

On the very same day & at roughly the same time of day (8:00 a.m), albeit roughly 12 hours earlier in real time, halfway across the world from the Sandy Hook School massacre in Newtown, Conn., in Chengping village, Henan Province, China, another attack on school children occurred, with an almost identical number of victims (22 children & one adult). But there were two differences, one small & the other huge. The former was that it occurred outside as the children were waiting to go inside, rather than in a class room after they had done so. And the latter was that there were no deaths, just nine children were admitted to hospital, & only two of those in 'serious condition'. For the Chinese 'doer' used a knife, not a semi-automatic weapon; and Atlantic Weekly columnist James Fallows put it rather aptly when he noted "That's the difference between a knife and a gun ... guns uniquely allow a psychopath to wreak death and devastation on ... a large scale ... quickly and easily."

Most Friday afternoons I have a beer or two with a group whom I half-jokingly still refer to as my 'Environmental Neanderthal' friends, even though I can see glimmerings of a dawning realization in them that perhaps something is happening in Nature that cannot be ignored & cannot be all attributed to 'normal' climatic cyclicality. One fairly recent addition to the group in the past had shown himself to be NRA sympathizer. But when, last Friday we discussed the Newton massacre it became readily apparent that in this group, none of whom, incl. myself, sees much wrong with gun ownership in principle, he is an outlier by numerous standard deviations, with whom it is no more possible than with a fence post to have a sensible discussion of guns. This was my first real exposure to a gun nut & it was scary, to wit "We need teachers to carry guns in the class room, like they do in Israel" (which is factually incorrect : teachers in Israel are specifically prohibited from bringing guns into their school; security is the domain of armed guards employed for that purpose – *while there is talk of doing something similar in the US, it's hard to see how that will be feasible with education budgets already the target of cost chopping*).

On the subject of guns in schools, an 11 year-old boy in Utah was caught with, & arrested for having, a gun in school. He told the school administrators he had brought it to defend himself in case of an armed attack in his school, like the one in Connecticut. Dozens, if not hundreds, of youngsters in a school, with their hormones raging, "packing heat", shooting at shadows, or in a fit of temper blazing away at those who displease them ain't going to enhance safety in schools - *in the end, it's all about the society one wants to live, either one driven by trust & expectations of goodwill, and the rule of law, or one in which everyone without exception is a potential 'hostile', power grows out of the barrel of a gun, & the 'winners' are those who draw first & fastest.*

Among the more inane comments about the Sandy Hook School event (& there was a plethora of them) was one by Charlotte Allen in the [National Review Online](#) : "There was not a single adult male on the school premises ... (*not*) even a male janitor to heave his bucket at Adam Lanza's knees ... Think of what Sandy Hook might have been like if a couple of male teachers who had played high school football, or even some of the huskier 12 year-olds, had converged on Lanza." – *they too would have been shot!*

Nicholas D. Kristoff made a number of germane observations in response to some of the hate mail he received following his column on Sandy Hook, incl. :

- every two months we lose more Americans to gun violence than we did at 9/11;
- if the 1994 ban on the sale of high capacity magazines had still been in effect, Adam Lanza would have had to reload more often (*one victims was hit by 11 bullets*);

- the Second Amendment talked about muskets (*that took a minute or so to load?*), not about high capacity, *rapid fire* weapons - *the issue is not whether to outlaw all weapons, but about drawing a line between weapons & ancillaries that should not be owned*;
- more guns don't mean more safety; in fact there is scads of empirical research that having a gun in the house makes it more, not less, likely that someone is going to get shot (*and more often than not, it's not an unwelcome intruder*); and
- Nancy Lanza thought her guns would keep her safe - *Boy, was she wrong!*

Among the more idiotic arguments heard is the one that each year gun suicides outnumber gun homicides 19,000 : 11,000 - *one may, or may not, approve of suicide but at least in that case the doer doesn't harm others physically (only his family psychologically)*.

The National Association of Homebuilders' Housing Market Index (that seeks to measure homebuilders' confidence) in December was up two points to 47 (after November's number had been revised downward by one point to 45), its highest level since April 2006. It has now grown for eight months in a row, has more than doubled in the past year (from the December 2011 level of 21) & is now within shouting distance of the neutral level of 50.

The yield on some short-term UST securities is now in negative territory & the spread between 10-year USTs & the 'earnings yield' on many quality US common stocks (*i.e. the per share earnings divided by the share price, the inverse of the P/E ratio*) is now at an all-time high 6%. That being the case, switching from bonds into stocks is becoming more & more attractive for many long-term investors, especially those who don't attach much credibility to official claims that inflation will remain "tame" during the foreseeable future.

The US recently fined HSBC US\$1.9BN for 'money laundering'. But the law enforcement people decided not to lay criminal charges against anyone involved with this in the bank, purportedly out of concern that this 'might destabilize the global financial system'. So we have now graduated from "too big to fail" to "too big to jail." Pity. Fines involve shareholders' money, for which many corporate bureaucrats have only disdain, whereas even relatively short stretches in the slammer would actually inconvenience them (not unlike the difference between finding a parking ticket under your windshield or a 'Detroit Boot' on your wheel : the former is merely a nuisance while the latter is an inconvenience. And as the saying goes, "No pain, no gain."

The Canadian Supreme Court this week, in a manner contrary to its willingness to sometimes boldly go for political correctness reasons where angels fear to tread, abdicated its fiduciary responsibility as Canada's Court of Last Resort on the issue of whether a person testifying in a court of law can do so while wearing a (face-covering) niqab. Rather than making a clear decision, something it is paid to do, in a decision best described as "waffling", it dumped the decision as to whether to allow it back into the lap of lower court judges.

50,000 public sector workers in the West Bank have gone on strike. Their salaries have gone partially, or wholly, unpaid, in part because of Israeli financial sanctions, incl. the failure to 'pass through' the tax revenues collected by the Israeli government on behalf of the Palestinian Authority - *this seems rather counter-productive from an Israeli perspective, since Mahmoud Abbas & the PA are perhaps the only 'friends' Israel may have left in that part of the world & since making life difficult for him plays right into the Hamas' hand. But as someone observed during the early days' of George Bush's Iraq adventure "The shortest distance between two points is a straight line ... everywhere but in the Middle East."*

In China power consumption is a leading indicator; so it was encouraging that in November it grew at a 7.6% annual rate, its fastest in nine months, to 414BN KWh. It is also interesting in this context that the World Bank has just revised its forecast for China's GDP growth in 2013 up from 8.1% to 8.4% (i.e. one full percentage over its Third Quarter 2012 GDP growth rate).

The Japanese election produced a much stronger majority for the Liberal Democratic Party than the pundits had expected : it got 294 of the 480 seats in the Lower House & its ally, the centre-right, Buddhist-oriented New Komeito Party, another 31; so it will have the two-thirds majority needed to do pretty well as it pleases. But Mr. Abe & the LDP (that ruled Japan for most of the post-WW II period) are going to have problems : it favours low taxes (& benefited from the voters' opposition to the doubling of the sales tax the Noda government had managed to get passed to help shrink the budget deficit) but the government's fiscal position is worse than that of the US, & deteriorating even faster. It is more assertive on the disputed Senkaku/Diaoyu Islands issue but Japan's economic wellbeing is critically dependent on China's. And it has long been hand in glove with the country's nuclear power industry while the vast majority of Japanese no longer want to have any truck or trade with nuclear power. And Japanese voters are notoriously fickle. Mr. Abe may be riding high right now with an approval rating North of 60%, but, if recent experience is anything to go by, before long he may be everybody's goat; that's why he is Japan's seventh Prime Minister in as many years.

South Korea this week elected its first-ever female President, Park Geun-hye. She is the 60 year-old spinster daughter of Park Chung-hee, the Army general who came to power in a coup in 1961 & was the country's President for 18 years, during which the foundation was laid for industrialization, until assassinated in 1979 by his own security chief in 1979 at age 62. Ms. Park is an electrical engineer who studied in France after graduation, and has been a member of the South Korean Parliament for more than a decade. She is a conservative likely to take a somewhat firmer stand with the North than her predecessor had, or her opponent would have,

After decades of declines, the official gold holdings of the global central bank complex have been on the rise since 2008 (albeit only by about 8%) as the developed countries' central banks have quit selling the stuff & those of the emerging economies have been accumulating it. As to the outlook for newly-mined gold production, it will likely start to decline; for much of the industry has let its costs get out of hand. This is squeezing bottom lines, & will make more marginal ore grades uneconomic, at a time that the price of gold, after rising like a rocket for a decade, has been essentially flat in the past 15 months. And after almost quadrupling over the past decade, capital spending by the industry is expected to decline by half over the next two years.

IMF data show that the non-gold reserves of the emerging economies' central banks increased from US\$800BN in 2002 to US\$6.7TR in 2011. Nevertheless, its Independent Evaluation Office (IEO) opined that their total reserves (of US\$10TR) were not excessive, given the fact that the global investment funds & banks have assets of US\$117TR & 105TR respectively - *the IEO's assessment has only limited relevance; for what really matters is not the size of their reserves but the fact that much of that US\$6.7TR is held in the form of UST securities, that it is spread far & wide beyond the coffers of the Beijing regime, & that this increases the scope for someone other than Beijing to trigger a debilitating "run" on the US dollar (which in turn would trigger a need to raise interest rates which in turn would trigger a further hike in the US fiscal deficit).*

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ON GUNS, AMERICA STANDS OUT (NYT, Charles M. Blow)

- The best answer often lies in the raw data; this is one of those times. In the latest year for which data are available the US was second only to Mexico among OECD countries in homicides by firearm per 100,000 population (3.2 vs. 10.0), with the next three being Chile (2.2), and Turkey & Switzerland (0.8 each). But in terms of the number of fire arms per 100 population the US was in a class all by itself with 88.8, followed by Switzerland (45.7), Finland (45.3), Sweden (31.6) & Norway (31.3).

The Swiss data may be distorted by the practice in that country for most males to be part of the active military reserve, in some cases until age 50, & to take their personal weapon(s) home with them (& until a few years ago also a sealed box of ammo).

OBAMA FACES BACKLASH ON HAGEL'S ISRAEL RECORD (Reuters)

- Former Republican Senator Chuck Hagel is said to be Obama's choice to replace Leon Panetta as his second term Defense Secretary. A decorated Vietnam War vet, he currently co-chairs the President's Intelligence Advisory Board & *teaches at Georgetown University*. But the neocons & other pro-Israel groups, and even some of his former *Republican Senate* colleagues, don't care much for this idea due to his 'spotty voting record' on issues important to Israel, because he is deemed "soft" on Iran & because of his observation in 2006 that "the Jewish lobby intimidates a lot of people here." On the other hand, J Street, a liberal Jewish group, says that it is "appalled by efforts surfacing *that question* his commitment to the state of Israel and to Middle East peace."

Hagel served two terms in the Senate. First elected in 1996, he was re-elected in 2002 with the largest ever majority ever (83%) in Nebraskan history. He has called a "libertarian-leaning conservative". Prior to entering politics had a successful public-, & private-, sector career. In 2006 he sponsored a (partial) immigration reform proposal in the Senate that almost made it into law. His main failing seems to be that he has had a common sense-, rather than a servile-, attitude on Israel (which may not be a bad thing to have at this juncture, especially given the fact that Obama himself has so patently failed to keep Netanyahu in check).

'TOUGH' TALK OVER RED INK (EJ, Karen Kleiss)

- Alberta's Finance Minister has warned that plunging prices for Alberta's Western Canadian Select grade of oil is causing major shortfalls in revenues from forecast levels that could lead to spending cuts & continued deficits. Recently this grade of oil has been selling at discounts of US\$40, or more, from the West Texas Intermediate (WTI) benchmark price at Cushing, Okla. (*which in turn, due to a glut of oil at Cushing from North Dakota's growing oil output, has been trading at as much as a US\$20 discount from the Brent Crude world market price*).

The Province has long had a spending problem. It currently spends more than \$40BN a year (on a per capita basis more than most Canadian provinces). One quarter of its revenues come from oil & gas royalties & every one dollar change in the price of oil translates into a \$223MM change in Provincial revenues. The CIBC earlier estimated that the two discounts had cost Alberta oil companies \$16BN in 2011 (& therefore by implication the Alberta Treasury \$5BN) & this year it will likely be a great deal worse. Alberta needs three things : a more fiscally prudent government, more local value-added processing of its oil (aka 'upgrading') to make it more universally marketable, & access, via the West Coast, to the Pacific Rim markets (if necessary

through the Northwest- & Yukon Territories to an Alaska port if a major new pipeline through BC proves a non-starter).

LIEBERMAN'S RESIGNATION SIGNALS SHIFT IN ISRAELI POLITICS **(The Guardian, Peter Beaumont)**

- Israel's ultra-nationalist & belligerently *anti-Arab* Foreign Minister resigned on December 14th after being indicted on charges of fraud & breach of trust (related to the promotion of an Israeli diplomat who had leaked privileged information to him about a police investigation into his activities), although more serious (*money laundering*) charges were dropped. He will retain his No. 2 spot on the merged Likud/Yisrael Beitenu candidate list (although it is not clear if he could take a seat in the Knesset, when he is elected).
- As some had predicted, the Likud/Yisrael Beitenu merger has so far cost, rather than gained, it votes (although, rather to the surprise of some, the beneficiaries thereof so far have not been the centre-left parties, but rather the various even further-right ones). The question now is what might be the effect on its voter support of this latest development (*the latest opinion poll, prior to Lieberman being charged, showed a marginal decline in voter support for the right wing block, to 56.7 % from 58.3% a week earlier*).

The money laundering charges have been hanging over Lieberman's head three years, but the most recent ones seem to stem from his efforts to get inside information on the status of the investigation of his past activities, rather than from those activities themselves. Be that as it may, a couple of days earlier he had expressed his displeasure to the foreign media that all European nations, except the Czech Republic, had either voted for, or abstained from voting on, the UNGA resolution upgrading the status of the Palestine Authority & that some of them then even had the audacity to call in their Israeli ambassadors to formally express their dismay at the decision to retaliate by building more housing units in East Jerusalem, while "maintaining a deafening silence" after Hamas' Khaled Masaal vowed to build a Palestinian state on all the land of Israel.

WHY IS ISRAEL ON A SETTLEMENT BUILDING SPREE? (The Atlantic, Michal J. Koplw)

- Despite widespread international, incl American, condemnation, Israel seems hell-bent on isolating itself internationally regardless of the cost by announcing more & more settlement building plans. First came the announcement that planning was to commence for area E1 that will encircle East Jerusalem with settlements & thereby cut the part of that city that the Palestinians want for their capital off from the West Bank, *and join the city up with the third-largest settlement on the West Bank*. Then, earlier this week, it conformed plans to build 1,500 new housing units in the Ramat Schlomo neighbourhood that it had first announced during Vice President Biden's visit to Jerusalem in 2010 & that had led to Secretary Clinton publicly scolding Prime Minister Netanyahu. And anytime now the Interior Ministry & the Jerusalem Local Committee are expected to approve two more new neighbourhoods in Givat Hamatos & Gilo across the 1967 Armistice line in East Jerusalem.
- While officially spun as retribution for the PA's success in having its US status upgraded ("We felt that if the Palestinians were taking unilateral action in the UN, we had to also send the message that we could take unilateral actions"), there is more to it. Netanyahu crafted the joint list with Yisrael Beitenu in the expectation it would create a right wing monolith that would win the election by depriving those even further to the right of an alternative and, in the process, recapture some of the Likud voters that had gone over to Kadima. But it didn't work out that way. The Jewish Home Party of Naftali Bennett, his

former Chief of Staff, is attracting most of the disenchanted Likud supporters & looks set to become the third largest party in the Knesset (after Likud & the rejuvenated Labor Party), with up to 12 of its 120 seats, & Bennett has already demanded that he dump his small Haredi-backed coalition partners after the election & assign the portfolios they now hold to his followers. And the Likud Party's list is the most far-right ever, and loaded with people who don't care much for Netanyahu & will push him further to the right than he planned, or challenge him for the leadership of the party if he doesn't. With his right wing credentials challenged like never before, he has no option but to push settlement building to stop the bleeding off of voters to the right, international condemnation be damned.

Koplow is the Program Director of the Israel Institute & a Ph.D. candidate at Georgetown University in Middle Eastern Politics & Democratization. Earlier this fall he had an article in Foreign Policy entitled Bibi's Mistake in which he predicted that the Likud/Israel Beitenu merger could turn out to be a political disaster (for Netanyahu).

IN EGYPT, IT'S THE ELITE VS. THE UNWASHED (Toronto Star, Haroon Siddiqui)

- There are numerous fault lines : Islamists & secularists, civilians & the military, democrats & autocrats, moderate Islamists & the ultra-orthodox, and displaced hangers-on from the old regime & the emerging new powers brokers. And overarching it all, is that between the mostly urban educated elite, concerned about the sudden political & social rise of the illiterate rural hordes, many of whom argue the latter shouldn't be allowed to vote on the constitution because they will just vote the way their priests tell them.
- While there have been dozens of dizzying developments in the 22 months since Mubarrak was toppled, three stand head & shoulders above the others :
 - **the armed forces** still control one-third of the economy &, with it, a vast patronage network;
 - **the Islamists** who have won resoundingly in key votes on seven occasions on various issues with the Brotherhood coming first & the Salafists second; and
 - **the non-Islamists** who are split six ways from Sunday between the youth that launched the revolution, Coptic Christians, secularists (incl. many pious Muslims who don't trust the religious to run government), secularists who don't trust religious of any kind, and crony capitalist-, corrupt apparatchiki-, judicial- & other holdovers from the old regime. All of them have sought to sabotage the power of the newly elected, calling the President's 52% support a "very narrow victory" & who, after walking away from the drafting of the constitution, now complain it is the work "solely of Islamists".
- And while the constitution is problematic, it is not all that different from that drafted in the early 70's during the Anwar Sadat era, incl. the fact of conceding too much power to the military. And Morsi is not a uniter of the masses like Nelson Mandela, but a polarizer. Still, democracy has begun to show itself, albeit chaotically, as various players from the President on down have been forced to bow to the public's demands. So it may still work out in the end and, if it does, Egypt could become a power to be reckoned with.

"Hope springs eternal..."

DISPUTES OVER SMALL ISLANDS POSE BIG CONUNDRUM FOR U.S. (Reuters, Paul Eckert)

- This week served up fresh evidence that 2013 will likely bring no pause in the tensions rippling the seas around China. For Japan on December 13th scrambled fighter jets after a Chinese government plane entered the airspace over the Senkaku/Diaoyu Islands And despite the US “pivot” strategy shift towards Asia (which hitherto has involved more rhetoric than military deployment, *although the US General in charge of Pacific Command recently told reporters that ‘after 11 years ... I have my army back’, as the National Guard & Reserve units that had made up the US forces in Japan have been replaced with Regular Force units as troops have been freed up, first from Iraq & now from Afghanistan*), hardly a week passes without new Chinese provocations. This means, according to M. Taylor Fravel of the MIT Security Studies Program that “China has not been deterred by the increased US commitment”. Observers worry that the US allies in Tokyo & Manila may not get the same full-bodied support in these matters from Hilary Clinton’s successor that they got from her, & are concerned about the deep defense cuts that would result if the country goes over the fiscal cliff (& *not when it doesn’t but will still have to tighten its belt?*).

Beijing blames the pivot strategy for goading smaller countries in the region into joining an anti-China “containment strategy”. This is of course utter tommy-rot; for Beijing’s bully tactics in the the East-, & especially the South-, China Seas , long predate the US policy shift. It also increased the scope for friction over the Senkaku/Diaoyu Islands further when Beijing’s Ministry of Agriculture’s Regional Bureau of East China Sea Fishery Management announced on December 18th that China’s largest fishery patrol vessel, the Yusheng 206, had set out on its maiden voyage from Shanghai to patrol waters near the islands.

TOO BIG TO FAIL? CHINA WEALTH MANAGEMENT PRODUCTS STIR DEBATE (Reuters)

- China’s bank regulators are debating what to do about investments sold at a Hua Xia Bank branch (a mid-sized lender part-owned by Deutsche Bank) near Shanghai that defaulted late last month. Should they bail out investors & endorse moral hazard, or let it fail & risk unnerving investors who hold US\$1+TR of so-called ‘wealth management products’ that are part of China’s “shadow banking system” that provides credit outside the normal banking channels & that Barclays estimates has more than doubled in size in the past two years to 25.6TR yuan (US\$4.1TR), one-third of all credit outstanding.
- Angry investors have been protesting outside the branch for a week. This marks the first time that such a default has grabbed the media’s attention despite *earlier* warnings from regulators, & even one top bank executive, that some of these products were Ponzi schemes. While no one knows how many more may flop, BankAmerica/Merrill Lynch’s China strategist David Cui says “The issue is, at a certain point ... you can no longer cover the losses. Then we may have a systemic risk on our hands.”

After the 2008 US financial crisis when the Fed opened the liquidity sluice gates, the spill-over effect caused prices to start rising rapidly in China. But with the government ‘sitting on’ the interest rates the banks could pay their depositors, the resultant negative real interest rates spawned the wealth management product industry &, as so often the case, this growth involved more & more marginal players pushing more & more marginal wares, and shorter maturities. Thus more & more real estate development has been funded with money of a far shorter maturity than the project they funded, & products have emerged ‘promising’ to pay as much as 10% to, for instance, fund the activities of concert promoters. Having said that, those in the know say that the majority of the paper outstanding is likely to be paid off on schedule, unless the default of some bad apples were to lead to a ‘run’ on the entire (shadow) banking system.

OPPOSITION TO LABOUR CAMPS WIDENS IN CHINA (NYT, Andrew Jacob)

- China's state-run news media now almost daily carry stories about hapless citizens ensnared in the arbitrary justice system that local police enforces to the point where the Communist Party's mouth piece, the People's Daily, recently said it has become a "tool of retaliation" for local officials. Ever since the days of Mao Zedong, tens of thousands of unfortunates have been dumped each year without trial into "re-education through labour" camps where they are made to toil under appalling conditions. Their number, estimated at nearly 200,000, not only includes petty criminals, such as pickpockets, but also petitioners (*typically against abuses by local officials*), underground Christian Church members, *protesters & anyone else who may have drawn the ire of local bigwigs*. But this system is facing a growing groundswell of opposition from both outside & inside the Communist Party & its critics say that the once-in-a-decade leadership transition last month, which included the demotion of the chief of the nation's internal security system, is creating a unique opportunity for judicial & legal reform. Says Prof. Hu Xingdou, a professor at the Beijing Institute of Technology "It's high time we demolish this unconstitutional and abusive system that violates basic human rights, fuels instability and smears the government's image."

Trying to dismantle this system, however, will run into massive opposition. For not only would doing so undermine local officials' powerbase, but also their 'rice bowl' since these camps generate revenue not just from the sale of the products produced but also from bribes paid by families to gain better treatment for, or even the early release of, their relatives.