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Better-Management Newsletter 22 December 2016

Last weekend I pointed out that I had bought a month's petrol ahead of time (remembering that it is illegal to hold more than 50 litres in Jerry cans – besides being dangerous). Today the price of petrol is almost 30 cents per litre higher in Auckland due to the rising price of oil in US dollars and the rising exchange rate for the US dollar.

The oil price is taking a breather on COMEX today but the trend is still there and the intent of oil producing countries is to push the price up through USD60/bbl to USD70/bbl, and thereby save their economies at the cost of inflation for the OECD.

With rising interest rates in prospect to tax the debt mountain, with rising oil prices to leverage inflation higher and with extremely low real economic growth in the OECD, 2017 could become our annus horribilis. Various folk are already telling us what dire deeds will happen next year...

http://www.internationalman.com/articles/the-1-black-swan-event-of-2017

and

http://www.moneyandmarkets.com/crashing-sovereign-debt-markets-83679?utm_medium=email&utm_campaign=MAM3665&campid=77795&em=jcrofe%40xtra.co.nz

and

http://seekingalpha.com/article/4031878-peter-schiff-4-economic-myths-surrounding-u-s-economy?ifp=0

and

http://thecrux.com/rickards-the-axis-of-gold-wants-to-destroy-the-dollar/

Each of these is just one bloke's guess I suppose. These opinions can't all be right.

Geopolitics

President Obama and Hillary Clinton look like really sick wack-jobs to me. It seems like they are trying to interfere with Trump's presidency in a raft of ways before he takes office... Jim Kunstler seems to be right on the button...

http://kunstler.com/clusterfuck-nation/deep-state-blues-2/

But the American founding fathers put the electoral college in place for a reason...

http://www.csmonitor.com/USA/Politics/2016/1219/What-s-behind-push-for-Electoral-College-to-defy-Trump

Can the cold war become a hot war?

1.Trends since the cold war – a recap

Russia has changed

https://www.youtube.com/watch?v=L6hIlfHWaGU

2.The perspective from Casey

Russia has been signalling concern for more than a decade...

http://www.internationalman.com/articles/a-voice-in-the-wilderness

3.The perspective from the USA

The dangers posed by tactical nuclear weapons...

https://www.youtube.com/watch?v=Yp0eJVrIyOg&feature=youtu.be

4. Punch and counter punch...but shouldn't Trump just stop the wasteful nonsense?

http://www.reuters.com/article/us-weiner-putin-commentary-idUSKBN1470SN

Back to Brexit....

Perhaps Scotland the brave will emerge as a new nuclear power next. With no economy to speak of, rapidly declining oil in the North Sea and with its welfare overhang acting as a drain on the British purse, perhaps the UK will gladly cut them loose...from Seeking Alpha...

"**Looking to avoid the "national disaster"** of a "hard Brexit," Scotland will publish proposals tomorrow for how it can remain in the European single market after Britain leaves the EU. The plans are expected to outline new and substantial powers for the devolved parliament in Edinburgh, allowing for free movement of goods, services and people.

There are however, growing signs of European bloody mindedness and a hard Brexit plus acrimony is what the EU mandarins are hoping for.

Chinese coal use has surged with the onset of winter and with it a huge air quality problem...placing half a billion people in harm's way...from Seeking Alpha...

"**Smog in northern China** including the capital city of Beijing reached hazardous levels for the fourth straight day on Tuesday, highlighting the fallout from resurgent coal production and related demand in the world's second largest economy. A "red alert" - the highest level in

China's four-tiered pollution warning system - across 24 cities has cancelled flights, closed off highways and shut down schools and factories. "

It is becoming clear that the recent seizure of the US underwater ROV by the Chinese navy was a change in that no recourse to legal argument for seizure is being used by the Chinese. This heralds a bloody-mindedness that may become the trigger for a descent into war.

The economy

Focusing on China, I find it hard to ever trust their data...

http://seekingalpha.com/article/4031538-primer-chinese-financial-data-quality?source=email_macro_view_edi_pic_3_6&ifp=0

Try as they might, the Chinese still struggle with capital flight...

http://www.reuters.com/article/us-china-forex-deposits-analysis-idUSKBN1470YZ

and

https://www.bloomberg.com/news/articles/2016-12-18/pboc-in-neutral-sets-up-first-u-s-china-tightening-since-2006

The US use of QE and ZIRP has created a monster in which the risky derivatives casino is made more complex and therefore more risky. Even decisions to change interest rates are fraught with danger in this environment where debt increases are essential to get any economic growth and where derivatives are used to provide security over assets of dubious value...

http://seekingalpha.com/article/4031643-fed-hikes-strong-dollar-fallacy?source=email_macro_view_edi_pic_0_3&ifp=0

Amazingly, bank issues are also cropping up in Ukraine...those oligarchs can't keep their sticky fingers out of the till...

http://www.reuters.com/article/us-ukraine-crisis-privatbank-idUSKBN1480MY

Christine Lagarde succeeded Dominque Strauss-Kahn at the IMF when he was arrested in New York. Now she has been found guilty of negligence. It seems all bankers can be loose with other people's money...and who really cares???

http://www.telegraph.co.uk/business/2016/12/19/europes-stranglehold-imf-has-become-curse/

The spat between the EU Commission and Ireland over the tax it levies on Apple is once again coming into the public arena....and Apple is not best pleased...Ireland is appealing and the EU Commission is fighting back...

http://www.telegraph.co.uk/business/2016/12/19/european-commission-exceeded-powers-ireland-apple-tax-ruling/

In Italy, the bank woes continue...Monte Dei Paschi is both insolvent and illiquid it seems – and time for them is running out...

http://uk.reuters.com/article/uk-eurozone-monte-dei-paschi-liquidity-idUKKBN14A0LD

Australia is having its own economic problems – largely of its own making – and it isn't because the lucky country has suddenly become unlucky. From Seeking Alpha...

"Australia downgraded its growth forecasts overnight and predicted larger than expected budget deficits over the next four years, heightening concerns the country could lose its AAA credit rating. The resources-driven economy has enjoyed more than 20 years of growth but is now transitioning out of an unprecedented mining investment boom. "

And this from Daily Reckoning...

"**The Long Transition…**
By Kris Sayce, Publisher, *The Daily Reckoning*

From Bloomberg yesterday afternoon:

'*"The Australian economy continues to transition from the investment phase to the production phase of the mining boom despite a downward revision to the real GDP growth forecast,"* [Federal Treasurer Scott] *Morrison said in a statement Monday. "Exports and household consumption are expected to support growth."*'

Pardon the muffled laughter.

If the economy is still transitioning to the production phase, we can only wonder what has been in all those ships leaving for China.

We could have sworn Australia had exported tens of millions of tonnes of iron ore to China throughout the 2000s.

Really, if the transition is still happening, either we're about to witness the biggest resources boom in the history of mankind (even bigger than the 2000s boom) or…it's not really transitioning at all.

It's already transitioned. It's downhill from here. A recession is coming.

How debt grows…and grows

The comments from Treasurer Scott Morrison relate to the prospect of ratings agencies downgrading Australia's AAA credit rating.

As the Bloomberg report notes:

'*Australian Treasurer Scott Morrison forecast a slightly narrower deficit this fiscal year and retained a projected return to surplus in 2021 as he bids to stave off a credit rating downgrade.*

‘*The underlying cash deficit was predicted to be A$36.5 billion ($26.7 billion) in the year through June 30, compared with a A$37.1 billion shortfall forecast in May. In the ensuing three years, however, deficits are expected to widen by almost A$11 billion more than May projections. Morrison also cut the fiscal 2017 growth estimate to 2 percent from an earlier 2.5 percent forecast.*’

Most humorously:

‘*Two months before that election, Morrison projected the books would return to balance by 2021. S&P wants to see evidence that will be achieved, noting the budget has been in deficit since 2009 and a previous Labor government pledged a surplus would be achieved in 2013. That forecasts was eventually ditched at the end of 2012.*’

We can only assume the current surplus pledge will be ditched in 2020…regardless of which party is in power.

In case you’re not sure, a quick lesson on government finances.

A deficit is when a government spends more money than it takes in through taxes. If a government spends $400 billion, but only raises $350 billion in taxes, it has a deficit of $50 billion.

That’s easy. The question, then, is: How does the government pay for all of its spending? It issues debt. In this example, the government would have to raise $50 billion in debt to pay for its spending.

Here’s the problem: Unless the government starts with a clean slate, not only does it have to issue debt to cover that year’s shortfall, it also has to issue new debt to pay for current debts that will fall due that year.

This is what makes it so difficult for a government to pay off its debts. Even just one bad year can throw a proverbial spanner in the works.

Let’s say that, in our example, the government did have a clean slate — that the $50 billion deficit was its first deficit, and its first debt.

In order to get back to square one the following year, the government’s spending would have to either remain at $400 billion, while it’s tax revenues increased to $450 billion (up from $350 billion the year before), or it would have to fall to, say, $350 billion, while it’s tax revenues increased to $400 billion.

Those are just a couple of examples. The point is that, whatever the outcome, in order to repay the debt in a single year, tax revenues need to be $50 billion higher than spending.

And that doesn’t even include interest expenses.

Of course, the reality is that when a government goes into debt, it’s due to a major economic shock. The result of that shock is that government spending tends to increase due to welfare payments, stimulus measures, and so forth.

At the same time, the government's tax revenues tend to fall because fewer people are working, companies are making less in profits, and taxable spending tends not to rise as fast as government spending.

It explains why the Aussie government is in this position…

Australian Government Securities on Issue*	$464,790m
Treasury Bonds	$429,741m
Treasury Indexed Bonds	$31,529m
Treasury Notes	$3,500m
Other Securities	$21m

Source: Australian Office of Financial Management
[Click to enlarge]

…in debt to the tune of $464.79 billion.

That's up from a net debt position of close to zero 10 years ago.

Be clear: We're not making a call on whether this is the fault of the Labor Party or the Coalition. Our position on this has been consistent.

For those who think the government wouldn't be in this mess if the Coalition had been in power in 2008, think again. The Coalition would have had an even better excuse than the Labor Party to take the nation into debt. It could have claimed that this was the 'rainy day' they had saved for.

It may not have stimulated the school-hall-building industry, or the home-insulation industry, but it would have stimulated something. Make no mistake about that.

But, whatever. There is only one direction for the Australian economy — and that's down…into recession.

Credit rating down…interest rates down too?

If the ratings agencies cut Australia's credit rating, that's bad news, and is sure to lead to higher interest rates, right?

Err, not so fast. In a vacuum, you'd think so.

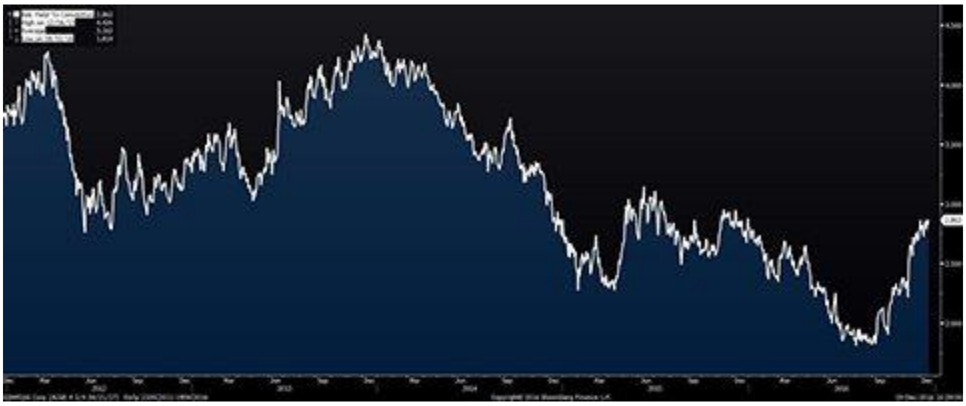
When the ratings agencies knocked the US' credit rating down, interest rates actually fell.

Why?

Simple. It's because investors expected the downgrade and the worsening economic picture to result in more stimulus. They figured the central bank would have to cut interest rates, in order to encourage people and businesses to borrow…and to make it cheaper for the government to borrow.

Could that happen here? Australian interest rates have soared in recent months. But that has had more to do with the prospect of higher interest rates in the US.

The chart below is the Aussie government 10-year bond yield.


Source: Bloomberg
[Click to enlarge]

The Reserve Bank of Australia (RBA) Cash Rate currently stands at 1.5%. Most investors now seem to think that the rate won't fall any further from here.

Don't count on it. A slide into recession, the loss of the AAA credit rating, and the incentive for the government to go further into debt could just result in the RBA cutting rates even further.

Regards,

Kris Sayce,
For *The Daily Reckoning*"

The Chinese have been playing an interesting game with both gold and silver. While gold is seen as a financial metal, silver is a scarce strategic metal that will become scarcer. This makes this next link very intriguing...

http://seekingalpha.com/article/4031500-remember-hunt-brothers-silver-market-now-cornered?source=email_macro_view_top_articles_2_2&ifp=0

The US Department of Justice may not have jailed any bankers but they are still milking European banks for their misdeeds...from Seeking Alpha...

"**The DOJ has asked** Credit Suisse (NYSE:CS) to pay between $5B-$7B to settle a probe over its sale of toxic mortgage securities in the run-up to the financial crisis, Reuters reports, but the lender has resisted settling for that amount. In a sign of how far along things have moved, the Attorney General herself last week talked with top management at the bank. A deal could be reached this week. "

The Swiss have been a bit more even handed...from Seeking Alpha...

"**The Swiss Competition Commission** has fined several European and U.S. banks almost 100M Swiss francs ($97.3M) over interest rate cartels, the latest punishment dished out in connection with rate-rigging scandals. The largest was a 33.9M Swiss franc ($32.9M) penalty for JPMorgan (NYSE:JPM). Other banks that were fined include RBS, Deutsche Bank (NYSE:DB), Citigroup (NYSE:C), Barclays (NYSE:BCS), Credit Suisse (NYSE:CS) and SocGen (OTCPK:SCGLY). "

There is a fool born every minute...asset prices built on a world of debt!

"**The Dow Jones industrial average** is within striking distance of 20,000 and some investors believe that piercing that level would signal the recent rally may continue. The U.S. stock market as a whole has added $1.6T since the election of Donald Trump on bets that his plans for deregulation, tax cuts and infrastructure spending will boost the economy. The Dow first hit 10,000 in 1999."

Yet, while US auto loans have blown through the roof, car sales are well down...from Seeking Alpha...

In other auto news, Ford (NYSE:F) is closing its Kansas City, Mo., pickup truck and van plant for a week early next month to match production and demand. The move comes after General Motors (NYSE:GM) said yesterday it would close five U.S. plants in January from one to three weeks, lay off 1,300 plant workers in March and cut the second shift at its Detroit-Hamtramck facility."

In the rush to outlaw cash and for governments to tax more of what we do, the big banks are piling into the use of the blockchain...

https://www.bloomberg.com/news/articles/2016-12-21/who-owns-blockchain-goldman-bofa-amass-patents-for-coming-wars

Energy

Those who understand the significance of falling Energy Return on Energy Invested – aka EROEI – may find this interesting...

https://ourfiniteworld.com/2016/12/21/eroei-calculations-for-solar-pv-are-misleading/#more-41500

The fact is that solar and wind electricity generation could possibly rescue us in a post "peak oil" world when there is an inexpensive electrical energy storage system that has a high enough energy density to replace fuel for vehicles and eliminate the intermittency problems for when the sun don't shine and the wind don't blow.

In 2017 we will find out whether we face a dire energy future or one with hope and opportunity to enable technological solutions for our energy dependent future.

In my case, I hope for the EEStor product to deliver more than a disruptive high voltage capacitor, but also the fully performing EESU that tempted us into a shareholding in the first place. After 9 years of hoping, I am still left hoping.

In the mainstream of science, the government agencies that are perpetuating the "business as normal forever myth" are feverishly working on a variety of atomic fusion projects as are individual corporations like Lockheed Martin. These cost globally about USD20-40 billion each year. The race seems to be to find out who will be the first to copy what the sun can do. The projects issue news releases like this from time to time...

http://interestingengineering.com/south-korean-scientists-smash-nuclear-fusion-record/

So if we accept this as plausible, creating a continuous 300 million degrees C. blob is what they are aiming for. Just imagine the cost of that in the context of them not having the faintest idea of how the F*** they will be able to harness that blob for Human use? No work on that has yet started.

I am still (rather hopefully) betting my money on the mythological EESU... hoping the trials can reveal a dfferent polymer that provides a much better time constant. (There are reports from other researchers that the same substance used for flexible contact lenses could have the required polarity – but we must just wait and see) The progress we sense happening in the three trials, seems to suggest that in Q1 or Q2 of 2017 EEStor will reveal how their energy storage product could work, and after meetings in January/February 2017 at Cedar Park, the capacitor industry giants will be shown what they are buying into – then in late Q1 or Q2 of 2017 we will learn who, if anyone will sign up to use the EEStor CMBT layers for high voltage capacitors.

It doesn't look like Santa Claus will be bringing us any good news on EEStor before the New Year, but perhaps a New Year wish?