

On December 10th there was an altercation between Palestinians & Israeli soldiers as the former were planting olive saplings near the Palestinian village of Turmus Ayya during which 59 year-old Abu Ein, a senior PA official, died. Despite the usual conflicting eye witness reports, the following facts appear uncontested : there is video evidence he was involved in a 'heated altercation' with the soldiers during which one grabbed him by the neck, a joint autopsy by Jordanian, Palestinian & Israeli doctors confirmed he had died from a blockage of the coronary artery and, while the Jordanian & Palestinian doctors agreed the bruises on his neck & his missing teeth proved his death was due to violence, the Israeli doctors opined that, while they "could have been caused by violence, [they were] more compatible with the result of resuscitation efforts". In a sequel to this, on January 2nd, as US consular staff members, escorted by Israeli soldiers & police, visited the village to verify allegations that residents of the nearby 40-family settlement Adei Ad (For Always), *that has been illegal even by Israeli standards since 1999, one year after its establishment*, had uprooted 5,000 olive saplings planted in honour of Abu Ein on village land (some of it owned by people holding US citizenship - hence the visit), settlers threw stones at the US representatives, prompting Washington to inform the Israeli government of its "deep concern".

Saudi Arabia's 90 year-old King Abdullah's condition may be more serious than first let on. Initially he had "trouble breathing", next it was pneumonia & then pneumonitis (a more general inflammation of the lungs), and now he may have lung cancer. This has led to rumours he may abdicate, a first-ever for the House of Saud, to spend his remaining days ensuring a peaceful transition of power to his half-brother & designated successor, 79 year-old Prince Salman (& if it is indeed true that Salman is in the early stages of dementia or Alzheimer's, although he has yet to show any signs thereof in public, to get him to abdicate as well in the foreseeable future?), *thereby clearing the way for the Deputy Crown Prince, Prince Muqrin (age 69), another half brother & the last surviving son of King Saud, the founder of the nation, to ascend to the throne*. Meanwhile, on January 5th, three Saudi border guards, incl. Gen. Odah al-Balawi, their commander in the northern region, were killed when four ISIS extremists attacked a border post on the Saudi-Iraq border, thereby feeding the growing concern in government circles about the return home of young Saudis who had spent time in the ISIS ranks.

In a Reuters interview on January 1st Iran's Deputy Foreign Minister Hossein Amir Abdollahian said "There are several reasons for the drop in the price of oil but Saudi Arabia can ... have a productive role in the situation ... If Saudi does not ... this is a serious mistake that will have a negative result on all the countries in the region." And he dismissed US efforts to fight ISIS as a ploy to advance its policies in the region (*ignoring that to a degree directly, & in a big way through its allies in Baghdad, it has been helping it do so, & that US airstrikes against ISIS in Syria have been a help to its ally Bashar al-Assad*) - *the oil price slump must be hurting more than Tehran has let on if it seeks to put the effect of the lower oil price in the context of "all the countries in the region", i.e. to attempt to mobilize an anti-Saudi Arabia movement among them.*

Last year the Knesset passed a law that raised to 3.25% the minimum number of all votes cast that a party would be required to have garnered before it would get any seats at all in the 120-seat Knesset, seemingly targeting the small Arab parties the voter support of each had hovered around that level - *This may be backfiring; for they appear about to run a joint list, which the latest polls suggest would give them 11 seats in the 120-seat Knesset (&, if they made a real effort to 'get the vote out' could go higher since Arabs account for 20+% of Israel's population).*

China has joined the club of countries that want to tax its citizens on their 'world-wide' income (*but may well experience more than the usual amount of problems trying to enforce this*). In 2014 Chinese investment in the US set a record for the third year in a row - *it has grown from*

US\$58MM in 2000 to US\$13BN in 2013, and goes into anything from company ownership to commercial & residential real estate. Many Americans are unaware-, & may be upset by-, this; but that's what inevitably happens when countries run chronic payments' deficits. And Beijing has been taking advantage of the low oil prices to speed up its buildup of strategic oil reserves (that doubled last year) - it has so far put 91MM bbls away (nine days consumption/fifteen days imports) in its first phase, 103MM bbl capacity, four site storage facilities, has started work on a 170MM bbl capacity second stage for completion by 2020 (after which it plans a third stage), although industry officials believe that it already has oil in it) - by comparison, the US strategic oil reserve holds 691MM bbls (95% of capacity), 37 days of consumption/70 days of imports.

No one seems to be focusing on the positive ramifications for the European-, & the negative ones for the Russian-, economies of the price of the Russian natural gas being indexed, albeit with a lag, to that of oil. Although the amount involved-, & the direct impact-, will be in small in relative terms (last year the 28-member EU, with a GDP of US\$18.5TR, 6.3% greater than that of the US, spent US\$53BN for the one-third of its natural gas consumption it procured from Russia), the indirect impact could be a multiple thereof & have a measurable psychological impact, along with the lower gasoline prices¹, on consumer confidence.

In Europe many eyes are on the January 25th Greek election. While the lead of Greece's Euro-critical & anti-austerity Syriza party is slipping in the polls, it is still has 33% voter support, 3% ahead of the ruling New Democratic Party (which, given 50 'bonus seat' goes to the party with most voter support, could bring it close to a parliamentary majority). And if it were to come first, the possibility of Grexit (a Greek exit) would increase, posing a problem for Germany's Angela Merkel. For, while she wants to avoid having to underwrite the unsustainable economic/social policies of Greece & others, she knows that, with a UK election in May, she must take a hard line - *one must hope that, as has been the case more frequently, the polls will be wrong.*

Anybody who sees Islam a danger to him/herself, his/her loved ones and/or his/her country/way of life should remember that 60+% of the world's Muslims live in South-, & Southeast-, Asia² (where, if they perpetrate violence, it's localized), & only 20% in the Middle East/ North Africa (with the troublemakers among them constituting only a small percentage) - *this is not to belittle the seriousness of the situation, the crazies' potential for terror & killing, and the need for resolute action, just to suggest this is less a Muslim-, than an Arab/North African-, problem. And when one points a finger at someone else, three are pointed at oneself; for it makes one wonder what is it that is lacking in our society that drives young men of non-Muslim homes to become Islamists (those born in local Muslim families are a different kettle of fish; for it has long been known that the offspring of first generation immigrants has a higher incidence of criminal/anti-societal behavior).*

¹ Although, due to the much higher tax component built into European gasoline prices, its effect there will be more muted than in North America (thus, while in the US retail gasoline prices declined by 20+% in the second half of 2014, in Britain 'petrol' prices did so by less than half that.

² According to Pew Research in 2010 the regional breakdown of the world's Muslim population was as follows : Asia-Pacific region - 985MM (inc. 417,000 in Australia), Middle East/North Africa - 317MM, Sub-Saharan Africa - 248MM, North America - 3.5MM, & Latin America - 476,000.

GLEANINGS II - 596
Thursday January 8th, 2015

TEN WARNING SIGNS OF A MARKET CRASH (The Telegraph, John Ficenec)

1. **The VIX Index** - It measures expected 30-day market volatility, spiked to 18.4 on January 2nd, above its 2014 14.5 average, *but short of its September 2001 level of 43*;
2. **Rising UST yields** - The two-year UST yield more than doubled in 2014 from 0.31% to 0.74% in October (*but has eased since*), and if the Fed were to start raising rates, could go much higher (*but the same time frame the 10-year UST yield went from 2.50% to 1.90% as the Fed once again engaged in an 'Operation Twist', selling short-, & buying longer-, term UST securities in order to ratchet short rates up & longer rates down*);
3. **Credit Insurance** - According to Markit, a provider of financial information services, the cost of credit default swaps/default insurance on investment-grade US corporate credit (i.e. the "good stuff") has become 20% more costly in the past six months;
4. **Rising US credit risk** - The TED spread (between the rate on inter-bank loans & the 'risk-free' Fed Rate) rose in December to its highest level in a year (it crept up slowly all year, albeit at a level lower than in much of 2013, & is still only about one-third of its level three years ago) - *it's not a good sign when banks lose trust in each other*;
5. **Rising UK bank risk** - The LIBOR-OIS (Overnight Indexed Swap rate) spread (*a measure of liquidity/illiquidity in the London inter-bank market*) just hit a two-year high;
6. **Interest rate shock** - Sophisticated investors have been buying US dollars in anticipation of it rising further when rates starts rising at mid-year³;
7. **This Bull Market is the 3rd longest on record** - In the UK it is in its 70th month & the only two longer were those preceding the 1929-, & the 2000 dot.com-, crashes;
8. **An overvalued US stock market** - Prof. Robert Schiller's cyclically-adjusted PE ratio (CAPE) stands at 27.2x, 64% above its 16.6x historic average & its fourth-highest level ever, exceeded only by those in 1929, 2000 & 2007;
9. **Commodity price collapse** - Commodity markets are leading indicators of global *economic* slowdowns. The Bloomberg Global Commodity Index of the price of of 22 commodities on January 2nd fell to a five year low (& to a level similar to that in 2002 & 2008); and
10. **Professional investors' exit** - Another Bloomberg Index, that tracks 'fast money' flows, shows that their heavy buying since 2009 reversed itself a year ago.

No. 8 may be the most telling. While the market has often defied all odds & forecasters for long periods of time, it often eventually tends to 'head for the hills' with unforeseen suddenness & ferocity. And smart market operators from the Lord Rothschild of the Napoleonic era to the post-war's John Templeton made it their stock-in-trade to 'sell when optimism is at its greatest'.

GET READY FOR INTEREST RATE SHOCK IN 2015 (CBC)

- This is expected to be the first year in five that benchmark interest rates will move up, with the Fed going first & the Bank of Canada following. While the Fed, which after its last meeting said it expected to move in the Second Quarter, may be driven to do so sooner as low oil prices boost the economy & leave consumers with more money to spend, the Bank of Canada may not move until the Third Quarter. And Lynnette Purda of Queen's School of Business says "It will be a wake-up call for many *overextended*

³ Unfortunately for them higher rates have often not resulted in a stronger dollar.

consumers” causing them to cut back on buying ‘big ticket’ items, & to result in a *long-overdue* cooling-off-, & a ‘soft landing for-, Canada’s real estate market.

The boost to both countries’ economies from lower oil prices may be less than expected; for the loss of (high-priced) jobs in the oil industry will come faster than the growth in (lower-priced) jobs elsewhere can pick up the slack. And Canada’s economy, especially Central Canada’s, is likely to benefit more from the weaker Canadian dollar (down 18.5% since mid-2011, over half of it in the past six months) than from lower oil prices.

OILFIELD WRITE-DOWNS LOOM AS PLUMMETING PRICES GUT DRILLING VALUES **(Bloomberg, Joe Carroll)**

- Citigroup analysts say that, with oil prices down 50+% from their 2014 peak, *some* fields from Australia to Kazakhstan will no longer be worth pumping, which will trigger a flood of oil field *valuation* write-downs, starting this month, that will wipe out US\$4.4.BN/day (US\$1.6TR/year) in earnings for oil-producing companies & countries, prompting the former to cancel projects & lay off staff so as to conserve cash to pay dividends & sustain debt service payments. They expect WTI to average US\$62 this year & an average 29% reduction in major oil companies’ Earnings Per Share during the next three years (with their Return on Equity, at 7.5%, already at a 16-year low). And according to Gianna Bern, Founder & President of Chicago-based Brookshire Advisory and Research Inc.⁴, if the oil price were to slump as it did during the 2008 financial crisis when, in five months, WTI declined 78% from US\$147 to US\$32, it could go as low as US\$23.70).

Amidst all the prevailing negativism it’s worthy of note that Aramco announced on January 5th a cut in the US\$2.00 discount this month from the average regional price (a 14-year high) for its oil sold in Asia to US\$1.40 in February. While this prompted Leo Drollas, a London-based independent oil consultant & until a year ago Chief Economist at the Centre for Global Energy Studies⁵), to observe “They’re putting the brakes on a little bit ... a little message that maybe prices are going down too far too quickly and ... a little signal that they’re looking at things.”, he seems to have overlooked the fact that it had also cut its US & European prices.

CANADA’S BIG BANKS FACE END OF ‘GRAVY TRAIN’ IN 2015 (FP, Theresa Tedesco)

- In their 2014 fiscal year (ended last September 30th) Canada’s big banks’ profits were up 8.6% YoY to \$31.7BN. But going forward they face three challenges : *still* rising household debt (now at 163% of household income⁶) & a slowdown in consumer lending⁷, and a less robust economy. And while the low interest rates have enabled

⁴ Who, with an MBA from the University of Chicago, had career stops at Continental Bank, Amoco & Fitch, prior to hanging out her own shingle (& also teaches international finance at Notre Dame).

⁵ A London-based oil market analysis firm founded by the legendary Sheik Yamani, Saudi Arabia’s legendary Oil Minister for 24 years ending in 1986, that at one time or another had luminaries like Edward Heath (British Prime Minister from 1970-1974), Valérie Giscard d’Estaing (President of France from 1974-1981) & Denis Healy (UK Chancellor of the Exchequer from 1974-1979) on its Board, but that a year ago was allowed “to pass into history”.

⁶ The peak US ratio prior to the Great Recession that has since declined significantly.

⁷ Business loans as a % of their total loan portfolios has declined by two-thirds since 1986.

Canadians to service their record levels of debt, 40% of all household debt is owed by households with debt-to-income levels > 250% (with those in Western Canada, *that will be most affected by lower oil prices*, most leveraged). And there are growing concerns about the quality of their loan books⁸, especially auto loans⁹. So the National Bank's Peter Routledge expects the banks' EPS (Earnings Per Share) to "fall in the months ahead" while Moody's David Beatty is more optimistic saying "Canadian banks have strong balance sheets where high quality residential mortgages & securities prevail".

Their Fourth Quarter results disappointed the market. And their earnings have benefitted from their low Provisions for Losses (now in the 0.20% range, well in the fourth quartile historically, they're only a fraction of the 0.80+% in the Second Quarter of 2009 & 1.00+% in the First Quarter of 2002). And, while profits grew 63% in the four years to September 30, 2014, their "bonus pool" grew just 36% to \$12.2BN, & taxes paid to all government were basically flat.

SINGAPORE PRIVATE BANKERS WAKE UP TO JUNK BOND RISKS AS CRACKS EMERGE (Bloomberg, David Yong)

- Once deemed one of the safest bond markets in Asia, in recent years the private banks in Singapore promoted the issuance of large amounts of high-yield junk bonds (one-third of bond issues last year are yielding over 6%). But the honeymoon may be over; for issuers of Singapore dollar-denominated bonds this year must repay US\$2.1BN (almost twice the US\$1.1BN two years ago) to mostly wealthy clients of the private banks.
- Last year 72 bond issues came to the Singapore market with 4+% coupons (almost 6x what the government is paying) & a 3.7 year average life. But evidence is piling up of heavy weather ahead. Thus a local firm, Halcyon Agri Corp., a producer & marketer of rubber, last July issued S\$125MM (US\$95MM) of 6.50% five year notes but, before it had even made a single interest payment, asked investors for a waiver of the interest-cover terms of issuance; as a result, these bonds traded on January 6th on a 8.77% yield basis, up from 7.70% on December 1st. And the S\$130MM (US\$98MM) 5.125% two-year bonds issued last May by Syber Holdings, an oil service company, that in the after market had traded as high as 100.35, at last report were doing so at 90.50. Last, but not least, the S\$400MM (US\$300MM) of 4% three-year notes sold in 2012, when it had a Baa1 rating from Moody's, by the only Russian issuer with S\$-denominated bonds outstanding, VTB Bank,, at last report were trading on a 26.10% yield basis, with its credit default swaps priced at 990 bps, implying a 50.1% likelihood of default.

And the draft proposal circulated by the MAS (Monetary Authority of Singapore) to allow large denomination bonds to be split into smaller ones is anything but comforting; for all this would likely achieve would be to enable wealthy investors once in hot pursuit of high yields to 'offload' their, now potentially problematic, high risk paper onto less sophisticated small investors.

RUSSIA FACES "PERFECT STORM" AS RESERVES VANISH AND DERIVATIVES FLASH DEFAULT WARNINGS (The Telegraph, Ambrose Pritchard-Evans)

- Its FX reserves have dropped to their lowest level since the Lehman crisis & are vanishing at an unsustainable rate (by US\$26BN in the two weeks ended December 26th)

⁸ Throughout history loan quality has tended to deteriorate during long boom periods.

⁹ Whose outstanding volume has quadrupled since 2007.

alone), and its credit default swap rates surged by 100 bps on January 6th (implying a 32% probability of default). Last year its FX reserves declined by 24% to US\$388BN, a third of which the Kremlin has committed to bolster the economy in 2015¹⁰ [according to the Washington-based IIF (Institute of International Finance), given its chronic capital flight & the dollar liabilities of Russian companies, US\$330BN is the level below which they ought not fall]. And BNP's Tatiana Tchembarova says it is now worse off than in 2008, when it spent US\$170BN bailing out its banks, because it no longer has enough reserves to cover its *companies' & SOE's dollar denominated* debts (which stand at US\$654BN, which they are currently repaying at a US\$10BN monthly rate).

Being shut out of international capital markets, these loans cannot be 'rolled over' upon maturity. So every debt service payment drains more dollars out of Russia's FX reserves. And the Kremlin may be starting to feel pressure; for according to the EU's foreign policy chief, Italy's Federica Mogherini, Kiev had reported "limited but positive" signs from the Eastern Ukraine, and she herself had detected what appeared to be a more positive attitude from Moscow on other issues, such as the Iranian nuclear negotiations & Syria.

EMBATTLED VENEZUELA SAYS IT HAS SECURED A US\$20BN LIFELINE FROM CHINA **(Miami Herald, Jim Wyss)**

- From Beijing on January 7th, on the eve of the first-ever ministerial meeting of China & the Council of Latin-American and Caribbean Countries (CELAC), Venezuelan President Nicolás Maduro blasted, on his state-owned VTV, the international conspiracy that "tries to make Venezuela look like it's broke". Then, in his next breath, he announced he had secured US\$20BN in financial support from China for housing-, & technology-, and infrastructure-, projects & had been promised that it would step up its *development* work in Venezuela's oil-rich Orinoco belt. But according to the New York-based Eurasia Group while, since the funding is tied to specific projects & thus cannot be used to fund imports or service debt, it will nevertheless be a help to a country wracked by 64% inflation, a contracting economy, shrinking FX reserves & periodic food shortages.

Depending on oil for 90% of its foreign currency earnings & having to import most of its consumer goods, it has been hard hit by its oil selling for US\$47 on January 2nd, half the US\$95 a year earlier. But Eurasia may be wrong in saying the dollars can't be used for imports or debt servicing; for the proceeds of the loan will go into Venezuela's FX reserves, while all project spending, other than its imported components, will be funded from (newly-created?) Bolivars.

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THE ISRAELI-PALESTINIAN CONFLICT IS ENTERING A NEW PHASE THAT'S LESS HOPEFUL BUT MORE HONEST (Quartz, Gideon Lichfield)

¹⁰ Its economy under Putin has become so much of a 'one trick (oil) pony' that it must import 55% of its consumer goods whic, with the ruble's foreign exchange valued having been halved in 2014, has contributed to a (*understated?*) 20% inflation rate.

- Like its failed *December 30th* bid to get a UN Security Council resolution passed calling for the establishment of a Palestinian state, its application the next day to join the ICC (International Criminal Court), as well as 19 other international organizations & treaties, may not change things much. But it signifies that the peace talks' process, long kept on life support by a vested interest cabal of peaceniks, is dead. So with Israel no longer *even* pretending it wants to talk peace, the PA has gone on the offensive. For a number of countries have passed, albeit toothless, resolutions to recognize a Palestinian state, the EU has taken Hamas off its terrorist list & the Arab League, that long supported the peace talk concept, has begun to throw its support more aggressively behind the Palestinian statehood idea. That being the case, the Palestinians can be expected to keep pushing.
- Abbas knows he can't force Netanyahu to the negotiating table & may not share Washington's (*desperate?*) hope the Israeli election will result in someone other-, & less dogmatic-, than Netanyahu becoming Israel's Prime Minister. And he may be hoping to make Israel more angry & isolationist, as world opinion is turning against it, & given the more hawkish trend in Israeli politics over the past 15 years, he may well be right. But there is also a degree of desperation in his move. Individual desperation on the part of Abbas (& his aging cronies) who on January 15th, the 10th anniversary of his Presidency¹¹, will have little to show for other than time spent squeezed between Israeli-, & Hamas'-, intransigence, but who hope his move will sustain their legitimacy. And the collective desperation of people with little to lose who face the prospect that growing international pressure will make Israel even less conciliatory & more intent on making life miserable for them.
- The PA's strategy seems to be to prod Israel into doing more & more things that will make it more & more of an international pariah to the point where eventually it will have to "Say Uncle", just as South Africa had to *two decades ago*¹². And it is significant that the Arab leadership that long supported the Palestinians only half-heartedly now is backing them more pro-actively at the very time Israel's relations with its main benefactor, the United States, are at a historic low. With the peace process now officially defunct, Washington has lost leverage with both parties, leaving it in the case of Israel with only two, military aid & its UN veto. And while pulling either would force Israel to the negotiating table, Washington doing so is a long shot. So the conflict will become more angry, fearful, unsolvable & dangerous but also more honest as both sides quit pretending they want to settle their differences *in a rational manner*, & acknowledge they are in an all-or-nothing battle.

During the 2009 election campaign that had Netanyahu becoming Prime Minister'for the second time in his career one prominent Israeli political analyst warned/(prophesied?) "a vote for Netanyahu is a vote for a unitary state". It is increasingly looking as if the odds of him having been foresightful are shortening. Israel's Achilles heel may well be that, while it has a modern economy, those driving it usually have, like Chinese millionaires, second passports that, if

¹¹ Over half of it without a real mandate,; for he was elected for a four-year term on January 15th, 2005 & there has been no Presidential election since.

¹² But there is a big difference between the Israeli-Palestinian situation today & South Africa twenty years ago (& Kenya another three decades before that); both of the latter two were Christian, 'turn-the-other-cheek societies in which victory of the formerly downtrodden didn't preclude a mutually acceptable modus vivendi, whereas the Israeli-Palestinian conflict has long pitted members of a blood feud society against believers with an eye for an eye, a tooth for a tooth philosophy.

necessary, will let them get out while the getting is still good, a trend that once started could gain momentum quickly.

ISRAEL FREEZES PALESTINIAN TAX FUNDS OVER ICC BID (BBCNews)

- On December 31st, the day after the UN Security Council failed to pass the Jordan-sponsored draft resolution on Palestinian statehood, Mahmoud Abbas signed the Rome Statute, the founding document of the The Hague-based International Criminal Court^{13 14} (ICC), under the rules of which 60 days after the applicant files the necessary documents it is eligible to join the organization. The day after that, the PA filed that documentation in the face of opposition from both the US & Israel (neither of whom is a member of the ICC & both of whom have actually pro-actively opted out from becoming one). And Palestine's¹⁵ chances of joining improved after a UN General Assembly vote in 2012 to upgrade its status to that of a "non-member observer state". In response Israel "froze" the transfer to the PA of US\$127MM in taxes¹⁶ it had collected in December on its behalf (not the first time it has done so in, a usually futile attempt to put pressure on it), prompting Saeb Erekat, a senior PA official & *previously the lead negotiator in the peace talks*, to say "Israel is once again responding to our legal steps with further illegal collective punishments."
- *Israel's fear is that* joining the ICC could see the PA pursue war crimes charges against Israel (& *individual Israelis*), although the Israeli official who announced the freeze said that Israel would defend itself in the "international arena" against any such charges and told Haaretz that "when it comes to war crimes, we have quite a bit of ammunition¹⁷". This came after, earlier in the week, Prime Minister Netanyahu had said "It is the PA - which is in a unity government with Hamas, an avowed terrorist organization that, like ISIS, perpetrates war crimes - that needs to be concerned about war crimes."

One wonders why Israel makes such a fuss, & even if it is in a position to make a fuss, about what happens in an agency of which it is not a member & whose jurisdiction it doesn't recognize.

NETANYAHU PREPARING HARSH RESPONSE TO PALESTINIANS BUT NOT SETTLEMENT CONSTRUCTION (Haaretz, Barak David)

- On December 30th Foreign Ministry Director-General Nissim ben Sheerit told Israel's 30+ envoys to Europe at a five day conference in Jerusalem that Prime Minister Netanyahu is preparing a harsh response to the Palestinian moves at the ICC, noting that he had clarified (?) that this will not include settlement construction (*as if settlement construction hasn't been proceeding apace all along*). And he emphasized it would be much harsher

¹³ Not to be confused with the ICJ (International Court of Justice) based in the same city.

¹⁴ Despite warnings by Washington this likely would give rise to an 'adverse reaction' in Congress.

¹⁵ Interestingly enough the use of the world Palestine to denote the future homeland of the Palestinians seems to be creeping into the common lexicon.

¹⁶ The US\$100+MM in taxes Israel collects monthly for the PA funds about two-third of its budget.

¹⁷ The ICC's various definitions of war crimes makes one wonder what serious basis there might be for the Israelis to make this claim.

& more comprehensive than just freezing the PA's revenues for "Israel is about to switch from defense to attack mode" but that *nevertheless* Israel had no desire to cease security cooperation with the PA or bring about its demise.

It's hard to know to what extent all this is election campaign-driven.

NETANYAHU 'REPELLED' BY SUCCESS OF FEMALE MP (The Telegraph, Robert Tait)

- Former IDF spokesperson Miri Regev is known for her virulent verbal attacks on Arabs & African asylum-seekers. In 2012 at an anti-immigrant rally that turned violent, she called Sudanese refugees "a cancer on our body" (causing her to have to publicly apologize to cancer patients). She once referred to Arab MKs as "trojan horses" & on one occasion, when she ordered one of them removed from a committee meeting she was chairing, she told the security staff to "throw him into Gaza". And in Likud's December 31st primary election (to determine its list of candidates for the March 17th election)¹⁸ she placed fifth, all but guaranteeing her a seat in the next Knesset (with only one other woman high enough on the list to have a chance to be elected) & wasted no time telling Israel Radio she wants to be Housing Minister in the next Netanyahu government (*to give her control over settlement development*). This was a blow to Netanyahu's hopes of projecting a moderate image *during the election campaign*, with someone close to the Prime Minister saying "he has every reason to decide Regev is unworthy of his government ... (*for*) the Prime Minister is repelled by her style, her harshness and the image she is creating for the party."

Whatever image Netanyahu may want to project, she is unlikely to hide her light under a bushel during the election campaign. And she is representative of Likud's right wing element & may well be saying loudly what Netanyahu thinks but keeps to himself for political reasons. And his opinion of her may be coloured by the fact that she has supported, & has the support of, former Interior Minister Gidon Sa'ar who resigned from the Knesset three months ago to spend more time with his (young) family & came under intense pressure a month ago, but refused, to return to politics & challenge Netanyahu for the leadership of Likud, & who has become one of his fiercest critics.

POLLS INDICATE ISRAELIS DOING SOME SOUL SEARCHING **(San Diego Jewish Journal, Rabbi Dow Marmur)**

- *In mid-December* Haaretz conducted a poll asking "Who in your opinion is the main culprit in the growing international pressure on Israel?" While 8% didn't know, 24% blamed the Palestinians & 32% the Europeans, no fewer than 36% blamed their own government¹⁹. If we link this outcome to other polls showing that 54% think the government isn't going in the right direction (*domestically as well as internationally?*) & the 53% who don't want Netanyahu to be the next Prime Minister, a picture emerges. And to the extent this may be prophetic, the Hebrew prophets often also blamed their people for their own misfortunes.

¹⁸ The results of which has been questioned; for in one case a sitting MK got 278 votes while at that location only 198 people had cast votes while in another case 138 votes cast for another MK were "accidentally" destroyed.

¹⁹ What is perhaps equally, if not more, important/remarkable is that, genetically imprinted to recognize & abhor persecution, only 24% blamed the Palestinians.

- While, needless to say, this is not how Netanyahu c.s. see things, the growing recognition in the world of (*the reality of-*, & *need for-*) a Palestinian state should have brought about a serious re-assessment of the way Israel has acted. Perhaps, had Israel affirmed the Palestinian state, its claim that it is a Jewish state would have been better received in the world and, as much as the Israeli government styles itself as seeking to prevent another Holocaust, the world is less and less convinced of that, even as it acknowledges Israel's legitimate security concerns. And, *sadly*, while many Israelis, young & old, urge their fellow citizens to look at themselves, rather than blame others & invoke the Holocaust, most of the 36% *who agree with them in principle* seem disinclined to do anything about it.

With the negotiations now seemingly dead, so may be the idea of having, in the creation of a Palestinian state, the 1967 boundaries adjusted through land swaps to accommodate the major Jewish settlements. For the Palestinians now feel they have a world opinion tail wind. This will make an eventual two-state solution that much less likely or, if there were one, it would be on terms not favorable to Israel (& one with a higher probability of violence, since placating the settlers for so long has engendered a sense of entitlement among them the relinquishment of which they would resist (the author is the leader emeritus of Toronto's Holy Blossom temple & now lives in Israel).

SECRET NETANYAHU-HERZOG DEAL FOR LIK-LAB COALITION AFTER MARCH VOTE (DEBKAfile)

- The latest polls suggest a tight race in the March 17th election with Likud getting 23/24-, & the Labor-Hatnua combo 20/22-, seats. This had led to rumours that Netanyahu & Yitzhak Herzog have reached a deal for a power-sharing relationship that would disempower Naftali Bennett's Jewish Home/Beitenu Jehudy party, Avigdor Lieberman's Israel Our Home/Yisrael Beitenu party, Kahlon's *new* All of Us/Kulanu party & Yair Lapid's Future/Yesh Atid parties. The go-between in this supposedly was Herzog's brother Michael, a retired IDF Brigadier-General & former head of its Planning Division. and in 2008-09 Netanyahu's Special Envoy for resuscitating the Palestinian negotiations, who now has fellowships at two US think tanks (the Jewish People Policy Institute & the Washington Institute for Near East Policy) & is well-connected in both US & Israeli political circles. And in recent weeks three developments have pointed in this direction. In the last week of December the two of them launched a rare initiative, to recall the Knesset to approve a hike in the minimum wage in both the public-, & private-, sectors. They have quit trading personal abuse. And Netanyahu accepted a new Labor Party member²⁰ as Finance Minister in his post-election government. Their deal includes a provision that, in case both controlled the same number of Knesset seats after the election, the Prime Ministership would rotate between them on a two year basis (with the 'only' question remaining who would go first). But this being Israeli politics, anything could happen in the ten weeks until the election.

²⁰ Argentina-born Prof. Manuel Trajterberg has a Ph.D. In Economics from Harvard & is a free market advocate. In 2011 he was appointed to head the Planning and Budgeting Committee of the Council for Higher Education &, after the social protests in that year, was charged with addressing Israel's socio-economic problems. He resigned in mid-December, after having been pursued by all major parties for three years, to become Labor's Finance Minister candidate. His wife, Canadian-born, ex Rhodes Scholar Nadine Baudot-Trajterberg is the Deputy Governor of the Bank of Israel (whose Governor, Karnit Flug, is also a woman) which, it is said, could create a conflict of interest if he were to become Finance Minister.

On the other hand, both Herzog & his now sidekick, Hatnua's Tzipi Livni, slammed Netanyahu after he froze the tax payments owing to the PA, issuing a statement saying that "Netanyahu has no solutions to Israel's declining situation in the world. Weak before Abbas in the international arena, he is taking steps that ... will not help IDF soldiers in The Hague." (DEBKAFile is an Israeli military intelligence website operated by a couple of journalists from their home that supposedly is 'unabashedly in the hawkish camp of Israeli politics.')