

Daily Blog – 16 April 2024

In FX markets, the Japanese Yen is now in free fall, and it has dropped to 154.00. The psychological level of 155 is not so far away. Even the Singdollar is fallin in sympathy with the Yen and the RMB. While the US Dollar is expected to fall because of geopolitics, we have always thought that won't happen in the short run when interest rates in the US are at the highest levels for the last few years..

The war in Ukraine is sometimes overtaken by events in the Middle East. The Israelis have fended off an aerial retaliatory attack by Iran who has to make a case that an attack on their embassy is illegal under international law. Whether this is the end of that fight is unknown as of now, but on Bloomberg, all I hear is G7 countries condemning the Iranians for fighting back. Where was the indignation when Israel bombed the embassy? Western media is still very much based on a notion that west is right, west is best, at least on Bloomberg.



Iran's retaliatory attack against Israel, briefly explained

Iran had threatened to respond to an assassination at its embassy, and did so Saturday, sparking fears of a wider confrontation.

By Ellen Ioanes, Voice of America Apr 13, 2024, 9:12pm EDT

Iran launched a retaliatory strike Saturday night on Israel for its deadly attack on Iranian officers in the Islamic Republic's embassy in Damascus after days of signaling it would do so.

The response came in waves throughout Saturday, beginning with the Islamic Revolutionary Guard Corps (IRGC) seizing a vessel in the Red Sea connected to Israeli billionaire Eyal Ofer's company, Zodiac Maritime. By around 11 pm local time, that had graduated to multiple waves of attack drones and missiles headed toward Israeli targets.

The drones — thought to be slow-moving Shahed-136 models — could have been intended to confuse Israeli radar systems and allow missiles to penetrate, but also could have been chosen as a carefully choreographed response intended to telegraph the regime's anger at Israel's embassy strike on April 1. The Israeli military said the missile barrage included both ballistic and cruise missiles.

The last two weeks and particularly Iran's attack Saturday have raised fears that finally it — as in, the outright regional war that has been feared ever since Hamas's October 7 attacks and Israel's ensuing invasion of Gaza — is here.

And while it's too early to tell what exactly comes next — including how Israel responds — Iran seems to be signaling it doesn't want this to escalate further.

For one, the country is in no position to ignite a regional war because of its internal economic and security instability and regime vulnerability. But, after years of US and Israeli assassinations of Iranian nuclear scientists and military commanders, the regime likely calculated that it had no choice but to respond to the Damascus strike.

But an hour after the drone strike, Iran's permanent mission to the UN wrote on X, formerly Twitter, that, "The matter can be deemed concluded."

Here's what we know so far

The attack Saturday was an alarming escalation in the long-running tensions between Iran and Israel. Iran has said that it has launched dozens of drones; Israeli military sources said more than 100, according to the Associated Press.

Because it took the drones hours to reach Israeli airspace, US, Israeli, and Jordanian forces were prepared to intercept the aircraft (Jordan and several other neighboring countries shut down their airspace Saturday night).

At the time of this writing, according to Reuters, the US has shot down an undisclosed number of the drones, and Ha'aretz reported that the ballistic missile phase of Iran's attack had finished.

The US has vowed steadfast support in case of an Iranian attack on Israeli territory, increasing the number of US forces and assets in the region to prepare for such a situation, and the UK has supported the US's efforts in the region as well.

The drones were reportedly headed to the Golan Heights, a region that Israel captured from Syria in the 1967 Six-Day War, and the Negev desert, where there are several Israeli military installations and a US base. Israel's primary nuclear research center and one of its largest air bases are both located in the Golan Heights.

Both Israeli and Iranian governments confirmed that Iran had also launched cruise missiles toward Israeli targets, synchronized to hit at the same time the drone swarms reached Israeli airspace.

Israel's air raid alert system sounded warnings across areas of southern Israel including the Negev, as well as the occupied West Bank, Jerusalem, and the Golan Heights, indicating that the Iranian weapons were headed toward their targets. Israeli missile defense systems reportedly intercepted many of them.

One person has been reported to be injured so far, according to Israel's emergency services, and minor damage was caused to an Israeli military base, according to spokesperson Rear Admiral Daniel Hagari.

Does this mean a regional war is imminent? (Many think it has already begun. So US inflation is far from over.)

A major concern over the past six months of Israel's war in Gaza following the October 7 Hamas attacks has been whether it will spill into a regional war.

Iran's rhetoric in response to Israel's invasion of Gaza has been fiery, but until now, the Islamic Republic — which considers Israel an interloper in Muslim lands — has been content to let affiliated groups, like Hezbollah in Lebanon and militias in Iraq and Syria, fight those battles. Hezbollah and Israel frequently trade fire over the southern Lebanese border, which has killed at least 66 Lebanese

civilians and approximately nine Israeli civilians, and Iraqi and Syrian militia groups have attacked US installations in both those countries over 150 times in the past six months in response to the US's continued military support for Israel.

Early on in the war, the US sent warships to the region to discourage further escalation.

Yemen's Houthi rebel group has also targeted ships in the Bab al-Mandeb Strait of the Red Sea, claiming to target vessels in retaliation for the Israeli military's destruction of Gaza and killing of more than 33,000 Palestinians. (Though, as my colleague Joshua Keating has reported, the attacks also serve a number of the Houthis' other interests.)

Then, on April 1, Israel launched an attack on Iran's embassy in Damascus, Syria, killing multiple IRGC Quds Force commanders, who manage operations for Iran-aligned forces around the region. Embassies are considered to be inviolable, and serious attacks on such premises are rare.

Though the Islamic Republic can ill afford an all-out regional war, "they were compelled to do this," Ali Vaez, director of the International Crisis Group's Iran program, told Vox.

Internal dynamics, including an economy crippled by inflation, sanctions, and corruption; widespread dissatisfaction with the regime exemplified by the large-scale protest movement after the death of 22-year-old Mahsa Amini; and internal security crises due to the rise of ISIS-Khorasan Province and Baluch separatist groups make war with Israel and the US deeply unappealing for the regime. But for days after the attack on its Damascus embassy, Iran was promising to respond.

"The Iranians concluded that the risk of not responding outweighed the risk of responding," Vaez said. Hardliners within the government — the leadership's last remaining sector of support — had publicly criticized the lack of response to multiple assassinations and escalatory actions attributed to Israel.

Thus far there have been no reports of Israeli deaths. But whether and how Israel will respond remains to be seen.

Coming back to the Ukrainian conflict, there were more statements that concluded that the war there is done; the game is over. The notion that Kyiv should be supported by American funding has gotten some pushback from JD Vance, US Senator who wrote an opinion in the New York Times:

The Math on Ukraine Doesn't Add Up

April 12, 2024

Mr. Vance, a Republican, is the junior senator from Ohio.

President Biden wants the world to believe that the biggest obstacle facing Ukraine is Republicans and our lack of commitment to the global community. This is wrong.

Ukraine's challenge is not the G.O.P.; it's math. **Ukraine needs more soldiers than it can field, even with draconian conscription policies. And it needs more matériel than the United States can provide. This reality must inform any future Ukraine policy, from further congressional aid to the diplomatic course set by the president.**

The Biden administration has applied increasing pressure on Republicans to pass a supplemental aid package of more than \$60 billion to Ukraine. I voted against this package in the Senate and remain opposed to virtually any proposal for the United States to continue funding this war. **Mr. Biden has failed to articulate even basic facts about what Ukraine needs and how this aid will change the reality on the ground.**



The most fundamental question: How much does Ukraine need and how much can we actually provide? Mr. Biden suggests that a \$60 billion supplemental means the difference between victory and defeat in a major war between Russia and Ukraine. That is also wrong. This \$60 billion is a fraction of what it would take to turn the tide in Ukraine's favor. But this is not just a matter of dollars. Fundamentally, we lack the capacity to manufacture the amount of weapons Ukraine needs us to supply to win the war.

Consider our ability to produce 155-millimeter artillery shells. Last year, Ukraine's defense minister estimated that the country's base-line requirement for these shells

was over four million per year but that it could fire up to seven million if that many were available. Since the start of the conflict, the United States has gone to great lengths to ramp up production of 155-millimeter shells. We've roughly doubled our capacity and can now produce 360,000 per year — less than a tenth of what Ukraine says it needs. The administration's goal is to get this to 1.2 million — 30 percent of what's needed — by the end of 2025. **This would cost the American taxpayers dearly while yielding an unpleasantly familiar result: failure abroad.**

Just this week, the top American military commander in Europe argued that absent further security assistance, Russia could soon have a 10-to-1 artillery advantage over Ukraine. What didn't gather as many headlines is that Russia's current advantage is at least 5 to 1, even after all the money we have poured into the conflict. Neither of these ratios plausibly leads to Ukrainian victory.

Proponents of American aid to Ukraine have argued that our approach has been a boon to our own economy, creating jobs here in the factories that manufacture weapons. But our national security interests can be — and often are — separate from our economic interests. **The notion that we should prolong a bloody and gruesome war because it's been good for American business is grotesque.** We can and should rebuild our industrial base without shipping its products to a foreign conflict.

The story is the same when we look at other munitions. Take the Patriot missile system — our premier air defense weapon. It's of such importance in this war that Ukraine's foreign minister has specifically demanded them. That's because in March alone, Russia reportedly launched over 3,000 guided aerial bombs, 600 drones and 400 missiles at Ukraine. To fend off these attacks, the Ukrainian president, Volodymyr Zelensky, and others have indicated they need thousands of Patriot interceptors per year. The problem is this: The United States only manufactures 550 per year. If we pass the supplemental aid package currently being considered in Congress, we could potentially increase annual production to 650, but that's still less than a third of what Ukraine requires.

These weapons are not only needed by Ukraine. If China were to set its sights on Taiwan, the Patriot missile system would be critical to its defense. In fact, the United States has promised to send Taiwan nearly \$900 million worth of Patriot missiles, but delivery of those weapons and other essential resources has been severely delayed, partly because of shortages caused by the war in Ukraine.

If that sounds bad, Ukraine's manpower situation is even worse. Here are the basics: Russia has nearly four times the population of Ukraine. Ukraine needs upward of

half a million new recruits, but hundreds of thousands of fighting-age men have already fled the country. The average Ukrainian soldier is roughly 43 years old, and many soldiers have already served two years at the front with few, if any, opportunities to stop fighting. After two years of conflict, there are some villages with almost no men left. The Ukrainian military has resorted to coercing men into service, and women have staged protests to demand the return of their husbands and fathers after long years of service at the front. This newspaper reported one instance in which the Ukrainian military attempted to conscript a man with a diagnosed mental disability.

Many in Washington seem to think that hundreds of thousands of young Ukrainians have gone to war with a song in their heart and are happy to label any thought to the contrary Russian propaganda. But major newspapers on both sides of the Atlantic are reporting that **the situation on the ground in Ukraine is grim.**

These basic mathematical realities were true, but contestable, at the outset of the war. They were obvious and incontestable a year ago, when American leadership worked closely with Mr. Zelensky to undertake a disastrous counteroffensive. **The bad news is that accepting brute reality would have been most useful last spring, before the Ukrainians launched that extremely costly and unsuccessful military campaign.** The good news is that even now, a defensive strategy can work. Digging in with old-fashioned ditches, cement and land mines are what enabled Russia to weather Ukraine's 2023 counteroffensive. Our allies in Europe could better support such a strategy, as well. While some European countries have provided considerable resources, the burden of military support has thus far fallen heaviest on the United States.

By committing to a defensive strategy, Ukraine can preserve its precious military manpower, stop the bleeding and provide time for negotiations to commence. But **this would require both the American and Ukrainian leadership to accept that Mr. Zelensky's stated goal for the war — a return to 1991 boundaries — is fantastical.**

The White House has said time and again that it can't negotiate with President Vladimir Putin of Russia. This is absurd. **The Biden administration has no viable plan for the Ukrainians to win this war. The sooner Americans confront this truth, the sooner we can fix this mess and broker for peace.**

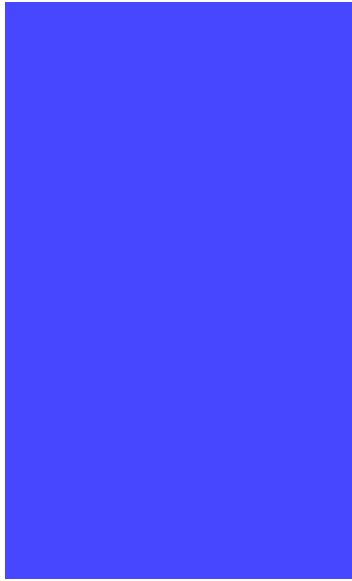
(Seems to me that there is no appetite for sending US\$60 billion to Zelenskyy. As such, if they don't want to spend their own money, they want to take the money from Russia to give it to Kyiv.)

Everyone Wants to Seize Russia's Money. It's a Terrible Idea.

April 9, 2024

By Christopher Caldwell, The New York Times

Mr. Caldwell is a contributing Opinion writer and the author of "The Age of Entitlement: America Since the Sixties."



The Republican House speaker, Mike Johnson, has brought a glimmer of hope to supporters of the Ukrainian war effort. He suggested to Fox News on March 31 that he would try to rally his divided party behind the REPO Act. That piece of legislation would allow President Biden, working with European allies, to seize Russian currency reserves frozen in the West and use them to aid Ukraine.

Grabbing these reserves would be politically convenient. Since Russia's invasion of Ukraine in February 2022, **the United States and its allies have thrown more than a quarter-trillion dollars into the war, to little ultimate effect (therefore, sixty more billion will make little difference).** Ukraine has lately suffered a string of battlefield defeats. Prolonging the war is a project that Americans of all political leanings have been steadily less willing to fund through taxes (or borrowing).

Mr Johnson backs Ukraine's war effort and sees supporting it as a responsibility of American leadership. But his caucus — more in tune with the Republican voter base — has stymied him. The REPO Act might offer both Mr. Johnson and Mr. Biden a way to duck controversy.

Thus far, the idea of supplying Ukraine through a spending bill has brought scorn from congressional Republicans who wonder whether Americans' taxes wouldn't be better spent on defending the U.S.-Mexico border. The REPO Act, by contrast, could make "Russia foot the bill for its own aggression," as a group of Brookings Institution scholars puts it. Mr. Johnson calls it "pure poetry." It is a tempting idea.

The REPO Act carries additional risks. **The very act of seizing Russian assets would pose dangers to the U.S. economy, because other countries, not just Russia, would view it as an act of brigandage. This could weaken the dollar's status as the main global reserve currency.**

The dollar is probably the most valuable strategic asset the United States has. We exercise a degree of control over the world economy because the world, for trading purposes, allows its transactions to pass through our currency. This leaves us with cheaper transaction costs and lighter financial burdens. It gives us leeway to run up debt (\$34 trillion of it so far) that other countries lack.

If Russia, China and other diplomatic rivals were to decide that their dollar assets were vulnerable and that they could no longer trust the dollar as a means of exchange, we would feel the pain of that \$34 trillion in debt in a way that we don't now. **Retaining the advantages of a reserve currency depends on our behaving as a trustworthy and neutral custodian of others' assets. If we start stealing people's money, that could change.**

But it is a bad one. In any free country there is a constitutional wariness of allowing the government to do anything without levying taxes, for good reason. Taxes and accountability go together. Generally, if citizens aren't paying for a government program through taxes, they are paying for it in some less straightforward way — by taking on debt, for instance, or permitting an outsize governmental role for some corporation or other private interest.

At the start of the war, Russia had about \$600 billion in reserves. That means securities denominated in euros, dollars, British pounds, yen and various other stable, convertible currencies, along with gold. In normal times, Russia, like other countries, holds those currencies to facilitate trade and stabilize its own currency. Little of that money — a few billion dollars — is in the United States. Most talk of seizing Russian assets concerns the roughly \$300 billion held in Europe, the bulk of it at a depository in Belgium called Euroclear.

Although Europeans regulate this money, they have mostly followed America's lead on diplomatic and strategic matters since the start of the war. Individual European countries, above all Germany, have urged caution before laying hands on Russia's reserves, fearing that such a move would jeopardize the euro's status as a (lesser) reserve currency. The REPO Act could goad them to act more aggressively.

The European Union has proposed a compromise between leaving the money alone and seizing it all. It has asked Euroclear to hold in separate accounts the profits generated by its Russian assets. These profits could then be taxed at a high rate and the proceeds delivered to Ukraine — an accounting maneuver expected to yield about \$3 billion a year.

Other Europeans have proposed a more reckless course. They argue that Russia's hundreds of billions of dollars should be used as collateral for a large Western war loan to Ukraine, to be repaid out of anticipated reparations, for which the European Union could replace Ukraine as the claimant.

These debates come down to the difference between freezing assets and seizing them. For the past few months, Mr. Biden and his administration have called for seizing the Russian reserves outright and using them to fund the war against Russia — a move that would be, if not entirely unprecedented, at least radical. Freezing reserves happens. Actually seizing them has been done only in drastic circumstances and then only in a limited way.

The United States froze Iranian assets in the opening days of the hostage crisis of 1979, but most of these were unfrozen two years later. Frozen assets were used to pay war reparations to Kuwaiti victims of Iraq's 1990 invasion, but that was according to a plan approved by the U.N. Security Council the following year. The United States

seized about \$1.7 billion from Iraq in 2003, but that was in the midst of war. And last September Mr. Biden returned a few billion dollars of frozen assets to Iran as part of a deal that saw the repatriation of Americans imprisoned there. **Freezing has generally not meant seizing.**

Things started changing, though, with the disorderly withdrawal of American troops from Afghanistan in the summer of 2021. In the aftermath, the Biden administration froze the country's \$7 billion in reserves, earmarking half of it for a compensation fund for the families of victims of the Sept. 11 attacks. Even though it was arguably a wartime measure, this kind of seizure was irregular and surprising. Few viewed it as a precedent: Russia's central bank was not hiding its reserves through shell companies or other trickery on the eve of its Ukraine invasion. No one seems to have considered the possibility that a foreign banking authority might simply take the money.

Mr. Biden and Mr. Johnson, in their different ways, are claiming the mantle of moral leadership for their respective parties. "American leadership is what holds the world together," Mr. Biden said last fall, and walking away from Ukraine, he contends, would put that leadership at risk. Mr. Johnson has accused Mr. Biden of "projecting weakness" in his foreign policy and is presenting an alternative.

The larger worry is not moral but practical. If the REPO Act is enacted, then currency seizures, now seen as a tool of last resort, might turn into standard operating procedure, to America's detriment. Any foreign government liable to having an American voting bloc riled up against it — China, for starters — would think twice before parking its assets in the United States or with one of its NATO allies.

That is not yet a probability, but it is a possibility that no politician of either party should lose sight of. For decades now, the United States has been deferring hard decisions at home and abroad and papering over partisan divisions with the tens of trillions of dollars that our advantageous international position has allowed us to borrow. Our options, though, are narrowing. **If Mr. Johnson thinks the United States is "projecting weakness" now, wait till he sees it without its reserve currency.**

(I am quite convinced that the Europeans will not allow the theft of Russian assets from Euroclear, which also has operations in HK and SG, so they cannot just decide to do the stealing in Brussels. This would imply that there will be no more money sent to Zelenskyy, given the strong Republican opposition to handing over the \$60 billion that Biden wants to. No men, no munitions, no money...the war has been lost. Unconditional surrender is looming.

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