The 223,000 BLS' new job growth number for June was in the market's comfort zone, slightly more so than the 0.2% decline in the official unemployment rate to 5.3%. But, while the total number of unemployed declined 375,000 to 8.3MM & that of long-term (i.e. over 27 weeks) unemployed by 381,000 to 2.1MM, the participation rate hit a new multi-decade low 62.6%. And unemployment among teenagers & blacks (at 18.0% & 9.5% respectively) remained stubbornly high, as did the number of those (8.1MM) who, not by their choice, only have part-time jobs.

While he markets it as 'democracy in action', Prime Minister Tsipras' call for a July 5th referendum on the latest Eurozone proposals (*that are, however, supposedly 'no longer on the table'*) looks like what in North American football is called a "Hail Mary" pass, a move with a microscopically small chance of success in the closing seconds of a game because it's the only thing left to do that, long shot as it may be, might pull the coals out of the fire. For his choice as Finance Minister, the soi-disant expert on gaming theory, poisoned the creditors' well for him, his party is not behind him & fracturing beneath his feet, he & his predecessors, unlike their Irish-, & to a lesser extent Spanish-, & Portuguese-, counterparts overpromised & under-performed and, last but not least, he has run out of money (& illiquidity is always far more dangerous than insolvency). So he is calling the bluff of the 60+% of his compatriots who have told pollsters time & again that they want Greece to stay in the Eurozone (albeit only because they expect this to result in the rest of Europe continuing to underwrite the lifestyle to which they believe themselves entitled), using 'national pride' to justify doing so & having no Plan B other than to say he will resign if the vote goes against him - *while the common wisdom is that the outcome of the referendum will be Yes, the vote distribution in last January's election suggests that a majority of voters then supported parties with populist-, nationalist-, and/or communist platforms that had one thing in common, opposition in principle to austerity.*

And a poll taken June 30th/July 1st (with a 3.1% margin of error) suggested the referendum's outcome was too close to call; for while 7.4% said they wouldn't bother voting or would spoil their ballots & 10.9% that they were still undecided, only 41.5% said they would vote YES & 40.2% NO – *does the differential between this poll & those that for months found 60+% support for staying in the Euro suggest the Greeks aren't buying the European leaders' line that voting NO equates to voting to leave the Eurozone?*

As to the possible impact of a Grexit on the global financial system, it will be far less now than it would have been three years ago; for while a major share of Greek indebtedness was then in the banking system, today of its total 315.5BN Euro indebtedness 221.7BN Euro (70.3%) is held by various EU governments & agencies & another 7.9% by the IMF.

Gazprom last year accounted for 8% of Russia's GDP. But this year that will be much less. For its revenue from gas sales to Europe, that accounts for over half its total revenue flow, has been hit by a double whammy : YTD volume has been down as much as 50% YoY, while the price received, that is tied to the price of oil with a six months lag, after declining only marginally (by 0.7%) during the second half of last year, cratered 28.5% in the five months ended last May.

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Thursday July 2nd, 2015

PUERTO RICO'S GOVERNOR ON NEED TO POSTPONE DEBT PAYMENTS FOR YEARS : 'IT'S ABOUT MATH' (WP, Michael A. Fletcher)

- In a June 29th TV address Puerto Rico Gov. Alejandro Padilla said the island cannot pay back (*or cannot service?*) its US$72BN debt, saying it needs to postpone its debt payments for several years & "This is not about politics ... It's about math" (*a misrepresentation; for in Puerto Rico, as in much of the democratic world, politicians have for years had a head-in-the-sand disregard for fiscal realities & been rolling fiscal problems down the road for later generations of office holders & taxpayers to deal with*).
- This may lead to a (*US domestic?*) financial crisis (*municipal bonds once were among the 'safest of investments'*) & higher borrowing costs for all junior governments in a 'muni' market already rocked by the California cities of Stockton & Vallejo, & in 2012, Detroit, declaring bankruptcy. But Puerto Rico's predicament will be more unsettling; for the sheer size of its debt makes the others look immaterial (at US$73BN it is *in absolute terms over* 4x the size of Detroit's *although on a per capita basis it is not all that different*) & because, as is the case for the states, US law makes no provision for it to go the Chapter 9 bankruptcy route to deal with its debt problem in an orderly, *& transparent* manner. And to complicate matters even more, its constitution requires it to meet its GO (General Obligation) bond obligations before it paying wages & salaries.
- *This has been a long time in coming, although* the government long kept the wolf from the door by spending less & borrowing more (even though its near-junk credit rating made the latter increasingly costly). But now, while its total debt is still 'only' 69% of its GDP That would be quite respectable for a souvereign government, its per capita public debt load of US$15,637 compared to the 50-state US$1,012 median, and is triple, or more, that of the five most indebted states (Connecticut - US$5,491, Massachusetts - US$4,887, Hawaii - US$4,867, New Jersey - US$4,138 and New York - US$3,092).

*Puerto Rico bonds slid almost 20% in two days & bond insurers' stocks 23%. And this may come to a head quickly since the government & PREPA, its publicly-owned electric utility, had US$2BN in debt service payments due on July 1st, with the latter believed unable to make good its US$400MM share thereof. And while the White House said it should not expect a bailout, it did express support for the bill in the House that would extend bankruptcy protection to its public corporations (that owe about one-third of the total), a measure many Republicans oppose since "it would give them a free pass for decades of mismanagement"' (people who live in glass houses shouldn't throw stones; Matthew 7:3 also applies)[1]. And while New York-based fund manager Oppenheimer, with US$4½BN of Puerto Rico paper on its books its largest creditor, maintains Puerto Rico can "service its debt while providing essential services to its citizens **and** growing its economy" (bolding mine), S&P's view is that "a default, distressed exchange or redemption of Puerto Rico debt within the next six months seems inevitable". And while the governor told the NYT "we have to make the economy grow. If not, we will be in a death spiral", it may already be in the early stages of the latter; for its population is aging &, for the first time ever, declining, and the number of, mostly young, people leaving each year has more than doubled since 2000, to 50,000 last year (& with many of them now living in Florida any patent Republican move to oppose help for the island could affect the party's fortunes there in the 2016 election). Finally, while all eyes right now are focused on the Greek tragicomedy, it may well be*

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1 It is interesting to note in this context that Jim Grant, the 69 year-old iconoclastic founder, owner & publisher of the twice-monthly Interest Rate Observer, who in the past 32 years has generated more off-the-beaten-path views that were subsequently proven to have been right on the money than most, this week on CNBC took New Jersey Gov. Chris Christie to task for throwing his hat in the Republican Presidential hopefuls' ring when he has done such a poor job of managing the state's finances that the market has started to severely discount the price of its no-GO revenue bonds (those are not supported by the state's tax revenues) and that in Grant's words, it has become a "wonderful window" on the credit difficulties faced by governments around the world.

shown in hindsight to have been a mere byplay to a Puerto Rico meltdown - In the event a last minute deal was cobbled together, with help from the bond insurers that have a big stake in this, that allows all involved to claim that the Commonwealth had met its payment obligations in full & on time but that, from the little known about it, involved much papering over of cracks.

<u>CONGRESS RENEWS 'FAST TRACK' TRADE AUTHORITY</u> (USAToday, Susan Davis)

- Until 2007 President George Bush had TPA (Trade Promotion Authority) "fast track" powers that enabled him to negotiate trade deals with other countries that, when submitted to Congress for its approval, it could only approve or reject 'in toto' within a certain time frame, but not amend in any way and/or delay unduly. Obama needs this authority to conclude the TPP (Trans-Pacific Partnership) trade agreement[2] with eleven other Pacific Rim countries[3] that between them account for 40% of the world's population & 60% of global GDP[4] (*& that Washington looks upon as a significant counterweight to China's growing influence in the region*). *On June 12th,* House Democrats, at the behest of the unions, sought to slow down the TPA legislative process by voting down a critical companion bill [*with former House Speaker & now House Minority Leader Nancy Pelosi (D.-Cal) declaring dramatically "Whatever the deal is with other countries, we want a better deal for American workers"]*, but some clever strategizing by House Speaker John Boehner (R.-Ohio) & Senate Majority Leader Mitch McConnell (R-Ky) subsequently outmanoeuvered them, thereby handing their arch enemy, President Obama, a significant second-term victory twelve days later.

This was not good news for Prime Minister Harper. For Canada has few options but to join this new club since it will for all intents & purposes supersede NAFTA (& Harper as much as conceded that when he observed "These negotiations are going to establish what will become the basis of the international trading network in the Asia-Pacific ... It is essential, in my view, that Canada be part of that, that the Canadian economy be part of that"). And while from the outset it has been clear that the price of admission for Canada would be a dismantling of its highly protectionist "supply management"/quota system for milk, poultry & eggs that the Trade Minister of New Zealand (whose government, along with Australia's, earlier discarded their own supply management systems & have since seen their dairy exports grow) said earlier this year "looks like it belongs in the former Soviet Union". And the props were totally knocked out from under Ottawa's supply management case when earlier this year Japan, reluctantly & domestically controversially, agreed to dismantle some of the high tariff walls protecting its farmers. With an election slated for October 19th, Harper must have hoped to delay tangling with the farm lobbies on the quota issue after an election that increasingly looks it will not be a 'cakewalk for his party.

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2 For no foreign government would waste time negotiating a deal that then would have to run the gauntlet of Congressional nitpicking, vested interest promotion, log-rolling & extreme partisanship.

3 The eleven other countries are Australia, Brunei,Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru & Vietnam. Four others (Columbia, Philippines, South Korea & Taiwan) have indicated an interest in joining, and at least five others (Bangladesh, Cambodia, India, Indonesia & Thailand) are deemed longer-term prospects to do so.

4 This is wild exaggeration : the twelve countries in question account for about 12% of the world's population & 30% of global GDP; the numbers used here likely include the populations & GDPs of the countries that may, or may not, join the TPP in the future.

<u>GREECE CRISIS COULD BE A SARAJEVO MOMENT FOR THE EUROZONE</u>
(The Guardian, Larry Elliott)

- The 1914 assassination of Austrian Archduke Franz Ferdinand & his wife, *an event of limited intrinsic significance*, nevertheless led to WW I six weeks later. Greek Prime Minister Alexis Tsipras' call for a referendum on the Greece's creditors' bailout terms could similarly affect the Euro: for it is no longer about who may have overplayed his hand, *or who should have done what when*, but about the very future of the Euro.
- The troika that has led the negotiations (the IMF's Christine Lagarde, the EU's Jean-Claude Juncker & the ECB's Mario Draghi) were certain on June 25th that, *with time running out*, Tsipras would fold when presented with their final 'take-it-or-leave-it' offer And they now expect Greek voters to say YES, rather than NO as Tsipras c.s. want them to, so as to leave him with few options other than to *resign or* call an election that they expect would see him being replaced by a more amenable-to-reason government headed by the New Democracy Party (*or, if he stayed in power, could be said to have walked away from, rather than been pushed out of, the Eurozone, a win-win for them*.
- In recent weeks the Greek banks have been able to stay open only because the ECB provided them with the cash they needed to meet *accelerating mass* deposit withdrawals *(with the necessary bank notes for this purportedly brought in by the plane load every night*). So the decision facing the ECB was whether to cut off this funding before the country's bailout program officially ended (*midnight*) Tuesday (*the same day Tsipras had to come up with the money to make the 1.6BN Euro "balloon payment" of those due earlier this month to the IMF, the need for which Mme Lagarde said earlier last month said was 'irrevocable', although when Greece didn't pay, the IMF said it was merely "in arrears" (not in default*). While the ECB wisely didn't do so at first, it was later forced by Germany to announce it was 'capping' its funding at its present level on the grounds that European/German tax payers shouldn't be further exposed to the risk of a Grexit.
- Meanwhile, the blame game has begun. The creditors say their offer would have provided Greece with secure financing in return for reforms & budget savings that would hasten the country's economic recovery, while Tsipras called the latest troika proposal an "extortionate ultimatum ... of strict and humiliating austerity without end", a spokesman for *Finance Minister* Varoufakis said the referendum will mean the end to "five years of waterboarding", & the man himself told the media "Greece owes money to one part of the troika and we are owed money to another part. They will have themselves to blame if the IMF cannot be paid", *a populist misrepresentation of the situation unworthy of anyone with a Ph.D. in-, & a one-time teacher of-, economics*.

After the referendum was called Lagarde said there's no longer anything 'on the table' & that Greece should not expect the same terms to be available after it, and followed that up on July 1st by saying Greece would have to reform its economy before its creditors would give it a break on its debt. And while she avoided any direct criticism of Tsipras, she did point out (correctly so) that the Greek economy had made progress on many difficult reforms & had started to return to growth until Tsipras came to power, after which there had been "massive backtracking". And when asked for comment on his latest letter asking for a new bailout on terms that accepted many of the creditors' terms, she dismissed it by saying "We have seen so many' latest' offers, which themselves have been validated, invalidated, changed, amended ...that it's quite uncertain exactly where the latest proposal stands ... (but) there is (now) a democratic process ... underway ... that should result in ... more clarity, less uncertainty as to what is the determination of the Greek people and what is the authority of the government" - i.e. she (& the troika?) has no more of a Plan B than Tsipras, and like him is counting on unconditional surrender.

<u>ALEXIS TSIPRAS MUST BE STOPPED : THE UNDERLYING MESSAGE OF EUROPE'S LEADERS</u> (The Guardian, Ian Traynor)

- On Monday *June 29th*, the day before Greece's bailout was to end & its financial lifeline melt away, Europe's big guns, in turn ashen-faced, resigned & desperate, pleaded with Athens to pull away from the abyss, *& then* lined up to tell the Greeks that voting NO in a referendum meant saying goodbye to the Euro, & to attack Tsipras, whose brinkmanship had gone far beyond anything they had believed possible. And while Athens insists this is not what's at stake in the highly complicated referendum question it has drafted, French President François Hollande spoke for the Eurozone leaders when he said "It's the Greek people's right to say what they want their future to be ... It's about whether the Greeks want to stay in the Eurozone or take the risk of leaving". And Germany's Vice-Chancellor Sigmar Gabriel[5] opined Europe is facing its worst crisis since the EU's founding treaty was signed 58 years ago, became the first senior EU politician to publicly voice their commonly-held view that the Greek leader poses a threat to the European order since his radicalism threatens mainstream European politics & seeks to force a rewriting of the rules for the single currency and, standing alongside his boss, Angela Merkel, he too said voting NO on Sunday meant voting "against remaining in the euro".

While in Merkel's view Tsipras can simply not be allowed to prevail, all this bullying may prove counterproductive.

<u>GREEK REFERENDUM QUESTION POSES PROBLEMS</u> (EuoObserver, Eric Maurice)

- The ballot question the government published on Monday June 29th has on its left side "Should the proposal ... submitted by the European Commission, the European Central Bank and the International Monetary Fund at the Eurogroup of 25 June 2015, which consists of two parts that together constitute their comprehensive proposal, be accepted? The first document is titled 'Reforms for the completion of the Current Programme and beyond' and the second 'Preliminary Debt Sustainability Analysis' ". And to its right a choice is between "Not agreed/No" on top & underneath it "Agreed/Yes" And while EC President Juncker shortly before the ballot question was made public told the Greeks "You must vote Yes[6], independently of the question asked", the Syriza Party's official referendum poster bellows "No, for democracy & dignity".
- One problem is that the documents it mentions have yet to be made public. Another that they are in English, the language used in the talks but one alien to many Greek voters. Thidrly, while a Greek official conceded a hard copy translation may not reach all voters in time, he said "There is Internet" (*in 66% of Greek households*). Fourthly, the second document is highly technical, intended as it was to be the basis for a discussion among experts on debt relief after the current bailout was concluded (*on June 30th*). The fifth

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[5] He is also leader of the Social Democratic party, the Christian Democratic Party's junior 'grand' coalition partner, and Minister of Economic Affairs & Energy. While his party has been 'softer' on Greece than the government & the german people as a whole, now even some of its senior politicians are losing patience with Tsipras c.s., as witnessed by the following comments emanating from them : "Faroufakis is a first-class political stray bullet", "the Greek governments upsets us excessively", & "We have shown solidarity with Greece ... but we expect them to do their homework".

[6] An inept choice of words : using the word "must" is will likely prompt quite a few Greek voters still on the fence to vote NO.

relates to the uncertainty as to whether the documents the Tsipras government want their compatriots to vote on are still on the table (*according Mme. Lagarde they aren't*), with an EU source saying they were "part of several work-in-progress documents ... the institutions submitted to the Eurogroup on Thursday *June 25th* ... The package of documents was never endorsed by the Eurogroup. They are therefore not a formal proposal" (thus contradicting Juncker who at his June 29th press briefing referred to "the proposal we published yesterday" (*???*) & then to the "three institutions' proposals we wanted to discuss at last Saturday's Europe group … with our Greek friends."). And, finally, while several European politicians have said the implications of the referendum result are wider than the question itself, according to George Katrougalos, the Deputy Minister for Administrative Reform, "We see the referendum as *merely* a continuation of the negotiations by other means."

What initially was merely like 'two ships passing in the night", it has since, to put it crudely, turned into a world class 'cluster fuck' (EuoObserver is a Brussels-based independent online newspaper founded in 2000 to "support European democracy by giving people the information they need to hold the EU establishment to account").

RUSSIA REVIEWING LEGALITY OF BALTICS' INDEPENDENCE FROM SOVIET UNION (Radio Free Europe)

- Last year Russia's Prosecutor-General ruled, quite conveniently, that in 1954 Crimea had been handed over illegally to Ukraine And on June 30th a spokesman for the office said it was now reviewing the legality of the 1991 Soviet Union decision to grant the Baltic republics (*Estonia, Latvia & Lithuania - population 6.3MM*, *all now members of NATO*) their independence (which had reversed the illegal annexation by Russia of these three countries as part of the Nazi era 1939 Molotov-Ribbentrop Pact). This move was prompted by two members of the Duma from Putin's ruling United Russia party who claim the move had not only been illegal but had done "great harm" to the country & hence constituted "state treason". And while Russia's Foreign Minister Sergei Lavrov told reporters in Vienna this was news to him & "What I know is that we have diplomatic relations and interstate treaties with these countries", their leaders reacted angrily to this, with Lithuania's Foreign Minister calling it a "provocation".
- Moscow lawmakers have grown more assertive in challenging the post-Berlin Wall fall world order; thus there have *now* been a number of bills in the Duma calling historical facts into question to the point where a group of lawmakers last year asked prosecutors to look into the decisions by Gorbachev that led to the Soviet Union's dissolution.

The next day a Putin spokesman said the Kremlin hadn't been aware of this initiative, and the Prosecutor-General's office called it "ludicrous" & said it was only acting on the two law makers' formal request because it was legally obliged to do so. All these denials seem, however, disingenuous; for it is hard to believe that two of Putin's junior henchmen would have taken such a step without the prior approval-, if not at the instigation-, of 'Head Office'. But this is part of a two-pronged Putin strategy to keep the three governments involved, who are painfully aware of where the loyalty really lies of their ethnic Russian minorities (most of them carpet baggers from the Soviet Union, or their descendants) & who worry that he at some point will decide their rights need "protecting" (as in Ukraine & Crimea), and to foster support at home for his regime, & distract the Russian hoi polloi's attention from the domestic situation, by appealing to their never-far-below-the-surface strident nationalism & their dream's of their country's past glories.

UKRAINE TOSTART DEBT RESTRUCTURING TALKS NEXT WEEK (Radio Free Europe)

- After weeks of arguing in public, Ukraine & those of its creditors represented by the Ad Hoc Committee of Ukraine's Bondholders (four US funds holding Ukrainian bonds with a face value of US$8.9BN who 'are in contact' with other smaller holders that hold another US$1+BN) met on July 1st at the IMF in Washington & agreed to meet next week to start negotiations on restructuring the country's debt, saying the talks will be kept confidential "to allow principal-to-principal negotiations on the substance of a possible solution."

*The IMF has a dog in this fight since it made its US$17.5BN bailout program for Ukraine last March conditional upon it getting US$15.3BN in debt relief over four years. The biggest stumbling block seems to be that these creditors' preferred option is to get there by extending debt maturities while Ukraine (& the IMF?) want to see at least part of the debt written off (which should not be beyond the realm of the possible since the funds, being what they are, likely bought at least some of their bonds at deep discounts from their face value). Last May 29th Ukraine rejected this Committee's proposal to reduce its debt burden by slightly more that the IMF's US$15.3BN requirement because it didn't like some of its details & because of Finance Minister Natalie Jaresko's insisted, with backing from her German counterpart, that any restructuring must include maturity extensions **and** coupon reductions **and** principal write-offs (with her likely feeling her oats because so far Ukraine had not defaulted on any of the 29 bond issues & loans that are up for restructuring, & had just done a US$1BN, five year bond issue backed by USAid that will give it enough money to meet its debt service obligations until a US$3BN bond issue held by Russia matures in December.*

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With the exception of some in Calgary office towers, most Albertans, incl. their new government, seem to be in denial, thinking that what the Province is now going through is merely a passing economic squall (*while the increase in the rig count in the Middle East & the supposed mindset of the Saudis reported on last week suggest the price of oil may not recover significantly any time soon, if ever*). For there are disconcerting factoids all over that decision makers at all levels will only ignore at their peril. Thus all over Edmonton, 'for lease' signs on small commercial premises are proliferating. Edmontons "pickers", those who hunt for drink containers that can be cashed in, say they are harder to come by this year than last (*suggesting that, feeling more pinched financially, home owners & apartment dwellers are cashing them in themselves?*). While a recent report commissioned by the oil industry said that Fort McMurray workers' camps are still well filled, this was contradicted by a reliable source in the oil service industry who had been in one such camp two weeks ago that had 17 workers living in a 700 bed facility. A new Lloydminster hotel, that not long ago was filled to capacity, on June 30th had just five cars in its parking lot while one of its two restaurants open only for business on Tuesdays & Thursday for a buffet luncheon, and the other only for dinner on Saturday nights. The unemployment rate is up, as is the number of Albertans getting unemployment benefits, & the net population inflow into the province is shrinking as more people are leaving (*with the ones leaving likely more desirable 'asset' from a provincial economy perspective than many of the newcomers*). The outlook for the farm economy is not good : as of June 23rd 'surface soil moisture conditions' were 30% poor, 41% fair, 26% good & 3% excellent (which does not make for a good-, never mind a bumper-, crop), with cattle farmers especially hard hit, with hay & pasture conditions being 46% poor, 35% fair, 18% good & 1% excellent (with some, for lack of grass in their pastures, being forced to turn their herds into their hayfields, which will further affect the number of cattle they will be able to 'winter over'); and while agriculture may account for only 3% of the Province's $365BN GDP, it is still the staff of life for much of rural Alberta (*and with today's commercial-type farming operations featuring high overheads, even a small decline in yields will* *have disproportionate impact on the only thing that **really** matters, farmers' bottom line*. Last but not least $103BN (28%) of Alberta's 2014 GDP was accounted for by investment, of which, according to CAPP (Canadian Association of Petroleum Producers) two months ago, $69BN was accounted for by the oil & gas industry (that it expected to decline this year 52% YoY to $33BN – which if it were to materialize would see the provincial GDP shrink far more than even the wildest bears currently envisage -, & that was before the new NDP government started making good on its election promises to hike corporate-, & high income earners-, taxes, and launch a royalty review). And while Edmonton is still in the midst of a downtown commercial-, & condo-, building boom, urban construction cranes tend to be a 'lagging' indicator &, more often than not, precursors of higher vacancy rates within the foreseeable future The only 'saving grace' may be that at least a portion of the resultant job losses a & decline in consumer spending will be exported to other provinces (especially in Atlantic Canada) on the shoulders of 'commuter' and/or temporary workers,' only a small portion of whose wages was spent in the Province in the first place.