NOTE. Wednesdays usually are 'writing days'. But last Wednesday was a 'day from hell'. First I got tied up most of the morning with things I hadn't planned on doing. Then, after I finally settling down to do some work, my computer started acting up & became inoperable. Finally, to top it all off battery on my cell phone died. So I lost the best part of two days. And then when I was ready to send it out earlier today, I somehow lost the file; fortunately I found it back, somehow. Hence the late distribution.

Quote of the week : "I am hoping that the voters in Iowa and New Hampshire give thumping victories to Sanders and Trump. Do I think either would make a good president? Unlikely, but I am not exceptionally impressed with the president currently in office. Do I think they are outside the mainstream of American politics? Yes ... that's their attraction." Fr. Raymond J. DeSouza - *Both Trump & Sanders are tapping, from the left & the right, into the vein of dissatisfaction, that has pervaded the trans-Atlantic community, with a system that looks better after self-serving politicians & bureaucrats than after those who pay them & whose interest they supposedly have a fiduciary duty to look after. But that vein may still only be 'one mile wide & one foot deep', i.e. insufficient not sufficient to carry either into office. Historically, to win elections in the US, the UK & Canada, one must have a core support base* ***and*** *appeal to the voters in the centre, something Canada's Stephen Harper & Alberta's Jim Prentice forgot about, thereby enabling Justin Trudeau & Rachel Notley to take them to the cleaners. (DeSouza is one busy fellow. A 44-year old Cambridge grad, he was ordained a Catholic priest in 2002 & is a parish priest on Wolfe Island, a 128 sq. km island offshore Kingston in Eastern Lake Ontario that is accessible by ferry from both Canada & the US. And in his spare time he edits a magazine, is a columnist for the National Post, and teaches in the Economics-, & Education-, faculties of Queen's University..*

The Atlanta Fed GDPNow growth rate slid in the past month - Then it was 2.0%, on January 15th it was 0.6% and on January 20th 0.7%. And this seemed validated by the widening spread spread on the downside between the highest-, & lowest-,10 private sector 2016 forecasts (the range of which usually is well above the Atlanta Fed's number) from 1.5% - 2.7% to 1.1% - 2.8%.

China's GDP growth - The 6.8% Fourth Quarter rate was marginally below that for the year as a whole. In December industrial production was up 5.9% YoY, down from 6.2% in November, fixed asset investment 8.3% & 10.2% and retail sales 10.7% & 11.0%. Last week President Xi urged his government to "stabilize short-term growth" while that same day Prime Minister Li talked publicly about "increased downward pressures" - *the division of labour between the two is that Xi is the political boss, & Li the economic one; so Xi looks at things from a "political wish/need"-, & Li from an "economic reality"-, perspective.* Finally, Wang Bao'an[1], the Head of China's National Bureau of Statistics, the source of the GDP data series, at the January 19th press conference announcing the above numbers assured those present that "The GDP we publish is genuine and credible" - *experience has shown 'the higher the level of the official denying a rumour, the greater the probability there is at the very least an element of truth to it'.*

Farm bankruptcies - The latest USDA's estimate of 2015 net farm income is US$55.9BN, down 24% from its February 2015 forecast of US$73.6BN, & 48% YoY). Midwest agricultural

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[1] Age 52, he has a Ph.D from the Zhongnan Finance and Economics University & came to his present job from that of Vice Minister of Finance after career stops that include, among Non-Executive Director of the CIC (China's souvereign wealth fund) & Vice-Governor of Heilongjiang Province (in China's extreme Northeast, across the Amur River from Russia

lenders fear a wave of farm bankruptcies as soon as this spring. Young, *under-capitalized* farmers have been hit hardest by stubbornly high seed-, & fertilizer-, prices, and declining product ones. Many are also saddled with high-cost land leases contracted during the boom times three-to-five years ago (that last spring already had resulted in fewer seeded acres as some simply walked away from rented land). Matters will only be made worse by them owing more than the US$4MM cap on eligibility under the *low cost* Chapter 12 Farm Family Bankruptcy Act. The reverberations of this could be farther-reaching than has historically been the case. Lenders will, of course, get hit, as will farm suppliers like Deere, Monsanto, Archer Daniels Midland & various fertilizer companies; but so will, on this occasion, for the first time ever, some institutional investors. For rapidly rising farm land values & rents, and 12% RoI's, did give rise in recent years to an institutional 'pile-in' into farm land ownership as an "alternative asset class".This, however, could turn into a double whammy financial negative for those who did : one on their cash flow from lower rent revenues & the other on their balance sheet from declining farmland values. And any ensuing legal battles will likely be much nastier than in the past when farmers rented land from their retired neighbours.

Global market cap down - According to Bloomberg in the past seven months it has declined 25% from its US$75TR high, thus giving up nearly half of its gain since September, 2011 - *and the recent 6.1% appreciation*[2] *of the US$ likely accounts for only a small portion thereof.*

Investors running for cover? - According to BAML in the week ended January 13th investors cashed in US$11.9BN from global equity funds & bought US$3.4BN in UST securities (*a trend that carried over into this week*). This being the biggest flow into USTs in almost a year, it helped to drive the yield on the benchmark 10-year UST bond down from 2.27% at yearend to 1.98% on January 20th (a level still about 30 bps higher than a year ago) - *while part of the global market turmoil is due to the oil price/fiscal deficit-driven firesale activities of souvereign wealth funds, contrarian long-term investors, incl. the late John Templeton*[3] *& today's Warren Buffett, live & die by the dictum supposedly coined by Lord Rothschild, who made a bundle during the panic after the Battle of Waterloo, to "Buy when there's blood in the streets, even if it is your own."*[4]

It "felt good" to hang up on the Prime Minister - It may not have been good manners but is understandable. Last week six Canadians, four from the same Québec family, were killed in a terrorist 'event' in Burkina Faso, West Africa. Last Sunday Québec Premier Couillard phoned the husband of one of the victims & promised him to have all red tape cut for the families of the victims. But when Prime Minister Trudeau called the next day & talked to him in a "canned manner", he hit a wrong nerve, with the victim's husband telling him "to stop his political babbling ...go home ... and hug his wife and kids" before hanging up on him - *it's always amazing how quickly some, otherwise sensible, people, once elected to public office, develop a*

2 It has now appreciated about 40% from its Great Recession low.

3 The father of international portfolio management, who had one of the best-, & most consistent-, track records ever while operating from a dinky strip mall in Bermuda (by choice, so as to be 'far from the madding crowds').

4 Anyone who has seen the movie The Big Short must have noticed the immense pressure on contrarians from their 'running-with-the-herd' superiors & peers (so they don't flourish in structured environments); the most telling part of the film was that of the visit to a housing development, where house after sub prime mortgaged house sat empty, evidence that was readily available to anyone prepared to venture forth from their ivory tower & do a little grass roots' leg work.

'tin ear'; the formula is so simple : one, convey one's condolences & two, ask "what can I do to help?"; this "is not rocket science, just common sense, a seemingly rare commodity in the upper strata of both public & private sectors.

New York Fed President Bill Dudley's speech - On January 13th he spoke at an Economic Forum in New Jersey, in which, highly unusual for Fed officials' speeches in recent years, he made only one brief (four line) reference to financial markets. His focus was solely on the economy, saying at one point "I continue to expect the economy will expand at a pace slightly above its long-term trend in 2016" & later that he expected a "slightly above 2% annual rate of growth this year".

Early indications are that First Quarter GDP growth may turn out to be subdued (thereby lowering the base line for this year's growth) & there is growing unease the US economy may be heading into a recession (& not grow "slightly above 2%"). More importantly, the statements between them seem to validate the view of some that the US economy's trend growth rate is now into the 2% range & therefore that those who talk about "more robust growth" may be 'whistling in the wind').

Oil tanker rates have tripled since oil prices started tanking in mid-2014 - They are now at seven year highs, largely due to demand for their oil storage potential.

Outlook for oil prices - According to the IEA oil markets "will continue to struggle to absorb new supplies" & it expects 2016 to see "a third successive year when supply will exceed demand by 1 million barrels per day and there will be enormous strain on the ability of the system to absorb it efficiently." And while Ali el-Naimi, the octogenarian Saudi Oil Minister for the past two decades, seemed less gloomy when he was quoted as saying "I am optimistic about the future, the return of stability in the global markets, the improvement in prices and the cooperation among the major producers", he seemed to be talking in terms of a longer time frame than just 2016 - *be that all it may, there is a saying that 'the best thing for low prices'.*

Outlook for the US budget deficit - The CBO (Congressional Budget Office) is its non-partisan source of economic intelligence. And its latest US Budgetary forecast for the next decade is bleak, despite its use of assumptions that one major US bank described as 'optimistic' :

	2015	2016	2017	2020	2025
_	-----------------------------trillions of 'real' US dollars-------------------------				
Revenues	18.2	18.3	18.2	18.0	18.1
Expenditures	20.7	21.2	21.1	21.1	22.8
Deficit	2.5	2.9	2.9	3.7	4.6

Flat revenues & 1% CAGR expenditure growth make for a crisis down the road.

Please don't be in a hurry to pay your taxes! - It has been common practice in Switzerland to pay local taxes early so as to benefit from the higher-than-market rates of interest cantonal governments pay on as yet not due tax bills. But last year the city of Lucerne cut its early payment offer & now is considering further cuts, and some cantons are now actually asking their citizens to delay paying their taxes until the last moment (they have, however, yet to go as far as letting people pay late - those who do, will still be penalized & have a black mark on their credit record). The reason for this is that to reduce pressure on the Swiss franc, the Swiss National Bank has made it unattractive to foreigners to hold its currency by pushing its official interest rates deep into negative territory, the cost of which the banks have increasingly been passing on to their customers by charging-, not paying-, interest on large deposits. The affluent Zug canton outside Zurich says it would save US$2.5MM a year if all its taxpayers would adopt a 'just-in-time' tax-paying habit - *more evidence of the distorting effect on the 'core' economy (to use a term dear to them) of the central banks' "unconventional monetary policies" of the last eight years (although Swiss banks may well like this since it ends the cantonal governments disintermediating them).*

President Xi's Mid-Eastern tour - As often the case the media focused on its banalities & barely scratched the surface of its news potential. For this was another step in a Beijing strategy to undermine the reserve currency status of the US dollar &, as part thereof, to uncouple oil pricing from the US$ (which would be helped significantly if Saudi Arabia were to end its decades-long policy of 'pegging' the riyal to the US dollar - *any reduction in the US$'s role in funding international trade will reduce the need for the RoW to hold US$ working capital balances, with adverse consequences for the US economy.*

The week ended January 15th was a dismal one for US economic/financial news - December retail sales growth was the weakest in six years (*when the Great Recession had been petering out).* Walmart announced the closing of 269 stores[5] (of its 10,000 global total), 154 of them in the US; while it says it will find the 10,000 people involved in the US jobs at other, nearby stores, this will dilute the benefit of this move to its bottom line & reduce its near-tem new hiring requirements. Industrial production was down 1.8% YoY the fastest rate of decline since last May (& a rate that often has been a harbinger of a recession). BAML came out with a report noting that in the past few years energy producers raised US$0.5TR through bond issuance & (*bank?*) loans[6], leveraging their balance sheets to the high oil prices (*with the current oil price down close to 75% off their peak, this cannot help but cause both borrowers & their lenders sleepless nights*). Finally, BHP Billiton announced a US$7.2BN write-down on its US shale assets[7] (last year, when Freeport-McMoRan took a US$3.5BN write down, its market cap fell by 65% to US$5BN in three months).

U.S. oil and gas sector bankruptcies - 2010 - 3, 2011 - 8, 2012 - 9, 2013 - 6, 2014 - 7, 2015 - 27 - *this will get worse still this year; for hedges on future output are winding down; so oil company bottom lines will start feeling the full effect of the ultra-low oil prices, with its effect being reinforced by any hit on their balance sheets from having to write down the value of their reserves.*

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Thursday January 21st, 2016

$40BN IN AID NEEDED WORLDWIDE : PANEL (AP)

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5 These stores accounted for < 1% of its global sales & in the US were typically within 9 miles of another Walmart (long gone are the days of its original business plan that called for new outlets to be only where there would be 2MM people living within a 75 mile radius).

6 To put that in perspective, the total assets of **all** US banks is in the US$12TR range.

7 In the two years ending in 2013 alone, *the latter stages of the shale hype,* it spent US$20BN acquiring US shale gas assets.

- UN Secretary-General Ban Ki-moon on January 17th in Dubai made public a 31-page report by a nine-member panel, co-chaired by Bulgaria's EU Commissioner (*for Budget & Human Resources*) Kristalina Georgieva[8] & Malaysia's Sultan Nazrin Shah[9], on the global need for funds for the 125 MM people needing humanitarian assistance due conflicts & natural disasters. It reported that last year's US$25BN available for this (up from US$2BN in 2000) had been US$15BN short of the need, as a result of which 1.6MM Syrian refugees had their food rations cut[10] & 750,000 children been unable to go to school *for lack of money* (with the Secretary-General observing that humanitarian aid is now more costly than peace keeping, & "While record sums are being given to the noble cause of humanitarian assistance, generosity has never been so insufficient. We cannot go on like this").

This is a case of gross false economy by donor governments. For at 0.07%.of just the GDP of the G-7 countries the missing US$15BN is 'chump change'. And the US$2,000 per capita annual cost of keeping refugees where they are is 'cheap like borscht' (& would still have been so if it had cost 60% more). For the refugee cum economic migrant situation is now costing, & will continue costing, Europe infinitely more financially-, socially-, & politically than if they had able to stay where they were. And Canada has budgeted a front end-loaded cool half million or so per capita over six years for its initial 25,000 refugee intake (it would have been a boon to Canada's economy & the aid funding problem, if the Harper government had boosted its support for this UN endeavour by providing large amounts of aid-in-kind in the form of grain; for as of December 31st, 2015 Canadian wheat prices, for instance, were down 25% from their four year-earlier level.

<u>GOLD SEES BIGGEST ETF BUYS IN A YEAR</u> (BB)

- In the week to January 15th investors put more money (US$1.05BN/26.8 tonnes) into gold ETFs than they had done in any week in the past a year. This was driven by a flight to 'safe havens', concerns about equity markets, oil dipping below US$30 & news the PBOC had added to its gold reserves for the sixth month running. According to George Gero, a Vice-President of Global Futures at RBC Capital Markets, "There is physical demand, and it is coming from individual investors more than anything else ... (*the metal*) has been oversold. I think you're going to start seeing some people to start to look at gold.

The "six month running" thing is a bit bogus. For he PBOC had not reported its official gold holdings since April 2009 until, last June, it started doing soon a monthly basis, presumably in the context of its (subsequently successful) bid to have the Yuan added to the four currency basket (US$, Yen, Euro & £) used to value the IMF's SDRs. In the past six months its gold purchases averaged 17 tonnes, twice the rate of the preceding six years. But its numbers are suspect; for while the PBOC's official number as of last June was 1658 tonnes, a third party

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8 She has a Ph.D. in Economics from a local University & has taught at, among others the Australian National-, Tsinghua-, Yale-, & Harvard Universities, as well as at MIT & LSE.

9 Age 59, he has an MPA from Harvard's John F. Kennedy School at & a Ph.D. in Political Economics and Government from the university itself.

10 What option does a father really have when he can no longer feed his family but to try his luck-, and risk his own life-, & those of his family-, by going somewhere where their luck may be better; or as a young African once put it "death cannot be any worse than living like this."

estimate, based the fact that China's domestic golf production is North of 400 tonnes, on gold imports into Hongkong, on the ebbs & flows through the Shanghai Gold Exchange &, presumably, on anecdotal industry chatter, had been that in the 74 months to last June its gold holdings should have grown to the 3,500 tonne level (which would have made it the second largest official holder of gold, after the US' 8,000+ tonnes, a nose ahead of Germany'‘s 3,400 or so tonnes, & way ahead of the IMF's 2,814 tonnes). But understating its holdings may suit Beijing's purposes, who knows?.

<u>JOB CLAIMS IN US INCREASED LAST WEEK TO SIX-MONTHS HIGH</u>
(BB,Victoria Stillwell)

- In the week ended January 16th new applications for unemployment benefits came in at 293,000, up 10,000 WoW (rather than the expected 5,000 decline). The four-week moving average, a less volatile series, was 285,000, up from 270,500 MoM. In December 292,000 new jobs were created (*bringing the average for the year to 221,000, up from 199,000 in 2013 but well below the 260,000 of 2014*); this brought the year's total to 2.65MM, the highest such number since the late 1990's (*when the population was 12% smaller*). And during the week to January 6th, 56,000 lost their eligibility for benefits, brining their total to date to 2.1MM. While Greg Daco, Head of US Macroeconomics at New York-based Oxford Economics USA, said "Overall I would not be too concerned ...We are going to see more moderate job growth as the labor market continues to tighten", Thomas Costerg, a senior economist at StandardChartered Bank in New York believes "The low point in jobless claims is now behind us ...Momentum in the labor market seems to be fading gradually."

Headline new job growth numbers are misleading; for they are purely quantitative and don't differentiate between part-time jobs at McDonalds & full-time ones for university graduates or highly skilled trade professionals..

<u>*CANADIAN* CONFIDENCE INDEX CONTINUES DECLINE</u> (BB)

- In its first 2016 reading the Bloomberg Nanos Canadian Confidence Index fell to 53.8, down from 54.5 WoW. While optimism about job security & personal finances had remained relatively stable (*???*), expectations for house prices had declined after Ottawa tightened the criteria for home mortgages. Economists predict that in 2015 & 2016 the economy will post back-to-back sub-2% GDP growth for only the third time since WW II.

This was its 7th consecutive weekly decline & in the energy-rich Prairie Provinces a 7-year low

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Albert's credit rating - After both S&P & Fitch, as expected, had cut it to AA+, Moody's limited itself to adjusting its outlook from Stable to Negative. But, as often the case, ‘the devil is in the detail'; for its report warns "The rating will feel downward pressure if the province fails to execute a fiscal plan that demonstrates an ability to control the expected deterioration of the province's health in terms of deficits, debt accumulation and maintenance of liquidity levels.". And then it goes on to warn "failing that, the province's net direct and indirect debt, measured against revenue, could exceed 85% in 2017-2018, up from 30.4% on March 31, 2015" - *this just postpones Alberta's ‘fall from grace' by a few months since, for reasons within-, & beyond-, the government's control, no fiscal plan up to Moody's standards will be forthcoming & the deficit for the year starting April 1st may well come in closer to $10BN than to $6BN. And Moody's may* *well question the government's priorities when its Minister of Education has the time to send out a set of guidelines he expects to be in effect by next April 1st, that recommends, in regard to the matter of transsexuals in schools, the use of the word "ze", rather than "he" or "she", and "Mx" instead of "Mr"., "Mrs" or "Ms" , without indicating how Mx is to be pronounced (Max, Mex, Mix, Mox or Mux, or even Mtx?).*

More bad news for Alberta? - With an average daily output of 250,000 bbld, Syncrude is Alberta's largest producer of light, sweet synthetic oil. As of a year ago, its ownership was Canadian Oil Sands - 36.74%, *Exxon-controlled* Imperial Oil - 25%, Suncor - 12%, China's Sinopec - 9.03%, China's CNOOC - 7.23%, Japan's Nippon Oil - 5.00% & Murphy - 5%. Last October 5th Suncor made an unsolicited bid for COS (that, if successful, would give it control of the syndicate) that the COS Board deemed unacceptable. So COS went searching for a 'white knight'. One door it knocked on, & logically likely the very first one, was that of Exxon, for whom buying COS would have been a good 'fit' since it would have given it control of Syncrude & because, due to its management agreement with Syncrude to provide it with certain specialized services, it would know more about its operations than Suncor. But it apparently COS got 'cold-shouldered' & told that at this time (*given the controversy swirling around various pipeline proposals to get future output increments to global markets?*) Exxon was not interested in adding to its exposure to Alberta oil sands (with 220,000 bbld from its Kearl open pit operation North of Fort McMurray & 150,000 bbld from its Cold Lake in-situ heavy oil operation further South, East of Edmonton, it already accounts for about 13% of Alberta's total oil production)

Another blow for Bombardier - For 15 years, & after many cost overruns & missed deadlines, and at a cost of C$5BN (that the Bank of Nova Scotia says it will never fully recover, even under the most optimistic of assumptions) Bombardier has been developing its C-Series 100-seat passenger jet, the first one of which it now expects to deliver to a customer before mid-year. For a couple of years it had been in a two-way fight with Brazil's Embraer for a US$2BN, 30 unit order from Chicago-based United Airlines for 100 seat passenger jets (with Embraer having an edge since United was already a customer & Bombardier needing to come out on top since it hadn't received a new order for sixteen months) until Boeing waded in with an offer, deeply-discounted from its US$80MM list price, for 126-seat 737-700s. On January 21st, United did indeed award Boeing the, what now was a 40 plane, US$2+BN, order. And while aircraft valuation expert Stuart Hatcher of the UK-based IBA *Aviation consultants* Group believes the C-Series will likely generate some new orders this year, he warns that longer-term this *niche* market will become more competitive than Bombardier has been envisaging due to new entrants into it (from China, Japan & ...?) - *even if Boeing can deeply discount its list price for 737-700s, since it long ago recovered its upfront investment in this family of planes, having sold almost 7,000 in the past half century & having an order book of 4,000+ more, it tells a story when, with their currencies having depreciated 30% & 60+% respectively against the US dollar in the past five years, Bombardier & Embraer cannot meet a Boeing challenge in this niche market. Bombardier (a company with annual revenues in the C$10BN range) is controlled by the Beaudoin family through a share structure that gives it 54% voting control with just 14% of its equity. It has long had a world class rail transportation equipment business & decent position in the small business/50 seat passenger jet-, market (where Embraer has been its major competitor). In 1999, at the Paris Airshow, Embraer showcased the E-195, its proposed new entry into a 100 seat passenger jet market seemingly under-served by Airbus & Boeing. This gave the Beaudoin family an itch to do so too, despite the fact it would have start from scratch while Embraer was merely adding a new member to an existing family of planes. Two non-family CEOs, one a long time employee & the other the former CEO of CN Rail (the larger-, & better-, of Canada's' two) advised the family not to do so, advise that was ignored. It has since dawdled (& a few years ago even suspended development while it contemplated whether to* *continue the program) & now has an order book of about 250 units, roughly the same number of units as the E-195s that Embraer has already sold. It is now in such deep financial dodoo that last October it put the touch on Québec's provincial treasury for $1BN & on its pension fund for another C$1.5BN, and is still seeking to tap the federal treasury for yet another$1.3BN - Given its track record in developing this plane, the paucity of its order book & the not risk-free future sales outlook, it would be unwise for the Trudeau government to accede to this request; for it would be the Canadian equivalent of the US bank bailout seven years ago : a conversion of taxpayers' money into private wealth (or rather a restoration with taxpayers' money of private wealth squandered through stupidity).*