



Zanetti Monday Missive 2022.08.01 Et Tu Saudi Arabia

"Et tu, Brute?"

~ Julius Caesar to his friend Marcus Junius Brutus at the moment of Caesar's assassination

"No nation has friends, only interests."

~ Charles de Gualle

Hello Everyone,

If Saudi Arabia does what it looks like they are going to do, Joe Biden may feel like Julius Caesar. And Saudi Arabia will respond like Charles DeGaulle.

Today's missive addresses a financial conundrum that may portend great changes in the world's currency markets. And the above two quotes together may make some sense.

Most of us don't trade currencies. But some of the smartest financial minds in the world trade dollars vs. yen, pesos vs. euros, or yuan vs. rubles with the same fervor that day-traders trade Amazon, Apple, or Bitcoin.

And currency trades can affect the fate of nation-states... not just the value of someone's 401K.

I hope today's thoughts help you see the big picture through a slightly different lens.

KKOB Radio Interview from 2022.07.27:

Bob Clark: So, Greg, you know I'm not an expert on this stuff. But something doesn't make sense to me. We have all this inflation inside the US. But outside the US, the dollar is strengthening. That just seems off.

Greg: I agree. But there is an explanation. So, let's dig into it and then speculate about what might be coming.

Let me set the stage.

Most people focus on the stock market. I get that. We get stock updates several times a day. But the world's currency markets are exponentially bigger than the world's stock markets.

And changes in currency values can make or break nations. Just ask the Sri Lankans.

Next, there is something of a caste system in currencies.

There are the small currencies at the periphery. Think the Thai baht, or bolivars in South America.

Then there are what we would call core currencies. Think the euro, yen, & yuan.

Then there is the king currency, which is still the dollar... although that status is being challenged. We'll get to that in a minute.

Bob: I know where you're going to go there.

You believe Russia, India, and China are teaming up to form a new currency backed by commodities. And they want to challenge the dollar.

Greg: I do. And you're right. But there may be a new ally joining that group of three. We'll get to that.

But first, in the short term, here is what's happening.

Ever since Covid hit, currencies at the periphery have been weakening. And people in those countries aren't stupid. As things weaken at home, people tend to move money (and capital) to core currencies. I'd do the same.

But, now we are having problems at the core.

Bob, look at what is happening in Europe. War, energy embargoes, banking issues, friction between north and south. The whole European Union concept is in danger of

collapsing. That's not exactly a vote of confidence to the euro.

Next, Japan's economy continues to spiral down...while their debts soar.

The reason: years ago, the Japanese embraced woke economics. We joke that Japan is a bug in search of a windshield. That's not good for the yen.

Oh, and now we are seeing bank runs in China. That is not exactly a confidence builder for the yuan.

Bob: I know. I've seen some videos that claim Chinese tanks (!) have been deployed in cities to defend banks against angry depositors. People can't get their money out of the bank?! That's bad.

Greg: Yup. There were hundreds of Ponzi real estate schemes in China that have now gone poof.

And remember, the Europeans, Japanese, and Chinese have been printing trillions...just like us.

Bob: So, basically, it's not that the dollar is super-strong. But other currencies are just weak.

Greg: Right. Think of all world currencies as skydivers. Some just fall faster than others. That gives the illusion that some are going up. But not really.

Which brings us to the longer term picture. The dollar won't strengthen forever. No currency does.

And, Bob, as you mentioned Russian, India, China ---and now possibly Saudi Arabia (!)--- are teaming up. They are talking about a new commodity-backed currency....centered on the Eurasian Continent.

And it is the Saudi piece that has everyone talking. Here's why.

Earlier this month, the Saudis petitioned to join the BRICS nations ---you know, Brazil, Russia, India, China, and South Africa. Then, Turkey, Argentina and Egypt came alongside the Saudis, and asked to join as well.

I think that's what prompted Biden to race to Saudi Arabia two weeks ago.

He saw this alliance firming up and didn't want the Saudis agreeing to trade oil in anything but dollars. Because if that happens, demand for dollars will fall---while the supply of dollars is growing by the trillions.

That means a declining dollar and more inflation. Yikes.

Bottom line: If there is a legitimate rival to the dollar, then the dollar could unravel like the others. Maybe this is why JP Morgan CEO, Jamie Dimon, said a financial hurricane was coming.

Anyway, Biden's trip did not go well.

Meanwhile, Putin was in the Middle East last week. Interesting timing, wouldn't you say?

Bob: I would. You know, we never hear about this stuff. Thanks for the update. Good report. How do people reach you?

Greg: My number is 505-250-3754. Or, go to my website at zanettifinancial.com.

Signed, Your How-Come-Our-Government-Will-Let-Us-See-Hubble-Telescope-Pictures-Of-Distant-Galaxies-But-Not-Jeffrey-Epstein's-Client-List? Financial Advisor,

Greg

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