

GLEANINGS II - 792
Thursday January 10th, 2019

Quote of the week - "I have the people's anger inside me. I've seen all these presidents, ministers and the State stuffing themselves, being incapable of leading by example ..." - Christophe Dettinger, the 37 year-old former French light heavyweight boxing champion who was seen on TV punching a policeman during last weekend's eighth weekly 'yellow vest' protest demonstrations in Paris – *It's this sense of today's (well-founded?) frustration-driven rebellion against-, & disgust with-, the self-serving 'political elite that's driving today's populism 'boom'.*

Alberta oil patch drilling activity - The following is from the Canadian Association of Oil Well Drilling Contractors (CAODC) rig count report :

Week Starting	-----number of rigs-----				Utilization Rate*
	Drilling	Moving	Down	Total	
December 31 st	99	16	286	401	28.7%**
December 24 th	56	13	522	591	11.7%
November 26 th	193	7	397	597	33.5%
August 30 th	238	8	363	609	40.4%

* Drilling + moving/total rigs.

** 19.5% when calculated on the basis of the previous week's 591 total rig count.

The November/December drop-off-, & the late December hike-, in active rigs likely is in part seasonal. But the one-third reduction in the size of the Alberta rig 'fleet' is not & suggests a wholesale move of Alberta drilling rigs to 'greener pastures' in the US during the Holiday Season that ought to be deeply worrying for the Alberta government, & makes any comparison between the yearend-, & earlier-, utilization rates utterly meaningless in macro-economic terms.

"January 15th will be a momentous date" for the UK – Very occasionally the nation's mood changes. It happened in May 1940 when Prime Minister Neville Chamberlain lost control of the Conservative Party & was replaced by Winston Churchill, and again in November 1990 when Margaret Thatcher left No. 10 in tears. And after months of disloyalty on the part of fellow Conservatives, abominable treatment by Brussels, irresponsible posturing by rival parties & a series of personal humiliations, that day may come for Theresa May next Tuesday (when according to the BBC her Brexit deal will be rejected by the House of Commons by a margin of 200+ votes) – this is the subject of a column by the well-respected Peter Osborne who wrote for the Daily Telegraph until he resigned in 2015 & now writes a column for the Daily Mail.

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WORLD BANK'S JIM YONG KIM ABRUPTLY RESIGNS (Reuters, David Lawder)

- *Kim (age 59), a physician & anthropologist, was born in South Korea & at age five came to the US with his high-achieving parents and has himself been a 'high achiever'. In 2012 President Obama nominated him for-, & its Board duly elected him to-, the post of World Bank President and in April 2016 his term was extended for another five years from July 1st, 2017. But on Monday January 7th he stunned many by announcing he was quitting as of month's end to join a private sector firm where he will focus on investments in infrastructure projects in developing countries (what a 'catch' for that firm & a 'career-crowning' opportunity for him!). Until a successor is agreed on, his shoes will be filled by Bulgaria's 65 year-old Kristalina Georgieva, a 25-year World Bank veteran with a Ph.D.*

in Economics from Sofia's University of National & World Economics and post-doctorate studies at both LSE & MIT, who has been World Bank CEO for the past two years.

While it has been denied officially that he was pushed out by the Trump administration (because as one senior US official put it, under his leadership "climate change had become too much of an obsession"), this no doubt was a factor in his decision to leave. Be that as it may, his leaving likely will set off a donnybrook in the international community. For ever since they were created in the wake of WW II, the tradition has been that Europe has the 'right' to name the Managing Director of the IMF & the US that of the President of the IBRD, a tradition that many countries now strongly feel is outdated & must be abandoned. This issue last sprang to the fore in 2011 when Christine Lagarde was named to head the IMF (when there was a serious groundswell of challenge to this tradition, a repeat of which President Obama sought to avoid in 2012 by naming a well-qualified non-white American citizen). And President Trump may not be smart-, or interested-, enough to avoid such a fight in which he would have a weak hand since last year the Bank's capital base was 'replenished' to the point it will suffice until well after he ceases to be US President (one possible way to avoid such a confrontation, or at least mute it, may possibly be for Washington to nominate Georgieva).

PROFIT OUTLOOK IS CUT LIKE IT'S 2009 – DON'T WORRY ABOUT IT **Bloomberg, Ksenia Galouchko)**

- Analysts are slashing their earnings' forecasts at an alarming rate, with the number of analyst earnings' downgrades exceeding upgrades at a rate not seen since 2009; but the market isn't too bothered by this because traders *are said to* have already 'priced that in' by storming out of stocks in December. According to Timothy Graf, Boston-based, 227 year-old, US\$3TR AUM State Street Global Markets' Head of Macro Strategy for Europe, Middle East & Africa, analysts are always late to the party (*because they are paid to have clients buy, & not sell, stocks*) ... quite a lot of bad news is already accounted for in prices." (*while stock markets across the world, without exception had a bad year, equity prices in many-, possibly all-, cases are still at 'nosebleed' level, to JPMorgan Asset Management's Mike Bell the good news is that last year's selloff put a cap on the scope of possibly further declines in the event of a crisis & to Will Hobbs, CIO of London-based Barclay's Investment Solutions, "Yes, markets have moved ahead of analysts as usual ... It's still worth leaning against that gloomy consensus. Relative to the beginning, we have one enormous advantage as investors – namely that sentiment is already pretty subdued - which should provide a greater cushion to absorb whatever disappointments in corporate profits lie ahead."*

The operative word in Hobbs' comment is "should"; for investors today also have one enormous disadvantage, namely that, compared to a decade ago, much more-, & more rapid-, market activity & volatility today is driven by (computerized) 'algorithmic program trading' that can-, and often does-, have a far greater 'snowballing' effect than human investors ever did. And while the Dow Jones, for instance, recently declined nearly 20%, between 2007 & 2009 it declined by well over 40%.

TRUMP SAYS DEMOCRAT LEADERS MUST MAKE DEAL TO END SHUT DOWN **(AP, Catherine Lucey & Lisa Mascaro)**

- On Sunday December 30th, as he was heading to Camp David for staff meetings, President Trump acknowledged that the weekend shutdown talks led by his Vice President would not break the impasse, and showed no signs of budging on his demand

for US\$5.6BN for the wall.¹ Undercutting the staff talks, he declared that only he could make a deal with the Democratic leaders “in 20 minutes, if they want to”, but that “If they don’t want to, it’s going to go on for a long time” (while the newly empowered House Democrats planned to step up the pressure on him & the Republican lawmakers).

- The seemingly intractable budget showdown marks the first clash between the President & the now Democrat-controlled House, pitting Trump’s unpredictable negotiating style against a largely united Democratic front as many Republicans watch nervously from the sidelines & hundreds of thousands of federal workers are going to have to ‘make do’ without their bi-weekly pay cheques. And while insisting he wants to make a deal (*which typically requires some ‘give & take’*) Trump, *under pressure from his base*) declared he won’t give an inch in his fight for funding a border barrier, saying “There is not going to be any bend right here.” Among the Republicans expressing concern was Sen. Susan Collins (R-ME), *who is up for re-election next year*, who said Senate Majority Leader Mitch McConnell (R-KY) should take up bills from the Democrat-led House [*whereas McConnell has done the exact opposite, saying that he won’t bring any bill to the floor of the Senate that he isn’t sure Trump will sign (thereby making the legislative branch of the US government subservient to the executive one)*], although she said on NBC’s “Meet the Press” she was sympathetic to his opposition to moving legislation without agreement from the president. And several other Republicans have been pushing the Interior Department to find the money needed to restaff national parks amid growing concerns about upkeep & public safety.

Trump is a self-avowed “Great Negotiator”. But staking out a claim that ‘It’s my way or the highway’ has nothing to do with negotiating &, in this case, everything to blackmail. And the ironic part of his insistence on the shutdown is that, as a result, the Secret Service critical to his-, & the Border Patrol & Coast Guard-,critical to national-, security won’t get paid.

TRUMP HAS LOST GROUND IN THE SHUTDOWN BLAME GAME
(FiveThirtyEight, Janie Velencia)

- On Tuesday night January 8th, in his (*short 8½ minute*) prime time national address (*that he reportedly had resisted making*) he blamed the Democrats, saying their unwillingness to approve funds for a border wall had left him no choice but to keep the government (25%) shuttered. But according to three pollsters who have conducted polls in the 2½ weeks since the shutdown started, Americans are increasingly blaming Trump. While in the first days of the shutdown 43-47% of those interviewed blamed Trump for the shutdown & about one-third the Congressional Democrats, that since seems to have shifted *somewhat (the bracketed numbers are the % of those blaming the Democrats)* :

	-----First Poll-----		-----Most Recent Poll-----	
		-----%-----		-----%-----
	End Date	Blame Trump	End Date	Blame Trump
YouGov.	Dec. 25	46 (35)	Jan. 8	50 (32)
Reuters/Ipsos	Dec. 25	47 (33)	Jan. 7	51(32)
Morning Consult	Dec. 23	43 (31)	Jan. 6	47 (33)

¹ That Reuters claims will, when all is said & done, cost as much as US\$23BN.

And the reading of the Rasmussen Daily Approval Rating Poll have declined from 50% on December 5th to 45% on January 10th, with the latest Strongly Approve/Strongly Disapprove ratings being 34/46.

While the only thing that seems to matter to Trump, the approval of his base, is still very strong, & registered Republicans remain very supportive, there appear to be growing signs of unrest among Congressional Republicans.

MORE PEOPLE GOING BROKE POST-RATE RISES (Bloomberg, Chris Fournier)

- In November the number of Canadian consumers filing for bankruptcy was up 5.1% YoY to 11,320 & the total for October & November (22,961) the highest for those two months in seven years. In Alberta consumer bankruptcy filings were up 17% YOY & while in Ontario the increase was just 1%, this came after eight straight years of declines. And according to Ted Michalos of the national Licensed Bankruptcy Trustee firm Hoyes, Michalos “Increased proposal filings may *just* represent the tip of a wave ... The people who want to be pro-active file first, the rest of the folks that are broke are still to follow.”

While the Bank of Canada is blamed for having raised rates five times in 18 months, Canadian bank CEOs seem to have their heads in the sand; thus according to Royal Bank CEO David McKay, his bank was “feeling pretty good about things ... (and) things are pretty solid” (a view seemingly shared by his counterparts at the other Canadian banks). But they may be ‘whistling in the wind’; for, while the Bank of Canada is now expected to ‘sit on its hands’ interest rate hike-wise, the fact remains that the average household debt-to-income ratio in Canada is in the 175+% range (up from 150% a decade ago & from 88% in 1990, with the comparable US numbers being 78%, 99% & 60%)², that in November the Canadian merchandise trade deficit more than doubled MoM (from \$851MM to \$2.1BN) as exports were down for the fourth month running (in November by 2.9% with oil exports down 17.7%, much of it due to lower oil prices) & that the Canadian housing market appears to be softening as demand is said to be “cooling”.

RACISM AT PLAY IN DETAINER CASE : CHINA (CP, Mike Blanchfield)

- In an Op-Ed piece in the Hill Times³ Lu Shaye, China’s Ambassador to Canada, questioned whether countries such as the US and UK are truly representative of the international community & reasserted his government’s claim that Western countries are employing a “double standard” in judging his country. And he pontificated “The reason why some people are used to arrogantly adopting double standards is due to Western egotism and white supremacy ... What they have been doing is not showing respect for the rule of law, but mocking and trampling the rule of law”.

² In a speech last May 1st, Bank of Canada Governor Stephen Poloz pointed out that Canadian households’ mortgage debt was “slightly over” \$2TR, i.e. 115+% of GDP. And Alberta is most vulnerable to the effect of the higher interest rates; for Albertans a) have a disproportionate share of the country’s low-, or zero-, downpayment mortgages, b) according to the Royal Bank have the highest rate of mortgages with terms of two years or less (18% vs. 12% nationwide & 8% in BC) & c) have high average total household debt loads (in 2016 \$192,000 vs. \$174,000 in BC & \$154,000 in Ontario)

³ A privately-owned Canadian twice weekly newspaper that covers Parliament, the federal government and federal politics.

*This (Beijing-dictated?) bit of drivel will sell well in many places in the non-Western world but is utter BS & a matter of the 'pot calling the kettle black', and appears to be part of Beijing's reaction to the December 1st arrest, in Vancouver & under the terms of a Canada-US extradition treaty, for supposedly violating US trade sanctions against Iran & lying to banks, of Meng Wanzhou, the CFO & Deputy Chair-, & more importantly the daughter of Ren Zhengfei, the founder-, of Shenzhen-based Huawei Technologies, in retaliation for which Beijing is believed to have arrested two Canadians in China, one a former Global Affairs Canada employee now working for a Soros-sponsored NGO who regularly visits China as part of his job & the other a permanent resident who lived in a city on the North Korean border where he facilitated business-, & tourist-, traffic with North Korea. But there is an old saying that "action speaks louder than words"; so regardless of what Lu Shaye may claim, the facts are a) while Meng was arrested on December 1st, was promptly brought into court & on December 10th was released on \$10MM bail (because the judge said she had no criminal record in China & had health problems, albeit upon surrendering both her (Chinese & Hongkong) passports, having to remain in BC (& live in **one** of her Vancouver homes), and being under 24/7 surveillance & an overnight curfew b) the two Canadians still linger in jail (where they supposedly are being interrogated regularly & housed in cells with the lights on 24/7) and have yet to be brought into court & formally charged with anything, with members of the Canadian Embassy having been able to visit only one of them once, & c) Huawei has issued a statement it has "every confidence the Canadian and US legal systems will reach just conclusions in the following proceedings." - Meanwhile, Prime Minister Trudeau sits on the sidelines with his thumb up his bum & his mind in neutral, rather than responding to the treatment of these two Canadian citizens in a way that Beijing can understand.*

CHINESE ADMIRAL SAID HIS COUNTRY SHOULD 'ATTACK' US SUPER CARRIERS WITH NEW WEAPONS ... (Business Insider, Christopher Woody)

- The US has undertaken freedom-of-navigation exercises in the East-, & South-, China Seas, provoking 'close encounters' with Chinese ships⁴, with reducing, or blocking, the US willingness/capability to do so having become a key part of China's efforts to undermine the credibility of the US security assurances to its partners (just like Russia is doing in Europe).
- But, as China & the US continue to spar over trade & the South China Sea, Rear Admiral Lou Yuan, the Deputy Head of the Chinese Academy of Military Sciences, on December 20th told the 2018 Military List Summit (*an annual clambake for PLA brass*) "What the US fears the most is taking casualties ... sinking one carrier could kill 5,000 US military personnel and we'll see how frightened America is." While Lou commands no troops, he is known for his hawkish views on the US (that are shared by many other officials who want Beijing to take a more confrontational approach). Furthermore, he said that US-China tensions were "definitely not simply friction over economics and trade", that the US has "five cornerstones that can be exploited ... its military, its money, its talent (*whatever that means*), its voting system & its fear of adversaries" & that China should "use its strength to attack the enemy's shortcomings ... Attack where the enemy is afraid of being hit, where the enemy is weak", and that China's new anti-ship ballistic-

⁴ That led last September 29 to an incident in the South China Sea in which the USS Decatur, an Arleigh Burke class destroyer, came "too close" to the 34 acre Gaven Reef artificial island in the Spratly Island chain, which resulted in it being approached to within 41 meters/135 feet (*i.e. within high risk collision distance*) by the Chinese guided missile destroyer Lanzhou in contravention of the 2014 (non-binding) Code of Unplanned Encounters at Sea between China & the US "to prevent miscalculations and unplanned escalations of incidents".

& cruise-, missiles can hit the US carriers despite the “bubble” of defensive measures surrounding them (*since they would come at them from space at Mach 5 (i.e. 1 mile per second) speeds.*

- Lou is a hawk in China’s foreign policy community & his remarks reflect an increasingly common perception in China that the US, while powerful on paper, lacks the resolve to fight; thus Brad Glosserman, a China expert & visiting professor at Tokyo’s Tama University told the American military newspaper Stars and Stripes that Lou’s observations illustrate that “a far larger number of Chinese than I think is healthy ... believe Americans have gone soft ... *and* no longer have an appetite for sacrifice and at the first sign of genuine trouble ... will cut and run.” And while many Americans dispute this notion, a discussion of the aircraft carriers’ future in American power was a subject for discussion at the December 11th Heritage Foundation⁵ event, where Jerry Hendrix, a retired Navy captain⁶ & now Vice President of the Falls Church, VA-based Thelmus Group⁷ told his listeners that there is *indeed* a “heightened national aversion to risk” (*at US senior policy-making levels?*) & that as aircraft carriers have become more costly & regarded a “symbols of national prestige ... political leaders have become more averse to exposing them to risk”. Furthermore, that “There is, unfortunately, the heavy potential for conflict coming, but the nation is not ready for heavy battle damage to its navy and specifically not to its aircraft carriers ... We need to move these assets back into the realm of being weapons and not ... mystical unicorns” - *The relevant headline in the January 4th Stars and Stripes was “We’ll see how frightened America is - Chinese admiral says sinking US carriers key to dominating South China Sea”. And one cannot help but wonder if today’s carriers are not the equivalent of yesteryear’s ‘battle wagons’ that came to such an evil end on December 7th 1941 (& if Americans today, in the “instant gratification” nuclear era, would be as motivated as their great-grandparents three quarters of a century ago to sacrifice their short-term wellbeing for the sake of an appropriate military response).*

Such thinking in Beijing is particularly disconcerting at a time like the present when the Chinese GDP growth rate is decelerating to the 6½% level that Beijing associates with being the tipping point into social unrest; for at such times dictatorships have typically sought to divert their peoples’ attention away from the domestic situation by creating a foreign enemy⁸. And while I had an argument with a friend the other day who maintained that, if Beijing were to do as the

⁵ A Washington-based conservative think tank that, during its heyday had Reagan turn many of its ideas into government policy.

⁶ Age 52, he was previously a Senior Fellow at the Washington-based Center for American Security.

⁷ Less than three years in existence, at last report it had a staff of 12, engaged in military forecasting, war gaming and qualitative analysis and on its website prides itself on “thinking deeper about national security, charting the course ahead, looking beyond the horizon, spotting trends in a dynamic world & providing unique perspectives on defense”.

⁸ After years of the Chinese military budget growing faster than the US one, it now accounts for 2.9% of China’s GDP vs. the US’3.1% (although, because of the difference in the size of their economies in absolute terms it is still only a little over one-third of the US’. But China may be getting better value for their money; for it has ‘more boots on the ground’ and, while it costs US\$12+BN & eight years to build a super carrier & billions more to equip it with planes & the support vessels in its “screen”, & another billion or so annually to run it , China’s new anti-carrier missiles the US Navy still has as yet no defense against, cost something like US\$10-20 million each.

admiral suggests, the US would 'turn China into glass', the Chinese, with its 300 or so nuclear weapons, & now their visit to the moon's far side, likely are not without nuclear counterpunch delivery capability (& might even coordinate an attack on a US carrier with a 'demonstration event' in the near US offshore to demonstrate that a nuclear attack on China would not be a freebie 'walk in the park'). And what is most worrisome is that, while during the Cold War a nuclear 'Mexican stand-off' prevailed in which decision makers on both sides appreciated the potential downsides of initiating a nuclear attack, that may not be the case today.

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Difference between US & Canadian School Systems - Canadian schools start later (thereby supposedly giving students more 'sleep time') & are more 'gun-safe'. Fewer Canadian kids go to private schools (6.8% vs. 10%) which gives more upscale parents a vested interest in the quality of the public system's 'educational 'product'. There are fewer charter schools (although in the US more of them target underprivileged children, rather than those of socially astute parents). Corporate punishment is outlawed in Canada & there is more local control over local schools. And Canada's 15 year-old students outperform their US counterparts in the OECD's PISA (Program for International Student Assessment) tests in all three disciplines tested for (math, science & reading), in 2015 ranking 4th among the 89 countries vs. the US' 31st.

BLACK EDUCATION - A GLIMMER OF HOPE (Edmonton Sun, Walter E. Williams⁹)

- According to Maria Scruggs, President of the St. Petersburg FL NAACP chapter, "The school district has shown they just cannot do it. Now it is time for the community to step in." (i.e. the educational system cannot do much *by itself* to narrow the educational achievement gap between Asian & white and black kids). For the most crucial input for a child's education cannot be provided by schools or politicians, but requires someone (like a parent) to make sure a youngster does his homework & is helped with it when needed, ensure he/she gets enough sleep & a wholesome diet, and gets to school on time and, while there, behaves & respects the teachers. And she says it's time for the black community to accept some of the blame (*for its children's academic underperformance*) because black parents are often insufficiently involved in their children's education. And according to Mariah Evans, who headed 20-year study that found that "the presence of books in the home" was the top predictor of whether a child will attain a high level of education, especially in the case of "children from very disadvantaged homes.

While Canada's Indians blame everyone but their-, & their parents'-, parenting shortfalls for their often dire circumstances, it's nice to hear a disadvantaged minority person not spending his/her time blaming others for their misfortunes.

⁹ The Afro-American 82 year-old John M. Olin Distinguished Professor of Economics at the Fairfax County VA-based George Mason ('research') University, columnist & author (*of ten books*) is known for his libertarian/conservative views & knows whereof he speaks first hand; for he & his sister grew up in Philadelphia under modest circumstances by a single parent mother .