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## Better-Management Newsletter 9 July

**NATO, who's threatening who, and why? Precious metals and the banksters. Crash predictions**

Is NATO threatened by Russia?

<http://www.reuters.com/article/us-nato-summit-idUSKCN0ZN2NL?il=0>

Or is it a storm in a tea cup?

<http://www.reuters.com/article/us-nato-summit-kremlin-idUSKCN0ZO0YI?il=0>

Or is NATO threatening Russia, backed by US propaganda? Most unfortunately, this seems the most likely - and dangerous - scenario...

<https://www.rt.com/news/342915-putin-nato-threat-missiles/>

NATO is hardly presenting a united front as Greece cosies up to Russia...

<http://www.telegraph.co.uk/news/0/natos-united-front-under-threat-after-greece-signs-arms-deal-wit/>

### Precious metals and the banksters

Silver and gold price manipulation is the king of all conspiracies - and, it seems, practices rather than theories. JP Morgan is hugely "long" owning a large pile of silver. Three other TBTF banks are horrendously "short". Should the silver price increase 50%, then market equilibrium would be shattered and the three banks suffer. If it drops, JP Morgan would register a paper loss.

This is one area where the "Feds" are implicated with the banksters...all for our own good of course J.

But those who watch what is happening with physical supply and demand of silver for industrial applications realise that sooner or later the banks will lose control of physical flows and pricing...

<http://www.silver-coin-investor.com/The-Big-Silver-Long.html>

Silver was down on Thursday night (our time) and bounced up on Friday night. Now at USD20.35/oz ... the huge price volatility is what strikes me...

<http://www.cmegroup.com/trading/metals/precious/silver.html>

Meantime the GB Pound is still sinking. The T/T selling rate was last listed at 0.5476 to the NZ dollar. Will it get to 0.6000? If so, just perhaps it may be worth buying some. Because the NZ dollar is drifting upwards against the Canadian and Australian dollars, and because the NZ dollar is soaring against (the devalued) Chinese Yuan, it is likely we will soon see interest rate cuts in NZ. Same for the Australian dollar. I believe both RBA and RBNZ will hit the cut button next month or thereabouts.

Some folks are seeing gold as a good investment. I don't, but IMHO it is a good disaster hedge if you can afford to hold physical bullion ad infinitum, unless, of course, a financial crisis results in many fiat currencies converting to gold backing. You should form your own conclusions. But remember, very few people actually hold any bullion. That fact carries a note of caution.

Expensive as gold now is, there is a way to buy it via silver purchasing...at least the gold/silver bugs see it this way...

[http://seekingalpha.com/article/3986971-silver-price-forecast-get-gold-345-per-oz-buying-silver-today?source=email\\_macro\\_view\\_top\\_articles\\_1\\_1&ifp=0](http://seekingalpha.com/article/3986971-silver-price-forecast-get-gold-345-per-oz-buying-silver-today?source=email_macro_view_top_articles_1_1&ifp=0)

Those kinds of play are fairly speculative, but we need to adopt a view of whether the economy will improve or deteriorate, before even considering buying the shiny stuff. Always take your professional adviser's advice and ignore my thoughts.

The two biggest buyers of gold in the last ten years have been the governments of Russia and China. Russia's is only one eighth of China's demand. Indian use is huge but there it is for private sector use rather than government reserves. Here is where China is at...

[http://seekingalpha.com/article/3986909-chinese-gold-demand-973t-h1-2016-nomura-sge-withdrawals-chart-false?source=email\\_macro\\_view\\_gol\\_pre\\_met\\_3\\_9&ifp=0](http://seekingalpha.com/article/3986909-chinese-gold-demand-973t-h1-2016-nomura-sge-withdrawals-chart-false?source=email_macro_view_gol_pre_met_3_9&ifp=0)

### **The economy...**

Kyle Bass has this to say about China...

*“In 2005, exports and investment constituted 34% and 42% of China's GDP respectively. By 2014, exports had fallen to 23% and investment had grown to 46%. This growth in investment was funded by rapid credit expansion in China's banking system, which grew from US\$3 trillion in 2006 to US\$34 trillion in 2015.”*

*“Bass described this massive expansion in credit as ‘the largest banking system experiment in world history.’”*

IMHO those massive banking system expansions were the only reason that Chinese GDP actually grew. It is what is known where I come from as “fiddling the figures”. The first thing you learn when you work for any government, is that the statistics are there to demonstrate success, not to monitor performance.

A sizeable portion of debt is bad and won't be repaid, as Chinese state owned and run monopolies line up for more bail-outs. After all, none can repay loans and most need further loans so they can pay interest bills on earlier loans...

<http://www.bloomberg.com/news/articles/2016-07-08/china-said-to-consider-aid-package-for-struggling-state-firms>

Regrettably most experiments like this tend to fail L.

Britain is now experiencing the effects of Brexit uncertainty as the pound drops, the commercial property market in London takes a hit and retail sales are down since 23 June 2016...

<http://www.bloomberg.com/news/articles/2016-07-07/u-k-consumer-sentiment-dives-most-since-1994-on-brexiteffect>

The European banks are in poor shape as this article shows...shades of Lehman Bros?

[http://www.moneyandmarkets.com/echoes-lehman-brothers-euro-bank-crash-79832?em=jcrofe%40extra.co.nz&utm\\_campaign=MAM3547&campid=43306&utm\\_medium=email](http://www.moneyandmarkets.com/echoes-lehman-brothers-euro-bank-crash-79832?em=jcrofe%40extra.co.nz&utm_campaign=MAM3547&campid=43306&utm_medium=email)

Anyone who thinks the BRICS or emerging markets are in better shape than the OECD should think again...

[http://seekingalpha.com/article/3986873-financial-side-hell?source=email\\_macro\\_view\\_eco\\_3\\_20&ifp=0](http://seekingalpha.com/article/3986873-financial-side-hell?source=email_macro_view_eco_3_20&ifp=0)

What about Japan...which by their own admission is already back in recession ...

[http://seekingalpha.com/article/3986947-end-myths-almost-done-anyway?source=email\\_macro\\_view\\_eco\\_4\\_21&ifp=0](http://seekingalpha.com/article/3986947-end-myths-almost-done-anyway?source=email_macro_view_eco_4_21&ifp=0)

Unless there are efforts to recapitalise and change banking practice, one group of banks....perhaps the European banks.... may trigger a global share-market crash within the next six months.

**My crash probability rating this year is now elevated from 55% to 65%. A re-run of 2008 is in prospect with the critical months being September and October.**

Simply put, energy EROEI is falling and oil prices are so low as to introduce a new class of poor, failing and failed countries to the global financial system.

While there is ample time for central banks to provide a band aid. The IMF and BIS are acutely aware of the problems. Any remedial action will be unlikely to last long ( eg. 3-5 years max). There is only one question you need to ask yourself. Who with money to invest, is going to make a dollar (even a Euro or a Yen) from negative interest rates?

Inevitably, as WB Yates wrote....“the centre cannot hold”.

An absence of capital will starve industry, so IMHO a financial crash bigger than the GFC by, or well before, 2020 is practically certain. The doctrinaire war against fossil fuels waged by IPCC together with the global warming theorists, and the losses being incurred by investors and companies where oil price is far lower than production cost, will determine that capital is siphoned from fossil fuels to energy with far poorer EROEI...

<http://peakoil.com/alternative-energy/powerful-fuels-lead-to-human-freedom-and-prosperity>

This time I cannot figure out a way back from that, so possibly **the start of the failure of our industrial society within the OECD will occur by, or possibly, well before 2025**. At this point, I ascribe a probability of 40% for that, but accept that a massive number of 'things' could happen before then that would change many aspects of life, including technology.

While I will continue to hope I am wrong, I now see no way back from the coming global depression.... and will start planning accordingly.

### **American Non Farm Payroll numbers confirm the prognosis of US stagnation tapering into recession**

You always wonder whether the statisticians are paid just to make numbers up. In the case of the USA I am certain they are. Even so, what we are seeing from the June payroll report suggests to me that recession there is likely to hit in early Q4 of this year for the USA... from Jeff Opdyke...on Friday...

“This morning, the June nonfarm payrolls report blew past expectations, with 287,000 jobs created versus 175,000 expected.”

This is a stark contrast to the downward revision for May, which left the month at just 11,000 jobs created. That's a substantial shift from month to month, but it's important to point out that a large part of these new jobs are low-paying seasonal positions.

In fact, leisure and hospitality (think hotels, restaurants, etc.) saw an increase of 59,000 jobs, more than double its 27,000 average for the year. We also saw a bump of 14,000 jobs added by performing arts and spectator sports, as many families spend the summer doing activities with their kids.

Another 39,000 jobs “created” in June were the result of a strike ending at Verizon. Retail, which is also a seasonal sector, added 30,000 jobs.

That's roughly an added 142,000 jobs related to seasonal trends and a one-off strike ending.”

Before the start of this summer season, job growth was effectively zero. After summer is over and these folk go back on welfare, the situation will be impossible to paper over. The pins to pop the bubble of our illusions are starting to appear. The mechanics may be the same as last time around will likely be unaltered...contagion at electronic speed via global derivatives...

### **How did our ambitions and greed change the ability of our species to endure?**

Some things have been good and some bad. But up to 1700AD we saw everything as happening in cycles, driven by climate, weather and seasons. Shock, horror, we even rotated

crops! There were only about 950 million of us then and we used horse and oxen to pull loads and ploughs. Wow, how things have changed in 300 years.

Then we started learning about how we could harness the energy of fossilised sunlight and 300million year old bio-mass. As our inventions and technology adapted to solve our wants and needs (and more efficiently kill or heal each other), our planning started to ignore the seasons and all the lessons of history, so we became a progressive society. Unidirectional but moving from the solution of one problem after another.

We became imbued with a hubris that has led us to waste finite resources and deplete fossil endowments of fresh water aquifers. Some of those will never be replenished while humans walk the earth. Our top soil is being thinned and lost and our oceans and the species in them frittered away to suit our purpose.

“What, I can’t get halibut liver oil capsules because we have killed that fishery? I know we will take the krill, it is easier to get it by the bucket load...and I am sure the penguins, seals and whales won’t miss it.. “ Don’t you get the message why we are screwed?

Our progress has been so relentless towards automation and sophistication, we have long ago learned to discard old manual or mechanical ways of doing things. We have provided ourselves with no way back from specialisation and complexity. As everyone who has read “The Collapse of Complex Societies” by Joseph Tainter will know, all previous civilisations never approached a tiny fraction of the complexity that we have achieved. They were less brittle but nevertheless collapsed due to the cost of complexity. In the Anthropogenic Age, only a few could survive societal collapse. We have simply become too specialised. Putting all our eggs into one basket is fine...until we drop it.

Let’s let Doug Casey pick up here...

<http://www.internationalman.com/articles/how-to-directly-benefit-from-what-will-be-the-biggest-change-in-human-histo>

Perhaps the preppers have gotten it right after all.

**Qualifying comment...** in 2007, I figured out what would happen by end 2008 to the global economy given the escalating mixture of sub-prime mortgage rorts and the growing likelihood of derivatives contagion, but never in a million years could I have imagined what would be done to kick the can down the road and keep the global financial system operating after September 2008. So I expected the collapse that I now expect after this year’s financial shock to also have happened after 2008 too. I was wrong then. It didn’t happen then, but now most economic fundamentals are so much worse, will it happen after the 2016 crash?

Let’s just hope I am wrong this time too. But now, even the BIS and IMF admit, they are out of options. So sit tight. It is likely to be a rough ride.