

China's military & domestic security apparatus' budgets - In 2011 the Western media made much of the fact that for the first time ever the latter's 624BN yuan budget had exceeded the PLA's 601BN. But that lasted only three years; for the 2015 Budget earmarked 887BN yuan for the PLA & just 845BN yuan for domestic security - *this was not because President Xi has no domestic security concerns, but because this ramp-up had been the work of Zhou Yongkang, who from 2007-2012 headed the domestic security apparatus & , along with now President Xi & Premier Li, had been on the all-powerful, nine member Standing Committee of the CCP's Politburo, but who has since fallen from grace & last year was sentenced to life in jail for corruption. In addition, for President Xi the PLA is a key support base both domestically & to back up his global posturing.*

Competition for Airbus and Boeing (& Bombardier?) - The Pudong, Shanghai-based, state-owned-, eight year-old Commercial Aircraft Corp. of China (COMAC) recently unveiled its C919 airliner. With a passenger capacity of 135-174 & a 5,555 km range it targets the same market 'niche' as the Airbus 320 & Boeing 737, of which Chinese airlines currently operate 900+, & 700+ units respectively. Its engines will be made by GE & the avionics will be of foreign manufacture (albeit with considerable Chinese content). While COMC still targets a 2018 first delivery date, the program is said to be one year behind schedule - *There will be demand in the coming decades for thousands of passenger jets in China, & the rest of South-, Southeastern-, & East Asia as its rapidly growing middle class takes to the skies. That being so, the emergence of this company may queer the plans of Airbus & Boeing to capture much of that market; for COMAC will be a "marquee project" for Beijing with access to financial-, & marketing-, muscle in China, & the region as a whole, that the others can only (wistfully) dream about.*

Proliferation of insufficiently untested chemicals? - Under the US 1976 Toxic Substances Control Act the EPA can test chemicals only when provided with evidence of harm (provision of which is not in the interest of companies using & testing them); so it has restricted the use of only five chemicals in the forty years since (out of the tens of thousands in common daily use) - *this is the bottom line of an article in the January 6th NYT Magazine "The Lawyer who became Dupont's Worst Nightmare" that chronicles dubious behaviour by Dupont over many years.*

Restaurant Performance Index - Launched in 2002, it tracks the restaurant industry's health of, & outlook. It fell sharply in December, by 1.6 points to 99.7, the first time since February 2013 it has been below the 100 tipping point into contraction. More specifically, only 42% of those in the sample reported higher sales YoY & 33% greater customer traffic while just 27% expected higher sales-, & 12% a stronger economy-, in six months - *this index is deemed significant since eating out is a discretionary spending activity people economize on first when feeling financially insecure - on the other hand, the Atlanta Fed GDPNow real time indicator of economic activity, that was right 'on the money' in the Fourth Quarter bounded from 1.2% to 2.2% between February 1st & 4th, & has continued rising since, albeit at a less frenetic pace : on February 12th it stood at 2.7%, i.e. close the upper end of the (slowly declining) 1.4%-2.9% consensus forecast range.*

Search for Ban Ki-moon's successor launched - Last December the Presidents of the UN Security Council & General Assembly sent a letter to all 193 member governments asking them to submit asap the names of possible candidates for the position (that will become vacant next December 31st). It said the ideal candidate would combine "leadership, management skills, experience in international relations & diplomatic skills, language and communication" & that the selection would also take into account "regional diversity" (so that, after South Korea's Ban Ki-

moon & Ghana's Kofi Annan, the choice ought to go to someone from Eastern Europe¹). The names & CVs of those submitted will be made public & the Council "will start to choose by the end of July", hoping to complete the task in time to give their choice "time to prepare". And according to the General Assembly's President, Denmark's Mogens Lykketoft, many people "ardently wish" that, after eight male Secretary-Generals, the next one will be a woman.

Shift in the locale of global manufacturing capacity - According to the UN, between 1990 & 2013, it shifted as follows : China 2% to 22%, Rest of Asia flat at 22%, North America 24% to 18%, Europe 40% to 25%, and the Rest of the World 9% to 10% (*both number series don't add up to 100% since they were peeled of a chart*).

Prime Minister Trudeau came to Alberta 'bearing gifts' - Recently he was briefly in Edmonton with promises to accelerate the disbursement of \$700MM in infrastructure money, provide \$250MM from a federal fiscal stabilization fund & make it easier for Albertans to 'get UI benefits - *to put this in perspective, the Alberta government faces a deficit of well over the \$6BN talked about earlier, the infrastructure money is a carryover from the Harper government & requires 'matching' by cash-strapped local governments, \$700MM is the amount by which just one major oil company, Suncor, cut its 2016 capex budget, & UI of \$524 a week, fully taxable, is of limited help to those used to oil patch-type wages -,spending patterns-, & debt service obligations. This summer there likely will a firesale of second-hand 'boys' toys' in Alberta.*

Russia's support for Assad - When it became involved hands-on in Syria's civil war, the CW was that Putin was driven by concern regime change in Syria might risk the status of its military/ naval facility in the port of Tartus. But this may only have been partly true. For at a modest cost (< US\$1BN, most of it 'sunk costs') it has Syria contributing big time to Europe's escalating refugee crisis that in a worst case scenario could tear the EU apart & in a best case scenario (for Putin) limit the resources-, & Europe's leadership's time & attention-, available for Ukraine.

Trudeau & the \$15BN sale of LAVs to the Saudi National Guard² - There is nothing "light" about "Light Armored Vehicles" that can weigh over 20 ton³, in some configurations are like light tanks⁴, carrying 105 millimetre guns, only on wheels rather than tracks (giving them speeds of

¹ No doubt Moscow would want a Russian to get the job, if not feel entitled to this; but if the past is anything to go by, this ain't going to happen; for prior to Kofi Annan the other six incumbents, starting in 1946 were nationals of Norway, Sweden, Myanmar, Austria, Peru & Egypt, all of them second-, if not third-, tier nations.

² While its size (100,000) is < half the army's, in the overall power structure the National Guard is one of the country's key power centres, in part since it is better trained & equipped but, more importantly, since it has close links to the baker's dozen of main tribes that account for one-tenth the population & dozens upon dozens of smaller ones, with its units organized along tribal lines). And its mandate is domestic security (although it was nevertheless ordered to get involved in the Yemeni warlet), especially as it relates to the Royal Family & the country's oil installations & infrastructure. It is not part of the Ministry of Defense but is independent with its own commander, currently Prince Mutaib bin Abdullah, a son of the late King Abdullah (although possibly not for much longer since he isn't on good terms with either the Crown Prince or Deputy Crown Prince cum Minister of Defense, the King's favorite son Mohammed.

³ Until the mid-1980's one of the French Army's-, & a number of other countries', main battle tanks was the AMX 13 that carried a 76 mm gun & weighed just 13 tonnes).

⁴ One version used by the Canadian Army carried a 76 mm gun (the same calibre as many Shermans, the WW II workhorse tank.

up to 100 kmh). This transaction directly involves the Government of Canada since it was brokered-, & is being coordinated by-, a Crown Corporation (the CCC/Canadian Commercial Corporation) and was orchestrated by former Prime Minister Stephen Harper as part of his drive to develop a Canadian arms export industry (who in this transaction chose to ignore a Canadian law that prohibits arms exports to nations with dubious human rights' track records, consistent with-, but long predating-, the UN Arms Trade Treaty that, with 130 signatories, not incl. Canada, came into force on December 31st, 2014) - *While Ottawa insists backing out of the deal is not under consideration, it may be forced to do so. For one week before the election now Prime Minister Trudeau promised on the campaign trail to sign the Treaty (which would, in & by itself, put the kibosh on this deal unless it were grandfathered, which would make a sham of Canada signing it). Backing out of the deal would also send a clear signal at home & abroad that management had changed in Canada. Doing so would be popular with Trudeau's base while not doing so would seem a most unlikely candidate for him breaking his first campaign promise. Another, largely overlooked, factor is that the benefits to Canada's economy will be less than the vaunted \$15BN over 14 years; for this deal originated in Belgium & these vehicles will have a 'Belgian content' that will cut their 'Canadian content'.*

GLEANINGS II - 653SP
Monday February 15th, 2016

NEGATIVE INTEREST RATES ARE A DEAD END - THEY WON'T SPUR GROWTH, BUT WILL DIVERT ATTENTION FROM REFORMS THAT CAN (WSJ, William Poole)

- The Bank of Japan has announced it will follow the ECB's lead into "negative interest rate" territory to boost spending & investment, and spur growth. But it won't, no more than the Fed's near-zero interest rates have done in the US; all it will do is divert attention from the structural problems affecting growth & from addressing them. Part of the impetus behind negative interest rates is a desire to devalue the currency so as to boost exports & *thereby* growth; but it is impossible for every country in the world to do so against all the others : all this leads to is a 'currency war' & a '*race to the bottom*'. It is critical for advocates of limited government to understand what's at stake. Lower rates, higher spending or tax cuts will do little to boost growth; they will only dig the federal government in a deeper fiscal hole, further damaging our long-run prospects. And isn't it amazing that, with interest rates as low as they are, corporations cannot find ample investment opportunities with risk-adjusted returns greater than the paltry yield on 'safe' government bonds?

Experience has been that monetary policy is very effective at throttling economic over-exuberance but much less so, if at all, at "pump priming"; for as an old market adage puts it "you can't push on a string", i.e. if borrowers don't want to borrow, they won't, period, full stop. That's what makes the question in the final sentence above so relevant; for it is not the absolute level of interest rates that drives economic growth-generating investment decisions but rather the level of confidence borrowers have that their investment will yield returns over time in excess of their cost of money. And that is the holdback now, a lack of confidence in the ability of governments everywhere to manage their affairs in a responsible, predictable & long-term sustainable manner. And to make matters worse, the current super-low interest rates minimize the opportunity cost of 'sitting on cash' (equivalents), rather than investing it (which central bankers are seeking, so far massively unsuccessfully, to overcome with negative interest rates that appear to be having the very opposite of the hoped-for effect, eroding, rather than engendering, confidence that they know what they are doing) - the writer has a Ph.D, from Chicago, worked at the Fed for the decade to 1974, taught economics at Brown University

another decade before joining the St. Louis Fed, the most research-oriented of the 12 regional Feds, serving as its President for a decade ended in March 2008. Since retirement he has been speaking his mind, typically critical of the powers that be.

ECB'S COEURE SEES G-20 COORDINATION EMERGING MARKETS (Reuters)

- ECB Executive Board member Benoit Coeure told *the French business TV channel BFM Business* on February 8th "Given the difficulties that big emerging markets are having, there's a risk ...their currencies will keep weakening" & said the issue will be up for discussion at the February 26th-27th G-20 Finance Ministers' & Central Bank Governors' meeting in Shanghai, saying "That's an issue for global coordination." As to the European banks he said they had improved their balance sheet strength in recent years but weren't finished doing so, they "need to keep building equity to show that they are strong while also explaining how they are changing their business models", and, while there were no undisclosed holes in bank balance sheets, they need to be clear in their handling of bad loans & that "In any case, it will be several years to get rid of bad loans."

Small wonder that the European bank stocks took a hit that day; for the latter comments hardly constitute a ringing endorsement of Europe's banking industry. And talking about "global coordination", at times of moderate-to-severe stress short of an absolute death-defying crisis, it is a contradiction in terms; for at such times there is typically a short-sighted & regrettable tendency to regress to 'everyone for himself & the devil takes the hindmost' - before joining the six member ECB Executive Board, Coeure headed the French Finance Ministry's debt management operation. He is a 'moderate dove', supporting the ECB's monetary policy stance, incl. its 'unconventional' aspects, but warning that it does entail risks that could materialize if governments don't introduce reforms, & telling them 'interest rates won't stay low forever'.

TRUMP VS. SANDERS - VS BLOOMBERG? (VUEWeekly.com, Gwynne Dyer)

- Three months ago the Democrats thought a Hilary win next November was all but 'in the bag' since, with Trump leading the pack of Republican hopefuls, *in a Hilary-Trump head-to-head* the majority of Americans wouldn't vote for such a crude clown. But Bernie Sanders may be queering her pitch; he is raising as much money from small voluntary donations⁵ as she is from her rich friends & corporate donors, & the belief he will fade when the primaries move into more populous states is based on a shaky assumption that the party's base will reject free healthcare & college tuition, and soak-the-rich taxes.
- Both parties face a mutiny among their traditional supporters & a Trump-Sanders/ Tea Party vs. Occupy Wall Street match-up is entirely possible. This would leave the political middle one-third, for which both are too extreme, up for grabs. Enter former New York City Mayor & self-made billionaire Michael Bloomberg⁶ who, in a three-way contest would be the moderate candidate that might walk away with the Big Prize (even though at this point the odds are still short of 50-50). And, while he has said that he won't run if Hilary were likely to be the Democratic candidate (even though he is said to "detest her"), he probably would *run* if it looked as if Sanders were pulling ahead.

⁵ And US\$1MM in small donations generate far more voter support at the ballot box than a similar-sized single one.

⁶ Whereas Trump inherited his supposed US\$200MM initial 'grubstake'.

And it looks as if Sanders might be doing just that; for the results of the RealClearPolitics polls in South Carolina have evolved since last December 1st as follows :

	Dec. 1 st	Jan. 1 st	Feb. 1 st	Feb. 14 th
Hilary	70	69	61	59
Bernie	19	28	32	40 ⁷

And to make matters possibly worse for Hilary the South Carolina long range weather forecast for Saturday February 27th calls for a nice day (which usually brings out the disenchanteds).

AMERICAN EXCEPTIONALISM IN A TIME OF AMERICAN MALAISE (BBC, Nick Bryant)

- Alexis de Tocqueville once observed Americans were “quite exceptional”. But while he meant they were ‘different’, not ‘better’, the notion has long been an article of national faith the United States is unique & superior, liberty’s staunchest defender, democracy’s greatest exemplar & home to the unusually brave, and that its mission to spread American values around the world was divinely sanctified & historically pre-ordained.
- But now American exceptionalism is increasingly seen in a negative light. In the run-up to the Iraq War it smacked of imperial hubris. Guantanamo Bay has for many *people in the world* become as much of a symbol of America as the Statue of Liberty. Unchecked gun violence & mass incarceration⁸ are now increasingly equated with American exceptionalism. Even NASA has lost much of its one-time lustre. And domestically Americans seem to be losing faith in the American system & the American dream, leading to the emergence on both the left & right of populists like Bernie Sanders & Donald Trump. And there are good reasons for this. The Flint, Michigan drinking water story is more symptomatic of a failed state. The Netflix Making a Murderer story has put the entire US criminal justice system in the dock. The Oregon militia stand-off had Wild West overtones. The fact that a one-inch snowfall brought the national capital to a standstill for days was embarrassing. The movie The Big Short reminded all & sundry of Wall Street’s excesses. Even Hollywood’s great shop window, the Academy Awards, is now mired in controversy over its “whites-only” nominations. And the periodic police shootings of unarmed black men has raised questions over the fairness of its policing.
- Many of America’s problems seem to be systemic, arising from flaws in a system that once was deemed a democratic prototype. Washington’s gridlock is a function of a system of checks & balances that have been turned into partisan weapons. At a time of *almost daily* mass shootings gun laws are based on a Constitution that, brilliant though it may have been at the time, dates back to an era of single shot muskets. And as for spreading American values around the world, many Americans no longer think that worth the expenditure of blood & money. Exceptionalism as an interventionist creed has been replaced by a mood of Fortress America, a bunker mentality. And while America can still boast of pre-eminence in its military, its powerhouse universities, its tech hubs & its elite hospitals, just as striking are its struggling-, often decrepit-, public schools, its creaking bridges & its antique airports.

⁷ The change since the beginning of the month suggests that he continues to gain the support of the vast majority of the hitherto undecideds (which could give him real momentum going into Super-Tuesday on April 1st)

⁸ With 4.4% of the world’s population, the US now accounts for 22% of its jail population.

- But what is perhaps most striking in traveling around the country that I called home a decade ago is the loss a national self-belief that gave American exceptionalism real resonance at home. And as a long-time admirer of the American Dream idea, I am saddened by the fact that “Made in America” is now increasingly used in a derisive sense & “American exceptionalism” made to sound like an empty boast.

While now stationed in Australia for a decade, prior to that the writer was the BBC’s Washington correspondent & the above was the outcome of his recent visit to-, & travel through-, the US.

YOUNG AMERICANS EXPERIENCE THEIR 1968 MOMENT (G&M, Doug Sauders)

- In the 1968 US Presidential primary season the Democratic Party establishment’s choice was Vice-President Hubert Humphrey. But he was overshadowed in it by Minnesota Sen. Eugene McCarthy whose single-minded opposition to the Vietnam War resonated hugely with voters in their 20’s & 30’s. While seemingly an odd ‘fit’ since he was out of touch with most issues of the time, his one redeeming feature for the younger generation was that he was an outsider in a political system they wanted no part of.
- This now also plays out for Sen. Bernie Sanders who too speaks a different language than-, & rejects-, the established system of Democratic Party politics This appeals to young Americans who, like the postwar generation, are living different lives than their elders. They are dramatically better educated (in 33 years the percentage of college grads has gone from 15 to 22 percent, & in the past 15 the highschool dropout rate from 12% to 7%). They are less likely to use drugs, alcohol or tobacco, and get pregnant before marriage, and same-sex-, & inter-racial-, marriage & legalized pot are non-issues for them⁹. Since white Americans in the 18-34 year age bracket, who are Bernie’s core support base, have lived & worked with people of a different skin colour than their own, they are assuming a racial equality that may not exist (among older Americans). And last, *but not necessarily least*, they live in a much less secure economy (*for which, with considerable justification, they blame the older generation*) with only 65% of them having jobs, vs. 72% in 1990, and to the extent they do have jobs many are neither secure nor robust. Small wonder they don’t want a President linked to the one of their parents.

But they come at the issue from the opposite end of the spectrum : the ‘Woodstock generation’ basically felt they could rebel against the system because they knew they lived in a land of milk & honey, whereas the current younger generation is living in an uncertain world in which they think they cannot afford not to rebel; in other words, there is an element of desperation in their rebelling that did not exist fifty years ago.

FEDERAL BUREAUCRAT MADE \$26BN EXIT (Vancouver Sun, Michael Den Tandt)

- *Thomas Ring had a 40-year career as a Canadian federal civil servant, culminating in the post of Assistant Deputy Minister (Acquisitions) in Public Works and Government Services Canada; as such he played a leading role in framing the former Conservative government’s shipbuilding strategy in 2011. His retirement was announced on August 2014 & his successor officially succeeded him effective January 16th, 2016. And yet, four days later, on January 20th he was the sole signatory for the Government of Canada of a*

⁹ And they care less about cars, as evidenced by the sharp drop in the number of young people who have driver’s licenses : in 2014 only 24.5% of 16 year-olds had one (vs. 46.2% three decades earlier) & only 69.0% of 19 year-olds (down from 87.3%).

sole-sourced contract with the firm selected as the “prime contractor” for the Harper government’s \$26BN plan to re-equip the Royal Canadian Navy (a program that has been controversial from the get-go & has become more so as unit costs have risen & the number of ships that could be built for the \$26BN has declined).

The optics of this have, if anything, increased the sense that this program was not a good use of taxpayers’ money & involved a massive subsidization of an industry in which Canada has no competitive advantage (as witnessed by the fact that this 15 small vessel program will cost over twice that of the half kilometre long Shell Prelude floating drilling cum natural gas liquifaction vessel, the largest ‘ship’ ever built, that will dwarf all the new Canadian naval vessels combined & will be at least as hitech but took only 14 months from the day the keel was laid until its ceremonial launching (i.e. the day it was floated with much of the finishing left to be done). The Trudeau government has since set up a special Commons Committee to review this contract, in part because its cost has begun to sky rocket but more so since the contract was written in a manner that lets the prime contractor add a surcharge to all work done by subcontractors, many of them US-based, thereby creating more profit from that than from the work it will do itself on the contract in Canada.

CONRAD BLACK’S TORONTO MANSION UP FOR AUCTION (NP, Tristin Hopper)

- Conrad Black (age 71) & his wife Barbara Amiel (age 75) have decided to put his ancestral home up for auction in mid-March, citing a need for a more “manageable home”, Built by his father in Toronto’s Bridle Path neighbourhood, the most affluent in all of Canada with the average family income of over \$1MM, it sits on a 2.6 acre site, measures 23,000 sf, and has nine bedrooms, 11 bathrooms & four powder rooms, and an estimated value of \$21.8MM (although in 2004 it was used as collateral for a \$32.3MM mortgage). A statement issued by New York-based Concierge Auctions, that is handling the sale, quotes Conrad Black as saying “It is a big house for two people.”

This is only the latest step in his ‘downsizing’; for since 2008 he has unloaded three other residences in New York, Palm Springs, Fla, & London for an estimated US\$65MM. Five will get you ten this will go for a lot more than \$21.8MM & will end up in Chinese hands; for it reeks of snob appeal that will attract nouveau riche parvenus like a flame attracts moths, not only for the location-, & amenities-, of the home, that are world class, but for its snob appeal; for over the years visitors have included Prince Philip, Margaret Thatcher, Henry Kissinger & Elton John.

IT’S PERSONAL : WHY THIS WAVE OF VIOLENCE IN ISRAEL IS DIFFERENT **(Reuters, Ronnie Elesker)**

- In the past month eight Israelis have been killed & dozens wounded in attacks by Palestinians who were Israeli citizens or had Israeli ID cards. In addition 40+ Palestinians were killed, many during attacks on Israelis using knives & others while using cars to run down Israelis). Over the years Israelis & Palestinians have seen lots of violence, with suicide bombings in Israel in the mid-1990s & early 2000s, and last year’s 50-day Gaza war (that resulted in the deaths of 2000+ Palestinians & 70 Israelis). But this is different; for it is personal. Knife attacks are fundamentally different from suicide bombings : while the latter create more carnage, they are impersonal whereas knife attacks are very personal, involving physical contact between attacker & victim. And unlike suicide bombings there is no formal Palestinian organization behind these attacks.
- While Israelis claim the rise in violence is due to incitement by the PA, by all accounts President Abbas has been trying to cool down the West Bank to avoid a third intifada.

But the political vacuum of recent years has allowed antagonism on both sides to take root. Though there are now 2,000+ security troops in Jerusalem & the deployment in the city of 13 more border police units has been approved, the government has yet to find an answer to the violence. Complete lockdowns of the city's Arab neighbourhoods called for by some Ministers would be difficult to enforce & might result in galvanizing more to attack. Demolishing attackers' homes has proven ineffective. Israel cannot bomb East Jerusalem's Palestinian residents into submission. And as to the suggestion that Israel should end its occupation of the city's traditionally Palestinian neighbourhoods, the withdrawal from Gaza in 2005 demonstrated the futility of unilateral action.

- The Netanyahu government must recognize that the status quo is no longer sustainable. No amount of violence, enhanced security or house demolitions will resolve the underlying issue. Unless this occupation is ended through a negotiated settlement that makes both parties accountable to each other, Israelis and Palestinians will continue to share one space but not equal rights, and the slaughter at close range will continue.

This cri de coeur, four months ago, came from an Associate Professor in International Relations & Middle East politics at Canton, NY-based St. Lawrence University, a 160 year-old, small (<3,000 students), private, pricey¹⁰, liberal arts college, whose official biography reads in part as follows "Originally from Israel, I spent a few years as a child in Boston and then returned as a graduate student ... In the past I served in the Israeli Army ... before graduate school in the States, I completed a law degree in Israel ... found myself working as an assistant prosecutor at the Central District Attorney's office in Tel Aviv ... was disillusioned with the system of criminal law and returned to pursue my true passion - international politics and security studies."

IRAN WANTS EURO PAYMENT FOR NEW AND OUTSTANDING OIL SALES

(Reuters, Nidhi Verma)

- Iran is owed billions by India & others for oil delivered when the sanctions were on & wants this now settled in Euros, not US dollars. And according to a source within the National Iranian Oil Company the recent contracts with Total, Spain's Cepsa & Russia's Lukoil were also denominated in Euros. Switching to Euros makes sense since "many European companies are rushing to Iran for business opportunities."

Tehran has been unsuccessfully trying since 2007 to convince its OPEC partners to switch away from the dollar (which former President Ahmadinejad called a "worthless piece of paper").

THE ONE THING IN SAUDI ARABIA THAT WORKS WELL IS UNDER THREAT

(Reuters, Steffen Hertog)

- Saudi Deputy Crown Prince Mohammed bin Salman has mooted the idea of privatizing parts of Aramco, thereby marking a shift from the 70 year-long, cautious, collective & consensual rule of the older, *second* generation of princes to a more daring style of a young third generation prince who is charging into hitherto political no-go areas, such as taxes, the delivery of health-, & education-, services and the size of the public payroll, and who is the driving force behind the Yemeni war.
- After the Saudis bought out their US partners in the 1970's Aramco was allowed to develop a corporate structure in which English was the working language & efficiency was everything, and men & women mixed in the work place. Since this required

¹⁰

Tuition & fees (not incl. board & room) are about US\$50,000

shielding it from the rest of Saudi society, it developed a fortress-like business model with its own cities, schools & hospitals, all the while protected by Royals (*who did not want to kill the goose that laid the golden eggs, in this case 70% of all government revenues*) from the rest of Saudi technocracy.

- Privatization, *depending on how done & what parts would be involved*, threatens this business model. For it would require disclosing information that so far has remained safely 'sub-rosa' & would by necessity have to involve putting some shares in the local investors' hands; while in principle a good idea, they are a volatile & herd-driven lot that could create problems for the government if their investment didn't live up to their expectations.

The main thing the Deputy Crown Prince, Mohammed bin Salman, has going for him appears to be that he is the King's favorite & youngest son by his favorite & youngest wife. But he is said to be head-strong & full of himself, and believed to be out of his depth, & to lack the experience, to handle all the jobs he has been given by the King. For he is not just Deputy Crown Prince but also Minister of Defense, & hence responsible for the conduct of the Yemeni War (which hasn't gone very well) & for whatever military venture in Syria Saudi Arabia may soon be drawn into. Last but not least he is also Chairman of the (key) Council for Economic and Development Affairs Council (the creation of which was one of King Salman's first decisions upon assuming power), with complaints being heard that his Defense Minister's responsibilities are cutting into the time he needs to be an effective Chairman of this potentially critically important body.

THIS COUNTRY'S NATURAL GAS DEMAND JUST FELL FOR THE FIRST TIME EVER **(Pierce Points, David Forest)**

- China is the world's third-largest LNG consumer. But a new EIA report shows that in 2015 its LNG imports were down 1.1% YoY to 2.6BNCFD, for the first time since it started importing LNG in 2006 (all of < 0.1BNCF). It attributed this to the slowdown in its economy & to the lower prices of competing fuels [LNG-fueled machinery can also run on LPG (Liquified Petroleum Gas) that lately has become much cheaper]. This could have two significant consequences. China's current regasification capacity stands at 5.4BNCFD with another 3.4BNCFD under construction (suggesting massive idle & non-productive capacity for years to come). And secondly, if this were the onset of a trend, the global LNG market could be deprived of one its key drivers of recent years (which may explain Shell's *February 4th* announcement that final approval for its major LNG project on Canada's West Coast will be delayed by nine months until late this year).

The LNG spot price in Asia has gone from nearly US\$20 four years ago to US\$7 today, & forecasts are it could dip as low as US\$5.00, or even US\$4.00, this year; the demand situation has also not been helped by Japan having started to bring nuclear power stations back on line.

HOW SUB-\$30 OIL COULD BE A BLESSING FOR NORWAY'S OIL FIELD (Bloomberg)

- Since 2012 Statoil has been developing the 3BN barrel offshore Johan Sverdrup field, 140 kms/87miles West of Stavanger & one-third of the way to the Scottish East Coast, for a 2019 start-up at 500,000+ bbl/d. To date it has spent NOK50BN (US\$5.7BN at today's exchange rate¹¹, but US\$8+BN at the pre-oil price collapse rate¹²). According to

¹¹ While this may seem like a lot, Statoil announced last October that it was cutting its capex budget by NOK1BN to NOK1.65BN, down 35% YoY (in three steps)

Jarand Rystad, an Oslo-based oil consultant, it will could become “an all-time profitable project because it is being developed ... with very low input prices”, 60+% of them in Norwegian kroner that have depreciated big time against the US\$).

Third party estimates are that its break-even cost will be in the US\$20-US\$25 range; if this & Statoil’s forecast of US\$63.50 oil by 2017 were proven correct, this could, by 2018, double its net income after taxes from its pre-2014 level.

SPANISH CIVIL SERVANT FINED AFTER NOT SHOWING UP FOR WORK FOR SIX YEARS **(AP, Alan Glendenning)**

- In 2010 the Deputy Mayor of the city of Cadiz realized that no one for a long time had seen one particular worker, who was about to be awarded a plaque for 20 years of service. So he contacted him, ordered him to come to city hall & found him evasive when asked what kind of work he had been doing. After it became apparent he hadn’t been at his office for up to six years & was about to be retired, the city sought to have him repay one year’s net pay, the maximum allowed under the law, which prompted him to start a legal battle that recently ended when a court ruled he had to pay back 27,000 Euros (US\$42,000).

It makes one wonder!

VENEZUELA CENTRAL BANK IN TALKS WITH DEUTSCHE BANK ON GOLD SWAP **(Reuters, Carlos Garcia Rawlins)**

- Venezuela is suffering from a severe recession, triple digit inflation & chronic product shortages (caused by the government’s currency control system having slashed approval of dollars for imports, leading to empty shelves & long supermarket queues) that has been aggravated by the low oil prices. This led to the opposition winning a crushing majority in Congress last December (*although the term of Chavez’s chosen successor as President, Nicolás Maduro, elected by a slim 1.5% margin in April 2013, doesn’t end until 2019*).
- Under Chavez the central bank used billions of dollars from its reserves to fund social programs. As a result 64% of Venezuela’s US\$15.4BN FX reserves are now in the form of gold. And with US\$9.5BN of debt repayment-, & servicing-, costs due this year, Venezuela last December agreed to do a gold swap with Deutsche Bank (whereby the owner of the gold lends it for a specific period of time & gets cash in return, thus avoiding the downward pressure on the price of gold that would have resulted from an outright sale, *not unlike an individual ‘pawning’ a watch or a diamond ring*).

¹² Tthe NOK was worth US\$0.190 on May 3rd, 2011, by May 2014 it had depreciated 11% to US\$0.169 , by May 8th, 2015 another 21% to US\$0.134, and as of January 18th of this year another 16% to US\$0.113, for a compound annual rate of depreciation of about 11%.

In American football this is called a “Hail Mary pass”, one made out of desperation with little chance of success; for even if the price of oil were to miraculously recover significantly, Venezuela is still bound to sell oil to China at discount prices under long-term loan agreements contracted by Chavez in his later years. Credit default swaps imply a 78% probability that Venezuela will default within 12 months¹³. The IMF expects its economy to shrink by 8% this year & the rate of inflation to hit 720%, more than triple that in 2015 rate & up from 20% in 2013. And the opposition-controlled National Assembly recently rejected the President’s request for emergency powers to deal with the economic crisis, saying he already had all the powers he needed to do so - this ain’t going to end well & its denouement could come at a bad time for global confidence.

ZUMA ANNOUNCES SWEEPING REFORMS (G&M, Geoffrey York)

- The value of the national currency in FX markets has collapsed, economic growth has come to a near standstill, unemployment is in the 25% range, and he has been ridiculed for having fired two Finance Ministers in four days & criticized for a series of corruption scandals¹⁴. Therefore, amidst the worst political & economic crisis since he came to power seven years ago & a slump in his standing in the polls, and facing a likely downgrade in his country’s credit rating to “junk” status, he vowed in his February 11th State-of-the-Nation address (which was hall marked by almost continuous heckling & jeering), to slash costs, get rid of state companies & make his government more business-friendly.

But his proposals only touch the superficialities of his government’s spending, such as ending the practice for his top officials to have limousines & houses in all three of the country’s capitals (the ‘legislative’ one in Capetown, the ‘executive’ one in Pretoria, & the ‘judiciary’ one in Bloemfontein where the Supreme Court is located) & to cut back on costly journeys abroad by ‘bloated government delegations’, while insisting that its nuclear energy program will go ahead despite the fact that, while the need for more, & more reliable, power generating capacity is self-evident, governmental sources say this can be done during the foreseeable future more cost-effectively

¹³ While the official exchange rate is 6.3 bolivars to the US dollar, the black market rate is more like 1,000+ to the US dollar.

¹⁴ The most high profile of which was having spent US\$23MM of public funds on his private residence, some of which he recently, under pressure, undertook to pay back.

from traditional-, & 'green"-, sources, and, more importantly, that the US\$100BN nuclear energy has been severely criticized because its cost per MW of capacity is totally out of whack with international benchmarks (to give his hangers-on scope to financially gorge themselves?).