

**Quote of the Week :** “This is ... the way Russians see (*or is it ‘are made to see’*) events in Ukraine : The West is ... taking over and only Russian troops can stand between the Slavic country’s unsuspecting citizens and the homosexuals marching in from Brussels.” - Masha Gessen, a journalist of Russian Jewish descent with dual citizenship who authored The Man without a Face : The Rise and Rule of Vladimir Putin & until recently worked in Moscow.

This week’s US economic data were anything but awe-inspiring. While the PMI rose to 53.1 in March from 51.6 in February, this was less than the 53.6 expected & the fourth month in the last five that it had fallen short of expectations. The private sector ADP job growth report came in at 191,000, equal to the average for the last two years, and less than the 195,000 expected, this being the fourth month in a row it had fallen short of expectations. Initial New claims for unemployment benefits increased by 16,000 to 326,000 had been expected. Due to a (small) decline in exports the trade deficit for February came in at US\$42.3BN whereas it had been expected to narrow slightly to US\$38.5BN. And then to top it all off, on Friday morning the Bureau of Labor Statistics’ job growth number came in at 191,000, while the market during the week had ratcheted up its expectations from 195,000 to 210,000.

A knowledge of geography is not among many North Americans’ ‘long suit’; in fact in recent weeks, when Ukraine was in the headlines, one comedian in his shticks said most Americans wouldn’t be able to find Ukraine on a map, *if their life depended on it*. And their knowledge of history may be even worse. So a summary of Crimea’s history as chronicled by National Geographic may be in order. From 1478 to 1774 it was a vassal state of the Ottoman Empire. Then followed a brief existence as the “Crimean Khanate” until annexed by Catherine the Great in 1783 as part of the Russian Empire expansion during her reign. From then until 1954 it was part of Russia. & later the Soviet Union, with two brief exceptions, after WW I when the anti-Bolshevik White Russians, & during WW II when the Germans, briefly controlled it<sup>1</sup>. In 1954 Krushev (*half Ukrainian & purportedly all drunk*) made an administrative decision to transfer it to what was then the Ukrainian Soviet Socialist Republic (*which at the time had fictional “independence” so as to give Moscow another vote in the UN*). After the breakup of the Soviet Union in 1991, Crimea remained part of a now independent Ukraine, although rather reluctantly so; for the next year the local government unilaterally declared itself independent (a move subsequently reversed & nullified by giving it greater autonomous power & status within the Republic of Ukraine) - *one of Putin’s mistakes was that he went for a ‘quickie’ referendum, rather than carefully stage managing one that, supervised by third party observers would have produced the same result, return to the Motherland, only in a more acceptable manner*.

In 2007 foreigners bought over US\$1TR of US securities. By the first nine months of 2013 that had declined to US\$80BN, with a disproportionate share of the decline accounted for by UST securities (of which foreigners during that period only bought US\$5.2BN, down from US\$703BN in 2010) - *might one reason for that be that in recent years the % of China’s foreign trade transacted in Yuan has risen from 0 to 18, reducing the need for US\$ working capital balances?*

According to Rob Leiphart, an analyst at Westport, Conn.–based Birinyi Associates in 2013 corporations in the Russell 3000 Index (i.e. 98% of all marketable US equities) bought back US\$568BN of their own shares (10x the volume of IPOs), up 21% YoY. And in January of this year the margin debt outstanding on Wall Street rose for the seventh straight month, to a record

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<sup>1</sup> During which the October 1941 to July 1942 (Second) Siege of Sebastopol occurred that in the Russian psyche occupies a not dissimilar, albeit fresher, place as the First does in the British (due to the Charge of the Light Brigade & Florence Nightingale).

US\$451BN. Small wonder the stock market has been “on wheels’ with demand boosted by over US\$1TR of new money from just these two sources (while the supply shrank by a net half a trillion US dollars). That’s the good news. The less good news is that corporate treasurers have historically been bad at market timing, typically ramping up their share buybacks when markets got frothy. And the recent history of margin debt is ominous : it almost tripled between January 1995 & March 2000, peaking five months before the S&P 500 Index did & almost a year before the 2001 recession hit. It quadrupled between August 2002 & July 2007, peaked three month before the S&P 500 & five months before the onset of the 2008 recession. Since February 2009 it has nearly quadrupled again, while the S&P500 has started signs of getting ‘toppy’ .....

The First Quarter was the busiest ever for the US investment grade new issue bond market. The US\$308BN on offer was well in excess of the US\$258BN in the year earlier quarter & the Second Quarter 2008 record of US\$286BN – *So why, with their treasuries awash with cash, would corporations borrow money, no matter how cheaply? Because the relentless pressure for ever-higher quarterly earnings has them to engage in one or more of a) leveraging their balance sheets, b) buying back their own shares in unprecedented amounts to boost EPS (Earnings Per Share) & c) engaging in market arbitrage, i.e. investing the proceeds in lower quality-, but higher yielding-, assets. None of these bode well for the longer-term health of the stock market.*

The New York-based non-profit National Employment Law Project says “mid wage” jobs accounted for 60% of the 2008 recession job losses but for only 22% of the new job growth since robotics have yet to replace low-wage workers in personal service industries like hospitality & homecare (that accounted for 21% of the recession’s job losses & 58% of the new job growth since) - *since it seeks to raise the minimum wage & support organizing campaigns in low-wage industries, it is ‘talking its own book’, but that doesn’t make this finding irrelevant.*

Midnight March 31<sup>st</sup> was the deadline for signing up for Obamacare coverage for 2015 & not incur a penalty equal to 1% of one’s income. By late Friday March 27<sup>th</sup> 6MM people had done so & over the weekend 2MM more visited the government website at healthcare.com. This enabled the White House to achieve its goal of signing up 7MM by the deadline - *the problem now is that insurance companies are now claiming they must raise their premiums because too few young and/or healthy people signed up.*

Bond yields are collapsing in Europe. While on March 28<sup>th</sup> the German 10-year bond yield was 1.50% (down from 2% last August, 3½% in March 2011 & 4½% in mid-2008), that on the French 10-year bond was 2.09% (down from 4.83% in May 2008), the Irish 10-year 2.97% (down from 14.22% in July 2001), on Spain’s 3.20% (a post-2005 low), & on Italy’s 3.29% (vs. 7.08% in October 2011). Even the yield on Greece’s 10-year bond has dipped below 7% for the first time since 2010 (well down from its March 2012 44.2% high) - *compared to the German bond yield, some of the others, especially those of France<sup>2</sup> & Italy<sup>3</sup>, both of whom are teetering on the edge*

<sup>2</sup> Especially following the disastrous outcome for the Hollande government of the March 30<sup>th</sup> local elections in which the right of centre UMP party of Nicolas gained power in 150-, and, perhaps more importantly given the imminence of the May 22<sup>nd</sup>- 25<sup>th</sup> elections for the European Parliament, the far-right National Front party 10-, cities & towns.

<sup>3</sup> Whose new Prime Minister, the 39 year-old Matteo Renzi, is a ‘man in a hurry’, but on a tight rope, has identified 5BN Euros that can be cut from the budget over eight months, (mostly on the back of labour unions that won’t take that laying down, & for whom the recent (informal) referendum in Venice in which 73% of those eligible to vote voted 89% in favour of going their own way, must be more than just a dark cloud on the horizon.

*of recession, don't seem to incorporate a sufficient "risk premium". But, as one analyst commented, with Janet Yellen in charge at the Fed "risk markets are back in vogue".*

Europe has allowed itself to become unduly dependent on Russian natural gas & in the short run may become even more so as supplies from its traditional alternate suppliers, the North Sea & North Africa, will be less available in the future, the former since its fields are aging & the latter due to greater local consumption & political unrest. While this may be offset in time by new supplies from Israel & Cyprus, and there are still great hopes for locally produced shale gas, these new sources are years away from coming on stream. The current mantra in the US is that American LNG will bail Europe out & Congress has been approving new LNG plants as if they're going out of style. But Italy's ENI is Europe's biggest natural gas seller, with a 22% market share, & Gazprom's biggest customer, and on March 27<sup>th</sup> ENI CEO Paolo Scaroni<sup>4</sup> was in Washington. He referred to 'American LNG for Europe' as a 'slogan, not reality'; for it will take five, or more, years, not five months (*the onset of the next heating season*) before significant US LNG sales to Europe can materialize. And, even then, American LNG to Europe won't be cheap, and Russia, with its low production costs, could be expected to undercut US LNG *for revenue-, geopolitical-, and/or market share-protection reasons*. He also said the retail price of gas in Europe is US\$11/MCF & Russian gas costs ENI as little as US\$6/MCF - *while the US wellhead price of natural gas is currently US\$3.00<sup>5</sup>, transportation & regasification would each add \$1.00 thereto; so in theory US LNG could be competitive with Gazprom gas. But no investor would invest billions in a regasification plant on the assumption US wellhead prices will remain at its present level, especially since some people in the US argue that, rather than having exports drive the domestic price up, LNG shouldn't be exported to keep the local price down so as to boost the global competitiveness of US manufacturers (although they are at present outshouted by the proponents, for micro-economic-, or geopolitical-, reasons, of LNG exports).*

Apart from that, it is not clear where all the gas to be exported is supposed to come from. For according to the EIA (US Energy Information Administration), in 2013 the US produced 66.5BCFD of natural gas (i.e. 24.3 TCF/year), while consuming 71.2BCFD (26.0TCF) & importing 2.9TCF (mostly from Canada). This suggests that despite all the hullabaloo about shale gas, the US in 2013 was **not** self-sufficient in gas & that, even after adding in the imports from Canada, there would be barely be enough surplus gas for even two of the seven already approved new 2BCFD LNG plants. Moreover, the EIA also noted that in 2013 US natural gas output had only grown 1% YoY (the lowest YoY rate since 2007, and well down from 5% in 2012 & 7% in 2013<sup>6</sup>), that between January & December 2013 the price of Canadian gas had risen 19.2% to US\$4.71/MMCF, & that the January 2014 price had been US\$6.94, up 76% YoY

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<sup>4</sup> Who, as the FT reported on March 31<sup>st</sup>, was just sentenced to three years in jail by an Italian court for "environmental crimes" at a power station owned by the Enel SpA while he was its CEO (Enel operates in 40 countries, about half of them in Europe, incl. Russia, & the rest in the Americas, and has 95,000MW of installed generating capacity) .

<sup>5</sup> An understatement, if ever there was one.

<sup>6</sup> Which is not surprising since on March 29<sup>th</sup> only 389 rigs were drilling for gas in the US, down 71 YoY, and a mere shadow of the 933 in October 2011 & the 1585 in September 2008 (fracked shale wells lose as much as 65% of their capacity to produce in their first two years; so for them "Drill, Baby, Drill" is a necessity if output is to be maintained).

& 47% MoM – *and some time ago an industry insider opined that it would take a sustainable gas price at the wellhead of at least US\$5 to prompt a significant pick up in gas drilling activity*<sup>7</sup>.

It is interesting in this context that Michael Mandelbaum, a foreign policy expert at Johns Hopkins, contends that during the Cold War era, when containing the Soviet Union was a military matter, America bore a disproportionate share of the burden. But now that it is containing Russia is a matter of economics, Europe must do more to start pulling its weight : “The Germans will have to forego their sales of machine tools and cars to Russia<sup>8</sup>, the French (*their*) arms sales to the Putin regime and the British will have to stop the Russian oligarchs from using London as their playground and money laundering site. Most importantly, the Europeans will have to wean themselves off Russian gas.”

Based on official US & Chinese data, John Matthews of the School of Management at MacQuarrie University in Sydney & Hao Tan of the Business School at the University of Newcastle (both in Australia) have concluded that in installing new electricity generating capacity China & the US are on different tracks. For the former is more into installing new renewable energy-powered electricity generation capacity than the US; thus in 2013 in China 60% of new capacity was of a renewable energy nature, vs. 37% in the US - *what is not readily apparent from these numbers, however, is that the lion’s share of China’s renewable power generation remains hydro, not solar, wind & biomass, although the latter are on a much steeper growth curve (from 2007 & 2012, hydro’s share of its power output grew from 13% to 21% of the total while the other three went from near zero to 6%). While some believe this spells gloom & doom for oil & gas producing countries, first & foremost Russia, its global impact may well be more demand growth-modifying than destructive.*

In a case launched by the US, the EU & Japan, China lost a key trade dispute when a WTO panel recently rejected its spurious arguments that its quotas & duties on the export of rare earth metals were necessary to preserve the resource & protect the environment - *This doesn’t mean, however, that Beijing will change its ways any time soon, if at all. Rare earth metals are critical to the manufacture of many hi-tech products but the qualifier “rare” misplaced. For they are anything but rare [Bolivia has huge reserves of them & a lot more was discovered not long ago in Afghanistan & is known to exist in many other places, and there are three dozen rare earth (exploration) companies listed on the Toronto & Australian stock exchanges, & another handful in New York and London]. But China for years undercut all other suppliers until they left the business, giving it a virtual global monopoly on their production & sales. And as WTO correctly perceived its 2010 initiative had two real motives : to give its manufacturers a competitive edge as prices elsewhere went through the roof after it introduced its quotas & duties, & to remind Japan about its proper place in their East China Sea territorial disputes.*

How the mighty can fall. The now retired Zhou Yongkang, age 71, once was CEO of CNPC, China’s largest oil company, later China’s Minister of Public Security (controlling budgets bigger than that of the PLA) & finally, from 2007-2012, a member of the all-powerful then nine-, & today

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<sup>7</sup> It is rather interesting in this context that on April 1<sup>st</sup> there was a long treatise on [SeekingAlpha](#) (for more details on this source, see below under “Chinese PMI data ...”), that says the claim that the Marcellus Shale contains 100 years of natural gas reserves is flawed (claiming it’s more like 10 years), & that seeks to substantiate, in great detail, that the much-vaunted US shale gas miracle is a mirage.

<sup>8</sup> See the item below entitled : **SANCTIONS BEGIN TO WEIGH ON RUSSIA.**

seven-, member Standing Committee of the Politburo. But he has now become the highest profile target of President Xi Jinping's anti-corruption drive, apparently caught in the backwash of the downfall of the once high-flying Bo Xilai (who now is serving a life sentence), whom he had once recommended to succeed him as Minister of Public Security & whose supporter he remained to the bitter end. An investigation into Zhou's affairs, started at the time of Bo's trial last August, in November was upgraded by President Xi to a Special Task Force. Now Zhou is under house arrest, a dozen or so of his family members & close associates are in jail and, after questioning as many as 300 others, the authorities have now seized nearly 100BN yuan (US\$14.5BN) of their assets (37BN in bank accounts, 57BN in local & foreign bonds & stocks, and billions more in the form of 300 apartments & houses, 60 cars and antiques & paintings) - *in so doing President Xi broke an unwritten rule of long standing that past or present members of the Standing Committee are immune from prosecution, & is running the risk of alienating the upper echelon of the Communist Party by making them fearful of becoming next on his anti-corruption hit list. In fact, two former Presidents, Jiang Zemin (1993-2003) & Hu Jintao (2003-2013) are said to have warned him that "the foot print of his anti-corruption campaign cannot get too big" (ostensibly since this might undermine the authority of the Communist Party). But Xi is a "fifth generation" leader (whereas Jiang & Hu were third & fourth generation respectively) who believes that an anti-corruption campaign targeting the "tigers" (the 'princelings', of whom he himself is one) as well as the "flies" (bureaucrats) will consolidate the Party's power in a 21<sup>st</sup> century milieu dominated by digital media.*

The notional division of labour between President Xi Jinping & Premier Li Keqiang is that the former focuses on political-, & the latter (*who, unlike Xi is not a princeling; his father was a local Party official in Anhui Province, inland from Shanghai*) on economic-, issues. They have their hands full. The environment is becoming more controversial, economic growth is getting harder to come by &, waiting in the wings, is an incipient financial crisis. But, while China watchers have flagged these three challenges facing China's leaders, there is a fourth, possibly even more explosive, issue<sup>9</sup> they must be losing sleep over : unemployment among university graduates that so far has remained beneath the radar. Back in 2001, both the US & China each year graduated 1+MM students from their universities; but since then, while in the US their number has grown some, in China it has grown several-fold<sup>10</sup> & there are stories of not a single individual in entire graduating classes finding a job in the field he/she was trained for<sup>11</sup>. There is now even a name for them, "ants"<sup>12</sup> (because of the way they crowd together in their living quarters to make whatever little money they may have go further).

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**PUTIN CAUGHT IN A US AND CHINESE DOUBLE PINCER (Telegraph, A.Pritchard-Evans)**

<sup>9</sup> For throughout history, revolutions have seldom been propagated by poor people, but almost invariably by (semi-) educated, upstart middle classes.

<sup>10</sup> This was a self-inflicted, & totally predictable, problem; for in the late 90's Beijing ordered a major expansion of its university system which led to a quadrupling of enrollment.

<sup>11</sup> And worse still, the competition for the available spots is so fierce that new graduates often end up earning less than migrant workers

<sup>12</sup> Of whom there may as many as 200,000, or more, in Beijing alone.

- When Putin thanked China in his Crimea victory speech & his Foreign Minister claimed “Russia and China have coinciding views on the situation in Ukraine”, both were lying. For, unlike any vote on Syria, China abstained from the Crimea vote in the Security Council, with China’s Foreign Minister *piously* declaring “China always sticks to the principle of non-interference in any country’s internal affairs and respects the independence, sovereignty and territorial integrity of Ukraine.”
- So he won’t have a backer if he were to invade Ukraine or tried to foment trouble there, nor a potential ally willing to join forces with him in a “Eurasian bloc”. For Beijing’s is breaking Moscow’s control over Central Asia’s *prolific* gas basins. While once Turkmenistan’s gas flowed North, held hostage by Gazprom, it now flows East via an 1,800 km pipeline that connects its 26TRCM (918TCF) Galkynysh gas field with markets in China that it soon will annually supply with 65BCM (2.2TCF) of gas (half of Gazprom’s sales to Europe), & the same is happening in Kazakhstan. A British diplomat reported in a 2010 despatch already that China’s “commercial colonization” had reduced Moscow to having to “painfully” witness its control over Central Asia slip away, according to Cheng Guoping, China’s Ambassador to Kazakhstan, Russia & China are on a collision course & “China would not be the one to yield”, & George Walden<sup>13</sup>, whose time in China sensitized him to Beijing’s & Moscow’s mutual loathing, wrote in his book A Wolf in the World that China has never forgiven (Czarist) Russia for seizing East Siberia, the “Lost Territories” (which it is now retaking by ethnic settlement, just as Mexico is doing in California & Texas). And while Jonathan Fenby, a China expert at Trusted Resources<sup>14</sup>, says some on China’s National Security Council wanted to “line up with Russia” for better terms on natural gas, food & commodities, they were overruled by President Xi whose agenda includes creating a G-2 Sino-American global duopoly & who doesn’t believe there is anything to be gained from rescuing an incompetent in Moscow from his own folly.
- Putin is now totally isolated. Angela Merkel has lost patience with him & talks about an “unbelievable breakdown of trust”. Many European gas pipelines now have a two-way capability that will make it more difficult for him pick off the small peripherals one at a time by cutting off their gas. Eight EU countries now have LNG terminals, and Poland & Lithuania will each get one this year. Capital flight has reached unprecedented levels & Russia’s central bank can’t defend the ruble without tightening monetary policy & sending the economy into a nose dive. And his timing was awful. Russian banks & companies must roll over US\$155BN in the next twelve months in an unreceptive capital market. Europe’s gas storage facilities are unusually full. The price of oil may come under pressure as US output has increased by 1MM bbl/d., Iraq’s is heading for a 35-year high & Libya’s is likely to start rising again at some point<sup>15</sup>. He moved on Crimea before the Ukrainian interim government had lost the world’s good will, and took Germany for a patsy & China for granted. So he gained Crimea at the cost of Russia becoming an international pariah & losing control over Ukraine. A poor trade indeed.

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<sup>13</sup> Who, while in the Foreign Service (he later became a Conservative MP), served as Chargé d’Affaires in Peking (now Beijing) from 1967 to 1970, i.e. during the Cultural Revolution, & then on the Soviet desk in the Foreign Office from 1970 to 1973.

<sup>14</sup> A London-based independent consultant on emerging markets.

<sup>15</sup> Barron’s just postulated a possibility of the price of oil dipping to US\$75, or even less, on increased supply, more efficient internal combustion engines & more alternate energy (which would boost the US economy but devastate Russia’s).

One implication of the above is that in geopolitical terms Crimea & Ukraine are just byplays to the main act in Central Asia & Eastern Siberia.

### **WE'RE BUYING MORE FRESH FOOD (BW, Venessa Wong)**

- According to Neilsen, despite higher food prices, US consumers are losing their taste for frozen & canned food; thus fresh food sales grew by 5.4% in 2013 to US\$134BN (to 30% of supermarket sales<sup>16</sup>). Meat & produce accounted for 39% & 32%, followed by deli, baked goods & sea food, with the 2013 YoY % growth rates for each being :

	By Price	By Volume
• Produce	8	3
• Baked goods	6	5
• Seafood	6	4
• Deli	5	4
• Meat	3	1

*This fits with evidence in the US & elsewhere. The growth in floor space in supermarkets devoted to fresh food (& the growth of 'real food' chains). Organic food sales in Canada tripling in the past six years. A few years ago, in Britain, a statistic showing that, while organic food stuffs had a 10% market share overall, it had 39% of the baby food market<sup>17</sup>. And an apparent decline in the use of micro waves as more people prepare more meals from scratch. But the growing popularity of, & premium prices brought by, organic food products also has a downside, cheating & lax enforcement of organic designation standards; thus some time ago, the 10,000 cow Pixley, Cal.-based Vander Eyk dairy operation lost its organic designation since its cows were kept in feedlots without access to pasture, a no-no for organic milk. And under pressure from producers, USDA has, due to drought conditions there, "temporarily" released organic dairy farmers in 54 of California's 58 counties from the requirement of having their cows on pasture at least four months of the year.*

### **SANCTIONS BEGIN TO WEIGH ON RUSSIA (G&M, Paul Waldie)**

- On March 26<sup>th</sup> the World Bank published a report saying that the Russian economy could contract sharply if the crisis were to worsen<sup>18</sup> & that longer-term a power struggle with the West would divert attention from badly needed domestic reforms. While last November it forecast 2.2% GDP growth for Russia in 2014, now its 'low risk scenario'

<sup>16</sup> Vs. just over 2% for US supermarket sales as a whole.

<sup>17</sup> And the story a few years ago in a US newspaper of its reporter, doing a feature on organic foods, being puzzled by a woman first buying organic strawberries & then ordinary broccoli. So he introduced himself, explained what he was doing & asked her why. Her explanation "The berries are for my children & the broccoli for my husband"; so her kids were being organic-imprinted from an early age.

<sup>18</sup> While a senior Russian official recently said that he expected the capital outflow to come in at close to US\$70BN (vs. US\$62,3BN in all of 2003), according to German Greff, the CEO of Sberbank, Russia's largest state-owned bank, a US\$100BN outflow will cause economic growth to "evaporate" (while Goldman expects it to hit US\$130BN).

(sanctions are short-lived & issues settled peacefully) envisages 1.1% growth while in the case of a more, & more prolonged, confrontation it foresees a 1.8% shrinkage<sup>19</sup>.

- In the face of an unprecedented capital flight, Joe Kaeser, the CEO of Siemens, which has several projects on the go with state-run Russian Railways (whose CEO, Vladimir Yakunin, is on the US sanctions list) said after meeting with Putin on March 26<sup>th</sup> that it will keep doing business with-, & proceed with US\$1.3BN in new investments in-, Russia. When asked about this, Angela Merkel said business contacts with Russia will continue “but ... if certain international treaties are broken, then we are ready for a tough reaction. That’s an important message.”

*But not the message that Putin is likely to take away from his tête à tête with Kaeser.*

### **CHINESE PMI DATA PAINTS MIXED PICTURE (SeekingAlpha.com)**

- While China’s official March PMI index edged up to 50.3 from 50.2 in February, HSBC’s slipped to 48.0 from 48.5 . With the former is based more on the large SOEs while the latter gives more weight to smaller, privately-owned companies, this confirmed for HSBC that domestic demand is weak & that that First Quarter GDP growth will come in below 7.5% (prompting Beijing to engage in more fiscal pump-priming).

*Seeking Alpha is Ra’anana, Israel-based & has 140 employees in the US, Europe, Israel & India. It provides a forum for investors to write op-ed pieces, as many of 250 of which it publishes daily after having them vetted by an editorial board for quality. And the WSJ recently carried a preview of a report entitled Wisdom of Crowds : The Value of Stock Opinions Transmitted through Social Media to be published in the journal Review of Financial Studies; written by researchers at the City University of Hong Kong, Purdue University & Georgia Tech it concluded, after analyzing 100,000 SeekingAlpha items, that it had predicted stock returns & earnings surprises better than Wall Street analysts (proof of the power of the digital media?)*

### **CHINA IN FOR MASSIVE PAIN AS IT UNDERGOES FINANCIAL REFORM (G&M, Scott Barlow)**

- Beijing has put financial reform on the back burner as it once again turns on the credit spigots to boost growth. In 2012 Peking University Finance professor Michael used the following analogy to illustrate the likely outcome of a similar initiative at that time : “It is as if you saw a middle-aged man in terrible physical shape running a marathon and ... predicted that after five or six miles he would be forced to quit. If, however, he took out a syringe and shot himself up with crystal meth, he would be able to continue running a few more miles. But this doesn’t mean your analysis and prediction were wrong ... *just* that after a few more miles he will be worse off than ever.” If so, while another shot of fiscal stimulus could provide a short term boost to the economy, it will only postpone the inevitable day of reckoning. For corruption remains rampant & the US\$2TR ‘invested’ in wealth management products a ticking time bomb. Historical comparisons suggest a prolonged pause in China’s economic miracle is almost certainly happen, if not this-, then next-, year, no matter how much fiscal stimulus there may be in the meantime.

*Some of us can remember the sudden implosion of Japan’s economic miracle in the late 80’s.*

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<sup>19</sup> This compares to 3.4% in 2012 & 1.3% last year.



## **CREATING JOBS IS CHINESE LEADER'S CHIEF CONCERN (The Straits Times, Grace Ng)**

- Last month Chinese newspapers & even the state media extensively reported on the 25 year-old woman who, in the Western city of Xi'an, suddenly on a busy street, had stripped down to her underwear & thrown her clothes into a dumpster, driven insane, they said, by her failure to find a job. This reflects the extreme pressure on new university graduates trying to find work in a slowing economy that's being restructured. Maintaining peace in the job market &, more importantly in society as a whole, has become so paramount that Premier Li Keqiang has called for creating 10MM new jobs this year (according to Renmin University professor Zheng Gongcheng the first increase in the government's five year-old 9MM new job target). It is also said to be the first time the country's top leadership has prioritized job creation over GDP growth<sup>21</sup>. This year 7.27MM graduates will join the work force, whose search for a job will be complicated by the government pressuring people to retire later & planning to push back the retirement age (currently 60 for men & 50 for women). And matters can only be made worse still by Li's drive to raise the share of China's 1.3BN people living in cities from 54% now to 60% in 2020. And, while Finance Minister Lou Jinei told a press conference last month there was no need to worry since last year the 9MM new job target had been exceeded by 50%, last year the economy was growing at a 7.7% annual rate, any reforms will, in the short run, cost jobs, & employers are saying "wages are rising too fast".

*The scope for social unrest emanating from this is significant & comes from two sources : the grads themselves, for nothing is more dangerous than first giving people hope (in this case of joining an affluent middle class) & then dashing it (& have years of hard work go up the flue), & the parents who scraped to give their sole progeny a chance at a better life than their own (& hoping to share, at least a bit, in their bounty), only now to find them still a financial mill stone.*

## **PHILIPPINES DEFENDS ARBITRATION CASE AGAINST CHINA (AP)**

- On March 30<sup>th</sup> the Philippines submitted to the The Hague-based Permanent Court of Arbitration<sup>22</sup> 4,000 pages of analysis & documentary evidence in support of its territorial claims in the South China Sea, despite warnings by Beijing this would damage relations between their two countries & that it wouldn't participate in the Court's proceedings

*Manila thus challenging Beijing involves a loss of "face" for the latter. While Philippine President Benigno Aquino III said this wasn't intended to antagonize China but only to peacefully defend his country's territorial integrity, Beijing won't see it that way; for it wants the conflicting territorial claims with its neighbours settled bilaterally (so it can pick them off one by one by making behind-the-scenes economic threats), especially after the events two days later on the Second Thomas Shoal, near the Spratly Islands. This rocky outcropping is located 105 miles West of Palawan, the Philippines Western-most province, i.e. well within its generally accepted 200 mile EEZ (Exclusive Economic Zone). In the face of China's territorial claims, the Philippines in 1999, to help it validate its claim, deliberately grounded an old navy vessel on the Shoal & posted a 12-men naval detachment on it. Last month Chinese coast guard vessels prevented a Philippine*

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<sup>21</sup> While this statement as it stands seems like errant nonsense because 'you cannot have the one without the other', this may be a function of a poor translation.

<sup>22</sup> In existence since 1899, today 115 countries recognize it, incl. the US (from the outset) & Canada (since 1960) but that the post-1949 Chinese regime hasn't.

ship from resupplying those on the wreck. So on March 30<sup>th</sup>, a number of journalists were invited to accompany a ship that would attempt to 'run' the Chinese blockade. And it did so successfully; for, when an hour away from the Shoal the Chinese coast guard radioed it to get "out of Chinese territory" it ignored that call &, after a Chinese vessel twice cut across its bow to try & stop it, escaped into waters too shallow for the latter to follow it (there was no mention as to whether it was allowed to leave after completing its mission, or whether its crew & the journalists are now marooned on the hulk)<sup>23</sup>. Meanwhile, at home President Aquino on March 27<sup>th</sup> racked up a victory of sorts when he & former rebel leaders participated in a signing ceremony at the Presidential palace of a deal thirteen years in the making that creates an autonomous Muslim region for 3+MM people in Western Mindanao & islands to the West of it.

### **MADURO AGREES TO TALK TO OPPOSITION (AP)**

- On March 27<sup>th</sup> Juan Manuel Santos, the President of Columbia, announced Venezuela's administration had accepted the opposition's conditions for dialogue; this came after a delegation of South American foreign ministers had spent two days in Caracas meeting with government officials, students & human rights' groups trying to get the two sides to sit down & end a three months' protest movement that has left at least 32 people dead.

*Earlier President Maduro had expressed a willingness to sit down with the opposition under the watching eyes of an third party observer & had suggested the Vatican's Secretary of State, Cardinal Pietro Parolin, until last October the Papal Nuncio in Caracas<sup>24</sup> (both opposition leaders, Henrique Capriles & Leopoldo Lopez are practicing Catholics & have been pressing the Vatican to take up their cause). And a Vatican spokesman, Rev. Frederico Lombardi, said the next day that the Holy See & the Cardinal himself were "willing and desirous to do whatever is possible for the good and the serenity of the country." While the talks may still founder on the two sides' different assessments of their own, & the other's strengths & weaknesses, having them sit across the table from each other beats battling in the streets (although, if the talks fail, the latter could become nastier) – but Maduro operates from a position of weakness; for this is basically casting an ambitious middle class against a regime whose support base among the poor, bought by generous social provisions<sup>25</sup>, is being eroded by galloping inflation & Maduro running out of money . And, to make matters worse, while he has a solid labour union background, he lacks Chavez's magnetic personality.*

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<sup>23</sup> It wouldn't take much another such event to lead to an incident in which the US would have to 'fish or cut bait', with neither Washington or Beijing really having much scope for blinking.

<sup>24</sup> Cardinal Parolin is an Italian, 59 years of age & a career diplomat. He was appointed to Caracas post in 2009 (when it was deemed a sensitive posting because Hugo Chavez saw Roman Catholicism as being in competition with his socialist creed), was appointed Vatican Secretary of State last October & made a Cardinal just six weeks ago

<sup>25</sup> In Venezuela, as elsewhere, "Free stuff gets you votes" (& pain is not appreciated).