

# Regarding the Resurgent Ruble

By [The Mogambo Guru](#)

06/05/06 **The Daily Reckoning PRESENTS:** For many years, the U.S. dollar has been the king of the world currencies. But as China continues to purchase U.S. debt and the demand for oil increases, the Russian ruble might just be the currency to upset the dollar from its throne. From his bunker, the Mogambo Guru has more on this...

## REGARDING THE RESURGENT RUBLE

I keep looking in wonder at the action in precious metals, and I wonder to myself: "I wonder what in the world is going on?"

If I was the head honcho in China, then I could tell you what I, Emperor Mogambo, would be doing that could explain it. I would be accumulating gold (and lots and lots of it), because my clever Asian reasoning ran along these lines. "Confucius say; 'Do you honestly think that foreign investors are interested in long-term investments in China, when Chinese history is one long and sad tale of xenophobic, confiscation-loving, imperialist, repressive government, just like all the rest of the world's governments, only this time we are communists, too? Why in the world would anyone trust China or Chinese money?'"

To answer the question, I would cleverly review American history, especially that part where America rose from nothing to be an economic superstar and dictatorial overlord of the world. In doing so, I would discover ("All hail Emperor Mogambo for his discovery!") that it was done by gold being money.

Then perhaps, as the new Chinese leader, I would take a few grudging minutes away from auditioning pretty dancing girls for my new Fabulous Mogambo All-Girl Review (FMAGR) to read the Sandra Ward interview of James Turk, founder of Gold Money.com, in Barron's magazine. It is entitled "Yes, \$8,000 An Ounce," which is a real nice way to get my attention. And it did. She writes that Mr. Turk, speaking about Ben Bernanke, says, "he seems to be focused on the deflation in the 1930s, and this is quite alarming. What we don't need today is a greater supply of dollars. What we need is a greater demand for dollars. The way you improve demand for dollars is to take those steps that will give people confidence in the dollar and its purchasing power for a long, long period of time."

With typical Chinese logical precision, I merely come to the conclusion that since we Chinese own so many dollars and dollar-denominated assets, and since gold is cheap, cheap, cheap by any metric, then the optimal strategy would be to accumulate all the world's gold, starting with the biggest hoarder of gold, the U.S. Federal Reserve.

And as the All Powerful Mogambo (APM), glorious new emperor of China, I would instruct my ministers to tell that little pipsqueak Bush that I want him to pack up all the gold and ship it to me, collect, or I'll sell his stupid bonds and stocks so fast that he will probably make a mess in

his Occidental pants as he re-discovers exactly who is actually the boss in the creditor/debtor relationship.

And, to make matters worse for the dollar, there are also indications of an Asian Currency Unit forming, mostly consisting of China and Japan, to trade goods and services their currencies, too.

It is not just the Chinese setting up shop, or the Iranians, or the South Americans – now we also see that the Russians have decided they want to open an exchange to trade in oil, gas, and other goods. They desire that it all be paid for with rubles.

Another big reason, aside from the prestige, is that the velocity of money will, necessarily, increase as it comes pouring through the many intermediaries in the Russian marketplace. No doubt Mr. Putin was looking at the past century, where gigantic money flows in the American oil market produced American-made fortunes, as each American intermediary raked off another few bucks as the money went boinka, boinka, boinka through the system, and then, multiplied by the Required Reserve Multiplier, into the economy as “growth.” And that is good for profits, higher local real estate values, wages, economy, standard of living and a feeling of prosperity that makes for easy-pickings in the corruption department.

How soon will all of this happen? Well, Julian Phillips of the GoldForecaster.com reports that Putin said, “work on making the national currency fully convertible should be completed by July 1, almost six months ahead of the original January 1, 2007 deadline.” July first! Of this year!

So, are foreigners ganging up on us? Yeah, I figure they are. And for good reason: We Americans treat every treaty like the ones we made with the American Indians. Without exception (as far as I can tell), we Americans gave them the short end of the stick. From there, we lied, broke every treaty, stole everything they had, and then killed most of them if we ever had the slightest reason – no matter how slight or temporary, to do so.

And (fast-forwarding to today) like the dirty, deal-breaking, little back-stabbing crooks that we now are, we have also allowed Alan Greenspan and the Federal Reserve to renege on the international deal whereby every country gave up pegging their currencies to gold and instead, pegged their currencies to the dollar, while we, (aka “Great White Father in Washington”) would promise to faithfully hold the dollar constant, in terms of buying power, thus achieving the stability of the gold standard without all those inconvenient gold-standard duties (not to mention the restrictions on government spending and bank revenue).

Although nobody literally said, “We smoke-um peace pipe. Make mark on white man’s treaty paper,” the result was exactly the same. And now these foreigners are angry and simply want their money back. Or at least get the heck out of the system.

One result is how Jim Willie CB, of GoldenJackass.com, sums it up when he writes, “World finance ministers have lost confidence in the U.S. dollar. The G7 Meeting communiqué, announcements by Japanese leaders, statements from European bankers, warnings out of Beijing, outcries from South Korea, criticisms from Russia, agreements in Asia, even statements by the IMF, they all add up to a global banker revolt. U.S. imbalances are not being rectified. The

Russian finance minister Kudrin openly questions the U.S. dollar as worthy, given substantial and chronically dangerous deficits.”

Alert reader John P. is walking by, and I shout out, “Hey! John! What’s happening, dude?” He says, laconically, “the world is sending loud signals that that support is about to end...and badly.”

And what happens next? Mr. Willie says, “Expect a rocky several months to contain turbulence, minor panics, and some derivative accidents (likely in bonds).”

And let’s remember that derivatives are merely big, big, big bets used, theoretically, as insurance against movements in interest rates or currency exchange rates for contracts that contain fixed notional amounts of money. How big is this market? I thought you would never ask! Estimates put it somewhere around, oh, say \$300 trillion to maybe \$450 trillion dollars, which is 10 times or 1,000% bigger, than the entire global GDP of every person and every company in every country on the face of the planet added together!

Julian Phillips says that this Russian ruble thing is “the second most significant step in removing the U.S.\$ from the throne of sole global reserve and trading currency! Should any more oil producers take this step, it will precede a U.S.\$ crisis and create massive potential instability in the globe’s foreign exchanges.” He goes on to say that this is “important to gold.”

I raise my hand and ask, “Why is the ruble trading in the markets ‘important to gold?’” Mr. Phillips immediately realizes that I am the “slow one” in the class, and wouldn’t understand the answer even if he explained it to me a dozen times. So, he answers by merely repeating, “Needless to say, these moves are very, very positive for gold.” And it worked! Now, I am fixated on the use of the phrase “very, very” as a modifier to the subsequent phrase “positive for gold.” My Grubby Mogambo Greed Antenna (GMGA) actually tingled! OooOOOoooh!

Then he asks, I assume rhetorically, “If Putin keeps his word on the gold front, we should expect Russia to enter the gold market as a buyer soon, too?”

I almost broke an arm, waving it in the air, excitedly crying out, “Yes, it does! It means exactly that! They had better be accumulating gold! And the reason that I think so is simplicity itself: Would you trust the Russians, the Chinese, or anybody to maintain exchange stability, using a fiat currency, so that you could invest long-term with confidence? You would? Hahahaha! Why in the world would you do that?”

I notice that my laughter rings hollow in the empty room. They have all gone. Nevertheless, I provide, as a coda, “You can ask all the experts you want, but not one of them can name one instance where, long-term, people who trusted governments came out ahead. Go ahead! Name just one! Hahaha! They can’t! Hahahaha!”

Until next week,

The Mogambo Guru  
For The Daily Reckoning  
June 5, 2006

**Mogambo sez:** If you are not buying gold, silver and oil stocks now, then you are either a) not as bright as you look, or b) already up to your eyebrows in gold and silver. There are no other permissible excuses.