



Zanetti Monday Missive 2022.03.07 Unknown unknowns

"Everybody has a plan until they get punched in the mouth."

~ Mike Tyson

I think it's safe to say that we're dealing with unknown unknowns here.

Yes, unknown unknowns. We have never seen anything like this.

But here is what we do know. Russia has invaded Ukraine. Just when we thought the cold war was over and peace had prevailed. Nope.

Putin made a move and dared the world to respond. What could NATO do? Putin basically spit in the eye of the rest of the world and dared them to respond. But how could they when he's obviously not scared of conflict, and he still has nuclear weapons at his disposal.

In an effort to avoid a military escalation, the US and our Western Allies pulled the trigger last week on the "nuclear" financial equivalent. We sanctioned Russia's central bank and cut off key banks from SWIFT.

(SWIFT is basically a key element that allows banks to transfer money electronically for financial transactions.)

What this did was stop the flow of US dollars (the world reserve currency) in and out of Russia.

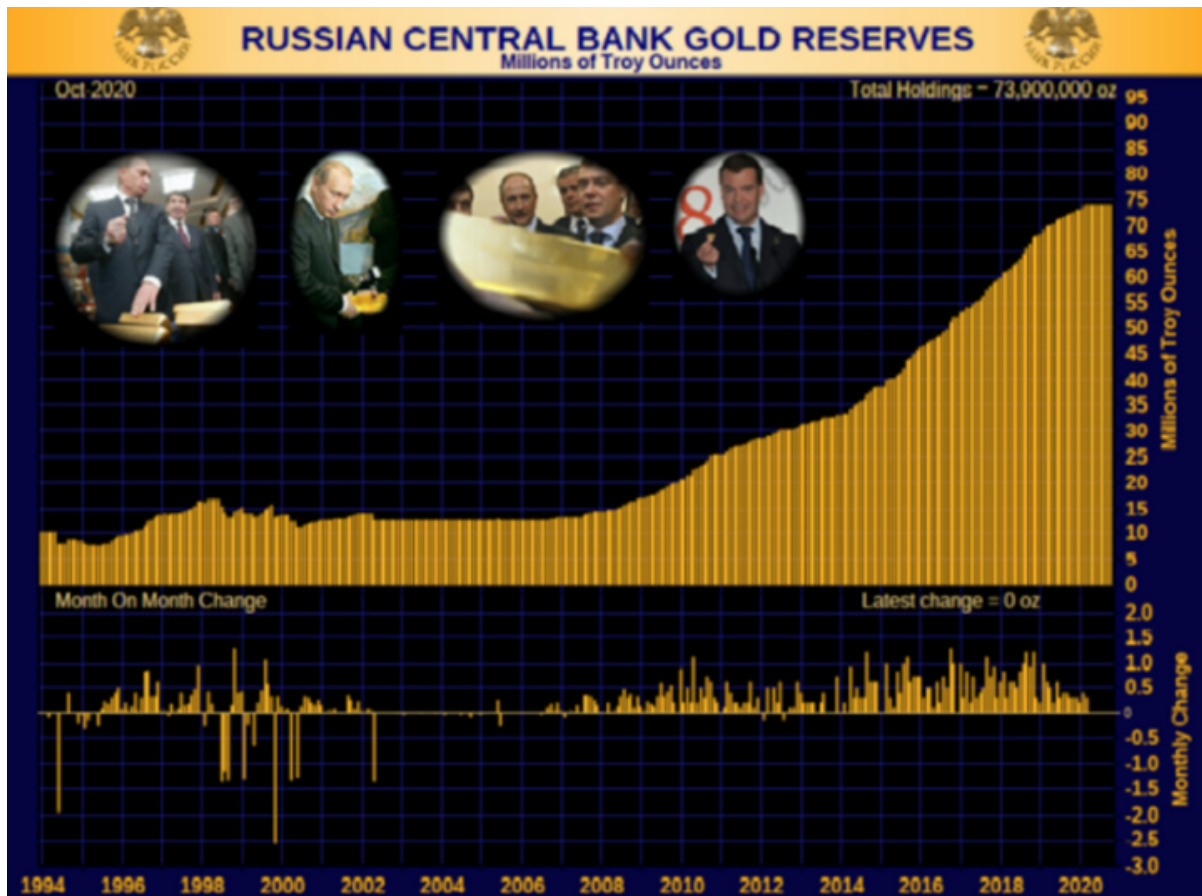
Meanwhile, Putin stopped exporting all the stuff the world wants to buy from Russia. Namely, commodities that are plentiful in Russia: wheat, oil, fertilizer, etc. And we saw all of these commodity prices shoot up drastically last week.

It's difficult to determine who anticipated what.

Did Russia expect a financial attack? Well, probably – at least some kind of financial sanction. Did he anticipate the SWIFT attack? Well, we know that's been on his radar as Russia and China have been working on an alternative to SWIFT for the past few years.

Putin knows how much the world needs what Russia has. With his halting of exports, Russia's natural resources are now more valuable than before Putin invaded Ukraine. And with Russia hoarding gold reserves over the past few years, their gold (which has seen an increase) is now more valuable while his Ruble has collapsed.

Remember this chart from our missive a few weeks ago?



Their cash flow has slowed to a trickle, but their net worth has climbed. The equivalent of being cash poor but land rich.

We all know Russia is rich in commodity exports and those would receive a boost from stopping trade. So it seems the US is betting we can strangle the lifeblood out of Russia (cutting off cashflow) and force them to negotiate peace talks. Meanwhile, it seems Russia is betting it can hold its breath long enough to withstand the cut off and get what it wants: Hegemony.

But here's the interesting thing from our perspective. The US has pulled the trigger on a gun that can only be shot once. Cutting off Russia from SWIFT is a doomsday move – but Washington could argue... what else were we to do with Russia?

What this move has done is shown the world our financial intentions if you

cross us: We will strangle you financially.

So now we have to ask, what is the natural human response to such a move? If you're a Western nation, you might say, "I hope this works and we can end this here." If you are Russia, China, Iran, or any of the countries who don't align with the US, you might say, "How can I properly prepare against this kind of move in the future."

I can see this evolving into something like the nuclear arms race during the cold war. World powers were trying to one-up each other in their nuclear weapons holding – hoping the biggest arsenal would scare off an attack from an enemy. Meanwhile, the rest of the world feared one false move that might trigger WWIII.

What might this new financial situation look like? Russia and China might quicken the pace on trying to replace the US dollar as the global currency reserve. We know they have had this as a focus in the past. Now they have proof of why they would benefit with an alternative.

I'm sure the Western hope is that we can crush that desire by inflicting enough financial pain that everybody comes back to the table to discuss peace talks – and hopefully dissuade others from building an alternative reserve currency.

We shall see...

Your Sometimes-Currency-Is-Just-Non-Cents Financial Advisor,

Walt

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