

Amidst all the media hype by presenters stoking the fires of stock market panic without in many cases being able to tell the difference between a stock market “pull back” or “correction” on the one hand & a ‘bear market’ on the other if their life depended on it, the critically most important geopolitical issue was totally ignored. And that is that, while the US stock indices were down by a 11%-13% & the US stock market is largely an institutional market so that the price decline had limited **direct** impact on the vast majority of Americans, the SSECI (Shanghai Stock Exchange Composite Index) was down by over 30% & the Chinese stock market is overwhelmingly retail-driven (which means that tens of millions of newly middle class Chinese **were** directly & decisively affected). For many in the older generation lost their life savings in a country in which there is little, if anything, by way of a social safety net for the elderly, while the younger generation lost whatever savings they might have been able to assiduously scrape together to buy a home of their own in a country in which a minimum 20% down payment (i.e. 18 months, or more, of the average household income) is required to buy one. And this tarnished the credibility of the government (which since suffered another blow with the disastrous chemical explosion cum fire in Tianjin), the more so since it had been pro-actively encouraging the hoi polloi to invest in stocks (to divert attention from the slumping real estate market). And at times of domestic stress, the temptation for a dictatorial regime is always to create an external enemy to unite the population against & distract them from their problems at home, in this case in a region that already is more potentially militarily volatile than it has been in decades.

Quote of the week : “We all know what to do; we just don’t know how to get re-elected after we’ve done it.” - Jean Claude Juncker (age 60) - *A rare moment of honesty by a, in this case 30+ year, professional politician, testifying that politics no longer is about public-, but about self-, service.* Luxembourg’s Minister of Finance from 1989-2009 & its Prime Minister from 1995-2013, Juncker was elected last year by the European Parliament as President of the European Council & now, safe from the voters’ ire, sings a different tune. For with growing pressures, in the face of a flood of illegal migrants relatively freely moving across what used to be national frontiers, to abrogate the Schengen Treaty that did away with them throughout the EU (except for Britain & Ireland, that opted out of it from the outset, and Romania & Bulgaria that haven’t signed on to it yet), he orated recently, in an article in the French daily Le Figaro & the German broadsheet Die Welt, “What worries me is to hear politicians from Left to Right nourishing a populism that brings anger but not solution. Hate speech and rash statements that threaten one of our very greatest achievements - the Schengen area and the absence of internal borders - that is not Europe.”

In the week to August 15th 277,000 Americans filed for unemployment benefits, up 4,000 on the week, while a 2,000 decline to 271,000 had been expected; be that as it may, applications remain, as they have been since March, below the 300,000 level deemed indicative of an improving job market. The National Association of Realtors reported that in July purchases of previously-owned homes had unexpectedly risen to their highest level since February, with closings, at a 5.59MM annualized rate, up 2% MoM. On August 25th durable goods orders in July were reported to have been up 2.0% MoM (*while down from 4.1% in June, the latter had been inflated by orders for airliners, that tend to be volatile*) with business investment-related orders up 2.2% MoM, vs. June’s 1.4% (which had been only the second month this year they had been in positive territory). And on August 26th July new home sales, at 507,000 saar came in 5.4% higher MoM & 25.8% YoY, & new housing starts at a post-October 2007 high, &. then, to top it all off, the Commerce Department revised its preliminary 2.3% Second Quarter GDP growth rate to 3.7%, well in excess of the revision to 3.2% expected (although part of that increase was due to a 10% hike in the inventory buildup, to US\$121BN that could act as a *minor* boat anchor on the Third Quarter’s GDP growth potential) - *the flip side of all this is that, if any*

rate increase decision were indeed “data-driven”, as the Fed says it would be, these numbers increase the probability of a rate increase next month.

The Canadian media have recently been obsessed with the court case of a high profile Senator appointed by Prime Minister Harper who was caught, & is on trial for, fiddling with his expense account. For those with long memories this is like Watergate 2.0; for, as the case was then, the issue no longer is the event itself (that in the overall scheme of things was of little significance) but the subsequent activities of the Prime Minister's acolytes in the PMO (Prime Minister's Office) in seeking to '(mis?)manage' the issue (& for that matter the credibility of the Prime Minister himself whose story along the way has changed more times than a chameleon does colours, & who has steadfastly maintained he was unaware of what was going on, despite his micro-manager reputation). The latest example of questionable credibility came this week when the PMO's Director of Issues Management, i.e. the Prime Minister's political issues' fire fighter, testified under oath that he had first learnt about the central issue from the media despite the fact there is an email in evidence addressed to him that had apprised him of it two months earlier. Perhaps the most a propos observation originated with a columnist whose latest contribution was headlined "If the ... affair was no big deal (*as PM supporters' like to claim*), why all the effort to hide it?"

According to Amsterdam-based NN Investment Partners (formerly ING Investment Management), which has AUM of 186BN Euros, in the five years ended June 30th, 2014 *foreign* investors sank US\$2TR into the 19 largest emerging markets, while in the 13 months since they have pulled nearly half that money back out again¹ (twice the amount they withdrew during the 2008-09 financial crisis), *thereby putting pressure of both their markets & their currencies.*

Ashley Madison is a Toronto-based website that, with the slogan "Life is short. Have an affair" marketed itself as the premier website for people wanting to cheat on their spouses. Last week hackers released tens of millions names & personal details of members, creating consternation among parliamentarians in among others the UK & Israel, and high places elsewhere, incl in Canada at all levels of government, the military & the RCMP. Class action law suits have already been launched against the companies running the website by ambulance-chasing lawyers for allowing members's private information to be leaked. The only rejoiceful ones were divorce lawyers, one of whom said it was going to be "like Christmas in September" - *the stupidity of people in their use of the social media seems never-ending (as is the rejection of taking responsibility for the consequences of one's actions). And one must wonder if it is really the optimum, or even a good or justifiable, use of police resources in the pursuit of public safety to protect people from their own stupidity by launching an all-out search for the hackers (although there no doubt was lots of pressure to do so from those whose oxen had been gored).*

GLEANINGS II - 629
Thursday August 27th, 2015

THE CORRUPTION OF AMERICAN FREEDOM (WP, Newt Gingrich)

- Earlier I suggested 75% may now be the most important number in American politics; for that's the percentage of Americans who according to a Gallup polls, believe corruption is widespread in their government. So, given this level voter cynicism & contempt for, & *lack of trust in-*, their political elite, it's small wonder that non-establishment types like

¹

Much of it from China.

Donald Trump, Ben Carson & Bernie Saunders are doing so well in the polls. And I compared American voters' perception of corruption in their political system with that elsewhere : in 82 other countries (40% of the world's total) voters deem their governments less corrupt than we do ours, incl. Brazil (74%), Canada (44%), Australia (41%), Germany (38%) & Denmark (19%).

- The Founding Fathers thought of corruption not in terms of outright criminality but of political acts that would corrupt the system's checks & balances, and corrode representative government, i.e. in Macchiavelli's technical sense. This is what led to the American Revolution & to the Founding Fathers' determination to create a system of government that would pit special interests against each other for the common good, rather than having those holding the reins of power sacrificing the interests of the many on the altar of benefits for the few². So the message for our political elites today may well be the same as it ought to have been in 1776³ : ignore the people's contempt at your own risk⁴.

While he had been ecstatic when in 2010 the Supreme Court in Citizens United vs. the Federal Election Commission declared Open Season for campaign funding⁵, & had his unsuccessful 2012 run at the Republican nomination funded to the tune of (tens of) millions by billionaire gambling mogul Sheldon Adelson (who is also Netanyahu's patron), Gingrich seems to have second thoughts since; for earlier this summer he told Politico's Glenn Thrush that "I think it's very frightening ... I don't think the Founding Fathers intended for the US to be an oligarchy." [While not held in high regard by many, the fact remains that the four years Gingrich was House Speaker (1995-1999) were inordinately productive ones, possibly more productive than any four year period since, and most people aren't aware of the fact that on historical matters he, with a Ph.D. in history, is better qualified to offer insights than most]. And Canadians must be more cynical than Americans, or more asleep at the (political) switch; for under a succession of Prime Ministers going back almost half a century more & more power has been concentrated in the hands of political hacks in the PMO (Prime Minister's Office), and the role of MPs & senior public servants reduced to little more than that of cheerleaders for, & handmaidens of, the Executive Branch. And the current incumbent has taken that process several steps further by appointing a 'tame' Governor of the Bank of Canada, undermining the independence the Senate, introducing new legislation in the form of 'Omnibus Bills' that defy intelligent discussion & debate in Parliament & trying to undermine the independence of the Supreme Court.

JULY WAS THE HOTTEST MONTH SINCE RECORDS BEGAN IN 1880 AS HEAT WAVES SWEEP THE EARTH'S COUNTRIES AND OCEANS (Reuters)

² Thus a recent NYT article noted that of the US\$388MM in campaign funding raised at last report by the various 2016 presidential hopefuls almost half came from just 400 families, with Ted Cruz taking top honours, having raised US\$37MM from just three donors.

³ In the 13 colonies, or a decade later in France.

⁴ Decades ago already Barbara Tuchman authored a book, The March of Folly, that chronicled in detail how throughout history, starting with the Helen of Troy episode, politicians have insisted on making decisions that a six year-old could have told them were against their own best interests.

⁵ Campaign spending is becoming stupendous; thus last fall's North Carolina Senate race set a new record when the two candidates between them spent, or had spend for them, over US\$110MM (US\$11 per capita.), with 73% of the Republican winner's funding being "dark money" (for which the identity of the donor need not be revealed) vs. 31% for the Democratic incumbent.

- In its monthly report the US NOAA (National Oceanic and Atmospheric Administration) said that July's average 61.86 F (16.61 C) temperature made it the warmest month on record, that nine of the hottest ten months on record have occurred since 2006, & that the temperature in the first seven months of 2015 had been 1.53 F/0.85 C in excess of the 20th Century average (& had surpassed the old record set in 2010 by 0.16 F/0.09 C).

And the NOAA map accompanying the article shows the oceans were much warmer than usual, especially so the area in the Pacific West of Mexico that spawns El Niños & that offshore California. The only two regions in the world with "record coldest" temperatures were the North Atlantic West of Scotland & South of Iceland, and Northern Russia & Western Siberia (Canada was shown as only being "warmer than average", lowest of the three ratings in excess of 'average' (which may come as a surprise to many Canadians)).

IRAN CITY HITS SUFFOCATING HEAT INDEX OF 165°F/74°C (WP, Jason Samenow)

- Iran's Persian Gulf city of Bandahar Mahshahr (population 110,000) recently recorded the second highest heat index reading ever, 165 F/74 C (a combo of an actual temperature of 115 F/46 C & a humidity of nearly 100, this high because the temperature of the water in the Persian Gulf in summer can be as high as 90 F, which promotes evaporation).

In Seattle on the very same day the authorities issued excessive heat advisories when the temperature went into the low 90's/high 20's with zero humidity [the city has had a very hot, dry summer with an average temperature in July of 70.7°F, 5.1°F above normal, & a record low 0.9 inches of rain in the three months ended July 31st (the previous record low for the period, 1.73 inches, was set in 2003), as a result of which the city's water reservoir is down 25% YoY & below its 1984-2014 average]. Meanwhile, in Iraq where it has also been exceedingly hot, there have been public demonstrations about the frequent electricity blackouts, that interfere with the air conditioning in people's houses, & about the poor quality of the water in their taps.

ALBERTA EI RANKS KEEP GROWING (EJ, David Howell)

- The latest StatsCan numbers show that in June, for the eighth month in a row, more Albertans were drawing unemployment insurance, that their number, at 52,160 was up 7.7% MoM & 74% YoY, and now amounts to almost 10% of the number of Canadians (531,700) 'drawing poge'. And an expert in the field said that, unless there is a rapid recovery in oil & gas prices (the chances of which seem slim) their number will keep on growing & spread to areas of the economy other than the troubled oil & gas sector.

The amazing part is that, at least in Edmonton, few, incl. the provincial-, & municipal-, governments, seem in denial about the outlook.

CHINA SEES FIRST-EVER DECLINE IN SMARTPHONE SALES (G&M, Seres Lu)

- According to the US research firm Gartner Inc., in the Second Quarter global smart phone sales grew at their slowest pace in two years (13.5% YoY, vs. 23.8% YoY in 2014 as a whole), while China posted its first-ever decline in their sales (of 4%), although it still accounts for 30% of aggregate global smartphone sales.

For pessimists this is a first sign of market saturation while optimists blame economic conditions.

CHINA TO CONSIDER PUTTING POPULATION GROWTH BEFORE ECONOMY (Bloomberg)

- President Xi is said to be considering a shift in priorities to population-, as opposed to economic-, growth as his country struggles to 'get rich before it grows old'. For its working age population has started shrinking for the first time in decades. According to Prof. Mu Guangzhong of Peking University's Population Research Centre, to avoid the same fate as Japan in the late 1990's & not to have growth potential slow down drastically, immediate action must be taken to loosen the limits on family size **and** to improve the safety net for the elderly⁶, saying "We must move from restricting child birth to encouraging it as soon as possible. We must complete a thorough change of population policy." But young people now are less enamoured with having multiple children than previous generations; thus, when in December 2013 Beijing loosened up the one-child policy by letting couples apply for permission for a second child, if one of them had been an only child, it had expected 2+MM applications a year, while the take down to date has only been 1½MM.

The one-child policy was introduced by Deng Xiaoping in 1979 since the then 3+ fertility rate was deemed a drag on economic growth⁷ (although, with the benefit of hindsight, well enough ought to have been left alone; for it had already been in a sharp decline from 6+ just 15 years earlier). So China's population is now rapidly aging as shown in its demographic make-up in 2005 & (2014) : 0-15 years 280MM (260MM), 16-64 years 930MM (1,000MM, up from 750MM in 1990) and 65 years & over 100MM (130MM, that is expected to triple by 2050). Beijing's population growth challenge will be complicated by the cultural preference for boy-, over girl-, babies reinforcing the one-child policy as a result of which there are now roughly 20MM fewer females than males in each of the 0-20 year-, & the 20-35 year-, age cohorts (thereby necessitating more breeding age females in the years to come to have more babies than just two). And even if action were taken quickly & there were an immediate & appropriate response, China would still experience another two decades of a shrinking work force. Moreover, while this awakening in Beijing to the demographic time bomb it's sitting on would require giving it a very high-, if not the highest-, priority in its 13th Five-Year Plan (for 2016-2020), the latter is now in its final stages of preparation for publication in October & final approval by the National People's Congress next March. And changing priorities would mean a reallocation of resources that would be fought by all the vested interests involved in the restructuring of the economy, the cleaning up of the environment & the creation of a social safety net, especially as it relates to the older generation, as well as a PLA that has become addicted to double digit growth in its budget (& that has President's Xi's ear).

ONE NUMBER MEANS EVERYTHING IN CHINA RIGHT NOW (Business Insider, L. Lopez)

⁶ For the excuse given by 'sandwich generation' couples for not having more than one child is that the government has now made it a legal requirement for them to assume financial responsibility for their parents' financial wellbeing in their old age.

⁷ Today it is 1.66, i.e. well below the 2.1 'replacement rate'

- China's reserves have for months been taking a hit from capital outflows (that a weaker yuan, and/or rate cuts are likely to accelerate). Over the last seven weeks US\$190BN has left the country, over half of it in the first three weeks of August. And while its FX reserves are *still* US\$3.6TR *on paper* that is not *necessarily* the same as having it in ready cash. Thus in a recent research note the *rock star-like*, Beijing-based China analyst Charlene Chu of London-based Autonomous Research posited that as much as 80% of China's FX reserves is tied up in illiquid assets (incl. its investment in the new Asian Infrastructure Investment Bank, its commodity inventories & *its sovereign wealth fund, the China Investment Corporation*). And according to Prof. Christopher Balding, a political economist at Peking University, "If you believe that US Treasury securities are less than perfectly liquid, you are probably at 50% of PBOC reserves being less than completely liquid ... (because) If China really moved to dump large amounts of Treasuries rapidly ...that would really cause problems and be detected. They are probably liquidity constrained."

Formerly at Fitch, Chu is held in such high regard that the Fed consults her on China & Goldman quotes her. So it's surprising that they, & others who pay big dollars for her insights, have been caught so flat-footed by events in China; for as far back as May 2013 (while still at Fitch) she went on record as saying "China is the classic story of corporate credit excess but to an extreme."

WHY IS EU STRUGGLING WITH MIGRANTS AND ASYLUM (BBCNews, Laurence Peter)

- The flow of migrants from Syria & North Africa⁸ hoping to reach Europe is way up YoY and Greece has become the route of choice with, this year, almost half of them having come this way, 50,000 of them in July alone, vs one-quarter via Italy. The growing seriousness of the problem can be gauged from the fact that at last report the number of migrants YTD totalled 340,000, almost triple the 123,500 during the year-earlier period, & that the total now expected to arrive this year is 600,000, more than double last year's 219,000 (which in turn had been nearly 4x the 60,000 in 2013).

This is an issue of our own making that has long been building momentum. Thirty years ago already, when a friend of mine in Holland complained about 'all those black-footed people' coming there, I told her "We have two choices, either help them to make a living where they are, which both they & we would prefer (and would be more cost-effective for us), or they will come & visit us to share in our bounty". There are now 60MM refugees in the world & tens, if not hundreds of millions more who are trapped in environments of persecution, poverty and/or physical insecurity for whom the riches of, & greater physical security of, the developed countries cannot help but have irresistible appeal & for whom the risk of death is all but immaterial given the conditions under which they now live, & the future they face there. And their numbers will only increase as climate change, slower growth & the better-off countries' economic navel-gazing will make life where they were born less feasible. While North Americans feel safe from Europe's illegal migrant trials & tribulations, in the past a few boat loads of illegal migrants have come to its shores, and when, not if, the pressure builds enough, they will start doing so again in growing numbers and we will face the same dilemma that Europe faces now, with few options other than to let them in, like it or not (and as to the cost of

⁸ The latter is not quite correct; for while Syrians do account for close to half the migrants, Afghans & denizens from sub-Saharan countries & Eritrea make up 20+% each (with many of the latter being the ones seeking to get to Europe via the deadly voyage by sea from Libya to Italy)..

their travel here, it likely would be a good 'investment' for communities in poor countries to pool their savings to sponsor one, or more, of their young people to become an illegal migrant in North America & improve the lot of those left behind with remittances.

PETITION TO ARREST NETANYAHU GAINS MOMENTUM IN UK
(al-Jazeera, Philippa Stewart)

- An online petition launched August 7th urging the arrest of Prime Minister Netanyahu during his visit next month to the UK for war crimes during the 2014 Gaza War quickly gained 76,000 signatures, well on its way to the 100,000 needed for it to be considered for debate in Parliament. Its initiator, a Manchester-based software developer, Damian Moran, said "I honestly don't expect him to be arrested ... *but wanted to create a clear message to him that there's a massive amount of people who don't want him here.*"

While dismissing this as a "meaningless publicity stunt", as a spokesman for the Israeli Embassy in London did, may be the only course open to it, the fact that the petition collected as many signatures as quickly as it did without seemingly much support from Britain's 2.7MM-strong Muslim community, ought to give the Israelis food for thought as to the decline in the once all but axiomatic support for their cause in Britain (& much of the Continent), although they may seek to (wrongly) attribute it to 'anti-Semitism'. The government has now sought to pre-empt the debate in Parliament issue by saying that as a visiting head of state Netanyahu has immunity from the legal process under UK & international law⁹, and issuing a statement that says in part that "while deeply saddened by the violence ... the Prime Minister (i.e. David Cameron) was clear on the UK's recognition of Israel's right to take proportionate action to defend itself, within the boundaries of international humanitarian law". But in so doing it may have opened a can of worms; for in using the terminology "proportionate action ... within the boundaries of international humanitarian law" it raises the issue of "reasonable force". And while there is no generally accepted definition of the latter, a commonly used one is "that degree of force that is appropriate, and not inordinate, in defending one's person and property". So, while during the first six months of 2014 a total of 181 rockets & 16 mortar rounds were fired from Gaza into Israel. that injured a seven Israelis & did limited material damage, & during the first week of July, when it was clear that Israel was preparing to launch Operation Protective Edge (on July 8th), another 168 rockets were launched & another 21 mortar rounds fired, killing two Israelis & injured four more, Operation Protective Edge, in addition to inflicting massive material damage on Gaza, purportedly killed over 1,600 Palestinians & injured close to 10,000 more, a response that would seem to contravene any objective third party definition of "proportionate action" or "reasonable force".

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This apparently did not apply to Sudan President Omar al-Bashir who was forced to covertly flee South Africa two months ago while attending an African Union Leaders' meeting when its High Court was about to order his arrest pursuant an International Criminal Court warrant.