

Note : The occasional “f” may be missing, for the “f” key on my computer is sticky & sometimes must be pounded on a couple of times; I try to catch the missing ones, but may miss some.

Quote of the week : “First of all, we must insist that the immigrant that comes here is willing to become a Canadian and is willing to assimilate our ways, he should be treated on equal grounds and it would be shameful to discriminate against such a person for reasons of their beliefs or the place of their birth or origin. But it is the responsibility of that person to become a Canadian in all aspects of life, nothing else but a Canadian. There can be no divided allegiance here. Any man who says that he is a Canadian, but tries to impose his customs and habits upon us, is not a Canadian. We have room for only one flag, the Canadian flag. There is room for only two languages, English and French. And we have room for loyalty, but only one, loyalty to the Canadian people. We won’t accept anyone, I am saying anyone, who will try and impose his religion or his customs on us.”- Sir Wilfrid Laurier, Prime Minister of Canada from 1896-1911 - *Macleans magazine’s June 11th, 2011 edition rated him first among Canadian Prime Ministers for his “enormous style and considerable substance” & for “cultivating the common ground between the diverse elements of the country”, and University of Victoria’s Penny Bryden, an expert on Canada’s post-Confederation political & constitutional history, gives him credit for “establishing compromise as both a viable and an attractive political strategy” - My oh my, how times have changed !*

Yesterday was a big day for economic news :

- In her much-awaited speech at the University of Massachusetts, Fed Chair Janet Yellen told her audience “Most of my colleagues and I anticipate that it will likely be appropriate to raise the target range for the federal funds rate sometime this year”, *but then immediately moved **not** to end the uncertainty about when she may move by using the ‘fudge words’ “likely” & “range” (it could conceivably change the range but not the rate), & saying ‘the decision would continue to be subject to new economic data’;*
- JPMorgan economist Jesse Egerton argued in a report that low unemployment, rising compensation growth, reduced profit margins & elevated investment in durables (*and a strong dollar?*) have historically been useful predictors of upcoming recessions; so given the current levels of those variables, he puts the chance of a recession within two years at 40%, and of one within three years at 66% - *this prediction is anything but bold since the post-Great Recession recovery is getting long in the tooth : at 75 months it is the fourth-longest of the ten since WW I) & in excess of their 64.5 months’ average;*
- PIMCO opined that US inflation will increase faster than the Treasury market appears to be implying, thereby forcing the Fed to raise interest rates faster than currently expected (*unless, of course Janet Yellen discards her current the 2% inflation target*) – *inflation forecasts by those who make their living managing bond funds deserve a greater weighting than those by Fed bureaucrats with income security;*
- Elsewhere Societe Generale’s strategist Albert Edwards (*admittedly a perennial bear*) warned a recession will happen sooner than many expect, the latest reading of the Kansas City Fed’s Survey was flat, that of the New York Fed’s came in at its second-lowest level since the start of the recovery (higher only than last month’s), the Philadelphia Fed’s Survey hit a 2 ½ low & the Richmond Fed’s recorded its worst reading since January 2013; while used home sales in August were down 4.8% MoM to a 5.31MM annual rate (although new home sales were up 5.7% to a 552,000 annual rate, a post 2008 high) and Caterpillar, the world’s biggest maker of construction & mining machinery in the world announced it would lay off 10,000 workers over the next

four years, quoting the slowdown in the mining & energy Industries (*although the strong US dollar must also have undermined its global competitiveness*); and

- House Speaker John Boehner (R.- Ohio) announced his resignation effective the end of October, seemingly worn down by the obstructionism of some of his caucus. He has held this job since 2011 & has been a voice of moderation, in relative terms, within the Republican caucus & was apparently driven by signs that those who aim to shut down government unless funding for it after the end of this fiscal year a week from now is made contingent on cutting the US\$500MM annual funding of Planned Parenthood.

President Xi visiting Seattle's hitech industrial complex before going to Washington to meet with his US counterpart can be explained to Westerners as making common sense; but in China is powerful imagery, & marketed as evidence he is primus inter pares, not the other way around.

A big news story his week was the "Volkswagen Scandal" that caused its CEO's resignation after it became public knowledge it had installed what the EPA called a "Defeat Device", software that could detect when the emission controls on its diesel engine-equipped cars were being tested, upon which it would activate them, but that let them spew out pollutants to their hearts' content when in ordinary use - *It makes one wonder how many other car manufacturers, & those in other industries, may have engaged, & may still be engaging, in nefarious activities in their day-to-day business¹; for this is just one in a long line of exposés of a widespread lack of ethical behaviour in both private & public sectors. While CNBC called this a "wake-up call for (often overpaid) executives", they & many billionaires seem to be hard of hearing*

On Fareed Zakaria's Sunday 20th GPS program Danielle Pletka, the right wing, Washington-based American Enterprise Institute's Vice President for Foreign and Defense Policy Studies, first orated that "Western Europe has to absolutely do something for these people" (*those clamouring to get into Europe or already there*) & later called for a "global response" - *the latter ignores the fact that the recent upsurge in this desperate human flow was prompted by governments' failure to adequately fund the agencies that had enabled hundreds of thousands of Syrians in exile to survive (in, among others, Lebanon, Jordan & Turkey), thus forcing the agencies to cut their support of them. It also is a fact the refugee problem is to a significant extent the result of ill-conceived-, & even worse executed-, US activities in the region. And while many North Americans seem to think that two oceans make them impervious to the global refugee/migrant situation, the existence of 60MM refugees, & of hundreds of millions of potential migrants, worldwide make it a global problem, & acting like spectators now makes it much more likely, if not inevitable, that when Europe becomes less accessible/attractive as a migration haven, North America's turn will come. And then what?*

On Sunday September 19th Greece had its second election in nine months, & its fifth in six years; small wonder voter turnout was 56%, vs 65% last January & 85% in the 1980's). The polls were once again wrong; after first showing Syriza trailing-, & then in a dead heat with-, the New Democracy Party, their tallies at the ballot box were 35.6% & (with the 50 'bonus' ones) 145 seats and 28.1% & 75 seats respectively (vs last January's 36.3% & 149 seats and 27.8% & 76 seats). And with the right wing Independent Greeks Party once again Syriza's coalition

¹

In fact there have been several earlier cases of emission control "defeat devices", incl. in 1998 Ford being fined US\$7.8MM, Honda US\$17.1MM, Caterpillar, Volvo, Renault & others US\$83.4MM, and GM in 1995 US\$11MM - *and now the authorities are talking about fining Volkswagen US\$18BN?*

partner¹, Tsipras' position will be weaker in Parliament since he now controls only 155 of its 300 seats (his own 145 & the Independent Greeks' 10) vs 162 (149 & 13) before the election, but stronger politically since the election outcome *sort of* validated his earlier, highly controversial, decision to accept more austerity for more bailout money², & it will silence critics within his own party. One other interesting election aspect was that the unemployed's vote helped the neo-Nazi Golden Dawn party³ to increase its tally from 6.1% to 7.0%, & its seat count from 17 to 18, thereby becoming the third largest party in Parliament.

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ACCEPTING AN AGE OF TOO MUCH SUPPLY (FP, Claudia Cattaneo)

- On September 17th interview at the Annual Meeting of the Global Business Forum, Citigroup's Ed Morse said the oil price crash may be far from over (but before yearend could go below US\$30, as the market worries about Iran re-entering the market⁴), but that by 2017 the "weeding out" of uneconomic production may have run its course. He believes new technologies allowing more output from Canada's oilsands, US shale & deepwater fields *everywhere* will keep prices in check : "The age of abundance of supply is here ... as the world is moving away from fossil fuel ... *this* makes it highly unlikely ... we will see \$100 oil again ... On the demand side we have to recognize that for reasons having to do with environmental consciousness and technology, the relationship between GDP growth and oil product demand growth is collapsing ... so demand won't be there to the degree we thought it would be ... the energy revolution in North America has unearthed the capacity to exploit similar rock elsewhere ... *that* can be exploited at under US\$80 a barrel." But he calls Goldman's call of oil possibly going to US\$20 "ridiculous" since "US\$40-US\$45 oil is not sustainable ... It will rebalance, not just on a loss of production in the US and Canada, but negative production in Mexico, Oman, China and, eventually, in Russia." And he says pessimists aren't taking into account *possible* supply disruptions & slowing production growth in Canada & the US where "We are in a period of time of weeding out the good from the bad ... Financial discipline should see the rate of growth slowing down to a lower rate, maybe 500,000 barrels a day, up to 700,000 barrels a day" (down from 1.35million).

The Global Business Forum is Calgary-based, non-profit & corporately-funded. Founded in 2000 it organizes by-invitation-only two-day annual gatherings of 200+, business-, &

¹ While this was bemoaned the next day by Martin Schultz, the EU Parliament's President, *since from a European perspective a 'Grand Coalition' with the New Democracy Party would have been preferable*, for Tsipras life will be much easier with this small 'partner of convenience'.

² At the swearing-in of the new government it pledged to enforce the creditor-demanded spending cuts & reforms when Tsipras' Labour Minister, George Katrougalos, said "Until now the people knew us and backed us as a force of resistance to neo-liberalism, establishment politics and corruption ... Now we must prove that we are also a force for reform."

³ Whose leaders have served the maximum amount of pre-trial time, & are awaiting trial for running a 'criminal organization' that attacked, & even killed, immigrants & opponents.

⁴ Although he thinks that after years of under-investment, its output increase will fall short of the government's 1MM bbl target.

government-, leaders and academics in Banff, Alberta to “actively discuss and debate crucial global economic issues.” As to Ed Morse, after getting a Ph.D. from Princeton & teaching there for a few years, and career stops that included the State Department, the Council on Foreign Relations, & Lehman Brothers, Citigroup in 2011 hired him (at age 69!) to head its Commodities Research Group.

MORE COMPANIES PUT PRICE ON THEIR CARBON EMISSIONS (CP)

- On September 21st the London-based CDP (*Carbon Disclosure Project*) released a study showing that companies around the world, 437 at least count, up from 150 YoY, (incl. 97 in North America, up from 50 YoY) are now putting a price on carbon in their financial planning (& that a further 583 companies worldwide are planning to start doing so over the next two years). And while in Canada the provinces of Alberta & BC have already introduced carbon pricing at rates in the \$15-\$30/tonne range, companies there are using much higher prices to test the viability of future projects, ranging in the case of Suncor to up to \$55, Cenovus Energy to \$65, Encana to \$125, and Enbridge to \$200.

The CDP collects data from 2000 companies worldwide. And while its credibility, & that of the data it collects, have been questioned by critics (of the Environmental Neanderthal variety?), it has the support of, & works with, a gold-plated group of companies, and enjoys the support of institutional investors with AUM of US\$100TR, & in 2010 the Harvard Business Review referred to it as “the most powerful green NGO you’ve never heard of.”

AFTER DELAY, YELLEN FACES QUESTIONS OVER FED MESSAGE ON RATE HIKE (Reuters, Jonathan Spicer)

- They’re coming not just from analysts & investors who say they are confused about the Fed’s direction but from people within the Fed, like the hawkish St. Louis Fed President James Bullard & his dovish Atlanta counterpart, Dennis Lockhart. This may well be her biggest test as yet as she tries to guide a committee currently (& *increasingly?*) divided between those who feel the US economy has healed enough to withstand a rate hike & those who think a weakening global economy could undermine the country’s recovery.

When, in her post-FOMC press conference last week, she said that, given the uncertain global economic conditions, the Fed wanted “a little bit more time”, she added to uncertainty, & further undermined her already waning credibility.

U.S. TO BOOST REFUGEE INTAKE BY 30,000 OVER TWO YEARS (WSJ, Felicia Schwartz)

- In Berlin on September 20th, standing beside his German counterpart, Frank-Walter Steinmeier & after praising Germany’s welcome of migrants as an “example to the world”, Secretary of State John Kerry announced that “in keeping with America’s best tradition as a land of second chances and a beacon of hope”, in the fiscal year starting October 1st, the US will accept 85,000 refugees incl. 10,000 Syrians, & 100,000 in the year after (with no specific reference to Syrians - *since 2011 it has taken in just 1,600*).

The US announces refugee caps at each fiscal year end, & during this fiscal year allowed 70,000 refugees in, most of them from Myanmar, Iraq & Somalia; still, 10,000 is a pretty puny effort given that Germany, with one quarter its population, expects to take in 800,000 this year, and Canada, with one-tenth its population, is talking about taking in 10,000 (or more, depending on which political leader has the floor).

DEMOCRATIC DONORS URGE BIDEN TO CHALLENGE CLINTON IN U.S. 2016 RACE **(Reuters, Luciana Lopez & James Oliphant)**

- On September 18th nearly fifty Democratic Party fundraisers circulated a letter encouraging Joe Biden to enter the 2016 Presidential race. Citing job creation & lower unemployment, health insurance for 9MM Americans, and the end of the Iraq & Afghanistan wars, it calls the Obama-Biden administration a “spectacular success” & posited “To finish the job, America needs a leader ... respected both home and abroad ... who understands the real challenges facing American families⁵” According to Jon Cooper, the finance chairman of the Draft Biden PAC that advocates his entry into the race, its efforts gained momentum after his interview on the maiden Stephen Colbert Late Show on September 10th.

The Biden case was made in the ('soft lob'?) question by Colbert “How do you maintain your soul in a city ... so filled with people ... trying to lie to us in subtle (or not so subtle?) ways?”; for Biden is perceived as a Mr. Clean Washington insider (a unique asset at a time voters are generally turned off by the breed?). And contrary to rumours his wife opposes his running, NBC News this week reported that Jill Biden actually supports him doing so. And while Hilary has said that she & her team aren't preparing for him running, the Democratic power brokers may see him as better positioned to neuter the 'Bernie Saunders effect' & capable of being marketed to swing voters as having no 'baggage' (& at 72 unlikely to have re-election aspirations for 2020?). So the crown may again slip from Hilary's grasp!

UN FUNDING SHORTFALLS AND CUTS IN REFUGEE AID FUEL EXODUS TO EUROPE **(NYT, Steven Erlanger & Kimiko De Freytas-Tamura)**

- A prime reason for the wave of asylum seekers flooding Europe has been the worsening conditions for Syrians in Lebanon, Jordan & Turkey due to inadequate funding from UN member countries. The United Nations Syria Refugee and Resilience Plan, a group of humanitarian agencies active in countries bordering Syria had by late August received just US\$1.7BN of its US\$4.5BN appeal. The budget of the UN High Commissioner for Refugees (UNHCR) this year is down 10% YoY & funding for Syria only 43% of what it needs. The UN World Food Program (WFP), a cornerstone of refugee aid, is 63% underfunded for this year, recently had to halve the monthly stipend to 211,000 Syrians in regional refugee camps & eliminate all aid to the 230,000 Syrians living in Jordan outside camps, and is concerned that by November 100,000 people living in camps could find their food support completely stopped. And WHO is only 27% funded.
- About 70% of the registered Syrian refugees in Lebanon (the population of which now is 25% Syrian) live below the poverty line. Many who fled to neighbouring countries have run out of money, lost hope & become desperate, no longer able to provide their families with basic needs. Thus in a poor part of Amman, Jordan, Mounib Zakiya, who fled Syria three years ago, told the BBC he & his family were going to try & get to Europe because the US\$9/day they had been living on had been cut off, saying “it's safe here ... and life is good. But we have to buy food and milk for the children ... It's better to die fast on the journey than die slowly, watching your kids starve.” And according to WP spokeswoman

⁵ He certainly has faced more challenges than most : the 1972 death of his wife & daughter, and serious injuries to their two sons. in a car accident, five years as a single parent to two young boys, & three months ago the death, at age 46, of his eldest son from brain cancer.

Abeer Etafa “some of the poor (*who cannot afford the cost of trying to go to Europe?*) have started going back to Syria, for ‘even if they’re going to die *there*, it will be better dying at home’ ”

The irony is that most Syrians would prefer staying put since they still want to return home & that enabling them do so would be the pragmatic, most cost-effective option; for while the UN’s Syrian Appeal needed only US\$4.5BN to keep them where they are, Germany is budgeting US\$6.1BN for just this year to deal with its expected 800,000 asylum seekers & the EU will spend US\$1.1+BN on the 160,000 refugees it wants to allocate to member countries under the Juncker Plan.

SAUDI CRUDE OIL STOCKS SOAR (Bloomberg, Wael Mahdi)

- According to the Riyadh-based Joint Organisations Data Initiative (JODI) in July Saudi Arabia’s crude oil exports declined for the third time in four months⁶, by 1.2% to 7.28MM bbl/d (vs. March’s record 7.9MM bbl/d), & production by 1.9%, the first drop since February, to 10.36MM bbl/d vs. June’s post-1980 record 10.564MM bbl/d. And while its stockpiles went from 319.5MM bbls to a post-2002 high 320MM bbls., it wants to keep its storage tanks full, in part to feed its two new refineries (& a third coming on stream in 2017). A Kuwait-based oil analyst observed “It seems that the Saudis are determined to keep their market share at above 10.2 million barrels a day ... In the case when exports are down, they will not scale down on production and will store the crude at home or even abroad.”

Few things have more of a price-depressing effect than a supply ‘overhang’.

PUTIN USES SYRIA TO END ISOLATION (NYT, Neil MacFarquhar)

- Vladimir Putin sees Syria as an opportunity to break the isolation Russia has endured since the West imposed its sanctions. His opening gambit was to send in more military hardware *than he already has been doing to support the Assad regime, as well as soldiers*. Last week Secretary of State John Kerry confirmed the administration was considering Putin’s push for talks with President Obama & for military-to-military talks on Syria (that Russian Foreign Minister Sergey Lavrov had promoted as a way of coordinating with the Pentagon to avoid “unforeseen incidents”). On September 17th Russia strongly urged the US & its allies to engage the Syrian government, as a “partner” in the fight against ISIL (the Islamic State of Iraq and the Levant), offering to supply Washington with information about its military aid to Syria⁸. And later this month Putin plans to roll out a Syrian peace plan proposal when he addresses the UN *General Assembly on September 28th*. The stakes for Putin are high. Since its adventures in Ukraine (& *Crimea?*) the Kremlin has been isolated diplomatically & battered economically by sanctions, low oil prices and a weak ruble. The rainy-day funds that have staved off disaster are depleting & he knows he must get back in the West’s good graces, or at least change the conversation, & *thinks* Syria provides an ideal vehicle for this while at the same time giving him a more significant role to play in the Middle East & furthering his long-held ambition to re-establish Moscow as a player on the world stage.

⁶ Although diesel exports increased from 308,000 bbls in June to 441,000 bbls in July even as diesel output declined from 1.01MM bbls-, to 941,000-, bbls

⁸ An offer that may well be utterly meaningless, since the CIA should already have it.

While Lavrov on September 1st seemed to doom all thoughts of meaningful cooperation with the West in Syria when he said “The demand for Assad’s resignation as a precondition for the struggle against terrorism is completely unrealistic and counterproductive” , Putin likely wouldn’t hesitate for a minute to ditch Assad if he decided he no longer was the ‘bulwark in the global struggle against Islamist extremism’ that he had believed him to be.