

Weekly Commentary 10 – Mar 2023

SVB, Fed Policy and the limitations of American hegemony

Some of you reading this may remember when Citibank's stock price was at \$1 in the midst of the Global Financial Crisis of 2008. From that price, which is a reflection of a state of near-bankruptcy, it recovered to a fraction of its all time high and has stayed there for the last dozen years. How did it manage this recovery? Well, the US government considered Citi to be too big to fail and implemented policies to save it. Lehman was not big enough, and failed.

In the last three days, another American bank vanished. This was Silicon Valley Bank, which was declared insolvent on Friday. At this time of writing, another bank, Signature Bank, is also going under. But unlike Citi, and more like Lehman, SVB and Signature are not considered too big to fail, and therefore they failed. But that's where the similarity between Lehman and SVB/Signature ends.

To be honest, I have long noted that in spite of all the political rhetoric coming out of the mouth of Joe Biden who said that the US economy is doing great, and that his policies can take credit for that, the banking and high-tech sectors have been bordering on recession for some months now. While Biden tries to look like an effective president who seems to have some success at providing jobs in restaurant waitering, hamburger frying and deliveries, there have been no major industrial jobs created (other than in the arms industry), with the best sectors in America sucking wind.

Now, a bank for the tech sector has gone under. The writing on the wall has come to pass.

Isn't this what US policy makers should have been avoiding instead of boasting about jobs that came back on their own when covid is not longer constraining eating out and other social interaction activities which boost the hire of service personnel or when people have to take out second jobs in service to pay for higher cost of living due to inflation he should properly take responsibility for. Bad leadership is clear when they don't even know where the problem in the economy is.

The reasons why Silicon Valley Bank, a medium sized lender, but central to the high tech industry in California, failed are now pretty much covered by the American media. There is no need for me to write another review. Here is the analyses on both sides of the Atlantic:

The New York Times:

Why Did Silicon Valley Bank Collapse?

By Andrew Ross Sorkin, Ravi Mattu, Bernhard Warner, Sarah Kessler, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni

March 11, 2023

A bid to reassure investors goes awry

The failure of Silicon Valley Bank was caused by a run on the bank. The company was not, at least until clients started rushing for the exits, insolvent or even close to insolvent. But banking is an enterprise that relies as much on confidence as on cash — and if that runs out, the game is over.

The collapse may have been an unforced, self-inflicted error: The bank's management chose to sell \$21 billion of bonds at a \$1.8 billion loss, in large part, it appears, because many of those bonds were yielding an average of only 1.79 percent at a time when interest rates had risen drastically and the bank was starting to look like an underperformer relative to its peers. Moody's was considering downgrading its rating. The bank's management — with the help of Goldman Sachs, its adviser — chose to raise new equity from the venture capital firm General Atlantic and also to sell a convertible bond to the public.

It isn't clear if the bond sale or the fund-raising, at least initially, had been made under duress. It was meant to reassure investors. But it had the opposite effect: It so surprised the market that it led the bank's very smart client base of venture capitalists to direct their portfolio clients to withdraw their deposits en masse.

The bank and its advisers may have also made a tactical mistake: The General Atlantic equity investment could have been completed overnight, but the bank's management also chose to sell convertible preferred stock, which couldn't be sold until the next day. That left time for investors — and, more important, clients — to start scratching their heads and sow doubt about the firm, leading to an exodus of deposits.

There will be a detailed post-mortem of the bank's failure in the coming weeks and months. For now, it looks like the collapse could have been avoided — it happened because management bungled how it communicated to its customers and the public, and created a vacuum of confidence.

But underlying the failure was a demonstrable problem, one to keep an eye on for other banks: The company had invested its deposits in low-interest rate bonds that it held on its books on a long-term "hold-to-maturity" basis. That means that it did not have to mark-to-market those bonds until they were sold, leaving investors with a somewhat distorted view of its balance sheet. So long as a bank doesn't need to sell "hold-to-maturity" assets to meet withdrawal requests, there is no problem. But if a bank has to sell at a loss, that's when things get complicated.

We're also likely to hear more from Washington about bank regulation. It appears that the bank's management successfully lobbied regulators in 2015 to loosen rules that might have prevented it from taking some of the risks it did. The Lever news organization reported about testimony that the company's president made to the Senate at the time seeking to weaken some rules.

So far, Silicon Valley Bank seems like an outlier, given its unique circumstances and unusual client base — it had very few typical retail customers, as JPMorgan's Michael Cembalest wrote in a note to investors on Friday. But there is already nervousness about some other small and regional banks.

In the immediate term, the most pressing problem this presents is for Silicon Valley itself: Venture capital firms that used the bank may struggle to gain access to their money — and possibly that of their limited partners, including pension funds, that had forwarded money intended for investments. This, in turn, may make it hard to fund current and new investments — or to rescue other companies inside and outside their

portfolios. DealBook is already hearing about secondary sales of private shares to fund both businesses and individuals.

Silicon Valley Bank may be finished but the fallout from its collapse is only just beginning to be felt. — Andrew Ross Sorkin

The Financial Times:

Silicon Valley Bank: the spectacular unravelling of the tech industry's banker

While its collapse happened quickly, problems had been festering for years.

By: Tabby Kinder, Antoine Gara, Joshua Franklin and George Hammond

In early March, 40 chief financial officers from various technology groups gathered in the Utah ski resort of Deer Valley for an annual "snow summit" hosted by Silicon Valley Bank, a crucial financial institution for start-ups.

Barely a week later, on Thursday morning, several of the finance chiefs were exchanging frantic messages about whether they should continue to hold their cash in the bank.

A sale by SVB of \$20bn of securities to mitigate a steep drop in deposits had focused investors' attention on vulnerabilities in its balance sheet. They dumped its stock, wiping \$10bn off its shares and crashing the market value of the bank — worth \$44bn just 18 months earlier — to below \$7bn.

"The prisoner's dilemma was basically: I'm fine if they don't draw their money, and they're fine if I don't draw mine," said one of the CFOs, whose company had banked around \$200mn with SVB.

But then some started to move. "I got a text from another friend — he was definitely moving his money to JPMorgan. It was happening," the finance chief said. "The social contract that we might have collectively had was too fragile. I called our CEO and we wired 97 per cent of our deposits to HSBC by midday on Thursday."

By Friday morning, the bank was bust. Customers had initiated withdrawals of \$42bn in a single day — a quarter of the bank's total deposits — and it was unable to meet the requests. The Federal Deposit Insurance Corporation — the US bank regulator that guarantees deposits of up to \$250,000 — moved into the bank's Santa Clara, California, headquarters, declared it insolvent and took control. The run was so swift its coffers were drained in full and carried a "negative cash balance" of nearly \$1bn.

The rapid collapse of SVB has stunned the venture capital and start-up community, many of whom now face uncertainty about the fate of their bank accounts and business operations. SVB provided banking services to half of all venture-backed tech and life sciences companies in the US and played an outsized role in the life of entrepreneurs and their backers, managing personal finances, investing as a limited partner in venture funds and underwriting company listings.

“It turned out that one of the biggest risks to our business model was catering to a very tightly knit group of investors who exhibit herd-like mentalities,” said a senior executive at the bank. “I mean, doesn’t that sound like a bank run waiting to happen?”

SVB spectacularly unravelled in that bank run, but its fate had been sealed almost two years earlier

. In 2021, at the height of an investment boom in private technology companies, SVB received a flood of money. Companies receiving ever larger investments from venture funds ploughed the cash into the bank, which saw its deposits surge from \$102bn to \$189bn, leaving it awash in “excess liquidity”.

Searching for yield in an era of ultra-low interest rates, it ramped up investment in a \$120bn portfolio of highly rated government-backed securities, \$91bn of these in fixed-rate mortgage bonds carrying an average interest rate of just 1.64 per cent. While slightly higher than the meagre returns it could earn from short-term government debt, the investments locked the cash away for more than a decade and exposed it to losses if interest rates rose quickly.

When rates did rise sharply last year, the value of the portfolio fell by \$15bn, an amount almost equal to SVB’s total capital. If it were forced to sell any of the bonds, it would risk becoming technically insolvent.

The investments represented a huge shift in strategy for SVB, which until 2018 had kept the vast majority of its excess cash in mortgage bonds maturing within one year, according to securities filings.

One person directly involved in the bank’s finances attributed the policy to a change of leadership within SVB’s key finance functions in 2017 as its assets marched towards \$50bn, a threshold in which it would be labelled a “systemically important” lender subject to greater regulatory scrutiny.

The new financial leadership began to shift an ever greater percentage of excess cash into long-term fixed-rate bonds, a manoeuvre that would appease public shareholders by bolstering its overall profits, albeit only slightly.

But it appeared blind to the risk that cash pouring in was a symptom of low interest rates that could reverse if they rose. Central banks often increase rates to tamp overexuberance among investors, decisions that generally lead to a slowing of investment in speculative companies such as technology start-ups. SVB’s bond portfolio was exposed to rising rates and so too were its deposits.

“We had enough risk in the business model. You didn’t need risk in the asset/liability management profile,” said the former executive, referring to the bank’s ability to sell assets to meet its liquidity needs. “They missed that entirely.”

As a venture capital investment bubble began to inflate in early 2021, Nate Koppikar, a partner at hedge fund Orso Partners, began studying SVB as a way to bet against the industry at large. “The problem with the business model is that when capital dries up, the deposits flee,” said Koppikar. “It was one of the best ways to short the tech bubble. The fact this bank failed shows that the bubble has burst.”

While SVB bankers were entertaining finance chiefs on the Utah slopes in early March, the pressure was rapidly mounting on SVB’s executive team, led by chief Greg Becker.

Although SVB’s deposits had been dropping for four straight quarters as tech valuations crashed from their pandemic-era highs, they plunged faster than expected in February and March. Becker and his finance team decided to liquidate almost all of the bank’s “available for sale” securities portfolio and to reinvest the proceeds in shorter-term assets that would earn higher interest rates and improve the pressure on its profitability.

The sale meant taking a \$1.8bn hit, as the value of the securities had fallen since SVB had purchased them due to surging interest rates. To compensate for this, Becker arranged for a public offering of the bank’s shares, led by Goldman Sachs. It included a large investment from General Atlantic, which committed to buy \$500mn of stock.

The deal was announced on Wednesday night but by Thursday morning looked set to flop. SVB’s decision to sell the securities had surprised some investors and signalled to them that it had exhausted other avenues to raise cash. By lunchtime, Silicon Valley financiers were receiving last-ditch calls from Goldman, which briefly attempted to put together a larger group of investors alongside General Atlantic to raise capital, as SVB’s share price was tanking.

At the same time, some large venture investors, including Peter Thiel’s Founders Fund, advised companies to pull their money from SVB. Becker, in a series of calls with SVB’s customers and investors, told people not to panic. “If everyone is telling each other SVB is in trouble, that would be a challenge,” he said.

Suddenly, the risk that had been building on SVB’s balance sheet for more than a year became a reality. If deposits fell further, SVB would be forced to sell its held-to-maturity bond portfolio and recognise a \$15bn loss, moving closer to insolvency.

Rival bankers argued the plan was flawed from the outset — disclosing a \$1.8bn loss at the same time as only securing \$500mn of the \$2.25bn capital raise from an anchor investor. “You can’t build a book while the market is open and you’re telling people there’s a \$2bn hole,” said one senior banker at a competitor.

There was external pressure, too. Goldman bankers on the capital raise knew the deal was being done in a way that was hard to pull off with an unhelpful market backdrop. But the company was facing a time crunch due to the downgrade by Moody’s to Baa1 from A3 on Wednesday. “Their hand

was forced by the rating agency,” said one person involved in the capital raise. Goldman Sachs declined to comment.

With the collapse of Silicon Valley Bank, tech may lose a vital organ The scale and speed of the ensuing destruction has had a ripple effect on the technology industry globally. As regulators attempt to salvage SVB’s assets and restore customer funds, potentially through a sale of some or all of the bank’s operations this weekend, the collapse has sparked scrutiny of its approach to risk management. Ultimately, it committed a cardinal sin in finance. It absorbed enormous risks with only a modest potential pay-off in order to bolster short-term profits. One hedge fund short seller who detailed the bank’s risks last year warned that SVB had almost unwittingly built the foundation for what could become “the first large US bank collapse in 15 years”. “They went for an extra [0.4 percentage points] of yield and blew up the bank,” said the person, whose fund held a bet against SVB. “It is really sad.”

There will be a lot of port-mortem analyses in the coming days. I will put out my thoughts in this blog today, to see how they compare with the best analysis in the world that will emerge shortly after mine.

My thoughts on SVB:

- 1) There is a two-tiered banking system in the world today. Those that are in Tier I which are too big to fail, and then there are the rest. This is not just in America but pretty much across the rest of the planet. In America, they are JP Morgan, B of America, Wells Fargo and Citibank; in the UK they are HSBC, Barclays, Natwest and Lloyds; in China, all being state-owned, every bank is safe.
- 2) The technology bubble is finally over. We saw the Nasdaq stock index crashing by more than 30 percent from its peak in Jan 2022, and then in the last quarter of 2022 had a brief rebound. I thought this was a dead-cat bounce, and I am afraid to say, I am going to be right. The collapse of the bank at the center of the tech sector in the US, while not a Lehman sized default, is big enough to threaten the disruption of business as usual. From the news, we gather that many of the tech companies were able to pull their money out of SVB (causing the bank run) and they may not miss a beat getting back to normal. As a matter of fact, the US government has announced that all depositors at SVB can withdraw their deposits (from an agency of the US government) from later today. So there would be no disruption and therefore no contagion. But obviously when the center of the Silicon Valley eco-system is damaged, there will be pauses for breath, and start-ups don’t have time to breathe. If they don’t move forward fast, they will die. In my assessment, it is not banks that will fall due to contagion; it will be the technological start-ups that will fall. Expect many tech start-up failures in the coming months, and as valuations of tech firms go south, there will be a continuing bear market in the Nasdaq.
- 3) With the collapse of the first sizeable bank since the Global Financial Crisis of 2008, it is inevitable that there will be collateral damage. I expect the stocks of major banks to suffer from this collateral damage. If both tech and finance stocks crumble, US equities

won't do well. If US stocks go down, so will the stock markets of the rest of the world. I expect the bear market to re-emerge after the short dead cat bounce.

- 4) SVB is not the only bank with the problem they faced. What has happened is that they bought bonds at 1.5% or whatever yield was available, on borrowed money. As interest rates rose, the bonds are still earning 1.5% (for at least ten years) but their borrowing cost would rise continuously with the Fed's interest rates. This is a classic problem in banking called "asset-liability management" risk ie the risk of the liability side of the balance sheet earning less than the asset side earns, creating a negative margin for the bank. This situation is widespread with many less sophisticated banks, and more will fail in the coming days. With that said, this problem can be managed by the US government. After all, they saved Citibank in 2009, and the entire financial system emerged from what would have been a total collapse. We shall see how good the current generation of regulators and central bankers are compared to those back in 2008-9. I think the first steps in reaction to the SVB collapse is a good one.
- 5) The collapse of banks may sound frightening to folks not in the financial industry, but as a matter of fact, in my 45 years in finance, I have seen many famous banks go under or merged away (same thing). Forty years ago, the world's ten largest banks were American, then it was French, then Japanese, and now Chinese. Many household names with massive buildings for hq's disappear overnight. When we see waves of mergers among banks, it generally means that they were forced to do so due to looming bankruptcy. It is probably the worst managed industry in the world. Just last year, there was a lot of concern about a few rural banks in China going under, and it was feared they would affect the entire banking system. It didn't happen. Will the failure of these medium sized banks in the US lead to systematic failure? I don't think so.
- 6) But saving the US banking system will not be without pain. Of course, the current crisis is nowhere close to the seriousness of the problem in GFC 2008. Let me explain why. The GFC arose from a real estate problem and a problem of overleverage. Many banks back then created highly leveraged mortgage securities. There were several problems with those : the leverage was very high; the underlying mortgages were not credit worthy sold to people without the ability to pay instalments; very sophisticated securities were created based on insufficient data which meant that their behaviour was unknown in a crisis. All told, at the end of the day, the entire banking industry became a house of cards, and there was very little expertise at that time to manage the problem. Nobody knew what they were doing or what to do next when the shit hit the fan. Everyone was running scared, and withdrew credit lines from each other. Contagion happened.
- 7) This is a completely different situation from what we have today. In fact, the failure of SVB is very old fashioned. It is the type of problem which occurred in the US during the 1930s. SVB became insolvent because of a classic bank run, executed with modern technology. The bank run did not see crowds of desperate small savers banging on the doors, demanding their money back. It happened invisibly from electronic transfers of money out of the bank by very large depositors. The monetary authorities have a lot of

expertise with this kind of problem. Already they have done the most important thing – quell fear. As can be seen from this report from MarketWatch (CBS) below:

Silicon Valley Bank depositors will get ‘all of their money,’ regulators say

Last Updated: March 12, 2023 at 8:46 p.m. ET First Published: March 12, 2023 at 7:01 p.m. ET

U.S. financial regulators on Sunday said Silicon Valley Bank customers would have access to all their money on Monday, days after the bank failed.

Announcing new steps, the Treasury Department, Federal Reserve and Federal Deposit Insurance Corporation said their moves would “ensure that the U.S. banking system continues to perform its vital roles of protecting deposits and providing access to credit to households and businesses in a manner that promotes strong and sustainable economic growth.”

The FDIC will be able to complete its resolution of Silicon Valley Bank “in a manner that fully protects all depositors,” a joint statement said.

“Depositors will have access to all of their money starting Monday, March 13,” the statement added, and no losses will be borne by U.S. taxpayers.

This will eliminate the need for a bank to quickly sell its assets in times of stress.

The central bank said “it is prepared to address any liquidity pressures that may arise.”

In a separate statement Sunday, Securities and Exchange Commission Chair Gary Gensler said regulators are monitoring markets amid the recent turmoil, and promised to prosecute “any form of misconduct that might threaten investors, capital formation, or the markets more broadly.”

Greg Robb contributed to this story.

You see, bank runs are created by fears of depositors who worry they cannot get their money out. Once there is a lender of last resort, like the US Fed or the Treasury, which guarantees that all deposits can be claimed, there is no liquidity crisis. The contagion is arrested.

Like I said, this SVB episode is no Lehman crisis. There may be a lot of asset liability risks in the books of the banks but this can be controlled by the central bank. They have managed this type of problem for centuries. Quite unlike what happened in the GFC where the risks were unknown to regulators.

There are many unwitting morons and disingenuous short sellers, who spread rumours of contagion at times like these. It would be dangerous to listen to these types.

As such, I fully expect SVB concerns to peter out in a few days. It will not crash the global financial system. Yes, there may be some other minor bank failures, but the nature of their problem is nothing like the GFC. There is also no cross border contagion risk in the SVB case.

With that said, we need to examine the impact of banks' asset-liability management risk in the context of the Fed's anti-inflationary battle. See, the problem arose at SVB because there was helicopter money thrown out to the man in the street by the Biden Administration who imagined that the money would be spent on consumption. Well, some of it was, of course, but there was so much free money that much of it went into investments, chasing yield and bringing bonds to ridiculous levels (lowest rate being ½ percent for ten year securities), and sending stocks to the stratosphere. As we all remember, just two years ago, the technology sector was unanchored to the planet and soaring. SVB was a beneficiary as well as a victim of that governmental largesse. On the deposit side, the surge into technology brought them huge amounts of funds, as their clients – tech companies - were flush with money. On the asset side, they had nothing to invest in, except bonds which yielded ½ to 1.5 percent. When the Fed pivoted on rates, SVB was screwed, paying 5 percent to depositors and still earning 1.5 percent on bonds. Such a negative margin on a bank's balance sheet is a death knell.

SVB will therefore mean that there are limits to how high Mr Powell can raise rates. In other words, there are many SVBs all over the banking landscape with the same asset-liability management risk, and while they don't have a problem if they don't sell the bonds, that is a hidden problem which can only be solved when interest rates revert to an expansionary state. All the problems such as those in SVB will be resolved when the Fed lowers rates to zero again. If interest rates continue to go up, then it remains a closet problem.

In short, Mr Powell does not have a lot of runway to practise Volckerism. The sudden twists and turns in interest rate policy have consequences, and SVB has announced to the world that Houston, we have a problem. It is not a problem anywhere close to the GFC 2008, or even then, we have seen how the regulators have reacted. Even though SVB was not big enough to be considered too big to fail, the US authorities, instead of saving the bank, saved all its depositors. Hell, that act of salvation for SVB's depositors also saved bitcoin, which when SVB happened crashed by US\$2 and after the announcement of the deposit guarantee, bounced right back. If the US authorities can do this, we will all come to see this SVB debacle as just a hiccup within the next few days.

Nevertheless, the constraints on interest rate policy are becoming obvious. Besides the fact that the banking system cannot be subjected to violent fluctuations on the price of the commodity they handle, it is also not possible for the Fed to keep raising interest rates like Volcker did. As such, the policy of an iron fist to deal with inflation is simplistic. Mr

Powell has just got his wake-up call from SVB and he won't be able to handle all the moles in the holes by whacking the one that pops up. He has to walk a tightrope between controlling inflation to a level which is acceptable and not squeezing so hard that banks will tumble, tech companies will crash and the economy nosedives into the ground. Some say that there could be a clear path to 6% short term interest rates, but not much beyond that.

Besides Mr Powell, President Biden will also have a tough time with his finances. On his part, he's playing brinkmanship with the Republicans, by proposing a huge increase in the government budget. The Biden budget is announced to be at 6.8 trillion dollars, and 1.8-1.9 billion of it is the new deficit. Obviously, this won't get passed by the Republicans who will continue to constrain government spending.

Biden's priorities are clear. He wants to be the guy who defeated Russia in Ukraine and contained China in Asia. Well, in Ukraine, he backed the wrong guy, Zelensky, who is losing the war (the battle of Bakhmut is, as predicted last week, within days of closure), and he has no off-ramp. And he is under pressure in trying to better China, when it was announced that Saudi Arabia and Iran would establish diplomatic ties, in a deal brokered by the Chinese. Here is an opinion piece from the Moon of Alabama website on what this deal is about as there is no mainstream media which has paid any attention to it, just as they did not want to cover Seymour Hersh's expose on the Nordstream pipeline.

Mediated By China Iran And Saudi Arabia Restore Ties - There Are Winners And Losers

This is huge!

Regional rivals Iran and Saudi Arabia agree to restore ties after years of tensions

The deal, which will see the two countries reopen embassies in each other's capitals, was sealed during a meeting in China and announced Friday in a joint communique.

Archrivals Iran and Saudi Arabia agreed Friday to restore diplomatic relations, a dramatic breakthrough brokered by China after years of soaring tensions between the regional rivals.

The deal, which will see the two countries reopen embassies in each other's capitals, was sealed during a meeting in China — a boost to Beijing's efforts to rival the United States as a broker on the global stage.

The agreement also may put a dampener on Israel's ongoing efforts to normalize relations with its Arab neighbors.

The talks were held because of a "shared desire to resolve the disagreements between them through dialogue and diplomacy, and in light of their brotherly ties," according to a joint communique from Tehran, Riyadh and Beijing that was published by the Saudi Press Agency, the country's official news agency.

The agreement followed intensive negotiations between Ali Shamkhani, a close adviser to Iran's supreme leader Ayatollah Ali Khameni, and Saudi Arabia's Minister of State Musaad bin Mohammed Al-Aiban, according to the statement.

It added that the foreign ministers from both countries would “meet to implement this, arrange for the return of their ambassadors, and discuss means of enhancing bilateral relations.”

The joint statement by Saudi Arabia, Iran and China [is here](#):

In response to the noble initiative of His Excellency President Xi Jinping, President of the People’s Republic of China, of China’s support for developing good neighborly relations between the Kingdom of Saudi Arabia and the Islamic Republic of Iran;

And based on the agreement between His Excellency President Xi Jinping and the leaderships in the Kingdom of Saudi Arabia, and the Islamic Republic of Iran, whereby the People’s Republic of China would host and sponsor talks between the Kingdom of Saudi Arabia and the Islamic Republic of Iran;

Proceeding from their shared desire to resolve the disagreements between them through dialogue and diplomacy, and in light of their brotherly ties; ...

Congrats to China for nudging this deal forward and making it possible.

There are winners and losers in this.

The winners are:

- *Iran, which will now be even more able to break through the sanctions wall the U.S. has put up around it.*
- *Saudi Arabia, which now will likely be able to end its disastrous and costly war on Yemen.*
- *China, for outplaying the U.S. State Department by achieving this.*
- *Iraq, Syria, Yemen as they will become more peaceful as the two middle powers influencing policies on their grounds end their rivalry.*

The losers are:

- *Israel, because the chances for its attempts to get the U.S. into a war with Iran are now diminished. Its hope for coalition with the Saudis will not come into being.*
- *The U.S. for having been outplayed on its traditional 'home grounds' in the Middle East.*
- *Anti-Iran hawks everywhere.*
- *The Emirates for losing at least some of the sanction busting trade with Iran to Saudi Arabia.*

This renewal of relations will [change the Middle East](#):

Tensions between Sunni Muslim powerhouse Saudi Arabia and Iran, which is majority Shiite, have dominated the region for decades.

The two countries have been locked in an intensifying struggle for dominance, their rivalry exacerbated by proxy conflicts, including the war in Yemen.

Saudi Arabia, the birthplace of Islam and the site of its two holiest cities, has historically seen itself as the leader of the Muslim world. The Iranian Revolution of 1979 shook Saudi Arabia and other Gulf kingdoms, which saw the regime in Tehran as a rival.

While tensions brewed for years, Saudi Arabia broke off ties in 2016 after protesters stormed Saudi diplomatic posts in Iran and set fire to the embassy in Tehran.

Days earlier, Saudi Arabia had executed the prominent Shiite cleric Nimr al-Nimr.

“Clearing up the misunderstandings and looking to the future in Tehran-Riyadh relations will definitely lead to the development of regional stability and security and the increase of cooperation between the countries of the Persian Gulf and the Islamic world to manage the existing challenges,” Shamkhani said Friday after signing the deal, according to Press TV.

In 2016 I describe the killing of Nimr al-Nimr as a smart move in the sense of Saudi domestic realpolitik. But I also said that it would lead to escalating costs in Saudi Arabia's regional policies, predominantly in Yemen. That indeed proved to be the case.

Reviving relations between Saudi Arabia and Iran will make a lot of new things possible.

That Iran and Saudi Arabia accepted China's mediation is a recognition of Beijing's new standing in world policies. That alone is enough reason for the White House to hate the deal.

American budgetary policies will have to recognize the limits of empire and of the unipolar world. There is just not enough money to spend everywhere. The west cannot win against Russia in Ukraine and will have to sit down to solve problems by diplomacy. They also cannot arrest the growth of China, because increasingly, countries outside the west are looking an alternative to global leadership. This deal between Iran, America's Enemy No 1 in the Middle East and Saudi Arabia, long time Friend No 1, reinforces the trends that are happening in today's geopolitical world. Biden has to realise that throwing money to maintain hegemony does not work, and his antagonistic stance in a multipolar world will create a problem of moles popping up everywhere that requires a whack.

SVB is just one of these moles.

By:

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Fintech Entrepreneur, Money Manager and Blogger

Un-Influencer in a World full of Hubris