The Bretton Woods Committee was founded in 1983 as a nonpartisan group of, mostly US, prominenti to improve awareness of the importance of international financial institutions & the benefits from international financial cooperation for economic growth, poverty reduction & financial stability. At its latest meeting at the World Bank headquarters in Washington on May 21st, Paul Volcker purportedly called for a "New Bretton Woods Conference" (although he subsequently explained he had done no such thing but had merely raised the possible need for such an international meeting - with no fewer than three question marks behind it in the text).

The original Bretton Woods Conference took place during WW II, in 1944, shortly after D-day, in the New Hampshire town of that name & involved representatives of all 44 nations allied in the war effort against Germany & Japan, that were also united in wanting to create a post-war monetary & financial world order that would avoid the individual countries' "beggar thy neighbour" policies that had worsened the Depression & contributed to the outbreak of the War. So it created a system of fixed exchange rates with at its core the World Bank, with an initial mandate to fund the post-war reconstruction, & the IMF as the exchange rate disciplinarian, guardian of international fiscal rectitude & a lender of last resort for countries that had lost their way. It consolidated the wartime pre-eminence of the US in the post-war monetary system by making the US dollar the denomination currency of the system. And it served the world well for about two decades until the US itself strayed from the path of righteousness, & came to an ignominious end on August 15th, 1971 when President Nixon terminated the charade of US dollar convertibility into gold at US$35/ounce (which had been a key feature of the system) since US simply no longer had anywhere near enough gold to make good on that promise, due to the piling up of US dollar balances in foreign hands as a result of the US running chronic payments deficits (interestingly enough, Paul Volcker, as Under-Secretary of the US Treasury for Monetary Affairs at the time, was a key player in this decision, as he was in the subsequent work to create a new, more flexible, floating exchange rate system).

The latter system now too is being threatened by US fiscal profligacy that has led to a surfeit of US dollar balances in foreign hands (and by the piling up of massive government-, & personal-, debt in the developed world generally). But circumstances have changed. In 1945 the US, with 45% of global GDP, was the one economic Brobdingnagian among a global host of Lilliputians[1], many of the latter weakened by the war's ravages in a way the US wasn't, whereas today with less than half that share of global GDP and seemingly chronic fiscal-, & payments-, deficits, the US core of the system has been 'hollowed out' (a fact that still escapes many Americans, incl. some who should know better). On the other hand, as Paul Volcker has pointed out, a system that led to massive US inflation in the 1970's, a Latin American debt crisis in the 80's, an Asian currency crisis in the 90's & the global financial crisis of 2007-2009 can hardly be held out as a paragon of financial stability, a view seemingly given substance by the 2011 Bank of England's Financial Stability Paper No. 13, Reform of the International Monetary and Financial System that concluded the post-Bretton Woods system had served the world significantly less well than either Bretton Woods or even the gold standard system of yore. Finally, whereas in 1944, and again, albeit to a much lesser extent, in the years following 1971, there had been a unity of purpose, today the world is polarized as never before between the aging Alpha(s) with waning-, & challengers with waxing-, powers, and recently has been hallmarked by national selfishness symptomized by a currency war not unlike that which had been the world's bane during the Depression. And while everyone agrees on the need for a new, improved model, that's where the agreement so far has ended, & likely will continue to do so until there is a Pearl Harbour look-alike economic/financial event.

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1 The terms used by Jonathan Swift in Gulliver's Travels to denote giants (with eyes '60 feet off the ground) and the small people.

According to the Official Monetary and Financial Institutions Forum[2] "a cluster of central banking investors have become major players in world equity markets" & China's foreign exchange reserves' manager "the world's largest public sector holder of equities" (with a significant focus on European equities as part of its efforts to 'de-dollarize') - *it's a sign of extent of corrosion of their fiduciary responsibility that some central banks are now engaged in 'goosing' equity markets with liquidity, while others pump them up further by hiking the demand for a relatively static-, if not shrinking- supply of equities. The best thing now may be that hopefully the latter will, at a time of crisis, step up to the plate to prevent equity markets from going over a cliff.*

The Meat, Poultry, Fish and Egg Price Index of the BLS (Bureau of Labour Statistics) has risen from approx. 200 in 2008 to about 250 at last report, i.e. at an average annual compound rate of 3.75%, more than twice the rate of growth of hourly earnings & of official CPI - *for Joe & Jane Average US Consumer, this is a far more meaningful figure than CPI, never mind 'core' CPI.*

While much has been, & continues to be, made of America's growing oil output, & 'energy independence', it worth keeping in mind that the world's biggest five oil fields are still located in the Middle East, in Saudi Arabia (Ghawar & Sataniya), in Iraq (Rumaila & West Qurna-2), and in Kuwait (Burgan). Moreover, while the average fracked US oil & gas well after three years has lost two-thirds of its productive capacity, Ghawar, after having produced an estimated 65BN bbls over the past 63 years, is still producing 5MM bbld. (I.e. more than twice the Eagleford[3] & North Dakota combined[4]), and still has almost as much oil left in place as it has produced to date. As to Iraq, it's worth noting that, while Western oil companies have been evacuating their staff, the 10,000 or so Chinese personnel in the Rumaila & WestQurna-2 fields have been told to stay put, seemingly confirming that it has indeed won the war for Iraq's oil.

On the subject of Iraq, while the White House wants Prime Minister al-Maliki to step down in favour of someone better able, & willing, to be a Prime Minister for all Iraqis[5], rather than just for the Shiites, that train left the station a long time ago. If anything, al-Maliki has doubled up on support from his Shiite base. For Obama was too soft on him when he still had leverage (*as he was with Netanyahu*), & by his refusal early on to support the rebels in Syria he allowed that country to become a training ground for anti-Shia activists, just as George Bush had let Iraq become one for Islamist fighters in Afghanistan. What we now are witnessing is the breakdown of the system of contrived national borders that in the post-WW I period had been drawn on

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2 A London-based financial think tank founded in 2010 with links to central banks, souvereign wealth funds, debt managers & private sector money managers that since inception has organized over 150 meetings of interested parties hosted by central banks.

3 While all attention has been focused on its oil output ramping up from next to nothing in 2009 to 1.38MM bbld. today, less attention is being given to the fact that much of the increased output from new wells drilled is being offset by the declining production of 'legacy wells'; thus this month the 138,000 bbld gain from the former is expected to be offset by the 114,000 loss from the latter, for a net gain of only 24,000 bbld.

4 Which just announced that output (from 10,658 wells) had, in April, exceeded 1MM bbld.

5 And it is a sign of the White House paucity of ideas, if not outright desperation, that one of the names it is considering is that of Ahmed Chalabi who, while in exile at the time, was deemed to have been responsible for feeding the Bush Administration (mis)information about Saddam Hussein having WMDs (Weapons of Mass Destruction)

maps with a ruler & pencil by British & French negotiators in offices in London or Paris with no regard for local ethnic and/or religious realities, & a struggle for regional hegemony between Shiite Iran (which has supported the al-Assad regime in Syria) & Sunni Saudi Arabia (whose Wahabbis have supported the Islamist fighters there), and a redrawing of borders along ethnic & religious lines that will have major ramifications for the region's stability. For, when Iraq splits into an oil-rich Shia South & an oil-rich Kurdish North, and an oil-poor, land-locked Sunni West, the Kurds in Turkey & Iran will want to be united with their hitherto Iraqi brethren in a Kurdish homeland & the Iraqi Sunni Iraqis will have no choice but to align themselves with their co-religionists in Syria (& Lebanon?), who in the process will become a far greater & more immediate threat to Israel's survival than Iran ever was.

GLEANINGS II - 567
Thursday, June 19th, 2014

U.S. ECONOMIC GROWTH SUSTAINABLE, RATES TO RISE IN THIRD QUARTER 2015 (Reuters, Lucia Mutikani)

- Our survey of 48 economists found that, despite trimming their 2014 forecasts due to the First Quarter's dismal GDP growth, nearly all believed the recovery 'durable' because of less uncertainty over fiscal policy[6] & a pick-up in job growth. They now expect :
  - 2.2% growth for 2014 as a whole, vs. 2.5% before, but still 3.0% for 2015[7];
  - Second Quarter growth of 3.6%, so as to get to 1.0% for the First Half[8];
  - monthly job growth in the Second Quarter to average 234,000;
  - the current 6.3% unemployment rate to fall to 5.8% in 2015;
  - "tepid" wage growth this year but a tightening job market next year to set the stage for a ''surprise' upward wage surge' in average hourly earnings;
  - core CPI to hit 1.9% in the Third-., & the Fed's 2% target in the Fourth-, Quarter;
  - the Fed to start raising rates in the Second Half of next year, initially by doubling the overnight rate to 0.50%.

Meanwhile on Thursday the dollar weakened, & gold had its biggest one day price jump in nine months, after the Fed announcement following the latest FOMC meeting. For it was more dovish than expected, despite the CPI having risen 0.4% MoM in May (2.1% YoY) up from 0.3% in April (2.0% YoY), and core CPI had been up 0.3% MoM in May (its biggest monthly rise in 33 months), developments which Fed Chair Janet Yellen in her post-FOMC meeting press conference denigrated as mere "noise", while maintaining that "inflation is evolving in line with the Committee's expectations" (which has led to growing unease in the market that the Fed is "behind the curve" in its assessment of the outlook for inflation).

WHY SO MANY AMERICANS DON'T CARE ABOUT THE DROUGHT (CNBC, Mark Koba)

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6 In part because the debt ceiling has been suspended until March of next year, i.e. the federal government can keep on borrowing without risking another government shutdown.

7 All evidence to the contrary the dream of a 3% trend growth rate seems hard to kill.

8 The implication of which seems to be that the First Quarter's negative 1.0% annual GDP growth rate will be revised to negative 1.8%.

- The drought in the US South & Southwest is causing hardships in the form of higher prices for food & water, water use restrictions, wildfires & billions of dollars in lost productivity. And yet even in California, now in its third year of *severe* drought, a poll by the Los Angeles Times found that only 16% of those polled said it had affected them. According to Kristen Averyt, Associate Director for Science at the Cooperative Institute for Research in Environmental Sciences at the University of Colorado, Boulder "One reason why you end up with this ... is that if the water comes out when you turn the tap, even with restrictions, then everything's OK ... Only when it hits you personally do people connect the dots."

Unfortunately this inability, or unwillingness, to "connect the dots" is common, as is the fact that when a situation long ignored becomes critical, those who willfully chose to ignore it in the first place expect immediate, painless & low-cost solutions.

<u>HARLEY-DAVIDSON GOES ELECTRIC WITH NEW MOTORCYCLE</u> (AP)

- Next week the Company will unveil its first ever electric motorcycle at an invitation-only event in New York, prior to taking several dozen riders on a 30-city tour to test drive them & get feedback. But it doesn't expect them to 'go commercial' for several years & has developed them only with an eye to the future. Meanwhile, San Jose State University has been using two electric motor cycles for some time & says its users are "super happy" with them (these were made by a California company, Zero Motorcycles, that introduced them in 2010 & now sells 2,400 of them a year (< 1% of Harley sales).

Harley's electric prototypes goes from zero to 60 mph in four seconds flat &, while the engine itself is dead quiet, the meshing of gears as it accelerates produces a whine not unlike that of a jet engine (both of which should appeal to Harley fans). But like electric cars it has a limited, 130 mile range, with recharging taking up to 60 minutes (LAPD has just bought some of Zero's restricted sale police models for their 'stealth capacity'; these have a top speed of 85 mph, can run for two hours on a charge & go through up to 3.2 feet of water, and require almost no maintenance &, get this, 'since they produce no emissions ... can be used to chase suspects in indoor hallways'.

<u>HILARY CLINTON SAYS KEYSTONE XL DECISION SHOULDN'T BE SYMBOL OF CANADA-US RELATIONS</u> (CP)

- She said this in Toronto on June 16th while on her book tour & addressing a crowd of 1,800, noting it had become a "proxy for everything" for proponents & critics to lock horns over & opining "it is, after all, *only* one pipeline. We already have a lot of pipelines crossing our border."

The Obama administration has been dropping hints that approval would be facilitated if Canada were to do more on the environment, an issue on which Prime Minister Harper has dug in his heels, claiming in neo-Luddite fashion that doing so would "cost jobs".

<u>INDIA : RECOGNIZING PAKISTAN'S PARADIGM SHIFT</u> (The Diplomat, Shairee Malhotra)

- During the recent election campaign Prime Minister Modi's BJP Party vowed to take a stronger line against Pakistan, only to have him after the election surprising many by inviting his Pakistani counterpart to his swearing-in ceremony. *In doing so, Modi was as dumb as a fox*. For, while for decades the Pakistani military had a siege mentality where

India was concerned & propagating a myth of an *ever-present* Indian threat to make it the most powerful & omnipresent government institution in the country, recently there has been a growing realization in Pakistan that India no longer poses the biggest threat to its survival. This constitutes the greatest hope for it becoming a "normal"-, rather than the current "dysfunctional"-, state, especially now that even the military has begun to see the light; for its most recent threat assessments have shifted the focus from India to the militant groups it once sponsored that have now turned against the state & attacked its security apparatus. And there has been a similar growing awareness economically that greater engagement with India might help to resuscitate Pakistan's stagnant economy; thus Islamabad has recently been making overtures to New Delhi for liberalized trade deals (prompted, in part at least, by Pakistan's 3-year IMF economic reform program that stresses the need for more & better trade links with India).

Their greater cooperation could might help to put more daylight between Islamabad & Beijing, and reduce the importance of Afghanistan in their foreign policy considerations, meanwhile and making Beijing unlikely to support of any unduly Islamist regime in Kabul for fear it would foster anti-Beijing attitudes in the nearby area of highest concentration of its Muslim Uighur citizens.

U.K. POUND JUMPS AS CARNEY HINTS AT RATE HIKE (AP)

- On Friday June 13th the pound jumped from US$1.6830 the day before to US$1.6960, a nearly five-year high (it traded at over US$1.70 in August 2009), after he told a gathering of bankers that an interest rate hike (from the current record-low 0.5%) "could happen sooner than the market currently expects" (the latter being next spring). But he also warned that the Bank was not pre-committed & would make its decisions based on incoming data.

This came the day before George Osborne, the Chancellor of the Exchequer, in his annual 'Mansion House speech'[9], expressed concern about rising house prices (which in May rose much faster than expected after having risen in March at its fastest rate in 12 years, prompting the imposition of tighter mortgage lending rules in April as well as warnings by both Carney & the Fitch rating agency that house prices could threaten Britain's economic recovery). The greatest concern now appears to be that, whereas so far house prices have risen fastest in the country's Southeast, incl. London, this could start spilling over into the rest of the country.

THE RUSSIAN TROOPS ON UKRAINE'S BORDER MAY NOT BE AS FORMIDABLE AS THEY LOOK (BB, Carol Matlack)

- Russia's defense spending has more than doubled in the past decade & in 2013 it surpassed the US as the major country whose defense spending accounted for the biggest share of its GDP (4.1% vs. 3.8% for the US). And while historically the lion's share of its armed forces rank & file consisted of poorly-trained draftees (who serve for only one year, i.e. not long enough to be fully trained), a growing share now consists of professionals. But in staffing & new equipment purchases, the ground forces have been an orphan; so the army still has the highest proportion of draftees & antiquated equipment. Another problem that all three services face is that, although Russia remains

[9] Mansion House is London's Lord Mayor's official residence and the Chancellor of the Exchequer's speech has long been a tradition at a dinner hosted by the Lord Mayor.

an important arms exporter Moscow has, for years, systematically underfunded military R&D, as a result of which it now has to import much of its more sophisticated equipment.

If history is any indication, the more Putin spends on defense, the better; for greater military spending than it could really afford was what brought the Soviet Union to its knees.

UKRAINE REGAINS CONTROL OF RUSSIAN BORDER (Al-Jazeera)

- Its defense minister announced on June 20th that his forces had regained control of its border with Russia & therefore now were in a better position to interdict further inflows of military materiel. Meanwhile they were also engaged, for the second day in a row, in firefights with rebels as far as 100 kms. from the Russian border, which had resulted in a number of soldiers being killed & "heavy losses" for the rebels (as confirmed by at least one rebel commander), and the recovery of, among others, an APC (Armoured Personnel Carrier), a truck with a big calibre machine gun mounted on it, a shoulder-fired missile launcher & numerous grenade launchers.

From all appearances, the Russians, not surprisingly, are saying one thing & doing another.

ARGENTINA FACES NEW DEFAULT RISK AFTER US SUPREME COURT SAYS IT MUST PAY AS MUCH AS $15 BILLION IN DEBT (BB, Greg Stohr)

- In 2001 Argentina defaulted on debt with a nominal value of US95BN. In 2005, & again in 2010, it offered the bond holders involved lesser amounts of new bonds in settlement, deals which, in the end, those holding 92% of the bonds accepted. But one of the holders of 8% that didn't, a US 'vulture fund' like most of them, took the issue to US courts which sided with its argument that "Argentina is perfectly capable of paying its debts, if it chooses". So Argentina took its case to the US Supreme Court on the grounds that the lower courts' rulings had violated a federal sovereign immunity law by dictating what it (*i.e. Argentina*) had to do with property located outside the US & that a ruling against it would result in a serious, & imminent, risk of default with grave ramifications for itself, the exchange bond holders & the capital markets (*and furthermore that the holdouts didn't have a leg to stand on since they had bought their bonds at deep discounts long after its 2001 default*). But this week the Court refused to hear is appeal.

One can only wonder if this might set a precedent for other cases souvereign debt 'haircuts', past, present, or future. And with a June 30th debt payment date looming, if Argentina must indeed pay US$15+BN (i.e. over half its FX reserves) in original face value plus accrued overdue interest to the complainant(s) before it can pay other debtors, another Argentine default is in the works by month's end, an event that could give rise to some financial market turbulence but may have Beijing jump into the breach & fish in the resultant troubled waters, as it did in the case of Iceland & Greece, driven by the fact that Argentina has two things that it wants, lots of farm land & food production capacity, and huge shale oil & gas reserves. And while according to Bloomberg New York-based Elliot Management, the oldest US vulture fund, with AUM of US$23+BN incl. about 10% of the Argentinian bonds in question, & the party that launched the law suit in the first place, now is willing to settle for some cash & a lot more bonds, the Argentine government seems to be at a loss as how to proceed in this matter (with there being evidence of differences of opinion within the Argentine government in Buenos Aires).

UGANDA RESERVES $8 BILLION IN RAIL PLANS FOR CHINESE BIDDERS
(BB, Fred Ojambo)

- Uganda’s Works Minister John Byabagambi said on June 18th that his government had signed a deal with Beijing to give Chinese companies the exclusive right to bid on US$8BN in contracts to expand the country’s rail network & improve trade networks with four neighbouring countries, saying “Bidding documents will be ready by July 10 and we are inviting only Chinese companies”. This comes on top of a US$13BN rail project from Mombasa via Nairobi & Uganda to Rwanda’s capital, Kigali, that Kenya negotiated with Beijing last year (that will be funded by China and, to a lesser extent, Russia).

Some of the Ugandan contracts involve the building of spurs from the main line within Uganda, incl. at least one that would go to the Southern Sudan. These countries like dealing with Chinese & Russian companies, nominally because they can pay them later in kind, but more likely also because companies & individuals from these two countries have fewer qualms about letting some, or even a whole lot of, of their money end up in third party bank accounts.