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More news expanding on yesterday's newsletter: Another round of events, data and views that keep pointing downhill, economy-wise

Some of the champions of globalisation seem now to realise the end is nigh, and some appear to have gone into panic mode...following on from the BIS warnings about excessive Chinese debt and mal-investment earlier this week....

http://www.telegraph.co.uk/business/2016/09/21/un-fears-third-leg-of-the-global-financial-crisis-with-epic-debt/

Each week, it seems that more mainstream economists and journalists realise things are coming unglued. Unlike Andrew's comment in the above article, I agree with Professor Robert Gordon about waning growth prospects, for reasons that will be apparent later.

The current situation that this UN article refers to came about, because, with the advent of zero and negative interest rates, there are few investments available within the OECD that provide a risk free yield – as a result (not so) smart money fled to the higher yield and very high risk emerging markets. That has now proven a bad bet!

The two major central bank reviews overnight – Japan and USA showed that they must realise the game is up, even if they cannot openly admit it. They are sandwiched between rapid "death by tightening" and inevitable and gradual "death by loosening". So the global economy is just slip-sliding to its doom as central bankers prevaricate.

The BoJ kept rates steady overnight, as the Japanese economy slips further into deflation...from Seeking Alpha...

"**Japan's central bank** held rates steady at -0.1% following its latest meeting, but announced it would modify its policy framework, marking the latest attempt to boost prices and goose economic growth. Among the changes, the BOJ said it would introduce yield curve controls, eliminate the maturity range of its bond purchases, abandon its monetary base targets and confirmed that cutting rates further remained an option. Nikkei +1.9%."

The US Federal Reserve FOMC meeting kept rates at 0.25 to 0.5% and signalled that if things were OK by December, there would/could be a rates rise then. Who is stupid enough to believe central bankers now? All that this Fed commentary leaves the US markets with, is further uncertainty. Watch volatility go off the charts as weeks pass...

http://www.bbc.com/news/business-37435415

It is all BS of course. If the Fed's central bankers raise rates in December, the share markets will tank. If they hold them steady the dollar will drop, gold, silver and oil prices will soar, and all insurance companies and pension funds will continue on the road to insolvency. Not an enviable binary range of options!

As of today, the dollar is down on the Fed decision news, Brent oil is up to USD47.11 /bbl, WTI at USD45.62 /bbl, and gold is up to USD1,339/oz and silver almost USD20/oz...as would be expected.

Muddlement – or the Emperor has no clothes...

It is weird. Not one economist or banker in authority or possessing a PhD seems to understand what has driven us to this and yet there are plenty of books on the subject.

The effect of emerging market debt should not have happened unforeseen and frankly, it didn't. The world's economists and central bankers have just ignored the worrying information until they could no longer do so. When first published in 1972, the original book "Limits to Growth" went through the Kubler-Ross scale from Denial to Anger to Bargaining before being ignored. The 2004 edition that demonstrated the 1972 book's predictions to be correct was simply ignored.

Causation

On the **REAL COST** side of the ledger, all the world's mineral resources have dramatically increased in energy and monetary costs for extraction and processing over the last 50 years. No wonder, as we have used much of the "low hanging fruit". Our built infrastructure is now often near the end of its design life and needs to be refurbished or replaced – with what and at what cost?

On the **REAL BENEFIT** side of the ledger, the world's energy return on energy invested ("EROEI") has reduced over the same period giving a dramatic fall in net available energy. It was this net energy benefit that powered the industrial revolution and secondly, the industrial age of oil empowered industrial agriculture and a whole range of fertilisers, pharmaceuticals, plastics and lifestyle assets. The infrastructure and built economy of the OECD owes its existence to this energy surplus and to the spurt of technological development that rode on its back. The energy surplus is no longer available and that is reflected in the fall of the price of oil as we squander that finite endowment....with average EROEI falling from 200:1 for oil in 1920 to 11:1 today. That rate of EROEI reduction is exponential and not linear (ominously matching the rate of population growth).

When the oil price dropped in 2015, the boost for the OECD economies should have been huge – yet it was non-existent and few wonder why, or realise how ominous that is.

The loss of surplus wealth in the oil producing sector is most noticeable with oil exporters taking huge losses as they absorb the fall from an average of USD110/bbl in 2013/4 to USD45/bbl today. It doesn't take a mathematician to multiply annual oil production of 32 billion bbls by the USD65/bbl fall, to show how producers are losing revenue of (in rough terms) USD2 trillion each year. This year one third of US based oil companies will go bust and half of OPEC will trend towards failed state status, copying Venezuela...if nothing changes.

If OPEC and Russia do join forces next week and limit oil production, it will force up prices for users and transfer the present disaster in the emerging economies to the major OECD economies. But an agreement would be epic as they attempt to herd the warring fat cats towards a mutually beneficial (in the short term) agreement...

The lack of candour in S&P, Moodys and Fitch credit ratings has turned the global derivatives casino into a lottery where no-one can win once TSHTF, the financialisation of debt instruments, the printing of huge quantities of money and debt, the trend to negative interested rates and so on, have all been symptoms of the financial and economic elite trying to use the same policies to solve our predicament, in their denial of true causation.

Like Rome, we have been partying away the future of our civilisation ....with a similar mix of "bread and circuses" thrown in for good measure. This has turned the problems we faced (which could in the 1980s have been fixed without damage to our civilisation) to a predicament (which cannot be fixed as we continue to increase population and consumption to further unsustainable levels).

With thanks to "Seven Sharp", the media clearly focuses on smarter mobile phones, drones, computer games, robots and AI (as well as Brangelina). It seems that energy still doesn't matter to the drongos in the mainstream media.

The path ahead

For some time I have been talking about the looming decline of globalisation and frankly, with international trade flows down this year, that has already started. Hanjin won't be the last shipping company to go bust. That will be a gradual if slow process and I think Prof Kelsey's objections to TPPA are onto a winner as events run their course.

There is still room for some more can-kicking by central banks so I still don't see collapse probabilities above 65% likely for 2016 and 75% likely for 2017.....95% to me still has that level of certainty for, or by 2020 though.

Both major global free trade agreements (Pacific and Atlantic) are seemingly now doomed to failure through politics...although little notice will initially be taken of the UN report that Evans-Pritchard has published reference to.

Some folks who would be most affected at a personal level are realising that there may be no way the average person can contribute to a "Business as usual" outcome, so they are taking their own steps...such as...

For "bank holidays" cash under the mattress, enough for a couple of months.
For "hyperinflation" precious metals with cash deposits spread between a number of financial institutions.
For "borderline systemic collapse" moving from financial assets to productive land, real estate and utility shares.
And "worst case collapse" – prepping with small lifestyle holdings (that seem to me like very hard work, but then again once you have such a property you can keep it effort free and without livestock until the balloon goes up???)

It seems there are plenty of folk who are already taking Andrew Evans-Pritchard's laconic advice of "sauve qui peut" (or in English..."every man for himself")

Just remember – early as this seems, if/when crash time comes, the options will be limited.