Chicago wheat futures jumped 29% in the past month & Winnipeg canola prices 13%, due to Canada's wheat output expected to fall 21% YoY to 23.1MM tonnes & canola 19% to 12.5MM tonnes, both post-2007 lows, and concerns about US & European crop conditions

The Commerce Department reported that June sales of new single-family homes slipped 6.8% MoM (to 482,000 saar), a post-November 2014 low, while the consensus had been for a 6.4% increase to 550,000 (this was after the Department had cut its preliminary May number from +2.2% to -1.1%). And, while Amherst Pierson Securities Chief Economist Stephen Stanley, echoing many economists' views, told clients "I view today's reading for the typically volatile new home sales data as statistical noise...", since then pending home sales, that lead actual sales by one-to-two months, were reported to have been down MoM in June, for the first time YTD, by 1.8% from a May number that had been revised downwards from a preliminary 0.9% to 0.6%.

Puerto Rico has a US$58MM debt service payment due on Saturday August 1st that, because that is not a business day, will be payable next Monday, August 3rd. The market expects it to be unable to do so (which could have interesting, albeit not financial system-friendly, implications).

In the week ended July 24th the Bloomberg Nanos Canadian *Consumer* Index fell almost three points, to a post-May 2013 low 53.4, after, the week before, the Bank of Canada, in response to evidence the economy is struggling, had cut its key interest rate to 0.5% (and the latest news was that GDP growth in May had been in negative territory for the second month in a row which, given that it had been negative in the First Quarter, enhances the likelihood it will be negative for the quarter as a whole, meaning that Canada would be officially 'in recession, making Canada's Minister of Finance look silly, & creating another pebble on Prime Minister Harper's road to this fall's federal election).

Many Albertans are ignoring what is happening in their economy to the point that in Edmonton house prices are still rising even as FOR SALE signs are sprouting on lawns like mushrooms on a pile of horse manure. And Alberta's food banks are doing a booming business : the number of visits to Fort McMurray's is up 75% YOY, most others have seen traffic increases of over 25%, & the university food banks are distributing 50% more food hampers than a year ago.

Last week, on a trip to Toronto, I was not amused when my fare included as high as ever a "fuel surcharge", full well knowing that, if the oil price were to recover, it would be increased from its current level. And earlier this week I encountered two possibly significant economic 'straws in the wind'. On Monday, while waiting to board a Greyhound bus to Whitehorse (Yukon Territory) with my 15 year-old grandson, I warned him that usually every seat in the 55-seat bus is taken until at least Grande Prairie, regional centre of oil & gas industry activity, five hours Northwest of Edmonton; but when the bus left Edmonton just eight seats were taken, & only four by people headed for Grande Prairie, indicative of the slowdown in the industry. There were never more than a dozen passengers on it during its 2000n km/1,250 mi. journey &, according to the drivers, the trailers the buses pull, that a year ago were typically filled with freight destined for towns along the way, are now two-thirds empty, *suggestive of a more widespread economic slowdown*. At these capacity utilization rates the Company is losing its shirt & has started cutting corners, likely to be followed in the not too distant future by it shutting down routes, to the detriment of the economy of the many small towns along its routes.

GLEANINGS II - 625
Thursday July 30th, 2015

U.S ECONOMY GROWS AT RATE OF 2.3% (Shanghai Daily/AFP)

- The Commerce Department said on July 30th that in the Second Quarter GDP grew at a 2.3% annual rate (the best quarterly outturn since the 4.3% in 3Q/14) & revised its GDP growth number for the First Quarter from -0.2% to +0.6%. Consumer spending had expanded at a 2.9% annual rate, a big improvement over the First Quarter's 1.8%. And it also released GDP growth revisions for the three years to this year, that showed its economy had grown at a 2.0% annual rate, down from the 2.3% previously reported (due to more frugal consumers-, & less spending by state & local governments-, than believed earlier), making the recovery from the recession the slowest since WW II.

The Street's consensus forecast had been 2.5%.

DEMAND FOR SAND CREATES A NEW GOLD RUSH (G&M, Omar el Akkad)

- A decades-long urban construction boom hugely boosted demand for sand & made it a sought-after commodity, prompting illicit mining to the point where in 2003 California fined the British construction materials giant Hanson Plc US$200MM for a US$100MM theft of sand from San Francisco Bay, where beaches are eroding faster than anywhere else in the world, endangering a major highway & hundreds of millions of dollars of sewage infrastructure. And fracking has made matters worse, especially since, after a couple of major fracking companies in 2013 reported that injecting more sand into the ground had boosted oil/gas production, companies that once used one million pounds of sand per well are now using seven million pounds, or more. So in the past five years the price of silica sand has gone from US$35 to over US$56, the number of sand mines in Wisconsin, the primary source of the fracking sand of choice has gone from 10 to over 100 (with the Land Stewardship Project reporting that 40% are seriously violating the state's natural resource regulations), & a Wild West environment has developed across the Midwest with 100's of new sand mines having sprung up, often operated illicitly by inexperienced people, with land owners having learnt there is more money in mining sand than in growing crops.

While some of the states involved have imposed a moratorium on sand mining while they study the implications thereof, others have eased whatever little regulations they may have had so as to attract sand mining companies, and the jobs & tax revenues they generate.

WHY THE TPP IS ALL ABOUT JAPAN FOR CANADA (G&M. Barrie McKenna)

- While cast as a showdown between Canada & the US over its protected dairy & poultry industries, what it is ***really*** all about for Canada is about access to the Japanese market, the third largest in the world. And there have been warnings that unless Canada makes big concessions in agriculture at this week's meeting of trade ministers in Hawaii, it could be shut out of the deal, meaning Canada would lose billions of dollars in sales to Japan (better access to the other ten countries has limited benefit for it since it already has free trade agreements with the US, Mexico. Chile & Peru, trades fairly freely with Australia & New Zealand, and exports little to Brunei, Malaysia, Singapore & Vietnam).

With an election this fall, this is a lose-lose situation for the PM, regardless of the posturing by his Minister of Trade ahead of this week's meeting, especially since it won't just be a matter of the US taking a hard line but of Japan, Australia & New Zealand doing so as well; for if he messes with supply management he will upset the farm lobby &, if he doesn't, the business one.

<u>CIVIL WAR STRAINS SYRIAN ARMY</u> (The Telegraph, Nabih Bulos)

- Syrian President Bashar al-Assad's regime in recent months has lost a series of battles & now controls just 25% of the country's land mass (which, however, holds a majority of its population). And on July 26th, in a remarkable frank assessment of the strains afflicting the Syrian army after four years of civil war for local dignitaries televised from the capital Damascus, he conceded having been forced to give up territory because the army was suffering a manpower shortage, saying that it could not fight everywhere & that thinking we "will be victorious in all the battles everywhere at the same time ... is unrealistic and impossible ... we are forced to give up areas to move ... forces to areas that we want to hold on to." Furthermore, that "we are in a fateful phase with no half-solutions ... Are the Syrian armed forces able ... to defend the homeland? Yes, it is certainly capable ... But the army in the first degree is a matter of manpower which would then utilize the weapons and ammunition. Everything is available but there is a lack of manpower ... (Our sister nation) Iran only gave us military expertise[1] and, as for our loyal brothers in the Lebanese resistance they fought with us ... their blood combined with the blood of their brethren in the army and the armed forces."

This sound like a desperate cry for help & a call to arms to all men of goodwill.

<u>THE DEAD CAT BOUNCE</u> (Vue, Gwynne Dyer)

- The Chinese government lives in permanent fear of anything that may prompt its people to turn against it, climate change, slowing economic growth, & now a fall in the stock market. For when the only thing that gives a dictatorship credibility in their eyes is its ability to keep living standards rising, any kind of change is frightening'; hence its reaction to the recent fall in its two main stock markets.
- China has a capitalist society, albeit a highly distorted one, & stock markets, that *can, and will,* go up & down without governments normally intervening, are an integral part thereof. By *mid-June* they had been up 150% YoY, a clearly unsustainable pace, especially so with the economy slowing; so a correction was inevitable &, when it came, Beijing *panicked &* intervened big time, first slashing interest rates & then forbidding holders of more than 5% of a company's shares, & all foreign investors, to sell their shares for six months. While this did succeed in keeping prices from falling *further, & actually regaining a little ground*, this may be what traders call a "dead cat bounce", a recovery from a (*temporary?*) bottom, [orchestrated by Beijing because many of its 90MM private investors in stocks are older & not well-educated (two-thirds of them didn't finish high school), who bet their life savings on the stock market &, according to the state media, have seen an average 420,000 yuan (US$67,000) of them go up in smoke. So a government that feels insecure & is in constant fear of street protests intervened in a pattern dating back to 2008 when China avoided the recession by flooding the

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[1] This may not be quite correct; for there has been evidence that, apart from having sent over Revolutionary Guard members to act as military advisers, it has also regularly sent over Shia irregulars from Iraq & Afghanistan.

economy with cheap money. While this led to few people losing their jobs, it created *a building boom* & a housing bubble that now has started to deflate, with millions of properties empty & millions of mortgages “under water”.

- China now may be in the same position as Japan in the late 1980's when three decades of high-octane growth suddenly turned into a long period of sub-optimal growth; for Beijing now appears to be on a policy path now not dissimilar to Tokyo then.

Beijing misread the market’s psychology; for its intervention made many investors that much more determined to get out while the getting was still good. And the proof of the pudding was in the eating; for with its Index down 9% in its last week & 14% in July as a whole, it was the worst month for the Shanghai Stock Exchange in six years. Beijing has long benchmarked the present (notional?) 7% GDP growth rate as the tipping point into social unrest. And there is indeed an eerie similarity, with a twenty-five year lag, between China’s GDP growth pattern of the past couple of decades & that of Japan prior to 1989. While history may not necessarily repeat itself, a case can be made that down the road, with the benefit of hindsight, China today will be proven to have been a ‘Potemkin village’ (but more about that at a later date). And while China’s National Debt to GDP ratio nearly doubled between 2008 & 2011, it did so to a modest 33.5% (& has since declined to 22.4%); on the other hand, a McKinsey Global Institute report last February noted that, while China’s total 282% government/corporate/institutional/individual debt to GDP ratio as of mid-2014 had not been out of line with South Korea’s 286%, the US’ 269%, Germany’s 258% & Canada’s 247%, it had nearly doubled from 158% in 2007, and drew attention to the fact China had accounted for one-third of all growth in global indebtedness since 2007, that its 125% corporate debt-to-GDP ratio was among the highest in the world, that 40%-45% of all debt was property-related, that many local governments had unsustainable debt loads, & that fully one-third of all debt was on the books of very opaque ‘shadow banks’.

CHINA’S RICH SEEK SHELTER FROM STOCK MARKET IN FOREIGN PROPERTY
(The Guardian)

- Many wealthy Chinese investors cashed out before the mid-June Chinese stock market crash : according to Bank of America Merrill Lynch major shareholders sold stocks worth 360BN yuan (US$58BN) in the first five months of this year, almost twice the amount in all of 2014, & close to 4x the average of previous years. While much of the proceeds was parked in UST securities or safe-haven currencies, according to Tom Bill, Head of London Research at Knight Frank “Chinese buyers have intensified their interest in safe-haven global property markets” & to Ed Mead, Executive Director of London realtor Douglas & Gordon, buyers from China have been looking to buy whole blocks of flats, while Alex Newall, Managing Director of super prime residential realtor Hanover Private Office observed that “They’re wanting … to park large sums of money … – I’m talking from £25MM …to £150MM” (*US$38.5 to US$230MM*).
- But some criticize the Chinese for driving up property prices & Australia’s government went as far as making the Chinese owner of a A$39MM (US$28MM) Sydney mansion sell it because he had acquired it illegally via a string of shell companies. And still others worry that Chinese investors who didn’t bail out of stocks quickly enough will be a drag on property markets; thus Naomi Heaton, CEO of London Central Portfolio said she had heard of investors pulling out of purchases since they no longer had the needed capital & Vancouver real estate agent Andrew Hasman that he “had a call …from another agent wanting to know if a seller of a transaction we just did would allow the buyer to back out, since they had just lost a huge amount of money in the Chinese stock market ...”

But for everyone that got caught with his pants down, there were likely several who got out in time, & even the former may now be that much more motivated to get their remaining wealth out while the getting is still good.

CHINA'S CARMAKERS, CONSUMERS TO GET BIG INCENTIVES FOR GOING GREEN (Shanghai Daily)

- Xu Heyi, Chairman of the Beijing Automotive Group, a major state-owned automaker, said on July 23rd that the government was preparing a scheme to encourage carmakers to make-, & consumers to buy-, electric & hybrid vehicles, that could be implemented as early as the first half of next year, following the example of California's similar efforts. If it does, GM & Volkswagen will have the inside track since they have pledged to invest heavily in developing environmentally-friendly vehicles for the Chinese market.
- China has set fuel economy standards that will become increasingly stringent through 2020 and there will be two schemes, one for carmarkers & another for consumers, both of which will favour all-electric vehicles over plug-in hybrids & the latter over gas-electric hybrids, and that will have negative incentives for vehicles that cannot meet the new fuel economy standards.

The emphasis on electric vehicles may be the flipside of Beijing's promotion of solar power

GREECE HAD SECRET PLAN FOR SWITHCH TO DRACHMA
(The Telegraph, Ambrose Evans- Pritchard)

- Former Greek Finance Minister Yanis Varoufakis told an assembly of sovereign wealth-, & pension-, fund managers & life insurance company executives, many of them from Asia, in London as part of a Greek Day organized by the OMFIF (Official Monetary and Financial Institutions Forum) that "The prime minister, before we won the election in January, had given me the green light to come up with a Plan B. And I assembled a very able team *to do so*, a small team as it had to be, because that had to be kept completely under wraps for obvious reasons." One of them, a technology specialist from Columbia University hacked into the Greek public revenue office' system (then under the control of the 'troika') to obtain data on every Greek taxpayer so as to give the finance ministry the capability of making digital transfers *of a new drachma* "at the touch of a button". The idea was to be able to create a parallel, still Euro-denominated, system that would end the ECB's "financial strangulation" but that "at the drop of a hat could have been converted to a new drachma." (But he did insist, however, that this was a contingency plan only, to fall back on as a last resort, not an indication the Prime Minister had wanted-, or even expected to have-, to preside over a Grexit)

When the transcripts of the meeting were leaked by the newspaper Kathimerini, a political firestorm ensued in Greece. But one must wonder why; for it would have been outright dumb for Tsipras c.s. to have gone into such critical negotiations without having a Plan B.

IMF DROPS BOMB SHELL ON GREECE (Seeking Alpha, Yoel Minkoff)

- On July 30th the IMF announced that Greece's high debt level & *poor* record of implementing reforms disqualified it from a third bailout, thereby raising questions as to whether it would join the EU's latest financial rescue of Greece and whether such a rescue might even be feasible without Fund involvement. While IMF staff will continue to participate in the bailout negotiations now underway, it will not decide until later, possibly not until next year, whether to participate in any third bailout.

The IMF's game plan is not altogether clear. Meanwhile, Prime Minister Tsipras' Syriza Party is fracturing beneath him, leading to speculation about the imminent collapse of his government.

<u>GREECE, THE SACRIFICIAL LAMB</u> (NYT, Joseph E. Stiglitz)

- Having watched the Greek tragedy closely for five years, engaged with those on all sides, & spent the last week in Athens conversing with both ordinary people, young & old, and officials, past & present, I have concluded that this is about far more than just Greece & the Euro. And I had a sense of déjà vu; for as the World Bank's Chief Economist in the late 1990's I had seen first hand the devastating effects of the programs imposed on the countries that had turned to the IMF for help. The macro policies demanded by the troika will lead to a *still* deeper Greek depression. The troika program is incoherent, with the IMF (rightly) calling for debt write-offs & Germany insisting there will be no such thing. While structural reforms are needed, many of the key ones demanded have little to do with attacking the real problems Greece faces (and the rationale behind some of them has not been explained well, not to the Greek public, nor even to economists trying to understand them. While normally the IMF warns of the dangers of high inflation, in Greece the troika has insisted on very high effective rates of taxationeven at very low income levels. And the situation is complicated by the fact that each member of the troika has its own favourite medicine.

The author is an 'outlier','off-the-wall', Nobel laureate who, however, is often 'better-grounded' than most of his ilk. The article is quite lengthy & the above doesn't do it justice. So those of you interested in learning more about this potential global economic 'flash point' may wish to read it in its entirety even if you, like I, may not agree with every detail of his argument. One thing he does not touch on, for instance, is why Greece failed where Ireland succeeded (& Spain sort of).