



How BRICS could Overcome its Biggest Challenge – Trade Settlement

BRICS is growing and its power and reach is undeniably challenging the Collective West. Its biggest challenge is its struggle to become independent from the US-Dollar hegemony. A path to this goal is maybe nearer and simpler than many thought.

Simon Hunt / Peter Hanseler

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Introduction

The following article is a deeper look into [Simon Hunt's note](#) published on this blog on February 5, 2025 in which he describes his idea in telegram style. The issues discussed in here are indeed complex and Peter Hanseler would not have been able to write it on his own. We are honored and thankful that Simon took his time to co-author this article. The mechanisms described herein are by no means

the ready-to-use finished solution but a tool-kit to trigger a discussion in order to develop a system, which is based on the principal of simplicity since no new currency has to be developed. The wheel does not have to be re-invented – it is already here and can be spun and directed in any direction.

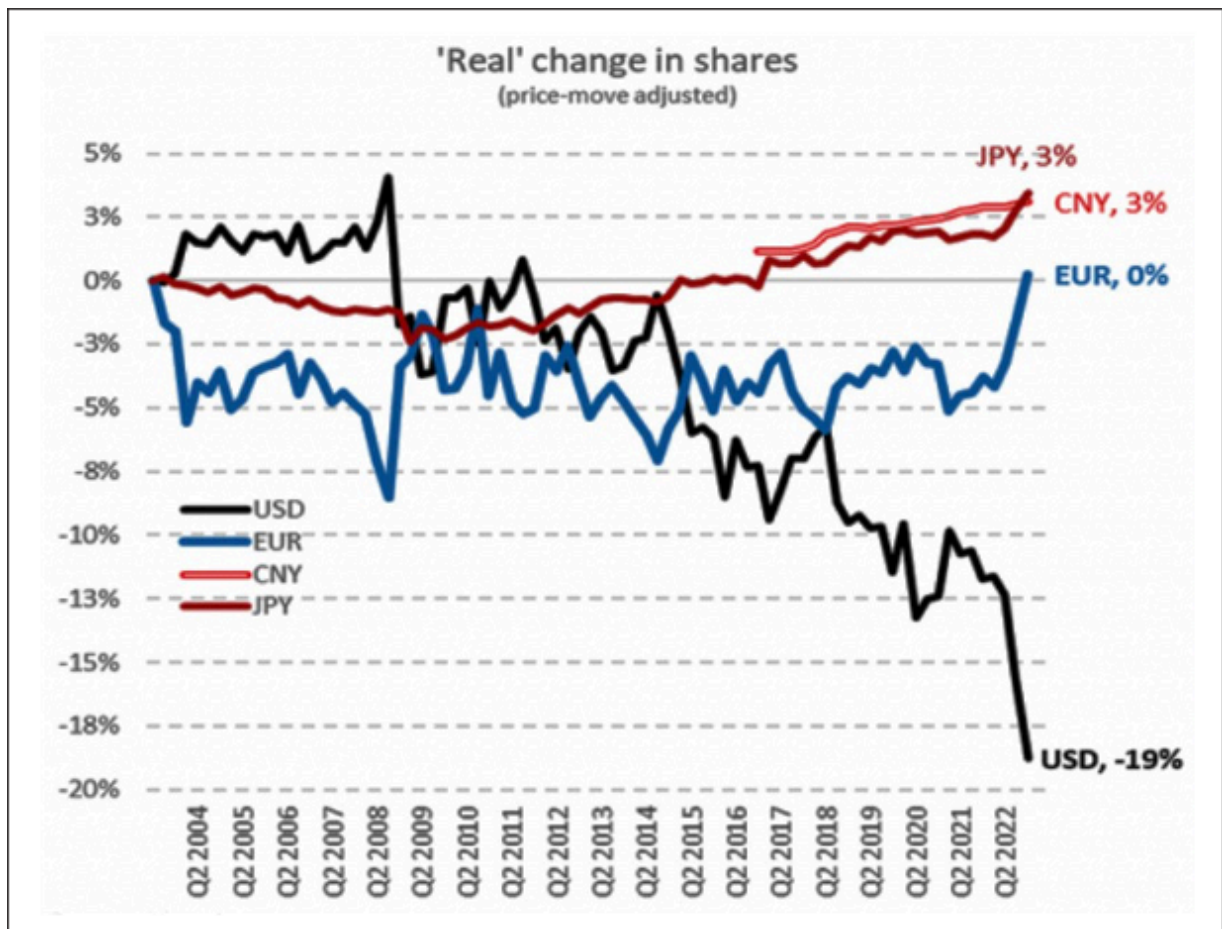
Description of the Challenge

This blog and many others have many times described the main challenge of BRICS: It is the trade settlement system. There are two reasons why the US-Dollar is not a viable solution for BRICS anymore:

Weaponization of USD leads to decrease of USD usage as a Reserve Currency

Firstly, the US have weaponized the USD for decades, cutting countries, companies and people off the US-Dollar trade if such people, entities or countries – in the unique view of the US – did not behave in line with US interests. The final drop in the bucket was definitely the freezing and later stealing of the foreign currency reserves of Russia. Members of BRICS now saw that the US could fatally wound any country with a stroke of a pen and showed that holding US-Dollars is a risky and dangerous undertaking in today's geopolitical state.

The reaction by countries of the Global South – not only BRICS – was swift as the following chart by Bloomberg shows:



The continuing devaluation of the USD

In 1971 an ounce of gold was USD 35.-, today the price stands at USD 2'861.-. The USD has therefore lost 98.8% of its value compared to gold.

THE DOLLAR CRASH

1971 - 2024



Source: vongreyerz.gold

If one calculates the devaluation of the USD based on the official CPI, which drastically understates the inflation in the US, the picture does not look much better:

A 2010 USD is today worth 67 cents

A 2000 USD is today worth 52 cents

A 1990 USD is today worth 38 cents

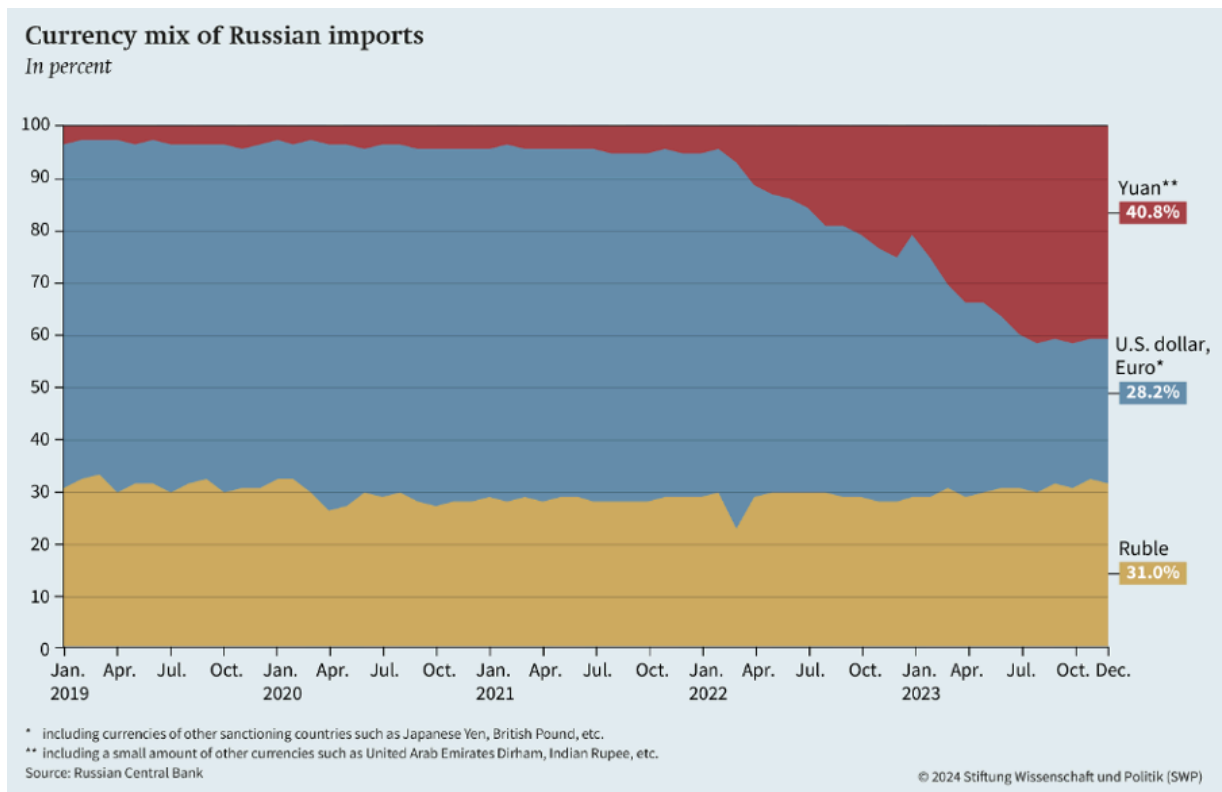
A 1980 USD is today worth 23 cents, and

A 1970 USD is today worth 11 cents

BRICS Members use their own currencies to settle trade among each other

As a consequence of the US weaponizing the USD and its huge devaluation, members of BRICS are turning away from the USD in trade among each other.

As shown in the chart below, the US dollar's share of sales for Russian imports in 2022 was still over 65%, but by the end of 2023 it had fallen to 28.2% – the Yuan replacing the US dollar to about the same extent.



Source: Stiftung Wissenschaft und Politik

The second chart shows the evolution of the currency mix of Russian exports. While the US dollar still accounted for more than 85% of Russian exports in 2022, it had fallen to 26.5% by the end of 2023. Similarly, the yuan's share rises from virtually 0% to 37.5% and the rouble's from around 15% to 36%.



Quelle: Stiftung Wissenschaft und Politik

Consequences resulting from this approach

The consequence of this approach is that when the trade account is balanced, i.e. when exports and imports are in equilibrium over the course of a year, both countries spend the money earned from exports on imports from the same country.

With a trade volume of **USD 240 bn (2023)**, the trade deficit between China and Russia is about USD 19 bn (about 8%) in Russia's favour. This is quite manageable, especially as Russia also uses the yuan in trade with third countries.

(6) 2023年12月进出口商品主要国别(地区)总值表

单位: 百万美元

Import origin country (place) Export final destination country (place)	import and export		exit		import		Cumulative year-on-year ±%		
	December	Jan to Dec	December	Jan to Dec	December	Jan to Dec	import & export	exit	import
RUSSIA	21'905.8	240'111.5	10'709.6	110'972.4	11'196.2	129'139.1	26.3	46.9	12.7

Source: General Administration of Customs of the People's Republic of China

The brisk trade between Russia and India, however, paints a very different picture. The trade deficit with India is \$61 billion out of a total trade volume of \$65.4 billion. This means that Russia is sitting on a huge pile of Rupees that it cannot use for trade with third parties.

Department of Commerce Export Import Data Bank Country - wise

Dated: 14/10/2024
Values in US \$ Millions

Country: RUSSIA		Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
S.No.							
1	EXPORT		3'017.67	2'655.52	3'254.68	3'146.95	4'261.31
6	IMPORT		7'093.01	5'485.75	9'869.99	46'212.71	61'159.30
11	TOTAL TRADE		10'110.68	8'141.26	13'124.68	49'359.67	65'420.60
12	%Growth			-19.48	61.21	276.08	32.54

Note: The country's total imports (S.No.6) since 2000-2001 does not include import of Petroleum Products (27100093) and Crude Oil (27090000)

DOC-NIC

Source: [Government of India: Department of Commerce](#)

As a result, countries that run large bilateral trade surpluses with one country are sitting on huge amounts of their trading partners' currencies, some of which they cannot easily spend.

As long as business was conducted entirely in US dollars, as it used to be, this was not a problem because the US dollar could be used for any trade activity.

However, the US dollar is not an alternative for balancing these trade deficits because there are BRICS members that are cut off from the US dollar (Russia, Iran) and the other members have legitimate concerns about keeping their reserves in US dollars after the Russian currency reserves were frozen.

President Putin says "No" to BRICS currency

Notwithstanding these challenges which the use of national currencies poses to the its members, on 18 October 2024 just shortly before the BRICS Summit in Kazan, President Putin said:

"As for the BRICS common currency, we are not considering this issue. Its time has not come yet. We need to be very careful and act gradually, without any rush."

PRESIDENT PUTIN – 18 OCTOBER 2024

On January 31, 2025 Kremlin spokesman Dmitry Peskov said:

"There are no talks about establishing a common BRICS currency. Such discussions have not taken place and are not taking place now. Instead, BRICS is focused on developing new joint investment platforms to facilitate mutual investments and projects in third countries,"

Therefore, a BRICS currency can be ruled out in the foreseeable future, otherwise Russia would not talk so categorically.

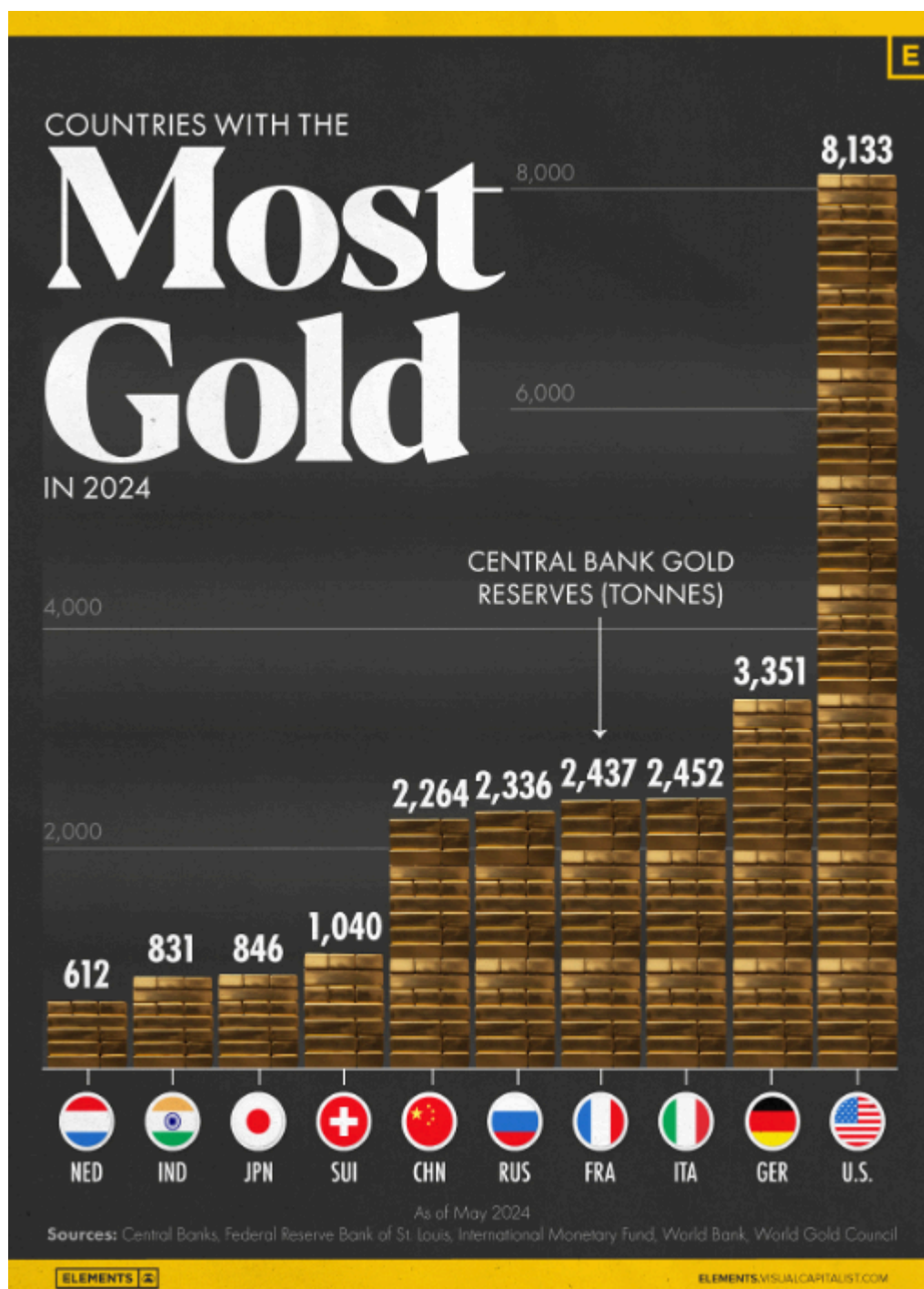
Solution: Thinking out of the Box

On February 2, 2025 Simon Hunt published an investors' letter in which he presented a solution to the problem in a very condensed form and allowed our blog to republish it in the article ["Simon Hunt may have solved the Gordian knot re currency of BRICS – Simplicity is the ultimate sophistication"](#).

Facts about gold in China and Russia

Gold holdings – official figures seem to be misleading if not false

The public figures of gold holdings by countries so published officially is more than misleading. According to these statistics the US holds the most gold with 8'133 tons and China holds 2'264 ton and Russia 2'336.



Source: [Visualcapitalist](https://visualcapitalist.com)

There are countless reports in the internet, which question the US gold holdings. One of the most questionable aspects that the US is maybe not telling the truth about its real gold holdings is the fact that the last comprehensive audit of the US gold reserves dates back to 1953.

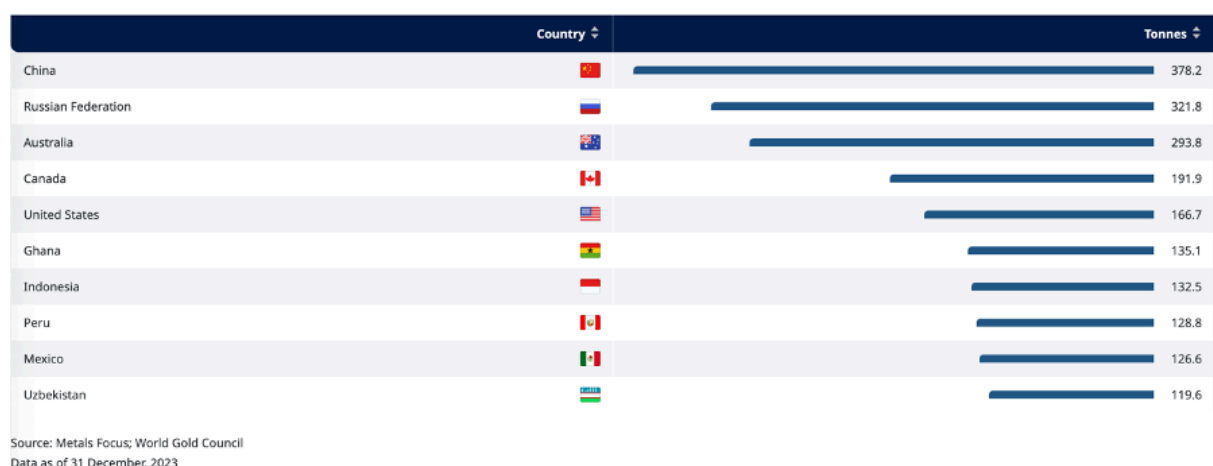
China has large gold holdings held by both the country's ministries and the public. Only the holdings of the Central Bank of China are reported. However, government ownership is at least 25kt including the PLA (People's Liberation Army); and the general public have bought another circa 25kt from the Shanghai Gold Exchange (SGE) since its inception in 2002. This view has been repeatedly and credibly

uttered by many credible experts, such as [Alastair Macleod](#). Furthermore, the PBOC established a system last year that enables households to buy gold directly from the SGE via their bank accounts, even on a monthly instalment payment basis.

Russia has over 12kt mostly owned by an institution closely aligned with the central bank. Russia also reports only the gold held by its central bank; we also refer to [Alastair Macleod](#).

Largest gold producers are China and Russia

China and Russia stand as number 1 and number 2 when it comes to gold production.



Source: [World Gold Council](#)

China already uses gold as a neutral reserve asset and its exchange is a pure physical player

Well informed and, therefore, reliable contacts of Simon Hunt claim that China uses gold as a neutral reserve asset both with the country's trade with Russia, but also with small parcels (so far) of oil sold by Gulf countries paid for in CNY.

What does that mean? - For instance, Russia has a trade surplus with China. That surplus is balanced by an equivalent value of physical gold held by the PBOC for account for Russia. The Gulf States, that deliver oil to China and receive CNY as payment, can convert the CNY into gold through the Shanghai Gold Exchange. [The Shanghai Gold Exchange is the largest purely physical spot exchange in the world.](#)

In contrast to Shanghai, COMEX and LBMA is a paper exchange. It is said that, e.g. COMEX market is practically a paper market where the paper gold is only backed by about 0,5%. The current uncertainties at LBMA are a good argument in favor of a pure physical exchange such as Shanghai. The mass media, such as FT, does not ask the following question: And why is there a waiting list of 4-8 weeks for gold

buyers to have gold delivered by the BOE? Has the BOE leased/hypothecated the gold that they have been holding? If so, it would mean that the BOE has defaulted. That cannot be allowed to happen. Time is needed for the BOE to borrow gold from the longs such as gold held in private vaults and central banks.

Hong Kong and its currency

Hong Kong is a major global financial center that includes several Chinese owned banks. The Hong Kong dollar is pegged to the USD. Hong Kong has ample resources to prevent the Hong Kong dollar from being broken on the downside but has not yet been tested on the upside.

Chinese exporting companies, mostly SOEs (State Owned Enterprises), hold between USD 1.0 and 1.5 trillion in Hong Kong banks sitting in bank deposits.

In a recent speech in Hong Kong, PBOC Governor Pan Gongsheng stated that the PBOC will increase the allocation of China's foreign exchange reserves in assets in Hong Kong so that the financial development in Hong Kong will embrace a broader future.

The implication is that Beijing envisages making Hong Kong an even larger global financial hub and even by linking the Hong Kong Dollar to the CNY.

This could happen by converting the Chinese held US dollars in Hong Kong into CNY which would break the USD peg on the upside and de facto pegging if not officially the CNY to the Hong Kong Dollar.

It is been known for some time, that Beijing one day will state that its currency is backed by gold, which is owned by its citizens.

With the Hong Kong Dollar linked to the CNY it does imply that the Hong Kong-Dollar is also backed by gold so making the Hong Kong Dollar be the currency of choice for the BRICS countries.

The reason for this is that the Hong Kong Dollar given its link to the CNY will thus be indirectly backed by gold.

The Hong Kong Dollar will thus become an internationally accepted currency for trade and investment not linked to the USD.

This means that countries holding excess BRICS currency such as Russia holding Indian Rupees will be able to convert them into the new enlarged Hong Kong Currency.

President Trumps short term Intentions do not contradict this strategy

President Trump and President Xi held useful discussions last week.

It is known that President Trump favors a weaker USD in order to boost exports and in consequence will want President Xi to strengthen the CNY.

Therefore, it is very likely that Trump has pressed Xi to revalue the CNY.

Whether President Xi alluded to his plans to revalue the CNY by declaring the potential link to gold, is not known.

Perhaps Xi told Trump what are his plans for the CNY. Why then has gold suddenly left the vaults in London for Comex in the USA partly because of the US Treasury Secretary's comments about monetization of the country's balance sheet and partly because of China's alleged CNY plans.

Conclusion

The Russian President has clearly stated several times that BRICS will not introduce its own currency.

BRICS members are trading in their own currency which can lead members to hold excess currency in denominations, which are not easily usable for the holder of such currency, such as Russia holding large amounts of Indian rupees due to the large trade surplus to India.

China and Russia hold the largest gold reserves in the world and are the two largest gold producers, which enables both countries to (partially) back their respective currencies with gold.

Due to the huge gold reserves held by China the CNY is materially already backed by gold.

China seems to intend to divert its USD reserves in favor to the Hong Kong dollar as stated by the PBOC Governor at the occasion of one of his visits to Hong Kong.

This would increase the value of the Hong Kong dollar substantially and break its peg to the USD.

Since the Hong Kong dollar is freely convertible in the East and West it would be a valuable currency of settlement among BRICS members – away from the USD.

Scott Bessent has stated that America is considering monetizing the assets on its balance sheet including its gold which is priced on its books at \$42/oz. Repricing gold to the market price would provide the Treasury Secretary with an additional liquid asset of circa \$750bn.

Since 1971 the US dollar priced in gold has fallen by 98.8% and in the last year alone the Yuan has fallen by 43% against gold.

President Trump wants a cheaper USD versus the CNY and President Xi needs a stronger CNY to support the country's economy. Gold could be the neutral asset that allows this to happen as [Luke Gromen of FFTT](#) wrote on 4th February 2025, 'Gold at \$4000 with CNY gold at 20,000 = CNY at 5.0 v USD, via the gold 'pivot'.

And what about the Ruble v USD rate?

ARTICLE TAGS:

Analysis China Hong Kong BRICS Bretton-Woods Putin, Vladimir Trump, Donald
Xi Jinping COMEX LBMA Shanghai Gold Exchange (SGE) The People's Bank of China (PBoC)
Bank of England (BOE)