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Global View

The **New Currency Wars** And The Gold-Bitcoin Axis: America's Digital Collateral Versus Chinese Gold

TL;DR

- Global money is bifurcating into two rival spheres, led by the US and China, and where **gold** and **Bitcoin** are complementary, not competing, assets that will be central to this new order.
- **America is digitizing its debt** to maintain dollar dominance, using technology to repackage Treasury bonds into stablecoins and other digital assets. This is a technological upgrade aimed at boosting efficiency and creating new demand for US debt, but it does not solve the underlying problem of fiscal indiscipline.
- **China is building a rival monetary sys**tem anchored by strategic gold accumulation. By offering trade partners the potential to exchange Yuan for gold, China creates 'notional backing' for its currency, building trust through a tangible asset rather than through its political institutions.
- There means a clash of two trust/ collateral models: the **US's digital-institutional trust** (relying on its financial system and technology) versus **China's tangible-commodity trust** (relying on the historical value of gold).
- The outcome is not zero-sum but will lead to a more fragmented financial World, as other nations diversify their reserves. This battle, driven by state-led industrial policies and massive debt in both countries, makes hedges like gold and digital assets increasingly attractive.
- The key for both powers is to maintain relative demand for their currencies. This could incentivize the US to try to suppress the gold price and promote the digital economy, and encourage China to do the reverse, possibly harming digital money via cyber-attacks.
- We identify a systematic statistical relationship between Bitcoin and gold, with an "attractor point" around a ratio of 28 times. This implies their prices are linked in the long run, trending together despite short-term cyclical divergences.
- Investment choice is not 'either/ or' but 'both'. Gold and Bitcoin are hedges against *monetary inflation*, and the geopolitical battle for monetary dominance will make owning both digital and physical inflation hedges a prudent future strategy.

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The Evolving US Dollar System: Novus Ordo Seclorum

Symbolically emblazoned on a US dollar bill are the prophetic words *Novus Ordo Seclorum* (The New World Order). We may stand today at another **pivotal moment in monetary history that embraces the US dollar, Bitcoin, stablecoins and gold? Gold and Bitcoin are not straightforward alternatives**. In fact, they are complementary assets that in our view embody key features of the future international monetary system.

At the risk of oversimplifying today's complex international monetary developments, a near century of US dollar dominance is being challenged by the rise of a rival settlement system built around the Chinese Yuan and shadowed by strategic gold reserves to boost its credibility among trade partners and so by-pass the dollar. In response, America is fortifying the dollar system through digital innovation, repackaging Treasury securities as digital collateral, using stablecoins to enhance efficiency and maintain demand for the dollar.

In the background, the economic and political characters of both China and the US are converging. Paradoxically, China is not adopting America's rich economic model of free markets and democratic choice: rather the US is moving closer to China's more rigid State Capitalist model. A double irony is that America's own tax and welfare system, for all its faults, looks decidedly more 'socialist' than China's, which lacks a social safety net and imposes a regressive tax system on her workers. Yet, the financial cost of providing decent welfare threatens to propel America's public debt burden to sky-high levels and so further weaken the US's ability to compete with the PRC.

Put another way, beyond the rubble of a 'trade war' there is a far bigger 'capital war' being fought out for the control of the World's money. We may have passed the pinnacle of dollar dominance, but America is fighting back and trying hard to offset the nascent challenge from the Chinese Yuan (Renminbi). This challenge was boldly expressed by a key PRC spokesman a decade ago:

*…we should promote the Renminbi to be the **primary currency of Asia**,*
just as the US dollar first became the currency of North America and then the currency of the World …
*Every globalization was initiated by a **rising empire** …As a rising superpower,*
the 'One Belt, One Road' strategy is the beginning of China's own globalization
*… it is a **counter-measure to the US** strategy of shifting focus to the East.*

Excerpts from a speech by Major-General Qiao Liang, Chinese PLA, April 2015

As a result, we may be witnessing a fundamental shift in the architecture of global finance. The World is moving toward a contest between two distinct models of monetary trust: **a digitally-enhanced US dollar system**, and a China-led alternative that strategically **leverages gold to build confidence**. This is not only an economic competition. but a geopolitical struggle that will define the future of global power.

The US dollar's supremacy rests on evolving pillars of confidence and collateral:

- **The Gold Anchor (1944-1971):** The Bretton Woods system pegged the dollar to **gold**, creating a stable foundation for global trade. However, this system collapsed under the weight of US payments deficits, a phenomenon known as the Triffin Dilemma.
- **The Petrodollar Axis (1973-Present):** Post-the 1971 Nixon Shock, when the US closed the gold window, the dollar's dominance was re-anchored by a 'military-financial axis'. Oil was priced in dollars, and petrostates recycled their revenues into **US Treasury bonds**, the world's premier 'risk-free' asset. This created a structural demand for dollars, granting the US an "exorbitant privilege" to cheaply and easily finance her deficits

Today, America's privilege is threatened by spiralling US debt. Federal debt now exceeds US$38 trillion, while political brinksmanship frequently tests the system's confidence. **The question is no longer about the dollar's economic utility, but about the long-term sustainability of the fiscal position that backs it.**

America's Gambit: Digitizing Treasury Debt

A central policy plank of the Trump Administration is to direct spending into key strategic industries, such as technology, defence and critical minerals. This can be also seen in the recent desire to shift away from '**Fed QE**' (i.e., liquidity injections) towards '**Treasury QE**' (i.e. greater bill issuance and lower duration) as the conduit. There is precedent for greater Treasury involvement. During the COVID crisis, the Treasury's *Exchange Stabilization Fund* (ESF) backstopped the Fed's emergency lending facilities. This was a step towards greater fiscal and monetary co-ordination and arguably crossed a line that had been respected since the 1951 Fed/ Treasury Accord.

The Inflation Reduction Act (IRA) and *CHIPS Act* similarly evidence 'directed spending'. These are explicit, state-led industrial policies designed to onshore critical technologies (semiconductors), energy and supply chains, framed as strategic competition with China. US Policymakers of all stripes increasingly see economic policy in terms of national security (e.g. 'Fortress America') and great power competition, playing to our notion of ***Capital Wars*** (Palgrave Macmillan, 2020). Decisions on trade, investment and technology are increasingly filtered through 'security' and 'efficiency lenses.

The latest policy response is a technological upgrade of the existing US funding system via the recent *GENIUS Act* (2025). The strategy is to **repackage US Treasuries as digital collateral**. Hence:

- **The Rise of Stablecoins**: Projects are tokenizing Treasury bills on blockchains, using them as backing for stablecoins or collateral in decentralized finance (DeFi). This could create massive new demand for US debt, potentially absorbing several trillion of future Treasury debt issuance.

- **Efficiency vs. Substance:** Digitization offers a more efficient, liquid, and accessible settlement layer. However, it is **a technological fix, not a fiscal one**. A digitally-wrapped Treasury is still a Treasury. If confidence in the underlying US government's credit erodes, the digital token will fail with it. Consider this as a bet that America's technological superiority can buy time, even in the face of fiscal indiscipline.

Stablecoins offer high frequency, permissionless settlement and by monetizing US debt they can increase dollar liquidity, even though they may not automatically create much new credit. Compare the near zero duration of a stablecoin comprising 90% invested in 3-month Treasury bills and 10% held in 5-year Treasury notes to the 0.725 year duration of the underlying assets. Yet, their ability to create credit for the private sector is limited by their ability to fund, and specifically by the narrow 10-15% sleeve devoted to less liquid investments.

Stablecoins, on paper, therefore have a far lower private credit multiplier than equivalent conventional bank reserves. **However, offsetting this is the more elastic supply of Treasury paper, which is likely to generate a sizeable liquidity boost through a public credit multiplier mechanism**. In other words, fiscal spend boosts bank deposits, which leads to purchases of stablecoin, and their issuers, in turn, invest the proceeds in Treasury securities. This could become a virtuous circle, allowing stablecoin to monetize US government debt. Looking ahead, stablecoins are likely to be an important source of demand for government securities. USDT (Tether) and USDC (Circle) are already among the major buyers.

To the extent that stablecoin capture existing savings flows, this new demand may simply displace many direct buyers of Treasuries, namely money market mutual funds, banks and CICPs (Corporate and Institutional Cash Pools), including Sovereign Wealth Funds. **Yet, the pool of new 'indirect' investors in US Treasuries via stablecoin is potentially huge, because they offer a better alternative in terms of wealth preservation, transportability and anonymity than many existing monetary systems**.

China's Counter-Strategy: A Gold Lever

In short, US dollar stablecoins pose a big threat to rival monetary systems. The European Union has already railed against the US initiative fearing that the ECB could lose control of the region's monetary policy. China faces a similar, if not greater threat. Cash-rich Chinese exporters could hold US stablecoin, with some anonymity and, hence, outside of People's Bank (PBoC) control. In our view, this risk has spurred recent Chinese policy actions, including attempts to accelerate debt monetization via PBoC liquidity injections, alongside their direct gold purchases.

China is not attempting to immediately dethrone the dollar but is methodically constructing a parallel system to by-pass it. This multifaceted strategy centres on enhancing trust in the Yuan:

- **Systemic By-pass:** Initiatives like the Cross-Border Interbank Payment System (CIPS) and bilateral currency swaps are creating an alternative to the dollar-dominated SWIFT network.

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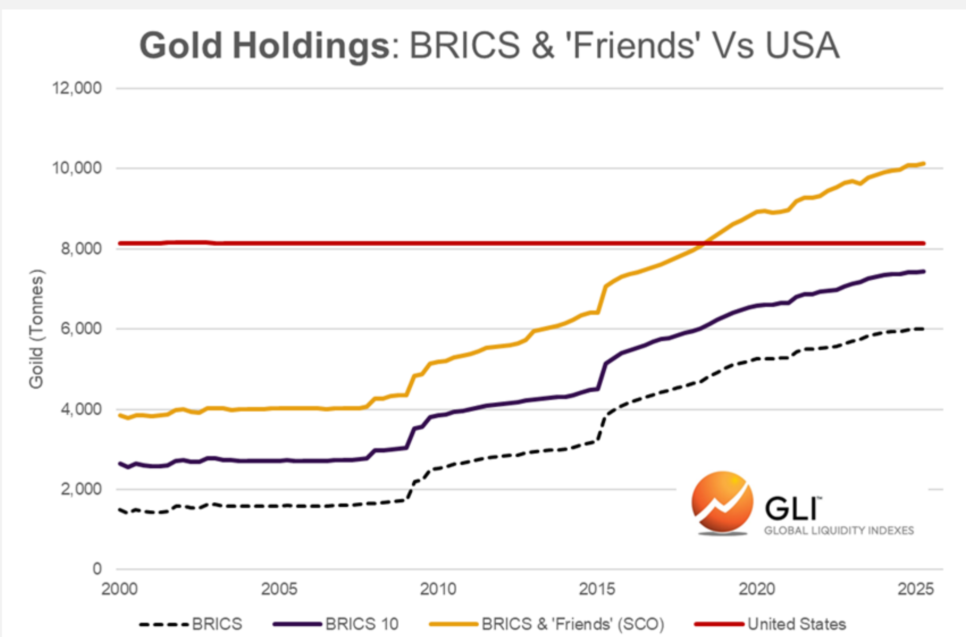
- **Strategic Gold Accumulation:** China is rapidly and consistently accumulating vast amounts of physical gold as notional collateral. This serves as a hedge against dollar volatility, a shield against US sanctions, and, most importantly, **a confidence-building lever**.

- **Notional Backing, Not a Gold Standard:** China is not adopting a formal gold standard, which would seriously constrain her monetary policy. Instead, she is creating the perception of 'notional gold backing'. By offering key trade partners, such as Saudi Arabia, an 'option' to exchange Yuan for gold in commodity deals, it makes the Yuan a more attractive, de-risked alternative to the US dollar. A potential gold-for-oil pact would directly challenge the petrodollar's core, building trust not on China's political system, but on a tangible, long-established store of value.

Although we know that China is directly buying gold bullion, the precise volumes are unknown and probably anyway being deliberately hidden. Some estimates suggest China now holds a whopping 5,000 tonnes, which is not far short of America's Fort Knox stockpile. However, China's purchases are being matched both by other BRIC economies and by wider collectives, such as the *Shanghai Co-operation Organisation* (SCO), that are keen to move outside US jurisdiction. Evidence the rapid build-up of gold among these groupings, compared to US holdings, in Figure 1.

Figure 1



Source
GL Indexes, IMF

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Synthesis: E Pluribus Duo (Bitcoin Or Gold…Bitcoin And Gold?)

When we first wrote about the coming bifurcation of World money into US and Chinese fiefdoms in our book *Capital Wars* (2020), we then argued that this rivalry would be largely fought out amongst digital assets, incorrectly (as it turns out) downplaying a future role for gold. Admittedly, any future system is most unlikely to see the return to a full gold standard, or even an equivalent rigid Bitcoin standard. This is not just because of the potential volatility of each of these two benchmarks. **Rather policy makers, and more specifically large, competitive nation states, require the flexibility of a fiat monetary system to fund fiscal deficits**.

Therefore, the emerging competition is between two different models of 'trust/ collateral':

#1. **The US Model: Digital-Institutional Trust**. America is betting that trust in its institutions, deep capital markets and that her technological innovation will endure. The message is: "*Trust our system, trust our bonds, and trust our technology*."

#2. **The Chinese Model: Tangible-Commodity Trust**. China is compensating for a lack of trust in its political and financial institutions by anchoring confidence in gold as a physical asset. China's implicit message is: "*If you cannot trust our system, then trust our gold.*"

Inevitably the lines between these two models are blurred. America is digitizing its traditional assets, while China is also advancing its own digital currency (the e-CNY) alongside its gold strategy. The end game is not obvious. It will be shaped by US fiscal discipline, China's economic momentum and ultimately the choices of other major powers like the EU, Latin America, Asia and India, who will diversify their reserves rather than simply pick a side.

This contest between America's **digital-institutional collateral** ("trust our system and technology") and China's **tangible-commodity collateral** ("trust our gold") is more than an economic rivalry. Rather, it is a financial front-line in the broader **Capital War** to win global geopolitical power, accelerated by both nations' escalating debt and strategic use of State-led industrial policies.

Both economies face serious demographic and debt challenges. Whereas China's debt issues are largely historic, America's are building into the future as welfare commitments strain the budget. Both China and America's future spending needs require the flexibility to 'print money' and in order for their monies to retain purchasing power, they need to encourage and maintain demand for each currency units.

Hence, it is in America's interests to **encourage the digital economy, but also, at the same time, to suppress the price of gold**. Consider already the hint of divergence between gold prices quoted on the COMEX and Shanghai exchanges. In contrast, China will aim to challenge America's technological leadership and potentially undermine the integrity of **cybersecurity to derail digital growth**, while simultaneously boosting the gold price. Also, envision the possibility of a '51%' attack on the Bitcoin and other blockchain networks launched by quantum computers, and even, harking-back to the precedent of **Executive Order 6102** and the 1934 US Gold Reserve Act, outright gold confiscation. Of course, these are not yet established facts, rather plausible risk assessments.

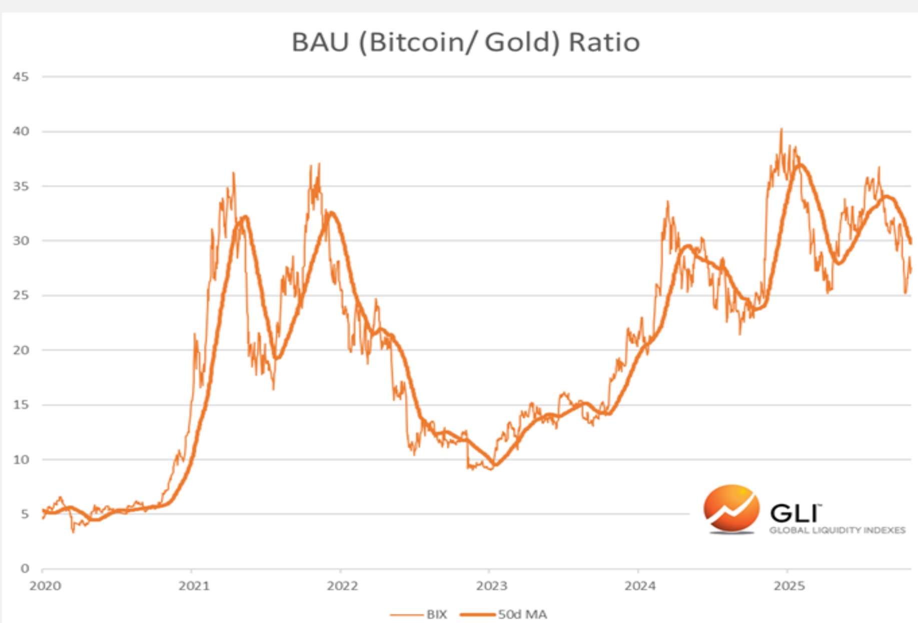
Bitcoin as the leading digital asset should be a major winner. Like gold, it has already proved to be a successful hedge against *monetary inflation* and fiscal irresponsibility over the past one-to-two decades. But, for investors, the choice is not between digital money and gold but **a choice of digital money and gold**. Both serve as 'outside money' in a fiat World of the eroding value of 'inside money'. The need to monetize escalating debts will boost the trend value of *monetary inflation* hedges, but the battle for monetary dominance is likely to mean heightened volatility around these trends, particularly if US policy makers try to unsettle the gold price and Chinese actors lead cyber attacks on crypto.

Currency Geopolitics: The Bitcoin/ Gold Exchange Rate (BAU)

Does this evolution of international money and investors' demands for alternative collateral tell us anything about the Bitcoin/ Gold ratio? Putting currencies into a macro-framework forces us to think about monetary assets as pieces in a large-scale geopolitical chessboard, rather than in isolation.

Latest data may already reveal their complementarity? There is a strong systematic association between the gold bullion price and Bitcoin, involving both a changing correlation structure over time and an underlying parity between the two assets. Evidence the notional exchange rate (BAU) between Bitcoin and gold plotted in Figure 2.

Figure 2



Source
GL Indexes, US Federal Reserve

Statistically, we can uncover an 'attractor point' where the notional exchange rate converges to an equilibrium value of 28.1 oz/ BTC and a mean re-adjustment lag of around 6½ months to displacement shocks either side of this ratio. In other words, given this exchange rate, a future gold price of US$5,000/ oz implies a BTC$ price of US$140,500, and a US$250,000 BTC$ prices points to a bullion price of nearly US$9,000/ oz.

Such a precise, stable long-term equilibrium is, of course, far from guaranteed and this observation should be only treated as a useful guide or trading signal. Our data sample is comparatively short because Bitcoin is a nascent asset (barely 15-years old), compared to gold's millennial-long history, and we cannot rule out the possibility that this recent relationship decouples as both markets evolve.

Consider Bitcoin as having two drivers: an *intensive margin* (i.e. a higher exposure to Bitcoin in each investor's portfolio) and an *extensive margin* (i.e., more investors holding Bitcoin). The former is likely to involve cyclical forces, such as investors' risk appetite, whereas the latter is more likely a secular feature and, like most new technologies, it will diffuse through a population along an S-shaped growth path. In other words, *extensive growth* starts slowly, accelerates rapidly and finally subsides. This virtually ensures an increasing Bitcoin/ gold ratio over time.

Evidence also how supplies differ: Bitcoin's new issuance is programmed to halve every 4 years, whereas gold production typically grows by around 1-2% annually. Hence, the long-term Bitcoin/ gold ratio should trend upwards as Bitcoin becomes scarcer relative to gold. In fact, there is already some evidence of this trend in the data.

We know from an earlier analysis of the individual drivers of the Bitcoin price, that gold features prominently. See the pie chart in Figure 3. As we then noted, the exact relationship between gold and the Bitcoin price is convoluted. In the long-term, the two assets enjoy a strong positive correlation. However, in the short-term they are often negatively correlated. **In other words, they trend together, but cycle apart**. Mathematically, this describes an *error-feedback system*, which is characterised by an underlying equilibrium between the two assets. This, in turn, is consistent with the existence of an *attractor point*, much as we identified at a 28 times ratio.

Summary And Investment Conclusion

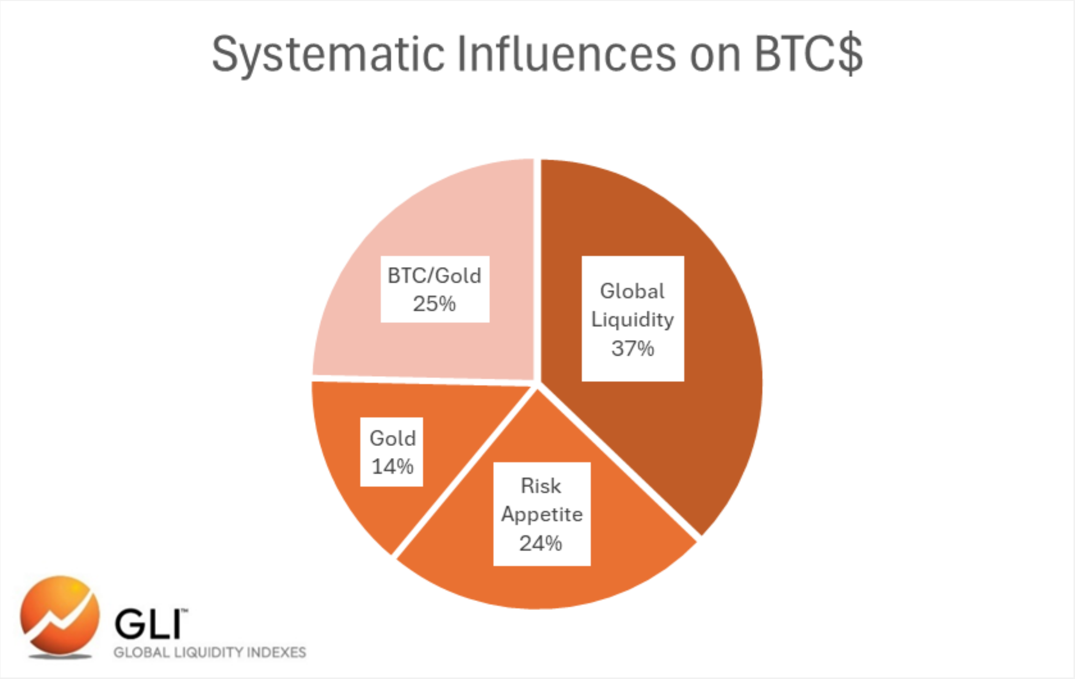
The post-1971 US dollar system which rose from the ashes of the defunct *gold exchange stan*dard was backed by US Treasury debt. A half century ago, there was a limited supply of US Treasuries, and a credible policy for containing inflation and the undisputed strongarm of the American military to encourage demand. Looking ahead, although China also faces serious demographic and debt challenges, the latter are largely historic, whereas America's are building into the future as welfare commitments, that China has side-stepped, strain the US government budget.

What's more, both China and America's future spending needs require the flexibility to 'print money'. This effectively rules out any quaint notion of a return to a hard monetary standard, but in order for their monies to retain any semblance of purchasing power, they need to encourage and maintain demand for each currency unit. On top, great power competition likely means that these units will battle it out for supremacy.

Investment choice is not 'either/ or' but 'both'. Gold and Bitcoin are hedges against *monetary inflation*, and the geopolitical battle for monetary dominance will make owning both digital and physical inflation hedges a prudent future strategy.

At the same time, **watching the evolution of the notional Bitcoin/ gold exchange rate (BAU) may still give a crude heads-up to the potential success of each monetary regime: US Dollar or Chinese Yuan?** Based on the past decade, America is winning, but China is fighting back.

Figure 3



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