

With my No. 3 grandson I have spent the past week in Whitehorse, Yukon Territory to visit with my No. 5 grandson and one & only granddaughter, where on June 21st the sun never sets, enabling it to host a Midnight Sun Golf Tournament (with the first foursome teeing off at midnight & the whole thing over by breakfast time) and, even now, it's dark for only four hours or so. It's a lovely place to visit in summer, if only since the use of colour on downtown buildings is second only to Newfoundland, and because the place is full of surprises. A few visits ago I came across someone who owns & operates a machine (of Japanese origin), the only one of its kind in Canada, that profitably turns plastic into oil. During this visit I got another eye opener, on garbage pick-up day. Every home has two standardized, hard plastic, two-wheeled garbage cans, one for garbage, the other for compostables (each picked up at alternate weeks). In the morning home owners put one at the side of the road. When the garbage truck stops beside one such can, two arms shoot out from its side that pick it up, lift it up, dump it & put it back on the ground, all of it in 26 seconds without the driver ever having to get out of his seat.

Quote of the week : "If everyone is thinking alike, then somebody isn't thinking" - George S. Patton (for those unfamiliar with the history of WW II, he was, for good-, & not-quite-so-good, reasons, the most high profile-, 'lead from the front'-, "fight" general of the war (as opposed to rear echelon, "desk" generals like Eisenhower, MacArthur & Omar Bradley).

The August 13th issue of Rolling Stone contains an article by Eric Holthaus, a meteorologist employed by Slate, an online magazine founded with help from Microsoft but now owned by the Washington Post, entitled The Point of No Return : Climate Change Nightmares Are Already Here, the operative sentence of which is "On July 20 James Hansen, the former NASA scientist¹ who first brought climate change to the public's attention, reported that he & a team of scientists had identified a feedback mechanism off the coast of Antarctica that suggests mean sea levels could rise ten times faster than previously predicted : 10 feet by 2065." Whether one agrees with him or not, it's worth googling & reading for the factual information it contains (*in 2008 the OECD listed 15 major cities (incl. Calcutta, Mumbai, Miami, Shanghai, Bangkok, New York/Newark, Tokyo, Alexandria & Amsterdam), in which 100MM people & US\$22TR in assets would be at risk if sea levels were to rise just 0.50 mtrs/1.66 ft by 2070 (& a much, much more of both, if it were to rise by 2 mtrs/6.6 ft)*)

On Monday August 3rd Puerto Rico informed the Municipal Securities Rulemaking Board it was 'temporarily suspending' monthly payments to the fund responsible for servicing its US\$13BN of GO (General Obligation) debt; this came after it was revealed that, 'since the legislature had not provided enough money', it had paid just US\$628,000 on the US\$58MM of interest & principal due the previous Saturday but payable on the first business day following, i.e. Monday - *after Detroit & now Puerto Rico, the spotlight is switching to the US' third-largest city, Chicago. Last May Moody's downgraded its bonds to junk status based on the "expected growth in the city's highly elevated unfunded pension liabilities" (currently US\$18,200 per resident, vs. Philadelphia's US\$12,200, New York's US\$8,200 & Boston's US\$5,400), thereby triggering demands by creditors for the early repayment of US\$2.2BN of existing debt. Last month the city sold US\$1.1BN of new debt, US\$743MM taxable with an 8% coupon & the remainder tax-exempt at rates 2% higher than in 2010), & Mayor Rahm Emanuel (Obama's first-term Chief of Staff) proposed borrowing US\$500MM in CAB form (Capital Appreciation-, aka Zero Coupon-*

¹

Who is now with Columbia's Earth and Environmental Sciences Department & who called President Obama's August 3rd emission-fighting plan "practically worthless ... nothing to attack the fundamental problem ... like the fellow who walks to work instead of driving, and thinks he is saving the world" - *a not atypical reaction for an academic who thinks in black & white terms.*

Bond, sold at a discount that make no interest payments along the way, only a single balloon payment upon maturity), a form of funding many other local governments reject as “too risky”). Buyers of such paper must believe that Chicago will become the first of a new class of “too big to fail” entities (& hope it will do so while President Obama is still in the White House?).

Investors in Cupertino, Cal.-based Apple Inc. have had a pretty good ride, with its shares having gone from US\$2.01 in December 2002 to its recent high of US\$133 last February. But the technical analysts/'chartists' warn the party may be over; for while its shares trade at a relatively modest 11.2x P/E ratio, in recent weeks their price has broken through both its 50-, & 200-, day moving averages on the downside, at US\$126.87 & US\$120.86 respectively, & that, unless two 'gaps'² are filled at roughly US\$118 & US\$114, its share price could be headed for US\$100.

In the decade ended in 2009 there was a strong correlation between the Fed Fund rate & the S&P 500 (i.e. they moved more or less in unison). But since then the S&P 500 has powered upward while the Fed Fund rate hasn't, in what could be a replay of the decade ended in 1999.

On July 30th Shell reported Second Quarter earnings of US\$3.4BN, down 33% YoY, warned low oil prices could continue for several years, and announced it would cut its capex budget further to US\$30BN, down 20% YoY & would let 6,500 employees go. That same day, John Kilduff, founder of Again Capital, a New York-based 'alternate investment manager' specializing in commodities, said on CNBC's Squawkbox program he expects oil prices to trade down into the 30's by Christmas (while others expect Brent crude to test its December 2008 US\$36 low) & with US oil inventories 'elevated', it's not surprising WTI dipped below US\$45 for the first time in five months.

The low oil price has benefitted US refiners more than US consumers; for during the year ended June 30th the WTI price declined 42.5% but the retail gasoline price only 23.3% (& that for diesel just 20.7% *while there is supposed to be a global diesel glut*) - *for the higher shale oil output that has lifted the US refinery capacity utilization rate from 91.3% in July 2013 to 95% today has given refineries more 'pricing power' & lifted their profit margins by 50+% to US\$26/bbl.*

Home Capital is one of Canada's largest alternative mortgage lenders. On July 29th its share price crashed & trading was halted after it announced having cut its ties with dozens of mortgage brokers, & last fall had hired external investigators after an "external source" had alerted it to the fact that some of the brokers who sourced mortgage applications for it had fiddled with applicants' income statements - *something very similar, albeit far more widespread, triggered the US mortgage crisis, one factor in bringing on the 'Great Recession' of 2007-2009.*

The Globe & Mail on July 30th reported on nits front page that Prime Minister Harper, the day before in a Bloomberg TV interview, had criticized President Obama's failure to approve the Keystone XL pipeline, saying he was ignoring US public opinion & the advice of his own officials, "very peculiar politics of this administration." And on the same page it had also reported that his Trade Minister was "fighting hard" at what were to have been the conclusive TPP talks in Hawaii to "maintain its (*i.e. Canada's*) privileged commercial relationship with United States at the same time as it girds itself for a new agreement that would grant 10 other countries even better access to U.S markets than the North American free-trade agreement." - *If anything was peculiar, it would seem to have been Harper's timing.*

²

When its price jumps, or drops, from the close one to a higher/lower one at the next day opening.

Of the one-time PIIGS countries, Ireland & Spain are now turnaround 'poster children'. Ireland's First Quarter GDP growth was 6.5% YoY (vs. an upwardly revised Fourth Quarter 6.0%) & Spain's quarterly GDP growth rate has risen steadily for six quarters from 0.6% to 3.1%, while Portugal's economy is now growing at a 1.6% & Italy is coming out of recession, albeit only barely³ so, leaving Greece, *the most reluctant to introduce reforms*, the sole laggard. And even there, on August 4th, after a day of talks in Athens, Greek-, & lenders'-, officials were upbeat about reaching a US\$94.5BN bailout agreement by August 20th when Athens faces a 3.5BN Euro (US\$3.84BN) payment to the ECB, with Greece's *new* Finance Minister saying the negotiations had gone better than expected & an EC spokesperson "We are moving in the right direction." - *but Berlin sought to rain on their parade by saying no deal is likely by August 20th so that bridge financing will be needed to make the ECB payment (the main sticking points are the pacing & timing of reforms &, privatizations, & the recapitalization of the Greek banks).*

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6 WARNINGS THE ECONOMY IS IN TROUBLE (Mauldin Economics, Tony Sagami)

- Shell's Second Quarter earnings & warning "today's oil price downturn could last several years." - *on the other hand, Total's Second Quarter earnings were down just 2%.*
- UPS CEO David Abney's observation, after reporting 1.2% lower YoY Second Quarter revenues, that "in January, the GDP forecast ... was ... 3.1%. Now the thinking is 2.3% ... The continued strength of the US dollar and ... this impending rate hike by the Fed appears to be holding back some growth." - *many Americans seem unaware that their economy's GDP trend growth rate (that has been in decline since WW II), now is in the 2.0+% range & that anything over that may be the exception, rather than the rule.*
- Rolls Royce, *whose core business is jet engines, not luxury automobiles*, has issued its fourth profit warning in less than 18 months & suspended its share buyback programme - *a company that stops buying back its own shares, is sending a signal.*
- An IATA report that the air freight load factor has dropped to a level not seen since 2009 - *passenger cabins may be packed but planes' freight bellies are anything but.*
- The number of idle container ships has increased for two months in a row - *this, however, is largely due to several years of overly enthusiastic containership building that has resulted in trans-Pacific rates dropping to below fuel costs; and*
- Global trade is shrinking - *at least the Merchandise World Trade Monitor index, after being in an uptrend for four years, has been declining since last January.*

While all this is anecdotal rather than conclusive, it often leads statistical evidence.

ANADARKO DOUBLES EFFICIENCY, CUTS COSTS (G&M, Quick Hits)

- CEO Al Walker told analysts on July 29th that in the past six months his company has slashed drilling costs in *Central Colorado's Wattenberg, & West Texas' Delaware Basin*-, fields and now is drilling the same number of wells with half the rigs - *he may be 'gilding the lily' since at least some of them likely are part of the industry's 3,000+ inventory of 'fracklog' wells (that have been at least partially drilled but not yet fracked).*

³

Al though this has yet to 'trickle down' to the grassroots as witnessed by the fact that youth unemployment remains at stratospheric, & politically problematic, levels.

To the extent this improved its efficiency, it is a good news micro-economic story. But by the same token it is not-quite-so-good news macro-economically; for it eliminates not just jobs, but high-paying ones (this company is Woodland, Tx-based, produces 750,000 bbl/d on-, & off-, shore in the US, the Caribbean, Africa, Brazil & New Zealand, and has a checkered environmental record, incl. part-ownership in the BP Gulf of Mexico Deep Horizon well that had such a disastrous spill in April 2010).

THE CARBON CONFEDERACY (Huffington Post, Terry Tamminen)

- Last March Senate Majority Leader Mitch McConnell (R-Ky) fired off a letter, not unlike the Fort Sumner ‘first shot’, to all 50 State Governors urging them to defy the federal government’s rules to curb carbon pollution (despite a majority of the judges on the 2007 Supreme Court that ruled carbon pollution/greenhouse gases are pollutants under the Clean Air Act having been Republican appointees). So just as when in the 1800’s a few states wanted a separate state that would allow its citizens to own slaves, a number of governors⁴ intend to defy the EPA. On the other hand, nine northeastern states have created a carbon-trading market which, according to the *Boston-based Analysis Group*, one of North America’s largest economic consulting firms, between 2012 & 2014 had boosted their economies by US\$1.3BN, created 14,000 jobs & saved US\$460MM in electricity-, & heating-, costs, and California in 2013 cut its emissions by 1.5MM tonnes YoY as its economy grew at a rate in excess of the national average.

On August 3rd Obama, to strengthen the US hand at the Paris environmental talks next December, revealed a plan to cut carbon emissions by 2030 32% from their 2005 levels &, since Congress has repeatedly refused to act on this file, did so by Executive Order. Not surprisingly, this prompted howls of protest from industry, environmental Neanderthals & Republicans, with West Virginia’s attorney-general saying his state will be one of several that will launch an “aggressive legal campaign” (despite the fact the President went some distance to make it easier for states- & cheaper for utilities-, to comply). As to McConnell, he is acting purely as a shill for coal companies that his state subsidizes to the tune of US\$100+MM/year since they are less efficient than Western coal producers. And while Kentucky is still viewed by many as a “coal state”, direct employment in coal mining at last report was 11,600, only 6% of the state’s 1.8MM labour force⁵ & fifth in employment terms [after 51,700 in “employment services”, 35,700 “merchant wholesalers” (of durable goods), 25,200 car dealer employees and 12,400 in heavy-, & civil-, engineering].

JED BUSH’S CAMP SEES AN UPSIDE TO DONALD TRUMP’S SURGE IN THE G.O.P. **(NYT, Jonathan Martin)**

- Trump’s bombastic ways that have fed his surge in the polls make it difficult for Bush challengers to emerge from the shadows & facilitate him positioning himself as the serious, thoughtful alternative to the early front runner (*who is tapping a deep well of*

⁴ Wisconsin’s Scott Walker & Louisiana’s Bobby Jindal (both declared Presidential hopefuls), and Oklahoma’s Mary Fallin, Indiana’s Mike Pence & Texas’ Greg Abbott (whose state, *rather ironically*, leads the nation in installed wind power capacity). And another Presidential hopeful, Gov. Chris Christie (R.-NJ), first balanced his budget with revenues from the EPA program and then seceded from it when his conservative bent trumped his economic common sense).

⁵ With there being pockets in the state in which unemployment is as high as 37% where the money used to subsidize coal mining could likely be used to greater advantage.

anti-establishment anger). So Republican strategist Alex Castellanos says “The longer it goes, the greater the panic is going to build ... that means you may not have the luxury to flirt with an undeveloped budding candidate. Trump has set the Republican Party on fire, and ... to put that fire out you don’t have time to waste. You’re going to have to grab the biggest blanket you got and throw it *over that fire*, and right now that’s Jeb.”

- Trump is depriving others from the political oxygen they need for lift-off in the early nominating states; thus a recent New Hampshire poll voters showed that with him in the race New Jersey Gov. Christie would get just 4% & Wisconsin’s Scott Walker 7% while, if he wasn’t, they would get 15% & 14% respectively. Their frustration is now palpable, with Sen. Rand Paul (R.-Ky) telling CNN “this is a temporary loss of sanity” & Gov. Christie saying Trump’s claim he would build a wall on the Mexican border, & have Mexico pay for it, “hurts the credibility of the presidency”. But for Bush’s strategists who are fixated on Scott Walker Trump is a godsend; for he draws his support from the blue-collar, less-educated & more conservative voters that are Walker’s key support base.

The well of anti-establishment anger that Trump taps into may not be deep enough to withstand sustained attacks from those with a vested interest in the status quo. And, rather interestingly, at the other end of the political spectrum, Vermont’s Bernie Sanders, whose eight years in the Senate make him the longest-serving Independent in US Congressional history, seems to have tapped into the same wellspring of anti-establishment sentiment, although less successfully so, since, while he is running second in the Democratic polls to Hilary, he trails her by 30+ points.

IS THE STEPHEN HARPER ERA OVER? (The Guardian, Editorial)

- The October elections offer Canada a chance to return to the country’s best traditions. The second biggest country in the world, it now often is almost invisible. Ignored by its powerful neighbour, regarded with distant affection by the two European countries from which its *original* settlers came, & taken for granted by many nations that should be more grateful than they are for its help & mediation in the past, it plows a lonely furrow. Now it is heading into an election that will determine if it will continue along the predictable rightward course set by Mr. Harper as prime minister over the past decade or recovers some of the verve & originality that once hallmarked its politics. For under his tutelage Canada has not only moved to the right in almost any area of policy but has entered an era of highly calibrated, money-driven negative campaigning alien to the courtesy that was one of its most attractive qualities. Money, its uses & abuses have run like a thread through Mr. Harper’s time in power. While a scandal over the diversion of government funds helped to propel him into power, it then turned out, rather ironically, that his party had itself been breaking electoral laws on spending during the campaign. And a strategy aimed at spending his opponents into the ground now seems behind his launching the campaign well ahead of when it has traditionally been called, with much of his party’s money once again being spent on mean-spirited negative campaigning.

*While Harperphiles may well dismiss the views editorialized here as the ranting of a left-of-centre member of the media, there nevertheless is a measure of truth in them that Joe & Jill Average Canadian Voter should take into account when they consider how to vote (& polls suggest that an extraordinary **small** number of voters have already made up their mind as to what party they will vote for while an extraordinarily **large** number still have an open mind as to which of two-, or even three or more-, parties they will vote for on October 19th.*

ISRAELIS CONDEMN JEWISH ACTS OF TERROR (G&M, Patrick Martin)

- On July 30th a knife-wielding ultra-Orthodox man attacked a gay pride parade^{6 7} & stabbed six people, one of whom, a 16 year-old Israeli girl, died three days later. And on the 31st Jewish extremists threw a fire bomb into the bedroom of a Palestinian home in which a family of four was sleeping, killing a two year-old boy (*whose condition was described by a fireman as “a piece of charcoal with a face”*) sending his parents & 4 year-old brother to an Israeli hospital with massive, life-threatening, *third degree* burns. And clashes on August 2nd between Palestinians protesting the latter incident & Israeli security forces led to the death of two more Palestinians. All this prompted Prime Minister Netanyahu to tell his Cabinet at its regular Sunday meeting that “We recently witnessed two abhorrent crimes ... I have instructed security and law-enforcement officials to use all legal means at their disposal to apprehend the murderers and deal with the stabber and the arsonists to the fullest extent of the law.”

This cannot help but further erode worldwide public support for the Israeli cause. Hosea 8:7 applies (“They sow the wind and reap the whirlwind”)⁸. The “legal means at their disposal” presumably include “administrative detention”, the jailing of suspects for up to six months without charge, subject to the approval of Israel’s Attorney-General (a formality?), under which currently 5,000+ Palestinians are said to be held in Israeli jails. One of the first Jewish extremists that the Shin Beth domestic security agency nabbed on charges he headed an extremist movement that seeks to bring about religious “redemption” by attacking Christian sites & Palestinian homes was 23 year-old Meir Ettinger, the grandson of (the late) Rabbi Meir Kahane, Israel’s most notorious (but US-born) Jewish extremist, whose party was banned from the Knesset in 1988 for its extreme racist views & who himself was assassinated two years later in New York by an Arab gun man. According to Ettinger there are many more Israelis than anyone suspects “whose value system is completely different from that of Israel’s Supreme Court or the Shin Beth ... (and who) are bound ... not by the state’s laws ...but laws that are more eternal and real.”

CHINA SAID TO PLAN NEW BOND PROGRAM TO FUND CONSTRUCTION (BB)

- Four interest rate-, & several RRR (commercial banks’ required reserve ratio)-, cuts in the past eight months by the PBOC (People’s Bank of China), have yet to reverse a weakening property market-, cum manufacturing-, driven economic slowdown⁹. So now, according to people in the know, amid signs growth remains below the targeted 7% (*still seen as the ‘tipping point’ into potential social unrest?*) Beijing plans to issue 1TR yuan (US\$161BN) in bonds, or possibly a lot more, to fund construction projects that would *hopefully* ‘pump prime’ its struggling economy. But, while since 2008 it had depended on local government borrowing to provide stimulus, *at least some of which was wasted on low-, if not minimal-, or zero-, value-added projects*, resulting in a pile-up of debt that

⁶ Who had been released from jail just a month earlier on an attempted murder charge after having stabbed, a decade ago, three people not far from where the latest incident took place. He apparently told police after his arrest that he had come “to kill in the name of God”.

⁷ While an ultra-Orthox website referred to it on the day of the event as a “Parade of Abomination”, Christian & Muslim voices had also opposed the event, albeit in less strident language.

⁸ A minor prophet from the 8th century BC who too lived in the age of King Jerobeam, supposedly a era of material prosperity but spiritual bankruptcy for the then Northern Jewish state.

⁹ In July the PMI reading was 50.0, down from 50.2 MoM & from 51.7 YoY.

local governments are now focused on restructuring (at the expense of further infrastructure spending), President Xi & Prime Minister Li now will do so using arms of the government (the 'policy banks' : the China Development Bank Corp., the Agricultural Development Bank of China, & the Postal Savings Bank of China, *so named since they carry out government objectives*) with liquidity provided by a central bank that already has its hands full helping local authorities restructure their debt¹⁰ & trying to stem the stock market rout. Huang Wentao, a Beijing-based analyst at China Securities Co. wrote in an August 3rd note to clients, "Traditional tools are proving to be not so effective ... Commercial banks are reluctant to lend, so policy banks will have to play the role ..."

The real reason for this roundabout way of doing things is to keep China's official debt-to-GDP ratio low; but, while Beijing's control over the country's financial system enables it to manipulate it at will, it can no more make risk go away than the Fed could pre-2007 in the US.

¹⁰

Part of which involves having banks convert US\$322 BN of high-interest, short-to-medium term debt owed by local governments (8% of the total) for lower coupon, long term debt instruments.