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John's Newsletter Saturday 17 January 2015

Swiss Franc drama. Oil price to fall further? Shale oil Ponzi. Population growth - and green illogic.

What next, after Switzerland removes the link to the Euro? Well, aside from killing off a number of currency speculators around the world. The Swiss will find their export industries far less competitive.

But what about the Eurozone? ECB QE is starting its engine...with some caveats...

<http://www.ft.com/intl/cms/s/0/98b78292-9da3-11e4-8ea3-00144feabdc0.html?siteedition=intl#axzz3P23vPqnX>

The Swiss obviously couldn't live with their peg to the artificially manipulated Euro.

Plenty of movement into gold...already, and the year is yet young.

Perhaps this is the year when those who have money will get really fleeced ... the banks will use their power to steal our money, if given half a chance and it is hard to understand how governments could be silly enough to have given them that power...but when the wolves are left in charge, what can we expect? It doesn't matter whether it is called "Bail-ins," or "theft", or "open bank resolution"...it is all the same thing. So the smart guys are now buying gold and silver and the price is rising...Gold closed overnight at USD1,280/oz and silver at USD17.79/oz. The price of gold is up by about USD100/oz this year already. But is it just a knee-jerk reaction to QE in Europe or the Swiss kerfuffle?

I won't believe the gold story until the price hits USD1,450/oz. It has a way to go before it gets there.

While it is too early to say for sure whether this will be the year of the big crash or not, IMHO the smart people are already converting from financial assets to real assets...after all there is Buckley's chance of interest rates rising and instead we can probably expect them to fall further.

What are "real assets"? Productive land, gold, silver, shares in utilities, precious metals and real estate...

Or so I am told.

The oil price is way down as are oil shares. What about buying more oil shares?

I am just sitting on what I have...but it will be a while before I buy shares in oil during a depression, because I expect demand to keep falling (I don't worry about supply at this

point). Even if I did not buy the “coming depression scenario” I would not be buying for the following reasons...

<http://thecrux.com/what-youre-not-hearing-about-oil-stocks/>

This article contains some interesting facts interspersed with errors about the US shale industry. The article ignores the following facts:

1. Without unlimited finance at extremely low interest rates the expenditure could not have been funded.
2. Each year the shale drillers need to borrow more money than they earn, just to keep going, and
3. On average, all shale wells deplete at the rate of more than 60% per year. So most new wells are to maintain production.

So shale investments are a form of Ponzi scheme.

http://www.businessspectator.com.au/article/2015/1/16/resources-and-energy/understanding-shale-oil-revolution?utm_source=exact&utm_medium=email&utm_content=1095171&utm_campaign=kgb&modapt=

The current price could easily mean that US shale production peaks in 2015! And thereafter falls.

But don't knock it. Shale jobs added 3 million new workers in the years since 2008. If it weren't for that?????

Now IEA reckon that oil prices will rise later ... Yes I agree, but when?...

<http://www.bloomberg.com/news/2015-01-16/iea-sees-oil-price-recovery-cuts-2015-non-opec-output-estimate.html>

There is an oil consultancy called Hills Group, based in the USA that links the ability of the economy to pay higher oil prices without collapsing, to the Energy Return on Energy Invested (EROEI) and because of this, points out that the world economy will not be able to tolerate a return to USD100/bbl oil. This is because EROEI of new oil production is falling faster each year.

Stuff about the population

It is illogical to have a Green party prepared to tolerate current high levels of immigration and yet torpedo economic development...(so I think they are just bozos). Meantime the latest forecast provide scant comfort for our future as a species with improving quality of life...

<http://news.sciencemag.org/economics/2014/09/experts-be-damned-world-population-will-continue-rise>

Unfortunately for our expert forecasters of population growth, what cannot happen, generally won't.