

Quote of the week - "If we command our wealth, we shall be rich and free; if our wealth commands us, we are poor indeed." - Edmund Burke (1729 -1797), *a long-time Whig Member of Parliament, political thinker & advocate of 'traditional values'*.

"As far as the future temperature of the earth is concerned, Canada is irrelevant, being responsible for just 1.6 percent of world emissions of carbon and other greenhouse gases" - this cop-out line of reasoning is often spouted by environmental Neanderthals & climate change nihilists, ignoring the fact that Canada does so with just 0.49% of the world's population - *So it was sad to see it parroted, on the front page of the National Post no less, by the usually commonsensical columnist Andrew Coyne in one of the lead-in paragraphs of an attitudinally despondent commentary on the outlook for concrete results from COP 21.*

Cheap US corn = record US ethanol output - Corn prices are down 20% YoY & US farmers have harvested their third-largest corn crop ever. So ethanol refineries are cranking out record volumes of it, a record 1MM bbl in the week ended November 22nd - *this ain't going to help the price of oil & never seems to be mentioned in discussions of the oil supply 'overhang'.*

A move by the Fed that (further) undermines its credibility? - It has unveiled a proposal (to come into force next year) that would require banks to raise billions in a new type of debt instrument that would be treated like equity if they failed, with Fed Chair Janet Yellen declaring "The proposal ... would substantially reduce the risk to taxpayers and the threat to financial stability stemming from the failure of these firms." - *if this is the best the Fed can come up with after years of contemplating the "too big to fail" Gordian knot, it's in truly bad shape: in the short run this will just boost banks' funding costs & yields for risk-tolerant investors, while longer term it will only "reduce" the risk to taxpayers & to the system in general, rather than deal with this phenomenon, once & for all.*

Global Assets under Management (AUM) - According to the Boston Consulting Group, in the year ended December 31st, they were up 8% to US\$74TR (US- 50%, Europe - 30%, Japan & Australia - 9%, Asia (ex Japan & Australia) -7%¹ and Latin America & the Middle East/Africa - 2% each). But only 1.7%, i.e. one-fifth, represented net new inflows (up from 1.6% in 2013 & the minimal, or negative, numbers of the 2008 -2011 period, but well below the 5.7% level of 2006 & the 3% of 2003); the rest was due to rising asset valuations. Of this total US\$45TR was accounted for by institutional investors (incl. sovereign wealth funds) & the remaining US\$29TR by money managers (whose AUM have been stagnating since institutional investors are moving more money inhouse (*for rising cost-, & indifferent performance-, reasons*). Just the same, money managers' profits were up 10% YoY to US\$102BN, i.e. 0.39% of their AUM (*not bad for playing with other people's money, with little 'skin of their own in the game'*).

Indonesia rejoins OPEC - OPEC was founded in 1960 & Indonesia was an early joiner (in 1962). But its oil output declined from 1.428MM bbl in 2000 to 828M bbl in 2013 while consumption grew from 1.037MM bbl to 1.660MM bbl, with the 'crossing point' being in late 2003. So it suspended its membership in OPEC effective January 1st, 2009. But it has now rejoined it, taken advantage of a clause in OPEC' founding statute that opens up membership to all "substantial net oil exporters" (&, due to a lack of local refining capacity, Indonesia exports

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This is creating a growing interest in the professional money manage community in China where there is supposedly the equivalent of US\$9TR in small investor bank deposits looking for a home.

300,000 bbl/d or so of crude & imports gasoline²). By doing so it hopes to attract more OPEC member investment, while the rationale given for OPEC re-admitting it is that it “would benefit from gaining an insight into oil consumers’ views”.

Iran to open up its oil & gas industry - It announced on November 30 it was opening up 18 offshore projects to international oil companies, *one of them a gigantic gas field that will take tens of billions of dollars to develop*, as well as a similar number of blocks for exploration - *both Indian & Chinese oil companies are likely to see this as a ‘Manna from Heaven’ opportunity.*

Student loans. A time bomb with a lit fuse? - In the nine years to last September 30th outstanding student loan debt grew steadily, even during the Great Recession, at a 11% CAGR to US\$1.3TR, 90% of it owned-, or guaranteed-, by the federal government. It is now second only to mortgage debt for the 29-37 year age cohort. And whereas < 4% of household consumer debt is 90 days late or in default, the corresponding number for student loan debt, as of last June 30th, was 11.5% (up from 10.5% YoY), with the **real** rate being close to twice that since, according to the New York Fed, nearly half of all the student loan debt does not currently require monthly payments – *the tragic part of this is that much of the proceeds of this debt accumulation funded irresponsible spending by institutes of higher learning that was of little academic benefit to the borrowers.*

The appeal of ISIS for young men - Thomas Friedman, on Fareed Zalaria’s November 29th GPS program on CNN, portrayed the typical ISIS recruit as a young man who “never has had a job, never held the hand of a girl & never had any authority over anything ... so when ISIS offers him a wife, a job with regular pay & power to lord it over others” he’s an easy mark - *if he is correct, the priority in dealing with ISIS should be to deprive it of its (oil) revenues*³ *(even if that were to perpetuate ISIS-controlled territories being a huge concentration camp), and to then to focus on creating, at home & abroad, job opportunities for young people at risk of becoming disconnected from mainstream society. But the latter will cost buckets of money & be a ‘hard sell’ in a decision-making environment that is ‘short-termist & instant gratification-oriented, and dominated by militarists, zealots, vested interests & straightline thinkers.*

The San Bernardino shooting - *It’s discouraging to see the effort being made to try to find a formal link between the doers & a foreign Islamist sponsor, rather than to accept what it seems to be, the work of ‘lone wolves’, who while radicalized by-, don’t seem to have operated under the aegis of-, by such entities (& lone wolves constitute a far greater threat to public security, since they operate under the radar of the counter-intelligence authorities who don’t-, & never will-, have the resources to keep tabs 24/7 on all lunatics out there. And the mass media that hype such incidents ad nauseam around the clock for days on end, never once mention the fact that the odds favour the guys ‘with the black hats’; for they have to pick only one target whereas the good guys must protect tens, if not hundreds, of thousands of them. Furthermore, statistically the 14 people killed in this incident represent only about four hours of road fatalities*

² A situation that may, however, come to an end during the foreseeable future as it has big plans to boost its refining capacity (*provided it can find the money to do so*)

³ Which could lead to a confrontation with Turkey; for the primary source of revenue for ISIS is the sale of the oil it “steals” from Iraq & Syria and it is hard to see how it could get it to market without the connivance of people ‘high up the food chain’ in Turkey, with some even pointing the finger at President Erdogan, whose son runs one of the country’s biggest energy companies & whose son-in-law is the country’s Energy Minister.

on America's highways & byways 24/7/365. The other thing that the TV coverage of the incident served to illustrate was an inefficient use of police resources; for there were dozens upon dozens of police cruisers in evidence, most of them parked, as if the 300+ officers from the various other jurisdictions had nothing better to do preventing, or dealing with-, crime in their own bailiwicks.

Turkey's downing of the Russian jet - The BBC generated a map from Turkish Ministry of Defense & Russian military information. The former shows it traveling in a straight line trajectory across a two mile wide appendix to a larger 50 x 20 mile appendix to Turkish territory that hugs the Mediterranean coast directly to the North of Syria's Latikia province, the Alawite homeland, & the latter a more erratic course, a dozen miles Northwest, eight miles Southwest, five miles West & five miles North, to avoid Turkish territory. The only thing this map seems to substantiate is that, if the Russian plane indeed did enter Turkish airspace, the claimed 17 second duration thereof fits. And, while Russia supposedly has violated Turkish airspace before, a Turkish military jet was shot down over Syria last October &, according to a leaked Wikipedia document, it had, back in 2005, violated Greek air space as often as 40x a day, for a total of 1,017 times during the year.

Unicorns - This moniker for private companies with valuations of > US\$1BN dates back to an era, a few short year ago, when they were scarce & hence the name fit. But today there are almost 150, with an aggregate valuation of US\$500+BN, even though many have yet to have any earnings [incl. the biggest unicorn of all, Uber (valuation US\$50+BN)]. But their valuations are based on a sort of reverse financial engineering of their most recent private placement; thus, if one found enough suckers willing to pay \$1BN for a 5% interest in a unicorn, its 'value' become US\$20BN. But it should be noted that Fidelity's stock picker par excellence Bill Danoff, who runs its US\$111BN Contrafund, who over the past 15 years outperformed the S+P 500 by 62% (i.e. with an 8.12% annualized rate of return vs. the S&P 500's 5.00%) & who has US\$1.93BN invested in unicorns, the second-largest such portfolio in existence, has cooled on them (& *their valuation methodology*).

World's biggest pension takes biggest ever hit - In the Fourth Quarter of 2014 Japan's US\$1.2TR public pension fund doubled its allocation to equities at the urging of none other than Prime Minister Shinzo Abe. It recently reported a US\$64.3BN (5.4%) loss for the Third Quarter.

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YELLEN SIGNALS FED ON TRACK TO RAISE RATES IN DECEMBER
(WSJ, John Hilsenrath)

- She told the Economic Club of Washington on December 2nd that, barring a surprise that would shake her confidence in the economy, she was ready to start raising short-term interest rates this month (*at the December 15/16 FOMC meeting*), even though she sees some dissension in the ranks (*of its membership*)⁴ which she sought to explain away by saying "I think we have to tolerate some dissent ... I wouldn't stifle dissents and would even expect some at critical junctions." And she described an economic backdrop that

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One dissenter may well be the dovish Atlanta Fed President Dennis Lockhart, whose real time GDPNow Fourth Quarter growth indicator has plunged since November 7th from a 2.9% 'above the consensus' level to, at last report below the lowest forecast 1.4%.

benefits one that will see inflation rise towards the Fed's 2% target & warned that delaying a rate increase could hurt the economy by inducing (*still more?*) risk taking by investors that could destabilize the financial system.

That day also the Labor Department reported inflation-adjusted⁵ hourly compensation for workers in the non-farm business sector in November had been up 3.4% YoY (vs. from 3.3% in October), the second-largest such jump in six years (although inflation by the Fed's preferred measure, 'core PCE'⁶, in October 1.28% vs. 1.33% MoM, has been below its target for 42 consecutive months).

JUNK-BOND LOSSES PILING UP AS TRADERS BECOME JITTERISH (Bloomberg News)

- After junk-rated 21st Century Oncology Inc. cut its earnings guidance the market 'value' of its bonds crashed 19% overnight. And other junk-rated issuers, like Chesapeake Energy, Men's Wearhouse, Scientific Game Corp., have experienced not dissimilar freefalls in the valuation of their bonds. According to Deutsche Bank, the debt of the riskiest companies is now being sold off 4x faster than that of the least risky junk bond issuers (vs. a 'normal' ratio of 1.6x). With the Fed poised to raise rates & commodity prices still in the doldrums, investors have little patience for even the slightest bit of bad news and, with confidence in the global economy ebbing, fewer investors are willing to be counterparties in risky trades.

And overarching it all is a dark cloud of fear of illiquidity in the bond markets.

COUNTRIES CLASH OVER NATURAL GAS (AP)

- On November 25th tensions escalated between Russia & Ukraine after the latter decided to stop buying gas from Russia, on the grounds 'it had been offered better prices by others', & closed its airspace to its planes⁷ (according to Prime Minister Arseny Yatsenyuk "as an issue of national security as well as a response to Russia's aggressive actions"). While Gazprom's story was it had quit sending gas to Ukraine since it hadn't paid in advance for future deliveries & its CEO, Alexei Miller, warned that "Ukraine's refusal to buy Russian gas threatens a safe gas transit to Europe and gas supplies to Ukraine consumers in the coming winter", according to the European Commission Ukraine's gas reserves are well-stocked & the recent mild weather had prompted below average consumption, announcing "We are not particularly concerned about the gas flows from Russia."

While the Ukrainian situation has been replaced in the headlines by the Middle East, it hasn't gone away (although Russia's one-time position of strength may be waning a bit. & Gazprom's hand is weak; for, while it once accounted for 8% of Russia's GDP, now its faltering economy has reduced domestic demand &, since its price to European customers is tied to oil prices (with

⁵ I.e. in layman's everyday terms it would be 1%, or more, higher.

⁶ Personal Consumer Expenditure. Compared to the CPI, it vastly underweights lodging costs (22% vs. 40% & transportation costs (10% vs, 17%) & even more vastly overweights healthcare costs 20% vs. 7%). And it is easy to see why the Fed prefers to use it since, for the past five decades, its readings have consistently been lower than the CPI.

⁷ This came one month after it had banned Russian airlines from using its airports.

a six months' lag), the price it receives has cratered from US\$10.20 in June 2014 to US\$7.21 last June & US\$6.01 in October. And while European demand this year was much stronger than expected, propping up Gazprom's revenue stream, some of this was demand 'borrowed from the future' (i.e. gas bought cheaply to put in storage); so over the next few months it may be hit with a 'double whammy' from still lower unit prices (Brent oil is 25% cheaper than six months ago) & slackening demand (which would be bad news for Putin, both personally - allegedly a-, if not the-, major shareholder in Gazprom -, & strategically - by making the cost of his international posturing harder to sustain)

THE MIDDLE EAST INCHES AWAY FROM THE INFERNO (WP, David Ignatius)

- Lebanon has long played a central role in Middle East affairs; hence as the Arab proverb "If she gets pregnant in Baghdad, she will give birth in Beirut." So it may be a positive sign that the local allies of Saudi Arabia & Tehran, with the approval of the US, have tentatively agreed, after an 18-months' deadlock, on Suleiman Franjeh, a Maronite Christian long friendly with Tehran, becoming President, & Saad Hariri, a Sunni backed by Saudi Arabia, Prime Minister (*both men whose fathers were 'blown away' by assassins*). Also positive was the December 1st, Qatar-brokered prisoner exchange between the Shiite-dominated Lebanese government & *Sunni* Jabhat al-Nusra, the local al-Qaeda franchise.

*This may be an unduly optimistic assessment. Be that as it may, the latter may be the more promising potential 'green shoot of the two. The Franjeh/ Hariri thing is as yet not a done deal. With so many Christians having emigrated the real political power of the President (who **must** be a Maronite Christian) has been largely eroded &, as far as the Prime Minister is concerned (who **must** be a Sunni), the government doesn't really work all that well at the best of times & the real power in the country rests with Shiite Hezbollah which controls, directly & indirectly, a majority of seats in the 128-seat Parliament & has serious military muscle. The al-Nusra hostages freed numbered 16 & were among the 29 captured last year when a joint al-Nusra/ISIS force⁸ overran a Lebanese army post (ISIS still holds eight of its ten originals, having executed two of them, al-Nusra earlier had killed two, one of whose remains it also turned over to the Lebanese, & one had died in captivity from injuries received in his capture). Little is known of the 25 people freed by Lebanon, other than that they were said to include several children, the ex-wife of ISIS leader el-Baghdadi (caught trying to enter the country with forged documents) & the wife of an al-Nusra leader.*

MORE RUSSIAN DRILLING SHOWS ITS RESOLVE TO OPEC (Reuter, Vladimir Soldatkin)

- According to Eurasia Drilling, the largest provider of drilling services onland in Russia & offshore in the Caspian Sea, in the first six months of this year total drilling, as measured in meters was up 10% YoY despite the more than halving of the oil price. For as BoAML put it in a recent research report Russian producers are "helped by the effect of the weak ruble on costs and lower export taxes which decline in a lower price environment", & so can break even at prices as low as US\$35. Longer term, in Russia in the past decade drilling per year has doubled to 22MM metres & since 2005 the number of horizontal

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This was before ISIS struck out on its own after the al-Qaeda leaders sided with al-Nusra against ISIS in an intra- family dispute in the terrorist group.

wells has grown six-fold⁹. And according to OPEC the number of wells in the Middle East has also increased.

In October Russian oil production, at 10.77MM bbl/d, for the fourth time this year set a post-Soviet era record, with Artem Konchin, a senior oil & gas research analyst at Moscow-based Otkritie Capital, observing “Russian oil companies are insulated from price corrections ... through the tax framework, the government took the brunt of the blow¹⁰, just as it used to take most of the windfall profits (when prices were high). The rest of the story is the ruble depreciation.”

NORWAY’S OFFSHORE FLEET FEELING CRUNCH (BB, Mikael Holter)

- Norway’s offshore fleet of seismic surveyors, *floating* drilling rigs & supply vessels (the world’s second largest, after that of the US) has been hit by a drought of new contracts as oil & gas companies slash investment & delay projects. As a result, 100 (one out of every six) are idle, up from zero one year ago. And according to Sturla Henriksen, CEO of the Norwegian Shipowners Association “the worst is still to come ... 2016 and 2017 will be very demanding years” as the number of idled floating drilling rigs will double to 20. And according to the Norwegian Oil and Gas Association oil company investment in Norway will be down 19% in 2016 & another 11 percent in 2017.

So it’s not surprising that the government expects that, in 2017 to balance its budget, it will have to make its first-ever withdrawal from its US\$850BN sovereign wealth.

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THERE IS NO OBVIOUS ESCAPE ROUTE FOR LABOUR FROM PARTY’S AGONIES (The Guardian, Andrew Rawnsley)

- In the short history of its Jeremy Corbyn experiment, the past week was the most spectacularly disastrous yet. There is open warfare between him & his shadow cabinet over Syria. Ken Livingstone¹¹ opined on Question Time¹² that the 7/7 bombers¹³ had

⁹ This really nothing to write home about; for the 2005 base number was relatively small since horizontal drilling had until then been the exception rather than the rule.

¹⁰ But there could be a dark cloud for Russian oil producers-, & possibly a bit of daylight for those elsewhere-, on the horizon. For Moscow depends for half its revenues on oil & gas (& much of its exports of the latter are indexed to oil prices). So its financial situation has one foot in the grave & the other on a banana peel, with Finance Minister Anton Siluanov last October 27th telling the upper house of parliament that, if oil prices stayed below US\$50, there was a real danger that the country’s reserve fund would be exhausted in 2016. So there have been rumours that Moscow is considering jacking up its oil export taxes (which would be akin to killing the goose that lays the golden eggs & a sign that Putin’ posturing abroad may be based on thin air).

¹¹ The former Mayor of London & a ‘hard-left’ member of the Party.

¹² A popular political debate program that has been on the air since 1979.

¹³ On July 7th, 2005 four suicide bombers aged 18 -30, three of them born in England to Pakistani parents and the fourth in Jamaica & a convert to Islam, exploded bombs in a coordinated manner on three trains on the London Tube & one double-decker bus, killing 52 (& injuring another 700).

“given their lives” in protest to the Iraq war (*as if the 52 people they had killed in the process, & the 700 or so injured, had been mere chopped liver*). Labour MPs were calling for his (Corbyn’s) resignation as his office sought to mobilize constituency activists to intimidate their MPs. Instead of skewering Chancellor George Osborne’s “tyre-shrieking, tarmac-smoking, whiplashing U-turn” on a key part of the Budget he produced just four months ago, the shadow chancellor, to the astonishment of his fellow Labour MPs, read passages from a dog-eared copy of Mao TseTung’s ‘Little Red Book’ to the House, illustrating not just that the Far Left has captured the party leadership but, more importantly, that it’s bad at politics.

- While, given the past experience with military action in the Middle East, it should have been a no-brainer for Corbyn to convince people not to extend UK airstrikes to Syria, he hasn’t even been able to convince his own shadow cabinet of this, with his shadow foreign secretary, his shadow defense minister & his deputy leader sharing the Prime Minister’s views rather than their leader’s, & with only five of the 31 members of his shadow cabinet supporting him on the issue when they met on November 26th. His principled pacifism isn’t shared by the great majority of the British people, of those who voted in the last election, & even of Labour MPs. And when YouGov, a London-based market research firm, recently asked people whom they would trust most to make the right decisions about ISIS & Syria, David Cameron was so trusted by the slimmest of margins, while 68% wouldn’t trust Corbyn to do so, the same level of distrust they accorded Putin. Whatever trust his colleagues may have had in him now appears to have evaporated due to what some call underhandedness (i.e. not keeping his caucus ‘in the picture’) & others blithering incompetence. But, while cries are emanating from the parliamentary party that “We can’t go on like this”, it is trapped; for, unlike the Conservatives, Corbyn can only be removed by the party membership as a whole (control of which at the constituency level is in the hand of his supporters).

In the event only 153 out of the 231 MPs voted against extending authorizing airstrikes to Syria.

Maurice Strong - A life-long self-promoter & opportunist, ‘worker of the system’ extraordinaire & political chameleon^{14 15} and, according to the *Globe and Mail*, “the St. Paul of the environment movement”¹⁶, he didn’t get his timing quite right when he died, at age 86, two days before the opening date of COP 21, the latest instalment of the global environmental movement he had been instrumental in midwifing. A slight, undistinguished-looking man with a tooth brush moustache who looked more like a small town-, rather than a serious global-, wheeler dealer with a Rolodex of names that made him the “Michelangelo of networking”, the global headline-grabbing environmental part of his career was bracketed by the First Conference on the Human Environment in Stockholm in 1972 & the Rio Earth Summit in 1992 (both of which he was responsible for conceiving & organizing). He was a man of contradictions. Having grown up during the Great Depression in the one-horse Manitoba farming community of Oak Lake, he

¹⁴ In 1976 he told *Maclean’s* magazine that he was “a socialist in ideology and a capitalist in methodology” & the *Calgary Herald* that “I’m not a socialist. I am a private sector person”

¹⁵ Who, as one of his unofficial biographers put it, was one of a “new breed who used his business success for leverage in politics, and vice versa”.

¹⁶ And two days after his death the *Calgary Herald* that didn’t have a good word to say about him three decades ago, when he was Chairman & CEO of Petro-Canada, gave his life & career rather fulsome coverage in an article headlined “Strong’s spirit looms over UN’s Paris Climate Summit.”

never went to university but nevertheless managed to accumulate 53 honorary doctorates & honorary visiting professorships at seven universities . A self-confessed socialist, he became extremely wealthy. Still in his mid-thirties, he became CEO of Montreal-based Power Corp., only to jump ship after a couple of years (leaving a mess for his successor to clean up, which in all fairness was not altogether his fault) to become head of CIDA (the Canadian International Development Agency)¹⁷. Despite his environmentalist track record, he was the founder & Chairman of-, & a major shareholder in-, Denver-based American Water Development Inc. which in the mid-1980's became embroiled in a high profile brawl with the locals, that it eventually lost, when, after buying the 155,000 acre Baca Grant Ranch in Colorado's San Luis Valley (that gets 7 inches of rain a year), it proposed pumping 200,000 acre feet of water a year from the underlying aquifer for "agricultural purposes" (at a rate of 16 inches/year on every single acre of the ranch?) but in reality, as the company later was forced to admit, to sell water to nearby cities, like Denver. After his escutcheon was besmirched in 2005 by allegations he had benefitted from the Iraqi oil-for-food caper, he moved to Beijing full-time ('because he liked the Chinese government's style') only to start dividing his time a few years later between that city & Toronto & in 2012 to tell the media that "China is outpacing Canada in determination to tackle climate change and rein in greenhouse gas emissions" - *having had first hand experience living in often smog-choked Beijing for a number of years, this was likely attributable to his lifelong extreme Liberal Party partisanship.*

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It being a point of pride for him that it had refused to hire him a decade earlier for a junior position (as I heard him gleefully tell all & sundry brag on the plane back to Ottawa from the 1967 IMF/World Bank Annual Meetings in Rio de Janeiro