

The USA is no Longer an Exceptional Nation

Brandon White. July 2022.

The United States is no longer an ‘exceptional’ nation.

It used to be.

It now has feckless leadership, Byzantine regulations, bloated welfare/warfare budgets, huge deficits and massive debt, a declining population, plummeting literacy rates, homeless veterans, and is despised by much of the world.

US society has become extremely polarized. There is contempt and persecution of anyone who dares to challenge the official narrative or expose US war crimes. It holds the highest incarceration rates in the world, a -3.49% GDP growth rate, and possesses a currency that survives solely because there is (currently) no better tool for global trade settlement.

American exceptionalism means something very different today.

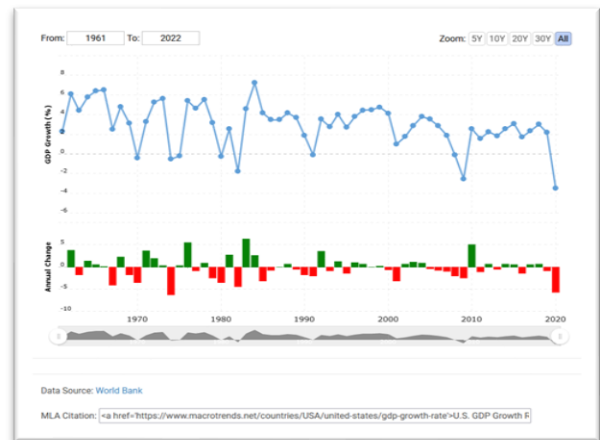
The world is now moving in a very different direction. Is a new global Bretton Woods equivalent agreement on the horizon?

In a recent statement, Mexico’s President López Obrador said “*[America] will have to dismantle the Statue of Liberty that the French delivered ... because it is no longer a symbol of freedom.*”

He was referring to a certain well-known journalist/editor who should be exempt from prosecution under the First Amendment and who, once extradited back to the US, will likely die in prison due to the lengthy judicial process.¹ It is very clear that the current Mexican President sees what is happening in America – an increasing loss of the values that made America great. American exceptionalism means something very different today than it did just a few generations ago.

Mexico is not the only country concerned with America, and especially the US dollar, these days.

The BRICS countries are an association of Brazil, Russia, India, China and South Africa. The abbreviation consists of the initial letters of the country names. This refers to a group of the five countries which belong to the emerging economies. A total of 3.22 billion people live in these five countries and represent 41.13% of the world's population. China and India are the most populous countries in the world and account for the largest share. The latest news indicates that Saudi Arabia (this is big news, folks!) is joined by Iran, Argentina, Egypt,



USA GDP now at -3.49%. Source: FRED

¹ Julian Assange

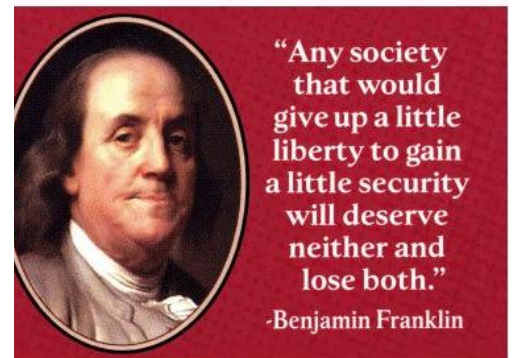
Indonesia, Kazakhstan, Nigeria, Senegal, Thailand and the United Arab Emirates in wanting to join BRICS. For those not paying attention, this will come as a shock.

As the BRICS countries continue to iron out the details of their new trading block system and currency, (at an accelerated rate due the recent sanctions threatening all countries not 'on-board' with Washington's policies) one cannot help but wonder what will happen to global commerce without the need for the US dollar. If the transition happens too quickly there may be serious and very unpleasant consequences for much of the Western world. Hedge accordingly.

Do not expect a gold-backed blockchain currency.

What will form the backbone of this new trading block? We aren't clear yet, but you can bet that gold will be a key strategic asset. However, do not expect a gold-backed blockchain currency unit independent of any form of State control to be promoted. That will not happen by design – but may, in time, happen by default. Governments never willingly divest themselves of control. China is the largest player in this block and they are committed to a state-run economy.

The Chinese Yuan is also the only internationally-recognized currency representing a communist state. China will not accept a pair of golden handcuffs that won't allow for 'flexibility', nor will any other central bank. Central bankers are very concerned with financial variables and a pure gold standard would prevent central planners from changing the rules. It is laughable that China could be the benchmark for financial liberty here on earth. It's never going to happen so long as it remains a communist state but China is, however, deadly serious about its currency becoming a true competitor to the USD, Euro, Pound, and Yen. For that, it must be trusted, and gold is likely to be a part of how they will earn that trust. Central banks have been stock-piling gold in large quantities over the last few years in anticipation of what is coming. Gold will form a very important role in their reserve assets.



In some circles, especially within the gold community, there has been talk of a new financial system that will provide the framework for global financial freedom for the people of this world - the Quantum Financial System. This is a lovely notion. It's to be brought out by the 'good guys' (ie., the White Hats) for the benefit of all. Just in case you weren't clear, if you've been buying gold and silver then you ARE the white hat(s)! There will be no hero riding in on a white horse to save us all from financial ruin. If that were to happen, then we would simply be under a different ruler. America was not conceived with the idea that the State would provide for and protect you. In fact, it was exactly the opposite kind of thinking that made America into the great nation it once was. That thinking is best summed up in the term 'self-reliance'.

You are the hero – especially to your dependants. Central banks will use gold to stabilize their reserves (savings), purchasing power and domestic way of life – the same reasons that you chose to own gold. It is monetary gold (i.e., physical, not a 'paper-gold' derivative) that will protect you. Those holding just gold derivatives (i.e., 'paper' gold) are likely to find out why they're holdings are so much cheaper than the real thing.

The new currency was proposed years ago. America rejected it.

A new currency system for all central banks was proposed in 2010, and again in 2015, at the big meeting held at the IMF every five years (commonly-known as ‘The Review’). It was vetoed by the only nation with veto powers – The United States. Of course, they vetoed it! It would have eliminated America’s ability to veto. Duh!

Not only would it have destroyed America’s veto in IMF policy decisions, but it would also have dramatically devalued the US dollar against most currencies around the world and been a major blow to America’s ‘exceptional’ monetary policy. Plus, it would have substantially increased the cost of imported goods. But the biggest impact would have been a dramatic increase in the cost of energy since energy trades almost exclusively in the US dollar – or at least it did until recently when Russia demanded payment for energy in Rubles. The last two leaders to threaten the Petro-dollar hegemony wound up dead. But those nations weren’t nuclear powers. It is not inconceivable that the recent high prices in energy are happening as an adjustment in preparation for what is to come.

A new way to value global assets requires a stable benchmark

The BRICS members are members of the International Monetary Fund (IMF). The IMF represents 189 sovereign nations. They already have a tool ready as the model for a new currency benchmark. It’s called the SDR (Special Drawing Rights). Changes are already happening in the use of SDRs. Significant changes were to happen to the way this international settlement tool works but were postponed last year due to Covid. They now come into effect on August 1, 2022. It remains unclear the impact these changes will have, but the word ‘disruptive’ comes to mind.

As the IMF documentation on the upcoming SDR changes shows (see below), the five currencies that make up the SDR (the USD, Yen, Pound, Euro, and Yuan) are about to get shuffled in their weightings:

3. The paper further proposes that the new currency and interest rate baskets would come into effect on August 1, 2022.² The current review is taking place about one year later than originally scheduled. Following the 2015 review and the entry into effect of the current basket on October 1, 2016, the current SDR valuation and interest rate baskets were originally scheduled to expire on September 30, 2021. In March 2021, the Executive Board decided to extend the current basket to July 31, 2022 to contribute to broader Fund efforts to prioritize work during the COVID-19 crisis and also to allow for a more suitable effectiveness date for the new basket that takes into account SDR users’ suggestion to avoid changes on dates around which markets are closed or trading is thin in major financial markets.^{3,4} In view of the extension of the current basket to July 31, 2022, it is proposed that new currency and interest rate baskets would come into effect on August 1, 2022. This timetable provides adequate notice to interested parties and time to complete any consultations that might be required. It follows the Board’s practice to generally take decisions on SDR valuation some time prior to the effective date of a new valuation basket.

Source: <https://www.imf.org/-/media/Files/Publications/PP/2022/English/PPEA2022020.ashx>

For those mathematically inclined, here is the proposed formula for the weightings that comprise the basket of currencies that make up the SDR.

¹⁰ The weight ω_i of currency i is therefore given by $\omega_i = (0.5 \times \frac{X_i}{\sum_j X_j}) + (\frac{1}{6} \times \frac{R_i}{\sum_j R_j}) + (\frac{1}{6} \times \frac{FX_i}{\sum_j FX_j}) + (\frac{1}{6} \times \frac{FA_i}{\sum_j FA_j})$ where X_i is exports of the issuer of currency i ; R_i , FX_i , and FA_i are reserve holdings, foreign exchange turnover, and the sum of international banking liabilities and debt securities denominated in currency i , respectively. The summations are taken over all five currencies composing the basket. See Decision No. 15891-(15/109) adopted November 30, 2015 for exact definitions.

Source: <https://www.imf.org/-/media/Files/Publications/PP/2022/English/PPEA2022020.ashx>

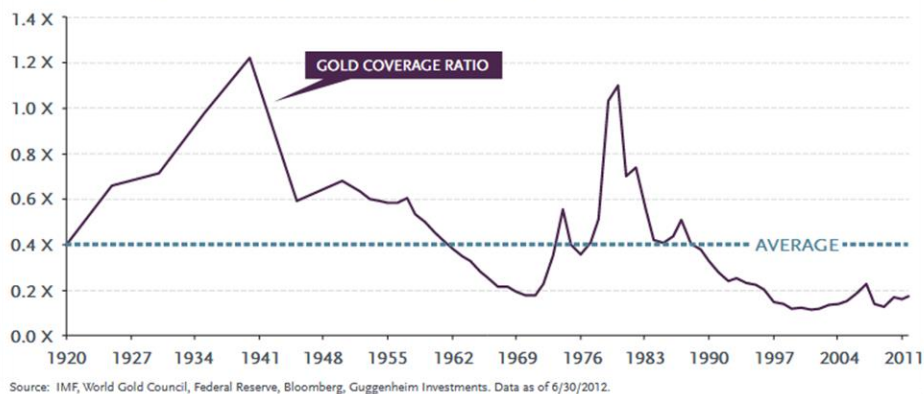
For those of us who do not hold a Ph.D. in mathematics, what this formula illustrates is a way of determining the relative strength of one nation’s currency against another – assuming it is fully adopted within at least one large trading block, such as BRICS, with whom it is currently under discussion.

How do you calculate the value of a currency?

How do you measure the value of a nation’s currency? What is the formula? How much should be kept in reserves to bolster a currency? What assets would serve best as reserve assets? Where, and what, are the counterparty risks? How liquid are these assets? These questions are actively being discussed right now by the BRICS members, and likely, by most IMF members. It was very simple on a gold standard – you simply adjust the amount of gold relative to the money in circulation and make gold redeemable on-demand. This was called the ‘Gold Coverage Ratio’. The formula proposed, at the IMF, looked at including other factors that provide a clearer, and broader, perspective on a nation’s currency.

A SLIPPERY SLOPE: THE U.S. DOLLAR’S GOLD COVERAGE RATIO

The gold coverage ratio refers to the amount of gold backing the monetary base (all U.S. currency plus reserves held at the Fed). The ratio has fallen between the end of World War Two (1945) and now because of dollar-printing by the Federal Reserve. It briefly rose because of the rapid appreciation of gold prices following the end of Bretton Woods. Today, the Federal Reserve only holds gold reserves equivalent to 20% of the value of every dollar outstanding. Does this mean gold at the current price of roughly \$1600 per ounce is underpriced?



A nation with a large net-export market, large official reserves, high money velocity, low liabilities and low debt would overshadow those nations with limited exports and reserves, high liabilities and high debt levels. Capital flows using this new benchmark would have the potential to balance global trade in a much more equitable fashion – just as the US gold standard used to do prior to 1971. This benchmark has some elements that are reminiscent of the 20th century’s International Gold Bullion Standard, as that standard had quite a bit of flexibility too. The ‘Gold Coverage Ratio’ allowed banks to increase or decrease the money in circulation relative to the amount of gold they held. A new system will likely have gold and other convertible assets used in a similar fashion.

Until the BRICS+ officially announce their plan for the trading block, we can only speculate as to what exactly is coming. If the proposed rule changes are vetoed at the IMF by the US once again then the BRICS countries will likely model their own system on the one already proposed. They will require a central clearing facility

independent of unfriendly influences or obstacles. It will likely be some time before non-BRICS countries would trust this new system but, in time, they will have no choice to accept it.

The bottom line is this, whether a more equitable multi-polar world will be brought forward through existing infrastructure (like the IMF and the BIS) or a bi-polar world with two primary trading blocks happens, the US-centric world is being dismantled before our very eyes. Most people still don't see it. Yet.

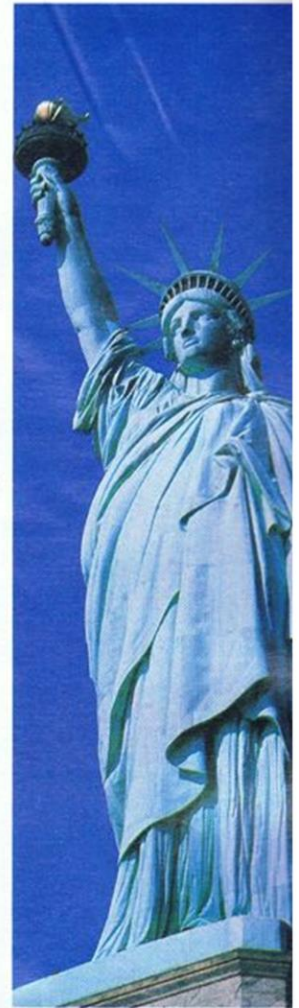
I will bet that Lady Liberty sees it.

Hedge accordingly.

The New Colossus

.. Here at our sea-washed,
sunset gates shall stand
A mighty woman with a
torch, whose flame
is the imprisoned lightning,
and her name
Mother of Exiles. From her
beacon-hand
Glow world-wide
welcome; her mild eyes
command
The air-bridged harbor that
twin cities frame.
'Keep, ancient lands, your
storied pomp!' cries she
With silent lips. "Give me
your tired, your poor,
Your huddled masses
yearning to breathe free,
The wretched refuse of
your teeming shore.
Send these, the homeless,
tempest-tost to me,
I lift my lamp beside the
golden door!"

EMMA LAZARUS



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