John's Newsletter Thursday 1 January 2015

More 'must-read' books. Escalation of the US/EU/OECD v BRICS/SEO differences. Ominous oil prices defy rationale.

James Risen's book, **"Pay Any Price..."** about the militarisation of the USA and its endless war scenarios is worth reading. He paints the picture of USA like in George Orwell's book "1984" and shows how the country has become a police state with the police acquiring the character of the military.

Also the book by Marin Katusa, **"The Colder War".** Marin provides a lot of the stats that I have dribbled out over the last couple of years and he shares a lot of my knowledge of Russian politics and the background of Vladimir Putin. But my overall impression was that events are moving so fast that even what he had to say is a bit dated. Even so, I can recommend both books very highly. Marin's is far more relevant to what we are experiencing in our countries and markets.

Aside from the extremely unlikely outbreak of shooting wars in 2015, I think the damage that the colder war will do to economies of BRICS/SCO on the one side and OECD on the other, will play out during 2015.

Over Christmas the economic news from UK, Europe, and Japan was, in net terms, bad. The news from USA was so warped it is hard to tell they are a pseudo-democratic country anymore. Yet the US economy has been so powerful for so long, what the federal government stuffs up does not seem like much of a problem to the folk getting on with their lives in Main Street, USA. On the other side, the news from Russia is of the continued impact of sanctions on their economy and the news from the other BRICS was not crash hot either.

Lithuania is the 19th member of the Eurozone, having just joined at midnight. I suppose that must gall "Tsar Vladimir the Terrible", but it was inevitable. People forget how bad it was for the Baltic states, Poland, Ukraine etc to have been while under the Russian yoke. Ukrainians for example still remember the deliberate genocide by starvation....the Polish remember the slaughter of their officer elite in the forests of Katyn...

Today oil is at a cyclic low as is gold and the issue with most commodity prices being depressed by trading in paper futures is trashing the desire of producers to keep producing...as with this article regarding gold...

http://www.zerohedge.com/news/2014-12-30/peak-gold-production-hits-2015

The graph in this article showing peak discovery versus peak production, is instructive of what is happening to all minerals extracted from the earth. One has to wonder what comes next for our species? It is a reality we may not have to face in 2015 but one we must face, sooner or later.

Oil is in similar straights with plenty of staff lay-offs in the North American oil industry as a consequence of ultra-low prices versus rising cost of extraction and processing for lower quality output. There will naturally be a lag-time between the reduced capital expenditure and reduced production, so prices will likely take much of 2015 to bounce...but heaven help the global economy when they do!

The so-called "oil glut" is a bit of a myth because everyone producing it can sell their oil. The USA has this surplus of ultra-light oil (mostly from fracking condensates), so that may now be exported legally to where someone can process it. But the mystery of why the oil prices are so much lower than the cost of producing the world's marginal barrels still remains. I suspect the answer lies somewhere in the nexus between lower global demand and financialisation of oil futures. *(Editor's note: plus the usual clandestine financial manipulators hard at work pushing to achieve their longer-term strategic objectives.)*

There is seemingly no restraint on either credit/debt or money printing. But at some stage during 2015, I suspect we will see some sort of consequence. *(Another Editor's note: see my comment above).* To me, the probability of collapse of the global financial system is still well under 40%. But just think of the magnitude of the consequences if that happens....wow! I think the wild card is whether a deliberate lack of cooperation between China and USA to sustain the US dollar will emerge. If China plays hard-ball then we should perhaps want to hold very few financial assets through 2015. But as of now, with China holding almost USD4 trillion of US dollar reserves, both countries would lose too much for either to unilaterally try to break the status quo.

Let no-one doubt that the world financial system is extremely brittle. The BIS and central banks try to keep one step ahead but banking regulations are too weak to control events. Those USD640 trillion derivatives still remain financial weapons of mass destruction, just as the Russian/Chinese modernisation/rebuilding of their nuclear deterrent is the military equivalent.

I have heard folk predicting a downturn in the world sharemarkets for 2015, but I suspect it would take really adverse economic news to roil the major markets because they are propped up by ZIRP and QE throughout the OECD and China. The Central bankers still have the will to "do what it takes". There will come a time when they won't be able to, but that doesn't bear thinking about during our summer holidays.

The main difference between 1 January 2014 and 1 January 2015, is the deepening rift between the BRICS/SCO *(Editor's note: Brazil Russia India China and South Africa, and Shanghai Cooperation Organisation)* and the OECD. The BRICS/SCO have chosen their own path with military cooperation, international banking and funding and the decision to favour bilateral trade versus support of the US Dollar/petrodollar. The USA has far less influence in the world today despite the potency of their military and yet the SCO military now stacks up well against NATO. Disputes between the OECD and Russia over Ukraine create an unwelcome feeling of bitterness that needs to be fixed.

So we are now in a very different world.