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John's Newsletter Thursday 8 January 2015

Investment in 2015 - tricky. EU: German deflation, Greek exit? All stock markets peaked - except US. China, Russia - odd bed-fellows. Middle East powder keg. Love Tesla. Oil chaos, commodities slide.

One problem with 2015 is that the experts are having some difficulty making up their minds where the best investment opportunities lie...

http://kingworldnews.com/mark-fabers-advice-trading-investing-2015/

Europe?

It is only January 25th when the Greeks will go to the polls. The outcome could still be for an exit for Greece from the Eurozone...

http://thecrux.com/grexit-the-euro-crisis-could-be-back/

Then after Greece come other elections and the EU is in more turmoil than ever. Not the least of it with terrorism as an endemic threat.

The extremely low (relative to upper half costs) price of oil is (Brent USD51.06/bbl and WTI USD47.98/bbl) having a beneficial effect on airlines and miners. These organisations really benefit from reduced energy costs. However that isn't the whole story...the oil prices also cut some slack for the EU – a net oil and gas importer...

http://seekingalpha.com/article/2799805-risk-of-germany-spain-and-greece-pushing-europe-into-hyperinflation?source=email_macro_view_eco_0_40&ifp=0

Hopefully 2015 will see an end to sanctions against Russia – and soon...from Seeking Alpha...

"**"I think that (Russian) sanctions must stop now,"** said French President Francois Hollande in an interview yesterday outlining that Western nations should instead offer to ease off on existing restrictions in exchange for progress in the peace process. German Vice Chancellor Sigmar Gabriel also signaled concerns about the effect of sanctions on Russia's stability stating that the goal was never to push Russia into chaos. Peace talks between the leaders of Russia, Ukraine, France and Germany are scheduled for Jan. 15."

Now that does sound positive.

But deflation now stalks Europe so what is the ECB to do? Keep blustering or go for QE? From Seeking Alpha...

"**Pushing the ECB closer to bolder policy stimulus** as it fights to revive inflation, consumer prices fell in the eurozone for the first time since 2009, contracting by 0.2% Y/Y in December.

The euro slid to a fresh nine-year low today prior to the release of the figures, sinking as much as $1.1842 vs. the dollar. Investors are also getting ready for FOMC minutes today, which will be watched closely for further signals as to when interest rates will be increased."

USA

The growth figures for the USA during 2014 have been most impressive – if you were to accept them on face value. But IMHO they have simply been goosed by money printing and debt...leaving US corporate, states and Federal Government worse off in net terms. As for the man in the street? That depends on whether you had the sort of assets that had their prices elevated or not. The top 5% were winners but the balance were not. This report is interesting...

http://www.caseyresearch.com/cdd/everything-but-the-us-stock-market-has-already-peaked

China and Russia...strange bed-fellows

As members of the Eurasia free trade agreement, the BRICS organisation and the SCO alliance, how close are Russia and China getting?

http://www.businessspectator.com.au/article/2015/1/6/china/russia-and-chinas-tenuous-strategic-relationship

And from Sinocism...their latest predictions for China for 2015...

"1. The corruption crackdown will intensify and at least one more Zhou Yongkang-level tiger will down, as will at least one member of the "red nobility";

2. China's economy will have another rough year but it won't collapse and the Shanghai Composite will at some point hit 4500 in this "Xi Jinping bull market", though probably not this month;

3. Xi Jinping will still be in charge at the end of 2015 and will make significant progress on economic reforms. "

And their report from Bloomberg...

"**China Said to Accelerate $1 Trillion in Projects to Spur Growth - Bloomberg** China is accelerating 300 infrastructure projects valued at 7 trillion yuan ($1.1 trillion) this year as policy makers seek to shore up growth that's in danger of slipping below 7 percent. Premier Li Keqiang's government approved the projects as part of a broader 400-venture, 10 trillion yuan plan to run from late 2014 through 2016, said people familiar with the matter who asked not to be identified as the decision wasn't public. The National Development and Reform Commission, which will oversee the projects, didn't respond to a faxed request for comment."

Saudi Arabia and the Middle Eastern powder keg

Hmmm, the plot thickens...

http://www.stratfor.com/weekly/saudi-arabia-faces-challenges-new-year#axzz3NrSmXF50

Japan

Can Japanese economic growth ever rise? Some folk say, "never."

http://seekingalpha.com/article/2798405-this-is-why-japan-will-never-recover?source=email_macro_view_dem_0_63&ifp=0

...and they don't have the energy for growth either.

Energy storage G2.

The second generation of energy storage uses oodles of lithium. Of course, some of us hope that we will soon see the mythological EESU replace the use of lithium for energy storage with EEStor's composition modified barium titanate. But for the present, the biggest portion of cost in a Tesla S is the cost of the batteries....

http://www.mauldineconomics.com/connecting-the-dots/beyond-tesla-the-huge-profit-potential-of-lithium

Then there is the weight of the batteries and the energy density per kg of weight.

Then there is the fact that only a portion of the battery capacity is usable. And that keeps me hoping that Zenn and EEStor keep plugging away at building an EESU...

Oil

The drilling rigs shut down and development deferred....

http://www.theguardian.com/environment/2015/jan/06/oil-price-casts-shadow-over-frackings-future

Competition is hotting up...

http://peakoil.com/production/canada-saudi-oil-set-for-showdown

From Texas to the North Sea, drillers are being laid off...

http://money.cnn.com/2015/01/06/news/economy/oil-jobs-gas-prices/

What about the perspective of the major integrated companies...Chevron in the Permian Basin for example?

http://seekingalpha.com/article/2802125-oil-markets-through-the-looking-glass-and-rocks-of-chevron?source=email_alternative_energy_investing_edi_pic_0_0&ifp=0

Iran and Russia are getting to feel paranoid...

http://www.voanews.com/content/iran-accuses-saudis-of-oil-conspiracy/2587985.html

But it will be the expensive deep water, tar sands and the American shales that will reduce production first because they are the high cost, marginal barrels.

The world is now super-connected and we cannot be sure how a 50%+ drop in crude prices will affect the global economy or the economies of individual sovereigns and states...

http://www.theautomaticearth.com/this-oil-thing-is-the-real-deal/

The only thing we know for certain is that eventually low oil prices will lead to shortages and onwards towards much higher oil prices...the end of 2015 perhaps?

Commodities in general

There are some good stats and perspectives in this article...

http://seekingalpha.com/article/2797765-the-commodities-crash-playbook-a-long-overdue-rewrite-and-revision?source=email_macro_view_edi_pic_1_1&ifp=0

My personal opinion is that the markets will continue to slide during our first global depression. It remains to be seen when the inflation resulting from the QE and credit/low interest splurge will have an effect. So 2015 will make very interesting reading for the historians of the future.