

NOTE : My computer developed glitches that that drove me crazy and one I wasn't able to fix; so expect a big blank space halfway through.

The recent influx of Syrian refugees into Europe is, to a significant degree, a self-inflicted wound; for the various international humanitarian organizations that sustained them in Jordan & Lebanon have been so starved of funds, as governments pledged funding but didn't come through with cash, that they were forced to cut their living-, & healthcare-, support to the bone. This left the 4MM of them with a choice between seeing their children starve or die where they were, taking them back into Syria (which for many wasn't an option), or seeking their fortunes elsewhere, with the risk of perishing as they did so being acceptable under the circumstances.

The refugee problem in Europe is a time bomb. In the short run, while EC Council President Jean-Claude Juncker on September 9th announced an emergency refugee acceptance quota system for 22 of the 28 EU member countries, the reception it was accorded was like that of 'a dead squib', despite the fact it provides for the relocation of only 160,000 refugees. Denmark, long 'soft' on refugees, doesn't want any & has launched an advertising campaign in Lebanon, warning would-be refugees how difficult it would be for them to assimilate. In Sweden, historically another 'softie' nation, anti-refugee resentment is building. A poll found 94% of Czechs want all refugees deported & Slovakia's Prime Minister opined they wouldn't want to stay in his country in any case. Romania is willing to take only one-third of the refugees Juncker allotted it (& has a case since it is not part of the Schengen area). France has indicated it will take only 24,000 of Juncker's 60,000 (having had bad experiences with Muslim immigrants of yesteryear & their offspring) & Britain only 20,000 over five years (vs. Juncker's 85,000 forthwith). And longer term, this inflow of refugees will favour the hard right, anti-immigration parties who will prey on fears this is nothing but a dark plot to 'islamize' Europe & may create problems when Europe doesn't live up to their expectations as they find that life in Europe is not without challenges of its own.

Last weekend, the G-20 Finance Ministers met, with the main agenda item being currency valuations¹. China's representative explained that while its bubble had burst, the stock market decline is about over & the Yuan may (sic!) stay at its current level for a long time, and the economy will keep on growing at 7% - *but the declining credibility of China's economic data, and Beijing's recent inept response to a stock market crash that it helped bring about may raise doubts about its ability to stabilize the yuan; if so, the recent flood of money leaving China² could turn into a tsunami, putting pressure on both the yuan & the stock market.*

At the end of the Second Quarter US wholesale inventories were US\$586BN, up 5.4% YoY (even though petroleum inventories were down 18.2%³), after having grown by 0.3%-, & 0.8%-, QoQ in the First & Second Quarter respectively - *Inventory accumulation is either voluntary (expecting higher sales) or involuntary (sales fall short of expectations); and with wholesale sales down 3.8% YoY (in part, but only in part, due to lower gas prices) the odds seem to favour the latter, in which case these inventory levels will dampen economic growth during the*

¹ A meeting Prime Minister Harper apparently deemed important enough to have Finance Minister Joe Oliver interrupt his political campaigning to attend.

² In July & August US\$150+BN is said to have left, incl. US\$100BN in the first two weeks of August.

³ Which, since the price of oil was down a great deal more, still reflected volume growth increase.

Second Half (with Second Quarter growth of 3.7%, that benefited from the inventory buildup, being an “outlier”).

According to the EIA & AAA US drivers car enjoyed the lowest gasoline price for a Labor Day weekend in a decade, a national average US\$2.44/gallon (3.78 litres).

Polls show that 71% of Americans don't think their country is on the right path (& *that their elected representatives are manipulating them for their own purposes, have become dissociated from ordinary citizens & no longer have the interests of the country at heart*). To get to such a number, this feeling must have cut across party-, & independent-, lines; in other words, regardless of their political stripe, people are opting, *for the time being at least*, for non-establishment candidates (Trump & Carson for those right-of-centre, and Bernie Saunders for the others). And it is by no means clear whether this message is getting through to the party establishments & what they can, will, or want to, do about it in the fourteen months remaining until the election, and/or whether the next crop of office holders will take this lesson to heart.

While companies have put the brakes on the plans to develop new oilsands projects in Alberta that need a WTI price of at least US\$80 to make sense, half a dozen projects past the point of no return in development/financing terms are still going ahead & will, by 2017, add 500,000 bbl/d of oilsands output to what may by then still be an over-supplied North American market.

On September 8th China's Finance Ministry announced it would roll out a “more forceful” fiscal policy (*i.e. ease up more ‘robustly’*) while Premier Li was quoted as saying the economy was performing ‘within a reasonable range’. And the next day, September 9th, Xu Shaoshi, the Chairman of the National Development and Reform Commission, *i.e. the country's top economic planner*, delivered an equally upbeat message to an audience at the Davos-based World Economic Forum in Dalian – *And while the world's attention is riveted on how Premier Li will tackle the country's economic challenges, the real risk to the world economy may well lie in President's Xi's handling of its political challenges.*

GLEANINGS II - 631
Thursday September 10th, 2015

EXPECTATIONS OF SAUDI OIL SHAKE-UP STIR UNCERTAINTY
(Reuters, Rania al-Gamal)

- The Supreme Petroleum Council that long used to set energy policy was abolished in January *before King Abdullah's body was cold* & the state oil company Aramco has been without a permanent CEO since April when Khalid al-Falih was made Health Minister. This, & the shift in marketing strategy that contributed to (*or caused?*) the oil price slump, have left analysts & traders puzzled as to King Salman's long-term vision, and led to speculation as to the fate of veteran Oil Minister Ali al-Naimi & to rumours a sweeping restructure of the kingdom's energy & minerals sectors is in the wind, with al-Arabiya, a news channel with close ties to the Salman family, reporting Aramco would be split off from the Oil Ministry (& might even be partially privatized). But few know what will happen &, if so, when, since “The decisions are being taken by a small circle of people and a few advisers”. The key figure in all this is Prince Mohammed bin Salman, the 30 year-old Deputy Crown Prince, who heads both a *new* economic development super committee & a new council overseeing Aramco (the first royal to ever have *directly* done so). But as Defense Minister he has also been the public face of the *shooting* war in Yemen (a departure from Saudi Arabia's traditional preference for ‘chequebook

diplomacy'), which may have cut into the time he has had to devote to restructuring the energy sector.

Mohammed (age 30) is a law graduate from King Saud University (founded in 1957 as the Kingdom's first university not dedicated to religious subjects) whose main job for the past six years has been to act as his father's special personal adviser (although he has also held a number of civil service posts normally held by people twice his age). He is said to have a limited ability to tolerate views that differ from his own; so, objectively speaking, experience-, & temperament-, wise he may not be the best person to play such a critical role in the kingdom's decision-making process.

SAUDI ARABIA SATISFIED WITH U.S. ASSURANCES ON IRAN DEAL **(Reuters, Yeganeh Torbati)**

- The US-Saudi relationship has been strained by what Riyadh perceives to be President Obama's withdrawal from the region, his lack of direct action against Syrian President Bashar al-Assad's regime & his tilt towards Iran in the wake of the Arab Spring. But after King Salman met with President Obama at the White House on September 4th to seek more US support against Iran *as it seeks to extend its power & influence in the region*, Saudi Foreign Minister Adel al-Jubeir said his country is satisfied with Obama's assurances that the Iran nuclear deal⁴ will contribute to security & stability in the Middle East, noting "Now, we have one less problem to deal with with regards to Iran ... *(and)* can now focus more intensely on the nefarious activities that Iran is engaged in in the region."

Saudi support is more important to the US, & more critical in global terms, than Israel's disapproval.

WEALTHY GULF COUNTRIES SHUN SYRIAN MIGRANTS (WP, Ishaan Tharoor)

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That the agreement prevents Iran from acquiring a nuclear weapon, includes inspections of military & suspected sites, and has a provision for the snapback of sanctions if it violates the agreement.

- The Western countries have been criticized for failing to adequately address, & *help relieve*, the burden on the countries neighbouring Syria as they struggle to cope with the 4MM or so Syrians driven from their homes by the civil war (& *the hundreds of thousands of migrants from countries as diverse as Afghanistan & Pakistan, and Eritrea & Nigeria*). But the media have paid no attention to the *total* failure to help by another set of stakeholders; for according to Amnesty International the “six Gulf countries - Qatar, United Arab Emirates, Saudi Arabia, Kuwait, Oman and Bahrain⁵ - have offered zero resettlement places to Syrian refugees”, while, according to Dubai-based political commentator Sultan Sooud al-Qassemi, they have some of the Arab world’s largest military budgets, highest standards of living &, in the case of the UAE, a history of welcoming citizens from other Arab nations, and to Bobby Ghosh of the news site Quartz have, at least in theory, a far greater ability than Syria’s poorer neighbours, Lebanon & Jordan, to deal with large numbers of refugees.
- *In all fairness, however*, none of these countries is a signatory to the UN 1951 Refugee Convention that defines what constitutes a refugee & lays out his/her rights, and the obligation of states to safeguard them. And for a Syrian to enter them would require a visa that under the current circumstances would not likely be granted.

While the oil price environment is creating major challenges for these countries, their hands-off attitude where the refugees are concerned, would seem to violate the ‘Third Pillar’ (of five) of Islam that requires believers to take responsibility for the welfare of their entire community, in particularly its most neediest members (while the attitude of many countries with a long Christian heritage, with the exception of Germany also is not in line with its teachings, given the experience with many Muslim newcomers refusing to integrate, they have reason to fear an erosion of that very heritage). But the above-named Muslim countries say they were doing their bit long before refugees became the issue it is now by providing employment to tens of thousands workers from Syria. But they could not bring their families nor get long-term residence rights. And their claim that they contributed generously to humanitarian causes, overlooks the fact that they have contributed to the mess in Syria by financially supporting various rebel groups, incl., in some cases, jihadis.

THE THREE OPTIONS OR RENMINBI POLICY (GaveKal Research, Chen Long)

- In the three weeks since its abrupt 3% devaluation the renminbi has traded in a narrow range against the US dollar. But this was not due to a market perception that it is now appropriately valued but to heavy intervention by-, at great cost to-, the PBOC.
- Going forward the Chinese authorities will have three options :
- **continue intervention to maintain exchange rate stability & reduce market expectations** - Going this route could be costly & may not, *if not is unlikely to*, eliminate further devaluation expectations;
- **cease intervention & allow a sizeable (10%-15%) devaluation** - with Beijing repeatedly having rejected this, it would diplomatically disastrous & *do serious harm to its credibility*. And it would seriously damage the balance sheets of Chinese companies (*incl. SOEs*) that have borrowed unhedged in US dollars; or

⁵ Most, if not all, of whom bear part of the responsibility for the mess in Syria because they have played a conspicuous role in funding and/or arming one or more of the rebel and/or Islamist factions fighting the al-Assad regime.

- **scale back intervention so as to allow the renminbi to depreciate slowly -**
This would appeal to a Chinese leadership because it likes gradualism & would avoid inflicting a shock to the economy; so would be politically attractive. But it could fuel self-reinforcing capital outflows.

The interesting part of his assessment is that it assumes that the only way for the Chinese currency to go is down (which would undermine the global competitiveness of other major exporting nations, boost domestic inflation, and interfere with the policy shift to a more domestic consumption-oriented economy & strengthen the hand of the vested interests that are fighting it). And given the global impact of last month's 3% devaluation, the possible impact of one several times larger could be truly unsettling for the world economy & give rise to disequilibrating global capital movements.

CHINA AND THE POISONED CHALICE (OMFIF⁶, David Marsh)

- One surprise of the summer has been how Beijing has let a technical question, the possible inclusion of the renminbi in the basket of currencies used to value the IMF's SDRs, to end up on the front page of the New York Times. For as deeper-thinking Chinese officials know, internationalizing their currency could become a millstone around their neck. For while reserve currency status brings benefits, as Britain learnt in the 1970's it's not a cost-free option & can become a 'poisoned chalice' if the nation involved becomes overextended.
- And Beijing certainly shows signs of overstretch, trying to carry out exchange rate liberalization (*a sine qua non* or *the renminbi's inclusion in the SDR 'basket'*) while trying to weather a stock market rout, in the process creating considerable political & financial market confusion. Opinions are still divided as to whether Pres. Reagan's espousal of the SDI (Strategic Defense Initiative, aka 'Star Wars')

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The London-based Official Monetary and Financial Institutions Forum, a think tank providing a bridge between central banks, sovereign wealth funds & private sector financial groups.

led to Gorbachev trying to catch up, thereby overextending the Soviet Union's finances to the point it caused its demise⁸, future historians may well see an analogy between Gorbachev's bid to catch up with SDI & Xi Jinping's wish to join the SDR..

- The best possible solution is still realizable : a soft landing, the stock market stabilizing at a lower level, a managed repricing of the renminbi & a problem-free path (*i.e. an easing of the US & Japanese opposition*) for it to become part of the SDR next year. But the odds have shortened on a less benign outcome, i.e. an abrupt domestic economic slowdown, a further stock market attrition, a damaging fall of the renminbi (especially if the Fed were to hike rates early), & a shelving of the SDR for "technical reasons.

No doubt the SDR question will be one that President Xi will bring up with President Obama when he calls on him later this month. And, while there has long been a belief in some quarters that Beijing, aware of the demographic & environmental challenges it faces, may be trying to "make hay while the sun shines" , it is increasingly beginning to look as if China may be acquiring some of the trappings of a 'Potemkin village', more front than substance.

FRIENDSHIP BETWEEN PUTIN AND XI BECOMES STRAINED AS THEIR ECONOMIES FALTER (CNBC, Jana Perlez)

- Despite having now met for a dozen times, the relationship between the two has become strained as their countries' economies have faltered⁹. The two landmark energy deals they signed last year have made little progress & weren't even mentioned when the two met on September 2nd *when Putin was in Beijing to stand by Xi's side during the mammoth military parade to celebrate the end of WW II*¹⁰. Their bilateral trade was to have hit US\$100BN this year but in the first six months was only one-third that. While last year Putin bragged that his 30-year deal to provide China with US\$400BN of Siberian natural gas was an "epochal event", the transaction price was never announced & the plunging energy prices will provide Beijing with an opportunity to demand a lower price, especially so since, according to Prof. Jonathan Stern of the Oxford Institute for Energy Studies, "Chinese gas demand now looks much lower than previously thought." Further complicating things is Russia's inability to pay for the pipelines needed to carry the gas to China. So according to Alexander Gabuev, an analyst of Russian-Chinese relations at the Carnegie Moscow Center "The big hope that China is going to provide a lifeline to sustain Russia through the sanctions and the falling oil price is not working ... It is a symbolic relationship - with a small, volatile base ...nothing has materialized as quickly as the Russians had hoped".

Things haven't been helped either by the fact that Russian demand for Chinese manufactured goods is down 40% YoY (& that for clothing 50%), that the weak ruble has made Chinese investors wary, that efforts to get the two countries' banking sectors to work together haven't

⁸ And while President Xi is said to be very aware of what happened to Gorbachev when he sought to ease Communist Party control over the domestic economy, he seems less sensitive to the effect of his international arms race; for, while the growth in the PLA is slowing, it is still in the 10% range (because he needs its support as a last resort in case his authority is challenged?).

⁹ And while China's is merely slowing down from an extraordinarily high level as Russia's economic growth rate has crashed into negative territory, Putin may well be less vulnerable politically than Xi because of his compatriots' lower expectations & tolerance for suffering.

¹⁰ That some deem to have been a warning n effort to his critics rather than a genuine celebration.

jelled, & that, other than commodities, with which the world is now awash, Russia has little to sell that China wants or needs.

MODI SAYS CHINA'S PAIN IS INDIA'S GAIN (CNBC)

- With his top economic team, incl. central bank governor Raghuram Rajan, by his side he told a group of billionaires, incl. India's richest, Mukesh Ambani, at a three-hour, September 8th meeting at his residence that India can withstand global turbulence & China's economic slowdown; furthermore that India's *urgent* drive to modernize its infrastructure has been made easier by the low commodity prices & that as China's economy slows, more foreign investors will become interested in India. He then asked them to open their wallet & *invest*.
- But while India's projected 8% GDP growth is a bright spot among the major economies & has attracted foreign manufacturers, incl. Taiwan's Foxconn, Germany's Siemens & China's Xiaomi, this meeting came in the wake of news that, due to job losses in construction & a drought hitting consumer demand, the economy grew by just 7% during the Second Quarter, the rupee had fallen to a two year low & a stock market sell-off had wiped out most of the record gains made since he took office a year ago. And with highly-indebted firms seeking protection & needing rate cuts, the businessmen called for interest rates cuts of as much as 1.25% by next March, while according to Jim Rogers¹¹, who recently announced he had sold all his India investments, "Mr. Modi ran a nice state ... He campaigned for two years, saying he knew what to do. He has been there 15 months ... little has happened".

Modi may well have a point since the Indian economy is still much less export-oriented than many others, but so has Rogers; for farmer protests forced Modi to back off from his major land reform proposals & the opposition has delayed his plans for a growth-boosting overhaul of the tax system. This, however, has raised expectations of new measures to attract foreign investors.

GOVERNMENT TURNS TO SEMI-HIGH SPEED RAIL (Jakarta Post)

- On September 4th the Indonesian government announced that, *despite immense pressure from the governments involved*, it had rejected proposals from both China & Japan for the building of a US\$6BN high speed (300-350 kmh) rail link between the capital, Jakarta, & Bandung, 150 kms East on the North coast of Java, in favour of a semi-high speed (200-250kmh) link that would be less costly & more efficient on the planned route.

In so doing, it displayed common sense¹². High speed rail is most suited to link cities that are far apart, such as those in China which link Beijing & Tianjin (968 kms) and Beijing & Shenzhen (2,208 kms). And, while there are cases in the world of high speed train use on double digit-, or low triple digit-, kilometre routes, in the vast majority of them the choice of locomotion has been

¹¹ *who, as George Soros' original partner in the Quantum Fund. became a multi-millionaire while still in his 30's upon which he retired to manage his own money, and who a decade lost interest in the US economy, liquidated all his US\$ holdings & moved to Singapore,*

¹² For on the 150 km Jakarta-Bandung route with between five to eight stops a high speed train would only travel at its top speed for a fraction of its journey.

semi-high speed rail (which employs relatively low-, & well-established-, technology - almost a century ago already electric-, and/or diesel electric-, trains were setting speeds records in the 200+ kmh range).

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My 21-hour train trip from Edmonton to Winnipeg was uneventful, and confirmed my long-held conviction travel by train is one of only three civilized ways of traveling long distances [the other two being doing so by ocean liner or by mobile home(not 5th wheel)]. Via Rail lived up to its reputation by leaving one hour late but managed to get to Winnipeg half an hour early, despite numerous waits on sidings to clear the tracks for 180+ car freight trains (as much as 1 ½ miles long!). I was amazed at the length of the train : two locomotives & 22 cars, incl. New fewer than three 'dome cars'. The tracks are clearly not built for trains traveling at the 60+ mile speed this train often traveled to make up time; for it rattled, shook & rolled from side to side to the point where one could help but wonder when, not if, it was going to jump the tracks. Impressions gained along the way included the following :

- the average crop quality seemed to improve from West to East, although the density per acre of both hay-, & straw-, bales seemed lower than usual;
- the lack of cattle & the composition of the cattle herds in evidence. When I came to this country in 1952, white-faced red Herefords ruled the roost & black Angus cattle were in a small minority; while now the former seemed scarcer than a hen's teeth & the latter very much in evidence. What was also very much in evidence were the almost endless stretches of unused fenced land suitable for grazing, suggesting scope for producing more grass-fed beef & less of the penicillin-, & chemical-, laden feedlot-"finished" beef;
- a pronghorn antelope in a field to the East of Saskatoon; I hadn't realized they had extended their range this far North;
- the gigantically enormous pile of mining waste next to one of Saskatchewan's potash mines near Esterhazy; since dwarfed the mine's headframe, it had to be more than twenty stories tall, while I could only estimate its length, but guessed it to be a kilometre/over half a mile;
- with the exception of the local used car & household durables dump, the neat-as-a pin appearance of the small towns along the track, with no fences & grass in public places neatly cut (presumably because the towns don't have to pay their staff union wages; and
- the proliferation of 'sloughs' (shallow bodies of water bordered by bull rushes that make farmland look like a jigsaw puzzle & make grain farming less efficient). The drought conditions this summer had made me forget that when I made the same trip (by bus) five years ago, Saskatchewan had been in the throes of a year with so much rain that much farm land had been left unseeded & some locals were water skiing (behind a car) in the roadside ditches).

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