

**Chinese official GDP growth inflated?** According to the Nikkei Asian Review China's Second Quarter GDP growth may have been "only 5%", vs. the official 7%. For the Japan Center for Economic Research has been tracking it using three indicators (rail freight volume, power generation & bank lending) the Premier Li Keqiang is known to have used. This gave real Second Quarter (*before the stock market rout*) GDP growth of between 4.8% & 6.5% [*while its calculation once was closely correlated with the official number, since mid-2013 (shortly after Li became Premier & in charge of domestic policy) it has increasingly started to diverge from it*].

**Obama-Xi September 25<sup>th</sup> Rose Garden Press Conference** - While, as could have been expected, most of it was devoted to the mouthing of platitudes that most people would like to-, but common sense dictates they shouldn't-, believe, the only statement worth 'taking to the bank' originated with President Xi when he rejected out of hand the concerns expressed by Obama's about the situation in the East-, & South-, China Seas by saying "Islands in the South China Sea since ancient times are China's territory<sup>1</sup>. We have the right to uphold our own territorial sovereignty and lawful and legitimate rights and interests."

**Putin's long-awaited speech at the UN (after a 10-year absence).** He attacked US policy around the world, criticized the West for "exporting social experiments" in the form of democratic revolutions (*incl. the Arab Spring which he blames for the Middle East crisis* & called for a Syrian peace conference that would include Iran, and for a UN Security Council resolution setting up a coalition to fight ISIL - *All of this appears designed to carve out a larger role for Moscow in the Middle East, the Syrian crisis & the fight against ISIL, at Washington's expense.*

**US losing control of the fight against ISIS.** Last weekend British Prime Minister conceded that, while Syrian President Bashar al-Assad had "no long-term" future, he was likely to remain in power during a transition period & NATO Secretary General Jens Stoltenberg said, after Putin sent in troops to prop up al-Assad's faltering regime, he was ready to discuss Syria with Russia. And on Sunday Iraq's military said it would start sharing "security and intelligence" information with Syria, Russia & Iran to help it combat ISIL (a move that undermines US efforts to keep Damascus & its allies out of its ISIL-fighting 'loop').

**GLEANINGS II - 635**  
**Thursday October 1<sup>st</sup>, 2015**

**PUTIN BLINDSIDES OBAMA (Politico, Michael Crowley)**

- On September 28<sup>th</sup> he met, reluctantly, for 90 minutes with Putin (*at the Palace Hotel instead of the now Chinese-owned Waldorf Astoria*) to gain a clearer understanding of his plans for Syria. The next day John Kerry (who met several times with his Russian counterpart, Sergei Lavrov, during the week) convened an unsuccessful meeting with diplomats from the region to discuss a collective *Syria* strategy. And the day after that, on the 30<sup>th</sup>, Putin sandbagged Obama by launching air strikes in Syria, scrambling the latter's strategy for that country & intensifying the global rivalry between them

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*He had to go back to "ancient times" since China ceased to be a significant maritime power in the mid-fifteenth century & even before that then had been more interested in 'waving the flag' than in conquering/colonizing*

- The launching of Russian airstrikes *on the heels of the Obama-Putin meeting* seems a deliberate insult of Obama & *an attempt to hike Putin's global profile* as the world's leaders are gathered in New York *for this year's opening session of the UN General Assembly*. And this move, coming on the heels of the failure of Kerry & his Middle East counterparts to agree on a collective strategy, is forcing a US reassessment of how to proceed in Syria, with one former Obama Administration official noting that the latest Putin initiative is "obviously a huge political thorn in our side."
- The Administration's initial reaction was to suggest Putin's move was one of weakness, driven by fear Assad might be defeated & Russia would lose its base at Tartus (*in Northwestern Syria, the Alawites' homeland, its only forward base in the Mediterranean*). Defense Secretary Ashton Carter called the move "doomed to failure" & White House Press Secretary Josh Earnest said Putin may find himself drawn into a quagmire like that of the US in Iraq after 2003, or of the Soviet Union in Afghanistan after 1979. On the other hand, Paul Salem, Vice President for Policy & Research at the *Washington-based, 70 year-old Middle East Institute* believes that "the White House is not terribly upset that somebody else is getting mired in the Syrian civil war or the fight against ISIS."

*Not a great few days for President Obama (& the status of the US in global public opinion), being upstaged, in bookend fashion, on his home turf, first by President Xi & then by Putin. And to make matters worse it appears at least some Russian air strikes targeted not ISIL, but rebel forces covertly aided by the US & Saudi Arabia. Putin's & Obama's objectives are diametrically opposed : while the latter wants Assad out of-, Putin wants to keep him in-, power; so the non-ISIL rebel forces are just as, if not more, valid targets for Putin as ISIL; for as Putin told the UN Genreal Assembly on September 28<sup>th</sup> Assad is "valiantly fighting terrorism face-to-face."<sup>2</sup>*

### **OBAMA'S ISIL CZAR STEPPING DOWN (Bloomberg News)**

- Marine Corps Gen. (ret.) John Allen will step down shortly as head of the *62-nation global coalition fighting ISIL in Iraq & Syria* & the White House is (*frantically?*) searching for a (*credible?*) replacement. The timing of his departure could not be worse since *the new Marine Corps Commander Lt.-Gen Robert Neller last month said during his Senate Armed Services Committee confirmation hearings, in response to a question by its Chairman, John McCain (R.- Ariz) that ISIL is "neither winning nor losing and that the war is at a "stalemate" (thereby contradicting Gen. Allen who had earlier told it that "ISIL is losing" - if so, why are he & his Chief of Staff quitting?)*. And previously the Head of US Central Command had testified that of 54 Syrian rebels trained & equipped by the US military *to fight ISIL (vs 11,000 in Iraq)*, only "four or five" were still in the fight. Meanwhile the Pentagon is investigating allegations by dozens of intelligence analysts that their reports on the war were altered before being passed on to top officials.

*As the saying goes, "The proof of the pudding is in the eating" : a year ago ISIL was said to have 20,000-30,000 fighters &, despite some losses, that number apparently hasn't changed (& it hasn't been made to give up much territory). The military & politicians refuse to take the lesson to heart from the Vietnam War, & more recently reconfirmed by Hezbollah in the Second Lebanon War, that all the hitech military power in the world can be fought to a standstill, if not defeated, by a determined low tech enemy; to win, one must have **both** 'boots on the ground' **and** be willing to engage him in close combat (to minimize civilian collateral damage).*

<sup>2</sup>

Since 9/11 it has become stock in trade for any tin pot dictator to tar anyone opposing his regime with the terrorist brush.

## **FED'S WILLIAMS STICKING BY 2015 RATE CALL, SEED IMBALANCES FORMING** **(Bloomberg, Lucas Shaw)**

- San Francisco Fed President John Williams (*Janet Yellen's successor in that post*) on September 28<sup>th</sup> repeated, in a speech at UCLA's Anderson School of Management, his call for the Fed raising interest rates this year, warning "I am starting to see signs of imbalances emerge in the form of high asset prices, especially in real estate (*that he, however, said had not yet reached a "tipping point"*) and that trips the alert system ... One lesson I have taken from past episodes is that, once the imbalances have grown large, the options to deal with them are limited." He expects unemployment to go through 5% before yearend & inflation to move towards the 2% target, but noted there are risks to his outlook from a *further* appreciating US dollar & slowing growth abroad.

*Williams this year is a voting FOMC member & deemed a 'centrist'. So what likely was more significant in FOMC decision-making terms is that a few hours earlier New York Fed President Bill Dudley (an out & out dove whereas Yellen is merely 'dovish') delivered a similar message to a New York conference sponsored by the Wall Street Journal. So pressure is building on Yellen to make a move at the FOMC's October 26<sup>th</sup>/27<sup>th</sup> meeting although there is still ample evidence to support her further dawdling (thus the widely followed ISM Index of Manufacturing Activity has undershot the consensus expectation **each** month this year and, more worrisomely, its future orders sub-index suggests things won't get any better any time soon).*

## **CONNECTING THE DOTS (Mauldin Economics, Tony Sagama)**

- Once traders didn't care whether the stock market went up or down; for either way they made money. But for today's generation of traders to make money the Fed needs to continue goosing the market & the market is going to fall because corporate America is starting to struggle (& *not just because the Fed at some point will start raising interest rates*). For in the past six months, only 37% of publicly-traded companies increased their revenue forecasts, the smallest such number since 2009 and almost as low as prior to the 2001 dot.com bust, and just 49% of stocks have seen the EPS forecasts revised upwards, well below the 65% historical average. Median sales growth estimates for the year ahead are just 4%, vs a historical 7% average. So without further monetary steroids the stock market is likely to drop like a rock and, while Wall Street keeps telling the hoi polloi to buy more stocks, behind the scenes it is becoming increasingly bearish itself.

*Those who believe they are safe since it takes recessions to bring on bear markets will learn that in the real world it's the other way around : bear markets are leading-, not lagging-, indicators; so those who wait for a recession to bail out of stocks, will be fishing behind the net.*

## **STAGGERING DROP FOR ENERGY TRANSFER HIGHLIGHTS EMERGING TREND** **(WSJ, Maureen Farrell)**

- *Dallas-based, Fortune 500 natural gas & propane company* Energy Transfer LP has for a year sought to acquire natural gas pipeline operator Williams Cos. which last June rejected a US\$48BN cash cum stock takeover offer. And yet on September 28<sup>th</sup> it accepted an offer for just US\$32.6BN, after which the shares of **both** companies dropped promptly, those of Williams by 10% & of Energy Transfer by 12%, bringing to 40% the decline in both their share prices since the June offer was first announced.

*This is unusual<sup>3</sup> & has analysts puzzled (& concerned about what it means for the stock market as a whole). But investors are down on anything oil & gas-related, even though pipelining is a 'mid stream' activity that moves product at a set price regardless of the value price of the product, whose bottom line only suffers when demand softens (which it hasn't). And the CPPIB (Canada Pension Plan Investment Board) seems to think this presents a buying opportunity; for it just announced plans to invest \$1BN in midstream facilities in Western Canada.*

### **MOUNTAIN MEADOWS RESERVOIR EMPTIES (Lassen County Times)**

- On Sunday September 13<sup>th</sup> word spread quickly through the county that after a crew had performed a routine clearing of debris from an outlet from the reservoir [that three days earlier had contained 170 acre/feet (210MM litres) of water], it had drained dry in a matter of hours, killing thousands of fish, fortunately all of commonplace varieties.

*It's indicative of the impact of the drought on California's surface water system that the 170 acre feet of water in the reservoir on September 10<sup>th</sup> represented just 0.65% of its 24,800 acre/feet (30+BN litre) capacity [Lassen County is located in NE California on its border with Nevada, Northwest of Reno. In early August it was the site of the 11,000 acre (170 sq.mi.) Dodge wild fire, caused by a spark from a tree harvesting saw (used to remove juniper trees to improve wildlife habitat) that set fire to some dry grass that, once started, quickly went out of control.*

### **FEDS HALTED RESEARCH SHOWING CANADIAN GETTING GOUGED AT THE PUMPS (Huffington Post Canada, Daniel Tencer)**

- The weekly Fuel Focus Report has been issued for years by Natural Resources Canada. But it stopped with its July 24<sup>th</sup> issue (one week before the PM called an election for October 19<sup>th</sup>) that reported that from a \$1.22 average gas price refiners were taking 28.6¢, up 10¢/54% YoY & 50% over its long-term average. A similar shutdown occurred prior to the 2011 election & an NRC spokesperson said all missing reports "will be posted online retroactively following the election ... consistent with our practice in the 2011 election".

*While the National Observer noted "Big oil is taking advantage of Canadians at the pumps ... (and) the Harper government seems worried voters might figure it out", in the event this proved to be a bit of unnecessary micro-management since at last report the average national retail gasoline price was \$1.02, down 12¢ YoY & 20¢ from the price referenced in the July 24<sup>th</sup> report.*

### **CLASHES ERUPT AT JERUSALEM'S AL-AQSA MOSQUE COMPOUND BETWEEN WORSHIPPERS AND SECURITY FORCES (RT)**

- The al-Aqsa mosque in Jerusalem's Old City is Islam's third-holiest site (*because it is from here that Mohammed is said to have started his journey to Heaven; unfortunately the same site is known to Jews as the Temple Mount (Judaism's holiest site, where Solomon's temple once stood), which has made it a permanent source of friction for extremists on both sides.* According to the Times of Israel, while Jews are allowed to tour the site under police guard five days a week, Israeli Defense Minister Moshe Yaalon

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The usual pattern is for the share price of at least one of the companies to appreciate, that of the acquiror if the market thinks it got a good deal and/or it will be accretive to its earnings, and those of the acquiree if the markets thinks there is a chance o a better offer.

had ordained they would be denied access to the site *during Eid al-Adha festival (that comes after the end of Ramadan)* in order to avoid tension between the two groups. But on September 26<sup>th</sup>, as it was ending & the Jewish Succot festival was getting underway, Israeli police sought to let Jewish activists tour the grounds; this led to stone throwing by Palestinians fearful this was an attempt to circumvent the Minister's pledge & to a confrontation with Israeli security forces.

*In most years this is not an issue since the date of the Succot festival is more or less fixed in September while the timing of Ramadan changes by about 11 days every year. But this year the two overlapped. And it is worth noting that, while just three months ago two-thirds of Palestinians supported the idea of a two-state solution, a recent survey by the Palestinian Centre for Policy & Survey Research found that their number has dwindled to less than half those surveyed<sup>4</sup> (42% of whom said "armed action would be the most effective way of establishing it", 33% still supported the idea of negotiating it & 25% called for non-violent resistance) - RT is a state-funded Russian TV network founded a decade ago to offer a "Russian perspective" on world events but has been accused of spreading disinformation (although al-Jazeera corroborated this story).*

### **ABBAS THREATENS TO RIP UP OSLO ACCORDS<sup>5</sup> (AP/DT, Zeina Karam & Karin Laub)**

- In his September 30<sup>th</sup> speech to the UN General Assembly Mahmoud Abbas, the *long-time* Palestinian Authority President said that unless the Israeli government changed its behaviour the Oslo Agreements - on cooperation between Israel & the Palestinians & a road map for peace - would no longer stand : "We cannot continue to be bound by these agreements ... Continuation of the status quo is completely unacceptable because it means surrender to the logic of brute force being inflicted by the Israeli government.

*One cannot entirely blame him : since he signed the Oslo accord in 1993 on behalf of the PLO, the settler population of the West Bank has almost quadrupled to 400,000 & that of East Jerusalem more than doubled to 350,000 (& both have increased by about 40% each since 2010). He is 80 years of age, tired & disabused of his hope of going down in history as the founding father of a Palestinian state. And now the latest polls show a majority of Palestinians want him to resign & dissolve his (notional) self-rule government, and no longer believe a two-state solution is realistic (& see the dissolution of the PA as a first step to a unitary state?) and support political violence. Dissolving the PA would mean the Israeli government would become responsible for maintaining law & order, massively increasing the scope for mutual violence.*

### **IRANIAN TROOPS IN SYRIA FOR JOINT OFFENSIVE (al-Jazeera)**

- Hundreds of Iranian troops have arrived in Syria in the last ten days, & *more are arriving every day*; these are fighting troops complete with equipment & weapons, not military

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<sup>4</sup> This drastic shift in Palestinian sentiments is attributed to their reaction to the firebombing of a Palestinian residence in the West Bank by Jewish extremists that caused an 18 month's-old toddler to be burnt to death in his bedroom. A few days later, in a 'crackdown' on Jewish extremists, the police arrested 23 year-old Meir Ettinger, a grandson of the US-born Rabbi Meir Kahane, Israel's most notorious extremist, although it never charged him with the arson attack.

<sup>5</sup> It was a deal between then Israeli Prime Minister Yitzhak Rabin & PLO leader Yasser Arafat, with President Clinton acting as a diplomatic midwife for which Rabin paid with his life two years later when he was assassinated by a radical Orthodox Jew opposed to it.

advisers. The objective appears to be to recapture territory lost by Assad's forces in recent months in the Northwestern part of the country (*the homeland of Assad's Alawites & the location of Russia's military base at Tartus*). This suggests a new military alliance between Russia & Assad's other allies, Iran & Lebanon's Hezbollah. And while the stated objective of the Russian air strikes, as enunciated by Putin himself, is said to be ISIL, most of them to date have targeted rebel positions in the Northwest of the country, whereas ISIL-controlled territory is located in the North-, and East-, of the country.

*The immediate objective appears to be to shore up the Assad regime in its 'weak spots' & to soften up, & demoralize the, US-, & Saudi-, backed non-ISIL rebels, (that pose a more immediate threat to Assad) with airstrikes before launching a concerted ground attack to destroy them, & thereby forcing the US to join a now Assad/Putin led final offensive against ISIL.*

### **POWER PLAY IN THE MIDDLE EAST (NP, Alia Dharsi)**

- Russia recently sent troops, battle tanks & other materiel into Syria, incl. 28 jet fighters & 14 helicopter gunships. And on September 22<sup>nd</sup> the security & defense analysis entity IHS Janes released satellite images of a Russian forces buildup in Latakia province.
- According to Prof. Moshe Ma'oz, a one-time adviser to Israeli Prime Ministers & now a professor of Middle Eastern & Islamic Studies at Hebrew University, while Russia has been interested in the Eastern Mediterranean for centuries & will try to use this to boost its influence there, right now its primary objective is to safeguard its bases there & help Assad survive, and to support the 'Shia Crescent' - Iran, Iraq, Kuwait (which is 30% Shi'ite) & Syria - against the Sunni countries -Turkey, Saudi Arabia, Jordan, the Emirates & Egypt. And for Israel a stronger Shia presence on its Northern border is dangerous & any greater military capability for the Assad forces may interfere with its ability to interrupt the flow of weapons from Iran via Syria to Hezbollah in Southern Lebanon.
- Elliot Abrams, a former Deputy National Security Adviser to Bush 43 now at the Council on Foreign Relations says Putin wants to save Assad, re-assert Russia's position as a power in the region & prove itself to be a more reliable ally than the US, and that the worst case scenario for Israel is one of an increased flow of military hardware to Hezbollah that it would feel would need to be stopped & that this would backfire.
- And Bessma Momami of Waterloo University's Balsillie School of International Affairs believes it is an attempt by Putin to divert attention from Ukraine & give the Chechens fighting with ISIL a bloody nose, and will lead to a longer-lived Assad regime, more refugees & a challenge to the Western coalition fighting ISIL, with Putin seeking to embarrass the US by being more successful in fighting it. And Russian forces are no longer just in Latakia but also in Hama & Aleppo. And he thinks it isn't about Israel.

*Syria has a 100 mile frontage on the Mediterranean in two provinces, Latakia that has Turkey to its North & Tarsous that has Lebanon to its South. Between the two they are the traditional homeland of President Assad's Alawite Shi'ite religious sub-set. Russia's sole naval/military base in the Mediterranean is in Tartus, Syria's second largest port, in Tarsous province. Assad's once 300,000-strong army has been halved in size by desertions & casualties, and recently was driven by rebel groups from Edleb Province to the East of Latakia into the latter, which may have triggered the Putin decision to start playing a more pro-active role in Syrian affairs.*