



Zanetti Monday Missive 2022.04.04 Russian Gold

“Truth, like gold, is to be obtained not by its growth, but by washing away from it all that is not gold.”

~ Leo Tolstoy

Russia did something odd... or rather interesting this past week.

No, I'm not talking about further war crimes.

No, I'm not talking about withdrawing from Kiev.

And, no, I'm not talking about flanking the eastern front.

Yes, all of those things drew my attention, but what really caught my attention this past week, in terms of finance, was that Russia resumed it's gold purchases from local banks.

Moreover, it set a fixed price on the precious metal.

Hmmmm...

Let me try to unwrap this one.

For the past several years, Russia has been hoarding gold in its central banks. Buying more than ever before. They have also entertained ideas with China on sidestepping the US Dollar and the Euro for international trade.

As you all know, with the invasion of Ukraine, the West has sanctioned Russia, preventing dollars from going to many of their banks through the FAST system. Russia has much of what Europe (and the rest of the world) wants, namely oil, gas, wheat, and loads of other commodities.

Europe wants that stuff. Russia wants to sell that stuff. But neither can get what they want.

It seems to be a war of financial attrition being waged, while the physical war rages in Ukraine. And the Russian currency (the Ruble) plummeted (but has now recovered).

As the Ruble fell, the Russian people started buying gold to protect their wealth. The demand for gold was so high that the Russian government ceased purchasing gold. As the ruble recovered, the demand for gold slowed, so now the government has resumed its gold purchases.

So, why is gold so central in the Russia/Ukraine saga right now?

To combat the financial stranglehold the West put on Russia, two weeks ago Russia announced that “unfriendly” countries could be required to pay for Russian gas in rubles or... and here it is... gold.

This was announced by Pavel Zavalny, the chair of Russia’s Committee on Energy. ““If they want to buy, let them pay either in hard currency, and this is gold for us, or pay as it is convenient for us; this is the national currency,” Zavalny said.

But now, as the Russian central bank resumes its gold purchasing, it has announced a fixed price until June 30. This is effectively tying the ruble to gold. Yes, a gold backed Ruble.

This reminds many analysts of what the U.S. did between 1879 and 1914. Gold was then worth \$21 (U.S.). Then in the 1930s, gold ownership was banned and the US raised the value of dollar based gold to \$35 per ounce.

This remained until President Nixon scrapped the gold standard. Since then, gold has been a store of value but decoupled from the U.S. dollar.

It appears Russia might be trying to peg gold back to its own currency.

There’s definitely a precedent for this. Setting a fixed price for rubles per gram of gold seems to be the intention. If they were able to pull this off, it would make the ruble much less volatile. It would also allow Russia to seek funding and manage its central bank financing outside of the U.S. dollar system.

In response to this move, last week the U.S. Treasury banned all gold transactions with Russia's central bank. This additional sanction could be effective, in terms of trying to further scare other partners away from doing transactions with Russia in gold. But gold can be tricky. And it can't be easily tracked. To say the least, the global gold market can be rather opaque – so this type of sanction will be much more difficult to enforce.

So, once again, as it has so many times throughout history, gold is relevant in the power of nations.

Your Chris-Rock-Now-Has-Fresh-Prints-On-His-Cheek Financial Advisor,

Walt

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