

Richard N. Haass (age 63) has since July 2003 been President of the now almost 100 year-old, New York City-based Council on Foreign Relations. A Rhodes scholar with a Ph.D. from Oxford & a long-time US foreign policy 'insider', he came to the post from that of the State Department's Director of Policy Planning. Long dubious, if not outright critical, of the Administration's efforts to cut a nuclear deal with Iran, he told BBCNews, after a 'framework agreement' was reached on April 2nd, that he had been "pleasantly surprised" by it, saying, among others, that "all things equal, on the surface it looks like a good agreement ... (and) a little more comprehensive" than he had expected, while cautioning there are still big issues to be settled in the final agreement by its June 30th deadline.

Meanwhile, the Netanyahu c.s. are frustrated about-, & said to be "annoyed & frightened" by-, what they see as a shift from "confrontation" to "conciliation" [*but what he/they are really concerned about is what they (rightly) see as a pivot in US Mideast foreign policy from being Israel-centric to Iran-centric*¹]. Saudi Arabia shares these concerns, albeit less vocally so, and is said to have given Israel clearance for its planes to travel through its airspace in any attack on Iran's nuclear installations (*an undertaking that would necessitate Netanyahu overruling the IDF² & Mossad³ leaders who, as recently leaked documents showed, have been opposing the idea for at least two years, possibly because, with a need for inflight refuellings, it would be logistically challenging & they appreciate that, never mind the risk of Iranian retaliation, for it to be effective would require a sustained bombing program that might be beyond the IDF's capability to complete & may not be possible to bring to its logical conclusion in the face of widespread international condemnation*). While according to Iran's hardliners anything short of an immediate cessation of all sanctions is unacceptable (& their Republican counterparts in the US have taken turns criticizing the deal on general principle), in Tehran that night the streets were filled with jubilant celebrants & the next day the negotiating team upon its arrival at Tehran's Mehrabad Airport was accorded a hero's welcome. And while there are already some disagreements about what the two language versions of the agreement really say, Ayatollah Ali Khameni, the Supreme Leader, is said to have been *modestly* supportive of President Rouhani's efforts to cut a deal with the US/P5+1 group, & its marketing of the deal in Iran as a 'huge victory' could possibly limit Tehran's negotiating position in the final agreement.

According to the California Department of Water Resources on March 5th the snow pack's water content in the Sierra Mountains was just 13% of the norm for this time of the year; this has major implications for the State because the rivers rising in these mountains meet 30% of the state's water needs. And although earlier this week heavy rains in Southern California caused some power outages & delayed a scheduled LA Dodgers game (rain that turned into six inches of snow in the mountains), one swallow does not summer make, & one rainfall won't solve what increasingly looks like a structural, rather than a temporary, problem.

1 On the basis of "keep your friends close, but your enemies closer" - a saying often attributed to the 6th Century BC all-time great military strategist Sun Tzu, or to the 15th century political theorist Macchiavelli, but the origin of which actually traces back to the 1974 movie Godfather Part II.

2 Which may not change much in the case of the IDF with the change, effective February 15th, in its top dog; for the new incumbent, who despite his German-sounding name is of Moroccan descent, is deemed hard-nosed but pragmatic, & not to be easily cowed or bullied.

3 Who a few months ago even counseled against further sanctions.

Netanyahu's April 3rd 'demand' that Israel's right to exist must be part of any final deal with Iran was turned down flat by the State Department & called a "misjudgment" by President Obama, and criticized by two unlikely sources. A headline in the Brooklyn-based weekly The Jewish Press that serves the Orthodox Jewish community said the State Department had been "right" in doing so, basing its contention on a speech to the Knesset by then Prime Minister Menachem Begin in 1977 in which he called demanding Israel's right to exist nonsense since "We were granted our right to exist *here* by the God of our fathers". And the other was longtime Mossad member Efraim Halevy (who served as its Director for 4½ years starting in March 1998 & has a reputation of being a realist to the point of having advocated doing business with Hamas since "they are not very pleasant people, but very, very credible"); for he commented "The demand for the Muslim world to recognize Israel's right to exist is almost like asking them to change their religion ... in Islam they don't recognize the right of ... nations to exist."

Halfway through his initial 28-day coalition-building mandate, Netanyahu has two problems : potential coalition partners making too many demands & too many Likud MKs feeling entitled to become Ministers (with their number now by law limited to 18). Likud's first two meetings with Moshe Kahlon's Kulanu Party achieved so little that none were scheduled for the current week; the main stumbling block being Kahlon's insistence that Netanyahu reverse his promise to give Shas the chairmanship of the Knesset Finance Committee & United Torah that of a key Interior Ministry planning committee (which would position both to obstruct his plans, as Finance Minister, for long-overdue domestic economic reforms); in addition, the Kulanu faction chairman in the new Knesset, MK Roy Folkman, agreed publicly with a questioner who asked if his party wanted a broad-based coalition so as "not to be cast in the role of the left wing flank" in a right wing one. Haaretz's claim that Netanyahu had borrowed his right-to-exist demand from Zionist Union leader Yitzhak Hertzog's election rhetoric in an attempt to entice him to become Foreign Minister was promptly denied by both parties (& *must have infuriated both Yisrael Beitenue's Avigdor Lieberman & Jewish Home's Naftali Bennett*). Bennett wants a settlement construction "guarantee" & either the Defense-, or the Foreign-, Ministry (& unwilling to be 'fobbed off' with the Agriculture & Education portfolios) and both are also in Lieberman's sights (who has gone on record as saying that if he doesn't get Defense he expects to be kept on as Foreign Minister⁴),. And finally, apart from their promised committee chairmanships, there are still issues with Shas & United Torah with regard to the compulsory military service requirement for young haredi men that will take effect in 2017.

The hitech sector of the Chinese stock market appears to be in a dot.com bubble : in the past week alone it appreciated 20%, with the price of one stock, Beijing Tianli Mobile Service Integration Co. that IPO'd only last October, in the six months since having appreciated 1,871% to the point where it now trades at 379 times earnings. Meanwhile, there is a growing sense among observers that China's GDP growth rate this year will fall drastically short of the government's 7% target, possibly by as much as 3%, with one Bloomberg analyst reporting that during a recent trip to China he saw "idle cranes, empty construction sites and half-finished, abandoned buildings in several cities" & that "Conversations with executives reinforced the gloomy outlook." (*Meanwhile, there are growing numbers of reports that the EU economy seems to be doing better than forecast not all that long ago*).

GLEANINGS II - 609
Thursday April 10th, 2015

4

Which has led to speculation he will have overplayed his hand & has become dispensable.

US ADDS 126,000 JOBS. UNEMPLOYMENT STEADY AT 5.5% (WSJ, Ben Leubsdorf).

- In part due to the harsh winter weather, in March hiring was the weakest since December 2013, although the weakness was across most sectors, not just in those most vulnerable to bad weather, like construction⁵. This was *only* the latest sign the economy stumbled in the First Quarter⁶ when monthly job creation had averaged only 197,000, down from 324,000 QoQ. TD Bank economist Millian Mulraine said in a Note to Clients “it underscores the slowdown in US domestic growth momentum as the recovery continues to navigate again the headwinds from the harsh winter conditions, the strong dollar and the weak global economic backdrop”, while Paul Ashworth, Chief US Economist at Capital Economics wrote optimistically “We are coming off a run of almost unbelievable strong employment growth stretching back to last summer” and that “this is most probably another temporary blip, like the ones we saw in mid-2012 and late 2013.”

Macroeconomic Advisers LLC expects First Quarter GDP growth to come in at 1.2% & JPMorgan an even lower 0.6%, and the Atlanta Fed’s “GDPNow” indicator at last report stood at zero, as consumer spending, business investment & manufacturing output all display signs of ‘softness’, the participation rate declined to 62.7, down from 62.8 MoM, matching the 1978 low, & average weekly earnings were up just 2.1% (poor First Quarter GDP growth tends to undermine an economy’s GDP growth potential for the year as a whole).

SAUDI ARABIA’S MARCH CRUDE OIL OUTPUT AT RECORD HIGH (WSJ, Summer Said)

- In March its crude output averaged 10.3MM bbld, up from 9.64MM bbld in February, & beating 10.2MM bbld record set in August 2013. And Oil Minister Ali al-Naimi told an energy event in Riyadh “The Kingdom’s production will continue at approximately 10 million barrels a day” and that; while his government is willing to participate in restoring market stability & steering prices back up, “The burden cannot be borne by Saudi Arabia, the GGG (*Gulf Cooperating Countries*), or OPEC members alone.”

One side-effect of the present low oil prices is that some oil producers are compensating for their oil revenue shortfalls by being persistent net sellers of financial assets which could start posing a problem for global financial markets since it reduces their liquidity. Meanwhile, as Iran has been openly advocating the need for a discussing of output cuts at OPEC’s June meeting, it is also expecting to rapidly ramp up its production if & when the sanctions are lifted.

IRAN’S KHAMENI DEMANDS ALL SANCTIONS END WHEN NUCLEAR DEAL SIGNED (Reuters, Parisa Hafezi)

⁵ This was only partially correct. For in the mining/logging/sector 11,000 jobs went up in smoke (& in the federal & state government sector another 6,000) while 70% of the new jobs created were in the professional & business services-, & healthcare-, sectors (40,000 & 30,000 respectively, in which the average of remuneration is lower than in the losing sectors (total employment in the US professional & business services sector amounts to 19MM, the hospitality industry 11MM, the financial sector 8MM, the federal & state government 7.7MM, and construction 6.3MM

⁶ As it appeared to have started to do so in the Fourth Quarter when GDP had grown as a 2.2% annual rate, down from a ‘red hot’ 5.0% in the Third (which had enabled GDP growth for the year to come in at 2.4%, despite weather-driven negative growth in the First Quarter).

- On April 9th, in a speech broadcast live on state TV, Iran's Supreme Leader, confirmed his support in President Rouhani & his negotiating team, while, *in an apparent attempt to appease his hardliners*, reiterating what the former had said earlier in the day, namely that **all** sanctions on Iran must be lifted the very day an agreement to curtail Tehran's nuclear program is signed. He then went on "I neither support or oppose the deal. Everything is in the details, it may be that the deceptive other side wants to restrict us in the details ... All sanctions should be removed when the deal is signed. If the sanctions removal depends on other processes, then why did we start the negotiations?"

According to the Times of Israel, a Jerusalem-based online daily newspaper published in several languages, incl. Arabic, that claims a readership of 2MM & no political leanings (although it has been accused of being anti-settlement construction), he used more extreme language & was specific in warning that agreeing to a framework "is not a guarantee a full agreement will be secured by the end of June ... (and that while) I trust our negotiators ... I am really worried as the other side is into trying and breaching promises; one example was the White House fact sheet ... Hours after the talks, Americans offered a fact sheet that most of it was contrary to what was agreed. They always deceive and breach promises." (& elsewhere he was quoted in more extreme language). If he is really serious, this will be a deal breaker, especially since a poll conducted by NBC News, done earlier this week & published on April 9th, found that no fewer than 68% of Americans interviewed were of the opinion that Iran would not be very likely, or not likely at all, to live up to its end of any final agreement.

Meanwhile, Netanyahu is acting as if it is up to him to dictate the (final) terms of an agreement that took the five permanent members of the US Security Council 18 months to negotiate, while Likud MK Yuval Steinitz, his next-to-last Finance Minister & the Minister of Intelligence and Strategic Affairs in his last government, outlined what he said is what the Israeli government will "insist" must be part of the final agreement with Iran :

- *end to all R&D on more advanced types of centrifuges for enriching uranium (that he said would do so twenty times faster than those Iran is currently using);*
- *a reduction in the number of operating centrifuges beyond the number agreed to in the framework agreement;*
- *closure of the underground uranium enrichment facility near the village of Fordo;*
- *anywhere, anytime inspections by international monitors;*
- *shipment abroad of all (currently existing) enriched uranium stocks; and*
- *disclosure of all its past nuclear-related activities & their possible military uses.*

It's not difficult to imagine what Israel's reaction would be if it were mooted that, on a "what's sauce for the goose is sauce for the gander" basis, it might consider 'walking the walk' itself.

Meanwhile the P5+1 group's summary of the framework agreement is as follows :

- *limit all enrichment to a purity of 3.67% ²³⁵U (i.e. good enough for commercial applications but well short of the 20% 'threshold' for weapons' grade material);*
- *limit enrichment to the Natanz facility & cessation of any construction of new facilities at, & the closure of, the Fordo enrichment facility (one of Israel's demands);*
- *a cut in the number of operating centrifuges from 19,000+ to 6,104 (& to 5,060 within 15 years) – but, as the Israelis point out it's not just a matter of quantity but also of quality);*
- *cutting the stock pile of 3.67% LEU (low-enriched uranium) from 10,000 to 300 kg;*
- *open & transparent IAEA inspection of all enrichment facilities & activities.*

TAIWAN TURNING OFF TAPS AMID DROUGHT (Straight Times)

- After the lowest rainfall in 70 years the island nation is facing its worst drought in over a decade. The government has announced that starting April 1st water supplies to households & businesses in northern Taoyuan City & most of New Taipei City (its largest municipality) will be cut two days a week (most likely Saturdays & Sundays). According to Lai Chien-hsin, Secretary-General of the Water Resources Agency, it is “preparing for the worst”, while Vice Economics Minister & Director-General of the Agency Yang Wei-fuu warned that if things do get worse it may be necessary to go on a two days-on, two days-off, or even a two days-on, four days-off-, schedule. In addition, industrial water supplies will be reduced in nine areas for an indefinite period, with 1,300 industrial users relying on the Shimen & Yongheshan reservoirs (which have only 47 days water left) facing a further 2½% cut in the already existing 7½% reduction in their water allotments.

During the last drought, in 2001, water supplies to car washes, saunas & swimming pools, and golf courses were suspended and supplies to government agencies, schools & hotels cut 20%. Rainfall during the six months ended March 31st was the lowest since record keeping began in 1947 & the Agency has warned about a “high probability” of drier-than-usual weather during the next three months. Since January 1st it has already cut water supplies to about 10% of the country’s rice growing acreage, & the Ministry of Economic Affairs recently announced plans to reform the water-pricing system within the next three years. Meanwhile, concerns are growing this will affect industrial output & undermine the government’s 3.8% GDP growth forecast.

GREECE PUTS FIGURE OF E279 BILLION ON CLAIM FOR GERMAN REPARATIONS **(The Guardian)**

- The Greek government has set up a parliamentary committee to determine what Germany owes it for war reparations, a loan that Nazi Germany forced the Bank of Greece to make & stolen archaeological treasures. The Deputy Minister of Finance told it on April 6th that, according to the country’s general accounting office, Berlin owes Athens 278.7BN Euros. Germany has long rejected such claims, saying it had honoured its wartime obligations to Greece, in part by a DM110MM payment to Greece in 1960.

On April 1st Athens supposedly told the Euro Working Group (of Deputy Finance Ministers) it would run out of money by April 9th, something that, while strenuously denied by the Ministry of Finance, Interior Minister Nikos Voutsis seemingly confirmed when he went said on April 9th the government would have to choose between paying its creditors or paying salaries & pensions (due later in the month). And if it were to default, the European governments, that hold 62% of the 322BN Euros Greece owes, will be big losers (as will be German banks holding 23.5BN Euros in Greek paper). On April 8th Prime Minister Alexis Tsipras was in Moscow to meet with President Putin (a meeting originally scheduled to coincide with Russia’s annual Victory Day parade on May 9th but moved ahead at Tsipras’ request). But Putin didn’t give him money nor made an exception for imports of Greek produce in his ‘counter-sanctions’ to those imposed by the EU’s in response to his actions in Crimea & Ukraine, but merely suggested he might fund any infrastructure-building contracts given to Russian firms (in an attempt to ensure Greece would not go along with further sanctions (that require the unanimous approval of all 28 EU member states). And Tsipras’ declaration during their joint press conference after the meeting that “I once again want to say how important it is to restart and forget the past” seemed contrary to his government’s claim for German wartime reparations - in the event Greece did repay the IMF the 460MM Euros (US\$497MM) due on April 9th but then muddied the waters by having the Defense Ministry release a video showing pictures of the wartime (Nazi-prompted) malnutrition that it said had accounted for the lion’s share of the 13% of its population that had died during the war, and that sought to put some numbers on its outstanding wartime loan balances’ claim.

CHILE SAYS DROUGHT PERMANENT, LAYS OUT WATERPLAN (Reuters)

- On March 24th, after January had been the driest on record, President Michelle Bachelet told Chileans in a televised speech that “faced with the critical situation (*i.e. severe drought conditions in much of the country as far back as 2007*), there is no choice but to assume that the lack of water resources is a reality that is here to stay and that puts at risk the development of important regions of our country.”

Unfortunately for her, just three days later, parts of Northern Chile that are among the world's most arid places but critical to its economy⁷ since its copper mines produce one-third of the world's copper, were hit by the worst rainstorms in 80 years, causing massive floods & landslides that killed 26 people, left over a hundred unaccounted for & presumed buried alive, and thousands homeless. This comes at a bad time for her; for, although in the last year she chalked up several legislative victories, incl. one that raised corporate taxes to fund subsidizing or in some cases eliminating tuition fees for post-secondary students, her approval rating has been plummeting, & her disapproval rating skyrocketing (to 61% at last report), as a result of corruption allegations against people close to her, most recently her son, Sebastian Dávalos & his wife Natalia Compagnon, the former of whom lost his government job last February & both of whom were recently accused of having used their political connections to get a US\$10MM bank loan to buy a piece of property that, after a zoning change, would let them quickly “flip” it for millions in profit.

-0-0-0-0-0-0-0-

THE CANADIAN SENATE

The Canadian Senate has 105 members, 24 from each of the country's four major regions (East & West, and Ontario & Québec) & one each from the three Northern ‘Territories’). All are hand-picked by the Prime Minister-, & appointed by the Governor-General-, of the day. Once a life-time ‘gig, a 75 year mandatory retirement provision was introduced in 1965 (*that some Senators have been decrying, without getting much sympathy, as “age discrimination”*). By law their remuneration is 75% of that of an MP, i.e. currently \$138,700⁸, along with substantial ‘perks’, inc. an expense account & a, *hitherto largely non-contributory*, pension that at least report averaged \$67,461 for Senators now retired (i.e. 40% more than the average income in Canada and well above the \$59,307 the currently retired MPs are averaging). It was originally intended, almost 150 years ago, as an appointed body of prominenti who would act as a “chamber of sober second thought” to counterbalance the influence the ‘masses of the great unwashed’ exercised over public policy through their elected representative in the House of Commons. Unfortunately, over the years, although there have been, & continue to be, honourable exceptions, it has become dominated by people whom the Prime Minister of the day wanted to dispense a favour to. In the last couple of years, Senators’ expense accounts have become an issue; in fact, on April 7 a high-profile trial started of one Senator on numerous charges of having defrauded tax payers by billing them for out-of-pocket expenses that he was not entitled to claim. This has led to an audit by the Auditor-General’s Office of the expense claims of **all** past & present Senators which has infuriated many of them, the more so since it has led to over

⁷ Generally deemed one of South Africa's most politically stable & prosperous countries (even though it has a high income inequality coefficient), with the highest per capital GDP in Latin America, the World Bank rates it a “high-ncome” country. And upon becoming a member of the OECD in 2010, it became the member country with the second-lowest taxes.

⁸ Close to twice the Canadian median family income.

40 current & former Senators receiving “confidential” letters from his Office recently questioning their expense claims (in one case involving over \$100,000). And it is a reflection of the sense of entitlement & self-importance their exalted position has engendered in some of them that one, the self-professed “feminist activist” Nancy Ruth, a scion of a prominent Ontario Conservative family, although she was appointed by a Liberal Prime Minister (who had her name legally changed to drop off her family name so that now her one-, only-, & full-, legal name now is Nancy Ruth), recently made the headlines when, in response to a media question as to why she had hit the tax payers up for the cost of a meal while on a flight that offered free breakfast (which likely meant she was travelling Business Class rather than steerage), she sneered “If you want ice-cold Camembert and broken crackers, *you can* have it”.

ONTARIO’S FISCAL SITUATION

In a pre-budget speech last week to the Toronto Region Board or Trade Ontario’s Finance Minister told it he now expected a deficit for the year ended March 31st of \$10.9BN (*8% of its budget*), down \$1.6BN from the forecast \$12.5BN (*but only \$400MM YoY from \$11.3BN*). He cast this as positive for the government’s plan to balance its books in FY 2018 that many, incl. the rating agencies, are skeptical is doable⁹; if only since he expects to achieve this target by finding savings government programme administration, by managing compensation costs to achieve a “net zero” payroll impact (while in the midst of contract negotiations with its public sector unions & as its recently published “sunshine list” of employees making > \$100,000 was 14% longer YoY?), & by “maintaining” revenues (while everybody expects, & his department is said to be planning, tax increases). Furthermore, while he said Ontario’s per capita program spending is the lowest in Canada & only grew by an annual average of just 1.2% during the 2010-14 period, he expects it to grow by *an even smaller* 0.8% per year until 2018, he nevertheless contends the deficit elimination target is feasible without program cuts, & without applying the proceeds of any asset sales which, he said, would be invested in transit & other infrastructure - *one observer noted his expected \$10.9BN FY 2014 deficit alone was over two-thirds greater that the deficits of Canada’s federal government, its other nine provinces & its three territories combined*¹⁰, and the Provincial Auditor-General in her Annual Report last December pointed out that, *even if the deficit were eliminated by FY2018, the debt would still be growing faster than GDP & would have reached a level of \$325BN, up 100+% in a decade (i.e. it would have grown by a 7.55% CAGR)*¹¹.

⁹ Last July Moody’s, while retaining its Aa2 rating for the Province cut its outlook from “stable” to “negative” last December Fitch cut its rating from AA to AA- and in February Moody’s waded in again, saying that Ontario would have a more difficult time balancing its budget than Québec (with Moody’s Toronto-based Senior Analyst Michael Yate saying that Ontario’s debt equaled 244x its annual revenues vs. Québec’s 200x) in part because Québec (that has a March 31st, 2016 target for elimination its deficit) has been making greater headway in doing so.

¹⁰ Although that will change in the current year as the lower oil prices have caused the Alberta government to forecast a \$5BN deficit (equal to 10+% of its budget) for the current fiscal year.

¹¹ While still below the 50% of GDP level, it would be the second highest in Canada, well above that of the three Atlantic provinces & a multiple of the typical single digit ratio of the US’ 50 states.