Better-Management Newsletter 2 February 2016

Chinese banking and economy: worsening / Oil: pump 'til they're bust / Waiting for Godot - and EVs / The invasion of Europe / Silver shortage?

Chinese banking and economy: worsening

China started in early 2002 with ramping up its purchases of real assets and resources around the world to go along with its infrastructure build. The flood of US dollars headed offshore was not an issue until 2009 but the lack of effective controls over capital being sent overseas has meant that borrowing restrictions establish by CCP to be administered by the PBoC were ignored by the banks, who operated on their own timescale. In January 2016 the banks have needed additional cash to meet the customer requirements for transmitting funds overseas. Now the lax nature of banking regulation has the Chinese economy at risk...

http://www.telegraph.co.uk/finance/economics/12134684/Time-running-out-for-China-on-capital-flight-warns-bank-chief.html

This week has started with negative manufacturing news out of China...from Seeking Alpha...

"**China's official factory activity** skidded to a three-year low in January, adding to further gloom about the state of the world's second-largest economy. The official Purchasing Managers' Index stood at 49.4, compared with the previous month's reading of 49.7, deepening the case for near-term stimulus and marking the sixth consecutive month of factory activity contraction. The mood was worsened by a private survey from Markit/Caixin that showed January manufacturing activity shrinking for the eleventh straight month.

Meanwhile, China's leaders are expected to target growth in a range of 6.5-7% this year, sources told Reuters, setting a range for the first time because policymakers are uncertain about the economy's prospects. A string of cuts in interest rates and bank reserve requirements over the last year have both failed to put a floor under the nation's economy. China's GDP grew 6.9% in 2015, the weakest in 25 years, although some economists believe real growth came in even lower."

And

http://www.bloomberg.com/news/articles/2016-02-01/china-factory-gauge-falls-a-sixth-month-extends-record-stretch

Oil: pump 'til they're bust

This, together with the realisation that oil producers will keep pumping until they either go bust or their fields deplete, seems responsible for the drop in crude prices...

http://www.reuters.com/article/global-oil-idUSKCN0VA1A3

Basically, what is happening is that oil producers are transferring their wealth to consumers at the rate of about USD50 per barrel. But that means that not only are dividends cut or suspended by the oil companies, but exploration and development is slashed to the point where oil production will slowly fall. Some folks like Goldman Sachs think that will take at least until mid 2016 before scarcity starts to propel prices higher. But who knows.

The problem for the world is that the cost of each marginal new barrel of oil will be USD100. But oil companies will for the most part wait until it is much higher in order to repay debt before employing new drilling rigs and staff. IMHO when it comes, we can expect one heck of a bounce.

But consider this. The main reason for falling/flat-lining inflation rates has been the fall in the cost of commodities...notably oil. So we all can guess what happens when oil prices go up................It is a battle between groups of players who are powerless to affect demand side responses and can only affect oil supply...

http://seekingalpha.com/article/3851286-apophis-syndrome-oil-price-dilemma?source=email_macro_view_top_articles_0_0&ifp=0

Verleger notes that we may be reaching the latter stages of the industrial age of oil.

http://qz.com/#604756/the-us-bet-big-on-american-oil-and-now-the-whole-global-economy-is-paying-the-price/

Waiting for Godot - and EVs

If you look at electric car sales of less than 400,000 in 2015, then EVs are not disrupting the car business. Perhaps we will all be walking sometime soon...

http://insideevs.com/tesla-model-s-was-worlds-1-selling-plug-in-electric-car-in-december-2015/

But I do like the Mitsubishi Outlander...

Meanwhile, US manufacturing drops along with global interest yields...

http://www.bloomberg.com/news/articles/2016-02-01/global-bond-yields-fall-to-one-year-low-as-japan-renews-records

And EU factory prices get a haircut too...

http://www.bloomberg.com/news/articles/2016-02-01/euro-area-factories-cut-prices-as-deflation-risks-loom-large

The invasion of Europe

How on earth can some good come of Europe taking in “refugees” who believe in their own ability to bring about the downfall of Europe?

http://www.internationalman.com/articles/surely-this-problem-wont-affect-me

Silver shortage?

A number of factors are likely to affect the way silver prices perform in the future. Silver is not just a precious metal it is an industrial metal too – for which uses are growing. But only about a third of silver comes from dedicated silver mines. The rest comes from mining other metals. As mining for copper and zinc etc is cut back, so the production of silver falls.

http://seekingalpha.com/article/3850906-peak-gold-silver?source=email_macro_view_gol_pre_met_1_13&ifp=0

Also, with thanks to Tom, the LBMA silver fix that has allowed major banks to manipulate the price, is going to be hard to maintain for much longer...

http://www.mining.com/the-silver-fix-may-have-its-days-numbered/