

Quote of the Week No. 1 : “We lifted up a rock and dropped it on our own feet.” - Mao Tse Tung - *he drew on this old Chinese saying in his November 6th, 1957 address to the Supreme Soviet of the USSR on the 40th anniversary of the ‘Great October Socialist Revolution’ to substantiate his charge that “reactionaries in all capitalist countries are fools of this kind” (something which many of our present generation of politicians seem intent on proving correct).*

Quote of the Week No. 2 : “Debt is future consumption denied” - Eugen Böhm von Bawerk - *an ‘Austrian School’ (of economics) stalwart & Austria’s Minister of Finance on several occasions during the decade ended in 1904, he stands accused by his detractors of having been a penny-pinching miser who contributed to his country’s sub-optimal economic development by not borrowing more for infrastructure-building. Both he & his critics are/were right : for there is ‘good’ borrowing that funds future growth, thereby enhancing the scope for future consumption growth, & ‘bad’ borrowing that boosts today’s consumption at the expense of future generations. Unfortunately much of developed country government-, & personal-, borrowing today & in the past (incl. that facilitated by QE) has been of the latter kind.*

One of you commented on my observation last week that gas wasn’t replacing coal as fast in US power generation as believed. He suggested this was a ‘blip’, not a ‘trend since the US coal-fired power generating plant ‘fleet’ is rapidly aging & it’s hard, if not impossible, to get new coal-fired power plants approved; so over time their number will dwindle by attrition. In addition, US electric utilities now are building their new power plants closer to where their customers live (to reduce transmission costs & power losses) & plans for gas-fired plants generate far less NIMBY-type push back than do coal-fired ones (*& while he doesn’t mention it, gas-fired plants produce “interruptible”-, rather than “base load”-, power, which often is higher-priced).*

According to Hoisington Investment Management, an Austin, Texas-based fixed income investment manager with AUM of US\$5BN that caters to large institutional investors, real US GDP grew at an average annual 3.7% rate during the period 1870-2000 but since then has done so at only half that rate (which it attributes to the US Total Debt-to-GDP ratio crossing a 260% ‘red line’ in the late 90’s). In its latest Report to Shareholders it also notes that at last August’s Jackson Hole central bankers’ clambake several distinguished academics criticized their recent attempts at pump-priming, with one telling them aggregate demand is unresponsive to monetary action by central banks & another that, while the system had gotten itself in a mess in 2008 by leverage being too high, & banks too big, leverage now is higher still & banks bigger than ever, and that, *despite their pumping unprecedented amounts of liquidity into the system, bank lending to non-corporate businesses, the main new job generators, had stagnated.*

Amidst all the kerfuffle about taxes in the US, it appears to have escaped the media’s attention that in the fiscal year just ended (on September 30th), the US Treasury collected a record US\$2.7TR in taxes (i.e. a YOY increase well in excess of the rate of growth of the economy).

Those interested in the stock market, & where it may be headed in the next year or so, may want to take note that, while early this year US analysts were forecasting 2013 earnings for the S&P 500 of US\$112.17, they have since shaded that progressively to US\$107.28 (due to lower-than-expected revenues since net profit margins remained remarkably steady). In addition, as noted earlier, corporate earnings as a share of GDP are now at a record high 10+% after tax¹(which raises the question how much scope for more growth may be left).

¹ Whereas between 1980 & 2009 they typically fluctuated in the 4-8% range.

One market observer believes the Fed now is being supported in its QE strategy by the People's Bank of China (PBOC) which, with the Fed running out of balance sheet room to keep on buying UST-, & MBS-, paper, has, since it has too much at stake in the health of the US economy, upped its purchases of UST paper, in doing so achieving what serves both their purposes, i.e. reduce volatility in the UST market (*but longer term also increasing the leverage Beijing will have in the US domestic policy-making process*). And he is also growing increasingly concerned that at some point more QE will cease making the US stock market rocket ahead & that, if that were seen to be the case, the stock market would go into a tailspin.

John Mauldin's latest Thoughts from the Front Line provided some interesting insights :

- for those who wonder if the stock market is in a bubble, since 1990 the P/E of the S&P 500 increased by 2% per year while YTD it is up 18%. And margin debt is now twice that in January 2009 & on a par with July 2007, before the onset of the global financial crisis;
- for those who wonder how the QE experiment may end, a Third Quarter 2011 Bank of England chart from the era of Sir Mervyn King *who could be uncommonly forthcoming for a central banker* shows how it might evolve. First, during “the Impact Phase” (*which we are still in*), the broad money supply would skyrocket, as would real asset prices, only faster, while inflation would be muted and nominal demand & real GDP increase at only a modest rate, while during the “Adjustment Phase” (*that lies ahead*), broad money supply growth would be flat & real asset prices fall out of bed, while real GDP growth would lag rapidly rising nominal demand & consumer prices;
- for those wondering about the impact of higher interest rates, if US government bond yields were to revert back to their average during the first decade of this century, the value of the 10-year UST bond would be 23% less than what it is today;
- for those who wonder about real asset prices, Iowa farmland that sold for US\$2,275 a decade ago now goes for US\$8,700 and, according to the Kansas Fed, the price of farm land in general has increased five-fold since 1990 &, after doubling in the decade to 2010, has doubled again in the three years since; and
- generally speaking, financial bubbles happen frequently² (& go through the same five phases : *normality, optimism, euphoria, panic & revulsion*). In the 70's gold went from US\$35 to US\$850 before crashing. In the 80's Japan's Nikkei Index went from 8,000 to 40,000 before doing the same. And in the 90's Nasdaq went from 440 to 5000 before losing 80% of its value. And there have been too many housing bubbles to count that saw prices go up as much as 500% only then to lose half, *or more*, of their gains. And all along “Economists and investors have spilled a lot of ink describing bubbles, yet central bankers and *other* investors never seem to learn” or, as Peter Bernstein puts it in *Against the Gods*, the evidence “reveals repeated patterns of irrationality, inconsistency and incompetence in the ways human beings come at decisions and choices when faced with uncertainty.” - *on the other hand, those who operate on the basis that for every asset class there are times to buy, “hold & fold” them, and who can take short-term market volatility in their stride needn't fear-, & can actually profit by-, them.*

Having from time to time denigrated the current state of Canada's foreign policy as “Amateur Hour”, I was delighted to see (in an article about his new book Canada in a Century of Change) that Joe Clark, Canada's longest-serving Conservative Foreign Minister (from 1984 to 1991), as well as its *third shortest-serving Prime Minister*³, says in it that the Harper government has squandered Canada's reputation for bridging divides, and has abandoned diplomacy by closing Canada's Embassy in Tehran & boycotting the forthcoming Commonwealth Summit in Sri Lanka over the host government's human rights record. And in an interview promoting his book he opined “they (*i.e. the Minister & the Prime Minister*) are not doing the diplomacy. They prefer the podium to the playing field. They see foreign policy as something you should talk about in terms that forcefully express your point of view ... to anybody who will listen, to anybody who will stay in the room. But they are not sitting down and doing the hard work of bringing people together.”

² Those who wish to be entertained & get a perspective on bubbles in history, may find Charles Mackay's Extraordinary Popular Delusions and the Madness of Crowds, first published in the 1840's, that starts with Holland's Tulip Mania in the 1630's, a good read.

³ His nine months in office in 1979-80 were beaten by a country mile by Sir Charles Tupper's two months & 8 days in 1896 & John Turner's two months & 17 days in 1984.

Many Canadians wonder what is becoming of their country. It's biggest city, Toronto, has a mayor who for months pooh-poohed, sometimes quite abusively so, rumours he had been caught smoking crack cocaine, only to turn on a dime when the evidence against him became overwhelming, conceding he had indeed done so but couldn't remember it since he had done so while "in a drunken stupor", thereby making him the laughing stock of all US late night talk shows & putting his city on the map worldwide for all the wrong reasons. And in Ottawa Canada's Prime Minister, a self-avowed 'master tactician', handled an innocuous event, expense account fiddling by Senators, so badly by denying any responsibility & changing his story on a weekly-, if not daily-, basis that, like Nixon in the Watergate affair forty years ago, the resulting controversy now is all but totally disconnected from the original event, & shifted onto his own credibility. And further down the totem pole there are other events that make one raise one's eyebrows : police tasing an 80 year-old woman for 'coming at them with a steak knife', the Alberta Ethics Commissioner giving an MLA a clean bill of health, despite him having lobbied provincial bureaucrats for self-interest reasons, since 'his doing so would also have benefited others' & the head of the Edmonton police union glorifying the fact that forty of his members had faced disciplinary hearings in the past year vs. only two in Calgary's police force (while he ascribed to the EPS' stricter enforcement of their code of behavior, another, possibly more likely explanation given the EPS staff's past deportment, would be that his members' behavior was not on a par with that of their Calgary counterparts.

Amidst all the sound & fury emanating from Toronto & Ottawa, two columnists made seemingly relevant observations. The Globe and Mail's Jeffrey Simpson in a column No heroes in this Senate morality tale noted the Senators in question had pleaded innocence, ignorance or both & had interpreted the rules in an "elastic" manner, & then goes on to say "There are rules, and then there is what is right - and like everyone, public office-holders should, when in doubt, do what is right" (*something that somehow should also be imprinted on anyone handling other people's money*). And Postmedia's Michael Den Tant in an article Senate expulsions may hurt PM opines that "Personal responsibility is a core conservative value. It may be the most important conservative value ... Those who go astray must be held accountable ... And those in charge are generally expected to embrace Harry Truman's dictum 'The buck stops here' ... (*but*) Stephen Harper has taken a quite different approach. Day after day, week after week he has blamed everyone but himself ... That leads to this corrosive (for the Conservative party) conclusion ... Stephen Harper is not a true conservative, at least not in the way most conservatives like to view themselves."

Alberta prides itself on being Canada's oil province. This may be a misnomer; for in the FY13, ended March 31st, 2013, the Province's revenues included \$729MM that was liquor-, & \$1.49BN that was gambling-, related, the sum total of which was in excess of its revenues from conventional oil royalties. Total revenues for all provinces from gambling have increased five-fold in the past two decades & now amount to 2.3% of their total revenues (4.2% in Alberta), and in each of BC, Alberta, Ontario & Québec they are now greater than in Nevada.

Adam Minter is the Shanghai correspondent for Bloomberg's World-wide Blog. In the latest issue of The Atlantic he has a lengthy article entitled How China profits from our junk on the role (often imported) waste plays in the Chinese economy (& he knows whereof he speaks since he grew up in a two-generation scrap-dealing family milieu in Minnesota). Perhaps the most interesting statistic in it is that, while in 2012 China produced 5.6MM tons of copper, half of that came from recycled scrap, 70% of it imported, most of it from the US. And he makes the case that this has cut, albeit not eliminated, the need for new copper mines all over the world.

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HEADING TOWARD A CLIFF (Caixin Online, Andy Xie)

- The Fed's QE has created a huge global bubble, especially in the emerging economies & asset markets, and any real Fed tightening will prick it & trigger a recession worse than the last one. While inflation will *eventually* make the Fed tighten⁴, it has thus far been present mostly in the emerging economies, while in the US' dysfunctional financial system it has been delayed by the slowing velocity of money. But that is only a matter of time &, when it does come it will "stay high and for long", and may reverse the current high-inflation-in-emerging-economies-cum-low-US-inflation scenario (in which Facebook trades at 100x earnings & Amazon at 1,000x, levels way in excess of those at which AOL & Yahoo traded at the height of the dot.com bubble)⁵.
- Globalization has weakened the monetary policy & employment linkage. The IT revolution has made high-paying jobs mobile & investment dependent on global competitiveness, rather than on changes in domestic interest rates. So employment in any country can now only be created by cutting (*real?*) wages (the reason competitive devaluation is now such a powerful force). Hot money has exported US monetary policy abroad but the main problem with it is that it creates bubbles that, when it leaves, leave hot potatoes for others to hold.
- Despite its terrible record the Fed continues to believe in its power to create jobs while all it has been doing is to create bubbles that upon bursting create circumstances that justify renewed monetary stimulus & the creation of new bubbles. The world is caught in a vicious circle. Rising personal wealth *of the few* contributes to bubble formation, which prompts more inequality & more bubbles, and so on & so forth. And with bubbles a zero-sum game at best & negative-sum game most of the time, bubble serialization by central banks exacerbates income inequality. The odds are the world is now in a bigger bubble than that which led to the 2008 financial crisis. And the biggest bubble of all is in government bonds whose (*unrealistically?*) low yields benefit all other borrowers in what is an unprecedented transfer of wealth from savers to borrowers equal to 10% of global GDP (i.e. US\$7TR). And when the Fed will be forced to start normalizing its interest rate stance, *as at some point it must*, i.e. when real interest rates go positive again (right now they are negative almost everywhere), it will be all over & *it won't be pretty!*

The writer may be as close to an expert on bubbles as anyone in the world. Born in Shanghai in 1960 he has a Master's degree in Civil Engineering & a Ph.D. in Economics from MIT (with his doctoral thesis arguing, ahead of its collapse, that Japan in the late 80's was in a bubble). From 1990 to 1997 he worked at the IMF & from 1997 to early October 2006 at Morgan Stanley where he left 'under a cloud' when an email was leaked he had sent, in his capacity as the firm's Chief Economist in Asia, to colleagues attending the IMF/World Bank meeting in Singapore that characterized that city state as one whose wellbeing depended on illicit money from Indonesia & China, after which he, in due course, hung out his shingle in Shanghai as an 'independent economist'. While past performance is never a guarantee of future performance, & while he has been wrong in saying since 2004 that Shanghai real estate was in a bubble (which did not made

⁴ If a UST securities' buyers' strike doesn't do so first.

⁵ And the pricing of Twitter shares, supported by no earnings at all, has gone from an initial price 'talk' of US\$17-US\$20 through US\$25 to a final IPO price of US\$26.

him popular with the Beijing authorities), while prices there rose 300%, the fact remains that he correctly predicted the Japanese bubble of the late 80's, the Asian financial crisis of 1997, the dot.com bubble of the turn of the century & the US subprime crisis of 2008.

HIGH-PROFILE MONEY TRADERS SUSPENDED ... (DJ, David Enrich)

- The authorities' looking into the possible rigging of FX markets is the latest in a still growing list of investigations into financial market manipulation. On November 1st Barclay's put six traders on leave, as did Citigroup with its head of European spot FX trading, & JPMorgan with his counterpart, while the 82% UK government-owned Royal Bank of Scotland suspended two of its currency traders, and Barclay's & UBS retained criminal-defence lawyers to represent their employees involved. Those familiar with the probe say investigators have uncovered messages in chatrooms indicating that over a dozen traders, three of them current or past members of the Bank of England committee overseeing FX markets, had been inappropriately sharing market-sensitive information with their 'competitors' & joking with them about their ability to influence exchange rates.

The banks involved are the very same "too big to fail" banks that were penalized, or are about to be penalized, heavily for other misbehaviour by their employees in, among others, the Libor-fixing scandal & the US subprime mortgage-, cum MBS-, debacle., And the individuals concerned are among those deeming themselves "Masters of the Universe", a notion of which they were never disabused by those in charge because they were just making too much money. But now they are being thrown under the bus by those very same people to avoid having to fall on their swords themselves. Nevertheless, there is something in what those say who claim that more regulation will make the system less efficient; a more effective alternative would be to make an example of a few higher-ups by given them a taste of prison life.

OBAMACARE BIRTH CONTROL MANDATE RULED UNCONSTITUTIONAL (BB, Karen Gullo)

- On October 30th a three-judge appeal court panel in Washington ruled on religious freedom grounds that a lower court had wrongly denied a request for an injunction against an Obamacare requirement that group insurance plans must pay for contraceptives. Since two other lower US courts have already ruled on this issue with diametrically opposed results, the Supreme Court will likely end up taking it up, & in due course rule on it.

One must wonder why Obamacare's proponents didn't let sleeping dogs lie since for most Americans their cost is a small price to pay for the peace of mind they provide.

OILSANDS PRODUCTION CREATES EMISSIONS 'CHALLENGE' (G&M, Shawn McCarthy)

- In the past five years the Alberta government has introduced regulations, & political pressure on the industry from the US & European governments has grown, to curb GHG (greenhouse gas) emission. Still, in an environmental report card made public November 5th the CAPP (Canadian Association of Petroleum Producers) said industry GHG emissions had been up 21% in the past five years (from 90 to 109MM tonnes) as more & more of the oil produced came from the oilsands & other non-conventional sources that are more 'emission-heavy' than conventional ones. While oilsands producers have cut their per-barrel emissions by 8% since 2008 & by 26% since 1990, this has been overwhelmed by the higher bitumen output. According to David Collyer, President of the

Calgary-based CAPP, “We have a challenge in front of us ... We need to drive intensity levels down further to offset the increase in production we’re anticipating.”

The “challenge” in driving intensity levels down will be complicated by the fact that the lion’s share of oilsands reserves is located too deep underground to be mined & must be recovered by more emission-heavy ‘in situ’ methods than open pit mining. And this report undermines the Alberta government’s Keystone XL selling pitch in Washington, especially since it originated with the industry’s own lobby group, & not with some wild-eyed environmental wackos.

UN SLAMS CANADA ON CLIMATE CHANGE (Postmedia News, Wiliam Marsden)

- A new UN report says that, as billions of tonnes of carbon emissions continue to be pumped into the atmosphere, it will likely prove impossible to keep the rise in global temperatures below the targeted 2 Celsius by 2020; for they are currently 14% above their ‘critical path’. Nevertheless, its authors express confidence that, if countries were to act aggressively to reduce fossil fuel consumption, they could still hit the target with minimum cost, since for every dollar invested in renewable energy they are currently subsidizing fossil fuels by five (dollars). And it named Canada as a key laggard, on track to overshoot its 607 megatonne 2020 emission target by 18+% since “Canada doesn’t seem to fully grasp the risk that climate change poses to it and its people in its approach to climate change” (& keeps trotting out the nonsensical argument that since Canada only produces 2% of the global emissions – with one-half percent of the global population-, its emission levels don’t matter much), noting that a 2012 report by Canada’s National Round Table on the Environment & the Economy (that, established in 1988 to advise government on sustainable development, the Harper government *in a ‘shoot-the-bearer-of-bad-tidings move* ‘defunded’ earlier this year) had concluded there was still time for Canada to meet its commitments without disrupting its economy if it were to move aggressively.

In all fairness to Canada, according to the Fourth Annual Emission Gap Report by the UNEP & the World Resources Institute, the gap between what nations had pledged to achieve & what they actually did achieve had widened by a gigatonne (one billion tonnes) in the past year as Japan, the US & Mexico are all also on track to miss their targets (although the latter two did recently ratchet up their action towards achieving them), while the EU, China, India, Russia & Australia appear to be on track to meet theirs (even though Australia’s are dismally low).

HALLIBURTON BREWING PALATABLE NEW BLEND (FP, Yadullah Hussain)

- At a recent luncheon presentation to the Québec Oil and Gas Association’s Annual Meeting, the Company did more than just make a slide presentation; it also introduced its new ‘CleanStim’ fracking fluid for attendees to taste; while its components are food industry-sourced, they’re safe-, though not intended-, for human consumption.

It may be better than the cocktail of unknown chemicals the industry has been using but does not address the key problem of fracking being unsustainably water-intensive. And by the Company’s own admission its US CleanStim sales have been small (& zero in Canada) since, “it costs a little bit more ... (and) nobody wants to be the first to use it”.

ISRAELI MILITARY SEEKS MAJOR TOP-UP OF 2014 DEFENSE BUDGET (Haaretz, A. Harel)

- Last May the Cabinet set the Defense Ministry's 2014 budget at NIS 51BN/US\$17BN (on top of the US\$3BN in US military aid) of which, however, only NIS22BN (NIS7.5BN less than in 2013) would go to the IDF itself, with the rest going to Ministry overhead, pensions & rehabilitating wounded soldiers. Since it provided for a review at a later date, a request for additional 2014 funding was on the Cabinet's October 30th meeting agenda
- Finance minister Yair Lapid, whose Yesh Atid party ran in the elections on a social agenda at the expense of the defense budget, is set to push back. On the other hand, on October 29th IDF Chief of Staff Benny Gantz, at an event honouring Bedouin soldiers, pledged he wouldn't "agree to have the basic rights of career soldiers trampled on. Impairing your rights is akin to impairing Israel's security", a position in line with that of Defense Minister Moshe Ayalon two days earlier when he said that in the budget talks the Finance Ministry had sought to renegotiate career soldiers' pensions & benefits, and cut their wages⁶ & that he had responded to its offer to "let's manage the salaries and pensions" with "can I abandon career soldiers' fate to the [Finance Ministry's] hands?"

Israel, launched 65 years ago with the dreams of becoming an egalitarian society, has long since abandoned that notion; thus it now spends NIS68MM (about US\$22MM) on the 100 biggest pension recipients outside the defense establishment, with top retired public officials getting up to NIS86,512 (US\$28,000) monthly, 12x as much as the average civil servant. And in light of the above it isn't surprising it has supposedly asked Washington for a further US\$1BN annually in military aid (which indirectly will fund its settlement construction program).

TIME IRAN NEEDS TO MAKE URANIUM FOR A BOMB 'TOO SHORT' (CNN, Jethro Mullen)

- The Washington-based Institute for Science and International Security (ISIS) says that in as little as one month Tehran will have enough weapons-grade nuclear material to make a bomb (although conceding it will take much longer - *one year, or more* - to produce an actual bomb). This prompted House Majority Leader Eric Cantor R- Va.) to urge using military force "to prevent Iran from acquiring the world's most dangerous weapons. We all want negotiations to succeed, but time is clearly running out." But the ISIS in the past overestimated Iran's nuclear development; thus in December 2008 it said it expected it to acquire a nuclear weapons' capability "during 2009 under the variety of scenarios".

Obviously all those scenarios were wrong. And one must wonder for whom "time is clearly running out", the 'war lobby' for which military action is the policy of choice, not of last resort (& which still hasn't learnt that wars seldom produce the expected results), or those wanting to give diplomacy every chance at succeeding before considering military action as a last resort, who believe the sanctions have driven Tehran to the negotiating table (like Gadhafi two decades ago) & that the removal of the anti-US posters from Tehran's streets & of much of the anti-American rhetoric from the airwaves is evidence President Rouhani's "charm offensive" is more substantive than the Netanyahus of this world would have one believe. And this issue may soon come to a head in Washington; for while the Administration has mooted the possibility of unfreezing some Iranian assets as a token of goodwill, while not formally easing up on the sanctions, the House has a proposal before it for further sanctions.

⁶ according to Kobi Amsalam, the Finance Ministry official responsible for wages & labour agreements, the wage increases awarded were such that "in the private sector you wouldn't find such high salaries for people without an academic degree."

ITALY : THE EURO ZONE'S EXISTENTIAL THREAT (G&M, Eric Reguly)

- Italy's young people are voting with their feet : in the past decade 400,000 university graduates have emigrated, 60,000 in the past year alone. And recently Joerg Asmussen, an ECB Executive Committee member, told a Milan audience "The future of the euro area will not be decided in Paris or Berlin, or in Frankfurt or Brussels ... *but* in Rome."
- After WW II Italy went from third world-, to economic powerhouse-, status, giving the world some of its finest cars, fashion, films, food & industrial products. But it now is a country of sleet, arrogance, denial & eternal political chaos, and Mafia thuggery that spends more on interest on its national debt & on the highest-paid parliamentarians in Europe than on infrastructure & education. Robert Orsi of the University of Tokyo recently called "the perfect showcase of a country ... *that has sunk* from a ... prosperous industrial country just two decades ago to .. unchallenged economic desertification, total demographic mismanagement, rampant 'thirdworldization', plummeting cultural production and complete political-constitutional chaos."

The author's six year residence in Rome may have affected his judgment; for Italy is important, but not that important. Much of what he says about it is true to varying degrees of many other countries, incl. France, which reinforces the case that can be made that the world economy is at real risk of putting one foot in the grave, while already having the other foot on a banana peel.

GERMANY MAY INVITE SNOWDEN AS WITNESS IN NSA INQUIRY **(The Guardian, Philip Oltermann)**

- On November 18th the Bundestag will, in a special session, discuss the NSA spying issue & decide whether to launch an inquiry into it. And a veteran Green Party politician, Hans-Christian Ströbele, was in Moscow on October 31st to discuss with Edward Snowden the possibility of him appearing as a witness (& reported him prepared in principle to do so). In Germany witnesses to such inquiries get, if needed, legal protection. This causes his supporters to believe his doing so will result in a reversal of the earlier refusal to grant him political asylum based on his not doing so in person on German soil. And others point to paragraph 22 of Germany's residency law, which says that a person may be granted a residence permit "if the Interior Ministry declares it to be in Germany's political interest."

Washington's relationship with Berlin suffered a serious blow when it became known the NSA had bugged US allies' communications, worsened on the news this had included tapping Chancellor Merkel's cell phone & really headed South when, in its semi-annual report to Congress on the global monetary situation, the Treasury pointed the finger at Germany for not doing enough to reduce its trade surplus. And if Snowden were to come to Germany to testify & were protected from the long arm of US justice, this could be all but fatal for the US relationship with Europe's dominant power, & its most reliable ally on the Continent, evidence of its waning power on the Continent &, possibly, the death knell for the trade agreement the US is trying to negotiate with the EU.

EUROPEAN COMMISSION PREDICTS "TURNING POINT" IN EUROPE (BBCNews)

- It sees "signs of hope ... (of) tangible possible outcomes", but still expects just 1.1% growth for the Eurozone next year (down from its earlier 1.4%), & 1.7% in 2015, with the corresponding numbers for the entire EU being 1.4% & 1.9% (in part due to the UK economy's expected 2.2% growth in 2015). Just the same, it expects unemployment to

remain over 11%. And it envisages the *ongoing* recession in Greece to be slightly less severe than forecast earlier, with its GDP declining by only 4.0%, rather than 4.2%.

This is lulling policy makers into believing the worst is over (which may only be true for countries like Ireland that buckled down when the biomass hit the fan & took incisive corrective action, and was able to do so without encountering the usual public resentment & opposition).

THE RETURN OF EUROPE'S DEBT CRISIS (EconoMonitor, Satyajit Das)

- Since mid-2012 Europe's financial crisis has been in remission amidst 'relative' financial stability. But a relapse is highly probable. The Eurozone's GDP is now 3% less than in 2007/2008. Youth unemployment is as high as 50%. Recessions have been deeper than forecast. Austerity hasn't brought public finances & debt under control, & governments are finding it increasingly difficult to continue it in the face of weak economic activity, high unemployment & *ever-stronger public resentment*.
- The shortcomings of key policies are increasingly obvious. Their weak economies will increase financial pressures on governments. While the recession officially ended in the Second Quarter, everywhere but in Germany & France economic activity remains low. The banking sector remains problematic, with banks having 1TR Euros in non-performing loans, one-quarter of it in Italy alone, & governments increasingly resorting to tricks to paper over the cracks in it, such as inadequate stress tests, overly optimistic growth forecasts & asset valuations⁷ & accounting stratagems. Without urgent & resolute action the bad debts & weak capital positions will create "zombie banks", incapable & unwilling of providing the credit a recovering economy needs. Economic weakness & their unpopularity will impede critical labour market-, & entitlements'-, reforms. Political tensions at both the national-, & EU-, levels are on the rise. Without strong growth the debt problems will prove intractable. And while the ECB says its capacity for responding to crises is "adequate", the question is whether "adequate" will be enough.

While there has been structural reform in Spain, Greece & Ireland, there has been none to speak of in Italy & France. The banks are deleveraging. There is 'austerity fatigue' in Southern-, & 'bailout fatigue' in Northern-, Europe. And Germany interprets any talk of 'risk-sharing' as an attempt at 'risk-offloading' by its weaker Eurozone sisters.

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In many cases they are priced on book value, rather than 'marked to market'.