

In September Russia's oil output averaged 10.6MM bbl/d. Last June 19th Brent oil was US\$115+. Today, November 13th, it went through the psychologically significant US\$80 level like the proverbial s%^& through the proverbial goose, down about US\$3½ on the day to close at US\$77.49. So in less than five months it has declined 30+%. With oil accounting for 20% of Russia's GDP this means that on an annualized basis right now Putin stands to take a 6%-7% "hit" to 'his' GDP. And to make matters worse for him, this may well be nowhere near the oil price's nadir if the state-owned producers were to try to make up for the price decline by maxing out on output¹.

Massive capital outflows, that accelerated after Putin annexed Crimea & started meddling in Eastern Ukraine, have resulted in the ruble declining 30% YTD vis a vis the US dollar (which has helped to boost inflation from 6.1% to 8.3%, well above the central bank's 5.5% target). In response the bank has raised its key interest 4x this year, most recently on Friday October 31st when it ratcheted it up from 8.0% to 9.5%, triple the 0.50% by which it last raised it in July - *in central banking terms a jump of this magnitude is at best a 'Hail Mary Pass' or, in hockey terms a matter of 'pulling the goalie', and at worst evidence of outright panic.*

In the US midterm elections 36.6% of eligible voters showed up at the polls, a post-1942 low. Elizabeth Drew² attributed this in the NYT to the Democrats having no message & such fears of being associated with Obama that they didn't dare mention his achievements, incl. the improved economy (for it had bypassed the middle class) & the Affordable Care Act (while exit polls showed that health care was the second most common reason people gave for voting Democrat) - *so they stood for nothing & offered nothing, and thereby gave the GOP free rein to market its visceral dislike of Obama.*

In the new US Senate the Chairmanship of the Committee on Environment and Public Works will go from the environmentally-friendly Sen. Barbara Boxer (D.-Cal) to the climate change über sceptic Sen. Jim Inhofe (R.-Okla.), the 79 year-old former insurance executive & 20-year Senate veteran who last chaired it in 2003-2007, in 2012 authored a book The Greatest Hoax : How The Global Warming Conspiracy Threatens Your Future (which cited the Bible as proof climate science is a fraud) & in 2003 a paper postulating that rising temperatures "may have a beneficial effect." This could, despite Barbara Boxer's brave declaration that " Now there is no longer an excuse for Congress to block action on climate change", cause problems for President Obama's new 'pact' with his Chinese counterpart, Xi Jinping, to move on the carbon emission agenda in 2015, especially since the Senate agenda will now be controlled by Kentucky Sen. Mitch McConnell for whose constituents even talking about emission controls is a mortal sin. And the climate change deniers' case will be made easier by being able to claim the deal is "asymmetrical", with Obama committed to speeding up the planned reduction in US emissions by 2025 & Xi just waffling about having China's emissions 'peak' by 2030³. So, while one Democratic Senate aide called Inhofe's incoming Chairmanship a "silver lining" to his party's

¹ Mexico has just completed its 2015 hedging program for the government portion of its oil revenues at an average US\$76.40 despite the fact that its budget assumption was US\$79.

² A one-time Director of the Council on Foreign Relations & for decades the Washington Correspondent for first the Atlantic Monthly & subsequently The New Yorker.

³ Nevertheless, having Beijing come around to accepting the need to limit emissions is a big step forward, although it may not have much choice given the growing popular dissatisfaction in China with air one cannot breathe (as well as water one cannot drink & food that one cannot eat).

loss of control of the Senate, Republican strategists have already started worrying that Inhofe's in-your-face climate skepticism may result in GOP candidates in 2016 being tarred & feathered with a 'Flat Earther' brush.

The value of the US dollar vs. a 'basket' of currencies has risen 10% since mid-year, and is up 20% from its low in 2012, back to its 2010 level. While this may warm the cockles of many Americans' hearts, the downside thereto is that its deflationary effect will undermine the Fed's inflation targeting, & could affect US economic growth adversely in the short run by making American goods less competitive in world markets & reducing the US dollar value of US corporations' foreign currency earnings⁴. Lastly, & most importantly, longer term it may be a cloud on the horizon heralding the end of the US dollar's post-WW II pre-eminence in the international monetary system (that has benefitted the US greatly since it required every country & multinational in the world to hold working capital balances in US dollars & endowed Washington with more fiscal maneuvering room). For a few years ago Beijing started doing bilateral trade deals whereby its trade with the other country would be transacted directly in their own currencies, rather than indirectly via the US dollar. Next it entered into series of swap transactions with other countries to underpin those deals' implementation. And most recently, in seemingly the next salvo in its campaign to dethrone the US dollar, it has begun arranging the creation of yuan trading "hubs" in other countries that will further facilitate, & increase the efficiency of, their bilateral trade with China, and limit the use of the US dollar in international trade; since it started this a year ago it has authorized seven such hubs, in Britain, Singapore, France, Korea, Germany, Qatar &, just last weekend, Canada⁵ [*where there is now a tussle between Toronto (that feels 'entitled') & Vancouver (the logical place to have it) as to its location*⁶]. Add to that the fact that a few countries (incl. Australia) have started replacing some US dollars in their FX reserves with yuan, & that China appears to be making an attempt to "corner" the world's physical gold market, and the days of the US dollar's central role in the system may be numbered (which would force greater fiscal discipline⁷ onto Washington). And while the yuan still plays an insignificant role in international commerce, it has come from nowhere in a few years & "a little cloud like a man's hand ... rising out of the sea" can be the harbinger of the "heavens growing black with clouds and wind" (Kings 1 18 : 44).

Arutz Sheva is a radio cum media outlet identified with the settler movement & Religious Zionism⁸, based in Beit El, a small Orthodox Jewish settlement in the West Bank near

⁴ Which in the case of Coca Cola, for instance, amount to nearly 60% of its total earnings.

⁵ A move that is unlikely to enhance Prime Minister Harper's standing in Washington.

⁶ And, while in typical Canadian fashion, there has been talk that maybe both could have one, Beijing may not be willing to accommodate the idea (especially since Harper's star isn't the brightest in the Beijing firmament). And for Toronto, any sharing of the yuan spotlight would be anathemous; for in a best case it would only get part of the business while in the worst case Vancouver might/will get the lion's share of the business, thereby further demonstrating the extent to which Canada's economic centre of gravity is shifting West from the Central provinces.

⁷ The effect of which, however, may be offset to some, still indeterminate degree, by the US' growing energy independence.

⁸ As the most dogmatic of the various strains of Zionism (which is rejected by many Haredi Jews as too secular & too nationalistic, and not religious enough), it has been in the forefront of the settlement movement & the efforts to regain total control of the Old City.

Ramallah. It started life two decades ago as an illegal offshore broadcaster and has always operated without a government broadcasting license. Batya Medad was born in New York, has a B.S. in Journalism, came to Israel in 1970, shortly after her marriage, & has lived since 1981 in Shiloh, a Jewish settlement in the West Bank located ten miles North, & deeper into the West Bank, from Beit El. On November 11th she blogged on Arutz Sheva, after several stabbings of Jews (& of one Druze soldier), that the problem facing Israel is not terrorism, "which is only a symptom", but a misguided Israeli "peace ideology" that believes that "under the right circumstances ... we can, in exchange for land liberated in the 1967 Six Day War, make peace with the Arabs ... But the nicer we get, the more we offer the Arabs, the more violent and dangerous they become. There won't be peace until we truly practice 'zero tolerance' ... and state without any weakness that there will never be a Palestinian state and that **"the level of autonomy the Arabs now enjoy will be reduced"** (bolding mine). So she proposes the death penalty for all Arab terrorists, the summary execution "on the spot" by the security forces of all terrorists caught in the act (to save money) - *by the way, the throwing of rocks at the police or soldiers, more often than not by teenagers, if not pre-teens, is now classified as a terrorist act the government is considering to make punishable with a 20 year jail term, to expel the ambassadors of all countries that have recognized the Palestinian state (all 135 of them, incl. China, Russia, India, Sweden, all of Eastern Europe, all but two countries in Africa, all of South America except Columbia and, of course, the entire Muslim world?)*, & the transfer of our embassies from capital cities that "don't recognize Jerusalem as our capital"⁹. For "only simple reactions like these will show the world ... we mean business ... only policies like I've listed will bring us peace" - *this shows how out of touch with reality some Israelis are.*

Putin committed a serious 'faux pas' when, while sitting next to Xi Jinping's wife, Peng Liyan (on her left) during a fireworks display at the APEC meeting as her husband was talking to Obama (who was sitting three seats away on Xi's right)¹⁰, he draped his shawl over her shoulders, supposedly to avoid her getting cold. But, after smiling at him, she quickly removed it & traded it with an aide for a coat (in China public interaction between unrelated people of the opposite sex is a "no-no"; so while the live TV feed couldn't help showing it, it was 'scrubbed' from replays).

In China the average height for males is 5' 5" & for women 5' 3". So President Xi Jinping at 1.80 metres (5' 11") would stand out in a crowd there, although not as much as President Obama (who is 6' 1"). And there was a message in the fact that the male members of the honour guard the two men inspected upon Obama's arrival at the Beijing Airport, with Obama of course, as the inspecting 'officer', walking closest to them, all were taller than he is, an image further accentuated by the tall peaked caps that are part of Chinese soldiers' ceremonial dress.

There are an estimated 64MM vacant apartment units in China; in other words, assuming three member family units & making an allowance for a vacancy 'float', it is 10+% 'overbuilt' in housing. And, while there is an anomaly between vacancy rates being extremely low, & housing prohibitively expensive, in the Big Four "first tier" cities (Beijing, Shanghai, Guangzhou &

⁹ Which would leave Israel 100% diplomatically isolated; for there is at present not a single country has an embassy in Jerusalem, not even the US [while Congress in 1995 overwhelmingly (93-5 in the Senate & 374-37 in the House) passed the Jerusalem Embassy Act stipulating the Embassy be moved to Jerusalem by May 31st, 1999, threatening to withhold funds from the State Department's Budget if it not done, Presidents Clinton, Bush & Obama have ever since used the six months' waiver provision & national security considerations not to act on it, deeming an unwarranted Congressional infringement on the powers of the executive arm of government].

¹⁰ A less than subtle hint as to his position in Beijing's priorities.

Shenzen) & many of the dozen or so “second tier” ones, incl. Chongqing & Wuhan (some of which have populations as big as, if not bigger than, Shenzhen, the smallest of the Big Four), & the reverse being true in many lower tier cities, the lion’s share of the vacant units is located in the ‘Ghost Cities’ (*for an insight into what they look like just google the name*) built on spec by provincial governments that in the short run needed the money from land sales to operate & wanted to create economic activity that would boost their position in the country’s provincial GDP growth ‘league table’, and longer term had “Field of Dreams”-type notions that “If you build it, they will come” & were able to act on those dreams because they controlled, or had preferential access to, banks willing to fund their construction - *the money thus tied up needlessly & unproductively in these housing units, will be a financial albatross around China’s neck that is a best case scenario will retard future economic growth & in the worst case bring on a full-fledged domestic banking crisis.*

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IT WOULD BE ‘PREMATURE’ TO HIKE INTEREST RATES SOON (WSJ, Michael S. Derby)

- In a speech to be delivered, in the wake of the October FOMC meeting, at an event put on by the Central Bank of the UAE, New York Fed President William Dudley (*Janet Yellen’s dovish ‘alter ego’ on the dove/hawk scale*) will tell those present that the US economy’s current & expected state “argues for patience with respect to the timing of lift-off of the federal fund rate and the beginning of normalization of monetary policy ... there remains slack in the labor market¹¹ and the inflation rate is still too low ... if all goes well, I anticipate we will begin to raise short-term rates sometime next year.”

*I had never expected to live long enough to have the words “the inflation rate is ... too low” pass a central banker’s lips, especially such a pivotal one. Waiting for **all** slack to be out of the labor will be helpful in puffing up the inflation rate. Having said that, talking in mid-November about “sometime next year” seems disingenuous in an era of much-vaunted “forward guidance”.*

PALESTINIAN-ISRAELI TENSIONS RAISE CONCERNS OVER THIRD INTIFADA
(Deutsche Welle, Kersten Knipp)

- Tensions are rising & talk has turned to the possible outbreak of a third intifada. In the past few weeks two Palestinians drove into groups of civilians waiting at Jerusalem LRT stops, killing three & injuring others, there have been a number of stabbings, & one drive-by shooting, targeting Israelis, a lot of rock throwing at-, & at least a couple of Palestinian teenagers have been killed by-, Israeli security forces, and more announcements about the building of more homes for Jewish Israelis in Palestinian areas of Jerusalem. All this has stoked fears there may be a third intifada in the making¹². In a recent commentary on Al-Jazeera Palestinian journalist Daoud Kuttub talked about a “silent intifada” & about how many Palestinians have distanced

¹¹ At last report the number of people working full-time was still 2MM short of what it had been pre-crisis (while the size of the work force has increased by more than that, & 4 ½% (7.3MM) of the work force was involuntarily working part-time (vs. 2.7% pre-crisis). On a more positive note, the decline in the labour participation rate may be bottoming out at 62.8%, an almost four decade low.

¹² In the 1987-1993 & 2000-2005 intifadas, hundreds of Israelis were killed, & thousands of Palestinians.

themselves from the established political leadership. And, while lawyer Rania Madi, who represents the human rights organization *Badil* in Geneva, says she doesn't think Palestinian society is at risk of developing religious extremism or that groups like ISIS will gain a foothold in it because the Palestinians have traditionally lived in religious harmony, she nonetheless is worried; for the third generation to have grown up under Israeli occupation has seen "their relatives arrested, killed or have their rights taken away ... such experiences can radicalize people."

Timeline-wise a third intifada is long overdue. And even if just 1% of the 1MM Palestinian males under age 25 in the West Bank & Israel itself were to respond to the call by ISIS leader Abu Bakr al Baghdati for "volcanoes of jihad". Israel's security situation could become very tense.

SHIA FACTION LEADERS WARN US OF ARMED RESISTANCE (FT, Borzou Daragahi)

- After the White House on November 7th announced a doubling of US 'boots on the ground' in Iraq to 3,000 *pair*, supporters of the radical Shia cleric Moqtada al-Sadr (who warred against the US military throughout its earlier presence there) warned this could result in "armed resistance" from Shia militias against the US presence. According to Dhiaa Assadi, a Shia parliamentarian & adviser to al-Sadr, "The option of military resistance is already there ... I am afraid [the US soldiers] are going to be considered occupiers and ... this will call for military resistance". The view of the al-Sadr crowd is that a greater US presence on the ground¹³ "will not help defeat ISIS ... Iraqis can defeat [ISIS] or all other terrorist groups provided that they get the equipment and the weapons and the ammunition."

Islam has no equivalent to the Good Tooth Fairy; so where did ISIS get all its lovely US-made equipment, other than from the (largely Shi'ite) Iraqi army when it 'turned on its heels'. Doing what the al-Sadr crowd wants would not only be throwing good money after bad, but also sow the seeds for a really serious civil war in Iraq.

MILITIAS ACCUSED OF BRUTALITY IN FIGHT WITH ISLAMIC STATE (AP)

- The Shiite militias who answered the Iraqi government's call to fight ISIS are growing more brutal, stoked by a desire for revenge against Sunni extremists who butcher every Shiite they encounter. Thus a video posted online showed a Shiite fighter posing beside a pile of decapitated bodies, a second one grinning as he maimed a corpse, a third explaining the bodies are those of fighters who "killed our comrades", & a fourth shouting "These are dogs." The Iraqi government is caught between a rock & a hard place, between international criticism & worries the militias will spin out of control (& *turn on it*), and needing the Shiite fighters of half a dozen militias who have been credited with the recent battlefield victories in the Baghdad region & who filled the void created by the regular army units 'turning tail' when the militants overran Mosul last June.

War is never pretty, & even less so when it has religious overtones; this is the equivalent of the religious strife that tore Europe apart centuries ago (except then there was no instant replay).

¹³

But it has no problem with air strikes which is the least useful kind of help in such 'asymmetrical warfare', even though there may be occasional helpful 'scores' such as is believed to have occurred recently when airstrikes supposedly severely damaged the ISIS leadership.

VLADIMIR PUTIN SAYS THERE WAS NOTHING WRONG WITH ADOLPH HITLER'S NAZI GERMANY (The Telegraph, Tom Parfitt)

- *Back in 2009 he condemned the August 23rd, 1939 Nazi-Soviet Molotov-Ribbentrop Non-Aggression Pact as "immoral" but said the Munich Agreement the year before had destroyed any chance for an anti-fascist front. But earlier this month he told a group of young historians in Moscow that there had been nothing wrong with it & that Britain & France had been to blame for Hitler's march into Europe. This appears part of a campaign to use history, & Russians' latent but ever-present xenophobia & national inferiority complex, to shore up his rule. Thus on November 4th, the National Unity public holiday¹⁴, he visited a new multimedia exhibition in Moscow dedicated to the medieval Rurik dynasty, which seeks to draw a parallel between today's confrontation with the West over Ukraine with periods in history(in which) Western Europeans portrayed Russia as "a country of cruel and aggressive barbarians ... (while) in the end, not strong enough to influence our independent international policies, ... obliged to introduce a raft of economic sanctions against us, as they would be called today."*

While all history is a matter of interpreting the past from the perspective of the winners & losers, Putin may be more blatantly self-serving than most in doing so.

RUSSIA'S 'GREEN MEN'¹⁵ ARE BACK IN UKRAINE (NYT, David M. Herszenhorn)

- On November 12th US Gen. Philip M. Breedlove, Commander of the US European Command & Supreme Allied Commander of NATO, confirmed tanks & military vehicles towing heavy weapons are *once again* pouring into Eastern Ukraine (& that Russian soldiers have been training locals in the use of sophisticated weaponry), prompting 'stern' & 'dismissive' denials by Moscow that called him unreliable & "alarmist".

That same day, the UN Security Council, at Washington's behest, met in another 'emergency session' on Ukraine, that ended, like the 25 others before it, with no decision taken (since Russia has a veto), thereby merely creating a soap box opportunity for Russia's Vitaly Churkin (a former Ambassador to Canada), to deny, deny, deny any Russian involvement while accusing the West of all sorts of nefarious scheming in Ukraine.

GORBACHEV IS WRONG ABOUT A NEW COLD WAR (FT, Philip Stevens)

- His warning that the world is at risk of another cold war is erroneous. Whereas the Cold War was a global contest between two competing economic & political systems, today there is no market in the world for the Moscow 'brand' of the two. And the Soviet Union was a superpower while today, *regardless of Putin's megalomaniac dreaming*, Russia, although still dangerous, is in decline, and his Crimean & Ukrainian adventures, while disruptive to the global order, are not existential threats. Putin is a zero sum adherent, not someone who believes that the sum of the parts is greater than the whole; so in his mind for Russia to win, & win it must, someone else must lose. What the West now needs is patience; for Russia today is like the Soviet Union in its later years when all Kremlinologists agreed it would sooner or later collapse under the weight of its internal

¹⁴ Celebrated since 2005 to commemorate the expulsion of Polish invaders from Moscow in 1612.

¹⁵ So called because they wear Russian Army-style green uniforms without, however, any insignia.

contradictions, but no one knew when. The same is true today. He is still riding high with money in the bank, control of the oligarchs and popular support for nationalistic agenda. And he is betting that the West will blink first &, given the rumblings among some European politicians that *for self-interest reasons* the sanctions should be eased, there is a chance he will be proven right.

Putin has not just one, or two, but three, Achilles heels. The slump in oil prices may drain his bank account much quicker than he had expected. The oligarchs (& just about everyone else) have been shipping money out of the country at such a clip that pretty soon the drawbacks of remaining in Mother Russia, at least for as long as Putin remains in charge, will start outweighing the benefits thereof for the oligarchs. And his popular support could start melting away like snow before a bright spring sun when the hoi polloi realize that nationalistic fervour buys few, if any, of the rapidly becoming more costly necessities of life. The real risk therefore is not that of another Cold War but that he will, in order to retain popular support, seek to expand his 'hot war' activities in the West, with it lacking the coyones to draw a line in the sand & stick with it. And if he is to do so, he will do so soon; for time is not on his side. Anyone interested in another perspective on this situation should take the time to read the (rather lengthy) article by George Soros dated October 23rd & written for the November 20th issue of the New York Review of Books entitled Wake Up Europe, that unfortunately came too late to my attention, the key sentence in which seems to be "Europe and the United States ... are determined to avoid any direct military confrontation with Russia (and) Russia is taking advantage of that reluctance".