Black Swan Plc

People who say it cannot be done should not interrupt those who are doing it" George Bernard Shaw

BLACK SWAN NEW YEAR LETTER 2016

Uncertainty and Confusion

Smoke still drifts from the Address Hotel on New Years day



John C. Calhoun, the 19th century American politician and one time Vice President, once said: "*The interval between the decay of the old and the formation and establishment of the new constitutes a period of transition which must always necessarily be one of uncertainty, confusion, error, and wild and fierce fanaticism*."

We are currently in just such an era as we transition from the American/Western dominated world to the next. Last year I described China's various moves to seize control of the world economy and that process is continuing: exemplified during 2015 by the mad rush to join the Asian Infrastructure Investment Bank[1] in defiance of the USA. We are also seeing massive and dangerous political instability in the Middle East, which seems to be completely misunderstood by Western governments.

There is no sign of real recovery in the world economy. Growth is anemic everywhere. In my view the "growth" in the USA is primarily the bringing forward of demand by effectively zero interest rates. Why wait two years for that new Corvette when it costs you nothing to buy it now? Sure, the US raised rates by 25 basis points but this is negligible in the overall economy. The world stock markets are being led lower by China so it finally looks as though the correction is happening.

Here in Dubai the close of 2015 and the opening of 2016 has been marked by the destruction of the Address Downtown Hotel and by the execution of 47 people in the Kingdom of Saudi Arabia. Many of those 47 will not be missed but the execution of Sheikh Nimr al-Nimr, a Shia religious leader, has lead to the trashing of the Saudi embassy in Tehran and the cessation of diplomatic relations between the Kingdom and Iran. This further divides and destabilizes the region when, above all, we need unity to face Daesh.

The economic implications of the war with Daesh are global, this is not a short term or regional problem and this war is one of the critical factors for the world economy going forward. So I will start by trying to bring some clarity concerning the enemy we are facing.

The Regional and global threat of Daesh.

An Emirati friend of mine pointed me to a truly excellent article by Graeme Wood in Atlantic Monthly[2]. This should be required reading for every Western politician. Sadly they haven't read it or they would not be behaving the way they are.

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[1] AIIB website: http://www.aiib.org/

[2] "What ISIS Really Wants" http://www.theatlantic.com/magazine/archive/2015/03/what-isis-really-wants/384980/

What is Daesh?

Firstly, let me get clear that this is not IS or ISIS or ISIL: Daesh, as my Egyptian driver was at pains to point out, is a derogatory term and so we should use it. It is a loose acronym of al-Dawla al-Islamiya al-Iraq al-Sham (Arabic for Islamic State of Iraq and the Levant) but sounds like the Arabic words Daes ("one who crushes something underfoot") and Dahes ("one who sows discord"). Both of these latter phrases clearly describe Daesh.

But America and its allies do not get this. On September 10th, 2014 Barrack Obama said: ‘‘Now let's make two things clear: ISIL is not "Islamic." No religion condones the killing of innocents, and the vast majority of ISIL's victims have been Muslim. And ISIL is certainly not a state. It was formerly al Qaeda's affiliate in Iraq’’. Everything that Obama says is completely incorrect and demonstrates a total lack of comprehension of the enemy with which we are dealing. So let’s run through his view point by point.

Daesh *is* Islamic.

The fact that I, and my Muslim friends, disagree with Daesh’s interpretation of the Koran does not make it ‘‘wrong’’ and does not mean it is ‘‘not Islamic’’. I do not believe that the Pope is infallible when he speaks ex-cathedra from the Chair of St Peter or, that when he does so, he is in direct touch with God. A lot of Catholics *do* believe this and it is part of the Catholic faith. So, despite the obvious craziness, this does not mean that this particular piece of insanity is ‘‘not Catholic’’.

Daesh essentially wants to take the world back to a 7th Century interpretation of Islam with all that that implies: very like Pol Pot’s Year Zero in Cambodia in the late 1970’s. Now of course they are cynically picking and choosing their texts and also what they want to keep from the modern world: I very much doubt they will be giving up antibiotics or petroleum anytime soon.

Daesh’s interpretation of Islam *does* condone the killing of innocents.

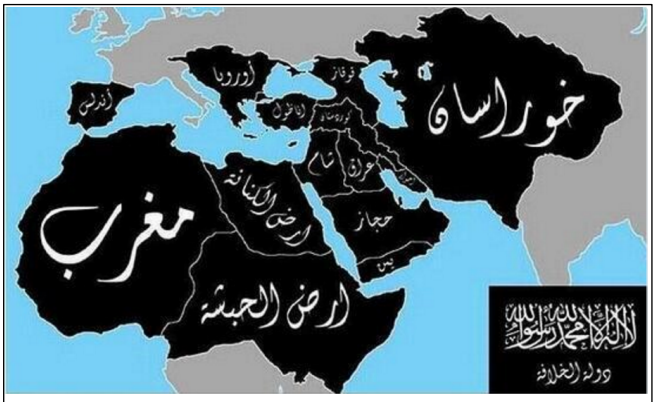
Let me make this crystal clear: Daesh is a Sunni faction. In their extreme version of the interpretation of the Koran and its many associated texts, they are allowed to kill all ‘‘apostates’’. Apostasy, for Islam, is defined as the conscious abandonment of Islam by a Muslim in word or through deed. It includes the act of converting to another religion, by a person who was born in a Muslim family or who had previously accepted Islam. In Daesh’s interpretation this includes all *Shia* Muslims because they do not subscribe to Daesh’s Sunni version of the world. So, very similar then to the burning of Protestants by Catholics and Catholics by Protestants that went on for a couple of hundred years. So Obama is right that Daesh has killed a lot of Muslims: this is because they have been executing their definition of apostates, which means the Shia first.

It is also worth noting here that the Christian bible talks about apostasy and also talks about putting to death unbelievers.[3] In particular there is the apostasy of one who has followed the Son of God but then returned to his pre-rescued ways.[4] So the madness is there across the board, it is just a matter of interpretation and implementation.

[3] 2 Chronicles 15:13
[4] Hebrews 10: 26-29

Daesh is a Caliphate

What about his statement that "ISIL is certainly not a state"? This again is completely incorrect. Daesh controls an area of land larger than Great Britain and has declared a Caliphate. This latter point is immensely important as only certain people (according to Daesh's interpretation of the Koran) can declare a Caliphate[5]. They also have big plans for expansion: the map below is taken from their website.



Coming to a Caliphate near you

Now it is important to understand that the Caliphate has a clear structure as a state. It has set out its laws and how they will be applied. It has issued its own currency. It provides healthcare. It has a weapons development program and it also has a global reach.

There is also the problem that once a Caliphate is declared it is the duty of all (Sunni) Muslims to support that state and, if at all possible, to go and live under its rule. Daesh has a well-organized recruitment structure but it is this duty to support a Caliphate that helps explain the ease with which it can recruit a disaffected youth from Birmingham or Berlin.

This also explains how seemingly random acts of terror can be undertaken in its name. Thus "believers" who wish to support the Caliphate can do this through an act of random killing(s) leaving a note to say it was all for Daesh. This is fundamentally different from the franchised, more secular operation which was/is al-Qaeda.

The Daesh Economy

It has been well reported that Daesh is pumping oil from captured wells and it has equally been reported that this is then transported by tanker. Less well reported, is that the purchasers of this oil are mainly Turkey and Israel. That's right: a NATO member country and the USA's favourite ally in the Middle East. This all makes the who-is-really-doing-what question a whole lot murkier. It was Russia that outed Turkey on this, not another NATO ally, although they must have known.

So is the oil enough to fund Daesh? Probably not. There have been allegations that Saudi Arabia is funding them and Vladimir Putin has stated via Russia Today that he has a list of 40 countries from which money is flowing to Daesh. We know that they were originally supported by the USA as opposition to Assad but I doubt that any mainstream state is foolish enough to be encouraging the growth of Daesh any longer, and I do not believe the allegations against the Kingdom.

However, given that it is the duty of Sunni Muslims to support a Caliphate, I am sure that Putin is correct that funds are flowing from around 40 countries. These will be coming from individuals rather than governments but I hope Putin will soon name the countries.

An end in sight?

Not really. It is pretty much impossible to protect a modern city against random acts of terror. One cannot screen everyone who boards a bus or subway, one cannot search everyone who enters a shopping mall or boards a train. The floods of refugees, as we know from Paris II, are a perfect cover

[5] A Caliph must be a Muslim adult male of Quraysh descent; this being the tribe of the Prophet Mohammed. He must be moral and pure and have "'amr" which means authority over people. This is generally taken to mean that the Caliphate must hold its own territory.

for Daesh sympathizers to enter the west, however given the structure of supporting the Caliphate described above, a more important point is that they are probably already there.

Sure, the opportunity will be taken to remove more of your freedoms, increase the surveillance state at every turn and tell you that it is for your own protection but this is a kind of Cameronisation[6] policy which will do little to reduce the chances of successful attacks. From the point of view of the world economy this will damage tourism and travel and areas, which rely on tourism, will suffer major unemployment and falls in property prices. If the rumours of new weapons technology (specifically the refurbishing of old missiles) are correct this will lead to a downward spiral of less travel and less business.

The whole nature of the religious war will also have an impact on world trade and this in turn will have a detrimental effect on the world economy pushing the non-existent recovery back into recession. This is very different from the issue the UK faced with the IRA where the City carried on with business as usual: Daesh can have a global impact and we ignore this at our peril.

A military solution?

There are several bombing campaigns underway at the moment. The Americans, as usual, have defined some groups as "Good terrorists" so try not to bomb them, the British squadron of Sopwith Camels will make no difference and the Russians are bombing everyone except Assad. All of this will do little except randomly kill civilians: no war has ever been won solely by dropping tons of ordinance on people.[7]

Also this bombing is limited to Syria and Iraq whereas Daesh is not. Local jihadist bands in Yemen, Saudi Arabia, Sinai (who claimed the downing of the Russian civilian jet), Gaza, Afghanistan, Pakistan, Libya, Algeria, the Philippines (where there is also a training camp), the Caucasus and several Central Asian Republics have sworn allegiance to the Caliphate and many now are considered by the Islamic State as provinces. In Nigeria Boko Haram has expressed support for Baghdadi as Caliph and has been accepted by Daesh as part of the Islamic State.

Accordingly the first action required from the "Allies" is to remove the land directly ruled by the Caliphate as without territory the Caliphate ceases to exist. However this will not be easy or quick and the outposts will remain. This is a struggle akin to the Hundred Years War and could last just as long.

More Macro Economic Doom: Paris and OPEC disagree

COP21 in Paris was heralded as a huge success with 195 countries agreeing, "to keep the world temperature rise well below 2 degrees Celsius". It is incredible at one level that nearly 200 countries could agree on anything but at another level it is profoundly disturbing as to what they have agreed.

In 2007 a hundred eminent international scientists wrote an open letter to the UN Secretary General warning, "It is not possible to stop climate change, a natural phenomenon that has affected humanity through the ages".[8]The thrust of theirs, and many others, arguments is that global warming and cooling are cyclical. We have for example the consistent cooling of the earth through the period 1940 to 1975.

However the arguments against climate change being solely man made do not mean that we should not switch to renewable energy and generally take better care of the planet, but what that 2007 letter

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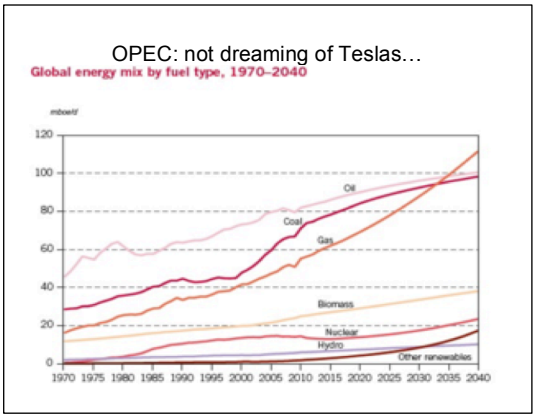
[6] Named for the futile British Prime Minister, David Cameron

[7] Certainly not WWII or Vietnam etc etc. Arguably Britain won the "uprising" in Iraq solely with bombing in 1920 but this was aimed specifically at civilians.

[8] Go here: http://alternativeenergy.procon.org/sourcefiles/UN_letter.pdf for the full text of the letter

argued was that we should not spend several trillion dollars solely on CO2 emissions because it will not actually have the expected effect. There is the further argument that since the Chinese and Indians have both on many occasions said they do not believe in the CO2th Fairy, they will simply falsify the data anyway.

But the hugely significant thing about COP21 is that, right or wrong, it is going to be implemented. Almost simultaneously with COP21, OPEC published their predictions for future energy consumption: incredibly, they do not think anything is going to change (see graphic)! This is a major issue as this document actually sets out OPEC's view of the future and is the set of assumptions on which they base their strategy. Assuming that they carry on regardless this will lead to an oil glut worldwide further depressing prices. This in turn will create major problems for the oil exporting economies, in particular Saudi Arabia. But even more significantly it will alter the whole strategic importance of the Middle East. As America moves towards self-sufficiency in oil they might well abandon the Middle East to its fate. Since they appear completely clueless about the politics of the region they might actually see this as a smart move. The outcome of the ensuing power vacuum, which will suck in Russia and China, is then anybody's guess but it will not be pleasant for the region or the world.



For what it is worth, pretty much nobody else agrees with OPEC's projections. Even the former Saudi oil minster, Sheikh Ahmed Zaki Yamani warned them "thirty years from now there will be a huge amount of oil and no buyers….the Stone Age came to an end, but not because we had a lack of stones".

The Implications

If the last few years have seemed like an uncertain period what we are facing will make us wish to be back in the global financial crisis. All the world markets look very toppy at the moment and the 7% collapse in China on the first day of trading of 2016 does not bode well for the rest of the year.



How politicians view voters

Currencies are a hard call as, despite the massive QE printing, the dollar has performed well against the other major currencies. It will probably still be the currency of choice to hold next year. There seem to be no rays of light in the commodities markets overall so this will be a time to watch for those markets to be oversold and buy.

We have two major votes ahead of us this year: the US Presidential Elections and (almost certainly) Britain's referendum on the EU. The Republicans may well nominate Trump but in the election he will sink, Barry Goldwater like, beneath the Democrat waves. Britain will vote to leave the EU. To everyone's surprise it won't make a lot of difference and actually to make the change could take many years.

All the best to all friends around the world for 2016 and the Year of the Red Fire Monkey,



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