

Quote of the week - "President *Trump* did his best to isolate himself from fellow G7 leaders on many issues." Eric Reguly (the Globe & Mail's European Bureau Chief) - *Small wonder that, after Trump's cavalier treatment of the US' EU/NATO/G-7 allies, Chancellor Merkel told a rally of her supporters, without mentioning Trump by name, that "The times ... when we could rely completely on others are, to an extent, over" & that Richard Haass, the President of the New York-based Council on Foreign Relations, bemoaned the fact that "Merkel saying Europe cannot any longer rely on others and needs to take matters into its own hands is a watershed ... what the US has sought to avoid since WW2."*

An all-time speed record in credit rating downgrades? - In June 2014 the price of oil swooned, driving the Alberta economy over a cliff. Less than a year later, in May 2015, Alberta voters put an end to the four decade plus rule of spendthrift right-of-centre "Conservative" governments & replaced them with a left-of-centre one that, using the state of the economy as an excuse, has been even more fiscally irresponsible (it is currently paying for 20% of its expenses with borrowed money). So it was surprising that it took the rating agencies 18 months to strip it of its much-vaunted triple-A rating. And now, five months after it did that, S&P has dropped it another **two** steps on its rating scale, from AA to A1. While its announcement observes "The negative outlook reflects continuing uncertainty about the province's willingness to take additional fiscal measures to improve the structural budget shortfalls within the next two years", the real reason may have had more to do with the fact that the province's deficit this year will be equal to nearly 4x the aggregate deficit of all the other nine provinces (that between them have nine times the population of Alberta) & by the fact that, while the Alberta Minister of Finance estimates the Province's debt will be \$71BN by 2019, when the next election must take place (up from next to nothing a couple of years before this government came into power), S&P's estimate is that it will be more like \$94BN (i.e. close to twice the Province's annual budget) - *following the latest downgrade the Minister of Finance said his government had made a choice, upon coming into office, "to keep spending to foster growth, rather than to make budget cuts to please the rating agencies" & pointed to the Conference Board of Canada's recent upgrading of the Province's expected 2017 GDP growth rate from 2.8% to 3.3% (the highest of any of the ten provinces) to validate this view. There are problems with his view : a) even if the local economy were to grow 3.3% this year, that would nowhere near offset its 8% shrinkage of recent years (especially since the Conference Board expects the growth rate to decelerate again in 2018), b) while existing oilsands operators are doing OK (since they too have been on a cost-cutting binge) there is zero interest in new oilsands investments such as have for years driven economic growth in Alberta (in fact international oil has been making an exit from the oilsands), c) part of this growth is a function of an ongoing boom in Edmonton residential-, & commercial-, building despite there being 15,000 vacant apartments & condo units in the city and its commercial vacancy rate is in the 20% range & still rising, and d) that, in Edmonton at least "For Lease" signs are still multiplying like rabbit, and that according to bar owners & taxi drivers business is "bad" (and since their business depends on "discretionary spending" by the hoi polloi, their view of the state of the economy may be more au courant than that of Ph.D. economists with security of tenure & income in high rise offices).*

End of the Boeing/Airbus duopoly in the passenger jet market? - Russia just announced the maiden flight (albeit only for 30 minutes at a height of 1,000 meters/3,300 feet & a speed of 300kmh) of its new MS-21 for which it already has a, mostly local, 175 order book. Other planes about to challenge the Boeing 737/Airbus A320 market share, other than the (somewhat Johnny-come-lately) 300 unit order book Bombardier C-series that is supposed to come into service next month, include China's ARJ21 (that entered into service late last year) for which it has, again a mostly local, 350 unit order book) & its C919 that, while it won't come into service until 2020, already has a 517 unit order book, Japan's Mitsubishi MRJ that will come into service

next year & has an order book of 220, and Brazil Embraer's EJ.2 that has a 270 unit order book & will also come into service next year.

Proliferation of micro (beer) brewers - This weekend there is a Craft Beer Festival in Edmonton; half its 175 or so exhibitors are micro breweries (i.e. about one-sixth of the national total), very few I had ever even heard of, never mind tasted their products, but who collectively have been 'eating the big breweries' lunch' (in the five years ended in 2014 total beer sales in Canada declined by 2.2% to 22.39 million hectoliters (one hectoliter = 100 liters), made up of a 6% decline in large breweries' sales to 20.4-, & a 70% increase in small breweries' sales to 2.01MM-, hectoliters .

It's usually easy to identify suicide bombers - Their heads tend to survive the directed horizontal blast effect unscathed.

Trump keeps his campaign promise to walk away from the Paris agreement - I listened, albeit with only half an ear, to his Rose Garden speech announcing this. It was less bombastic, but no less ill-informed, than usual. And I was struck by his view of the world when he orated "we do not want leaders of other countries laugh at us any more" when in reality his tomfoolery has given them more scope for laughing themselves silly than ever in history at any occupant of the White House - *this was little more than typical Trump grandstanding to impress his base & failure to understand a 'complicated' issue; for the Paris Accord is not a binding agreement; it has no punitive powers in case signatories don't live up to their promises & merely urges them to reach 'peak emissions' "as soon as possible". And the transfer of resources from the rich to the poor countries that he objects to is the outcome of the fact that the former have had a decades-, if not centuries'-, long head start in the emission-spewing business. Last but not least, while in making this call he may have impressed his not overly erudite base, it will negatively impact on America's stature in the world while at home many decision makers that matter in state governments & the corporate sector have already let it be known that they will ignore his environmental-unfriendly move (And according to the FactCheking website there were several misrepresentations of fact in his speech : a) while he claimed "massive legal liability if we stayed in", international environmental law experts dispute that claim, saying that a pullout won't do so & may actually increase the risk of being sued, b) while he called China & India the "world's leading carbon emission polluters, credit for that goes to China & the US, c) while he said that "nobody even knows where the money in the Green Clmate Fund is going to", the fund's website lists all projects that have (hitherto) been funded, d) while he said that staying in would cost "close to \$3BN in lost GDP", that was the estimate of one business-funded group that had found a much smaller impact under a different set of assumption while another analysis had concluded that the impact of meeting the emission targets would be "modest" (and even \$3BN would only be 0.017% of US GDP), and while he claimed that the economy had added nearly 1MM new private sector jobs since his election, the more relavant number was 493,000 since his inauguration).* .

Trump's first-ever foreign trip as President - During its first part, his visits to Saudi Arabia & Israel, America's least sincere allies, his hosts played him like a violin, during the middle part, his visit to Rome, the Pope seemed to just suffer him, and during the final-, & most important-, part, in Brussels & on Sicily, among America's oldest & most faithful allies, his hosts came to loath him & US diplomats likened his behaviour to that of a "drunk tourist".

While in Europe Trump reportedly called Germany “bad, very bad” (for running a trade surplus with the US)¹ - The main reason for this appears to be that, according to the OECD, unit labour costs in Germany have **declined** 24% since 1995 & in the US they have **risen** 12%.

GLEANINGS II - 712
Thursday June 1st, 2017

OIL EXECS PONDER A FUTURE WITH MUCH LESS DEMAND (FP, Jesse Snyder)

¹

Which the Chief White House Economic Adviser Gary Cohn subsequently sought to explain away by saying “He said they’re very bad on trade, but he doesn’t have a problem with Germany ... his Dad is from Germany (*which is incorrect; it was his grandfather who was “from Germany”*) ... I don’t have a problem with Germany. I have a problem with German trade.”

•At a May 18th event in Calgary several energy industry executives said the long-term demand outlook for oil was becoming increasingly uncertain as new technologies, the rising relevance of electric vehicles, and the drastically reduced cost of wind-, & solar-, powered sources of energy threaten the future role of fossil fuels, raising concerns the demand for oil could start shriveling in 10 to 15 years. And one of the speakers at the event, Robert Johnston, the CEO of New York-based Eurasia Group², told those present “It’s a real risk that we have to look at ... the implications of demand plateauing would be very significant for high-cost producers” And he also said it is “absolutely inevitable” that the world will move to a lower carbon economy through policy measures like carbon taxes or cap-and-trade programs. While market observers are divided on the direction of future oil demand, & many see it continuing to grow, despite a rapid shift towards renewable energy sources, as rising populations in countries like India, Nigeria and Ethiopia will offset emission reduction efforts in the Western world, the *Paris-based* IEA (International Energy Agency), that until recently had maintained that oil demand would continue to grow steadily until (*at least?*) 2040, last week said that it was reviewing its demand outlook in the wake of the news from India & China that their governments intend to incentivize electric motor vehicle use (*forced to do so by the fact that in many of their cities the quality of the air their inhabitants must breathe frequently is of health-threatening quality - and their urbanization is still in full flight*). And Jeffrey Harris, the founder (in 2012³) of New York-based Global Reserve Group LLC (*a venture capital firm specializing in funding start-ups & providing development financing*) pointed out that today only about 1MM of the 1BN vehicles on the road are electric or hybrids, *although* their number will increase *rapidly* as the populations of developing nations rise but that “It’s probably not for 10-plus years before we’ll even to begin to see a meaningful dent in gasoline consumption ... *meanwhile* the only thing I’m confident in is that prices will remain volatile.”

Straight line thinkers’ still haven’t woken up to the fact that the motor car era is drawing to a close; thus Vancouver, a city that once required two underground parking spaces per condo-, or apartment-, unit, now requires just one-half of one, in Toronto a new 42-story condo building on University Ave. opened a couple of years ago with only nine underground parking spots (all of them reserved for a car-sharing club) & the local paper had a feature today on two sets of parents with small children living in the inner city who have chosen to get along, & are getting by-, without a family car.

MAY NONFARM PAYROLLS TOTAL 138,000 VS. 185,000 EXPECTED **(CNBC, Jeff Cox)**

- This was the headline of a June 2nd Labor Department report. But the fine print also noted that the March & April numbers had been revised from 79,000 to 50,000 & from 211,000 to 174,000 respectively, that the unemployment rate had

² Founded in 1998, it now is the world’s largest political risk consultancy with over 150 employees in its New York Head Office and branch offices in Washington, London, Tokyo, Sao Paolo, San Francisco & Singapore.

³ After 23 years, lastly as a senior partner, at New York-based Warburg Pincus, a private equity firm with AUM of US\$40+BN and offices in Europe, Brazil, China & India

- been a near-two decade low 4.3% (whereas it had been expected to stick at 4.4%), that the 2.5% annualized wage growth rate had been a lower than expected, & that the average work week had remained at 34.4 hours.
- According to Eric Winograd, the US Economist at Alliance Bernstein “The report is clearly soft in every material respect relative to expectations and relative to last month. That’s a disappointment ... *but* I don’t think it’s soft enough to cause a fundamental rethink of the economic outlook”, while other economists said the May numbers often come in low due to seasonal quirks.

On the 15th we will learn what the Fed thinks of it all; the betting seems to be that it had already become less “rammy” about hiking interest rates at this meeting.

A POLL ASKED PEOPLE THE FIRST WORD THAT CAME TO MIND WITH TRUMP - AND THE RESULTS WERE BRUTAL (Business Insider, Eliza Relman)

- On Wednesday May 10th Quinnipiac University reported the results of a poll that had asked 1,500 people “What is the first word that comes to mind when you think of Donald Trump”. The top three choices were “idiot”, “incompetent” & “liar”.

In a similar August 2015 Quinnipiac poll (two month after he became a candidate) “liar” & “dishonest” were the top choices for Hillary and “arrogant” & “blowhard” for Trump.

AMERICA’S DISABLING DISEASE (NP, Colby Cosh)

- According to the U.S. Social Security Administration at the end of March 2017 almost 14MM Americans under the age of 65 (this number does not include the 1+MM armed forces veterans) received some form of federal disability payments; but since this included spouses & dependents of disabled workers, the number of actual workers cashing in on the Social Security disability insurance benefits earned during their careers was ‘only’ 8,778,000⁴ (so with the overall working age population of the US (those between the age of 15 & 65) about 205MM, over 4% of them are on disability from just one, albeit major, federal program). According to UBC’s Kevin Milligan & Wilfrid Laurier’s Tammy Schirle, since 1990 the rate at which Americans have been going on disability insurance under Social Security has grown by two-thirds for men & tripled for women. And since the payouts are geared to the national average wage, if the average wage rate increases as a result of relatively few high wage earners get more while everyone else stagnates, the appeal of drawing disability insurance increases.

This boosts the ‘boat anchor effect’ on the US GDP ‘trend growth rate’ of its aging population.

CLIMATE LOSERS (NYT, David Leonhardt)

- If Donald Trump pulls the US out of the Paris climate treaty (*as he has done*), he will hurt the planet, make people sicker & aggravate geopolitical tensions, and do substantial damage to US interests, its global power & its economy. But this is lost on Trump & associates’ oversimplified, zero-sum understanding of

⁴ And this doesn’t include any veterans with a service-related (of whom there were 4MM in 2015).

international affairs [thus NSA (*National Security Adviser*) H.R. McMaster & White House CEA (Chief Economic Adviser) Gary Cohn⁵ recently wrote in the WSJ “The world is not a ‘global community’ ... but an arena where nations, non-government actors and businesses engage and compete for advantage” (so if something is bad for the rest of the world, it is good for America?)].

*This & the withdrawal from the TPP suggest that Trump c.s. are bound & determined to dig a deep hole for the US to jump into & then pull the dirt in after it, in the process creating voids in two key 21st century areas of global decision-making (the Eastern Hemisphere & climate change) that Beijing will be only too happy to fill. Even from a domestic job creation sense doing this makes little sense; for while coal mining accounts for 50,000+ US jobs (down from 70,000 in 2003 & a peak of 863,000 in 1923) since in the three years ended in 2015 US coal consumption declined by 10% & coal exports by 46% (due to exports to China plateauing after having nearly tripled between 2000 & 2012). And according to the US Department of Energy the number of jobs in the US solar industry alone has grown so rapidly that it now exceeds the number of those employed in the US oil & gas-, and coal mining-, industries **combined** . And it runs counter to the thinking in many major oil companies that have begun to hedge their bets by seeking exposure to the alternate energy sector; thus on February 23rd David Woods, Trump’s Secretary of State Rex Tillerson’s successor as CEO of ExxonMobil, wrote in its inhouse news organ Energy Factors : “At ExxonMobil we’re encouraged that the pledges made at last year’s Paris Accord create an effective framework for all countries to address rising emissions; in fact, our company forecasts carbon (emission) reductions consistent with the results of the Paris Accord commitments”.*

REGULATORS TO DESERT ‘BEST-INTEREST STANDARD (G&M, Clare O’Hara)

- The Canadian Securities Administrators, the Montreal-based umbrella organization of Canada’s 13 provincial & territorial securities’ regulators (whose objective is to “improve, coordinate & harmonize the regulation of Canada’s capital markets” & that claims “its role is to protect investors & maintain confidence in Canada’s capital markets”), issued a bulletin on May 11th that all Canadian financial regulators, except those in Ontario & New Brunswick, will no longer be looking to implement a mandatory ‘best-interest’ standard that would require a registered dealer or adviser to act in their clients’ (*rather than their own, or their employer’s*) best interests - *i.e. in a more professional manner than currently required.*

This has been under consideration since 2012 & been opposed from the get-go by the wealth management industry (i.e. the Big Five Banks). But it is incomprehensible how any regulator could walk away from this standard & still be able to look him-, or her-, self in the mirror.

CHINESE-BACKED FIRM SEES EXPORT OPPORTUNITY FOR ALBERTA OIL (G&M, Nathan Vanderklippe et. al.)

⁵ Chief Economic Adviser who came to the job of that of President & COO of Goldman Sachs (that paid him earlier this year US\$179MM in ‘going-away money’), who while a registered Democrat has long been a major contributor to GOP causes.

- Last January a tanker filled with Alberta crude slipped below Vancouver's Lions Gate bridge headed for the Chinese port of Dalian, sent there by Canadian Advantage Petroleum Corp., a small entity with big dreams majority-owned by Sinoenergy Investment Corp., a company about which little seems to be known that has spent nearly \$1BN buying assets in the Alberta oil patch. While this oil had been carried to the Coast in Kinder Morgan's Trans Mountain pipeline, the firm is quietly studying the feasibility of bringing more Alberta crude to Vancouver by train to feed a steady flow of China-bound tankers carrying Alberta oil, provided it can get a local First Nation to cooperate. While this was the third such shipment (involving a total of 2MM bbls), most of it heavy oil (or 'dilbit', i.e. diluted bitumen?), it hopes to start shipping that much in a single shipments from Tsawassan, South of downtown Vancouver.

This has to be one of the dumbest ideas ever, but demonstrates China's hunger for oil from a reliable source. While hauling oil by rail certainly has a role to play in the movement of Alberta oil to world markets, it is not suited to being a primary means thereof. The Canadian Rockies are not a particularly efficient railway-friendly environment. Canadian railways' track maintenance is not their No. 1 priority, since their operating philosophy is that the cost of the occasional derailment is less than that of ongoing quality track maintenance⁶. Some of their trackage is located alongside rivers; so any derailment would be very controversial & costly, especially if, as seems likely, it would involved dill bit (Enbridge's Kalamazoo River spill in Michigan in 2010 cost the Company US\$1+BN even though it involved lighter oil). A single 2MM bbl. tanker load would require 30,000 railway tank car-loads, i.e. 200-300 trains. And one must wonder if the Chinese have any idea of the can of worms they are trying to open. The only good news (for Alberta) is that, if they really are serious about trying to push this through (& given the Trudeau government predilection for more trade with China, they could likely count on strong support from Ottawa), this could mean that tripling the capacity of the Kinder Morgan Trans Mountain Pipeline to the Coast may come to be seen by any BC government, NDP/Green or not, as the lesser of two evils, especially so if it were to go not to Burnaby but to a terminal in Blaine, WA (or even Tswassan?).

WHY ISRAEL NEEDS A PALESTINIAN STATE (The Economist)

- "A Palestinian state is long overdue. Rather than resist it, Israel should be the foremost champion of the future Palestine that will be its neighbour. This is not because the intractable conflict is the worst in the Middle East or, as many once thought, the central cause of regional instability : the carnage of civil wars in Syria, Iraq and elsewhere have disproved such notions. The reason Israel must let the Palestinian people go is to preserve its own democracy."

The growing references in the Israeli Right to Palestinian 'Bantustans' suggests the end could indeed be near for a Jewish homeland that is a democratic outpost in an autocratic neighbourhood.

⁶ And this is more relevant consideration in the Canadian Rockies than in most places because of the extreme freeze-thaw cycles that raise hell with track quality & reliability.