

GLEANINGS II - 892
Thursday August 5, 2021

Iran's new oil export terminal – On July 22 President Hassan Rohani (whose term in office has since ended) officially inaugurated Iran's new oil loading terminal at Jask (located on the Gulf of Oman in Southernmost Iran, about 750 miles Southeast of Tehran & the same distance from Iran's traditional oil export terminal on Kharg Island, in the very Northeastern corner of the Persian Gulf. It will have an initial 300,000 bbl/d throughput-, & a 10MM onsite storage-, capacity, both of them scheduled to be tripled in the near future (at which point it will make the 7MM bbl/d capacity Kharg facility all but a 'stranded asset'. And it has two advantages over Kharg, a location on the Gulf of Oman open ocean side of the Strait of Hormuz (according to Bjornar Tonhagen of Oslo-based Rystad Energy "the world's most important choke point in waterborne energy") and it will save oil tankers the 1,168 nautical mile/2,163 km journey up and down the Persian Gulf to Kharg.

It will be fed by a new Goreh-Jask 1,100 km-, 46 inch-, 1 MM bbl/d-, capacity pipeline on Iranian soil that will tie in with existing pipeline infrastructure to Kharg Island. The whole thing was funded by Russia & it is a point of pride with the Iranians that it was built with only 10% foreign input (from Russian & Dutch sub-contractors).

Long Covid – As many as one in four COVID-19 survivors experience, for months afterwards, symptoms that include shortness of breath, joint and/or muscle pain, 'brain fog' (affecting their memory-, and/or concentration-, functions), sleeping difficulties, heart palpitations and/or dizziness. So the Biden Administration recently announced that those with long Covid symptoms can qualify for benefits under the Americans with Disabilities Act of 1990. But, since, according to Megan Buckles, a Senior Policy Analyst at the Washington-based Center for American Progress one on four Americans already are estimated to have a disability, this may do more harm than good, unless funding for the various programs for people with disabilities are significantly increased - *This seems like one of those well-intentioned 'do-gooder' ideas that focus on how to divvy-, rather than grow-, the economic pie that will become less & less affordable as the GDP "trend growth rate" continues to decline (as it has, in the past seven decades from 5-, to about 1.5 -, percentage points).*

Middle East situation spinning out of control? - MV Mercer Street is a Liberian flagged & Japan-owned tanker, and one of 150 or so operated by Zodiac Maritime, a London-based ship management company owned by 70 year-old Monaco-based Eyal Ofer who, with an estimated Net Worth of US\$11+BN, is Israel's richest citizen. On Thursday July 28 it was the victim of a drone attack off the Oman coast that killed two of its crew members, one a Briton & the other a Romanian. This caused Prime Minister Boris Johnson to go on record as saying "it is highly likely that Iran was behind this ... and must face up to the consequences of its actions", Israeli Defense Minister Benny Gantz to tell the Knesset "Israel has a variety of tools and options to defend its citizens and we will settle the score with anyone who tries to harm us ...", and US Secretary of State Antony Blinken to call for a "collective response."

On August 3, the Palau-flagged, Emirati-owned small (10,000 dwt) & old (1976) tanker Asphalt Princess (so named because it specializes in hauling heavy crude oil products) was boarded in the middle of the Gulf of Oman as it approached the Strait of Hormuz & ordered to proceed to Iran, by nine armed men who, after the crew disabled the ship's engine, left the next day, enabling it to resume its journey (to Panambur on India's West Coast). And that same day

several other tankers in the region reported no longer being “under command”, allegedly because of drone attacks. While all these events were immediately attributed to Iranian irregulars, the Iranian Foreign Ministry dismissed them as “suspicious events to create a false atmosphere against Iran”.

Then on August 6 hardliner cleric Ebrahim Raisi, the ‘landslide winner’ of the June 18 election ¹ [*who wears a black turban as a (supposed) direct descendant of the Prophet Mohammed*], & the choice of the 82 year-old Supreme Leader Ali Khamenei, was sworn in as the 8th President of the Islamic Republic of Iran. In his 30 minute acceptance speech on TV he vouched to pursue Iran’s “legal rights” [with its nuclear programme now refining uranium to 63% purity, close to weapons grade & well above the 3.67% allowed under the Obama 2015 nuclear “deal” (that Trump walked away from in 2017?)] & told listeners “The policy of pressure and sanctions will not cause the nation of Iran to back down from following up on its legal rights ... Sanctions must be lifted ... we will support any diplomatic plan that supports that goal ... The message of the election was resistance against the arrogant powers” - *But he faces more domestic problems than ‘a dog has fleas’, for, while after the Obama nuclear deal was signed in 2015 Iran’s GDP had grown by 13.4% in 2016 & 3.8% in 2017, after Trump walked away from that deal that changed to -6.0% & -6.8% in 2018 & 2019 causing Iranians’ real household incomes to shrink by 12.5%. And, while hard numbers are hard to come by, Iran is believed to be among the countries hardest hit by COVID-19. So its currency has crashed & support for its government has been seriously dented by inflation, a shortage of (imported) medicines, a crime spree, evictions, suicides & business failures and the growing evidence of graft & corruption in high places. And Raisi will be President in a system in which “the Supreme Leader has ‘power and no accountability’ and the President no power & all the accountability”.*

US new job growth – In July 943,000 new jobs were created, marginally more than May’s 938,000 (revised from the original 870,000, which had been higher than the expected 850,000). As a result, the UE rate dropped from 5.9% to 5.4% (rather than to 5.7%). Still, the *far more important* ‘civilian labor participation rate’ remained 61.7%, flat MoM & 1.6% down from February 2020, and a 45 year low & way down from the March 2001 all-time high 67.2

Vast expansion of the IMF’s SDR facility – On August 2, to “boost global liquidity”, the IMF Board of Governors approved, effective August 23, a 460BN SDR (US\$ 650BN equivalent) ‘general allocation’ thereof. The IMF’s ‘top dog’, Managing Director Kristalina Georgieva, called this “a historic decision *and* ... a shot in the arm for the global economy at a time of unprecedented crisis ... *that* will benefit all members, address the long term need for reserves, build confidence, and foster resilience and stability of the global economy.” And part of her optimism seems based on a hope that ‘IMF member countries with strong external trade positions (*like Germany, Japan, China, Taiwan, Netherlands, South Korea, India, Singapore, Italy & Thailand*) will use part of their new allocation to help fund the IMF’s currently PRGT (Poverty Reduction and Growth Trust) for interest-free onlending to low income countries, *something that may-, and in a worst case scenario will not-, happen.*

1 With the deck stacked ‘six ways from Sunday’ in favour of Raisi by 28 of the 35 candidates ruled ineligible to run, incl. the First Vice President Eshaq Jahangri & ex-President Mahmoud Ahmadinejad. And while Raisi had 72.36% voter support, the 49% turnout was the lowest ever and, although the Supreme Leader had warned protest voting was “religiously forbidden”, the 3.8MM protest-, blank-, & invalid or lost-, votes far outnumbered the 3.4MM garnered by the runner-up to Raisi.

SDRs are a 'fiduciary currency', i.e. one created out of thin air rather than backed by real assets. It was created in 1969 by the IMF to supplement its member countries' official reserves that up to that point had consisted solely of gold and US dollars. Its value is based on that of a 'basket' of five currencies, the US dollar, the Euro, the renminbi/yuan, the yen & sterling. Initially, in 1970-72 a total of 9.3BN was created, this was followed by 33.6BN in 1979-81 & 161.2TR in 2009, i.e. by a total of 204.1BN while on this occasion the amount outstanding will be tripled during a period that global GDP grew by less than 50%

This generates a 'deja vu' feeling for me. For in the latter 1960s I was in the Department of Finance's International Finance Division in Ottawa and a junior member of the group that backed up the Bank of Canada's 'two Bills', Deputy Governor Bill Lawson & Special Adviser Wm. C. Hood, who were the Canadian representatives to the Paris-based group that did the preparatory spade work for the introduction, effective January 1st, 1970, of SDRs as a supplement to the then primary reserve assets, gold & US dollars, so as to prevent a feared collapse of then operative post-WW II Bretton Woods international monetary system of fixed exchange rates due to a shortage of reserve assets in the system.

And the SDR's creators reaction then to their introduction was similar to that of Ms. Georgieva, and I will never forget my then boss greeting me upon my arrival at the office on Monday January 5, 1970 with "Now bring on the (currency) speculators; with the creation of the SDR's we now have more money than they do". And yet 587 days later, President Nixon, on August 15, 1971, a day that Forbes once headlined as "A date which has lived in infamy", announced, out of the blue, that the US dollar would no longer be convertible into gold on demand, an unforeseen-, now called "black swan" event that caused the post-WW II Bretton Woods international monetary system to implode!

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FED'S WALLER : GO EARLY AND GO FAST ON TAPER (Reuters, Ann Saphir)

- On Monday August 2 Gov. Christopher Waller said in an interview on CNBC that the Fed could start reducing its support for the economy by October if, as he expects, the next two monthly job reports each showed employment rising by 800,000 to 1 million (as they now, as noted above, have done for two months in a row). And he added that he could see the Fed announcing a cut in its *US\$120BN* monthly bond purchases in September & start reducing them in October, and that, once it starts the process, "there's no reason you'd want to go slow on the taper, to prolong it – you want to get it done and get it over – We should go early and go fast in order to make sure we're in a position to raise rates in 2022, if we have to."

In the next six weeks there will be two relevant events. August 26 to 28 will be the dates for the annual Jackson's Hole clambake for central bankers & invited outside professionals hosted by the Kansas Fed, where Fed Governors & officials the former will get serious exposure to non-central bank economic-political thinking. And then on September 21-22, at the next scheduled next FOMC meeting, Fed Chair Jerome Powell c.s. may have to 'fish or cut bait' policy-wise - Waller is rated, like Powell himself, as what might be called a pragmatic, 'middle of the road' "dove", but likely better qualified for his job than Powell for he has a PhD in Economics & taught economics at university for years and prior to being named to the Fed Board for a 10-year term by Trump in the dying days of his Presidency, was the Executive Vice President & Director of

Research at the research-oriented St Louis Fed, whereas Powell is a lawyer by training, albeit with some exposure to investment banking.

BIDEN'S ALLIES FUME OVER PRESIDENT'S SLOW ACTION TO EXTEND EVICTION MORATORIUM (Fortune, Nancy Cook & Mackenzie Hawkins)

- President Biden faces criticism for his hasty *last minute* effort to preserve it & for not acting sooner to prevent a housing crisis. For just last Thursday, July 29, he asked Congress to extend the ban on evictions that was set to expire at midnight Saturday July 31. But his Administration had been caught off guard by the recent Delta variant-driven surge in COVID-19 cases, Democratic lawmakers are not united on how much longer the moratorium should remain in force, and anyway, it's not clear if the Republicans would support any move to extend it.
- As many as 8MM American households are behind on their rent (in the case of renters) and/or on their mortgage payment obligations (in the case of home owners), of whom half are *said to be* "somewhat" or "very likely" to face eviction in the next two months. And, according to Emily Benfer, a research partner at Princeton's Eviction Lab, after a previous moratorium expired on June 24 evictions had surged above historic levels, by almost 5x in some communities, until an 'administrative' moratorium by the CDC cut that in half.
- The Administration's reluctance to move more aggressively to pursue an extension of the eviction moratorium was due in part to a June Supreme Court 5-4 decision denying requests by landlords & real estate associations, to limit the CDC's authority to do so. But Justice Brett Kavanaugh, who wrote the majority opinion, had opined that the CDC had exceeded its powers by imposing the ban & that it would require Congressional authority to extend it beyond July 31. This prompted White House concerns that, if the CDC were to do so beyond July 31, the Court might respond by more broadly limiting its powers. Nevertheless, after a July 21 meeting on the issue, Gene Sperling (the White House Coordinator of the rollout of the US\$1.9TR American Rescue Plan Act of 2022) said the Administration would do "everything (*within its power?*) to make sure cities and states provide relief to renters and landlords."
- In practical terms, this is a matter of bureaucratic bungling & a failure to communicate. For of the US\$47BN available for relief so far only 12% has been disbursed. And a survey by the Urban Institute ² found that 50+% of renters & 40% mom & pop landlords were unaware of the existence of the rental assistance program.
- In recent months, as the economy recovered, the share of renters in arrears decreased in some states. Thus in Texas between May 24 & June 7 the number of those who owed back rent had decreased from 21% to 13% (although but in 22 other states their number actually increased and, as of June 7 in Alabama, Arkansas & Georgia, at least 25% of tenants were behind in their rent, *and in New York & New Jersey 20+%.*

To describe this as a matter of "bureaucratic bungling" is an understatement; rather it seems to be a case of gross mismanagement. For at last report US\$ 47BN was available for assistance to the US households at risk of eviction or foreclosure ³, US\$25BN from the December 27

² According to its 2019 Annual Report 44% of its revenues had come from foundations, 28% from government, 17% and 11% from other sources, and it had a US\$98MM operating budget & US\$190MM in net assets, one-third of it in the form of receivables.

³ In both cases a disproportionate number is likely involved since the birth rate among families with incomes < US\$10,000 is 50% higher than among those with incomes . US\$200,000.

Consolidated Appropriations Act, 2021 & another US\$22BN from the March 22 US\$1.9BN American Rescue bill. But apparently it had been decided to distribute the funds through the junior governments, prompting them to create some 400 new programmes to do so. As a result, as of June 30 only US\$1.5BN in assistance had been released to eligible households ..., “more than triple the amount over the previous three reporting periods” (at which average monthly rate, it would take three years to disburse the entire US\$47BN) – Two things are worth keeping in mind. While revenues have fallen short of expectation for all levels of government, the junior governments have less ability than the feds to tap non-tax sources of funds and so may not be in a great hurry to pass on this windfall of money to the intended beneficiaries. And secondly, while in ‘normal’ times mortgage lenders tend not to be in an undue hurry to foreclose on home mortgages [thus last year the rate of foreclosure was just 0.16% (down from 0.36% i2019 & from a high 2.2% in 2009 & 2010), when the housing market is “hot” (as it is now , prices are up 20% YoY, 4x their CAGR during the decade to December 31, 2019), the opposite is true.

XI JINPING CALLS FOR GREATER FOCUS ON MILITARY DEVELOPMENT **(SCMP, Eduardo Baptista)**

- On July 31st this paper carried a large front page picture of him in camo military gear standing in a jeep-like military vehicle inspecting troops lined up in front of a mass of military vehicles festooned with antennas. And in his subsequent “spirited speech” he reminded them of the centenary celebrations earlier in the month of the CCP’s achievements during its first 100 years & told them “On the path of completely building a modern socialist country and realizing the second centennial goal, national defense and the military must be placed in a more important position, and the consolidation of national defense and a strong military must be accelerated ...”

This came right after, on July 30, he had presided over a study session on “Strengthening National Defense and Modernizing the Army” during which he had declared “We must persist in strengthening the overall planning of war and make preparations for military struggle.” And prior to that he had spent three days in Tibet (the first President to visit the region since Jiang Zemin did so in 1990 shortly after a series of major clashes against the Chinese rule), during which he told PLA units there “to strengthen their ‘war preparedness’ “.

While ostensibly his visit to Tibet was to help ‘celebrate’ the 70th anniversary of the Tibetans’ “peaceful liberation”, in reality it sought to send messages to Biden (since the US Congress has been passing bills pertaining to Tibet in the past couple of years), to India over control of its Arunachal Pradesh state [that shares a 1,129 km. border with China dating back to colonial times that PLA troops last year invaded, prompting some of the deadliest military clashes in 50 years, and that Beijing contends has no legal basis since Tibet never was an independent country & thus never in a position to enter into international agreements] and to the 86 year-old Dalai Lama that he is now a ‘spent force’ in the region⁴, although, in sharp contrast to his treatment of the Uighurs, a formal welcome by Tibetan monks was on his agenda.

4 For only little over half of all Tibetans still live in Tibet (& 20+% of Tibet’s population now is Han Chinese), with the remainder in adjoining Chinese Provinces, Pakistan, India & Nepal). And with a high birth rate the local Tibetans’ median age is 22 years & less than 5% is over age 65, i.e. alive when the Dalai Lama exiled himself.

This could become a major global military ‘hot spot’ in the not-too-distant future. For Beijing is reviving plans to develop the (third & final final) Western leg of the massive Mao-conceived South-to-North Water Diversion Project to move water from rivers in the China’s South to the water-deficient North. While the now completed Eastern & Central legs were a domestic matter & only directly affected Chinese people, the Western leg would involve syphoning water from rivers springing on the Tibetan Plateau that will be highly controversial globally since some empty into India’s Brahmaputra-, & Southeast Asia’s Mekong-, Rivers that are of critical importance to the economies of the countries in South-, and Southeastern-, Asia, whose governments are already concerned about China building a plethora of hydro dams on those rivers. And the Arunachal State is important to the government in New Delhi since it has a very low population density (17 people per square kilometre vs. India’s 464), accounts for 14% of the Brahmaputra River’s watershed, & has a 57 GW hydro-electric power generating potential, equal to 15% of India’s installed electricity-generating capacity).

THE CHINA-IRAN 25-YEAR COOPERATION AGREEMENT **(China Briefing, Dezan Shira & Associates)**

- It was first mooted in 2016 when the two governments issued a joint statement on ‘comprehensive strategic cooperation’ between the two countries,. But when signed on March 27, 2021, the 50th anniversary of the establishment of diplomatic relations between the two countries, it had for Iran become a means of lessening the impact of the crippling US sanctions, having been promised that China would invest US\$400-600BN in its infrastructure, & for President Xi part of his BRI (Belt & Road) initiative to extend China’s ‘soft power’ & strategic influence across Eurasia.

It likely was no coincidence that , after China’s oil imports from Iran (at a discount) had been growing rapidly early this year, in May they declined to almost zero – Dezan Shira is a Hongkong-based “multi-disciplinary professional services company” that was founded in 1992 and since has expanded into having 300+ employees in a dozen Southeast Asia countries

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FIRST BABY BEAVER BORN IN ENGLAND IN 400 YEARS (BBC News)

- The Eurasian beaver was native to England until hunted to extinction 400 years ago. In 2020 it was reintroduced in the National Trust’s Holnicote estate in Somerset (*South of the city of Bristol in Southwestern England*), where the newcomer was spotted.

And the beavers are said to have already had the hoped-for effect on their environment, transforming a hitherto unmanaged woodland into a wetland that has attracted other wildlife.