

[www.better-management.org](http://www.better-management.org) provides invaluable insights that will help you understand and deliver better organizational performance.

## John's Newsletter Monday 12 January 2015

**New GM EV. Terrorism - not new. Turkey - formerly sectarian. Oil prices and the financial markets. Gold - limits to growth. US stock markets - manipulated highs.**

A new generation of electric car .... to be revealed tonight?

In the USA, a new Chevrolet Bolt...(no, not a Volt)

<http://www.detroitnews.com/story/business/autos/detroit-auto-show/2015/01/09/gm-electric-concept-mile-range/21535887/>

We get pretty used to hearing there are more than a billion cars in the world but between all our oil “energy slaves” how much fuel do we burn and where does the residue go? This article seems to answer that...fyi...

<http://www.reviewjournal.com/life/home-and-garden/our-energy-slaves-impact-environment>

### **Terrorism**

Karl Popper's book, “The Open Society and its Enemies” was written for the deep, dark, days of the Cold War, but seems rather appropriate today...worth reading today even...

<http://www.telegraph.co.uk/news/uknews/terrorism-in-the-uk/11337056/Charlie-Hebdo-terror-mentors-wife-on-benefits-in-Leicester.html>

The OECD's legal framework operate on the “innocent until proven guilty” basis that means terrorists can do what they like and only be accountable after the atrocities. That poses a problem for our rule of law. How to stop the religious extremists?

In Saudi Arabia, the Shiites are closely watching as King Abdullah nears the end of his days. They sense an opportunity...

<http://www.csmonitor.com/World/Middle-East/2015/0109/House-of-Saud-divided-Generational-shift-seen-in-royal-succession-battle>

To the Northwest, Turkey is at the heart of the old Ottoman Empire, but under Erdogan is now turning away from the West and towards the Arab states. Formerly a sectarian state, Turkey is now becoming entrenched as a Muslim country first and foremost. This will have ramifications for Syria and Iraq because if Turkey does not stop the ISI recruiting, then ISIS will be free to do whatever it wants...

<http://www.ft.com/intl/cms/s/2/cdc5c064-96c0-11e4-922f-00144feabdc0.html>

Personally, I would not go anywhere near the 100 year celebrations at Gallipoli this year...I reckon that event may be a prime terrorist target. I used to listen to the war stories from Gallipoli from Stan Low (a friend's father) when I was a boy, so I have some feeling for the place. But then I am also just a bit risk averse.

MI5 reckon the West is probably in for a lot of aggro...

<https://nz.news.yahoo.com/a/-/world/25940750/mi5-chiefs-warning-to-the-west/>

### **The nexus between oil and the financial markets**

The financiers are praying for prices to go back up and this article by Pickens is music to their ears...

<http://www.octafinance.com/bp-capital-managements-oil-titan-t-boone-pickens-sees-100-oil/>

The only problem is that when the price dropped in 2009 there was less oil produced or sold... We are reaching a global inflexion point where stifled demand may well stay stifled as the world moves into depression. Then if the oil price threatens to go back up, it may keep us depressed.

Some folks may have noticed that I have so far ignored the US December job stats that painted an encouraging picture. Unfortunately those 3 million shale drilling and servicing jobs are now slowly being lost, so let's wait for the March stats before showing any enthusiasm.

I have been intrigued that folk want the Saudis with their "best in class" costs to cut production first. It may be that they even have spare capacity and could increase production to cover all of their the government budget shortfall, now the oil price is lower. Yet in the high cost quartile lurk the shale oil producers of the USA. But the shale producers also have 60% depletion rates on their wells by comparison with the Saudi average of around 4-6%. The shale plays were not funded by capital, but by the ZIRP brand of ultra-low interest loans for what really were speculative and high risk ventures. Unfortunately, now the oil price is under \$US50/bbl, many of the financiers are now having to check their loan documentation...from FT...

<http://www.ft.com/intl/cms/s/0/a1b8c390-97f6-11e4-84d4-00144feabdc0.html?siteedition=intl#axzz3OYDWUyZx>

A historical perspective of the free market teaches us that the highest cost and highest leveraged players will lose their shirts first. So mark my words, the US shale industry may be in for a nerve-wracking time and their financiers may in turn get a real short "haircut".

But then, I told our NZ Super Fund that when they invested in KKR's sub-prime oil loans – with kiwis' retirement savings.

Did they listen? Nope.

### **Gold**

There are a number of general rules for gold mining that also relate to most other mineral resources...these days -

1. You have to dig deeper to find the stuff.
2. Ten years ago you needed an ore grade of 15gms per tonne to get excited...now it is 2.5 gms per tonne.
3. The energy cost of extraction is going up exponentially, due not just to oil prices, but also due to the extra energy it takes to strip additional overburden, lift the ore from deeper and extract the lesser quantity of gold from the ore. Now there are more regulations over what has to be done to remediate old workings and deal with waste.
4. Water is harder and harder to find in adequate quantities to use for mining.
5. As a result, in situ production methods are becoming more common.

This is a sign that we have limits to growth of course. These are practical geological issues and not just financial/economic. But for gold the reduction in oil prices is a boon and the last two weeks has seen gold rise in price by \$40/oz making the mining a little easier...yet...

<http://www.wealthdaily.com/articles/peak-gold-investing/5531>

For mining products of lesser value than gold, things are getting really tough. I imagine BHP would dearly love to see iron ore increase by \$40/tonne in a couple of weeks...let alone \$40/oz.

### **What is supporting the US stock markets at such a high level?**

Market movements in 2014 looked strange. Heaven forbid they have a “plunge protection team”?

[http://seekingalpha.com/article/2811335-is-the-fed-buying-stocks?source=email\\_macro\\_view\\_mar\\_out\\_3\\_4&ifp=0](http://seekingalpha.com/article/2811335-is-the-fed-buying-stocks?source=email_macro_view_mar_out_3_4&ifp=0)

All rather interesting – if worrying.