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Better-Management Newsletter 5 June 2015

He who has the gold makes the rules / Bonds continued their sell off / Shares are over-valued / China and Russia building up resources / Islamic state expanding / Greek can-kicking / Ukraine – fighting escalating / Oil shenanigans

He who has the gold makes the rules

From Seeking Alpha...

“[FIFA president Sepp Blatter's decision to resign](#) amid corruption allegations at soccer's governing body is a relief for corporate sponsors who have called for more transparency at the organization. "FIFA needs profound restructuring," Blatter declared. "Although the members of FIFA gave me a new mandate, this mandate does not seem to be supported by everyone in the world." Sponsors Coca-Cola (NYSE:KO), Visa (NYSE:V), Adidas ([OTCQX:ADDYY](#)), Hyundai ([OTC:HYMLF](#)) and Anheuser-Busch InBev (NYSE:BUD) called the resignation a positive step, but some sponsors said they expected FIFA to do more to clean up its act.”

And payoffs?

<http://www.telegraph.co.uk/sport/football/fifa/11650517/Fifa-corruption-crisis-live.html>

Bonds continued their sell off

This is not a good sign...from Seeking Alpha...

“[Bond yields across global markets](#) continued their sell-off into Thursday as a six-week-long bond rout rumbled on. Yesterday, ECB President Mario Draghi said asset prices tend to be more volatile in a low interest rate environment and policymakers were prepared to look through the sharp rise in yields. With the ECB seeing no reason to adjust its stance on monetary policy, German 10-year Bund yields rose to fresh 2015 highs today at 0.95% (up from near zero in mid-April). U.S. 10-year yield +3 bps to 2.4%.”

Shares are over-valued

My answer for the major USA and European stock markets is “yes”. This is based on P/E ratios and the level of margin debt (the latter at an all-time high)...for USA...

http://ggc-mauldin-images.s3.amazonaws.com/uploads/pdf/OTB_Jun_03_2015.pdf

There is no doubt that the mix of QE and ZIRP in the USA has escalated share values. Equally most economists now accept a high risk of a crash if the Fed increases interest rates – even the IMF is warning them...

<http://www.telegraph.co.uk/finance/economics/11651762/US-should-delay-rate-hikes-until-next-year-says-IMF.html>

China and Russia building up resources

The oil loans to countries like Saudi Arabia and Venezuela are locking those countries in to the BRICS more than the OECD. China is running to catch up with emergency storage of oil...

<http://peakoil.com/consumption/china-is-hoarding-cheap-oil-in-a-fleet-of-supertankers>

China continues to manipulate the global rare earths industry by making competitors unprofitable...from Seeking Alpha...

“**Molycorp plans to file for Chapter 11** bankruptcy protection as soon as this month, after skipping a \$32M bond interest payment this past Tuesday, *WSJ* reports. The plan marks a dramatic turn for Molycorp (NYSE:**MCP**), which rode temporary concerns of a shortage in rare earths elements to a \$6B market capitalization in 2011. Since then, China has relaxed restrictions on exports of rare earths, oversupplying the market.”

Islamic state expanding

Islamic state now has a lot of real estate to defend, now has multiple enemies...

https://www.stratfor.com/analysis/how-islamic-state-victories-shape-syrian-civil-war?utm_source=freelist-f&utm_medium=email&utm_term=article&utm_campaign=20150604&mc_cid=7569c1fbfb&mc_eid=f6520e17b6

Greek can-kicking

The Greeks are kicking the can down the road for another three weeks...setting up 30 June as the “do or die” point....

<http://www.bbc.com/news/world-europe-33009034>

Ukraine – fighting escalating

From Seeking Alpha...

“**Dozens of people were reportedly killed** or injured around the city of Donetsk on Wednesday in one of the bloodiest battles between Ukrainian forces and Russia-backed militias since a fragile ceasefire began in February. "Russia bears direct responsibility for preventing these attacks...any attempts to seize additional Ukrainian territory will be met with increased costs," said Marie Harf, spokeswoman for the U.S. Department of State. The scale of the violence spooked investors, with the Russian stock market **falling more than 2.5%** and the ruble losing 2% vs. the dollar.”

But will Russia actually invade?

<http://www.bbc.com/news/world-europe-33003237>

Oil shenanigans

It will be interesting to see what OPEC does this weekend...from Seeking Alpha...

“[Nearly a year after oil markets](#) entered a deep downward spiral, some OPEC members are publicly talking for the first time about a new "fair" price for their crude. Oil ministers from Iraq, Venezuela and Angola said in Vienna this week that a price of \$75-\$80 a barrel could be just fine, however, Saudi Arabia - which has for years pointed to \$100 a barrel as a "fair price for producers and consumers" - has given no indication that it subscribes to this view. Whatever the case may be, there is a reported consensus among the 12-country group to leave the current production ceiling of 30M bpd unchanged at their meeting tomorrow.”

This article below is typical of US perspectives that ignore the fact that within OPEC full cycle costs are only USD5-10 per barrel in some cases, with the balance comprising the social support costs to the country to balance their budget. It also understates the true break even costs of shale on a full cycle basis. But ignoring that, the writer has an interesting perspective...

http://seekingalpha.com/article/3235276-friday-is-judgment-day-in-crude-oils-financial-cold-war?source=email_macro_view_edt_pic_0_0&ifp=0

There are still problems with Iran's nuclear ambitions but the oil majors want to see an end to sanctions...from Seeking Alpha...

“[European oil majors are openly declaring interest](#) in returning to Iran, with leaders of Royal Dutch Shell ([RDS.A](#), [RDS.B](#)), BP (NYSE:[BP](#)) and Total (NYSE:[TOT](#)) all saying they are ready to return as soon as international sanctions are lifted. U.S. oil companies remain somewhat more cautious on Iran, although "certainly we would think about it," said ConocoPhillips (NYSE:[COP](#)) CEO Ryan Lance.”