

GLEANINGS II - 736
Thursday November 16th, 2017

Dubai Airshow - First it boosted the slower growing-than-expected order book for the Boeing 787 Dreamliner with a US\$15BN (i.e. 40 unit) order from Emirates Airlines & then, just days later, that for Airbus' 319-& 320neos with a 430 unit (US\$50BN) order from the private equity fund Indigo Partners¹, with delivery to take place between 2021 & 2026 & at least some of the planes built at Airbus' facility in Mobile, Alabama.

Joe Biden moots running for President in 2020 - He has long had Presidential ambitions. In 1987 his run founded when he was found out to have plagiarized a British politician's speech almost word for word & in 2007 on a series of gaffes, most prominently his reference to fellow hopeful Barack Obama as the "first mainstream African-American who is articulate and bright and clear and a nice-looking candidate" while in 2016 he once said running had been made impossible by the death in 2015 of his son Beau, an Iraq vet, from brain cancer at age 46 & more recently that President Obama had told him not to run against Hillary. In a run against Trump he would have the benefit of a whistle-clean political CV (*one media scribe earlier this week referred to him as "the most decent man in politics"*) & the habit, according to CNN's John King, of "Speaking the language of the bartender or the plumber or the mail man" - *On the other hand, he would have his age against him (he will turn 75 next Monday) and, while in a recent Politico Morning Consult poll he beat Trump 46-35, that lagged the "generic" Democrat flag bearer's 48-34. Moreover, just as Trump beat all 'establishment' candidates, in 2020 a younger "fresh face" may well be the Democrats' best hope for attracting the support of both party stalwarts & disenchanted, & independent swing voters..*

Playing Bitcoin is not for the faint of heart - Last week it nosedived 27% from US\$7,722 on Wednesday November 8 to US\$5,618 by Sunday November 12th, and then recovered 18% to US\$6,632 (*Tokyo time*) by Tuesday November 14th. This is the third time in five months of such wild volatility : it up-and-downed 36% in early June & 40% in early September. Be that as it may, longer term it is up from US\$998 at the start of the year.

Flattening US yield curve - As shown below, since the start of the year the UST yield curve has seriously 'flattened'² as shown by long-short 'yield spreads' (i.e. the difference in the yield on longer-, & shorter-, maturities) :

2 -10 years : from 125 to 72 bps;
2- 30 " : 187 to 119 " ;
5 -10 " : 52 to 33 " ; and
5 -30 " : 114 to 80 " .

¹ Founded in 2002 & headquartered in Phoenix AZ, it invests in-, & leases aircraft to-, ultra low-cost airlines across the world, incl. Denver CO-based Frontier Airlines.

² Most of the time the yield curve is 'upward-sloping', i.e. the longer the maturity of a bond the higher its yield; but occasionally it 'inverts' (i.e. long yields are lower than shorter-terms ones, which, more often than not is a prognosticator of harder economic times ahead, and it 'flattens' as it moves from one phase to the other.

Among those blamed is the Fed for pushing up short rates while the stubbornly low inflation is keeping a lid on the long ones. Historically a flattening yield curve has been a harbinger of a slowing economy (& there is no reason to believe “this time it will be different”).

Jeff Sessions back to the Senate? - On November 13th, as pressure rose among Republicans on Roy Moore to withdraw from being the GOP standard bearer in Alabama’s December 12th Special Senate election, two White House officials, and Scott Jennings, a 40 year-old Bush 43 White House alum & former aide to Majority Senate Leader Mitch McConnell (R.-KY), *and now a founding partner in the RunSwitch PR firm, Kentucky’s largest*, floated trial balloons for Attorney-General Jeff Sessions to return to his old Senate seat either by having him as a ‘write-in’ candidate if Roger Moore were not to drop out of the race, or by having Alabama Gov. Kay Ivey appoint him if Moore did drop out (or stayed in & won, & was denied his seat by the Senate). But a spokesman for Sessions was quick to squelch this idea, saying that he had “informed people in Alabama that he has no interest in returning to his old Senate seat.” - *This was either or both of a Hail Mary pass & an attempt to enable Trump to name a new Attorney-General who wouldn’t be recused from Special Counsel Robert Mueller’s investigation, & hence would have more control over it.*

Trump, the King Canute of the national-, & global-, coal-fueled electricity world? - For the former see below under “US on the threshold of biggest oil and gas boom ever” which forecasts that in the two decades to 2035 US oil & natural gas output will triple. As to the latter, while between January 1st 2016 & 2017 the global capacity of coal-fired power stations increased from 1,914,579 MW by 3% to 1,964,460MW, newly capacity that came on stream declined 29% from 108,029MW in 2015 to 76,922 MW in 2016, construction started of new coal-fired power stations declined 62% from 2015 to 2016, from 169,704-, to 65,041-, MW, & the capacity of all coal-fired power stations under construction shrank 19% to 273, 940-, MW, while the construction of new coal-fired power stations that were put on hold increased from 230,125MW in 2015 to 607,367 MW-worth in 2016 - *the incentive to build new coal-fired power stations is increasingly muted by the growing risk that any such plant could become a “stranded asset” long before its cost of construction could be fully recovered.*

Two speeches that “changed the global order like few others” - According to Richard Haass, the President of the Council on Foreign Relations since 2003³, on Fareed Zakaria’s November 12th GPS program on CNN, they were Gorbachev’s 1985 speech announcing the dissolution of the Soviet Union (& the introduction of “perestroika”) & President Xi’s recent 3 ½ hour oration at the 19th Party Congress in which he announced his plan to turn China into a ‘super power’. Haass also suggested that President Trump was unilaterally causing the US’ global status to slip badly & that he had a “distorted” view of trade agreements as *win-lose situations* (*wouldn’t it be ironic if his “Make America Great Again” approach were to result in it becoming ‘Less Great’?*).

US Savings Rate - A St. Louis Fed chart shows that it spiked to 17% just after the 1973/75 recession & then entered a slow four decade-long decline to 2.4% in 2005, only to re-assert itself to the low double digit range by 2013. But it has since cratered again, to 3.2% at the end of

³ Now age 66, & a graduate of Oberlin College &, as a Rhodes Scholar of Oxford, he has been President of the Council since 2003. His CV includes stints as Special Assistant to Bush 41, Director of Policy at the State Department & as a close advisor to then Secretary of State Colin Powell, Brookings, Harvard’s Kennedy School of Government, Special Envoy to Northern Ireland & US Coordinator for the Future of Afghanistan

2016, & is likely to have continued slipping further since; for at last report Real Disposable Income was up 1.2%-, & Real Consumption Expenditure up 2.7%-, YoY (i.e. consumers were 'dissaving').

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REPUBLICANS ARE IN TROUBLE, (WP, Ed Rogers)

- Republicans need to hurry for two reasons : if they don't pass legislation, it's unlikely they will maintain their majorities in the House & the Senate & historically mid-term elections have not been kind to the party in office. Everything so far suggests a losing cycle : if Ed Gillespie winning in Virginia would have been a good omen for the mid-terms, what does him losing so badly say about them? (although *in all fairness* it must be noted that, with exception of 2013, ever since 1977 the incumbent president's party has lost every gubernatorial election in Virginia). Over the years, the party of a president with a 50+% approval rating has lost, on average, 14 seats in the House in the mid-terms & an average 36 when it was less than 50% (& Trump's approval rating is -, & appears stuck- in the 38% range, with little, if any, sign of it rising to 50% anytime soon). So from a *purely historical perspective* the Republican are in trouble.
- With all the spite directed his way by Democrat activists, his opponents in Congress & the media, one would think Trump would focus his attention on making real changes & be in a panic to pass tax reform , not just to check a box as a legislative accomplishment, but to add fuel to the economy; for if there is anything that can save the GOP, it would be a real spike in economic growth⁴ ⁵. And he should be working to improve his personal popularity; for many voters who are normally part of the GOP coalition have given up on him & concluded he is not only a drag on Republican policies & Republican candidate recruitment (*of the non-Bannon variety?*), but also at the ballot box itself. While Trump has every reason to want to make his situation better, the question remains, will he? [According to my old boss (*in the Reagan Administration*) Edward J. Rollins, now of the pro-Trump Great America Alliance super PAC⁶ "The White

⁴ This may be a pipe dream. For the current 3% annualized quarterly GDP growth rate is already almost twice what some many economists now believe is its current "trend" growth rate (see immediately below). Secondly, the Second Quarter 3.2% rate was the highest in two years (& the preliminary Third Quarter rate was slightly lower at 3.0%). Thirdly, the bias in the GOP's tax 'reform' packages in favour of corporations & high income individuals seems at odds with what it ought to be in an economy that is nearly 70% consumption-driven; for the well-to-do have a low "propensity to consume" & the former are so quarterly profit growth-driven that they are likely to have better uses for tax savings than to spend it frivolously.

⁵ Since WW II there have been 10 periods of US economic expansion, during which the five expansion running average annual GDP growth rate declined as follows : 4.3%, 3.7%, 3.3%, 3.2%, 2.8% and 2.5%. And in the latest three it declined from 2.9% in the December 1982-July 1990 92 months' expansion through 2.1% in the 120 months' March 1991-March 2001 one to 1.4% in the 73 months' Pre-Great Recession expansion.

⁶

It raised & spent over \$30 million in support of Donald Trump's candidacy, broadcasting more than 20,000 TV spots & 300,000 radio ads, secured over 250,000 contributors, built a file of millions of active, newly engaged Trump supporters across the country, sent over 2.5 million pieces of mail, and placed more than 30 million phone calls. Great America PAC is the ONLY PAC with field offices & boots on the ground in the battleground states and the ONLY PAC running Spanish-language ads on TV and online.

- House isn't paying attention to the suburbs, and there has never really been a political operation there. They have to develop a strategy where it's not just Trump alone winning, where the whole party is able to win." - I would add to that what would appeal to suburban Republicans would be a change in the tone and daily dose of diatribes coming directly from our president]. While some may deem this impossible, the saying goes that "when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully".⁷ But he needs to hurry up & lead the party to victory & avoid the trap that
- Simply put, between historical tides, modest accomplishments & an unpopular president, Republicans will lose in 2018 unless they fundamentally change their trajectory.

But his ongoing 'fixation' on his surprise victory over "Crooked Hillary"⁸ makes it unlikely Trump will see, or can be convinced to see, a need for any drastic (& to him demeaning?) 'course correction' - and while this article originated in the Trump-allergic Washington Post, its author is not a wild-eyed Democratic/anti-Trump activist but an alum from the Reagan-, & Bush 41-, White Houses.

NRSC POLL : MOORE TRAILS JONES BY 12 POINTS (Politico, Alex Isenstadt)

- In a pool of 500 registered Alabama voters done November 12th & 13th for the National Republican Senatorial Committee Jones led Moore 51-39, whereas in a similar poll done for it in early October the reverse had been the case, as Moore had led Jones by 16 points. And it also reported the results were not favorable for Jeff Sessions as a write-in candidate.

Much can happen in 26 days but right now the GOP looks dead in the water in 'safe' Alabama..

THE US IS ON THE THRESHOLD OF THE BIGGEST EVER OIL & GAS BOOM EVER (Fortune, Geoffrey Smith)

- An IEA report notes that the US is set, over the next ten years, to enjoy the biggest increase in oil & gas production the world has ever seen, & will account for 80% of the increase in the total global supply between now & 2025, as shale producers find ever more ways to pump oil (& gas) profitably, even at low prices, a ringing endorsement of the shale sector's resilience in the face of a multi-year Saudi attempt to squeeze it. It also notes that by the late 2020s the US will be a net exporter of oil for the first time since the 1950s. And for natural gas the trend will be the same, only faster, with the result that the IEA expects the US also to become the world's biggest exporter of LNG, demand for which is set to rise strongly in China & India, and in Southeast Asia generally, as all switch (*or should it be are forced to switch for air quality reasons?*) from coal to cleaner energy sources. And this process will be accelerated by the fact that the IEA expects US oil demand to decline by 4MM bbl/d by 2040 due to the growing use of electric vehicles & a continuation of improved fuel efficiency by the remaining internal combustion-driven ones.

⁷ Unfortunately that may not apply to megalomaniacs.

⁸ That for people of my generation echoes the Captain Queeg & the Strawberry Incident episode in Herman Wouk's WW II novel The Caine Mutiny.

- The chart in the article is not the most user-friendly one I have ever seen but in rough numbers the IEA appears to anticipate US oil & gas production to evolve over the next 2 decades as follows (in millions of BOEs/barrels of oil equivalent)

	Shale Oil	Shale gas	Conv. Oil & gas	Other Unconventional	Total
2005	1	-	11	2	14
2015	6	6	8	2	22
2025	12	12	4	2	30
2035	11	17	4	2	34

- At a press conference in London the IEA Executive Director Fatih Birol said “The US will become the undisputed global oil & gas leader for decades to come, with the ramp-up of its production exceeding those of Saudi Arabia and Russia in the post-war period” as between 2005 and 2030 total US oil & gas output will double from 15 to 31 MM BOED⁹, which will give the US diplomacy more clout & result in “the US Secretary of State sitting more comfortably in his seat than his counterparts in today’s energy-exporting countries”.

Longer term this may well make all current fussing over the trade deficit a waste of time. .

FEARS FOR LEBANESE ECONOMY IF SAUDIS IMPOSE QATAR-STYLE BLOCKADE **(Reuters, Samia Nakhoul)**

- Lebanese politicians & bankers fear Saudi Arabia will do to their country what it did to Qatar & pressure its Arab allies to enforce an economic blockade until its demands are met [*that Hezbollah (Iran's handmaiden in Lebanon) relinquish its dominant role in Lebanon's politics*]. And unlike Qatar Lebanon lacks the natural resource-, & financial-, assets needed to ‘ride out’ a blockade &, worse still, the 400,000 Lebanese who work in the Gulf region generate US\$8BN annually in remittances *that account for 20% of Lebanon's GDP*; so one senior Lebanese official says “These are serious threats to the Lebanese economy which is already dire. If they cut the transfer of remittances, that will be a disaster”

It is most unlikely Iran & Hezbollah would be amenable to making any meaningful concessions. And the Saudi Qatar blockade has so far been largely ineffective, if not actually counter-productive by driving Qatar closer into the Iranian ambit to the point where it has pledged to come to Lebanon's aid in case of a blockade (& the cost replacing US\$8BN of annual remittances would be “chump change” in the context of Qatar's financial asset base). So launching a Lebanese blockade would have Crown Prince Mohammed 'doubling down' on a seemingly weak-, if not downright losing-, hand. And the more unsuccessful Prince Mohammed's foreign adventures become, & the more he increases tension in the region, the more he increases the risk that next year's Aramco IPO will become less successful, if not fall flat on its face (thereby adding to Saudi Arabia's financial challenges & undermining Crown Prince Mohammed's credibility).

WORLD'S BIGGEST WEALTH FUND WANTS OUT OF OIL AND GAS

⁹ i.e. it would go from roughly 15%- to slight less than 25%- of total global oil & gas output.:

(BB Markets, Sveinung Sleire)

- Norway's US\$1+TR sovereign wealth fund is studying the sale of all its oil & gas shares with a view to making a final decision a year from now when it also expects to decide whether or not to increase the equity component of the fund from 60% to 70%¹⁰. The country's greens are delighted, both on general principle & because they think that will free up money to invest more in the shares of more 'environmentally-friendly' companies.

It currently owns about US\$20+BN in oil & gas stocks, with its top holdings being Shell (US\$5.2BN), ExxonMobil (US\$3.0BN), Chevron, BP & Total (US\$2.0BN each), Schlumberger (US\$1.1BN), ENI (US\$1.0BN) and Suncor & Petrobras (US\$0.6BN each). So it is already well underweighted in the global oil & gas sector (which, from a portfolio management point of view makes sense for a country whose GDP is 20% oil & gas-driven) just as it would make sense to get out of the sector altogether. The fund was created in 1990 & has grown to US\$1+TR (approx. 3x Norway's GDP) by the rigorous transfer of 96% of all government oil & gas revenues into it¹¹

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Central bankers' clambake - On November 14th & 15th they were gathered in Frankfurt for a conference entitled "Communications Challenges for Policy Effectiveness, Accountability and Reputation", at which one presentation by the Chicago Fed President Charles L. Evans was entitled the Future of Odyssean and Delphic Guidance (*i.e. traditional "central bank 'double talk'"*) and one discussion At the Heart of Policy : Challenges and Opportunities of Central Bank Communications featured a panel consisting of Janet Yellen, Mario Draghi, Mark Carney & Haruhiko Kuroda¹² (during which Yellen conceded that "the Fed could be confusing the public with its many voices ... this is really one of the challenges of our system."

TRUMP RETURNS HOME FROM ASIA WITH FEW CLEAR WINS

(Politico, Andrew Restuccia)

- In Trumpian terms his Asia tour was a runaway success. He was warmly welcomed by his 'closest friend' in the region, Japan's Shinzo Abe with a round of celebrity golf (& *treated to an audience with Emperor Akihito*), got to make a prime time address in South Korea's National Assembly, was welcomed in Beijing with a "state plus" visit that included an opera performance inside the Forbidden City & a lavish State Dinner that featured a video of Trump's granddaughter, 6 year-old Arabella Kushner, singing &

¹⁰ As it is, with 60% it already owns 1.3% of all shares listed on the world's equity markets

¹¹ 2016 was the first year ever that the Norwegian government dipped *modestly* into the fund to support the Budget.

¹² While a year or so ago there were questions as to whether Kuroda would be re-appointed to a second term in April 2018, five things have happened since that make his re-appointment an all but slam-dunk : Prime Minister Abe saying last January that "the next Bank of Japan Governor should carry on Kuroda's policy stance", the retirement from the BoJ Board of two of Kuroda's severest critics, the positive outcome for Abe of last month's 'snap election', Kuroda's observation on November 6th that inflation was 'on track of hitting the Bank's elusive 2% inflation target and the fact that the Third Quarter's 1.4% annualized GDP growth rate was the seventh straight quarter of positive growth & the longest such string in over a decade (& the highest growth rate in three years

reading poetry in Mandarin, all of it topped off by being serenaded in Manila by Philippine President Rodrigo Duterte (*a scumbag if there ever was one*), all of which prompted him to brag “It was a red carpet like nobody probably has ever received ... And that is really a sign of respect, perhaps for me a little bit, but really for our country.”

- And yet, as he flew home *on November 14th*, former diplomats & Asian experts were talking about how China had come out ahead & how Trump was returning home largely empty-handed, or as the Eurasia Group President Ian Bremmer wrote in a report “The principal takeaway from Trump’s Asian trip : virtually zero progress on any issue that matters to the Americans ... Ultimately that’s the biggest win for China.” He failed to extract major new concessions on his twin goals of arresting North Korea’s nuclear weapons program & rebalancing America’s trade relationship with China & other nations in the region and made next to no public references to human rights, the South China Sea situation & other security issues raised by previous presidents. And while he was in Manila, the 11 remaining member nations of the TPP agreed to bring it into force without the US. But none of this stopped him from claiming in Manila on November 14th, as he prepared to return home, “Made many good friends ...We’ve had a tremendously successful trip. Tremendous amounts of work was done on trade, with not only on deals - and we have at least US\$300BN worth of deals , but that will be, I think, way triple that number in a fairly short period of time.”while the White House aides joined the President in painting the trip as an unbridled success.that had improved ties with President Xi & other key Asian leaders, and that had conveyed the message that the United States is open for trade, but we want reciprocal trade.”

He was an easy target : just stroke his feathers a bit & his ego will do the rest!