

Quote of the week : “We’re the first generation to feel the impact of climate change, and the last generation that can do something about it.” - Jay Inslee, the 63 year-old governor of Washington State (since January 2013) in the 9-part documentary Years of Living Dangerously on climate change that premiered on April 13th, 2014 on the premium TV network Showtime.

The near-term outlook for US food prices is not good & worsening. Drought has helped to cut the size of the US beef herd to a 63 year low; so it is not surprising beef prices have almost doubled in the past four years to all-time high levels (& *are still climbing*). The “Porcine Epidemic Diarrhea Virus”³ has literally decimated⁴ the US pig herd; so pork prices too are at record highs. “Early Mortality Syndrome” is raising havoc with shrimp populations in Asia; so in April their price was up 61% YoY. Even the price of chicken has been on the rise *as consumers switch from other, more expensive meats*. And now, to top it all off, **all** of California has been declared to be in a state of “severe” drought, or worse, limiting water availability for vegetable crop irrigation; and it accounts, among others, for 94% of all celery & broccoli produced in the US, 90% of leaf lettuce, 89% of cauliflower, 88% of strawberries, 83% of spinach, & 66% of carrots.

The US economy shrank by an annualized 1% in the First Quarter (down from a positive 2.6% in the Fourth Quarter of last year). But markets took it is stride, some analysts actually called it “good news”, JPM headlined it as “As far as terrible reports go, GDP wasn’t too bad” & Morgan Stanley is forecasting a Second Quarter annualized growth rate of 4.2% - *This is a preliminary number only, which sometimes have subsequently been revised quite drastically. While the weather was not conducive to economic activity in much of the quarter, the real culprit was said to have been a slowdown in inventory building that “will be reversed in the Second Quarter” but that meanwhile cut potential growth by 1.6%. But the fact remains it was nevertheless a comedown from the Fourth Quarter rate (that for policy makers had been sub-standard), & that, even if Morgan Stanley is right in its prognostication, the aggregate growth rate for the First Half will still be well short of the Third & Fourth Quarters of 2013 when GDP had grown by at 4.1% & 2.6% annual rates respectively.*

According to the New York-based National Employment Law Project, during the Great Recession low wage jobs accounted for only 22% of total job losses while in the recovery since they have accounted for 44% of the new jobs created, while the comparable numbers for medium-, & high wage-, jobs were 37% & 26%, and 41% & 30% respectively - *while as an advocate for the rights of low-paid workers, this group ‘has a dog in this fight’, these numbers*

³ While the organism responsible is of the coronavirus family, like SARS (that is known to have originated with chickens) & Ebola (that has been traced to monkeys), and now MERS (that is believed to have come from camels), in the decades it has been endemic in parts of Europe, is never known to have jumped from its host species to humans.

⁴ Whereas in modern times the word means has the meaning of ‘eliminating a significant share of a human, animal or plant population’, in Roman times it was a brutal punishment for military units that had performed badly whereby every tenth soldier was executed (hence the term for the Latin word for ten was “decem”).

may help explain why average real wage levels have been flat for some time [as the cost of life's 'essentials' (food, energy & shelter) has been rising].

The rate of growth new businesses created each year in the US has been in decline since 1978 while the number liquidated has stayed relatively constant (although it did move to the upper end of its long-term range in 2008). So the inevitable happened, in recent years the number of new businesses created has fallen short of those liquidated - *and the reality of life is that the start-up cum small business sector is a greater new job creator than big business. But given the growth of home-based businesses since the onset of the Great Recession & the Digital Age, one cannot help but wonder if the official statistics may not understate the rate of growth of new businesses (if only because many of them may operate outside the 'official economy).*

California's Monterey shale was to have been the next major US energy play, with its 13.7BN bbls of oil notionally accounting for two-thirds of the US' "technically recoverable" shale oil reserves. But on May 21st the US EIA (Energy Information Agency) let some of the air out of the US shale oil 'balloon' when it slashed its estimate of the Monterey reserves by 96% to just 600MM bbls, with EIA Administrator Adam Sieminski explaining "not all reserves are created equal" (*in their recoverability potential*) - *while, to give credit where credit is due, the industry has long done an great job of developing new technologies to better access hitherto uneconomic oil & gas reserves, there is only one problem with this : such technologies have upward cost implications; for what the industry has been doing since Day One has been what in mining is called "high grading", maximizing short-term profitability by tapping the cheapest, most accessible reserves first*¹.

Canonsburg, Penn.-based Rice Energy at the end of 2013 was producing 161MMCFD of natural gas from its 90,000 acres in Pennsylvania's Marcellus-, & Ohio's Utica-, Shales but had been losing money since 2010. Nevertheless, it did an IPO on the NYSE last January at US\$20 & its shares recently have been trading in the US\$30 range. Then last month it sold US\$900MM in bonds, US\$150MM than expected, despite conceding that it spends 4x as much on capex as it earns. *Very conveniently*, its First Quarter EPS were 16¢, vs. 13¢ expected (*which means its shares are trading at a, for a small oil company nose bleed-high 45-50x annualized First Quarter earnings*). According to Barclays, while the US 'high yield'/'junk bond' market doubled in size since late 2004, the amount of debt issued by *oil & gas* exploration & production companies grew 9x which, it says, "is helping to keep the shale revolution going, even as companies spend money faster than they make it." And one money manager observed "There's a lot of Kool-Aid² that's being drunk by a lot of investors ... They are just dreaming the

¹ I have come only twice across commercial operators taking a longer term view. In the heyday of the South African gold mining industry, mines tended to move to lower grade parts of the ore body when gold prices were strong so as to keep the higher grade stuff for when the price was under pressure, thus increasing the stability of their bottom line results over time. And about forty years ago, I came across a leading Swedish forestry concern that as a matter of policy focused much of its day-to-day operations on the poorer stands in its forestry portfolio so as to be able to replant the land with fast-growing new species that would enhance its profitability down the road.

² A reference to the mass suicide organized in late 1978 by a religious nut, Jim Jones, after moving them from California to Jonestown, Guyana, of 909 followers, incl. 300 of their children, by quaffing cyanide-laced Kool-Aid, after which he himself died from a bullet in his brain, either self-inflicted or administered by his nurse in a murder-suicide pact.

dream ... that's what's happening with the shale boom" - *meanwhile the number of money-losing IPOs is at an all-time high & their share of total IPOs is at a 15-year high (i.e. since just before the collapse of the dot.com bubble).*

The ratio of US median house prices to median family incomes currently is 3.15. While way down from the 4.0 it hit in 2005, at the peak of the pre-recession housing boom, in the two decades prior to that it had averaged 2.86 & had **never** exceeded 3.10 (& *those who believe that 'this time it is different' in the past have almost invariably been disappointed*). Meanwhile, home ownership by US households has dropped from 69% to 65% & is expected to decline still further (& *each 1 percentage point drop is estimated to create a demand for 1.2MM new rental housing units*), in part because the Millennials are less acquisition-oriented than previous generations (*thus fewer of them own cars & for them cars are less of a 'must have' status symbol than they once were*) & tend to live with their parents longer and, when they move out, often rent, not buy⁵.

Canadian bank shares have been very good to investors in the past three decades, in part due to their muscling into the wealth management business. But there has been another, less readily apparent reason (*that, for obvious reasons, they have been very quiet about*), namely, as shown below, the drastic drop in their effective tax rates :

	1996	most recently
• RBC	37.3%	20.6%
• TD	35.2	14.6
• BNS	37.7	20.8
• BMO	38.9	21.0
• CIBC	39.8	16.0

Canadians have always had ambivalent feelings about their banks (*in part because 'branch banking' doesn't generate the same loyalty as the 'community-based' variety*). But what happened to their investments during the recession, the lousy returns they are, & have been, getting on their savings & the incessant hikes in bank fees have prompted more negative feelings towards them, if not outright hostility. And the above decline in their effective tax rate is likely to have run its course & could even be reversed in the years to come. So their shares may become less great capital appreciation generators &, while they no doubt will continue to pay nice dividends, their appeal may be eroded when interest rates start rising to 'normal' levels.

Montreal-based Bombardier may be collaterally damaged by the Russian sanctions; for Rostec, the Russian industrial & defence conglomerate, & Russian leasing firm Ilyushin Finance may be backing away (*for tit-for-tat reasons?*) from their preliminary August 2013 deal with it to buy 100 (\$3.4BN-worth) of its Q400 planes that would, however, be manufactured in Russia. For Industry Minister Denis Matourov told the news agency Ria Novosti on May 22nd at the St Petersburg International Economic Forum "We have reviewed the question of price with Rostec,

⁵ I have been doing the bi-annual Edmonton City Census & in the process have met a lot of interesting people in my neighbourhood (which, however, severely reduces my efficiency). Thus last night one of my respondents was a young lady who at age 33 had just moved out of her parents' home, largely because her ten year-younger sister had moved to Edmonton to attend medical school & needed a place to stay. Another noteworthy experience has been that the women, young & old, have been, with one exception, pleasant & helpful while I have run into at least a dozen male assholes who either wouldn't cooperate at all or could have saved us both time if they hadn't argued about it.

given that the one put forward by the Canadian party today is high.” Meanwhile Bombardier Commercial Aircraft spokeswoman Mariana de la Barrera maintained that “ Bombardier remains committed to finalizing the contract with Rostec in 2014” (*which may prove to be a matter of ‘whistling in the wind’*).

Some China “experts” fuss about its local government debt, said to amount to US\$2.7TR-equivalent, 30% of GDP. But that’s only about half the size of its “shadow banking system”. And it is not evenly distributed : while 13 of the country’s 30 provinces, *the ones that had focused most on GDP growth at all cost*, have debt-to-asset ratios greater than 70% (which is still considerably better than that of the US), the flipside thereof is that 17 don’t. But Beijing, that has long known of this buildup of local government debt, has been seeking to defuse this situation, in part by replacing short-term loans used to fund infrastructure projects with loans from the China Development Bank of a more appropriate term to maturity &, most recently by floating the idea of raising the share of its revenues it passes on to the local governments from 50% to as much as 80% (*which, of course, will come at the price of increased central control over local governments’ budgets by which Beijing hopes to reduce the selling of land by local governments to raise money, a socially destabilizing activity*). And China leads the major nations in the amount of corporate debt outstanding relative to GDP (while officially 152% thereof, this may be a ‘low ball’ number since Chinese corporate treasurers often fudge their numbers), vs. the UK’s 115%, Japan’s 75%, the US’ 49% & India’s 36%. And almost US\$2.5TR of this, one-fifths of the total, is owed to non-Chinese banks (which could have macro-financial ramifications). Last, but not least, while a recent survey by Thomson Reuters of 2,300 listed Chinese companies found the average ‘age’ of their receivables to be a sub-optimal 90 days, it also found that for electric equipment-, building products’-, & machinery manufacturers it was 196-, 188-, and 171-, days respectively.

In an attempt to improve air quality in its big cities, Beijing has announced plans to take 5MM ageing motor vehicles off the road (albeit only 330,000 of them in Beijing itself).

On May 27th three month copper of the LME (London Metal Exchange) hit US\$6,966, a post-March 7th high, purportedly on Chinese buying (this came the day after August copper futures on the Shanghai Futures Exchange had hit a three-months high of US\$7,900). The daily LME metals inventory report on May 28th showed copper inventories in its warehouses to be 169,825 tonnes, a post-August 2008 low. And copper futures have gone from a (normal) ‘contango’ (*when futures prices are higher than the spot price*) to “backwardation’ (*when they are lower*), a condition deemed a bullish price signal - *while there is said to be as much as 700,000 tones of the stuff in warehouses in China, it remains a major net importer since much of that amount is collateral for loans “under water” but nobody dares messing with for fear of starting a panic*.

Putin’s much-hyped China gas deal was a “Hail Mary pass”. It wasn’t really all that big a deal for either party; for it involves less than half the gas Gasprom sells to Germany & between one third & one quarter of the gas it sells to all of Europe, incl. Germany. Before the gas can start flowing, Gazprom must build a 2,600 km, US\$22BN pipeline, & by the time it will be completed the 38BN cubic metre/year involved will have shrunk from the current 25% of China’s natural gas consumption to something closer to 10%. And with Putin having little bargaining power & **needing** a deal, the Chinese had Putin over a barrel & took their pound of flesh : the reason for the contract was signed only late in his visit, rather than earlier on as he had hoped, was that he had to settle for a lousy price, lower than Gazprom is getting in Europe while it must haul the stuff at least twice as far. And the Western media generally ignored the only possibly **really** significant macro- economic cum political part of the deal, namely that its ‘denomination

currency' will not be the US\$, thereby driving another nail in the coffin of the US dollar's reserve currency role.

The Economist had some interesting insights into the Ukrainian situation, incl. :

- despite claims by the rebels in the East that 90% of the people support the idea of a Donetsk People's Republic, polls suggest only 5% want Donetsk to become a state & another 27% to join Russia, even though 70% have been brainwashed by Russian TV into believing the Maidan Square protests were an armed coup by fascists. Furthermore, only 18% of people in Donetsk, & 12% of those in the Southeast generally, support the actions of the goons occupying government buildings (even though only one-third of them accepted the legitimacy of the government in Kyev);
- successive presidents have done little to build a sense of nationhood, "preferring to exploit the differences between regions for *their own* political gain";
- Donetsk was, & remains, the stronghold of ousted President Viktor Yakunovych, his family & hangers-on, and its police-, & security-, forces, remain controlled by his son, are demoralized, & sabotage all orders from people in Kyev whom they consider usurpers;
- some rebel leaders are, at the very best, unsavoury characters; thus Denis Pushilin, the self-proclaimed governor of the Donetsk People's Republic was part of a notorious pyramid scheme that robbed people in Russia in the 1990's & Pavel Gubarev, a "people's governor" fighting a "fascist junta" in Kyev, was a member of Russian National Unity, a fascist organization banned in Russia; and
- the Ukrainian security service *supposedly* recorded a conversation in which one of the rebel leaders, Alexander Barkashov, instructed an underling on how to conduct a referendum, telling him "just write in the number itself, say 89%."

At midday on May 24th, i.e. the eve of the May 25th Ukrainian Presidential election, a Ukrainian anti-aircraft battery fired warnings shots at two Russian fighter jets approaching their country's airspace from Crimea. Meanwhile, the next day, as expected, Petro Poroshenko⁶, a close ally of former President Viktor Yushchenko & a known proponent of Ukraine **not** joining NATO (*but not opposed to closer commercial ties with the EU?*), won the Presidency⁷ with 54% support, with former Prime Minister Yulia Tymoshenko coming in a distant second among the other 18 candidates, with a measly 12%. The new President is an oligarch but has had government experience as Minister of Trade & head of the council that oversees the central bank's operations. Voter turnout was not great : in only one oblast (province), in the very Northwest, adjoining Poland & Belaurus, was it over 45%, and in the two most problematic ones, Donetsk & Luhansk (where there were no international observers), only less than 10% of eligible voters risked their lives voting (although the fact the rebels prevented many polling station from opening was also a factor).

The cost of building Brasilia's World Cup *soccer/football* stadium has tripled to almost C\$1BN, making it the world's second most costly-ever football stadium (& it doesn't even have a professional team). In a 140-page report auditors chronicled C\$300MM in price gouging in only 75% of the project & flagged C\$550MM of 'suspect spending'. Small wonder the hoi polloi in

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Whose business interests include the large Roshen confectionery group, some car & bus plants, and Channel 5 TV (all of which he has said he will sell if elected President).

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In part due to considerable 'strategic voting by people not wanting a second round run-off.

Brazil are upset about the public money spent on this event, & continuing to be spent on the 2016 Summer Olympics. And one must wonder if this cost overrun may have had something to do with the fact that, according to Associated Press, the stadium's lead builder's political contributions in the most recent election campaign were 500x greater than in the last one.

GLEANINGS II - 564
Thursday, May 29th, 2014

DEFLATION THE "GREATEST HOAX" AS PRICES KEEP RISING (CNBC, Jeffrey Cox)

- Despite three dollar *plus* gas & rising grocery prices consumers have been told for years that inflationary pressures were nearly non-existent. But this could change this summer despite Fed officials calling the recent food & energy price rises "transitory", and saying that in other areas there is little price pressure at all. But in a recent note to clients Morgan Stanley economist Ted Wieseman wrote "Pipeline food prices have been soaring and, while there has already been significant pass-through to the consumer level in recent months, there is likely more to come ... For core inflation goods prices appear to be firming up ...*(and there has been)* a slight acceleration in rental costs, which is likely to continue as tight mortgage lending conditions drive demand for rental units in already tight rental markets." And David Rosenberg, the *highly-regarded* Chief Economist of *Toronto-based* money manager Gluskin Scheff^{8 9}, wrote in a May 26th note to clients "Airline fares are rising ... Movie tickets and other such recreational services are on the rise. Repair service costs are on the rise. Shelter costs generally are on the rise. Tuition costs are on the rise. Medical service costs are on the rise." And he calls the current deflationary scare *perpetrated by* monetary policy makers the "greatest hoax", as they "do what they do best ... fight the last war." While the minutes of the Fed's April meeting mentioned the word inflation 47 times ... every time it did so equally dismissive ("the staff continued to forecast that inflation would remain below the committee's long-run objective of 2 percent over the next few years").
- But Wieseman thinks the economy is closer to full-employment than the Fed thinks & that, if it keeps generating new jobs at a 200,000 monthly rate (*in April payroll employment grew by 288,000 & in the week ended May 24th new claims for unemployment benefits declined by 27,000 to 300,000, twice the drop expected*), this could put the labour market close to sustainable full employment by early 2015. And Rosenberg thinks the Fed is looking at the wrong indicators since its Personal Consumption Expenditures Index, on which it relies heavily, is "the queen of all lagging indicators"¹⁰, and says that, while he used to share the view deflation was the priority

⁸ And prior to that Chief North American Economist at Merrill Lynch in New York, before he decided to return to Canada (his first degrees were from the UofT).

⁹ Who recently told a conference he attended that, while the three-quarters of the declining labour force participation rate is due to a demographic factor, i.e. population aging, he thinks that much of the remainder is due to people choosing to stay out of the work force because of the incentives provided by government to do so, and has noted the number of unfilled jobs is at a five-year high & believes that if all these jobs were filled the unemployment rate would be in the 4% range.

¹⁰ Economists differentiate between three sets of indicators of economic activity : "leading" ones are the most useful since they tend to indicate how the economy will be doing six months hence &, "concurrent" indicators have a certain utility since they tell something about what the economy is doing right now, but the "lagging" ones are really of historical

risk, he changed his mind once he started to “pay attention to prices at the mall and to the monthly bills my family pays”.

Of the 75 ‘price points’ the BLS (Bureau of Labour Statistics) tracks, 52 have risen in the last 12 month, incl. oranges (up 28.5% YoY), grapes (24.8%), beef (16.5%), bacon (16.4%), eggs (10.5%) & wine (5.8%), although coffee & sugar are cheaper & potato chips are down 8%.

AMERICA’S MOVE TO FASTER GROWTH (Project Syndicate, Martin Feldstein)

- Last December I speculated US GDP would accelerate in 2014 to 3% from the sub-standard 2% of previous years. The primary driver of this year’s faster growth has been the US\$10TR rise in household wealth in 2013 (US\$2TR from their homes & the rest from shares, unincorporated businesses & other financial assets). Another factor has been the decline in the savings rate - as a percentage of household income it declined from 6% in 2011 & 2012 to 3.8% in the latest quarter. So real consumer spending growth accelerated from 0.1% in January through 0.4% in February to 0.7% in March (*while real household disposable income increased by only 0.3%*). Despite a slowdown after the Fed first announced its tapering program, housing starts, and sales of new & pre-owned homes, are now rising again (in April the former were up 26% YoY). And going forward, fiscal policy will become less tight. The key challenge for the Fed will be to control the inflationary pressures caused by greater bank lending as they seek to run down their (US\$2TR) in ‘excess reserves’ at the Fed on which they earn only 0.25% (which will force it to raise the rate it pays on them).

Feldstein¹¹ seems to come to a similar conclusion as Messrs. Wieseman & Rosenberg, namely that the inflationary pressures are greater than the Fed pretends. But, now in his mid- 70s, he may be living in the past when 3% was the US economy’s trend growth rate, whereas today that rate likely is beyond the US economy’s sustainable growth ‘red line’. And the faith he places in the rise in household wealth ignores the fact that the beneficiaries thereof were the above-average income families that historically have had a lower propensity to consume than their less well-off, & often younger, compatriots for whom the cost of food & energy, that the core inflation zealots ignore in their policy decision making, is a far greater everyday reality. And while the increasing cost of the daily-, or monthly-, ‘must have’/‘must pay’ items may not matter much to policy makers with tenure & secure incomes¹², and therefore relatively impervious to food, energy & shelter costs, for the hoi polloi they, & not the level of the (manipulated) core CPI, is what matters

U.S. QUESTIONS LOBBY GROUP’S DATA ON LIGHT CRUDE SAFETY (G&M, G. Robertson)

value because they show what happened yesterday, if not further back, & therefore are all but useless, if not misleading, in determining policies for tomorrow.

¹¹ He was Reagan’s Head of the CEA (Council of Economic Advisors) for a couple of years, is President Emeritus of the NBER (National Bureau of Economic Research) & still teaches at Harvard.

¹² Thus back in the early 1970’s, when rising prices were an issue in Canada & when an opposition MP asked the then Prime Minister Pierre Elliott Trudeau, what a dozen eggs cost in the store, it was readily apparent that he didn’t have the foggiest notion.

- In mid-May the American Fuel and Petrochemical Manufacturers (AFPM) issued a report saying lighter forms of crude pose no significant risks compared to other forms & are safe to ship by rail (despite the several derailments & explosions involving the stuff in the past year). It based this on a survey of 17 of its members handling Bakken crude & on 1,400 oil samples, and heralded its findings as a vote of confidence in it &, while acknowledging it's more volatile, claimed shipping it by rail is entirely within regulations. The US Department of Transportation has now demanded to see the data on which its findings were based, telling the AFPM it is not clear how it collected them & how reliable they were.

It's counter-intuitive to have someone concede it is more volatile on the one hand & yet claim it's (equally?) safe to move by rail. On the other hand its claim that doing so is "entirely within regulations" suggests they may need to be updated & brought into the 21st century.

CHINA'S ANTI-CORRUPTION EFFORTS NOW TARGETING OVERSEAS STATE ENTERPRISES (Epoch Times, Lu Chen)

- Wang Qishan, Head of the *Communist Party's* Central Discipline Inspection Commission, i.e. China's anti-corruption czar, recently indicated the campaign against corruption is moving from a purely domestic focus to SOEs listed overseas; thus, Song Lin, Chairman of Hongkong-based China Resources¹³ & a high Communist Party official, was recently investigated & dismissed. Another five SOEs are now being targeted, incl. the Bank of China, China CITIC Bank, Everbright International & the China Merchant Group.

As much as anything this campaign seems to be focusing on the 'princeling' offspring of retired former senior Communist Party officials, many of whom have US 'green cards' & homes, and even passports, particularly those associated with the now nonagerian ex- president Jiang Zheming & one of his proteges, former Politburo member, Zeng Qing (who retired six years ago). While President Xi Jinping is taking a real risk tangling with this crowd, if he gets away with, it will consolidate his power like nothing else could.

MODI'S EXISTENTIAL CHALLENGE TO OBAMA (Today, Edward Luce)

- Modi's swearing-in on May 26th coincided with Putin's "pivot to Asia" 30-year China gas deal. Meanwhile Obama's own 'pivot' looks increasingly content-free & needs Modi to give it more substance; but the latter is still bristling with resentment about being denied a visa to the US in 2005 due to his *alleged* role in the 2002 Gujarat massacres (a ban lifted only recently - *when the White House decided he was going to be India's next prime minister?*). Since 2005 Modi has visited Japan five-, & China three-, times, and each time received the red carpet treatment (on his last visit to China he even met with four members of the all-powerful Politburo, rather than the usual one, & was received in Beijing's Great Hall of the People, a *highly* unusual honour for what was still just a provincial leader). His first trips abroad are said to be to Japan & China, & then to the other three BRICS countries, and according to Kanwal Sibal, in line to be his national

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A company that dates back to the Pre-WW II era when it was set up in Hongkong to raise funds for, & supply arms to, Mao's guerilla PLA forces.

security adviser, “There is no need for Mr. Modi to go to Washington and beg for a lunch meeting with the US President.”

- All this was before President Obama, following Modi’s election victory, phoned him to congratulate him, tell him he was looking forward to working closely with him to “fulfill the extraordinary promise of the US-India historic relationship”, & invite him to the White House.

Modi’s ultimate reaction to Obama’s overture could be an indication as to whether he will try to become a unifying figure at home (rather than a Hindu partisan) & a statesman of global stature abroad who seeks to ‘build a legacy’ by capitalizing on India’s hitherto under-exploited potential as an economic & political regional powerhouse in parallel with China. Meanwhile, face could be saved all around if his visit to Washington were to be dove-tailed with the one he will almost inevitably make next September to New York to attend the opening session of the UN’s General Assembly (Edward Luce is the Financial Times’ Washington-based Chief US commentator & Today is a Singaporean free English language daily newspaper targeting an upper echelon readership).

MISSING MALAYSIAN PLANE NOT WHERE ‘PINGS’ WERE HEARD (Reuters)

- The Australian Transport Safety Bureau (ATSB), the agency in charge of the search for Malaysian Airlines’ missing flight MH370 jetliner, announced on May 29th “the search in the vicinity of the acoustic detections can be considered complete” & that in its professional opinion “the 850 sq. km. area can be discounted as the final resting place of MH370.” Nevertheless, the Bureau’s Deputy Chief Martin Dolan said he remains “confident” its final resting place is in the Indian Ocean, as did Australia’s Deputy Prime Minister cum Transport Minister who told Parliament “We are still very confident that the resting place of the aircraft is in the Southern (Indian) Ocean, and along the seventh ping line” (identified by the UK company Inmarsat Plc). When this prompted Michael Dean, the US Navy’s Deputy Director of Ocean Engineering, to tell CNN authorities now almost universally believe the pings didn’t come from the plane’s onboard data recorders, he was immediately shot down by a US Navy spokesman saying “Mr. Dean’s comments today were speculative & premature.”

It is hard not to believe that the US Navy, & possibly others, know more than it/they have let on.

EUROSKEPTIC ELECTION SURGE GIVES EU A HEADACHE (Reuters, Paul Taylor)

- Victories by Euroskeptic parties in some countries in the May 25th election *for the largely Strasbourg-based European Parliament* left the EU facing a giant policy dilemma. Anger over austerity, unemployment and immigration fueled support for non-traditional parties *of both Right & Left*. Turnout was low (*at 43.1% this was true only in absolute terms since, after decades of declining, it was actually a tad higher than the 43% of the 2009 election*). After her conservative bloc emerged as the strongest in Germany, Chancellor Merkel observed “It will be more about pursuing policies that resonate with the people ... They are less interested in the issue of whether there should be treaty changes or not, but rather whether Europe is making a difference in their lives.” And she called the advances made by the populist movement in France “remarkable and regrettable” and said France needs to focus on competitiveness¹⁴, jobs & economic growth to overcome

¹⁴ Talking about greater competitiveness is the ‘third rail’ of French politics; they like things just the way they are, & have been for a long time.

voters' disenchantment. On the other hand, according to Dominique Moisi of the French Institute of International Relations "The legitimacy of Europe is weakened ... To function, Europe needs a strong balance between France and Germany. But France is moving the way of Italy and Greece in economic terms and ... the way of Britain in its relationship with Europe." And in Britain some analysts say the voter support surge for UKIP may force Cameron to toughen his stance on Europe & scare some pro-Europe Scottish voters to vote to leave Britain in next September's referendum.

While the outcome of the election may have serious long-term implications for the survival of the EU as we know it, in the short run it will be business as usual since the main centre right-, & centre-left-, blocs continue to control things with a comfortable 54% majority (even though the former suffered a major decline in public support everywhere but in Germany, & thus is now more than ever German-dominated), while the various diehard Euroskeptic groups, even though they doubled their seat number, still have only 19% of them in total (& don't necessarily agree on anything but a common hatred of the idea of further European integration, if not the whole idea of a united Europe). But it was at the individual country level that some outcomes were surprising; thus in Italy Prime Minister Mario Renzi's party clobbered the populist & Euroskeptic Five Star Movement, in Holland the euroskeptic Geert Wilders' party did less well than expected, in Greece [where there was a 57% turnout, in contrast the (super) low turnouts in nearby countries], while the left wing (rather than out & out Euroskeptic) Syriza party got the most seats, the two governing coalition parties together still have more, in Denmark the skeptic People's Party got 27% of the vote (which, however, only entitled it to two of the country's four seats in the 751 seat European parliament) & in Latvia the governing Unity party got four of its five seats & the Russophone Harmony Centre party only one, whereas the polls had predicted the latter would get most of them (while rather remarkable since ethnic Russians account for almost one-third of its population, this was attributed to events in Ukraine). On the other hand, the victories in Britain of the Eurodenying UKIP-, & in France Front National-, parties had been fully expected, what did come as a surprise was that in both the centre-right party-, rather than the socialists-, came in second (while in Britain the junior government coalition party, the Liberal Democrats, did better than expected by managing to hang onto one of their erstwhile 11 seats).