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Better-Management Newsletter 2 July

This first part of my newsletter discusses globalisation and what it was meant to achieve.... and also the probable cause of global systemic collapse. Called by many for what comes first ....“GD1” .. The second part shifts inevitably to Brexit and its implications.

The sky is blue, the sun is out and all is well in NZ and Oz as the Australians go to the polls. But something in the world is simply not quite right. Global debt is up USD60 trillion since 2008 and in accordance with official records every dollar of GDP has taken four dollars of debt to create it. In some places banks will pay us to take out a mortgage ....

If we put our minds to it, we can buy things with three years to pay the principal and no interest charged. So is money really money anymore?

http://www.caseyresearch.com/articles/why-the-money-in-your-wallet-isnt-safe

Globalisation

As a fellow who built, ran, analysed or dissembled many businesses, I have a pretty good understanding of what free trade and globalisation has been all about.

To understand why it will fail, we need to understand why it has been so useful.

First some background.

In Britain, the enclosures legislation for Ireland and Scotland led to mass poverty and the folk who were forced off the land in the name of landowners running more sheep or more cattle, were either forced to go to the big cities or overseas...or they died. A clergyman, called Dr Thomas Malthus noted that population growth in Britain and Europe had outpaced food and sustenance so he wrote his work “An Essay On the Principle of Population” and it was a system he felt to be divinely ordained as follows:

“That the increase of population is necessarily limited by the means of subsistence, That population does invariably increase when the means of subsistence increase, and, That the superior power of population is repressed, and the actual population kept equal to the means of subsistence, by misery and vice.”

Naturally, his work was a reflection of the times of agrarian society and laws passed by the British parliament that led indirectly to famine and great loss of life. However this was as offensive to the powers that be then, as Brexit is to the powers that be now. Transportation to the colonies was a way to relieve population pressure and even so, by 1810 demographers tell us that the world’s population hit 1 billion souls for the first time ever.

Malthus’ forecast of disaster failed to eventuate due to fossil fuels and the surrounding technological achievements to utilise the dramatic increase in available energy. We now have seven times the number of people on earth and due to migration and globalisation it is distributed to every country.

Free trade has been about mass production, about improving efficiency and productivity. And about dividends for those in power.

Remember the golden rule, he who has the gold makes the rules ...or what business wants business gets

The establishment of the World Trade Organisation was dedicated to the idea that maximum wealth is created when goods and services are created in the place where it can be done most cheaply and the product thereof sold, where it can be sold for the highest price.

Often cost is lowest where the cost of labour, capital, materials and overheads (including tax are lowest). As NZ CFO of a multinational pharmaceutical company in the 1970's, I found to my horror that the net profit after tax for many of our products exceeded 50% of sales revenue. The means by which this was obtained was for a subsidiary in a tax haven country to have made or bought in the active ingredient of a drug. Then that was inflated to an exorbitant price and sold on to my company for the New Zealand market. This is what is termed "transfer pricing" and is the most common way for all multinationals to avoid paying much if any tax in the country where the products are sold.

It doesn't matter whether your name is Google, Apple or Coca Cola, the principle is the same. So trillions are now held and invested from secure tax havens. The establishment of manufacturing plants in low wage economies also serves the same purpose – cheapest costs and highest acceptable selling prices. Often politicians wanting increased employment or a higher tax take for providing low tax conditions, or low interest loans for businesses, will do "what it takes" to attract them to set up in their territory. These folk are at the core of the "deep state" and drive elections in many countries. (as you may have noted, Hillary C. is spending USD500,000 per day for the POTUS election now, while Donald Trump has nothing to spend – job done).

The process helped emerging economies where wage laws are minimal or non-existent. For example... Work done formerly in the USA was removed to Mexico or China and while the benefit of lower cost "stuff" was always touted to consumers, it has always been the workers who lost their jobs in the USA (or Britain or NZ etc). Either the plant, machinery and jobs were shipped out with the intellectual property, or immigrants were allowed to move in to take the jobs of folk, whose training and skills were then redundant. In the countries doing the manufacturing, the labour force is either poorly paid, working conditions are bad, or it is forced labour/slavery. These days slavery is invisible because instead of providing food and lodging, slave owners provide dormitories and pay a pittance electronically, from which governments take a tax cut. So the workers in ultra-low wage economies still "owe their souls to the company store".

Labour participation rates and job satisfaction have been dropping in the major OECD countries where immigration is allowed. So at the grass roots level there is an undercurrent of concern over who gets the benefit...cui bono? The fact is that it is the rich and management who prosper. That fabled 1%.

This system works only when there is cheap oil. Almost 100% of ocean and air freight relies on a low oil price. When bunker fuel is no longer cheap, international trade starts to fall off. Surprise, surprise, international trade is falling.

When freight rates are forced higher, only high priced goods that are light or compact will be able to benefit from globalisation.

The recent attempts to spread free trade zones is a move to eliminate taxes (Import duties) that protect local workers. This is one last push for TPPA (for example) before the global financial system crashes and before the true value of oil is reflected in the selling price of petrol, diesel, avgas and bunker fuel.

Right now petrol with an energy content of 12 kw hrs per kg, is being sold for less that the price for bottled water, yet water is recyclable (evaporation, rain etc).

Globalisation relies implicitly on grossly under-valuing oil for transport. We exploit it accordingly without regard for waste.

The coming crash – front and centre (to me this is fundamental so please forgive my repetition)

When I retired, I slowly slipped towards the "dark side". Many friends have not been able to understand why I have taken a negative view of the future, despite the fact that most of my time since about 2005 has been spent trying to find ways toward positivity and investing accordingly.

There are two fundamental avenues of negativity that I cannot shake off. If you can argue that I am missing something, I would be most grateful. Please don't argue that human ingenuity and technology will save the day, because "hope" is not a plan. There are plenty of folk who hold out technology as an alternative future to what I expect as set out below. I hope for example, Doug Casey is right...he uses the same data as I do but reaches a different conclusion as he hopes to make a buck or two from the crises...

http://www.caseyresearch.com/articles/why-the-money-in-your-wallet-isnt-safe

1. Resource depletion is something we humans specialise in. We take the position that we are not just animals like all the others, but exceptional beings with a God-given right and status to expand our various empires to infinity, in fact to the stars and beyond. We have taken this to the point where in 2,000 years we have gone from a population of 240 million which gave us and our domestic animals 5% share of all world land mammals, to 7.45 billion people and more than a 97% share of all land mammals.

   Obviously, we increased our share of the world's finite resources along the way and so other species (not useful for us to exploit) suffered massive marginalisation as a result; and where the population of those marginalised species drops below critical numbers, thence followed extinction. Recently we have been changing the DNA of our livestock to be better fit for purpose. We are now in what many refer to as the 6th mass extinction, as a result.

   Our progress has been helped by using the world's mineral, water and sea-borne resources. With our treatment of the oceans there is no evidence of rationality because we want to protect whales, seals, sharks and dolphins yet we are aggressively harvesting krill and other lower order food species that allow the higher order fish and sea mammals to feed and endure. We use technology and fossil fuels to harvest what remains in the sea ever more effectively. We also use their habitat as a dumping ground for our waste. On land we drill and dig, until the surface is pockmarked with deep pits and abandoned wells. We don't need to go far to see these remnants of our avarice, and yet we can retain our optimism by saying we must mine and excavate either elsewhere or deeper or in the sea or in the arctic or even on asteroids. Doing that means we must be prepared to mine minerals with a low pay to overburden ratio, dramatically higher failure risk and dramatically higher cost.

So to date our effective productivity has already been degraded by lower assays and higher costs have been the cost burden on society.

The increased resource scarcity has been offset in part by the invention of new and more efficient search and extraction systems (aka new technology plus capital and associated debt created at the press of computer key).

But the naked threat to our survival as a species and our civilisation is that we have become totally reliant on these resources. So for humanity there is no turning back. We have no oxen or draught horses and have lost simple skills like clothing and footwear manufacture. We live in cities with three days' supply of essential foods in the supermarket...until like Venezuela, the fuel to power trucks doesn't arrive...and everyone riots and starves.

We must press forward, always wondering at what point we will hit the wall. Where we strike scarcity, we improvise by using alternative resources or technology. In many places there is however no available alternative to deep fossil fresh water aquifers – often laid down millions of years ago. In those areas people will be forced off the land and become refugees. The UN tells us the world has 67 million displaced persons today, I haven't seen the split between war and famine as a cause for mobility. But we know the refugees due to famine/drought/overcrowding have increased. Now, I accept that we can continue to employ ingenious ways to stretch the time between now and when we reach a critical point of species die-back for humanity. The problem for me is that there is no scenario that I can find, that places this predicament any further away than 2050.

I am a fan of the work at MIT by Meadows, Randers and Meadows and their book, "Limits to Growth" that was first written in 1972 and reviewed in 2004. It validates the original work by Malthus and in fact shows how we survived a 19th century holocaust by migration and the extraction and use of fossil fuels and electric power – fossil fuels mainly, but a one-time endowment despite their massive volume and variety. There are now those who accept that we are running out of road to run on...

http://energyskeptic.com/2016/limits-to-growth-is-on-schedule-collapse-likely-around-2020/

2. No-one in any government appears to understand the reality of the exponentially falling Energy Return On Energy Invested (EROEI) for fossil fuels. If they did, they would resign and head for John Galt's mythical wonderland styled "Galt's Gulch" (from the Book "Atlas Shrugged" – by Ayn Rand). Falling EROEI is the main reason why Keynesian economists will soon go from being looked upon as "god-like" to "charlatans". Economists and

politicians do not consider the energy we use to convert dirt into everything from cars to houses as being anything more than "commodities". As fossil fuels started to be harder to find with more substitutes and lower quality stuff considered to be "oil" or "coal", the process not only became more costly and capital intensive, but yielded a lesser energy return for the energy invested. Yet no-one has been monitoring the exact trend of falling EROEI. I am unsure how we can accurately monitor it. Yet it is insidiously detracting from the energy available for our society.

As our net energy costs more in real terms it has been squeezing the economic bounty that our economies derive from it. Invisible at first, the falling oil prices have destroyed the economies of the exporting nations from Russia to Venezuela and from Saudi Arabia to Nigeria. In one year, the average of USD50/bbl priced oil compared with USD100/bbl oil cost has pruned global wealth of the oil "haves" by some USD1.6 trillion, of which something up to USD1 trillion will not now be spent on exploration and development. That would not be bad, but the oil "have-nots" (the consuming countries) have not generated extra wealth as a result. Arguably the bounty enjoyed by the "have-nots" has been miss-applied and the oil thereby ill-used. Similar problems exist for coal. There is no shortage but output of high quality (coking) Anthracite coal has arguably peaked. Coal production has dropped this year and the same lack of reinvestment means it will continue to fall, as like with oil, the benefit of the one-time bounty is being misused.

The most critical of the world's energy resources is the one we can pick up and move from place to place to power vehicles and machinery....oil. It powers 92% of all transport and 34% of all of the energy we use. As of today, I could not tell you whether the net energy from oil produced today is any higher than it was in 2006. But gross production is up by several million barrels per day. As oil with an EROEI ratio of 100:1 is replaced by oil with an EROEI of say 5:1, this unseen and almost unfathomable dysfunctional erosion of net energy is about to destroy our civilisation.

Civilisation will likely not fail because many things fail. It will fail because a critical element we rely on is significantly more costly or scarce. That may be a difficult concept to grasp, but this is where "Liebig's law of the minimum" comes into effect...from Wikipedia...

"Liebig's **law of the minimum**, often simply called Liebig's **law** or the **law of the minimum**, is a principle developed in agricultural science by Carl Sprengel (1828) and later popularized by Justus von Liebig."

"More recently Liebig's Law is starting to find an application in natural resource management where it surmises that growth in markets dependent upon natural resource inputs is restricted by the most limited input. As the natural capital upon which growth depends is limited in supply due to the finite nature of the planet, Liebig's Law encourages scientists and natural resource managers to calculate the scarcity of essential resources in order to allow for a multigenerational approach to resource consumption (See:sustainability/sustainable development)."

Simply explained, we humans need many things to survive, including food, water, heat, shelter and other less important supplies. But reduce the water supply below what we need and we perish. For energy, if our energy supply is reduced, everything else follows suit.

It is easy to estimate total resource in place of the easy oil as being somewhere between 2.5 and 3.0 trillion barrels. Our problem is that we have already used the easiest and cheapest 1.4 trillion of that endowment and every year we increase the volume we need to use to keep everything going. So as a result we now also use an increasing proportion of unconventional and very expensive oil that is harder to win and costlier to process. Like in our history of digging for gold, as we descend into the earth to extract more of the resource, the energy cost increases exponentially.

Canadian tar sands, the heavy oil from Venezuela and biofuels all cost more and yet yield less net energy. Even the light tight oil from US shale plays (Bakken, Eagle Ford and Permian) is unconventional with fewer uses and typically higher cost.

When the pressure and eventual output of conventional oil wells starts to decline, they are subjected to water injection (this in the desserts of Saudi Arabia is usually salt water). Then they can be subjected to the injection of CO2 where there is a large scale resource nearby (not often the case). To the best of my knowledge there are now not super-giant or giant conventional oil fields that are not undergoing some form of water-flood or enhanced oil recovery. Even the world's largest oil field (Ghawar, producing 5 million bbls per day or so) has been subjected to water-flood for almost two decades. When the "water cut" (the amount of water that comes up with the oil) gets over 95% and supplementary use of CO2 injection fails, then Ghawar will at some point have wells plugged and sealed. If the Saudis lose Ghawar, the world will encounter another "oil shock". The preparations being made by the Saudis suggest to me that this time cannot be too far into the future – perhaps even 2020.

Offshore oil fields cost more to find and exploit and they deplete much faster than the land based oil wells. Yet they produce a conventional oil. In the Tupi and Carioca Fields of the Brazilian Santos Basin, the oil is not just underground, but also under a huge layer of salt and under 2,000ft or so of sea water. The oil from Kashagan field in Kazahkstan is under water and yet heavily laced with contaminants that rot the pipes and cause major processing difficulties.

So, as the financial and extra energy costs of these oil producing systems mount up, the net energy available to our industrial society drops. On a sequential basis, the 1970s saw the first difficult extraction programmes with the need to venture offshore in the North Sea and at Prudhoe Bay in Alaska. In Russia they moved to the North West of Siberia as supplies to the South were run down. Then we got into higher capital cost ventures like Tar sands and Gulf of Mexico deep water oil fields, where superheated oil from 30,000 ft below the earth's surface is being produced at ever higher risks, as evidenced by the blowout of BP's Macondo well.

The bottom line is that no-one can estimate when Ghawar will fail or when total oil production will start to fall. But we already know that our society will fail before then, due to the failing energy return on the energy input (EROEI). Humans will still be producing oil in the year 2100, but our inability to afford the energy that will enable us to endure will fall off a critical point within a few years now, rather than a few decades.

This link below provides an overly simplistic analysis of EROEI and it is an excellent way for people to understand what lies ahead.

http://anoutsidechance.com/2016/06/29/more-than-one-way-to-fall-off-a-cliff/

With the immigration aspirations of businesses and the globalisation aspirations of the world's economists, we will hit the edge of the cliff running....and soon.

If the leading edge of the coming crisis is finance driven, then perhaps reducing demand for oil will counteract the reducing supply. But either way, fall in supply or fall in demand, economic activity levels will be considerably lower. The problem with that is that our debt ridden society is geared to grow and shrinking will literally cause mayhem.

So what is coming may not feel like a cliff. The falling EROEI will just provide a stiffer and stiffer head wind for our economies. So interim failure in the form of recession or depression that never ends, may occur at any time from this year onwards due to financial and economic mismanagement. But after that either comes the introduction of alternative and substitutes, or a level of disaster for civilisation.

Alternatives such as electrical energy storage systems can today provide close to 200whrs per kg of energy. That doesn't take cars, trucks, buses, ships, trains or planes very far before they must be recharged over a period of hours. Changing our transport systems, given the built cost, would take decades rather than years. We now arguably lack sufficient materials to replace a sizeable proportion of our transport systems at any rate.

BREXIT is now moving slowly towards the sidelines. Leaving existing problems centre stage

We hear in the media about people's dissatisfaction with Brexit. The problem isn't with Britain's intent – which is logically the act of reclaiming sovereignty (much as the 1% would sacrifice that for economic stability), it is with what is going on behind the scenes that is worrying. There would be many more people within the EU worried for their futures, given the parlous nature of the EU and more specifically Eurozone banking risk and finances. To have the ECB investing EUR90 billion per month in EU businesses means risks are being taken and money miss-spent. The problems with Deutsche Bank and its USD56 trillion derivatives exposure has not gone away, nor has Spain's Bank Santander solved its woes. These banks, if left at the mercy of Georg Soros and other sharks could take out the global financial system and spell disaster for all OECD economies and many of the emerging economies as well...we are tottering on the brink...

http://thecrux.com/the-worlds-most-dangerous-bank-and-the-most-damning-evidence-of-central-bank-failure/

With both ECB and Bank of Japan buying equities for prices the market won't pay...what happens when the government owns everything...

http://thecrux.com/when-government-controls-all-wealth/

Substantial post Brexit activities will await the political process in the UK for both Tories and Labour. Michael Gove and Theresa May look like front-runners after Boris Johnson pulled out...but that is by no means certain J...

http://www.bbc.com/news/uk-politics-36677028

Scotland and Northern Ireland's hubris will be parked awaiting whatever the UK parliament decides – despite the initial excitement/hubris of Nicola Sturgeon. This is an interval with many good ideas to be canvassed...

http://seekingalpha.com/article/3985039-brexit-fixit?source=email_macro_view_eco_4_21&ifp=0

and

http://seekingalpha.com/article/3984832-dr-keith-barron-helicopter-drops-gold-brexit?source=email_macro_view_eco_1_18&ifp=0

With all the self-serving stuff from the failed "remain" camp, people forget that one of the main leaders of Brexit was the Minister of Justice, Michael Gove. His concern was that the European Court of Justice was re-writing all British law, eliminating all chance of appeal and effectively over-riding all parliamentary rights to make laws. Had Britain waited for another 2-5 years they would have been unable to leave the EU and become simply a vassal of the unelected EU elite.

The self-serving BS from bankers, economists and politicians about the benefits of being within the EU are negated and over-written by two facts. The first is that Europeans from low wage economies were flooding into the UK and undercutting local workers and the second that British companies were being lured offshore so thousands of jobs were being "off-shored". With thanks to Ian, this list provides an example...

"*Just in from an expatriate Brit!*

Read it and weep!

A short list of financial and industrial FUBARs from the EU...

Cadbury moved factory to Poland 2011 with EU grant.

Ford Transit moved to Turkey 2013 with EU grant.

Jaguar Land Rover has recently agreed to build a new plant in Slovakia with EU grant, owned by Tata, the same company who have trashed our steel works and emptied the workers' pension funds.

Peugeot closed its Ryton (was Rootes Group) plant and moved production to Slovakia with EU grant.

British Army's new Ajax fighting vehicles to be built in SPAIN using SWEDISH steel at the request of the EU to support jobs in Spain with EU grant, rather than Wales.

Dyson gone to Malaysia, with an EU loan.

Crown Closures, Bournemouth (Was METAL BOX), gone to Poland with EU grant, once employed 1,200.

M&S manufacturing gone to far east with EU loan.

Hornby models gone. In fact all toys and models now gone from UK along with the patents all with EU grants.

Gillette gone to eastern Europe with EU grant.

Texas Instruments Greenock gone to Germany with EU grant.

Indesit at Bodelwyddan Wales gone with EU grant.

Sekisui Alveo said production at its Merthyr Tydfil Industrial Park foam plant will relocate production to Roermond in the Netherlands, with EU funding.

Hoover Merthyr factory moved out of UK to Czech Republic and the Far East by Italian company Candy with EU backing.

ICI integration into Holland's AkzoNobel with EU bank loan and within days of the merger, several factories in the UK, were closed, eliminating 3,500 jobs.

Boots sold to Italians Stefano Pessina who have based their HQ in Switzerland to avoid tax to the tune of £80 million a year, using an EU loan for the purchase.

JDS Uniphase run by two Dutch men, bought up companies in the UK with £20 million in EU 'regeneration' grants, created a pollution nightmare and just closed it all down leaving 1,200 out of work and an environmental clean-up paid for by the UK tax-payer. They also raided the pension fund and drained it dry.

UK airports are owned by a Spanish company.

Scottish Power is owned by a Spanish company.

Most London buses are run by Spanish and German companies.

The Hinkley Point C nuclear power station to be built by French company EDF, part owned by the French government, using cheap Chinese steel that has catastrophically failed in other nuclear installations. Now EDF say the costs will be double or more and it will be very late even if it does come online.

Swindon was once our producer of rail locomotives and rolling stock. Not any more, it's Bombardier in Derby and due to their losses in the aviation market, that could see the end of the British railways manufacturing altogether even though Bombardier had EU grants to keep Derby going which they diverted to their loss-making aviation side in Canada.

39% of British invention patents have been passed to foreign companies, many of them in the EU.

The Mini cars that Cameron stood in front of as an example of British engineering, are built by BMW mostly in Holland and Austria. His campaign bus was made in Germany even though we have Plaxton, Optare, Bluebird, Dennis etc., in the UK.

The bicycle for the Greens was made in the far east, not by Raleigh UK but then they are probably going to move to the Netherlands too as they have said recently.

Anyone who thinks the EU is good for British industry or any other business simply hasn't paid attention to what has been systematically asset-stripped from the UK. Name me one major technology company still running in the UK.

We used to contract out to many, then the work just dried up as they were sold off to companies from France, Germany, Holland, Belgium, etc., and now we don't even teach electronic technology for technicians any more, due to EU regulations.

We haven't detailed our non-existent fishing industry the EU paid to destroy, nor the farmers being paid NOT to produce food they could sell for more than they get paid to do nothing, don't even go there.

We haven't mentioned what it costs us to be asset-stripped like this, nor have I mentioned immigration, nor the risk to our security if control of our armed forces is passed to Brussels or Germany.

Find something that's gone the other way, I've looked and I just can't.

Still want to stay? Well it must be some consolation that you have Cameron to negotiate in Europe on your behalf.

And of course, the real deal-breaker .... Democracy, transparency and independence. We can vote out our MPs - BUT the European Commission who dictate 55% of UK laws, which are legally binding, are ..... guess what, untouchable, unelected and hidden from view."

Unfortunately, I have no idea whether all those are correct (though many are). That makes it easier for you to see why Britain had to get out J. To expand that well worn adage...the 1% can't fool all of British workers and fishermen with BS all of the time.

The world's major share markets have for the second day recovered lost ground. This shows that while still down, the markets have stabilised. The pound is still drifting lower against the NZ dollar and I suspect it will stay unpopular for some time.

Meantime the price of oil has returned to the pre-Brexit level of about USD50/bbl and gold has moved only slightly higher to USD1,325/oz. The big mover is silver and it has broken contact with gold moving up strongly to USD19.855per oz. Up more than two dollars in two days. This signals that something earth-shattering is happening to the silver price (perhaps as the market rigging process is due to end in two weeks). If I needed any more silver I would bought it two days ago.

http://thecrux.com/silver-this-critical-signal-says-the-next-big-uptrend-has-started/

Hmmm. What may happen in July is the elimination of silver price manipulation. This means that silver prices could well continue to move from the mid teens to the mid twenties over the next few weeks. That is just a maybe. But silver stocks may also ramp up higher too.

Economics

The 1% will do all they can to defend globalisation...from Seeking Alpha...

"**Leaders of Canada, the U.S. and Mexico** mounted a fierce defense of free trade at Wednesday's "Three Amigos Summit," offering a counterweight to popular sentiment in America and Europe threatening to sap support for deeper integration. Underscoring concerns that a Brexit could spur feelings against other political and trading blocs, Donald Trump pledged this week to withdraw from or renegotiate NAFTA, bring WTO complaints against China and torpedo the TPP."

The politicians will do whatever it takes ...even with people's pensions!!! From Seeking Alpha...

"**Japan's public pension fund**, the world's largest, logged more than $50B in investment losses last fiscal year as the yen surged and Tokyo stocks fell amid global market turmoil. The $1.4T Government Pension Investment Fund recently took a more aggressive stance into stocks, in line with PM Shinzo Abe's push to deploy more financial assets in riskier investments and boost economic activity."

Then the Japanese pension fund will have lost USD43 billion in the April to June quarter this year...

http://www.bloomberg.com/news/articles/2016-07-01/world-biggest-pension-fund-seen-losing-43-billion-last-quarter

Meanwhile global bond markets are diving into the abyss...

http://thecrux.com/another-mind-boggling-record-has-fallen/

The suggestion that the US Fed should cut interest rates instead of raising them, reminds me that the RBNZ and RBA may well follow suit. Failing to do so, could cause the NZD and AUD to move higher and that will adversely affect export sales receipts.

George Soros is back raising mayhem...if only because he knows how to play the system...

http://thecrux.com/the-global-monetary-system-is-collapsing/

He talks his own book to the EU Parliament...

"**Britain's decision to leave the EU** has "unleashed" a crisis in the markets similar to the global financial crisis of 2007 and 2008, George Soros told the European Parliament in Brussels. "It is likely to reinforce the deflationary trends that were already prevalent," he added. Continental Europe's banking system hasn't even recovered from the financial crisis and will now be "severely tested.""

We don't just have a stagnant global economy, we now face the possibility of rising inflation...from Seeking Alpha...

"**The eurozone returned to inflation** in June after four months of falling or stagnant consumer prices, principally due to a marked slowdown in the decline of energy prices. The flash inflation estimate from Eurostat rose to 0.1% Y/Y in June from -0.1% in May, while core inflation remained at 0.8%. The figures offer some good news for the ECB, which has struggled to boost prices across the euro area."

If oil prices steam ahead in the next twelve months, I expect much higher inflation as the costs flow through into consumer goods...from Seeking Alpha...

"**Oil is headed for its biggest** quarterly advance since 2009, rising 29% in the last three months as falling American supply adds to speculation that the global surplus is easing. Data from the EIA yesterday showed U.S. crude stockpiles dropping to the lowest since March and output falling for a third week. Supply disruptions in Nigeria and Canada, as well as fears over strike outages in Norway, have also given the commodity a big lift."

Will the yuan replace the influence of the British pound as a reserve currency?

http://www.bloomberg.com/news/articles/2016-06-30/pound-at-risk-of-falling-in-reserve-currency-ranks-after-brexit

It also looks like those who want more fiscal stimulus would like to again come out to play...

http://www.reuters.com/article/us-global-markets-idUSKCN0ZF01O

What is the big issue of the day?

It is debt and the massive amount it takes so economists can pretend they have some sort of economic growth. McKinsey shatters that myth....from Daily Reckoning...

“The real issue has not gone away — and that is the absolute dependency the global economy has on debt to generate GDP growth. More and more debt is required to generate economic growth.

According to McKinsey Global Institute, global debt levels have increased more than US$60 trillion since 2008. Whereas, over the same period, global GDP is up only US$15 trillion (from US$63 trillion to US$78 trillion).

It now requires around US$4 of debt to create US$1 of growth. Whereas 40 years ago, US$1.50 of debt generated US$1 of growth.

Exponential debt is not a sustainable trajectory. However, the powers that be obviously think otherwise. Which is why the cost of debt keeps sinking lower.

Negative interest rates are a clear indication of how wacky the whole system has become in its frenetic and irrational need to inject increasingly larger doses of debt into its veins to remain functional.

Without a continued and rapid accumulation of debt, the whole system is under threat of shutdown. That is not hyperbolic scaremongering; it’s a fact.

A debt to growth ratio of $4 to $1 is a compounding nightmare.

A 2% growth rate on current global GDP (US$78 trillion) equates to US$1.6 trillion. Achieving this growth target requires US$6.4 trillion (four to one) in newly created debt.

In 20 years’ time — assuming a constant 2% growth rate — global GDP would compound to US$116 trillion. Maintaining a 2% growth rate on that number would require around US$10 trillion in new debt to be added.

More debt…on more debt…on more debt.

Trees do not grow to the sky.

Pushing interest rates deeper into the negative has a limited lifespan. Negative rates, literally, have a negative feedback loop. If investors are paying instead of receiving interest, you have a dwindling capital base to reinvest. This makes no sense in the longer term.

Also, if rates remain permanently and deeply in the negative — to aid and abet the uptake of more debt — all other income producing assets will be priced accordingly. Eventually we would be investing in a world where income is virtually non-existent. This too is an illogical outcome.

Increasing debts and decreasing returns.

We are locked on a path of self-destruction.

How did all these economic PhDs not see the fatal flaw in their master plan?

It’s not like they weren’t warned.”

As I have said recently, collapse is assured, the only thing still missing is the pin and the date.

Oil

I see Deloittes have just woken up to the shortfall in capital for exploration and development within the oil industry...a USD2 trillion deficit is worrying...

http://oilprice.com/Latest-Energy-News/World-News/Big-Oil-Faces-US2-Trillion-Cash-Shortage-Deloitte.html

Oil demand growth in China is slowing a little but India is starting to show that their demand growth is likely to accelerate and push up oil prices...

http://www.energypost.eu/oil-prices-going-will-continue/

The problem for future supply has been obvious for some time. I suspect that this may drive a shortage of oil in the period 2017 to 2020 that – together with a deepening global recession - puts a lid on international trade. Personally I cannot see clearly whether GD1 or falling supply will be the dominant feature in our early future, but I expect both to occur. The winner will drive prices either up or down J. For those who don’t know, the level of international trade has been falling for the last several months. Oil stored in super-tankers has masked the drop for those ships but for every other shipping company, business has been down.

Venezuela is on the skids...

http://www.bloomberg.com/news/articles/2016-06-27/venezuela-s-oil-output-decline-accelerates-as-drillers-go-unpaid

Even the Saudis need to tighten their belts...

http://peakoil.com/consumption/can-saudi-arabia-shake-its-hydrocarbon-habit

How much of the stored oil will come ashore this year?

http://www.bbc.com/future/story/20160628-why-are-more-and-more-oil-ships-anchoring-off-singapore

Meantime the brouhaha in Europe is not affecting oil demand...

http://www.reuters.com/article/us-eu-oil-demand-idUSKCN0ZH4UO

This is a time when “...a decade of changes happen within a few weeks”.