
Economics Briefs

Financial System Is Breaking—Is a New Order Replacing It?

India Is Not Cutting Russia's Imports, but Increasing Them

Reuters cited two Indian officials in a report today March 14 that India plans greatly to increase its imports of oil from Russia. India imports 80% of its oil, usually with only a few percent coming from Russia. But “Russia is offering oil and other commodities at a heavy discount. We will be happy to take that,” the news service quoted one of the officials. Preparatory work is required logistically and to arrange insurance, but India intends to import a much larger share of oil from Russia. And the officials say, it will then proceed to increase its Russian fertilizer imports as well.

As to the killer sanctions of the NATO nations, Reuters chose to play the issue purely geopolitically, claiming the extreme U.S. threats and demands made against China will not be made against India because it is an adversary of China! The British service is undoubtedly aware of, but does not mention, the negotiations under way between India and Russia to establish their trade settlement in their national currencies—in this case, paying for the oil and fertilizer in Indian rupees—without use of the dollar or euro. Those plans have been reported in detail in the Briefing and *EIR Daily Alert* for March 13.

Another Indication of New ‘Boomerang’ Monetary Arrangements

The *Wall Street Journal* reported March 15 that “Saudi Arabia is in

active talks with Beijing to price some of its oil sales to China in yuan.” The *Journal* throws together a pile of half-reasons for this: Saudi Arabia thinks it hasn’t gotten enough support from the United States for its war on Yemen; it doesn’t like the JCPOA; it was shocked by NATO’s withdrawal from Afghanistan. Not included is the real reason: The use of the dollar to steal national financial reserves and attack the Russian economy is a boomerang, driving nations to cut down their own dollar reserves and try to use other currencies for trade.

Saudi Arabia sells roughly 2 million barrels of oil a day to China. Were that all settled in yuan, Saudi Arabia would (assuming roughly the current oil price) build up 6 billion yuan every week, 300 billion yuan a year in reserves. It would have incentives to invest those yuan reserves in Eurasia, particularly in Belt and Road Initiative and related projects and in the Chinese economy. Were Russia to resume wheat exports, the Saudis could pay for them this way and add to Russian yuan reserves, etc. China has worked on oil-for-yuan proposals since 2018, according to the *Journal*; the Saudis are now coming to them.

Despite U.S. and British demands, except for Saudi Arabia and the U.A.E. no other major OPEC producer is able to meet its current production quota, let alone go above it. Nigeria, for example, has an OPEC quota of 2 million bpd, and is currently producing 1.25 million bpd, having been at 1.4 million bpd for some time prior. The reason is lack of investment in Nigeria’s oil industry. In other words, the reason is the

Green Deal or “Great Reset,” and it has hit oil investment and consequent production worldwide.

India May Be Mulling a Ruble-Rupee Payment System for Trade with Russia

India is reported in intensive discussion, through an intergovernmental panel of leading government ministries and Indian banking circles, to work out a rupee-ruble payments system for trade with Russia that would bypass use of the dollar.

On March 11 Bloomberg News, in an article entitled “India Is Considering Rupee Payments for Trade with Russia, Sources Say,” reported that “India is working out a mechanism to facilitate trade with Russia using local currencies, with a decision expected as early as next week, according to people familiar with the matter.” The article continues that the Indian “government is discussing how trade can be settled in rubles and rupees as Indian exporters are awaiting payments [from Russia] of about \$500 million that have been stuck after the sanctions on Russian banks, said the people, who asked not to be identified before a final decision is made.” At the same time, the *Hindustan Times* reported March 10, that India is anxious to buy from Russia “potassium chloride (known as muriate of potash), a key fertilizer, and sunflower (edible) oil,” for its upcoming agricultural planning and the nation’s food security.

Hindustan Times reports that Economic Affairs Minister Ajay Seth

heads up Indian Prime Minister Narendra Modi's intergovernmental panel made up of eight ministries, which is consulting with the Reserve Bank of India (RBI, the central bank); the State Bank of India, a public bank; and the small, but important UCO Bank.

India has a history of moving outside the bounds of the U.S. dollar. In November 2018, India signed an agreement to buy oil from Iran, which the United States had heavily sanctioned, and carried out the deal not in U.S. dollars, but in the two countries' national currencies. The U.S. was forced to give India a waiver for the deal. Reportedly, payment for Iran's crude oil was transacted through India's UCO Bank, the same bank engaged in current consultations today on an Indian rupee-Russian ruble deal. UCO Bank, which has little dollar exposure that can be sanctioned, was founded by G.D. Birla, a close associate and supporter of Mahatma Gandhi.

In December 2018, India signed a deal to purchase Russia's S-400 ground-to-air missile defense system, despite an intense United States threat of sanctions. The deal was contracted therefore in Indian rupees.

One stumbling block reported by participants in these discussions is how to set a parity rate between the rupee and the ruble, since they currently each float against the dollar.

French Analysts: Saudi Shift towards Eurasia Could Mean 'the End of the U.S.'

Thomas Flichy de la Neuville, a professor of geopolitics at the Rennes School of Business and an expert on international conflicts, noted the following to his subscribers March 14: "Saudi Arabia has just announced a piece of news that is like a thunderbolt: the kingdom now reserves the right to pay

for its oil in e-yuan. Either this is blackmail against a Joe Biden who is considered senile and unable to honor the old U.S.-Saudi alliance, or the threat will be carried out, and this could mean the end of the U.S."

"In recent weeks, Neuville wrote, both the Saudi kingdom and the United Arab Emirates have refused to accede to American demands to increase the market share of their oil. This speaks volumes about the mistrust that has taken hold of the American sponsor in the Middle East. Now armed by the Russians and the Chinese ... the Saudis could trigger a major geo-economic shift, unlike the Ukrainian geopolitical frictions at the margins of the Russian and American empires."

EAEU-China Discuss Financial-Economic Alternative to Dollar Regime

A video conference took place March 11, with participants from the Eurasian Economic Union (EAEU) and China, on a project for an independent international monetary and financial system, involving a new currency and other features. This was agreed upon by the participants in the economic dialogue, "New Stage of Monetary, Financial and Economic Cooperation between the Eurasian Economic Union and the People's Republic of China. Global Transformations: Challenges and Solutions."

This was reported by the correspondent of the Kapital.kz business information center, from the press service of the EAEU itself. "Given the common challenges and risks associated with the global economic slowdown and restrictive measures against the EAEU states and China, our countries should intensify practical cooperation both at the level of regular expert dialogues and in the area of

joint measures and projects," said the Minister for Integration and Macroeconomics of the EAEU Sergei Glazyev.

Wang Wen, Dean of the Renmin University School of Financial Studies (RDCY) Institute of Finance, emphasized the closeness of the positions of the EAEU countries and China on many issues of the global development agenda and expressed support for the intensification of the Eurasian-Chinese dialogue. As a result of the discussion, it was decided to proceed with the project for an independent international monetary and financial system. It is assumed that it will be based on a new international currency, which will be calculated as an index of the national currencies of the participating countries and commodity prices. The first draft will be submitted for discussion by the end of March. The [dialogue](#) participants also considered the practical aspects of cooperation between the EAEU and the PRC in the fields of energy and information technology, and commodity trading, as well as measures to adapt countries to external economic pressure.

Russia, Kazakhstan, and China Combined Produce Majority of Essential Minerals

It is instructive to look at the combined mined production of minerals of Russia, Kazakhstan, and China. These three countries together produce an overwhelming abundance of 42 of the most critical minerals and mineral products in the world, ranging from one-third of world production in most cases, to a level above 90% in a few. These minerals range from the most elementary (such as bauxite, graphite, lead, and copper), to those needed for advanced processes and microchip making, such as the rare earths, tita-

niun, silicon, and gallium (which is used for electronic circuits, semiconductors and light-emitting diodes), to those needed for agriculture, such as nitrogen ammonia and phosphate rock.

Many nations, especially in Europe, Britain, and the United States, depend on these minerals and goods. If the economic warfare continues against Russia, and escalates against China and Kazakhstan, the West may find itself without them.

The U.S. Geological Survey's Mineral Commodity Summaries 2022 shows that of the 42 minerals and products, Russia, Kazakhstan and China account for more than 70% of the production of 16, including 83.6% of the 2021 mined production of the world's vanadium (an alloy which makes steel shock resistant and vibration resistant, and is also employed in armor plate); 84.7% of graphite; 85.5% of bismuth; 86.6% of tungsten; 87% of mercury; 90.8% of asbestos, and 97.8% of gallium (the last essential in most high-tech fields).

The three nations mine and/or produce 36.7% of the world's nitrogen ammonia, which is used in fertilizers and herbicides; 45% of the world's phosphate rock, which is used in manufacturing phosphate fertilizer; and 32.6% of the world's potash, which is used in manufacturing fertilizer.

Euro-Asia Rail Freight Deeply Affected by Sanctions and War

A March 16 webinar organized by RailFreight.com and RailFreight.cn, "Keeping cargo on rail between Europe-Asia," focused on the Middle Eurasian Rail Corridor and the question of whether this is an alternative to the Russian Northern main route of the Silk Road rail traffic, which has been

deeply affected by sanctions and the war. While some weeks ago problems of congestion at main transit points in EuroAsian rail cargo predominated, now the situation has dramatically shifted, with the use of rail freight greatly diminished.

The use of the main rail connections from China and Russia through Belarus and Poland, or to Kaliningrad, has been severely cut back by the war and four waves of sanctions against Russia and Belarus. Technically, Russian Railways has not been placed under sanctions, and payments to them are possible, but many firms are simply not sure about insurance and other legal matters, how military conflict will evolve, and the general pressure in the public domain not to get involved with anything Russian. Also, the rail connection between Ukraine and Russia has been destroyed to prevent military transport.

All of this has created huge problems, because the Northern route through Russia has carried 80-90% of all rail traffic cargo from China to Europe. Only about 3-4% of the total cargo traffic so far has been handled so far via the Middle (Trans-Caspian) Corridor from China, Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and then to Turkey, or the Black Sea further to Europe (e.g., from Romania to Hungary).

According to speakers, the Middle Corridor has improved in the last two to three years. Turkey is becoming more important now, and the Black Sea port of Constanta is being used more, but the Black Sea has strategic problems, while Caspian Sea ship cargo transport is hampered by seasonal heavy winds. In general, bottlenecks can be improved, but not in the short term. Some customers have started to use sea shipping from China to the European South, which at present means 22 days from South China

to Piraeus or Algeiras.

While new deals are now arranged to expand Middle Corridor use, it is absolutely clear, that the future of cargo traffic between Europe and Asia depends on the military conflict stopping as soon as possible. In reality, however, the huge potential to develop all of Eurasia as part of the World Land-Bridge has still to be explored.

Commodity Derivative Traders Cry for Bailout by Central Banks

Western sanctions against Russia will destroy the trans-Atlantic economy faster than they will hurt the Russian one. Sanctions-induced collapse of commodities trade is driving a blow-out of financial derivatives, bankrupting trading companies and their counterparties among banks and hedge funds.

Europe's largest energy traders have now called for an urgent bailout of that derivative debt. The *Financial Times* reported March 17 that the European Federation of Energy Traders (EFET) sent a letter to governments and central banks saying that the sector needs "time-limited emergency liquidity support to ensure that wholesale gas and power markets continue to function. Since the end of February 2022, an already challenging situation has worsened, and more energy participants are in a position where their ability to source additional liquidity is severely reduced or, in some cases, exhausted," the March 8 letter said.

EFET vice-chairman Peter Styles revealed that the request aims at bailing out the derivative commodity bubble. "The overriding objective is to keep an orderly market for futures and other derivative energy contracts open.

Gas producers, European gas importers and power suppliers must retain the opportunity to hedge their positions.” He said that it is possible to hedge risk but added that market participants need the “liquidity, depth and visible price signals which futures exchanges with central clearing provide.”

One case of an EFET member in trouble is Trafigura, one of the largest world traders of oil and metals. Trafigura is looking for money to pay margin calls for billions of dollars, *Bloomberg News* reported. Trafigura contacts with Blackstone, Apollo, KKR, and Black-Rock have led to no result.

In the case of nickel producer Tsingshan Holding Group, JPMorgan Chase Bank is the counterparty to derivative contracts that forced the London Metal Exchange to suspend nickel trading in order to prevent a number of trading firms from failing.

Bloomberg: Commodity Markets Seizing Up

Bloomberg News on March 18 reported that lack of liquidity is paralyzing some of the world’s most important commodity markets, in a story headlined, “The World’s Biggest Commodities Markets Are Starting To Seize Up.” Starting from the nickel market, in which two of the world’s biggest trading companies (which are also producers and lenders) have come close to bankruptcy, the news service notes that “There are signs of contagion as trading in other metals also slumps. That’s bad news for manufacturers and end users as it could leave them exposed to more violent price swings” [because of the lack of liquidity and severe margin calls all across the metals markets—ed.]. “There are signs of spillover in specialist instruments LME traders

use to manage price risks.... In aluminum, dealers say scarce liquidity is sparking wild moves in prices between key contracts.... Bids and offers are now frequently hundreds of dollars apart.”

Bloomberg limits itself to repeatedly giving evidence that “traders are pulling back” and even market-maker firms are not participating in the metals markets. But the source of this, clearly, is a sudden reluctance of financial firms to trust each other with credit, even short-term credit. This can be the opening “break” to what becomes a full-scale global liquidity crisis.

Even Small, Ineffective Rises in U.S. Interest Rates Are Trouble

The agitated comments March 18 by Federal Reserve Governor Christopher Waller, who said that one or more Federal Funds rate increases of 0.5% each are needed this year because of “raging inflation,” highlight the bind the Fed is in. St. Louis Fed president James Bullard has also called for half-point increases, and the Federal Open Market Committee as a whole voted for seven quarter-point increases this year in their meeting March 15-16. But at the same time their forecasts for U.S. economic *growth* headed sharply lower, quite opposite to their forecasts for *inflation*.

February sales of existing homes, reported on March 18, showed the problem. The median price at which existing home sales were closed in February was \$357,000 according to the National Association of Realtors (NAR); that is 15% higher than a year earlier. The average price is 19% higher. But the sales themselves were 2.4% fewer than the previous February; they have fallen year-to-year for

seven consecutive months. Not only are the prices going too high; so are the mortgage interest rates. The average 30-year mortgage rate now, at 4.5%, is already 1.25% higher than it was when those dropping February sales were contracted.

The average monthly mortgage payment around the country is a shocking 28% higher than a year ago. The NAR, in reporting it, noted that it is NOT a component of the consumer price index! A serious unaffordability crisis may soon make home prices plateau and drop, threatening a crash of mortgage and mortgage-backed securities as in 2007-08.

Warnings of Inflation’s Frontier: ‘Demand Destruction’

Bloomberg News reported March 19 respecting oil, JP Morgan Chase claims that to bring down prices, they first should reach a level of \$180 a barrel. Others say \$200. This very high price will then provoke what bankers and traders elegantly call the ‘destruction of demand’; Truckers will stop driving, fishermen stop fishing and citizens stop heating their homes. “Oil prices ... are marching to the level where demand destruction becomes prevalent,” said Mitsubishi UFG’s head of emerging markets research, Ehsan Khoman.

ConocoPhillips Chief Executive Officer Ryan Lance told *Bloomberg* the same: “Oil prices are so high that demand for crude-derived products such as gasoline soon may start to shrink. Prices are encroaching upon the area of demand destruction.” And Paul Sankey of Sankey Research: “I’m concerned that we don’t have enough oil at all here, and we need to go to \$120 to \$150 [per barrel], and then we get into economic destruction.”