Better-Management Newsletter 5 March 2016

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Central bankers - frightening

Central bankers of all persuasions are increasing sovereign debt burdens. Sooner or later that will come unstuck and when it does – as they already know – they will look to us the general public, to bail them out. They will do so with overt taxes and much will be done by stealth.

I am frightened about the coming cash grab. Governments want what we have so they can give it to the banks and have-nots with greater impunity. So by now, if you are reading my emails and not rejecting what I am saying out of hand, you will probably be taking Jim Cramer and other so-called "guru's" advice and investing 10% of your free capital in gold and silver. The likes of Peter Schiff, Doug Casey, Marc Faber and other perma bulls have been warning us for years about the politicians wanting to replace "cash" with electronic money, and I have been passing these warnings on. But when establishment investment experts like Mohamed El Erian, Harry Dent and Bill Gross echo the same warnings, the end must be nigh...

http://www..businessspectator.com.au/article/2016/3/4/economy/finance-based-capitalism-burning-out?utm_source=exact&utm_medium=email&utm_content=1873760&utm_campaign=kgb&modapt=

So I reckon we should all hold 2 month's cash under the mattress and as much gold and silver as we can afford...remembering that it won't pay us any interest and is only good for when things fall apart.

I don't know the when. But I firmly believe now that the "falling apart" bit will happen. But you believe what you want…

Also frightening: China

Then there is the change in China to militarily confront USA and allies – including us...what is frightening is their avaricious moves to lock in scarce or finite resources that we produce, and their unrestricted access to citizenship in NZ and Australia...

http://www.bloomberg.com/news/articles/2016-03-03/inside-china-s-plan-for-a-military-that-can-counter-u-s-muscle

I am frightened about the EU falling apart. Deflation there is accelerating and Greece is now reaching the point where Grexit seems their most sensible option – aside from being lumbered with some of the horde of refugees that the rest of the EU has shut the door on.

http://www.bloomberg.com/news/articles/2016-03-04/economist-for-the-ecb-it-s-no-longer-about-oil

The UK has porous borders with the rest of the EU and they are just waking up to the reality that they may have taken on far more refugees than they thought...that may make the June Brexit referendum more interesting.

Gold versus silver?

While the ratio of the gold price to the silver price is now 83:1, Bix Weir reminds us that the pool of investment silver is far smaller than the pool of investment gold...

- "Est. Total Market Cap of Physical Investment Gold = 6B oz = $7.5 Trillion
- Est. Total Market Cap of Physical Investment Silver = 2B oz = $30 Billion!!!
- Investment Silver to Investment Gold Price Ratio = 250 to 1"

Unlike Bix, I have no idea what the significance of this statistic is??? It may prove totally irrelevant.

Not all oil is the same

America prints money and uses it to buy lots of oil. Paper for oil is a pretty good trade, and even better if it is just electronic money. But the USA still imports 7 million bbls per day of crude oil. Why are they so keen on telling everyone they want to export their surplus? It is because it is tight light shale oil ("LTO") of over 45 degrees API and not suited for refining in the USA in such large quantities – much not suited as a transport fuel. Yet government agencies still call it "oil"...

http://www.reuters.com/article/us-oil-exports-europe-idUSKCN0W60IR

It is able to be blended for use. But the USA is producing far too much LTO for its own refineries. Much of the oil in storage has been bought for speculative financial reasons and may not be saleable in the short term to refineries – who are the only legitimate buyers of oil. After all, banks buy and sell the stuff at a profit or loss, but they don't change it or use it as a source of real value.

The illusion from cheap money/credit

The week has closed significantly higher at WTI oil USD36.33/bbl and Brent at USD38.94/bbl and Gold at USD1260.10/oz and silver USD15.545/oz.

Shares ended up on the increase in commodities and the labour market figure in USA looked encouraging – if you believe them, that is J

The reduction in oil drilling rigs from 1,600 in the USA to about 400 now, is still to play out in the statistics of employment and bankruptcies...

http://seekingalpha.com/article/3951136-happens-u-s-economy-drilling-stops?source=email_macro_view_eco_4_21&ifp=0

The oil casino

Let's think. What drives economic activity? The answer is energy, not money. Money keeps score and seems to be useful for gaming the system or as a token of transfer price. So looking at the main driver of energy? We have a lot of oil capacity off-line...

"-900K BOPD Saudi Exports falling due to increase in domestic consumption (air conditioning)…
-600K BOPD Kirkuk-Ceyhan Pipeline down
-250K BOPD Anther Nigerian Pipeline down
-400K BOPD Colombia's #2 Pipeline is down
-100K BOPD Peru Pipeline lost in landslide
-250K BOPD Pemex lost gas-lift abilities @ Cantarell
-85K BOPD Jubilee 2 week maintenance shit-in
-Iran never increased Exports, not a single extra shipment has been made because Israel is blocking it via their influence over shipping vessels (despite reports to the contrary).
-Libya's Exports still @ +/-400K BOPD (Low) & their export terminals have been torched.
-Venezuela's Exports are falling every day
-Russian Exports are not going to be increasing
-Saudi Exports are not going to be increasing"

The oil short sellers must be worried at this week's closing prices...and there is about 200 million barrels sold short.

So if Brent goes over USD40/bbl this week, we could see a massive short squeeze as the short sellers face margin calls. We are not far from that price level now.

Then the price of oil could be up dramatically by month end. There could be blood on the floor. If that happens (probably 40% likelihood) then inflation could dominate our future. Otherwise it would be more of the same old deflation....