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Better-Management Newsletter 23 Feb 2015

All this money printing / Gold and silver / Threat from Russia / Winners had access to oil / Resource sustainability / Misleading resource estimates

Where are we going with all this money printing?

There is always a careful balance between the total value of all goods and services, the level of credit extant in the markets and the money supply.

In 2015, the balance is getting way out of equilibrium so any shock could be devastating. This interview of John Williams nominates 2015 as the year of the next big crash...

https://www.youtube.com/watch?v=huMYOJBJcEU#t=1407

Problem is that his focus is solely on USA and the activities elsewhere that utilise about USD16 trillion of the US currency offshore could either insulate the USA or alternatively destroy the US economy. There is an old saying that the market can remain irrational longer than most investors can remain solvent. I suppose that is particularly so for places where the government uses the public purse to print money in order to keep the party going. But for how much longer will this nonsense continue?

But even so, I invite you to read this fine article by Bernard Hickey and decide whether we are moving to a time when deflation destroys wealth or alternatively hyperinflation destroys wealth...and which will be the lesser of those two weevils?

http://www.interest.co.nz/opinion/74121/bernard-hickey-challenges-near-universal-belief-new-zealand-least-10-year-mortgage-589

Gold and silver

Gold and silver are still holding their position despite the stronger US dollar. Some folk are still buying precious metals to reduce their dollar cost of gold and silver holdings. But is this rational? This is the latest from David Morgan (a silver bull)...

https://www.youtube.com/watch?v=XtYwi_6C9NY&feature=youtu.be

One factor worth considering by the overseas crowd, is that if you cannot get an interest rate for savings that beats inflation, then gold and silver become a sensible investment to keep under your bed.

Threat from Russia

Just how serious is the threat from Russia to the EU?

It is hard to say whether Putin will back off for a while after Donbass – or not. But there are those who are paid to worry about Russian moves...

http://www.ft.com/intl/cms/s/0/204ecbb8-b913-11e4-a8d0-00144feab7de.html?siteedition=intl#axzz3SQNnfKot

One thing that is becoming clear is that over the last ten years, Russia has modernised its armed forces and re-built a large and well trained military. But to put the situation in context, the USSR had once a 220 million population. The Russian Federation now has only 142 million – and falling.

New sanctions are being discussed between USA and UK but I am not sure how much stomach there is for more sanctions from France and Germany. We must remember that it was oil sanctions that led to war between Japan and USA – and the push for Japan to seize Indonesian/Malaysian oil wells...

http://www.ft.com/intl/cms/s/0/e8d3731c-b9f0-11e4-933f-00144feab7de.html#axzz3SQNnfKot

Winners had access to oil

In years past it was the folk with guaranteed access to oil that won WW1 and WW2. Today the folk with access to oil are Russia and China (the latter by virtue of their contractual arrangements for oil supplies) – even though the USA controls the seas.

The sole reason for the UK to build new aircraft carriers is to support their access to oil – and they won't be ready until 2020 by which time the oil scarcity meme will be back in vogue against the background of post peak shales and post peak conventional oil (other than condensates).

In the USA, states like Texas have a major problem with remediation of derelict oil wells that present both an environmental and health hazard. The issue is that almost invariably the oil companies have gone broke when the oil has played out – leaving the local government agency to tidy up.

Conservation groups have more examples than they need to justify holding up exploration and drilling everywhere. So delays are the only certainty, while finding commercially viable quantities of oil isn't.

Hills Group suggest that only about 35% of oil companies are still profitable on a full cycle basis - at current oil prices. That is probably correct for the USA at any rate because the WTI price starts at only USD50/bbl before discounts for variation from spec and transport and preliminary processing are taken into account...

http://peakoil.com/business/oil-drop-pain-spreads-to-saudi-aramco

Full cycle costing are meant to allow for remediation of spent/uneconomic wells and oil installations, but in practice dividends are paid out and nothing is left in the minor oil companies who can then walk away...insolvent. For the majors it is different....or meant to be.

Some of the oil majors take a multi-year view of the industry. Included among them is Shell which spent hundreds of millions and a multi-decade study of the real oil shale of the Green River formation in USA. The material they sought to recover and process was kerogen. But they have also given the Arctic a try – and in 2012 they lost control of their drilling rig...narrowly averting disaster. Yet the US Government needs them to try harder because light tight oil (aka shales) will peak in 2020 (at the latest) and thereafter the decline in US Oil production (of all sorts) will be rapid...

http://thinkprogress.org/climate/2015/02/21/3625602/arctic-drilling-rules/

Governments always seem to lag behind industry.

Resource sustainability

This article about what we are doing to our environment is worth reading...

http://www.thesocialcontract.com/artman2/publish/tsc_25_2/tsc_25_2_kolankiewicz.shtml

Any discussion of resource sustainability almost inevitably gets caught up in the debate between "Reserves" on the one hand and "Resources" on the other.

But often, even proven reserves cannot be extracted and wells/mines are sealed off when recovery becomes uneconomic.

Reserves are what can be accessed within the immediate area of a mine or well, at current technology and with the current market price level. So in theory the fall of 50% in oil prices should have led to a substantial reduction in global oil reserves because so much of official reserves have become uneconomic to produce. That is unlikely. On the other hand, the ramping up of oil prices had previously led to substantial increases in declared reserves. On the basis that a fall in supply should lead to higher prices, but such tampering is not particularly helpful – either to investors or to officials who are trying to work out how many years of exploitation are left.

Misleading resource estimates

The huge estimates of available resources that were made by the US Geological Survey (USGS) for shale oil prospects in many countries have proven misleading. Oil companies rushed to Poland (for example) only to exit when they found the theoretical resource rocks and contents were all wrong for horizontal drilling and multi-stage fracking. Perhaps the most embarrassing example was the Californian Monteray shale where the total estimated recoverable resources was reduced from 14 billion barrels to perhaps 800 million. Modern technology allows a lot to be inferred below the surface of the earth, but it still has to be discovered, drilled and proven. That involves risk and the degree to which risks will be taken, depends on the profit prognosis resulting from cost and likely revenues.

With a low price for oil and many minerals, companies are becoming very risk averse and the investment activity has changed from exploration to mergers and acquisitions. Companies with low share prices and poor cash flows are now ripe for the picking as most industry observers expect supplies to soon fall below demand and for the oil and other prices to move upwards.

If the world moves into global depression, the demand for resources will drop and prices that now appear low could go even lower. In fact that phenomenon would lead to the resources lasting longer than if demand continues to grow exponentially.

So no matter what folk predict becomes subordinate to whims of the market and the presently dominant interest of central banks and governments to keep the party going.