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- JPM's loss from its London derivatives' debacle could run as high as US\$9BN, i.e. more than 4x the original US\$2BN prophesy.

And, while on the subject of the Summit, one analyst commented that it needed desperately to restore confidence among long-term investors who “will be convinced only by comprehensive solutions.” (*and even the wildest optimists don't expect those at this Summit, or even withing the foreseeable future*). One of the more insightful market letters observed “What Ms.Merkel wants is nothing short of German oversight and ultimately dominion over all future sovereign debt issuance, oversight over the European banks themselves and German supremacy on nearly all fronts, economic and political. In Ms. Merkel's world ... and here she is merely reflecting the general philosophy of the German people themselves ... if the German chequebook is going to be relied upon, then German oversight shall be demanded by the German government and demanded by the German people” (*whereas, to carry the cheque book analogy one step further, what the others essentially seek is a blank cheque*). Another similar perspective was that “Germany wants to make sure that any funds they release will be safeguarded by Germans, not by others” (*i.e. that the foxes aren't put in charge of the henhouse*). And earlier this week, when asked about the Summit, Chancellor Merkel herself opined that “there is too much talk about joint liability and far too little about improved oversight and structural measures” (& was very specific that there will be no Eurobonds ‘as long as she is alive’).

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- the New York City-based National Resource Defense Council, of the 442 currently operating nuclear power plants in the world, 12 are in the *worst* "Very High Hazard" zones in earthquake & tsunami risk terms, six each in Japan & Taiwan (all those in the latter country) while another 36 are rated "High Hazard", 29 in Japan, four in the US, and one each in Armenia, Iran & Slovenia [*given Beijing's traditional disregard for such minor inconveniences - many of its power dams (incl. the biggest of them all, the not all that well-built Three Gorges Dam) are in high risk earthquake zones - one wonders how these numbers might changed once its nuclear power plant building boom starts to bear fruit.*

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In the past year the price of unleaded gasoline in the US has gone from US\$3.60 to a low of US\$3.20 on December 20<sup>th</sup> & then a high of US\$3.94 last April 4<sup>th</sup> and now, at last report, back down to US\$3.40. Gasoline price have an impact on consumer sentiment out of all proportion to their share of household budgets; so their last two months' decline may have a (*modestly*) buoyant effect on consumer confidence.

The IRS in the US has long operated with the benefit of a 'whistle blower' law under which people who rat on tax cheats can get monetary rewards for doing so. But in FY11 the incremental tax collections from the program declined by 90% YoY, to US\$48MM from US\$464MM in FY10 (even though the rewards paid out by the IRS declined only 45%, from US\$18 to US\$8) - *there are two possible reasons : a change in attitude to government generally, & hence to tax cheats, & strained economic times causing fewer men to dump their wives, partners, mistresses and/or girl friends.*

Europe (& North America?) may be leisurely headed for a fiscal cliff, but Japan is headed at 90 mph. for a train wreck. For its national debt, now at roughly 250% of GDP, in the past 15 years grew at an average annual compound rate of 5%, even as in the last half of that period its population growth rate was negative, last year by 0.2% (in part because many Japanese women

of child-bearing age aren't enthused about having children, especially if that involved a traditional 'salary man' husband). While its aging voters oppose any move to address the fiscal situation, the other day Prime Minister Yoshihiko Noda managed to gain approval in the lower house for a proposal to double the sales tax over three years to 10% as a first step in fiscal reform (although welcomed by Moody's as "a decisive step after years of policy drifting", this could prove a Pyrrhic victory for Noda. For while it passed 363-96, this was due to the opposition supporting it : 57 of the members of his own party voted against the bill (& 15 more abstained), and if they were to seek his downfall (*remember, he is Japan's fifth Prime Minister in less than five years*), or left his party, this would rob it of its majority, thereby possibly prompting an early election.

According to a source I usually find reliable but who in this case conceded it was not 100% sure of the veracity of its numbers, there may be interesting differences in the numbers of days people in various G-20 countries are actually in their work place. He says that the number of mandatory holidays & statutory holidays combined in the US & Canada is 17 & 18 respectively, compared to 41 in Brazil, 40 in France & Russia, 36 in the UK & Japan, 31 in Italy and 30 in Germany. And these differences are further accentuated by differences in the length of the work week; thus, while the average American worker works 42 hours a week, in France President Hollande has promised to formally bring back the 35-hour work week.

American Express recently published the results of a survey of the spending habits of its Generation Y clients (i.e. those born after 1983) &, almost simultaneously, TD Canada Trust those of its 18-34 year-old customers. In both cases, they didn't appear to have let the Great Recession interfere with the pursuit of their hedonistic urges. For it found that 33% had hiked their spending on fashion between 2009 & 2011 by 33%, on travel by 74% & on fine dining by 102% (& also that one in three wealthy parents said they would rather leave their money to charity than to their children - due to a lack of confidence in their ability to handle money). And the TD found that 40% of its same age client cohort only made minimum monthly payments on their credit card balances & that 20% were using their credit cards to 'augment' their life style'.

The two-lane highway No. 63 between Edmonton & Fort McMurray, Alberta's 'Oil Sands Capital', has been the scene of so many fatal car accidents as to earn it the sobriquet of the "Death Highway". This has long given rise to endless pressures to have it twinned. Critics of this idea have long argued the problem is not traffic volume but driver attitude (people being unduly in a hurry to get-, or get out of-, there, often with too much alcohol or recreational drugs in their blood stream. Their case was seemingly strengthened recently when the RCMP recently clocked & arrested a motorcyclist doing 279 kmh (175 mph) in a 100 kmh zone on it (*at which point the individual likely should have been humming "Nearer to thee, my God", for at that speed the slightest untoward event would have had that come true*).

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### **GLEANINGS II – 468** **June 28<sup>th</sup>, 2012**

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## GLEANINGS II - 467 June 21<sup>st</sup>, 2012

### WHAT SHELDON ADELSON WANTS (NYT, Editorials)

- Nobody is spending more to defeat Obama, & advance his personal ideological & financial agenda as Sheldon Adelson. He backed Gingrich to the tune of US\$20MM. He has since given US\$10MM to a Mitt Romney super PAC & US\$10MM to Crossroads GPS, founded by Karl Rove to run attack ads against Obama & other Democrats, and US\$10MM more is earmarked for each of a similar group founded by the Koch brothers & to Republican Congressional PACs. And this is only a downpayment; for he has made it clear he will fully exploit the anything-goes world created by the federal courts to donate a "limitless" portion of his US\$25BN fortune to defeat the President & as many Democrats as he can.
- He opposes the two state solution for Palestine supported by Obama & most Israelis, seeing it as a "stepping stone for the destruction of Israel and the Jewish people." He is

far to the right of AIPAC (the American-Israel Public Affairs Committee), *the primary Israeli lobby group in the US*. And he fears Obama's notion of raising taxes on corporate earnings overseas since 90% of his company's comes from *gambling operations in Singapore & Macau* (it only pays 9.8% in income in taxes) And the Justice Department is investigating if his Macau operation may have violated the Foreign Corrupt Practices Act. So it makes sense for him, in the absence of legal or moral limits on buying influence, to spend tens of millions to help elect Republicans promising to keep his billions intact."

*Both campaigns' funding target is US\$1BN. But getting even 4% from a single donor isn't good for democracy & may backfire during the campaign (Adelson is the 79 year-old Chairman & CEO of the Las Vegas Sands Corporation & the 8<sup>th</sup> wealthiest American. He also owns Yisrael Hayom ('Israel Today'), a free daily tabloid that has the biggest circulation of any daily in Israel & a well-known strong pro-Netanyahu bias, and that Ben-Dror Yemini, the opinion page editor of the daily Maariv, once called a "threat to democracy". He started out life as Democrat but moved farther & farther right as he grew richer & richer. Rep. Shelley Berkley (D. - Nev.), once his VP of legal & governmental affairs, says "he seeks to dominate politics and public policy through the raw power of money." He's now throwing money at Romney even though Gingrich called him a "predatory corporate raider", & last February told Forbes he's "against very wealthy people attempting to, or influencing, elections" & is only doing it because others (specifically George Soros) are doing so.*

#### **BIS' CECCETTI SEES TOO MUCH RELIANCE ON CENTRAL BANKS (WSJ, B. Blackstone)**

- In an interview the BIS Chief Economist Stephen Ceccetti said among others that :
  - there is a growing risk of overburdening monetary policy ... Failing to appreciate the limits of monetary policy raises the risk of a widening gap between what central banks are expected to deliver and what they can actually deliver; and
  - central bankers have been made the policy makers of last resort ... That's not what they should be. They can't implement structural reforms ... (and) cannot put fiscal policy on a sustainable basis. This reliance on the central banks makes it so the other actors ... get to wait a bit in implementing reform.

*In the BIS 2012 Annual Report made public June 24<sup>th</sup> he also said "There are very clear limits on what central banks can do. They cannot repair balance sheets. They cannot increase productivity."*

#### **AL-QAEDA TARGETS TREES (NP, Stewart Bell)**

- The latest al-Qaeda-inspired, Yemen-produced propaganda pamphlet Inspire devotes eleven pages to starting forest fires in NATO countries, providing the religious justification for doing so ("Fire is one of the soldiers of Allah") & illustrating how to use gasoline & a washing machine timer to do so. This is part of a new strategy, unable to orchestrate mass outrages like 9/11, it is now promoting "individual jihad" attacks on political figures, media outlets, airports, bridges, stock exchanges & "places where Jews are gathered".

*The forest fire thing is being facilitated by climate change. For while ocean warming is boosting sea water evaporation, & hence rainfall potential, it also seems to be interfering with rainfall patterns, with some places being deluged by, & others deprived of, rain.*



## **CITIES GROW MORE THAN SUBURBS (msnbc. com, Hope Yen)**

- According to the 2011 Census, for the first time in a century most largest American cities are growing faster than the surrounding suburban areas; thus the population of the primary city cores in US metropolitan areas with populations > 1MM grew by 1.1% & the surrounding suburban areas by just 0.9%. Young adults are shunning house-buying & staying put in city centres, giving rise to what some sociologists have started to refer to as “Generation Rent” (*which is curious since home affordability is now far greater-, & the rent-to-median house price ratio far higher, than five years ago*). Apart from being precluded from home buying by more stringent mortgage eligibility requirements (in part due to growing educational indebtedness), other factors are a lesser interest in long-term commitments and a rejection of ever longer commuting times, more interest in public transportation & a decline in the incidence of drivers’ licence possession among 16-39 year-olds, and proximity-to-work considerations (aka “walkable urbanism”).

*The debate now is whether this is just a blip in a long-term trend or a secular shift towards higher density living. Those who believe the former are ‘straightliners’ who project that tomorrow will relate to today as today related to yesterday, a forecasting methodology that works most of the time but fails disastrously at turning points. And the presence in today’s society of more childless singles, young people in less-than-firm long-term relationships, childless couples in long-term relationships, single parents & smaller families, as well as the general aging of the population (many of whom, while still living in their homes in the ‘inner suburbs’, may not be much longer able, or willing, to do so) suggests this is a secular change. (at this point I must add a precautionary note : I live downtown, don’t own an automobile & for three decades have been preaching that the time will come that the suburbs would lose their appeal & there would be a polarization between those who wanted to live downtown, close to all “mod cons”, & those who wanted the greater space & the opportunity to have a couple of big dogs, a horse, or whatever suited their fancy that only country living can provide, even if that involved some driving (albeit in many cases not a great deal more, if any, than living in the ‘outer suburbs’ now entails), in which process suburban living would prove neither fish nor fowl (& every time I venture out into some of those Godawful new developments in ‘the boonies’ with badly-built homes, I can see more reasons why smart young-, & not so young-, people will increasingly start to say “Uh-uh”).*

## **STOCKTON’S FISCAL WOES A WARNING (DT, Nick Allen)**

- The city, 130 kilometres (82 miles) from San Francisco began life 160 years ago as a transport hub in the gold rush & *today lies in the midst of Northern California’s farming heartland*. During the boom it saw 3,000 new homes built a year & its population grow 20% in a decade, and the city built a US\$80MM concert arena (paying Neil Diamond US\$1MM to perform at its opening in 2006), a 5,000 seat ball park for its minor league team & a US\$35MM new city hall that it never moved into & was recently repossessed.
- When the 2007 sub-prime crisis brought on the recession, it hit it like a ton of bricks. Home foreclosures were the US highest. Property values dropped by up to 75%. Businesses went under. City revenues plummeted. Benefits for city employees became a boat anchor. Unemployment now is 19%. The police force was cut 25%, resulting in a crime wave & a record 58 homicides last year. And if it cannot agree with creditors over a US\$350MM bond issue, & *with its unions on its US\$26MM budget shortfall*, by the end of the week, it will be all over (*on June 26<sup>th</sup> the City Council already approved a special “bankruptcy budget” with a number of bankruptcy-driven “savings”*).

Since Congress in 1937 let municipalities seek bankruptcy protection, 640 government entities have done so, thirteen of them in 2011, the most in 16 years. When Stockton does, it will be the seventh (& the largest) this year. Once in bankruptcy protection, city officials will retain control over daily operations but a judge will decide which creditors will be paid when & in what order.

### **NETANYAHU URGES ACTION ON IRAN (The Independent, Geb Bryanski)**

- After meeting with President Putin on June 25<sup>th</sup>, a few days after the inconclusive end of the latest P5+1 talks with Iran (in Moscow), he said it was time to ramp up the sanctions & demands on Iran to end its nuclear program, and reiterated Israel's three demands, to have Iran cease all nuclear enrichment activity, remove all already enriched material from its territory & dismantle the Fordow underground facility near Qom.

*Conflicting messages are emanating from this visit. The Netanyahu crowd says Putin gave him the green light to bomb Iran & Israeli officials after the Putin visit that "Netanyahu has decided to attack Iran before the US elections" in an attempt to reshape the US political landscape & shift Israel's to the right to create a comfort zone for Israel's religious fundamentalists', the former purportedly at the behest of Sheldon Adelson (one must wonder, & worry, if, lacking US-built 'bunker-busting' bombs & facing the likelihood an Iran bombing run can only be a one shot affair, he may be considering using low-yield nuclear bombs to deal with underground facilities). But Putin said his main purpose had been to 'strengthen Russia's strategic ties with Israel' & that he had warned Netanyahu about attacking Iran & urged him to learn from the America's negative experience in Afghanistan & Iraq. And Israel's President, the 'dovish' octogenarian former leader of the Labor Party Shimon Peres, said, rather intriguingly, at a state dinner for Putin "The Iranian people are not our enemy. Israel does threaten their existence. It's Iran's current regime that identifies itself as an enemy of Israel and a threat to its existence."*

### **AN UNSETTLING COURT RULING (NP, Armina Ligaya)**

- Five apartment buildings housing 30 settler families in the settlement of Beit El (Home of God (where Jacob is believed to have slept, using a rock as a pillow, & dreamt of angels), near the Palestinian provisional capital of Ramallah, were earlier ordered demolished by monthend by the Israeli Supreme Court since they were *illegally* built on Palestinian-owned land. This is a small but symbolic move that settlers fear creates a precedent, & whether motivated by ideology, religion or economics, settlers are symbols of Israel's national & and religious identity (but a big headache for the government).
- While the families involved agreed to be relocated, much has been done to try & assuage the feelings of the settler community, a well-organized & committed force in Israeli politics. It is, however, far from homogeneous : while many are theologically committed to a land they believe God bequeathed them, possibly a majority, many from North America & Europe, simply came here for cheaper & bigger houses, better views & great weather, and have above-average incomes (largely due to the government's largesse - *made possible over the years by US financial support for the state of Israel*).
- While there are over 500,000 settlers in all (two-thirds on the West Bank & the rest, but for 18,100 in the Golan Heights, in East Jerusalem) in a population of 7½MM, they punch above their weight politically since they have friends in high places. Thus Foreign Minister Avigdor Lieberman is a settler & Netanyahu has made it clear he expects to keep a swath of settlements under any peace accord. But the settlers are problematic for the Israeli government. They hinder progress towards a peace agreement. Dismantling settlements & displacing settlers will create social unrest. And they are a divisive force in Israeli society : while the radical right identifies with them, & presses for them to be

supported *to the hilt*, secular Israelis think they are a *nuisance* & a hindrance to peace, seldom venture near the settlements & have a more lukewarm sense of support.

*On June 26<sup>th</sup> the 30 families were peacefully relocated within the Beit El, & that same day the government applied to the Supreme Court for an extension of the July 1<sup>st</sup> demolition deadline, purportedly to explore the possibility of moving, rather than demolishing, the buildings.*

### **WHO WILL WIN THE MEXICAN ELECTION? (al-Jazeera)**

- For months Enrique Pena Nieto had a huge lead in July 1<sup>st</sup> Presidential election campaign due to discontent about how Felipe Calderon's National Action Party (PAN) had run the country & the poor performance of Josefina Vazquez Mota, PAN's standard bearer. But recently students took to the streets against Nieto's PRI (Institutional Revolutionary Party) that ran the country for 71 years ending in 2001 in a corrupt & authoritarian manner. Nieto's cause was also damaged by claims Mexico's biggest media *cum entertainment* complex, Televisa, had colluded with the PRI to favour it. This may enable the candidate for the leftist PRD (Party of the Democratic Revolution), Andres Manuel Lopez Obrador, narrowly beaten in 2006 by Felipe Calderon, to come up the middle. And he has been gaining in the polls : a recent one, by the newspaper Reforma, gave Nieto 29%, Lopez Obrador 26% & Vazquez Mota 18%, with Nieto's 3% lead a big come-down from the 11% a couple of months ago, although another one gave Nieto a 12 point lead, with 33%, vs. Lopez Obrador's 21% & Vazquez Mota's 20%.

*Polls seem to have become less reliable. What may push Lopez Obrador over the top is his hard-line stand on the drug lords' issue, which is attracting support from right-of-centre voters typically not supportive of the PRD (& the waxing leftward trend in Latin American politics).*

### **STRAINS MOUNT IN SWISS BATTLE TO HOLD LINE ON EXCHANGE RATE (G&M, Martin Mittelstaedt)**

- Last September the Swiss National Bank announced it would "no longer tolerate" any further appreciation of the Swiss Franc & pledged to do whatever it would take to keep a minimum exchange rate of 1.20 francs to the euro. But the European banking crisis is causing massive amounts of risk-averse money into the relative safety of Swiss banks; thus in May, its FX reserves rose almost 28% to the equivalent of 304BN francs.

*While speculators slavering, with visions of George Soros' billion dollar profit two decades ago from betting against the Bank of England dancing before their eyes, they overlook one simple fact : Soros bet that the £ would be devalued, while this bet would be that the SF will appreciate. But while central banks ability to keep a currency from depreciating is finite, they have endless ammo to keep a currency from appreciating, provided they are willing to put up with the potential domestic inflationary consequences thereof).*

### **CYPRUS ASKS FOR A BAILOUT (The Independent, Ben Chu)**

- It did so on June 25<sup>th</sup>, the fifth Eurozone nation to seek outside assistance, quoting "negative spillover effects" on its banks from the Greek financial sector. Meanwhile, ahead of the June 28th-29th European Summit (*the 20<sup>th</sup> such event in a little over 2 years & likely to be as ineffective as the other 19*) Chancellor Merkel noted that "When I think of the summit, I feel concerned that yet again we will have too much focus on all kinds of ways of sharing debt." This prompted one analyst to observe that "There is a

growing suspicion that Germany is simply not ready to accept the level of debt mutualization necessary to restore confidence and keep the single currency project alive." (Note the element of bias/prejudice implied in the word "project"). Her comments came despite an internal German Finance Ministry memo leaked to the weekly Bild concluding that a Eurozone breakup would have a devastating effect on the German economy - a 10% shrinkage of its economy & an increase in unemployment to over 5MM, almost twice its current two-decade low of 2.87MM - prompting one Ministry official to say anonymously, "When measured against such a scenario, even an extremely costly rescue seems to be the lesser evil", and after UBS had estimated that in case of a Eurozone breakup, Germany's losses could run as high as 500BN Euros, i.e. 40% of its GDP.

*Chancellor Merkel faces an election in a little over a year. And despite her party's setbacks in local elections, it leads in the polls nationally. In addition, she has a personal approval rate of over 50%, way ahead of her party's. And at last report 55% of Germans were in favour of ditching the Euro & returning to the DM, up from 49% one month, & 40% six months, ago.*

### **GREEK FINANCE MINISTER QUILTS BEFORE HE STARTED IN THE JOB** **(The Independent, Daniel Howden)**

- Vassilos Rapanos, a former Governor of Greece's central bank, resigned 'for health reasons upon the advice of his doctors', one week after he had been appointed to the job, & three days after he had been admitted to hospital with stomach pains. Meanwhile, Prime Minister Antonis Samaras is recovering from eye surgery & unable to attend the June 28th-29th European Summit and in his place the Greek delegation will be led by Foreign Minister Dimitris Avramopoulos. These various illnesses have delayed the visit to Athens by, & the report of, an EU/IMF/ECB inspection team & may affect Parliament's ability to pass another 11BN Euros-worth of cuts by monthend, both of which are sine qua nons for disbursement of the next instalment of bailout payments the government needs shortly to survive.

*What a schmozzle. First protocol wouldn't let the Foreign Minister head the Greek delegation. So the previous Finance Minister (in the interim 'caretaker' government), who has health problems of his own, was to have headed it. Then the Prime Minister named a new Finance Minister, Yannis Stoumaras, an economics professor who, while he favours Greece becoming more competitive, also co-authored an op-ed piece in the Guardian last April that argued Greece hadn't been the spark that set off the Euro crisis, but 'merely had exposed the inherent flaws in the eurozone.' Meanwhile, the Prime Minister said over the weekend that German intransigence could force Greece out of the Eurozone & Germany's Finance Minister, Walter Schaeble that, while things were going well in Ireland & Portugal, Greece "hadn't tried enough so far ... that has to be said quite clearly." And it won't help that the EU will go ahead with its July 1<sup>st</sup> embargo on Iranian oil on July 1<sup>st</sup>, despite Greece's pleadings for a delay, given its heavy dependence on Iranian oil.*

