Quote of the week : "If Israelis vote to continue down the same road, it will be harder and harder to change course ... But if the disparate center-left forms a government, it may succeed in heading off the country's advance towards isolation and extreme nationalism" - Paul Scham, a professor of Israel Studies at the University of Maryland & scholar at the Washington-based Middle East Institute - *this was the conclusion of his recent article Israel's Potentially Existential Election that can be googled by anyone interested in getting a review of the political situation in Israel two months ahead of what could-, & perhaps will-, be the most critically important election, on March 17th, in that country's 66-year history, the outcome of which is likely to have major implications for the entire region, no matter which way it will swing*.

It may seem counter-intuitive that, while the CW envisages a major positive impact from the lower oil prices on global economic growth, the IMF just shaved 0.3% off its forecast global GDP growth rate for both 2015 & 2016 (to 3.5% & 3.7% respectively), despite having bumped its forecast for US GDP growth up by 0.5% to 3.6% for this year & by 0.3% to 3.3% for 2016 - *Americans tend to overlook the fact the potential for the US economy to act as a locomotive of global economic growth has waned as its share of global GDP declined. Thus, while in 1980 the US accounted for 22% of aggregate global GDP, & China for just 5%, in 2008 the two were neck-on-neck in the 17%-18% range, with the equivalent numbers for India having gone from 3% to 6%, for France/Germany/UK from 13% to 9% & for Japan from 7% to 6%. And, given their disparate GDP growth rates since 2008, the potential role of China & India on the one hand & the others cannot help but have shifted considerably further in the formers' favour.*

At the World Economic Forum in Davos, the Secretary-General of OPEC, Libya's Abdullah al-Badri sent out conflicting signals. According to CNBC he told an audience there that the price of oil "will stay for another month at this low price, but I am sure ... will recover" while, according to Reuters, he told Bloomberg "the price will not go to $20 or $25, I think the price will stay at where we are right now." - *meanwhile, word was in London that the amount of oil earmarked for storage in vessels at sea in the past week increased from 25MM-, to 40MM-, bbls. And looking a bit further down the road, any reduction in non-OPEC output during the foreseeable future may well be more than offset by the combined effect of increased supply from Iraq, OPEC members in fiscal dire straits & Iran once the P5 +1 (the five Security Council veto holders plus Germany) get a deal & of the damper on final demand from the elimination of their massive fuel subsidies by some a countries & from any slowdown in China's price-driven demand for oil to put in storage.*

The January 15th decision by the Swiss National Bank to 'uncouple' its currency from the Euro quickly found victims. In London Alpari (UK), a major UK-based retail broker that advertised "you can trade forex, CFDs[1], precious metals and spread bet with us" (but warned "losses can exceed deposits"), suspended operations & issued a statement "notwithstanding previous announcements ... Alpari (UK) has not entered a formal insolvency process." And in New York the US$823MM Everest Capital Global (hedge) Fund[2] went TU after its assets evaporated due to it having been on the wrong side of a highly leveraged bet that the Swiss Franc would

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1 A financial derivative that allows speculators to take a (*highly leveraged*) flyer on the movement in the price of an asset without ever owning it.

2 Whose website among others proclaimed "Our experienced team invests opportunistically with the benefit of its global perspective".

weaken, while NYSE-listed FXCM, that offered clients 50x leverage on their FX trades[3] (for, as CEO Drew Niv put it last month in a Bloomberg publication, “Currencies don’t move that much ... so if you had no leverage, nobody would trade), late the next day, January 16th, got a US$300MM lifeline from the US$50BN financial services conglomerate Leucadia National Corp. For after its US$225MM in margin calls the day before had gone unanswered, the NYSE that morning had suspended trading in its shares (that late that day in after market traded at a low US$3.84, down 70% from Thursday’s close). But this was just surface froth among the small fry, for whom, while they deal daily in billions[4], a hundred million is still real money. Among the big hitters Deutsche Bank & Citi are said to have lost US$150MM each, and Barclay’s US$100MM. But this is unlikely will be the end of it. For despite their 2008 experience (or perhaps because of it, since it sanctioned ‘moral hazard‘ risk), the big banks have continued to take large positions for their own account (for “that’s where the money is”) in the knowledge that all profits will be theirs to keep while the tax payer will backstop any grievous losses. But, as proven a decade-and-a-half ago already by the implosion of LCTM, the sophisticated computer programs they use are no match for economic/financial/market “black swan” events that produce deviations from the norm that cannot reasonably be built into any program (thus, while since the cap was introduced in 2011, the Swiss franc had fluctuated by a daily average of less than 0.50%, last Thursday & Friday it had strengthened briefly by as much as 40+%, before settling at a still far-greater-than-imagined-possible 15% higher level against both the dollar & the Euro.

And this may only be the beginning. For no one really knows how many billions/trillions of Swiss franc-linked financial derivatives may be outstanding that will inflict grievous losses for counterparties. And the stronger Swiss franc will bring pain to many households in Central-, & Eastern-,Europe where many homeowners, most prominently in Austria, Croatia, Hungary & Poland (in the latter alone 566,000 of them, accounting for 37% of all mortgages outstanding) for years have fallen victim to the siren’s song of the low interest rates on Swiss-franc-denominated mortgages.

But the greatest potential problems ahead may well lie at the macro/geopolitical level. For the SNB move came as a thunderclap on a bright sunny day. This was one of the best-kept secrets in human history; thus it was most unusual, if not unprecedented, that even IMF Managing Director Christine Lagarde is said to have learnt of the Swiss move the same way everyone else did, i.e. from the media. And it came just a week after SNB Chairman Thomas Jordan-, & a mere three days after its Vice-Chairman, Jean-Pierre Danthine-, had gone on record as saying the peg to the Euro ‘would remain’ the cornerstone of the bank’s monetary policy (*on the other hand, it is hard to know how else they might have done what they did; for had there even been the slightest inkling of what was about to happen, the mother of all bank runs ever would have ensued – and as the old saying goes, ‘a secret shared by three people is safe only if two of them are dead’).* This move by the central bank of the country that has long hosted the Bank for International Settlements (BIS), central banks community’s Vatican-equivalent’, has undermined the credibility of the entire central banking-, & thus global monetary-, system[5], signaled that cooperation & mutual trust in global finance & politics has given way to an ‘everyone for himself

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[3] Which, in plain English, means that, while one doubles one’s money if the asset price increases by 2%, by the same token one’s equity in the ‘investment’ evaporates when it declines 2%.

[4] Thus FXCM had an equity base of < US$300MM & yet did US$1.4TR of trades per quarter (i.e. US$15+BN/day) for clients (who may have put up as little as US$750MM as collateral).

[5] Which was given another (small) push towards oblivion by the Bank of Canada’s move this week.

& the devil get the hindmost' modus operandi, & validated once again the cynicism of those who believe that "the more senior the level at which a rumour is denied, the more likely it is about to happen"[6]. And the timing of the move, six days before this year's WEF clambake in Davos, where Chairman Jordan was to be a participant, was strange, to say the least.

We live in a topsy-turvy & worrisome world when investors sooner pay governments, even some not so creditworthy ones, to keep their money rather than put in a bank & collect interest, however little that might be these days. For in Europe the yield on government bonds is negative out to four years in France, the Netherlands & Belgium (that has a Debt-to-GDP ratio of 101%), to six years in Germany, & to 12 years in Switzerland. And while debt of Italy (which has a 133% Debt-to-GDP ratio) quite deservedly has positive yields all along the curve, it seems incongruous that the yield on its 10-year bond is lower than that on its UST counterpart.

In his State of the Union Address Obama warned he would veto any bill seeking to impose further sanctions on Iran (*exercising his veto may prove problematic for him; for the Republican leadership can be expected to attach things he would like to veto to legislation that he needs, or wants, to have passed*). This prompted House Speaker John Boehner (R.- Ohio) to poke a stick in the President's eye by inviting Israeli Prime Minister Netanyahu to address Congress on "on the grave threats radical Islam and Iran pose to our security and way of life." - W*hile Iran may be a threat to Israel, it is much less so to the US, except perhaps in the broadest most possible geopolitical sense, whereas radical Islam poses less of a threat, at least in the short run, for Israel than for America (& Europe); so it is questionable how much* ***real*** *value-added potential Netanyahu can contribute to this discussion. In addition, there are those who argue that Netanyahu's position vis a vis the Palestinians has been a contributing factor to the emergence of radical Islam. Originally scheduled for February 11th, it was rescheduled, at Netayahu's request, so he could coordinate it with addressing AIPAC that same day, on the final day of its three day annual conference. While Boehner has claimed he made the invitation "on behalf of the bipartisan leadership of the House and Senate", both Nancy Pelosi & Harry Reid denied ever having been consulted. And, since Obama despises Netanyahu, it was easy for the White House to enunciate the view that any official contact with Netanyahu this close to an election in his country, would be "inappropropriate" (a sentiment echoed by some in Israel).*

In Alberta the lower oil prices may have a greater impact sooner than many locals realize. While capex budgets in the oilsands are being slashed & a few 'pink slips' have already been handed out, this week both Shell & Suncor sent out letters to their suppliers demanding 25%-30% 'roll backs' of their prices. According to the Canadian Real Estate Association (CREA), while in December sales of previously-owned homes nationwide had been down 5.8% MoM, in Calgary & Edmonton (where house prices last year had been up 8.5% & 9.4% YoY, more than twice the 3.8% national average) they had been down a *whopping* 25%. And according to the Calgary Real Estate Board, while home sales there in December had been down 7.5% YoY, new listings had been up 42%[7], & the vacancy rate in its Class 1 commercial buildings on December 31st, at 8.52%, had been up from 7.27% YoY (*although this may be largely due to the momentum of new construction continuing to bring new space on stream, in December alone 333,000 sf*).

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6 Which made those who believe in this theory wonder whether it was time to get worried after President Obama declared in his State of the Union Address that the US had made so much progress on the economic front that "the shadow of crisis has passed."

7 This board tracks sales & new listings on a daily basis; so it is worth noting that YTD sales are down-, & new listings up-, 30% YoY.

On January 19th the Shanghai Composite *Stock* Index tumbled 7.7%, the biggest one-day drop in 6½ years on news the regulator was going to crack down on the buying of stocks on margin - *this was long overdue; for while the Index, as of January 13th, was up 67% YoY, margin lending in the Second Half of 2014 alone had risen 153% to a level equal to 7% of the Exchange's total capitalization (compared to the once headline-making high 2.2% on the NYSE)*.

On January 22nd the ECB, after long dithering on the springboard, finally dove headfirst into the treacherous waters of QE (Quantitative Easing, the massive buying of government bonds in the hope of giving an economy a fillip). Even though the amount involved, 60BN Euros per month, was somewhat greater than the 50BN Euros expected & already priced into the market, the term of the program (18 months starting in March) was less than the two years starting immediately some had expected; so it was no surprise the market seemed 'underwhelmed' rather than 'shocked & awed'. And given QE's motley track record elsewhere, one must wonder whether this may turn out to have been a case of "doing the same thing over and over again, and expecting different results" (Einstein's definition of insanity). Thus Jonathan Loynes, Capital Economics' London-based Chief European Economist, opined "There are still reasons to doubt that QE, no matter ... its size, is going to change the outlook for the Euro." Moreover, the central banks of the 19 Eurozone member countries will be responsible for 80% of the buying, **and** liable for 80% of the losses, if any [to meet German concerns about 'debt mutualization, the process whereby the stronger Eurozone members (first & foremost Germany) would become jointly & severally liable for the risk inherent in debt issued by their weaker brethren, a concept for obvious reasons popular the latter but for the very same reasons a 'third rail' concept/political issue in Germany]. Be that as it may, the outcome of next Sunday's election in Greece may be more important to Europe than this ECB move (with some believing a 'Grexit' would actually be positive for the Eurozone) - *and all this disregards the empirical evidence, discounted by apologists as not being applicable to larger economies, provided by the countries in Europe that during onset of the financial crisis initiated brutal 'short term pain for long-term gain' fiscal policy responses, Ireland, Iceland & the Baltic trio'. For they have been the fastest to recover (the Irish economy last year grew by an estimated 4%, with a one quarter spurt at a 7% annual rate, & is forecast to grow by as much as 4.9% this year). And the surviving three major Irish banks are now doing well enough that the Minister of Finance has started talking about recouping the tens of billions it had cost to bail them out half a dozen years ago (which could bring the country's debt-to-GDP ratio down to a level lower than Germany's)*.

On the election front the news is mixed. In Greece, ahead of next Sunday's election, the polls are giving Syriza 31+% voter support (5% more than Prime Minister Antonis Samaras' party) which, if proven correct, after the 50 'bonus seats' are added in, would give it about 130 in the 300-seat Parliament, enough to form, with some help, a viable majority coalition government. If so, things could get tense quickly; for the EU bailout package is up for extension at the end of next month, & without it the government will run out of cash by June 30th, if not sooner. Meanwhile in Israel, ahead of the March 17th election, the polls suggest support for Likud may be softening. This has given rise to pressure in (*the right wing of*?) the party on Netanyahu to form, despite the mutual dislike between him & Naftali Bennett, a 'joint list' with the latter's religious, right wing Bayit Yehudi (Jewish Home) party (*whose voter support also appears 'softening'*). So far he has rejected the idea because he feels (according to the polls rightly so) that a joint list would garner fewer seats than would the two would separately (but he must make up his mind by the 31st, the date when candidate lists must be finalized).

At the time of writing (8:33 p.m. GMT on January 22nd), gold had once again broached the US$1,300 (for only the second time in 4 months), a level up 10% YTD. While the CW deems this a flash in the pan, several facts seem to challenge this. With the US dollar at last report up

15+% since mid-2014, those holding it in accounts denominated in currencies other than the US$ have done very well since &, as long as the US$, as expected, keeps strengthening, they will continue to do so. China & India remain the world's largest importers of physical gold; and there, after a relatively quiet first nine months of 2014, demand picked up dramatically in the fall; thus in November the former's net gold imports via Hongkong were up 27.6% MoM to 99.1 tonnes[8], while, according to Reuters, Indian gold imports in November surged 38% MoM to 151.6 tonnes &, contrary to expectations that there would be a slowdown because of fewer weddings, had continued strong in December (due to the government having relaxed, in late November, the restrictions on gold imports it had introduced in September 2013 – that had caused gold imports to fall off a cliff the following month?). Last May the ECB & 20 other European central banks signed the Fourth Central Bank Gold Agreement, effective last September 27th that, in contrast to its predecessors (that had stipulated the maximum amount of gold the signatories could sell in any given year), stated that its signatories 'did not have any plans to sell any significant amounts of gold' [9]. Closer to home there has been a growing interest in gold among hedge funds & George Soros, who turned bearish on gold a couple years ago, has 'filled his hat' with gold mining shares (while dumping bank stocks). Finally, the Bundesbank reported this week that last year it had 'repatriated' 120 tonnes of its gold held abroad, 35 tonnes from France & 85 tonnes from the US (*from the latter of which it had only received a measly five tonnes in 2013*).

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BANK OF CANADA SHOCKS MARKETS WITH A CUT IN KEY INTERST RATE (CBC)

- On Wednesday January 21st it cut its key overnight lending rate by 0.25% from the 1.00% where it had been for 52 months, citing the threat posed by plunging oil prices & noting, at the subsequent press conference, "Canada's income from oil exports will be reduced and investment and employment in the energy sector are already being cut." This came after it recently cut its 2015 GDP growth forecast from 2.4% to 2.1%, expecting it to go as low as 1.5% in the First Half (*thereby implying a 2.7% annual rate in the Second?*). In the aftermath of this surprise move the Canadian dollar slid precipitously to US$0.8107, a 6-year low.

The kindest explanation is that, as the former CEO of the Export Development Corp., Governor Poloz believes a weaker currency is ipso facto good for Canada's manufacturers (who are predominantly located in the two Central Provinces), the flipside of which is that in acting on that belief he is joining the accelerating global trend to 'beggar-thy-neighbour' competitive currency devaluations[10]*. A less beneficent one would be that the Bank knows something the rest of us*

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[8] Which means it accounted for the world' s **entire** newly-mined gold output for the month, ex China's own.

[9] Although, given the recent events in the central banking community, such an assurance may not have the same 'take-it-to-the- bank' kind of quality today as it once may have had .

[10] The latest converts to which are former Swedish Finance Minister Anders Borg who, on the 22nd of January, after the ECB announcement, told the press in Davos that the Swedish government 'should consider steps to weaken" the Swedish krona to keep its economy competitive, and Italy's Prime Minister Matteo Renzi who told the WSJ on the 21st "his dream" is a Euro at par with the US dollar (presumably hoping this will help tip his country's economic growth rate into positive territory after twelve quarters in which it was flat in two-, & negative in the other ten (although in the last year or so the rate of negative growth has narrowed significantly).

aren't privy to. And the most disconcerting explanation is that the move was motivated by short-term political considerations, & ordained by the the Prime Minister himself. Perhaps the most astute observation came from Amanda Lang, now the sole host of the CBC program The Exchange [successor to the The Lang and O'Leary Exchange she long co-hosted with (the obnoxious Kevin O'Leary)], when she said "Maybe it's just a sign ... the Bank felt it had few options, but it's a bit like winning a pie eating contest where the prize is more pie".

IRAN SEES NO OPEC SHIFT TOWARD CUT, SAYS OIL INDUSTRY COULD WITHSTAND $25 CRUDE (Reuters, Michelle Moghtader)

- In remarks posted on SHANA, his ministry's website, Oil Minister Bijan Zanganeh called for greater cooperation between OPEC members but also said "Iran has no plan to hold an emergency OPEC meeting and is currently in consultations with other OPEC member states in a bid to prevent a sharp fall in oil prices, but these consultations have yet to bear fruit." Furthermore, that while Iran's Budget was based on US$72 oil, "even if the oil price goes down to $25 a barrel, the (*Iranian?*) oil industry will not be threatened."

He was talking through his hat. It's not up to Iran to "hold an emergency ... meeting." Most, if not all, of its "consultations" have been with Venezuela, the fiscal basket case, whose President has made a futile tour of Middle Eastern capitals to apprise their leaders of his country's desperate situation due to the low oil price. And it doesn't take a financial Einstein to understand that, even if, as Iran claims, just 33% of its budgetary revenues are oil price-dependent, prices one-third lower than Budget's US$72 must leave a huge hole in it, especially as, due to the sanctions, the economy is moribund, and both unemployment & inflation are in the double digit range.

RECORD IRAQ OIL OUTPUT ADDS MORE DOWNWARD PRESSURE ON OIL PRICES (RT)

- On January 20th Iraq's oil production hit 4MM bbld, breaking the record 3.56MM bbld set in 1979. According to Oil Minister Adel Abdul Mahdi Iraq will grow its global market share to "help offset the decline in oil prices". And RT, a 24/7 Moscow- based news service seeking to give a Russian perspective on to global news, opined that the split between the better-off & fiscally endangered OPEC member states is more likely to widen than narrow (*since all are agreed on only one thing : where cutting oil production is concerned, NIMBY is the order of the day*).

This 36.8% YoY increase gives the government a big leg up on its earlier announced plans to 'ramp' output up to 6MM bbld. Part of this increase was due to the fact the common danger posed to both by ISIS caused Baghdad & the Kurds to cut a deal whereby the oil produced by the latter can start flowing more readily into world markets.