

Will China Make the Yuan a Gold-Backed Currency?

By [Washington's Blog](#)

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If China Backs Its Currency with Gold, It Could Have Profound Effects for Investors ... and Consumers

Larry Edelson -- writes today:

I know for a fact that Beijing wants its yuan to eventually become a gold-backed currency, much like the Swiss franc was originally. Backing the yuan with some gold will certainly help it become a major international currency.

Edelson is a financial adviser who travels frequently to Asia, a former high-volume gold trader who is interviewed a lot in the mainstream financial media.

I have no idea whether Edelson is right or not. But he's not the first to make the claim.

Doug Casey says that if one country -- such as China -- switches to a gold-backed currency, the dollar will be toast:

All it will take for the world to realize that U.S. dollars are nothing more than hot potatoes is for one country (Doug postulated that maybe China would be first) to introduce a gold-backed currency. If China introduced a gold-backed yuan, for example, who on earth would want anything to do with U.S. dollars?

Similarly, SafeHaven points out:

Suppose a large exporter, such as China, which undervalues its currency and runs a large trade surplus as a result, takes a huge radical step and goes all the way to a 100%-reserve gold currency. The ultimate hard currency. If this succeeds, China is the new England -- the financial capital of the world, forever. Everyone else's money? In a word: pesos. Hard currency is Chinese currency. China's natural supremacy over the barbarian kingdoms of the West is restored.

Goldcore argues:

China is clearly trying to position the yuan or renminbi as the alternative global reserve currency. The Chinese likely realise that they will need to surpass the Federal Reserve's official, but unaudited, gold holding of 8,133.5 tonnes.

World Bank President Robert Zoellick recently mooted the possibility of a return to some form of gold standard. It seems extremely likely that senior and influential Chinese policy

makers, bankers and government officials may be having similar thoughts.

Simit Patel writes:

China's central bank continues to aggressively accumulate gold. Is this a setup for making the renminbi a gold-backed currency? Many have speculated that this is the game plan. Certainly a currency that is gold-backed will have appeal as a reserve currency capable of storing wealth; indeed, the reason why the US was able to position itself as a reserve currency is largely because it was once pegged to gold.

MaxKeiser says:

China is clearly trying to position the yuan or renminbi as the alternative global reserve currency. The Chinese likely realise that they will need to surpass the Federal Reserve's official, but unaudited, gold holding of 8,133.5 tonnes. China is the sixth largest holder of gold reserves in the world today and officially has reserves of 1054.1 tonnes which is less than half those of even Euro debtor nations France and Italy who are believed to have 2,435.4 and 2,451.8 tonnes respectively.

[This] game theory article is great because it points out that China does not need to amass a gold stock similar to the US, it can simply go to a gold standard now and effect a simultaneous devaluation against the dollar (as game theory dictates that the US and all other CB's would be forced to follow China's lead, or risk losing all their capital as investors buy the only gold backed currency in the world).

And Wikileaks noted several reasons for China's stocking up on gold. ZeroHedge summarizes:

As the following leaked cable explains, gold is, to China at least, nothing but the opportunity cost of destroying the dollar's reserve status. Putting that into dollar terms is, therefore, impractical at best, and illogical at worst. We have a suspicion that the following cable from the US embassy in China is about to go not viral but very much global, and prompt all those mutual fund managers who are on the golden sidelines to dip a toe in the 24 karat pool. The only thing that matters from China's perspective is that "suppressing the price of gold is very beneficial for the U.S. in maintaining the U.S. dollar's role as the international reserve currency. China's increased gold reserves will thus act as a model and lead other countries towards reserving more gold. Large gold reserves are also beneficial in promoting the internationalization of the RMB." Now, what would happen if mutual and pension funds finally comprehend they are massively underinvested in the one asset which China is without a trace of doubt massively accumulating behind the scenes is nothing short of a worldwide scramble, not so much for paper, but every last ounce of physical gold...

From Wikileaks:

3. CHINA'S GOLD RESERVES

"China increases its gold reserves in order to kill two birds with one stone"

"The China Radio International sponsored newspaper World News Journal (Shijie

Xinwenbao)(04/28): “According to China’s National Foreign Exchanges Administration China’s gold reserves have recently increased. Currently, the majority of its gold reserves have been located in the U.S. and European countries. The U.S. and Europe have always suppressed the rising price of gold. They intend to weaken gold’s function as an international reserve currency. They don’t want to see other countries turning to gold reserves instead of the U.S. dollar or Euro. Therefore, suppressing the price of gold is very beneficial for the U.S. in maintaining the U.S. dollar’s role as the international reserve currency. China’s increased gold reserves will thus act as a model and lead other countries towards reserving more gold. Large gold reserves are also beneficial in promoting the internationalization of the RMB.”

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