

Von Greyerz, Stoeferle and Grant Williams Address De-Dollarization, Sanction Game Changers and the New Era Ahead

written by Egon von Greyerz | April 21, 2022

Matterhorn Asset Management (MAM) founder, Egon von Greyerz, sits down with MAM advisors, Grant Williams and Ronni Stoeferle, to discuss the current and “perfect hurricane” of de-dollarization in global markets.

Turning first toward the new direction in commodity pricing, Ronni reminds that last year the commodity prices were already up by 27%. Thus, the West simply can't blame the break-out in commodities on Putin's “disruptions” in the Ukraine, which was merely an accelerator of an already structurally broken Western system marred by extreme fiscal and monetary extravagance.

Grant then turns to the “Russian Question” to discuss the massive ramifications of the most extreme financial sanctions ever imposed in history. For Grant, the sanctions were an absolute game changer, and have shown the rest of the world (and its central banks) that FX reserves in general and the US Treasury in particular can be dangerous weapons and hence less trust worthy today than they were yesterday. This shift (i.e., distrust) cannot be over-stated enough for its far-reaching consequences on the petrodollar, the USD, the *process* toward de-dollarization, globalism's decline and shifting power-dynamics in the future global landscape. Putin, despite the atrocities of war, has far more financial power and options than reported by the West, whose sanction policies were not well-thought out. In short: February of 2022 will be as important a period as August of 1971 in terms of altering the global financial system.

Russian's central bank announcement to pay 5000 RUB per gram of gold (52 USD at the time) came when gold was trading at \$68/gram. At first, the West laughed. But since, the Russian *linkage* (as opposed to *backing*) to gold has helped strengthen the RUB.

Looking at the EU, the massive dependence on Russian energy places the European economy in a precarious position, and could help tip the EU into a recession as the US Fed tightens dollar liquidity in DC.

Ronni feels the big question going forward is what will central banks do next? Egon wonders how markets can survive inevitable rate hikes to combat inflation. Grant wonders if Fed “tough-talk” will in fact be followed by actual hawkish policies. The bond market is pricing in a rate hike, and this will hurt equities. The only way out, as Grant sees it, is a gentle deflation of stock and housing markets. Egon wonders if this can actually be done in an “orderly” manner. All agree this is unlikely.

In short, the big question is: Can interest rates get where they *need* to go, or will they simply go where they *can* go? Grant feels the reality is one of low-rate addiction, and hence low-rate policies going forward, despite the hawkish talk from central banks.

Ultimately, as Egon reminds, centralized planning has never ended well, and to expect anything different this time would be a mistake. Grant mentions the disorderly move toward the Fourth Turning as trust in policy makers and systems moves from gradual to extreme. Food, energy and shelter, Grant reminds, are key price points with emotional/human triggers that create pain, and hence tilt toward chaos. Rising petrol prices, exacerbated by current sanctions and de-dollarization, only accelerates such human tipping points.

As debt disasters lead to currency and market disasters, the topic of gold is no longer one of theory but of essential importance. The time for leaving equities and embracing real assets and precious metals is clearly now. Egon asks Ronni if investors will see this, or just ride the same risk-parity wave into the rocks? For Ronni, the bond market is the thing, and "balanced portfolios" of credits and equities is a danger, given that both asset classes are over-valued, at risk and increasingly correlated. Stagflation is likely, which is the enemy of standard stock/bond portfolios. Meanwhile, gold's move has yet to reflect the current reality.

Grant reminds that Western markets were founded upon due process and the rule of law which creates trust. Recent Western moves to weaponize FX reserves have irrevocably shattered that trust. As the USD and UST emerges as less of safe-haven and de-dollarization accelerates, gold will re-emerge as the more trusted asset and a greater allocation in future portfolios.