

GLEANINGS VERSION II
No. 319 - July 2nd, 2009

CHINA RENEWS CALLS FOR A NEW RESERVE CURRENCY (G&M, Boyd Erman)

- In reviewing the 2008 economy the People's Bank of China on June 26th joined the growing chorus of voices calling for a new global reserve currency to augment, or replace, the US\$ since "To prevent the deficiencies in the main reserve currency, there's a need to create a new currency that is delinked from the economies of the users."

Jawboning' is cheap but action often painful; or as Scotia Capital's currency strategist puts it "those who seek an alternative to the US dollar ... have most to lose, considering their large holdings"

DEMAND FOR STEEL CONTINUES TO PLUMMET (Reuters)

- An UNCTAD report concludes "An ... oversupply situation, in which falling steel production is occurring as iron-ore production capacity increases, will not go away soon." It expects global steel demand to fall by 15% this year, although noting signs of improvement in China.

China in 2008 produced 366MM tonnes of steel & imported 444MM tonnes of iron ore, up 16% YoY

POLL : PUBLIC CONCERNED ABOUT SIZE OF DEFICIT (NBCNews, Mark Murray)

- Despite Obama's popularity 70% of Americans have reservations about Washington buying into GM, 60% say he & Congress should worry more about the deficit, even if that means a slower recovery & less than 50% have confidence in his policies to improve the economy. But since even many of those who don't like his policies still like him, he has "the latitude to ask for major action and major change" (especially since 72% believe that he inherited, rather than created, the mess the economy is in).

So while he's still getting bouquets from Americans, "there are (now) ... more thorns in it"

U.S. MOOD BRIGHTENS AGAIN (EJ, Business Browser)

- The June University of Michigan Index of Consumer Sentiment rose for the fourth month in a row, to 70.8, from 68.7 MoM & May consumer spending 0.3%, the first gain in three months

Consumer spending was boosted by one-time tax cuts. In the six years ended December 2007 this index averaged 89.2. Meanwhile the Conference Board's Consumer Confidence Index unexpectedly slipped to 49.3 in June, from 54.8 in May (when it had risen 14 points MoM). Still, this is still almost twice February's low of 25.3 (90 is deemed to represent "solid footing" for the economy & 100 "strong growth").

U.S. JOBLESS CLAIMS RISE (EJ, Business Browser)

- Initial jobless claims in the week ended June 20th rose 15,000 to 627,000 & the total number of people collecting 'pogey' 29,000 to 6.74MM. But while the US economy shrank at a less-than-expected 5.5% annual rate, this nevertheless topped off the worst six-month performance in half a century.

The unemployment rate now stands at 9.5%, a 26-year high.

FISCAL EMERGENCY DECLARED IN CALIFORNIA NYT, Jesse McKinley)

- On July 1st Gov. Arnold Schwarzenegger declared a fiscal emergency after the Democrat-controlled state legislature couldn't pass the budget measures needed to close a US\$24BN budget deficit 'gap'. But it was his own Republicans who were responsible for the failure to obtain the required two-thirds majority in both Houses; for they claimed the plan 'did not address the entire budget process & contained too few cuts'. Shortly after the governor had declared the fiscal emergency, budget officials raised their deficit forecast to US\$26.3BN, suggesting the precipitous drop in the state's tax revenues has yet to abate. Officials will now start sending IOUs to the many people owed money by the state to ensure US\$3BN in cash will be available in July to make the payments mandated by federal law or court decisions.

In Sacramento Schwarzenegger was quoted as saying "We have promised too much" & "California has never defaulted on any of its payments" (although it has the worst poorest credit rating of all 50 states); both of the latter, in & by themselves should raise red flags.

OBAMA TAKES HARDER LINE WITH ISRAEL (WP, David Ignatius)

- Israel's Foreign Minister was perplexed when, in his recent meeting with Hilary Clinton, he ran into a brick wall when he challenged the US demand for a total freeze on settlements. But he shouldn't have been; for the game has changed. In the past Washington said one thing on settlements & then, after pressure from Israel's friends in Congress, did another. But Obama's tough line has the backing of key members of Congress, of Joe Biden & Hilary Clinton, both of them long-time supporters of Israel, & of his Chief of Staff, Rahm Emanuel (whose father was born in Jerusalem & was a member of the *militantly Zionist* Irgun, a forerunner of Netanyahu's Likud party, that in 1946 blew up Jerusalem's King David Hotel.
- The White House believes that when push comes to shove Netanyahu will have no choice but to give in since his coalition government couldn't survive a break with Israel's key ally. But there is a fly in the ointment : while Obama c.s. assume the Arabs will respond to a settlements' freeze with meaningful moves towards a normalization of their relationship with Israel (giving Netanyahu something tangible to show for such a major concession), the best that likely can be hoped for is a some improvement in its relationship with minor Arab players, like Oman or Qatar while Saudi Arabia keeps its powder dry until peace negotiations start showing promise of going somewhere.

Like the Israelis when they had the upper stronger hand, the Arabs now drag their feet, believing they hold most of the aces, & the Israelis mostly deuces.

OBAMA COURT NOMINEE TAKES A HIT (CanWest, Sheldon Alberts)

- On June 29th the Supreme Court voted 5-4 to overturn the decision of an appeal court panel of which Sonia Sotomayor had been a member that had upheld a lower court decision that the City of New Haven, Conn. had not violated the constitutional rights of non-black city firefighters when it scrapped the results of a promotion exam after no black candidate passed it. This is the most significant reverse discrimination case in years to have come before the Supreme Court & will have major implications for employers across the country.

Wendy Long of the Judicial Confirmation Network, "an organization of citizens ... to support the confirmation of highly qualified individuals to the Supreme Court of the United States" (that has, however, links to Dick Cheney) commented "Usually, poor performance ... is not rewarded with the highest job offer in the entire profession ... What she did in Ricci vs Stephano was the equivalent of a pilot error resulting in a bad plane crash. And now the pilot is being offered to fly Air Force One." (She has obviously never heard of the 'Peter Principle' - that in a hierarchy employees will often rise to his/her level of incompetence).

ALBERTA AMENDS RULES (G&M, Carrie Tait)

- Last week the Alberta government changed its oil & gas royalty regime for the fifth time in the 18 months that Premier Stelmach has been in charge & indicated more changes will be made if these don't keep natural gas flowing out of the ground & people working, prompting one money manager to comment "Not even Libya has changed five times."

Meanwhile it faces huge deficits due to having spending let get of hand & the unenviable task of convincing Albertans, & healthcare providers in particular, that in the current year it must absolutely find \$1BN in savings in the Health Department budget. Naivete is sometimes defined as doing the same thing over & over again and being surprised at getting the same result.

PALESTINIAN FORCES CAN OPERATE 'FREELY' (Reuters)

- To bolster Mahmoud Abbas, Israel on June 25th gave his security forces a freer hand on a 24/7 basis in four cities on the West Bank, Ramallah, Bethlehem, Jericho & Qalqilya, while reserving the 'right' for the IDF to come in to counter "urgent" militant threats.

An attempt by Netanyahu's to try & ease tensions with Washington over the settlements' issue, in typical Israeli fashion it takes back with one hand what it gave with the other.

MAJOR OIL FIRMS TO VIE PUBLICLY IN TELEVISED IRAQI AUCTION (Reuters)

- On June 29th & 30th, before a forest of TV cameras, bids will be opened in Baghdad for six of Iraq's largest operating oil fields & two untapped gas fields. The 32 pre-qualified bidders will be limited to one contract as lead partner/operator & no more than three contracts as members of a consortium. The eight sets of bids will be opened one at a time & the winning bid announced immediately. Then the firms will be given time to 'fine-tune' their bids for the next

round. Says one senior oil company executive “This is shaping up ... unlike anything I have ever been involved in ... I don’t think any of us really know how this is going to work.”

This is not the industry’s idea. No ownership is involved, just 20-year, fixed price service contracts. Winning bidders must pay big signing bonuses & cover Iraq’s 25% share of all costs (& be paid back from future production). But it is seen as a way to get a foot in the door & the size of the reserves means companies cannot afford not to participate. But potential problems are already surfacing : some parliamentarians claim the process is illegal & the Kurds have promised to make life difficult for successful bidders on fields in their part of the country. In the event only one contract was awarded : BP & China National Petroleum won the bid for the huge Rumaila field in Southern Iraq by accepting a US\$2/bbl service fee after initially bidding US\$3.99. But this could be a good deal for both sides; for it will generate US\$1BN/year in fees for the partners if they can, as expected, triple daily production from its present 1MM bbl/d. One of the more extreme examples of the gap between the bid & ask was ConocoPhillips’ bid of US\$26.70 for a field where the Iraqis were prepared to pay only US\$4. The companies are said to be held back by their belief that, after years of under-investment & neglect, the fields are in worse shape, & will require more & more costly rehabilitation, than the Iraqis believe.

RECIPROCITY, HYPOCRISY AND THE GREAT IRANIAN BETRAYAL **(G&M, Irshad Manji)**

- The dissidents are acting out Shia Islam’s most cherished tradition, challenging power. Shia mythology holds that control at all costs has been the hallmark of the Sunni value system in the 1,329 years since the slaughter of the Prophet’s grandson. So by concentrating power in their hands the clerics are believed to have twisted Ayatollah Khomeini’s revolution into a form of Sunnism which for many Iranians smacks of treason. And their attacks on the demonstrators are seen as a betrayal of Shia Islam’s revolution against sectarianism.

If she is right, & she likely knows more about the intricacies of the age-old Sunni-Shia split than most, the ayatollahs are fighting something bigger than just the demonstrators in the streets.

IS MONTAZERI THE HOPE FOR REFORM IN IRAN? (G&M, Patrick Martin)

- While many of his disparate bunches of supporters want to overturn the system, Mir-Hussein Mousavi (a Prime Minister in the early post-revolution years) remains devoted to the revolution & merely seeks more tolerance of different points of view, just like the regime’s most vocal critic, the 87 year-old Grand Ayatollah Hossein Ali Montazeri, who in this third public statement in nine days warned on June 25th that “If Iranians cannot talk about their legitimate rights at peaceful gatherings and are, instead, suppressed, complexities will build up which could possibly uproot the foundations of the government, no matter how powerful.” Both “want to complete the revolution, not overturn it” & believe Ahmadinejad has betrayed it (a view seemingly shared by the one-third of Iran’s 300 parliamentarians, incl. the conservative Speaker, Ali Larijani, who failed to attend his June 24th victory celebration).

Until he disagreed with Khomeini's decision to execute hundreds of political prisoners Montazeri was his designated successor. Then, when Ayatollah Khomeini succeeded Khomeini & he questioned his religious qualifications, he spent five years under house arrest (which did not stop him, a couple of years after his release, from criticizing, Ahmadinejad's handling of the nuclear issue.

THE WRONG WAY TO FIGHT THE TALIBAN (Singapore Straits Times, Editorial)

- While Pakistan's government has regained control of the Swat Valley, US pressure on it "to fight a destructive conventional war against the Taliban" may backfire. For it has forced 2MM frightened & angry people from their homes and the Taliban have time, terrain & no end of local discontent working for them.

Conventional military tactics don't work against an enemy that hits & retreats, time & again.

SHELL DISCOVERS LARGE NATURAL GAS FIELD OFF NORWAY COAST (AP)

- It has found a natural gas field called Gro. This is a boon for Shell, whose global oil & gas output has been in decline, & for Norway's energy industry since this is the first major find in Norwegian waters in 12 years (since the Orman Lange gas field). But the Norwegian treasury will be the real beneficiary; for the tax on oil & gas production is 78%.

Gro is 350 kms off the coast of Nordland Province, in water deeper than any Norwegian offshore discovery to date & in a sparsely drilled region 150 kms from the nearest producing field. While on the Arctic Circle, the local climate is said to be "mild". Recoverable reserves as high as 1TR cubic metres (36TCF) have been mooted; if so, it would be an "elephant find", twice the size of Orman Lange.

RUSSIAN PM DOES A SLOW BURN OVER PRICE OF SAUSAGE (DT, Adriam Blomfield)

- Two days after a poll showed food prices were the main concern of 75% of Russians., Putin interrupted a meeting with senior retailers at the Kremlin to take them to a nearby Perekrestok supermarket & castigate them over the price of, & the mark-up on, sausages.

While spun as an "impromptu" move, he at one point reportedly pulled a price list from his pocket & there were TV cameras aplenty. So it was more a likely carefully choreographed event to cast him in his favorite role, as a 'man of the people', & to divert attention away from the imploding economy.

RUSSIAN CASINOS FORCED TO CLOSE DOWN (AP)

- Prime Minister Putin has finally acted on the anti-gambling law passed in 2006, ordering the immediate closing of all gambling facilities in the country except a few in 'special zones' several thousand miles & several times zones distant from Moscow. Since 1991 the gambling industry has grown like a bad weed & has become associated with organized crime (often involving Georgian crime 'overlords') & vulgar displays of ostentatious wealth. His objectives : to project an

image of a clean-living, workaholic prime minister, to deal a body blow to the criminal elements & to end a vice he says is "as addictive as alcohol".

Strange timing : throwing 400,000 people out of work & depriving the treasury of a major revenue source at a time that the economy is imploding at double digit rates & government is running huge deficits.

DIAMONDS MUGABE'S 'CASH COW' (NYT, Celia W. Dugger)

- Based on interviews with soldiers, miners & other witnesses by one of its researchers Human Rights Watch reported on June 26th that the real purpose of last year's Operation No Return in the Marange district had been to give the military control of the *cottage industry* diamond mining there so as to buy the loyalty of soldiers that were restive because they hadn't been paid, & to enrich the ZANU-PF leadership. Furthermore, that hundreds of locals had been killed in the operation & that others are now being used as slave labour, that the Reserve Bank of Zimbabwe is involved in the sale abroad of the 'blood diamonds' & that army units are being cycled through the district one at a time to give all soldiers an opportunity to share in the wealth.

This will also help Grace Mugabe maintain her status as Zimbabwe's 'First Shopper'.

STRAWS IN THE WIND

- In the latter part of June Chinese power production started growing again.

This is a concurrent indicator, a measure of the direction the economy is headed.

- According to Niel Neader, Research Director at GFMS, a London-based precious metals consultancy there was in 2008 "a tremendous swing from trivial levels of gold sales within Europe to very substantial levels."

German & Swiss investors are said to be hoarding gold at a record rate.

Gleanings commentator: "The Alberta government has just announced the appointment of a panel of luminaries, incl. former Deputy Prime Minister Anne McLellan, former Governor of the Bank of Canada David Dodge and former Minister of International Trade David Emerson to come up with ideas over the next two years how to keep the Alberta economy going from boom to bust, time & again.

"This is window dressing; it only takes a minute to spell B E T T E R M A N A G E M E N T & M O R E P L A N N I N G, and not much longer to look up Genesis 41 (the Pharaoh's dream of the seven fat & seven thin cows), and especially para 34 (that counsels setting something aside during the good years for the bad years."