



Rabobank: We Are Seeing A Struggle For A New World Order

Description

Freedom isn't free money

As we know, the Ukraine war is taking place on several fronts: and, as we underlined before it started, the Ukraine metacrisis is too.

The Russian Defense Ministry officially released data showing 9,861 Russian troops have been killed, with 16,153 injured. That is getting close to the tally of the entire 11-year Soviet invasion of Afghanistan. That news was then rapidly deleted from their media, like a certain laptop. Aging Russia does not have the young men to waste on this war, and we already had rumors that boys from patriotic youth organisations may be drafted too: the ultra-nationalist *babushky* most in favor of the war are too old to fight it. As feared, this also ups the ante for Russia to escalate to heavier bombardment of civilian areas. Mariupol refused to surrender yesterday – what happens to it now remains to be seen, but it does not look good for its inhabitants.

Moreover, **US President Biden has warned of imminent Russian cyber-attacks, and of [the risk of a chemical attack](#)** – which Russia has itself warned that Ukraine will soon attempt, which others see as a false flag.

Yesterday was also absent the usual attempts to spin that ‘a peace deal is close’. Indeed, listening to an international relations expert yesterday, I was struck by the flimsiness of his arguments. A deal, he said, would involve Ukraine giving up Crimea and its east; not joining the EU or NATO, and getting security guarantees. Fine: but that overlooks that *this sounds a lot like Russia winning*; more so if sanctions are then removed; and yet if they aren't, why should Russia stop, rather than escalating? Moreover, without the EU, who will rebuild Ukraine, and which way can it orientate itself economically? And who will give it security guarantees? Itself? That sounds like Ukraine winning! NATO? That sounds like NATO membership! Russia?! Basically, while everyone wants this to de-escalate, there are lots of geopolitical problems out there with apparently simple solutions –to the West– that have deep roots –planted by the West– and no easy solutions. Take the Middle East for example.

And as we shift our gaze from war to metacrisis, consider that with [the EU now saying it is considering energy sanctions on Russia too](#), and a further Russian military escalation is likely to be

the trigger, that nearby energy-rich region is going to be even more important going forwards.

Yet there **Iran-backed Houthis attacked Saudi oil facilities again**, and Riyadh make clear they aren't responsible for any drop in oil output if this carries on; the US belatedly sent Patriot missiles to Saudi, after having previously removed them. In parallel, there is another stand-off over the Iran nuclear deal, Iran insisting its Revolutionary Guards Council must be taken off US terrorist watchlists. Although the US negotiating team has offered Tehran more than it asked for at all times according to leaks from both sides, and had proffered the IRGC U-turn on the premise Tehran make a promise of good behaviour(!), this may prove a red line for the White House. It would be hard to sell to this Congress, let alone the one that looms in November: and if it happens, then the Houthis will get even more money to fire more missiles at Saudi. Either way, oil supply does not look like it is going to pick up. And, obviously, energy prices hence are: Brent was up 7.1% on the day to \$116 again.

The US also decided it needed escalation on another front – it sanctioned Chinese officials over human rights abuses related to Xinjiang and the treatment of Uighurs, an issue which seemed on the backburner. Secretary of State Blinken tweeted:

“Perpetrators of human rights abuses must continue to face consequences. The United States has taken action to impose visa restrictions on PRC officials for attempting to intimidate, harass, and repress dissidents and human rights defenders inside and outside of China.”

Quite clearly to some, this is a shot across the bows about Chinese support for Russia. Equally clearly to most, it will generate a furious Chinese backlash. And this is as Russia warns it is close to severing all diplomatic ties with the US *completely*. In short, our pre-war scenario C –messy global fragmentation– looks a step closer to potentially materialising.

President Biden underscored what is happening in this metacrisis in public, stating: “You know, we are, I believe, in an inflection point in the world economy. Not just the world economy, the world. It occurs every three or four generations. As one of the top military people said to me in a secure meeting the other day, 60 million people died between 1900 and 1946, and since then we’ve established a liberal world order and that hadn’t happened in a long while; and a lot of people died, but nowhere near the chaos... and now’s the time when things are shifting. There’s going to be a new world order out there. And we’ve got to lead it. We’ve got to unite the rest of the free world into it.”

The problem is, of course, that while the free world is increasingly united, most of the world isn’t free in that sense. Indeed, while we all congratulate ourselves on how ‘Ukraine has won the media war’, **consider that this is not how it is playing out in swathes of Asia, Africa, or even Latin America.** And unless the West intends to leave all of these economies to set up a new bloc without it, which the current scramble for energy shows is not possible, it needs to do better, or at least make a more substantive offer.

If this it to occur, it will scramble status quo markets, even if there are winners and losers. It won’t scramble the US dollar, contrary to popular misconception: the only way that is going to occur is if we see a true revolution in thinking in China, or everyone defaults on Eurodollar debt at once, blowing up the global system entirely. Yet a Western attempt at a martial *and* Marshall Plan for key EM would put pressure on those economies on the other side of a new, global ‘Berlin Wall’.

Of course, in the near term it would also massively disrupt Western supply chains, just as Covid and this war did/are. Don't think we would not then see a deeper embrace of the kind of 'markets, shmarkets' approach being floated on energy prices (in the EU), control of energy firms (in the UK), and over nickel prices (on the LME – which just cancelled trades done on Monday *again*: who lost too much money this time?)

Yes, I'm talking about price controls, rationing, and barter, countertrade, and offsetting. Yes, I'm serious. No, traditional balance-sheet analysts are not considering this. For example, yesterday I did a TV slot, and the talking head ahead of me was talking at great length and great speed about Chinese tech stocks. The TV host was repeatedly trying to get him to answer the question of how one can assess value when the geopolitical and regulatory ground is shifting so fast. The response was the verbal equivalent of being smothered with a scented pillow – and totally avoiding that question. As I've joked before, if the only thing you don't have is a hammer, nothing you ever see will look like a nail. Until your position is then nailed to the wall by someone who understands the tools currently in play.

Against this backdrop, what is a central bank to do? If you listened to Fed speakers, especially Powell, yesterday, you heard them suggest raising rates faster, perhaps going 50bp and not 25bp at some meetings, and removing QE even more aggressively. If you listened to the ECB's Lagarde, you got a very different message.

A few key points to repeat in this regard.

The US yield curve continues to say the Fed is making a policy error: inversions are deepening, and more rate cuts are being priced in further down the line. **Stocks are generally holding up on the view that this hawkishness is aberrative silliness that will soon give way to the usual QE and money on a plate for those who never have to worry about what's on their plate, even as hundreds of millions literally risk having nothing on theirs.**

Yet if we are seeing a struggle for a new world order, you can make a strong case that a sign of health, not weakness, would be higher interest rates in the country aiming to lead it. After all, as our rates strategy team has long concurred, zero and negative rates are a zombifying tactic that undermine real economic strength in favour of financialised nonsense that grows no wheat, produces no energy, digs no lithium or nickel, and makes no consumer goods. For all of the power of the US financial arsenal versus Russia, it will ultimately not matter if it does not have the real economy to back it up as things start to fracture, taking offshore supply chains with it, as in Covid. Powell alluded to supply chains yesterday without grasping their competitive geopolitical nature.

Ask yourself, wouldn't a US entrepreneur look at a hypothetical 4% Fed Funds rate and think "That's a signal to invest in something productive"? Wouldn't a US bank be happier to lend, assuming an upwards sloping yield curve? As Walter Bagehot said during the period of a British led world order: "*John Bull can stand many things, but he cannot stand 2%*", meaning the investing public demands a sensible floor to rates if they intend to invest –productively– at all. We can all see when we don't have one, they just don't.

Of course, that implies pain for the financialized part of the economy. Which is why the financialized part of the economy has such difficulty conceiving of it – or indeed of any of the changes I am describing. They are still 'cheering' Russia evading sanctions to be able to make bond payments, as Ukraine, being dissected by Russia, has to make its debt payments too. Who has the hammers and

the nails there? Yet, the world is now shifting, and rapidly. What does it look like on the other side? More of the same? Really? How?

Yes, some say a hypothetical 4% Fed Funds rate would just get a stronger US dollar and the cry to offshore production again, matched with foreign capital inflows from their own trade surpluses with the US – and we are back to the new normal.

But not if the world order is being restructured. We are talking about sanctions, tariffs, price controls, rationing, and of barter, countertrade, and offsetting: don't tell me capital controls can't be part of that hypothetical package *if that is what is required to maintain leadership of the free world.*

Freedom isn't free; and freedom isn't free money.

Of course, none of this is a 'trade for today'. But as the metacrisis develops, it is arguably *the* tail risk trade for the future.

by Tyler Durden

By Michael Every of Rabobank

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