

Baker Hughes rig count - As of May 12th it was US - 885 (plus Gulf 20) & Canada - 80, vs. 406, 21 & 43 respectively one year earlier. Of the 885 US rigs US 712 were targeting oil & 172 gas¹, up from 318 & 87 YoY, and 66 were drilling directionally, 742 horizontally (most, if not all, of them for shale oil?) & 77 vertically (many in the initial stage of shale oil development?). While the US rig count was up from 789 MoM, the Canadian count was down from 108 in April & 253 in March² (although still well up from 41 in March 2016). And “internationally” (i.e. outside North America) the April rig count was 956, up 13 MoM (of which the offshore accounted for 201, up from 197 MoM although down 19 from 220 YoY) - *In May 2014, i.e. prior to the mid-2014 oil price collapse, the count had been US - 1859, Canada 162 & international 1,350, while at their lows since they had been in the 408, 42 & 955 ranges - these numbers suggest ‘feel good’ supply forecasts may be ‘made of whole cloth’ (as does the fact the Saudis & Russians have extended their production cutbacks to March 2018, three months longer than planned earlier.*

Evidence of damage to America’s global standing? - Recently the “proudly liberal” British online daily newspaper The Independent headed a front page article with “NATO officials will ‘ensure no one talks to him for more than four minutes to keep Donald Trump’s attention’ “ - *one can only wonder how much damage he might do to America’s image abroad among foreign decision makers during his forthcoming foreign jaunt.*

DoJ Special Counsel appointment – It was a pretty ballsy move by Deputy Attorney-General Rod Rosenstein to appoint a Special Counsel without informing neither his boss, the Attorney-General nor the President himself, although he did hedge his bet by picking someone that he knew would have almost unanimous support, especially since he has such a broad, triple-barrelled mandate to investigate : if there had been any Russian interference in the US election, to carry on the Comey investigation of any links between Trump associates & the Russians during the election and whether Trump had indeed sought to interfere with Comey’s Flynn investigation. Be that as it may, Trump shared his displeasure with the world when he tweeted the next morning that “This is the single greatest witch hunt of a politician in American history.”

Trump & Turkey President Erdogan - Turkey is a member of NATO & once was a strong ally of the US & aspiring to join the EU but in recent years seems to have given up on the EU (that had an issue with its human rights stance) & has moved closer into the Russian orbit. Things have gone downhill since the Turkish Parliament in 2003, by a vote of 264-250-19 (three votes short of the 267 vote majority needed³), refused to let the US use a NATO base in Southeastern Turkey as a jumping-off point for 60,000 US troops to form a second (Northern) front in the coalition’s invasion of Iraq. And things have gotten progressively become more so under Erdogan. Recep Tayyip Erdogan, now age 63, after being Mayor of Istanbul for four years, was banned in 1998 from holding public office (& briefly jailed). Then, in 2001 he co-founded, with Abdullah Gul, the AKP (Justice and Development Party) as a ‘moderately conservative, pro-Western’ one (although both had long had Islamist sympathies). Then, after it gained power in November 2002 & Gul became Prime Minister, he annulled that ban and Erdogan became Prime Minister (& Gul President) in March 2003. Since then Erdogan has progressively

¹ The missing one is classified as drilling for “Other”.

² Not too much should be read into this likely all, or mostly seasonal : for during spring ‘breakup’ when the soil ‘unfreezes’ drilling activity tends to slow down, if not almost cease, for a few weeks.

³ Although, in all fairness, Turkey’s lawmakers in doing so appear to have acted in accordance with the wishes of a large majority of Turks who opposed the US action in Iraq.

dismantled Turkey's 'Kemalist' features⁴ & increasingly returned to the Islamist antecedents of his youth), culminating in him shoving Gul aside to become President himself (in 2103) & in the recent referendum (*that to his dismay he won by a mere whisker, despite allegations of significant electoral fraud*) that endowed the Presidency with dictatorial powers. And since last summer's failed revolt he has indiscriminately fired and/or jailed tens of thousands of public servants, incl. university professors, teachers & judges - *this is the man whom President Trump received at the White House on the 16th & afterwards, at their joint press conference fulsomely praised, and whose personal security staff later that day participated (as confirmed by Turkey's press agency Anadolu) in turning a peaceful demonstration in front of the Turkish Ambassador's residence into a riot in which nine people incl. one policeman were injured.*

Robert Lighthizer confirmed as US Trade Representative - Despite Sens. McCain & Masse's opposition, the Senate on Thursday May 11th overwhelmingly (82-14) confirmed his nomination - *this means that Trump's "massive" NAFTA renegotiations can commence as early as mid- August (thereby spoiling the summer holiday plans of some Ottawa bureaucrats?).*

GLEANINGS II - 710
Thursday May 18th, 2017

BERNANKE SAYS ECONOMY NEARING CAPACITY WITH JOBLESS RATE LOW
(Bloomberg, Katie Porzecanski)

- On May 17th he told attendees at the Skybridge Alternatives (SALT) Conference in Las Vegas⁵ "We've got basically a 2% economy here and that means it won't take that much to knock it off track ... We have already approached the limits of our capacity and the unemployment rate is pretty much about as low as it can go, so we don't have that extra capacity to create *more* growth ... from a cyclical perspective the economy is doing pretty well, it's the little engine that could⁶." And earlier this month he told Bloomberg TV that the Trump administration's plan to cut personal income tax rates appeared "ill-timed" & may do little to spur a higher rate of economic growth⁷, and recommended instead concentrating on policies that would boost supply rather than final demand.

⁴ Mustafa Kemal Ataturk was a Turkish army officer who, in the wake of WW I & the collapse of the Ottoman Empire, became its first president (from 1923 until his death in 1938) & set about creating a 'modern democratic state' (or at least a state with modern democratic trappings) that included a separation of government & religion, and of the state's executive & legislative powers, and an independent judiciary.

⁵ The New York-based hedge fund SkyBridge Capital was founded in 2005 & in 2009 launched the SALT Conference (that is now held biannually in America & Asia as a venue for practitioners of 'alternative investment' to exchange ideas. It has since morphed into an event attended by as many as 1,800 decision makers in the alternative investment community. But last January Skybridge ownership changed and it was since announced that following this year's conference SALT will be spun off as a stand-alone entity.

⁶ The title of a 1930's children's book that sought to teach the little darlings the value of optimism & hard work. This is certainly a long way from the one-time belief that the US economy was the 'locomotive driving the world economy'.

⁷ Because it will mostly benefit upper income groups with a low 'propensity to consume'?

He also opined that the Fed will continue to raise rates “very slowly” & next year will start shrinking its US\$4.5TR balance sheet (now 5x its size from when it started its QE experiment).

U.S. HOUSING STARTS FELL 2.6 PERCENT IN APRIL (AP, Martin Critsinger)

- In April they were down for the second month running (by 2.6% to a 1.17MM annual rate⁸, an improvement over March’s - 6.6%). This number was a function of single home starts being up 0.4% to 835,000-, & apartment starts down 9.2% to 337,000-, units. The region of greatest weakness was the Northeast (**down 37.3%**) & of greatest strength the Midwest (**up 41.1%**). Meanwhile, the May National Association of Home Builders’/Wells Fargo home builder confidence index was up two points MoM to 70⁹ (at 50 builders deem the situation “good”), still down one point from March’s post-June 2005 high of 71).

In the first quarter the home building sector was a bright spot in an overall lacklustre economy : while the latter grew by just 0.7%YoY, new home building was up 13.7%.

HEALTH-CARE VOTE DOGS GOP ROOKIE (AP)

- Rep. John Faso (age 64) is the rookie GOP member of the House for New York State’s 19th Congressional District & one of the 217 GOP members who on May 4th helped pass the American Health Care Act to *dismantle Obama’s Affordable Care Act 217-216* (with 20 more conservative GOP members of the House voting against it). Analysts estimate it will cause 24MM Americans to lose their health insurance coverage over the next decade (incl. tens of thousands in Faso’s district two hours North of New York City) &, worse still, it has been criticized for weakening protection for people with ‘pre-existing conditions’. According to Andrea Mitchell, a 35 year-old mother of two who has had several strokes as a result of a benign brain tumour “He hugged me *in a emotional embrace captured on video* and ... promised he would take care of us ... Whether or not he intended to lie and deceive his constituents , he did do that ... I don’t think there’s any chance that Faso will be re-elected.”
- A freshman in a swing district, Faso was already a top Democratic target *for the November 2018 mid-term elections* even before the Medicare vote; and now he is deemed among the most vulnerable Republican incumbents in the nation. While he defiantly defends his vote, dismissing the key findings of the *non-partisan* CBO (Congressional Budget Office) study that predicts widespread healthcare insurance losses & higher healthcare costs for, in some (*many?*) cases , elderly individuals. Like many of his GOP colleagues, he is avoiding town hall-style meetings with constituents as the healthcare debate rages across the country; thus on Monday night May 8th he attended a fund raiser in Albany, not a healthcare town hall meeting in his district organized by Democrats at which, in his absence, the neighbouring 18th District’s Democratic Rep. Sean Patrick Maloney took the opportunity to ask the hundreds of voters present “Where the heck is your Congressman?” & to note “He may be upset that I am in his district ... But I will just point out that he is not.”

⁸ While still well below the 1.5MM pre-Great Recession annual rate, this is more than double its low since, 1n 2009.

⁹ Not surprisingly so since in many regions the supply of new homes is said to be “tight”

Concern that healthcare will become an 'albatross around the GOP's neck' in next year's mid terms & cause it to lose control of the House, & possibly even the Senate as well, all but ensures that the House version of the American Healthcare Act will be DOA in the Senate.

WHEN WILL REPUBLICANS DUMP TRUMP? (Politico, Liam Donovan)

- As far as his fans are concerned, the report he had disclosed classified material to the Russian Foreign Minister during the latter's visit in the Oval Office (*at the request of Putin himself?*) Is just more proof of the media's obsession with Trump & its unyielding attempts to overturn the will of the people, as expressed in last year's election. And his apparent 'anti-fragility' means that each successive episode digs his boosters in deeper, and validates the "fake news" narrative & further erodes the credibility of the 'legacy' institutional framework for them. While the degree of exhaustion among the GOP lawmakers is palpable & their frustration has boiled over into the print-, & cable news-, media, and their criticism of *Trump* has grown louder with each enforced error by the White House, as long as the GOP legislative dream remains alive, there won't be any sort of full-scale break. But if that dream were to die, it will be every man for himself.

And it is interesting in the latter respect that growing numbers of complaints have started to emanate from the business community & other interest groups, that the chaos caused by self-inflicted White House wounds are interfering with the expeditious conduct of the nation's business and, more importantly, with matters close to their hearts, like tax reform & deregulations, ObamaCare, national security & the fight against the Islamic state.

TRUMP CAMPAIGN HAD AT LEAST 18 UNDISCLOSED CONTACT WITH RUSSIANS (Reuters)

- Current & former US officials familiar with the situation (& *the players*) told Reuters that Michael Flynn & other advisers to the Trump campaign were in contact with Russians officials in at least 18 phone calls & emails during the last seven months of the 2016 presidential race & that Flynn had several phone discussions with the Russian Ambassador Sergei Kislyak (*purportedly the No. 1 'spook' & recruiter in the US*¹⁰) after Election Day in which they discussed creating a 'back channel' to enable Trump & Putin to communicate in a way that bypassed the US national security bureaucracy which both considered hostile to improved relations *between their two countries (wouldn't it be ironic if one or more had taken place after November 17th, the day Flynn was named National Security Adviser?)*. While the sources said they had seen no evidence of wrongdoing or collusion (???), this will hike the pressure on Trump c.s. to provide a full account of their interaction with Russian officials prior to-, during-, & after the November 8th election.

The White House didn't respond to requests for comments, Flynn's lawyer refused to comment, Moscow declined to comment & referred Reuters to the Trump administration, and a Russian Embassy spokesman said "we do not comment on our daily contacts with the local interlocutors". According to the NYT Flynn told the transition team on January 4th he was under investigation for having worked for-, & being paid US\$500,000, during the campaign as a lobbyist for Turkey, without having registered as such (a criminal offense) ,to which Politico

¹⁰ Who recently, during Russian Foreign Minister Sergei Lavrov's controversial visit to Trump in the Oval Office had his picture taken there, shaking hands with Trump (a photo the Russian Embassy was quick to tweet but that the White House never made public) .

subsequently added that his primary contact in Turkey had been a man called Ekim Alpteki with known ties to Putin¹¹ & the McClatchy News Service that ten days before the Trump inauguration & while he was National Security Adviser-designate, he had interfered in the conduct of US government business in a way that benefitted the Turkish government.

CANADIAN BANK DOWNGRADE RINGS ALARM BELLS ON CONSUMER DEBT, HOUSING (Reuters, Andrea Hopkins)

- On Thursday May 11th Moody's cited Canada's ballooning private sector debt¹² & unchecked house price appreciation for trimming the credit ratings of Canada's largest six banks. According to Moody's EVP David Beattie "Continued growth in Canadian consumer debt and elevated house prices leaves consumers and Canadian banks more vulnerable to downside risks facing the Canadian economy than in the past."

This is their first downgrade since January 2013 (when the TD lost its increasingly rare triple-A rating). The TD is now rated Aa2, and the other Big Four & the National Bank A1.

GERMANY'S ECONOMY POWERS AHEAD IN FIRST QUARTER AS EUROZONE GROWTH OUTPACES US (The Independent, Martin Baccardax)

- In the First Quarter it grew fastest in over a year (0.6% QoQ, 1.7% YoY), up from 0% in the Fourth, *in a balanced manner* : more new construction, higher machinery & equipment sales and exports, and an increase in household-, & government-, spending. And growth in the entire 19-country Eurozone was up 0.5% QoQ (*with that in France being up 0.3%, in Spain 0.8%, even in Italy 0.2%, and the Netherlands 0.4%*).

According to EuroStat First Quarter Eurozone growth, due to ECB stimulus & a weaker currency, was thus more than twice that in the US..

INDONESIAN ISLAMIST LEADER SAYS CHINESE WEALTH IS NEXT TARGET (Reuters, Tom Allard)

- Ethnic Chinese account for < 5% of Indonesia's population but control many of its large companies & much of its wealth. In a rare interview, in an Islamic centre in South Jakarta, 49 year-old Bachtiar Nasir, who chairs the powerful GNPf-MUI (National Movement to Safeguard the Fatwas of the Indonesian Ulema Council)¹³ said the wealth of the Chinese minority is a problem for native Indonesians & advocated an affirmative

¹¹ This could make Vice-President Pence 'collateral damage' since shortly after the November 8th election he had taken over control of the transition team from Gov. Christie.

¹² In 1990 Canada's household debt-to-disposable income ratio was 87%. By 2001 it had grown to 106% after which it skyrocketed to 137% by 2008, the onset of the Great Recession, kept growing during the Great Recession to 159% at its end in 2010 & now is 167%. The comparable numbers for the US were 1990 - 60%, 2001 - 68, 2008 - 97%, 2010 - 95% & at last report 80%.

¹³ That was behind the mass protests by hundreds of thousands of Muslims in Jakarta *last December* over a comment about the Koran by the capital's ethnic Chinese, Christian governor, Basuki Tjahaja Purnama (note the Indonesiatation of his name) who was just found guilty of blasphemy & sentenced to two years in jail in what the Economist called "an unfair trial *that* leaves Chinese Indonesians feeling vulnerable")

action program for them (comments likely to stoke the racial tensions already running high in this-, the world's largest Muslim-majority-, country). While Southeast Asia's biggest economy is a major destination for foreign investment in the mining & retail sectors and its government is seeking more foreign investment to help fund a US\$450BN infrastructure building drive to revive economic growth¹⁴, Nasir says foreign investment, especially that from China, hasn't benefitted Indonesians & "our next job is economic sovereignty, economic inequality ... The state should ensure it doesn't sell Indonesia to foreigners, especially China."

Like the Indians in East Africa, the Chinese were imported by the former colonial powers over a century ago since they were better workers than the locals, & many now too are fourth generation residents, with few, if any, real ties, to their motherland. But they were not only harder-working but more frugal & within years of their arrival became involved in small business & money lending¹⁵ & hence easy targets for popular resentment.

MACRON SAYS 'NON' TO EX-PM VALLS (The Telegraph, Henry Samuel)

- On Tuesday May 9th former Prime Minister (from 2014 to 2016) Manuel Valls surprised the Macron camp, & infuriated his Socialist Party colleagues, by announcing he planned to stand for Macron's enMarche movement in next month's parliamentary elections. But he was told expeditiously by the movement that he didn't fit their "criteria" to run for Parliament on its ticket since they wanted to remake the country's political landscape, not "recycle" politicians who feared losing their posts.

He fits the profile. Now 54 years of age, he joined the Socialist Party at age 17, & since age 21 has almost continuously been full-, or part-, time on the party's-, or public-, payroll, culminating in his running second in last January's Socialist Party's primary to be its standard bearer in the Presidential election to Benoît Hamon (who ended up embarrassingly in fifth place with single digit voter support, less than half President Hollande's most recent approval rating) who, right after the results were out, pledged his support for Macron.

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PUBLIC SECTOR UNIONS KEEP THE GRAVY TRAIN FLOWING TO FIRE DEPARTMENTS (Mises Wire, Ryan McHaken)

- Firefighting is not what it used to be. Structural fires are now quite rare and firefighters now mostly respond in multi-million dollar vehicles to run-of-the-mill medical events that could be handled *just as, if not more*, efficiently by *fewer* EMTs in less costly ones. The Governing magazine¹⁶ lays out the change over time in the following manner :

¹⁴ It has declined from an annualized 7% rate in 2011 to at last report 5%.

¹⁵ My father was born in what were then the Dutch East Indies, lived there until sent to Holland for high school at age 12, and spent many years there as a naval officer in the 1910s & 1920s, and a couple in the latter 1930's. I remember him telling me about a lending scheme that small Chinese lenders had developed to take advantage of the locals' spendthrift nature : they would lend them money interest-free but on the condition that if the borrower was late with a monthly payment, the repayment schedule would start anew (in other words, by doing so they forewent all previous payments; while very profitable for the lender, this created resentment among borrowers.

¹⁶ A monthly magazine published since 1987 from a Washington base with, according to the Media Bias-Fact Check website a slightly left-of-center/liberal bias & a high fact check rating.

- According to the *Quincy, Mass.-based* National Fire Protection Association in 1980 the 30,000 *full-time & volunteer* US fire departments responded to 10.8MM emergency calls (incl. 3MM actual fires) while by 2013 the calls had risen to 31.6MM but the fire calls plummeted to 1.24MM (of which 500,000 were structure fires which, with 1.14 career & volunteer fire fighters averages out to one structure fire per firefighter bi-annually);
 - Few public sector unions have been more successful getting higher salaries & more benefits for their members than the firefighter ones & the LAFD (Los Angeles Fire Department) provides an example of their exploiting the public's benevolent view of everyone's most favorite government agency. Thus according to the 2016 salary data of TransparentCalifornia.com¹⁷ the compensation of three LAID employees totaled US\$1.36MM, US\$974,779 in overtime pay :

	Base salary	Overtime
Fire Captain Charles Ferrari	US\$134,503	US\$334,655
Fire Captain James Vlach	US\$136,575	US\$332,583
Fire fighter Don Thomson	US\$117,371	US\$307,542 ¹⁸

And most of the overtime paid is not associated with fighting fires (*or answering medical emergency calls*) but with the replacement of those on holidays or being away due to injuries, training, illness, personal leave or special assignments (such as inhouse training-, & evaluation-, programs (*i.e. it's due to bad management?*)).

While in 1995 the LAID spent a "budget wrenching" US\$58.1MM on overtime pay by 2008 this had risen to US\$139MM & by 2016 to US\$197MM (which according to the City's 2016 Budget amounted to 31% of the LAFD's expenses).

But any reform of fire department budgets in LA *or elsewhere* will take years of unwinding, *against massive opposition*, contracts heavily slanted in favor of employees & against tax payers (Thus the LAID contract requires vacation leave to count as hours worked for the purpose of calculating overtime).

¹⁷ Provided as a public service by the Las Vegas-based Nevada Policy Institute, a 'free market think tank' alleged to have links with the Koch brothers, to "provide accurate, comprehensive & easily searchable information on the compensation of California public employees.

¹⁸ This is an interesting number. For assuming that his normal work week is 48 hours (some fire fighters work four 12 hour shifts) his hourly rate would be US\$47.02. And again assuming the normal 1½x overtime rate (which cannot be taken for granted; when I was working in Halifax, two decades ago, dock workers union contract there provided for them getting 6x the hourly rate for working certain shifts), he would have clocked 4,360 hours of overtime, i.e. 84 hours/week.