

Obamacare premiums will go up next year - The Department of Health & Human Services announced on October 24th Obamacare premiums will increase by an average 25% next year; but that for individual states it will vary widely, from 3% in Indiana & Massachusetts through, among others, 40% in North Carolina, 43% in Illinois, 51% in Nebraska, 53% in Pennsylvania, 63% in Tennessee & 69% in Oklahoma, to 116% in Arizona - *this cannot be good news for the Clinton campaign since while it may not much affect the outcome of the Presidential vote, it could have a significant GOP-favourable impact on individual Congressional races.*

Proposed oil production cut - The odds of it not happening are shortening : for Russia, whose oil output is on a par with, or possibly slightly greater than, Saudi Arabia's has changed its tune & now wants merely a "freeze" rather than a "cut", Iraq has indicated it should be exempted from any cutback arrangement & Iran has long made it clear it will continue to hike output until it reaches its pre-sanctions' level. Fundamentally, the problem is that several OPEC producers (& Russia?) are desperately short of oil-driven cash flow to balance their budgets & thus are in favour of production cutbacks only if they will come out of someone else's hide (so they can have it both ways, getting a better price for the same amount of oil produced). And it is likely not a sign of strength that, while an OPEC 'technical conference' was scheduled for October 28th & 29th at its headquarters in Vienna, it earlier this week, on relatively short notice, invited 12 non-OPEC countries (Azerbaijan, Bahrain, Bolivia, Canada, Columbia, Egypt, Kazakhstan, Mexico, Norway, Oman Russia and Trinidad & Tobago), to the second day thereof, and that at last report only two of them, Russia & Kazakhstan, had accepted the invitation. So this issue will likely 'hang fire' until the next scheduled regular OPEC meeting on November 30th.

The Cold Clinton Reality - This is the title of an article in the October 27th Wall Street Journal, the guts of which is "They (*i.e. Hillary & Bill*) make little distinction between the private and public aspects of their lives, between the pursuit of personal enrichment , the operation of a nonprofit, and participation in U.S politics" and wonders why "the IRS has never audited their foundation?". And it ends the article with "The Clinton Campaign has suggested that Donald Trump has praised Vladimir Putin because the Russian has something on the Republican. The question is what do any number of possible bad actors know about Bill and Hillary Clinton's mixing of business, charity and politics?" - *The article can be googled & makes one wonder once again about how rotten the American political system really is when it allows two such moral/ethical bankrupts to become the two parties' candidates for the top job in the country?*

Times are achanging? - The Letter to the Editor by one Andrea Barone entitled City Love in the October 26th Globe and Mail, opens up with "The assumption that most millennials want to live in a single family home (*in the suburbs?*) is wrong. ... Millennials like myself who grew up in single-family suburban homes want nothing to do with that lifestyle. We work in, and want to live in, the city". Moreover, "most of my friends who recently signed leases or bought condos in the city did so with the intention of raising kids there." And she concluded "Whether or not we could afford a single family home is irrelevant. We don't want one." - *I first ran into this phenomenon two years ago when I did the Edmonton City Census in a city core district when I encountered to quite a few young people, some of them with children, who had no intention ever to move to the "burbs". And not long after this was confirmed when a very successful Edmonton developer/ builder of downtown high rise condos said in an interview that in his latest two, four blocks from the very city centre, he was including 3BR units because there was a demand for them from families with children who wanted to live downtown (this really shouldn't surprise anyone; for all over the world, incl. many countries from which new Canadians now come, raising children in apartments can be the rule rather than the exception.*

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THE CONSUMER MAY BE ALL U.S. ECONOMY HAS GOING FOR IT (G&M, Bryden Teich)

- September was the 72nd month in a row that the US economy created net new jobs, a cumulative total of 14MM, i.e a 200,000 monthly average. With the economy thus seemingly firing on all cylinders, one may wonder why the consumer has not gone into high gear too? Well, the data show that the he/she has done so; in fact they may be the only thing the US economy has going for it. For economic growth is a function of four things : consumer-, & government- spending, investment & net exports, and in theory seven years into an economic expansion, one could, & *should*, expect a broadly-based contribution; but seven years after the end of the Great Recession this isn't the case and looking at these drivers of economic growth, the following quickly becomes apparent :
- **Exports** - A strong US dollar & weak global demand are not conducive to rapid export growth : net exports growth has been negative in eight of the past nine quarters &, with the Fed inching towards higher rates, the dollar will remain strong. So exports are unlikely to be a major source of growth for the US economy;
- **Inventories** - The US economy also has the highest inventory-to-sales ratio since 2009. While often a harbinger of a recession in the making, in this case this may not be the case (*at least not yet*), although we should watch for any possible inventory liquidation (because of its possible negative implications for corporate profitability);
- **Business investment** - It has been tepid; for slow growth makes corporations more cautious when it comes to making long-term investment decisions. So, *sitting on a veritable mountain of cash*, they have turned *en masse* to buying back their own shares instead of making long-term investments [because this boosts PEs (*Per share Earnings*)] & *companies' abilities to hike dividends even if revenues are stagnant*. And a hostile regulatory environment & shift to populist politics aren't conducive to long-term corporate business investment decision-making either;
- **Government spending** - While it can provide important support to an economy during recessionary periods, seven years into an economic expansion it cannot be relied on as a driver of economic growth (*especially when the government debt-to-GDP ratio is already North of 100%?*); so one would unwise to count on more government spending as a driver of economic growth over the next few quarters;
- **The consumer** - He has been resilient throughout the seven-year expansion. The 14MM jobs created have hiked disposable incomes & buoyed consumer spending. Household balance sheets have largely recovered & personal savings rates are up. And while some sectors of the economy have been a drag on economic growth for three quarters (in the Second Quarter alone at a rate of -1.5%), the US consumer remains strong, although he cannot be counted to *singlehandedly* return the US economy to a high growth path.

The reality of life is that the number of net new jobs created in September, as initially reported, was just 156,000, 20,000 less than expect & down 11,000 MoM, the third lowest monthly total in 12 months & well off the above-noted six-year 200,000 average. Also the much-vaunted 14MM number conveniently overlooks the fact that during the Great Recession about 7MM jobs were lost; so the real net job gain since 2008 is just half that. In addition, today's 63% 'participation rate' is staying stubbornly well below 2008's 66%. Finally, the growth in real wages has been minimal until very recently & the latest index of consumer confidence reading was 87.9, down from 94.7 in May. And while the US consumer 'deleveraged' between 2007 & 2012, he/she has broken that trend since. But what is really fascinating is that according to the BLS between July

& September of this year the US labor force grew by 0.4% to 159,907,000 & the number of those with jobs by just 0.3% to 151,968,000 (so that the number of those without a job went from 7,770,000 in July to 7,939,000 in September). Be all that as it may, JPM just upped its 3Q growth forecast from an annualized 3.3% to 3.6% (although its reasoning for doing so seemed a bit convoluted.)

US GDP 'ROARS BACK' (WSJ, Eric Morath)

- Today, October 28th, the Commerce Department reported that Third Quarter GDP growth had been 2.9% annualized, up from the Second Quarter's 1.4% & the paper's 2.5% expectation, and the fastest such rate in two years. The main drivers thereof had been stronger exports & a *further* buildup of inventories (ex-private inventory build-ups, the overall growth rate was just 2.3%), while consumer spending had grown at a lower rate.

These numbers don't deserve the bullish headline; for inventory build-ups, especially now when they are already at historically high levels, 'borrow' GDP growth from tomorrow. Be that as it may, the headline may over the next few days help the Clinton campaign at the hustings.

GOP CANDIDATES GIVE UP ON TRUMP TO RUN AGAINST CLINTON (Politico, Alex Isenstadt)

- Almost 20 years ago to the day, when it became apparent that Bob Dole didn't have a hope against Bill Clinton, the GOP changed its focus from supporting Dole to attacking Clinton in the Congressional elections. And it worked then, *for it wrested control of Congress from the Democratic party &, for all intents & purposes turned Bill's personal victory at the polls into a Pyrrhic one that basically neutered him politically*, and the GOP Old Guard hopes it will do so again (*and in a way it matters less who will be the next President than it does who will control Congress, & particularly the Senate that has the ultimate power over US Supreme Court Justices' appointments whose terms can be two decades or more vs. a President's four*). Hence this week's commercial by the NRCC (National Republican Congressional Committee) poses the question "What would happen if Democrats controlled *both* Congress and the White House", implying that a Republican-controlled Congress would be a check on-, & a balance to-, a Hillary Clinton Presidency. Even John McCain, who, despite press muttering that he is fighting for his political life, has consistently led his Democratic opponent by double-digit margins (most recently by 14 ½ points) has been infected; for he recently first called his component, Ann Kirkpatrick, a "good person" but then warned that "If Hillary Clinton is elected president, Arizona will need a Senator who will act as a check on -, not a rubberstamp for-, the White House".

And Sen. Lindsey Graham (who as far back as early June urged his fellow Republicans to "un-endorse Trump) perhaps summed up the idea best when he declared that "If there's ever a time for a check-and-balance argument, it's now. You've got an underperforming Democratic candidate people feel compelled to vote for, not because they want to, but because they have to." That being said, the immediate effect of this change in strategy has been to reinforce the already nastiness of political campaigning at grass roots level.

CLINTON CAMPAIGN HIT BY RESURRECTED FBI PROBE 11 DAYS BEFORE ELECTION (Reuters, Steve Holland)

- In an October 28th letter to several Congressional Republicans FBI Director James Comey told them that the agency had learnt of the existence of emails that appeared pertinent to its *earlier but since suspended* investigation of her use of a private email server while Secretary of State & had therefore re-opened it. *Needless to say* the Trump campaign greeted this news with glee & *Clinton's with horror*.

This issue just won't lie down & die; with hindsight she would have been much better off having faced this issue earlier, at a time of her choosing.

XI JINPING'S TRUMP MOMENT (WSJ, Andrew Brown)

- One hundred years ago the US textile industry's heartland shifted from Massachusetts to the low-wage Southern US, and fifty years ago from there to the miracle economies of East Asia &, more specifically, in the 1990's to China's Pearl River city of Dongguang¹. But it has now shifted again to where labour is cheaper, inland China, Vietnam & Bangladesh; as a result Dongguang had its 15MM population halved (*and, worse still, the economy of what once was known as China's "sin capital" has been negatively affected by Xi's anti-corruption campaign*). With shifts like this all over China, Xi sees clouds gathering. And while he speaks with a shrug of the "new normal" of slower growth, his *increasingly* assertive nationalism (he recently appeared on TV in combat fatigues) betrays deep insecurities. For the consumer economy is not expanding fast enough to make up for lost manufacturing, GDP growth has slowed every year since 2011, E-commerce is booming but bricks-and-mortar stores shedding staff like crazy, & mass lay-offs loom in "zombie" SOE's that continue to crank out products already in massive oversupply. This slowdown threatens the CP's goal of doubling 2010 per capita GDP by 2020, a year ahead of the centenary of the party's founding; for that would require growth to remain over 6.5% (& there's little long-term growth potential in building airports without planes & roads in areas with little traffic).
- At stake is the legitimacy of the Communist Party that (*in thirty-plus years since Mao's death & Deng Xiaoping's 'opening up to the world'*) has rested on economic performance. But now, driven by fears of his party's demise, Xi has conjured up a whole new rationale for its rule that is based not on never-ending prosperity but on nationalism & militarism in the belief that if the masses can no longer be excited by galloping growth, they might be inspired by (*seemingly?*) rapidly proliferating power. While America wrote the rules for global trade after WW I in the belief that the free movement of goods & capital would bind its friends & allies more closely to it in a new liberal world order, this failed to take China's game-changing potential into account. For in the 16-year period ended in 2007, the value of US imports increased 12x & US exports to China at a much lower rate. In China this helped lift hundreds of millions out of poverty, while in the US it just contributed to widening wealth disparities & four decades of stagnant wages for the middle classes. Trump's trade proposals, if enacted, would spark a trade war & harden Beijing's growing protectionist instincts, thus reversing the decades-old Deng Xiaoping thinking that China's competitive advantage was its huge stock of cheap workers & that throwing the coastal zone open to foreign-owned factories would be the fastest route to national wealth & power.
- Beijing is now more jealously than ever guarding its domestic markets & Xi's *recent* turn to authoritarianism is reinforcing this trend. New security laws are driving out US companies. Anti-Americanism (& *anti-Japan feelings?*) is on the rise, with a video

¹ That only achieved city status in 1985

released recently by the Supreme People's Procuratorate warning of the "dark shadow of the Stars and Stripes". And, with wealth disparities now even more pronounced in China than in the US, Xi now faces an influential Maoist clique that argues Deng's whole "reform & open" experiment betrayed the workers in whose name the Party rules. Meanwhile world trade is slowing, single panaceas & strongman personas resonate among those weary of complexity, and Trump telling the Republican Convention that "I alone can fix it" was similar to Xi's concentrating power in his own hands. For both their countries the painful costs of globalization are stubborn realities from which history suggests there is no easy escape.

Xi is haunted by the spectre of Gorbachev's attempt in Russia to somehow ease up on the control of its Communist Party that set in train a series of events that led to the demise of the Soviet Union. And it is interesting in this context that according to the October 15th Economist Xi recently ordained that there must be "no weakening, fading, blurring or marginalisation" of the party's leading role in the SOEs (since privatization in Russia created a new 'oligarch' class beyond the Communist Party's control?) & said that party control of such firms gave them a "unique advantage". And a four day meeting in Beijing of senior Communist Party officials this week endowed Xi with the title of "Core Leader", like Mao Zedong & Deng Xiaoping before him, thereby endorsing his growing authoritarianist bent and making it likely that he expects to stay in his post for longer than the usual two five-year terms.

BOJ LOSES BARK AND BITE UNDER HUMBLED KURODA (Reuters, Leika Kihara)

- As his term winds down, BoJ Governor Haruhiko Kuroda has retreated from both the earlier radical policies & rhetoric, suggesting there will be no further easing, except in response to a major external shock. He has even taken to flagging whatever little lies ahead, trying predictability where shock & awe has failed; thus according to a source familiar with the BoJ's thinking "The days of trying to radically heighten inflation expectations with shock and awe are over ... No more regime change."

Another central bank admission of the failure of their straying from the path of central bank righteousness in a vain attempt to give the politicians time to get their act together. As to the possibility of a "major external shock" forcing the BoJ's (& other central banks'?) hand, there seems to be no shortage of candidates.

RUSSIA PUBLISHES IMAGE OF 'SATAN 2', THE MISSILE THAN COULD 'WIPE OUT TEXAS' (cnbc.com, David Reid)

- It has declassified the first-ever image of RS-28 Sharmat, its new thermonuclear-armed ICBM (Inter-Continental Ballistic Missile) that Sputnik, a Russian publication aligned with the Kremlin, last May bragged could carry a payload capable of wiping out a landmass "the size of Texas or France". According to the website of the Makeyef Rocket Design Bureau the contract for its development was signed in June 2011 &, according to the Russian media, its first stage PDU-99 engine was tested two months ago & its hypersonic warhead last April, and it is expected to "enter service" in late 2018. It is colloquially known as 'Satan 2' for it will replace the 1970's vintage RS-36M ICBM that NATO nicknamed "Satan".

Does Putin really think this is a military necessity or is it to serve 'pecker-stretching purposes only?

KREMLIN PUPPET MASTER'S LEAKED EMAILS ARE PRICE OF RETURN TO POLITICAL FRONTLINE (The Guardian, Shaun Walker)

- Vladislav Surkov was the architect of Putin's system of "managed democracy" idea. After some time on the sidelines, he recently re-emerged in the limelight at a four-way meeting in Berlin, which he attended, despite the fact he is banned from travel in the EU because of his role in the Kremlin's Ukraine policy, in which he sat not just next to Putin himself but also just one seat away from Angela Merkel. On October 25th a giant cache of emails, incl. the passport pictures of Surkov & his children as proof of their authenticity, was leaked by a Ukrainian outfit calling itself the CyberJunta, some of which allude to his role in managing Russia's relationship with the Eastern Ukraine's separatists². While the Kremlin suggested the leak was false, and Putin's spokesman, Dmitry Peskov, went as far as saying Surkov never used email, he may well have been disingenuous; for the emails do not purport to come from Surkov's personal email account but from that of one of his close aides. And there are those who believe this is the first salvo in what the CIA promised would be "unprecedented cyber covert action against Russia" after the alleged Russian hacking of the Democratic party's computer network; one of them is Mark Galeotti, a Senior Researcher at the Prague-based Institute of International Relations, who opined that "It's not impossible, but unlikely, that Ukrainian hackers would be able to break into Surkov's government email account and download a huge collection of files from 2014. Given that the Americans are hinting at a response, I cannot help but wonder if this was a US government shot across Put in's bows, a warning that it also has the capability to intrude and embarrass and a willingness to use it if Russia persists."

One must wonder where Merkel cs. didn't undermine the EU sanctions when they let Surkov in, especially so since had been architect of the Kremlin's Ukraine-hostile policy participate in a meeting which presumably targeted a peaceful end to the conflict.

²

Several *third party* sources has told this paper that Surkov *indeed* had made secret trips to Donetsk to keep local separatist politicians in line and tell them what they were to do for continued Russian funding & support. Moreover, it is a well-known fact that emissaries from East Ukraine come regularly to Moscow to meet with Surkov.