GLEANINGS II - 755
Thursday April 6th, 2018

Latest in the US-China trade dispute - After Beijing announced new tariffs on US$3BN-worth of 128 of its US imports (most from US states that in 2016 strongly went for Trump), the US published a 45 page, 1,300 item list of US$50BN of Chinese-made goods, ranging from sewing machine needles through aerospace products, machinery for processing textile-, & food-, products, and dishwashers to pharmaceutical-,& medical supplies on which, subject to a 60 day public review, new tariffs of up to 25% would be levied "in response to Chinese policies that coerce US companies to transfer their technology and Intellectual property to domestic Chinese enterprises", with the items on the list "carefully selected" to minimize their impact on US consumers" - *This was a gross overreaction, both in terms of the number of items & of their value relative to the earlier Chinese move, although one can only wonder, how many items will go MIA under the next 60 days' lobbying onslaught from various vested interests 'whose oxen would be gored'. More importantly, this overreaction may prompt a Beijing response in kind, i.e. with another overreaction 'upping the ante' in this potentially mutually harmful one-upmanship 'game'. At least two major US companies could get caught in the resultant cross fire: for Boeing has a 300+ plane US$40+BN Chinese order book for 737s & 767s, all or part of which China could simply walk away from, switch to Airbus or, in a long-term worst case for both Boeing & Airbus, use to further build the already substantial order book for its very own Boeing 737/Airbus 320 alternate/ 'knock-off', the C-919 (proto types of which have already made six test flights, incl. one 900 miles in length) that Beijing has announced will be "in mass production" by 2021 (& is being pro-actively marketed to other Asian countries). And the other is GM, that for years has been selling more vehicles in China than in the US (thus in 2017 just 31% of its 9.6MM global vehicle sales were in the US vs 41% in China). And on August 4th Beijing retaliated by announcing plans to start, in 30 days, imposing new tariffs of up to 25% on 106 imports from the US with an aggregate value of US$50BN, which is noteworthy for three reasons : their list includes airplanes &automobiles (so will affect both Boeing & GM), and soybeans, thereby hitting the pocket books of Trump's Midwestern farm support base (nowhere more so than in Iowa that in 2016 went 51.2-41.7 Republican after having gone Democratic by an average 51.1-47.1 in the previous four Presidential elections) and, finally, based on the 2017 numbers, whereas Beijing's US$50BN will affect 40% of US exports to China, Washington's US$50BN will apply to just 10% of Chinese exports to the US; in other words the result will be to worsen, not improve, the US-China bilateral trade balance. And, even if Washington were to start angling for a 'deal' (as it is said to be doing), the damage will have been done; for then in the eyes of the world Trump, who started this stupidity in the first place, will be the one to have 'blinked" first, thereby further eroding his, & the US' , increasingly 'wobbly' global stature*

Quite a juxtaposition! - On March 14th the Globe and Mail carried, on page 2, a Reuters report "Credit quality of Canadian banks under strain : Moody's" (based in part on the average Canadian household now having a record debt load of 167% of its disposable income, & in part on the share of uninsured home mortgages & home equity-secured LOCs (lines of credit) having grown in the previous five years from 50% to 60% *of their home loan 'book*', while on page 3 it reported "Chief executives of Canada's biggest banks get major pay raises amid surging profits" (with the "Best Total Compensation" being $13,360,877'). And on page B3 of its March 18th edition another article was headed "Bank customer complaints hit five year high".

Historically mortgages taken on lenders' books in the later stages of an extended growth period have been most problematic afterwards. The banks may have fallen in the same trap as rookie investors, chasing yield by moving up the risk curve. And, while the Bank of Canada has raised interest rates thrice since mid 2017 to 1.25% & the market expects it to have two more kicks at *that cat this year, consumer surveys show that many Canadian households would have serious difficulty handling-, if not being unable to cope with-, higher interest rates. Meanwhile, "a small cloud like a man's hand on yonder horizon" (1 Kings 18:44) now exists in the form of a slowing economy [while Ottawa has for some time touted "Canada's strong economy" (up by 3%*[1] *in 2017, from 1.4% YoY), it recently 'went silent' as its Budget called for 2.2% this-, & 1.8% next-, year . And the 'bell may be tolling' for Canada's housing market; for in March home sales were dramatically down YoY in Canada's hottest markets : 27.7% in Vancouver & 39.5% in Toronto.*

Putin playing with fire? - Last January 30th, in international airspace over the Black Sea, a Russian SU-27 fighter plane crossed the path of a US turbo prop EP-3 'Orion" aircraft just five feet in front of it, with the Russian Defense Ministry later reporting its plane had "safely returned to its base after the US plane had changed its course" & the Pentagon calling this an "unsafe interaction" since it had forced the Orion to fly "through the SU-27's jet wash" - *The Orion is classified as both a "signals reconnaissance"-, & an "anti-submarine surveillance"-, aircraft, i.e. a 'spy 'plane; so Moscow doesn't want it anywhere near its territory & seemingly is taking a posture to the Black Sea like Beijing's to the South China Sea (i.e. "it's ours", no matter what the Law of the Sea).*

Syria mess - On Tuesday April 3rd the President said he wants to withdraw US troops from Syria "very soon" (while his policy advisers think they should stay there to finish off ISIS). According to Kelly Magsamen of the Center for American Progress this suggests "either a Commander-in-Chief completely disconnected from his own policy or a policy totally disconnected from the Commander-in-Chief" & to Jim Acosta, CNN's Chief White House Correspondent[2], one senior administration official had told him "aides to Trump are puzzled by his comment yesterday that the US will be pulling out of Syria 'very soon' ... We are still trying to figure out what he meant..." - *And there were press reports on April 4th that the US had moved reinforcements into the Manbij district along the Turkish border that has been controlled since August 2016 by Kurdish forces some of whom did the heavy lifting in the defeat of ISIS but that Turkey wants removed, with a Pentagon spokesman saying local commanders were 'delegated the authority & responsibility' to position military personnel & resources to "accomplish their mission and protect themselves ... (and) occasional modifications to force size would therefore be normal". Be all this as it may, the White House the very next day after Trump's comment issued a denial of the existence of any plans to pull out of Syria, while the US military presence in the Manbij district could set the stage for a clash between Turkish & US forces since President Erdogan wants to Kurds out of there, no matter what.*

UK spy poisoning case - Putin seems to have been surprised & frustrated by the West's unity in this case & by the number of countries that followed in Britain's footsteps by sending some Russian embassy staff packing (*thus seriously eroding his foreign intelligence network abroad*).

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1 Made up of quarterly annualized rates of 1.0%, 1.1%. 0.4% and 0.4% respectively.

2 Who during the Easter Monday White House lawn egg roll shouted a question at Trump "Mister President, what about the DACA kids , should they worry about what is going to happen to them? To which Trump replied "The Democrats really let them down" and Acosta followed up with "Didn't you kill DACA, sir? Didn't you kill DACA?", all of which prompted Brad Parscale, Trump's 2020 campaign manager, to twitter that Acosta should be suspended & have his press credentials removed, which prompted a counter-tweet by Acosta that "Just doing my job ... which is protected by the First Amendment. Yoy might to give it a read", and AFP's Andrew Beatty to comment that "The tense dynamic between the White House and reporters was fueled by ... the Trump administration's unwillingness to be held accountable."

So he has had his Foreign Minister, Sergei Lavrov, making silly accusations & on April 4th, after he had been given a bloody nose in The Hague by the OPCW (Organization of the Prohibition of Chemicals), when of its 41 member countries only six supported his case vs. 15 who didn't, while seventeen abstained, two were absent & one not entitled to vote, after which he took his case to the UN Security Council (a "stretch" since its mandate gives it "primary responsibility for maintaining international peace and security" not minor disagreements between governments) in which he may well not do much better since two (Netherlands & Poland) of its ten current, non-permanent members were among those who kicked out Russian 'diplomats' and none of the other eight are natural Russian allies, not even Kazakstan which is in the midst of a dispute with Russia over rebroadcasted Russian TV programs flooding its airwaves - *It's beginning to look more & more that he made a bad call when he let his people use a poison of Russian origin that isn't known to exist elsewhere. And all the Security Council interlude really achieved was to enable the Russian ambassador to the UN to vent more threats to Britain & British ripostes thereof.*

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<u>TRADE TENSIONS CLOUD BEST GLOBAL GROWTH FORECAST OUTLOOK IN SEVEN YEARS, OECD SAYS</u> (Reuters, Leigh Thomas)

- Prior to the March 17-18 G-20 Finance Ministers' & Central Bank Governors' meeting in Buenos Aires, the OECD hiked its global growth forecast for 2018 & 2019 from 3.6% to 3.9%, a post 2011 high, on the grounds the US tax cuts would boost growth there to 2.9% this-, & 2.8% next-, year, with its Chief Economist, Alvaro Pereira, saying "We think the stronger economy there is here to stay for the next couple of years ... We are getting back to more normal circumstances than what we have seen in the past 10 years" Due to the broader global improvement, it also raised its 2018 forecast for Britain by 0.1% to 1.3% but, because of Brexit, kept it unchanged, at 1.1% for 2019. And on the assumption of stronger growth in France (from 1.7% & 1.8% to 1.9% & 2.2%, the latter an 11 year high) & in Germany (from 2.3% & 1.9% to 2.4% & 2.2%), it raised its outlook for the Eurozone too, from 2.1% & 1.9% to 2.3% & 2.1% for 2018 & 2019 respectively. But it also noted that, although rebounding global business investment would keep global trade growth at 5% per year ... the global economy was vulnerable to an eruption of tensions after the Trump administration imposed import tariffs on steel & aluminum, with Mr. Pereira commenting "This could obviously threaten the recovery ... we believe this is a significant risk, so we hope that it doesn't materialize because it would be fairly damaging" & that, "with the Euro area economy resilien …rising inflation would allow the ECB to cut its bond purchases gradually ... & phase out its negative interest rate policy.

Since then there has been one bit of good-, & two bits of bad-, news. The former is that, on the basis of a marginal increase in the real rate of consumer spending & a significant one in the rate of private fixed-investment, the Atlanta Fed's GDPNow growth reading was bumped from 1.8% on March 26th to 2.8% on April 2nd. And the latter two that, one, last year the US bilateral trade deficit with China had increased by 8.1% to US$375BN (even though US exports to China had increased by 12.1% to US$130BN) and two, that, in response to the US imposing tariffs on the import of steel & aluminum[3], China had imposed tariffs of 25% on 8-, & of 15-,% on 120-, US imports (while, all in all, this wasn't too bad since both accounted for just 2.3% of the US 2017 exports to China, this understates its US political impact since Beijing's selection was heavily &

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3 Which seemed sort of silly choices since in both cases the top three sources of steel & aluminum imports into the US were Canada, Russia & the UAE while China ranked 11th & 4th respectively.

deliberately skewed towards products from central US states Trump had carried with huge majorities in 2016).

FED'S BULLARD SEES NO REASON TO HIKE INTEREST RATES FURTHER
(Market Watch, Greg Robb)

- St. Louis Fed President James Bullard on Wednesday April 4th told the Arkansas Bankers Association the Fed doesn't have to raise interest rates *any more* & that monetary policy is now close to "neutral", but that the *Trump-engendered* escalating trade dispute between the US and China could add uncertainty to an otherwise bright economic outlook although it is still too early to tell what it will mean in terms of jobs, inflation & monetary policy.

Bullard is the most dovish member of the FOMC (although, not having a vote this year, his influence there is limited. And he shows his bias when he welcomes a "neutral" monetary policy stance at a time GDP growth being well in excess of the US "trend" growth rate, the unemployment rate is extraordinarily low & inflation is edging up, i.e. when a monetary policy on the hawkish side of "neutral" likely would be more appropriate (if not outright called for).

YOUNG SAY PRESIDENT 'UNFIT' (AP)

- A poll by AP/NORC Center for Public Affairs and MTV found that just 33% of Americans between the ages of 15 & 34 approve of Trump's job performance, 9 points lower than the adults asked the same question in a separate AP/NORC survey earlier this month.

Another burden for Republican incumbent lawmakers to carry into the mid-term elections?

CANADIAN RAILWAYS FEEL THE HEAT FROM U.S. GRAIN COMPANIES (G&M, E. Atkins)

- The Virginia-based 1,000+ member National Grain and Feed Association on March 10th sent a letter to Ann Begeman, Acting Chair of the STB (Surface Transportation Board) saying that the *five* Class 1 railways, in "aggressive efforts to impress Wall Street investors with better operating ratios" [4] are cutting service & charging more, and reducing locomotive fleets, to the point of having "degraded service to unacceptable levels". An STB spokesman wouldn't say what steps the regulator might take in response to this, & other, complaints other than that "the STB is aware of it and ... have let the public know about it". Meanwhile Haliburton had reported earlier that in February CN had halted fracsand-*hauling* services in Wisconsin & Minnesota, thereby delaying many oil & gas projects.
- In Canada similar criticisms have been leveled against both railways since poor rail service has left *Western* farmers short of cash, with the Western Grain Elevator Association complaining the railways are focusing on more lucrative business, knowing that 'grain will sit'. And *it seems to have a case;* for YTD CN's grain car loads are down 15% YoY & CP's 8%, while six other freight type loadings are up. And, while Ottawa *earlier* asked both how they planned to clear their grain backlog, *all it has so far gotten in*

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[4] The ratio of their operating expenses over their operating revenues. This is a key measure of their efficiency. If so, of the five major US railways only two (Norfolk Southern and, to a lesser extent, Burlington Northern Santa Fe, in fact the former is in a class by itself) seem to be doing so, while those of the CN & CP have been trailing them by a street length(in 2017 hasd a ratio of 70+%, both had ratios of 57.4%, down from 60.7% & 59.8% respectively two years earlier)..

return has been some mumbo jumbo about a harsh winter (not in Western Canada) & surging freight volumes.

Recently complaints have also started to proliferate from Western Canada's oil industry that poor rail service has resulted in overfull storage facilities which, when added to pipeline constraints & a tripling of the discount on its product from WTI is creating a 'perfect storm' for it. As to the movement of grain, the present situation is a far cry from that which promoted CP 15 months ago to brag their new & shorter-, but 11% greater carrying capacity-, hopper cars & longer trains, would, with the same number of locomotives, result in trains capable of carrying 20% more grain (that in certain corridors would be moved as much as 30% faster).

ISRAEL NIXES INQUIRY CALL (London Daily Telegraph)

- According to Palestinian health officials 15 Palestinians were killed & 700+ more wounded on March 30th on the Gaza-Israel border in the worst violence since the 2014 "Protective Edge" Israel-Gaza war. While prompted human rights groups to accuse the IDF of an excessive use of force, and both the UN Secretary-General & the EU's foreign policy chief, and Tamar Zandberg, the head of Israel's dovish opposition party Meretz[5], to call for an investigation. Israeli Defense Minister Avigdor Lieberman told Israel Army Radio that Israel wouldn't cooperate with any UN inquiry, even if there were one, & that "From the standpoint of the Israeli soldiers, they did what had to be done ... I think that all of our troops deserve a commendation and there won't be any inquiry." Two days later the President of Turkey in a televised speech in Adana, Southern Turkey, accused Prime Minister Netanyahu of being a "terrorist" after he rejected his "moral lessons" over these deadly clashes, saying "Hey, Netanyahu! You are an occupier. And it is as an occupier that you are on those lands" to which Netanyahu responded by calling his comments an April Fool's joke & twittering "The most moral army in the world will not be lectured to from someone who for years has been bombing civilians indiscriminately ... Apparently this how they mark April 1 in Ankara."
- In the March 30th confrontation large crowds had gathered near the border *fence* while Israeli soldiers perched on the embankments overlooking the scene fired live rounds & rubber-coated steel pellets into-, & drones dropped tear gas from above on-, the crowd below that included *relatively* small numbers of stone throwers. While the military said it responded only to 'violent attacks on its troops' (*from behind a fence?*), a video of the scene, that the Israeli military claimed was 'doctored', showed just a handful of incidents in which many people shot far from above were actively rioting (although Lieberman claimed on Israel Army Radio that those who protested peacefully were not shot & that "Whoever didn't get close to the fence was not shot".

The confrontation continued at a lower key all week but heated up again on Friday April 6th, when according to al-Jazeera as of 0915 hrs Edmonton time, the body count was25 killed & 1,600+ wounded, incl. several journalists covering the situation from the Gaza side of the fence. This may be the start of a restive period ahead of the mid-May 70th adversary of Israel's founding. While, due to my personal WW II experience I have always been pro-Israel, I share

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[5] While she was quoted as saying, & was criticized for saying, "I'm worried about the fate of all of us, and the fate of the residents of the Gaza periphery communities, who could be sitting in bomb shelters today, tomorrow or next week", Israeli defense analyst Alon Ben-David wrote "As if this were a case of innocent civilians who had been shot while doing their holiday shopping, rather than people who had been pushed to the border by Hamas in order to be killed in service to their Palestinian narrative"

Zandberg's concerns "about the fate of all of us" (Israelis). For if Hamas ever dropped its warlike mindset & adopted a more Gandhi-like 'non-violent, civil obedience' stance Israel's goose could soon be cooked. Meanwhile Gaza is a human pressure cooker without a safety valve whose 1.8MM inhabitants, whose number is growing at a 2.3% annual rate - i.e. will double every 31 years - are 'penned up' at a rate of 5,000 per square kilometre, have a per capita GDP of < US$1,000 (vs. US$37,000 in neighbouring Israel, US$3,900 in Egypt & US$2,900 in the West Bank), with 25% of them living below the US$649 global poverty line, 45% are 0-14-, & 66% < 25-, years of age, overall unemployment is in the 25-30% range & youth unemployment as high as 58% and, since it has a 51 kilometre border with Israel, if every one of its inhabitants were to line up at its border with Israel, their ranks would be 39 deep. And the Israeli soldiers firing from the embankment is akin to "shooting fish in a barrel".

<u>RUSSIA TESTS ICBM</u> (AP)

- On March 30th the Russian Defense Ministry announced it had successfully tested a new, ICBM from its Plesetsk 'Cosmodrome', *800 kms. North of Moscow*. Named 'Sarmat', it will replace the *44 year-old* Voevoda (called Satan by NATO), the world's heaviest ICBM. According to Putin earlier this month it weighs 200 tonnes (about the same as Voevoda), can fly over both North-, & South-, Poles to strike targets anywhere in the world, carries more-, & more powerful-, nuclear warheads, accelerates faster on take-off, making it harder to intercept in its most vulnerable stage after launch, & is more capable of dodging missile defenses.

The Voevoda carried 10 nuclear war heads (vs the US' Minuteman 2's three). And what the world, & the Russian economy, really needs right now is a bigger, better nuclear Putin "boy toy"!

<u>MILITANTS AND SOLDIERS DEAD AS ANTI-INDIA PROTESTS ERUPT IN KASHMIR</u> (AP)

- In recent years, in southern Kashmir, new-age rebels have revived militancy & challenged New Delhi's rule with guns & an effective use of social media, with many, mainly young, Kashmiris displaying open solidarity with anti-India rebels. Thus on Sunday April 1st massive anti-India protests erupted in several parts of the India-controlled *part of* Kashmir, with protesters chanting anti-India slogans & demanding an end to Indian rule, as fierce fighting raged between rebels & government forces that left 12 militants & three soldiers dead, while elsewhere in Southern Kashmir at least four civilians were killed & dozens more injured in anti-India protests after Indian troops launched counter-insurgency operations against rebels & raided three villages where rebels were rumoured to be hiding.

The seven decade-old Kashmiri running sore dates back to the immediate aftermath of India's 1947 independence when the local Hindu maharaja in 1947 opted for India even though the vast majority of his subjects were Muslim, while elsewhere Muslim maharajas with Hindu subjects weren't given the same option. And in recent years the resultant long-smouldering Muslim resentment has been taken advantage of by Muslim extremists.