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## **Better-Management Newsletter 11 November 2015**

**Global economic risks tilting to the downside? / Oil supplies and prices still falling / The world is using less energy / Russia: economy dodgy, but taking control in the Middle East**

### **Global economic risks tilting to the downside?**

Only occasionally do we see economists speaking the truth...yet they dare not discuss what those risks are... from Moodys...from Seeking Alpha...

“["Global growth will be lackluster](#) over the next two years as the slowdown in China and other emerging markets continues to weigh on the world economy," Moody's Investors Service said in a report published today. According to the ratings agency, policymakers are lacking the tools to deal with any unexpected negative shock, after years of ultra-low interest rates and high-profile liquidity injections. Moody's forecasts that G20 GDP growth will average 2.8% in 2015-17, only 0.3 percentage points higher than in 2012-14 and below the 3.8% average recorded in the five years before the global financial crisis. World stocks are taking another hit today from the outlook.”

This article below goes some way to explaining my ongoing concerns about derivatives...

[http://seekingalpha.com/article/3665426-the-630-trillion-derivatives-market-a-snowflake-away-from-complete-meltdown?source=email\\_macro\\_view\\_mar\\_out\\_2\\_4&ifp=0](http://seekingalpha.com/article/3665426-the-630-trillion-derivatives-market-a-snowflake-away-from-complete-meltdown?source=email_macro_view_mar_out_2_4&ifp=0)

Over night, gold silver and oil were all down. Gold and silver due to the need for Venezuela to keep selling off their gold reserves to stay afloat and due to the prospects of a US Fed rates hike in December.

### **Oil supplies and prices still falling**

Because oil fields deplete at around 4-8% p.a. (or for shale wells from 60-75% p.a.) the world's oil production would fall unless new wells were developed. So unless you drill, not only do you not find oil, but your production will fall. With low oil prices the volume of oil rigs has been in free-fall. That stabilised for a few months but is now dropping again...

[http://seekingalpha.com/article/3666006-worldwide-rig-count-dropping-again?source=email\\_macro\\_view\\_com\\_4\\_16&ifp=0](http://seekingalpha.com/article/3666006-worldwide-rig-count-dropping-again?source=email_macro_view_com_4_16&ifp=0)

The official union/cartel of oil users is the IEA based in Paris. Their top man is Dr Fatih Birol who served time with the head office of OPEC before coming to work as Chief Economist of the IEA. He knows that the industrial age of oil is drawing to a close at some point over the next ten to twenty years due to reducing net energy, increasing cost and the depletion rates from ever more aggressive production. Yet in his latest role as Executive Director, he is now required to answer to the political classes and must give press announcements that are often at variance with his personal belief that “we must leave oil before oil leaves us”. The absence of

an alternative to oil means we are stuck with it....at least for the foreseeable future. So in this latest press release, he says what the oil industry and politicians want him to say...

<http://www.bloomberg.com/news/articles/2015-11-10/oil-supply-outside-opec-to-stagnate-by-2020-in-iea-forecast>

The IEA has never ever been right in their forecasts of oil growth – always overstating it by a wide margin. This is no different because he fails to identify the long term (between now and 2040) impact of falling EROEI. He also fails to understand that most shale oil loans are underwater and further funding is unlikely for that sector unless the oil price increases dramatically and soon. The illusion of certainty he portrays is definitely not a certainty he usually says he feels – so this press release is just politics, sponsored by the USA who vet all IEA press releases – as is their right under the IEA charter.

I think he rightly identifies the “climate change battle” that starts this weekend with the G20 meeting in Turkey and then at month end the COP21 in Paris. But IEA has become an advocate for it...explaining why the major oil companies are at least giving lip service to global warming goals. This means less funding for oil, coal and natural gas and the funding will be directed towards renewable energy projects....if only by political dictat.

If you scroll down through the above article you come to a second Bloomberg article in which US Ambassador Haass talks about how risky the current oil market is. Low oil prices affect alternative energy projects – making them less viable. Also the Saudi political system must be a worry. As Haass says, Saudi Arabia is the world’s largest welfare state and has a leader with senile dementia who could be rolled. Anything could go pop there. If that happened oil supply and demand conditions could change overnight. So would the price.

The fuller IEA WEO article is here...

<http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11986070/World-energy-watchdog-fears-1970s-oil-crunch-as-Mid-East-regains-stranglehold.html>

The bargain that started between Truman and Ibn Saud no longer guarantees the longevity of the KSA House of Saud regime, yet the USA would need to try to prop it up just to maintain the global economy. Meantime, most of the oil producers are increasing their borrowing to make up for a shortfall in oil revenue.

Hmmm,

### **The world is using less energy**

<http://www.caseyresearch.com/articles/the-global-economy-is-in-worse-shape-than-you-think>

With depressed prices for oil, gas and coal and a fall-off in coal volumes that is massive, perhaps this is a further indication of severe recession as well as a trend towards expansion coming from the services sectors which are less energy intensive per unit of GDP?

<http://www.businessspectator.com.au/article/2015/11/10/energy-markets/2015-year-global-coal-demand-fell->

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The EU

The referendum in the UK on membership of the EU is based in whether Britain can get the flexibility they want to govern the UK through the British parliament. This articulates the various points of view...

<http://www.bbc.com/news/uk-politics-34770875>

If they don't get certain assurances, they will likely leave.

Meanwhile there are numerous sources of refugees aspiring to enter Europe and England, Not just Syria....

<http://www.bbc.com/news/world-africa-34781298>

### **Russia: economy dodgy, but taking control in the Middle East**

Vladimir may be kicking butts in Syria and Ukraine, but the Russian economy is in no great shape. Over the last year, this article gives an insight into who the winners and losers in the Russian economy have been...

<http://www.bloomberg.com/news/articles/2015-11-10/how-the-unshackled-ruble-has-changed-russia-s-economy-forever>

On the Russian doping allegations...

<http://www.telegraph.co.uk/news/matt/>

To close....

I am a fan for the writings of the anthropologist, Joseph Tainter. For those who are interested, this audio broadcast is an easy and quick way to grasp his points. He is the only scientist that seems to have his writings accepted by all his peers. I suppose that means he is on top of this data with his conclusions being logically supported....

<http://omegataupodcast.net/2015/10/184-societal-complexity-and-collapse/#t=0:50.001>