

**GLEANINGS II - 786**  
**Thursday November 15<sup>th</sup>, 2018**

**Quote of the week** - "Toxic politics is America's greatest weakness. It prevents action on pressing real issues, from immigration to welfare; it erodes Americans' faith in their government and its institutions; and it dims the beacon of American democracy abroad. The midterm elections are a chance to begin stopping the rot - and even to start the arduous task of putting it right." - part of a well-reasoned leader in the November 3<sup>rd</sup> Economist - *the question now is if the Democrats in the House as a group can muster the common sense not to 'overreach' & take the 'high road', and not to play Trump's 'silly bugger' game (which may require someone younger than Nancy Pelosi as Speaker of the House in the 116<sup>th</sup> Congress?)*.

**California wildfires** - Three wildfires have been burning largely out of control in California. The largest, called "Campfire", in the very Northeastern corner of the state, at last report had blackened 130,000+ acres/204 sq. mi & turned the 25,000+ inhabitant town of Paradise into an ashen desert, and is said to be the worst ever wildfire in the State's history, while two smaller ones, Woolsey (83,275 acres/130 sq.mi.) & Hill (4,500 acres/7 sq. mi.) are in more populous Southern California regions around Los Angeles, incl. Malibu (*where singer-songwriters Neil Young, Robin Thickey & Miley Cyrus, and actor Gerald Butler have lost homes*). While Gov. Jerry Brown blamed climate change with the words "This is not the new normal, this is the new abnormal ... The chickens are coming home to roost, this is real here", President Trump tweeted on Saturday November 10<sup>th</sup> "There is no reason for these massive, deadly and costly wildfires in California except that forest management is so poor ... Billions of dollars are given each year, with so many lives lost, because of gross mismanagement of the forests. Remedy now, or no more federal payments", & then doubled down on that the next day by tweeting "With proper forest management we can stop the devastation constantly going on in California. Get smart!" – *As often the case, tThere is one problem with this not-so-presidential 'shoot from the hip' tirade (other than that it offended many Californians, first & foremost those fighting the fires), namely that, once again, he 'put his mouth in gear before his brain'; for through four federal agencies, the US Forest Service, the National Park Services, the Bureau of Land Management) & the US Fish and Wildlife Service the federal government owns & is responsible for the day-to-day management of 45.8% of the California landmass<sup>1</sup>, incl. a much higher percentage than that in the area of the Campfire<sup>2</sup>.*

**FAANG stocks** - They number five, Facebook, Amazon, Apple, Netflix & Google/Alphabet. For years they have fueled the US stock market euphoria. But the bloom may have come off the rose; for now all five are on a declining 200-day moving average price path (such as has long been considered by 'technical market analysts' an indicator of a stock's price trend). Thus :

**Facebook** that was US\$18 in August 2012 & US\$217 six years later is now US\$142;  
**Amazon** " " US\$56 " November 2009 & US\$2,039 nine years later is now US\$1631;  
**Apple** " " US\$13 " " " & US\$231 " " " " " US\$192;  
**Netflix** " " US\$3 " " " & US\$419 " " " " " US\$294; and  
**Google** " " US\$129" " " " & US\$1,283 " " " " " US\$192.

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<sup>1</sup> The federal government 'owns' 28% of the country's landmass, most of it in a dozen western states, peaking at 84.9% in Nevada & 64.9% in Utah, through 45.8% in California & 1.9% in Texas to lows of 0.4% in each of Connecticut & Rhode Island.

<sup>2</sup> I have been surprised that none of the TV 'talking heads' have ever drawn attention to this.

**George Conway** - This high-priced New York lawyer is obviously not a Trump Republican. For he has opined that the Trump proposal to end ‘birthright citizenship’, & his appointment of Matt Whitaker as Acting Attorney-General, are “unconstitutional” and has compared the operation of the Trump White House to a “dumpster fire” & gone on record in a podcast as saying that he’d “rather leave the US than vote for Trump again”. The interesting part of this is that he is the husband of Kellyanne Conway, Counselor to the President of the United States and, by all accounts, one of Trump’s closest confidantes - *a book reporting on their dinner-, or better yet pillow-, talk likely would be an instant best-seller.*

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### **FED CHAIRMAN POWELL ‘HAPPY’ WITH US ECONOMY, CREDITS FED POLICY** **(Seeking Alpha, Carl Surran)**

- He told a public forum organized by the Dallas Fed on November 14<sup>th</sup> “Our policy is part of the reason ... our economy is in such a good place right now” &, while he concedes the global economy (*the growth of which has been a ‘tailwind’ for the US economy in the past year*) is not now growing at the same pace as before, he said that overall the domestic outlook is still positive. And he noted that in 2019 investors should know that the practice of the Fed only hiking rates quarterly only may no longer be the case, and dismissed President Trump’s criticism of his conduct of monetary policy<sup>3</sup>, saying the Fed is “doing fine” & its independence not affected by the stream of attacks directed at it.

*Central banking is like a priesthood in that its practitioners see themselves marching to a higher cause, non-political drummer. So this is not the first time a politician has been disappointed by his appointee as central bank governor adopting that mentality & forgetting who gave him his job.*

### **TRUMP’S TAX CUT WAS SUPPOSED TO CHANGE CORPORATE BEHAVIOUR. HERE’S WHAT REALLY HAPPENED** (NYT, Jim Tankersley)

- The US\$1.5TR tax overhaul bill President Trump signed into law last December has given the US economy a temporary jolt. That it fattened the paychecks of many American workers, padded corporate profits & speeded up the economy wasn’t a surprise; for when government borrows money & dumps it on the economy it tends to respond. But it was not sold as a sugar-high *temporary* stimulus but as a refreshing of economic incentives that would unleash more investment, greater efficiency, higher wages & enough *incremental* growth to offset any revenue loss for the government from the lower taxes.
- But this “supply-side” effect still seems elusive. Capital spending did pick up this year but one-third of it was concentrated in five companies - Google’s parent Alphabet, Facebook, Intel, ExxonMobil & Goldman Sachs. And while business spending in fixed investment - machinery, buildings & equipment - jumped 11.5% in the First Quarter (a post-2011 high rate) & 8.7% in the Second, it slumped to just 0.8% in the Third, and a survey by NABE (National Association of Business Economics) found that 81% of the companies it had surveyed hadn’t changed their investment-, & hiring-, plans because of the tax bill. And according to JPMorgan 46% of the US\$270BN in corporate profits repatriated from abroad because of the changes in the tax code went into corporate share buybacks (that

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<sup>3</sup> At various times in the recent past the President has called the Fed “crazy”, “out of control” & the “top risk facing the economy”

are expected to be up 46% YoY this year & go up another 25% in 2019, as part of a flood of corporate distributions to shareholders (*a disproportionate share of whom are in the Top 10% income-wise*). And while Senate Majority Leader Mitch McConnell (R-KY) said in December 2017, when the tax bill was approved, "I am totally convinced that this is a revenue-neutral bill", despite the remarkably strong economy the fiscal health of the United States is deteriorating rapidly as revenues shrink : in the fiscal year ended last September 30<sup>th</sup>, the government deficit was US\$779BN, up 17% YoY (& *almost twice what it had been three years earlier*), quite unusual for a period of relative prosperity, although this is only in part due to the tax bill & the resultant one-third lower corporate tax revenues, & for the rest to increased military-, & other domestic-, spending. And the Treasury expects to have to borrow US\$1.33TR this calendar year, up 145% from 2017 (& *up almost 40% from its US\$955BN estimate last February*).

- While hundreds of companies have announced one-time bonuses & higher wages, moves hailed by President Trump & the ATR (Americans for Tax Reform)<sup>4</sup>, those very same companies' financials show they passed only a relatively small part of their tax savings on to their employees, an average US\$225 each (with the actual amounts varying widely from state to state, with *workers in 'red' states seemingly having done better than those elsewhere*), while the 1,000 largest public companies actually reduced-, rather than increased-, their employee numbers. And, while the Labor Department announced that in September inflation-adjusted wages had risen 0.5% YoY, that was actually slightly off from the year-earlier 0.6%, while according to the Atlanta Fed median wage growth is still below its 2016 high. And even though productivity grew at a 3% annual rate in the Second Quarter, & at 2.2% in the Third<sup>5</sup>, such productivity growth will have to deliver the long-term economic growth the Republicans have promised.

*This is by an NYT staff writer, a paper that doesn't think much of Trump, a feeling that's mutual; nevertheless, it makes several worthwhile points along the way.*

### **WHITE HOUSE CURTAILS TRUMP TRADE ADVISOR PETER NAVARRO'S PUBLIC ROLE AS LARRY KUDLOW RIPS HIM FOR COMMENTS ON CHINA TALKS** (CNBC, Jacob Pramuk)

- Last week Navarro said that any potential deal with China "will be on President Donald J. Trump's terms. Not Wall Street's", contending that "there will be a stench around any deal that is consummated" because of Wall Street's involvement, comments the stock market did not take well. This prompted Larry Kudlow, the Director of Trump's National Economic Council, to tell CNBC that Navarro "was not speaking for the president, nor was he speaking for the administration ... His remarks were way off base. They were not authorized by anybody. I actually think he did the president a great disservice."
- President Trump plans to meet with President Xi at the *November 30<sup>th</sup>/December 1<sup>st</sup>* G-20 Summit in Argentina & to discuss trade with him. He has repeatedly pictured trade deficits as losing propositions & has threatened to put tariffs on US\$257BN more of Chinese imports (on top of those he already put on US\$250BN thereof). And, while Navarro is said to be the source of Trump's fixation on trade deficits, he has been

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<sup>4</sup> A 35 year-old, Washington-based conservative advocacy group the stated goal of which is "a system in which taxes are simpler, flatter, more visible and lower than they are today"

<sup>5</sup> About the post-WW II average, but twice that during the decade ended last year.

marginalized before, among others when Chief of Staff John Kelly limited his direct access to the President.

*Might this mean that Navarro may be 'headed for the high jump' in the post-midterm election White House? And while the latest word is that the trade talk emanating from Beijing has become more conciliatory, it cannot have escaped Beijing's attention that the counter-tariffs it has imposed on US products entering China have created real pain for, among others, US soybean growers, and that Trump's tariffs on Chinese imports have led to US price increases not conducive to US economic growth & have reinforced already emerging inflationary pressures in the US (that are motivating the Fed to keep tightening monetary policy) and that, after the mid-term elections, Trump's domestic political position has been significantly weakened.*

### **CANADA REGISTERS SIXFOLD INCREASE IN US CITIZENS SEEKING ASYLUM IN 2017** **(The Guardian, Martin Patriquin)**

- According to Immigration, Refugees and Citizenship Canada in 2017 2,550 US citizens applied for asylum in Canada (6x those in 2016 & the most since 1994) to become the third-largest national contingent after Haitians & Nigerians. They were encouraged to do so by an earlier tweet by Canada's "Sunny Ways" Prime Minister Trudeau laying out the welcome mat to Canada for all "those fleeing persecution, terror and war."

*Many were US citizens by birth born on US soil to non-US citizens legally (or illegally?) resident in the US, whom President Trump recently said ought to be stripped of their US citizenship. And many may be disappointed; for Public Safety Minister Ralph Goodale last May rolled up the Trudeau welcome mat by announcing there was "no free ticket" into Canada (so that their chances of being granted asylum in Canada may be smaller than the PM had implied).*

### **ISRAEL ON THE BRINK OF VOTE AS KEY PARTNER QUILTS (DT, Raf Sanchez)**

- On November 14<sup>th</sup> a day of high political drama began when Defense Minister Avigdor Lieberman, *the head of the nationalist right wing Yisrael Beiteinu Party (that currently has five seats in the Knesset)*, resigned from the Cabinet. This came when, after 24 hours of intense rocket firing into Israel (by Hamas) & aerial bombing in Gaza (by the IDF) that had left one person dead in Israel & seven in Gaza, Prime Minister Netanyahu had agreed to an Egypt-brokered ceasefire with Hamas. This Lieberman felt was "surrendering to terror" & the government should instead have confronted Hamas more forcefully, even if that meant having to suffer more Hamas rocket fire on Israeli cities.
- This leaves the *well* right-of-centre Netanyahu government coalition with just a 61 seat majority in the 120-seat Knesset & is expected to prompt him to call early elections to shore up his support &, more importantly say some, to distract attention from the ongoing criminal investigations of him (*and his wife & son?*) that look increasingly likely to result in indictment(s) & possibly trial(s).

*In the past decade the Israeli-Hamas conflict has on three occasions erupted into outright war (if one can call shooting fish in a barrel war<sup>6</sup>), with Hamas in recent months having ramped up hostilities by urging Gazans to protest along the border fence with Israel (which it had no trouble doing since almost half the population of Gaza is under the age of 15 years & hence by definition very vulnerable to demagoguery).*

<sup>6</sup> The population density in Gaza is 5,000+ per square kilometre (about 12x Israel's 401, and 6000 in Tokyo, 2,600 in New York & 1,500 in London).

## **CROWN PRINCE'S WINGS CLIPPED AS KHASHOGGI'S DEATH RATTLES RYADH** **(The Guardian, Martin Chulov)**

- Six weeks after his murder *in Istanbul* things are starting to change in Riyadh as an old guard of elders is regaining control. While the Kingdom's leaders in public are contrite, in private they, incl. the Crown Prince himself, blame Turkey for the ensuing wave of global revulsion they say could have been contained if Ankara had not betrayed the Kingdom by disclosing too many details of its investigation & had not refused payment of "significant" compensation not to do so. And as his death continues to reverberate through the halls of power in Riyadh, decisions are now being made away from the Crown Prince who, while Turkey alleges he directly ordered the assassination, seeks to fob the blame off on fall guys, incl. his most senior domestic adviser. And the plot was thickened by the return '*for crisis talks*' on October 30<sup>th</sup>, after several months of voluntary exile in London, of Prince Ahmed bin Abdulaziz (age 76), King Salman's sole surviving brother, *allegedly with guarantees from London & Washington that he won't be harmed* (which has been interpreted as a step, following extensive talks among the elders, towards the restoration of the 'old order'. And another senior figure, 78 year-old Prince Khalid al-Faisal, and the King himself, have become more visible & vocal, with one source saying "MBS (*the Crown Prince's nick name*) ... has had his wings clipped ... He doesn't have the same swagger any more and he's *now* just as scared of a misstep as the next guy."
- According to another source, in the days after the Khashoggi killing MBS struggled to comprehend the scale of the *worldwide public* reaction & the reason for it, "blaming the Americans for betraying him ... he *had* felt comforted by Trump ... *and* did not understand why this was happening to him." And the Western leaders' once enthusiastic embrace of him has been replaced by wariness & a view the regional feuds started by him in, *among others, Qatar & Yemen* may bring him down; thus on October 31<sup>st</sup> US Secretary of State Mike Pompeo demanded a 30-day ceasefire in Yemen & three days later Secretary of Defense Jim Mattis urged the start of peace talks between Saudi Arabia, UAE & Iran, in both cases the strongest remarks yet by any senior US officials on the two year war on Saudi Arabia's border (with the Pentagon announcing, also on November 2<sup>nd</sup>, it would no longer refuel Saudi jets conducting missions in Yemen). Still, there is little appetite in London or Washington for MBS to be removed (with Ankara, that strongly opposes him, but not the King, under pressure to accept this, which Erdogan so far has refused to do).
- While the tapes are the centre piece of the case against MBS, he insists he had no part in the Khashoggi affair & his defenders that a misguided few anxious to please him are to blame, a claim that few, if any, intelligence officials in the region & in Europe can buy (*and the latest headline in the Washington Post too reads "CIA concludes Saudi Crown Prince ordered Jamal Khashoggi's assassination"*).

*While still in Europe, Prince Ahmed was known to have had talks with Saudi elements opposed to MBS & to have agreed with them that the Crown Prince had been responsible for the disastrous war in Yemen. And since he returned, an opposition group calling itself "Allied for Good Governance" (that represents seven opposition movements & a handful of individuals), on November 11<sup>th</sup> called for Ahmed (who has expressed no desire of wanting to replace his half-brother) to assume power for one year until "the people of Saudi Arabia can decide their fate<sup>7</sup> ... since the past four years have proven that King [Salman] and Crown Prince [Mohammed] are not fit to rule and that their way of governance threatens the kingdom, its sanctities, its people and its resources", stressing that its support for Prince Ahmed "is based on his keenness to save the*

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<sup>7</sup> Which is, of course, the very last thing the Royal Family wants.

state and his reluctance to rule, and that ... he was not part to the violations that occurred in previous eras.” - *What a difference between MBS & the other two princes : while MBS is in his early thirties & a graduate of a local law school, and until he rose to power had been a relatively unknown lower middle level public servant who never managed anything, the other two are in their late 70's & have had decades of hands-on public administration under their belt, Prince Ahmed [who attended the University of Southern California & graduated from California's University of Redlands (in the Los Angeles/Palm Springs area)] as Saudi Arabia's Deputy Interior Minister for four decades starting long before MBS was born until sidelined in 2012, while Prince Khalid is a Princeton & Oxford alum who for decades was a provincial governor).*

### **JAMAL KHASHOGGI MURDER ORDERED BY AGENT - PUBLIC PROSECUTOR (BBCNews)**

- Saudi Arabia's Public Prosecutor has concluded an intelligence officer who had been tasked with persuading Khashoggi to return to the Kingdom, not the Crown Prince, had ordered the Khashoggi murder & that he had been killed by lethal injection. And he has charged 11 people & is seeking the death penalty for five of them while continuing to investigate another ten suspected of having been involved. Following this the US Treasury imposed economic sanctions on 17 Saudi officials, incl. Saud al-Qahtani, a former adviser to the Crown Prince, Maher Mutib, who it said had “coordinated and executed” the operation & Mohammed Alotabi, the Saudi Consul-General in Istanbul, all of whom it said had “targeted and brutally killed” Khashoggi & therefore had to face “consequences for their action”, with Secretary of State Mike Pompeo saying these sanctions were an “an important step in responding to the Khashoggi killing”. And at a November 15<sup>th</sup> news conference in Ryadh the Saudi Deputy Prosecutor acknowledged that Khashoggi's body had been dismembered inside the Istanbul Consulate and the body parts then handed over to a “local collaborator” *for disposal* & that investigations were continuing to locate his remains.

*Interesting choice of words : “agent” for whom?” Needless to say, the only ones who believe this cock & bull story are those who want to do so and/or, like Washington, that must do so for lack of a better option that doesn't point the finger straight at the Crown Prince.*

### **THERESA MAY HIT BY BOMBSHELL RESIGNATIONS OVER BREXIT DEAL (CNN, Laura Smith-Spark & Euan McCordy)**

•Late Wednesday November 14<sup>th</sup> she prevailed on her Cabinet to approve the Brexit draft agreement *without a formal vote being taken*<sup>8</sup>. But by the time she woke up the next morning, two Cabinet Ministers (incl. Brexit Secretary Dominic Raab), two junior ministers, two parliamentary aides & the Conservative Party's Vice-Chairman had resigned in protest. Nevertheless, later that day she vowed at a news conference that she would fight for it, saying “I believe with every fiber in my being that the course I have set out is the right one for our country and all our people” and urged MPs to back it because “Voting against a deal would take us all back to square one ... It would mean more uncertainty, more division and a failure to deliver on the decision of the British people that we should leave the EU. *On the other hand*, if we get behind the deal we can bring the country back together.”

<sup>8</sup> During what was called a “highly-charged” & “impassioned” five hour Cabinet meeting that featured a shouting match between Work and Pensions Secretary Esther McEvey & the Cabinet Secretary (after the former was said to have been “aggressive to the Prime Minister”) as well as 11 out of the 29 ministers speaking out against the deal.

- While Labour Leader Jeremy Corbyn slammed what he called a “botched half-baked deal”, *what is more important is that* Nigel Dodds, the Deputy Leader of Northern Ireland’s Democratic Unionist Party, whose votes May needs to prop up her government, was also damning in his assessment. And Conservative MP Jacob Rees-Mogg, who heads the influential pro-Brexit European Research Group, asked May why he should not demand her resignation since, while she had pledged that the UK would leave the customs union, maintain the integrity of the UK & leave the jurisdiction of the European Court of Justice, the draft deal did none of these (& he quickly followed that up with a letter of non-confidence in her to the Party Secretariat *calling* on the party to dump her.

*A thousand curses on former PM David Cameron, who created this godawful mess not long after having won a major victory at the ballot box & then didn’t have the guts to stay around to clean up the mess he had created with his referendum call. A quick perusal of a synopsis of the 585 page draft agreement suggests it might not be such a bad deal, but then any document of this length (that has been described as the “world’s most complex divorce settlement”) cannot help but contain something for everyone to dislike. Be that as it may, in recent months no fewer than seven ministers have resigned, starting with Brexit Secretary David Davis last July 8<sup>th</sup>, the notoriously ambitious ex-London Mayor & then Foreign Secretary, Boris Johnson the next day, followed by Transport Minister Jo Johnson on November 9<sup>th</sup> and now Brexit Secretary Dominic Raab, Works and Pensions Secretary Esther McVey, Minister for Northern Ireland Shailesh Vara & Brexit Minister Suella Braverman. The deal that May got, after much, often acrimonious, discussion, may well have been one of the better ones possible under the circumstances since the UK did not have a particularly strong hand to play. But there is no guarantee that the EU can hold up its end of the bargain : for while no single EU member can veto the deal itself (it does require the consent of the EU Parliament & 72% support from its member states), any one of its 28 member states can veto the follow-up treaty necessary to settle the post-Brexit relationship of the UK & the EU. And I have long been of the opinion that the UK electorate was far-sighted in voting the way it did since too many straws in the wind suggest that Brussels’ idea of a United Europe is about to come to an ignominious end, given the way some of its newest members, first & foremost, Hungary & Poland, are ignoring their membership obligations, with the ultimate ‘kiss of death’ possibly being the way the new Italian government has now told the EU leadership to ‘take a flying leap at a rolling doughnut’ with regards to its budget guidelines. And the seeds for this were sown over the years by self-serving, empire-building Eurocrats in Brussels who ignored the lesson taught in the Parable of the Sower (Matthew : 1-23, Mark 4 : 1-20 & Luke 8 : 4-15), that tell what happens to seeds that fall on stony ground. For they pushed the concept top-down with the result that no matter what EU member country one visits, after 25 years the locals still are first & foremost citizens of their own countries, with their identity as ‘Europeans’ being a distant, distant second.*

### **FRENCH PRESIDENT REJECTS TWEETS (Alissa J. Rubin)**

- Upon his return from his less than successful trip to France, President Trump on Tuesday November 13<sup>th</sup> lit *furiously* into French President Emmanuel Macron in several tweets over the latter’s suggestion for a European defense force & French tariffs on American wine, and *mocked* his 26% approval rating<sup>9</sup>. But the next day, in an interview on the French TV station TF1, Macron said “the French don’t expect from me to answer to tweets”, & when pushed for an answer as to whether Trump’s tweets were unpleasant &

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<sup>9</sup> Might this be a matter of spite since 18 months ago Macron had become President with 66.1% voter support while six months earlier Trump had not been able to muster more than 46%?

inelegant, he responded “You summed up everything ... Trump is doing American politics and I let him do American politics. ... To be honest, I don’t do diplomacy or politics through tweets” & he is known to have commented later during the weekly Cabinet meeting that “Diplomacy is not made through tweets but through bilateral discussions.”

*Nothing smarts narcissists like Trump more than such put-downs.*