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Real estate prices soar in NZ, fossil fuels, politics gets even nastier, precious metals soaring for now, oil awaits reality to strike

<https://www.theguardian.com/money/2016/sep/06/new-zealand-tops-world-house-price-list>

The issue for New Zealand is rampant immigration and there are few policy settings the Government can dial up to sort it quickly. The two vortices that lead to a flood of Asian and other immigrants are:

1. The guarantee for all overseas students of NZ citizenship after three years of study.
2. The guarantee for the parents of single child students that they will qualify at 65yrs for NZ superannuation and all benefits as if they had paid tax all their lives. There is a ten-year qualifying period and we have something like 30,000 people waiting in that queue already. Walk anywhere and you will see the Asia section of this group as they are most visible. It is they who choose NZ as their child's study destination. Would you expect them not to act rationally?

The logical thing to do is to cut down on either or both incentives. Whatever is done (I suspect nothing will happen) it must be done carefully as many schools now rely implicitly on the revenue from foreign students and the last thing the economy needs is a property crash (which is what they expect in Vancouver and Toronto from draconian property taxes on foreign investors).

But the predicament for Auckland is not about race. It is about numbers. Self-serving politicians who promote the wealth effect are making things much worse, because as house prices rise, the Reserve Bank further attacks the ability of first home buyers by LVR restrictions...and soon will impose "salary to mortgage ratios". Causation is the excessive demand driven by Government immigration policy settings, yet the Key Government demands that Auckland destroy the living environment for all but the privileged rich to remedy the shortage, for the city to go into debt to provide facilities for ever more rampant growth... Why? In order to get their way, stimulating the "wealth effect" and leaving the poor to carry the can while local body politicians carry the blame....

Today's letter to the NZ Herald...which probably will not be printed...see me sticking my neck out further...

"Commodity prices are set at the margin

Commodity prices, whether for dairy auctions or houses are agnostic as to the buyers' race. It is a fundamental axiom of economics that commodity prices are set at the margin. It is incremental buyer pressure versus incremental supply, that determines whether prices go up or down.

Many Aucklanders are accustomed to being beaten at auction by Asian buyers with seemingly inexhaustible supplies of funds, so that becomes the stuff of legend. But it is the numbers of buyers competing for houses and their willingness to meet the market relative to the properties for sale that REALLY drives average price movements. Tiny increments of supply and demand can significantly alter prices. 10 buyers from anywhere on top of existing demand can take prices up. 10 houses for sale more than existing buyers want, can take prices down. Real estate agents understand that too.

Government deliberately misleads the public by brushing aside the impact of immigration by using the race card, when fully aware that immigration is largely responsible for the increase in Auckland house prices. As a National voter, I believe Winston Peters is due an apology for that.

The PM as a former currency trader certainly knows commodity prices are determined at the margin. So what are his motives for dismissing the huge impact of immigration on Auckland house prices?

Meanwhile how do we voters choose between two major political parties that profess not to understand Economics 101?"

Fossil fuels

New Zealand and Norway are exceptions to the general rule of countries reliant on fossil fuels for electric power generation, having a large proportion of hydro and geothermal power for our electricity grid's base-load. That enables our national grids to function with small incremental amounts of wind and solar energy. Intermittency of supply from wind and solar for us doesn't matter. What does matter is our inability to get a full cycle payback on the cost of wind and solar projects. They wear out and need more fossil fuels to replace them.

Almost every day I hear people arguing that renewable energy is cheaper than fossil fuels. That line of argument is predicated solely on wishful thinking and ignores reality. The reason I am personally so invested in the mythological EESU is because renewable energy which is intermittent, is based on abundant and cheap oil, without which it cannot endure. If the EESU doesn't work as we hope, there are no other storage products in development that could enable mass grid storage...without which, large scale solar and wind are not viable. Add inexpensive storage for load balancing and things get better – but not totally. The EROEI of tar sands is only 5 -7:1 and yet solar and wind are far worse - between 2-3:1 and with too little net energy to enable our society to function.

OECD power grids were never designed to operate on intermittent power and that is why electrical energy storage is the missing link.

Yet even electrical energy storage won't provide a level of net energy that can support the needs of our civilisation if we turn off the fossils of nuclear, oil, gas and coal. This article addresses the facts...unpleasant as the reality may be...

<https://ourfiniteworld.com/2016/08/31/intermittent-renewables-cant-favorably-transform-grid-electricity/>

And stresses the need for scalable and inexpensive storage...although the above author (a semi-retired actuary) has probably never heard of the mythological EESU.

Politics gets even nastier

The G20 was a waste of everyone's time and effort. It was simply an extravagant parade of show ponies and their voluminous egos. And China shut down a city for that???

David Stockman the former White House insider has just written a book to try to influence Trump's policies. But if we look at his suggestions for the Donald, we realise that the "deep state" is too entrenched to allow Trump to succeed if he follows the suggestions. I agree with Stockman that Hillary will be unable to turn the USA away from GD1, but then I doubt that Trump can either...

<http://bonnerandpartners.com/trumps-10-deals-to-save-america-from-the-coming-crash/>

People like Rodrigo Duterte of the Philippines, now regard Obama as a spent force and indeed he really was, right from the start of his presidency...

<https://www.theguardian.com/world/2016/sep/05/philippines-president-rodrigo-duterte-barack-obama-son-whore>

All mouth and trousers?

But Pres Duterte should remember the US CIA's penchant for regime change whenever it suits them.

Humbled by being sidelined by China at the G20 and then as the "son of a bitch". How many more insults can the POTUS take?

At last it seems Angela Merkel's arrogance over importing Islamists among their refugees is coming home to roost...

<http://www.telegraph.co.uk/news/2016/09/04/germanys-far-right-afd-unseats-angela-merkels-party-in-key-regio/>

There is a fundamental problem with the projections people make. If you have a problem and you do nothing to fix it, Murphy's Law tells us that the problem will not self-correct. The idiot statisticians who have been saying that birth rates will drop as society becomes more wealthy, have ignored the fact that it has always been the poor that bred. Now sub-Saharan Africa is giving birth to refugees that are targeting Europe. Is global population dropping? Nope. In fact things are arguably worsening...

<https://garryrogers.com/2016/09/04/world-population-growth-is-speeding-up-not-slowing-down-no-peak-in-sight-and-consequences-will-be-catastrophic-californians-for-population-stabilization/>

Californians turn out to be the dumbest of the lot. They even think that by saying they will use less oil in future years, it will happen. Even the nicest people are capable of self-delusion.

New Zealanders are not far behind. It seems we readily believe that by importing people and their money in huge volumes, this will give us real growth. Sure it gooses the GDP metrics, but it dramatically downgrades the standard of living for those who already live here and cuts out entry level jobs for young people and entry level housing. Our Government has developed a degree of sophistication in denial of the costs, while trumpeting the benefits of their policies, which only suit the globalist agenda. It is the biggest demographic and social experiment that New Zealand has ever seen. The unintended consequences of this could play out in the political arena for generations.

Prosperity – slip-sliding away

John Mauldin was a bloke who was so blinkered in his rose-coloured views that he did not see the GFC until it hit him on the nose. Yet he has at last realised what I have been writing about...NIRP and ZIRP are the kiss of death to our kids retirement prospects and they are destroying living standards for savers already. He now realises that recession is baked into the cake...

http://ggc-mauldin-images.s3.amazonaws.com/uploads/pdf/160904_TFTF..pdf

There cannot be a downturn in global trade without damage to shipping companies. COSCO of China is even losing money.... and the collapse of Hanjin Shipping Company (South Korea's largest) is disrupting supply chains around the world...

http://seekingalpha.com/article/4003932-hanjin-bankruptcy-mean-shipment?source=email_macro_view_top_articles_0_0&ifp=0

There is not much good economic news I can find right now...this from Seeking Alpha on the Eurozone “recovery”...

*“**Eurozone GDP growth** came in at just 0.3% for the second quarter, according to Eurostat, confirming an initial estimate published in July. The figure compares to an expansion of 0.5% in the first three months of the year. Recent survey data also suggests that growth isn't likely to pick up dramatically in Q3 either, despite both the eurozone and U.K. economies so far proving fairly resilient to any post-Brexit tremors.*

***The ECB has passed the €1T mark** for its controversial purchases of government bonds, putting pressure on policymakers to address the scarcity of available assets when they meet in Frankfurt this week. Despite being well beyond the halfway point of the €1.7T program, inflation remains virtually non-existent. The latest figure from Eurostat showed euro area prices rising by 0.2% in the year to August - well below the central bank's inflation target of just under 2%.*

***The eurozone won't release** additional bailout money for Greece at a meeting in Bratislava this month, sources told Germany's Handelsblatt Global. According to EU diplomats, Athens has only implemented two of 15 political reforms that are conditions for the bailout money. Above all, they said, Greece had been slow to privatize state assets. “*

Precious metals also suggest something is amiss...

Gold was up USD27.70/oz overnight and silver by USD0.789/oz. The prices are now USD1,354.40/oz and USD20.155/oz. If you want some bullion, the signal seems to be, “buy it now, or it could cost you significantly more later.” But who can predict the future?

Two days of this price trend and the crash could perhaps come earlier than I thought. (late October of this year was my pick...will I be proven right again...or will the collapse wait another year?)...when you throw a dart at the dart board, you have to wait and see what the result is...

<http://www.telegraph.co.uk/business/2016/09/06/gold-demand-hits-4-year-high---but-us-rate-hike-raises-risk-of-p/>

I tend to agree with Andrew as below...

http://seekingalpha.com/article/4003872-silvers-volatility-makes-precious-metal-choice?source=email_macro_view_gol_pre_met_4_12&ifp=0

(disclosure: I have some physical silver and gold as an emergency fallback position, not as a significant investment)

I have been warning for some time that the bottom has dropped out of the US new car market at the same time as sub-prime car loans have risen to new heights. This bears watching as a further possible crash indicator...besides the EU, and China of course...

http://seekingalpha.com/article/4004167-ford-gm-automakers-skid-deeper-trouble?source=email_macro_view_top_articles_1_1&ifp=0

Oil

Venezuela is in serious trouble. One problem is that it is a corrupt socialist country and the other major problem is that it isn't a low cost quartile oil producer because its oil quality is mainly both heavy and sour...and the current oil price will likely entail default on debt payments...

<http://oilprice.com/Energy/Crude-Oil/Venezuelas-Oil-Output-Set-To-Collapse-As-1-Million-Take-To-The-Streets.html>

Where are the Chinese who have been lending Venezuela tens of billions of US dollars in exchange for guaranteed supply?

Will a Russian/Saudi agreement fix things in the oil patch? So far it seems the rhetoric is driving prices this week more than the news of last week's inventory build

<http://www.bloomberg.com/news/articles/2016-09-04/stable-oil-market-needs-russian-saudi-cooperation-prince-says>

and

<http://www.bbc.com/news/business-37276710>

The level of desperation is so great that anyone with access to oil will now pump and sell it...without regard for price. Now the oil game is about survival of either country or company and each barrel sold below cost guarantees there will be very little remaining capital to use in exploring for more.

When the upward spike comes, it will be really spectacular.

<http://www.zerohedge.com/news/2016-09-04/art-berman-oil-heading-lower-near-term-economically-crippling-moon-shot>

The world does not run on money, it runs on energy...so here is another important take-away from Art Berman...

<http://peakoil.com/consumption/art-berman-central-bankers-dont-understand-the-economy-runs-on-energy-not-money>

There has been an ongoing spate of earthquakes as oil producers dial up bigger tonnages of fracking and more wastewater injection in wells. Where they are in areas where faults exist, this is getting rather tricky. Oklahoma is a case in point...

http://seekingalpha.com/article/4004100-shale-oil-earthquakes-put-future-miss-lime-question?source=email_macro_view_com_0_13&ifp=0