Erratum : In a recent commentary on the oilsands' access to world markets' problem , it was noted that a tripling of the capacity of the Kinder Morgan pipeline from Edmonton to Burnaby, BC, would necessitate a tripling of tanker traffic within a stone throw of Vancouver's iconic Stanley Park. This was incorrect; for in the past three quarters of the existing line's throughput went to refineries in BC & the US Pacific Northwest. So if the latter were to continue to take down like amounts of oil after the line's capacity was tripled, tanker traffic past Stanley Park could increase as much as ten-fold.

Quote of the week : "2014 is the year to squeeze more juice out of risk assets. But investors should be ready to discard the fruit when it starts running dry" - Ewen Cameron Watt, Chief Investment Strategist for the Blackstone group which has AUM of US$250+BN & which in its 2014 Investment Outlook said that, while investors "have jumped on the momentum train[1] betting that yesterday's strategy will win again tomorrow", they should be aware that traffic jams are "easy to get into but hard to get out of". And it noted its key risk indicator, that predicted the coming of the Great Financial Crisis, is now almost as high as it was before the dot.com bust.

Something that has gone largely unnoticed in the Ryan-Murray budget deal is that federal employees hired after January 1st, 2014 will henceforth make pension contributions of 4.4% of their gross pay, those hired this year 3.1%, & those on the payroll prior to January 1st, 2012 0.9% (*part of which is offset by their different levels of Social Security contributions*).

One stock-picking, non-Asian market money manager based in Asia (*'far from the maddening crowds' in some respects, but in another in the midst of others*) made some interesting points, after bemoaning his difficulty in finding reasonably-priced stocks :

- the continued liquidity creation by the central banks is akin to pumping a patient full of a drug at ever higher dosages (until the body ceases to respond to, or even reject, it);
- what disconcerts him more than retail investors, as in the late 90's, piling into the stock market after long having sat on the side lines, is the spectacle of hitherto disciplined professional money managers dumping their discipline to join in the melee;
- every country currently aspires to have, & in many cases needs, a weaker currency; a physical impossibility, this often leads to "currency wars" & "competitive devaluations";
- all the talk about inflation being "benign" & the risk of deflation, overlooks the disconnect between the inflation in the prices of what people **need**, which is more than offset in the official calculation of inflation by deflation in the prices of goods they **want**, - *a trend (deliberately) obfuscated by the core "inflation" concept?*[2]*;*
- there is also a disconnect between the weakness in the market price for "paper" gold & the strength of demand for "physical" gold; with more & more of the latter disappearing (*semi-permanently?*) into "very strong hands", he expects the latter to prevail in the end.

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1 This used to be known in the good old days as 'the Greater Fool Theory of Investing" (that operates on the basis of 'I may be a fool to buy this stock at this price, but there has to be an even greater fool somewhere out there who will take me out at a profit') which works brilliantly until, as in the kids' game of musical chairs, the music stops).

2 Perhaps the central banks' stable of inflation measures, from which it can pick & choose the one that suits their purposes best at the moment, should be augmented by yet another one, far more meaningful to the hoi polloi, that would be based on the price of the goods & services that people need to purchase regularly to survive.

The market took in its stride the Fed's decision to start tapering ever so modestly (that had not been universally expected), seemingly for two reasons. First because since the initial mooting thereof last May, & the Fed's backing away from it in September, analysts have concluded it may not do all that much harm after all; thus, despite the yield on the 10-year UST benchmark bond having gone from 1.86% on January 2nd, & a low of 1.66% on May 2nd, to almost 3% before the announcement, the sky hadn't fallen. But the second, more important reason is that, in its tapering announcement the Fed promised not, as Arthur Burns[3] once put it, to 'remove the punch bowl when the party got going' (*or in this case when everyone is having such a good time*) but would keep short interest rates low even longer than it had previously undertaken to do - *so it is merely switching monetary policy 'horses', rather than reining it the one it has been riding, & what it is taking with one hand, it plans to give back (with interest?) with the other.*

As expected, the effect on the price of gold was negative. While early in the day Wednesday it had actually been up, it lost all its early gains, & that much again, after the announcement And the impetus for a further slide came in Hongkong at 2:00 a.m. New York time when the paper market is at its thinnest & when hence a small order has a lot of leverage, although it stayed above the 34-months' low of US$1,180.50 set on June 28th. For some time this has been a frequent pattern (3x last week alone) : when the gold price gets too uppity, it gets clobbered in Hongkong at 2:00 a.m. New York time, only then to spend the next 24 hrs scrabbling back to higher ground, only to get nailed again. Even to many non-believers in conspiracy theories this is too coincidental to be mere happenstance.

For those interested in what is happening in the 'real'-, as opposed to the 'paper'-, gold market, it is more than just an interesting factoid that gold demand emanating from India, until recently the largest source of physical gold 'disappearance', has held up remarkably well despite the fact that an ounce of gold now costs an Indian retail buyer over US$1,500, & that its premium over the paper gold price has gone from 10% last April to 16% now.

According to the St. Louis Fed, from 1929 until the mid-60's total US credit growth went pretty well hand-in-hand with GDP growth. But then the former started outstripping the latter at an accelerating rate until 2008 when it experienced a temporary hiccup[4], only to now have reverted back to a growth path, albeit a more moderate one. So the US total credit-to-GDP ratio went from 1 :1 in the early 1960's to 3 : 1 at the turn of the century, & today is close to 4 : 1. Meanwhile, according to Bloomberg the Fed Funds rate went from 15% in the early 80's (after having spiked to 20%) to next to nothing in the past five years, with much of the recent Fed-induced growth in liquidity not having done much for Main Street since it piled up on the Fed's balance sheet in the form of the now US$2.4TR in Wall Street banks' 'excess reserves' which, even at just 0.25%, generate a US$6BN annual subsidy stream for them which has helped to offset the cost of the various fines & levies they have since been made to pay for their

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3 3 Chairman of the Fed from 1970 to 1978 [after having served President Eisenhower for three years as the third Chairman of the CEA (Council of Economic Advisers) during which he said at one point that the purpose of the US economy was to "produce more consumer goods", a role long since outsourced offshore]. As Chairman he presided over the creation of a monetary policy mess that, after an 18-months' interregnum by the wholly unremarkable Bill Miller, took Paul Volcker & a 20% Fed Fund rate to clean up.

4 Largely due to US household debt going from US$13TR to US$11TR, although that aggregate number obscures the fact that the mortgage-, & student-, loan component thereof continued growing.

malfeasance & their dereliction of their fiduciary responsibilities vis a vis their stakeholders. And the latest quarterly Fed report showed that it had US$3,843TR in assets & liabilities of US$3,789TR; in other words, it has a capital base of US$54TR which represents a 71x leverage ratio (more than twice Lehman's 32x at the time it went TU), *although, of course, this comparison has an 'apples & oranges' element to it*.

The US federal government has approx. US$2.5TR in annual revenues. But it has US$17TR in direct debt & US$60+TR in off-balance sheet liabilities; so if it were to pay its way as it went along, it would take only a 3.25% cost of money to have its debt servicing obligations account for all its revenues.

In Canada household debt has gone from < 90% of GDP in 1990 to 164% (*a level well in excess of that in the US at its peak).* But according to the Chief Economist at one of Canada's Big Five banks, this "shouldn't necessarily trigger alarm bells because 70% of it is mortgage debt[5]". Expectations now are that in 2014 it will surpass 170%[6]. If so, this will intensify the all but inevitable eventual hangover for Canadian consumers . Add onto this the implications for the Canadian economy if one of its mainstays, the Alberta oilsands, were to prove unable to solve its access to world markets' problems in a timely fashion[7], and the outlook for the Canadian economy in 2014, & possibly even more so in 2015, the year of the next federal election, becomes 'dodgy'. If so, Prime Minister Harper might be wise to either call an early election (thereby relegating his earlier much-vaunted four-year fixed election schedule fully to the trashcan of history since it would be the second time he ignored it since he introduced the idea), or jump off what is starting to look like a sinking ship while he still can, with his reputation intact.

In this week's emergency meeting of the House Transport Committee on Canada Post's decision to cease the door-to-door mail delivery to the one-third of Canadian households that still get it (the other two-thirds live in apartment buildings or in new suburbs where 'community mail boxes are already a fact of life), its CEO had the gall to suggest to MPs that having to walk to a community mail box is positive from a public health perspective because it will force seniors to get more exercise (*that is, those who can still walk that far & those who for half the year are not afraid of slipping on the icy sidewalks*).

On December 19th Canada's National Energy Board reported, not entirely unexpectedly so, that the Northern Gateway pipeline from Edmonton to Kitimat, BC proposed by Enbridge would

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5 Although Deutsche Bank recently opined that Canadian houses are 60% overvalued (which is likely only somewhat, but only somewhat, of an exaggeration)

6 while the Malaysian government recently took steps to curb credit growth, & S&P tutt-tutted about its rising household debt levels, when its ratio there approached the 90% level.

7 Which could put the kibosh to the output growth that's still being taken for granted; the evidence to date is mixed; on the hand, Suncor several months ago announced it was resurrecting an oilsands project previously put on hold & Imperial just announced it will go ahead with another one of its serial oilsands projects while on the other the Globe and Mail recently reported that Norway's Statoil will soon have to choose between going ahead with a planned oilsands project or with the development of its several oil discoveries made in recent years off Canada's East Coast (*which likely will favour the latter since it involves technology with which it is familiar & would have no market access uncertainties.*

entail more pluses than minuses for Canada & should be allowed to proceed. While euphorically hyped by Ottawa & the media as "a big step forward", it may be more the end of the beginning, rather than the beginning of the end, in this project's tortuous evolution. First it is likely to have an effect on the well-funded environmentalist lobby (that Harper c.s. deeply resent) & its First Nations' allies (that they also detest but must be nice to) like the proverbial red flag on a bull. Secondly, the BC government was quick to reiterate that the project would be a "no go" unless its earlier delineated five conditions were met in full. And finally, the NEB recommendation stipulated no fewer than 209 conditionalities (incl. one for $950MM-worth of liability insurance coverage), each & everyone will constitutes a potential trip wire for the project's detractors' use [*and it is worthy of note in this context that the day before the NEB announcement Canada's Natural Resources said in an interview that having met with 20 Indian chiefs & elders this year, he remains convinced that many of them will support pipeline development provided they are properly consulted, are treated as full partners & would derive long-term benefits from it – these are pretty big ifs : first because majority agreement won't suffice, only unanimity will do and because there is a world of difference between what the industry & the Indians would deem proper consultations, full partnership & (appropriate) long-term benefits*].

At the end of a 3-day weather 'event' Jerusalem overnight December 13th had what the Israel Electric Corporation called "the worst snowstorm in the past 150 years". It dumped up to 50 cms of snow on parts of the city, & caused severe flooding in the Gaza Strip - *in the face of this, & so many other unusual, extreme weather events, how can there still be climate change deniers?*

Samsung, which has one-third of the world's smart phone market, is moving to protect its profit margin by shifting production away from China to Vietnam (where wages are one-third of those in China). It is building a US$2BN factory there that will go into operation in February & by 2015 will account for 40% of its global smart phone production. In so doing it is following in the footsteps of Nokia & Intel & appears to be by no means the only one to do so; for YTD foreign investment in Vietnam is up 73% YoY & China's only 6% (albeit on a much bigger base).

For Eritreans getting on the national football team must be like winning a lottery; for they appear to take it as an opportunity to get out from under supposedly 'one of the most repressive regimes in the world'. In 2009 twelve of its members 'disappeared' in Kenya while participating in a regional tournament, before seeking asylum there, in 2011 almost the entire team, incl. its doctor, pulled a similar disappearing act while in Tanzania, & now 13 of its players have gone 'missing' in Uganda. And apart from that, four members of the Eritrean team at the 2012 London Olympics sought asylum there, hundreds of members of its army have defected in recent years, most of them to Ethiopia, & a number of members of its navy defected to Yemen, using the navy's own speed boats to cross the Red Sea - *Eritrea has 6MM inhabitants & lies on the African side of the southern Red Sea. Long part of Ethiopia, it gained its independence in 1991 after a long War of Independence, thereby leaving Ethiopia land-locked, & again went to war with it in the late 90's over a border dispute. At least part of their inability to get along is attributable to the Ethiopian government being Christian-, & Eritrea's Muslim-, dominated.*

GLEANINGS II - 542
Thursday December 19th, 2013

ATTENTION SHIFTS TO FED'S 'CLOSE CALL' (G&M, Kevin Carmichael)

- Earlier the Fed backed away from a tapering decision for three reasons. It was concerned the stronger economic data were too good to be true, it was afraid that if it started tapering Congress would feel free to continue 'budgeting by crisis', & it was troubled that inflation was too low. The former two worries have now been laid to rest : the index of home builders' confidence is at an eight year high[8] & the economic headwinds have eased, and last October's *partial* government shutdown scared lawmakers into passing the Ryan-Murray budget deal, with 12 of the 45 Republicans in the Senate supporting it on December 17th, thereby proving the cynics wrong & ensuring federal spending next year will be less of a drag on the economy than it was this year. And private sector activity appears to be picking up. But what really drove the Fed's decision was inflation. On December 17th the Labor Department reported the CPI had been flat in November & that the YoY increase had been just 1.2 percent, little more than half the Fed's 2% target (although "core inflation' was up 0.2% to 1.7%, due to a 2+% increase in the cost of services, 2.4% higher home prices & rents, and the significantly higher cost of automobiles). So, according to Sébastian Lavoie, a former Canadian central banker who is now Assistant Chief Economist at Montreal-based Laurentian Securities, a "very mild" taper would be "justifiable".

This was written the day before the Fed on December 18th did indeed decide on a modest taper, despite risks on all three fronts (the green shoots could wither on the vine, the debt ceiling issue is still up in the air & inflation at the grass roots level may be less benign than it is perceived to be in the board room. But the Fed is anxious to get the QE albatross off its neck & believes it can perpetuate its easy monetary policy stance by other means.

FOUR REASONS NOT TO FEAR THE FED (TAPERING) (G&M, David Berman)

- Janet Yellen's tapering agenda will be outcome-, not calendar-, driven; *in other words, she will only taper as much as she thinks the economy can handle ... & she is a dove*;
- Much of the initial impact of tapering has already been "priced in"; thus the yield on the 10-year UST treasury bond has gone from 1.6% last May to nearly 3% today;
- Winding down the asset purchase program will come with much hand-holding such as by announcing a 6½% unemployment rate wouldn't automatically end the program;
- All tapering talk will reference strengths in the US economy, such as industrial production, consumer confidence, and the end of the balance sheet recession & resumption of household borrowing (*the last of which has already started to happen).*

In the end, she may well find herself at some point a victim-, rather than a maker-, of events.

CALIFORNIA'S TROUBLES ARE AT EVERY CORNER (G&M, Gary Mason)

- Some call California a failed state. In its cities homeless people abound. According to Forbes magazine it leads the US in many not very good categories. It has the highest taxes, the lowest credit rating, the highest poverty rate & the most cities to have gone bankrupt. It is the worst state in which to do business, has the nation's worst traffic congestion & is tied for the highest unemployment rate. Its prison system was so mismanaged the running of it has been taken over by a judge. And it faces a water crisis in recurring droughts & ground water pollution by agricultural chemicals, while its educational system is troubled by a hyper-polarized, dysfunctional political system.

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[8] Although on the economic news front , existing home sales (that account for 90% of the market), after hitting a four year high, have now been down for three months (in November at a 220,000 annual rate to 4.9MM) & new unemployment claims in the most recent week were up 10,000 to 379,000, rather than down the expected 30,000 decline.

- *Septuagenarian* Jerry Brown, *who succeeded Arnold Schwartzenegger in 2011 as Governor & previously served in that capacity in 1975-1983, during the state's heyday*, has done much to turn things around. He has introduced a 'balanced budget' & promised more of the same although his closing of yesteryear's massive deficit has been achieved by raising taxes & slashing spending on health & education. Much remains to be done in the area of employee benefits that were promised but never funded (estimates of its degree of underfunding range from US$77BN to US$497BN, *both of which dwarf the State's reported US$28BN direct debt), although* it is hard to imagine the state's lawmakers having the intestinal fortitude to tell their employees & retirees they must scale back their pension expectations. Meanwhile, talk continues of a high speed rail link that would cost tens of billions (*the Chinese have offered to build & fund one for US$45BN*) &, despite having the largest shale oil & gas deposits of any state, it has ruled out fracking (which in & by itself could solve many of the state's fiscal problems).

Jerry Brown may only have made a small step towards getting California's fiscal house in order but small first steps can over the years have a powerful compounding effect & in the shorter run have great leverage if they lead to a scaling down of expectations. And to put its fiscal problems in perspective, the sum total of California's reported debt & estimated unfunded liabilities would in a worst case scenario amount to just 26.1% of its GDP (which is modest compared to, for instance, the federal government's). And like everyone else's, some of its unfunded liabilities will disappear like snow before the sun when, & not if, interest rates go higher and, with them, the discount rates used to calculate the PV of future pension liabilities.

<u>INDIAN DIPLOMAT'S STRIP SEARCH TRIGGERS FIGHT WITH US</u> (BW, Karen Mehrotra)

- Devjani Khobragade was India's Deputy Consul General for Women's Affairs in New York. On December 12th she was arrested at her daughter's school in Manhattan by the State Department's Diplomatic Security Service, taken to the Federal Court House, strip searched (incl. a 'cavity search'), charged with one count of visa fraud (a possible ten year sentence) & one of making false statements (another five years), and after a few hours released on US$250,000 bail. For on a visa application for a housekeeper/ babysitter she had stated the latter's pay would be the US$9.75 New York minimum wage, while the Department of Justice alleges the two had agreed on US$3.31.

Her case quickly became a cause celèbre in India a few months ahead of an election that it looks like the government will lose. So, it retaliated swiftly by removing the concrete barricades outside the Consular section of the US Embassy in New Delhi (which left the State Department bleating that it expected the Indian government to keep its employees in that country safe from harm), while opposition politicians suggested that since the Indian Supreme Court recently had upheld the outlawing of gay sex the police should round up the same sex partners of US diplomats. The public reaction in India being so strong, Secretary of State John Kerry deemed it necessary to issue a statement that he did not expect this event to affect the friendly relationship between the two countries. There have been other cases of foreign domestics being taken advantage of by foreign diplomats & the US authorities may have wanted to set an example to try & end this practice. But there are always right-, & wrong-, ways to do things. And this overtly hamhanded approach clearly was one of the latter, despite US assurances she had been treated no different than anyone else under similar circumstances. Meanwhile, bail be damned, the Indian government poked a stick in the US' eye by reassigning her to its delegation to the UN where she will have full diplomatic immunity status & be beyond the US authorities' reach. This whole issue could, & should, have been dealt with, well, ... more diplomatically.

<u>"AFFLUENZA" IN TEXAS INCITES ANGER ...</u> (LAT, Molly Hennessy-Fiske)

- Last June a drunk 16 year-old driving a Ford 350 truck[9] with seven others in its cab hit four pedestrians on a Texas country road & killed the lot. Earlier this month, Judge Jean Boyd of the Fort Worth Juvenile Court sentenced him to 10 years' probation & therapy (at his family's expense at a purported US$450,000 per annum cost). While prosecutors had sought a 20 year sentence, the defense argued therapy would be more appropriate & produced a psychologist witness who explained this was a clear case of "affluenza", a condition that prohibits someone from a wealthy background from understanding that bad decisions have bad consequences (a condition is not recognized by the American Psychiatric Association & a term the psychologist himself later conceded he wished he hadn't used, albeit only because "everyone seems to have hooked on it").

In all fairness to the judge she was said to have been motivated by a desire not to destroy a young life & by the limited options of suitable venues for his incarceration. In the past a legal principle was established a murder charge doesn't necessarily require the actual pulling of a trigger, the handling of the knife in a stabbing or the administration of blows in a fatal beating. In similar fashion the time may have come for parents, who brought children into the world & then raised them badly, to be held similarly responsible for their offspring's misdeeds.

<u>KEYSTONE XL PIPELINE LOSES SUPPORT FROM U.S. CUSTOMER</u> (Reuters)

- Independent US oil producer Continental Resources has signed on to ship 35,000 bbld of its Bakken *light* crude oil production on TransCanada's Keystone XL pipeline to the Gulf Coast. But CEO Harold Hamm, at the Platts Global Energy Outlook Forum[10], told Reuters on December 12th that his company, & the industry in general, no longer counts on the pipeline, "not for Bakken *crude.* And is it needed for the industry? I don't think so ... not in the US." For companies have taken a liking to rail transport that, while more costly, gives them more flexibility as to where to ship their product, *& makes them less of a "captive" supplier to the operator, & those at the end, of the pipeline).*
- In 2010 Continental was one of a group of companies that persuaded TransCanada to build a $140MM spur to its Keystone XL main line to enable them to move their Bakken oil to the Gulf (after lobbying against its cross-border leg on the grounds it would flood the US with cheap Canadian crude & hurt independent US oil producers like itself).

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9 This is a big mother of a pickup truck that no 16 year old with limited driving experience has any business driving on a public road at the best of times, never mind when drunk & possibly distracted by the presence of seven other kids in the cab.

10 McGraw Hill Financial-owned & New York-based Platts is a leading purveyor of information on the petrochemical-, energy-, metals-, & agricultural industries. This was its seventh such annual conference, this year at the Waldorf Astoria in New York. It was attended by some 200 oil industry executives, entitled <u>Bridging the U.S. Oil Boom - Global Markets Prepare</u> & focused on the ripple effects of the U.S. shale revolution, and featured as its headline speaker Dr. Ernest Moniz, Obama's Energy Secretary since last May, whose message was that "We remain committed, even as we produce much more oil, to lessen our oil dependency, using less oil domestically and having fewer emissions" and who, in post-address remarks, raised the possibility of ending the ban on US oil exports (which was music to the ears of his listeners).

The earlier argument that the US "needed" Alberta oilsands oil looks to have been made redundant by the shale oil revolution. If so, this is what in the end will influence an Obama decision to nix the Northern, cross-border leg of the pipeline, the resultant flow of economic benefits out of the US economy & its negative ramifications for US companies. As to the now greater love of companies like Continental for rail, given the North American railways' long-held view that derailments are cheaper than track maintenance, transporting oil by rail will, sooner or later, fall victim to the inevitable increase in oil tanker train derailments that will accompany the rapidly growing number of such trains in the US railway system.

PERSON OF THE YEAR (FT, Jamil Anderlini)

- Jack Ma, age 47, is the Financial Times' 2013 Person of the Year for personifying the Chinese Internet, complete with all foibles & being "the godfather of China's scrappy entrepreneurial spirit". While he founded Alibaba 14 years ago in his apartment, today it is the world's most successful e-commerce company, with 100 MM shoppers a day *from all over the world*, sales greater than eBay & Amazon combined, accounting for 2% of China's GDP, and expected to soon do a global IPO (*but not in Hongkong because the locals there put too many obstacles in its way*).
- Last May he stepped down as CEO, while remaining Executive Chairman, to tackle some of China's biggest problems, including its looming environmental disaster. In doing so, he reflects a profound Internet-facilitated shift in Chinese society; for a growing & increasingly vociferous middle class, after three decades of untrammeled economic growth, is no longer content with GDP growth alone. In a recent phone interview he said "In China, because of problems with water, air and food safety, in 10 or 20 years we will face a lot of health problems ... My second focus is people's culture and education ... if we don't do this, ... young Chinese people will grow up with deep pockets and shallow minds." And earlier he wrote "Just as the Internet is revolutionizing retail ... we at Alibaba believe ... it will eventually do the same for ... information-driven industries such as finance, education and healthcare. Once ... we are all connected - I believe the spirit of equality and transparency at the heart of the Internet will make it possible for Chinese society to leapfrog in its development of a stronger institutional and social infrastructure ... (*but*) our water has become undrinkable, our food inedible, our milk poisonous and, worst of all, the air in our cities so polluted we often cannot see the sun ... Twenty years ago, people in China were focusing on economic survival. Now people have better living conditions and big dreams for the future. But these dreams will be hollow if we cannot see the sun."

Breaking an addiction requires two things : to recognize having one & doing something about it. The Chinese seem to to be realizing that carrying on as per usual is no longer an option& are entering Phase 2 of this process while the West is still stuck in the 'talking the talk' part thereof.

WELCOME BACK TO THE EUROZONE NIGHTMARE (Telegraph, Liam Halligan)

- While the fear of the Euro as a ticking time bomb seems to have abated, in reality the Eurozone's deep structural flaws remain & it remains as vulnerable as ever. In 2012 the peripheral governments' bond yields spiked, & riots broke out in some European capitals, until ECB President Mario Draghi promised to do "whatever it takes" to save the Euro. This restored calm (*the one before the storm?*). Since then there has been less talk of a Eurozone breakup & the Euro has actually been one of the better performing currencies, largely due to a deliberate Fed balance sheet expansion to weaken the US dollar (*but perhaps also partly because China has been dumping dollars to fund, among* *others, a European asset buying binge?*). But everyone has ignored that Draghi's "whatever it takes" promise, the OMT (Outright Money Transactions) that enables the ECB to buy unlimited amounts of dodgy government bonds is a mirage; for it can only do so under bailout circumstances. So it has yet to buy a single bond under OMT.

The banking system in the Eurozone's peripheral countries has non-performing loans of 1.5 to 2.0 trillion Euros, its Eastern European members face huge refinancings in 2014, & its economy is not growing anywhere near fast enough for it to outgrow its debt burden. And Draghi's undertaking has given politicians all over the Eurozone an excuse to make haste more slowly in introducing long-overdue & much-needed, but immensely unpopular, reforms in their economies.

ITALY COULD BE RACKED BY VIOLENT UNREST, PRESIDENT WARNS (Reuters)

- President Giorgio Napolitano warned on December 16th Italy could be plunged into violent social unrest unless government swiftly introduced reforms to help struggling citizens[11]. Thousands of Italians marched in the past week in protests fueled by falling incomes, 12% unemployment (40% among those under 25), and graft & scandals among politicians widely seen as serving their own-, rather than the country's-, interests. More specifically, he warned struggling citizens "could get involved in haphazard, and even violent, protests in an extreme and fruitless surge of total opposition to politics and institutions ... The recession is still biting ... We need strong measures beyond those *already* approved by the government and the Parliament this year and the last ... the crisis affecting the eurozone has put a strain on social cohesion. The most detailed forecasts for 2014 indicate a risk of widespread social tension : a risk that must be kept in mind and confronted in Italy."

At age 87 Napolitano has been in politics for six decades & held senior posts in several governments, most of them as a member of the Communist Party. He is the only Communist to ever hold the Presidency ***and*** *the only Italian ever to have been re-elected to the position. Because of his background the changes he envisages may do little to address Italy's key problem, low productivity. In view of his age he was reluctant to let his name stand again when his first term ended last spring but eventually was prevailed upon to do so for the sake of (much-needed) continuity, a re-election facilitated by the fact Italy's President is elected by just the members of Parliament, augmented by 58 "special electors" from the country's 20 regions.*

MEXICAN CONGRESS PASSES RADICAL SHAKE-UP OF OIL INDUSTRY (Reuters)

- In Pemex' biggest overhaul since it was created by nationalization in 1938, on December 12th it voted overwhelmingly in favour of opening up the country's oil & gas sector to private investment, hoping to attract majors like Exxon & BP with production-, profit-sharing-& service-, contracts. In so doing the two biggest parties faced down accusations of selling off the nation's patrimony to foreigners, with Ricardo Monreal, the leader of the leftist Citizens' Movement in the lower house calling it "a black day ... (*with*) more poverty for everyone, which has been the rule for Mexican privatizations."

[11] The reforms he has in mind would, however, be popular, short-term, people-focused ones rather than the unpopular, longer-term, system-focused ones needed to let Italy become more globally competitive & fiscally sound (not surprisingly so, given his political leanings).

- With over 10BN bbls in proven reserves (plus 30BN possible in the Gulf) Mexico has Latin America's third-largest proven oil reserves (after Venezuela & Brazil). But Pemex has been unable to exploit them due to a lack of investment (*caused by the government treating it as a 'cash cow' & siphoning off too much of its cash flow*), high taxes & corruption; as a result, Mexico's oil output today is down one-quarter from its 3.4MM bbld peak in 2004.

While 10BN bbl isn't much in the overall scheme of things, over the medium term this will generate more unwelcome competition for Canadian oil in the North American market, & make it that much more important that Canada cuts the Gordian knot of access to world markets.