

GLEANINGS II - 732
Thursday October 19th, 2017

Quote of the week - "The leader of the free world has a narrow, transactional approach to foreigners and seems unable to enact his agenda at home. The United States is still the world's most powerful country but is weaker at home and its president less effective abroad than any of his recent predecessors, not least because he scorns the values and alliances that underpin American influence *in global affairs*. The leader of the largest authoritarian state, by contrast, walks with a swagger abroad. His grip on China is tighter than any leader since Mao. And whereas Mao's China was chaotic & miserably poor, Mr. Xi's is a dominant engine of global growth" - from an article in the October 14th *Economist* entitled "Xi Jinping has more clout than Donald Trump. The world should be wary." - *While President Trump may be trashing his own & the US' global image & status, and & goodwill abroad, by his foreign policy moves, his tweeting & braggadocio, and his administration's chaotic modus operandi, to imply Xi can walk with "a swagger abroad" is not just akin to calling him "the best-looking horse in the glue factory", but a "stretch". For he presides over an economy whose glory days as "a dominant engine of global growth" are over & that has all the makings of a "giant with feet of clay" (Daniel 2 : 31-32). Its future trend growth rate will be affected by three demographic "boat anchors", a shrinking & aging population, one-quarter of its 250MM-strong 0-15 year age cohort consists of "left-behind" children who will be educationally-, & psychologically-, challenged, and low potential workers as they grow up, and the male-female imbalance in its 0-29 year age cohort will down to road be conducive to social unrest. His drive to increase hike Party control over the economy is economic trend growth rate-negative. While known to be obsessed by Gorbachev's fate after he loosened Party control over the Soviet economy, Xi may well be repeating Brezhnev's mistake of engaging in a more costly arms race cum public money spending spree than his economy can afford & sustain. The food China produces is not fit to eat, its water not fit to drink & its air not fit to breathe¹. Since 1991, as its population grew by 20%, its stock of arable land shrank 16% to 105MM hectares (one-sixth of it so heavy metal-, and/or chemically-, polluted as to exceed Beijing's own standards for producing 'safe' food products); and while food production productivity has increased, its potential has been-, & will remain-, constrained by a lack of irrigation water. It now is evident that China's extraordinarily high GDP growth rates earlier this century were inflated by investment in projects like the 'ghost' cities & malls that will generate little, if any, of the cash flow needed to service the debt taken on board to fund them². While China's national debt-to-GDP ratio, at 46.2%, is modest compared to the US' 105%, Greece's 188% & Japan's 250%, its **total** debt-to-GDP ratio³, at 250+%⁴ & rising', is in a class by itself & will almost inevitably lead to a financial crisis; and it is one of the reasons why Moody's last May*

¹ Thus with the, from a leadership perspective all-important, quinquennial National Party Congress scheduled to start on Thursday October 18th, all steel mills & factories in the Beijing region were ordered cut their output to ensure Beijing's air would be (*relatively?*) clean & its sky cloudless.

² As a result of which there were an estimated 89MM vacant housing units (enough for 300MM people) when the double digit GDP growth rate bubble burst in 2010.

³ I.e. the national government's debt **plus** all non-national government-, **plus** all corporate & individual-, indebtedness.

⁴ With so much thereof owed by, often deadbeat, SOE's (State-Owned Enterprises) and/or guaranteed by the government that, if that it were included in the national debt for the purpose of calculating its ratio to GDP, the result would likely be to bring it within Greece's range.

downgraded China from Aa3 to A1 (& S&P last month followed suit from Aa- to A+) ⁵. A 2012 Xinhua poll found 90% of respondents believed politicians were “rich” (from corruption); and, while Xi and his wife & daughter⁶ may be above suspicion, according to a Bloomberg study that year, his extended family, like those of hundreds of other ‘princelings’, is worth hundreds of millions of dollars (a study that, after it went viral on the Internet, was quickly removed from it in China). And his “anti-corruption” campaign is just a tool to get rid of political enemies, potential challengers & ‘no-longer desirables’ &, as such, a sign of weakness, not strength.

Bed bugs on British Airways - On a flight from Vancouver to London a female passenger spotted one on the back of the seat in front of her, was told by a flight attendant the flight was full & they couldn’t be moved. So when she & her seven year-old daughter arrived in London they were covered with bites. BA apologized & upgraded their return tickets to Business Class.

Fed Chair - Trump has hinted to the media he will announce his choice ‘soon’ (interpreted by Bloomberg as before leaving on his 10-day Asian trip on November 3rd ⁷). He met today, October 19th, with all five candidates in the Oval Office, after which White House spokesperson Natalie Strom reported “The President said on Tuesday (*i.e. the 17th*) that he likes all of the candidates and has great respect for them all.” Yellen, who is getting on in age & smart enough to know to get out while she is still ahead, likely told him “Thanks, but No Thanks”). Gary Cohn, the 57 year-old Goldman alum who currently is Director of the White House National Economic Council is still seen by many as having the inside track, despite his “thin” academic background & the fact Trump in the past couple of months seems to have cooled on him (*in part because of his criticism of Trump’s reaction to the Charlottesville, N.J. event?*). Of the other three people in the running Fed Governor Jerome Powell (64) would provide continuity, an investment banking-, &, under Bush 41, US Treasury financial institution surveillance & debt management-background, and is the pick of Treasury Secretary Mnuchin (who spearheaded the selection process) *but may be too ‘hawkish’ & too close to of the GOP establishment for Trump’s taste*, Vice President Pence is pushing the candidacy of Stanford’s John Taylor (70), who has had White House CEA experience in the Ford, Carter & Bush 41 administrations, and US Treasury experience in the Bush 43 one, but may have his age against him, & former Fed Governor Kevin Warsh (47), who wants the job badly, impressed Trump when the two met three weeks ago - Trump’s eventual choice may well reflect on the ‘balance of power’ in the White House (Politico this morning, October 20th ranked them as follows : Powell, Warsh, Yellen & Taylor (*note the absence of Cohn in this line-up*) and opined Trump is “leaning” towards Powell.

China’s water problem - In essence it is a function of the fact that, while it is home to 20% of the world’s population, it has only 6% of its renewable water resources. This has resulted in a

⁵ Both because the government’s efforts to slow the rate of credit growth (that has fueled, & still fuels, its GDP growth), hasn’t been sufficiently successful &, according to Moody’s since credit growth & a slowing down of GDP growth must inevitably lead to a major financial crisis.

⁶ Named Xi Mingze & now aged 25, she is a 2015 Harvard grad in psychology & English who in her years there was said to have lived “frugally” under an assumed name.,

⁷ He will be in Japan on November 5th & 6th, in South Korea the 7th, in China the 8th & 9th, in Vietnam (to attend the APEC Summit) the 10th & 11th and in the Philippines (to attend the ASEAN Summit) on November 12th & 13th. No doubt North Korea will everywhere be high on the agenda.

huge 'overpumping' from its aquifers⁸. Thus the water level in the 260,000 sq. km. North China Plains Aquifer underlying a region from the Bohai Sea in the Northeast (313 km/196mi. East of Beijing) to the Yellow River in the South that produces half of China's wheat & corn, a decade ago already was dropping by 3 metres/10 feet per year in Hebei Province (that surrounds Beijing on three sides), while in Beijing itself the level of the land has been dropping 11 cms/4 in per year, raising, *seemingly far-fetched*, concerns that, if this continues, the day may come that the foundations underneath the city's many skyscrapers (the tallest of which is the 81 story, 1,083 feet China World Trade Center Tower) won't be strong enough to keep them from toppling⁹ - *Such settling of the ground due to overpumping is a problem for over 50 Chinese cities (nowhere more so than in Shanghai). And the 'aquifer mining' problem is not unique to China since overpumping has led to similar problems for half the world's 37 major aquifers, most seriously so in India, Pakistan & Indonesia, in Yemen (where the amount overpumped is 4x that of the annual 'recharge') & Saudi Arabia (where water is now being pumped, at great expense, from wells as deep as 4,000 feet/1,200 meters, as well as the Western United States' 450,000 sq. km. Oglallala aquifer underlying half of South Dakota and bits & pieces of Wyoming, Colorado, Kansas, Oklahoma, New Mexico & Texas (thus in South West Kansas the ground has dropped 80 feet in 21 years), although this is not the case for the 750,000 sq. km. North Great Plains Aquifer underlying parts of Montana, North-, & South-, Dakota, Wyoming and of the Canadian Prairie Provinces*¹⁰.

Ocean shipping costs to sky rocket? - Much global trade is moved cheaply by 70,000+ freighters, container ships & tankers whose fuel of choice is "bunker oil", a residual product of the refining process with a sulfur content as high as 3,500 times that of the *oft-maligned* road diesel. But on October 27th of last year, the London-based IMO (International Maritime Organization), the UN's regulatory agency for international water-borne shipping, cut, effective 2020, its 'global sulfur cap' (i.e. the maximum percentage of sulfur in the fuel ships use) from 3.5% to 0.5%. By some accounts this could cost the industry US\$60BN annually from the higher cost of alternate fuels (the price of which is expected to rise sharply) & from having to re-engineer ships' power plants to handle other fuels. And it will also impact on refineries; for they will have to reconfigure their plants to produce a different product 'mix' & bear the cost of sulfur disposal that they have hitherto been able to 'download' onto the shipping industry.

IMF meeting - While the upgrading of its 2018 economic growth forecast to 3.7%, from 3.6% last July, was welcomed, there was widespread concern about the potential risk to world trade from the US stepping out of regional trade agreements & from Trump's America First policy mantra prompting other countries to also become more isolationist in their trade policy-making

⁸ And the same is true for China's river systems; thus withdrawals from the Yellow-, & Yangtze-, Rivers are so massive that for part of the year little, if any, of their water reaches the sea, causing salination of the soil & the groundwater in their deltas.

⁹ And China's much-hyped US\$81BN South-to-North Water Diversion Project (that will move water 2,700 km/1,700 mi. from Tibet to the Northeast, thereby compounding India's, Pakistan's & Bangladesh's future water problems since it will syphon off that water from rivers like the Indus & Brahmaputra that, after 'springing' on the Tibetan plateau, have always carried their water South), won't be a panacea; for when its first water reached Beijing in late 2014, it only increased the annual per capita water supply to the city by 50% to 150 cubic metres.

¹⁰ In gathering this information I was blown away by the fact that there is only one aquifer, the Paris Basin one, in all of Western-, Northern-, Eastern & Central-, and Southern Europe.

September new job creation - According to the BLS (the Commerce Department's Bureau of Labor Statistics) in September non-farm payroll employment declined by 33,000 (the first time it has done so since September 2010), although the unemployment rate declined by 0.2% MoM to 4.2% (as the number of unemployed workers declined by 331,000 to 6.8MM, one quarter of whom are "long-term unemployed", i.e. those without a job for 27 weeks, or more). It attributed this to a decline in employment in the 'food services and drinking places' and 'below trend' employment growth in industries affected by Hurricanes Irma & Harvey' - *But the uncomfortable fact remains that YTD new job creation has totaled just 1.3 MM, down from 1.8MM in 2016 & 1.9MM in 2015 & is marginally below the 1.8MM annual rate consistent with economic growth.*

Trump is 'poorer' - On October 17th Forbes magazine published its annual list of the Net Worth of the '400 richest Americans'. For the 24th year in a row Bill Gates (US\$89BN) headed it up, for the second year in a row followed by Amazon's Jeff Bazos (US\$81.5BN). Way down the list, Trump is tied for 248th place (down 92 rankings YoY from 156th) with 27 year-old Evan Spiegel, co-founder & CEO of Snapchat, and the youngest of the 400. Forbes calculated Trump's Net Worth to be US\$3.1BN, down US\$600MM YoY (due to the "weaker New York retail-, & office-," real estate market). Luisa Kroll, Forbes' senior wealth editor, told CNBC that, unlike past years, Mr. Trump had not sought to have his ranking boosted & that "We'll see if he tweets today ... I know he cares." - *He may well be upset by Forbes showing him with a 16% lower Net Worth YoY while that of the 400 as a group as a whole had risen by 11% & that his share of the 'pot' has declined from 0.15% to 0.13%. This is a long way from mid-2015 when he announced his candidacy & claimed to have assets of US\$9.2BN & a Net Worth of US\$8.7BN, saying "I'm not doing that to brag ... I don't have to brag." So either he then was lying through his teeth, or had run his business stupendously badly in 2016 (for there is a US\$5.2BN gap between his assessment of his 2015 Net Worth & Forbes' in 2016).*

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30TH ANNIVERSARY OF "BLACK MONDAY" (Seeking Alpha, Yoel Minkoff)

- On that day in October 1987 equity markets around the world cratered & the Dow Jones lost 22.6% (to 1,738.74). While the memory thereof (or rather the telling thereof; for most investors today were then still wet behind the ears) is disconcerting some investors at a time of steep valuations & markets ratcheting up to ever-higher levels. But a repeat thereof is unlikely due to modern trading technology, the implementation of circuit breakers & the way investors' funds are being managed.

In my thirty-odd years on the fringes of capital markets I learnt that the most dangerous five words are "this time it is different."¹¹ And part of the blame for the size of the 1987 crash, & the speed with which it circumnavigated the world's capital markets, was subsequently laid at the feet of "unchecked computer technology". That being said, I remember the day well¹².

¹¹ Minkoff is a journalist & the Editor of Seeking Alpha rather than a 'hands-on' financial market participant.

¹² For I was on a European road trip with the Provincial Treasurer & had taken it upon myself not to travel with him by plane from London to Paris, our next stopping-off point, but to do so on a (borrowed) motor bike. But that night featured a 'hundred year storm' with wind gusts up to 190 km/120mi. So my trip first entailed first a rough, hair-raising ferry crossing of the Channel & then an even more hair-raising bike ride across Northern France with semis parked nose to tail all along the highway & me riding the bike leaning at a sharp angle into the Sou'wester. That evening our dinner with senior French bankers was interrupted time & again by their underlings bringing ever more bad New York Stock Exchange news. And the next morning, after I had flown with the Treasurer to Zurich, our expected UBS host didn't show up & I had to organize transportation into the city for us on short

THE DANGER OF PRESIDENT PENCE (The New Yorker, Jane Mayer)

notice (it turned out that his father had lost a bundle & he'd spent the night seeking to comfort him). And then, during our first meeting with the President of UBS, I interrupted him, as he was in full flight pontificating as to what was going to happen, to bet him a bottle of Scotch he had it all wrong & that the previous day had been a 'flash in the pan'. As it turned out, I was proven right as the NYSE recovered 300+ points in the next two trading days. A few months later UBS' Toronto rep. on his next visit sidled into my office, quietly put a bottle of Bowmore Single Malt on my desk & changed the subject (I still have the bottle, still with a 'heel' in it, for sentimental purposes.

- On September 13th Donald Trump had the Democratic leaders at the White House for dinner & agreed to a major policy change (to grant provisional residency to undocumented immigrants who had come to the US as children), only to shortly thereafter first deny-, & a little while later, confirm-, having done so. This caused Ann Coulter, the author of a 2016 book In Trump We Trust to tweet the next day “At this point, who DOESN’T want Trump impeached”, followed a while later by “If we’re not getting a wall, I’d prefer President Pence.” So Trump achieved the impossible, having Coulter side with the liberal commentators. For the next day the NYT’s Gail Collins praised Pence as someone “less likely to get the planet blown up” & Washington Post’s Dana Milbank had an Op-Ed piece “President Pence is sounding better and better”.
- New Gingrich told me recently that the three people with the most policy influence in the Trump administration are Trump himself, Gen. Kelly & Pence, saying “Others have some influence, such as Jared Kushner and Gary Cohn. But look at the schedule : Pence lunches with the President ...*and* is in on all the national security briefings.” And he is the only one in the White House who cannot be fired & who Trump has not overtly feuded with. Growing up in a Catholic family & educated in Catholic schools, he found Jesus while at the Presbyterian Church-affiliated, liberal arts Hanover College in Southeastern Indiana. While during the tumultuous 2016 campaign little attention was paid to his political record, he is a far, far right Tea Party doctrinaire ideologue who his critics say is “on a mission” to reverse women’s political and economic advances, & who sometimes *jokingly* refers to himself as “Russ Limbaugh on decaf”. Kellyann Conway who became a pollster for Pence in 2009 & now is the White House Counselor, once called him a “full-spectrum conservative on social-, economic-, and defense issues”, & according to Bannon he is Trump’s “connective issue” with the most conservative wing of the Republican Party establishment & *while* “Trump got the populist nationalists ... Pence is the base. Without Pence you don’t win.” And he has a close relationship with the conservative billionaires who have captured the GOP agenda in recent years & *is so deep into the Koch brothers’ pockets that* Bannon told me “I’m concerned he would be a President that the Koch brothers would own”, a view shared by Sen. Sheldon Whitehouse (D.-RI) in whose opinion “If Pence were to become President for any reason, the government would be run by the Koch brothers - period. He’s been their tool for years.” He is adamantly opposed to abortion & in his first successful political campaign, in 2000 for the House, promised to “oppose any effort” to recognize homosexuals as a discrete minority entitled to protection from anti-discriminatory laws. And while in 2011 Charles Koch wanted him to go for the 2012 Republican nomination, he decided that the House was a poor springboard for a run at the Presidency & ran for Governor of Indiana (with David Koch bankrolling him to the tune of US\$250,000), to gain ‘executive experience’, and narrowly won with 49% voter support.

This is a very short summary of a very lengthy article the reading of which prompted me to take issue with the CW that describes the way he looks at Trump as “adoringly”, or in similar laudatory manner; for it strikes me as more predatory than laudatory, & as one that wonders how long he will have to wait until his boss steps into a big enough cow flap to bring him down.

SIGNALING FRUSTRATION A SENIOR HOUSE REPUBLICAN PLANS TO QUIT EARLY **(NYT, Alexander Burns)**

- Rep. Pat Tiberi (R.-OH), age 54, first elected in 2000, since then has developed close ties with the GOP leadership & become an influential member of the tax-writing House Ways and Means Committee. But according to three fellow Republicans briefed on his plans, he will soon leave for a senior executive post with a business group in his home

state. Like many other *Republican* lawmakers he is frustrated by Washington's dysfunctionality, the party's inability to deliver legislative victories *despite its majorities in both Houses* & by President Trump's undermining Congress' policy-making ability.

But in his case there is also said be an element of dissatisfaction with Congressional pay scales (House members' remuneration was last increased in January 2009, by 2.8%, to US\$174,000).

NATIONALISM ON A DOWNWARD SLOPE AMONG THE YOUNG IN BEIJING **(The Australian, Rowan Callick)**

- The Beijing Area Study, a massive regular survey of people in the region conducted by the Harvard-, & Peking-, Universities, *ranked 2nd & 41st in the world respectively*, has found a decline since 2009 in the level of interest in nationalism among younger respondents. For their response to the question "Would you prefer to be a citizen of China rather than any other country?" by 2015 had cooled to "Somewhat Agree" from "Agree" in 2009, support for the statement "China is a better country than most" has subsided in each year since 2009 & the amity level vis a vis the US & Japan, that had subsided in every pre-2009, bottomed in that year. According to Harvard's Prof. Alistair Johnston, as the Beijing population becomes better-educated (& *better-off?*), they appear to become more "attuned to the economic & cultural benefits of globalization".

Elsewhere the Shanghai-based Hurun Group¹³ has found in its surveys that half of all Chinese millionaires are planning-, or considering, to move to another country, with the most popular destinations being the US, Canada, the UK & Australia - This may over time prove the Achilles Heel of the new "forget political freedom, we will allow you to get rich under the leadership of the Communist Party" policy strategy announced by President Xi at this week's National Party Congress; for what good is it to be rich, if your wealth cannot buy you what you want most, freedom from being hassled by Communist Party officials?

COMMUNIST PARTY CONGRESS STIRS ECHOES OF SOUTH AFRICA **(Asia Times, Grant Newsham)**

- One objective of the 19th Communist Party Congress *in Beijing this week* is to showcase the party's approach to governance as superior to *the democratic model*. But regressing to South Africa of the 1980's this approach becomes a familiar tune. For then too, Westerners were told "these blacks ... don't understand democracy ... they're not ready for it ... they respect power. Without us, there'll be chaos." Replace "blacks" with "Chinese" & and it fits the CCP apparatchikis' description of China today. Both the Afrikaners then & the CCP now operate on the basis of the same premise, namely that the hoi polloi are genetically unsuited for consensual government & need harsh rule by an elite as an alternative to chaos. And as the Afrikaners claimed 'The white man built this country & hence deserves to rule it, the CCP now claims that it pulling several hundred million people out of poverty entitles it to be in control. And among the China

¹³ Established in 1999 by British accountant Rupert Hoogewerf, a 1993 graduate in Chinese & Japanese of Durham University, it publishes several regular highly-regarded reports on China's rich, the flagship of them being *The China Rich List*, that are popular among the rich. This year's list has a new leader, XU Jiayin, the founder of the Guangdong-based Evergrade Group, China's second-largest lan developer that targets a niche market among the rich & well-to-do, whose wealth rose by 272% in the past year to US\$43BN on the back of a 450% increase YTD in the price of Evergrade shares (due in part, rather interestingly so, on a pledge to cut its debt by 2020).

elite one hears an echo from 1980's South Africa that "Our blacks are happy ... (but) the communists are stirring them up", except now that for the Chinese power brokers Western ideas are doing the agitating. And, as in South Africa of yesteryear, in China today 'activists like Liu Xiaobo are dealt with harshly & sometimes made to disappear.

Xi thinks of himself as Mao 2.0 & dreams of becoming as all-powerful as he thinks Mao was in his heyday. But he will find that Mao had the advantage of his China being physically fragmented and "chaotic and miserably poor" whereas today & in the years ahead he will have to contend with a 300+MM-strong, & growing, educated & ambitious middle class, hundreds of billionaires, an 'entitled' princeling' class, a thoroughly corrupt party apparatus & modern media networking that can be interfered with but never made to go away completely.