



Zanetti Monday Missive 2023.08.28

BRICS Dud or Slow Burn

“Nothing is more deceitful than the appearance of humility. It is often only carelessness of opinion and sometimes an indirect boast.”

~ Jane Austen

Happy Monday Everyone!

The BRICS annual summit was held this past week in South Africa. If you’ve been reading our missives for a while, you’ll know why we were watching this.

First, let’s review what BRICS is. It’s the informal/formal alliance between Brazil, Russia, India, China, and South Africa: BRICS.

These 5 nations hold 40% of the global population and two of the five have what many believe to be the biggest competitors to the US economy in the future: China and India – primarily because of the size of their population driving a developing economy.

These countries have been in talks over the years about creating a currency that would act as an alternative to the US dollar in international trade.

Those talks were sped up when Russia invaded Ukraine and the US weaponized the dollar – forbidding countries to trade with Russia using the dollar.

Then, earlier this year a Russian diplomat in Kenya tweeted that the BRICS group was going to roll out their new currency which would be backed by gold – and it would be rolled out at this summer's BRICS summit.

As you might suspect, we've been watching this closely. So what did we learn? What was the outcome of the summit?

Well, first, let's start by saying BRICS did NOT roll out a new currency.

There was more hemming and hawing and discussions about collaboration between the BRICS countries. There was also a vote to allow a few more countries join the Bloc.

So, at first glance, we thought it was basically a dud. More of

the same: a lot of talk, but not much action.

Then we started looking more closely at what happened and it looks like... well, it wasn't "nothing."

First, the alliance grew. A few key players were voted IN to BRICS. Those countries were:

- Saudi Arabia
- Iran
- UAE (United Arab Emirates)
- Argentina
- Egypt
- Ethiopia

You'll remember when we discussed before that China had brokered the first peace agreement between Iran and Saudi Arabia in almost a decade. And the US was not at that closed door agreement. Was that in an effort to pave the way for this dual member addition? We don't think it was a coincidence.

Oil.

With these additions to BRICS, the BRICS bloc now produced almost 50% of the world's oil. Venezuela, Kazakhstan, and Algeria are now asking to join BRICS. If they join, BRICS will produce 90% of the world's oil.

I think it's safe to say, control of oil (which has backed the US dollar through the Petro Dollar deal – made between Saudi

Arabia and Henry Kissinger back in 1973) is slowly slipping out of our grasp.

I think the control of oil is fairly straightforward to see, but there's a little more subtle outcome – and this involves trade routes.

Let's look at a map...



The new additions build a trade bridge from north to south – pole to pole. Russia > Middle East > Egypt > Ethiopia > South Africa. They'll just need to fill in the gaps to formalize the line.

Then, with Argentina joining their ranks, this prevents a complete North/South American similar trade line.

So, given all of this, what do we make of this?

First, Israel has got to be very nervous – they are now surrounded by a loosely unified coalition. And is the US the strong ally they've historically trusted to have their back?

That's got to be in the minds of Israeli leaders.



Second, the BRICS currency was apparently not ready for Prime Time. The Russian tweet may have been misdirection.

In the meantime, the BRICS group appears to be solidifying relationships.

Last month, Saudi Arabia agreed to sell 1 million barrels of oil to India in Rupees. The largest single purchase using a non US dollar currency.

Third, it appears that Saudi Arabia and China will be divesting themselves of US debt. Who will buy it now? The Fed will most likely have to keep rates high to attract buyers. If there are still fewer buyers, the US will have to buy even more of our own debt. That's the equivalent of printing money – yes, the precursor to hyperinflation.

Either way, it appears inflation based on a declining dollar is certain.

Finally, it appears BRICS is building itself up to directly confront western economic power. And, with Russia now the chair of the BRICS group (the chairmanship rotates every year), we don't expect it to slow down under Putin's leadership.

Your I-Went-To-The-Movies-And-The-Line-For-Barbie-Was-So-Long-It-Was-Quite-The-Barbie-Queue Financial Advisor,

Walt

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