

GLEANINGS II - 727
Thursday September 14th, 2017

Quote of the week - “We will, under no circumstances, put the nukes and ballistic rockets on the negotiating table” - From the speech of North Korea’s Foreign Minister Ri Yong Ho at last month’s ASEAN (Association of Southeast Asian Nations) Regional Forum - *Kim Jong Un is said to believe the US & China are ‘Paper Tigers’, and that he can survive a nuclear war.*

Bitcoin - On Friday September 8th a Chinese news service said Chinese regulators were about to close China’s bitcoin exchanges because they had become “too disorderly”. Its price promptly fell from over US\$5,000+ to US\$4,270 that day & to US\$4.180 on September 11th, and to US\$3,766 on the 13th, the day after, at Barclay’s 2017 Global Financial Services Conference, JPM CEO Jamie Dimon called Bitcoin “a fraud ... worse than tulip bulbs ... *that won’t end well.*^{1 2 3}”. Also on the 13th Reserve Bank of India Executive Director Sudarshan Sen told the India FinTech Conference in Mumbai that the Bank “was not comfortable” with non-fiat crypto currencies⁴ - *Future historians may well rank Bitcoin among history’s ‘world class’ frauds like the 1637 Dutch tulip-, the 1720 UK’s South Sea-, & Canada’s very own 1990s Bre-X-, bubbles⁵, & Madoff’s Ponzi scheme a decade ago (in all of which the early birds got all the worms & the Johnnie-come-latelies ‘the lid on the nose’).*

Debt growth rates since 2000 - In his September 10th “From the Front Line” news letter John Mauldin came up with some interesting numbers. But it was less that total debt worldwide had grown from 246% of global GDP in 4Q/00 via 269% in 4Q/07 to 286% in 2Q/14 but, as shown below, where that growth had come from :

	-----Debt outstanding-----				
	----- Trillions of US Dollars-----				
	Households	Corporations	Governments	Financial Sector	Total
4Q/00	19	26	22	20	87
4Q/07	33	38	33	37	141
2Q/14	40	56	58	45	199

And what was **really** interesting are their various compound annual growth rates :

					Average
2000-2007	8.5%	5.7%	5.8%	9.4%	7.3%
2007-2014	2.8%	5.9%	9.3%	2.9%	5.3%

¹ Dimon may well have felt ‘a bit peckish’ since he had to tell his audience that Third Quarter trading revenues would be down 20% YoY (albeit from a 3Q/16 level that had been up 33% YoY), and this after Citigroup & BankAmerica had indicated that both theirs would be down only 15%.

² One cynic observed that, where fraudulent financial activity is concerned, Dimon obviously has forgotten that it’s unwise for people who live in glass houses to throw stones.

³ At last report (September 15th) it was US\$3,557.

⁴ Both of which caused Bitcoin aficionados to take solace in Gandhi’s view that official denigration is proof of being “a threat to the establishment”.

⁵ This conclusion was written on Monday September 11th, i.e. before Dimon mentioned tulip bulbs.

In other words, debt accumulation had speeded up only slightly in the corporate-, & actually cratered in financial services'-, sectors that tend to create wealth, but had exploded in the government sector, the least efficient resource user & most consumption spending-oriented borrower - small wonder that GDP growth has sucked!

Electric cars - According to Altenergymag.com (a well-informed-, albeit biased-, source), there are only six parts on the Tesla Model S that need regular replacement (the four tires & the two wiper blades), the new lithium-air batteries now under development will cost-, & weigh-, one-fifth of the current lithium-water ones & will be able to be charged as many as 2,000 times⁶, Doctoral candidate Mya Le Thia at U of C (Irvine) is heading a team developing a battery that can be charged almost endlessly (& thus potentially would never need to be replaced), & scientists at Rice University & the Queensland University of Technology are working on a super-capacitor that, as soon as 5 years from now, would eliminate the need for a conventional battery, cut the charge time to minutes & use the carbon fibre skin of a car for electricity storage.

Hand-sized inflation clouds on the horizon? - The UK CPI in August was up 2.9% YoY (whereas 2.8% had been expected) up from 2.6% in July & up 1.6% YoY, and 'core' CPI was up 2.7% (vs. 2.5% expected) while in China it was 1.8%, vs. the 1.6% expected [and, while core CPI was flat at 2.2%, the PPI (Producer Price Index) up 6.3% YoY, vs. 5.7% expected]

Jared Kushner - The WSJ reported this week that in June some White House lawyers had considered getting him to resign as White House Advisor, not because he had, during the campaign, had most dealings with Russian government officials & business people, but since, while he had initially shown only four such meetings on his security clearance form, he had subsequently updated that "multiple times" to 100+ - *What might have made them think it would be possible to pry Jared (& Ivanka?) loose from Trump : they are the only ones he really trusts*

Latest Monthly IEA Oil Report - It expects Canadian output to grow by 290,000 bbl/d this year & again in 2018 to almost 5MM bbl/d & that of the US by 760,000 & 1,390,000 bbl/d, and that Brazil's will go up by 450,000 bbl/d by next year. *And new discoveries West of the Shetland Islands, & the upgrading/re-engineering of existing North Sea fields have raised expectations the slide in UK oil production from 4+MM bbl/d in 1999 to < 1.5MM bbl/d today will moderate & only decline to the 1MM bbl/d. level in 20 years' time, in 2019 Norway's new offshore Johan Sverdrup field will come on stream (with a US\$25 breakeven & a 660,000 bbl/d peak output), while Goldman Sachs & the Boston Consulting Group believe that, given the likely growth in electric cars' market penetration, 'peak' oil demand may come as soon as 2024.*

OPEC Net Revenues - According to the Paris-based EIA, its members' net oil export revenues went from US\$240BN in 2002 via highs of US\$1,060BN in 2008 & US\$1,200BN in 2012 to a 12-year low US\$410BN in 2016⁷ - *In light of this it is surprising that the share of the US dollar in total global FX reserves has been relatively stable at about 64% but **not** that OPEC's (incl. Saudi Arabia's) output constraint compliance has consistently been well below 100%.*

Rate of return on 'tertiary education' (i.e. beyond high school) - The 2017 OECD Education at a Glance report shows 54% of Canadians in the 25-64 year age cohort have at least some tertiary education, the highest percentage in the 35 OECD member countries (in fact, it's < 50%

⁶ Nissan's latest Leaf model already is said to travel twice the current distance on a single charge.

⁷ All these numbers are in 2016 dollars.

in all 34 other countries). But they make only 40% more than their compatriots with just a 'good' highschool diploma, well short of the US' 74%, Germany's 66% & the UK's 53% (while in Brazil it **really** pays off, the ratios being 15% & 149%). This means that after allowing for education costs, foregone earnings while being educated, & higher tax payments during their career, these Canadians have a 10% real rate of return on their investment in tertiary education (vs. 13% for their US counterparts - *The inspiration for this was a column by Prof. William Watson who has for four decades been teaching economics at McGill University.*

Saudi Energy Minister moots possibility of extending the OPEC output restraint program by three months past March 2018 - When Saudi Arabia started promoting this idea a year ago, many saw it as a sign of weakness, not strength. And its 'success' can be measured by the fact that Brent crude fell short of its first month's (January 2017) target of US\$58, was below US\$ 46 in June & still is only US\$55.47 (& the objective of such a program is to have a price go **up**, not to linger below its baseline price). And Goldman estimates the short-run effect of Hurricanes Harvey & Irma will be to cut global oil demand by 900,000 bbl/d & supply by 300,000, while China wants to move more aggressively to get fossil-fueled vehicles off its roads.

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HOUSE 2018 : REICHERT RETIREMENT CREATES BIG DEMOCRATIC OPPORTUNITY (Sabato's Crystal Ball, Kyle Kondik)

- The September 6th announcement by 67 year-old Rep. Dave Reichert (R.-WA) that, after 13 years in the House, he won't run again next year turns that state's 8th district from a longshot Democratic pickup opportunity next year into one of their best chances to 'flip' a *long-held* GOP seat. A key factor in any potential Democratic House takeover next year is how many, & which, Republicans won't run for re-election : a few more Republican retirements like Reichert's make a Democratic House takeover even more plausible than it already is, given President Trump's currently poor approval rating⁸, the Democratic lead in the House generic ballot polling⁹ & the typically poor performance of an incumbent president's party in mid-term elections.

In the week ending September 11th no fewer than three GOP members of the House announced they wouldn't run for re-election a year from now, bringing the number of, mostly 'moderate', Republicans who won't to 17. And more worrisome to the GOP leadership is that at least half a dozen Trump supporters (encouraged by Breitbart's Steve Bannon¹⁰), have already launched

⁸ It went from 47.8% on January 25th to 40.5% on May 15th & has been below that ever since.

⁹ According to RealClearPolitics, in all four polls conducted between August 3rd & September 5 the Dems led the Reps (by between 6 to 14-, & an average 8.6-, points). On the other hand, years of Republican state governments' gerrymandering mean that the Dems must have a significant lead in the overall popular vote to win the House). Thus an AP analysis of all 435 House races in 2016 found that in the 20 most populous states that determine the vast majority of seats in Congress there are 3x as many Republican-, as Democratic-, tilted districts & that thus *in 2016* the GOP got as many as 22 seats more than could have been expected from the popular vote distribution, Princeton University's Gerrimandering Project found, among others, that at the state level the outcome in the 2017 Wisconsin State Assembly elections had only a 1 in 60,000 chance of not being contrived by gerrymandering, while a New York University School of Law project concluded "the clear evidence of aggressive gerrimandering is distorting the nation's congressional maps."

¹⁰ Who recently said on TV "In the White House I had influence, but now I have power."

primary challenge campaigns targeting GOP incumbents in both Houses whom they accuse of having done too little to get the Trump agenda enacted - Sabato's Crystal Ball is published by the University of Virginia's Center for Politics.

CANADA HOME BUYERS WARNED TO PREPARE FOR 'YEARS OF RETRENCHMENT' **(Calgary Herald, Garry Marr)**

- In an eight page report made public on September 12th Moody's Analytics' Andres Carbacho-Burgos warns that single-family homes in Toronto may be overpriced by as much as 60%¹¹, and that the combination of more restricted mortgage lending rules, taxes on house purchases by foreign buyers & higher mortgage rates mean that house prices are likely to experience "a slowdown in the next few years", and that with "affordability as measured by the ratio of the median selling price to the median family income ...close to a record ... it is difficult to see house prices maintaining the same momentum as before."

*Interestingly enough, over a year ago already Hexun, China's largest financial information service provider, published an article warning that the coming Canadian housing market crash would be worse than that in the US in 2008 (because the average household debt to disposable income ratio in Canada today, at 165+%, is higher than the 147% in the US in 2008 - one thing overlooked by many is that any serious house price erosion will raise havoc with the budgets of cities like Edmonton¹², that for 15 years have raised taxes at over twice the rate of inflation **plus** population growth (on top of a steadily higher underlying tax base from higher valuations on more real estate).*

SAUDI ARABIA SUSPENDS DIALOGUE, SAYING QATAR 'DISTORTING FACTS (Reuters)

- *On June 5th Saudi Arabia, the UAE, Egypt & Bahrain launched a "blockade" of Qatar, cutting all diplomatic & trade links with Qatar (the world's biggest LNG exporter & home to the region's biggest military base on the grounds it a) was too cozy with Iran, with whom it shares ownership of the world's largest (offshore) natural gas field, & b) supported Islamist extremism in the form of the Muslim Brotherhood. And on the 23rd they issued an ultimatum of 13 demands that Qatar had 10 days to comply with, that included closing al-Jazeera, cutting all ties with Iran & ending the presence of Turkish troops on Qatari soil (that would return Qatar to its onetime Saudi vassal status) that Qatar has ignored.*
- On Friday September 8th Saudi Crown Prince Mohammed bin Salman (age 32) spoke by phone with Qatar's Emir Tamim bin Hamad al-Thani (age 37) in their first publicly reported contact¹³ since the start of the crisis &, with the Saudi news agency SPA

¹¹ And yet he forecasts an annualized annual house price growth in Toronto of 10.7% between the Third Quarters of 2017 & 2018, and another 8.5% in the year thereafter, despite the fact that the latest TREB (Toronto Real Estate Board) report noted that in the five months since April average house selling prices had declined by almost 25% (after having risen almost 20% in the preceding year) - both of the latter numbers may be somewhat deceptive since they are affected by the number of higher cost houses (that are typically targeted by foreign buyers) in the 'mix'.

¹² That is closing in on its provincially-imposed debt ceiling & in which there is an 18% commercial-, as well as a 15,000+ (5+%) condo/apartment vacancy rate, with more of both still being built.

¹³ According to the Qatar news agency QNA, the call was 'based on coordination of US President Donald Trump who had earlier spoken with Sheikh Tamim'.

reporting “During the call, the Emir of Qatar expressed his desire to sit at the dialogue table and discuss the demands of the four countries to ensure the interests of all.” While this suggested the possibility of a breakthrough in the now four months’ old dispute, the very next day, to throttle speculation regarding a (face-losing?) breakthrough, SPA, the Saudi news agency, put the kibosh on that by announcing “the suspension of any dialogue or communication with the authority in Qatar will continue until a clear statement is issued clarifying its position in public”, and quoted an unnamed Ministry of Foreign Affairs official as denying the Qatar state news agency QNA’s report (see footnote 11 above) & saying “What was published on the Qatar News Agency is a continuation of the distortion of the Qatari authority of the facts.” And, *to thicken the plot further*, on Friday September 8th the US State Department announced approval of the sale of US\$3.8+BN of worth of 19 super sonic F-16V Lockheed Martin fighter jets plus a lot of other military hard-, & soft-, ware, incl. missiles & patrol boats.

Another dumbass move (this one in an off-and-on family feud between the two royal families) by someone too inexperienced to know what fights to pick & which ones to avoid. And Qatar, that rather ironically, adheres to the same conservative Salafi branch of Sunni Islam as Saudi Arabia & the UAE, appears to have been more successful than Prince Mohammed may have expected in circumventing the blockade (at a financial cost to the already fiscally-challenged Saudi regime?) & been driven closer to, rather than away from-, Tehran.

COURT ORDERS GOVERNMENT TO PASS NEW LAW OR DRAFT ALL HAREDIM **(Jerusalem Post, Yonah Jeremy Bob)**

- On September 12th the High Court of Justice struck down, 8-1, the government’s 2015 law on Orthodox Jews’ service in the IDF, ruling it discriminated against *all young* Israelis who are drafted. And it gave it a year to pass a new law, in the absence of which all draft-age men, incl. the haredim, would be *automatically* drafted. This followed 18 months of the Court & government playing chicken, with the former hoping the government would reverse its decision to water-down an earlier law to please the haredi parties in his coalition & the latter that the Court would back off for fear of being accused of ‘judicial activism’, thereby defusing a time bomb that could blow the coalition apart (Haredim oppose army service for fear their young men will lose their religious values while most secular Jews are angry the haredi young men get an exemption from a draft that binds them for-, & *takes-, two years of their life*, But for the haredim parties the exemption is a sine qua non for them joining any coalition government.
- The 2013 Netanyahu coalition government, which included no haredi parties, had, under pressure from *the then brand-new* centre-left Yesh Atid (There is a Future) party chairman Yair Lapid passed a revolutionary law in March 2014 requiring all young haredi men to serve *the compulsory two years* In the IDF, with criminal charges for those who wouldn’t. But after the 2015 election Yesh Atid was out of-, & the haredis in-, the coalition &, under pressure from them the Knesset passed a law that set ‘voluntary benchmarks’ for haredi IDF involvement, first for six-, & then for another three-, years (& none thereafter). The court’s ruling was based on the fact that the data it had been given showed too little progress in young Haredi men serving in the IDF.

On January 1st, 2016 the Times of Israel carried an article headlined “Ultra-Orthodox Women Bring Home the Bacon”. It pointed out that for the first time ever the share of working Ultra-Orthodox women (75-80%, up 30 points in 15 years) had surpassed that of their Non-Ultra-Orthodox sisters (75%) & that two-thirds of Haredi men were not in the work force, with most of them studying the Torah full-time & being paid a small stipend by the government for doing so.

*Studying the Torah was always held in high regard among haredim. But after the Holocaust & the creation of Israel it became a dogma in their culture that for it to survive in modern society more men had to do so. So now 55% of adult haredi men, i.e. well over 30% of them, do so. But in real economic 'value-added terms, the secular Jews account for much Israel's high standard of living (& resent the haredi getting a 'free ride'). And while Israel's population is forecast to more than double by mid-century, the high birth rate among them is expected to result in the haredi share thereof to more than triple from the current 9% to 29%. So unless their approach to life makes a U-turn, this may well be the **real time bomb** threatening Israel's survival as the Jewish 'homeland'; for over time much of Israel's secular Jewry may leave to escape the haredi mill stones around their necks.*

CHINA MOVES TO OPEN UP 12 MARKETS FURTHER TO THE WORLD **(Nikkei Asian Review, Issaku Harada)**

- Directed by President Xi (worried about rising trade friction with the US) to court more foreign capital, Wang Shouwen, a Vice Minister of Commerce, told reporters on August 25th that Beijing in late September would announce a plan to relax foreign participation restrictions, incl. The 50+% ownership 'cap', in electric cars, banking, insurance & *nine* other areas of the economy that will specify when & how the curbs will be loosened & whether it will apply nationwide or just to limited areas, like Special Economic Zones¹⁴. The inclusion of "new-energy vehicles" is noteworthy since the manufacture of conventional cars & trucks will remain subject to the currently existing restrictions. Apparently this was a major topic at last July's US-China Comprehensive Economic Dialogue (that at the time had seemed to have gone nowhere) & seeks to counter the slump in foreign direct investment that last year declined for the first time in four years (by 7%, & another 5% YTD, and by as much as 30-40% from the US, UK & Germany, countries that have the advanced technology that 'China wants to take its economy to the next level').

The last sentence says it all, this plan is all about paving the way for more organized theft of Western 'intellectual property'.

NATO'S SECOND BIGGEST ARMY JUST BOUGHT NEARLY £2BN OF WEAPONS FROM RUSSIA **(The Independent, Caroline Mortimer)**

- Turkey has signed a deal with Russia for-, & already paid the deposit on-, nearly £2BN of S-400 anti-aircraft missiles (that have a range of 248miles & can as many as 80 targets at the same time), contrary to a long-standing NATO convention that its members will only buy compatible weapons' systems from each other. The S-400 system is what Russia installed at its airbase at Latakia (in Northwestern Syria, Assad's Allawite homeland) after a Turkish jet in December 2015 shut down a Russian Su-24 warplane after it strayed (*allegedly by accident*) into Turkish airspace.

Erdogan has for some time been sucking up to Putin, initially out of spite for the EU's reluctance to proceed with Turkey's membership application, then out of irritation at NATO members' support for Syrian Kurdish rebels that he deems to be in cahoots with Turkish Kurds, & finally in

¹⁴ Of which there are at least a hundred of different types, all of whom must, however, operate on the basis of four "Principles" (construction must be funded by foreign capital, JVs the primary ownership structure, production export-oriented & operations driven by market forces).

response to their criticism of his actions after last year's coup attempt. But this is unlikely to last; for, having alienated himself from his Arab co-religionists, Erdogan now has embarked on trying to carve out a sphere of interest for Turkey among Muslims in the Balkans, the Caucasus & Central Asia, all of them regions that feature in Putin's 'Greater Russia'/'Eurasianism' dream.

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HOW SAUDI ARABIA AND QATAR BECAME FRIENDS AGAIN **(Foreign Policy, Sultan Sooud al Qassemi)**

- The roller coaster relations between the two countries dates back to 1992 when in a clash over their badly-delineated border two *Qatari* border guards were killed. In 2000 then Saudi Crown Prince Abdullah bin Abdul Ariz. boycotted a summit of Islamic states in Qatar in protest over the Israeli trade office in Doha, in 2001 Qatar proposed a multi billion project to supply gas to Kuwait that Saudi Arabia nixed, in 2002 Saudi Arabia withdrew its ambassador to Qatar after comments it didn't like by Saudi dissidents on al-Jazeera & in 2005 Qatar's then first lady won a libel case against a London-based Arabic newspaper for being "controlled by Saudi intelligence paymasters who used the newspaper as a mouth piece for a propaganda campaign against Qatar & its leadership". During these years Qatar warmed up to Syria with Qatari investors pouring billions of dollars into its struggling economy & both states, along with Iran, Hezbollah, & Hamas *in geopolitical terms* becoming a counterweight to the pro-Western Egypt, Jordan, Saudi Arabia & the UAE axis.
- To end to all this, the then Qatari Prime Minister, Sheikh Hamad bin Jassim bin Jaber al-Thani, the architect of Qatar's foreign policy, accompanied the Emir on a surprise visit to Riyadh in September 2007, after which relations improved quickly, with the Saudi King attending the Gulf Cooperation Council meeting in Doha that December & the new Saudi Crown Prince paying a 3-day visit to Doha the following March &, another four months later, the Saudis playing host to a meeting in Jeddah to demarcate their border & set up a joint council, chaired by both Crown Princes, to strengthen their political-, security-, financial-, economic-, commercial-, investment-, cultural-, & media relations.
- Their relations hit a high in May 2010 when the Emir, upon Saudi King Abdullah's request, pardoned several Saudi nationals that had been involved in a 1996 coup *seeking to unseat the Emir*. But it had not been all smooth sailing, especially where it concerned Syria. Thus in 2008 a London-based Saudi-owned Arabic daily was made to apologize publicly for three "wholly untrue" 2006 articles that had alleged that Qatar's Prime Minister had visited Israel in secret & the Saudi Foreign Minister objecting to Qatar's attempts to resolve a political crisis in Lebanon, traditionally a part of the Saudi/Syrian sphere of influence¹⁵, in January 2009 Saudi Arabia (& Egypt) refused to attend a summit in Qatar supported by Syria & Hamas & then (*to add insult to injury?*) hosted a summit in Riyadh the day before. And they reacted differently to the Arab Spring, with Qatar, as was evident from the way al-Jazeera covered it, supporting the Egyptian revolution, while Saudi Arabia expressed support for Hosni Mubarak until the bitter end. And despite the cool relations between Libya & Saudi Arabia due to a supposedly Qaddafi-approved assassination attempt on Crown Prince Abdullah, *following a shouting match between them on live TV at a pre-Iraq War Summit that saw*

¹⁵ With a few months later, in 2009, Kuwait's *Al Rai* newspaper quoting a Qatari official as saying that Damascus had rejected Qatari efforts to help resolve a Lebanese cabinet formation crisis by interceding with the Saudis.

both hurling insults at each other, the Saudis never called on Libya's Muammar al-Qaddafi to step down, while Qatar not only did so but also was the first Arab country to join NATO's coalition in Libya. And while, after the outbreak of protests in Syria in April 2011, the Qatari Emir sent his Prime Minister to Damascus to deliver a 'message of support', by July relations had deteriorated to the point that Qatar recalled its Ambassador to Syria in part since al-Jazeera had grown increasingly supportive of the rebels to which the Syrian state media responded by blaming Qatar for the unrest, & in part due to the preachings of an Egyptian religious scholar & long-time member of the Muslim Brotherhood resident in Qatar who had a weekly show on al-Jazeera in which he condemned Syria's "suppressive regime & its atrocities". Meanwhile, Iran's strong interest in Assad's political survival had loosened the bonds between Iran & Qatar, which led to a warming of its relationship with Saudi Arabia to the point where the number of flights Qatar Airways to Saudi Arabia was almost doubled, a 100 man-strong delegation of Saudi businessmen visited Qatar, & al-Jazeera was given the green light to set up a Saudi bureau.

This July 21st, 2011 article in Foreign Policy concluded "The friendly relations are likely to continue - at least until 2022, when Doha plays host to the FIFA World Cup" (for which, as its global coming-out party, it had earmarked between US\$65-100BN, a significant portion of which was to end up in Saudi businessmen's pockets) and "we will likely see Doha's freewheeling foreign policy stay within the bounds of Riyadh's interests". Obviously 'something happened on the way to the Forum', likely that it totally 'rotted the Saudis' socks' that in the past two years the sovereign wealth fund of the once dirt-poor Qatar had grown from US\$256BN to US\$320BN while its own had declined from US\$686BN to US\$516BN &, longer term, that in the 15 years ended last year Qatar's GDP had gone from US\$20BN to US\$150BN (i.e. by 650%) & its own by just 225% to US\$650BN (the more so since there are only 300,000 + ethnic Qataris vs. 31+MM ethnic Saudis (incl. half a million or so Shiites), all of which had given Qatar 'airs'.