

GLEANINGS II - 688
Thursday December 8th, 2016

WORLD FOOD PRICES EDGE DOWN IN NOVEMBER (Reuters)

- This is what the Rome-based FAO (Food and Agriculture Organization), the UN's food agency reported on Thursday December 8th. Its monthly report noted that that its food price index that measures monthly changes for a basket of cereals, oil seeds, dairy products, meat & sugar that had risen steadily this year after hitting a seven year low in January, in November had averaged 171.3, down 0.4 points MoM, in part due to the fact sugar prices had declined 8.9% MoM (due to a weakening of the Brazilian Real against the US\$ and cereal were down marginally as a result of slightly higher production & improved harvesting conditions. On the other hand, dairy prices were up & vegetable oil prices 4.5% MoM to a post-August 2014 high due to a strong demand for palm oil in the face of lower-than-expected production thereof in Southeast Asia.

This was a bit misleading; for if one reads the fine print, on a YoY basis, the only basis that really matters, the index was up 10.4 percent.

MARKET 'PARADIGM SHIFT' MAY BE UNDERWAY ... MORE VOLATILITY LIKELY (Reuters, Jamie McGeever)

- On December 12th the Basle-based BIS said that, while financial markets have been remarkably resilient to rising bond yields & the sudden shift in outlook following last month's shock US election result, the sheer scale of uncertainty ahead means the adjustment will be "bumpy" & investors should brace themselves for bouts of extreme volatility & "flash crash" episodes like the one that hit sterling in October. More specifically, Claudio Borio, the Head of its Monetary & Economics Department, said "We do not quite fully understand the cause of such unusual price moves ... but as long as such moves remain self-contained and do not threaten market functioning or the soundness of financial institutions, they are not a source of much concern : we may need to get used to them ... It is as if market participants are ... anticipating and charting the future, breaking free from their dependence on central banks' every word and deed." Furthermore, that while this suggests investors may be learning to stand on their own two feet after years of relying on central bank stimulus, signaling a potential "paradigm shift" for markets, "the jury is still out, and caution is in order. And make no mistake : bond yields are still unusually low from a long-term perspective." Elsewhere he said US stocks are chalking up record highs¹, market volatility is anchored at historic lows, corporate spreads² have remained relatively tight & liquidity is adequate, all of it pointing to investors anticipating stronger growth due to an easier US fiscal policy, lower taxes & looser regulation. On the other hand, higher yields & a stronger dollar (as a 'safe haven' & in response to the higher yields?, the yield on the 10-year 'benchmark' bond is up 100 bps from

¹ Since Trump was elected the Dow has risen 8% & financial stocks as much as 19%.

² I.e. the difference in the yield on corporate-, & government-, bonds

last July's record low) also pose risks, especially to emerging markets, since 10% (i.e. US\$120BN) of the dollar-denominated EM corporate debt must be repaid in 2017, or refunded at a higher-, & rising-, cost.

BIS's message seems to be that as a result of the last ten years of 'unconventional monetary policy' central bankers no longer see themselves as 'the masters of the (financial) universe', & are hedging their bets so as not to be blamed if the 'wheels were to fall off' the global financial system.

THE WEST IS NO LONGER THE BEST (FP, Sid Verma)

- On December 7th S&P dropped a bombshell when it sounded the alarm over the rise of populism on both sides of the Atlantic. For in a 2017 outlook report *entitled A Spotlight on Rising Political Risks* Moritz Kraemer, its Chief Sovereign Ratings Officer, wrote "We believe it may no longer be possible to separate advanced economies from emerging markets by describing their political systems as displaying superior levels of stability, effectiveness and predictability of policy making and political institutions ... political and institutional uncertainties are on the rise in ... emerging and advanced economies alike", citing the policy uncertainties associated in the US with the election of Donald Trump (that clouds the credit outlook for its AA+ rating) & in the UK with an increasingly more likely "hard" Brexit that would threaten the UK's access for its exports to the world's largest trading bloc. *And this is part of a trend* : over the past decade sovereign credit ratings have been slowly converging as emerging markets played catch-up with the developed countries thanks to their strengthening policy frameworks & *economic* growth rates, and the wave of sovereign downgrades that swept the Eurozone in the wake of the Greek debt crisis.
- According to Richard Segal, the Senior Emerging Market Analyst at Manulife Asset Management Ltd, "One of the main arguments for higher ratings for the developed markets relative to emerging markets has been *their* institutional quality. If that differential ... is narrowing, so might the differential between their credit ratings", adding that "It's relatively unusual for credit analysts to make forward-looking political judgments in advanced economies, rather than awaiting political outcomes ... However, it recognizes how challenging the current global political climate is."

Segal shows his age, or rather lack thereof, since his next to last observation is half a century out of date. For the rating agencies have been making "forward-looking judgements in advanced economies" ever since 1970 when they were faulted for having rated the Penn Central Railroad double-A until the very day it filed for bankruptcy (then the largest in US history).

THE DEMOCRACIES ARE ON THE DECLINE (WP, Charles Krauthammer)

- Twenty-five years ago communism died as the Cold War ended & the Soviet Union vanished in the largest breakup of an empire in modern history without a shot being fired, an event of biblical proportions that my generation had never expected & that marked the ultimate triumph of the liberal democratic idea as it expanded into the former Soviet colonies, thereby heralding an era of dominance by the world's last remaining superpower. But that era is over & the US is in retreat; just look at Aleppo where a western-backed *Sunni* insurgency against a

- local *Shiite* tyrant backed by a resurgent Russia, an expanding Iran & an array of Shiite militias is about to be annihilated as Russia drops bombs & the US issues statements, and as the West turns to navel-gazing, leaving the field to authoritarians in China, Russia & Iran, and the EU, the world's largest democratic club, turns soft on Putin & could soon break up amidst a proliferation of Brexit-like talk.
- And in Asia China is challenging the post-Cold War order as Obama's *much ballyhooed* 'pivot' has turned into a bust, the Philippines has openly defected to the Chinese side, with Malaysia following suit, & the rest of our allies have started hedging their bets, and President Xi last month told the APEC meeting in Peru that China would pick up the pieces of the TPP accord that both political parties in the US now appear to have abandoned *with Trump labeling it a "disaster"* (although this weekend the Japanese Parliament approved it). The West's retreat began when Obama, reacting to a perceived post-9/11 'overreach', abandoned Iraq, offered a "reset" to Moscow & cut a deal with Iran after having refused even rhetorical support to those rebelling against the ayatollahs. But while Obama retreated from the world because he felt the US was not good enough & had no moral right to global hegemony, Trump thinks the world is not good enough for the US, is populated by *sniveling*, ungrateful, parasitic foreigners who *expect to* live safely under our protection & to benefit from off our sacrifices *while not pulling their weight* and that, after two (???) generations of fighting fascism & communism Americans are entitled to a restful retirement. But with global jihadism added to the mix and America no longer enjoying the dominance it had during our 1990's, we may choose repose, but are unlikely to get it.

Americans simply don't understand that the TPP was a politically-, not economically-, driven beast, with Trump's abandonment thereof called "an early Christmas present for President Xi" by one political observer. But like many others, Krauthammer may be overestimating the Great Power potential of China (a Potemkin village?), Russia (a country with shrinking & aging population & a 'one trick pony economy', and Iran (whose young & well-educated population may not be willing to forever put up with ayatollahs forever, whose Shiite brand of Islam is outside the mainstream).

U.S. JOBLESS CLAIMS DECLINE FROM HIGHS (Reuters)

- In the week ended December 3rd the number of new applications for unemployment benefits *fell by 10,000 to 258,000 from October's five-months' high, underscoring the economy's sustained momentum.* And this being the 92nd straight week in which the number of new claimants was below the 300,000 threshold suggests a healthy labour market.

A more telling assessment of the state of the economy is the number of new jobs created : last month 178,000, November 2015 280,000, & November 2014 331,000 .

TILLERSON CHOICE RAISES QUESTIONS OF CORPORATE AND NATIONAL INTEREST (Reuters, Valerie Volcovici)

- Exxon Chairman & CEO Rex Tillerson (age 64), a Exxon 'lifer' who has worked 41 years for the company but is slated to retire next year, is now believed to be Trump's top pick for Secretary of State. And on December 10th 'the Donald'

twittered “If I choose him or not for ‘State’ (*which one insider expects*) ... he is a world class player and deal maker. Stay tuned!” But this would add another individual to his circle of top advisers who is soft’ on Putin (he opposed the imposing of sanctions following his seizure of the Crimean peninsula). His possible appointment is disconcerting to Senators of both parties, with Sen. John McCain (R-AZ) saying “It is a matter of concern to me that he has such a close personal relationship with Vladimir Putin ... That could color his approach to Vladimir Putin and the Russian threat.” & Sen. Mario Rubio (R-FL) that “being a friend of Vladimir Putin is not an attribute I am hoping for from the Secretary of State.” On the other hand, Daniel Airgun, the author of the Pulitzer Prize-winning book “The Prize : the Epic Quest for Oil, Money, and Power, argues that “It was a business relationship ... The whole Russian thing is so much front and center now so it’s inevitable that those questions be asked ... *but* if he becomes secretary of state, the interests he will pursue will be U.S. interests. This is an Eagle Scout sort of guy. He was president of the Boy Scouts ... he is a straight arrow. If that’s his mission, that’s what he will do.” Ranch Probes, the RBC Chairman & new White House Chief of Staff said on ABC’s This Week program that the fact that Tillerson “has a relationship with people like Vladimir Putin ... could be a huge advantage to the United States.” And while some environmental groups are alarmed about Tillerson becoming the country’s top diplomat, he would actually be one of the few people selected for a major role in the Trump administration who believes (or *is said to believe*) human activity causes (*at least in part?*) climate change & has advocated a carbon tax.

Probes may well be right; true professionalism accepts the need for differentiating between ‘old friendships’ & the single-minded pursuit of his/her current employer’s objectives.

OPEC DEAL MAY HAUNT SAUDI ARABIA (G&M, Rashid Husain Syed)

- By agreeing to accept a 40+% share of OPEC’s 1.2MM bbl production cut it abandoned its battle for market share, *and agreeing to let Iran continue to hike its output was a loss of ground in the ongoing Sunni-Shi’ite tussle for regional hegemony.* And the cost of its battle for more market share has been high : the economy is facing its first recession in 30 years, the part-privatization of Aramco is at risk, lower public sector spending & pay cuts, the government not paying its bills in a timely fashion is eroding business confidence & driving down consumer spending, and it has jeopardized the (*misplaced?*) political ambitions of 31 year-old Prince Mohammed bin Salman, the King’s favourite son who as Minister of Defense is already held responsible for the lack of success in the Yemeni War.
- The big question is, will it work? Morton Frisch, the founder of East Horsley, Surrey-based MFC Natural Gas and Energy Consultants says “In the short term the big winners are Russia, Iran, Iraq, Libya and Nigeria ... Big winners also are the North American shale oil producers ... *who* at the current price level for WTI ... could increase production by about 1.5 million bbl per day, probably in fewer than 18 months...” *Similarly Antoine Halff of Columbia University’s Center on Global Energy Policy told the Annual Outlook Conference of the Economics Society of Northern Alberta that “Every country tried to maximize production to unseen levels even as it negotiated its contribution to the cuts ... (and) there is an underlying crisis in the oil industry and the oil markets ... (that) is not going to get fixed anytime soon”, adding that US shale oil output is ramping up quickly,*

that struggling petro-states such as Venezuela & Nigeria are on the brink of failing³, and that global demand is peaking in the face of improved energy efficiency and competition from other sources⁴.

So there is a real possibility that in the short-to-medium term, despite the much-vaunted production cut, there will be a real risk of a mad scramble for market share that would increasingly put renewed downward pressure on oil prices; one person who seems to hold this view is 80 year-old former Saudi Oil Minister Ali Al-Naimi (who was unceremoniously dumped earlier this year at the behest of Prince Mohammed bin-Salman?) who told the Financial Times “I have no idea why they want a reversal of the (market share battle) policy. High prices will definitely bring more crude to the market and OPEC will further lose [market] share.”

The MASTER AND HIS NEW PUPIL (G&M, Derek Burney & Fen Osler Hampson)

- Henry Kissinger is a friend of long standing of Trump & met with him shortly after the November 8th election. He has long championed *greater* dialogue with, & accommodation of, Vladimir Putin, and was a member of a joint study group of ministers and former diplomatic & military officials who met from 2007-2009 (*i.e. during the later Bush 43 era*) to try & ease tensions between the two countries. And in his quiet stressing since of the virtues of diplomacy & engagement with Putin he now has an eager student in Trump. This also means the end of the era of American democratic nation building abroad that Bill Clinton started, Bush 43 & Condoleeza Rice wanted to get out of⁵, and Obama sort-of tried to get out of, but so half-heartedly & with such muddled intentions, indecision & self-erasing “red lines” that he created a vacuum that Putin was only too happy to fill. Trump will have no such hang-ups & will be ready to work with Putin as long as he says *he* is willing to work with the US in the war on terrorism that is Trump’s top security priority. But this may backfire for him since Putin may not be willing to settle for half an egg in Ukraine & may make a move on the Baltic states that could destroy NATO. And if, as expected he starts advocating a relaxing of the sanctions against Russia, he will be on a collision course with many Republican lawmakers, & possibly even with his own Secretary of Defense.

³ And therefore will have few no options but to cheat & maximize their oil output

⁴ Thus according to The Economist in China “Improvements in cars’ fuel efficiency cut consumption by 2.3m barrels a day in 2015, even when petrol was cheap.”

⁵ This is absolute crap; for while Condy may not have agreed, it was in its heyday in the Bush 43 era. And so is the article’s reference to the 21st century “becoming China’s century; for China is a country in which, among others, its citizens cannot eat the food it produces, drink its water and breathe its air, whose population is rapidly aging, thereby creating a ‘boat anchor’ on its future GDP trend growth rate (that will be further aggravated by the fact that one quarter of its 0-15 year age cohort consists of ‘left-behind’ children many of which are traumatized by the experience to the point that in adulthood they will be sub-standard quality workers, in which there is a serious shortage of females in the 0-20 year age cohort that may lead to serious social unrest over the next two decades, whose financial system appears to have one foot in the grave & the other on a banana peel, and whose wealthiest & most entrepreneurial citizens are not investing their money at home & are positioning themselves to follow their money (abroad); in other words, China may have the makings not of being the ‘country of the century, but rather a modern day, king-sized ‘Potemkin village’ . .

- But China is another matter. He has already upset Beijing by taking a call from the President of Taiwan, & has since told Fox News that “the US is not necessarily bound by a one-China policy”), and likely will be a lot tougher on Beijing on trade and its territorial claims in the South China Sea. That is why it is so perplexing he is so anti-TPP; for its main purpose was to keep the other countries involved from drifting into China’s orbit (*hence the exclusion of China*). Kissinger’s new student clearly still has a lot to learn about the finer points of ‘real politik’ & the importance of deft-, rather than unconventional-, diplomacy.

Burney (age 77) was Canada’s Ambassador to Washington fro 1989 to 1993 (i.e, during the latter Mulroney years), and subsequently Chairman & CEO ob Bell Canada International (1993-1999) & CEO of Montreal-based CAE (1999-2004), and Osler Hampson a professor at Ottawa’s Carleton University & Director of Global Security at its Centre for International Governance Innovation.

BIG PUBLIC PAYDAY (Edmonton Sun, Lorne Gunter)

- Once upon a time public sector workers earned 15% or so less than their private sector counterparts but had greater job security, better benefits & pensions, and lighter work loads. But according to a new study released by the Vancouver-based Fraser Institute entitled Comparing Government and Private Sector Compensation in Canada, even after adjusting for things like gender, age, education, & length of service, they now have all that **and** better pay; more specifically, it found that the 3.7MM workers (i.e. 20% of the total work force) employed in the public sector either directly (i.e. as civil servants) or indirectly (as teachers and healthcare & public security workers etc.) average nearly 11%, and in some cases as much as 40%, more pay than their counterparts in the private sector **and** have longer vacations, take more non-vacation days off for personal reasons and retire on average 2.3 years earlier (with far better pension arrangements : while just 24% of private sector employees have employer-provided pensions, 90% of public sector employees do (with all but 6% of the latter being of the *often massively underfunded* ‘defined benefit’ variety).

Similar work done earlier by the Canadian Federation of Independent Business came to a not dissimilar conclusion and, while both entities may have an axe to grind, their findings & that of a number of other sources support the public perception that in today’s society those who pay the freight, i.e. the taxpayers, are disadvantaged vis a vis their notional employees (or as the study’s co-authors, Charles Lamman & Milagros Palacios, put it in a column in the Financial Post : “It’s unfair to have government workers receive a premium paid for by private sector who receive less for similar positions.”) .

SYRIAN ARMY ADVANCES IN ALEPPO BUT LOSES PALMYRA TO ISLAMIC STATE (Reuters, Laila Bassam)

- After two days of heavy shelling of, & air raids on, the *shrinking* rebel-held enclave in the eastern part of Aleppo, the Syrian Arab Army & its allies⁶ on

⁶ After five years of war & humongous manpower losses & limited scope for replacements (historically the Alawite 12% of Syria’s population accounted for 70% of its strength, the Syrian Arab Army is a mere shadow of its one-time self, as a result of which today the

Sunday December 11th made new gains there, thereby squeezing the rebels in an ever-shrinking pocket crammed with civilians (prompting one rebel official to opine ‘the world powers seem to present us with a choice between death & surrender’). And while this was trumpeted as a major triumph for President Assad & his allies, that same day Syria’s state radio reported that, despite Russian claims that its air raids had killed hundreds jihadist fighters, a major December 8th jihadist attack on Palmyra (200kms/120 miles Southeast of Aleppo) had seized the city centre back, and that the army had evacuated its positions in the city itself & redeployed around it.

This seems to support analysts’ warning that even if the rebels are defeated in Aleppo, Assad will still face many years of a guerilla insurgency & terrorist bombing attacks. So any eventual victory on his part may well prove Pyrrhic in nature⁷ since after five years of war much of the country is in ruins, the vast majority (74%) of his subjects will remain Sunnis that are ethnically Arab, Turkoman & Kurd, and he will faces a gargantuan & cocstly rebuilding task for which he may not have the money while those who currently fight with him may not be willing to foot thr bill for it either.

lion’s share of its fighting is done by its “allies”, on the ground of Iranian & Lebanese Hezbollah- and in the air of Russian-, origin.

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This term is named after the Greek King Pyrrhus of Epirus who in the 279 B.C. Battle of Asculum beat the Roman legion but in doing so lost so many of his elite soldiers that it undermined his future warfaring potential.