

On February 25<sup>th</sup> the Russian Army launched, near the Estonian border city of Narva<sup>1</sup>, a five-day military exercise, simulating the capture & destruction of a foreign-held airfield, that on its first day involved a 1,500 parachutists' drop - *While likely intended to intimidate the Baltic states' governments & test NATO's intestinal fortitude, some sources say it was prompted by NATO, as a 'sign of its strength & solidarity', having organized, just metres from the Russian border*<sup>2</sup>, & in an overwhelmingly ethnic Russian city, a 1,300-strong military parade, complete with armoured personnel carriers & tanks, and a 100-strong complement of soldiers from other NATO countries, most noticeably Britain. But whatever Putin may believe, throughout history what are now the Baltic states had closer links to the Germanic states to their West than to the Slavic one to their East; thus in Latvia (pop. 2.1MM), the dominant religions are Lutheran & Roman Catholic, and in Lithuania (3.3MM)<sup>3</sup> Roman Catholicism, while in Estonia (pop. 1.3MM) over half the population professes no religious affiliation & only one in six is Orthodox Christian. These countries were annexed by the Soviet Union following the Molotov-Ribbentrop Non-Aggression Pact of 1939 & the 1939/40 "Winter War" between the Soviet Union & Finland. While present day Estonia & Latvia have significant (25%-27%) ethnic Russian minorities, these are largely due to policy-driven Russian immigrations during the Stalin era; for according to their mid-1930's censuses, the ethnic Russian share of their populations had then only been 8.2% & 10.6% respectively (while in Lithuania it was, & still remains, much lower, at 2.5% & 6.6%). Putin' no doubt will try & inflame greater hostility in Estonia & Latvia towards the ethnic Russians in their midst, so as to have an excuse to move in to "protect" them (which won't take much in the case of Latvia, where in the recent past there have already been some initiatives targeting its ethnic Russians (over half of whom live in its capital, Riga, whereas in Estonia their highest concentration is in its extreme Northeast, incl. Narva) that could be construed as anti-Russian.

Turkey has alarmed NATO with news the China Precision Machinery Export-Import Corporation may be the front runner in its call for a US\$3.4BN anti-missile system, ahead of the French-Italian Eurosam consortium & US-listed Raytheon, and by Defense Minister Ismet Yilmaz telling a parliamentary committee that the Chinese system would not be compatible with NATO's systems (which is against NATO rules), although Nihat Ali Ozcan, a security expert at the Ankara-based Tepav think tank, says this is just a ploy to get a better deal from the others.

It looks increasingly as if Venezuela President Nicolas Maduro's days are numbered. Consumer goods, most of which must be imported, are so scarce that people will queue for hours for anything available [*I remember this from the "Hunger Winter" of 1944-45 in Holland : when you see a queue, you join it; for even if you don't want what's available, there will always be someone who wants it & who has something you want & if not, that a third party wants*]. The lower classes are increasingly restless since for he can no longer afford the social benefits with which Chavez bribed them (& they're his regime's core support base). Its oil that now goes to China yields no cash; for the proceeds going towards repaying the debt Chavez ran up there. The IMF forecast its economy will shrink by 7% this year & in December the inflation rate was an annualized 69%, the highest in the world. And he is becoming paranoid, claiming business is

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<sup>1</sup> Narva is Estonia's third biggest city. Of its 65,000 inhabitants 94% is Russian-speaking & 82% ethnic Russian, and 36% actually are Russian citizens, whereas prior to WW II almost two-thirds of its inhabitants had been ethnic Estonians (many of whom, after having been evacuated when the Germans invaded, weren't allowed to return home after the war ended).

<sup>2</sup> The exact delineation of which has never been agreed to by Moscow

<sup>3</sup> In fact, Lithuania for over 200 years to 1795 ruled over much of Ukraine & Western Russia.

intentionally withholding goods from store shelves to create public unrest that will bring down his regime, & a week ago he had the one of his fiercest critics, Caracas Mayor Antonio Ledezma, arrested on charges of plotting with the US to overthrow his government. All the while, he has been making the rounds of world capitals looking for help. So on February 24<sup>th</sup> he was in Port-of-Spain, the capital of Trinidad & Tobago, where President Kamla Persad Bissessar made him a “win-win” ‘swap deal’ offer he couldn’t refuse; under it his government will designate what it needs by way of consumer goods & machinery parts that Trinidad can supply, and her government will buy them from local producers & ship them to Venezuela (only 11kms across the water at its nearest point) in exchange for oil - *but this looks like a far better deal for Trinidad than for Venny; for while it will only buy him (a bit of) time, she will get more economic activity in Trinidad, will be able to set the price of-, & earn a middleman’s spread on-, the goods provided, and will obtain feedstock for its underutilized oil refinery complex, & earn another middleman’s spread on that as well.*

**GLEANINGS II - 603**  
**Thursday February 26<sup>th</sup>, 2015**

**CENTRAL BANKERS SHOULD MOVE BEYOND INFLATION TARGETS, POLOZ SAYS**  
**(G&M, Barry McKenna)**

- On February 24<sup>th</sup> he told a Western University audience central bankers should reinvent monetary policy beyond solely targeting inflation :”We need to develop a monetary policy framework that integrates inflation risks and financial stability risks, both statically and dynamically, and captures much more accurately the uncertainties we face.”

*The problem with multiple objectives is that at some point they conflict. This is why in the 1980's, after Paul Volcker had administered a dose of harsh anti-inflation medicine to the US economy, central banks moved from a inflation-fighting **cum** employment-creation mandate to making the former its sole ‘Leit Motiv’.*

**U.S. AND IRAN TALK NUCLEAR (AP)**

- On February 23<sup>rd</sup> progress was reported on a deal to limit Tehran’s nuclear activities for at least ten years, with the general idea being that sanctions would be slowly eased, & Iran ‘rewarded’, during the last years of the agreement, by a *gradual* lifting of constraints on its uranium enrichment. But there are still obstacles to be overcome by the March 31<sup>st</sup> deadline. Any deal would face harsh opposition in both countries (*a good sign since deals that make one side deliriously happy while the other got little of what it wanted, seldom have staying power?*). But it will further strain the already tense US/Israeli relationship (With Netanyahu rejecting out of hand any deal that doesn’t totally, immediately, permanently & irrevocably ends Iran’s nuclear ambitions, *which could trigger a nuclear arms race in the region that would a) be dangerous & b) rob Israel of its regional nuclear weapons’ monopoly*). Still, a deal reached after a decade of negotiations would end 35 years of US-Iranian enmity. And, while John Kerry said “We made progress” & his Iranian counterpart that both sides had found “a better understanding” at the negotiating table, officials warn it’s still a “moving target” (*i.e. a great deal has as yet to be ‘firmed up’?*).

*Prior to Netanyahu’s address to Congress on March 3<sup>rd</sup> (that has become more controversial within Israel itself, & that more Democrat lawmakers say they won’t attend) & AIPAC the next day, in which he will seek to mobilize his (flagging?) Jewish support in the US & to counter the*

*erosion of Israel's importance in American foreign policy (that he himself has helped accelerate?), he showed his hand when he told a meeting of his Likud Party on February 25<sup>th</sup> that the world powers had "given up" in their negotiations to stop Iran from developing nukes & that "They may be willing to accept this, but I am not willing to accept this"<sup>4</sup>. (Haaretz recently noted that he cannot prevent a P5+1 agreement with Iran & that, if he had really been more interested in Israel's security than his own political survival, he would have taken a different approach, working with Obama rather than allying himself with the latter's Republican opponents, so as to be able to leave at least a partial Israeli handprint on the final agreement).*

### **CONSUMERS NOT SAVING THE CANADIAN ECONOMY (FP, Gordon Isfeld)**

- In November (*seasonally adjusted*) retail sales were up 0.4% MoM, but this was more than offset by the 2.0% decline to \$42.1BN in December (5x the -0.4% expected). Sales were down in nine of the eleven subsectors (accounting for 71% of total retail trade), with shoe stores sales down 9.4%, followed *not surprisingly*, by gasoline sales (down 7.4% due to the lower gas prices) and clothing stores (down 6.0%).

*The 'glass is half empty crowd' expects the January number could be worse still as the effect of the lower oil prices on employment & investment in Western Canada & Newfoundland starts affecting consumer confidence in the rest of the country, while their 'glass is half full' counterparts take solace from the fact that the volume of December retail sales was up 4% YoY & that in Canada, as in the US, December sales have been suffering from burgeoning Black Friday sales in November (which has yet to be reflected in StatsCan seasonality adjustments, since on an unadjusted basis December retail sales had actually been up 9.3% MoM, the most in three years). In this case we won't have to wait long to find out who was right.*

### **ONE-FIFTHS OF ISRAELI VOTERS STILL UNDECIDED, THREE WEEKS BEFORE ELECTIONS (Haaretz, Yossi Verter)**

- Three weeks before the March 17<sup>th</sup> election, 21% of Israeli voters are still unsure how to vote, and some won't do so until they are on the way to the ballot box (*or even when they are marking their ballot*). Be that as it may, this paper commissioned a survey to determine to what extent those who had decided whom to vote for might consider switching. On the Zionist side 43% of those who had decided were willing to name their second choice : for 17 % it was Yesh Atid & 12% Meretz while in the case of Meretz 19% named the Zionist Union & another 14% Yesh Atid. Across the aisle, 36% of Likud voters named their second choice, with 17% going to Jewish Home &, contrary to the CW, only 4% to Kulanu (headed by the popular former Communications Minister Moshe Kahlon) who runs on an economic-, & cost-of-living issue-, platform. While the bad news for the Netanyahu 'bloc' is that it may be down four seats, the good news for it is that to date the others haven't gained enough ground to put his chances of forming the next government in jeopardy. Moshe Kahlon, however, who said at the time of his forming his party last December that he hadn't returned to politics to "sit on the sidelines" (*i.e. in opposition*) may well turn out to be "the kingmaker" (& *he may be more comfortable in a coalition to his left than his right*).

*The outcome of the election may greatly influenced, it not decided, on March 3<sup>d</sup> in Washington.*

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A sign of 'hubris'?

**HOUSE OF LORDS CRITICIZES EU AND BRITAIN FOR 'SLEEPWALKING INTO CRISIS AS MOSCOW AND NATO REMAIN ON DIPLOMATIC COLLISION COURSE**  
(The Independent, Kim Sengupta)

- France & Germany, after having brokered, two weeks ago, the Minsk Accord (2.0?), were desperately trying to hold the increasingly fragile cease fire in Ukraine together amidst reports fighting was spreading & had led to the rebels capturing Debaltseve, a key railway hub (while good news was that on February 25<sup>th</sup> was the first day no one was killed on either side in the fighting since the deal was signed on February 12<sup>th</sup>). Meanwhile in London Britain & the EU will be strongly criticized in a forthcoming House of Lords committee report for “sleepwalking” into this (*i.e. Ukraine*) crisis. This is coming after two Russian ‘Bear’ bombers flew over the Channel just outside British air space, shadowed by RAF jets & after Defense Secretary Michael Fallon accused Putin of trying to extend his campaign of destabilization to the Baltic countries & said he was as much of a threat to Europe as ISIS, While this infuriated Moscow & prompted the Russian Deputy Foreign Minister to say this was “beyond diplomatic ethics ... (*and*) this characterization of Russia is completely intolerable”, it received widespread support at home & abroad, with EC Vice President & former Latvian Prime Minister Valdis Dombrovskis saying “Russia’s aggression against Ukraine is very worrying for Baltic states. It shows that Russia is looking to redraw Europe’s 21<sup>st</sup>-century borders by force” & Lithuania’s Prime Minister, Linas Linkevicius, “I do see threats to all countries. If we fail to act now to what’s happening in Ukraine, there will be a big temptation [*for Russia*] to further instigate situations elsewhere”. And Rory Stewart, Chairman of the Commons Defense Committee said “There’s no doubt ... that the most vulnerable part of NATO at the moment is the Baltic States.”

*On the 23<sup>rd</sup> John Kerry told reporters the Russians were persisting in telling “lies to my face” about their activities in Ukraine, & lawmakers the next day “to date, neither Russia nor the forces it is supporting have come close to complying with their commitments”, warning of more sanctions, while Moscow threatened to cut off gas supplies to Ukraine (& hence to parts of Europe) within days. According to the non-government Interfax News Agency Putin said the next day, the 25<sup>th</sup>, that Ukraine had paid for only “three or four days” gas supplies & that unless there was prepayment Gazprom<sup>5</sup> “will terminate the supply” (while Ukraine claims Gazprom has failed to make prepaid deliveries), & in the next breath he accused Kyev of having cut off gas supplies to the rebel-held territories which, he said, “smacks of genocide” [Russia has now been asked by the rebels to supply gas directly (with even less likelihood of getting paid?)]. Meanwhile, Ukraine’s central bank increased its currency controls to stem the country’s currency’ freefall, and on February 26<sup>th</sup> the EC invited the Russian & Ukrainian Energy Ministers to a meeting in Brussels on March 2<sup>nd</sup> to discuss their bitter gas dispute, and to try & get the deal it had brokered earlier “back on track” – but, while comparisons are being made with 2009 when the supply of gas was also interfered with, Putin’s negotiating position now is nowhere near as strong as it had been then, for this is the end, rather than the middle, of the heating season, due to a relatively mild winter Europe’s gas storage facilities are now fuller than normal for this time of the year, Europe has improved the ‘inter-connectivity’ of its gas distribution network, & Moscow now needs foreign exchange far more than it did then (especially since the price it gets for its gas in Europe is geared, albeit with a lag, to that of oil)..*

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<sup>5</sup> In which, rumour has it, he himself is a big shareholder.

## **“IT IS SEEN AS CORRECT TO INITIATE ANNEXATION OF EASTERN REGIONS OF UKRAINE TO RUSSIA (Novaya Gazeta)**

- On February 24<sup>th</sup> it published a *leaked* document suggesting the Kremlin had plans to annex the Crimea & Donbass even before Ukrainian President Viktor Yanukovich was toppled. It had been drafted by a group close to the Kremlin that included Konstantin Malofeyev, a wealthy businessman with ties to Novorossiia, that promotes the creation of Russian enclaves in neighbouring countries and defend the “Russian World” of ethnic Russians & Russian speakers outside Russia (*many of the latter don’t want Russian ‘protection’*), & longer term the annexation of parts of Moldova, Ukraine & Belarous. And Malofeyev had worked closely with Aleksandr Boroday & Col. Igor Strelkov, who initially served as President & senior military commander of the “Donetsk People’s Republic” respectively until withdrawn in favour of leaders native to Donbass. The document not only envisages the annexation of the Crimea by a referendum & of Ukraine’s Eastern regions, but also of Kharkiv (*close to the Russian border in Eastern Ukraine but well outside the rebel–held territory*) & , with 1.5MM inhabitants, Ukraine’s second-largest city (*despite 70.7% of the 3MM inhabitants of the Kharkiv Oblast/Province being Ukrainian & only 25.6% Russian at the time of the 2001 census*) where his week there was a bombing event, during a Maidan Square anniversary parade, that killed four people were killed, a policeman & three activists, one of them a 15 year-old.

*While interesting, this doesn’t prove conclusively that the Kremlin had **decided** to do what it did before Yanukovich was sent packing (Novaya Gazeta was founded in 1993 by Mikhail Gorbachev with his 1990 Nobel Peace Prize money. Today it publishes 3x a week, is known for its critical & investigative coverage of Russia’s political & social scene (for which six of its journalists have been murdered) and Gorbachev still owns 10% of it, with the remainder owned by its staff (51%) & Russian businessman Alexander Lebedev (who also owns four UK papers (The Evening Standard, Independent, the Independent on Sunday & iNewspaper).*

## **UKRAINE SIGNS DEFENSE DEAL WITH UAE (Defense News, Joe Gould)**

- While in Abu Dhabi for the February 22<sup>nd</sup>-26<sup>th</sup> IDEX<sup>6</sup> exhibition<sup>7</sup> (where one exhibitor was UKROBORONPROM, a Ukrainian arms conglomerate SOE), & where, on a walk-through, he steered clear of Russia’s pavilion), Ukraine’s President Petro Poroshenko announced a deal with the UAE for unspecified military & technical cooperation. And back home his Defense Minister Stefan Poltirik said US\$1BN had been earmarked to fund the fight against the pro-Russian rebels, inc. US\$110MM for weapons purchases, while Nadiia Stechyshyna, an adviser to UKRO’s CEO, noted “Nobody paid any attention to the way the army was equipped for the last 23 years (*i.e. since Ukraine’s*

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<sup>6</sup> The International Defense Exhibition, a biannual arms & defense technology exhibition that this year featured 1,200 exhibitors from 55 countries

<sup>7</sup> Where business apparently was brisk (reflecting the accelerating arms’ race in the region, & elsewhere in the world) with one of the biggest announcements being the US\$5BN UAE order for two Boeing C-17 military airport planes and where China took the opportunity to launch an export drive for a new LPD (Landing Platform Dock), a vessel capable of moving 18 main battletanks & a similar number of smaller vehicles, as well as two helicopters.

*independence*) Everybody was feeling safe and secure<sup>8</sup>, so there was basically zero investment in the armed forces ... What we are doing now is getting back to basics.”

*Meanwhile, Prime Minister Arseniy Yatsenyuk told the Globe & Mail, on the occasion of the first anniversary of Maidan Square revolt that led to the ouster of President Yanukovich, that Putin won't stop the rebel insurgency until Ukraine is reduced to the status of a failed state & that Western governments need to do more to keep it from becoming so, saying that "This is not just a fight for Ukraine, this is a fight for the free world, and everybody needs to realize this*

## **WHO WON THE GREEK SHOWDOWN IN EUROPE? (BB, Simon Kennedy)**

- There's no doubt who 'won' in the EU/Greece talks on February 20<sup>th</sup>; for Greece agreed to all conditionalities of the existing package & a continuation of its finances' oversight (& *thus cannot implement the promised wage-, & pension-, hikes*). This prompted German Finance Minister Walter Schäuble to concede Tsipras will have a tough time selling the deal at home, the London-based Chief Economist of UniCredit Bank, Erik Nielson to say it's a "complete surrender", and Société Générale & the Berenberg Bank<sup>9</sup> to call it a "U-turn" (with Holger Schieding, the latter's London-based Chief Economist, saying "If the deal holds, it would be a major victory of common sense over populism ... The taming of Tsipras would show that Europe's 'tough love' regime is working."
- But not all agree; thus the Commerzbank AG's Chief Economist, Joerg Kramer, says the creditor nations have just bought time & given Tsipras wiggle room : "Notionally ... the creditors have won, but the reality is likely to be different"; for Tsipras will be able to pick the reforms to introduce, rather than having the others tell him, & his fiscal target for the current year was (*deliberately?*) left fuzzy, thus giving him some cash to play with.

*Prior to the German Parliament approving the deal 452-32-13, this outcome gave rise to violent clashes in Athens by its opponents. And it must have undermined the position of Finance Minister Yanis Varoufakis; for the extreme leftist economics professor, whose supposed long suit is 'game theory', didn't deliver. And with Tsipras' far-left Syriza Party having nothing in common with its far-right Independent Greeks junior coalition partner but a common loathing of austerity, the latter may walk on him (its leader, Pamos Kammenos, is a known 'loose cannon'). Then Tsipras could either call another election or cobble together another coalition. And with the economy having started to grow in the Second Quarter, a 'government of national unity' with the right-of-centre New Democracy of former Prime Minister Antonis Samaras would be the better option. For it would have 223 seats in the 300 seat Parliament, vs. the current coalition's 162 &, more importantly, would have greater credibility since it would represent 57% of Greek voters (vs. the present coalition's 37%). All this couldn't help but make the EU easier to deal with in the*

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<sup>8</sup> This sentiment likely was a Europe-wide phenomenon, in total disregard of the observation by Publius Flavius Vegetius Renatus (aka Vegetius) during the sunset days of the Roman Empire that "Si vis pacem, para bellum" ("if you want peace, prepare for war").

<sup>9</sup> Founded in 1590 in Hamburg (where it is still headquartered) by two Belgian 'ex-pat' brothers, it is still owned & run by their descendants). As such, it is the world's second oldest still operating bank (that over the centuries was involved in the creation of many other financial institutions, most prominently HSBC) after the much-troubled Siena, Italy-based Banca Monti dei Pashi di Siena (that was founded almost a century earlier), in contrast to which the 1,300 employee Berenberg Bank continues to 'punch well above its weight' (*its growth actually accelerated during the Great Recession*), possibly due to the fact its ownership structure is that of a partnership in which each partner is 'jointly & severally' responsible for any losses.

*negotiations over the next four months, especially if accompanied by the sacking of a Finance Minister who in a few short weeks managed to wholly alienate his EU counterparts.*