The OPEC meeting ended, as widely expected, as a boon to consumers worldwide & a fiscal nightmare for a number of unsavoury governments (as well as the government of Alberta).

The UNHCR (UN High Commissioner for Refugees) reported earlier this year that for the first time since the immediate post-WW II era, the number of refugees in the world had exceeded 50MM. In absolute terms this was less of a big deal than it was made out to be; for since 1945 the global population has almost tripled. But what does provide food for thought is the fact that in 2013 alone their number had increased by 6MM, i.e. by 12+%.

In a speech that Chancellor Merkel gave, on the heels of the G-20 Summit in Brisbane, at the Sydney, Australia-based Lowy Institute for International Policy, she made her audience sit up & take notice when she vented her growing impatience with Putin with the words "Outdated thinking in terms of spheres of influence which tramples international law underfoot[1] must not be allowed to prevail ... Russia is violating the territorial sovereignty of Ukraine." And in the subsequent 'audience discussion' she warned "We're not just talking about Ukraine. We're talking about Moldavia, about Georgia. If things go on, we'll be talking about Serbia and the Western Balkans" (*& about the Baltic republics even before that?*). Her forthrightness apparently discomforted her Foreign Minister, Frank-Walter Steinmeier, who shortly after she said this told <u>Der Spiegel</u> in an interview that it was important that "in our use of language in public we do not eliminate our chances of contributing to the easing of tensions and to the mitigation of conflict" - *this interview appeared in Der Spiegel's November 24th issue that pictured Merkel & Putin in a confrontational position with the words <u>Cold Warriors - History of a Power Struggle : How Merkel and Putin pushed Europe to the Brink of the Abyss</u>*.

Sunday is Swiss gold referendum day. If it passes (& at last report there seemed to be a better than 50-50 chance it will), it could become another potentially disequilibrating element in the global financial system. This would be less so because it would require the Swiss National Bank (SNB) to buy about 1,500 tonnes or so of gold over the next five years (i.e. about 12% of newly-mined output) or because, like Germany, it would encounter problems repatriating the 30% of its gold held abroad (for the Bank of England & the Bank of Canada are likely more reliable counterparties than the New York Fed), but because it will tie the SNB's money-printing style. For, despite the Swiss reputation for financial probity, the SNB in recent years has been printing money like it was going out of style to keep the Swiss franc from going through the 1.20 Euro level to the point where its balance sheet is now roughly 80+% the size of Switzerland's GDP (vs. roughly 65% for the PBOC, 45% for the BoJ, 25% for the Fed, 20% for the BoE, 15% for the ECB & 5% for the BoC).

With the resignation of Chuck Hagel, President Obama has 'burnt' his way through three Secretaries of Defense, two of them Republicans, the last two of whom served only 20 months each. Moreover, both of Hagel's predecessors' published memoirs of their days in the Pentagon that were critical of his micro-management style & his lack of comprehension of military matters. And while Hagel came into his job on the same page as Obama, he was quickly shut out by a White House that wants yes men rather than people who tell it the way it is, as soon as he started asking questions. So it is not surprising that Obama's top choices to replace Hagel have turned him down politely. This is not a good omen at a time both China & Russia seem bent on testing America's military resolve.

---

1 This applies equally, if not more so, to China's territorial claims in the South China Sea.

Natural gas in storage in the US at the November 1st start of the winter heating season was down YoY & below its five year average level for that date. So far this month unusually cold weather for this time of the year has prevailed across much of North America; in fact one recent day US natural gas demand exceeded 100BCF, something that has happened in November only one other time in the past decade. But in the past week or so the spot price for gas has nevertheless declined from US$4.65 to US$4.21 (which is still well above last month's US$3.72 low & up significantly YoY). So, if, as was the case last year, the Farmers' Almanac were proven right & the National Oceanic and Atmospheric Administration wrong, when the former forecast a harsh winter & the latter a mild one, the next few months could be good ones for stocks of "gassy" oil & gas companies.

A recent newspaper headline screamed "No housing bubble in Canada : CMHC" - *experience has shown that often the higher the official level at which, & the more vehemently, some rumour is denied, the more likely it is to materialize within the foreseeable-, if not near-, future.*

On November 24th, in addressing a conference in Istanbul on Women and Justice, Turkey's President Recep Tayyip Erdogan told those assembled that men and women are created differently and that hence women cannot be expected to undertake the same work as men : "You cannot put women and men on an equal footing ... it's against nature" - *this appears to be the death knell for Kemal Pasha Ataturk's dream almost a century ago of creating a modern, secular Turkish society.*

Last April 30th two suicide bombers killed three & injured 79 in Urumqi, the capital of China's Xinjiang Uyghur Autonomous Republic, followed three weeks later by two car bombers killing another 39 (over & above the four perpetrators) & wounding 90 more. Following the latter event Beijing launched a year-long campaign of "extremely tough measures and extraordinary methods" that, according to the China Daily, has resulted in the elimination in the last six months of 115 terrorist cells, thereby stopping most terrorist attacks in their tracks before they could take place.

Russian Finance Minister Anton Siluanov said on November 24th the cost to the Russian economy of the sanctions & lower oil prices will be US$130-US$140 BN, i.e. 7% of GDP; Natalia Orlova, Chief Economist at the Moscow-based Alfa Bank[2], & others think his is a lowball estimate.

GLEANINGS II - 590
Thursday November 27th, 2014

AT OPEC MEETING, SAUDI ARABIA STARES DOWN TEXAS & NORTH DAKOTA
(BW, Matthew Phillips)

- In 1973 OPEC controlled 53% of global oil output; today it's 42%, even though it is pumping near-record amounts. Most OPEC members have been talking about the need for production cuts (*as long as they come out of someone else's hide; some are even planning increases in their own output*). Venezuela & Ecuador want to "protect prices."

---

2 Russia's largest private commercial bank. It made the headlines three times in recent months : on November 13th when it managed to sell a US$250MM 9½% subordinated bond issue (proving once again investors' yield hunger cum risk tolerance), on October 22nd when Putin visited the bank, & on October 7th when Prime Minister Medvedev had a meeting with the bank's Chairman.

Libya wants cuts of 500,000 bbls & Iran of 1MM bbld. (although it has made it clear that "under no circumstance" will it cut itself, in part because the sanctions have already cost it over 1MM bbld). And Russia, although not an OPEC member, has also been pushing for cuts (*although it too wants someone else, i.e. Saudi Arabia, to do the heavy lifting*)

- Saudi Arabia is still OPEC's biggest producer (*but now has been replaced by Russia as the world's No. 1 & has the US snapping at its heels for the No.2 spot*). It also has one of the lowest production cost structures anywhere in the world *and the financial wherewithal to withstand low oil prices the longest*, whereas countries like Venezuela, Iran, Iraq, Libya and Russia need an oil price of > US$100 if their fiscal deficits are not to spiral out of control.
- But the Saudis are not concerned about their fellow OPEC members' budgetary problems but about the threat posed by the now 9MM bbld, & still rapidly growing, US oil output & the increasingly close relationship between Shiite Iran & the Shiite-dominated Iraqi government. And its once close relationship with the US that was based on the latter's need for Saudi oil, weakened as it lost market share in the US as the latter *diversified its sources of supply* & started producing more & more shale oil (*US imports of Saudi oil fell from 2.3MM bbld. in May 2003 to 1.6MM bbld last April & to 0.9MM bbld last August*). So they would be happy if lower oil prices were to help drive shale oil producers out of business (recent analysis by Bloomberg, Business Week's parent, found that oil produced in 19 regions in Texas, Oklahoma, Louisiana, Kansas & Arkansas need a US$75 oil price to be profitable (although the lot of them account for only 400,000 bbld), while US$70 oil would start eating into the profitability of the shale oil behemoths, the Eagleford, Bakken & Permian Basin.

*The conclusions in this article are flawed. It compares apples & oranges : while the state-owned oil producers **need** US$100+ oil for their governments' budgets to balance, the US shale oil producers' US$70+ cost relates to their all-in finding-, developing-, & production costs, not the latter in & by itself. So over the short-to-medium term they will continue producing, rather than shutting down[3] (encouraged to do so by Washington because of the domestic employment-, & consumption-, boosting impact on its economy thereof and, externally, in the hope this will create pressure on Moscow & Tehran to become more amenable to reason). In addition, the US shale oil producers have been cutting costs with the introduction of new technology that, among others & most importantly, has reduced shale oil wells' depletion rates. No, the Saudi initiative seeks to derail Iran's efforts (with Baghdad's connivance) to usurp its position as the dominant power in the region & targets other OPEC members who have been undercutting it-, & causing it to lose market share-, in Asia. An there is a precedent of sorts thirty years ago : between the early & mid-1980's Saudi Arabia was the 'good guy' in the cartel, propping up the price of oil by letting its oil output decline by 70+% from 10MM-, to 2.7MM-, bbld; but in 1985 it lost patience & started ramping up its output again, with the result that the oil price declined in short order by 60%.*

<u>FORMER PRIME MINISTER TAKES HARDLINE PUTIN STANCE</u> (NP, John Ivison)

- In Ottawa on November 24th, in a speech to a Canada 2020 think tank audience Mikhail Kasyanov predicted Putin's political demise within two years.

---

[3] And it is interesting in this context that, while in the week to November 21st the number of oil drilling rigs operating in the US was up only one WoW, it was still 168 (9.5%) higher than a year earlier.

Kasyanov succeeded Putin as Russia's Finance Minister in 1999 & was his Prime Minister until Putin fired him at the start of his second term as President. He then planned to run in the 2008 Presidential election against Putin's 'seat warmer', Dmitry Medvedev, but his candidacy was disallowed by the Electoral Commission. He now chairs the opposition People's Freedom Party & is fiercely critical of Putin. As Prime Minister he introduced economic reforms that reduced inflation, balanced the budget (when oil was US$27) & moved to reduce the Russian economy's 'one trick pony' dependence on oil & gas (all of which has since been squandered by Putin). He says Putin had been surprised by the degree of trans-Atlantic unity in response to his Crimean & Ukrainian adventures, and by his inability to create a split among EU countries in their response thereto. In a subsequent interview with Christiane Amanpour on CNN he counseled maintaining the sanctions & continuance of the demands he conform with the terms of last September's Minsk Agreement.

EU's JUNCKER LAUNCHES INFRASTRUCTURE INVESTMENT PLAN
(WSJ, Matthew Dalton)

- *Former long-time Luxemburg Prime-, & Finance-, Minister and now, since November 1st,* Head of the European Commission (EC), Jean-Claude Juncker, on November 26th announced plans to try & entice private money to fund much-needed, new infrastructure across the EU (in which since 2008 little has been invested). The centre piece of his economic agenda, it is an ambitious bid to give the lethargic EU economy a shot in the arm & his only fiscal option since national governments are still tightening their belts & the ECB has been slow to roll out any *major* new monetary policy initiatives. His idea is to use a 5BN Euro grubstake from the EIB (European Investment Bank) & a 16BN Euro EU guarantee to fund a European Fund for Strategic Investments that will be run by the EIB, but at arm's length & on an off-balance sheet basis, so as not to risk its triple-A credit rating, & leverage the resultant 21BN Euro 15x to fund 300BN in new infrastructure investments over three years. His targeted funding sources are the private sector pension funds & insurance companies that need long-life cash flow generators to match their long-term liability profile, as well as public sector wealth-, & pension-, funds *that are always on the lookout for long-life, low- risk, public sector infrastructure investments.* And the risk for these outside investors would be reduced by the Fund taking the highest risk tranches of any deal on its own books. Juncker expects this to create 1.0 - 1.3MM new jobs over the three years.

While the EIB says it has already identified enough projects to spend the money on, this scheme is not expected to 'go live' until midyear at the earliest. Some observers are concerned it will result in the Fund taking ***all*** *the risk & the outside investors in effect getting an "Out of Jail Free" card. 1.3MM new jobs will barely make a dint in the EU's unemployment problem, and neither will it do so in the infrastructure deficit that according to the EC itself will take an annual investment of 230-370BN Euros* ***a year*** *to be erased over time. It is by no means certain that the EIB's exposure will not affect its credit rating. In the end, much will depend on Mario Draghi's reaction; for he may look upon this as a long overdue fiscal initiative that reduces the need for him to do more on the monetary policy side (on the other hand, if he were to support it with a generous dollop of QE, it could result in a mild form of an EU economy 'on steropids'). And last but not least, in the final analysis it is irrelevant who borrows the money; for if the program's funding is truly accretive it will just add to the aggregate debt load of the EU as a whole. Meanwhile Juncker faces a vote of non-confidence this week in the European Parliament, charging him of having been, as Luxemburg's Prime-, & Finance-, Minister, behind tax changes that drew foreign companies there, whose presence has since become essential to the health of Luxemburg's economy, the most controversial being one that allowed US* *companies to divert their earnings in other European countries to Luxemburg to take advantage of its more favourable tax regime. While his job is not at stake since the same big country mainline parties that pushed his candidacy in the face of opposition from, among others, Britain's Prime Minister Cameron, will ensure he keeps his job, according to UKIP's Steve Woolfe "this is an ugly tax scandal that will not go away."*

ONTARIO VS. THE WEST : NO CONTEST (G&M, Mark Milke)

- Alberta has a much smaller population than Ontario (4.1MM vs. 13.1MM)[4]. And yet since 2004 it has each year attracted more private sector investment (ex residential housing construction), in 2013 $83.5BN vs Ontario's $42.1BN (and Quebec's $26.8BN, BC's $23.3BN & Saskatchewan's $14.6BN)[5]. And this difference in private sector investment is making itself felt in various economic statistics :
    - In 2003 Ontario's per capita income ($37,018) was second only to Alberta's $40,744, whereas in 2012, adjusted for inflation, its $40,838 was fourth to Alberta's $52,207, Saskatchewan's $42,249 & BC's $41,239;
    - Ditto for tax filings : Alberta & Saskatchewan have the lowest proportion of people with incomes of < $30,000 (42.2% & 47.4% respectively), the highest proportion of 'middle income' ($30,000-$99,999) ones (45.5% & 45.2% vs. Ontario's 42.9%), and of high income (>$100,000) filers (12.2% & 7.4% vs. 7.0%); and
    - As to migration, between 2003 & 2012 Alberta gained a net 60,855 "career class" adults between the ages of 25 & 34 (*a year?*) from other parts of the country & BC 10,463 while Saskatchewan stayed about even, whereas Ontario lost 27,452 (& Quebec 24,355).
- Ontario & Quebec are now starting to mimic the Maritimes' weak economic opportunity environment. And it is no mystery as to why. Provinces with a more pro-entreprereurial, pro-resource development policy environment attract more private sector investment & create greater opportunities for their people to enjoy a middle class lifestyle whereas those with *ever*-increasing taxes & moratoria on resource extraction squelch opportunity. That's why those seeking opportunity are moving West.

The writer is a Senior Fellow at the rightwing, Vancouver-based Fraser Institute & as such has an (unsustainable?) "Drill Baby, drill!" bias. While his numbers are interesting, they look in the rearview mirror & in the short-to-medium term, the combination of lower oil prices & Canadian dollar may well put a screeching halt to the trend he documents above.

CHINA IS TRYING TO INTIMIDATE AMERICA (The Interpreter, Hugh White)

- By targeting its neighbours, Beijing seeks to make America step back from leadership in Asia by convincing Washington it will have to confront it militarily to retain its influence in the region, betting it will not be willing to risk that. This intimidation will likely work. While this may surprise Americans since it doesn't fit their perception of how the world should work, this is the way it does work today; for once again, for the first time in decades,

---

[4] What is also noteworthy is the difference in their respective population growth rates in the past decade : 32.3% in Alberta vs. 11.5% in Ontario.

[5] So on a per capita basis Alberta, with $20,366 led the pack by a country mile, followed at some distance by Saskatchewan ($12,920), BC ($5,065), Ontario ($3,095) and Quebec ($3,045).

there is real rivalry between great powers, with China deadly serious & willing to take real risks to promote it's "model", firmly believing that if carrots don't work, sticks will.

The author is Professor of Strategic Studies at the Australian National University & specializes in Pacific Affairs. But one must wonder whether China is not a giant with feet of clay (Daniel 2 : 31-33)[6]*. For it has a rapidly aging population & a rising dependency ratio that will become a 'boat anchor' on its GDP growth potential, contributing to it sinking well below the 7% level that by Beijing's own estimate is the 'red line' below which the risk of social unrest escalates*[7]*. It has a banking sector in which for years more problems have been swept under the rug than a non-Alberta dog has fleas & a real estate market that is hugely overbuilt & increasingly seems like an accident looking for a place to happen. It has a rapidly growing middle class whose conspicuous spending habits accentuate the growing income polarization that will lead to social unrest, and which is increasingly feeling its oats & becoming more vocal about the fact that their health, & that of their 'Little Emperor' singleton offspring, is being endangered by having to breath air-, drink water-, & eat food that is not really fit to breathe, drink or eat, many of whom aspire to live abroad & have been shifting their capital out of the country at a great rate. And Premier Li's efforts to shift the country's economic model from being export-, to domestic consumption-, driven, coincident with President XI's War on Corruption, risks creating stresses within the ruling class that may endanger the political system's survival, especially in a country that historically was hallmarked by warlords & fiefdoms, in which Beijing's control over the regions is anything but absolute and in which the only glue holding it together is the Communist Party. And last, but not least, Beijing's blatant territorial ambitions have started to engender pushback among its neighbours, none of whom are big enough to do so effectively by themselves, but could represent a real threat to Beijing's dreams if sel-preservation were to make them join forces..*

CHINA BLASTS US COMMENTS OVER SPRATLY PROJECT AS 'IRRESPONSIBLE'
(Defense News)

- A report last week by IHS Jane's Defense revealed new details about a land reclamation project by China on the Fiery Cross Reef in the Spratly Islands (which China in three months has turned into an island by dredging soil, sand & coral from the sea around it and dumping it on top of the reef). It said that it is now 9842 feet (approx. 3,000 metres) long & one-tenth that wide, i.e. long enough to accommodate, in due course, a landing strip, and that it has a harbour site big enough to handle tankers & war ships. This prompted a US military spokesman, Lt-Col. Jeffrey Pool, to call on Beijing (& the other governments in the region with territorial claims on the Spratlys, i.e. Philippines, Vietnam, Malaysia, Brunei & Taiwan) to cease such all such activities. This prompted PLA Maj-Gen. Luo Yuan in an interview with the state-run Global Times to tell the US in effect to butt out, saying the project was "completely legitimate and justifiable" (*which it isn't under current international cum maritime law*) and that "the US is obviously biased considering that the Philippines, Malaysia, Vietnam have already set up military facilities" on other *nearby* reefs and have occupied some of the islands. This was followed up by

---

6 Once upon a time, in the days of Japan Inc., it too looked like a world beater.

7 In this context it is worthy of note that according to a 2012 by ECRAN (the Europe China Research & Advice Network) the number of "mass incidents" - riots, public protests & demonstrations - had grown from 8,700 to over 180,000 between 1993 & 2010, & that in 2011 Beijing had spent more on internal security (US$111BN, about 5% of its budget) than on defense (US$106BN).

an editorial in the same paper claiming China was building on the reef "mainly to improve the living standardsof the reef-stationed soldiers[8] ... China's construction on the Yongshu Reef (*their name for it*) will not be affected by US words ... The Yongshu Reef is becoming a big island, which shows China's prominent construction capabilities."

The East China Sea at some point will become a flash point in which America's mettle will be tested & the existing world order challenged. For while Beijing claims almost all of it as an 'inland sea', under existing international & maritime law it doesn't have a leg to stand on; for the islands are 580 miles from the nearest Chinese landfall on Hainan Island, twice or more their distance from the Philippines & Vietnam.

<u>CHINA MULLS OVER MORE STRICT TOBACCO CONTROL</u> (Xinhua)

- A draft law made public on the website of the State Council's Legislative Affairs Office proposes, "pending public consultation", to ban all tobacco advertising, sponsorship & promotion of tobacco products, smoking scenes in films or on TV, smoking in all public buildings, & outdoors only in designated places.

In the past such talk has always foundered on the government's benefit from tobacco taxes (last year they were up 14% to the equivalent of US$131.7 BN, i.e 6+% of its total revenues).

<u>MULTINATIONAL FIRM CAUGHT IN TAX EVASION CAMPAIGN</u> (SCMP)

- A "generally well-known company that has long been among the world's 500 biggest firms", headquartered in the US with a wholly-owned subsidiary in China since 1995, & only identified as "M", has admitted tax evasion & agreed to pay the government 840MM yuan (US$125MM) in back taxes & interest.

Microsoft fits the bill in every respect but wouldn't respond to the paper's enquiries. According to the Xinhua news agency its "unreasonable" achievement of accumulating 2BN yuan in cumulative losses over six years in the Beijing region, while its peers had 12% profit margins, had made the authorities suspicious. And it commented "This case highlights the common tactic of multinationals to avoid tax, by transferring profits through various countries, taking advantage of differences in the tax rates." This is now expected to lead to an intensification of Beijing's efforts to monitor the tax practices of multinationals operating in its country, in which it expects Hongkong, that has been a conduit, to fully cooperate (because of the existence of a tax treaty that provides for the exchange of information). Added to Beijing's increasingly more burdensome & invasive regulatory initiatives, this will take still more off the shine for multinationals off the country's huge market potential & improve the competitive environment for domestic firms. And if the firm involved is indeed Microsoft, a US$125MM payment would not even be a slap across the wrist with a wet noodle for it. But this does validate the old stock market adage that "bulls make money, bears make money, and hogs get butchered", & the advice given to me many years ago by a National Revenue auditor of "never making yourself the softest target."

<u>INDIA INVITES BIDS FOR $2.4 BILLION ARTILLERY CONTRACT</u> (Defense News)

---

[8] Not unlike someone, after murdering his parents, pleading clemency because 'he is an orphan'

- After its first meeting under India's new Defense Minister, Manohar Parrikar, the Defense Acquisition Council, which has the last word on all high value military procurements, invited bids for the supply of 814 mounted guns to replace its antquated 105 mm guns.

India purportedly became the world's largest buyer of weaponry after the previous government launched a major military modernization program in response to perceived threats from Pakistan & China (which the Modi government has pledged to speed up). This is part & parcel of a growing arms race in the South-, and East-, Asia region that contains the seeds of disaster.

RUSSIA STEP CLOSER TO 'ANNEXING' ABKHAZIA (AL-JAZEERA)

- The Georgian Foreign Ministry said Russia took "a step toward the de-facto annexation" of Georgia's breakaway region of Abkhazia with the signing of a treaty on November 24th that will integrate the Abkhazian military forces with the Russian ones on its territory under a Russian commander and coordinate its foreign-, defense-, economic-, & social policies with Moscow's. While Russian troops have been stationed in Abkhazia ever since this region of 240,000 broke away from Georgia in a war over two decades ago, this agreement constitutes a move by Putin to further expand Russia's influence there. And while the former President, Alexander Ankvab, had resisted pressures to let Russians buy assets in Abkazia, he was forced from office earlier this year by mobs allegedly encouraged by Moscow & replaced by Raul Khadzhimba, a former Soviet KGB officer (*like Putin himself*) who has been eager to do Moscow's bidding.
- Georgia's Foreign Minister, Irakli Garibashvili, says this is clearly Putin's payback for Tblisi in July signing a political & trade deal with the EU, expects Moscow to soon sign a similar treaty with South Ossetia, another Georgia breakaway region, & called on the international community "to condemn this action by the Russian government."

Fat chance! His appeal will fall on deaf ears; for Georgia is not really on anybody's radar, the more so since the pipelines that carry Caspian Sea oil across Georgia to world markets, thus bypassing Russia, do not cross either Abkhazian or South Ossetian territory.