

**The April 9<sup>th</sup> Wyoming Democratic primary** – While some of the media made much of it, it wasn't a big deal. For it was a caucuses-type primary with only 280 people (i.e. 0.05% of the population) participating &, although Sanders had the support of 55.7% of them vs. Clinton's 44.3%, each walked away with an equal number (7) of delegates; so nothing changed

**GLEANINGS II - 662**  
**Thursday April 14<sup>th</sup>, 2016**

**FED'S YELLEN JOINS WITH PREDECESSORS TO CALM RECESSION FEARS**  
**(WSJ, Michael Derby)**

- On April 7<sup>th</sup> Fed Chair Janet Yellen was joined at New York's International House in person or on video by three of her predecessors (Bernanke, Greenspan & Volcker) in an attempt to dispel worries, given the slow(ing) global economic growth & the expansion's advanced age, that the US is heading into a recession. She said "This is an economy on a solid course, not a bubble economy" that had made "tremendous progress" recovering from the 2007-2009m financial crisis. Bernanke added "The domestic U.S. economy is moving forward ... I don't see any particular reason to believe a recession is any more likely in 2016 than it was in 2015 or 2014... expansions don't die from old age<sup>1</sup> but reverse ... when imbalances throw off spending & investment" (with which Messrs. Greenspan & Volcker largely, *but apparently not totally*, concurred).

*There are many who believe, with significant historical evidence to back this up, that the more vehemently a rumour is denied at the higher a level, the more likely it will come to pass. Be that as it may, the market has been spooked by the fact that in the past month the increasingly widely followed Atlanta Fed's GDPNow real time GDP growth tracker has gone from 2.3% to 0.3% on April 13<sup>th</sup> (though that is slightly better than its April 8<sup>th</sup> 0.1% reading). And the fact remains that a weak First Quarter will make the Fed's forecast of 2.5%-3.0% 2016 GDP growth rate harder to achieve.*

**FUND MANAGERS FEAR 'QUANTITATIVE FAILURE** (FP, John Shmuel)

- A survey released on April 11<sup>th</sup> by BOAML found that 21% of them consider this their greatest 'tail risk'<sup>2</sup>. By this they mean that years of *extremely* loose monetary policy have failed to produce the desired economic growth, with most developed countries having little to show for the trillions spent on monetary easing than massive amounts of debt & that a normalization of global monetary policy seems no closer now than it did years ago. And their concerns are reflected in the fact that in Europe stocks have been trending down ever since the ECB expanded its asset purchases last year & that, despite Japan's ongoing easing measures, investors are now underweight Japanese stocks.

*Meanwhile the central banks are mindlessly doing the same thing over & over again (& expecting a different outcome).*

**WILL OPEC DELIVER OIL DEAL IN DOHA?** (cnbc.com, Holly Ellyat)

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<sup>1</sup> This is the third-longest expansion since WW II.

<sup>2</sup> A fancy word for a serious stock market crash.

- On Sunday April 17<sup>th</sup> 15 OPEC & non-OPEC oil producers will meet in Doha to discuss a possible freeze on oil production. But few experts believe this get-together will have any concrete results. Goldman is sticking to its US\$35 oil price forecast for the Second Quarter (*with Brent crude at the time of writing, April 11<sup>th</sup>, well over US\$42*) since there is a “a multitude of potential growth sources”, noting that Iran’s output ramp-up had already “surpassed expectations” & that Saudi oil output is “expected to increase in the coming months.” JPMorgan says no one should expect “fireworks” from it & an agreement would be meaningless since production levels are near historic highs, while the countries with the potential to add most crude supply to the market - Iran<sup>3</sup> and Libya - are fiercely opposed to any freeze.” And most other analysts share their gloomy outlook.

*And Iran doesn't lack customers; thus in March India imported an average 506,100 bbl/d of its oil, a five-year high. And on the demand side the IEA expects global demand growth to decelerate this year by one-third to 1.17MM bbl/d (in part due to less China buying for its Strategic Petroleum Reserve that, when the price was low, had been running at as much as a 400,000 bbl daily rate)<sup>4</sup>. In this context it is also worth noting that in March Iraq, OPEC's second largest producer, averaged 4.55MM bbl/d, up 0.2% MoM, while its exports soared 1.8% to 3.81MM bbl/d<sup>5</sup>. And while some saw this as an attempt to establish a higher baseline number in case of a freeze, it is part of a trend; for the 4.55MM bbl/d is up 20.4% YoY & 80.6% from five years ago.*

### **U.S. A TOP HAVEN FOR TAX EVASION (Epoch Times, Valentin Schmid)**

- The US has gone through great lengths to catch US citizens hiding assets overseas. But it hasn't signed an international agreement that provides for the exchange of tax data between the 100+ countries that have (*signed this agreement*). So while the US has been getting information *since 2010* under FATCA (Foreign Account Tax Compliance Act) *from all non-US banks on their 'US person status' clients*, it does not do the same for other countries. This has in effect made it a tax haven that the UK-based Tax Justice Network ranks 3<sup>rd</sup> in the world (after Switzerland & Singapore but well ahead of 13<sup>th</sup> place Panama). And most of this is concentrated in just four states, Delaware, Nevada, South Dakota & Wyoming. Thus while the Mossack Fonseca leak provided details on 214,000 shell companies, in 2012 the NYT reported that just one building in Wilmington, Del. housed 285,000 separate businesses. And while federal taxes & regulations still apply, all four of these states have strict bank secrecy laws to the point where in Nevada a private company does not have to prepare or file financial statements, or keep any receipts.

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<sup>3</sup> Which has said it will attend the Doha meeting but will not agree to output cuts.

<sup>4</sup> Although it has since come out, on April 14<sup>th</sup>, with a report that it expects global oil markets to “move close to balance” in the Second Half as it expects production outside OPEC to decline by the most since 1992 as the US shale oil boom falters, saying that “There is no doubt as to the direction of travel for the supply demand balance ... There are signs that the much-anticipated slide in production of light, tight oil in the US is gathering pace.”

<sup>5</sup> In the case of many oil producers any significant increase in production results in a proportionately larger increase in the amount of their oil flowing into exports markets, thereby adding to the ‘glut’.

Thus, according to one offshore banking practitioner the US “lacks the resources to enforce foreign tax laws and has little appetite to do so”.

### **U.S., GOLDMAN SACHS REACH \$5B SETTLEMENT (CP)**

- On April 11<sup>th</sup> the Justice Department announced a US\$5.06BN<sup>6</sup> settlement with Goldman over the sale of MBS (Mortgage-Backed Securities) prior to 2008 on the charge of having misled investors about the quality of those securities.

*Few people realize that the handful of too-big-to-fail banks so far have shelled out over a quarter of a trillion dollars in fines (only a fraction, however, of the damage they did to the US economy in their pre-Great Recession mindless pursuit of the maximization of profit as their be-all & end-all).*

### **JAMIE DIMON’S NOT SO-SUBTLE WARNING FOR BERNIE SANDERS (New York Post)**

- Ahead of the April 19<sup>th</sup> New York primaries JPMorgan CEO Jamie Dimon, in his April 6<sup>th</sup> (at 50 pages wordier than usual) Annual Shareholders’ Letter bragged about his bank’s financial strength & warned *his fellow Democrat* not to “bite the hand that feeds us”. He argued that big banks, like his, that engage in both corporate & investment banking, perform “mission-critical services ... regional and community banks simply cannot do” & that undermining them could threaten US global leadership in financial services.

*He was “talking his own book”. The “regional and community banks” he denigrates fund grass roots economic activity that creates far more new jobs than his bank’s mega clients. During the latter half of his 12-year tenure as CEO of JPM<sup>7</sup>, once the class act in US banking, has paid tens of billions of dollars in fines for financial activities that, if not outright criminal, were well ‘beyond the pale’ of fiduciary propriety. And Bernie’s view that the big banks should be broken up gained a powerful adherent in Neel Kashkary, a Goldman alum who on January 1<sup>st</sup> became President of the Minneapolis Fed. For in 2008 then Treasury Secretary Henry Paulson put him, despite his tender age of 35, in charge of the US\$700BN TARP bailout program for the ‘too-big-to-fail’ banks whose financial machinations had prompted that year’s financial crisis; so he has hands-on experience, both from the inside (in Goldman) & the outside (in the US Treasury) with the systemic risk posed by these banks (that are now bigger than ever & pose an even bigger systemic risk than a decade ago). And Dimon’s talk about his bank’s “mission-critical services” is self-serving gibberish & in sharp contrast to the admission, under questioning in a Congressional hearing in 2009, by Lloyd Blankfein, CEO of Goldman Sachs, another too-big-to-fail bank, that much of its financial activities hadn’t contributed much to real economic activity.*

### **REGULATORS WARN 5 TOP BANKS THEY ARE STILL TO BIG TO FAIL (NYT, N. Popper)**

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<sup>6</sup> US\$2.39BN in civil penalties, US\$1.8BN in relief for underwater home owners & distressed borrowers, and US\$875MM in other claims.

<sup>7</sup> His remuneration for 2015, when the bank made record profits despite stagnating revenue growth due to cutting staff bonuses & shedding 6,761 employees that helped to reduce staff costs by 1%, was US\$27MM (US\$1.5MM in salary, US\$5MM in a cash bonus & US\$20.5MM in performance-based stock grants, up 37.5% YoY from US\$20MM in 2014 (same salary, US\$2.4MM less by way of a cash bonus & US\$11.1MM in stock grants).

- The Fed & the FDIC said on April 13<sup>th</sup> that five of the nation's largest eight banks, incl. JPMorganChase & Bank of America, did not have credible plans in place on how to wind themselves down in a crisis without sowing panic; in other words, if there were another crisis, the government would have to prop them up again if it wanted to avoid financial chaos. Thus in their letter to JPMorgan they said that the current arrangement could "pose serious adverse effects to the financial stability of the United States". Furthermore that the plans put forward by all five, JPM, Bank of America, Wells Fargo, State Street & Bank of New York Mellon, were "not credible or would facilitate an orderly resolution under the U.S. Bankruptcy Code". This is a particular blow to JPMorgan whose CEO, Jamie Dimon, last week bragged in his annual Letter to Shareholders that the bank "Had enough loss-absorbing resources to bear all losses".

*Such action by regulators has a confidence-sapping impact that no amount of monetary easing & unconventional monetary policies can convince corporations to commit to long-term investments.*

### **AMID THE BLOODSHED, PALESTINIANS AND ISRAELIS ARE GIVING UP ON THEMSELVES (The Guardian, Jonathan Friedland)**

- This July will be the 40<sup>th</sup> anniversary of what Israelis regard as their country's finest hour, the 1976 raid on Uganda's Entebbe airport when, after a week of planing & flying 2,500 miles, a 100-men IDF commando unit, *despite the then Uganda dictator Idi Amin's support for the hijackers*, killed them all & rescued the 102 Israeli hostages & 12 Air France crew<sup>8</sup>, at a cost of five wounded & one death, its commander, Netanyahu's older brother.
- But now the media are onto a very different story : last month an Israeli soldier was stabbed by two Palestinians, one of whom was killed & the other seriously wounded. And while the latter lay on the ground, an IDF medic shot him at point blank range in the head, with the whole thing caught on film. While the military was vocal in condemning this & Defence Minister (& former IDF Chief of Staff, *Israel's top soldier*) Moshe Ya'alon passionately denounced him & warned the Knesset of "an army ... *that* has lost its moral backbone", two out of three Israelis believe what he did was "natural" or "responsible" & some urged sympathy/leniency, saying he was under pressure or maybe thought he was wearing a suicide belt, the ultra-nationalists slammed him, online Likud Party activists pictured his face as a target & Netanyahu phoned the killer's father to console him in his "distress".
- After the 1967 six-day war, when the West Bank's occupation commenced, Israel's wisest voices warned that, while this would hurt the Palestinians, eventually it would corrupt Israel from the inside. The latest evidence of that moral corruption came this week when a right-wing MK called for maternity wards to be segregated since no Jewish mother would want to be near an Arab newborn who might grow up to kill her baby. And even more dispiriting, in the past week I have heard less talk than at any time in the past 25 years about solutions to a toxic situation that oppresses Palestinians & poisons Israeli life. This is easy to explain. The Palestinians are weak & divided, with Fatah holding the West Bank & Hamas Gaza, & the Israelis are in no mood to take risks; looking at Syria makes even the peaceniks wary of surrendering territory; for the risk of ISIS taking root in a Palestinian state on their border terrifies Israelis. And some on the Israeli right some now say that, believe that since a two-state solution will now never

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<sup>8</sup> The hijackers had earlier released all the other 143 passengers.

happen, it would be best to get on with it &, annex the choice bits of the West Bank (& 'ethnically cleanse' the Palestinians there, i.e. remove them?). While the most plausible scenario I have heard is that, just as the 1973 war led to the peace accord with Egypt, another regional convulsion will unblock the present impasse, the sad truth is that these two peoples are locked in situation that is destroying them both & are now convinced they're powerless to change that.

*The really sad truth is that time is not in Israel's favour. Not unlike Bush 43 in the US, only more so, Netanyahu has overplayed his hand & weakened the geopolitical position of his country.*

### **NEGATIVE GROWTH FAILS TO SPUR JAPAN'S GROWTH (Bloomberg, Toru Fujioka)**

- According to Hiromichi Shirakawa, a former BoJ official & now Crédit Suisse's Chief Japan Economist, "Japan is bringing bad news to the world ... It is demonstrating that massive monetary easing doesn't work for everyone." The decline in the BoJ's credibility is a warning sign for the central bankers & finance ministers who this week will gather in Washington for the IMF/World Bank spring meetings & a G-20 session. BoJ Governor Haruhiko Kuroda & Japan's Finance Minister Taro Aso will be in the hot seat as they must defend policies that haven't solved Japan's problems, only disrupted global financial markets. And on Tuesday April 12<sup>th</sup> the IMF will release its updated World Economic Outlook which is expected to show lowered global growth expectations for the second time in three months, after IMF Managing Director Christine Lagarde last week said that growth "remained too slow, too fragile , and risks to its durability are increasing."<sup>9</sup>

*On April 14<sup>th</sup> Governor Kuroda was quoted as saying that the BoJ is prepared to ease policy further should conditions warrant it & that it has "many ways" to do so. On the other hand, in a rare criticism of the BoJ Nobuyuki Hirano, President of Mitsubishi UFJ, Japan's biggest bank, observed that "Both households and businesses have become skeptical about the effectiveness of policy measures to address the current economic problems" & said that this is sowing anxiety among them<sup>10</sup>. Since 2008 most central bankers have ignored the old financial market adage that "you cannot push on a string", i.e. businesses won't borrow money to expand (& thereby promote economic growth), if they aren't confident about the economic outlook (although in all fairness the monetary policy makers have been driven into their "non-traditional" monetary policy initiatives by the all but total failure of fiscal policy makers to pull their weight). And it is interesting in this context that among major countries the economic growth standout today is India that in the past 13 quarters has had only three in which its annualized growth rate was between 6.5% & 7% and five in which it had been 7.5%, or better, despite the fact that only recently its benchmark 'repo rate' went below 7%. And by way of personal anecdotal experience, on a World Bank Mission to Ghana 1994 I questioned a elderly Lebanese gentleman in the plastic extrusion business about paying 35% interest on his bank loans to which his response was "Do you really think I would have spent 35 years in this Godforsaken country if I could not make more than 35% on my money?"*

<sup>9</sup> In fact, it did exactly that, cutting it expected 2016 global economic growth rate from 3.4% in January to 3.2% (only a smidgen greater than 2015's anemic 3.1%) & forecasting 3.7% for 2017, although warning that, while it expects the recovery to strengthen, the uncertainty has grown and the risks of weaker economic growth are becoming more tangible, with Mme. Lagarde adding for good measure that "our state is one of alert, not of alarm", *hardly an encouraging observation.*

<sup>10</sup> Thereby implying that the BoJ's activities have become part of the problem.

## **THERE IS A DROUGHT IN MANY PARTS OF INDIA. WHY HASN'T IT BEEN NOTICED?** **(India Times, Harish Damodaran)**

- In the past droughts fueled speculation & hoarding, and social unrest & food riots. But this time, despite the fact that there have been three bad-, & a fourth not-so-great-, harvests, urban dwellers are hardly feeling the pinch & the consumer food price inflation is only 5.3%, due to the low commodity prices. But the same is not true for the rural population (*two-thirds of that of India*), for whom the effect of the resultant low prices for their products has been reinforced by the effect of the drought on their crop yields..

*The situation is so bad in the 300,000+ inhabitant city of Latur, in the agricultural district of the same name in Maharashtra State (of which Mumbai is the capital) that water is being shipped in 200 miles from Rajasthan State in 50 car unit trains, each of them carrying 270,000 litres (and having about a 24 hour turn-around time). The hope now is that the unusually long & strong El Niño will be followed by an El Niña with a more favourable impact on the monsoon patterns.*

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**The Panama Papers** - They spotlight three distinct issues. The way the law firm accommodated the 'warehousing' by corrupt heads of state of the moneys they had stolen from their compatriots & wanted to deploy anywhere but in their own countries, thereby doubly disadvantaging their countries, once by stealing the money in the first place & then again by shipping it abroad. Next, it's role in enabling the world's criminal elements to 'launder' their ill-begotten gains. And, finally, how it facilitated developed country taxpayers to reduce their domestic tax obligations.

The media have almost exclusively focused on the latter, which is sort of irrational since it is the only one that isn't necessarily criminal. But it touches a nerve with Joe & Jill Average Taxpayer, & so 'sells papers'. And they haven't bothered to enlighten the latter on the fact that in reducing domestic tax obligations there are two quite different issues at stake. One is **tax evasion**, the **illegal** non-payment of taxes owing, & the other **tax avoidance/optimization**<sup>11</sup>, i.e. arranging one's financial affairs in a **legal** manner to minimize one's tax liabilities in a way provided for under the law.

At one time taxation was simply a matter of collecting the moneys needed by a government to fund its day-to-day operations. But in the post-Keynesian era taxation policy became a vehicle for fostering what governments deemed to be desirable economic or social objectives. The former has resulted in 'tax competition', a race to the bottom between government entities at the international-, national-, & even sub-national levels to attract money that may create new jobs and/or make existing local businesses more competitive & thereby create new jobs and/or protect existing ones. And domestically it has been used at the personal level to achieve socially desirable outcomes through such measures as baby bonuses and tax deductions for, among others, charitable giving, medical expenses & saving for retirement. And in a day & age that highly-skilled/uniquely-talented upper income earners have greater mobility than the average

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<sup>11</sup> While the former is the more commonly used term, the latter is the more realistic one since it conveys a more realistic-, rather than furtive, perception.

Joe<sup>12</sup>, governments have also sought to create opportunities for them to optimize their income taxes in ways not dissimilar in principle to the domestic tax deductibilities for the hoi polloi, by creating international loops for them to do so. For the income taxes foregone are but a small portion of the benefits to the national economy of their presence & 'half an egg is better than an empty shell'. Unfortunately in recent decades the growing 'commercialization' of politics has caused politicians to sell their fiduciary responsibility to voters for a mess of pottage to well-connected, well-heeled cliques by creating targeted loopholes for what today is commonly referred to as the '1percent'<sup>13</sup> - *this is what makes politicians publicly fulminating against the tax loopholes they themselves, or their predecessors, have created such a supreme act of dishonesty & duplicity; for, if they were **really** serious about it, it is well within their powers to close such loopholes.*

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<sup>12</sup> Thus Deutsche Bank, long the epitome of German industrial power from 2012 to 2015 had an Indian C-CEO and Mark Carney, who has double Canadian-Irish citizenship, was born in Canada's Northwest Territories, went to high school in Edmonton and to university at Harvard & Oxford, worked for over a decade for Goldman Sachs before joining the Department of Finance in Ottawa & later becoming, before becoming Governor of the Bank of Canada, and subsequently Governor of the Bank of England (& all that before age 50).

<sup>13</sup> Most of whom are smart enough to know that there is no need to engage in illegal behaviour if there are wholly legal ways to achieve the same end. Thus while British Prime Minister David Cameron has been pilloried for his father having set up an offshore structure, does anyone really believe that he would have been dumb enough to name it after his ancestral home, if he had not believed that what he was doing was not illegal?