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## **Better-Management Newsletter 21 September**

**Another round of events, data and views that keep pointing downhill, economy-wise**

The former Australian PM, “Mr Tony “Speedos” Abbott, says the refugee influx into Europe is a peaceful form of invasion. But the refugee and migrant flows result from the stupidity and greed of those interfering in the Middle East and North Africa...want a 26-minute summary? Then try this rather rude Vimeo...

<http://peakoil.com/publicpolicy/requiem-for-syria>

Nothing is forever and even Angela Merkel is losing her charm with the German voters. Europe is hitting a time of major change – just as Britain starts planning to trigger Article 50 of the EU’s treaty to begin BREXIT in February 2017...

<http://www.telegraph.co.uk/women/politics/mama-merkel-is-sinking-as-the-worlds-most-powerful-woman---and-f/>

Some in the EU want to make it impossible for the UK to BREXIT at all. This has the potential to end badly although some think that common sense will ultimately prevail. But how long will it take “ultimately” to arrive ?

<http://www.telegraph.co.uk/news/2016/09/20/five-reasons-why-europe-will-make-life-impossible-for-theresa-ma/>

Now George Friedman tells us why Syria matters to us all...

<http://www.mauldineconomics.com/this-week-in-geopolitics>

The USA has caught the lone pressure cooker bomber. But when we look at the liberties lost due to the Patriot Act and Homeland Security, there has only been one victor of the war....the military industrial complex. Yet most US domestic victims (just under 90%) died in 9/11 and only a handful since. Bill Bonner has the following to say about America’s War on Terror...

“The War on Terror, meanwhile, has cost about \$3.6 trillion so far (according to the latest estimates from Brown University), and has left more than 7,000 US soldiers dead.

But George Bush, Dick Cheney, Michael Ledeen, Elliott Abrams, Paul Wolfowitz, and John Bolton are still alive.

In fact, as far as we know, not a single one of those killed was a leading proponent of the war. Anywhere between 60,000 and 1.2 million people died on the other side (so many...and so difficult to verify...a whole industry has arisen trying to count them all).

Saddam Hussein, who had kept a lid on Islamic terrorism, was executed. Now there is a terrorist government in the area — ISIS — with US-made weapons and a US-trained head-of-state.”

A bullet in the foot is the way this looks to me.

Hacking of everyone by everyone? The East China Sea? North Korean mad men? The issues between Pakistan and India. The confrontations between USA and Russia – all stimulating fresh new nuclear weapons being brought to front lines...

Are our leaders idiots...or what?

Today's news is that the Syrian army has pulled out of the ceasefire – rather unsurprising eh? As the USA bombs the wrong people yet again in Syria and as the global economy takes a turn for the worse, is the “time of the Generals” rapidly approaching? Perhaps Kunstler is right?

<http://kunstler.com/clusterfuck-nation/slowly-then-all-at-once/>

China's belligerence against the USA has already started as per this typical rhetoric....from Sinocism...

“ **People's Daily criticizes U.S. as "source of turmoil" - Xinhua** BEIJING, Sept. 18 (Xinhua) -- The People's Daily, the official newspaper of the Communist Party of China, has criticized the United States as the "source of turmoil in the world." The newspaper on Sunday published three articles by Chinese scholars to analyze the causes of expansive and hegemonic moves by the United States from systemic, ideological and strategic perspectives. An editor's note on the page said that U.S. interventions are behind unrest and disputes in many places, including the Middle East, Eastern Europe and the South China Sea. “

Not all is sweetness and light between China and Russia as illegal Chinese immigrants (in their millions have and are crossing to settle in the thinly occupied Russian East Siberia.

On the Indian border the situation is also not as happy as one would want as India strengthens military outposts to combat the increased Chinese presence and infrastructure.

China is already using its monetary clout in the US media and everywhere from Australia to the EU, to influence politics as the leaderships starts to become more assertive in the international arena.

China has launched a new space station into space but its orbit is unstable and it is due to crash...let us just hope it fragments don't hit us. Apparently the next fools to try for space are in North Korea, as they have developed a new rock engine. North Koreans are once again starving to death, but they can still spend on useless frivolities.

The USA is now starting to become concerned about Chinese influence in Australasia. But with China as our largest real trading partner, that ship has sailed.

**The Economy**

I was amused to see an Article from Alan Kohler in yesterday's Australian Business Review in which he lamented the failure to jail the banksters responsible for the 2008 GFC, now that the global economy is again staring into the abyss. He felt it would have stopped much of the naughtiness that still continues.

Looks like the Australian version of the Libor scandal is about to roil the big 4 banks...

<http://www.bbc.com/news/business-37127579>

Meantime, the US DoJ is going for Deutsche Bank in an attempt to bring down the whole global banking house of cards instead...

<http://www.zerohedge.com/news/2016-09-19/deutsche-bank-extends-losses-near-record-lows-significantly-undercapitalized-even-wi>

Now they are in a race to offload risk...

<http://www.bloomberg.com/news/articles/2016-09-19/deutsche-bank-said-to-securitize-corporate-loans-to-offload-risk>

Other countries are getting into the act against the Huge US multinationals that have been avoiding paying any tax anywhere for the last 50 years...from Seeking Alpha...

“**Indonesia plans to pursue** Google ([GOOG](#), [GOOGL](#)) for five years of back taxes, and the search giant could face a bill of more than \$400M for 2015 alone if it is found to have avoided tax payments, Reuters reports. Investigators from the tax office's special cases branch are said to have visited Google's local unit today. They believe that PT Google Indonesia paid less than 0.1% of the total income and value-added taxes it owed last year. “

Many years ago now, Bill Clinton uttered the memorable words, “it's the economy, stupid” to describe the world's problems pre 2000.

Nothing has changed because, despite the utterances of presidents, incomes have not risen – for decades. No-one can argue (despite fiddling the figures) that there has been no inflation during that time. So Most Americans are worse off. This is Donald Trump's trump card...

[http://seekingalpha.com/article/4006806-median-household-incomes-age-bracket-1967minus-2015?source=email\\_macro\\_view\\_top\\_articles\\_1\\_1&ifp=0](http://seekingalpha.com/article/4006806-median-household-incomes-age-bracket-1967minus-2015?source=email_macro_view_top_articles_1_1&ifp=0)

All across the OECD, the fall in oil prices from 2014 has plunged everyone into deflation – with everyone struggling to overcome the impacts and no-one really shrugging off recession (other than primary beneficiaries of China's buying – and for them, now they – we – are in China's pocket). This is how it has played out in USA...

[http://seekingalpha.com/article/4006801-feel-recession?source=email\\_macro\\_view\\_eco\\_3\\_16&ifp=0](http://seekingalpha.com/article/4006801-feel-recession?source=email_macro_view_eco_3_16&ifp=0)

Read this carefully...many Americans no longer buy Hillary or the Fed's bullshit...

[http://seekingalpha.com/article/4006802-data-data-dependent-ignore?source=email\\_macro\\_view\\_eco\\_5\\_18&ifp=0](http://seekingalpha.com/article/4006802-data-data-dependent-ignore?source=email_macro_view_eco_5_18&ifp=0)

Perhaps the highest risk economy is China...as the BIS point out...

<http://www.telegraph.co.uk/business/2016/09/18/bis-flashes-red-alert-for-a-banking-crisis-in-china/>

Closely followed by the EU... now where have I seen this headline in New Zealand?

<https://www.theguardian.com/business/2016/sep/19/uk-first-time-buyers-hit-by-steeper-rises-in-starter-home-prices>

And the ratings agencies are lining up to pontificate on how BREXIT will affect the players...as if anyone really knows...

<https://www.theguardian.com/business/2016/sep/19/hard-brex-it-would-have-only-modest-impact-on-city-says-moodys>

For those who missed Jim Rickards piece in yesterday's "Money Morning", this is what it said...

**"The Debt Riddle That Elites Are Trying to Solve**  
**Jim Rickards, Strategist, *Strategic Intelligence***

The biggest problem confronting the global monetary elite is sovereign debt. There's too much of it, it's growing fast and it cannot possibly be paid off in real terms. A default larger than any in history, with trillions of dollars in losses for investors, is coming sooner rather than later.

The only question is what form the default will take. Once the form of the default is ascertained, it's easy to estimate the winners and losers and the approximate timing.

The first myth that needs to be busted is the idea that the world 'learned its lesson' in the 2008 crisis and the system has been made safer since then. It's not true. In fact, debt has been piled on debt since 2008.

All that happened since the 2008 crisis is that government debt has been used to substitute for some private debt, while private debt has continued to grow on its own. These charts are for loans and securities only. They do not include interbank lending or derivatives.

The total amount of derivatives, which is just off-balance sheet debt, both over the counter and exchange traded, exceeds US\$1 quadrillion (that's a thousand trillion)!

There's nothing inherently wrong with debt, subject to two conditions: The debt is used for productive purposes, and your capacity to repay the debt is growing faster than the debt itself. In other words, are you borrowing for good reasons, and can you afford to pay it back? Unfortunately, governments have failed both conditions. Much of the money borrowed on sovereign debt markets since 2008 has been wasted.

The US used most of its US\$800 billion ‘stimulus’ plan in 2009 to subsidise government and union salaries. China used trillions of dollars in bank debt to build ‘ghost cities’ that will never be occupied.

It’s true that some jobs were saved or created, but debt-to-GDP ratios kept climbing, and the productive capacity of the major economies did not grow fast enough to cover the debt. The world is one big Ponzi scheme, and now creditors are beginning to ask, ‘Where’s my money?’

There are three ways to repay sovereign debt: default, growth and inflation. Obviously, growth is the best way, but it’s not happening. The US has been stuck with sub-2% growth for the past 10 years. Europe and Japan are even worse. China’s growth has been higher, but much of that is smoke and mirrors because of wasted investment.

Default is another way out of debt. That’s the usual path chosen by developing economies such as Argentina and now Venezuela. But for economies that can print money, default is unnecessary. The US can print dollars, the ECB can print euros and the Bank of Japan can print yen. China has a problem because much of its debt is in dollars, which it cannot print. But China has a \$3.3 trillion war chest of dollar reserves it can use.

Now that the Chinese yuan is a ‘reserve currency’ — designated by the IMF in late 2015 — it’s possible for the People’s Bank of China and the US Federal Reserve to do ‘currency swaps’ where the Fed gives China dollars in exchange for yuan. These swaps are arranged behind the scenes and kept secret in order not to spook markets. These swaps can also help China deal with its dollar-denominated debt.

Of course, all of this money printing eventually leads to inflation. That’s the third way out of the debt — just inflate the currency. You still pay the debt in nominal terms, but the money’s not worth as much.

That’s a good deal for the debtors like the US, China, Japan and Europe, and a bad deal for the creditors. Which could be you.

### **All the best,**

Jim also thinks that the creation of so much money printing and credit will debase fiat currencies and cause hyperinflation...

<http://thecrux.com/world-money-and-hyperinflation/>

There are some serious writers rebutting the suggestion that the US dollar will collapse when the Renminbi becomes part of the IMF basket of international currencies on 1 October 2016...

[http://seekingalpha.com/article/4007197-fear-mongering-crowd-dollar-death-september-30th-edition-sdrs?source=email\\_macro\\_view\\_gol\\_pre\\_met\\_5\\_14&ifp=0](http://seekingalpha.com/article/4007197-fear-mongering-crowd-dollar-death-september-30th-edition-sdrs?source=email_macro_view_gol_pre_met_5_14&ifp=0)

This week we will see the results of meetings of the US Federal Reserve Open Market Committee and the Bank of Japan. Will either cut or increase interest rates? The markets are waiting to see.

### **“Blood and Oil”**

There are some folk today who believe that we can willingly turn off the tap on oil production. Those folk are either ignorant or stupid. Until we can find energy storage devices that allow us to hold large quantities of electrical energy cheaply and with high energy density per kg, or per litre, we are stuck with whatever oil we can find. Fortunately there will always be plenty of oil for the next hundred years or so but our problem is the EROEI will be so low and the cost of extraction will be so high, that we won't be able to afford it for anything other than the most productive purposes – and that is how the industrial age of oil will end.

But not at our discretion, due to geological reality. The world's oil three biggest oil importers are still...1. USA, 2. China, and 3. India. USA and China have pretty much filled their strategic oil reserves. India is catching up....

<http://www.reuters.com/article/us-india-iran-oil-idUSKCN11Q0P4>

Obviously their policy strategists understand what will happen during unforeseen shortages.

Had the US shales not come along, we would already be at desperation point, however shales are just a range extender and not a solution.

The oil fields in the Bakken areas of North Dakota, Montana and Saskatchewan have tended to produce tight light crude in the 45 – 55 degrees API range. You may recall this was some of the stuff that burnt brightly and even exploded when oil trains crashed a year or so ago. Most isn't in the 38-45 degree range most suitable for transport fuels, but all is usable in refineries despite its "short chain" hydrocarbons. Over the last several years the Bakken field plays – like those in Eagle Ford in Texas grew due to the widespread use of horizontal drilling and multi-stage hydraulic fracking with proppants and chemicals to get the oil to flow.

These are from source rocks not reservoir rocks, so shales are typically high cost quartile wells unless in sweet spots. In some parts of the Permian Basin (with its multiple layers of oil bearing rock) fracking was also necessary to unlock potential. The Permian wells are still doing OK but Eagle Ford and Bakken have seen severe drops in production due in part to the rapid fall off in well pressures (typical of fracking tight rock) and the lack of financial justification to drill further wells at current oil prices.

Back in 2012 and 2013, I was pointing out that shale oil was a Ponzi scheme requiring ever more capital to keep drilling and attaching articles like this ...

<https://srsroccoreport.com/the-coming-bust-of-the-great-bakken-oil-field/>

In many places the new wells were uneconomic on a full cycle cost recovery basis at USD110/bbl oil. Only the sweet spots gave sufficient payback for profitability. Now that is in the rear view mirror although some sweet spots remain and drill rigs are slowly increasing in number.

<http://www.zerohedge.com/news/2016-09-17/death-bakken-field-has-begun-big-trouble-us>

As we wait for OPEC and Russia to sort out their game plan for engineering price increases, investment is way down and if this continues there will be no way back, short of extremely high prices in 2017.

Already more than twice as many oil companies have gone bust in the USA this year than in the whole of 2015. But everyone with a sniff of oil is pumping at full speed to get at least some revenue...survival trumps profitability.

“Big Oil” was fine up until oil prices and conventional oil production peaked. One of the main apologists for the oil companies was Goldman Sachs who now realise they are just aging behemoths...

[http://www.rigzone.com/news/oil\\_gas/a/146671/Goldman\\_Sachs\\_Big\\_Oil\\_Was\\_Never\\_That\\_Big\\_A\\_MoneyMaker](http://www.rigzone.com/news/oil_gas/a/146671/Goldman_Sachs_Big_Oil_Was_Never_That_Big_A_MoneyMaker)

Until the arrival of the “mythological EESU” or something similar, we human beans are stuck with oil. Even Elon Musk has trouble putting lipstick on the EV pig using current energy storage technology...his, is a very fragile business model....

[http://seekingalpha.com/article/4007104-elon-musks-nightmare-closer-reality?source=email\\_the\\_daily\\_dispatch\\_rec\\_for\\_you\\_0\\_0&lift\\_email\\_rec=true](http://seekingalpha.com/article/4007104-elon-musks-nightmare-closer-reality?source=email_the_daily_dispatch_rec_for_you_0_0&lift_email_rec=true)