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Greece technically in default?

Breaking News...Greece has missed its deadline to pay the IMF Eur1.6 billion. So Greece is technically in default.

http://www.bbc.com/news/world-europe-33339363

This may not be of too much significance ...or it may...but...

Let me confront you with the bigger picture. Perhaps you will disagree with the data used in the process of working out the position taken by the Club of Rome, but it is worth checking.

I regard it as a given that the people who think most deeply about our children and grandchildren's future will have already read the book by Meadows, Randers and Meadows titled "The Limits to Growth, 2004 edition". That book followed up their earlier book in 1972 which caused a firestorm of both acceptance and rejection... and resulted to the establishment of a group referred to as the "Club of Rome," which in turn was extremely controversial. The problems for those who reject the authors hypotheses are that:

1. Continued economic growth in a finite world is impossible
2. The 30 year progress report of the first LTG book showed that the earlier models were realistic.
3. It is now possible to see areas where the LTG models are tracking according to forecast.

Limits to Growth revisited after 30 years resulted in a landslide of former naysayers, changing their positions and accepting these realities. But that has made opponents – mainly from the business sector and economists - even more committed to debunk the theories. *(Editor's note: I'm one of those who consider LTG as overly academic and ignoring several significant realities that dispute their findings.)*

This article by Dr Ugo Bardi reminds us that many of the happenings of today are consistent with that modelling. In this article, the thing I found most interesting was to run my eye along the graph of each resource hypothesis and find that the world's systems are generally in line with the trends emerging on a progressive basis .... my own views from the information coming my way and being re-directed to you...

http://cassandralegacy.blogspot.co.nz/2015/06/the-limits-to-growth-and-greece.html

May I suggest you focus on the graph from LTG as a useful summary.

Solar power, not Obama's blatant lie

It was interesting to see the recent TV 60 minutes BBC programme, where Mr Obama interviewed BBC’s Sir David Attenborough and they generally presented a politician’s spin on what is happening to our environment. The main truth to emerge was stressed by David as the need to replace present energy with energy from the sun in a way that can be stored. So far the only suitable energy storage candidate remains the mythological EESU – whether it ever gets to market or not. Mr Obama stated a blatant lie.... that the USA is according highest priority to working on energy storage systems when in fact the USA is not doing so. Atomic fusion, dead end battery initiatives that are limited by performance or lack of scalability, and all other US Government initiatives do not justify his statement or that programme’s optimism. In reality the world’s 6th mass extinction may well end with our own for all we know at present.

To my mind each participant in that TV programme (Barrack and David) was more interested in not scaring the horses and shoring up their personal public legacy to bear future scrutiny. But Attenborough was at pains to stress the only significant solution for us was to harness solar power (and wind) and find a scalable and effective way to store its energy.

Any and all delays to that energy capture and storage technology mean that the global economy must now slow – despite the commitment of all economists, business leaders and politicians to the concept of continued exponential growth.

Personally I think Bardi’s linkage of the Greek collapse to the emerging global mega trend may only prove to be as reliable as climate change being linked to floods in Wellington, droughts in California, or snow in the South Island. All these links must be statistically matched over a considerable period of time before we can rely on the linkage. But in the meantime the world’s first systemic financial collapse is emerging more clearly as time passes.

Printing money not the solution

Simply put, the lack of surplus cheap energy cannot be replaced by printing money and creating a vortex of inter-connected debt. The first country example has been Japan which has not grown for 25 years. But with domestic wealth, Japan is able to print money and play with foreign exchange rates to cushion their depression. Greece does not have that cushion of wealth.

The Greek bank holiday, the problems in China, the downturn that seems to have spread to all OECD and some emerging economies will all soon be reflected in the global oil price. Demand will drop as will price... unless there is a matching supply side reduction. The ECB cutting emergency assistance to Greek banks has clearly attempted to persuade Greek voters to vote against their own government...for them, what is a few billion here or there when the ECB is printing Eur 1 trillion per year anyway.

A falling oil price is a possible remedy for depression – up to a point. However the losses incurred by financiers of “high cost quartile oil producers” is likely to also cause international damage. To quote Jim Kunstler ...

"At over $70-a-barrel the price kills economies; under $70-a-barrel the price kills oil production."

If the next crash happens this year…

The BIS admits there will be little to stop the next crash if it happens this year...

http://www.telegraph.co.uk/finance/economics/11704051/The-world-is-defenseless-against-the-next-financial-crisis-warns-BIS.html

One financial crash won't be the end of the world. In the OECD it may only make people poorer – starting with those with most wealth to lose. But there will be many more crashes. The biggest losers have already started to appear in oil exporting countries whose production dropped and left them as major importers...Egypt, Yemen, Syria etc. Then there will be the losses in South America and Africa. Wherever oil wealth led to baby boom and an absence of oil has led to failed states. UK is in that category and perhaps for them the writing is on the wall too.

Offsetting the indicators of a near-term crash, there is some evidence that the derivatives market is being brought under control as the total debts/assets outstanding have reduced from USD690 trillion to USD630 trillion by year end 2014. CDSs dropped from USD19.5 to USD16.4 trillion and these are the most dangerous exposures for counterparties. This reduction simply reflects the withdrawal of the biggest US banks trading in commodities. Also I don't entirely trust the BIS stats.

Challenges stacking up

But challenges to the global economy are stacking up...

http://seekingalpha.com/article/3291885-2015-second-half-outlook-quadrophobia?source=email_macro_view_edi_pic_0_0&ifp=0

I agree with IMF and Mauldin, a rates hike at September could be "the last straw..."

http://www.mauldineconomics.com/connecting-the-dots/the-wizard-of-oz-and-the-case-for-a-later-liftoff

On balance, I still think the possibility of a crash in the quarter from September to November this year remains at 35%. That is astronomically higher than any bank economist would admit to. But then they never saw the 2008 GFC coming either, did they? But much as I seek information to refute such a prediction, all I can find so far is information to support it.

Just hopefully, China will get its act together. The PBOC is taking extraordinary steps to stop the share market crash and the recognition of the insolvency of many financial institutions...

http://seekingalpha.com/article/3292675-chinas-rate-cuts-are-about-keeping-the-lid-on-its-pandoras-box-of-debt?source=email_macro_view_eco_12_60&ifp=0

But as this didn't work for the sharemarket – which kept falling on Monday – the government indirectly directed the national pension fund into buying shares...and as pointed out in the above article "a rolling loan gathers no loss". From Seeking Alpha...

"**China is now taking** an all-hands-on-deck approach to soothe the country's plunging stock market, after an unexpected weekend interest rate cut failed to right the ship. Late on Monday the finance and social security ministries published draft rules that would permit the state pension fund to invest up to 30% of its net asset value in securities, potentially allowing 600B yuan ($97B) to enter the market. The Shanghai Composite Index closed up 5.6%."

Well that big boost did change things for today. But when will the market drop again? It stands to reason that you don't solve a bubble by pumping it up further.

Rare earths as investments?

For those who are interested in rare earth elements but are not familiar with the industry...

I follow only two rare earth shares...but am sitting on the sidelines until I figure out whether they are worth investing in....or not.

Lynas (ASX:LYC)– which is slowly going broke because they are doing the job professionally and well, and
Northern Minerals (ASX:NTU) – which is planning to sell concentrate to folks who want to separate it. This business has two Chinese as majority shareholders.

I thought this article would be interesting...

http://peakoil.com/geology/rare-earths-not-so-rare

The only US company (with the Mountain Pass mine) having recently gone into Receivership... leaving the sole viable producers outside of China, those I have listed above.

Rare Earth elements are usually mixed with nasty stuff like uranium and thorium so large scale automated production with tight emission controls is the only way that rare earths will be produced in the OECD. And that takes me back to LYC and NTU. But their business model is under threat from dirty Chinese businesses that for the present, don't worry too much about emission controls or the survival of their own workers.

LYC and NTU are worth watching because I am certain that one day they will have their time in the sun.