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Better-Management Newsletter 23 April 2015

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A coming collapse

While we are waiting for Godot in two of the smaller economies of the OECD, things are going a bit haywire in the bigger countries...

http://d21uq3hx4esec9.cloudfront.net/uploads/pdf/150420_TFTF.pdf

Comparing a coming collapse to an event horizon of a black hole where gravity does not allow matter to escape is a bit over the top, because while we can expect an economic "reset" at some point over the next five years or so and many people will lose everything, the economy at that time will be able to be re-built....hopefully with real money, sound assets and prudent debt to equity ratios.

JM is correct in the above article that the zero interest rates allied to taxation policies are destroying the middle classes and retirees' opportunity for securing a retirement income out of their investments. But it seems the economists and mainstream media do not appear to understand why the world is condemned to no REAL economic growth. Tinkering with other people's savings is all governments can do.

Meantime the Brits are getting set to go to the polls but they will more than likely use the democratic process to create chaos. Marc Hartwich tells it best...

http://www.businessspectator.com.au/article/2015/4/23/european-crisis/britains-choice-between-devil-and-deep-blue-sea?utm_source=exact&utm_medium=email&utm_content=1306243&utm_campaign=kgb&modapt=

Thankfully that ZIRP phenomenon has not yet hit Australasia. But when it happens, we should not be naive enough to think we will be exempt from the problems caused by a global financial system re-set. More on this at the end of this email.

Then this article on the rise and rise of geopolitical influences on business caught my eye...from Next month's "Atlantic" edition...

http://www.theatlantic.com/magazine/archive/2015/05/the-disintegration-of-the-world/389534/

Greece: grexit delayed

A useful backgrounder...

https://www.stratfor.com/weekly/grexit-issue-and-problem-free-trade?utm_source=freelist-f&utm_medium=email&utm_term=Gweekly&utm_campaign=20150421&mc_cid=a228ca89db&mc_eid=f6520e17b6

There was to be a top level meeting tomorrow in Europe to discuss Greece's plans to stabilise its economy with thrift...if such is ever in prospect. Now the can has been kicked down the road again...

"**Greece will not present a list of economic reforms** to euro zone finance ministers on Friday, a senior EU official announced, kicking the deadline a little further down the road again. "The liquidity situation in Greece is already a little tight, but it should be sufficient into June," said Thomas Wieser, President of the Eurogroup Working Group. Athens previously told its euro zone partners that by the end of April it would agree with creditors on a comprehensive list of reforms, but such hopes have dimmed."

But that does not mean things are improving in Greece...they are getting worse for the people...

http://www.telegraph.co.uk/finance/economics/11554281/Greek-markets-hit-by-jitters-as-Athens-fights-emergency-cash-raid.html

Yemen - even worse

The USA is now moving against its ally in Iraq...Iran. Not sure what will happen when seven Iranian ships meet up with the Roosevelt carrier group?

http://hosted.ap.org/dynamic/stories/U/US_UNITED_STATES_IRAN?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT

Bombing Yemen back to the stone age doesn't seem like a good solution. With Saudi ships in the area, I wonder whether the Saudis and the Iranians will fight?

The Saudis can choose even more ludicrous war logos than the USA..."Operation "Decisive Storm" has succeeded in bombing Yemen back into the dark ages and now they plan an operation called, "Building Hope". I would have thought building hope could have started before bombing the heck out of them L.

http://www.bbc.com/news/world-middle-east-32411313

Any arrangement that leaves al Qaeda with a presence at Bab el Mandeb ("the Gate of Tears") and on the Red Sea will be totally unacceptable to the international community.

China outmaneuveres Obama

China has eased the banks reserve requirement and thereby pushed money/credit into the banking system in the hope this will re-engage the growth engine.

By using its hoard of US dollars, China is in a position to progressively reduce its own US dollar reserves on the one hand and continue to build a supra- Asian power base funded by the US dollar. Once the AIIB has been signed into existence by 57 countries, the next move by China to attack US dominance will be securing a closer relationship with all of the Silk Road economies.... Sinocism picks up the story...

"**China's One Belt, One Road Initiative | Foreign Affairs** One Belt, One Road serves foreign policy goals as well by deepening relationships with China's neighbors. The dual plans will also expand Beijing's ties to major developing countries, and build support for a reshaped international system that puts China at the center of world power. China's growth has prompted the nation to reluctantly embrace its foreign policy obligations, and the trade program will allow Xi to pursue his "community of common destiny" program, a vision for shared Asian growth in the coming decades. Strengthened bilateral ties with nations along the dual trade routes will support China's ambitions to build a network of non-Western international organizations in which China plays the main, if not dominant, role. Organizations such as the Shanghai Cooperation Organization and the Conference on Interaction and Confidence Building in Asia would allow China to pursue international diplomatic primacy outside of Beijing's relationship with Washington. // And it should also be a boon for PRC arms merchants..The general theme (hope?) among the Western/American punditocracy seems to be that 1B1R is unlikely to be successful. I would be careful making that assumption and instead suggest serious people make credible plans to respond to this very significant strategy. I certainly hope people in DC at least have learned something after the self-inflicted AIIB debacle, which I think surprised even Beijing with its success. And given how successful the AIIB push has been so far, expect China to try to push even more AIIB-type choices on the US and the West in the twilight of what Beijing appears to view as a disengaged, easily outmaneuvered Obama Administration and a generally dysfunctional DC..."

But the Asian Development Bank reckons China has a lot of ground to make up with the AIIB. Adding to scepticism, I think the degree to which China is "strong-arming" other Asian countries will likely make them even more anxious to us the US security umbrella. Japan and South Korea are cases in point...from Sinocism...

"**Shinzo Abe and Japan's History - NYTimes Editorial** Many Japanese right-wingers believe their country was wrongly maligned by America and its allies after the war. Mr. Abe has given the impression that he believes Japan has already done enough to make amends for its militarism and atrocities. He says he prefers to get on with more firmly establishing his country as a 21st-century leader that can help the United States counter China in Asia and take on other global responsibilities. But Japan cannot credibly fill that broader role if it seeks to repudiate criticism of its past. Emperor Akihito of Japan and his family have set a much better example; in an apparent rebuke of Mr. Abe, Crown Prince Naruhito has been outspoken about the need to "correctly pass down history" to future generations."

But what happens when Chinese state owned enterprises bust...will they get bailed out?

http://thecrux.com/its-official-the-first-state-owned-chinese-company-has-defaulted/

Everyone wants to share in China's growth. No wonder...from Sinocism...

"**China Has Even More Megacities Than You Thought - Bloomberg Business** How many megacities does China have? The United Nations puts it at six. Try 15. China is urbanizing at a staggering rate—in 35 years, it has added more than 500 million people to its cities. As a result, it looks like the world has vastly underestimated the size and scope of growth in China's megacities, defined as those with more than 10 million people, according to a new report by the Paris-based Organiz"

Oil games

With Britain about to go to the polls BP want more tax cuts. Bob Dudley of BP believes the North Sea oil producers are in serious trouble at present oil prices and despite recent UK tax cuts and he claims more cuts are urgently needed.

http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11553769/BP-sees-massive-shock-for-North-Sea-as-oil-glut-deepens.html

Just remember that UK oil production peaked in 1999 at 2.9 million bbls per day and now is less than 500,000 bbls per day. So they have gone from being a significant oil exporter to being a significant net importer.

Rex Tillerson at Exxon has a better idea than BP. Sure, Exxon buys other oil companies with long life oil reserves to ensure the balance sheet looks OK and then the company buys back Exxon stock. He knows that one day there will be no oil to produce or sell at the rate of extraction that Exxon has (when, who knows? But I bet he knows.) Meantime he talks about exporting American energy (which in net terms simply will not happen). His is a shell game where misdirection takes folks eyes off the ball to where he wants them to look...and he does so with more success than his peers.

http://peakoil.com/publicpolicy/exxon-cea-feds-industry-must-work-together-in-new-world-of-energy

Shell Oil is buying BG and thus gets their reserves to add to their balance sheet while at the same time selling all their downstream assets (including service stations and even some refineries), knowing that one day they will run out of oil to supply them. This summer Shell will have another go at Arctic drilling....not because they want to, but because they need the cash flow from that having already spent USD6 billion on that already.

Meanwhile there is a standoff between the world's oil producers over who should stop producing to increase the oil price (so more producers can survive). That is not the REAL point because all producers will produce as fast as they can to meet their business objectives and so the "devil will eventually take the hindmost".

Given that the light tight oil (shale) producers in Bakken, Eagle Ford and Permian plays are the most leveraged, I expect oil production to start falling in at least one of those plays shortly...

http://www.artberman.com/saudi-arabias-oil-price-war-is-with-stupid-money/

Also the rig count has dropped by 58% to 735 rigs in the USA at last count... since oil prices tanked. By year end we will find out what happens next.

The shale oil drillers have now issued more than USD300 billion in high yield junk bonds...some with interest up to 15% (in this ZIRP environment???) What could possibly go astray with this? Well this could provide some clues on the next "sub-prime event"...

http://oilprice.com/Energy/Oil-Prices/What-Happens-To-US-Shale-When-The-Easy-Money-Runs-Out.html

We seek innovative solutions

I don't argue that innovation will not happen, or that technology will not make a valuable contribution to our future. My concern is the areas of emphasis are not focused on the real problems we face... these are some of the best...

http://peakoil.com/alternative-energy/inventions-that-could-change-the-world

This guy makes some interesting points from a journal I almost never look at ...

https://solidarity-us.org/node/743

Convert investments to cash?

I am not sure, most bearish writers believe it is time to go for real assets rather than financial assets. What do they mean by that? Well, cash under the mattress, gold, silver, farm land, real estate (beware the markets with bubbles though) and rare books, wines and art. There will come a time, when the going gets tough, that governments outlaw the use of cash because it cannot be tracked...but the 0.1% already know that ...

http://www.internationalman.com/articles/securing-your-assets-when-financial-privacy-is-dead

The process of killing privacy and outlawing personal freedoms has begun. Perhaps George Orwell would not be too surprised ...

This is what Vern Gawdie thinks...rather lyrically...from "Daily Reckoning"...

“The Times They Are A-Changin’
Vern Gowdie, Editor, *Gowdie Family Wealth*

The line it is drawn
The curse it is cast
The slow one now
Will later be fast
As the present now
Will later be past
The order is rapidly fadin’
And the first one now will later be last
For the times they are a-changin’

Bob Dylan’ anthem of change was released in late 1963. The civil rights and peace movements were gathering momentum. Dylan’s lyrics tapped into the prevailing social mood of the youth. The times were indeed changin’.

One month after the release of the song, President Kennedy was assassinated. Less than five years later, Martin Luther King Jr was killed.

President Kennedy’s successor, Lyndon B Johnson, transformed US military assistance in Vietnam into a full-scale war.

Nearly two decades of post WWII productivity came to a grinding halt in the late 1960s.

The US share market (S&P 500 index) peaked around 100 points in 1968 and didn’t make any meaningful gain above that level until 1982.

The low inflation and low interest rates of the 60s were replaced in the 1970s by double digit inflation and 20% interest rates.

Dylan read the mood correctly…the times did indeed change.

Fifty years after the release of Dylan’s prophetic song, we are on the cusp of another historic period of change.

‘The curse it is cast’

The ‘*line it is drawn’* and ‘*the curse it is cast’* relates to the global debt crisis.

There’s always a line in the sand with the curse of debt. When that line is crossed, forces are unleashed that correct/alter/change the imbalances in the system.

‘Over the more than two thousand years of economic history, a clear record emerges regarding the relationship between the level of indebtedness of a nation and its resultant pace of economic activity. The once flourishing and powerful Mesopotamian, Roman and Bourbon dynasties, as well as the British empire, ultimately lost their great economic vigor due to the inability to prosper under crushing debt levels.’

Hoisington Management Quarterly Review 2015: The 1960s was a decade of experimentation — love, drugs and long haired freaky people.

In the 1980s, 1990s, and 2000's we experimented with a drug of another kind — debt. The debt drug is every bit as addictive as heroin and as hallucinogenic as LSD.

Buying on credit gave an instant high and created the illusion of wealth. The injection of debt into the veins of the economy produced magical growth results…much to the delight and financial enrichment of the ruling class and bankers.

The removal of the gold standard, the de-regulation of banks, the abolition of the Glass-Steagall, separation of commercial and investment bank activities, and finally, central banks willing to print enough paper to cover the banking sector's multitude of sins have all contributed to the curse of debt being a pox on the global economy.

The line in the sand was crossed with the subprime lending debacle. Times should have changed then. The academics, bankers and politicians chose not to heed the lesson, and they've cursed us with a debt crisis that is without historical peer.

When the debt crisis finally has its reckoning

'The slow one now, Will later be fast' — cautious, prudent, wary investors who have endured paltry returns from cash and term deposits may be the *slow one now*. Those in the share market's fast lane (with implied asset protection from central bankers) are *for now* racing ahead. However, when (not if) the debt crisis finally has its reckoning, an investment vehicle in the fast lane hitting the brick wall of reality is destined to become a smouldering wreck.

The cashed up investor then becomes the *fast one…*taking advantage of the bargains on offer from the market carnage.

The present now will later be the past. When the bell is finally rung on this period of insanity, the market's present gains are going to be but a distant memory…just like the gains from the dotcom and housing bubbles.

Thirty years of debt drug abuse

Only this time, the future that awaits us is going to be far worse than anything we have ever experienced. Thirty years of debt drug abuse is collapsing the economy's veins. The system is slowing down and vital organs (the banking system) could fail…why do you think GE is selling its finance business?

Central banks have nothing left to fight another, more serious downturn with. Yes, interest rates can go further into negative territory. But if rates go too far into the negative, investors could decide the cost of holding physical cash in secure deposit boxes is the lesser of the two evils. Unless of course governments outlaw physical cash.

QE is a horse that's been flogged to within an inch of its life. Each time the central bankers trot out QE, it has to be bigger, better and longer than the one preceding it. Poor old QE has no chance of staying the distance against the power of the next market downturn.

The central bankers could (and most probably will) drop money from Ben's helicopter. However, you can take the horse to water but you can't make it drink. What happens if people decide to bank the cheques and sit on the cash? More public debt and no economic stimulus will be the result.

When the inevitable crash comes, we'll see '*the order is rapidly fadin''.* When things go pear shaped, victims always look for the perpetrators of the crime.

In 2008, Alan Greenspan (former Fed chairman) faced a Congressional hearing into the subprime collapse and was asked:

'You had the authority to prevent irresponsible lending practices that led to the subprime mortgage crisis. You were advised to do so by many others. Do you feel that your ideology pushed you to make decisions that you wish you had not made?'

The system didn't tank in 2008-09, so central bankers and Wall Street executives were never held fully accountable for their reckless actions.

Instead, both parties colluded to create another even greater bubble…theoretically termed 'the wealth effect'.

When the next crash happens

The old order remained. However, when the next crash happens there'll be no bubble reflation to mask the incompetency, larceny, greed and stupidity of the Fed and Wall Street.

Social mood will be one of anger and hostility at being duped by those who mouthed their hollow assurances of being there for the little guy.

Political opportunists eager to capitalise on this social unrest will publicly name and shame these former masters and mistresses of the universe.

The old order rapidly fades and those who once were first '*will later be last'.* The high and mighty of today will fall as hard, if not harder, than the market.

Now is the time to reassess your investment strategy.

A cautious approach provides you with the opportunity to 'live to fight another day'. Being cavalier is an almost certain path to capital destruction from which you may never fully recover.

To paraphrase Dylan:

> *Come investors throughout the land*
> *And don't accept blindly what you may not fully understand*
> *The decisions on your capital are with your command*
> *The old debt dependent system is rapidly ageing*
> *Take this opportunity to get cash in your hand*
> *For the times they are a-changing.*

Vern Gowdie,
Editor, *Gowdie Family Wealth”*

Whether we like it or not, all of the world’s banks are now interconnected through the global derivatives market. In any derivatives transaction whether used for gambling or hedging against price movements, there are those who are being covered (assets) and the counterparties who support them (liabilities). A payment has been made via the “assets” side of the transaction. Yet, when a loss is incurred by those who have liabilities, the identity of those folk is either not well known or unknown...just as their substance and solvency is largely unknown. None of the derivative liabilities are shown in bank balance sheets. So when one looks at the USD260 trillion of gross derivatives obligations held by the five major US banks there are only two things we can know for sure. The first is that the bank has been paid to take on the exposure and yet the second is, that exposure may or may not vastly exceed the bank’s capital.

USD16 trillion secret loans

This was the reason why in 2008 when Lehman Bros failed, all banks had to view every other bank as insolvent. At that time the US Fed provided secret loans (USD16 trillion) to a number of banks over an 18 month period without much consideration of solvency, solely to restore faith in the system. Now those banks are 34% bigger...so what happens next?

Well, this is why we are so interested in Greece. If there is an event of default (last time Greece defaulted the BIS got everyone to hold hands and agree that, although giving creditors a 75% haircut, it was not really a default) it will this time affect the big banks and some sovereigns (mainly Germany, France, UK and Italy). It will not this time just affect private investors (wealth funds and hedge funds etc who can be stopped from exercising their derivative CDSs by globally coordinated legislation).

When the next crashes come, someone will need to be standing ready to provide the glue to stop the entire global financial systems breaking apart. I imagine that role will rest with ECB, IMF, BoE and Fed....and perhaps others.

So when playing brinkmanship with China and Russia, the EU and USA should have regard to the fact that the global financial system is a bit like playing with stones in a glass house. Of course this is why the size of the global indebtedness of nations is so scary – none of that can ever be repaid.

We still only have the BIS stats for June 2014: https://www.bis.org/statistics/dt1920a.pdf

They are likely to be incomplete and understated, even so. Total derivatives could well amount to over one quadrillion US dollars by comparison with the size of global GDP at just below USD80 trillion.

Of course, this is why even some mainstream economists are aghast at the debt build up since 2007 (USD57 trillion). Now it isn’t just a case of “if” trouble will strike...it is merely “when”.

Meanwhile JP Morgan, Goldman Sachs, Citigroup and Morgan Stanley can rig the markets with their commodity trading practices, but woe betide a sole trader from another country doing anything to upset the CFTC. The heavy-handed tactics employed by the USA have a tendency to bring its regulatory systems into disrepute. The SEC, DOJ and CFTC seem to be simply making up laws as they go along. http://www.telegraph.co.uk/finance/financial-crime/11553433/British-trader-Nav-Sarao-charged-with-triggering-global-markets-flash-crash-in-2010.html

We shouldn't be surprised that no US bankers get to spend time in jail. Just shake them until their money falls out of their pockets eh? ...from Seeking Alpha...

"**The U.S. Department of Justice is now pushing** for five banks, including JPMorgan (NYSE:JPM), Barclays (NYSE:BCS), Citigroup (NYSE:C), RBS (NYSE:RBS) and UBS (NYSE:UBS), to reach a joint mega settlement to allegations they manipulated the foreign exchange markets. The deal would see some institutions pay about $1B each and is scheduled for mid-May, *FT* reports. Last November, the banks (except Barclays) agreed to pay $4.3B to authorities in the U.S., U.K. and Switzerland in the first settlements announced in the forex investigation, although the DOJ was not included on that ticket."

How can Britain allow a citizen to be extradited when he faces a potential jail term of multiple lifetimes?