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Better-Management Newsletter 5 January 2017

Forecasts for 2017 and beyond are really just biased guesses...but here are a few more:

1. The big picture...

Is geopolitical risk increasing?

<https://www.bloomberg.com/news/articles/2017-01-03/political-risk-spike-from-trump-to-china-seen-in-2017-by-eurasia>

But will the cold war of old continue to flare up or will Russia and USA settle their differences?

<http://thesovereigninvestor.com/investment-opportunities/russia-will-roar-2017/>

2. Larry Edelson isn't too sanguine about the short term economic future of either Italy or the EU...and I can't say I blame him...

<https://edelsonwave.com/real-wealth/commodities/special-report-italy-crack-hard-2017-banks-fail-country-leave-eu-euro-currency-83892?sc=LARRYm&ec=7326101>

Personally, I have never heard of banks with Monte Dei Paschi's liquidity problems and huge non-performing loans called anything but "insolvent". In the world today there are now so many illiquid and technically insolvent banks still trading (propped up by the illusion of central bank support) that the idea posed by Nicholas Puri that where Italian banking goes, there shortly after (I presume at electronic speed) goes the global financial system...

http://seekingalpha.com/article/4033365-understanding-italian-banking-crisis-new-lead-domino?source=email_macro_view_edipic_5_5&ifp=0

Then there is the poaching that has started almost after the Brexit vote and now being ramped up by Germany, France and Belgium to take away London's big banks...

<https://www.bloomberg.com/news/articles/2017-01-03/paris-eyes-luring-20-000-bankers-from-london-amid-brexite-rupture>

3. As we know, the Middle East is on fire. So how does history suggest this will play out? We can see the various proxy wars under way in Iraq, Afghanistan, Syria, Libya and Yemen. These countries started out with a couple of million people each after WW2 and then oil production went crazy. They became crazy rich, subsidised social services and energy supplies, then started to run low on oil production. The result was first the Arab Spring and then the proxy wars between Shia and Sunny Muslims. But by now they have bred like rabbits and tens of millions are affected. What is happening in Egypt does not bear thinking about with their almost 100 million population. In Saudi Arabia the breeding of more mouths to feed a faithful slaughter for Allah simply

goes on. There is no sign anyone has learned their lesson...so your guess for the future there is as good as anyone's...

<http://peakoil.com/publicpolicy/the-saudi-vision-and-population-growth>

4. Pivot to Asia? How is the migration of Indians and Chinese to the "West" working out?

NZ isn't the only country being inundated but it is the only one attracting people by offering to pay for the retirement of immigrants' parents. In Asia, the competition for jobs heats up and the workers are simply slaves on low wages...same in China, Vietnam, Singapore, Thailand or India...

<http://www.aljazeera.com/programmes/101east/2016/12/fleeing-south-korea-161228075711093.html>

The PRC is staunchly Communist and their news outlets and their global spy network have become extremely sophisticated, similar to the old CIA and KGB outfits. The media is all directly accountable to the central committee of the communist party.

China is being hit by a huge debt build-up at home and by a drain of foreign currency reserves. Can the PBOC really stop the private sector leaking the hundreds of billions of US dollars that are debilitating China and inflating foreign real estate markets? After all, they have tried before....

<https://www.bloomberg.com/news/articles/2017-01-03/china-drills-down-into-forex-transactions-as-money-exits-abroad>

5. The question of the scientific advances we have expected seems disputed – not only by me.

Ugo Bardi seems rather disillusioned with scientific progress. I suppose scientists like everyone else must sell their services and that leads to over-hyping (*Editor's note: this article ignores the many projects and highly-advanced developments that are understood to have been achieved in secretive projects such as the US Special Access Projects*)

<http://cassandralegacy.blogspot.co.nz/2016/12/the-next-ten-years-how-desperate-can-we.html>

But Ugo needs to realise that even relatively unimpressive innovation can empower major leaps forward when used in alternative applications.

6. Energy.

Why don't we hear what Exxon has to say about the future...biased as it may be...

<http://oilprice.com/Latest-Energy-News/World-News/Exxons-2040-Outlook-Fossil-Fuels-Arent-Going-Anywhere.html>

Today Tesla is being caned for missing its forecast Q4 vehicle production. However, it is only off by a small proportion, reflecting the fact that people either love or hate Elon

Musk. Meanwhile, today the gigafactory we have been hearing about is now producing batteries. I would like to say I am impressed by the milestone of large scale battery production...but when you see what each battery looks like, you may agree with me...

<http://www.reuters.com/article/us-tesla-gigafactory-idUSKBN14O1OK>

7. Socialism versus capitalism

In some places the socialist mantra is still being followed....dumb as this may seem, the world's socialists will be closely monitoring this experiment...from Seeking Alpha...

“Finland has started a radical experiment: It's giving 2,000 citizens a "universal basic income" of €560 a month, with funds that keep flowing whether participants work or not. The program is hoped to cut government red tape, reduce poverty and boost employment, and could be expanded to include all adult Finns if successful.”

Starting in the USA, the already technically insolvent (by normal accounting practice) TBTF banks are at it again. The cause of the GFC was their irresponsible actions in ripping off obscene profits then socialising their losses. They still want to go for broke. First they have delayed implementing the Dodd Frank rules. Now they want the Volcker Rule overturned. With another Goldman Sachs alumni about to become Trump's Treasury Secretary, that is likely to happen...with global consequences. They have the power to print money but also to take stupid risks (like pre GFC) with the world's reserve currency as their play thing...

<http://www.reuters.com/article/us-usa-banks-volcker-idUSKBN14O0EH>

8. Are we facing a global property price meltdown in 2017?

Property prices like all commodities are “set at the margins”. This was why I was so annoyed at John Key's deliberate disinformation about Chinese impacts on the NZ and Australian property prices. As a commodity trader, he knew, or should have known, that his remarks were at best disinformation and at worst outright lies. But then in 2016 the only opposition he had to that BS was from Winston Peters. So clearly Labour and the Greens just have bozos on the parliamentary benches. Teflon John certainly had the public conned.

So, what if Asian immigration drops...particularly of their older folk? A rule to change residency eligibility for super to 25 years from 10 years would have a huge impact.

Also....China is being hit by a huge debt build-up at home and by a drain of foreign currency reserves.

<https://www.bloomberg.com/news/articles/2017-01-04/china-said-to-consider-options-to-support-yuan-curb-outflows-ixid9ico>

But can the PBOC really stop the private sector leaking the hundreds of billions of US dollars that are debilitating China and inflating foreign real estate markets? After all, they have tried before....

<https://www.bloomberg.com/news/articles/2017-01-03/china-drills-down-into-forex-transactions-as-money-exits-abroad>

In some places (including Auckland) the Chinese are now less visible at property auctions. Whether London or Manhattan the prices are down...already.

<https://www.bloomberg.com/news/articles/2017-01-04/manhattan-home-prices-fall-as-sellers-concede-to-slowing-market>

Even the OECD secretariat is fearful of a global property downturn within the OECD happening during 2017...

<http://www.msn.com/en-nz/money/news/fears-of-a-massive-global-property-price-fall-amid-dangerous-conditions-and-market-slow-down/ar-BBxTi9o?li=BBqdg4K&ocid=EIE9HP>

Watch this space.