistic side tells me “The night is darkest just before dawn” & its pessimistic counterpart that Trump’s place in history may prove not unlike that of France’s King Louis XVI in the 1780’s or Russia’s Czar Nicholas II pre-WW I, a harbinger of massive social upheaval.*

**Quote of the week 2.0** - “If you’re not outraged, you’re not paying attention” - paralegal Heather D. Heyer (age 32) in her last Facebook post before being killed on August 12<sup>th</sup> when 20 year-old James Alex Field Jr. ran his car into a crowd of counter-protesters in Charlottesville NJ.

**Quote of the week 3.0** - “No person is born hating another person because of the color of his skin, or his background or his religion ... People must learn to hate, and if they can learn to hate, they can be taught to love.” - Nelson Mandela (these were part of an Obama post-Charlottesville anti-racism Tweet that, according to a Guardian headline, is the “most liked ever on Twitter.” - *Mandela’s postulation may not be entirely borne out in the animal kingdom.*

**Andy Hall, aka “God” in the oil trading sub-culture, is calling it quits after four decades** - He was among the first to recognize the onset of the bull market that drove the oil price from < US\$20 to US\$140+ in a decade & had earlier earned his nickname after personally making, at Citigroup, US\$100MM trading oil in a single year. In a Letter to Investors in his flagship fund (that once had AUM of US\$4BN but at the end of 2016 only US\$1.4BN & YTD was down 30%) he told them he was folding it & returning their money since algorithms, not fundamentals, were now driving the business. Along the way he made several other observations, incl. :

- OPEC having had to extend its production cuts had been a sign of weakness;
- the medium-term oil outlook was “challenging” & had “deteriorated in recent weeks”; and
- US shale oil will continue to flood the market (with oil price bulls opining its business model is flawed & unsustainable, & the bears that new technology will let the companies involved “continuously drive costs lower as well as add to recoverable reserves.”<sup>1</sup>);

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<sup>1</sup> A real life example of what’s possible with new technology & higher prices is provided by Hibernia, Canada’s first offshore structure 200 miles/320kms SE of St Johns that came on stream in 1997, after a decade of construction, & this year will produce its billionth barrel of oil. When I visited it in 1994, when Brent crude was in the US\$14-18 price range, we were told recoverable reserves were 625MM bbls, its useful life 20 years & production in the early years would be “as high as” 125,000 bbl/d. Now, after 20 years during which output was as high as 175,000 bbl/d & has averaged 135,000 bbl/d, in 2016 the daily average production rate was still 136,000 bbl/d (up 51% YoY) & there still is 2.1BN bbls of oil in place, of which 704MM is recoverable at US\$50.

**Chinese economy** - After its Second Quarter numbers came in lower than expected, a WSJ headline trumpeted “The China growth slowdown has arrived” & JPMorgan told its clients that it expected a “modest” easing of the GDP growth rate to 6.4% in the Third-, & 6.2% in the Fourth-, Quarters although it expected full year 2017 growth of 6.8% (*which may nevertheless worry President Xi c.s, since they have long regarded 7% as the tipping point into social unrest*).

**Different perspective on the US healthcare debate** - “A number of prostitutes in Nevada, where brothels are legal, have organized Hookers for Healthcare to oppose the healthcare legislation pending in the Senate (*this dates back a few weeks*). This poses a quandary. I don’t know which side to believe ... on the one side there is this small group of amoral people who every day debase themselves by doing anything, no matter how disgusting and depraved, to please the people who give them money. And on the other side we have hookers.” - Phil Kloer (*Hookers for Healthcare is the brainchild of Alice Litte, a resident of the Mount House, NV-based<sup>2</sup> Sage Brush Ranch brothel who believes that “sex workers deserve quality affordable insurance” (being ‘self-employed’, they must purchase their coverage on Obamacare’s ‘medical insurance’ exchanges’ that, even before the GOP attack on ACA, had been forced to restrict coverage & raise premiums (the source of this second-hand quote is Marybeth Conley, an Emmy Award-winning media personality who has her own show on Memphis-based WREG TV, & her source likely was Phil Kloer, Wales’ Hywel Dda University Health Board’s Medical Director & a Consultant Respiratory Physician (since he has a blog & this seems to fall in an un-American category of ‘wry British humour’)*).

**New US housing starts short of expectations** - In July they came in at 1,155,000, down 5.3% from both June & the level expected, and 5.6% YoY. Building permit issuance was down 4.1% (flat for single homes & down 11.2% for apartment units). But builders remain confident, despite a shortage of skilled labour & buildable lots, and rising material costs - *At this level starts are still short of the 2,300,000 unit pre-Great Recession-, & 500,000 Recession low-, average* .

**Online sales ‘hyped?’** - In an article, Changing consumer habits, not Amazon, are behind the retail slump, Vitaliy Katsenelson CFA, of Denver-based Investment Management Associates (a 2 employee firm with AUM of US\$38.2MM), contends that with total US retail sales in 2016 being US \$5.5 trillion, Amazon’s US\$80BN in sales accounted for just 1.5% thereof, & total US online sales for 8.5% - *To further deflate the online sales balloon, estimates of the % of US online sales returned range from 20%-50%, with CNBC last December reporting returns running at a US\$260BN annual rate, i.e. at the upper end of that range*.

**Reactions to Trump’s initial “hatred, bigotry and violence on both sides” comment on the Charlottesville, NJ events –**

- Sen. Marco Rubio (R.-FL) : “Nothing patriotic about#Nazis, the #KKK, or #white supremacists. It’s the direct opposite of what America seeks to be”;
- Sen. Cory Gardner (R.-CO) : “Mr. President - we must call evil by its name. These were white supremacists and this was domestic terrorism”;
- Gov. Chris Christie RR-NJ), a strong Trump supporter : “We reject the racism and violence of white nationalists like the ones acting out in Charlottesville. Everyone in leadership must speak out”;

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<sup>2</sup> Located 7 miles East of Carson City, NV which, in turn is 30 miles South of Reno, NV.

- David Duke (age 67), a former Imperial Wizard of the KKK, anti-semitic Holocaust denier & Jewish conspiracy theorist, and convicted felon<sup>3</sup> <sup>4</sup> : “The white nationalists are working to fulfil the promises of Donald Trump”; and
- Daily Stormer blog site<sup>5</sup> : “Trump comments were good. He didn’t attack us. He just said the nation should come together. Nothing specific against us ... No condemnation at all.”

*It’s not good news for a politician when the majority ‘good guys’ criticize-, & the not quite-so-nice minority ‘bad’ ones laud-, him (or her).*

**“The President has not yet been able to demonstrate the stability nor some of the competence that he needs to demonstrate in order to be successful”** – This is what Sen. Bob Corker (R.-TN) told reporters on August 17<sup>th</sup>. The noteworthy part of this is that, according to CNN “he is said to have maintained a collegial relationship with Trump and has spoken to him regularly” (although he did spearhead the Russian sanctions legislation that the President reluctantly signed into law (*largely because it put a crimp in his presidential powers*))

**Trump disbands the Business Advisory Councils he created just a few months ago** - He didn’t have much choice; for after his dilly-dallying on the Charlottesville events, their corporate CEO members were jumping ship with great abandon : when one such council polled its 12 members it found no fewer than ten were planning to distance themselves from Trump.

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### **STRONG US RETAIL SALES BOLSTER THIRD QUARTER GROWTH OUTLOOK** (Metro News Service, Lucia Mutikani)

- Consumer spending accounts for over two-thirds of US economic activity. It had a slow start this year when it grew at just a 1.9% annualized rate in the First Quarter<sup>6</sup>, although that rose to 2.6% in the Second. But on August 15<sup>th</sup> the Commerce Department reported it had revised its reading of consumer spending growth for May from -0.1% to zero & for June from 0.2% to 0.3%, and that in July it had jumped to a 7 months’ high 0.6% MoM<sup>7</sup> (vs. 0.4% expected & up 4.2% YoY). According to Sal Guatieri, a senior economist at BMOCM in Toronto “American shoppers flocked to the malls in July, suggesting consumers are well-positioned to propel the economy forward in the second half of the year ... (*which*) should tamp down chatter about the Fed delaying rate hikes until next year”. Another August 15<sup>th</sup> report, this one by the New York Fed, noted its Empire State General Business Conditions Index had soared from 15.4 in July to a near-three year

<sup>3</sup> In 2002 he was convicted of financial fraud for using supporters’ money for personal purposes.

<sup>4</sup> Whose run last year for a Louisiana Senate seat “drew attention but little support”, although he had told NPR he would get the votes of Trump supporters & was “100 percent behind” Trump’s agenda & who on November 9<sup>th</sup> went on record as saying “Trump won a great victory for our people.

<sup>5</sup> It was founded in 2013 & since then has operated under the banner of “Preparing for the Race War” & is edited by the early-30’s Andrew Anglin (who has at various times been reported as living in Germany, Nigeria, Philippines & Russia),.

<sup>6</sup> Which is not really all that Godawful since the GDP trend growth rate is in the 1.6% range.

<sup>7</sup> I.e. at a 7.44% annualized rate.

high 25.2 in August, as manufacturers reported a jump in new orders & were taking longer to deliver goods..

*First Quarter GDP growth was 1.2% annualized, down from 2.8% & 1.8% in the previous two, but bounced back up to 2.6% in the Second. But Guatieri's optimism may be misplaced<sup>8</sup> For at least some of the Second Quarter consumer spending was funded by a rundown in the US savings rate to a 9+year low 3.8% (down from 5.1% YoY & 6.3% in June 2015). So a continuation of strong consumer spending driving GDP growth will require either stronger wage growth (that seems mired at the 2.5% level) or more consumer borrowing<sup>9</sup>; for as Michael Feroli, a JPMorgan economist puts it, "The decline in the savings rate ... raises some longer term concerns about consumer spending ... Savings can't drop indefinitely and future consumption growth will need to rely on stronger income growth" (but the unproductive state of affairs 'inside the Beltway' creates uncertainty in the business community that is not conducive to strong GDP-, & hence 'real' wage-, growth).*

### **CHINESE AUTOMAKERS COVET FCA (Automotive News, Larry P. Velliquette)**

- For over two years CEO Sergei Marchione has had Italy's 200+ member Agnelli family-controlled Fiat Chrysler Automotive firm on the block & has been reorganizing it to enhance its appeal to buyers (among others by eliminating all smaller, more fuel-efficient models from its product line), with positive bottom line results. But until recently there had been no takers. That changed earlier this month when a prominent Chinese automaker made an offer (that was rejected for "not being enough"), while others are said to be 'kicking the tires', FCA executives have been in China for talks with the Great Wall Motor Co. & Chinese delegations from other firms have been spotted at FCA's headquarters in Auburn Hills, MI.

*A takeover of one of the Big Three US automakers would be a shock to the American psyche. Although Beijing is reining in empire-building holding companies that it feels are investing abroad in unduly risky ventures, it is still pushing manufacturing companies to do so 'strategically' to secure sources of supply of raw materials and/or gain access to foreign technology. Thus according to Bloomberg it targets outward-bound investment of US\$1.7TR over the next decade, 70% more than in the past decade (to be funded by continued massive trade surpluses that may not materialize as the Chinese economy shifts from being export-, to domestic consumption-, driven?).*

### **THE RUMOUR WAS TRUE (The Heisenberg Report)**

- For months doomsayers have been spreading 'pernicious rumours' that share prices can go down as well as up. And in the week of August 7<sup>th</sup> they seemed to be proven right when the Dow Jones slid 1.12% between Tuesday August 8<sup>th</sup> & the close Friday August

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<sup>8</sup> The Atlanta Fed's GDPNow 'live' reading of the current GDP growth rate at mid-month was 3.7%, down from 4.0% at the beginning of the month.

<sup>9</sup> This can't be taken for granted; for on June 30<sup>th</sup> total US household debt was a record US\$12.8TR [up 552BN (4.5%) YoY]. While the overall delinquency rate had remained constant QoQ at 4.8%, the New York Fed raised a "red flag" when it reported credit card balances had "ticked up notably", while according to Fitch the banks in the Second Quarter had increased the amount of credit card debt they were writing off to 3.3% and that, while well below 2010's 10%, now mainstream lenders that had loosened their lending criteria-, not their subprime counterparts are taking the hit.

11<sup>th</sup> (although it fairly quickly regained 55% of the ground lost in the first two trading days of the next week).

*In the last half century the Dow Jones 30 has gone through four up-, & three down-, & the S&P 500 through five up-, & four down-, phases of various lengths that in the aggregate delivered 6.7% & 6.8% compound annual rates of return respectively over the period as a whole . In the case of the slightly less volatile former the compound annual rates of return during these periods were +12.0%, -12.0, +13.3%, -31.4%, +18.3%, -8.6% & +28.3% respectively<sup>10</sup> (what's notable is that in the four upward phases the rate of compound growth had accelerated, driven in the past two decades at least in part by the fact that the number of companies listed on US stock exchanges per million Americans has declined by over 50%, from 30.03 in 1996 to 13.70 in 2014, and in part that, due to the Fed's "unconventional" monetary policy & the resultant cash pile-up in corporate treasuries, the five quarter running average value of corporate share buybacks more than doubled from US\$71MM to US\$149MM between the First Quarter of 2010 & the Fourth Quarter of 2016 [thereby helping to boost the Dow Jones 30's P/E (Price/Earnings) ratio from 13.3x in 2008 to 19.4x in 2016 (a post-2005 22.5x high)<sup>11</sup>]. With the pace of share buybacks having eased in the past year (in the First Quarter it was down 17.5% YoY), the impact thereof on demand-supply (im)balance could prompt a sharp correction. For as the late, great John Templeton observed "Bull markets are born on pessimism ('the sky is falling'), grow on skepticism ('we'll never get out of this hole'), mature on optimism ('sunny days are here again') and die on euphoria ('sunny days will be here forever')." Since then BAML has warned its clients of "ominous" signs for stocks, as only 33% of the money managers it regularly polls now expect corporate profits to grow this year, down from 58% earlier this year (& the S&P 500 trades at 21x trailing earnings, down from 22x last March).*

#### **CITGO TURNS TO CANADA FOR OIL AS CRISIS DEEPENS (WorldOil.com, Lucia Kassai)**

- Citgo Petroleum Corp., a unit of state-owned PDVSA (Petroleos de Venezuela SA) owns & operates oil refineries at Lake Charles LA (with a capacity of 425,000 bbl/d the sixth largest in the US) & in Corpus Christi TX (157,500 bbl/d)<sup>12</sup>. With shipments of oil from home dwindling (in the first week of August imports of Venny oil were just 507,000 bbls, a five-months low after in July its parent company's output hit a 14-year low) & because it must ship much of its oil to China & India as 'payment in kind' for loans (*many of them a legacy of the Chavez era*), Canadian dilbit (*diluted bitumen*) would be a good replacement feedstock since it too is 'heavy' & has a high sulfur content.

*The OPEC output 'cap' and the growing scarcity of Venezuelan-, & Mexican 'Maya'-, heavy oil has led to in a tightening of the discount from WTI for Western Canada Select heavy crude from US\$16.15 on December 31<sup>st</sup>, 2016 to US\$10.05 on August 4<sup>th</sup> (unfortunately the stronger Canadian dollar has offset the benefit thereof for the Alberta government's revenue flow). Also interesting is that late last year, the Maduro regime borrowed US\$6BN from Mr. Putin, secured by a Rosneft option on a 49.9% ownership interest in the refineries (and since Chavez before*

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<sup>10</sup> What many people fail to realize is that equal-sized declines & recoveries don't get one back to one's starting point (e.g. a 50% decline from 100 takes one to 50 but a subsequent 50% rise takes one back to just 75); this explains part of the disparate % decrease/increase phenomenon.

<sup>11</sup> Both well above its long-term (1929-2010) average of about 15x.

<sup>12</sup> That, as the records show, last year contributed US\$500,000 to the Trump campaign.

*his death had been trying to sell them, the Maduro regime may take the easy way out, default on the loan & force Rosneft to exercise its option (a move that may not be looked upon favourably by Washington).*

### **THIS IS A TURNING POINT. IT'S OVER BETWEEN TRUMP AND THE GOP** **(CNBC, Sara Fagan)**

- On August 15<sup>th</sup> he missed the biggest opportunity of his presidency to show moral leadership on an issue deeply dividing the nation by failing to rebuke people who seek to destroy nearly 200 years of progress. And it wasn't even a close call. This is a turning point for the president; for Republicans in Congress will no longer give him the benefit of the doubt & by the 2018 mid-term elections, if not sooner, will openly run away from him.

*Her timing may be off; for by the middle of next year Republican members of the House & the eight Republican Senators up for re-election, will be motivated by self-preservation to impeach him, believing, rightly or wrongly they would fare better with Pence in the Oval Office - Fagan (age 42) now is an 'issue analyst' with Washington-based DDC Advocacy, but as a student at Des Moines, IA-based Duke University was the National Co-Chair of the College Republicans after which, in 1999, she worked on George Bush's campaign, following which she was a White House staffer, lastly as the Director of the White House Office of Political Affairs & Deputy Assistant to the President, until she went into the private sector in 2007.*

### **POLL FINDS CITIZENS OF MANY US ALLIES TRUST PUTIN MORE THAN TRUMP TO DO THE RIGHT THING** **(AP)**

- On August 16<sup>th</sup> Pew Research released the results of its Spring 2017 Global Attitudes Survey during which it had interviewed, between February & April, between 824 & 2,464 randomly selected individuals in each of 37 countries. It had found that, although both Putin & Trump scored poorly (overall only 22% of interviewees trusted Putin to do 'the right thing') Putin was nevertheless more trusted than Trump by more citizens of numerous US allies, incl. Japan, South Korea & seven European NATO allies (France, Germany, Greece, Hungary, Italy, Spain & Turkey) to "do the right thing regarding world affairs", although Trump outscored Putin in NATO allies Britain, Canada, Netherlands & Poland & in Australia, Israel & the Philippines. Overall, while 60% of respondents said they lack confidence in Putin, only 22% had confidence in Trump (to do the right thing), and Trump trailed Obama's results in last year's Survey in all countries except Israel & Russia. More specifically Putin beat Trump 50-19 in Greece, 25-11 in Germany, 27-17 in South Korea and by 31 points in Lebanon, 21 points in Vietnam & 14 points in Mexico, while Trump outscored Putin in Australia, Britain & Canada, and Israel (by 29 points).

*Being the best-looking horse in a glue factory isn't much of an asset. Be that as it may, this evidences how much damage Trump had done to the American "brand" on the global scene in 3-5 short months (long before his war-like "fire and fury" rant on North Korea).*

### **KELLY CONSIDERS FURTHER SHUFFLING OF WHITE HOUSE STAFF** **(Politico, Josh Dawsey)**

- According to four White House staffers he spent this week (*that starting August 7<sup>th</sup>*) in Bedminster, NJ pondering changes in the West Wing, summoning staff members to Trump's golf course to ask them about their portfolios & solicit suggestions from them as to how to make the White House communicate better & achieve more. In many cases

the role of Chief Strategy Adviser Steve Bannon (who had remained in Washington), about whom there were many complaints since he has a large staff & no specific duties, *and is at war with National Security Adviser H.R. McMaster*<sup>13</sup> (according to a WSJ headline “Steve Bannon all but dares Trump and Kelly to fire him”). Kelly is said to have told people they should be more concerned with the President’s agenda & less with their own, and to have made it clear “the place will soon be different”. One common complaint he heard was that people were given identical and/or competing assignments without anyone being sure who was to be in charge.

*Corporate megalomaniacs like Trump like ‘chaos management’; for it feeds their ego & because they believe it enhances their power (& it often does). But it is totally alien, if not outright abhorrent, to types like Kelly who grew up professionally in a very structured work environment. It was interesting, & telling, to watch his facial expression during the August 15<sup>th</sup> press conference during which Trump lost his cool & reversed his previous day’s position on neo-nazism. It made one wonder how long righteous people, who not long ago were ‘top dogs’ in their own right, like Kelly, Tillerson & McMaster, will continue to ‘suffer Trump gladly’ at a cost to their own hard-earned personal reputations (the consensus seems to be that the “adults” in the Trump administration have not yet been pushed to the point where they will resign but that a mass exodus of them at some point cannot be ruled out).*

#### **GERMAN GROWTH SLOWS BUT REMAINS ROBUST (Reuters)**

- Although lower than the 0.7% annualized rate expected, strong household spending, more state spending & higher corporate investment produced a 0.6% Second Quarter GDP growth rate, thereby consolidating its role as the Eurozone’s ‘growth engine’ (even though her trade surplus declined as the vibrant economy sucked in imports).

*A lower German trade surplus is actually a good thing since it will ‘spread the wealth’.*

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But he is deemed almost ‘bullet-proof’ since he is Trump’ primary link to his ‘base’.