

Two Worlds Collide: The Financial/Political Elephant, May 19, 2014  
Doug Wakefield



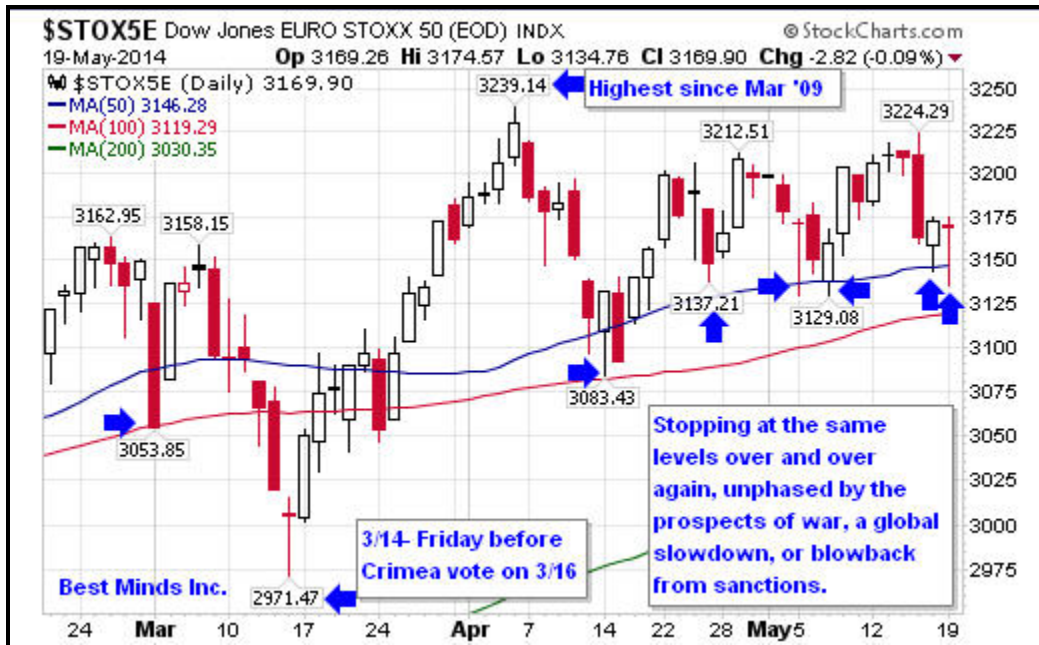
[Source – [Seen on the New Donetsk Republic Leader's Wall....](#), Zero Hedge, May 12]



“In politics, nothing happens by accident. If it happens, you can bet it was planned that way.” Franklin Delano Roosevelt

Anyone looking solely at the patterns of US and European stock indices in the last three months since Ukraine became the center of escalating tensions inside the nation and outside between Russia and Europe & the US, would come to the conclusion none of this had anything to do with the lives of billions depending on our global financial markets. When we consider the cracking of the largest real estate bubble in history in China, as they strengthen their relationship with Russia and Europe simultaneously, it seems surreal to watch western markets give off the impression that none of these events could impact their stock “nirvana” state.





Yet, the juxtaposed worlds of calm US and European markets with escalating tensions between Russia and the West – remember, first quarter growth (GDP) in [the US](#) and [Europe](#) was slightly above zero in both of these major engines of the global economy - have created a cognitive dissonance between these two views of the current financial landscape and the idea of risk.

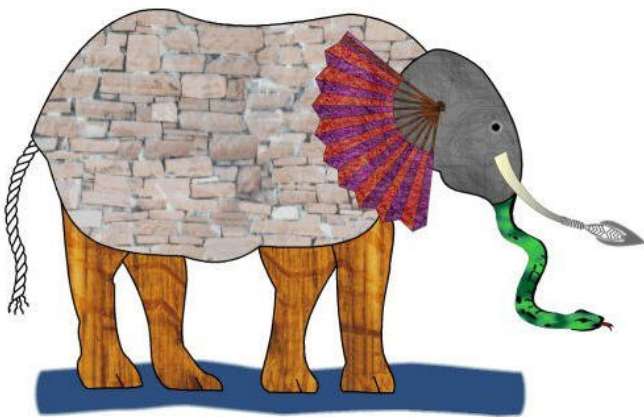
What are we to make of the “elephant” that entered our daily news in the last 3 months? Is it worthy of our attention, or a side issue in the larger global picture?



This article is laid out according to John Godfrey Saxe's poem of an Indian legend, [The Blind Men and the Elephant](#). I have left my own comments until the end, since I believe the collection of news sources is even more powerful.

I hope that you will take time to investigate each of these themes, since they reveal various aspects of "the elephant" we normally may never consider. How much longer can global trading computers and individuals ignore its presence?

## THE BLIND MEN AND THE ELEPHANT



## **Belly – Business Impact Between Russia and Europe**

[Ukraine Crisis: Why it Matters to the World Economy](#), CNN Money, Mar 3

Russia supplies about 25% of Europe's gas needs, and half of that is [pumped via pipelines](#) running through Ukraine.

[Ukraine's Crisis: Economic Sanctions Could Trigger a Global Depression](#), News Junkie Post, Mar 15

Sanctions on Russian exports would greatly expose the EU. Europe imports 30 percents of its gas from the Russian state-owned company Gazprom. Russia is also Europe's biggest customer. The EU is, by far, Russia's leading trade partner and accounts for about 50 percent of all Russian exports and imports. In 2014, EU-Russia overall trade stands at around 360 billion Euros per year. The EU is also the largest investor in the Russian economy and accounts for 75 percent of all foreign investments in Russia.

Rosneft is the largest listed oil company in the world and, as such, has partners worldwide, including in the West. For example, the US-based company Exxon-Mobil has a \$500 million oil-exploration project with Rosneft in Siberia, and Exxon-Mobil is already in partnership with the Russian giant oil company to exploit Black Sea oil reserves.



[German Business Concerns Grow Over Russia Ties](#), Financial Times, Mar 27

Russian president Vladimir Putin kept Joe Kaeser waiting for an hour before their meeting this week at his residence outside Moscow.

That gave Siemens' chief executive a chance to ponder how he was going to explain to a German TV audience that evening why he called on Mr Putin even as the US and Europe were trying to further isolate Russia over its actions in Crimea.

The German engineering company has pledged to invest €1 bn in Russia and sells express trains, energy infrastructure and medical technology there.

Although Siemens' boss gave every impression of conducting business as usual, German companies are deeply concerned about their business ties with Russia and most oppose economic sanctions.

German entities have invested roughly €20bn in Russia and some 6,200 companies – mostly small and medium-sized Mittelstand businesses – are active there. Last year trade between the two countries totaled more than €76bn. These business links are a restraining hand on Berlin as it considers further action against Russia; Berlin is well aware that restrictions that hurt the Russian economy could also hurt Germany too.

[European Business Hit By Russian Slowdown](#), WSJ, May 7

A swath of companies, from banks to brewers, are taking big hits to their bottom lines caused by the political uncertainty surrounding Moscow's standoff with the West over Ukraine and the dwindling Russian economy.

[Visa, MasterCard to pay \\$3bn to stay in Russia - Morgan Stanley](#), RT, May 15

Under Russia's new legislation, Visa and MasterCard will have to pay \$3 billion in 'security fees' to continue operating in Russia, more than five times higher than the companies combined revenues, a new Morgan Stanley report says.

Under the new plan, Visa will be required to pay Russia's Central bank \$1.9 billion, and MasterCard will have to fork out \$1 billion, according to an estimate by Morgan Stanley, Kommersant reported on Thursday.

Russian President Vladimir Putin signed a law on foreign payment systems on May 5 that requires foreign payment systems to be levied at 25 percent of an average amount of transfers profit during one calendar day in Russia, to be paid each quarter to the Central Bank. The law will be enacted on July 1.

Morgan Stanley has calculated that it is unprofitable for both Visa and MasterCard to continue to work in Russia.

**Trunk –International Banking Centered Around Ukraine**

[Ukraine bond investors remain anxious despite relief rally](#), Reuters, Feb 24

While bond markets have reacted jubilantly to the possibility of Western aid for Ukraine, big-name investors are worried about how fast Kiev can secure a rescue and whether an IMF bailout may reschedule its debts.

[Europe banks get downgrade warning amid 'bail-in' concerns](#), CNBC, Mar 5

Credit ratings for European lenders could be slashed by one or two notches as the move towards "bail-ins" away from government "bailouts" continues to evolve, a leading credit agency [S&P] warned.

Following similar moves in the U.S., European banks could lose top investment grade ratings if regulators continue to look at ways to avoid taxpayers having to prop up struggling banks, as they did at the height of the global financial crash of 2008.

[Crimea Bank Runs Began As 'Bail-In' Risk Arise](#), Zero Hedge, Mar 13

While the sight of Russian flags, pro-Russian troops, and Russian navy ships in Crimea is now a day-to-day thing; this morning brings a new normal for the eastern Ukraine region - long lines at bank ATMs as the bank runs have begun.... it is Deutsche Bank's comments this morning that raised many an eyebrow as they suggest that Ukraine's debt is pricing in a "burden-sharing" haircut for bondholders (which as we have seen in the past - in Cyprus - can quickly ripple up the capital structure and become a depositor haircut).

[Ukraine Troubles Europe's Banks: European and Russian Banks Exposed to Eastern Europe See Shares Slide](#), WSJ, March 3

Escalating tensions over Russian military intervention in Ukraine rippled through Europe's banking sector Monday, hitting banks exposed to Eastern Europe.



The prices of European bank stocks and bonds tumbled, some banks operating in Ukraine imposed limits on withdrawals from their cash machines, and one bank put on hold the process of selling its Ukrainian unit.

Russian banks suffered the most, with London-listed shares of OAO Sberbank and OAO VTB, the country's two largest lenders, fell more than 16% and 18% respectively. Shares of UniCredit and Société Générale, which owns one of Russia's largest retail and corporate banks, both fell about 5%.

[The Looting of Ukraine](#), Paul Craig Roberts, March 6

According to a report in Kommersant-Ukraine, the finance ministry of Washington's stooges in Kiev who are pretending to be a government has prepared an economic austerity plan that will cut Ukrainian pensions from \$160 to \$80 so that Western bankers who lent money to Ukraine can be repaid at the expense of Ukraine's poor....



This supporter of the Ukraine joining the EU has received her [reward](#): a 50% cut in her pension.

The corrupt Western media describes loans as "aid." However, the 11 billion euros that the EU is offering Kiev is not aid. It is [a loan](#). Moreover, it comes with many strings, including Kiev's acceptance of an IMF austerity plan.

[Ukraine To Get \\$17 bn in IMF Loans](#), AlJazeera, May 1

The International Monetary Fund has approved a \$17bn two-year loan programme for Ukraine, as Kiev continues to fight pro-Moscow separatists in the east of the country.

Wednesday's action by the IMF's 24-member executive board, which includes representatives from Russia and the United States, opens the way for an immediate release of \$3.2bn to Ukraine, which faces deep fiscal problems in addition to months of political crisis.

The loans are subject to IMF demands that Ukraine cuts subsidies for fuel, reduces its large deficit, controls pay rises, reduces corruption, and reforms its banking system.

[Russia backed IMF Ukraine loan but thinks Kiev might slip](#), Reuter, May 13

Russia supported an International Monetary Fund package for Ukraine last week but sees risks of Kiev failing to meet the criteria, Deputy Finance Minister Sergei Storchak said on Tuesday.

The IMF signed off on a \$17 billion bailout for Ukraine last week, with tough conditions including steep gas tariff hikes, a floating exchange rate and reducing the budget deficit by about 2 percent of GDP each year from 2014-2016.... He (Storchak) added that "the success of the programme very strongly depends on several risks which Ukraine, judging by everything, doesn't control yet".

Meanwhile, Ukraine has accused Russia of using gas as a political weapon, as Russia demands prepayment of \$1.66 billion for June gas deliveries.

## **Tusk – Financial Sanctions**

[Obama Issues Executive Order on Ukraine Sanctions](#), CNN Politics, March 6

President Obama signed an Executive Order Thursday allowing the U.S. government to impose a host of sanctions on both individuals and entities deemed to be violating Ukraine's sovereignty and territorial integrity.

In a phone call with reporters, senior administration officials discussed the Executive Order and said it is intended to, "send a strong message that we intend to impose costs on Russia for this intervention." And will give the U.S. government "powerful and flexible tools" to target those who are believed to be violating international law.

[G7 countries snub Putin and refuse to attend planned G8 summit in Russia,](#)

The Guardian, Mar 24

Western countries and Japan have suspended their 16-year collaboration with Russia in the G8 group in response to the annexation of Crimea and have threatened sweeping sanctions in the event of any Russian military moves in the region.

The move, a clear and deliberate break from the post-Soviet status quo, was intended to underline Russian isolation....

The G7 leaders issued a joint statement, under the title of the Hague Declaration, saying they would not attend a planned G8 summit in Sochi in June but *would instead convene without Russia in [Brussels \(on June 4-5\)](#)*. [Italics mine]

[EU, US sanctions on Russia: Big Oil stands with Moscow – for now,](#) The

Christian Science, April 29

Undeterred by a new round of Western sanctions on Russia over Ukraine early this week, the world's leading energy firms are moving ahead with major oil and gas projects in Russia. EU and US sanctions targeting individuals and ancillary companies have given American and European firms little reason to change course on ventures that could yield billions in new resource flows, largely in Russia's coveted Arctic region.

Moscow, in turn, has little reason to react. With the continued backing of BP, ExxonMobil, Royal Dutch Shell, and others, the Kremlin can feel better about its economic outlook. It's why some in Washington and Brussels have called for more aggressive measures that target entire energy companies, or even the

industry as a whole, which makes up about half of the Russian government's revenues.

[Merkel, Hollande ready for further sanctions against Russia](#), Reuters, May 10

Germany and France are ready to agree more extensive sanctions against Russia if a planned presidential election in Ukraine on May 25 is foiled, Chancellor Angela Merkel and President Francois Hollande said on Saturday.

In a joint statement, they agreed to support tougher sanctions against Russia - affecting areas such as energy, defense, financial services and engineering - than European Union leaders outlined at a meeting in Brussels on March 6....

The May 25 election is to choose a successor to President Viktor Yanukovich the pro-Russian president of Ukraine toppled by unrelenting protests. Russia then seized and annexed Ukraine's Russian-majority Crimea region, citing threats from what it called far-right extremists in the new Kiev government.

### **Knee – Military Escalation**

[Russia Launches ICBM Despite Rising Tensions](#), ABC News, March 4

Russia test fired an intercontinental ballistic missile today amid growing tensions between Moscow and Washington, but a U.S. official said the launch was planned in advance of the current crisis in Crimea....

A U.S. official confirmed the ICBM launch and said it was carried out through protocols of the START Treaty.

[Dutch Fighter Jets Intercept 2 Russian Bombers in Their Airspace](#), CNN, Apr 23

Dutch fighter jets scrambled Wednesday to intercept a pair of Russian military aircraft that entered their airspace, a fairly routine action that comes amid heightened tensions between Russia and NATO, a Dutch official said.

Maj. Wilko Ter Horst said that the military learned around 3:50 p.m. (9:50 a.m. ET) that two Russian TU-95 bombers, known as Bears, had come a half-mile inside its airspace.

[NATO Boosts Presence in Eastern Europe as Turmoil Continues in Ukraine](#), Voice of America, Apr 30

Turmoil in eastern Ukraine continued Tuesday, a day after the United States and Europe announced new sanctions against Russia for failing to take steps to de-escalate the crisis in its neighbor to the west....NATO is boosting defense in member nations bordering Russia to allay their growing concerns about Moscow's territorial ambitions....

NATO already has increased its air policing and naval presence in the Baltics. Last week, 450 U.S. paratroopers were deployed in Latvia, Lithuania and Estonia, and another 150 in Poland. NATO military exercises are taking place across the region.

[China, Russia Military Ties Deepen With Naval Drill in East China Sea](#), The Diplomat, May 2

On Wednesday, China announced that it plans to hold joint naval drills with Russia in the East China Sea later this month.

“These drills are regular exercises held by China and Russia’s navies, and the purpose is to deepen practical cooperation between the two militaries, to raise the ability to jointly deal with maritime [security threats](#),” China’s Defense Ministry [said in a statement](#) published on its website...

“This shows unprecedented good relations between China and Russia,” Professor Wang Ning, director of the Center for Russian Studies at the Shanghai [International Studies](#) University, told the *New York Times* about last year’s drill. “It shows that the two countries will support each other on the global stage.

Similarly, numerous signs suggest that after a decade of ongoing talks, Russia and China are in the final stages of negotiating a massive 30-year natural gas supply deal.

Once the deal is completed, [according to Bloomberg News](#), Russia's "Gazprom plans to supply as much as 38 billion cubic meters of gas to China, about 24 percent of the company's deliveries to Europe last year." ...

*The two sides are hoping that the deal will be ready in time for Putin's trip to China on May 20, which will take place immediately prior to the joint naval drills.* [Italics and underline my own]

[Russian Strategic Bombers Flying Along California Coast](#), Breitbart, May 5

The Associated Press reported Monday that Gen. Herbert Carlisle, Commander of United States Air Forces in the Pacific, acknowledged a significant increase in the activities by Russian long-range strategic aircraft flying along the California coast.

There was no comment about whether the aircraft were nuclear capable, but it has not been since the Cold War ended in the early 1990s that Russian patrols have skirted the West Coast and California.

[US starts countrywide nuclear drill after similar war games in Russia](#), RT, May 12

The US Strategic Command, the agency responsible for country's nuclear arsenal, will hold large-scale war games this week that will include 10 B-52 Stratofortresses and up to six B-2 Spirit bombers, along with other military and government agencies.

The Boeing B-52 Stratofortress is a long-range, subsonic, jet-powered strategic bomber built to carry nuclear weapons....

The exercise will be conducted from May 12-16 and is set “*to deter and detect strategic attacks against the US and its allies,*” the Strategic Command said in a statement....

Though the timing of the exercise was declared as “*unrelated to real-world events,*” it does come on the [heels](#) of the [recent war games in Russia](#). Announced in November 2013, military drills on countering nuclear strikes were overseen by President Vladimir Putin ahead of the May 9 celebrations dedicated to victory in World War II...

Last week, NATO said it may permanently station additional troops in Eastern Europe as a defensive measure against Moscow. Russia views this recent buildup of NATO forces as a provocation and counterproductive in the struggle to deescalate tensions in Ukraine.

[NATO Benefit to Ukraine in Question](#), Voice of America, May 15

The crisis in eastern Ukraine has forced NATO for the first time since the collapse of the Berlin Wall to increase its ability to defend the territorial integrity of its 28-member states.

The measures taken include sending 600 American troops for military exercises in the Baltic States and Poland.

In addition, the United States has dispatched 12 F-16 fighter jets to Poland.

**Ear - Ukrainian Leadership: Pro Neo-Nazi or Pro- Russian: Which Side?**

[Ukraine Slides Deeper Toward War as Russia Warns on Vote](#), Bloomberg, May 15

Russia’s foreign minister said Ukraine is sliding into a civil war that could make it impossible to hold legitimate elections, as Ukrainian leaders and their international [allies](#) blamed Russia for the violence.

The Kiev government and its U.S. and European Union allies blame Russia for the unrest in Ukraine's easternmost regions. Pro-Russian separatists there were excluded from national unity talks that began yesterday in the capital to ease tensions as *a May 25 presidential vote looms*. U.S. and EU leaders say they'll tighten sanctions on Russia if the ballot is disrupted. Lavrov said it's "ridiculous" to hold Russia responsible. [Italics mine]

[John McCain Went To Ukraine And Stood On Stage With A Man Accused Of Being An Anti-Semitic Neo-Nazi](#), Business Insider, Dec 16 '13

If you want a good picture of how complicated the situation in Ukraine is, look no further than Senator John McCain's recent trip to Kyiv....

You see, while the former presidential hopeful's [weekend trip](#) was full of pro-Europe sound bites — "Ukraine will make Europe better and Europe will make Ukraine better," he [told a crowd in Kyiv's central Maidan square on Saturday](#) — and warnings of stern reactions from the U.S. should Ukraine use violence against the protesters, there's another detail to it that might cause McCain fans at home some concern.

As [the U.K.'s Channel 4 news points out](#), McCain was repeatedly photographed with Oleh Tyahnybok, the leader of the right wing nationalist party Svoboda....

However, the party's past is seriously murky. When it was founded in 1995, the party called itself the Social-National Party of Ukraine (SNPU), and it [had a swastika-like logo](#). While it eventually split from its more right wing members, the party remained focused on celebrating Ukrainian ethnic identity in opposition to Russia and Communism.

[Kerry: We Stand With Ukraine's People](#), Time, Feb 1 '14



Secretary of State John Kerry met with Ukrainian government officials and opposition leaders Saturday, voicing the United States' support for the opposition's goals even as protests raged in Kiev and across the country.

On the sidelines of the Munich Security Conference, Kerry told Ukrainian opposition leaders Vitali Klychko, Arseniy Yatsenyuk, and Petro Poroshenko that they have the backing of the United States.

The United States supports the “democratic, European aspirations” of Ukrainians, Kerry said, according to a senior State Department official, and endorses the opposition leaders' efforts “to defend democracy and choice for the people of Ukraine.”

[Neo-Nazi Threat in New Ukraine](#), BBC Newsnight, Feb 28

BBC Newsnight's Gabriel Gatehouse investigates the links between the new Ukrainian government and Neo-Nazis.

[The U.S. Has Installed a Neo-Nazi Government in Ukraine](#), Global Research Report, Chossudovsky, March 4

The Western media has casually avoided to analyze the composition and ideological underpinnings of the government coalition. The word “Neo-Nazi” is a taboo....

The Cabinet is not only integrated by the Svoboda and Right Sector (not to mention former members of defunct fascist UNA-UNSO), the two main Neo-Nazi entities have been entrusted with key positions which grant them de facto control over the Armed Forces, Police, Justice and National Security.

**Andriy Parubiy is the** co-founder of the Neo-Nazi Social-National Party of Ukraine (subsequently renamed Svoboda) was appointed Secretary of **the National Security and National Defense Committee (RNBOU)....**

**Parubiy** was one of the main leaders behind the Orange Revolution in 2004. His organization was funded by the West. He is referred to by the Western media as the “kommandant” of the EuroMaidan movement. Andriy Parubiy together with party leader Oleh Tyahnybok is a follower of Ukrainian Nazi Stepan Bandera, who collaborated in the mass murder of Jews and Poles during World War II...

The World is at a dangerous crossroads: The structures and composition of this proxy government installed by the West do not favor dialogue with the Russian government and military. A scenario of military escalation leading to confrontation of Russia and NATO is a distinct possibility.

[White House: will not recognize 'illegal' Ukraine referendums](#), Reuters, May 12

The United States does not recognize "illegal" referendums in eastern Ukraine on self-rule and views them as a transparent attempt to create further division and disorder in the country, the White House said on Monday.

"We do not recognize the results," White House spokesman Jay Carney told reporters.

"We're disappointed that the Russian government did not use its influence to forestall these referenda," Carney said.

[Ukraine separatists ask Russia to annex 'sovereign' area](#), USA Today, May 12

The self-styled Donetsk People's Republic declared eastern Ukraine a "sovereign state" Monday and called on Russia to annex the territory following controversial referendums, RT.com [reports](#).

The referendums Sunday in the Donetsk and Luhansk provinces have been denounced by the U.S., European Union and Kiev government.

"We will try to cope with it on our own; we don't want this confrontation to increase, especially on our territory," he said. "If the situation deteriorates, we reserve the right to ask for a peacekeeping contingent."...

In Brussels, the European Union council on Monday refused to recognize the referendums in eastern Ukraine and broadened its sanctions list against Russia to include 13 more people and two businesses, officials said.

**Tail – China Holds Both East & West, Aligns with Russia in Trade w/out Dollar**

[Bank of England and People's Bank of China Agree on London Yuan Clearing Hub](#), International Business Times, April 1

Britain and China have signed a deal to set up a yuan clearing service in London, marrying future financial transactions between the Bank of England and People's Bank of China....

"London is already recognized, along with New York, as one of the biggest financial centres globally. It has made a lot of progress positioning itself as a renminbi hub. Frankfurt and Paris are following suit," Reuters quoted Spencer Lake, global head of capital financing at HSBC, as saying.

Chancellor George Osborne has been focusing on the world's second largest economy and has been keen to open a yuan-trading hub in the capital city as the currency poses stiff competition to the US dollar as a global medium of exchange.

[Bundesbank, PBOC in Pact to Turn Frankfurt into Renminbi Hub](#), Bloomberg Businessweek, Mar 28 '14

Germany's Bundesbank and the Peoples Bank of China agreed to cooperate in the clearing and settling of payments in renminbi, paving the way for Frankfurt to corner a share of the offshore market.

Germany's financial capital prevailed over Paris and Luxembourg in a euro-area race to win trade in renminbi, which overtook the euro to become the second-most used currency in global trade finance in October, according to the Society for Worldwide Interbank Financial Telecommunication.

“Frankfurt is one of Europe’s foremost financial centers and home to two central banks, making it a particularly suitable location,” said Joachim Nagel, a member of the Bundesbank’s executive board. “Renminbi clearing will strengthen the close economic and financial ties between Germany and the People’s Republic of China.”

China was Germany’s third-biggest foreign trade partner last year, with 140 billion euros in turnover passing between the two countries, according to the Federal Statistics Office in Wiesbaden. China ranks fifth among importers of German goods and is the second-biggest exporter to Germany.

[Russia’s Gazprom, China Close to Gas Agreement, Hope To Sign in May-Report](#), Reuters, April 9 ‘14

Russia's Gazprom and China are close to reaching a landmark gas deal and Moscow hopes the agreement will be signed next month, Itar-Tass news agency quoted Deputy Prime Minister Arkady Dvorkovich as saying on Wednesday.

"Regarding Gazprom's gas contract, the sides are close to agreement ... The only issue remaining is ... the price," he said during a trip to China, adding that Gazprom planned to discuss contract details with its partners on Wednesday. "We really hope that the contract will be signed in May."

[40 Central Banks Are Betting This Will Be The Next Currency](#), Zero Hedge, April 8

As we have discussed numerous times, **[nothing lasts forever - especially reserve currencies](#)** - no matter how much one hopes that the status-quo remains so, in the end the exuberant privilege is extorted just one too many times. Headline after headline shows nations declaring 'interest' or direct discussions in diversifying away from the US dollar... and [as SCMP reports](#), Standard Chartered notes that **at least 40 central banks have invested in the Yuan and several more are preparing to do so.**

Perhaps most ominously, for king dollar, is the former-IMF manager's warning that "**The Yuan may become a de facto reserve currency before it is fully convertible.**" [bold is authors]

[Russia Holds "De-Dollarization Meeting": China, Iran Willing to Drop USD from Bilateral Trade](#), Zero Hedge, May 14

[Voice of Russia reports](#) citing Russian press sources that **the country's Ministry of Finance is ready to greenlight a plan to radically increase the role of the Russian ruble in export operations while reducing the share of dollar-denominated transactions.** Governmental sources believe that the Russian banking sector is "**ready to handle the increased number of ruble-denominated transactions**".

According to the Prime news agency, **on April 24th the government organized a special meeting dedicated to finding a solution for getting rid of the US dollar in Russian export operations. Top level experts from the energy sector, banks and governmental agencies were summoned and a number of measures were proposed as a response for American sanctions against Russia...**

None of what Russia is contemplating would have any practical chance of implementation if it weren't for other nations who would engage in USD-free bilateral trade relations. Such countries, however, do exist and it should come as a surprise to nobody that the two which have already stepped up are none other than China and Iran....

In other words, in one week's time look for not only the announcement of the Russia-China "holy grail" gas agreement described [previously here](#), but its financial terms, which now appears virtually certain will be settled exclusively in RUB and CNY. Not USD.

And as we have explained repeatedly in the past, the further the west antagonizes Russia, and the more economic sanctions it lobs at it, the more Russia will be forced away from a USD-denominated trading system and into one which faces

China and India. Which is why next week's announcement, as groundbreaking as it most certainly will be, is just the beginning. [*referring to Putin's visits Beijing on May 20<sup>th</sup> surrounding the annual joint naval exercises between Russia and China in the South China Sea, and speculating that oil and gas contracts could be signed between the two nations, and the contracts will be denominated in rubles and yuan, not US dollars.*]

### **Summary of “The Elephant”**

I know that this brief look across various media sources from the last 3 months is overwhelming. It should be, especially in light of financial markets that continue to yawn at all of this information, as though systemic risk at the geopolitical, global banking, and economic levels have nothing to do with our lives. In the words of Chairman Bernanke in September 2012, “*if people feel that their financial situation is better because their 401(k) looks better or for whatever reason — their house is worth more — they're more willing to go out and spend.*”

And when a society is driven by feelings and the desire to keep up an illusion, even if for years we are told that it will take unlimited debt and market intervention, it is always easier to believe that the longer manipulation goes on, the longer it can go on.

We can read and see signs of the dam cracking in front of us, and yet take no action. Why should we? We have been told “this time” the dam will not break, and our recent experience has only reinforced this belief....until it doesn't.

“As early as three hundred years ago, the mathematician Pascal wrote, “ordinary people have the ability not to think about things they do not want to think about.” [The Journal of Behavioral Finance, Vol 6, Number 1, 2005, pg 28]

### **Preparation Time is Running Out**

Come join the [free Noteworthy service](#). Twice a month, I take world news headlines and tie them to a piece of history in our financial markets. Connecting dots has never been more crucial.

May 2004 I released my first public newsletter, seeking to share what I was learning from others. In the months ahead, this decade of learning, writing, and living through many “first in history” events will be seasoned in ongoing writings as we move from illusion to reality yet again, something we have already seen twice since 2000.

If you want to prepare for the next massive shifts across global markets – some of which have been unfolding since January – come explore the paid research newsletters and trading reports available with [a six month subscription to The Investor’s Mind](#).

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