

**GLEANINGS II - 748**  
**Thursday February 15<sup>th</sup>, 2018**

**Aecon Group Inc. sale to a China Communications Construction Co. Subsidiary** - Etobicoke, Ont.-based Aecon, one of Canada's largest construction companies, last October agreed to be acquired by this Hongkong-, & Shanghai-, listed, but government-controlled, Chinese company (that three years ago in a similar manoeuver acquired Australia's John Holland Group Pty Ltd. But the Trudeau government still hasn't decided whether or not to let this transaction to go through. And there appear to be good reasons for concern. While the official justification is that the sale would 'give it more heft in international business', this transaction raises several troublesome questions. It's not a resource company, so what's in it for China? How will it compete internationally with the John Holland Group? What, if any, is the value-added of this sale for the Canadian economy? And, perhaps most importantly, would this clear the way for a Chinese-owned Aecon to start building buildings in Canada the walls of which "would have ears" (as was the case three decades ago when a Russian company built a new Chancery building for the US Embassy in Moscow that it refused to occupy after it had found thousands of listening devices to have been built into its walls..

**Great Lakes** - America's 300,000 sq. mi. 'Five Great Lakes ecosystem' straddles the US-Canada border for 750 miles/1,200 kms & is deemed an international resource. For it contains 21% of the world's total surface fresh water (& 84% of that of the US). But it also creates US\$50BN of 'value-added' for the US GDP, & 40MM people in eight states (Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania & Wisconsin) depend on it for jobs, drinking-, & irrigation-, water & recreation. Since 1972 all 11 governments (*the eight named above plus Washington, Ottawa & Ontario*) with a vested interest in the Lakes' wellbeing had been addressing the problems caused by their degradation, but each on its own, uncoordinated, single issue basis until 2010 when the US GAO (Government Accountability Office) identified a need for a more comprehensive approach, which led to the Obama Administration promoting, implementing & getting the other 10 governments to sign on to the Great Lakes Restoration Initiative (GLRI) that was to focus on five areas a) the presence of toxic substances (in the water) & in Areas of Concern (where the situation had been *most seriously* degraded), b) dealing with 'invasive species'<sup>1</sup>, c) 'near shore' health & non-point pollution (*incl. the 'run-off' of farm fertilizers & pesticides*), d) habitat & wildlife protection, & e) 'accountability' As part of the new budget cutting the EPA's budget by one quarter, the GLRI's budget will be slashed by 90% to US\$30MM (& a similar US\$73MM program for Chesapeake Bay, on Washington's doorstep, by the same percentage) - the main rationale for doing so appears to be that these were Obama-initiated projects & therefore **had** to go!

**Puerto Rico** - On February 9<sup>th</sup> President Trump signed an order authorizing disaster recovery aid for Puerto Rico (US\$16BN in general disaster recovery funding & another US\$2BN to repair its electricity grid). Be that as it may, so far the recovery process appears to have been a 'clusterf\*\*\*' : one quarter of its *nearly 4MM* people still have no power, thousands of its residents have left for Florida (*according to the Florida government' as many as 215,000*) & hundreds of thousands of others are expected to follow if things don't improve drastically, and the federal government's help so far has been quite ineffective, in part because of its poor choices in

<sup>1</sup>

In the past century at least 25 such species have been identified, *most of them brought there by foreign ocean ships travelling to US & Canadian ports on the Great Lakes*, incl. lampreys (a blood sucking fish), alewives (a herring-like one) & Asian carp (both of these compete for food & feed on other fishes' eggs & their offspring, and zebra mussels (that clog filters in water intake pipes

suppliers : a one-employee Atlanta firm got a US\$156MM contract for 30MM freeze-dried meals & so far has delivered 50,000, the Orlando Sentinel reported that food stockpiled in a government warehouse in Florida is rat-infested, & a Montana two-employee company with ties to Interior Secretary Ryan Zinke got a US\$300MM contract to rehabilitate the Puerto Rico power grid & performed so badly the contract was terminated.

**Weird weather** - The other day in Edmonton it was minus 12 at noon, plus 2 at midnight, plus 6 the next noon & minus 14 the next midnight - *it is unusual for it to be much warmer at midnight than at noon.*

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## **WHERE WILL WE GET THE CASH? (Thought from the Front Line, John Mauldin)**

- Last week, as they focused on the turmoil in the stock market, many investors missed out on the bigger picture, i.e. what was happening in the bond market. We already knew that interest rates were going to rise, but recent events suggest they could rise much faster (& *further?*) than hitherto expected. And what set off the stock market was the report that wage growth had been 2.9% YoY, a level seldom seen, which was interpreted as a sign the Fed could turn more hawkish. Moreover, the CBO (Congressional Budget Office), a federal agency within the legislative branch of the US government mandated to provide *objective* budget & economic advice to Congress, came out with an estimate that, starting this month, the tax reform package will result in US\$10-15BN fewer monthly income tax receipts (& while economic growth is supposed to pick up the slack, that may not come soon enough). About the same time the Treasury reported it expects to have to borrow US\$955BN in the current fiscal year (*to next September 30<sup>th</sup>*), 84% more than last year's US\$519BN, and another US\$1,083 in FY/19 & US\$1,120 in FY/20. So, with the Budget that has now passed the Senate adding another US\$30BN per year for 10 years to the national debt, we're going to have to sell US\$1+BN a year in fresh debt over the next three years (and that is just for "on-balance sheet debt", i.e. over & above what will be added in "off-balance sheet debt" by Social Security, Medicare & Medicaid, and Fannie Mae & Freddy Mac).

*Following are some scary numbers about the US government's fiscal situation :*

- *The US national debt/GDP ratio was 67% in 2008 & is 106% today<sup>2</sup>;*
- *The US annual budget deficit hit a post-Great Recession low of US\$ of US\$439BN in FY15, the next to last year of the Obama Presidency &, given the growth of the economy since it should have shrunk more;*
- *The US government's debt to annual revenues ratio is 567% (the similar ratio for US households now being 90%, down from a Great Recession high 130%, and that for Canada's federal government 198%, the UK 232% & Japan 2,032%);*
- *The yield on the benchmark 10-year UST bond was 1.36% in July,2016, 2.05% on September 8<sup>th</sup>, 2017, 2.55% on January 1<sup>st</sup> & 2.87% on February 15<sup>th</sup>; and*
- *In recent years the US Treasury concentrated its borrowing activities on the short end of the market to minimize its budget impact (while many corporations were borrowing long to 'lock in' the recent historically low interest rates for as long as possible). That was*

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A number of years Harvard's Kenneth Rogoff & Carmen Reinhart published a massive study of government over the years that concluded that a 90% national debt to GDP ratio was the tipping point at which it became a drag on an economy's potential GDP growth rate (a finding that, however, was questioned by some of their colleagues)

*good debt management in the short run but less so longer term; for it means that in the period ahead the US budget will be hit by a double whammy as interest rates rise : more debt to have to pay higher interest on & a lot of short-term debt maturing that must be refinanced at much higher rates.*

*Another 'cloud the size of a fist on the horizon' growing rapidly lies in the fact that China is slowly succeeding in its efforts to get its trading partners to trade with it using the yuan, rather than the US dollar, as the payment medium. Over time this will reduce China's-, & its trading partners'-, need for US\$ working capital balances & hence their demand for UST securities, something that will undermine the dollar's post-WW II's role as the world' reserve currency.*

### **POWELL SEEKS TO BURY ERA OF FED 'BARONS' (Bloomberg, Christopher Condon)**

- He is the first Fed Chairman in over a decade to have a background in the private sector & *not to have a Ph. D. in Economics*<sup>3 4</sup>. He wants more direct-, faster-, & more informal-, interaction with the Fed's army of Ph. D. economists. In so doing he is building on the trend in recent years to relax the once-rigid, *bureaucratic 'gatekeeper'* system that strictly controlled, & *filtered*, the flow of information from the professional staff to the policy decision-makers. *It has also been his modus operandi at the Fed, since he became a Governor seven years ago, of 'going to the source'.*

*Powell may well turn out to have been one of Trump's 'more inspired' appointments.*

### **FOX NEWS PULLS ARTICLE COMPLAINING OF 'DARKER, GAYER' U.S. OLYMPIC TEAM (Salon, Shira Tarlow)**

- Early last week the Washington Post carried an interview with Jason Thompson, Director of Diversity and Inclusion at USOC (U.S. Olympic Committee) in which he expressed pride in the fact the US squad at the 2018 Winter Olympics was the most diverse ever & provided a list showing how many Afro-Americans, Asians & openly gay athletes are on this year's US team<sup>5</sup>. Then he added, *for good measure*, that "no sport we are aware of awards points - or medals - for skin colour or sexual orientation ... We are not quite where we want to be ... I think full-on inclusion has always been a priority of Team USA, I think everybody's always felt it should represent every American".<sup>6</sup>, prompting John Moody, a Fox News EVP & Executive Editor, to take issue with Thompson's comments in a Wednesday February 7<sup>th</sup> op-ed piece (*that Fox pulled two days later on the grounds that "it does not reflect the views & values of the net work"*) that questioned the importance of the diversity of the US Olympic team that would be marching in the Opening Ceremony of the 2018 Winter Olympics & alleged the USOC would like to shift its priority from winning *in competition* to inclusivity, even at the cost of medals. And he

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<sup>3</sup> He has a BA in Politics from Princeton & a JD from Georgetown. And his career path has been in investment banking, private equity funds , the US Treasury & private practice.

<sup>4</sup> In fact the last one to be Ph.D.-less was Paul Volcker whose term ended three decades ago.

<sup>5</sup> Of the 243 members of the US team, 10 are Afro-American, 10 Asian & 2 openly gay males.

<sup>6</sup> The latter part of the last claim contains stuff that isn't even 'fake news, but an out & out distortion of the truth.

wrote "Unless it's changed overnight, the motto of the Olympics since 1894 (*ahead of the first modern day Olympics in 1896 in Athens*) has *always* been 'Faster, Higher, Stronger' ... It appears the USOC would like to change that to 'Darker, Gay, Different'. If your goal is to win medals, that doesn't work!" And then he continued "Insisting that sports bow to political correctness by assigning team quotas for race religion or sexuality is like saying that professional basketball goals will be worth four points if achieved by a minority in that sport -white guys for instance - instead of the two or three points awarded to black players who make up 82% of the NBA players ..."

*The 'bad guy' in this case seems to be Thompson who started it all, rather than Moody. And the latter part of Thompson's statement is factually incorrect & an attempt to rewrite history to serve his own ends : "full-on inclusion" was not an issue, never mind a priority, in 1896, nor in 1948 in London, in 1976 in Denver or 1984 in Los Angeles & was even late in coming in the 'political correctness era, and still isn't for many Americans and, while "everybody's **always** felt it should represent every American" is quite correct, it never was so in the manner Thompson implies; in fact the Olympic Games for many years post-1894 were the sole purview of white men, with the odd black, like Jesse Owen in Berlin in 1936, thrown in, somewhat begrudgingly, since they were so bloody good they could help the American medal count! And from a financial perspective, the be-all and end-all for the modern Olympic movement, the only thing that really matters, is to create a 'show' that will attract hundreds of millions, if not billions, of TV watchers who want to see their national teams win medals - Salon is a two decade-old San Francisco-based website that focuses on US politics, culture & current events 'from a politically progressive, liberal & left-wing perspective.*

### **HOME SALES FALL ACROSS CANADA, HITTING THREE-YEAR LOW** **(CP, Aleksandra Sagan)**

- In January overall home sales were down 14.5% MoM, with sales down in three quarters of all local markets & virtually all major urban areas, incl. Ontario's hotspot Greater 'Golden Horseshoe'<sup>1</sup> . According to Gregory Klump, the CREA's (Canadian Real Estate Association) Chief Economist, this was "the largest monthly percentage drop in sales activity since October 2008". But it was not entirely unexpected; for the Bank of Canada had raised interest rates by 0.25% to 1.25% and, more importantly, in December there was a flurry of home buyers & sellers looking to close deals in what some say was an overreaction to tighter mortgage taking effect in the New Year (when borrowers with more than 20% down, whose mortgages therefore are "uninsured", must pass a stress test proving they can service their mortgage at much higher rates).

*The Canadian housing markets' "affordability" is now problematic in many regions, nowhere more so than in Vancouver, Victoria, BC's Okanagan Valley & the GTA (Greater Toronto Area).*

### **THE EPIC FAILURE OF OUR AGE : HOW THE WEST LET DOWN SYRIA** **(The Guardian, Simon Tisdall)**

- In August 2012 President Obama vowed that any use of chemical weapons *against his own people* by Syrian President Bashar al-Assad would cross a "red line" that would

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<sup>1</sup> A 32,000 sq. kms. region, wrapped around the Western end of Lake Ontario fro Durham County in the Northeast to Niagara County in the Southeast and contains the Ontario Lakefront cities of Oshawa, Toronto. Hamilton & Naiagara Falls.

warrant direct military intervention. On August 21<sup>st</sup>, 2013 Assad did just that, dropping sarin nerve gas on Eastern Ghouta near Damascus, *a rebel controlled area that last week made the news again when Syrian & Russian aircraft bombed the bejesus out of it, with many children among the dead*. So when on Saturday morning August 31<sup>st</sup>, 2013, President Obama strolled into the White House's Rose Garden, the reporters expected a declaration of imminent action. Instead he 'blinked', announcing the US wouldn't do so, at least not until he'd gotten authorization from Congress. Surprising even his closest advisers, he seems to have been motivated by the unexpected vote in Britain's House of Commons two days earlier that had narrowly blocked Prime Minister David Cameron's plan to have British forces join allied military action in Syria. And, while he didn't need Congress' consent, the British vote gave him a, a violence-averse President, a fig leaf.

- While the ensuing national debate showed that many Americans too were opposed to involvement in yet another Middle East morass, he got an 'out' when Russia, Assad's ally, offered to remove his chemical weapons stockpile (*which it obviously didn't since Assad's forces recently executed another gas attack*) which Obama agreed to, thereby in effect 'outsourcing' the war to Russia. All of this was taken in Moscow, Tehran, Damascus & other Arab capitals as evidence that America was relinquishing its post-WW II global policeman role & gave Putin an opening to rebuild Moscow's influence in the Middle East & act on his desire to make Russia 'great again'. And it also sent another damaging message, namely that the world's only super power & its key allies, first & foremost Britain, were no more prepared to fight for a free & democratic Syria than they had been elsewhere in the Middle East during the Arab Spring, thereby boosting authoritarian leaders from Moscow to Beijing, and from Ankara to Riyadh, and encouraging the growth of *notionally Sunni* Islamist terrorist groups everywhere.

*As Tisdall puts it, "decisions made in 2013 triggered a strategic disaster whose ramifications are still playing out today... (and) the principal reason why the Syrian conflict, which began as a minor disturbance involving unruly children in the town of Deraa (on the Jordanian border), has become the defining war of our times" - this is a very short version of a nine-page article that can be googled & provides a lot more detail to back its headline's contention.*

### **FOR THE THIRD TIME IN A WEEK NETANYAHU DENOUNCES INVESTIGATORS ON SOCIAL MEDIA (Jerusalem Post, Shoshana Kranish)**

- On February 9<sup>th</sup> he took *again* to Facebook to disparage police officers whose investigations of him are expected to prompt an indictment recommendation next week (*i.e. the week starting February 12<sup>th</sup>*), complaining that "When investigators believe in ... false allegations against the prime minister<sup>7</sup> ... how can they investigate him and make recommendations against him objectively", inviting readers to "decide *for themselves* ... what does this say about the nature of the recommendation?"
- The investigation involves one case of fraud & breach of trust for accepting expensive gifts from wealthy acquaintances & another of conspiring with the Yediot Ahronot newspaper's owner to give him favourable coverage & weaken its biggest competitor, the free Yisrael Hayom daily (in which the prosecutors have him 'dead to rights'; for in January 2017 secret recordings saw daylight in which he & the paper's owner discussed that very subject).

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He alleged that one of them had said that the prime minister had "hugged" a female police officer to file a sexual assault charge against him & that another had said that a "powerful figure" had hired detectives to investigate the police officers involved in the case against him.

*The net must be starting to close in on him & these corruption allegations are apparently eroding his public support. Meanwhile, his wife now has to stand trial for the misuse of public funds, a recording recently went public that his (job-less, free-loading) eldest son recently struck out angrily at a friend who asked for the money back he had loaned him by telling him he should be quiet & be happy that his father had helped the other fellow's father make billions of dollars, his former Chief of Staff. Ari Harrow, has turned state's evidence in both cases and, after Netanyahu was interviewed (for the fifth time!) for hours at his official residence last November, the best his personal lawyer, Jacob Weinroth, could do was to tell the media that "My client is honest ... but has a weakness for wealthy people." And the Yediot Ahronot affair may backfire on Netanyahu; for, while in recent years the Las Vegas casino mogul Sheldon Adelson, directly or indirectly a part-owner of Yisrael Hayom, has been a major financial backer of-, & thick as thieves with-, Netanyahu, he recently refused, on Israel's Army Radio, to tell its listeners that he hoped Netanyahu would emerge unscathed from the criminal investigations - The police since recommended on February 13<sup>th</sup> to Attorney-General Avichai Mandelblit that Netanyahu should be indicted in both cases which prompted first a Netanyahu address to the Nation, standing in front of no fewer than four Israeli flags but "looking tense", in which he maintained his innocence, & had the utter & colossal gall to say "Over the years I have been the subject of at least 15 inquiries and investigations<sup>8</sup> ... some have ended with thunderous police recommendations like those of tonight. All of those attempts resulted in nothing (i.e. did not unseat me) and this time (too) they will come to nothing" , & then to create two Facebook entries, in one of which he told his supporters not to worry & repeated his mantra "there is nothing", & in the other that "The real question is the integrity of the investigation and the only way to get to the bottom of it is through an objective, unbiased and quick investigation." The police has interviewed over 80 'witnesses' &, as to the breach of trust charge, estimates the value of the gifts he received in the decade ending in 2016 at 1MM shekels (US\$375,000). If this were to remove him from office, it would be a serious blow to his ego, not just in & by itself, but because he is within sight of his goal of exceeding the 13 year, 3 months' Prime Ministerial tenure of David ben-Gurion, Israel's founding Prime Minister. And in light of all the above, it cannot be a coincidence that in recent weeks Israel has become more pro-actively involved in the Syrian civil war, since there is nothing like creating an external enemy to create popular support at home.*

### **ISRAELI JETS STRIKE AT SYRIA, IRAN FORCES (AP, Aron Heller)**

- Israel has tried to stay on the sidelines in the Syrian civil war ever since it broke out in 2011, although it did periodically carry out air strikes against weapons' shipments headed for Hezbollah, the Lebanese Iran-, & Syria-, allied group. But now as the war winds down, Israeli officials have begun to voice concern that Iran & its Shiite allies are establishing a permanent military presence in Syria that could prove a threat to Israel. So after Israel on February 12<sup>th</sup> downed an *advanced model* drone launched from Syrian soil, *with a never before seen electro-magnetic guidance system* that had infiltrated its airspace & an Israeli F-16 was shot down on its way back to its home base from Syria, the government ordered the air force to launch a series of *retaliatory* airstrikes against Syrian-, mostly anti-aircraft battery-, targets in what was the most serious Israeli engagement in Syria since the war started there seven years ago. And on Sunday February 14<sup>th</sup>, Prime Minister Netanyahu told his Cabinet that his country had delivered "severe blows" to the Syrian & Iranian forces & vowed to take further action, and more

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In total disregard of the old saying that "Where there is smoke there is fire"?

specifically said “We made it unequivocally clear to everyone that our rules of action have not changed one bit. We will continue to strike at every attempt to strike at us. That has been ... and will remain our policy”.

*There were no reports the drone was “weaponized” &, since most of the dozen or so February 12<sup>th</sup> Israeli targets in Syria were anti-aircraft batteries that are defensive in nature & hence not a threat to Israel, the attacks were not of a “reasonable violence” nature*

### **CHINA’S BANKS’ STEALTH MELTDOWN (Bloomberg, Shuli Ren)**

- Recently, in less than a week, four banks in the CSI 300 Index<sup>9</sup> tumbled an average 11%, erasing their entire gain YTD. This was attributed to the top priority of the China Banking Regulatory Commission (CBRC) having shifted to reducing the level of consumer debt; for after it put the brakes on the selling of ‘wealth management products’ after their volume had gone from < 50BN Yuan in 2013 to 1.3TR in 2016 (& now is half that), banks turned to peddling consumer loans with a vengeance, causing the volume outstanding to go from 200BN yuan in 2013 via 670BN Yuan in 2015 to 1.11Yuan at the end of 2017 (after new issuance in that year had quintupled YoY). This will hurt smaller banks & the so-called “micro lenders” more than their bigger, state-controlled brethren since the latter do much of their lending to SOEs & get most of their funding from their massive deposit taking networks, whereas the smaller fry does much of their lending to smaller, non-government operators & funds themselves in the interbank market, where the 30-day Shanghai Inter-Bank Offered Rate (Shibor) went from 2.80% in September 2016 to, at last report, 4.80%.

*This ought to have shown up, but didn’t, in the officially reported GDP growth rate; for it resulted in a 1.4% growth in 2017 car sales, down from 15.3% in 2016 & 7.1% in 2015.*

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<sup>9</sup> A capitalization-weighted index that replicates the performance of the top 300 stocks listed on the Shanghai & Shenzhen stock exchanges. In recent years it peaked at 5,900 in 2013, only to slide to 2,940 in January 2016 and more recently went from 4,111 on January 3<sup>rd</sup>, 2018 to 4,390 on January 24<sup>th</sup> & back to 3,890 on February 12<sup>th</sup>