

The Yuan Stops Here

Doug Wakefield

July 15, 2014

My fellow Americans. Did you notice in the last few months, that China has been establishing agreement after agreement with various major financial centres around the world, so that payments could be settled using the Chinese yuan? That's right. It would appear that world leaders have been in a race to make certain the yuan stopped at their country next.



March 2014

[*Bundesbank, PBOC in Pact to Turn Frankfurt into Renimbi Hub.*](#)

Bloomberg Businessweek, March 28



“Germany’s Bundesbank and the People’s Bank of China agreed to cooperate in the clearing and settling of payments in renminbi, paving the way for Frankfurt to corner a share of the offshore market.

Germany’s financial capital prevailed over Paris and Luxembourg in a euro-area race to win trade in renminbi, which overtook the euro to become the second-most used [currency](#) in global trade finance in October, according to the Society for Worldwide Interbank Financial Telecommunication.”

April 2014

[*Bank of England and People's Bank of China Agree on London Yuan,*](#) Clearing Hub, International Business Times, April 14



“Britain and China have signed a deal to set up a yuan clearing service in London, marrying future financial transactions between the Bank of England and People's Bank of China...”

Chancellor George Osborne has been focusing on the world's second largest economy and has been keen to open a yuan trading hub in the capital city as the currency poses stiff competition to the US dollar as a global medium of exchange.”

May 2014

[China and Russia Ink \\$400 Billion Gas Deal](#), USA Today, May 21



“China and Russia signed off on a huge gas deal worth as much as \$400 billion Wednesday that heralds a pivot east for Russian business amid ongoing tensions with the West over Ukraine, though few details of the deal were made public.

The 30-year gas-export contract, seen as a move by Russian President Vladimir Putin to aggressively shift the country's commercial interests east amid mounting sanctions from the United States and Europe, was signed as the Russian leader has enjoyed a warm welcome in China, where the two countries have inked a raft of agreements during his ongoing, two-day visit.”

June 2014

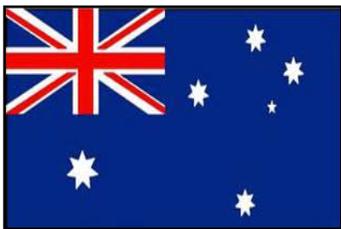
[Russia considers yuan, ruble for Chinese gas deals](#); *Government Had Considered Using the U.S. Dollar*, UPI, June 26

”The head of the accounting department at Russian energy company Gazprom

says there's no risk in using either Chinese or Russian currencies for gas transactions.

'In regard to using the yuan or rubles in accounting, we are basically ready for that, we think that this is completely normal,' Gazprom finance chief Andrei Kruglov said. "There are no risks for Gazprom, except for minor transaction expenses."

[China to Set Yuan Clearing Bank in Sydney, Australia](#), Channel News Asia, June 26



"China will designate a clearing bank in Sydney for overseas trading of its yuan currency, a top Australian official said on Thursday as Beijing seeks to make the tightly-controlled unit more international.

Chinese President Xi Jinping is due to visit Australia in November for a summit of the G20 group of nations, and Hockey said the two countries hope to reach a free trade agreement before the end of the year."

[China signs yuan accords with France, Luxembourg](#), The Bull.Asia, June 30



"China's central bank said it has signed agreements for yuan clearing arrangements with France and Luxembourg, with the aim of promoting greater use of its currency overseas....

Yuan clearing in France and Luxembourg would allow companies and financial institutions to use the currency for cross-border transactions, as well as promote liberalization of trade and investment, PBoC said.



European countries are competing to become the dominant hub for yuan business in the continent."

July 2014

[South Korea, China Agree to Direct Trade in National Currencies](#), RT, July 4



“South Korea and China have agreed to create a market for direct trading of the yuan and won, which is hoped, will help reduce the pressure of the US dollar, as well as cut foreign exchange costs and boost bilateral investment.

The memorandum of understanding (MOU) between China's central bank and the Bank of Korea to create a yuan clearing system was signed during Chinese President Xi Jinping's visit to South Korea on Thursday. The leaders of both countries pledged to sign an agreement by the end of the year... The establishment of a won-yuan market may make bilateral trade easier, and reduce the pressure of the US dollar on the Korean currency.

China also provided South Korea with a \$12.8 billion quota to invest in national capital markets, the same amount the UK and France have been granted.”

[China Signs Currency Deals, Except in the U.S.](#), Wall Street Journal, July 10

“In recent years, China has signed a flurry of currency deals with countries around the world. One notable absence: the U.S.

The Chinese government has been pushing for a greater role for the tightly controlled yuan in global trade, investment and finance, as part of its effort to revamp the country's creaky financial system and to one day challenge the U.S. dollar's dominance in the international monetary system. To promote the yuan on the world stage, Beijing has been trying to foster yuan-trading hubs outside the mainland by making it easier for foreign banks to obtain the yuan as well as to clear yuan-denominated transactions.

Since 2009, China's central bank has signed agreements with central banks in more than 20 countries – including the U.K. and Australia – to swap currencies totaling \$403 billion when needed. The U.S. is not one of them. *In the past few weeks, the People's Bank of China has also stepped up its effort to encourage global trading of the yuan by*



establishing or pledging to establish yuan-clearing banks in countries including the U.K., France, Luxembourg and South Korea. The U.S. is not party to any of those deals, either.” [Italics mine]

So I ask you, does it look like not only China, but many old US allies are desirous of expanding the yuan in world trading? If so, what does this say about the role of the American dollar versus the Chinese yuan when it comes to global finance in the years ahead? How could this change the dynamics of world politics and finance going forward? If the world starts using more yuan and less dollars, how would that impact America?

I am 56. I have never seen anything like this in my lifetime. With markets coming into July producing some of the most complacent readings on record, should investors really believe that nothing but more easy gains lie ahead?



Not Worth a Chinese Yuan

But anyone with an understanding of the global “we will print it, they will come” model which has exploded debt since 2008 to levels never seen before in history, knows that China has also created its own massive problems.

[*Chinese Bad Loans Rise Most Since 2005 As Economy Slows*](#), Bloomberg, May 15

“Chinese banks had the biggest quarterly increase in bad loans since 2005 as a slowdown in the world’s second-largest economy causes defaults to rise.

Nonperforming loans rose by 54 billion yuan (\$8.7 billion) in the three months through March to 646.1 billion yuan, the highest level since September 2008, according to data released by the China Banking Regulatory Commission yesterday.”

[*China’s Property Bubble Has Burst- Report*](#), CNN Money, May 6

Economists at Nomura have made their call: China's property bubble has burst, they say, and the country's economy could slow dramatically unless Beijing steps in with new stimulus measures.

"It is no longer a question of 'if' but rather 'how severe' the property market correction will be," three of the bank's analysts say in a new report. "We are convinced that the property sector has passed a turning point." ...

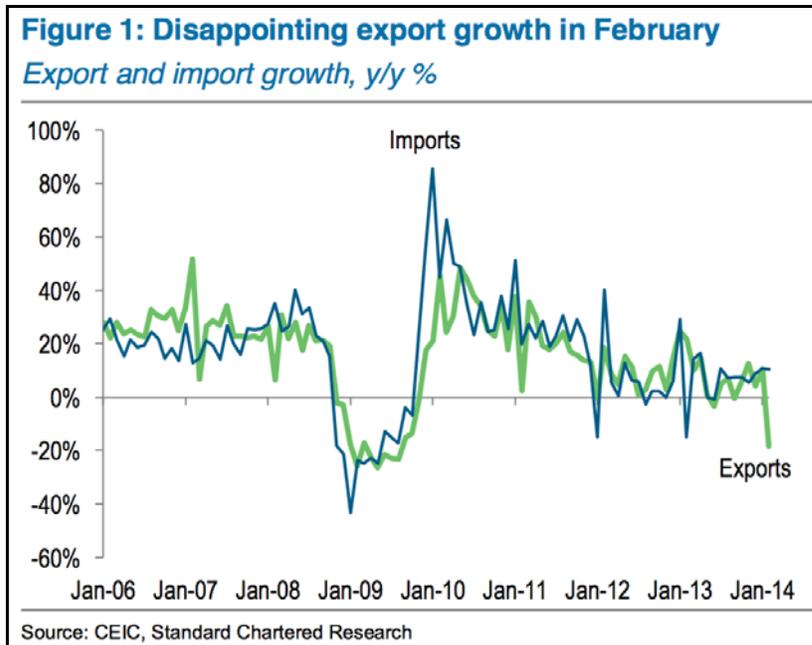
The size of the sector -- somewhere between 15% to 25% of the economy -- underscores the importance of the debate for a world that is increasingly connected to China....Data show the number of new homes under construction has fallen by around 25%, and the number of property sales has dropped dramatically. Prices are weakening too, especially in small and medium cities.

[*11 Ugly Charts That Confirm China's Domestic Slowdown*](#), Business Insider, March 13

During the National People's Congress, China's policymakers announced that it would target 7.5% GDP growth target for 2014.

Before we launch into the data, it's important to remember that part of the slowdown is intended by China's policymakers as they try to clamp down on lax lending standards and rebalance the economy toward domestic demand driven growth.

But it isn't clear just how much control they are able to exercise over this slowdown."



So while the world’s leading trading centers are in a rush to exchange their currency for the Chinese yuan, the economic problems of China are as massive as those plaguing other parts of the world where only recently, central bankers are starting to talk about [extreme complacency and financial bubbles](#).

Save Your Yuans, and One Day You Can Buy....

China’s gargantuan problems from [their “ghost cities” continue to mount](#). Yet China’s wealthy have found a new home for their yuan in America’s high end real estate. What will happen if this newfound wealth coming into American real estate decides to sell and convert back to yuans, taking their money back to China? Were no lessons learned from the previous US real estate bubble?

[\\$22 Billion in California Homes Sold to Chinese All-Cash Buyers](#), Townhall Finance, July 10

“Real estate is well back in bubble territory in some places, notably California. It won’t end any differently this time for the buyers, but at least banks will not be on the hook for all of the loans....

Buyers from Greater China, including people from Hong Kong and Taiwan, spent \$22 billion on U.S. homes in the year through March, up 72 percent from the same period in 2013 and more than any other nationality, the National Association of Realtors said yesterday in its annual report on foreign home purchases.

‘Chinese investors are moving into developments in Arcadia’, Chen said. ‘They are buying lots with homes built in the 1970s and ’80s, tearing them down, and erecting sprawling houses like the one Nunez sold for \$3.5 million.

Local people really cannot afford these most of the time,’ Chen said.”

[*Did China Just Crush the U.S. Housing Market*](#), Zero Hedge, July 10

“A few days ago [we finally closed](#) the door on any argument who the marginal buyer in the US luxury housing segment was - the answer: Chinese oligarchs, scrambling to launder their ‘hot’ domestic money abroad (as we [predicted first two years ago](#)) and now that Switzerland is no longer a safe offshore venue where one can park cash, they picked US luxury housing as the best money laundering alternative.



This means that far from indicating a recovery, as the recent surge in the high end of the US housing segment had long been touted, all the relentless move higher in ultra luxury properties prices was simply a recycling of China's hot money, which unlike in the US, never made its way into the Chinese stock market (explaining why the Shanghai Composite has barely budged in years) and merely ended up in US real estate. If anything, this is simply another confirmation of the epic capital misallocation, and the complete lack of "trickle down" resulting from failed global central banking policies.”

Where Are the Globalists Placing Their Bets?

If we look back on developments at the highest levels of world finance and politics since 2008, we can even see that these recent developments were not a surprise to global institutions, nor to those who have understood that we are moving in a direction.

[*UN wants new global currency to replace dollar*](#), UK Telegraph, Sept 7, 2009

“In a radical report, the UN [Conference](#) on Trade and Development (UNCTAD) has said the system of currencies and capital rules which binds the world economy is not working properly, and was largely responsible for the financial and economic crises.

It added that the present system, under which the dollar acts as the [world's reserve currency](#) , should be subject to a wholesale reconsideration.

Although a number of countries, including [China](#) and Russia, have suggested replacing the dollar as the world's reserve currency, [the UNCTAD report](#) is the first time a major multinational institution has posited such a suggestion.”

[*IMF Calls For Dollar Alternative*](#), CNN Money, Feb 10, 2011

“The International Monetary Fund issued a report Thursday on a possible replacement for the dollar as the world's reserve currency.

The IMF said Special Drawing Rights, or SDRs, could help stabilize the global financial system.

Full text 

FACTSHEET

Special Drawing Rights (SDRs)

March 25, 2014

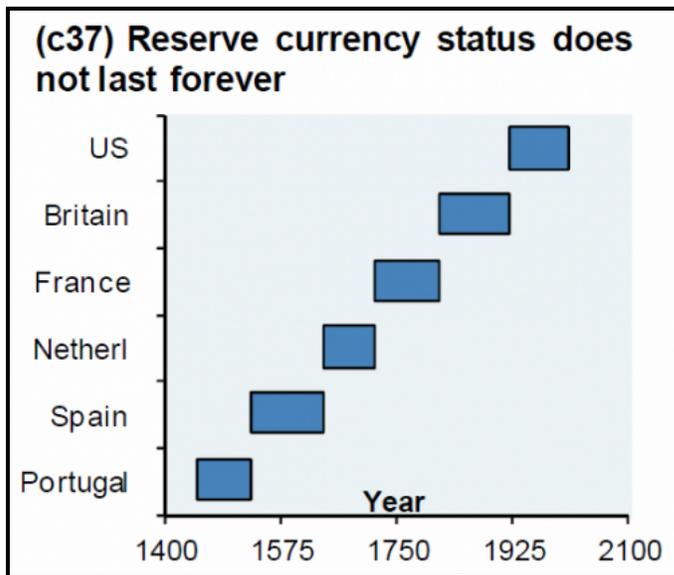
The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies. With a general SDR allocation that took effect on August 28 and a special allocation on September 9, 2009, the amount of SDRs increased from SDR 21.4 billion to around SDR 204 billion (equivalent to about \$316 billion, converted using the rate of March 12, 2014).

SDRs represent potential claims on the currencies of IMF members. They were created by the IMF in 1969 and can be converted into whatever currency a borrower requires at exchange rates based on a weighted basket of international currencies. The IMF typically lends countries funds denominated in SDRs.

While they are not a tangible currency, some economists argue that SDRs could be used as a less volatile alternative to the U.S. dollar.”

[*Nothing Lasts Forever; World Bank Ex-Chief Economist Calls For End To Dollar As Reserve Currency*](#), Zero Hedge, Jan 29, 2014

In the past we have discussed at length the inevitable demise of the USD as the world's reserve currency noting that [nothing lasts forever](#). However, when former [World Bank](#) chief economist Justin Yifu Lin warns that "[the dominance of the greenback is the root cause of global financial and economic crises](#)," we suspect the world will begin to listen (especially the Chinese. Lin, now - notably - an adviser to the Chinese government, concludes that internationalizing the Chinese currency is not the answer (preferring a basket approach) but ominously concludes, "the solution to this is to replace the [national currency](#) with a global currency," as it will create more stable global financial system.”



Even in the last few weeks, we have learned that while the Bank of International Settlements, the granddaddy of all central banks in the world, sees dangerous financial bubbles, and Christine Lagarde of the International Monetary Fund sees a day in the future where the IMF’s world headquarters in Washington, its home since it started in 1944, might need to be moved to....Beijing.

Dollars or Yuan: More Debt, More Danger

[*Central Bankers, Worried About Bubbles, Rebuke Markets*](#), NY Times, June 29

“An organization representing the world’s main central banks warned on Sunday that dangerous new asset bubbles were forming even before the global economy has finished recovering from the last round of financial excess.



BANK FOR INTERNATIONAL SETTLEMENTS

Investors,
desperate to earn
returns when

official interest rates are at or near record lows, have been driving up the prices of stocks and other assets with little regard for risk, the Bank for International Settlements in Basel, Switzerland, said in its annual report published on Sunday.

'Despite the euphoria in financial markets, investment remains weak', the BIS said, ' Instead of adding to productive capacity, large firms prefer to buy back shares or engage in mergers and acquisitions.'

The overall, somewhat gloomy message from the central bankers was that the world is drunk on easy money and has already forgotten the lessons of recent years.

'The temptation to postpone adjustment can prove irresistible, especially when times are good and financial booms sprinkle the fairy dust of illusory riches,' the report said. 'The consequence is a growth model that relies on too much debt, both private and public, and which over time sows the seeds of its own demise.'"

[IMF May Move To Beijing One Day, Lagarde Says](#), The Strait Times/Asia Report, June 8



The International Monetary Fund's headquarters may one day shift to Beijing from Washington, aligning with China's growing influence in the world economy, the fund's managing director said.

Ms Christine Lagarde, speaking yesterday in London, said IMF rules require the main office to be located in the country that is the biggest shareholder, which the United States has been since the fund was formed 70 years ago....

'But the way things are going, I wouldn't be surprised if one of these days, the IMF was headquartered in Beijing, for instance,' she added.

A Gold Backed Yuan. Could it Happen Someday?

[China Should Consider Increasing Gold Reserves](#), Central Bank Adviser Says, Bloomberg, Dec 2, 2010

China should consider adding to its gold reserves as a long-term strategy to pave the way for the yuan's internationalization, central bank adviser Xia Bin wrote in the [China Business News](#) today.

The country must revise its foreign-reserves management principle, Xia wrote. China is the world's largest producer and second-biggest user of gold and has a world-record \$2.65 trillion in foreign-exchange reserves.... China is allowing greater use of its currency for cross-border transactions to reduce reliance on the dollar, after Premier Wen Jiabao said in March he is "worried" about holdings of assets denominated in the greenback.

[*Call Sherlock Holmes: 500 Tons Of Gold Goes Missing In China*](#), Forbes, March 23, 2014

"Last year, China imported and mined far more gold than its citizens and businesses purchased. Some think there was substantial back-channel hoarding of the metal due to uneasiness over the economy while others speculate that the People's Bank of China, the central bank, secretly acquired the metal for its foreign reserves. A few believers of the second scenario argue that Beijing will attack the dollar by soon announcing a new gold-backed currency.

....Analysts, in short, believe China's 'apparent gold consumption' last year was over 1,700 tons, making the unaccounted gold more than 500 tons.

So where did all that metal go? Some was used for jewelry that was exported. Bars may have been delivered to Iran to surreptitiously pay for oil and gas. Gold could have been lost in the complicated and opaque accounting system maintained by the Shanghai Gold Exchange. A small amount was acquired by wealthy—and nervous—Chinese in off-the-books transactions. Banks were buying for their own accounts....

And then there is the possibility of secret central bank purchases. Zhang Jianhua, a PBOC official, in December 2011 talked about the institution buying

on price dips. Despite Zhang's public words, there were reasons to believe the central bank was not in the market then, at least not in a big way.

In 2013, however, the PBOC may have changed its stance and become a large purchaser. The price of gold, which had steadily climbed from 2001 to 2012, plunged last year, falling about 28% and creating a buying opportunity for the cashed-up central bank. China's gold reserves now stand at 1,054 tons, an official number not updated since April 2009, and most analysts suspect there has been unannounced buying.



Speculation about secret gold purchases gives credence to recent rumors, circulating in big financial houses in New York, that Beijing will soon move to full convertibility of its currency and adopt the gold standard. The rumors got a boost when Freya Beamish of Lombard Street Research issued a note on February 12 referring to the issue. 'The massive flow of gold into the country does make it seem plausible that they could be moving in the direction of using gold in the effort to internationalize the currency and escape what is seen as a domineering dollar,' she wrote....

Beijing wants its money—not America's—to be the world's medium of exchange and store of value. To achieve these goals, Chinese technocrats have been engaged in a 'significant and coordinated promotion' of the use of the renminbi since July 2009, according to Chris Dixon of the Global Policy Institute, and they have in fact made progress....

Despite daunting technical obstacles, reports of China's imminent adoption of the gold standard just won't go away. That may be partly because gold bugs want that to happen, but there is more to the rumors than that. At this moment, Beijing needs to strengthen its currency, especially as the erosion in the economy becomes more noticeable and capital flight more evident. A currency underpinned by gold—or the country's foreign reserves—would go a long way in maintaining confidence."

Conclusion



As an American, if the most watched stock wealth indicator in the world is my guide, then the Dow breaking 17,000 emotionally continues to give me the feeling of “illusory riches”. Thus, no matter what history making events are taking place inside and outside of our nation, more nations must *always* want our financial assets and need our dollars.

If however, one looks at the many sources used in

this article, the evidence is undeniable that not only are investors facing another very powerful *worldwide* bear market in financial assets again, but a shift away from the American dollar as time goes on. This has accelerated from possible to probable, based on major nations clamoring to do business directly between their own currency and the Chinese yuan... many, as shown, in the last few months.

May we all remember, no matter what nation we call home, history does not bend to our plans, but it is our plans that bend to history.

Complacency Time is Running Out

Come join the [free Noteworthy service](#). I take world news headlines and tie them to a piece of history in our financial markets. Connecting dots has never been more crucial.

May 2004 I released my first public newsletter, seeking to share what I was learning from others. In the months ahead, this decade of learning, writing, and living through many “first in history” events will be seasoned in ongoing writings as we move from illusion to reality yet again, something we have already seen twice since 2000.

If you are not spending hours connecting the dots of these powerful world trends, I would strongly suggest the paid research newsletters *and* trading reports available with [a six month subscription to The Investor's Mind](#). The cost is extremely low in comparison to the trillions that will be destroyed again.

Notes –

- 1 - Several of the articles linked in the article, [We Warned That The Petrodollar Was In Danger](#) (July 6 '14) found on Kevin Freeman's excellent blog, Global Economic Warfare.
- 2 – More information can be found on recent posts to the [Weekly page of the Best Minds Inc](#) website.
- 3 – It would appear that even US companies are helping the move away from the American dollar to the Chinese yuan: [The Number of US Firms Willing to Trade In Chinese Yuan Has Tripled This Year](#), Zero Hedge, July 11, 2014

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