

Quote of the week - "Bottom-up consensus estimates suggest that the S&P adjusted earnings per share will fall by 3 percent year over year in the second quarter ... marking the seventh consecutive quarter with negative EPS growth. This has never happened outside of an economic recession." - David Kostin, Chief U.S. Equity Strategist at Goldman Sachs - *but, as the saying goes, 'it takes two to make a market'; thus Savita Subramanian, the Equity and Quant Strategist at Bank America Merrill Lynch, thinks that the First Quarter marked a trough for the S&P 500 earnings & that, if current trends were to continue, earnings growth could resume in the Third Quarter, although warning that the post-Brexit rally in equities suggests that many investors are already betting on this (i.e. the market may be 'ahead of itself?'). But if the transportation industry reflects the level of final demand, the fact that railroad shipments, after growing marginally in the First Quarter, were down 5.5% in the Second to a seven year low, & truck loadings have been slow for 20 months & the truck fleet size has shrunk 3.2%, may be flashing amber for the outlook for economic growth.*

Baton Rouge/St. Paul/Dallas - In 1994 Congress instructed the Attorney-General to start compiling & publishing annual statistics on the use of excessive force by police (which has been ignored ever since). But with fatal police shootings a common occurrence in the US, the media has started tracking them; thus according to The Guardian in 2015 there were 1,140¹ fatal police shootings (i.e. 3.12/day) in the US, 224 involving unarmed victims, while according to the Washington Post there were 518 YTD & 990 in all of 2015^{2 3}. While the racial angle, with some justification - see *footnote 2 below* - has gotten much attention, it is not the **real** root cause.

Once beat cops were an integral part of the local community & knew the 'bad apples' in it. But in modern 'community policing', police officers tear around in squad cars with sirens blaring in response to 911 calls. So its roots in the community have withered & in most cases in officers' interface with the public they deal with total strangers. The police has been 'upgunned' & according to some 'militarized'⁴. And, in part since many police departments are unionized, they have developed a strong 'us & them'/'put the wagons in a circle'/siege mentality mindset⁵. In the process the police has become its own worst enemy since the perception that it protects the wrongdoers in its midst⁶ has led to a loss of public confidence in, if not outright antipathy to, the institution.

¹ 730 shot as "an attack was in progress", 216 when there wasn't, & 44 being 'undetermined'.

² 948 male & 42 female, 494 white, 258 black, 172 Hispanic & 56 'other', 250 with-, & 740 without-, a history of mental illness, 18 of them 18 years of age or less, 330 in the 18-29 year age cohort, 353 age 30-44, 277 45 years of age or older, & 12 of an undetermined age (*street people?*)

³ That same year there were 22 fatal police shootings in Canada (with a population 11% of the US).

⁴ The military approach in theory is all about 'protecting' but in practice is not about 'serving' (the hoi polloi), and by its very nature confrontational not focused of peaceful resolutions.

⁵ Thus over a decade ago, after four Vancouver policemen were hauled in court for 'torturing' a prisoner and the ringleader got sentenced to four years, two others to 18 months & the fourth set free, the police union insisted on their reinstatement when they had served their time (creating such a public uproar that it fairly quickly dropped the idea).

⁶ In 2007 Oakland, Cal. Police Officer Hector Jimenez shot & killed an unarmed 20 year-old but at the union's insistence was reinstated. Only a few months later he shot another unarmed man in the back after which arbitrators ordered his reinstatement once again. On the other hand, in April 2015 a video went viral of North Charleston, SC police officer Michael T. Slater shooting an unarmed suspect in

Policing has always been, & remains, a challenging, often dangerous, occupation requiring an ability to make **good** split second decisions under stressful conditions when dealing with often emotionally super-charged people. That being so, the quality & amount of the basic training that officers receive before going on active duty, & that continue to receive on an ongoing basis while on active duty, is critical & it appears that a lack thereof is at least part of the problem. And while in Canada police officers are relatively well paid, with salaries for rookies in the \$51,000-, & for three year veterans in the \$80,000+-, ranges, the same is less true in the US where 10% of all police officers make < US\$36,000/year & 90% < US\$71,000.

In the wake of the targeted Dallas police shooting that killed five officers & wounded seven more, the police chief of Overland Park, Kansas announced that one of its officers had been dismissed since he “did not meet the standards of professionalism” of his *non-unionized* department (having posted a comment on the Face book page of a *black* Dallas women (that contained a picture of her & her five year-old daughter) “We’ll see how much her life matters soon ... better be careful leaving your info open where she can be found : hold her close tonight, it’ll be the last time.” And many men & women in blue were reported in the press to be “rankled” by President Obama having spoken out against ‘bad policing’ after each shooting of a black man by a police officer.

The QE ‘bind’ the central banks find themselves in - If it works, they **are expected to do** more-, & if it doesn’t they **must** do more-, of it. But economic growth only comes when more people are working and/or the same number of people is working longer hours and/or productivity increases, and QE is not conducive to any of these three & to the extent it pumps money into the system, the effect thereof is offset by a slowdown in the velocity thereof.

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US CREATED 287,000 JOBS IN JUNE VS. 175,000 EXPECTED (CNBC.com)

- While analysts had expected the new job growth number to come in at 175,000, a rebound from May’s initial dismal 38,000 (since revised to 11,000), the outcome massively topped their expectations by being 287,000 [as did the unemployment rate : it had been 4.7% in May & was expected to rise to 4.8%, while the actual June rate was 4.9%⁷, as more people had (*re-?*)entered the work (deemed a sign of more confidence in the job market)].

While the media made a big to-do about this & White House ECA Chairman Jason Furman called this “a clear indication that the economy continues to make solid progress”, in reality new job growth in the past three months has averaged 147,000, down from the 220,000+ monthly average in the April 2015 -March 2016 period. Moreover, the Bureau of Labor Statistics also reported that in June the average workweek had been 34.4 hours for the fifth consecutive month & that average hourly earnings for private sector non-farm employees had increased by 2 cents⁸

the back during a routine traffic stop, after which he was fired & charged with murder, the difference being that the North Charleston Police Department was not unionized.

⁷ As the number of unemployed increased by 347,000 to 7.8MM.

⁸ Down from 6 cents (0.235%) in May.

(0.078%) MoM to US\$25.61 (while Fed Chair Janet Yellen had opined in her post-May jobs report speech in Philadelphia that wage growth may “finally be picking up”).

U.S. ECONOMY GROWING AT MODEST PACE : FED (BB, Craig Torres)

- The FOMC, Fed’s policy-making body, that meets eight times a year, will gather next in Washington, on July 26-27, *in the midst of the July 25-28 Democratic National Convention in Philadelphia*. On July 13th the usual Beige Book was made public. It summarizes anecdotal information gleaned, in this case prior to July 1st, by each of the twelve Federal Reserve Banks from its business contacts in its district, to guide the FOMC in its deliberations. It observed that “Labour market conditions remained stable as employment continued to grow modestly ... and wage pressures remained modest to moderate” despite the fact that several districts reported “strong demand for skilled labour”. It also showed ‘scant’ inflation, even though most districts reported some upward pressure in input prices, & noted that, although the outlook for the months ahead was “predominantly optimistic”, its contacts saw “signs of softening” in consumer spending. Last but not least, it reported that the Atlanta Fed’s GDPNow indicator estimated Second Quarter GDP growth at a 2.3% annualized rate (the fastest rate since the Second Quarter of last year).

This mixed bag of “anecdotal” information will be interpreted differently by the “bottle is half full”-, & “it is half-empty”-, crowds. To put the GDPNow’s 2.3 % number in perspective, GDP growth in the last four quarters was : 2Q/15 - 3.9%, 3Q/15 -2.0%, 4Q/15 - 1.4% and 1Q/16 - 1.1%.

WHY DID COMEY DO IT? (WP, Charles Kraut hammer)

- Early last week FBI Director James Comey spent 14 minutes laying out an unassailable case for prosecuting Hilary Clinton for her “extremely careless” mishandling of classified material, only to recommend at the last minute against prosecuting her, citing a lack of intent & claiming that no reasonable prosecutor would bring, or has ever brought, such a case *to court*. Yet last year the Justice Department successfully prosecuted a 50 year-old naval reservist, Bryan Nishimura, for improperly downloading classified material to his personal, unclassified electronic devices; and despite the government conceding there was no evidence he had intended to distribute the material to others, he was sentenced to two years of probation, fined & forever prohibited from seeking a security clearance, thereby effectively killing off any chance of him ever again working in the national security field.

The two cases appear not quite as alike as Kraut hammer implies; still he seems to have a point.

POLICE INVESTIGATING NETANYAHU ON MONEY LAUNDERING ALLEGATIONS (Jerusalem Post, Herb Kenion)

- On July 8th Channel 10 reported the authorities are investigating the Prime Minister on money laundering allegations going back to 2009. This came days after Channel 2 said he was being investigated by police & the State Attorney’s Office for illegally receiving funds from foreign business people during his current term in office & that investigations had already begun in Israel, with the authorities planning to extend them abroad, and that Netanyahu or a family member supposedly had received “large sums” of money not linked to political or campaign funding. Last June his office rejected claims that French

billionaire Arno Mimran had sent him millions of unreported funds for his 2009 election campaign, calling his testimony “an absolute lie” & denying Netanyahu had received money from him to finance his campaign, but conceding he did receive US\$40,000 from him 2001 for his public diplomacy efforts for Israel (& that it had been handled in accordance with the law).

This is not the first time there have been allegations of financial leger demain on the part of the Prime Minister & his wife Sara (who sounds like a real power-drunk piece of work but who has always dismissed any such allegations as a ‘left-wing plots to bring down the prime minister’).

CHINA’S SOUTH SEA CLAIMS UNFOUNDED. HAGUE RULES (AP)

- On July 11th an international tribunal based in The Hague, Netherlands ruled unanimously that there is no legal basis for China’s “nine-dash line” (that claims sovereignty over virtually the entire South China Sea, in total disregard of other countries’ 200-mile exclusive economic zones under the UN’s Law of the Sea), since any of historic rights it might have had there were wiped out by the exclusive economic zones established under the UN treaty. While the Foreign Secretary Perfecto Yasay of the Philippines, that had launched the case against China in 2013, called it a “milestone decision”, a view backed by Department spokesman John Kirby, the Chinese state media said Beijing “does not accept or acknowledge the tribunal or its ruling”, reiterating the official view that bilateral talks between Beijing & other claimants are the only way to address the dispute (*provided, of course, that the other, smaller countries accept China’s position on the issue*). And Andrew Shearer, a former Australian national security adviser now at the Washington-based Center for Strategic and International Studies called this a mere “tactical victory” saying that “Over the past two years, US policy has failed to prevent China from largely succeeding in the de facto militarization of the South China Sea ... when Pentagon officials and Pacific Command have pushed for a stronger response, the White House has consistently reined them in for fear of jeopardizing Chinese support on global issues such as climate change”.

Elsewhere, in the Financial Times, it was reported that last March President Obama had warned President Xi Jinping of serious consequences if the PLA it were to continue reclaiming land on the Scarborough Shoal (which is less than 200kms/125 miles from the coast line of the Philippines, a mutual defense treaty ally of the US) after which the US Navy & Air Force started patrolling the region more aggressively. Two days after the court ruling Beijing warned the other countries not to threaten its interests in the South China Sea, saying it would take all necessary measures to protect its sovereignty over the South China Sea &, to make its point, had civilian airliners land on some of its controversial newly-constructed islands. .

SHINTO ABE WINS SWEEPING VICTORY IN JAPAN ELECTIONS (FT, Robin Harding)

- Article 9 of Japan’s 1947 *US-imposed, pacifist* Constitution outlaws war as a means of settling international disputes. While recently there have been moves to change this, amending the constitution requires a two-thirds majority in both houses of Japan’s Parliament. While Prime Minister Abe’s Liberal Democratic Party already controlled the more powerful lower house, the July 10th election for the upper house resulted in there now being 165 supporters of constitutional reform among its 242 members. But since Abe fought the election almost solely on the economy, it is not surprising that, saying he was “relieved” to have won, he did not just promise to “deepen debate on constitutional

reform” but also noted that “We have to accelerate Abenomics⁹ to meet the public’s expectations” (*despite the fact that it has not been particularly successful & that its potential GDP growth will be hampered by its aging population & the scope for financial ‘pump priming cannot help but be constrained by Japan’s National Debt to GDP ratio being at an unsustainable, financial gravity-defying level).*

Both less pacifism & Abenomics are part & parcel of his goal to “make Japan great again” (sounds familiar?) which is wholly anathemous to China’s Xi regime in Beijing. And the next step in Abenomics appears the introduction soon of a 10+TR yen¹⁰ supplementary budget primarily for railroad spending that will be funded by the issuance of ‘infrastructure bonds’ that will not be shown as debt on the government’s balance sheet and thus will not affect its already sky-high 250% national debt to GDP ratio : Japan’s debt management is the world biggest-ever Ponzi scheme.

NATO, RUSSIA ON ‘COLLISION COURSE : A NEW COLD WAR GUIDE (G&M, P. Martin)

- The NATO Summit in Warsaw on July 8th & 9th finalized plans, at the behest of Estonia, Latvia, Lithuania & Poland, to deploy four well-armed battalions to the Baltics for the express purpose of deterring a perceived Russian aggression which Moscow, however, claims to be merely a reaction to Western aggression in the form of the spread of NATO & the EU into Eastern Europe that is threatening core Russian interests. So according to Dimitri Simes, of the Washington-based Center for the National Interest NATO and Russia are “on a collision course”. While for NATO it all started in March 2014 with Russia’s seizure of the Crimea & its subsequent support for, & *direct involvement in*, the separatist movement in Eastern Ukraine, when it stood by Ukraine, even though it was just a NATO ‘partner’, not a member, giving it financial & military assistance (*with the latest instalment of both announced at the Warsaw Summit*), for Russia it started earlier, i.e. when NATO & the EU started encouraging Ukraine to break many of its historic ties with Russia. Since then the two sides have engaged in tit-for-tat intimidation, with NATO moving ballistic missile systems to forward positions & Russia moving thousands of troops West, both sides issuing bellicose statements & carrying out muscle-flexing military exercises in the area, and Vladimir Putin complaining “NATO is strengthening its aggressive rhetoric and its aggressive actions near our borders ... In these conditions we are duty bound to pay special attention to solving the task of strengthening the combat readiness of our country.”

Putin dreams of restoring Russia to its Soviet era Great Power status & counts on the hoi polloi’s national pride to support him & forget about the country’s economic problems. But he may be playing a weak hand. Today Russia’s population is smaller than it was then. Russia’s fertility rate, at 1.75, is higher than the EU’s 1.59 average but still well below the ‘replacement rate’ of 2.10. Its male population is drinking itself to death (male life expectancy is just 65.9 years vs. 76.7 years for women). Its economy produces little of exportable value other than oil & weapons, and at current oil & natural gas prices, and the low value of the ruble, his government

⁹ Abenomics was conceived in 2012 as a macro-economic ‘Hail Mary Pass’ to deal with Japan’s seemingly never-ending deflation cum pseudo-depression problem. Its results have been mixed at best : stock prices are up, but a disproportionate number of Japanese stocks are owned by foreign-, not Japanese-, investors, the negative interests have hurt the aging mama-sans and the much weaker yen does not seem to have significantly benefited Japan’s manufacturers.

¹⁰ Three times the size of the supplementary budget for the fiscal year ended last March 31,

is fiscally stressed. While the EU may be in turmoil, NATO appears more pro-active today than it has been in a long time. His relationship with China could be come iffy if Beijing were seek to take advantage of any Russian domestic unrest or overreaching on the Western front to do more than just cast covetous eyes on Eastern Siberia. And three decades ago the Soviet system collapsed under the weight of an arms race with the West. All this, however, does not necessarily mean he will not create more problems in Europe.

ITALY'S TEETERING BANKS WILL BE EUROPE'S NEXT CRISIS (The Economist)

- Size alone makes Italy's bank mess dangerous. And it is an exemplar of the euro area's ills : the tension between rules made in Brussels & the exigencies of national politics, and the conflict between creditors & debtors. Handled badly, it could be the eurozone's undoing.

While Germany's Angela Merkel insists "We cannot change them¹¹ every two years", Italy's Prime Minister Mario Renzi wants the rules applied flexibly (both 'talk their own book' ; for in Germany most bank bonds are held by institutional-, but in Italy by retail-, investors [so requiring the holders of Italian bank paper to "bail in" (i.e. take a hit before the taxpayer does) could cause Renzi to lose this fall's constitutional reform referendum, which would be in no one's interest, incl. Frau Merkel's].

ASYLUM SEEKERS MUST TAKE LANGUAGE AND INTEGRATION COURSES UNDER NEW GERMAN LAWS (Daily Telegraph, Justin Huggler)

- As First Half figures showed an 80% drop to 222,264 from the year-earlier period in the number of immigrants arrivals, the Bundesrat (the upper house of Parliament) on July 7th passed laws that make language & integration courses compulsory for immigrants, with failure to attend resulting in the loss of the government benefits needed to stay in the country legally, & that tighten the conditions for refugees to be granted indefinite leave to remain. Henceforth those wishing to apply for permanent residence must show proficiency in German & prove they can earn a livelihood. These what Interior Minister Thomas de Maziere called "carrot and stick" measures also include the creation of 100,000 government-funded jobs to introduce refugees to the German labor market and free language & integration courses for those deemed good prospects for being granted asylum.

Chancellor Merkel, whose approval rating is back up to 59%, said "We expect people to accept this offer and become successfully integrated. Those who fail to do so will lose access to government benefits." Still one must wonder if it will prove that easy & straightforward (although the Netherlands have had similar language & integration requirements for over a decade).

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In this case the "bailing-in" one that hold that bondholders must take a hit before taxpayers).