

GLEANINGS II - 724
Thursday August 24th, 2017

Quote of the week - “He felt he had to be ‘strong’, to show himself in command ... He did not feel an impulse to be wise; to examine options before he spoke ... Forceful and domineering, a man infatuated with himself, he was affected in his conduct by three elements in his character : an ego that was insatiable and never secure; a bottomless capacity to use and impose the powers of office without inhibition; *and* a profound aversion, once fixed upon a course of action, to any contradictions - *From Barbara Tuchman’s 1984 book The March of Folly, in which she chronicles how throughout history political leaders have made decisions that a ten year-old could have told them were not in their own best interests. But she is not talking about Trump, but about the 36th President, Lyndon B. Johnson (1963-1969)*¹.

In mid-August Saskatchewan farmers, according to their government’s Crop Report, were “well ahead” of schedule harvesting and “desiccating”² their crops - The downside for farmers is that this summer’s hot & dry conditions have resulted in below average yields, & for consumers that “desiccating” crops involves spraying them with Round-Up, the Monsanto pesticide Prairie farmers are increasingly using to “ripen” their crops - *When I farmed in Ontario I used Round-Up by the five gallon pail as it was intended to be used, for weed control; in the process some of it would migrate, via the root system, into the grain. But using it to desiccate crops is a horse of an entirely different colour; for in that case the pesticide is sprayed right on the grain itself & will still be there when it is processed, RoundUp & all, into food stuffs for human consumption, thereby creating a needless public health hazard (& bolstering the case for organic alternatives).*

Investors are running out of reasons to keep buying stocks (WSJ headline) - In part, it says, because the optimism that fueled the post-election rally that drove the Dow Jones up 17.6% in nine months to the all-time high, ‘nosebleed’ 22,000+ range, is evaporating & in part because more fundamental warning signs are starting to proliferate. Thus on August 17th the Dow Jones had its second fainting spell in a week on a rumour Gary Cohn was about to call it quits, a move that the firing of Steve Bannon the next day could only partially help retrace. And HSBC-, Citigroup-, & Morgan Stanley analysts say they see “mounting evidence” that global markets are in the last stage of their rallies before a downturn in the business cycle because, as was the case a decade ago, long-standing relationships between stock-, bond-, & commodity prices are breaking down & investors are ignoring valuation fundamentals. - *When that day comes the Fed will find that the only monetary arrow left in its pump-priming quiver is the now proven bankrupt Quantitative Easing idea.*

On Tuesday night August 21st the risk of a government shutdown went up a notch - For that’s when President Trump told his ‘campaign rally’ in Phoenix, AZ that even “If we have to shut down our government (*because Congress won’t vote the money for it*), we’re building that

¹ Who had at least two advantages over Trump : he was younger (55) when he became President and knew the Washington political scene inside & out & how to manipulate it (helped by the fact he knew where all the bodies were buried), having been a Member of the House for 12 years, a Senator for another 12 (of which 3 as Senate Minority-, & another six as Senate Majority-, Leader), followed by almost three years as Vice-President. In fact he is only one of four men in American history [the others being John Tyler (10th), Andrew Johnson (17th) & Richard Nixon (37th)] to have held posts at all four levels.

² A new term for me, at least in this context.

wall" (the one along the Mexican border to keep out the Latino riff raff that he had vowed during his election campaign he would "make" Mexico pay for). And this was not one of his spur-of-the-moment outbursts and is unlikely to help reverse the country's growing political polarization (a Quinnipiac University poll on Wednesday found his support had slumped to 35% from 39% the week before & that 62% of voters now say he's doing more to divide (than unite?) the country.

US Rig Count - The headlong rush in the First Half has stalled in the US although not quite so in Canada :

	Total number of rigs actively drilling			
	in the US for		in Canada for	
	Oil	Gas	Oil	Gas
As of January 6 th , 2017	529	135	81	123
July 7 th , 2017	765	189	105	70
August 18 th , 2017	763	182	121	93

Alberta is falling behind other provinces; for while on January 6th it accounted for 73.5% of the rigs operating nationwide, by August 18th that had declined to 65.1%.

-0-0-0-0-0-0-0-

HARVEY LIKELY THE FIRST HURRICANE TO HIT TEXAS SINCE 2008

(BB, Brian K Sullivan)

- Once expected to be a Category 1 storm, it is now building, over the warm Gulf waters, into a potential Category 3-, & at last report Category 4-, hurricane, with winds of 111+ mph. in the case of the former, & of 140 mph in the case of the latter. It is expected 'make land fall' late Friday August 25th or early the next day in the Corpus Christi region then head North in the direction of San Antonio & hang around for a few days. The state has already declared a 'state of disaster' for 30 counties, incl. its coastal Refinery Row (where 30 plants process as much 7MM bbl of oil). And the forecast calls for as much as 20+ inches of rain & seas of up to 7 feet (2.1 meters) above normal

The last Category 4 hurricane to hit Texas was Nicole in October 2016 & the last one this early in the season Danielle in August 2010, while Ike in September 2008 killed 21 people in Texas, Louisiana & Arkansas, caused US\$29.5BN in damage & brought on a 24 foot sea "surge".

THE IRS HAS SPECIAL SOFTWARE TO FIND BITCOIN TAX CHEATS

(Fortune, Jeff John Roberts)

- Bitcoin may be less anonymous than people believe. According to the IRS only 802 taxpayers declared Bitcoin-related capital gains or losses for 2015, after three years during which its price fluctuated between US\$13 & US\$1,100+, and hundreds of thousands of people bought & sold the digital currency. So now it is using the software of Chainalysis, a Swiss company with an office in New York, that claims to have information on one quarter of all Bitcoin addresses & an ability to identify the owners of the 'digital wallets' in which they store their bitcoin holdings).

Another turn of the screw for tax evaders.

US NEW HOME SALES DECLINE UNEXPECTEDLY IN JULY

Haver Analytics, Carol Stone)

- In July sales of new homes were down 9.4% MoM to 571,000, the lowest level since December when they hit 548,000. The Midwest was only region where sales were up (by 6.2% MoM to 69,000, a level that is, however, down 12.7% YoY). In the other three sales were down 23.8% to 23,000 in the Northeast, 21.3% to 144,000 in the West & 4.1% to 326,000 in the South). So the supply of new houses for sale is now equivalent to 5.8 months at these sale rates (up from 5.2 months in June), a post September 2015 high (when it had also been 5.8 months) but up from 4.5-, & 4.2-, months' lows in July 2016 & February 2013 although well off the 12.2 months' high in January 2009.

New York-based Haver Analytics is a business consultancy firm that counts the St Louis Fed, the most public research-oriented of the twelve regional Feds, among its clients. Elsewhere it came up with a chart that traced the evolution of all post WW II business cycles based on the evolution of corporate profit margins. Based on their post-1954-, & the post-1975-, averages, the onset of recessions had occurred about 85% of the way through each business cycle. And the ups & downs of the current one have been strongly correlated with these averages' trendlines & is now nearing their 80% marks.

THINK RATES ARE GOING UP? BANKS DON'T (Morningstar.com, Rachel Louise Ensign)

- According the FDIC³ in the Second Quarter the percentage of bank assets that won't mature or change rates for 5+ years reached a new, post-1984 high of 27.5% (& is as high as 33.7% at small banks⁴), prompting FDIC Chair Martin Gruenberg to observe "The interest-rate environment and competitive lending conditions continue to pose challenges for many institutions. Some banks have responded to this by 'reaching for yield' through higher-risk and longer-term assets." And much of this longer term lending has been in commercial real estate that is typically funded by borrowers with fixed rate, three-to-ten year loans. According to Scott Hildenbrand, Chief Balance Sheet Strategist at Sanders O'Neill & Partners, a New York-based full service investment bank & broker-dealer specializing in the financial services sector, "Every meeting I went to, bankers said, 'We're not going to go past five years ... *but* Within a year or so ... 'We're not going to go past 10 years' "

This has begun to worry the FDIC & bank regulators; for when rates go up, banks could find themselves seriously "mismatched" with, in a best case scenario, only a deleterious effect on their bottom lines.

THE MEALY-MOUTHED COWARDICE OF AMERICA'S ELITES AFTER CHARLOTTESVILLE (WP, Fareed Zakaria)

- While much of the US reacted swiftly & strongly to President Trump's grotesque suggestion that there is a moral equivalence between white supremacists & those who protested against them, the delayed & qualified reactions of many in America's leadership class tells a disturbing story & explains why we are living in an age of populist rebellion; for ordinary people now view them as craven & cowardly (*and self-serving?*), pandering to polls & focus groups (*and special interests?*). And, while they usually cannot stop pontificating on every issue on live TV, with few honourable exceptions, they

³ Federal Deposit Insurance Corporation (that, of course has a vested interest in this).

⁴ With assets in the US\$ 1BN-10BN range.

suddenly went mute on *what may well be* the biggest political subject of the day, despite the fact that, when they see someone at the highest level trampling on the values of the country, it is their duty to speak up, directly, forcefully & without qualification! And where were the evangelical Christian leaders, many of whom remained silent too or, worse still, endorsed Trump's comments. The public figures who deserve most praise are the military; for in a remarkable act of leadership the heads of all five armed forces' branches independently issued statements unequivocally denouncing racism & bigotry, possibly because the military remains an old-fashioned place where a sense of honor, standards, values & *integrity* still prevails.

Harsh, but not unfair; he rightly credits today's self-serving 'public servants', broadly defined, for the hoi polloi's rebellious nature & the wave of populism sweeping the Western democracies.

MR. TRUMP SIDES WITH WALL STREET : YOU LOSE (NYT, Editorial)

- He has no grounds for blocking the "fiduciary rule" (that would require financial advisers to put their clients' interests first when giving advice on buying or selling investments for retirement accounts) other than that it is an Obama-era holdover. It remains one of his administration's priorities & one of his first moves upon becoming President was to delay its implementation last April 1st by instructing the Labor Department, that has jurisdiction in this matter, to review its legality. And when the latter could find no legal way to rescind it, it did take effect on June 9th although the Department said it wouldn't start enforcing it until January 1st 2018, "to give financial firms time to adapt" (it has since been further extended to July 1st, 2019). This issue had been debated almost endlessly for years & has now survived several legal challenges by the financial industry, with in one case, last February, the judge calling the industry's case against the rule "without merit", "unimpressive" & "at odds with market realities". Once in place, the rule will prevent the industry from selling the investments that make it & *its agents* the most money but that have drained tens of billions of dollars from Americans' retirement savings.

Not surprisingly, the move to rescind the rule is spearheaded by Gary Cohn, Trump's Chief Economic Adviser & said to be one of the most influential people in the White House, who until early this year had been President & COO of Goldman Sachs for a decade &, who now, despite his limited formal education due to his dyslexia, is said to be No. 1 on the short list of people to replace Janet Yellen as Fed Chairman next January when her term comes to an end & is not extended, or if she decides to retire (she turned 71 on the 13th of this month) - the ironic part of this is that enforcing the fiduciary rule would be of greatest benefit to the financially unsophisticated voters who are Trump's "core supporters".

PREVIOUS COLLISIONS INVOLVING US NAVY VESSELS (NYT, Maya Salam)

- Ten Navy sailors were missing & five injured on August 21st when a US Navy *guided missile* destroyer, the *USS John S. McCain* (named after Sen. John McCain's father & grandfather, both of them admirals), collided off the coast of Singapore with the *Alnic MC*, a Liberia-flagged oil tanker 3x its size (was rammed by it might be a better description, since it was holed, seemingly straight-on, on its port side). This was the second such incident involving a US Navy vessel in two months, & the fourth in the past year, while before that there had been no such an incident in 12 years). The others were :

- On June 17th seven sailors were killed when the USS Fitzgerald, another guided missile destroyer was broadsided off the coast of Japan by MV ACX Crystal, a Philippines-registered cargo/container ship several times its size;
- On May 9, 2017 a South Korean fishing boat collided off the Korean coast with the guided missile cruiser USS Fitzgerald (*that was 10x its size*) with no one killed or injured. The fishing vessel crew said it had no radio & therefore had been unable to hear the *warning* calls from the other ship; and
- On August 19th, 2016 the USS Louisiana, a nuclear missile sub, collided with the USS Eagleview, a Military Sealift Command⁵ Submarine & Special Warfare support vessel, in the Strait of Juan de Fuca, off the Washington State coast.

In the other three cases those on the bridge at the time, or with overall responsibility for the ship, were, professionally-speaking, made to “walk the plank” for what looks a US Pacific Fleet-wide training problem (what makes this scary is that this is the US Navy’s highest risk military theatre of operations). While avoiding car accidents require split second decisions, ship collisions have longer lead times, although ships are slower to respond to course corrections.

CHINA DEMANDS U.S. IMMEDIATELY WITHDRAW N.KOREA SANCTIONS, WARNS WILL HIT TIES (WP, Simon Denyer)

- After the Treasury Department on August 22nd imposed sanctions on 10 companies & six individuals from China & Russia that, it said, had conducted business with North Korea in ways that had advanced its missile & nuclear weapons programs, China demanded, the very next day, that the US withdraw them, saying such punitive measures will damage Sino-US ties. China’s Foreign Minister insisted his government has fully implemented the Security Council’s resolutions on North Korea & would punish anyone violating its sanctions under Chinese law, and opposed *all* sanctions outside the Security Council framework. According to Hua Chunying, a Ministry spokeswoman, China will not tolerate any country conducting “long-arm jurisdiction over Chinese entities and individuals” (although Beijing has never hesitated to punish other countries through trade if they had offended it (thus it is currently engaged in a blockade of South Korean companies for its government allowing the deployment of a US missile defense system in their country & *for years cut its salmon imports from Norway after the now late Liu Xiabo got the 2010 Nobel Peace Prize*).
- One Chinese company targeted is Dandong Zhicheng Metallic Material⁶ that the US is already suing for importing North Korean coal & exporting to it an array of consumer goods, after last June the Washington-based C4ADS group reported it was one of several Chinese firms that were pivotal to North Korea’s ability to circumvent international sanctions & buy illicit goods, without whom, it said, North Korea’s entire overseas network would collapse.
- According to the Global Times, a CPC mouthpiece, the US could face retaliation sooner or later if it continued to impose sanctions that were a “serious violation of international law” & “certainly unacceptable” to China &, “As far as we are concerned, Washington wants to use such unilateral sanctions to smear China and Russia’s international image

⁵ Whose 75 ships move supplies & equipment around for the US Navy’s 384 other ships.

⁶ The company’s main shareholder, Chi Yupeng is in receipt of three awards from the Dandong City, in 2005 for being a “leading entrepreneur”, in 2008 for his “remarkable contribution to enterprise” and in 2009 for “starting a foreign trade enterprise”.

on issues regarding sanctioning North Korea, painting China and Russia as the destroyers of U.N. sanctions". And Chen Weihua, Deputy editor of the China Daily's US edition wrote that the US decision would undermine cooperation between Washington & Beijing & "the U.S. has long believed that sanctions are a silver bullet ... But its past records have shown that the majority of sanctions not only failed but caused humanitarian disasters in other countries" & there is little doubt that such secondary sanctions will have little or no effect in persuading North Korea to change course.

Chen Weihua is right up to a point : in the past sanctions often weren't very effective & had undesirable 'collateral damage' effects for civilian populations. But times have changed & the US is learning that sanctions targeting specific companies & "1 percent" individuals do work, at least judging by the ire they generate in their governments. On the other hand, the timing was not great for such a move. For even at the best of times China is highly sensitive to anything that might be seen as a 'loss of face & thus its reaction to any "aggressive" US initiative is, even at the best of times, akin to that of a red flag on a bull or of a stick being poked in a wasp nest. And that will be reinforced manifold on this occasion since it is just a few weeks until the 19th CPC National Congress, China's quinquennial leadership review clambake, for which President Xi has high hopes in terms of stacking the leadership with his cronies & paving the way for him becoming Mao Tse-tung 2.0. And it is worth noting that China has more influence over North Korea than President Xi pretends; for in 2003, also a time of rising tension between US & North Korea over the latter's nuclear program, China closed for three days & "technical reasons"⁷ the oil pipeline that then met, & continues to meet, 90% of North Korea's requirements & six months later North Korea was in 'six party talks' with South Korea, the US, China, Japan & Russia that four years later resulted in a shutdown of its nuclear facilities in exchange for fuel & a promise of better relations with the US & Japan (that, however, lasted less than two years; for Kim Jong-il, young Un's predecessor father, three months after Obama had moved into the White House, walked away from the Nuclear Proliferation Treaty & from the deal, and resumed his nuclear program after the UNSC, following a failed satellite launch, voted to condemn his country.

7

A move that only effected the urban 55+% of North Koreans & disproportionately so the power elite & the armed forces that secure "The Leader's" grasp on power.