

Forget Russia Dumping U.S. Treasuries ... Here's the REAL Economic Threat

Russia threatened to [dump its U.S. treasuries](#) if America imposed sanctions regarding Russia's action in the Crimea.

Zero Hedge argues that Russia has [already done so](#).

But veteran investor Jim Sinclair argues that Russia has a *much scarier* financial attack which Russia can use against the U.S.

Specifically, Sinclair says that if Russia accepts payment for oil and gas in any currency other than the dollar – whether it's gold, the Euro, the Ruble, the Rupee, or anything else – then the U.S. petrodollar system will collapse:

Indeed, one of the main pillars for U.S. power is the petrodollar, and the U.S. is [desperate for the dollar to maintain](#) reserve status. Some wise commentators have [argued](#) that recent U.S. wars have really been about [keeping the rest of the world on the petrodollar standard](#).

The theory is that – after Nixon took the U.S. off the gold standard, which had made the dollar the world's reserve currency – America salvaged that role by adopting the petrodollar. Specifically, the U.S. and Saudi Arabia agreed that all oil and gas would be priced in dollars, so the rest of the world had to use dollars for most transactions.

But [Reuters](#) notes that Russia may be mere months away from signing a bilateral trade deal with China, where China would buy huge quantities of Russian oil and gas.

Zero Hedge [argues](#):

Add bilateral trade denominated in either Rubles or Renminbi (or [gold](#)), add Iran, Iraq, India, and soon the Saudis (China's largest foreign source of crude, whose crown prince also [happened to meet president Xi Jinping last week](#) to expand trade further) and wave goodbye to the petrodollar.

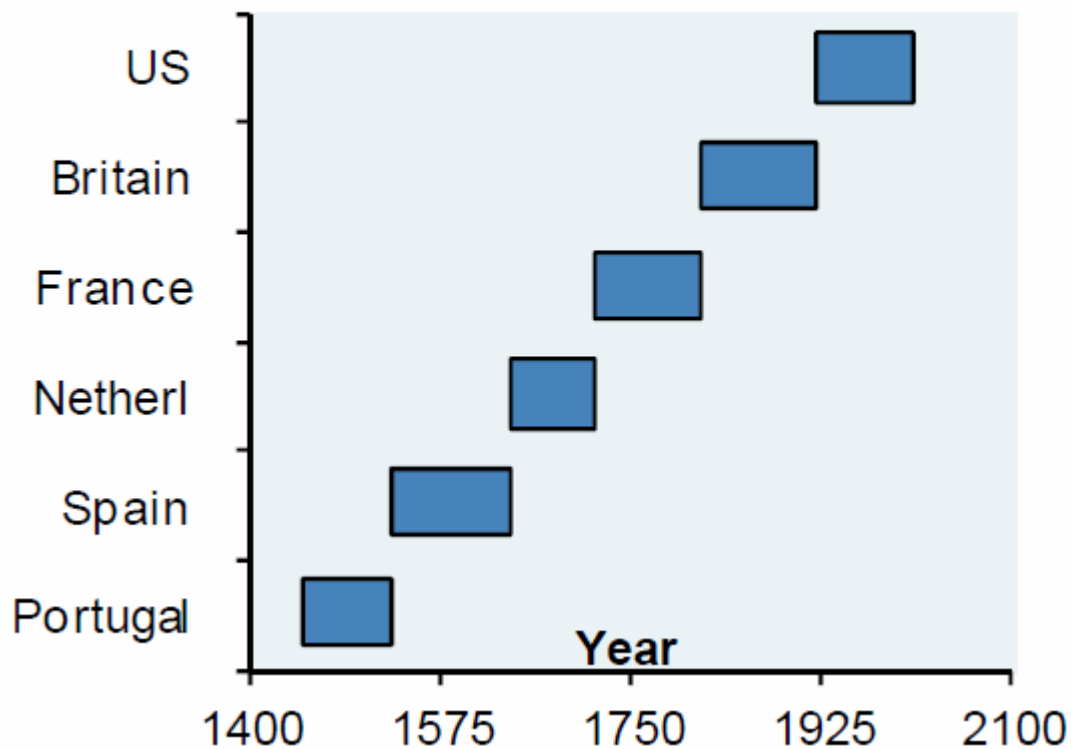
As we [noted](#) last year:

The average life expectancy for a fiat currency is [less than 40 years](#).

But what about "reserve currencies", like the U.S. dollar?

JP Morgan [noted](#) last year that "reserve currencies" have a limited shelf-life:

(c37) Reserve currency status does not last forever



As the table shows, U.S. reserve status has already lasted as long as Portugal and the Netherland's reigns. It won't happen tomorrow, or next week ... but the end of the dollar's rein is coming nonetheless, and China and many other countries are calling for a new reserve currency.

Remember, China is entering into [more](#) and [more](#) major deals with other countries to settle trades in Yuans, instead of dollars. This [includes](#) the European Union (the [world's largest economy](#)) [and also [Russia](#)].

And China is quietly becoming a [gold superpower](#)...

Given that China has surpassed the U.S. as the world's largest

importer of oil, Saudi Arabia is [moving away from the U.S. ... and towards China](#). (Some even argue that the world will switch from the petrodollar to the [petroYUAN](#). We're not convinced that will happen.)

In any event, a switch to pricing petroleum in anything other than dollars exclusively – whether a single alternative currency, gold, or even a mix of currencies or commodities – would spell the end of the dollar as the world's reserve currency.

For that reason, Sinclair – no fan of either Russia or Putin – urges American leaders to back away from an economic confrontation with Russia, arguing that the U.S. would be the loser.

Petrodollar Alert: Putin Prepares To Announce “Holy Grail” Gas Deal With China

If it was the intent of the West to bring Russia and China together – one a natural resource (if “somewhat” corrupt) superpower and the other a fixed capital / labor output (if “somewhat” capital misallocating and credit bubbleicious) powerhouse – in the process marginalizing the dollar and encouraging Ruble and Renminbi bilateral trade, then things are surely “going according to plan.”

For now there have been no major developments as a result of the shift in the geopolitical axis that has seen global US influence, away from the Group of 7 (most insolvent nations) of course, decline precipitously in the aftermath of the

bungled Syrian intervention attempt and the bloodless Russian annexation of Crimea, but that will soon change. Because while the west is focused on day to day developments in Ukraine, and how to halt Russian expansion through appeasement (hardly a winning tactic as events in the 1930s demonstrated), Russia is once again thinking 3 steps ahead... and quite a few steps east.

While Europe is furiously scrambling to find alternative sources of energy should Gazprom pull the plug on natgas exports to Germany and Europe (the imminent surge in Ukraine gas prices by 40% is probably the best indication of what the outcome would be), **Russia is preparing the announcement of the "Holy Grail" energy deal with none other than China, a move which would send geopolitical shockwaves around the world and bind the two nations in a commodity-backed axis.** One which, as some especially on these pages, have suggested would lay the groundwork for a new joint, commodity-backed reserve currency that bypasses the dollar, something which Russia implied moments ago when its finance minister Siluanov said that Russia may regain from foreign borrowing this year. Translated: bypass western purchases of Russian debt, funded by Chinese purchases of US Treasuries, and go straight to the source.

Here is what will likely happen next, as [explained by Reuters](#):

Igor Sechin gathered media in Tokyo the next day to warn Western governments that more sanctions over Moscow's seizure of the Black Sea peninsula from Ukraine would be counter-productive.

*The underlying message from the head of Russia's biggest oil company, Rosneft, was clear: **If Europe and the United States isolate Russia, Moscow will look East for new business, energy deals, military contracts and political alliances.***

The Holy Grail for Moscow is a natural gas supply deal with China that is apparently now close after years of negotiations. If it can be signed when Putin visits China in May, he will be able to hold it up to show that global power has shifted eastwards and he does not need the West.

More details on the revelation of said "Holy Grail":

State-owned Russian gas firm Gazprom hopes to pump 38 billion cubic meters (bcm) of natural gas per year to China from 2018 via the first pipeline between the world's largest producer of conventional gas to the largest consumer.

"May is in our plans," a Gazprom spokesman said, when asked about the timing of an agreement. A company source said: "It would be logical to expect the deal during Putin's visit to China."

Summarizing what should be and is painfully obvious to all, but apparently to the White House, which keeps prodding at Russia, is the following:

"The worse Russia's relations are with the West, the closer Russia will want to be to China. If China supports you, no one can say you're isolated," said Vasily Kashin, a China expert at the Analysis of Strategies and Technologies (CAST) think tank.

Bingo. And now add bilateral trade denominated in either Rubles or Renminbi (or [gold](#)), add Iran, Iraq, India, and soon the Saudis (China's largest foreign source of crude, whose crown prince also [happened to meet president Xi Jinping last week](#) to expand trade further) and wave goodbye to the petrodollar.

As reported previously, China has already implicitly backed Putin without risking its relations with the West. “Last Saturday China abstained in a U.N. Security Council vote on a draft resolution declaring invalid the referendum in which Crimea went on to back union with Russia. Although China is nervous about referendums in restive regions of other countries which might serve as a precedent for Tibet and Taiwan, **it has refused to criticize Moscow.** The support of Beijing is vital for Putin. Not only is China a fellow permanent member of the U.N. Security Council with whom Russia thinks alike, it is also the world’s second biggest economy and it opposes the spread of Western-style democracy.”

This culminated yesterday, when as we [reported last night](#), Putin thanked China for its “understanding over Ukraine.” China hasn’t exactly kept its feelings about closer relations with Russia under wraps either:

Chinese President Xi Jinping showed how much he values ties with Moscow, and Putin in particular, by making Russia his first foreign visit as China’s leader last year and attending the opening of the Winter Olympics in Sochi last month.

Many Western leaders did not go to the Games after criticism of Russia’s record on human rights. By contrast, when Putin and Xi discussed Ukraine by telephone on March 4, the Kremlin said their positions were “close”.

The punchline: **“A strong alliance would suit both countries as a counterbalance to the United States.”** An alliance that would merely be an extension of current trends in close bilateral relations, including not only infrastructure investment but also military supplies:

However, China overtook Germany as Russia’s biggest buyer of crude oil this year thanks to Rosneft securing deals to boost

eastward oil supplies via the East Siberia-Pacific Ocean pipeline and another crossing Kazakhstan.

If Russia is isolated by a new round of Western sanctions – those so far affect only a few officials' assets abroad and have not been aimed at companies – Russia and China could also step up cooperation in areas apart from energy. **CAST's Kashin said the prospects of Russia delivering Sukhoi SU-35 fighter jets to China, which has been under discussion since 2010, would grow.**

China is very interested in investing in infrastructure, energy and commodities in Russia, and a decline in business with the West could force Moscow to drop some of its reservations about Chinese investment in strategic industries. "With Western sanctions, the atmosphere could change quickly in favor of China," said Brian Zimble Managing Partner of Morgan Lewis international law firm's Moscow office.

Russia-China trade turnover grew by 8.2 percent in 2013 to \$8.1 billion but Russia was still only China's seventh largest export partner in 2013, and was not in the top 10 countries for imported goods. The EU is Russia's biggest trade partner, accounting for almost half of all its trade turnover.

And as if pushing Russia into the warm embrace of the world's most populous nation was not enough, there is also the second most populated country in the world, India.

Putin did take time, however, to thank one other country apart from China for its understanding over Ukraine and Crimea – saying India had shown "restraint and objectivity".

He also called Indian Prime Minister Manmohan Singh to discuss the crisis on Tuesday, suggesting there is room for Russia's ties with traditionally non-aligned India to flourish.

Although India has become the largest export market for U.S. arms, Russia remains a key defense supplier and relations are

friendly, even if lacking a strong business and trade dimension, due to a strategic partnership dating to the Soviet era.

Putin's moves to assert Russian control over Crimea were seen very favorably in the Indian establishment, N. Ram, publisher of The Hindu newspaper, told Reuters. "Russia has legitimate interests," he added.

To summarize: while the biggest geopolitical tectonic shift since the cold war accelerates with the inevitable firming of the "Asian axis", the west monetizes its debt, revels in the paper wealth created from an all time high manipulated stock market while at the same time trying to explain why 6.5% unemployment is really indicative of a weak economy, blames the weather for every disappointing economic data point, and every single person is transfixed with finding a missing airplane.

<http://www.zerohedge.com/news/2014-03-21/petrodollar-alert-isolated-west-putin-prepares-announce-holy-grail-gas-deal-china>