Gleannings II - 507

Nick Rost van Tonningen

Of the many words written about the late Baroness Thatcher, good, bad & indifferent, all likely fully deserved, depending on the writer, two really resonated with me. Canada's Foreign Minister, John Baird, while in Israel, "She was a conviction politician. And there is not enough of those" - *while for once totally in agreement with him, especially with the latter part, he might have been wise to add 'and her convictions were the right ones for the times'; for Hitler too was a conviction politician, but with convictions of the wrong kind*. And the other was an observation by John O' Sullivan, now an editor-at-large for the National Review but in the 80's a speech writer for, & senior policy adviser to, then Prime Minister Thatcher, and a friend of hers in her later years, that "She kicked up and ... kissed down. The ladies who served tea, the doormen, her beloved detectives could do no wrong..." - *the latter struck a very personal note; for it was a lesson drummed into my head by my own father & I often saw the result : those who worked for, & worked with, him would go through the fire for him*

Quote of the week : "In the 40 years since the mid-1970's, the dominant schools of academic economics have preached the virtues of free markets, competition and small government, helping to legitimize widening disparities of wealth and income as economic necessities dictated by natural laws of market competition that were impervious to political interference or social control. In the 40 years before that, from the Great Depression and the Keynesian revolution to the Great Inflation and monetary counterrevolution, economists played the opposite political role. Their job was to persuade conservative business interests that active government, fine-tuning of economic cycles, welfare safety nets and redistributive tax systems were indispensable to the success and even survival of capitalist free market societies ... The economic system is again in a process of transformation. It is now fairly clear ... that a new model of global capitalism is evolving out of the 2008 crisis, just as it did out of the crises of the 1970's, the 1930's and ... the collapse of feudalism in the early 19th century. We are still waiting for the parallel transformation in economic thinking, but some of its features can be discerned. The first is a recognition that the world is too complex and uncertain to be analyzed with models ... The second ... that even competitive and perfect markets can make disastrous mistakes. The third I... a world economy that is highly unpredictable must be managed with fairly broad and flexible tolerance ranges for indicators such as inflation, government borrowing or unemployment, instead of the precise targets of the pre-crisis period" - Anatole Kaletsky (a one-time writer for the Economist & the Financial Times, and editor-at-large of The Times of London, who now writes for Reuters & the International Herald Tribune, a two-time winner of the British Press Award for Specialist Writer of the Year, who a decade ago, in his spare time, co-founded GaveKal, a leading, London-based, purveyor of investment advice to professionals with a money management arm of its own. This was written while he was attending, & presumably inspired by what he heard at, the Annual Conference in Hongkong of the George Soros founded- & funded-, five year-old, New York-based, Institute for New Economic Thinking which was co-hosted on this occasion by the Fung Global Institute, the brainchild of 68 year-old Victor Fung, a US citizen with degrees from MIT (BSc & MSc in Electrical Engineering) and Harvard (Ph.D. in Business Economics), who is Co-Chairman (with his brother William), & owns 32%, of the (international retail) Li & Fung Group, founded by his grandfather over a century ago.

Out of this conference also came an observation simply too good to pass up, namely "Americans believe that every problem has one ideal solution. The Chinese believe that every problem has multiple solutions and that each solution will lead to new problems down the road" (*denoting the difference between optimism & pragmatism?*)

On April 9th George Soros delivered a speech, entitled How to Save the Euro from the Euro Crisis, at the Center for Financial Studies at Frankfurt's Goethe University. It has two parts, a long dissertation on its historical evolution, which is a must-read, & a much shorter outline of how he thinks it could, & should, be solved, which is just one man's opinion. It can be found by googling the title & was re-printed in full in the Guardian.

In March the US unemployment rate dropped to a four-year low of 7.6% (from 7.7% in February). But as often the case "statistics never lie but & liars use statistics".For during the month 496,000 people quit looking for work & the lower unemployment rate was due to the fact that for statistical purposes people who quit looking for work are no longer deemed unemployed (if they had been counted the rate would have been 7.9%, not 7.6%). So the official unemployment rate hit a four-year low`as the participation rate' (the ratio of those working and/or looking for work as a percentage of the work force) fell to a 34-year low of 63.3% (from a 2000 peak of 67.4%). This decline is in large part due to the fact that since 2007, the number of Americans aged 16 & over has grown by 11.6MM & the number of those actually working and/or looking for work by only 1.6MM. Since purportedly only 20% of those not looking for work actually would like to have a job, part of this may be a function of the aging of the population; if so the aging of the population may require a redefinition of, or a different way of looking at, the participation rate.

Wall Street's expectations are that First Quarter earnings for the S&P 500 companies will be 1.8% lower YoY; if so, it will be the first such YoY decline in four years. This, however, doesn't seem to have put a damper on the stock market; for the index set a new record intra-day high on April 10th. And some earnings comedown was inevitable since, while the corporate profits' share of US GDP ranged from 3% to 7% for a 50-year period ended in 2004, at last report it was at an all-time high 11+%, more than twice the recent intermediate lows set in 2002 & again in 2009. But the stock market valuation 'party' may not be over; for we may be witnessing a fundamental shift in attitude towards stocks (to the point where even central banks other than the SNB are talking about investing in them), driven by one or more of the following : growing concerns about inflation, the paucity of returns, in nominal & real terms, on fixed income securities, a (*fairly indiscriminate*) plunge into US equities by Japanese institutional investors, and ongoing efforts by US corporations to use the cash, with which they are awash, to buy back their own shares.

The Presidential Budget includes a proposal to change the basis for calculating the annual inflation adjustments to Social Security payments from the CPI to a new benchmark called "chained CPI". Two arguments are advanced to justify this. First, that the CPI measures changes in the cost of living of working households which, it is said, differs from that of retirees. And secondly that the CPI ignores the "substitution effect" that occurs when the rising price of one product, say beef, causes consumers to shift to another product with similar qualities, say pork, the price of which has lagged). According to the New American Foundation, *which proclaims its mission is "animated" by the fact the American ideal that each generation will live better than the last is now "under strain" so that new ideas are needed*, this has resulted in the cost of living adjustments in past decades having been overly generous by 0.25% to 0.30% per year. While the promoters of this idea (*tenured professionals with fat public sector pension entitlements, like those who came up with the equally other-worldly concept of "core inflation?*) refer to this as "a technical improvement", critics call it a "benefit cut" (& this being spun as a 25% "downpayment" on eliminating the unfunded liability of the Social Security system suggests they're right). And the argument that inflation affects retired people differently than those in the work force could backfire since retirees spend far more than working age people on health services, the cost of which has for years been rising at twice, or more, the annual rate of growth of CPI. The idea that the CPI is unduly generous flies in the face of seemingly meritorious criticisms that, as presently calculated, it under-, rather than over-, states real world changes in the cost of living - *This is not to say that there isn't an urgent need to sort out the Social Security system, but rather that the time is long overdue in the US (& elsewhere) to start calling a spade a spade, & to start making changes overtly, rather than surreptitiously*

Ractopamine is a compound that, when added to livestock feed, improves feed efficiency & the ratio of lean meat. Banned in 80 countries, incl. the EU, in 27 others, incl. Canada, the US & Mexico, it's approved for use as a feed additive. Last December Russia restricted the import of Canadian meat containing traces of it, & now seems poised to ban it altogether. This has Canadian hog producers, already squeezed by high feed costs & low hog prices, up in arms; for Russia is their third-largest export market, accounting for $500MM in annual sales. While Canada deems meat containing traces of it safe for human consumption, this is do despite the fact that people ingesting it may experience headaches, tremors, muscle spasms & elevated blood pressure and, sometimes restlessness, apprehension & anxiety. And those with cardiovascular problems are advised not to eat it all. Another problem is that, when voided by animals in their faeces & urine, this cause a buildup in the soil and, in a worst case scenario, ground water. The kindest thing to be said about it that in humans it has a much shorter half life than its predecessor, clenbuterol.

In recent years the world has witnessed many cases of bank stupidity & PR insensitivity. But Canada's largest bank, the Royal Bank of Canada, may have set a new record. For some of its IT staff have accused it of bringing in 'foreign temporary workers' for them to train before outsourcing their jobs to them upon their return home (where they will do the work for one-third its cost in Canada) - *outsourcing may make sense from a corporate bottom line perspective, & is inevitable in an economically globalized world, but this is a needlessly provocative way of mplementing it*.

An investigation in Québec about the relationship between the construction industry & the City of Montreal has revealed appalling & systemic levels of corruption. But on April 5th City Council voted unanimously to award contracts for filling the usual springtime plethora of potholes in city streets to very companies alleged to be involved despite a survey of Montrealers showing 60% of interviewees would sooner put with potholes rather than put money in the pockets of crooks.

In an Edmonton newspaper the President of the Alberta division of the Canadian Home Builders' Association wrote that recent changes to building codes will add $11,646 to the cost of a $475,000 home & $4,422 to that of a $350,000 "starter home". He only mentioned in passing that the federal component, that accounts for almost half those totals, relates to making new homes more energy efficient (with presumably a payback downstream for the buyers). Nor does he engage in a discussion of the possible benefits and/or drawbacks for new home owners of the, mostly fire safety-related, changes introduced by the Province. Instead he just whines, like a spoiled child.

Edmonton is having unseasonably cold weather. Overnight April 8th/9th the temperature downtown dipped to minus 14° Celsius, a 130-year record (& at the International Airport to minus 20). But it's better off than Denver Colo., where the temperature went from plus 23° to minus 9 Celsius between 2:00 p.m. on April 8th & 7:00 a.m. the next morning, & the weather forecast was for 11 inches of snow in a city where since 1882, the average snowfall for all of April has been 9 inches.

Two weeks ago CP Rail made the headlines when one of its crude oil-carrying trains derailed in Minnesota, spilling 400 barrels of oil. But last week there was hardly a mention when another of its oil-carrying trains derailed on April 3rd, spilling a similar amount. The difference was that the latter occurred near White River in Northern Ontario, i.e. North-, not South-, of the Great Lakes,.

Federico Ghizzoni is CEO of UniCredit SpA, Italy's largest bank. On April 4th he declared that, while he preferred not to touch them at all & deposits of < E100,000 should be "off limits", "Cutting large deposits in failing banks, along with other liabilities such as bonds, to offset *bank* losses is acceptable ... if it becomes a European solution." - *he, of course, is 'talking his own book' since the more talk there is of the legitimacy of administering 'haircuts' to large depositors in banks in dire straits, the more large depositors will tend to gravitate towards keeping their cash in the large banks (thereby increasing the potential for a 'too-large-to-fail' event).*

Elsewhere in Europe the Portuguese Supreme Court rejected some of the government's austerity initiatives introduced as part of the conditions to the E78BN bailout package it had agreed to earlier. This will force it to go back to the drawing board &, to keep the deal in place, come up with new ideas for cutting expenditures that may give rise to more social unrest). Next door on the Iberian peninsula, in Spain, in the First Quarter a record 2,564 companies filed for "involuntary proceedings" (a euphemism for "bankruptcy"), half as many again as in the year-earlier period. And in Greece the economic situation is now so dismal that, for the first time since whenever, there actually is deflation.

GLEANINGS II - 507
Thursday April 11th, 2013

GOLD LOSES ITS LUSTRE (NYT, Nathaniel Popper)

- Below the streets of Lower Manhattan, in the vaults of the New York Fed, lie half a million gold bars that have lost US$75BN, & those stored at the Ft. Knox, Ky U.S. Bullion Depository US$50BN, of their value. And the US$29,000 67 year-old John Norstog of Pocatello, Idaho invested in 2011 in gold mining stocks is now worth just US$17,000. Two years after hitting an all-time high US$1,900+, the price of gold is sinking fast. Down 17% off its peak, Wall Street analysts now are declaring the end of the golden age of gold, *and Société Générale & Goldman have issued very negative gold price forecasts [which should be ignored, especially the latter since the firm is the least untrustworthy of an untrustworthy lot & not long ago was bullish on gold with equal zest - besides the Goldman forecast is less based on gold market fundamentals than on a (rather questionable?) bullish outlook for the US dollar).*
- Things are looking up for a global economy that teetered on the brink in 2009. Concerns of the loose Fed monetary policy triggering inflation haven't materialized. The idea the gold price would keep rising forever has been proven an illusion. US gold-focused mutual funds whose value peaked at US$26.3BN in April 2001have lost half their value. William O'Neill, co-founder of Logic Advisers, that told investors last December to get out of gold, says "Unless there is some unforeseen development the market is going lower", and Daniel J. Arbess, a partner at Perella Weinberg Partners that "As the economy improves, the demand for gold as a financial hedge declines more than the ... demand for gold jewelry increases."

- Investment pros were quicker to catch on to gold' changing fortune than retail investors. In the First Quarter hedge funds & traders pulled US$6.6BN out of SPDR Gold Shares, the biggest gold ETF. Two prominent hedge fund managers with large positions in gold ETFs, George Soros & Louis M. Bacon, sold out in the Fourth Quarter, with the former telling the South China Morning Post "Gold was destroyed as a safe haven, proven to be unsafe ... most people are reducing their holdings of gold". On the other hand, gold bulls like Peter Schiff of Euro Pacific Capital & John Paulson, the hedge fund manager who made a bundle betting against the US housing market but whose US$900MM gold fund lost 26% of its value in the first two months of this year (in part by investing in gold mining stocks, rather than gold itself), are undeterred. And Mr. Norstog says "If I had to do it over again, I would have just bought gold ... At least that way I could have run my fingers through the glittering coins."

Rather than a 'gold bull', I merely try to yell "The Emperor is wearing no clothes" & to apply common sense to a political/economic/financial world that seems common sense-challenged. And Mr. Norstog may be onto something. For what we seem to be witnessing is a 'deleveraging' of the gold market, a 'shake-out' of gold from "weak" (i.e. speculative)- into "strong" end investor hands, & the destruction of "paper gold". The exact size, & unencumbered nature, of the gold below the streets of Manhattan & in the Ft. Knox U.S. Bullion Depository has been called into question as witnessed by Germany, Switzerland, Argentina, Venezuela and even the University of Texas wanting to "repatriate" their gold holdings. George Soros in recent years has been in & out of gold (& not always with good timing) & when he talks about "most people are reducing their holdings of gold", he isn't talking about ordinary folks but about fellow short-term gain chasers. Meanwhile, there is little, if any, evidence to suggested that central banks have quit "holding a basket under the market" & looking upon lower gold prices as increasingly attractive buying opportunities to diversify their reserves & dump excess dollars. The time may not be far off that Japanese retail & institutional demand for gold will take off since Prime Minister Abe has all but guaranteed them a reasonable rate of return in Yen terms on it if they did so (in fact, a few months ago one major Japanese institutional investor did already announce plans to do just that, i.e. start investing in gold). It's hard to believe that European investors won't be spooked by the spectre of having their bank deposits confiscated, growing their appetite for owning physical gold. Believing that the unprecedented opening of the central banks' liquidity sluice gates will not, at some point lead to a surge in inflation requires assuming that the Economics 101 concept of supply & demand interacting to determine prices no longer applies, There is no shortage of potential "unforeseen developments" that could throw all delusions about the state of the global economic/financial system into a cocked hat. And most disconcertingly two news bytes in the past couple of days ought to be taken into account in any assessment of the current state of the gold market : in Holland the ABNAmro Bank announced its clients will be offered the option of cash payments instead of taking delivery of their physical gold holdings (suggesting that it either cannot deliver or is a buyer of gold at these prices). And secondly, in the First Quarter there were unprecedented withdrawals of physical gold from the COMEX warehouse, 2MM ounces - US$3BN-worth, over half of it from the JPMorgan vaults & most of the rest from Scotia Mocatta's, presumably by investors who feel that 'possession is nine-tenth of the law' & who feel that the only "good gold" is what they can see & touch.

<u>BILL GROSS RAISES HOLDINGS OF TREASURIES</u> (Bloomberg)

- He told Bloomberg TV on April 4th UST securities are "ridiculously priced and underyielding". Still, in March he raised their weighting in his US$289BN <u>Total Return Fund</u> (that returned 8.4% in 2012, better than 92% of its peers) to 33%, up 5% MoM from an eight months' low.

*He feels "investors need to buy what Japanese institutions buy", For Prime Minister Abe's 'drive inflation **up** & the Yen **down**' policy prescription will enable even the most dense Japanese investors to make decent Yen returns buying foreign currency- denominated assets, regardless of their performance in those currencies.*

WALL STREET ON THE DOLE (Bloomberg, Frank Bass)

- During the downturn the US government paid US$80MM in unemployment benefits to households, 20% of them in New York, with incomes > US$1MM. Their average 'take' in 2010 was US$12,600, more than the income of 25MM US households. This underscores the need for means testing & serves as a reminder of how difficult it will be to rein in spending.

More importantly, it illustrates the depth to which entitlement thinking is now imbedded in the American psyche when people with million dollar incomes are prepared to demean themselves to apply for unemployment benefits that hike their incomes by one percent, or less.

OBAMA FORCED TO APOLOGIZE FOR PRAISING OFFICIAL'S LOOKS (Daily Telegraph, Jon Swaine)

- During a two-day California fundraising tour he told an audience in San Francisco the state's Attorney-General, Kumala Harris (age 48), is "brilliant ... dedicated ... tough ... (*and*) also happens to be, by far, the best-looking Attorney-General" *in the country &* then, in response to laughter, added "It's true! Come on!" (& elsewhere noted she is "easy on the eyes"). This prompted (*a greying/balding, middle-aged male grump?) at,* the Republican National Committee to accuse him of disrespect & hypocrisy & him to phone her to apologize.

She acknowledged " a great conversation" & her strong support for him, but not his apology.

EVERY HOME MUST OWN A GUN (DT, Craig Schneider)

- On April 1st the Council of the 1,300 inhabitant town of Nelson, Ga. unanimously passed a Family Protection Ordinance that requires the head of every resident household to own a gun & ammunition (with the exception of those who don't want to, convicted felons, those who are mentally or physically impaired, & "paupers or those who conscientiously oppose maintaining firearms as a result of beliefs or religious doctrine." Councillor Jackie Jarrett siad "We're making a statement ... If you plan on doing us harm, we'll be armed."

Without actually phoning the town hall, it's impossible to ascertain if this was just a bad April 1st joke, or a function of gun owner stupidity, neither of which can be ruled out per se.

TAPING OF FARM CRUELTY IS BECOMING THE CRIME (NYT, Richrad A. Oppel Jr.)

- In recent years animal rights groups have secretly videoed animal cruelty on (*mostly factory*) farms, resulting in farm operators or workers being charged with, & convicted of, animal cruelty, & large operators losing supply contracts with fast food purveyors *anxious not to sully their public image.* This has prompted pushback by the industry. So a dozen or so state legislatures have enacted, or are discussing, legislative initiatives to outlaw the covert recording of goings-on at livestock farms (*which cell phones now make easy to do*), applying for a job on a farm without revealing ties with animal rights' groups and, generally speaking, making it more difficult for animal rights' groups to operate *& gather evidence to further their cause.* Indiana & Tennessee are about to vote on such a measure, Pennsylvania & California are talking about doing so, and in New Mexico & New Hampshire opponents headed off such initiatives. Much of the pressure for what critics call "Ag-Gag" bills comes from the American Legal Exchange Council, one of whose proposed "model bills", The Animal and Ecological Terrorism Act, would prohibit the filming and/or taking pictures on livestock farms to "defame the facility or its owner", & have violators' names placed on a "terrorist registry". And while the American Farm Bureau, a farm- & meat industry lobby group, criticizes the animal (*mis*)treatment scenes in some videos, it also warns some methods *defamed by critics* are what animal welfare experts endorse as "best practices".

While some animal owners abuse them out of ignorance, habit, work place pressures or even out-and-out malice, many animal rights activists have an unrealistic & unduly benign, Walt Disney-infused view of Nature, & Man's role therein. And for some, animal welfare is a only means to further their non meat-eating proselytizing (despite the fact Man was engineered over thousands of generations to be carnivorous). But the industry leaves itself wide open for criticism since large scale livestock farming dehumanizes Man's relationship with animals. As to the American Legal Exchange Council, while it purports to promote free market & conservative ideas since "government closest to the people ... (is) a better guarantor of freedom than the distant, bloated federal government in Washington, D.C.", local governments are far more amenable to pressure from local 'wealth- & employment generators'. And the Council itself is too located in Washington, D.C. Business Week summed up its place in the overall scheme of things well when it said "part of its mission is to present industry-backed legislation as grassroots' work." Longer term this is just another paving stone on a long road of more people growing more willing to pay a premium for non-'Frankenfood" foodstuffs.

FEELERS GO OUT FOR EASTBOUND OIL PIPELINE (Postmedia News, Dan Healing)

- Calgary-based TransCanada Corp., the sponsor of the controversial Keystone XL pipeline to carry Alberta oilsands oil South to the US Gulf Coast refineries, on April 2nd announced that, to gauge shipper support, it will hold a take-or-pay 'binding open season' for oil companies to 'reserve' space on an Energy East Pipeline to Toronto, Montreal & Québec City, and possibly to the Irving-owned oil refinery in Saint John, New Brunswick. A $5BN project (that the Company says, optimistically, will come on stream in 2017) would convert part of its exiting east-bound gas pipeline to carrying oil & possibly involve the building of a new pipeline to Saint John, New Brunswick. Canada's Natural Resources Minister, Joe Oliver, told the Calgary Herald "I can't endorse this project because it hasn't had regulatory approval, which it is going to have to apply for, presumably after their open season goes the way they hope it will ... But I think it's in our strategic interest to move oil to tidewater to attract international prices. We need, as well, to broaden markets for our oil in Western Canada."

Even someone without even Economics 101 training may wonder about the economic rationale for hauling oil to world markets from Alberta East to Toronto, a distance almost 4x, and Saint John 5x, that from Alberta to the Pacific. The section of the existing gas pipeline to be incorporated into the project was built for a different product, natural gas rather than the more corrosive dilbit, some of it 50+ years ago. The length of the part to Saint John to be built from scratch would be 75% of the distance from Alberta to the West Coast. The line would have an

850,000 bbld capacity while that of the Irving refinery in Saint John is 300,000 bbld. (the largest in Canada, it's only the 15th largest in North America & the 60th largest globally) & a January 2010 EIA report raised enough concerns about a doubling of its size that trying to do so would likely prove a long, uphill fight. Touting this as a way to "broaden the markets for our oil" is delusionary, if not an out-and-out lie. For the lion's share of the growth in the future demand for oil is in South-, & East-, Asia (last December China achieved another 'first-ever' when its net oil imports exceeded those of the US, 6.12MM bbld to 5.98MM bbld). Taking oil from Alberta to Singapore via Saint John involves a 2,500 nautical mile-equivalent overland journey & a 9,860 nautical mile ocean voyage but taking it West to Singapore only a 600 nautical mile-equivalent overland voyage & a 6,667 nautical mile ocean voyage. So the route going East is not only 70% longer in total but its more costly overland portion would account for one-quarter of the total while going West it's less than one-tenth. And the Atlantic regional market for oil exported from Saint John has few, if any, demand growth prospects & lots of competing sources of supply, while the key global markets would be halfway around the world, & 2½x as far from them as oil from the Middle East. Going East is also likely to attract the same opposition from environmentalists in Québec, if not elsewhere, as the Northern Gateway in BC. Finally, it has the same drawback as Ottawa's pre-occupation with the Keystone XL, namely that it invests government time & goodwill (such as it may be) to promote a project that from an Alberta-, & a national-, economic perspective is sub-optimal. Going East serves only one purpose, namely to promote the narrow personal political agenda of a Prime Minister seeking to provide discount-priced oil to Central Canada to woo more voter support in the voter-rich 905 area code region around Toronto & elsewhere in Central Canada. But it isn't a good policy move from a national economic perspective, as he, unless his economics training was wasted on him, should appreciate better than most.

ALBERTA, INDUSTRY FACE WIDE GAP ON CARBON TAX (G&M, Nathan Vanderklippe)

- The Alberta government has *finally* concluded it'd better try & convince the world of its commitment to the environment. So at a breakfast meeting in Calgary on March 27th it revealed a '40-40 proposal' : a 40% target for reducing emissions/bbl (up from the present 12%) & a $40/tonne carbon tax (up from the current $15), albeit only to come in effect by 2020. *True to form*, the industry countered with a 20-20 proposal - *they don't get it, do they?*

Rather ironically, Premier Allison Redford was in Washington this week for the second time in two months to lobby for the Keystone XL pipeline & 'highlight Alberta's record on the environment", touting as evidence thereof the very $15/tonne carbon tax her government now appears to deem too low - Madam, actions speak louder than words, and there is no better way to lose your credibility than to do, or say, one thing in one place & then do, or say, something else somewhere else.

EGYPT CRISIS WORSENS WITH INFLATION LIKELY TO JUMP (Reuters)

- The CPI rose to 8.2% in February, up from 6.3% the month before, & is expected to have risen further, to 9.4%, in March, as its currency crisis & fuel shortage impact on living costs.

With elections in the offing, the key question is whether the resultant growing social unrest will benefit the Brotherhood at the polls or will prompt the hoi polloi to turn on it.

A DIFFERENT PORTRAIT OF SOUTHERN EUROPE (DJ, Brian Blackstone)

- A review of the wealth of 60,000+ households across the Eurozone, based on 2009 & 2010 data, was made public by the ECB on April 9th. It showed a dichotomy in Southern Europe between cash-strapped governments & affluent citizens. For the average household wealth in Cyprus, at E670,000, was second only to Luxembourg's E700,000, &.compares to < E200,000 in Germany, & only slightly more in Holland & Finland, all of them countries in which opposition to bailing out Southern Europe has been strong, & growing. And on a median basis, that strips out the extremes, the same picture prevails : whereas in Germany median household wealth is E50,000, in Greece it was E102,000 & in Cyprus nearly 270,000

Much of this may well be due to tax evasion in Southern Europe being even more of a national sport than elsewhere in the Eurozone (& part to a higher incidence of home ownership. And one wonders if the ECB has a death wish for the Eurozone by not having deep-sixed the results of this survey.

CHINA SIGNALS 'SHIFT' AGAINST ALLY (AP)

- Kurt Campbell, *until recently Assistant Secretary of State for East Asian and Pacific Affairs & the reputed architect of the now "pivot strategy" who, strangely enough, has yet to be replaced,* on April 4th told an audience at the Johns Hopkins School of Advanced International Studies that he had detected a subtle change in Chinese thinking after the latest round of Pyongyang's military posturing when Beijing called it "regrettable". More specifically he said "They, I think, recognize that the actions that North Korea has taken in recent months ... are in fact antithetical to their own national security interests .. they (*i.e. North Korea*) have succeeded in undermining trust and confidence in Beijing."

There have been reports of cannibalism in the North Korean countryside as the food farmers grow is confiscated to feed the army. In the past when Kim Jong-un's father, Kim Jong-il, engaged in sabre-rattling, he was bought off with food aid. This may confront the US (& China) with a Hobson's choice : either do so again & have the still wet-behind-the-ears Kim Jong-un told that this proves the West are a bunch of wusses, or not do so & risk him being told there is no option other than to get even more provocative. At the time of writing everyone appears poised for North Korea to test another couple of missiles,& one authoritative Chinese source now rates the probability of war on the Korean peninsula at 70%. It would be interesting to speculate what would happen if the US were to launch anti-missile missiles at any North Korean missiles launched (the risk in doing so being that if they failed to destroy them, the US would end up with egg on its face).

JAPAN TO DOUBLE ITS MONEY SUPPLY (AP, Elaine Kurtenbach)

- Bowing to demands by Prime Minister Shinzo Abe the Bank of Japan announced on April 4th plans to double the money supply, & achieve a two percent inflation rate at the "earliest possible time, with a time horizon of about two years". Governor Haruhiko Kuroda himself described this scale of monetary stimulation as "large beyond reason" but said the inflation target would remain out of reach if the bank stuck to incremental steps & that the intention is to "drastically change the expectations of markets and economic entities"

He sounds like a man with a gun to his head who doesn't believe in the efficacy of the snake oil he's peddling. The Bank's plans to buy US$75BN of government bonds a month will mop up

70% of the supply of newly issued government bonds & is equivalent to 15% of GDP a year, and makes the Fed look like a piker; for it is buying 'only' US$85BN/month in an economy almost 3x the size of Japan's (&, by the way, the BoJ also plans to "step up" its purchases of ETFs & REITs).