



Zanetti Monday Missive 2023.11.27

Saudi Arabia and China Just Established a Currency Swap Line

“But the petrodollar system is not about oil, per se. It is about a system of sustaining the worldwide need for a paper currency by linking it to a true global necessity – oil.”

~ Kelly Mitchell (Author of Gold Wars)

Happy Monday Everyone!

Well, it's been a while, but I decided to dust off the ol' keyboard and type out this week's missive.

By the way, so many of you have reached out with compliments on the videos. We didn't know what to expect

when we first delivered that format, but since it seemed to be a hit, we kept it going.

Meanwhile, we have had a few clients say they miss the written word. We get both perspectives. With the videos, it's almost like we're sitting with you at your computer or smartphone, explaining the weeks' topic. With the written word, we get to really dig deep and wrestle with concepts.

The current plan is to keep putting out videos with occasional written missives interspersed.

And with that, let's get down to the nitty gritty for this week.

Bloomberg

US Edition ▾

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Markets

China and Saudi Arabia Sign Currency Swap Worth \$7 Billion

- Three-year swap deal is latest sign of growing bilateral ties
- Mideast countries look to shift non-oil trade away from dollar

Last week, China and Saudi Arabia reached a currency swap agreement worth \$7 Billion. This marks another step in the de-dollarization trend we've seen since the US weaponized the dollar against Russia after the Ukrainian invasion.

While the dollar amount is relatively small, I think this deal is **SYMBOLICALLY** very large.

While China receives most of its oil from Russia, China is currently Saudi Arabia's largest oil buyer.

To put it another way, China consumes A LOT of oil, and

Russia and Saudi Arabia both benefit greatly from China's oil appetite.

In the free market, sellers typically protect their buyers – because they want them to return and buy more of what they're selling.

So as a major buyer, this puts China in a strong position with Russia and Saudi Arabia.

Meanwhile, China has been on a campaign to boost the internationalization of the Chinese Yuan (the Chinese currency) in an attempt to dethrone the dollar.

Last month, it was reported that 25% of Russia's trade with countries other than China was settled with the Yuan.



The screenshot shows the top section of a news article on the Markets Insider website. At the top center is the Markets Insider logo, a black circle with a white dot inside. To the left is the Business Insider logo, consisting of three horizontal lines and the text 'BUSINESS INSIDER'. To the right is a search bar with the placeholder text 'Search markets' and a magnifying glass icon, followed by a blue button labeled 'My Watchlist'. Below the navigation is a breadcrumb trail: 'HOME > NEWS > CURRENCIES'. The main headline is 'Russia is using China's yuan to settle 25% of its trade with the rest of the world, report says' in bold black text. Below the headline is the author's name 'George Glover' and the date 'Sep 28, 2023, 5:38 AM MDT'. On the right side of the article header are four social media sharing icons: a square, Facebook, email, and a share icon.

That's right. Russia is using Chinese Yuan to trade with other countries – not just China.

And a JPMorgan report in September said more and more of the oil trade is taking place with currencies other than the dollar.

This isn't China's first currency swap. The Chinese Central Bank currently maintains 29 active swap agreements with

governments around the world.

The reason this new currency swap agreement is a big deal is because of the Petrodollar.

Yes, you remember the Petrodollar. It was the deal that Henry Kissinger established with Saudi Arabia after President Nixon took the US Dollar off the gold standard. Saudi Arabia would only sell oil with the US dollar – in exchange for military protection.



(Pictured: Henry Kissinger and King Faisal)

The Petrodollar created global demand for the US dollar. Which allowed the United States to control global trade. Oh, and it allowed us to go deeper and deeper into debt.

How did it allow us to do that?

Because countries would lend us money – and they knew that as they got paid back with interest, that money was valuable because it would allow them to purchase oil.

Over the last several years, the economic environment has changed.

For instance, oil is now seen as environmentally unfriendly by politicians in Washington DC (and in New Mexico). Those politicians have been pushing to decrease US demand for oil.

At face level, I'm neutral about oil – and I agree consuming petroleum is not the best thing for the environment.

Problem is, oil is what backs the US dollar. And we continue to wrack up more and more debt that we will have to pay back eventually. But will countries continue to lend us money if they don't need it to buy oil?

What if they can buy their oil with non-US dollars? If they can do that, they can probably buy other necessities with non-US dollars. Then where does that put us as we continue to go into deeper and deeper debt?

Let me answer that for you. Not in a great place.

But where does that put folks like us who own oil? In a strong position.

Oil does not appear to be going anywhere on the world stage. It will continue to be one of the most needed commodities. Meanwhile, we may not know what currency will be the most dominant in the future, but we do know that gold and silver will continue to be “real” money that central banks continue to store up.

Your May-Your-Black-Friday-And-Cyber-Monday-Not-Become-Buyers-Remorse-Tuesday Financial Advisor,

Walt

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