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## Better-Management Newsletter 2 March 2016

**Lackluster performances / G20, boring / China, not good / Ditto the EU and UK / Repeating the mistakes of 2008 / Gold, creeping up / Oil, getting dodgier**

### Lackluster performances

Today oil is up a tad, shares followed and gold dropped a bit...but generally the overall equation is unchanged from last week.

This probably summarises lacklustre performance...

<http://www.reuters.com/article/us-global-markets-idUSKCN0W2011>

The G20 finance ministers' considerations were a waste of time and given their stats are based on the illusion of real economic growth of some sort (based on goosing GDP with credit and zero interest rates) instead of economic contraction, what could they have achieved? The entire narrative is flawed...

<http://www.bloomberg.com/news/articles/2016-02-26/laid-bare-in-shanghai-g-20-tensions-over-how-to-spur-growth>

### G20, boring

The G20 has run out of "puff" from Seeking Alpha...

"[Shares across the globe](#) are on the retreat after a weekend meeting of G20 finance chiefs ended without a plan to spur global growth, while investors fretted over renewed expectations for another Fed rate hike. U.S. economic data published on Friday showed solid consumer spending and underlying inflation picking up in January, while GDP growth for the fourth quarter was revised higher to a 1% annual rate. As February draws to a close: The S&P is slightly positive, the Dow is up 1%, and the Nasdaq is still negative."

Hillary Clinton says, "Donald Trump is wrong when he says that there is a need to make America great again because it has always been great...yet recently one of its great symbols "Walmart" hasn't been so great, retail sales are in trouble which means that consumer demand is flagging in the USA...not a good sign..."

<http://www.caseyresearch.com/articles/were-in-the-eye-of-the-financial-hurricane>

### China, not good

Things are not so flash in China with the realisation that millions will be put out of work due to restructuring of coal and steel industries...from Sinocism...

[“China to lay off five to six million workers, earmarks at least \\$23 billion | Reuters](#) China's leadership, obsessed with maintaining stability and making sure redundancies do not lead to unrest, will spend nearly 150 billion yuan (\$23 billion) to cover layoffs in just the coal and steel sectors in the next 2-3 years. The overall figure is likely to rise as closures spread to other industries and even more funding will be required to handle the debt left behind by "zombie" state firms.”

They will need to avoid social strife...also from Sinocism...

[“As China slashes coal jobs, miners protest in Party’s revolutionary base - The Washington Post](#) The coal mines of Anyuan in southeastern China hold a special place in the history of the Chinese Communist Party. For it was here, nearly a century ago, that Mao Zedong and other intellectuals leading the brand new Communist Party made their first connection with ordinary workers, helping to unionize and mobilize them for what is known as the Great Strike of 1922. On Tuesday, though, hundreds of coal miners from Anyuan and nearby mines marched through the city of Pingxiang — to protest not on behalf of the Communist Party but against it. // the famous [painting "Chairman Mao Goes to Anyuan"](#)“

### **Ditto the EU and UK**

Seems they are not so keen on refugees after all. Stopping them will be no easy feat and how many are already stuck in Greece? Remember that April marks the beginning of the annual spring/summer exodus. Our friends in Cannes tell us the temperatures are already getting warmer there...

Let’s remember the Brexit referendum in the UK is to happen in June...from Seeking Alpha... everything is finely balanced and I am sure David Cameron wishes he never promised a referendum in the first place...

[“Brexit worries?](#) British Prime Minister David Cameron on Sunday detailed his arguments about the economic benefits of remaining in the European Union, stating that an exit would mean swapping unfettered access to markets within the bloc for trade deals of lesser value and higher costs. How Britain's economy would fare outside of the EU is a key battleground ahead of a membership referendum on June 23, with both sides offering sharply contrasting visions of a future in which the U.K. is no longer closely bound to Europe.

Then again, one wonders how the large numbers of British ex pats feel about Brexit...does anyone at home care?

<http://www.bbc.com/news/uk-politics-eu-referendum-35688387>

But perhaps the possible collapse of the Schengen Treaty could be a bigger threat to the EU than a possible Brexit?

<http://www.telegraph.co.uk/business/2016/03/01/schengen-collapse-is-bigger-economic-threat-to-europe-than-brexit/>

So far, even with all the trouble experienced by the PIIGS, no-one was allowed to leave the Eurozone. IMHO a Brexit could lead to a challenge against that.

Anyway, factory orders in Britain are already depressed and Brexit could prove a real threat to the British economy...so probably won't happen...

<http://www.telegraph.co.uk/business/2016/03/01/britains-factories-engulfed-in-global-manufacturing-slump/>

## **Silos**

Silos exist in firms as various departments set their own agenda and strategies independently of others. What communication exists is often to tell each other what they are doing in the hope the other parties can keep up. Thereafter, senior corporate management must reconcile the aspirations of each party to generate a cohesive, firm-wide business plan. Even so, the aspirations of one division can often come horribly unstuck when the other under-performs.

So it is with the scientific community where many folk beaver away in isolation, merely hoping the free market will enable others to find the cost/benefit rationale to deliver what they need, but cannot provide for themselves.

The electric car industry is a case in point. Glowing projections for the decline of the internal combustion engine abound, leading to supposition of decreased reliance on “nasty” fossil fuels. Yet no-one has yet solved the missing link...inexpensive energy storage systems. Silos are alive and well in the US EPA and other governmental organisations.

Some (a very few) of us hope the mythological EESU with its solid state, scalable, non toxic and high energy density promise will help. But the fact is that the only substance available to the present car market is lithium-ion and derivatives. Lithium is problematic in many ways and yet it is all we have. As a leap of faith, all manufacturers are hitching their tractor to lithium production and even though plug in electric car production is less than 1% of all cars (and for trucks and buses- even less) shortages of lithium are emerging. (with thanks to Tom)

<http://www.mining.com/web/electric-car-war-sends-lithium-prices-sky-high/>

Until there is a clear massively scalable supply of a battery dielectric, competing demands will emerge and battery cost will continue to make electric cars prohibitively expensive for all but the wealthy. Low oil prices ( while probably a temporary phenomenon ) will continue to sabotage the attempts of car manufacturers to launch new electric car models until the cost of energy storage gets below USD150 per effective kilowatt hour. A shortage of lithium will not help them achieve that.

So leaving fossil fuels in the ground is just so much hot air from global warming COP21 – for now. The climate scientists must wait for the real world to catch up... but realistically, they will go on pontificating within their own little silo J.

Like the Green party in New Zealand, they will continue to be among the highest personal users of fossil fuels and fly around like little bees, trying to force us to stop driving, flying or even doing anything.

## Repeating the mistakes of 2008

As things go from bad to worse, we mustn't repeat the mistakes of 2008. But we will.

From Seeking Alpha...the problem with the world economy is that it is not really growing at all and this is the reason for scrambling to increase consumer demand...that means print more money, extend more credit and reduce the cost of borrowing as well as the incentive for folks to save...

[“Meanwhile, the IMF is calling for urgent](#) and bold action to combat the slowing world economy ahead of the gathering of G20 finance ministers and central bank chiefs. "The G20 must plan now for coordinated demand support using available fiscal space to boost public investment," IMF staff said in the report. The calls for an organized stimulus program followed warnings that China's slowdown, financial market turbulence and the collapse in commodity prices were major headwinds that could derail a global recovery.”

With ZIRP and NIRP who pays? The simple answer is that anyone saving for their retirement will pay...for certain...

[http://ggc-mauldin-images.s3.amazonaws.com/uploads/pdf/160228\\_TFTF..pdf](http://ggc-mauldin-images.s3.amazonaws.com/uploads/pdf/160228_TFTF..pdf)

I hope those under 60 get this message!

Merv King is right, the bailing of bankrupt banks while allowing them to continue with their rorts, was simply wrong. Also bailing institutions that were both insolvent and illiquid wasn't realistic...

<http://www.telegraph.co.uk/business/2016/02/29/mervyn-king-central-banks-must-act-like-modern-day-pawnbrokers/>

## Gold, creeping up

To put gold in perspective it peaked at USD1,876 per oz on 2<sup>nd</sup> September 2011. That was the end of a wild ride to the top and it was downhill from there. But if there is a repeat of the price increase, then investors may find all the physical gold is securely locked away and only held by billionaires and central banks. Current trading in the stuff allows settlement in dollars, so with the signs already there that physical gold is in short supply, perhaps as Jim Rickards advises... it is a case of buy now or forever hold your peace.

Today, gold is USD1232.7 /oz and silver is USD14.845/oz. This means that gold is moving higher, faster than silver which means the gold/silver ratio has also changed and quite markedly. Silver exists in the earth's crust at about 16 times the frequency of gold, yet in past years the ratio of price between the two metals has gotten up as high as 60:1. Now it is 83:1. Hmmm.

Some say (rightly or wrongly???) If there is a reversion to the mean, then people with silver will do much better relatively, than people with gold.

Most miners mine for gold exclusively yet only about 30% of silver production comes from dedicated silver mines. So 70% of silver production relies on other commodities being mined. Also silver is an industrial metal whereas gold is not. All gold ever mined is mostly still held by someone and yet silver is being consumed.

The downturn in mining for copper, lead, zinc, etc is having a profound influence on silver production.

It strikes me that the huge upturn in demand for gold in Eastern countries and Russia to back their currency aspirations may be the cause of both the rise in gold price and the change in the gold/silver price ratio.

Around the world (and despite Venezuela having to sell much of its gold as the state goes into meltdown) demand for physical gold is increasing and overwhelming the derivatives games being played by the major banks. Many folk are wondering whether the absence of interest on deposits could be offset by taking up a gold holding...?

[http://seekingalpha.com/article/3930936-gold-see-1400-summer?source=email\\_macro\\_view\\_gol\\_pre\\_met\\_0\\_13&ifp=0](http://seekingalpha.com/article/3930936-gold-see-1400-summer?source=email_macro_view_gol_pre_met_0_13&ifp=0)

Articles like this were being laughed at six weeks ago, but now? If you are wondering whether to consider acquiring physical gold as a hedge against absolute disaster, remember that while the price in US dollars of all other commodities has been dropping like a stone, the US dollar price for gold has been rising at a greater and greater rate. So how does this look in local currencies?

[http://seekingalpha.com/article/3937376-look-happening-gold-priced-currencies-wow?source=email\\_macro\\_view\\_top\\_articles\\_2\\_2&ifp=0](http://seekingalpha.com/article/3937376-look-happening-gold-priced-currencies-wow?source=email_macro_view_top_articles_2_2&ifp=0)

When purchased in the Australian Razoo or the New Zealand Paua shell, the same thing goes. Gold is starting to look expensive again...silver, not so much.

### **Oil, getting dodgier**

It is oil that will lead to the continued militarisation of the South China Sea by China...

<http://crudeoilpeak.info/peak-oil-in-the-south-china-sea-part-1>

It seems that bankruptcies and defaults are the “new normal” in the North American oil patch...

<http://thecrux.com/biggest-wave-yet-of-u-s-oil-defaults-looms-as-bust-intensifies/>

But all oil producers including the countries like Saudi Arabia and Kuwait are now suffering.

<http://www.cnn.com/2016/03/01/worlds-top-oil-producers-forced-to-load-up-on-debt.html>

Oil exploration and development is so heavily down that it is hard to see 2016 closing without a substantial drop in production, if only due to oil field depletion. This builds a huge problem for the future. But will supply depletion or the reduction in demand, stemming from a looming global depression, be the major factor in future oil pricing? There are some folks who argue

that the Saudi strategy of not pulling their production off the market and allowing prices higher, is not paying off. It is causing mayhem in the US oil and gas sector and very soon we will see just how steep the US production of light tight oil will drop off.

First here is some stuff about recent production...

[http://seekingalpha.com/article/3942906-oil-production-vital-statistics-february-2016?source=email\\_macro\\_view\\_com\\_4\\_19&ifp=0](http://seekingalpha.com/article/3942906-oil-production-vital-statistics-february-2016?source=email_macro_view_com_4_19&ifp=0)

Second here is the news about falling rig counts and the impact on wells drilled but not completed...

[http://seekingalpha.com/article/3942856-u-s-oil-rig-count-points-sharp-decline-production?source=email\\_macro\\_view\\_com\\_3\\_18&ifp=0](http://seekingalpha.com/article/3942856-u-s-oil-rig-count-points-sharp-decline-production?source=email_macro_view_com_3_18&ifp=0)

Euan and Ron are the most accurate and reliable commentators on the stats provided by the various official agencies. So this stuff is worth considering.