

The best thing about the US election is "Thank God, it's over!" The next best thing that it may end the stranglehold the Tea Party has had over GOP policies in recent years & force the Party to engage in some serious 'navel-gazing' on how to move sufficiently towards the political centre to become a contender by 2016. And the worst that it likely worsens the outlook for inflation in the US. The most hopeful consequence would be if Obama in his next two years of legacy building (finally) started to live up to the expectations he aroused in 2008. And the next most hopeful one that it may affect the outcome of the Israeli election in a way that would cut the ground out from under Netanyahu's feet & increase the odds of some reasonable conclusion of the Israeli-Palestinian dispute during the foreseeable future.

The two parties in the US Presidential election are said to have spent over US\$2BN on their campaigns, more than the **entire** GDP of 30 or so (almost one-sixth of all) countries in the world.

One aspect of the outcome of the US Presidential election that hasn't received much attention is that US Supreme Court is a geriatric body. Ruth Bader Ginsberg is 79, the two Anthonys (Kennedy & Scalia) 76 & Stephen Breyer 74. While Clarence Thomas & Samuel Alito are still *barely* short of retirement age, of the 'babies' on the Court, age-wise, Chief Justice John Roberts is 57, Sonia Sotomajor 58 & Elena Kagan 52, both of the latter two are already Obama appointees. So the chances are pretty good that by the time Obama leaves office in 2016, the philosophical make-up of the Court will have changed significant for years, if not decades to come.

After the US election, there was some chatter in Twitterland by hardline Republicans about moving to Australia. But one Australian warned them that 'down under' there is universal healthcare, compulsory voting, no guns, no death penalty, pro choice on contraception, openly gays politicians & judges, evolution is taught in all schools & the Prime Minister an unmarried female atheist.

If the various Fed QEs were intended to pump up the stock market, they may be losing their punch; for while the S&P 500 Index rose 3.7% in the 31 trading days following the announcement of QE2, it declined 3.3% after Bernanke announced QE3.

USDA reports wheat production in the five top wheat exporters (US, EU, Canada, Australia & Argentina) in the latest crop year was 270MM tonnes, vs 322MM tonnes in 2011 & 285MM tonnes in 2010, and wheat exports declining to 80MM tonnes from 110MM & 82 MM tonnes in 2011 & 2010

Things are not always what they appear to be at first glance. Thus the gas price 'bears' have been talking up the fact that natural gas in storage at the start of the winter heating season was 7.1% above its 5-year average for this time of the year. But this ignores the fact that the ongoing shifting of drilling rigs from shale gas to shale oil resulted in a 30% lower-than-average rate of buildup of gas in storage during the April-October period & that since 2008 the share of coal-generated power as a percentage of the US total has declined from 60% to a low of 44% last April (in part due to older coal-fueled plants being decommissioned. So a winter of above average severity or length could lead to higher-than expected drawdowns (which could have an unforeseen price effect).

Despite 50 US investment analysts rating its stock a BUY (& not a one a SELL or even a HOLD), Apple is losing serious market share in the booming tablet market. For Framingham, Mass.-based IDC reports it had slipped from 66% in the Second Quarter to 50% in the Third as

cheaper competing products ate its lunch; thus, while worldwide sales in the Third Quarter were up 50% to 27.8MM, Samsung more than doubled its shipments QoQ to 5.1MM tablets & Amazon's market share went from 4.8% to 9.0%). On the other hand many existing iPad owners were known to have been awaiting the introduction of Apple's iPad Mini & fourth generation iPad in November (of which Apple said it sold 3MM during its November 2nd 'debut weekend').

Prime Minister Stephen Harper raised some eyebrows back home when it became public knowledge that during his recent six-day official visit to India he traveled locally in armoured cars shipped in for the occasion from Canada. This is not only a matter of cost, but also of image; for it suggests his security people didn't think their Indian counterparts could keep him safe (& who did they believe might present a risk to his safety during his visit?).

Canada's Prime Minister Stephen Harper has long exulted about how much better Canada's economy has done than that South of the border. And he was long justified in doing so. But recently he has gone quiet on the subject. And with good reason. For since May all employment growth in Canada has been in the public-, not the private-, sector : while a net 12,000 private sector jobs went up in smoke since. public sector employment has grown by 76,000 since.

Right now there is a great deal of kerfuffle in Canada as to whether or not CNOOC's offer to take over Calgary-based Nexen has sufficient "net benefit" for Canada to be approved. And two years ago Ottawa nixed a proposal by BHP to take over Saskatoon-based Potash Corp., one of Canada's few remaining world class companies, for that same reason, insufficient net benefit for Canada (& because Potash was said to be 'a strategic resource'). So there is some irony in the fact that Potash Corp. has run headlong into the same problem in Israel. It has for some time had a 14% interest in Israel Chemicals Ltd., a \$16.4BN potash company that has the exclusive mining rights to the Dead Sea & that is one of the few major potash producers that is not part of the world's two major potash marketing groups (one Canadian & the other Russian). Now Potash Corp wants to raise its stake Israel Chemicals, which is causing a public outcry in Israel about a foreign company gaining control of one of its major natural resources, especially given already existing concerns about the environmental impact of mining on the Dead Sea. And the Finance Ministry, while keeping its powder dry has said that it would not allow any deal that "endanger or impairs economic and environmental interests of the State of Israel" - one must wonder why the Company chose to make its move now, during an election campaign.

The University of Alberta is contemplating a \$2,000 "market modifier increase" in graduate tuition fees; i.e. it believes it is charging them less than other universities do & wants to correct that.

Back in 2007, before the wheels fell off, unemployment rates in both France & Germany were both in the 8% range; today the latter's has declined to 5.4% while the former's has climbed to 10.8%, due to the former's more rapid growth in exports. In the weeks & months ahead, as next fall's German election starts looming larger & larger in German politicians' sights, the Eurozone situation will be further complicated by the fact that unrest in, & feedback from, the grassroots about bailing out Greece are causing members of Germany's coalition government to start abstaining in parliamentary votes which, given its 14-seat majority, could at some point precipitate an embarrassing event.

Another four years of Obama suggests a possibility of accelerating inflation & a weaker US dollar. This may prompt Beijing's new leadership to start thinking of ways & means of accelerating its programme of redeploying excess dollars in ways that have less potential for losing value in the years to come. One of these could be to buy more bonds issued by

governments, or making more direct investments in, Eurozone economies with potentially better long-term prospects than the market currently gives them credit for.

The other day a talking head pontificated that the greatest challenge China's new leaders will face will be the country's hundreds of millions of poor people (most of them in the rural areas & most of those in its Western regions). He thereby showed that, like many Americans, he is history-challenged; for throughout modern history revolutions have typically emanated not from the poor (who are too busy keeping body & soul together), but from those partway up the ladder who aspire to the good life that they see others already enjoying. In all likelihood the same holds true in China as in, say, Kenya where the ambitions of the very poor are typically limited to a few more worldly goods, better housing & healthcare, better education for their children, and, above all, more physical- & food security. But the tens of millions of young Chinese raised to feel entitled to "Little Emperor" status, who are now receiving a post-secondary education after having survived a competitive process so fierce as to be unimaginable to Westerners, are going to feel entitled to be rewarded for having done so. And, if their expectations aren't met, things could get ugly.

GLEANINGS II - 485
Thursday November 8th, 2012

THE MORNING AFTER THE MORNING AFTER (NYT, Thomas L. Friedman)

- The election is proving the US a centre-right/centre-left country. If Romney wins it will be because, *once he got the nomination*, he moved *steadily* to the centre. If had not 'rebranded himself, he would never had a chance (just as, if he had been more centrist earlier, the election would have been his for the taking (*but would never have gotten the nomination*)).
- The reason the centre left/centre right is dominating the election is that the country knows intuitively that the solution to its problems lies in some grand bargains at the centre to slow the growth of defense- & entitlement spending, increase taxes & initiate tax reform to encourage entrepreneurial spirits, & invest in infrastructure & education, to deal with immigration reform, and to exploit our newly-found natural gas bounty in an environmentally sound & responsible manner.
- The best outcome would be for the Republicans to lose; having lost twice in a row, as the Democrats did to Reagan in the 80's, this may cause the GOP to engage in the same kind of soul searching the Democrats did then (as a result of which they moved into the centre-left, which ultimately led to the election of Bill Clinton). Political parties don't learn from victory but from defeat, especially from two of them in a row. And while the GOP hardliners vow more obstructionism if Obama wins, the party leaders may then see the need to disown the radical base that had its candidates fight math, physics & biology, Hispanics, and gays & lesbians (& *women?*) simultaneously.

Time will tell; one can always hope!

CANADA-CHINA TRADE DEAL TOO ONE-SIDED (NP, Diana Francis)

- Ottawa, aided & abetted by a naive Chamber of Commerce & conflicted business interests, has been bamboozled by Beijing in a way not seen since Neville Chamberlain was (in Munich in September 1938) when he came home proclaiming "Peace in Our Time". As a result Team Canada can henceforth play on a small part of their ice & be fouled at will at any time without recourse, while Team China can play anywhere on our

- ice, appeal referee calls it dislikes, & negotiate compensation for *purported* damages behind closed doors.
- For the Agreement gives China Inc. “Enclave legal status”; once here, Chinese companies have more power than local ones since their disputes with governments & the courts are subject to arbitration under Art. 4 & 22 by three tribunals with three members, one appointed by Canada, another by China & the third by the World Bank with the approval of both parties. And contrary to NAFTA, this is done behind closed doors & there are no limits on damages. Secondly, it threw the transparency of this dispute settlement arrangement under the bus; for Ottawa can keep any documentation involved secret if it so desired. Thirdly, it allows Chinese companies & investors already here to buy anything they wish without the need for a foreign investment review (& act as proxies for those not yet here?). Fourthly, the agreement may be unconstitutional because Art. 4 allows China to bypass all government decisions (& claim damages if thwarted); this could cost Canada if the Northern Gateway pipeline were not approved. Fifthly, Canada has locked itself in for 31 years whereas NAFTA, for instance, has a six months’ exit clause. Finally, Art. 4 & 22, and Annex D34 provides Canada with no reciprocity as to the rule of law, market access & transparency.
 - Small wonder that one executive whose mining company, after spending millions in China, was forced to sell out to locals observed “Nothing in this deal with China ... will protect Canadians there ... It’s quite unbelievable.”

*The author is riding the currently popular Sinophobia horse. Be that as it may, it does sound like a deal with less “net benefit” for Canada than for China, with Beijing having capitalized on Harper wanting a deal, any deal. This smells like Ottawa’s agreement on FTA three decades ago which Mike Wilson, then Mulroney’s Minister of Finance, negotiated in a matter of weeks, after Simon Reisman, the toughest trade negotiator Canada ever has had, & likely ever will have, had thrown in the towel since ‘there was no deal ... good for Canada’, by giving the other side everything it wanted (& then pulling the same stunt two decades later when, as Canada’s Ambassador to the US, he ‘negotiated’ a settlement of the softwood lumber dispute). And this appears, potentially at least, to entail more risk for Canada than FTA/NAFTA since, while US companies may, or may not, have the backing of their government, Chinese companies will **always** be able to count on the **full** backing of theirs. And it may well be that, with this Agreement now signed, sealed & delivered, Harper may have little choice but to approve CNOOC’s takeover of Nexen since, if he didn’t, CNOOC might claim damages and, if it did so, create **real** controversy.*

OILSANDS CAPITAL SPENDING CUTS POISED TO DEEPEN AS CASH DRIES UP (G&M, David Parkinson)

- Based on its 2013 oil & gas price expectations, Calgary-based, energy-focused asset manager ARC Financial Corp. is forecasting 15% lower cash flow for Canadian oil & gas companies. And given the historical correlation between their cash flow & capital budgets, its Chief Energy Economist, Peter Tertzakian, expects this to lead to “10 to 15 percent” lower capital spending, on top of this year’s 20% decline, to a post-2005 low. And the proof of the pudding is in the eating : Suncor has announced an \$850MM (11%) YoY cut in capital spending for 2013 & Talisman \$1BN (25%). And, since oil & gas companies typically don’t make their capital spending plans public until December or January, more is likely to come.
- Mr. Tertzakian says this is not just due to weak commodity prices but to what he calls a profound “changing of the fundamentals of the industry ... the most significant in 50 years” that are causing industry executives to re-assess their spending commitments on

major projects. For the industry has witnessed how shale gas has rewritten the economics of its natural gas sector and believes it may now be on the threshold of a similar transition in its oil sector, with "tight light oil" becoming a serious alternative to the long lead times and high *upfront capital* cost of the oil sands. And says Mr. Tertzakian, throw in the pipelines issue, the Asian markets and the potential of LNG plants, and 2013 could prove "a pivotal year" in the industry's landscape.

ARC's 2013 price forecast may, or may not, turn out correct, & may just herald a blip in a longer term rising price trend. But the reality is that for a quarterly earnings-driven industry there is more appeal in punching a (costly) hole in a shale formation & generating a cash flow bonanza starting in a few weeks than there is in sinking wads of money into oilsands that won't produce cash flow with a lag of several years, no matter how reliable & how big it might be once it starts. This is why more "patient" capital from Asian energy consuming nations is becoming more critical to the ongoing development of the oilsands, the only question being if Canadian decision-makers will be adroit enough to optimize their benefits for Canada or 'give away the farm'.

PALESTINIANS PROTEST LEADER'S REFUGEE REMARKS (NP, Linda Gradstein)

- Mahmoud Abbas was born in the Northern Israeli town of Safed in 1935 & 13 years later fled with his family to Syria where he attended university before getting a doctorate *in Social Sciences* from Moscow University. In a recent interview with Israel's Channel 2 TV, he said, among others, that "I am a refugee, but I am living in Ramallah ... I believe that the West Bank and Gaza is Palestine. And the other part is Israel ... (*but*) I want to see Safed and it is my right to see it but not to live there." But he quickly disowned his remarks by saying "What I said about Safed is my personal stance. It means nothing about the right of return."

The last sentence has infuriated many Palestinians who perceive it as giving up "the Right of Return", not just for the original 700,000 who fled in 1948, but also for their 5MM descendants who currently live all over the world. But Abbas was merely accepting reality (and in the end the right of return is likely to be given up for a financial consideration.

AHMADINEJAD BACKS DOWN (AP, Ali Akbar Dareini)

- Last month he publicly criticized Iran's judiciary chief, Ayatollah Sadeq Larijani, for rejecting his request to visit Evin prison where his top press adviser, Ali Akbar Javanfekr, is being held. This earned him a public scolding by the Supreme Leader Ayatollah Ali Khamenei who called such spats prior to next June's Presidential elections (*in which Ahmadinejad cannot run*) "treason". This resulted in Ahmadinejad pledging in a (*grovelling*) letter to the Supreme Leader that "The government ... won't engage in domestic quarrels and disputes and will patiently tolerate all unkind behaviour as before" and committing his government to concentrate on overcoming Western economic sanction, saying "The nation and the country are under pressure as a result of enemy plans ... My colleagues and I have employed all our energies around the clock to handle the affairs and confront wide-ranging conspiracies by those who wish us ill, to alleviate pressures on the people."

Ahmadinejad is increasingly a 'dead duck' & being made a scape goat, with some justification, generally, speaking, for the country's economic problems.

CAMERON TO MEET WITH MERKEL TO THRASH OUT EU BUDGET DIFFERENCES **(BW, Kitty Donaldson)**

- British Prime Minister David Cameron will meet with Chancellor Merkel in London on November 7th *as the latter seeks to settle their differences about the EU budget.* The EU has proposed one of 1.03TR Euros (US\$1.32TR) for the period 2014 through 2020, nearly 6% over that for 2007 through 2013. While Ms. Merkel supports an EU budget of 1% of Europe's GDP, i.e. an increase in real terms, Cameron believes this excessive at a time of national fiscal restraint & told the media "One of the things that's so notable about the commission proposal is, not only are they proposing a completely ludicrous 100-billion-euro increase in the European budget, but they are also not proposing to make any cuts to central administrative costs" & that "I've always wanted at best a cut, at worst a freeze; I'll be in there voting for Europe's tax payers, particularly British tax payers."

Cameron has his hands pretty well tied; for on October 31st 53 MPs from his own party joined the opposition to defeat his negotiating position of drawing the line at a standstill budget in real terms (i.e. they voted for a cut in real terms). And Britain is not alone; for France & Denmark, among others, are opposing the idea of increasing the EU budget in real terms (and every EU member government has a veto over the EU budget) - this should not have surprised anyone; for the Brussels-based EU Secretariat have from the get go been empire builders par excellence; the only surprising thing is that Chancellor Merkel has bought into their line of thinking.

SECOND STEALTH FIGHTER UNDERLINES CHINA'S POWER (Reuters)

- Its J-31 fighter, lighter & more manoeuvrable than the J-20, made its maiden flight on October 31st at a facility of the Shenyang Aircraft Corp. in the Northeastern province of Liaoning. This prompted Sam Roggeveen, a security specialist at the Sydney, Australia-based Lowy Institute to observe that "This is the second entirely new fighter design that's emerged from China in the past two years, which suggests a pretty impressive level of technical development ... *(the Chinese military)* has been extremely deliberate and well funded and persistent, and it's starting to bear fruit ... What you're now seeing is the slow emergence of a first-class regional military power" and Bai Wei, a former Deputy Editor of the weekly Aviation World, that "Just like the U.S. F-22 and F-35 fifth-generation fighters, the J-20 and J-31 will complement each other during future operations."

This will only add to its neighbours' unease about its military build-up and make it more likely that they will seek to start depending less on any US backing & to move to appease Beijing.