March housing starts in the US came in at 926,000 saar, up from February's 897,000 (which had been a dramatic inclement weather-driven 17% MoM decline) whereas a 'spring rebound' to 1.04MM had been expected. Building permit issuance was down 7.5% MoM. Single family dwelling starts were up 4.4%, but those in the much smaller multi-family apartment/condo sector down 2.5%. And, while existing home sales, that account for 90% of the market, remain sluggish, despite the weather new home sales in February were the highest in seven years & the Home Builders Confidence Index of the the NAHB (National Association of Home Builders) was up four points to 56 - *But the fact remains that after recovering from an annual rate < 500,000 during the Great Recession's nadir, since late 2012 new starts have fluctuated around the 1MM mark, lless than half the rate a decade ago.*

The ECB each quarter surveys 140 banks' lending outlook. The latest, published on April 14th, found that, after years of anaemic lending, they now expect the strongest loan demand in a decade; for its bond buying program has cash burning a hole in the banks' pockets, causing them to ease lending standards (in Italy by 25%). While Jack Allen of Capital Economics warns "It's an improvement from a very low base ... Banks' willingness to lend has been loosening but that's after six years of tightening standards", *once banks **want** to push money out the door, they'll find takers.*

In Britain in March retail sales, helped by an early Easter, were up 4.7% YoY, the most since April 2014 & up from February's 1.7%, and for the First Quarter as a whole up 2.8%, nearly twice the Fourth Quarter's 1.5% rate, despite in-store prices falling at the fastest rate since 2006. By comparison, US retail sales in March were up for the first time in four months, albeit by just 0.9% MoM, well off from last November's post-recession high 4.5% & lower than the 1.1% expected given job-, & wealth-, gains, low gasoline prices & the level of consumer confidence[1].

GLEANINGS II - 610
Thursday April 16th, 2015

BONDS BEWARE AS MONEY CATCHES FIRE IN EUROPE
(The Telegraph, Ambrose Pritchard-Evans)

- In the past six months the US M3 money supply has grown at an 8.2% annual rate while in Europe the well-regarded, Brussels-based Bruegel Institute think tank says it is doing so at rates not seen since 2007[2] (so the ECB's QE initiative may have come a time it was less needed, although Italy's debt situation still needs all the help it can get). According to Oxford Economics' Gabriel Stein "Forecasters ignore broad money *supply* at their peril", the semi-annual rate of US total loan growth is now higher than in the five years preceding the Lehman crisis *in September 2008*[3] & "The risk *now* is that the Fed

[1] In March the Conference Board's Index of Consumer Confidence hit 101.30, up from 98.80 MoM the first time since August 2005 it has been over 100 & is almost 4x the February 2009 recession low of 25.30.

[2] After peaking at about 12% in 2007 & dogging it in the -2% to +4% range for six years, in the last nine months of last year the M3 growth rate skyrocketed from zero to 7%

[3] Two-and-a half years after the Alan Greenspan Fed had quit reporting M3 data since they did not "convey any ...information... not already embodied in M2". At the time this confounded many people since it was the best leading economic indicator of the four money supply data series, while that critics said it was done because the Fed wanted to hide the fact M3 money supply growth was out of control (& became a contributing factor to the Lehman fiasco).

will have to raise rates much more quickly than the markets expect". German Bunds are particularly vulnerable, with the 10-year Bunds yielding 0.16% (*down from 1.50+% a year ago, & as all bonds maturing in eight years or less trade at negative yields*) as the supply is drying up, in part because Berlin paid down 18BN Euros of its debt in the past year & the Bundesbank is having trouble finding enough Bunds for QE purposes as, according to David Roberts of Edinburgh-based Kames Capital, it faces a "poisonous cocktail" of resurgent inflation & rising wages. And the US bond markets are vulnerable since investors expect interest rates by the end of next year to be half of what the Fed expects; so, as the St. Louis Fed's James Bullard observed while in London recently, "I think reconciliation between what the markets think/*expect* and what the ... FOMC thinks will have to happen at some point. That's a potentially violent reconciliation." And while the Fed is wary of tightening while the participation rate is at a four decade low 62.7%, the 'quit rate', a gauge of employees' willingness to look for a better job, is now 2%, a level that historically has been the jumping off point for employee raiding & 'job jumping'. And if the Fed hits the brakes hard, borrowers in the developing world, most prominently China, Hongkong, Brazil, Mexico, South Africa & Russia, that have US$9TR in dollar-denominated debt outstanding, *much of it unhedged*, will 'go through the wind shield', *hit by a 'double whammy of higher debt servicing costs on debt the value of which in their own currencies had already risen 20+%* .

And US consumers' propensity to spend money seems lower than could have been expected in light of some growth in real wages, the wealth effect from higher financial-, & real estate-, asset valuations, the lower gasoline prices & the recovery of the Consumer Confidence Index to pre-Great Recession levels, although the Personal Savings Rate, as calculated by the St Louis Fed, is at a 30 months' high, & over 2x that during the pre-Great Recession boom days.

DETROIT, STOCKTON BANKRUPTIES MAY FLAG WIDER PROBLEMS (Reuters)

- On April 14th NY Fed President William Dudley told a workshop on Chapter 9, the part of the US bankruptcy code for local government insolvencies, that the Detroit & Stockton, Cal. municipal bankruptcies may foretell more widespread problems in the US than implied by current bond ratings, & that "We need to focus our attention today on addressing the underlying issues before ... problems grow to the point where bankruptcy becomes the only option." Dudley, whose Fed district includes the debt-stricken US territory of Puerto Rico, didn't mention any names but did highlight the difficulties some jurisdictions face funding operating deficits or when they underfund public pensions.

One wonders if he was sending a message over the heads of his audience to Washington lawmakers who insist on playing 'silly bugger' on the taxpayers' dime rather than in more constructive pursuits. And the week before he twice warned, on Monday April 6th & again on April 8th, on the subject of any future Fed tightening, that "If financial-markets do not tighten much in response to higher short-term rates, we might have to move more quickly ... In contrast, if financial conditions tighten unduly, then this will likely cause us to go much more slowly, or even pause for a while[4]"; suggesting that, in contrast to a decade ago when the Fed did too little too late to cool an overheated housing market, it now will act aggressively to prick balloons (but

[4] While the Fed can, if it wants to, 'take the punch bowl away just when the party gets going' (a term coined by William McChesney Martin, the longest-serving Fed Chairman ever, for almost 19 years ending in 1970, a 'hard banker' who did his own thing regardless of what the White House wanted), pumping up markets or economies in a down beat mood is akin to "pushing on a string".

only once it is has decided there is a balloon worth pricking?). This may well have been what the CEO of Norway's sovereign wealth fund, at US$960BN the world's largest, had in mind when he told Bloomberg in an interview on April 13th that "Investors are (now) focused more on monetary policy changes ... than at any time, as far as I can remember."

<u>KANSAS MAN ARRESTED FOR ALLEGED ISIS-INSPIRED BOMB PLOT</u>
(NPR, Scott Neuman)

- On April 10th John T. Booker, age 20, of Topeka, Kansas was arrested "while making final preparations for a suicide car bomb attack" on the Fort Riley Army post, after telling an FBI informant he wanted to wage jihad on behalf of ISIS since the Koran said "kill your enemies wherever they are". Another man, Alexander E. Blair, age 28, was arrested and charged for not reporting Booker's plan to the authorities & with lending him the money he needed to rent the space-, & buy the materials-, for building the device.

'Lending money' to aspiring suicide bomber has to be the ultimate oxymoron.

<u>BY APING BIBI ON IRAN, HERTZOG POSITIONS HIMSELF AS NETANYAHU'S NEXT FOREIGN MINISTER</u> (Haaretz, Barak Ravid)

- On April 12th the Zionist Union issued a 3 page-, 838 word-, position paper on the framework agreement. It refrained from criticizing Netanyahu's position on it, calling it an issue "on which there is no coalition or opposition"[5] & said "Some of the parameters as they appear in the joint communique *issued after it was announced* ... are problematic and pose real potential risks in the long term ... we suggest working now that essential changes are inserted into the agreement" (*i.e. those already made by Likud?*). Written by Maj. Gen. (Ret.) Amos Yadin, a former Head of Military Intelligence (& its election campaign candidate for the post of Defense Minister), it acknowledges that the agreement does limit Iran's nuclear program, & may even roll it back some, but fails to gives the credit for this. And it stresses the need to work with the US Administration, without criticizing Netanyahu. Coming at a time the coalition talks between Likud & the ultra-Orthodox right wing appear stalled & unity government talk has again resurfaced in Likud, even though the Zionist Union hasn't met with its negotiators & keeps claiming no interest in such an idea this looks, if anything, like a pitch for Hertzog to become Netanyahu's Foreign Minister (& Yadin Israel's his Ambassador to Washington?[6]).

Meanwhile Arutz Sheva on April 13th quoted the leader of the (haredi rightwing) United Torah party as saying its coalition negotiations with Likud were almost completed (having gained a commitment to repeal the section of the law ending the exemption for young haredi men from compulsory military service that would have made refusing to serve a criminal offense, as well as the restoration of some funding the last "evil" government had stripped from the haredi community[7] (both measures the work of the then Finance Minister Yair Lapid, whose voter

---

5 Which, in all fairness, is likely quite true; for it became apparent during the election campaign that there was no daylight at all between **all** non-Arab party leaders on the Iran issue.

6 While this looks like a stretch since the incumbent, Ron Dermer, is a long-time Netanyahu buddy, the role he played surreptitiously arranging for Netanyahu to address Congress made him persona non grata in the White House & ended his effectiveness as Israel's representative in Washington. And buddy or not, in Israeli coalition building everyone is for sale, and no one indispensable.

7 A concession that would not be welcomed by any incoming Finance Minister, incl. Moshe Kahlon.

support was halved in the election and who is now, & likely will remain, in opposition. But there are still unresolved issues close to United Torah's & Shas' heart, incl. the new government's position on the proposed law to remove the power to decide which non-Jews may convert to Judaism from the Central Rabbinate to local & community rabbis (who opponents claim will be more vulnerable to pressure to let someone convert than the bureaucrats who decide this now).

ISRAEL MAY PAY HEAVY PRICE FOR CRISIS WITH US (Haaretz, Barak Ravid)

- Nissim Ben-Sheetrit, the Director-General of Israel's Foreign Ministry sent a two-page letter to the (still) Foreign Minister Avigdor Lieberman, Diplomatic Challenges and Reorganization of the Foreign Ministry detailing the views of its professional staff & identifying three issues the new government will face within weeks of its formation :
    - the UN Security Council resolution initiated by France on the Palestinian Authority's request for full UN membership, that sets parameters for resolving the core issues for reaching a 'permanent status arrangement' between Israel & the Palestinians;
    - the Palestinian law suit against Israel at the International Criminal Court; and
    - the pressure on Israel about its nuclear program by the Review Conference of the Treaty on Non-Proliferation of Nuclear Weapons later this month, & the *what he calls* anti-Israel initiatives by the IAEA;
- He called for a quick repair of the US-Israeli ties since close coordination with the US is key to Israel's ability to cope with all its diplomatic & security challenges; and
- Finally, he informed the Minister that Mossad had become the latest in almost a dozen government agencies seeking to usurp-, interfere with-, the Ministry's responsibilities.

Meanwhile this was Day 22 of Netanyahu's initial 28-day mandate.

PUTIN LIFTS BAN ON DELIVERY OF S-300 MISSILES TO IRAN
(Yahoo! News, Vladimir Isachenkov)

- In 2007 Putin agreed to sell Iran a US$800MM S-300 *ground-to-air* missile system[8], with missiles with a 200 kms/125 miles range capable of tracking & targeting multiple targets simultaneously, only to renege in 1990, after strong US pressure *& the introduction of UN sanctions on Iran*. But on April 13th he lifted the ban, a move welcomed by Iran but unnerving Israel & prompting a phone call from John Kerry to his Russian counterpart, Sergey Lavrov, telling him this endangers the lifting of sanctions under a final nuclear agreement & raises questions about Russia's role during the P5+1 negotiations with Iran. While Lavrov defended the move, saying "The S-300 system is exclusively a defensive weapon which can't serve offensive purposes and will not jeopardize the security of any country, including, of course, Israel", Israel's Minister of Intelligence, International Relations and Strategic Affairs, Yuval Steinitz, opined the Iran framework agreement had cleared the way for this announcement & "will …spur its aggression."

The bottom line is that Russia needs the money. And while the first half of Steinitz's statement is nonsense (quite the opposite, Putin seems to have 'sandbagged' the White House), there could be something to its second half; for once Iran has an effective ground-to-air missile system, the success of any Israeli and/or US bombing raid on Iranian nuclear targets would be seriously

[8] That in years gone by it has sold to, among others, Algeria, Azerbaijan, Armenia, Belaurus, China, Egypt, Greece (a member of NATO!),Kazakhstan, Slovakia, Ukraine, Venezuela & Vietnam.

compromised. Meanwhile, Iran has long been believed to have bought some S-300 capability second hand from third countries & to have been developing its own S-300-type missile system.

GREECE MAY HAVE BLOWN BEST HOPE FOR A DEBT DEAL (Reuters, Paul Taylor)

- It has alienated its Eurozone partners by denouncing austerity, demanding German war reparations, cosying up to Putin, and by Finance Minister Varoufakis' behaviour & idea of swapping debt held by governments for GDP-linked-, & those held by the ECB for perpetual-, bonds. Tsipras c.s. have so thoroughly shattered Greece's creditors' trust that solutions that may have been on the table a few weeks ago now are out of reach; thus while last summer there had been talk with Prime Minister Antonis Samaras to let Greece to pay off its costly IMF debt *from the proceeds of cheaper Eurozone loans*, one EU official says "Now it's a non-starter ... There's just no appetite in the eurozone for a grand bargain to take over Greece's debt to the IMF and the ECB." Instead creditors like Germany, Netherlands & Finland now **want** the IMF involved to enforce economic reform & fiscal discipline; for they don't trust Greece to keep its word nor the EC to hold it to it and, according to Miranda Xafa of the Waterloo, Ontario-based Centre for International Governance and Innovation (CIGI) "prefer to provide debt relief on an annual basis ... (to) keep leverage on Greece to stick to the program." And while Athens was encouraged by Ireland & Portugal having won EU approval for paying off their costly IMF loans, it conveniently ignored they could do so because they had been able, *by their governments' actions*, to regain access to global capital markets since, according to Elena Daly, a principal at the Paris-based EM Conseil souvereign debt advisory service, "Ireland and Portugal are governments in difficulty, but ... not difficult governments."

A growing sense among EU governments is that a "Grexit" may be a lesser risk than "political contagion" (that going easy on Greece will boost popular support for non-traditional/extremist parties in the elections slated for 2015 in the UK, Denmark, Portugal, Poland & Spain[9], a concern possibly heightened by the Dutch provincial elections last month[10]). Tsipras may have few options other than to call a referendum on whether the Greek citizens want to stay in the Eurozone & accept change and/or form a national unity coalition that may split his party & would involve giving a major role to former Prime Minister Antonis Samaras (as Finance Minister?).

PUTIN REFUSED POROSHENKO'S OFFER TO 'TAKE DONBASS'
(Moscow Times, Ivan Nechepurenko)

- Quoting an unidentified source, Forbes on April 6th reported that last March 19th Putin had told the board of the Russian Union of Industrialists and Entrepreneurs[11] that during the February peace talks in Minsk that led to the Minsk 2 agreement, Ukrainian

---

9 With those in Portugal & Spain of particular concern, because they are two of the PIIGS countries popular opposition to austerity there has spawned Syriza-like anti-austerity movements there)

10 That will determine the composition of the country's Upper Chamber, in which the two left-of-centre & right-of-centre parties of long standing that are partners in the coalition government in power since 2012 got 'their head handed to them', with voter support for the former going from 19.8% to 15.6% & for the latter from 18.9% to 11.1%, with every one but one of the other ten or so minor parties attracting more voter support, incl. The Party for the Animals that went from 1.2% to 3.2%

11 Membership of which consists of the CEOs of Russia's 26 top companies (all whom likely more monopolistically-, rather than than entrepreurially-, inclined).

> President Petro Poroshenko had offered to let him “take the Donbass” & that he had told him “Are you out of your mind? I don’t need the Donbass, if you don’t need it, declare it independent.” According to the Board’s Chairman this was not what Putin had said, to a Ukrainian Foreign Ministry spokesman that Putin had misunderstood Poroshenko who had said, in Ukrainian rather than Russian, not to ‘take it’ but to ‘get out of it”, & to the Forbes’ source that Poroshenko had asked Putin to take financial responsibility for the region to which he had responded this would only happen if Donbass were to join Russia but that, as long as it remained part of Ukraine, the Ukrainian authorities had to do so.

Looking at it dispassionately, ‘offloading’ Donbass onto Moscow could a blessing in disguise for Kyev; for it would make Ukraine more ethnically homogeneous, the Donbass coal mines are a financial ‘black hole’ &, it could then, hopefully with more Western support than it has been getting, concentrate more of its limited military assets further South, around Mariupol, where Putin is trying to seize enough territory for a ‘land bridge’ between Russia proper & Crimea. Getting stuck with Donbass is Putin’s worst case scenario; for it would force cost his treasury money, make Ukraine more pro-Western & less likely to be drawn into Moscow’s orbit, and effectively move Western influence several hundred miles closer to Russia’s heartland.