

**Gleanings II - 875**  
**Thursday February 25<sup>th</sup>, 2021**

**Bitcoin** - In the past 4 years it gyrated from US\$1,047.10 on January 3<sup>rd</sup>, 2017 via US\$13,337.62 on January 1<sup>st</sup>, 2018, US\$3,795.59 on January 3<sup>rd</sup>, 2019 & US\$6,995.99 on January 2<sup>nd</sup>, 2020 to US\$33,002.64 last January 2<sup>nd</sup>. Then in the 96 hours between 1259 hrs on Friday February 19<sup>th</sup> to 1259 hrs on Tuesday February 23<sup>rd</sup> it slid by 21.5% from US\$58,012.09 to US\$ 45,580.89.

Some of the recent price rise was due to Tesla/Elon Musk buying US\$1.5BN-worth of Bitcoin & other financial 'illuminati' touting it & some of its subsequent weakness to among others :

- former Fed Chair & incoming Treasury Secretary Janet Yellen calling Bitcoin "an extremely inefficient way of conducting transactions" & sounding the alarm about its impact on the environment (given the electricity needed to produce new coins);
- rumours Tesla/Musk had cashed in & walked off with a US\$1BN profit; and
- perennial gold "bull" Peter Schiff recalling a Musk tweet last December that "Bitcoin is almost as much of a hoax as fiat money".

**Breakeven inflation rates** - This is one of the many St. Louis Fed-tracked economic indicators, in this case to measure the "expected inflation rate implied by the current yields on UST bonds". By its reckoning, one year ago the 5-year UST bond generated 0.20%, & the 10-year one 0.50%, inflation expectations, but on February 20<sup>th</sup> ones of 2.35% & 2.15% respectively!

**Fed Chair Jay Powell this week made his semi-annual presentations to both Houses of Congress** - He told them the Fed was in no hurry to start raising interest rates or stop buying US\$120BN bonds a month (i.e. 7% of GDP annually). Furthermore, that it saw no reason why inflation should 'race out of control' since, while prices may pick up in the coming months, that will be due to "temporary" supply chain constraints - *He was either fibbing or the Fed is dreaming in technicolour. YTD UST yields have gone from 0.92% to 1.65% at 10-, & from 1.53% to 2.25% at 30-, years. The supply chain constraints may prove not so temporary & their price impact may be aggravated by the expected sharp pickup in demand as Americans start dissaving. His down-playing the inflation risk is out of synch with a December 1 report by Citigroup that "the US dollar had weakened ... (by 4.9%) in 2020 and could dive another 20%" (in 2021), and a weaker US dollar will hike the price of all imported goods [with that weakening attributed by a major European bank to the Fed "flooding the world with dollars" (&, more generally speaking, due to a loss of confidence abroad in the US system?)]. Commodity prices have long been deemed a 'leading indicator' of inflation & at last report they had been 'on a tear', with the St. Louis Fed's Global Index of All Commodities up 27.5% between the Second & Fourth Quarters of 2020. And, anecdotally speaking, there has been a phenomenon not seen on grocery store shelves for decades, that of the size of packaged food containers shrinking while prices remained the same.*

**GameStop Saga 2.0** - In January it made the headlines going from US\$43.03 on January 21<sup>st</sup> to US\$347.51 on the 27<sup>th</sup>. This week it did it so sort-of again, going from US\$44.97 on Tuesday 23<sup>rd</sup> to US\$148.35 on Thursday 25<sup>th</sup>, once again costing short sellers billions of dollars - *This caused NYC-based FundStrat's Tom Lee (from 2007 to 2014 JPM's Chief Equity Strategist) to opine that this could "upend" the stock market if it made hedge funds reduce leverage. And the three US stock market indices slid between 1.7% & 2.9% on the day.*

**Green Pass** - The 78% of Israelis already vaccinated will now get, one week after their second jab, an app on their phone to give them access to gyms, hotels, swimming pools, concerts & places of worship and, starting early next month, restaurants & bars. According to Health Minister Yuli Edelstein "This is how the first stage will look in the return to your almost normal life".

**Texas power crisis** - One of you confirmed my chatter on it last week, copying me a missive from a friend “familiar with Texas” that “Texas created its own mess. Because they don’t want federal regulation, they chose to create their own electrical grid. In the lower 48 there’s *now* a West grid, and an East grid, and Texas. They didn’t winterize their system, even after similar problems in the past. So it got cold, their systems failed and ... they’re isolated. They’re a bunch of Jack Asses.”

**Vaccination rates** - They range from Israel’s 78.8% via the UK’s 27.2%, the US’ 19% & Serbia’s 18% to Hungary’s 6.5%, Germany’s 5.9%, Italy’s 5.8% & France’s 5.7% & Canada’s 4.0%.

**Yield curve has steepened** -

	1 month	3 years	30 years
28 June, 2019	2.20%	1.75%	2.50%
28 February, 2020	1.50%	0.90%	1.65%
24 February, 2021	0.05%	0.25%	2.25%

*This is deemed a function of higher inflationary expectations,*

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**THE GREAT DIVERGENCE : A FORK IN THE ROAD FOR THE GLOBAL ECONOMY**  
(IMF. Kristalina Georgieva)

- We estimate that by the end of 2022 cumulative per capita income will be 13% below pre-crisis projections in the AE (Advanced Economy)-, 18% in the LID (Low Income)-, and 22% in the EMDE (Emerging & Developing) countries.

*This will further boost global inequalities & reflects on the effectiveness of various ‘policy support’ programmes (funded with ‘created out of thin air’ money). In India & China policy support was < 1% of GDP & employment losses near zero. But policy support moves ranged from 14% of GDP in South Korea via 18% in Australia, 24% in France, 32% in Great Britain, 38% in Germany & 42% in Italy to 45% in Japan, while their employment losses were universally < 2%. And in Canada & the US policy support was in the 20%of GDP-, & employment losses in the 6%-, range. This bodes ill for North America’s ‘new normal’ &, given people’s expectations, for their governments!*

**CEO CONFIDENCE IN U.S. ECONOMIC OUTLOOK REACHES 17-YEAR HIGH** (Bloomberg)

- According to the Conference Board on February 18<sup>th</sup> in the First Quarter it was 73%, up from 34% YoY. So, according to Roger Ferguson, a Conference Board Trustee, “CEOs across industries are planning for life after COVID-19.”

*But what matters more than what CEOs plan is what consumers think. And they’re less bullish : the Board’s Consumer Confidence Index’s January reading was 89.3, up from 87.0 MoM (but down from 132.6 YoY and closer to the 85.9 low of last May than to last October’s high 101.4.*

**FACEBOOK REPORTED REVENUE IT NEVER HAD** (FT, Hannah Murphy)

- Since 2018 it has been fighting a class action law suit alleging it had knowingly included fake & duplicate accounts in its potential 'reach metric' to mislead advertisers (to the point of citing a reach in some US states in excess of their populations). A 2019 Financial Times investigation had found similar discrepancies in Facebook's Ad Manager, an online tool to 'help' advertisers build campaigns. And on February 17<sup>th</sup> a filing was made of 'unredacted' emails <sup>1</sup> in which a Facebook product manager in charge of potential reach had in mid-2018 proposed changing the metric to make it more accurate, but had been rebuffed by Facebook executives because of the "significant revenue impact" of doing so.

*While Facebook's last quarterly report showed 2.8BN active users worldwide, its last transparency report noted that in 4Q/20 it had 'taken down' 1.3BN fake accounts. And it has been at odds with the Australian government about its audacity to want Facebook & Google to pay the news media for news content used in their search results & feeds. While Google quickly cut a deal, Zuckerberg refused & Aussie PM Scott Morrison commented "Facebook's actions to 'unfriend' Australia ... were as arrogant as they were disappointing ... bullying won't stop the legislation ... They may be changing the world ... but that doesn't mean they should run it." And others that "Facebook is dangerously under-regulated" - The bill was passed into law on February 24<sup>th</sup>.*

*And now in Europe the EU too wants "gatekeepers that have dominant market power" (i.e. Google & Facebook) to pay for the news content they've been 'stealing' from traditional media for years.*

### **BOEING 777 AIRCRAFT GROUNDED AFTER ENGINE FAILURES (FT, Hannah Kuhler)**

- On Saturday February 20<sup>th</sup> United Airlines Flight 328 had to return to the Denver Airport when, after take-off, engine failure showered debris (*as large as four feet*) on a Denver suburb after two small engine fan blades had broken off (*due to metal fatigue?*). According to accident tracker Aviation Safety Network last December a Japan Airlines 777 with similar Pratt & Whitney PW 4000-112 engines departing on a flight from Naha to Tokyo had the same problem (as did a Boeing 747 freighter with a smaller version of the same engine upon take-off from the Holland's Maastricht airport on February 21<sup>st</sup>). Regulators across the world have reacted, with the UK Civil Aviation Authority banning all 777s from UK airspace.

*Fortunately, nobody seems to have been hurt in any of these incidents.*

### **BOND MARKET QUICK-PIVOTS TO POLICY MAKERS (Reuters, Fergal Smith)**

- Strategists say the recent jump in Canadian bond yields, & a similar trend in the US, are signals the economy may need less support this year than last, as investors gain confidence the worst of the pandemic is over & more economic activity is in the offing. Thus, as Benjamin Reitzes, a BMO rates & macro strategist, puts it "It's a general belief that the economy is going to return to something a bit more normal").

*This is too optimistic. This year Canada's federal budget deficit is expected to be \$382BN (17.5% of GDP). This will make this year's total expenditures 125% greater than forecast in the year ago Budget Presentation). With an election expected in the foreseeable future, our lightweight, no*

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<sup>1</sup> This means in its original form (i.e. before having been 'sanitized' to remove undesirable information).

longer “Sunny Days”, Prime Minister & his featherweight Finance Minister (who has Prime Ministerial dreams) seem more focused on divvying up-, than growing-, the pie, & on three more years of \$100BN a year ‘voter bribing’ & ‘feel good’ deficit spending funded with money created out of thin air. This ignores the IMF’s warning after its latest annual review of our economy that “Structural challenges that existed prior to the pandemic remain ... Canada <sup>2</sup> still needs to boost its productivity ... and diversify beyond traditional sectors, including oil”, & that Prime Minister Trudeau “needs further justification” for his sizable spending plans since additional unnecessary expenditures “could weaken the credibility of the fiscal frame work”.

### **‘GIGANTIC FISCAL HOLE’ LOOMING (NP, Jesse Snyder)**

- In a report entitled “Challenges Ahead : Canada’s Post Pandemic Fiscal Prospects”, the Conference Board of Canada warns of the “inescapable” ramifications of the record-high debts amassed during the pandemic & of the need for provincial & federal leaders to considerably alter their fiscal plans to avoid catastrophe down the road.

Good luck! “Down the road” is no longer part of today’s politicians’ lexicon.

### **THE EU IS TEARING ITSELF APART RIGHT BEFORE OUR EYES (Daily Mail, Douglas Murray)**

- Critics of the EU have long warned that at some point it would founder on its contradictions. And COVID-19 may help it do so. While on Boxing Day 2020, *the day before its launch*, European Commission President Ursula von der Leyen boasted that its vaccination campaign would be “a touching moment of unity and a European success story”, according to Guy Verhofstadt it has been a fiasco <sup>3</sup>. And on January 19<sup>th</sup> von der Leyen had to announce a plan to step up its response to COVID-19 & two days later to concede the EU had been slow & “unprepared” for the problems experienced in the vaccination roll-out
- So politicians in Central-, Eastern-, & Southern Europe are now going their own way and getting non EU-approved vaccines from Russia & China. And in France politicians are now asking if it too might not be better off going it alone, while across the bloc the public mood has turned negative on the EU & 70% of Germans blame von der Leyen for the mess.
- Last week Hungary President Viktor Urban said “people should not be dying because Brussels is slow & inflexible” & acquired 2MM doses of Russia’s “Sputnik” serum <sup>4</sup> (enough for one in five of its people) & Hungary became the first EU member country to start administering it. And he announced an order of 5+MM doses from China’s Sinopharm (prompted by the success of next door non-EU member Serbia’s vaccination policy).
- Things weren’t helped either by the fact that, when Italy was struggling & its doctors making desperate appeals for PPE & other equipment, France, Germany & other EU

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<sup>2</sup> That Fitch last June downgraded from AAA to AA+. Interesting, two decades ago Fitch was the last of the US rating agencies to give Canada its triple A back (in 2004 rather than 2002) & now is the first to take it away.

<sup>3</sup> Belgium’s Prime Minister from (1999 -2008) & since 2009 an MEP and a strong EU ‘federalist’

<sup>4</sup> Named after the first ever space vehicle, Sputnik I, a 58 cm/1.9 foot diameter satellite that the then Soviet Union launched on October 4, 1957 and that burnt up about three months later upon re-entering the Earth’s atmosphere, after launching the Cold War ‘Space Race’

countries banned the export thereof. While some later apologized, it was too late, they had shown where their loyalties lay. Britain opting out of the EU scheme proved to have been correct. And while the French blame the Germans, the East the West, the North the South & vice versa, all agree on one thing, Brussels messed up. Nationalism once again rules the roast!

*With even Austria & Germany now willing to use Chinese & Russian vaccines, once approved by the EU, Beijing & Moscow will be in a position to fan the flame of centrifugal forces in the EU.*

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**The 1935-37 British Abdication crisis** - Next month will see the publication of the Diaries of Chips Channon, Vol. 1 <sup>5</sup>, a gossipy 'ringside view' of the year leading up to King Edward VIII's abdication due to his infatuation with Wallis Thompson, a twice divorced American - *Another cross for Queen Elizabeth to bear at a time she already has had to deal with Prince Harry following in Edward's foot steps & with Prince Philip's fading life flame as he approaches his 100<sup>th</sup> birthday on June 10<sup>th</sup> - Two things struck me in its summary : Channon's observation that "the King is insane about Wallis"*<sup>6</sup> & description of Bertie's wife Elizabeth, the later much-loved Queen Mother, as "fundamentally lazy, very lazy, and charming" who had Bertie "completely under her thumb".

### **PANDEMIC TO WIDEN SKILL GAPS AT WORK PLACES (Reuters, Mark John)**

- MGI, McKinsey's research arm says the pandemic's biggest impact will be in four areas, leisure & travel, on-site consumer interaction, computer-based office work, and production & warehousing. It suggests 100+MM workers in the countries covered in its study <sup>7</sup> will have to switch occupations by 2030 (25% more than its earlier estimate) & that in the US alone 17MM (10% of all workers) will have to do so [up 3.8MM (28%)]. And it warns they will face great gaps in skill needs since job growth will be concentrated in high wage jobs, thus mostly affecting those without a college degree, women, ethnic minorities & young people. Finally that remote work & virtual meetings will continue, albeit less so than recently, with many knock-on effects for real estate, business travel & urban centres, saying that business travel won't return to earlier levels since much of the previous travel for face-to-face meetings will come to be seen as having been superfluous.

*This smells like a combo of "group think" & "straightline forecasting". Globalization has lost its mojo & the system is at a turning point not unlike others in history, incl. the development of the*

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<sup>5</sup> Born in the US in 1897 (after his grandfather had emigrated there in mid-century & been very successful business-wise). After briefly attending the University of Chicago, he came to England in 1920, went to Oxford and, a social climber, befriended both the then Crown Prince Edward & his younger brother Bertie, the later King George VI. In 1933 he renounced his American citizenship & replaced it with the British variety, and married the 12 year-younger heiress Honor Guinness (whom he later abandoned for another man). In 1935 he became a Conservative MP (without ever achieving much) with star wanong a few years later when he was a Chamberlain-type German 'appeaser' (as was Edward) who referred to Churchill as a "half-breed American", although he was knighted one year before his death in 1958, when HaroldMacMillan was Prime Minister).

<sup>6</sup> I was too young to remember any of this; the only thing I do remember is seeing pictures of Edward in later years looking like a man who had found that his 'pot of gold at the end of the rainbow' had turned out to be filled with dross (the same look as I see occasionally on Prince Harry's face).

<sup>7</sup> Britain, China, France, Germany, India, Japan Spain & the US (that account for slightly over half the world population almost 90% of that of the G-20 countries).

wheel, crop rotation, gun powder, the French-, & Industrial-, Revolutions and the internal combustion engine, that disrupted their eras' old 'normals', with on this occasion environmental considerations driving wholesale & unforeseen economic-, social-, & political mass change.

### **HOW TWO BROTHERS FROM RURAL IRELAND BUILT A \$115BN PAYMENTS GIANT** **(The Telegraph, Michael Cogley)**

- The now early 30s Cullison brothers hail from the sleepy Central Ireland village of Domineer (population 100). Their father was an engineer & their mother a microbiologist, and they 'child prodigies'?. For 15 years ago, Patrick, the eldest, now 32, was admitted to MIT on the basis of a four year-old SAT score, while his two year-younger brother John went to Harvard with eight A1s in Ireland's 'Leaving Certificate' university entrance exams.
- According to Bloomberg last year each was worth about US\$4.3BN as the founders of San Francisco-based Stripe, an Internet payments giant that last year was used by 100+MM people in Europe &, according to McKinsey, has US\$2TR in revenues (roughly one-tenth of US GDP & 5x Amazon's annual revenues, a gross exaggeration).

But what **really** caught my eye was that earlier this month they named Mark Carney to their Board. For he is a truly 'interesting cat' (& 'a real catch'). Now age 55 with not just dual-, but triple(Canadian/British/Irish), citizenship, he was born in the town of Fort Smith NWT (even today with a population of only 2,500) where his father was a teacher, & relocated to Edmonton at age six when his father became a Professor of Education at the UoA. He lived here until he graduated from St. Francis Xavier (the same high school my No. 4 grandson is about to graduate from). Then, after getting a BA from Harvard-, and an M.Phil & a D. Phil from Oxford-, in Economics, at age 25 he joined the Goldman Sachs Wall Street snake pit where he laboured in its trenches for 13 years in Boston, New York, Tokyo & Toronto, ending up as a Managing Director in its investment banking operation. In 2004 he came back to Canada as Senior Associate Deputy Minister of Finance <sup>8</sup> &, after beating the inhouse heir apparent, as Governor of the Bank of Canada effective February 1<sup>st</sup>, 2008 (just in time for the Great Recession headwind). In 2013 he was recruited for the Governorship of the Bank of England <sup>9</sup> for a five year term with a possible three year extension (to the 'normal' eight years) where he is said to have "added to its tool kit" & left after six years, before Brexit. He seems to be good at double tasking : along the way he has written two books, one of which VALUE(S) : Building A Better World For All sounds interesting, & from 2011 to 2018 was the part-time Head of the Basle-based Bank of International Settlements' Financial Stabilization Board. And in 2019, after leaving the BoE, he was named the UN Special Envoy for Climate Change Action & Finance, and last August became Vice Chair & Head of ESG (Environmental, Social and Governance) Investing of Toronto-based, US\$550BN AUM Brookfield Asset Management'.

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<sup>8</sup> My impression has always been that either he decided Goldman had taught him all it could & staying might hurt his reputation or it was suggested to him he was too honest to go much further there.

<sup>9</sup> After which Prime Minister Harper replaced him with what may well have been the weakest Governor in the Bank's now nearly 86-year history