



The Great Currency Reset and Why Europe is Trapped

Description

There's a lot of news flying around about the changes happening in global currency trading.

From "Gas for Rubles" to "What the Hell is Going on With the Yen?" there are a lot of questions and very few answers as to what it all means and whose on which side of the divide.

The Fed just hiked 50 basis points for the first time since 2000 and will be running off its balance sheet forcing the Treasury to stop issuing new debt at stupid rates. The European Union unveiled a sixth sanctions package against Russia which calls for a complete embargo of all Russian oil.

Further to this the EU is now aping what the Trump Administration tried to do to Iran in 2018, [sanctioning all services, including insurance, to all shippers](#) of oil from doing any business with Russia and sanctioned Russian banks.

The bloc is proposing to ban European vessels and companies from providing services — including insurance — linked to the transportation of Russian oil and products globally as part of its new sanctions package, according to officials and a draft document seen by Bloomberg.

While member states are still wrangling over the terms, it's a potentially powerful tool because 95% of the world's tanker liability cover is arranged through a London-based insurance organization called the International Group of P&I Clubs that has to heed European law.

These sanctions, effectively politicizing every aspect of international business and trade, are ultimately nothing more than short-term annoyances for Russia or anyone else.

It betrays a mindset that cares nothing for the downstream effects of these actions and, if anything, betray the desperation felt in Brussels today about its position in the global market.

I've spilled hundreds of column inches trying to explain to the world that it is the EU's totalitarian

mindset based on their psychological imbalance and ideological need to be seen as the champions of humanity, that drives all of their decisions.

The US is not so driven. We're far easier to understand. We like power but only so long as it nets us a profit.

This sanctions package is *prima facie* evidence of their insanity and what happens when, like a cornered animal, they are faced with an existential choice. The EU is built on a foundation of insulating its leadership from the vicissitudes of public opinion.

Populism is a four-letter word in the Eurocrat's vocabulary.

The consequences of this policy which was conceived of by the fart-sniffing buffoons at the World Economic Forum, *The Davos Crowd*, are irrelevant to them in the short-term. Yes, Europeans will suffer tremendously high inflation because, if successful at taking a majority of Russian oil off the global markets, will only ensure that prices go ballistic.

Do you think the same people who have a stated depopulation agenda who mandated a 12% effective Pfizer vaccine [and wasn't tested at all on pregnant women](#) lest they be barred from partaking of European society care one whit about the people they govern?

Of course not.

I guess this is what they mean when they invoke "European values."

So, keep that firmly in mind when you play through the following scenarios and what is really at stake for them and for us going forward. These are people who are only in power because they control the political process handed to them via a corrupt monetary system which institutionalizes the Cantillon effect of money printing to grant them unearned advantages in the market place.

As I've pointed out in previous articles, one of the strongest weapons Russia has in their arsenal is the world's need for the commodities they produce and their ability now, with the global financial system teetering on the brink of collapse, to set the terms of payment for them.

[Ronan Manly at Bullion Star](#) recently wrote a great article which is, I believe, the foundational one for what's going on in Russia. In it Manly goes over the steps being taken by the Russians to move away from a purely debt-based currency regime to a commodity-based one. This idea is promulgated by Sergei Glazyev, who is heading up the creation of a kind-of SDR for the Eurasian Economic Union (EAEU).

These moves are staunchly opposed by the Bank of Russia. I was asked by a Patron to elaborate on this dichotomy.

It looks to me like Glazyev's plan for the new EAEU currency isn't to make the ruble exchangeable for gold, like the old gold-backed USD, but to value it against the price of gold and 19 or so other commodities, plus the member countries' currencies. The basket, including gold, will be a measure of value, a yardstick by which to compare the value of member currencies. The basket won't be traded, its global value will just be tracked.

Bank of Russia head Elvira Nabiullina is a dutiful IMF-trained midwit. She heads an organization that is not explicitly under Kremlin control, much like the Fed here. That said, Putin has more authority over the central bank because of the power of the Russian President and the reality that the Russian State is strong enough to dictate terms to its oligarchs, rather than the reverse here in the West.

But the Bank of Russia is still operationally run with IMF thinking.

My reply:

Yes, Nabiullina is a good IMF lackey. At the same time [Nikolai] Patruchev is saying the opposite. The Security Council is more powerful than the Bank of Russia. So, listen to Nabiullina the same way I listen to {US Treasury Sec. Janet} Yellen, as a mouthpiece for foreign powers.

Meanwhile [Jerome] Powell and the members of the Russian Sec. Council are telling you what's going to happen.... A two-tiered ruble is coming in Russia and The Fed is pushing for fiscal discipline on Capitol Hill. The Bank of Russia is being set up to fail and be nationalized.

The EAEU will setup a commodity-backed SDR and Russia's domestic ruble will be convertible to gold, while the international RUB, say RBO (Ruble offshore) will circulate to allow people to pay for imports.

My point in this reply is that backing the ruble in gold for domestic purposes and the EAEU's commodity backed SDR are two separate issues. One is Russian domestic policy, the other is a feature of a new pan-Asian trade and foreign policy.

Conflating these issues I think is a mistake. An easy mistake to make, mind you, but a mistake nonetheless.

Do You Think You're Being Treated Unfairly?

So, with that in mind we can now look at the current goals of Russia as it pertains to its current situation: How to break EU support for the war in Ukraine. That is, categorically, the most important issue for Russia going forward.

By setting up Gazprombank as a kind of Russian Ex-Im Bank for dealing with assholes, Russia now has a vehicle to ensure that they get whatever they want for their exports.

The 1st order effect is that the FX volatility cost is pushed onto the buyer of the export. They now have to plan for how to get rubles and at whatever price is available to them. Without much of an international market for the ruble to date, that means Gazprombank going onto the Moscow exchange and buying rubles to sell to a German gas importer, for example.

This is, right now, the main reason why the ruble is strengthening dramatically versus all 'unfriendly' currencies. The scheme to date has been so successful, in the face of a nascent US dollar bull market, only it and the Brazilian Real have risen versus the dollar in the past year:

Given the international need for the ruble which is now critical to a functional global trade in base commodities, all of a sudden the prospect of a Russian ruble forward curve that isn't a complete joke looks pretty good.

That, in and of itself, is a massive change to the global financial system. But, wait.... there's more!

If these 'Unfriendly' countries are not run by complete retards — a bad assumption I know — then they will begin setting up an offshore ruble futures market... eurorubles?... to deal with their future Russian commodity needs.

Now you can understand why EU Commission President Ursula von der Leyen is so adamant about trying to embargo Russian commodities. Davos needs to maintain control over the terms of trade.

They need to exert what power they still have in an environment where they are becoming increasingly irrelevant to global trade. Europe is run by people who do not believe in growth. They are the poster children for Climate Change and the anti-unlimited growth movement.

Davos has gaslit two entire generations of westerners in the Malthusian talking point that you can't have infinite growth in a finite world. All of their economic dogma is predicated on this.

It doesn't matter that this talking point is predicated on an inane premise, truth is, after all treason, at this point in the economic and cultural cycle. But, to try and explain quickly for the slow-witted. GDP growth is not necessarily real growth. It's just spending. It says nothing for the quality of the spending or whether, in real terms, the people spending the money are materially better off than they were at a previous point in time.

What isn't measured by GDP is *VALUE*. Value is what we crave, the ability to plan further into the future, using our ingenuity to find better mousetraps to build and more efficient, and yes sustainable, ways of deploying scarce capital and time.

When you have a monetary system and regulatory regime designed to thwart that to stop growth then you have the world we live in today. That infinite growth is a subjective, not objective, measure.... not in GDP terms but in the 'alleviation of human misery' terms.

Davos absolutely doesn't want this because a world where everyone gets maximal value for their time is a world without our need for them.

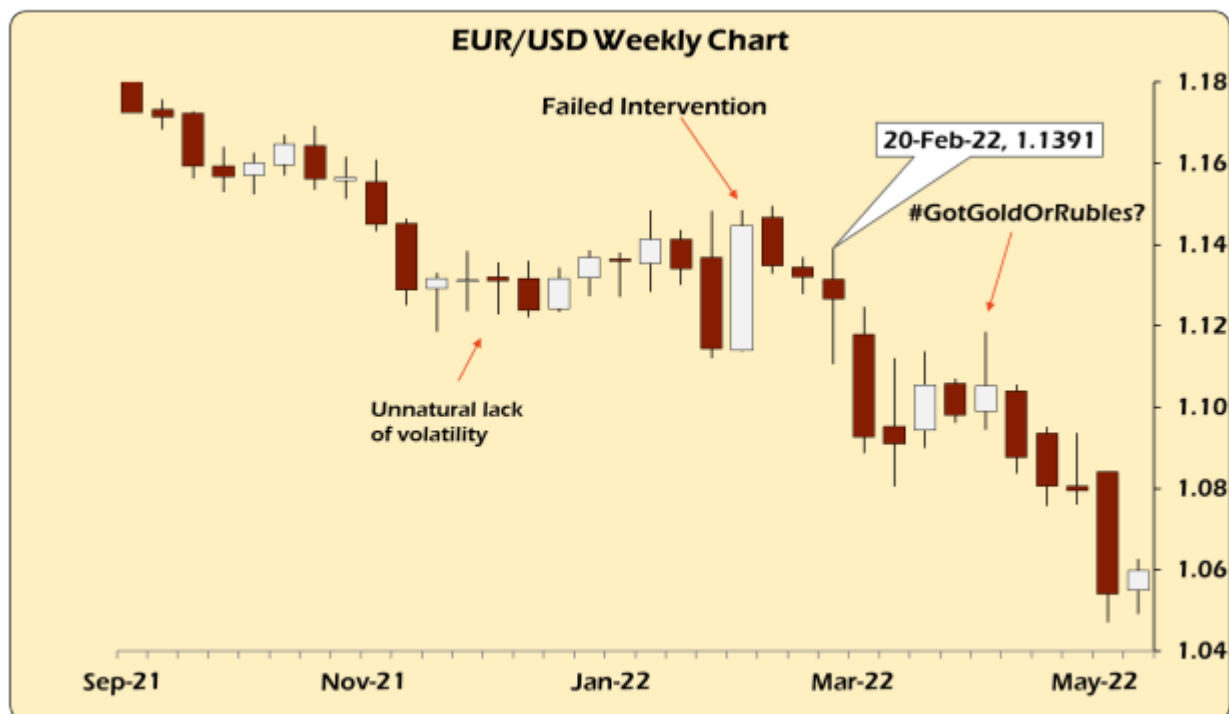
Got it? Good. Now you know why the EU sucks the sweat off a dead man's balls and whose ideas should be rejected wholly and in every conceivable way.

Monopsony Money

As I've talked about in multiple previous articles, *Davos* and the EU engage in ever more Quixotic attempts to assert [monopsony](#) power over Russia's exports.

Gazprombank will now sit on a pile of euros, dollars, yen, etc. which it has no intention of hedging the risk of. It has no need to hedge that risk because it can't really use those euros, dollars, yen, etc. for anything because those banks are barred from doing business with it.

So, Gazprombank will sell them to whoever wants them.



When I look around the world, now that the Fed is draining the world of US dollars, who needs these 'unfriendly' currencies?

Those countries who took out trillions in loans denominated in those currencies, including Russia herself. So, Gazprombank can make loan payments to or even call in their outstanding loans in these currencies and take them off the books.

The other option is to turn them into currencies Russia still needs for settling trade. The most obvious one here is Turkey. [Recently Zerohedge published an article](#) about the latest twist to Erdonomics (the brainchild of President Recep Tayyip Erdogan), which the Tyler writing the article pooh-poohed as

moronic.

Zero hedge reported:

Bloomberg reports that Turkey is working on a plan to attract inflows of hard currency by offering lira funding, free of interest and with a “guaranteed” 4% return in dollars, to foreign investors willing to park their money for at least two years. Needless to say, but any time Turkey “guarantees” anything, run.

Under the plan, the central bank would provide lira liquidity to foreigners for investment in local bonds with a maturity of at least two years, according to a person with direct knowledge of the deliberations. Besides extending zero-yield swaps, the monetary authority would also guarantee a 4% return in dollar terms when the securities mature, the person said.

Translation: please give us your dollars and we promise to take good care of them and even give you a much higher yield than you can earn (for now) in the US.

No. Actually the real translation is this:

Gazprombank can launder euros and dollars into Turkey and get lira at 4% to help Turkey unwind its exposure to the USD and pay down its foreign capital deficits.

[Here's my tweet thread about it.](#)

It also creates a vehicle to adjust that payout rate based on changes in the market. Where else can you get 2-year dollars paying 4% right now? Certainly not in the blue-chip corporate debt or US treasury markets.

And this way, Gazprombank makes sure Turkey stays solvent by parking some of its trade surplus offshore in a strategically important energy partner, who also happens to transport the gas to Europe which will help break the EU politically over paying for gas with rubles in the first place, i.e. Germany, Hungary, Austria, Bulgaria...!

It's kinda beautiful when you think of it that way.

Again, this is why Cruella der Leyen is so furious and why the EU is trying to stop this from happening.

An SDR by Another Motherland

The EAEU SDR that Sergei Glazyev is proposing is then the regional currency to tie everyone together and build a new trading bloc.

Remember, the EAEU is what the EU was supposed to be, a simple union with fair trading rules between members. Unlike the euro which overlaid Germany's credit rating onto the whole continent creating a kind of internal mercantilism to Germany's benefit, Glazyev proposes using a basket of

commodities as the exchange rate for the common currency.

This is far fairer and will allow commodity producers to get paid properly for their exports and value-added economies to pay their true costs of production.

Germany has had it in for the PIIGS countries and Greece in particular for years, strip mining the country as payment for its 'needed' debt restructuring. Does anyone think with [an apologist for the German Wehrmacht under Rommel](#) in charge of the EU Commission put there by another German of [dubious heritage \(Her Schwab\)](#) is going to materially change that policy now?

I invite you to look up the word naïve in the dictionary and then hold it up next to your face in the mirror.

No wonder Bloomberg '*buried the lede*' in their article about the new sanctions I linked to above, citing Greek and Cypriot opposition to this scheme to bankrupt shippers, where all of them operate out of:

Greece, Cyprus and Malta raised questions about the ban and whether it would help Europe achieve its aims without harming European businesses, according to two diplomats familiar with the matter. **Greece and Cyprus have large shipping industries while Malta is a so-called flag state, where companies can register their vessels for ownership purposes.**

It's also why Slovakia and the Czech Republic joined Hungary and Bulgaria (who get gas from Turkstream 2) in opposing the ban on Russian oil. The Druzhba pipeline is the only way for them to import oil, as landlocked countries.



It's also why the EU is pressuring Serbia so hard on going along with the Russian war propaganda because the rail line that serves those countries from the Greek port at Thessaloniki runs through Belgrade.

The EU is beyond committed to this plan of action, knowing full well what the potential effects are. When you put it all together they almost have no choice if they want to 'win.'

As always, Germany leads its northern European partners in policy designed to bankrupt the smaller Warsaw Pact countries while further trying to isolate Greece, who is now a key import destination to those same countries.

Meet the new Reich, same as the old one, especially when you really dig into those Pfizer docs. Only this time it's fueled by the U.S. war machine rather than opposed by it.

The EU leadership and *Davos* understand that its hold on those countries is tenuous, in the end. The people in many of them are the ones directly affected by their desired divorce from Russia. This is a policy and a plan designed to force them into submission and keep them down, thereby justifying to the core countries that they are just leachers and moochers off the glory of strongest countries.

This embargo against Russian energy is not just to punish Russia for having the temerity to defend its interests and sovereignty but also to destroy any potential escape routes through economic progress and cheap Russian energy for those countries they swore to Yeltsin they would never move one inch towards thirty years ago.

by Tom Luongo

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