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Hydroelectric power growth / The war on thrift / Split views on gold / Shale oil, RIP / Immigration and the death of democracy

Hydroelectric power growth

It is several years since I looked back at hydroelectric power. But there has been a lot of action...just not right under our noses...

http://link.springer.com/article/10.1007%2Fs00027-014-0377-0?&utm_medium=email&utm_source=nefoundation&utm_content=1+-+global+boom+in+hydropower+dam+constructi&utm_campaign=EC-13-05-16&source=EC-13-05-16

Rivers like Amazon and Mekong are in the frame and many small scale projects are on the go. Comparing against other renewable, this graph shows the significance of growth of hydroelectric power....capital spent on it is capital that gets a great return and keeps on giving...

The war on thrift

The move to negative interest rates in some countries is forcing banks to react by charging customers for holding their money. Is the answer gold? In my opinion, in deflationary times one needs both cash under the mattress and gold. Gold is increasingly in short supply...as demand increases...

http://seekingalpha.com/article/3974542-world-gold-council-gold-demand-record-levels-q1-2016?source=email_macro_view_gol_pre_met_3_12&ifp=0

The gold is for the possibility the bankers will over-cook the goose and bring fiat money into disrepute (i.e. make money worth less)...this from Daily Reckoning...

'Thrift Must Be Punished. Dan Denning, Contributing Editor, ***Money Morning.*** That pause you hear in the war on cash? That's your enemy reloading with the next volley. Swiss bank UBS has warned its private clients that it may cost them to hold cash with the bank. That is not a misprint. It's the world we live in, where banks charge you money on your savings. You can't blame the bank's CEO Sergio Ermotti for being in a bad mood. He was forced to report to shareholders that the bank's profits fell 64% in the first quarter. Then, perhaps with rancor, he said the bank could pass on negative rates to depositors, '*Or we will have to demand payment for services that were previously free — with the possibility that additional fee adjustments in the future will also be necessary.*'

And you wonder why banking is under pressure. Incidentally, the report said the wealth management unit saw the lowest transaction volumes ever, which didn't help earnings. It could be that private clients fear future crackdowns on off-shore tax havens. Or it could be that wealth management units aren't worth paying for in a low interest rate, low return world. Or a world with robo-advisors.

But back to negative rates. The Swiss National Bank has set its deposit rate at minus 0.75%. It's been there for over a year. Its main goal is to weaken the Swiss franc and help the Swiss economy remain competitive. Its main side-effect, so far, is that negative rates have been passed on to corporate and institutional borrowers.

Passing on negative rates to retail investors like you is effectively a tax on your savings. Raising prices on your customers (or punishing them for being customers) is not the kind of move to inspire confidence. How long would you keep your money in the bank if you had to pay for the privilege? Assuming you can still get cash, would you rather put it under your mattress?

It shows you that the endgame of the low interest rate era is still ahead. It *will* end. But are we in for 20 years of Japan-like stagnation and central bank mismanagement? Or will it end more quickly and violently? Hold that thought, and have a look at the chart below.

The gold price, measured in Aussie dollars, has twice rallied to $1,750 this year. That shows you that when countries engage in currency wars — or drive interest rates down (and negative) in misguided attempts to promote growth — nature's currency (gold) tends to react.

Gold's Aussie dollar high was $1,806 in 2011. It's not that far off. And it might not be long before it makes a new high. Why?

The Reserve Bank of Australia (RBA) may take official Aussie interest rates negative, says BT Investment Management. If you missed it last week, the RBA cut its cash rate to 1.75% last week. Australia hasn't had a technical recession in 25 years. But inflation is low and growth is low.

It's a tough spot for the RBA. The Aussie dollar rode the three phases of the mining/commodities/China boom to well past parity with the US dollar. You had a massive increase in commodity prices when growth in Chinese demand caught supply short (phase one). You had an investment boom which created jobs and led to huge capital flows into the country (phase two). And you had a production boom when new capacity came on stream and generated cash flows even at lower commodity prices (phase three).

And now?

Now you have China saddled with massive debts. You have Europe which can't seem to grow. And you have a world mired in 'emergency' low interest rates that aren't doing much. Australia finds itself on the wrong end of all of that.

The RBA will do what it can do. But it can't do much. It can't liquidate China's debts. It can't create demand for commodities. It can't lower Aussie household debt levels. And it can't diversify Australia's economy so it's not so dependent on rising house prices.

But it *can* lower interest rates. And if that's all you can do, it's probably what you'll do. 'To a man with a hammer, everything looks like a nail,' as the saying goes. And thus the cycle of currency devaluation continues. It's playing out pretty much like Jim Rickards said it would.

Split views on gold

Does it make sense for British savers and investors to own gold? Yes. But not everyone agrees with that. I'll get to Goldman Sachs in a moment. First, hedge fund manager Paul Singer says gold's stellar first quarter (up 16% in USD terms, the best Q1 in 30 years) is a sign of better things to come. He told clients in a letter:

'It makes a great deal of sense to own gold. Other investors may be finally starting to agree… Investors have increasingly started processing the fact that the world's central bankers are completely focused on debasing their currencies. If confidence in their judgment continues to weaken, the effect on gold could be very powerful. We believe the March quarter's price action could represent something closer to the beginning of such a move than to the end.'

The price action is starting to attract investment flows. Assets held by bullion-backed funds are at their highest levels since 2013, according to Bloomberg. The yellow metal is up 20% year-to-date. Goldman Sachs managed to have it both ways on gold. It raised its 3-, 6-, and 12-month targets on gold based on an 'expected' slower pace of Federal Reserve rate hikes. But it said the Fed would hike eventually, the dollar would strengthen, and gold would suffer accordingly."

Deutsche Bank doesn't even know if it wants customers...from Seeking Alpha...

"**Deutsche Bank -1.4% premarket** on reports that the lender is considering cutting over 30,000 investment banking clients. Sources told *Frankfurter Allgemeine Zeitung* that Deutsche Bank (NYSE:DB) is accelerating its restructuring plans, shedding these customers by the end of 2019."

Who knows whether the USA would follow suit...from Seeking Alpha...

"**"While I would not completely rule out** the use of negative interest rates in some future very adverse scenario, policy makers would need to consider a wide range of issues before employing this tool in the U.S.," Fed Chair Janet Yellen emphasized in a letter to Congressman Brad Sherman. With central banks in Europe and Japan using negative rates to stimulate their economies, Yellen said the Fed is attempting to learn as much as it can from their experiences."

The pundits think that the USA may be forced into more QE before going to negative rates. With the Fed rate at 0.5% there is not much room to move over the zero bound.

But Japan already with negative interest rates also wants to do more QE...from Seeking Alpha...

"**Japanese stocks came under pressure** overnight from fresh strength in the yen, as BOJ Governor Haruhiko Kuroda warned the central bank will act "decisively" to achieve its 2% inflation target, and stressed it still has "ample" policy options available. Traders appear to be betting the BOJ will likely expand monetary stimulus in either June or July, with an eye on first-quarter GDP data and the outcome of this month's G7 summit."

Much as central bankers duck, weave and engage in extreme experimentation, nothing is working. Deflation still dominates – or it will until oil prices get to USD70/bbl, then everything changes...yikes!...

http://seekingalpha.com/article/3974586-lost-intermediation-feasibility-helicopter-money-eurozone?source=email_macro_view_edi_pic_1_4&ifp=0

The US empire and its currency is under threat. When the "Exorbitant Privilege" of being the world's sole significant reserve currency ends, things will change...slowly at first...then suddenly as Jim Casey points out...

http://www.internationalman.com/articles/making-the-chicken-run

Aside from surging orders for SUVs and other big gas-guzzling cars, US retail sales are down. How did that happen? Everything is being done to stimulate domestic demand. It just isn't working.

Shale oil, RIP

In Bakken, Permian or Eagle Ford, is shale oil dying, dead or just resting? Certainly OPEC is winning as oil production dropped 80,000 bbls in just one week...the trend is just getting started...There are lots of folks being laid off, and they don't buy luxury items.

http://blogs.platts.com/2016/05/13/platts-crude-oil-summit-debunking-myths/

Let's face it the shale oil companies are dying, one after the other. When oil prices increase, the survivors will still likely be shut out of the debt markets...

http://www.bloomberg.com/news/articles/2016-05-12/oil-at-45-a-barrel-proving-no-savior-as-bankruptcies-add-up

So this parrot ain't resting...it is deceased.

Bank bad debt provisions will impact the financial system because they are big enough. But in addition the causal links between earthquakes and contamination of potable drinking water are now leading to a push back on the granting of permits...

http://peakoil.com/geology/geophysicist-ole-kaven-on-man-made-earthquakes

Given an 800,000bbl drop from peak shale production, the loss of freight is being borne by the rail and truck haulage firms. Pipelines still carry the same amount and continue to have a transport cost advantage.

In the USA the pushback against offshore drilling is financial. Risks are becoming greater and costs remain high. Low oil prices make the exercise impractical. The US Government is making the lease compliance costs escalate, so some of the super giant oil cos are re-considering whether they want the high cost risks in the Gulf of Mexico and for the Arctic it is game over – for now at least. As reported yesterday, Big Oil is now out of the offshore Arctic leases for the foreseeable future.

The North Sea is a place of struggling for profitability in the British leases and bare profitability in Norwegian leases. They need another USD40/bbl on top of what they are getting.

Immigration and the death of democracy

This week, I wrote a fairly xenophobic article about immigration and the way that New Zealand is screwing with Auckland. I wound up sending it to the Green Party where I think it will do most damage. If you want to read it, please send me an email to request it. Just in case you are wondering – the contents are potentially explosive.

Is Auckland a liveable city? For many, I doubt it. Our city officials have been over-run and beaten down by ill-informed central Government bullying (Nick Smith is probably the most ignorant politician ever – demanding an open supply focused cheque book from the Auckland ratepayers). So the place is running into debt and into gridlock. The rest of New Zealand should be real worried too, because by 2030 Auckland will have 40% of New Zealand's population – not the 33% now. So everyone has a stake in the National clusterfuck – called Auckland.

There are suggestions emerging that the extremely high net migration into Auckland will back off. Only a banker could write such rubbish, trying to talk up their book…

http://www.interest.co.nz/business/81585/hsbc-economists-say-upswing-australian-economy-may-dampen-nzs-migration-growth

Just read a few of the comments below this article and you will see that those of our Councillors who think Auckland is a liveable city are deluding themselves if they think our opinions of our own town are favourable.

There are signs that Chinese investment in property may be backing off in places like Brisbane, Melbourne and London. Certainly there is a reduced flow of Chinese crossing the border into Hong Kong and spending up big – so Hong Kong is now having a retail recession of sorts.

The Turks are readying themselves to open their borders for refugees to flee across to Lesbos and the flows from Libya to Italy are just getting started for the Northern summer. So the Muslim invasion of Europe seems ready to re-commence.

Yet in all the arguing of Brexit or staying in Europe, by British observers, the factor they miss is that the trend in Brussels is to disestablish all remaining vestiges of political or democratic autonomy in member states. Sure Britain may have a recession if she leaves the EU but she will be a vassal of Germany and France if she stays. The EU is a bureaucracy (government by bureaucrats for bureaucrats) and no country or countries can now change that.

Did you know...(from today's DR)...

"For instance, did you know the US Constitution — with all 27 Amendments — is 7,818 words; or that the EU regulations ***on the sale of cabbage*** *total 26,911 words? Unbelievable."*

If that is what the UK has to deal with today, so what will their future be like? And within the year, ECB helicopter drops off money? You gotta be kidding.