Urgent Report

MONEY MORNING

How China is Torpedoing the U.S. Dollar…

The dollar's been struggling to retain its value – and now it's about to get worse thanks to China. This report shows you how China is undercutting the dollar and the two best ways for investors to turn this in their favor…

By Sid Riggs, Contributing Editor, *Money Morning*

Table of Contents:

- The Global Currency Game
- Which Message from the Treasury Do You Buy?
- A Yuan-Dominated Trade Empire
- Protecting Your Wealth When the Dollar Dies

In four short months, the dollar's value has sunk 11.2% on the New York Exchange. In fact, it just recently hit its lowest level of 2009 against six major currencies, including the Euro, the British pound and the Swiss franc.

And it wasn't an accident.

Not only has the U.S. Federal Reserve tied an anchor to the dollar's legs, China has beefed up its own efforts to supplant the dollar as the global currency reserve.

This report pulls the curtain on China's plan to demolish the dollar for good. It also shows you how to protect your savings – and increase your portfolio – as the dollar struggles on every front.

The Global Currency Game

The United States isn't the only country with a falling currency. Same is true for India, Brazil, South Africa, Mexico, Singapore, Switzerland and a host of Eastern European countries.

A bloc of Russian banks recommended that its government should devalue the ruble by as much as 30%.

But what's most amazing about this is that most of these countries are intentionally devaluing their currencies. For the U.S., a lower dollar value means it's cheaper to pay back U.S. debt.

For the rest of the countries, a devalued currency makes their goods cheaper overseas. Having cheaper goods means stronger exports. Stronger exports mean manufacturing and more jobs. You get the idea.

It's a selfish game, and it basically amounts to making an economy seem healthier than it actually is.

Governments across the globe are in a "race to the bottom." Yet to make matters worse, the U.S. Treasury is creating some deceptions about the buyers of U.S. debt and sidestepping the issue of devaluation, money supply, and inflation.

Which Message from the Treasury Do You Buy?

The U.S. Government wants the public to believe that China, Japan and Europe are still happily buying U.S. debt to fund the American economic turnaround. The only problem is – they're not.

Treasury numbers out just last month indicated that China and Japan are reducing their exposure to U.S. debt. China, for example, the largest foreign holder of U.S. debt, reduced its investments by $4.4 billion to $763.5 billion in April – its first monthly reduction since February 2008.

That begs the question – which one is it? Is China buying or selling?

The reality is that the Treasury dept changed the way U.S. debt is accounted for when purchased on the open market. U.S. debt selling on the open market can be accounted as having been sold to "foreigners" even if the purchaser was the Federal Reserve – which is exactly what is happening.

A little sleight of hand by Uncle Sam and all of a sudden China and Japan can appear to be buying debt while at the same time selling debt.

China knows a thing or two about cooking the books, and is using this synchronized global currency dive to step in and throw its weight around. Let me show you…

A Yuan-Dominated Trade Empire

China officials have gone on record saying they want to move the global currency peg away from the dollar in favor of currency diversification. But at the same time, neither China's currency – the yuan – nor any other currency has the liquidity to replace the dollar as the world's pillar currency.

China's distaste for the dollar is supported by Brazil, Russia and India – the four countries comprising the BRIC emerging markets. And not coincidentally, China has used them as allies in its ruse.

Instead of buying directly from trading partners, China has been setting up swap agreements where the Chinese yuan is used instead of the dollar to pay for goods and services.

So far, China has set up currency swaps with Argentina, South Korea, Hong Kong, Indonesia, Malaysia and Belarus.

But most alarmingly, China and Russia have agreed to expand use of their currencies in bilateral trade. And China and Brazil are discussing similar trade plans.

And as they build a larger network of swap agreements (close to $200 billion in June alone), China can trade directly with their trading partners without ever having to put their currency on the open market – and with no need to settle in dollars.

Already, the countries that buy and sell goods as part of these swap agreements can use their Chinese yuan to buy goods and services in China and its neighbors who depend on China's trade network. Think of it as billion-dollar gift certificates that can only be used exclusively for China's trading partners.

For instance, Brazil could use its yuan to buy goods and services from Indonesia or Malaysia…with no need to settle in dollars.

The dollar would lose enormous credibility and confidence if China can create one of these swap agreements with a major Western economy.

And China will likely continue to extend these swap agreements to as many people as they can until one day, the world wakes up and realizes China has created a global marketplace for their currency without playing by the rules.

No doubt that will greatly hurt the status of the U.S. dollar as the world's reserve currency.

Protecting Your Wealth as the Dollar Declines

Regardless of China's actions, the dollar continues to be plagued by economic events. Not only is it losing its value and importance globally, it's also losing value domestically.

With the U.S. Federal Reserve pursuing a policy of quantitative easing and a federal budget deficit that's spiraling out of control, the dollar is extremely vulnerable.

The Federal Reserve has lowered its benchmark Federal Funds rate to a range of 0.00%-0.25% and has said it will remain there for "an extended period."

The Fed has also injected more than $2 trillion into the financial system, expanding credit through increased loans to banks to provide liquidity. It's also created the Commercial Paper Funding Facility – which holds $109.2 billion in short-term IOUs issued by corporations – and the Term Asset-Backed Securities Loan Facility (TALF) – which has lent $25 billion to investors to buy securities tied to auto and other consumer and business loans.

And the central bank itself has pledged to buy $1.75 trillion in mortgage-backed securities, Treasury notes, and federal housing agency bonds.

So what should you do? Get out of the dollar. And get into gold.

That's what China is doing…

The Red Dragon announced recently that it has increased its holdings of gold by about 450 metric tons in the past six years.

One way to stock up is to buy gold outright, either in bars, or though the gold-linked, exchange-traded fund (ETF) SPDR Gold Shares (NYSE: GLD). Today, GLD itself holds more than 1,000 tons of gold, and has a market capitalization of $33 billion.

Buying stakes in gold miners is also an excellent way to hedge against the enormous inflationary pressures filtering through the U.S. economy.

In this case, the Market Vectors Gold Miners ETF (NYSE: GDX) - composed chiefly of major gold miners - offers both company and geographic diversification, while including substantial leverage to the price of gold. Market Vectors is based on the AMEX Gold BUGS Index (HUI), which represents a portfolio of 15 major gold mining companies that do not hedge their gold production beyond a year and a half.

Editor's note: The U.S. Treasury has just approved a new currency experts are calling "Gold Dollars." This new currency can be used just like regular dollars, but is backed by physical gold. Not many investors know about this change yet. **This report** gives you all the details on "gold dollars," and how you can use this program to your benefit.