

**Quote of the week :** “There have been discussions about vision, big vision, and grand vision. I only want to say that I am a small person and think about small people. By thinking about small people I am trying to make them grow.” - Indian Prime Minister Narendra Modi, after the latest polls were unkind to his BJP party (presumably because of his lack so far to display enough “vision”).

By the time you receive this, we all will know the outcome of the Scottish referendum. I am sticking my neck out (*it's right now 1847 hrs Edmonton time on September 17<sup>th</sup>*) by predicting that the NO side will do better, possibly much better, than the polls have indicated (*thereby putting another nail in the coffin of the once unchallenged status of polling as a useful political instrument?*). The reason lies in Scotland's demographics. For the key support base of the YES side is among young people & blue collar workers, neither of whom have much of a 'stake' in things as they are, whereas the more mature & established age & social cohorts do have such a stake, in terms for instance of real estate & pensions; in addition the older people get, the more averse to change they tend to become (& independence would involve more change, & risk, than many of them may care to contemplate). And there simply aren't enough young people, as shown in the following age profile of the Scottish population :

- 17-30 : 840,000;
- 31-50 : 1,500,000;
- 51-87 : 1,550,000.

As noted above, by the time you get this, we will all know the outcome. And whatever the outcome, winning the referendum will likely prove to have been the easiest part [*in the event, amidst a very high (84.6%) voter turnout, the NO side garnered 55.3% (2,001,926) of the votes cast vs. the YES side's 44.7% (1,617,989); having said that, due to the concessions a panicked Cameron government promised in the late stages of the campaign, when the polls started going against the NO side, the British political system may be in for one of the most massive changes in its history*].

On September 17<sup>th</sup>, the first day of his three day visit to India Chinese President Xi Jinping had a 'soft soap' op-ed piece in Chennai-based<sup>1</sup> The Hindu daily newspaper entitled Towards an Asian Century of Prosperity that can be googled, the penultimate paragraph of which read as follows “As Deng Xiaoping puts it, ‘no Asian century would come without the development of China, India and other developing countries’. We are ready to shoulder this mission of our times and work actively to enhance friendship between China and India. I look forward to an in-depth exchange of views with Indian leaders on our bilateral relations during this visit, and to injecting new vitality to our strategic and cooperative partnership for peace and prosperity.”

This will not be the first time that the two have met; that was during the 6<sup>th</sup> BRICS Summit in Brazil last July (during which Xi called for a “negotiated solution” to their two countries’ long-standing border disputes & invited him to make an official visit to Beijing “at an early date” - *which Indian officials indicated would not be until December at the earliest, although he may go to Beijing to attend the November 10th-11th APEC Summit there*). Rather unusually, Xi's visit started not in New Delhi, the nation's capital & seat of government, but in Ahmedabad, the former capital-, & current administrative centre-, of Modi's native Gujarat State where he kept the home fires burning by signing three agreements with Xi, two of which ‘twinned’ Gujarat State with China's Guandong Province & Ahmedabad with Guanzhou, Guandong's capital, and the

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<sup>1</sup>

Chennai (population 4.3MM) is South India's leading commercial & industrial centre and located on India's Eastern (Bay of Bengal) coast, close to its Southern-most point.

third of which provided for cooperation between the China Development Bank & the Gujarat Industrial Development Corporation in the development of industrial parks in the State.

President Xi will be very much aware that Prime Minister Jodi has already been to Nepal & made a five-day<sup>2</sup> visit to Japan (where Prime Minister Abe, quite uncharacteristically, embraced him upon his arrival & subsequently committed his country to invest US\$32.6BN in the Indian economy), and that later this month Modi will be visiting Washington where the White House & the State Department are falling all over themselves to try & make him feel welcome & wanted, trying to assuage whatever lingering resentment Modi may still harbour over the State Department's lifting of his US visa in 2005, when he was Gujarat State's Chief Minister, because of his alleged inaction during the 2002 inter-communal riots in the State that had cost hundreds, if not thousands, of Muslims (& a smaller number of Hindus) their lives.

Hence Xi's charm offensive; for he too faces an uphill battle. India has long looked upon Nepal as part of its sphere of influence & has been building, albeit in a, for India not uncommon, desultory fashion, a rail link to Nepal to cement that relationship. But China has also started building, as a matter of priority, a US\$2.2BN rail link between Lhasa, Tibet & Katmandhu to link up with its new Beijing-Lhasa link that will challenge that notion<sup>3</sup>. Then there are the perennial border incidents where Indian & Chinese territory abuts, both to the West & East of Nepal; by Indian count YTD there have been 334 Chinese violations of its definition of the boundary between the two countries, the most recent one, despite Xi's pious claims in Brazil, on September 10<sup>th</sup> when Indian border guards caught Chinese troops with heavy machinery in Ladakh (Kashmir) building a road on land India believes to be within its borders, resulting in a five-day stand-off. And longer term, in a world where water is becoming an increasingly vital issue & in which India's largest river, the Brahmaputra, 'rises' in Tibet (& half of India's water comes directly from China), and Beijing has been building, & is planning even more, dams on every river on its territory, incl. the upper reaches of the Brahmaputra, with the nightmare scenario for India being that Beijing would tie the Brahmaputra in with the next stage of its massive South-North Water Transfer Project, thereby reducing its flow downstream (small wonder, therefore, that Assam's Chief Minister sent a letter to Modi pleading with him to take up the dam construction issue with President Xi during his visit).

So Xi, & not just to upstage Japan and/or to get rid of unwanted dollars, came bearing gifts : US\$50BN to help fund a long-overdue modernization of India's railway system & another US\$50BN for other infrastructure improvement/greenfield construction projects (the latter to include the building of industrial parks all over India) - *Xi must be in an uncomfortable position for him, unable to use bully tactics. Beijing believes it is entitled to be top dog in Asia, if not the world; but achieving this goal would be much more difficult, if not impossible, without India in its camp. So he must court India as hard, if not harder, as the US & its allies in the region, first & foremost Japan, South Korea & the Phillipines, are doing. Meanwhile India has long nascent-, but now becoming more viable-, regional hegemony-, if not global superpower-, ambitions of its own. And in Modi Xi faces a man who is as-, if not more-, single-minded as he is & who, important in a democratic society, came out of the election earlier this year with what well may have been the first-ever absolute majority in Parliament since India became independent. Add*

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<sup>2</sup> Extended by one day from the originally scheduled four days in what generally was interpreted as a message of sorts to Beijing.

<sup>3</sup> Modi is known to be an admirer of Beijing's ability to get massive projects done in a timely fashion, regardless of the terrain-, & technological-, challenges they may entail.

*to that, that in contrast to China India has a growing & young population and that almost seven decades of 'non-alignment' has taught its leaders how to play both sides off against the middle and Time magazine likely was spot-on recently when it opined "India has become the key wild card in this new geopolitical power game".*

Paris-based Observ'ER, was founded in 1980 & is said to be a source of well-regarded studies on energy, the environment & development. Its 15<sup>th</sup> Inventory of World Electricity Production from Renewable Resources, produced with funding support from EdF, noted that :

- 2012 global electricity output came from fossil - 68.1%, hydraulic - 16.2%, nuclear 10.9%, wind - 2.4%, biomass - 1.4, solar 0.5%, geothermal - 0.3%, non-renewable waste - 0.2 %;
- in the decade ended in 2012 total global electricity output grew by 39.8% to 22,613 Twh; this was made up of 17,914 Twh from non-renewable sources (up 35.6% during the decade) & 4,699Twh from renewable resources - hydraulic, wind, biomass, solar & geothermal, up 58.8% during the same period;
- the mean average electricity generation growth rates during the decade were solar - 50.6% (albeit from a tiny baseline number, with a huge growth rate acceleration in 2010 : between 2010 & 2012 solar output soared from 40Twh to 105Twh), wind - 26.1% (increasing ten-fold from a significantly higher baseline number), biomass - 8.3%, fossil - 3.9%, non-renewable waste 3.3%, hydraulic - 3.1%, & geothermal - 3.0%, while nuclear had a negative -0.8% growth rate (*which is likely to change in the not too distant future, given the number of new nuclear plants being constructed or in various developmental/planning stages*);
- electricity produced per capita ranged widely (with average annual rate of growth thereof in brackets). *Not surprisingly* North America headed this league table with 14,167Kwh (-0.3%), followed by Oceania (primarily Australia & New Zealand) - 8,156Kwh (-0.7%), Western Europe (incl. Cyprus, Greenland, Iceland & Turkey) - 6,646 Kwh (-0.1%), CIS - 5,448 Kwh (+1.8%), Central Europe - 4,411 Kwh (+0.8%), Middle East - 4,385 Kwh (+3.8%), East/Southeast Asia - 3,400 Kwh (+6.6%), South America - 2,742 Kwh (+3.3%), Central America & the Caribbean - 1,992 Kwh (+2.0%), North Africa - 1,771 Kwh (+4.7%), South Asia - 791 Kwh (+4.5%) and Sub-Saharan Africa - 490 Kwh (+0.3%); *the latter two sets of numbers stand out like sore thumbs, especially Africa's low growth one; for ready access to electricity is critical to development, the environment, education & the quality of human life; that's why the low sub-Saharan growth rate is so noteworthy; for that's where today almost one billion people live today, & where at least half the increase in the world's population by 2050 is expected to occur (with India accounting for another 10%)*;
- the same wide diversity was true for electricity output per unit of GDP (*a measure of the energy efficiency of a national economy that should, however, be treated with caution because it is benchmarked to the US dollar & developing economies are less electricity-intensive*). In the CSI it took 0.49 Kwh per \$ of output with the corresponding numbers for East & Southeast Asia being 0.38, the Middle East 0.37, North America a somewhat surprising 0.33, Oceania 0.32, North Africa & Central Europe 0.28 each, Latin America 0.26, Western Europe 0.24, Sub-Saharan Africa 0.23 and Central America/Caribbean 0.20 (with in all but four regions, East & Southeast Asia, the Middle East, North Africa & Central America/Caribbean, the amount of electricity used to produce a unit of output declining).

By coincidence one of you sent me an email this (Monday) morning drawing my attention to an article by Justin Gillis in the September 13<sup>th</sup> New York Times entitled Sun and Wind alter Global Landscape, leaving Utilities Behind that among other things draws attention to the following :

- Germany is almost monthly setting new records for renewable electricity output & will soon have it account for 30% of its total power production;
- Brazil & Canada (for now) lead the world in renewable power production, with 80+% & 60+% respectively renewable, albeit largely from *conventional (low tech)* hydraulic sources;
- In California Lennar, the second-largest US home builder, is equipping its new homes with solar panels, (& starting to expand this program to other states), retaining ownership of them but making this nevertheless attractive to home buyers by entering into long-term contracts with them to sell them the power produced at 20% off the going price;
- Over the past decade worldwide sales of solar panels have doubled, & their price dropped roughly 20%, every 21 months (*i.e. at the end of the decade they were down 70-75%*) - *this has made solar power increasingly less uncompetitive with other fuel sources*;
- Electric utility executives are watching solar panel pricing developments with some concern as technologies once dismissed as irrelevant are starting to threaten to eat their lunch, with some acting defensively by putting their wagons in a circle & others offensively by moving into the renewable power business themselves. And both groups have leverage since the Achilles heel of both solar & wind remains that it is interruptible & requires a conventional power backup (*at least until electricity storage technology takes a quantum leap*).

While the Observ'ER findings seem to bear out the CW in the West that Sub-Sahara is a basket case, empirical evidence doesn't quite support this. For according to the World Bank, during the decade ended in 2012 Sub-Sahara Africa per capita GNI (Gross National Income, *a measure of output not vastly different from the more commonly used GDP - it merely adds income earned abroad by locals & subtracts that earned in-country by non-residents*) grew from US\$477BN to US\$1,599BN in current dollar terms (*i.e. at a compound annual rate of 12.86%*) **despite** a compound population growth rate of 2.8%, & during the four years ended in 2012, when the developed world first went through the Great Recession & then experienced a sub-standard economic recovery, the Sub-Sahara African economy experienced 9.8% compound annual growth. And while these Sub Continent-wide growth numbers are somewhat distorted by the oil-producing countries, many non-oil producers also did quite well; thus Kenya experienced a compound per capita GNI growth rate during the decade of 9.1% **despite** 3.0% annual population growth. And during the same decade, despite the high incidence of HIV/AIDS, the average life expectancy in Sub-Sahara Africa went from 51 to 56 years & the primary education completion rate from 57% to 70%. And Sub Sahara Africa, while having more than its share of problems, first & foremost still sub-optimal governance, has two things going for it that over time may help to pull it out of the mire, a plethora of natural resources and, in a rapidly aging world, a young population & an age dependency ratio that will boost its GDP growth potential for decades to come (*by the way, those deluded souls who still believe South Africa will be the engine that will the salvation of Sub Sahara Africa might take note of the fact that in all but one year in the past decade the rate of economic growth in Sub Sahara Africa ex South Africa & Nigeria had actually been higher than that with the two of them included*).

Brent Crude was US\$115 in mid-June & is now below US\$100, with chartists seeing no real support until the US\$88 level<sup>4</sup>. OPEC, in its latest Monthly Oil Market Report dated September 10<sup>th</sup>, attributed this to "speculators liquidating long positions, ample supply (*in August OPEC*

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<sup>4</sup> And speculators have been 'stashing' oil offshore, which in the past has been a sign of an 'oversupplied' market

*output rose 231,000 bbl/d to 30.35 MM bbl/d as non-OPEC supply continued growing “slightly faster than expected”) & low demand from the OECD region” (which more than offset higher demand in the non-OECD part of the world). Since it also marginally reduced its demand forecast for the rest of this-, & all of next-, year, it is not surprising that OPEC Director-General Abdalla Salem el Badri expects the group at its November 27<sup>th</sup> meeting to cut its production target from 30.0 MM bbl/d to 29.5MM bbl/d - But that’s still ten weeks away, and even then one must wonder whether cutting the target will do any good; for a number of OPEC members, as they have often done in the past, will be tempted to disregard any lower production guidelines &, and for budgetary reasons, try to make up for the lower price by increasing output, as that from non-OPEC countries, first & foremost the US continues to grow<sup>5</sup>. In geopolitical-, as opposed to economic-, terms a fringe benefit of the lower oil prices is that, with oil revenues the mainstay of Russia’s treasury, this will increase the fiscal-, & hence domestic political-, on Putin, thereby reinforcing the impact of the sanctions. On the other hand, this whole scenario could be thrown into a cocked hat by a ‘black swan event’ on the supply side of the global oil market that would give rise to a ‘marking up’ of the currently low political risk premium imbedded in oil prices & by speculators “going long” again.*

Those who still haven’t woken up to France being an accident looking for a place to happen might wish to take note of the fact that today its GDP (in current dollars) today is the same as six years ago, while its debt-to-GDP ratio is now 92.9%, up from 68.2%.

Bilal Philips is a 68 year-old, Toronto-based Muslim preacher, born in Jamaica as Dennis Bradley Philips, with a Ph.D. in Islamist Theology from the University of Wales with unindicted co-conspirator status in the 1993 bombing of New York’s World Trade Center. Recently, while on a speaking tour in the southern Philippines, he was detained & on September 13<sup>th</sup> deported back to Canada, as “an undesirable alien” for “inciting and recruiting people to conduct terrorist activities” - *in recent years he has been deported or banned from Australia, the UK, Germany, Kenya & Bangladesh.*

In August foreign direct investment (FDI) in China was down 14%-, & overseas direct investment (ODI) up 122%-, YoY to US\$78BN & US\$65BN respectively. The decline in the former appears due to a significant degree to foreign companies souring on China as Beijing has been launching anti-monopoly-, pricing-, & other investigations into the local operations of foreign firms & has announced plans to ‘revise’ the rules governing joint ventures (JVs) between foreign & local firms. And the growth of the latter is in part a function of Beijing’s continued program of using, \$ encouraging the use, of unwanted dollars to buy hard assets, incl. captive sources of raw materials abroad but to a significant degree also of private wealth flowing overseas, driven in part by those fearful of falling victim to President Xi’s anti-corruption drive & having to flee for their lives & by the fact that half the country’s ‘super-wealthy’ are known to be planning to move abroad within the next five years [with Hongkong (???) & Canada appearing to be their top destinations]

Last week mention was made of how in Kenya the traditional seasonal long rain/short rain pattern no longer seems to apply. Further to this, the average annual rainfall in that country during the 1901 - 2009 period was 64.35 cms (25.3inches), 28.18 cms (43.8%) of which had

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Although there is anecdotal evidence that some shale oil producers in the US, most prominently are already experiencing the same phenomenon as is threatening the future growth of Alberta oilsands output, a lack of pipeline capacity constraining output growth.

fallen during the March-May period of the 'long'-, & 13.89 cms (21.6%) in the October November 'short'-, rains.

**Sic transit gloria.** According to the Economist the Ivy League universities (Brown, Columbia, Cornell, Dartmouth, Harvard, Pennsylvania, Princeton & Yale) in the past six decades have succumbed to varying degrees to grade inflation. Their grade point average (GPA) now is in the 3.3/B+ - 3.7/A- range, whereas for the two (Columbia & Harvard) whose GPAs can be tracked to the 1950's they then were 2.5/C+ (while a 2013 article in the Harvard Crimson student newspaper claimed the average grade had soared to A-, with the most commonly awarded grade being an A). The Economist notes that "Universities pump up grades because many students like it. Administrators claim that tough grades lead to rivalry and stress for students<sup>6</sup>. Brilliant students complain that, thanks to grade inflation, little distinguishes them from their so-so class mates. Employers agree. When so many students get As, it is hard to figure out who is clever and who is not." - *A couple of years of years ago there was an item here noting that starting salaries for graduates from the South Dakota school of Mines & Technology were similar to, if not slightly higher than, those for Harvard graduates, while its tuition fees were one-fifths of Harvard's while the 2014-2015 PayScale College Salary Report ranked Harvard 42<sup>nd</sup> in terms of its graduates' starting salary (albeit it 13<sup>th</sup> in terms of 'mid-career' salary). So at some point 'consumers' of post-secondary education may decide that Harvard, with tuition fees of US\$44,000<sup>7</sup>, may not offer them the best value for their education dollar.*

**GLEANINGS II - 580**  
**Thursday September 18<sup>th</sup>, 2014**

**OECD SLASHES GROWTH FORECASTS, URGES AGGRESSIVE ECB STIMULUS**  
**(Reuters)**

- Last May it forecast Eurozone growth of 1.2% for this year & 1.7% for 2015. On September 15<sup>th</sup> it cut that to 0.8% for this-, & 1.1% for next-, year (by comparison it is calling for 2.1% this year, & 3.1% in 2015, for the US economy, and for & 2.3% & 2.7% for that of Canada). This, & its call for much more aggressive ECB stimulus to ward of the risk of deflation in an economically subdued Eurozone<sup>8</sup>, ahead of this week's meeting in Australia of the G-20 Finance Ministers & Central Bank Governors (at which the US is expected to push the Eurozone countries to take steps to boost demand & economic growth in the face of deflation) add to the growing pressure on the Eurozone to move to boost growth.
- Meanwhile, Rintaro Tamaki, the OECD's Acting Chief Economist<sup>9</sup>, told journalists financial markets had largely ignored mounting geopolitical risks to the global economy

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<sup>6</sup> Contrast that with the attitude of the professor I respected most during my university career in the late 50's/early 60's that on a scale of 10 down to 1 "10s are for God, 9s for me and your grades start with 8 (which at least in one instance caused a problem for a student vying for a scholarship.

<sup>7</sup> Although it all fairness it should be noted that all the Ivy League universities, except Princeton, have tuition fees higher than Harvard's.

<sup>8</sup> Its most recent CPI number was 0.4%, slightly 'better' than the 0.3% expected.

<sup>9</sup> After a 35 year career in Japan's Ministry of Finance (that included stints at the OECD, the World Bank & the Japanese Embassy in Washington), lastly as Vice Minister for International Affairs, his day job since 2011 has been that of OECD Deputy Secretary-General. He has been 'filling in' as Chief Economist since last February when Pier Carlo Padoan left to become Italy's Finance Minister &

& the Eurozone's worsening outlook and that "this highlights the possibility that risk is being mispriced again and the attendant dangers of sudden corrections in the financial markets."

*What Tamaki seems to be saying, with seemingly significant justification, is that markets are living in a dream world (& that the eventual wake-up call could be painful).*

### **IRAN DIDN'T CREATE ISIS; WE DID (The Diplomat, Ben Reynolds)**

- It's convenient for opponents of the Iranian regime to blame it for the rise of ISIS. But it is the US, Western Europe & their regional allies who bear most of the responsibility for its rise. It all started with America's 2003 invasion of Iraq to overthrow Saddam Hussein (*under the pretext of him being in possession of WMDs*), despite the fact that only a decade earlier it had supported him *in the Iraq-Iran War* as a counterbalance against Iran. This, *and the subsequent disastrous destruction of the Baathist political & army power structure*, turned turn Iraq into a recruiting ground for al-Qaeda & created an opportunity for Iran to try & turn the US-sponsored Shiite-led government into a strategic ally. Then US support for Maliki entrenched him in power & *stood by as he abused the minority Sunnis*; as a result, by the time the US & its European allies decided Maliki had to go he was hard to dislodge & the stage had been set for an ISIS-led Sunni insurgency in Western Iraq. Ditto in Syria. In the early stages of that conflict the US gave some *half-hearted* support to the rebels while its regional allies, Saudi Arabia, Qatar & Turkey, funneled arms to the opposition forces in the hope of destabilizing a key ally of Syria & Hezbollah. But as the civil war deepened & extremists, funded by *at least the first two of* these US 'allies', joined the fight & Jabhat al Nusra, al-Qaeda's local affiliate (*some of whose supporters have since found their way into ISIS*) emerged as the most effective group fighting the al-Assad regime. And when Obama finally decided that something had to be done *to take the initiative away from the extremists* and asked Congress for US\$500MM to train & equip "moderate rebels", Congress refused to go along with this request after Pentagon officials testified that they anticipated difficulties in finding moderate fighters to train & arm.

*From the outset Obama's moves on Syria have been too little, too late. In the early days of the Syrian conflict, when it might have done a great deal of good, he refused to declare a 'no-fly' zone over Syria (because of the al-Assad regime's Russia-provided anti-aircraft defense capabilities, which today likely are greater than they were then) thereby handing the al-Assad regime a critical advantage over the rebels. And now he is going to depend solely on airpower at the very time the Air Force is retiring its very aircraft most suited to close-in ground support, the A-10 Warthog? And by categorically ruling out the possibility of American 'boots on the ground, no matter what, he is playing in the hands of ISIS; for it will now practice what Mao Tse Tung once preached when he said that "The guerilla must move amongst the people as a fish swims in the sea" &, like Hamas in Gaza, embed itself in the general population where even 'precision' air strikes cannot help but result in collateral damage among the civilian population that would enhance its grass roots support & hand it major edge in the war for the 'hearts & minds. The man is once again displaying a lack of real world experience; in this case because one never goes into a bar room brawl with one arm tied behind one's back!*

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will quit doing so next February when the recently appointed new incumbent, Brandeis University's Catherine Mann (whose career path included stopovers at the Fed, George H.W. Bush's Council of Economic Affairs) will take over on a permanent basis.

## **CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS) DROPPING HEDGE FUNDS (International Business Times, Catherine Dunn)**

- On September 15<sup>th</sup> this Sacramento, Cal.-based public sector pension fund, with AUM of US\$300+BN, announced it will terminate, within the year, its US\$4BN hedge fund program (that involves 24 hedge fund managers & six hedge funds-of-funds managers) as "too costly and too complex". According to Interim CIO Ted Eliopoulos "they are certainly a viable option for some, but at the end of the day, when judged against their complexity, cost and lack of ability to scale at Calpers' size ... no longer warranted."
- Last month the Wall Street Journal reported that not only Calpers but also its counterparts in Ohio & New Jersey were retreating from hedge funds due to their 'less-than-stellar' returns, & separately that, according to Santa Monica, Cal.-based Wiltshire Consulting, the "average public pension funds' gains from its hedge funds had been 3.6% for the three years ended March 31<sup>st</sup>, 2014, ... compared with a 10.9% return from private equity investments, a 10.6% return from stocks and 5.7% from fixed income investments".

*In the wake of this announcement, Susan Martin, CEO of the London Pensions Fund Authority was quoted as saying that "the industry can no longer afford the hedge funds' '2 & 20' fee structure" (2% of a client's asset as a "management"-, & 20% of all profits as a "performance"-, fee<sup>10</sup>)*

## **REAL ESTATE CONFIDENCE SINKS (Bloomberg)**

- Polling for the Bloomberg Nanos Canadian Confidence Index found that the share of Canadians who expect home prices to rise over the next six months was 38% last week, a five months' low. As to the index itself, it came in at 58.8, down from 59.1 & a five week low. Nik Nanos, Chairman of the Ottawa-based Nanos Research Group, commented that housing is "a key forward indicator to be monitored because the perceptions of real estate have been a key driver of *consumer* confidence ... Positive impressions of real estate are marginally below the 2014 average."

*Nationwide readings are distorted by those in the 'hot' markets in Calgary, Toronto & Vancouver.*

## **IRAQI PARENTS KEEP CHILDREN HOME FROM SCHOOL (AP, Sinan Salaheddin)**

- Part of ISIS' core strategy is to establish administration over the lands it controls to create an image as a ruler, not just a fighting force. So in extremist-held Mosul it ordered the school year start on September 9<sup>th</sup>, with a curriculum that banned art & history, "permanently annulled" classes in literature & Christianity, declared patriotic songs blasphemous, ordered *offensive* pictures torn from text books & fine-tuned the teaching of science to fit its ideology. But few students showed up as parents kept their children home out of fear, resistance & confusion (it's not clear how many teachers & administrators showed up for work). And one parent who opted for home schooling went on record as saying "What's important to us now is that the children continue receiving

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Since Calpers last year paid its hedge fund managers US\$135MM (i.e. 3.5%), the 2 & 20 formula would imply that last year's return on its hedge fund portfolio was 8½% gross, 6½% net.



knowledge correctly, even if they lose a whole academic year.” Residents acknowledge the risk of keeping their children at home (over the weekend ISIS issued a statement demanding students show up for classes on September 16<sup>th</sup> & warning “this announcement is binding ... Anyone who acts against it will face punishment”) but say that protecting their minds is important, with the above-quoted parent saying that “They will brainwash them and contaminate their thoughts.”

*As heroic & well-intentioned as their challenge of ISIS’ authority may be, they are on their own & it is doubtful they will be able to keep their passive opposition up for long.*

### **PAKISTAN REJECTS AFGHAN CRITICISM OF ITS 480-KILOMETRE BORDER TRENCH** **(Voice of America, Ayaz Gul)**

- Pakistan has a 2,500+ km border with Afghanistan. Its army is now digging a 480 km-long, three metre-wide & two metre deep trench along the border in Southwest Baluchistan to “effectively” control the flow of terrorists, drugs and human traffickers across it. While the Afghan government, such as it is, has long (& *rightly so?*) complained that terrorists were using the Pakistani border areas to support the Taliban insurgency on its territory, it objects to the ditch being dug along the “Durand Line” which it has long refused to accept as the boundary between the two countries.

*One must wonder what the army expects to achieve; for a ditch this size is no match to even the slightest of human ingenuity. As to the Durand line, it was drawn on a map, & agreed to, by a British official & the then ruler of Afghanistan in the 1890's & cuts right across the traditional tribal lands of the Pashtun & other ethnic groups in the region, thereby encouraging border crossing traffic to this day*

### **SWEDISH KRONA WEAKENS AFTER ELECTION RESULTS IN HUNG PARLIAMENT** **(Bloomberg, David Goodman)**

- Since 2006 Sweden was run by a four party, Moderate Party-led, centre-right coalition headed by Prime Minister Fredrik Reinfeld that slashed taxes & gave the private sector a greater role in the running of its hospitals & schools, while not breaching the EU’s deficit & debt rules<sup>11</sup>. But that did not stop voters last Sunday, September 14<sup>th</sup>, from turfing them out, giving them only 39.3% support & the three party opposition, centre-left group led by the Social Democrats 43.9%. But the biggest surprise of the election outcome was that the far-right, anti-immigration Swedish Democrat party more than doubled its voter support to 12.9% which gives them the balance of power.

*In practice in Sweden, however, in the past centre-left governments have pragmatically sought “accommodation” with centre-right oppositions on important issues & vice-versa. And in this case they will have greater motivation than ever to do so; so the Swedish Democrats’ balance of power dreams will likely prove illusory. Having said that, the political drift in Europe is worrisome. For this far-right surge comes after its surprisingly strong performance in this spring’s European Parliamentary elections, Marie LePen in France leading in the polls, the*

<sup>11</sup>

Since 2008 it has kept its debt-to-GDP ratio steady in the 40% range, little more than half of what it had been two decades ago after its subprime-like crisis, and since the Great Recession it has had quarterly GDP growth as high as 8% (in 2011) although this has since settled down to a more mundane 2%.

*August 28<sup>th</sup> announcement by the British Conservative MP for Clacton (in Essex, Northeast of London) that he was resigning his seat to run as the UKIP candidate in the resultant October 9<sup>th</sup> by-election (which may well give the party its first seat in the House of Commons), the success of the populist, far right, anti-Euro Alternative for Germany party in the August 31<sup>st</sup> elections in German State of Saxony, & of the anti-bailout AfD party garnering almost 10% of the vote in Saxony (& slightly more than that in the September 14<sup>th</sup> State elections in Brandenburg & Thuringia) - the only possibly hopeful aspect of this is that this may be less a matter of support for the various causes promoted by the 'outlier parties as a vote against the existing political parties' establishments.*