

GLEANINGS II - 791
Thursday January 3rd, 2019

Canadian (drilling) rig count plunges - According to Baker Hughes in the week ended December 28th, while the US rig count rose by 3 units to 1,083, a level up 154 units YoY, Canada's plunged 61 to 70, down 66 units YoY (*to less than 10% of what it had been back in a decade ago*), the steepest YoY drop in 43 years - *Part of the problem is the shortage of pipeline capacity to get oil to market, but there is also an element of the price of natural gas being so abysmally low that producers have simply shut some of their wells down.*

Delta Airlines cuts its revenue expectations - It did so, for the second time in two months, in a January 3rd regulatory filing when it reported that it now expects unit revenue (i.e. that per passenger seat/mile) to be up 3% YoY, down from its previous 3 ½% forecast.

Drake Landing Solar Community - The Alberta town of Okotoks, (18 kms/11 miles South of Calgary), was incorporated as a village in 1899 & as a town in 1904 and today it has a population of 30,000 & is a 'bedroom community' for Calgary. But it is also home to a group of 52 semi-detached homes built in 2007 that, by having all garage roofs covered with solar panels, manages to store the region's abundant summer sunshine underground to have it available for home heating-, & other-, purposes during the winter, with the result that it is 90+% energy-independent – *wonder why the creators of this project didn't go whole hog & put solar panels on the homes' roofs as well to sell the excess power to a power utility & why its example hasn't been followed elsewhere; for the solar panel price today is 10% of what it was in 2007.*

Foreshadow of the 2020 election prompting GOP lawmakers to hedge their bets and/or desert 'a sinking ship'? - On January 3rd seven House Republicans voted for either or both bills the House passed that would end the shutdown without funding the wall, that Trump had promised to veto. That same day Sen. Corey Gardner (R-CO), who must run for re-election in 2020 in a state in which Hillary beat Trump 48.2-43.3 in 2016 & where in the mid-terms the Democrats took four of the seven House seats & elected the first ever openly gay Governor as well as the State Attorney-General, Treasurer & Secretary of State, in the political newspaper The Hill called for Congress to pass legislation to re-open the government without a border deal – *And whereas in the mid-terms the GOP gained two Senate seats when 25 Democrat Senators had to run in it for re-election vs. only eight Republican, in 2020 the table will be turned with 22 Republicans scheduled to have to run for re-election vs. only 11 Democrats.*

Iranian economy is suffering due to the US sanctions - This is President Trump's claim, crediting the US sanctions for this. But the October 2018 World Bank's report on the Iranian economy tells a different story. For it reported that in 2017/18, its GDP annual growth rate had been 3.8% (vs. the US' 3.1% in 2018), with most of that growth coming from non-oil sectors, as both the agricultural-, & services-, sectors' output was back to their pre-sanctions levels. On the other hand, it took a somewhat dimmer view of the outlook for the next couple of years, warning the growth rate could dip as low as 1.9% - *And as to Trump's claim that the world "is envious" of the US GDP growth rate, in 2017 the US' 2.3% would have ranked it about 130th in the world while 50-odd countries in 2017 had growth rates in excess of the 4.1% that the US managed for just one, the second, quarter last year.*

Islamic Party of Ontario - This may be a work in progress; for last October the name was officially reserved under the Elections Ontario Act, a step required before it can become a

recognized provincial party. The driver behind this is one Jaweed Anwar¹, a resident of Toronto's densely populated, multi-cultural (albeit 80% Muslim) Thorncliffe Park (known by its detractors as "Halal Haven"). Anyone interested in what it is all about can google "Islamic Party of Ontario : Principles and Policy" & get nine pages of a weird mixture of (often far-left) Western ideas & extremist Muslim propaganda that includes such gems as "We understand and believe that Islam is the native DEEN² of Ontario and Canada (page 2), "All other books of God, *incl. the Bible*, are now obsolete after the final revelation of God, the Quran" (page 3), "Almost all the states are economically enslaved of capitalism and interest-based economy. This article provides insights into the benefit of the Islamic system of economy and permanent cure for economic misery³ " (page 6), and "There is no 'cure' of any disease in the so-called modern medicine" (page 7).

Mitt Romney - A Mormon, he will be 72 in March. Born & raised in Michigan⁴ & an alum of Provo, UT-based Brigham Young University & Harvard, he made his money as CEO of Boston-based Bain Capital (a private equity firm that today has AUM of US\$100+BN). He ran for Governor of Massachusetts, won & served as such from 2003 to 2007 (with his record there including the introduction of a health care plan that was a forerunner of Obamacare). He ran unsuccessfully as the official GOP candidate against Obama in 2012, and has had an up & down relationship with Trump, seeking, & getting, his endorsement in his 2012 run for the Presidency but also going on record as saying there is plenty of evidence Trump is "a con man and a fake" & that "Dishonesty is Donald Trump's hallmark" (*likely the reason he didn't get the Secretary of State job in the Trump administration he angled for, for Trump has a long memory*). And on January 1st he had an Op-Ed column in the Washington Post headed "The president shapes the public character of the nation. Trump's character falls short" that from its first sentence "The Trump presidency made a deep descent in December" via "It is a well-known fact that Donald Trump was not my choice for the Republican nomination. When he won the election, I hoped he would rise to the occasion ... To reassume our leadership in world politics, we must repair feelings in our politics at home. That project begins, of course, with the highest office once again acting to inspire and unite us ... (and) in a 2016 Pew Research Center poll 84 percent of people in Germany, Britain, France, Canada and Sweden believed the American president 'would do the right thing in world affairs' ... One year later that number had fallen to 16 percent", ends up in its last sentence with "America is strongest when our arms are linked with other nations. We want a strong and unified Europe, not a disintegrating unit. We want stable relationships with the nations in Asia that strengthen our mutual security and prosperity." - *This, of course was not well received, with Trump tweeting that he hoped that "Romney wouldn't follow in the footsteps of his predecessor (former Sen. Jeff Flake who often had the nerve to be*

¹ Who according to Sun Columnist Tarek Fatah, a Muslim himself, accused him of being an "Islamophobe" & an "open enemy of Islam", which Tarek says is the equivalent of calling him an "apostate" (that Muslims are duty-bound to kill to secure a place in Paradise).

² An Arabic word used in the Islamic-, Baha'i-, and Arabic Christian religions that refers to the way believers must comply with divine law.

³ That must be why the Arab world has been & remained poverty-stricken for 1000 years, despite the discovery of oil in Iran in 1908, in Iraq in 1927 & in Saudi Arabia in 1938.

⁴ And a son of George W, Romney who in succession was CEO of American Motors (1954-1962), Governor of Michigan (1963-1969), a candidate in the 1968 Republican Presidential Primary & Nixon's Secretary of HUD (1969-1973).

critical of Trump). I would much prefer that Mitt focus on border security and so many other things where he can be helpful. 'I won big⁵ and he didn't'. He should be happy for all Republicans. Be a TEAM player⁶ and WIN". And RNC Chair Ronna McDaniel, a niece of Romney, not only retweeted Trump's remarks but added that the President is constantly "attacked and obstructed" by the media and the Democrats ... (and) for an incoming Republican freshman Senator (sic) to attack Trump ... as their (sic!) first act feeds into what Democrats and the media want and is disappointing and unproductive", while Sen. Rand Paul (R-KY) said "the 2020 election hopes of many Republicans in the Senate⁷ and House will be tied to Trump⁸ ... so the criticisms were bad for the Republican Party and made it harder to get things done in the Senate ... (and) I don't think the President deserves a new senator coming in attacking his character." - Regardless of all this, upon officially becoming a Senator on January 3rd Romney got a 'plum' appointment to the Senate Standing Foreign Relations Committee, one of its oldest & most important ones.

Senior North Korean diplomat disappears – Ju Song Gil was North Korea's acting ambassador to Italy. Last November, just before his term was to end, he & his wife 'disappeared' & it now appears he has applied for asylum in another Western country – *While by no means the first member of the North Korean elite to have fled (some of whom paid with their lives for doing so) their elopement comes at an inopportune time for President Kim as he seeks to present himself to the world as an international statesman.*

US government partial shutdown impact on GDP - White House Council of Economic Advisers' Chair Kevin Hassett told reporters on January 3rd that "Our estimate is that GDP in the first quarter could go down by about one-tenth if this were to resolve in the next few weeks" which he later expanded on by saying "If the shutdown persists, the pace of economic growth would continue to decline ... I would guess it's going to be something like a rule of thumb would be every two weeks is one tenth" - *Unless exceedingly badly reported, such inept use of the English language makes it difficult for anyone, incl. reporters, to understand what he meant; presumably he was trying to say, as the consensus appears to be, that for every two weeks of the partial shutdown the First Quarter GDP growth rate will be 0.1% lower than it might otherwise have been. If so, Trump is not just shooting himself in the foot by the shutdown but picked a bad time to do so; for any reduction in the First Quarter growth rate has a disproportionate effect on the GDP growth rate for the year as a whole. But he is under pressure from his base not to back down & the White House made sure that, since the partial shutdown commenced on the last day of a pay period, the 800,000 or so federal workers affected did get most of their pay for that period (and the pain will not really them until the end of the next pay period on January 11th, although according to Gordon Gray, the Director of Fiscal Policy at the*

⁵ Which is a questionable claim; for, as he is well aware of, & apparently is very sensitive about, Hillary beat him by about 3MM in the popular vote.

⁶ Rather ironically, if there is anyone who is **not** a team player, it is Donald J. Trump.

⁷ Almost half the 53 Republican Senators must stand for re-election in 2020 (and if the polls are any indication, they would be well-advised not to do so riding on Trump's coattails

⁸ This suggests that there is a difference of opinion in the GOP on this issue; for on December 2nd John Cornyn, the Senior Senator from Texas & the Senate Majority Whip (i.e. the No. 2 GOP Senator), noted "I don't think that I can depend, nor can anyone else running in Texas, depend on the top of the ticket" (Cornyn must run for re-election in 2020 while Paul doesn't).

moderately right-of-centre Washington-based American Action Forum (that is headed by Douglas Holtz Eakin, Bush 43's OMB Director from February 2003 to December 2005) an OMB study of the effect of the 16 day shutdown in 2013 had been to cut the GDP annual growth rate for the quarter in question by between 0.2 & 0.6%.

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THE BAD STUFF THAT THE STOCK MARKET WORRIED ABOUT IS STARTING TO HAPPEN (Bloomberg, Sarah Ponczek & Vildana Hajric)

- First it was Apple's US\$5BN revenue miss. Now it is US factory activity which has dropped to a two year low & missed every estimate in the Bloomberg survey in the Fourth Quarter. As, *a while ago*, the S&P 500 plunged 19.8% to the brink of a bear market, investors were told "don't panic, the economy and corporate earnings look strong"; but in the last 24 hours, *i.e. on January 2nd*, confidence in those assurances took a hit when on that day the Dow Jones fell over 600 points (2.6%) & the NASDAQ 100 spiraled down towards 3% (*although it more than recovered that loss the next day after some bullish noises emanated from the Fed*). All the bad news put an abrupt halt to what had been the equity market's best five-day run since 2011 that saw the S&P 500 surge 7.2% at its high point (and the US economy was still forecast to grow by 2.6% in 2019 & corporate earnings by 8.3%). But at least two risks remain : that the market has seen something the professional prognosticators missed & that the losses piling up in the financial community will become self-fulfilling.

Trump operates unpredictably. That creates uncertainty. And if there's anything the market doesn't relate well to it is uncertainty.

CORPORATE CREDIT TO BE 'TIGHTER' IN 2019 (FP, Geoff Zochodne)

- According to the Bank of Canada approval rates for Canadian corporate borrowers were lower in the Fourth Quarter "because some respondents (*i.e. lenders*) appeared to be less willing to undertake deals with looser terms and conditions." This suggests that business looking to borrow this year will face a tougher credit climate amid an aging *economic cycle* & the recent investor exodus from loans to already indebted companies.

According to Bill Wolfe, an SVP in the corporate finance group at Moody's Investor Service, "Companies will continue to be able to access financing in 2019 ... It's just a little tighter than it was in 2018 and 2017."

IRAQ WANTS US OUT (AP, Philip Issa)

- Trump's December 26th *three hour* surprise visit to the al-Asad airbase in Iraq may have quieted criticism back home about him not yet having visited US troops in a battle zone but infuriated Iraqi politicians who the next day demanded those troops withdraw from their country, with "arrogant" & "a violation of national sovereignty" being among the terms used by them. His trip came at the very time that curbing foreign influence in Iraqi affairs had become a hot-button political issue there. And it didn't help that he broke with established diplomatic custom that calls for a visiting head of state to make a courtesy call on his local counterpart, causing the lawmakers from both major parties in the Iraqi parliament to make unfavourable comparisons to the occupation of Iraq after the 2003 invasion & call for a vote on expelling the US troops from the country.

- His visit prompted Sabah al-Saidi, the head of one of the two main blocs in the Iraqi parliament, to say “Trump needs to know his limits. The American invasion of Iraq is over ... he slipped into our country as though Iraq is a state of the United States.” But according to Prime Minister Adel Abdul-Mahdi’s Office Trump had talked with him by phone after a “difference in points of view” over arrangements had led to a face-to-face encounter between them being scrapped. And it didn’t help that Trump told the troops at the air base that it could be used for air strikes inside Syria (*to help fill the void that will be created by his withdrawal of the troops there*); for this runs counter to the sentiment of Iraqi law makers to stay out of regional conflicts⁹ & prompted Hakim al-Zamili, a senior member of al-Saidi’s bloc in Parliament to say : ”Iraq should not be a platform for the Americans to settle their accounts with either the Russians or Iranians in the region.”

This may have contributed to the President tweeting on December 31st that the US troops may not be brought home from Syria as soon as many people expect.

SAUDI KING SHUFFLES CABINET (WP, Kareem Fahim)

- In a string of decrees King Salman, in a move seen as aiding Crown Prince Mohammed (MBS)’ ongoing consolidation of power, elevated an ally of MBS to head a critical security agency of-, & others to key posts in-, the Saudi government. Thus Adel al-Jubeir who had been Foreign Minister from 2015 & who in recent months had been the mouthpiece in the Kingdom’s belaboured efforts to explain away the assassination of Jamal Khashoggi, was replaced by former Finance Minister Ibrahim al-Asaaf¹⁰ ¹¹ & relegated to (*the minor post of*) Minister of State for Foreign Affairs with responsibilities that remain unclear.

According to Neil Quilliam, a senior fellow at the London-based Chatham House¹², “Assaf will basically follow orders, but is seen as key to rebuilding the kingdom’s tarnished image (due to the Khashoggi affair & the War in Yemen¹³), given his own positive international image¹⁴”.

⁹ Which seems sort of odd since the Iraqi government is Shia-dominated and the Shi’ite Iranian regime seems to be on th winning side in those conflicts.

¹⁰ Age 69, with a BA from King Saud University, an MA from the University of Denver & a Ph.D, from Colorado State, all of them in Economics, nearly ten years on the Boards of the IMF & the World Bank and as Governor of the Saudi central bank, he had certainly been well-prepared for his two decades as Finance Minister.

¹¹ He had also been among the dozens, if not hundreds, of Saudi ‘princes & ‘prominenti’ who last year were “detained” in the Riyadh Ritz-Carleton hotel in an ‘anti-corruption sweep’ & ‘shaken down’ collectively for an estimated US\$13BN for the benefit of the Saudi Treasury.

¹² Aka the Royal Institute of International Affairs; founded in 1920, it is a not-for-profit, non-governmental entity analyzing-, & promoting a better understanding of-, international affairs.

¹³ Both of which, albeit to former so far only allegedly so, have MBS’ fingerprints all over them.

¹⁴ His “positive international image” will suffer if he keeps doing things like telling AFP in a December 28th interview that “the country is not in crisis ... (*but*) going through a transformation” & that his predecessor, Adel al-Jubeir “had not been demoted over his handling of the Khashoggi case” (while those in the Kingdom see it as a deliberate act of humiliation.

Others being moved/promoted included a) the 37 year-old Turki al-Sheikh¹⁵, a close MBS confidant, who lost his job as the Head of the Saudi Sports Authority (where he had overseen Saud al-Qahtani, another close MBS aide, who had been in charge of the Saudi cyber security & programming authority until fired after the US Treasury sanctioned him for helping to mastermind the plot that led to the Khashoggi killing), who will henceforth head up a new 'Entertainment Commission' that will control hitherto forbidden things like movies, concerts & the like, b) the King's 62 year-old eldest (surviving) son, Prince Sultan bin Salman¹⁶ (who in 1985 had been the first Arab & Muslim to go into space, for 7½ days as a load specialist in the US STS 51G space shuttle) who gave up the Tourism Authority to become Head of Saudi Arabia's new Space Agency, and c) Prince Abdullah bin Bandar, son of the 20+ year-long Saudi Ambassador to Washington (who briefly left town after 9/11, 15 of the 19 perpetrators of which were Saudi citizens), another young man on 'the fast train' who went from being Deputy Governor of the Makkah/Mecca region, Saudi Arabia's most populous one, to Minister for the National Guard (responsible for the Royal Family's safety & therefore reporting directly to the King himself)¹⁷. On January 3rd Saudi prosecutors announced that they would seek the death penalty for five of the 11 'sacrificial lambs' arrested & charged in connection with the Khashoggi assassination (seven more were arrested but so far have not been charged).

CHINESE MANUFACTURING HAD AN EVEN WORSE DECEMBER THAN EXPECTED **(CNBC, Huileng Tan)**

- The (private) CAIXIN¹⁸/Markit Manufacturing Purchasing Managers' Index (PMI) fell to 49.7 in December, down from 50.2 MoM (while a Reuters poll had expected 50.1¹⁹), and found that in December the flow of both new domestic-, & export-, orders had contracted. This prompted Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group, a Caixin subsidiary, to issue a press release saying "external demand remained subdued due to the trade friction between China & the US, while domestic demand weakened more notably ... It is looking increasingly likely that the Chinese economy may come under greater downward pressure." And the official Manufacturing PMI, released on December 31st, also showed a slowdown in activity in December as the sector contracted for the first time in two years²⁰. According to Vishnu Varathan, Head of Economics & Strategy at Tokyo-based Mizuho Bank, this is "worrying" since it

¹⁵ With an estimated net worth of US\$2.8BN, he owns the Egyptian football club 'Pyramids FC & made the news earlier this year when he bought a US\$4.8MM Bugatti sports car.

¹⁶ Who earlier this year got married again, to a 25 year-old (for a US\$50MM 'bride price').

¹⁷ It is a formidable fighting force in its own right. Totally independent from the Ministry of Defense with its own Minister who reports to the King directly, its personnel consists of tribesmen, many of the Wahabbi persuasion, loyal, to the Royal Family. It has 3 mechanized-, & five motorized-, brigades equipped with over 1,000 LAV-25s, while the Army has just 13 brigades of various kinds.

¹⁸ A Beijing-based, nine year-old media group providing financial & business news whose founder & Editor-in-Chief is a former Knight Fellow in Journalism at Stanford University.

¹⁹ 50 is the "tipping point" between expansion & contraction.

²⁰ The difference between the Caixin-, & official-, PMI readings is that the former is based on data collected from SME (small-, & medium-, sized) & the latter on those from large-, & state-owned (SOE) enterprises.

will have a broader fallout on other Asian exporters” (*that are part of China supply chain*). And while China’s manufacturing PMI is typically weak ahead of the Chinese New Year (*that this year falls on February 5th*), this particular downturn is said to be possibly “even sharper than the headlines suggest”. As well, according to Alex Capri, a Visiting Senior Fellow at the Singapore-based NUS Business School²¹ (*one of the top business schools in the Asia Pacific region & a leading one globally*). “I do believe ... the economy in China is decelerating. I do believe the numbers are worse than reported ... in that type of political environment where there is strong censorship ... *and* where the media is essentially prevented from reporting.”

Blaming it on the China-US trade dispute may be a convenient excuse; for the US Census Bureau’s US-China bilateral trade data show that while the US bilateral trade deficit had been US\$367BN in 2015, US\$346BN in 2016 & US\$375BN in 2017, in the first ten months of last year alone it had been US\$344BN, & that last October it had been up 22.4% YoY. This suggests that more of the decline was due to a drop in domestic-, rather than export-, demand (as ‘collateral damage’ from Beijing’s ‘deleveraging’ its business sector?) which ought to worry President Xi c.s. since Beijing has long operated on the assumption 6.5% growth is the tipping point into potential social unrest.

PUTIN OVERSEES WEAPONS TEST (AP)

- On December 26th he oversaw the *first successful* test of the Avangard ‘hypersonic glide vehicle’, declaring it is impossible to intercept & will “ensure Russia’s security for decades to come”. And addressing Russia’s top military brass afterwards, he told them the test’s success was an “excellent New Year’s gift for the nation”^{22 23}. This comes at a time that Russia-US relations have sunk to a post-Cold War low over Ukraine, *Crimea*, Syria & *the alleged* Russian meddling in the 2016 US elections & as Putin’s hopes for better relations with the US under Trump have fizzled under waves of *Congress-initiated* sanctions

Hypersonic glide vehicles ‘piggyback’ onto-, & are launched from-, rockets after which they “glide on top of the atmosphere” until directed Earthward at speeds of Mach 5 (almost one mile per second); as such they differ from “hypersonic cruise missiles” that, using SCRAMJET (supersonic combustion ram jet) technology can reach speeds as high as Mach 15. And both are hard to defend against because of their maneuverability & speed (& their stealth-like quality). In fact, last March Gen. John Hyten, Commander of the US Strategic Command told the Senate Armed Services Committee “Both China and Russia²⁴ are aggressively pursuing hypersonic capabilities ... We have watched them test these capabilities ... We don’t have any defense that could deny the employment of such weapons against us.” But Putin may well be a

²¹ With a B.Sc. In International Relations from the University of Southern California & an M.Sc. In International Political Economy from LSE, he was for five years ending in 2012 the Asia Pacific Region Partner-in-Charge of KPMG’s International Trade and Customs practice.

²² More excellent than Trump’s decision to pull the US forces out of Syria?

²³ This came ten weeks after CNBC reported last October that the Avangard missile program had difficulty finding a source of the critical carbon fibre product needed to protect it from burning up due to the high speed at which it travels (said to be akin to “flying into a blow torch”).

²⁴ As is the US.

“giant with feet of clay” (Daniel 2 : 31-33); for his public approval-, & trust-, ratings have cratered (the former from 82% last April & the latter from 60% last January (and Defense Minister Sergey Shoigu’s to 19% & Foreign Minister Sergey Lavrov’s to 14%). And a poll taken November 22nd - 28th by the Moscow-based Levada Center, an independent, non-government polling cum sociological research entity, of 1600 people over the age of 18 in 52 of Russia’s 86 regions reported the following results :

- *country moving in the right direction : Yes - 47% from 63% in March²⁵;*
- *country moving in the wrong direction : Yes - 42% from 23% in March;*
- *hard to say : 11% from 16% in March.*
- *Putin’s approval rating : 66-33-1, from 81-18-1 in March;*
- *Prime Minister Dmitry’s Medvedev’s approval rating 34-65-1, from 44-55-1 in March; and*
- *government performance approval rating 42-57-1, from 56-49-1.*

This reflects the growing frustration of the Russian hoi polloi with Putin’s domestic policies, first & foremost his weakening, ‘hard on the heels’ of last March’s election in which he got 77% popular support, of the country’s social safety net by cutting pensions (which may have been necessitated by him, during the four years ended December 31, 2016, having almost doubled the military budget’s share of GDP to 4.5% as the GDP itself declined by 44% (due to the lower price of oil & the US sanctions)²⁶. (Thus one must wonder whether he is not falling in same trap as did Leonid Brezhnev in the early 1980’s when he launched the Soviet Union onto an arms race with the US that led to its collapse half a dozen years later).

²⁵ I.e. at the time of the election.

²⁶ With a population of 4x greater Russia has a GDP only 20% greater than Canada’s and with a population about 44% of that of the US its GDP is only about 8% of that of the US.