

**GLEANINGS II - 865**  
**Thursday December 17<sup>th</sup>, 2020**

**Quote of the week** - "People who regard American values as their standard ... suffer from rickets of the brain." - December 16<sup>th</sup> Xinhua editorial; *and it may well be reporting on, rather than seeking to incite, public opinion in China since, according to a Western source in Beijing, "even the 'tree huggers' have become more critical of the US this year" (and today's happenings in the US make it clear that America 2020 is a long way from that of yesteryear, of December 7<sup>th</sup> 1941 or even of 9/11, when adversity prompted national unity rather than infighting).*

**China-Australia relationship deteriorating** - In recent weeks Beijing has hit a range of imports from Australia with vague politicized bans. This has applied first & foremost to coking coal for steel mills, with the result that the price of high quality Australian coking coal in India & Japan now is US\$70 **below** that of lower quality domestically-produced such coal in China. This prompted Credit Suisse to observe "China's Australian coal import ban is starting to look like an own goal for (Chinese) steel mills" (*that is, however, 'gladdening the hearts' of steel mills in other countries?*) - *China's post-1989 meteoric economic growth created a huge demand for resources that Australia was only too happy to fill and that led to its nearly three decades of uninterrupted economic growth averaging 3.2% annually. And yet, unlike Canada's 'namby-pamby' Trudeau government, it dared to go on record criticizing Beijing's human rights record & is now paying the price for doing so. And YTD its economic track record has been better than Canada's, with quarterly GDP growth rates of -0.3%, - 7.0% & +3.3% vs. Canada's -1.9%, -11.3% & +8.9% that, as of September 30<sup>th</sup> left Australia's GDP at 95.8% of that on December 31<sup>st</sup>, 2019 vs. Canada's 94.7%.*

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**MOHAMED EL-ERIAN WARNS OF A 'VICIOUS' ECONOMIC SLOWDOWN THAT CAN ONLY BE SAVED WITH MORE POLICY EFFORTS (Markets Insider, Emily Graffeo)**

- He told Bloomberg TV's Jonathan Ferro on Friday December 11<sup>th</sup> the global economy is entering a 'vicious circle' as coronavirus cases surge & economic activity slows, and more specifically that "We are looking at a high probability of a vicious circle. Public health is deteriorating ... policy is not doing anything. The economy is slowly going into recession in Europe <sup>1</sup> and people are becoming more hesitant to interact socially & economically. We need to break that cycle". And he says that only policy efforts can break it but calls the ECB's expansion of its stimulus-, & bond buying-, programs "understandable but unlikely to bolster the economic machine or attain its inflation objective".

*I am afearred that fiscal policy will run in the same brick wall as monetary policy already has, with its traditional policy tools having lost their 'pump-priming' potential. If the World Bank is correct & global GDP, after growing at 3.3%, 3.0% & 2.4% in 2017, 2018 & 2019 respectively, will **shrink** by 4.4% this year before resuming growth at a 5.2 % rate next year, on December 31<sup>st</sup>, 2021 the global economy will be just 0.6% bigger than it had been two years earlier (& this may well be a forecast on the 'rosy' side with global GDP as of December 31, 2021 possibly being the same, if not slightly less, as it had been two years earlier). The past decade's buildup in global debt is unprecedented. In the four years ended December 31<sup>st</sup>, 2019 total global debt outstanding increased by US\$52TR, vs. US\$6TR in the four years ended December 31<sup>st</sup>, 2015. And this year it has gone from bad to worse : in the nine months ended September 30<sup>th</sup> total global debt was ratcheted up another US\$15TR. And it is expected to increase another US\$5TR in the Fourth Quarter*

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<sup>1</sup> After negative growth of 11.8% in the Second Quarter, the EU recorded a strong +12.7% positive GDP growth rate in the Third but is expected to 'go negative' again in the Fourth.

to US\$277TR <sup>2</sup> (i.e. to 365% of global GDP, 4+x where it had been in 2007 & up 10.9% YoY). And, regardless of the 'talking heads' on TV seeking to assuage popular concerns on the issue, the combo of a high rate of fiduciary money creation & low, if any, growth in production, has historically led to 'demand-pull' inflation - I have long been an El-Erian fan. Now 62, he was born in New York City to Egyptian parents, spent his boyhood years in Egypt & his early teens in France (& thus has triple citizenship), and was educated in England, first in a boarding school and then at Cambridge for his first degree in economics & at Oxford for the other two. His first job was at the IMF where he quickly became a Deputy Director. At age 30 he went to work for Salomon BrothersSmith Barney/Citigroup in the private sector before joining Newport Beach-based PIMCO, after which he was CEO of Harvard University's Asset Management Fund & a member of its Business School faculty, only to return in 2007 to PIMCO as its CEO & Co-CIO during a period that its AUM doubled to US\$2TR. But in 2014 he resigned from PIMCO, and ever since has been the Chief Economic Adviser to the Management Board of Munich, Germany-based Allianz (one of the world's largest insurance-, cum asset management-, firms) as well as Chairman of its International Advisory Commission & a member of its International Executive Committee. Along the way he has collected awards by the truck load & been on many lists of 'the Most Powerful People', acted as Obama's Global Development Council Chair & written two NYT best-sellers, the latest of which, in 2017, entitled "The only game in town : Central Banks, Instability and Avoiding the Next Collapse", I was not aware of but plan to order and, if so, in due course may comment on.

### **GLOBAL SECURITY TEAMS ASSESS IMPACT OF SUSPECTED RUSSIAN CYBER ATTACKS** (Reuters, Jack Stubbs and Raphael Sarter)

- Security teams moved on Monday December 14<sup>th</sup> to contain the fallout of a massive cyber attack by suspected Russian hackers that spread (*undetected for 8 months!*) into the customer base of the two decade-old, Tulsa OK-founded & now Austin TX-based, US\$1BN revenue SolarWinds information technology company. This prompted the Department of Homeland Security on Sunday December 13<sup>th</sup> to issue an 'emergency warning' ordering SolarWinds software users to disconnect & disable all its SolarWinds software because it had been compromised by "malicious actors".
- SolarWinds has some 300,000 customers, incl. a majority of Fortune 500 companies & some of the most sensitive US government entities, incl. the White House, Pentagon, NSA (National Security Agency & *the agency overseeing the nation's nukes*). Apparently the 18,000 of its customers that use the latest version of SolarWinds' Orion network management software had a "backdoor" installed with it in their computer systems. And Fire Eye, a prominent Milpitas CA-based cybersecurity company that itself was breached, & *that was the entity that discovered the hack*, blogged that targets had included "government, consulting, technology, telecom and extractive industries in North America, Europe, Asia & the Middle East".
- According to Kremlin/*Putin* spokesman Dmitry Peskov "If there have been attacks for many months and the Americans could not do anything about it, it is probably not worth immediately & groundlessly blaming the Russians ... we didn't have anything to do with it."

*While the latter part of Peskov's observation should not be taken at face value, the part about Americans not having detected it, is yet another indication of the erosion of the once pre-eminent global stature of post-WW II America.*

### **U.S. SHOPPERS PULL BACK AT START OF HOLIDAY SEASON** (WSJ, Harriet Tory)

- The Holiday Shopping Season got off to a muted start amid a surge in coronavirus infections (& *fatalities that are now running at a 100,000 monthly rate, up 354% MoM, & 54% from the previous high on April 23<sup>rd</sup>*, & business restrictions in some states *that, if anything, seem to be on the increase*. Seasonally adjusted retail sales were **down** 1.1%, whereas -0.3% had been expected,

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<sup>2</sup> Up from the US\$ 257TR where the Washington DC- based IIF (Institute of International Finance) last January had estimated it would be.

after the October number had been revised from the initially-reported +0.3% to -0.1%. This was the second month that sales growth has been negative after having been positive for five months <sup>3</sup>.

Restaurants, department stores, vehicle dealerships, clothing & furniture-, and electronics-, stores & gas stations were among the biggest losers. While online sales were up 29.2% YoY, traditional brick stores saw a 52% YoY drop in traffic on Black Friday, despite their efforts to start the Holiday Season sales early. According to Joshua Shapiro, Chief US Economist at the NYC-based financial consulting firm Maria Fiorini Ramirez Inc. "Anywhere there's crowds people stayed away ... It underscores the difficulty ... until the vaccine is widely distributed."

*The longer term impact on GDP growth could have a far greater impact than generally realized. For the financial pain of the pandemic is felt far more in the consumption-driven US economy by lower income families that have the highest 'propensity to consume' & the lowest 'propensity to save'. And after the US savings rate had been in the 7½% range since the Great Recession, it spiked in April to 33.7% & in October was still 13.6%. While for years the fact had been reported but ignored in survey after survey that many families didn't have the financial wherewithal to handle a US\$400 financial emergency, after all is said & done, the hoi polloi may have learnt a lesson & start spending less on their 'wants', to save a little more for a 'rainy day' which will have a disproportionate impact on GDP growth in an economy two-thirds driven by consumption, much of it on "want", rather than "need" goods & services <sup>4</sup>*

### **TWITTER CONFIRMS THAT IT CAN BAN TRUMP'S ACCESS STARTING ON INAUGURATION DAY** **(The Independent, Mayank Aggerwal)**

- As President Donald Trump used Twitter extensively to bypass the traditional media, whom he claimed were against him, *Twitter treated him with kid gloves*. But it has now confirmed he can be banned from Inauguration Day onward. While since November 3<sup>rd</sup>, when it became evident Biden was leading, Trump has used Twitter to peddle voter fraud conspiracy theories, this confirms his account can be subject to a ban if he continues to do so after January 20<sup>th</sup> or appear with the label "This claim about the election is disputed", no matter how many interactions he may have on the platform <sup>5</sup>.
- So far President Trump's tweets have been covered under the platform's "world leaders' principles and approach guidelines". But that will end on January 20<sup>th</sup>, after which Mr. Trump will become subject to the same guidelines as everyone else & he won't get any 'special treatment'.

*Another blow to his, already teetering, ego?*

### **COMPANY TARGETED BY VOTE FRAUD CLAIMS STRIKES BACK AT TRUMP** **(AP, Joshua Goodman)**

- Allies of President Trump (& *more specifically Rudy Giuliani*) have alleged that the Florida-based *electronic voting machine* company Smartmatic helped flip the 2020 election for Joe Biden. In response CEO Antonio Mugica said in an interview with AP that for years he watched as democracy in his native Venezuela was destroyed by the lies and conspiracy theories emanating from the highest level of the country's socialist government & that he fears many Americans are too complacent in the face of a similar disinformation campaign. And he also told AP "When a candidate

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<sup>3</sup> YTD the monthly rates have been : January +0.8%, February -0.4%, March -8.2%, April -14.7%, May +18.3%, June +8.6%, July +1.1%, August + 1.4% & September 1.8%.

<sup>4</sup> And it may be worth noting in this context that in the past 35 years, the US Personal Savings Rate has only once been **over** 10%, while in the previous 40 years it had **never** been **below** 10%.

<sup>5</sup> While he has 88.9MM followers on Twitter & is among the ten Twitter accounts with the most followers, it must really 'rot his socks' that Obama is the 'top dog' with 125.9MM followers .

questions the election in some emerging market, in Africa or South America, it stays there. It doesn't affect the entire planet ... Now the role model is that if you lose, you say you didn't lose ... *but were cheated.*"

Fact checkers at AP & elsewhere have debunked Trump's far-fetched claims, while his own Attorney-General & cybersecurity officials have found no evidence of voter fraud. And last week Smartmatic sent letters to Fox News, Rudy Giuliani & other Trump allies threatening legal action unless they fully retract their baseless claims that software developed by a U.S. affiliate it had sold more than a decade ago had altered the outcome of the US election.

*Another straw in the wind as to Trump's waning stature?*

### **BITCOIN IS IN A 'MASSIVE BUBBLE' AND INVESTORS DON'T UNDERSTAND HOW ITS SUPPLY WORKS, SAYS ECONOMIST DAVID ROSENBERG (Markets Insider, Emily Graffeo)**

- On Wednesday December 16<sup>th</sup> it topped US\$20,000 for the first time ever & the next day went to US\$23,777, a nearly 20% increase in 24 hours (& up 200+% YTD). *Then it went down to US\$22,448 by 0859 hrs on Friday December 18<sup>th</sup>, back up to US\$24,053 at 0959 hrs on Saturday December 19<sup>th</sup> & down again to US\$23,799 two hours later (all times being MST).*
- While Scott Miner, Guggenheim's Global Chief Investment Officer <sup>6</sup> calls for Bitcoin to surge to US\$400,000 due to its scarcity value relative to gold, Rosenberg says Bitcoin's chart looks "absolutely crazy right now". And he warns that its *perceived* scarcity is a due to a belief that only 21 MM Bitcoin can be "mined" while there's nothing in the Bitcoin protocol (the rules for "collaboratively maintaining the Bitcoin ledger") to suggest "its supply cannot go up once we hit that limit". Furthermore, that the last time Bitcoin behaved with such a "speculative fervour", it suffered massive disappointments in the months that followed.

*When created in 2009, Bitcoin officially had a value of zero & a year or so later, in July 2010, a price of 8¢. In October 2017 it hit US\$5,000, doubled that in little more than a month & peaked another month later, in December 2017, at US\$19,783. Then it slid to US\$ 7,000 in April-, & to US\$3,500 in November-, 2018, only to reverse its path & go to US\$10,000 in June 2019 & to US\$7,000 on January 1, 2020; in other words, YTD it has more than tripled in price (I am deliberately not using the word "value", because in my eye Bitcoin is "fiat money on steroids" without any credible backing that in due course will meet the same fate as have other such cockamammy capers over the ages - Rosenberg is a two degree UoT alum in economics. Now in his 50's, in the past 20 years he first was, for nearly a decade, on the "sell side" of the market as Merrill Lynch's Toronto-based Chief North American Economist & then for another decade Chief Economist & Strategist, on the "buy side", at the Toronto -based money manager Gluskin Sheff (AUM of \$8BN) until it was sold last year to Onex, after which he hung out his own shingle under the Rosenberg Research and Associates Inc. moniker. His detractors refer to him as a 'perennial bear' but I have always found him more of an "outlier" economist who doesn't hesitate to throw cold water on "hot ideas" & whose views often are of a 'value-added' nature.*

*Bitcoin has to go up only another 15% before hitting the 21MM protocol 'cap' Rosenberg refers to.*

### **OILSANDS WIN WALL STREET'S FAVOUR AFTER SEVERAL YEARS IN SHADOW OF U.S. SHALE (Bloomberg, Robert Tuttle & Michael Bellusci)**

- The Canadian oilsands are emerging from years of relative neglect by Wall Street with a slew of upbeat analyst calls and Morgan Stanley & Goldman Sachs being the latest to respond to the 'siren call' of BAML's & BMO Capital Markets' claim that Suncor, CNRL & MEG Energy Corp. will generate healthy cash flows next year. Thus, according to a Friday December 11<sup>th</sup> note by Morgan Stanley analysts Benny Wong & Adam J. Gray, "With

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<sup>6</sup> A two decade-old NYC/Chicago-based financial services firm with 2,400 employees & AUM of US\$270BN.

improved cost structures and increased propensity to be capital disciplined, Canadian producers are emerging from the downturn stronger, with greater ability to generate free cash flow.” And the oilsands companies are expected to benefit from tailwinds that include lower heavy oil production in Mexico & the start of construction of three pipelines following years of insufficient shipping capacity, and Prime Minister Trudeau’s decision last week to narrow the scope of Canada’s Clean Fuel Standard by leaving out solid & gaseous fuels.

- Exports of Mexico’s Maya heavy crude, *the primary alternate ‘heavy crude’ feed stock Gulf Coast refiners to the oilsands producers’ WCS (Western Canada Select) crude*, is forecast to decline by 70% in the next three years, while OPEC countries have also cut output of their heavier grades of oil.
- Adam Waterous is CEO of Calgary-based WEF GP that controls two Canadian oil companies & is currently engaged in a attempted hostile takeover of Osum Oil Sands Corp. In his view “the best days of the U.S. oil industry are definitely behind us ... we are very bullish on the Canadian oil sands where others are not.”

*The oil sands producers have one big advantage over US shale; for as the article puts it “Steady output from their mines means that oilsands producers are able to keep revenue coming for decades without too much investment <sup>7</sup>, while the short lifespan of shale wells forces U.S. explorers to constantly burn cash just to keep up production.” Still, the analysts optimism may be overdone; “keeping the revenue coming is a horse of a very different colour than generating growing cash flow (for that the oilsands producers need at least two of three things : higher sales & better market access, rising prices & lower costs). I am not devious enough to know what was behind Trudeau’s Clean Fuel Standard but do know that the declining supply of Maya (& Venezuelan) heavy crude is old news & expect that OPEC’s heavy crude output will recover quickly as & when global demand recovers. Of the three pipelines referred to in the article the Energy East pipeline was an economic non-starter from the get go & mainly an Irving family pipedream, the Keystone is not in Alberta’s best interests & will have even less potential for approval under a Democratic regime in the US than it had under Trump, while its ‘raison d’etre’ has lessened as some Gulf Coast refineries have been ‘reconfigured’ to handle lighter oil. And Ottawa spending \$4.5BN to buy Trans Mountain was for Prime Minister Trudeau a small price to pay to ‘queer the Alberta government’s pitch’*

### **ONE IN 10 SUFFER FROM ‘LONG COVID’ THREE MONTHS AFTER RECOVERY** **(Daily Mail, Stephen Matthews)**

- On December 16<sup>th</sup> the UK Office for National Statistics published a report on ‘Long Covid symptoms’, those that linger after the original illness is ‘cured’. It revealed that five weeks after Covid patients had recovered 21% still suffered from fatigue, a persistent cough & headaches, and after 12 weeks almost 10% from symptoms that also included a loss of taste or smell, shortness of breath, and diarrhea & abdominal pain.

*On the whole, recovered Covid patients fall into two categories : a minority that ends up with noticeable damage to organs like lungs or kidneys & a majority that, after having recovered may still show Covid symptoms. And the incidence of heart attacks & strokes among both is higher than among non-Covid patients.*

### **FIVE GENE VARIANTS FOUND THAT RAISE VIRUS RISK** (Daily Telegraph, Sarah Knapton)

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Although, given the greater labour intensity of the oil sands, there operating costs are much higher.

- Researchers from the University of Edinburgh studied the DNA of 2,700 COVID-19 patients in 208 intensive-care units in the UK, & compared their genetic data with those of healthy volunteers to find what was different in their DNA from that of those who had become seriously ill. And they found that five *human* gene variants *seem* to raise the risk of becoming seriously ill from the coronavirus & cause some families or ethnic groups to be disproportionately affected. The five in question are individually carried by between 6 & 68 percent of the population, with four of them common in people of South Asian descent (who already were known to be at greater risk). And all five are involved in two body processes - antiviral immunity & lung inflammation- that can be controlled by existing drugs.
- In 2015 the UK's GenSMICC (Genetics of Susceptibility and Mortality in Critical Care) started looking at genetic factors that influence outcomes in intensive care from diseases like SARS, influenza & sepsis. And it was *early* this year given urgent public health research status to look for this in the novel coronavirus . According to Dr. Jonathan Pearce, COVID-19 Response Interim Director at the Medical Research Council that helped fund the project, "Identifying genes associated with severe COVID-19, incl. in young patients without known underlying health issues, will allow us to better target and accelerate research into new diagnostic & therapeutic approaches", & to Prof. Sir Mark Caulfield, Chief Scientist for Genomics England, "In terms of a leap forward, it's a quantum leap forward".

*While I always worry about scientists who want to 'play God' with the human genome, this may well be a case in which 'the end justifies the means'.*

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**Edmonton boy 'makes good'** - In 2006 Alphonso Davies was five years old when he came to Canada from Ghana with his parents as refugees and after a brief stay in Windsor ON settled in Edmonton. When he started playing soccer, he became so good so quickly that in 2015, at age 14, he moved from the Edmonton Strikers to the Vancouver Whitecaps' 'Residency Program'. And at age 17 he became the youngest player on the Canadian national soccer team, & the first ever player born this century, to score a goal at a top level international soccer tournament.

In January 2019, two months after turning 18, he signed a 4-year, 5MM Euro/C\$7.5MM contract with FC Bayern Munich <sup>8</sup> of the Bundesliga, Germany's top football/soccer league, where this year he was the League's Rookie of the Year & helped the club win the Bundesliga title as well as the German Cup, the German Super Cup, the Champions League & the UEFA Super Cup. Not surprisingly, earlier this year the club negotiated a two-year contract extension (until 2025), allegedly at 5MM Euros per year.

### **ONTARIO EATERY FEELS HEAT FROM CHINA LOYALISTS (National Post, Tom Blackwell)**

- The Pepper Wok restaurant is a modest establishment in the Jubilee Square, mostly Asian restaurant, plaza in Richmond Hill, about 20 kms North of Toronto's CN Tower. It appears

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<sup>8</sup> The most successful football club in German history, it had this year 660MM Euros/C\$1BN in revenue (*down from 750 Euros YoY*) in what was its 27<sup>th</sup> successive profitable year. In 2018 it had 291,000 members as well as 4,433 officially recognized fan clubs with another 390,000 members, and for years every one of its games, both at home & away, have been totally sold out.

to have become a battleground in Canada's Chinese community between Cantonese speaking Hongkong democracy supporters & Mandarin-speaking Chinese Mainlanders more sympathetic to the Chinese Communist Party. The restaurant's decor had never hidden its owners' sympathies lay since posters in the eatery declared "Free Hong Kong" & "Save the 12 Hong Kong Youths" (*a reference to those arrested while trying to escape by boat to Taiwan, which would have been an audacious, hazardous 450 mile undertaking*). But they may have gone too far when their "Please wear masks" notice at the entrance went on to say "to prevent from an unidentified virus pneumonia in Wuhan". This quickly led to a series of phone threats, & negative reviews complaining about insects & pubic hair in the meals & others that "I would not consider this a restaurant, it's more like a cockroach farm ...", "it's owners are racist ... *and* obviously discriminate against mainland Chinese customers" & "It should be very easy to obtain the owner's information and send them to the Chinese consulate ... the owner would be in trouble when going back to Hong Kong." And on Monday December 14<sup>th</sup> it culminated in lewd graffiti being spray painted across its front (with at last report the police having circulated a video of the spray-painting culprit).

*As a 'new' Canadian (albeit of long standing) I feel strongly that those who want to the benefit of living in Canada but to prioritize the laws, customs & prejudices from home over those of this country should be put on a plane to some place more of their liking. But then I come from a generation of immigrants that, after coming here, took the country's law & culture at face value.*