Are We Nearing a Global Realignment?

Several important economic factors appear to be moving unfavorably for the US at the moment, both domestically and abroad, and there are increasing indications that America may not be able to orchestrate a global resurgence on its own. Despite encouraging signs of domestic recovery, fundamental structural problems persist in the US economy. The National Debt now exceeds $18 Trillion, the Department of Agriculture confirms that well over 46 million Americans continue on food stamps, and key voices have stepped forward asking for a deeper look at several U.S. economic statistics. Last week long-time Gallup CEO Jim Clinton very boldly drew attention to the government's recent 5.6% unemployment numbers, questioning them as overly optimistic interpretations of data, and noting on CNBC that the percentage of Americans holding full-time jobs is now the lowest in 60 years. Former US Asst. Treasury Secretary Dr. Paul Craig Roberts added more to the unemployment conversation recently when he calculated that the true US jobless rate may reach nearly 23% after adding back several categories of workers who have now given up looking for work. Several other media sources including CBS Radio have reported that as many as a record 92 million Americans may now be now functionally unemployed.

Adding to the domestic uncertainty, more pressing issues loom for the US internationally. While the dollar is currently surging in value as a 'safe haven' investment, America faces more than the usual normal number of unsettling issues abroad. From China to Russia to India to Ukraine to Switzerland to Greece to Iran to Saudi Arabia and the Middle East, the US may be facing potential developments with both allies and adversaries which could displace the US from its lead role in international finance. The dollar has ruled supreme internationally as the global-standard currency for settlement of most international payments since the 1944 Bretton Woods global economic summit. But the handwriting is on the wall for a change ahead, especially when considering the emergence of Russia, India, China and the other BRICS bloc of countries. We should make no mistake about it, the BRICS countries and many other long-time allies and friends no longer view the US as unwaveringly as they once did. IMF Managing Director Christine Lagarde has since 2012 noted several emerging 'tectonic shifts' in global finance. Much groundwork has been laid in recent years by the BRICS toward a 'tectonic' realignment of the global currency markets and to de-emphasize the dollar as the global currency of choice, especially including settlements for oil. The US has steadily resisted this shift for decades, because allowing the world to bypass the dollar could have profound implications for US influence in the world, as well as in the daily lives of Americans as the cost of imported goods rises.

What are these emerging 'tectonic' developments and where are the current focal points which might result in a global currency realignment and a shift in the dollar's role? Here are a few of the more notable global shifts as the US might see them:

- China quietly surpassed the US in 2014 as the world's largest economy (per the IMF) and it has steadily expanded its global trade plus the influence of the yuan via scores of currency 'swaps' and bi-lateral trade arrangements with virtually every major country & foreign central bank, plus all major US allies. The possible displacement of the dollar as the sole global reserve currency could reduce or even eliminate the huge advantage the US currently holds in funding its debt and deficits through foreign markets. While the dollar still dominates global trade, the Chinese have publicly stated their intention to have the yuan adopted as at least an 'alternate' reserve currency to replace and/or compete with the dollar. That time appears now to be approaching even faster.

- Russia is now the world's largest energy exporting nation. In 2014 Russia and China signed over $400 Billion in long-term energy and trade pacts outside the dollar, and China has recently signaled that it will backstop Russia if it needs help in the face of US-led economic sanctions regarding Ukraine. For decades, this kind of an economic alliance of China and Russia has been considered almost unthinkable for the US, and numerous observers including Henry Kissinger have characterized the emerging Russia-China alliance as one of the most significant global geopolitical shifts in the past 150 years.
- The US-dominated IMF and World Bank have provided powerful support for US foreign policy for decades, and yet the US has continued to withhold both new funding and support for IMF reforms to accommodate the BRICS and others. In July 2014 the BRICS bloc established its own $100 Billion Development Bank(s) and other similar institutions to compete with the IMF and World Bank, and to facilitate non-dollar finance and influence.
- Russia and the other BRICS nations have also been working steadily in recent years to establish secure communications and wire-transfer networks outside of the US-dominated and Belgian-based SWIFT system, in order to facilitate banking and trade outside US influence. The new system is said to have begun its first operational testing in late 2014, and full operations are expected in 2015.
- US-led economic sanctions against Russia over Ukraine have produced a military and economic cold/hot war which threatens to deteriorate further, and with far-reaching trade implications. Europeans have so far generally chosen to follow the US lead, but they have expressed reluctance to do so because: 1) Europe relies on Russia for up to 25% of its own gas supplies, and 2) the US-led sanctions often hurt European countries the most as Russia's regional trade partners. Longtime US ally Germany remains somewhat 'in the middle' as the economic powerhouse of Europe, and yet some observers now believe German Chancellor Angela Merkel, who speaks fluent Russian herself, many now be shifting her attention toward the emerging Russia-China bloc. Highly-influential US-based Foreign Affairs magazine has highlighted this issue in a key essay in its January-February 2015 issue: '*Leaving the West Behind: Germany Looks East.*'
- Following President Obama's 'Asia Re-Balancing' visit to India in late January, the Chinese followed with a February 2 summit in Beijing of the foreign ministers of Russia, India and China to address India's bid to join the Russia-China security bloc. This follows India's announcement in December 2014 of its plans to lease a second Russian nuclear submarine. There is additional noteworthy data from the World Gold Council and various central banks and sources indicating that Russia, India and China (the 'RICs') have each steadily continued to amass gold reserves in recent years. Reuters reports that two-thirds of global gold consumption now

comes from Asia, and newly-launched gold exchanges in Shanghai, Singapore, Hong Kong and Dubai beginning in late 2014 may serve to shift dominance in these markets which is currently held by London and New York.

- Iran announced in January 2015, after years of threats, that it has now dropped the dollar for payments of its oil exports. In decades past, Iran's many threats have often been met by the deployment of yet another US aircraft carrier to the Persian Gulf. Yet now, with the winds of broader global geopolitical change stirring, and given the added complexity of ongoing negotiations with Iran on nuclear issues, a real oil pricing currency shift may be at hand. The US has long been concerned that Iran might be the 'first domino' of major Middle East oil-exporting countries to drop the dollar, and related Arab state defections from the dollar remain a possibility.
- Saudi Arabia and Yemen experienced important regime changes in early 2015 which could similarly impact US influence in the Middle East. The long-festering wars and unrest in Iraq, Egypt, Libya, Syria and Lebanon also pose renewed potential challenges for the dollar and US interests in the region.
- Greece and its very significant $300 Billion external debt, long the outliers in the 20-nation euro bloc, might present Russia and its BRICS allies with a stunning non-NATO geopolitical opportunity in 2015 by offering the BRICS a stronger strategic and financial foothold in southern Europe. This emerging scene bears watching very closely. As Stratfor geopolitical strategist George Friedman and many others have long noted, European leaders (and more recently the US) have shared a common interest for centuries in keeping huge and mineral-rich Russia bottled up geographically and with limited access to warm-water ports. German-led euro austerity measures against Greece thus may need to be re-thought as the long-suffering Greeks consider their emerging opportunity to switch to a new economic sponsor and/or currency. Greece is a small country but it occupies a unique strategic position at the crossroads of Europe, Asia and the Middle East. It could thus also play a major role in the emergence of new roles for the dollar, euro, and yuan, and former US Fed Chairman Alan Greenspan recently furthered the discussion by predicting that Greece would ultimately leave the euro bloc.
- Switzerland's January 2015 decoupling of the Swiss franc from the euro has underscored emerging problems in the euro currency, and spotlighting the reluctance of euro powerhouse Germany to arrange additional bailouts for Greece, as well as for the rapidly-weakening economies of Italy, Spain and Portugal.

Mathematically, the odds are very strong that a global realignment of the dollar, euro and yuan and their relative weighting and exchange rates will occur, and possibly soon. Why? Because despite the brave declarations of economic recovery from global leaders, each of them has very capable advisors who understand the reality that the entire planet is daily sinking deeper into depression. The Baltic Dry Index, long noted as a reliable surrogate statistic for the volume of global shipping trade, has reached an all-time low in February 2015. It is increasingly possible that the passage of time plus continued money printing from central banks may no longer produce reliable global economic growth.

With the vaunted Chinese economy weakening to its slowest growth rate in 24 years, with Japan (the world's #3 economy) now shrinking at 1.2% per year, with Russia now contracting 10% or more under new economic sanctions, with Europe in steep recession, and with oil and many global commodity prices now in free-fall, the allegedly-recovering US economy and its targeted 3.5% growth rate for 2015 are being touted yet again as the growth engine for the world. As we look at the increasingly-frequent negative revisions from the BLS, Commerce Department and others regarding broad economic activity, employment rates, durable goods orders, and housing, the repeat image of the 'US as Economic Locomotive to the World' might be a little more far-fetched this time around. The problem is global, and the US is huffing and puffing but maybe no longer powerful enough to pull a growth train of debt-laden railcars, with some of them now moving in reverse. As Canadian Finance Minister Joe Oliver recently noted, the US ability to carry the world economy "is simply not sustainable."

Global growth has always been the answer to the debt problem, but the idea of more and more money-printing bailouts to 'buy time' for the world economy to heal may have been an overworked solution for many years now. As former PIMCO Co-Founder Bill Gross (now with Janus Capital) wrote in his January Investment Outlook:

> "The power of additional and cheaper credit to add to economic growth and financial asset bull markets has been underappreciated by investors since 1981…There comes a time, however, when zero-based, and in some cases negative yields, fail to generate sufficient economic growth… The good times are over….The time for risk-taking has passed."

The European Union Times recently quoted the McKinsey Global Infrastructure Report in noting that global debt has grown by 40% from $142 Trillion in 2007 to $199 Trillion in 2014. But global economic growth has not kept pace, indicating that the higher debt levels will be even harder to service. While additional trillions in bailouts, global central bank money-printing and QE announcements still offer very welcome news headlines to markets in the short term, perhaps the smart money now acknowledges that target 3.5% US growth forecasts may not come even close to providing the 'escape velocity' to overcome this added debt load, or to pull the global economy out of the looming debt problems and core mathematics.

Can lower crude oil prices provide the missing global growth stimulus? Undoubtedly, the broad stimulus of the recent 60% decline in global crude prices over the last 8 months will provide both relief and a small boost to the common man at the gas pump, but the losers on the other side of the oil price equation are powerful companies, banks and countries which have a tighter economic nexus. Their concentrated losses could have a more impactful and disproportionately large effect on global markets, especially in the financial derivatives area, as compared to the more widely-scattered gains of the average man in the street. We will see. The quadrillion dollar derivatives market has yet to be fully understood by many.

But lastly, what again about the recent ‘good news’ of the steadily surging dollar? There seems to be little real relief there either, as the other side of the stronger dollar is that it makes precious US exports more expensive and thus less competitive in global markets. As Caterpillar CEO Doug Oberhelman carefully noted last week: "The rising dollar will not be good for U.S. manufacturing or the U.S. economy." As the G-20 meets this week in Turkey, perhaps the world will look to other economic engines and other solutions.

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