Canada’s House of Commons just completed a 22-hour marathon season. The government’s Budget Bill was turned into a so-called ‘Omnibus Bill’, a 400+page document that amends 70-some individual pieces of legislation covering a vast range of government activity. This, the opposition maintains, doesn’t permit adequate discussion. So it tabled some 800 amendments to the Bill which the Speaker subsequently bundled into 159 groups that the House has now finished plowing through, voice vote by voice vote. Since Prime Minister Harper got his majority, after years of trying, his approach has been a polarizing, ‘it’s-my-way-or-the-highway’ one (which is fundamentally alien to the Canadian ‘live & let live’ tradition). If he was really as smart as he deems himself to be, he would have let the odd amendment slip through; for as Henry Kissinger said on Larry King Live two decades ago ‘a deal in which one side is totally happy & the other is totally unhappy is not good for either side’. And among the 159 groups of amendments there must have been at least a handful that the Prime Minister could have lived with if he wasn’t so full of himself.

The Eurozone idea is kaput! For the irresistible force is meeting the immovable force : Chancellor Merkel wants to shift Europe’s centre of power from Brussels to Berlin, & people in the other Eurozone countries are loath to let Germany gain by financial blackmail what it couldn’t get by military means in two wars, at the cost of tens of millions of lives.

There has been a lot of gnashing of teeth about China’s economy slowing down & being unable to keep the heads of the other world economies above water. But its latest economic data suggest this may be overdone. In April car sales were up 22.6% , & in May’s 23.1% YoY(to 1.28MM), & in the January-May period they were up 5.5% YoY to 6.33MM. Factory output was up 9.6% YoY (while below the 9.9% expected, this was well up from April’s 9.3%) & retail sales 13.8% YoY. And consumer price inflation was less, and its trade surplus & domestic loan growth greater, than expected. So maybe it may not be quite ‘sack & ashes’ time yet.

The talking heads have suddenly been seized by the idea that the mess in Europe will depress the oil pricel. But they are looking in the rearview mirror since Atlantic region oil consumption no longer drives the demand side of the oil price equation. The rest of the world is now driving the bus. Urbanization increases the demand for oil & gas, and first-time car owners in the emerging economies will quit eating long before they will quit flaunting their ultimate status symbol, a car.

The Swiss have a problem. Some of the cash fleeing banks in the basket case Eurozone countries is landing in Swiss banks. This would have driven the SF exchange rate through the roof, spelling disaster for its export-oriented economy, but for massive intervention by the Swiss National Bank (that increases the domestic money supply & would have boosted domestic inflationary pressures but for still more market intervention by the Swiss monetary authorities). The resultant 27.7%YoY hike in its FX reserves in May to the equivalent of SF304BN likely set a record for the biggest monthly percentage increase ever in any government’s FX reserves.

Bank of Canada Governor Mark Carney told the International Economic Forum of the Americas meeting in Montreal on June 11th “This weekend’s agreement to recap the Spanish banking system marks important progress towards greater financial and fiscal union that will reinforce the monetary union and it’s further evidence of Europe’s resolve to address its problems.” He is either not as smart as given credit for, wildly delusionary, or trying to put lipstick on a (*very dead*) pig (the 99% probability). For this was a Hail Mary pass. Few people realize that, after the Spanish bailout, the Eurozone’s bailout cupboard is bare : what’s left in it is backed by the full faith & credit of the very countries that have already gotten bailouts or may soon be need them.

Austria's Finance Minister put the cat among the pigeons when she said in an interview on June 12th that Italy's high borrowing costs may soon force it to seek a financial rescue (which was immediately denied vehemently at the highest level possible, i.e. by Italian Prime Minister Mario Monti himself – enough to make the cynics suspicious). While Italy's banks are not loaded down with trashy real estate debt & its deficit & unemployment situation are better than Spain's, it's Debt-to-GDP ratio is now in the 120% range, second only to Greece's, & interest rates are killing it. And it hasn't escaped the market's notice that Italy is the only PIIGS nation not to have required a 'bail-out' (*yet*).

In this context, three media items caught my eye. One compared this deal to those "for Greece, Ireland and Portugal" & we all now know how brilliantly successful those deals have been; all they achieved was to drive the borrowing costs of the governments involved up so much as to make it impossible for them to meet the fiscal targets that were part of the deals. The second was that, while Prime Minister Rajoy made much of there being no strings attached to its bank bailout, Chancellor Merkel doesn't agree. And, most significantly, the recent reference by Olli Rehn, the EU Commissioner for Economic and Monetary Affairs, to an observation, **made several years ago**, by Luxembourg Prime Minister Claude Juncker, now the Chairman of the Eurozone Finance Ministers, that "we all know what needs to be done, but we do not know how to get re-elected after that" - *this has been the problem, & has been evident, from the get-go, namely that the Eurozone idea was a top-down initiative dreamt up by Brussels bureaucrats on a self-aggrandizing ego trip without broad public support (see Mark 4 : 5)*.

According to El Mundo, Spain's second-largest print-, & largest digital-, daily, during last weekend's bank bailout negotiations Prime Minister Mariano Rajoy texted his Finance Minister doing the negotiating to instruct him to push the fact that "We're the number four power in Europe; Spain is not Uganda". This gave rise to a multitude of reactions, incl. one Tweet to the Prime Minister saying "You're right. Spain's GDP growth is negative, Uganda's ... 5.2%."

What will make the Greek election next Sunday a cliff hanger is that no one knows what's **really** happening; for under Greek law no polling can be done in the last 14 days before an election. Unemployment in the past year has increased by almost half to 22%, retail sales have fallen off a cliff (at last report they were down 16% YoY), GDP in recent quarters has shrunk at annual rates of between 5% & 8.6%, and people are fleeing the cities & "returning to the land" to survive. Things became even more unpredictable on June 12th, five days before the election, when veteran left-winger Nikos Hanias, the Syriza candidate in Corinth, quit the party, saying its elevation to power, "if only for an hour", would be catastrophic "for Greece and our children." Meanwhile, Syriza leader Alexis Tsipras says he expects Greece to stay in the Euro (*which most Greeks say they want*) while promising to restore pensions, unemployment benefits & the minimum wage (to 751 Euros), halt plans to cut the size of the bloated public sector, abolish the emergency property tax & halve Minister's salaries (*which voters also say they want but which would emasculate the Troika-imposed austerity program*). And it is hard to predict whether the report in the Financial Times Deutschland that the Eurozone is resigned to having to ease the terms of its austerity package since 'no matter what the election outcome on Sunday any new Greek government will demand changes in the Troika-imposed austerity program', will strengthen the hand of the more-resigned-to-accept-pain right-of-centre New Democracy Party, as the Eurozone decision makers apparently expect, or will be seen as validating the hard line taken by Alexis Tsipras, the Head of the far-left Syriza Party. This looks like desperation since the same newspaper also reported that the Troika believes the Greek government has made virtually no progress with the reforms & cutbacks it agreed to in return for its last 130BN bailout, the second of its kind. Then, to top it all off, the German weekly Die Zeit rumoured that Greece will soon require a third bailout [due to the Greek banks this week losing deposits at a 500-

800MM Euro (US$625-1,000MM) **daily** clip?]. And with polls in Germany showing a steady erosion in support for the entire Eurozone idea, maybe the time is coming closer that John Mauldin's idea a couple weeks ago (that perhaps it should not be Greece, but Germany that should leave the Eurozone) may no longer be so far-fetched, especially since there has been talk in the paper industry that a major producer of banknote-quality paper has been producing paper to two sets of specification, those of the Bundesbank & those of the Greek central bank (while this may be due to 'contingency planning', ….).

With all the focus on the Greek election, it is easy to forget that Sunday will also see the first round of the French Parliamentary election. And the country has been regaled to, & its outcome could be affected at the margins by, a very public cat fight between President Hollande's current & past 'squeezes', with the former having very publicly Tweeted her support for the renegade Socialist opponent of the latter in her constituency of La Rochelle (by the way the latter was also the Socialist Party candidate running against M. Sarkozy in the 2007 & is the mother of M. Hollande's four children). This led the Prime Minister to counsel the current First Lady (*a term she despises*) to "keep to her place". This will have the same effect on her as a red flag has on a bull, especially when he added fuel to the fire by adding the President shared his view "one should not mix one's public & private lives." It's almost enough to feel sorry for M. Hollande.

LSE-listed William Hill plc, one of Britian's biggest betting shops, at last report had 1 : 8 odds on Greece leaving the Eurozone & had shortened the odds on Spain being the first to leave the Eurozone from 10 :1 to 5 : 1.

With Spain's 5-year bonds yielding 5.97% & the credit default swap rate on them at 609 bps (i.e. 6.09%), there is no incentive at all to 'take a flyer' on them.

Last December 28th China National Petroleum Corp.(CNPC) & its Afghan partner, Watan Oil & Gas (owned by two cousins of President Hamid Karzai) won an international competition to explore for oil in the Afghan part of the Amu Darya basis in Northern Afghanistan (that across the border in Turkmenistan produces a lot of oil) & earlier this month Schlumberger was awarded a contract for reservoir evaluation services. But a problem has arisen : a local warlord, Gen. Abdul Rashid Dostum, is said to have pressured Chinese engineers on the site for "illegal financial benefits". While both he & his National Front Party deny all such allegations, the party did issue a statement saying he had advised the Chinese "that it would be better not to bring labour and security personnel from outside the province and they should be hired locally."

Currently a debate is raging in Edmonton as to whether teachers should be allowed to give students a mark of zero for work not handed in/completed. The plot thickened when it came out school principals have a vested interest in no zeroes being given; for in Alberta funding follows the student & the school gets to keep it if a student gets at least 50% in a course or, rather remarkably, if he/she gets a mark between 25-50% & has attended at least half his/her classes. Listening to the loosy-goosy reasoning of the apologists for the 'no-zero policy' & then reading about the tremendous competitive pressures to excel that students in emerging economies face, one cannot help but wonder if our 'feel-good' educational system **really** prepares our students, & our economies, for survival, never mind success, in the 21st century global economy.

David McCullough is an English teacher with 26 years' experience at Wellesley High School in the Boston, Mass. area. In his Commencement Address he told graduating students among others that "None of you is special. You are not special. You are not exceptional", called them "pampered, cosseted, doted upon, bubble-wrapped, and fawned over", and warned them that half of them would be divorced & that life wasn't going to revolve around their every whim. After a video of his speech went viral on the social media circuit he told NBC's Nightly News "this is what I have been saying for 26 years in the class room, so there was really nothing new in my message."

The Canada-based oil pipeliner Enbridge is coming under fire from some US interests for supposedly favouring the movement of oil sands-, over Bakken-, oil. Oil pipeline capacity is becoming a major issue. Last week the Canadian Association of Petroleum Producers (CAPP) cited the potential lack of sufficient "transportation infrastructure", i.e. pipelines, as the key risk in its forecast that oil sands output will double from today's 1.6MM bbld to 3.1MM bbld by 2020 (adding the plans of individual producers suggests this to be a 1MM bbld under-estimate). But such an expansion would require the Keystone pipeline **and** the tripling of the capacity of the Kinder Morgan pipeline from Edmonton to Burnaby, B.C. **and** Enbridge's Northern Gateway pipeline to Kitimat **and** then some to move all this oil to market. And right now all face major public attitude cum opposition hurdles & certainly aren't being 'fasttracked'. And the moment it becomes self-evident that pipeline capacity is a serious constraint, Alberta can kiss its latest oil boom good bye.

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MASSIVE BAILOUTS FOR SPAIN MAY ONLY BE STOPGAP MEASURE
(Reuters, Paul Taylor)

- After insisting for weeks Spain needed no help recapitalizing its real estate-crippled lenders, over the June 8th weekend Prime Minister Mariano Rajoy relented & the Eurozone Finance Ministers quickly committed themselves to lend Madrid's Fund for Orderly Bank Restructuring (FroB) 100BN Euros, more than an *official* audit had suggested*, twice what the IMF claims, but less, by as much as 100BN, from what the private sector says, is needed.*
- While Eric Nielsen, Chief Economist of Rome-based Unicredit opined this "addressed the three key weaknesses : banks, regions and structural weaknesses", Karl Whelan of University College Dublin says "The burden of recapitalizing insolvent banks ... will fall on Spanish citizens ... For this weekend's announcement may well end up shutting Spain out of the sovereign bond market", & Jose Carlos Diez, Chief Economist at Madrid-based Intermoney that "We're very close to junk bonds and we'll end up in junk."
- While the government has completed 58% of this year's funding requirements, it still must 'roll over' 47.3BN, & the regional governments 15.7BN, of debt by December 31st. And Fitch lowered Spain's credit rating by three notches to BBB, just above junk status, & Moody's called the debt of Eurozone sovereigns a "non-investment grade risk".
- In March, the latest month for which data are available, capital flight from Spanish banks hit a record 66BN Euros. And while Prime Minister Rajoy denied this, he is said to have been under immense pressure from Germany & France, **and** the ECB & EC, **and** the IMF to do so before the June 17th Greek election; in fact one senior German official said that Berlin had warned Rajoy that if he didn't seek help now, he risked having to do so later. And Luxembourg Finance Minister Luc Frieden said on TV on June 10th "If Spain got into a catastrophic situation, you could forget French and German banks."

This latest bit of financial legerdemain is the umpteenth time Eurozone decision makers have rolled the problem down the road, hoping for divine intervention. Regardless of the government denying it was being bailed out, the FroB's liabilities are on the government's balance sheet, not *those of the banks'. The banks will use the money to buy government bonds, not to make growth-stimulating loans, creating an artificial demand for government bonds & rebuilding their balance sheets at taxpayers' expense. But the math is ominous. As noted above, Spain's governments must in the next 6½ months 'roll over' 63BN Euros in outstanding debt, i.e. 10BN/month. In the first two months of this year the central government's deficit was 20BN Euros; so with the economy tanking it likely would not be unreasonable to assume 5BN monthly deficits; so the government will need to find buyers for 15BN Euros-worth of bonds. And if the banks were to be the only buyers, they would run out of money by yearend. In a way this is like Ireland all over again, with a government being bullied into taking the banks' liabilities onto its own balance sheet to bail out the German & French banks, thereby relegating the government to the fiscal penalty box. And the sad part is that Debt/GDP-wise Spain was in relatively good shape until it was forced into a fiscal death spiral.*

<u>BERNANKE'S ADVERSE IMPACT ON GOLD PRICES</u> (Dubai Chronicle)

- On June 7th, six days after gold prices jumped back over US$1,600/ounce *on disappointing job growth numbers (that heightened market Q3 expectations*), they dropped back below that when Bernanke in appearing before the House Financial Services Committee (JEC) didn't explicitly promised more 'quantitative easing'.
- The central banks seem to be putting pressure on their political masters to deal with problems they deem beyond the scope of monetary policy. Thus the day before Bernanke told the JEC "under current policies and reasonable (*but really quite optimistic?*) economic assumptions the [Congressional Budget Office] projects that the structural budget gap and the ratio of federal debt to GDP will trend upwards ...This dynamic is clearly unsustainable ... fiscal policy must be placed on a sustainable path that eventually results in a stable or declining ratio of federal debt to GDP", ECB President Mario Draghi observed "Some ...problems in the Euro area have nothing to do with monetary policy ... and I do not think it would be right for monetary policy to compensate for other institutions' lack of action."
- But JEC Vice Chair Rep. Kevin Brady (R..- Texas) raised the issue with Bernanke if the Fed was not encouraging political inaction by keeping a possible QE3 on the table; i.e. if the belief that the Fed is on stand-by to combat any crisis doesn't make a crisis more likely by reducing the incentive *for politicians* to take difficult preventative action.

As to the gold price drop on June 7th, <u>King World News</u> quoted a market source that said that in a four hour period on Thursday June 7th, starting one hour before Bernanke addressed the JEC, the six 'bullion banks' (Barclay's, Deutsche, HSBC, JPMorgan Chase, Scotia Mocatta & UBS), who serve as the main conduit for the central banks' gold lending activities, dumped 515 tonnes-worth of "paper gold", i.e. 20% of global newly mined production (this web site was founded by British financial journalist Eric King to fill his perceived void in the mainstream media coverage by producing weekly interviews with financial 'experts, most of them 'outliers' rather than recognized masters of the financial universe, with a special focus on precious metals. In other words, he sees his mission as remonstrating that "The Emperor is wearing no clothes".

<u>WEAK U.S. REPORTS FAVOUR FED ACTION</u> (Reuters)

- On June 13th it was reported that in May retail sales fell for the second month in a row (due to lower gasoline prices & weak building materials' sales) & wholesale prices dropped by the most in three years (1% vs. 0.2% in April). This, disappointing job numbers & a slowdown in manufacturing point to a slowing economy that increases the likelihood of further Fed action to (*attempt to*) shore up a *seemingly* flagging recovery.

A definition of insanity is ‘to do the same thing over & over again and expecting different results.

<u>OBAMA ; ‘IT’S ABSOLUTELY CLEAR THAT THE ECONOMY IS NOT DOING FINE’</u>
(msnbc, Michael O’ Brien)

- At a morning press conference on June 8th the President said, seeking to illustrate the weakness in public sector spending due to cuts at all levels of government that are creating a drag on employment growth, that “the private sector is doing fine.” When this immediately prompted comments by Romney stumping in Iowa that it showed how much “was out of touch” he was, he explained, in the afternoon in the Oval Office, that it is “absolutely clear ... the economy is not doing fine.” And he sought to take advantage of the opportunity provided to him by Romney by asking what he proposed to do to make a difference other than giving those who are already well-off more tax breaks.

This bears out the latest polls that suggest his campaign is stumbling.

<u>ROMNEY TOPS OBAMA’S MAY FUNDRAISING</u> (AP)

- In April the Romney campaign raised US$40MM, vs. Obama’s US$43.6MM. But in May the Romney crowd raised US$76.8MM, 28% more than Obama’s US$60MM, the first month ever Romney outraised Obama. The 2012 campaign promises to be the most costly ever, with both parties aiming to raise US$1BN &, as of the end of May, the Obama campaign had raised about US$570MM & Romney’s just short of US$500MM.

A big disappointment for Democrats who had counted on a big fund-raising ‘bump’ to energize a campaign rattled by bad economic news & the failure of the recall election to unseat Scott Walker, the Republican public sector union-busting Governor of Wisconsin (a state Obama carried in 2008 &, while until recently a ‘safe’ Democratic state, now looks like to be ‘in play’).

<u>DEMOCRAT-UNION ALLIANCE BEING TESTED</u> (G&M, Konrad Yakabuski)

- After Wisconson voted to keep its governor in office & voters in San Diego & San Jose *overwhelmingly* decided to cut benefits for municipal employees (by 68-32 & 71-29 respectively), attention turned to Chicago where teachers are about to strike after Mayor Rahm Emanuel, Obama’s former chief of staff, imposed concessions on them. So, instead of campaigning for Obama’s re-election, union members may be on the picket lines. This is no isolated incident : Illinois Governor Pat Quinn, California’s Jerry Brown & New York’s Andrew Cuomo, and Los Angelos Mayor Antonio Villaraigosa, Democrats all, are locked in mortal combat with the very public sector unions they have traditionally depended on for political support.

This is making the Republican roll with glee in the aisles; for Democrats & unions disemboweling each other improves their prospects in the November election.

<u>PHILLIPS 66 PLANS TO BUY 2,000 RAILCARS TO MOVE OIL</u> (Reuters)

- At the Citi Global Energy Conference last week, Phillips CEO Greg Garland said “We’re considering buying a couple of thousand more rail cars so we can get Bakken oil either east or west.” His company, the recently spun-off downstream arm of ConocoPhillips, has refineries on the East-, West- & Gulf coasts that currently process 100,000 bbld of shale oil but could handle 5x times that much; so its initial target is to boost the delivery of such oil to its refineries by 100,000-150,000 bbld. within two years, using unit trains.

Moving oil by rail will generate more flexibility in servicing markets. But it is costly. And one rail car holds just 750 bbls; so a 100-car unit train carries 75,000 bbls. At 25 mph a 1,200 mile field-to-refinery return trip, with one day for turnarounds, would take five days; so a 100 car unit train constitutes a 15,000 bbld. capacity. Still, rail movement of Bakken oil out of North Dakota in March was up 350% YoY, from 50,000 to 225,000 bbld (less than half a current output that may be ramped up to 1-2MM bbld. in five years). And, given the safety record of North American railroads, it's a matter of when, not if, the first oil-carrying train will derail, spilling all, or part of, 75,000 bbls of oil. Pipelines are likely the safer option, provided the pipe is within its useful life span (the pipe in the high profile Enbridge pipeline rupture in Michigan last year was in Year 37 of its 30-year useful life, & the latest spill in Alberta involved 44 year-old pipe.

<u>ISRAEL'S DEMONIZATION OF REFUGEES</u> (The Telegraph, Daniel Knowles)

- The xenophobia in Israel involving refugees from Eritrea, Sudan & Somalia is depressing. On June 10th an apartment building in Tel Aviv in which ten Eritreans lived was firebombed. Hundreds of Jews, led by West Bank settlers, have marched through Tel Aviv chanting "Africans Out". And Interior Minister Eli Yishai talks about "Aids-infected migrants" who had come to rape women. Don't they see the irony of Jews attacking illegal immigrants when Israel is a nation founded by illegal immigrants, many of them interned by the British *in the aftermath of WW II*?
- When I visited Israel a few years ago, I was struck by how depressed many young Jews were about their country, upset by settlers from France, the US & Russia talking about "Arab dirt", and by Orthodox men getting unemployment benefits & subsidized housing while denouncing both Israeli Arabs & secular Jews as only worthy of contempt. Many young Jews now feel less connected to Israel than in the 60's when it was still a beacon of hope for them.

Actions speak louder than words. While Prime Minister Netanyahu prattles about the rights of refugees, in 2011 only one of the 4,900 Africans who applied for refugee status was successful. Israel has recently been hit by a wave of graffiti thanking Hitler for the Holocaust & denouncing Zionism, attributed to Orthodox extremists who, strange as that may seem, oppose the idea of an Israeli state in the belief there cannot be a Jewish state without a Messiah. Netanyahu's cosseting the extremists for years is beginning to pay off; but 'He who sups with the devil, should have a long spoon'. Alternately consult Hosea 8 : 7.

<u>BID TO HIDE BLOODBATH CHANGES GAME</u> (G&M, Patrick Martin)

- Syrian government supporters have learnt that pictures of dead women & children unite international opposition to Syrian President Bashar al-Assad. So now the 'shahiba', the Alawites irregulars blamed for some recent massacres, seek to hide the evidence, the reason for Syrian forces preventing UN monitors from visiting massacre sites promptly.
- A Bosnia-like conflict is unfolding in Syria. The Russians & Iranians are supplying weapons to the regime (*at last report the former were shipping helicopter gun ships to the regime*), recently Saudi Arabia, Qatar & Turkey began aiding the opposition, & fighters from Salafist jihadi communities across the Sunni world are joining the opposition ranks (as in Bosnia & Afghanistan). But Iranian-born Dr. Vali Nasr, Dean-elect of the Washington-based Johns Hopkins School of Advanced International Studies warns "The departure of Assad will only remove the figurehead of the minority ruling

regime ... It will not open the door for a broad-based democratic environment in Syria ... in which Alawites and Sunnis will be happy with the outcome of elections ... The international community keeps saying ‘Assad should go’ ... but the Alawites say ‘If he goes, if we hand over power, what’s going to happen to us?’ Because there is no satisfactory answer to that ... they’re not going to give up power.”

When Syria descends into a full-fledged civil war orgy, there will be a lot of score-settling in what is still a blood feud society. That’s why the Alawites see the conflict as a fight to the death.

GERMAN CREDIT PLAN STIRS “BIG BROTHER’ FEAR (Reuters)

- Schufa, Germany’s biggest credit agency, stirred up controversy on June 7th when it announced that, to help measure users’ creditworthiness, it had started gathering data on relationships, interests, addresses & other private details from social media sources like Facebook, LinkedIn & Twitter. Consumer Protection Minister Ilse Aigner told the Munich Merkur newspaper “Schufa cannot become the Big Brother of the business world ... Social networks should not be systematically mine for sensitive data that would influence the credit ratings of clients.”

Once one hits the SEND key, private information ceases to be private. So whatever one wants to keep private should not be revealed on the social media sites. Or, better yet, don’t use them at all. But this, of course, goes against our deeply-engrained entitlement mindset.

DENMARK TO EASE PENSION RULES TO REDUCE LIABILITY BURDEN (Bloomberg, Frances Schwartzkopff)

- Denmark’s Business and Growth Ministry on June 12th announced that, given the current low bond yields, pension companies & insurance companies will be allowed to raise the discount rate used to calculate their liabilities to better reflect long-term growth & inflation prospects, justifying this by saying “rules and guidelines shouldn’t press companies to make short term investments decisions due to unstable conditions in the capital markets.” . This follows similar action in Sweden earlier this month.

The higher the discount rate used, the lower the P(resent) V(alue) of liabilities; so by a stroke of the pen this can mitigate unfunded pension liabilities, or make them disappear altogether like snow before the sun. But since interest rates aren’t going to stay at these levels forever, this is just making something happen that would have happened in due course anyway. But it comes at a bad time; for by reducing the need for pension funds to buy bonds of an appropriate term to ‘match’ their liabilities, it reduces the demand for government bonds (the last thing European bond markets need right now). While the current practice never made much sense, this change should ideally have been made when the sun was shining, rather than when it is tornado season, in capital markets.

ANC’S RADICAL VOICES GROWING LOUDER (G&M, Geoffrey York)

- It faces two crucial conferences. First, a policy conference will be held near Johannesburg later this month to ap out the so-called ‘second transition’, 18 years after the first had ended apartheid & made Nelson Mandela President. And next December a second will decide if Jacob Zuma will remain its leader. Some ANC factions are pushing radical agendas of economic nationalization, farm expropriation, amendments to the constitution & tighter controls on the courts that in the past were rejected by leaders such as Mr. Mandela. But in the heated climate of an unofficial campaign *led by the ANC Youth League* to topple President Zuma, the radical voices are becoming bolder & more aggressive, prompting the ANC leadership to slap down the *populist* youth leaders who call for expropriation & nationalization, with ANC Secretary-General Gwede Matashe reiterating “It is not ANC policy to expropriate land without compensation, and personally I don’t think it will work.”

The common wisdom that South Africa would pull sub-Sahara Africa into the 21st century was never based on fact. Since the end of apartheid annual GDP growth has averaged just 3.26%, with widespread corruption muting much of the potential benefit thereof even though the country’s slow population growth rate meant that nominally per capita GDP could still show growth. A relatively low birth rate means that the under-20 age cohorts are actually shrinking &, unlike many emerging economies, only about 30% of the population is under the age of 20. Today the unemployment rate is 24%, almost three-quarters of whom are under the age of 35. And the country is being overrun with illegal immigrants, many of them Zimbabweans, who compete aggressively in the low skilled labour market. ANC has been unable to make good the (unrealistically high) expectations prevailing at the end of apartheid, in part due to the quality of its leadership : Mandela was a hero figure but not a manager, Mbeki was neither & Zuma is more of a buffoon than anything else.

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