

A majority of respondents in a recent WSJ/NBC poll were pessimistic about the US longer-term prospects & fearful their children's generation will have fewer opportunities than they had. And they blame politicians - *the problem with pointing one's finger at someone else is that in the process one points three fingers at oneself. And that is true in spades in this case, if only because those who complain first elected the politicians they now blame &, once elected, have kept them in office, despite their non-performance, their failure to make decisions for the common good & their self-serving ways, and who, by letting the politicians run deficits are allowing them to 'download' the cost of their own lifestyle onto the very generations about whose future they claim to be concerned.*

Earlier this summer AbbVie, a 2011 spinoff from Abbott Laboratories headquartered in North Chicago, Ill., took a run at Shire, a specialty drug company registered in Jersey, one of the Channel Islands, & headquartered in Ireland. After its initial US\$46.5BN offer was rejected out of hand by the Shire Board in mid-June, its fifth offer for US\$54.8BN, a 45% premium over Shire's market value at the time of the initial offer, was finally accepted one month later. While on the surface this may seem pricey, this transaction will enable AbbVie to move its headquarters out of the United States & thereby potentially save itself as much as US\$8BN in taxes - *this alone would have made this takeover well worthwhile for tax reasons alone, even if Shire didn't have a nice portfolio of, mostly specialty, drugs (according to The Economist, rather counter-intuitively, "Drugs for rare diseases are usually cheaper to bring to market and, once there, to, command a higher price")*.

The issue of part-time employment in the US has gained profile in recent years. According to the US Census Bureau, at the onset of the 2007-09 recession the numbers of full-, & part-, time workers in the US economy were both in the 100MM range. During the recession, however, the number of full-time job holders declined to 93MM while that of part-time ones grew to 110MM (although since the end of the recession the number of part-timers has remained roughly the same while that of full-time workers has *slowly* recovered to 98MM). Earlier this month the Atlanta Fed published the results of a survey of employer attitudes towards part-time employment. It found that 25% now had more part-time workers than before the recession, 67% about the same number & 8% fewer and, more importantly, that two years hence 31% expected to have more part-timers on staff, 63% about the same number & 6% fewer. When asked as to why they now had (and/or perceived a need for) more part-time employees, the most common response was that "full-time employee compensation costs have increased relative to those of part-time employees" (*with Obamacare being the main, albeit not the sole, culprit*), followed by 'weak sales', the 'ready supply of part-timers' & 'the availability of technology that facilitates the management of part-time employees' - *a minor factor likely also has been the declining importance in the US economy of manufacturing (which is less compatible with part-time employment than the service sector)*.

Matt Gurney is a columnist & editor at, & a member of the editorial board of, Canada's National Post daily newspaper. He & his wife expect their second child & recently made a momentous lifestyle decision, namely to sell their house in Toronto's "far-flung suburbs" to buy a house, one one-third smaller for more money, in midtown Toronto since, as he put it, "with two kids under two in our near future, we agreed I couldn't spend three hours or so a day, every day, in traffic" - *oh, how times & attitudes are achanging & how few people are fully appreciative thereof!*

On Monday August 4th the Palestinians gave the Egyptians a list of demands for settling the Gaza issue. Prominent among them was a proposal for an internationally-funded reconstruction effort in Gaza, to be overseen by the Abbas-led unity government recently agreed to by Fatah & Hamas, & an observation that an end to the (*total?*) blockade of Gaza was key to any

successful outcome. And the next morning saw the start of a 72-hour cease fire that, it was hoped, would lead, in Egypt-mediated indirect talks between the two parties, to an extension thereof. But it was off to an inauspicious start when Egypt indicated it had no intention to end its closure of its Rafah border crossing point into Gaza and when, as of noon Edmonton time that day, i.e. with roughly one-fifth of 72-hour time frame passed, no Israeli delegation had as yet left for Cairo after the Israeli Cabinet had decided it was first 'necessary to see if the cease fire would hold' (*which in a worst case scenario would be another manifestation of the same old Israeli policy of delay, delay & delay and prevaricate, prevaricate & prevaricate, even when time was of the essence*). Israel remains fearful that any lifting the blockade will enable Hamas to restock its weapons inventory [which may be a (purposely?) misplaced fear since no one, likely not even Hamas, expects that 'ending the blockade' will result in Gaza's borders being thrown wide open]. More importantly, however, Netanyahu c.s. may be concerned, & *this with more justification*, that *even indirectly* negotiating with a unity government he had recently declared he wouldn't deal with as long as it contained any Hamas representatives at all will be perceived on 'Arab Street' as a sign of weakness & a defeat for Israel.

China is believed to have one of the world's largest, technologically recoverable reserves of shale gas. Not long ago Beijing had hoped to replicate the shale gas boom that has transformed the energy landscape of the US. But after several years of drilling & evaluation, & the actual identification of just one major shale gas field - Fuling in Sichuan Province-, Beijing has, *in part due to a realization it lacks the needed technological skills 'inhouse'*, cut its 2020 expectations of locally-produced shale gas in half.

In the quest to establish territorial claims in the South China Sea Vietnam has built 'lighthouses' on nine of the Spratly Islands¹ (West of the Philippines), with the Philippines, Malaysia & Taiwan having built others. And Beijing has now announced plans to build five such 'lighthouses' in the Paracel Islands group off the coast of Vietnam, where earlier this year it threw down a marker by deploying a drilling platform there.

The economic outlook for Eurozone is darkening. Its No. 1 economy, Germany, is giving off signs of slowing down. Economic news out of its No. 2 economy, France, is at best iffy. And the latest is that, with the Second Quarter GDP growth in Italy, its No.3 economy, having come in at a negative 0.2%, Italy is now officially in recession, for the third time in six years.

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PIMCO'S BILL GROSS NAMES 'THE ONLY SAFE HAVEN' IN THIS MARKET
(Yahoo, Kevin Chupka)

- He says it's a strange market when in Germany Bunds go "up in yield and down in price during the same time risk markets, equity markets, *also* go down in price" & that "It appears the only safe haven ... is the front end of the US yield curve in which the market expects the Fed to stay on hold for longer."

The market's expectations are not always fulfilled. Gross founded, & is still CEO of, Allianz-owned, California-based PIMCO, which has AUM of US\$1.97TR, of which US\$225BN in its

¹ While the landmass of these islands is just 4 sq. kms, control over them potentiall equates with control over 425,000 sq. kms. of ocean, and the oil & gas purportedly beneath it.

flagship Total Return Fund. But in the past year he has made some sub-optimal market calls that have dented his reputation & prompted significant withdrawals of client money from the fund (although it remains the largest bond fund in the world). For the average retail equity investor this means he thinks 'cash is going to be king' in the period ahead (which in turn means they may be well-advised to eliminate high-Beta stocks from their portfolios).

US AUTOSALES FALL SHORT OF EXPECTATIONS IN JULY (Reuters)

- While both Ford & Toyota had better-than-average growth in their US auto sales, largely due to strong demand for SUVs & higher-than-average discounts (Ford's were 30% over the industry average), most other car manufacturers didn't fare as well. Thus, while total industry sales were up 9% MoM (vs. the 11% expected) to 1,433,016 (an annualized 16.48MM, down from June's 17MM *but well ahead of the 15.6MM sold in 2013*), Ford sales were up 10% MoM to 212,236 & Toyota's 12% to 215,802, while GM's were up 9% to 256,160 & KIA's 4% to 119,320 while Volkswagen's were actually down 6% to 49,469.

Earlier in the week Reuters noted "A combination of cheap loans, extended terms, deep incentives from some dealers and unsustainably high values for used cars, is making it far too easy for many Americans to buy new vehicles." According to the credit bureau Equifax the amount of auto loans now outstanding is US\$902.2BN, up 10% YoY & an all-time record, as of the end of April new auto loans YTD had amounted to US\$163.5BN, a post-2005 high, "auto lending continues to thrive, accounting for more than fifty percent of all new non-mortgage lending", and all subprime lending has been strong (28% of the total in the case of car loans).

BEHIND TOLEDO'S WATER CRISIS, A LONG-TROUBLED LAKE ERIE **(NYT, Michael Wines)**

- The city of Toledo, Ohio (population 300,000) earlier this week was subject to a two day-long official ban on the drinking of its tap water after an algae 'bloom' settled over its water intake miles offshore in Lake Erie. This was the first outward token of what scientists & government officials have been warning about for years, namely that the lake is in ever-worsening trouble, due to phosphorus run-offs from farms, cattle feedlots & leaking septic systems that have prompted the growth, & spread, in the lake of, often poisonous, algae. This is not a new, or isolated, problem. Five years ago the EPA & state water authorities issued a joint report on phosphorus & other chemicals' pollution in the nation's waterways entitled An Urgent Call to Action, which has largely been ignored or, as Donald Moline, Toledo's Commissioner of Public Utilities puts it, "When we bring this subject up in conversation with regulators, everyone sort of walks out of the room."
- In the 1960's Lake Erie was officially declared "dead", only to be revived by clean water rules. But it has since returned to a crisis mode since urbanization & industrial farming has spawned new, & more potent, sources of phosphorus run-off. And while the Clean Water Act seeks to limit pollution from "fixed points" such as industrial outlets & sewer pipes, most pollution now comes from what are called "non-points", *i.e. thousands of places too small to identify individually*, the US Supreme Court has challenged the scope of the Act, & an EPA proposal to strengthen the Act's authority is being opposed by Republicans as an infringement of private rights & a threat to farmers.

The growing demand for water, the profligate use thereof, and the degradation-, & unsustainable drawdown-, of water resources is becoming a problem worldwide. And, as in other environmental matters, many Americans have adopted a "head in the sand" attitude because of their perceived short-term cost implications, willfully ignoring the fact that a dollar

spent on remediation often pre-empts the need for spending a great deal more down the road. And these are many the same people who in the WSJ/NBC poll noted above blame politicians for endangering their children's future!

CALIFORNIA FARMERS PREDICT CATASTROPHE AS DROUGHT HEATS UP (Postmedia News, William Marsden)

- Sixty years ago California's Central Valley consisted of wetlands, flood plains & desert. But now the 600 miles from the Cascade Mountains in the North to the Tehachapi Mountains in the South produce 25% of US table foods on 1% of its farmland. But with a drought now in its third year & water reservoirs at record low levels, water shortages have become critical &, if it stays dry, fruit & vegetable prices could skyrocket.
- California's vast engineered water delivery system of canals, aqueducts, reservoirs & dams can move 42BN cubic metres of water from the mountains to the valley. With water allocations decided by two state & federal agencies, the drought is so bad that most districts in the valley's central part this year received a zero water allocation, leaving farmers with four options : get by on what water allocations they may have left from earlier years, buy it at inflated prices from districts *or farmers* with surpluses², drill wells, even if the water they produce is salty, or let their fields lie fallow (as has been the case for one-third of the 243,000 arable hectares in Central California's Westlands Water District, the largest in the state and one that got a zero water allocation).

Not good news for 'headline' (i.e. not core), inflation.

IMF CALLS ON CANADA TO HIKE GAS TAXES (CP)

- In a report Getting Energy Prices Right : From Principle to Practice, the IMF advocates "smarter rather than higher" taxes when it proposes taxing fuels according to the health-, & environmental-, damage they cause while avoiding adding to the financial burden on taxpayers, *i.e. in a "revenue neutral" manner*. In launching the report Managing Director Christine Lagarde said the IMF's concern stems from the fact that "a degraded environment leads to a degraded economy. Environmental damage has macroeconomic implications ... (*Smart taxes*) means recalibrating tax systems to achieve fiscal objectives more efficiently ... by using the proceeds to lower burdensome taxes" & quoted Nelson Mandela in saying "It always seems impossible until it's done." The report seeks to help countries to determine the harmful side effects of various fuels & to price the damage they cause, and uses coal as an example, saying its average 2010 price of US\$5 per Gigajoule should have been subject to a 66% tax for the health & environmental damage it causes.

Using the tax system to "achieve fiscal objective" is nothing new under the sun." Carbon taxes would, of course, further improve the competitive position of alternate energy sources. And in a best case scenario they might represent a first, feeble step in the direction of the more "full pricing" of a lot of other things Mankind needs, but takes for granted, first & foremost water, so as to encourage their more efficient use. And the report comes at a time when the rising price of natural gas (& the monetary & fiscal authorities' pre-occupation in Western countries with targeting unrealistically high GDP growth rates), has prompted, & is tolerating, a greater use of coal in power generation in Europe, Australia & the US. As to Canada, this report will be a

² One almond farmer paid US\$2.1MM for water, just to keep his trees alive for this year.

matter of 'casting pearls to the swine' (Matthew 7:6) in Ottawa's present environmental Neanderthal policy mindset.

REVELATIONS IN THE GAZA WAR (NYT, Thomas Friedman)

- For more than a decade Iran, Hizbollah &, until recently, Hamas pursued a three pillar strategy vis a vis Israel that consisted of the following components :
 - **asymmetrical warfare** – to use rockets to discombobulate Israel's citizenry (which the Iron Dome system seems to have neutralized, at least for now);
 - **insert fighters within the civilian population** - to expose Israel to the risk of war crimes charges if it moved against them & in so doing caused significant 'collateral damage' among the civilian population (which has worked because it is central to Israeli strategy not to let Hamas or Hizbollah "outcrazy" it); and
 - **Israel must forever occupy the West Bank** - to help delegitimize & isolate Israel, especially among Western nations.
- The religious nationalist forces now seem to have the wind in their sails in the region, causing this to have become more & more a religious conflict. Jihadists are sweeping across Syria & Iraq, wiping out Christians & other minorities. And according to the Times of Israel, in an official despatch to his unit commanders one of Israel's top commanders on the Gaza front told them "History has chosen us to spearhead the fighting [against] the terrorist ... enemy which abuses, blasphemes, and curses the God of Israel's [defense] forces."
- Israel now has a choice. While its reckless West Bank settlement policy sought to keep the Palestinian Authority weak, the only way it can now hope to stabilize Gaza is by empowering it to take over border control there. But that will eventually (???) require making territorial concessions in the West Bank since the Palestinian Authority won't act as Israel's policeman *in Gaza* for free. This is crunch time : either Israeli & Arab moderates cooperate & fight together, or the zealots will take over the neighbourhood.

His prescription would require statesman-, rather than partisan-, ship. But in the Middle East, as in many other places statesmanship is scarcer than hen's teeth & (extreme) partisanship 'the coin of the realm'. It is hard, if not impossible, to accuse Friedman, of Jewish extraction himself, of anti-semitism (the usual charge lobbed at those who question Israel's policies). And his more pragmatic, & less ideological, view on Israeli policies is becoming more common among North American Jewry as their grandparents' & parents' first-, & second-, hand Holocaust memories die out with them (& may well be reinforced over time in the US official policy bias vis a vis Israel by the growing spread of isolationism in America, incl. among the traditional non-Jewish, Christian fundamentalist Israeli sympathizers).

ISLAMIST MILITANTS PUSH BACK KURDS, SEIZE MOSUL DAM **(Reuters, Ahmad Rasheed)**

- After sweeping across much of Northern Iraq in June, on August 3rd they inflicted a major defeat on the Kurdish 'pershega' forces when they overran three towns, occupied the Ain Zalah oilfield & seized control of the Mosul Dam, *the largest in Iraq & 4th largest in the Middle East*. After the American-trained Iraqi Army had earlier fled, rather than fight, the Islamic State's troops, the Kurdish pershega units had been looked upon by some as the major obstacle to any Islamic State's advance; but their failure to hold towns that had long been under Kurdish control undermined this idea & put paid to the notion that the

Islamic State's advance would help their struggle for greater independence from Shiite-dominated regime in Baghdad.

Seizure of the dam is important not just because it provides electricity to the 1.7MM inhabitants of Mosul, but even more so because it gives the militants control over water levels in the Tigris River &, with it, the ability to flood cities downstream (incl. however, Mosul) and, more importantly, to reduce the availability of water to farmers downstream, thereby potentially raising food prices, & creating political instability, in the Shiite-controlled part of the country

CHINA TOPPLES CROSSES AT MORE CHURCHES (NYT, Andrew Jacobs)

- According to locals in Zhejiang Province, as part of the government's campaign against symbols of the Christian faith, one of China's fastest growing religions, on July 28th security officials in Whenzhou City used a crane & blowtorch to remove the red, three metre-high, crucifix from the top of the Longgang Township Gratitude Church. And the previous Friday congregants at the Wenling Church in Taizhou City were unable, in the face of a 4,000-strong police presence, to stop removal of two crosses from the top of their church building.
- Since early spring officials in this province have issued demolition notices for over 100 churches because they "violated zoning regulations" despite the fact most were state-approved. And while they have largely targeted church steeples & crosses, in April they tore down the Sanjaing church, a landmark in Wenzhou City, on the grounds it violated building codes, despite the local government earlier having cited it as a model project.

*Beijing' fears anything it thinks could challenge the supremacy of the Communist party and it is surprising it has taken this long to target Christianity, the growing allure of which has resulted in the number of its adherents now said to be challenging the 86MM membership of the Communist Party. So it now seems to have lumped Christianity with legal rights defenders, pro-democracy advocates, & liberal online commentators (and the Falun Gong) in a national campaign against those perceived as a threat to the status quo. It is interesting in this context that the South China Morning Post on August 7th quoted Chinese state media as reporting that Beijing is planning to construct "a Chinese Christian theology suitable to the country."*³

MILITARY HEMS IN SEPARATISTS IN STRONGHOLD OF DONETSK **(Reuters, Maria Tsvetkova)**

- A military spokesman in Kyev told the media that the army had recaptured three-quarters of the territory once controlled by the pro-Russian separatists in the "People's Republics" of Donetsk & Lugansk. Meanwhile heavy fighting was reported in the outskirts of Donetsk as the rebels sought to keep the Ukrainian government forces from advancing into the city, after they had all but encircled the rebels' other main stronghold

³ A take-off on Deng Xiaoping's "socialism with Chinese characteristics"? While China has for some time had an approved brand of Roman Catholicism, it has encountered two problems with it : its leaders have not always been amenable to official 'guidance' & it has been nowhere near as popular as various non-approved branches of Christianity. And while the official political narrative has focused on endless triumphs, incl. the economy's unprecedented growth, its overtaking of rival economies & the successful 2008 Olympics, for the average Chinese these achievements have done little to satisfy what a philosophy professor at a prominent Shanghai university called "the soul of our culture".

of Lugansk. All the while Putin keeps denying he has armed the separatists or tried to influence events in Eastern Ukraine &, despite more sanctions, is giving no indication he about to change this position.

NATO has since reported that Russia has 'massed' 90,000 of its own troops near its border with Ukraine, purportedly to invade Eastern Ukraine, while Putin has announced sanctions of his own, banning the import of certain agricultural food products from countries that have introduced sanctions against Russia &, more importantly, against its oligarchy class (which will harm the hoi polloi far more than the oligarchs &, by boosting inflation, may erode some of his popular appeal). And if the relatively small (90,000 strong), & not particularly well-equipped or trained, Ukrainian Army were to get the best of the separatists forces, the core of which supposedly consists of members of the Russian Army's elite Spetznaz units, it would be a slap in the face for Putin, even though it would achieve his main objective, i.e. to stick Kyev, & therefore by implication the EU, with the cost of subsidizing Eastern Ukraine (albeit not as he planned).

PRIVATE SECTOR TO FIX PEMEX'S MESS (Reuters, Chris Swan)

- Over the past decade Mexico's oil output has declined by 25%. And on July 25th State-owned Pemex announced it expects its oil output this years to be 3% lower still, to about 2.4MM bbl., than it had previously forecast (while President Enrique Pena Nieto has set a target of 3MM bbl. by 2018). But its 75 year oil monopoly in the country may be about to expire; for Mexico's lower House of Parliament over the July 25th weekend approved a law that will allow private *and/or foreign* companies to start drilling for oil, & even take over the operation of some existing fields from Pemex, in the hope that their access to capital & better technology will both stimulate development of the country's offshore-, & shale-, deposits, and allow the extraction of more oil from its existing aging fields.

Pemex's situation is a self-inflicted wound since for years it hasn't had enough money to properly maintain its oilfield infrastructure, never mind for exploration & development, because the government syphoned off too much of its cash flow to help fund its budgetary expenditures; thus while it reported a US\$4BN loss for the three months ended June 30th, most of that was due to the government having upped its take to 132% of the Company's income - this was, & is, akin to starving the goose that lays the golden eggs.