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Augusta Precious Metals Special Report:

Killing the Dollar

The Global Plot Against U.S. Currency

Think the Cold War is dead?

Think again.

There's a new Cold War in play – one that could ultimately prove more harmful to Americans than the Cold War officially recorded in history books. In a worst-case scenario, this one has the potential to seriously alter the global economic landscape, ravaging the U.S. financial system and all that is dependent upon it, including traditional stock/bond-based retirement plans such as IRAs and 401(k)s.

This time around, however, the weapons over which the most powerful and dangerous nations in the world are contending are not nuclear weapons. They are not even conventional weapons. The weapon at issue is…money.

More specifically, it's the money that currently serves as the world's reserve currency: the U.S. dollar.

Because the dollar IS the world's chosen currency, it affords America great power on the global stage, including the ability to pursue its foreign policy aims with relative impunity. But some countries have had enough and are pushing back against America's vast economic strength by attacking the petrodollar, a key form of the dollar-as-reserve-currency.

Petrodollars are used to settle oil contracts around the world, which means practically every nation must hold U.S. dollars. If worse comes to worst and the petrodollar falls and oil becomes widely settled through alternative currencies, it could set off a chain reaction ultimately resulting in the marginalization of the dollar worldwide. This could be a catastrophe for the American economy…which could jeopardize the financial security of retirement investors.

Birth of the Petrodollar

The roots of the petrodollar can be traced back to the 1944 Bretton Woods Conference, where the dollar was chosen as the world's global reserve currency. At that meeting, representatives of 44 allied nations assembled to discuss how to best move forward in the wake of World War II's devastating effects. One of their overriding priorities was creation of an international monetary system so global commerce could be relatively neatly and coherently transacted.

The decision to select the dollar as the "world's currency" was based largely on two factors: 1) America's economy emerged from the war in much better shape than did the economies of her peers, and 2) the United States controlled roughly two-thirds of the world's gold at that time. The latter was particularly significant. To persuade other nations of the world to agree to standardized use of the dollar, the U.S. agreed to redeem dollars for gold at the fixed rate of $35/oz. This established what amounted to an international gold standard.

The system operated for a few decades until the number of U.S. dollars in circulation made it impossible to defend the dollar-for-gold exchange rate of $35/oz. In 1971, President Nixon ended the dollar-for-gold exchange feature of the Bretton Woods System.

The end of Bretton Woods did not magically terminate the U.S. dollar's standing as the world's global reserve currency, but the dollar clearly became vulnerable in a way it hadn't been since 1944. That vulnerability was effectively eradicated with the advent of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation.

In a nutshell, the Nixon Administration successfully negotiated an agreement with Saudi Arabia whereby, in exchange for providing the Saudis with a mountain of regular and ongoing military assistance, the kingdom would agree to price all oil exports in U.S. dollars. That meant anyone who wanted to buy Saudi oil had to first get their hands on dollars.

One provision of the deal called for the Saudis to invest oil proceeds in U.S. government securities and American banks, a substantial benefit for America. "Recycling" petrodollars through the American government and its financial institutions has become standard for many oil-producing nations. It bolstered America's financial resources and power even further. When you hear the U.S. has "frozen the assets" of a foreign country, it means we've prevented that country from accessing its money stored in American banks and investments.

With the Saudi agreement in place, the petrodollar was born and the U.S. dollar's standing as the world's global reserve currency was reconfirmed. More importantly, America's influence on the global stage was reconfirmed, as well.

Petrodollars – America's Economic "Big Stick"

It's difficult to overstate the importance of the petrodollar system to the United States. It is one of the biggest reasons America can operate as the dominant world power even while carrying a nearly-incomprehensible level of national debt (now over $21 trillion). High global demand for U.S. dollars helps the nation not only stay in business but hold influence over other nations despite carrying what should be a crushing debt burden.

Global acceptance of petrodollars is a particular problem for nations regularly at odds with the U.S. The current system gives America an unbridled ability to wage economic war in pursuit of foreign policy goals. This typically is accomplished through sanctions, such as those issued against Iran for its pursuit of a weaponized nuclear program and against Russia for its annexation of the Ukraine in 2014.

Because the oil settlement paradigm requires trades to be settled globally in U.S. dollars, the American government can claim jurisdiction and control the flow of those dollars.

America's Adversaries Begin Pushing Back Against the Petrodollar System

Time moved on and geopolitical perspectives became further removed from the dominant worldviews of the decades after World War II. Other nations sought a new blueprint for international relations that doesn't maintain the United States as the "center of gravity" with economic dominance over its rivals.

Even nations that historically haven't gotten along have decided to join forces to help initiate a loosening of the U.S. petrodollar grip. Two of the more prominent examples of countries that fit this description are Russia and Iran.

In the post-Cold-War period of the 1990s, Iran was already a notable foe of the U.S. and subject to regular sanctions initiated by America. During this same period, Russia embraced the perceived strategic benefits of having a warm relationship with “the enemy of my enemy” and emerged from the decade as Iran’s primary supplier of military weapons, as well as an aide to its nuclear program.[1]

U.S.-Russia relations have never been good, but they sank to their lowest level since the Cold War when Russia annexed Crimea in early 2014. The U.S. and the European Union responded with sanctions. [2] Russian President Vladimir Putin decided he’d had enough. Eager to start moving out from under the U.S. petrodollar thumb, Moscow came to view Tehran – still under U.S. sanctions for its nuclear program – even more favorably as a strategic ally.

In short order, Russia and Iran were assembling a series of cooperative agreements that included a 2014 oil-for-goods deal worth as much as $20 billion. The basic terms of the original agreement stipulated that Russia could purchase as much as a half million barrels of Iranian oil each day in exchange for a variety of Russian goods and equipment. [3]

Details of the arrangement have evolved, but one detail is perhaps most threatening to the petrodollar: the medium of exchange. The deal is rooted in the barter system, which means massive amounts of oil are transacted between two high-profile nations without the use of petrodollars.

Enter China

China has long desired to replace the dollar with the yuan as the world’s leading reserve currency. The Chinese decided the best way to make that happen is through energy. They have been working feverishly to deploy a system where oil is priced in terms of the yuan. If such a system is eventually accepted by other nations of the world, it could be a serious threat to dominance of the dollar and over time could potentially result in disaster for U.S. currency.

What makes China believe it can do this? As the world's number one importer of oil, it feels it's appropriate that the most important commodity on the planet is priced in the yuan. That said, there's much more behind their effort to replace the petrodollar than an urge to satisfy a sense of national pride.

Dumping the Dollar – a Strategic Priority for China and Russia

As two of America's biggest sovereign adversaries, China and Russia see moving away from the dollar as something very much in their respective national interests, no matter how long it takes. Replacement of the dollar with the yuan as the world's primary reserve currency would put China in a global strategic position that was until recently considered unthinkable.

For Russia, a diminished dollar would help free the country of threats from economic sanctions initiated by Uncle Sam.

According to Ed Morse, Global Head of Commodities Research at Citigroup, China wants to take their effort much further. Morse says flatly that China's aim is "to replace the U.S. dollar with China's renminbi (yuan) as not just the means to pay for oil but to settle general trade." [4]

But it begins with oil, and the ambitious effort is already well underway. For China's effort to succeed, other oil-producing countries have to get on board with the new program. And that's happening. Iran, Indonesia and Venezuela already have shown interest in a petro-yuan. In late 2017, Juerg Kiener, chief investment officer of Swiss Asia Capital, noted that the "petro-yuan is 'well-advanced' and already 'structurally in place.'" [5]

A March 2018 news report from Reuters validated Kiener's assessment, saying that China is preparing to launch a "pilot program" in which it pays for imported crude oil with yuan rather than U.S. dollars. According to the same report, regulators have been approaching financial institutions to ask they be prepared to price China's crude oil imports in yuan.[6]

Another March 2018 news report from Reuters concluded that, while there are some early warning signs, any real threat to the dollar's pre-eminent position as the premier global reserve currency "would take years to materialize given its commanding share of global reserves and a relative paucity of alternatives." [7]

Some predict a looming dollar collapse, while others predict a slow decline, but, either way, the dollar appears to be moving toward some type of marginalization.

Worst Case Scenario: If the Dollar Collapses

No matter what the time schedule, if a worst-case scenario happens and the dollar declines too far, it's not hard to imagine it could cause outright economic turmoil. If it completely collapses, investors likely would flee traditional assets and there would be effectively no demand for Treasuries. Interest rates could soar, along with inflation, which could affect many other aspects of our lives. Unemployment could be stunningly high.

Even though a worst-case scenario may not happen soon, and may never happen, there is a very real chance the dollar still will lose some power in the market, and if that happens investors ranging from individuals to foreign governments that own anything denominated in U.S. dollars likely would be faced with owning assets worth less, making it difficult or even impossible to realize a positive return from the sale of those assets.

Dollar Threat Just One of Many Potential Economic Challenges to Your Financial Security

An increasing number of financial experts have been talking about strategies to overcome any potential negative market scenario up to and including the collapse of the dollar. Awareness of such strategies is essential to your long-term financial well-being.

The first step is understanding the many current threats you must take action to fight against. A significantly marginalized dollar could prove catastrophic, but it would be a grave mistake to think it's the only threat to the economy and your personal financial security. For reasons including but not limited to the demise of the dollar, investors today need diversified vehicles that run counter to the dollar's value without correlating too closely to traditional assets such as the stocks and bonds typically held within retirement accounts.

Among the most destructive challenges American investors currently face is the threat of another massive financial crisis, including a crash in the equities markets many say is just a matter of time. The reasons a major financial crisis could be looming are almost too numerous to detail.

First, there's the rapidly mounting total global debt now close to a staggering $250 trillion and representing roughly 315% of global gross domestic product (GDP). For perspective, as the 2008 financial crisis was unfolding, global-debt-to-GDP then was roughly 270%.

Exacerbating the threat of the global debt time bomb are other threats, such as the worsening trade environment and a newly-entered climate of higher interest rates. For global debt to remain a "contained" problem, the incomes necessary to service that debt also must rise. However, current trade conflict has signaled possible economic slowdowns.

Furthermore, higher interest rates mean all that debt is about to get a lot more expensive, making it even more difficult for incomes to keep pace with the obligations. Unprecedented global debt, potential economic slowdown and higher interest rates are a dangerous mix for the U.S. economy and for your retirement security.

Factors such as these are prompting some of the world's leading investors to predict a stock market crash. For example, Dr. John Hussman, Ph.D., economist and founder of Hussman mutual funds, has projected the Dow Jones Industrial Average will tank by nearly 70% in the near term.[8]

And there's also serious talk of a stock market malaise that could last for years. Analysts at Morningstar are saying equities are on the verge of a "lost decade," with investors unable to realize "any real return from U.S. equities over the next 10 years."[9]

In other words, even if one were to set aside the very real risk to the U.S. dollar posed by the strategic efforts of China, Russia and many other nations, there remain enormous threats to your financial security in the realm of traditional financial markets and assets. This is why it's essential to consider including alternative assets such as precious metals in individual financial portfolios.

The Physical Security of Your Assets Is Now at Risk As Never Before

There are many compelling economic and personal financial reasons to protect your savings with physical precious metals. Historically, metals have an extremely low correlation with traditional assets. Gold and silver prices have a record of rising substantially during periods of great volatility. This means precious metals can provide the effective diversification heavily prized by investors but rarely achieved through paper assets.

It's also important to recognize that threats to your financial well-being aren't limited to attacks on the dollar and other adverse economic influences. The physical security of your hard-earned savings is also at great risk due to growing threats to money held by banks, brokerages and mutual fund companies.

Federal rules passed in the last few years erode the security of money market funds. So-called "money market reform," which took effect toward the end of President Obama's term in office, includes provisions designed to relieve stress on the funds during financial crises.

However, during periods of significant economic turmoil, under the new rules, investors in money market funds could see their accounts frozen and even lose principal. This is an unheard-of development in the administration of accounts that typically have been viewed as same-as-cash instruments.

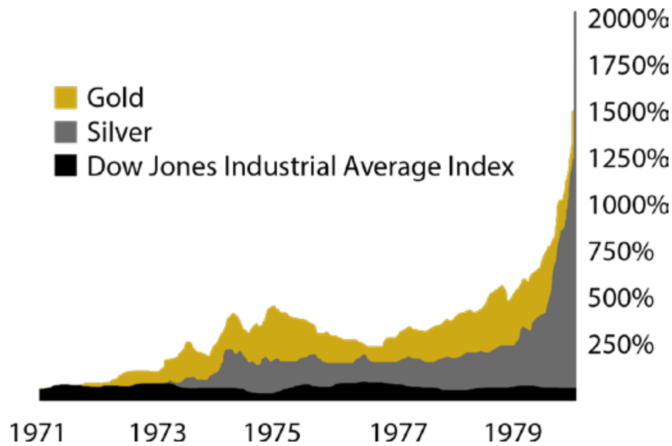
The bottom line: today's paper assets are also digital assets, and digital assets can be vulnerable to everything from bank errors and hackers to misguided regulatory action. Physical assets, such as gold and silver, that can be maintained away from banks and serve as genuine stores of value are excellent options to help ensure the security of your hard-earned savings.

Gold and Silver: Safe Haven and Capital Appreciation

The nature of global geopolitical and economic dynamics has changed in many ways over the last 100 years or so. But there has been an important constant.

Precious metals such as gold and silver remain the same stores of value they have been since practically the beginning of time. During periods of great economic upheaval, gold and silver have shown themselves to be reliable safe havens when traditional assets – including cash – are tremendously vulnerable. Read on to learn about market performance of gold and silver.

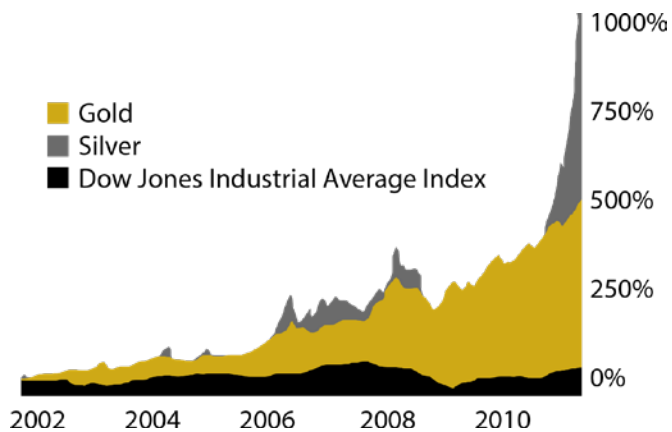
Precious Metals Thrive in the 1970s, the Worst Economic Decade Since the Depression



Performance of Silver, Gold, and the DJIA from January 1970 to January 1980.

The 1970s were one of America's worst economic decades since the conclusion of World War II, and it is considered to be the worst decade for the industrialized nations of the world since the Great Depression. Known domestically as the decade of the "Great Inflation," the years were characterized by substantial weakness manifested in numerous ways, including a stagnant U.S. equities market, double-digit unemployment, and a rate of inflation over 13 percent in December 1979. During this period, precious metals soared. While the Dow Jones Industrial Average barely climbed – about 2 percent – from January 1970 to January 1980, gold and silver skyrocketed. Gold rose roughly 1,500 percent, and silver did even better, returning a stunning 2,100 percent to investors.

Gold and Silver Strengthen During Years of Upheaval in the New Millennium



Performance of Silver, Gold, and the DJIA from April 2001 to April 2011.

Another period fraught with trouble for both the U.S. and global economies was the first decade of the new millennium, leading into the first few years of the current decade. The world suffered through the crash of the dot-com bubble and the devastating 9/11 attacks, which shot global terror to a level previously unseen in human history. From 2007 to 2012, the Great Recession crippled the economies of nations around the world. From April 2001 to April 2011, the Dow Jones Industrial Average fought many headwinds to rise just 31 percent. Gold and silver increased 500 percent and 1,000 percent as shown in the chart displayed to the right.

How to Protect Yourself from the Demise of the Dollar

As you can see, the tendency of precious metals to rise in value when the market is dropping have made gold and silver genuine safe havens. We're talking about time-honored, reliable stores of value – alternative assets that exist outside of financial markets and are uncorrelated with traditional assets such as stocks, bonds, and even real estate. The problem is that these safe havens don't work for investors unless this protection is implemented before the dollar's demise affects the market. Just as China, Russia, Iran, and a growing list of other nations are moving ahead full-steam with their plan to replace the dollar, investors must be just as deliberate in their own preparations to survive those efforts.

The nations behind these efforts to destroy the dollar aren't even trying to hide what they're doing. No one knows for sure how far their actions will go and how much damage the dollar will sustain, if or when it might happen at all – or how fast it might happen. Ultimately, each individual investor must come to their own conclusions. However, it's reasonable to assume the tendency of gold and silver to remain strong when the dollar is weakening would be a benefit at any time to safeguard investor portfolios.

If you believe a physical gold and silver investment fits your personal financial strategy, let us help you get ready for whatever comes.* Call Augusta Precious Metals at 855-242-4121 to request a customized physical gold and silver IRA/401(k) investment guide. Find out how easy it is to roll over some of your current retirement plan into an IRA made up of true stores of value. In the meantime, keep up with ongoing news about the dollar and other concerns involving U.S. and world markets in the Resources/Market News section at Augustapreciousmetals.com. Sign up to have weekly notices delivered to your inbox.

China's attack on the U.S. dollar is real, and other nations are falling in line to supplant the U.S. dollar on the global stage. Don't let your financial security be a part of the new Cold War's collateral damage. Call Augusta today.

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[2] Ibid.

[3] ZeroHedge. "Petrodollar Under Threat As Russia And Iran Sign Historic 500,000 Barrel A Day Oil Deal." ZeroHedge.com. https://www.zerohedge.com/news/2014-08-06/petrodollar-under-threat-russia-and-iran-sign-historic-500000-barrel-day-oil-deal.

[4] Ed Morse. "U.S. set to become swing oil supplier." Financial Times, 14 February 2018. https://www.ft.com/content/49354866-117d-11e8-8cb6-b9ccc4c4dbbb.

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[6] Chatterjee, Sumeet, and Meng Meng. "Exclusive: China taking first steps to pay for oil in yuan this year – sources." Reuters.com. https://www.reuters.com/article/us-china-oil-yuan-exclusive/exclusive-china-taking-first-steps-to-pay-for-oil-in-yuan-this-year-sources-idUSKBN1H51FA.

[7] Leong, Richard. "Dollar Decline Rekindles Reserve Currency Woes." Reuters.com. https://www.reuters.com/article/us-global-dollar-analysis/dollar-decline-rekindles-reserve-currency-worries-idUSKCN1GJ2XW.

[8] Kolakowski, Mark. "Why the S&P 500 May Fall More Than 60%: Hussman." Investopedia, 6 August 2018. https://www.investopedia.com/news/why-sp-500-may-fall-more-60-hussman/.

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