The burden of the evidence suggests the onset of a US bear market. Corporate profits as a % of GDP are at a 65-year high, Earnings seem soft (if only because one-third of corporate earnings is offshore-generated?) Share buybacks have puffed up earning per share. Average S&P 500 P/E ratios, 19.3x on a current-, & 24.3x on a ten-year running average-, basis, are at levels only seen 10x in the last 135 years for the former, & 4x for the latter. The last time US domestic equity mutual funds had net inflows was seven months ago. If so, for investors who wonder if stock market pullbacks present buying opportunities, there may be guidance in the last two bear markets : in the 36 months to January 2003 the S&P 500 declined 43.5%, from 1499 to 848, in four steps via interim highs of 1,160, 1,224, 1,147, & 880, and in the 2007-2009 bear market it slid 52.6% in 16 months, also in four steps, from 1,549 to 735, via 1,400, 1,282 & 903.

The annual, 'by invitation-only' central bankers' clambake at Jackson Hole, Wyo. over the August 28th weekend was attended by central bankers from 30+ countries, incl, the central bank chiefs of Japan, the UK, India, Brazil, Mexico, South Korea, Turkey, Canada & Saudi Arabia. It was noteworthy for four reasons : the conspicuous absence of Fed Chair Janet Yellen[1] & ECB President Mario Draghi (who both had said earlier they would give it a pass), the absence, for the second year running, of any commercial/investment banking representatives, the concerted efforts by several academics in attendance to disabuse the central bankers of the notion they could predict, & manage, inflation to the point where MIT Prof. Athanasios Orphanides, a former ECB Governing Council member, told them *point blank* that trying to influence the level of inflation without thoroughly understanding it was " a recipe for disaster" and, finally, Bank of England Governor Mark Carney[2] counseling his fellow central bankers to show humility, saying "We have to be clear about when we fail ... It's a painful process, but it can bring some credibility" (*a heretical idea for a clan that has always operated on the basis that credibility comes from cloaking oneself in a robe of infallibility & hiding behind Oracle of Delphi-like gibberish).* Fed Vice Chairman Stanley Fisher, the very credible former Governor of the Bank of Israel & the power behind the Yellen throne (who is deemed "dovish" rather than an out-and-out "dove"), in his keynote presentation (which he said 'reflected his personal views') made two interesting observations; namely that "There is good reason to believe that inflation will move higher as the forces holding down inflation (*incl. oil prices that are unlikely to crash as spectacularly over the next-, as they did in the past-, year, and slack in the labour market*) will dissipate ... so downward pressure on inflation from that channel should be diminishing as well" & "because monetary policy influences real activity with a lag, we should not wait until inflation is back to 2% to begin tightening", closing his remarks with a (*dire?*)warning that, while the Fed's objectives are defined in terms of domestic economy goals, it believes that in acting on them it will serve the best interests of the global economy - *more evidence, like a comment by Carney[2], that the central banking community's traditional collegiality is history (& central banker 'speak' for 'everyone for himself & the devil gets the hindmost'?)*

After steadily building for six years, emerging market countries' FX reserves hit US$8+BN (*about two-thirds of the global total*) on June 30th of last year. In the next three quarters they declined at an accelerating rate : by US$147BN in the Third Quarter-, US$179BN in the Fourth Quarter-, of last-, & by US$227BN in the First Quarter of this-, year (*& anecdotal evidence*

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1 Since four other voting FOMC members also didn't attend this meant that a total of five, i.e. half, the members that have a vote this year didn't attend while last year only two didn't.

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2 That a slowdown in China would not derail plans to start raising interest rates in Britain.

suggests this continued in the Second Quarter). Three reasons have been advanced for this. The developed countries have moved from an aggregate trade deficit-, to a surplus-, position vis a vis the emerging market countries, lower commodity prices & the reversal of the previous (*hot money?*) capital flows from the developed-, to the emerging market-, countries (*Julian Brigden of Vail, Col.-based Macro Intelligence 2 Partners, a seven person hedge fund consultancy, calls this "reverse QE"*[1]). While some say this is due to the weakness of the secondary reserve currencies (Euro, Yen, sterling, and Canadian & Australian dollars) against the US dollar, their case is weakened by the US dollar still accounting for the lion's share of their reserves, the IMF finding that there has indeed been a decline in their US dollar holdings (*both China & Russia have been sellers*) & the fact that the Fed's custodial holdings of Treasuries for other central banks have declined somewhat.

President Obama's push for stronger environmental policies now has a better chance of coming to fruition than even a year ago. For not only do almost three-quarters of Americans now believe the Earth is getting warmer, & almost half of them that it is due to human activity (while for less than 25% it is still just a function of natural patterns & another 25% remains in denial), but several of the Republican Presidential hopefuls, incl. Jeb Bush, have acknowledged that man-made climate change is real. There is only one problem, while the 60% of the 18-29 year age cohort that believes human activity is responsible for the Earth's warming often doesn't vote, the 69% of those aged 65 & over who don't share that view, *many of whom don't think long-term/or give a rat's ass about what will happen after they're gone*, are regular voters.

The effect of the lower oil prices is starting hit the Alberta economy harder. Unemployment is up & spreading beyond the oil & gas sector. This week two big oil companies announced plans to let 900 more staff go over the next two months. Last month home sales in Edmonton were down 19% MoM & 5.6% YoY (and in Calgary down 27% YoY) and the value of the homes sold down 17.4% MoM & 2.9% YoY (in part because, strangely enough, the market for higher-priced homes has weakened). In the midst of all this the government made public its first-ever quarterly update : it envisages a $5.9BN revenue shortfall from expenditures of $50.2BN[2] (that it says could go to $6.5BN), and a $300MM increase in its financing requirements, to $10BN, from the Spring Budget - *the government may be making a big appears to be making a big mistake in lowballing the deficit, rather pumping it up & laying the blame at the feet of its predecessor).* Today by-election day in the Calgary Foothills provincial constituency to fill the vacancy created when the former Premier Jim Prentice resigned in a huff on Election Night May 5th before the final vote count was even out, after serving less than seven months as the Province's Premier; the outcome was not a happy one for Premier Notley; for her candidate, a veteran politician, former Member of the Legislature & City Councilor with lots of name recognition, was decisively beaten (34.5 - 27.3) by a political novice running on the Wild Rose Party ticket. Turnout was lousy (although the advance polls had been heavy), only 28%, vs. 52% in the May 5th election & 36% in the October 2014 by-election that had elected the then Premier Jim Prentice

Over the August 28th weekend Premier Li Keqiang sought to restore faith with global investors by saying that "there was no basis for a continued depreciation of the Yuan" but conceded that "more precise" stimulus may forthcoming - *both these observations, however, may have done more harm than good since they suggest to some, if not many, that Beijing is worried about the*

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[1] For while QE pumped liquidity into the system, this is having the opposite effect.

[2] Up $1.8BN from its predecessor's spring budget, in part, but only in part, due to factors beyond its control (more forest fires than usual & aid to drought-stricken farmers)

state of the Chinese economy & stock markets, and baffled as to what really to do about it). On the other hand, while the eyes of the world are focused on the Chinese stock market, in the real world progress is being made rebooting its economy to a different business model; for its service sector is strong, & getting stronger, and consumption doing well, while in manufacturing small- & medium-sized business without adequate bank support are going under as big firms with ready access to bank financing, an ability to outsource production to lower cost countries & the benefit of lower commodity prices, gain market share in the process & position themselves to become stronger global competitors down the road..

Putin will visit Beijing this week on the occasion of the official anniversary celebrations of the end of WW II[3]. In a pre-visit interview with Xinhua released September 1st he bragged that "Russian-Chinese ties have reached probably the highest level in history and continue to develop" while in the real world trade between the two nations in the First Half of 2015 was down 29% YoY to US$30.6BN & Russian officials now concede that US$100BN bilateral trade level that Putin last October publicly embraced as the target for the current year will be unattainable - *while targets haven't been met for years, the situation has been made worse in the last year by the low oil prices & the precipitous drop in the value of the ruble.*

GLEANINGS II - 630
Thursday September 3rd, 2015

Quote of the week : "The 40% decline in the Chinese stock market since June has nothing to do with any deterioration in the *Chinese* economy, just as the 58% surge in the first half of this year didn't reflect a genuine improvement in economic fundamentals either" - Julian Evans-Pritchard (*fluent in Chinese & with an undergraduate degree in mathematics & economics from the University of York, he worked as a translator for Caixin, China's leading financial newspaper, before joining Capital Economics in Singapore in 2013 (where he is part of a team monitoring the Chinese economy) - this is not to say that everything is A1-OK in the Chinese economy, just that the sharp correction was just as irrational as the rocket-like stock market trajectory that preceded it.*

IMF's LAGARDE SEES WEAKER THAN EXPECTED GLOGAL ECOMOMIC GROWTH
(Reuters, Eveline Danubrata)

- On September 1st, during her first visit to Indonesia in three years, she told a group of university students that global economic growth will be slower than expected due to a slower-than-expected recovery in the developed world & a further slowdown in the emerging nations. And she warned the latter to be "vigilant for spillovers from China's slowdown, tighter global financial conditions and the prospect of a US interest rate hike" but expressed confidence that Beijing would successfully deal with China's transition to a more market-oriented economy & the unwinding of the risks built up there in recent years. As to their own country, she told the students that with its sound public finances, a low debt-to-GDP ratio & only a small budget deficit, it had "the right tools" to react to global volatility.

Last April the IMF forecast of global growth for this year was 3.5% (but recently & informally it has begun shading that down to 3.3%.

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3 Which Xi has turned into a display of military fanning the flames of anti-Japanese nationalism to what could be dangerous levels in what may be a sign of weakness rather than strength.

<u>TWO U.S. FED OFFICIALS SAY RATE HIKE JUSTIFIED</u> (Bloomberg, Jeanna Smialek)

- On August 28th, at the central bankers' Jackson Hole annual get-together, Cleveland Fed President Loretta Mester told Bloomberg "Inflation expectations have been relatively stable, we have ... above-trend growth, we have labour-market improvements continuing ... My view ... is that the economy can sustain an increase in interest rates", & St. Louis Fed President James Bullard "the key question for the committee is - how much would you want to change the outlook based on the volatility that we've seen over the last 10 days, and I think the answer to that is going to be : not very much ... You've really got the same trajectory that the committee will be looking at that we were looking at before, so why would we change strategy which was basically to lift off at some point." This came two days after New York Fed President & FOMC Vice-Chairman Bill Dudley said market turbulence made the case for a September lift-off "less compelling to me than it was a few weeks ago".

All three 'talked their own book' : for Mester & Bullard are FOMC members are rated "hawkish" (but not outright "hawks") while Dudley is an outright "dove" (but as Vice Chairman he has permanent voting status, whereas both Mester & Bullard this year don't-, but next year will-, have a vote). While Yao Yudong, the Head of the PBOC's Research Institute of Finance and Banking blamed the Fed for the market turmoil & said a US rate hike ought to be delayed, most foreign central bankers publicly & privately opined that after telegraphing it for so long, & after a year-long rise in the US$, global financial markets are as ready as they'll ever be for the Fed to act on its "lift-off" talk (even if that would prompt potentially painful adjustments for them): thus Agustin Carstens, the Mexican central bank chief[4],told Reuters "If the Fed tightens, it will be due to the fact that they have a perception that inflation is drifting up, but more important that unemployment is falling and the economy is recovering ... For us that is good news." (for his expectation, & that of others, is that this will result in a still stronger dollar that would boost their exports to the US). There is never a good time to do unpleasant things, but if, in the face of strong Second Quarter GDP-, & decent job-, growth, a 5.3% unemployment rate (down from 10% six years ago[5]), declining labour market slack (according to Fed Vice Chairman Fisher), a pickup in housing market activity & a buoyant Conference Board Consumer Confidence Index[6], if the FOMC's so-called "data-dependent" decision were not to launch lift-off, it will risk losing even more credibility than it already has.

<u>EX-US TREASURY SECRETARY WARNS FEDERAL RESERVE TO NOT MAKE 'SERIOUS ERROR' OF RAISING INTEREST RATES</u> (Daily Mail)

- On August 24th Larry Summers on Twitter compared the rout in financial markets to the buildup to the financial crisis of 2008-2009, saying "We could be in the early stage of a very serious situation" & urged Fed Chair Janet Yellen not to raise interest rates at the

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4 3 Who in 2011 had been the runner-up to Madame Lagarde in the race to head the IMF (but failed to win because the emerging economy governments failed to unite behind him).

5 4 And well below the 6.5% level that former Fed Chairman Ben Bernanke had once claimed would be the trigger point for possible lift-off.

6 That in August came in at 101.5, up from 91 MoM [with good gains in both the Present Situation sub-Index (104 to 115) & the Expectations sub-Index (82.3 to 92.5)] and from 88.4 YoY, the fourth this year it has exceeded 100, a level last seen in August 2007).

next FOMC meeting in September since “A reasonable assessment of current conditions suggests that raising rates in the near future would be a serious error that would threaten all three of the Fed’s major objectives - price stability, full employment and financial stability”

This is the same man who three months ago, at a conference in Paris, spoke of “toxic interest rates” & warned his audience about the dangers of global interest rates “remaining mired at record low levels” that favoured “zombie” companies only able to meet their debt service obligations because interest rates were so low, who as his White House Economic Adviser during his irst term does not seems to have served Obama very well as the latter sought to deal with the mess Bush 43 had beqeathed him, and who, as Bill Clinton’s Secretary of the Treasury was a key member of the cabal that succeeded in having the Glass Steagall Act (that for six decades had separated commercial-, from investment, banking) revoked, thereby contributing to, if not creating the major cause of, the 2007-2009 financial crisis.

OIL EXPORT BILL SAID TO BE SET TO MOVE AS PRICE FEARS EASE (BB, Mark Drajem)

- The US House of Representatives Congress is set to start consideration of revoking the 1970's law that banned oil exports. The expectation is that it will complete doing so, & send a bill to that end up to the Senate for its approval, before the end of this month. While oil companies have been pressing for-, & refineries fighting-, this for over a year, according to Louis Finkel, EVP for Government Affairs at the Washington-based API (American Petroleum Institute) “What we’ve seen is a shift in the views of policy makers and the American public ... Every day that goes by, bipartisan support for this grows.”

Policymakers’ concerns that doing so might result in higher gasoline prices at the pump were alleviated by a study by the EIA that said that, if US oil production were to keep rising, lifting the ban would (likely) cut the spread between the Brent & WTI prices & not affect prices at the pump.

SPENDING ON HEALTH CARE DRIVING U.S. GDP GROWTH (G&M, Scott Barlow)

- The US is the only developed country that counts healthcare spending as consumption, even though it is far less discretionary than spending on, say, cars & clothing,. So in the context of recent US GDP growth it’s relevant that over the past year healthcare ‘consumption’ has grown at a 5.2% rate & overall consumer spending at just 3.2%.

To a significant extent healthcare spending is a function of an aging population.

XI SAYS CHINA NO THREAT, ANNOUNCES MILITARY CUTS AT PARADE (Bloomberg)

- At the huge military parade ostensibly put on to commemorate the end of WW II, but in reality to distract the hoi polloi’s attention away from the flood of bad news that is weighing on their minds (incl. the slowing economy, stock market crash & Tianjin *chemical* warehouse explosion) & negatively affecting their faith in the system, Pres. Xi announced plans to cut the PLA’s strength by 300,000 to 2MM. While in a televised speech he portrayed this as proof of China’s commitment to peace, neighbouring countries that have experienced first hand China flexing its muscle, & hiking tension, in the East-, *& South*-, China Sea aren’t buying it & Zhang Baohui, Director of the Center for Asian Pacific Studies at Hongkong’s Lingnan University said “The cuts won’t hurt the

PLA fighting capabilities. It's part of the reform package to streamline the PLA to make it more combat effective."

The ironic part is that the role played by Mao Tse Tung's Communist legions in the fight against Japan prior to, & during, WW II was relatively minor & that most of the 'heavy lifting' was done by the forces of Chiang Kai Shek (who lost the subsequent civil war & fled to Taiwan in 1949).

SYRIZA FALLS BEHIND CONSERVATIVES AHEAD OF GREEK ELECTION
(Reuters, Renee Maltezou)

- A poll made public on September 2nd showed Alexis Tsipras' leftist Syriza party falling *slightly* behind the right-of-centre New Democracy Party, 25.0% - 25.3%. And while another poll made public earlier that same day had Syriza slightly ahead, 23% - 22.6%, its 0.4% 'lead' was down significantly from the 1.5% in a poll by the same firm three days earlier. A 72 year-old pensioner spoke for many Greeks when he said "He promised us that he wouldn't touch pensions and that he would tear up the bailout agreements. He didn't tear up anything and he's put us in a worse position, and the Greek people are going to suffer".

This comedown in Syriza support from the almost 40% in last January's election was due to its more leftist elements having abandoned it in droves . And it could get quite messy; for any 'winner' with only 25% voter support will have just 113 seats in the 300 seat Parliament, even after the 50 seat 'bonus' to the 'winner'. And, with most of the other votes having gone to parties of the Extreme Right or Extreme Left, the New Democracy Party would have difficulty forming a viable coalition government and, while Tsipras might have a slightly easier time doing so, this would result in a government hostile to the 86BN EuroThird Bailout. So either Tsipras must abandon his opposition to a coalition with the New Democracy Party or another election, unlikely to solve anything, will ensue before long. Meanwhile, the economy is doing better, Second Quarter GDP growth of 0.9% was up from 0.1% QoQ, & from -0.2% in 4Q/14, largely due to an upsurge in foreign tourism.