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East versus West
The End of Modern Monetary Order?

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In March 2022, President Putin signed an agreement under which foreign buyers must pay for natural gas in rubles, after which the Russian Central Bank announced that it would put the ruble on *a semi gold standard*. On March 30, the Russian Duma signaled its intention to make foreign buyers pay for oil, grain, nickel, aluminum, uranium, neon and other Russian commodities in rubles. Russia's central bank is, hence, profoundly altering the international trade and monetary system by linking the Russian currency to both gold and commodities. By offering to buy gold from Russian banks at a fixed price of 5000 rubles per gram, the Bank of Russia has both linked the ruble to gold and, since gold trades in US dollars, set a floor price for the ruble in terms of the US dollar. Instead of a fixed gold exchange rate, the Russian Central Bank has wisely left the option open to periodically revise the price it will pay for gold after 1st July, 2022. Russia has effectively commoditized its currency, with respect to gold, energy, commodities, and grains. China is moving in the same direction, while other economies, e.g., India, in the East may follow on a similar path. It is interesting to observe the strengthening of the Brazilian real, the Mexican peso, and the South African rand against the US dollar over the past six months. If a significant fraction of the international trading system begins to accept rubles for commodity payments, this will confer on the Russian ruble the status of a global currency.

Via two simple announcements that tied the ruble to gold and switched the mode of payment for energy henceforth accepted in rubles, Russia is putting an end to the US dollar era that has ruled the world since the suspension of Bretton Woods in 1971 till the present day, a significant setback for the Western financial system. Current historic events could constitute the start of a new era marked by a gradual shift from a USD-based global economy collateralized by financial assets to a new system of commodity-backed currencies. China and Russia are already on a path to sounder money strategies based on stable interest rates/prices and clean central bank balance sheets. Russia officially has the fifth largest gold hoard after the United States, Germany, Italy, and France, holding approximately 2,300 tons of gold in its reserves (Dec. 2021). Russian gold holdings are set to further expand. Russia is discussing the establishment of a new financial payments system with China and India to bypass the US dollar by enabling bilateral trade in local currencies. Since Russia, China, and India collectively possess 16 percent of the world's central bank gold reserves, gold could play an essential role in this new payment system. China may follow with a gold-backed yuan. China may own more gold than the US (even though its official gold holdings are only a quarter those of the US) due to a multiple of its official holdings stored in various accounts but not declared as official reserves. China is the world's largest miner, and more than half of its gold production is state-owned. If China, Russia, and India cooperate in establishing a gold-based financial exchange mechanism, then the three nations together have enough gold reserves to pose a threatening challenge to the US dollar.

Once Russia begins to accept payment for oil and then other resources in rubles or gold, other countries may feel the need to follow suit, such as China, the UAE, Qatar, Iran, and Saudi Arabia. Since 1971, the petrodollar era has only been possible due to the USD being the world's sole currency used to trade in oil. China and other commodity-strong countries and the leading global oil exporting nations may feel that now is the time to move to a new, more equitable monetary system. We may be witnessing the beginning of the end of the 50-year financial system and the birth of a new gold and commodity backed monetary system. The freezing of Russia's foreign exchange reserves has been the trigger. The Bank of Russia's move to link the ruble to gold and link commodity payments to the ruble has been a savvy economic move and may constitute a positive paradigm shift, the effects of which on the global economy have not yet been felt. Russia's aggressive response to Western sanctions may hasten a severe upcoming crisis for the Western banking system. A highly inflated financial bubble looming over Western economies could, upon bursting, leave little more than hollowed-out economies. Events unraveling around the Ukrainian crisis and the economic sanctions against Russia, could reverberate in different ways, such as an increased demand for physical gold, economic calamities in *paper gold markets*, and alternative commodity trading patterns in bilateral trade among non-Western countries in currencies other than the US dollar. We are not predicting an outright demise of the USD, but what may likely emerge is a permanently weakened US dollar and potentially the end of its sole reserve currency status globally. All of this, unless the eruption of global war helps shore up the USD value as a safe haven. The latter real possibility worries us since large-scale war has always been the gateway out of pressing financial and social problems in the West. The Ukraine crisis offers the perfect pretext for such an escalation!

The current economic paradigm shift does not constitute a new *gold standard* which would require the Russian Central Bank *to both purchase and sell gold and rubles according to a fixed weight or quantity of gold per unit currency*. Nevertheless, and despite the uncertainty regarding the future success of the Russian plan, the embracing of gold has been a positive step in *the world fiat currency environment*, and may give other nations the motivation, and the courage, to shore up their battered currencies. The scheme involving the *unlimited expansion of money and credit* has already reached systemic limits in the West. A massive balloon holding toxic debt, leverage, corruption, and fraud may blow up creating a new and unprecedented financial crisis. As a result, finance-backed plans may be replaced by plans backed by real world resources to henceforth dominate economic matters. An alternative to the USD/Euro system for countries that decide to be closer to the East/South rather than to the West will not only affect financial flows but will most importantly change real flows of goods and commodities. Competition for ships will likely drive up the price of shipping globally, as the world will potentially be facing a shortage of vessels capable of moving oil cargo over long distances. The freezing of the majority of Russia's foreign exchange reserves represents a negative paradigm and creates the realistic possibility that foreign central bank gold held in vault locations, such as at the Bank of England and the New York Fed, is not beyond confiscation.

Russian strategy certainly has its weaknesses, but the Kremlin has been preparing for years to counter the West, which – with some noteworthy exceptions - has historically been hostile towards Russia. In its current strategy, Russia has tried to focus on economics and targeting weaknesses in the global network. It has for years been expanding its influence abroad, creating relations and dependencies strong enough to provide leverage when needed. In Europe, it supported EU fragmentation and now utilizes the knowledge of European politics gained over the years in its strategy. Once European citizens feel the repercussion of Western sanctions, and we will come close to that moment during the forthcoming autumn/winter season, the European bloc will become more fragile and Russia will exploit the EU's weaknesses. The more the US endeavors to assert its authority, the greater the likelihood in our view of a split in the Western partnership. Europe needs Russian energy desperately and cannot afford to support American policy unconditionally. At the same time, the US's attempt to increase sanctions on Russia will most probably further enhance the financial and military integration between Russia and China and ultimately achieve the opposite result for long-term US foreign policy strategy.

Russian military operations in Ukraine and its stance towards Western sanctions dealt a significant blow to the concept of globalization and the globalized economy. A shattered equilibrium in supply and demand in oil, grains, commodities, and base metals entails a significant tail risk, its effects not yet fully manifested, as producers, consumers, and speculators struggle to balance supply and demand. The age of globalization, maximization, and optimization is over. Exorbitant levels of debt, leverage, and wealth-concentration in financial markets that drive the real economy, conceal a huge systemic risk, further accentuated during the current times of geostrategic conflicts and new geopolitical formations. Mismanagement in government has been prevalent on a global scale, highly in the West, with central banks having virtually lost control over the economy. Negative interest rates have wiped out pension funds in Western countries, while there is probably no pension fund in Europe that is solvent at this stage. The current economic cycle does not resemble anything we have yet experienced. Europe, the largest importer of goods from both Russia and Ukraine, will be hit hardest economically. The situation will be even more dramatic in Africa and the Middle East. Russia's military operations in Ukraine, apart from their immense geopolitical effects, simultaneously signaled the start of the First Economic World War. In effect, what is emerging is the buildup of two mega blocs, which are clashing on the civilizational, the economic, and the geostrategic levels – namely, East/ South versus West, the East including, to a large extent, the Middle Eastern nations.

The positive economic repercussions of strong currencies backed by commodities and/or gold defy monetary and economic beliefs at present prevalent in the West, the latter finding themselves increasingly stranded with the inevitable failure of their currencies and capital markets. Arguments in large segments of the world in favor of decoupling from the US dollar-dominated monetary system are suddenly becoming compelling. Russia, apart from being a giant energy, commodity, and military/nuclear power, has a relatively concentrated non-diversified weak economy that is no match for the US economy or that of the Eurozone. But it is capable of and is effectively challenging the US and the Western world by presenting itself as a leader, along with powerful allies in the East, for a new world economic order. Financial institutions and money managers are presented with a challenging new environment regarding investment strategies. To capitalize on novel, innovative asset allocation strategies, which excitingly do exist in our present environment while simultaneously hedging for catastrophic risk, one must first have a crystal-clear understanding of unfolding events and ultimately where our world is heading in highly treacherous times. Otherwise, investment strategies will unfortunately resemble nothing more than ships sailing into uncharted stormy waters.

A new global currency regime based on commodities and gold could successively, partially or fully, take over from Bretton Woods II, which has been characterized by the extreme financialization of currencies. The freezing of Russian foreign exchange reserves in custody accounts of Western central banks undermined the status of predominantly the US dollar, but also the euro and pound sterling, while acting as an accelerator for the deconstruction of the US dollar-based world economic order. After Russia's reserves in USD, euros, pounds, and yen were frozen, it is unlikely that countries outside a broader Western network will continue accumulating reserves in substantial quantities in these currencies. A forthcoming system to run in parallel to or even supersede the current USD-centric global financial system may well be based on a club of countries mainly in the East and South. The increased use of key anchor currencies backed by gold and commodities, as well as the use of national currencies for transactions and trade may, in the final stages of the new system, be followed by the creation of a new digital currency issued by a pool of currency reserves of BRICS countries, open to other interested nations to join. The weight of each currency in the basket could be proportional to *the purchasing power parity adjusted GDP of each country*, its share in international trade, population and territory size, a measure of its main exchange-traded commodities, plus its precious and key industrial metals, hydrocarbons, grains, as well as water and other natural resources. Countries could be full participants of the new system regardless of their accumulated debt and its status in Western currencies, which should have no bearing on their credit rating in the new financial system.

The Ukrainian theater of military operations should in no way and cannot be regarded as an isolated or random regional event, but as a world-shattering catalyst for and accelerator of a forthcoming dramatic change in the world's geoeconomic, geostrategic, and geopolitical landscape. A concealed but key aspect, out of the many different clashing currents of change, is the epic battle between *the great awakening* versus *the great reset* … its outcome will determine the shape of the world for the foreseeable future.

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