

Attached at the very end is an one page review of Argentina's current default situation; fascinating a story as it may be, with potentially major geopolitical implications, it may not be everybody's cup of tea; hence its location.

Quote of the week : "Russians don't want to go to war ...But I don't see any evidence that they want peace either." - Thomas de Waal, Senior Associate at the Carnegie Endowment Foundation.

Quote No. 2 of the week : "The Arab states' loathing and fear of political Islam is so strong it outweighs their allergy to Netanyahu; so Saudi Arabia, Jordan, the UAE and Egypt are sitting this one out ... I have never seen a situation like it, where you have so many Arab states acquiescing in the death and destruction in Gaza and the pummeling of Hamas ... The silence is deafening." - Aaron David Miller (age 65), currently a Public Policy Scholar at the Woodrow Wilson Center, was in the State Department from 1978-2003, serving six Secretaries of State as an adviser on Middle East policy & Arab-Israeli negotiations - *this may help to explain why Netanyahu seems to be more impervious to international pressure than usual (for he knows his back is covered & Hamas a geopolitical orphan). What has changed since Israel's last attack on Gaza two years ago has been the Arab Spring. It has scared the bejesus out of the Arab rulers, & its recent reversal in Egypt served to all but eliminate Gaza's access to the outside world via the Rafah border crossing & the tunnels under the Gaza-Egyptian border that it had enjoyed during the brief interregnum of Egypt's President Morsi. But over the medium term, their current disengagement from events in Gaza may well weaken the current Arab leaders' position on "Arab Street".*

The preliminary Second Quarter GDP growth number came in at an annualized 4% rate, well over the 3% expected, & a massive turnaround from the (revised) -2.1% rate of the First Quarter (that had been blamed on bad weather). While this gave everybody a nice, fuzzy warm feeling & caused one economist to tell his clients euphorically "The trends from 2013 and the most recent data show that the economy is on a sound footing and justify a solid forecast for the second half of 3.0-3.5% growth", some caution is warranted. For it was a preliminary figure only & these are subject to, sometimes significant, revisions, up or down, once more complete data become available (thus the latest -2.1% First Quarter number was a big improvement over the preliminary -2.9%). Secondly, while in the First Quarter there had been a decline in inventories, 1.66% of the Second Quarter number was said to have been due to inventory buildups that may well not be repeated in the Third Quarter. And finally, even after the better revised First Quarter number & assuming that the 4% Second Quarter will stand, a 'back-of-the-envelope' calculation suggests it would take two more 4% quarters to produce a 2½% GDP growth rate for 2014 as a whole, & the odds of having three such quarters back to back are pretty long.

According to an article by Justin Lahart in the WSJ of June 27th US bond investors should heed the warning of 1994 (when interest rates rose more sooner than anticipated). He notes "investors are behaving as if the low-yield environment will persist ... what it costs to insure against bond price swings in the options market ... has been drifting lower. There is a danger that bond investors could find themselves caught offside, much as they were in 1994." - *he must have been talking to JPM's Chief Economist Bruce Kasman who too has been telling the firm's clients that in 2003/4, as well as 1993/4, interest rates rebounded far faster than the market had expected.*

On Friday July 25th the US Commerce Department imposed serious anti-dumping duties on Chinese-made solar panels & cells on the grounds they were being sold too cheaply in the US -

this is part of an escalating trade war, in this case seeking to provide American industry with a competitive edge in a manufacturing sector hitherto dominated by China, whose manufacturers were given early critical mass by a government with a greater early interest in solar power.

A study funded by the New York-based Russell Sage Foundation (for research in the social sciences) found that, on an inflation-adjusted basis, the median US household's net worth *actually* declined from US\$87,922 in 2003 to US\$56,335 in 2013, while that for the 95th percentile (where 5% has more-, & 94% has less-, net worth), had grown by 14% - & *elsewhere it was reported the net worth of the 95th percentile had gone from 13x-, to 23x-, that of the median in the same decade, thereby implying it had gone from approx. US\$11.5MM to roughly US\$13MM).*

The current buzz word on Capitol Hill is *corporate tax "inversion"*. This is a decades-old feature of the US tax code whereby a US company that merges with a foreign competitor can move its *legal* headquarters abroad, even though its management stays in the US, provided at least 20% of its shares post-merger are held by foreigners. While over the years 50+ major US companies have taken advantage of this, recently its use has snowballed; for half that number occurred in just the last two years. The Administration wants it made more difficult *by raising the qualifying foreign shareholder threshold from 20% to 50%* on the grounds it otherwise could cost the US Treasury US\$20BN over the next decade. So prompted by President Obama, Treasury Secretary Jack Lew recently despatched a letter to Congress urging lawmakers to pass the necessary law, **retroactive to last May**¹ - *This is unlikely to go anywhere very fast; for Democrats are divided on the issue, & Republicans dead set against it, and there are less than 15 business days left until Congress adjourns for the election. And despite all the attention this issue gets, & emotion-grabbing headlines it provokes, the fact remains this is a self-inflicted wound driven by the US corporate tax rate, at 35%, being the second-highest in the world. Meanwhile the US corporate tax 'take' accounts for just 10% of the government's total revenues (down from 40% at the end of WW II & 15% a decade ago), & an average US\$2BN/year amounts to a minuscule 0.06% of the US government's budget & 0.07% of its revenues. Finally, Jack Lew's suggestion any such law be made retroactive cannot help but reinforce the view in America's business community that "current risks are too high to expand aggressively, even with free money" (thereby confirming the old stock market adage that easing monetary policy is like "pushing on a string", as was demonstrated by the decidedly underwhelming impact on consumer demand from the three QE programs - which mainly served to fatten the banks' coffers &, to the extent they did promote consumer demand, did so among the better-off half of the population, which has a lower 'propensity to consume', i.e. tendency to spend incremental income on buying more goods & services, than low income groups.*

According to the Wall Street Journal, the number of Senate seats held by Democrats deemed 'in play' is now up to ten, from seven one month ago² - *the former face a double handicap : more senators facing re-election (17 vs. 13) & more retiring (four vs. two) - the number of seats up for grabs is 36, rather than the usual 33, because there are three vacancies to be filled.*

¹ According to Stephen Shay, formerly the Deputy Assistant Treasury Secretary for international tax affairs in the Obama Administration, in the absence of Congressional action the President could act on his own by resorting to a 1969 tax law.

² With the Republicans needing to gain only six seats for a majority in the Senate.

Iqaluit (pop. 7000) is the capital of Nunavut, (pop. 32,000), Canada's newest, largest & Northernmost territory. Its 20 year-old city dump frequently bursts on fire, with the latest, that is fouling its air and prompting school closures & health warnings, said to be the size of a football field & four stories deep with temperatures of up to 2,000° C, is too deep to fight with conventional means - *it's beyond belief that so few people could create so much waste in just 20 years, even in our throw-away society; on the other hand, this far North anything that comes into the community, incl. all packaging, never leaves (although given the fact all fuel must be brought in from the outside, a "controlled burn" could be an indigenous source of energy).*

The Israeli media reported on July 28th that Hamas forces, for the sixth time in recent weeks, had entered Israel via a tunnel, with at least five IDF soldiers & one militant killed in the subsequent fire fight³. According to the Gatestone Institute⁴ Hamas had planned to use its tunnel network under-, & terminating in-, Israeli territory to launch attacks, on September 24th, during Rosh Hashanah, the Jewish New Year, by 200 fighters in small groups, on a number of Israeli communities to create havoc & take hostages - *this 'sudden' appearance on the scene of tunnels is a bit of puzzler. For pictures on Israeli TV show they are robustly-built structures, which makes one wonder about two things. Had Mossad been asleep at the switch & unaware of their existence (which would put another small dint in Israel's one-time aura of invincibility). And had it known about them, it would seem out of character for Netanyahu not to have sought to turn their existence to his advantage. And secondly, why all the fuss & bother over them? Dealing with them ought to be relatively simple matter of locating tunnel exit points inside Israeli with the help of 'ground penetrating radar' (that can detect underground structures as far down as 15 metres underground in many soil types) & dynamiting them and, voila, it' would be all over for them. Why bother going through the hassle of going into Gaza to find the entrances?*

One not anti-Israel observer of the international scene observed "Netanyahu and his even more extremist coalition partners seem to act like members of a family that have been dreadfully abused in childhood and then go on to abuse their own children. Of course the Palestinians are a bloody nuisance, firing rockets but we would probably be doing the same thing if we were blockaded in the world's largest ghetto ... with 1.8 million fellow human beings in miserable conditions. Of course Israel has the right to defend itself ... but Netanyahu has gone beyond a reasonable response ... egged on by his minority partners from former totalitarian states⁵" - *thus the latest incident at the time of writing, the hit on Gazas' oil-fired sole power plant & the destruction of its fuel stocks, that deprives Gaza residents from electricity & complicates their access to water & to waste water services, seems like a move intended to bring a population to its knees (& in a worst scenario could cause a public health hazard with an outbreak of, say, cholera) The IDF's spokesman's contention it was 'unclear whether Israel had been responsible*

³ These 1 : 5 odds are strikingly unusual, especially since they imply all the militants but one got away, presumably the same way they came, through the tunnel, potentially another black eye for the IDF (at least from the militants' perspective).

⁴ A somewhat nebulous not-for-profit with no obvious home address that calls itself "non-partisan" but seems to provide a soap box for a long list of predominantly (extreme) rightwing-, Zionist-, and/or anti-Islam writers, incl. John Bolton (one of the evil geniuses, if not **the** evil genius, of the Bush Administration) & the virulently anti-Islam Dutch political figure, Geert Wilders.

⁵ Likud's coalition 'soul mate' is Yisrael Beitenu whose power base lies almost wholly in the Russian emigre camp.

for the strike on the power plant' seems far-fetched & doing little for his credibility, especially after him telling AP the latest strikes signaled "a gradual increase in the pressure on Hamas".

People with connections in the Chinese Communist Party's inner circle, incl. senior officials & 'princelings', say President Xi's relentless (& *for him personally high risk?*) fight against corruption has two objectives. In the short term he wants to overcome opposition to his ambitious reform agenda (*which he believes is crucial if the Party is to remain in control*) by undermining the status & *power base* of deeply-entrenched interest groups that have become too powerful & whom the present system has served only too well, *and who don't want to see the goose that lays the golden eggs killed*. And Xi is a great admirer of the late Deng Xiaoping who, despite being twice purged by Mao & not being his chosen successor, managed to succeed him to transform the old-, & become the godfather of the new-, China by pushing "Socialism with Chinese Characteristics" (which included opening up the Chinese economy to foreign capital); so longer term his ambition is to carve out a similar place in history for himself by taking the Chinese economy to its next level - *if he were to emerge victoriously from taking on Zhou Yongkang (who prior to Xi becoming President in October 2012 - which Zhou had sought to prevent - had been No. 3 in the Beijing power structure, after only President Hu Jintao & Premier Wen Jiabao, and who, as Head of China's security apparatus had controlled a budget greater than the PLA's), he will have made a 'great leap forward' in removing the last vestiges of the self-indulgent hangers-on of the pre-2002 "Third Generation" leadership (although, rather tellingly so, he was said to have had to get a green light for moving against Zhou from his two predecessors, Hu Jintao & Jiang Zemin (who, however, may have had little choice after it was revealed that Zhou & his family had amassed a fortune in the US\$14BN range).*

After Reuters opined the EU's sanctions package against Russia wouldn't be anywhere as severe as those of the US & would seek to avoid imposing much of a burden on its members' economies, the Financial Times disagreed. For it expected them to include a ban on any new exposure to Russian state-owned banks & on the export of hi-tech equipment critical to Russia's oil & gas sector - *on balance, the FT seems to have had a better 'read' on the European sanctions' package than Reuters (& to give the Europeans credit where credit is due, its latest sanctions create possibly negative implications for its economies, especially Germany's, where the latest economic news was already on the bearish side)*. Meanwhile word was that the Ukrainian military has made progress in its fight against the separatists, having regained control, after days of fierce fighting, of the separatist stronghold of Lysychansk & positioning itself to move on Donetsk itself, while Russia is feeding more weaponry to the separatists than ever

There has recently been growing optimism about things getting better in Europe, particularly in the PIIGS countries. But it's worth remembering that their unemployment rates, especially among the young, remain sky-high & that, as of December 31st, 2013 Greece's GDP had shrunk by 25% in the preceding five years, and that of Italy & Spain by 9% & 6% respectively, offset only marginally on a per capita basis by an exodus of young people (& in the case of Spain of foreign workers). Furthermore, that the economic situation in France, one of the EU's two 'core economies', is increasingly precarious, and that the most recent economic news out of Germany has not been particularly encouraging (& in the months ahead may be adversely affected by the latest sanctions) - *in light of the above, it is puzzling, if not irrational, that the yield on the Greek government's 10-year bond should have declined since July 26th, 2012⁶ from 28% to 6%, and on the Spanish & Italian 10-year bonds from 7% & 6% respectively to < 3%, not far off the 2.56% on US Treasuries, albeit still well above the 1.16% yield on German 'Bunds'.*

⁶ The date of ECB President Mario Draghi's famous "the ECB is ready to do what it takes to preserve the euro. And believe me, it will be enough" speech

The UK economy is the fastest-growing one in the EU. After Second Quarter growth of 0.8% QoQ, i.e. roughly a 3.5% annualized rate, the sixth consecutive quarter of positive growth, its GDP is now back to its pre-crisis level. And yet in the First Half no fewer than 137 *major* companies issued profit warnings (the most in three years), compared to 126 in the year-earlier period, citing increased competition, a squeeze on profit margins & the strong currency.

Tower Hamlets is an East London borough, with one of the highest concentrations of ethnic (in its case mostly Bangladeshi) minorities in the country. Luther Rahman, a lawyer of Bangladeshi descent, was a long-time Labour member of the local borough council until becoming its first-ever, elected mayor in 2010 (subsequent to which he was booted out of the Party for supposed links to the allegedly extremist (& *mostly Bangladeshi*) Islamic Forum of Europe, a locally-based entity with branches in a baker's dozen of European countries). On July 30th he created a furor when he ordered the Gaza flag flown over the municipal offices, "to show solidarity with Gaza", despite protests he should focus on "potholes and bins", not international conflicts.

There are growing concerns that commonly-used fungicides are fueling the rise of resistant & life-threatening fungi in Europe, China & India, *which between them are home to almost half the world's population*. More specifically, agricultural fungicides known as triazoles, used on a wide range of crops, appear to be driving the emergence of fungi that are not just resistant to agricultural fungicides but more importantly, to the triazole-based drugs that are a first-line defence against 'Aspergillus fumigatus'⁷ in humans, which can cause a range of afflictions up to & including potentially fatal lung infections in those with weakened immune systems (as are becoming more & more common among people who live "unduly clean" lives, as a result of which the 'robustness of their immune system is compromised). Earlier this month a British-Dutch study concluded triazole fungicides used on crops were likely responsible for the Aspergillus found near British farms (it feeds on dead plant and/or animal matter) with resistance to life-saving anti-fungal drugs, with its lead author Dr. Michael Bromley of the University of Manchester commenting "The clear association with triazole fungicide usage is very worrisome, as some unlucky people at risk will breathe in untreatable Aspergillus, with potentially dire consequences." - *I have said it before, & will say so again, 'While Man believed in the 17th, 18th, 19th & 20th centuries that he could **control** Nature, if he wishes to survive the 21st, he 'd better start **living with** Nature.'* And as could have been expected, Health Canada, our pesticide use regulator, had little to say about fungicides possibly posing a public health threat (since doing so might upset the 'industrial farming complex'?).

There is limited understanding among the population at large of the power of compound interest, & perhaps even less among retail investors of the asymmetrical impact on share prices of declines & recoveries. The recent history of Europe's Eurostoxx Bank Index illustrates the latter point rather neatly; for after investors walked away in droves from European bank stocks in early 2011, this Index declined by 50+% over the next 18 months, only to recover by 120+% since ... to roughly the same level it had been at in early 2011!

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THE EU IS THE WORLD'S GREAT NO-SHOW (WP, Fareed Zakaria)

⁷

Which spreads airborne & causes serious infections in over 3MM people a year.

- Ukraine has shone a spotlight on one of the glaring gaps in the world affairs, the lack of a strategic & purposeful Europe. While the US can, & should lead, the response in this conflict, nothing can really happen without strong & decisive action on Europe's part. For it, *much more so than faraway US, especially with the position of the US economy & its currency declining in global importance*, has leverage over Moscow, being Russia's largest trading partner, the buyer of much of its energy exports, the major investor in the Russian economy & the largest destination of *private* Russian capital.
- Europe should announce long-term plans to reduce its dependence on Russian oil & gas, and reverse its two decade-long down spiral in military spending that has made the EU a geopolitical 'paper tiger'; for it is hard to carry much weight when "speaking softly and carrying a twig". Years hence, when we look back & wonder what happened to our liberal, open, rule-based international order, we may well find this was due to the EU, the world's most powerful & economic unit, with a population *decidedly* greater-, & an economy *marginally* bigger-, than America's, being the greatest no-show on the international stage.

He makes a good point, as far as it goes; but he lets Washington off too easily; for when he bemoans "the lack of a strategic & purposeful Europe" one cannot help but think of Matthew 7:3⁸. And while Bush 43's policy initiatives undermined the US status in the world, Obama has proven the wrong person to halt, if not reverse, that process & a better talker than doer (although the US political system dysfunctionality likely limited his ability to live up to the high hopes he engendered in 2008).

IMF WARNS OF RISK LARRY SUMMERS JUST MAY BE RIGHT **(Capitol Report, Greg Robb)**

- Summers has argued the US could be trapped in a savings glut & weak demand resulting in "secular stagnation" & a need to keep interest rates super low, and that the best way to avoid this is (*massive?*) deficit spending (*on the grounds that, while productive spending is best, unproductive spending is better than nothing?*). At the July 24th press conference in which he presented its Quarterly Economic Update⁹ IMF Chief Economist Olivier Blanchard seemed to support Summers' assertion when he said "I think this is a very important question ... There are a number of factors which suggest that indeed, the interest rate needed to sustain demand, may be very low ... If this were

⁸ Which refers to people's greater ability to see' the mote in someone else's eye than the beam in their own'.

⁹ In which it cut its 2014 forecast for global GDP growth to 3.4% from 3.7% last April but commented "the headline number makes things look worse than they really are" because this was "largely, but not all" due to the US First Quarter's negative growth (singling out disappointing growth in China as policies were tightened to restrain credit growth & housing market activity). More generally speaking, he observed "the overall story remains largely the same as before", with the advanced economies still confronted with high levels of public & private debt "which act as brakes on the recovery ... (*although*) these brakes are coming off" & the emerging markets slowing down, having to address some of their underlying structural problems & take on reforms, and having to deal with the implications of monetary policy "normalization" in the US. All in all, he called for a "slow but steady recovery" in the global GDP growth rate from 3.2% in 2013 to 3.4% this year & 4.0% in 2015, in that for the advanced economies from 1.3% via 1.8% to 2.4% in 2015, and for the US & China from 1.7% & 7.4% this year to 3.0% & 7.1% in 2015.

the case, it has substantial implications for policy” (making fiscal adjustment easier but monetary policy harder).

Summers’ solution is pure Keynesian. But Keynes lived in an era in which a) governments had ‘borrowing room’ and b) the world was less inter-connected. Today increased deficit spending by Washington could turn into a “Full speed ahead, damn the torpedoes” strategy that would cause the Fed to lose total control over monetary policy & hasten the demise of the US dollar’s über role in the international monetary system.

NEW HOME SALES STALLING IN 2014 (Capitol Report, Ruth Mantell)

- The Commerce Department on July 24th reported its preliminary June annualized rate of new home sales. It came in at 406,000, down 10% from May’s 442,000, **after** the latter number had been **reduced** by 12% from its originally reported preliminary 504,000. And this June number is likely to be revised as well since the analysts responsible for calculating it were said to attach a 12.3% “confidence interval” to it, suggesting they really don’t have much of a clue as yet of what the real number might be. This caused BNP Paribas’ Yelena Shulyayeva to note “The optimism about the improvement in the housing market was overrated”, Wells Fargo economist Mike Wolf “We made no progress”, & Richard Moody, Chief Economist at Birmingham, Ala.-based Regions National¹⁰, “It’s hard to know what to make of this report.”

It was reported since that in June pending home sales, that had risen 6% in May, in June had declined by 1.1%; while a lower number had been expected, a negative one was not. Sluggish wage growth & a limited availability of credit are being blamed. Mortgage rates & house prices have risen in the past year, and many prospective home buyers are finding it difficult to get a mortgage. The listlessness of the housing market is of concern to the Fed, with Janet Yellen, at the Fed Chair’s semi-annual appearance before the Senate Banking Committee, telling its members that, while housing had recovered from its lows “activity leveled off in the wake of last year’s increase in mortgage rates and readings this year have ... continued to be disappointing.”

BYE, BYE OJ? (FP, Kevin Loria)

- An invasive pest, the Asian citrus psyllid, only 4 millimetres (0.16 inches) long, is responsible for the Citrus Greening disease, that turns the fruit sour & changes its colour, sweeping across the citrus-producing regions of the world. It has already infected 70% of the citrus trees in Florida¹¹, as a result of which its crop will this year be the smallest in three decades (with estimates thereof continuing to be lowered). Efforts are being made to keep it from spreading to Texas, Georgia & Louisiana, and in California USDA has earmarked US\$1.5MM to fund the release of 1MM parasitic Pakistani wasps to prey on the pests (that, however, will at best be able to eat only one-third of them). In Brazil, *the world’s No. 1 orange juice producer*, orange groves that are affected are being uprooted & replanted with what hopefully are more resistant varieties.

¹⁰ One of the largest lenders in the Southeast & about the 20th largest bank in the US, albeit, with US\$135BN assets, little more than one-twentieth the size of No. 1, JPMorgan.

¹¹ Where the industry is worth US\$9BN to the local economy (1.2% of its GDP) & employs 76,000 workers (0.9% of its work force).

But everywhere things are complicated by the pest rapidly becoming more pesticide resistant.

WHY IS ISRAEL LOSING THE WAR IT IS WINNING? (The Atlantic, Jeffrey Goldberg)

- It seems as if Israel is losing the war in Gaza, even as it wins the battle against Hamas' rocket arsenal and destroys the tunnels intended to convey terrorists underground into Israel (& carry Israeli hostages back to Gaza). This is not the first time Israel has found itself losing on the battlefield of perception, and always for the same six reasons :
 - in a fight between a state with tanks & planes and a non-state with neither, the latter only has to survive to be able to claim victory;
 - Hamas' strategy, something the world doesn't seem to understand (if it did, it would reject it), is to bait Israel into killing civilians & Israel usually takes the bait.
 - Although this time Israel took longer than usual, it still did so, even though its possession of the Iron Dome anti-missile system could have made it more patient;
 - While there is always much talk about the Jewish lobby, a bigger Muslim lobby has helped shape a global anti-Israel narrative;
 - Anti-semitism is worldwide; much of the world is not opposed to Israel because of its settlement policy but because it is a Jewish country;
 - Israel's political leadership has done little in recent years to make their cause more appetizing. There are millions of people of goodwill across the world who look at its decision-making and ask themselves if it has done all it could to bring about peace & tranquillity to the region. Hamas may be committed to the obliteration of Israel but it does not represent all Palestinians, and Israel, while combating the extremists, could have done much more to buttress the moderate Palestinians; and
 - No two-state solution is possible as long as an armed & aggressive Hamas remains in place in Gaza; and its demand that the siege be lifted is just an attempt to import still more devastating weaponry to use against Israel.

All but one of these points is well taken, the exception being the anti-semitic one : it is a total cop-out & largely convenient horse shit (as he himself implies in the very next point he makes). One of the great military strategists of all times, Sun Tzu, observed in The Art of War 2,500 years ago "When you surround an army, leave an outlet free. Do not press a desperate foe too hard." (for it may drive him into irrational behaviour that may backfire on the victor), In a way Gaza in 2014 is a bit like Masada circa 73 AD, but with a difference : every one of Gaza's young people who survives (almost two-thirds of the population is age 24 or under, & the Gaza's population median age is 18) will be scarred for life by Israel's invasions & carry a life-long grudge against Israel (& if Arabs of any age are good at anything, it's at carrying grudges).

ISRAEL IS UNDERMINING ITS SUPPORT IN THE WEST (The Guardian, Rowena Mason)

- Thus spake Phillip Hammond, until recently the UK's Minister of Defense & now, following the resignation of William Hague¹², its Foreign Secretary. For after a night of heavy shelling by Israeli tanks in which a UN school (*in which 3,000 people were said to have sought refuge*) was hit, killing 15, or more, people & injuring many more, he said on the Today program on BBC Radio 4 "Israelis have to understand that, while they are defending their security in seeking to root out these rocket launchers and deal with the attack tunnels, they are also undermining the support for Israel in the West". He also

¹² To become Conservative Leader in the House of Commons until the next election in which he won't run, for the first time in 26 years.

noted that under international law a response should be 'proportionate' but refused to be drawn into a discussion if the Israeli response was so, saying it was an "emotive issue".

Tank gunnery isn't particularly precise in its initial 'target acquisition. Since the school was under control of the UN, it was unlikely a storage place for weaponry, so the IDF's justification on this occasion was that there had been incoming mortar fire from a 'nearby site'.

SOUTH-NORTH WATER TRANSFER PROJECT NOT SUSTAINABLE **(China Dialogue, Wang Yue)**

- China's South North Water Transfer Project¹³ (parts of which have already started to operate) is the biggest-ever project of its kind. A dream for Mao Tse-tung, it was launched in 2002, was expected to cost US\$62 BN (twice the cost of the Three Gorges Dam), although US\$79BN has been spent on it & it is nowhere near finished, and will involve the transfer of 45BN cubic meters of water thousands of miles from the relatively thinly-populated South to the drier-, & rapidly urbanizing & industrializing-, water-hungry Northeast. Qiu Baoxing is a senior urban planner & China's Vice Minister of Housing and Urban-Rural Development who, in last February's issue of the journal Water and Waste Water Engineering, opined the project would have been "irrelevant" if only one-third of Beijing's building collected rain-, & recycled more waste-, water. He also noted the project is creating more pollution along its route & the Danjiangkou Reservoir in Hubei Province, the start of the central portion of the project, is badly polluted by the indiscriminate dumping of industrial waste into the five rivers flowing into it

For the Beijing authorities this, like the Three Gorges Dam, is a "marquee" project (or what someone once referred to as a "pecker-stretching exercise), the economics of which therefore are not the prime consideration & cost-benefit considerations are an inconvenience.

HAGUE COURT : RUSSIA DID STEAL YUKOS AND MUST PAY \$50 BILLION DAMAGES **(Forbes, Tim Worstall)**

- Yukos was a major Russian oil producer & its head, Mikhail Khordokovsky not a Putin fan. So a number of tax cases were launched against it that bankrupted it, with its assets being auctioned off & eventually ending up in Rosneft, and Khordokovsky jailed for 10 years. On July 18th an arbitration tribunal convened under the Energy Charter Treaty, consisting of a Canadian chair & one Swiss-, & one American-, member, ruled on three shareholders' claims, launched in 2005, for US\$100BN in compensation, saying the Russian Federation "had taken measures ... equivalent to an expropriation of the Claimants' investments in Yukos and thus had breached Article 13 (I) of the Energy Charter Treaty", but, due to "some contributory faults on behalf of Claimants" ordering Russia to pay them only half the amount demanded.

Moscow will no doubt appeal this decision & if it were upheld on appeal, the shareholders must then go to local courts to attach Russian state property wherever they can find it; so this will remain a lawyer's delight for years to come (the Energy Charter Treaty recognizes a sovereign state's right to nationalize, or otherwise take away, private property rights, but also

¹³ One contentious part of which involve siphoning off as much as one-third of the flow of the Brahmaputra River before it exists Chinese territory, which would have major implications-, if not be disastrous-, for the economies of Bangladesh & Northeastern India.

promises the payment of compensation to those affected). And the judges cut the award by half on the grounds that neither the Company nor its shareholders had been totally free of sin tax-wise. This decision, won't have any short-term effect & therefore unlikely to cause Putin to lose any sleep, even though it may affect his global status, but is unlikely to improve his mood.

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In mid-1998 Argentina went into a serious five-year recession that in a late 2001 election, in which the foreign debt was a key issue, cost the then government its majority. So in the closing days of that year it formally defaulted on US\$132BN of its debt. But by late 2003 (*with that albatross off its neck?*), its economy had started growing again, very rapidly so, to the point that by 2005 the government was able to strike a deal with some holders of its defaulted bonds which, together with a subsequent 2010 deal with others, caused 93% of the pre-2001 debt to be restructured with bondholders taking a 70% haircut (& *since 2005, the government has been meticulous in meeting in a timely fashion its obligations to these bond holders*).

Most of the 7% of the pre-2001 bonds not restructured had meanwhile migrated into the hands of US 'vulture funds', incl. billionaire Paul Singer's New York-based Elliott Management (with AUM of US\$23BN), that bought them at deep discounts (in Elliott's case purportedly 6¢ on the dollar) from bond holders who just wanted to be shot of the whole thing. Elliott then sued for recovery of 'its' money & found a judge who not just ruled in its favour but also that Argentina couldn't make payments to its other bondholders until it had settled with the complainant. And on June 16th the US Supreme Court said it wouldn't hear Argentina's appeal of the lower court decision, **and** gave the complainant to right to subpoena banks in order to trace, & seize, Argentina's assets abroad.

On June 30th Argentina had US\$593MM of payment obligations due to other bond holders (which, pursuant the original ruling, & the Supreme Court's confirmation thereof, it could not pay) & would then have gone in default but for the existence of a 30 'grace' clause (for making a late payment without triggering a default). So July witnessed efforts to find a way out of this box that came to nought because all Argentina would, & could, offer was the same 30¢ on the dollar that everyone else had gotten in 2005 & 2010; for the judge who had originally ruled against it had ignored, or chosen to ignore, that the documentation for the 2005 & 2010 restructurings had included a RUFO (Rights Upon Future Offers) clause prohibiting Argentina from offering holders of the bonds not restructured a better deal than those who had accepted the 70% haircut.

While Argentina now officially is (sort of) in default, the market so far has taken this in its stride. One reason is that the RUFO clause expires next December 31st, and who knows what might be possible after that. The other more important reason, however, is that the Argentine government has, very cleverly, 'parked' the US\$593MM due last June 30th with bankers; so according to one fixed income analyst "It is still not clear whether the credit default swaps¹⁴ of the country will be triggered ... (*for*) the situation that triggered the default was a law suit, not the failure of the country to transfer the proceeds to pay existing debt." - *The reality of life, however, is that Argentina has little, if any, maneuvering room; for any deal with Elliott that gives the latter more than 30¢ on the dollar is likely to trigger law suits from other holdouts that could cost it as much as US\$15BN (over half its foreign exchange reserves), it has been 'onside' with the IMF since*

¹⁴ Hedging transactions whereby, for a fee, a third party in effect guarantees a bond holder that he will get paid (by the third party) in case the issuer defaults (that being the case, those third parties have every interest in not having a formal default declared).

2006, its economy is not in good shape, with inflation rampant, the foreign debt issue hugely unpopular & an election scheduled for October 2015), the country has proven that it can survive, if not do reasonably well in, a default situation, & waiting in the wings to lend it a 'helping hand' in battling 'greedy capitalists', are China, & even Russia¹⁵. But one aspect of this situation that so far has not yet made the headlines is whether, in the wake of the huge fine recently imposed on BNP Paribas for engaging in financial transactions that were wholly legal but ran counter to US policy, the banks in which the US\$593MM is 'parked' may in the process risk incurring the US authorities' ire (although it can be argued that, with the decline in importance of the US economy in the global one, the use of such "extra-territorial application of US jurisdiction" accelerates the eroding US dollar status in the international monetary system).

¹⁵

Putin already was in Buenos Aires two weeks ago, making nice with President Christina Kirchner, looking for new allies & seeking members in a new anti-US grouping.