

For GLEANINGS II – 896
Thursday September 2, 2021

Quote of the week – “At the time the Intergovernmental Panel on Climate Change is warning of the potential catastrophic and irreversible damage inflicted by a changing climate, we need a leader at the helm that will take bold and decisive action to eliminate climate risk.” - Reps. AOC/Alexandria Ocasio-Cortez (D-NY), Rashida Tlaib (D-MI) & Ayanna Pressley (D-MA), all of them sophomore members of the House & of its Financial Services Committee and, between them, half the membership of the “progressive” bloc in the House known as “The Squad”. *And they weren’t talking about Pres. Biden but about Fed Chair Jerome Powell, whose four year term ends next February and whose re-appointment for another term is being promoted by Treasury Secretary Janet Yellen & White House aides. While I share their concern about global environmental outlook, it concerns me that, as law makers they don’t understand (or, as professional do-gooders may not want to understand, for at least AOC & Rashida took economics in university?), the different roles for monetary & fiscal policy in our system & to never have come across the 500 year-old dictum of “Cobbler stick to thy last”*

An unrealistic campaign platform plank – The NDP proposes to “end the unfair cap on applications to sponsor parents and grandparents of immigrants in Canada and take on the backlogs that are keeping families apart” – *While on the surface a wonderfully humanitarian gesture, in practice this would amount to a grossly unfair potential abuse of Canadian taxpayers by proposing to download the ‘the elder-, & special-, care costs of immigrants’ parents & grandparents onto their shoulders. And, while as an immigrant myself, I can relate to others’ wish to see more of their (grand)parents as they age, part of the price we must pay for coming to Canada is that, as they grow older, we will see less of them than we would like (& that they will see far less of their grandchildren than they would have loved to). But there are consequences for everything we do-, or don’t-,do. The only way this could be made to work fairly would-, & should-, be if such sponsorships were to entail an iron-clad legal undertaking by the family here of total financial responsibility for their old folks in Canada.*

*When Canada’s retirement system was ‘finalized’ in the Department of Finance in the 1960s, when I worked there, with the creation of the CPP for political reasons the then working generation was given several freebies. One of them was the ‘pay-as-you-go’ idea, i.e. by making tomorrow’s working generation help pay for the upkeep of the then working generation in their retirement. And then to make matters worse, and again for short-term political reasons, to the extent the CPP was funded, it was deliberately **underfunded**. So eventually those chickens will come home to roost without the NDP making matters worse. And the Canadian population has been aging : in the last six decades the average life expectancy has gone from 71 to 83 years and in the last two the median age from 36.8 to 40.9 years); so there will be increasingly fewer ‘worker’-, to support increasingly more ‘drone’-, bees, unless of course the government does something drastic, like cutting benefits, or workers accept the fact that the 65 year retirement age is an anachronism from the 1880 von Bismarck days in Prussia (when the average life expectancy was 61 years and he deliberately picked 65 as the official retirement age to ‘cap’ the payouts under his then revolutionary, newfangled public pension arrangement.*

Biden’s Afghanistan fiasco - While as a Senator he supported Bush 43 in his 2002 decision to invade Iraq, a decade later, after bin Laden had been successfully disposed off, he vigorously, but unsuccessfully, lobbied President Obama not to give in to the pressure from the generals (& what Eisenhower called the “military-industrial complex”) for a ‘surge’ in the US military

presence in Afghanistan. So nobody should therefore have been surprised that, when he became President, now over seven months ago, he was bound & determined to get the US military asap, & once and for all, totally out of Afghanistan.

He now sort of brags, and purely logistical terms in many respect deservedly so in, about the successful mass evacuation of so many people in such a short time as a momentous achievement by the US military. But more objectively speaking, from the outside looking in, this, what we in the Canadian military in Germany in the 1960 Cold War days would have called a “bug-out”, came across to third parties more like a chaotic, head-over-heel massive cluster f*** pulled in geopolitical terms. For did not have the foresight to put the military & the State Department on notice, even before he had been inaugurated, to start contingency planning of a rapid and **complete** evacuation of not just the US military but also **of all** the Afghans (& their families) who had worked for and/or cooperated with the “occupiers”. For the Afghan society is an ‘eye for an eye, a tooth for a tooth society’. And while he now prattles about “vital national interests”, an exit that outsiders across the world see as a ‘gang that could not shoot straight’ exercise, has prompted a serious erosion of one of the most vital of all vital national interests, the US ‘soft power’ among its allies & friends, and an enhancement of the belief among its foes that the US is a “paper tiger”.

End of an era – Although about half the US states had already, in the past couple of months, quit being involved, the Labor Day weekend will be the official end of the 18 months’ shower by the federal-, & state- governments of ‘enhanced pandemic unemployment benefits’ on 46.2MM needy Americans (almost 30% of the US work force). The US\$794BN doled out compares to the US\$128BN given to 14.5MM Americans during the 2009 ‘Great Recession’ – *This cannot help but affect US GDP growth during the Second Half.*

John Kerry’s latest China visit – John Forbes Kerry is now age 77. Over the years he has done many things, incl. being Governor of Massachusetts (1982-84), a US Senator (1984-2012) & Obama’s Secretary of State (2013-2016). Now he is Biden’s Special Envoy for Climate Change. As such he met with his Chinese counterpart Xie Zhenhua in Shanghai last April for climate change-focused talks. This past week, from August 31-September 2, he was at it again, this time in the 14MM inhabitant port city of Tianjin (Beijing’s choice, 135 kms/a 30 minute train ride from the capital). There he met again face-to-face with Xie & lower-ranked Chinese officials but only by video link with Executive Vice President & Politburo Standing Committee member (and as such the 7th most powerful man in China) Han Zheng, and with Yang Yiechi, China’s top diplomat & Foreign Minister Wang Yi, with the site choice seemingly a deliberate one by Beijing to denote that climate talks with the US are not a priority for it.

And Han & the others only being made available by video link was intended as a signal that, China’s top leadership still wants a working relationship with Washington, it wants it to be on Beijing’s terms. While Kerry called for a “dramatic turnaround of China’s coal trajectory” and, according to the WSJ, told the Chinese that “Any efforts will be insufficient as long as China continues to build coal-fired plants”, Beijing still sees coal as an integral part of its energy mix, and hence as essential to its national security. And Xie reiterated Beijing’s view that mutual trust is key to cooperating on climate issues and that “confrontation between China & the US is not in the interest of either side”, that “China-US relations have encountered serious difficulties because the United States has interfered in China’s internal affairs” & that it expects “the United States will pursue a rational and pragmatic policy towards China and work with China to put China-US relations back on track.” - *Beijing wanting to avoid any appearance of acting at the*

behest of the United States does not create a good basis for serious cooperation, and thus it is likely to 'keep its powder dry' for another two months, i.e. until the November 1-12 COP 26 (the 26th United Nations Climate Change Conference) in Glasgow, Scotland.

China's coal consumption & carbon emissions almost tripled between 2000 & 2014 & then eased of a bit for a few years but most recently have again begun to edge up. And, while its coal consumption was 30% of the global total in 2000 this had increased to 52% by 2019, with it accounting for 94% of the increase in global consumption.

Oral COVID-19 trials - Both Pfizer and Merck (*that, after earlier having ended work on a COVID-19 vaccine of its own, still seems to be trying to get into the COVID-19 vaccine 'game'*) have announced the start of trials to test oral anti-COVID-19 medications. This came a little while after Israel announced it was going to be the first in the world to do so with a vaccine developed by Jerusalem-based Oramed Pharmaceuticals and after WHO had started monitoring a new variant with the designation "Mu", first identified in Columbia but since spread to 39 other countries, which may appear to have the potential for circumventing the immunity provided by existing COVID-19 vaccines or by natural infection – *the longer it will take to get this damned thing under control, the more time it will have to spin off new variants!*

This is more than "A cloud as small as a man's hand ... coming up from the sea" (1 Kings 18 : 44-46) – On Tuesday August 31 the latest Annual Report of the SSA (US Social Security Administration) was made public. It forecasts a worsening outlook for the nation's retirees & disabled and says they should plan on getting full benefits on a timely basis only until 2034, one year earlier that it had predicted in its 2020 Annual Report a year ago last in April, after which it will only have enough income to pay 78% of what they have been led to expect.

The pandemic-driven recession led to a drop in employment and *thus in* payroll tax revenues, accelerating the depletion of the Social Security reserves. And while the current higher rate of inflation may boost payments to beneficiaries in the short run by as much as 6%, this will compound the longer term problem. Meanwhile, lawmakers continue to sit on their hands, opposed to *long-overdue* increases in payroll taxes or reductions in benefits, never mind both. And while the decline in life expectancies since 2013 had raised hopes of reducing the payout rate, this was a false hope; for at last report it had started extending again.

US dollar's share of global official FX (foreign currency) reserves has dropped to a two decade low - As of last December 31 its share thereof was 59%, down from 71% at the turn of the century. During that interval the share of the Euro (*that was created in 1991*) went from slightly below-, to slightly above-, 20%, that of the Yen remained 5% & of sterling went from 1% to 5%, and that of "Other" currencies (incl. the Aussie & Canadian dollars, and the Chinese Yuan) from zero to 10% - *Another straw in the wind that economically & financially (never mind militarily) the United States' global stature is waning (with the Americans blissfully digging the hole deeper & pulling the dirt into it with them?)*

US to re-open the US Consulate in Jerusalem? - On December 6, 2017 then President Trump sought to formally recognize Israel's claim that Jerusalem was Israel's capital by announcing that the US embassy would be moved from Tel Aviv to Jerusalem (with the Embassy actually opening its door there on May 14, 2018). In the process, the US Consulate in East Jerusalem, that for years had been key to the US diplomatic 'outreach' to the Palestinians, became 'excess to requirements' & was closed. But last May 26 Deirdre

Shesgreen reported in USA Today that Secretary of State Antony Blinken had met the previous day first with then Israeli Prime Minister Benjamin Netanyahu & Israeli officials in Jerusalem & then with Palestinian President Mahmoud Abbas in Ramallah, and afterwards had told reporters the US would reopen the consulate. And President Biden himself told Israel's new Prime Minister, Naftali Bennett, during their August 28 White House closed door Oval Office meeting, that he would be re-opening the East Jerusalem consulate.

So on September 1 Israeli Foreign Minister, Yair Lapid, told a news conference that "We think this is a bad idea ... Jerusalem is the sovereign capital of Israel and Israel alone, and, therefore, we don't think it is a good idea ... We know that that the [Biden] administration has a different way of looking at this, but since this is happening in Israel, we are sure they are listening to us very carefully." And the next day Al Jazeera report "Israel has said that the US plan to reopen its consulate ... could destabilize Prime Minister Naftali Bennet's government (*that is a coalition of eight parties from across the political spectrum except the far right & depends for its razor-thin majority in the Knesset on the tacit support of a small Arab party*).

But Lapid was 'peeing in he wind' and perpetuating a falsehood & trying to legitimize it; for it is not just a matter of the Biden administration having "a different way of looking at this" & "this happening in Israel", but the very same set of international laws by which the State of Israel was created in 1947¹ also hold that 'occupied territories cannot be integrated with that of the occupying power'; so East Jerusalem & the West Bank that Isreal gained control over by conquest during the 1967 Six Day War cannot, and never will be an integral part of Israel, and it has been an 'international 'scofflaw' for almost half a century. And the fact that nothing has ever been done about that does not change that while the fact that Israel is 'losing the battle of the cradle' in the region between the Mediterranean & the Jordan River, making a deal on a two state solution as envisaged in 1947 will in the foreseeable future become a 'sine qua non' for Israel's survival as the Jewish homeland.

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FOUR FACTS ABOUT SOARING CONSUMER FOOD PRICES (IMF, Christian Bogmans, Andrea Psecatori & Ervin Prifty)

1. Food price inflation started long before the pandemic;
2. Lockdown measures & supply chain disruptions led to a spike in consumer food prices;
3. Shipping & transportation costs have soared (ocean freight rates, as measured by the Dry Baltic Index, went from a 600 index base in early 2019 to 2200 later that same year, back down to 500 by mid-2020, and at last report were back up again to 2500;
4. Global food processors' input prices are at multi-year highs ("due to factors related to the pandemic and weather events"); thus between January 2020 & May of this year the Vegetable Oil Price Index went from 100 to 160, that for General Food from 105 to 135 & for Cereals from 119 to 180.

1 After WW I, Palestine became a British mandate. And when the UN, on November 29, 1947, by passing Resolution 181, laid the groundwork for the creation of Israel side by side with a potential future Arab state, it divided Jerusalem so as to give the latter a capital of its own (and because it contained the Temple Mount, Islam's third holiest site), and arranged for Jordan to adminisiter East Jerusalem. But the 1967 Six Day War changed that and Israel has been a scofflaw ever since without ever anything much having been done about it.

Bogmans is an Economist in the Commodities Unit of the IMF's Research Department & Pescatori the Head of that Unit, while Prifty is a Senior Economist in the Research Department working on issues of food security & agricultural commodity markets.

OPEC+ STICKS TO AGREED PLAN FOR OIL PRODUCTION INCREASES **(Reuters, Dina Khrennikova et. al.)**

- On Wednesday September 1 in an hour-long videoconferenced meeting OPEC and its allies confirmed the 400,000 bbl/d October production hike decision that had been agreed to, after much debate, at their July meeting. With crude prices having mostly recovered from their mid-August slump & the supply outlook relatively tight for the rest of the year, they had little reason to deviate from the then agreed-to 400,000 bbl/d gradual monthly supply hikes.
- The group now has rolled back 45% of the unprecedented output cuts implemented at the depth of the COVID-19 crisis a year ago & in July laid out a plan of having it gradually return to the pre-pandemic output level by next September, although there had been some doubts over the summer, as the resurgent pandemic had threatened demand growth in China & the US.
- According to UBS Group analyst Giovanni Staunovo "With the market still under-supplied, as gauged by falling inventories, and with oil demand still rising, but in an uneven way, OPEC+ sticks to its plan."

There is an old English saying dating back to the Roman Empire days that "there's many a slip 'twixt the cup and the lip". So it's worrisome that the Paris-based IEA noted in its August Oil Market Report that "the oil demand growth for the second half has been downgraded more sharply as new Covid-19 restrictions in several major oil consuming countries, particularly in Asia, look set to reduce mobility and oil use ... as global oil supply is ramping up fast... and "output gains next year of 1.7 bbl/d by producers outside the OPEC+ alliance, with the US accounting for 60% thereof", while the "Volcker moment" item below suggests the existence of a potential black swan event lurking in the shadows.

EXPECTATIONS VS. REALITY : CANADIANS ARE DIVIDED ABOUT PREFERRED ELECTION RESULT, LARGEST EXPECT ANOTHER LIBERAL MINORITY **(Angus Reid Institute)**

- Just 49% of Liberal voters want their party to get a majority vs. 81% of Conservative voters for their party (*with neither likely to get one*). While 34% of those polled expect a Conservative government of some form or other, when asked what form of government they would prefer if given the choice, 42% would like the Conservatives to replace the Liberals, whether that be in a minority (32%) or majority (10%), 31% would prefer the Liberals, split evenly between majority & minority, while fewer than 27% would like to see Jarmet Singh as Prime Minister & the NDP as the government. In other words, while 17% would like a majority Liberal government, only 12% expect that will be the outcome, and while only 14% would want a Liberal minority government, 49% expect that to be the end result, with the comparable results for the Conservatives being 32% & 8% and 10% & 26%.

According to The Hill Times the reception that Liberal canvassers have been getting at the nation's doorsteps has been surprisingly negative, given the fact that just a few weeks ago the Liberals had a double digit lead in the polls. Toronto-based Mainstreet Research (& polling) came up with a seat projection, effective September 1, of Liberals 135 (-22), Conservatives 151 (+30), NDP 30 (+6), Greens 2 (-1) and BQ 20 (-12) and 338Canada with one of 143, 132, 36, 26 and 1. While a lot can happen in the next 18 days and since the only poll that really counts is the one on Election Day, currently the upshot of it all seems to be that Trudeau for all intents & purposes is 'dead meat' & that, while O'Toole has failed the capture voters' hearts, he is nevertheless seen worthy of being given a chance for a 'kick at the cat' with a minority government. As has happened so often in the last half century, once again the question seems to be not whom voters like **most**, but whom they **dislike least**.

CHINA'S 'VOLCKER MOMENT'² IS A MOUNTING RISK TO THE GLOBAL RECOVERY (The Telegraph, Ambrose Evans-Pritchard)

- Xi Jinping has deliberately set out to break the back of the world's biggest financial bubble and China's resultant property squeeze is becoming the elephant in the global room while by Beijing's own admission China already has one foot in the recession door & is heading for a 'hard landing' as the country's construction locomotive of economic growth is being starved of *private* credit (& the country's state-owned large banks won't lend to anyone other than direct government-backed entities, first & foremost the inefficient SOEs (State-Owned Enterprises).
- According to Ting Lu, Nomura's Chief China Economist, "Markets should be prepared for what could be a much worse-than-expected growth slowdown, and potential stock market turmoil ... Half the world's cranes are in China. We are talking about 50 pc of the world's construction business". Home building & property in China accounts for 17% of its GDP & generates 44% of local governments' revenues, while property now accounts for one quarter of the Chinese economy, 3x the relative weighting of America's extreme buildup in 2007.

A Chinese 'debt crisis' has been in the making for a long time; for China has been floating on debt ever since the Great Recession over a decade ago. Thus in the 14 years ended March 31, 2020 its Total Debt-to-GDP ratio almost doubled from 150% to 280%, while that of the US went up 180% to 260%, of the EU from 210% to 260% & Japan one quarter to 375%. To make matters worse while the Chinese government's debt doubled to 60% of GDP, household debt (much of it real estate- related) increased seven-fold. All this may come at a bad time for President Xi's plans to become President-for-life a year from now (which makes it so puzzling that he is on the financial rectitude war path right now)

2 The "Volcker Moment" moniker originated with Ting Lu and refers to the drastic monetary tightening by the US Fed in the early 1980s when he raised interest rates to 19% to halt the destructive wage-price spiral of the then Great Inflation (that set off the Latin- American Debt Crisis as collateral damage).