

A friend of mine from Delta, B.C just emailed me to tell me that his Christmas message to me had just been "Returned to Sender". This proves that the service provided by Canada Post is unfairly called "snail mail". For the fastest speed recorded for a snail moving is 0.03 mph, 0.72 miles per day. So it would have taken that snail, a speed demon among snails, six or seven years, not five months, of 24/7/365 crawling, to get from Vancouver to Edmonton & back.

European banks have been squirreling away huge amounts of cash in central banks (so far 1.2TR Euros, up 12% from last December & 66% from December 2010). Some see this as a precautionary measure & others as a lack of trust in each other. Either way, in this toxic environment the Spanish & Italian banks, now at the eye of the Eurozone storm, face the unenviable task of having to 'roll over' 61BN & 43BN Euros respectively during the rest of this year. So the US dollar has strengthened, as risk-sensitive money opts for the lesser of two evils.

Last week was, to paraphrase Queen Elizabeth II, a "hedomeda horribilis" in Europe. In the French run-off election an 82% voter turnout voted in someone promising **both** more public spending **and** a balanced budget (*just as Lyndon Johnson & Bush 43 told Americans they could have both guns and butter; & we all know how that turned out!*), although a French expert opined "the election was not a clash between austerity and growth, but a confrontation between two different personal styles . Tired of Bonaparte, the French went for his opposite, a Gallic version of Harry S. Truman." (except that the latter was a highschool graduate, a one-time bankrupt haberdasher & relative political outsider with common sense before becoming Vice-President & President, whereas Hollande is a graduate of France's finest universities & a life-long political insider). In Greece one in five voters supported parties that didn't get a single seat, the previously ruling socialist Pasok Party got its head handed to it (going from 160 seats in the 300-seat Parliament to an embarrassing 42), the nihilist extremists of the far Right & Left made great strides &, after the failure of two of the three constitutionally-mandated attempts by the leaders of the largest parties to form a government the country now seems headed for another election next month (about the time the government will, once again, run out of money). In Germany in elections in Schleswig-Holstein, Ms. Merkel's Christian Democratic Party garnered the lowest voter support in over half a century. And in Spain the government announced it would inject funds into its banking system, ostensibly to "revive lending", after which its cost of money in its latest bond sale once again went through the "unsustainable" 6% level. On the other hand, this week it was reported that in March industrial output in Germany had grown 2.8%, almost triple the 1.0% expected, much of it due to a 30% increase in construction activity, & that only 7% of firms had reported "credit was harder to get", the lowest level in almost four years.

One headline in the Canadian media on the French elections read "France takes the easy way out - By electing a president who asks nothing of them, the people of France have ... absolved themselves of responsibility for a broken social model" & another that "France, Greece vote for fantasy". And according to one prominent Canadian columnist "The people of France, Greece and several other European locales ... have just voted against 'austerity' ... In future, I hope they will *also* vote against rain, cold sores, and bad sex - *the sad truth is that they didn't do anything that other countries have been doing too, as leader after leader who espoused austerity has been turfed from office, & that the rest of us has long been doing the same thing* - see Matthew 7 : 3.

A more positive “spin” was put on things by David Zervos, Chief Market Strategist at New York City-based Jefferies & Co., who said that “As far as I am concerned, the European voters of France, Greece and Germany (in Schleswig-Holstein) all voted for a ‘political easing’ of policy ... This in turn will have a soothing effect on growth and balance sheets - but most importantly it will act as a stabilizing buffer during the post-crisis trauma period.” On the other hand IMF Managing Director Christine Lagarde, France’s Finance Minister until a year ago, warned that ‘the world’s advanced economies must take steps to cut their huge public debt’ (*note her choice of words : not “Europe” but “advanced economies” & not “deficits” but “debt”*) & that “The most important element is to lay out a credible medium-term plan to lower debt ... without such a plan, countries will be forced to make an even bigger adjustment soon.” (*Please note, movers & shakers “inside the Beltway”!*).

The Greek electorate obviously still has not been disabused of the notion of the free lunch. For while 70% of Greek voters last Sunday opted for non-austerity parties, polls have shown consistently that a similar share of them wants their country to stay in the Eurozone. This prompted Jean Asselborn, Luxemburg’s Foreign Minister, to tell reporters earlier this week that “if 80% of Greeks want to stay in the euro, then I think they have to support parties that are in favour of ... staying in the eurozone.” [at the time of writing the third & last person to try & form a government in Greece, Evangelos Venizelos, the leader of the now third place socialist Pasok Party & the Minister of Finance in the outgoing government, was optimistic about the possibility of cobbling together a three party coalition government with a comfortable majority in Parliament with the help of its former New Democracy junior coalition partner (that now has most seats) & the new Democratic Left Party with its 19 seats (*the only stumbling block in which for Germany et. al. may be that the latter’s leader, Fotis Kouvelis, is in favour of staying in the Eurozone but wants to ditch the bailout & the conditions attached thereto*).

On May 8th William C. Dudley, the President of the New York Fed, a noted ‘dove’ on the FOMC, failed to mention, in a speech in Switzerland, the possibility of more money printing, while the Dallas Fed President Richard Fisher went on record as opposing further fiscal stimulus. This was followed the next day by the President of the Minnesota Fed, Narayana Kocherlakota, supporting Fisher’s sentiment & going one step further by saying it might prove necessary to start raising interest rates by the end of the year (rather than waiting until 2014, as the official line has been, or even later as some of the doves have been advocating). This came after the National Federation of Independent Business had reported that its Small Business Optimism Index had risen two points to 94.5, a 52-months’ high & just 0.1 points below its December 2007 level, before the Great Recession.

While the CIA foiled a bomb plot that would have seen an airliner blown out of the sky, the bad news is that it cannot always be expected to be so fortunate as to have the intended bomber being a CIA ‘mole’. And there may be a price to this happy outcome; for the individual involved was a British citizen of Middle Eastern origin recruited by the notoriously secretive British intelligence services, and the latter aren’t happy with every Tom, Dick & Harry in the US openly discussing their role in the affair.

Less than ten years ago the 2.1MM bbl/d daily output of Mexico’s Cantarell oil field was second in the world only to Saudi Arabia’s Ghawar field; since then it has declined by as much as 38% per year, much faster than the 14% expected ten years ago, to the point where today’s output is little more than 400,000 bbl/d. This same phenomenon plays

itself out in most countries where the oil is controlled by state-owned companies : undue dependence for output on “old” fields & too little being re-invested into the development of new fields because their political masters ‘bleed off’ too much of their cash flow to fund their (unsustainable) budgetary expenditures.

A propos the situation in Yemen, a retired senior CIA official recently wondered out aloud on al-Jazeera “how many Yemenis may be moved in future to violent extremism in reaction to carelessly targeted missile strikes, and how many ... with strictly local agendas will become dedicated enemies of the West in response to US military action against them.” - *in Vietnam modern technology proved no match for vast numbers of guys wearing bamboo cone hats, tire tread flip-flops & black pyjamas. But Washington still thinks that success is measured by how many ‘bad guys’ it has wasted, whereas what really matters is who wins the ‘war for the hearts & minds’.* Twenty-five hundred years ago the concept of “Pyrrhic victories” was born, victories so costly as to destroy the victor, when King Pyrrhus, after defeating the Roman legions in 280 & again in 279 BC, observed “one more such victory will utterly undo me” (for they had cost him friends, commanders & troops he couldn’t replace, while Roman replacements flowed forth as if “from a fountain”).

In a somewhat similar context, a friend of mine with a big heart & a passion for fighting human rights causes everywhere, recently raised the issue of the lack of democracy in China. My response was that I am less concerned about that, for I have a deep & abiding faith in the indefatigable power of that idea, than I am about the erosion of democratic practices & traditions in some historically democratic countries much closer to home.

President Obama suffered a little reported-on public embarrassment when in the West Virginia Democratic primary 40% of those who bothered to vote cast their ballot for Keith Rudd (a felon in a Texas penitentiary for extortion). Since he got over 15% of the vote, he is now entitled to send one delegate to the Democratic National Convention in Charlotte, NC, in early September.

In the Indiana GOP Senate primary, the octogenarian Sen. Dick Lugar (first elected in 1976, he was the longest-serving Republican Senator, & someone whom Pres. Obama once called an opponent “often willing to reach across the aisle and get things done”) was beaten by a land slide 20 points by the Harley-riding State Treasurer Richard Mourdock, a Tea Party darling, who has vowed ‘never to compromise with Democrats’. The common wisdom, for all it’s worth, is that this improves the odds that the Democrats will retain control of the Senate in November.

GLEANINGS VERSION II
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JPMORGAN REVEALS SHOCK \$2BN LOSS ON INVESTMENTS (BBCNews)

- The bank reported a surprise US\$2BN Second Quarter loss in its Chief Investment Office (CIO) that is expected to result in it reporting a US\$800-1,000BN loss for the Quarter. CEO Jamie Dyson, *long a high & mighty opponent of greater bank regulation*, said this was due to the CIO’s strategy having been “riskier, more volatile and less effective than previously believed ... There were many errors, sloppiness and bad judgment. These were egregious mistakes ...

They were self-inflicted and this is not how we want to run a business.” Be that as it may, it caused a former senior Fed official on its regulatory side, who now teaches at Boston University, to ask “How could a bank that’s supposed to be the premier bank in setting the leadership role allow such risk taking.”

Simple : ineffective risk management & giving free rein to ‘cowboys’ generating big profits (that are really nothing of the kind but rather compensation for taking risk)..

IS CANADA TAKING CHINA FOR GRANTED? (FP, Claudia Cattaneo)

- On May 4th Junsai Zhang, China’s Ambassador to Canada, attended a forum in Calgary on its *growing investment in the Canadian oil patch*. He told it Beijing is as keen on mining Canada’s knowledge & practices as it is on its energy riches, & that Chinese companies “want to ... abide by the regulations ... the local laws and ... the practices that already exist.” (*actions speak louder than words : several years ago a couple of workers were killed at a Sinopec work site at Fort McMurray & the Company has basically given the Province the finger as it seeks to hold the Company responsible*). In an interview he noted Canada’s energy isn’t indispensable to China which has also been cultivating partnerships with others, incl. Australia, Kazakhstan & Russia. So “It’s too early to say China imports your oil and gas. We are in very good collaboration with Australia, with other Western countries. No problems. If we don’t import from here, we import from other countries. It’s OK.”

*Some of this is, of course, utter BS. On the demand side, China is significant, but by no means the only fish in the sea & light oil (but not necessarily heavyoil/bitumen) is a fungible commodity. And on the supply side Canada is a more reliable supplier than most. Having said that, we are likely more vulnerable on the gas-, than the oil-, side. For there is a avalanche of new evidence that the world is awash with shale gas, much of it in energy-deficient countries with fewer environmental hang-ups than we have. And while we currently have four LNG plants in various planning stages, their development is not proceeding at the “damn the torpedoes, full speed ahead” rate as elsewhere. Australia, for instance, is racing to quadruple its current ‘fleet’ of five LNG plants & is locking up long-term sales contracts left, right & centre. So, as Moody’s put it quite delicately in a recent report, “North American LNG producers and exporters could face some risk from poor future economics.” The outlook seems better for oil (provided a lack of pipeline capacity in all directions doesn’t cause Alberta’s oil to become “stranded”). For according to the API, OPEC & IEA, Canada’s 171BN bbls. of reserves are the third largest in the world (& they account for the lion’s share of those **not** controlled by state-owned entities). And what many people overlook, most of Canada’s reserves are ‘long-life’ reserves’.*

ISRAELI PRESIDENT WARY OF A STRIKE ON IRAN (G&M, Patrick Martin)

- In an interview prior to his five-day state visit to Canada Shimon Peres weighed in on a topic dividing Israel’s security & political leadership, saying “Some people say it (*attacking Iran*) will make Iran powerless for three years. That’s not good enough.” And “when we speak to the United States about Iran ... it [should be] about the United States ... (*that*) too cannot afford a situation where the Iranians would govern the Middle East.” The way to end the threat from Iran, he believes, “is to create a coalition of nations, so it won’t be just you [the United States] and

- us. And I think Obama, he built a coalition ... you start with non-military pressure, like economic pressure, like political pressure.”
- Prime Minister Netanyahu, on the other hand, continually warns about the *almost immediate existential* threat posed by Iran & firmly believes the actions taken to date to rein in Tehran are mere “appeasement”. Thus at Israel’s recent Holocaust Remembrance Day ceremony he chastised those “who do not like (*it*) when I speak such uncomfortable truths. They prefer that we do not speak of Iran as an existential threat”. And he compared himself to Ze’ev Jabotinsky a (“Revisionist”) Zionist leader in the 1930’s who (*advocated the creation of a Jewish state on both sides of the Jordan River* &) warned the Jews in Poland of Hitler’s plans but, he said, was ridiculed by the then “leading Jewish intellectuals”.

Peres used to head the traditionally ‘dovish’ Labor Party.

NETANYAHU’S ELECTORAL GAME PLAN (NP, David Frum)

- He has three reasons to want elections sooner than next year :
 - **The economy** - Right now it is thriving & the discovery of a huge gas field offshore has buoyed the public’s mood. But what if the Eurozone, Israel’s largest trading partner, were to slump? And while last year’s protests against the high cost of living were soothed by promises of real estate reform for which there is no quick fix, by next year the electorate’s patience may have worn off;
 - **Iran** - The sanctions are biting. The rial has collapsed. Food prices are rising at a 50% annual rate. Unemployment may be as high as 15%. So after years of intransigence, Tehran is now signaling a willingness to negotiate, the only question being if such negotiations would be real & productive or delusive & manipulative? And if Sarkozy loses, *as he did*, Israel will have lost one of its best European allies on Iran. So as the Iran negotiations intensify, he wants a strong mandate;
 - **The impending Obama-Netanyahu showdown** - Their relationship is no longer as adversarial as before (*which is not what indications were after their most recent encounters*). But he must wonder how Obama will act if re-elected (in the 90’s, when he first was Prime Minister, he was sandbagged by Clinton signalling, during **his** second term, that Israel needed a change of leadership, which helped him lose the Prime Ministership in 1999). So, even though Obama is less popular in Israel now than Clinton then, why chance it?

Netanyahu obviously saw things differently.

NETANYAHU TO FORM UNITY GOVERNMENT (G&M, Patrick Martin)

- *After calling, on May 7th, for an election on September 4th, he changed his mind overnight & entered into a formal coalition agreement with Kadima whose new leader, Shaul Mofaz, once Israel’s top soldier, will become Vice Premier (*with none of his 26 fellow Kadima MKs getting any Ministerial posts*). Mofaz has committed himself to support the government until the end of its mandate in October 2013, & Netanyahu has agreed to support a Kadima proposal to end the Tal Law that exempts ultra-orthodox Haredi males from military service while on the dole & studying at religious schools (a major issue for many secular Israelis).*

- In 2005 Mr. Mofaz declined Ariel Sharon's offer to join him in his new Kadima party, a spin-off from Likud. Instead he ran against Mr. Netanyahu for the leadership of Likud, only to abandon that endeavour & join Kadima after all, and serve uneasily in the Ehud Olmert & Tzipi Livni governments. Two weeks ago he dislodged Ms. Livni from the leadership of Kadima at which point he told the press he wouldn't serve in a Netanyahu-led government, saying "Kadima under my leadership will remain in the opposition ... The current government represents all that is wrong with Israel ... Why should we join it?"

During the early days of the US Iraq venture, one US Middle East expert observed 'everywhere in the world the shortest distance between two points is the straight line; everywhere that is, except in Middle East politics'. Mofaz's motivation is clear; the polls showed Kadima would be all but wiped out if an election were held now. Netanyahu's is less so. He may be gambling he can re-absorb most of the Kadima MKs back into his Likud Party prior to October 2013 elections and/or that Obama will lose. Or he may just be setting the stage for a seminal shift in Israel's official policy vis a vis the Palestinians from one driven by right wing hardliners to one with a more centrist bias (as suggested by his agreement to do away with the Tal Law - which cannot help but alienate his erstwhile coalition partners). There has been a great deal of loose talk that Netanyahu now has a 90+ majority in the 120-seat Knesset. But this ignores the fact that Avigdor Lieberman, the head of the hardline Yisrael Beiteinu Party, last week announced he felt no obligation any longer to support the Netanyahu government, that Lieberman has been replaced as Vice Premier by Mofaz, & that he & the rest of the right wingers will have a hard time stomaching any meaningful revision of the Tal Law. With Kadima's 28 seats, Likud's 27, & Defence Minister' Ehud Barak's now officially-launched Atzmaut (Independence) Party five seats Netanyahu now directly controls half the seats in the Knesset; so he will have to cobble majorities together on a case by case basis. The main party in the opposition will be the Labor Party, for decades the only party that mattered in Israel but after the last election & Ehud Barak's decampment reduced to a rump of eight seats, that recently acquired a new photogenic (female) leader who was fit to be tied by the latest development because the polls had suggested that her party could more than double its seat total if an election were held now. In the long shot eventuality that this turns out to have been an 'on-the-road-to-Damascus-like-conversion' on Netanyahu's part, one must wonder if it may have been a matter of him getting out from under the shadow of his father, Benzion Netanyahu, who died on April 30th, who at one time served as secretary to the aforementioned Ze'ev Jabotinsky & who until his death was a hawk among hawks.

PM ORDERS IMMEDIATE SOLUTION FOR TAL LAW (JP, Gill Hoffman)

- On May 10th he ordered work to start next week by a task force headed by a Kadima MK on an alternative to the Tal Law that will require every 18 year-old Israeli to do military or civilian service. The head of the new Yesh Atid Party, in trying to take credit for this development, was quoted as saying "You don't have to fear the parties in your coalition because they can leave and you won't even notice. (And) you don't have to fear the opposition because it no longer exists."

The first nettle that Netanyahu will have to grasp is what to do about the order issued by the High Court last Monday, May 7th, to demolish 30 illegally-built homes in Ulpana near the 5,600 resident Beit El settlement North of Jerusalem (the first of these were built over a decade ago, despite an almost immediately issued stop work order & were the

subject of an earlier, 2008 High Court demolition order). But he has already found a way to weasel out of this by indicating he will let MKs 'vote their conscience' on the bill proposed by a couple of their number that would retroactively authorize these homes (while in the past he always opposed such moves).

CAN HOLLANDE, MERKEL REACH AN ECONOMIC ACCOMMODATION? **(G&M, Doug Saunders)**

- Hollande's promise to renegotiate the two months-old Euro bailout pact to allow more government spending was dismissed on May 7th by Ms. Merkel with four simple words : "That's just not on." He now has three choices. Stick to his principles & watch Europe's economy collapse. Live with Ms. Merkel's & watch his political credibility go "POOF". Or practice the art of compromise, with some officials of Ms. Merkel's Christian Democratic Party saying (*or wishfully thinking?*) she is more open to policies of spending & growth than her rhetoric suggests. But both their domestic politics could force them into a confrontation that neither wants. For she faces an election next week in the bellwether state of North-Rhine-Westphalia & German voters are resolute in their opposition to any help for the Mediterranean countries even though that would help German exports. And M. Hollande is facing two stage Parliamentary elections on June 10th & 17th, the outcome of which may depend on whether he can convince voters that the 'Merkozy' relationship, *which many voters deem offensive*, will be no more.

He will have to think faster on his feet than he is reputed to. For he will be inaugurated on May 15th & will be having his first face-to-face meeting with Ms. Merkel later that same day. And President Obama has invited him to Washington for bilateral talks prior to a G-8 Summit at Camp David on May 18th & 19th (which Putin, after successfully campaigning for the Presidency on a platform sharply critical of the US, has decided not to attend, because he 'needs to finish work on his new Cabinet', sending his predecessor & now successor as Prime Minister, Dmitry Medvedev to keep his seat warm) & a NATO Summit in Chicago on the 21st & 22nd.

DAVID AGAINST GOLIATH IN THE SOUTH CHINA SEA (Fox News, David Piper)

- *China & the Philippines are at sixes & sevens over a reef called the Scarborough Shoal (aka to Beijing as Huangyan Island) in the South China Sea, two hundred miles off the Philippine Coast, & hence well within its internationally recognized 'exclusive economic zone' & 4x that distance from the nearest China landfall. Although Beijing nevertheless claims all of the South China Sea & everything therein as its "inland lake". A few weeks ago Philippines Navy personnel boarded Chinese fishing vessels that Manila said were 'poaching' on the Shoal to which Beijing responded by despatching three navy surveillance vessels that, while not particularly large, still dwarfed anything the Philippines Navy has.*
- A recent editorial in the China Daily alleges "No matter how willing we are to discuss the issue, the current Philippine leadership is intent on pressing us in a corner where there is no other option left but the use of arms" & the PLA Daily ran an article headed "Don't Attempt to Take Away Half an Inch of China's Territory". And on May 10th Beijing announced it was suspending all tours by Chinese nationals to the Philippines because of 'the risk for their safety' & that it would henceforth be "more stringently" checking all deliveries of fruit imports from the Philippines (for whom it is its largest market for its fruit exports).

Given the present domestic situation in China, this could easily escalate. But the flagship of the Philippine Navy is a 44 year-old former US Coast Guard cutter while China is in the process of bringing its first aircraft carrier into active service. So it will be looking to the US for 'back-up', posing a serious problem for Obama; for he announced last December a shift in the focus of the US global military effort from the Middle- to the Far East & this would pose the first serious challenge thereof at a most inconvenient time.

CHINA'S UNDERGROUND WATER IN POOR CONDITION (Xinhua)

- The Ministry of Land and Resources reported that of the 4,727 sites where it had tested ground water quality in 40.3% of them it was "bad" & another 14.7% "very bad", compared to 45% that were "comparatively good", "good" or "excellent".

In addition, 40% of all Chinese rivers are seriously polluted & unfit for drinking due to 75BN tonnes of sewage & waste water being discharged into them each year.