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Russia and China: The Dawning of a New Monetary System?

By Peter Koenig

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The *statement by Chinese Foreign Minister Wang Yi on 22 December 2014: "If the Russian side needs it, we will provide necessary assistance within our capacity" – is a clear testimony that Russia and China have entered into an economic alliance which will be stronger than the incessant ruble and petrol devaluation manipulations by Washington, aided by the European puppets.*

China, leading member of the BRICS, is lining up the bloc of the BRICS and that of the SCO – and their currencies – to support Russia in need. Currency swaps between Russia (ruble) and China (yuan) for an initial US$ 25 billion equivalent have already been implemented, to allow direct transactions between the two countries. Similar swaps are under way between China and Russia with other countries, primarily the BRICS and the SCO (Shanghai Cooperation Organization) members – including the soon to become new members – Iran, Pakistan, India (also a BRICS member) and Mongolia – and possibly in some not too distant future also strategically located NATO member Turkey.

In other words, a large junk of hydrocarbons will as of immediately no longer be traded in US (petro) dollars, but in rubles and yuans and their partners respective local currencies. This will reduce worldwide demand for the petro dollar.

The US is able to maintain pressure on other currencies, currently the ruble, only as long as the petro dollar remains the major world reserve currency. This is the main reason why Washington gets away with a seven-fold indebted dollar (i.e. total outstanding and uncovered commitments are currently more than 7 times higher than the US GDP (US$ 17.6 trillion, 2014 est. – vs. US$ 128 trillion of unmet obligations); making the US worldwide the most indebted country – by far.

Once the demand for the (petro) dollar fades – as hydrocarbons are no longer dealt in dollars – the value of the dollar will decline and at worst may result in hyperinflation in the dollar economies, including those closely linked to the US economy.

In the meantime, Russia has nothing to fear, since the ruble is really not traded anywhere, except sold by western central banks to go along with Washington's criminal scheme of attempting to destroy the Russian economy by flooding an imaginary 'market' with the Russian currency – which they will not achieve.

The Russian central bank is basically not interfering. Why? – Because Russia eventually will need rubles for its new trading alliance – and will buy the rubles back from the flooded market at rock-bottom prices, for artificially boosted dollars and euros and other western linked currencies. In a future Russia-China based monetary system these currencies would at least initially be of secondary or tertiary importance.

Letting the ruble 'collapse' is a superb strategy by the Maestro Chess player, Vladimir Putin. Western investors in Russian shares, mainly but not exclusively of hydrocarbon corporations, dropped also. Western investors became afraid and released their shares on the market – Russia's treasury bought them back at low market prices, increasing their value instantly and – and on top of it Russia reaped the dividends of the newly Russian owned shares. According to a Spiegel Online article, Russia made at least 20 billion dollars' worth of profit with this little gambit alone, plus she repatriated about 30% of foreign-held Russian petroleum shares.

Russia has foreign exchange reserves of close to half a trillion dollars equivalent, more than two times the rubles in circulation. Russia's economy shows a pristine balance sheet with only about 15% debt to GDP, whereas the EU's debt-GDP ratio is close to 100%.

Here comes the link to the US-Saudi manipulated oil price. It just fell to below US$ 50 / barrel, less than half of what it was in June 2014 (US$ 105 – WTI Crude). This criminal act of attempting to destroy sovereign nations' economies is foremost directed at Russia, but is also meant to 'punishes' other non-aligned oil producers, like Venezuela and Iran. 'Aligned' oil producers' suffering might be written off by the empire as collateral damage.

But not only. That's perhaps where Obama miscalculated by shooting his own foot. At these prices domestic unemployment will soar especially in petrol producing states, like Texas and North Dakota. Hardest hit will be Texas. Last week, JPMorgan Chief Economist Michael Feroli, predicted, "We think Texas will, at the least, have a rough 2015 ahead, and is at risk of slipping into a regional recession."

According to Zero Hedge, the US hydrocarbon industry and its nationwide ramification produce almost US$ 1.2 trillion of GDP (7%) and generates more than 9.3 million well-paying permanent jobs throughout the nation. Most affected by the free fall of petrol prices will be the higher cost shale production – the new source that gave the impetus to the oil renaissance 5 years ago. Texas and North Dakota will be the main losers, in terms of job losses and recession. But repercussions will be felt countrywide, as almost all industries are linked to hydrocarbon energy.

Obama may feel that the hike in unemployment may be a small collateral price to pay for ruining other economies around the world. Besides, overall the US economy may profit from lower prices – letting the rich get richer and the poor – well, we know that.

However, there is another element that Obama's and his cronies' shortsightedness did not foresee. The petro-dollar is highly dependent on trading hydrocarbons in dollars – following the 40-year old agreement with the Saudis as head of OPEC in turn for US military security and protection. This alone, the constant demand for US dollars by all nations who needed to trade hydrocarbons, propelled the dollar into a 'permanent' reserve currency – allowing Washington to print dollars at will and to become a financial hegemon.

No longer. These times are gone. Washington's evil attempt to destroy all those who 'are not with us', catalyzed the transition. More than a year ago, Russia started selling her hydrocarbons in rubles and local currencies of her trading partners, like China and other BRICS countries. Today Russia is selling her hydrocarbon in gold – yes, in physical gold. The west did not count with the quick analytical thinking of Mr. Putin's. He will accept artificially inflated dollars and then immediately exchange them for gold, thereby increasing Russia's gold reserves dramatically. Already today, the ruble is backed by gold – a reality the west with its casino currencies is quiet about.

By artificially boosting the value of the dollar against the Euro and lowering the price of gold, the FED and its Wall Street mobsters intend to make the dollar more attractive, say, as the euro which, after all its MSM propagated economic mediocrity, is backed by a much more solid and stable economy than is that of the United States; especially in view of its huge potential to be able to deal with the east – Russia and the Xi Jinping's announced new economic Silk Road, all the way from Frankfurt to Shanghai. – But this would be Europe's call; a sovereign call by a sovereign union and by new leaders with backbone and common sense.

This is still an open decision. Although, it looks like – or should logically appear – that Europe is waking up. Even the most stubborn stooges of Washington are gradually seeing the light. Hungary and Poland, historically not great friends of Russia, are wondering whether they might not be better off with the east, rather than licking Obama's boots. German business is angry about Merkel's obsessiveness with Washington imposed 'sanctions'. They see Russia as the trading partner of the future, as it has been until Washington didn't succeed in Ukraine – today an almost hopeless but still murderous basket case – and wanted to crush Vladimir Putin and his country. Even the spine and brainless Hollande is responding to France's business – 'sanctions' – enough is enough.

Where does that leave Washington? – One move away from checkmate. Washington's criminal attempt to destroy Russia's economy has been largely irrelevant and self-destructive. In the meantime and as Russia's gold reserves increase, Russia has established an alternative SWIFT system. It is currently being tested internally but could go global within a few months – so that any country wanting to avoid the corrupt dollar casino scheme could use the new system for international monetary exchanges.

That combined with ever more countries willing and daring to trade their hydrocarbons in their own currencies or currencies other than the dollar, will further lower demand on the petro-dollar. In addition, under their economic alliance, Russia and China may soon launch a new currency, a basket of currencies that could be joined by other nations ready and willing to abandon the fraudulent western fiat scheme. Immediate candidates would be the other BRICS and the countries of the SCO.

The system could function in the same way as did the Euro at the beginning – as a basket of currencies each valued according to some key indicators of its national economy. – Initially the new monetary system might be gold based – as opposed to the current fiat money with no backing whatsoever. In the long run, however, gold is not a stable or sustainable back-up for any currency. The intrinsic value of gold is only its industrial worth, currently less than 20% of its use. The combined economic output of the nations behind the joint currency – to a lesser degree the numerical growth oriented GDP, but rather social indicators such as public health, standard of education and environmental concerns, capacity of conflict resolution, of living in peace and harmony – might be more indicative of the strength of a sovereign's currency than just gold or a straight GDP.

Such a new monetary system may soon cover 25% to one third of the world economy, thereby becoming fully autonomous. The petro-dollar would further lose its stature as world reserve. Ten years ago 90% of world reserves consisted of dollar-nominated securities. Today that ratio has shrunk to a mere 60%, as currencies like the Yuan is rapidly gaining ground as reserve money, especially in Asia. Even Australia has recently declared it will increase its Yuan holding.

The drop of the dollar as the world's major reserve currency is Washington's biggest nightmare, and has been for the last 15-20 years, when first Iran and then Iraq (Iraq's oil for food program) and Venezuela threatened to sell their hydrocarbon in Euros. At that time this economically strategic move was not so much meant as an affront to the US, but rather a measure of security for their own economies, as worldwide trust in the US dollar was waning then and now.

This is considered one of the major reasons for the 2003 US invasion of Iraq – securing the petro dollar as trading currency – and the ensuing war, to take over all of Iraq's hydrocarbon wells – and privatize them. It was also the key reason for Washington's false flag accusation of Iran's plans for manufacturing nuclear weapons. In the meantime this has been proven umpteen times as a lie, including by the 16 major US intelligent agencies.

Washington's relentless aggression on Russia is of course part of the PNAC (Plan for a New American Century), to achieve full world hegemony, but at the same time Washington is desperate not to lose its dollar supremacy. The US is in a terminal quagmire. There is no way out. Washington is acting like a wild beast in its last throbs of live. The empire may be capable of destroying the world – including itself – just so that nobody may survive outside of the self-appointed Masters of the Universe.

The emergence of a new 'eastern', dollar detached monetary scheme is therefore becoming increasingly urgent. One might ask, why hasn't it happened before?

The reasons' might be manifold. The key players' – Russia and China – banking and exchange infrastructure might not have been ready. But more likely, to reduce to the extent possible the collateral economic damage a new monetary system may entail to the rest of the world. After all, fair trading among sovereign nations is a noble objective for global peace.