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Endgame of the petrodollar

The sanctions against Russia are not having the planned effect.The West does not notice that the American reserve currency is being dethroned.

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In an unprecedented campaign, the West is imposing thousands of sanctions on Russia, knowing that this will in no way change Russia's course in Ukraine. This is an indication that the West is not seeking to end the war, but to destroy Russia. The Russians - together with their partners in the East - are playing chess. The goal of the East is a multipolar world that will end the hegemony of the petrodollar and thus the US.

The thoughts in this article are not about the war in Ukraine, but about the economic world war that has already broken out, which is being waged recklessly by the West without any awareness of the consequences of its blows. This war has the potential to result in a tectonic shift in the world economy.

Kissinger's masterstroke

Under the Bretton Woods system, the US dollar was at the centre of all currencies, to which all other currencies had a fixed exchange ratio. The dollar was pegged at a fixed price of 35 dollars per ounce of gold. The USA undertook to buy or sell gold at this price per ounce without limit. The US dollar thus became the world's reserve currency. In August 1971, when President Nixon removed the gold peg of the US dollar, all currencies became so-called fiat currencies, that is, paper, created without a basis of value.

To stop the complete collapse of the US dollar, Nixon sent his best man to the Middle East: Henry Kissinger, whose feat was to convince first Saudi Arabia, then the oil cartel Opec and then the whole world to settle oil and then almost all commodities in US dollars. Kissinger promised the Saudis military protection in return for their commitment to sell their oil in US dollars and buy American government bonds with the proceeds. The petrodollar was born.

The consequence of this was that since then all central banks in the world have had to buy and hold US dollars to buy commodities, regardless of their origin. This led to a constant artificial demand for the US dollar. Although the Americans have been printing more and more money since the 1970s, thus continuously undermining the value of the dollar, it is - until now - still being bought.

Giscard d'Estaing called this advantage an exorbitant privilege. The Americans regularly downplay the importance of the reserve status, but react with cruel means if anyone dares to step out of the dollar corset or even attempt to do so.

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The list of victims is well known: Iran, which started selling oil in euros in 2000, has been subjected to infernal sanctions for twenty years. Iraq began selling oil in euros in 2002. The USA then destroyed Iraq with invented reasons - this disciplinary action cost one million lives. Shortly after the military action, Iraqi oil flowed again in US dollars.

The same fate befell Colonel Gaddafi, who had made Libya the richest African country within a few decades. In 2009, he wanted to introduce the gold dinar in Africa - independent of the US dollar. The consequences are well known: Libya was destroyed, with the help and frenetic acclaim of Europe.

One can certainly perceive this last bloodbath in Libya as the turning point of dollar hegemony. The blocs that are currently striving to get rid of the dollar corset have been making preparations for decades, for example by more or less quietly buying gold and building up their gold mining industries.

Breakaway from the US dollar

The two main players are too big a challenge even for the USA. The official figures on China's and Russia's gold reserves of 1948 tonnes and 2299 tonnes respectively are probably inaccurate; there are many indications that they are in fact many times the official quantities. China is the world's largest gold producer with 370 tonnes per year. Russia is third, after Canada, with 300 tonnes a year. Gold is the basis of independence from paper currencies, thus the accumulation of this metal is a perfect preparation for breaking away from the US dollar. The period between Maidan 2014 and Russia's current military intervention was anything but peaceful. President Trump tangled with China, and Russia responded to Western sanctions by, among other things, severely restricting its agricultural imports, which led to the Russian agricultural industry developing at lightning speed. Russia is currently the world's largest wheat exporter.

To call the barrage of Western sanctions imposed on Russia since 24 February so far a damp squib is an understatement. These sanctions accelerate the process towards independence of the East, from the stranglehold of the West.

The exclusion of most Russian banks from the Swift payment information system was intended to create a panic in Russia's population that would lead to a bank run; the banking system, and thus the rouble, would collapse, just as it did in 1998. It did not work: the Russian Central Bank - under the expert leadership of Elvira Nabiullina - provided the banks with liquidity within hours and raised the interest rate from 8.5 to 20 per cent. Furthermore, the Russian government lifted the 20 percent VAT on gold on 1 March. The western credit cards Master and Visa were replaced by the new Mir system within hours.

Caught in the Bear Trap

The spook was over within 24 hours. The rouble, which was at 85 roubles per dollar on 24 February, plummeted to 143 by 7 March, but recovered completely by 1 April.

Perplexed by the resilience of the Russian banking system, the West again reached into its bag of tricks: Russia's foreign currency reserves were frozen. Although each central bank has a deposit in a foreign currency, the foreign currency reserves are always held by the central bank in question. Thus, the Russian central bank's US dollars are with the US Fed, its euros with the European Central Bank (ECB) and so on. The Japanese central bank initially felt unable to block Russia's yen reserves because there was no legal basis for doing so. For the Fed and the ECB, indignation and hatred were probably enough as a legal basis.

The blockade of Russia's foreign currency reserves had three goals: First, it was intended to plunge Russia into a default, a state bankruptcy. The blockade was intended to make it impossible for the Russian state to service its foreign debts. That did not work either. The Russians - probably with the help of friends in the East - found a way to service all foreign debts so far, much to the dismay of the West.

The second objective of this attack was to cut off the Russians from access to their foreign currencies and thus render their gas and oil supplies worthless. With the arrogance and smile of the great strategist, Chancellor Olaf Scholz announced on Sunday 27 March 2022 that Germany was loyal to the treaty and would pay in euros and US dollars. He went on to state confidently that Russia could do nothing with the money from the gas deliveries. Obviously, Scholz, a licensed attorney, did not have the general law of contracts completely in his grasp.

Gold Derivatives Markets in the USA and London will be powerless with their paper gold.

The international principle of contract, "Exceptio non adimpleti contractus", which found its way into the Swiss Code of Obligations in Article 82 and into the German Civil Code (BGB) in Paragraph 320, states in simplified terms that one cannot insist on the fulfilment of a contract - in this case gas delivery - if the consideration is not provided - in this case non-provision of payment because accounts are blocked.

The Russians therefore have good legal grounds to demand payment in roubles, which they have already done. Putin acted à la Kissinger, and Dr Merkel will wonder how her successor could fall into this bear trap with his head held high - this would not have happened to Angie.

It will probably take a few moments, but all the coercion and threats of the West will be of no use. Russia will sell its raw materials in roubles in the future, which will strengthen the rouble. The EU's oil and gas imports from Russia alone would amount to about 285 billion US dollars in 2021.

Panic in the big western banks

The third goal of the freeze on Russian foreign currency reserves was to force the Russians to sell their huge gold holdings. This calculation did not work either. On 25 March, the Russian central bank announced that it would buy unlimited amounts of gold from Russian banks at a price of 5000 roubles per gram until 30 June. With this, Russia not only defined a minimum price for gold and thus linked the rouble to gold, but - since gold is traded in US dollars - set a lower limit for the dollar-ruble exchange rate.

The rising rouble price due to commodity sales in roubles will thus also increase the price of gold, which will lead to panic in the big Western banks, which are holding huge short positions in gold. The gold derivatives markets in the US and London will be powerless with their paper gold. This is because these markets are derivatives markets and only about 0.5 per cent of the huge trading volume is actually backed by physical gold. What is described here is a consequence of logic - whether reality will follow the logic will soon become clear.

Target of the East

The consequences of these Russian manoeuvres are not yet recognised in the West. A headline in the Saturday edition of the Handelsblatt of 2 April read: "Russia is facing the worst economic crisis since the collapse of the Soviet Union". This sounds very alarmist and corresponds to the will of the masses, but the facts point in a different direction.

Countries like China, India and Pakistan have realised with horror that their respective foreign currency reserves can be stolen at any time, and thus it will not be long before more and more countries will no longer settle their exports in US dollars but in their own national currency. This means that the petrodollar will no longer be needed, which will lead to enormous inflation in the USA, as demand for the US dollar will collapse. On the other hand, those countries that export will be strengthened by the demand of their currency - the multipolar goal of the East seems to be approaching very quickly.

The ECB and the Fed are already in trouble without these events, as they face inflation of close to 10 per cent, but their interest rates are still close to zero.

Because of the gigantic debts that states, companies and private individuals have piled up in the West over the past decades, the only way to fight inflation - raising interest rates - will lead to distortions in the financial markets. The fact that the West will have to buy a lot of roubles, yuan and rupees in the future does not help.

The sanctions imposed hurt Russia in the short term, but the consequences for the West have the potential to unhinge the entire Western economic order and thus end the dominance of the West and replace it with a system that does without exorbitant privileges.

ARTICLE TAGS:

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