The shooting down of the Malaysian airliner over the Ukraine may prove to have been "One Bridge Too Far" for the Ukrainian dissidents &, hopefully, their Russian 'controllers'. And Putin lacks credibility when he says 'this would not have happened if the Ukrainian government had not taken military action against the rebels', when he is widely believed to have been behind the rebel movement, either directly, or indirectly on a "nod-nod", "wink-wink" basis.

Amidst all the media coverage about new job growth & the declining numbers of new applications for unemployment benefits, it's worth noting that, largely due to the lower participation rate, in the past six years, as the US population grew by 4.7%, the US labour force grew by just 0.8% & those with jobs by 1.0%. This seems to be at odds with Janet Yellen's reference in her prepared statement in the Fed Chair's semi-annual testimony[1] before Congress (on Tuesday July 15th before the Senate Banking-, & the next day before the House Financial Services'-, Committees) to the "cumulative progress towards maximum employment that has occurred since the inception of the Federal Reserve's (*QE3*) asset purchase program in September 2012."

One sentence in her prepared remarks, which were identical for both gatherings (*not particularly swift since the GOP that controls the House Committee is not well disposed to the Fed & House members' egos are easily bruised by perceived slights*) was "I and other FOMC participants continue to anticipate that economic activity will expand at a moderate pace over the next several years, supported by accommodative monetary policy, a waning drag from fiscal policy, the lagged effect of higher home prices and equity values, and strengthening foreign growth." - *She started this sentence with "I", which is bad manners at best, & reflective of a sense of uncertainty about her position among her peers[2] at worst (as suggested by her referring to "other FOMC participants", rather than to* ***the*** *"other ... participants"). It implied acceptance of "moderate" growth & a belief in the need to continue to 'goose' it. She seemed to take for granted a continuation of an "accommodative monetary policy" (that may not survive a financial crisis and/or a bubble 'blow-off', & certainly not a run on the dollar), to ignore the fact that federal tax revenues are at record highs & that the wealth effect from higher home-, & share-, prices appears to have been less than on past occasions, & accelerating foreign growth that should not be taken for granted.*

Elsewhere in her testimony, in response to questions, she acknowledged that prices for a wide range of assets, incl. stocks, bonds & real estate, had risen, and that valuation of leveraged loans (that fund corporate buyouts) & junk bonds (issued by companies with dodgy financials) was "potentially excessive", but nevertheless stoutly maintained that "they remain in line within historic norms", although conceding the valuation of social media-, & biotech-, stocks was "substantially stretched" (causing prices of the latter to promptly 'fall out of bed'). Meanwhile, on the same day of Yellen's appearance before the House Committee, the Dallas Fed's Richard Fisher[3], one of the two hawks with a vote of the FOMC this year, told a California audience "At

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1 In her last appearance, in February, just weeks after taking over from Bernanke, the unemployment rate was 6.7% & YoY inflation 1.2% while the numbers now are 6.1% & 1.8% (the former down 1.5% YoY & 4% from its peak).

2 She has, just like all her fellow voting members on the FOMC, only one vote; so she must get it to make decisions the way she wants it by the cogency of her case.

3 Not to be confused with the "other" Fisher on the FOMC, the still relatively new Vice-Chairman of the Federal Reserve Board & former Governor of the Bank of Israel, Stanley Fisher, who, going by his track record there, could prove a 'hawk in dove's clothing".

some point you cross the line from reviving markets to become the bellows fanning the flames of "Booming and Busting" ... I believe that we have crossed that line ... (*& that*) we need to make an adjustment to the stance of monetary policy."

The market took heart from the fact that, as reported, First Quarter corporate earnings were **up** 5.1% YoY; but digging deeper, this was shown to have been a matter of sleight of hand; for if adjusted for changes in inventories & depreciation charges, they were actually **down** 6.8% YoY.

Last Monday & Tuesday the price of gold suffered a fainting spell, going from US$1,340 to US$1,296, and breaking through the psychologically significant US$1,300 barrier. But what few people realize is that this was a function of unusual activity on the COMEX futures market for 'paper gold' : there were 13.5 tonnes of short sales at 2:20 a.m. on July 14th, another 27.5 tonnes at 8:20 a.m., shortly before the stock market opened, a third 40 tonne short sale at 9:01 a.m., just after it opened, and finally a further 45 tonne sale the next day, during Janet Yellen's appearance before Senate Banking Committee. In other words, 126 tonnes of gold futures were sold in the space of 14 minutes on four occasions (at a time the COMEX had just 27 tonnes of physical gold available for immediate delivery) - *common sense suggests this was not 'normal market activity' (whereas the gold price regaining half the ground lost in a matter of minutes upon the news of the Malaysian airliner incident over Ukraine could rate as such).*

The Paris-based IEA (International Energy Agency), said last month it expects global oil demand this year to average 92.7MM bbld, one MM bbld more than it had forecast a year ago (& since the year is more than half over, this forecast has more credibility than some of its other pronouncements). More recently it also opined that US shale oil production will peak by 2020, a more generous forecast than some of shale oil's critics.

Two interesting points were made on last Sunday's Fareed Zakaria's GPS program on CNN about the recent US$9BN fine imposed on the French bank BNP Paribas. One was that the New York regulator's share thereof was about 4x its annual budget - *a boon for State Treasury!* The other, far more important, longer term consequence was that it was another nail in the coffin of the US dollar's central role in the international monetary system; for it was punishment for transactions between non-US entities using a non-US intermediary that, solely for historical & convenience reasons, had used the US dollar as the currency of denomination & US banks as facilitators, the point being that in the future foreign banks & their foreign clients will seek to avoid using US banks (*this is not unlike what happened in the late 1960's when the Soviet Union's efforts to avoid having to use the US domestic banking system led to the, subsequent explosive, growth of the London-based Eurodollar market (which contributed to the breakdown of the Bretton Woods system of fixed exchange rates after August 15th, 1971). It's likely also worth noting in this context that the BRIC countries recently signed a US$100BN deal to allow them to bypass the US banking system in financial transactions among them, according to Putin to " help prevent the harassment of countries that do not agree with the foreign policy decisions made by the US and their allies." - All of this is part of a growing body of evidence that economically, militarily & diplomatically the West's once pre-eminent position in world affairs is waning & that the BRIC countries are starting to flex their muscles, & to work in concert for maximum effect.*

On July 7th two Republican law makers, Michigan Rep. Bill Huizinga & New Jersey Rep. Scott Garrett, introduced a bill in the House that would require the FOMC, within two days from its latest meeting, to justify its policy decisions by the Taylor Rule *(that creates a framework for determining by how much rates should be changed in response to changes in specific economic conditions, incl. Inflation). While not expected to go anywhere very fast, this bill is symptomatic* *of the ill will among Republicans towards the Fed.* Huizinga subsequently told Bloomberg the Fed was is "due for a tune-up", & more recently he co-sponsored an amendment, passed by the House, to the Financial Services and General Appropriation Act 2015 to cut the budget of the IRS, another federal institution the Republicans love to hate, by 25% to "make it live within its means ... like the rest of us have to" & to reduce its scope to harass innocent people (but that its critics say will result in fewer audits & making life easier for tax cheats, and that the White House has said will be vetoed since it would impede the implementation of the new health act & undercut new regulations (*thereby increasing the dysfunctionality of the US government?*).

An op-ed piece in the NYT on July 11th entitled Break the Immigration Impasse, co-authored by three prominent Americans, concluded "Signs of a more productive attitude in Washington - which passage of a well-designed immigration bill would provide - might well uplift spirits and thereby stimulate the economy. It's time for 535 of America's citizens to remember what they owe to the 318 million who employ them - *Two of the co-authors, Warren Buffett & Bill Gates, are people whom one could easily associate with such civic duty expectations but the third, Sheldon Adelson, is more of a puzzler. Almost, but not quite, as rich as the other two, he is a gambling casino magnate & a major financial backer of Israeli Prime Minister Binyamin Netanyahu, who in the 2012 Presidential election first heavily underwrote Newt Gingrich's unsuccessful run in the Presidential primary & then, after he flamed out, did the same for Mitt Romney. And in contrast to the others, he is well to the right in his political leanings*

Silicon Valley multi-millionaire David Welch is an electrical engineer who 'made his bones' in 2000 in the US$41BN JDS Uniphase/SDL merger, after which he founded Infera Corporation, a manufacturer of optical transmission equipment with a current market cap of US$1.1BN. In his spare time he founded a non-profit called Students Matter to promote student access to quality education[4]. As such it funded a case brought by nine students in Vergara vs. California that alleged that state teacher tenure laws deprived them of their right to an education under the State Constitution & violated their civil rights. Last month Rolf M. Treu, a Judge for the Superior Court in Los Angeles County, ruled in their favour on the grounds that "Substantial evidence presented makes in clear to this court that the challenged statutes (*five of them*) disproportionately affect poor and/or minority students ... The evidence is compelling. Indeed it shocks the conscience." He also noted that the current tenure system assures essentially a job for life, that granting tenure after just two years is "farcical" & that the least effective teachers appear disproportionately assigned to schools with low income & minority students. While the teachers' unions, of course, plan to appeal & purport confidence Judge Treu's ruling will be reversed, with the President of a 400,000 member California teachers' union proclaiming "the judge fell victim to the anti-union, anti-teacher rhetoric ... that scapegoats teachers for the real problems that exist in education." Be that as it may, the group now plans to launch similar suits in other states where powerful teachers' unions have caused lawmakers to defeat attempts to change teacher tenure laws - *The union president has a point; but his solution, more money, won't solve the problem; for it has been shown time & again that giving more money to an ineffective organization to help it solve its problems merely ends up creating a bigger, even more dysfunctional, one.*

The cost of air travel in the US is deceptive. After the DOT noted last April airfares had risen only 0.3% YoY, they spiked 6% in May. And quoted airfares tell only part of the story; for while in 1990 the US airlines derived 87.6% of their revenues from fares, by 2013 that had shrunk to 71.5% (with rest coming from a growing plethora of 'add-on' charges). And statistics can be

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4 Which in the case of his own three kids was achieved by sending them to private school.

twisted to suit the user; thus, while the airlines will argue that their fares are down 16.3% since 2000 while the CPI during same period was up 33.9%, its critics point out that they have risen 10.2% since 2009. And, as so often the case, the proof of the pudding is in the eating : Delta-, American-, & Southwest all reported record First Quarter earnings.

In the monitoring of the ongoing shift of physical gold from the West to the East, most of the attention has been focused on China & India. Japan, on the other hand, has long been an exporter, rather than an importer-, of the yellow metal. So when it was reported to have been a net importer last December, for the first time since July of 2010, & for only the 10th month since 2005, Reuters seemed justified in dismissing it as a "one-of" event. But in March Japan's biggest bullion retailer, Tanaka Kikinzoku, reported that in the month's first 27 days demand had soared five-fold & Bloomberg subsequently that First Quarter gold sales had been up 249%. While this was attributed to the imminent sales tax hike on April 1st, two other factors have generally been overlooked. One short-term one relates to the higher tension level in the region due to Beijing's more aggressive posture in the South-, & East-, China Seas. But longer-term far more important is the fact that, while in years gone by low yielding government bonds & bank deposits had nevertheless yielded positive **real** returns in a deflationary environment, similar yields in the 2% inflationary environment targeted by Abenomics[5] will erode the mama-sans' purchasing power & generate negative real returns for institutional investors. Meanwhile, Japanese investors in May bought a net 1.4BN Euros (60%) of newly-issued French government debt (because they yield more than German-, & are rated higher than Italian-, government bonds) in the expectation that Europe is in for deflation (just as Japan was after 1989) & this will therefore be a 'winning bet' (especially so if any further weakening of the Yen would give them some FX gains). And by all accounts, the pace picked up even further in June (when their share was said to have gone to 75%).

According to Der Spiegel Chancellor Angela Merkel plans to step down before the 2017 elections.

GLEANINGS II - 571
Thursday July 17th, 2014

A WORLD WITHOUT WATER (FT, Pilia Clark)

- Nearly 20 years after the World Bank began warning of a looming water crisis, a surging global population & middle class, and a changing climate are straining the world's water supplies. For companies, from large multinationals to small businesses, this will mean higher costs for a resource that has long been taken for granted. According to Christopher Gasson, the publisher of Oxford-based Global Water Intelligence "The marginal cost of water is rising around the world ...Previously water was treated as a free raw material. Now companies are realizing it can damage their brand, their credibility, their credit rating and their insurance costs. That applies to a computer chip maker and a food company as much as to a power generator or petrochemicals company." Thus in Chile Rio Tinto & BHP spent[6] US$3BN on a desalination scheme to pump treated sea

[5] In May the higher sales tax & higher utility charges caused an 8% drop in consumer spending, the most since the March 2011 earthquake cum Fukushima nuclear power plant disaster, & consumer prices ex fresh food, to be up 3.4% YoY, the most in 32 years,

[6] Not entirely willingly so; it was forced to do so by the Chilean government.

water 10,000 feet up *into the Andes Mountains* to a jointly owned copper mine so as to cut its reliance on the fragile local water supplies, in Australia the BG Group, a British oil & gas company, launched a US$939MM water monitoring & waste management system to pipe treated water from its gas fields to boost water supplies for farmers & towns, and in the US Antero Resources, *one of the biggest operators in the Marcellus Shale*, is spending US$525MM, *10% of its capex budget over several years,* to carry water to, & cut its cost for, its operations *there*[7].

- Growing regulation *of their water usage* is of growing concern to companies & investors. Thus Norway's US$890BN souvereign wealth fund is urging companies to improve their reporting on water & *the impact of the cost thereof on their operations (*with Chief Risk Officer, Jan Thomsen, naming "increasing water scarcity and adverse water-related events" as potentially affecting its long-term returns), and therefore is one of 530 investors, with aggregate AUM of US$57TR[8], that work with the London-based Carbon Disclosure Project (that asks companies each year to disclose the risks & opportunities water poses for their business -last year 70% of the 180 FTSE companies that responded said water was now a substantial risk to their business, up from 59% two years earlier). Ditto for the World Economic Forum's annual global risk survey : while water supply crises didn't even make it among the top five concerns *for the companies surveyed* in 2011 or before, since then they have been among their top three.
- According to Kinsey's Martin Stuchtey water related investments are now "capturing a larger share of capital expenditures", adding that, while the US$550BN global water market, covering everything from water treatment plants to pipelines, is growing at a 3.5% annual rate, its growth rate is as high as 14% for oil & gas companies, and 7% for food-, & beverage-, companies. And the mining industry's spending on its water needs has nearly tripled to US$10BN this year, & is expected to exceed US$12BN this year and, while it historically was 10% of a new mine's cost, this is now as high as 30%. Andrew Metcalf, an investment analyst who wrote a report for Moody's in 2013 that was among the first to warn of the financial impact water shortages have begun to pose for the mining industry says "water scarcity is finally starting to bite financially" & that 70% of existing mines of-, & two-thirds mining projects being developed by-, the world's biggest six mining companies are in countries where water stress is rated a high-, or moderate-, risk (so the latter will "take longer to complete, be costlier, and riskier"). And according to the Pacific Institute, a Seattle-based water research group, the number of water-related conflicts in the world has surged in the past 15 years,& a 2012 intelligence report prepared for the US State Department concluded " We assess that during the next ten years water problems will contribute to instability in states important to US national security interests."

A key problem is the uneven distribution of water resources. According to the FAO the Americas (with < 15% of the world's population) have 45% of its total freshwater resources [9]*, followed by*

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7 On the basis of regulatory disclosures & interviews with corporate executives Global Water Intelligence estimated that in 2013 companies spent over US$84BN on ways to conserve, manage or otherwise optimize water use (a number for which there is no historical perspective since past spending on this was never broken out separately).

8 Which on its website, however, claims to be working with "767 institutional investors holding US$92 trillion in assets."

9 In large part due to Brazil & Canada.

Asia (28%), Europe (16%) & Africa (9%[10]). But more importantly, on a per capita-, TRWR (Total Renewable Water Resources)-, basis Canada, Gabon, Iceland & Suriname (all small population countries) have over 100,000 cubic metres/year, while 29 countries, most of them in the Middle East[11] & Africa, have < the 1,000 cubic metres deemed needed to sustain life & agriculture.

<u>NETANYAHU FINALLY SPEAKS HIS MIND</u> (Times of Israel, David Horovitz)

- He spoke solely in Hebrew at his press conference on July 11th, Day Four of Operation Protective Edge; so it was not widely reported on in the western media. But, *perhaps because of that,* he spoke with unusual candour, and equally, if not more, unusual for him answered questions ''off the cuff' after completing his prepared statement. In the process he made it clear he could never, ever tolerate a fully souvereign Palestinian state in the West Bank, that it had been a mistake to withdraw from Gaza (one he didn't intend to repeat in the West Bank), that he sees Israel standing almost alone in the front lines against Islamic radicalism while the rest of the world is doing its best to ignore it, that the likes of John Kerry are "naive", & that, while all around it *Arab* states are collapsing, Israel won't, because of the strength of its leader, its army & its people.

It's ironic that the current tit-for-tat rocket/missile exchange comes in the wake of a year in which, according the Israeli Ministry of Foreign Affairs' website, there were far fewer rocket strikes in Israel than in any year since Hamas took power in Gaza. Ditto for the fact that the parents of both one of the slain Israeli teens & of the one Palestinian teen slain in reprisal have spoken out against further violence. Next it's ironic that, while by all accounts Hamas had been significantly weakened financially & in popular support terms, Operation Protective Edge may be giving it a new lease on life. And last but not least, regardless of what he said about the strength of its people, the greatest threat to Israel's survival over the longer term may well be internal : for much of its strength is founded on a secular middle class with 'fall-back' non-Israeli passports in case it becomes clear that the good ship Israel has finally hit the iceberg.

<u>INDIA'S GRAND "RIVER LINKAGE" PROJECT : AGRICULTURAL SALVATION OF FOLLY?</u> (BW, Christina Larson)

- As its population grows, & its people become more prosperous, so does their demand for food (& for food that takes more water to produce); so there is growing pressure to expand irrigation & control monsoon-driven flood damage. One solution that has talked about since 1982 is the National River Linking Project which, as currently envisaged by the National Water Development Agency, would cost US$168BN and entail a network of 15,000 kms of canals & tunnels that would connect 30 rivers, & move 174BN cubic meters of water annually (i.e. 75% more than the annual flow from one of India's Big Three rivers, the Brahmaputra) from its 'bountiful' rivers to its parched regions. The

[10] Since over half the 2+BN increase in the global population over the next few decades is expected to occur there, this can only mean that the current outflow of economic migrants from that continent will turn into a veritable tsunami during our children's lifetime.

[11] Throughout history the Euphrates River, that springs in Turkey, has been the main source of water for human consumption-, & agricultural-, purposes for both Iraq & Syria; but last May parts of the river dried up, a problematic development for both countries. It is not clear whether this was due to natural causes, to Turkey closing the sluice gates on the upriver dams on its territory, or a combination of both.

magazine Science reported on July 11th that Prime Minister Mody, who has referred to it as a "national dream" is laying the groundwork for 'fast tracking' it; at least his Water Minister, Uma Bharty, told the magazine "All possibilities will be explored for early implementation of the river interlinking projects." But scientists, hydrologists and others worry about potential unintended consequences of reshaping India's river system; thus, while deeming the government's plans to "improve irrigations facilities ... a welcome first step", they worry that poor infrastructure planning & implementation, coupled with local corruption, could turn the project into a massive & dangerous boondoggle.

*The project is gaining momentum : the Finance Minister pitched it in his first budget, saying it would pay a "rich dividend", & earmarked an initial 100 crore (US$150,000+) for it, and the Water Minister has said it could be completed in 10 years. The good news is, for all that's worth, that scientists' earlier concerns that climate change would reduce the amount of glacier 'icemelt water' flowing into India's river systems have now been pushed back half a century. On the other hand, one of the Big Three rivers on the South Asian continent, the Brahmaputra, the life blood of Northeastern India & Bangladesh, rises in Tibet & Beijing has plans to build 27 power dams on it [the first (smallish) one of which will start generating power next year] to take advantage of its 4,000 metre vertical drop on its territory and, while that won't matter much as long as they are 'flow-of-the-river' dams, Beijing also has its own inter-basin water transfer plans, the "South-North Water Transfer Project", that would divert as much as 60% of the Bhamaputra River's flow, to its own arid Northern regions (& doesn't subscribe to the idea that **all** riparian nations have equal rights to the water in a river). The Bangladeshi Parliament's Standing Committee on Water Resources is concerned about the River Linking Project because the Bhamaputra portion thereof envisages the building of holding reservoirs in Northeastern India that would affect the flow of the river in Bangladesh. Just about every aspect of the project requires the cooperation of the state(s) through whose territories the links would have to pass, & at least some of them will see it as an opportunity to blackmail the central government, especially if there would be little, if any, immediate benefits in it for their own people (or their own pockets). 15,000 kilometres of canals and tunnels in summer temperatures such as prevail in much of India will lead to a massive increase in the water surface exposed to the sun, and hence to evaporation & to a (marginal) increase in the remaining water's salinity. And overarching it all is the fact that the moving water around is only be an (expensive) stop-gap : the real solution lies in the more efficient use of the available water, wherever located; but that can only be accomplished by raising its price, & the higher its price, the more food-, & living-, costs will go up (and in a country with many poor people still spending a disproportionate share of their household budget on food, its food prices are a 'third rail' issue).*

PESTICIDES LINKED TO BEE DEATHSMUST BE BANNED (CBCNews, Aleksandra Sagan)

- A panel of scientists going by the name of A Worldwide Integrates Assessment of the Impact of Systemic Pesticideson Biodiversity and Ecosystems & operating as a task force on systemic pesticides (*i.e. those that spread through a plant's tissues & therefore cannot be washed off*) in a report to be published in the peer-reviewed Environmental Science and Pollution Research Journal concluded that the commonly-used neonicotinoid-, & fipropil-, pesticides (that account for 40% of the global insecticide market & have global sales annually of US$3+BN), are harming the environment & pose a threat to it not unlike that of *the long since* outlawed DDT[12]. Longer term, they want them phased out altogether & in the meantime have the regulatory bodies mandate

[12] Neonicotinoids supposedly are 5,000 to 10,000 times more toxic than DDT.

more precautionary measures in, & tighter regulation of, their use. These pesticides are used in a precautionary manner, sprayed on crops or applied to seeds, to prevent pest problems from developing but are transported by plants to all their parts, incl. leaves, stems, flowers, pollen & nectar, from where they are picked up by insects, incl. bees (that pollinate 75% of our food crops), affecting their navigation-, learning-, food collection-, disease resistance-, & reproductive abilities.

- While CropLife Canada, a trade association representing developers & distributors of pest control-, & plant biotechnology products, is dead set against any such an idea & claims it's the varroa mite that is to *solely to* blame for the 'collapsing bee colony syndrome' & that there is no correlation between pesticide use & bee health, David Goulson of the University of Sussex, one of the report's authors, says that 90+% of all pesticides ends up in the soil, where they can linger for years & regular use can build up its presence enough to affect earth worms & to start leaching out into streams on the surface, & the water table below. And Jean-Marc Bonmatin of France's Centre National de la Recherche Scientifique (Orleans campus) says "We are witnessing a threat to the productivity of our natural and farm environment equivalent to that posed by organophosphates or DDT ... Far from protecting food production the use of neonics is threatening the very infrastructure which enables it, imperiling the natural pest controllers at the heart of a functioning ecosystem."

It has long been known that pesticides often are far more effective against the "natural pest controllers' than against the pests themselves[13]*. My own view is, & has been for close to two decades, that "Mankind thought in the 17th, 18th, 19th & 20th century that he could control Nature. But we are learning that Nature has a nasty habit of biting back and is far more powerful than we ever dreamt it was. So, if Mankind wants to survive in the 21st century, he may have start thinking about how best to start living **with** Nature".*

13 Thus spraying against mosquitos did a real number on local dragon fly populations, each of which daily eats a hundred or more mosquitos, thereby reinforcing the negative impact on their existence from the disappearance of bodies of water in which to lay their eggs