MACRO ANALYTICS & TECHNICAL ANALYSIS

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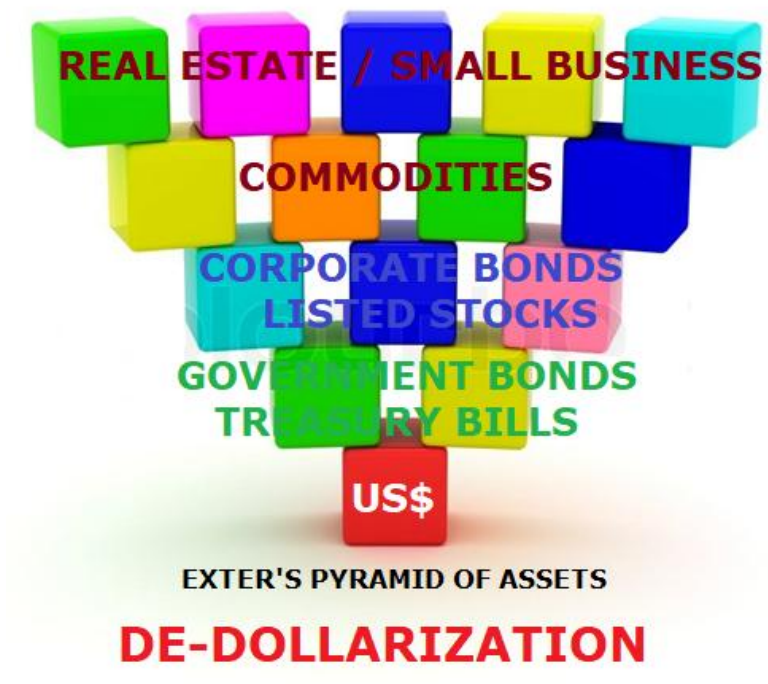
STRATEGIC INVESTMENT INSIGHTS



FULL REPORT

THESIS 2019 – GLOBAL DE-DOLLARIZATION
1/16/2019

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GLOBAL DE-DOLLARIZATION

The Inevitable End of US Dollar Domination

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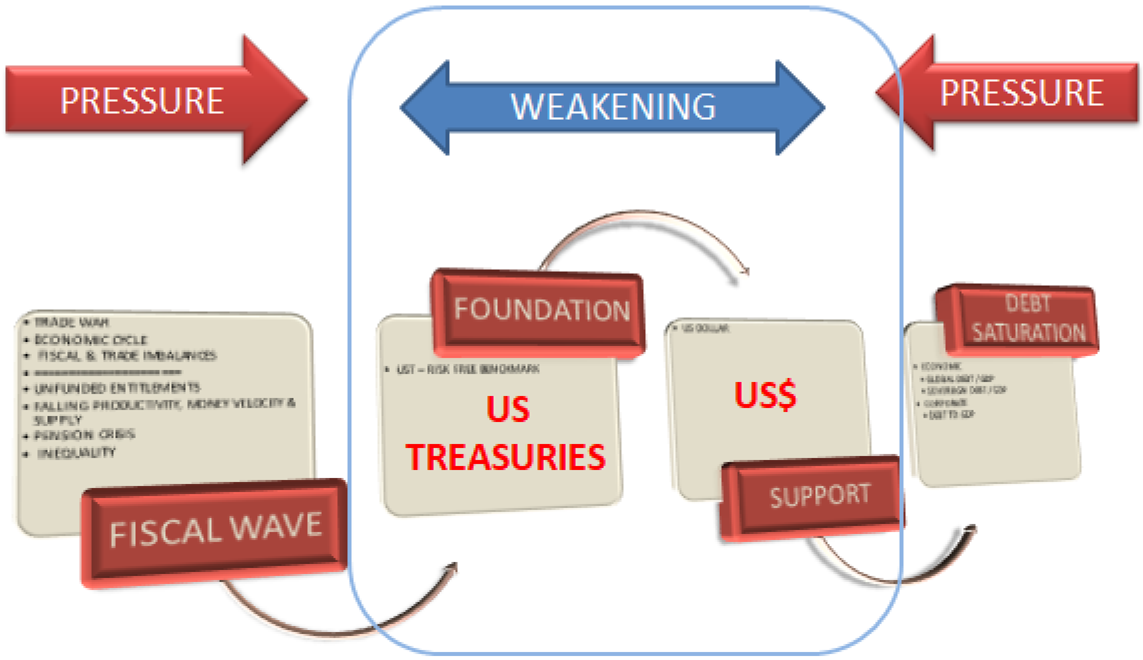
EXECUTIVE BRIEF

There is a massive Fiscal Tsunami on the horizon that over the next 5 years will wash up against the shores of equally massive problems associated with historic Global, Sovereign, Corporate & Household Debt Saturation. Unfortunately the entire global financial foundation has been built on the US Treasury being the measure of Global Risk as the "Risk Free" benchmark. What is even more troubling is that foundation is in-turn supported by the value of the US Dollar as the dominate Global Reserve Currency. De-Dollarization is the process which will soon devastatingly removing that support!



SITUATIONAL ANALYSIS

- In its quest for world domination, which the White House has been pursuing for more than a century, it has relied on two primary tools:
  - The US dollar and
  - Military might.
- Washington relies on the policy of deepening regional destabilization, which, according to the White House strategy, must lead to a considerable weakening of any potential US rivals.
- Petrodollars became the basis for America domination over the global financial system which resulted in countries being forced to buy dollars in order to get oil on the international market.
- The share of the United States in today's world gross domestic product shouldn't exceed 22%. However, 80% of international payments are made with US dollars

US SANCTIONS – WEAPONIZING THE US DOLLAR

- Convinced of an existential threat from competitors, America is weaponizing the dollar to preserve its global economic and geopolitical position.
- The real power of the dollar is its relationship with sanctions programs:

  - Legislation such as the International Emergency Economic Powers Act,
  - The Trading With the Enemy Act and
  - The Patriot Act

  … This allows Washington to weaponize payment flows.

  - The proposed Defending Elections From Threats by Establishing Redlines Act
  - Defending American Security From Kremlin Aggression Act

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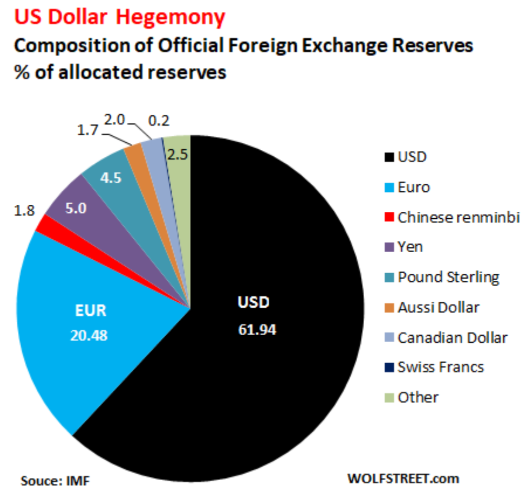
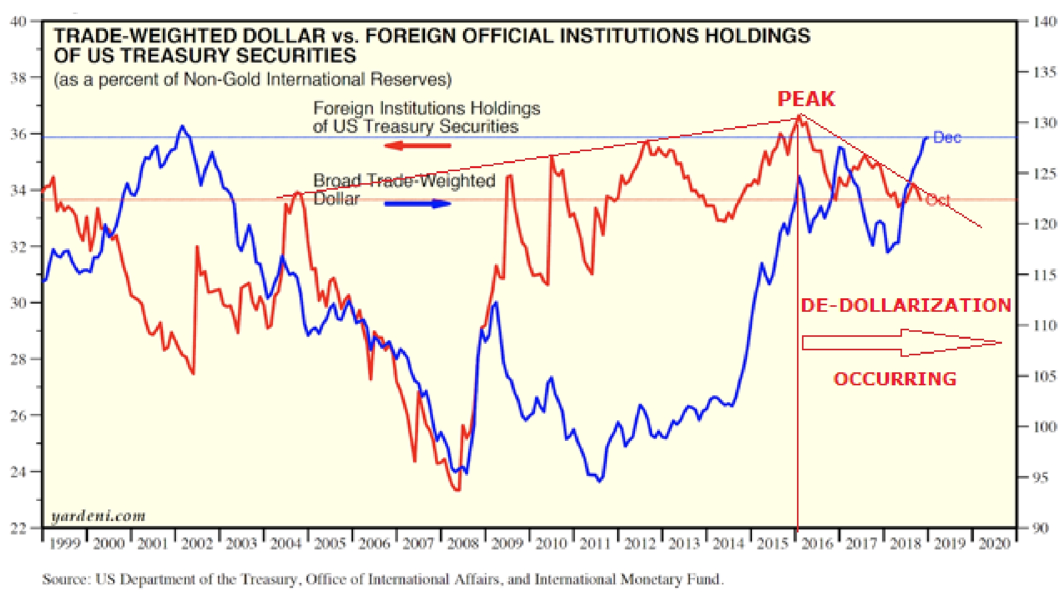
… This would extend that armory.

- When combined with access it gained to data from Swift, the Society for Worldwide Interbank Financial Telecommunication's global messaging system, the U.S. exerts unprecedented control over global economic activity.
- Sanctions target persons, entities, organizations, a regime or an entire country.
- Secondary curbs restrict foreign corporations, financial institutions and individuals from doing business with sanctioned entities.
- Any dollar payment flowing through a U.S. bank or the American payments system provides the necessary nexus for the U.S. to prosecute the offender or act against its American assets.
- This gives the nation extraterritorial reach over non-Americans trading with or financing a sanctioned party.
- The mere threat of prosecution can destabilize finances, trade and currency markets, effectively disrupting the activities of non-Americans.



GLOBAL REACTION – ACCELERATED DE-DOLLARIZATION

- The world increasingly does not want to rely on US dollars anymore.
- In order to prevent Washington from establishing complete global hegemony, certain countries have recently been revising their positions towards these two elements by:
  - Developing alternative military alliances and
  - By breaking with their dependence on the US dollar — De-Dollarization



The Foreign Benefits of De-Dollarization Are Primarily:

- Helps states weaken America's influence on their economies.
- Removes Sovereign finances from foreign dependence,
- Saves time and money by reducing the number of transaction steps in financial operations.

OUTCOME OF DE-DOLLARIZATION

- As De-Dollarization occurs, money will be returned to the US. This effectively begins to flood the US with dollars which drives up inflation. Inflation which the central bank can't stop by printing money nor by taking money out of circulation without a massive depression (deflationary effect of reduction of debt),
- There is also evidence that during the last credit crisis in 2008, the Russians were tempted to interfere with the Fed's rescue attempts, potentially crashing the whole US financial system. At that time, they failed to get the support of the Chinese. Now that Russia has disposed of most of its dollar investments in return for gold, and following an escalation of geopolitical conflicts, a new financial crisis may be regarded as an opportunity by America's enemies to emasculate America's financial and geopolitical power.
- In 2008, the yields on US Treasuries declined as investors sought safety from private sector investments. This time, foreigners selling dollars and USTs are likely to overwhelm domestic safety-seekers and drive bond yields higher. Critically, the US Government financing has become heavily dependent on foreign investment inflows continuing.

INVESTMENT STRATEGY

A CEO on how the company went broke:

"Slow at first, then all of a sudden"

STAGE I – 2019-2020

The following "slow moving glaciers" will lead to Stage II

- Trade Wars – Tariffs act as a US Consumption Tax,
- Unfunded Liabilities come due,
- Underfunded Pension come due,
- Contingent Liabilities in the $210T Fiscal Gap triggered,
- Falling Productivity reduces standards of living,
- Employment Income growth fails to support middle class and bottom 40% lifestyles in a 70% consumption economy,
- US faces its first Recession in over a decade with highly leveraged corporate debt levels.

STAGE II – 2020-2021

The following results of falling productivity because of 'consumption' versus investment of 'savings' will lead to Stage III

"A Steady Decline in Standards of Living"

- Tax Revenues shrink,
- Fiscal Expenses mount,
- US dollar begins to weaken with advancing "De-Dollarization" & US Credit downgrade,
- Price inflation becomes a concern,
- Economic Stagnation can't be fixed by Deficit stimulus,
- A Sudden & unexpected surge in sovereign debt is experienced,

STAGE III – 2022-2024

The US experiences "Hyper-Inflation" and a Crack-up Boom as the currency loses its "Exorbitant Privilege"

- US Dollar falls significantly as confidence is lost in the US economy & leadership,
- Price Inflation Surges as goods become more expensive,
- Yields rise rapidly,
- Government funding expenses soar,

STAGE IV – 2025

- US Dollar becomes part of a Global Reserve Currency "Basket"

KEY MESSAGES

The Key messages of this year's 2019 Thesis are as follows:

INTRODUCTION

The first thing we need to fully appreciate is what the benefits of a globally dominant US dollar are and consequentially what risks come with a shift towards De-Dollarization.

The Benefits of Dollar Dominance are:

1. The value of the US dollar becomes exceedingly high in comparison with other currencies,
2. Consumers in the United States receive imported goods at extremely low prices,
3. Provides the United States with significant financial profit,
4. High demand for dollars in the world allows the US government to refinance its debt at very low interest rates.

Additionally we need to come to grips with the reality that:

- In its quest for world domination, which the White House has been pursuing for more than a century, it has relied on two primary tools:
    - The US dollar and
    - Military might.
- In order to prevent Washington from establishing complete global hegemony, certain countries have recently been revising their positions towards these two elements by:
    - Developing alternative military alliances and
    - By breaking with their dependence on the US dollar.
- Petrodollars became the basis for America domination over the global financial system which resulted in countries being forced to buy dollars in order to get oil on the international market.
- The world does not want to rely on US dollars anymore. In these circumstances, Washington relies on the policy of deepening regional destabilization, which, according to the White House strategy, must lead to a considerable weakening of any potential US rivals.
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2- DRIVERS OF GLOBAL DE-DOLLARIZATION – *What Has Changed & Why?*

SANCTIONS

- It is surprising that the United States itself has, in recent years, commenced to push various countries to De-Dollarization by threatening their opponents with sanctions for conducting economic operations, in which, until recently, dollars were the primary currency.
- In August 2017, the United States passed the Countering America's Adversaries Through Sanctions Act.
    - The law also allows for secondary sanctions to be imposed against states and organizations working with countries that the US considers 'enemies'.
    - According to the law, the US may freeze their dollar accounts and transfers made outside American jurisdiction.
    - American companies are also prohibited from working with countries and organizations listed in deals with US enemies.

- Convinced of an existential threat from competitors, America is weaponizing the dollar to preserve its global economic and geopolitical position.
- The real power of the dollar is its relationship with sanctions programs.

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The mere threat of prosecution can destabilize finances, trade and currency markets, effectively disrupting the activities of non-Americans.

- Russian, Iran and Venezuela sanctions are driving them away from the US$,

- China is also openly promoting its currency for oil trade and all trade. The internationalization of the yuan is part of the New Silk Road initiative of President Xi and given China's level of oil consumption, oil trade is a big part of this internationalization,

- Russian oil exporters are pressuring Western commodity traders to pay for Russian crude in euros and not dollars as Washington prepares more sanctions for the 2014 annexation of Crimea by Moscow,

- Venezuela, for one, has bet on digital currency as a way of skirting Washington sanctions that have added to the pressure created by the 2014 oil price crash and years of PDVSA mismanagement—both factors which have plunged the Venezuelan economy into a possibly irrecoverable crisis,

- Iran banned purchase orders denominated in U.S. dollars and said that any merchant using dollars in their orders will not be allowed to conduct the import trade. Tehran also announced that it will publish all its official financial reports in euros instead of dollars in a bid to encourage a switch to euros from dollars among state agencies and businesses,

REDUCED EXPORT TRADE

- The kingpin role of US policy and the dollar in world finance is an issue, and the US economy, over [the last] 30 years, has gone to less than 20 percent of world GDP, and yet the dollar is seemingly playing this dramatic role,"
- "We live in this very peculiar situation where the role of the dollar in global finance is just idiotically more important than the US economy.
- America's share in the global economy has been dramatically falling since the Second World War
- The US share of global GDP now stands at 18 percent, a significant slide from the 30 percent seen after World War II.
- The Chinese economy has quadrupled to 16 percent, while emerging markets like the BRICS countries (Brazil, Russia, India, China, South Africa) and others account for 60 percent of global GDP.
- The dollar is predominantly used by some 60 percent of countries, accounting for 70 percent of global GDP because of the Bretton-Woods system.
- The Chinese yuan has become more widely used, but still accounts for just 1.84 percent of global reserve currencies, while the US dollar reserves still have a vast 62.25-percent share, although this is its lowest level since 2013.

NON US$ BI-LATERAL TRADE

- Bi-Lateral Trade Agreements are aggressively being made between members of the Eurasian Coalition: Turkey, India, Qatar, Pakistan, Lebanon, Syria, Libya, Egypt, Philippines and more
- Presently 9% of payments for supplies from Russia to China were made in rubles; while Russian companies paid 15% of Chinese imports in yuan.
- While the numbers seem modest, consider that just three years ago, the numbers were 2% and 9% percent, respectively.

ABUSED RESERVE CURRENCY "EXORBINATE PRIVELGE"

- The Trump administration seems to have accidentally stumbled upon a means to weaponize America's "exorbitant privilege."
- In times of global economic turbulence, exorbitant privilege means that safe-haven flows benefit U.S. financial conditions, especially the "risk-free" U.S. treasury market.
- If such flows are combined with glacial increases in short-term interest rates by the Federal Reserve and substantial fiscal expansion by the U.S. government, global turmoil can actually allow the U.S. to economically outperform the rest of the world.
- The role of the US dollar in the global economy has created a paradoxical arrangement: whenever risks in the global economy rise, capital flows to the United States, and the USD appreciates. This is even the case when economic turmoil emanates from the United States itself.
- since the USD is the world's dominant reserve currency, when things go wrong, everyone flees into the safety of U.S. assets, and especially U.S. treasury securities, which are traded in the most liquid market on the globe and seen as the least risky asset class.
- The United States benefits from greater macro-economic stability, since the risk of a currency crisis does not exist – the United States owes all its debts in its own currency, so all it needs to do is print more dollars. This can help smooth out the boom-bust cycles of capitalism. When things go wrong anywhere in the world, everyone flees to the USD, giving the Federal Reserve greater leeway to stimulate the economy.
- No one accuses the Fed of maliciously creating the housing bubble to gain more power. At the end of the day, U.S. policy-makers have never deliberately engineered economic havoc for the purpose of creating safe-haven flows that lower U.S. interest rates, especially long-term rates.
- We might be entering a new era.

SHRINKING PETRO$ REQUIREMENT

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- The reason the dollar plays such an important role in the world economy is due to the following three major factors:

    - The Petrodollar,
    - The Dollar as World Reserve Currency,
    - Nixon's decision in 1971 to no longer make the dollar convertible into gold.

- As is easy to guess, the petrodollar strongly influenced the composition of the SDR basket, making the dollar the world reserve currency, spelling grave implications for the global economy due to Nixon's decision to eliminate the dollar's convertibility into gold.
- Until a few decades ago, any idea of straying away from the petrodollar was seen as a direct threat to American global hegemony, requiring of a military response.
- In recent years, it has become clear to many nations opposing Washington that the only way to adequately contain the fallout from the collapsing US empire is to progressively abandon the dollar.

CHANGING CURRENCY RESERVE BALANCES

- The US dollar's days as the dominant global reserve currency are numbered,
- Widening US deficits will soon alienate foreign buyers of US Treasurys, sending yields soaring higher while causing the dollar to depreciate by as much as 30% ***(though at least the Fed would no longer have any trouble meeting its inflation target),***
- The loss of the dollar's reserve status would be America's "worst nightmare.",
- "The role of the U.S. dollar will diminish, and the returns on U.S. dollar-denominated debt will suffer," --- "Then I think you will see the emergence of other currencies,"
- the entire world is "leveraged long", and that asset returns in the coming years would be middling to negative for the foreseeable future,
- "When you're at a zero interest rate in the US, a zero interest rate in Europe and a zero interest rate in Japan, I think we've squeezed out a lot of assets.
- I think the world by and large is leveraged long. Meaning the buying of debt - corporate debt.
- One of the biggest sources of returns on assets was the fact that the interest rate was low relative to the return on equity. There were a lot of buybacks and mergers and acquisitions by companies buying companies. Then you had corporate tax cuts... all of those things have pushed asset prices to the level where it's difficult to see if you could squeeze more."
- Total global foreign exchange reserves, in all currencies, came in at $11.4 trillion in the third quarter,
- The amount of USD-denominated exchange reserves was $6.63 trillion. This amounted to 61.9% of total foreign exchanges reserves held by central banks, the lowest since 2013
- The combined share of the dollar and the euro, at 82.4%, leaves only 17.6% for all other currencies combined.
    - The two currencies with the largest share in that group are the Japanese yen, at 5.0%, and the UK pound sterling, at 4.5%.
- In Q3, the euro's share rose to 20.5%, the highest since Q4 2014. The creation of the euro was an effort to reduce the dollar's hegemony. At the time, the theme was that the euro would reach "parity" with the dollar.
    - The euro Debt Crisis ended that dream.
- On October 1, 2016, the IMF added the Chinese renminbi to its currency basket, the Special Drawing Rights (SDR). This elevated it to a global reserve currency.
    - The RMB's share, after jumping nearly half a percentage point to 1.84% in Q2, has now inched down to 1.80% in Q3.
    - Given the size and globalized nature of China's economy, Central banks remain less than enthusiastic about holding RMB-denominated assets:
- The fact that the dollar is still the top reserve currency and top international funding currency allows for its trade deficits to be financed easily, and this has made those trade deficits possible over the past two decades.
- There is no telling for how long this can continue without causing some sort of never-before-seen financial mess.
- Total allocated reserves increased to $10.71 trillion in the third quarter from $10.51 trillion in the previous quarter

- Central banks appear to further diversify their reserves away from the greenback

CHANGE

- US$: The U.S. dollar's share of currency reserves reported to the International Monetary Fund fell in the third quarter to a near five-year low,
    - Reserves held in U.S. dollars rose to $6.63 trillion, or 61.94 percent of allocated reserves, in the third quarter, from $6.56 trillion, or 62.4 percent, in the second quarter.
    - The share of allocated U.S. dollar reserves declined to its smallest since the 61.27 percent in the fourth quarter of 2013
- EURO: The euro's share of reserves grew to its largest in almost four years,
    - The euro's share of global reserves climbed to 20.48 percent, its biggest since the fourth quarter of 2014. It was 20.25 percent in the quarter before.
- YEN: Reserves held in Japanese yen reached a 16-year peak in the third quarter
    - The yen's share of allocated reserves expanded to 4.98 percent, its largest since the third quarter of 2002. The Japanese currency's share of reserves was 4.86 percent in the second quarter.
- YUAN: The Chinese yuan's share of allocated reserves shrank for the first time in the third quarter since the IMF began reporting its share of central bank holdings in the fourth quarter of 2016.
    - The share of allocated currency reserves held in yuan, also known as renminbi, slipped to 1.80 percent in the third quarter from 1.84 percent in the prior quarter.

EMERGENCE & RISE OF EURO & YUAN CURRENCIES

EURO

- The Euro is the 'single currency' of the European Monetary Union, adopted on January 1, 1999 by 11 Member States. Greece became the 12th Member state to adopt the Euro on January 1, 2001. On January 1, 2002, these 12 countries officially introduced the Euro banknotes and coins as legal tender.
- In just over 15 years the Euro has become a standard global currency thus taking away from US Dollar Dominance.

YUAN

- When used in English in the context of the modern foreign exchange market, the Chinese yuan (CNY) refers to the renminbi (RMB), which is the official currency used in mainland China.
- Chinese yuan officially became a world reserve currency on November 30, 2015. It represents 10.92% of the IMF's Special Drawing Rights currency basket.
- This makes Chinese yuan the third reserve currency after the US dollar and Euro.
- In just over 15 years since becoming part of the WTO, the Chinese currency has become a world reserve currency thus taking away from US Dollar Dominance.

3- COUNTRY ACTIONS

CHANGING SENTIMENT TOWARDS THE US

- The dumping of the dollar is a process that is clearly underway. There has been a steady uptick in the number of countries dumping significant portions of their dollar holdings as a result of them having been targets of American sanctions and financial bullying in the "post 9/11 world,
- The United States maintains sanctions on all of its target nations such as Iran, Syria, North Korea, Russia, and others. But the US also threatens its "allies" with sanctions if they dare act rationally on the world stage or refuse to follow American dictates,
- Countries like Russia feel they can no longer trust the US dollar-dominated financial system since America is imposing unilateral sanctions and violates World Trade Organization (WTO) rules. They feel the dollar monopoly is unsafe and dangerous for the global economy.

THE DRIVING FORCE

- Aggressive Americans sanctions and financial bullying over the past few decades,
- Countries tired of being victims of the empire,
- Those who dare act rationally on the world stage or refuse to follow American dictates,
- Those who desire a "multi-polar" world,
- Those seeking to expand their own empires,
- Those who smell blood is wafting through the air.

THE RESULT

- Major countries (China, Russia, Turkey, Iran) are Liquidating their US Treasuries, one of the world's most actively-traded financial assets, has recently become a trend among major holders.
- Increasingly transacting trade in non US Dollar Currencies,
- Finding alternatives to the US "SWIFT" system,

IMPACT TO INVESTORS

- Interest rates will most assuredly go up,
- The potential for widespread inflation and devaluing of the currency

EXPECTED AMERICAN REACTION

The United States has used its status as a method of financing itself into maintained prosperity, the loss of that status would remove that privilege. Instead, the United States would be forced to either:

1. Knuckle under to the dictates of the financiers that will have the country on its knees or
2. Do what it should have done all along – nationalize the Federal Reserve and begin issuing credit stimulus and imposing across-the-board tariffs on imports.

A MULTI-POLAR WORLD

- The US economic system, partially as a result of becoming an empire with all its requisite destabilizations and wars, mostly a result of Free Trade, and partially a result of private central banking among a host of other factors, has been sacrificed on the altar of globalism.
- Aggressive behavior on the financial, political, and military fronts has thus created a world seething with anger and hatred at the United States, who is now willing and able to begin weakening the dollar dominance in hopes for the creation of a new "multipolar" world out of the ashes of the old "American" one.
- There are no signs that anyone in the American government is either prepared to defend against the dollar collapse or to prevent it. In fact, all signs point to the possibility that such a collapse is desired by the Anglo-financier community.

4- KEY DEVELOPMENTS

ENERGY TRADING

- It is now ten months since China launched its oil futures contract, denominated in yuan (renminbi), on the Shanghai International Energy Exchange.
  - China's futures contracts have established themselves and have overtaken in volume terms the dollar-denominated oil futures traded in Singapore and Dubai.
  - These results suggest that China's oil futures could bring the renminbi to the core of global commodity markets,
  - The launch of the oil futures contract can be anticipated to widen the scope for renminbi-denominated commodity trading,
  - This can be anticipated to strengthen Chinese capital markets and promote the renminbi's internationalization – or at least the progressive de-dollarization of the oil market.
- Possible further development of renminbi-based trade in other commodity markets, suggests that the US dollar could face an unprecedented challenge to its hegemony.
  - It may in the near future no longer be seen as the anchor of the international monetary system,
  - Bringing to an end to what Valéry Giscard d'Estaing famously called the "exorbitant privilege" enjoyed by the US as a result of the dollar's centrality in international trade.

If China's ultimate goals include internationalizing the renminbi, its more immediate objective, prompted in part by US tariffs or sanctions on China and other countries, is de-dollarization of the international system. This is reflected in the shift to promoting an oil futures contract traded in Shanghai, which represents a decisive break with China's SDR-focused strategy.

CRYPTOCURRENCIES

- Venezuela will present its state-backed cryptocurrency Petro as a unit of account for crude oil trading to the Organization of the Petroleum Exporting Countries (OPEC) in 2019,

- Petro will be offered as a unit of account for global crude oil trading, noting that all Venezuelan oil will be traded for Petro,

- Venezuela officially launched the sale of its widely discussed oil-backed cryptocurrency at the end of October,

- The country's leader announced the national coin, Petro can now be purchased directly from its official website or from six local crypto exchanges authorized by the government,

- Maduro appealed to the county's citizens in October, asking them to invest in gold and Petro while the national currency, the sovereign bolivar, is facing hyperinflation,

- The country's president also stated that Petro would be used for international commercial transactions starting in October 2018. Moreover, Venezuela announced that the currency would be used as a unit of account within the country, making salaries and pricing systems tied to Petro,
- The PDVSA, which reportedly backs Petro, had $45 billion in debt and showed no signs of any trading activity. This might mean the currency is only a "smoke curtain" to conceal Maduro's recent failure to reanimate the national fiat currency.

SWIFT SYSTEM

- The U.S. doesn't only project power across the globe through its massive military. It also weaponizes the U.S. dollar, using its economic dominance as both a carrot and a stick.
- The U.S. government approach:
  - FRIENDS: Showers billions of dollars in foreign aid to "friends."
  - ENEMIES: Enemies can find themselves locked out of the global financial system that the U.S. effectively controls using the dollar.

  The U.S. has used the system as a stick before.

  - In 2014 and 2015, it blocked several Russian banks from SWIFT as relations between the two countries deteriorated.
  - More recently, the US threatened to lock China out of the dollar system if it failed to follow U.N. sanctions on North Korea. Treasury Secretary Steven Mnuchin threatened this economic nuclear option during a conference broadcast on CNBC.

5- INTERNATIONAL MONETARY FUND – *IMF & SDR's*

- The BRICS are considering an internal gold trading platform,
- The level of trust between BRICS countries can help them establish intra-group gold trading, which would be 100 percent physically backed.
- The BRICS initiative is just part of a geopolitical tectonic shift which started decades ago.
  - We have seen a constant outflow of physical gold from the West to the East.
  - At the same time, the West has lost the economic war, and as a consequence, the focus now turns to the financial system.
  - China dominates the world economy and has displaced the US as the world's most formidable economic powerhouse,"
- Beijing and Moscow understand that America used the dollar to control the world.
  - Implementing a new kind of 'Gold standard 2.0' is a way to distance themselves from this control.
  - The vast majority of the people in Asia sees gold as superior, or 'real' money, something the West has forgotten, because of all the paper wealth (credit) they have accumulated,"
- "In combination with the following, China is setting up an alternative to the post-Bretton Woods establishment
  - The announcement of pricing oil in yuan,
  - Using a gold-backed futures contract in Shanghai,
  - The establishment of the Asian Infrastructure Investment Bank and
  - The New Development Bank,

A BLATANT SCAM - *It will all end once the BRICS have accumulated sufficient Quantities of Gold*

- According to London gold clearing statistics for 2016, the total trading volume in the London Over-the-Counter (OTC) gold market is estimated at the equivalent of 1.5 million tons of gold.
- The volume of 100 oz gold futures on New York's COMEX reached 57.5 million contracts during 2016 or 179,000 tonnes of gold, the analyst notes.
- "If we now take into consideration that only approximately 180,000 tons of gold have actually been mined up to today the scam is just gigantic and obviously unsustainable.
- The paper scams in London and New York will either blow up when the paper price of gold drops to zero or when just a fraction of investors insists upon receiving physical gold in return,"

In their own words, ***a "radically reformed' SDR could 'conceivably serve as a global currency'"***

A FALSE RECOVERY

- The post 2008 'recovery' was nurtured by central banks.
- Central bank intervention has coincided with the increased accumulation of debt in both major and emerging economies
- The challenge for central banks is to meet their inflation target

REQUIRED STRUCTURAL REFORMS IN PARALLEL TO "NORMALIZATION"

- Governments must quickly implement 'growth-friendly structural reforms' as monetary policy is 'normalized'
- The latter bullet point refers to Basel III,
    - the regulatory reforms that were devised through the BIS in response to the financial crisis triggered in 2008.
    - The BIS have been pushing the line in recent communications that without these reforms being fully implemented by national administrations, the financial system will remain vulnerable to a renewed downturn.
    - Full adoption of the reforms is not due to occur until 2022.

LOOMING & TO BE EXPECTED LIQUIDITY PROBLEM

- 'Asset purchase programs may have contributed to liquidity illusion', which may prompt investors to pull money out of 'riskier bonds' and back into government bonds instead.
- There is a clear indication that as the Fed withdraws liquidity, it will serve to intensity volatility in markets.
- Central banks did after all "help nurture the recovery'. They did more than nurture it. They backstopped the entire financial system and managed to cultivate the narrative of a "recovery". The truth is there never was a recovery, only the false impression of one.

NO "CRISIS RESOLUTION" EFFORTS

- There is no focus on crisis resolution, possibly because a perpetual state of conflict and chaos is more advantageous to the BIS and the IMF when it comes to the goal of consolidating power.

A GROWING REQUIREMENT OF THE IMF'S SDR

- The IMF may not have enough resources to manage a future financial crisis
- A symbiosis between the BIS and the International Monetary Fund exists where 'crisis management' and building a 'strong safety net' is required in the event of future turbulence.
- Reserves of money are required to be held at the international level, where there is a 'strong need for the global safety net meant to be provided by the IMF, on top of national and regional arrangements.'
- "We need an effective lender of last resort with global reach".
- There has been limited progress in scaling up the IMF's core resources. Without this, the global safety net remains incomplete.
- The IMF's lending capacity was increased during the global financial crisis to about one trillion dollars – a forceful response from the membership at a time of dire need.
- One lesson from that crisis was that the IMF went into it under-resourced; we should try to avoid that next time.
- Leaders are calling for a 'continued commitment to strengthen the safety net, with a strong and adequately financed IMF at its center'. This refers to the renewal of quotas
- As 2018 comes to a end, the prospect of reforming the SDR is prominent in the minds of central bankers. Given that quotas are coming up for renewal, the avenue is gradually being created for the IMF to use geopolitical events – namely the scapegoats of nationalism and populism – as a cover for attempting to move the financial system closer to the implementation of a global currency.

6- THE GLOBAL OUTOOK GROWTH

POSITIONING DE-DOLLARIZATION

- Never forget Money is borrowed into existence.
- Money is debt - You can nor pay down debt without getting rid of Money
- The Developed nations are Consuming More than they Produce versus Producing More than they Consume,
- There is no Savings today. Savings which is invested into Productive Assets. Prodictive Assets which raises the standard of living,
- Today we have credit (or debt) which is spent on consumption. Consumption is not a Productive Asset that raises the standard of living over the long run. In the short run it may appear to raise standards of living but that is an illusion (even to the borrower),
- The clear evidence of this is that Productivity in the US and Velocity of Money have been steadily falling since the 2008 Financial Crisis when Central Banks were forced to accelerate Financial Repression and implement policies of Quantitative Easing (US), CSPP (ECB), QQE (Japan) and historic credit growth (China).
- When central banks expand the quantity of money early in the credit cycle, they always store up trouble for later. The inevitable credit crisis eventually occurs and it will be in proportion to the earlier stimulation. Since 2008, globally that has been unprecedentedly large. To this we must add earlier credit distortions that were not expunged by the last credit crisis, and even the one before that.

OUTCOME OF DE-DOLLARIZATION

- As De-Dollarization occurs, money will be returned to the US. This effectively begins to flood the US with dollars which drives up inflation. Inflation which the central bank can't stop by printing money nor by taking money out of circulation without a massive depression (deflationary effect of reduction of debt),
- There is also evidence that during the last credit crisis in 2008, the Russians were tempted to interfere with the Fed's rescue attempts, potentially crashing the whole US financial system. At that time, they failed to get the support of the Chinese. Now that Russia has disposed of most of its dollar investments in return for gold, and following an escalation of geopolitical conflicts, a new financial crisis may be regarded as an opportunity by America's enemies to emasculate America's financial and geopolitical power.
- In 2008, the yields on US Treasuries declined as investors sought safety from private sector investments. This time, foreigners selling dollars and USTs are likely to overwhelm domestic safety-seekers and drive bond yields higher. Critically, the US Government financing has become heavily dependent on foreign investment inflows continuing.

  CENTRAL PROBLEM

  - An Overvalued dollar;
  - Over-owned by foreigners;
  - Puffed up on speculative flows;
  - Driven by interest rate differentials.
  - The problem is compounded because the next crisis is likely to be triggered by a required normalization.
  - These problems must be urgently corrected by the European Central Bank and the Bank of Japan if the distortion is to be prevented from becoming much worse.
  - Disparity in bond yields, particularly at the short end of the yield curve:
    - Two-year US Treasuries yield are 2.74%,
    - Two-year German Bund yields are minus 0.55%.
    - Two-year JGBs are minus 0.12%
    - All are also out of whack with USTs. You do not get disparities like this at the short end of the yield curve without moving massive quantities of short-term money.

When flows into the dollar subside and reverse, bond yields can be expected to rise sharply in all the major currencies.

- There will also be a number of other unhelpful factors, particularly rising commodity prices, the timing of the Trump stimulus and trade tariffs pushing up price inflation.
- Coupled with a declining dollar, price inflation and therefore interest rates are bound to rise significantly.

- Obviously, investors are not ignoring currency risk. It is possible to use out-of-the-money currency derivatives to cap the risk, and indeed, that's one reason why **OTC foreign currency derivatives stood at over $87 trillion in the second half of last year.**
- Due to legislative changes that were made after the 2008 Financial Crisis it is now more difficult to execute as it was in 2008, such as the confusing bank bail-in provisions we now have.
- Annual U.S. productivity gains have slipped from an average of 2.3% during the seven decades starting in Q4 1948 to just 1.1% in the decade following the start of the 2007 financial crisis.

WHY IS US PRODUCTIVITY COLLAPSING?

- MAL-INVESTMENT: The U.S. Federal Reserve's low interest rate policies have made it more profitable for businesses to buy back stock than reinvest in technology.
  - Bail-outs of large U.S. banks, automotive companies and other key sectors have stifled private sector innovation for a generation.
- BUREAUCRACIES:
  - Increased government borrowing has enabled vast, inefficient bureaucracies at the U.S. federal, state and local levels to avoid reform.
  - The productivity drain stemming from bloated state, local and federal government spending, which now accounts for more than 60% of U.S. GDP is significant,
- ENTITLEMENTS:
  - America's seniors are draining productive resources from the economy by collecting pensions and healthcare benefits they never fully funded.
  - The growing drag on potential growth stemming from the increasing resources transferred to the more than 100 million working age Americans who are unemployed, out of the labor force or in jail.
- INEFFICIENCIES: Inefficiencies are startling:
  - U.S. governments routinely transfer massive subsidies to the big banks.
  - The Department of Defense can't account for trillions of dollars of missing funds.
  - Ongoing regressive U.S. Federal Reserve interest rate policies transfer huge wealth to the top 10% of income earners.

WHAT HIDES IT -- ***UNRELIABLE ACCOUNTING***

- America's free-fall in productivity is likely even worse than the estimates
- BEA data don't account for the massive debt and unfunded liability increases needed to juice up existing economic growth.
- If those effects—which suggest that U.S. GDP is as much as 30% smaller than experts claim—are included, they could herald a coming slow-motion, Soviet Union-style collapse in the American economy.
- The BLS calculations rely on the flawed GDP totals produced by the Bureau of Economic Analysis. As John Williams of ShadowStats notes, the results are likely overestimated, because the deflator the BEA uses does not fully account for the loss in purchasing power in the U.S. dollar—the unit of measure used in its calculations.
- The U.S. economy is no bigger than it was two decades ago. Yet America's population has shot up by 15% since then. This suggests the country's per capita productivity has fallen by 0.75 percentage points per year on a straight-line basis since then.

INTRODUCTION

The first thing we need to fully appreciate is what the benefits of a globally dominant US dollar are and consequentially what risks come with a shift towards De-Dollarization.

The Benefits of Dollar Dominance are:

5. The value of the US dollar becomes exceedingly high in comparison with other currencies,
6. Consumers in the United States receive imported goods at extremely low prices,
7. Provides the United States with significant financial profit,
8. High demand for dollars in the world allows the US government to refinance its debt at very low interest rates.

Additionally we need to come to grips with the reality that:

- In its quest for world domination, which the White House has been pursuing for more than a century, it has relied on two primary tools:
  - The US dollar and
  - Military might.
- In order to prevent Washington from establishing complete global hegemony, certain countries have recently been revising their positions towards these two elements by:
  - Developing alternative military alliances and
  - By breaking with their dependence on the US dollar.
- Petrodollars became the basis for America domination over the global financial system which resulted in countries being forced to buy dollars in order to get oil on the international market.
- The world does not want to rely on US dollars anymore. In these circumstances, Washington relies on the policy of deepening regional destabilization, which, according to the White House strategy, must lead to a considerable weakening of any potential US rivals.
- The share of the United States in today's world gross domestic product shouldn't exceed 22%. However, 80% of international payments are made with US dollars

The Foreign Benefits of De-Dollarization Are Primarily:

- Helps states weaken America's influence on their economies.
- Removes Sovereign finances from foreign dependence,
- Saves time and money by reducing the number of transaction steps in financial operations.

In this year Thesis 2019 we hope to answer the following questions:

- How did the American dollar obtain its coveted Global Currency Reserve position?

- What explains the global dominance of a currency?
- What threats does the American dollar now face?
- From where will forces dethroning the American dollar from its lofty position come?

A currency's health is linked to that of its issuer – large, rich and growing countries help. Having a sovereign that is powerful – both economically and militarily – and stable, have also been historical determinants. Finally, deep capital markets that enable high liquidity are favored by market participants.

Conventional wisdom states that incumbency to the position, as in politics, aids in its retention. History shows that while this incumbency is important, it is surmountable. Britain dominated the two linguae francae of the economic world – language and money – from the 19th Century until World War I. By the end of World War II one's fate was sealed as sterling was relegated to the second division of currencies.

Does the American dollar face the same fate? Many scholars think not, at least not eminently. The dollar and the American economy may have problems, but so do their rivals.

THE PRETENDERS:

> <u>THE EURO</u>: The euro is a currency without a state, giving uncertainty about whether or to what extent it will exist in the future.
> <u>THE RENMINBI</u>: The Chinese renminbi is strong (in part because of its backing by US dollars), but exists in an economy of insufficient size to give depth to the capital markets necessary to enable sufficient liquidity.
> <u>IMF'S SDRS</u>: International Monetary Fund special drawing rights (SDRs) are often put forward as an alternative, but they aren't money – one can denominate a price in an SDR (as it is just a composite basket of currencies, dominated by US dollars), but one cannot settle a debt by using such means.

Only the US dollar has all the components necessary to be the global currency, at least for the time being.

A more likely scenario than a wholesale abandonment of the dollar is that its role will be diminished as international competitors gain strength. Our preferred scenario is that the future will hold a world with multiple international currencies, with no sudden shifts in the status quo but rather a gradual erosion of the dollar's dominance over time. This erosion will stem from domestic economic and financial mismanagement, not any external action by Chinese, or European powers that be.

BACKGROUND

The dollar's ascendance to the rank of world's most important currency is often remembered as having been slow and gradual, mirroring the decline of sterling and Britain's historic economic dominance. In fact, it was surprisingly swift. From a standing start in 1914, the dollar had overtaken sterling in international importance by 1925. WWI played a part, but so did a lesser-known factor. America had surpassed Britain as the world's largest economic power as early as 1870, but it had a stunted financial system: its banks could not open branches abroad, it had no central bank and panics were common. All these things discouraged international use of the dollar.

This began to change with the creation of the Federal Reserve in 1913, providing stability to the American banking system. Benjamin Strong, the Fed's de facto leader in its early years, saw how the deep and liquid market for trade acceptances—the IOUs that were used to finance shipments of goods—helped the Bank of England to manage credit conditions. The Fed used its clout to nurture a similar market in America. This hastened the migration of international financial activity from London to New York, and from sterling to the dollar.

Whether the dollar will share sterling's fate is a common question in geopolitical circles. After all, it is only a matter of time before China's GDP overtakes America's. The US reserve-currency status depends on far more than GDP. It is also a function of strategic and military relationships, laws, institutions and incumbency.

That the world remains so dollar-centric, given America's shrinking share of world output, is something of an anomaly. This could be explained for most of the post-war period by lack of competition. Japan discouraged international use of the yen for fear of elevating its value and hurting its exports. The presence of the Red

Army on West Germany's borders hung over the Deutschmark, and in any case Germany regarded support of the dollar as an intrinsic part of its military alliance with America.

Reunification shifted Germany's priorities from supporting America to binding itself more closely to Europe, resulting in the creation of the first significant competitor to the dollar, the euro.

And what of China? As was true of America and the dollar a century ago, China's currency does not enjoy anywhere near the clout that could be expected from the size of the Chinese economy. As with Japan, China has discouraged internationalization of its currency for fear that inflows of capital would lift its value and curb Chinese exports. It has learned, however, from Japan's mistakes, and is gradually liberalizing the use of its currency. But China is still much further behind than America was in 1914; it will be decades before the yuan rivals the dollar's leadership.

Leading academics do not think the dollar is about to be vanquished as sterling was. Rather, they foresee a "multi-polar" system of international currencies. We talked heavily about the quickly emerging multi-polar world in our 2018 Thesis: A New World Order. De-Dollarization is a natural part of the evolution which our "Abstraction" process has so clearly been re-enforcing since 2010.
SITUATIONAL ANALYSIS

Giancarlo Elia Valori -- 04-09-18 "The De-Dollarization in China" **(Edited & Captioned by MATASII.com)**

Advisory Board Co-chair Honoris Causa Professor Giancarlo Elia Valori is an eminent Italian economist and businessman. He holds prestigious academic distinctions and national orders. Mr. Valori has lectured on international affairs and economics at the world's leading universities such as Peking University, the Hebrew University of Jerusalem and the Yeshiva University in New York. He currently chairs "International World Group", he is also the honorary president of Huawei Italy, economic adviser to the Chinese giant HNA Group. In 1992 he was appointed Officier de la Légion d'Honneur de la République Francaise, with this motivation: "A man who can see across borders to understand the world" and in 2002 he received the title "Honorable" of the Académie des Sciences de l'Institut de France. "

The US dollar is so important in today's economy for three main reasons:

1. The huge amount of petrodollars;
2. The use of the dollar as the world's reserve currency and
3. The decision taken by US President Nixon in 1971 to end the dollar convertibility into gold.

The US currency is still a large part of the Special Drawing Rights (SDR), the IMF's "paper money".

A share ranging between 41% and 46% depending on the periods.

THE PETRODOLLAR

Petrodollars emerged when Henry Kissinger dealt with King Fahd of Saudi Arabia, after "Black September" in Jordan.

The agreement was simple. Saudi Arabia had to accept only dollars as payments for the oil it sold, but was forced to invest that huge amount of US currency only in the US financial channels while, in return, the United States placed Saudi Arabia and the other OPEC neighboring countries under its own military protection.

A WORLD CURRENCY & UNLIMITED LIQUIDITY

Hence the turning of the dollar into a world currency;

- Considering the importance and extent of the oil market,
- Not to mention that this large amount of dollars circulating in the world definitely marginalized gold and
- Later convinced the FED that the demand for dollars in the world was huge and unstoppable.

An unlimited amount of liquidity that kept various US industrial sectors alive but, above all, guaranteed huge financial markets such as the derivatives – markets based on the structural surplus of US liquidity.

POST COLD WAR & THE EURASIA THREAT

After the Soviet Union's collapse, the United States always thought about world's hegemony and, above all, imagined to oppose the already active Eurasian union between:

- China,
- Iran and
- Russia

… the worst nightmare for US decision-makers – both at military and financial levels.

As early as those years, following Brzezinsky's policy line, the US analysts warned against the unification of Eurasia – to be absolutely prevented – and against the subsequent reunification of Eurasia with the Eurasian peninsula, to be avoided even with a war.

At that time, the three aforementioned States still conducted their business in dollars: China wanted to keep on becoming the "world factory"; Russia had run out of steam and was near breaking point; Iran had to inevitably adapt to the rest of Sunni OPEC.

EURASIAN RESPONSE

With Putin's rise to power, Russia's de-dollarization began immediately.

The share of dollar reserves declined year after year, while Putin proposed new oil contracts.

Since last year, for example, dollars cannot be used in ports.

In the case of Iran, the sanction regime – in particular – has favored the discovery of means other than the dollar for international settlements.

The operations and signs of the de-dollarization continued.

The war in Iraq against Saddam Hussein was also a fight against the *Rais* who wanted to start selling his oil barrels in euros, while the war in Afghanistan was viewed by China as part of the ongoing overall encirclement of its territory.

Hence the importance of the Belt and Road Initiative.

Also the war in Afghanistan was an attempt to stop the Eurasian project of economic and commercial (as well as political) union between Russia, Iran and China.

As further sanction, the EU required EU designated Iranian banks to be removed from the SWIFT network, which is also a private company.

Iran, however, has immediately joined the Chinese CIPS, a recent network, similar to SWIFT, with which it is already fully connected.

Basically China's idea is to create an international currency based on the IMF's Special Drawing Rights and freely expendable on world markets, in lieu of the US dollar, so as to avoid "the dangerous fluctuations stemming from the US currency and the uncertainties on its real value "- just to quote the Governor of the Chinese central bank, Zhou Xiaochuan, who will soon be replaced by Yi Gang.

In the meantime, Russia and China are acquiring significant amounts of gold.

In recent years China has bought gold to the tune of at least 1842.6 tons, but the international index could be distorted, as many transactions on the Shanghai Gold Exchange are Over the Counter (OTC) and hence are not reported.

Again according to official data, so far Russia is supposed to have reached 1857.7 tons.

Both countries have so far bought 10% of the gold available in the world.

Meanwhile, Saudi Arabia has already accepted payments in yuan for the oil sold to China, which is its largest customer. This is a turning point. If Saudi Arabia gives in, sooner or later all OPEC countries will follow suit.

BI-LATERAL TRADE AGREEMENTS

In many cases, India and Russia have already traded with Iran by accepting oil in exchange for primary goods and commodities.

China has also opened a credit line with Iran amounting to as many as 10 billion euros, with a view to getting around sanctions.

It is also assumed that North **Korea uses cryptocurrencies to buy oil from China.**

As devastated as its economy is, Venezuela no longer sells its oil in dollars – and it is worth recalling it can boast the largest world reserves known to date.

Furthermore, China will buy gas and oil from Russia in yuan, with Russia being able to convert yuan into gold directly on the Shanghai International Energy Exchange.

Keynes' "tribal residue" takes its revenge.

So far the agreements for trade in their respective currencies were signed:

- Between China and Kazakhstan (on December 14, 2014),
- Between China and South Africa (on April 10, 2015) and
- Between Russia and India (on May 26, 2015) while,
- At the end of November 2015, the Russian central bank included the yuan into the list of currencies that can be accepted as reserves.
- On November 3, 2016 an agreement was signed between Turkey and Russia for the exchange of their currencies and in October 2017 a similar agreement was reached between Turkey and Iran.

For financial institutions, the de-dollarization continued with:

- The establishment of the BRICS Fund worth 100 billion dollars (on July 16, 2014) and
- With the establishment – on January 16, 2016 – of the Asian Infrastructure Investment Bank (AIIB), made up of 57 member countries, including Italy, which automatically caused the US anger,
- In May 2015 the Russian-Chinese Investment Bank was created,
- Followed in July 2015 by the opening of the new bank for the development of BRICS, based in Shanghai.
- In November 2015, however, Iran approved the establishment of a bank together with Russia.
- It is worth underlining that in April 2015 the Russian national credit card system was opened, dealing also with small currency transfers,
- It is also worth recalling the Duma law on de-offshorization of November 18, 2014, i.e. the legislation obliging the Russian companies resident abroad to pay taxes directly to the Russian Treasury.
- The above mentioned Chinese CIPS started operating in October 2015,
- while in March 2017 Russia implemented a system similar to SWIFT (interacting with the Chinese one).

ENERGY

The issue is complex because with fracking, the United States has become the first oil producer – hence there is less need to keep the huge amount of petrodollars. This happens while a natural oil and gas shale deposit has just been discovered, off the coast of Bahrain, with reserves of 80 billion oil barrels and 4 trillion cubic meters of gas.

The United States does no longer buy oil and gas because it does not need them, but China is increasingly the best global buyer.

Apart from the stability of gas and oil prices, which should be guaranteed in the coming years, China and its allies should be ever more able to select between the supply and, certainly, between the countries which accept the non-oil bilateral exchange with China and payments in yuan or gold.

CORE ISSUE

Still today,

The US GDP accounts for 22% of world's GDP, while 80% of international payments are made in dollars.

Hence the United States

- receives goods from abroad always at comparatively very low prices,
- while the massive demand for dollars from the rest of the world allows to refinance the US public debt at very low costs.

<u>This is the economic and political core of the issue.</u>

In fact, the Russian government held a specific meeting on de-dollarization in spring 2014.

This is another fact to be highlighted. It is a political operation that appears to be a financial one, often in contrast with the "volatility" of current markets, but its core is strategic and geopolitical.

STRUCTURE

In theory, the de-dollarization regards three specific issues:

- Payments,
- The real economy issue and
- Ultimately the financial issue, namely the financial contracts denominated in dollars.

In the first case, China will tend to eliminate every transaction denominated in US dollars by third countries and to remove settlement mechanisms involving the dollar and operating in its neighboring areas.

In the second case, the dollar transactions will be – and are already – largely prohibited for individuals.

In the third case, the share of foreign contracts denominated in yuan is now equal to 40% and strong acceleration will be recorded in 2018.

The oil futures denominated in yuan are now booming. The first attempt was made in 1993, when China opened its stock exchanges in Beijing and Shanghai.

China itself closed operations two years later, due to market instability and to the yuan weakness.

THE ADMISSION OF THE YUAN IN THE IMF'S SDR

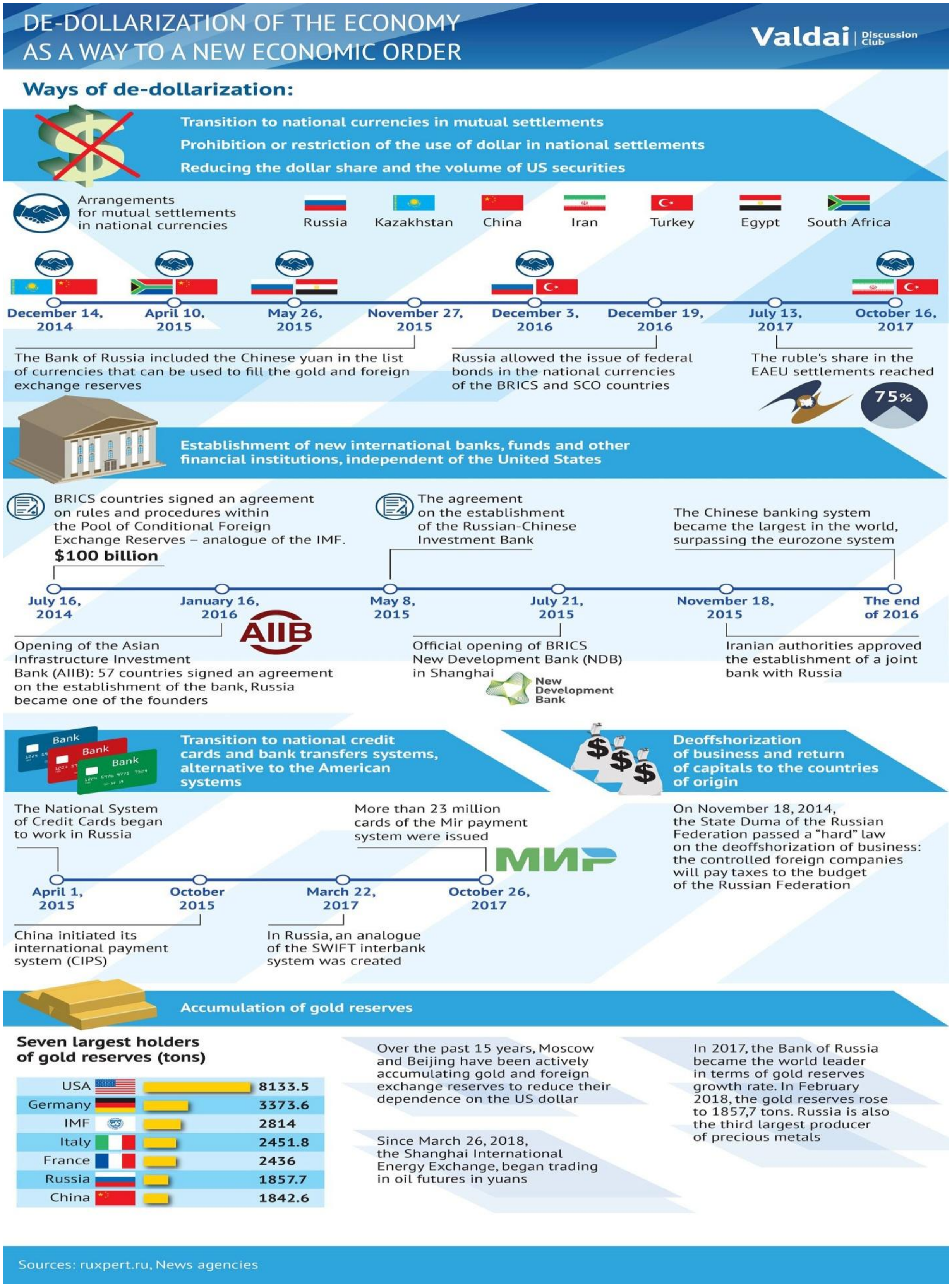
Two other things have changed since then: in 2016 the yuan was admitted as a currency making up the IMF Special Drawing Rights and in 2017 China overtook the United States as the world's largest oil importer.

Hence, thanks to the oil futures denominated in yuan, China is reducing its dependence on the dollar and, in the meantime, it is supporting its oil imports, as well as promoting the use of the yuan globally and expanding its presence in the world.

Russia has done the same.

Therefore the United States is about to be ousted as world's currency due to its continuous series of wars and military failures (former President Cossiga always told me: "The United States is always on the warpath and up in arms, but then it is not able to get out of it") and, like everyone else, it shall pay for its public debt, which is huge and will be ever more its problem, not ours.

Here it is worth recalling what the US Treasury Secretary,John Connally, said to his European counterparts during a meeting in 1971: "The dollar is our currency, but your problem".



1- ANNUAL THESIS 2019

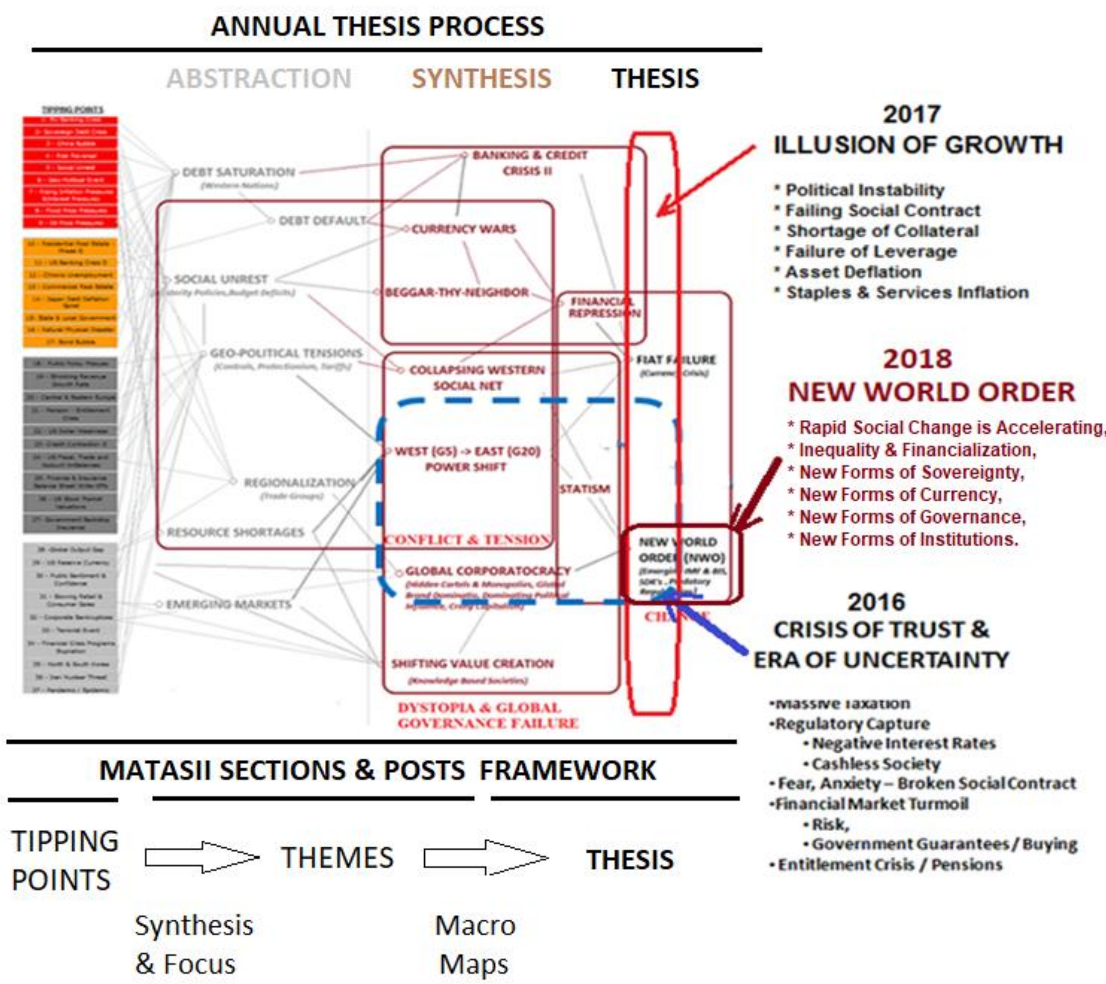
WHERE "DE-DOLLARIZATION" FITS

Previous Annual Thesis Reports available online at MATASII.com:

- 2010 - Extend & Pretend
- 2011 - Currency Wars – 'Beggar-thy-Neighbor'
- 2012 - Financial Repression
- 2013 - Statism
- 2014 - Globalization Trap
- 2015 - Fiduciary Failure
- 2016 - Crisis of Trust
- 2017 - Illusion of Growth
- 2018 - New World Order

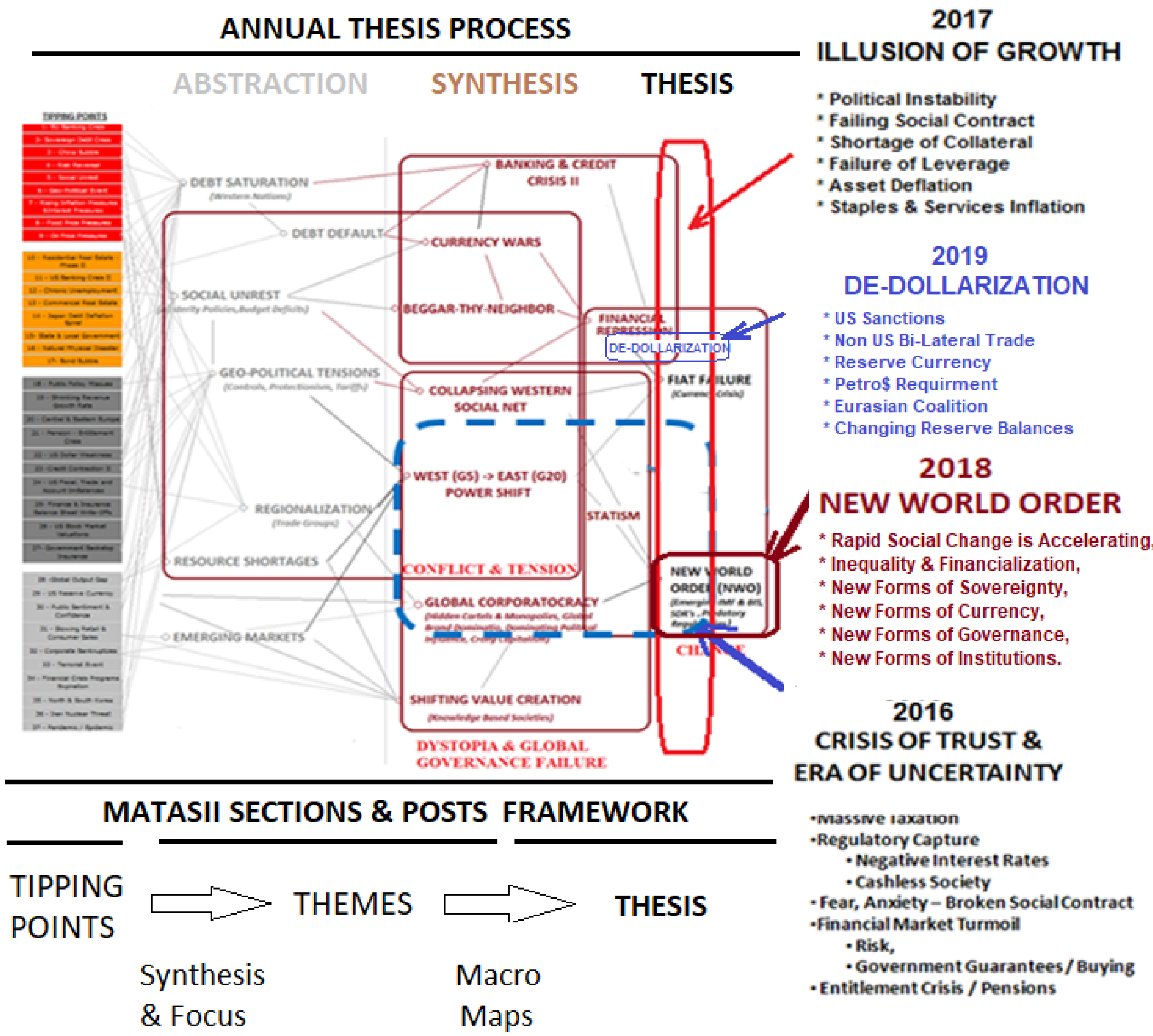
OUR ABSTRACTION PROCESS

Prior Years



general@GordonTLong.com

This Year



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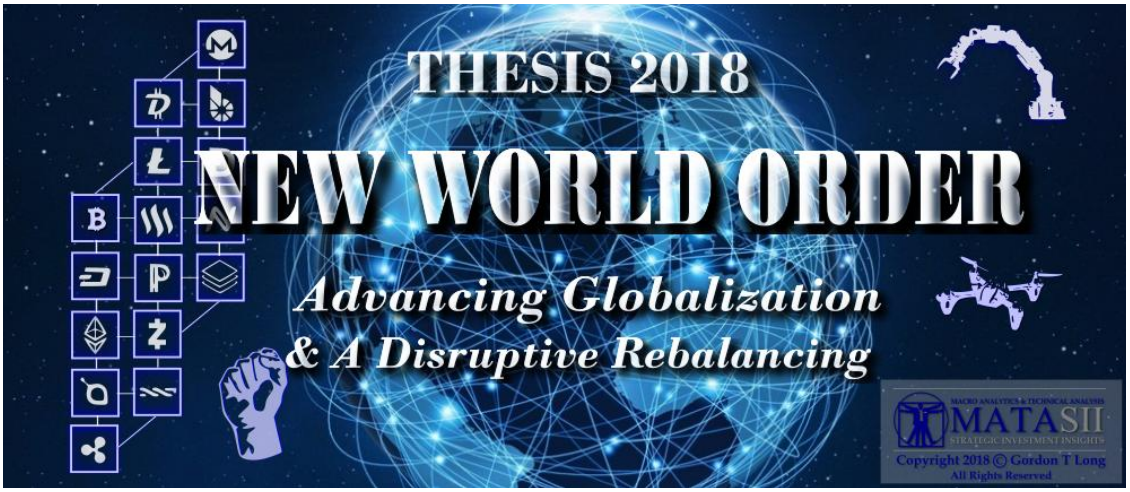
SPRING BOARDING FROM LAST YEARS "NEW WORLD ORDER"

Last year we outlined the changes we were seeing that were brining a New World Order dominated by a Multi-Polar World versus the US dominated 'Uni-Polar" world order since WWII.



We highlighted areas which included:

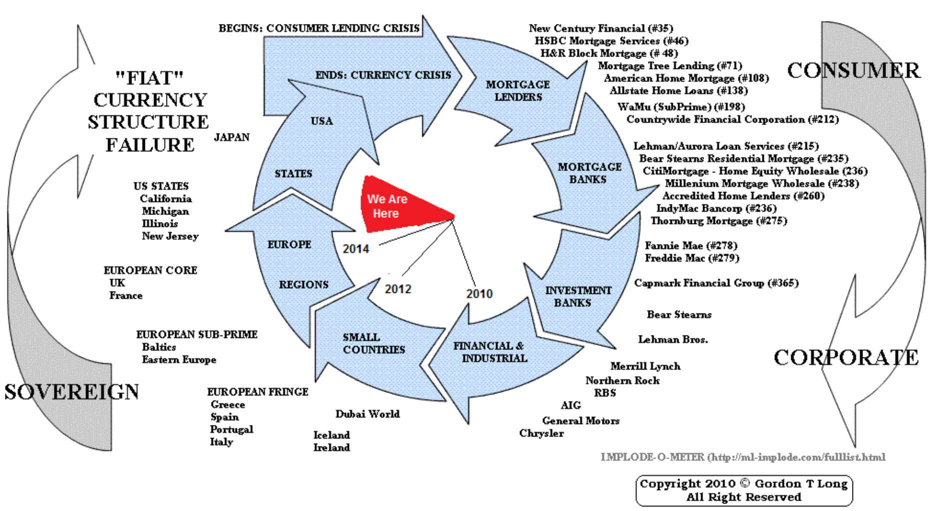
- The Acceleration of Rapid Global Social Change,
- Growth in Inequality & Financialization,
- Emerging New Forms of Sovereignty,
- New Forms of Currency (Cryptocurrencies),
- New Forms of Governance,
- New Forms of Institutions

All of these changes are catalysts for why this year's Thesis is about "De-Dollarization"

It is also indicative that a Global "Fiat" Currency Collapse and Restructuring looms ahead.

OUR INITIAL TIMING PROJECTIONS – A FIAT CURRENCY STRUCTURAL FAILURE

The roadmap we laid out in 2008 is tracking to a "Fiat Currency Structure Failure" by late 2019 – early 2020.



Look for the next Crisis to be:

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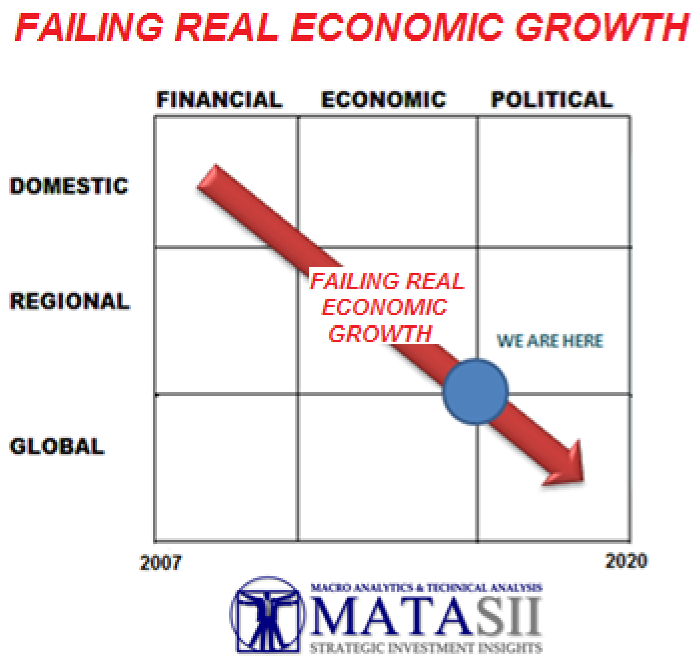
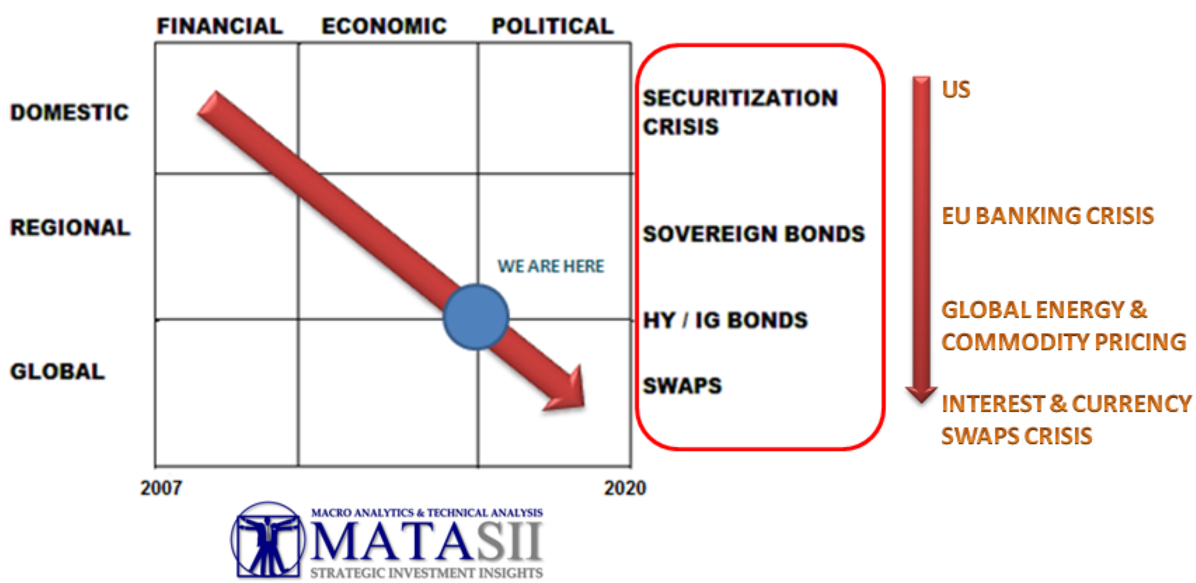
1-Global,
2 Politically Initiated and
3- Implode from the Unregulated $700T SWAPS / $72T Shadow Banking Complexity

ROADMAP AHEAD

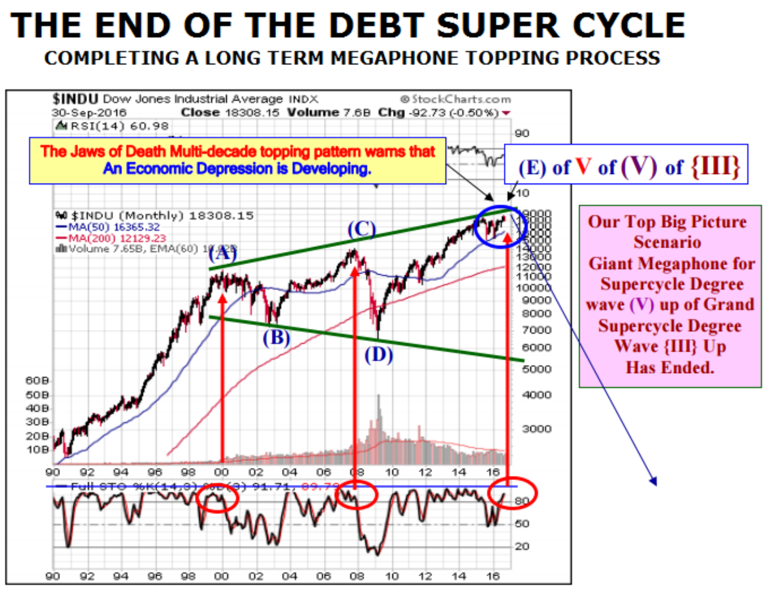




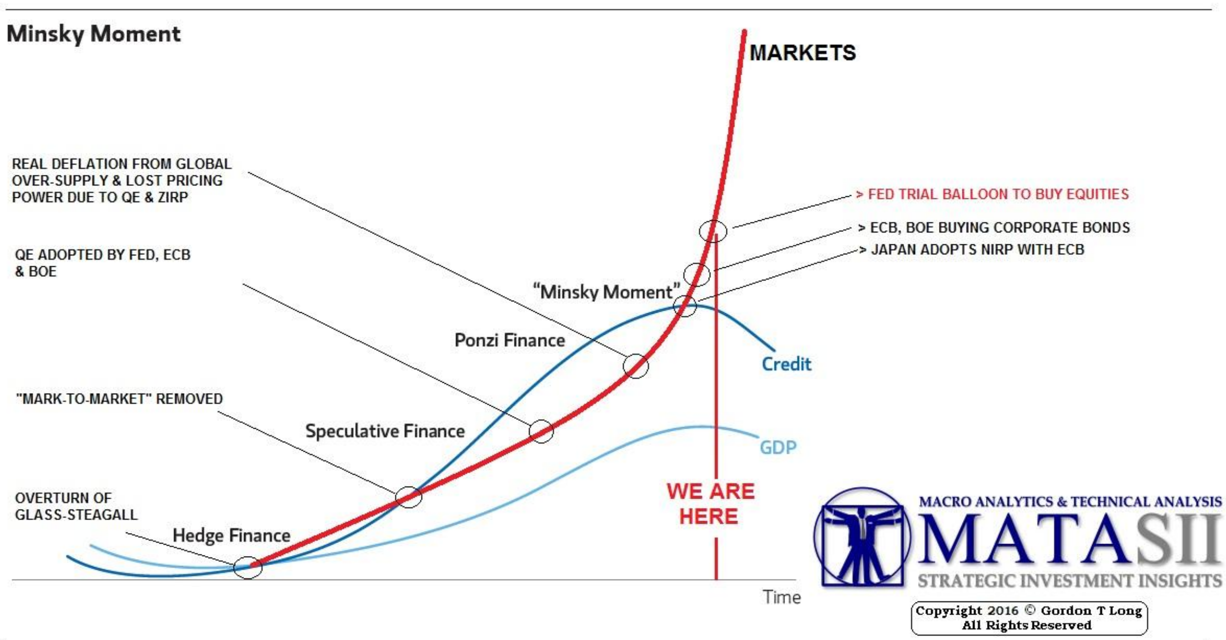
MAJOR TECTONIC FORCES "IN PLAY"

We have been arguing for a few years now that we have two Global Tectonic Forces at play:

1- The End of the Debt Supper-Cycle due excess unsupportable debt and financial leverage.



2- The Central Bankers attempting To Delay, Mitigate or Stop This from Occurring though Financial Repression and other forms of increasingly coordinated Global Monetary Policy. Leading to a Minsky Melt-Up in Financial Markets from the debasement of money.



VIDEO 1 – TWO TECTONIC FORCES

https://youtu.be/5HveeOcOmqg

VIDEO 2 – WHAT TO WATCH FOR IN EARLY 2017

https://youtu.be/16KiodF_iMw

2- DRIVERS OF GLOBAL DE-DOLLARIZATION – *What Has Changed & Why?*

KEY MESSAGES

SANCTIONS

- It is surprising that the United States itself has, in recent years, commenced to push various countries to De-Dollarization by threatening their opponents with sanctions for conducting economic operations, in which, until recently, dollars were the primary currency.
- In August 2017, the United States passed the Countering America's Adversaries Through Sanctions Act.
  - The law also allows for secondary sanctions to be imposed against states and organizations working with countries that the US considers 'enemies'.
  - According to the law, the US may freeze their dollar accounts and transfers made outside American jurisdiction.
  - American companies are also prohibited from working with countries and organizations listed in deals with US enemies.

- Convinced of an existential threat from competitors, America is weaponizing the dollar to preserve its global economic and geopolitical position.
- The real power of the dollar is its relationship with sanctions programs.

  - Legislation such as the International Emergency Economic Powers Act,
  - The Trading With the Enemy Act and
  - The Patriot Act

  … This allows Washington to weaponize payment flows.

  - The proposed Defending Elections From Threats by Establishing Redlines Act
  - Defending American Security From Kremlin Aggression Act

  … This would extend that armory.

  When combined with access it gained to data from Swift, the Society for Worldwide Interbank Financial Telecommunication's global messaging system, the U.S. exerts unprecedented control over global economic activity.
- Sanctions target persons, entities, organizations, a regime or an entire country.
- Secondary curbs restrict foreign corporations, financial institutions and individuals from doing business with sanctioned entities.
- Any dollar payment flowing through a U.S. bank or the American payments system provides the necessary nexus for the U.S. to prosecute the offender or act against its American assets.
- This gives the nation extraterritorial reach over non-Americans trading with or financing a sanctioned party.

The mere threat of prosecution can destabilize finances, trade and currency markets, effectively disrupting the activities of non-Americans.

- Russian, Iran and Venezuela sanctions are driving them away from the US$,

- China is also openly promoting its currency for oil trade and all trade. The internationalization of the yuan is part of the New Silk Road initiative of President Xi and given China's level of oil consumption, oil trade is a big part of this internationalization,

- Russian oil exporters are pressuring Western commodity traders to pay for Russian crude in euros and not dollars as Washington prepares more sanctions for the 2014 annexation of Crimea by Moscow,

- Venezuela, for one, has bet on digital currency as a way of skirting Washington sanctions that have added to the pressure created by the 2014 oil price crash and years of PDVSA mismanagement—both factors which have plunged the Venezuelan economy into a possibly irrecoverable crisis,

- Iran banned purchase orders denominated in U.S. dollars and said that any merchant using dollars in their orders will not be allowed to conduct the import trade. Tehran also announced that it will publish all its official financial reports in euros instead of dollars in a bid to encourage a switch to euros from dollars among state agencies and businesses,

REDUCED EXPORT TRADE

- The kingpin role of US policy and the dollar in world finance is an issue, and the US economy, over [the last] 30 years, has gone to less than 20 percent of world GDP, and yet the dollar is seemingly playing this dramatic role,"
- "We live in this very peculiar situation where the role of the dollar in global finance is just idiotically more important than the US economy.
- America's share in the global economy has been dramatically falling since the Second World War
- The US share of global GDP now stands at 18 percent, a significant slide from the 30 percent seen after World War II.
- The Chinese economy has quadrupled to 16 percent, while emerging markets like the BRICS countries (Brazil, Russia, India, China, South Africa) and others account for 60 percent of global GDP.
- The dollar is predominantly used by some 60 percent of countries, accounting for 70 percent of global GDP because of the Bretton-Woods system.
- The Chinese yuan has become more widely used, but still accounts for just 1.84 percent of global reserve currencies, while the US dollar reserves still have a vast 62.25-percent share, although this is its lowest level since 2013.

NON US$ BI-LATERAL TRADE

- Bi-Lateral Trade Agreements are aggressively being made between members of the Eurasian Coalition: Turkey, India, Qatar, Pakistan, Lebanon, Syria, Libya, Egypt, Philippines and more
- Presently 9% of payments for supplies from Russia to China were made in rubles; while Russian companies paid 15% of Chinese imports in yuan.
- While the numbers seem modest, consider that just three years ago, the numbers were 2% and 9% percent, respectively.

ABUSED RESERVE CURRENCY "EXORBINATE PRIVELGE"

- The Trump administration seems to have accidentally stumbled upon a means to weaponize America's "exorbitant privilege."
- In times of global economic turbulence, exorbitant privilege means that safe-haven flows benefit U.S. financial conditions, especially the "risk-free" U.S. treasury market.
- If such flows are combined with glacial increases in short-term interest rates by the Federal Reserve and substantial fiscal expansion by the U.S. government, global turmoil can actually allow the U.S. to economically outperform the rest of the world.
- The role of the US dollar in the global economy has created a paradoxical arrangement: whenever risks in the global economy rise, capital flows to the United States, and the USD appreciates. This is even the case when economic turmoil emanates from the United States itself.
- since the USD is the world's dominant reserve currency, when things go wrong, everyone flees into the safety of U.S. assets, and especially U.S. treasury securities, which are traded in the most liquid market on the globe and seen as the least risky asset class.
- The United States benefits from greater macro-economic stability, since the risk of a currency crisis does not exist – the United States owes all its debts in its own currency, so all it needs to do is print more dollars. This can help smooth out the boom-bust cycles of capitalism. When things go wrong anywhere in the world, everyone flees to the USD, giving the Federal Reserve greater leeway to stimulate the economy.
- No one accuses the Fed of maliciously creating the housing bubble to gain more power. At the end of the day, U.S. policy-makers have never deliberately engineered economic havoc for the purpose of creating safe-haven flows that lower U.S. interest rates, especially long-term rates.
- We might be entering a new era.

SHRINKING PETRO$ REQUIREMENT

- The reason the dollar plays such an important role in the world economy is due to the following three major factors:
    - The Petrodollar,
    - The Dollar as World Reserve Currency,
    - Nixon's decision in 1971 to no longer make the dollar convertible into gold.
- As is easy to guess, the petrodollar strongly influenced the composition of the SDR basket, making the dollar the world reserve currency, spelling grave implications for the global economy due to Nixon's decision to eliminate the dollar's convertibility into gold.
- Until a few decades ago, any idea of straying away from the petrodollar was seen as a direct threat to American global hegemony, requiring of a military response.
- In recent years, it has become clear to many nations opposing Washington that the only way to adequately contain the fallout from the collapsing US empire is to progressively abandon the dollar.

CHANGING CURRENCY RESERVE BALANCES

- The US dollar's days as the dominant global reserve currency are numbered,
- Widening US deficits will soon alienate foreign buyers of US Treasurys, sending yields soaring higher while causing the dollar to depreciate by as much as 30% ***(though at least the Fed would no longer have any trouble meeting its inflation target),***
- The loss of the dollar's reserve status would be America's "worst nightmare.",
- "The role of the U.S. dollar will diminish, and the returns on U.S. dollar-denominated debt will suffer," --- "Then I think you will see the emergence of other currencies,"
- the entire world is "leveraged long", and that asset returns in the coming years would be middling to negative for the foreseeable future,
- "When you're at a zero interest rate in the US, a zero interest rate in Europe and a zero interest rate in Japan, I think we've squeezed out a lot of assets.
- I think the world by and large is leveraged long. Meaning the buying of debt - corporate debt.
- One of the biggest sources of returns on assets was the fact that the interest rate was low relative to the return on equity. There were a lot of buybacks and mergers and acquisitions by companies buying companies. Then you had corporate tax cuts... all of those things have pushed asset prices to the level where it's difficult to see if you could squeeze more."
- Total global foreign exchange reserves, in all currencies, came in at $11.4 trillion in the third quarter,
- The amount of USD-denominated exchange reserves was $6.63 trillion. This amounted to 61.9% of total foreign exchanges reserves held by central banks, the lowest since 2013
- The combined share of the dollar and the euro, at 82.4%, leaves only 17.6% for all other currencies combined.
    - The two currencies with the largest share in that group are the Japanese yen, at 5.0%, and the UK pound sterling, at 4.5%.
- In Q3, the euro's share rose to 20.5%, the highest since Q4 2014. The creation of the euro was an effort to reduce the dollar's hegemony. At the time, the theme was that the euro would reach "parity" with the dollar.
    - The euro Debt Crisis ended that dream.
- On October 1, 2016, the IMF added the Chinese renminbi to its currency basket, the Special Drawing Rights (SDR). This elevated it to a global reserve currency.
    - The RMB's share, after jumping nearly half a percentage point to 1.84% in Q2, has now inched down to 1.80% in Q3.
    - Given the size and globalized nature of China's economy, Central banks remain less than enthusiastic about holding RMB-denominated assets:
- The fact that the dollar is still the top reserve currency and top international funding currency allows for its trade deficits to be financed easily, and this has made those trade deficits possible over the past two decades.
- There is no telling for how long this can continue without causing some sort of never-before-seen financial mess.
- Total allocated reserves increased to $10.71 trillion in the third quarter from $10.51 trillion in the previous quarter

- Central banks appear to further diversify their reserves away from the greenback

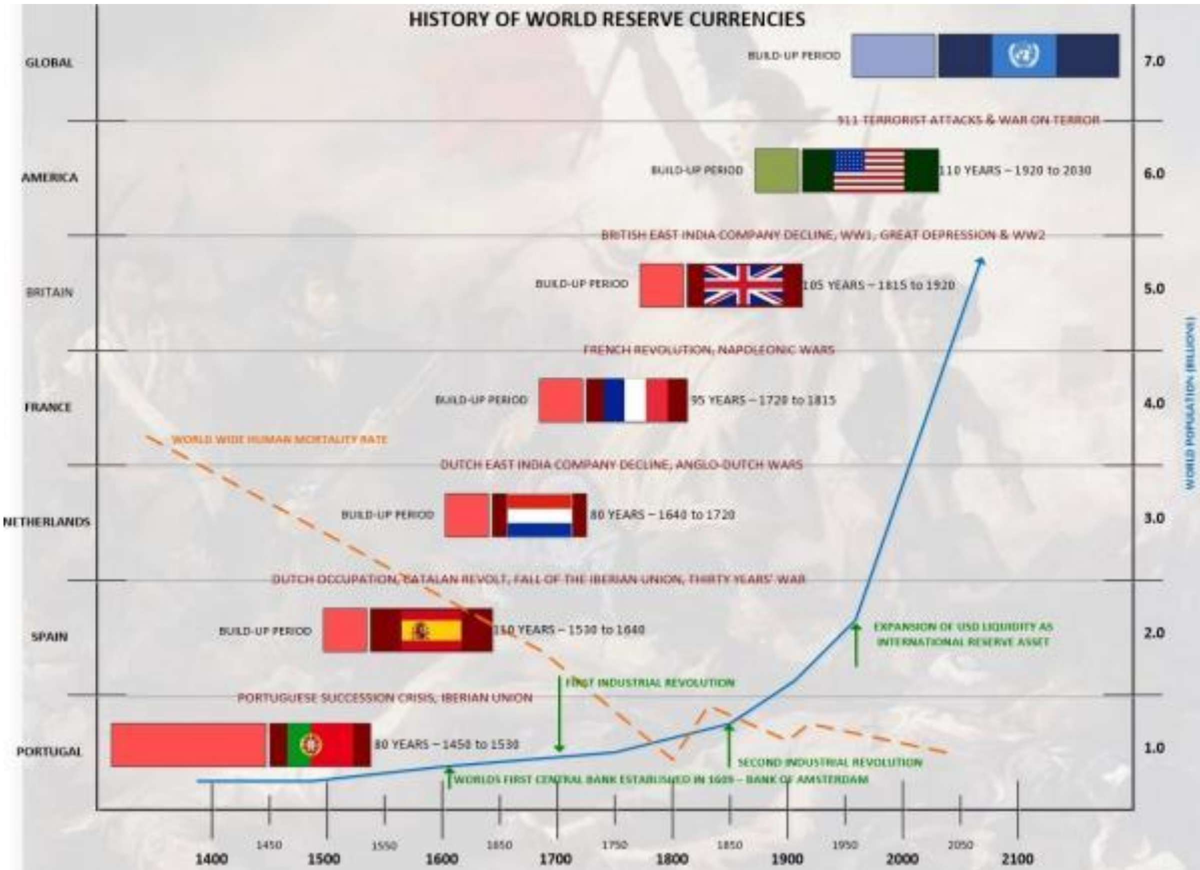
  CHANGE
- US$: The U.S. dollar's share of currency reserves reported to the International Monetary Fund fell in the third quarter to a near five-year low,
  - Reserves held in U.S. dollars rose to $6.63 trillion, or 61.94 percent of allocated reserves, in the third quarter, from $6.56 trillion, or 62.4 percent, in the second quarter.
  - The share of allocated U.S. dollar reserves declined to its smallest since the 61.27 percent in the fourth quarter of 2013
- EURO: The euro's share of reserves grew to its largest in almost four years,
  - The euro's share of global reserves climbed to 20.48 percent, its biggest since the fourth quarter of 2014. It was 20.25 percent in the quarter before.
- YEN: Reserves held in Japanese yen reached a 16-year peak in the third quarter
  - The yen's share of allocated reserves expanded to 4.98 percent, its largest since the third quarter of 2002. The Japanese currency's share of reserves was 4.86 percent in the second quarter.
- YUAN: The Chinese yuan's share of allocated reserves shrank for the first time in the third quarter since the IMF began reporting its share of central bank holdings in the fourth quarter of 2016.
  - The share of allocated currency reserves held in yuan, also known as renminbi, slipped to 1.80 percent in the third quarter from 1.84 percent in the prior quarter.

EMERGENCE & RISE OF EURO & YUAN CURRENCIES

EURO
- The Euro is the 'single currency' of the European Monetary Union, adopted on January 1, 1999 by 11 Member States. Greece became the 12th Member state to adopt the Euro on January 1, 2001. On January 1, 2002, these 12 countries officially introduced the Euro banknotes and coins as legal tender.
- In just over 15 years the Euro has become a standard global currency thus taking away from US Dollar Dominance.

YUAN
- When used in English in the context of the modern foreign exchange market, the Chinese yuan (CNY) refers to the renminbi (RMB), which is the official currency used in mainland China.
- Chinese yuan officially became a world reserve currency on November 30, 2015. It represents 10.92% of the IMF's Special Drawing Rights currency basket.
- This makes Chinese yuan the third reserve currency after the US dollar and Euro.
- In just over 15 years since becoming part of the WTO, the Chinese currency has become a world reserve currency thus taking away from US Dollar Dominance.

A RESERVE CURRENCY is the principal unit in which individuals and firms invoice and settle trade, denominate commodity prices, and settle international financial transactions. It is also a principal asset that central banks hold as reserve currency, and the exchange rate with the dollar, is a principal price pegged by central banks.



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The World Is Creeping Toward De-Dollarization

09/18/2017 The Mises Institute by Ronald-Peter Stöferle - The World Is Creeping Toward De-Dollarization

Ronald-Peter Stöferle is managing partner and fund manager at Incrementum AG, Liechtenstein. He invests using the principles of the Austrian school of economics

The issue of when a global reserve currency begins or ends is not an exact science. There are no press releases announcing it, and neither are there big international conferences that end with the signing of treaties and a photo shoot. Nevertheless we can say with confidence that the reign of every world reserve currency has to come to and end at some point in time. During a changeover from one global currency to another, gold (and to a lesser extent silver) has always played a decisive role. Central banks and governments have long been aware that the dollar has a sell-by date as a reserve currency. But it has taken until now for the subject to be discussed openly. The fact that the issue has been on the radar of a powerful bank like JP Morgan for at least five years, should give one pause. Questions regarding the global reserve currency are not exactly discussed on CNBC every day. Most mainstream economists avoid the topic like the plague. The issue is too politically charged. However, that doesn't make it any less important for investors to look for answers. On the contrary. The following questions need to be asked: What indications are there that the world is turning its back on the US dollar? And what are the clues that gold's role could be strengthened in a new system?

The mechanism underlying today's "dollar standard" is widely known and the term "petrodollar" describes it well. This system is based on an informal agreement the US and Saudi Arabia arrived at in the mid-1970s. The result of this deal: Oil, and consequently all other important commodities, is traded in US dollars — and only in US dollars. Oil producers then "recycle" these "petrodollars" into US treasuries. This circular flow of dollars has enabled the US to pile up a towering mountain of debt of nearly $20 trillion — without having to worry about its own financial stability. At least, until now.

For a long time the basis on which this global currency system rests was poorly documented. Finally, *Bloomberg*published a comprehensive article in May 2016, which provided detailed confirmation of the agreement that was hitherto only known as a rumor. The fact that this article is published now also represents a subtle clue that there are simmering shifts in the global currency system.

The trend becomes ever more tangible and can be described by the following term: de-dollarization. The world is looking for alternatives to the dollar — and finds them more and more often. At the same time the big oil producers and the largest exporters have stopped accumulating US debt securities. In one sentence: Since 1973 the dollar standard has been based on "usage demand" for dollars — they were needed. But when China and Russia find alternatives for their bilateral trading activity, they need fewer dollars. The same applies to European countries which have adopted the euro since 1999.

There have been many attempts by various nations to undermine the dollar's preeminence in recent decades. Some were nipped in the bud by US interventions — such as the plan of Iraq's former dictator Saddam Hussein to sell oil for euros. Or the rumored plan of Libya's eccentric ruler Muammar al-Gaddafi to issue a pan-African gold currency.

Others are less well known, but are indeed continuing to "bubble" below the surface: For example, since 2008, an agreement exists between Saudi Arabia, Kuwait, Bahrain, and Qatar which provides for the creation of a monetary union. The planned new currency is nicknamed — rather unimaginatively — the "gulfo." "The project is inspired by the European currency union, which is seen as a great success in the Arab world," according to an article by *Telegraph* journalist Ambrose Evans-Pritchard. He *inter alia* quotes Nahed Taher, the CEO of Bahrain Gulf One Investment Bank: "The US dollar has failed. We need to delink from it." However, it appears the plan has been put on hold in recent years. As recently as mid-2013 a statement was issued according to which the common currency was going to be put in place "by 2015 at the latest." Today it is no longer even talked about. Moreover, other potential members such as the United Arab Emirates or Oman have so far failed to join the club. One should nevertheless keep an eye on developments in the Gulf.

A clear signal that something is afoot would be the abolition of the Saudi riyal's peg to the US dollar. As recently as April of this year economist Nasser Saeedi advised Middle Eastern countries to prepare for a "new normal" — and specifically to review the dollar pegs of their currencies: "By 2025 it is clear that the center of global economic geography is very much in Asia. What we've been living in over the past two decades is a very big shift in the political, economic, and financial geography."

While the role of oil-producing countries (and particularly Saudi Arabia) shouldn't be underestimated, at present the driving forces with regard to de-dollarization are primarily Moscow and Beijing. We want to take a closer look at this process.

There exist numerous political statements in this context which leave no room for doubt. The Russians and Chinese are quite open about their views regarding the role of gold in the current phase of the transition. Thus, Russian prime minister Dimitri Medvedev, at the time president of Russia, held a gold coin up to a camera on occasion of the 2008 G8 meeting in Aquila in Italy. Medvedev said that debates over the reserve currency question had become a permanent fixture of the meetings of government leaders.

Almost ten years later, the topic of currencies and gold is on the Sino-Russian agenda again. In March, Russia's central bank opened its first office in Beijing. Russia is preparing to place its first renminbi-denominated government bond. Both sides have intensified efforts in recent years to settle bilateral trade not in US dollars, but in rubles and yuan. Gold is considered important by both countries.

The gradual move away from the USD to a multi-polar monetary order has several important effects, which only make sense when viewed through this lens. Contrary to what is asserted in most mainstream reports, oil-producing countries are not so much interested in a much higher oil price in USD terms, but rather in competition for market share. They are increasingly able to choose in which currencies they want to trade. The most important effect has become evident since 2014: two of the largest holders of US treasuries (China and Saudi Arabia) have abandoned their support of Washington. On the other hand, oil producers have no interest in recycling their revenues as "petrodollars."

The process of moving away from the dollar — prepared by Europe and triggered by China and Russia — can no longer be stopped. And as a "supra-national" reserve asset, gold plays an important role in it.

US SANCTIONS

- It is surprising that the United States itself has, in recent years, commenced to push various countries to De-Dollarization by threatening their opponents with sanctions for conducting economic operations, in which, until recently, dollars were the primary currency.

NEW US POLICY INITIATIVE

- In August 2017, the United States passed the Countering America's Adversaries Through Sanctions Act.
  - The law also allows for secondary sanctions to be imposed against states and organizations working with countries that the US considers 'enemies'.
  - According to the law, the US may freeze their dollar accounts and transfers made outside American jurisdiction.
  - American companies are also prohibited from working with countries and organizations listed in deals with US enemies.

The outlook of Washington's political establishment is based on military hard power that is now inferior in offensive capability than the Sino-Russo-Iranian one, ensuring the strategic independence of Eurasia and its partners (Turkey, India, Qatar, Pakistan, Lebanon, Syria, Libya, Egypt, the Philippines, etc.). In terms of color revolutions, the artifice has now been brought to light, and countries on the receiving end of such attacks can now recognize them and quickly act to forestall them, as happened in Hong Kong in 2014.

Donald Trump seems to have resorted to the only weapon left available to him, namely, the economic power of the US dollar, offering him the opportunity to shape events. It is a strategy with short-term benefits by devastating effects for Washington in the long run.

Indeed, the only way to combat US financial dominance is to ditch the US dollar for other currencies.

Washington's economic power derives from the use that the world makes of the dollar. Clearly, then, Trump's decision to use the US dollar as a weapon will cost his country dearly in the future, the dollar probably bound to lose its role as a global reserve currency. As history has shown, when a reserve currency is transferred to another currency, the empire that depended on this reserve-currency status itself went into decline. This occurred with the France and Britain, and it will likely occur with the United States.

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If the S-400 militarily represents the middle finger to Washington, denying as it does US air dominance, de-dollarization is the obvious answer to Trump's use of the US dollar as a weapon to wield against friends and enemies.

This vulnerability is a wake-up call for US allies, who have filled their pockets and state coffers with US dollars printed at zero interest rates. Just look at the situation in Turkey, with almost 100 billion dollars in foreign debt. Ankara suffers from the excessive dollarization of its economy. It thus remains vulnerable to a US dollar attack by Trump, and without Qatar coming to the rescue with 15 billion dollars worth of investment, the Turkish lira would have not been able to resist for much longer. The danger of an economic collapse is real, along the same lines as was experienced in Asia in the late 1990s through devastating financial-speculation attacks. In contrast, Moscow finds itself with a very low public debt and just 13 billion in dollar-denominated securities, continuing apace the de-dollarization of its economy.

Trump has indirectly set in motion a much needed global rebalancing.
Washington's downsizing into a smaller power will come about above all through a fundamental change at the global economic level. As long as Washington is free to print money, increase debt, exchange dollars for real goods, and remain credible to the rest of the world that continues to purchase US treasuries instead of gold as a safe haven, Trump will be free to use the US dollar as a baseball bat with which he can whack friends and opponents over the head.

The potential use of the US dollar as a baseball bat has been evident for more than a decade for Russians, Chinese and Iranians. For this reason, they have been exchanging their dollars for other currencies for years.

The United States, as a declining empire, is lashing out, employing every weapon available to try and arrest its diminishing status as the world's sole superpower. Now it is the turn of America's allies to relinquish the dollar, coming to understand that real sovereignty is ensured through economic sovereignty.

Sanctions is the current weapon of choice for US Foreign Policy

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How the U.S. Has Weaponized the Dollar

SOURCE: 09-06-18 Satyajit Das "How the U.S. Has Weaponized the Dollar"

MATASII SYNTHESIS

- Convinced of an existential threat from competitors, America is weaponizing the dollar to preserve its global economic and geopolitical position.
- The real power of the dollar is its relationship with sanctions programs.

  - Legislation such as the International Emergency Economic Powers Act,
  - The Trading With the Enemy Act and
  - The Patriot Act

  … This allows Washington to weaponize payment flows.

  - The proposed Defending Elections From Threats by Establishing Redlines Act
  - Defending American Security From Kremlin Aggression Act

  … This would extend that armory.

  When combined with access it gained to data from Swift, the Society for Worldwide Interbank Financial Telecommunication's global messaging system, the U.S. exerts unprecedented control over global economic activity.
- Sanctions target persons, entities, organizations, a regime or an entire country.
- Secondary curbs restrict foreign corporations, financial institutions and individuals from doing business with sanctioned entities.

- Any dollar payment flowing through a U.S. bank or the American payments system provides the necessary nexus for the U.S. to prosecute the offender or act against its American assets.
- This gives the nation extraterritorial reach over non-Americans trading with or financing a sanctioned party.
- The mere threat of prosecution can destabilize finances, trade and currency markets, effectively disrupting the activities of non-Americans.

REFERENCE RESEARCH ARTICLE: How the U.S. Has Weaponized the Dollar

The Mount Washington Hotel, Bretton Woods: Where it all began.
Photographer: Education Images/Universal Images Group Editorial

The currency's "exorbitant privilege" gives the nation extraordinary leverage.

Convinced of an existential threat from competitors, America is weaponizing the dollar to preserve its global economic and geopolitical position.

While the U.S. accounts for about 20 percent of the world's economic output, more than half of all global currency reserves and trade is in dollars. This is the result of the 1944 Bretton Woods agreement, the effect of which was enhanced when the link between the dollar and gold ended in the 1971 Nixon shock, allowing America to control the supply of the currency.

The dollar's pivotal role — an "exorbitant privilege," in the term coined by then French Finance Minister Valéry Giscard d'Estaing in 1965 — allows the U.S. easily to finance its trade and budget deficits. The nation is protected against balance-of-payments crises, because it imports and services borrowing in its own currency. American monetary policies, such as quantitative easing, can influence the value of the dollar to gain a competitive advantage.

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The risk is real. BNP Paribas SA paid $9 billion in fines and was suspended from dollar clearing for one year for violating sanctions against Iran, Cuba and Sudan. HSBC Holdings Plc, Standard Chartered Plc, Commerzbank AG and Clearstream Banking SA have paid large fines for similar breaches.

Secondary sanctions made it difficult for United Co. Rusal to refinance dollar borrowings when global businesses, banks and exchanges were forced to stop dealing with the Russian company. Its bonds and shares plunged, even though the company sells only 14 percent of its products in the U.S., does not use American banks, and is listed in Moscow and Hong Kong. ZTE Corp., a Chinese electronics company, was hit hard by the inability to buy essential components from suppliers because of sanctions for trading with North Korea and Iran. In these cases, the entity was not in violation of laws where it was domiciled or operated, and the proscribed acts took place outside the U.S.

IMPEDIMENTS

China, Russia and increasingly Europe want an alternative reserve currency system. The problem is that immediate replacement of the dollar is difficult.

First, the euro, the yen, the yuan and the ruble are not realistic options. The euro's long-term future and stability isn't assured, while Japan's economy remains trapped in two decades of torpor. The Chinese and Russian political and economic systems lack transparency, and the yuan isn't fully convertible.

Second, the required change in infrastructure is daunting. Foreign-exchange markets where the dollar is the currency of reference would have to be fundamentally restructured. Deep and liquid money markets to support a reserve currency can't be conjured up overnight.

Third, most candidates are reluctant to take on the role of a global reserve currency because of tensions between national and global economy policy. The economist Robert Triffin pointed out that the country whose medium of exchange is the global reserve currency must meet external demand for foreign exchange. This necessitates running large trade deficits, requiring fundamental changes in the mercantilist policies of Germany, Japan and China.

This means that the U.S. can continue to use the dollar to help further its trade, financial and geopolitical aims, largely outside the strictures of international laws and institutions and without the need for messy, unpredictable military campaigns. As John Connally Jr., Richard Nixon's Treasury secretary, put it in 1971: The dollar is "our currency, but your problem."

The Biggest Threat to Dollar Dominance

11-12-18 - OilPrice.com, Irina Slav - "The Biggest Threat To Dollar Dominance"

MATASII SYNTHESIS:

- Russian, Iran and Venezuela sanctions are driving them away from the US$,
- China is also openly promoting its currency for oil trade and all trade. The internationalization of the yuan is part of the New Silk Road initiative of President Xi and given China's level of oil consumption, oil trade is a big part of this internationalization,
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- Iran banned purchase orders denominated in U.S. dollars and said that any merchant using dollars in their orders will not be allowed to conduct the import trade. Tehran also announced that it will publish all its official financial reports in euros instead of dollars in a bid to encourage a switch to euros from dollars among state agencies and businesses,

REFERENCE ARTICLE: The Biggest Threat to Dollar Dominance

Russian oil exporters are pressuring Western commodity traders to pay for Russian crude in euros and not dollars as Washington prepares more sanctions for the 2014 annexation of Crimea by Moscow, Reuters reported last week, citing as many as seven industry sources.

While it may have come as a surprise to the traders, who, Reuters said, were not too happy about it, the Russian companies' move was to be expected as the Trump administration pursues a foreign policy where sanctions feature prominently. **This approach, however, could undermine the dominance of the U.S. dollar as the global oil trade currency.**

Early indications of this undermining became evident this spring, when Russia and Iran launched an oil-for-goods exchange program seeking to eliminate bilateral payments in U.S. dollars and plan to keep it going for five years. The sanction buddies discussed this sort of agreement earlier, back in 2014, when Iran was still under Western sanctions. Even after the notorious nuclear deal was reached, the two countries decided to go ahead with their barter deal, and the preliminary agreement was reached last year. According to it, Russia would receive 100,000 bpd of Iranian crude in exchange for US$45 billion worth of Russian goods.

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In March, Iran banned purchase orders denominated in U.S. dollars and said that any merchant using dollars in their orders will not be allowed to conduct the import trade. A month later, Tehran announced that it will publish all its official financial reports in euros instead of dollars in a bid to encourage a switch to euros from dollars among state agencies and businesses.

Now, Russia's biggest oil producers are renegotiating oil delivery contracts with commodity traders, and three of them, Rosneft, Gazprom Neft and Surgutneftegaz, have raised traders' hackles by insisting they, the traders, commit to paying penalties beginning next year if U.S. sanctions disrupt sales and as a result the buyers fail to make payments. Also, there are discussions about using euros and other currencies instead of dollars to ensure payments are not disrupted.

It would make perfect sense for the seller of any commodity to ensure that they receive payment for their commodity. In an environment of sanctions, looking for ways around them is the only logical behavior. And Russia and Iran are not alone in this drive to distance themselves from the dollar.

Venezuela, for one, has bet on digital currency as a way of skirting Washington sanctions that have added to the pressure created by the 2014 oil price crash and years of PDVSA mismanagement—both factors which have plunged the Venezuelan economy into a possibly irrecoverable crisis. Just today, crypto media reported that Caracas would present its cryptocurrency, the Petro, to OPEC as a unit of account for oil trading next year. ***"We will use Petro in OPEC as a solid and reliable currency to market our crude in the world,"*** Finance Minister Manuel Quevedo said.

China is also openly promoting its currency for oil trade and all trade. The internationalization of the yuan is part of the New Silk Road initiative of President Xi and given China's level of oil consumption, oil trade is a big part of this internationalization. Earlier this year, China launched its long-awaited yuan-denominated oil futures contract. While the general trading public remains cautious about buying into it, some have forecast that the yuan will eventually replace the greenback as the global oil currency. And it could be joined by the euro as long as the European Union survives in the long term. After all, Russia and Iran are among the biggest oil exporters globally. **That's a lot of barrels that might be soon traded in euro and not dollars.**

Putin warns of financial crisis the world 'has not yet seen'

REDUCED US EXPORT TRADE

KEY MESSAGE

- The kingpin role of US policy and the dollar in world finance is an issue, and the US economy, over [the last] 30 years, has gone to less than 20 percent of world GDP, and yet the dollar is seemingly playing this dramatic role,"
- "We live in this very peculiar situation where the role of the dollar in global finance is just idiotically more important than the US economy.
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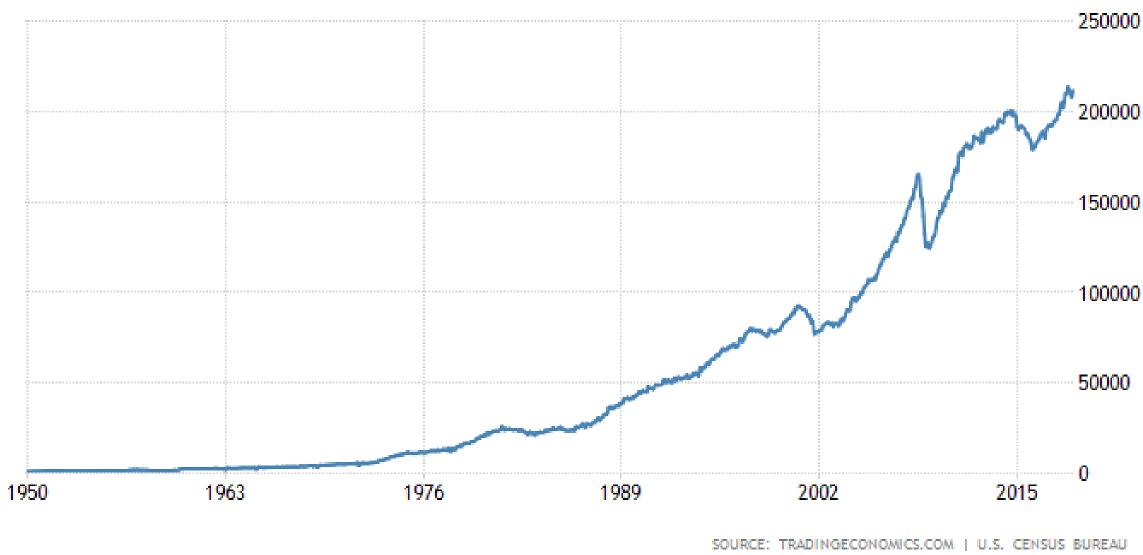
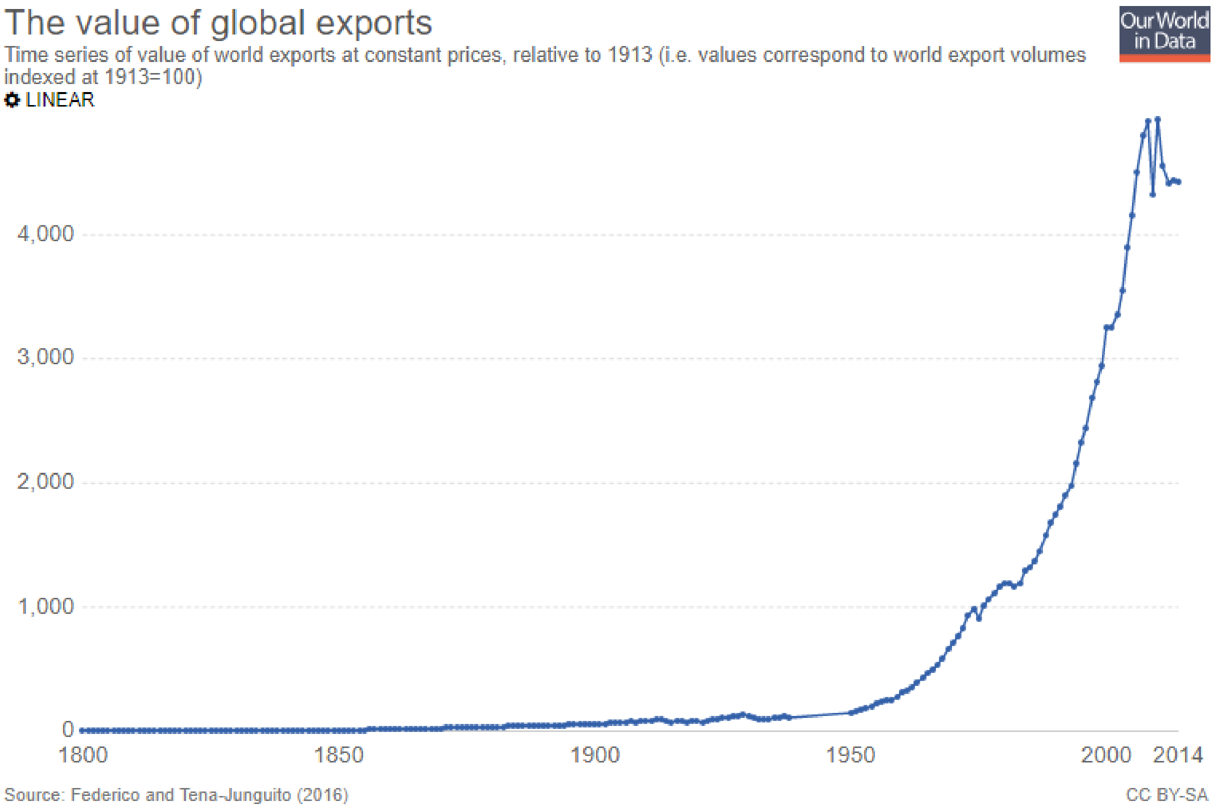
- The Chinese yuan has become more widely used, but still accounts for just 1.84 percent of global reserve currencies, while the US dollar reserves still have a vast 62.25-percent share, although this is its lowest level since 2013.

THOUGH US GDP HAS GROWN



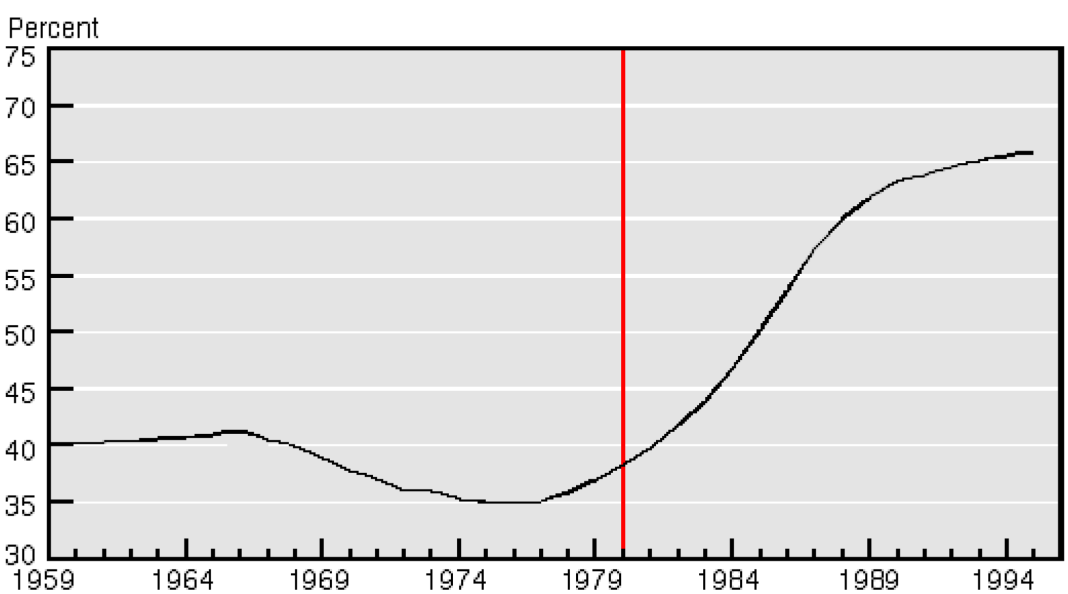
IT HASN'T COME CLOSE TO MATCHING AGGREGATE GLOBAL TRADE GROWTH

general@GordonTLong.com



THERE IS INCREASINGLY LESS NEED FOR US DOLLARS TO DO BI-LATERAL TRADE – LEVELED OF BY THE TIME CHINA ENTERED THE WTO

Figure 1: Estimated Share of U.S. Currency Held Abroad



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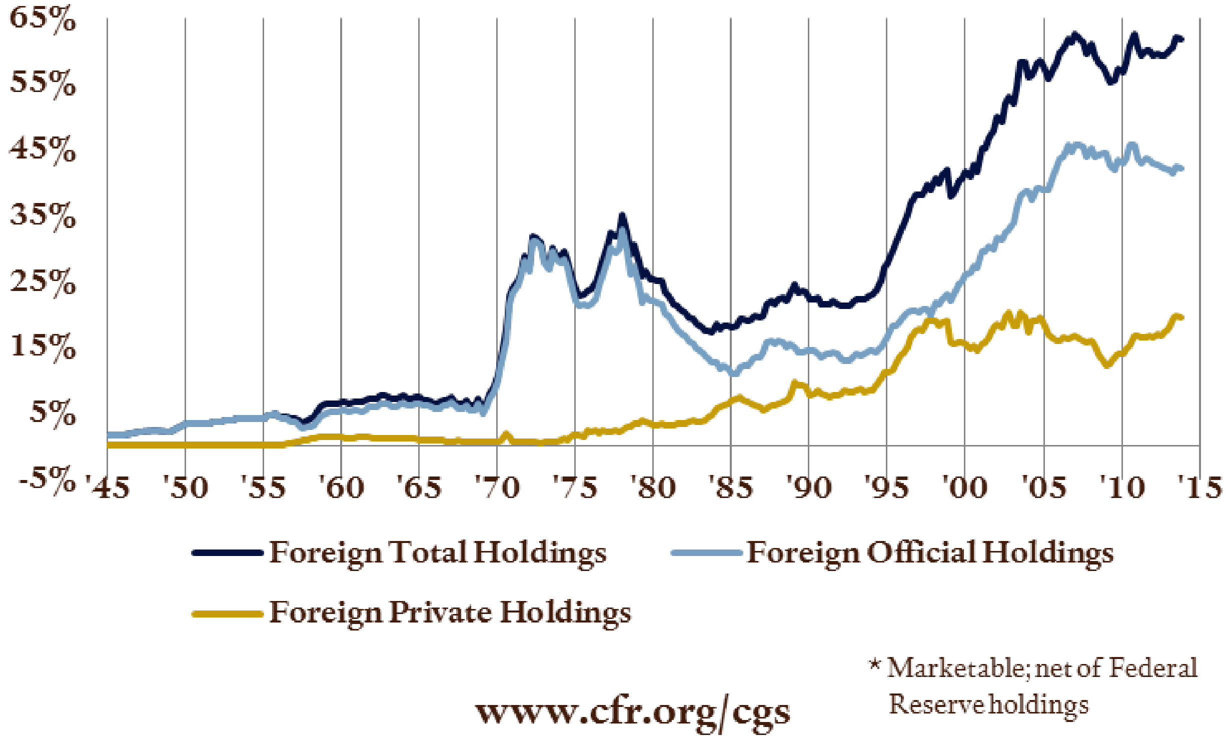


The status of the US dollar as the kingpin currency is pretty much overrated, as America's share in the global economy has been dramatically falling since the Second World War, says prominent economist Jim O'Neill.

> "We live in this very peculiar situation where the role of the dollar in global finance is just idiotically more important than the US economy. So, if a strong economy translates directly into a higher dollar, some of these things just sort-of follow like night and day," he told CNBC.
>
> The US share of global GDP now stands at 18 percent, a significant slide from the 30 percent seen after World War II. The Chinese economy has quadrupled to 16 percent, while emerging markets like the BRICS countries (Brazil, Russia, India, China, South Africa) and others account for 60 percent of global GDP.
>
> Despite this, the dollar is predominantly used by some 60 percent of countries, accounting for 70 percent of global GDP because of the Bretton-Woods system. The Chinese yuan has become more widely used, but still accounts for just 1.84 percent of global reserve currencies, while the US dollar reserves still have a vast 62.25-percent share, although this is its lowest level since 2013.
>
> "The kingpin role of US policy and the dollar in world finance is an issue, and the US economy, over [the last] 30 years, has gone to less than 20 percent of world GDP, and yet the dollar is seemingly playing this dramatic role," O'Neill said.
>
> BRICS emerging economies **have recently been increasing settlements in local currencies to avoid using the dollar**. Countries like China, Russia and Iran are in talks to substitute the greenback in oil trade.

"DE-DOLLARIZATION" ACCELERATES AS RUSSIA & CHINA PREPARE TO DITCH DOLLAR IN BILATERAL TRADE

In a time when many nations have gone public with their intention to ditch the dollar in part or in whole, in bilateral trade with non-US counterparts, either to prevent the US from having "veto power" of commerce courtesy of SWIFT or simply in response to Trump's "America First" doctrine, attention has long focused on Russia and China - the two natural adversaries to the US - to see if and when they would accelerate plans for de-dollarization.

To be sure, the two nations wouldn't be the first to reduce their reliance on the dollar, as we have discussed in recent months:

- Europe Unveils "Special Purpose Vehicle" To Bypass SWIFT, Jeopardizing Dollar's Reserve Status

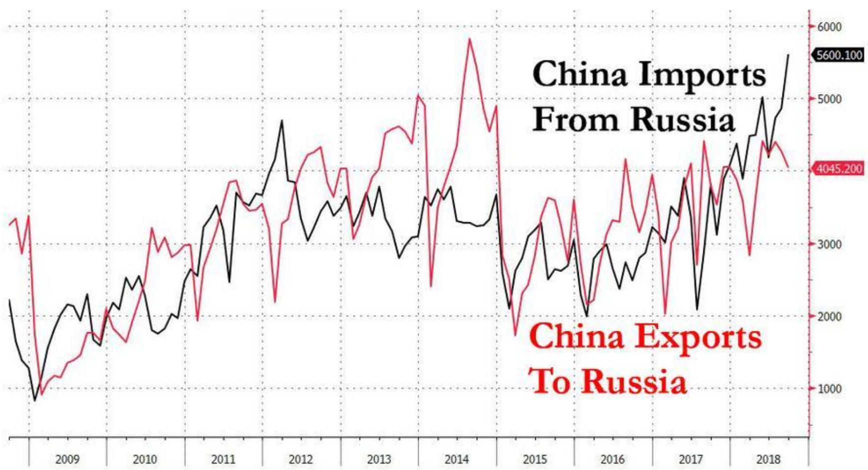
- Russia Says Time Has Come To Ditch The Dollar
- European Powers Prepare To Ditch Dollar In Trade With Iran
- Russia And India Ditch Dollar In Military Deals
- Russia Finance Minister: We May Abandon Dollar In Oil Trade As It Is Becoming "Too Risky"
- Venezuela Ditches US Dollar, Will Use Euros For International Trade

However, when it comes to symbolism and optics, no other pair of nations would have as much an impact in dumping the dollar as (quasi) superpowers China and Russia. Which is why we found it a material development when Russia's Ministry of Economic Development said on Thursday that Moscow and Beijing are working on an inter-governmental agreement to expand the use of the ruble and yuan in mutual trade settlements.

"The document is currently being prepared, the process is not easy," said Deputy Minister of Russia's Economic Development Sergey Gorkov, as quoted by TASS. "Russia and China have had some experience of using national currencies in bilateral trade."

Gorkov said that Russia and China had been successfully implementing the terms of ruble-yuan currency swap agreement signed in 2014 to boost bilateral trade using national currencies and eliminate dependence on the dollar and the euro. The deal was extended at the end of 2017. Gorkov, however, did not provide information about when the new document will be signed.

Largely as a result of Russian commodity exports to China, trade turnover between Russia and China has grown substantially over the recent years. The volume of mutual trade between the nations rose by 30%, reaching $77 billion from January to September, according to the latest data from China's General Administration of Customs.



Meanwhile, having been increasingly shunned by the West, China has become Russia's largest trading partner, accounting for 15% of Russian international trade in 2017. The countries expect bilateral trade to hit $100 billion this year and plan to steadily boost it to $200 billion by 2024.

So how has dedollarization worked out so far in bilateral trade between the two nations? According to RT, in 2017, 9% of payments for supplies from Russia to China were made in rubles; while Russian companies paid 15% of Chinese imports in yuan. While the numbers seem modest, consider that just three years ago, the numbers were 2% and 9% percent, respectively.

And with Trump sure to continue antagonizing Beijing (and Moscow) for the next two years (at least), it would hardly be surprising if by the end of Trump's first term, approximately half of Russian-China trade is denominated in currencies other than the dollar.

ABUSED RESERVE CURRENCY "EXORBITANT PRIVILGE"

Valéry Giscard d'Estaing, France's finance minister in the 1960s, who once described the enormous benefit America derived from the dollar's reserve status as its "exorbitant privilege". The world's need for dollars lets America borrow at lower cost. American companies are spared the hassle of transacting in another currency. Those suitcases of dollars so beloved of international arms smugglers and drug kingpins all represent interest-free loans to America.

Is Trump Weaponizing America's Exorbitant Privilege?

SOURCE: 08-22-18 Christopher A. McNally Professor of Political Economy, Chaminade University – "Is Trump Weaponizing America's Exorbitant Privilege?"

MATASII SYNTHESIS

- The Trump administration seems to have accidentally stumbled upon a means to weaponize America's "exorbitant privilege."
- In times of global economic turbulence, exorbitant privilege means that safe-haven flows benefit U.S. financial conditions, especially the "risk-free" U.S. treasury market.
- If such flows are combined with glacial increases in short-term interest rates by the Federal Reserve and substantial fiscal expansion by the U.S. government, global turmoil can actually allow the U.S. to economically outperform the rest of the world.
- The role of the US dollar in the global economy has created a paradoxical arrangement: whenever risks in the global economy rise, capital flows to the United States, and the USD appreciates. This is even the case when economic turmoil emanates from the United States itself.
- since the USD is the world's dominant reserve currency, when things go wrong, everyone flees into the safety of U.S. assets, and especially U.S. treasury securities, which are traded in the most liquid market on the globe and seen as the least risky asset class.
- The United States benefits from greater macro-economic stability, since the risk of a currency crisis does not exist – the United States owes all its debts in its own currency, so all it needs to do is print more dollars. This can help smooth out the boom-bust cycles of capitalism. When things go wrong anywhere in the world, everyone flees to the USD, giving the Federal Reserve greater leeway to stimulate the economy.
- No one accuses the Fed of maliciously creating the housing bubble to gain more power. At the end of the day, U.S. policy-makers have never deliberately engineered economic havoc for the purpose of creating safe-haven flows that lower U.S. interest rates, especially long-term rates.
- We might be entering a new era.

REFERENCE ARTICLE: Is Trump Weaponizing America's Exorbitant Privilege?

The Trump administration seems to have accidentally stumbled upon a means to weaponize America's "exorbitant privilege." The term, coined by Valéry Giscard d'Estaing, the French minister of finance in the 1960s and later, French president, expresses the benefits garnered by the United States from being the issuer of the international reserve currency.

In times of global economic turbulence, exorbitant privilege means that safe-haven flows benefit U.S. financial conditions, especially the "risk-free" U.S. treasury market. If such flows are combined with glacial increases in short-term interest rates by the Federal Reserve and substantial fiscal expansion by the U.S. government, global turmoil can actually allow the U.S. to economically outperform the rest of the world.

Larry Kudlow, President Trump's economic advisor, recently boasted that "trillions of dollars of capital from all over the world is coming into the United States because our economy, our investors, our workforce are crushing it right now. We are crushing it." For sure, external flows into the United States are due to better economic prospects here and the expectation of higher short-term interest rates. But they are also due to increasing economic turmoil abroad. And this time, the turmoil is in part due to economic measures implemented by the White House.

The role of the US dollar in the global economy has created a paradoxical arrangement: whenever risks in the global economy rise, capital flows to the United States, and the USD appreciates. This is even the case when economic turmoil emanates from the United States itself.

When the U.S. housing bubble popped, the American financial system almost froze up after the collapse of Lehman Brothers in September 2008. But in this extreme risk-off environment, global fund flows still favored the United States, allowing the Federal Reserve to rapidly lower interest rates and pump money into the economy without the risk of a rapid outflow of funds and consequent currency crisis.

As many developing economies are aware, this is an exorbitant privilege.
Economic crises generally trigger a retreat by both domestic and foreign investors as they seek safe havens to park their assets. In the extreme, such "sudden stops" can precipitate a currency crisis. But since the USD is the world's dominant reserve currency, when things go wrong, everyone flees into the safety of U.S. assets, and especially U.S. treasury securities, which are traded in the most liquid market on the globe and seen as the least risky asset class.

This is perhaps the greatest benefit of the exorbitant privilege. Naturally, there are also drawbacks, such as a higher-valued currency than would otherwise be the case. This causes a loss of export competitiveness and large current account deficits. However, the advantages are generally recognized to outweigh the drawbacks.

Most importantly, the United States benefits from greater macro-economic stability, since the risk of a currency crisis does not exist – the United States owes all its debts in its own currency, so all it needs to do is print more dollars. This can help smooth out the boom-bust cycles of capitalism. When things go wrong anywhere in the world, everyone flees to the USD, giving the Federal Reserve greater leeway to stimulate the economy.

All of the economic crises that created safe-haven flows to the USD after 1980 have been at best accidents, at worst due to the folly of market participants and policy-makers. For instance, many hold that the Federal Reserve was insufficiently cautious and failed to pro-actively forestall the housing bubble. Nevertheless, no one accuses the Fed of maliciously creating the housing bubble to gain more power. At the end of the day, U.S. policy-makers have never deliberately engineered economic havoc for the purpose of creating safe-haven flows that lower U.S. interest rates, especially long-term rates.

We might be entering a new era. It is highly unlikely that the Trump administration thought this through and deliberately created the economic turbulence that is now strengthening U.S. economic prospects. Moreover, a series of factors have coalesced to make this possible, but the fact remains: the U.S. seems to be "winning" the trade skirmish with China and certainly has the upper hand vis-à-vis Turkey.

In the case of Turkey, its economy was already in dire straits with a yawning current account deficit and political interference inducing a loss of trust in the efficacy of the Turkish central bank. For economic observers, Turkey was well on its way to economic trouble, representing a textbook case of an emerging-market crisis.

Nevertheless, the Trump administration's imposition of economic sanctions on Turkey for political reasons is pushing the Turkish economy over the edge. This is economic coercion par excellence. And the fear of contagion to other emerging markets is creating safe-haven flows into the USD.

This time, the transition mechanism of these flows into the U.S. economy is especially strong, since the federal government is engaging in considerable economic stimulus via tax cuts and a big spending bill. The upshot is lower U.S. long-term rates (the Federal Reserve is raising short-term rates, albeit very slowly), allowing the government to borrow at relatively low rates and making the economic stimulus more affordable. This, naturally, creates greater confidence in U.S. economic prospects, engendering a virtuous feedback loop.

China also has its own dynamics, but again the initiation of a trade skirmish by the Trump administration seems to be hurting Chinese economic prospects more than its rival's. Larry Kudlow went as far as to argue that the Chinese economy "looks terrible." Although an overstatement, Chinese stock markets are in bear market territory while the Chinese yuan has devalued by almost 10% vis-à-vis the USD since April 2018.

The downturn in Chinese markets is in part due to Beijing's debt deleveraging campaign and greater oversight of how Chinese local governments finance infrastructure projects. However, the economic sanctions by the White House are clearly intended to inflict pain on China. At this crucial point in time, they are heightening economic uncertainty, leading to safe-haven flows that favor the United States.

In this context, Li Xiao, the Dean of Jilin University's School of Economics, notes that China's economic ascent was "essentially a status rise within the dollar system." While China has benefited from the USD system and become one of its main supporters and risk bearers, it is structurally locked in a subordinate position.

Like most developing economies, China depends on the USD in global trade and finance, while a large part of its national savings are in USD. Although Beijing has a political advantage – the Chinese political economy is likely to be able to absorb more economic pain – China is nonetheless wedged into an inferior role. The more the Trump administration ups the ante, the more Beijing must fear capital outflows and financial instability.

It is almost as if the Trump administration has found a way to "Make America Great Again" by creating economic havoc abroad. Yet, there is a big irony: the weaponization of its exorbitant privilege runs directly counter to Trump's single-minded focus on lowering the U.S. trade deficit.

Perhaps the last thing Trump wants is a massive USD rally spurred by a crumbling world economy. The United States would then start to run even larger trade deficits, becoming the global economy's consumer of last resort, a natural stabilizer role built into the exorbitant privilege. But this means a massive trade deficit and loss of global competitiveness for American industry.

Trump's liberal use of economic sanctions and tariffs is creating multiple unintended consequences. More ominously, abusing the exorbitant privilege in this manner could spell long-term disaster for the USD's role as the principal international reserve currency. For now, there are no viable alternatives. But a reserve currency issuer that creates economic havoc, seemingly on purpose, to strengthen its own economic conditions may soon find that global confidence in its role as steward of the international economy evaporating.

CHALLENGING THE PETRO$ WITH THE PETROYUAN

SOURCE: 04-10-17 Federico Pieraccini – "Challenging the Dollar: China and Russia's Plan from Petroyuan to Gold"

MATASII SYNTHESIS

- The reason the dollar plays such an important role in the world economy is due to the following three major factors:
    - The Petrodollar,
    - The Dollar as World Reserve Currency,
    - Nixon's decision in 1971 to no longer make the dollar convertible into gold.
- As is easy to guess, the petrodollar strongly influenced the composition of the SDR basket, making the dollar the world reserve currency, spelling grave implications for the global economy due to Nixon's decision to eliminate the dollar's convertibility into gold.
- Until a few decades ago, any idea of straying away from the petrodollar was seen as a direct threat to American global hegemony, requiring of a military response.
- In recent years, it has become clear to many nations opposing Washington that the only way to adequately contain the fallout from the collapsing US empire is to progressively abandon the dollar.

REFERENCE RESEARCH ARTICLE: CHALLENGING THE PETRO$ WITH THE PETROYUAN

Most of the problems for the rest of the world began from a combination of these three factors.

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Most of the problems for the rest of the world began from a combination of these three factors.

Dollar-Petrodollar-Gold

The largest geo-economic change in the last fifty years was arguably implemented in 1973 with the agreement between OPEC, Saudi Arabia and the United States to sell oil exclusively in dollars.

Specifically, Nixon arranged with Saudi King Faisal for Saudis to only accept dollars as a payment for oil and related investments, recycling billions of excess dollars into US treasury bills and other dollar-based financial resources. In exchange, Saudi Arabia and other OPEC countries came under American military protection. It reminds one of a mafia-style arrangement: the Saudis are obliged to conduct business in US dollars according to terms and conditions set by the US with little argument, and in exchange they receive generous protection.

The second factor, perhaps even more consequential for the global economy, is the dollar becoming the world reserve currency and maintaining a predominant role in the basket of international foreign-exchange reserves of the IMF ever since 1981. The role of the dollar, linked obviously to the petrodollar trade, has almost always maintained a share of more than 40% of the Special Drawing Right (SDR) basket, while the euro has maintained a stable share of 29-37% since 2001. In order to understand the economic change in progress, it is sufficient to observe that the yuan is now finally included in the SDR, with an initial 10% share that is immediately higher than the yen (8.3%) and sterling (8.09%) but significantly less than the dollar (41%) and euro (31%). Slowly but significantly Yuan currency is becoming more and more used in global trade.

The reason why the United States has been able to fuel this global demand for dollars is linked to the need for other countries to own dollars in order to be able to buy oil and other goods. For example, if a Bolivian company exports bananas to Norway, the payment method requires the use of dollars. Norway must therefore own US currency to pay and receive the goods purchased. Similarly, the dollars Bolivia receives will be used to buy other necessities like oil from Venezuela. It may seem unbelievable, but practically all countries until a few years ago used US dollars to trade amongst each other, even countries that were anti-American and against US imperialist policies.

This continued use of the dollar has had some devastating effects on the globe. First of all, the intense use of the American currency, coupled with Nixon's decisions, created an economic standard based on the dollar that soon replaced precious metals like gold, which had been the standard for the global economy for years. This has led to major instability and to economic systems that have in the proceeding years created disastrous financial policies, as seen in 2000 and 2008, for example. The main source of economic reliability transferred from gold to dollars, specifically to US treasury bills. This major shift allowed the Federal Reserve to print dollars practically without limit (as seen in recent years with interests rates for borrowing money from the FED at around 0%), well aware that the demand for dollars would never cease, this also keeping alive huge sectors of private and public enterprises (such as the fracking industry). This set a course for a global economic system based on financial instruments like derivatives and other securities instead of real, tangible goods like gold. In doing this for its own benefit, the US has created the conditions for a new financial bubble that could even bring down the entire world economy when it bursts.

The United States found itself in the enviable position of being able to print pieces of paper (simply IOU's) without any gold backing and then exchange them for real goods. This economic arrangement has allowed Washington to achieve an unparalleled strategic advantage over its geopolitical opponents (initially the USSR, now Russia and China), namely, a practically unlimited dollar-spending capacity even as it accumulates an astronomical public debt (about 21 trillion dollars). The destabilizing factor for the global economy has been Washington's ability to accumulate enormous amounts of public debt without having to worry about the consequences or even of any possible mistrust international markets may have for the dollar. Countries simply needed dollars for trade and bought US treasures to diversify their financial assets.

The continued use of the dollar as a means of payment for almost everything, coupled with the nearly infinite capacity of the of FED to print money and the Treasury to issue bonds, has led the dollar to become the primary safe refuge for organizations, countries and individuals, legitimizing this perverse financial system that has affected global peace for decades.

Dollars and War: The End?

The problems for the United States began in the late 1990s, at a time of expansion for the US empire following the demise of the Soviet Union. The stated geopolitical goal was the achievement of global hegemony. With unlimited spending capacity and an ideology based on American exceptionalism, this attempt seemed to be within reach for the policymakers at the Pentagon and Wall Street. A key element for achieving global hegemony consisted of stopping China, Russia and Iran from creating a Eurasian area of integration. For many years, and for various reasons, these three countries continued to conduct large-scale trade in US dollars, bowing to the economic dictates of a fraudulent financial system created for the benefit of the United States. China needed to continue in its role of becoming the world's factory, always having accepted dollar payments and buying hundreds of billions of US treasury bills. With Putin, Russia began almost immediately to de-dollarize, repaying foreign debts in dollars, trying to offload this economic pressure. Russia is today one of the countries in the world with the least amount of public and private debt denominated in dollars, and the recent prohibition on the use of US dollars in Russian seaports is the latest example. For Iran, the problem has always been represented by sanctions, creating great incentives to bypass the dollar and find alternative means of payment.

The decisive factor that changed the perception of countries like China and Russia was the 2008 financial crisis, as well as growing US aggression ever since the events in Yugoslavia in 1999. The Iraq war, along with other factors, prevented Saddam from starting an oil trade in euro, which threatened the dollar's financial hegemony in the Middle East. War and the America's continued presence in Afghanistan stressed Washington's intentions to continue encircling China, Russia and Iran in order to prevent any Eurasian integration. Naturally, the more the dollar was used in the world, the more Washington had the power to spend on the military. For the US, paying a bill of 6 trillion dollars (this is the cost of the wars in Iraq and Afghanistan) has been effortless, and this constitutes an unparalleled advantage over countries like China and Russia whose military spending in comparison is a fifth and a tenth respectively.

The repeated failed attempts to conquer, subvert and control countries like Afghanistan, Georgia, Iraq, Libya, Syria, Donbass, North Korea, Egypt, Tunisia, Yemen and Venezuela, have had significant effects on the perception of US military power. In military terms, Washington faced numerous tactical and strategic defeats, with the Crimean peninsula returning to Russia without a shot fired and with the West unable to react. In Donbass, the resistance inflicted huge losses on the NATO-supported Ukrainian army. In North Africa, Egypt is now under the control of the army, following an attempt to turn the country into a state under the control of the Muslim Brotherhood. Libya, after being destroyed, is now divided into three entities, and like Egypt seems to be looking with favorable regard towards Moscow and Beijing. In the Middle East, Syria, Turkey, Iran and Iraq are increasingly cooperating in stabilizing regional conflicts, where needed they are backed by Russian military power and Chinese economic strength. And of course the DPRK continues to ignore US military threats and has fully developed its conventional and nuclear deterrent, effectively making those US threats null and void.

Color revolutions, hybrid warfare, economic terrorism, and proxy attempts to destabilize these countries have had devastating effects on Washington's military credibility and effectiveness. The United States finds itself being considered by many countries to be a massive war apparatus that struggles to get what it wants, struggles to achieve coherent common goals, and even lacks the capability to control countries like Iraq and Afghanistan in spite of its overwhelming military superiority.

No One Fears You!

Until a few decades ago, any idea of straying away from the petrodollar was seen as a direct threat to American global hegemony, requiring of a military response. In 2017, given the decline in US credibility as a result of triggering wars against smaller countries (leaving aside countries like Russia, China, and Iran that have military capabilities the likes of which the US has not faced for more than seventy years), a general recession from the dollar-based system is taking place in many countries.

In recent years, it has become clear to many nations opposing Washington that the only way to adequately contain the fallout from the collapsing US empire is to progressively abandon the dollar. This serves to limit Washington's capacity for military spending by creating the necessary alternative tools in the financial and economic realms that will eliminate Washington's dominance. This is essential in the Russo-Sino-Iranian strategy to unite Eurasia and thereby render the US irrelevant.

De-dollarization for Beijing, Moscow and Tehran has become a strategic priority. Eliminating the unlimited spending capacity of the FED and the American economy means limiting US imperialist expansion and diminishing global destabilization. Without the usual US military power to strengthen and impose the use of US dollars, China, Russia and Iran have paved the way for important shifts in the global order.

The US shot itself in the foot by accelerating this process through their removal of Iran from the SWIFT system (paving the way for the Chinese alternative, known as CIPS) and imposing sanctions on countries like Russia, Iran and Venezuela. This also accelerated China and Russia's mining and acquisition of physical gold, which is in direct contrast to the situation in the US, with rumors of the

FED no longer possessing any more gold. It is no secret that Beijing and Moscow are aiming for a gold-backed currency if and when the dollar should collapse. This has pushed unyielding countries to start operating in a non-dollar environment and through alternative financial systems.

A perfect example of how this is being achieved can be seen with Saudi Arabia, which has represented the crux of the petrodollar.

De-dollarize

Beijing has started putting strong pressure on Riyadh to start accepting yuan payments for oil instead of dollars, as are other countries such as the Russian Federation. For Riyadh, this is an almost existential issue. Riyadh is in a delicate situation, dedicated as it is to keeping the US dollar tied to oil, even though its main ally, the US, has pursued in the Middle East a contradictory strategy, as seen with the JCPOA agreement. Iran, the main regional enemy of Saudi Arabia, was able to have sanctions lifted (especially from Europeans countries) thanks to the JCPOA. In addition, Iran was able to pursue a historic victory with its allies in Syria, gaining a preeminent role in the region and aspiring to become a regional powerhouse. Riyadh is obliged to obey the US, an ally that does not care about its fate in the region (Iran is increasingly influential in Iraq, Syria and Lebanon) and is even competing in the oil market. To make matters worse for Washington, China is Riyadh's largest customer; and considering the agreements with Nigeria and Russia, Beijing can safely stop buying oil from Saudi Arabia should Riyadh continue to insist on receiving payment only in dollars. This would badly hurt the petrodollar, a perverse system that damages China and Russia most of all.

For China, Iran and Russia, as well as other countries, de-dollarization has become a pressing issue.

The number of countries that are beginning to see the benefits of a decentralized system, as opposed to the US dollar system, is increasing. Iran and India, but also Iran and Russia, have often traded hydrocarbons in exchange for primary goods, thereby bypassing American sanctions.

Likewise, China's economic power has allowed it to open a 10-billion-euro line of credit to Iran to circumvent recent sanctions. Even the DPRK seems to use cryptocurrencies like bitcoin to buy oil from China and bypass US sanctions. Venezuela (with the largest oil reserves in the world) has just started a historic move to completely renounce selling oil in dollars, and has announced that it will start receiving money in a basket of currencies without US dollars. (This is not to mention the biggest change to have occurred in the last 40 years). Beijing will buy gas and oil from Russia by paying in yuan, with Moscow being able to convert yuan into gold immediately thanks to the Shanghai International Energy Exchange. This gas-yuan-gold mechanism signals a revolutionary economic change through the progressive abandonment of the dollar in trade.

US Dollar Status as Global Reserve Currency?

12-31-18 - Wolf Street - "US Dollar Status as Global Reserve Currency?"

MATASII SYNTHESIS:

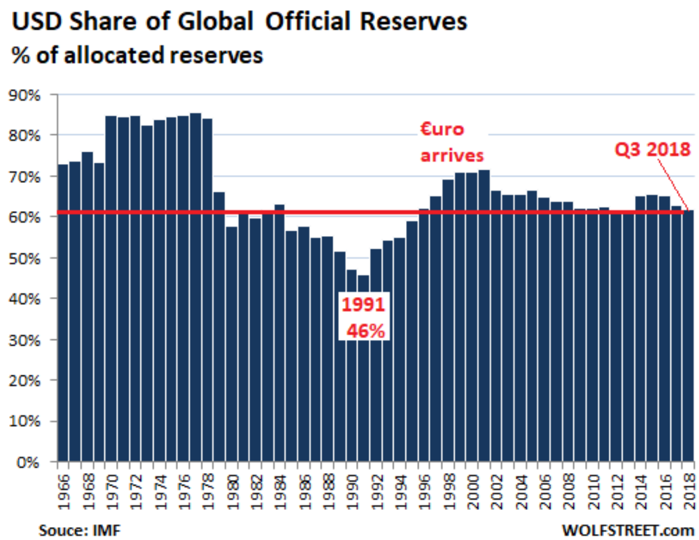
- Total global foreign exchange reserves, in all currencies, came in at $11.4 trillion in the third quarter,
- The amount of USD-denominated exchange reserves was $6.63 trillion. This amounted to 61.9% of total foreign exchanges reserves held by central banks, the lowest since 2013
- The combined share of the dollar and the euro, at 82.4%, leaves only 17.6% for all other currencies combined.
    - The two currencies with the largest share in that group are the Japanese yen, at 5.0%, and the UK pound sterling, at 4.5%.
- In Q3, the euro's share rose to 20.5%, the highest since Q4 2014. The creation of the euro was an effort to reduce the dollar's hegemony. At the time, the theme was that the euro would reach "parity" with the dollar.
    - The euro Debt Crisis ended that dream.
- On October 1, 2016, the IMF added the Chinese renminbi to its currency basket, the Special Drawing Rights (SDR). This elevated it to a global reserve currency.
    - The RMB's share, after jumping nearly half a percentage point to 1.84% in Q2, has now inched down to 1.80% in Q3.
    - Given the size and globalized nature of China's economy, Central banks remain less than enthusiastic about holding RMB-denominated assets:
- The fact that the dollar is still the top reserve currency and top international funding currency allows for its trade deficits to be financed easily, and this has made those trade deficits possible over the past two decades.
- There is no telling for how long this can continue without causing some sort of never-before-seen financial mess.

REFERENCE RESEARCH ARTICLE: US Dollar Status as Global Reserve Currency?

So, how hot is the Chinese Renminbi? And is the euro dead yet?

The US dollar's role as global reserve currency is defined by the amounts of US dollar-denominated assets – US Treasury securities, corporate bonds, etc. – that central banks other than the Fed are holding in their foreign exchange reserves. To diminish the dollar's role as a global reserve currency, these central banks would have to dump the dollar.

So, let's see. Total global foreign exchange reserves, in all currencies, came in at $11.4 trillion in the third quarter, according to the IMF's data on "Currency Composition of Official Foreign Exchange Reserves" (COFER), released this morning. The amount of USD-denominated exchange reserves was $6.63 trillion. This amounted to 61.9% of total foreign exchanges reserves held by central banks, the lowest since 2013:



In the chart above, note the arrival of the euro. It became an accounting currency in the financial markets in 1999, replacing the European Currency Unit. Euro banknotes and coins appeared on January 1, 2002. At the end of 2001, the dollar's share of reserve currencies was 71.5%. In 2002, it dropped to 66.5%. Now it's down to 62.2%.

The euro replaced a gaggle of European currencies that had been held as foreign exchange reserves, on top of which was the Deutsche mark.

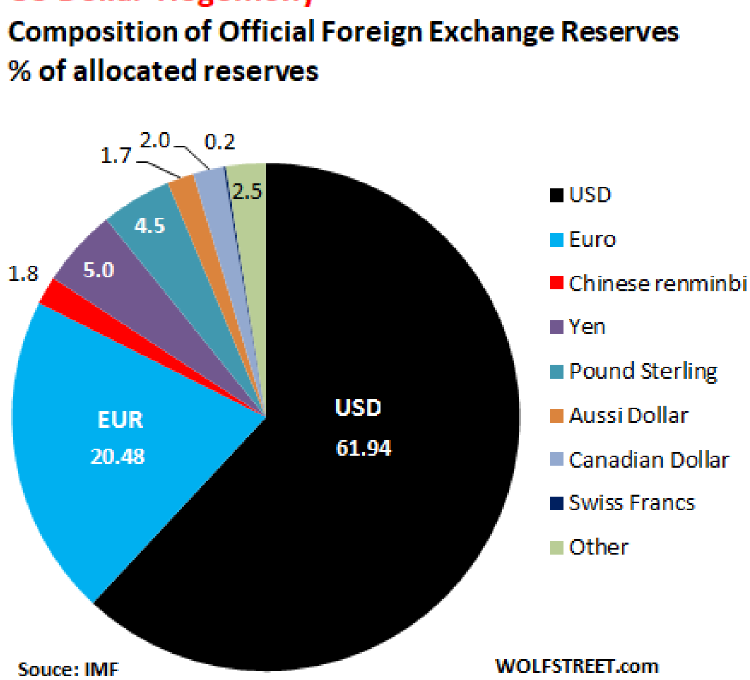
In Q3, the euro's share rose to 20.5%, the highest since Q4 2014. The creation of the euro was an effort to reduce the dollar's hegemony. At the time, the theme was that the euro would reach "parity" with the dollar. But the euro Debt Crisis ended that dream.

The other major reserve currencies don't have a "major" share. The combined share of the dollar and the euro, at 82.4%, leaves only 17.6% for all other currencies combined. The two currencies with the largest share in that group are the Japanese yen, at 5.0%, and the UK pound sterling, at 4.5%.

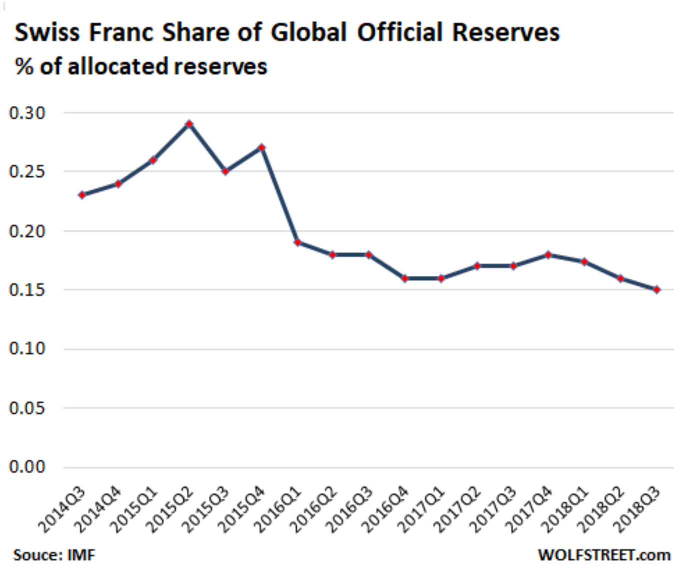
And the Chinese renminbi? On October 1, 2016, the IMF added it to its currency basket, the Special Drawing Rights (SDR). This elevated it to a global reserve currency. Some people thought, or hoped that, being the currency of the second largest economy in the world, it would dethrone the dollar's status as hegemon. The process is sputtering along. The RMB's share, after jumping nearly half a percentage point to 1.84% in Q2, has now inched down to 1.80% in Q3.

In the pie chart below, the RMB is the thin red slice – minuscule, given the size and globalized nature of China's economy. Central banks remain less than enthusiastic about holding RMB-denominated assets:

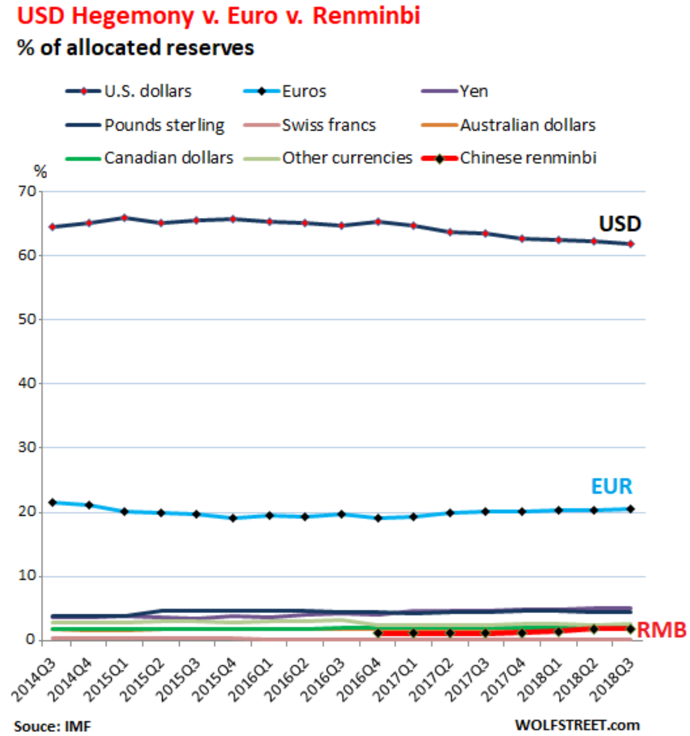
US Dollar Hegemony



The Swiss franc, the barely visible black line in the pie chart above, is becoming more irrelevant in this lineup, as its share has now dropped to 0.15%, though it plays an outsized role in the currency-trading sphere:



The chart below shows the major reserve currency trends over time. The US dollar's share (black line at the top) of reserve currencies has edged down. The euro (blue line) has been vacillating at around 20% for years. The Chinese RMB is the bright red line at the bottom as of its inclusion in the SDR basket. It's above the Swiss franc and sandwiched between the Australian dollar and the Canadian dollar:



All this data is based on the currencies' share of "allocated" reserves. Not all central banks disclose to the IMF how their total foreign exchange reserves are "allocated" by specific currency. But disclosure has increased and the data is becoming more complete. In Q4 2014, "allocated" reserves accounted for only 59% of total reserves. By Q3 2018, this has risen to 93.9%.

There is a theory circulating that the US, as the country with "the" global reserve currency, "***must have"*** a huge trade deficit with the rest of the world. This ***"must have***" is patently not the case because the Eurozone, which has the second largest reserve currency, has a large trade surplus with the rest of the world.

However, the fact that the dollar is still the top reserve currency and top international funding currency allows for those trade deficits to be financed easily, and this has made those trade deficits possible over the past two decades. There is no telling for how long this can continue without causing some sort of never-before-seen financial mess. But that moment isn't on the horizon yet.

U.S. dollar share of global currency reserves hits near 5-year low: IMF

12-28-19 - Reuters - "U.S. dollar share of global currency reserves hits near 5-year low: IMF"

MATASII SYNTHESIS:

- Total allocated reserves increased to $10.71 trillion in the third quarter from $10.51 trillion in the previous quarter
- Central banks appear to further diversify their reserves away from the greenback

CHANGE

- US$: The U.S. dollar's share of currency reserves reported to the International Monetary Fund fell in the third quarter to a near five-year low,

    - Reserves held in U.S. dollars rose to $6.63 trillion, or 61.94 percent of allocated reserves, in the third quarter, from $6.56 trillion, or 62.4 percent, in the second quarter.
    - The share of allocated U.S. dollar reserves declined to its smallest since the 61.27 percent in the fourth quarter of 2013
- EURO: The euro's share of reserves grew to its largest in almost four years,
    - The euro's share of global reserves climbed to 20.48 percent, its biggest since the fourth quarter of 2014. It was 20.25 percent in the quarter before.
- YEN: Reserves held in Japanese yen reached a 16-year peak in the third quarter
    - The yen's share of allocated reserves expanded to 4.98 percent, its largest since the third quarter of 2002. The Japanese currency's share of reserves was 4.86 percent in the second quarter.
- YUAN: The Chinese yuan's share of allocated reserves shrank for the first time in the third quarter since the IMF began reporting its share of central bank holdings in the fourth quarter of 2016.
    - The share of allocated currency reserves held in yuan, also known as renminbi, slipped to 1.80 percent in the third quarter from 1.84 percent in the prior quarter.

U.S. dollar share of global currency reserves hits near 5-year low: IMF

(Reuters) - The U.S. dollar's share of currency reserves reported to the International Monetary Fund fell in the third quarter to a near five-year low, while the euro's share of reserves grew to its largest in almost four years, data released on Friday showed.

The Chinese yuan's share of allocated reserves shrank for the first time in the third quarter since the IMF began reporting its share of central bank holdings in the fourth quarter of 2016.

Reserves held in Japanese yen reached a 16-year peak in the third quarter, IMF data showed.

Global reserves are assets of central banks held in different currencies, primarily used to support their liabilities. Central banks sometimes use reserves to help support their respective currencies.

Total allocated reserves increased to $10.71 trillion in the third quarter from $10.51 trillion in the previous quarter.

Reserves held in U.S. dollars rose to $6.63 trillion, or 61.94 percent of allocated reserves, in the third quarter, from $6.56 trillion, or 62.4 percent, in the second quarter. The share of allocated U.S. dollar reserves declined to its smallest since the 61.27 percent in the fourth quarter of 2013, IMF data showed.

Central banks appear to further diversify their reserves away from the greenback, which remains the world's dominant reserve currency.

The dollar edged up 0.5 percent against a basket of major currencies .DXY in the third quarter as a strong U.S. labor market and expectations of further interest rate increases from the Federal Reserve were offset by U.S.-China trade tensions.

The share of allocated currency reserves held in yuan, also known as renminbi, slipped to 1.80 percent in the third quarter from 1.84 percent in the prior quarter.

The currency of China, the world's second biggest economy CNY=, fell 3.8 percent on a spot basis against the dollar in third quarter as the Trump administration threatened to impose more U.S. tariffs on Chinese goods.

While the dollar and yuan's shares of foreign exchange reserves contracted, the euro and yen's shares grew despite sluggish economic growth in those regions.

Ranked second behind the greenback, the euro's share of global reserves climbed to 20.48 percent, its biggest since the fourth quarter of 2014. It was 20.25 percent in the quarter before.

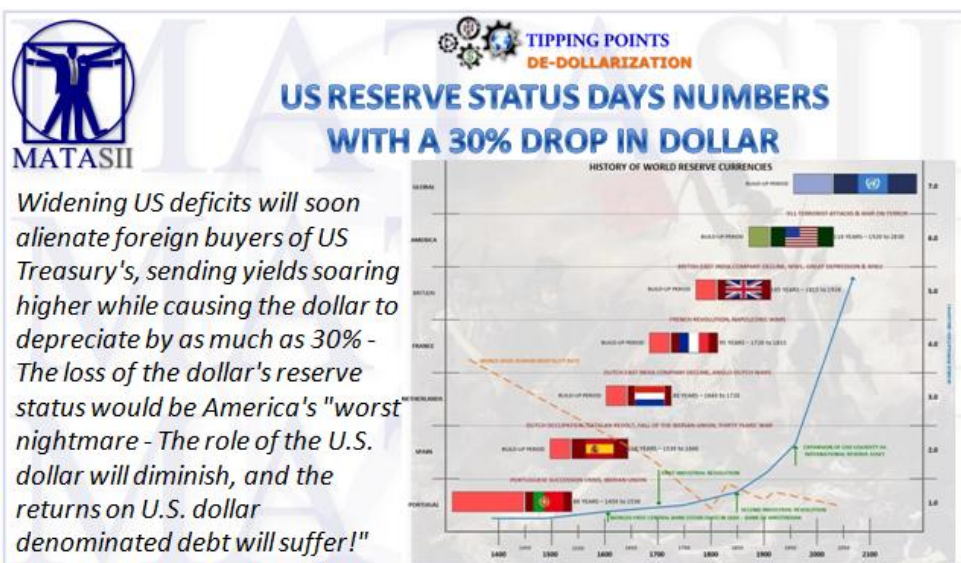
The yen's share of allocated reserves expanded to 4.98 percent, its largest since the third quarter of 2002. The Japanese currency's share of reserves was 4.86 percent in the second quarter.

Ray Dalio: Losing 'Reserve Status' Would Lead To 30% Drop In The Dollar

11-19-18 - "Ray Dalio: Losing 'Reserve Status' Would Lead To 30% Drop In The Dollar"

MATASII SYNTHESIS:

- The US dollar's days as the dominant global reserve currency are numbered,
- Widening US deficits will soon alienate foreign buyers of US Treasurys, sending yields soaring higher while causing the dollar to depreciate by as much as 30% ***(though at least the Fed would no longer have any trouble meeting its inflation target),***
- The loss of the dollar's reserve status would be America's "worst nightmare.",
- "The role of the U.S. dollar will diminish, and the returns on U.S. dollar-denominated debt will suffer," --- "Then I think you will see the emergence of other currencies,"
- the entire world is "leveraged long", and that asset returns in the coming years would be middling to negative for the foreseeable future,
- "When you're at a zero interest rate in the US, a zero interest rate in Europe and a zero interest rate in Japan, I think we've squeezed out a lot of assets.
- I think the world by and large is leveraged long. Meaning the buying of debt - corporate debt.
- One of the biggest sources of returns on assets was the fact that the interest rate was low relative to the return on equity. There were a lot of buybacks and mergers and acquisitions by companies buying companies. Then you had corporate tax cuts... all of those things have pushed asset prices to the level where it's difficult to see if you could squeeze more."



REFERENCE RESEARCH ARTICLE: Ray Dalio: Losing 'Reserve Status' Would Lead To 30% Drop In The Dollar

During a live interview with Barry Ritholtz for his "Masters In Business" podcast on Monday, Bridgewater Associates CEO - who has been on a seemingly never-ending media tour to promote his new free e-book "A Template For Understanding Big Debt Crises" - once again expounded upon his "1937" markets thesis: That is, his theory that the US economy increasingly resembles the late-cycle dynamic from the 1930s where equity prices topped out as the Federal Reserve tightened monetary policy. Like the 1930s, the global economy is awash and debt, and populist politicians gaining power and influence in the West.

But more interesting than Dalio's retread of his calls for a recession to begin some time during the next two years, he also repeated a claim he first made back in September, which has been getting more attention since BlackRock CEO Larry Fink said something similar earlier this month: **That the US dollar's days as the dominant global reserve currency are numbered.**

Echoing Fink's claims, Dalio explained that widening US deficits will soon alienate foreign buyers of US Treasurys, sending yields soaring higher **while causing the dollar to depreciate by as much as 30% (though at least the Fed would no longer have any trouble meeting its inflation target).**

Bloomberg's Brian Chappatta reviewed Dalio's remarks in a column published Monday, where he cited previous comments by the hedge fund billionaire where Dalio said the loss of the dollar's reserve status would be America's **"worst nightmare."** Dalio believes other rivals to the dollar will emerge to take its place, but refused to speculate about which currencies they might be.

"The role of the U.S. dollar will diminish, and the returns on U.S. dollar-denominated debt will suffer," he said. **"Then I think you will see the emergence of other currencies,"** though he declined to identify which ones, saying it was "too big a topic to get into."

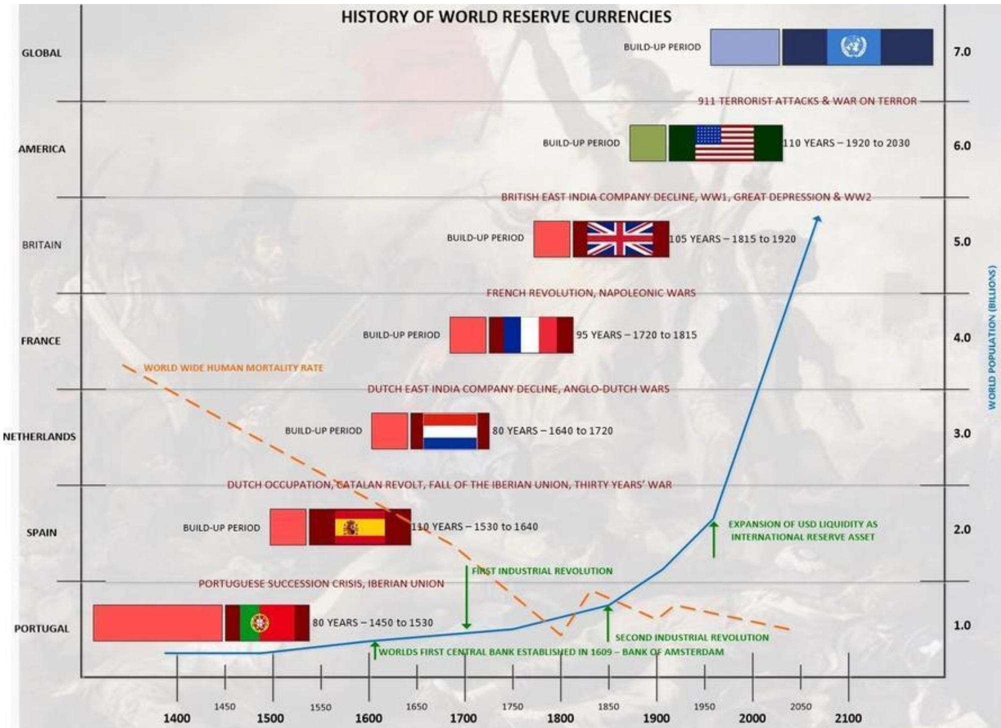
Dalio also shared how he first came to understand currency crises when he was clerking on the floor of the New York Stock Exchange. He recalled the day in 1971 when President Richard Nixon shocked markets by severing the dollar's link to gold.

"Money would get you gold, and it was a breakdown - it was a default," he said. "I remember thinking when I was going to walk in on Monday morning to the New York Stock Exchange, this is a big crisis, and I thought the stock market would fall a lot. And the stock market went through the roof."

In response to a question about his outlook for markets, Dalio - who said back in January that anybody caught holding cash would "feel pretty stupid" - warned that the entire world is "leveraged long", and that asset returns in the coming years would be middling to negative for the foreseeable future.

"When you're at a zero interest rate in the US, a zero interest rate in Europe and a zero interest rate in Japan, I think we've squeezed out a lot of assets. I think the world by and large is leveraged long. Meaning the buying of debt - corporate debt. **One of the biggest sources of returns on assets was the fact that the interest rate was low relative to the return on equity. There were a lot of buybacks and mergers and acquisitions by companies buying companies. Then you had corporate tax cuts...all of those things have pushed asset prices to the level where it's difficult to see if you could squeeze more."**

Regardless of whether a recession does materialize to tank markets - or if the Fed simply obeys the whims of President Trump by slashing rates and running back to the safety of QE4 - Dalio is certainly right about one thing.



[Nothing lasts forever.]()

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EMERGENCE & RISE OF EURO & YUAN CURRENCIES

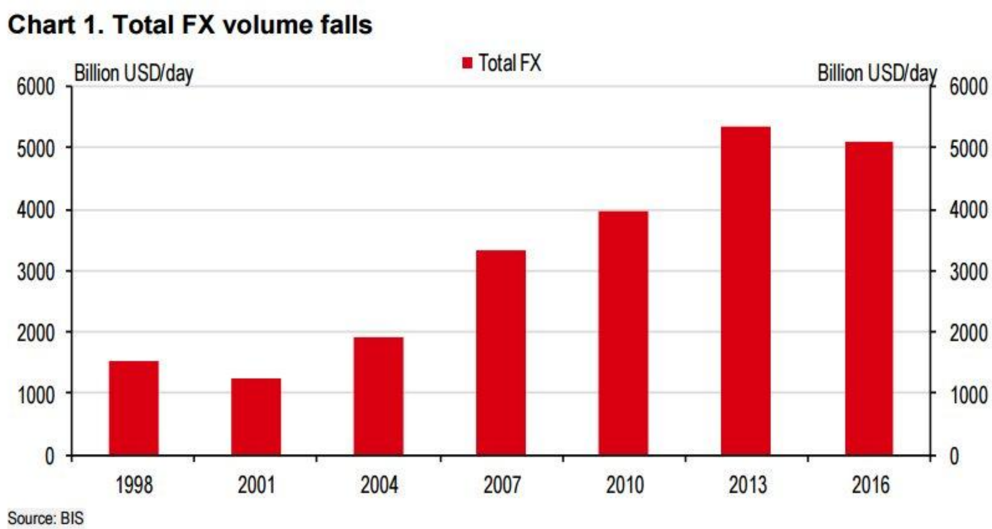
EURO

- The Euro is the 'single currency' of the European Monetary Union, adopted on January 1, 1999 by 11 Member States. Greece became the 12th Member state to adopt the Euro on January 1, 2001. On January 1, 2002, these 12 countries officially introduced the Euro banknotes and coins as legal tender.
- In just over 15 years the Euro has become a standard global currency thus taking away from US Dollar Dominance.

YUAN

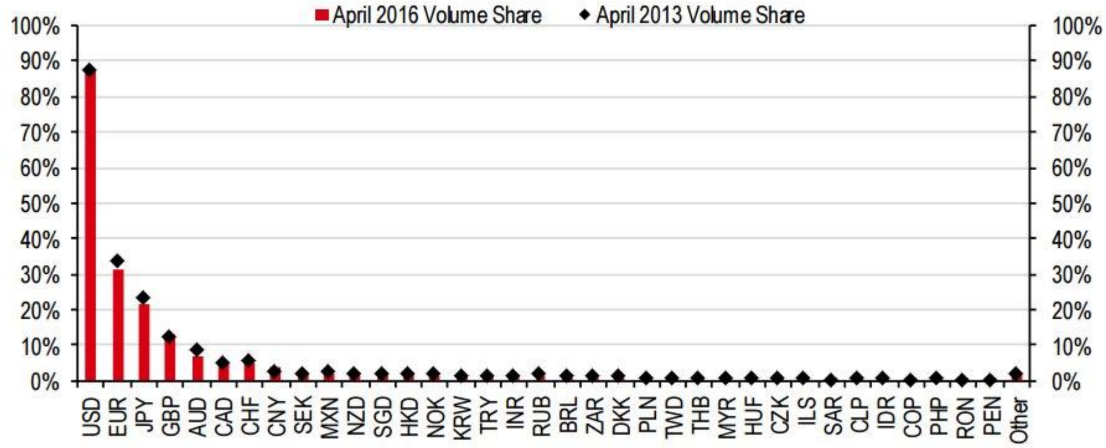
- When used in English in the context of the modern foreign exchange market, the Chinese yuan (CNY) refers to the renminbi (RMB), which is the official currency used in mainland China.
- Chinese yuan officially became a world reserve currency on November 30, 2015. It represents 10.92% of the IMF's Special Drawing Rights currency basket.
- This makes Chinese yuan the third reserve currency after the US dollar and Euro.
- In just over 15 years since becoming part of the WTO, the Chinese currency has become a world reserve currency thus taking away from US Dollar Dominance.

This chart from HSBC shows the evolution in average FX turnover levels, dating back to 1998. The data comes from the BIS' triennial survey of the FX market and is based on volumes traded in April of this year.



Here's a couple of charts from HSBC showing the most actively traded currencies worldwide in April. As the world's reserve currency, the US dollar clearly dominates, accounting for nearly 88% of total turnover.

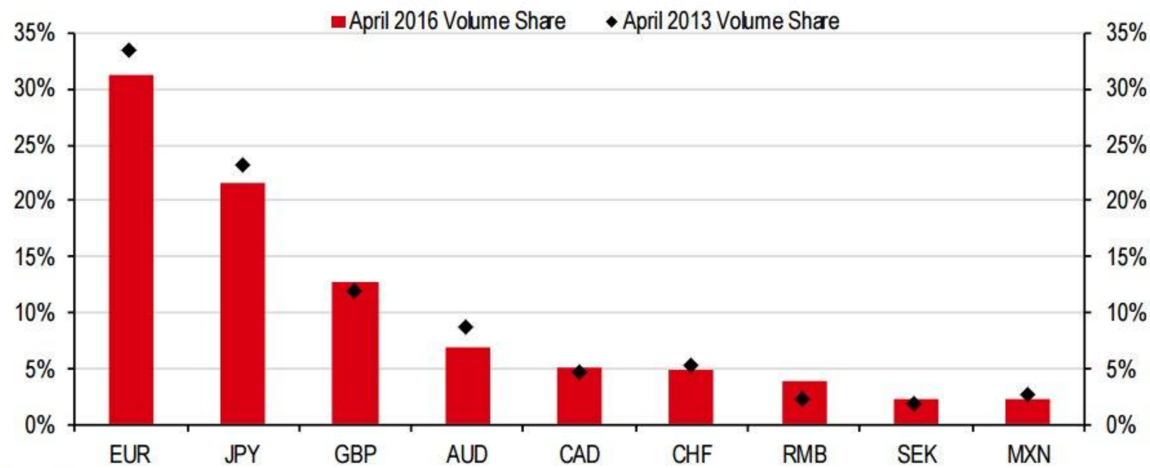
Chart 2. USD dominance continues



Source: BIS

And here's the same chart, excluding the US dollar. The share of FX turnover of the Chinese renminbi has clearly grown.

Chart 3. RMB increases market share once again



Source: BIS

"The dominant position of the USD is, at least partly, a result of the USD being a hub currency", says HSBC.

"Whilst it is possible to quote a price in any currency pair, in the interbank market (which is the ultimate generator of FX liquidity) most currencies are only tradable against a small number of other currencies – most commonly the USD.

"This means that when customers deal with a bank in a non-USD cross-rate, the transaction is likely to be split into two USD-based legs by the market-making bank," it adds.

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EURODOLLAR SHORTAGE

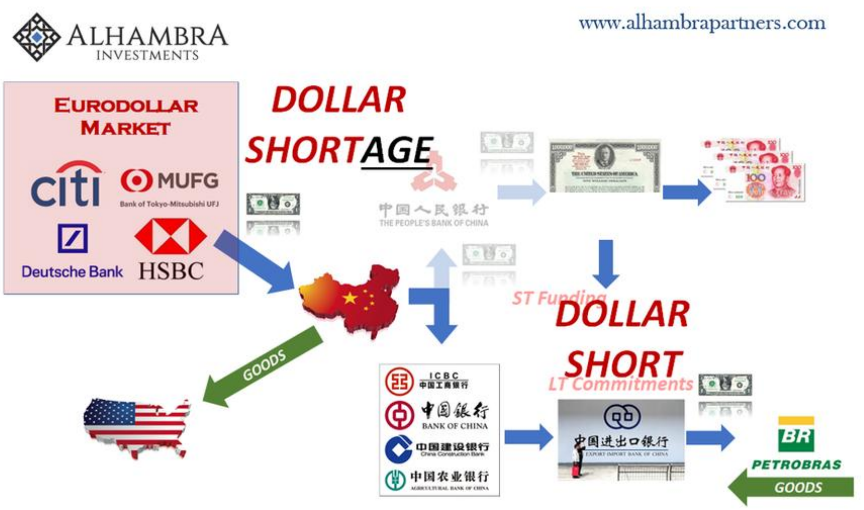
This is an exhaustive subject in itself. We refer you to:

1. **MATASII Tipping Point: Eurodollar Shortage – Subscriber Link HERE**

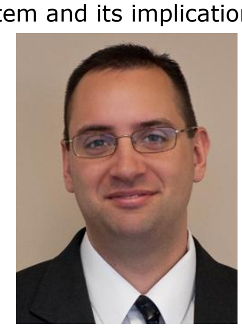
TIPPING POINTS
EURODOLLAR SHORTAGE

https://matasii.com/category/gtl-mata/mata-tipping-points/tp-eurodollar-shortage/

2. **Eurodollar University featuring Alhambra Partners CIO Jeffrey Snider**



Alhambra Partners CIO Jeffrey Snider has been one of the most popular guests ever on the MacroVoices weekly podcast. But even the finance professionals in our audience told us that Jeff goes so deep into the EuroDollar system that most people couldn't follow all the nuances of his statements. So, by request of our listeners, we're delighted to bring you this special 4-part series. Jeff gives us a complete introduction to the Eurodollar system, its history, and the critical role it has played in monetary history. Jeff asserts that even to this day, central bankers don't fully understand the workings of the Eurodollar system and its implications on the global supply of U.S. dollars. We strongly recommend listening to the entire series as a prerequisite to Jeff's other interviews on the weekly MacroVoices podcast.



Note: You will want the full slide decks in support of this series.

- You can download the slide deck for parts 1 through 4 here: pdfEurodollar University - Full Slide Deck - Parts 1 through 4 (2.80 MB)
- You can download the slide deck for parts 5 through 7 here: pdfEurodollar University - Full Slide Deck - Parts 5 through 7 (4.09 MB)

THE EURASIAN COALITION

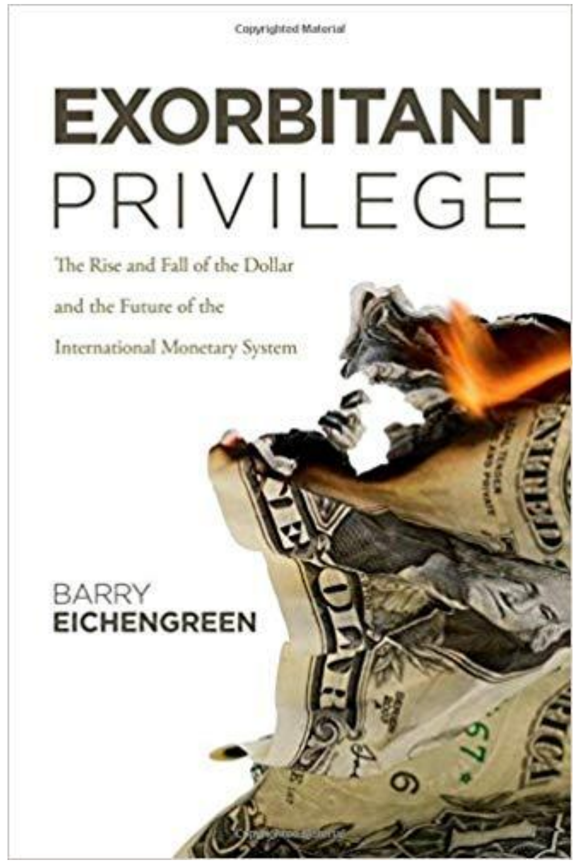
The outlook of Washington's political establishment is based on military hard power that is now possibly inferior in offensive capability than the Sino-Russo-Iranian one, ensuring the strategic independence of Eurasia and its partners.

The alliance now includes the following with various levels of De-Dollarization efforts underway.

- Turkey,
- India,
- Qatar,
- Pakistan,
- Lebanon,
- Syria,
- Libya,
- Egypt,
- Philippines

FURTHER READING

Barry Eichengreen: Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System



Recent events in the US--high unemployment, record federal deficits, and unprecedented financial distress--have raised serious doubts about the future of the dollar. So profound has been the impact that some say the dollar may soon cease to be the world's standard currency. Is the situation that bad?

In Exorbitant Privilege, one of our foremost experts on the international financial system argues that while the dollar is bound to lose its singular status to newcomers like the Euro and the Chinese Renminbi, the coming changes will be neither sudden nor dire.

Barry Eichengreen puts today's crisis in historical context, revealing that only after World War II, with Europe and Japan in ruins, did the dollar become the world's monetary lingua franca--the reserve currency of the world's banks and the kind of cash accepted virtually everywhere. Now, with the rise of China, India, Brazil and other emerging economies, America no longer towers over the global economy like before. And the U.S. itself faces very serious economic and financial challenges as it contemplates its medium-term future. But despite this, Eichengreen concludes, predictions of the dollar's demise are greatly exaggerated.

The paperback edition features a new afterword that takes the story up through 2012.

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3- COUNTRY ACTIONS

"If you think you are too small to make an impact, try spending the night in a room with a mosquito."

~African Proverb

The past year was full of events that inevitably split the global geopolitical space into two camps: those who still support using US currency as a universal financial tool, and those who are turning their back on the greenback.

Global tensions caused by **economic sanctions and trade conflicts** triggered by Washington have forced targeted countries to take a fresh look at alternative payment systems currently dominated by the US dollar.

We have taken a deeper look into the recent phenomena of de-dollarization, summing up which countries have taken steps towards eliminating their reliance on the greenback, and the reasons behind their decision.

KEY MESSAGES

RUSSIA

"As the supply of dollars is going to grow and grow, the demand for the American currency can fall, while the US Fed will be unable to stop the dollar's demise.

That what is coming for Americans, is massive inflation!" -- Peter Schiff

- The share of the U.S. dollar in Russia's international reserves portfolio has dramatically decreased in just three months between March and June 2018.
- The holding decreased from 43.7 percent to a new low of 21.9 percent, according to the Central Bank's latest quarterly report, which is issued with a six-month lag.
- The country just shifted $100 billion of its reserves to the yuan, the yen, and the euro in their ongoing effort to ditch the dollar.
- The money pulled from the dollar reserves was redistributed to increase the share of
    - Euro to 32 percent and
    - Chinese Yuan to 14.7 percent.
    - 14.7 percent in the British pound (6.3 percent),
    - Japanese yen (4.5 percent),
    - Canadian (2.3 percent) and
    - Australian (1 percent) dollars.
- The Central Bank's total assets in foreign currencies and gold increased by $40.4 billion from July 2017 to June 2018, reaching $458.1 billion.
- A massive $81 billion spring sell-off coincided with the U.S.'s sanctioning of Russian businessmen, companies, and government officials.
- The Kremlin has openly stated that American sanctions and pressure are forcing Russia to find alternative settlement currencies to the U.S. dollar to ensure the security of the country's economy.
- Other countries, such as China, India, and Iran, are also pursuing steps to challenge the greenback's dominance in global trade.

Economic sanctions, which are losing their power as more countries move from the dollar, and trade wars seem to be fueling the dollar's uncertainty.

- By implementing sanctions on Russia and other countries Washington is effectively "shooting itself not in the foot but a bit higher”.
- Putin has again signaled Russia will move away from the U.S. dollar,
- Instability in calculations in dollars creates a desire of many global economies to find alternative reserve currencies and create settlement systems independent of the dollar,
- “I think, there is an understanding that despite any crises and even artificially-created difficulties, the Russian economy is adapting to these difficulties, feeling confident, creating conditions for its own internal development,”
- Our GDP growth is 1.5 percent, which does not seem like a lot, but investments in the fixed capital are higher than the GDP growth at 4.1 percent. This means that investors are certain about the future, they understand the policies implemented by the financial authorities in Russia, that it is stable, reliable and predictable.
- "key trade partners" were helping Russia on setting up alternate payment systems which would circumvent the SWIFT network.
- Turkey recently paid in rubles - not dollars - for Russian S-400 air defense systems — a controversial and hugely important deal which had the side effect of disrupting American F-35 fighter jet sales to Ankara.
- According to WTO estimates, the mutual restrictions recently imposed by G20 countries reduced global trade by almost $500 billion. Is anyone interested in this, including such a large economy as the US? For us, this creates certain opportunities.
- The United States supplied in huge quantities, now we will deliver. We agreed with our Chinese friends that we’ll supply poultry meat and some other additional goods. But in fact the Americans themselves voluntarily abandoned this market, a very huge one…

CHINA

- For the past decade, China’s strategy for internationalizing the renminbi has involved greater reliance on the International Monetary Fund’s Special Drawing Rights as an alternative international reserve currency.
    - The People’s Bank of China’s then-governor, Zhou Xiaochuan, spelled out the strategy in an essay in 2009.
    - With new allocations of SDRs to emerging industrial powers like China, the SDR, based on a basket of currencies including the renminbi, could serve not only as a development tool, but also as a means of international payment to rival the US dollar.
    - In the wake of the 2008 global financial crisis, an SDR-centered international financial system became an enticing prospect for other countries as well.
- As a follow-on next step, it is now ten months since China launched its oil futures contract, denominated in yuan (renminbi), on the Shanghai International Energy Exchange.
    - China’s futures contracts have established themselves and have overtaken in volume terms the dollar-denominated oil futures traded in Singapore and Dubai.
    - These results suggest that China’s oil futures could bring the renminbi to the core of global commodity markets,
    - The launch of the oil futures contract can be anticipated to widen the scope for renminbi-denominated commodity trading,
    - This can be anticipated to strengthen Chinese capital markets and promote the renminbi’s internationalization – or at least the progressive de-dollarization of the oil market.
- Possible further development of renminbi-based trade in other commodity markets, suggests that the US dollar could face an unprecedented challenge to its hegemony.
    - It may in the near future no longer be seen as the anchor of the international monetary system,
    - Bringing to an end to what Valéry Giscard d’Estaing famously called the “exorbitant privilege” enjoyed by the US as a result of the dollar’s centrality in international trade.

If China’s ultimate goals include internationalizing the renminbi, its more immediate objective, prompted in part by US tariffs or sanctions on China and other countries, is de-dollarization of

the international system. This is reflected in the shift to promoting an oil futures contract traded in Shanghai, which represents a decisive break with China's SDR-focused strategy.

- SANCTIONS: It is also a way for China to capitalize on the US trade sanctions imposed against it – exposing liabilities in these sanctions.
    - Both Russia and Iran, for example, are selling oil to China and accepting payment in renminbi, in response to actual or potential sanctions imposed on them by the US.
    - They also have extensive imports from China, as well as other reasons for seeking strengthened ties.

The fact that China is now the world's largest oil importer, as well as its leading trading and manufacturing economy, lends weight to its "petroyuan" and other initiatives to internationalize the renminbi. If China can withstand US counterattacks, its efforts will lay the financial groundwork for the emergence of a multipolar world.

IRAN

These Countries Are Quickly & Quietly Dumping the Dollar

11-29-18 - Robert Wheeler via Daisy Luther's Organic Prepper blog - "These Countries Are Quickly And Quietly Dumping The Dollar"

MATASII SYNTHESIS:

CHANGING SENTIMENT TOWARDS THE US

- The dumping of the dollar is a process that is clearly underway**.** There has been a steady uptick in the number of countries dumping significant portions of their dollar holdings as a result of them having been targets of American sanctions and financial bullying in the "post 9/11 world,
- The United States maintains sanctions on all of its target nations such as Iran, Syria, North Korea, Russia, and others. But the US also threatens its "allies" with sanctions if they dare act rationally on the world stage or refuse to follow American dictates,
- Countries like Russia feel they can no longer trust the US dollar-dominated financial system since America is imposing unilateral sanctions and violates World Trade Organization (WTO) rules. They feel the dollar monopoly is unsafe and dangerous for the global economy.

THE DRIVING FORCE

- Aggressive Americans sanctions and financial bullying over the past few decades,
- Countries tired of being victims of the empire,
- Those who dare act rationally on the world stage or refuse to follow American dictates,
- Those who desire a "multi-polar" world,
- Those seeking to expand their own empires,
- Those who smell blood is wafting through the air.

THE RESULT

- Major countries (China, Russia, Turkey, Iran) are Liquidating their US Treasuries, one of the world's most actively-traded financial assets, has recently become a trend among major holders.
- Increasingly transacting trade in non US Dollar Currencies,
- Finding alternatives to the US "SWIFT" system,

IMPACT TO INVESTORS

- Interest rates will most assuredly go up,
- The potential for widespread inflation and devaluing of the currency

EXPECTED AMERICAN REACTION
The United States has used its status as a method of financing itself into maintained prosperity, the loss of that status would remove that privilege. Instead, the United States would be forced to either:

3. Knuckle under to the dictates of the financiers that will have the country on its knees or
4. Do what it should have done all along – nationalize the Federal Reserve and begin issuing credit stimulus and imposing across-the-board tariffs on imports.

A MULTI-POLAR WORLD

- The US economic system, partially as a result of becoming an empire with all its requisite destabilizations and wars, mostly a result of Free Trade, and partially a result of private central banking among a host of other factors, has been sacrificed on the altar of globalism.
- Aggressive behavior on the financial, political, and military fronts has thus created a world seething with anger and hatred at the United States, who is now willing and able to begin weakening the dollar dominance in hopes for the creation of a new "multipolar" world out of the ashes of the old "American" one.

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- There are no signs that anyone in the American government is either prepared to defend against the dollar collapse or to prevent it. In fact, all signs point to the possibility that such a collapse is desired by the Anglo-financier community.

REFERENCE RESEARCH ARTICLE: These Countries Are Quickly & Quietly Dumping the Dollar

Over the past few months, there has been a **steady uptick in the number of countries dumping significant portions of their dollar holdings.** This is causing many people to worry whether or not the US economy is in for a massive shock sooner, later, or somewhere in between.

While American corporate media outlets either ignore the developments entirely or claim that there is nothing to worry about, **the reality is that the dumping of the dollar is a process that is clearly underway.** More than that, it appears it is a process that is at least partially coordinated by a number of countries that have been targets of American sanctions and financial bullying in the "post 9/11 world."

Thus, while **corporate media outlets ignore the vanishing dollar dominance and reassure their hapless audience that everything is fine, alt media outlets are predicting a second Weimar Republic, this time in North America.**

But what is really going on with the recent dollar dumping? Who is actually dumping the dollar and what kind of effects could we really expect to see in America if the dollar is truly abandoned?
Who Is Dumping The Dollar?

Since the dollar currently enjoys its status as the world's reserve currency, it is constantly being bought and sold by nations across the entire planet. This arrangement is essentially what is keeping the dollar strong even after the United States embraced neo-liberal Free Trade policies that saw the greatest economic system the world has ever known turned into a shell of its former self. This arrangement allows the United States to sell its "debt" to the rest of the world, which other

countries are willing to buy because of the stability of the American governmental system and the fact that America is still an economic powerhouse.
But as the US stretches its military and financial forces thin in the course of expanding its empire across the world, the collapse of that empire looms and, with it, increasingly jittery feet from countries desiring to make prudent financial decisions. **For countries tired of being victims of the empire,** those who desire a "multipolar" world, and those seeking to expand their own empires, however, **the smell of blood is wafting through the air.**

China, the emerging and competing empire, has already started the process of dumping the American dollar in a careful and coordinated fashion. This is particularly concerning since China holds so much of America's debt and so many US dollars. If China dumped all of its holdings at once, America would likely enter a new financial crisis. Fortunately for Americans, however, such an immediate move would also throw China into a crisis which is most likely the main thing holding China back.

But make no mistake. **China is moving forward with the plan of relieving itself of the dollar**. After all, the country recently inked a deal to trade oil in yuan instead of the dollar.

"Mainland it is laying the ground for the Belt and Road Initiative, and China is even sweetening the pot by offering swap facilities to local countries to promote the use of the yuan," Stephen Innes, Head of FX Trading for OANDA in Asia Pacific told RT.

Indeed, it appears that developing country-to-country trading mechanisms are emerging as well which will eventually subvert the US dollar as the world reserve currency. Interestingly enough, the development of such a system is a result of aggressive Americans sanctions and financial bullying over the past few decades.

The United States maintains sanctions on all of its target nations such as Iran, Syria, North Korea, Russia, and others. But the US also threatens its "allies" with sanctions if they dare act rationally on the world stage or refuse to follow American dictates. As a result, America is sanctioning itself into isolation and creating a world where it has taken its ball and gone home so many times that the rest of the kids realize it's possible and even easier to just play the game without the American bully on the field.

India is also slowly moving away from the dollar. Recently, it announced that it would be paying for the Russian S-400 system (important in its own right) and settling the payment in rubles, not dollars.
But it's not just the development of country-to-country financial/trading mechanisms. Other countries have been slowly dumping the dollar outright. In fact, China has done that also. Take a look at a recent report from RT detailing how China just dumped the largest amount of Treasuries in 8 months. The article states,
In September, China's share of US Treasuries holdings had the highest decline since January as ongoing trade tensions with Washington forced the world's biggest economy to take measures to stabilize its national currency.

Still the biggest foreign holder of the US foreign debt, China slashed it's share by nearly $14 billion, with the country's holdings falling to $1.15 trillion from nearly $1.17 trillion in August, according to the latest data from the Treasury Department. The fall marks the fourth straight month of declines. China is followed by Japan, whose share of US Treasuries fell to $1.03 trillion, the lowest since October 2011.

Washington has accelerated the Treasury issuance to avoid potential growth in the federal deficit due to the massive tax cut pushed by President Donald Trump, as well the federal spending deal approved by the government in February.

Chinese purchases of US state debt have been decreasing over recent months. The latest drop comes on top of the escalating trade conflict between Beijing and Washington over trade imbalance, market access, and alleged stealing of US technology secrets by Chinese corporations. So far, the US has imposed tariffs on $200 billion of Chinese goods and Beijing retaliated with tariffs on $60 billion of US goods and stopped buying American crude.

China has been steadily dumping US dollar holdings over the past several months and **Japan has followed suit**. As RT reported last month,
China and Japan – the two main holders of the US Treasury securities – have trimmed their ownership of notes and bonds in August, according to the latest figures from the US Treasury Department, released on Tuesday.

China's holdings of US sovereign debt dropped to $1.165 trillion in August, from $1.171 trillion in July, marking the third consecutive month of declines as the world's second-largest economy bolsters its national currency amid trade tensions with the US. China remains the biggest foreign holder of US Treasuries, followed by long-time US ally Japan.

Tokyo cut its holdings of US securities to $1.029 trillion in August, the lowest since October 2011. In July, Japan's holdings were at $1.035 trillion. According to the latest figures from the country's Ministry of Finance, Japanese investors opted to buy British debt in August, selling US and German bonds. Japan reportedly liquidated a net $5.6 billion worth of debt.

Liquidating US Treasuries, one of the world's most actively-traded financial assets, has recently become a trend among major holders. **Russia dumped 84 percent of its holdings this year**, with its remaining holdings as of June totaling just $14.9 billion. With relations between Moscow and Washington at their lowest point in decades, the Central Bank of Russia explained the decision was based on financial, economic and geopolitical risks.

Turkey is also backing away from the dollar, having dropped out of the "top-30 list of holders of American debt." This probably has more to do with Turkey finally coming to the realization that the US was engaging in "hamburger diplomacy" and has no real allegiance to Turkey accept as a vassal state. The failed military coup in the country and the US arming of Kurdish forces in Syria have done nothing but push Turkey toward Russia.

India remains in the top 30 holder list but it has cut its holdings for five straight months.
As would be expected, Russia has been consistently moving forward not only to dump the dollar in a responsible manner but also to make its financial system more distinctly Russian and less dependent upon the whims of the Anglo financier arrangement. Again, RT writes,

One of Russia's largest banks, VTB is seeking to decrease the share of US dollar transactions at home as locals are choosing the Russian ruble over the greenback.

"There is one interesting thing I wanted to highlight. Since the beginning of this year, people seem to be less interested in making dollar deposits or taking out dollar loans, compared to ruble-denominated deposits and loans. We believe this to be an important step towards the de-dollarization of the Russian finance sector," said VTB head Andrey Kostin at a Kremlin meeting with
President Vladimir Putin.

According to Kostin, VTB experts have drafted a package of proposals designed to further promote the ruble in international settlements. ***"I think that we need to create our own financial tools. This would serve as an additional safeguard for the Russian financial sector against external shocks, and would give a new impetus to its development,"*** Kostin added. The financial tools Kostin mentioned are floating Eurobonds, shares and other derivatives that are now used only in the West.

Russia has been seeking the ways of decreasing the dependence on the US currency after Washington and its allies imposed sanctions against Moscow in 2014. In May, President Putin said Russia can no longer trust the US dollar-dominated financial system since America is imposing unilateral sanctions and violates World Trade Organization (WTO) rules. Putin added that the dollar monopoly is unsafe and dangerous for the global economy.

It is important to remember that Russia has also dumped $47bn worth of Treasury bonds, dumping nearly half of its holdings at once.

What Happens If The Dollar Loses Its Status?

So why is this concerning? What would happen if the dollar loses its status as the world's reserve currency?
The truth is, no one fully knows exactly what such a situation would look like and it would depend on a number of factors such as how quickly the dollar is abandoned by the world, the action taken by the US government in response, and the economic situation of the country once the dollar is unseated.
Despite mainstream claims, we've never really been in this specific situation before. Other countries have seen their currency used as the de facto world reserve but, when their time was up, there were also many other factors at play and the world financial system was less intertwined than it is today.

Still, although we may not know the specifics, we do have a general idea of what would happen.

First, Americans are going to lose the convenience of being able to use their currency just about anywhere in the world, both on a business and individual level. That's not such a big deal on the individual level though it may cause a few hiccups for mid-sized businesses.

Second, interest rates will most assuredly go up. This is going to make it harder for businesses and individuals to pay back any loans they may have received to start or maintain their businesses, buy a home or car, and it will stifle economic growth and it is going to make more people hesitate to request those loans knowing that interest rates will be so high.

Third, and perhaps the most dangerous, is the potential for widespread inflation and devaluing of the currency. Loss of world reserve status will undoubtedly lower the value of the dollar. The question, however, is whether that devaluation would occur slowly over a period of years or even decades or whether it would take place within months, weeks, or days. Obviously, the former would be preferable if the dollar does have to be unseated because it would at least allow time for Americans to brace themselves and to prepare and innovate for the coming devaluation that would gradually get worse. In some cases, American exports might even be helpful for some American exports (though not helpful in terms of wages – competing via lower living standards is a race to abject poverty). But at least a slow burn would allow for Americans "in the know" to stock up on food, attempt to pay off their debts, arm themselves, and make prudent financial decisions in anticipation.

A quick and sudden loss of reserve currency status, however, would bring about an immense crisis that virtually no one is prepared for. As Webster Griffin Tarpley wrote in his article "The Second Wave Of The Depression – Hyperinflation Likely," published in 2009,

The next wave is likely to involve a worldwide dollar panic. Using ballpark figures, we can say that there are about $4 to $5 trillion sloshing around the world in the form of hot money, US Treasury securities, Euro dollars, and various forms of zeno-dollars. Japan has about a trillion, China almost $2 trillion, and so forth. It is naturally very unwise for a developing country like China to hold so many dollars rather than using them to purchase needed infrastructure and capital goods, and the Chinese leaders are now very uncomfortable with their own foolish decision, which was of course taken under heavy US pressure. But the point is that this $4.5 trillion overhang is by its very nature exceedingly unstable. Every country that holds large sums of dollars or US treasury bonds is nervously eyeing every other such country to see if they show signs of bolting for the exit. Up to now, so far as we know, no large holder of dollars has attempted to reduce its exposure to the battered greenback by dumping these dollars on the international market. If anyone did so, would cause a true universal financial panic which would create chaos and mayhem not just in the United States and Great Britain, but in the vast areas of the rest of the world as well. This is concretely how hyperinflation could now very well arise: if one or more US creditor nations attempts to abruptly lighten up on dollars, the value of the US currency could undergo a catastrophic collapse, and that would spell runaway hyperinflation on the US domestic front.

The numbers are a decade old but the concept is still there.

That being said, given that the United States has used its status as a method of financing itself into maintained prosperity, the loss of that status would remove that privilege. Instead, the United States would be forced to either knuckle under to the dictates of the financiers that will have the country on its knees or do what it should have done all along – nationalize the Federal Reserve and begin issuing credit stimulus and imposing across-the-board tariffs on imports.

Conclusion

It would be nice to hope for the best and prepare for the worst but, as things appear today, we might want to start preparing much more than hoping. The US economic system, partially as a result of becoming an empire with all its requisite destabilizations and wars, mostly a result of Free Trade, and partially a result of private central banking among a host of other factors, has been sacrificed on the altar of globalism.
Aggressive behavior on the financial, political, and military fronts has thus created a world seething with anger and hatred at the United States, who is now willing and able to begin weakening the dollar dominance in hopes for the creation of a new "multipolar" world out of the ashes of the old "American" one.

There are no signs that anyone in the American government is either prepared to defend against the dollar collapse or to prevent it. In fact, all signs point to the possibility that such a collapse is desired by the Anglo-financier community.

In other words, the best time to prepare is today.

RUSSIA

- Reduction in US Currency Reserves,
- Trading Energy in non US$ Currencies
- Bi-Lateral Non US Dollar Agreements,
- Alternative SWIFT System,

Sanctions have forced Tehran to look for alternatives to the US dollar as payment for its oil exports. Iran clinched a deal for oil settlements with India using the Indian rupee. It also negotiated a barter deal with neighboring Iraq. The partners are also planning to use the Iraqi dinar for mutual transactions to reduce reliance on the US dollar amid banking problems connected to US sanctions.

President Vladimir Putin said the US is *"making a colossal strategic mistake"* by *"undermining confidence in the dollar."*Putin has never called for restricting dollar transactions or banning the use of US currency. However, Russian Finance Minister Anton Siluanov said earlier this year that the country had to dump its holdings of US Treasuries in favor of more secure assets, such as the ruble, the euro, and precious metals.

The country has already taken several steps towards de-dollarizing the economy due to the constantly growing burden of sanctions that have been introduced since 2014 over a number of issues. Russia has developed a national payment system as an alternative to SWIFT, Visa and Mastercard after the US threatened tougher new sanctions that would target Russia's financial system.

So far, Moscow has managed to partially phase out the greenback from its exports, signing currency-swap agreements with a number of countries including China, India and Iran. Russia has recently proposed using the euro instead of the US dollar in trade with the European Union.

Once a top-10 holder of US sovereign debt, Russia has all but eliminated its holdings of US Treasuries. Moscow has used the money to boost the nation's foreign reserves and to build up its gold stockpile to stabilize the ruble.

Countries around the globe are trying to find ways of substituting the US dollar in trade, according to Russian presidential spokesman Dmitry Peskov.

> "All of a sudden, the country which issues the US dollar starts making steps which are shattering trust in this reserve currency. More and more countries, not only in the East but also in Europe, start mulling ways to minimize their dependence on the US dollar," Peskov told Rossiya TV channel.
>
> "They suddenly realize: A. it is possible, B. it should be done, and C. save yourself if you can, it should be done as soon as possible."
>
> Peskov noted that it is not easy to replace the dollar-dominated system, however, "the fact that the trend of searching for alternatives has begun" is noticeable.
>
> Last week, Russia's second largest bank CEO Andrey Kostin warned that countries will stop using the greenback as a settlement currency because of Washington's aggressive policy. According to Kostin, the US uses the dollar as a weapon, which will inevitably make it unpopular across the globe.
>
> The idea of switching to the use of national currencies in bilateral transactions has recently became more popular for a number of countries affected by US sanctions or trade tariffs. They include Russia, China, Iran and Turkey.

Putin: "We Aren't Aiming To Ditch The Dollar, The Dollar Is Ditching Us"

11-28-18 - "[Putin: "We Aren't Aiming To Ditch The Dollar, The Dollar Is Ditching Us"]"

MATASII SYNTHESIS:

- By implementing sanctions on Russia and other countries Washington is effectively "shooting itself not in the foot but a bit higher".
- Putin has again signaled Russia will move away from the U.S. dollar,
- Instability in calculations in dollars creates a desire of many global economies to find alternative reserve currencies and create settlement systems independent of the dollar,
- "I think, there is an understanding that despite any crises and even artificially-created difficulties, the Russian economy is adapting to these difficulties, feeling confident, creating conditions for its own internal development,"
- Our GDP growth is 1.5 percent, which does not seem like a lot, but investments in the fixed capital are higher than the GDP growth at 4.1 percent. This means that investors are certain about the future, they understand the policies implemented by the financial authorities in Russia, that it is stable, reliable and predictable.
- "key trade partners" were helping Russia on setting up alternate payment systems which would circumvent the SWIFT network.
- Turkey recently paid in rubles - not dollars - for Russian S-400 air defense systems — a controversial and hugely important deal which had the side effect of disrupting American F-35 fighter jet sales to Ankara.
- According to WTO estimates, the mutual restrictions recently imposed by G20 countries reduced global trade by almost $500 billion. Is anyone interested in this, including such a large economy as the US? For us, this creates certain opportunities.
- The United States supplied in huge quantities, now we will deliver. We agreed with our Chinese friends that we'll supply poultry meat and some other additional goods. But in fact the Americans themselves voluntarily abandoned this market, a very huge one…

REFERENCE RESEARCH ARTICLE: Putin: "We Aren't Aiming To Ditch The Dollar, The Dollar Is Ditching Us"

With a number of volatile trends in multiple conflict theaters and geopolitical hot spots now coming to a head this week (***Ukraine-Russia, China-US, Iran-US, Turkey-Syria-Russia, Saudi Arabia-Europe***), and with Presidents Putin and Trump set to meet at the G20 summit in Argentina in just days, Putin has again signaled Russia will move away from the U.S. dollar.

Speaking before the VTB Capital forum in Moscow on Wednesday, Putin wryly explained that by implementing sanctions on Russia and other countries Washington is effectively **"shooting itself not in the foot but a bit higher"**.

He said, according to Bloomberg, ***"We aren't aiming to ditch the dollar. The dollar is ditching us."*** Making the case that aggressive US punitive measures against its rivals is undermining confidence in the dollar, Putin explained:

We are not setting the target of moving away from the dollar – **the dollar is moving away from us**, and those who take respective [sanctions] decisions are **shooting themselves not just in the foot, but slightly higher**, as such instability in calculations in dollars creates a desire of many global economies to find alternative reserve currencies and **create settlement systems independent of the dollar**.

To underscore that Russia is not alone in moving toward de-dollarization, Putin added, **"We're not the only ones doing it, believe me."**

Putin speaks at an annual VTB Capital "Russia Calling!" Investment Forum in Moscow, via the AP

Despite recent dire reports on a downward spiraling Russian economy embattled by US sanctions **—** with one Bloomberg Economics study for example claiming the sanctions have knocked as much as 6% off Russia's economy over the past four years **—** Putin attempted to instill a feeling of confidence amid current difficulties.

He said: "I think, there is an understanding that despite any crises and **even artificially-created difficulties**, the Russian economy is adapting to these difficulties, feeling confident, creating conditions for its own internal development," according to a translation by RT.

Putin took note of lagging growth and called for confidence in Moscow's economic countermeasures, increasingly taking the country toward pursuing alternate trade relationships, such as **growing ties with China, Saudi Arabia and Turkey**:

Our GDP growth is 1.5 percent, which does not seem like a lot, but investments in the fixed capital are higher than the GDP growth at 4.1 percent. This means that investors are certain about the future, they understand the policies implemented by the financial authorities in Russia, that it is stable, reliable and predictable.

Explaining that Washington sanctions will only result in blowblack, citing "400,000 lost jobs" in Europe, Putin said "key trade partners" were helping Russia on setting up alternate payment systems which would circumvent the SWIFT network.

Ruptly

✔@Ruptly

'We don't have a goal to shift away from the #dollar, the dollar is moving away from us' - #Putin

11:00 AM - Nov 28, 2018

As one major example of "alternative" opportunities, he noted that **Turkey recently paid in rubles - not dollars - for Russian S-400 air defense systems —** a controversial and hugely important deal which had the side effect of disrupting American F-35 fighter jet sales to Ankara.

And touting that Russia will supply soybeans to China instead of America, Putin continued:

According to WTO estimates, the mutual restrictions recently imposed by G20 countries reduced global trade by almost $500 billion. Is anyone interested in this, including such a large economy as the US? For us, this creates certain opportunities.

Those "certain opportunities" were listed in part with the following words of the Russian president:

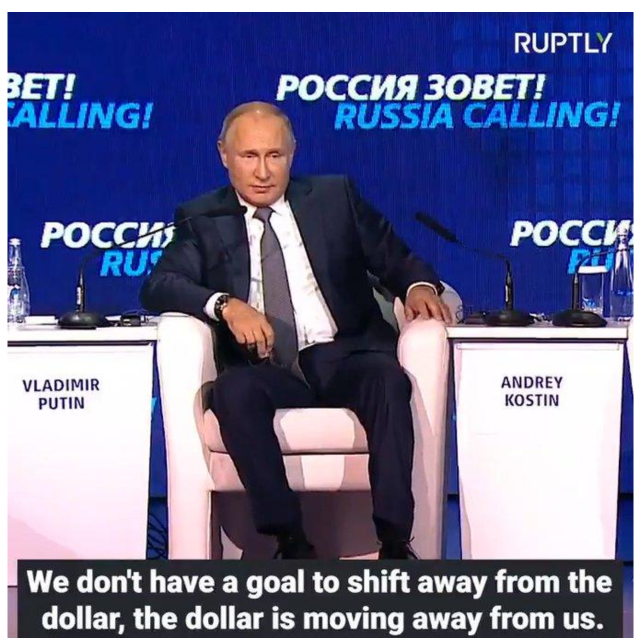
The United States supplied in huge quantities, now we will deliver. We agreed with our Chinese friends that we'll supply poultry meat and some other additional goods. But in fact the Americans themselves voluntarily abandoned this market, a very huge one...

Meanwhile, despite President Trump saying in an interview with ***The Washington Post*** on Tuesday that he's considering canceling the planned sit-down with Putin in Argentina over Sunday's Kerch Strait incident, the Kremlin issued a statement Wednesday saying it considers that **the meeting is on track and has received no notice of changes**.

Kremlin spokesman Dmitry Peskov told reporters that Russia had not received "any other information from our U.S. counterparts."

And not entirely unrelated, the White House further indicated on Tuesday that Trump would not meet in a formal capacity with Saudi Crown Prince Mohammed bin Salman at the G20 summit, as MbS continues to face immense scrutiny and pressure over the murder of journalist Jamal Khashoggi.

Trump won't meet with MbS, ***but guess who might?***...

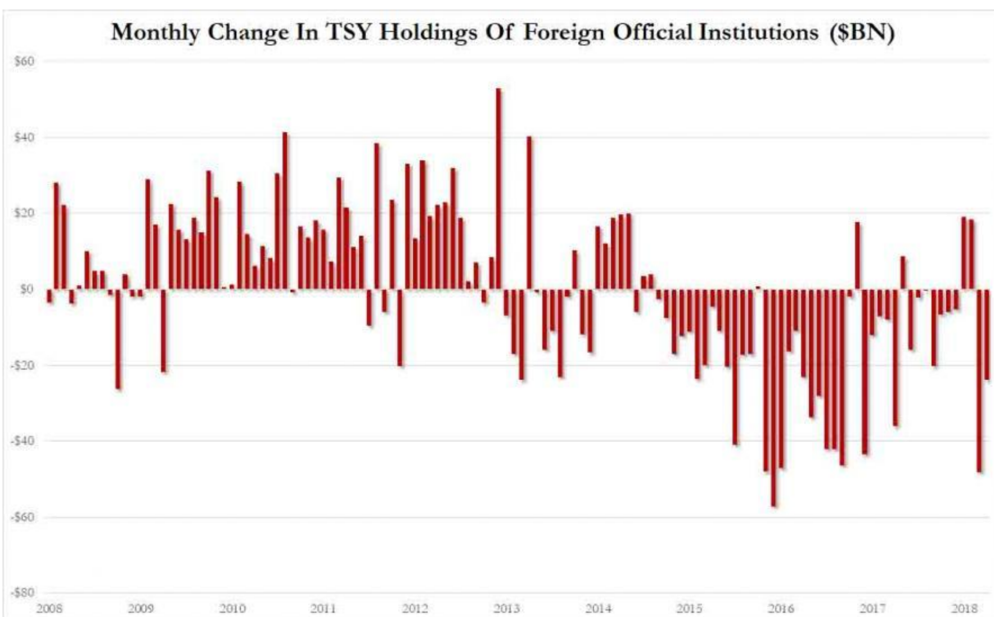


"Russia Liquidates Its US Treasury Holdings"

-- SOURCE: 07-18-18 - "Russia Liquidates Its US Treasury Holdings" –

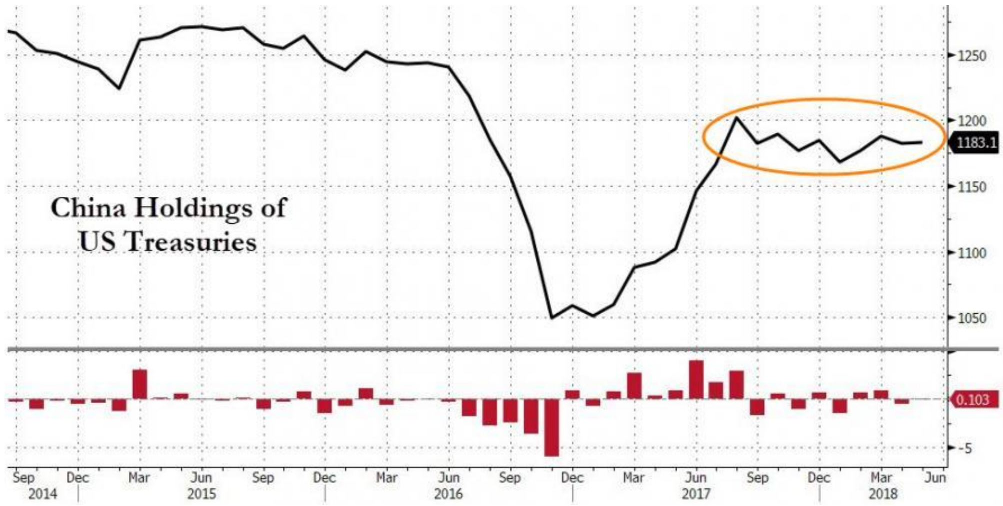
REFERENCE RESEARCH ARTICLE: "Russia Liquidates Its US Treasury Holdings"

Last month we showed that as Trade Wars began in April, the world's central banks and other official institutions dumped more Treasuries than in any month since January 2016, some $48.3BN, perhaps over concerns of ***others selling first,*** and precipitating a sharp move higher in yields. Fast forward one month later to May, when according to the latest just released Treasury International Capital (TIC) update, in May the selling of Treasurys by official entities continued, with another $24BN sold in the month of May, when yields continued to rise and eventually hit the 2018 highs of 3.11%.

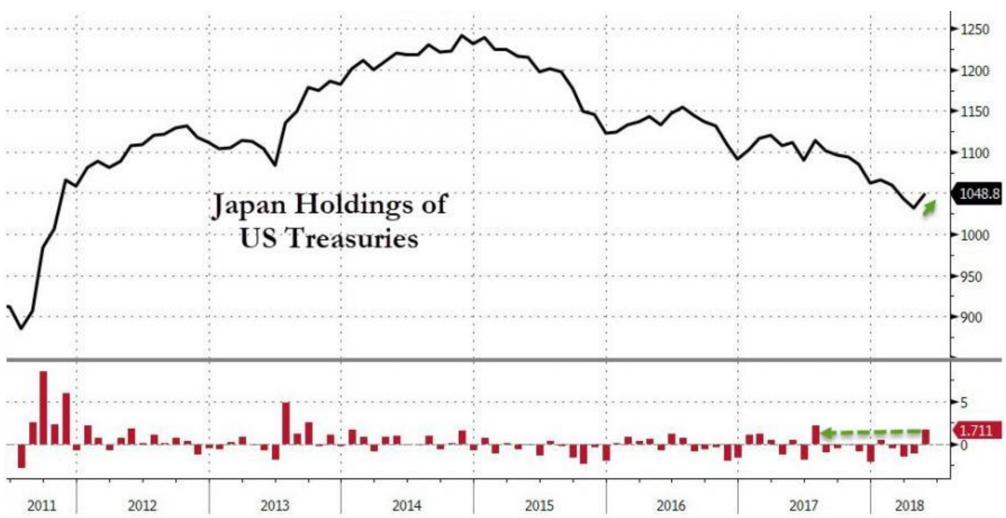


But while the selling of Treasuries was to be expected - after all someone had to sell aggressively to push yields sharply higher in April and May - the question was ***who.***

What we showed last month, is that contrary to some speculation, it wasn't Beijing, because after shedding a modest $6BN in April, China actually bought $1.2BN in Treasurys in May, leaving its holdings largely unchanged over the past month.



And while Japan did sell $12BN in TSYs in April, it more than made up for its in May when it purchased $17.5BN, bringing its total to $1048.8BN in May, which means that over the past two month, Japan was a net buyer of US paper.



Meanwhile, the third most prominent holder, hedge funds, aka "Cayman Islands", bought for a second consecutive month, adding another $5BN.

* * *

So if the usual suspects were buying, who was selling?

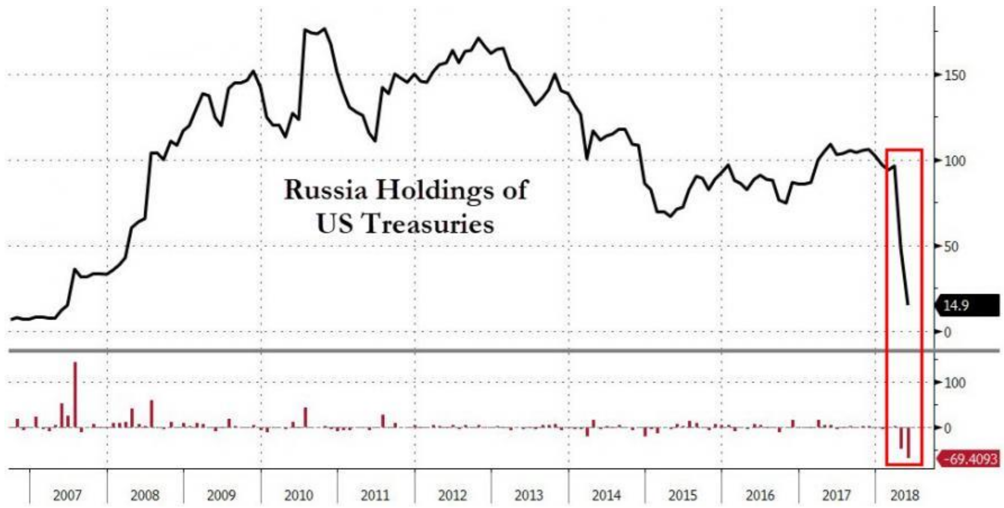
Here is the answer.

Readers may recall that last month we first reported that for all the confusion about sharply higher yields in April, the explanation was simple: **it was Vladimir Putin who liquidated a whopping half of Russia's Treasury holdings**, **which declined by $47.4BN to just $48.7BN - the lowest since 2008 - from $96BN in March.**

But wait, it gets better, because as Trump continued to jawbone about more sanctions targeting Russia, **Putin did not stop and in May he continued what was an outright liquidation of Russia's TSY holdings, which plunged by another $40BN, or 82%, from $48.7BN to just $9BN in May. Keep in mind this was over $100BN at the start of the year.**

It appears that when Putin warned he would diversify Russia's state reserves -out of Treasurys - he was serious.

And this is what a very politically motivated liquidation of Treasury holdings looks like.



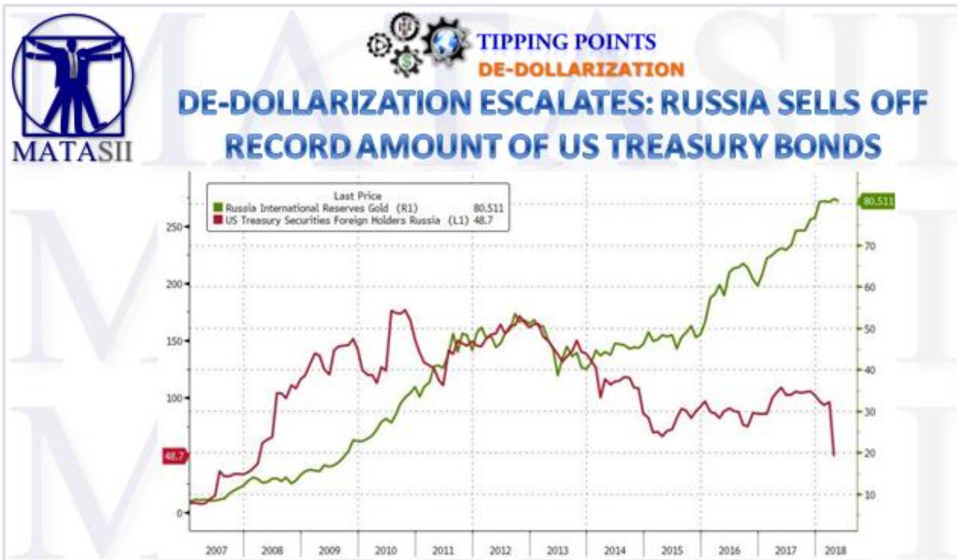
In other words**, in just two months, Russia sold a whopping $81BN in treasurys, a liquidation flow that was likely responsible for much if not all the blow out in rates over the period.** Because what else happened as Russia was liquidating 85% of its Treasury holdings in 2 months? 10Y yields soared from 2.7% at the start of April to the 7 year high of 3.11% in late May.

At that point, yields tumbled again as traders freaked out over Trump's escalating trade war with China, and proceeded to rush into deflationary safety.

So just like last month, we can't help but wonder - as the Yuan-denominated oil futures were launched, trade wars were threatened, and as more sanctions were unleashed on Russia - if this wasn't a dress-rehearsal, carefully coordinated with Beijing to field test what would happen if/when China also starts to liquidate its own Treasury holdings.

De-Dollarization Escalates: Russia Sells Off Record Amount Of US Treasury Bonds

-- SOURCE: 06-19-18 The Strategic Culture Foundation, Arkady Savitsky - "De-Dollarization Escalates: Russia Sells Off Record Amount Of US Treasury Bonds" –



REFERENCE RESEARCH ARTICLE: De-Dollarization Escalates: Russia Sells Off Record Amount Of US Treasury Bonds

The US Treasury Department report for April published on June 15 revealed that Russia sold $47.4 billion out of the $96.1 it had held in Treasury bonds (T-bonds). In March, Moscow cut its Treasury holdings by $1.6 billion. In February, Russia reduced its bond portfolio by $9.3 billion. Other holders did it too. Japan sold off about $12 billion, China liquidated roughly $7 billion. Ireland ditched over $17 billion.

The tariff wars unleashed by Washington stirred fears that financial markets may be in for a rough ride with American treasuries dumped by some partners, including such major holders as China and Japan, each holding over $1 trillion in bonds.

Russia has cut its holdings in American securities following numerous rounds of sanctions imposed by Washington against Moscow and amid the ongoing trade wars between the US and its allies and partners.

This is bad news and ominous warning for Washington. The foreign demand is critical to offset an expected surge in federal borrowing needs. The Treasury Department needs to finance the huge spending bill along with tax cuts that were passed by Congress in December 2017. It plans to auction off around $1.4 trillion in treasuries this year with a glut of sellers and a shortage of buyers in the bond market the government plans to add $600 billion to.

The companies buy back their own shares to boost capitalization. The stock prices are overvalued. The Fed's monetary policy does not spur economic growth amid the growing national debt. The bond market does not look attractive anymore. Looks like there is a big change on the horizon that nations will dump US debt in case of trade war.

And the supremacy of the US dollar is not as solid as many people believe it is. A sell-by date as a global reserve currency is looming. The process of de-dollarization is gradually gaining momentum.

Moscow and Beijing are making agreements to move away from the American currency. On June 8, their leaders signed an agreement to raise the share of trade settlements in national currencies. Last year, nine percent of payments for supplies from Russia to China were made in the Russian rubles. In October 2017, China launched a payment system for transactions in the renminbi and the Russian currency. The launch of the petro-yuan allows Moscow and Beijing to use national currencies for settlements.

Russian companies paid for 15 percent of Chinese imports in the renminbi. For comparison, only three years ago the respective figures were two and nine percent. The gradual shift away from the USD is on the agenda of BRICS. China and Japan started direct trading of their currencies as far back as 2012 to hedge the risk of the dollar's fall in the long run.

Stanley Druckenmiller, the billionaire investor, believes that this is the time when “all you need is gold and all other investments are rubbish”. Top money managers are also recommending gold. Other countries are repatriating their gold reserves from the US Federal Reserve.

Russia has increased its gold reserves in order to diversify away from the dollar. It has recently concluded a cooperation agreement with China on developing the Klyuchevskoye gold ore deposit in the Trans-Baikal region. It is expected to extract 12 million tons of ore to produce 6 tons of precious metal yearly. Gold is considered important by both countries. The Central Bank of Russia has been increasing its gold holdings for three years now. Today, it has the fifth largest gold reserves in the world to make Russia immune to fluctuations of global currency market. This is a good investment to fend off US sanctions, tariff impositions and dollar fluctuations.

The worse the US relations with other countries become, the more likely are other nations to reconsider their reliance on the dollar. The US bonds market is going through hard times, the dollar is facing uncertain future and gold is becoming the best investment one could think of. With sanctions constantly used as a tool of foreign policy, trade wars waged, and the huge debt growing, America's economic prospects are clouded in doubt to make other countries gradually move away from its currency and T-bonds. It does not augur well for the US. Its policy of confrontation makes it weaker, not stronger. There are clear signs the American century is coming to an end.

Russia De-Dollarizes Deeper: Shifts $100 Billion To Yuan, Yen, And Euro

01-11-18 - SHTF plan.com, Mac Slavo - "Russia De-Dollarizes Deeper: Shifts $100 Billion To Yuan, Yen, And Euro"

MATASII SYNTHESIS:

"As the supply of dollars is going to grow and grow, the demand for the American currency can fall, while the US Fed will be unable to stop the dollar's demise.

That what is coming for Americans, is massive inflation!" -- Peter Schiff

- The share of the U.S. dollar in Russia's international reserves portfolio has dramatically decreased in just three months between March and June 2018.
- The holding decreased from 43.7 percent to a new low of 21.9 percent, according to the Central Bank's latest quarterly report, which is issued with a six-month lag.
- The country just shifted $100 billion of its reserves to the yuan, the yen, and the euro in their ongoing effort to ditch the dollar.
- The money pulled from the dollar reserves was redistributed to increase the share of
    - Euro to 32 percent and
    - Chinese Yuan to 14.7 percent.
    - 14.7 percent in the British pound (6.3 percent),
    - Japanese yen (4.5 percent),
    - Canadian (2.3 percent) and
    - Australian (1 percent) dollars.
- The Central Bank's total assets in foreign currencies and gold increased by $40.4 billion from July 2017 to June 2018, reaching $458.1 billion.
- A massive $81 billion spring sell-off coincided with the U.S.'s sanctioning of Russian businessmen, companies, and government officials.
- The Kremlin has openly stated that American sanctions and pressure are forcing Russia to find alternative settlement currencies to the U.S. dollar to ensure the security of the country's economy.
- Other countries, such as China, India, and Iran, are also pursuing steps to challenge the greenback's dominance in global trade.

Economic sanctions, which are losing their power as more countries move from the dollar, and trade wars seem to be fueling the dollar's uncertainty.

REFERENCE RESEARCH ARTICLE: Russia De-Dollarizes Deeper: Shifts $100 Billion To Yuan, Yen, And Euro

Russia is continuing to ramp up its efforts to move away from the American dollar. The country just shifted $100 billion of its reserves to the yuan, the yen, and the euro in their ongoing effort to ditch the dollar.

The Central Bank of Russia has moved further away from its reliance on the United States dollar and has **axed its share in the country's foreign reserves to a historic low, transferring about $100 billion into euro, Japanese yen, and Chinese yuan** according to a report by ***RT***.

The share of the U.S. dollar in Russia's international reserves portfolio has dramatically decreased in just three months between March and June 2018. **The holding decreased from 43.7 percent to a new low of 21.9 percent, according to the Central Bank's latest quarterly report, which is issued with a six-month lag.**

The money pulled from the dollar reserves was redistributed to increase the share of the euro to 32 percent and the share of Chinese yuan to 14.7 percent. Another 14.7 percent of the portfolio was invested in other currencies, including the British pound (6.3 percent), Japanese yen (4.5 percent), as well as Canadian (2.3 percent) and Australian (1 percent) dollars.

The Central Bank's total assets in foreign currencies and gold increased by $40.4 billion from July 2017 to June 2018, reaching $458.1 billion. –***RT***

Russian and others have been consistently moving away from the dollar and toward other currencies. **Economic sanctions, which are losing their power as more countries move from the dollar, and trade wars seem to be fueling the dollar's uncertainty.**

Peter Schiff warns that as the supply of dollars is going to grow and grow, the demand for the American currency can fall, while the US Fed will be unable to stop the dollar's demise. **Schiff says that what is coming for Americans, is massive inflation.**

"Eventually, what's going to happen is it's going to be the demand for those dollars is going to collapse, not the supply. And when the demand for dollars collapses, then the price of the dollar collapses. You get massive inflation. That is what is coming."

Russia began its unprecedented dumping of U.S. Treasury bonds in April and May of last year. Russia appears to be moving on from the rise in tensions with the United States. The massive $81 billion spring sell-off coincided with the U.S.'s sanctioning of Russian businessmen, companies, and government officials. **But Russia has long had plans to "beat" the U.S. when it comes to sanctions** by stockpiling gold.

The Russian central bank's First Deputy Governor Dmitry Tulin said that Moscow sees the acquisition of gold as a "100-percent guarantee from legal and political risks."

As reported by ***RT***, the Kremlin has openly stated that American sanctions and pressure are forcing Russia to find alternative settlement currencies to the U.S. dollar to ensure the security of the country's economy.

Other countries, such as China, India, and Iran, are also pursuing steps to challenge the greenback's dominance in global trade.

CHINA

The ongoing trade conflict between the United States and China, as well as sanctions against Beijing's biggest trading partners have forced China to take steps towards relieving the dollar dependence of the world's second-largest economy.

Moreover, instead of promptly dumping the greenback, China is trying to internationalize its own currency, the yuan, which was included in the IMF basket alongside the US dollar, the Japanese yen, the euro, and the British pound. Beijing has recently made several steps towards strengthening the yuan, including accumulating gold reserves, launching yuan-priced crude futures, and using the currency in trade with international partners. In Beijing's signature soft-power style, the government hasn't made any loud announcements on the issue. However, the People's Bank of China has been regularly reducing the country's share of US Treasuries. Still the number-one foreign holder of the US sovereign debt, China has cut its share to the lowest level since May 2017.

As part of its ambitious Belt and Road Initiative, China is planning to introduce swap facilities in participating countries to promote the use of the yuan. Moreover, the country is actively pushing for a free-trade agreement called the Regional Comprehensive Economic Partnership (RCEP), which will include the countries of Southeast Asia. The trade pact could easily replace the Trans-Pacific Partnership (TPP), the proposed multi-national trade deal which was torn up by US President Donald Trump shortly after he took office. RCEP includes 16 country signatories and the potential pact is expected to form a union of nearly 3.4 billion people based on a combined $49.5 trillion economy, which accounts for nearly 40 percent of the world's GDP.

The Rise of the "Petroyuan"

12-03-18 - Project Syndicate, John A. Mathews, Mark Selden - "The Rise of the "Petroyuan""

MATASII SYNTHESIS:

- For the past decade, China's strategy for internationalizing the renminbi has involved greater reliance on the International Monetary Fund's Special Drawing Rights as an alternative international reserve currency.
    - The People's Bank of China's then-governor, Zhou Xiaochuan, spelled out the strategy in an essay in 2009.
    - With new allocations of SDRs to emerging industrial powers like China, the SDR, based on a basket of currencies including the renminbi, could serve not only as a development tool, but also as a means of international payment to rival the US dollar.
    - In the wake of the 2008 global financial crisis, an SDR-centered international financial system became an enticing prospect for other countries as well.

- As a follow-on next step, it is now ten months since China launched its oil futures contract, denominated in yuan (renminbi), on the Shanghai International Energy Exchange.
  - China's futures contracts have established themselves and have overtaken in volume terms the dollar-denominated oil futures traded in Singapore and Dubai.
  - These results suggest that China's oil futures could bring the renminbi to the core of global commodity markets,
  - The launch of the oil futures contract can be anticipated to widen the scope for renminbi-denominated commodity trading,
  - This can be anticipated to strengthen Chinese capital markets and promote the renminbi's internationalization – or at least the progressive de-dollarization of the oil market.
- Possible further development of renminbi-based trade in other commodity markets, suggests that the US dollar could face an unprecedented challenge to its hegemony.
  - It may in the near future no longer be seen as the anchor of the international monetary system,
  - Bringing to an end to what Valéry Giscard d'Estaing famously called the "exorbitant privilege" enjoyed by the US as a result of the dollar's centrality in international trade.

If China's ultimate goals include internationalizing the renminbi, its more immediate objective, prompted in part by US tariffs or sanctions on China and other countries, is de-dollarization of the international system. This is reflected in the shift to promoting an oil futures contract traded in Shanghai, which represents a decisive break with China's SDR-focused strategy.

- SANCTIONS: It is also a way for China to capitalize on the US trade sanctions imposed against it – exposing liabilities in these sanctions.
  - Both Russia and Iran, for example, are selling oil to China and accepting payment in renminbi, in response to actual or potential sanctions imposed on them by the US.
  - They also have extensive imports from China, as well as other reasons for seeking strengthened ties.

The fact that China is now the world's largest oil importer, as well as its leading trading and manufacturing economy, lends weight to its "petroyuan" and other initiatives to internationalize the renminbi. If China can withstand US counterattacks, its efforts will lay the financial groundwork for the emergence of a multipolar world.

REFERENCE RESEARCH ARTICLE: The Rise of the "Petroyuan"

For the past decade, China's strategy for internationalizing the renminbi has involved greater reliance on the IMF's Special Drawing Rights as an alternative international reserve currency. But the launch of renminbi-denominated oil trading this year suggests that China will now pursue de-dollarization head-on.

SYDNEY/ITHACA – It is now just ten months since China launched its oil futures contract, denominated in yuan (renminbi), on the Shanghai International Energy Exchange. In spite of forebodings and shrill alarms, the oil markets continue to function, and China's futures contracts have established themselves and overtaken in volume terms the dollar-denominated oil futures traded in Singapore and Dubai.

Of course the volume of trades on the Shanghai INE still lags behind that of the Brent oil contracts traded in London and the West Texas Intermediate oil futures traded in New York. The Chinese oil futures contract is, however, being taken seriously by multinational commodity traders (like Glencore) and is priced in a manner that is comparable to the Brent and WTI indices. As we argue in ***The Asia-Pacific Journal***, these results suggest that China's oil futures could bring the renminbi to the core of global commodity markets.

The launch of the oil futures contract can be anticipated to widen the scope for renminbi-denominated commodity trading. As more of China's oil imports come to be priced in its domestic currency, foreign suppliers will have more renminbi-denominated accounts with which they can purchase not only Chinese goods and services, but also Chinese government securities and bonds.

This can be anticipated to strengthen Chinese capital markets and promote the renminbi's internationalization – or at least the progressive de-dollarization of the oil market.

For the past decade, China's strategy for internationalizing the renminbi has involved greater reliance on the International Monetary Fund's Special Drawing Rights as an alternative international reserve currency. The People's Bank of China's then-governor, Zhou Xiaochuan, spelled out the strategy in an essay in 2009. With new allocations of SDRs to emerging industrial powers like China, the SDR, based on a basket of currencies including the renminbi, could serve not only as a development tool, but also as a means of international payment to rival the US dollar. In the wake of the 2008 global financial crisis, an SDR-centered international financial system became an enticing prospect for other countries as well.

Zhou's 2009 essay galvanized these efforts, as he pointed to the evident inadequacies of the dollar-centered system (such as the impact of chronic US deficits) and outlined the SDR's advantages as an alternative means of international financial settlement.

The establishment of renminbi-based oil trading at a time when China and many other economies confront aggressive US tariffs, and possible further development of renminbi-based trade in other commodity markets, suggests that the US dollar could face an unprecedented challenge to its hegemony. It may in the near future no longer be seen as the anchor of the international monetary system, bringing to an end to what Valéry Giscard d'Estaing famously called the "exorbitant privilege" enjoyed by the US as a result of the dollar's centrality in international trade.

If China's ultimate goals include internationalizing the renminbi, its more immediate objective, prompted in part by US tariffs or sanctions on China and other countries, is de-dollarization of the international system. This is reflected in the shift to promoting an oil futures contract traded in Shanghai, which represents a decisive break with China's SDR-focused strategy.

It is also a way for China to capitalize on the US trade sanctions imposed against it – exposing liabilities in these sanctions. Both Russia and Iran, for example, are selling oil to China and accepting payment in renminbi, in response to actual or potential sanctions imposed on them by the US. They also have extensive imports from China, as well as other reasons for seeking strengthened ties.

China no doubt views the emergence of renminbi-denominated oil contracts as a means for Chinese companies to buy oil and gas in their own currency, thereby avoiding exposure to foreign currency fluctuations and firing a shot across the bow of US dollar supremacy.

The fact that China is now the world's largest oil importer, as well as its leading trading and manufacturing economy, lends weight to its "petroyuan" and other initiatives to internationalize the renminbi. If China can withstand US counterattacks, its efforts will lay the financial groundwork for the emergence of a multipolar world.

IRAN

A triumphant return of Iran to the global trading arena did not last long. Shortly after winning the US presidential election, Donald Trump opted to withdraw from the 2015 nuclear deal signed between Tehran and a group of nations, including the UK, US, France, Germany, Russia, China, and the EU.

The oil-rich nation has once again become a target for severe sanctions resumed by Washington, which has also threatened to introduce penalties against any countries that would violate the embargo. The punitive measures banned business deals with the Islamic Republic and cracked down on the country's oil industry.

European Powers Prepare to Scrap Dollar in Iran Trade as Disgust With "America First" Policies Mount

SOURCE: 07-11-18 MintPressNews.com, Elliott Gabriel - "[European Powers Prepare to Scrap Dollar in Iran Trade as Disgust With "America First" Policies Mount]"

REFERENCE RESEARCH ARTICLE: European Powers Prepare to Scrap Dollar in Iran Trade as Disgust With "America First" Policies Mount

> As Western capitals brace themselves for Wednesday's two-day NATO summit, Iranians and Europeans alike are hoping EU leaders can finally put their money where their mouth is and unshackle themselves from U.S.-imposed hegemonic bondage.
>
> **VIENNA, AUSTRIA —** While the White House's frenzied anti-Iran campaign has entailed unprecedented attempts to twist the arms of the United States' traditional European allies, the pressure may be backfiring – a reality made all the more clear by Russian Foreign Minister Sergei Lavrov's claims that Europe's three major powers plan to continue trade ties with Iran without the use of the U.S. dollar.

The move would be a clear sign that the foremost European hegemons – France, Germany, and the United Kingdom – plan to protect the interests of companies hoping to do business with Iran, a significant regional power with a market of around 80 million people.

Lavrov's statement came as Trump insisted that European companies would "absolutely" face sanctions in the aftermath of Washington's widely-derided sabotage of the six-party Joint Comprehensive Plan of Action (JCPOA). On May 8, the former host of NBC's "The Apprentice" blasted the agreement and said that the U.S. would reinstate nuclear sanctions on Iran and "the highest level" of economic bans on the Islamic Republic.

Speaking in Vienna at the ministerial meeting of the JCPOA, Lavrov blasted the U.S. move as "a major violation of the agreed-upon terms which actually made it possible to significantly alleviate tensions from the point of view of the military and political situation in the region and upholding the non-proliferation regime." He added that "Iran was meticulously fulfilling its obligations" at the time that Trump destroyed the U.S.' end of the agreement.

Continuing, Lavrov explained:

The Joint Commission … will be constantly reviewing options which will make it possible, regardless of the US decision, to continue to adhere to all commitments undertaken within the JCPOA framework and provide methods for conducting trade and economic relations with Iran which will not depend on Washington's whims.

What they can do is to elaborate collectively and individually such forms of trade and settlements with Iran that will not depend on the dollar and will be accepted by those companies that see trade with Iran more profitable than with the US. Such companies certainly exist – small, medium and large."

Lavrov noted that the move wasn't so much meant to "stand up for Iran" but to ensure the economic interests and political credibility of the European signatories to the accord. The Russian top diplomat added that large firms such as Total, Peugeot and Renault have already departed the country, having analyzed the situation and decided that the U.S. market is of far more vital importance.

France, Germany and the U.K. have pleaded with the "America First" president to exempt EU companies, writing a letter to U.S. Secretary-Treasurer Steve Mnuchin and right-wing Secretary of State Mike Pompeo that the nuclear accord remains the "best means" to prevent Iran's acquisition of a nuclear deterrent given the lack of any credible alternative. Given the hard-line stances of Pompeo and National Security Adviser John Bolton, the pleas were likely greeted with bemusement.

The opening salvo or "snap-back" of sanctions hitting Iran's automotive sector, gold trade, and other industries will hit the country on August 4, while further sanctions will hit the country's oil industry and central bank on November 6.

Signaling the likelihood of major clashes to come, Lavrov noted:

Everyone agrees that [stepped-up U.S. sanctions on Iran] is an absolutely illegitimate practice. It cannot be accepted as appropriate, but it is a policy that can hardly be changed. Severe clashes are expected in the trade, economic and political spheres."

Patience reaches its limits on all sides

A blistering recent speech by German Foreign Minister Heiko Maas signaled the European exasperation with Trump's go-it-alone policies, which have largely seen the U.S. break from its transatlantic partners while pursuing what he called an "egoistic policy of 'America First'" in relation to the Paris Climate Agreements, Iran nuclear deal, and introduction of tariffs and other protectionist measures.

The May 12, 2018 cover of the German weekly, Der Spiegel.

Maas further questioned the continued viability of the transatlantic partnership:

Old pillars of reliability are crumbling under the weight of new crises and alliances dating back decades are being challenged in the time it takes to write a tweet … the Atlantic has become wider under President Trump and his policy of isolationism has left a giant vacuum around the world."

He added:

The urgency with which we must pool Europe's strength in the world is greater than ever before … our common response to 'America First' today must be 'Europe United!'"

Highlighting how "the Trump administration's conduct is posing completely new challenges to Europe," the German foreign minister noted that the White House now "overtly calls [European] values and interests into question," requiring a more robust and assertive stance – and "the first test of this approach will be the nuclear agreement with Iran."

While such talk surely signals major tensions between the allies, Iran's Atomic Energy Organization director Ali Akbar Salehi offered caustic words stressing Iran's doubt in Europe's ability to follow through with its independent foreign policy, stating:

Iran understands that Europe and the United States are strategic partners, but they are not lovers who share the same bed … European independence vis-a-vis the US is under threat. In the eyes of the whole world, Europe has become the U.S.' lackey.

We are faced with an American administration whose decisions have left the world in shock.

Mr. Trump is punishing foreign companies that do business with us and threatening countries that buy our petrol. He's after fast results. But the EU, Russia and China didn't expect to be put under so much pressure.

The EU is still under shock. The bloc is like a boxer that has been hit with an uppercut. It needs time to pull itself together."

As Western capitals brace themselves for Wednesday's two-day summit of the North Atlantic Treaty Organization (NATO), Iranians and Europeans alike are hoping that EU leaders can finally put their money where their mouth is and unshackle themselves from the U.S.-imposed hegemonic bondage constraining them since the end of the Second World War.

Top Photo | German Justice Minister Heiko Maas delivers a speech about Europe in Berlin on June 13, 2018. Gregor Fischer | AP

Elliott Gabriel *is a former staff writer for teleSUR English and a MintPress News contributor based in Quito, Ecuador. He has taken extensive part in advocacy and organizing in the pro-labor, migrant justice and police accountability movements of Southern California and the state's Central Coast.*

INDIA

Ranked the world's sixth-largest economy, India is one of the biggest merchandise importers. It's not surprising that the country is directly affected by most global geopolitical conflicts and is significantly impacted by sanctions applied to its trading partners.

Taking into account that India is the third-largest country by purchasing power parity, steps of this kind could considerably diminish the role of the greenback in global trading.Earlier this year, Delhi switched to ruble payments on supplies of Russian S-400 air-defense systems as a result of US economic penalties introduced against Moscow. The country also had to switch to the rupee in purchases of Iranian crude after Washington re-instituted sanctions against Tehran. In December, India and the United Arab Emirates sealed a currency-swap agreement to boost trade and investment without the involvement of a third currency.

India Begins Paying For Iranian Oil In Rupees

01-08-19 - "India Begins Paying For Iranian Oil In Rupees"

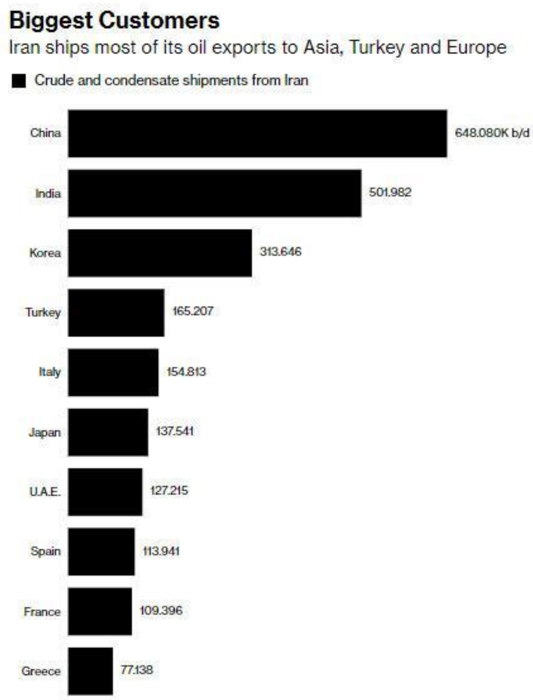
MATASII SYNTHESIS:

- India is the world’s third biggest oil importer,
- India has begun paying Iran for oil in rupees
- India has discussed ditching the U.S. dollar in its trading of oil with Russia, Venezuela, and Iran, instead settling the trade either in Indian rupees or under a barter agreement.
- One thing is certain: India wants to keep importing oil from Iran, because
    - Tehran offers generous discounts and incentives for Indian buyers at a time when the Indian government is struggling with higher oil prices and a weakening local currency that additionally weighs on its oil import bill.
    - It offers free shipping and an extended credit period
    - Indian imports from Iran totaled about $11 billion between April and November, with oil accounting for about 90 percent.
- New Delhi recently issued a notification exempting payments to the National Iranian Oil Company (NIOC) for crude oil imports from steep withholding taxes, enabling refiners to clear an estimated $1.5 billion in dues.

India Begins Paying For Iranian Oil In Rupees

Three months ago, in Mid-October, Subhash Chandra Garg, economic affairs secretary at India’s finance ministry, said that India still hasn’t worked out yet a payment system for continued purchases of crude oil from Iran, just before receiving a waiver to continue importing oil from Iran in its capacity as Iran's second largest oil client after China.

general@GordonTLong.com



That took place amid reports that India had discussed ditching the U.S. dollar in its trading of oil with Russia, Venezuela, and Iran, instead settling the trade either in Indian rupees or under a barter agreement. One thing was certain: India wanted to keep importing oil from Iran, because Tehran offers generous discounts and incentives for Indian buyers at a time when the Indian government is struggling with higher oil prices and a weakening local currency that additionally weighs on its oil import bill.

Fast forward to the new year when we learn that India has found a solution to the problem, and has begun paying Iran for oil in rupees, a senior bank official said on Tuesday, the first such payments since the United States imposed new sanctions against Tehran in November. An industry source told Reuters that India's top refiner Indian Oil Corp and Mangalore Refinery & Petrochemicals have made payments for Iranian oil imports.

To be sure, India, the world's third biggest oil importer, has wanted to continue buying oil from Iran as it offers free shipping and an extended credit period, while Iran will use the rupee funds to mostly pay for imports from India.

"Today we received a good amount from some oil companies," Charan Singh, executive director at state-owned UCO Bank told Reuters. He did not disclose the names of refiners or how much had been deposited.

Hinting that it wants to extend oil trade with Tehran, New Delhi recently issued a notification exempting payments to the National Iranian Oil Company (NIOC) for crude oil imports from steep withholding taxes, enabling refiners to clear an estimated $1.5 billion in dues.

Meanwhile, in lieu of transacting in dollars, Iran is devising payment mechanisms including barter with trading partners like India, China and Russia following a delay in the setting up of a European Union-led special purpose vehicle to facilitate trade with Tehran, its foreign minister Javad Zarif said earlier on Tuesday.

As Reuters notes, in the previous round of U.S. sanctions, India settled 45% of oil payments in rupees and the remainder in euros but this time it has signed deal with Iran to make all payments in rupees as New Delhi wanted to fix its trade balance with Tehran. Case in point: Indian imports from Iran totalled about $11 billion between April and November, with oil accounting for about 90 percent.

Singh said Indian refiners had previously made payments to 15 banks, but they will now be making deposits into the accounts of only 9 Iranian lenders as one had since closed and the U.S has imposed secondary sanctions on five others.

US Actions Foster De-Dollarization

11-23-18 - New Eastern Outlook, Dmitry Bokarev - "US Actions Foster De-Dollarization"

> ….
>
> In August 2017, the United States passed the Countering America's Adversaries Through Sanctions Act. The law also allows for secondary sanctions to be imposed against states and organizations working with countries that the US considers 'enemies'. According to the law, the US may freeze their dollar accounts and transfers made outside American jurisdiction. American companies are also prohibited from working with countries and organizations listed in deals with US enemies.
>
> ….
>
> As a US partner in many areas, including security, India doesn't want to lose that partnership. That is why the country is searching for workarounds to continue cooperating with Russia, Iran, and other countries without worrying that the US will block financial transfers. One of the ways to do that is by conducting payments via systems and organizations not connected to the US and that don't use the American dollar.
>
> Indian banks that actively work with the US, as mentioned above, and have multiple obligations to America, cannot be used for transactions between Russia and India. Indian companies that want to work with Russia are considering the option of paying for Russian imports through foreign branches of Russian banks using the ruble. Sberbank, Russia's largest bank, operates in India and several Indian companies have decided to open accounts there.
>
> At the beginning of October 2018, New Delhi was the site of the annual India-Russia summit, that brought together Russian President Vladimir Putin and Indian Prime Minister Narendra Modi. Suresh Prabhu, India's Minister of Commerce and Industry, also spoke at the event. Among other topics, Mr. Prabhu stated that Russia and India are linked by age-old trade relations and that the two countries are entirely capable of considering switching to national currencies — rubles and rupees — in trade operations.
>
> In mid-October 2018, reports emerged that India paid for Russian diamonds in rubles. India is among the world's largest diamond manufacturers, while the Russian diamond mining company Alrosa is one of India's largest suppliers of rough diamonds. In total, approximately 50% of Alrosa's diamonds are sold to India. While India used to pay for Russian diamonds in dollars, the switch to rubles has turned out to be easier than expected. Alrosa's management believes that paying in rubles through Russian banks can make Russian-Indian trade significantly easier and quicker. In the same vein, Alrosa has already succeeded in testing ruble-based payments with China.
>
> A deal between Russia and India for the purchase of S-400 SAM was also agreed to in New Delhi in early October 2018 during the India-Russia summit. The agreement laid out the conditions for India's purchase of five S-400 systems worth $5.4 billion. Like China, India agreed to the deal despite the risk of sanctions that the United States is supposed to impose on purchasers of Russian SAMs. The deal emphasized the importance of working with Russia for India's leadership. However, this is not the only interesting news that came out of the summit. At the end of October 2018, information became available that India would be paying in rubles for this purchase, as well. In doing so, India once again avoided the risk of having transactions blocked by US authorities, which could have happened if dollars had been used for the payment.

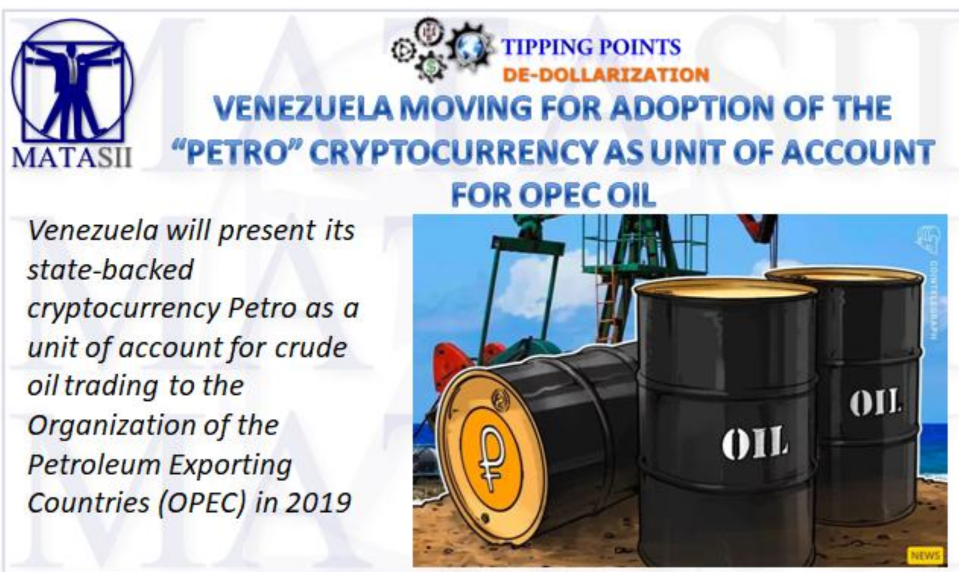
VENEZUELLA

Venezuela to Present Petro to Intergovernmental Group OPEC as Unit of Account for Oil

11-08-18 - CoinTelegraph.com, Ana Berman - "Venezuela to Present Petro to Intergovernmental Group OPEC as Unit of Account for Oil"

MATASII SYNTHESIS:

- Venezuela will present its state-backed cryptocurrency Petro as a unit of account for crude oil trading to the Organization of the Petroleum Exporting Countries (OPEC) in 2019,
- Petro will be offered as a unit of account for global crude oil trading, noting that all Venezuelan oil will be traded for Petro,
- Venezuela officially launched the sale of its widely discussed oil-backed cryptocurrency at the end of October,
- The country's leader announced the national coin, Petro can now be purchased directly from its official website or from six local crypto exchanges authorized by the government,
- Maduro appealed to the county's citizens in October, asking them to invest in gold and Petro while the national currency, the sovereign bolivar, is facing hyperinflation,
- The country's president also stated that Petro would be used for international commercial transactions starting in October 2018. Moreover, Venezuela announced that the currency would be used as a unit of account within the country, making salaries and pricing systems tied to Petro,
- The PDVSA, which reportedly backs Petro, had $45 billion in debt and showed no signs of any trading activity. This might mean the currency is only a "smoke curtain" to conceal Maduro's recent failure to reanimate the national fiat currency.



REFERENCE RESEARCH ARTICLE: Venezuela to Present Petro to Intergovernmental Group OPEC as Unit of Account for Oil

> Venezuela will present its state-backed cryptocurrency Petro as a unit of account for crude oil trading to the Organization of the Petroleum Exporting Countries (OPEC) in 2019, the country's oil company PDVSA reports on its Twitter Nov. 7.

The PDVSA has cited its president Manuel Quevedo, who also holds the position of Venezuela's Minister of Oil and Mining, speaking about the future presentation:

"We will be presenting Petro to OPEC in 2019 as the main digital currency backed by oil."

According to the PDVSA, Quevedo also added that Petro will be offered as a unit of account for global crude oil trading, noting that all Venezuelan oil will be traded for Petro.

OPEC is a global intergovernmental organization made up of 15 nations, founded in 1960 in Baghdad to develop regulation and policies for the world's main oil exporters. According to OPEC's website, the organization has not yet scheduled its agenda for 2019; the nearest meeting of the oil industry members will be held Dec. 6 in Vienna, Austria.

Venezuela officially launched the sale of its widely discussed oil-backed cryptocurrency at the end of October. 11 months after country's leader announced the national coin, Petro can now be purchased directly from its official website or from six local crypto exchanges authorized by the government. However, crypto wallets for trading the coin have reportedly been suspended by Google.

As Cointelegraph has often reported, the Venezuelan government is actively promoting Petro. For instance, Maduro appealed to the county's citizens in October, asking them to invest in gold and Petro while the national currency, the sovereign bolivar, is facing hyperinflation.

The country's president also stated that Petro would be used for international commercial transactions starting in October 2018. Moreover, Venezuela announced that the currency would be used as a unit of account within the country, making salaries and pricing systems tied to Petro.

However, some experts, journalists, and economists are sceptical about Venezuela's coin. A Reuter's report claimed that Petro was not backed by oil nor mined anywhere in the country. The news agency also cited former Oil Minister Rafael Ramirez who wrote that "the petro [...] only exists in the government's imagination."

Experts also told media outlet Wired that PDVSA, which reportedly backs Petro, had $45 billion in debt and showed no signs of any trading activity. The publication noted that this might mean the currency is only a "smoke curtain" to conceal Maduro's recent failure to reanimate the national fiatcurrency.

TURKEY

Earlier this year, Turkish President Recep Tayyip Erdogan announced plans to end the US dollar monopoly via a new policy that is aimed at non-dollar trading with the country's international partners. Later, Turkey's leader announced that Ankara is preparing to conduct trade through national currencies with China, Russia and Ukraine. Turkey also discussed a possible replacement of the US dollar with national currencies in trade transactions with Iran.

The move was prompted by political and economic reasons. Relations between Ankara and Washington have been deteriorating since the failed military coup in the country to oust President Erdogan in 2016. It's been reported that Erdogan suspects US involvement in the uprising and accuses Washington of harboring exiled cleric Fethullah Gulen, whom Ankara blames for masterminding the coup.

The Turkish economy sank after Washington introduced economic sanctions over the arrest of US evangelical pastor Andrew Brunson on terrorism charges in relation to the uprising.

Erdogan has repeatedly slammed Washington for unleashing a global trade war, sanctioning Turkey and trying to isolate Iran. The NATO member's decision to buy Russian S-400 missile systems added fuel to the fire.

Moreover, Turkey is trying to ditch the dollar in an attempt to support its national currency. The lira has lost nearly half of its value against the greenback over the past year. The currency plunge was exacerbated by soaring inflation and increasing prices for goods and services.

'Turkey not America': Erdogan continues crackdown on US dollar in favor of lira

09-19-18 RT "'Turkey not America': Erdogan continues crackdown on US dollar in favor of lira"

> There is no economic crisis in Turkey, according to President Recep Tayyip Erdogan.
>
> Turkey will extend the use of the domestic currency, the lira, as a substitute for the US dollar, he said.
> "Don't believe in this crisis. We don't have such a thing. These are all [part of a] manipulation," Erdogan said Wednesday.
>
> "This is Turkey, not the United States," he said. "You rent your store and shop with Turkish liras here. Otherwise you will pray a price."
>
> The Turkish central bank has raised the interest rate to 24 percent despite sharp criticism of this measure from the president himself. The last time the rate was that high in Turkey was 2004. However, this measure has helped to stabilize the lira exchange rate against the dollar.
>
> Relations between the US and Turkey have deteriorated since the failed military coup against Erdogan in 2016. The Turkish president has accused Washington of protecting the coup plotters. The US began applying economic pressure after the detention of American pastor Andrew Brunson in Turkey, accused by Ankara of aiding the failed military coup.
>
> Brunson, a US citizen and Turkish resident for over two decades, was arrested in Turkey on charges of terrorism and espionage. He is facing up to 35 years behind bars if found guilty. A Turkish appeals court rejected Brunson's bid for freedom in August.

Iraqi Dinar May Replace Dollar And Euro In Iran's 2nd Largest Export Market

11-20-18 - "Iraqi Dinar May Replace Dollar And Euro In Iran's 2nd Largest Export Market"

MATASII SYNTHESIS:

- Iranian officials are mulling over Iraq's offer to pay in Iraqi Dinars instead of the dollar or Euro to settle payments for Iraq's natural gas imports from Iran in the face of Washington sanctions,
- Iraq was among countries granted a temporary exemption as energy sanctions on its eastern neighbor and regional Shia ally took effect November 5,
- Iraq is Iran's second largest export market with a substantial portion of that trade in energy, which cannot cannot easily be structured outside the new sanctions regime,
- Chronic shortages and a failing Iraqi infrastructure means Tehran has been a key lifeline fueling Iraq's increasingly desperate needs,
- “Resolving the banking system problem must be a priority for both Iran and Iraq, as the two countries have at least $8 billion in transactions in the worst times,”
- Washington had succumbed to granting temporary waivers to eight major buyers of Iranian oil due to economic realities,
- Iranian officials have vowed to stick by the 2015 Iran nuclear deal in spite of Washington's aggressive attempts to dismantle it.

We are “hopeful that the Europeans can save the deal” in reference to the EU's attempts to establish a Special Purpose Vehicle (SPV) for non-dollar trade with Iran.

REFERENCE RESEARCH ARTICLE: Iraqi Dinar May Replace Dollar And Euro In Iran's 2nd Largest Export Market

> Amidst continuing talks between Iran and Iraq over how to settle payments for Iraq's natural gas imports from Iran in the face of Washington sanctions, Iranian officials are mulling over Iraq's offer to pay in Iraqi Dinars instead of the dollar or Euro, according to Iranian state media. This follows the September announcement by Iran that it planned to completely ditch the dollar as a currency used by the two countries in the trade transactions.

Iraq was among countries granted a temporary exemption as energy sanctions on its eastern neighbor and regional Shia ally took effect November 5, and since then Baghdad has pushed to process payments for gas and electricity in its own currency of dinars. Iraq is Iran's second largest export market with a substantial portion of that trade in energy, which cannot cannot easily be structured outside the new sanctions regime.

RIGHT >> Iraq's President Barham Salih (L) is accompanied by his Iranian counterpart, Hassan Rouhani, to a meeting of Iran-Iraq delegations for talks in Tehran on November 17. Via President.ir

Baghdad has found itself in the delicate position as a partner of both Washington and Tehran — largely reliant on the former for defense and on the latter for gas and power generation, keeping its economy afloat. Last summer a severe temporary electricity reduction fueled unrest across the south of Iraq. Chronic shortages and a failing Iraqi infrastructure means Tehran has been a key lifeline fueling Iraq's increasingly desperate needs.

Iranian officials have also recently declared "Iraq is one of our successes" and a "strategic ally" as echoed in a weekend televised broadcast featuring the head of Iran's Islamic Shura Council, Hossein Amirabedhaleyan. However, as the head of the Iran-Iraq Chamber of Commerce Yahya Ale-Eshagh stated before the latest round of sanctions took effect: "Resolving the banking system problem must be a priority for both Iran and Iraq, as the two countries have at least $8 billion in transactions in the worst times," according to a September statement.

Meanwhile on Monday Iran's leadership continued making dubious promises that energy exports will defy all expectations and thrive, with President Hassan Rouhani saying US sanctions are "part of a psychological war doomed to failure".

"We will not yield to this pressure, which is part of the psychological war launched against Iran," Rouhani said in a speech broadcast live on state television.

"They have failed to stop our oil exports. We will keep exporting it... Your regional policies have failed and you blame Iran for that failure from Afghanistan to Yemen and Syria," he added as the crowd he addressed in the city of Khoy chanted "Death to America!".

Noting that Washington had succumbed to granting temporary waivers to eight major buyers of Iranian oil due to economic realities, he explained: "America is isolated now. Iran is supported by many countries. Except for the Zionist regime (Israel) and some countries in the region, no other country backs America's pressure on Iran," according to Reuters.

Iranian officials have vowed to stick by the 2015 Iran nuclear deal in spite of Washington's aggressive attempts to dismantle it. Foreign Ministry spokesman Bahram Qasemi expressed to reporters he is "hopeful that the Europeans can save the deal" in reference to the EU's attempts to establish a Special Purpose Vehicle (SPV) for non-dollar trade with Iran. European and other foreign business, however, have still been leaving Iran in droves out of fear of US penalties.

"We expect EU to implement the SPV as soon as possible," Qasemi said. "Iran adheres to its commitments as long as other signatories honor theirs."

Reuters reported last week, based on statements from six unnamed diplomats, that the EU had sought to establish the SPV by this month but failed as no country is currently willing to host it. This gives new impetus to current negotiations between Iran and Iraq held this past weekend as the Iraqi president visited Tehran on Saturday with a delegation for a series of talks.

Iran's Ambassador Iraj Masjedi announced over the weekend amidst the high level talks involving Iraq's President Barham Salih: "Considering the problems that have emerged in dollar-based banking transactions, a joint proposal between Iran and Iraq is using Iraq's dinar in trade," according to Iranian state media. He added that an alternative plan might included using barter mechanisms to carry out imports and exports with Iraq.

Following these meetings Iranian President Hassan Rouhani indicated the two neighbors look to increase their annual trade from the current $12 billion to $20 billion.

EU Proposes Widespread 'De-Dollarization' Initiatives

12-03-18 - "EU Proposes Widespread 'De-Dollarization' Initiatives"

MATASII SYNTHESIS:

The dollar's reign as reserve currency will end slowly at first.... then all at once!

- The European Commission has reportedly formulated a plan to reduce the role of the dollar in international trade,
- The European Commission plans to outline initiatives to develop the international role of the euro, according to a draft document obtained by Bloomberg,
- The plan has three dimensions including:
    - The European Financial sector,
    - The International Financial sector and
    - Key strategic sectors such as Energy.
- ENERGY
    - “Member states should promote wider use of the euro in relations with third countries in field of energy, including in contracts within the framework of bilateral and multilateral international agreements,”
    - “Participants in European energy markets should use more energy-related contracts denominated in euro”
    - “Price reporting agencies should facilitate the launching of euro-denominated price benchmarks for crude oil”
    - “Commodity exchanges should facilitate the further development of euro-denominated derivative contracts on crude oil and refined products”

“The Commission calls on member states to include in their intergovernmental agreements with third countries a model clause, developed by the Commission, related to the use of the euro as default currency”

REFERENCE RESEARCH ARTICLE: EU Proposes Widespread 'De-Dollarization' Initiatives

In the most blatant and transparent reaction to Washington's continued vassal-ization, the European Commission has reportedly formulated a **plan to reduce the role of the dollar in international trade**.
Amid increasing tensions between Trump and various European leaders (cough Macron cough) and the ongoing threats of sanctions and tariffs, the European Commission plans to outline **initiatives to develop the international role of the euro**, ***according to a draft document obtained by Bloomberg***.

As Viktoria Dendrinou reports, the plan has **three dimensions** including the European financial sector, the international financial sector and key strategic sectors such as energy...

"**Member states should promote wider use of the euro in relations with third countries in field of energy,** including in contracts within the framework of bilateral and multilateral international agreements,"

"The Commission calls on member states to include in their **intergovernmental agreements with third countries a model clause, developed by the Commission, related to the use of the euro as default currency**"

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"Price reporting agencies should facilitate the **launching of euro-denominated price benchmarks for crude oil**"

"Commodity exchanges should facilitate the **further development of euro-denominated derivative contracts on crude oil and refined products**"

With Russia actively de-dollarizing, along with Iran, and China slowing its Treasury purchases (while publicly proclaiming support) but promoting its petroyuan contracts, Europe's shift away from the petrodollar could be more posturing or could be ***the end of the beginning of the end as the dollar's reign as reserve currency ends slowly at first then all at once***.
With allies like these, who needs enemies?

FURTHER READING

Wall Street Journal: The Economy's Hidden Problem: We're out of Big Ideas

Dwindling gains

4-KEY DEVELOPMENTS

KEY MESSAGES

ENERGY TRADING

- It is now ten months since China launched its oil futures contract, denominated in yuan (renminbi), on the Shanghai International Energy Exchange.
    - China's futures contracts have established themselves and have overtaken in volume terms the dollar-denominated oil futures traded in Singapore and Dubai.
    - These results suggest that China's oil futures could bring the renminbi to the core of global commodity markets,
    - The launch of the oil futures contract can be anticipated to widen the scope for renminbi-denominated commodity trading,
    - This can be anticipated to strengthen Chinese capital markets and promote the renminbi's internationalization – or at least the progressive de-dollarization of the oil market.
- Possible further development of renminbi-based trade in other commodity markets, suggests that the US dollar could face an unprecedented challenge to its hegemony.
    - It may in the near future no longer be seen as the anchor of the international monetary system,
    - Bringing to an end to what Valéry Giscard d'Estaing famously called the "exorbitant privilege" enjoyed by the US as a result of the dollar's centrality in international trade.

If China's ultimate goals include internationalizing the renminbi, its more immediate objective, prompted in part by US tariffs or sanctions on China and other countries, is de-dollarization of the international system. This is reflected in the shift to promoting an oil futures contract traded in Shanghai, which represents a decisive break with China's SDR-focused strategy.

CRYPTOCURRENCIES

- Venezuela will present its state-backed cryptocurrency Petro as a unit of account for crude oil trading to the Organization of the Petroleum Exporting Countries (OPEC) in 2019,

- Petro will be offered as a unit of account for global crude oil trading, noting that all Venezuelan oil will be traded for Petro,

- Venezuela officially launched the sale of its widely discussed oil-backed cryptocurrency at the end of October,

- The country's leader announced the national coin, Petro can now be purchased directly from its official website or from six local crypto exchanges authorized by the government,

- Maduro appealed to the county's citizens in October, asking them to invest in gold and Petro while the national currency, the sovereign bolivar, is facing hyperinflation,

- The country's president also stated that Petro would be used for international commercial transactions starting in October 2018. Moreover, Venezuela announced that the currency would be used as a unit of account within the country, making salaries and pricing systems tied to Petro,

- The PDVSA, which reportedly backs Petro, had $45 billion in debt and showed no signs of any trading activity. This might mean the currency is only a "smoke curtain" to conceal Maduro's recent failure to reanimate the national fiat currency.

SWIFT SYSTEM

- The U.S. doesn't only project power across the globe through its massive military. It also weaponizes the U.S. dollar, using its economic dominance as both a carrot and a stick.
- The U.S. government approach:
    - FRIENDS: Showers billions of dollars in foreign aid to "friends."
    - ENEMIES: Enemies can find themselves locked out of the global financial system that the U.S. effectively controls using the dollar.

  general@GordonTLong.com

The U.S. has used the system as a stick before.

- In 2014 and 2015, it blocked several Russian banks from SWIFT as relations between the two countries deteriorated.
- More recently, the US threatened to lock China out of the dollar system if it failed to follow U.N. sanctions on North Korea. Treasury Secretary Steven Mnuchin threatened this economic nuclear option during a conference broadcast on CNBC.

ENERGY TRADING

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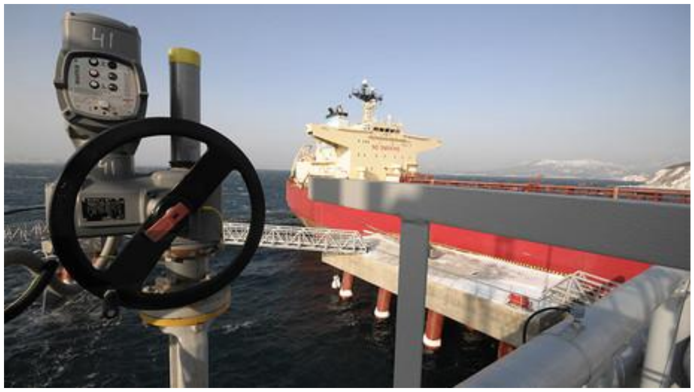

Petro-yuan helps Russia & China dump US dollar in oil trade

China can succeed with petro-yuan where Gaddafi failed – killing the US dollar in oil trade

Petro-yuan to launch renminbi as global currency & kneecap petro-dollar

CRYPTOCURRENCIES

Venezuela to Present Petro to Intergovernmental Group OPEC as Unit of Account for Oil

11-08-18 - CoinTelegraph.com, Ana Berman - "Venezuela to Present Petro to Intergovernmental Group OPEC as Unit of Account for Oil"

MATASII SYNTHESIS:

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- The country's president also stated that Petro would be used for international commercial transactions starting in October 2018. Moreover, Venezuela announced that the currency would be used as a unit of account within the country, making salaries and pricing systems tied to Petro,
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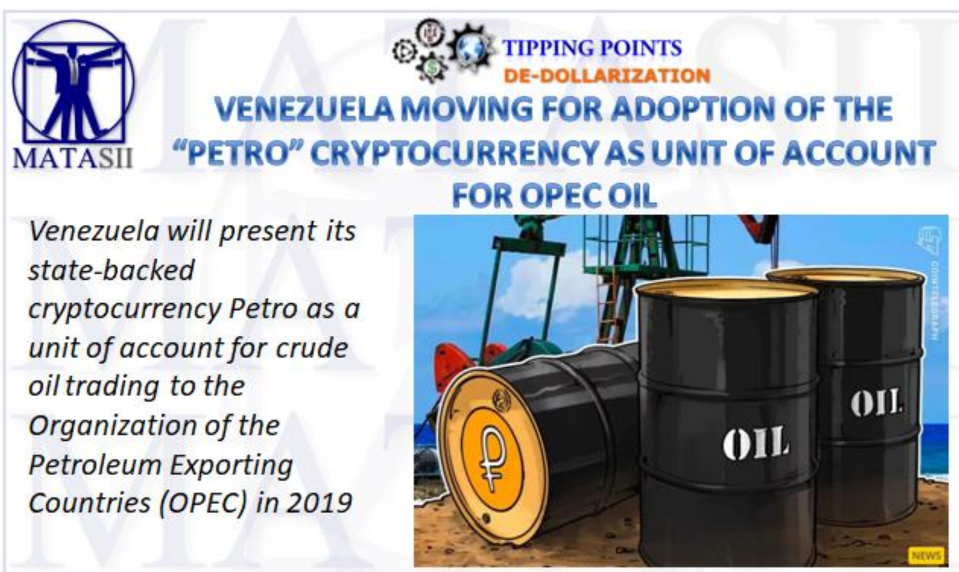

REFERENCE RESEARCH ARTICLE: Venezuela to Present Petro to Intergovernmental Group OPEC as Unit of Account for Oil

Venezuela will present its state-backed cryptocurrency Petro as a unit of account for crude oil trading to the Organization of the Petroleum Exporting Countries (OPEC) in 2019, the country's oil company PDVSA reports on its Twitter Nov. 7.

The PDVSA has cited its president Manuel Quevedo, who also holds the position of Venezuela's Minister of Oil and Mining, speaking about the future presentation:

"We will be presenting Petro to OPEC in 2019 as the main digital currency backed by oil."

According to the PDVSA, Quevedo also added that Petro will be offered as a unit of account for global crude oil trading, noting that all Venezuelan oil will be traded for Petro.

OPEC is a global intergovernmental organization made up of 15 nations, founded in 1960 in Baghdad to develop regulation and policies for the world's main oil exporters. According to OPEC's website, the organization has not yet scheduled its agenda for 2019; the nearest meeting of the oil industry members will be held Dec. 6 in Vienna, Austria.

Venezuela officially launched the sale of its widely discussed oil-backed cryptocurrency at the end of October. 11 months after country's leader announced the national coin, Petro can now be purchased directly from its official website or from six local crypto exchanges authorized by the government. However, crypto wallets for trading the coin have reportedly been suspended by Google.

As Cointelegraph has often reported, the Venezuelan government is actively promoting Petro. For instance, Maduro appealed to the county's citizens in October, asking them to invest in gold and Petro while the national currency, the sovereign bolivar, is facing hyperinflation.

The country's president also stated that Petro would be used for international commercial transactions starting in October 2018. Moreover, Venezuela announced that the currency would be used as a unit of account within the country, making salaries and pricing systems tied to Petro.

However, some experts, journalists, and economists are sceptical about Venezuela's coin. A Reuter's report claimed that Petro was not backed by oil nor mined anywhere in the country. The news agency also cited former Oil Minister Rafael Ramirez who wrote that "the petro [...] only exists in the government's imagination."

Experts also told media outlet Wired that PDVSA, which reportedly backs Petro, had $45 billion in debt and showed no signs of any trading activity. The publication noted that this might mean the currency is only a "smoke curtain" to conceal Maduro's recent failure to reanimate the national fiatcurrency.

SWIFT SYSTEM

Swift: The Society for Worldwide Interbank Financial Telecommunication

SWIFT and the Weaponization of the U.S. Dollar

SOURCE: 10-12-18 Mike Maharrey – "SWIFT and the Weaponization of the U.S. Dollar"

MATASII SYNTHESIS

- The U.S. doesn't only project power across the globe through its massive military. It also weaponizes the U.S. dollar, using its economic dominance as both a carrot and a stick.
- The U.S. government approach:
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The U.S. has used the system as a stick before.

- In 2014 and 2015, it blocked several Russian banks from SWIFT as relations between the two countries deteriorated.
- More recently, the US threatened to lock China out of the dollar system if it failed to follow U.N. sanctions on North Korea. Treasury Secretary Steven Mnuchin threatened this economic nuclear option during a conference broadcast on CNBC.

REFERENCE RESEARHC ARTICLE: SWIFT and the Weaponization of the U.S. Dollar

The Trump administration dropped 44,000 bombs in its first year – a faster bombing pace than Pres. Obama, who bombed more than Pres. Bush. America has intervened militarily in other countries for decades, against the council of founders like George Washington who advised America should "observe good faith and justice towards all nations; cultivate peace and harmony with all."

But the U.S. doesn't only project power across the globe through its massive military. It also weaponizes the U.S. dollar, using its economic dominance as both a carrot and a stick.

The U.S. government:

- FRIENDS: Showers billions of dollars in foreign aid to "friends."
- ENEMIES: On the other hand, "enemies" can find themselves locked out of the global financial system that the U.S. effectively controls using the dollar.

How exactly does the United State weaponize the dollar?

It utilizes the international payment system known as SWIFT.

SWIFT stands for **the Society for Worldwide Interbank Financial Telecommunication**. The system enables financial institutions to send and receive information about financial transactions in a secure, standardized environment. Since the dollar serves as the world reserve currency, SWIFT facilitates the international dollar system.

SWIFT and dollar dominance give the U.S. a great deal of leverage over other countries.

The U.S. has used the system as a stick before.

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- More recently, the US threatened to lock China out of the dollar system if it failed to follow U.N. sanctions on North Korea. Treasury Secretary Steven Mnuchin threatened this economic nuclear option during a conference broadcast on CNBC.

"If China doesn't follow these sanctions, we will put additional sanctions on them and prevent them from accessing the U.S. and international dollar system, and that's quite meaningful."

A number of countries including China, Russia and Iran have taken steps to limit their dependence on the dollar and have even been working to establish alternative payment systems. A growing number of central banks have been buying gold as a way to diversify their holdings away from the greenback. It comes as no surprise that countries on shaky ground with the U.S. would take such measures, but even traditional U.S. allies have grown weary of American economic bullying.

EU ALTERNATIVE IN THE WORKS

On Sept. 24, the EU announced it will create a special payment channel to circumvent U.S. economic sanctions and facilitate trade with Iran. EU foreign policy chief Federica Mogherini made the announcement after a meeting with foreign ministers from Britain, France, Germany, Russia, China and Iran. She said the new payment channel would allow companies to preserve oil and other business deals with Iran.

In practical terms this will mean that EU member states will set up a legal entity to facilitate legitimate financial transactions with Iran and this will allow European companies to continue to trade with Iran in accordance with European Union law and could be open to other partners in the world."

The plan comes in response to Donald Trump's decision to withdraw from the Iran nuclear deal. The EU, Russia and China, released a joint statement, saying the "Special Purpose Vehicle" will "assist and reassure economic operators pursuing legitimate business with Iran." The statement also said the signatories to the Iran deal "reconfirmed their commitment to its full and effective implementation in good faith and in a constructive atmosphere."

The Special Purpose Vehicle will serve as a clearinghouse for transactions with Iran. An *Al Jazeera* reporter explained it this way:

If the Italians want to buy some Iranian oil, they will wire the money to this entity which will then handle the financial transactions from there and vice versa. There will be no involvement of commercial banks and central banks, both of whom are terrified at the prospect of US retribution if they are seen to be going against US sanctions."

Lowry Institute for International Policy research fellow Rodger Shanahan called the plan "a poke in the eye for the US."

America's undeclared wars have cost trillions of dollars. Economic warfare could come at a similar price.

De-dollarization of the world economy would likely perpetuate a currency crisis in the United States.

And it appears a movement to dethrone the dollar is gaining steam. This is yet another consequence of the U.S. government abandoning the Constitutional requirement for sound money. The Federal Reserve perpetuates the system with its money-printing and interventionist monetary policy.

As James Madison said, "Of all the enemies to public liberty war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other." War always comes at a steep cost – whether military or economic.

DE-DOLLARIZATION: EU UNVEILS "SPV" TO BYPASS US SWIFT JEOPARDIZING US$ RESERVE STATUS

-- SOURCE: 09-25-18 - "Europe Unveils "*Special Purpose Vehicle" To Bypass SWIFT, Jeopardizing Dollar's Reserve Status*" –

In a stunning vote of "no confidence" in the US monopoly over global payment infrastructure, one month ago Germany's foreign minister Heiko Maas called for the creation of a new payments system independent of the US that would allow Brussels to be independent in its financial operations from Washington and as a means of rescuing the nuclear deal between Iran and the west.

Writing in the German daily Handelsblatt, Maas said "Europe should not allow the US to act over our heads and at our expense. For that reason it's essential that we strengthen European autonomy by establishing payment channels that are independent of the US, creating a European Monetary Fund and building up an independent Swift system," he wrote.

Maas said it was vital for Europe to stick with the Iran deal. "Every day the agreement continues to exist is better than the highly explosive crisis that otherwise threatens the Middle East," he said, with the unspoken message was even clearer: Europe no longer wants to be a vassal state to US monopoly over global payments, and will now aggressively pursue its own "SWIFT" network that is not subservient to Washington's every whim.

Many discounted the proposal as being far too aggressive: after all, a direct assault on SWIFT, and Washington, would be seen by the rest of the world as clear mutiny against a US-dominated global regime, and could potentially spark a crisis of confidence in the reserve status of the dollar, resulting in unpredictable, and dire, consequences.

However, despite the diplomatic consequences, Europe was intent on creating some loophole to the US ability to weaponize the global currency of account at will, something observed most recently as part of Trump's latest sanctions on Iran, and as a result, late on Monday, the **European Union said that it would establish** a special payment channel to allow European and other companies to legally continue financial transactions with Iran while avoiding exposure to U.S. sanctions.

The move, as the WSJ notes, "is a direct rebuke of President Trump's policy on Iran and his decision to withdraw from the nuclear deal in May," and sets the stage for a confrontation between the U.S.

and Europe over the treatment of Iran, the payment for Iran oil, and potentially, jeopardizing the reserve currency status of the dollar itself.

While keeping SWIFT as is, for now, the EU's foreign-policy head Federica Mogherini side by side with Iran's Foreign Minister Javad Zarif announced a "special purpose vehicle" jointly, in English and Farsi, after a meeting at the U.N. of the parties still committed to the deal—Iran, EU, U.K., France, Germany, Russia and China. In fact, everyone but the US.

EU foreign policy chief Federica Mogherini (r), speaking alongside Iranian Foreign Minister Mohammad Javad Zarif

According to Mogherini, the plan to create the SPV "will mean that EU member states will set up a legal entity to facilitate legitimate financial transactions with Iran, and this will allow European companies to continue trade with Iran" despite Trump's opposition.

As Bloomberg's Leonid Bershidsky explains, with Iran sanctions back, it is clear to the Europeans (as well as the Chinese and Russians) that any future transactions with Iran must go through entities insulated from the American financial system.

In a July 2018 report, Axel Hellman of the European Leadership Network think tank and Esfandyar Batmanghelidj of the Iranian company Bourse & Bazaar proposed "a new banking architecture" in response to the U.S. sanctions, relying on the existing system of "gateway banks," such as the Hamburg-based Europaeisch-Iranische Handelsbank, and the European branches of private Iranian bank. "A further third category of gateway banks can be envisioned," they wrote, "which would comprise of special purpose vehicles established by European governments, or as part of public-private partnerships in order to facilitate Iran trade and investment."

The new plan focuses on this third option.

Mogherini further indicated that Germany, France and the U.K. would set up a multinational state-backed financial intermediary that would deal with companies interested in Iran transactions and with Iranian counter-parties. Such transactions, presumably in euros and pounds sterling, would not be transparent to American authorities. European companies dealing with the state-owned intermediary technically might not even be in violation of the U.S. sanctions as currently written.

And, in a potentially massive development, the system would be likely be open to Russia and China as well as it would enable the world's economies to trade with each other, fully independent of SWIFT.

Europe would thus provide an infrastructure for legal, secure sanctions-busting — and a guarantee that the transactions would not be reported to American regulators.

That said, Washington would not be without recourse, although at that point, all the U.S. could do is sanction the participating countries' central banks or SWIFT for facilitating the transactions (if the special purpose vehicle uses SWIFT, rather than ad hoc messaging).

That, Hellman and Batmanghelidj wrote, would be self-defeating: "There are two possible outcomes if these institutions proceed to work with Iran despite U.S. secondary sanctions. Either U.S. authorities fail to take enforcement action given the massive consequences for the operations and integrity of the American financial system, serving to "defang" the enforcement threats and reduce the risk of European self-sanctioning on the basis of fear, or U.S. authorities take such an enforcement action, a step that would only serve to accelerate European efforts to create a defensible banking architecture that goes beyond the Iran issue alone."

Europe, naturally, needs a "neutral" pretext to implement this SPV, and that would be Brussels' desire to continue transacting with Iran:

"We are not backing down [on the Iran nuclear agreement]," said a European diplomat. He said the speeches of European leaders at a Security Council meeting Mr. Trump is hosting on Wednesday on nonproliferation, including Iran, will reflect the Monday night statement.

Additionally, as basis for the potentially revolutionary development, the participants of the 2015 nuclear deal, formally known as the Joint Comprehensive Plan of Action or JCPOA, "underlined their determination to protect the freedom of their economic operators to pursue legitimate business with Iran."

While the details of the SPV mechanism — which would be set up in future meetings with technical experts — were still to be determined, with the United States and the dollar dominating so much of global trade the statement said the new mechanism would "facilitate payments related to Iran's exports (including oil) and imports, which will assist and reassure economic operators pursuing legitimate business with Iran."

"In practical terms, this will mean that EU member states will set up a legal entity to facilitate legitimate financial transactions with Iran and this will allow European companies to continue to trade with Iran in accordance with European Union law and could be open to other partners in the world," she told reporters.

As a result of Trump's aggressive new sanctions on Iran, and potentially more sanctions after November as Trump hinted during his UN speech, European companies have been flocking out of Iran's market and ending contracts to avoid risking U.S. sanctions. Meanwhile, Iran - which has argued that the 2015 deal entitled the Islamic Republic to benefit from lifting of sanctions and to enter the world market - has seen its economy stumble, with the currency collapsing almost daily against the U.S. dollar since the U.S. exited the deal.

Telegraphing that Europe will continue cooperation with Iran despite US sanctions, Mogherini said Iran has remained fully committed to its obligations under the nuclear deal, as certified by a dozen reports from U.N.'s nuclear watchdog, the International Atomic Energy Agency. She also hailed the 2015 agreement as a major achievement for diplomacy and nonproliferation and "deeply regrets" what she called the unilateral withdrawal of the U.S. from the deal.

* * *

In any case, creating "a defensible banking architecture" may well be the end goal for the Europeans, China and Russia, anyway because, as noted above, Iran is merely a convenient pretext: after all, the nuclear agreement is one of the few things that unite the EU, China and Russia against the U.S.

But, as Bershidsky notes, "working to undermine the dollar's global dominance isn't ultimately about Iran at all. In his recent State of the European Union speech, European Commission President Jean-Claude Juncker called for strengthening the euro's international role and moving away from traditional dollar invoicing in foreign trade."

China and Russia have long sought the same thing, but it's only with Europe, home of the world's second biggest reserve currency, that they stand a chance of challenging American dominance.

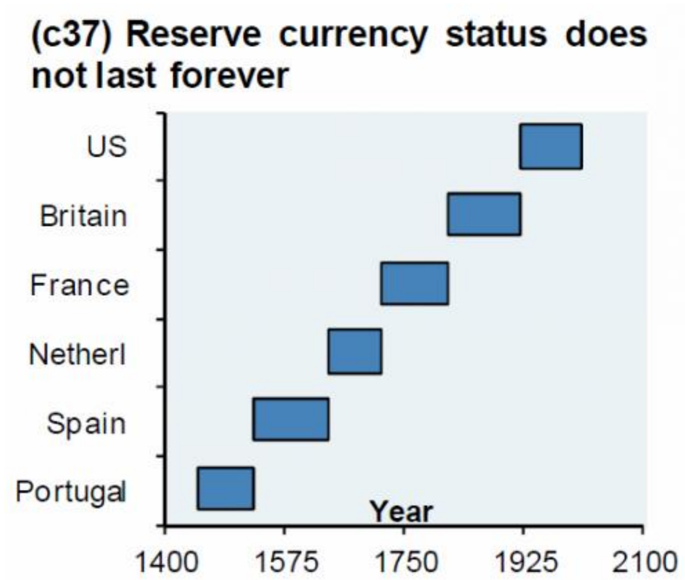
While it remains to be seen if the "special purpose vehicle" would entice European companies such as France's Total or Germany's Daimler to get back into business with Iran remains to be seen, the optics of the move by the European Union together with China and Russia to defy the U.S. signaled continued criticism of the Trump administration for its decisions on Iran.

More importantly, it strikes at the heart of the current economic and financial system which is held together by the dollar. By providing an alternative, the global #resistance sets the stage for what potentially could be the ascendancy of other global reserve currencies, and/or a world of bilateral trade agreements which bypass both the US Dollar and Swift entirely, eliminating Washington's "veto powers" on global trade.

Given U.S. law enforcement's wide reach, there would still be a risk involved, and European governments may not be able to protect the companies from it. Some firms will be tempted to try the new infrastructure, however, and the public isn't likely to find out if they do. In any case, in response to Trump's aggressive foreign policies and "weaponization" of the dollar, it is worthwhile for Europe, Russia and China to experiment with dollar-free business.

But this brings up the bigger point: no currency's international dominance has lasted forever, and there's no reason for the U.S. dollar to be the exception to this rule.

Meanwhile, as Bershidsky concludes, "Trump's confidence in his ability to weaponize the dollar against adversaries and stubborn allies alike could eventually backfire for the U.S. as efforts to push the dollar off its pedestal grow ever more serious."



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5-AN ALTERNATIVE GLOBAL RESERVE CURRENCY – *A Partially Gold Backed SDR*

KEY MESSAGES

- The BRICS are considering an internal gold trading platform,
- The level of trust between BRICS countries can help them establish intra-group gold trading, which would be 100 percent physically backed.
- The BRICS initiative is just part of a geopolitical tectonic shift which started decades ago.
    - We have seen a constant outflow of physical gold from the West to the East.
    - At the same time, the West has lost the economic war, and as a consequence, the focus now turns to the financial system.
    - China dominates the world economy and has displaced the US as the world's most formidable economic powerhouse,"
- Beijing and Moscow understand that America used the dollar to control the world.
    - Implementing a new kind of 'Gold standard 2.0' is a way to distance themselves from this control.
    - The vast majority of the people in Asia sees gold as superior, or 'real' money, something the West has forgotten, because of all the paper wealth (credit) they have accumulated,"
- "In combination with the following, China is setting up an alternative to the post-Bretton Woods establishment
    - The announcement of pricing oil in yuan,
    - Using a gold-backed futures contract in Shanghai,
    - The establishment of the Asian Infrastructure Investment Bank and
    - The New Development Bank,

A BLATANT SCAM - *It will all end once the BRICS have accumulated sufficient Quantities of Gold*

- According to London gold clearing statistics for 2016, the total trading volume in the London Over-the-Counter (OTC) gold market is estimated at the equivalent of 1.5 million tons of gold.
- The volume of 100 oz gold futures on New York's COMEX reached 57.5 million contracts during 2016 or 179,000 tonnes of gold, the analyst notes.
- "If we now take into consideration that only approximately 180,000 tons of gold have actually been mined up to today the scam is just gigantic and obviously unsustainable.
- The paper scams in London and New York will either blow up when the paper price of gold drops to zero or when just a fraction of investors insists upon receiving physical gold in return,"

*In their own words, **a "radically reformed' SDR could 'conceivably serve as a global currency'"***

A FALSE RECOVERY

- The post 2008 'recovery' was nurtured by central banks.
- Central bank intervention has coincided with the increased accumulation of debt in both major and emerging economies
- The challenge for central banks is to meet their inflation target

REQUIRED STRUCTURAL REFORMS IN PARALLEL TO "NORMALIZATION"

- Governments must quickly implement 'growth-friendly structural reforms' as monetary policy is 'normalized'
- The latter bullet point refers to Basel III,
    - the regulatory reforms that were devised through the BIS in response to the financial crisis triggered in 2008.
    - The BIS have been pushing the line in recent communications that without these reforms being fully implemented by national administrations, the financial system will remain vulnerable to a renewed downturn.
    - Full adoption of the reforms is not due to occur until 2022.

LOOMING & TO BE EXPECTED LIQUIDITY PROBLEM

- 'Asset purchase programs may have contributed to liquidity illusion', which may prompt investors to pull money out of 'riskier bonds' and back into government bonds instead.
- There is a clear indication that as the Fed withdraws liquidity, it will serve to intensity volatility in markets.
- Central banks did after all "help nurture the recovery'. They did more than nurture it. They backstopped the entire financial system and managed to cultivate the narrative of a "recovery". The truth is there never was a recovery, only the false impression of one.

NO "CRISIS RESOLUTION" EFFORTS

- There is no focus on crisis resolution, possibly because a perpetual state of conflict and chaos is more advantageous to the BIS and the IMF when it comes to the goal of consolidating power.

A GROWING REQUIREMENT OF THE IMF'S SDR

- The IMF may not have enough resources to manage a future financial crisis
- A symbiosis between the BIS and the International Monetary Fund exists where 'crisis management' and building a 'strong safety net' is required in the event of future turbulence.
- Reserves of money are required to be held at the international level, where there is a 'strong need for the global safety net meant to be provided by the IMF, on top of national and regional arrangements.'
- "We need an effective lender of last resort with global reach".
- There has been limited progress in scaling up the IMF's core resources. Without this, the global safety net remains incomplete.
- The IMF's lending capacity was increased during the global financial crisis to about one trillion dollars – a forceful response from the membership at a time of dire need.
- One lesson from that crisis was that the IMF went into it under-resourced; we should try to avoid that next time.
- Leaders are calling for a 'continued commitment to strengthen the safety net, with a strong and adequately financed IMF at its center'. This refers to the renewal of quotas
- As 2018 comes to a end, the prospect of reforming the SDR is prominent in the minds of central bankers. Given that quotas are coming up for renewal, the avenue is gradually being created for the IMF to use geopolitical events – namely the scapegoats of nationalism and populism – as a cover for attempting to move the financial system closer to the implementation of a global currency.

Russia-China real gold standard means end of US dollar dominance

[Russia & China could set international gold price based on physical gold trading](#)

[Russia continues stocking up on gold under Putin's strategy](#)

['Gold price will explode & dollar get wiped out' – warns investor Peter Schiff](#)

BRICS ARE CONSIDERING AN INTERNAL "INTRA-GROUP" GOLD STANDARD

SOURCE: 10-17-18 RT – "Russia-China real gold standard means end of US dollar dominance"

MATASII SYNTHESIS:

- The BRICS are considering an internal gold trading platform,
- The level of trust between BRICS countries can help them establish intra-group gold trading, which would be 100 percent physically backed.
- The BRICS initiative is just part of a geopolitical tectonic shift which started decades ago.
  - We have seen a constant outflow of physical gold from the West to the East.
  - At the same time, the West has lost the economic war, and as a consequence, the focus now turns to the financial system.
  - China dominates the world economy and has displaced the US as the world's most formidable economic powerhouse,"
- Beijing and Moscow understand that America used the dollar to control the world.
  - Implementing a new kind of 'Gold standard 2.0' is a way to distance themselves from this control.
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- The paper scams in London and New York will either blow up when the paper price of gold drops to zero or when just a fraction of investors insists upon receiving physical gold in return,"

Russia-China real gold standard means end of US dollar dominance

The BRICS are considering an internal gold trading platform, according to Russian officials. When this happens, the global economy will be significantly reshaped, and the West will lose dominance, predicts a precious metal expert.

In 2016, 24,338 tons of physical gold were traded, which was 43 percent more than in 2015, according to Claudio Grass, of Precious Metal Advisory Switzerland.

Gold moving from the West to the East

"We have to put the BRICS initiative into a broader context. It is just part of a geopolitical tectonic shift which started decades ago. We have seen a constant outflow of physical gold from the West to the East. At the same time, the West has lost the economic war, and as a consequence, the focus

now turns to the financial system. China dominates the world economy and has displaced the US as the world's most formidable economic powerhouse," he told RT.

The creation of a new gold standard by BRICS is also a step to end the US dollar's domination of the global economy

"As Beijing and Moscow understand that America used the dollar to control the world, by implementing a new kind of 'Gold standard 2.0' they want to distance themselves from this control. Furthermore, the vast majority of the people in Asia sees gold as superior, or 'real' money, something the West has forgotten, because of all the paper wealth (credit) they have accumulated," said Grass.

The expert notes the BRICS countries account for 40 percent of the world's population and around 23 percent of the world's domestic product.

"In combination with the announcement of pricing oil in yuan, using a gold-backed futures contract in Shanghai, the establishment of the Asian Infrastructure Investment Bank and the New Development Bank, China is setting up an alternative to the post-Bretton Woods establishment. This is certainly a game changer," said Grass.

Physically backed precious metals market spells the end of paper gold trade

The level of trust between BRICS countries can help them establish intra-group gold trading, which would be 100 percent physically backed.

"This will present a viable challenger that could over time lead to a break up of the current system since the West will likely still trade paper gold in the meantime," Grass said.

According to London gold clearing statistics for 2016, the total trading volume in the London Over-the-Counter (OTC) gold market is estimated at the equivalent of 1.5 million tons of gold. The volume of 100oz gold futures on New York's COMEX reached 57.5 million contracts during 2016 or 179,000 tonnes of gold, the analyst notes.

The amount of mined gold is much smaller

"If we now take into consideration that only approximately 180,000 tons of gold have actually been mined up to today the scam is just gigantic and obviously unsustainable. The paper scams in London and New York will either blow up when the paper price of gold drops to zero or when just a fraction of investors insists upon receiving physical gold in return," Grass said.

The expert believes that with paper gold trading, the established gold exchanges could cease to exist sooner or later.

"They will likely become obsolete and lose their importance over time. Although one cannot predict exactly how fast this will happen, the trend is clear: OTC and COMEX are working toward their own destruction," he said.

Gold prices could explode if trading were backed by physical precious metals

"It will definitely lead to higher prices for physical gold. Imagine if you could buy on COMEX and OTC gold at a much lower price and still have the option to sell it in Asia for a much higher price; this would kill the old paper scams immediately. Therefore, I would guess that both could come up with new restrictions that only cash settlements will be allowed to avoid this. We know for example that even today 99.96 percent of COMEX gold futures are settled in cash," Grass wrote.

The final battle: Gold vs. US dollar

The analyst recollected the Heartland Theory of Halford Mackinder, a British geostrategist at the beginning of the 20th century who influenced the likes of Kissinger and Brzezinski. Following the theory, we will soon face a war between physical gold and the US dollar.

"As per my understanding, we are moving into the final phase, the battle between currencies – one that will be backed by a hard asset which was real money since time immemorial until 1971 and the other one, backed by promises that future generations will pay through debt, inflation and ever-rising taxation," he said.

Getting away from fiat currencies will be good for gold

"I would like to conclude with a final thought from my friend Jayant Bandari: the combination of negative yields, massive political risks around the world, and any attempt to move away from traditional currencies will be positive for gold and will take it to the next level. Investing is very much linked with geopolitics - once you understand the big picture, it becomes apparent what you should invest in," Grass told RT.

THE PLANNED SHIFT IN THE ROLE OF THE INTERNATIONAL MONETARY FUND (IMF) "SDR"

Hidden Amongst The Furore: Synchronized Warnings From The BIS & The IMF

SOURCE: 12-20-18 - Steven Guinness - "Hidden Amongst The Furore: Synchronised Warnings From The BIS & The IMF"

MATASII SYNTHESIS:

In their own words, ***a "radically reformed' SDR could 'conceivably serve as a global currency'"***

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- "We need an effective lender of last resort with global reach".
- There has been limited progress in scaling up the IMF's core resources. Without this, the global safety net remains incomplete.
- The IMF's lending capacity was increased during the global financial crisis to about one trillion dollars – a forceful response from the membership at a time of dire need.
- One lesson from that crisis was that the IMF went into it under-resourced; we should try to avoid that next time.
- Leaders are calling for a 'continued commitment to strengthen the safety net, with a strong and adequately financed IMF at its center'. This refers to the renewal of quotas
- As 2018 comes to a end, the prospect of reforming the SDR is prominent in the minds of central bankers. Given that quotas are coming up for renewal, the avenue is gradually being created for the IMF to use geopolitical events – namely the scapegoats of nationalism and populism – as a cover for attempting to move the financial system closer to the implementation of a global currency.

REFERENCE RESEARCH ARTICLE: Hidden Amongst The Furore: Synchronized Warnings From The BIS & The IMF

It has become a disconcerting trend that as geopolitical events intensifies and keeps a majority of people engaged in the latest outbreak of political theater, the words of central bankers fall on increasingly deaf ears.

At a seminar of the European Stability Mechanism this month, Bank for International Settlements General Manager Agustin Carstens delivered a speech called, '***Shelter from the Storm***'.

The speech can be summarized as follows:

- The IMF may not have enough resources to manage a future financial crisis
- The post 2008 'recovery' was nurtured by central banks
- Central bank intervention has coincided with the increased accumulation of debt in both major and emerging economies
- The challenge for central banks is to meet their inflation target
- Governments must quickly implement 'growth-friendly structural reforms' as monetary policy is 'normalized'

The latter bullet point refers to Basel III, the regulatory reforms that were devised through the BIS in response to the financial crisis triggered in 2008. The BIS have been pushing the line in recent communications that without these reforms being fully implemented by national administrations, the financial system will remain vulnerable to a renewed downturn. Full adoption of the reforms is not due to occur until 2022.

Discussing the path to '*normalization*' of monetary policy, Carstens states that central banks have '***implemented normalization steps very carefully***':

They have been very gradual and highly predictable. Central banks have placed great emphasis on telegraphing their policy steps through extensive use of forward guidance.

Because of the gradual nature of the turn around from monetary accommodation to monetary tightening, central banks have avoided excess scrutiny. When market ructions do occur, as we have witnessed throughout 2018, geopolitical disorder has been held up as the leading cause. Central banks, as Bank of England governor Mark Carney recently put it, are '***a side show***'.

As Carstens points out, sharp sell offs in equity markets are '***generally attributed to both accumulating trade tensions and geopolitical risks***.' Which is precisely where central banks want people's minds to be concentrated.

Aside from rising interest rates, the Federal Reserve's policy of rolling off assets from its balance sheet began a year ago. So far they have unwound nearly $400 billion in treasury securities and mortgage backed securities combined. In Carstens' speech he mentions how '***asset purchase programs may have contributed to liquidity illusion'***, which may prompt investors to pull money out of '***riskier bonds***' and back into government bonds instead.

Read between the lines here and there is a clear indication that as the Fed withdraws liquidity, it will serve to intensity volatility in markets. Central banks did after all – in Carstens words – '***help nurture the recovery***'. They did more than nurture it. They backstopped the entire financial system and managed to cultivate the narrative of a '***recovery***'.

We are now beginning to see what happens when the tools that enabled the '***recovery***' are gradually removed. The truth is there never was a recovery, only the false impression of one.

A symbiosis between the BIS and the International Monetary Fund can be found in the conclusion to Carstens' speech, where he talks about '***crisis management***' and building a '***strong safety net***' in the event of future turbulence. He refers to reserves of money held at the international level, and how there is a '***strong need for the global safety net meant to be provided by the IMF, on top of national and regional arrangements***.'

The '***global safety net***' Carstens refers to is the IMF's Special Drawing Rights (SDR), which the IMF describes as:

- An international reserve asset, created in 1969 to supplement its member countries' official reserves.
- ***The value of the SDR is based on a basket of five currencies—the U.S. dollar, the Euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.***

Countries that are members of the IMF (currently 189) are assigned a quota that goes towards financing the SDR. Britain's holdings of SDR's as of 2017-2018 was £9.9 billion, funds which are stored in the UK's Exchange Equalisation Account. This account also holds the UK's reserves of gold and foreign currency assets.

According to Carstens, the IMF has access to a total of 975 billion in SDR's. This figure represents the quotas of all members combined. One half of the IMF's lending capacity (480 billion in SDR) comes from '***borrowing arrangements***' which are due to expire over the next couple of years. Without the renewal of these arrangements and an increase in national quotas, '***the IMF's fire power could be severely curtailed***.'

Carstens concluded with this warning:

- ***We need an effective lender of last resort with global reach. There has been limited progress in scaling up the IMF's core resources. Without this, the global safety net remains incomplete.***

A few days after Carstens spoke, the IMF's David Lipton (who serves as First Deputy Managing Director) made his own remarks at the Bloomberg Global Regulatory Forum. The leading topic of the speech, in Lipton's words, was '***the next financial crisis***'. He began with this frank assessment:

- Like many of you, I see storm clouds building, and the fear the work of crisis prevention is incomplete.

'***Shelter from the storm***'. '***Storm clouds building'.*** The similarity in language from two seemingly separate institutions (on the surface at least) is a regular occurrence. This is because their objectives for the global economy go hand in hand. In January this year the BIS and the IMF participated in a joint conference hosted by the Organisation for Economic Co-operation and Development (OECD) in Paris. It marked one of many occasions when these two economic powerhouses have coalesced. So it should come as little surprise that BIS General Manager Carstens was Deputy Managing Director of the IMF from 2003 to 2006, and in 2015 became Chair of the International Monetary and Financial Committee (IMFC) before stepping down to assume his role at the BIS.

Getting back to David Lipton, he started by outlining what the policy options would be for central banks when the next recession arrives. In 2008 banks stepped in to prevent the wholesale collapse of the financial system. The messaging today, however, is very different:

- The impairment of key U.S. capital markets during the global financial crisis, which might have produced crippling spillovers across the globe, was robustly contained by unorthodox Fed action supported by Treasury backstop funding. That capacity is unlikely to be readily available again.

Like Carstens, Lipton cites '***incomplete reform efforts***' and '***rising geopolitical tensions***' as two of the primary risks to the global economy. Getting down to specifics, Lipton mentioned that policies emanating from the Trump administration – such as increased spending and tax cuts – could '***increase the potential need for Fed tightening***.'

The true intent of Lipton's speech is revealed further in when he discusses '***crisis response***'. Recall that Carstens spoke about '***crisis management***' in his speech. Neither he or Lipton focus on crisis resolution, possibly because a perpetual state of conflict and chaos is more advantageous to the BIS and the IMF when it comes to the goal of consolidating power.

Lipton's belief is that the ability for the IMF to respond to crisis is jeopardized because '***too much power remains vested in national regulators and supervisors at the expense of an integrated approach across the continent***.' In other words, not enough economic power is held at the international level.

A consistent thread that runs through today's world leaders and institutions is the need for reform. As Lipton points out, in the 75 years of the IMF's existence:

- ***We have been called upon to evolve and even remake ourselves***. Just as with the IMF, it is fair for the international community to ask for modernization in its institutions and organizations, to seek reforms to ensure that institutions serve effectively their core purposes.

This comes amidst growing geopolitical turmoil through the vehicles of Brexit, Donald Trump and resurgent '***populism***' now permeating global politics.

So, if the IMF is to reform, how would they endeavor to make it happen? Just as Carstens finished his speech on the subject of a '***global safety net***' – provided through the IMF's Special Drawing Rights – Lipton too reinforces the message:

- The IMF's lending capacity was increased during the global financial crisis to about one trillion dollars – a forceful response from the membership at a time of dire need.
- One lesson from that crisis was that the IMF went into it under-resourced; we should try to avoid that next time.

To achieve that, Lipton called for a '***continued commitment to strengthen the safety net, with a strong and adequately financed IMF at its center'.*** This refers to the renewal of quotas that Carstens talked about.

Working together, said Lipton, would mean a stronger ability to '***prevent a damaging downturn in the coming years and a dystopian future in the coming decades***'.

It is beyond the scope of this article to go into extensive detail on the history and role of the SDR in the financial system. But what we can do is discern how globalists are openly agitating to reform the SDR amidst the rise of geopolitical struggle.

Back in 2009, former governor of the People's Bank of China, Zhou Xiaochuan, penned an essay called, '*Reform the international monetary system*'. It was in this essay that Xiaochuan pushed for the creation of a reserve currency '***disconnected from individual nations***'. The SDR, according to Xiaochuan, '***has the features and potential to act as a super sovereign currency***.'

Mohamed El – Erian, a former deputy director of the IMF and the current chief economic advisor at Allianz, wrote an op-ed in the UK Guardian in April 2017calling for the SDR to have a broader role. Linking the rise in '***populism***' and '***nationalism***' to the financial system, Erian said:

Do today's anti-globalisation winds – caused in part by poor global policy coordination in the context of too many years of low and insufficiently inclusive growth – create scope for enhancing the SDR's role and potential contributions?

More recently, in March 2018, the IMF published a paper titled, '***Considerations on the role of the SDR***'. Here, amongst other strands, the institution linked the development of distributed ledger technology to reforming the SDR.

Speaking of a renewed economic crisis, the IMF stated that there might be uncertainty '***as to whether therewould be one preferred source of global liquidity. Such uncertainty could be exacerbated by geopolitical developments***.'

In their own words, a '***radically reformed***' SDR could '***conceivably serve as a global currency***'.

As 2018 comes to a end, the prospect of reforming the SDR is prominent in the minds of central bankers. Given that quotas are coming up for renewal, the avenue is gradually being created for the IMF to use geopolitical events – namely the scapegoats of nationalism and populism – as a cover for attempting to move the financial system closer to the implementation of a global currency.

Whilst they may not be successful, it will not prevent them from making the attempt.

6- THE GLOBAL OUTOOK

KEY MESSAGES

POSITIONING DE-DOLLARIZATION

- Never forget Money is borrowed into existence.
- Money is debt - You can never pay down debt without getting rid of Money
- The Developed nations are Consuming More than they Produce versus Producing More than they Consume,
- There is no Savings today. Savings which is invested into Productive Assets. Prodictive Assets which raises the standard of living,
- Today we have credit (or debt) which is spent on consumption. Consumption is not a Productive Asset that raises the standard of living over the long run. In the short run it may appear to raise standards of living but that is an illusion (even to the borrower),
- The clear evidence of this is that Productivity in the US and Velocity of Money have been steadily falling since the 2008 Financial Crisis when Central Banks were forced to accelerate Financial Repression and implement policies of Quantitative Easing (US), CSPP (ECB), QQE (Japan) and historic credit growth (China).
- When central banks expand the quantity of money early in the credit cycle, they always store up trouble for later. The inevitable credit crisis eventually occurs and it will be in proportion to the earlier stimulation. Since 2008, globally that has been unprecedentedly large. To this we must add earlier credit distortions that were not expunged by the last credit crisis, and even the one before that.
-

OUTCOME OF DE-DOLLARIZATION

- As De-Dollarization occurs, money will be returned to the US. This effectively begins to flood the US with dollars which drives up inflation. Inflation which the central bank can't stop by printing money nor by taking money out of circulation without a massive depression (deflationary effect of reduction of debt),
- There is also evidence that during the last credit crisis in 2008, the Russians were tempted to interfere with the Fed's rescue attempts, potentially crashing the whole US financial system. At that time, they failed to get the support of the Chinese. Now that Russia has disposed of most of its dollar investments in return for gold, and following an escalation of geopolitical conflicts, a new financial crisis may be regarded as an opportunity by America's enemies to emasculate America's financial and geopolitical power.
- In 2008, the yields on US Treasuries declined as investors sought safety from private sector investments. This time, foreigners selling dollars and USTs are likely to overwhelm domestic safety-seekers and drive bond yields higher. Critically, the US Government financing has become heavily dependent on foreign investment inflows continuing.

  CENTRAL PROBLEM

  - An Overvalued dollar;
  - Over-owned by foreigners;
  - Puffed up on speculative flows;
  - Driven by interest rate differentials.
  - The problem is compounded because the next crisis is likely to be triggered by a required normalization.
  - These problems must be urgently corrected by the European Central Bank and the Bank of Japan if the distortion is to be prevented from becoming much worse.
  - Disparity in bond yields, particularly at the short end of the yield curve:
    - Two-year US Treasuries yield are 2.74%,
    - Two-year German Bund yields are minus 0.55%.

- Two-year JGBs are minus 0.12%
- All are also out of whack with USTs. You do not get disparities like this at the short end of the yield curve without moving massive quantities of short-term money.

When flows into the dollar subside and reverse, bond yields can be expected to rise sharply in all the major currencies.

- There will also be a number of other unhelpful factors, particularly rising commodity prices, the timing of the Trump stimulus and trade tariffs pushing up price inflation.
- Coupled with a declining dollar, price inflation and therefore interest rates are bound to rise significantly.

- Obviously, investors are not ignoring currency risk. It is possible to use out-of-the-money currency derivatives to cap the risk, and indeed, that's one reason why **OTC foreign currency derivatives stood at over $87 trillion in the second half of last year.**
- Due to legislative changes that were made after the 2008 Financial Crisis it is now more difficult to execute as it was in 2008, such as the confusing bank bail-in provisions we now have.
- Annual U.S. productivity gains have slipped from an average of 2.3% during the seven decades starting in Q4 1948 to just 1.1% in the decade following the start of the 2007 financial crisis.

WHY IS US PRODUCTIVITY COLLAPSING?

- MAL-INVESTMENT: The U.S. Federal Reserve's low interest rate policies have made it more profitable for businesses to buy back stock than reinvest in technology.
  - Bail-outs of large U.S. banks, automotive companies and other key sectors have stifled private sector innovation for a generation.
- BUREAUCRACIES:
  - Increased government borrowing has enabled vast, inefficient bureaucracies at the U.S. federal, state and local levels to avoid reform.
  - The productivity drain stemming from bloated state, local and federal government spending, which now accounts for more than 60% of U.S. GDP is significant,
- ENTITLEMENTS:
  - America's seniors are draining productive resources from the economy by collecting pensions and healthcare benefits they never fully funded.
  - The growing drag on potential growth stemming from the increasing resources transferred to the more than 100 million working age Americans who are unemployed, out of the labor force or in jail.
- INEFFICIENCIES: Inefficiencies are startling:
  - U.S. governments routinely transfer massive subsidies to the big banks.
  - The Department of Defense can't account for trillions of dollars of missing funds.
  - Ongoing regressive U.S. Federal Reserve interest rate policies transfer huge wealth to the top 10% of income earners.

WHAT HIDES IT -- ***UNRELIABLE ACCOUNTING***

- America's free-fall in productivity is likely even worse than the estimates
- BEA data don't account for the massive debt and unfunded liability increases needed to juice up existing economic growth.
- If those effects—which suggest that U.S. GDP is as much as 30% smaller than experts claim—are included, they could herald a coming slow-motion, Soviet Union-style collapse in the American economy.
- The BLS calculations rely on the flawed GDP totals produced by the Bureau of Economic Analysis. As John Williams of ShadowStats notes, the results are likely overestimated, because the deflator the BEA uses does not fully account for the loss in purchasing power in the U.S. dollar—the unit of measure used in its calculations.
- The U.S. economy is no bigger than it was two decades ago. Yet America's population has shot up by 15% since then. This suggests the country's per capita productivity has fallen by 0.75 percentage points per year on a straight-line basis since then.


Daniel Pudles

The Dollar is Central to the Next Crisis

09-14-18 - GoldMoney, Alasdair MacLeod - "The dollar is central to the next crisis"

MATASII SYNTHESIS:

In 2008, the yields on US Treasuries declined as investors sought safety from private sector investments. This time, foreigners selling dollars and USTs are likely to overwhelm domestic safety-seekers and drive bond yields higher. Critically, the US Government financing has become heavily dependent on foreign investment inflows continuing.

CENTRAL PROBLEM

- An Overvalued dollar;
- Over-owned by foreigners;
- Puffed up on speculative flows;
- Driven by interest rate differentials.
- The problem is compounded because the next crisis is likely to be triggered by a required normalization.
- These problems must be urgently corrected by the European Central Bank and the Bank of Japan if the distortion is to be prevented from becoming much worse.
- Disparity in bond yields, particularly at the short end of the yield curve:
    - Two-year US Treasuries yield are 2.74%,
    - Two-year German Bund yields are minus 0.55%.
    - Two-year JGBs are minus 0.12%
    - All are also out of whack with USTs. You do not get disparities like this at the short end of the yield curve without moving massive quantities of short-term money.

When flows into the dollar subside and reverse, bond yields can be expected to rise sharply in all the major currencies.

- There will also be a number of other unhelpful factors, particularly rising commodity prices, the timing of the Trump stimulus and trade tariffs pushing up price inflation.
- Coupled with a declining dollar, price inflation and therefore interest rates are bound to rise significantly.

DE-DOLLARIZATION

- There is also evidence that during the last credit crisis in 2008, the Russians were tempted to interfere with the Fed's rescue attempts, potentially crashing the whole US financial system. At that time, they failed to get the support of the Chinese. Now that Russia has disposed of most of its dollar investments in return for gold, and following an escalation of geopolitical conflicts, a new financial crisis may be regarded as an opportunity by America's enemies to emasculate America's financial and geopolitical power.

NEXT CRISIS – STRAINS IN THE MEGA-CURRENCIES

- Due to legislative changes that were made after the 2008 Financial Crisis it now more difficult to execute as it was in 2008, such as the confusing bank bail-in provisions we now have.
- Obviously, investors are not ignoring currency risk. It is possible to use out-of-the-money currency derivatives to cap the risk, and indeed, that's one reason why **OTC foreign currency derivatives stood at over $87 trillion in the second half of last year.**

The dollar is central to the next crisis

Introduction and summary

It is now possible to pencil in how the next credit crisis is likely to develop. At its center is an overvalued dollar over-owned by foreigners, puffed up on speculative flows driven by interest rate differentials. These must be urgently corrected by the European Central Bank and the Bank of Japan if the distortion is to be prevented from becoming much worse.

The problem is compounded because the next crisis is likely to be triggered by this normalization. It can be expected to commence in the coming months, even by the year-end. When flows into the dollar subside and reverse, bond yields can be expected to rise sharply in all the major currencies. There will also be a number of other unhelpful factors, particularly rising commodity prices, the timing of the Trump stimulus and trade tariffs pushing up price inflation. Coupled with a declining dollar, price inflation and therefore interest rates are bound to rise significantly.

Then there is another problem: when it comes to rescuing the global financial system from the systemic fall-out, not only will the challenge be greater than at the time of the Lehman crisis, but legislative changes, such as confusing bail-in provisions, have made it more difficult to execute.

There is also evidence that during the last credit crisis in 2008, the Russians were tempted to interfere with the Fed's rescue attempts, potentially crashing the whole US financial system. At that time, they failed to get the support of the Chinese. Now that Russia has disposed of most of its dollar investments in return for gold, and following an escalation of geopolitical conflicts, a new financial crisis may be regarded as an opportunity by America's enemies to emasculate America's financial and geopolitical power.

The outlook for the dollar and all dollar-dependent assets is not good. The only protection will be the possession of physical gold and silver, beyond the reach of systemically-threatened banks.

....

Rescuing the banks is more complicated than last time.

We should take notice of a joint article by Ben Bernanke, Tim Geithner and Hank Paulson last week in the New York Times [iii]. It was effectively an admission that there will be another financial crisis, and as such, these three men who presided over the last one must be worried that we are now heading towards the next.

They point out that some of the tools they deployed ten years ago are no longer available. The critical paragraph is the following:

But in its post-crisis reforms, Congress also took away some of the most powerful tools used by the FDIC, the Fed and the Treasury. Among these changes, the FDIC can no longer issue blanket guarantees of bank debt as it did in the crisis, the Fed's emergency lending powers have been constrained, and the Treasury would not be able to repeat its guarantee of the money market funds. These powers were critical in stopping the 2008 panic.

Their concern is that under current legislation and regulations, a similar crisis to Lehman would increase the risk of a total collapse of the financial system, because the financial authorities have their hands tied. While there is some truth in their concerns, they might be overcome by emergency executive orders from the president.

The authors are oddly silent on the larger problem that makes a globally coordinated financial and systemic rescue much more difficult, and that is the bail-in provisions adopted by all the G20 members and enshrined in their laws. Last time, bail-outs and nationalisation of the banks were the

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methods deployed, and they protected both depositors and bond holders. The cost was borne entirely by the state.

Without much thought, bail-in provisions were introduced specifically to prevent the cost of future bank failures being forced on the state, and instead the costs are to be shared by bond holders and uninsured depositors. Their application to individual failures of banks not deemed systemically important financial institutions is actually superfluous, because normal bankruptcy laws are sufficient for these instances. The difficulty occurs when a potential bank failure threatens to escalate into a systemic threat. But if you bail in such a bank, by forcing losses upon bond holders and uninsured depositors, you simply escalate a systemic problem.

The three men at the centre of the Lehman crisis appear to have learned little from their experience. The overriding lesson is of the futility of closing some stable doors while opening others.

The next credit crisis is now shaping up

We can be certain of one thing, and that is central banks through their actions create the one crisis they cannot deal with. Individual countries in financial difficulty can be dealt with. As Mario Draghi said, “Whatever it takes”. Systemic risk is routinely covered up by Panglossian stress tests and the continual tightening of financial regulations. But when central banks expand the quantity of money early in the credit cycle, they always store up trouble for later.

The inevitable credit crisis eventually occurs. We can now make a guess how serious it will be, because it is in proportion to the earlier stimulation. Since 2008, globally that has been unprecedentedly large. To this we must add earlier credit distortions that were not expunged by the last credit crisis, and even the one before that.

It is shaping up to be the most serious financial event in our time, of that there can be little doubt.

What we don’t know precisely is the form it will take and when it will happen. All we know is that rising interest rates will undermine business models, government finances, and consumer spending somewhere first, and it will rapidly spread from there. It may be

- Rising interest rates and bond yields in the Eurozone, as the ECB acts to close the yield gap referred to above.
- It could be America herself; these are the most obvious candidates. Rising interest rates or an expectation of them are always a trigger for a reversal of speculative flows. And the next crisis is shaping up to be the most fundamental attack on the global financial system since the dollar lost all its gold convertibility. It will commence with an implosion of the dollar bubble.

Besides the flow of record quantities of speculative funds out of the dollar, there are a number of other factors that risk driving dollar interest rates higher.

- There is the timing of the Trump budget stimulus, which comes inappropriately late in the credit cycle, fueling bond supply, while foreigners turn sellers.
- There are trade tariffs to the extent they are actually imposed, because they raise costs for the American consumer and therefore the CPI.
- There is the potential for commodity and energy prices to rise over the next year or two on the back of Chinese demand, as she dumps her dollars for the raw materials she needs to progress her thirteenth and fourteenth five-year plans.

These factors can now be foreseen by those prepared to look for them. Taken together they have the potential to be a perfect storm.

[i] See the FSB's Assessment of shadow banking activities, risks and the adequacy of post-crisis policy tools to address financial stability concerns: http://www.fsb.org/wp-content/uploads/P300617-1.pdf

[ii] See https://www.ft.com/content/8a74dfce-052a-11e5-9627-00144feabdc0

[iii] https://www.nytimes.com/2018/09/07/opinion/sunday/bernanke-lehman-anniversary-oped.html

[iv] This part of the interview was not used by the BBC, but Peston's account of it can be found here: https://www.bbc.co.uk/news/business-26609548

[v] See https://www.goldmoney.com/research/goldmoney-insights/apocalypse-or-not-t

Markets are all about flows

01-03-19 - GoldMoney, Alasdair Macleod- "Markets are all about flows"

MATASII SYNTHESIS:

CREDIT CYCLE - ***Initially Credit Cycle Inflates then Subsequently Deflates (Drains) Financials***

- We must assess the pace of monetary expansion (Supply) relative to the Demand for money and credit, and where that expansion goes.
- The important effect of the evolving credit cycle is that it begins to limit the flow of new money into financials, relative to the money exiting into the non-financial economy. It is the balance of these flows which basically determines market values as a whole.
- Early in the credit cycle, there is little demand from the non-financial sector for monetary expansion, so excess money and bank credit go into the financial sector, pushing up financial asset prices.
- As business conditions in the real economy start improving, just as valuations begin to be vindicated, interest rates and bond yields start rising and shares enter a bear market.
- Money draining from financial markets has the same effect as air draining from a leaking balloon. They deflate, and taken as a whole, prices of both bonds and equities persistently decline.

STIMULUS DEFICIT SPENDING - ***A Travesty of On-Going Abuse***

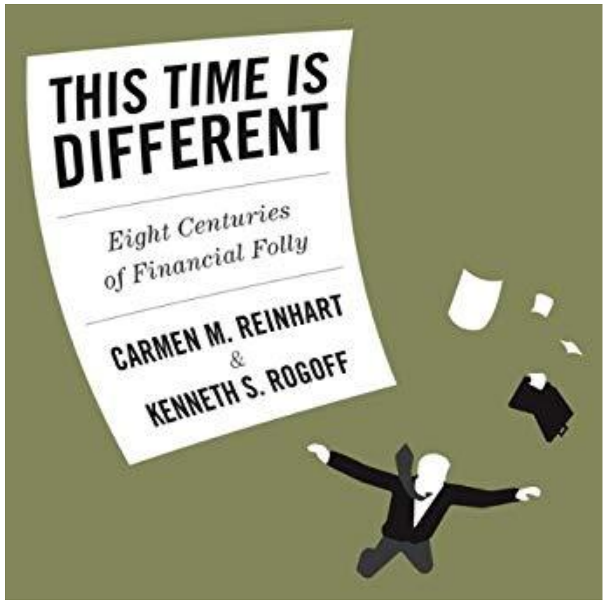
- In a conventional Keynesian economic model, the government stimulates the economy by deliberately engineering a budget deficit early in the cycle. As economic activity recovers, tax revenues improve, and government finances return to a surplus. Therefore, according to Keynes's theory, demand for capital evens out over the cycle as a balance is restored towards the end of it.
- Whatever one thinks of Keynesian interventionism, the abuse by the US Government of Keynes's theory of the state's management of the economy is truly staggering, and seems set to drive it into a debt trap that can only result in either a severe retrenchment of state spending or the eventual destruction of the state's currency.
- The accumulated budget deficits since 2000 total $12.454 trillion and government debt has increased from $5.674 trillion to $21.516 trillion.

An acceleration of debt supply from the US Government is likely to dominate global investment flows and financial valuations in the next decade

HIDING THE ABUSE - ***The Government Shell Game or Effectively Ponzi Scheme***

- FALSE INFLATION REPORTING: Governments have benefited through the suppression of interest rates.
- EXTERNAL UNFUNDED WELFARE OBLIGATIONS: When considering the US Government's debt, it must be noted that roughly one-third is held by the government itself in accounts such as the Social Security Trust Fund. However, they represent funding of external welfare obligations, so are external liabilities for the Federal Government.

REINHART & ROGOFF - ***Government Debt is Bleeding Available Productive Capital***



- Illustrative Example:
  - $100B Economy with $90B Government Deficit
  - Interest Rates normally 4-6%, while GDP Growth is normally 2-3% (Assuming a valid 'Deflator' is used or GDP Growth is much smaller - See Thesis 2017 - "Illusion of Growth")
  - 5% of $90B is $4.5B while 3% of $100B is $3B. Therefore $3 - $4.5 = - 1.5$ or 50% of Growth
  - Therefore when Government Debt is > 90% the government's debt burden outstrips economic growth.
  - In fact it is worse since Tax Receipts fall as a result of government bleeding capital from the system which is not available for productive investment.
- The signals from financial markets today indicate that we could be on the verge of a new credit crisis, in which case
  - Tax revenues will again fall below existing estimates, and
  - Welfare costs rise above them.
  - Therefore, **government debt will increase unexpectedly**, as was the case that caused the Reinhart-Rogoff paper to be published in 2010.
- We should look at two possible outcomes:
  - First, a best case where price inflation continues to be successfully managed with a target rate of two per cent, and
  - A second base case incorporating an estimate of the effects of the next credit cycle on government finances.

DEBT TRAP - ***A Fiat Currency Collapse & Potential Crack-Up Boom***

- US Government debt will increase at a faster pace than the growth in GDP and will strangle economic activity.
- If the purchasing power of the dollar declines more rapidly than implied by the CBO's assumed 2% price inflation target, interest payable on Federal debt will in turn be sharply higher than expected, compounding the debt problem.

The Federal Government will face a potentially terminal debt trap from which there can be no escape.

Markets are all about flows

This article looks at prospective supply and demand factors for financial assets in the New Year and beyond. Investors should take into account money flowing into and out of financial assets as well as stock flows, particularly escalating government bond issuance, which looks likely to accelerate significantly in the coming years. It adds up to the fundamental case for physical gold and silver.

At this time of year, the thoughtful soul considers prospects for markets. Pundits are laying out their forecasts, and they fall into two broad camps.

- There are brokers and fund managers who talk of value. Their income and assets under management depend on continually inflating prices.
- Then there are the pessimists, a ragbag of doom-mongers who sweepingly point to risks on a grand scale. The collapse of Italy, Deutsche Bank, China, Brexit… take your pick.

Very few engage on the subject that really matters, and that is the underlying monetary flows into and out of financial markets.

We must assess the pace of monetary expansion relative to the demand for money and credit, and where that expansion goes. Early in the credit cycle, there is little demand from the non-financial sector for monetary expansion, so excess money and bank credit go into the financial sector, pushing up financial asset prices. As the cycle progresses, it begins to be demanded by the non-financial economy and money then flows from the financial sector to non-financials. This is why we have observed that just as business conditions in the real economy start improving, just as valuations begin to be vindicated, interest rates and bond yields start rising and shares enter a bear market.

It should be noted that while some shares are sure to rise reflecting specific corporate developments and investor focus, money draining from financial markets has the same effect as air draining from a leaking balloon. They deflate, and taken as a whole, prices of both bonds and equities persistently decline.

Interest rates begin to rise when the monetary expansion earlier in the cycle finds its way into the non-financial economy, inflating prices of goods and services instead of financial assets. More money ends up chasing the same quantity of manufactured goods and services, and their prices rise without an increase in demand. It is this effect which confuses those who can only equate rising prices with increased demand.

But for investors, the important effect of the evolving credit cycle is that it begins to limit the flow of new money into financials, relative to the money exiting into the non-financial economy. It is the balance of these flows which basically determines market values as a whole. The pessimists, many of whom will have been forecasting the imminent demise of stock markets through the whole bull run, at last have a chance of being right, because of the knock-on effects of falling financial asset values. And it must be borne in mind that in the absence of new money flowing to support financial asset prices, there are always marginal sellers who will drive prices lower.

The supply of government debt will increase

Besides the ebbing away of money supply from financials into the real economy, we must also consider the effect of stock flows on financial prices, the most significant being changes arising from the financing of government deficits. In a conventional Keynesian economic model, the government stimulates the economy by deliberately engineering a budget deficit early in the cycle. As economic activity recovers, tax revenues improve, and government finances return to a surplus. Therefore, according to Keynes's theory, demand for capital evens out over the cycle as a balance is restored towards the end of it.

This idealized setup is no longer the case. The last US budget surplus was eighteen years ago in 2000. Since then the US economy has had a bust, followed by a boom, another bust and in 2017-18 was in its second boom. The accumulated budget deficits since 2000 total $12.454 trillion and government debt has increased from $5.674 trillion to $21.516 trillion.[i] Whatever one thinks of Keynesian interventionism, the abuse by the US Government of Keynes's theory of the state's management of the economy is truly staggering, and seems set to drive it into a debt trap that can only result in either a severe retrenchment of state spending or the eventual destruction of the state's currency.

So far, investors have ignored this underlying trend. They have happily taken the combination of zero interest rates and monetary expansion and invested in financial assets, including all the government debt on offer. The money and credit have been issued for them to do this, but it cannot continue for ever. Monetary inflation has led to many governments adding to their debt obligations throughout the whole credit cycle, so the affordability to governments of future debt issues is bound to become an issue.

The rule of thumb employed by economists in the past has been to compare growth in GDP with the interest cost of government funding. This presupposes that GDP growth leads to higher tax revenues, and as long as the increase in tax revenues is expected to cover the interest cost of the increased debt, the debt is deemed affordable.

Governments have benefited from this relationship in recent credit cycles, not through increases in GDP, but through the suppression of interest rates. This is particularly dangerous, because a debt trap will almost certainly be sprung when that unnatural suppression comes to an end. It also assumes that economic growth continues with little variation. It cannot apply to countries heavily exposed to the volatility of commodity prices, particularly emerging economies, nor is it viable in the real world of increasingly destabilising credit cycles evident in consumer-driven welfare states.

The next two sections in this article will concentrate on the debt position of the US, on the basis that the dollar is the world's reserve currency, and international markets reference prices in dollars. An acceleration of debt supply from the US Government is likely to dominate global investment flows and financial valuations in the next decade, so we should try to quantify them.

When considering the US Government's debt, it must be noted that roughly one-third is held by the government itself in accounts such as the Social Security Trust Fund. However, they represent funding of external welfare obligations, so are external liabilities for the Federal Government. For the purposes of this debt analysis, they will be dealt with the same way as other public obligations, rather than as a purely technical internal government arrangement, which is the assumption of the Congressional Budget Office from which much of our information is drawn.

The threat of a US Government debt trap

The issuance of debt is normally subject to a contract that it will be repaid at the end of its term, along with the coupon interest. The exception is undated bonds, when only the interest contract must be fulfilled. In practice, governments and many corporations roll over debt into new bond obligations at the end of their terms, but at least bondholders have the opportunity to be repaid their capital. Therefore, the credibility of government debt is based on the assumption the issuer can afford to continue to roll it over rather than repay it.

However, the rolling over of old debts and the continual addition of new ones will almost certainly become a problem for governments everywhere. It is less of a problem when the debt is put to productive use, but that is rarely, if ever, the case with government finances. To judge whether the rolling over of debt is sustainable and at what cost, we need to rely on other metrics. The traditional method is to compare outstanding debt with GDP, and by using this approach two economists (Carmen Reinhart and Ken Rogoff) came up with a rule of thumb, that once a government's debt to GDP ratio exceeded approximately 90%, economic growth becomes progressively impaired.[ii]

The Reinhart-Rogoff paper was empirically based, and loosely impresses upon us that the current situation for the US and other nations with higher debt to GDP ratios is unsustainable. Key to this reasoning is that rising debt levels divert savings from financing economic growth, and therefore a government's ability to service it from rising taxes is undermined. At the Rubicon level of 90% and over, median growth rates in the countries sampled fell by 1%, and their average growth rates by "considerably more". It is entirely logical that a government forced to tax its private sector excessively in order to pay debt interest will restrict economic potential overall.

This analysis was published in the wake of the Lehman crisis, when an unbudgeted acceleration in the rate of increase of government debt everywhere was a pressing concern. The signals from financial markets today indicate that we could be on the verge of a new credit crisis, in which case tax revenues will again fall below existing estimates, and welfare costs rise above them. Therefore, government debt will increase unexpectedly, as was the case that caused the Reinhart-Rogoff paper to be published in 2010.

To look at the increase of government debt between 2007 and 2009, as Reinhart-Rogoff did, was not, as it turned out, a long enough time-frame to fully reflect the consequences of the Lehman crisis on government debt. The increase recorded over 2007-09 was 32%, yet economists and others were still talking of austerity until only recently. The whole period between the Lehman crisis and the election of President Trump is perhaps a better time-frame, and we see that US Government debt between 2007 and 2016 increased by an astonishing 217%.

It turns out that the Reinhart-Rogoff report severely understated the problem by reporting early. Their 90% debt to GDP Rubicon has been left behind anyway, with government debt to GDP ratios around the world in excess of 100% becoming common. In the case of the US, total Federal debt, including intragovernmental holdings, is currently over 105% and rising. The Congressional Budget Office is forecasting substantial budget deficits out to 2028, adding an estimated further $4.776 trillion in deficits between fiscal 2019-23, or $9.446 trillion between fiscal 2019-28.[iii]

This assumes there is no credit crisis, so for those of us who know there will be one during the next ten years, these numbers are far too optimistic. Accordingly, we should look at two possible outcomes: first, a ***best*** case where price inflation continues to be successfully managed with a target rate of two per cent, and a second ***base*** case incorporating an estimate of the effects of the next credit cycle on government finances.

Best and base case outcomes

Our best-case outcome of controlled price inflation is essentially that forecast by the Congressional Budget Office. Working from the CBO's own figures, by 2023 we can estimate accumulated debt including intra-governmental holdings will be $26.3 trillion[iv] including our estimated interest cost totalling $1.3 trillion[v].

That is our best case. Now let us assume the more likely outcome, our base case, which is where the effects of a credit cycle play a part. This will lead to a fall in Federal Government receipts and an increase in total expenditures. Taking the last two cycles (2000-07 and 2007-18) these led to increases in government debt of 59% and 239% respectively. Therefore, it is clear that borrowing has already been accelerating rapidly for a considerable time due in large measure to the destabilising effect of increasingly violent credit cycles. If the next credit cycle only matches the effects on government finances of the 2007-18 credit cycle, government debt including intragovernmental holdings can be expected to rise to $51.4 trillion by 2028. This compares with the CBO's implied forecast of only $34 trillion of government debt over the same time-frame and makes no allowance for the cyclical effect on interest rates. More on interest rates later.

Because the underlying trend is for successive credit cycles to worsen, the $51.4 trillion figure for federal Government debt becomes a base figure from which to work. But there are still considerable uncertainties, particularly over the form it will take.

The character of the next credit cycle is unlikely to replicate the last one, which was a sudden financial and systemic shock. Today, the US banking system is better capitalized and off-balance sheet secularization has been brought largely under control. There are however, uncertainties concerning the Eurozone banking system. There are also risks in global derivatives markets and the potential knock-on effects of counterparty failures on the US banks. Furthermore, there can be little doubt the sudden systemic shock of Lehman afforded a degree of protection for the purchasing power of the dollar, and therefore of the other mainstream currencies, despite the unprecedented monetary expansion.

However, it would be complacent to expect an outcome of relatively low price-inflation to be simply repeated at a time when government finances are even more dramatically spiralling out of control. Last time the threat was systemic to the banks, but next time the inflationary consequences of government finances is likely to be the dominant problem.

The explosion in the quantity of government debt that our analysis implies has many economic consequences. In the context of our rough analysis we should comment on the point made in the original Reinhart-Rogoff paper, which is that the reduction in GDP potential that results from an increase in the ratio of government debt to GDP is likely to be significant. The growth in Federal debt that replicates the post-Lehman experience will leave the US Government with a debt to GDP ratio of over 170%. The CBO assumes GDP will increase by 48% by 2028 to $29.803 trillion, whereas our cyclical case is for debt to rise to $51.4 trillion. While both these figures should be taken as purely indicative, clearly, US Government debt will increase at a faster pace than the growth in GDP and will strangle economic activity.

If the purchasing power of the dollar declines more rapidly than implied by the CBO's assumed 2% price inflation target, interest payable on Federal debt will in turn be sharply higher than expected, compounding the debt problem. The Federal Government will face a potentially terminal debt trap from which there can be no escape.

Flows v purchasing power

On the face of it, bulls in financial markets will face an uphill struggle if they are to make money during the next credit cycle, given the prospect and consequences of an increasing supply of government debt. It is the diminishing flows into and increasing flows out of financial markets, together with the escalating demand for funding from governments that will decide the outcome.

When these parallel conditions developed in the UK between 1972-74, the FT 30 Index lost 73% of its value, or 80% allowing for price inflation. Collapsing asset values hit leveraged loans and a commercial property collapse ensued, taking out the secondary banks. A long-dated gilt (government bond) with a twenty-year maturity was issued with a coupon of 15.25% in 1976. That was great for the pension funds who loved the income stream, but ordinary investors were wiped out. ***The conditions today not only rhyme with this history on a global scale, but there is a worrying degree of replication becoming evident in US financial markets.***

We have seen from the above analysis that demand for investors' money from cash-strapped governments is almost certain to accelerate. The example taken of the US Government's prospective finances is by no means the worst culprit. All major governments running welfare states are likely to increase their bond issuance in the next few years, particularly, as seems increasingly likely, if the investing world is on the verge of another credit crisis that threatens individual economies.

Members of the Eurozone particularly risk these destabilizing difficulties. The ropy finances of Greece, Italy, Portugal and Spain have been well publicised. But we must include France, with her rapidly deteriorating finances as well.

There has always been the option for the central banks to open up the money supply tap. But to do that in addition to the post-Lehman monetary expansion still in the system risks undermining the purchasing power of their unbacked currencies. Price inflation is already no longer something that can be dismissed by hedonics, product-switching and repackaging goods into smaller quantities. Ordinary people and businesses will increasingly baulk at the low levels of time preference that do not take real price inflation adequately into account. Therefore, it is hard to see how central banks will be able to suppress interest rates in the way they have managed in the past. That was the hard lesson learned in the UK in the 1970s: The Bank of England had higher interest rates forced upon it by markets, eventually peaking at 17% in 1979.

It is challenging to see how governments can escape from their debt traps when interest rates rise above the levels currently assumed likely by both investors and government agencies. It will take, at a minimum, substantial cuts in government spending, which comes unnaturally to governments used to low-cost money being available on demand. The effect of high compounding interest will make government finances considerably worse than outlined in this article.

Investors faced with deteriorating prospects for government finances will therefore avoid financial assets, switching to tangibles. Top of the list are solid money in the form of gold, and also silver. Commodities might fall in price in real terms (i.e. priced in gold) but will rise priced in government currencies. Residential property will be hit by rising mortgage rates, but homeowners who survive the initial fall in prices are likely to be rescued by the bankruptcy of their lenders.

The ranking of hedges compared with deposits payable in bankrupt government currencies will become increasingly important to those trying to protect their savings. Worst case is a crack-up boom, but let's leave that one for another time.

[i] All figures extracted from St Louis Fed's FRED.

[ii] ***Growth in a Time of Debt*** Carmen Reinhart and Kenneth Rogoff, NBER Working Paper No. 15639, 2010. See https://www.nber.org/papers/w15639.pdf

[iii] See Table 2 at https://www.cbo.gov/system/files?file=2018-08/53884-apb2019.pdf

[iv] The CBO estimates of debt and debt interest are based on debt in public hands only. They exclude $5.8 trillion of debt held in intra-governmental accounts, which are included in debt ceiling calculations and my estimates.

[v] This includes estimated interest on intra-governmental debt, which is not in the CBO's figures, and assumes an increase in average nominal funding costs of 3.25% by 2022, which is a real rate of 1.25% at 2% price inflation. This further assumes the deflator accurately captures the rate of price inflation, which it certainly does not.

Collapsing U.S. Productivity Changes Everything

01-02-19 - Peter Diekmeyer - "Collapsing U.S. Productivity Changes Everything"

MATASII SYNTHESIS:

- Annual U.S. productivity gains have slipped from an average of 2.3% during the seven decades starting in Q4 1948 to just 1.1% in the decade following the start of the 2007 financial crisis.

WHY IS US PRODUCTIVITY COLLAPSING?

- MAL-INVESTMENT: The U.S. Federal Reserve's low interest rate policies have made it more profitable for businesses to buy back stock than reinvest in technology.
    - Bail-outs of large U.S. banks, automotive companies and other key sectors have stifled private sector innovation for a generation.
- BUREAUCRACIES:
    - Increased government borrowing has enabled vast, inefficient bureaucracies at the U.S. federal, state and local levels to avoid reform.
    - The productivity drain stemming from bloated state, local and federal government spending, which now accounts for more than 60% of U.S. GDP is significant,
- ENTITLEMENTS:
    - America's seniors are draining productive resources from the economy by collecting pensions and healthcare benefits they never fully funded.
    - The growing drag on potential growth stemming from the increasing resources transferred to the more than 100 million working age Americans who are unemployed, out of the labor force or in jail.
- INEFFICIENCIES: Inefficiencies are startling:
    - U.S. governments routinely transfer massive subsidies to the big banks.
    - The Department of Defense can't account for trillions of dollars of missing funds.
    - Ongoing regressive U.S. Federal Reserve interest rate policies transfer huge wealth to the top 10% of income earners.

WHAT HIDES IT -- ***UNRELIABLE ACCOUNTING***

- America's free-fall in productivity is likely even worse than the estimates
- BEA data don't account for the massive debt and unfunded liability increases needed to juice up existing economic growth.
- If those effects—which suggest that U.S. GDP is as much as 30% smaller than experts claim—are included, they could herald a coming slow-motion, Soviet Union-style collapse in the American economy.
- The BLS calculations rely on the flawed GDP totals produced by the Bureau of Economic Analysis. As John Williams of ShadowStats notes, the results are likely overestimated, because the deflator the BEA uses does not fully account for the loss in purchasing power in the U.S. dollar—the unit of measure used in its calculations.
- The U.S. economy is no bigger than it was two decades ago. Yet America's population has shot up by 15% since then. This suggests the country's per capita productivity has fallen by 0.75 percentage points per year on a straight-line basis since then.

Collapsing U.S. Productivity Changes Everything

U.S. private sector productivity rose by 2.3% during Q3, according to the Bureau of Labor Statistics, following a massive hike in deficit spending by the Trump Administration.

This data matter. If each of us produces more each year, we make ourselves richer … but more importantly, through the progressive income tax system, we also make each other richer.

However, longer term, annual U.S. productivity gains have slipped from an average of 2.3% during the seven decades starting in Q4 1948 to just 1.1% in the decade following the start of the 2007 financial crisis.

Worse, there are growing signs that U.S. labor productivity is not just slowing, it's in a free-fall.

That means, far from making each other richer, Americans are making each other poorer.

Consider:

Why is productivity collapsing?

The idea that American productivity is collapsing seems ludicrous. This, during a time of an increasingly educated population, exploding technology and communications power, as well as the proliferation of AI, mobile devices and robotized manufacturing processes.

However, a range of forces are pushing in the opposite direction:

- The U.S. Federal Reserve's low interest rate policies have made it more profitable for businesses to buy back stock than reinvest in technology.
- Bail-outs of large U.S. banks, automotive companies and other key sectors have stifled private sector innovation for a generation.
- Increased government borrowing has enabled vast, inefficient bureaucracies at the U.S. federal, state and local levels to avoid reform.
- America's seniors are draining productive resources from the economy by collecting pensions and healthcare benefits they never fully funded.

Americans producing less with more

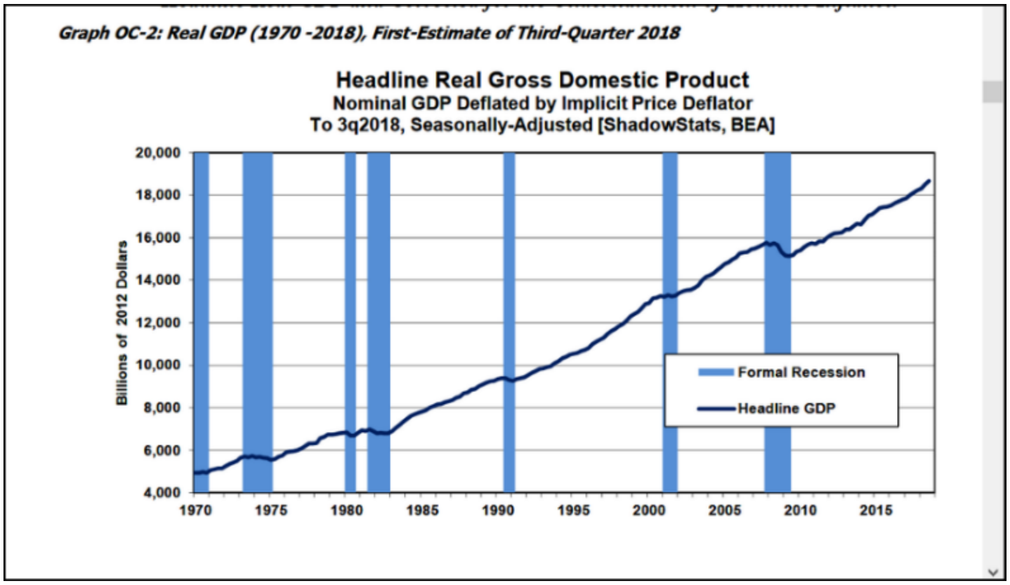
The reason that the collapse is not reflected in the official data is in part due to the fact that the BLS measures only private sector hourly productivity.

This does not reflect the growing drag on potential growth stemming from the increasing resources transferred to the more than 100 million working age Americans who are unemployed, out of the labor force or in jail.

Worse, the BLS calculations rely on the flawed GDP totals produced by the Bureau of Economic Analysis.

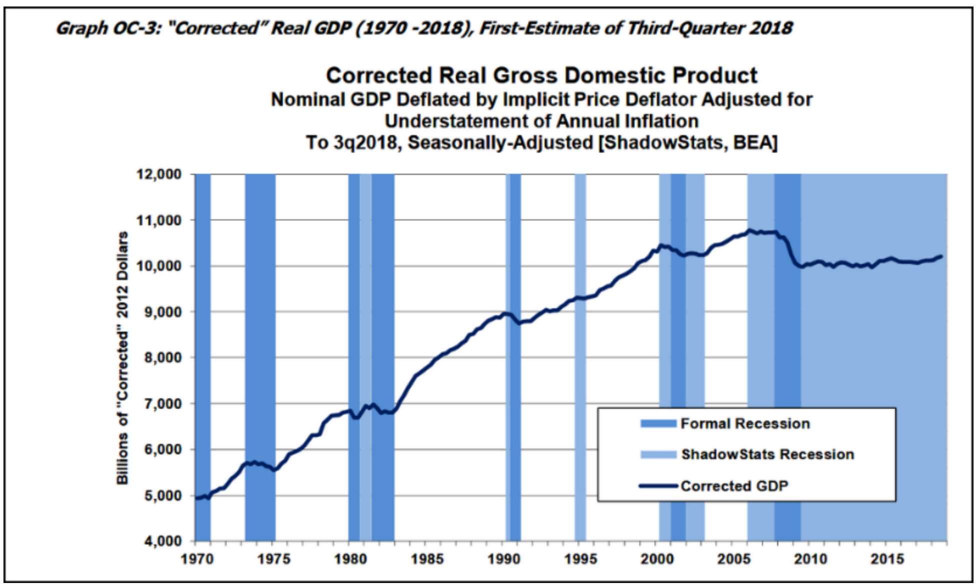
As John Williams of ShadowStats notes, the results are likely overestimated, because the deflator the BEA uses does not fully account for the loss in purchasing power in the U.S. dollar—the unit of measure used in its calculations.

The chart below (produced by Williams) shows U.S. GDP growth as measured by official sources.



Graph OC-2: Real GDP (1970 -2018), First-Estimate of Third-Quarter 2018

The following chart shows GDP growth as calculated using a GDP deflator, corrected for an approximately two percentage point understatement.



Graph OC-3: "Corrected" Real GDP (1970 -2018), First-Estimate of Third-Quarter 2018

Using this adjusted measure, the U.S. economy is no bigger than it was two decades ago. Yet America's population has shot up by 15% since then.

This suggests the country's per capita productivity has fallen by 0.75 percentage points per year on a straight-line basis since then.

America's most important work. But are California teachers worth $73,000 a year?

The productivity drain stemming from bloated state, local and federal government spending, which [now accounts] for more than 60% of U.S. GDP, is particularly troubling.

As Ludwig von Mises pointed out in [Socialism: An Economic and Sociological Analysis], public sector planners—even brilliant ones—are simply unable to allocate resources effectively because they lack access to effective price signals.

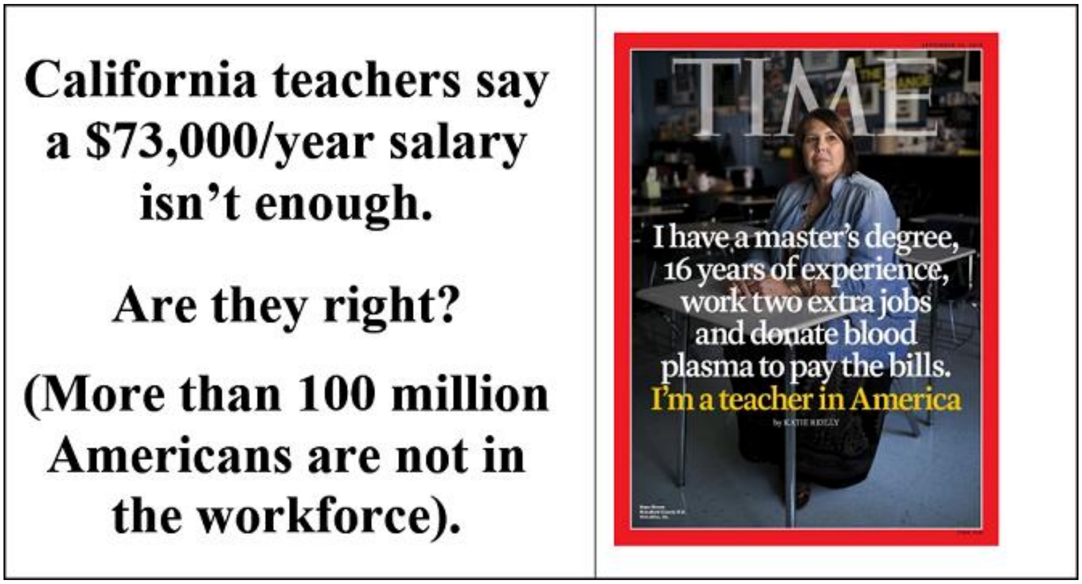
The inefficiencies are startling.

U.S. governments routinely transfer massive subsidies to the big banks. The Department of Defense can't account for trillions of dollars of missing funds. Ongoing regressive U.S. Federal Reserve interest rate policies transfer huge wealth to the top 10% of income earners.

Government resource allocation challenges become particularly clear at the micro level.

For example, Time Magazine recently ran an excellent article on how the country's public-school teachers, like most Americans, have seen the purchasing power of their take-home pay decline.

There is no free market in education. With few effective price signals, California's central planners are thus unable to determine whether they should raise taxes to increase pay for teachers earning $73,000 a year (plus benefits and a pension plan).



Adding to the complexity is the fact that millions of American college graduates who could teach—at far lower salaries—are underemployed or wasting time doing graduate studies.

A Soviet-style collapse?

America's free-fall in productivity is likely even worse than the estimates provided above.

That's because—as we have pointed out—BEA data also don't account for the massive debt and unfunded liability increases needed to juice up existing economic growth.

If those effects—which suggest that U.S. GDP is as much as 30% smaller than experts claim— are included, they could herald a coming slow-motion, Soviet Union-style collapse in the American economy.

Indeed, one of the worst problems in the old Russia-led empire was that sloppy Communist Party data made it impossible to confirm whether problems existed … and if so, where.

America is now facing the exact same challenges.

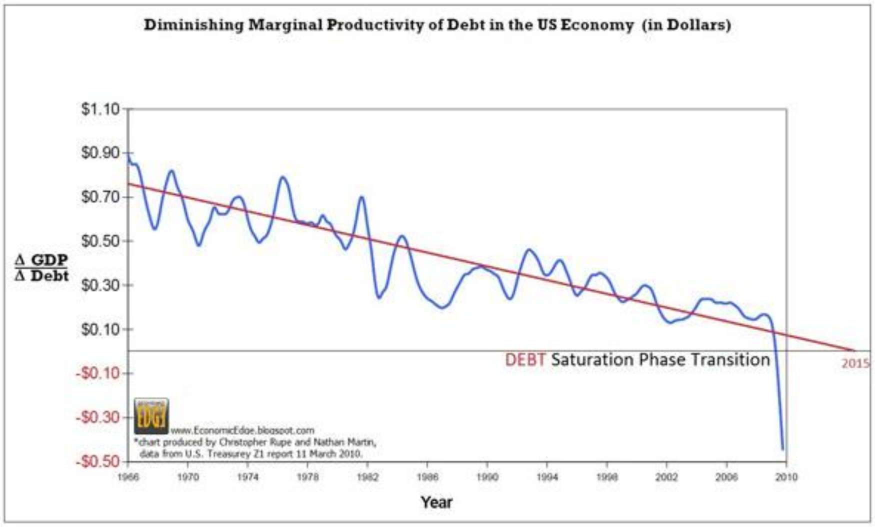
ROADMAP

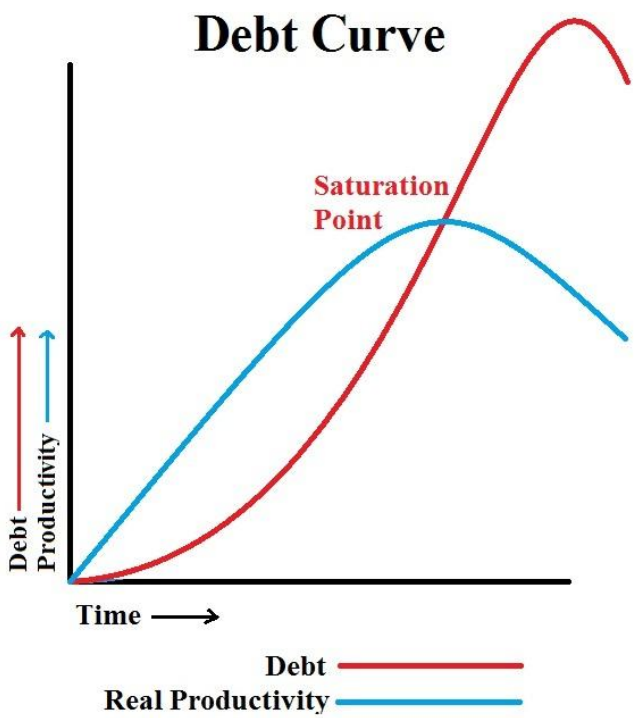
As Alasdair MacLeod wrote on GoldMoney on 09-14-18 - "The dollar is central to the next crisis". This was prior to the fall market chaos which subsequently ensued.

> The real tragedy is the ECB's monetary policies are unbelievably out of kilter. It is a matter of utmost urgency that they be corrected. Therefore, we can expect this issue to be addressed soon, if not on the day of this article's publication at the ECB's monetary policy meeting (13 September), then on 25th October, which is the date of the meeting following.
>
> This means the timing for the next credit crisis can now be tentatively suggested between now and the year end, at the latest early next year.
>
> - Expect a shift of the ECB's monetary policy, which will be designed to support the euro and drive it higher, so the dollar should begin to reverse its gains at that time.
> - The shortages of warehouse stocks should see key commodity prices rising strongly and the impending sanctions against Iran will begin to push up energy prices.
> - US price inflation, already recorded officially at 2.9%, will soon be over 3% and rising.
> - US bond yields will rise as dollar outflows increase their momentum, disrupting US Government finances.
> - Despite the rise in bond yields, the gold price should rise sharply, reflecting a developing dollar crisis. In short, the change in sentiment for the dollar promises to be unexpectedly swift.
>
> …..
>
> What form this crisis would take?
>
> - This time, it is unlikely to be driven by collapsing equities or residential property prices; they will fall on the back of a dislocation in currency markets, leading to a collapse in bond prices.
> - It is the outlook for bond prices and their effect on other financial assets where the next crisis promises to differ from the last.
> - In 2008, the yields on US Treasuries declined as investors sought safety from private sector investments.
> - This time, foreigners selling dollars and USTs are likely to overwhelm domestic safety-seekers and drive bond yields higher.
> - We should also bear in mind that US Government financing has become heavily dependent on foreign investment inflows continuing.
> - Rising bond yields, reflecting foreign selling, will therefore be beyond the Fed's control.
> - Banks, as the intermediaries, have stronger balance sheets in the US, but Eurozone banks are both more highly leveraged and more exposed to bonds.
> - Both banking systems are even more highly geared when you factor in the increase in shadow bank balances, about which the monetary authorities still remain broadly ignorant.
>
> Last time, the crisis hit the US banking system first. The banks had become as greedy as hell, securitizing debt to hide it from the regulators. Eurozone banks got caught out buying this debt mostly through Irish-based subsidiaries. But the real problem was in America, with others suffering the consequences.
>
> Next time, it will not be just America, but a global problem undermining the reserve currency, most probably created by a forced reduction in the divergence of monetary policies between the Fed and the other two major central banks. The upcoming crisis threatens to be on a greater and wider scale than the last one because it will stem from the gross overvaluation of the reserve currency.
>
> Any attempt to rescue the finances of the US Government, banks and businesses by printing money will simply provide more fuel for the inflationary fire, but it is hard to see that there can be any

other material response by the Fed. The only real tool it has is monetary expansion, and it is tasked with keeping the system afloat. The same applies to the Eurozone and the ECB.

(Charts inserted by MATASII)





The only parties that appear able to avoid the worst consequences are the Russians and the Chinese. China may have a different set of problems, depending on how it reacts to a dollar crisis, but that is beyond the scope of this article. I have written elsewhere about their monetary strategy, particularly with respect to gold, which most of the countries in their Asian domain have been accumulating. But if China and Russia survive the next credit crisis with fewer wounds than the rest of us, it can only add to a change in the geopolitical balance. One thing is as certain as certain can be: physical gold will be the safest of safe havens when the dollar begins to slide, taking everything with it.

What can America do to stop the dollar sliding towards obscurity? The only answer is to restore gold convertibility, and we better hope for a change in monetary policy to this end, and that America still has the gold reserves to do it. Even that assumes the banks can be rescued, which is by no means certain.

THE RUSSIANS, CHINESE & IRAN ARE WATCHING & WAITING

……

Russia appears to have already made a strategic judgment against the dollar. It's not for nothing she prefers gold, which has the potential to protect against a dollar crisis.

Russia's strategic partner in Asia is the largest foreign holder of both dollars and USTs. China's total non-gold reserves stand at $3.13 trillion, of which $1.12 trillion is invested in USTs. Much of the remaining $2 trillion is in dollar deposits and other liquid dollar securities. Some of this China has loaned to other countries. For example, total loans to African nations at the end of 2017 totalled $143bn. Earlier this year President Xi promised a further $23bn in loans to Arab states. The China Development Bank is lending $20bn to Latin America for infrastructure projects. These are small amounts for China, but substantial for the recipients. China appears likely to continue to loan out and spend her dollars as a way of getting rid of them.

The continuing trade surplus with America means that China is still accumulating dollars at a faster rate than she can use them for buying influence in emerging markets. Given her strategic objectives, this must be undesirable. She will be monitoring the situation carefully, but for the moment, American trade tariff tactics are her immediate concern.

However, there will come a time when China refocuses her attention to her own interests. Her appetite for industrial materials is enormous, and she is likely to be accumulating reserves of vital commodities, such as copper and other base metals, to deploy in her own infrastructure development plans as well as for development along the two silk roads. It is to secure these raw material and energy supplies that she has been investing dollars in the emerging economies that supply them.

Yet, speculators have been shorting these metals on Comex and elsewhere as a means of buying the dollar, while appearing ignorant of Chinese plans. Copper stocks on the London Metal Exchange (which, incidentally, Chinese interests also owns) have now become very low, with tradable tonnage falling from 319,525 tonnes at end-March to only 147,450 tonnes last week.

The strong dollar presents an excellent opportunity for China to accelerate spending on commodity stockpiles. So far, this has not led to price disruption, because China has proved to be a careful buyer. However, the shortages of deliverable stocks in key commodity markets such as copper are bound to end with a price shock. In the case of oil, WTI and Brent are now both in backwardation ahead of US sanctions against Iran, due to come in from 5th November. Venezuela continues to be a production disaster.

China has proved to be acutely aware of Western market dynamics and continually liaises with Russia over the implications for geopolitical and financial strategy. In this context, the following is an important quote by Hank Paulson (US Treasury Secretary during the Lehman Crisis) in an interview given to Robert Peston, when he was with the BBC, in connection with the handling of the Lehman crisis: "Here I'm not going to name the senior person, but I was meeting with someone… This person told me that the Chinese had received a message from the Russians which was, 'Hey let's join together and sell Fannie and Freddie securities on the market.' The Chinese weren't going to do that but again, it just, it just drove home to me how vulnerable I felt until we had put Fannie and Freddie into conservatorship."

It seems the Russians were ready to interfere with America's rescue plans in the wake of the Lehman crisis ten years ago. Today they have reduced their exposure to US Treasuries to insignificant levels and would surely consider intervening again. With deep and personal US sanctions against them, they really have little to lose and much to gain.

We cannot be so sure the Chinese will refuse to go along with the Russians this time. Today, there is an unpredictable American president in Donald Trump and his tariff wars. America's antagonism against China has deepened. An assumption that China will cooperate with Washington towards global stability through back-channels cannot be assumed to hold in a new financial and systemic crisis. So long as the Chinese financial system is ring-fenced, the negative impact of a collapse of the West's financial system on China's economy could be sold to the Chinese people as the fault of the West, and nothing to do with China. China's "responsible" attitude in appearing to protect herself and her citizens could be politically beneficial to the regime.

They need do very little, other than to refuse to help. Therefore, China is able to use a future American financial crisis as an opportunity to let the dollar destroy its own hegemony and to enhance China's own economic and geostrategic plans.

INVESTMENT STRATEGY

A CEO on how the company went broke:

"Slow at first, then all of a sudden"

STAGE I – 2019-2020

The following "slow moving glaciers" will lead to Stage II

- Trade Wars – Tariffs act as a US Consumption Tax,
- Unfunded Liabilities come due,
- Underfunded Pension come due,
- Contingent Liabilities in the $210T Fiscal Gap triggered,
- Falling Productivity reduces standards of living,
- Employment Income growth fails to support middle class and bottom 40% lifestyles in a 70% consumption economy,
- US faces its first Recession in over a decade with highly leveraged corporate debt levels.

STAGE II – 2020-2021

The following results of falling productivity because of 'consumption' versus investment of 'savings' will lead to Stage III

"A Steady Decline in Standards of Living"

- Tax Revenues shrink,
- Fiscal Expenses mount,
- US dollar begins to weaken with advancing "De-Dollarization" & US Credit downgrade,
- Price inflation becomes a concern,
- Economic Stagnation can't be fixed by Deficit stimulus,
- A Sudden & unexpected surge in sovereign debt is experienced,

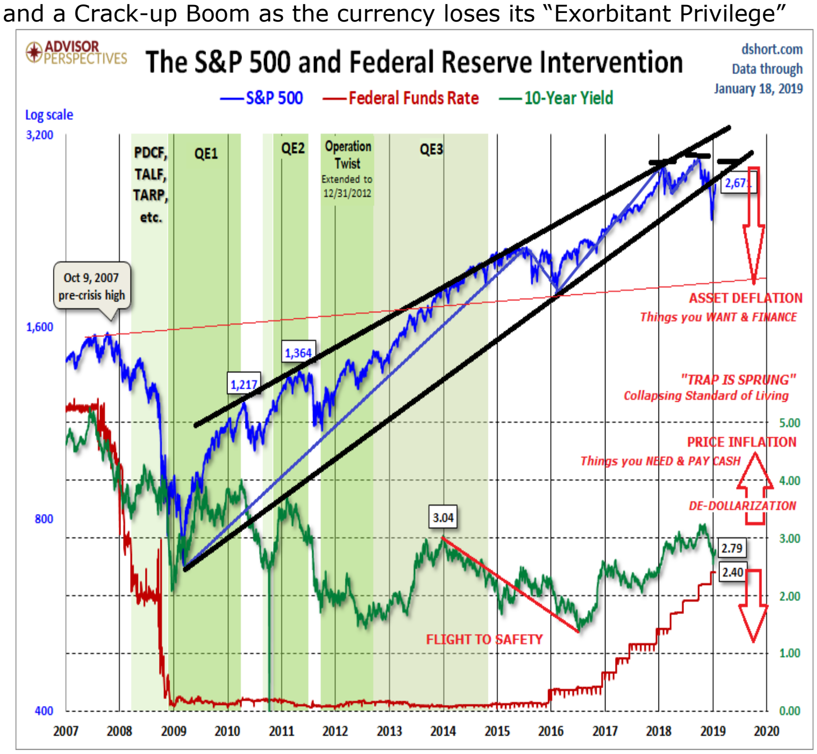
STAGE III – 2022-2024

The US experiences "Hyper-Inflation" and a Crack-up Boom as the currency loses its "Exorbitant Privilege"

- US Dollar falls significantly as confidence is lost in the US economy & leadership,
- Price Inflation Surges as goods become more expensive,
- Yields rise rapidly,
- Government funding expenses soar,

STAGE IV – 2025

- US Dollar becomes part of a Global Reserve Currency "Basket"



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HOW TO PROTECT YOURSELF

US Inflation as reported by the BEA is a highly manipulated measure. Hedonics, Substitution, Imputation etc have all been implied over the years to keep this number within 'acceptable' ranges. John Williams at ShadowStats reports inflation to be above 9% if we use the methodology employed in 1980.

Gold was an alternative way of assessing inflation but has also become highly manipulated by the Bullion Banks with major availability discrepancies between physical and "paper".

We have found the simplest way to measure US inflation is by the longer term regression of "Black Gold" or the continuation contract for WTI. Shown below it has averaged a 8.1% CAGR since 1990.

If you examine the above Elliott Wave count for WTI it highly suggests that technically major inflation lies ahead. Through 2021 we will likely see quite elevated price inflation before launching into "hyperinflation after that. This chart correlates with a US$ in free fall – reflating the root cause of Hyperinflation. Hyperinflation is always a "Currency Event"!

To prepare for this requires the implementation of the Tenets of Countering Macro-Prudential Monetary Policies of Financial Repression

- Avoidance of Assets held by Banks & Large Financial Institutions,
- Investments in Unencumbered Hard Assets (Farm Land, Live Stock, Forests, Water, Colored Diamonds, Precious Collectibles etc.),
- Precious Metals in Physical form,
- Avoidance of US Dollar denominated Assets,
- US Dollar denominated debt to buy foreign Hard Assets,
- Cash flowing "recession proof" small businesses,

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- Private Placements with sound models, low debt, and major barriers to entry.

… See the Financial Repression Authority Web Site for more

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