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Too big to fail (TBTF) / Russia and China buying gold / Saudi Arabia - all change / Oil and Gas / World Over-population

Too big to fail (TBTF)

We know there are about 50 TBTF banks and most sovereigns that cannot be allowed to fail, but what about the markets? Well, the major share markets are being carefully watched by politicians and bankers, but also the big insurance companies and even property markets cannot be allowed to drop.

In NZ and Australia, a 20% drop in property values would likely take down the big four banks...

<http://www.zerohedge.com/news/2015-04-29/financial-markets-now-control-everything>

The impact of a market glitch would fire the politicians into life, then would come regulatory change and central bank bail-outs, and then we would see IMF, ECB and BIS start into action.

Russia and China buying gold

Change is coming to the weighting of currencies used by IMF for reserve currencies. Russia and China are active in gold buying for a reason. A big financial "what if" will happen later this year when IMF provides an update of the split between the major currencies with the US dollar and Euro being required to move over. Some think this will cause a crash for USA, and indeed it may. But we should suspend judgement until it happens...perhaps this will be the outcome...

<http://pro.moneymappress.com/MMRBSSH39PPM3/LMMRR4FM/?h=true>

Perhaps not. The orchestration of bailouts and re-jigging will be interesting to watch and it may succeed in deferring the worst effects of turmoil.

Meanwhile the Greek tragedy continues...from Seeking Alpha...

“[Moody's has slashed Greece's credit rating](#) deeper into junk territory, lowering its government bond rating to 'Caa2' from 'Caa1' and assigning it a "negative" outlook. The ratings agency said a balance of economic and financial risks in the country and upcoming debt repayments slanted it "to the downside." Meanwhile, Bloomberg reports that Greece and its euro-area partners have agreed to pursue intensive negotiations which will begin today, targeting a preliminary deal by May 3 and a final accord by May 11.”

Saudi Arabia - all change

King Salman has changed the rules of succession and written in policy some major changes to the administration of King Abdullah...

<http://www.bbc.com/news/world-middle-east-32509296>

Some thoughts on the impact of changes on oil policy?

<http://www.cnbc.com/id/102630193>

and

<http://www.cnbc.com/id/102632475>

One of the best films of last year was “Gravity” in which the Russians exploded a satellite that went rogue. In that film our heroine got back to earth by hitchhiking on a Chinese satellite. Now it seems there is another rogue in space...that will come back to earth ...just hope it doesn't hit me...

<http://www.bbc.com/news/world-europe-32517447>

Oil and Gas

At last some common sense over bio-fuels in the EU. Bio-fuels have a poor EROEI and using food for energy simply does not make sense....

<http://www.ipsnews.net/2015/04/european-biofuel-bubble-bursts/>?

In the USA there are almost constant exhortations for the government to allow the export of both oil and gas. This seems sensible as much of the light tight oil produced by fracking is unsuited for refineries in the quantity it is being produced. For the gas, the surge as a result of fracked shales makes it logical except for the need to build LNG plants to compress the gas for export. Will this capital expense that takes 20 years to amortise and get a payback be justified? In the Marcellus Shales has come the most rapid growth. So any infrastructure for export should logically be based there. The problem is that at today's prices there is not much drilling and the decline rate for production on a well by well basis averages more than 30% per year, so they are played out in 8 years requiring continued drilling.

We know that both EIA and IEA have forecasting issues that seem to state what oil companies want, rather than what they achieve. This article by David Hughes makes short work of the EIA natural gas forecasts.

<http://www.postcarbon.org/marcellus-production-outlook/>

Also, we need to remember that the USA is STILL a net importer of both oil and gas. So statements that USA will achieve energy independence are not supported by the facts at this stage.

It is sensible to avoid investing in high depletion oil businesses but not across the board for reasons of opinion about climate change...

<http://www.rtcc.org/2015/04/29/g20-to-assess-carbon-bubble-threat-media-reports/#sthash>

The most important takeaway is that oil from easy places to drill and cheap to fund is a thing of the past. We would not be exploiting source rock, deep water, polar or tar sands oil if we were not struggling against oilfield depletion and had run out of good places to drill.

Ron Patterson's monitoring of the Bakken field gives an indication of what is starting...

<http://peakoilbarrel.com/bakken-what-is-the-data-telling-us/>

I have a lot of time for NYU's Professor Nuriel Roubini, but he talks like all economists as if oil is an infinite resource...

<http://peakoil.com/consumption/roubini-were-not-going-back-to-100barrel-oil>

Even so the fall of US light tight oil (shale) has begun. For the oil companies involved, they are now often just maintaining production by borrowing at high interest rates. By year end the crash will be upon them and that may signal a share market crash in the USA...

<http://www.artberman.com/the-u-s-production-decline-has-begun/>

Can I just reinforce that. The massive borrowing at high interest rates in order to drill shale wells when oil prices were North of \$100/bbl did not even provide the oil cos with enough cash to cover the capital and holding costs. Now they are not borrowing to drill more wells but to meet interest bills because sales revenue doesn't cover it (in many instances). This is an industry that has been well trained. When they find themselves in a financial hole, they dig faster. It is starting to be easier to predict the probable outcome...major loan defaults by Christmas perhaps? Remember this?...

<http://www.zerohedge.com/news/2015-04-28/debt-pile-fuel-further-oil-price-pressure>

The supply data triggers pretty rapid responses and the WTI oil price has come close to breaking the USD60 per barrel mark, overnight. With the high crude oil inventory on hand, where the price goes from here is anyone's guess – that is until some of the excess inventory is used.

The problem with oil is replicated for every known mineral. Ore grades globally are falling. The cost to extract the ore is rising. The exploration risk and capital cost of opening up new mines is increasing. Also the energy cost is increasing dramatically as miners dig deeper and need to do more to process their ore...

<http://www.crcore.org.au/ind-challenge.html>

World Over-population

Migration patterns are now getting pretty well established in the Middle East...due largely to religious extremism, and Africa, where the tribal disputes and droughts squeeze those who can, to take refuge in the system of people smugglers.

Europe sees those who cross the Mediterranean or enter via other EU countries as their only problems...

https://www.stratfor.com/analysis/immigration-drives-deeper-wedge-between-eu-states?utm_source=freelist-f&utm_medium=email&utm_term=article&utm_campaign=20150430&mc_cid=ac22e78dcf&mc_eid=f6520e17b6

But hundreds of thousands are crossing the Sahara to escape North – or dying along the way...

<http://www.bbc.com/news/world-africa-32534302>