

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

## **Better-Management Newsletter 11 April 2015**

**Gold doesn't all glister / The games played by big banks / US statistics a national disgrace / Greenpeace caught out / The sun setting on the Euro? / US Fed to raise interest? / Amazing science**

### **Gold doesn't all glister**

Holding gold and silver sometimes does not look like a good investment when the massive paper buying and selling drives price down on a whim – from time to time. Of course, when prices go up, no-one is complaining.

This paper trading of gold in 2014 was at the level of 188 times annual mine production...or putting the figure in perspective...each year more than three times all the gold that has ever been mined and refined gets traded on the metal exchanges. Mostly in paper trades with no physical gold movement. Of course we know that is just a series of sham transactions, given the weight of gold bars...

<http://www.mining.com/annual-gold-trade-reaches-22-trillion/>

In real terms there are also other physical trends. The first is the movement of physical gold from the OECD countries to the BRICS with Russia, India and China strategically buying physical metal when prices dip. The second is that countries that have relied upon either the New York Fed or the Bank of England to store their gold bars, have been demanding it back and finding that getting delivery is easier said than done. For Example it may take another 5-6 years to the USA to return all Germany's gold.

Although China remains coy about how much gold they have, they are buying roughly a thousand tons of gold each year...some through trading on exchanges and also by getting all local mine production (350-360 tonnes per year) – by law.

### **The games played by big banks**

China and Russia have aspirations to back a new global reserve currency with gold. Just as Obama has lost control of events in the Middle East, he has now lost control over the future of the US dollar as the world's reserve currency. It has been a privilege abused too often to endure for much longer.

The games played by the big banks lead me to the belief that we should not look on gold and silver as an investment but as the money of last resort, for the time the global economy tanks and the global financial system breaks down and makes fiat currencies almost worthless. So gold and silver are an endowment for our children and grandchildren that we hope they too will never need to use. We will know when that time is coming because countries like the USA will likely wish to confiscate their citizens gold – once again.

The fact that USD22 trillion of gold transactions cross the trading floors each year, reinforces the fact that gold is not merely a “barbarous relic”, but a freely traded commodity – of solid and enduring value. The only catches are, paper gold is not worth much and the physical gold bullion must be well hidden from government and thieves alike.

### **US statistics a national disgrace**

The US statistics of all colours tend now to reflect the numbers the politicians want, rather than reality. How can unemployment be reducing when there are fewer people employed in the workforce in the USA than in 2006? Meantime the population has increased by 10 million (in round figures) and **most** of the new jobs created since 2008 (other than oil industry) have gone to illegal immigrants. “Something is rotten in the state of Denmark”, said Shakespeare’s Hamlet.

Even worse the history of intentional untruths by the International Energy Agency (Controlled by the US Government) and the Energy Information Administration (of the US Department of Energy ) has been systematically over-optimistic since 2000. They accurately provide historical statistics and distort upwards the estimates of likely future production. In that role they are ably supported by the US Geological Survey who provide estimates of trillions of barrels of oil to be discovered where no oil has ever been found or extracted.

There is no replacement for oil and because it is a finite resource, there is nothing the politicians can do to calm public anxiety, so their actions are in a way, understandable. But projecting growth in consumption when the level forecast is impossible is really quite bizarre. Of course they could harbour secret notions that the price of oil will go to USD200/bbl in 2015...and if so that could create the modern day equivalent of a gold rush. But the results would not endure to 2040. These are the EIA figures...

<http://peakoilbarrel.com/the-eias-international-energy-outlook-2014/>

Now let’s impose reality on the numbers. 34 billion bbls per year (approx.) is what they reckon we will consume over 25.5 years. That is 860-900 billion barrels of oil. That is the equivalent to all of the current proven reserves...by some estimates. It simply cannot happen. Mexico is overstated, the Middle East is overstated, the USA is overstated. But the increase for Canada, Russia and Kazakhstan cannot happen at current oil prices. The depletion rates for US shales are 60-70% per year and the EIA has not reflected that in their graph for US production.

As we know, the Saudis are reliant (but not totally) on the Ghawar super giant field. They struggle to produce 5 million bbls per day from it, despite now injecting both water (15 million bbls per day) and CO2 to pressurise the reservoir. Its output is considered to be declining with over half the oil it will ever yield, already used. Even so, with a burst of euphoria the new Saudi oil minister reckons the world can consume 105 million bbls of oil a day by 2025. That too will not happen. But at least for EIA the Saudi figure makes their figures look conservative.

<http://english.alarabiya.net/en/business/energy/2015/04/09/Saudi-oil-minister-adviser-annual-oil-demand-seen-growing-up-to-1-mln-bpd.html>

So where will he get the stuff? Last month the Saudis produced 10.3 million bbls (highest for several years). But Ghawar will be down to producing a trickle by 2040.

Oil companies deliberately boost their prospects otherwise they would never be able to raise any capital. Shell Oil has bolstered their reserves by buying BG and we can expect Exxon, Chevron and other majors to do the same. But it doesn't add to world proven reserves. We have yet to see reserves being cut to the bone by the drop in world oil prices, but that is yet to come.

All we can be certain of is that the bad news will be hushed up!

In the UK, a tiny penny stock called UK Oil and Gas attempted to buy Eden Energy's British coal seam gas licenses three years ago and failed to find the money, so now they are hyping the prospect of getting oil from the shales of the Weald in Sussex/Surrey. Good luck to them, but meantime a lot of folk will lose money trying to back them. These folk are just cowboys; yet in a world hungry for new options, anything gets the media attention...

[http://www.nytimes.com/2015/04/10/business/energy-environment/word-of-oil-find-near-gatwick-excites-britain.html?\\_r=1](http://www.nytimes.com/2015/04/10/business/energy-environment/word-of-oil-find-near-gatwick-excites-britain.html?_r=1)

BP, the company still being hit by their Macondo troubles, may well be a target for Exxon to take over, according to some speculation within the oil industry (doubtful IMHO for anti-monopoly reasons). They need to keep raising money and their annual reports tend to put their own glossy perspective on things. In the article below, the graphs can be accessed once you have clicked on the link by clicking on the graphs to expand them...

<http://www.peakoil.net/headline-news/north-america-s-changed-energy-supply-situation-according-to-bp>

But let's face it, every oil producer strikes leaks, whether Mexico or Russia...

<http://www.newsweek.com/2015/04/17/russia-need-not-drill-arctic-if-it-repairs-oil-pipeline-leaks-321372.html>

Kjell Aleklett is right, I wonder what all these optimists are drinking? If he were alive, I think Mr Ponzi would be so proud J

Stopping drilling would be OK if we had alternatives to oil

<http://abcnews.go.com/US/activists-scaled-shells-arctic-bound-oil-rig-refuse/story?id=30227746>

### **Greenpeace caught out**

It isn't just the Russian Government at war with Greenpeace but also the Indian Government...

<http://www.deccanherald.com/content/470813/greenpeace-india-guilty-lobbying-says.html>

Perhaps Greenpeace should have a re-think? Get back to what it started out as before becoming a tool of other organisations with more covert agendas.

### **The sun setting on the Euro?**

Even before the recent ECB money printing (who cares? It is only a trillion Euros this year), the use of the Euro as a global reserve currency is decreasing...from Seeking Alpha...

“[Central banks cut their euro holdings](#) by the most on record last year to help mitigate losses ahead of the ECB's QE. The euro (NYSEARCA:[FXE](#)) now accounts for just 22% of global reserves, down from 28% before the EU's debt crisis five years ago, according to the IMF. "As a reserve currency, the euro is falling apart," says SocGen's Daniel Fermon. The numbers may be music to Mario Draghi's ears - a cheaper currency is theoretically a more competitive one - but Mizuho suggests the euro's slipping popularity suggests a more lasting loss of confidence in the EU economy.”

But there are still countries from the East that aspire to become EU members...I just wonder how a Grexit would affect that?

Meantime, I suggest the best word to describe the EU's energy policy is .... "unrealistic"

It remains to be seen how long Russia and China will allow this to continue...they have the ability to divert Russian gas once new Eurasian pipelines are built. Then the EU may find itself being starved into submission.

[http://seekingalpha.com/article/3061246-limited-prospects-for-eu-to-diversify-natural-gas-imports?source=email\\_macro\\_view\\_com\\_0\\_16&ifp=0](http://seekingalpha.com/article/3061246-limited-prospects-for-eu-to-diversify-natural-gas-imports?source=email_macro_view_com_0_16&ifp=0)

Replacing USD4/1000 cu ft gas from Russia with USD16/1000 cu ft gas from either Israel or Australia may be OK theoretically but it will involve billions of capital expenditure to even make it possible.

### **US Fed to raise interest?**

Even the sniff of a rise in interest rates in the USA would take down share values.

My opinion is that I doubt it will happen. Both retail sales and jobs growth are very depressed. The statisticians cannot cover up the fact that the hard core unemployed remain both unemployed and omitted from the unemployment register, as the core of a huge underclass (once middle class) goes neglected...but don't worry, the statistic is reflected in the number of folks who rely on the government for food...via the food stamps process: 50 million.

The only area of quality jobs growth since 2008 was in the shale oil plays of Texas, North Dakota and the shale gas states. Now those jobs are being lost. The “shale Ponzi giveth and the shale Ponzi taketh away”. Blessed is the shale Ponzi...or is it?. The financial crash from dishonoured shale debts will happen later in the year if oil prices remain below operating revenues for much longer.

Now they have chosen to print money, increase debt and reduce interest rates to zero to get GDP figures to stir, there may well be no going back. ZIRP may be here to stay...well maybe. But no central bankers are prepared to admit that...whether in EU, USA, Japan, UK or China.

This article provides an excuse...for the present US stagnation...

[http://seekingalpha.com/article/3061186-whats-the-culprit-behind-recent-retail-sales-and-jobs-weakness?source=email\\_macro\\_view\\_edipic\\_0\\_0&ifp=0](http://seekingalpha.com/article/3061186-whats-the-culprit-behind-recent-retail-sales-and-jobs-weakness?source=email_macro_view_edipic_0_0&ifp=0)

But the phenomenon is better described in Paul Craig Roberts fine book, “The Failure of Laissez Faire Capitalism”. If you contract your quality jobs out to folk in low wage economies by unrestricted off shore buying, what can you expect? Unemployment and deflation become the norm and any amount of financial trickery will just struggle to improve things.

### **Amazing science**

The central scientific theories that explain how the universe works are still being developed. Perhaps the Large Hadron Collider at CERN will tell us more, perhaps not. But at any rate, here is a summary of where we are at...

<http://www.bbc.com/earth/story/20150409-can-science-ever-explain-everything>

This atomic fusion business is getting really complicated...

<http://www.kpbs.org/news/2015/apr/10/could-giant-magnet-help-power-world/>

I am not sure I will be alive to see atomic fusion reactors generating electric power for our global economy.