Rise of the PetroYuan

How the Chinese currency is replacing the U.S. Dollar in global oil markets

History is being written in the East. As the U.S. stays distracted with stone age warriors in Central Asia and the Middle East, the last platform of the American economic foundation, the U.S. Dollar's currency reserve status, is being underminded by their trade partners in Asia. Both Australia and Japan are set to start direct-trading in Chinese currency and they are not the only ones. There are almost 20 countries whom have currency swaps in place with China all in order to side-step the U.S. Dollar in global trade. At the China Money Report, we have written extensively on the "Rise of the Renminbi". What is new and largely unreported and what we will cover in this article is the "Rise of the Petroyuan," as China is now converting its oil imports into Chinese Yuan as opposed to U.S. Dollars. This will be a new challenge and possibly the fatal blow to the U.S. Dollar as the dominant global reserve currency.

With their industrial base all but gone, the housing market bubble popped, and the Federal Reserve funding the majority of the government debt with printed currency, the American economy can ill-afford a new challenge to its currency's reserve status. It is this very reserve status which has led to America being able to consume more than it produces for decades upon decades as foreign countries were willing to trade consumer products for paper IOU's. The Dollar's reserve status came about naturally after WW2 as the U.S. was the world’s largest trading nation, exporter, and creditor. Today, China occupies all of these slots.

China will soon occupy a new slot: That of the world's largest oil importer. OPEC has confirmed on April 4th of this year that they expect China to surpass the United States as the world's largest oil importer in 2014. This shift in global oil flows is being driven by the twin pillars of a booming Chinese economy and America’s newfound booming domestic oil and gas supply. This shift in the oil trade carries with it massive geopolitical implications that will reshape the world as we know it.

China’s Increasing Oil Imports

The demand side of oil from China has already reshaped geopolitics and global supply chains. Between 2002 and 2010, China's annual imports of crude increased from 70m tonnes to more than 270 million tonnes. Saudi Arabia’s largest customer for oil is no longer the U.S. but the
Peoples Republic of China. In the year 2012, China’s net oil imports were still 1 million barrels per day lower than in the United States, but in some months, China was very close and even surpassed the U.S. in net oil imports. In December 2012 for instance, China imported 6 million barrels a day compared to only 5.98 million barrels in the U.S. From 2010-2015 alone, oil imports in China are expected to grow over 40%. China's oil demand growth is expected to represent 64% of all new demand for oil in 2012-2013.

The upside potential of oil imports into China are still not understood by most analysts and the potential on how large they could become is incredible. Car sales in China are already almost twice the levels in the U.S. and sales are up 20% for the first two months of 2013. Keep in mind that 90% of car sales are paid cash-up-front and most large cities have prohibitive taxes and quotas against new car sales. Despite these regulations, sales are still up 20% so far in 2013. All of these new cars and trucks will of course require more oil that China will need to import. General Motors already sells more vehicles in China than they do the United States and their sales are growing double-digits.

China's increasing dependence on imported oil has threatened the country's energy security and it is of major concern to the government. China's oil dependence is expected to reach 59.4 percent in 2013. Be assured, China is building a blue-water navy and developing the global relationships, which will be required to protect this supply of crude they require today and the ever increasing amount they will need in the future. Indeed, the country of China may be forced into becoming the reluctant military superpower to guarantee that they have access to global oil markets.

**Americans Turning Off Oil Imports**

In comparison to China, the US reliance on foreign energy imports has declined considerably, and many are predicting that the US could be energy self-sufficient by 2030 thanks to its surging domestic production of shale gas and oil. The US is now expected to be a gas exporter by 2020 instead of the previously projected 2022. Domestic oil supplies as well as Canadian supplies will make North America energy independent. This is good news for the U.S. and this new found wealth could be used for a new platform for a revitalized American economy if they can substantially restructure the tax and legal system which has driven production out of the country.

**Trading Oil for Yuan**

Recent reports from Reuters, have confirmed that China is now trading their own domestic currency, the Yuan, for oil. Both Russia, and Iran are now using Yuan for oil sales to China. Venezuela is sure to follow. With Russia and Iran accepting Yuan for oil that means there are now almost 1 million barrels per day being exchanged for Yuan instead of USD. Angola can be expected to move oil sales into Chinese Yuan if they haven't already. Over half of their oil sales are now to China. For Venezuela, the political relationship with the U.S. is well known as fear of the U.S. military might be the only thing stopping them from shifting oil sales into Yuan now. Sudan is another country, highly dependent on China politically and will most likely convert their oil sales into Chinese Yuan.

If Russia, Iran, Angola, Sudan, and Venezuela all convert just their oil sales to China into the
Chinese Yuan the world will see over 5 million barrels per day traded not in U.S. dollars but in Chinese Yuan. Good night Petro Dollar...Hello Petro Yuan.

Geopolitical Shift and Rise of the Petro Yuan

Does China, as the world’s largest importer of oil then take charge of global sea lanes to ensure the trade in oil? This has been a priority of the U.S. military for the last 50 years. The Pentagon is spending $1.58 trillion annually on hardware for trucks, planes, ships, and guns. In 2013, their cost increase alone was $74 billion. The cost increases this year alone, of $74 billion, is more than Russia’s entire military budget. Can America justify a defense budget of this size to protect sea lines for Saudi crude going to China?

What about the so called “King Dollar”? For decades you could trade oil for dollars. This relationship has gone a long way towards making the U.S. dollar the world’s reserve currency. What happens when the U.S. no longer needs to buy imported oil. As time goes on, the oils futures markets will no doubt shift more to Dubai and Dalian, than West Texas and Brent Crude. In decades past, America’s thirst for energy imports resulted in all oil contracts being denominated in U.S. Dollars, the so-called Petro Dollar. The Petro Dollar is now headed for extinction to make way for the Petro Yuan.

We are all witnessing the birth pangs of a new global reserve currency and the "Rise of the Petro Yuan".

CLICK HERE to subscribe to the free weekly Best of Financial Sense Newsletter.

About Dan Collins

Dan Collins
Founder/CEO at Founder/Editor - The China Money Report
info@thechinamoneyreport.com
http://www.thechinamoneyreport.com

Dan Collins Archive

10/16/2012 Fear of a Yuan World
08/01/2012 American GDP: The Fantastic Fiction of American Economic Strength
05/15/2012 Meet the Man Who Controls More Money than Ben Bernanke

http://www.financialsense.com/print/contributors/dan-collins/rise-petro-yuan