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Coronavirus Not the Culprit of Financial Crisis, but the Catalyst: US Dollar Loses Ground

The world is currently facing historical changes that will significantly affect the role and status of the US dollar for the foreseeable future. The financial system, which has long been dominated by the US dollar, will inevitably give way to a new model. For a month now, stock markets around the world have been experiencing the worst days in their history, and the largest central banks are printing trillions of money without hindrance to "save" the situation, but the panic and collapse in the markets continue. In a world where humanity is forced to accept at face value what it is shown and told on television, for lack of an alternative, busy buying US dollars and a toilet paper. And while the whole world is trying to find a solution to coronavirus, it seems that, behind the scenes, there are processes that will affect almost every one of us. Given that the US dollar is the reserve currency of the world and most financial instruments are traded primarily in this currency, we will focus on the US economy and the future of the dollar.

The growth of the US stock market, which has proved to be one of the longest in history, was interrupted on February 20, 2020, due to the outbreak of coronavirus. This record-breaking growth was accompanied by sluggish GDP growth and rapid accumulation of both corporate and US Government debt. From 2008 to the present, US Government debt has grown 2.2 fold to \$22.7 trillion, while US GDP grew by 21%. Just at the beginning of 2020, the total capitalization of the US stock market was \$34 trillion, while the figure for all countries of the world was \$86 trillion. Since February 20, the US stock market alone has lost about 35% in a matter of days: assets worth \$12 trillion have disappeared into thin air. While the US stock market collapsed by 57% in a year and a half during the 2007 to 2008 crisis, it has already lost 35% since the beginning of the 2020 crisis, all in less than 1 month. The collapse in the stock markets continued even though the US Federal Reserve cut its key rate from 1.5% to 0% during one week and launched a quantitative easing program (purchases of government debt and financial assets) in unprecedented volumes, in addition to trillion-dollar repo operations (short-term loans secured by US Treasury bonds) launched since the end of 2019. In parallel with the above, the US authorities are preparing a package of measures to stimulate the economy, amounting to more than \$1 trillion.

But what made it possible for the US dollar, its stock markets, and economy to become the world's leading ones? Over the past five decades, the US dollar, or petrodollar, as the world's main reserve currency has been supported by demand for oil. Before 1971, the US dollar was backed by gold, but the era of the gold standard ended when the US refused to exchange its currency for gold. The reason for this was that the US government had issued a large amount of money not backed by gold. To preserve the status of the US dollar as the reserve currency of the world, back in 1971, US President Richard Nixon signed an agreement with Saudi Arabia that all energy contracts would be denominated in US dollars. The petrodollar is the standard on which the strength of the US dollar has been based for the last

50 years. At the current consumption of 36 billion barrels of oil per year, at an average historical price of 55-60 US dollars per barrel, the turnover in this industry is more than \$2 trillion. Oil exporters and importers are forced to conduct trillions of purchase and sale transactions in US dollars. This creates a constant demand for the US currency and, naturally, stimulates trade operations around the world with the US. A significant part of these dollars is, one way or another, inevitably invested by the main trading partners into the US economy through the stock market or the national debt. By 2008, the United States had accumulated so much debt that it became a debtor nation. After the 2008 crisis, however, the main US trading partners changed their approach by reducing investments in the US national debt. Today, out of \$22.7 trillion US national debt nearly \$16 trillion is held by pension funds, the Federal Reserve Bank, and private investors in the United States. In fact, the US itself is the major holder and financier of its own national debt. In the long term, this trend could not have been in favor of the US dollar. Some countries began actively to accumulate physical reserves of gold: this topic was discussed in more detail in an article dated March 10, 2020, titled "**Forthcoming Reset of Monetary System will Propel Gold to Record Levels**". Between 2008 and 2011, the price of gold almost tripled, passing the \$1,900 mark per Troy ounce. This was the first wake-up call for the US dollar.

Along with a decrease in interest in the US national debt, it seems that the petrodollar has begun to lose its position. The 60% slump in the price of oil since the beginning of the year was also preceded by the interesting fact that, back on December 11, 2019, Saudi Aramco, the largest state oil company in the world, held an initial public offering for the sale of the first tranche of its shares. The Saudi Government has been trying for many years to launch the process of privatization of Saudi Aramco, but each time the US has opposed it. In fact, the sale of Saudi Aramco could be the reason for the agreement, under which the US dollar was backed by oil, to lose its validity. This fact in itself was already the next red flag that significant changes are expected in the status of the petrodollar. Thus, excessive debt growth, deteriorating economic indicators, sluggish interest in US national debt, and the start of the Saudi Aramco privatization leave no doubt that the petrodollar era is coming to its logical end. The petrodollar issue was addressed in the article "**Venezuela, Iran and the Future of the Petrodollar**" dated February 25, 2020.

But why is coronavirus being called the culprit of the beginning of the 2020 economic crisis? Is this indeed the case? The coronavirus was the catalyst for the crisis, not the culprit. In fact, the US economy has been teetering on the edge in recent years, artificially holding on by raising debt in record volumes. A recession in the US economy was long overdue with or without a coronavirus. In other words, coronavirus could not have harmed the world economy on such a scale and in such a short time if it had been in healthy condition. I am not trying to downplay the role and danger of coronavirus, but it is surprising that the world's leading western media diligently sow panic among the public, constantly updating reports on the number of victims. After all, the multi-billion population of China defeated coronavirus not through panic, but through strict measures of quarantine, control, and discipline. We do not yet know how dangerous coronavirus will prove and how much damage it will eventually cause to humanity, but we hope that an effective response will be found soon.

While the fight to save humanity from a viral pandemic is underway, a reboot of the world's existing financial system is being conducted behind the scenes. However, how to reset the dollar system so that

the public does not oppose? One way or another, the US dollar remains the most widespread currency. In this situation, the outbreak of a virus fits the bill as the culprit for all economic troubles. After all, the hegemon that is the United States is unable to recognize the fact that it was itself the cause of the global crisis once again; this will go down in history and appear in school textbooks for many years to come. Moreover, the US needs to emerge from this reset with minimal losses, to somehow save face and its influence in the world. Decades of mismanagement, debt abuse, trillion-dollar spending on military campaigns and economic missteps can be easily blamed on coronavirus. Humanity will eventually overcome the virus, but the world will no longer be the same.

And while hundreds of millions of people are forced to sit at home in front of their TV sets in fear, consumed by coronavirus headlines, the global financial system is being rebooted. It is noteworthy that the historic collapse in global stock markets, worth tens of trillions, and unprecedented measures applied by central banks to “stimulate” the world economy, has remained behind the scenes. A completely distracted public, sitting at home, listlessly observing as central banks destroy the world order and establish a new one. National governments, unable to counter coronavirus and the unpunished actions of central banks with anything effective, have directed all their efforts to protect their citizens.

But what is a reset and how will it end? To keep the public in the dark while the reset process is underway, central banks are issuing trillions of loans to governments while the world's media is full of headlines about coronavirus victims. In turn, governments pass this money (created out of nothing) to their own corporations and citizens. In fact, the leading central banks are implementing their plans using the governments, while remaining firmly behind the scenes. It seems that the global economic crisis and the record collapse in stock markets have passed almost unnoticed. We can assume that the result of the economic crisis will be felt most strongly in the United States since the founder of the existing dollar system is the Federal Reserve Bank of America, which is neither "reserve" nor "federal". This is a private joint-stock company owned by American banks and companies, not the government. And the main principle of private companies is to maximize shareholder wealth. What is happening in the US economy now is not even a Sunday-school picnic. To pull the economy out of the crisis, the US Government will have to pour trillions of dollars into the system to support its corporations and citizens, and a number of large private companies will be nationalized. But who will finance the US budget deficit if its economy is in a state of systemic economic crisis? The answer is obvious: the Federal Reserve Bank of America. The Federal Reserve will print dollars at an unprecedented rate to avoid the United States entering default. The record budget deficit, which stood at just over \$1 trillion in 2019, cannot even compare to what we yet to see. Naturally, the price of desperate measures will be hyperinflation, devaluation of the US dollar, and economic depression. Disruption of the established global supply chain and reduced production due to coronavirus will throw fuel to the fire, adding to the inflationary pressure.

With the onset of the crisis, investors instinctively sell shares in the stock market and move to US Treasury bonds as soon as possible. The US Treasury bond market of about \$23 trillion has historically been the most reliable "haven" for investors, especially in times of crisis. This time, the US Treasury bond market will most likely not to be a "safe haven", but a trap for investors. While the panic is only growing, it can be assumed that strong market players (major banks and funds) are in a hurry to sell US

Treasury bonds at record high prices to the public, who remain in the dark. As soon as these bonds (US Government debt) are fully transferred from strong hands to weak ones, the "grand finale" of the financial reboot will come. When the public wakes up from the coronavirus shock, it will go into a financial and psychological shock and the US economy will already be in deep crisis. Problems in the US economy that have been masked for years by record debt raising will come to the surface. Realizing that once again it has been duped, the public will begin a rapid sale of US Treasury bonds in an attempt to escape the trap into which they have driven themselves. The result of an unprecedented sell-off will be a sharp drop in the value of US Treasury bonds, which will inevitably lead to a collapse of the US dollar. The collapse of the base currency, represented by the US dollar, will be accompanied by a depreciation of other unsecured paper currencies (fiat money). As a result, the price of gold will soar to record levels. The currencies of countries that have a strong economy, a low level of public debt, and adequate reserves of physical gold will retain their value relatively well. After that, the US dollar will irreversibly lose its former credibility and status as the world's reserve currency. Large oil-exporting countries will sell oil in their own currencies while smaller ones will most likely use the currencies of regional powers. In the end, the leading countries of the world will return to the gold standard, but on the basis of a basket of currencies instead of a single world currency, to avoid systemic crises in the future. The new world currency in a multipolar world will be backed by gold, which will prevent countries from abusing debt and waging endless wars.

This article is not investment advice, but a possible scenario for the development of events. Every investor should consult with a professional or conduct its own analysis before making an investment.

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