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Better-Management Newsletter 26 January 2016

Prognosis for 2016: very worrying / Shonky economic reactions / Economies reliant on real growth in China / Economic, financial and political chaos worsens

Prognosis for 2016: very worrying

I am afraid of what is pending. The fear doesn't relate to those factors that the world's economists and politicians have been totally ignorant of, for instance the resource depletion, reduced energy EROEI etc. The increased complexity of the factors that support our society – such as energy grids that cannot be upgraded due to real cost, and the bridges that cannot be maintained for the same reason, are things that will contribute to societal collapse at some point...but not until our financial system is destroyed. Meantime, just remember that in an era of JIT supply chains, we are only three days from collapse if the trucks stop moving...

<http://energyskeptic.com/2016/when-trucks-stop-running-so-does-civilization/>

How will lower oil prices affect that? Well now more than 50% of the oil being produced is at or below break even – without any provision for new exploration and development. So the current oil prices can go lower but very soon they must move higher or we face the worst imaginable outcomes...Perhaps not just yet? There is nothing rational about today's oil markets...

<http://www.reuters.com/article/us-oil-irrational-analysis-idUSKCN0V00MM>

Shonky economic reactions

Those things are the underlying causal drivers of shonky economic reactions from those in power. But my fear now relates to the failure of economic and central bank measures that are more likely to lead to a near term financial collapse.

The global economy now appears locked into a deflationary spiral. Well what do we expect when our leaders ignore reality and start robbing from savers to give the money to borrowers – and thereby bring forward demand from tomorrow until today?...

<http://www.peakprosperity.com/blog/96307/deflation-monster-has-arrived>

If you are not aware that the mainstream banks are avoiding recognising the true value of assets and liabilities, according to generally accepted accounting practice, then you may not have been reading my emails or following the media reports or have just lost the plot. Bank balance sheets overstate their assets and understate their liabilities so the next time there is a credit bust, the savings of all savers will be on the line. This is officially sanctioned and the rules for using your money to protect the global financial system is now written into law...

<http://www.zerohedge.com/news/2016-01-16/exclusive-dallas-fed-quietly-suspends-energy-mark-market-tells-banks-not-force-shale>

In reality, the insolvency of the US shale oil industry would have followed over to the bank solvencies and triggered a CDS meltdown on the global derivatives market, but the “termites are now all holding hands to keep the rotten house standing”. But that cannot go on forever. Even so, there are two facts extant. The first is that the world equity markets no longer rely on reality to determine price levels, but instead they rely on central bank intervention. The second is that the reduced use of diesel in China is a fairly reliable indicator that China is moving into recession and growth there is merely a monetary illusion (as it is throughout the OECD)...

<http://www.bloomberg.com/news/articles/2016-01-25/oil-swings-near-32-after-biggest-two-day-rally-in-seven-years>

Economies reliant on real growth in China

The problem is that economies like those of the other BRICS, Canada, Australia and New Zealand have been reliant on real growth in China. But meantime, China’s attempts to stem capital flight are proving difficult to implement...

<http://www.reuters.com/article/china-markets-outflows-idUSKCN0V306K>

If the PBoC cannot fix capital flight, they cannot address ballooning domestic debt...and its consequences.

The derivatives marketplace is still extremely dangerous because no-one knows which counterparties will trigger a domino effect that cascades in your own bank’s direction. So all derivative contingent assets can disappear and all contingent liabilities can become a direct burden if there is a major default somewhere. This is why the top priority for central bankers in 2016 is to avoid allowing anyone of substance to go bust.

Economic, financial and political chaos worsens

The ECB has ramped up its support for European banks over the summer holidays...but it is likely that the US Fed will soon join them.

<http://www.wsj.com/articles/draghi-sees-major-central-banks-pursuing-divergent-monetary-policies-for-a-while-1453455459>

The Germans simply cannot accept the damage they have done to the EU by allowing an invasion of Muslims to collapse the provisions of the Schengen Treaty (on free movement of peoples within the EU), but they are quietly back-peddalling to shore up their own borders....

<http://www.telegraph.co.uk/news/worldnews/europe/eu/12119799/Greece-threatened-with-expulsion-from-Schengen-free-movement-zone.html>

and...

<http://www.reuters.com/article/us-europe-migrants-germany-idUSKCN0V2005>

and...

<http://www.bbc.com/news/world-europe-35406072>

And how will peace and personal freedoms in Europe get better with a couple of million extra Muslim asylum seekers? They will always be a marginalised group within conservative European cultures?

<http://www.telegraph.co.uk/news/worldnews/islamic-state/12120636/Islamic-State-setting-up-terror-training-camps-in-Europe-police-agency-warns.html>

The British still wonder whether they want to be in or out of the EU and watch with some horror as asylum seekers actions lead to the closure of the port of Calais. So the EU as an institution is still in very grave trouble.

<http://www.telegraph.co.uk/news/newsttopics/eureferendum/12120910/David-Cameron-has-just-days-to-reach-EU-referendum-deal.html>

China's demographics continue to slide...

<http://blogs.wsj.com/chinarealtime/2016/01/22/chinas-working-age-population-sees-biggest-ever-decline/>

In the USA, the holdings of Treasury debt by overseas countries is coming into sharp relief as some seek to dispose of their investments to shore up failing economies.

Altogether, not a pretty picture for 2016.