

Anyone who wants to see some great aerial shots of global landmarks, or show them to your children/grandchildren, should click on pixtale.net/2013/12/how-our-world-would-look-like-if-you-were-a-bird/ - *You won't be disappointed, especially if you have seen them from street level.*

Quote of the week : "Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies." - Groucho Marks - *a cynical, but by no means inappropriate, observation.*

Gold bulls, as opposed to gold nuts, support their view with facts like :the Austrian mint is running flat out 24/7 to keep up with the demand for gold coins;

- sales of gold coins by Australia's Perth Mint are up 20% YoY;
- US gold coin sales are on track for the best month since gold fell out of bed last April;
- the Shanghai Gold Exchange says that last year it delivered 2,197 tonnes of *physical* gold to customers (i.e. *80+% of newly-mined gold production*), up from 1,139 tonnes in 2012;
- on January 8th the Royal Mint announced it had run out of 2014 Sovereign gold coins due to "exceptional demand" (but did resume sales on January 14th); and
- last year the average daily volume of "cleared" gold sales in London was 29MM ounces while annual newly-mined production is just 90MM ounces & the aggregate amount ever dug out of the ground about 5,500MM ounces (and the volume of cleared ounces is just a fraction of the total volume traded).

Meanwhile, just about every major bank is trashing the outlook for gold, *which cynics say (with justification?) is because they want to go 'long' gold themselves & buy it 'on the cheap'.*

In a private meeting on February 4th, House Speaker John Boehner (R. - Ohio) supposedly told his party "There's no sense in picking a fight we can't win" & to accept a "clean" debt ceiling bill. Their failure to agree on a strategy on this issue, incl. possibly "tethering" the Keystone to the debt ceiling, is delighting the Democrats. Meanwhile, an immigration bill looks dead for another year.

The CBO (the non-partisan Congressional Budget Office) is now forecasting a US\$514BN US government deficit for this fiscal year (that ends September 30th), down US\$46 BN from its earlier forecast. That's is the good news; the not-so-good news is that it raised its forecast of the aggregate budget deficit for the decade ending September 30th, 2023 by US\$1TR, to US\$7.3TR, in part due to Obamacare, saying the higher deficit will cost the nation 2.3MM jobs.

In 2009 Anheuser-Busch InBev sold Korea's Oriental Brewery for US\$1.8BN to a KKR-led private equity group. It is now said to be in talks to buy it back forUS\$4BN. While this may not make sense for shareholders, it does make a lot of sense for its managers. For the earlier sale of this, & other, assets reduced the Company's indebtedness & entitled them to 'performance bonuses' that for Brazil-born & educated CEO Carlos Brito purportedly amounted to almost US\$300MM.

The background to the several items on the Israeli-Palestinian issue later on is as follows. Shortly after US Secretary of State John Kerry early in the New Year announced plans for a 'peace agreement framework', the Israeli government basically said "Up Yours" by announcing approval of another 1,800 housing units in East Jerusalem & the West Bank. This infuriated Washington & prompted Britain, France, Italy & Spain to call the Israeli ambassadors in their capitals on the carpet to protest this move (to which the Israeli government responded by doing

the same to their ambassadors in its capital to protest against their protest). Then on January 18th & 19th there was a meeting in Morocco of the al-Quds (Jerusalem) Committee, founded in 1975 by the Pan-Muslim Organization of Islamic Cooperation to resist the confiscation of Palestinian assets & land (*which obviously hasn't been terribly successful*). Chaired by King Mohamed VI himself, its closing communique called on the international community to put pressure on Israel to stop building settlements. Next Israeli Defense Minister Moshe Yaalon bitterly attacked John Kerry for seeking to broker a peace deal by April & told his colleagues 'in private' that Kerry had an "incomprehensible obsession and a messianic feeling" (remarks for which he subsequently apologized, albeit only "if Kerry had been offended by them") & Mordechai Yogeve, an MK for Naftali Bennet's Bayit Beitenu party, publicly accused Kerry of anti-Semitism, saying "he is not here to create a compromise. He wants to decrease the Jewish presence in the Land of Israel (*i.e. the West Bank*) and create a Palestinian state", comments for which he subsequently apologized in a letter to the US ambassador, declaring it had not been "personal" but that Kerry doesn't understand the situation (while at the same time thanking the US for its aid & cooperation over the years). And Naftali himself, (who is feeling his oats since his party is doing well in the polls - *at the expense of Likud?*) got himself in the soup with a January 28th attack on Netanyahu for suggesting the settlements may come under Palestinian control in a future agreement, saying, among others "our forefathers and the descendants of our descendants will not forgive an Israeli leader who gave up our land and divided our capital", remarks for which he too subsequently apologized (which earned him praise from by Foreign Minister Avigdor Lieberman but also a rap across the knuckles for lashing out against the Prime Minister : "you can disagree with him, you can argue with him, but you cannot criticize him, for he is the Prime Minister") - *if all this confuses you, join the crowd. Everyone is playing to the galleries, & not necessarily the same ones. On balance, however, the fact that some hardliners are losing their tempers may be a positive sign; for it may mean that they sense, if not know & fear that a deal is coming down the pike that they ain't gonna like but won't be able to stop. The latter would also explain the apparent softening of the attitude of former hardliner Lieberman; he may have decided change is coming & it's time to join the winning side.*

The European Parliament is on a fixed five year election cycle. So the next election must take place in late May. Its current composition is as follows (roughly from Left to Right) :

- **European United Left/Nordic Green Left** (35 seats) - consisting of mostly socialist & communist elements, it is committed to integration;
- **Progressive Alliance of Socialists and Democrats** (184 seats) - dating back to 1953, when the EU got its start, it was until 1999 the largest party in the European Parliament. It too obviously wants to move forward;
- **European Greens/European Free Alliance** (55 seats) - its membership includes the Swedish Pirate Party (which advocates strengthening individuals' right to privacy);
- **Alliance of Liberals and Democrats for Europe** (84 seats) - supports integration & a single market;
- **European People's Party** (265 seats) - a centre-right grouping supported by Germany's Christian Democrats & Sarkozy's UMP in France;
- **European Conservatives and Reformists** (54 seats) - anti-federalist & euroskeptic it was created after the 2009 election at the instigation of Britain's Conservative Party;
- **Europe of Freedom and Democracy** (32 seats) - also formed after the 2009 election, it consists of ten parties, incl. Britain's Ukip (11 seats) & Italy's Northern League (9 seats);
- **Assorted others** have a total of 27 seats.

In 1979, in the first direct election of MEPs, voter turnout was 62%. In every election since it has slipped, in 1999 for the first time below 50%, & in 2009 to 43%¹. But the emergence & recently growing popularity of more radical national parties & the now widespread dissatisfaction with austerity could change that in May to the detriment of the centrists & integrationists, since nothing brings out voters like grievances & annoyance with the powers that be; for at the national level the following eurosceptic, if not outright euro-hostile, parties are doing well in the polls²:

- **France's Front National**, led by Marine LePen³, support for whom, at 24%, is not far behind Sarkozy's, & well ahead of President Hollande's;
- **Britain's Ukip**, led by Nigel Farage. Even with only low double digit support it is outdrawing the Liberal Democrats in many recent polls & worrying some Conservatives;
- **Italy's Five Star Movement**, led by Beppe Grillo⁴, got 25% of the local vote in the last election & was second in the total vote count only because the Democratic Party outdrew it 30% to 10% among voters living abroad. In recent polls it has consistently vied for second place with Berlusconi's Forza Italia party, with voter support in the 20% to 24% range, not too far off the Democratic Party's 28.5% to 3.5%;
- **Greece's Syriza Party**, headed by Alex Tsipras⁵. Hard-left & outright hostile to European integration, at last report it led Prime Minister Samaras' New Democracy Conservatives 25% to 17% in the polls. Tsipras has vowed that, if he ever were to get the chance, he would refuse to pay back the hundreds of billions owed to the EU, the IMF & the ECB; and
- **Holland's P V V (Party for Freedom)**. While its leader, Geert Wilders, is best known for his extreme anti-Islam views, he is also a eurosceptic (but calls himself a "right wing liberal" to differentiate himself from those, like LePen, he deems to be fascist right wingers). While in the 2012 elections his support dwindled by one-third (*because he brought on early elections?*), his remains the third-largest party in Parliament (with 10% of the seats) & in the most recent, February 2nd, poll actually led the pack with 28% support &, on a 270 day running average basis, has been second only to the Prime Minister's party 23% to 27%.

So this time around the leaders of various national parties may well get involved in the European Parliament election as never before, to get the vote out, those of the mainline ones because they feel they **have** to, & the others because they think they have the wind in their sails & **want** to. If so, this time around there may well be an uptick in voter turnout.

¹ And British voter participation has been more apathetic than most : in 1979 it was 31%, collapsed to 23% in 1994, rose to 40% in 1999 and then collapsed again to 31% in 2009.

² These five countries' population accounts for almost half of that of the entire EU.

³ She recently was quoted as saying that the way to improve the EU was by "making it collapse ... like the Berlin Wall."

⁴ Who has argued for a "two-speed euro (with France, Ireland, Spain & Portugal) ... if we do not want to leave altogether."

⁵ In only his mid-thirties, his middle name is Ernesto (after Che Guevara); at one time he was a member of the Communist Youth of Greece.

In Europe the economic news was a good news, bad news story. On the one hand, the Eurozone's Composite PMI (Purchasing Managers' Intentions) Index rose to 52.9 in January (from 52.1 in December), & in Spain even hit a 6 ½ year high of 54.8, prompting an observation by Markit, a financial data service, that "Spain and Ireland are now seeing robust growth⁶, undergoing their strongest phases of expansion, while Italy is also returning to growth and France's business sector is also showing signs of stabilizing" (*which may not, however, do much to improve the hoi polloi's sour mood much in the short run since it will take time for the benefits thereof to start 'trickling down' to their level*). On the other hand, Eurostat reported that Eurozone retail sales in December, after rising a *healthy* 0.9% in November, were off 1.6%, over 3x the 0.5% decline expected.

At Davos Bank of England Governor Mark Carney said, among others, that the UK economy remains well short of achieving "escape velocity"⁷ from recession & pledged the degree of stimulus would remain "exceptional for some time". Furthermore, that while "a few quarters of above-trend growth driven by household spending represents a good start ... this isn't sufficient ... It will take sustained growth, more balanced demand and a recovery on the supply side for the advanced economies to break free into a more normal universe." - *like many developed country central bankers, he's starting to sound like a one dimensional thinker, unable, or for short-term political reasons unwilling, to see that their economies may be at an inflection point into a "new normal" in which yesteryear's rules & practices may no longer be applicable.*

GLEANINGS II - 548
Thursday February 6th, 2014

MARGIN DEBT HITS ALL-TIME HIGH :PRELUDE TO A CRASH?
(Global Research, Mike Whitney)

- The Fed's easy money policies have pushed margin debt on the NYSE to record levels. In December alone it rose by US\$21BN, *i.e.* 5%, to an all-time high US\$445BN (*almost triple what it had been five years earlier*). And for the year as a whole, it increased by US\$123BN (38%) %; with cash balances down US\$19BN, this adds up a US\$142BN leveraged bet on the stock market at a time that during the year ended September 30th US\$450BN-worth of corporate share buybacks (exceeded only by the US\$589BN in calendar 2007) caused a shrinkage in the supply of stocks. Investors have shrugged off earnings disappointments, flagging demand, droopy incomes & stagnant wages, and swollen P/E ratios to load up on stocks confident that the Fed's liquidity infusions will keep prices going higher, while the Fed is *now* hoping that by gradually easing QE (& *insisting that it will keep money easy by other means*) it can orchestrate a soft landing, rather than a full-blown crash. What the Fed has been doing is akin to 'keeping a thumb

⁶ "Robust" growth may be too strong a term for Spain; while after eight straight quarters of negative growth, its economy did start to pick itself up off the floor in the Third Quarter, it grew by just 0.1% in the Third-, & 0.3% in the Fourth-, Quarters (but was down 1.2% for the year as a whole & is forecast to grow by just 0.5% this year & by 1.7% in 2015). As to Ireland, it had a bit of an off year in 2013 with only 0.5% growth (due to a negative First Half), but its GDP is forecast to grow this year & next by 2.1% & 3.2% respectively.

⁷ A buzz word increasingly popular with central bank to denote an economy's ability to stand on its own two feet without further stimulus.

on a scale, but remove the thumb and you have a whole new ball game', as we have already seen in the emerging markets.

Eyeballing a chart superimposing the growth in NYSE margin debt onto that of the S&P 500 index back to 1981 suggests a strong positive correlation between the two & the timing when both fall off the cliff; but it doesn't reveal which one is the chicken, & which one the egg.

NETANYAHU SAYS BOYCOTT OF ISREAL UNJUST (AP, Karen Laub)

- Last month, in an apparent attempt to appeal directly (*to moderates?*) on both sides before he formally presents his framework for a peace deal in the coming weeks, US Secretary of State John Kerry said continued intransigence may risk Israel's future as a democratic, majority-Jewish state & endanger its prosperity. But on February 2nd Prime Minister Netanyahu dismissed all warnings Israel could be targeted by a growing boycott campaign if the peace talks with the Palestinians were to fail once again, saying any boycott attempts would be immoral⁸, unjust & "will not achieve their goal". Two of his ministers accused Mr. Kerry of unfair pressure tactics & not standing by Israel with one, Intelligence Minister Yuval Steinitz, a hardline Likud member, saying Israel can't be expected "to conduct negotiations with a gun pointed to its head"⁹ & calling Kerry's comments offensive.
- But the TV news that same evening signaled the growing concern in Israel the world will use economic pressure to extract concessions. Recent warnings from Europe & from Israel's Finance Minister¹⁰ of the potential damage from a boycott have added to this concern. A small but growing number of European businesses & pension funds have already cut ties with Israeli firms with links to the settlements in the West Bank & East Jerusalem¹¹, and last weekend Denmark's largest bank, Danske Bank, blacklisted Israel's Bank Hapoalim, part of Israel's leading financial services group because of such links.

⁸ Sanctions against Iran are OK, but a boycott against Israel immoral? People may well ask "What's the diff? Both are displaying unacceptable behaviour!"

⁹ A misinterpretation, if not deliberate misrepresentation; Kerry wasn't pointing a gun, merely warning, as a friend, that others might or as a spokeswoman for the State Department pointed out when she said that Kerry "opposes boycotts and was merely describing what's at stake" (while Susan Rice, Obama's National Security Adviser, twittered that the attacks on Kerry were unfounded and unacceptable.)

¹⁰ On February Yair Lapid warned, on Israeli Army Radio, that "failure to achieve a two state solution will hit the pocket of every Israeli."

¹¹ Norway's US\$800BN sovereign wealth fund on January 30th blacklisted two Israeli construction firms involved in building settlements in East Jerusalem (thereby reversing the lifting of an earlier ban on them), the Dutch US\$200BN PGGM pension fund said it was boycotting Israeli banks because settlement construction posed a problem in international law, the Dutch water company Vitens has terminated its cooperation with Israel's water supplier Merokot, and the Dutch Foreign Minister last October, **while on a visit to Israel**, said in a speech that his government 'discourages companies from economic involvement *with Israel* beyond the Green Line' (i.e. the original 1949 demarkation lines drawn up by the UN).

The Israeli hoi polloi seem to be starting to realize their growing isolation, & the risks thereof.

THE THIRD INTIFADA (NYT, Thomas L. Friedman)

- The first intifada helped to bring about the Oslo & the second, that featured live ammo on the Israeli-, & suicide bombers on the Palestinian-, side caused it to break down. I have long wondered why there never was a third one (with the Palestinian answer being that they are too poor & divided, and that the first two did more harm than good. But now the third one is underway & it is the one the Israelis have always most feared, a non-violent & economic one that, moreover, is not originating in Ramallah but in Brussels & other places all over the world that have long opposed Israel's occupation of the West Bank (making it a source of real leverage for the Palestinians *going forward*). For the Israel economy is heavily dependent on technological & agricultural exports to-, & investment in its hi-tech industries from-, Europe (according to Finance Minister Yair Lapid even only a 20% reduction in exports to Europe would cost Israel US\$5BN & its economy thousands of jobs). And this is coming at a time of-, & being reinforced by-, an *unconfirmed* report that Mahmoud Abbas has made an offer the presence of Israeli troops on the West Bank could be phased out over five years as they are gradually replaced by US-led NATO forces.

The latter would likely be as good as it could get from the perspective of Israeli security & likely would likely carry a lot of weight with the majority of Israelis who just want peace & would, on general principle, be in favour of any credible 'Land for Peace' deal.

ISRAEL'S FINANCE MINISTER HALTS FUNDING TO WEST BANK SETTLEMENTS (Al-Arabaya/Reuters)

- On February 1st Finance Minister Yair Lapid halted the transfer of government funds to West Bank settlements & ordered a probe into allegations that (*part of*) the moneys meant for municipalities there (US\$42MM over four years) had been funneled into the coffers of the Yesha Settlers' Council for political purposes counter to government policy.

Naftali Bennett may well come to rue the day he ducked the chance to be Finance Minister because he believed he would have more opportunity as Economy Minister to channel money into the settlements. And Lapid & his centrist Yesh Atid party's 19 seats in the Knesset would be critical to any attempt by Netanyahu at what the Italians in the 60's called an 'apertura a sinistra' (a move to the Left)¹² in order to get a peace agreement through the Knesset.

JEWISH GROUPS LAY LOW AS KERRY WORKS ON ISRAELI-PALESTINIAN PEACE FRAMEWORK (Jerusalem Post)

- In contrast to the noisy Iran contretemps between the Administration & much of the Jewish community, centrist Jewish groups have adopted a wait-and-see approach as Secretary Kerry works on the framework agreement, although they have all expressed support for his efforts. AIPAC, which usually takes the lead in framing the *US Jewish* community's responses to peace talks has been quiet; like other groups it doesn't want

¹² Although, whereas in Italy in those days it involved a shift from the Centre to the Left, in Netanyahu's case it would more be from the Right to the Centre.

to weigh in prematurely on a much-anticipated proposal that has yet to see daylight. Netanyahu has said he is receptive to Kerry's efforts even though he's sure he won't necessarily agree with all elements of any US framework proposal. The Obama Administration has been stressing it is developing the framework in close consultation with both Israeli & Palestinian leaders, and so far the leaders of at least 50 Jewish organizations have been given a preview of parts of it. The spokesman for the umbrella body for Jewish public policy groups says that it is invested in a successful outcome. And the American Jewish Committee has applauded Kerry's efforts, saying "advancing peace is not for the faint-hearted". On the other hand, the head of the Anti-Defamation League has referred to widespread Jewish communal skepticism rooted in two decades of frustration & accused the Obama Administration of conducting "a vendetta against American Jews", and the Zionist Organization of America has accused the Administration of being the PA's "attorney & chief negotiator."

Generally speaking, there seems to be a growing realization in all but the most right wing of of the Jewish community that the time has come to cut a deal before the train leaves the station.

ITALY ACCUSES S&P OF NOT GETTING 'LA DOLCE VITA' (FT, Steven Foley)

- S&P said on February 4th it had been notified by Italy's Corte dei Conti (Court of Auditors) the rating agencies may have acted "illegally", & opened themselves up to damage claims of 234BN Euros, by failing to consider Italy's rich cultural history in their credit rating cuts since 2011 (there have been allegations for some time their "reckless" reports had worsened its governments' position & forced them to take emergency measures). An Italian official confirmed a judicial inquiry into S&P, Moody's & Fitch is underway & that on February 19th more details will be released by the Prosecutor acting for the Corte dei Conti.

Meanwhile, Alberto Gallo, RBS' Head of European Macro Research says Spain is "reaping the benefits from reforms" & should continue to outperform an Italy falling behind in its restructuring.

LIBYAN INVESTMENT FUND SUES GOLDMAN OVER LOSS (NYT, Jenny Anderson)

- In 2007 Goldman Sachs made a presentation to the Libyan Investment Authority explaining it wanted to establish a "partnership" with it (a "long-term relationship, not short-term profits"). It offered to train its staff & management about financial markets & products, long-term strategic advice & opportunistic investment opportunities & an internship to the brother of the Authority's Deputy Executive Director, and then proceeded to load it up with US\$1BN-worth of equity options. The Authority is now suing it on the grounds this had netted Goldman a US\$350MM profit from what were now worthless assets, it had abused a relationship of "trust and confidence"& not kept adequate records of the trades (that had weeks, if not months to get), that its savvy bankers had taken advantage of its young & inexperienced staff, and that all talk of a long-term relationship had been "untrue".

Over 21 centuries ago the Roman poet Virgil wrote in his epic Trojan War poem Aeneid "Beware of Greeks bearing gifts"; the same applies to Goldman. In dealing with it the saying "He who sups with the devil needs a long spoon" is likely more applicable than to any other major investment bank. Anyone with any knowledge of the global investment banking community would have started to urgently look for off ramp at the sound of a Goldman staffer saying the firm wasn't interested in short-term profits but in a long-term relationship; for it has long had a

well-deserved reputation for being the most transaction-, & least relationship-, oriented Wall Street firm. This law suit has now prompted an expanding probe into possible violations of US bribery laws by not just Goldman, but also Crédit Suisse, JPMorgan, the Blackstone Group & alternate asset manager cum hedge fund operator OCH-ZIFF Management Group (OZM). Meanwhile JPMorgan has still not been cleared in an earlier investigation of a program called Sons and Daughters that lowered its hiring standards for the offspring of Chinese 'princelings' to the point it supposedly had a spread sheet to keep track of which one(s) of them were linked to which deals the bank was pursuing. And the bank has just agreed to fork over another US\$614MM to settle allegations that for over a decade it had knowingly approved mortgage loans not eligible for insurance by the FHA & the Department of Veterans' Affairs (which came a week after the bank's board approved a 74% increase to US\$20MM in the stipend of Jamie Dimon, its Chairman, President & CEO, despite the fact that so far the bank on his watch the bank has paid out over US\$20BN of shareholders' money in fines & penalties for a seemingly endless series of transgressions (but what else could, & should, one expect from a Board Compensation Committee headed by Lee R. Raymond who in 2005, upon retiring as the Chairman & CEO of ExxonMobil, & prior to that Exxon, got a US\$400MM 'golden handshake'.

BREAKDOWN IN PANAMA CANAL EXPANSION ROW TALKS (BBC News)

*•In 2007 the Panama Canal Authority commenced work on a Canal expansion with an estimated cost US\$5.25BN, incl. a US\$590MM contingency to cover accidents, design changes, price increases & delays, financed in large part by several supra-national institutions on easy terms. In 2009 an international consortium made up of Spain's Sacyr Vallehermoso SA, Italy's Salini Impregilo SpA, Belgium's Jan de Nul & Panama's Constructora Urbana won the contract for, & commenced work on, a US\$3.1BN critical part of the project, building bigger locks to handle 12,000 "post-Panamax" TEU container ships (compared to today's 5,000 TEU ones). The job is now scheduled to be completed in June 2015, nine months later than planned, & has experienced a US\$1.6BN overrun that the consortium wants the Canal Authority to absorb while the latter has refused to do so, arguing it results from events that are "normal" in such projects (*although it has made an offer to contribute US\$100MM*). The consortium now says the talks to settle their differences have been terminated by the Authority, is threatening to halt all work, *with the project 70% completed*, unless the Authority pays up, thereby putting the project & 10,000 jobs at risk (*it has already cut its level of activity by 75%*), and warns that "without an immediate solution, we face years of disputes in national and international courts." And while the Authority appears dug in on its position, it stands to lose millions of dollars a day in foregone toll revenues.*

One of the consortium's unsuccessful bidders for the contract was San Francisco-based Bechtel that, after it had lost out, opined the consortium wouldn't even be able to "pour concrete" for the price it had bid & among the Wikileaks document was a cable from the US Embassy in Panama that reported "It is widely expected that during construction Sacyr will attempt to renegotiate the price." Be that as it may, questions may be raised as to where the lenders were when the Authority supposedly risked their money accepting what is now said to have been a 'low ball' bid & why the Authority should fuss if its claim, that presumably underlay its funding proposals to lenders, that the project would quadruple its annual toll revenue 'take' to US\$4BN annually, had been rock solid.