

Quote of the week : “Mr. Romney has an economic plan that works only if you don’t believe most of what he says “ - The Economist (*in justifying why it deviated from its generally right of centre bias to endorse President Obama*).

Quote of the week 2.0 : “If you think right now I give a damn about presidential politics ... you don’t know me.” - New Jersey Gov. Chris Christie (who at the Republican convention trashed Obama) after being attacked by, among others Rush Limbaugh, for referring in laudatory terms to the President during the aftermath of Hurricane Sandy. And he subsequently told Fox News “I’ve got a job to do here in New Jersey that is much bigger than presidential politics.”

The talking heads were recently buoyed by encouraging GDP- ,& consumer spending-, growth numbers. But there was more to these than met the eye. Third Quarter GDP growth came in at 2.0%, higher than the 1.8% expected & the Second Quarter’s 1.3%. But about one-eighth of this was due to defense spending & the Second Quarter’s 1.3% had originally also come in at 2.0%. And consumer spending was said to have grown 0.8% in September, well over the 0.6% expected & August’s 0.5%. But with personal income up only 0.4%, the same as in August, this meant that the saving rate dropped from 3.7% to 3.3%, its lowest level in almost a year. And with real disposable, after-tax income down 0.3%, such growth in consumer spending looks rather unsustainable - - *this is not to say that good things aren’t happening in the US economy, just that they made not be happening as much & as fast as we are led to believe.*

After Mitt Romney had long schmoozed the editors of the Des Moines Register, two weeks ago Obama talked to them over the phone in a supposedly a private chat that, at the paper’s insistence, the White House later made public. He told them that he too had a five-point plan : **encourage “insourcing”** - bring back manufacturing jobs with tax incentives;

- 1 **improve education** - help states hire better teachers, especially in the STEM area, create more places in two-year colleges & help workers retrain;
- 2 **develop more domestic energy** - both conventional & renewable;
- 3 **reduce the deficit** - by both trimming spending & raising revenues; and
- 4 **restore America’s crumbling infrastructure** - and in the process create jobs.

By comparison Romney’s five-point plan is 1) **energy independence by 2020** - to keep the billions of dollars home that are now being spent on imported oil, 2) **trade that works for America** - opening new markets & confronting cheats like China who ‘steal American jobs’, 3) **provide Americans with better skills to succeed** - with better schools, access to higher education & retraining programs, 4) **cut the deficit, reduce government spending & get the national debt under control**, and 5) **champion small business** - by pursuing comprehensive tax reform to lower taxes for all Americans & cutting back on regulations that drive up costs & discourage hiring - *while their staffs must have been reading the same polls, Obama’s five points seem marginally less ambitious, and more practical, detailed & costly, and Romney’s more isolationist.*

Given the seemingly growing ineptitude of pollsters to get things right, academics have been casting about for alternate predictors of election outcomes. Some think punters & odds makers may fit the bill. For, so the theory goes, while pollsters still have a job & get paid the day after an election that they called wrong, punters who get it wrong pay for their mistakes. If so, Obama should rest easy; for, although the betting “line” is no longer as onesidedly favourable to him as it once was, he still is the odds-on favourite. Something else that may give his people some comfort is that a recent poll found that one in every five Americans admitted having real problems with the idea of a Mormon in the White House (although at least as many likely feel the same way about having someone ‘of colour’ there.

The US has an estimated 1000 military installations around the world, incl. 124 in Japan. And the latter are critical to the implementation of the Obama Administration's "pivot" strategy (to shift more military resources to the Western Pacific/South East Asia region). But that may be easier said than done since Australia has indicated it wants no US bases on its soil and, with yet another Japanese woman raped on Okinawa by Americans soldiers, questions about their continued presence on Japanese soil, almost three-quarters of a century after the end of WW II, are resurfacing.

Work has begun on a new, 643-long high-speed railway in Western China. It will link Xi'an, the capital of the Northwestern province of Shaanxi, with Chengdu, the capital of Sichuan Province in the Southwest, cost the equivalent or US\$6.35BN, take five years to build & cut the travel time between the two cities from twelve to three hours - *by comparison, a few years ago Edmonton completed building the 3 km-long Southern extension of its LRT system that also took 5 years to build, cost \$500MM (incl. \$100MM for one 300 metre-long underground section) & cut the time it took to travel the 6 or so miles downtown by bus from 50 to 15 minutes.*

In the first eight months of this year China is reported to have imported 512 tons of gold, i.e. more than the ECB's entire gold holding - *since it is now also the world largest producer of newly-mined gold, with an annual output of 350+ tonnes, this means China now potentially is accounting for the "disappearance" of more than one-third of the world's annual newly-mined gold.*

At last report the US national debt was over US\$16TR, about 105% of GDP, up from US\$12TR at the end on 2009 (& 86%); in other words, it had grown at a compounded monthly rate of 0.88%. The corresponding numbers for Canada are \$595BN & < 50%, up from 35% in 2008 but still well down from its 1995 high North of 75%. The oft used higher number for Canada includes provincial debt that, in relative terms, is far higher than that of the US states & growing far faster, and is more worrisome, than that of the US states or the Government of Canada.

In a recent tweet Pimco's Bill Gross imparted the following cynical view of the Fed's monetary policy, "it's a merry go-round ... Inflate stocks until 2000. Then inflate housing until 2007. Then inflate stocks until 2012. Now inflate housing again." And on the subject of housing, one market letter noted that the positively-viewed September seasonally-adjusted 389,000 unit sales of single family homes was based on a raw sales number of 31,000 that consisted in roughly equal parts of houses built & ready for occupancy, those still being built & those the construction of which had yet to get underway. The point made was that home 'buyers' in the latter two categories can walk, & in the past often have walked, away from their typically small, downpayments.

At three minutes before midnight on Friday October 19th, the Harper government issued a press release saying it would not approve the proposed \$5.2BN takeover of Calgary-based Progress Energy by Malaysia's state-owned Petronas. This was collateral damage from the much bigger & far more uncomfortable question Mr. Harper c.s. are facing as to what to do about the proposed \$15.2BN purchase by CNOOC Limited of all the outstanding common & preferred shares of Calgary-based Nexen Inc. (but not its \$4.3BN debt). Harper has been touting the idea, especially in China, that Canada is open for business foreign investment-wise, has been courting Beijing decision makers as never before (regardless of the idea of a "principled" Canadian foreign policy on human rights his Foreign Minister has been flogging), & knows that Beijing has the deep pockets, the long-term perspective & the demand for oil (at world market-, rather than Mickey Mouse-, prices) critical to the development of the Alberta oilsands in a way

that could **potentially** optimize their benefits for Alberta, & Canada as a whole. But the Nexen transaction has captured the public's imagination; for it has been alerted to the fact CNOOC is **controlled** by the Government of China (a minority of its shares are listed on the Hongkong Stock Exchange & in New York with the *clever* ticker symbol CEO), and polls now show that even in Alberta a majority of Canadians view the presence of the Government of China in the oil patch as 100% owner-operator as inappropriate, especially since no one in his/her wildest dreams could imagine a situation in which Beijing would ever permit such a coup if the shoe were on the other foot.

But in many ways Canada's 'baying at the moon' opposition politicians, & the hoi polloi whom they are inspiring, are 'barking up the wrong tree' & seeking to 'close the barn door after the horse has bolted'. For Nexen may be Calgary-based but operates mostly outside Canada, first & foremost the North Sea (although it also owns 7.23% of Syncrude - which, added to Sinopec's 9.03%, would give Beijing a 16.26% total interest in that venture - thereby making it its third-largest shareholder - and also owns 65% of, & operates, the 72,000 bbl/d Long Lake 'in situ' - i.e. underground as opposed to open pit - oil sands project 25 miles Southeast of Fort McMurray - of which CNOOC already owns the other 35%, which it acquired last year for \$2.1BN out of the bankruptcy of OPTI Canada (which it may well have looked upon as a prelude to the Nexen acquisition). Long Lake has had a rather troubled past (& as a result, numerous ownership re-arrangements), which may well have been one of the reasons it appealed to CNOOC (& not to anyone else).

Then this week there was an announcement by TransCanada Corp., that so far has raised no public eyebrows, that it had entered into a 50-50 JV with Phoenix Energy Holdings Ltd. to build a large capacity 500 km. pipeline to carry 900,000 bbl/d of bitumen & 330,000 bbl/d of diluent from a new area Northwest of Fort McMurray where Phoenix **wholly owns** the Mackay & Dover oilsands properties (which it acquired in two stages, for a total \$2.58BN, last year & early this year from Athabasca Oil Sands Corp.) to the 'industrial heartland' near Edmonton (which makes one wonder what they know, or think they know, that no one else doesn't, since it hardly seem reasonable to pump such amounts of oil to Edmonton when there may not be the facilities in place to take it from Edmonton elsewhere & when, even if the Keystone pipeline were to go through, it would only be able to take about half that amount of throughput (although it likely is no coincidence that this pipeline's target completion date coincides with that of the Kinder Morgan pipeline expansion (to Burnaby, B.C.). For Phoenix is **wholly-owned** by Petro China Co. Ltd (PTR - NYSE) which is in turn **controlled** by Government of China-owned CNPC (China National Petroleum Corp.). And there are already several other Beijing-owned or controlled companies with their tentacles deep into the Alberta oil patch (as do the governments of Norway & Abu Dhabi).

In the end, the Prime Minister may well approve both take-overs & justify doing so by claiming that the turning down of the Petronas bid had resulted in such improvements in the two companies' offers as to have significantly hiked the "net benefit" to Canada.

After its first review of the financial assistance program for Spain, from October 15th to 26th, a press release by the EC & ECB said among others "While the overall financial market conditions in Spain have improved since the start of the programme and funding strains have been reduced, the challenges to parts of the banking sector remain very acute and warrant decisive policy action as outlined by the programme's Memorandum of Understanding (MoU). The mission also reviewed the status of, and progress in, a broad range of non-banking financial intermediates and the strengthening of governance of former savings banks. In these areas, despite the complexity of the issues at stake, preparations by the Spanish authorities seem well-

advanced in order to allow for timely policy actions in line with the MoU ... Overall, the findings of this commission point to a successful programme whose implementation is on track” - *in Europe these days “decisive policy action” is an oxymoron & in this case “preparations ... seem well-advanced” is central banker speak for “they haven’t done much but talk a good story.” This breezy official optimism seems misplaced; for overall unemployment in Spain just went from 24.6% to a new record 25.0% (& is more than twice that among young people) & inflation from 3.5% to 3.6% while GDP shrunk by 0.4% QoQ in the Third Quarter. And while Prime Minister Rajoy’s party did better than expected in his home province of Galicia, it didn’t do so well in Basque country where, as in Catalonia, which will have an election later this month, the nationalist temperature gauge is rapidly rising. And the statement doesn’t even mention that the provinces are pounding on Madrid’s door for bailouts of their own. Meanwhile, retail deposits with Spanish banks at last report were down 15% since early last year, retail sales have tumbled YoY since the VAT was increased, Prime Minister Rajoy told the press his government is at some point going to ask for an EU aid package “When ... it is in the interest of Spain” to do so (pure posturing for domestic consumption to salve Spaniards’ ego) & Ewald Novotny, the President of Austria’s central bank & a member of the ECB’s Governing Council, opined “Greece will need new financing by mid-November ... (but) as far as I can see ... there is no (immediate) need [for a Spanish bailout] as the government is fully financed until the end of the year - there are two problems with the latter’s temporizing : generally speaking, it is unwise to wait until one’s back against the wall before dealing with financial problems and, more specifically to this case, it has historically been proven very difficult to get European government & business leaders alike to seriously address any issue of substance as Christmas & New Year’s approaches.*

Greece’s is now in its fifth consecutive recessionary quarter, something no other European country has ever experienced since WW II, and half its young people are unemployed & one-third of Athens’ shops shuttered. It has 11MM citizens & 1.5MM immigrants, many of them illegals who see Greece as a mere waystation to a future in better-off EU countries but whom the Greeks will do almost anything to discourage & keep out (since under EU rules they are the problem & responsibility of the first country where they touch EU soil) to the point where Greek soup kitchen menus are heavy on pork to keep the Muslims away. Greece’s Golden Dawn is a rabidly right-wing & anti-immigrant party whose members sport black shirts, wave swastika flags & practice some of the same hooligan tactics as the thugs of the SA (Sturm Abteilung), Hitler’s pre-1933 private army. While in last June’s election, it got 6.9% of the popular vote & 18 seats in Greece’s 300 seat Parliament, the latest polls suggest that, were an election held today, it might get as much as 25% of the popular vote - *to some observers, Greece today is eerily & uncomfortably reminiscent of the Weimar Republic.* Meanwhile, Greece’s markets are having a rough time due to dissension within the ruling government coalition about the 13½BN Euros in new budget cuts demanded by the EU & IMF as a condition of more cash advances, and a well-know Greek investigative journalist was just cleared of charges in a Greek court that he had breached the privacy of the 2,059 Greek citizens, incl. prominent politicians & businessmen, whose names he had published as having an aggregate 1½BN Euros on deposit with HSBC in Switzerland alone.

Elsewhere in Europe the Italian government is talking more austerity, in France both consumer & business morale is in freefall in the face of an unemployment rate that has risen for 17 months in a row to a level not seen since 1999, and the ECB’s Mario Draghi enthusiastically backed a proposal by Germany’s Finance Minister Wolfgang Schaeuble to give the EU Commissioner for Economic and Monetary Affairs more power over member states’ budgets.

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A GLOBAL BOND BUBBLE IS EMERGING THAT PROFESSIONALS NEVER COULD HAVE IMAGINED (Business Insider, Matthew Boesler)

- Investors are shunning peripheral Euro area government debt, US interest rates are minuscule, *in real terms negative & on a real terms/after tax basis grossly underwater*, and the bull market for bonds is long in the tooth. So their interest is turning to the EM economies; so EM consumer staple equities trade at 20x earnings, Mexican stocks are one-third above their pre-crisis levels, South African stock prices ignore its growing labour troubles, 10-year paper of some dodgy EM credits trade at spreads well inside 100 bps, Ukrainian debt has been a top performer & even Bolivia can issue 10-year debt at < 5%. So it is hard to find value in EM markets, especially debt. Wall Street has been partly to blame for the latter. For when a bank adds a country's bonds to its benchmark fixed income index, "closet indexers" must follow; thus when on April 17th Citigroup said it would include South African debt in its World Government Bond Index, a mad rush into its debt ensued (even though this wouldn't take effect until October 1st). Ditto when JPMorgan included some Nigerian debt in its index, their yields dropped by as much as 300 bps.

Similarly prior to the 2008 financial crisis 'investors' desperate for yield are mindlessly risking 100% of their clients' money for a few bps in incremental yield, with investment bankers happily aiding & abetting them in their shortsightedness; thus given last week's observation about the extent of oil theft, buying Nigerian paper would seem to fail the acid test of common sense.

AMERICA'S CAPSIZING NAVAL POLICY (WSJ, Mark Helprin)

- Hilary Clinton's diplomacy in the South China Sea is doomed to impotence; for it consists of declarations with insufficient naval backing (*like the Harper government's Arctic sovereignty policy*). China is growing, & America shrinking, its navy. Twenty years ago China had one ballistic missile submarine & the US 34; today it has three (with two more coming) vs. our 14 &, while the total number of China's submarines has declined from 94 to 71, America's has dropped from 121 to also 71. Ditto for primary surface vessels : theirs have gone from 56 to 78 & ours from 207 to 114. And China has been focusing much effort on terminal ballistic missile guidance (*that increases the 'hit' ratio*), superfast torpedoes, wave-skimming missiles & battle picture blinding, areas where we have insufficient defensive capabilities. America doesn't need its current fleet of 300 vessels, or the 200 we're headed for, but the 600 we had in the 1980's during the Cold War. In addition we have only half a dozen shipyards vs. China's one hundred; so they could ramp up their fleet size far faster than we could ever hope to, thereby potentially leaving us behind as we left the Axis & Japan behind *in WW II* The end result could be that the Chinese Navy would dominate the oceans & cruise off our coasts at will (*just as we always have off its coast*).

Washington's pre-occupation with spreading democracy, & tilting at windmills in Iraq & Afghanistan, has brought the US to the brink of fiscal collapse & military exhaustion. This has created a void that is allowing China to spread its military & diplomatic wings. The Obama Administration's "pivot strategy" is intended to counteract this. But, to be effective, it requires a

naval presence on the world's oceans which the author rightfully points out is being eroded internally (& externally by the growth of China's naval capabilities). But what he doesn't address is how the Administration might rearrange its spending priorities to fund such a naval build-up (one way might be to reallocate funds within the Pentagon budget 'envelope' from the Air Force's plane-, to the Navy's ship-, building budget, especially since planes are becoming ever less cost-effective and, as one wit put it, 'getting so expensive that pretty soon we'll be able to afford only one' , & since the future increasingly looks as belonging to unmanned, remotely controlled-, rather than human-in-the-cockpit-, aircraft.

OILSANDS AT RISK AS COSTS SOAR (CBC News, Greg Weston)

- Per barrel capital & operating costs have more than doubled in Alberta's oilsands in the past decade. Last April, in a confidential memo obtained under Freedom of Information legislation, Mark Corey, an Assistant Deputy Minister in Canada's Department of Natural Resources, warned that if the current trend of spiraling labour & other costs were to continue, investors may start to turn off the tap on the massive amounts of money needed to develop the oil sands (his boss Joe Oliver, recently came up with an estimate of \$650BN over the next 50 years, 5x the amount spent in the oilsands in the past 50 years).

First of all, according to Edinburgh-based Wood McKenzie, oil & gas finding costs have more than tripled in the past decade (as companies move into more & more frontier regions, new "elephant" finds become rarer, technology gets more sophisticated & costly & environmental considerations increase like bunnies): so the trend in the oil sands appears part of a global cost phenomenon. Secondly, an average \$13BN/year sounds like a lot until put in the perspective of Canada's \$1.74 TR GDP (133x times \$13BN) & the global oil industry's capital expenditures (US\$178BN & US\$149BN in 2010 & 2011, i.e. 13.7x & 11.5x that much respectively). But what could undermine the future of the oil sands would be a) a lack of pipelines to get the oil out & b) a lack of "patient capital" (for there are lots of places, incl. shale oil, where payback periods are much shorter, even resource lives are also much shorter).

BOLTING SHUT THE REVOLVING DOOR AT DND (NP, John Iveson)

- In remarks at the Change of Command Ceremony for Canada's new Chief of Defense Staff, Prime Minister Harper said "Administrative expenses have to be reduced and resources freed up for the front line ... the constant search for more teeth and less tail." These words echoed those in an earlier letter to the Defense Minister, leaked to the media, which had pointed out among others that \$11BN of the \$20BN defense budget was being spent on bureaucracy (incl. \$2.7BN on 'contractors & consultants', many of them retired DND personnel who leave with a good pension one day only to return the next day *to top up that pension with a salary*). And the Auditor-General recently noted that in the five years ended in 2011, when the CAF's total strength had been 68,000, there had been 98,866 retirements, i.e. a nearly 150% turnover at a time the job outlook on 'civvy street' wasn't all that rosy (which also means that a disproportionate share of the defense budget is spent training newcomers who don't stick around long enough to generate a return on the cost of their training, *thereby wasting, at the very least, \$1BN/year of taxpayers' money*).

Harper's comments are political flimflam seeking to give the appearance of action while none will be forthcoming. For, gathering dust in a filing cabinet, is a one year-old report by the now retired Lt. Gen Andrew Leslie, who before retiring in his last assignment, as Chief of

Transformation, produced a report making 43 recommendations that, as the Globe & Mail put it, “offered very specific advice on how the Canadian military could be reorganized to remain ready and effective while reducing unreasonably high overhead costs” (among others by chopping its annual consultants’ & contractors’ budget by one-third). And Gen. Leslie, who has a service record second to none but irked all bureaucratic empire builders in the CAF with his recommendations, had, along with two admirals & the new incumbent, been on the Prime Minister’s short list. So passing him up sends a signal. And, sure enough, the new CDS, speaking to reporters after the Ceremony, & only an hour or so after the Prime Minister had made the above remarks, denied there is any fat to be trimmed in DND & indicated he would look at reducing equipment purchases to save money (but being a jet jockey himself no doubt not on the Prime Minister’s fatuous & increasingly costly CF-35s) whereas his predecessor in his farewell speech had stressed the need “to continue to invest in ... our modern equipment so that we’re ready for an uncertain future”). While the Globe commented that returning Gen. Leslie to active service would have been “unusual”, the precedent for doing so was set when Gen. John de Chastelain first served a full four-year term as Chief of Defense Staff ending in 1993 & then another, shorter, one in 1994-95 (when I ran this by a friend less critical than I of, & who has had first hand exposure to, the Prime Minister, he seemed to suggest that Harper in this case may truly Machiavellian (my choice of words, not his); for if Harper’s love affair with the CF-35 were indeed cooling, any change in policy with respect to this program would have more credibility with a jet jockey, than an infantry man, as CDS.

AFTER NETANYAHU’S ANNOUNCEMENT OF YISRAEL BEITENU MERGER, THE LIKUD HOUSE IS BURNING (Haaretz, Yossi Verter)

- When on October 25th Prime Minister Netanyahu, head of the right-of-centre Likud Party, & his Foreign Minister Avigdor Lieberman, leader of the hardline-right Yisrael Beitenu Party (*with its voter base in the Russian emigré community*) announced plans for their two parties to merge (*or rather have a single list of candidates in the January 22nd election*), it seemed like a brilliant move. But it has since begun to lose its sheen. At his regular Sunday meeting with his Likud Party Cabinet colleagues on the 28th he is expected to face a group that, while not openly doubting his judgment, is in many cases questioning it. For their feedback from the Likud rank & file is dominated by anger & frustration since they don’t see much benefit in it. Likud Party members are expected to vote on the issue (& *approved it*) on October 29th, with one senior Likud member commenting “The House is burning ... There is a smell of explosives in the air ... loyal voters told us ‘We’ve no intention of voting for that thing’ “
- Likud’s religious supporters are horrified at the prospect of becoming partners with the “party of pork-eating Russians” that advocates civil marriage. Moderate right wingers who support the peace process wonder what Likud is doing allying itself with a party whose leader has consistently opposed negotiating with the Palestinians (*because he himself lives in a settlement?*). And still others, who came into Likud from the Herut & the Liberal Party, as well as those for whom the rule of law & minority rights are key issues, couldn’t believe their eyes when they saw Netanyahu & Lieberman on the same stage, making the announcement. And former Prime Minister Ehud Olmert is said to be having second thoughts about sitting this one out, expecting the move to bring *more* left-of-centre voters into the polling stations.

This is said to be the handiwork of Irvington, N.Y.-based Arthur Finkelstein, a secretive consultant to conservative politicians in the US, Canada, Israel & Eastern Europe specializing in ‘campaign management’, who is currently working for Lieberman & in the past did so for Netanyahu, and whom Huffington Post contributor Jack Huberman included in his book 101

*people who are really screwing up America. He supposedly advised them that joining forces would give them 45 seats in the 120-seat Knesset (vs. their current 42, 27 for Likud & 15 for Yisrael Beitenu). While 58% of Likud members say they would support the deal, 20% say they wouldn't & 22% that they wouldn't even vote for a combined list (in Yisrael Beitenu it's 51% in favour, 35% against). And polls taken since then have suggested, & are continuing to suggest, that if an election were held tomorrow, their combined list might get as few as 33 -, & no more than their current 42-, seats (Nahan Barnea in Yedith Ahronoth observed "Uniting forces usually shrinks them" - over the years Israel has had considerable experience with parties merging). Much can happen between now & January 22nd, and the Israeli political scene appears in a major state of flux. Kadima, which in the last election actually got one more seat than Likud, is imploding & may even be wiped out. More media stars are going into politics historically dominated by those with a serious military background (thus former Labor Party leader & current Defense Minister Ehud Barak is Israel's most-decorated soldier). One of these is a former muck-raking TV personality, Shelley Yakimovich; she now heads the Labor Party (that for the first 31 years of Israel's existence produced **every** Prime Minister) that after having been all but written off a year ago, now looks as if it could come out of the election with the second largest block of seats in the Knesset. And another TV personality, Yair Lapid, heads a new party, Yesh Atid (There is a tomorrow), that looks as if it also might do quite well. In the end, however, much will depend on how many moderately right-of-centre voters will stick with, or abandon, Likud. For Israeli voters other than the truly committed on January 22nd face one simple question : which is the lesser of two evils, the longer-term existential threat from a nuclear Iran that pre-occupies Netanyahu, or the more immediate one of retaliatory missile attacks from both Iran & Southern Lebanon following an Israeli bombing run on Iran's nuclear installations (it has long been axiomatic it will only get one kick at that cat). They have been told there are 50,000 missiles of varying sizes in Southern Lebanon & know that, while Israel's missile defense system is state-of-the-art, no man-made system is 100% fool-proof & that, in any case, it could be overwhelmed by a rain of tens of thousands of missiles coming from two directions. That being the case they may opt for voting ABN (Anyone But Netanyahu), especially if Obama were to be re-elected; for his assurances that he won't allow Iran to acquire a nuclear weapons capability (even if for him, unlike Netanyahu, the military option is the one of last-, not first-, resort) still have widespread credibility.*

IRAN HAS PULLED BACK FROM THE BRINK OF NUCLEAR WEAPONS (DT, David Blair)

- On October 31st, in an interview at his London hotel, Israeli Defense Minister Ehud Barak said a crisis was avoided last summer when Iran quietly chose to use over one-third of its stock pile of medium-enriched uranium for civilian purposes. And he offered three possible explanations. A public discourse within Iran about an Israeli or US *pre-emptive* operation. A diplomatic gambit to avoid a confrontation during the lead-up to the US Presidential election. And an effort to make the IAEA believe Iran was "complying with its commitments." *But he failed to mention the likely most obvious explanation, namely that the sanctions had begun to bite & caused domestic unrest; for that wouldn't suit the government's purposes.*
- But he said this just delayed the "moment of truth ... eight to 10 months", that sanctions & diplomacy would fail to resolve the situation, and that Israel & its allies would probably have to face the decision in 2013 on whether or not to strike Iran's nuclear facilities. And he reiterated that Israel continues to reserve the right to act alone, that any operation against Iran would be less dangerous "now" than once it had crossed the nuclear threshold & that every month Iran further added to a nuclear stock pile that had already grown 8x to 6.8 tons.

This raises the question as to why he & his boss were so pro-actively beating the drums all summer long for attacking Iran.

IRAN LEADER BLAMES ISRAEL, U.S. FOR SYRIAN CIVIL WAR (AP)

- In a message to Muslims performing the haj read on state TV, Ayatollah Ali Khamenei said the civil war in Syria in which “young Muslims are killing each other ... (is) a crime initiated by the United States and the Zionist regime, Israel” to punish Syria for resisting Israeli occupation & supporting anti-Israel Palestinian & Lebanese groups (*Hamas & Hezbollah*).

The overthrow of Syria’s al-Assad regime would be a huge blow to, & almost completely isolate, the Iranian regime, and severely limit, if not eliminate, its ability to support Hezbollah in Lebanon. Tehran must also have been shaken by Hamas’ refusal, unlike Hezbollah, to support the al-Assad regime & be concerned about the growing sanctions cum inflation-driven domestic unrest.

IRAN BOASTS OF ISRAELI SPY PHOTOS (AP, Ali Akbar Dareini)

- It claims the drone launched last month by Hezbollah & shot down by Israeli jets had a camera on board, which the Israelis dispute, that transmitted data in real time so that now it had photos of “forbidden sites” in Israel. And a prominent lawmaker, Ismael Kowsari, head of the Majlis’ Defence Committee, said Hezbollah has still more sophisticated drones, some with a weapons-carrying capability. Tehran also claims Iranian-made drones had made dozens of undetected flights over Israel in recent years (which they also deny) & that the one launched by Hezbollah was not the “latest Iranian technology, definitely”.

Question are being raised if Iran’s drone technology may have benefitted from the unmanned CIA aircraft that in 2011 was shot down over eastern Iran & recovered by the Iranians.

CHINA’S MILITARY HAWKS RATTLE THEIR SABRES (AP, Christopher Bodeen)

- At an academic forum last month in the Southern city of Shenzhen, Maj. Gen. Luo Yuan said that “A nation without a martial spirit is a nation without hope” & contradicted Beijing’s position on the Senkaku/Diaoyu islands by advocating sending hundreds of fishing boats out to conduct a maritime guerilla war, or simply just seizing them. This is a challenge for China’s new leaders from a military increasingly willing to push the limits of a Beijing policy that alleges to espouse a “peaceful rise” philosophy, a defensive military posture & a negotiated resolution of disputes.
- The PLA is increasingly well-equipped & assertive (unnerving its smaller neighbours & causing them to pressure the US to strengthen its military presence in the region). Thus in his 2009 book China Dream Senior Colonel Liu Mingfu, who teaches at the National Defence University, promoted ending US dominance in international relations, saying China must choose between becoming the paramount power or being “left behind and eliminated”, a sentiment also echoed in a 2010 work by Gen. Liu Yuan, a ‘princeling’ who wants China to cast restraint aside & who praises warfare as a foundation of modern culture. Such hawkish views sit well with many in the PLA & with a general public that is increasingly more nationalistic & intolerant of a bloated, unresponsive & corrupt Party apparatus.

- While the country's top political leadership is about to change, so is that of the PLA (which is expected to lead to demands for more say in decision making & a tougher line on disputes with other nations). While no military leaders are openly challenging Party control, many in the military are turned off by the official corruption & some have called for a degree of political openness that is making the apparatchiki nervous (among them Gen. Liu Yazhou, whose writings promoting greater democracy have been privately published & distributed in coffee shops in Beijing's university district). But there appears to be a wide gap between these headline-grabbing statements from military academics & *others who will never have to look down the barrel of someone else's gun* and military unit commanders, & the military's top brass (that remains staunchly loyal to the Party).

The drive for change seldom comes from the top & typically from somewhere down in the ranks; for the status quo usually serves those with their hands on the levers of power quite well.

GERMANY FEELS PAIN AS CRISIS GRIPS EUROZONE' CORE (Reuters, Jonathan Cable)

- Recent business surveys suggest it is being sucked into the maelstrom of the Eurozone's quagmire. In October Markit's Composite Purchasing Managers index, which surveys about 5,000 businesses in the 17 countries, fell to 45.8, its lowest reading since June 2009 (while a slight rise had been anticipated) & the eighth month it has been below the tipping point of 50, while Germany's plunged from 47.4 to 45.7, well below expectations & below the most pessimistic forecast. And according to Germany's Ifo Institute business sentiment dropped in its sixth consecutive monthly decline to a more than two year low.

This will make German voters more hardline than ever on the issue of bailouts for the Eurozone's basket case economies which, with an election facing her in less than 12 months, cannot help but affect Chancellor Merkel's attitude, unless, of course, she were willing to fall on her sword for the greater common good (which her party may not let her do, even if she were prepared to do so).