Quote of the week - "Great Britain, her power receding, was struggling to play the role of the world's policeman; Germany, newly industrialized and ruled by a nationalistic leader, was puffing her chest to the rest of the continent; and good old France was in steady decline and (no doubt painfully) reliant on her old foe Britain for support."

Quote of the week No. 2 : "Despite the numerous problems, everyday life went on as usual - the men and women of Europe in general, and that of the UK in particular, assumed that nothing untoward would happen."

L'histoire se répète? The first of these quotes is by Grant Williams & the latter by Keynes and both relate to the immediate pre-WW I era; but with an appropriate change of names they would seem to apply equally well to today's situation, almost exactly one hundred years later. We can only hope the outcome will be different.

The Edmonton Journal on October 3rd had a cynical, but unfortunately realistic, cartoon. It featured a 'split screen', with on the left panel a gloved, gowned, masked & helmeted African health worker facing a huge crowd of frightened-looking Africans seemingly in need of succour while the right panel featured a single, scared-looking white man facing a crowd of gloved, gowned, masked & helmeted health workers - *a picture is better than a thousand words.*

The media-propagated hype in North America about the one case of imported Ebola in Dallas has obscured the far greater indigenous public health risk in North America posed by the Enterovirus D68. First identified in 1962, it's a cold-like bug that can cause serious respiratory problems in children under the age of 15; but what is worrying some healthcare professionals is the current high incidence of the virus & the fact that in a growing number of cases it seems to have morphed into a new form that can produce almost polio-like symptoms affecting children's respiratory muscles and/or muscle weakness elsewhere.

On Friday October 3rd it was announced in Washington that*, whereas the consensus forecast had been for 215,000 (almost exactly the YTD 213,000 monthly average),* in September 248,000 new jobs had been created, vs 180,000 (raised from the initial 142,000) in August & 243,000 (upgraded from the initial 212,000) in July. As a result, the unemployment rate dropped from 6.1% to 5.9% MoM, a six year low (*oh where, oh where are the days when the Fed's supposed trigger point for taking its foot off the easy money gas pedal was 6.5%?*). But the official unemployment rate is contrived to understate the **real** unemployment situation; for it's not the percentage of the work force that's out of work but that of those with a job or actually looking for a job. And much of the reason for the lower unemployment rate lies in a labour force participation rate, a much less-publicized number, that at 62.8% was also at a six year low, down from 62.9% MoM & 63.2% YoY[1]. Furthermore, it was below its long-term average of 62.88%, and down from 66.1% six years ago & from an all-time high of 67.4% in 2000, and back to a level not seen for 35 years.

The US federal deficit for the fiscal year ended September came in at US$486BN, down almost US$200BN from the previous year's US$681BN. And, more encouragingly, this was only 2.8% of GDP, down from 4.2% the year before, & a 30-year low.

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1 While Fed Chair Janet Yellen remains committed to the belief that the slide in the participation rate will "eventually" reverse itself, she won't speculate on the timing of such a reversal.

Former Fed Chairman Ben Bernanke, in one of his six-figure speaking engagements, this one in Chicago at a conference organized by the National Investment Center for Seniors' Housing and Care, told it that "it's entirely possible ... (*that lenders*) may have gone a little bit too far on mortgage credit conditions ... (*for*) I recently tried to refinance my mortgage and was unsuccessful in doing so" (he & his wife in 2004 bought their Capitol Hill rowhouse in May 2004, when he was a member of Bush 43's Council of Economic advisers, with a US$671,200 five-year adjustable rate first mortgage with a starting rate of 4.125% & a US$83,000 fixed rate loan. In 2009, at the end of the original mortgage's five year life, they rolled both over into a US$685,385 30-year mortgage, & two years later replaced that one it with another 30-year mortgage, this one for US$672,200 at 4.25% - *he's just maxing out his mortgage interest tax deductability, a highly regressive feature of the US tax system (because its value increases with taxpayers' income), the reason that both President Obama & House Ways & Means Committee Chairman Dave Camp (R.-Mi) have made separate proposals to have it capped (so as to limit its benefit for the highest income individuals) only to see them founder on Congress' tax reform paralysis (as Fed Chairman Bernanke had a salary of a smidgen under-, & Janet Yellen has one a bit over-, US$200,000, both being about half the salary of the Governor of the Bank of Canada & one quarter of Mark Carney's starting salary as Governor of the Bank of England).*

Recently there was a serious breakdown in White House security when Iraq veteran Omar Gomez, carrying a small knife, was caught well inside the White House, after having climbed over the White House fence & "sprinted" (*with a limp & one partially amputated foot?*) in full view across the White House lawn. This led to the resignation/(*firing?*) of Secret Service Chief & 30-year Secret Service veteran Julia Pierson which has the feminists baying for blood, saying that, after breaking through the 'glass ceiling' into the top job (in a somewhat dysfunctional agency), she had then found herself pushed off a "glass cliff".- *While at first glance it's hard not to agree with Maureen Dowd in the October 4th NYT that "It shouldn't be that hard to protect the White House with a US$1.6BN budget", in all fairness to the Secret Service its responsibility extends far beyond just protecting the President & his family in the White House (thus it has since become known that on September 16th there had been another security slip-up when the President, while in Atlanta, had found himself on an elevator with a man with three criminal convictions for assault & battery who was carrying a gun).*

The flagship of the Hilton Worldwide Holdings' luxury brand 27-hotel chain is New York' *historic* Waldorf Astoria. But it has just sold it to China's USUS100BNAnbang Insurance Group, while retaining its management, for US$1.95BN, i.e. a per room price of US$1.35MM, which is second only to the US$1.5MM paid in 2012 for the 157-room Setal Fifth Avenue hotel near the Empire State building. This is the second iconic New York property bought by the Chinese after last year's sale of One Chase Manhattan Plaza to Fosun International, a company controlled by Guo Guangchang, a 47 year-old Chinese billionaire with a net worth in the US$3BN range.

Canada's PostMedia newspaper chain was rescued from bankruptcy in 2010 by a group of US & Canadian hedge funds headed by New York-based Golden Tree Investments, buying $700MM of its, what can best be described as junk-, bonds. And they are now providing it with more money, mostly in the form of equity, to buy the Sun Media chain for $316MM from Quebecor (that in 1999 paid almost $1BN for it). This will give it virtually unassailable printed press monopolies in cities like Ottawa & Edmonton that ought to be of concern to Canada's Competition Tribunal.

The Canadian Supreme Court is to rule shortly on whether First Nation individuals should have First Nation juries. This was brought on by a lower court judge throwing out the manslaughter conviction of a First Nation man because the members of the jury that had found him guilty hadn't included a First Nation member. If it were to rule that it should [have had one of more First Nation member(s)] &, given its track record, this cannot be ruled out, this could open the door to many more frivolous appeals because of supposedly inappropriate jury compositions.

On September 25th Fatah & Hamas formally agreed, in Cairo, that political control over war-ravaged Gaza will be handed over to a unity government headed by Fatah leader Mahmoud Abbas (thereby implementing an agreement arrived at in May but never fully enacted *first because of Hamas foot dragging & then because of the latest Israeli-Hamas conflict which weakened Hamas*. And seemingly to reduce the risk of the unity government's outright rejection by the US, Canada & some European countries, Fatah negotiator Hassin Alsheikh told Haaretz that, as part of the latest agreement, Hamas had endorsed the idea for Palestinian state with the 1967 borders [thereby implying it was now implicitly accepting Israel's existence & all previous agreements between the PLO (Palestine Liberation Organization) & Israel] – *which must be unwelcome news for the Netanyahu government.* The following day Abbas addressed the UN General Assembly in a speech that rubbed the Israeli government the wrong way because it was more dogmatic than he had been during the Israeli-Hamas conflict, playing to the hardline sentiments on 'Arab Street'. Since then a 72-page report leaked to AP revealed that at the October 12th pledging conference in Cairo to fund emergency relief for, & the reconstruction of, Gaza, Abbas will seek not just US$4BN for that but another US$4.5BN as well for Palestinian government budget support through 2017. Meanwhile, the IDF Chief, Lt.-Gen. Benny Gantz, told Haaretz on October 3rd that, while Hamas had suffered a military setback during the war, Israel could only secure long-term quiet on its border with Gaza "if an economic anchor backs up what was achieved in the fighting ... We need to permit the opening of the strip to goods ... In the end there are 1.8MM people there. These people need to live." So he appears to believe that it would serve Israel's security interests to open the border with Gaza a bit more (that has been blockaded since 2007, when Hamas seized power there, by both Israel **and** Egypt, except during President Morsi's brief interregnum) - *three days later, however, on Fareed Zakaria's GPS program on CNN, Netanyahu was much less conciliatory.*

Data from Germany's Economy Ministry showed that in August orders for industrial goods slid 5.7% MoM, more than twice the rate expected, largely due to a 9.9% plunge in orders from outside the Euro zone (*i.e. Russia?*). This comes at a time Chancellor Merkel is coming under growing pressure from her Eurozone partners & the ECB to loosen up the fiscal purse strings & spend more to pump-prime the Eurozone economy (something she says she has little scope to do given her promise to balance the budget next year), and that the EU is set to reject France's latest budget submission because, by calling for a 4.2% budget deficit, it continues to flout, & is not making enough headway towards meeting, its 3% of GDP budget deficit ceiling - *such frictions involving the Eurozone's largest two economies, will at some point threaten its survival*.

In 1999 the Swiss National Bank (SNB) decided it owned too much non-revenue generating gold. So over the next few years it sold 60% of its gold reserves (1,560 of its 2,600 tonnes) at prices between US$300 & US$500 (*which with the benefit of hindsight was not an astute move*). So its gold holdings, despite the rise in the price of gold, have declined from 30% of its reserves in 2000 to 10% in 2012, & to 8% at last report. In Switzerland citizens can make changes to the constitution, even in the face of parliamentary disapproval, via a so-called "popular initiative", a petition signed by enough citizens to require a binding referendum. Last year, some time after Germany had announced plans to 'repatriate' some of its gold holdings from the vaults of the New York Federal Reserve, the Bank of England & the Bank of France, and had encountered problems with the New York Fed, a conservative member of Parliament started circulating a "Save our Swiss Gold" petition that by last April had garnered the 106,000 signatures needed to force a referendum (that will come to a vote on November 30th) that would a) prevent the SNB from selling any *more* gold, b) make it store all its gold on Swiss soil & c) require it to hold a minimum of 20% of its reserves in gold - *if it were to pass, repatriation would not be a big deal since 70% is already held in Switzerland & the rest at the Bank of England & the Bank of Canada, neither of whom are likely to give the SNB a hard time about repatriating it. But increasing the gold portion of its reserves to 20% could create waves; for it would mean the SNB would have to buy about a year's worth of newly mined gold production (at a time it appears to have peaked) & to sell about US$90BN-worth of foreign currency to pay for it. And while, shortly after the required number of signatures had been collected last April, the Swiss Parliament voted 129-20, with 25 abstentions, against the ideas incorporated in the referendum, the mood in Switzerland, as in many other countries, is now so anti-establishment, that Parliament's vote is more likely to have boosted, rather than undermined, popular support for it.*

A Kenyan Gleanings recipient (*not my daughter*) sent me a note saying "In Nairobi ... there has been a building boom with a fancy 5-bedroom house on a postage stamp lot selling for US$1 million ... houses, flats and blocks are going up everywhere and I can never figure out where the financing comes from, given that there are only roughly 20,000 home mortgages in Kenya." - *while the two foreign banks in Kenya, Barclays & StandardChartered, offer 15-year 14% mortgages, they are said to be hard to get. And to put the price of a US$1MM house in Nairobi in perspective, on a per capita GDP basis it equates to a US$53.5MM house in the US.*

GLEANINGS II - 583
Thursday October 9th, 2014

SAUDIS LAUNCH OPEC PRICE WAR (BB, Grant Smith)

- Saudi Arabia has been losing market share in Asia to Venezuela, Columbia & Ecuador pro-actively seeking new markets there for their oil to replace those lost to US to shale oil, and to Iraq & Iran. So on October 1st, amidst the biggest oil price slump in two years, & after having ramped up production, it cut its price across the board, & for Asian clients to their lowest level since the 2008 financial crisis. According to Citigroup & Commerzbank this means a price war for market share (which for Saudi Arabia will be a departure from its traditional behaviour of acting as a "swing producer" that at times of excess supply cuts its output to prevent price plunges.

It apparently did so without even forewarning its OPEC partners, prompting an OPEC official to comment that "if members don't cooperate ... everyone is in trouble and prices will drop even further." While lower oil prices will help the global economy, this doesn't bode well for the Alberta-, & by implication the Canadian-, economies. And they will expose state-owned oil companies to more pressure from their governments to boost output to make up in volume what is lost in price so as to maintain their contribution to the national treasury (which will aggravate the supply-demand imbalance further & result in even more downward pressure on oil prices).

GOLD NEARS A TIPPING POINT (Reuters, Nicole Mordant)

- The price of gold is down by over one-third in three years. So mines have been slashing costs & mining higher-grade ore. But with its price having slid to US$1,208.36 (& since then to as low as US$1,190), *although today October 9th it jumped by US$20 to over US$1,225*), producers may be forced to cut output and/or shut down some operations altogether. And as Joseph Foster, a portfolio manager at Van Eck Global, New York-based & founded in 1955, and a major investor in both Barrick & Goldcorp., and other major gold producers, puts it "Twelve-hundred dollars is a critical level ... If it falls below that level, then there are a lot of mines around the world that are really going to be struggling". And the cutbacks & closures could come faster & be deeper than two decades ago since, after their negative experience with hedging during the 2000-2012 bull market (when it cost them a great deal of money), gold producers currently have hedged only a tiny share of their future output.

*The immediate situation may be less dire than made out here. For while the article focuses on the industry's average "**all-in**" in cost being in the US$1,350 range, many mines' "**cash**" cost is much lower. On the other hand, global demand for real-, as opposed to paper-, gold continues to outstrip newly-mined production, and mines curtailing output will only widen that gap, a trend reinforced over time by mines' current reluctance to spend money developing new reserves.*

<u>EVEN A LEADING BULL BELIEVES WE'VE SEEN THE MARKET'S HIGHS FOR THE YEAR</u> (G&M, David Berman)

- Edward Yardeni has been saying for some time that the bull market is alive & well, and not at risk of dying from old age, or from an economic calamity, any time soon, although he said in an October 2nd note to investors "Recessions kill bulls ... This time there hasn't been a boom , so the odds of a recession remain low … We are … less bullish about the upside prospects of the stock market over the rest of the year."

Meanwhile some major investors with long-term track records don't share his modest optimism; thus Warren Buffett's Berkshire Hathaway at last report was sitting on US$55BN cash, a record high share of its total asset base, while George Soros has shorted the indices big time. And the S&P 500 is once again, for the eighth time in the past two years, testing its 120 Day Moving Average; sooner or later it will break through it on the downside, which could prompt a lot of investors to run for cover in a market that may prove to have less liquidity on the way down than expected. Last but not least, another potentially worrisome development is that, while aggregate US household net worth at the end of the Second Quarter set a US$81.5BN record, the financial asset component thereof was at its highest level since just before the pricking of the dot.com asset bubble over a decade ago.

<u>ISRAEL PERMITS GAZANS TO PRAY AT JERUSALEM MOSQUE</u> (AP, Tia Rosenberg)

- One of the concessions Israel made after its recent war on Hamas in Gaza was to grant permission for 1,500 Gazans to come & pray at the Al-Aqsa mosque in Jerusalem[2] during the three day Eid al-Adha holiday (that started October 4th). So the first batch of 500, all aged sixty & over (*an Israeli requirement*) arrived at the mosque in buses from Gaza on October 5th, with the others scheduled to arrive there the next two days (no such permits had been issued ever since 2007, when Hamas assumed power in Gaza). Israel has also eased other restrictions; thus it is now allowing the export of farm & fisheries products from Gaza to the West Bank.

Meanwhile Sweden's ambassador to Israel was called on the carpet to have Israel's displeasure communicated to him at the new Swedish government's recognition of the Palestinian state, a move that was welcomed by Palestinian Foreign Minister Riad Malki but raised concerns in Israel that it may cause other European governments to follow suit & prompted Foreign Minister

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[2] Islam's third-holiest site, located in Jerusalem's 'Old City' on Temple Mount, Judaism's holiest site.

Avigdor Lieberman to say, rather undiplomatically he "regretted" a move that had been "rushed ... & made without properly understanding the conflict between Israel & the Palestinians".

NETANYAHU 'BAFFLED' BY WHITE HOUSE CRITICISM (AP)

- He said on CBS' Face the Nation on October 5th he had been "baffled" by last week's White House condemnation of his government's latest settlement construction plans which he said was "against American values."

Should one be baffled by his being baffled? He seemed similarly out of touch with reality when on October 5th, on Zakaria's GPS CNN program, he compared the presence of Israeli soldiers on the West Bank with that of American soldiers in Germany & Japan after World War II (to which Zakaria's response was that the initial result of them being there had been the reconstruction of their war-ravaged economies & that they had been there since with the governments' approval).

WE'VE GOT TO GET NASTY, OR GET THE HELL OUT (G&M, Robert R. Fowler)

- What is reasonable, or rational, to us, may not seem that way to others, & not just ISIS. And others do not necessarily share our values; in fact, there are no universally-agreed universal essential values; for the Universal Declaration of Human Rights was drafted in the late 1940s when most of humanity was under-, *& Western democracies were over-,* represented in international councils.
- Now in response to the beheading of four Westerners we have assembled a not very cohesive or committed coalition, thereby responding in exactly the way ISIS had counted on-, & hoped, we would; for our aerial warfare will kill far more civilians (*& thereby create blood enemies*) than the beheaders have. We seem to have lost the capability to play the long game & to lack the intestinal fortitude, in the face of a real threat to our national security, to do what it takes to eradicate it; instead we waffle and likely will, as we did in Iraq & Afghanistan, at some point declare victory & go home, leaving behind a bigger mess & *greater threat*, than before we got involved.
- If really serious about excising the jihadi malignancy, we must engage it more thoroughly that we seem willing to, convince our 'allies' in Saudi Arabia & the Gulf to quit funding the worldwide jihadi preaching, be prepared to commit ourselves to a long & ugly war against an implacable enemy that is actually anxious to engage us & do away with such inane restrictions as we have put in place (like arbitrary time frames & no-boots-on-the-ground), and accept that of it will cost vast amounts of money. Unless, & until, we are willing to do all this, we'd be better off walking away from it all right now; for a flaccid response such as we now are embarking on will only make matters worse.

There are two historical precedents as to how to-, & how not to-, go about a perceived major national security problem. The latter was the Vietnam War when the US was sucked deeper & deeper in a snake-infested swamp by its "salami approach" (i.e. let's feed in a few resources & see what happens, we can always feed in more in later, as & when needed). And the former was the First Gulf War when time was taken to assemble an "overwhelming force" that, once ready, achieved the military objective in short order - the writer has had a more credible experience base than most, if not all, current decision makers; for he served as Canada's Deputy Minister of National Defense & as its longest-serving Ambassador at the UN, and subsequently as foreign policy adviser to three Canadian Prime Ministers & as the Africa representative of three others (& in the latter capacity was captured, & held prisoner for 130 days, by an al-Qaeda affiliate in West Africa).

<u>INDIA, PAKISTAN TRADE FIRE ALONG KASHMIR BORDER</u> (AP, Aijaz Hussain)

- While a 2003 ceasefire has largely held, there have been small, but regular, clashes on this border. And, while the commanders of their paramilitary border forces met several times recently to try & defuse tension in a region that has seen three wars fought over the two countries' competing claims to Kashmir, the latest clash since last August occurred on October 6^{th} when the two sides exchanged artillery & mortar fire that killed five-, & injured 35-, civilians on the Indian-, and killed four-, & injured three-, on the Pakistani-, side and caused thousands of civilians to flee their homes. As usual each side accused the other of having started firing first & claimed to only have retaliated.

Indian claims that Islamic militants in the Pakistani part of Kashmir are the source of much of the two countries' border troubles are likely valid. But its root cause is that following partition India insisted that the overwhelmingly Muslim-populated Kashmir was part of India because it had a Hindu ruler, while elsewhere claiming that Muslim-ruled principalities elsewhere on the sub-continent were part of India since they had overwhelmingly Hindu populations.

<u>THE ECONOMIC BASKET CASE THAT IS THE EUROZONE</u> (G&M, Christopher Ragan)

- Canadian policy makers may be patiently waiting for a (*more?*) solid US recovery to pull our economy out of the rut it's in, but it is in far better shape than that of the Eurozone where unemployment rates often are in the double digits (and in Spain & Greece in the 25% range), *youth unemployment is as high as 50%*, & in many countries the unemployed have been so for over a year, all conditions conducive to social upheaval.
- Two large policy mistakes standout as major contributing factors to the current situation, the sustained drive for fiscal austerity & the ECB's failure to provide a massive monetary expansion (like the Fed's Quantitative Easing). For despite ECB President Mario Draghi's repeated assurances he is ready to do whatever it takes, the situation has apparently never been dire enough yet for him to warrant concrete action. But if policies don't change soon, those on the ground may soon start picking up rocks.

*He is looking for love in all the wrong places. For countries like Germany earlier on, and Ireland & the Baltic states (and even Spain to a degree) more recently, have shown that the **real** solution lies less in the economic-, than the political-, sphere (with the politicians in France, Italy & Greece lacking the cojones to take on their hoi polloi's resistance to bringing their countries' social-, & labour law-, arrangements into 21^{st} Century).*

<u>BUYING TIME WON'T PREVENT EUROPE'S COMING DEBT CRISIS</u> (G&M, Eric Reguly)

- Buying time isn't always a moronic strategy. For good fortune can strike, economic adversity reverse itself. Negative economic cycles turn positive and/or consumer psychology change for the better. But in Europe at this time buying time is suicidal; for, as the politicians fiddle, the national debt conflagration is ablaze. And while what happened to the PIIGS countries earlier has been referred to as "the debt crisis", the **real** debt crisis is yet ahead (which brings to mind Hemingway's quip about solvency : "how do you go bankrupt? ... Gradually, then suddenly.") Debt is rising because GDP, the denominator in the Debt-to-GDP ratio is growing slower than the numerator (the debt). Thus in Portugal the pre-crisis ratio was 70% while it now stands at 130%, with the corresponding numbers for Italy being 106% & 135% & for Spain 40% & 94%, while Greece's now is 175%. And yet Italy, a recession-stricken disaster economy with no realistic turnaround plan & a debt load second only to Japan's, can still borrow 10-year money at 2.3%.

*He may be proven right but, like many others he overlooks the fact that the **real** elephant in the room is not one of the above countries but the No.2 economy in the Eurozone, France, and that the recent, & seemingly still evolving, oil price weakness may buy the Eurozone a bit more time before the all but inevitable denouement.*

PUTIN'S CLANS SAID GRIDLOCKED AS TYCOON'S ARREST SPARKS FEARS
(WP, Irina Reznik)

- As sanctions squeeze the economy & Putin focuses on foreign policy, two rival factions are vying for domestic influence. On the one hand a group centered on Prime Minister Dmitry Medvedev is concerned about Russia's growing alienation from the global financial system, while on the other an alliance of heads of SOEs (State-Owned Entreprises) & security services' veterans is pushing for greater control of the economy. With the sanctions driving the economy into recession, Stanislav Belkovsky, a Kremlin adviser during Putin's first term as President & now head of Moscow's Institute for National Strategy says "The elites are fighting for a shrinking pool of assets", while Putin spokesman Dmitry Pescov denies that disputes among officials affect the efficiency of government & says it's not true Putin is too busy to address urgent economic matters, saying "there have always been disputes ... to say there has been an escalation *of them* is absolutely untrue". And heightening the feud is the confinement in his Moscow mansion since May 16th on money laundering charges of billionaire Vladimir Evtushenko, a Medvedev ally whose corporate empire includes the OAO Bashneft oil company.

Gridlocked? Not likely! For the hardliners are singing from the same page in the same hymn book as Putin, i.e. a belief that politics drive economics, not the other way around. So Evtushenko & his corporate empire may well suffer the same fate as billionaire Mikhail Khodorkovsky & his Yukos oil company a decade ago when he ran afoul of Putin (i.e. jail for him & dismemberment for it).