

**Back to paper?** - Periodically the Province of Ontario's Education Quality and Accountability Office conducts literacy tests for high school students, with the next ones scheduled for March 2017. Two months ago it did an online trial run involving 147,000 students in the province's 900 secondary schools, only one in ten of whom managed to complete it after it was hacked. So now it proposes, for the time being at least, to return to a paper format - *two years ago already the Daily Mail reported that the world's remaining typewriter manufacturers were seeing a surge in demand as corporations & governments were returning to their use for sensitive material.*

**Bad news for pension fund contributors** - Calpers, California's public sector pension fund & the largest in the US, plans to cut its RoR target from 7.50% to 7.00%, in stages over a period of years. This may prompt other (*equally grossly underfunded?*) pension plans to follow suit, requiring higher contributions by the still working plan members - *to call this a half-measure is an understatement. In its latest reporting year Calpers realized an RoR of just 0.67% & in the past decade its funded ratio has gone from 96% to 73% &, in the absence of a huge jump in worker contribution rates, it will need an RoR of > 7.50% just to keep that ratio from getting worse still (although higher interest-, & hence discount-, rates will reduce the Present Value of their future liabilities & thus help to reduce its underfunding 'shortfall'.*

**Mongolian "dzud"** – an extreme (*cold*) weather phenomenon that every decade or so hits large swaths of Mongolian steppe with heavy snowfalls & temperatures as low as -56° Celsius. The one last year killed more than 1MM Mongolian livestock, adversely affecting the lives of those Mongolians still living 'off the land'. But now a rather unusual a second one this winter is about to create a humanitarian crisis - *unfortunately the developed countries have become inured to such crises elsewhere in the world & any appeal for international aid, such as suggested by the Save-the-Children NGO to the government, will likely fall on deaf ears.*

**Percentage of Americans aged 18-34 living with relatives now highest in decades** - According to the San Francisco-based real estate tracking firm Trulia, in 1940, after the Great Depression, 40.9% did so. Over the next two decades that shrank to 24.1% by 1960 & between 1980 & 2005 ranged from 31% & 33%. But now it is back at 40% (while in the past such percentages had 'rolled back' after a recession, this hasn't been the case since the 2009 end of the "Great Recession" era. For, while the number of Millennials grew by 5MM since 2005, their household formation increased by just 200,000 – in part due to them having kids later & in part to the fact that their wage-, & salary-, levels are now more picayune than in their parents' days.

**GLEANINGS II - 690**  
**Thursday December 22<sup>nd</sup>, 2016**

**IMF BACKS LAGARDE DESPITE CONVICTION OF NEGLIGENCE (AP, John Leicester)**

- *In 2007, Christine Lagarde (now age 60) became France's first female Finance Minister. Appointed by President Nicolas Sarkozy, she inherited a file on an old legal battle between Crédit Lyonnais, a major French bank, & Bernard Tapie, a French businessman with a dodgy reputation & links to Sarkozy, about the bank's role in Tapie's sale years earlier of his majority interest in the German firm Adidas, that she had decided should go to arbitration rather than be dealt with in the courts (which resulted in him getting 403MM Euros/US\$425MM richer a year later). Four years later, on July 5<sup>th</sup>, 2011 she became IMF Managing Director (& earlier this year had her initial five-year contract extended for another like period. On December 19<sup>th</sup>, despite her maintaining her innocence, a 'Court of Justice of the French Republic' (a special tribunal to hear cases of alleged criminality by ministers in office that usually consists of three judges & 12 parliamentarians), did*

acquit her of negligence in her original decision (to put the Tapie case to arbitration) but found her guilty of negligence in her subsequent decision not to contest the amount of the arbitration award (that civil courts have since squashed, ordering Tapie to repay the money), saying this had helped open the door to a fraudulent misappropriation of public funds (with the court's presiding judge in the verdict noting she should have asked her aides & others for more information about the "shocking arbitration award" that included a tax-free payment of 45MM Euros). Later that same day the IMF Executive Board reiterated its backing (helped by the *dubious* claim by Christopher Baker, one of her lawyers, that "There is no sentence ... *and hence* no record of this for Mme. Lagarde"?) reaffirming "its full confidence in the Managing Director's ability to continue to effectively carry out her duties ...*and* looking forward to continuing to work with the Managing Director to address the difficult challenges facing the global economy."

*While according to Douglas Rediker, the US Executive Board member from 2010-2012, "she's done a really strong job", this matter cannot help raise doubts about her sense of judgment at a time of great potential challenges in international finance & leave an odiferous residue.*

### **DATA MIXED ON U.S. ECONOMY (BB, Michelle Jamrisko)**

- The Commerce Department reported on December 22<sup>nd</sup> that, after Third Quarter GDP growth that was the fastest in two years (an annual rate of 3.5%, up from the First Quarter's 0.8% & the Second Quarter's .4%) in November consumer spending had grown by a less-than-expected 0.2% MoM as 'real' (*i.e inflation-adjusted*) disposable income dropped for the first time in three years while orders for non-defense capital goods, ex aircraft (*i.e. business investment*) had been up 0.9%, the most in three months. According to Stephen Stanley, the Chief Economist at New York-based Amherst Pierpont Securities LLC, while "There was a lot of underlying cautiousness *in the business community* for several years now, simply because the tax system and regulatory regime just was not very favourable ... the November figures show how businesses seem very excited ... People seem to have a much brighter outlook as we head into 2017. Hopefully that will translate into more activity<sup>1</sup>."

*Goldman is singing off the same song sheet for the same reason, the expectation that under Trump tax reform, fiscal easing & higher infrastructure spending "will provide an impulse to somewhat stronger economic growth" (but achieving that will require a faster rate of personal disposable income to drive consumption spending than we have seen in the post-Great Recession era).*

### **US EXISTING HOME SALES RISE TO 10-YEAR HIGH (Reuters)**

- In November they were up 15.4% YoY & 0.7% MoM to a post-February 2007 record high annual rate of 5.61MM units (while economists had expected a decline to 5.5MM). This is attributed to buyers rushing in to lock in the current mortgage rates, in anticipation, as *the Fed has all but guaranteed*, of higher rates next year.

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<sup>1</sup> Be that as it may, he nevertheless expects the Fourth Quarter GDP growth rate to have decelerated to around 2%, in line with the annual rate, & pattern, of the last few years (*a level possibly slightly in excess of the economy's now long-term 'trend growth rate'*).

*While this will have boosted 4Q GDP growth (after having been a drag on it for most of the year), to the extent it will be borrowing demand from next year its impact on 2017 GDP growth may be (mildly?) negative. Meanwhile in Canada, where many are concerned about the possibility of a, possible 2007 US-like, housing price hiccup, the head of Royal LePage, the country's largest real estate services company, has predicted that Vancouver house prices will see a double digit decline in 2017 as demand is drying up since "Home prices had gotten so out of whack with the growth in underlying wages & salaries (due to price-insensitive foreign, mostly Chinese 'capital light-driven', demand) that there has to be a correction".*

### **RESURRECT MUSLIM BAN? (WP, Abby Phillip)**

- On December 22<sup>nd</sup>, at his Florida Mar-a-Lago residence, Trump was asked by a reporter what, in the wake of the terrorist attack in Berlin, his plans were with regard to his campaign pledge to establish a registry for Muslims *already in the US* & to (*temporarily?*) prohibit Muslims from entering the US. His answer was "You know my plans" ... the attack on a Berlin Christmas market, credit for which has been taken by ISIS has vindicated me, and all along I've been proven right. One hundred percent correct ... What's happened is disgraceful." (A year ago he first proposed a "total and complete shutdown of Muslims entering the United States until our country's representatives can figure out what's going on") & while, upon being sharply criticized by both Republicans & Democrats, his handlers sought to soften the proposal by claiming he would support such a ban only with regard to Muslims from countries compromised by terrorism. But on this occasion he went out of his way to stress his plans today stood as he had promulgated them then.

*In the wake of the Berlin event his office had released a statement which said, among others, "ISIS and other Islamist terrorists continually slaughter Christians in their communities and places of worship as part of their global jihad". But when asked about it on this occasion Trump seemed to be unfamiliar with it & challenged the questioner with "Who said that?...It's an attack on humanity. That's what it is. An attack on humanity, and it's got to be stopped.*

### **AS TRUMP TWEETS, CHINA QUIETLY WEIGHS OPTIONS TO RETALIATE (BB, Ting Shi)**

- Beijing's response was muted to his tweet last weekend that its "theft" of a US Navy underwater drone had been an "unprecedented act" (that, contrary to what the US Navy had said, they could "keep it"). The China Daily merely commented that his inexperience in diplomacy might lead to confrontations while the Party-controlled, China Daily-operated Global Times mocked his demeanor as "lagging far below that of White House spokespersons" & warned "China has so far practiced restraint at Trump's provocations as he's yet to enter the White House ... But this attitude won't last too long after he officially becomes the President, were he still to treat China in the manner he tweeted today" & that Beijing will "strike back firmly" if Trump as President were to openly challenge China's core interests in Taiwan, Tibet, and the South-, & East-, China Seas. And according to Shi Yinhong, an adviser to China's State Council/Cabinet & the Director of the Center on American Studies at Beijing's highly-regarded Renmin University, options being considered include recalling China's Ambassador to the US, stopping international cooperation, launching a trade war (the US-China lateral trade exceeds that of the US with Japan, the UK & Germany combined, *although YTD the US trade deficits with Japan & Germany are minuscule compared to that with China, the US actually had a trade surplus with the UK*) & even severing diplomatic relations, and "so far China has adopted a cautious, measured approach of wait-and-see ...The

government is still closely observing what Trump is up to and in the process of forming a clear view of his possible policies. This process will likely continue into his presidency for the first couple of months.” .

*According to Malcolm Davis., a senior analyst at the Canberra-based Australian Strategic Institute, Trump’s boast that they could keep the drone they had “stolen” was not particularly smart since this would deprive the US Navy of an opportunity to find out what information Beijing had sought to obtain from it, saying that Trump’s “hasn’t thought out his policy before he tweets it.” And the next nine months may be of great importance to critical to Xi. For at next fall’s 19<sup>th</sup> National Congress he will be expected to nominate a Vice President to succeed him as in 2023 (as he himself had served from 2008 to 2013), and since last October’s Sixth Party Plenum there have been growing rumours that he may delay doing so (because he is toying with the idea of serving three five year term in office rather than the usual two, even though by then he will be 70 years of age). And secondly, because at next fall’s 19<sup>th</sup> National Congress five of the seven members of the all-powerful Politburo Standing Committee, most of them Xi supporters, must be replaced because they have reached the semi-official 68 year retirement age [incl. Wang Qishan, deemed by many to be Xi’s (informal) right-hand man who, as Head of the Commission for Discipline Inspection, has been running Xi’s anti-corruption campaign].*

### **TRUMP TAPS FRIEDMAN AS ISRAEL ENVOY (AP, Julie Pace)**

- In so doing he selected a strong settlements’ supporter, an opponent of any ‘two-state solution’ & an advocate of other changes to US policies in the region who says he’s looking forward to carrying out his duties from “the U.S. embassy in Israel’s eternal capital, Jerusalem”, in line with Trump’s *campaign* promise to move it from Tel Aviv to Jerusalem (which would infuriate the Palestinians & distance the US from most of the international community, incl. its closest allies in Western Europe & the Arab world<sup>1</sup>). And it has sparked anger among the US “liberal” Jewish J Street<sup>2</sup> crowd whose president, Jeremy Ben-Ami, called Friedman’s nomination “reckless”, citing his support for the settlements & opposition to a two state solution. While both Clinton & Bush 43, while campaigning also had promised to move the embassy to Jerusalem but, once in office, had backed away from it, Trump adviser Kellyanne Conway told reporters on December 15th “He has made that promise ... I can guarantee you ...he is a man who is going to accomplish many things very quickly.”

*According to an editorial in the left-leaning daily Haaretz, Israel’s largest & oldest (founded in 1918, it now publishes in both Hebrew & English) Friedman should be a “person non grata” while op-ed pieces opined, among others, that “David Friedman makes Netanyahu look like a J Street ‘lefty’ “, another called him “one-dimensional and one-sided” & a third that with this appointment “the US is finally out of the closet ... no longer ... able to claim it is an honest broker in the Israel-Palestinian conflict”. And Friedman’s reference to J Street supporters as “Kapos”<sup>3</sup>*

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<sup>1</sup> 80+ countries have embassies in Tel Aviv;while once there were some in Jerusalem, the last ones to relocate to Tel Aviv were those from Costa Rica & El Salvador in August 2006.

<sup>2</sup> Whose ‘liberal’ position according to Haaretz, resonates with many Israelis ,

<sup>3</sup> Prisoners in Nazi concentration camps, typically there for criminal-, rather than for racial, religious or political reasons, who in exchange for privileges, did the dirty work for the SS by brutalizing or supervising the labours of other prisoners.

*appears to be in violation of the Anti-Semitic Awareness Act passed 97-0 by the Senate last week that, among others, classifies such Israeli-Nazi comparisons as criminally anti-Semitic.*

### **MORE WOMEN JOIN TOP 1% OF EARNERS (CP, Ross Marowits)**

- According to StatsCan's December 16<sup>th</sup> Canadian Megatrends report women had, in 2014, made up 22% of the 268,500 tax filers in the top 1% who had earned at least \$225,100, excluding government transfer payment, during the year, more than double the 10% three decades ago, while they also accounted for 15% (up from 10%) of the nearly 27,000 who had 'earned' at least \$724,000. Andrew Heisz, the Assistant Director of StatsCan's Income Statistics Division, attributed this to more women in the workplace & more having graduated from university, and a shrinking gender wage gap. Elsewhere in the report it was noted that the top 1% had 'earned' (?) about 12% of all income in Canada (down from 14% in 2007) & that the bottom half of income earners had seen their share of total Canadian income shrink 28.4% between 1982 & 2014 & that of the top 1% grow by 53%.

*Assuming these are all after-tax income numbers, on a gross income basis the inequality gap may well be greater still.*

### **JAPAN UPS DEFENCE FOR EAST CHINA SEA ISLANDS (AP)**

- The Abe government announced on December 22<sup>nd</sup> that it will bolster its coast guard's capabilities to 'defend' the uninhabited Senkaku (Japan)/Diaoyu (China) islands that it controls but China claims, regularly patrolling *the waters around them*. So the Japanese Coast Guard budget for FY/17 will reach a record US\$1.8BN, and hike its manpower strength by 200 (i.e. 1.75%) & the size of its fleet size by 50+%.

*Japan has controlled these islands since 1895, with China laying claim to them in 1970 after it was found to have hydrocarbons under the sea bottom. Taiwan also lays claim to them (they are just 170 kms from the nearest Taiwanese landfall, vs. 310 kms. from Mainland China & 410 kms. from the nearest island in Japan's Ryukyu chain). In 2012 the Japanese government infuriated Beijing when it bought three of the islands from their then private owner. Any Japanese-Chinese confrontation over the islands (and it is likely, if not inevitable, since the Chinese coast guard is involved in most sovereignty confrontations in the South China Sea), will see the US dragged into it since the islands are part of the Japanese territory that under the US-Japan Treaty of Mutual Cooperation and Security the US is obliged to help defend.*

### **RUSSIA URGES OTTAWA TO STAY OUT OF LATVIA (G&M, Steven Chase)**

- *Given Moscow's 2014 annexation of the Crimean peninsula & its ongoing support for the separatists in Ukraine's Donbass region, and the more recent "upgunning" of its military forces in the Kaliningrad/former East Prussia enclave, NATO decided earlier this year there was a need to shore up its Eastern flank through the deployment in 2017 of 4 battalions in Poland & the Baltic states, to be backed by a 40,000-strong 'rapid reaction' force elsewhere), with Canada contributing a 450-strong battle group to the former in what has been called 'NATO's biggest military buildup since the Cold War'. Earlier this week, after the high profile terrorist events in which the Russian ambassador to Turkey was murdered & a stolen truck plowed into a crowd at a Christmas market in Berlin, Alexander Darchiev, Russia's ambassador to Canada told this paper in an interview that the increased NATO presence in Eastern Europe will be bad for regional security & an*

unwise diversion of resources from fighting the menace, terrorism, calling for “a need to co-operate in fighting terrorism”.

*The three Baltic states’ governments are (rightly?) concerned, & NATO responded to those concerns, that Putin, as in the Crimea & Eastern Ukraine, will claim a need to ‘protect’ the ethnic Russians minorities in their countries (25% more or less of their total populations in Estonia & Latvia, and 7% in Lithuania) as an excuse for military action against their countries. So, with the rapid reaction force on stand-by, these four battalions will serve as a “trip wire”. While Moscow is paranoid that events since the breakup of the Soviet Union have deprived Russia of its defense-in-depth potential that defeated Napoleon & Hitler, the ‘forward deployment’ of these NATO forces is a reactive rather pro-active & tripe like the ambassador’s not helping matters.*

### **ITALIAN BANK SEEKS INVESTORS’ AID (Reuters, Stephen Jewkes)**

- On December 16<sup>th</sup> the troubled Italian bank Monte dei Paschi di Siena, the country’s third- largest<sup>4</sup>-, & the world’s oldest surviving-, bank<sup>5</sup>, sought to persuade 40,000 retail investors to take part in its last-ditch rescue plan before a December 21<sup>st</sup> deadline, warning they could face big losses if they did not convert their bonds into shares. While the government is *said to be* ready to step in with state money to keep the Siena-based bank (& some others?) in business, there is no certainty it will do so and, even if it did, bondholders may be forced to convert their bonds into shares at worst terms than currently on offer. The bank in the Fourth Quarter has suffered a 6BN ‘run’ on outflow of deposits, one third of it since the December 4<sup>th</sup> referendum on constitutional reform that cost Prime Minister Matteo Renzi his job. And in the prospectus for its voluntary debt-equity swap it was noted that the ECB had informed the bank that under a negative stress-test scenario that assumed a 10.3BN Euro loss of deposits the bank would have a “29-day time horizon in which to meet its liquidity needs without resorting to new intervention.”)

*The Italian banking system is an accident looking for a place to happen &, since it still is its fourth-largest economy, a potential major threat to the entire European banking system. With its economy a basket case<sup>6</sup>, its banks’ have a total 330BN in bad loans of their books and an aggregate bad loan ratio as a % of total bank loans of almost 10% (vs. a global average of 3.9, and 0.6% in Canada, 1.5% in the US, 2.3% in Germany, 2.5% in the Netherlands, 3.9% in France, 6.1% in Spain & 37% in Greece). With less than one fifth the Eurozone’s population, it accounts for over one-third of its banking system’s bad loans. And while, after Matteo Renzi’s departure, the Social Democratic party remains in control of the government, voter support for it had, at last report, **slid** from 42% two years ago to 30% today while that for Beppo Grillo’s anti-Eurozone 5 Star Movement had **risen** from 18% to 30% (with a general election due in about 18 months). At last report the bank’s restructuring effort has come to nought and the Italian Parliament had approved a 20BN Euro bailout for all its banks; but the banks and its bond-, &*

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<sup>4</sup> It has US\$170BN in assets & 25,000 employees (roughly one-fifth & one-third respectively of the Royal Bank of Canada’s).

<sup>5</sup> It was founded in 1472.

<sup>6</sup> It was in recession all of 2012 & much of 2013, and economic growth was flat in 2014 & has been marginal since.

*share-, holders are still not home free, since the EU's "bail-in" legislation calls for the latter to take a (serious) hit before any taxpayers money can be spent on bailing out banks.*

**ROMANIAN PARTY NOMINATES FIRST FEMALE, MUSLIM PRIME MINISTER**  
**(NYT, Kit Gillet)**

- In the December 11<sup>th</sup> election its Social Democratic Party had more than 45% voter support and now, with its much smaller Alliance of Liberals & Democrats Party ally, it controls Parliament. But last April its leader was convicted of election fraud & given a suspended sentence, and the President ruled that the next Prime Minister should be untainted by criminal convictions or ongoing investigations. So the SD Party surprised everyone by naming a 52 year-old, relative newcomer, female, former regional development minister (for six months) of Tatar minority origin as its candidate for Prime Minister.

*So, subject to the President's & Parliament's approval, she will become the first Muslim-, & first woman ever-, Romanian Prime Minister.*