

**GLEANINGS II - 890**  
**Thursday July 22, 2021**

**Quote of the week** – “A lot has changed since May 13. We now have a variant circulating in this country that at the time was 3% (of the new cases) and now is 83% and much more transmissible” – CDC Director Dr. Rochelle Walensky <sup>1</sup> in her appearance this week at the Senate – *While on May 13 the daily new case count was 38,939, that had declined to 4,690 by July 3 but since then has surged back up to 60,838 - might this cause the rate of economic growth to start to decline again? (the number of new unemployment benefit claims seems to suggest so; for in the week ended July 17 they came in at 419,000, up 14% WoW & well above the 350,000 expected).*

**Alberta Crop Situation** – *A late crop June report called this year’s crop of grains, lentils & canola “good to excellent”. But since then the outlook has deteriorated to close to-, if not an outright-, crop failure. Thus, while in the past five years the annual rainfall in the Edmonton area had been 493 mm, 324 mm, 315 mm, 463 mm & 500 mm, YTD, as of July 19, we had only 116 mm. And while May brought good rains, 66 mm vs an average 46 mm, June stank with only with 26 mm vs. an average 79 mm & July was godawful with, as of July19, just 4.2 mm, vs an average 95 mm for the month <sup>2</sup>, with things made worse by regular daytime highs ten or more degrees Celsius above the longtime average. And to make matters still worse, for those in the cattle business <sup>3</sup> the hot dry weather hurt the growth of grass & forage crops, making for sparser grazing in the short run and a shortage of winter feed, which may force many to start downsizing their herd (while their Manitoba counterparts are even reported to have trouble getting enough drinking water for their cattle) – These problems likely are shared by many farmers under the rare “heat dome” that has for weeks hung over much of Western North America from the Mexican border North & has also prompted widespread ‘wild fires’, the smoke of which has totally obscured the sun in Alberta for days & drifted as far East as Ontario. For Edmonton a break came at about 11:00 p.m. on July 21 when we had a bad storm with lightning flashes every few seconds that dropped 14.4 mms of water in half an hour on the city, turned the street in front of our building into a curb-to-curb lake as the rain overwhelmed the drains, and featured lightning flashes every few seconds (and this morning, July 22, we had just a glance at the sun before the smoke turned the sky a solid grey again).*

**Bezos’ space flight** - This week his lasted 11 minutes vs. Richard Branson’s almost 90 minutes two weeks ago, but his went higher (93.5kms/58.1mi) than Branson’s 86kms/53.4 mi. And both were ‘sub-orbital’; for they failed to cross the so-called Karman line at 100 kms/62.5 mi, where space begins (although both went well beyond the altitude that entitles people in NASA & the Armed Forces to wear astronaut wings). And while Branson’s had been launched from an airplane, Bezos’ went up atop a booster rocket & therefore had an up & down trajectory that ended with the capsule landing, parachute-assisted, vertically within sight of the site from which it has been launched, whereas Branson’s plane-like contraption landed horizontally on a

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- 1 Age 52, she has an MD from Johns Hopkins & an MPH from Harvard and was on the faculty of the Harvard Medical School for 19 years until she came on the ‘hot seat’ last July.
  - 2 When I first came to this country, in 1952 to a farm in Saskatchewan, I was taught that to get a good crop, a Prairie farmer needed only three rains, one after the seed had gone into the ground, one when it was 6-8 inches tall, and the final one when it was “heading out” (i.e. when the seed had started to set). This year the first came, the second one was insufficient & the third totally MIA!
  - 3 Alberta’s cattle herd accounts for 40+%-, & its grazing/hay producing lands over half-,the national total, while its human nose count is only 12% there.

landing strip. *And if, as Morgan Stanley predicts, space travel becomes a US\$1TR annual industry by 2040, Elon Musk's SpaceX-type vehicles, that will take people into space on orbital tours, will likely have a competitive edge.*

**Demographic time bomb in Israel, the West Bank & Gaza?** - The median age of Israeli Jews is 30-, & that of the Palestinians 20-, years. And the fertility rate of the non-orthodox Jews, the most productive part of the Israeli economy, is a fraction of that of both Arabs & orthodox Jews). *So the former are 'losing the battle of the cradle' & bound to become an ever smaller minority in the land between the Jordan River & the Mediterranean (as all Jews together now also have become, albeit still by only a tiny margin). Add to that the fact that 70% of those in Gaza & the West Bank are below the age of 30 & have lost faith in the septuagenarians & octogenarians who control the PLA (whom they consider as little more than handmaidens of 'the occupier'), this is a harbinger of possible instability in Israel to the point it may not be around to celebrate its centenary 27 years hence.*

**Global food crisis in the making?** – According to the UN COVID-19 has dealt a major blow to its efforts to end world hunger & malnutrition by 2030. For, after declining for almost two decades, the growth in the number of undernourished people in low-, and middle-, income countries soared from about 10MM in 2018 & 15MM in 2019 to over 110MM in 2020. Last year the number of people in the world regular access to food increased by 320MM, as many as in the previous five years combined. And it reported that the sharp rise in food prices has left 2.4BN people (30% of the global population) “without adequate food”.

**Interest rate outlook** – On Monday July 19 the 10-year UST yield slipped below 1.20% (nearly twice the 0.63% a year ago) for the first time in five months. According to Myles Bradshaw, JPMAM's Head of Aggregate Fixed Income Strategies, thi was due to “demand for a safe asset as equities move higher”. Wall Street strategists expect this yield will move higher & have a median forecast rate of 1.75% by yearend. And Subadra Rajappa, Head of Societe Generale's Rate Strategy says “ We believe risks are skewed towards higher yields” & UBS “We see 10-year yields rising back to 2.00% over the coming year” – *Compare that to the 0.99% five year fixed mortgage rate I saw advertised the other day in my bank (that will encourage more building of more oversized, badly built houses on postage stamp-sized lots 'in the boonies' that will warp municipalities' budgets & lay waste to more quality farm land?).*

**More (dangerous) Putin imperialist dreaming?** - On July 12, three days before the Biden-Merkel meeting, he published a 5,000 word article entitled On the Historical Unity of Russians and Ukrainians in which he revisited many of the talking points he has advocated during the past seven years of their undeclared war. In it he reiterates his frequently voiced conviction that they are “one people”, blames the collapse of their bilateral ties on foreign plots & anti-Russian conspiracies, questions the legitimacy of Ukraine's borders, claims, as a matter of fact, that “Russia was robbed” and concludes that Ukraine's statehood depends on Moscow's consent – *While this suggests his territorial ambitions are alive & well and will remain a threat to peace on the Continent, seeking to whip up nationalistic fervour at home has historically often not been a sign of domestic political strength!*

**New oil production on Latin America's North Coast** - For almost four decades to 2014, ExxonMobil & Shell looked for oil off the coast of Surinam & Guyana, drilling forty-some dry holes. So Shell gave up & Exxon found two new partners in Hess (30%) & Nexen CNOOC (25%). And their luck smiled; for since then they have since struck oil in 15 of 19 holes in 1.3

mile-deep water on only part of the 10,300sq. mi. Stabroek bloc, 120 miles off the coast of Guyana that is increasingly looking like 'an elephant' – *But going forward it may be less clear sailing than anticipated; for last year's election in Guyana produced a less oil company-friendly government & in May a law suit was launched by an indigenous tourist guide & the former head of Transparency Guyana charging that development of this resource violates the government's legal duty to "protect the right of future generations to a healthy environment".*

**Nordstream 2** – This involves twin, 1.95TCF annual capacity, Gazprom-owned natural gas pipelines under the Baltic Sea to Germany that Russia has now finished building to limit the Ukraine's ability to interfere with the movement of gas to Western Europe across its territory (*its similar-sized Nordstream 1 facility was completed almost a decade*) ago. While Trump's opposition thereto had been a major source of friction between the two governments, But Biden has now settled with the lame duck German Chancellor Angela Merkel on a deal whereby Germany has agreed to 'deal with Russia' if it were to threaten Europe's energy security & to support the Ukrainian government to the tune of US\$1BN, while the US has undertaken to 'promote and support' investment in Ukraine (that is not very happy about this since it has been extracting an estimated US\$2BN in "transit fees" annually from Russia). This may be the work of Secretary of State Antony Blinken who, in 1987, when President Reagan was picking a fight with the Kremlin over another pipeline to move Russian gas to Western Europe, wrote a book Ally versus Ally : America, Europe and the Russian Pipeline Crisis.

**Outcome the Founding Fathers didn't anticipate?** – Today 20 'red' states with 12.4% of the US population account for 36 of the most obstreperous of the GOP's 50 Senators. The smallest, Wyoming, has one Senator per 289,000 citizens & the largest, Wisconsin, one per 2,992,000, while California & New York have one for every nearly every 20MM citizens .

**Taming the market power of GAFAM (Google, Apple, Facebook, Amazon, Microsoft)?** - Last March Biden named Lina Khan, an Associate Professor at Columbia Law, to be Chair of the FTC (Federal Trade Commission) & on June 15 the Senate confirmed her appointment. Now age 32, she came at age 11 with her parents to the US from Pakistan & got her JD from Yale in 2017, the same year she confirmed her reputation as a "progressive antitrust expert" with an article in the Yale Law Journal entitled Amazon's Antitrust Paradox. And Biden has now followed up on that with a July 7 EO (Executive Order) instructing the FTC to "develop new policies for large Internet platform acquisitions", and with the appointment of two other noted antitrust activists, "long-time Google foe" Jonathan Kanter (age 47) as Assistant Attorney-General to head the DoJ's Antitrust Division (that last October filed a suit against Google, the first such action against a tech giant since that against Microsoft in the 1990s) & a "leading Big Tech critic" Columbia law professor Tim(othy) Wu (age 50) as Special Assistant to the President for Technology and Competition policy – *Taccording to the IMF ever larger & more powerful companies undermine the efficacy of monetary policy as a tool for managing the economy; for the bigger the companies, the more market power they have. And the more market power they have, the greater their scope for hiking 'price markups' (the ratio of a good or service's price to their marginal cost of production), and the bigger the price markup, the greater the companies' profitability (noting that in the advanced economies price markups have risen by 30+% in the past four decades [while according to the US Commerce Department's BEA (Bureau of Economic Analysis), whereas from 1950 to 1980 'compensation to employees' had risen from 53% to 56% of GDP while corporate profits had remained stable at 18%, by 2020 the former has eroded to back to 53% & the latter risen to 21%].*

## **SEIZING THE OPPORTUNITY FOR A PRO-GROWTH, POST PANDEMIC WORLD** **(IMF, George Okamoto)**

- Since March 2020 governments have provided US\$16TR (19% of 2020 global GDP) in fiscal support & central banks increased their balance sheets by US\$7.5TR/50%, the lion's share of the latter accounted for by the Fed, the ECB & the BoJ. Government deficits are now the highest they have been since WW II, and central banks have provided more liquidity in the past year than they had in the previous ten combined. All this was needed since our research indicates that otherwise last year's recession, the worst since the Great Depression of the 1930s, would have been 3x as bad.
- But in the years ahead policy makers must engineer a fundamental shift from saving their economies from collapse to strengthening their economies for the future with growth-oriented reforms. For compared to our January 2020 expectations COVID-19 prompted a US\$22TR global output loss, and the same energy that has been put into vaccination must now be put into policy-making to make up for that lost output.

*But the Biden Administration & the Trudeau government seem more interested in divvying up-, than growing-, the pie and German & other European policy makers' focus may be more on repairing the recent flood damage rather than on growth per se. And proportionately the biggest output losses were in parts of the world (Emerging markets ex China – 8%, Latin America & the Caribbean - 6.5% and SubSahara – 5.6%, vs. a global average of 2.8%), where governments & central banks have least scope for economy-strengthening policy-making*

*The writer (age 36) is California-born with a BSc in Computer Information Systems from California Polytech & an MPP (Master's degree in Public Policy) from Georgetown University (with some time at Oxford). While Trump had named him, & he acted as an Assistant Secretary of the Treasury, first for International Markets & Investment and then for International Finance and Development, he was never confirmed by the Senate for either position. And he has been the IMF's First Deputy Managing Director since March 2020.*

## **OPEC+ AGREES TO OIL SUPPLY BOOST AFTER UAE, SAUDI REACH COMPROMISE** **(BOE Report)**

- On Sunday July 18 its members agreed to *hike production* to cool oil prices from their 2 1/2 year highs as the global economy recovers from the pandemic. Last year's, economic slump had induced OPEC+ to reduce output by 10MM bbld although since then it had restored 5.8MM bbld thereof & this agreement will hike that by another 2MM bblds more (in 5 monthly 400,000 bbld monthly increments starting in August) & will phase out the other (2.2MM bbld?) *in instalments* by September 2022.
- This is the same deal that foundered two weeks ago (since *OPEC decisions require unanimity*) on UAE's petulance about not having its baseline oil production level hiked to reflect the fact that it had increased its capacity by about 20%. But it now has gotten a baseline increase that UAE Energy Minister Suhail bin Mohammed al-Mazroui told the press "We are happy with" but refused to answer questions about (*since he got only half the 6MM bbld baseline hike he had demanded but didn't really need?*).

*The price of Brent crude went from US\$19.05 on March 31 last year via US\$61.92 on May 19-, & US\$76.28 on July 14-, of this year, although most recently, on talk about higher production, it went to US\$66.54 on July 19 & could go lower still, even though total OPEC+ oil production by the end of next year may still only be at its three year-earlier level This whole affair constitutes a (well-deserved?) financial-, & political-, kick in the pants for MBS, the Saudi Crown Prince, whose break-even oil price is in the US\$75 range while UAE's is US\$10+ lower, and whose war in Yemen & domestic 'Vision 30' economic diversification plan haven't been faring too well, while the UAE with one-third of the Saudi population & oil output (& far smaller reserves) is economically much less dependent on oil. In a best case scenario, this decision may (only marginally?) help to reduce inflationary pressures across the world.*

### **US CONSUMER SENTIMENT DOWN, UNIVERSITY OF MICHIGAN INDEX SHOWS** **(Detroit News, Jordan Yadoo)**

- The preliminary July reading was 80.8, down from 85.5 in June, with the Current Conditions Sub-Index down to 84.5 from 88.6 & the Expectations Sub-Index to 83.5 from 88.4. Longer term (5 to 10 years), their inflation expectation went from 2.8% to 2.9%.
- According to Prof. Richard Curtin, a Research Professor at the University & the Director of the Survey <sup>4</sup> since its very beginning 45 years ago, "inflation has put added pressure on living standards, especially on lower and middle income households, and caused postponement of large discretionary expenditures among upper income households <sup>5</sup> ... Complaints about rising prices on homes, vehicles and household durables reached an all-time record as buying attitudes for homes and vehicles fell to a 1982 low and just 30% of consumers cited favorable home-buying conditions, also a 1982 low."

*Its long term average reading is 88, its all-time record high 110 (around the turn of the century)& its low 50 in 2008 (at the onset of the Great Recession) & a year ago had been 70.*

### **CHINA FLOODS ... AS RAILWAYS AND ROADS SUBMERGED** (BBCNews)

- Torrential rains caused severe flooding in Henan Province, on the Yellow river where it enters the coastal plains, *about 500 miles South of Beijing & the same distance Northwest of Shanghai*. The Provincial capital, Zhengzhou (pop. 10MM) had 617 mms of rain in 48 hours, almost as much as the 630 mms it normally gets in an entire year. There were videos of people standing on subway car seats with water up to their shoulders waiting to be rescued and a dozen people drowned in a flooded subway. An aluminum alloy plant actually exploded when water entered it & there were fears of a dam burst in the city of Luoyang.

*With a population of 99MM Henan is the third most populous of China's 39 provinces and is the place where China's civilization is believed to have started, 4500 years ago. And with Zhengzhou being a major railway hub, this is expected to be cause supply line interruptions.*

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4 He has been so since 1976, one year after it got started and he got his PhD from the university, & is also Co-Editor of the peer-reviewed Journal of Economic Psychology published by Amsterdam, Netherlands-based Elsevier.

5 This seems a bit odd; for having little or no financial constraints, one would have expected them to be rushing out to get what they wanted before the prices went up.

