

China 'De-Americanization' Call Marks Key Point for Gold Prices

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Bloomberg News

"It's perhaps a good time for the befuddled world to start considering a building of a de-Americanized world...Key among its prospects: the creation of a new international reserve currency to replace the present resilience on U.S. dollars...A self-serving Washington has abused its superpower status and introduced even more chaos in the world by shifting financial risks overseas...such alarming days when destinies of other are in the hands of a hypocritical nation."

Dexter Roberts

Bloomberg Businessweek, 10/14/2013

Quote located on page 1 of the news story, click to view entire news story

Comments from state-backed Xinhua that call for a "de-Americanized world" and a proposal to consider a new international reserve currency to replace the dollar mark a key event for gold prices. While the Chinese echoed the notion of a "super-sovereign reserve currency" before, their recent statement may have more sticking power as the U.S. struggles to reach agreements on debt ceiling talks and monetary policy actions.

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Dollar's Role as World's Reserve Currency Brings Gold Into Focus

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Since the early 2000s, many gold bulls have held that excessive money printing by the Federal Reserve would lead to a complete destruction and devaluation of the world's reserve currency as inflation picks up and cripples the dollar. While the notion of the dollar losing its status as the world's reserve currency had appeared muted for some time given the lack of alternatives, it is now gaining credence, with calls in China for a new reserve.

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China Central Bank Gold Reserves May Be 2.5x Higher Than Thought 01/10/2014



A deeper look into China's gold holdings shows its reserves may be more than 2 1/2 times higher than thought. Its last reported holdings in April 2009 were 1,054 metric tons. After adjusting for net imports from Hong Kong and domestic output, the figure is closer to 5,086 metric tons. When taking away gold uses for jewelry, industrial and other categories and adding implied bar demand to central bank holdings, the figure is likely closer to 2,710 mt.

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China Needs 10 Years to Match Fed Gold Holdings at Current Pace

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China would need 10 years for its gold holdings to catch up to the U.S., based on adjusted Chinese consumption for jewelry, industrial and other uses and using implied bar demand as the primary driver of incremental central bank additions. Based on run rates during 2013, China may have added 622 metric tons of bars to its central bank holdings, after adding 380 mt in 2012.

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China Reliance Means 'De-Americanization' Gold Boost Years Away

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Gold may benefit from a move away from the dollar as the world's reserve currency as some form of a gold-backed currency emerges, though it may be early for that to happen. China's recent calls for "de-Americanization" are likely just a posturing maneuver. A large-scale sale of China's U.S. Treasury holdings would likely cause a dramatic decline in the dollar, while increasing interest rates.

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