

A global time bomb merrily ticking away? - The post-2009 record low US interest rates prompted a surge in US dollar-denominated borrowing by non-financial developing country entities to the point where at last report it had risen to US\$4.5TR, almost half the US\$9.3TR of such debt outstanding. Part of this is accounted for by state-controlled oil companies, such as Gazprom & Petrobras, & much of the rest by companies with little by way of US\$ earnings (incl. several Chinese real estate companies¹). And the low oil prices will make it difficult for the former to meet their debt servicing payment obligations, while the strong US\$² will make the servicing of their dollar-denominated debt more painful for the companies without a source of US\$ earnings.

Iraqis seize Canadian Air Force Hercules aircraft - After landing on October 28th at the Baghdad International Airport enroute to Erbil in Northern Iraq/Kurdistan with a load of weapons destined for units of Canada's Petawawa-based Special Operations Regiment & the Ottawa-based Joint Task Force 2 counter-terrorism unit, the Iraqis detained it for four days on the grounds it lacked the necessary authorization, before allowing it to go back whence it had come, Kuwait (a similar fate befell a Swedish military plane for the same reason although it too was allowed to go back where it had come from, in its case Turkey) - *the Iraqi are (rightly) worried about the Kurds breaking away.*

GLEANINGS II - 641
Thursday November 12th, 2015

THE MARKETS NO LONGER FEAR A RATE HIKE (FP, John Shmuel)

- According to London-based Capital Economics, a leading macroeconomic consultancy, investors no longer fear a Fed rate hike (that is now generally expected to come at its December meeting), with its economist Julian Jessop opining "the gradual return of US interest rates towards more normal levels is unlikely to be the seismic shock that many have been fearing", although it would still have market repercussions from a still stronger US dollar & higher UST yields, & may result in less, if any, pressure on the price of gold than some people expect, with there even being a chance of it performing well.

If the Fed does indeed move at its December meeting, its decision may be driven more by a perception the US inflation rate has started moving towards its 2% target than by anything else.

THE EU EXPECT 3 MILLION MIGRANTS BY 2017 (AP, Lorne Cook)

- Over 700,000 people have come to Europe YTD for sanctuary or jobs, seriously challenging the EU's border-, & reception-, capabilities. And its autumn economic forecast, released on November 5th, assumed arrival rates won't slow before 2017, saying that, while in the short run dealing with them & getting them settled will entail costs, they are likely to generate significant economic benefits in a few years. And, after having been a first hand witness on November 5th to new arrivals on the Greek island of Lesbos (as his motorcade traveled from the airport to a new refugee registration facility!) Prime Minister Tsipras declared "Smugglers ... cram people onto vessels that are not

¹ Only one in three non-financial Chinese companies with dollar-denominated debt have any dollar earnings streams.

² It is up 14.5% from January 1, 2009 & 35.4% from April 2011, its low point since.

boats but makeshift inflatables ...What's happening in the Aegean Sea is a crime." Meanwhile, the EC says the refugee flow will only hike the population of the EU by 0.4% & Pierre Moscovici, the EU's top economic/finance official, opined "You cannot say that this influx of refugees is likely to have a negative impact, or some kind of shift, of kicking other people out of the labour market."

Moscovici may be delusionary, given that youth unemployment in the EU at last report ranged from 53.7% in Greece, 49.2% in Spain & 44.2% in Italy, through 23.6% in France, 20.9% in Sweden & 15.7% in the UK, to 10.1% in Estonia, 10.0% in Malta & 7.1% in Germany. The EU estimate could easily turn out to be a 'low ball' ball figure; for according to the UNHCR the number of people in the world displaced by war, conflict and/or persecution last year had risen 16.2% YOY to 59.5MM (up 59% in a decade & 31.6% between 2012 & 2014). And the ongoing drought in the sub-Sahara Sahel region has left over 20MM people "food-insecure" (a situation the expected "Super El Nino" is likely to aggravate), with the number of displaced people in the region, due to political strife, having doubled in the past year to 3.5MM.

OBAMA, NETANYAHU PLAY DOWN DIFFERENCES (AP, Julie Pace)

- On Monday November 9th they met at the White House for their first face-to-face meeting in over a year. Their frosty relationship hit bottom earlier this year when Netanyahu vigorously opposed Obama's pursuit of a nuclear deal with Iran (& *went behind his back in addressing Congress at the behest of some of Obama's Republican foes*). Seemingly an attempt to reset of US-Israeli relations for the final year of Obama's term in office, it was all sweetness & light, with both reconfirming their commitment to Middle East peace despite the prospects for Israeli-Palestinian agreement being more remote than ever, & *Netanyahu currently facing unprecedented, grassroots' & hence all but impossible-to-defend-against, one-on-one attacks by young Palestinians, & even women, on Israelis in the West Bank, East Jerusalem &, most worrisomely, Israel proper*).

The next day, at the left-leaning, Washington-based Center for American Progress, he apologized for having said on election day last March that "huge numbers of Arabs" had been brought out to vote by foreign-funded NGOs (prompting furious charges of racism in the Israeli media & 'deep concern' in the White House), noting that more Arabs had voted for Likud than for Labor (which is irrelevant since what set him off had been the fact that it looked as if more Arab MKs would be elected, as there were). And he didn't rule out possible unilateral Israeli moves in Judea & Samaria (i.e. the West Bank), although conceding "such a move will ... require greater international understanding than there is now", & claimed he was the Prime Minister who had built the least in Judea & Samaria, and that "No new settlements have been built in the last 20 years ... The additions are to existing communities ... the map has not changed significantly." - Mark Twain once noted "Facts are stubborn things, but statistics are pliable". The facts herein are that Yes, according to Haaretz the West Bank settler population had grown by 23% to 355,993 in the five years ended December 31st, 2013 (Netanyahu became Prime Minister in March 2009), while it had grown 31% in the previous five years under Sharon & Olmert (still 23% was more than twice the 9.6% population growth rate of Israel proper), that, while there may not have been "No new settlement built in the last 20 years", during that time the West Bank settler population had more than tripled & that on August 31, 2014 400 hectares of Palestinian-owned land were declared "state land on the instructions of the political echelon" for a settlement to be known as Gevoat (bids for building an initial 1,000 units there already having been called a year earlier), with the Israelis claiming this was not a new settlement but merely a "neighbourhood" of the existing Alon Shvut settlement several miles down the road.

RISK OF 'SHARP' HOUSING CORRECTION IN TORONTO : OECD (G&M, Garry Marr)

- The OECD released a report on November 9th that said in part “At the national level housing starts are at the higher end of demographic requirements ... In Ontario, Toronto economic activity has been relatively buoyant and demand has been boosted by the falling dollar. That said, newly completed but unoccupied housing units have soared in Toronto, increasing the risk of a sharp market correction.”

*While those who don't want their “punchbowl” taken away pooh-pooh the OECD finding, the following support it. In December 2014 the Bank of Canada said Canadian house prices were 30% overvalued. Last January Deutsche Bank warned they were 63% so³. Fitch in July deemed them 20%-, and last month Moody's & the Economist's view was they were 35%-, overvalued. While the focus has been on the average price of detached houses in Vancouver & Toronto hitting \$1.47MM & \$1.02MM respectively, in all major Canadian cities the “affordability factor” is well in excess of the traditional bench mark of 3x disposable family income, ranging from 5.7x in Vancouver and 5.2x in Toronto & Calgary to lows of 4.6x in Halifax & Regina. Last but not least the OECD has since 1970 tracked the ratio of house prices to disposable income per capita & this is now for Canada 35% **above-**, & for the US 10% **below-**, their long-term averages⁴.*

UNTANGLING THE OVERLAPPING CONFLICTS IN THE SYRIAN WAR (NYT, S. Peçanha)

- Started as a popular uprising, it has morphed into a mini world war. Nearly a dozen countries are now embroiled in two overlapping conflicts, one the civil war & the other the war against ISIS, with participants often allies in one & opponents in the other. The rebel groups seek to oust Assad & have no interest in rooting out ISIS. The US wants to defeat ISIS with deposing Assad only i secondary priority, the very opposite of the rebels groups it supports. Russia, Iran & Hezbollah want to keep Assad in power & fight the rebels, not ISIS. The latter just wants to create a caliphate in parts of Syria & Iraq to serve as a springboard for expansion. The US has been joined in its fight against ISIS by, among others, Turkey while supporting Kurdish forces whose longer-term aim is an independent Kurdistan that would in part be carved out of what is now Eastern Turkey) & Saudi Arabia (while private Saudi money is supporting ISIS) although its fighter jets, once despatched with great fanfare to join the anti-ISIS coalition, have since been quietly re-deployed in its proxy war against Iran in Yemen.

While the CW holds that all this might have been avoided if Obama had just acted on his “red line” threat to Assad if he used chemical weapons against his own people, the root cause of this mess is that post-WW II Syria was a hodge-podge of peoples that had little, if anything, in common with each other & that could only operate as a single political unit under the thumb of a strong man (which Assad Junior is decidedly not). And the outcome of the current conflict likely will be very much along the lines of the French Mandate of 1922 (that divided the region, that then included what is now Lebanon, into six different ‘statelets’ among ethnic/religious lines).

³ A staggering number that was the average of a 34% overvaluation on a household income basis & a 90% overvaluation based on the cost of renting equivalent accommodation.

⁴ For two decades ending in 2007 there was a strong correlation between these ratios for Canada & the US; but since then the US one fell off a cliff while Canada's kept sailing upwards & onwards.

ANGELA MERKEL FACES OUTRIGHT REBELLION WITHIN HER OWN PARTY OVER REFUGEE CRISIS (The Telegraph, Justin Huggler)

- Some time ago she felt Thomas de Maziere, her Interior Minister, was mishandling the refugee file & shifted responsibility for from his Ministry to her Chief of Staff. But this did not stop him from seeking to change over the November 6th weekend (in what some deemed an attempted “putsch”), the asylum rules for Syrian refugees by ordering his officials to stop recognizing them as refugees under the Geneva conventions & instead accord them “subsidiary protection”, a more limited form of asylum that provides only a one-year residency permit & doesn’t permit bringing family members to Germany⁵.
- While Chancellor Merkel quickly revoked these orders, de Maziere’s move was almost equally quickly supported by much of her CDU (Christian Democrat) party’s upper echelon. Thus Finance Minister Walter Schaeuble came out the gate on Sunday with “Of course we have to limit family reunification, because our capacity is limited ... I consider this a necessary decision and I am sure we can quickly reach agreement on it in the coalition” [*with the left-of-centre SPD (Social Democratic) Party*], & on Monday November 9th followed this up in another interview with “If they all want to come to Europe, instead of solving the problems in Syria, they will never be solved.” And Bavaria’s Prime Minister, Horst Seehofer⁶, for some time a critic of Merkel’s asylum policy, was quick to come to de Maziere’s aid as well by declaring “he is right ... we must start applying the law and check the status of every refugee thoroughly”. And a number of other CDU prominenti voiced similar views.

This is driving Merkel into the arms of the SPD; for while there is growing grass roots support in Germany among the general public & in both parties for ‘deterrence’ & tightening up the asylum laws, both fear that this could blow the EU apart; in fact Jean Asselborn, the left-of-centre Foreign Minister of Luxembourg since 2004, recently darkly warned “When the lid is shut in Sweden and Germany, then I do not know what will happen in the Balkans.” (going as far as hinting at the possibility of war).

EU SCRAPS PLAN TO DEPORT AFRICAN MIGRANTS (DT)

- It circulated a draft diplomatic text two weeks ago proposing to issue EU “laissez-faire” travel documents to thousands of failed asylum seekers who had lost or destroyed their paperwork so as to enable it to sent them back to where they had come from. But at the recent Malta conference the African leaders turned up their noses at the incentives offered for them to take their countrymen back, incl. US\$2BN in aid and visas for their students & entrepreneurs, and told the EU there was no basis in international law for them having to agree to this. Meanwhile, Germany is getting set to start deporting Syrian refugees on the grounds that the EU rule is that migrants must claim asylum in the first member state they enter, i.e. in the vast majority of cases Italy & Greece (which cannot help but increase the potential for intra-EU strife).

⁵ Something that those granted asylum are automatically entitled to do.

⁶ Who was Merkel’s Minister of Food & Agriculture from 2005 to 2008, before becoming leader of Bavaria’s CSU party, the local affiliate of her CDU party whose support is critical to its prominent place in German politics.

Not only did the African leaders think it wasn't a good deal in & by itself. but agreeing to it would have been akin to killing the goose that lays the golden eggs; for the flow of migrants' remittances to their families back home is worth a lot more over time than US\$2BN.

GREEK PM ASHAMED OF EU ON REFUGEES (DT, Nick Squires)

- In a speech on November 6th, near the end of a bad week for drownings in the Aegean Sea (50+, of which 31, incl. 17 children, on that day alone), he said "The waves of the Aegean are not just washing up dead refugees, dead children, but the very civilization of Europe ... I feel ashamed as a member of this European leadership, both for the inability of Europe in dealing with this human drama and for the level of debate at a senior level where one is passing the buck to the other ... These are hypocritical crocodile tears which are being shed for the dead children on the shores of the Aegean."
- While his government has argued refugees should be registered in camps in Turkey whence they could then be directly resettled under the EU relocation program, thus sparing them the dangerous sea crossing, humanitarian groups accuse it of a chaotic, inadequate response to the crisis, with refugees left to fend for themselves.

It can hardly be a coincidence that just three days later his government was unable to convince its European creditors to release 12BN Euros more of much-needed bail-out funding (2BN for the government coffers & 10BN for its crippled banks); for, although a senior EU official expressed hope agreement could be reached in "the coming days", Greece was not seen as having made enough progress pushing through financial reforms, first & foremost in dealing with people with serious mortgage arrears. And any such agreement will only apply to the money promised the government; for the creditors intend to move to the question of how best to recapitalize the banks & lighten Greece's public debt load only after the financial reform issue is settled to their satisfaction, willfully oblivious to the fact that their continued unduly hardline stance is now threatening the modicum of political stability that last September's re-election of Prime Minister Tsipras had created. As to the migrant situation, there is enough blame to go around & the response of the EU has been just as, if not more, "chaotic (and) deeply inadequate" as Greece's [which at least had the excuse of being small (11MM people) & of having a government that was already up to its ass in alligators]. For this mess didn't blow up overnight, although it gained momentum unexpectedly fast once it got critical mass. And the US & Canada, and the other non-European developed countries are not blameless : for they were just as culpable of having starved the agencies sustaining the Syrian refugees in neighbouring countries of the funds that would have let them continue doing so.

ERGOGAN BETWIXT AND BETWEEN (NP, Matthew Fisher)

- This weekend he will host the G-20 Summit *at the Regnum Carya Hotel in Antalya, the tenth-most visited tourist destination in the world*, before turning its Chairmanship over to China on December 1st. It was to have been a showcase of how, in his 12 years at the helm, Turkey had become a mayor regional player & an economic success. But it has failed on both counts : the Turkish economy is sputtering &, after years of trying to cultivate his ties with Moscow as a counterweight to his rocky relationship with Washington, he has now picked a fight with both, with the latter for arming the Kurds in Syria & Iraq (that his air force is now bombing) who in their spare time promulgate the idea of an independent Kurdistan, to fight ISIS, & with the former for supporting his enemy, Syria's President Bashar al-Assad.

The two key issues facing the Summit will be if any progress can be made on a peace plan for Syria (which would require Obama & Putin to set aside their differences over Ukraine, Iraq & Syria) and if & how Erdogan will respond to financial inducements & the possibility of visa-free travel for Turks to block the flow of migrants to Greece across his country (as if that will stop it). Meanwhile a proposal circulated by Russia on November 11th calling for the drafting of a new constitution for Syria that would be put to a referendum & followed by an early presidential election was rejected out of hand by Syrian legislator Sharif Shehadeh who proclaimed "The president has a term and when it ends (in 2021) then we can talk about it" (which is, of course, empty grandstanding).