

Brazil's central bank an 'outlier'? - As of midyear, Brazil had experienced 8 quarters of negative GDP growth since-, & yet the central bank's key benchmark interest rate has been 14.25% for months, up from 10% on-, January 1st, 2014 (presumably since the annual rate of inflation at last report it was almost 9%, down from 10.58% at the end of last year).

Chinese tourism to Canada - According to the Tourism Association of Canada in the First Half of 2016 over 600,000 (up 20% YoY) Chinese visited Canada, surpassing France as its third largest source of foreign tourists. While Toronto & Vancouver remain the big attractions, those who venture elsewhere tend to be overawed by Canada's vastness, and the beauty & variety, of its landscape - *Tourism in Canada is a \$100BN industry, accounting for close to 5% of its GDP.*

More problems for the Eurozone (banks) – A number of Eurozone banks are in line to be 'fined' by the US for their role in the mortgage debacle a decade ago. This week Deutsche Bank was the first to get the bad news. Already up to its ass in alligators, it was surprised when informed that the US expected a settlement in US\$14BN range (while it had expected US\$2-3BN & analysts possibly as much as US\$5BN). To make matters worse, German banks are at risk for as much as one quarter of the total US\$400BN owed by shipping lines like Hanjin (that have fallen on evil days as a result of a decline in world trade volume at the very time of a massive global fleet expansion, that has seen the rate for moving a container from Asia to the US West Coast cratering by as much as 70% over the past two years) or by third party ship owners that charter vessels to them (this week five such ships leased by Hanjin changed hands at what look like firesale prices).

Replacing Hillary? - Her September 11th precipitous departure from a 9/11 memorial event & needing help getting into a car, and the news of her pneumonia diagnosis two days earlier, prompted speculation she might be replaced as the Democratic standard bearer (with Joe Biden's, John Kerry's & Sanders' names being bandied around as replacements). But according to Emmy award-winning, New York City-based broadcast journalist David Schuster a 'Democratic party operative' told him "We can make contingencies, argue, plead with her, but the DNC bylaws are clear, her nomination status is ... totally up to her".

September 20-21 FOMC meeting - In the past month Third Quarter GDP growth forecasts have slipped from the 2.1%-3.8%-, to a 2.1%-3.4%-, range, & the Atlanta Fed's GDPNow from 3.3% to 3.0%. While under normal circumstances this might still have justified the long-overdue rate hike at this FOMC meeting, the market thinks this unlikely since the Fed has historically been leery of rate changes during election campaigns, lest they become politicized (& the same will apply in spades to its November 1-2 meeting).

September 26-28 Algiers oil conference - It is commonly (but wrongly) thought to be organized by the Vienna, Austria-based OPEC Secretariat but instead is hosted by the government of Algeria & sponsored by the IEF (International Energy Forum), founded in 1991 as "a platform for global energy players to debate pressing issues in their industry" & described by the former Saudi Deputy Oil Minister Abdulaziz bin Salman al Saud¹ as "the only international energy body under whose umbrella both producers and consumers can cooperate on energy issues and gain a deeper understanding of each others' energy concerns"². Since

¹ Not to be confused with his half brother, the 31 year-old ('*still wet behind the ears*'?) Deputy Crown Prince & Defense Minister Mohammed bin Salman who as the apple of King Salman's eye is deemed to be the power behind the aged king's throne.

² So it is in global socio-economic terms a far more useful forum than a producers' cartel like OPEC.

2005 it has been Riyadh, Saudi Arabia-based, since 2011 with Aldo Flores Quiroga (now the Under-Secretary of Hydrocarbons in Mexico's Secretariat of Energy), & since August 1st with Dr. Xiansheng Sun, a Ph.D. from the University of Dundee & 30-year veteran of the China National Petroleum Company, most recently as President of its Energy & Technology Research Institute, as Secretary-General. And while OPEC has a dozen members that account for one-third of global crude output, the IEF's 70+ members (incl. Canada & the US, China & India, Mali, Netherlands, Russia, South Korea, Uganda, UK & Zambia) account for 3x as a big a share of global oil production (& for as much of its consumption?)

Sayuri Shirai - After getting a Ph.D. in Economics from Columbia in 1993, she started teaching at Keio University, her alma mater & Japan's oldest institute of higher learning (in the *upscale* Minato ward of Tokyo that also houses many embassies & corporate headquarters), attaining full professor status in 2006. In March 2011 she was appointed to a five year term on the BoJ Policy Board where she supported all of Gov. Kuroda's policy moves except one; last January she was one of four dissenters from the decision to move to negative interest rates. Last April her term ended & she returned to Keio U. as Eminent Professor of Management, saying the BoJ needed to do a better job communicating its policies & warning it would run out of bonds to buy within two years. In a more recent speech she urged it to change course & earlier this week said it should cut its 2% inflation target to 1% & "Once we achieve 1% in a stable manner - which we have never experienced over 20 years - then maybe the BoJ, the government and the public can have a discussion about whether we can go further." - *Nevertheless, the market expects the Committee to cut its -0.10% rate to -.30% at its September 21st meeting.*

Unique variation of the 20-mile diet - A decade ago Washington launched a 'high tunnel' greenhouse program to promote the growing of fruit & vegetables for local consumption in semi-circular metal frames with plastic sheeting stretched over them. While it has had limited success nationwide, in Homer, a 5,000 inhabitant town 200 miles south of Anchorage, Alaska, a state in which only 5% of the food consumed is locally grown, over 120 of them have been built in which not just tomatoes are being grown but also sweet corn, egg plant & leeks, and even grapes, strawberries, peaches, nectarines & kiwis. This has led to local restaurants changing their menus & locals having better-balanced diets - *this seems to be part of as trend that has more people having vegetable gardens, city councils allowing poultry husbandry & bee-keeping within city limits, and Detroit turning deserted neighbour-hoods back into farmland.*

U.S military aid to Israel - Agreement has been reached to hike it 23% to US\$3.8BN annually for the next decade (although Netanyahu had hoped for US\$4BN to 5BN) - *This will benefit the US 'military-industrial complex', especially since these moneys can no longer be used to fund research, in Israel but will give it more budgetary manoeuvring room to fund settlement expansion.*

GLEANINGS II - 676
Thursday September 15th, 2016

OIL TRADERS SEE ANOTHER YEAR OF PAIN AS GLUT ENDURES (Bloomberg, Javier Blas)

- On September 8th (*in a week Hurricane Hermine threatened to interfere with Gulf of Mexico oil production & the market learnt August Chinese crude imports, in response to a price drop early in the month, had been up 7% YoY to 7.8MM bbl/d*) Brent crude for November delivery was up US\$1.65/bbl. to US\$49.63, well above last January's 12-year low of US\$27.10 but short of the recent US 52.10 June high. But all but one of 15 oil

traders & executives interviewed at last week's annual Asia-Pacific Petroleum Conference in Singapore expect it to remain in the last five months' US\$40-US\$60 range, since, according to Arzu Azimov, head of Geneva-based Socar Trading SA "once prices go up too fast, American drillers start to produce more³ ... so the market will stay in the corridor of \$40 to \$50, max \$55." And most said their expectation of the timing of a better *supply/demand* market balance had been pushed back six months from their expectation last spring because of higher than expected production in Saudi Arabia, Iran (& *Russia*), and because the market has yet to start cutting down on the millions of barrels of excess inventories?

And while chatter continues that Saudi Arabia & Russia will arrange an output freeze, the reality of life is that the former is pumping more oil than ever, Russian output is over 11MM bbl/d for the first time in 25 years, US shale oil production has held up better than expected (& would likely start growing again at any price over US\$55-US\$60) and Iran (whose crude exports in August were up 15% MoM), Nigeria & Libya have made it clear they won't cut output, while global crude oil demand growth has been (marginally) decelerating. Thus the Paris-based IEA's latest monthly oil market report made a U-turn : for while last month it had prognosticated the oil 'glut' was starting to disappear, it said this month that non-OPEC production had proven "more resilient" than expected, and blamed "wobbling" Asian demand & declining oil consumption in Europe for it reducing its forecast global demand growth for the rest of this year by 100,000 bbl/d. to 1.3MM bbl/d. & for 2017 by 200,000 bbl/d to 1.2MM bbl/d.

OIL BANKRUPTCIES LENDERS HAVE 'CATASTROPHIC' RECOVERY RATES **(Bloomberg, Rebecca Panty)**

- **A** September 12th Moody's report looked at 15 Exploration & Development (E&P) companies that filed for bankruptcy protection last year & noted that creditors had recovered on average just 21% of what they had lent vs the 59%-, & on high-yield bonds just 6%-, vs. the 30%-, of the past three decades' averages. And that YTD there had been twice as many E&P bankruptcies than in all of last year & that less than half the companies that had negotiated 'distressed debt exchanges' last year in an effort to stave off bankruptcy, had succeeded in doing so. Still, it concluded "given our view that prices have somewhat stabilized, and will likely gradually increase, the Exploration & Development sector is unlikely to deteriorate further ... although ... (it) remains stressed."

Small consolation!

THE US MIDDLE CLASS GETS A BIG RAISE ... FINALLY (CNMoney, Tami Luhby)

- The US Census Bureau reported on September 13th that in 2015 the US median household income had risen by 5.2% YoY to US\$56,516, that the poverty rate had declined from 14.8% to 13.5% & that the share of those without health insurance had dropped < 10%. Furthermore, that the rate of increase had been highest (i.e. 7.9%) for those in the lowest 10th decile income category & lowest (2.9% & 3.7%) for those in the 90th & 95th deciles.

The article misrepresent reality by calling this the first such increase since 2007; for the chart included shows it had gone from US\$52,666 in 2012 to about \$55,000 in 2013 (although

³ To be picky, drillers drill for-, don't produce-, oil.

thereafter it had slipped again to about US\$54,000 in 2014). And more importantly, the US\$56,616 is still short of the year 2000's US\$57,909 &, since part of the increase was due to the bigger workforce & lower poverty rate, the impact of the higher median household income for at least some families was less than the headline rate. Be that as it may, the headline was good news (at the margin?) for Hillary c.s. (& has already been used by Obama to enhance his track record).

BANK OF CANADA DEPUTY WARNS SLOWER GROWTH IS 'NEW REALITY' (FP, Gordon Isfeld)

- Senior Deputy Governor Carolyn Wilkins warned the Official Monetary and Financial Institutions Forum in London on September 14th that “We have to adapt to this new reality of potential lower growth. The faster we do this, the safer the financial system will be”. She attributed this to two factors : labour supply & productivity which are “rising more slowly than in the past”. And she said that low interest rates during, & after, the 2008-09 recession “Encouraged growth in household debt, leaving many highly indebted.

In Canada household debt at last report was 168% of disposable income, up from 86% in 1990 & had kept climbing during & the Great Recession to the point where it is now the seventh highest in the OECD after Denmark (328%), Netherlands (283%), Norway (225%), Ireland (207%), Australia (206%), & Sweden (174%), whereas in the US the ratio went from 82% in 1990 to a pre- Financial Crisis high of 130% but has since then has been 'declined to 113%. But it is a much different picture where student loans are concerned; for the amount owed by US students upon graduation is twice that in Canada & the total amount outstanding has roughly doubled in the US since 2006 to US\$1.2+TR, most of it on the government's tab,(of which 20% it in arrears) as public universities raised tuition fees by one-fifth in real terms during the five years ended in 2012, i.e. by more than twice that of inflation plus enrolment growth combined. Small wonder that a massive US lobbying campaign is now underway for student debt "relief" (i.e. write-offs)

THE BOOK AND THE BALLOT (The Economist)

- On both sides of the Jordan River the Palestine Authority & the Hashemite Kingdom of Jordan called elections in the expectation of easy wins. But the Muslim Brotherhood ended its ballot box boycott of *long standing* & now is, due to the mayhem & infighting in, *and corruption of?*, of both of the ruling parties) the front runner in both : in Jordan the Islamic Action Front (IAF), the Brotherhood's local political arm, is expected to emerge from the September 20th election as the largest party in Parliament while across the river Hamas, the Brotherhood's local offshoot is expected to sweep all eight of the West Bank's cities in the October 8th municipal elections. And while in both places the authorities have sought to stack the elections against the Brotherhood, it has outwitted them by appealing to minorities, among others by including Christians on their candidate lists. In Jordan this may not matter much since King Abdullah has diluted parliament's powers &, when the politicians prove too troublesome, simply dissolves it & rules by decree. And while in the West Bank Mahmoud Abbas, *whose mandate is questionable because Hamas won the last parliamentary election a decade-*, & *his own term in office officially ended-*, seven years ago, has long ruled by decree, he now faces a restless young electorate increasingly prone to violence &, despite large dollops of foreign aid, presides over an economy going nowhere in which unemployment is rife; so he may have to depend on the Israelis to stay in power.

The Brotherhood may have taken the lesson of Morsi's rise & fall in Egypt to heart & concluded a more conciliatory public image in an environment in which 'soft' jihadists will do well.

WHAT HAPPENS AFTER ISIS FALLS? (WSJ, Yaroslav Trofimov)

- On July 4th, 2014 in Mosul Abu Bakr al-Baghdadi⁴, after gaining control of large swaths of Eastern Syria & Western Iraq, proclaimed a new caliphate to restore the “dignity, might and leadership of Sunni Muslims.” But now ISIS seems likely to fall as quickly as it rose; after going to war with just about everyone in the region, incl. the Americans & Russians, and launching-, and/or claiming responsibility for the launching of-, growing numbers of terrorist attacks in the West & elsewhere, it has suffered a series of battlefield setbacks losses & has lost control of many cities, incl. Ramadi & Fallujah in Iraq, and Palmyra in Syria, and of a vast swath of Northern Syria along its border with Turkey, and in the next two months may well lose control over Mosul in Iraq & Raqqa in Syria⁵.
- What made ISIS appeal to young, disaffected Muslims was that it seemed to provide a better social model : food prices in Mosul were lower than in Baghdad, streets were cleaner, Christians & Shiites were sent packing, women's beauty salons closed & men prohibited from shaving, and gays thrown from roof tops. But while al-Baghdadi demanded that all Muslims pledge allegiance to him, soft jihadist clerics dismissed his caliphate dreams as endangering the entire jihadi movement, to the point where some referred to his followers as “new Kharijites” (a splinter sect in early Islam that fell in disrepute because of its defiling & killing of other Muslims that didn't share their views as ‘infidels & ‘apostates’⁶.
- Now ISIS' battlefield losses & loss of territory have begun to undermine the caliphate's credibility & legitimacy. But even it were to lose all its territory, it would not vanish; for it will almost certainly seek to demonstrate its continued relevance by more headline-grabbing massacres in the Middle East & elsewhere. So counter-terrorism experts warn that its death rattle could be “ferocious”. Moreover, while the past two years have spawned an unusually wide coalition *with different-, if not conflicting-, interests* of Western democracies, Russia, Turkey, Iraqi Sunny Kurdish-, & Shiite-, militias & Sunni Persian Gulf monarchies to fight ISIS, once it ceases to be a threat, they will likely turn-, or return-, to squabbling-, and/or fighting with-, each other (*as Turkey is already doing with the Kurds*).
- Among the ‘experts’, Hassan Abu Haniyeh, a Jordanian researcher specializing in the jihadist movement, says that “the pretext of fighting ISIS delayed the conflicts & protest movements across the Middle East; but eliminating ISIS will bring them back & embolden those who had been holding back their demands for reform by region's regimes because of their concerns about ISIS”, the former Jordanian major-general & one-time director of the Centre of Strategic Studies at the King Abdullah II Academy for Defense Studies Mahmoud Irdaisat that “I don't think everybody should relax after we get ISIS out of Mosul and Raqqa. The pressure must continue. If we relax they will come

⁴ A graduate of the infamous Abu Ghraib prison near Baghdad that at its US Army-run peak held 7,500 political prisoners whence he was released after a year as a “low level prisoner”, only to have, a few years later, put a US\$25MM prize put on his head.

⁵ The latter being the caliphate's designated ‘capital’ as it had been in Harun al-Rashid's short-lived caliphate in the late 8th century, long after the caliphates' initial heydays had passed.

⁶ And indeed ISIS' activities have caused far more Muslim-, than Westerner-, casualties.

back ... And we should not forget al Qaeda, because it was the cradle from which ISIS came”, and Rob Ford, US Ambassador to Iraq in 2011 & now a Senior Fellow at the 70 year-old, Washington-based Middle East Institute, that “I’m much impressed by how much [al Qaeda’s leaders] have learnt from their mistakes and bad experience in Iraq ... They are much less brutal in Syria than they were in Iraq, and they work with non-jihadist factions, which al-Qaeda in Iraq never did. They are more subtle in their tactics and they have a lot more local support which will make it much harder to contain it” (& it now has franchises all over West-, & North-, Africa and the Arab Peninsula, incl. Yemen).

The West, in focusing on short-term military objectives, has failed to devote adequate, if any, resources to the far more important long-term need to win the war for “the hearts & minds”

CHINA’S ASTRONOMICAL CREDIT BINGE : HOW WILL IT END? (WSJ, Andrew Browne)

- Over the past 12 months China has created more domestic credit than in 2009 when, during the global financial crisis, it engineered one of the greatest bouts of stimulus spending ever. This financial jolt has been larger than the QE activities of the Eurozone, Japan, the UK & US combined⁷. So while a year ago global investors were braced for a Chinese collapse, property transactions are on track for an annual record, new car sales have grown at a double digit rate for the 4th month in a row, factory prices are recovering, capital outflows have shrunk and the yuan fallen only moderately (*although its FX reserves are still down 20% since mid-2014 to US\$3.2TR, after having increased five-fold to 4.0TR in the previous eight years*). And while as a result China’s total debt-to-GDP ratio has skyrocketed from 150% to over 260%, the kind of run-up that usually ends in either a bust or a sharp slowdown, Beijing doesn’t seem particularly concerned, in part because it cannot; for President Xi, can’t afford, ahead of next year’s Party Congress at which he intends to pack the Communist Party’s upper echelon with his own people, the sharp economic slowdown that it would take to get the debt under control.

The writer started his journalistic career with the South China Morning Post 34 years ago.

DUARTE SIGNALS SHIFT IN U.S. DEFENSE TIES (WSJ, Trefor Moss)

- The Philippines has historically had close ties with the US, bolstered further in 2014 through a new military cooperation pact. But since coming to power last June, President Duterte has indicated he wants to distance his country from the US (& thus threaten a regional strategic balance already stressed by China’s South China Sea claims). And this week he acted on that notion by announcing the US military should vacate its strategic base on Mindanao, that, in order to avoid upsetting China, his Navy would stop patrolling the South China Sea alongside the US Navy (to have more resources to devote to combating terrorists & the drug trade) & that he had instructed his Defense Secretary to start sourcing the gear needed to do so from Chinese & Russian-, *rather than US-, suppliers.*

This basically guts the ‘pivot to Asia’.

-0-0-0-0-0-0-0-0-0-0-

⁷

Whose aggregate GDPs are almost 4x China’s.

GOP SENATORS LEAD IN 3 BIG SWING STATES (USA Today, Eliza Collins)

- A Quinnipac poll released September 7th based on data gathered in the previous week showed in Ohio Sen. Rob Portman leading former Gov. Ted Strickland 51-40⁸, in Florida Sen. Marco Rubio (who returned to the senatorial race after failing to get the GOP Presidential nomination) Rep. Patrick Murphy 51-43 & in Ohio Sen. Pat Toomey a nose ahead of Katy McGinty 46-45 while in North Carolina Sen. Richard Burr is tied with Democrat Deborah King 49-49 in a race that has become closer than expected⁹.

This may well portend, contrary to Democrat hopes, that the GOP will retain control of the Senate. Elsewhere the same media source reported that a parallel poll had found Clinton & Trump tied 47-47 in Florida on a head-to-head basis & 43-43 with third party candidates thrown into the mix, Clinton leading 47-43 & 42-38 in North Carolina, Trump leading in Ohio 46-45 & 41-37^{10 11} & Clinton 5 points ahead of Trump head-to-head in Pennsylvania & 44-39, if Johnson were included, (while post convention she had led head-to-head by 1 point in Florida, 4 in Ohio & 10 in Pennsylvania).

CLINTON HOLDS LEAD OVER TRUMP IN NEW POLL BUT WARNINGS SIGNS EMERGE (WSJ, Scott Clement)

- While in a new WSJ/ABC News poll Clinton leads Trump 46-41 among likely voters, it also showed both their reputations have been “bruised by the campaign”, with *only* 60% of voters now seeing them as honest & trustworthy, with a majority critical of Clinton for her role as Secretary of State & of Trump for his attitude vis a vis women. It also found a lagging of interest among some of her supporters that poses a potential threat to Democrats & that nearly 60% believe she granted special favours to donors to the now renamed Bill, Hillary and Clinton Foundation, while nearly two out of three voters don’t ‘buy’ his explanation as to how he would deal with undocumented immigrants. And while 46% of Trump supporters say they’re “very enthusiastic” about his candidacy, only 33% of Clinton’s are about hers, while 80% of his supporters feel Hillary would real damage to the country &, 83% of hers that he would. *Last but not least*, while 60+% of his supporters say they’re following the campaign very closely & 93% that they are absolutely certain to vote, the comparable numbers for Clinton are 45% & 80%.

The writer is the WSJ’s “polling manager”.

TRUMP PROPOSES \$20 BILLION TO EXPAND SCHOOL CHOICE FOR THE POOR (Bloomberg, Terenec Dopp)

⁸ Which in a Bloomberg poll taken September 9th -12th had widened to 53-36, as he seemed to be gaining support among Democrat-leaning-, & even among normally Democrat-, voters.

⁹ In all four cases the sample was relatively small, ranging for 601 in Florida to 778; so the margin of error in ranged from 3.5% in Ohio to 4.0% in Florida.

¹⁰ Whereas the RealClearPolitics average of Ohio polls gave Clinton a 3.3. lead in a two way race, i.e. slightly higher than her national average (all or part of it due to the inclusion in the average of earlier polls from before a recent modest slide in Clinton’s popularity.

¹¹ Which according to a Bloomberg poll conducted September 9th - 12th has since widened to 48-43 head-to-head & 44-39 in a four way race, due to her “basket of deplorables” comment & (to a lesser extent?) to renewed concerns about her health following the September 11th incident

- On September 8th, at a charter school in Cleveland, he said that in his first budget he would include \$20BN in block grants to states to expand school choice for 11MM poor school age children (& that the states would have discretion as to how to spend the money although a campaign statement noted that “the dollars should follow the students” & he himself that the money would “favor” states with charter school-, and/or school choice-, laws¹²).

*In calling education a ‘modern civil right’ deserving of having money spent on it, he is reiterating a half a decade-old GOP platform plank that New Jersey Gov. Chris Christie promoted with some success in his 2013 re-election campaign to attract more support from black & Latino voters (who in 2012 split their votes 6%-93% & 27%-71% respectively between Romney & Obama). **Brazil’s central bank an ‘outlier’?** - As of midyear, Brazil had experienced 8 quarters of negative GDP growth since-, & yet the central bank’s key benchmark interest rate has been 14.25% for months, up from 10% on-, January 1st, 2014, presumably since the annual rate of inflation at last report it was almost 9%, down from 10.58% at the end of last year.*

Chinese tourism to Canada - According to the Tourism Association of Canada in the First Half of 2016 over 600,000 (up 20% YoY) Chinese visited Canada, surpassing France as its third largest source of foreign tourists. While Toronto & Vancouver remain the big attractions, those who venture elsewhere tend to be overawed by Canada’s vastness, and the beauty & variety, of its landscape - *Tourism in Canada is a nearly \$100BN industry, accounting for close to 5% of its GDP.*

Replacing Hillary? - Her September 11th precipitous departure from a 9/11 memorial event & needing help getting into a car, and the news of her pneumonia diagnosis two days earlier, prompted speculation she might be replaced as the Democratic standard bearer (with Joe Biden’s, John Kerry’s & Sanders’ names being bandied around as replacements). But according to Emmy award-winning, New York City-based broadcast journalist David Schuster a ‘Democratic party operative’ told him “We can make contingencies, argue, plead with her, but the DNC bylaws are clear, her nomination status is ... totally up to her”.

September 20-21 FOMC meeting - In the past month Third Quarter GDP growth forecasts have slipped from the 2.1%-3.8%-, to a 2.1%-3.4%-, range, & the Atlanta Fed’s GDPNow from 3.3% to 3.0%. While under normal circumstances this might still have justified the long-overdue rate hike at this FOMC meeting, the market thinks this unlikely since the Fed has historically been leery of rate changes during election campaigns, lest they become politicized (& the same will apply in spades to its November 1-2 meeting).

September 26-28 Algiers oil conference - It is commonly (but wrongly) thought to be organized by the Vienna, Austria-based OPEC Secretariat but instead is hosted by the government of Algeria & sponsored by the IEF (International Energy Forum), founded in 1991 as “a platform for global energy players to debate pressing issues in their industry” & described by the former Saudi Deputy Oil Minister Abdulaziz bin Salman al Saud¹ as “the only international energy body under whose umbrella both producers and consumers can cooperate

¹² Which 42 states & DC currently do

¹ Not to be confused with his half brother, the 31 year-old (*‘still wet behind the ears’?*) Deputy Crown Prince & Defense Minister Mohammed bin Salman who as the apple of King Salman’s eye is deemed to be the power behind the aged king’s throne.

on energy issues and gain a deeper understanding of each others' energy concerns"². Since 2005 it has been Riyadh, Saudi Arabia-based, since 2011 with Aldo Flores Quiroga (now the Under-Secretary of Hydrocarbons in Mexico's Secretariat of Energy), & since August 1st with Dr. Xiansheng Sun, a Ph.D. from the University of Dundee & 30-year veteran of the China National Petroleum Company, most recently as President of its Energy & Technology Research Institute, as Secretary-General. And while OPEC has a dozen members that account for one-third of global crude output, the IEF's 70+ members (incl. Canada & the US, China & India, Mali, Netherlands, Russia, South Korea, Uganda, UK & Zambia) account for 3x as a big a share of global oil production (& *for as much of its consumption?*)

Sayuri Shirai - After getting a Ph.D. in Economics from Columbia in 1993, she started teaching at Keio University, her alma mater & Japan's oldest institute of higher learning (in the *upscale* Minato ward of Tokyo that also houses many embassies & corporate headquarters), attaining full professor status in 2006. In March 2011 she was appointed to a five year term on the BoJ Policy Board where she supported all of Gov. Kuroda's policy moves except one; last January she was one of four dissenters from the decision to move to negative interest rates. Last April her term ended & she returned to Keio U. as Eminent Professor of Management, saying the BoJ needed to do a better job communicating its policies & warning it would run out of bonds to buy within two years. In a more recent speech she urged it to change course & earlier this week said it should cut its 2% inflation target to 1% & "Once we achieve 1% in a stable manner - which we have never experienced over 20 years - then maybe the BoJ, the government and the public can have a discussion about whether we can go further." - *Nevertheless, the market expects the Committee to cut its -0.10% rate to -.30% at its September 21st meeting.*

Unique variation of the 20-mile diet - A decade ago Washington launched a 'high tunnel' greenhouse program to promote the growing of fruit & vegetables for local consumption in semi-circular metal frames with plastic sheeting stretched over them. While it has had limited success nationwide, in Homer, a 5,000 inhabitant town 200 miles south of Anchorage, Alaska, a state in which only 5% of the food consumed is locally grown, over 120 of them have been built in which not just tomatoes are being grown but also sweet corn, egg plant & leeks, and even grapes, strawberries, peaches, nectarines & kiwis. This has led to local restaurants changing their menus & locals having better-balanced diets - *this seems to be part of a trend that has more people having vegetable gardens, city councils allowing poultry husbandry & bee-keeping within city limits, and Detroit turning deserted neighbour-hoods back into farmland.*

U.S military aid to Israel - Agreement has been reached to hike it 23% to US\$3.8BN annually for the next decade (although Netanyahu had hoped for US\$4BN to 5BN) - *This will benefit the US 'military-industrial complex', especially since these moneys can no longer be used to fund research, in Israel but will give it more budgetary manoeuvring room to fund settlement expansion.*

GLEANINGS II - 676
Thursday September 15th, 2016

OIL TRADERS SEE ANOTHER YEAR OF PAIN AS GLUT ENDURES (Bloomberg, Javier Blas)

²

So it is in global socio-economic terms a far more useful forum than a producers' cartel like OPEC.

- On September 8th (in a week Hurricane Hermine threatened to interfere with Gulf of Mexico oil production & the market learnt August Chinese crude imports, in response to a price drop early in the month, had been up 7% YoY to 7.8MM bbl/d) Brent crude for November delivery was up US\$1.65/bbl. to US\$49.63, well above last January's 12-year low of US\$27.10 but short of the recent US 52.10 June high. But all but one of 15 oil traders & executives interviewed at last week's annual Asia-Pacific Petroleum Conference in Singapore expect it to remain in the last five months' US\$40-US\$60 range, since, according to Arzu Azimov, head of Geneva-based Socar Trading SA "once prices go up too fast, American drillers start to produce more³ ... so the market will stay in the corridor of \$40 to \$50, max \$55." And most said their expectation of the timing of a better *supply/demand* market balance had been pushed back six months from their expectation last spring because of higher than expected production in Saudi Arabia, Iran (& Russia), and because the market has yet to start cutting down on the millions of barrels of excess inventories?

And while chatter continues that Saudi Arabia & Russia will arrange an output freeze, the reality of life is that the former is pumping more oil than ever, Russian output is over 11MM bbl/d for the first time in 25 years, US shale oil production has held up better than expected (& would likely start growing again at any price over US\$55-US\$60) and Iran, Nigeria & Libya have made it clear they won't cut output, while global crude oil demand growth has been (marginally) decelerating. Thus the Paris-based IEA's latest monthly oil market report made a U-turn : for while last month it had prognosticated the oil 'glut' was starting to disappear, it said this month that non-OPEC production had proven "more resilient" than expected, and blamed "wobbling" Asian demand & declining oil consumption in Europe for it reducing its forecast global demand growth for the rest of this year by 100,000 bbl/d. to 1.3MM bbl/d. & for 2017 by 200,000 bbl/d to 1.2MM bbl/d.

OIL BANKRUPTCIES LENDERS HAVE 'CATASTROPHIC' RECOVERY RATES (Bloomberg, Rebecca Panty)

- A September 12th Moody's report looked at 15 Exploration & Development (E&P) companies that filed for bankruptcy protection last year & noted that creditors had recovered on average just 21% of what they had lent vs the 59%-, & on high-yield bonds just 6%-, vs. the 30%-, of the past three decades' averages. And that YTD there had been twice as many E&P bankruptcies than in all of last year & that less than half the companies that had negotiated 'distressed debt exchanges' last year in an effort to stave off bankruptcy, had succeeded in doing so. Still, it concluded "given our view that prices have somewhat stabilized, and will likely gradually increase, the Exploration & Development sector is unlikely to deteriorate further ... although ... (it) remains stressed."

Small consolation!

THE US MIDDLE CLASS GETS A BIG RAISE ... FINALLY (CNNMoney, Tami Luhby)

- The US Census Bureau reported on September 13th that in 2015 the US median household income had risen by 5.2% YoY to US\$56,516, that the poverty rate had declined from 14.8% to 13.5% & that the share of those without health insurance had dropped < 10%. Furthermore, that the rate of increase had been highest (i.e. 7.9%) for

³ To be picky, drillers drill for-, don't produce-, oil.

those in the lowest 10th decile income category & lowest (2.9% & 3.7%) for those in the 90th & 95th deciles.

The article misrepresent reality by calling this the first such increase since 2007; for the chart included shows it had gone from US\$52,666 in 2012 to about \$55,000 in 2013 (although thereafter it had slipped again to about US\$54,000 in 2014). And more importantly, the US\$56,616 is still short of the year 2000's US\$57,909 &, since part of the increase was due to the bigger workforce & lower poverty rate, the impact of the higher median household income for at least some families was less than the headline rate. Be that as it may, the headline was good news (at the margin?) for Hillary c.s. (& has already been used by Obama to enhance his track record).

BANK OF CANADA DEPUTY WARNS SLOWER GROWTH IS 'NEW REALITY' **(FP, Gordon Isfeld)**

- Senior Deputy Governor Carolyn Wilkins warned the Official Monetary and Financial Institutions Forum in London on September 14th that “We have to adapt to this new reality of potential lower growth. The faster we do this, the safer the financial system will be”. She attributed this to two factors : labour supply & productivity which are “rising more slowly than in the past”. And she said that low interest rates during, & after, the 2008-09 recession “Encouraged growth in household debt, leaving many highly indebted.

In Canada household debt at last report was 168% of disposable income, up from 86% in 1990 & had kept climbing during & the Great Recession to the point where it is now the seventh highest in the OECD after Denmark (328%), Netherlands (283%), Norway (225%), Ireland (207%), Australia (206%), & Sweden (174%), whereas in the US the ratio went from 82% in 1990 to a pre- Financial Crisis high of 130% but has since then has been 'declined to 113%. But it is a much different picture where student loans are concerned; for the amount owed by US students upon graduation is twice that in Canada & the total amount outstanding has roughly doubled in the US since 2006 to US\$1.2+TR, most of it on the government's tab,(of which 20% it in arrears) as public universities raised tuition fees by one-fifth in real terms during the five years ended in 2012, i.e. by more than twice that of inflation plus enrolment growth combined. Small wonder that a massive US lobbying campaign is now underway for student debt “relief” (i.e. write-offs)

THE BOOK AND THE BALLOT (The Economist)

- On both sides of the Jordan River the Palestine Authority & the Hashemite Kingdom of Jordan called elections in the expectation of easy wins. But the Muslim Brotherhood ended its ballot box boycott of *long standing* & now is, due to the mayhem & infighting in, *and corruption of?*, of both of the ruling parties) the front runner in both : in Jordan the Islamic Action Front (IAF), the Brotherhood's local political arm, is expected to emerge from the September 20th election as the largest party in Parliament while across the river Hamas, the Brotherhood's local offshoot is expected to sweep all eight of the West Bank's cities in the October 8th municipal elections. And while in both places the authorities have sought to stack the elections against the Brotherhood, it has outwitted them by appealing to minorities, among others by including Christians on their candidate lists. In Jordan this may not matter much since King Abdullah has diluted parliament's powers &, when the politicians prove too troublesome, simply dissolves it & rules by decree. And while in the West Bank Mahmoud Abbas, *whose mandate is*

questionable because Hamas won the last parliamentary election a decade-, & his own term in office officially ended-, seven years ago, has long ruled by decree, he now faces a restless young electorate increasingly prone to violence &, despite large dollops of foreign aid, presides over an economy going nowhere in which unemployment is rife; so he may have to depend on the Israelis to stay in power.

The Brotherhood may have taken the lesson of Morsi's rise & fall in Egypt to heart & concluded a more conciliatory public image in an environment in which 'soft' jihadists will do well.

WHAT HAPPENS AFTER ISIS FALLS? (WSJ, Yaroslav Trofimov)

- On July 4th, 2014 in Mosul Abu Bakr al-Baghdadi⁴, after gaining control of large swaths of Eastern Syria & Western Iraq, proclaimed a new caliphate to restore the “dignity, might and leadership of Sunni Muslims.” But now ISIS seems likely to fall as quickly as it rose; after going to war with just about everyone in the region, incl. the Americans & Russians, and launching-, and/or claiming responsibility for the launching of-, growing numbers of terrorist attacks in the West & elsewhere, it has suffered a series of battlefield setbacks losses & has lost control of many cities, incl. Ramadi & Fallujah in Iraq, and Palmyra in Syria, and of a vast swath of Northern Syria along its border with Turkey, and in the next two months may well lose control over Mosul in Iraq & Raqqa in Syria⁵.
- What made ISIS appeal to young, disaffected Muslims was that it seemed to provide a better social model : food prices in Mosul were lower than in Baghdad, streets were cleaner, Christians & Shiites were sent packing, women's beauty salons closed & men prohibited from shaving, and gays thrown from roof tops. But while al-Baghdadi demanded that all Muslims pledge allegiance to him, soft jihadist clerics dismissed his caliphate dreams as endangering the entire jihadi movement, to the point where some referred to his followers as “new Kharijites” (a splinter sect in early Islam that fell in disrepute because of its defiling & killing of other Muslims that didn't share their views as ‘infidels & ‘apostates’⁶.
- Now ISIS' battlefield losses & loss of territory have begun to undermine the caliphate's credibility & legitimacy. But even it were to lose all its territory, it would not vanish; for it will almost certainly seek to demonstrate its continued relevance by more headline-grabbing massacres in the Middle East & elsewhere. So counter-terrorism experts warn that its death rattle could be “ferocious”. Moreover, while the past two years have spawned an unusually wide coalition *with different-, if not conflicting-, interests* of Western democracies, Russia, Turkey, Iraqi Sunny Kurdish-, & Shiite-, militias & Sunni Persian Gulf monarchies to fight ISIS, once it ceases to be a threat, they will likely turn-, or return-, to squabbling-, and/or fighting with-, each other (*as Turkey is already doing with the Kurds*).
- Among the ‘experts’, Hassan Abu Haniyeh, a Jordanian researcher specializing in the jihadist movement, says that “the pretext of fighting ISIS delayed the conflicts & protest

⁴ A graduate of the infamous Abu Ghraib prison near Baghdad that at its US Army-run peak held 7,500 political prisoners whence he was released after a year as a “low level prisoner”, only to have, a few years later, put a US\$25MM prize put on his head.

⁵ The latter being the caliphate's designated ‘capital’ as it had been in Harun al-Rashid's short-lived caliphate in the late 8th century, long after the caliphates' initial heydays had passed.

⁶ And indeed ISIS' activities have caused far more Muslim-, than Westerner-, casualties.

movements across the Middle East; but eliminating ISIS will bring them back & embolden those who had been holding back their demands for reform by region's regimes because of their concerns about ISIS", the former Jordanian major-general & one-time director of the Centre of Strategic Studies at the King Abdullah II Academy for Defense Studies Mahmoud Irdaisat that "I don't think everybody should relax after we get ISIS out of Mosul and Raqqa. The pressure must continue. If we relax they will come back ... And we should not forget al Qaeda, because it was the cradle from which ISIS came", and Rob Ford, US Ambassador to Iraq in 2011 & now a Senior Fellow at the 70 year-old, Washington-based Middle East Institute, that "I'm much impressed by how much [al Qaeda's leaders] have learnt from their mistakes and bad experience in Iraq ... They are much less brutal in Syria than they were in Iraq, and they work with non-jihadist factions, which al-Qaeda in Iraq never did. They are more subtle in their tactics and they have a lot more local support which will make it much harder to contain it" (& it now has franchises all over West-, & North-, Africa and the Arab Peninsula, incl. Yemen).

The West, in focusing on short-term military objectives, has failed to devote adequate, if any, resources to the far more important long-term need to win the war for "the hearts & minds"

CHINA'S ASTRONOMICAL CREDIT BINGE : HOW WILL IT END? (WSJ, Andrew Browne)

- Over the past 12 months China has created more domestic credit than in 2009 when, during the global financial crisis, it engineered one of the greatest bouts of stimulus spending ever. This financial jolt has been larger than the QE activities of the Eurozone, Japan, the UK & US combined⁷. So while a year ago global investors were braced for a Chinese collapse, property transactions are on track for an annual record, new car sales have grown at a double digit rate for the 4th month in a row, factory prices are recovering, capital outflows have shrunk and the yuan fallen only moderately (*although its FX reserves are still down 20% since mid-2014 to US\$3.2TR, after having increased five-fold to 4.0TR in the previous eight years*). And while as a result China's total debt-to-GDP ratio has skyrocketed from 150% to over 260%, the kind of run-up that usually ends in either a bust or a sharp slowdown, Beijing doesn't seem particularly concerned, in part because it cannot; for President Xi, can't afford, ahead of next year's Party Congress at which he intends to pack the Communist Party's upper echelon with his own people, the sharp economic slowdown that it would take to get the debt under control.

The writer started his journalistic career with the South China Morning Post 34 years ago.

DUARTE SIGNALS SHIFT IN U.S. DEFENSE TIES (WSJ, Trefor Moss)

- The Philippines has historically had close ties with the US, bolstered further in 2014 (*in response to China's aggressive behavior in the South China Sea?*) through a new military cooperation pact. But since coming to power last June, President Duterte has indicated he wants to distance his country from the US (& thus threaten a regional strategic balance already stressed by China's South China Sea claims). And this week he acted on that notion by announcing the US military should vacate its strategic base on Mindanao, that, in order to avoid upsetting China & to have more resources to devote to combating terrorists & the drug trade, his Navy would stop patrolling the South China

⁷

Whose aggregate GDPs are almost 4x China's.

Sea alongside the US Navy & that he had instructed his Defense Secretary to start sourcing the country's military hardware needs from Chinese & Russian-, *rather than US-, suppliers.*

This basically guts the 'pivot to Asia'.

-0-0-0-0-0-0-0-0-0-0-

GOP SENATORS LEAD IN 3 BIG SWING STATES (USA Today, Eliza Collins)

- A Quinnipac poll released September 7th based on data gathered in the previous week showed in Ohio Sen. Rob Portman leading former Gov. Ted Strickland 51-40⁸, in Florida Sen. Marco Rubio (who returned to the senatorial race after failing to get the GOP Presidential nomination) Rep. Patrick Murphy 51-43 & in Ohio Sen. Pat Toomey a nose ahead of Katy McGinty 46-45 while in North Carolina Sen. Richard Burr is tied with Democrat Deborah King 49-49 in a race that has become closer than expected⁹.

This may well portend, contrary to Democrat hopes, that the GOP will retain control of the Senate. Elsewhere the same media source reported that a parallel poll had found Clinton & Trump tied 47-47 in Florida on a head-to-head basis & 43-43 with third party candidates thrown into the mix, Clinton leading 47-43 & 42-38 in North Carolina, Trump leading in Ohio 46-45 & 41-37^{10 11} & Clinton 5 points ahead of Trump head-to-head in Pennsylvania & 44-39, if Johnson were included, (while post convention she had led head-to-head by 1 point in Florida, 4 in Ohio & 10 in Pennsylvania).

CLINTON HOLDS LEAD OVER TRUMP IN NEW POLL BUT WARNINGS SIGNS EMERGE (WSJ, Scott Clement)

- While in a new WSJ/ABC News poll Clinton leads Trump 46-41 among likely voters, it also showed both their reputations have been "bruised by the campaign", with *only* 60% of voters now seeing them as honest & trustworthy, with a majority critical of Clinton for her role as Secretary of State & of Trump for his attitude vis a vis women. It also found a lagging of interest among some of her supporters that poses a potential threat to Democrats & that nearly 60% believe she granted special favours to donors to the now renamed Bill, Hillary and Clinton Foundation, while nearly two out of three voters don't 'buy' his explanation as to how he would deal with undocumented immigrants. And while 46% of Trump supporters say they're "very enthusiastic" about his candidacy, only 33%

⁸ Which in a Bloomberg poll taken September 9th -12th had widened to 53-36, as he seemed to be gaining support among Democrat-leaning-, & even among normally Democrat-, voters.

⁹ In all four cases the sample was relatively small, ranging for 601 in Florida to 778; so the margin of error in ranged from 3.5% in Ohio to 4.0% in Florida.

¹⁰ Whereas the RealClearPolitics average of Ohio polls gave Clinton a 3.3. lead in a two way race, i.e. slightly higher than her national average (all or part of it due to the inclusion in the average of earlier polls from before a recent modest slide in Clinton's popularity.

¹¹ Which according to a Bloomberg poll conducted September 9th - 12th has since widened to 48-43 head-to-head & 44-39 in a four way race, due to her "basket of deplorables" comment & (to a lesser extent?) to renewed concerns about her health following the September 11th incident

of Clinton's are about hers, while 80% of his supporters feel Hillary would real damage to the country &, 83% of hers that he would. *Last but not least*, while 60+% of his supporters say they're following the campaign very closely & 93% that they are absolutely certain to vote, the comparable numbers for Clinton are 45% & 80%.

The writer is the WSJ's "polling manager".

TRUMP PROPOSES \$20 BILLION TO EXPAND SCHOOL CHOICE FOR THE POOR
(Bloomberg, Terenec Dopp)

- On September 8th, at a charter school in Cleveland, he said that in his first budget he would include \$20BN in block grants to states to expand school choice for 11MM poor school age children (& that the states would have discretion as to how to spend the money although a campaign statement noted that "the dollars should follow the students" & he himself that the money would "favor" states with charter school-, and/or school choice-, laws¹²).

In calling education a 'modern civil right' deserving of having money spent on it, he is reiterating a half a decade-old GOP platform plank that New Jersey Gov. Chris Christie promoted with some success in his 2013 re-election campaign to attract more support from black & Latino voters (who in 2012 split their votes 6%-93% & 27%-71% respectively between Romney & Obama).

¹² Which 42 states & DC currently do