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## Better-Management Newsletter 28 December 2016

On my first newsletter of the New Year, many will not agree. But I know many Aucklanders will.

When the hype dies down NZ PM John Key will likely be seen to have maintained economic stability at a huge future cost – in particular for Auckland. His legacy will be tarred and feathered for that. He may get a knighthood, but I for one am glad he chose to go away and play with his millions. Auckland is in for debt growth like few global cities have seen in history. It has already started at a furious pace. Am I angry? You bet. Only Angela Merkel did a worse job. Mr Key could never say he was not warned...in my case repeatedly since 2013.

If any Aucklanders disagree with me now, don't worry, you won't have long before the debt and rates bills mount up and affect your cost of living.

Merkel's legacy for Europe? Perhaps my letter to the editor of NZ Herald and Christchurch Press, penned on Christmas Day, provides my verdict on her reign – without naming names...of course....

*“Europe is awakening this Christmas to four chilling realities.*

*The first is that some moderate Muslim youths, when disaffected for whatever reason, have demonstrated the potential to become Islamist terrorists.*

*The second is that the welfare state benefit structures - in at least the UK, France, Germany and Denmark - are incapable of discriminating between the genuine needy and those seeking funding for their terrorist activities. The weapons are often paid for by the society being attacked.*

*The third is that the legal systems within Europe impede security measures, and so allow lone wolf terrorists to strike at will.*

*The fourth is that despite vacuous reassurances from politicians, state protection for the public is proving ineffectual.*

*We have friends and relatives in France and England who say they are very afraid. It seems with good reason.*

*‘Tis the season for the intolerant to strike at the tolerant. Is this what all Christmases of the future will look like for them?*

*Regrettably, these facts will likely shape the political structure of the EU and the degree of racial and religious tolerance that results.”*

In the period from 1999 to 2016 we have witnessed a master class in politicians favouring expediency over wisdom. The shortness of election cycles is as much to blame as the cynicism of politicians.

Barack Obama is cut from the same mould as the two articles below point out. Even after 8 years, he may be seen as America's most ineffectual President – ever.

<http://peakoil.com/publicpolicy/the-u-s-is-now-a-country-that-can-be-ignored>

and

<http://www.aljazeera.com/indepth/opinion/2016/12/wrong-withering-west-161226104409143.html>

Obama may well wonder where the closer ties between Serbia and Russia came from. But the Croatia/Kosovo issues have remained top of mind in Serbia who felt very hard done by over the Bosnian wars, by both NATO and the US.

<http://bigstory.ap.org/article/14e480ff574043fd872242d674135116>

Chinese/US/Russian relations are likely to be in a state of flux. All smaller countries are exposed to the risk of fallout from their manoeuvring. (see the attachment above)

Right now, China and Russia are strongly contained...or so it appears...

<http://peakoil.com/publicpolicy/the-united-states-and-the-race-for-global-hegemony>

With everyone taking more natural resources than ever there is ample scope for resource based conflicts. Will 2017 be the year in which water wars break out? Water shortages are being blamed on “climate change” with no due regard paid to over-use, pollution and aquifer depletion.

<http://www.theepochtimes.com/n3/2200779-dont-post-water-world-intro-2/>

It has often been pointed out by archaeologists and historians that past civilisations were not murdered but committed suicide. Our civilisation will clearly be no exception. The sole unknown factor? When.

Our future will be determined by banksters and politicians being given power by the “great unwashed”. So what do we expect?

What will the good guys do with a fighter that won't fight? ...

<http://www.theaustralian.com.au/business/opinion/robert-gottliebsen/time-to-drain-f35-joint-strike-fighter-swamp/news-story/771153b81b85c155849636eb35154b5f>

BTW, I do know that Lockheed Martin did try to keep the F22 Raptor in production but were over-ruled by the Pentagon.

Then there are other thoughts on 2017 from BBC...

<http://www.bbc.com/news/world-europe-38368850>

Newly emergent regional power Turkey has had a rough year in 2016 and it looks like the internal divisions will ensure that 2017 is also tricky...

<http://www.bbc.com/news/world-europe-38389981>

Barack Obama may well be the true author of the UN security council vote that was nominally sponsored by New Zealand. If so, is this double dealing by Obama? Anyway, the game in Israel may have changed...

<http://www.aljazeera.com/programmes/insidestory/2016/12/israel-vote-161226200016465.html>

## **The Economy**

Will the New Year see the commencement of a trade war between the USA and China? Jim Rickards thinks it could...

<http://thecrux.com/rickards-u-s-and-china-on-collision-course/>

The world's economists are FOS. They produce stats designed to support their own theories and no country is more adept at doing this than the United States of BS. The problem for me as a person who attempts to analyse both data and information flows, is that the true data is often incongruous with the news. John Williams has been fighting the same battle and I defer to his opinions....

<http://thecrux.com/john-williams-the-federal-governments-fake-news/>

I look at next year as having a 75% chance of a share market and financial crash. But unlike John Williams I see inflation taking longer to appear, but I do see it for 2017. So those are my forecasts. That means still 25% chance that the global central banks can still control things out to 2018.

Will China contribute to the carnage next time? Last time it held up NZ and Oz, but this time?

[http://seekingalpha.com/article/4032598-cancer-china-banking-system-will-metastasisize-globally?source=email\\_macro\\_view\\_eco\\_1\\_14&ifp=0](http://seekingalpha.com/article/4032598-cancer-china-banking-system-will-metastasisize-globally?source=email_macro_view_eco_1_14&ifp=0)

There is certainly good reason to watch China...

[http://seekingalpha.com/article/4032651-will-chinas-debt-problem-detonate?source=email\\_macro\\_view\\_eco\\_1\\_14&ifp=0](http://seekingalpha.com/article/4032651-will-chinas-debt-problem-detonate?source=email_macro_view_eco_1_14&ifp=0)

and

[http://seekingalpha.com/article/4032752-red-scare?source=email\\_macro\\_view\\_mar\\_out\\_3\\_6&ifp=0](http://seekingalpha.com/article/4032752-red-scare?source=email_macro_view_mar_out_3_6&ifp=0)

Sorry for being so crass/rude about economic prospects for 2017 ...Meantime, in the world's largest economy the US Fed has become Wall Street's puppet. Perhaps their crash will come when the Fed can no longer bend to the banksters' will...

[http://seekingalpha.com/article/4032413-fed-threw-towel?source=email\\_macro\\_view\\_mar\\_out\\_2\\_7&ifp=0](http://seekingalpha.com/article/4032413-fed-threw-towel?source=email_macro_view_mar_out_2_7&ifp=0)

Meanwhile will the Trump administration drain the swamp of bent stats?

[http://seekingalpha.com/article/4032741-new-census-data-shows-job-market-still-terrible-trump-said-numbers-get-hushed?source=email\\_macro\\_view\\_eco\\_1\\_18&ifp=0](http://seekingalpha.com/article/4032741-new-census-data-shows-job-market-still-terrible-trump-said-numbers-get-hushed?source=email_macro_view_eco_1_18&ifp=0)

Meanwhile the banks that you and I have been bailing out during the last seven years are still getting caned – rather their shareholders are...from Seeking Alpha...

“**European banks will be hoping** for a fresh start in 2017 after settling claims relating to the sale of toxic MBSs before the financial crisis. The DOJ has reached a \$7.2B provisional deal with Deutsche Bank (NYSE:**DB**) and a \$5.3B agreement in principle with Credit Suisse (NYSE:**CS**). Barclays (NYSE:**BCS**) is also feeling the heat from U.S. federal prosecutors after the British lender balked at paying the amount the government sought in negotiations. DB **+2.6%**; CS **-1%**; BCS **-1%** premarket (see news on Monte Paschi below).

And Monte Dei Paschi is being effectively nationalised...from Seeking Alpha a few days ago...

“**Today marks an important day** for Monte Dei Paschi, a day that sees it turn a corner and able to reassure its depositors,” said Prime Minister Paolo Gentiloni, as the Italian government approved a decree to rescue the embattled lender. As a result, trading in Monte Dei Paschi (**OTCPK:BMDPY**) shares, derivatives and bonds will be halted today, according to the Italian exchange.

Gold buying by Russia and China continues apace as prices fall (due to big bank manipulation of the markets)...

[http://seekingalpha.com/article/4032241-another-big-increase-russian-gold-reserves-november?source=email\\_macro\\_view\\_gol\\_pre\\_met\\_1\\_11&ifp=0](http://seekingalpha.com/article/4032241-another-big-increase-russian-gold-reserves-november?source=email_macro_view_gol_pre_met_1_11&ifp=0)

But also could Bitcoin be making inroads into gold's territory?

[http://seekingalpha.com/article/4032603-will-bitcoin-crash-gold?source=email\\_macro\\_view\\_gol\\_pre\\_met\\_2\\_7&ifp=0](http://seekingalpha.com/article/4032603-will-bitcoin-crash-gold?source=email_macro_view_gol_pre_met_2_7&ifp=0)

My bet is that resource depletion will beat technology to the punch so that our futures are weighted to the negative. However the Kurzweils of this world disagree. So let's hope....

<http://www.caseyresearch.com/articles/weekend-edition-how-to-directly-benefit-from-what-will-be-the-biggest-chang>

Sad to say but an oil price of USD100/bbl would really let the inflation genie out of the bottle...and more besides...

<http://oilprice.com/Energy/Oil-Prices/Oil-Price-Roulette-Investors-Bet-On-100-Oil.html>

And there are some folk approaching the New Year in a more optimistic frame of mind than I....

[http://seekingalpha.com/article/4032659-global-economic-crossroads?source=email\\_macro\\_view\\_eco\\_4\\_17&ifp=0](http://seekingalpha.com/article/4032659-global-economic-crossroads?source=email_macro_view_eco_4_17&ifp=0)

## **Energy**

It seems oil prices are on the rise as we get closer to the time when OPEC begins its 1.2 million bbls per day output cut. But anything can happen in 2017.

2017 will also be yet another year when we need to condition ourselves against something called “green-washing”. This is a process whereby folk try to present a sustainable process as being 100% pure nature when it is not. This article is reasonably typical of the “hopium”.

<http://qz.com/871907/2016-was-the-year-solar-panels-finally-became-cheaper-than-fossil-fuels-just-wait-for-2017/>

Solar power is definitely an energy source on which some people reckon we may rely on in the future. But just a couple of nit-picking comments.

1. This ignores the full cycle costs and EROEI.
2. The 9.5 Gw of capacity is 0.01% of electrical consumption, so at this rate it will be a very long time before uptake will be universal
3. It takes a lot of oil to make a solar panel. The oil price fell through the floor, so obviously PV costs dropped.
4. Intermittency remains an issue.

BTW this is a solar thermal power station in the photo not a PV one. But not a bad article by some measures IMHO.

There is no other example that is more hypocritical than the article below about the Las Vegas Council being 100% supplied by renewable energy. Las Vegas will soon run out of water and is totally reliant on fossil fuels for its existence. A city with no resources in the middle of a desert? Yet a Mayor’s “puff piece” suggests it can run 100% on renewable energy and perhaps also on suspension of reality? Perhaps you would like to try to critique this article for yourself? I know, it’s a bit like asking people to see how many differences there are between two otherwise identical pictures.

<http://www.businessinsider.com/las-vegas-just-became-the-largest-us-city-to-run-on-100-renewable-energy-2016-12?IR=T>

The link contains blatant BS...aka “marketing spin”. Environmentalists love this stuff but fortunately they don’t get to run countries. I wish I hadn’t clicked on the link!

The problem is that until we get a system for cheap and efficient electrical energy storage that is many times better than what we have, the concept of getting by without fossil fuels means we will be condemned to go back to the horse and cart, face the cessation of international travel and freight and the collapse of western society as we know it. So my year starts with a yearning for that mythological EESU.

Anyways, how is Europe getting on with its move away from fossil fuels?

<http://www.humanitystest.com/renewable-electricity-generation-in-western-europe-scandinavia-a-realistic-assessment/>

Back to the USA....

There is now more drilling in the shale's sweet spots but rig counts are still just a fraction of what they were...

[http://seekingalpha.com/article/4032583-weekly-u-s-oil-rig-count-shale-back-part-iii?source=email\\_macro\\_view\\_com\\_1\\_11&ifp=0](http://seekingalpha.com/article/4032583-weekly-u-s-oil-rig-count-shale-back-part-iii?source=email_macro_view_com_1_11&ifp=0)

The low global oil prices certainly led Russia and Saudi Arabia (and many more folks) to over-stimulating their wells. Have they caused damage to them?

<http://peakoil.com/production/reservoir-damages-may-stop-opec-from-cheating>

The market is preparing for higher oil prices...

[http://seekingalpha.com/article/4032628-weekly-oil-markets-recap-market-prepares-opec-cuts?source=email\\_macro\\_view\\_com\\_1\\_9&ifp=0](http://seekingalpha.com/article/4032628-weekly-oil-markets-recap-market-prepares-opec-cuts?source=email_macro_view_com_1_9&ifp=0)

Meanwhile, individual oil companies – even those that are in the low cost quartile of producers have been mauled by the price crash. They no longer look the same as they have been often forced to sell valuable acreage, deleverage at lightning speed and need to slowly rebuild. They will be lucky to get finance to take advantage of any possible return to higher oil prices...particularly how many investors got burned.

Penn West is a case in point. Many investors (including us) entered their share register at CAD15-20 per share and received 12-15% dividends. Those returns of pre 2011 are long gone and now they are rebuilding from around CAD2 per share...just thankful for the company's survival...Instead of producing the 100,000 bbls per day of old, they are now producing from what is left – the lowest cost 25,000 bbls per day. Rebuilding will be slow as investors hope for a return of the heady days of USD100/bbl oil...that would inevitably cause another crash. Why? The global economy cannot afford it.

[http://seekingalpha.com/article/4032677-penn-west-petroleum-reduces-breakeven-40-oil?source=email\\_alternative\\_energy\\_investing\\_oil\\_gas\\_dri\\_exp\\_3\\_8&ifp=0](http://seekingalpha.com/article/4032677-penn-west-petroleum-reduces-breakeven-40-oil?source=email_alternative_energy_investing_oil_gas_dri_exp_3_8&ifp=0)

Even many of the the state-owned oil companies like PVdSa and Pemex are in trouble...

“The Mexican Government had to extend a US\$4.4 billion lifeline to its ailing state owned oil company Pemex. According to CNN Money:

*‘...the state-owned oil company is under serious financial stress, forcing it to cut jobs and slash spending. Pemex lost nearly \$10 billion in the final three months of 2015 alone. ‘Pemex admitted it was facing a "liquidity problem" due to the "difficult situation of global low oil prices.’’*

The folks who worry about reducing fossil fuel emissions needn't worry for too much longer, as resource depletion and a failing global economy will more likely depress both demand and supply.

Next Christmas Santa, may even pension off his reindeer and make his sleigh electric...hopefully with an EESU and solar panels to power it ...

<http://oilprice.com/Energy/Energy-General/Could-Santas-Sleigh-Go-Electric.html>

As with 2016..... in 2017 our hopes and dreams will still be free.