



Simon Hunt may have solved the Gordian knot re currency of BRICS – Simplicity is the ultimate sophistication.

My dear friend Simon Hunt has published a breathtaking letter presenting a solution to solve the challenge BRICS is faced to establish a payment system, which flawlessly works and is simple. - Solving the Gordian knot.

Peter Hanseler

Wed 05 Feb 2025

Introduction

We have published a series of articles on the BRICS and possible solutions to the existing payment challenges between the member states. In the publication “[BRICS currency - payment and trade settlement system - where is the journey going?](#)” from October 21, 2024, various proposals were presented, discussed and rejected. In the alternative media, the UNIT, which was proposed by Alexey Subbotin and Ji LUO 2024 in a white paper, was among those hailed. We rejected the UNIT as a solution because it was practically impossible to implement and too complex.

The Kremlin has repeatedly and unequivocally stated that there will be no BRICS currency in the foreseeable future. Kremlin spokesman [Dmitry Peskov reiterated this statement on January 31, 2025](#), when he discussed President Trump's threats to impose tariffs if the BRICS were to introduce their own currency.

Our blog repeatedly pointed out that there would be no new currency in the foreseeable future and that a future payment system would most likely be backed by gold and/or silver, among other things, as the central banks of the BRICS countries and countries interested in joining the BRICS have been buying large quantities of physical gold and silver for some time. However, we could not say how this might happen.

Every now and then I spend a weekend with Simon Hunt. Simon, who provides analysis for private and institutional investors with Simon Hunt Strategic Services (simon-hunt.com), is, in my very humble opinion, one of the most brilliant geo-economic analysts around, apart from being a cultured English gentleman and a great friend. Flying five hours just to spend two evenings with him is therefore a very worthwhile investment.

When we talked about currencies last weekend, Simon brought up an idea that could solve all the payment problems that the BRICS countries are currently facing. Simon pointed out that his thinking included thoughts from his friends Louis Gave of Gavekal and his father Charles - proof that Simon likes to give credit to others.

Simon published his findings on February 2, 2025 in his publication “Thoughts of the Day”. I am sure our readers will be impressed by the brilliance and simplicity of Simon's thoughts.

Currencies: Thinking out of the Box - by Simon Hunt

We are indebted to Louis Gave of Gavekal and his father Charles also of Gavekal for allowing us to read Charles' note of 17th January and Louis's own report of 27th January. Some of the pointers in our short note are derived from those reports, but all interpretations and forecasts are our own.

What follows is an unfinished piece, more to elicit comments from friends and clients rather than suggesting that the conclusions are what will evolve but something along these lines is a real possibility.

1. China has large gold holdings. In round numbers, China's ministries especially the PLA hold circa 25kt of gold acquired since the early 1950s. Whatever the PLA imports is unrecorded by customs. We have anecdotal evidence that China holds large tonnages of gold at the PLA's HQ.
2. China's citizens including institutions have bought another circa 25kt from the Shanghai Gold Exchange (SGE) since inception in 2002 and are continuous buyers. China remains a large buyer on gold markets.
3. Last year the PBOC set up a system whereby households could buy gold directly from the SGE from their bank accounts and even making payments on a monthly basis. The retail market led by companies such as Chow Tai Fook are active also in the mainland. Government encourages its citizens to own gold.
4. Russia owns north of 12kt most being owned by the company that sits above the central bank. Russian citizens continue to be gold buyers.
5. Both countries are major gold producers with extensive reserves. Russia's reported annual production is around 310 tons and China's about 370 tons. Both countries have potential for increasing their mine reserves, the former in Siberia and the latter in Hunan, Inner Mongolia and Gansu provinces.
6. China uses gold as a neutral reserve asset to net settle global commodity trades. For instance, Russia runs a large trade surplus with China. That surplus is covered by the PBOC holding the equivalent value in gold for account Russia.
7. Another use of gold is if an oil seller to China does not want CNY and China does not want to pay in dollars in return the seller has the option of buying gold off the Shanghai Gold Exchange.
8. If a link to gold or to an acceptable currency outside the dollar regime can be established, the volume of dollars used for trade payments would fall sharply.
9. Hong Kong has decades of financial experience and counts for being perhaps the third largest global financial center. The HK\$ is pegged to the US\$. The HK authorities have the resources to prevent the peg from being broken downwards.
0. Chinese banks have a large presence in HK. Chinese exporting companies, mostly SOEs but also private ones have parked about \$1.0-1.5 trillion in HK.

1. Moreover, Chinese and other funds parked in Singapore are starting to return to HK.
2. These Chinese deposits are sitting in HK banks earning interest but have not been lent out. What if this were to change?
3. PBOC Governor Pan's speech in HK included the lines, '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.'
4. What does 'a broader future mean'? Does it mean that Beijing envisages making HK a new global financial hub that would at least minimize the use of the US\$ and at best/worst replace the US\$ in payment transactions?
5. So, is China's plan to convert China's exporters' deposits currently being held in US\$ into HK\$? That would signal the start of what we think will be a multi-year fall in the DXY. (see Scott Bessent and Mark Sobel's comments on the dollar).
6. In due course this would mean also that the HK\$ peg will be broken through the upside limit as downward pressure on the US\$ intensifies. The HK\$ global exposure would then increase.
7. For instance, Russia holds Indian rupees in a size that they don't know what to do with them. HK could come to Russia's assistance by converting rupees into HK\$.
8. This would enable Russian sales of oil and other commodities to countries like India and Gulf oil exporters to be paid in HK\$ thus outside the control of Washington.
9. Should this trend evolve the development of HK as a global lending hub, using the Chinese dollar exporter float with the HK banks has similarities to what took place in the Euro dollar market in London in the 1970s.
0. Therefore, the HK\$ will start becoming an important payment currency outside the US\$. Within China it could mean also that exporters' deposits in HK now in HK\$ could also be converted into CNY and redeposited into the Chinese market thus increasing China's money supply. If that happened China's currency and equity markets would be supported.
1. Does this then imply a de facto peg between the HK\$ and CNY either officially or unofficially making the HK\$ having greater relevance to the Chinese currency than that of the US dollar.
2. If such Out-of-the-Box Thinking ever dawned the implications would be massive such as:

Global funds would be attracted to the CNY and Chinese equities

The economy would recover strongly where valuations are cheaper than in America and elsewhere.

The HK\$ would be used increasingly for global trade and investment payments. The HK market would rival New York. London etc.

HK\$ and CNY being linked if not effectively being pegged, China would then announce that the CNY is backed by the gold its citizens own.

In that case given the link between the HK\$ to CNY it would imply that the HK\$ would be backed by gold so that the HK\$ would start replacing the US\$, the Euro and Japanese Yen in trade and investment payments.

The global repercussions could be similar to those that emanated from the creation of the Eurodollar market in the 1970s but with the CNY and ruble being backed by gold the global inflation burst would bypass China and Russia.

What could then emerge would be the framework for the new BRICS currency in a step-by-step transition over the next five-odd years.

ARTICLE TAGS:

Analysis Gave, Louis China BRICS Gavekal Trump, Donald Hunt, Simon
Shanghai Gold Exchange (SGE) The People's Bank of China (PBoC)