

Note : Years ago I came across The Camp of Saints, a 1973 novel by a Frenchman, Jean Raspal, in every day life a writer of travelogues, the story line of which is how an untrammled wave of Indian immigrants into Southern France triggers a tsunami of people from the Third World that overwhelms Western civilization - *Derided at the time as racist drivel, it now gives one an eerie sense of wonder & discomfort.*

Attempted murder when victim is dead? - In July 2013 an 18 year-old man pulled a knife with a 3-4 inch blade on a Toronto street car. A few minutes later, when the police arrived, the perpetrator was alone in the car, near a door. Within a minute of their arrival on the scene, one officer had shot him three times &, five seconds later, after he had fallen to the floor, another six times (after which his sergeant, for good measure, tasered him). The officer was subsequently charged with murder & attempted murder. Earlier this week, the jury found him not guilty of murder but guilty of attempted murder on the grounds that the first volley had been fired in the line of duty & he had acted in self-defense (with the man inside-, & the officer outside-, the street car?) but that, while the second volley had been unnecessary, it had not constituted murder because the man by then was already dead as a result of the first volley - *Convoluting thinking, anyone?*

China's overstatement of its GDP growth rates - The world has long been awed by GDP growth in China that it had been rung in at an average 11.1% for the decade ended December 31st, 2000 & 10.7% for the next ten years. But, according to one China watcher who dug into the numbers behind the official numbers, due to an understating of the rate of inflation, actual **real** GDP growth had been lower, 10.7% & 5.4% respectively - *if he is right, claims that on a PPP (Purchasing Power Parity) basis China's economy is now the largest in the world are bogus & its GDP as of December 31st, 2011 was almost 40% lower than that officially reported which, among others, would mean that its financial system may be much closer to having 'one foot in the grave & the other on a banana peel' than generally surmised.*

Netanyahu on Zakaria's January 24th GPS program on CNN - He was surprisingly mellow & statesman-like. But when, in discussing the Middle East situation he said that Hezbollah wouldn't last long if Iran's annual US\$1BN financial scaffolding around it were removed, he forgot that 'people who live in glass houses, should not throw stones'; for one can only wonder what the outcome would be for Israel if the US were to end its annual US\$3.1+BN support for Israel that funds one-quarter of its defense budget (*thereby freeing up funds for settlement building?*).

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Thursday January 28th, 2016

MOHAMED EL-ERIAN WARNS ABOUT A DAY OF RECKONING (CNBC, M. J. Belvedere)

- On June 26th Allianz's Chief Economic Adviser said, on CNBC's Squawk Box program, that the world is at the end of an era of borrowing growth & profits from the future through easy monetary policies & "the path we are on right now - and that we have been on for a while - is ending ... We are heading to this T-junction *where choices will **have to be made*** & can still take the right road." He believes the Fed waited too long to start exiting from the emergency policies needed after the 2008 financial crisis, that the US economy is "healing but not unleashed", & that the four rate increase agenda is "divorced from reality". He expects greater volatility in currency markets (*a euphemism for competitive devaluations & currency wars?*), says the central banks are out of ammo

& advises investors to be 20-25 percent in cash, but sees “massive opportunities” in junk bonds, energy & emerging markets for those who are “patient.”

Elsewhere in the interview he said no one expected the US government to be “so dysfunctional ... (and) fiscal policy ... frozen, for so long”. As to making the right (i.e. the growth-positive) turn at the T-junction, he says there are four prerequisites : exiting from the finance-dependent economy & dependence on monetary policy, less ‘want to spend’ (i.e. lower voter expectations from their governments?), deal with the European debt situation, & greater global cooperation (which at present is more of an ‘everyone for himself & the devil get the hindmost’ melee). And he believes we are in the third of three phases. In the first one, that had prevented a global economic/financial collapse had ended on this side of the Atlantic in 2010, & on the other in 2012, the central banks had done exactly the right thing. In the second one, with fiscal policy “frozen” there had been undue dependence on monetary policy (& we did everything wrong?). And in the third-, & current-, one we must deal with the collateral damage from our phase 2 mistakes (El-Erian has spent most of his career, very successfully so & on a world class scale, on the “buy side” of the market where one must ‘put one’s balls on the line’ everyday & only results matter, whereas in the salaried academic cum central bank sub-culture people have job security & processes matter more than results.

THE SHIPPING NEWS SAYS THE WORLD ECONOMY IS TOAST (BB, Mark Gilbert)

- In the Third Quarter of 2008, as the repercussions of the financial crisis started to ripple through the global economy, Volvo’s European truck order book was down 99% YoY, from 11,970 to 155; and more recently, on September 30th, 2015, its 42,648 unit order book was down 30% from January 1st & a two-year low (while not as dramatic as 2008, it nevertheless suggests that the movers of goods from A to B are less than sanguine about the near-term demand for their services). The two Indices of Container Freight shipped from Chinese ports are down 45% YoY in the case of Shanghai & 25% YoY for all Chinese ports in the aggregate. Ditto for the bellwether ocean shipping benchmark, the Baltic Dry Index; it now stands at < 500, down from 2,500 in late 2013 & the peak of 4,000+ four years before that, and that for the tonnage of airfreight in the US skies at yearend 2015 was down 25% from its 2011 post-Great Recession high & 20% from its interim high two years ago.

All these tend to be ‘leading indicators; for when things slow down, the first response of just about everyone in the supply chain who can is to run down inventories. In this context it is interesting to note that last week CP Rail announced 1,000 new layoffs & a \$400MM cut in spending, due to ‘declining freight volumes in a sluggish economy’.

FED EXPECTED TO SOFTEN TONE ON INTEREST RATES (Reuters, C. Mikolajczak)

- Investors expect this to (*or hope it will?*) come out of its two-day FOMC meeting¹, especially so after ECB President Mario Draghi’s talk on the 21st about possible further ECB easing in March. The earlier expectation of Fed Vice-Chairman Stanley Ross (*the power behind the the Yellen throne?*) of four rate hikes this year is now deemed passé’, which investors believe is positive for stocks. *In this Fourth Quarter’s ‘earnings season’* the market will watch closely the earnings that Apple, the most widely individual investor-held stock, will report at 1700 hrs on January 26th for any confirmation of the weakness

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In the event, the post-FOMC meeting press release sent a mixed message that was, generally speaking, more dovish in tone-, but more bullish on labour market conditions-, than expected.

in iPhone sales that has been signaled by its *foreign* suppliers (which would result in a third straight month of declines for the stock & have an overall effect on the broader market).

While the CW had it that Apple's earnings would be better than expected, it was not clear whether this would be in absolute terms MoM, QoQ or YoY, or in terms of 'not-bad-as expected. In the end, it reported record earnings, up 2.2% from last year's record², but lower revenues & unit sales, and cut its revenue guidance for this quarter from US\$58BN to US\$50BN - US\$53BN. The market didn't like this : the next day its stock opened down US\$4 from Tuesday's close & closed down another US\$2.56 at US\$93.44 (at which level it is down almost 30% in six months).

BLOOMBERG, SENSING AN OPENING, REVISITS A POTENTIAL WHITE HOUSE BID **(NYT, Alexander Burns)**

- He conducted a poll last month &, galled by Trump's dominance in the Republican race, Hillary's stumbles & Bernie Sanders' rise, is said to have told his advisers to start drawing up plans for a potential independent campaign in this year's presidential race. And he has indicated that, *if he decided to go for it*, he would be willing to spend at least US\$1BN of his own money on it. Facing an early March deadline for getting his name on the ballot in all 50 states, he is said to be planning another poll for after the New Hampshire primary.

It's hard to know where to begin. His throwing his hat into the ring could be a real game changer &, if he were successful, make history since no independent has ever been elected President. Those interested in his views, as far back as 2006, on independents running for President, can find them in David A. Graham's article in The Atlantic Monthly of October 20th, 2015. And if interested in more detail on this subject, please see 'below-the-line'.

ISIS IN AFGHANISTAN : U.S. FORCES OK'D TO ATTACK EMERGING OFFSHOOT **(Military Times, Andrew Tilghman)**

- One year ago ISIS announced the creation of an affiliate, ISIL-Khorasan in the Afghanistan/ Pakistan region, which has since sought to gain a foothold in Afghanistan's volatile Nangarhar Province, East of Kabul on the Pakistani border. Gen. John Campbell, the US commander in Afghanistan, estimates it has between 1,000 & 3,000 fighters across the country. *On January 13th it executed a suicide bomb attack at the Pakistani consulate in Jalalabad, the province's capital, that led to the death of all three perpetrators & seven Afghan security personnel.* Shortly after, the State Department declared it a "foreign terrorist organization", enabling White House & DoD lawyers to designate it a "hostile force" & thereby opening the door to expanding the "terms of engagement" for the US forces in the area. So the White House last week authorized the targeting of ISIL-K objectives at will (as it was already authorized to do with al-Qaeda), whereas hitherto it had the same status as the Taliban, i.e. it could act only in the case of threats against-, or actual attacks on-, US or Afghan forces. There is as yet no evidence of any substantial command & control relationship between the locals & ISIS in Iraq & Syria; so on January 19th Brig. Gen. Wilson Shofner, the top spokesman for the Resolute Support Mission in Afghanistan, told reporters "We currently characterize [ISIS]

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A rate of growth well below that of previous quarters.

as operational emergent ... not having the ability to orchestrate or control operations in more than one part of the country at a time. We do not see [ISIS] elements in Iraq or Syria orchestrating events here in Afghanistan ... They have largely been pushed back to the Southwestern parts of Nangarhar province. That area is very, very rugged, it's very mountainous. It's on the border with Pakistan."

The more kid glove treatment of the Taliban is due to the fact that the Afghan government sees it less as a military problem than as a potential future political partner. And the appearance of ISIS on the scene may well be a positive development; for the fact that much of its manpower is made up of Taliban dissidents who parted company with it during, or after, the internal struggle over who should succeed Mullah Mohammed Omar (who we now know died in 2013), may well make the Taliban more receptive to the Afghan government's overtures towards creating some sort of 'common front' government. And ISIS efforts to create an outpost in Afghanistan may well get Beijing's attention; for the last thing it needs, or wants, is an aggressively expansionist Islamist presence near the restless Muslim Uyghur minority in its Xinjiang-Uyghur Autonomous Region.

WHAT TO EXPECT FROM IRAN (G&M, Elmira Aliakbari)

- A look at Iran's domestic situation sheds light on the role it will play in keeping the price of oil depressed in the coming years. The sanctions hurt Iran's economy badly. To deal with mounting deficits, the government slashed infrastructure spending & administrative costs, thereby exacerbating the unemployment situation. After President Hassan Rouhani was elected in 2013 on a promise of better relations with other countries (*which the hoi polloi associated with an improvement in living conditions*), he was sideswiped by the crash in oil prices. His first priority was to get inflation down which he managed to do to the 16% level. The end of sanctions will enable Iran to get its oil back onto the market & him to address his second priority, reducing the unemployment rate by dramatically hiking its capacity to export oil which, while it may depress the world price further, will give a real boost to the Iran's economy, and attract more foreign direct investment (*from both China & India?*) to upgrade its oil fields (& *develop new ones?*).

In other words, those looking for clues as to how the price of oil might move in the years to come should not overlook the fact that Iran's domestic economic priorities could put more of a damper on any serious recovery in oil prices for longer than some people may expect (especially so, if the world economy were to continue growing at an anemic rate

AS GOES GERMANY, SO GOES EUROPE (National Bank of Canada, Angelo Katsoras)

- Germany is the EU's core. It has its largest & strongest economy and longest serving & most popular leader. But the migration crisis may well have pierced her geopolitical armour & hurt her approval rating, and the three March 13th 'Super Sunday' state elections will be the first opportunity for German voters to express their support for-, or disapproval of-, her & her migrant policies³. Last year Germany was flooded with 1.1MM migrants, 5x as many as in 2014⁴, & YTD they have kept coming at a 2,500-3,000 daily

³ In all three her CDU party seems to have lost some ground, but her SPD coalition partner more, with the far-right AfD picking up most of the slack to the 10+% level.

⁴ With expectations being that at least as many, if not more, will seek to join them this year.

rate⁵, causing increasing numbers of calls, even from within her ruling coalition to reverse her open-door refugee policy. And efforts to ease this growing backlash by promising to send those convicted of serious crimes back face three practical hurdles. It cannot legally do so if they were to face death or torture. Their home countries can, & typically do, refuse to take them back. And those targeted will go 'underground' (*with lots of help in doing so?*).

- Support for Merkel's centre-right party, & that for her left-of-centre coalition partner, has begun-, & may continue-, to slide since, while last September 45% of Germans felt there were too many migrants, now 63% feels that way. The beneficiary thereof has been the far-right Alternative for Germany (AfD) party that advocates shutting the border to all migrants & exiting the Eurozone; its voter support now is 12.5%, up from 3% last September, making it the third most popular political party. While not long ago it was all but axiomatic she would run for a fourth term in September 2017, she may now well quit, or fall victim to an intra-party 'putsch', before then, given the growing anger of local governments with their ever-increasing migrant burden. If so, this will give rise to a leadership crisis in the EU.
- The migrant inflow was to have solved Germany's (& Europe's?) aging population problem. But the reality is that most migrants don't have the skillset needed to fill its most urgent labour force needs & that it could take 5-15 years to get them up to speed skill-wise. To make matters worse, according to Stratfor across Europe unemployment among non-EU born workers is much higher than for others, as shown below :

| | ----- Unemployment rate for workers born ----- | | |
|------------|--|-----------------|------------|
| | In-country | Elsewhere in EU | Outside EU |
| EU average | 10% | 12% | 20% |
| France | 10 | 11 | 25 |
| Germany | 4 | 7 | 12 |
| Sweden | 7 | 10 | 29 |
| UK | 6 | 5 | 10 |

- This migrant influx came at a time of economic stress in Europe, always a time of waxing anti-immigrant sentiments. This has benefited parties *from the extreme right & left* hostile to immigrants & the EU/Eurozone. The AfD Party's growing popularity is echoed in the Netherlands, Finland, Austria, Sweden & France and far right-wing parties are in-, or sharing-, power in Poland, Hungary, Switzerland & Denmark, while on the opposite end of the political spectrum Syriza is still in power in Greece, a leftist coalition now runs Portugal & the recent strong showing by the Podemos Party has left Spain's parliament fractured.
- There has been such strong EU-wide opposition to the German-led plan to oblige EU countries to share in the migrant burden, that as of December 31st only 272 of the 160,000 targeted had been relocated. And many governments don't want to pay their share of the 3BN aid package promised Turkey if it were to cut the flow of refugees (which it will be unlikely able to do since the number of Syrian refugees registered there increased four-fold in the past two years, to 2MM⁶ (& *ever more keep coming*)).

⁵ Defying expectations that the colder winter weather-, & sea water-, would cause the refugee tide to slow down, thereby giving policy makers time to do some planning for thome his year.

⁶ And many more must have chosen not to register; for there is widespread fear all along the pipeline to Germany that registration will impede their advance to their hoped-for destination..

The Schengen Treaty that provided for free movement within the 26 signatory countries, that was to have been a key building block on the road to a United Europe, is now, for all intents & purposes, dead, and the growing framework of border crossing restrictions & walls lining national borders are the outward token of rigour mortis setting in. And as the ancient nursery rhyme put it “Humpty Dumpty sat on a wall, Humpty Dumpty had a great fall. All the king’s horses and all the king’s men couldn’t put Humpty back together again.” (Especially so if the Brits this summer were to vote with their feet). There have been two primary causes for the centrifugal forces now seemingly at work in the EU. One is that the EU has its roots in the Benelux & later the EEC, groupings that stressed the mutual benefits of cooperation, whereas its subsequent headlong rush into expansion attracted countries that wanted to join in the expectation of getting more out of joining than they would have to give up; thus Greece, for instance, was quite prepared to outright lie about its fiscal situation to gain admission to the club. And secondly, Brussels, almost from the outset, undermined the unity-building process by its singular focus on internal empire-, not grass roots’ foundation-, building.

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Bloomberg - He is unlikely to run if it looked as if Hilary would be the Democratic standard bearer (although “Mike detests Hilary”). If he were to run as an Independent against Sanders & Trump (or anyone else the GOP could muster?), it could be a real game changer since he would ‘eat their lunch’ among all but their core base by tapping into the same vein of discontent as they have been doing, as well as appeal to the great mass of the voters of the centre, many of whom, no matter how fed up with the government’s dysfunctionality & the self-serving ways of the present-day professional politicians’ cum bureaucratic ‘class’, might not have been able to bring themselves to vote for the class clown or the leftie. While Trump has bragged about ‘being worth US\$9BN, Forbes magazine last September credited him with having a net worth of only US\$4.5BN, which ranked him 121st on the ‘league table’ of the 500 richest Americans, and Bloomberg, with US\$38.6BN, as No. 8. At 74, as of February 14th, he is the same age as Bernie Saunders, & age-wise a member of the same generation as both Hilary & Trump, both of whom are 69.

With a degree in Electrical Engineering and an MBA from Harvard he joined Salomon Brothers, & made partner in 1973, during its heyday as the one-time upstart Jewish bond house that had muscled its way into the “bulge bracket” of investment banks hitherto dominated by Goldman, JP Morgan & Morgan Stanley. In 1981, when Phibro bought the firm, he walked away with a US\$10MM severance cheque in his pocket, which provided him with the seed money for a financial information start-up called Innovative Market Systems (that over time morphed into the privately-owned Bloomberg LP, today’s financial software-, data-, & media conglomerate).

Rather interestingly, whereas Trump inherited, self-described wealth was US\$200MM in 1982 & today is US\$9BN (or according to Forbes US\$4.5BN), Bloomberg started with his US\$10MM severance pay stake, plus whatever else he may have had ‘in his jeans’ (which, while likely not insignificant since in those days partners in Salomon, upon leaving the firm, had to leave their investment in it for five years, thereby providing the firm with cheap working capital & discouraging partners from leaving, would not have been anywhere remotely close to the US\$190MM needed to put him on an equal footing capital-wise with Trump; so, while Trump ramped up his wealth, as he defined it, in 32 years from US\$200MM to US\$9,000MM (i.e. at a 12.63% CAGR), Bloomberg ran his stake up from, say, US\$20MM to US\$38.6BN in 33 years (i.e. at a 25.76% CAGR).

Bloomberg's pitch likely will be that he is a self-made man, technocratic problem solver who understands the economy, & an outsider who nevertheless has large government experience⁷, and that he cannot be bought & therefore would be able to judge issues on their merit. He is fiscally conservative, but socially moderate. His strong advocacy of gun controls⁸, his pro-choice-, & same sex marriage-, stances (he officiated at the first ever same sex marriage in New York State - that of two people who worked for him) would cost him votes on the far right but likely less than he would gain on the left & in the centre. He is a liberal on immigration, having long advocated legitimizing the position of those illegally in the country, which would play well with the Hispanics but again not with the far right, and perhaps not even with some independent voters. He would have some fence-mending to do with the Afro-American community since during his years as Mayor of New York the number of NYPD's 'stop & frisk' cases, a disproportionate number of them involving Afro-Americans, went from 97,296 in 2002 to 685,724 in 2011 (& while this was motivated by a desire to reduce the crime rate, which in fact did decline, although nowhere near as much as under his predecessor, Rudy Giuliani, his successor, Bill DeBlasio, ended this practice & the crime rate has, so far at least, not risen materially in the past two years). As to his track record as Mayor of New York opinions are divided although on balance he seemed to have earned at least a Pass. And he may be vulnerable to charges of political opportunism : for a lifelong Democrat, he turned Republican in 2001 prior to running for Mayor (presumably to get Rudy Giuliani's endorsement; since 68% of New York voters were registered Democrats), only to go Independent in 2007.

While Trump has been called the "least charitable billionaire in the world"⁹, Bloomberg is part of the "Giving Pledge" group of billionaires founded in 2010 by Bill Gates & Warren Buffett, who have undertaken to donate the majority of their net worth to philanthropic organizations during their lifetime or after their death (that at as of December 2015 had attracted 141 individual/couple pledgers worldwide).

If he were to run, the real fun could come after the election. For in a three-way race chances are pretty good that no candidate will get an outright majority in the Electoral College if its members were to stick with the candidate whom they were elected to vote for. And in that case, i.e. no one has majority support in the Electoral College, it will be up to the, by then likely still Republican-controlled, House of Representatives to pick one of the three candidates to become President. This has never before happened. But, although it seldom happens, there is no hard & fast rule obliging members of the Electoral College to stick with the candidate they were elected to vote; so this time it may indeed well "be different", with their being a great deal of jockeying & horse trading before enough electors assemble in support of one of the three candidates.

⁷ The GDP of New York City is larger than of all but fifteen or so countries in the world (thus it is about two-thirds of that of Canada)

⁸ Last August the NRA was said to have spent a seven figure amount of money "to play defense against Bloomberg getting any ideas" (to throw his hat in the Presidential election ring).

⁹ While last year he bragged that in the previous five years he had donated US\$102M worth of cash and land to philanthropic and conservation organizations, this was not substantiated by detailed breakdowns; the same was true for the campaign finance report that he filed last July that was long on big numbers & short on detail (& what detail there was didn't seem to stand up to scrutiny)

Update on Alberta - The news is not good. 2016 is now expected to have, for the second year running, negative growth. After a promising start, it has been all downhill for what appears to be a singularly inept government that, like Mitterrand in France in 1981 appears to believe that smart Socialists can make water run uphill. The Province has had its triple-A credit rating lifted by two of the US rating agencies while the third, Moody's, has, rather inexplicably, kept it in place & merely reduced its outlook from Stable to Negative, but has set a fiscal standard for its continuance that the government for internal & external reasons is unlikely to be able and/or willing to meet; so for all intents and purposes it is as good as gone as well. While the budget it presented this fall called for a \$6.1BN deficit in the year ending next March 31st, given the slowdown in the economy & the far-greater than expected drop in oil prices, it may well come in closer to \$10BN, which will blow a great, big hole in this fall's budget forecast of a balanced budget by 2019-2020, especially so since the government has accelerated, rather than restrained, the past, already unsustainable rate of expenditure growth. The only thing that it has had going for it is that the weak Canadian dollar has puffed up the C\$ value of its US\$-based hydrocarbon revenue stream. While Calgary has been hardest hit with staff reductions, pay cuts & reduced working hours, and the mood there is sour, many Edmontonians still seem to be living in La-la land [although, rather surprisingly, when the Edmonton Police Service came to City Council with a request for a \$20MM increase in funding over three years, Council gave it less than half that (\$8.8) & told it to go away, the first time in living memory it has done so). The office vacancy rate in Calgary is now 18%, a level that is not expected to be reached in Edmonton until next year, the number of For Lease signs on small business premises is proliferating, house prices are starting to falter, more so in Calgary than in Edmonton and residential vacancy rates are rising due to newbuilds, especially downtown condos, reduced population growth¹⁰ & people leaving, and others moving into shared accommodation. Last but not least, as one out-of-Province newspaper put it, 'for every 1 U-haul coming to Alberta, 7 are leaving' (although some young friends who had come here from elsewhere in Canada & still have jobs, suggested that the departees were those who had made a bundle when the boom was on (and during that time likely had been grossly overpaid for the work they did, so that longer term their departure may, at the margin at least, a blessing in disguise for the competitive position for Alberta in the global economy - those interested in the impact of the oil, price collapse on Alberta's boom town of the past two decades can find a good update in Reuthers Fhomson's Nia Wiliams article entitled Canada's Boom Town Painfully Adjusts to Life after Bust).

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Net in-migration in 2015 was down roughly 50+% over two years, with those leaving likely having greater value-added potential in economic terms than the newcomers.