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## Better-Management Newsletter 26 August 2015

**Stock market(s) crashing? / Shale oil production in USA has peaked / Israel versus Iran**

### **Stock market(s) crashing?**

The stock market isn't everything...but most folks have pension plans that invest in shares in the OECD...so it affects many of us...whether we know it or not.

The crash in China will have a huge negative “wealth effect” for them as their markets sink lower, but it doesn't affect us...well it isn't really a market, but a highly leveraged casino for retail investors. The real situation in China that affects us is their real economy and whether it is growing or contracting – unrelated to the casino. Global trade is already down this year so much so that every ship sailing from Shanghai to Rotterdam is making a loss. That will be the driver of many smaller economies, rather than which share market is higher or lower.

In OECD countries like UK and USA, the Central banks will find this share market drama a little disconcerting at the moment, because they desperately want an excuse to normalise interest rates....this article below also has a neat video on the size of the recent share market losses to date...

<http://www.telegraph.co.uk/finance/personalfinance/interest-rates/11032396/Interest-rates-predictions-When-will-the-Bank-Rate-rise.html>

There are signs that other share markets are coming back to life (i.e. in Australia and New Zealand). But the DOW is now down by 15% on its high. Japan's stock market has been suffering due to lack of further QE so we can probably expect the Abe government to oblige at some point.

Some “leading US economists” (i.e. the guys who bugged up the global economy in the first place) are even suggesting there should be a return to QE in USA soon. Ray Dalio agrees with them...as he thinks QE could be possible...

<http://thecrux.com/ray-dalio-fed-is-more-likely-to-ease-than-tighten-this-year/>

That would bump up the share prices in USA at least...and for a while anyway.

There are glimmers from these daily figures/trends, that indicate these markets have over-reacted to China: FTSE +3.09%, Dow Jones -1.29%, Nasdaq -0.44%, Nikkei -3.96%.

And from Seeking Alpha...

**“Global markets look to regain** their footing after a harsh start to the week. Leading Asian markets fell again with the Shanghai Composite Index closing with a 7.6% loss and the Nikkei down 4.0%, while other key Asian markets closed with milder losses and Hong Kong ended

up in positive territory. European markets are broadly higher with the Stoxx Europe 600 up a solid 3.1%, led by the first rise in the FTSE 100 in 11 sessions. Oil is also trying to stage a comeback with WTI crude retaking the \$39 level. Economists expect global supply will start drying up next quarter if oil stays below the \$40 level.”

Sorry for the expletive but WTF do economists know about oil? Absolutely nothing! Because of low oil prices, all oil companies must pump all they can – until they see either higher prices or go bust. The current oil industry situation is parlous at best and the Saudis, although their own strategy is almost certain to trash the US shale projects, may find they have won a Pyrrhic victory...irreparably damaging their own economy...

[http://seekingalpha.com/article/3462936-opecs-gigantic-blunder?source=email\\_macro\\_view\\_com\\_4\\_17&ifp=0](http://seekingalpha.com/article/3462936-opecs-gigantic-blunder?source=email_macro_view_com_4_17&ifp=0)

Having said that, we know that West Siberian fields are now getting into accelerated depletion and the lack of funds means Rosneft is hamstrung on new developments – affected as it is by the sanctions against Russia...from Seeking Alpha...

**“The Russian government will not fund** four of the five projects for which Rosneft (OTC:RNFTE) had requested financing from the country's sovereign wealth fund. The decision reflects the growing pressure on Russian government resources and is a further blow to Rosneft's ambitious growth plans. Last year, the energy group asked for more than \$40B in state support, but later trimmed its request to just five projects requiring ~300B roubles (\$4.3B).”

### **Shale oil production in USA has peaked**

I keep repeating my dire predictions for oil supply and the likelihood of failure of junk bonds. The shale oil production in USA has now clearly peaked and has fallen for the last three months. Of course some junk bonds will get a haircut due to the damage to global share prices too. We should also remember that many pension funds will take a hit from this share crash – for example from Apple and Google share prices dropping to the extent they did. The only effect the Chinese crash will have on their pension funds has come as the Chinese government has used pension funds to try (so far unsuccessfully) to prop up their share market.

Now China has reduced interest rates (from about 4%) to try to halt the slide. But, given the market is being prevented from sliding by arbitrary laws, that seems doomed to failure and all the PBOC can do, is make things worse for those poor fools who borrowed big to invest in a casino that none of them understood – and who will now lose all their money, assets etc.

To me there seems to be no speeding up of the time to the big crash. What will crash the global economy and destroy the global financial system will be the advent of more “unknown unknowns” of which the Chinese decision to devalue was just a relatively small example. So my estimate of probability of crash this year is unchanged at 38% even if there is a sense of inevitability about it...

<http://thecrux.com/cia-insider-a-catastrophic-collapse-is-just-a-matter-of-time/>

### **Israel versus Iran**

Why has Israel not struck at the Iranian nuclear sites, if they are so dissatisfied with the present deal before the US Congress?

[https://www.stratfor.com/weekly/israel-case-against-attacking-iran?utm\\_source=freelist-f&utm\\_medium=email&utm\\_term=Gweekly&utm\\_campaign=20150825&utm\\_content=readmoretext&mc\\_cid=3372f0607c&mc\\_eid=f6520e17b6](https://www.stratfor.com/weekly/israel-case-against-attacking-iran?utm_source=freelist-f&utm_medium=email&utm_term=Gweekly&utm_campaign=20150825&utm_content=readmoretext&mc_cid=3372f0607c&mc_eid=f6520e17b6)

I need to agree with Bill Bonner that most statistics are rigged these days and nothing is what it seems...

<http://thecrux.com/bill-bonner-its-not-just-stocks-everything-is-rigged-these-days/>