March 14, 2025

Battle for the Soul of Alberta

What I am about to discuss may seem farfetched, but I hope it is not too much of a stretch as we have seen global elites push agendas that have intensified over the past five years.

What I am discussing below boils down to: Europe is trying to control the price of U.S. dollars so they can push their anti-energy/anti-human agenda, and they are using Canada as that vehicle to control the price of U.S. dollars.

With the unelected Mark Carney in place, we have seen significant speed increase to this agenda. What they are doing is what I termed the Loonie-dollar System.

Before I get to how, I need to explain a few things around banking specifically the Euro-dollar System.

What is the Euro-dollar System?

The Eurodollar System revolves around Eurodollars, which are U.S. dollar-denominated deposits held in banks outside the United States, often in Europe (hence the "Euro" prefix, though they are not limited to Europe). These deposits are not subject to U.S. banking regulations or control, making them attractive for international banks, corporations, and governments.

Key Features:

1. Origin: The Eurodollar market emerged in the 1950s during the Cold War when Soviet Union entities and others began depositing dollars in European banks to avoid U.S. jurisdiction.

2. Scale: It is massive—trillions of dollars circulate in this system, often exceeding the U.S. domestic money supply.

3. Function: Eurodollars facilitate international trade, lending, and investment. They are used in offshore banking, interbank lending (e.g., via LIBOR, now largely replaced by SOFR), and as a tool for corporations to manage liquidity globally.

4. Regulation: Since these funds sit outside U.S. control, they are less regulated, which historically fueled their growth but also introduced risks (e.g., during the 2008 financial crisis). As well, these markets are certainly not controlled by the U.S. government.

How It Works:

- A U.S. company might deposit dollars in a London, England bank.
- That bank lends those dollars to a firm in Asia.
- The dollars never "return" to the U.S., staying in the offshore system, creating a parallel dollar economy.
- Since London England Banks do not have rehypothecation rules, that U.S. dollar deposit can be infinitely lent out. **This is the key**.

Rehypothecation in Financial Markets:

- In investment banking and brokerage (common among London's major players like Barclays or Standard Chartered), rehypothecation occurs when a bank or broker reuses a client's pledged collateral (e.g., securities in a margin account or **U.S. dollars**) for its own borrowing or trades.

- Unlike the U.S., where rehypothecation is capped at 140% of a client's debit balance under SEC Rule 15c3-3, the UK has **no statutory limit on rehypothecation**. This stems from the UK's common law system and its lighter regulatory touch in this area.

Importance:

- It is a backbone of global finance, enabling dollar-based transactions worldwide without direct Federal Reserve oversight.

- It amplifies the U.S. dollar's dominance as the world's reserve currency. But it is also the crux of the system. The U.S. does not control the price of money with rehypothecation rules in the U.K. (until now with SOFR see below).

LIBOR

- Definition: LIBOR was the average interest rate at which major global banks were willing to lend to one another in the unsecured interbank market. It was calculated daily across multiple currencies (e.g., USD, GBP) and terms (e.g., overnight, 1-month, 3-month).

- History: Introduced in the 1980s, LIBOR became a cornerstone of the Eurodollar system and global finance, underpinning trillions in loans, derivatives, and mortgages.

- Calculation: Based on submissions from a panel of banks estimating their borrowing costs. It was unsecured (no collateral) and partly subjective, relying on bank estimates rather than actual transactions.

- Issues:
    - Manipulation Scandal: In the 2000s-2010s, banks were found to have rigged LIBOR for profit, leading to fines and loss of trust.

    - Declining Use: Post-2008, interbank unsecured lending dried up, making LIBOR less reflective of real market conditions.

- Phase-Out: LIBOR was officially discontinued for most currencies and tenors by December 31, 2021, with USD LIBOR fully phased out by June 30, 2023, replaced by alternative, SOFR.

SOFR

- Definition: SOFR is a benchmark rate based on the cost of borrowing cash overnight, collateralized by U.S. Treasury securities in the repurchase (repo) market.
- History: Introduced in 2018 by the Federal Reserve Bank of New York as a LIBOR replacement, it is now the primary U.S. dollar benchmark.
- Calculation: Derived from actual transaction data in the Treasury repo market, making it secured (backed by collateral) and objective. It reflects billions in daily trades, not estimates.

- Features:
    - Overnight Only: Unlike LIBOR's multiple tenors, SOFR is a single overnight rate. Longer-term rates are derived using averages (e.g., 30-day or 90-day SOFR).
    - Risk Profile: Lower credit risk since it is secured by Treasuries, unlike LIBOR's unsecured nature tied to bank credit risk.

- Adoption: Widely adopted in the U.S. for new loans, derivatives, and financial contracts post-LIBOR.

---

Key Differences

| **Aspect** | **LIBOR** | **SOFR** |
|---|---|---|
| Nature | Unsecured (bank credit risk) | Secured (Treasury-backed) |
| Calculation | Bank estimates, some subjectivity | Transaction-based, fully objective |
| Terms | Multiple (e.g., 1M, 3M, 6M) | Overnight (averages for longer) |
| Market | Interbank lending | Treasury repo market |
| Risk | Higher (reflects bank risk) | Lower (collateralized) |
| Status | Phased out by 2023 | Current U.S. standard |

Why the Switch?

- Reliability: SOFR's transaction-based data (hundreds of billions daily) is more robust than LIBOR's dwindling unsecured lending market.

- Transparency: SOFR eliminates manipulation risks inherent in LIBOR's estimate-based system.

- Stability: SOFR aligns with the low-risk nature of Treasury markets, though it lacks the forward-looking term structure LIBOR offered.

- For the U.S. to take back control of pricing USD.

---

Challenges with SOFR

- Backward-Looking: SOFR is an overnight rate, while LIBOR provided forward-looking term rates, requiring adjustments (e.g., using compounded averages or term SOFR approximations).
- Transition Costs: Shifting contracts worth trillions from LIBOR to SOFR involved legal, operational, and financial hurdles. Capital is flowing out of Europe into the U.S.

---

Current State (March 2025)

- USD LIBOR is fully retired, and SOFR dominates U.S. markets. The transition is complete, though some legacy contracts still linger with synthetic LIBOR rates (a temporary fix).

- SOFR's adoption has solidified the U.S. dollar's role in global finance and severed the tie to the Eurodollar system's unsecured lending roots.

The Relevant Event:

June 16, 2021, will go down in history as when the U.S. took back control of the cost of USD around the world.

On June 16, 2021, the Federal Open Market Committee (FOMC), chaired by Powell, announced adjustments to its administered rates due to excess liquidity pressures pushing short-term rates (including SOFR) near zero. This followed massive asset purchases and pandemic-related stimulus, which flooded the system with cash.

- Action: The FOMC increased the reverse repo rate from 0% to 0.05% (a 5-basis point hike). Simultaneously, the Interest on Excess Reserves (IOER, now IORB—Interest on Reserve Balances) was raised from 0.10% to 0.15%.

- Context: Overnight rates like SOFR were hovering at 0.01%, risking negative territory, which the Fed wanted to avoid. The Reverse Repo Rate (RRP), previously at 0%, was not absorbing enough excess cash (usage had spiked to over $400 billion daily by May 2021).

- SOFR Impact: Post-adjustment, SOFR stabilized slightly above 0.05%, reflecting the new RRP floor. On June 15, 2021, SOFR was 0.01%; by June 17, it rose to 0.05%, aligning with the RRP hike.

- LIBOR Comparison: At the time, 1-month USD LIBOR was around 0.10% (June 15: 0.09713%), and 3-month LIBOR was about 0.15% (June 15: 0.14863%). LIBOR, being unsecured and forward-looking, included a credit risk premium, so it remained higher than SOFR and was not directly affected by the RRP change.

As a result of this increase in SOFR, capital stated flooding out of the Euro-dollar system effectively starting the process of defunding the global elite in Europe. This put the power of pricing U.S. dollars in the hands of the U.S., which they have NEVER had before.

**Now enter Canada.**

Effectively Carney trying to create something like the Euro-dollar system in Canada, the Loonie-dollar system. Liberals announced that Canada will issue U.S. denominated debt within 48 hours of Carney leadership win.

This involves the Government of Canada issuing debt in U.S. dollars, typically sold to international investors, rather than in Canadian dollars (CAD).

March 11, 2025: Canada announced its intent to issue a U.S. dollar-denominated global bond on March 12, 2025, subject to market conditions. This was highlighted in a government release emphasizing the goal of supplementing foreign reserves, which are held in the Exchange Fund Account (EFA). The size was not specified in the announcement.

So, Carney is trying to create a Euro-dollar System in Canada, the Lonnie Dollar System, and take over controlling the price of USD and undermine the U.S. financial system.

A few major challenges that Canada will face because of this:

1. CAD market is much smaller that the Euro market – it will destroy the Loonie's value much faster than it would the Euro's value. All those trillions of Euro-dollars now need to go through the eye of needle of the Canadian Dollar.

2. This will be massively inflationary – because CAD market is smaller than the EUR, Canada will have to "print" excessive amounts of currency to try and control the price of the USD.

3. If Powell saw through the Euro-dollar system, he will see through the Loonie-dollar System, putting more strain on the Canada/U.S. relationship.

A big part of above is pushing the Canadian interest rate lower. If foreign counties can borrow Canadian dollars at the zero bound, to buy Canada's U.S. dollars denominated debt, they can escalate the Loonie-dollar system to no end. The recent move down in interest rates confirms this. As we know, moving interest rates too low is massively inflationary to Canadian's but not to foreign countries.

Even with these challenges, the Carney government have already started the process of trying to create the Loonie-dollar System and this destroy Alberta and Canada in the process.

**The U.S. will NOT let control over the price of the USD slip away again.** There are only a few ways I can see around this without the Loonie significantly devaluing, or the U.S. invading Canada.

**Option #1**

**U.S takes Control**

Trump keeps increasing Tariffs. Trump will reduce the Canada/U.S. trade deficit, making it impossible for Canada to service the Canada issued U.S. debt coupon rate. But, with Canada holding $379 billion (as of Dec 2024) in U.S. public debt, depending on the total debt level and cost, Canada can hold out for a long time against tariffs and be able to pay the coupon on the Canada issued U.S. debt to bondholders.

The Canadian government will do anything possible to eliminate tariffs. The trade surplus of USD is how the Loonie-dollar System is sustainable. Every tariff eats into the trade surplus, reducing the effectiveness of the Loonie-dollar System.

**Now enter Alberta:**

The problem with Tariffs and Trump wanting trade balances between Canada and the U.S. is that oil IS the single biggest line item causing the trade imbalance. Because Trump need to retain control of the cost of USD you soon realize chocking off trade imbalances is one of the only ways to stop Canada from servicing Canada issued U.S. debt. The Trump Administration will collapse the oil industry in Alberta and Canada to keep control of the cost of USD. As you know, Alberta has very little capacity to get to other markets currently.

This is exactly what Carney would love to see, the Alberta oil market collapse. I expect Carney knows this and that we are on the losing side of this tariff war. This is not about fentanyl. Not about tariffs, nor about "Team Canada" or "elbow out." For the U.S. this is about the control of the price of USD around the world. For Europe this is also about control over the USD to perpetuate the Ukraine War and force a default on the Canada and the U.S. economies, because European Nations are effectively bankrupt.

Administration Office PO Box 876, 212 – 5th Ave W, Cochrane, AB, T4C 1A9 P 403 932 4693 F 403 932 9865 www.bowvalleycu.com

**Option #2**

**Pricing Oil in Gold.**

One way to counter Option #1 is to not export the oil and store produced oil in Alberta. This would reduce the trade imbalance and reduce the ability to fund the Loonie-dollar System. But this would likely cause the oil price to spike in the U.S. and cripple the Alberta economy.

We need a solution to store value, other than in oil, but not in USD to feed the Loonie-dollar system.

Alberta government could price oil in terms of gold or immediately convert USD earned to purchase gold. This would not allow conversion to USD to service the Canada issued U.S. debt. This will neuter the functionality of the Loonie-dollar System. I think its safe to say, we don't want this gold in Ottawa's hands.

The purchase of gold itself does not directly increase the trade surpluses especially if we buy the gold from the U.S.

**Neutral or declining trade surpluses are important, as we do NOT want to increase the trade imbalance with the U.S.**

I implore to take this approach otherwise the ruinous tariff will gut both Canada and Alberta as the U.S. tries to maintain control over pricing USD. Big banks in Canada being a monopolistic oligopoly controlled by the OSFI, the Liberal government and foreign shareholders, will not stand up to Carney on this.

Trump, Vance, Powell and Bessent understand the Euro-dollar System and how Europeans have controlled the price of USD. If the Europeans regain the power to price the U.S. dollar via Canada, we can expect continuation of war and being force fed authoritarian policy around the world for the foreseeable future.

I also implore you and the Alberta government needs take Option #2 and talk to Trump about pricing oil in gold, or taking USD and converting is to gold through the U.S. He will understand this dynamic and what you are attempting to do. Without taking the idea to Trump first, he will take it as an act of war pricing oil in terms of gold.

I am not being hyperbolic or exaggerating that because Alberta has most of the trade surplus via oil with the U.S., we are on the front line to controlling the outcome of the world for the next number of years. The Alberta Government are more important to Alberta, Canada, and the world than you know.

We are avoiding Alberta being stepped on by giants. In this Battle for the Soul of Alberta, I would very much prefer on being on the correct side of history. If Canadian/Albertan sovereignty is at all a concern, we need to act now.

Option #2 is the only way I can see that Alberta will not be significantly harmed by the tariffs.

Will Alberta chose subvert control to Europe or the U.S.? Or remain an independent nation?

Will Alberta choose authoritarianism? Or freedom?

Brett Oland, ICD.D, CPA, CA, BCOMM

CEO, Bow Valley Credit Union