According to Reuters a strategy document prepared by OPEC analysts said that oil output from non-OPEC sources has remained 'stubbornly high' & demand 'sluggish'; so it concluded that by 2017 demand for OPEC oil could be as low as 28.2MM bbld. Nevertheless, at the June 5th OPEC meeting Saudi Arabia & its allies are expected to prevail in keeping OPEC's output target at 30MM bbld (even though it has been producing at a 31+MM bbld. rate) - *if the Saudi objective was to drive US shale oil out of business, it has so far failed; for the US Department of Energy reported that in the week ended May 22nd domestic oil output had been a post-1972 9.566MM bbld. high, even though the number of 'active' oil wells had been down 50+% YoY. This, & the 3,000+ shale oil wells that have been drilled but not yet fracked, & that could be brought on stream at a relatively modest cost, doesn't bode well for oil prices over the foreseeable future & does, in fact, suggest a serious probability of downward price pressure in the months ahead (unless the US$ weakens seriously).*

According to Goldman Sachs the world is currently producing 1.9MM bbld more than it needs - *this seems consistent with the fact that during the two weeks ended May 20th oil tanker charter rates soared 57% (driven by demand for the storage afloat of surplus oil?), & that OPEC is said to have a YTD high half a billion barrels of oil in transit to buyers (presumably by having the tankers involved moving at slower-than-'normal' speeds).*

The Eurozone-Greece game of 'chicken' continues apace. Prime Minister Tsipras' "'comprehensive reform" proposal to Greece's creditors, that missed its May 31st deadline by 24 hours, was called 'insufficient' by Eurozone officials. And he, in turn, didn't like the Eurozone counter proposal despatched to him the next day, June 2nd (that Alexis Mitropoulos, the Syriza member who serves as Deputy Speaker of Parliament, called a "most vulgar, most murderous ... plan"). And things may not have been helped by Tsipras' May 31st column on the French daily Le Monde's website that postulated "If we have not reached an agreement with our partners, it's not because our intransigence or incomprehensible positions from the Greek side ... rather because of the obsession of some institutional representatives who insist on unreasonable solutions and are being indifferent to the democratic result of the recent Greek elections." (*as if the latter has anything to do with the price of tea in China*).

Then on Thursday June 4th a number of things happened. Shortly after IMF Managing Director Christine Lagarde had publicly expressed confidence that Greece would make the 304MM Euro payment due the next day, she was blindsided by an announcement from Athens that it had unilaterally decided to "bundle" the four payments totaling 1.6BN Euros due at various dates this month, incl. the one due on the 5th, into a single one it would pay on June 30th (a rarely used procedure permitted under IMF rules that is, however, only supposed to be resorted to if a country faces "administrative problems" making several payments close together (a move that the Kathimerini newspaper blandly assumed "would be approved" by the IMF"). Then, while the Euro Group expected Greece to respond by June 8th to its June 2nd proposal to conclude the country's bailout, the Greek Finance Ministry issued a statement that said in part "After 4 months of negotiations, creditor institutions submitted proposals which can't solve the riddle of the economic crisis caused by the policies implemented in the last 5 years. The proposals submitted would deepen poverty and unemployment ... The agreement which both Greece and Europe so badly need requires the immediate convergence to more realistic proposals, which will advance economic growth and social sensitivity. Greek government has submitted such proposals." Next, Prime Minister Tsipras tweeted "The government will not accept extreme proposals. Our people have suffered enough during the past five years." And finally, Finance Minister Varoufakis nonchalantly told Britain's SkyNews "Objectively speaking we *now* have until June 30th." - *taken all together this seems to amount to an "Up Yours" message.*

Two things known about the Euro Group's proposal is that it advocated raising the current 23% VAT by 1% & extending that rate to food, medicines & electricity (on which the VAT rate currently is only 6%) & that it offered a sweetener in the form of a further 10.9 BN Euro advance to tide the government over until fall, & two things the creditors object to in the Greek proposal are the idea that it would pay only half of the amounts falling due between July 1st of this-, & March 31st of next-, year, and that the early retirement age would be *ever so* gradually raised to 62 years on a schedule that would see the average retirement age go from the current 56.3 years to 64.4 years by 2040. According to Anna Asimakopoulos, the finance critic for the main opposition New Democracy party "the deal he has put on the table is really stretching it for people in his party while the deal the lenders have put on the table is impossible for him to defend." And to complicate things even further, the option Tsipras has of calling an election (in which he would expect to win an outright majority since Athens is full of signs saying "YOLO" - 'we deserve more') requires a minimum 27 days, i.e. past June 30th.

The widely-followed Tempe, Ariz.-based, now century-old, Institute for Supply Management reported on June 1st that, due to more new orders & new hiring, its Manufacturing Index had jumped from 51.5 in April to a three months' high 52.8 in May. Coincidentally, the Atlanta Fed's GDPNow 'real time GDP growth rate', that had been spot-on in its First Quarter tracking, after lingering for months at < 1%, jumped from 0.8% on June 1st to 1.1% on June 3rd (still well short, however, of Second Quarter consensus forecasts that range from 1.7% to twice that).

In the year to May 8th, 2015 the S&P/TSX 300 Index was up 4.4% to 15,170. Not only was this far less than the DJ 30's 10% & the NASDAQ Composite Index's 19% during the period, according to Bloomberg 60% of the growth in the Canadian index was due solely to one stock, Valeant Pharmaceuticals (up 85% to $267.86 during the period), the third most heavily-weighted stock in the Index.

The Chinese IPO market is red hot to the point where it was held responsible for the June 4th weakness in Shanghai Composite Index (by syphoning off investor money that otherwise would have gone into stocks in the Index). Shares of the 144 companies that have gone public YTD are up an average 539%; so it was small wonder that when China National Nuclear Power Co., the country's second largest nuclear power operator, came to the market with a 12.4BN yuan/ US$2BN IPO to fund the building of 10 reactors, the issue was 135x oversubscribed.

The seemingly near panic in South Korea about MERS (Middle East Respiratory Syndrome) obscures the fact that this public health issue has been lurking below the radar for almost three years. A coronavirus thought to have originated with camels (as SARS a decade or so ago did from chickens in China, *& long before AIDS from chimpanzees*), MERS was first formally identified almost three years ago in Saudi Arabia, and at last report was all but endemic throughout the Middle East except Egypt, Iraq, Israel & Turkey, with isolated 'travel-induced' cases reported in a baker's dozen countries elsewhere, incl. Algeria, Austria, China, Egypt, France, Germany, Italy, Malaysia, Netherlands, Philippines, the UK & US, although nowhere on the scale now seen in South Korea (36 cases & three deaths).

GLEANINGS II - 617
Thursday June 4th, 2015

WHOSE MONEY WILL THE WORLD FOLLOW? (BB, Michael Schuman)

- On May 12th President Obama failed to get authority to fast-track the TPP (Trans-Pacific Partnership), a trade pact with Japan, Vietnam & Canada (*and Australia, Brunei, Chile, Malaysia, Mexico, New Zealand, Peru, & Singapore*). When its opponents called it a giveaway to big business, they missed the point : it's less about profits & jobs than about maintaining a US global dominance *increasingly* challenged by China (hence the latter's exclusion; for TPP seeks to redirect trade to the US & solidify its position in Asia), and to force China to adhere to established trade rules; for as Obama has warned "If we don't write the rules for trade around the world ... China will.")
- While the TPP's domestic critics ignore its geopolitical aspects, Beijing hasn't. So earlier this year, it created the AIIB (Asian Infrastructure Investment Bank) as a rival to the *half century-old, 67 member, Manila-based-, and Japan & US-dominated-,* Asian Development Bank (*& longer-term to the 70 year-old, 188-member, US-controlled World Bank?*), with so far 57 countries having signed up as founding members, incl. US allies like the UK, Germany & Australia. And, while the AIIB may fill a void, given Asia's need for infrastructure funding, Washington's reaction to it has been like Superman's to kryptonite, as a mortal threat to the status quo with, according to Gerald Curtis, an Asia specialist at Columbia, "the US trying to retain political power, and ... the Chinese challenging it." And the AIIB is only part of a larger Chinese agenda to remake the world economic order more to its liking, with Benn Steil, Director for International Economics at the New York-based Council on Foreign Relations observing "organizations such as the AIIB are going to give considerably more voice to China, and we are going to have no influence over them ... that's a problem."

Beijing's timetable was likely accelerated by Congress' short-sighted sabotage of the reform of the IMF agreed to in 2010 (that would have given China greater voting power in the organization & was long overdue since it had failed to adequately reflect the changed global economic & political realities since the WW II) - the author is China-based & has lived in East Asia for two decades, and in his book <u>Confucius and the World He Created</u> postulates Confucianism is making a comeback in China, with President Xi Jinping using it to justify his authoritarian regime & its efforts to ward off unwanted Western ideas, and to legitimize his anti-corruption drive.

<u>PUMP PRICE INSANITY</u> (G&M, Eric Reguly)

- Dozens of countries risk bankruptcy by subsidizing gasoline & other fuels, prompting wasteful consumption, more pollutant output & fiscal stress. While politicians buy votes with this under the guise of 'helping the poor', in reality these subsidies mostly benefit the wealthy; thus an IMF report noted that in Sudan the richest 20% of its people sucked up over 50%-, & the poorest 20% just 3%-, of its fuel subsidies. So ending them would be environmentally-, & fiscally-, friendly (according to the *Paris-based* IEA in 2013 their global cost was US$550BN, 4x the amount spent promoting renewable energy).
- The IEA also says that the cost of fuel subsidies soared 60% between 2007 & 2013 as oil prices rose. Egypt now spends 14% of its GDP on fuel- (& food-) subsidies. Energy subsidies now exceed 4% of GDP in Mozambique, Zambia & Zimbabwe, and 8% in the Middle East & North Africa. And in Iran, Venezuela[1] [2], Saudi Arabia, Ecuador & Algeria

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[1] When the late Hugo Chavez introduced foreign exchange controls in 2003, one US dollar bought 1.6 bolivars. Today the government will sell dollars at three separate rates (the lowest being 6.3 bolivars per US dollar) depending on what its use, while the black market rate, as of May 27th, was in the 420 bolivars per dollar range).

[2] Anyone interested in more detail on global gasoline prices can google GlobalPetrolPrices.com.

public spending on fuel subsidies exceeds that on education. But, while the lower oil prices would allow easing them out without triggering riots, only a few countries, incl. India, Morocco & Ghana, are taking advantage of this (with some using the resultant freed-up fiscal room to fund *more effective* anti-poverty programs). Most countries, however, have done little, if anything to ease out fuel subsidies. And the developed countries aren't blameless; for, while they may not subsidize gasoline at the pump, according to Britain's Overseas Development Institute the G-20 governments[3] spend US$88BN a year subsidizing fossil fuel companies. And Putin is now propping up Rosneft, Britain has cut taxes for North Sea producers threatening to cut jobs & the low oil prices now have the oil companies clamouring for more financial support.

Much of the West's subsidization of the fossil fuel companies takes the form of 'sub rosa' "tax expenditures" that pre-empt future government revenues, rather than visible cash outlays.

EUROPE'S BIG OIL FIRMS JOIN FORCES AND CALL FOR CARBON PRICING AT UN SUMMIT (Bloomberg)

- Europe's largest oil & gas companies[4] want governments to agree on carbon pricing at a UN Climate Summit (*in Paris next December*), saying in a letter to the UN official in charge of the climate talks "Climate change is a critical challenge for our world ... We need governments across the world to provide us with clear, stable, long-term ambitious policy frameworks". While unprecedented, this move is in line with *earlier* comments by some of their CEOs that the industry should become involved in the debate on greenhouse gases.

But as Total CEO, Patrick Pouyanne, said at a June 1st press conference in Paris "It's clear that the subject isn't viewed in the same way on both sides of the Atlantic" (for the top US companies, ExxonMobil & Chevron chose not to support the European initiative).

REBATES DRIVE GRASS REMOVAL FRENZY DURING CALIFORNIA DROUGHT (AP)

- Since Gov. Jerry Brown in April imposed mandatory water cuts (*that exempted farmers who account for 80% of the state's water usage*), the Metropolitan Water District of Southern California has seen applications for rebates for having replaced grass with drought-tolerant landscaping increase 20-fold, causing it to boost funding for its rebate program by US$350MM. And in Northern California the Santa Clara County Water District in the first four months of 2015 issued rebates for turf removal on 1.2MM s.f., more than in all of 2014.

More significantly, home owners are ripping out their lawns even where no rebates are offered.

IMF'S LAGARDE SAYS STILL MUCH WORK TO DO IN GREEK DEBT TALKS (Reuters)

- On May 28th she said on German TV that there is still a lot of work to be done before Greece & its international lenders could clinch a cash-for-reforms deal, saying "We are

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3 Not all of whose countries fall in the "developed" category.

4 Britain's BP plc & BG Group plc (that Shell acquired two months ago for US$70BN), France's Total SA, Italy's ENI SpA, Britain's/Holland's Royal Dutch Shell plc & Norway's Statoil.

all in the process of working towards a solution for Greece and I would not say that we already have reached substantial results ... things have moved, but there is still a lot of work to do."

Later that day she was reported to have told the Frankfurter Algemeine that a Grexit was "a potential". This prompted the IMF to quickly announce she had been misquoted & to publish the full text of her comments which read in part : "We are not naive and we don't think that this is going to be, or would be, a walk in the park . It's a complicated issue and it's one I hope the Europeans will not have to face because hopefully they will find a path to agree with the future of Greece within the Eurozone. But, you know, it's a potential ..." (she stopped there, without completing her thought). The day before her Chief Economist, Olivier Blanchard, had told the German business daily Handelsblatt *"We have analysed what can happen if the crisis were to spread to other countries" and, when asked about the risk of a Grexit, said "Let's hope[5] this won't happen. But if it does, I'm convinced the euro will survive this" ,and then he went on to say that, while it was possible to find a solution for Greece, more foreign aid would be needed "to keep Athens afloat". Meanwhile, Greece says it has enough money to make the 300MM Euro payment due to the IMF on June 5th (but it will have to find 343MM Euros for another payment on June 12th, 572MM more by June 18 & then 343MM on June 19th, before the pressure lets up for a month.*

GREEK ECONOMY MINISTER : 'PLAN B DOESN'T EXIST' (Reuters)

- On May 30th Economy Minister George Stathakis said Athens had no alternative plan[6], "The idea of a Plan B doesn't exist. Our country needs to stay in the eurozone but on a better organized aid program ... Otherwise, mainly Greece, but the European Union as well, will step into uncharted waters and no-one wants that." And in an interview with the Realnews newspaper published that same day Interior Minister Nikos Voutsis (who has not been involved in the talks with lenders) said his government is confident of reaching a deal with its creditors this week & is open to pushing back parts of its anti-austerity program to make that happen (although he didn't elaborate on what parts of the Syriza Party's anti-austerity election platform could be pushed back *for how long*).

The latter may possibly be the first real signal of a willingness, despite immense domestic pressures not to, to compromise on Syriza's pre-election pledges; the problem now is that the grandstanding & 'kapsones[7]' of Finance Minister Yanis Varoufakis in his dealings with Eurozone officials & of Prime Minister Tsipras in addressing domestic audiences, have poisoned their well of credibility & goodwill with their Eurozone 'partners' to the point where getting a deal will be complicated, & made more time-consuming, by their counterparts wanting to ensure that every 'i is dotted & every t crossed' in any deal with them. So it could be too late to avoid a Grexit (which may well be nowhere near as dangerous to the world as surmised); for if one reads between the lines in the statements emanating from German politicians, & for that matter from Madame Lagarde, it seems that what is uppermost in their minds is not to get blamed for having pushed Greece out. Last but not least, the outcome of the local elections in

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5 Two such prominent international financial figures expressing "hope" is not very reassuring.

6 A view shared by Michel Sapin, France's Finance Minister who told reporters after the G7 Finance Ministers' meeting in Dresdenon May 22nd that "There is no Grexit scenario"

7 A word the Dutch language appropriated from Yiddish to signify "brass" & "haughtiness".

Spain a week ago-, & in Italy last-, Sunday will result in the governments in power there (& in Portugal), pushing harder than ever, & finding common ground with the Northern Eurozone fiscal conservative governments, to take a hard line with Greece, in the hope of taking the wind out of the sails of their own Syriza look-alike, anti-austerity parties.

ARGENTINA IS RACKING UP DEBT EVEN FASTER THAN DURING ITS 2001-2002 CRISIS (BB, Charlie Devereux)

- The government announced last week that its primary budget balance (i.e. excluding debt payments) had in March gone to a negative 17.4BN pesos (US$1.93BN) from a positive 3.6BN pesos (US$400MM) a year earlier. The last time Argentina posted a primary deficit was in 2002, three months after it had defaulted on a record US$95BN of debt. While President Cristina Fernandez de Kirchner is prohibited by the constitution to run for a third term, she is nevertheless splurging during a protracted recession in an election year. The problem is that *monthly* spending is climbing (*it has almost doubled since January 2014*) just as the decade-long commodity boom has ended (during which revenue from farm exports had fed government surpluses until 2011). And this is happening as the government's ability to access global bond markets is impaired by its decade-long battle with investors who refused to accept the terms of its *post 2001-2002* debt restructuring. Be that it may, she is nevertheless said to be leaving the economy in better shape than it was when her late husband Nestor inherited it *in 2003* after the largest default in history.

Still, its debt-to-GDP ratio is just 27%, one-third, or less, of that of the UK (& several other major developed countries) & its deficit this year is expected to come in at just 2.5% of GDP.