

GLEANINGS II - 594
Thursday December 26nd, 2014

Quote of the week : I don't believe in hope. I believe in hard work." Aung San Suu Kyi.

All budgets have non-discretionary-, & discretionary-, components & Washington's is no exception; the "mandatory" ones in its 2012 Budget were Medicare & Medicaid (25%), Social Security (23%), "Other" (11%) & Net Interest on the national debt (6%)¹, and it had only two discretionary ones, Defense & 'All Other' (that funds all day-to-day government activities). A November 26th report by the Congressional Research Service² entitled The Budget Control Act and Trends in Discretionary Spending (that seems to have escaped media attention) noted that in the past **half century** the Budget's discretionary component halved from 67% to 33% in FY 2014 33%, & on present trends will be 5% a **decade** from now (a little less than the share currently, in the present low interest rate environment, accounted for by net interest on the national debt) - *this makes one wonder whether in geopolitical terms the current generation of US lawmakers might not be the modern day equivalents of the band members who kept on playing as the Titanic slid below the waves.*

Last March, when the Senior *Democratic* Senator from California, Dianne Feinstein, a 22-year veteran of the Senate & at age 81 its oldest member, who chaired the Select Committee on Intelligence³, accused the CIA of spying on it as it worked on its *subsequently scathing* December 9th report on its use of torture, CIA Director John Brennan went public saying "Nothing could be further from the truth ... We wouldn't do that." But an internal investigation by the CIA itself has since shown that to have been an untruth (*or evidence of a manager not aware, or choosing not to be aware, of what his people were doing?*); for it found that CIA staff had indeed hacked into the Committee's computers as it worked on its report. While this caused John Brennan to have to publicly apologize to the Senator, so far no heads seem to have rolled (*except possibly at the working level for having been caught?*), *contrary to what happened when, after a security breach at the White House & news of other breaches of protocol by its Secret Service detail, Julia Pierson, its head, & the first-ever woman in that position, 'offered' her resignation.*

The lower oil prices may prove less of a boon to the US economy than the CW holds, in part because consumer spending on gasoline is only a relatively minor item in most household budgets, in part because many low income families with the highest propensity to consume own no cars, & in part since for US manufacturers the double whammy effect of lower, US\$-denominated oil prices will be offset by the stronger dollar-induced erosion in their competitive position at home & abroad. On the other hand, the low oil prices will result in high-income skilled & semi-skilled workers in-, or near-, the oil patch getting, or worry about getting, their walking

¹ 'Netting out' the interest paid on debt owed to other government entities may seem like the logical thing to do because those entities will show it as revenue on their books is a bogus one; for

² Sometimes referred to as "Congress' think tank", it is one of a troika of 'Congressional support agencies' [the others being the CBO (Congressional Budget Office) & the GAO (Government Accountability Office)] with its self-avowed role among them therein being to "ensure that Congress has 24/7 access to the nation's best thinking".

³ Created in 1976 to "oversee and make continuing studies of the intelligence activities and programs of the US government".

papers. Low oil prices may lead to stresses in the financial sector [according to Goldman Sachs close to half the US\$2TR of the high-yield (aka less kindly as the “junk”) bond market is accounted for by debt issued by *often smaller & highly-leveraged-, and hence more vulnerable-*, oil companies that may have trouble meeting their debt obligations with oil at US\$70]. According to Bank of America/Merrill Lynch, the yield on junk-rated bonds of energy companies has almost doubled since mid-year, which on a ‘mark-to-market basis will give rise to significant book losses on investors’ & banks’ junk bond portfolios. Many oil companies have hedged part of their future output at prices in the US\$90-100 range (which means their counterparties could be in deep doodoo, & may not have the backstop provided by the federal treasury that was reinstated for banks in the recent omnibus budget bill). And last but not least, Goldman Sachs, after reviewing 400 of the world’s largest oil & gas fields, concluded that US\$1TR-worth of the expansion plans for them are not viable with Brent at US\$70 (while in the last few days it has been in the US\$60 range) - *on the other hand, the doom & gloom artists who are predicting forty dollar oil may be proven wrong; for in geopolitical terms, US\$70 oil may be the ‘Goldilocks’ price point that creates sufficiently serious fiscal problems for the Russias, Irans & Venezuelas of this world without having things on our side spinning out of control.*

The Commerce Department recently revised its Third Quarter GDP growth number from 3.9% to 5.0%, the best performance in 11 years & said it had been broadly-based, with better-than-expected growth in consumer spending, greater-than-expected spending by governments at all three levels (*which may, or may not, have been supported by higher revenues*⁴), higher exports (& lower imports), and more spending on housing.

Last week the White House announced that, after 18 months of secret negotiations (that somewhere along the way had involved Pope Francis), the President had ordered the immediate restoration, after 54 years, of full diplomatic relations with Cuba (for which, it being a foreign policy issue, he didn’t need Congressional approval). This has thrown the Republicans into a tizzy, vowing that, once they gain full control of Congress, three weeks from now, they will do everything in their power to ensure that the 54-year trade embargo of Cuba will not be lifted - *what may have driven Cuba to make a deal is concern that, with the lower oil price driving Venezuela into financial dire straits territory, it will cease providing it with 100,000 bbl of cheap oil. And it will be interesting to see if it was desperate-, & the US negotiators smart-, enough to have it renege on its deal with Moscow last summer to let it, in exchange for having most of its debt written off, reactivate its 50-year old, Cold War era, 28 sq. mi. listening station facility on Cuban soil, that Moscow closed in 2002 as a cost-saving measure in the aftermath of its 1998 financial crisis, at a time when Putin was seeking to ingratiate himself with the Bush White House. Meanwhile the regime’s opponents in both the US & Cuba are upset because they were not consulted on the composition of the list of 53 dissidents in Cuban jails that will be freed as part of the deal.*

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Thus S&P last September issued a report that noted that the growing income inequality was leading to a slowdown in tax revenue growth (for the poor pay no taxes at all, the very rich very little and middle income earners who account for the bulk of taxes paid have experienced little, if any, real income growth; thus it noted that, whereas during the three decades ended in 1980, the states’ revenues from sales-, & income-, taxes had grown at an average 9.97% annual pace, in the first decade of this century it had only done so by 3.62%

Something that has gone almost totally unnoticed is that 88 year-old Fidel Castro was earlier this month awarded (over 20 other nominees incl. UN Secretary-General Ban Ko-moon & South Korean President Park Geung-hye) Beijing's Confucius Peace Prize for "his contribution to peace" &, more specifically because " he did not use military force (*what military force?*) or violence to resolve controversies and disputes". But as has been common for recipients, he didn't travel to Beijing to receive the gold statuette & certificate, which were instead handed, at a ceremony, to a foreign student from Cuba who happened to be studying in Beijing - *this prize was announced in 2010 (because the Nobel Peace Prize 'was overlooking China'), two days before the jailed Chinese Chinese dissident Liu Xiaobo was awarded the Nobel Peace Prize. First given to the President of Taiwan who in 2005 had led a 70-member contingent on an eight-day 'journey of peace' to Mainland China, it went to Putin in 2011, in 2012 to former UN Secretary-General Kofi Annan & Yuan Longping (a plant scientist who in the 70's first developed hybrid rice varieties), and in 2013 to Yi Cheng, a Zen Master & Honorary Chairman of the Buddhist Association of China.*

On December 25th Netanyahu announced the "purchase" by Israel from Germany for 1BN Euros (subsidized to the tune of 115MM Euros by the German government) of four new navy corvettes that he said will be an "important component of Israel's defense capabilities⁵ & that apparently are intended to 'defend' the country's offshore natural gas production facilities)⁶. This came two days after Israel's Anti-Trust Commissioner had shocked everyone involved by announcing he would force the cancellation of a deal between Texas-based Noble Energy & Israel's Delek Group for the development of the offshore Tamar & Leviathan natural gas fields (which he deems to have created a cartel), and may force them to sell stakes in the fields to third parties. This in turn came a couple of weeks after the NYT had praised the development of these fields as a "lifeline for peace" because the operators were in negotiations to sell gas to Cyprus, Egypt, Jordan & Turkey.

In November 2013 the Province of BC became the first foreign government ever to 'tap' the yuan-denominated "dim sum" market⁷ when it issued 2.5BN yuan/C\$428 MM triple A-rated, 2.25% bonds in it. Investor interest can be gauged from the fact the province had expected to 'do' only 500MM - 1 BN yuan (& that the 'order book' was in the 4BN yuan range). Then late last October it 'rolled over' the maturing issue & got some net new cash by issuing a 3BN yuan/C\$550MM, 2.85% two year issue (once again after initially having targeted only 2BN yuan), shortly after the UK had done a three-year, 2.70%, 3BN yuan issue (which originally had targeted 2.9% yield pricing) - *neither issuer converted the proceeds into their own currency, the Province because it was playing the "spread game" by investing the proceeds in other yuan-denominated securities (equities for its pension funds ?) & the UK since it announced it would add the yuan proceeds to its FX reserves (at a price, for it is paying 2.7% for three year money in China while it could have raised five year money at home at 1.4%). And, while the Province is*

⁵ As indeed they will be; for corvettes are the largest surface ships in the Israeli Navy & at present it has only three of them.

⁶ This looks like more of an election promise than anything else. For the announcement was made at an Air Force Academy function & was said to have come as a total surprise to the Navy. And insiders say what had been signed was not a contract but a Memorandum of Understanding and that Netanyahu may have compromised Israel's bargaining position in any subsequent contract talks since the German government was said to have been prepared to absorb 25% of the cost of the vessels, where the amount he mentioned was only about 10%.

⁷ Of bonds denominated in yuan for purchase by non-Chinese only.

triple A-rated, the UK is “split-rated, i.e. Aa1 by Moody’s & AAA by S&P [which may account for half the most recent BC issue being bought by central banks, vs. only 5% of its maiden issue), 3x as much as of the UK issue]. The popularity of both issues, especially that of BC which, while part of a shrinking triple A-rated issuer universe, is not a sovereign credit, further demonstrates the growing stature of the yuan among official holders

Bill Browder’s grandfather was General Secretary (i.e. Head) of the Communist Party USA in the 1930’s & early 1940’s (until jailed for passport fraud). His father was a child prodigy who got a Ph.D. in Mathematics from Princeton at age 20. He himself has an Economics degree from the University of Chicago & an MBA from Stanford. In 1996 he & Edmond Safra⁸ founded Guernsey-based Hermitage Capital Management (which made him extremely wealthy & of which he remains CEO to this day), that over the next decade became a major conduit for foreign investment in Russia. But in 2006 he was blacklisted by the Kremlin as “a threat to national security”, & his friends & associates in Russia subjected to police harassment (which in at least one case cost the individual his life). Turned from a fan of Putin into one of his most vocal critics, he recently summed Russia’s domestic situation as follows : “the crisis is suddenly filtering into people’s daily lives ... 55pc of consumer goods in Russia are imported and these are doubling in price ...this is going to be worse than the default crisis in 1998⁹. This time you have a situation where the West is against them ... Russian companies are shut out of global capital markets. The country cannot turn to the IMF because Washington will block that. There is no lender of last resort ... Putin’s sales pitch has always been that he brought the country back to stability after the craziness of the Yeltsin years ... (and) he got away with it because the oil boom created enough money for everybody. But now the money has run out. People are getting angry. If oil stays at \$60 for a year, he risks a palace coup from his own ‘Siloviki’ (i.e. ex-KGB) circle” - *he may well be proven wrong in saying “There is no lender of last resort”; for Beijing has a surfeit of US dollars that it has been using to buy ‘hard assets’ -, and power & influence-, around the world. And it may be seeing this as a potential way to kill two birds with one stone : pull Russia with which it shares a 3,600+ km border & which possesses a cornucopia of resources that it covets, tighter into its orbit, and to demonstrate to the emerging market world that it is serious about making the yuan a reserve currency & setting up an alternative structure to the Bretton Woods institutions that would not be under the thumb of the First World (but if Putin were to allow Beijing to bail him out, the price it may, & can, extract, for he holds no aces, could be one that his compatriots may live to regret) - at last report Beijing indeed had decided to start fishing in these murky waters with an offer of financial support for Putin.*

According to Lubomir Mitov of the Washington-based Institute of International Finance Russia is weaker now than it was during the Soviet era of the 1980s when it still made things & brimmed with engineers, for “They have lost their technology”. People are reported to be buying anything that keeps its value. Soviet-era queues have reappeared. Foreign car manufacturers have suspended sales in Russia because there is no way to set retail prices. According to

⁸ A scion of a prominent Lebanese-Jewish banking family, but a Brazilian citizen, who was once known as the “world’s richest banker”, he died in 2000, at age 67, under suspicious circumstances in what supposedly was a break-in cum robbery at his residence in Monte Carlo.

⁹ Which contributed to the collapse of the ‘blue ribbon’ Greenwich, Conn.-based Long Term Capital Management hedge fund that was founded, & managed, a former Salomon Brothers’ Vice-Chairman & Head of Bond Trading & that had two Nobel Economics Prize winners on its Board.

Vedomisti¹⁰ there has been a de facto run on the banks as people emptied ATMs. A former governor of Russia's central bank, when asked what he would do to halt the ruble's slide, responded "I would pick up a gun and shoot myself". The weaker ruble has caused Russian banks' & companies' foreign indebtedness to skyrocket to 70% of GDP (with a significant portion due in 2015). The central bank is forecasting a 4.7% decline in GDP next year if oil were to stay at \$60. And gallows humour abounds, one example thereof being that "the magic number in Russia is 63 : Putin will turn 63 (*next October*) and oil & the ruble are heading for 63 (& *unlike him, are already there*) - The one thing that Putin may have going for him that many Westerners may not fully appreciate is that as one Russian expert put it "Russians like to suffer (and) they're good at it." (*although this may hold less true today than it used to, due to the rise of a Russian middle class with middle class aspirations; or as former Russian Finance Minister Alexei Kudrin put it on December 23rd, "There will be a fall in living standards. It will be painful. Protest activity will increase." (with the question then being whether Putin will react with Soviet era KGB brutality &, if he did, how his fellow Russians would react).*

Last weekend was not a good one for France, or for its Muslim residents. For on Saturday December 20th a Burundi-born French citizen converted to Islam was shot & killed by the French police in the Joué-lès-Tours suburb of Tours in central France when he attacked them waving a knife. The next day another Muslim man drove a car into crowds at five locations in Dijon (in East-Central France), injuring 11 people. And last, but not least, on Monday in Nantes, in Western France, a third Muslim behind the wheel of a van plowed into a crowd at a Christmas market, injuring 11 more - *while the one thing common to all three cases was that the doers shouted "Allahu Akbar" (God is Great) as they perpetrated their misdeeds, the police was unable to establish a link between them (which did not, however, stop the government from raising the security level alert, while nevertheless cautioning the public not to overreact or panic).*

On December 23rd, in the second round of the Greek presidential election by Parliament, the government's candidate, Stavros Dimas (age 73), the former EU Commissioner of the Environment, received 168 votes, 8 more than in the first round earlier this month & 13 more than the coalition government controls directly, but well short of the 200 needed. So, unless by December 29th, when the threshold for election drops to 180, at least 12 more MPs can be prevailed up to support Dimas, rather than abstain as the opposition has been doing (instead of voting against him), the country is headed for an election in early February. And the latest polls suggest that in that case the left-wing Siriza Party, running on a platform of renegotiating the bailouts & reversing the austerity policies of recent years, will emerge as the largest party (whose plurality then would be boosted by the 50 'bonus' seats in Parliament awarded to the largest party).

In his 10+ years as Turkey's Prime Minister Recep Tayyip Erdogan energized its economy but, as time went on, became more dictatorial & undermined the heritage of Kemal Pasha Ataturk who set out, nine decades ago, to put it onto a modern, secular path. Now, as President, he has become even more high-handed, to the point where the EU recently condemned him for jailing journalists & political opponents *who had alerted the population to the corruption he had tolerated during his time as Prime Minister.* And it now has become apparent that the Achilles heel of the economy he built is its dependence on continued large inflows of capital; so the 50% weakening of the Turkish lira against the US dollar in the past three years may spell trouble for him.

¹⁰ A Russian language daily that is a Joint Venture between the Dow Jones the Financial Times and the publisher of the Moscow Times.

According to the latest polls in Scotland, if the election had been now, rather than on May 7th, Ed Miliband's Labour Party would have lost 39 of its 41 seats there, destroying his dream of becoming the next Prime Minister, & the Scottish National Party would have gotten 54 of the 59 Scottish seats in Westminster. So the latter could become part of Britain's next coalition government & Alex Salmon, who a few months ago led the campaign for Scottish Independence, not just an MP in Westminster but possibly also a Minister in the next government (*which for David Cameron would be a matter of 'keeping your friends close, but your enemies closer'?*). Meanwhile the North Sea oil industry that was to have been the independent Scotland's economic mainstay has been thrown into disarray by the lower oil prices - *All over Europe traditional mainline parties are under siege & there is a possibility that the next election will see Westminster change from a two-and-a-half-, to a five-, party system, through the addition of blocs of UKIP & SNP members, and coalition governments there becoming the rule, rather than the exception.*

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ONTARIO DEBT RATING TRIMMED (G&M, Barrie McKenna)

- On December 19th Fitch caught up with the other credit rating agencies by cutting Ontario's credit rating (from AA to AA-), expressed "concern" its budget deficit had grown for the second year in a row, & warned it faces "difficult actions" if it is to eliminate its \$12.5BN deficit on schedule. According to Doug Offerman, a Fitch analyst, "To achieve that zero [deficit], they are going to have to constrain spending pretty significantly and pretty consistently from year to year ... a difficult road to travel." This came after the Province's Auditor-General warned its debt was growing faster than its economy, leaving its government vulnerable to higher interest rates that would constrain its program spending.

While the province's debt-to-GDP ratio, at about 50%, is still modest by Japanese, Greek or Italian standards, it has doubled in the past six years. And, as noted by the Auditor-General, it is vulnerable to higher interest rates since, despite this debt build-up, the percentage of its revenues going towards debt servicing has barely budged. As to 'constraining spending', i.e. making today's taxpayers paying for today's government services from today's tax revenues, rather than downloading part of its cost thereof onto future generations, this is a notion many politicians are averse to, possibly none more so than Ontario Premier Kathleen Wynne.

IS DOWNS WAR PLANE OVER SYRIA, CLAIMS CAPTURE OF JORDAN PILOT (AF-P)

- It did so on December 24th near the Northern Syria city of Raqa, supposedly with a (US-provided?) missile captured from rebels fighting the al-Assad regime, & brandished on the Internet pictures of the Jordanian pilot, First Lt. Maaz al-Kassabeh, amidst its fighters.

The shooting down scenario has been officially denied. Be that as it may, the pilot is in the bad guys' hands, providing them with a PR opportunity they will make the most of. And his capture is likely to affect the ardour of the governments, included Canada's, that joined the US in its fight to check the progress of, if not eliminate, ISIS by dispatching fighter jets; for it is one thing to shoot fish in a barrel, but a horse of an altogether different colour to risk the ignomy of having one's military personnel captured & degraded (and possibly even executed?) in public.

WHAT WILL ISRAEL BECOME? (NYT, Roger Cohen)

- Uneasiness inhabits their country as Israelis question their future. The status quo has become less bearable & has a name, Benjamin Netanyahu. And the alternative, though less clear, is no longer *deemed so unbearable by many*. In an interview novelist Amos Oz¹¹, for many the conscience of liberal Israel, said “There is a growing uneasiness, social, political, economic ... There is a growing sense that Israel is becoming an isolated ghetto, which is exactly what the founding fathers and mothers hoped to leave behind them forever when they created the state of Israel ... Unless there are two states ... there will be one ... Arab state. The other option is an Israeli dictatorship, probably a religious nationalist dictatorship, suppressing Palestinians and ... its Jewish opponents *alike*.”
- Foreign support is dwindling. Hamas hasn’t gone away. The recent spate of violent incidents¹² have Jerusalem on edge. Life is expensive. Netanyahu’s credibility on both domestic-, & foreign-, matters is not what it used to be (or as the octogenarian Jerusalem-based Hebrew University political science professor Shlomo Avineri put it “We wake up every morning to some new threat he has found ... We have grown tired of it.” But this fatigue will translate into change only if there were a viable challenger, and the recent alliance between Labor’s Isaac Herzog & Hatnua’s Tzipi Livni (who was Justice Minister & responsible for negotiations with the Palestinians in the last Netanyahu Cabinet) makes a post-Bibi Israel look a little less like a fantasy (for both have pedigrees that go back to the days when the differences between the left & right in Israeli politics did **not** extend to different views on the fundamental rights of all Israeli citizens).

A poll of 500 Israelis published by the Jerusalem Post on December 6th found that 60% of them did not want Netanyahu to remain Prime Minister after the March election vs. 34% who did & 6% who said they didn’t know. And when asked whom they preferred as Prime Minister in one-on-one comparisons with Netanyahu, he came second to former Communications Minister Moshe Kahlon, who is heading a new party that the polls say will get a dozen or so seats, 46-36 & to former Interior Minister Gideon Sa’ar, who is said to be getting set to challenge his leadership of Likud, 43-18, only barely edged out the Labor Party’s Isaac Herzog 45-44 [who, while having the right family & military antecedents, has long been deemed a “nebbish” (a timid & ineffectual person)], but handily beat Naftali Bennett, Yair Lapid & Avigdor Lieberman.

ARAB OPEC SOURCES SEE OIL BACK ABOVE \$70 BY END 2015 **(Reuters, Rania el Gamal)**

- OPEC sources said this week that they expect the price of oil to recover to US\$70-80 by the end of 2015 but not to see it return to US\$100 any time soon. They base this on expectations that lower prices will stimulate demand & slow the ‘breakneck’ growth in output from high cost producers such as the US oil patch, resulting in a new equilibrium price, even in the absence of any production cuts¹³. And, more specifically, according to

¹¹ Age 75, he is a professor of literature at the Beersheba-based Ben-Gurion University and his works have been translated into 42 languages, incl. Arabic & Chinese.

¹² The latest one of which occurred after the Muslim prayer services on the Temple Mount when a Palestinian stabbed two Israeli police officers, supposedly only injuring them “slightly” (although one was stabbed in the neck), on got away in the subsequent confusion.

¹³ Saudi Arabia said this week that it would not cut production, even if others were to do so.

one Gulf source, while the price may touch US\$60, it will in due course come back to “an acceptable level” (which he defined as US\$80).

Demand may rise less dramatically since the oil price may decline less dramatically than expected by some . Some countries with budget-draining fuel subsidies may take the opportunity to cut them. Consumers may have other uses for the additional spending room generated by the lower gasoline prices than buying more gasoline. Many US shale oil producers are still profitable at current prices [& have improved their technology, most importantly by reducing depletion rates (thus maintaining more production longer while drilling fewer wells)] while elsewhere on the supply side some oil-producing countries heavily dependent on oil revenues for budgetary purposes may seek to boost output so as to offset on the volume-, what they are losing on the price-, side.

CONTINENTAL RESOURCES ANNOUNCES REVISED 2015 CAPITAL BUDGET AND GUIDANCE (Yahoo Finance)

- On December 22nd the Company (CLR-NYSE) announced a US\$2.7BN “non-acquisition” capex budget for 2015¹⁴ that will still enable it to expand production by 16-20% YoY. It expects to cut its rig count from 50 this year to 34 by the end of the First Quarter & to an average 31 for 2015 as a whole¹⁵ & completed well costs to decline 15% YoY as less demand forces oil servicing companies to offer more competitive pricing.

CLR is a US Top Ten independent oil producer. It is run by Harold Hamm who founded the company in 1967 when he was 22, took it public in 2007 & in 2012 was included by Time Magazine in its list of the 100 most influential people in the world¹⁶. It is an “oily” company (i.e. 70% oil-, rather gas-, related) whose output grew from 35MM BOE in 2012 to 51MM in 2013 (i.e. up 45.7% YoY) & to an estimated 60MM (up 20%) this year, with most of it coming from the Bakken rather than Texas & some from Oklahoma.

MOVE TO MEDICAID : NEARLY 10MM ENROLLED SINCE OBAMACARE LAUNCH (CNBC, Dan Mangan)

- In the year to last October enrolment in Medicaid & the related Children’s Health Insurance Program, rose 17.2% to 9.7MM, bringing total enrolment to 68.5MM, over half of them children. And while 26 states & DC extended eligibility for Medicaid to nearly all their poor by using earnings of 138% of the federal poverty level as the cut-off, the 2012 Supreme Court decision that gave the states the right to decide eligibility has resulted in widely disparate eligibility rules in the other 24 states; so in Wisconsin adults without children are ineligible & in Mississippi the income cutoff is US\$5,319, 27% of the federal poverty level.

¹⁴ Down from US\$4.6BN just one month ago (which in turn had been down from an original 5.2MM & from US\$4.05BN in 2013) which would have enabled it to increase production by 23-29% YoY - interesting, the capital budget is down 48% & planned production only 7.0%!

¹⁵ Incl. cuts in the number of drilling rigs deployed in the Bakken by 42% to 11, and in its SCOOP field in Oklahoma by 38% to 16.

¹⁶ And who last month was ordered by a judge to pay his ex-wife of 26 years US\$1BN in their divorce settlement, US\$320MM before yearend & at a US\$7MM monthly rate thereafter.

According to the National Health Interview Survey Statistics, in the Second Quarter, the share of Americans without health insurance was 11.3%, down from 13.1% QoQ, & from the 2013 average of 14.4% (& many of those still without coverage would likely be eligible if they were to apply - in other words, one of every Americans is still without health insurance coverage while one in five households is on food stamps.

US ASKS CHINA TO HELP REIN IN NORTH KOREAN HACKERS (NYT, David E. Sanger)

- North Korea's cyber attack on SONY was routed via China to servers in Singapore, Thailand & Bolivia. So Washington has sought China's help in blocking other such attacks, but, while its cooperation is critical, since most of North Korea's telecommunications with the outside world go via China, Beijing may not cooperate; for last May the US Justice Department indicted five Chinese nationals working for the PLA on charges of hacking the networks of American companies.

A more cogent reason from a Chinese perspective for not cooperating may be that, since Beijing has maintained it doesn't tolerate illegal cyberaction within its borders, it would 'lose face' if it were now to implicitly accept the possibility it had not 'walked that walk'.

RUSSIA BAILS OUT FIRST BANK AS 'FULL-BLOWN' CRISIS BEGINS (Business World, Peter Spence)

- On December 22nd Russia's economic crisis took a new turn when the central bank said it would 'lend' the Trust Bank, a mid-sized lender, 30BN roubles (437MM Euros). This prompted Alexei Kudrin, Russia's Finance Minister from May 2000 until September 2011¹⁷, to declare "Today I can say that we have entered ... a full-blown economic crisis. Next year we will feel its full force ... what the president and the government must do now ... is the normalization of Russia's relations with its business partners, above all in Europe, the US and the other countries." And Anna Stupnytska, an economist at Fidelity Solutions, noted that "while the risk of a sovereign default is low; it's the corporate sector where the main vulnerabilities lie, and banking in particular ... Due to the sanctions companies cannot refinance their debt as access to international markets has been essentially cut off." (*and unless they default, meeting their debt service obligations in a timely fashion will blow a big hole in Russia's official FX reserves*).

Meanwhile, last week Russian Prime Minister Dmitry Medvedev signed an order forcing Russia's SOEs to sell their FX holdings to help stabilize the ruble; if they were to do so, this could generate the equivalent of US\$1BN per day in support of the ruble (and at last report the ruble had indeed recovered to about 54 to the US dollar). As to 'normalizing relations', a Moscow department store installing mats with the US flag in its doorways for people to wipe their feet on, ain't going to help!

UKRAINE INCHES CLOSER TO NATO IN IMPORTANT VOTE (Time, Sarah Begler)

- Its Parliament voted 303-8 on December 23rd to drop its 'non-aligned' status (*that dates back to the Cold War era*), thereby opening the possibility of applying for NATO membership. This prompted Russia's Prime Minister Dmitry Medvedev to warn that this

¹⁷ Who recently told an audience in Ottawa that he gave Putin at most two years.

move turns “Ukraine into a potential military opponent for Russia”, and that this move, & the latest sanctions imposed by the US, will have “negative consequences”.

It can't be a coincidence this vote came one day before the next Russian-Ukrainian peace talks, scheduled for December 24th & 26th, the second of which was cancelled - this suggests that the Ukrainian government, on its own hook-, or as a proxy for, Washington now (rather unwisely?) believes Putin is playing a weak hand & the Russian bear's nose can be tweaked with impunity.

POPE IN BLISTERING CRITIQUE OF VATICAN BUREAUCRATS (AP)

- Pope Francis is the first-ever Jesuit-^{18 19}, first-ever Latin American-, & *first-ever Southern Hemisphere-*, and since 741 the first non-European-, Pope. He inherited a papacy in which the Italian-dominated Vatican bureaucracy (aka the Curia) answered to no one & according to Alberto Melloni, a church historian & contributor to the Corriere della Sera, “an entire generation of the Curia ran it as if they were Pope.” For John Paul II had been too busy traveling the world & (*now Emeritus*) Pope Benedict XVI had left the day-to-day running of the Church to his deputy, *Cardinal Tarcisio Bertone*, who has since been fingered as having been part of the problem (& *who, the day after Pope Francis replaced him, blamed the problems during Benedict's Papacy on “crows and vipers” in the Curia*).
- On December 22nd he turned the usual papal genteel Christmas greeting into a public dressing down of the Curia, accusing those serving in it of abusing their position to grab power & wealth, of living “hypocritical” double lives and of forgetting they're supposed to be joyful men of God. He made it clear his plans for radical reform will have to be accompanied by an even more radical reform of their spiritual mindset, saying some Curia members suffer from “Spiritual Alzheimers”, forgetting what had moved them to become priests in the first place. Vatican watchers say his outburst was driven by the findings of an as yet secret report ordered by his predecessor (who tasked three trusted cardinals with probing deep into the back-stabbing culture of the Vatican to root out what might have prompted a trusted papal butler to steal incriminating documents & pass them on to a journalist). The cardinals present were not amused & gave him only a tepid applause, and there was said to be little Christmas cheer in the room.

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GLEANINGS II - 593SP **Monday December 22nd, 2014**

Frederic Neumann, Co-Head of Asian Economic Research at HSBC, says that, while the US GDP in “international buying power” (i.e. US dollar terms), *rather than Purchasing Power Parity*

¹⁸ And as such was a paradox; for Jesuits aren't supposed to be in positions of authority in the Church as a whole, but on the other hand they are also supposed to obedient to it.

¹⁹ Jesuits often challenge authority by their predisposition to ‘colour outside the lines’. In fact, one of the now Emeritus Pope Benedict XVI's first acts as Pope was to order the firing of the editor of the New York-based Jesuit magazine America who had frequently challenged the Church's official teachings. And as expert put it “if there is a barricade in the street, there is going to be a Jesuit on both sides” of it. On the other hand, when the now Pope Francis I has long been known for his concern for the poor, when, as Jorge Mario Bergoglio, he headed the Jesuit order in Argentina in the 1970's, & subsequently was Archbishop of Buenos Aires, he did not support the ‘liberation theology’ supported by many of his Jesuit brethren.

(PPP) terms, i.e. local buying power, is still twice the size China's, 22% - 11%²⁰, but a far cry from 2000 when the US had accounted for 31% & China for just 4%. And, he says, the aggregate GDP of the emerging Asian economies is now "neck to neck" with that of the US (& growing much faster).

The creation of SDRs (Special Drawing Rights) in the IMF was agreed to in 1969 & they came formally into being on January 1st, 1970²¹. This was prompted by an erosion of confidence in the US dollar as the kingpin of the international monetary system due to its persistent trade-, & budget-, deficits (*sounds familiar?*), causing its trading partners to start redeeming US dollars for gold. But this didn't stop the Nixon Administration from nevertheless slamming its 'gold window' shut twenty months later, thereby heralding the end of the post-WW II Bretton Woods international monetary system. Originally denominated in gold, in the post-Bretton Woods phase this was changed in 1973 to a basket of major currencies. But they never really took off as expected as the hike in the price of oil, & its denomination in US dollars, restored the dollar to the role of being **the** reserve asset.

But in there is growing talk²² whether SDRs, or some asset based on a basket of currencies, would not serve the system better than the US dollar since it might be less volatile (& *less vulnerable to the whims of the Fed?*). The composition of the basket of currencies in the SDR & the amount outstanding, and the size of members' "quotas"²³ are reviewed by the IMF's Executive Board, its day-to-day decision-making body, every five years. The last such review, the 14th, was completed in November 2010 & proposed the composition of the basket be changed, with the US\$ going from 44% to 42%, the Euro from 31% to 37% & the Yen from 11% to 9%, while the pound would be held steady at 11%, & that the amount of SDR's outstanding should be doubled. At last report, member countries with 76.9% of the votes had approved this, while the US Congress hadn't, and with 85% support required for implementation & the US having 17%, this quinquennial "replenishment" decision is still in limbo, prompting IMF Managing Director Christine Lagarde at the recent G-20 Summit in Brisbane to once again urge its implementation.

While the purported reason for Congress' inaction is that replenishment would 'cost' US\$60BN (*which is not altogether correct since it would be an 'investment' rather than an 'expenditure'*), the real reason is that it would shift six percent of the voting power in the IMF from the developed country-, to the emerging market-, bloc, result in China getting the third-largest quota (& hence voting power) & lead to the yuan being included in the basket (in recognition of the fact that it has overtaken the Euro as the second most commonly-used currency in global trade & finance, and that it had become significantly more convertible than it had been five years ago, when it had not been deemed convertible enough to warrant inclusion), thereby making it more of a reserve currency & causing the US/Europe/Japan bloc to lose their majority voting status -

²⁰ In PPP terms they are much closer with, according to the IMF, the US accounting for 16.4%, & China 15.8%, of global GDP, and emerging Asia's GDP far outstripping the US.

²¹ For reasons of transparency it should be noted that for three years prior to January 1st, 1970 I was a (very junior) member of the team involved on the Canadian side in this process.

²² Promoted, among others, by China.

²³ That decide the size of a country's contribution to the IMF's assets, how much it can draw down in case of need &, most importantly, the weight of its vote in the Executive Board, the IMF's executive body.

but change is long overdue; for IMF quotas over the past three decades have declined from 1.5% to 0.3% of net global capital flows, & the BRIC countries' aggregate vote in the IMF Executive Board is just 10.7% vs. the US' 17.7%, while their aggregate 2013 GDP in current dollars equaled 89.4%-, & in PPP terms 181.1%-, of that of the US, while their aggregate exports, in US dollars, are 70% greater than those of the US. And the King Canute-like stance of the US Congress may have backfired; for in frustration with its procrastination & its failure to appreciate their growing importance in the global economy recognized, the BRIC countries are setting up agencies of their own parallel to the IMF & World Bank. Meanwhile the 15th replenishment review, which almost inevitably will result in a proposal for a further shift in voting power from the developed country-, to the emerging market country-, bloc, is due to get underway next year & to be completed by December 31st, 2015.

On December 2nd US intelligence monitored the third test flight²⁴ in Western China of an a new hitech Chinese weapon. Codenamed Wu-14 by the Pentagon, it is a Hypersonic Glide Vehicle (HGV)²⁵, *fired in the stratosphere from the rocket that had carried it there back into the atmosphere at speeds up to 8x that of sound (Mach 8). It is supposedly the means whereby Beijing in any future military conflict hopes to neutralize America's still overwhelming superiority in aircraft carriers (that would have only two minutes to deal with the threat they posed), and the Pentagon is believed not as yet to have developed an effective defense mechanism although it is said to be working on several possible ones, incl. one involving lasers.*

According to the consumer credit reporting agency Equifax, in 2006 aggregate auto loan 'originations' totaled US\$425BN of which 36% were subprime. During the Great Recession this declined to US\$280BN & 20% respectively by 2009, which has since grown again to US\$485BN & 27% (the latter at interest rates that, according to the NYT, can be as high as 100%) - *while the share of subprime loans of the total has grown at just half the rate of the total new car loan volume, the more important number is that in absolute terms their volume almost doubled between 2009 & 2013 - and while auto stocks are right now "hot", car sales are unlikely to maintain their frenetic 14.7% compound annual growth rate of the past four years.*

We live in a mad world indeed, & the union-dominated²⁶ police 'brotherhood' isn't doing itself any favours, when, as happened on December 3rd, the Edmonton Police Service (Motto - "Dedicated to protect, proud to serve") promoted to sergeant a 38 year-old, 15 year-veteran officer with a criminal record. For in 2007, while off-duty & drunk, he had assaulted a man on crutches (for which he was subsequently fined \$500). And if that wasn't enough, he had, finally, after a decade of police department foot-dragging & dismissal of "allegations", been found guilty, in 2012 in a police hearing, of the 2002 tasing of a passed-out youth in a car, 8x within one minute (*as a 'good way to wake him up'*), receiving a slap across the wrist with a wet noodle in the form of a 120-hour suspension, *i.e. a three week vacation*, without pay. And this same

²⁴ The first of which, last January, was successful while the second, last August was less so since it broke apart in flight.

²⁵ Work on HGVs started in several countries in the late 1980s and four years ago the US tested one prototype, the Falcon-2, supposedly capable of speeds of up to Mach 20, that, however, self-destructed in flight on the two occasions it was flight-tested, after which the program was suspended for reasons of cost & because 'sufficient data had been collected.

²⁶ In a recent accidental police shooting in New York the rookie police officer involved was found to have phoned his union rep before phoning, six minutes later, for medical help for the victim.

officer was once suspended, in 2005, for 100 hours without pay, for starting a brawl in a bar. Presumably the vacancy he filled was created when a 13-year sergeant on the force had been demoted a month earlier in an internal hearing on non-criminal charges of having had on three separate occasions between August 2013 & February 2014 consensual sex while on duty - *the new sergeant is what China calls a “princeling”; for his father had been Chief of Police until in 2004 (five years after his son had joined it & two years after Junior had tasered the teenager).*

Echocardiograms involve the taking of ultrasound pictures of-, & around, the heart that, unlike many medical procedures, are painless & have no side-effects. It is 1970's technology using machines that once cost US\$1MM (*in current dollars*) but now cost one-third that. In Belgium the procedure costs US\$80, in Germany US\$115 & in Japan US\$50-US\$80, depending on the type of machine used, while US Medicare pays US\$800. Seven teaching hospitals associated with top universities in Boston charge private clients an average US\$1,300 & five hospitals within a five mile radius in Central New Jersey US\$5,200, while in Philadelphia the going rate is US\$700-US\$12,000 - *and, while the cardiologists' professional association officially is opposed to their “needless” use, in the decade to 2008 their use increased 90%, suggesting there is, nevertheless, a great deal of overprescription (for incremental revenue-generating purposes).*

The central banks today, in a Pied Piper of Hameln-like fashion, are spreading the message that deflation is bad. But is it really all that awful that a cell phone that in the mid-80's cost \$3,500, and was the size-, & had the weight-, of a brick, today costs a tiny fraction of that amount in real dollars, is a fraction of its size & weight, **and** has immeasurably greater capabilities? Or that computers today have infinitely more capacity & are far cheaper, even in current dollars, than 20 years ago? And their conversion to the “deflation is “baaaad” & some inflation good”, mantra, rewards sloth & punishes rectitude; for as one market letter noted “Inflation is good for those who are heavily indebted²⁷ but punishes those who have been financially responsible”, while deflation benefits those with a job, & disproportionately those in the lower income brackets.

Last summer residents of Siberia's sparsely-populated Yamal district (0.7 people per sq.km.) of the Yamalo-Netets Autonomous Region (2,500 kms/1,600 miles East of Moscow on the Arctic Ocean in Siberia's very Northeast corner) discovered a huge seemingly bottomless hole in the landscape, 262 feet/80 metres across. *Since then the possibility of it being due to a meteor strike has been discounted and according to Anna Kurchatova of the Sub-Arctic Scientific Research Centre & Tyumen State Oil & Gas University (in Southern Siberia) it was formed by an underground explosion after global warming had caused the permafrost to melt, releasing gas that, she said, popped like the cork of a champagne bottle - the Yamal region is a major source of the gas Moscow exports to the rest of Europe & the region is crisscrossed with gas pipelines. And this hole is located just 32 kilometres/20 miles from the “super-giant” Bovanenkovo gas field which has 172TCF in reserves, was discovered in 1972 & brought into production by Gazprom in 2012 & that at last report produced 11 BCFD of natural gas [by comparison the Marcellus Shale underlying 100,000+ square miles in New York, Pennsylvania, New Jersey, West Virginia, Kentucky, Tennessee, Lake Erie, & Southern Ontario at least report was producing 14 BCFD, from reserves of 88 TCF according to the US Geological Survey & 141TCF according to the EIA (the US Energy Information Administration)]. And fracking critics say the creation of the hole may be related to Gazprom having launched fracking operations in the Bovanenkovo field last summer.*

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First & foremost the developed countries' governments, likely the reason why the central banks have 'seen the light'.

Uber is starting to impact on the value of taxi medallions, in part because those who in the past funded their purchase (which traditional lenders won't do since, rather than a hard asset, they are but merely a right to use, with limited security value) no longer are willing to do so. Thus in New York it is down 17% from early 2013 to US\$827,000. Ditto in Chicago (where the seven mile trip from the Loop to the University of Chicago costs US\$26.00 in a medallioned taxi, vs. US\$ 12.29 at the lowest of Uber's three rates) where the price went from US\$357,000 this spring (up about seven-fold in a decade) to US\$298,000 in October (causing one owner of close to 100 medallions to complain that, if this kept up, it would bankrupt him). And the City of Philadelphia recently didn't get any bites when it offered new ones for \$475,000, & now is planning another offering at US\$350,000 - *The fight to keep Uber out has spread to Toronto where an unholy alliance of bureaucrats & mega medallion owners is engaged in a fight that has nothing to do with the quality of service to the public or the welfare of the majority of drivers who rent their cabs²⁸, but everything with protecting their own 'rice bowls'.*

Taiwan has a problem. Compulsory military service for all young men was hugely unpopular. So in 2009 the government announced it would be ended as of January 1st, 2015 (*although those who didn't volunteer would still have to take four months of 'basic training'*). But now few young people are willing to join the military (*because the military budget is too small to offer competitive salaries?*)

Earlier this year Chef Greg Achatz of Chicago's Michelin triple-starred restaurant Alinea tweeted his dismay about a couple who had brought their crying baby to his restaurant since their sitter had cancelled at the last minute & they had pre-paid US\$265 each for their meal (for co-owner Nick Kokonas now requires diners to book a table, & pay in advance, online). This idea is being picked up by others intent on eliminating the frustration of no-shows & last minute cancellations, incl. Chef Thomas Keller at his New York City Per Se & Napa Valley The French Laundry restaurants and Chef Daniel Patterson & the Daniel Patterson Group's Coi & new Aster restaurants in San Francisco, who say they will follow suit in the New Year - *next they'll want diners specify in advance what they are going to eat, so as to streamline kitchen operations & reduce food leftovers & waste.*

In 1995 the S&P 500 hit 500 for the first time ever & then tripled by 2000, whence it tumbled to 800 in 2003, only to skyrocket back up to 1,500+ by 2008. Then it fell off a cliff, to 700 by 2009, only to triple again by today, growing in this latest run-up by at an average quarterly rate of almost 5% between March 2009 & June 2014, 5x the rate of GDP growth (according to Bloomberg this is the widest such gap since 1947). And while one 'talking head' on TV recently assured investors they had nothing to worry about since the S&P 500 Price/Earnings ratio was only 19.8x, this loses credibility from the following facts : the long term P/E average is more like 15x, he is basing this on 2015 earnings estimates (an unreliable methodology at the best of times) that assume 23% YoY growth in corporate earnings (almost twice their historical average) at a time corporate earnings as a share of GDP are already at an embarrassing all-time record high level, corporate earnings have been artificially inflated by share buybacks

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On Christmas Eve my daughter & I took a cab. I talked to the driver, a middle-aged Moroccan, 14 years in Canada. He said taxi licenses here are \$190,000 but that he 'rents' his for \$460 a week. So he must take in \$70+ a day, six dollars an hour operating costs & wages, while the license holder grosses \$48,000/year (assuming two twelve hour/day weekly rentals). So, even if license holder pays \$1,200/month each for despatch services & insurance, he nets \$24,000 a year, a 12.5% current yield on his investment, over & above the growth in its value.

(funded in many cases by borrowing that weakened balance sheets)²⁹ the pace of which has been slackening, oil companies & employment levels may lose more than consumers will gain from the lower oil prices, & growing anecdotal evidence that professional investors are fleeing out of small-, & into larg-, cap stock.

The overseas edition of the People's Daily criticized the US on its front page for five days running, from November 25th to 29th - *Beijing must feel that the mid-term elections have seriously weakened the Obama Administration's position in the world.*

The Chinese are big on symbolism. Thus in a recent demonstration a group of Hongkong secondary school students walked barefoot 9x around the Hongkong government's headquarters, stopping & kneeling every 28 steps in a silent reminder to all & sundry that on September 28th the police had used tear gas on a crowd. And the picture of President Xi at the recent G-20 that got a lot of play in the Chinese media was one of him greeting President Obama; for not only did it show XI standing in a regal pose & Obama approaching in what could be interpreted as a supplicant manner, but their body language was telling; for Xi, by extending his right hand as Obama approached had to turn his body slightly (& invitingly?) towards the public whereas Obama in extending his right hand turned his back ever so slightly to the public.

China's civil servants' exam has a reputation of being one of the most demanding in the country, if not anywhere. Be that as it may, this did not stop 1.4MM candidates to sit them this year to compete for 22,000 job openings - *but one must wonder, given Xi's War on Corruption whether civil service jobs will be as 'rewarding' in the future as they appear to have been in the past.*

Timor-Leste is a country few people even know exists. Located at the Eastern extreme of the Indonesian archipelago, to the North of Australia, it was colonized by Portugal in the 16th century, neglected by it for three centuries & finally totally abandoned in 1975. Then, without having, as the saying goes, "a pot to pee in or a window to throw it out of", it declared independence, only to be invaded & annexed by Indonesia as its 27th province, against the wishes of the UN but with the 'wink-wink, nod-nod' connivance of some Western countries. A 25-year period of harsh repression ensued in which one-third of its population is said to have perished until by 1999 Indonesia had enough & allowed a UN-supervised referendum that led to its independence in 2002. Along the way, one of its leaders-in-exile, José Ramos Horta (who in 2008 was briefly, until assassinated, the country's second President), was co-winner (with a Timorese bishop) of the 1996 Nobel Peace Prize "for their work towards a just and peaceful solution in East Timor"

It is one of only two predominantly Christian nations in Asia (the other being the Philippines). It has a population of 1.15MM [with an average age of 18.5 years³⁰, no fewer of 42.4% of them age 14 & under & another 19.8% in the 15-24 age range, and a fertility rate of 5.11 (despite the median age for women to have their first child being a for developing countries above average 22.1 years³¹)]. And its US\$4,835 per capita GDP (less than half the global US\$10,269 average)

²⁹ A process that has been slowing down in the last year or more, often a leading indicator of a market correction as CFOs feel their companies' shares no longer represent 'good value'.

³⁰ 37% of whom fall below the UN's US\$1.25 per day poverty line.

³¹ While Timor Leste's 18.5 year average age & 5.1 fertility rate are so low & high respectively as to have been expected to be outliers, this is not the case. For its average age ranked 24th in the world [with all but two (Afghanistan & Gaza) of the others located in Africa] while its fertility rate was tied for 11th

ranks 101st (out of 193) on the UN's league table thereof (90% thereof, however, derived from the 30-35MM bbls of crude oil produced annually from its offshore reserves).

In 2005 Timor Leste created a Petroleum Fund to “contribute to the wise management of the *limited* petroleum resources for the benefit of both current and future generations”. Originally endowed with US\$205MM & solely managed by its central bank on a passive basis, it has since been outsourced in part to the BIS to be invested in sovereign bonds, & to London-based Schroder Investment Management to be invested in global equities. At last report the balance in the Fund was US\$16.6Bn; in other words, in less than a decade a dirt-poor country like Timor Leste built a fund similar in size to that which it has taken Alberta four decades to accumulate, while producing as much oil in a year as Alberta does in two weeks. In so doing, it joined a small elite group of countries with resource-based economies that are not spending their non-renewable resource revenues like drunken sailors, despite being the only low GDP per capita country among them. One must wonder, however, how long this can last.

In the Samsung shipyard on Geoje Island in South Korea the biggest ship ever is being built for a Shell Oil-led consortium at a cost of US\$10+BN. Called the Prelude, it is 488 meters/1600+feet long, 74/245 wide, & 105/350 high, contains 260,000 tonnes of steel & has a water replacement capacity of 600,000 tonnes, equivalent to that of six of the US Navy's Nimitz class aircraft carriers, the largest in the world. ‘Laid down’ (i.e. construction started) in October 2012, the hull was floated just 14 months later, in December 2013, and modules built all over the world have since been shipped in to complete it. Double-hulled & capable of withstanding Category 5 cyclones³², it will be a floating LNG liquifaction plant with a capacity of 110,000 BOED (660 MMCF) that will be anchored in the giant Prelude gas field 120 kms. off the North coast of Australia (i.e. in the direction of Timor-Leste), supposedly for the next 25 years, and, with LNG tankers loaded directly from the Prelude platform, will eliminate the need-, & reduce production costs by eliminating the need for-, pipelines - *the 14-months' time line for floating the hull from the time the keel was laid must be a record for ships of any size but the very smallest.* .

One of you sent me a series of 25 maps presenting different ways of looking at our world. The most fascinating one illustrates a fact we all are sort of aware of, but may not fully appreciate; for it had a circle drawn on it centred on Hanoi with a 3,000 kilometre³³ radius that to the North touched Northernmost Japan, to the South Indonesia's Lesser Sunda Islands East of Java, & to the West the Pakistan-Afghanistan border, with the comment “half the world's population lives within the circle” (*and while in the decades to come the African continent will account for much*

place with Mozambique & Tanzania. And what's may be even more noteworthy is that there are eleven ‘double whammy’ countries, with even lower average ages & higher fertility rates : Uganda (15.5 & 6.0), Mali (16.0 & 6.9), Malawi (16.3 & 5.5), Zambia (16.7 & 5.7), Mozambique (16.9 & 5.3), Burkina Faso (17.0 & 5.7), Chad (17.2 & 6.4), Tanzania (17.4 & 5.3), Congo DR (17.9 & 6.0), Somalia (17.9 & 6.7) and Nigeria 18.2 & 6.0). This is an omen for the future; for it shows where much of the world's population growth over the next 30 years will occur, in Africa & more specifically Sub-Sahara Africa, where many countries, however, are relatively water-deficient & may therefore have only a limited capacity for supporting much bigger populations, thus implying a need for significant migrations. And while it may be tempting to dismiss these countries as mostly small population ones of limited significance to “the Big Picture”, the eleven ‘double whammy’ countries have an aggregate population base of 550+MM (that at a 6.0% growth rate will double every 12 years).

³² I.e cyclones with sustained winds of 200 kmh & gusts of up to 280 kmh.

³³ By comparison, the circumference of the planet Earth is approx. 40,000 kilometres.

of the world's population growth, this may not change this fact much since the population of many non-African countries outside the circle will decline.

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OILSANDS RELEASE MORE POLLUTANTS THAN REPORTED (G&M, Ivan Semeniuk)

- Polycyclic aromatic hydrocarbons (PAHs) are cancer-causing & released in the air when oil is extracted. So companies in the oil sands have had to report how much they release (231 kg/year). But a recent Environment Canada study found they are also emitted by evaporation from tailings ponds in the region (in amounts it calculated at 1,069 kg annually). And some more has been naturally seeping over the years from the bitumen deposits.

It doesn't say at what level they become a public health hazard, especially in such a thinly-populated region and/or whether this may be a health hazard for those working on rotation in the region and/or whether it might be a potential health hazard for people not living or working in the region. What is disconcerting, however, is that a 5x rate of underreporting is symptomatic of the way the Province has been discharging its fiduciary environmental monitoring responsibilities.

FIRST-CLASS LOBSTERS FLYING OFF ATLANTIC SHELF (G&M, Jane Taber)

- The Chinese have developed a taste for Canadian lobster (in part because their own waters are so polluted that those who can afford it, won't eat the sea food caught in it). While the US still remains the Maritime Provinces' lobstermen's largest market, sales to China (& Asia generally) have skyrocketed: from \$2.9MM in 2009, last year sales to China alone were \$36.5MM & this year as of last October \$57MM. And recently a Korea Air Boeing 777 aircraft started stopping in Halifax every Sunday, & on December 21st took on 100 tonnes of live lobster, almost its entire 103.9 tonne capacity, worth over \$110,000 destined for Seoul whence they will be distributed to major Chinese cities. The reason for this is two-fold. Eating lobster has become a status symbol among China's burgeoning middle class & eating foreign foodstuffs is perceived to be less health-threatening than consuming those produced locally - *the only thing wrong with this, at least for Maritime lobstermen, is that they get an average \$11.55 for lobster that brings up to \$163 in Beijing restaurants.*

WHY ARE CHINESE MILLIONAIRES BUYING MANSIONS IN LOS ANGELES SUBURB? (BW, Karen Weise)

- Arcadia is a 57,000 inhabitant LA suburb in the San Gabriel Valley, 13 miles Northeast of the city, with good schools, large lots & lenient building codes. One house there on a 17,000 s.f. lot that last year would have gone for US\$1.3MM now has a US\$2MM asking price. And home owners in Arcadia are getting used to getting postcards in the mail with all-cash offers for- & to 8,000 s.f. mansions going up next to-, their modest split levels. While in the 1930's the vast majority of Arcadia home owners signed pledges promoted by the local Chamber of Commerce not to sell their homes to non-whites, its Asian population has nevertheless grown from 4% in 1980 to 59% now (not being conversant in Mandarin is now a barrier to socializing with one's neighbours). One of the latest new residents is the 19 year-old daughter of the CEO of Huiyang Economic and Trade Group, one of the first ever SOEs set up by Beijing (that remains its controlling

- shareholder), who co-owns with her mother-, & lives in-, a US\$6.5MM mansion while attending the University of Oregon.
- Arcadia has benefitted from the trend among wealthy Chinese to park their money abroad, beyond Beijing's reach³⁴; for it has enabled it to build a US\$20MM high school performing arts centre &, as a local realtor of Chinese descent put it, "saved us from the recession". According to the Boston Consulting Group Chinese nationals have exported US\$660BN of their wealth, to the National Association of Realtors US\$22BN thereof was spent on buying homes in the US in 2013 alone (*in part because they adore the idea owning a property in perpetuity*), & to the Hurun Report³⁵ almost two-thirds of Chinese millionaires have followed their money abroad, or are planning to do so in the foreseeable future.

As part of the same trend, there are now an estimated 235,000 Chinese students, mainly from wealthy families, in American high schools, colleges & universities (up 20% in three years), with many of them living in their own homes & driving fancy cars, with Lamborghinis & Ferraris the top picks (one such student, asked if she drove her Lamborghini to university, responded she "had an Audi for that". Their presence in the US contributes to the health of the US economy &, more importantly, to its universities' revenue streams (which could easily be as high as US\$25BN & US\$10+BN respectively each year).

BED BUG INFESTATION : WORLD'S FIRST EFFECTIVE AND AFFORDABLE BAIT-AND-TRAP DEVELOPED BY SFU SCIENTISTS (NP, Shawn Connor)

- The Cimex Lectarius parasite, aka the bed bug, once believed eradicated in the developed world, in the past two decades has resurfaced with a vengeance, and not just in low-income housing but in expensive hotels & apartments and public places like stores, movie theatres, libraries & transit. In 2008 a husband & wife team of biology professors at Burnaby, B.C.-based Simon Fraser University started looking for chemicals that would attract bed bugs, to allow them to be trapped. And after many trials & errors, reversals, setbacks & disappointments, they believe they have now identified a cocktail of five chemicals that will do the job & are working with a Victoria, B.C.-based firm to develop a commercial application that they hope will widely available sometime in 2015.

*This might not be welcomed by the expanding bed bug control & eradication cottage industry that uses chemicals, some of which are not-, followed by heat treatment that is 100%-, effective in killing both the pests & their eggs, and markets to commercial clients contracts for monthly visits by "Certified Detection Dogs" to "ensure their facilities "remain bed bug-free" (which is hype; for the dogs are only trained to sniff bed bugs that **are** already on the premises).*

³⁴ How safe they might be remains to be seen; for an unnamed US official said on Friday December 5th that Beijing had asked Washington for help in tracking down over one hundred Chinese citizens suspected of corruption whom it believes to be living in the US - *this may raise questions, among others, on what legal claim the Chinese government may have on assets held in the US in the name of their relatives and/or mistresses, & how long it might take to extradite people involved (obstacles to either or both would likely be taken by Beijing as an 'unfriendly' act).*

³⁵ Based in Shanghai & best known for its annual publication of a "China Rich" list, it is published by an expat with a Dutch name born in Luxemburg and educated in England at Eton & Durham University (none of which stopped him from being awarded in 2009 the Shanghai Magnolia Award, the highest honour the city can bestow on a foreigner.