

# The Global Financial System is Changing

Why? What's Next? What's Replacing it? When?

# BRICS - Coalition (the other side of the story)

- Original members: Brazil, Russia, India, China, South Africa - June 2009, 1st summit; loose group.
- REALLY got a boost when Russia was sanctioned in 2022 by the West; kicked off SWIFT; and \$300B of Russian assets frozen; it became a critical need for a work-around
- Members added 1/1/2024: Egypt, Ethiopia, Iran, United Arab Emirates, Saudi Arabia (10 total)
- More than 30 countries have expressed interest in collaborating or joining
- GOALS
  - INCLUSIVE ECONOMIC GROWTH - (non-adversarial)
  - ERADICATE POVERTY (vs “America 1st”)
  - ECONOMIC COOPERATION AND TRADE (vs barriers to trade, i.e. tariffs & sanctions)
  - LESSEN DEPENDENCE ON US DOLLAR (DE-DOLLARIZATION)
  - ESTABLISH A SEPARATE INDEPENDENT FINANCIAL SYSTEM FOR TRADE SETTLEMENT

# SIZE & RELATIVE INFLUENCE OF BRICS

- BRICS - 37% OF GLOBAL ECONOMY
- 45% - OF WORLD POPULATION (3.5 B people & GROWING)
- INDIA (18%-WORLD POP. & GROWING); 3% -WORLD GDP (GROWING)
- CHINA (18%-WORLD POP. & SHRINKING); 17%-WORLD GDP (GROWING)

VS

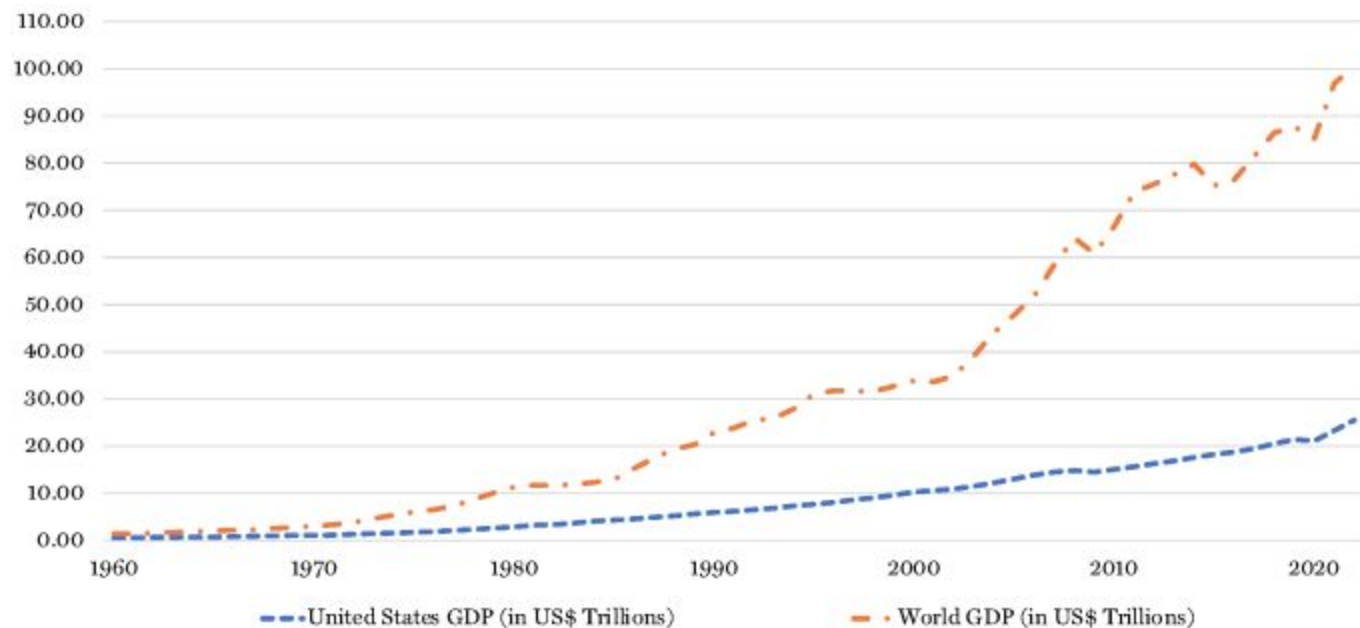
-THE G7 NATIONS

ACCOUNT FOR 10% OF WORLD POPULATION (977M) much slower growth;

IN 2000 >40% GLOBAL GDP;

IN 2024 <30% GLOBAL GDP (DECLINING)

**Figure 1: The United States' and the World's GDPs (current US dollar in trillions)**



*Source: The World Bank*

# THE BRICS ALTERNATIVE FINANCIAL SYSTEM

- SYSTEMS ARE BEING DEVELOPED & TESTED, BUT SOME ARE OPERATIONAL
  - GAINED IMPETUS WHEN RUSSIA WAS SANCTIONED (along with Iran, North Korea, Syria, and other regions)
  - NEW DEVELOPMENT BANK (NDB) vs WORLD BANK(USD,EUR,JPY,GBP)
    - THE NDB HAS A STRATEGIC OBJECTIVE TO LEND IN LOCAL CURRENCIES
    - HAS MADE OVER \$32B LOANS FOR 96 PROJECTS.
  - CONTINGENT RESERVE ARRANGEMENT vs INTERNATIONAL MONETARY FUND (IMF) - to stabilize member countries currencies
  - THE IMF AND WORLD BANK LOANS (COME WITH STRINGS AND ARE DENOMINATED MAINLY IN USD)
- \*Also, the IMF & WB MAKE NO LOANS TO SANCTIONED COUNTRIES!!! Therefore these countries turn to the BRICS alternative Financial Systems for aid

# OTHER INNOVATIONS under DEVELOPMENT

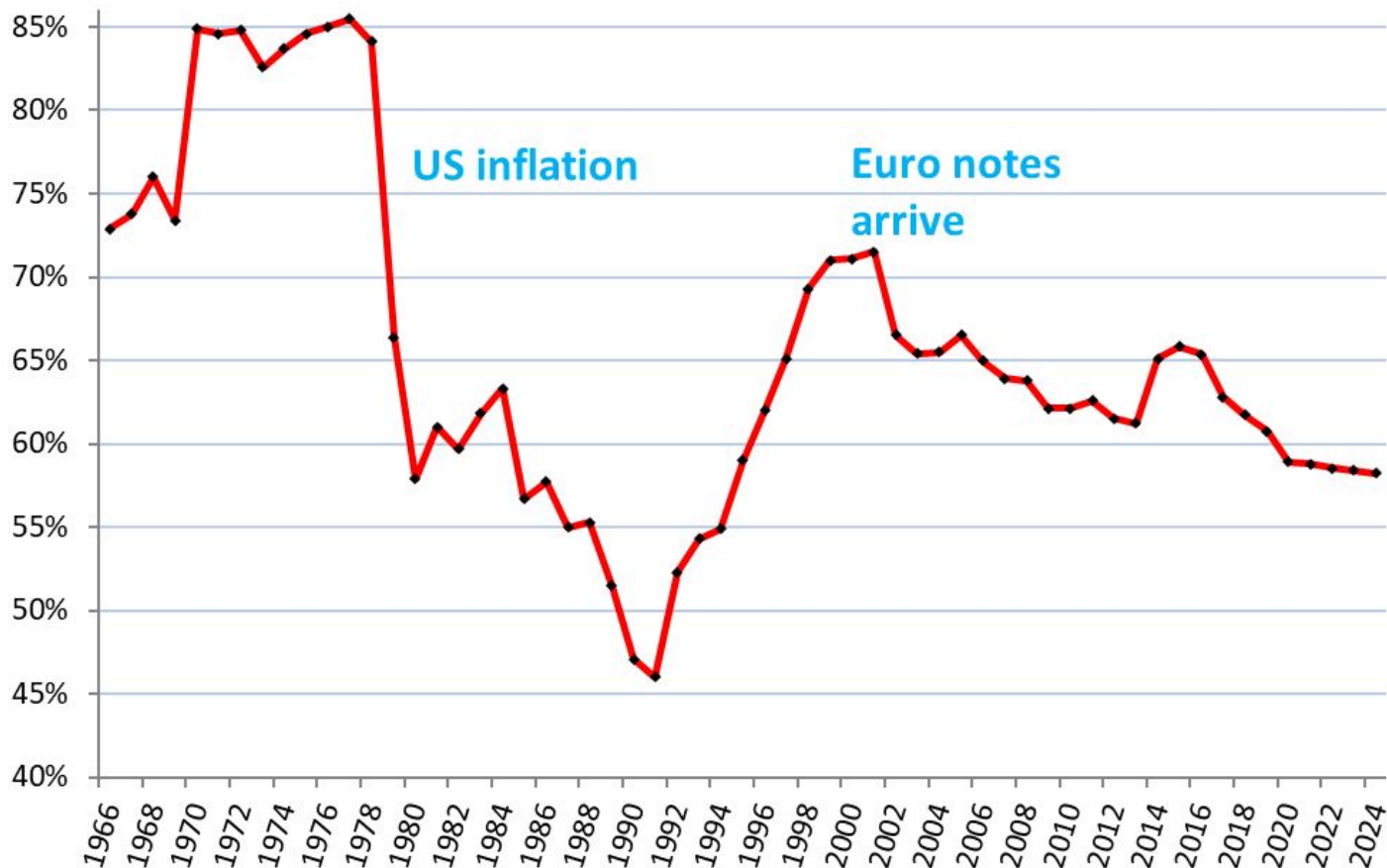
- PROJECT mBRIDGE - A CROSS-BORDER PAYMENT SYSTEM - to settle trade in local currencies, or multiple CBDCs, bypassing the need to use the US dollar as an intermediate currency.
- REDUCES the cost and complexity of transactions; uses blockchain technology; cuts out the need for correspondent banks. (cheaper; faster)
- REDUCES the need and use of the SWIFT network (bypasses sanctions)
- Started 2021 w BIS, Bk of Thailand, Bk of UAE, PBOC, HongKong, Saudi Bk
- 2024 It was declared as mid-product stage & functional. BIS withdraws re. Overlap w “sanctioned countries” in BRICS
- Proposed: BRICS-PAY; DCMS-DeCentralized Message System vs SWIFT
- BRICS Pay is a digital payment system to facilitate cross-border transactions among the BRICS countries, reducing their reliance on the US dollar and Western financial systems, such as SWIFT. It was unveiled in October 2024 in Moscow, but is not fully operational.

# WHAT DOES THIS MEAN FOR THE US?

- US HAS EXORBITANT PRIVILEGE AS WORLD RESERVE CURRENCY
  - 58% of world trade in US \$ but we produce only 26% of world's GDP (goods & services)
  - Seigniorage - Costs 5 cents to print 1 US\$; but we buy \$1 of global goods
  - Therefore we use the money 1st and export inflation.
  - BRIC COUNTRIES doing more bi-lateral trades in own currencies; THIS WILL CONTINUE
  - BRICS COUNTRIES slowly dumping US-Treasuries, replacing their reserves with GOLD, other commodities (oil, bitcoin)
  - BRICS have raised their gold reserves from 15% to 21% from 2010 to 2024 to reduce dependence on the US dollar
- The US is still the dominant player, (60 currencies are pegged to the US dollar); but the world is moving relentlessly toward a global multi-polar financial system.
- WHEN? - no one really knows; perhaps 5, 10, 20 years;
- HOWEVER - ALL COUNTRIES ACT IN THEIR OWN SELF-INTEREST

# US Dollar % Share of Global Reserve Currencies, Annual since 1965

Year-end except 2024 = Q2

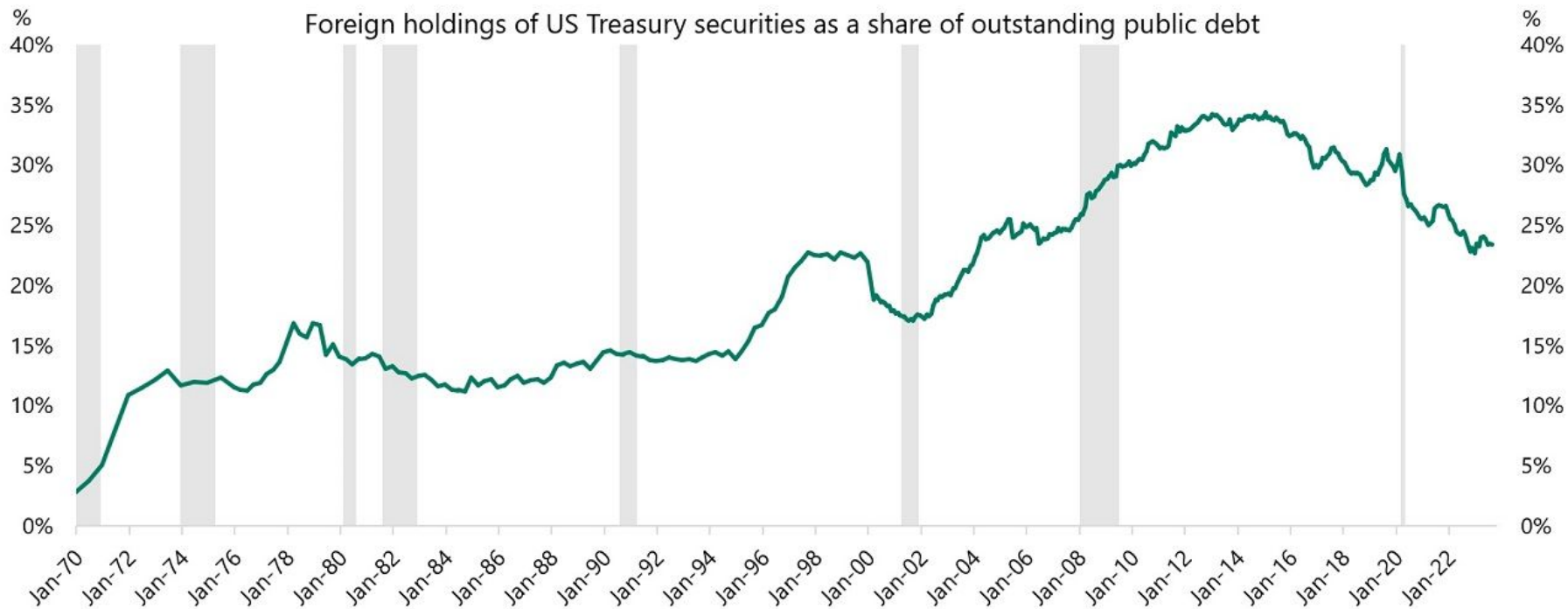


Source: IMF

WOLFSTREET.com



# Trend decline in foreign ownership of US government bonds since 2015



# TARIFFS - GOOD or BAD? (Soft force vs Hot force(war))

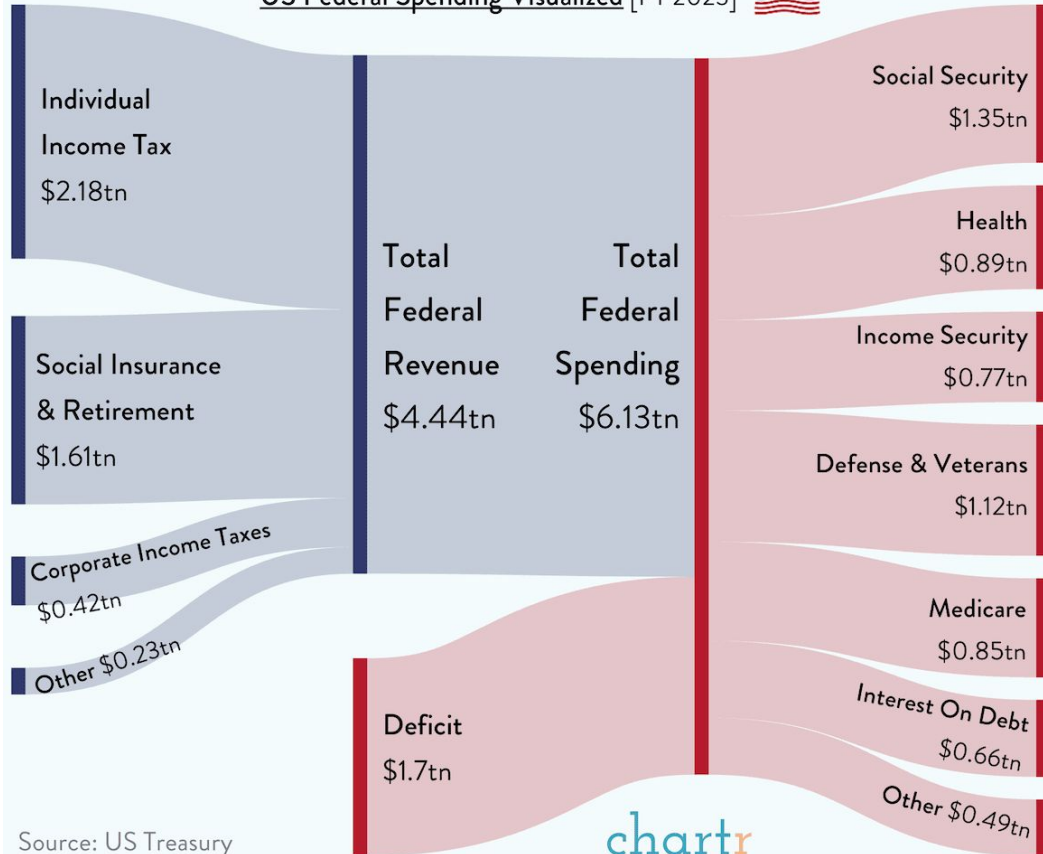
- THEY ARE USED TO AFFECT BEHAVIOR, (but they have consequences)
- **TRUMP'S TWEET: ANY ATTEMPT TO MOVE AWAY FROM THE DOLLAR BY ANOTHER CURRENCY WILL BE MET BY 100% TARIFF**
- Trump tweets - threatens Canada & Mexico with 25% tariffs if they don't stop illegal Aliens & Drugs. (total about \$1T of good imported)
- EFFECT: CONSUMERS PAY HIGHER PRICES (inflation); reduction in goods; Canada (Trudeau) folds; Mexico (Sheinbaum) responds w threatened tariffs.
- Trump tweets - threatens China re. Drugs (Fentanyl via Mexico) -10% tariffs; result-?
- Previously as President, Trump slapped 25% tariff on all Chinese imports (to stimulate manufacturing in the US)
- Consequence: China banned purchase of certain US products: soybeans, corn, pork; all imported from Brazil permanently now
- Recently: China retaliated against HI-TECH chip export ban, by imposing ban on rare earths such as gallium, germanium, and antimony to US; crucial for semiconductors & military equipment
- Cooperation & free trade appeal; threats - beget retaliation, resentment, inflation
- WIN: go for the best result for all involved; THE STICK VS THE CARROT
- FAIR TRADE IS THE BASIS FOR A CIVIL SOCIETY; SOUND MONEY IS THE BASIS FOR TRADE

# Other US considerations: monetary/fiscal/political

- LARGE UNKNOWNNS IN THE NEAR FUTURE
- OUR CURRENT BUDGET DEFICIT FOR Y.E. 9/30/2024 = \$1.8T
- OUR CURRENT CUMULATIVE DEBT = \$36T; i.e. \$102K per person
- We will pay \$1.2T on interest on the DEBT for 2024
- Spending on interest on debt to exceed all other programs by 2050 if no change.
- DOGE - advisory role, not department; to cut 2T\$; by executive order(?)
- Expect substantial political pushback
- Hot war in MidEast, & Ukraine & elsewhere to be replaced by milder but loud threats of tariffs against China, Mexico, Canada, etc.
- Tariffs are a double edge sword; causes inflation at home; retaliation abroad!!!
- Will have serious impact on trade deals worldwide; ripple effect; disruption

# Living Beyond Our Means? America's Latest Federal Budget

US Federal Spending Visualized [FY 2023] 



Source: US Treasury

chartr

# Spending on Interest to Exceed All Other Programs

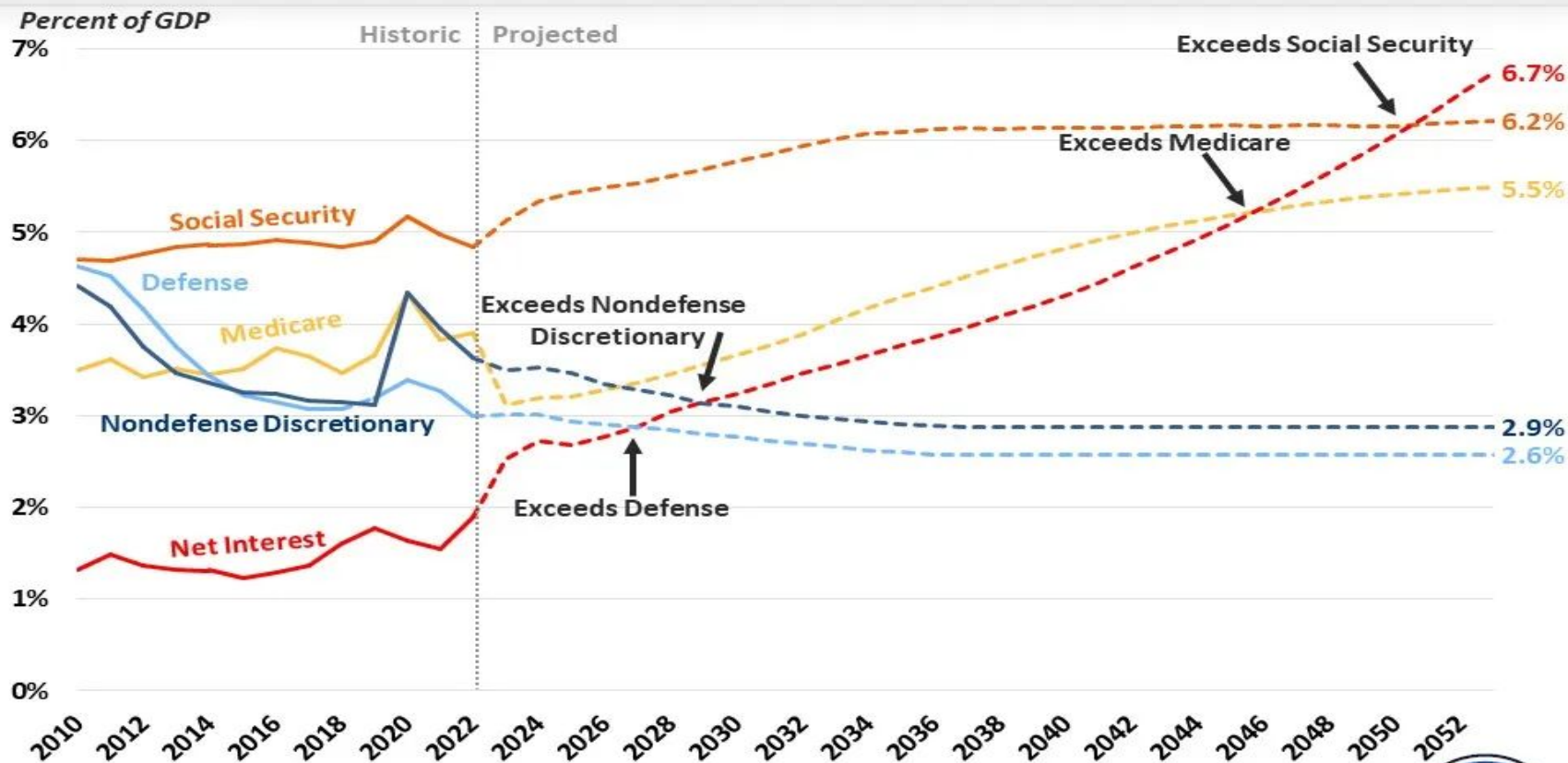
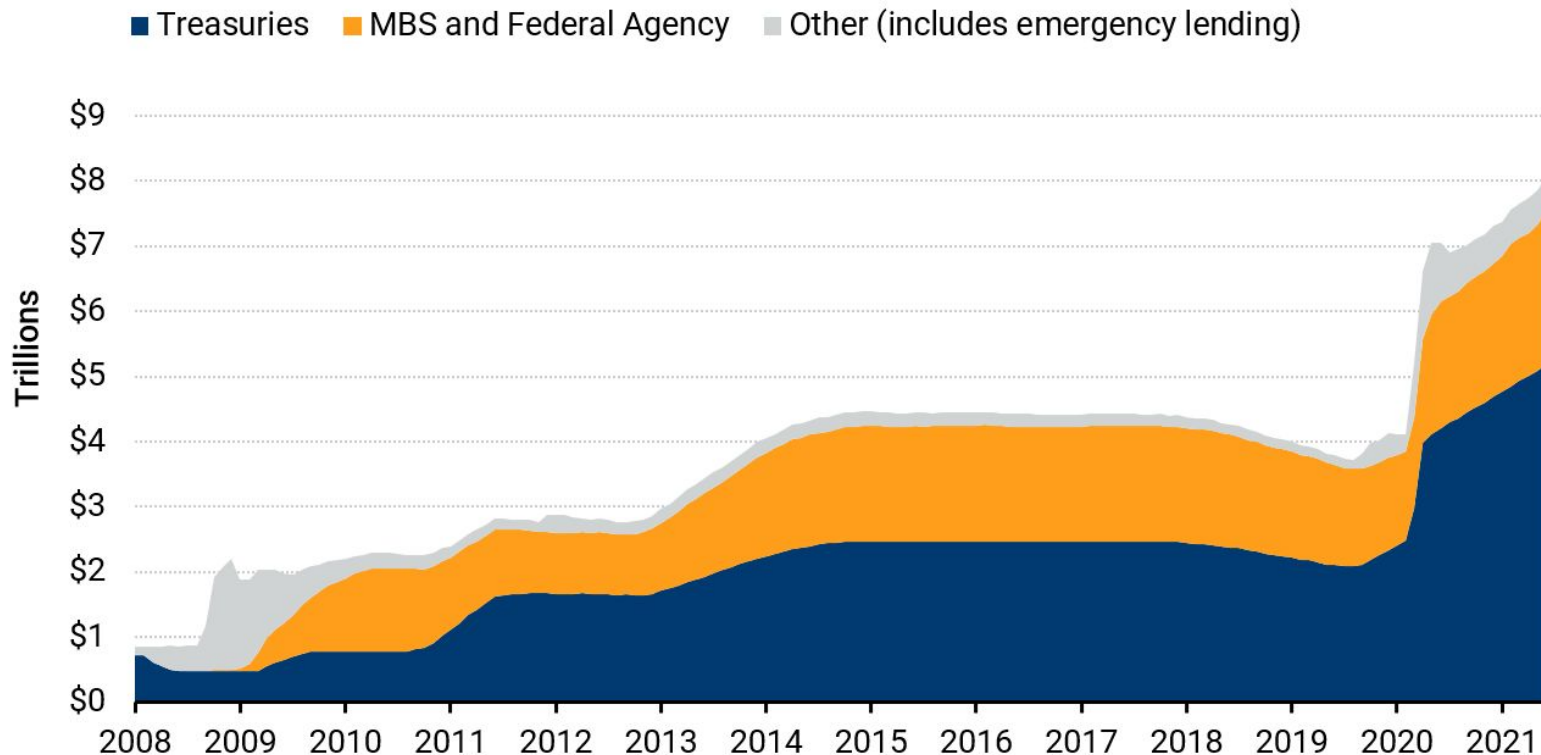


FIGURE 1

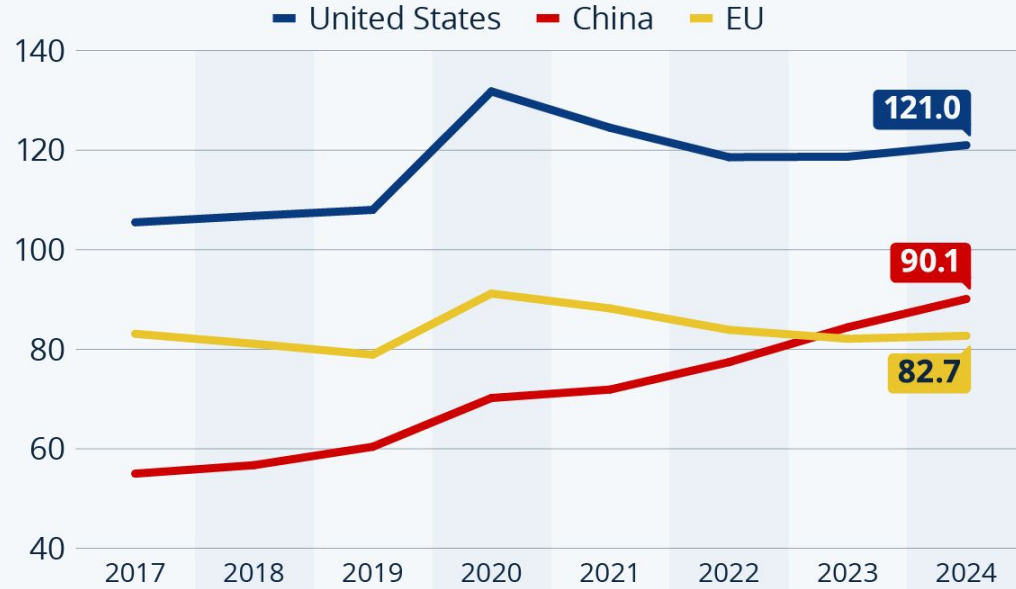
## Federal Reserve Balance Sheet: Assets



Source: Federal Reserve H.4.1 via Haver Analytics

# Public Debt Edges up in U.S., EU and China

Gross public debt (in % of gross domestic product)



As of Oct. 23, 2024

Source: IWF



# Why Bitcoin (over gold or anything else)?

- Fixed amount 21M (Stock to flow)
- Highly liquid; rapid transactions; can buy or sell within minutes
- Decentralized and Independent (not a CBDC(bad!!!!))
- Portability and verifiability - across the globe
- Institutional adoption and use by major companies Best Buy, Microsoft, Tesla
- FOMO among people (now ~\$104; last time I spoke ~\$70)
- FOMO among institutions (hedge funds, Microstrategy, Cosmo Health, Rumble, all 7-8 companies offering ETFs, etc.)
- FOMO among countries reserves (EL Salvador, Bhutan, China, United Kingdom, Brazil, Russia)
- FOMO among States looking to add Bitcoin to their reserves (Florida, Pennsylvania)



# So what do we do? (my opinion)

- MORE INFLATION
  - Past the point of no return on debt
  - Value of the dollar will continue to decline
  - \$1 is worth about the same as a nickel was 100 years ago
- US POWER WILL WANE, BRICS POWER WILL INCREASE, but this will probably be a slow and gradual process over many years.
- INVEST IN HARD ASSETS: Bitcoin, gold, silver, oil & gas, real estate, quality stocks. For bitcoin, if not using a hardware wallet, invest through an ETF: IBIT, FBTC, BTCW, EZBC, ARKB etc. or stock in a company that holds Bitcoin, MSTR
- Live in this country - with all it's problems - It's still the best!