Better-Management Newsletter 10 June

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An ode to past wealth and glory

A world of finite resources, exponential growth is only possible up to the point where limits start. The same is true for fossil fuels.

The surplus (or net) energy that allowed humans to divert labour from tilling the soil and gathering food, to doing stuff like becoming scientists, teachers, doctors, government servants, resource planners and librarians, is now shrinking fast. Oil, gas and coal once had an EROEI of 200:1 or greater. Now oil has an average EROEI of about 30:1 and that isn't enough to support our societal complexity. None of the renewable energy substitutes for oil can replace any part of the lost surplus and all will rely on oil, gas and coal for the remainder of this century. As an example, all solar panels presently die after about 20-25 years and yet all require an oil industry to manufacture, distribute and install their replacements.

The shrinking energy and financial surplus will one day not allow the payment of much, if any interest on loans. The notion of interest payments at all, implies that one can profit from taking out a loan. If one cannot profit, why borrow. Cui bono? That will be the point at which the societal norms we have come to expect, will collapse.

There are already signs in both Germany and Japan, people are removing their money from the banking system as they must otherwise pay for the privilege of storing their money in the bank.

Unfortunately, a number of societal norms are now collapsing. This stunt by John Oliver shows a significant number of people are defaulting but the availability of cheap credit masks the loss...people just can't cope anymore...

http://www.bbc.com/news/world-us-canada-36468022

In the meantime, our leaders focus on individual symptoms of our problems of overpopulation and decline, in order to try to reduce the impact. Dealing with causation attracts far less of our attention so the problems just keep getting larger.

This article below about growing more productive and bountiful rice crop is a case in point. It is meritorious that scientists can develop a better strain of rice but as the comments below the foot of the article point out, large scale agriculture relies totally on petrochemical fertilisers...and then there is the question about the desirability of GMOs...

http://peakoil.com/consumption/scientists-identify-protein-which-boosts-rice-yield-by-fifty-percent

It surely must not come as a surprise that the average family now needs two wage/salary earners to make ends meet? Similarly the real average wage and quality of life is now deteriorating? This essay below discusses the reducing "surplus" and one family's impacts...

http://transitionmilwaukee.org/profiles/blogs/on-surplus-part-i

My advice to young folks? Buy productive land, because one day this century you may need once again to grow your own food. Perhaps it will be a reverse agrarian revolution of organic farming without the aid of as much (if any) mechanisation....but probably if so, with many more people working on the land?

The good news?

Here in NZ we are just fortunate that we live in a country with as much renewable electrical energy. About 80% of our electricity comes from renewable supplies via the National Grid...

Let's temper that with the knowledge that the welfare state is totally dependent on the productivity of the private sector ... and so without surplus, the overhead of our present government institutions will be progressively more and more unsustainable.

For what this signifies, if you wish to delve deeper, then Joseph Tainter's book, "The Collapse of Complex Societies" is the best place to start.

The declining economies

The declining productivity and declining surpluses have so far been the signal for money printing and the dropping of interest rates – in an attempt to kick-start flagging economies. It isn't working is it?

There are signs that the global economy is now totally reliant on central bank interventionism...from Seeking Alpha...

"**Stocks across the globe** are lit up green as a dovish tone from Janet Yellen cooled near-term U.S. rate hike bets and WTI came closer to $50 a barrel. At yesterday's speech in Philadelphia, the Fed chief called the recent U.S. jobs numbers "concerning" and omitted her last message that rates could rise again "in the coming months," but warned against attaching too much significance to the payrolls data in isolation. Bye-bye summer rate hike?"

Blu Putnam (the CME chief economist) reckons the US Fed could still have a June rates rise...they won't be able to keep their sticky hands off...yeah right! And risk putting the USA markets into crash mode at time of Presidential elections? I don't agree with him, but this is what he says anyway...

http://www.cmegroup.com/education/featured-reports/fed-puts-june-rate-hike-back-on-the-table.html

But the US jobs data is simply being spun by a US Fed that understands all pension funds will soon start to go broke (some are there already) unless they can get interest rates normalised...so they will use any excuse...

http://seekingalpha.com/article/3980268-federal-reserve-hammer-everything-looks-like-nail?source=email_macro_view_mar_out_3_9&ifp=0

As Janet Yellen says ...with thanks to the Daily Reckoning...

"Here's the Fed chief, ... as reported by Bloomberg:

'*I continue to think that the federal funds rate will probably need to rise gradually over time to ensure price stability and maximum sustainable employment in the longer run,*' "

Alan Greenspan a former Fed Chairman, argues that what the Fed does is less important than what happens in the markets...watch this...

http://thecrux.com/greenspan-western-world-headed-for-a-state-of-disaster/

He is concerned that we are moving to a systemic depression – though he doesn't use those exact words.

And in Europe...from Seeking Alpha...

"**Even before Mario Draghi** starts his corporate-bond buying program tomorrow, he's pushed down borrowing costs in Europe toward unprecedented levels, with the average yield on euro investment-grade company notes tumbling to 1%. "The prospect of average yields below 1% is very scary," said Juan Esteban Valencia, a credit strategist at Societe Generale. "Investors are being pushed outside their comfort zone to sectors like high-yield debt, where they may not have expertise."

Meanwhile, both Australia and India decide to stick with their current cash rates – Oz at 1.75% and India at 6.5%.

In the OECD, no country with retirement nest eggs and welfare benefits, will be able to fund them with earnings, as interest rates are deliberately driven lower in order to stimulate consumption.

It is interesting to see the retired Congressman Ron Paul, still calling it as it is...

http://thecrux.com/ron-paul-the-keynesians-stole-the-jobs/

So out of 317 million people in the USA, a third are not working in the labour force. That looks likely to increase rather than decrease. Meantime, welfare entitlements are increasing. It is a similar situation in Europe and Japan. So on a global dimension (affecting us all) this will not end well. Still from the Daily Reckoning...

"According to MarketWatch:

'*David Rosenberg, chief economist and strategist at Gluskin Sheff, notes that goods-producing employment has contracted for 4 months in a row, with 77,000 jobs lost over the time period. That's the kind of decline last seen in Nov. 1969, May 1974, Dec. 1979, Oct. 1989, Nov. 2000 and May 2007 — all of which predated recessions, by an average of 5 months.*' "

Now let's look at these stats from Jeff Opdyke in today's"Sovereign Investor"...

"*The dismal jobs report last week killed any hope of an interest-rate hike when the Fed meets next week for its June confab. Wall Street was expecting 162,000 jobs for May. The economy delivered less than a quarter of that.*

The cherry on top: the Bureau of Labor Statistics also revised downward by 59,000 the number of jobs the U.S. economy ginned up in March and April.

Question: Do those two charts tell the tale of an economy so healthy it's in need of a rate increase to temper the exuberance?

Those two charts kill any hope of a rate hike in July, despite what some econo types are now saying, and despite the incessant ramblings of certain Fed governors who simply don't know when to stop crying "Wolf!" (Honestly, the fact that some Fed governors continually prattle about the health of the U.S. economy warranting a rate hike raises questions about the quality of the economics education some of these governors possess.)

The Fed has no business raising interest rates in a jobs market and an economy that are clearly in decline."

Then there is China...from today's Daily Reckoning...

"*And, as Phil Anderson pointed out in the latest issue of* *Cycles, Trends and Forecasts*:

'*China's economy is contrived, just like it is in the West. Only in China even more so. Local governments, the banks, even many 'private' companies are run by the same organisation in China: the Communist Party.*

'*The Party values stability in the long term far more than it does short term developer profit. If need be, companies will be bailed out, covered up, put under the carpet or just simply lied about to preserve 'the system'.*'

In other words, China doesn't care about excess production. They will dump their steel on other nations as much as they possibly can before reeling it in. It's going to be a delicate balancing act."

I also keep railing against the self-delusion of economists, bankers and politicians who believe we can see continued exponential economic growth in a world of finite resources. Nowhere is the self-delusion more obvious than Saudi Arabia where they reckon they can have a profitable mining and aluminium industry – despite the reality that they never will...

http://peakoil.com/publicpolicy/are-saudi-reforms-realistic

A Saudi prince it seems, can delude himself about almost anything. Just like economists, bankers and politicians...when it suits them of course.

Oil is up overnight for the second night in a row by about 3.5%, thereby putting WTI at USD51.50/bbl and Brent at USD52.80/bbl. Some encouraging signs for oil stocks have also appeared on the TMX. The problem is that this adds systemic cost for OECD countries and creates an inflationary trend in all living costs.

Where are the electric powered trucks?

http://energyskeptic.com/2016/diesel-finite-where-are-electric-trucks/

When the oil price rises further, there is a chance that some shale oil companies will be able to take on a few more rigs but they will be battling oilfield depletion.

The myth of dramatic improvements in technology has been debunked by these two guys...it sure is a problem when geologists and drilling experts retire...they start telling the truth – having discarded their handcuffs...

http://www.theenergycollective.com/energy-post/2378674/bakken-shows-u-s-tight-oil-production-is-up-against-its-limits

How much oil each OPEC country has is a secret but I see that after 20 years in which they produced about 110 billion bbls of oil, the Saudis still have all of their 261 billion barrels of reserves...so if the reserves are unchanged, where did they get that 110 billion barrels from? J

When Ghawar oilfield (the world's largest and in operation since 1950s, producing 5 million bbls per day) goes into terminal decline (sometime soon if not already) then their output will drop....

http://www.platts.com/latest-news/natural-gas/dubai/saudi-arabia-approves-transformation-plan-sets-26461296

When we see what is going on in USA politics, we get to understand why it is one of the most corrupt countries on Earth and how impotent their legal system really is to change that. The fact that the US Government is run for, and on behalf of the bankers and military and industrial complex leads on to what happens when the deep state manipulators don't have the resources to manipulate to the same level. The oil price downturn gives us a view of how that may play out....

http://www.bloomberg.com/news/articles/2016-06-08/big-oil-s-footprint-in-washington-shrinks-with-price-of-crude

Gold and silver is a store of value

My opinion is that gold is not a good tradable investment. The reasons are varied. But gold is the ultimate measure of value. So it is only useful to hold gold if the fiat currency of the country we are in loses significant value. If we accept the fact that energy surpluses are waning, then we must expect our currency to be threatened at some point.

How is this playing out?

http://seekingalpha.com/article/3980496-gold-barbarian-back?source=email_macro_view_top_articles_0_0&ifp=0

But like all currencies, gold or silver must be held in a tradable form. And it must be secure.

Today, the gold price is on the rise at USD 1,265.80/oz. But this can be driven as much by the value of the US dollar as by market sentiment for gold.

There is no doubt that demand for small dimensioned gold and silver products is rising, as each year, more and more people seek a physical gold/silver hedge against the fiat currencies involved in QE.

Brexit and other countries' similar rationale

The UK folk understand they have some major problems as a direct result of being in the EU – and thank goodness they didn't take on the Euro. I have voiced my opinion to relatives and friends there that Britain should exit and I am deaf to Mr Obama's entreaties that Britain should stay. Mr Obama is only interested in hitching onto the British influence in the EU, which the UK will still have as a major supplier and major customer.

I happen to agree with Sir John Nott...

http://www.telegraph.co.uk/news/2016/06/08/margaret-thatchers-defence-secretary-sir-john-nott-suspends-tory/

We have pretty much the same issue here with the country destroying our own health service. Before we sought to bring in oodles of Polynesians as factory labour in the 1970s, we arguably had the world's best health service. Then it became a rather stretched. Now with unrestricted access for elderly migrants under family reunification, it is receiving the kiss of death. Over-burdened by the excessive fresh demands made on it.

The Auckland housing crisis is a symptom of the same problem and yet the Government persists with the failed doctrinaire approach of putting state houses into the private sector and also reducing supply. The only reason for the state to not be involved in house building is a doctrinaire one. Not since WWII have so many kiwis returned home from overseas, yet the lessons given by the successful Labour Party policy of that era is somehow not applicable in this one?

Now the Government will need to bribe motels to take any surplus with taxpayer money. So we all individually pay for this through our taxes. It is false economy because the numbers of people in need will continue to increase unless demand is curbed.

Auckland has maxed out its borrowing in a vain attempt to keep up with demand. The city is now technically broke to the point where funding further expansion of building sites and infrastructure will not be possible unless the Government funds it. The special problem for Auckland is that several years ago, when people were leaving to go to Australia to work in the mines, the Auckland population was also expanding then, because 35% of all leavers came from Auckland and 70% of all arrivals came into Auckland.

Now with a 67,000 net migration, it is possible if not probable, that ALL that net migration is settling in Auckland. With the older migrants known to be providing the money for their children (who are here to study and thereby qualify for automatic citizenship) to buy on their behalf and thereby mask total foreign ownership. Then after a qualifying period, the elderly are brought in and become a burden on the state pension, health and welfare facilities.

The June 2014 stats for immigration show Chinese family reunification for the older adults way ahead of other sources of immigrants. More elderly parents are getting residency than their young who are getting in to study and being given automatic residency. That figures because the young can each import two parents but it spells out a scandal of significant proportions.

Our biggest problem in NZ of all is that political correctness allows all distasteful subjects to be masked by allegations of racism.

Our Government is fixated on growth – despite the downside of not being able to afford the facilities expansion that would permit it. This is because we are led by a banker dominated cabal. They refuse to accept that many of the problems we face are demand-side issues and regard everything as supply shortages....and thereby someone else's problem.

Yet who is competent to lead? In my book, the answer would be, "anyone who can recognise and deal with both the demand-side and supply-side issues that growth throws up."