



Zanetti Monday Missive 2022.09.05 Alliances

Hello Everyone,

Once again, I received informed and thoughtful responses about last week's missive. War and money have a way of focusing people's attention.

This week, we will shift gears a little and look at how war encourages—and forces-- alliances. In war, the giants start stomping. And even small, out-of-the-way, countries find it difficult to get out of the way and remain neutral.

“Choose!” the giants say. “You're either with us or against us!”

Although a “hot” war among the giants has not begun... and let's hope it doesn't...sides are being taken. Alliances are being formed. That is the subject of today's missive. Because these alliances will have a direct effect

on trade, finance, economics, and your portfolio.

So, let's get to it.

"No nation has friends, only interests."

~ Charles de Gaulle

"They may fight with us, but they don't fight for us."

~ Christopher Paolini (American author and screenwriter)

BLUF is an acronym in both business and the military;
and it means Bottom Line Up Front. In other words, get
to the point. :>)

So, here is the BLUF of the missive...

- The world is choosing sides. You are either with the US/NATO/Great Britain/Australia or you are with Brazil/Russia/India/China/South Africa (BRICS).
- The issue at stake is, "Who will run the world?"
- Will power remain centered in the West? Or, will it shift back to the Eurasian continent? (Russian, China, India, Middle East)
- The "battlefield" is currently economic, financial, political, diplomatic, and technological. But military "hot" war is looming.
- Regardless of the outcome, everything we have come to know as "normal" is changing right before our eyes. Those who adapt best will fare well. Those who cling to old paradigms, not so much.

Now that that is out of the way...

Last week we made the case that war meant the end of globalization. War requires industry. Industry requires multiple commodity inputs--- and lots of energy! Industry also requires smoothly functioning global supply chains. These can only exist during times of peace **and trust.**

When trust breaks down, suspicion arises. As suspicion rises, miscalculations multiply. Harmony gives way to conflict. And nations prepare for war.

In preparation for war, nations stockpile resources. “Just in case” replaces “just in time.” Plus, leaders seek to secure and shorten supply lines as best they can.

As the old adage goes, “Amateurs study tactics. Professionals study logistics.”

This is where alliances come in. The choosing of sides. Friendly neighbors---with needed war resources---are powerful allies during times of conflict.

And, circling back to our quotes--though Charles de Gaulle said it is all about “interests”-- it is also about trust.

Oh, and you want Christopher Paolini to be wrong. You want your allies not only to fight with you, but also for you. And vice versa.

So what alliances are being formed now? And why?

Let's start with the why.

For decades, almost the whole world was allied with the United States.

America was considered the “trusted broker” in world affairs. We may not have been perfect, but we operated on principles like human rights, democracy, and self-governance.

For example, President Eisenhower sided with Egypt over Great Britain (our WW II ally) over control of the Suez Canal. That shocked a lot of observers back then. But it gave global credibility to the US.

Over time, however, global perception changed. America was viewed as no longer acting on principle, but rather as making decisions based on power. And when the US weaponized the dollar against foreign nations (think Iran and then Venezuela), the world took notice and began to adjust.

Seeing how finance could be used to subvert a nation, China, Iran, Russia and others established parallel banking systems to by-pass the dollar and the SWIFT system. (SWIFT is an electronic system used to transfer money internationally.)

Vladimir Putin proposed a “new Silk Road” connecting Europe to Asia. The goal was to ensure open trade routes should America ever decide to impose sanctions.

China opened competing gold and oil exchanges to ensure they had access to “real money” and energy. And China openly courted the Saudis to trade oil in yuan and not just dollars.

India, Russia, and China formed partnerships to bypass the dollar in trade and use their domestic currencies instead.

You get the idea.

The point is, trust broke down. And as trust broke down, another “team” started to form to challenge US power.

Then came the war in Ukraine...and Biden’s unprecedented “shock-and-awe” economic sanctions against Russia. Unfortunately, not only have the economic sanctions not worked, they have backfired. The Russian ruble is stronger than before the war and Russia got wealthier as commodity and energy prices rose.

More importantly, the BRICS nation’s movement away from US-centric financial systems accelerated. What had been a slow, yet deliberate, move away from the dollar has now become a freight train. And other nations want to get on board.

For example:

- China’s holdings of US government debt are now below \$1 trillion and are at 2010 levels. China disgorges more each month.
- Russia has demanded (and is getting) payment for its oil, gas, coal, uranium, etc. in rubles...or gold.

Dollars and Euros are not accepted.

- India, China, and 150 other nations have rejected Russian sanctions.
- According to BRICS President Anand, Saudi Arabia has petitioned to join BRICS. (Thus, Biden's visit to Saudi Arabia -- the fist-bump meeting-- in July where he was rebuffed.) If the Saudis join, it portends the end of the petro-dollar system.
- Turkey, Egypt, Iran & Argentina have also asked to join BRICS...and Turkey is a NATO country!

Circling back to BLUF.

There are always challenges to empire. And, yes, America is an empire. Rome withstood 11 challengers, and remade itself 11 times. Great Britain withstood multiple challengers. The Soviet Union couldn't handle one.

Our Eurasian challengers have massive issues of their own (another missive subject?). And, while we have weaknesses, we have strengths that should not be underestimated.

As investors, however, we must adapt to the obvious. Thus, I am not worried about the summer commodity-slump we endured. The long term trends are with us.

- Global currency structures are changing. Gold (and silver) will be the big beneficiary.
- Debts must be erased either via default or inflation/devaluation.
- War/conflict are inflationary.
- Commodity demand will increase as just-in-case-replaces just-in-time.

As the old Wall Street adage goes, “Be right. Sit tight.”

Signed, Your How-Long-Before-Colleges-Raise-Tuition-By-\$10,000? Financial Advisor,

Greg

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