On my way back on Greyhound from Whitehorse to Edmonton, I saw in the 600kms/375 mile part thereof from Dawson Creek to Edmonton nothing but hay fields with only smatterings of hay bales, and only two fields in which the grain or canola was more than 12-18 inches tall (half its usual length). This does not bode well for the Alberta farm economy. For such a short crop is hard to combine, likely be lower-yielding (yield is a function of photosynthesis, & shorter plants with less leaf surface have hence a lesser capacity to convert solar-, into chemical-, energy), and produces les straw, traditionally a fall-back, secondary source of feed for wintering cattle when hay is in short supply and/or expensive (both of which are the case this year). So beef cattle farmers are already talking about cutting back their herds which, in the short run, **may** make beef in the stores a bit cheaper but longer term **will** make it a lot more expensive than it has already become in the past year or so.

Quote of the week : "The problem, then as now, is that the world's financial institutions, meant to intermediate efficiently between savers and investment opportunities, instead misallocate capital and create risk." - Joseph Stiglitz in a Guardian article entitled America is on the Wrong Side of History - *A septuagenarian, neo-Keynesian, contrarian, Nobel laureate economist now at Columbia University, he was the first to pin part of the responsibility for the 2007-2008 Financial Crisis on Alan Greenspan, from 1995-1997 Chairman of Clinton's Council of Economic Advisers) & from 1997-2000 Chief Economist of the World Bank (until fired for publicly disagreeing with its policies), the lead author of a Panel on Climate Change report, & an adviser to President Obama [although he called the architects of his bank rescue plan "either in the pockets of the banks or ... incompetent" (if he targets Larry Summers, a key member of the cabal that caused President Clinton to have Glass Steagall, the 1933 law separating investment-, from commercial-, banking revoked, after which he became President of Harvard & well-to-do as an 'adviser' to banks until he became Obama's first term White House Economic Adviser after the 2007-2008 Financial Crisis, he is likely right on the money)].*

Last week's quote of the week prompted one of you to e-mail that he prefers two others in the same vein, one Walter Lipmann's[1] "Where all think alike, no one thinks very much" & the other Mark Twain's "If you're of the same opinion as everyone else, it's time to change your mind."

Last July 21st Jeffrey Currie, Head of Commodities Research at Goldman Sachs, reiterated, in a Bloomberg interview, his earlier call that gold could trade < US$1,000 because "with a more positive outlook on the dollar (*while it appreciated by about one-third against a basket of other currencies in the four years ended last May, it since seems to have stalled & moved sideways*) and with the *currency* debasement (*a fancy word for untrammeled money printing)* risk starting to fade, the demand to use gold as diversifying asset against the US dollar becomes less and less important" & on August 3rd reiterated this to clients. And on July 27th HSBC cut its gold price forecast for this year & next. And yet on August 6th Goldman was reported to have bought 3.2 tons (US$100+MM worth)-, & HSBC 3.9 tons (US$130MM)-, of physical gold/gold bars **for their own accounts** - *it is worth recalling that prior to the 2007 subprime crisis Goldman amassed a huge short position in credit defaults swaps while advising its clients to go long in them (later it was fined US$500MM for this, a tiny fraction of the profits it had generated by doing so).*

(continue on next page; I don't know what happened here; my computer is acting up)

[1] Who died in 1974 at age 85 and in some people's opinion was "the most influential journalist of the 20th century" while in the eyes of others he was "the Father of Modern Journalism"

Worth Wray, Chief Economist at Bellevue, Wash-based Evergreen Capital & prior to that Chief Strategist at Dallas-based Mauldin Economics, recently noted that, while the legendary William McChesney Martin, the ninth & longest-serving Fed Chairman (from April 2nd, 1951 to January 31, 1970, 131 days more than Greenspan) once described his job as "removing the punchbowl ... just as the party was warming up", Greenspan & Bernanke seem to have seen their job, and Yellen now seems to see hers-, as keeping the party going as long as possible, which has resulted in the one of the longest-, but also weakest- & *most debt-fueled-,* periods of economic growth in US history - *and, like politicians, by 'rolling the problems down the road', they ignore C.S. Lewis' astute, common sense observation "If you are on the wrong road, progress means doing an about-face and walking back to the right road; and in that case, the man who turns back soonest is the most progressive man"*[2]*, as well as the definition of insanity attributed at various times to Albert Einstein, Mark Twain & Ben Franklin as "repeating the same mistake over and over, and then expecting different results" & the old stock market adage that "the first loss is the easiest to take."*

According to the WSJ, US M&A activity is on track to hit US$4.58TR this year, which would beat the 2007 record of US$4.29TR (*by 6.8%*) - *this is by no means as remarkable as it look, given that inflation since then has been a cumulative 11.4% & GDP grown 8.4%.*

Last week's first (*Republican Presidential wannabes'*) debate of the 2016 election cycle, on Fox News attracted 24MM viewers, 8x as many as its counterpart four years ago. This is interpreted by some as reflecting a nationwide thirst for change[3] (while North of the border polls showing the three major parties in a dead heat suggest the same may be true there). Be that as it may, the first poll conducted after the US debate, by NBC News/Poll Monkey[4] during a 24 hour period on August 7th & 8th, showed support for Trump having increased one point to 23%, Ted Cruz jumping into second place (from 6% to 13%) & Ben Carson into third with 11% (from 8%), Marco Rubio & Carly Florina[5] tying for 4th with 8% (from 8% & 2% respectively) and Jeb Bush & Scott Walker, previously tied for second with 11%, dropping into a 7% sixth place tie.

According to the National Energy Board Canadian railways hauled 15,980 bbld of crude oil in the First Quarter of 2013. This rose to 105,632 bbld. one- & to 165,524 bbld two-, years later, peaked at 165,978 bbld (*i.e. 2,500+ tank car loads*) in the Third Quarter of 2014, & declined to 119,715 bbld in the First Quarter of this year - *Since Canada's crude oil output peaked last January at 4.95MM bbld (although it since declined to 3.98MM bbld), this suggests that those who think oil-by-rail could become a prime mover of Canadian oil to market are delusionary*.

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2 Advice that the Irish-, & to a lesser extent the Spanish-, government seem to have taken to heart early on in the 2007 financial crisis, withe the result that their economies both are now among the fastest-growing economies in Europe.

3 Although the latest polls, one by McClatchy,conducted during the period July 22- 28, seemed to show little sign thereof, with Hilary leading all 17 Republican hopefuls by spreads ranging from 49-43 over Bush to 52-35 over Sen. Lindsey Graham, & a CNN poll having Bernie Sanders lead Bush 48-47, Walker 48-42 & Trump 59-38.

4 A 16 year-old, Palo Alto, Cal.-based on line survey entity that conducting 90 surveys a month.

5 Who by all account was the star of the debate, although she had been anything but during her 6-year tenure as CEO of Hewlett-Packard.

In July the Canadian Federation of Independent Business Barometer Index, a measure of confidence among Canadian small businesses hit 58.2, a six-year low, with pessimism, not surprisingly so, greatest in Alberta & in the resource sector.

NDP Leader Thomas Mulcair's performance at a Vancouver rally on August 9th may have raised two red flags. He talked very rapidly, like a salesman seeking to limit his audience's ability to properly process his patter. And the childcare program he pushes may have less to do children's welfare than with boosting the cash flow that would be generated for unions directly by the hundreds of thousands of daycare workers needed to provide the "quality childcare" he promises, & indirectly by a higher women's labour force participation rate.

In the US institutions dominate the stock markets, while in China, according to the CICC[7], retail investors own 80% of the tradeable float, & the China Securities Depository and the government agency keeping track of such things, reported that in July the number of retail investors with stocks in their accounts plunged by nearly one-third to 51MM - *in the short run this is a good news story since it will reduce the overhang of stocks in 'weak hands', while longer term it may be less so if it were to scare retail investors out of the stock market for good.*

For the past year the People Bank of China's yuan US dollar peg eroded Chinese exports' global competitiveness (*it appreciated 80% against the Yen)* & cost it US$300BN in reserves. So on August 11th it cut the yuan's 'daily reference rate' by 1.9% (*with there being a lot of pressure from just about every domestic quarter to cut it by much more*), with Bloomberg Intelligence's Chief Asia Economist Tom Orlik estimating every 1% depreciation boosts its exports' growth rate similarly (with a 3 months lag) & leads to US$40BN in capital outflows - *but to the extent this makes the yuan more responsive to market forces it enhances the probability of the IMF accepting it as the fifth currency, in addition to the US$ (47.0%), the Euro (33.7%), sterling (12.4%) & the Yen (6.9%), in the currency 'basket' that determines the value of the SDR* (*an IMF unit of account created in 1969 to address a feared shortage of reserve currency assets that since the collapse of the Bretton Woods system of fixed exchange rates in the early 1970's has fallen short of expectations to the point where even the IMF calls its role in the present system "insignificant")], something that Beijing deems important as a first step towards the yuan's evolution as a reserve currency, and that hence, not surprisingly so, the US opposes*[8].

In China July auto sales/retail deliveries were down 2.5% MoM to 1.3MM units, a 17-months' low, & property sales down 32% MoM (although up 39% YoY), the PPI (Producer Price Index) was down (for the 40th month in a row) by 5.4% YoY (vs. 5.0% expected), & all economic news reported on Wednesday fell short of expectations.

A study released last June by the LSE's Grantham Institute on Climate Change & the Environment concluded "both China's economic rebalancing away from dirty, heavy industries and its newfound concern for the environment are real, and *are* producing tangible results

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7 A Beijing-based investment bank that counts \Morgan Stanley & the GIC (Government of Singapore Investment Corporation0 among its shareholders

8 And on August 4th Siddharth Tiwari, the Director of the IMF's Strategy, Policy and Review Department, said "We are proposing *to the IMF Executive Board* extending the current SDR basked (*i.e. composition*) for nine months until Sept. 30, 2016, to avoid changes in the basket at the end of the year.", *seemingly a move to give Beijing more time to get its ducks in a row where the tradeability of the yuan is concerned (with both this decision to extend, & the eventual inclusion of the yuan, requiring only a 70% support, i.e. far less than the 'blocking power' of the US vote.*

sooner than had been expected. That translates into an economy that is using less coal and spitting out fewer emissions than even a few months ago." And according to the China Electricity Council in 2014 non-fossil fuel sources of energy accounted for 25.% over of its electricity use (*up from 22.2% YoY); while most of this is still accounted for by hydro, in 2013 both wind-, & solar-, generated power showed well-in-the-double-digit growth YoY*).

After overnight talks in Athens Greek Finance Minister Euclid Tsakalotos said on August 11th that agreement had been reached with its creditors[9] although "two or three small issues" were yet to be resolved; this was later confirmed by the EC reporting agreement had been reached "in principle" on a 86BN Euro/US$95BN bailout deal (*that involves no new money*) - *this is only a small step on a long road*. The Tsipras government still has to get it through Parliament this week in order to be able to meet a 3.5BN ECB payment due on August 20th (which may be a handful since the agreement includes a provision to phase out early retirement, & raise the retirement age to 67, by 2022). And for the Greek economy to have even a chance to start growing fast enough to start whittling down its debt-to-GDP ratio, debt write-offs are essential (that will especially hit German pockets) - *in the event, on August 13th the bailout deal was passed handily in Parliament on August 13th by 222 of its 300 members, even though 43 of the 149 MPs of Tsipras' own Syriza Party abstained (although he may not be as lucky in the confidence vote scheduled for next week.*

GLEANINGS II - 627
Thursday August 13th, 2015

CHINA STUNS FINANCIAL MARKETS BY DEVALUING YUAN FOR SECOND DAY RUNNING (The Guardian, Phillip Inman & Fergus Ryan

- The August 12th move sent the yuan to a four-year low & shock waves through global markets out of concern China's economy is in worse shape than hitherto believed & this move triggering a currency war that would destabilize the global economy. And it came the day after the PBOC had called its initial 1.9% devaluation a "one-off" event & had said "Looking at the international and domestic situation, currently there is no basis for a sustained depreciation trend for the yuan" and that the move was a result of a project to liberalize the yuan's management & not an attempt to drive down its value.

Rather than a sign of panic, this one-two move may well have been deliberately orchestrated to give Pres. Xi more leverage-, & something else to talk about, other than cyber attacks & jihadists (i.e. inclusion of the yuan in the SDR 'basket') when he visits Washington next month in conjunction with a visit to New York on the occasion of the opening of the 70th UNGA session (the timing of the former may well be tit-for-tat for President Obama last November having combined an official visit to President Xi with attendance at the APEC meeting in Beijing).

HERE ARE 6 THINGS TO CONSIDER NOW THAT WE HAVE THE JULY JOBS REPORT (Business Insider, Mohamed El-Erian)

- The continued strength of the labour market increases the probability of the Fed hiking its benchmark interest rate at its *regular* September meeting. But the August 7th new job

9 Incl., despite its earlier negative talk, the IMF.

creation number was not 100% supportive[10] of a rate hike since domestically wage growth remains tepid & internationally conditions are far from supportive. The combo of slow wage growth at home & international economic fragility will have the Fed keep a close watch *not just* on wage growth, *but also on* demand in the emerging world and the financial state of Europe/the prospect of a Greek deal. So, while continuing to manage expectations of a September rate hike, it will keep its options open until the very last moment. Be that as it may, the Fed will likely move before the three other major *Western* central banks.

Since the FOMC is more dovish-, than hawkish-, biased, anything but fearful of inflation, since the Volcker days has been re-, not pro-,active &, as a group of public servants with job security, abhors decision-making, the above may not augur well for a rate hike in September.

US FACTORY ORDERS REBOUND ON STRONG DEMAND FOR AIRCRAFT
(Reuters, Lucia Mutikani)

- On August 4th the Commerce Department reported orders for manufactured goods were up 1.8% MoM in June after having declined 1.1% in May.

While some see this as a "hopeful sign" for the struggling manufacturing sector (that has been hard hit by the strong dollar), this was due to 'robust' demand for transportation equipment (& more specifically aircraft, the order flow for which is notoriously 'lumpy'). And a 0.17% two-month average rate of growth is nothing to write home about.

SEC APPROVES RULE ON PAY RATIO (NYT, Peter Eavis)

- According to the Washington, D.C.-based, labour movement-affiliated Economic Policy Institute 50 years ago CEOs were paid 20x-, but now get up to 300x-, as much as their employees. So, after long delays & lots of corporate America pushback, the SEC on August 6th voted 3-2 (with its two Republican members opposed) to *finally* act on the part of the 2010 Dodd-Frank overhaul of financial regulation that would require public companies to regularly reveal the gap between their CEO's & employees' compensation (but allowed lots of leeway in calculating it in response to corporate claims doing this was costly & complex).

Since this won't take effect until 2017, no result will be seen until 2018.

INVESTORS FLEE PIMCO FUND (Bloomberg)

- In July Pimco's Total Return Fund had redemptions for the 27th month in a row (of US$2.5BN). After US$5.6BN in April, US$2.7BN in May & US$3.0BN in June, this cut the AUM of what once was the world's largest bond fund to US$101BN (from a peak of US$293BN in April 2013), despite its return YTD being 1.6%, better than 93% of its peers.

This AUM erosion started long before the resignation in March of last year of CEO & CIO Mohamed El-Erian (& his almost immediate retention as chief economic adviser by PIMCO's

[10] At a preliminary 215,000 it was 10,000 below the 225,000 expected and down 6.9% MoM, 17.3% from May, 13.6% YoY & 6.1% below the previous twelve months' average.

parent, Munich-based Allianz) & the not quite voluntary departure of PIMCO founder Bill Gross (who at one time had Warren Buffett-like status in the fixed incoime community)few of whose clients appear to have followed him to his new employer, Denver, Col.-based Janus Capital).

<u>CORPORATE-BOND OVERLOAD</u> (Bloomberg News)

- After buying trillions of US dollars of corporate debt in recent years bond buyers' appetite is waning. While in July they still took down a record US$135BN of US investment-grade corporate bonds (*up 65% YoY*), they're getting pickier & the spread between such securities & US government-, & agency-, debt is now the widest in two years.

Former Fed Chairman Alan Greenspan earlier this week told Bloomberg "Be afraid of a pending bubble in the bond market." Any trend towards risk aversion among investors will only accelerate as over-leveraged oil companies (48 of whom Moody's last May called "vulnerable") start defaulting on their (high yield) debt as the hedges they had contracted, at US$80 or better before last year's oil price implosion, the proceeds of which have hitherto propped up their revenue streams, run out.

<u>CHILD HOSPITALIZED FOR PLAGUE</u> (NYT, Jenna Lyons)

- In mid-July a child from Los Angeles County was hospitalized following a family camping trip to the Crane Flat campground in the Yosemite-, & to the Stanislaus Forest-, National Parks in Northern California's Sierre Nevada Mountains. On August 6th state health officials announced that she had contracted the plague, the first case thereof in the state since 2006, and had launched an emergency investigation & performed an environmental evaluation to determine the breadth of the malady, and had started warning campers in the mountainous paradise to take precautions in their-, & their pets'-, contacts with wild animals (for fleas from the latter can transmit the disease).

The same day this news came, the Colorado authorities announced that for the second time in two months a resident of the state had died from the disease. While the disease is treated relatively easily with antibiotics when diagnosed in its early stages, the particular strain of it involved in these cases is apparently hard to diagnose because it is asymptomatic.

<u>CITIGROUP PICKS PESO OVER LOONIE</u> (Bloomberg News)

- After declining 20% against the US dollar in twelve months, the peso has made big gains in the currency markets since July 29th, the day before the Mexican central bank announced it would spend at least US$11.3BN to support it. (*Partly as a result thereof?*) on August 4th Citigroup strategist Kenneth Lam recommended that traders short the Canadian dollar on the grounds that, given the Bank of Mexico's plans to support the currency, the peso will fare better than the Canadian dollar in the current bear market for oil,.

Might this be a matter of being 'the best-looking horse in the glue factory'?