

GLEANINGS II - 739
Thursday December 7th, 2017

Quote of the week : “Inflation is always and everywhere a monetary phenomenon” - Milton Friedman (1912-2006), a 1976 Nobel Prize laureate, staunch free market advocate & prominent adherent of the Chicago School of Economics.

Bitcoin - Its initial price in 2010 was < US\$1.00¹ while on November 29th it was US\$11,000+; so even using only US\$1.00 as a base price, this represents a compound annual rate of return of 278% over seven years - *this is great for those who got in ‘on the ground floor’, but less so for the ‘johnny-come-lately’ innocents who may end up ‘holding the bag’*. If it were to keep this pace up for five more years the ‘price’ of one Bitcoin on November 29th, 2022 would be US\$8,377,210.

Brent-WTI spread - In December 2012 it was in the US\$24 range but nearly four years later, in November 2016, had declined to - US\$1.71. But by December 4th had recovered to US\$5.97, a 32 months’ high. For in November 2016 two things happened : the US ended its oil export ban & Saudi Arabia orchestrated a production restraint program; so while non-US oil output stagnated & prompted higher prices, the growing US shale oil production had the opposite effect at home.

North Korea - On December 2nd White House National Security Adviser H.R. told an audience at the Reagan National Defense Forum in Simi Valley, CA that North Korea represents “the greatest threat to the United States”, that the potential for war with North Korea is growing every day & that President Trump remains committed to the complete denuclearization of the Korean Peninsula. This came three days after the President in St. Charles, MO, in the middle of a discourse promoting the Republican tax plan as “rocket fuel” for the economy, digressed to take another pot shot at North Korea’s “little rocket man”, this time by calling him a “sick puppy” (*it takes one to know one?*), causing the North Korean Foreign Ministry to subsequently warn that the large *US/South Korean* military drills & the US threats of a pre-emptive strike have made the outbreak of war on the peninsula “an established fact”, with the only question being “when will the war break out?”

Trump’s approval rating – The Pew Research Center this week announced the results of its latest landline/cell phone poll of 1503 adults nation-wide conducted during the period November 29th- December 4th (with a 2.9% margin error). It found that 32% approved & 63% disapproved of the way he is performing as President (vs. 34% & 59% in its previous poll two months ago). And perhaps, more telling was the fact that his approval rating among Republicans & GOP-leaning voters has gone from 84% last February to 76% in this poll, and among white Evangelical Protestants from 78% to 62%..

US Consumer Confidence - The November Conference Board’s Consumer Confidence Index was 129.5, up 2.6%² from October’s 126.2 (1985 = 100), with the “Present Situation” sub-index going from 152.0 to 153.9 (+1.2%) & the “Expectations” sub-index from 109.0 to 113.3 (+3.9%) -

¹ The first known Bitcoin real world transaction took place on May 22nd, 2010 in Florida when Laszlo Hanyecz bought two *small* Domino’s pizzas & paid for them with 10,000 Bitcoin (thereby giving them a real world value of US\$ 0.008; if the seller had kept them, he would by now have realized a compound annual rate of return of 630%.

² Up from 113.2 a year ago & from 25.3 in February 2009 (i.e after the Great Recession had ended).

the former is the more reliable; for people know first hand how they feel, but can only guess at the future. So the Expectations sub-index tends to be more volatile). And the equally well-, if not higher-, regarded University of Michigan Consumer Sentiment Index was less bullish, going from 100.7 in October to 98.5 in November (1966 = 100) - Undue optimism may not be in order given these Atlanta Fed Wage Growth Tracker YoY data on annual wage growth :

	College Degree	Female	Male
October 2017	3.4%	3.1%	3.5%
October 2016	4.0%	4.3%	3.5%
January 2010 (post- Great Recession)	1.5%	1.7%	1.5%
January 2008 (pre-Great Recession)	3.9%	3.8%	4.0%

US National Debt - The Republicans have long marketed themselves as fiscally responsible. But in recent decades nothing has been further from the truth - *After WW II the national debt-to-GDP ratio was 104%. Over the next three decades this was gradually worked down to the point that by 1976 it was 33% & under President Carter cut further to 32%. Then during Reagan's eight years it went to 49% by 1988 & under Bush 41 to 61% by 1992. Clinton then cut that to leave Bush 43 in January 2001 with a 54% starting debt-to-GDP ratio, which he then boosted to 83% by 2009, after which Obama' drove it to 105 by 2016 (& while he deserves most of the blame for this, he did inherit a mess (that he failed to adequately address) & the Great Recession occurred on his watch³. And most recently the national debt, that had gone in the first eight months of the Trump Administration from US\$19.937TR in January to US\$19.844TR in August, took a 'Great Leap Forward' in the next two months to US\$20,442TR in October⁴.*

US government shutdown? - All the fuss & bother about the Republican tax plan has obscured that fact that by midnight Friday December 8th the Administration must hammer out a deal with Congress about the continued funding of the government's operations; if not, it must on Saturday morning start shutting the government down. But to achieve this President Trump must 'make nice' with the Democrats; for the ultra-conservative, anti-government spending, 30-member or so House Republican 'Freedom Caucus' has made it clear it wouldn't go along. So at last report the President had scheduled a White House meeting for Thursday afternoon December 7th for him, Senate Majority Leader Mitch McConnell & House Speaker Paul Ryan to suck up to Rep. Nancy Pelosi & Sen. Charles Schumer & get them to agree to an interim solution (to keep the government wheels turning until at least December 22nd), *upon the conclusion of which both Sen. McConnell and Rep. Pelosi & Sen Schumer both issued statements saying nothing had been agreed on other than to keep talking - this would be an 'eat crow' moment for most people since a couple of weeks ago, when a similar meeting had been scheduled, Pelosi & Schumer essentially told Trump to 'get stuffed' & cancelled out after he had tweeted that "I do not see me striking a deal with them"* (this coming from the self-avowed "one of the world's greatest deal makers"?)

US stock market - Its performance in the past year has given Trump 'bragging rights' (which he has used ad nauseam'). But if it were to take a header next year (*as more & more well-informed people are becoming concerned about*) and/or if economic growth were not to live up to his 4%

³ In the previous 'once in a lifetime' economic down turn, the 1930's Depression, the then President, FDR, too had run the ratio up too, from 16% to 50%.

⁴ I.e.grew at a US\$1.2TR annual rate!

expectations (which is highly unlikely, this will 'rain on the GOP's parade' come next November, especially so since mid-term elections typically are not kind to incumbent Presidents' parties .

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CEO PLANS SUGGEST TAX CUTS MAY NOT HELP CREATE JOBS (FP, Toluse Olorunippa)

- Robert Bradway, the CEO of Amgen Inc. said in an October 25th earnings call that the company had been “actively returning capital to investors in the form of growing dividends and buybacks and I'd expect us to continue that.” And Coca Cola's CEO and Pfizer's & Cisco's CFOs have been making similar noises, with the latter saying in a November 16th interview “We'll be able to get much more aggressive on the share buyback”
- And according to a Quinnipiac University poll released November 15th two out of three US voters disapprove of the Republican “tax reform” legislation & corporate promises to return any windfall to investors are not helping the White House to sell it to voters.

This shouldn't have surprised anyone, if only because many company insiders' own at least some of their company's shares & therefore stand to gain personally from anything that props-, or ratches-, up their price. And the day of reckoning may well come for the GOP long before next November's mid-terms elections; for the 2018 “Tax Day” (when personal Income tax returns are due) falls on April 17th, by which time millions of voters/tax payers outside the top 10% will know they had to pay more, while they had been led to believe they wouldn't, and know that the 'rich' had paid less.

WHY WE NEED TO BE ON ALERT FOR HIGHER PRICES (NP, Barry Critchley)

- Scott DiMaggio is Director of Global Fixed Income at the New York-based, NYSE-listed money management firm Alliance Bernstein (AUM US\$535BN). Last week he held seminars in Canada to warn clients that, contrary to the “fake news “ that inflation is dead, it is set to return within two years & will result in higher interest rates.
- To make his case, he posited the following factors :
 - **The rise of populism** - it leads to “structural inflation pressures” from a) ‘**raising the draw bridge**’ (i.e. isolationism), b) **institutional erosion** (central banks' loss of independence, as is already happening in Japan where the BoJ was made to fund the government's fiscal expansion) & c) **redistribution** (i.e. higher taxation & minimum wages) - “In our estimation all three ... lead to inflation”.
 - **Demographics** - “As countries age⁵, inflation tends to creep higher”;
 - **The debt overhang** - Historically governments have resorted to higher inflation as “the easiest way” to deal with big debt burdens; and
 - **The end of QE** - While the Fed ended it in September, the ECB & BOJ are still pressing on (*not quite right : last month the ECB announced it was considering*

⁵ While in 2015 there was only one country (Japan) in which over 30% of the population was over age 65, by 2050 there are expected to be dozens in which that will be the case, incl., but not limited to, all of Europe except Norway & Russia, Iceland, Crete, Cyprus & Georgia, Canada, Chile, Costa Rica & Jamaica, Ceylon, China, Japan, North Korea, Taiwan, Thailand & Saudi Arabia.

halving its monthly QE bond buying program in January & a couple of weeks ago the BOJ made a somewhat similar announcement.

- His conclusion : “We are not there yet. We are not done for at least for 12 months. QE is still going to exert a significant influence next year”.

In addition, other than Jerome Powell being new as Fed Chairman, there will be a lot of new faces next year at the Fed’ in Washington & at its twelve district banks⁶ : Yellen will be gone February 2nd, Vice Chairman Stanley Fisher (formerly the Governor of the Bank of Israel & before that Chief Economist at the IMF) has just retired & there still are a couple of vacancies on the Board, while at the District Bank level, New York’s William Dudley has just announced he will retire in mid-2018, Atlanta’s Dennis Lockhart retired last February & Richmond’s Jeffrey Lacker has just done so⁷.

US INFLATION PRESSURES ARE ON THE RISE (Reuters, Lindsay Dunsmuir)

On November 29th the Fed’s latest ‘Beige Book’⁸ reported that the US economy had expanded at a modest to moderate pace in October through mid-November, “Price pressures have strengthened since the last report” (on September 6th) & the job market remained tight.

So in her November 29th swan song Capitol Hill appearance Janet Yellen told lawmakers the economy has gathered steam this year & will warrant more rate hikes⁹ & in response to a question, that the connection between corporate tax cuts & higher workers’ wages was ‘tenuous’ & “not strong enough or pronounced enough to come across in a clear way.”

US ECONOMY GROWS AT 3.3 PERCENT IN THE THIRD QUARTER (Reuters, Lucia Mutikani)

- Initially it was reported to have grown at a 3% annual pace in the July-September period (for the first time in three years that it had grown at 3% or more for two quarters in a row). But on November 29th the Commerce Department said in its second estimate that, boosted by a rebound in government spending, it had done so at a 3.3% rate, the fastest rate since 3Q/14 & a pick-up from the Second Quarter’s 3.1% rate. But this likely exaggerates the *real* health of the economy since a *build-up in* inventories (goods made but not yet sold) had accounted for 0.8% of the GDP growth (vs. 0.73% during the Second Quarter), which could prove a drag on Fourth Quarter growth, prompting some economists, who had expected the Trump ‘tax reform’ package to boost growth, to start slashing their Fourth Quarter growth forecasts).

Perhaps most important of all, growth in consumer spending was revised down to 2.3% from the previously reported 2.4%, down from 3.3% in the Second Quarter, in part as a consequence of

⁶ And new faces cause uncertainty&, in a worst case scenario, instability.

⁷ So there is a real risk that, starting early next year, it could become “Amateur Night” at Washington’s monetary-, as well as its fiscal & foreign-, policy decision-making levels.

⁸ A Fed Staff summary of anecdotal economic information gathered in each Federal District from business contacts outside the Fed system & prepared in advance of each FOMC meeting.

⁹ Putting wind in the sails of those who are forecasting four, not just three, rate hikes in 2018.

Hurricanes Harvey & Irma and in part due to sluggish wage growth (which had households dipping into their savings to fund their purchases, as a result of which the Third Quarter savings rate declined to 3.3% down from the earlier reported 3.4% & the Second Quarter's 3.8%.

US MARKETS HIT MILESTONE AS INVESTORS STAY FEARLESS **(NYT, Landon Thomas Jr.)**

- In a year of stock market records, having the DJ Index hit 24,000 was not the most historic. Yet the ease with which it did ... highlights the extent to which investors are willing to look past political uncertainty & pricey stock valuations to bet that the market will keep going up.

Might using “investors” & “bet” in the same breath be the harbinger of a mass rush for the equity market's exits? From Nathan Rothschild' in the Napoleonic era to John Templeton¹⁰ 40 years ago stellar professional investors have stressed “buying when everyone else is selling & selling when everyone else is buying” (i.e. when the hoi polloi are running scared or chasing dreams).

US AUTO SALES : 2017 LIKELY TO MARK THE FIRST FALL SINCE THE GREAT RECESSION (USA Today, Nathan Bomey)

- The solid but not spectacular US light vehicle sales in November will likely seal the industry's fate : full year 2017 sales will be down YoY for the first time since the Great Recession (*albeit only by a smidgen from last year's record pace?*), even though, according to Autodata they had in November been 1.39MM, up 1% YoY. Honda was the sales stand-out with 8.3% higher sales YoY, followed by Ford with 7.0% (in part due to its fleet sales), Toyota (3.0%), GM (2.9%) & Fiat-Chrysler (-3.7%). And while the average sticker price was an all-time high US\$35,870, according to Kelley Blue Book's Alec Gutierrez dealer discounts have been rising so fast that the actual cost to buyers has been coming down.

TRUMP REFUTES REPORTS TILLERSON WILL BE FIRED (AP, Matthew Lee)

•As Mr. Tillerson this week went about his normal schedule of diplomatic activities, incl. two meetings with Mr. Trump, the latter tweeted “the media has (!!!) been speculating that I fired him or that he would be leaving soon - FAKE NEWS! ... He's not leaving and while we disagree on certain subjects (*incl. Trump's intelligence?*), I call the final shots, we work well together and America is highly respected again”¹¹

¹⁰ In many eyes the father of modern international portfolio management, he operated for years from a second story suite in a small Bermuda strip mall ('so as to scare off obnoxious salesmen'). But this not prevent him from racking up a record second to none that resulted in anyone who had invested US\$10,000 in his Templeton Growth Fund in 1954 would have ended up up with US\$2MM by the time he sold out in 1992; in other words, his compound annual rate of return over 38 years was 14 ½% (nowhere near Bitcoin's recent performance but much, much safer!).

¹¹ Which verifies how ill-informed, or more likely' willfully blinkered, Trump is. For last June Pew polled adults in 37 countries on the Trump effect on America's international stature : in only two (Israel, 49% to 56%) & Russia (11% to 53%) was it positive. Among the more spectacular declines were Sweden (from 93% to 10%), Germany (86% to 11%), Soth Korea (88% to 17%), France (84% to 14%), Canada (83% to 22%) & Japan 78% to 24%). And it is unlikely to have gotten better since.

Long experience has taught me the validity of ‘the higher the level at which a rumour is denied, the greater the probability that it is true’ saying. He is misrepresenting the media’s line that there was a concerted effort ramrodded by White House Chief of Staff Gen.(ret.) John F. Kelly to demean Tillerson to the point where he would quit (& thereby keep Trump’s hands ‘clean’¹²).

US WARNED AGAINST EMBASSY MOVE (AP)

- White House officials have all but confirmed that Trump will soon, possibly this week, announce that the US will recognize Jerusalem as Israel’s capital (although stopping short of moving the US Embassy there from Tel Aviv, at least not for the time being), something that three US Presidents over the past 25 years have refrained from doing on the, seemingly common sense, grounds that its status should be resolved in the context of the final Israeli-Palestinian negotiations on the creation of Palestinian state.
- On December 4th the 57 member country Organization for Islamic Cooperation, said this would constitute “naked aggression” against the Arab & Muslim world & the West Bank’s Fatah-led government called for mass protests (it wants East Jerusalem to be any future Palestinian state’s capital).

This reminds me a bit of a comment by a prominent Israeli political commentator a few years ago after Obama had made some concession to Netanyahu when he said “This is like giving a green light to someone who doesn’t even stop for red lights.” Word has it that Trump phoned several interested parties, most importantly Prime Minister Netanyahu, PLA President Mahmoud Abbas & King Abdullah II of Jordan, to give him a heads-up & received a call from Saudi Crown Prince Mohammed asking him not to do so. But this is vintage Trump, delighting in poking a stick in the establishment’s eye. Such a move at this time, as the political temperature in the regional pressure cooker is rising & the Gaza-controlling Hamas & the West Bank-based Fatah are (once again) trying to bury the hatchet & present a sort-of united front, would be as dumb as throwing an incinerant on a barely-under-control fire. But he obviously feels that all that matters is to act on his ill-informed election promise^{13 14} to move the US Embassy to Jerusalem - Moreover, under the 1947 UN Partition Plan that created Israel Jerusalem was to be a city that would not be part of Israel nor of any future Palestinian state. In 1948 Israel & Jordan agreed to divide Jerusalem, with the Eastern part coming under Jordanian rule, an agreement formalized by the 1949 Rhodes Agreement & abided by until David ben-Gurion, then the leader of his new National List Party but not yet Israel’s Prime Minister, declared his party’s policy was that “Jewish Jerusalem is an organic, inseparable part of the State of Israel”, at which point Jordan seized East Jerusalem in December 1949, a move subsequently confirmed by the Knesset in January 1950 & the Jordanian Parliament three months later. Israel then seized East Jerusalem in the 1967 War (so under international law-, but not in Israeli eyes-, “occupied territory”).¹⁵

¹² This for the man who made himself famous on The Apprentice TV show by his “You’re fired” pronouncements?

¹³ Oblivious to the fact that the only thing to believe about politicians is never to believe them.

¹⁴ Instigated by son-in-law Jared Kushner, an Orthodox Jew whose father has over the years been a stalwart financial supporter of West Bank settlement causes?

¹⁵ So Netanyahu out-and-out lied when, after Trump had made his spiel, he appeared on TV & told listeners “Jerusalem has been Israel’s capital for seventy years”.

SAUDI ARABIA'S ANTI-TERROR 'COALITION' IS A HOUSE OF CARDS (Huffington Post, Daniel Wagner & Giorgio Cafiero)

- After months of Western pressure, *incl. from President Trump directly (& through Jared Kushner during his recent two day 'below the radar' visit to Riyadh?)* to fight the Islamic State more forcefully, Saudi Arabia's young, inexperienced Defense Minister (*Crown Prince & First Deputy Prime Minister*) announced the formation of a military coalition¹⁶ of nearly three dozen Sunni Muslim-majority states¹⁷ stretching from Morocco to Bangladesh to defeat terrorism in Afghanistan, Egypt, Libya, Iraq & Syria¹⁸. This is a "Coalition of the Weak, Divided & Unwilling" that includes failed states, others that are beset by civil wars themselves & still others that are among the world's poorest, that is unlikely to weaken Daesh. The militarily most powerful (Turkey, Egypt & the UAE) won't quit pursuing their own goals to suit Prince Mohammed. And if he was really serious about weakening Daesh, he would take measures to ensure that Saudi Arabia would quit funding the religious schools all over the world that spread Wahabbism, Daesh's ideological foundation.

The Crown Prince is 'batting way above his weight' & 'spreading himself way too thin'. The first blow to this dream of his came quickly when Houthi rebels killed long-time Yemeni power broker and occasional president Ali Abdullah Saleh for dumping them to cuddle up to the coalition. And while his son Ahmed Ali Saleh has vowed to pick up from where his father left off, at last report he was still under house arrest in Abu Dhabi where he had been ambassador (presumably for his father's alliancing himself with the Houthis in Yemen) - Wagner is CEO of Connecticut-based Country Risk Solutions & Cafiero of Washington-based Gulf States Analytics.

IS CHINA'S CENTRAL BANK LOSING ITS MONETARY MOJO (WSJ, Shen Hong)

- In the past year short-term market rates of interest have persistently exceeded the central bank's as investors & banks, spooked by the government's crackdown on the economy's high leverage levels, are charging each other & their clients more for money. The resultant widening gap between the PBOC's 'official-', & the market's-, rates of interest is making it harder for Beijing to use a key policy tool to manage its economy.

This underlies the consensus view that China's GDP growth rate will decline in 2018 [according to the ADB (Asian Development Bank) to 6.4%, down from 6.7% this year]. Meanwhile, India's

¹⁶ A truly bizarre move amateurishly executed. The priority of the Crown Prince is to curb the influence of Shia-Muslim Iran, not to rein in the Sunni-Muslim jihadists in the region. What interest might countries like the Comoros have in playing his game & what, for that matter, might it (or Palestine???) have to contribute?. Both Qatar & Yemen are currently being blockaded by Saudi Arabia. Pakistan, one of Saudi Arabia's most important allies, only learnt about its inclusion from the media (& its army is jihadist-friendly). Malaysia expressed reservations & wasted no time making it clear it would not make any military contribution. And Turkey is helping Qatar circumvent the Saudi blockade (its exports to Qatar have tripled in the six months since the onset of the blockade).

¹⁷ Bahrain, Bangladesh, Chad, Comoros, Cote d'Ivoire, Djibouti, Egypt, Gabon, Guinea, Jordan, Kuwait, Lebanon, Libya, Malaysia, Maldives, Mali, Mauritania, Morocco, Niger, Nigeria, Pakistan, Palestine, Qatar, Senegal, Sierra Leone, Somalia, Sudan, Togo, Tunisia, Turkey, UAE, and Yemen

¹⁸ Without giving any detail as to how to go about doing so. Moreover, between the lot of them they don't have the logistical capability to sustain such a venture & in at least some of the targeted countries any interference with their local affairs may prompt more problems than it will solve.

GDP growth rate has recovered to 6.3 %, after a five quarter slide from 9.2% to 5.7% in 1Q/17; so it seems to be recovering from Prime Minister Modi' November 2016 ill-advised 'demonitization' of all high denomination banknotes, i.e. of 86% of the face value of all bank notes in circulation, & on track to return to exceeding China's.

FORD, ALIBABA SET FOR TIE-UP IN CHINA (Seeking Alpha, Yoel Minkoff)

- Ford is expected to sign a deal with Alibaba on December 7th to sell cars in China through Alibaba's online retail arm, Tmall, in part via a new retail concept, The Automotive Vending Machine, a virtual multi-story parking garage that will let it sell cars directly to consumers.

A Hail Mary pass?. For Ford's profit margin has gone from 10+% in 2011 to 2% in the past year.

BOJ'S TRIM OF BOND PURCHASES HINTS AT 'STEALTH TAPERING' (Nikkei Asian Review, Tatsuya Goto)

- The supply of funds to the market in November increased by 51.7TR yen/ US\$458BN, the smallest monthly amount since the BOJ introduced "easing of a different dimension" in April 2013 (one month after Haruhiko Kuroda became Governor), engendering speculation it is paving the way for trimming its 'ultra-easy' monetary policy.

Last year the BOJ was boosting the money supply at a 80TR monthly rate.

GOOD LUCK GRACE (Vue, Gwynne Dyer)

- Zimbabwe's President Mugabe has resigned & his wife Grace¹⁹, who had been plotting to succeed him & was behind his sacking two vice-presidents in a row, has now herself been thrown out of the ruling ZANU-PF party. And since the new President, Emmerson Mnangagwa, has no reason to protect the Mugabes, they may be wise to decamp to a comfortable retirement in Singapore or another foreign city where she owns homes.
- While the Zimbabweans have been celebrating their downfall in the streets, it wasn't the result of a popular revolution but of a power struggle within the ruling Zanu-PF party. And Mnangagwa is no democrat, but a *long-time Mugabe ally* & brutal political operator who has been implicated in the deaths over the years of ten of thousands of his fellow countrymen & women. So now the country will be run by the same elite that has long looted its economy & run into the ground, and by a man who, *if anything*, is more ruthless & violent than Mugabe : so their new boss will just be the old boss 2.0.

The writer is a 74 year-old Newfoundland-born, UK-based syndicated columnist, who over the years acquired a BA in History from Newfoundland's Memorial University, an MA in Military History from Houston's Rice University & a Ph.D. from King's College London & served in the Naval Reserves of Canada, the US & Britain and who, rather than running with the herd that sees the world through rose-coloured glasses, is a realist who calls a spade a spade.

¹⁹ Deeply hated in the Zanu-PF party & unpopular with the hoi polloi for her greed & arrogance