

Thursday August 9th, 2018

Apple's US\$1+TR valuation¹ makes the giants of yesteryear look puny - Thus ExxonMobil's 'market cap' today is US\$345BN, AT&T's US\$236BN, GM's US\$54BN & US Steel's US\$5.7BN - *but a big difference between them & today's 'rulers of the roost' is that the former in their heyday made things that people **needed** day-to-day while today's giants make/do things that people **want** today but may toss tomorrow. And as the 'trend' GDP growth rate keeps slipping & today's generations keep downloading the cost of their spending onto the next generations, the latter will in future years have less discretionary spending room to spend on things they want.*

Arctic ice - In 1979 satellites started measuring its extent & thickness. So now we know that in 2015 the area covered by ice in September had declined from 2.78-, to 1.79-, MM sq. mi. (i.e. from 1.4%-, to 0.9%-, of the earth's surface) & the share of 4+ year-old ice from 35% to < 10% - *Within the foreseeable future, the now still ice-covered Polar region may be totally ice-free & the primary route for moving goods from East Asia to Europe; just imagine what this will mean for Canada (that has never bothered to effectively substantiate its territorial claims in the Arctic), and for Panama & Egypt (because of the lessened need for the Panama & Suez Canals).*

Are Trump's tariffs working? - The US doesn't produce enough lumber, newsprint or aluminum to meet its needs, so it has made a quiet 'climb down' from its new tariffs on the import thereof from Canada. And in June Canada's exports to the US hit US\$50BN, posting a \$4.1BN post-2007 record monthly trade surplus, as US buyers accelerated their imports before President Trump's new tariffs would take effect. And, best of all for Canada, its non-US exports were up 9.1.% MoM to \$13.6BN. And it is also interesting that as a result of Trump's tariff initiatives, in July US imports from China were **up** 13% YoY for the second month in a row.

August 2nd "Ruby-Red" Tennessee primaries - In the GOP one for governor a political outsider, William Lee, handily beat several others, incl. front runner Rep. Diane Black (who had been endorsed by Vice President Pence), despite him having spent only US\$7MM (all but US\$2MM his own), vs. the others' US\$46MM (US\$12MM Black's own) - *this is said to have been in part due to him having 'kept to the high road' while the others had trashed each other, prompting Brent Leatherwood, a former Executive Director of the state's GOP, to note that, while elections always tempt candidates to go negative, "When that happens, voters ... look ... for who is providing a positive vision of leadership".* And in the more important primaries as to who will replace GOP Sen. Bob Corker [who won't run again, despite his relatively young age (65) & the fact he was re-elected in 2012 with a 65% majority], the 74 year-old "pragmatist" former (2003-2011) Dem. Gov. Phil Bredesen beat his two opponents 348,301- 32,370 while in the GOP one Rep. Marsha Blackburn (age 66) beat her sole opponent 610,883 - 112,231 - *This may prove interesting; for Blackburn, a "no compromise, no apologies, unwavering Trump loyalist" & former Vice Chair of his post-election 'transition team', may face serious headwinds; for two mid-July polls had given Bredesen a 4.5% average edge & since, after Corker had announced he wouldn't run again & praised Bredesen's track record, he was apparently told by Senate Majority Leader Mitch McConnell (R-KY) to quit doing so since it could lead to the GOP losing its majority in the Senate. And while, after several other state primaries on August 7th, Trump claimed the GOP had done very well, he ignored the fact that this had been in his party's primaries only, not in an inter-party tussle such as the November mid-terms.*

¹ That according to its founder, the late Steve Jobs, had been "90 days from bankruptcy".

Bad news for Canada - StatsCan reported that, while in 1999 < 5,000 handguns had been legally imported into Canada, by 2015 that number had risen *dramatically* to almost 70,000. And sometimes “legal” handguns get into the wrong hands; thus the gun used in the recent random shooting event over a couple of Toronto blocks that was that city’s latest such incident in recent weeks and wounded over a dozen people & killed a 10 year-old girl & an 18 year-old new recent female highschool grad planning to go into nursing this fall, was one of the 24 legal handguns earlier stolen in Saskatchewan.

Discount on WCS (Western Canada Select) heavy oil at a 56 months’ high - With Brent at US\$73.45 & WTI at a US\$4.49 discount thereof, & WCS discounted another US\$30 or so from WTI, it’s pretty thin gruel for Alberta’s oilsands operators; so it’s small wonder one of the majors recently reported it is diverting its development funding from the oilsands to light oil.

Edmonton house prices - According to the Realtors Association of Edmonton, in July they were down by 3.6% YoY, condos 6.2%) & sales 3% & the inventory of houses for sale up 12%. But CMHC reported that, due to the “improving economy” (*of which there isn’t much evidence on the ground*) the “mortgage delinquency rate”, that had been 0.32% at the end of 2014, had in the First Quarter declined from 0.54% to 0.53% (& 0.61% for loans of over \$400,000) - *But according to Laurie Campbell, CEO of Canada Debt Solutions “The delinquency rate tells only half the story ... once people become house poor, they’ll do anything to hold on to their home, first and foremost by higher interest credit such as credit cards.” And, with Canada’s households now carrying a debt load of 170% of disposable income, down from 173% last February but up from the 150% in 2008 (while since then it went in the US from 130% to < 100%), & interest rates trending up, many Canadian households have little, if any, financial maneuvering room.*

“Harbinger of future inflation”? - This is what the latest ECB Economic Bulletin calls the fact that in the past two years Eurozone wage growth has been accelerating (albeit so far largely offset by higher productivity that has lessened the impact on unit costs) - *the Bulletin comes out 8x annually, two weeks after each ECB monetary policy meeting & reports on the information on which its decisions had been based (so it’s similar to the FOMC “minutes”).*

Ireland to become the first fossil-free country - This newspaper headline is outright false. For the law the Irish parliament passed on July 12th as part of its effort to meet its 2015 Paris Agreement targets did nothing of the kind; all it did do was to direct all state-controlled investment funds to liquidate their holdings of oil-, coal-, & gas company shares. And this will result in little domestic pain since, while Ireland’s natural resource sector employs 30,000 workers & accounts for 3% of its GDP, it produces little or no oil & < 5% of its natural gas needs.

Latest (August 9th) Atlanta Fed’s GDPNow reading - For all it’s worth, on August 9th it came in at a *disappointing* 4.3%, down from 4.4% on August 3rd & 5.0% at the end of July. The next publication date will be on Wednesday, August 15th.

Mendocino fire - One of twelve current California ‘wild fires’, after the Ranch-, & River- fires joined forces it became the biggest ever in California history. *One hundred miles North of San Francisco*, it has burnt its way through 283,800 acres/443 sq.mi, jumping across streams, fire lines & highways in the process. Being fought by almost 4,000 firefighters, & still not contained, the weather forecast (40+ degree weather & gusty winds) will delay containment (*that some officials now fear may take till fall*). It has now exceeded last year’s Thomas Fire (that burnt 281,893 acres) & the best thing that can be said about it is that so far it has killed no one & destroyed only about one-tenth of the 1,000+ structures that the Thomas Fire did) - *it is truly*

amazing that, in a world of unprecedented numbers & magnitudes of wild fires, cloud bursts & floods, there are still climate change skeptics.

Once North America had politicians with foresight of a kind that is sorely, & sadly, lacking in today's political class - Thus in 1872 the US Congress created the Yellowstone National Park, 46 years before even the US National Park Service. And in Canada the Migratory Birds Convention Act dates back to 1917 (*although in all fairness today's politicians are in a way 'collateral damage' of the society-wide 'instant gratification' mindset that has plagued North America for decades*).

Online shopping 'environmentally unfriendly?' - At least it may be if individual shipping creates more packaging waste & consumes more energy getting goods from warehouse to consumer.

Putin's dreams of returning Russia to its one-time global glory is that of a giant with feet of clay (Daniel 2 : 31-32) - In 2013 his Economy Minister told him that funding his grandiose plans would need five years of 5% GDP growth; but as of last yearend, four years into that five year period, it had shrunk by 1% (while four years of 5% growth would have grown it 21.2%). And if that isn't convincing enough, following are some data to substantiate that contention :

	US	Canada	China	India	Russia	World
Population (MM - 2016)	324	36	1,379	1,324	144	7,467
Growth Rate (2016 %)	0.7	1.2	0.5	1.2	0.2	1.2
Fertility Rate (2015)*	1.84	1.60	1.57	2.40	1.75**	2.50
Average life expectancy						
2015 in years	78.7	82.1	76.0	68.4	70.9	70.5
2000 "	77.7	79.2	71.7	62.3	66.4	65.5
Aged Dependency Ratio % ***						
2010	19	27	11	8	18	13
2050 (est.)	35	48	40	12	39	15
GDP (TR US\$ -2016)	18.6	1.5	11.2	2.3	1.3	75.4
GDP growth rates (% YoY)						
2016	1.6	1.5	6.7	7.1	-0.2	2.5
2015	2.6	0.9	6.9	8.0	-2.8	2.9
Cumulative GDP growth (2012 - 2016)	10.9	10.9	42.3	39.5	2.4	14.1

* The average number of children women have during their child-bearing years.

** Up from 1.17% at the turn of the century; the positive economic impact of this will, however, not be felt for another 15 years, while in the short run it will create economic 'drag'.

*** The ratio of those aged 65 & over to the 15-64 year working age population; included since at supposedly 30% it becomes a 'boat anchor' on the trend economic growth rate..

Sweden's highest point no more - A glacier on the South peak of Mount Kebnekaisa, inside the Arctic circle near the town of Kiruna, once had that distinction. But while last year still two metres higher than the rocky North peak, this year, due to the record high Arctic temperatures, it lost 4 metres/13 feet of snow & ice cover between July 2nd & 31st alone, with Stockholm University Geography Professor Gunhild Rosqvist, who has studied the mountain for years, noting "I've never seen this much melted snow on the southern peak as I did this summer."

Very stable genius - Those who have their doubts about the US' 45th President & would like a good laugh should google "a very stable genius (Randy Rainbow Song Parody)" - *but on a more serious note, once a politician gets parodied in such a brutal manner, they tend to be on a slippery slope; for while voters will forgive them lies since, sadly as that may be, they expect them to lie, once they start being made fun of, it can 'strike too close to home'.*

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JAMIE DIMON WARNS OF 5% TREASURY YIELDS (Bloomberg, Cormac Mullen)

• On August 4th he told the Aspen Institute's 25th Annual Summer Celebration "I think rates should be 4% today ... You better be prepared to deal with rates 5 percent or higher ... It's a higher probability than most people think." And, while RBC Management's US fixed income strategist Tom Garretson noted "The market is starting to look beyond the 2020 time-frame and pricing in some recession risk", Dimon was positive on the outlook for financial markets saying the *equity* bull market could "actually go for 2 or 3 more years"; for the economy is still doing quite well & markets usually turn right before the economy."

The rate he is talking about is that of the 10-year benchmark UST bond that was 2% last September, hit 2.95% last February 21 & 3.09% in May & is once again trying to break through a 3.00% resistance level. And his current sense of the market is in line with, albeit more aggressive than, his view in an interview last May in which he urged investors to prepare for higher rates, given the possibility that due to growth, inflation growing faster than expected, & the ('late cycle higher than usual') growth in government borrowing, the Fed would increase rates faster than expected.

"RESPECT THE BOND MARKET AND WHAT IT'S TRYING TO TELL US", FED'S BULLARD WARNS (CNBC, Sylvia Amaro)

- St. Louis Fed President James Bullard told CNBC's "Squawk Box Europe" on August 6th "I think the state of affairs is good today. The question is how to play things ... in the next two years. If the Fed raises rates 50 points and the 10-year US Treasury bond does not cooperate, you could see an inverted yield curve in the U.S .. I think that's the lead issue now". So what Bullard is saying is that if the Fed hikes rates, raising the front end of the curve & the yield on the 10-year bond doesn't rise accordingly, the yield curve would invert and, as Bullard puts it, "the yield curve inversion has a tremendous track record in the US of predicting recessions."

This is interesting in light of Jamie Dimon's warning immediately above; for while his suggestion would solve one problem for the Fed policy makers by eliminating the risk of the yield curve inverting (the possibility of which is now starting to pre-occupy analysts), it would create another, possibly more dangerous one, namely that the necessary 200+ basis point increase in borrowing costs would engender debt servicing problems for numerous public-, & private-, sector borrowers, large & small, that would trigger a major slowdown in economic growth. This sort of 'it doesn't matter if you get bitten by a cat or a dog, you end up with tooth marks all over you' conundrum has always been the bane of monetary policy makers' existence, & the reason why over time they have been far more effective in stopping economic growth in its tracks than in blowing new life into a lacklustre economy. And the fact that in the last decade they appear to have done a better-than-average job with the latter, doesn't mean they have figured out how to avoid the former. And now things may well get more complicated than usual since, if push came

to shove, President Trump, would likely feel entitled to tell the Fed to do as it was told, central bank independence be damned - Bullard is one of the most 'dovish' FOMC members &, while not a voting member this year, will be so next year. And, voting or not, he is one of its more influential members, in part because he has been a member since before the Great Recession, much longer than most other members of what is a relatively inexperienced FOMC, in part because the St. Louis Fed is the most research-oriented Federal Reserve Bank & administers an immense data base with the moniker FRED (Federal Reserve Economic Data), & in part because he has been behind much of the Fed's recent innovation, incl. its adoption of an inflation target & of decisions being more "data-based". And personally he is 'one of the Fed's most accessible & 'outreaching' senior officials'.

SALES AND DISCOUNTS ARE DRYING UP (Bloomberg, Keith Naughton & David Welch)

- Almost all major automakers reported lower deliveries in July, with Nissan's 15% plunge a record. For the industry has started to spend less money on incentives after, according to J D Power, having increased them for 55 months straight. So in July all Detroit car makers reined in their earnings' guidance & Ford embarked on a five year restructuring program. This underscores investors' fears that auto sales have peaked and that, without ever-increasing sales incentives, demand may continue to soften. And according to Mark LaNeve, Ford's VP of US Marketing, Sales and Service, an incentive decline at this time of the year is rare and "I don't even remember a de-escalation from June to July as you go into the traditional summer sell-down season." Part of the reason for the incentive pullback is that the Fed raising interest rates has been making subsidized interest rates more costly, "at the very time commodity prices and tariffs are climbing."

According to the St. Louis Fed, last month's 16.7MM annualized rate of vehicle-, as opposed to auto-, sales was down 5.4% MoM, 2.3% YoY, & 9.7% off the last October's 18.5MM - This won't do much for the Third Quarter GDP growth rate.

APPLE'S \$1 TRILLION MILESTONE REFLECTS RISE OF POWERFUL MEGA COMPANIES (NYT, Matt Phillips)

- In 1975 109 companies accounted for half the profits generated by all publicly traded companies while today just 30 do so. The spread between what it costs companies to make things & how much they sell them for is now at a post-1950 high. 75% of all US industries have become more concentrated since 1980. Today almost half the assets in the US financial system are controlled by the top five banks vs. little over 20% two decades ago. Four companies now control 98% of the US wireless market & that will go to three if the T-mobile & Sprint merger is approved. And this year five companies, Alphabet (Google's parent), Amazon, Apple, Facebook & Netflix accounted for half the profits generated by the entire S&P 500 cohort. But scholars have started linking all this to the rising income inequality & the declining share of the nation's wealth going to workers, with some economists even arguing this will make companies feel that, with less competition, there's less need to give workers raises, a trend reinforced by them colluding by agreeing not to poach each other's workers and/or having clauses in employment contracts that ban their workers from joining competitors.
- But according to Luigi Zingales, a Finance professor at the University of Chicago, "A year ago the high tech companies were basically untouchable ... but today they seem

not to be.” [thus Google was recently fined US\$5BN² by European anti-trust regulators, Facebook is being forced by politicians to do more to safeguard users’ data & prevent itself from being used to interfere with US elections (& last week reported that its profit growth was slowing, causing its share price to plunge 19% to US\$176.26 overnight July 25/26, knocking nearly US\$120BN off its market valuation’), President Trump has it in for Amazon’s Jeff Bezos because he owns the Washington Post, and Apple, despite now being the world’s first-ever US\$1+TR company, has warned the trade war with China, where it generates 18% of its sales, is threatening its profit growth.

Many Americans are history-challenged & not aware it is full of examples of the natural waxing & waning life cycle of political & commercial empires, nor of the one time political/economic mantra that “What’s good for GM is good for the country”³ And neither are they acquainted with the stock market saying “Bulls make money & bears make money but hogs get butchered” nor with the age-old German adage “Trees don’t grow to the sky” (used to denote the danger of investing in maturing companies with unsustainably high profit growth rates).

US REIMPOSES SANCTIONS ON IRAN... (Deutsche Welle)

- On August 7th the ‘first round of’ new sanctions on Iran went into effect as part of a strategy to apply “maximum pressure” on Iran, with Trump tweeting “The Iran sanctions have officially been cast. These are the most biting sanctions ever imposed, and in November they ratchet up to yet another level. Anyone doing business with Iran will NOT be doing business with the United States. I am asking for WORLD PEACE, nothing less.” The sanctions prohibit Iran’s purchases of dollars & precious metals in an attempt to cut it off from the international financial system & reimposes sanctions to isolate its carpet-making-, healthcare-, & automotive sectors.
- But the EU considers such ‘secondary sanctions’, that would affect its car makers, banks, & energy companies, illegal, especially since US companies doing business with European companies that are engaged in Iran could also face penalties. So it has, effective August 7th, passed “blocking statute” legislation, similar to that enacted in 1996 in connection with sanctions against Cuba & Iran (the threat of which was enough to persuade the US to suspend its secondary action) that grants European companies the right to challenge the US sanctions in European courts & seek compensation from the US government or American companies, even though last month Washington already had expressly refused to exempt European companies from secondary sanctions. But Europe is bent on sending a political message that it won’t condone unilateral US action, which is why EU foreign policy chief Federica Mogherini & three other European Foreign Ministers have announced their commitment to create a financing channel for oil & gas exports from Iran.

The difference between today & two decades ago is that while Clinton, despite his faults, had a sense of perspective, Trump is a ‘gun slinger’ who ‘likes confrontation’ (although, like a petulant child, but doesn’t like it, & tends to ‘double down’, when he doesn’t get his way).

² While in the short run chicken feed for a company that in the First Quarter generated revenues at a US\$125+BN annual rate, up 26% YoY, longer term, it could, may or likely will be equivalent to “a cloud as small as a man’s hand ... rising from the sea” (1 Kings 18 : 44).

³ A phrase coined by GM President Charles Wilson during his 1953 Senate confirmation hearings enroute to becoming Eisenhower’s Secretary of Defense.

ISRAEL SIGNALS HAMAS TRUCE WILL BE LIMITED (AP)

- An Israeli Cabinet Minister on August 6th played down the significance of indirect talks with Gaza's Hamas rulers since what' is being talked about is a cease-fire, not a full-scale agreement that would lead to a significant easing of the 11-year border blockade.

Hamas has been under intense pressure from Egypt & from Nickolay Mladenov, the former Bulgarian Foreign Minister & now the UN's Special Coordinator for the Middle East Peace Process [who recently warned that Israel & Hamas are (once again) "on the brink of war"⁴] to 'kiss & make up' with the West Bank's El-Fatah-led Palestinian Authority & to quit firing rockets into Israel. What is interesting about this is the source; for Construction Minister Yoav Galant (age 59) is not part of the wild-eyed right wing but a member of the centrist Kulanu party that tends to focus mostly on bread-&-butter issues like the cost of living (& that has 10 members in the 120 seat Knesset, three in the 23 member Cabinet & two in the 10 member Security Cabinet). Moreover, he spent most of his career in the IDF, during which he once, prior Israel's withdrawal thereof in 2005, commanded its Gaza division & later almost became its Chief of Staff until accused of building a non-authorized road to his home on public land; and more importantly, in June he & the leader of the Joint List Alliance of Arab parties (in the Knesset) co-authored an NYT op-ed piece that said it was important for Jewish & Arab leaders to come together in promoting peace & equality in their shared country, as part of which they had visited several Arab-Israeli towns and "Together ... examined first hand the challenges facing Arab-Israeli communities so that we could bring about a solution." And the bottom line of an August 7th news paper column by Vivian Bercovici, a former adjunct law professor at the UofT & Canada's Ambassador to Israel from 2014 to 2016, entitled Israel's Mighty Army is no Match for Hamas' Flying Condom Balloons⁵, was that, with a population of which 45% is less than 14 years of age⁵, "it (i.e. Gaza) needs more than hate to live for." But the Times of Israel, an online newspaper founded in 2012 with a slightly liberal bias, is more positive & believes that the most recent violence is little more than an attempt by Hamas to demonstrate that any conciliatory move it may agree to was made of its own free will; and it & other sources with similar biases believe that this time around Hamas is serious about wanting an end to the hostilities & they claim that there are plans all over the place for a gradual, staged move towards a more normal relationship (with the only obstacle remaining being agreement how to get there). One potential 'bugger factor' in this whole situation, however, may well be the Trump Middle East Peace Plan, a document that according to Haaretz is dozens of pages long and, as a US official explained, "much longer than some previous plans of this kind ... (since) we need to explain to both sides a realistic way to solve the conflict, not just to debate, unsuccessful, calcified talking points". But it

⁴ In part because Hamas has come with a 'lo-tech', Dollerama-style way of harassing the nearby Israeli population by having the wind carry (small) balloons, and even inflated condoms, carrying small incendiary or explosive devices over Israeli territory devices against which the IDF has yet to find an effective counter-measure and which, as a result have been able to set on fire & destroy thousands of acres of Israeli farmers' crops that had been ready to harvest.

⁵ Gaza 4.4 fertility rate (little more than half the 8.3 three decades ago) is the is among the highest in the world [and well above Israel's 3.0 (that is only that high because if the orthodox Haredi Jews 6] which means that it population could double in 16 years, vs Israel's 24). This has puzzled many 'experts' since **all** females past school-going age have at least nine years of education (vs. a global average of 83%) and there are no shortage of knowledge of-, or access to-, birth control, and the main reason may well be Hamas promotion that gets men paid more as their wives have more children and that convinces women it is their patriotic duty to have many children.

may have two potentially fundamental weaknesses : it will seek to impose a solution on the Palestinians by capitalizing on the growing closeness between Israel & the Arab states (that is based on their common hatred of Iran), & the Palestinians have pretty much turned their back on Trump ever since the US earlier this summer formalized their recognition of Jerusalem as the capital of Israel. Meanwhile, in the 'real' world, Hamas this week was busy firing more rockets into Israel & the latter with conducting retaliatory aerial bombings of 'military targets' in Gaza.

SAUDI ARABIA TO FREEZE NEW TRADE WITH CANADA, RECALLS AMBASSADOR (CP)

- On August 3rd Global Affairs Canada tweeted "Canada is gravely concerned about additional arrests of civil society and womens' rights activists in Saudi Arabia, incl. Samar Badawi. We urge the Saudi Arabian authorities to immediately release them and all other peaceful human rights activists." In response the Saudi Foreign Minister tweeted two days later "We consider the Canadian ambassador ... a persona non grata and order him to leave the country within 24 hours" & announced that Saudi Arabia is freezing, effective immediately, all new trade & investment transactions with Canada , with his Ministry issuing a statement calling the use of the words "immediate release" in Canada's tweet "unfortunate, reprehensible and unacceptable in relations between states ... Any other attempt to interfere with our internal affairs from Canada means ... we are allowed to interfere in Canada's internal affairs."

Ottawa was dumb to take up the cudgel for someone who may not even be a Canadian citizen (even though some of her relatives became so this July 1st) & who has been at war with her father & the Saudi religious establishment for more than a decade, and then, to do so in such a ham-handed manner. While tweeting may suit President Trump's style (& may yet get him into trouble), it's not an effective way of achieving results in the inter-governmental relations arena. And the photogenic but lightweight nincompoop Prime Minister Canada has now been cursed with for almost three years made matters worse when he went on record as saying "We won't back down" & then displayed his complete ignorance of what Joe & Jill Average Canadian Taxpayer really feel & think, when he declared "Canadians have always expected their government to speak strongly, firmly and politely about the need to respect human rights around the world"; for Canada's hoi polloi (in a way rather sadly so?) tend to be more interested in bread & butter issues like the cost of living, healthcare, taxes &, in the case of Albertans & many others, pipelines, with concern about human rights elsewhere high on the score card of only those few, like the Prime Minister himself, whose material needs have been taken care of. And if he were really serious about standing on principle in the increasingly tit-for-tat world of global politics, he should 'walk the talk' & suspend any further deliveries under Canada's \$15BN, multi-year contract to sell armoured cars to Saudi Arabia. And things have gotten worse since; for the Saudi central bank has instructed its Canadian brokers to liquidate all its Canadian holdings of stocks, bonds & cash, & the Saudi government has barred the import of Canadian wheat & terminated the scholarships of 16,000 Saudi students in Canadian universities, a real hit for the universities since these students pay way, way 'above market' tuition fees (in one case almost 7x what Canadians pay), which will result in a hole in Canadian universities' revenue streams of as much as \$600+M; and it has also ended the arrangement whereby 760 Saudi nationals have been employed, at a cost to it of \$100,000 each per year, as 'supernumerary' medical students, interns & residents in Canadian hospitals, & has gone as far as to announce the removal of all Saudi patients from Canadian hospitals, many of whom are here for treatment of serious-, if not life-threatening-, conditions). According to Ayaham Kamel, the Head of the (highly-regarded), New York-based Eurasia Group's Middle East & North Africa practice "The aggressive response

to Canada's criticism⁶ is designed to send a broad message to all its Western partners that the old structure in which Riyadh would quietly ignore Western demands for political liberalization is long gone." This is another case of the 'too large for his boots' Crown Prince 'feeling his oats' & in this case wanting to send a signal to all and sundry at home & abroad that he is "a somebody", & Ottawa was unwise to give him an excuse to make Canada his 'whipping boy', if only because Saudi Arabia is a \$3BN annual market for Canadian exporters & Eastern Canadian oil refineries depend heavily on Saudi crude feedstock.

CHINA SNUBS TRUMP ON IRAN, HALTS US OIL IMPORTS (Bloomberg, Sheela Torben)

- Sinopec, China's biggest oil refiner, in recent years bought more US oil as it traded at a higher-than-usual discounts from Brent. But, while it had already slowed these purchases due to the narrowing thereof, it bought none at all for August delivery & has since suspended all such purchases out of concern Beijing may will slap *further* tariffs on US oil. But it hasn't cut its imports of Iranian oil, despite Washington's threat that even allies will face sanctions if they don't make "significant" progress in cutting their Iran oil purchases by November; in fact, in June Sinopec imported more Iranian oil than ever.

Like China, India had been ramping up its imports of Iranian oil (in part because it was offered free transport & easy terms) to the point where in the Second Quarter they had been up 24% QoQ to 647,000 bbl/d, and China & India together were importing Iranian oil at a 1.4MM bbl/d clip (thereby accounting for two-thirds of Iran's total oil exports). And, while India until recently had been talking bravely about 'recognizing no sanctions other than UN ones', it doesn't have the same geopolitical reasons as China to tell Washington to stuff its sanctions where the sun doesn't shine, & has since folded its tents & moved to cut, if not totally eliminate, its oil imports from Iran by the US November deadline (& will pay for doing so by higher oil import costs).

AS CHINA'S WOES MOUNT, PRESIDENT XI JINPING FACES RARE REBUKE AT HOME (NYT, Chris Buckley)

- Earlier this year, when lawmakers abolished the term limit on his power, he seemed indomitable. But economic headwinds, a vaccine scandal⁷ & the trade battles with Washington (& *the slowing economy*⁸?) are emboldening his critics . And now the Beijing-based Tsinghua University Professor of Jurisprudence & Constitutional Law Xu Zhangrun (*who is currently a visiting scholar in Japan*), may have 'belled the cat' and published an essay denouncing Xi's hardline policies; for it says, among others, "People

⁶ That was well received, if not applauded, in other Persian Gulf countries.

⁷ In the past decade Changshen Bio-technology Inc., supposedly with help from former President (1993-2003) Jiang Zemin, became the largest vaccine producer in China. But in early July a report entitled "The King of Vaccines" alleged that some of its vaccines, many of them for children, had been defective. This created even more of an uproar once it became known that Sun Xianze, the Director of Drug Safety in the Food and Drug Directorate, was none other than the former Director of Food Safety Regulation at the time of the tainted infant formula scandal a decade ago & who supposedly had been disciplined for that. So it's small wonder that the company's share price that had gone from CNY5.14 on June 28th, 2013 to CNY26.49 on May 18th of this year, at last report was trading, with little or no buyer interest, at CNY8.21

⁸ At last report the annualized GDP growth rate was 6.7%, while in 2008 it had been in the 15% range, and after a massive injection of liquidity that it now haunting Chinese lawmakers, 12% in 2010 & in 2012, the year Xi became President, 7.9%.

nationwide, including the entire bureaucratic elite, feel once more lost in uncertainty about the direction of the country, and about their personal security, and the rising anxiety has spread into a degree of panic throughout society”, urging lawmakers to reverse their near-unanimous March vote abolishing the two-term limit on Xi’s tenure as President, Communist Party leader & Chairman of the military, and to end his condemnation of the pro-democracy, anti-corruption protests in Chinese cities three decades ago that had ended after Tiananmen Square, since, “As things continue in this direction, the question arises whether reform and opening up will come to a halt and totalitarianism will return”⁹.

- According to Jiang Hao, a researcher at the Beijing-based Unirule Institute of Economics independent think tank (*founded in 1993 by five economists incl. Mao Yushi who in 2012 got the Milton Friedman Prize for Advancing Liberty*) that advocates the market economy and regularly, & occasionally successfully, challenges the government’s economic policies, and published Xu’s essay but recently was forced out of its offices)¹⁰, “It’s very bold ... Many intellectuals, might be thinking the same, but they don’t dare speak out”, to Dr. Geremie R. Barmé, an Australian scholar of China who is translating the essay, “Xu has written a challenge from the cultural heart of China to the political heart of the Communist Party ... Its content and culturally powerful style will resonate deeply throughout the party-state system, as well as in the society more broadly”, & to Richard McGregor, a former journalist in China & now a Senior Fellow at the Sydney-based Lowy Institute “In recent weeks, the signs of a nascent pushback against Xi’s absolute power has started to emerge .. The harder question then becomes what it actually means in practice ... If it means heightened infighting in elite politics, it might result in policy paralysis and instability, rather than just a freer and more open debate.” And other Chinese foreign policy experts have suggested the trade fights with Trump could have been contained if Beijing had been more flexible & less ‘triumphalist’ about its goals, with Prof. Jia Qingguo¹¹ telling a recent conference in Beijing that “China should adopt a

⁹ This year is the 40th anniversary of the party meeting at which the Deng Xiaoping, a more moderate & pragmatic leader than the overreaching Xi) inaugurated the era of “reform and opening up” that led to GDP growth jumping from 4% in 1990 to 15% in 1993 & to nearly three decades of 6.7+% growth (some of which Xi now seems intent on reversing).

¹⁰ According to the South China Morning Post this has been going on for some time : in January 2017 online censors shut down its website & deleted the social media accounts of its members, & the following May it was barred from holding a seminar during the Belt and Road Forum in Beijing, with staff members finding the lift button for their office’s floor disabled and their office’s front door (pad)locked. Then, after it moved it to a gated residential community in West Beijing, a month ago the property agent there gave it notice to vacate the premises since it was a residential property that could not be used for commercial purposes (although in the lease it was clearly clearly stated the space was be used as offices) and, that if it didn’t, he would cut off water & electricity and repossess the premises ‘with everything in it’. And when they still didn’t leave, its five staff members found the security gates on the access doors welded closed while they were on the premises and, although they were freed after they called the police, the next morning when they came to work, the doors were padlocked.

¹¹ Currently the Dean of Peking University’s School of International Relations, he was a Research Fellow at Brookings in 1985/86, in 1988 got a Ph.D. from-, & afterwards taught at-, Cornell, has taught at the University of Vermont, the UoC (San Diego) & Sydney University in Australia and has been a visiting professor at the University of Vienna (in 1997 and a Fellow at the Brookings Center for North East Asia Policy Studies (CNAPS) in 2001/02. And in August 2016 he delivered a lecture at a Singapore university in which he addressed the fact that “despite efforts to develop a new type of great power relationships, China-US relations have been on a slippery slope in recent years (*i.e. since Xi came to power?*) ... is this just another downturn of the relationship before it swings up again as has always been the case in the last three and a half decades ?”

lower profile in dealing with international issues ... Don't create this atmosphere that we're about to supplant the American model".

- On July 25th President Xi convened a meeting of the 25-member Party Politburo (*second only in China's power structure to its seven-member Standing Committee that Xi heads & has stuffed with cronies*), with the State-controlled Xinhua news service reporting it had concluded that the economy was sound but "faces some new issues and challenges, and that the external environment had undergone 'clear changes' " while the China Daily recently carried a series of articles mocking pundits who proclaim China has surpassed the US as a technological power & warning the media to curb their boasting.
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