China's 3Q annualized economic growth rate - For the third quarter running it was 6.7% (down from 7.1% YoY). But *Chinese data may be 'manufactured' to suit the regime's purposes &,* digging deeper behind the 'headline number', one finds this was driven by more government spending, record high bank lending & an overheating property market, all funded with borrowed money that will add to the country's already relatively high overall debt load - *The truth of the matter is while countries like India have been deleveraging, China has not. Most of the increase in China's government spending is going into infrastructure expansion that has long payback periods, the banks have very high-, & still growing-, levels of 'non-performing loans' on their books & Beijing now seems to willing to tolerate some bankruptcies (incl. of SOEs. State-Owned Enterprises), while property bubbles can, & will in due course, burst. And while the rating agencies take solace from the fact that Beijing still has lots of unused borrowing capacity [its national debt-to-GDP ratio (45+%) is modest compared to, say, that of Japan (229%), the US (104%)*, *the UK (89%), Germany (71%), India (67%) & Brazil (66%), the fact remains that this is up by half since 2008 (while the corporate & household debt-to-GDP ratio, that now stands at 210%, has nearly doubled). Last, but not least, exports are weak & industrial overcapacity, that undercuts profitability, is growing.*

From Aleppo to Mosul - This is the title of an 800-word article in the October 8th Economist[1], that bookended between "Survey the rubble of the Fertile Crescent, and a disturbing pattern emerges ..." & "What happens in Mosul matters beyond Iraq ..." paints quite a dismaying picture.

Inflation *finally* on the upswing? - On October 18th the British Office for National Statistics announced that in September the annualized rate of CPI growth had jumped to 1.0%, from 0.6% in August; it said that this was not just the biggest MoM jump since June 2014 but also a post-November 2014 high (& above the 0.9% expected by the economists surveyed earlier by Reuters). Since the weaker pound did not seemed to have played a role in this, the expectation now is that this heralds the onset of much broader-based CPI growth fueled by the near 20% plunge in the value of the pound since last June's Brexit vote. That same day the US Labor Department reported that in September the CPI had, due to higher gasoline & rent costs, increased by 0.3% (i.e. at a 3+% annualized rate), up from 0.2% in August and, that on a YoY basis it had been up 1.5% in September vs. 1.1% in August (*increasing the likelihood the Fed will finally 'get off the pot' in December & raise rates (as already hinted at in the September FOMC meeting minutes)*.

Latest Clinton White House furniture removal allegation - This is 'old news'. For as far back as February 2003 ABCNews reported that that upon leaving the White House the Clintons had taken US$190,000-worth of china, flatware, rugs, TVs, sofas & other gifts with them (incl. some donated by individuals to the Park Service for its 1993 White House decoration project) & that they had since agreed to pay US$86,000 & return some items valued at US$28,000. And it reminded its readers that the furniture question had been raised by her new colleagues when Hillary became the junior Senator for New York State, as was Bill Clinton's choice of renting a US$790,000 New York City office space at the government's expense for himself in retirement (with the Clinton Foundation later having reimbursed the government US$300,000); & while it was at it, it had resurrected the "Pardongate" matter, when on his very last day in office Bill Clinton issued nearly one-third of the 450 Presidential pardons of his entire eight years in

1 That is well worth googling & reading to get a better idea of its possible downside.

office[2], incl. one to Marc Rich, a one-time financial ‘wunderkind’ who had fled to Switzerland while on trial in the US on 51 charges of tax evasion & fraud, & others to Edgar & Vonna Jo Gregory, principals of the United Shows International (for whose lobbying with Bill Hillary’s half-brother Tony Rodham was later proven to have been paid US$107,000).

“Law of unintended consequences” strikes again - Last year the US government decided that some of the major Wall Street banks were too much at risk from the amounts of bonds that they had on their books (*for relatively small increases in interest rates can give rise to losses on bond portfolios that would make one’s head spin*). So Congress legislated rules curbing their ability to hold bonds & required them to hold more capital *against them,* prompting the regulators to tell banks they could only have as many bonds on their books as they needed to “meet reasonably expected near-term demand” *from their customers.* This caused some banks to close down their ‘proprietary bond trading’ desks, thereby making the market “thinner” & potentially more volatile. Goldman was one firm who kept its desk open & this year profited thereby to the tune of US$100+MM after Tom Malafronte, a Managing Director on its high-yield bond desk, threw the dice last January, buying billions of junk bonds as panic selling drove their prices down, thereby enabling him to make huge profits for the firm (*& no doubt quite a few bucks for himself*) when buyer demand returned & prices recovered (*with the latter ‘proving’ that he had been correct in his assessment of “near-term demand’)*.

LIBOR (the London Interbank Offered Rate) – Long regarded as a benchmark of the level of mutual trust within the international banking community, it ought to be a source of concern that in the past year, despite the fact that, due to the central banks’ machinations of recent years, the system is awash with liquidity it has gone from 0.19% to 0.53% for the one-month-, & from 0.87% to 1.56% for 12 month-, maturities - *While the CW seems to be that this time “it will be different”, that kind of thinking has in the past often been misleading, if not dangerous, and if the rising LIBOR rates were indeed a signal that the level of mutual trust among banks is in decline (which would not be unreasonable, given the state of the European banking system in general, & that of the Italian-, & to a lesser extent the German-, banks in specific, to look upon this development as a flashing amber-, if not an outright red-, warning light).*

Obama’s Googable “A thoughtful to-do list” contribution to The Economist’s October 8th edition - This three page-, possibly first-ever-, essay by an outgoing US President reflecting on his own shortcomings & laying out a ‘bucket list of ideas’ for his successor is well worth the time it would take to read it. Among his seemingly more interesting observations are :

- “Too many potential physicists and engineers spend their careers shifting money around in the financial sector, instead of applying their talents to innovating in the real economy”[4]
- “This is the paradox that defines our world today. The world is more prosperous than ever before and yet our societies are marked by uncertainty and unease”;

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2 While their number far exceeded George W.H. Bush’s during his four year term, it was similar to Regan’s & Carter’s. So the real issues appear to have been in part their timing, in part the identity of the beneficiaries, & in part the scent of skulduggery.

4 This is significant since according to the OECD’s 2015 Science, Technology & Industry Scoreboard in 2012 the US, with 16%, ranked 39th in the world in the percentage of STEM (Science, Technology, Engineering & Mathematics) degrees awarded to their latest crop of university graduates (with global average being 22% and the Top Ten South Korea - 32%, Germany - 31%, Finland & Sweden -28%, France -27%, Greece & Estonia -26% and Mexico, Australia & Portugal - 25%).

- “A capitalism shaped by the few and unaccountable to the many is a threat to all”;
- “Expectations rise faster than governments can deliver and a pervasive sense of injustice undermines peoples’ faith in the system”;
- “Innovations have changed lives ... (*but*) they have not substantially boosted measured productivity growth” (*but this may well be due, as is the case of the GDP & the CPI, to a deeply flawed measurement methodology);*
- “Inequality has risen in most advanced economies, with that increase most pronounced in the United States. In 1979 the top 1% of American families received 7% of all after-tax income. By 2007, that share had more than doubled to 17%” (*& six years later to 21%);*
- “Research shows that growth is more fragile and recessions more frequent in countries with greater inequality”.

Philippine President Rodrigo Duterte ‘warms up to China’ - At least that’s what he told Xinhua News on the eve of his visit to Beijing (*he is angling for equal treatment with African nations in China’s largesse in “railways and everything*”) - *if he is serious, & one must assume that he is, this would upset the US’ three-legged stool of support in the region*[5] *that is key to the Obama/Clinton “pivot to Asia” policy, especially since in the short run it will count most in the South China Sea - while The Economist refers to him as “the Donald Trump of the Philippines”, it is totally off base in doing so; for Trump is just a buffoon with an oversized ego, Duterte, by his own admission, has hands dripping with blood.*

Trudeau government is on an ‘equal pay for work of equal value’ kick for its female employees, as others have before it - But this ‘principle’ appears to apply only to federal staff. For there is ample empirical evidence that **total compensation** for public sector workers is well in excess of that of those doing “work of equal value’ in the private sector. According to StatsCan this is due in part to the fact that 76% of public sector workers are unionized vs. only 19% in the private sector. And, while according to the Fraser Institute the public/private sector ‘wage premium’ is 9.7%, this is rather surprisingly a ‘low ball’ estimate; for it is only about half that calculated by others on a more all-inclusive basis by including public sector non-wage benefits such as paid time-off for sickness, disability & family reasons (8.3 days in the private-, & 12.4 in the public-, sectors) & pension benefits (87.8% of public sector workers are covered by pension plans vs. only 23.9% of their private sector counterparts while, in addition, most of the former are in employee-friendly indexed ‘defined benefit’ plans[6], that in the private sector are becoming scarcer than hen’s teeth as private sector plans are increasingly converted into employer-friendly ‘defined contribution’ ones.

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EXXON CEO DOWNPLAYS FEARS OF SHORTAGES (Bloomberg, Rakteem Kataki)

[5] The others being Japan & South Korea.

[6] Few people appreciate that Saskatchewan’s left-centre CCF/NDP governments were typically only so in social matters & that in consequence thereof then Premier Allan Blakeney in reforming the public sector employee pension plans ended new provincial

- Saudi Arabia's Minister of Energy, the CEO of France's oil giant Total, OPEC & the Paris-based IEA have warned the world could face an oil supply crunch *in the not too distant future* because the industry has cut its *E&D* spending to the bone; thus last month's IEA World Energy Report claimed that it had cut investment in new production by 25% last-, & another 24% this-, year and may cut it, for an unprecedented third year in a row, in 2017. But ExxonMobil CEO[7] Rex Tillerson doesn't see it this way. For he told the October 18-19 37th Annual Oil and Money Conference in London that "I don't … have the view that we are setting ourselves up for some big collapse within the next three, four, five years." He bases this on a belief that new technology will allow companies to pump more oil *at lower prices than in the past*, that falling costs in America's shale fields will counteract any OPEC commitment to supply management, that cheaper, faster fracking means that 'tight oil' will remain viable even at relatively low prices & that large swaths of US shale will become economical at US$60/bbl as costs fall & productivity increases. And other speakers at the conference agreed with him, incl. ConocoPhillips' (No. 9 in the world with 56BN in revenues) CEO Ryan Lance who said that new wells are now viable in the Texas' Permian, Eagle Ford & Bakken shale basins at US$40/bbl & Pioneer Natural Resources CEO Scott Sheffield (whose company is adding five more drillings rigs in the Permian) who said production there could easily grow by 300,000 bbld a year for the next decade. These observations reinforce the view that seemed to be emerging at the conference (which every year attracts some of the industry's leading lights) that oil prices will remain in the US$50-60 range for the next few years.

If Saudi Arabia's opening of the spigots was indeed intended to drive the US shale oil producers out of business, it is increasingly starting to look like an abject failure (even though in the short run it has created quite a bit of pain & bankruptcies in North America's oil industry writ large).

BIG CENTRAL BANK ASSETS JUMP FASTEST IN 5 YEARS TO US$21 TRILLION (Bloomberg, Phil Kuntz)

- At the equivalent of 29% of global GDP, this is over twice that ratio in September 2008 when Lehman Bros. imploded. After growing by just 3% in each of 2014 & 2015, they are up 10% YTD to US$21.4TR. Of this total just four banks (PBOC, the Fed, BoJ & ECB) account for 75%, six others (the central banks of Brazil, India, Russia, Saudi Arabia, Switzerland & the UK) in equal parts for another 12+% & another 107 central banks for the remaining 13%. In the aggregate the above-named ten central banks' asset base was up 265% in a decade, with that of the Swiss National Bank having grown fastest (i.e. eight-fold) & Russia's the slowest (by just 68%).

Recently the OECD noted that in the past decade there had been too much dependence on monetary-, & by implication too little on fiscal-, policy. All the central banks seem to have gotten for their money is bubbling stock markets rather than more economic growth, as well as less & less 'bang for their buck'; i.e. less incremental growth per dollar created, and among the Big Four the BoJ & ECB seem bound & determined to demonstrate the validity of Einstein's definition of insanity ('doing the same thing over & over again, and expecting different results').

U.S., BRITAIN WEIGHING NEW SANCTIONS ON RUSSIA, SYRIA (AP)

[7] The world's fifth-largest oil company with US$269BN in revenues after Aramaco (US$478BN), Sinopec (US$$%^BN), CNPC (US$429BN) & PetroChina (US$#68BN)

- While on October 16th they said they were considering new sanctions to pressure the latter governments to halt their attacks on the rebel-held parts of Syria's largest city, Aleppo, Secretary of State John Kerry noted, after talks in London with diplomats from, among others, France , Germany, Italy & the EU as well as Saudi Arabia, Qatar, the UAE, Jordan & Turkey, that "I haven't seen a big appetite from governments in Europe to declare war" despite the fact that all oppose President Assad's continued control over his country & are angry about Russia's year-long military intervention that has contributed to thousands of deaths & harrowing scenes of destruction in Aleppo. And, while after the meeting Kerry & his British counterpart, Boris Johnson, declared 'all options are on the table to stop the bloodshed', they expressed in their next breath misgivings about a military approach & said that they preferred a 'ratcheting up' of economic pressure on Syria & Russia (*which so far has proven singularly ineffective).*

President Assad still dreams of regaining control over all of what used to be Syria, while he only controls, to varying degrees, < 25% of its landmass, from the Northwestern coastal homeland of his Alawite co-religionists (in the South of which, just North of the Lebanese border, Russia's naval base at Tartus is located) & from there along a narrow strip East of Lebanon to the Golan Heights and Israel's-, & Jordan's-, Northern border. But he has no presence to speak of in the entire Eastern & Northeastern three-quarters of the country, which is populated by Sunni Arabs who now, even if not jihadiis, hate him more than ever. And while Putin has a 'legitimate interest' in maintaining control of its Tartus naval base & in destroying ISIS (for several thousand of its fighters are Russians or Central Asians who would pose major problems for him at home if they were ever to return), President Assad has duped him into concentrating much of his military effort on those he calls "terrorists" but who in reality are merely opponents in a civil war & in no way pose a danger to Putin, & the beating up of whom by Russian planes will affect the way the entire Sunni Middle East will regard Russia for a long time to come.

<u>GLOBAL MONEY GIVING UP ON JAPAN</u> (Bloomberg, Min Jeong Lee)

- The US$59BN dump of Japanese stocks by foreigners in the past five months may make 2016 the largest flight of foreign money from Japan since 1987 (two years before this was proven to have been the smart thing to do when the Japanese stock market **really** hit the skits). But there is a difference; then it was driven by bubbly valuations & the Black Monday crash after-effect whereas now foreigners have given up on Abenomics. For its policy mix of massive monetary stimulus & increased fiscal spending has failed to spur lasting growth & get the country anywhere near its 2% inflation target[8]. Nevertheless Akira Amari, a lawmaker in the ruling Liberal Democratic Party & a former Economy Minister (*from 2006 to 2008*) maintained in an October 18th interview that "There has been a delay ... But Abenomics isn't wrong as a plan." And, while according to Mikio Kumada, a Hongkong-based Executive Director at Pfaeffikon, Switzerland-base US$60BN AUM LGT Capital Partners, that quit cutting its Japanese exposure earlier this year, "The foreign selling is very clearly overdone ... *With BoJ Governor Haruhiko Kuroda having pledged to boost asset purchases if needed to revive growth ...* The BoJ will make a move. The yen should weaken again (*YTD it has appreciated 16% against the US$, more so than any other Asian currency*) and the equity markets will rise", Toru Ibayashi, the Tokyo-based head of Japanese equity investments in the *Zurich-based* UBS Group AG's wealth management unit (with AUM of US$2TR worldwide), a

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8 In fact in August consumer prices fell for the fifth month in a row & households cut their spending by the most since March.

sustainable rally is possible only if Prime Minister Abe were to make real headway in dealing with key structural problems, first & foremost by overhauling the labour market (a sine qua non for improving the corporate profitability).

But it is hard to see how anybody people can be optimistic about Japan. Its population is both declining ***and*** *aging & its fertility rate is a dismal 1.41, two-thirds the 'replacement rate'. Its National Debt-to-GDP ratio is 2.29x, a rate that makes Greece's 1.80x rate look good). The best thing that can be said of its 6% Deficit-to-GDP ratio is that it is better than the 9% of six years ago. The Bank of Japan's NIRP (Negative Interest Rate Policy) is lightening the load of servicing the government's huge debt load but has totally failed to accelerate economic growth. And last but not least, Abe has made far too little headway with the structural reforms that are key to putting its economy on a more rapid growth path than it has seen for almost thirty years.*

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<u>CANADA NEEDS TO BE MORE COMPETITIVE</u> (FP, John Shmuel)

- Canada has an abundance of base-, & precious-, metals, the world's largest supply of fresh water[9] & third largest oil reserves[10] and <u>The Economist</u> consistently rates its cities among the world's best places to live in. At 2% of global GDP, its economy is the world's 10th largest despite the fact that its 36mm population accounts for just 0.5% of the global total. But according to the 25 year-old, Lausanne, Switzerland-based IMD World Competitive Center its economy this year was the world's 10th most competitive, down from 5th in 2015, while according to the Zurich-based WEF (World Economic Forum) Canada global competitiveness had dropped from ninth place in 2009 to 13th in 2013.
- But the value & volume of Canada's exports has yet to return to their its pre-2009 global recession level. And while the weaker Canadian dollar should have made its exports more competitive & prompted a return of many of the manufacturing jobs lost in the years it was at a premium over the US dollar, and those who lost their jobs in the resource sector should have found new (*but lower paid?*) ones elsewhere in the economy, this proved easier said than done; for the loonie has been well below par with US dollar for some time & exports haven't responded. Canada's labour market has continued to deteriorate, wages to stagnate & companies to remain loath to invest their large cash reserves. The BDC (*the federal government-owned* Business Development Bank) says that greater competitiveness is less about gaining international stature than about improved living standards for Canadian citizens and according to the Canadian Chamber of Commerce Canada's international competitive position is, *despite its favourable corporate tax environment*, hampered by the lack of an effective innovation

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[9] This is a popular but bogus claim; for its proponents' don't differentiate between a "stock" & a "flow". Thus the Great Lakes may hold 18% of the world's stock of sweet surface water, but their 'drainage basin' is relatively small (<100 kms wide at the Canada-US border North of the Lakehead) while they also experience massive outflows to the Northeast via the St. Lawrence Seaway & increasingly South into several US states for human consumption purposes. So on a more meaningful, renewable (mostly rainfall) "flow " basis, its quite a different story : Canada with 2,902 cubic kilometres of annual rainfall is a distant fourth behind Brazil (8,233), & less so behind Russia (4,508) & the US (3,069),and slightly ahead China with 2.738 cubic kilometres.

[10] Another somewhat dodgy claim; for the lion's share of Canada's- (& Venezuela's-) oil reserves are in locked in oil sands whereas those of most of the 'large reserve' Middle Eastern countries, first & foremost Saudi Arabia, are in conventional, easy-to-access & cheap-to-produce-from-, supposedly more environmentally-friendly-, forms

policy, the trade barriers between provinces, its unpreparedness for climate change & a failure to develop a commercial "brand" of being a good place to do business[11]).

Worst of all, growth of Canadian productivity (defined as the output growth in dollars per hour worked) has for the past 30 years lagged that of the US (which at < 1.3% per annum was no screaming hell) & that in other major countries. One can only wonder whether this may well be, in part at least, a function of the fact that, according to the Heritage Foundation/WSJ's Annual Index of Economic Freedom, in 2014 government spending in Canada accounted for 41.9% of its GDP vs. only 25.1% in the US[12] *(although part of this difference is accounted for by the fact that most of the 10.7% of GDP that in Canada is accounted for by healthcare spending is paid for by governments, while most of the 17.1% of GDP that is spent on it in the US is paid for by individuals rather than governments. Another drag on productivity may well be that Canada's is the world leader in 'PTSD lifetime prevalence' of 9.2% vis a vis the US' 7.8%.*

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11 Thus Canadian government after government has failed to capitalize in the developing world, especially in its British Commonwealth & Francophonie components, on the fact that Canada can provide access to North American technology free from any 'Ugly American' baggage.

12 Whereas productivity is easy to calculate, it is less so in the public sector; so for decades statisticians have calculated productivity growth on the basis of a 'flat public sector productivity growth' assumption), i.e. the bigger the public sector, the greater its drag on overall productivity growth. And reality may well be worse since there is a premium on inefficiency in the public sector; for the more inefficient a unit in the public sector is, the more staff it needs to perform the same work load & the greater number of workers in that unit, the bigger the empire of the individual in charge of it, and the bigger the empire, the bigger his or her paycheque.