Gleanings II - 869
Thursday January 21st, 2021

Quote of the week - "Economists don't always agree, but I think there is a consensus now. Without further action, we risk a more painful recession now and long-term scarring of the economy later. Over the next few months we are going to need more aid to distribute the vaccine; to reopen schools; to help states keep firefighters and teachers (*but not police officers?*) on the job ... Neither the President-elect, nor I, propose this relief package without an appreciation for the country's debt burden. But right now …the smartest thing to do is to act big"

Canada's Governor-General 'resigns' – Juliette Payette (age 57) was selected by Prime Minister Trudeau for appointment by Her Majesty Queen Elizabeth & has served as such since October 2, 2017. There have long been allegations she & her side-kick, Assunta Dilorenzo, created a "toxic" work environment in Rideau Hall, the 150 year-old, 102,000 square foot, 175 room 'pile' on 88 acres that the Governor-General must call "home" (as well as periodic complaints that she is a public money spendthrift & not "earning her keep" as Governor-General.

Last September the Prime Minister defended her but also retained an independent third party to investigate the allegations. Last week its report landed on his desk, wholly validating the workplace allegations. She 'resigned' on January 21st, issuing a statement that "Tensions have arisen in Rideau Hall over the past few months, and for that, I am sorry … For the good of the country and our democratic institutions, I have come to the conclusion that a new Governor-General should be appointed, Canadians deserve stability in these uncertain times" (*that she had been in a unique position to help provide if she just had bothered to do her job?*)

Her selection was another questionable call by Trudeau. He chose not to follow his predecessor's example of having an ad hoc committee suggest names to recommend to the Queen, but instead chose to 'wing it'. He must have been dazzled by her gold plated CV, that included two space flights totaling 25 days (in 1999 & again in 2009). But he didn't 'vet' her with her previous employers in her post Space Travel days incl. the Canadian Olympic Committee & the Montreal Science Centre, that might have warned him about not dissimilar toxic workplace allegations.

Unfortunately, she isn't an 'exception' from-, but rather an 'example' of-, the rule'. For today's public-, & private-, sector elite is awash with egoism & self- aggrandizement, largely unaware of the everyday life challenges facing the hoi polloi, and rife with disregard for the taxpayers' hard-earned money, all of which makes the latter vulnerable to the 'siren song' of populism.

China retaliates - Early Thursday morning local time, i.e. minutes after Biden was sworn in, the Chinese Foreign Ministry published a list of 28 Americans who won't be allowed entry to China (incl. Hong Kong & Macao). It includes Trump's Secretary of State Mike Pompeo & Trade Adviser Peter Navarro, and National Security staff member Matt Pottinger as well as Steve Bannon. Experts see this as more of a shot across the bow of the Biden administration than an attempt to punish these Trumpers.

Keystone XL pipeline finally has a 'spike through its heart? - In the face of much opposition from various vested interests & left-wing 'do-gooders', a couple of years ago Trump allowed the resumption of work on it. This had been helped by a TC Energy Hail Mary pass in the form of a US$1.7BN commitment to solar-, wind-, and battery power to operate the project once it was completed & a promise to eliminate all its GHG emissions by 2030. But among Biden has long opposed the Keystone and among his many Inauguration Day XOs was one reversing Trump's Keystone decision - *In the best of all possible worlds Prime Minister Trudeau would now put the* *government-owned Trans Mountain pipeline expansion into overdrive, but unfortunately his Canada is not the best of all possible worlds (from Day One the Keystone was a sub-optimal way to get Alberta crude to market & TC Energy's execution short-sighted & politically 'dense').*

Lowdown on bitcoin - Alex Pickard is Vice President for Research at Newport Beach CA-based Research Affiliates, a money manager with AUM of US$195BN. Founded in 2002, it has been part-owned by Nomura Asset Management since 2006.

He was an early entrant into the bitcoin 'game'. In 2013, at age 25, he bought some at US$150. By 2017 he had made enough to quit his day job & start 'mining' bitcoin in Chelan County WA where *hydro-generated* electricity is cheap (*for some reason mining bitcoin is hugely energy-intensive*). But within a year he had to quit that "because I was putting a strain on the electrical grid" (*but more likely because its price had declined 50+%; for bitcoin miners face a financial 'mismatch' : their output is valued in bitcoin but their expenses are denominated in US dollars; so if the US$ price of bitcoin, it makes mining it a losing proposition).*

Earlier this month he published a report entitled Bitcoin : Magic Internet Money (*that can be googled*). Those who believe in the old adage of "Know what you invest in" & who subscribe to the value of doing due diligence, may want to peruse it so as to be better informed.

For Pickard is not just a theoretician but has had 'hands-on' experience with this new 'investment product'. And he now says that, intended as a digital cash system of potential use in 'legal commerce', its 'first real use' was on Silk Road, an online market place for buying & selling illicit drugs, that it has never been used to pay for stuff as owners preferred watching "in awe" as it rose in value, and that, to ensure that, in the absence of government backing, its value could "not be inflated away", its supply was limited to 21 million units (*the latter suggests the January 8th all-time high valuation of US$40,519 is inconsistent with the US$ 28,571 valuation implied in bitcoin's latest US$600BN market capitalization*).

Pickard no longer regards bitcoin as an investment vehicle, nor as a store of value; for "it produces nothing & does not generate cash flows ...". And he says the idea that it cannot be seized by government is flawed; for they have already "confiscated bitcoin from illicit businesses".

New Yorker article entitled "Janet Yellen's confirmation hearing provides a glimpse into the Biden era" - In it, somewhere along the way, writer John Cassidy notes "Yellen made the common sense Keynesian argument ... more government funding is needed to alleviate human suffering." - *Keynesianism has for decades been as dead at Newfoundland's Great Auk; for politicians cheerfully chose to ignore that Keynesianism was 'balanced', 'pump priming' the economy with borrowed money in "lean" years* ***and*** *balancing that off by repaying the resultant debt back in the subsequent "fat" years (the US hasn't had a budget surplus since 2001 when Bush 43 inherited one from Clinton, and in the four years under Trump, who was fond of bragging the US economy "was the best ever", the US deficit-to-GDP ratio went from 3.1% to 4.8%. So now Keynes' pump priming well is bone-dry & prattling about is just seeking to create 'a fig leaf'.*

There are three key economic 'rainmaker' positions in the US government - They are Secretary of the Treasury, Fed Chair & Chairman of the White House CEA (Council of Economic Advisers). The now 74 year-old Janet Yellen is about to score what can be called a "double trifecta" (a race track bet that involves picking the three top horses in a race); for she will be the first person **and** the first woman ever to have held all three posts.

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1 IN 3 EUROPEANS SAY US CANNOT BE TRUSTED (Politico, Florian Eder)

- Between the November 3rd US Presidential election & yearend, the European Council on Foreign Relations had 15,000 people in 11 countries surveyed. It found that 32% of them believed that, since Trump had been elected President in 2016, Americans could no longer be trusted. Germans were most distrustful, with 53% agreeing, or "strongly" agreeing that a post-Trump America could no longer be relied upon.
- Furthermore, 60+% said the American political system is "somewhat" or "completely" broken, incl. 81% of Britons, 71% of Germans & 66% of French. And while 58% of Poles & 56% of Hungarians said the US system was working "well" or "somewhat well", their countries are the most dictatorially-ruled, & last month gained unofficial "black sheep" status, in the EU, when they vetoed its budget & its COVID-19 'recovery fund'.

This clearly contradicts Trump's braggadocio in his brief January 19th farewell talk to the nation that in his four years as US President it had gained greater status in the world! [1]

NO FANFARE FOR TRUMP AS HE BOARDS FINAL AIR FORCE ONE FLIGHT
(FT, Demetri Sevastupulo & Courtney Weaver)

- In the end, it was "over with a whimper". While his presidency had featured huge barnstorming rallies, he exited the stage without pomp & circumstance. And only a small group of family members & supporters attended his send-off at the Joint Base Andrews that marked the end of an administration that had shocked the world & strained the fabric of America's democracy.

The Daily Star is a four decade-old, 300,000 subscriber, six days a week UK tabloid newspaper. Its January 20th front page summed up its view of the event with a full front page picture of a bare-chested, green-coloured Trump accompanied by, in huge letters, "The Incredible Sulk" &, in smaller print, "Trump leaves with about as much grace as a reversing truck".

PFIZER TEMPORARILY REDUCES COVID VACCINE DELIVERIES TO EUROPE
(Reuters, Gwladys Fouche)

- On January 15th it announced it would temporarily cut vaccine deliveries to Europe (& *to Canada?*) to enable it to upgrade its productive capacity. This prompted the Norwegian Institute of Public Health to report "We had expected 43,875 vaccine doses from Pfizer in week 3 (*starting June 18th*), It now appears we will get 36,075 doses (*17.8% less*).

This is not the first time it has done so. And it can expect pressure from Biden c.s. to ensure this won't interfere with his '100MM vaccinations in 100 days' pledge (that some believe is intentionally 'lowballed' so it can then be outperformed (since the 1MM/day rate will not establish 'herd immunity' until about a year from now).

NETFLIX WILL CONSIDER SHARE BUYBACKS AS IT RETURNS TO POSITIVE CASH FLOW AFTER 2021 (CNBC, Alex Sherman)

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1 None of the big send-off he had dreamt about only a few days earlier that envisaged a big military parade (that the Pentagon had outright refused to provide), a fly-over & a 21 gun salute.

- *On January 19th it announced its Fourth Quarter results. They caused its share price to jump 12.4% from US$502.00 at the close Tuesday to US$564.36 the Wednesday opening*. It reported EPS (Earnings Per Share) of US$1.19 on revenues of US$6.64BN. But Netflix fans' were impressed that, as of December 31, 2020 it had 203.66MM subscribers, up 21.9% YoY, as well as by its announcement that it expects to be cash flow "neutral" this year & "positive" in every year thereafter, and to start using its US$8BN cash hoard to pay back debt maturing this year & buying back its own shares.

This looks like a case of retail investors' "irrational exuberance". For it has been cash flow negative since 2011 & borrowed US$15BN to fill the gap as it built its subscriber base. Subscriber numbers & revenues may have been up 21% YoY but its subscriber base growth has been in the 25% CAGR in the last decade & EPS were down 8.5% YoY. And Its subscriber growth has for years benefitted from an erosion in the number of US households with traditional pay TV services and, this year in from the pandemic-driven 'lockdowns' that gave people 'cabin fever' & left them with time on their hands. With more competition, first & foremost from Walt Disney, coming in its 'maturing' domestic market &, hopefully lessened, pandemic-driven lockdown pressure as the year progresses, some of the oomph is likely to go further out of the growth in its home market. Meanwhile its 94x PE (Price Earnings) ratio (down from 345x four years-, & up 80x one year-, ago) implies a market expectation of continued high share price growth (even though its P/E is puny compared to Tesla's latest 1,653x)

<u>OIL LEASE SALE OF ALASKA'S ARCTIC NATIONAL WILDLIFE REFUGE DRAWS FEW BIDDERS</u> (High Country News, Surya Miller)

- *In fact, it out & out 'bombed*". *For the Trump administration's January 6th controversial, & last minute (oil & gas E&D) lease sales in the North Slope Alaska National Wildlife Refuge (approval of which had been among the first anti-environmental moves by Congress in 2017, after Trump became President) met with underwhelming bidder interest*.
- According to the BLM (Bureau of Land Management), with no oil & gas company of any significance interested, only half the 22 tracts on offer received any bids at all & the revenue generated (to be shared between Washington & Alaska), was just US$14MM, while in 2017, when the idea was approved, the CBO had forecast US$2.2BN.
- Nine of successful bids came from (*a pre-emptive strike by ?*) AIDEA (Alaska Industrial Development & Export Authority), that has long funded oil & gas activity but never bid on leases. The other two successful bidders were <u>Knik Arm Services LLC</u>, a newly incorporated entity owned by an Alaska real estate promoter, that bid U$1.6MM for one parcel, & <u>from Regenerate Alaska Inc</u>, a subsidiary of Australia's <u>88 Energy</u>, a company with some exposure already on the North Slope, that bid US$800,000.
- Two more steps remain before these leases can be finalized. DoJ must do an anti-trust review. And BLM must sign off on the leases (something the Trump administration was hoping to get done before January 20th.

DoJ may well 'toss' the AIDEA bids on the grounds of 'undermining competition', and there are lawsuits challenging the 2017 decision pending by various tribal-, environmental-, & conservation entities, as well as US states, charging insufficient & unlawful environmental reviews. And President Biden has long opposed oil & gas E&D in the Northern "1002 lands" 1.5MM acre/2,200 sq. mi. portion of the 30,200 square mile ANWR (that is home to the 200,000-strong Porcupine cariboo herd) - High Country News is based in Paonia CO, a community of 1,400. It was founded in 1970 by Tom Bell, a conservationist, rancher & WW II bombardier as an 'independent, non profit' magazine that today has 35,000 subscribers & is said to be "closely read" in government *offices in Washington & state capitals, since, as former AZ Gov. Bruce Babbitt once noted, it's "the only place where you can really know what's happening in the rest of the West."*

<u>THESE ARE CANADA'S FASTEST GROWING COMMUNITIES AS BIG CITIES SEE SECOND EXODUS</u> (CTV News, Graham Slaughter)

- In the last year Toronto & Montreal have experienced record population losses in what StatsCan calls "an important trend to monitor". And while in the three years to January, 2020, Toronto had a population growth rate of less than 1%, Oshawa, 31 mi/50 km, East of it as the bird flies, & 39 mi/63 km by car, now is growing at 2.1%, making it the fastest growing large community in Canada (recently a $550,000 townhouse there got 39 offers, while "in 2019 you'd be lucky to get a viewing in the first week").
- Other fast-growing communities include Halifax & Kitchener Waterloo Cambridge (2%), Calgary & Saskatoon (1.9%), Edmonton & Barrie (1.8%), Belleville, Ottawa-Gatineau & London (1.6%), and Lethbridge, Trois Rivières, Guelph & Sherbrooke (1.5%).

This phenomenon seems driven by a desire for a healthier, less congested living environment, the growing ability to "work remotely" & house prices. Thus even a recent auction of building lots in Whitehorse YT generated a very strong response at prices well above $100.000.

But this is not a new phenomenon. In 1963 in Winnipeg a fellow I knew, who had built a successful oilpatch business in Calgary, moved back to Winnipeg; for there he could buy an equally nice house for much less money & be close to his extended family, while commuting every week by Air Canada to Calgary, & still be ahead financially. A former colleague of mine in Finance in the 1960s & 70s in the late 1980's quit his high stress job in Toronto for a less stressful one in Winnipeg, and sold his Toronto residence at the top of the market to buy a nicer house there &, in his late forties, put a million dollars in the bank. Ditto in the late 1990's in Nova Scotia when well-heeled Torontonians started selling their overpriced Muskoka summer homes to replace them with ones in Nova Scotia. And this market 'arbitrage' enabled them to have Air Canada fly him & his family regularly back & forth to Nova Scotia & relieve them of the stress of having to drive every weekend up & down a traffic-choked Highway 400, at no net cost to him.

<u>CHINA'S DEBT GRIP ON AFRICA : FALLING PREY TO BEIJING'S DEBT TRAP DIPLOMACY</u> (EU Bulletin)

- The pandemic is facing highly indebted, poor countries with a dilemma. Thus last April Ethiopia's Nobel Peace Prize laureate Prime Minister Abiy Ahmed lamented having to choose between "continuing to pay toward debt (*to China, Africa's biggest bilateral lender*) or direct resources to save lives and livelihoods". For an effective COVID-19 response would cost US$3BN, and servicing the debt US$1.7BN in 2020 & US$ 2.2BN in 2021. And that same month, Tanzania's President John Magufuli threatened to cancel a US$10BN China-sponsored project launched by his predecessor since its funding of it had come with conditions that "only a drunkard would accept".
- In September Angola, hard hit by the collapse in oil prices, secured agreement with three of its major creditors (two of them being the China Development Bank & the Export-Import Bank of China) for US$6.2BN in debt relief over three years. And the following month Zambia missed a US$42.5MM interest payment on a US$-denominated bond issue, thereby risking defaulting on its entire US$12BN foreign debt (equivalent to half its GDP).

- 73 of the world's poorest countries [3] are eligible for debt relief under the G-20's DSSI (Debt Service Suspension Initiative), and 46 of them, incl. Angola & Zambia, have already applied. About 70% of the debt affected is owed to China (that accounts for 62% of Africa's official bilateral debt); for in 2008 it had started ramping up its lending to developing countries *to gain access to their natural resources. As a result*, today the debt to China of the 50 most biggest 'beneficiaries' of such lending has gone from 1% to 15% of their GDP.

There were limited real benefits for the recipient countries. All machinery & equipment came from China & Beijing had "pricing power". The Chinese companies did much of the work using Chinese labourers. Given the interest rates on-, & the often draconian collateralization of-, the funding, recipient countries often got costly-to-operate facilities unlikely to ever produce decent economic returns. In 2014 already, the Brookings Institution, in a report entitled China's Aid to Africa : Monster or Messiah, noted that Chinese sources bragged "When we provide Africa assistance of RMB1 billion, we will get service contracts worth US$1 billion (RMB6 billion) in return from Africa". Finally, the financial "grease" that had accompanied the development-, & added to the cost-, of the projects invariably soon found its way into private bank accounts in tax havens - But the Chinese may have made a strategic error, for it is hard to foreclose on a 'hard' asset' in a foreign country, especially one with a 'dodgy legal system'. And the president of a local bank in one sub-Saharan country (not Kenya) once patiently explained to me that his bank's massive non-performing loan portfolio was due to his country having "a culture of the non-repayment of debt".

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3 Out of a total 195 (*incl. the Vatican & the Palestinian State).*