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## Better-Management Newsletter 1 September 2015

**The next GFC - October-itis? / Is China growing? Unlikely / Japan and several 'Asian Tigers' struggling / Europe deflation / Oil price bounce**

**The next GFC - October-it is?**

In 2007/8, I became sure of the timing of the big crash because of what happened with derivatives, sub prime and the Bear Stearns failure that appeared to me to be a forerunner of things to come...and eventually was, via the Lehman failure. But even so, my personal timing was about a month out because I expected it would be led by October-itis... i.e. the time in Autumn when banks review their loan portfolios. This year the regulators are demanding that banks re-classify their loans to reflect collectability.

This time around, I am not yet expecting a crash this year, despite it seemingly having a 38% probability. But these guys are...

<http://www.internationalman.com/articles/preparing-for-a-potential-economic-collapse-in-october>

My 38% relates to the possibility of the failure of a significant number of US shale oil companies and the timing of the banks' October reviews, the probability of a bond melt-down and the inability of a rather naive Chinese government to deal with their economic collapse. Europe is slowly getting its "can-kicking" house in order and even Ukraine is showing some sense at last. So peace with Russia by Christmas is a possibility. Hence, on balance I suspect we may muddle through 2015 and stagger into 2016 with huge exposure to downside risk.

But like all forecasts, it will likely be wrong for reasons I don't know or for risks I have mis-rated.

I enjoy reading what the perma bears forecast and while I think the heroes of our society are the entrepreneurs and inventors, I also accept guys like James H. Kunstler will be proven right within the next decade...

<http://kunstler.com/clusterfuck-nation/say-goodbye-to-normal/>

For some time, I have been talking in my emails about the way governments have been fiddling the figures to make flat-lining look like prosperity, so I also have some sympathy with James Dale Davidson's thesis...forget his book and adverts...

<http://pro.strategicinvestment.com/NDPCOL4/WNDPR703/?h=true>

Printing money and expanding debt has never worked in history...but is this time really different, or are we dreaming?

Overnight oil is up and Stocks are down...

<http://www.reuters.com/article/2015/08/31/us-markets-global-idUSKCN0R000Z20150831>

And from BBC... FTSE +0.9%, Dow Jones -0.69%, Nasdaq -1.07%, Nikkei 0.0%

### **Is China growing? Unlikely**

The Chinese have a demand economy, making it subject to the whims of the CCP. Is the Chinese economy growing? I doubt it....

[http://seekingalpha.com/article/3476866-china-entering-ugly-recession-not-just-a-hard-landing?source=email\\_macro\\_view\\_eco\\_0\\_15&ifp=0](http://seekingalpha.com/article/3476866-china-entering-ugly-recession-not-just-a-hard-landing?source=email_macro_view_eco_0_15&ifp=0)

But now you are a criminal if you express any doubt...There is heavy government censorship now of any media or web opinion...from Seeking Alpha...

“**Lots of news out of China:** The Shanghai Composite took a dive during the session, closing the month **down 12.5%**, following reports that Beijing scrapped large-scale share purchases as a method of propping up markets. Meanwhile, more concerns over the world's second largest economy prompted Goldman Sachs to slash its forecasts for Chinese growth over the next three years to 6.4% (2016), 6.1% (2017) and 5.8% (2018). Beijing's also on the hunt for confessions. Nearly 200 journalists, traders and officials have been punished in what police call a "special campaign" to root out those accused of market destabilizing activities.”

Car sales in China are way down this month and electronic sales have stopped growing...from Seeking Alpha...

“**The combined effects** of China's economic slowdown, a maturing smartphone industry and market volatility are sending jitters through Asian electronic-parts suppliers, which have long-relied on Chinese manufacturing muscle and consumer demand to power growth. Earlier this month, research firm Gartner said smartphone sales in China fell for the first time in Q2, while IDC forecast smartphone shipments in the country to grow just 1.2% this year, down from 19.7% in 2014.”

### **Japan and several 'Asian Tigers' struggling**

From Seeking Alpha...

“**Snapping a three-day winning streak**, Japan's Nikkei finished August with its biggest monthly decline since Jan. 2014 (**-8.2%**), hurt by soft industrial production data. Output fell 0.6% in July from the previous month, worse than economists' estimates of a 0.1% gain and following a 1.1% increase in June. "Weak demand from China is expected to continue to weigh

on Japan's production going forward so China worries may persist," said Amundi Japan's Masaru Hamasaki.”

India on the other hand is doing OK. But many of the other “Asian Tigers” are in disaster mode due to the Chinese downturn...India from Seeking Alpha...

“**For traders worried about the health** of the emerging markets, India's growth data for April-June should supply some cheer today - the country is expected to remain the fastest growing major economy for a second straight quarter. Economists put India's gross domestic product at 7.4% in Q2, just below 7.5% in January-March. If the number is that high, it will be a boost for Prime Minister Narendra Modi, who has taken a beating after struggling to pass his legislative agenda.”

### **Europe deflation**

Deflation exists due to the low velocity of money and the lack of real growth...from Seeking Alpha...

“**The eurozone's inflation rate** held steady in August, highlighting the challenge European Central Bank policymakers face as they seek to revive consumer-price growth. Annual inflation came in at 0.2%, exceeding the median forecast for a reading of 0.1%, while core inflation held at 1%. The latest figures are a far cry from the 2% target set by the ECB and are likely to provide further impetus for the bank to continue its €1T asset purchasing program. Euro **+0.2%** to \$1.1206, while European shares head for their worst month in four years.”

All of a sudden the flood of refugees from Africa and the Middle East are posing a threat for all European countries...even Germany...

<http://www.reuters.com/article/2015/08/31/us-europe-migrants-germany-analysis-idUSKCN0R00FZ20150831>

and Angela Merkel is starting to realise the issue that David Cameron has been demanding is correct...

<http://www.telegraph.co.uk/news/uknews/immigration/11835554/EU-may-bring-back-border-controls-Angela-Merkel-suggests.html>

Aside from the refugee flood, Greece is not yet out of the woods but at least has a life-line...from Seeking Alpha...

“**A form of debt restructuring** rather than outright forgiveness should enable Greece to handle its "unviable" debt burden, IMF Managing Director Christine Lagarde told Switzerland's *Le Temps*. "We are talking about extending maturities, reducing rates, (making) exemptions for a

certain period of time. We are not speaking about cancelling debt," she added. However, the interview made no mention of whether the IMF will take part in the new €86B bailout. Lagarde previously said the fund would make its decision by October."

For England, things will happen to England in Autumn that they treat as irrelevant – concentrating their attention on favourable monetary conditions...

[http://seekingalpha.com/article/3477696-carney-attempts-to-declare-monetary-independence-from-global-turmoil?source=email\\_macro\\_view\\_for\\_3\\_23&ifp=0](http://seekingalpha.com/article/3477696-carney-attempts-to-declare-monetary-independence-from-global-turmoil?source=email_macro_view_for_3_23&ifp=0)

Ukraine will soon reach accommodation with Russia...nationalist demonstrators aside...

<http://www.reuters.com/article/2015/08/31/us-ukraine-crisis-status-idUSKCN0R00YV20150831>

### **Oil price bounce**

Today's COMEX showed WTI oil up to USD47.72/bbl from USD43.04/bbl on Friday. Brent rose from USD47.78/bbl to USD52.68/bbl over the weekend too.

So oil is up 25% in three trading sessions.

It will be interesting to see how it finishes the year. Will it be the Chinese downturn that causes a demand reduction or will it be the low price and loss of new drilling initiatives that reduces supply. The geopolitical factors also come into play. I have no idea how things will play out although I have an admiration for the forecasts some of the smart guys make...

<http://www.energytrendsinsider.com/2015/08/31/lessons-from-a-failed-prediction/>

There are market forces at work that could inflate inventories...

<http://www.bloomberg.com/news/articles/2015-08-31/barclays-there-s-a-new-oil-glut-in-town>

If Russia and OPEC cooperate, then oil prices will head North very quickly...a revolt is building among the worst hit OPEC members who are like Russia, really suffering...

<http://peakoil.com/publicpolicy/russia-venezuela-to-discuss-potential-steps-to-stabilize-oil-prices>

So who would want to try to predict where oil prices will head next?