



A RETURN TO THE GOLD STANDARD?

Agenda: Are commodities the new reserve currency?

- Zoltan the Magnificent on Bretton Woods III
- The rise of Chussia
- Captured commodities
- Creation of a Eurorenminbi market and commodity-backed CNY as undollar reserve
- Flaws in the thesis
- Investment implications

Zoltan Outcomes

- Higher inflation
- Higher rates
- Commodity reserves replace FX reserves
- More trade in other currencies
- Lower USD

Zoltan on the four prices of money

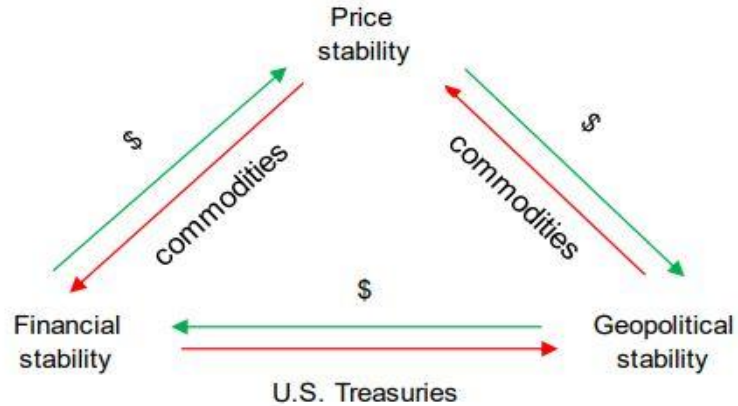
Price	Description	Recent Crisis
Par	price of different types of money, MM funds etc	2008 - money funds broke the buck
Interest	price of future money (including spreads)	2020 - bond relative value trades, drawdown of credit lines pulled funding from good collateral
FX	Price of foreign money	1997 - Asian crisis
Prices	Price of commodities	2022?

Bretton Woods III

- Bretton Woods II is the US dollar reserve system that underpins most cross-border trade transactions with Treasuries as the collateral. This has given rise to US dollar issuance outside of US banks via Eurodollar.
- Bretton Woods III is Chussian commodity collateral underpinning yuan as reserve currency and Eurorenminbi monetary system.
- The latter begets greater price instability in the former.

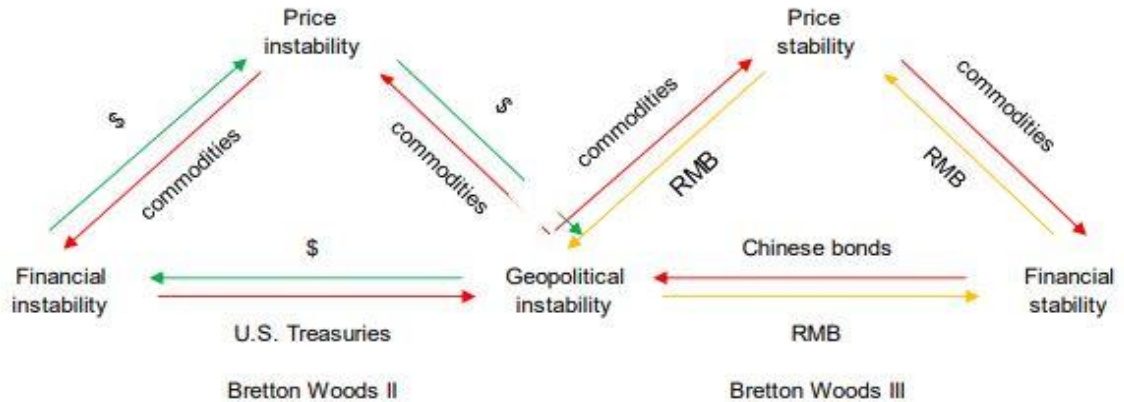
Bretton Woods III

Figure 1: Price Stability Is the Product of Financial Stability and Geopolitical Stability



Bretton Woods III

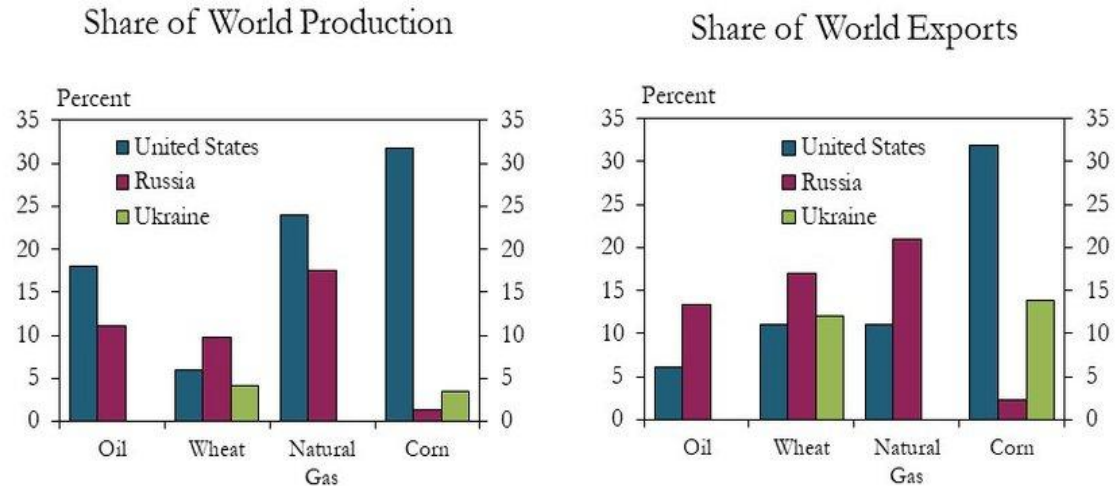
Figure 2: Geopolitical Instability to Beget Price Instability and Financial Instability



Captured commodities

- With the permanent sanctioning of Russia, its commodity reserves are now captured by a small pool of friends, largely China and India.
- China, in particular, will have large volumes of Russia energy, metals and grains in reserve, storage and in supply chains.
- This can be seen as a pool of collateral underpinning the value of the yuan.

Chart 9: Commodity Production and Exports



Source: U.S. Departments of Energy and Agriculture.

Creation of Eurorenminbi market

- Eurodollars are deposits of USD in non-US banks and others
- They comprise tens of trillions of dollars
- A Eurorenminbi market could develop around commodity trading, forex reserve demand (for those seeking to avoid US sanctions) and other transactions
- If it developed, then it could destabilise the US dollar reserve system which depends upon money printing not hard assets for collateral
- The result is inflation for Eurodollar and sound money for Eurorenminbi

Flaws in the thesis

- Commodity trade is small, volatile and highly fungible. Gas example.
- Would China want a Eurorenminbi market to lift the CNY, corrupting its dollar-peg, smashing its competitiveness and turning it into the global debtor of last resort?
- This would require the consumption revolution that the CCP is unwilling to undertake because it releases too much freedom via SOE privatisation.
- Huge CCP regulatory risk.
- Higher cost than competing US-led system.
- China lacks military-industrial interconnections and power.
- Could form around Chinese alliance network which is small and corrupt.
- Maybe it is easier just to cheat the sanctions? VLCC 2m BOE. Costs \$100m



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Viewer question of the week:

Is the US dollar's reign as the reserve currency coming to an end?

Drop your answers in the comments

Investment implications

Zoltan	Nucleus
Higher inflation	One-off, not ongoing.
Higher rates	Back to pre-COVID levels
Commodity reserves replace FX reserves	Displace some, rather than replace
More trade in other currencies	Agree - but USD still basis of trade and largely as a last resort
Lower USD	Is China willing to see the CNY appreciate? We think not.

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