De-Dollarization: Europe and China Start Direct Trading In Euros and Renminbi

By Zero Hedge
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De-dollarization has been an ongoing theme hidden just below the surface of the mainstream media for more than a year as Russia and China slowly but surely attempt to "isolate" the US Dollar. Until very recently, direct trade agreements with China (in other words, bypassing the US Dollar exchange in bilateral trade) had been with smaller trade partners.

*On the heels of Western pressure, Russia and China were forced closer together and **de-dollarization accelerated** from Turkey to Argentina as an **increasing number of countries around the world realize the importance of this chart**.*

*However, things are about to get even more dramatic. As Bloomberg reports, **China will start direct trading between the yuan and the euro tomorrow** as the world's second-largest economy seeks to spur global use of its currency in a "fresh step forward in China's yuan internationalization." With civil unrest growing on every continent and wars (proxy or other) at tipping points, **perhaps, just perhaps, the US really does want rid of the weight of the USD as a reserve currency after all** (as championed here by Obama's former right hand economist)… now that would be an intriguing 'strategy'.*

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> The euro will become the sixth major currency to be exchangeable directly for yuan in Shanghai, joining the U.S., Australian and New Zealand dollars, the British pound and the Japanese yen. The yuan ranked seventh for global payments in August and more than one-third of the world's financial institutions have used it for transfers to China and Hong Kong, the Society for Worldwide International Financial Telecommunications said last week.
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> "It's a fresh step forward in China's yuan internationalization," said Liu Dongliang, an analyst with China Merchants Bank Co. in Shenzhen.
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> The move will lower transaction costs and so make yuan and euros more attractive to conduct bilateral trade and investment, the People's Bank of China said today in a statement on its website. HSBC Holdings Plc said separately it has received regulatory approval to be one of the first market makers when trading begins in China's domestic market.

…

China's trade with European Union nations grew 12 percent from a year earlier to

$404 billion in the first eight months of 2014, according to data from the Asian nation’s customs department. That **compares with just $354 billion with the U.S. during the period.**

French and German companies lead among countries outside of greater China in the use of the yuan, according to a July report by HSBC that was based on a survey of 1,304 businesses in 11 major economies that have ties with mainland China. Some 26 percent of French corporates and 23 percent of German companies were using the currency to settle trade, the highest proportions apart from mainland China, Hong Kong and Taiwan.

…

“Given the appointments of renminbi clearing banks in Frankfurt and Paris, today’s announcement is largely expected,” Australia & New Zealand Banking Group Ltd.’s economists led by Liu Li-gang wrote in a research note today. **The agreement marks a “significant milestone” in yuan internationalization as the euro is the only G3 currency that has not had direct conversion with the yuan**, Liu said.

The chart below suggests the increasing push for de-dollarization across the ‘rest of the isolated world’ may be a smart bet…

The internationalization of the Yuan (or implicit de-dollarization by the rest of the world) appears to go unnoticed by the administration (and mainstream media)… which makes one wonder – is this the strategy after all? As Obama’s former chief economist noted:

> what was once a privilege is now a burden, undermining job growth, pumping up budget and trade deficits and inflating financial bubbles.
>
> To get the American economy on track, the government needs to drop its commitment to maintaining the dollar’s reserve-currency status.

As Deutsche Bank previously concluded:

> Given this analysis it strikes us that today we are in the midst of an extremely rare historical event – the relative decline of a world superpower. US global geopolitical dominance is on the wane – driven on the one hand by the historic rise of China from its disproportionate lows and on the other to a host of internal US issues, from a crisis of American confidence in the core of the US economic model to general war weariness.
>
> This is not to say that America’s position in the global system is on the brink of collapse. Far from it. The US will remain the greater of just two great powers for the foreseeable future as its “geopolitical multiplier”, boosted by its deeply embedded soft power and continuing commitment to the “free world” order, allows it to outperform its relative economic power. As America’s current Defence Secretary, Chuck Hagel, said earlier this year, “We (the USA) do not engage in the world because we are a great nation. Rather, we are a great nation because we engage in the world.”

Nevertheless **the US is losing its place as the sole dominant geopolitical superpower and history suggests that during such shifts geopolitical tensions structurally increase**. If this analysis is correct then the rise in the past five years, and most notably in the past year, of global geopolitical tensions may well prove not temporary but structural to the current world system and the world may continue to experience more frequent, longer lasting and more far reaching geopolitical stresses than it has in at least two decades. **If this is indeed the case then markets might have to price in a higher degree of geopolitical risk in the years ahead.**

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