Russia Deploys the Gold Weapon

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If you follow war news from Ukraine, no doubt you've seen gruesome images of wrecked tanks, burnt trucks, demolished personnel carriers and more.

Whether it's Russian or Ukrainian equipment, almost everything you see is based on old Soviet-era designs such as T-72/64 tanks, or boxy BMP armored vehicles, etc. And when a rocket or shell hits those things the internal fuel and ammunition cooks off, and the machines burn like a torch. Bad design, obviously.

But there's another Russian weapon that was also recently deployed, and it appears to be working very well. You won't find this system on the battlefield, though. In fact, this Russian device is an economic weapon, and it may prove to be one of the most impactful implements of war in the modern age.

That is, the government of Russia recently pegged that country's currency – the ruble – to gold. And right now, Russia's central bank will buy gold at 5,000 rubles per gram through June 28. (After that, we'll see.)

Here's why this is important. Russia has just established a state-supported bid for gold. In essence, Russia has recreated a new global gold standard with a well-defined floor beneath the price. This is big. It moves the gold price, and I mean upwards. Why?

On the day that Russia set the bid at 5,000 rubles, the dollar-ruble exchange rate translated to gold at about $1,550 per ounce, or well below the London daily quote. No big deal, right? Well, not just then, not at that time.

But something else happened. Within days of the Russian announcement of rubles for gold, the Russian currency strengthened firmly against the dollar.

Today, about two weeks after the initial announcement, those same 5,000 rubles per gram translate to a gold price of about $1,925. Which is about what the London quote is.

In other words, Russia's hard fix of rubles for gold has equilibrated with the dollar-ruble valuation. Meaning what?

Well, look at it this way: Russia has just undermined the ability of "paper" gold traders to sell the metal down too far, lest the spread open and arbitrageurs swoop in.

Got that? *With a Russian price floor beneath gold, there's high risk to downside trading.*

Very clever. Russia has not gone out and simply bought gold contracts with the intent to corner the market, eventually present them for delivery, demand physical gold and basically "break the bank" in a strict sense. Nope. No brute force, like rolling a tank into town. And more than likely, if Russia had done that then the gold exchanges would have found some way to dishonor the underlying contracts and blame it all on "sanctions" or such. "No gold for you, Ivan!"

In this instance though, Russia has been quite subtle, offering to buy gold at *prix fixe*. And in this manner, Russia has created a new economic playing field across the world. It's currently embryonic, but there's no denying that it's a parallel platform to the dollar-dominated regime that has lasted since World War II.

We now have a new scenario, though; a gold-backed floor price in which even the world's most aggressive gold traders and market makers cannot sell the metal down, lest they fall into their own trading trap.

But at this point it’s fair to ask, what makes this Russian ploy work? How will it be effective?

In the introductory phase, the success (or not) of Russia’s gold gambit hinges on the country’s exports of natural gas. That is, Russia has told all buyers that it will sell its gas to “unfriendly countries” only for rubles.

In essence, this segregates buyers. Everything is based on their political stand regarding Russia’s Ukraine military operation. More practically for the nations of Europe, Russia will accept no dollars or euros for gas, just rubles (or gold of course). And suddenly, literally within a matter of days, many gas buying nations must come up with a whole lot of rubles.

Looking ahead (and recall that June 28 date above), it’s more than likely that Russia will announce sale of oil in rubles, which matters when that news comes from one of the world’s top three oil producers. And then there are Russia’s exports of minerals, agricultural products and pretty much everything else.

If you add up Russia’s exports of gas, oil, minerals, ag and other things – weapons come to mind – the overall value is in the range of half a trillion dollars per year. Now translate all that into rubles, and it’s a lot of currency exchange banking.

Or translate that cumulative dollar-total of Russian exports into gold at 5,000 rubles per gram, it makes for a lot of gold.

Right now, across the world people, companies and nations that hold dollar reserves are still mentally processing this new state of monetary affairs. And there’s much to process, considering the general lack of appreciation towards gold in modern Western monetary thinking. Plenty of disdain, actually.

So, we'll see. And recall that old saying, "Wisdom may come late, but it seldom never comes." Meaning that sooner or later, people will figure out that if they want Russian gas, oil, minerals, food and much else, they will have to fork over the rubles. And many dollar-holders will then lighten up and sell bucks to buy rubles, as well as buy physical gold.

One way or the other, we will witness the dollar weaken, perhaps a little bit and slowly, or maybe a lot and fast. While the ruble will likely strengthen, which means that the dollar-ruble exchange rate will tighten.

At the end of the day, the dollar-price for gold will rise, and along with that the valuations of many gold mining companies will move upside. Heck, we may even see a meltup in the price of gold, and an investor panic into gold miners across the entire sector, from juniors to established biggies.

Here's the takeaway. Russia's central bank will pay 5,000 rubles per gram of gold, and this sets a hard, new price floor. The dollar-ruble rate has tightened, and Russia has now created a new gold standard for the world, backed by its natural gas if not its oil, minerals, agriculture and other exports, all under cover and protection of Russia's well-known nuclear weapons complex.

It's worth noting that Russia has been planning this move for many years (with China in concert, more than likely). All of this didn't just sort of happen. But here we are, and it's not the time or place to recriminate.

Predictions: Gold-backed rubles will strengthen. While ongoing inflation trends in dollars will weaken the U.S. currency. All this while few people in the West truly understand the basic idea that "gold is money."

A new, worldwide economic education process is about to begin. Time to brush off those century-old books about the "gold standard."

And however crummy those Soviet tanks and armored vehicles might be in the midst of modern war, the price of gold and gold miners is on the way up.

That's all for now… Thank you for reading.

Best wishes…

Byron W. King