Quote of the week : "Paying attention to what others are thinking is the easiest way for traders to get carried away." (*& engage in "group think")* - Jason Zweig, Wall Street Journal, "How Many 'Greater Fools' Does It Take To Make A Bubble?", September 27th, 2013 (*his answer is found in a single sentence in the article : "As prices rise and you intensify your search for that "greater fool" you can sell to, you may get distracted from noticing that the greatest fool is you"*).

This week common sense suffered a major defeat, & the tyranny of the minority scored one for the Gipper, in the Supreme Courts of both the US & Canada. For the former ruled unconstitutional the 2007 Massachusetts law that had created a 35 foot buffer zone around abortion clinics & the latter gave a BC Indian band clear title to a vast tract of land (& water offshore) that it had long claimed its ancestors had always had the use of but had not lived on (one immediate effect of which is to make Ottawa's recent approval of the Northern Gateway Pipeline meaningless).

On June 25th the Commerce Department published its final First Quarter GDP growth number. Its initial assessment had been for 0.1% growth, its first revision cut that to a negative 1.0% and, while economists had started talking about the final number possibly being a negative 1.8%), the final revision came in at a negative 2.9% (down QoQ from a positive 2.6%)[1]. But this revision seems to have been anticipated by those who had been calling for Second Quarter growth of 3.6% to produce an average 1% growth for the First Half. The culprits in the First Quarter, other than the inclement weather, were slower-than-expected growth in consumer spending & business investment, and a greater-than-expected decline in exports.

Edward Yardeni is now in his mid-sixties & runs his own high-priced economic advisory shop. In a career at both the Fed & the Treasury, and as the Chief Economist/Investment Strategist for major houses at both the "Buy" & "Sell" side of the Street, he has seen more market ups & down first than most people now in the business. So it is worthy of note that on June 23th he referred to Fed Chair Janet Yellen as the "Fairy Godmother of the Bull Market"..

Last year Santa Fe, NM-based Thornburg Investments[2] did a study on the real world relevance of nominal rates of return during the 30 years ended December 31st, 2012. It found that, while US$100 invested in the S&P 500 on December 31st, 1982 (after interest rates & inflation had peaked[3], and the US stock market had bottomed out) in nominal terms had grown by 10.80% annually to US2,172, on a net/net/net-, or what it called a "real real" return-, basis it had done so at a 5.79% annual rate to just US$542 [after allowing for management costs (US$302)[4], taxes on dividends (US$459) & on capital gains (US$137), as well as inflation (US$732)]. It then went on to calculate the 30-year real real yield on ten asset classes (*bracketed figures are their calculation of the real real return*) : US large cap stocks - 10.80% (5.79%), international stocks -

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1 The worrisome part of this for owners of US stocks ought to be that, while the economists have been revising their GDP growth forecasts for 2014 in light of this drastic First Quarter growth revision, analysts have yet to begin revising their earnings forecasts and that, if, or rather when, they do, it could put a serious damper on the stock market.

2 The firm was the Institutional Investor's Emerging Markets' Equity Manager of 2014 & this year got Lipper Awards for five of its funds for its team work, consistency & discipline

3 It had increased at 11.7% rate, compounded annually, during the three years-, & at 8.4% during the decade-, ended December 31st, 1981.

4 Which it likely low-balled at 0.50% annually.

9.89% (5.13%), US small cap stocks - 9.56% (4.92%), municipal ("*tax-free*") bonds - 7.49% (3.92%), 20-year UST bonds - 9.90% (3.38%), corporate bonds - 8.84% (2.12%), 5-year UST bonds 7.66% (1.69%), single family homes - 4.25% (0.74%)[5], US Treasury Bills - 4.30% (-0.80%) and commodities 0.92% (-2.54%). It also calculated them for these asset classes over different time periods, as shown below :

	US large caps	Int'l stocks	US small caps	Mun. bonds	20-yr US bonds	Corp. bonds	5-yr US bonds	Real estate	US T-bills	Com-modi-ties	In-fla-tion[6]
	---Percentage of Real real returns/year---										
30 years	**5.79**	5.13	4.92	3.92	3.38	2.12	1.69	0.74	-0.80	*-2.54*	2.89
20 years	0.90	1.05	2.15	2.44	**2.89**	1.25	1.40	0.24	*-1.32*	-0.72	2.38
10 years	3.28	4.56	**5.59**	2.11	2.70	1.22	0.65	-0.80	*-1.81*	-0.93	2.41
5 years	-0.97	-5.96	0.74	3.49	**5.14**	3.27	2.44	-4.34	-2.01	*-7.57*	1.80
1 year	11.03	**12.10**	11.34	4.09	0.06	4.87	-0.60	5.87	-2.16	*-3.31*	1.74

* Numbers bolded & in italics are the highs & lows respectively for each period.

Among others, the above table suggests that:

- since its real real returns are net of inflation, it has only been in the last five years that the 'real' yields on some of the above asset classes have been negative (*and negative real rates encourage borrowing)*;
- the perception that small cap US stocks generate better returns than their large cap counterparts appears validated;
- contrary to the popular perception real estate has really been a lousy investment - *home owners proud of the money they "made" on their house typically don't take into account how much they spent over the years on real estate taxes, maintenance & improvements*[8]*;* and
- recent stock market returns are out of whack with their historical trend line (to which, history has proven time & again, growth paths almost invariably seem to return, thereby proven those wrong who claim "this time it's different").

Thornburg also noted that, *despite all Republican talk about 'no increase in taxes'*, under the *rather ironically named* American Tax Payer Relief Act (ATRA) of 2012 the maximum rate on ordinary personal income was raised from 35% to 39.6%, and that on dividends on stocks held outside 'tax-advantaged' accounts, & on capital gains on investments held for more than 12 months *for individuals with high incomes*, from 15% to 20% (reversing the cuts Bush 43 had

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5 **After** deducting for all time periods of > 1 year, a 6% transaction cost, but **not** making any allowance for the 'normal' ongoing home repair & maintenance costs.

6 As measured by CPI (which has been manipulated to increasingly become a poor proxy for inflation as consumers experience it..

8 Thus a Globe and Mail columnist recently did the math on the current tendency among young people to make buying a condo their entry point into the real estate market; his conclusion was that they typically could rent the condo for what the mortgage payments would be, thereby saving them having to make a downpayment & ongoing running costs, and enabling them to "bank" the condo fees & real estate taxes.

initiated in 2003); in addition, the Affordable Care Act introduced a *wholly new* 3.8% Medicare Contribution Tax.

JPMorgan's Bruce Kasman, its Chief Economist & Managing Director of Global Research, went on record this week as saying that, while the growth of inflation may slow down some in the near future, any surprises are "likely to be on the upside" (*thereby echoing the growing concern among economists that the Fed is "behind the curve" on inflation, i.e. it is underestimating the outlook for it*). And he also said there is a good chance the BoE may *feel obliged to* start tightening monetary policy *(the word once used was "snugging")* sooner than currently anticipated.

After 2008 there was one exception to US households reining in their debt accumulation : student loans : while on January 1, 2008 the amount outstanding was in the US$550BN range, it now stands at US$1.2TR. While the interest rate on these loans is fixed for the life of each loan, the rate on new loans is adjusted each year on July 1st; so next week the rate on the so-called "Stafford " loans will go up from 3.86% to 4.66% (& that for graduate students from 5.41% to 6.21%) while that on the so-called "Plus" loans, to students & their parents, will be hiked to 7.21%. And Mark Kantrowitz, Senior Vice-President at Edvisors.com, a group that helps students & their parents make informed decisions about paying for their education, thinks it's not impossible that the rates on some loans could go as high as 10.5% during the foreseeable future - *combine the ever-higher cost of education, & of financing it, and the growth in outstanding student loan balances with the lessened job opportunities & lower entry level salaries for new graduates and another challenge may be in the making for the US Treasury (that guarantees these loans. And the crazy part of it all is that the cost of post-secondary education in recent decades has gone up at a rate over twice the rate of inflation because university administrators have been building empires, while in many cases shortchanging students on the quality of education they provide, on the basis that the readyy availability of student loans means that students "can afford it".*

Washington & the US Border Patrol are facing a new challenge at the US Mexican border, minors unaccompanied by a parent or guardian. Since last October 1st the latter has apprehended 52,000 of them, with an average age of 14, up almost 100% YoY, with 378 of them being under the age of two (incl. 95 under the age of one). Most come from Central American countries other than Mexico (like El Salvador, a country of 6½MM people where in May the number of murders spiked 100+% YoY, to 400) , whose parents have been told by human traffickers that the US won't deport children (who in many cases have relatives living in the US, although not necessarily legally so). Last year caring for the (then far smaller number of) such children cost the US Treasury US$ 1BN, even though the authorities claim they were able to locate a relative, legal or not, to assume (*temporary?*) guardianship for 85% of them.

Starbucks announced last week that, effective June 24th it would raise some of its prices by 5%-20% (claiming this would affect < 20% of its customers) & the price of its packaged coffee on July 21st by 8%, two months after J.M. Smucker raised that for Folgers coffee by 9% (which it estimated would raise the price of a 12 oz package by US$1.00, although it said setting its exact retail price was up to the individual retailer). According to Starbucks spokesman Zack Hutson these moves had nothing to do with the recent rise in coffee prices[9] due to the severe drought in Brazil, since the Company buys its beans 'well ahead of time' (thereby *suggesting that there may be another price rise when it has 'worked off' its current bean inventory?*), but was due to

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[9] In April coffee bean prices hit 26-months' highs, although they have since eased off 20%.

"competitive dynamics" (i.e. keeping up with the Jones, in this case Smucker, & charging what the traffic will bear without losing market share) & to its "overall cost structure".

Earlier this month the FAA gave the first-ever permission for a drone to be used for commercial purposes over American soil (BP will use a 4½ foot long unit manufactured by California-based AeroVironment to survey pipelines, roads & equipment in Alaska from the air). Meanwhile the National Park Service has banned them from 84MM acres (approx. 110,000 sq. mi./275,000 sq.km./3% of the US landmass), incl. 401 national parks, on the grounds they could irritate visitors, & harass wildlife, and because they are potentially unsafe (since 2001 418 of them have crashed, most of them in Iraq & Afghanistan, but about 100 of them on US soil).

Last week the Government of Canada gave Enbridge its formal approval, albeit with 209 conditions (that the Company says would take two years to comply with), to build the Northern Gateway *twin* pipelines (the smaller inward-bound one of which would carry imported diluent from Kitimat, BC to Edmonton & the bigger, outward-bound one would 525,000 bbld of a 3 : 1 bitumen/diluent mix to Kitimat for export to Pacific Rim destinations). Approval by Ottawa, however, may not do the Company a lot of good. For much of its planned path crosses lands controlled, or claimed, by Indian bands, a goodly number of which have been opposed to the idea from the get go while even those who earlier were bought off with a promise of a 10% ownership stake had second thoughts when they heard Jim Prentice (once a prominent Harper Government Minister, subsequently a $2MM/year CIBC Vice-Chairman, then Prime Minister Harper's Special Envoy to cut a deal with the Indians & now running to become Premier of Alberta, at least until the next election) mooting the possibility of raising that to 50%. And for deep-pocketed environmentalists it remains a "red line" issue, the Government of BC is opposed to it, at least until it can be turned into a goose that will lay golden eggs for it, & even the people of Kitimat earlier voted overwhelmingly against it in an unofficial, non-binding referendum. The only real hope for the project may be for Enbridge to decide that $300MM & 10 years is enough & that it should cut its losses by selling its stake in the project, that now may have saleable asset value, to a third party that thinks it can succeed where Enbridge failed (which is not as far-fetched an idea as it may seem, seeing how ham-handed it handled the issue).

The former mayor of Milan, the left-of-centre Matteo Renzi, became Italy's Prime Minister last February. At age 39 he beat Mussolini's record for being the youngest ever Italian Prime Minister since the country's unification in 1861. His are daunting challenges : a still-growing debt-to-GDP ratio of 135%, debt services costs thereon that, even in the current low interest rate environment, are equivalent to 5% of GDP, a dismal GDP growth track record (*over the last 54 years it has averaged 0.6% annually*), high unemployment especially among the young, & a need for at least 2% GDP growth to work its way out of all these problems. But in the recent EU Parliamentary election he did amazingly well, getting 40.8% voter support[10] on a 60% voter turnout[11]. So he feels he's riding a wave that will allow him to tackle some of Italy's long-overdue problems, incl. serious labour reforms, so as to accelerate its potential GDP growth rate and that even, if in doing so he were defeated in Parliament, in any subsequent election he would get an even stronger mandate from young people who don't want to go elsewhere, & parents who don't want to see their children have to go elsewhere, for work.

[10] The most by any party in Italy in over half a century.

[11] compared to a 43% EU-wide average, and 48% In Germany, 45% in Spain, 43% in France & 36% in the UK.

The EU has no fewer than four Presidents. While three of them are elected by various groups of politicians, the President of the EU Council of Ministers[12], who heads, & coordinates the work of, what is in effect its Upper Chamber of the European Parliament, serves for six months in rotation but, to promote continuity, is part of a triumvirate with his two most recent predecessors. On July 1st, Renzi will assume the office for the rest of 2014, in conjunction with the Prime Ministers of Lithuania & Greece, and is expected to use the opportunity to push expansionary-, rather than austerity-, oriented initiatives, in so doing benefitting from the fact the Council of Ministers takes precedence over the Parliament in supra-national decision making, from his strong support in the European election (in contrast to Angela Merkel, never mind David Cameron & François Hollande), from the fact that Parliament's President, Martin Schultz, is a German Social Democrat whose party picked up seats in the European Parliamentary elections (at Angela Merkel's Christian Democrats' expense) & that ECB President Mario Draghi is a former head of Italy's central bank who committed himself some time ago to doing "whatever it would take" to boost economic growth (& pump up inflation) in the EU. With Hollande in deep doodoo at home & France as a whole seemingly in denial, and Cameron pre-occupied with the Scottish referendum, getting a better deal for Britain in the EU & keeping the anti-EU UKIP party at bay (*& now having egg all over his face for having been unable to stop Jean-Claude Juncker from becoming the EU's top bureaucrat)*, it looks as if in the period ahead Renzi is well positioned to 'punch well above his weight' in EU affairs.

In March Germany signed a deal with Beijing to allow the trading of yuan-denominated bonds on the Frankfurt Exchange & last week the latter announced a deal to henceforth swap yuan directly into pounds, & vice versa, rather than indirectly via the US dollar. *And the growing importance of China as a customer for Middle Eastern oil, it's all but inevitable that, sooner or later, it will start being priced in yuan, rather than US dollars* - *all these are straws in the wind that the role of the US dollar as the system's dominant reserve currency is eroding (which will affect the need for-, & the willingness of -, foreigners to hold US dollar balances which, in turn, will reduce foreign demand for them, thereby weakening it).*

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YELLEN MAY BE POISED TO REWRITE RULE BOOK ON WAGES, INFLATION (Reuters)

- She wants to see wages climb at a much faster pace *than they have been doing* (& faster than inflation) to boost consumer spending & help workers recoup the ground they lost in the recession[13] (in the belief she can push economic growth to the 3-4% range from the current 2%. But in so doing she will have to fend off other FOMC members who fear that this could cause inflation to surge (& some Fed staffers about the amount of slack left in the economy), who will *therefore* press for an early interest rate hike.

This "Full speed ahead & damn the torpedoes"/"Keep the pedal to the metal approach", quite uncharacteristic of traditional central banking, seems to have increasingly infused Fed thinking

[12] Made of the ministers in each of the EU's 28 countries responsible for the topic at hand. It has greater powers than the Parliament in, among others, macro-economic coordination.

[13] During the first decade of this century labour's share of GDP declined to 56% from its long-term average of 62% (*with much of the slack picked up by corporate profits*).

in the past decade. And it is interesting in this context that her successor at the San Francisco Fed, John Williams, not long ago published a paper arguing, among others, that the Fed "should trade a transitory period of excessive inflation" for stronger job markets, a policy approach long tried, but found wanting, by Latin American central banks.

FED'S PLOSSER SAYS US RECOVERY BROAD (Reuters)

- In remarks to the Economic Club of New York on June 24th the Philly Fed's President (this year a voting member of the FOMC) said the economy is approaching the Fed's targets faster than expected, which may force it to accelerate its plans to raise interest rates. He also said he is increasingly confident about US economic growth, and that inflation was trending higher & unemployment likely to fall faster, than his central bank colleagues are projecting. While he said he supported the Fed's most recent policy statement (*the vote on which had been "unanimous"*), he *nevertheless* said he had "growing concern ... we may have to adjust our communications in the not-too-distant future. Specifically I believe the forward guidance in the statement may be too passive[14]." Finally, that applying various variations of the Taylor Rule[15] to the Fed forecasts produced target interest rates of anywhere from 1.5% to 4% (& even as high as 4.7%) by the end of next year.

Strong language, even for a hawk among doves. But what's really interesting is that he seems to imply his acceptance of the US economy's trend growth rate now being closer to 2% than to the 3+% mirage that Janet Yellen & the other doves still are chasing. .

FED COULD TRIGGER NEXT WORLD CRISIS : STEPHEN ROACH (CNBS, Katy Barnato)

- He told CNBC "Now we have such distance from the ... the aftermath of Lehman Brothers ... we need to be thinking about the next crisis[16] ... As long as the Fed remains as wildly accommodative as a $4.25-4.50 trillion balance sheet would suggest, there is good reason to question the Fed's commitment to financial stability and ... to believe that we could, in the not too distant future, find ourselves in another mess ... Monetary expansion, to the point of ignoring the stresses and strains of financial stability and what they mean for asset markets and credit markets, is something that needs to be seriously rethought."

Now teaching at Yale, he worked at the Fed in the 70's, & briefly at Morgan Guaranty Trust (the JPMorgan's ancestor when it was Wall Street's "class act"), before joining Morgan Stanley

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[14] Central bankers' speak for "Oops, we goofed"..

[15] John B. Taylor teaches monetary economics at Stanford (& was UnderSecretary of the Treasury during Bush 43's first term). In 1993 he came up with a rule, now named after him (that in many people's opinion for a Nobel Prize at some point in the future), to guide central bank interest rate policies; it stipulates how much it should change nominal interest rates in response to changes in inflation, output & other economic determinants and, more specifically, that for every 1% increase in inflation it should increase nominal interest rates by more than 1%.

[16] As indeed we should; for since 1980, the world has seen at least one significant financial crisis every ten years, *most, if not all, of them brought on by central bank tolerated-, if not actually induced-, financial excesses.*

where he became its Chief Economist in 1991 (establishing a reputation for being one of America's most thoughtful, albeit often bearish, economists & one of Wall Street's most influential 'thought leaders),and subsequently Chairman of Morgan Stanley Asia. In his recent book Unbalanced : The Codependency of America and China he argued the US had paid a big price for its over-reliance on cheap Chinese goods & capital during-, & after-, the 2008 financial crisis, & that, while China's economy would have been at risk if it had continued its old growth model (which had led to massive environmental degradation & pollution), Beijing had seen the light (& the US still hadn't).

CENTRAL BANKS FEAR RISING YIELDS, LOOK TO EQUITIES (Reuters, Jamie McGeever)

- The UK-based journal Central Banking conducts an annual central bank survey. The latest one, last month, got responses from 69 with an aggregate US$6.7TR in FX reserves, 57% of the global total (*implying most were middle-tier ones*). Over half ranked higher *long-term* bond yields as the greatest risk facing them, & another 15% as the second greatest. While most were "generally bearish across most asset classes" because of potential rises in bond yields & stock market gains driven by massive central bank liquidity injections, they still want to buy equities 'to diversify their portfolios, generate higher returns & avoid losses on bonds'. Most said the dollar & pound now are more attractive than a year ago due to the prospect of higher yields, & many that the renminbi is attractive because of the strength & growing influence of China's economy, while most were down on the Euro, the Yen & the French franc, due to the prospect of further easing of their countries' monetary policies.

Investing FX reserves in equities is a recent trend in central banks' investment behaviour, started by the Swiss National Bank a decade ago. But by getting involved in equity markets at this juncture the central banks may well be jumping from the frying pan into the fire; for while their mark-to-market losses on long-term bonds might be greater over time when interest rates started rising, such losses on equities would be far more instantaneous if stock markets suffered a fainting spell. The wiser course of action would be to shorten bond maturities (as many sophisticated investors are starting to do, but then central banks & insurance companies typically don't fall in this category).

MARKETS IN TROUBLE IF REAL INTEREST POLICY RATES STABILIZE AROUND 2% (Kitco News, Debbie Carlson)

- PIMCO's Bill Gross told the Morningstar Investment Conference in Chicago on June 19th that if, as the Fed expects, the policy rates will eventually hit 2%, US markets could be in real trouble, given leverage in the US economy. He thinks the Fed doesn't understand the 'new normal', the term he uses to describe the current low interest environment cum sluggishly growing global economy. And he said that, while current real rates (measured by the spread between the Federal Funds rate & the CPI) are a negative 1.25%, a more realistic level would be 0%, & that "the Fed hopes they will make the change gradually. Two percent real rates are too high in a leveraged economy." And he noted that in 2007, when real rates were 1% & the US economy was highly leveraged, "it broke the financial global market" & brought on the global financial crisis.

Bill Gross (age 70) in 1971 founded, & still is CEO of, Newport Beach, Cal.-based PIMCO (now owned by Munich-based financial services provider Alllianz SE). It is best-known for its flagship Total Return Fund, still the world's largest bond fund, although in an era of large inflows into bond funds, it has lost assets for 13 months straight, incl. US$3.1BN in both March & April, and

US$4.3BN in May, so that, as of June 19th, its AUM had shrunk to US$229BN despite its claims it had outperformed its benchmark index by a "decent margin" (albeit before costs). This may explain the sudden resignation last January of his co-CEO Mohamed El-Erian (who was promptly snapped by Allianz to be its Chief Economic Adviser).

GOP CHOOSES CALIFORNIA'S McCARTHY AS MAJORITY LEADER (NYT, Ashley Parker)

- On June 19th the House Republicans elected California's Kevin McCarthy as their new Majority Leader to replace Eric Cantor (*unexpectedly* trounced last week by an even more right wing upstart in the primary). Since he had been their whip (the person charged with ensuring members show up for votes), this in fact promoted him from the No. 3 to the No. 2 spot in their caucus, after Speaker John Boehner (R.- Ohio).

This was a disappointment for the Tea Partiers, although, when their Steve Scalise (R- La.) beat Illinois' Pete Roskam, McCarty's Chief Deputy Whip, for the Whip\s job, they cracked, for the first time ever, the inner circle of House Republicans.

EX-IM BANK HITS HURDLE IN NEW GOP LEADERSHIP (WSJ, Damian Paletta)

- The new Republican Majority House Leader, Kevin McCarthy (R.- Cal.) said on Fox News on June 22nd he wouldn't support extending its charter (*that otherwise will expire at the end of this fiscal year, September 30th, forcing it to start winding down its business*). More specifically he was quoted as saying (*rather badly for someone in his position*) "It's something that the private sector can be able to do ... one of the biggest problem is they go and take hard-earned money so others do things the private sector can do. That's what the Ex-Im Bank does." The Chair of the House Financial Services Committee, Jeb Hensarling (R.- Cal.) wants wound down, the new Republican House Whip, Steve Scalise (R.- La.) Is against extending its charter & House Speaker John Boehner (R. - Ohio) is said to be unwilling to fight for extension.

The business community, especially Big Business (Boeing & Caterpillar are big beneficiaries), is strongly opposed to killing off this 80 year-old institution on the grounds it will disadvantage them in export markets since Europe & South Korea do have government export finance agencies. So various business lobby groups have launched PR campaigns to promote the extension of its charter (& will have considerable leverage in doing so in this election year). The last time the Ex-Im Bank was an issue in the House was two years ago when its 'exposure limit' had to be raised from US$100BN to US$140BN by 183 Democrats & 147 Republicans, with the strong support from the then House Majority Leader Eric Cantor (R. - Va.)].

WHITE HOUSE REJECTS RAISING GAS TAX FOR HIGHWAY FUND (Reuters)

- The federal Highway Trust Fund (which pays for half the nation's transportation infrastructure projects) has since 1993 been funded by an 18.4¢/gallon tax on gasoline & a 24.4¢ tax on diesel (*that in recent years made it necessary to 'top up' from general revenues*). It will run out of money for thyis fiscal year in July, or August at the latest). So last week Sen. Bob Corker (R. - Tenn.) & Sen. Chris Murphy (D. - Conn.) tabled a proposal to raise the gasoline tax by 6¢ each year for two years, & thereafter indexing it to inflation. But on June 23rd White House new spokesman, Josh Earnest, in his very first press briefing (*which ended rather badly for him when he was accused of not being earnest*) told reporters "That's something that we've said a couple of times we wouldn't

support." (the White House wants to free up money for the Fund by ending tax breaks, an idea Republicans reject).

Many Republicans think Washington should reduce its involvement in transportation infrastructure construction & there is a proposal to cut the gasoline tax from 18.4¢ to 3.7¢ over five years & let the states raise their gasoline taxes (& free to decide what to do with the proceeds). While some Republicans still argue the big population states are getting back less than they are putting in, the need in recent years for Washington to top up the Fund's earmarked fuel tax revenues makes this argument out of date since now all states get more back than they are putting in). And the large land area, small population states[17] *fear such a change to the system will hurt them since they have much cross-state heavy truck traffic that is hard on their highways & bridges. While House Speaker John Boehner has been mooting the idea of an interim nine-months' solution (i.e. to dump this problem into the next Congress' lap), he has less than 40 days left on the Legislative Calendar to find a solution to this-, & to the Ex-Im Bank-, problem. And it is a sign of the dysfunctionality of Congress that the Fund has become an issue while there is general agreement that the nation's road-, & bridge-, system is crumbling.*

<u>UKRAINE ,,, SET TO SIGN EU TRADE AGREEMENT THAT SET OFF REVOLUTION</u> (AP)

- President Poroshenko is expected to sign on November 27th the same 1,200 page economic & trade agreement that his predededecessor, Viktor Yanukovych, ditched at the last moment in favour of a US$15BN deal with Putin, a move that ultimately led to his downfall. It basically does two things , subject the Ukrainian economy & its people to thousands of new, *often* quite silly rules *that only a Brussels bureaucrat could dream up & love*, and it eliminates 98% of the EU's tariffs on Ukrainian goods & 99% of Ukrainian tariffs on EU goods; but the attractive part for Ukraine is that while it eliminates the former effective immediately, it will eliminate the latter only over a period of years.

While this will exacerbate the East-West split one can only hope that it will indeed give the boost expected to an economy that the IMF expects to shrink by 5% this year. Be that as it may the initial reaction from Moscow was wholly negative, with a close adviser to, albeit not an official spokesman for, Putin who, nevertheless, has sometimes acted as a point man for him on the Ukraine, calling both President Poroshenko & his Prime Minister "Nazis", a term intended to tug on the Russian people's nationalist heart strings.

<u>BULGARIA READY TO RESCUE CORPBANK AFTER BANK RUN</u>
(Reuters, Tsvetelia Tsolava)

- Early last week one of its major clients announced it was changing banks. Then on June 19th there were media reports of suspicious deals involving a senior bank executive (who has since taken a 'voluntary' leave of absence). This led to a run on the bank that forced the central bank to take over running it "for three months" (& which came at a bad time, on the eve of a planned 'road show' for a 1.5BN Euro bond issue (*most of it needed to roll over a loan that matures next January*). Although the central bank announced the bank wasn't bankrupt but merely had a liquidity problem (*i.e. other banks wouldn't lend to it*), it still wouldn't allow depositors on Friday to make withdrawals, counseling them to "be patient (their accounts are covered by deposit insurance), while the government had instructed two major state-owned financial entities to advance funds to the Bank.

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[17] Such as Montana & North Dakota.

The bank is Bulgaria's fourth largest with a loan book of 5BN levs (US$3.5BN) & capital of 622MM (US$415MM). A local businessman, Tsvetan Vassilev owns slightly over 50% of its shares, the Oman Sovereign Wealth Fund 30% & VTB Asset Management (one of Russia's top investment banks) 10%. The fact that it tripled its asset base between January 1st, 2010 & March 31st, 2013, a period, as that of the bigger banks grew by only 7.7%, ought to have raised a red flag.