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Better-Management Newsletter 30 January 2016

Society's master resources: Oil and Electricity / When money dies / The IMF has started bailouts early

Society's master resources: Oil and Electricity

These are society's master resources, without which life as we know it would change for the worse. Dramatically so.

Oil is finite (even if volumes still available are large and will continue for many years) and electricity must replace oil. The problem with that scenario is the lack of electrical energy storage devices that can compete with oil as a fungible energy storage medium.

Meantime the national grids of many OECD countries are struggling to cope with increased demand on them. The US East Coast blizzard was a case in point with 700,000 homes shut out of electricity when the grid couldn't cope. Eleven US states declared a state of emergency. Low oil prices are already affecting the uptake of electric vehicles...so what do electric vehicles costs look like/

http://www.hybridcars.com/what-makes-more-sense-all-electric-vehicles-or-plug-in-hybrids/

Not all oil is oil. The shale oil "boom" is not really all it is cracked up to be. But governments and oil companies must do all they can to pull the wool over our eyes because the alternative is too horrible to contemplate...

http://www.resilience.org/stories/2016-01-17/the-great-condensate-con-is-the-oil-glut-just-about-oil

Meantime, how will the current price hiatus play out?

http://peakoil.com/consumption/is-saudi-arabia-finally-winning-the-global-oil-war

Will recession stop a run on the oil bank? Well there are certainly signs of a growing recession...

http://seekingalpha.com/article/3839346-recession-can-prevent-oil-price-spike?source=email_macro_view_mar_out_0_5&ifp=0

Oil is showing some resurgency but it is rather soon to say whether prices will fluctuate at the bottom or start to rise – yet. Today's prices are WTI USD33.59/bbl and Brent USD 35.99/bbl...up approximately USD 6 per bbl. But what happens next? Some say price hike, some say price drop...

http://www.cnbc.com/2016/01/29/dont-believe-oil-bump-18-still-coming-kilduff.html

Well, let me put it on the line for you. Oil prices have dropped by 70% during the last year. Demand has "notionally increased" by only 3% and much of that notional demand is sitting in tankers sailing up and down the coast. (They have no choice but to put all oil that is sold into inventories and lists it as being part of oil demand). So what we are seeing is the end of the historic business of low price for supply spurring increased demand.

Oil companies are going bust now...every day. So it is only in companies/countries where the direct or "lifting" costs of oil are less than the current prices that development work will be done. So oil production volumes will drop as oilfield depletion reduces well pressure and lower production....and unless GD1 hits hard soon, the price of oil will surge at some point and be less affordable.

Then what? At that point GD1 and the collapse of the global financial system **will be** unavoidable.

When money dies

The main features this week were the huge cash injection for Chinese banks as capital flight and the holiday spend drained their coffers...almost like a run on the banks?

http://www.wsj.com/articles/pboc-cash-injection-hits-weekly-record-1454035121

This article by David Stockman provides some disturbing stats and point ahead to disaster...if he is correct...

http://www.zerohedge.com/news/2016-01-28/red-ponzi-ticking

Then there is the Japanese moving to join Europe with negative interest rates...from Seeking Alpha...

"**The Bank of Japan shocked** financial markets overnight by adopting negative interest rates for the first time ever, in a desperate attempt to kick start the world's number three economy. A rate of -0.1% will now apply to excess reserves parked at the central bank, which will extend the policy "as long as it is necessary." The decision saw global shares jump, the yen fall and sovereign bonds rally, and comes a day after the surprise resignation of Economy Minister Akira Amari."

The Chinese and Japanese moves this week are not a good sign. They are evidence of failure and of an unwinding disaster to follow.

This sub heading above is also the title of the book by Adam Ferguson (historian, politician and author) called "When Money Dies" about the events that led to the collapse of the Weimar government in Germany 1920-24 – and thereby to the rise of Adolph Hitler and his Nazis. Today, the creation of credit and the wanton printing of money means that inevitably some or all fiat currencies must reach the point where they become badly debased. Already this is happening in **many** countries from Russia to Venezuela.

A financial crash will likely be due – at least in part - to the escalation of global debt and the inability of major banks/countries to understand how the collapse of any major counterparties will hit them.

So what are the candidates to replace our present fiat currencies as money? It is likely to be a basket of assets from cyber currencies like Bitcoin to tradable goods and services like bread, potatoes and the time of trades-people like plumbers or sparkies. Even gold and silver could feature in the preferred mix. Many folk may be aware that barter in Greece has become fashionable there.

At present, the US dollar is the surrogate currency in places like Argentina and Venezuela – through both official and black market channels. But this may not always be so for the major traded international currencies like USD, Euro, Yen, Pound etc.

An article from The Australian on the subject of Bitcoin noted that, convenient as it may be, you cannot jingle a crypto
currency in your pocket. So Bitcoin will have its negative aspects as well as the positives. Banks of course hate it, but it was discussed with enthusiasm at Davos.

For gold and silver, prices have been very stable recently despite the intervention of major countries like Russia and China on the buy side and banks like Deutsche Bank and JP Morgan. They seem to have a purpose in manipulating metal prices so there is a looming scarcity of physical gold and silver and much speculation about how this will play out. Remember that when buying gold and silver, think about limiting the value of each piece and the fact that it is only practically tradable in extreme circumstances. In normal times it is a very speculative investment.

Readers of my emails are aware that China and Russia are buying aggressively lots of gold at low precious metal prices and we know their medium term agendas for that. It forms part of their geopolitical game. However, in the meantime, today gold is at USD1,116.70 per oz and silver at USD14.28/oz. Some argue that this is a good time to buy – despite the fact that with low currency exchange rates for AUD and NZD against the USD, this means the metal is not that cheap. But given prospective shortages in the future, now may be one of the best times to buy if prices are to leap upwards. For everything though, there is risk.

If there is a high inflationary episode, then a mixture of bartering, crypto-currency and precious metals are likely to come to the fore.

Just remember this sad factoid. The G20 would not have done so much to persuade member countries to enact "bail-in" legislation (called Open Bank Resolution in NZ) after the GFC if banks and currencies were secure. Simply put, this year nothing is secure. The global financial system is at least as insecure today as it was in 2007.

2016 will likely be the year when bail-outs and bail-ins reach new heights

The IMF has started bailouts early.

Why? Because the risk of contagion is so high...

http://uk.reuters.com/article/imf-azerbaijan-idUKL2N15B2NG

Real indexes show things are not so good in the real world (i.e. the world not measured in "funny money" which is set at the value the governments want to see used in their increasingly subjective and even shonky statistics) as our "leading bank economists" would have us believe.

http://www.bloombergview.com/articles/2016-01-28/shipping-news-says-world-economy-is-toast

Everyone who goes to work today for any central or local government agency, sooner or later gets to understand that public sector accounts are not designed to account for reality or fiscal prudence, but instead they account for "perceived success" of government programmes. Anyone who thinks otherwise is either ignorant or stupid.

Banks economists will never tell us what is disadvantageous for their bank for them to say.

But the "sheeple" who vote are mainly ignorant and/or stupid. Our media only talk to "leading bank economists", so what do you expect?