

The price of oil is down 30% since mid-year. Historically, at times of weak oil prices Saudi Arabia has cut production as a countervailing measure. But this year it hasn't; in fact it has increased it & on October 1st cut its prices across the board as a market share-protection measure. If it is really going to be bloody-minded about 'getting the kids off the street' oil supply-wise, it is well-positioned to do so¹; for it has savings worth three years' operating expenses & in the past decade paid down its debt from 100%- to < 20 %-, of its GDP - *while Goldman now calls for US\$70 oil next year, others expect it to go even lower & one "outlier" even talks of US\$40 oil. And there is a precedent for this : in the mid-1980's the Saudis, as usual slashed its oil output to keep the price up but then, when other OPEC producers merrily kept pumping, opened its own oil sluice gates, contributing to a two-thirds oil price implosion from US\$70+ to the mid US20 range (a similar correction now would indeed bring it to the US\$40 level).*

Andrew Kenningham, a Senior Global Economist at London-based Capital Economics (*a former Deputy Chief Economist at the Foreign & Commonwealth Office & Economist at Merrill Lynch*), estimates "A \$10 fall in the price of oil transfers the equivalent of 0.5% of world GDP from oil producers to oil consumers ... (*and*) boosts global demand [for goods and services] by 0.2 to 0.3 percent") *since consumers spend more of their income than oil producers) - this could provide a welcome, marginal but not yet 'priced in' boost to global GDP growth that's not yet 'priced in'.*

The US economy was reported to have grown at faster-than-expected 3.5% annual rate in the Third Quarter, & yet the stock market had a down day. Any linkage between two likely was due to it being lower than the Second Quarter's 4.6% rate (up from a preliminary 4.0%) and/or the fact that it had been higher government spending & a shrinking trade deficit (*in part due to lower oil imports*) that had more than made up for a slowdown in household spending.

For the 22 quarters to June 30th the S&P 500 grew by an average quarterly 4.7%, an above average performance especially noteworthy given the prevailing economic environment (as a result of which the disconnect between the stock market & GDP is now the widest in seven decades). Part of this was fueled by huge corporate share buyback programs cutting the number of shares outstanding, thereby leveraging up companies' balance sheets & reported earnings per share, that 'justified' higher share prices². Another reason was that, according to Goldman's Amanda Sneider "foreign sales accounted for 33% of aggregate revenue for the S&P 500 in 2013" (the weaker US dollar enhanced the competitiveness of US products abroad, as well as the US\$ value of their foreign earnings). But the now stronger US dollar will have the opposite 'double whammy' effect on their sales' & profit growth by making their products more costly abroad in local currency terms, thereby eroding sales volumes, & reducing the US dollar value of their foreign currency earnings (*& this effect won't be limited to S&P 500 stocks, for*

¹ And, if is targeting US shale oil, it may well need to be (ready for a prolonged siege) at least if the CEO of Houston-based Occidental Petroleum is right; for he told analysts on October 23rd in a conference call that "there is a lot of economic oil at \$75, economic meaning 15 percent, 16 percent, 17 percent returns.

² After typically being < US\$50BN/year prior to 2005, they more than tripled in the next two years, crashed back to their pre-2005 levels by 2009, & this year have been back to close to their 2009 peaks, a process fueled by a combination of corporations being cash-rich, loath to invest & under pressure to "create value" for their shareholders, and the cost of borrowing money to fund buyback programs being at an all-time low

iconic NYSE-listed consumer product companies like Coca Cola³, McDonalds, Pfizer and Procter & Gamble too derive much of their sales & profits from their foreign operations).

On October 20th, at a New York Fed workshop on Reforming Culture and Behaviour in the Financial Services Industry, its President, William C. Dudley, warned those present that the large Wall Street firms could be broken up if the industry's culture didn't improve, saying "if you (*i.e. the senior bank executives present*) do not push forcefully for change, bad behavior will persist in which case the inevitable conclusion will be ... that your firms are too big and complex to manage effectively ... (*and*) financial stability concerns would dictate ... *they* need to be dramatically downsized and simplified" - *unfortunately much of what he calls "bad behavior" makes a lot of money & the banks will depend on their lobbyists & their political contributions to derail any idea of acting on such radical thinking, or at least stall it. Meanwhile it will be business as usual on the premise that "sticks and stones may break my bones but words will never hurt me⁴". The example of one **really** senior banker, not a sacrificial lamb, "doing time", no matter how little, in a real jail would be far more salutary than all of Dudley's preaching. Still, it may be a sign of the authorities' growing concern to make an official as senior as Dudley (whose salary is paid-, & Board is dominated-, by Wall Street), prepared to 'bite the hand that feeds it'.*

The latest salvo in America's minimum wage war was fired in Wisconsin where the polls say Republican Governor Scott Walker is leading his Democratic challenger, Mary Burke, by only a whisker, after having been voted in 52-46 in 2010 & survived a recall vote in 2012 53-46. For the state's 1913 minimum wage law didn't just establish it but also stipulated it had to be a "living wage ... sufficient ... *to enable people to live* in reasonable comfort ...physical well-being, decency and moral well-being". So in the past month a labour-backed coalition flooded the Department of Workforce Development with complaints from people saying they couldn't make ends meet. And when the only Departmental response was an email that read in part " most complainants who are arguing the minimum wage⁵ is not a living wage are themselves making ... up to \$15.07 an hour", it sued to force the government to set up a commission to determine a new minimum (*living*) wage.

According to Song Guoqing, an academic member of the PBOC's Monetary Policy Advisory Committee, China's economy will grow at a 7.2% annual rate during the current quarter, down marginally QoQ., & "probably" by 7.3% next year. Meanwhile Fan Jianping, Chief Economist at the State Information Center of the National Development and Reform Commission, told a Beijing audience on October 25th that, unless Beijing introduces stronger-than-expected stimulus initiatives (*which seems unlikely since it has indicated it will 'tolerate' a weaker expansion*), it will grow at a 7.0% annual rate next year (*the slowest in two-and-a half decades*).

³ Coke's sales abroad in the past have accounted for as much as 70% of its total sales.

⁴ Attorney-General Eric Holder on October 29th said in a Q&A session at a symposium told his audience "we have ongoing investigations that may perhaps produce individual prosecutions" *of bankers for their roles in the 2008 financial crisis*. Perhaps? After six years? And announcing his retirement last month, once a successor is in place? Not likely! And his contingent retirement may raise an interesting issue. For if the Republicans were to gain control of the Senate in the midterms (as now seems increasingly likely), the chances of **any** Presidential appointment surviving a running of the Senate gauntlet may be small, microscopic or even zero.

⁵ Of US\$7.25 per hour.

After President Xi, at a Party meeting last August, noted that “Unreasonably high and excessive incomes” of those running major SOEs must be regulated, he is now behind a decision to cap them at 10x the average earnings of its employees (& to eliminate perks like golf club memberships) - *this may give rise to a push by their managers to have their firms privatized.*

The ECB has published the results of its stress testing the capital adequacy cum risk exposure, as of yearend 2013, of Europe’s biggest 130 banks. Twenty-four of them, mostly Greek, Italian or Irish, were found wanting. This is a step towards the creation of a single, uniform, EU-wide system of bank regulation & supervision run by the ECB (a goal that doesn’t enjoy the universal support of all the governments involved) - *stress testing the big banks is more important in Europe than America because business there is more dependent on banks for expansion capital. And it’s worth keeping in mind the data collected are months out of date & thus may/will not fully reflect the impact of the Russian sanctions.*

This was not the only not-so-good news emanating from Europe. For the Greek Government’s 10-year bond that started the year trading on an 8.5% yield basis, only to decline to 5.6% six weeks ago, is back over 7.5% (& *at last report was well over 8%*), due to concerns about a possible election in the New Year that could bring to power a government less willing than the present one to address the country’s deep-seated problems & to work with foreign funding sources in doing so. In Germany the DAX 30 stock index is down 10% this month, the widely-followed Business Climate Index of the Munich-based Ifo Economic Research Institute fell in September for the fifth month in a row *although, at 105, it is still within positive territory*, factory orders are down & exports have collapsed *amidst weak demand for the type of (highly manufactured) goods that Germany excels in producing* and the government *drastically* cut its forecast GDP growth numbers from 1.3% for this-, & 2.0% for next-, year to 1.2% & 1.3% respectively. Finally, the European Commission announced on October 23rd that several member countries, incl. Britain, Italy (?), Greece (??), the Netherlands & Malta had to make extra payments, over & above their normal annual contributions, to its budget by December 1st since their economies had grown faster than forecast at budget time (while France & Germany would get rebates). And when Prime Minister Cameron objected to the £1.7BN/2.1BN Euro size of his country’s extra assessment (a 20% hike) & to the short time line, the EC threatened him with fines - *this plays directly into the hands of those within-, & without-, the Conservative Party who want Britain to get out of the EU while the getting is still good.*

So far some 500 young Britons *with stars in their eyes* are estimated to have gone to the Middle East to join the jihad (of whom two dozen are said to have been killed). Many of them ended up in ISIS affiliates since they had most English speakers. The word now is that the experience has disillusioned some 30 of them who want to go home but have been threatened with death for even thinking about it. For they have been told, once they had sworn allegiance to the Caliphate, there can be no question of disobeying the Caliph (*just as in American street gangs*).

Mention was made a few weeks ago of Switzerland’s November 30th “Save our Swiss Gold” referendum that would require all gold owned by the SNB (Swiss National Bank) to be held on Swiss soil (*70% already is*⁷), prohibit it from selling any gold (*it hasn’t done so for over a decade*

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A country whose **best** quarterly GDP growth performance in the past 8 quarters was 0% in 3Q/13 & 1Q/14 while in the other six it was negative (& as high as -0.8% in 4Q/12 & 1Q/13)?

7

And the country’s Minister of Finance may have set some sort of record for political stonewalling when, in response to a question in Parliament as to where the SNB’s gold was being held, she answered

*after having been badly burnt selling 60% of its gold holdings at prices less than half of what they are even now) & oblige it to hold at least 20% of its reserves in physical gold (which would require it to spend, at present prices, about US\$80BN to buy about three-quarters of a year's newly-mined production). The SNB naturally from the outset opposed-, & Parliament last spring, after the 100,000+ signature threshold needed to make a referendum mandatory was reached, voted overwhelmingly against-, the idea. But neither matters; for the way the Swiss system works, if the referendum were to pass, the outcome would automatically become law, & irrevocably so no matter what Parliament may, or may not, think, or want. It has been a strange campaign; for the NO side has been MIA, whether in the (*vain*) hope that, if ignored, the issue would go away or, more likely, out of fear that campaigning against it would give the issue undue profile and/or be counter-productive since, as elsewhere in Europe, anti-government sentiment among Swiss voters is palpable. In Swiss referenda radio-, & TV-, advertising isn't permitted but bill boards & posters are (as is the use of money from abroad to help pay for them); so the country is now wall-to-wall YES posters & billboards, funded in part by people all over the world who are "long gold". So it's not surprising that an October 15th survey by a free German language daily newspaper of (*a huge sample of*) 13,397 Swiss (*while German is the mother tongue of 64% of Swiss citizens, 74% profess to using it on a day-to-day basis*) found that 29% planned to vote YES & another 16% probably so, while 28% intended to vote NO & another 11% probably so, with the remaining 16% still "undecided" - *the Swiss practice 'direct democracy' with a vengeance : in the last 166 years there have been 50 national elections & 115 national referenda, ten of the latter in the last decade alone.**

In the past the small Baltic, ex-Soviet satellite, country of Lithuania got all its natural gas from Gazprom. But this week it inaugurated an LNG liquification facility capable of meeting all of its gas needs by early next year - *while in the short run this may not affect Gazprom much since it has a population of only 3MM, it nevertheless is a "canary in the coal mine"!*

The good news for President Dilma Rousseff from Brazil's recent elections was that she was re-elected. But that was all. For it had taken two rounds to do so (not surprisingly so since there were 11 other names on the ballot). Secondly, throughout the campaign polls had shown her support to be stuck in the 35-40% range; in other words, she was making no inroads on voters outside her core support base. Thirdly, while she came on top 42-34 over her nearest rival in the first round on October 5th, the latter clearly had more momentum since the last pre-election poll had shown a 40-24 split (the latter up from < 20% just a couple of weeks earlier). And finally, while in the second round, head-to-head vote she improved her tally to 51.6%, her opponent's had jumped to 48.4%. So now she faces a deeply divided-, if not outright polarized-, country at a time inflation is undesirably high & the economy officially in recession (after GDP growth rates of -0.2% & -0.6% in the First- & Second-, Quarters respectively, that were generally attributed to a sense of unease in the business community at home & abroad, that she would be re-elected, despite the fact that on her watch GDP growth had gone from 7.5% in 2010 to 2.5% last year).

It is a known fact the amount of "paper gold" outstrips that of "physical gold" by margins that, depending on the observer's gold bullishness, are large, enormous or gigantic, & allegations abound that this has facilitated a great deal of market chicanery that has resulted in the paper gold "tail" wagging the physical gold "dog". This led to one observer recently allegorizing that, as in the old 'rock-scissors-paper' game (*over time?*) "Rock *always* beats Paper".

"Where this gold is actually stored, I cannot say, because I do not know, because I do not need to know and because I do not want to know."

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OBAMA'S HONGKONG QUANDARY (Politico, Josh Gerstein)

- Despite pressure from lawmakers & democracy advocates Obama has kept his counsel on the Hongkong democracy movement (so as not to do anything that might upset Beijing prior to his going there after the mid-term elections *for the APEC Summit*); and he has gotten away with it since the media & public have been pre-occupied with, among others, ISIS & Ebola. Nevertheless, his silence has raised questions about the US commitment to the promotion of human rights & the credibility of his foreign policy “pivot” to Asia (*especially since he doesn't seem able to avoid continued entanglement in the Middle East*). And according to Anson Chan, a former Chief Executive of Hongkong, “It is important for the United States to speak up because it does matter to China what the United States thinks and feels ... It needs to be done both in public and behind closed doors ... It would definitely be helpful for Obama to choose some occasion to articulate US concerns.”

He is caught between a rock & a hard place, between fostering democracy & forging a modicum of a working relationship with Beijing, and not making it “lose face”. As to an occasion to articulate US concerns, this will come during the APEC Summit when he no doubt will have a tête a tête with President Xi, during which it would behoove him to express those concerns in the strongest possible diplomatic terms, telling Xi that by remaining silent on the issue, despite much pressure to speak out, he had given him more manoeuvring room than he (Xi) would have had if he (Obama), had spoken out publicly on the issue (& he should be able to use some fairly forthright language since the two men are not strangers to each other)

ISRAEL'S LAPID SAYS RELATIONS WITH US IN 'CRISIS' (BB, Amy Teibel)

- Israeli Finance Minister Yair Lapid told a Tel Aviv audience on October 25th that Israel's relationship with the US is “in crisis ... (*and*) relations with the US are critical and important to Israel, and everything must be done to resolve the crisis and restore good ties.” This came after, *in a break with tradition*⁸, Defense Minister Moshe Ya'alon during his five-day visit to the US was not given access to senior officials from Vice President Joe Biden down, other than his counterpart, Defense Secretary Chuck Hagel, & the US Ambassador to the UN, Samantha Power (& the latter only since, according to senior US officials, they hadn't moved fast enough to cancel it). This reflected the Administration's displeasure with his criticism of the President's Iran policy envisaging leaving it with any nuclear centrifuges at all & of the US efforts to reach an Israeli-Palestinian peace agreement, and his denigrating Secretary Kerry's efforts to achieve a peace accord as “messianistic” (*for which he later, sort of, apologized*).

The next day Ya'alon, in a Q&A question with the Washington Post opined that the bond between the IDF & the Pentagon is “unbreakable” & that, while politicians may “have disputes”, the US & Israel remain strategic allies, and that the Israeli-Palestinian conflict had nothing to do

⁸ Historically visiting senior Israeli officials have routinely been given access to any senior US officials other than their immediate counterparts.

with what was happening elsewhere in the Arab world⁹ (which he solely attributed to the centuries-old rift between Sunnis & Shiites). And he reiterated his opposition to full Palestinian statehood, saying it should be limited to “demilitarized autonomy”, called Abbas’ stance against violence a mere “tactical consideration”¹⁰, castigated the “misconception”, most recently voiced by Kerry, that failure to solve the Palestinian conflict was provoking extremism elsewhere in the region, rejected as “irrational” the notion at the heart of Kerry’s peace efforts that territorial concessions by Israel¹¹ would solve the Palestinian conflict, dismissed Abbas as a partner for peace & reiterated his opposition to leaving Iran with any nuclear centrifuges. Then, to top it all off, he then went on to say that Western thinking on the Middle East was based on ‘misconceptions, misunderstandings, naivete, wishful thinking & ignorance’, and on a belief “We Westerners know what is good for Arabs”, that “There are some who believe that just making some territorial concessions will conclude it (the Israeli-Palestinian conflict). But I don’t this is right. The conflict is about the existence of the Jewish state and not about the creation of a Palestinian one. Any territory that was delivered to them after Oslo¹² became a safe haven for terrorists. Bearing that in mind, to conclude that after the [recent] military operation in Gaza this is a time for another withdrawal from Judea & Samaria ... is irrational. If we withdraw now from Judea and Samaria, we might face another Hamastan.¹³” [Ya’alon, now age 64, was Chief of Staff (i.e. head honcho) of the IDF from 2002-2005 & is a six year, right wing Likud member of the Knesset, whereas Yair Lapid, a one-time journalist & Knesset rookie, literally came out of nowhere politically when his Yesh Atid (“There is a Future”) Party, formed just the year before the 2013 elections to give a voice to Israel’s political centre, the secular middle class, outdid even his own expectations by capturing 19 of the Knesset’s 120 seats in the election, making it its second largest party after the Netanyahu grouping’s 31¹⁴ (of which 11 represented Foreign Minister Avigdor Lieberman’s Yisrael Beiteinu (“Israel is our Home) secular-, but right wing-, party (that gets most of its support from Russian immigrants).

⁹ One can argue to what extent it may have affected happenings in the Arab world over the years, but saying that it had “nothing to do” with it seems like a stretch.

¹⁰ Prompting one prominent Israeli journalist to comment that “not only is Israel’s Defense Minister detached from reality ... (he) also managed to do the impossible ... make people miss Ehud Barak (the former leader of the Labor Party & his predecessor as Defense Minister).

¹¹ The commonly accepted version is that any peace treaty would not involve “territorial concessions” on the West Bank but rather the return of illegal occupied lands.

¹² To say that “territory was delivered” to the Palestinians under Oslo is an outright falsehood; what did happen as a result of Oslo was that the then newly created PA (Palestinian Authority) took over control of the major cities in the West Bank & Gaza from the IDF; the only actual ‘delivery’ of “territory” that took place was that of Gaza in 2005 by then Israeli President Ariel Sharon. And quite to the contrary, PA control of its major cities, & its close cooperation with the IDF in this process, seems to have worked rather well.

¹³ It is this sort of diatribal myopia that prompted one Israeli journalist to comment that “not only is Israel’s Defense Minister detached from reality ... (he) has managed to do the impossible : make people miss Ehud Barak” (his predecessor & former leader of the Labor Party).

¹⁴ Which officially was terminated last July, on the eve of Operation Protective Edge, the latest Gaza excursion by the IDF, last July by Lieberman, officially on the grounds that the previous such five-day Pillar Defense operation in March 2012 had been terminated “prematurely”, but generally believed to have been motivated by his a belief this would position him better in the next election

THE CRISIS IN US-ISRAEL RELATIONS IS OFFICIALLY HERE **(The Atlantic, Jeffrey Goldberg)**

- Behind the scenes US officials compare Netanyahu to a ‘no-vision’ small town mayor who only cares about getting re-elected & pleasing his most hard core constituents, and use qualifiers like “myopic”, “obtuse”, “blustering”, “recalcitrant”, “pompous”, “Aspergery” &, most recently, “chickenshit” (and in interviews with me the President himself has alluded to “his lack of political courage”). And Netanyahu has returned the favour by criticizing those who condemn Israeli expansion in East Jerusalem as “disconnected from reality” (*while to many people it seems it is he & his government who are so*), and saying publicly he has “written off” the Obama Administration & will speak directly to Congress & the American people if an Iran nuclear deal is reached.
- Whereas the US & Israel, while always close allies, haven’t always agreed on important issues, at no time ever has there been such sustained & mutual contempt for one another. And one notable aspect of the current situation is the unease felt by mainstream American Jewish leaders about the Israeli government’s recent behaviour. So Netanyahu will have a harder time making the case against even a weak Iran deal, especially since US officials have concluded that, without the cowboyish, ex-commando Ehud Barak at his back as Defense Minister, Netanyahu no longer has the coyones to attack Iran. But most worrisome for Netanyahu is the prospect of the Administration after the midterms losing interest in supporting Israel through thick & thin in the UN, working less hard to block full recognition of the Palestinian state, & possibly making public maps of its perception of its boundaries along the 1967 lines (with land swaps, of course).
- Netanyahu & his Ministers appear to be operating on the premise that “The whole world is against us. Only we can protect us from what’s coming.” While this may sell well with *parts of* the Israeli public, it’s likely the death knell for Israel’s future as a US ally.

Needless to say, this article created a stir in Israel. Netanyahu was said to be fuming at the names he had been called & the allegation that he lacked the guts to make tough decisions. So in reacting to it he wrapped himself in the Israeli flag by declaring “Despite all of the attacks I suffer I will continue to defend our country, I will continue to defend the citizens of Israel”¹⁵. And while, despite their often testy relationship, he was defended on Facebook by Naftali Bennett, the hi-tech multi-millionaire leader of the ultranationalist Jewish Home Party (that is part of Netanyahu’s coalition - he is Minister of Industry, which gives him a big say in the government’s settlement policies), Isaac Herzog, the Leader of the Labor Party & of the Official Opposition in the Knesset, told Channel Two television that “Netanyahu is acting like a political pyromaniac”¹⁶, and ... has brought our relationship with the United States to an unprecedented low (Long the NYT’s Middle East correspondent, Goldberg once also was a Jerusalem Post columnist)

NETANYAHU’S NON-DEMOCRATIC STATE OF ISRAEL (Haaretz, S. Daniel Abraham)

- Contemporary Israel, “from the Mediterranean to the Jordan River”, has a population of 6MM Jews & 5.8MM Arabs and, with the number of the latter growing far faster than the former, calling Israel a Jewish state will increasingly become a misnomer. Nevertheless,

¹⁵ Thereby not giving an inch to the growing number of people within Israel & without who have, often begrudgingly, come to the conclusion that his policies will likely have disastrous consequences up to & including the demise of Israel as a Jewish state.

¹⁶ In a fuel dump?

- when the Center for Middle East Peace (*that the writer founded*) asked Israelis “Do you want to live in a Jewish state or a bi-national state?”, 98% of them opted for the former.
- But a two-state solution depends on the Palestinian one being demilitarized¹⁷ & on Israel retaining the 5% of the West Bank where 80% of settlers live. And, while the Palestinian leadership has agreed *in principle* to the concept of land swaps, such a solution depends on Israel agreeing to relinquish all the rest of the West Bank (albeit with proper security guarantees) and, painful as that may be, to the Palestinian state having East Jerusalem as its capital. For only if Israel can agree to this, can it *hope* to free itself of the 2.4MM Palestinians who live in the West Bank & don’t want to live in an Israeli state but in one of their own, and maybe some day be able to extricate itself from the other 2MM Palestinians in Gaza, whose maritime borders & air space Israel still controls.
 - With the Palestinian birth rate far higher than that of the Jews, the alternative to a two-state solution is a single state that will either be non-democratically Jewish (with its Palestinians lacking democratic rights), or a democratic one that has lost the Zionist dream of “a free people in our own land”. History tells us that policies out of touch with reality, such as thinking *in this case* that the status quo is sustainable, & Israel can remain a Jewish state when over half of its people are not Jews, result in disaster.

The writer is a nonagenarian American billionaire entrepreneur who made his fortune in the SlimFast diet/nutritional meal-replacement product” business now part of Unilever.

THE LAST TRAIN (NYT, Thomas L. Friedman)

- Last week in Tel Aviv an East Jerusalem Palestinian killed a three months-old boy & wounded several others (*one of whom has since died*) when he deliberately rammed his car into a LRT station. The question now is whether a bigger collision can be avoided. But this is no longer up to Washington; it can only be done by the Israelis & Palestinians working together with imagination to turn an unhealthy-, into a healthy-, interdependence (such as has long existed between Israeli, Palestinian-, & Jordanian environmentalists).
- While the Israeli right, led by Netanyahu, has amassed strong arguments for maintaining the status quo, the basic problem is that in the long run their consequences would be deadly for both Israel & for Israeli democracy. Or as Hebrew University philosophy professor Moshe Halbertal puts it, “You have all these really good arguments for maintaining a status quo that will destroy you.” The Right argues that, unlike any other country in the world, Israel is surrounded on five sides¹⁸ by militias with rockets nestled among civilian populations. And from the Golan Heights the Israelis can see Syrian Army-, & Lebanon Hezbollah Shia militia-, units with Russian & Iranian military advisers fighting Sunni jihadists, with the latter usually winning since, as one Syrian officer put it “they’re more motivated”. This is not conducive to creating an environment for risk-taking, and neither does the memory that the *unilateral* Israeli withdrawal from Gaza in 2005 led to Hamas seizing power there two years later.
- But the status quo is becoming more toxic by the day. And if Israel were to retain the West Bank & its 2.7MM Palestinian inhabitants, it will create an ever growing problem in its midst, that of one religion dominating the other, the very situation that has blown up all around it. Meanwhile, the more settlements it keeps building, the more delegitimized it

¹⁷ A concept that the Israelis seem to take for granted but that would, in some people’s eyes at least would be a contradiction in terms for a sovereign state.

¹⁸ Gaza, Lebanon, Syria, West Bank & Sinai.

becomes on the world stage & the more it keeps building them in areas that cannot plausibly be seen as falling within Israel's borders after a land swap, the more that delegitimization drive gains momentum. Or as Habertal puts it "rather than trying to think imaginatively about how to solve this problem ... it (*the Israeli government*) is *doing the opposite* by bringing the regional geopolitical problem into its own back yard and pushing those elements in Palestinian society that prefer non-violence into a dead end. We are setting ourselves on fire with the best of arguments."

- And yet some people are trying to build healthy interdependencies. Thus I had a visit from an EcoPeace Middle East group. Led by a Jordanian architect, he had come to Washington with an Israeli environmental lawyer & a Palestinian water expert to warn about Gaza's water crisis. For the lack of electricity to desalinate water has led to an overexploitation of Gaza's sole aquifer that has lowered its water level to the point sea water is now seeping into it & the collapse of the waste water treatment system is letting raw sewage go into the Mediterranean, to be carried North by the current towards Israel's desalination plant at Ashkalom that supplies 15% of Israel's water. And for years already EcoPeace has caused Israelis-, Palestinians-, & Jordanians to work together to clean up the Jordan River (that had become an open sewer), & for two decades already has Jordan in the winter months stored water from its Yarmouk River in Israel's Sea of Galilee¹⁹ & gotten it back from the Israelis during the summer months. In so doing the group is making the point that real security does not lie in walls, rockets, UN votes, demonstrations in Europe *or nuclear weapons*, but in a healthy, *mutually beneficial* interdependence based on trust that is hard to build but, once in place & *well-rooted*, is also hard to destroy.

All over the democratic world politicians have ceased to be leaders, problem solvers & public servants, and become poll readers, players of the 'political game' & ego trippers interested only in their re-election; that being so there is a lot to say for term limits and/or the direct democracy Switzerland practices (although it may not work as well in large population countries).

THREE SCENARIOS THAT MAY SET THE TONE FOR ISRAEL'S NEXT ELECTION **(Haaretz, Zvi Zrahiya)**

- Netanyahu will shortly call the leaders of the other parties in his coalition to his office to urge them to cooperate in passing the Budget (*that includes a controversial proposal to exempt first-time home buyers from the 18% VAT on their purchase*²⁰). But they will want to know before committing themselves what, if any, election plans he may have (he is said to have told the leaders of the United Torah Party, *that is not part of his coalition*, 'in private' that he expects an election by the middle of next year²¹; for he knows that Yair

¹⁹ Friedman should have done his homework. The Sea of Galilee is in deo doodo, due to excessive water withdrawals to 'turn the desert green' its shore line has receded several hundred yards and its water level gotten so low that water actually has to be pumped into the Jordan River, although the Israeli government with a 'head in the sand' attitude blames five years of low rainfall.

²⁰ That is shot through, however, with conditions & gives preferential treatment to those who have served in the IDF, which, even if the Knesset were to pass it, may founder because in doing so, it may run afoul of Israel's obligations under tax treaties with the US & other countries.

²¹ Officially it is not due until 2017 but that doesn't mean that his coalition partners, or Netanyahu himself, couldn't engineer a collapse of the coalition that would bring one on before then (and he would prefer to pick its timing than have the others do so).

Lapid is vulnerable because as Finance Minister he had been unable to make good on his election promise that all would be better-off, & houses more affordable for young people, within two years &, if the election were held tomorrow, would lose half his party's Knesset seats). And an early election would also give his former Communications Minister Moshe Kahlon, who is popular because as Minister he took on the telecoms & helped millions to save money on their cell phone bills, less time to organize the new party he is planning & Foreign Minister Avigdor Lieberman less time to rebuild his Yisrael Beiteinu Party following his withdrawal of it from its alliance with Likud last July.

- So now there are three possible scenarios going forward :
 - The Budget will go through First Reading by November 12th, twelve days later than required by law, & be approved by year end - in that case the timing of the election will be of his own choosing;
 - The Budget will not make it through First Reading but the Zero VAT law will be approved - in that case Yair Lapid, having gotten what he wanted, will quit the coalition, causing it to collapse & bringing on an election in mid-2015; or
 - Neither the Budget nor the Zero VAT law passes - in that case, the government will continue operating but by law must disperse if there's still no Budget by March 31st (unless the Knesset rules otherwise) - in that case Netanyahu wins; for he will have neutralized Lapid & have the US\$800MM earmarked for the implementing the Zero VAT scheme available for vote-buying schemes.

Under all three scenarios Netanyahu in the short run is likely to become even more hawkish in word & deed, especially so if the Republicans were to gain control of the US Senate. And as noted above, this all about re-election, not necessarily about what's best for the country.

OIL SLUMP LEAVES RUSSIA EVEN WEAKER THAN DECAYING SOVIET UNION **(The Telegraph, Ambrose Evans-Pritchard)**

- Two years of crumbling oil prices-, & two more of economic stagnation-, broke the back of the Soviet empire in the 1980's. Russia's ex-Premier Yegor Gaidar dates the beginning of the end back to September 1985 when Saudi Arabia quit defending the oil price & cranked up its own output. Lacking cash for food imports, they (*the Soviet leaders*) first sold gold²², then begged for credit from the West &, *finally*, let Eastern Europe's captive nations go.
- Russia is far weaker now than the Soviet Union was then (a reflection on Putin's 15-year stewardship). Its economy is now far more addicted to oil (non-oil exports are now just 8% of GDP, vs. 21% of GDP then). And according to Lubomir Mitov, Moscow Chief for the Institute of International Finance "Russia is ... in a perfect storm ... Rich Russians are converting as many rubles as they can into foreign currencies and storing the money in vaults. There is a chronic capital flight of 4pc to 5pc of GDP each year ... and now sanctions have caused foreign capital to turn negative too ... they have to repay \$150bn in principal to foreign creditors over the next 12 months ... The benign outcome is a return to the stagnation of the Brezhnev era ... (*and*) the bad outcome ... a lot worse ... Russia is now fundamentally crippled ... They have outsourced their brains and lost their technology. The best Russian engineers now work for Boeing. The Russian railways run

²²

Which in this case hasn't happened (yet); in fact, in September Russia boosted its gold holdings by about 4% when it bought 1.2MM ounces/34 tonnes of gold (i.e. about US\$1.5BN-worth). And even if it were to start having to cash in some gold at some point, this may not roil the market unduly if it did so by selling it to China, or using it in payment for imports.

- on German technology. It looked as if Russia was strong during the oil boom, but it was an illusion and now they are in an even worse position than the Soviet Union.”
- Elvira Nabiulina, the governor of Russia’s central bank, already has told the Duma it is making plans to cope with a protracted slide in oil prices to US\$60, saying “we are working on a stress scenario, an emergency scenario so to speak.” Moody says it has spent US\$60BN of its FX reserves YTD propping up companies starved of dollars, dropping them to US\$396BN (net of the Reserve Fund *that, as of June 30th stood at US\$87BN*), & according to Mitov if they were to decline to US\$330BN it would be “very dangerous”. Its reserves of cheap oil in Western Siberia are declining, access to Western know-how & technology is now blocked, and according to the head of Lukoil Overseas it costs four to five times as much in Russia as in the US to drill a 1½ km horizontal well. And last, but not least, Russia scores abominably badly on the Geneva-based World Economic Forum’s Indices of Global Competitiveness : its best ranking is 56th for its math & science education, with the rest of its rankings, from life expectancy, product sophistication, prevalence of HIV, quality of management schools, judicial independence, government regulation, availability of the latest technology, property rights & road quality ranging from 101st to 136th.
 - After the Cold War Russia had a unique opportunity to build, with enthusiastic support from the West, a modern economy before its aging crisis would strike & its work force start shrinking by 1MM/year²³. But its leaders blew it & Putin picking a fight with the democratic world made matters much worse. Cheap oil could prove its/his death knout²⁴

*According to Sherbank, the largest shareholder-owned bank in Russia, & among the largest in Europe, the Russian Budget would go into deficit with oil @ US\$104 which would reach 1.2% of GDP when it hit US\$90, and Charles Robertson, Chief Economist at Renaissance Capital, a leading Russian investment bank, forecast that with US\$80 oil the Russian economy would contract by 2.7% in 2015 (whereas earlier this year, prior to the Russian takeover of the Crimea, the World Bank had forecast that next year it would **grow** by a like amount. Assuming the polls can be trusted, Putin’s approval rate remains remarkably high, in the 80+% range. But the public is fickle & public approval can be here today & gone tomorrow, especially when an economy goes from boom to bust. Another, likely more serious, threat to his political survival lies with the oligarchs, his **real** power base, especially if times in Russia got **really** tough & they became concerned he might try & use them as scape goats & lightning rods to deflect the public’s displeasure. On the other hand, there is one huge difference between the 1980s & today : China & its hoard of unwanted dollars that it would be happy to use, at a price, to make Russia more beholden to it - in which case Putin should remember that “He who sups with the Devil, better have a long spoon” or, as the saying goes in Russia : “Beware of the goat from its front side, of the horse - from its back side, and the evil man - from any side.”*

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The media has hyped, & continues to hype, Ebola to the point where there has been anecdotal evidence of kids being harassed in schools because a family member was in the front line of the

²³ Which may be about to start happening; for while Russia’s labour force grew by a respectable 4% during the decade ended on December 31st, 2012, in the latter year there was a slight YoY decline that may, or may not, have heralded the onset of a prolonged declining secular trend,

²⁴ A knout was a particularly nasty instrument used in Czarist times to flog miscreants that could be fatal to the floggee after as few as twenty strikes.

fight against the disease in West Africa. Headline-, & vote-, hunting politicians have overreacted in order to create an illusion they are actually having the people's best interests at heart. Some vested interests have been treating it as a heaven-sent fund-raising occasion. A medical panel on CNN talked about it as if the country is about to be swamped with tens, if not hundreds of thousands, of cases of the disease (with one doctor on it quoting a statistic that 300 medical personnel had died of the disease in West Africa until reminded by a more level-headed fellow panel member that this statistic did not differentiate between those who **might** have contracted the disease while working in a foreign-run facility where all exposed personnel is properly booted, gowned & masked, and those in local facilities who, more often than not, handled Ebola cases while not fully, if at all, protected.

So to put it all in perspective, it is worth remembering that :

- the virus is said to be not terribly robust, to date has yet to morph into a (far more deadly/insidious) airborne infectious form & is only transmitted via body fluids (*and even then supposedly only once symptoms start to show?*);
- the US index case, Thomas Eric Duncan arrived in the US on September 19th, first presented himself six days later at the Texas Health Presbyterian Hospital where, despite running a temperature & having stomach pain, and telling the attending staff he had come from Liberia, he was judged "not to warrant admission" & sent home with antibiotics & a pain killer, only to return four days later with full-blown Ebola - *in other words, he thus had lived, & moved, in the community for six days before his first-, & another four prior to his second-, hospital visit without apparently infecting anyone, all of whom are now well past the 21-day incubation period;*
- so far there have four imported, & two locally-generated, cases : Mr. Duncan's ended tragically, the two nurses whom he infected have both beaten the disease & are back in the community, Dr. Craig Spencer at last report was in "serious but stable" condition in isolation in a New York hospital, & both the 'imported cases' who had been medevacked home from West Africa to get better treatment than available there, are hale & hearty again; and
- by comparison in the US each day an average 90 people are killed-, & 6,000+ injured-, in traffic accidents, an estimated 500 hospital patients die from bad care & 150 from influenza and/or pneumonia, and surgeons operate on the wrong parts of six patients' bodies.

All of the above is not intended in any way to belittle the latent public health risk that Ebola poses, nor the need to be prepared to deal with health crises²⁵, but merely that in this particular case there has been far too much loose talk by a range of 'experts', vested interests & ill-informed bystanders, that has helped to turn the medical equivalent of a mole hill into a Mount Kinley-sized mountain.

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Prof. Peter Piot of the London School of Hygiene & Tropical Medicine was part of the team that 'discovered' Ebola in 1976 & is known for his research on the disease. Speaking at a symposium at the University of Hongkong recently he warned that, given the number of Chinese working in, and travelling back & forth to, Africa, it is inevitable that Ebola will come to China and was likely to cut a wide swath there since, although the situation has improved since the SARS outbreak in China over a decade ago, the level of infection control in China's hospitals is still far from ideal.