

**Quote of the week** - "It's not where you came from, it's where you're going that counts" - Ella Fitzgerald (*who spoke from personal experience*).

**A "dead cat" (political) issue**<sup>1</sup>. It may best be described as follows : a patriarch's favourite granddaughter chooses an extended family gathering as the occasion for her coming out as a lesbian. During the deafening silence following her revelation, her mother goes outside, finds, & comes back with, a dead cat & throws it in the middle of the floor, giving everyone a reason to talk about it rather than the real news. During the 78-day Canadian election, the second longest in its 148-year history, that thankfully will come to a close on Monday October 19<sup>th</sup>, the niqab issue was introduced by the governing party as such an issue, to divert voters from more important issues & to use it against its two main political opponents (which succeeded in part since one of them, who had been a distant third in the polls when the election was called, seemed to have developed an ability during the campaign 'to walk between the raindrops'<sup>2</sup>.

**US M&A activity** - This year will set a post-2000 record. For, while total US M&A activity last year was in the US100BN range, YTD it is already North of US\$700BN - *corporate America is experiencing weak organic growth & bulging with cash; so it is on an acquisition binge to appease shareholders. But if history is anything to go by, many of the vaunted synergies won't materialize & some, if not many, of these acquisitions may not pan out as well as promoted.*

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The term was coined by Australian Lynton Crosby, a 'dark arts' election consultant with 250+ elections in dozens of countries under his belt, incl. Boris Johnson's London mayoralty campaigns & David Cameron's surprise come-from-behind victory in the UK earlier this year. He was brought on board by Prime Minister Harper on September 5<sup>th</sup> to reinvigorate his by then starting-to-flag campaign, only to be dumped unceremoniously by him four days before Election Day, with his Australian partner, Mark Textor saying, rather disingenuously, "We don't do two-bit politics."

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The issue is whether Muslim women wearing an (eyes only visible) niqab should be required to show their faces during their citizenship swearing-in ceremony. A poll last March found that 82% of Canadians interviewed believed they should be made to do so; so the Harper government took up the cudgel on their behalf, with the Supreme Court frustrating his efforts & their sentiments in this respect - *my view goes back to advice my father gave me, a willfully headstrong 18 year-old who insisted on emigrating against his parents' express wishes, that "you are choosing to live in Canada; so it behooves you to live there by their rules, not by ours."* *Canada is a country where covering one's face is not an accepted practice; in fact, if any other Canadian were to go into a store with a face covering, odds are a SWAT team would show up in short order (as it should!). But there are three bigger issues at play here : a) democracy is all about majority rule (albeit with due respect for the rights o the minority); unfortunately in Canada this has degenerated into a 'tyranny of the minority', b) it promotes a dicing & slicing of citizenship rights, with some entitled to do what others may not (thus when someone sought to crash an election rally in Calgary on October 8<sup>th</sup> with a bandana covering his face & uttered threats when refused admission, he was later charged with uttering threats **and** with "wearing a disguise with intent" [an offense under Section 351(2) of the Criminal Code of Canada punishable by "imprisonment for a term not exceeding ten years"), & c) for more than a century people have come to Canada from many countries & unstintingly adapted their own customs & habits to those of their new homeland & today's Canadians have as much right as earlier generations to expect newcomers to do so, just as foreigners have every right to expect, and it would only be good manners, if Canadians choosing to come to their countries respected their culture & paid obeisance to their customs & laws.*

**GLEANINGS II - 637**  
**Thursday October 15<sup>th</sup>, 2015**

**THE MOST IMPORTANT PEOPLE IN FINANCE ARE CONCERNED ABOUT THESE FOUR THINGS (Bloomberg, Julie Verhage)**

- Citigroup Chief Economist Willem Buiter was one of 12,000 attendees at the semi-annual IMF/World Bank meetings in Lima, Peru that ended last Sunday, October 11<sup>th</sup>. In a note he listed the four topics that had most exercised policy makers & clients :
  - **China's economy** - There was less concern about the immediate-, than the short-term-, outlook. Beijing's policies were seen as having been ineffective & hard to comprehend, and people envisaged a growing risk of a sharp slowdown as time progresses & Beijing confronts its many policy challenges;
  - **Risk of an emerging market crisis** - not a financial-, but a growth-, risk; while major structural reforms are a prerequisite for many EM countries to have even a hope of returning to their earlier growth rates, in most of them, with the exception of India & a few others, there was little evidence of the political will required;
  - **The potential effect of an EM crisis on DM markets** - Since the financial crisis EM growth has been a driver of global GDP growth and, while there is some concern about slower EM growth, the common wisdom is that on the whole DM markets will be OK (except for the major DM commodity exporters<sup>3</sup>);
  - **Exchange rates and capital flows** - There was less concern about exchange rate volatility than might have been expected, although, somewhat contradictorily, there was a common thread of concern that international capital flows constituted a source of vulnerability for both the system as a whole & individual countries. And many thought China would be well advised to correct its major domestic imbalances before attempting further capital account liberalization (*which runs counter to the US-opposed growing support for having the yuan included in the SDR basket, which would require it to be made more freely convertible*).
- When asked about the bank's position all Mr. Buiter would say was "Most assessments of the prospects for the world economy were more optimistic than our own expectations."

*So the CW seems to be a crisis is around the corner, but there still is time for a last dance.*

**THE AUTUMN MEETINGS OF THE IMF AND WORLD BANK CONCLUDE WITH A CHILL (The Economist)**

- The participants left Lima on October 11<sup>th</sup> in a distinctly unsunny mood, although one no worse than five days earlier, when the IMF had cut its call for 2015 global GDP growth from 3.6% to 3.1%. For the key issues had remained in limbo : there had still only been just platitudes about the need for structural reform & complaints about the US Congress continued refusal to ratify the 2010 proposals to reform the two institutions so as to give the emerging market governments a somewhat greater say in them (*that would, however, still be well short of the growing role they're playing in the global economy*).
- While officials put on a brave face, insisting the world is now better prepared to weather the (sic!!) downturn than in the past, the key issue is not countries' ability to deal with the payments' deficits, but growth. The three economic drivers of past six years, exports and

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<sup>3</sup> Australia, Canada, New Zealand & Norway.

public & private investment, are sputtering, World trade is growing slower than global GDP. And falling tax receipts are squeezing government spending.

*The officials' "brave face" is an bravado act. For the greater risk to global stability in the short run is that of another financial-, not economic-, crisis. And central bankers, once united in seeing themselves, almost like Jesuits, working to salvation of humanity, have since become more politicized, & infused with an 'everyone for himself & the devil gets the hindmost' attitude not conducive to the prompt & effective addressing of other people's problems.*

### **U.S. SALES SEE TWO MONTHS OF DISAPPOINTING GROWTH (FP, Gordon Isfeld)**

- While most economists expected September retail sales growth of 0.2% MoM, it came in, for the second month running, at an insipid 0.1% & ex-cars, gasoline & building materials was negative, with over half the major retail categories actually down. And to make matters worse, Wal-Mart, the US-, & the world's -, largest retailer on October 14<sup>th</sup> warned its 2016 earnings could be down up to 12% YoY due to higher wage costs<sup>4</sup> & the cost of meeting e-commerce competition, causing its share price to tumble 10%)

*With consumer spending accounting for 70% of GDP, this is heightening concern about the Third Quarter GDP growth outturn (& gives the Fed another reason **not** to 'get off the dime').*

### **HOW THE CONTROVERSY OVER DRUG PRICES COULD TAKE DOWN OBAMA'S MASSIVE DRUG DEAL (WP, Carolyn Y Johnson)**

- Protection for drug companies under the TPP treaty threatens a key piece of President Obama's legacy; thus Sen. Orrin Hatch (R-UT), a key backer of his trade agenda, said in a speech last week he may drop his support for it out of concern it provides insufficient intellectual property protection for drug development. For, while US drug companies through a provision embedded in the Affordable Care Act now enjoy twelve years 'exclusivity' (i.e. competing companies making biosimilar drugs cannot bring them to market for that long), depending on who one talks to, the draft TPP agreement provides for only eight-, or even just five-, years of exclusivity (while the pharmaceutical industry claiming that anything less than 12 years will stymie innovation).

*In layman's terms the difference between patent-, & exclusivity-, protection is that the former is awarded by the Patent Office & prohibits third parties from making an **identical** product for long periods of time (in the case of drugs for up to 20 years?) whereas exclusivity protection is in the case of the US the purview of the FDA & prohibits third parties from making a **similar** product for much shorter periods. Some countries, incl. some would-be TPP signatories, have no exclusivity provision at all in place, in the case of Australia, for whom this has been a key issue from the get-go, it is five years & in the case of the US, prior to the Affordable Care Act, it apparently also was a great deal shorter than 12 years.*

### **GULF OF MEXICO SEES COMPETING CRUDES POUR IN (Bloomberg, Dan Murtaugh)**

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<sup>4</sup> YTD it has twice raised wages for groups of its 1.3MM US workers. While accused by a university professor in industrial relations of doing so to avoid unionization, it may actually increase support for it since in doing so the Company peed off many of the workers who didn't get raises.

- Storage tanks along in the Gulf of Mexico<sup>5</sup> are filling up with oil from Canada, the Midwest & Middle East as output from the Gulf itself in July<sup>6</sup> hit a post-2010 BP oil spill high 1.58MM bbl/d (as new Shell & Anadarko platforms in development for years came on stream, offsetting the impact of the sharply reduced ‘infill drilling’ needed to maintain output in older fields). So Andy Lipow of Houston-based Lipow Associates LLC, opined “medium-sour and heavy-sour crudes are coming under increasing pressure.”

*This is obviously not good news for Alberta.*

### **SAUDI OFFERS OF EXTRA OIL IN ASIA FAIL TO LURE INTEREST IN CUTTHROAT MARKET (Reuters, Florence Tan)**

- Its offers of more oil for October loading (to compensate for lower domestic demand due to major refineries’ shutdowns for maintenance<sup>7</sup>), fell on deaf ears as cheaper alternatives (e.g. Iraq oil) were available & storage facilities in Asia are full due to refinery maintenance shutdowns there as well. In September Saudi 10.23 bbl/d oil output was on a par with the average YTD (vs. a 2014 average of 9.69MM bbl/d & close to June’s record 10.5MM bbl/d).

*According to Virendra Chauhan, an analyst at London-based Energy Aspects, “It’s a buyers’ market ... We see 10-10.1 millions bpd as the new norm for Saudi production”*

### **OPEC SEES CRUDE-DEMAND GROWTH LEADING TO A BALANCED MARKET (Bloomberg, Wael Mahdi)**

- OPEC’s Secretary-General Addalla Salem El-Badri told a Kuwait City conference demand is growing as non-OPEC oil output is declining, helping the supply of-, & demand for-, oil to come into better balance, saying “I expect to see a balanced market in 2016.” And Kuwaiti Oil Minister Ali Al-Omair told it that OPEC producing 30MM bbl/d is the “ideal solution” to rebalance the market<sup>8</sup> & support prices, and that no member of the organization is calling for a change from that level at its December meeting<sup>9</sup>. Meanwhile Kuwait, OPEC’s third-largest producer produced a record 2.94MM bbl/d in September & plans to hike that another 100,000+ bbl/d in the First Quarter of 2016 (& to 3.2MM bbl/d by an unspecified later date).

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<sup>5</sup> From West to East in Texas, Louisiana, Mississippi & Alabama.

<sup>6</sup> Up by one-third in the past two years & by 10% YoY

<sup>7</sup> A complete shutdown at its 400,000 bbl/d Petrorabigh refinery & a 25% cutback at the 37.5% Sinopec-owned Yasref refinery (*that just in July had proudly announced that throughput had reached its 400,000 bbl/d rated capacity*).

<sup>8</sup> Although In September the group in September produced a post-2012 record 31.57 bbl/d and, according to Bloomberg, now has exceeded the 30MM bbl/d level for 16 months in a row.

<sup>9</sup> Which may well be true in a very limited way. For, in part due to OPEC members producing far more than 30MM bbl/d, that number is totally spurious & in part because those critical of the present situation just want Saudi Arabia to cut its oil production to make room for them to produce more (diametrically opposed to the Saudi policy objective of protecting and/or regaining market share).

Meanwhile, Baker Hughes' international rig count for September was 2,171, down 1,488 YoY & 55 MoM (after the August count had been **up** 59 MoM); but what was most striking was that the North American rig count was down 56% YOY & that elsewhere only 14%, with the active rig count **outside** North America now exceeding that **inside** it for the first time since 2009.

### **OIL DEMAND GROWTH TO SLOW, IEA SAYS, BUT IS OPEC LISTENING?** (CNBC, Holly Ellyatt)

- Its October monthly report expects global demand growth in 2016 to decelerate from 2015's five year-high 1.8MM-, to 1.2MM-, bbl/d, "closer towards its long-term trend". Meanwhile OPEC has hiked its crude output, offsetting the decline elsewhere &, while the IEA expects the latter to decline by another 500,000 bbl/d next year due to "lower oil prices and steep spending cuts", it also expects the slower demand growth & more Iranian oil to "keep the market oversupplied through 2016".

*OPEC & the IEA obviously aren't on the same page. And while the IEA's prognostications often are most useful as counter-indicators, in this instance it may well be right 'on the mark'. But, rather paradoxically, OPEC may well stand to gain more from being wrong than right in terms of maintaining its pre-eminent position in the global oil industry; for the longer the prices stay lower, the greater the short-and-longer-term impact on high cost non-OPEC producers.*

### **ISLAMIC STATE BATTLES INSURGENTS NEAR ALEPPO AS ARMY PREPARES ASSAULT** (Reuters, Dominic Evans)

- Foreign-backed insurgent/jihadist groups in the Aleppo region so far have held their own while being attacked by ISIS militants & bombed by Russian jets<sup>10</sup>, and preparing for a Syrian army offensive backed by more & more Iranian soldiers. Thus on October 14<sup>th</sup>, after militants had seized part of two towns North of Aleppo (that is partly under rebel-, & partly under army-, control), the rebel forces pushed them out again since militant control would have threatened the supply lines for the rebel forces still in the city.
- Iran has sent thousands more troops into Syria to support one offensive underway in Hama province (*East of Tartous province, the Southern half of the coastal Alawite homeland & home to Russia's base at Tartus*) & another one planned for further North, in the Aleppo region (*both targeting rebel-, not ISIS-, forces*). Further evidence of Tehran's support for al-Assad came with the arrival in Damascus on July 14<sup>th</sup> of a group of Iranian lawmakers & the circulation of a picture of Qassam Soleimani, Head of the Revolutionary Guards' Quds Force, addressing Iranian & Hezbollah fighters in Latakia province. In the past week three senior Revolutionary Guards officers & two Hezbollah commanders have been killed in Syria &, as foreign support for al-Assad has grown, so has other foreign backers' for the insurgents.

*The al-Assad coalition's top priority seems to be to turn the tide in Hama & Idlib<sup>11</sup> provinces where the rebels over the summer had made significant gains.*

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<sup>10</sup> On October 13<sup>th</sup> Russian jets carried out 88 missions, a record one day high.

<sup>11</sup> Bordering Turkey & immediately to the East of Latakia province (whereas the other half of the Alawite homeland borders on Lebanon to the South & Hama province to the East .

## **IRAN TEST-FIRES NEW LONG-RANGE BALLISTIC MISSILE WITH RANGE TO REACH ISRAEL (Haaretz, Sam Wilkin)**

- On October 11<sup>th</sup> Iran tested a new precision-guided missile, named Emad, signaling an advance in its efforts to boost its missile arsenal's accuracy; for while it has one of the Middle East's largest missile programs, its effectiveness has been hampered by poor accuracy. And Defense Minister Hossein Deghan told a televised news conference that the Emad missile was "able to strike targets with a high level of precision and completely destroy them ... This greatly increases Iran's strategic deterrent capability."
- Anthony Cordesman of the Washington-based Center for Strategic & International Studies last January estimated Emad had a range of 1,700 kms/1,060 miles & 500 metre accuracy (vs. 2,000 metre for the current state-of-the-art Shabab-3 missile that has a similar range), & Israeli missile expert Uzi Rubin declared it to be "a major leap in terms of accuracy ... (with) an advanced guidance and control system in its nose cone."
- This defied a UN ban on it undertaking any activity related to the development of ballistic missiles capable of delivering nuclear warheads that its officials have pledged to ignore.

*And while Shahab-3 is liquid-fueled, Ehad is solid-fueled, which has a number of handling-, & launching-, advantages & "represents a significant achievement in ballistic missile design."*

## **CHINA TO PUT GROWTH BEFORE REFORM AMBITIONS AMID SLOWDOWN FEAR (Reuters, Kevin Yao)**

- The Communist Party's Central Committee will meet October 26<sup>th</sup> to 29<sup>th</sup> to set out its 13<sup>th</sup> Five-Year Plan, its blue print for the country's economic & social path for the years 2016-2020 (a major feature of which will likely be much more infrastructure spending, Beijing's favourite means of administering stimulus). While the government has flagged a "new normal" of slower growth as it seeks to shift the economy to sustainable, *domestic* consumption-led growth, the plunging stock market & the reaction to the *minor* yuan devaluation have raised fears that an abrupt slowdown in growth could spark systemic risks (*incl. social unrest?*) & destabilize the economy. So an economist at a government think tank said "We will have to rely on policy stimulus to safeguard the 7 percent growth target ... We should not put financial liberalization at the forefront of economic reforms", & Zhou Hao, Senior Economist at the Commerzbank in Singapore that "It appears that growth has outweighed the reform agenda, which could stabilize the market for the short term while adding destabilizing factors in the medium term."

*Prior to President XI assuming his post in 2012 Beijing viewed 7% growth as the level at which the risk of social unrest would start to escalate. But he differs from his predecessors in that, while for them economic growth was the be-all & end-all, he has from Day One taken the position that economics are second to politics, rather than the other way around<sup>12</sup>, and that the potential for domestic social unrest can be better managed by having a cleaner-, more disciplined-, and stronger & more caring-, CCP (Chinese Communist Party)<sup>13</sup>. And in de-emphasizing the 7% growth target, he is helped by the fact that the 8% average growth rate o*

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<sup>12</sup> As demonstrated by the act that he delegated primary responsibility for economic management to Premier Li & retaining the political management responsibility himself.

<sup>13</sup> Hence his pre-occupation with rooting out corruption (which had the added benefit for him of discrediting any & all potential challengers to his own pre-eminence).

*the first four years of the decade has given him a bit of a 'leg up' in terms of the growth rate achieved during the rest of the decade & that, since he inherited the doubling target from his predecessors, he can disown it with a minimum of damage to his reputation.*