



Jeff D. Opdyke's Global Intelligence Letter

This Controversial Commodity Holds the Key to the World's Energy Future

Dear *Global Intelligence Letter* subscriber,

My energy costs here in Prague have more than doubled to \$330 per month over the last year.

That sounds bad, I know. And it is—trust me. My wallet feels the pinch.

But my pain is just the beginning. It's a warning sign of something much more serious to come.

Across the Northern Hemisphere, governments are preparing for rolling electricity outages. Indeed, the *Insider* recently published this headline: “Get ready for blackouts from London to L.A., which will force people worldwide to either pay more or put their health in jeopardy.”

The world is on the cusp of its energy greatest crisis in generations. And there is one, and only one, solution: Nuclear power.

For 40-plus years, the world has had a love-hate relationship with nuclear energy.

Those who support it rightly recognize that nuclear power is the only viable clean alternative to fossil fuels. Although various renewable energy technologies such as wind and solar have begun taking root, they are clearly not ready for prime time. These energy sources simply don't have the capacity to provide “baseload power”—the always-on electricity that is necessary so that when consumers and businesses flip a switch at any time of day or night, the lights come on.

However, the haters of nuclear power have long responded to this by pointing to three events: Three Mile Island in the U.S. in 1979...Chernobyl in the former Soviet Union, now modern-day Ukraine, in 1985...and Fukushima, Japan in 2011.

While the number of deaths from these incidents is small (zero people died because of Three Mile Island and estimates for the other two combined are as low as 79), the anti-nuclear/environmental movement has been loud and fear-mongering in its condemnation of nuclear power...causing politicians to turn away from a proven form of clean energy.

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But now all of that is changing because of Russia's invasion of Ukraine...

As I was writing this month's cover story, Russia indefinitely suspended all natural gas flowing into Europe, the latest in a tit-for-tat economic war that the West and Russia are waging as a result of the real shoot 'em up conflict in Ukraine.

The thing is, economies across Europe, particularly Germany's massive industrial sector, are deeply dependent on Russian oil and gas.

Now, governments in Europe and elsewhere are seriously concerned about their ability to provide adequate power to their economies. As a result, they are re-embracing nuclear energy. Some have announced plans for new nuclear plants. Some are offering up billions in incentives for uranium mining, the commodity used to make nuclear fuel. And some are extending the life of nuclear plants that were slated for shutdown over the next two years.

In short, we are in the early stages of a renaissance in nuclear power, one that's likely to last for many years to come. Which makes this a moment of opportunity for investors who see what this means for the global energy industry and nuclear-related investments.

That said, I want to be clear here at the outset: To take advantage of this opportunity, you have to be an investor who truly understands and accepts that nuclear power will always represent a risk, given the potential for shifting public perception, governmental policies, or another Fukushima or Chernobyl.

However, with the Western world having painted itself into a corner on energy, this is the moment to own nuclear stocks...and in particular exposure to the essential fuel for nuclear plants: uranium.

I've long been bullish on uranium. I've owned uranium stocks for a decade now. I rode the highs, I rode the lows, and I'll be riding uranium to new highs once again.

That's why this month I am sharing with you my rationale for owning one particular uranium stock—one of the uranium stocks I currently have in my personal portfolio—that will benefit as the world once again embraces nuclear energy.

This Time Is Different

Talk of a nuclear renaissance is often met with skepticism...and for understandable reasons. It seems like every few years the nuclear industry claims it's on the cusp of a revival, only to disappoint. Indeed, as recently as 2008, nuclear was supposedly set for a major comeback.

Back then, presidential candidate Barack Obama expressed an eagerness to embrace nuclear energy as part of the government's efforts to lower carbon emissions. There was surprisingly little opposition to his proposal.

Decades had passed since the Chernobyl accident. In all that time, the more than 100 reactors in the U.S. had been operating without incident. With fear of nuclear energy having subsided among the public, the industry was abuzz as Obama swept to power. The Nuclear Regulatory Commission received applications for 30 new reactors. Then came Fukushima...

On March 11, 2011, a massive magnitude-9 earthquake and tsunami struck the Fukushima Daiichi nuclear plant on the coast of Japan, causing meltdowns at all three of its reactors. The global reaction was immediate.

Governments and environmentalists started to swear off nuclear energy. In the U.S., Germany, Belgium, Switzerland, Japan, and elsewhere, nuclear power plants were decommissioned and plans for new plants were mothballed. In all, roughly 60 plants have been shuttered in the decade since Fukushima.

Politicians were convinced by environmentalists that renewable technologies could step up and replace the power lost by mothballing nuclear. And to a certain extent, they were right. Solar and wind in particular have all ramped up their productive capacity.

Since the beginning of this century, non-nuclear, non-hydro renewable power generation has progressed to the point that it supplies about 7% or 8% of the world's electricity needs, according to BP's 2022 *Statistical Review of World Energy*. In terms of percentage growth, that's a big increase, no doubt—up from less than 1% in 2000. But it's not nearly enough.

Nuclear still provides more than double that amount, despite a comparative lack of investment.

The reality is that the infrastructure is not in place for wind and solar to supply our needs. There are not enough renewable energy sites and no way to rapidly build them out globally. Moreover, large-scale energy storage capacity—think ginormous batteries—has not reached a level that would allow solar and wind farms to sock away energy to be used later.

As for other green energy sources, like tidal and geothermal, those are either specific to certain regions or, as with tidal, haven't reached a stage where they are viable on a large scale.

The hard truth is that renewable energy is still several decades away, at least, from being able to sate the world's energy needs.

Although this reality has been clear for some time, governments were committed to maintaining a hardline stance on nuclear energy, and nuclear seemed destined to simply fade away...that is, until two factors emerged over the past few years to offer it a reprieve: climate catastrophes and the war in Ukraine.

Natural disasters have been assaulting the planet with increasing regularity, pushing policymakers and scientists to rush out a host of measures and global accords aimed at radically reducing humanity's impact on the climate. Along the way, policymakers have been forced to accept that renewable energy isn't ready for primetime since it can't provide baseload power.

Nuclear energy, however, is a long-proven technology with a carbon footprint on par with green energy technologies. As such, nuclear has found itself back in the spotlight.

President Biden's recently signed Inflation Reduction Act includes a number of measures aimed specifically at jump-starting America's fairly moribund nuclear power industry (only one nuclear plant—TVA Unit 2 in Tennessee—has opened in the last 25 years). The new law provides \$30 billion in tax credits for generating nuclear energy, and more importantly, offers up \$700 million to produce in the U.S. a type of uranium fuel that advanced reactors consume.

Meanwhile, California this month approved a plan to extend the life of its last remaining nuclear power plant, Diablo Canyon, past its 2025 closure date. The reason: the state recognizes that the transition from fossil fuels to

clean energy is going to be bumpy at best, and arbitrarily taking 10% of the state's power supply offline is probably not a smart decision.

And then there's the second reason nuclear power is surging: Russia's calamitous invasion of neighboring Ukraine this past February.

A Matter of National Security

Governments from South Korea to Canada are grappling with the realization that the current energy environment is a risk to national security and they're returning to nuclear due to its long history of providing clean energy.

Nowhere is that trend clearer than in Europe, a continent where anti-nuclear environmentalists rage the loudest but are now being largely ignored.

Prior to the war, Russia was Europe's energy sugar-daddy—the largest supplier of both natural gas and petro-products of all manner. Russia accounted for more than 40% of the continent's natural gas demand and 30% of its oil needs. However, the economic sanctions between Russia and the West have stoked an energy crisis that, in turn, has refocused people and politicians on the need for energy security.

Europe has limited or cut off the amount of oil and gas it buys from Russia, in an effort to pinch Putin's war-financing efforts. Putin has responded by repeatedly shutting off the spigot on natural gas that European economies and consumers need.

As I was writing this, Russia, on the pretext of a gas leak, indefinitely shut down Nord Stream 1, a primary pipeline that funnels Russian natural gas into Germany for distribution across other parts of Europe. As a result, electricity rates across the continent have skyrocketed to unheard of levels.

So-called "forward contracts" for electricity a year from now have soared to \$850 per kilowatt hour in Germany, and over \$1,000 in France. Last year, both were about \$85.

Europe is racing to replace the missing Russian natural gas, but it's struggling to do so. Natural gas cargo shipments are locked into years-long contracts, and there's not a lot of extra gas available that Europe can easily tap into, certainly not enough to meet European demands on top of existing global demands.

Norway, one of the world's top natural gas producers, has stepped up and is running as much extra gas as it can into Europe (which is why we own Equinor, Norway's energy giant, in the *Global Intelligence Portfolio*). And Europe is buying every last bit of U.S. gas that it can find.

Even at that, however, Europe faces a bleak, cold winter without enough energy supplies and with electricity prices that are astronomical.

That fact has hit people and politicians hard...not just in Europe, but globally as the world realizes that even a regional event can impact the world's energy markets, which can have devastating impacts on local economies.

The only solution is nuclear energy.

Just this month, France's minister for energy transition said the country will restart all of its nuclear reactors by this winter to help the country survive the energy crisis. The U.K. has pledged more than \$800 million to help fund a new nuclear plant. And Belgium, almost immediately after Russia's invasion of Ukraine, voted to extend for another decade the life of two nuclear reactors set to go offline in 2025.

Others joining the chorus include Finland, which like Belgium wants to extend nuclear power production for at least another 10 years. The Netherlands and the Czech Republic, meanwhile, are now talking about building more nuclear plants. Even Germany, which has been pursuing the total abandonment of nuclear power since the 1980s, is now looking to

keep three remaining plants running instead of shuttering them for good at the end of this year.

And so, too, is Japan. The country that for the last decade has served as the poster child for the anti-nuclear crowd is now looking to embrace nuclear energy once again.

In the wake of Fukushima, Japan moved most of its electricity production to coal and natural gas, but the energy aftershocks from Russian aggression have shown how dangerous it is to rely so heavily on imports of both commodities.

As such, Prime Minister Fumio Kishida announced in August that Japan, which gets 9% of its natural gas needs from Russia, will restart idled nuclear plants. Moreover, it will go one step further and look to develop new, next-generation reactors.

The Japanese public supports the move, with 60% agreeing that nuclear energy is their only viable option for avoiding an electricity shortage and bitterly cold winters.

Safety Concerns

Russia's attack has all but undone the psychological damage of Fukushima. Now, concerns about economic destruction and limited electrical power for hundreds of millions of people have replaced fear of one day maybe being impacted by a highly unlikely nuclear plant radiation leak.

I mean, only three notable accidents have occurred since nuclear power was invented in

Little-Known Facts About Nuclear Energy

- There are 440 nuclear reactors operating today in 33 countries. Another 55 are under-construction across 15 countries.
- About 20% of electricity in the U.S. today is produced using nuclear power. Globally, the figure is about 17.6%, according to BP's 2022 *Statistical Review of World Energy*.
- Nuclear plants can, on average, operate at maximum energy output 92% of the time, double the rate of natural and gas, and three times the amount of wind and solar.
- Nuclear power plants produce four times less carbon pollution than solar farms since solar requires significantly more materials (all those panels spread out over a vast amount of land) to produce an equivalent amount of electricity.
- Nuclear is the second-safest energy source, behind only solar. Coal is the most dangerous, causing 24.6 deaths per terawatt hour of electricity generated. Oil is second at a rate of 18.4. By comparison, nuclear stands at 0.03. (One terawatt hour is enough electricity for roughly 150,000 people for a year.)

the 1950s. And the deaths from those events actually pale in comparison to the deaths tied to natural gas explosions, coal-mining accidents, oil fires, and other fossil-fuel related episodes over the same period.

Plus, nuclear power plants built today are not the same as the plants built decades ago. They are far more advanced technologically. Most now have passive cooling systems that would manage a catastrophic failure like Fukushima—or human error, like at Chernobyl—even if all power supplies are severed.

The one major safety concern hanging over the world's nuclear energy industry at the moment is the Zaporizhzhia nuclear power plant in Ukraine. Russia took control of this plant, the largest in Europe, during its invasion. Since then, Russia and Ukraine have accused each other of shelling the site, risking a nuclear disaster.

U.N. inspectors are now on-site, to help monitor the situation. And as a safety measure, the plant's operators have fully stopped power generation, placing the reactors into their safest state, known as a "cold shutdown." Still, a nuclear incident cannot be ruled out.

However, if an accident were to occur, I believe the world would see it for what it is—a deliberate act of sabotage by Russia and not a nuclear accident like Chernobyl or Fukushima.

So, any reaction against nuclear energy would also be far less severe than we've seen in the past. Moreover, even if something did happen at Zaporizhzhia, countries in Europe would still face the prospect of limited energy supplies, shrinking economies, and populations and business leadership up in arms about outrageous electricity bills and/or inadequate power supplies.

In fact, if Russia deliberately caused a nuclear incident at Zaporizhzhia, Western leaders would likely face pressure to further punish Russia... which would likely mean more sanctions on imports of Russian oil and gas.

All of this underscores the degree to which Russia has pushed energy to the top of the national security agenda and inadvertently nourished a nuclear renaissance. And that's good news for America's largest producer of uranium: Energy Fuels Inc.

A Vital Commodity in Short Supply

Uranium, the fuel for nuclear reactors, has endured a tough time over the past decade. Prices that were north of \$70 per pound before Fukushima at one point plunged to the high-teens. They spent most of the last decade under \$40 per pound...making the mining of uranium unprofitable. Most producers need prices closer to \$70 to profitably mine.

Now, however, prices are rising again. Since February of this year, uranium prices have doubled to \$52 per pound, a level not seen in a decade. This is driven by the emerging nuclear renaissance and constrained supply.

The unique trait about nuclear plants is that their annual uranium demand is calculable. Today, the world's nuclear plants gobble up about 190 million pounds of enriched uranium annually. Yet, global mine production each year amounts to about 140 million pounds. Making up the deficit is above-ground inventories that have built up over many years, and down-blending weapons-grade uranium into commercial uranium.

That inventory, along with the dour sentiment toward nuclear energy, worked to keep prices depressed. However, that inventory is now dwindling. And the fact that various countries are looking to extend the lifespan of numerous nuclear plants, while Japan is looking to restart its plants, will take a big bite out of the remaining above-ground supply.

As prices rise, the viability of uranium mining improves and increased profits accrue to uranium mining and processing companies.

The flip side, of course, is that production that was halted because prices were too low will become economically viable, and that will see an increased amount of uranium come to market, which would be a moderating force on prices.

Mining companies, however, recognize this risk. They've lived through a price crash before and they don't want to do so again. So, as an industry, they've begun pursuing a supply-side approach to mining. Instead of rushing to mine as much as they can to reap the higher prices, they've committed to increasing production capacity only to the degree that it allows them to meet contracted requirements from the world's

existing nuclear plants, and whatever increased demand arises from the 55 new nuclear plants that are currently under construction globally.

The industry's supply-focused approach should allow uranium prices to naturally staircase higher over time. Bank of America now sees uranium prices pushing past \$70 in 2023.

That puts Energy Fuels in a great position. Energy Fuels is a relatively small company—just \$1.1 billion in market cap—that explores for, processes, and mines what's known as “yellow-cake uranium,” the precursor to enriched uranium consumed by the world's 440 nuclear power plants.

At the moment, the company is solely focused on processing uranium, at its White Mesa Mill in Utah, but it has three licensed mining facilities on standby in Arizona, Wyoming, and Texas. They're on standby largely because uranium prices for much of the past decade have not justified the cost of mining and production.

But now fortunes are changing for Energy Fuels and the industry as a whole...not just because of the nuclear energy renaissance but because Putin is turning uranium into a national security concern for the U.S.

The New U.S. Uranium Reserve

Like Europe, the U.S. is increasingly worried about its exposure to Russian whims. Russia is one of the leading suppliers of uranium globally, and is responsible for about 20% of U.S. uranium demand. More importantly, Russia is the global leader in uranium enrichment, the process that turns raw uranium ore into the uranium that nuclear plants rely on. It's refining facilities represent 40% of global enrichment capacity.

Just as Russia has cut off gas to Europe, concerns are that Russia could ban exports of enriched uranium globally—or to the U.S. specifically—sparking a power crisis in the States, where 20% of electricity comes from nuclear. Analysts have stated that any move by Russia to ban such exports could see uranium prices spike toward \$200 per pound for a short time and settle somewhere in the \$100 range.

I can't say whether such a spike will happen—that's entirely dependent on Vladimir Putin's emotional state. But if it did, it would tear through the U.S. economy, causing elevated

inflation and a recession (or a steeper recession, given that one already seems underway).

Because of that risk, the U.S. government and C-suite nuclear plant executives are now focused on security of uranium supply like they haven't been in decades. For the first time in half a century, the U.S. Department of Energy has launched a strategic uranium reserve to ensure the U.S. nuclear fleet has the resources necessary to continue producing power in a crisis. The DOE is looking to stockpile about 1 million pounds of uranium from four qualified, U.S.-based uranium producers.

Energy Fuels is bidding to be one of those producers and, given that it is the largest producer in America, I'd expect that the DOE will select it as one of the four. If so, that “could result in significant revenues from uranium sales this year,” company president and CEO, Mark Chalmers, told Wall Street analysts in August.

At the nuclear plant level, meanwhile, electricity producers have begun locking in long-term supply. To that end, Energy Fuels recently announced it has signed contracts with three electricity producers to supply uranium starting next year and lasting through 2030. The contracts are initially for 3 million pounds of uranium, but could total as much as 4.2 million pounds, if various option clauses are exercised.

On the low end, that's an average of about 375,000 pounds of uranium per year for a company that has been processing only about 100,000 to 120,000 pounds of existing above-ground supply annually. (Right now, no mines in the U.S. are producing uranium ore because of the commodity's low prices.)

Those contracts are indexed to commodity inflation, giving Energy Fuels exposure to rising uranium prices. Chalmers told Wall Street to expect revenue and cash flow to ramp up starting next year, and that he sees “tailwinds that are really starting to push things along here with U.S. utilities at sustainable pricing.”

Translation: Utility companies are chasing long-term uranium supply, and at prices that will allow miners to get back to the business of mining uranium profitably. More such contracts are quite likely as nuclear power plant operators begin a new cycle of locking in supply. Which is why I recommend owning Energy Fuels.

My Recommendation: Buy Energy Fuels Inc. (symbol: UUUU) at prices up to \$8.

Risk Profile: Higher Risk (What does this mean? Before you act, read a full breakdown of my five-level risk assessment scale by clicking [here](#).)

Stop/Exit: 55% Trailing Stop-Loss

Energy Fuels trades on the New York Stock Exchange, so you will not have any problem buying these shares through any U.S.-based brokerage firm. This is nuclear, so it has a Higher Risk profile. Societal whims play a huge role in this industry, and opinions can change fast. But given the energy crisis facing Europe and the world, attitudes toward nuclear are more positive than they've been in decades.

I want to reiterate here that I am coming at this from a partisan perspective. I own Energy Fuels, and have since 2013. My pledge to you is that I have no plans to sell this position, and I will not sell this position without informing you and giving you a fair chance to exit first.

Energy Fuels is a near-permanent part of my portfolio because I am so bullish on uranium's long-term future. As I write this, its share price is \$7.14. Back in uranium's last heyday, in 2007, the stock touched \$186 per share when uranium had spiked to nearly \$140 per pound.

I am not predicting it will return to that level. But the tailwinds now steering this industry tell me that we should see Energy Fuels at least triple from here into the mid-\$20s.

We also have another player driving prices as well: investment funds that are stockpiling uranium. Just like the gold exchange-traded funds (ETFs) that buy and store gold bars, investment funds such as the Sprott Physical Uranium Trust, which was launched in July 2021, hold raw uranium as a bet on higher prices for the commodity going forward. That has taken some of the supply out of the market.

For 2022, Energy Fuels is on track to pull in sales of about \$440 million. Next year should see it top \$530 million, and that could be a low-ball estimate. Plus, financially speaking, Energy Fuels sports a robust balance sheet. It has no debt and holds more than \$86 million in cash and equivalents, including uranium inventories that are held at a book value of just \$24 per pound, less than half their current value.

Adjust those inventories for current market value, and each share of Energy Fuels holds about \$0.76 worth of value just in cash and inventories. That's more than 10% of the share price, a meaningfully large number that also serves as a buffer against any ill winds that might blow through the industry.

With Energy Fuels, we also pick up meaningful exposure to the rare-earth metals industry. The company processes a mineral called monazite, a byproduct of so-called "heavy sands" mining. Energy Fuels' White Mesa Mill is the only facility in North America capable of processing monazite to extract valuable rare-earth metals, particularly the heavy rare-earth metals that are more valuable.

These rare-earth metals are strategically important to the U.S. and Western economies because they are vital for manufacturing everything from electronics to automobiles. China is the largest player in rare-earth metals. However, it has used this position as an economic bludgeon by limiting exports. A U.S. source of rare-earth metals gives the world greater stability.

The raw ore that Energy Fuels' processes has a value of more than \$21,000 per ton for the basket of rare-earth metals that it produces. That's the highest basket value in the industry because the ore Energy Fuels processes contains lots of the heavier rare-earth metals, which are rarer and more expensive. So, we're picking up a leading player in uranium production that comes packaged with a rare-earth sweetener.

The Chernobyl disaster, caused by the catastrophic mismanagement of Soviet officials, was the single most significant event in pushing the world away from nuclear energy. Ironically, some four decades later, Russia is having the exact opposite effect.

The reality is that countries are now desperate to achieve some form of energy independence, while also reducing their carbon emissions. For now, and for the next decade or three, nuclear power is pretty much the only solution.

If not for Russia's war, none of that would likely have really mattered. But February 2022 changed that game. The bullets began to fly... and an entire industry found a new tailwind.

The Ethereum “Merge” Is Happening Right Now... and That Points to a Boom Ahead for Crypto

I want to start this month’s update by noting what’s going on in crypto, since that is the real sore spot in our portfolio. Clearly, the first half of 2022 has been problematic for crypto (and for all risk-on assets) because of the Federal Reserve’s aggressive mismanagement of the economy. But that’s spilled milk at this point. Question is: Where do we go from here?

I’m confident the answer is: up. Right now, the Ethereum “Merge” is taking place. This is an upgrade to the Ethereum blockchain that will see it move away from something called “proof of work” and instead adopt “proof of stake.”

Under proof of work, transactions on the network are validated by computers competing to solve complex math equations. When a computer solves an equation, it’s rewarded with some Ethereum. This process is effective, but it’s slow and energy-hungry.

With proof of stake, participants who want to validate transactions simply need to “stake,” or deposit, Ethereum tokens on the network. Those “validators” then verify transactions on the blockchain and earn some Ethereum for doing so. In essence, it’s a greener technology since electricity consumption is decreased by 99.95%.

According to new details released by the Ethereum Foundation, the nonprofit responsible for managing the Ethereum blockchain, we now know that the Merge is currently taking place and is set to be completed in just a few days or even a few hours.

Now I want to be clear, that doesn’t mean crypto will spike higher immediately. The Merge is the most vital step in the Ethereum 2.0 upgrades. And these upgrades will, in time, boost network transaction speeds by as much as 600,000% and massively lower transaction costs. That will be a boon to the crypto space since a faster/cheaper ETH network will unleash a storm of innovation.

However, some further upgrades are also needed to deliver all these benefits. This includes something called “sharding”—a process by which the main blockchain network is divided

into partitioned sections, called “shards,” that would function almost like lanes on a highway.

Progress on that portion of the upgrades has fallen behind, and based on the updated roadmap released by the Ethereum Foundation, is now scheduled for early 2023, so it will be a while before we see the full completion of the Ethereum 2.0 project.

Still, make no mistake: The Merge is a hugely significant event that clearly demonstrates that the crypto future is moving inexorably closer. And when that future arrives, we’ll be very glad we were early to this party.

Moving on to Transocean. We’re down about 26% in this leader in deep-water oil drilling. That’s largely a function of energy-investment dollars flowing into the major oil companies and the sellers of gasoline.

Less attention has been paid to the drillers. After surviving an economic crisis (such as the pandemic) oil exploration companies typically husband their cash. And they are slow to reopen their wallets and start spending again on drilling.

At some point, they have to. Otherwise, their wells run dry and with no more oil reserves to tap, they go out of business. That spending appears to finally be arriving.

Transocean recently reported a sequential increase in its backlog of drilling contracts. It is the first time that has occurred in many years. It says exploration companies are now paying up to access its fleet of deep-water rigs that are specialized for drilling in the deep ocean.

Most of the world’s drilling occurs close to shore. Deep-water drilling is a very different animal, requiring a different kind of rig. And Transocean is the leader in those types of rigs. Better yet, Transocean says it is negotiating these new contracts at higher day-rates. That’s going to start flowing through Transocean’s income statement across 2023. Oil production companies need to tap new wells to replace dwindling reserves. Which means we are moving into a sweet spot for Transocean. I expect to see our position move sharply higher.

Expert Insights



Kim Iskyan is an expert on international markets who worked in emerging economies for nearly three decades, has advised Fortune 50 companies on political risk, and has helped build stock exchanges from scratch in countries that few people could find on a map. He is the publisher of [Porter & Company](#).

Why the War in Ukraine Threatens the Future of the Dollar

By Kim Iskyan

Russia's invasion of Ukraine carries many costs, including the deaths of many thousands of civilians, the devastation of the second-largest country in Europe, higher commodities prices around the world, and the threat of food shortages in many countries.

But as the conflict passes the six-month mark, it appears that Europe's first major war in 60 years will have another, unanticipated casualty: the U.S. dollar.

In years to come, historians could well look back at the Russia-Ukraine conflict as the beginning of the end for the dollar's status as the world reserve currency. And if this does indeed come to pass—as I expect it will—the consequences will be devastating for ordinary Americans.

Today, the dollar is the primary medium of global trade and a leading store of value, not just in the U.S., but around the world. This creates massive demand for the greenback, which keeps the price of the dollar high compared to other currencies.

This, in turn, allows Uncle Sam to borrow money more cheaply, and it makes imports to the U.S. less expensive than they would otherwise be. If the dollar loses its privileged position as the reserve currency, these and many other advantages would disappear... making everyday life massively more expensive in America.

To be clear, we won't see the impact of King Dollar's fall anytime soon. Like the frog that's slowly boiled alive on the stove...this will take years, even a decade or more, to play out. But by the time its decline becomes apparent, it will be too late to act.

That's why the prudent strategy is to take some steps now to protect yourself—and your children and grandchildren—from the slow, but inevitable collapse of the U.S. dollar.

Wait... Isn't the Dollar Strong Now?

It might sound odd to talk about the end of the greenback right now, given that “the value of the U.S. dollar is the strongest it has been in a generation,” as *The New York Times* reported recently.

Indeed, an index that measures the U.S. dollar against a basket of the most important foreign currencies, including the euro, the Japanese yen, and the British pound, has been flirting with 20-year highs. And in mid-July, the dollar and the euro hit parity—\$1 = €1—for the first time since the launch of the European currency in 2002. That means that this summer, floating down a canal in Venice, eating paella in Madrid, or buying a beret in Paris cost around 15% less for greenback-wielding Americans than it did just a year ago.

So, why has the dollar been so strong?

Like everything else subject to market forces, currencies move in step to supply and demand. When there are more buyers than sellers of a stock, the price goes up...and in the same way, in recent months buyers of U.S. dollars have swamped sellers.

A major reason for this is the aggressive interest rate hike campaign by the Federal Reserve to fight inflation. After the recent rate hikes, the federal funds rate—generally used as a proxy for interest rates—is at 2.25% to 2.5%. That compares to the euro's 0.75%, and negative 0.1% for the yen.

Since the dollar offers higher interest than other major currencies, yield-chasing investors globally are piling into the dollar. What's more, investors tend to buy the dollar—and U.S. Treasuries—during a time of rising uncertainty. As a result, concerns about the health of the world economy, rising prices, and the Russia-Ukraine war have boosted the dollar against all major currencies.

However, while the short-term price movements have been notable, they cannot tell us where the dollar will be a few years, or a decade, from now. For that, we need to take a step back and look at longer-term trends...

The Context of King Dollar

For more than a century, the U.S. dollar has been the global economy's most important medium of exchange and store of value.

When foreign companies and governments spend money outside their borders, they typically use U.S. dollars. That's true whether they're buying gas or copper... selling clothing or electronics...or investing in widget makers or manufacturing plants.

Moreover, as of last year, around 59% of the \$12.7 trillion in reserves held by central banks around the world were in U.S. dollars. Some governments use these reserves to maintain exchange-rate pegs. Sixty-five countries peg their national currencies to the dollar, while 11 nations, excluding the U.S., use the dollar as their official currency, including Ecuador, Panama, and El Salvador.

Because of this massive demand for the dollar, the U.S. has enjoyed a unique advantage: It has been able to borrow cheaply and seemingly endlessly. And it has deferred repayment by constantly rolling over—and increasing—its debt (which helps explain why the U.S. national debt has reached \$30.9 trillion).

But despite its recent price surge, the dollar has been losing ground in recent years. This is partly because its role in the global economy has been weakening.

America's share of the world's economic output fell from 40% in 1960 to around 22% today. The U.S. now trails the European Union and China in overall export and import volumes.

Another factor has been the dramatic growth of the Chinese economy. It's grown on average by more than 10% per year since 1991—while the U.S. economy has grown annually by 2.5% over the same period. Today, China's economy accounts for around 17% of the global economy—a more than fourfold increase from 1960. Many economists think that within a decade, at most, it will overtake the U.S. as the world's biggest economy.

Amid China's rise, the share of reserves held in dollars by central banks has fallen 12% over the past 23 years. So, even though the dollar is still king, the trend is clear: Its dominance has been waning for some time.

Then along came the war in Ukraine...

A New Kind of War

Following Russia's attack on Ukraine, the U.S. and a group of around 30 countries, most notably in Europe, exhibited unexpected unity and determination to impose drastic economic sanctions on Russia to punish it for invading Ukraine, and to encourage it to withdraw.

A big part of that is the effort to push Russia, which was the world's 11th-largest economy, out of the U.S. dollar ecosystem.

Early on in the conflict, many Russian banks were cut off from the SWIFT global financial messaging system. That makes transferring cash in and out of the country far more difficult. The Russian government subsequently defaulted on its foreign debt, not because it didn't have the money, but because its payments weren't permitted through the financial system.

Hundreds of Western companies have suspended operations in Russia—or exited altogether. Scores of Russian politicians and business leaders have had their assets abroad frozen and are barred from traveling to Europe and other parts of the world.

Other measures have made it nearly impossible for Russia to access around 60% of its \$630 billion in foreign currency reserves—which were supposed to be the lifeboat for the country's economy in a financial catastrophe.

The bulk of these reserves aren't physical cash or government bond certificates—they're electronic book entries. That means that with a few keystrokes, the Federal Reserve, the European Central Bank, and the Bank of Japan were able to render Russian foreign reserves inaccessible to the Russian government.

The West had previously enacted harsh sanctions on international pariahs like Iran and Venezuela, but never on this scale has finance been used as a weapon of mass economic destruction—and in particular with the world's reserve currency as the ammunition. As the *Financial Times* explained, "This is a very new

kind of war—the weaponization of the U.S. dollar and other Western currencies to punish their adversaries.”

Now the rest of the world—most notably those countries that might one day find themselves on the wrong side of the Western alliance—is taking note...and preparing.

A Failed Campaign?

As a result of these financial sanctions, Russia’s economy has come under severe pressure. It’s expected to contract around 6% this year, according to recent forecasts by the IMF. However, this contraction is a lot less than many economists anticipated earlier in the year. And Russia’s currency has actually risen in value as continued inflows from oil and gas sales—despite sanctions—have fueled the economy.

The impact of sanctions has been less than expected because Russia started to take measures a long time ago to insulate its economy. For years, China was Russia’s biggest trade partner. In 2019, the two countries signed a deal to settle trades in their own currencies—rather than the U.S. dollar. And in 2020, 17.5% of trades between the two countries were settled in China’s yuan—up from 3.1% in 2014.

As the Western squeeze on Russia tightens, Russia will likely lean on the Cross-Border Interbank Payment System (CIPS), China’s cross-border yuan clearing and settlement system.

As of the third quarter of 2021, China’s currency accounted for just 2.7% of global foreign currency reserves. By driving Russia into the arms of China, the U.S. and Europe are facilitating China’s goal of supplanting the dollar as the global economy’s undisputed king.

Of course, countries that don’t enjoy Russia’s natural resources wealth (Russia is the world’s second-largest producer of both oil and natural gas) would be in a far worse situation.

But Russia’s maneuvers to reduce the impact of sanctions—by reducing the importance of the dollar in its economy—are a playbook for every other country that might find itself on the wrong side of the Western alliance. And Russia and China want to aid countries in this...

In June, we learned that the so-called BRICS nations (Brazil, Russia, India, China, and South Africa) are working to develop a new global

reserve currency to displace the dollar, or at least diminish its dominance. This new currency would be a basket of the BRICS currencies, likely backed by hard assets such as gold and/or commodities.

To be clear, the world isn’t abandoning the dollar tomorrow. But the risks of holding the U.S. dollar have become clearer. Economies that feel threatened by Washington now have an incentive to shift their reserves out of U.S. dollar holdings. And while the process may be a years-long slide, the dollar’s dominance will decline. The U.S. will face a day of reckoning... when it can no longer rely on the world to fund its excessive spending.

What You Can Do Today: Diversify Your Investments

What can you do now to protect and grow your investments for the long term, to hedge against the deterioration of the dollar?

It’s a good idea to diversify the currencies in which you hold your assets, as part of your Plan B. There are exchange-traded funds, like the Swiss franc ETF in the *Global Intelligence Portfolio*, that allow you easy exposure to foreign currencies. And if you gain exposure through foreign real estate, all the better.

Gold has held value better than any other asset for thousands of years... it’s the closest thing we have to permanent in this world. And that’s the No. 1 reason you want to own gold. Whether you’re worried about inflation or a deflationary debt collapse...gold is an essential asset to hold in your portfolio.

Cryptocurrencies, like Ethereum and bitcoin, are another option. Critically—especially for Russians today—digital currencies exist outside the traditional financial sector. That means neither Uncle Sam nor rogue states can restrict crypto transactions. If some of the world’s central banks diversify just a small portion of their assets into crypto, a safe-haven holding of bitcoin or Ethereum could be a great investment.

The years ahead will see the slow but steady erosion of the dollar’s dominant role in the global economy as countries shift away from dollar-based trade and holding dollar reserves. But here’s the good thing: Now we can see how it will happen...and we still have time to prepare.

Intel Updates

■ A supply crunch means oil prices are going to jump higher in the years ahead.

After initially soaring to more than \$120 per barrel after Russia's invasion of Ukraine, oil prices have tapered somewhat in recent months, with Brent crude (the global benchmark) now trading at around \$94 per barrel and West Texas Intermediate (the primary U.S. index) sitting at about \$88.

This has led some analysts to predict that oil prices will remain steady for the rest of this year and perhaps even decline in 2023, given that the global economy could enter a recession. (Oil demand typically collapses in a recession since less planes are flying, less delivery trucks are driving, etc.)

However, I have a different take... Even if oil demand falls significantly, there is clearly not enough new supply coming online. That indicates trouble, and rising oil prices, lie ahead.

A report released at the end of last year by Norwegian energy intelligence firm Rystad Energy revealed that discovered volumes in oil and natural gas sunk to their lowest levels in 75 years during 2021. This was in large part due to ongoing impacts from the pandemic.

Meanwhile, this month a new *Wall Street Journal* analysis found that the Biden administration has leased fewer acres of federal land for oil and gas drilling than any administration since Truman, in the mid-1940s.

In the 19 months since Biden took office, the Interior Department has leased around 126,000 acres. In comparison, by the same point in their administrations, Trump had leased 4.4 million acres, Obama 7.25 million, George W. Bush 12.74 million, and Clinton 9.69 million. Biden promised to end drilling on federal land when running for the presidency due to concerns about climate change.

Now, it's important to put these numbers in context.

In recent years, private energy companies have been less interested in leasing federal land. Most drilling on federal territory is conducted in the waters offshore and many companies are now

focusing their efforts on private onshore shale oil, or fracking, since this method is less costly than operating offshore rigs.

Still, federal leases account for more than 25% of all U.S. oil production and now, as commodity prices skyrocket higher, the government may be required to reverse course.

The newly enacted Inflation Reduction Act requires the Interior Department to offer oil and gas producers at least 2 million acres of federal land and 60 million acres of offshore territory every year for the next decade. The problem is that even if companies take up these offers, it could take years for the new supply to come online.

Since the pandemic, I've been warning that the world is heading toward an energy supply crisis. Companies stopped investing in exploration during the early days of COVID, while many governments around the world are loath to permit new drilling amid concerns about the climate crisis.

It will take years for all this to shake out, but ultimately this is going to mean a shortfall in supply. And falling supply is not going to lead to falling prices. If anything, I expect oil prices to ultimately migrate higher and likely touch \$200 or more in one final hooray before enough new reserves are found and before nuclear and renewable energy can generate enough power to facilitate the shift away from fossil fuels.

■ Ticketmaster now allows event organizers to issue tickets as NFTs.

Amid the current crypto downturn, I've seen numerous stories proclaiming the death of NFTs. As the mainstream media tells it, non-fungible tokens—those one-off, one-of-a-kind cryptocurrencies which represent everything from digital art to ownership in a business—were just a fad whose time has now passed.

Clearly, no one told Ticketmaster...

The company said this month that it is allowing event organizers to issue tickets as NFTs. These NFTs can be made available to consumers before, during, or after an event, and can serve as tickets or memorabilia or grant access to special privileges, like meet-and-greets.

The NFTs will be issued through the Flow blockchain operated by Dapper Labs, a crypto

company valued at \$7.6 billion last year after it raised \$250 million in venture capital funding.

Ticketmaster and Dapper Labs successfully trialed the NFT system at the Super Bowl earlier this year, when NFT collectibles were issued to 70,000 attendees. Ticketmaster is now expanding its crypto tie-up with the NFL this season. Under the plans, NFTs will be issued to all attendees at 100 select NFL games, including at least three home games for each franchise.

This is just the start of NFTs taking over the ticketing world. Already, companies like Yellowheart are working on new NFT systems to tackle ticketing scams and predatory secondary market sales.

When I first began writing about NFTs, I predicted that one day, in the not-too-distant future, we would see everything from passports and voting records to airline tickets and ebooks issued as NFTs. Now that future is taking shape.

■ Saudi Arabia makes an audacious \$1 trillion gamble.

Regular readers of my daily *Field Notes* columns will know that earlier this year I visited the city of Jeddah in Saudi Arabia. It confounded my expectations.

While I was expecting a dull, sandy, slightly impoverished city, what I found instead was a pristine metropolis replete with six-lane roadways, uber-high-end retailers, ginormous malls, and upscale restaurants. It was a wonderful, relaxing place to spend time.

Now the Saudi government is making a huge bet that the rest of the world will find the country as alluring as I did.

While Muslim pilgrims have flocked to Saudi Arabia for centuries, Western visitors have long stayed away over fears about security, the country's abysmal human rights record, and its strict Muslim laws. Now, Saudi Arabia is trying to change that by investing \$1 trillion over the next decade to turn the country into a tourist hot spot. The money will be spent on building cruise infrastructure, luxury Red Sea resorts, and desert eco-lodges, among other projects.

This tourism initiative is part of a much wider plan to change the country's image and build more sustainable industries before the country's oil wealth dries up.

Saudi Arabia's de facto ruler, Crown Prince Mohammed bin Salman, has set a target of attracting 55 million international tourists annually by 2030. That's a ludicrously ambitious goal, given that France, the world's leading destination for international tourists, attracts 90 million to 100 million per year.

Moreover, Saudi Arabia is hardly most people's idea of a dream tourist getaway. Alcohol is banned, the temperature tops 120 degrees F in summer, and Mecca, the country's most renowned site, is off-limits to non-Muslims.

Still, I enjoyed Saudi Arabia much more than I expected. And if neighboring Dubai can move from a little-known trade hub to a chic destination for the wealthy jet-set, perhaps Saudi Arabia can achieve some measure of tourist success as well.

■ How early, or late, should you book flights to get the best deal?

Most flights open for booking around a year in advance, and prices can vary massively between that time and the departure date. So, when should you book to get the best deal?

Well, according to a new 2022 study by CheapAir, the prime booking window varies by destination. If you're flying from the U.S. to Europe, it's about 79 days in advance of your flight. For Canada, it's around 205 days. For Mexico, it's about 70 days. For the Caribbean, it's about 75 days. And for Central America, it's about 88 days.

Of course, this doesn't mean that if you want to fly to Paris, you should log in exactly 79 days before your trip and book tickets.

Rather it means that based on historical pricing patterns, you're likely to get the best deal in and around 79 days before the flight. So, the best strategy is to start scouting ticket prices in the weeks leading up to the 79-day mark.

■ If you're paying for your checking account, it's time to switch banks.

Many U.S. banks charge maintenance fees for checking accounts, with the annual charges on some accounts topping \$144 per year.

These fees are exorbitant and unnecessary.

Today, more than 40% of banks and 80% of credit unions offer free checking accounts, with no balance requirements. So, if your bank

imposes account charges, it's time to make the switch.

Another way to cut back on bank fees is to avoid making cash withdrawals from ATMs.

These fees have been sneaking higher in recent years, with some banks now charging \$4 per withdrawal.

Instead of ATMs, get in the habit of using the free cash-back option when making purchases with your debit card.

■ **Why outlet malls are actually a scam.**

We all love a good deal, which explains the proliferation of outlet malls. After all, who can pass up the chance to get luxury goods at a big discount?

The reality, however, is that most outlet stores don't actually offer discounts at all.

Most of us assume that outlet malls fill their shelves with excess inventory that didn't sell, or with goods that emerged from the factory with minor flaws.

In fact, outlet stores are often selling lower-quality goods specifically designed for these malls.

As the Federal Trade Commission wrote in a blog on its website: "Many stores sell products at their outlets made exclusively for those outlets. These items may be of lower quality than what's sold in the regular stores. For example, a jacket might not be fully lined, the stripes on a shirt may not match up at the seams, a T-shirt may be made of a lighter-weight fabric, and shoes might be made with synthetic materials rather than real leather."

This practice is so pervasive that several members of Congress urged the FTC to investigate outlet stores for "potentially misleading marketing practices."

All this doesn't mean you need to stop shopping at outlet malls. You can still get brand-name goods for less than they might cost you in a regular store.

Just don't go in expecting a deal or to get the same quality of merchandise.

■ **Learn a new language simply by browsing the internet.**

Are you trying to learn Spanish or maybe add a few words of French to your vocabulary? Then you should give Toucan a try.

When you visit a website, this extension for the Chrome web browser automatically translates key words and phrases into the language you are trying to learn.

As you learn these words, Toucan adapts, translating new, more difficult words instead. It also features mini-games to help you test your knowledge.

The extension is free to install and features more than a dozen languages, including Spanish, Portuguese, Mandarin, Japanese, Korean, and Hebrew.

You can add the extension to your browser [here](#).

■ **Does your smartphone get really hot sometimes? Here's the correct way to cool it down.**

Smartphones typically get hot for one of two reasons: They are connected to fast-charging cables or their internal computer processors are working overtime, maybe because you're playing a graphically intense video game or using your phone as a mobile WiFi hot spot.

Normally this isn't a big deal. Phones have systems to keep the processors cool.

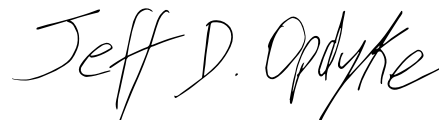
But when there are heat waves, such as those that impacted the U.S. and Europe this summer, these systems can prove inadequate and key components in your phone can be damaged.

If you suspect your phone is over-heating, there are a few things you can do.

First, pop the case off, since these can trap heat inside the phone. Second, reduce the number of apps you're using, particularly anything that could be pushing the processor hard. If this fails, switch the phone to low power mode or try it off entirely for a few minutes.

Finally, don't stick your phone in the fridge, as some TikTok and YouTube videos advise. The air in fridges is moist and you don't want condensation building up in your expensive electronic device.

Thanks for reading, and here's to living richer.



Jeff D. Opdyke

Editor, *Global Intelligence Letter*