

GLEANINGS II - 735
Thursday November 9th, 2017

Enter Tsar Vladimir - This is the title of an insightful, three-page article on page 23 of the October 28th Economist, the basic finding of which is that “The longer Mr. Putin (*who last month turned 65*), stays in power, the more likely his rule is to be followed by chaos, weakness and conflict. Even his supporters expect as much”.

Oil price outlook - The WS Data Group canvassed 13 major banks (4 US, 2 each French, German & UK, and 1 each from Canada, Holland & Switzerland) on their Quarter by Quarter 2018 oil price prognostications. They fell in a US\$43-60 cluster, with the average not exceeding US\$50 until the Fourth Quarter of next year.

Paul Ryan’s tax bill - According the Washington-based, non-partisan Urban Brookings Tax Policy Center, it will have the following impact on families with at least one child :

Income level	Change in taxes owed
<US\$10,000	+US\$ 10
US\$10,000-20,000	-US\$ 20
US\$20,000-30,000	-US\$ 20
US\$30,000-40,000	+US\$120
US\$40,000-50,000	+US\$240
US\$50,000-75,000	+US\$230
US\$75,000-100,000	-US\$ 40
US\$100,000-200,000	-US\$610
US\$200,000-500,000	+US\$700

After this the changes are right off the map; thus families with a US\$5MM income will pay US\$300,000 less.

This comes days after Senate Majority Leader Mitch McConnell (R-KY) pontificated “At the end of the day nobody in the middle class is going to get a tax hike.” (He has since conceded that he “misspoke”). As things stand now the House expects to vote on its bill next week, while the timing of the vote on any Senate tax plan (that differs radically from the House version in several ways, incl. the timing of the corporate tax cut, the number of tiers of personal income tax rates, the deductibility of state-, & local-, taxes and the estate tax) is more iffy. Then, after the Senate passes its version, the ‘reconciliation’ of the two versions must be completed before a law can go to President for signature (with the target still being to have it signed before Congress recesses for Christmas on December 14th).

Plot thickens in Alabama’s December 12th special election to replace now Attorney General Jeff Sessions) - Last September 26th, after a bruising Republican primary Roy Moore, the evangelical, rabidly anti-LBT, anti-Muslim & far-right former Alabama Chief Justice (2001-2003 & 2013-2016, in both cases terminated by the powers that be) beat the State’s Attorney-General Luther Strange 55-45 to the GOP nomination for the December 12th special election to replace now Attorney-General Jeff Sessions (whom Strange had been appointed to succeed on an ad interim basis), despite Strange being the choice of the GOP establishment & having had some support from President Trump, while Moore was Steve Brannon’s choice). On October 17th Fox News published the results of a poll conducted on its behalf by the Democratic Anderson Robbins-, & the Republican Shaw & Co.-, Research firms that showed the (*no longer quite so ‘long-shot’?*) Democrat Doug Jones (a former prosecutor who once convicted two

Klansman for burning down a church) & Moore were tied 42-42 among registered voters (while among those “extremely” or “very” interested in the race Jones actually had a 1 point lead). Then on November 9th the WP published allegations that in 1979, when Moore was a 32 year-old public prosecutor, he had improper sexual contact on two occasions with the then 14 year-old Leigh Coleman, prompting great consternation & indignation in the GOP, and a plethora of calls he should withdraw. And on November 10th it was reported that an Opinion Savvy poll the previous day of 515 likely voters (82% of whom aware of the WP allegations about Moore) had found the two now tied 46-46 (while in its previous poll Moore had a 5.7 point lead), with Jones having a 16 point edge over Moore among women & Moore a 20 point one among men, and 54% saying Moore should not withdraw at this time - *This is really important for the GOP; for if Jones were to win, it would have to limp through Congress for the next year-, & into the mid-terms next fall-, with just a one seat majority in the Senate. And to complicate matters even further, even if he were to withdraw (not a likely event given his-, & Brannon’s-, mindsets?), it is now too late to remove his name from the ballot; so the party would have to depend on a replacement “write-in” candidate, thereby creating a three way split that would help Jones, while, if he did stay in & won, the State Canvassing Board may decide a month from now not to recognize his victory.*

Pressure of (justified?) irresponsible fiscal management charges getting on Alberta Premier Rachel Notley’s goat? - She has started using fancy words (*of her own making?*) to imply her critics in the Legislature are sexists. First she sarcastically thanked Alberta Party Leader Greg Clark for “mansplaining” to her that there are environmental benefits to pipelines (*i.e. ‘explain something to a woman in a condescending manner’*) & a couple days later accused another opposition member of “hepleating” (when ‘a person who might be a man repeats what you - a female - had said and takes credit for it.’) - *Her government is paying for 20+% of its total spending with borrowed money, in the current year has, for the first time in two decades, started paying for day-to-operational expenditures with borrowed money & in 2½ years the Province’s net financial position has gone from +1.2% of GDP when she took office to -7.1% now). And while Finance Minister Joe Cecci says the government “has a plan to reduce the deficit year over year and return to balance”, but not until 2023 (shades of yesteryear when during the Mulroney years Finance Minister Mike Wilson stood up time & again for a decade to assure tell Parliament the budget would be balanced in “5 years”, but failed to specify it was a ‘rolling’ 5 years).*

Prince Abdulazziz bin Fahd - The 44 year-old son of King Fahd (who ruled for 23 years until his death in 2005 at age 84), is believed to have been killed in a gun fight on Sunday November 5th while resisting arrest. He was among the wealthiest-, most globe-trotting-, & high profile members of the Royal Family whose personal assets included a Boeing 777, a Boeing 737 ‘business jet’ & a Canadair Challenger, and a yacht, the MV Prince Abdulazziz, that is the biggest built in the last century. He had his fingers in many pies. Thus he owned half of MBC (Middle East Broadcasting Company) *whose head Waleed al-Ibrahim is among those arrested on November 5th*. And, more interestingly, he had long been involved with Rafik Hariri, a naturalized Saudi citizen & subsequent Prime Minister of Lebanon (until murdered in 2005) who over decades had turned, on the back of steady flow of ‘sweetheart’ government contracts, the Saudi Ogen company into a major construction company^{1 2 3}. While once one of King Abdullah’s

¹ In fact, second only to the bin Laden Group, that flourished on the same diet, and whose principal, Bakr bin Laden, is also among those arrested on November 5th.

² Control over which has since 2005 assassination has been with Saad Hariri (age 47), Lebanon’s Prime Minister from November 2009 to June 2011 & again since last December until he turned up in

closest advisers, they had drifted apart before the King died almost three years ago & he had grown closer to Prince bin Nayev, the Crown Prince who was 'dethroned' in last June's overnight 'palace coup', has been under 'house arrest ever since & now resides in the "bizarre prison" Riyadh Ritz-Carleton (see *below*). .

Saudi anti-corruption campaign - According to a statement by King Salman's office the purge was needed because of "the exploitation by some weak souls who have put their own interests above the public interest, in order to illicitly accrue money" (thus giving credence to rumours that those arrested had refused to be strong-armed by Crown Prince Mohammed to contribute part of their wealth to help him deal with the cash shortage created by the low oil prices (with them now in the slammer Prince Mohammed is expected to start expropriating some of their assets for that purpose). There is also a massive element of him 'playing to the galleries'; for corruption has long been a sore point with the general population, especially its Millennial element that is expecting him to 'modernize' Saudi society. And Mohammed needs something to distract their attention from the fact that as part of his response to the low oil price-driven fiscal stress he cut civil servants' salaries, & that he has not been very successful in two major projects he has been in charge of, the Yemen War & his much-vaunted "Vision 2030" program to diversify the economy away from its over-dependence on oil - *so his "anti-corruption" may be less a sign of strength than of weakness.*

Shiite crescent? - There are reports Iran is building a permanent military base in Syria; if so, the battle for regional hegemony may well be over; for Tehran will then have 'boots on the ground' from the Persian Gulf to the Mediterranean, and Saudi Arabia, & Israel, will have good reason to become **really** concerned.

Truth is often stranger than fiction - At 0930 hrs on Monday November 6th, when the outside wind chill temperature was -18 Celsius, a pickup truck driver on a country road South of Edmonton picked up a bare-footed man & woman, and their six week-old baby, who had a wild story that they had been kidnapped, but escaped from a late model white BMW. A few minutes later the truck was violently rear-ended by a white BMW, with both vehicles ending up in the snowy ditch. When the police arrived they found five naked people in the BMW, a man, two women & two female teens, that had to be tasered into cooperation. Charges have since been laid against the adults for kidnapping & resisting arrest - *I gather all were aboriginal & known to each other, and blame their behaviour on having drunk 'funny tea' from India..*

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THE FUNDAMENTALS FAVOUR DEMOCRATS IN 2018 (FiveThirtyEight, Nate Silver)

Riyadh on November 4th, the day before the mass arrests, to announce his resignation as Prime Minister, creating a political crisis since under the Constitution ... (see bottom of next page) the President must be a Maronite Christian, and the Prime Minister a Sunni-, & the Speaker of Parliament a Shia-, Muslim (i.e. Hezbollah, which holds all **real** power in Lebanon).

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But in July it abruptly closed its doors, after Prince Mohammed made it clear that as part of his "Vision 2030" program the Saudi borders would be opened up to foreign construction companies, thereby ending its free ride (& that of the even bigger Bin Laden Group), leaving billions in debts in its wake, much of it to tens of thousands of, mostly expat, construction workers for months, if not years, of unpaid wages.

- Tuesday was a wake-up call for the Republicans; for Democrats easily claimed the Virginia & New Jersey gubernatorial races, gained control of the Washington State Senate (& ate into the GOP control of the Virginia House of Delegates), passed a ballot measure in Maine that will expand Medicaid there, won a variety of mayoral races around the country & gained control of key executive seats in suburban New York City. This was almost exactly what could have been expected with a Republican President with a 38% approval rating & had a bit of a “wave” feeling to it, especially in Virginia where Ralph Northam won the gubernatorial race by a 9 point margin, triple that projected by polls. But we didn’t need the Tuesday outcome to prove that the Democrats had the wind in their sails since :
 - The President’s approval rating is 37.6%;
 - Democrats are leading by 10 points in the “generic Congressional ballot”⁴;
 - Republican incumbents are quitting at a rapid rate, on Tuesday alone New Jersey’s Rep. Frank LoBondio & Texas’ Rep. Ted Poe^{5 6};
 - The Democrats are recruiting astonishing numbers of candidates for Congress;
 - The Democrats have done well in special federal elections considering the partisanship of the districts involved & in the special elections for state legislatures; and
 - It is all but axiomatic that US off-elections favour the opposition party.
- But the Democrats are by no means home free. A lot can happen in a year. The eventual tax plan may be good bad for them. There may be bombshells in the Russian investigation. They may overplay their hand on impeachment⁷. There could be a war, or a terrorist attack *on US soil*, with a rally-around-the-flag effect. Trump may quit tweeting (*but may do the opposite now that Twitter has doubled the message length to 280 characters*). There are few, *if any*, precedents of a President being so unpopular so early. And the Democrats are so handicapped by vote distribution & gerrymandering they need a 7 pt. edge in overall popular support to win the House (it is now *10 pts*).

And what may be most damaging to the Democrats’ cause is that the left-, & the centre-left wings of the party are still not singing of the same song sheet & that no natural potential successors to the Clintons have as yet emerged. And the more moderate Republicans quit, the greater the potential for Steve Brannon & his deep-pocketed financial backers to get non-mainstream Republicans to do well in the primaries (which could turn out to be a God-sent for the Democrats if Brannon’s picks had little appeal outside the 30+% Trump core voter base).

⁴ A poll in which registered voters are asked whom they would vote for (currently at 51-40)

⁵ LoBondio (age 71) has 12 terms under his belt & his seat could be up for grabs in next year’s mid terms, and Poe (69) seven while his Houston area district is safe GOP territory. In announcing his move LoBondio said “As some of my closest colleagues have also come to realize, those who came to Congress to change Washington for the better through good governance are now the outliers ... Today a vocal and obstinate minority within both parties has hijacked good legislation in pursuit of no legislation.”

⁶ While on average 22 members of the House retire each election, the current tally for next fall’s mid-terms is 30 (21 Republicans & 9 Democrats), although in all fairness about half a dozen are doing to run for the Senate or their state’s governorship.

⁷ This may well be irrelevant; for the real risk of impeachment may well lie with the GOP as by mid 2018, the Republicans may well have concluded that going into the mid-terms with Trump in the White House, they could lose control of both Houses.

TRUMP SHORES UP US-CHINA TRADE (Seeking Alpha, Yoel Minkoff)

- The trade deals with China keep coming as the White House expects to announce upwards of US\$250BN-worth of them during President Trump's two-day visit to Beijing. On November 9th alone there were US\$50BN in contracts & MOU's (Memos of Understanding) for Qualcomm, Boeing, Air Products & GE, while Sinopec agreed to help develop Alaska's LNG potential, creating 12,000 US jobs & reducing the US trade deficit.

Beijing is just playing on Trump's need for ego-boosting headlines (as Japan did his earlier with his 'one on one' with Emperor Akihito). But in the overall scheme of things it may not matter much. Some of the deals predate him. MOU's have no legal standing. US\$50BN over several years is barely a pimple on a US\$350BN annual trade deficit (& all but irrelevant in the context of the US\$320MM list price for a Boeing 777 & GE's US\$150BN annual sales). And most of the 12,000 jobs will be during the construction phase of a project that longer-term will likely benefit China more than the US.

TRUMP PROMOTES HIS NEW JERSEY GOLF COURSE DURING SPEECH TO SOUTH KOREA'S PARLIAMENT (WP, David Nakamura)

- Early in his high-stakes speech to the South Korean Parliament, he praised the nation's remarkable economic rise since WW II & after the Korean War six decades ago, and the Korean people's prowess in engineering, technology, medicine and education. But then he digressed to "Korean golfers are some of the best on earth ... And you know what ... the Women's Open was held this year at the Trump National Golf Club in Bedminster, New Jersey ... and ...won by South Korea's Park Sung-hyun". To his critics this *is just more* evidence that he is determined to use the Office of the President to promote his personal brand (*that has suffered since he became President?*), & they feel his doing so represents a misuse of power & will leave him open to charges of influence peddling.

A more pedestrian reaction would be "How Tacky!"

TRUMP STILL FIXATED ON ELECTION WIN (AP)

- Ten months into his presidency Trump is still focused, some say fixated, on the election that catapulted him into power. Egged on by friends & the cable news, he continues to attack Hilary Clinton &, in public & private, boast of the size of his triumph. Thus on November 7th in Seoul, South Korea, the second stop of his *12-day*, five-country Asia visit, he bragged it had been "a great victory, one that had made a lot of people very happy" & the next day tweeted from Beijing "Congratulations to all of the DEPLORABLES⁸ and the millions of people who gave us a MASSIVE (304-227) Electoral College landslide victory!" & mused to reporters that he had thought of having a "big celebration party" (although White House officials were quick to deny there were plans for any formal event marking the occasion). Friends & advisers say this is part ego & part defense mechanism, and that, despite occupying the most powerful position in the world (*that he seems to do his utmost to make less so*), he has told confidants he still doesn't get the credit he deserves for beating Hilary Clinton & is aware that numerous members of his party still cringe at having him in the White House.

⁸ One of Hilary's less fortunate choices of words during the campaign for Trump supporters

He may well be proven right; for his political career could be the human equivalent of what astronomers call a “Nova event” , the sudden appearance of a bright “new” star that, however’ starts fading almost immediately (but that will do major damage to America’s global status?).

U.S. LONE HOLDOUT AS SYRIA TO SIGN CLIMATE ACCORD (AP)

- After Nicaragua did so last month & Syria announced on November 7th that it plans to join the 2015 Paris Climate Accord (albeit “needing foreign aid to help meet its commitments”), the US is left as the only one of the 193 UN member nations⁹ not to support it [last June President Trump announced he wanted to pull out of it, *albeit not until November 2020?*, unless the US “could get a better deal”]¹⁰.

Ottawa had the incredible bad taste, if not bad judgment, to send a congratulatory message to President al-Assad (whose regime in the past five years has gassed/murdered tens of thousands of its own citizens, caused the death of half a million more & millions of others to become internal-, or external-, refugees, and the destruction of millions of its citizens’ homes.

LUXURY LOCKUPS FOR SAUDI PRINCES (Daily Telegraph, Roland Oliphant)

- Video footage emerged on November 7th that the Riyadh Ritz-Carlton is now a bizarre prison camp *cum gilded cage* for the 50 or so members of Saudi elite, incl. 11 princes, who face charges of money laundering, bribery, extortion & abuse of public office after being rounded up in raids two days earlier as a part of what is *officially* called an anti-corruption purge (that, however, has been interpreted by third parties as a pre-emptive strike by the 32 year-old Crown Prince Mohammed bin Salman against his (*perceived or real*) rivals. According to one local businessman with ties to the government “a prince cannot be seen imprisoning *other* princes along with common criminals. Choosing that hotel is a sign to the world that Mohammed bin Salman is in charge and that no one is too rich or powerful to be brought down.” The Saudi Information Ministry issued a statement saying there was “no truth” in online rumours that Prince Abdulaziz bin Fahd, a son of the late King Fahd, was killed while resisting arrest¹¹.

Among those arrested are former Crown Prince Mohammed bin Nayev (age 59) who was replaced by the King’s favourite son in an overnight palace coup last June & has been under house arrest ever since, Alwaleed bin Talal (age 62, Net Worth US\$16.8BN, at least before it nosedived US\$2.8BN after his arrest), the majority owner of Kingdom Holding (which has interests in, among others, Twitter, 21st Century Fox, NewsCorp & Citigroup), Bakr bin Laden (age 71, Net Worth US\$7BN), a half brother of Osama & CEO of the Binladen Group, the country’s biggest builder, Waleed al-Ibrahim (age 55, NW US\$6BN), the Head of Dubai-based MBC (Middle East Broadcasting Corporation), the Minister of Economy & Planning Adel Faqih (age 58, NW US\$470MM), former Finance Minister Ibrahim al-Assaf (age 68, NW US\$390MM)

⁹ Of whom 169 have since “ratified” (i.e. formally signed onto) it .

¹⁰ After a career of deal making, he has deal-making on the mind; but after ten months in the job he still cannot point to a single deal he ‘s been able to make with anyone at home or abroad.

¹¹ Often the higher the level at which a rumour is denied, the more likely it is to be true; and that appears to apply here. For on Monday November 6th the UAE News Agency Al-Ittihad reported his death, quoting a Saudi Royal Court press release that the Royal Family mourned his death at age 44 (purportedly in a gun fight that took place as an attempt was being made to arrest him).

who last July had represented Saudi Arabia at the Hamburg G-20 Summit, & National Guard Minister Mitaab bin Abdullah (age 65, NW US\$110MM)

ARAMCO OIL RESERVES AUDIT TWO-THIRDS COMPLETE, MAY NOT BE FINISHED IN 2017 (Reuters, Alex Lawler & Rania El Gamel)

- Sources familiar with the matter say it is unlikely to be completed before the end of 2017 because of the huge scale of the task; but that so far it has confirmed the reserve figures provided by Saudi Arabia. Its reserves of easily recoverable oil have long been considered the world's largest *but never were confirmed before by a third party audit*, and there have, *from time to time*, been questions about their volume & quality. So the audit was necessary to generate internationally acceptable figures for investors *ahead of next year's planned Aramco IPO*. According to BP's statistical review Riyadh has each year for nearly 30 published the same reserves' number, 261BN bbls, despite rising production, large swings in oil prices & improved technology, *whereas Western oil companies' reserves typically fluctuate up & down with the latter two*. Dallas-based DeGolyer & MacNaughton, and Baker Hughes' Gaffney, Cline and Associates are doing the audit, with the former not responding to a request for comment & Baker Hughes declining to comment.

*Completion of a credible & detailed third party audit is a sine qua non for the success, if not doability, of an IPO that is to fund of Prince Mohammed's "Vision 2030" dream. But he may be in for a huge surprise; for, presumably based on the 2007 PetroChina experience (when its IPO of 2½% of its shares yielded US\$1TR), MBS is expecting to get US\$2TR for 5% of Aramco; i.e. 6x ExxonMobil's **total** market capitalization, twice Apple's & 3x Microsoft's. And the growing tension & uncertainty in the Middle East that he is helping to engender in Saudi Arabia & the region as a whole is not going to enhance the appeal of Aramco shares to investors.*

MOHAMMED BIN SALMAN'S SHAKEUP IS MORE THAN A POWER PLAY (Chatham House, Jane Kinninmont)

- The high profile arrests reflect his emerging brand of authoritarian populism for the post-oil era. It reinforces his hallmark of sudden, spectacular action designed to signal radical change. They came only a day after regional tensions had been ratcheted up by Lebanon's Prime Minister's resignation (after he'd flown to Riyadh to announce it) & by the Yemeni Houthis managing to launch a ballistic missile further into Saudi territory than ever before. So MBS (*as he is commonly referred to*) faces political risks from multiple directions (although the arrests will probably reduce the risk of anyone in the Family challenging him in the foreseeable future). In showing that even the powerful & wealthy can be brought to heel, he is addressing an issue of popular public concern. And, as is usually the case in countries in which institutions & the rule of law are weak, & subservient to powerful individuals, anti-corruption efforts are "politically selective".
- Since his father became King in early 2015, MBS has made several moves to overhaul the economy, liberalize social life, adopt a new, more confrontational foreign policy & reform the country's interpretation of Islam, while restructuring the traditional royals-plus-clerics model of government so as to centralize power in his own hands. He appears not afraid of alienating traditional supporters, betting on a new youth constituency that wants change (many of whom are now Western-educated, incl. many females). The arrests seek to cut government spending & signal to foreign investors that the door is open to them. Fighting corruption is most credible when top down-driven, and most successful when it results in the development of new institutions & the introduction of the rule of

- law; so making himself, a political leader & not a judge or senior bureaucrat, the head of his newly-created anti-corruption commission fails on this score.
- By sacking the heads of the National Guard & the Navy, he has boosted his control over all security services. Among the businessmen arrested are the heads of three major media organizations. And he needs to reinvent the Saudi society's social contract for the post-oil era and to legitimize his leadership through development successes & nationalism that appeals to the younger generation that, conscious of the fact that they have been made to tighten their belts, wants to see the Royal Family do the same (he himself was criticized last year for spending US\$500MM on a new yacht). And his success will in the end depend on him being able to dress up a continuation of Royal Family rule as being 'anti-establishment'.

Few, if any, of his undertakings have so far borne significant fruit, if not outright "bombed". He may be spreading himself too thin, especially for someone with so little high-level experience, & goring too many oxen. The Millennials' support may disappear like snow before the sun if he fails to deliver quickly & measurably on their (exaggerated?) dreams. His father may not be around much longer to back him up. It would only take a 25 cent bullet to shatter the house of cards he is constructing. And his conduct of the Yemen War, is creating unrest among the Shia 10-15% of the 33MM Saudi population that, potentially very dangerously so from a national security perspective, is concentrated in country's dominant oil-producing regions.

LEBANON BECOMES THE NEXT TARGET OF SAUDI ARABIA'S FOLLY **(G&M, Bessma Momani)**

- With the demand that all Saudi citizens leave Lebanon immediately, MBS seems intent on putting Saudi Arabia into yet another conflict in the region without having a clear exit strategy. He is quickly becoming known for his visionary economic policies, his brash foreign policy moves & his propensity for starting disputes he cannot end. Lebanon appears to be the next arena of MBS' folly & its people the ones to pay the price. Calling his latest domestic move a corruption crackdown has been met with skepticism, no matter how popular it may be with a younger generation tired of gender segregation policies, a lack of permitted entertainment & an economy built on nepotism & patronage. Although the Houthi rebels are by no means without blame, he has presided over *huge* overkill in Yemen, the most impoverished country in the region (in part because the poorly-trained Saudi pilots, galvanized by hyper-nationalism, are inept in hitting targets. Few military analysts can see a successful Saudi exit from the Yemen morass (which is amplifying the Houthi rebels' threat at home, *especially now that he has started to blockade Yemen, a country that depends on imports for 90% of its food.*

And whereas Obama would have sought to reducing tension in the region, Trump on Twitter is adding fuel to the fire by egging on MBS, while Israeli President Binyamin Netanyahu is in the background pushing MBS to take a hardline with the Iran's proxy in Lebanon, Hezbollah (that holds most of the governance trump cards there), in the hope that this will give him an opportunity to interfere in the Lebanese situation to rally his fellow Israelis around him & divert their attention from the nasty corruption charges swirling around him & his wife, thus getting MBS to do the dirty work for him since the last time Israel tangled with Hezbollah, a decade ago, a few hundred 'towel-headed' Hezbollah irregulars took everything the IDF could dish out & fought it to a draw, in the process dinting its invincible reputation - The writer is a prolific, well-regarded writer on the Middle East who teaches at the University of Waterloo's Balsillie School of International Affairs & is associated, among others, with Brookings Doha.

GLEANINGS II - 734
Thursday November 2nd, 2017

Feedback from Gleanings II - 733 - In it I opined at its very end (in the context of Québec's Law 62 that prohibits women with their faces covered from providing or receiving government services) that "my understanding is that the Koran merely stipulates that women should dress 'modestly' (if so, face-covering by Muslim women is a cultural affectation, not a religious requirement)" - So I was delighted to get feedback from a Muslim friend & Gleanings' recipient in the Middle East, who occasionally delights me with his interesting insights on regional affairs, saying "You are absolutely right on the last point about Muslim women covering their faces. It is Not a religious requirement but a cultural practice that began when the Ottomans invaded Arabia¹. In fact, the Prophet's wife Khadija^{2 3} never covered her face and ... was a savvy professional business woman in her own right."

Jerome (Jay) Powell (age 64) will succeed Janet Yellen (age 71) as Fed Chair on February 2nd - This means that, for the first time in 30 years the Fed Chair will not be a 'pointy-headed Ph.D.' in Economics⁴; for Powell is a lawyer (albeit one with a background in finance). In 1975/76, after Princeton, he worked as a gofer on the fringes of the political scene, in 1979 he got his JD from Georgetown University Law School, from 1979-1981 he clerked for a member of the US Court of Appeal for the Second Circuit, from 1981-1984 worked for two New York law firms & from 1984-1990 at Dillon Read⁵, from 1990-1993 he was at the US Treasury (in 1993 as Deputy Secretary for Domestic Finance) & from 1993-1995 a Managing Director at Bankers Trust, from 1995-1997 he was back at Dillon Read & from 1997-2005 worked-, became a partner-, & made his money-, at the Carlyle Group^{6 7} (his Net Worth is variously estimated at

¹ In the early 16th century.

² Commonly regarded by Muslims as "The Mother of the Believers."

³ Who, having been widowed twice, married him when she was 40 & he 25, and died at age 65.

⁴ While Princeton Economics professor Alan Blinder (who served as Fed Vice-Chair for two years in the mid-1990s) once contended an Economics Ph.D. is a Fed Chair requirement, "Otherwise the Fed's staff will run technical rings around you.", this is a self serving argument. For it depends on the nature of the individual in question; thus I remember being in the company of my Alberta Treasury boss when he had breakfast with the then CEO of JPMorgan (in the days when it was **the** class act in the global banking world), when the discussion turned to how he, a formal education-challenged Britiisher in his mid-50s who had joined the bank as a teller at age 16, dealt with the flow of ideas for new 'engineered' financial products across his desk on a regular basis. His answer was simply & along the following lines : 'That's easy; my people get three chances to explain their idea in language I can understand, & if they cannot, the issue is dead'. It strikes me that Powell is a type that would have a similar simplistic approach to attempts at 'snowing him'..

⁵ A small but classy Wall Street investment bank that traced its ancestry back to 1832, i.e. farther than just about anybody else on Wall Street (it disappeared by being acquired by Barings in 1991, that was in turn acquired by Basle-based Swiss Bank Corp. in 1997, which in turn was acquired by UBS in 1998 - a fantastic turnaround of events ensued when in due diligence the UBS' balance sheet was found to be fuller of holes than a Swiss cheese as a result of two heavily marketed but money losing derivatives' products as a result of which within days eight of the nine UBS Top Execs had been shown the door & their Swiss Bank Corp. counterparts were firm ly in charge.

⁶ A multi-national private equity, alternate asset management & financial services corporation with AUM of US\$12BN.

US\$20-US\$100MM)⁸. After a few years at a couple of private equity funds, the latter of them focused on funding sustainable energy projects, he joined the Washington-based Bipartisan Policy Center^{9 10} where in 2011 he was involved in getting Congress to raise the debt ceiling & late that year was appointed by Obama to fill a short term vacancy on the Fed Board. He assumed his Governorship in May 2012 and was renominated & reconfirmed by the Senate in 2014. While the richest Fed Chair in 69 years, he is known to ride his bicycle the eight miles from his home in Chevy Chase to the Fed & to be a diligent consensus builder who, according to UBS Chief US Economist, Seth Carpenter, himself a 15-year Fed alum (some of it overlapping with Powell's tenure) "When he showed up at the Fed ... basically did not know much about macroeconomics and monetary policy ... But he made a conscious decision to spend a lot of time with staff and colleagues to learn as deeply and completely as possible." - *So this may well be President' Trump's most inspired choice to date, although, while deemed a dove like Yellen*¹¹, *he may well disappoint him by proving himself to be less dovish than she, now that he is better positioned to follow his instincts.*

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SIGNS THE RALLY IS RUNNING ON FUMES (NP/FP, Martin Pelletier)

- US equity markets have had one heck of a year, with the S&P 500 up nearly 15-, & *the DJIA 18-, percent*, helped by the falling US dollar, strong revenue-, *albeit not parallel profit-*, growth by the heavily-weighted S&P 500 technology sector, the potential-, (*or should it be hope-*), for substantial tax cuts & an accommodative Fed. But other markets haven't followed suit : while *the DJIA & S&P 500 are now 65% above their pre-Financial Crisis levels*, the S&P TSX is just now returning to its decade ago level &, the other developed markets outside North America are still one-fifths of their 2007 highs.
- While on the surface there seems to be a lot of momentum left in this market, we think there are three indicator lights showing an engine running on fumes :
 - **No cash** - According to JPMorgan only during the 2000 tech bubble did US households ever have more equities & this latest run is fast approaching that level while according to BAML private client cash as a % of total investable assets has now fallen to an all-time record low (& the situation is not all that different among the pros; for according to Citigroup institutional cash is now down to 2½% of AUM, while the corporate sector, which has been the biggest

7 The company has had an indifferent track record : it IPO'd about 10% of its stock in May 2012 @ US\$22, peaked in February 2014 @ US\$37, cratered to US\$13 in February 2016 and at last report was back to US\$22.55.

8 He is the second Carlyle Group alum Trump has appointed to the Board; for on October 5th the Senate conformed Randall Charles (another financial lawyer, who had served in both Bush Administrations) as the Fed's Vice-Chairman for Supervision (i.e. the system's top regulator).

9 A not-for-profit Washington think tank that seeks to develop & promote "bipartisan solutions" to the "key challenges facing the nation".

10 Whose Chairman Jan Grumet says "this is a guy who does his homework."

11 Because he never cast a dissenting vote during his 5½ years on the Board; for his style is to voice his disagreements prior to group decisions at the decision-making table.

buyers of equities via buybacks is also running out of money : according to the NYC-based Cornerstone Macro research firm in the year to March 31st, 2017 US corporations generated US\$1.9TR from cash flow & net borrowings but spent US\$2.2TR on capital goods & share buybacks, their largest net outflow on record;

- **No risk** - With all the buying that has been going on, volatility has crashed; thus of the 39 times the VIX (Cboe Volatility Index) has closed < 10 in the past 27 years, 30 have been YTD & 15 in the last month alone. And the DJIA's Sharpe ratio (that measures the return per unit of risk) is 4.5, according to Bloomberg higher than 99.7% of all readings since the year 1900 (and one 'expert' earlier this year called the then 3.5 reading "unsustainable"); and
- **No deals** - The S&P 500 is up 70% over the past five years & earnings just 10%. This is because investors have focused most of their attention on the high flying hi-tech sector that now accounts for one quarter of the Index *but that, while it generates lots of cash flow, is short on generating profits*, with the result that investors are now paying 60x earnings for some tech firms but only 15x for energy companies & 20x for banks (so that, according to Factset, a Norwalk, CT-based multinational financial data & software company catering to the investment professional market, on an aggregate basis the S&P500 now trades at 22.3x earnings, well in excess of its 16.9x 10 year average).
- In conclusion, while the S&P500 gas tank is fast approaching empty it *still* does have some momentum to carry it forward, provided the Fed, that was supposed to have started 'tapering' last month (i.e. cutting the size of its balance sheet), continues doing the very opposite, *i.e expanding its balance sheet (the chances of it may lessen with the Yellen/Powell turnover.*

President Trump since did the expected, i.e. named Jerome Powell, a five-year Governor, to succeed Janet Yellen next February as Federal Reserve Board Chair.

TRUMP FUMES AFTER KEY STRATEGIST CHARGED
(AP, Zeke Miller & Jonathan Lemire)

- On Monday October 30th, *after having kept the country guessing all weekend as to who might be charged, it was not much of a surprise that, Special Prosecutor Robert Mueller brought charges against one-time Trump campaign manager Paul Manafort¹² (& two others), with Trump immediately seeking to distance himself after Manafort (68) & Rick Gates (61), Manafort's one-time deputy, pleaded Not Guilty to a 12-count indictment alleging money laundering, conspiracy & assorted other offenses, while the third person charged, Paul Papadopoulos (30), arrested last July 27th at Dulles Airport, appears to have been 'singing like a canary' to save his own hide.* Within hours of the indictment Trump angrily told one confidant that Manafort had been a campaign "part-timer" who had gotten too much credit for his (*i.e. Trump's*) success at the convention, dismissed the money laundering charges against Manafort as typical political corruption that did not reflect on his campaign, insisted that the charges predated Manafort's time on his campaign & that he *thus* couldn't be held responsible for any of his misdeeds), and Twittered the charges against Manafort were from "years ago" (*although the indictment details allegations about events as recent as this year*) & that there had been "NO COLLUSION" between his campaign & Russia. And the White House has played down the role of Paul Papadopoulos (*whom Trump named a foreign policy adviser in March of 2016 & called an "excellent guy", while earlier this year on CNN Michael Caputo, who in the mid-1990's had lived in Russia, married a Russian woman & been an adviser to Boris Yeltsin, and from November 2015 to June 2016 a "Senior Adviser" to Trump, dismissed Papadopoulos as a "volunteer coffee boy"*).

Papadopoulos' CV is indeed appears pretty 'thin'. Age 30, he graduated in 2009 from the Chicago-based De Paul University with a BA in Political Science, after which he spent 2011 at the Washington, DC-based Hudson Institute as an unpaid intern & for a while thereafter as a 'gofer' for one of its Senior Fellows, until he emerged in late 2015 in the foreign policy end of Ben Carson's campaign for the GOP nomination (which raises the question why Trump chose, & touted, someone with such a thin track record as a "foreign policy adviser"). And Trump's dismissal of him as campaign 'low life' may come to haunt him; for young & ambitious 'keyhole peepers' often know a great deal more about the goings on than their elders suspect.

BATTLE OF THE STRONGMEN (The Economist)

- On September 21st, in a meeting with Turkey's President Recep Tayyip Erdogan, President Trump said the two NATO member countries were "as close as we've ever been" (although a few hours later TV news channels showed Turkish security guards beating up peaceful protesters outside the Turkish Embassy in Washington, a mile from the White House). But on October 8th the US Embassy in Ankara announced it was suspending its visa services across Turkey to "reassess" the government's commitment to the security of the its diplomatic facilities & staff members, prompting the Turkish lira to plunge 6.6% vis a vis the US dollar & the shares of Turkish Airlines 8%, and the government in a tit-for tat move to announce it would no longer accept visa applications

¹² For the June-August,2016 period (*i.e. the months straddling the Republican convention*). Trump has known Manafort for years & his appointment was apparently made with little, if any, vetting or the red flags would have gone up all over about his lobbying for foreign, mostly autocratic, governments, having 55 bank accounts with 13 different financial institutions, three US passports with different numbers & having made ten passport applications in as many years, his frequent travel to tax havens, his expensive taste in clothing (he once spent US\$100,000 on it in a six day period, and the fact that between 2008 & 2014 he had paid US\$12MM to 19 New York luxury vendors with cheques drawn on companies in places like Cyprus & the Grenadines.

from Americans (*shooting itself in the foot since in 2016 450,000 Americans visited Turkey while the State Department issued just 113,240 non-immigration-, & 4,214 immigration-, visas to Turkish citizens?*).

- The US move was sparked by the arrest of a Turkish US Embassy staff member on espionage & conspiracy charges. This was not an isolated incident. Last March a Turkish interpreter at a US consulate was arrested on suspicion of links to an outlawed Kurdish movement¹³. An American pastor has languished in a Turkish jail for a year for alleged contacts with Gulen sympathizers. And one day after the visa suspension, a summons was issued for a Turkish employee at the Istanbul consulate & police detained his wife & two children. On October 10th Turkey blamed the US Ambassador, John Bass, for the visa row, with Erdogan saying “We do not consider the ambassador a representative of the United States” (which didn’t matter for he had already been re-assigned, to Kabul), a charge the State Department sought to refute by saying the visa suspension decision was taken at the highest levels of the US government (*but not Trump?*). And the next day a Finnish-Turkish WSJ reporter, who was in America, was sentenced to two years on terrorism charges.
- *It started in 2003 during the onset of the Second Iraq War when Erdogan refused to let American troops to use NATO bases in Turkey as a ‘jumping-off point’ for a ‘second front. Many Turks think America had a hand in last year’s failed coup (during which Erdogan’s plane narrowly escaped being shot down by a renegade Turkish fighter pilot), since the coup’s supposed sponsor, Fethullah Gulen, lives in Pennsylvania & President Ergogan has for over a year been seeking his extradition. Turkey is affronted by the US having armed a Kurdish militia it deems terrorist to fight ISIS in Syria, while Washington remains angry that Turkey long has turned a blind eye to ISIS & other jihadists in both Turkey & Syria.*

America’s case is weak; for embassies’ ‘locally-engaged’ staff has no diplomatic status. Fethullah Gülen (age 76) is a one-time imam who heads the Muslim Hizmet (Service) movement that has business outlets across North Africa & Central Asia, and educational-, as well as business-, ones in the Americas & Europe. For many years Erdogan & Gülen were allies, both bent on reversing Turkey’s post-1923 Kemalist secularization & on turning it into a state hallmarked by Turkish nationalism with a conservative religious Islamic bias. And Gülen was useful to Erdogan because he mobilized support for him among the Hizmet followers. In 1999 Gülen emigrated to the US and two years later, the same year Erdogan founded his AKP party, got his green card. He now lives in Saylorsburgh, Penn., population 1,126, in the state’s eastern Pocono mountains. But over the years, Erdogan began to complain increasingly about Hizmet “running a parallel state” in Turkey and in 2013 accused Gülen of wanting to bring the government down after he levied corruption charges against a number of high-ranking AKP-, & government-, officials & members of their-, & Erdogan’s-, families. Since the coup Erdogan has jailed tens of thousands, & fired an estimated 150,000-, individuals in the armed forces, the judiciary, the universities & government generally for being ‘Gülen sympathizers’.

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Bad bankers should go to jail - Former UK Labour Prime Minister (2007-2010) & longest ever-serving Chancellor of the Exchequer (1997-2007) said in his 2012 autobiography My Life, Our Times that “Little has changed since the promise in 2009 that we bring finance to heel. The

¹³ On general principle the US hasn’t got a leg to stand on in this issue; for diplomatic status does not apply to locally-engaged staff (that thus remains subject to the local legal system).

banks that were deemed 'too big to fail' are now even bigger than they were ... Similarly with inadequate oversight of shadow banking ... some regulators freely confess that risks have morphed and migrated out of the formal banking system and if the next crisis came, they would ... not know what is owed and by whom and to whom ... Dividends and bankers' pay today represent about exactly the same (!!!) share of banks' revenues as before the crisis hit ... If bankers who act fraudulently are not put in jail with their bonuses returned, assets confiscated & them being banned from future practice, we will only give a green light to similar risk-laden behaviour in new forms." And he complained that the disgraced former Royal Bank of Scotland, Sir Fred Goodwin, never expressed "real contrition" for his role in the bank's collapse¹⁴, saying "it cannot be right that Mr. Goodwin "walked away with all his past bonuses untouched."¹⁵

Ex post facto Brown "talked the talk" but while in office didn't "walk the walk". Sure, a few bankers did go to jail, but they were token 'small fry' 'sacrificial lambs', while the senior decision makers went scot-free (for they had operated on a "nod-nod, wink-wink"-, rather than a paper trail-, basis, & hence had "plausible deniability"¹⁶). And there can be no doubt that US banking today would be much safer, & the still 'too big to fail' banks less of a risk to the system, if the likes of JPM's Jamie Dimon, Goldman's Lloyd Blankfein or Wells Fargo's John Stumpf had been made to spend even a couple of months in jail (& in a real one, rather than a white collar crime 'country club' one). For then the word who have gone down the line : "Stay within the bounds, or else!". Instead, included with a CBE in the UK's 2012 New Year's List of Brown's successor, David Cameron, was 73 year-old business tycoon Gerald Ronson, who in 1990 was fined £5MM & served one year in jail for his role in the 1980's Guinness stock fraud & who for some was "one of Britain's most prominent white collar convicted fraudsters"¹⁷. On the other hand, tiny, close-knit & economically all but insignificant, Iceland, whose banks in 2006 needed bailouts, but didn't get them & thus went TU (before others elsewhere needed-, & got-, them) when their bank' assets-to-GDP ratio was 263%, up from 48% a decade earlier¹⁸, subsequently set an example for the entire world when it sent over two dozen former senior bank executives to jail for up to five years.

¹⁴ That cost the UK government an estimated £45BN.

¹⁵ Although "Fred the Shred", so nicknamed because of his "vicious cost-cutting ways", got his fortune shredded in 2015 in his divorce on the grounds of infidelity, after a 21 year marriage & two children to a former banker (that had ended in 2011).

¹⁶ When senior officials in a chain of command can deny knowledge of, or responsibility for, any damnable actions committed by others in an organizational hierarchy because of a lack of evidence to confirm their involvement, even if they had been personally involved in-, or at least were willfully ignorant of-, such actions.

¹⁷ Although to give credit where credit is due, it was during David Cameron's Prime Ministership that Sir Fred Goodwin whose tenure as CEO of the Royal Bank of Scotland cost the UK government £45BN was stripped of his title.

¹⁸ Following, according to the Federal Reserve Bank of St. Louis, are the corresponding numbers for a number of other countries :

US	1998 - 53%	2008 - 68%
UK	1999 - 109%	2009 - 202%
Japan	2001 - 189%	2011 - 183% (had peaked at 242% in 1996)
China	2008 - 110%	2015 - 153% (at least report was in the 250+% range, and rising).

A lot of water has gone under the bridge since November 2nd – That morning I had a colonoscopy. All went well : they found, & removed, three small polyps, I woke up feeling fine, was home by about 1300 hrs feeling fine and by mid-afternoon decided to have something to eat since I hadn't eaten since the day before, and I did ... but that's the end of the good news !

An hour or so later I had a bad stomach ache, was puking & had the runs. Things didn't get any better; so I called an ambulance & had me hauled back to the hospital, the Emergency this time, where I spent six hours being interviewed, palpated, blood tested & X-rayed before being sent back home, none the wiser & not feeling much, if any better. The next two days I spent at home sitting in an easy chair, had a great deal of abdominal 'discomfort', felt lousy, drank little & ate less, and took the odd Dilaudit to make life worth living (I hate the things; they work but are very addictive).

Then on Sunday mid-morning I started getting stomach cramps; so I took a taxi back to Emergency, only this time to the University which is a) much closer & b) much better funded. More interviewing, palpating, blood taking & X-raying, that resulted in one blood test showing an elevated level of an enzyme that could be indicative of my having had a small heart attack. So more X-raying & blood taking which resulted in my being woken up by the doctor on duty at 0145 hrs to tell me that the enzyme level had subsided somewhat & I therefore shouldn't worry too much. But by morning things had changed : the cardiologist spent the best part of an hour talking with me, palpating me & listening to my chest, and repeating to himself "there are no typical heart attack symptoms". Be that as it may, he resumed the heart attack wild goose chase (although possibly more to convince himself that there had been no heart attack than expecting to find evidence of one. So by mid-morning Monday I was back home, still felling lousy, but not as lousy as the day before, complete with appointments for some nuclear heart tests (where they inject you with lightly radio-active material & then, 45 minutes later, put you for 20 minutes under some catscan-type machine to track the movement of blood in & out of one's heart. I had one last Thursday and was supposed to have had another, slightly more complicated one on Friday but felt lousy, phoned in and had it cancelled & deferred to next Tuesday.

Bottom line : I feel better but still well short of acceptable & the wild goose chase for a potential longer term heart problem has detracted from addressing the more immediate problem, namely that I continue to have a great deal of abdominal 'discomfort'. And this morning a doctor friend of mine was over for coffee & volunteered the view that "maybe you've had an 'abdominal infarction' (*interference with the abdominal blood supply*) ... but they are hard to diagnose". We'll see.

Meanwhile, I do feel a bit better each day and, more importantly, my attitude is improving, although it doesn't help that my left hip keeps raising hell!

Onward! Nick

Nick