

ECONOMIC AND POLITICAL LINES

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Remember Johnny Cash's famous love song, "I Walk the Line":

"I keep a close watch on this heart of mine
I keep my eyes wide open all the time
I keep the ends out for the tie that binds
Because you're mine, I walk the line."

OPENING LINES

Lovers are not the only ones dealing with and watching out for lines. Business people and firms, politicians, lawyers, soldiers, religions, artists, and game players also may create, walk, cross, or fight over various types of lines.

FINANCIAL LINES

"(All down the line.) We'll be watching out for trouble, yeah.
(All down the line.) And we'd better keep the motor running, yeah." The Rolling Stones, "All Down the Line"

Highlight two International Monetary Fund comments in its recently unveiled "Fiscal Monitor" (October 2012). "With downside risks in the global economy mounting, policymakers must once again tread the narrow path that will permit them to continue strengthening the public finances while avoiding an excessive withdrawal of fiscal support for a still-fragile economic recovery." (page ix). And: "In most advanced economies, the near-term fiscal stance has to walk the fine line between continued adjustment and supporting the economy." (p6).

This IMF rhetoric, which many other luminaries embrace, of "tread the narrow path" and "walk the fine line" offers hope for the global economy and for the United States in particular. Maybe subtle financial and political sorcerers somehow can escape the dilemma of an economic downturn (too slow growth or recession) and the consequences of additional (irresponsible) substantial deficit spending! Have faith that wise guardians can discover a middle way to evade further suffering!

In the amazing Goldilocks Era, didn't substantial and growing worldwide debt and leverage joyously promise and provide nearly limitless opportunity for almost everyone ("us") to prosper with very little (or at least manageable) risk? In the aftermath of the wonderful Goldilocks epoch, should we believe that the implications of significant leverage and mountainous debt accumulation can be magically pain-free, at least over some misty medium term or long run vista?

Despite such entrancing sermons of narrow paths and fine lines from many respected central banking and political guides, economic and political pilgrims should ask if such a path or line exists in practice. It probably doesn't. Is there really a way for the United States to avoid the looming fiscal cliff and other long run deficit challenges without significant hardship? Probably not.

POLITICAL ALIGNMENTS

Linus is a key character in the Charles M. Schulz's famed comic strip, "Peanuts". Every Halloween he awaits the arrival of the Great Pumpkin. Every year, the Great Pumpkin never shows up. Linus concludes: "There are three things I have learned never to discuss with people: religion, politics, and the Great Pumpkin."

Not long after Halloween arrives the United States election. Of course in the current political game, the platforms and promises of Democrats and Republicans resemble each other to some extent. And obviously not all members within a given party espouse exactly the same program. Nevertheless, in some crucial domains such as the fiscal arena, ideological lines and practical policy distinctions between Democrats and Republicans often appear sharp.

Most spotlights have been on the cliffhanger Presidential contest. What's the bottom line? President Obama probably will win.

Experts generally proclaim that Republicans will retain control of the House. Therefore the media and others have spent little attention on the overall House outcome.

Most observers are not focusing closely on the potential composition of the Senate. They should. The Senate election result probably will have notable consequences for legislative action (or inaction) in many domains. For example, think of the troubling fiscal cliff and the terrifying long run deficit problems.

Clairvoyants on balance believe the Democrats probably will maintain control of the Senate. Even if the Republicans gain an edge in the Senate, it would be very surprising for them to capture anything close to 60 seats. According to Senate rules, to end debate (halt filibusters) on a legislative proposal (bill), 60 of the 100 Senators must agree to do so (invoke cloture). The sixty votes do not have to all be from the same party. Nevertheless, the failure of a Senate majority party to control 60 or more Senate seats means that its opponents generally can block the majority party's legislative efforts.

So suppose the House is Republican, and the Senate is Democratic (or even imagine a modest Republican majority). Given such Congressional division, it will be a major challenge for the parties to readily resolve issues over which they disagree dramatically, such as on how to repair the federal deficit disaster. In that situation, the party membership of the winner of the duel for the Presidency matters much less. After all, for the past several years, the Republican House and the Democratic Senate stubbornly have faced each other. With these battle lines, there has been at best little progress on reducing the deficit. Why should having a Republican President instead of a Democratic one change this partisan deadlock in any notable fashion?

Shrewd politicians and their astute advisors allegedly assess all the angles and play many of them. Admittedly, much can happen in negotiations within the corridors of Congress and between Congress and the White House. Yet again underscore the significant contrasts between the two leading parties on taxation and spending issues. How easy will it be reach an agreement that genuinely fixes (or at least notably improves) the country's massive fiscal troubles? The disappointing record of recent years speaks loudly. So it probably will take a notable worsening within America's borders of the ongoing international economic crisis for these devoted public

servants to compromise sufficiently to make adequate progress regarding America's federal fiscal disaster.

As a footnote, suppose the candidate capturing an electoral majority and thereby becoming President loses the popular vote total. This result definitely would not represent a clear mandate that the particular vision of a particular candidate or party should be enacted. That split would emphasize the lines separating the two leaders and their parties. This outcome therefore arguably would make action on (compromise regarding) the federal deficit even more difficult. Or, what if the electoral vote results in a tie? In that case, the House of Representatives would decide the outcome.

DRAWING LINES: THE IRANIAN NUCLEAR ISSUE

The Iranian nuclear situation has been on a dangerous trajectory for a long time. Many Israeli, American, and European politicians and numerous commentators warn that Iran should not cross a line regarding its nuclear weapons-making potential. To some extent, they disagree as to what this line in the sand should be. And how clear and bright is that line, and at what point in time will it likely be reached? In any event, a near term Iranian capacity to assemble and launch a nuclear weapon probably would be a red line to Israeli and most US political leaders.

Will severe sustained sanctions motivate Iran to compromise? The NYTimes headlined yesterday: "U.S. officials say Iran has agreed to nuclear talks" (10/21/12, pp1, 8) with America after the 2012 election. These would be direct one-on-one negotiations. The article adds that although the White House has denied such a final agreement exists, the administration is open to such bilateral talks.

What route will Romney take? The Times notes that if Romney wins the presidential election, it is "far from clear" whether he will proceed with the negotiation.

CHART LINES: COMMODITIES

The former European Central Bank President, Jean-Claude Trichet declared not long before the worldwide economic crisis accelerated that: "predictions of the future prices of commodities are probably the most difficult exercise you can imagine" ("Introductory statement with Q&A", 8/7/08).

"Well this job I've got is just a little too hard,
Running out of money, lord, I need more pay.
Gonna wake up in the morning lord, gonna pack my bags,
I'm gonna beat it on down the line." "Beat It on Down the Line" (J. Fuller, songwriter)

Writers pen lines. Musicians compose lines. Artists draw lines.

Many Wall Street citizens and economists love drawing and interpreting lines (and other shapes and points) on price charts and presentations of other "economic" variables. What theories, methods, and rules do these people embrace? As in the political realm (and in that of love and

romance), many gurus fervently declare that their individual opinion is a (or the) reasonable (rational, logical, intelligent) one or a good (or a better, or the best) approach.

Marketplace dwellers, some perhaps inspired by geometry or geography, decide in a wide assortment of ways how to place prices or other economic phenomena in perspective. Moreover, for a given marketplace, such as the S+P 500 or the US Treasury 10 year note, they quarrel regarding where and how to draw and interpret the lines. Disagreement also exists on what represents a critical marketplace price point, time, or distance (significant move).

To what extent should any given chartist cross so-called borders into other realms? Should one map and interpret a given Wall Street territory such as the S+P 500 alongside other important international stock marketplaces? Is it helpful to connect a chart of the S+P 500 to US central bank policies (imagine chart notations regarding quantitative easing/money printing or Federal Funds) or US Treasury 10 year note yields? What about linking the S+P 500 to movements in and levels of the US dollar or commodities “in general”? Many perceive a fairly close relationship in recent years between trends in the S+P 500 and commodities in general. In this pattern, a bull marketplace in that stock benchmark roughly is paralleled by a climb in commodity prices, with a downtrend in commodities linked to an equity marketplace descent.

What does a glance at the commodities corner reveal about its current situation? Use the broad Goldman Sachs Commodity Index (“GSCI”) as a guideline for commodities in general. See the attached GSCI chart. Overall commodity prices currently stand far above the dark depths of mid-winter 2009. However, since its 2011 springtime summits at 762 (on 4/11/11 and 5/2/11), commodities in general probably have been in a bear trend. Note the further retreat from 3/1/12’s 717 point. Some line drawers would argue that a long run bear trend commenced even earlier than the 2011 tops, around 7/3/08’s 894 pinnacle.

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