
Why China won't Buy Euros, Gold, Or Anything Other Than US Dollars

Much has been made of the potential for China to [ride to the rescue of indebted European nations](#). Much has also been made of Chinese authorities wanting to [diversify its foreign currency reserves](#) away from the depreciating US dollar, into gold and other currencies.

Forget about whether gold and Italian bonds make for good investments. It isn't going to happen. It isn't going to happen because it isn't possible.

China runs a massive trade surplus with the US. That means it accumulates US dollars. Now why, you might ask, can it not just convert those US dollars into gold or other currencies?

Well, that's pretty straight forward. China artificially depresses the exchange rate of its own currency against the US dollar. At current rates, there is substantially more supply of US dollars wanting to convert into Yuan than there is Yuan sellers wanting to convert into US dollars. To keep the exchange rate where it is, Chinese authorities buy all of the excess US dollar supply.

China can't sell US dollars because it's buying them. Hundreds of billions of dollars worth.

For the sake of appearances, China might throw a few million Euro Italy's way. But, as much as the Italians might wish it different, until it un-pegs its exchange rate and stops running gigantic trade surpluses, China is not diversifying anywhere.