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India

Money, Military & Markets-XX

De-dollarization: Currency swap islands likely

- De-dollarization is accelerating through local currency swaps and rising gold reserves, as countries seek alternatives to a politicized US financial system.
- China's yuan, once seen as the leading challenger, has lost credibility after the country's military setbacks, weakening its position as a dollar alternative.
- With no clear successor, gold emerges as the most viable hedge, outperforming other assets amid rising global macroeconomic uncertainty.

De-dollarization: Small currency swaps and gold are the alternatives

The world's dependence on the US dollar has been a cornerstone of the global financial system for nearly eight decades. But cracks in the foundation are widening—and the process of de-dollarization is no longer speculative. It is underway. The only debate that remains is about how fast it unfolds. The use of the dollar as a geopolitical tool—most notably through sanctions, asset freezes, and trade restrictions—has accelerated the search for alternatives. Countries like China, Russia, and Iran have clear strategic reasons to reduce their dollar exposure. Even allies now quietly acknowledge the need to hedge against future US policy shifts. As global trade flows become more diversified, the reliance on a single currency is increasingly seen as inefficient and risky. Cross-border trade in yuan, dirhams, roubles, and rupees is growing—not yet at scale, but fast enough to signal a change. Central banks are buying gold at record levels. Digital currencies (like China's e-CNY) are being developed to bypass the SWIFT system. Bilateral agreements—India-UAE, China-Brazil, & Russia-Iran—are experimenting with local currency settlements. These are not random; they are the scaffolding of a new system. Yes, the US dollar remains the king in FX markets and global reserves. But empires don't fall in a day. The British pound lost its crown slowly, over decades. The same path could await the dollar. The erosion is gradual—until it's not. Whether it takes 10 years or 30, the direction is clear. The US fiscal position is deteriorating, and its politics increasingly unstable. As confidence wanes, the world is ready with its plan B - i.e. islands of currency swaps and gold.

Emperor is naked, but the only one who can say it has lost its teeth

For decades, the US dollar has dominated global finance—not because of inherent strength, but because the world collectively chose to believe in the illusion of its invincibility. But today, the cracks are glaring. 1) US debt is spiralling. 2) The dollar has become a weapon, wielded through sanctions, asset freezes, and economic blockades. 3) The financial system is no longer neutral—it's politicized. Despite this, the world continues to bow. Why? Because no one has the courage—or capacity—to shout what is now obvious: the emperor is naked. Among all challengers, China was best positioned to call the bluff. It had the economic scale, growing financial clout, and ambitions to reshape global order. But calling the bluff doesn't just require reserves and trade volumes—it requires hard power credibility. Just like nuclear deterrence, military might doesn't have to be used—it just needs to be believed. For years, China built that belief—with a blend of aggressive posturing, flashy tech demonstrations, and simulated "kinetic" superiority. But Operation Sindoor changed everything. Chinese hardware failed spectacularly under real battlefield stress. Not only did its BVR missiles malfunction, but key defence systems crumbled against India's coordinated assault. What was supposed to be a show of strength became an exposé of weakness. The fallout is stark as Pakistan, whose military is 81% Chinese-equipped, is frantically engaging with the US to plug the gaps exposed by Indian retaliation. When your closest strategic partner runs for American arms, your bluff has been called.

The only winner is gold - it will keep outperforming all asset classes

The global desire to reduce dependency on the US dollar is real and growing—but so are the obstacles. China, once seen as the most viable challenger to the dollar's dominance, has failed to present a credible alternative. In parallel, the return of President Donald Trump—with his erratic policy swings, threats of financial weaponization, and unmatched control of the US military—makes it nearly impossible for other nations to push back. As a result, full-scale de-dollarization remains unlikely in the near term. The only viable option is small currency swaps between nations. But the easiest option is gold. Crypto currency may also emerge as an option, but we don't understand its dynamics and hence can't predict.

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De-dollarization: Currency swap islands likely

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Dollar – The emperor is naked; someone just needed to call it, China was in a best position to do the same

For decades, the US dollar has dominated global finance—not because of inherent strength, but because the world collectively chose to believe in the illusion of its invincibility. It wasn't flawless; it was untouchable. But today, the cracks are glaring. 1) The US debt is spiralling. 2) The dollar has become a weapon, wielded through sanctions, asset freezes, and economic blockades. 3) The financial system is no longer neutral—it's politicized. Despite this, the world continues to bow. Why? Because no one has the courage—or capacity—to shout what is now obvious: the emperor is naked. Among all challengers, China was best positioned to call the bluff. It had the economic scale, growing financial clout, and ambitions to reshape global order. But calling the bluff doesn't just require reserves and trade volumes—it requires hard power credibility. Just like nuclear deterrence, military might doesn't have to be used—it just needs to be believed. For years, China built that belief—with a blend of aggressive posturing, flashy tech demonstrations, and simulated "kinetic" superiority. But Operation Sindoor changed everything. Chinese hardware failed spectacularly under real battlefield stress. Not only did its BVR missiles malfunction, but key defence systems crumbled against India's coordinated assault. What was supposed to be a show of strength became an exposé of weakness. The fallout is stark. Even Pakistan, whose military is 81% Chinese-equipped, is now frantically engaging with the US to plug the gaps exposed by Indian retaliation. When your closest strategic partner runs for American arms, your bluff has been called.

Dollarization of global trade has been an upward spiral for America ›

The dollarization of global trade has been an unrelenting upward spiral for the US. As more countries trade, invest, and hold reserves in USD, demand for the dollar rises—allowing the US to borrow cheaply, run persistent deficits without immediate penalty, and print currency that the world willingly absorbs. In turn, this financial gravity reinforces the dollar's centrality, creating a feedback loop of dominance. American sanctions bite because the dollar rules; the dollar rules because global finance orbits around it. This "exorbitant privilege" has underwritten US geopolitical and economic supremacy for decades—not because of superior fundamentals, but because the system feeds itself.

The strength of USD belies all economic logic…

In any rational system, a currency backed by over US$34tr in debt, persistent twin deficits (fiscal and current account), political brinkmanship over defaults, and inflation volatility shouldn't be the world's strongest. And yet, the US dollar defies gravity. Because the dollar's strength isn't based on fundamental soundness—it's based on systemic inertia and a lack of alternatives. Global trade is still priced in dollars. Central banks hold dollars because others do. The world recycles its surpluses back into US Treasuries, not out of confidence—but out of necessity. This is not strength, it's monopoly disguised as merit. Meanwhile, countries with better fiscal positions or growing economic clout (China, India, the Gulf nations) still struggle to internationalize their currencies. The dollar continues to dominate not because it should, but because the plumbing of global finance hasn't been re-engineered yet.

…as it is matched by military brinkmanship

The strength of the US dollar belies all economic logic—and it is matched, step for step, by military brinkmanship. When fiscal prudence fails and economic fundamentals wobble, American global dominance leans increasingly on the unspoken threat of hard power. The US Navy guarantees freedom of navigation—for trade priced in dollars. Defence pacts and strategic bases encircle energy routes and trading hubs—not just for security, but to protect the financial architecture the dollar anchors. From sanctions backed by carrier groups to asset freezes enforced through the SWIFT system, the economic empire is shielded by a military perimeter. This symbiosis is not a conspiracy—it's a deliberate scaffolding. The dollar's credibility, in the absence of fiscal discipline, is enforced by strategic deterrence. What sustains the dollar isn't just demand—it's dominance. Military projection sustains monetary privilege. But this balance is fragile, and when empires overplay both, history shows the decline comes faster than expected.

The SWIFT system is the symbol of American hegemony

The SWIFT system, often portrayed as a neutral, technical network for global payments, is anything but the same. It is the digital scaffolding of American hegemony. It is a system that gives the US indirect control over the financial arteries of the world. While SWIFT is headquartered in Belgium, its compliance with US sanctions—whether on Iran, Russia, or others—reveals its geopolitical alignment. Being disconnected from the SWIFT system is tantamount to financial excommunication.

How does the SWIFT system works?

SWIFT stands for Society for Worldwide Interbank Financial Telecommunication. It's not a bank and doesn't move money, but rather a messaging system used by banks and financial institutions worldwide to securely send payment instructions. Think of it as the WhatsApp of international banking, but with extremely high stakes.

How SWIFT works – Step by step

1. Let's say a person in India wants to send money to someone in Germany:
    a. Initiating bank (India) sends the instruction.
    b. The Indian bank (e.g., State Bank of India or SBI) creates a SWIFT message with all the payment details:
        i. Amount
        ii. Currency
        iii. Recipient's bank info (for example, suppose Deutsche Bank)
        iv. Purpose of transaction

   c. SWIFT message is sent
2. SBI sends this message through the SWIFT network using a unique code (called a SWIFT/BIC code) for both the sending and receiving bank.
3. Correspondent banks (if needed) route funds
   a. If SBI and Deutsche Bank don't have a direct relationship, intermediary (correspondent) banks are used. These banks "translate" and route the payment message and later help transfer the funds.
4. Recipient bank gets the message
   a. Deutsche Bank receives the message and credits the beneficiary's account once funds are settled via the correspondent network.
5. Settlement happens outside SWIFT
   a. The actual money is moved through bank reserves, central bank accounts, or clearing systems like CHIPS (in the US), TARGET2 (in Europe), etc. SWIFT only tells the banks how and where to send the money — it doesn't handle the cash itself.
6. Key components of SWIFT
   a. SWIFT Code: 8–11-character ID of each bank (like DEUTDEFFXXX for Deutsche Bank, Frankfurt).
   b. MT messages: Standardized message types (e.g., MT103 for customer payments).
   c. Security: Highly encrypted, with strict authentication protocols.
   d. Reach: 11,000+ financial institutions in over 200 countries.
7. Why SWIFT matters - Standardization: Every bank speaks the same payment language. Speed: Messages are delivered in seconds. Security: Extremely hard to tamper with. Control: Countries disconnected from SWIFT (e.g., Iran, Russia) are effectively locked out of global trade.

Who owns SWIFT? Ostensibly it is not owned by America but in reality it is

SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a member-owned cooperative based in La Hulpe, Belgium. It is not owned by the US or any single government or company.

It is owned by over 11,000 financial institutions (banks, securities firms, and market infrastructures) from more than 200 countries. Each member institution holds shares in SWIFT, and the voting rights are proportionate to their shareholding.

It has a board of directors comprising 25 directors elected by shareholders, representing different regions and types of institutions (large global banks, smaller local players, etc.). The board oversees strategy, budgeting, and risk management.

SWIFT is regulated by the National Bank of Belgium (NBB), in cooperation with central banks from the G10 (including the US Federal Reserve, European Central Bank, Bank of England, etc.).

SWIFT claims political neutrality and acts as a utility provider. However, because it must comply with EU and Belgian laws, and due to Western geopolitical influence, it has enforced US and EU sanctions—such as cutting off Iranian and Russian banks when instructed.

Remember, in this setup, America will run supreme, as the EU has practically no power of its own. It is dependent on America for its safety and has major trade relations with the US. In almost 100% of cases, the EU tilts to the will of the American government and supports the rules/sanctions the US wants to impose.

While SWIFT is technically currency-agnostic, it's the dominance of the US and EU banking empires that ensures the supremacy of the USD and Euro

SWIFT supports transactions in *any* currency, not just the US dollar.SWIFT is a messaging system, not a payment system. It doesn't hold or transfer funds, but transmits standardized messages between financial institutions to instruct payments, trades, and settlements. These instructions can be in any currency — USD, EUR, CNY, JPY, INR, etc.

While the messages can be in any currency: The underlying clearing and settlement of the currency depends on correspondent banking networks and local payment systems (like CHIPS for USD, TARGET2 for EUR, etc.). Even non-USD transactions often rely on intermediary US banks if local banks don't have direct relationships—bringing them under US jurisdiction.

The top 10 banks used in global trade settlements are all based in the US and Europe—and they operate in alignment with the interests of the US

Figure 1: All the top 10 banks in global trade finance ultimately fall in line with US interests

Rank	Bank	Notable Strengths
1	HSBC	Largest trade-finance provider; Asia–ME–Europe reach.
2	Crédit Agricole	Strong export financing and documentary trade.
3	Deutsche Bank	EUR clearing, commodity finance, and digital analytics.
4	Société Générale	ESG-linked instruments and export credit facilities.
5	Citibank	Global supply chain finance network, AML excellence.
6	Standard Chartered	Emerging markets corridors, FX-hedging & LCs.
7	BBVA	Strong in Latin American trade and cross-border deals.
8	JPMorgan Chase	Largest USD clearing network, structured trade lines.
9	BNP Paribas	European export finance leader, sustainable solutions.
10	Santander Group	Iberia–Latin America trade corridors, digital SCF.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Creating a viable alternative to SWIFT is a long-gestation, highly complex project

Creating a credible alternative to SWIFT isn't just about building a messaging platform. It's about replicating a globally trusted, secure, standardized, and interoperable financial infrastructure that links over 11,000 institutions across more than 200 countries. It requires international legal harmonization, cybersecurity resilience, compliance standards, KYC/AML protocols, central bank alignment, and — most crucially — global trust.

SWIFT took decades to reach its current scale and credibility. Any challenger—be it China's CIPS, Russia's SPFS, or regional digital alternatives—must undergo years of testing, onboarding, bilateral agreements, and scale-building. Without wide international buy-in, liquidity, and correspondent banking depth, these systems remain limited in scope.

However, the best alternative for trading partners is to accept payments in each others' currencies: i.e local currency settlements

While building a global alternative to SWIFT is a long, politically and technically complex project, the most pragmatic and immediate workaround is for trading partners to settle payments in each other's local currencies. Countries like India and the UAE, China and Russia, or Brazil and Argentina are already experimenting with such arrangements. These local currency trade deals bypass the need for USD or EUR intermediation, reduce FX costs, and insulate trade from third-country sanctions. To make this work, the partners typically:

- Establish bilateral currency swap lines between central banks.
- Use designated banks for settlement in each other's currencies.
- Price commodities or goods directly in local currency (e.g., rupees for oil, roubles for fertilizers).
- Develop payment gateways linked to domestic systems (e.g., India's UPI, China's CIPS).

Detractors might dismiss it as barter—but by that logic, nearly all global trade is a form of barter, just with USD or euro as the intermediary

Detractors might dismiss local currency settlements as a modern form of barter, an unsophisticated workaround for countries shut out of the dollar-based system. But by that logic, nearly all global trade is a form of barter—just mediated through the US dollar or the euro. When a country exports oil for dollars and then uses those dollars to import machinery, it's not functionally different from accepting the machinery's value directly—except that the intermediary currency adds cost, delay, and dependency.

Local currency settlement is simply barter with monetary sovereignty: two nations agreeing to value each other's currencies, bypassing the need for a third-party reserve currency. It's more efficient, more resilient, and increasingly necessary in a world where financial infrastructure is being weaponized

In the case of India, this so called barter is already working with multiple countries

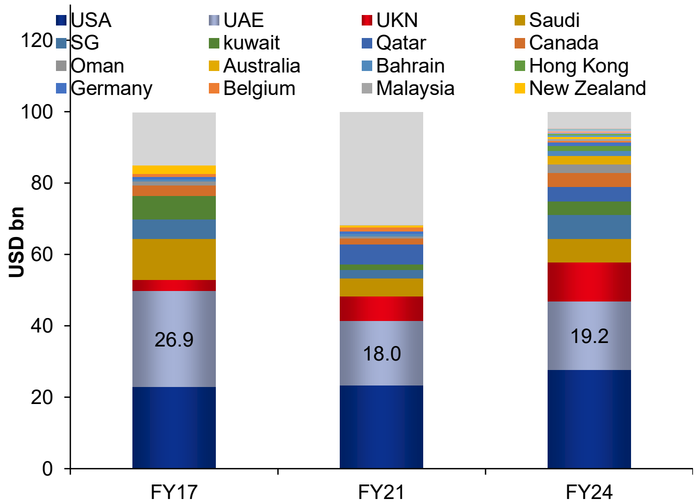
Figure 2: India has already multiple bilateral currency swap deals with multiple countries

Partner Region / Country	Status	Key Features
UAE	Active INR–AED settlements	SRVAs, UPI-IPPs, reduced FX cost, real-time trade.
Russia (via UAE)	Partial / intermediated	Dirham-mediated oil payments; SRVA as intermediary.
Sri Lanka, Maldives, Bangladesh	Operational SRVA structures	INR invoicing & settlement for exports/imports.
Tajikistan, Cuba, Luxembourg, Sudan	In discussion	Exploring SRVA openings and bilateral trade pacts.
East Asia & ACU countries	Exploratory/dialogue	Multilateral mechanisms in negotiation phases.
Indonesia	Ongoing talks	UPI linkage & local currency trade settlement.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

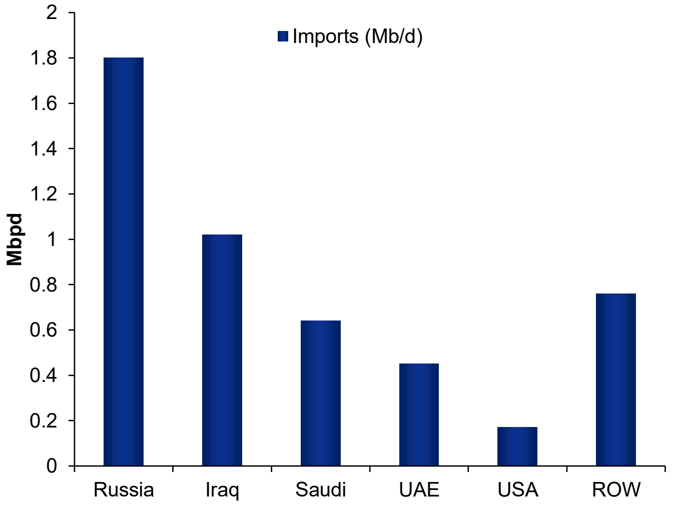
The UAE is the most suitable partner for India's barter-style trade—and notably, despite having no economic compulsion, it has agreed to such arrangements

Figure 3: Indians residing in the UAE remit around US$20bn per annum to India



SOURCE: INCRED RESEARCH, COMPANY REPORTS

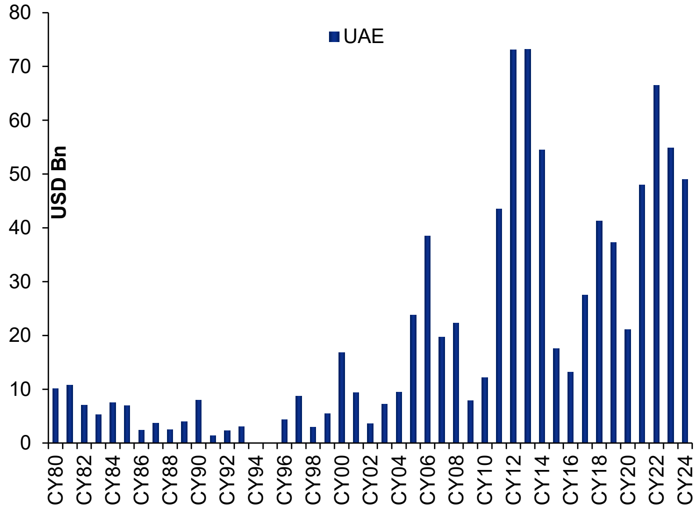
Figure 4: India purchases approximately 165m bbls of crude oil per annum from the UAE



SOURCE: INCRED RESEARCH, COMPANY REPORTS

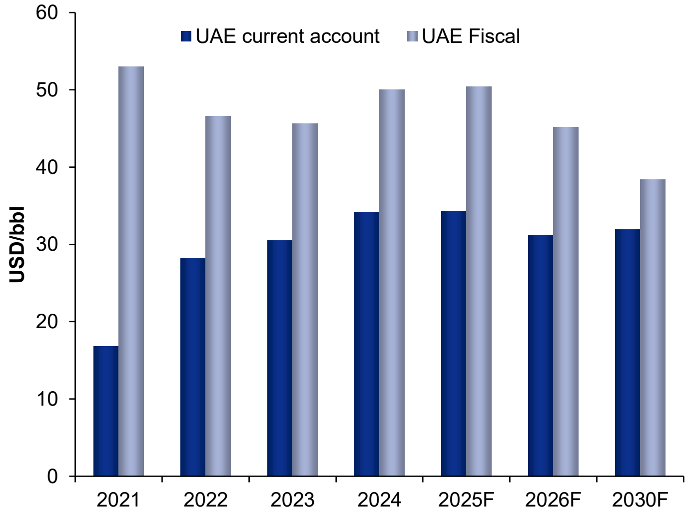
At the same time, it is important to realise that the UAE doesn't need to swap agreement with India to save its currency as it runs a big current account surplus and its currency is pegged against the USD.

Figure 5: The UAE has a big current account surplus in USD…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: …and the UAE's current account will be balanced at US$30/bbl oil



SOURCE: INCRED RESEARCH, COMPANY REPORTS

However, the UAE's agreement to a currency swap line with India—despite having no pressing economic need—reflects the strength of bilateral ties. With a large Indian diaspora, strong tourism links, and robust strategic relations, the UAE has shown willingness to support alternative trade mechanisms. While the initial swap line is modest at a US$495m, it has the potential to expand significantly over time.

The most significant pillar of the US dollar's dominance is its role in global oil trade—where settlements are overwhelmingly conducted in USD ›

A key pillar underpinning the dominance of the US dollar is its central role in global oil trade, where over 85% of crude oil transactions are estimated to be settled in USD, according to the Bank for International Settlements (2022). This practice, often referred to as the "petrodollar system," reinforces global demand for the dollar, as oil-importing countries must maintain substantial dollar reserves to finance energy purchases. The system enables the US to sustain large current account deficits, exercise significant leverage through dollar-based sanctions, and benefit from lower borrowing costs. While countries like China, Russia, and India are increasingly exploring non-dollar settlements and currency swaps in energy trade, the dollar's dominance—especially in energy markets—remains structurally embedded and difficult to displace in the short- to medium-term.

India spends ~US$160bn per annum on oil imports ›

For India—which imported over 4.6m bbls per day of crude oil in 2023, with over US$158bn spent on oil imports—this dependence has strategic implications. Any dollar appreciation directly inflates the country's import bill and worsens the current account deficit. In response, India has initiated limited bilateral arrangements for oil trade in local currencies, including a rupee-dirham swap line with the UAE and rupee payments for discounted Russian crude oil. While such efforts signal a gradual move toward de-dollarization, the global dominance of the USD in energy markets remains a structural constraint on India's financial autonomy and trade flexibility.

Chinese spend ~US$340bn on oil imports ›

China spends roughly US$330–340bn annually on oil imports, with 2023's bill around US$337.5bn, and comparable or slightly lower spending projected for 2024. The bulk of savings stem from sourcing crude oil from sanctioned suppliers, impacting China's negotiating power, energy security strategies, and global influence in energy markets.

China imported a record 563.99mmt or million metric tonnes (~11.28m bbls per day) of crude oil in 2023, representing an 11% year-on-year rise. Imports slipped by 1.9%, totalling 553.4mt (~11.04 mbpd).

China remains the **world's largest crude oil importer**, accounting for nearly **23%** of global seaborne imports in 2023–24.

In 2023–24, key suppliers were Russia (~19–20%), GCC countries, Saudi Arabia, Iraq, and Malaysia/relabelled Iranian cargoes, with Russia's share growing due to discounts under the sanctions regime.

China's oil imports are predominantly sourced from Russia and Saudi Arabia

Figure 7: Russia is the biggest exporter of oil to China and Saudi Arabia is the second

Rank	Supplier	Share of China's crude imports (2024)
1	Russia	~20% (Record high: ~2.15–2.17 bpd)
2	Saudi Arabia	~14% (~1.57 bpd)
3	Malaysia (rebranded)	~13%
4	Iraq	~10–11%
5	UAE	~8–9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

China settles Russian crude oil payments in yuan

China primarily settles its purchases of Russian crude oil in Chinese yuan (RMB), bypassing the US dollar-dominated system. This is a strategic and deliberate shift, driven by both geopolitical tensions and financial pragmatism.

Settlement mechanism for Russian crude oil to China

1. Currency of settlement: Chinese yuan (RMB)
   - Since the start of the Ukraine war and Western sanctions, most Russian crude sold to China is no longer settled in USD or euros.
   - Instead, settlement is done in RMB, particularly through:
     - Cross-border Interbank Payment System (CIPS) – China's alternative to SWIFT.
     - Offshore yuan transactions through banks in Hong Kong or Shanghai.
2. Banking channels
   - Russian banks and oil companies increasingly use Chinese banks or yuan-clearing institutions for settlement.
   - Prominent Chinese banks (like Bank of China and ICBC) facilitate these transactions through accounts opened by Russian clients.
3. Role of CNPC and Sinopec
   - Chinese state-owned oil companies like CNPC and Sinopec are major buyers.
   - They often agree to long-term contracts denominated in yuan, especially for ESPO (Eastern Siberia Pacific Ocean) crude.
4. Discounted Pricing and Trade Terms
   - Russian crude oil (especially ESPO) is sold to China at a discount to Brent, compensating for the risk and constraints of non-dollar settlement.
   - Smaller refiners in China ("teapots") also buy Russian oil, sometimes via intermediaries in Singapore, the UAE, or Malaysia, using shadow or barter-like arrangements.
5. Strategic implications
   - This weakens the petrodollar system and increases yuan internationalization.
   - It allows Russia to maintain oil exports despite Western sanctions.
   - It further deepens China-Russia energy and financial ties, creating an alternate energy trade ecosystem that sidelines Western institutions.

Russia uses the yuan (RMB) it receives from oil and other trade settlements with China in several strategic and practical ways, as it adapts to a post-dollar trade environment following Western sanctions. Here's a detailed breakdown:

1. Purchasing Chinese goods
   A. Primary use: Paying for Chinese imports—machinery, electronics, vehicles, consumer goods, industrial equipment, and more.
   B. China has become Russia's top trading partner, and yuan settlements allow for smooth two-way trade.
   C. In 2024, over 70% of trade between China and Russia was settled in local currencies, primarily yuan.
2. Reserves accumulation & diversification
   A. The Central Bank of Russia has built up yuan reserves as a part of its deliberate strategy to reduce the dependence on the US dollar and the euro.
   B. Yuan now accounts for a significant share of Russia's foreign exchange reserves (up to 30% as per latest disclosures).
   C. Russia invests yuan in Chinese government bonds and uses it as a store of value.
3. Domestic financial transactions
   A. Russian companies and banks increasingly use yuan for domestic trade financing, especially where international partners are involved.
   B. Yuan is used in letters of credit, bank guarantees, and loan repayments with Chinese lenders.
4. Settlements with third-party countries
   A. Russia is trying to use the yuan to settle trade with other countries in Asia, Africa, and the Middle East that accept RMB—especially those also under Western sanctions or a part of the BRICS+ framework.
5. Yuan-denominated bonds and loans
   A. Some Russian corporates are issuing yuan-denominated bonds (Panda Bonds) to raise capital from Chinese investors.
   B. They also borrow in RMB from Chinese banks, especially for sanctioned industries like energy, logistics, and defence-linked manufacturing.

China exports ~US$43bn of goods to Saudi Arabia

Bilateral trade trends (2023–2024)

- In **2023**, China exported goods worth approximately **US$42.9bn** to Saudi Arabia, while importing **US$64.4bn**, for a total bilateral trade of about **US$107.2bn**.
- From **Jan to Oct 2024**, Chinese exports to Saudi Arabia reached around **US$40.2bn**, compared with **US$34.9bn** during the same period in 2023.

Major export categories in 2023–24

Machinery, vehicles & electronics

- These sectors—especially machinery and vehicles—accounted for nearly half of China's exports to Saudi Arabia. Significant growth was also seen in high-tech product exports (≈19.8% YoY in Sep 2024).
- In 2023, iron and steel exports from China to Saudi Arabia totalled roughly US$2.12bn. In 2024, specific sub-categories like hot-rolled flat-rolled steel alone reached about US$2.92bn.

Apparel and textiles

- From Jan–Jul 2024, apparel exports reached US$1.2bn, covering trousers/shorts (~US$216m), dresses, T-shirts, and other garments.
- Textiles and home textiles added another ~US$288m, while fabric exports were about US$504m.

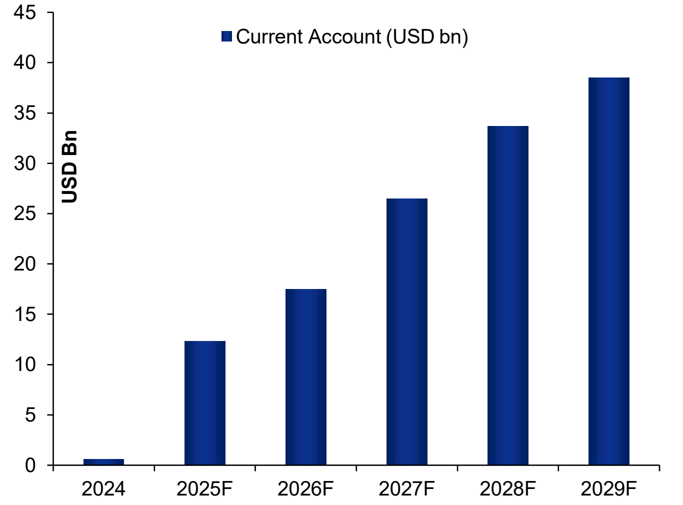
Figure 8: China is mainly exporting machinery vehicle and other commodities to Saudi Arabia

Period / Category	Export Value (US $Billion)	Notable Features
Full year 2023	~42.9	Machinery, vehicles, textiles accounted for a major share.
Jan–Oct 2024	~40.2	~15% growth over the same period in 2023.
Apparel & home textiles (1H2024)	1.2 (apparel) + 0.29 (textiles)	Led by trousers, dresses, and fabric exports.
Iron & Steel (2023–24)	2.12 (2023); 2.92 (2024 hot-rolled flat steel alone)	Strong industrial materials demand.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

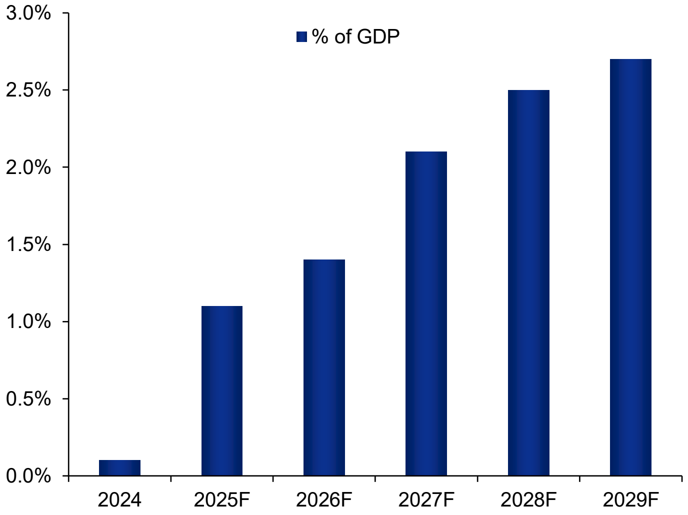
Saudi Arabia runs a big current account deficit which is bad for its pegged currency

Figure 9: The current account deficit of Saudi Arabia is rising



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: The CAD, as a % of GDP, will also rise



SOURCE: INCRED RESEARCH, COMPANY REPORTS

A currency swap agreement between China and Saudi Arabia—similar to the one China has with Russia—would solve most of their bilateral issues

A. Enable oil trade in yuan
   a. China is Saudi Arabia's largest oil customer.
   b. A swap line would allow direct settlement in RMB, reducing dependency on the USD.
   c. This would be a significant blow to the petrodollar system.

B. Allow Saudi Arabia to use RMB for Chinese imports
   a. With the yuan received from oil exports, Saudi Arabia could import electronics, infrastructure goods, vehicles, and more from China—closing the loop.
   b. Boost yuan internationalization.
   c. A major OPEC country accepting RMB in large volumes would legitimize the yuan as an energy trade currency.

C. Support Saudi Arabia's diversification (Vision 2030)
   a. Saudi Arabia could tap into Chinese financing, technology, and investments in RMB terms, without needing to convert currencies.
   b. Protect both countries from dollar-based sanctions
   c. A swap framework bypasses the SWIFT and the US banking system, insulating both economies from external coercion.

D. Why it hasn't happened yet
   a. The US pressure on Saudi Arabia has historically prevented such a move.
   b. Saudi Arabia's reserves are still heavily dollar-based—shifting away would take time.
   c. The kingdom is cautious about antagonizing Washington, despite growing alignment with China.

Trump's policies are helping the de-dollarization drive; however, no one nation can achieve it

While Trump's policies are contributing to the momentum behind de-dollarization, it is not a goal any one nation can accomplish on its own. His administration's aggressive use of sanctions, tariff wars, and weaponization of the US financial system has pushed several countries—such as China, Russia, and Iran—to seek alternatives to the dollar. These nations are increasingly exploring local currency trade settlements, currency swap agreements, and gold reserves to reduce dependence on the US dollar. However, the global dominance of the dollar is deeply entrenched in international finance, trade, and reserve systems. Without a coordinated effort among major economies—and the creation of credible and liquid alternatives to the dollar—it is unlikely that de-dollarization efforts will lead to a rapid or complete shift away from the greenback.

A multi-polar world with multiple small trading zones is needed to erode the supremacy of USD

The real threat to the US dollar doesn't come from any single currency—it comes from a fragmented, multi-polar world where multiple trading blocs transact in their own currencies as it

1. Reduces need for a single reserve currency
   - If Latin America trades in pesos or reais, Africa in rand or CFA, and Asia in yuan or rupee, the global demand for dollars declines structurally.
2. Breakdown of the petrodollar system
   - Oil trade in non-USD currencies (e.g., yuan for Russian/Saudi oil or rupees for Iranian crude) chips away at the core pillar of dollar dominance.
3. Rise of regional clearing mechanisms
   - Payment systems like CIPS (China), SPFS (Russia), or potential BRICS+ systems offer non-dollar channels to settle trade, insulating nations from US financial influence.
4. Shift from financial hegemony to strategic multipolarity
   - If military and technological power is also distributed among regional poles (India, China, EU, etc.), the strategic need to hold dollars (as a "safe haven") also erodes.
5. Currency swaps and bilateral deals multiply
   - The more countries sign bilateral currency swap agreements, the less they need dollars for intermediation.
6. The USD won't collapse—but it will decline in relevance- This won't happen overnight. The dollar will remain dominant for years due to inertia and depth of markets. But:
   - It may shift from 90%+ of global trade finance and reserves to 60–65%.
   - The "network effect" of the USD will weaken as alternatives scale up.

The end game for de-dollarization is not a yuan world—it's a decentralized world. The more local trade becomes regionalized, and the more currencies find localized trust, the less control the US can exert through its financial system.

Trump policy flip flops and repeated threats are reducing the American trust in the global financial system

President Trump's erratic policy decisions—ranging from trade war rhetoric and sudden tariff announcements on Twitter to open threats against the Federal Reserve chair—have severely eroded global trust in the US as a neutral and stable financial actor**.** His withdrawal from global institutions like the World Health Organisation or WHO and World Trade Organisation or WTO, along with arbitrary sanctions and punitive tariffs, has introduced unprecedented volatility into the international trade system.

Recent threats of imposing a 10% tariff on BRICS nations simply for proposing a new reserve currency underscore how the US is increasingly seen as weaponizing its financial dominance. The freezing of Russia's USD reserves was another watershed moment, reinforcing fears that dollar holdings are no longer politically neutral. These developments have accelerated the global push toward de-dollarization, regional trade settlements, and the creation of alternative financial infrastructures

The United States' greatest remaining advantage lies in its unmatched military strength and technological leadership ➤

These two pillars enable it to project power globally and, when necessary, impose its will on other nations—economically, diplomatically, and even coercively. While the global financial system shows early signs of fragmentation, America's hard power and control over critical technologies (semiconductors, defence systems, AI, cybersecurity) continue to anchor its global influence. For many countries, alignment with US interests remains less a choice and more a necessity, especially in regions where security guarantees or access to advanced technologies are vital.

But for how hard military power and aircraft fleet can impose US will over other nations? Technology is changing fast and not dependent on metallurgy any more ➤

While the US military power and its vast aircraft and naval fleets have long served as instruments to project American influence globally, their ability to impose political and economic will is facing new limits**.** Traditional hard power—tanks, jets, carriers—is becoming less decisive in a world shaped by asymmetric warfare, cyber capabilities, artificial intelligence or AI, and space-based technologies. Geopolitical leverage is no longer only about metallurgy and firepower; it increasingly depends on controlling data, semiconductors, communications infrastructure, and financial networks. For example, a well-timed cyberattack or satellite disruption can neutralize strategic advantages without firing a single shot. In this evolving landscape, nations like China are challenging the US dominance not just with missiles, but with tech ecosystems, payment platforms, and digital diplomacy. The power to impose one's will is no longer solely on the battlefield—it's shifting to code, chips, and algorithms.

Modern warfare is undergoing a profound transformation—one that diminishes the traditional dominance of large military platforms like stealth aircraft and aircraft carriers. Unlike the jet engines and naval vessels that require decades of trial-and-error engineering and metallurgy, new-age technologies like drones, AI-enabled targeting systems, and quantum-linked communications are rapidly scalable and relatively low-cost. A swarm of turboprop-powered drones, guided by real-time satellite intelligence and quantum-encrypted communication, can neutralize high-value assets without direct confrontation. In such scenarios, even the most advanced aircraft fleets can be rendered ineffective—unable to take off, operate safely, or assert control. As seen in India's Operation Sindoor, a precisely coordinated and technology-driven strike can paralyze air dominance without engaging in full-blown traditional warfare. The future of military deterrence lies not just in firepower, but in agility, coordination, and tech supremacy. Big ships and stealth jets may still have symbolic and strategic value—but their utility is no longer guaranteed in a fast-evolving battlefield.

Defence equipment is a great source of currency swap - new technology matters but hard equipment are still much more important

The global financial system is witnessing a gradual shift away from the US dollar's dominance, driven by strategic, political, and economic imperatives. While a full replacement of the dollar is unlikely in the near term, countries are increasingly exploring bilateral currency swap agreements and local currency settlements, especially for energy trade. India has pursued a pragmatic path, using remittance inflows from the Middle East and its strong bilateral ties to negotiate local currency deals—particularly with the UAE and Russia. India does not seek to challenge the dollar's hegemony but aims to build resilience and optionality into its trade ecosystem. China, once seen as a serious contender due to its cheap military exports and technological parity, is facing credibility issues. The poor battlefield performance of Chinese weapons in Operation Sindoor has dented trust among potential partners—especially in the Middle East, where military assurance is closely tied to energy trade partnerships. Despite ambitious efforts, China is unlikely to replace the petrodollar without matching US military and defence credibility. While smaller swap agreements may continue, convincing oil-exporting nations to shift large-scale trade into yuan remains improbable. Meanwhile, Russian and Iranian oil is increasingly being traded outside the USD system, signalling that a slow erosion—not a collapse—of dollar supremacy is underway.

Weapons are the best source of bilaterial currency swaps ➤

In the realm of geopolitics and trade, weapons remain one of the most potent enablers of bilateral currency swap agreements. Defence exports create deep, long-term dependencies between nations, fostering strategic alignment that extends well beyond mere trade. Countries purchasing weapons are often locked into maintenance, training, and parts supply agreements—all of which can be structured outside the US dollar framework. Military sales create leverage: they provide exporting nations with the ability to tie broader economic relationships—like oil, commodities, or infrastructure projects—into a controlled, bilateral framework. In contrast to volatile commodity prices or fragile consumer goods demand, weapons offer stable, strategic trade flow that nations are less likely to disrupt, making them ideal for anchoring alternative currency arrangements. Russia and India, as well as Russia and China, have successfully used arms deals as a foundation for local currency trade, reducing exposure to Western sanctions and SWIFT-based settlement systems.

Chinese propaganda machinery was singing hymns about its weapons ➤

Figure 11: The broader themes on which Chinese weapon superiority propaganda videos were categorized are given below

Title / Theme	Focus	Key Elements
China–US warning video	PLA drills & aircraft	Airpower, training exercises.
Army Day weapons showcase	Patriotism + military tech	Weapons display, music, patriotic tone.
Mythic “Vanquishing Evil” spot	Animated Taiwan strike	Mythical motifs, missile targeting.
H-6K bomber film	Aerial threat portrayal	Cinematic style, Guam strike scenario.
Robot-dog weapons display	Cutting-edge robotics	Armed robots, urban combat simulation.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

However, Chinese weapons have not been tested in a full-scale war ➤

Chinese weapons have not yet been tested in a full-scale war. The closest instance was during Operation Sindoor, which demonstrated a degree of preparedness in soft capabilities—such as data integration and real-time video feeds shared with Pakistani generals. However, their hardware underperformed significantly when faced with the intensity of the Indian assault. The failure of key systems—including radars, drones, air defence units, and the much-vaunted PL-15 missiles—has raised serious concerns about the reliability and combat readiness of Chinese military equipment.

Indian air defence systems emerged victorious against all aerial assaults by Chinese weapons

Chinese weaponry has yet to be tested in a full-scale war, and its first major encounter with high-intensity conflict during *Operation Sindoor* revealed significant shortcomings. While China demonstrated moderate success in soft warfare capabilities—such as data fusion, battlefield surveillance, and live video feed integration with allied command centres—their hard power assets crumbled under pressure. In stark contrast, India's air defence architecture not only held firm but decisively neutralized all incoming aerial threats.

At the heart of India's success was its multi-layered air defence network, combining foreign acquisitions with indigenous innovation. The Akash missile system, developed by the Defence Research and Development Organisation or DRDO, provided medium-range protection against low-flying aircraft and cruise missiles. Barak-8 (LR-SAM), a joint Indo-Israeli platform, offered extended coverage against a wider array of threats, including UAVs, helicopters, and precision-guided munitions. The recent induction of the Russian S-400 Triumf, a long-range surface-to-air missile system capable of tracking and engaging targets up to 400km away, added further strategic depth and deterrence.

Indian radar and command-and-control systems demonstrated high interoperability, effectively detecting and categorizing incoming aerial threats—often of Chinese origin—and coordinating real-time interception missions. The integrated air command network ensured seamless communication between ground-based missile batteries, airborne early warning systems (like the Netra and Phalcon AWACS), and fighter squadrons.

In contrast, the Chinese systems deployed or field-tested in the region—such as drones, radars, and even the highly publicized PL-15 air-to-air missiles—failed to perform as expected. Many UAVs lost connectivity or were intercepted mid-air, while missile guidance systems struggled with electronic countermeasures deployed by Indian forces. Chinese radar systems also suffered from jamming and spoofing, revealing their vulnerability in a contested electromagnetic environment.

These shortcomings raised significant concerns about the combat reliability of Chinese defence exports, especially among countries that have relied heavily on them for budget military modernization. Meanwhile, India's performance not only boosted domestic confidence but also demonstrated to observers and partners—including ASEAN states, the Middle East, and Africa—that India's air defence ecosystem is battle-proven and strategically reliable.

In summary, *Operation Sindoor* marked a pivotal moment. India's integrated air defense triad—comprising indigenous, joint-developed, and imported systems—performed with exceptional efficiency, decisively outclassing Chinese aerial assault capabilities. The outcome reinforced India's strategic doctrine that technological preparedness, layered defence, and real-world combat integration are essential pillars for modern military deterrence.

Figure 12: India reportedly found six unexploded PL-15 missiles; remember, a BVR missile is programmed to explode if it doesn't hit its target; falling nearly intact is inexplicable and a disaster for the secret technology of China

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The most spectacular failure was that of the Chinese-supplied air defence systems deployed by Pakistan

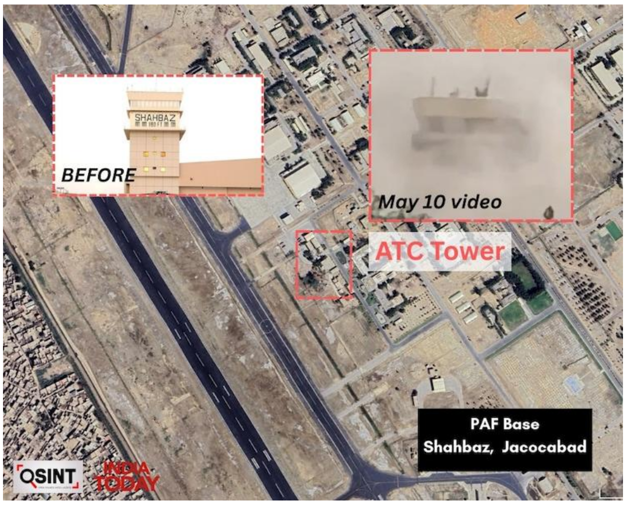
The most spectacular failure, however, was that of the Chinese air defense systems themselves. Despite years of propaganda touting systems like the HQ-9 and HQ-16 as equivalents to the US Patriot or the Russian S-300, they failed to offer meaningful resistance against India's coordinated air operations during *Operation Sindoor*. Not only were Indian fighter aircraft able to operate with relative freedom in contested airspace, but precision strikes were also successfully carried out without interception—an indictment of the situational awareness, radar reliability, and missile accuracy of Chinese systems.

Indian SEAD (Suppression of Enemy Air Defences) missions effectively blinded Chinese radar units, using both kinetic and electronic warfare methods. Multiple Chinese radar and SAM installations were either decoyed, jammed, or destroyed. In particular, the performance of the HQ-series systems exposed deep vulnerabilities: poor radar-tracking under electronic interference, slow response time, and limited multi-target engagement capacity. Please see the spectacular failure images in form of attack on air bases after 72 hours into the war.

Figure 13: Bholari was hit with impunity and probably a few planes were destroyed in the hangar…

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: …and the same was the case with Jacobabad



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: A whole hangar was destroyed in Sukkur airfield

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Sargodha, some 200km away from the border, was also hit

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: At Noor Khan, India likely decapitated an entire C4I (Command, Control, Communications, Computers, and Intelligence) command centre; this underground bunker was hit with such precision that, according to a Pakistani minister, it was initially mistaken for a tactical nuclear strike

SOURCE: INCRED RESEARCH, COMPANY REPORTS

While the performance of Chinese aircraft remains unclear, in modern warfare, the effectiveness of individual platforms is secondary to overall network-centric capability — and it is precisely in this domain that they failed

While the performance of Chinese aircraft remains largely unclear—owing to limited engagement or evasive tactics—modern warfare no longer hinges solely on the prowess of individual platforms. Instead, it is dominated by network-centric operations, where real-time integration of sensors, shooters, command systems, and data flows determines success.

And it is precisely in this domain that Chinese forces suffered a decisive setback during *Operation Sindoor*. Despite claims of having a sophisticated battlefield network, Chinese systems struggled to maintain a unified situational picture. Their sensor-to-shooter loop was sluggish, fragmented, and easily disrupted by Indian electronic warfare capabilities.

Live video feeds and shared intelligence with allied command centres may have looked impressive on paper, but they failed to translate into battlefield effectiveness. The inability to synchronize air defence systems, early warning radars, UAVs, and missile platforms into a cohesive response exposed the fundamental weakness of China's "system of systems" approach.

In contrast, India's relatively lean but well-integrated network—spanning air, ground, and space assets—enabled real-time decision-making, accurate threat assessment, and coordinated retaliation. Indian air defence and strike units were able to act faster than the Chinese could respond, highlighting a clear asymmetry in digital combat readiness.

Ultimately, the failure wasn't about one aircraft, one missile, or one radar. It was about the inability of the Chinese military to operate as a single, integrated warfighting entity—a critical requirement in 21st-century high-intensity warfare.

These pictures are for world to see and it casts serious doubt over the Chinese equipment capability

The images and footage from Operation Sindoor are now available for the world to see, and they cast serious doubt over the reliability and effectiveness of Chinese military equipment. What was intended to be a demonstration of strength has, instead, exposed glaring weaknesses—especially in air defence, drone survivability, radar integrity, and overall systems integration.

For countries that have either procured or are considering Chinese platforms, this visual evidence is a stark reminder that battlefield performance cannot be replaced by promotional videos or staged exercises. The gap between China's advertised capabilities and its actual wartime performance has now been laid bare for global defence analysts, policymakers, and procurement agencies alike.

In this scenario, Saudi Arabia or the UAE will never dream of leaving the American hand for next many decades

In this scenario, countries like Saudi Arabia or the UAE would never consider severing ties with the US—at least not for several decades. For these nations, defence is not just about equipment—it is about reliability, combat-proven performance, integrated support, and strategic deterrence.

The failures witnessed in Chinese systems during Operation Sindoor serve as a stark contrast to the consistent performance of American platforms in actual combat zones—from the Gulf War to Syria and Ukraine. For Gulf states surrounded by geopolitical volatility and regional threats, the margin for error is razor thin. No leadership in Riyadh or Abu Dhabi would risk national security by shifting away from the American defence umbrella toward unproven alternatives.

Beyond equipment, US military support offers layered benefits—satellite intelligence, joint exercises, rapid logistical response, and a deep-rooted presence in the region. In comparison, China's offerings remain transactional and lack the strategic trust built over decades of cooperation with Western partners.

Simply put, the Gulf states can't afford to experiment when deterrence is existential. The events of Operation Sindoor only reinforce their strategic dependence on the US for the foreseeable future.

In this scenario, pricing crude oil in RMB and taking on the American wrath is impossible for Gulf nations- although it will make a huge economic sense ➤

Despite compelling economic logic, pricing Gulf oil exports in Chinese yuan remains a geopolitical non-starter. While accepting RMB could help nations like Saudi Arabia and the UAE diversify reserves, reduce dollar dependency, and align with their largest oil buyer (China), the move is constrained by one immovable reality: the US is their ultimate security guarantor.

1. For Saudi Arabia, RMB oil pricing could theoretically eliminate its current account deficit (CAD) in USD terms, keeping imported inflation low and offering strategic financial diversification.
2. Yet, economic rationale is no match for geopolitical leverage. The Gulf's military survival and regime stability are deeply entangled with US defence infrastructure, intelligence cooperation, and arms supply chains.
3. Any effort to dethrone the petrodollar will be viewed in Washington not as financial pragmatism, but as strategic betrayal—with real consequences: sanctions, weapons embargoes, or diplomatic retaliation.

The problem is compounded by China's credibility gap in defence. Events like Operation Sindoor have exposed the underperformance of Chinese military hardware, eroding any incentive for Gulf states to shift allegiance toward Beijing. Without a viable security replacement for the US, **China cannot offer what the Gulf regimes value most: regime insurance.**

Not very long ago, Saudi Arabia was flirting with the idea of pricing crude oil in yuan; however, that's history now ➤

Not long ago, Saudi Arabia floated the idea of accepting RMB for oil exports to China, its largest energy customer. The move sparked global speculation about a potential crack in the petrodollar system and raised hopes in Beijing of a deeper financial alignment. However, this was more diplomatic leverage than genuine intent. The messaging coincided with:

- Growing Saudi frustration over perceived US disengagement from the Middle East,
- Increased Chinese investment in Saudi infrastructure and energy supply chains, and
- Riyadh's interest in diversifying economic and strategic partners under Vision 2030.

While the idea of partial RMB pricing may have been explored—possibly in limited bilateral contracts—it never translated into a shift in official policy. The geopolitical cost of abandoning the dollar remains too high, given:

- The US military umbrella that safeguards Saudi Arabia's sovereignty,
- Deep financial ties to US institutions and global markets, and
- The unreliability of Chinese security guarantees, especially after the exposure of Chinese defence vulnerabilities in events like Operation Sindoor.

Saudi Arabia's RMB flirtation was a negotiating tactic—not a pivot. Until China can match US military backing and financial dominance, the petrodollar remains secure.

So what is the solution for dollar domination - islands of currency swaps

Countries like China, India, Russia, Iran, Brazil, and many others are building bilateral or regional currency swap agreements to bypass the dollar in specific trade relationships. These include:

- INR-rouble trade for energy.
- RMB-riyal discussions with Saudi Arabia.
- CNY-RUB growing settlement between China and Russia.
- Barter-like arrangements with Iran or Venezuela.

These are useful tactical tools, especially under sanctions pressure. They help:

- Reduce immediate reliance on the dollar.
- Bypass Western-dominated financial systems (e.g., SWIFT).
- Build monetary sovereignty.

However, these are fragmented, non-scalable, and often limited to specific goods (mainly energy or defence).

Gold prices are poised to reach unprecedented highs

In recent years, several seminal events have occurred that position gold as the central banks' favoured reserve asset. The first and foremost was the freezing of Russian USD assets by the EU and the US, highlighting the vulnerability of fiat reserves. The second is the decline of the yuan as a viable alternative reserve currency due to China's increasingly unpredictable policy environment. Lastly, and perhaps most importantly, US President-elect Donald Trump's warning that any move away from the dollar would be perceived as an attack on the currency. He cautioned that such countries could face 100% import tariff in the US. At the same time, traditional demand for gold remains robust, which is likely to push its prices into uncharted territory. Don't be surprised if gold touches US$5,000 per ounce in the near future.

Central banks are set to become the biggest demand drivers for gold ➤

Developing and BRICS nations' central banks are expected to be the biggest demand drivers for gold in the coming months and years. While we shouldn't expect a floodgate-like buying spree from central banks, as the Indian and Chinese economies continue to grow, their central banks are likely to steadily increase gold as a percentage of their USD reserves.

The Russia-Ukraine war has re-emphasized the need for diversification of central bank reserves for third-world countries ➤

Western countries, including the US, EU and their allies, following Russia's invasion of Ukraine in Feb 2022, froze Russia's USD assets kept in their financial institutions. These measures aim to restrict Russia's ability to access its substantial foreign currency reserves held in institutions outside its borders, particularly USD and EUR assets.

1. **Scale of freezing**:
   i. Russia had over US$640bn in foreign reserves at the start of 2022.
   ii. Approximately US$300bn of these reserves, held in Western financial institutions or denominated in Western currencies, were frozen by sanctions.
2. **Purpose**:
   i. To cripple Russia's ability to finance its war in Ukraine.
   ii. To destabilize the Russian economy by limiting access to foreign currency for trade and debt payments.
3. **Mechanism**:
   i. Western central banks froze assets held in their systems.
   ii. Restrictions were placed on financial institutions, thereby preventing any transactions involving Russian reserves.
   iii. Prohibitions were applied to purchasing Russian gold or other alternative reserve assets.
4. **Impact on Russia**:
   i. Forced Russia to rely on reserves held in gold and Chinese yuan.
   ii. Increased the use of alternative currencies like the Chinese yuan and barter trade mechanism.
   iii. Accelerated de-dollarization efforts within Russia and among its trading partners.
5. **Global financial implications**:
   i. Raised concerns about the safety of sovereign reserves held in Western financial systems.
   ii. Led other countries, particularly in the Global South, to explore alternatives to the dollar-dominated financial system.

iii. Bolstered the role of gold and other currencies, including the yuan, in global reserves.

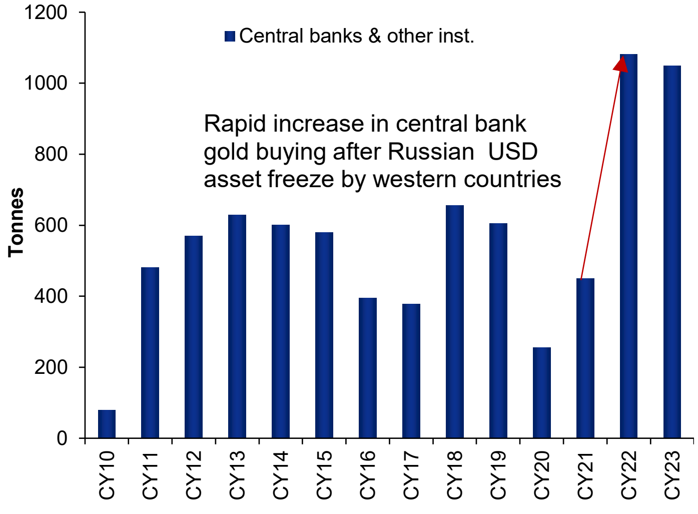
As a result, there has been a shift in global reserves management:

I. Countries like China, India, and Gulf nations are diversifying their reserves to reduce dependence on the USD and the EUR.

II. Increased interest in alternative systems, including central bank digital currencies (CBDCs).

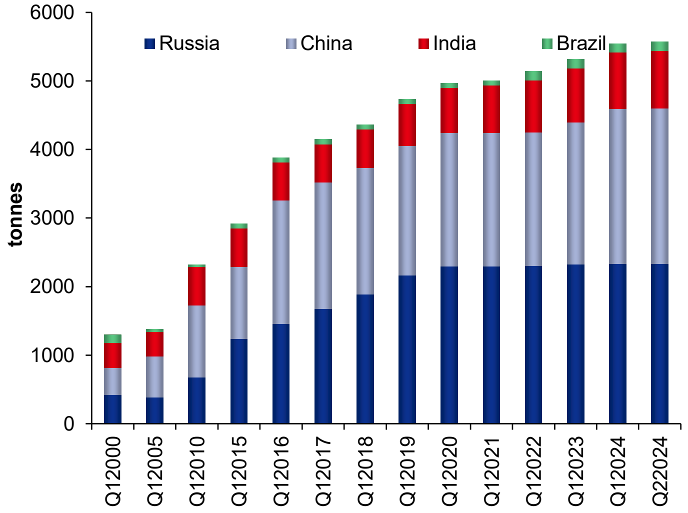
Gold buying by central banks of BRICS nations has gained significant momentum over the last couple of years

Figure 18: Central banks and financial institutions significantly increased their gold purchases following the freezing of Russian USD reserves by Western countries



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Figure 19: BRICS nations' gold reserves have increased exponentially during the last two decades

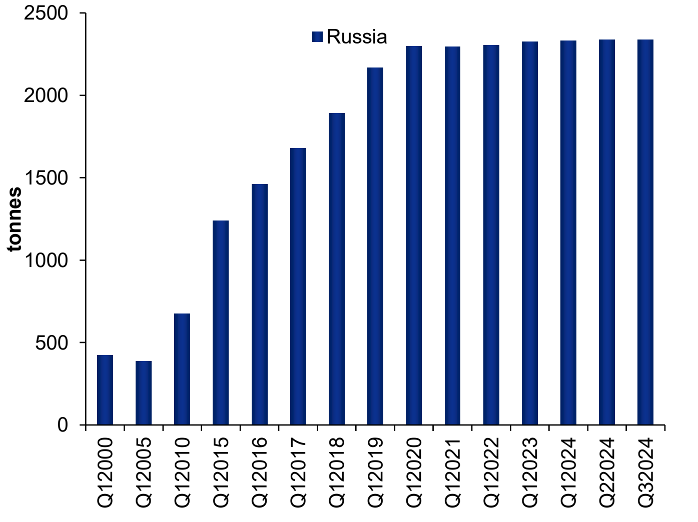


SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Russia was the first country to significantly diversify its central bank reserves into gold

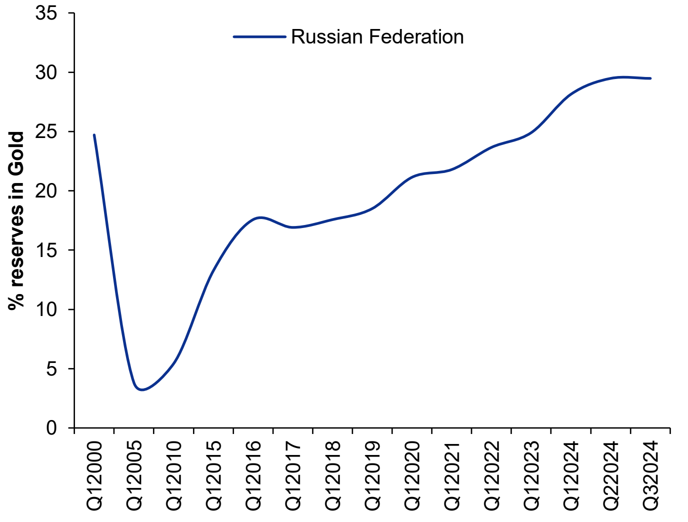
It appears that Russia foresaw the freezing of its USD assets by Western countries. The evidence for this lies in the fact that it stopped purchasing significant amounts of gold as far back as 1Q2020, two years before its invasion of Ukraine.

Figure 20: It appears that Russian President Vladimir Putin was planning the invasion since several years ago and expected the freezing of the country's USD assets by Western countries



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

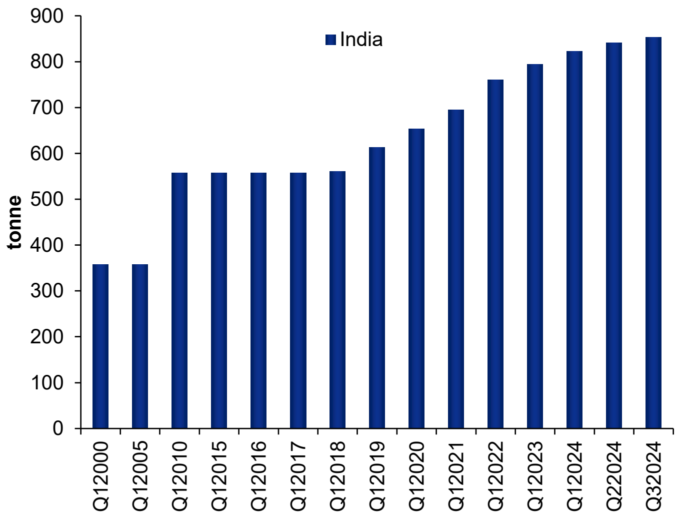
Figure 21: Russian central bank's gold reserves, as a percentage of overall reserves, peaked in 1Q2020 i.e. two years before its Ukraine invasion



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

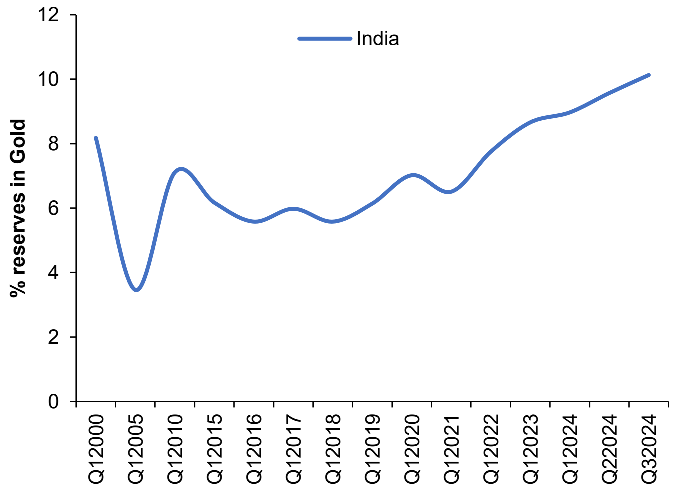
India's central bank has started buying gold aggressively following the freezing of Russia's USD assets by Western countries

Figure 22: It appears that the Indian central bank is always a big believer in gold; however, the intensity of its purchases increased from 2019



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Figure 23: The Indian central bank's gold assets, as a percentage of its total reserves, have been continuously rising; given India's advocacy for a multi-polar world, its gold reserves are likely to increase further

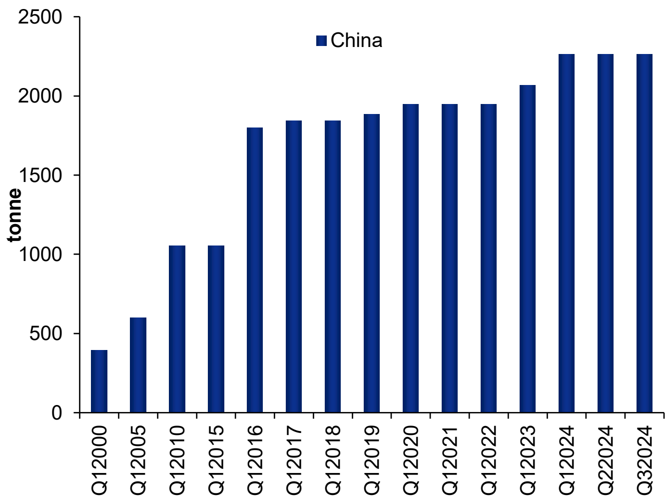


SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

The Chinese central bank currently holds the lowest percentage of gold in its reserves; if China's professed strategic objectives are real, it is expected to buy gold aggressively in the coming years

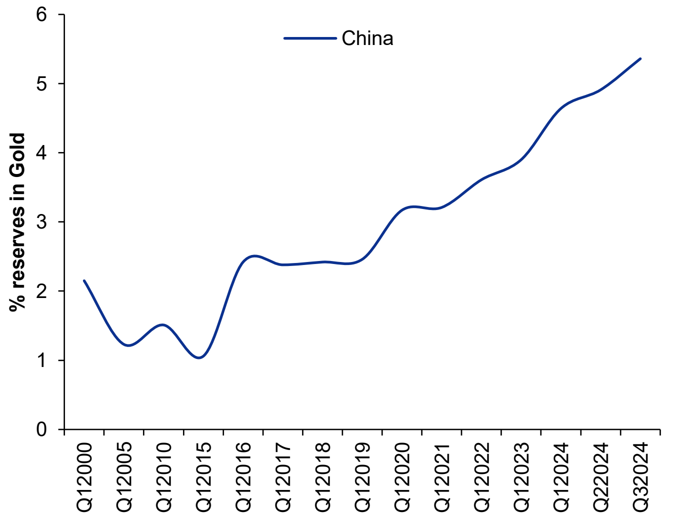
China has stated its intention to merge Taiwan with the mainland and is willing to go to any extent to achieve this, including the possibility of a war. If China invades Taiwan, it can expect the same treatment from the West that Russia received. Therefore, to maintain its position and preserve leverage, China needs to aggressively buy gold.

Figure 24: China's gold reserves are 3x that of India



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

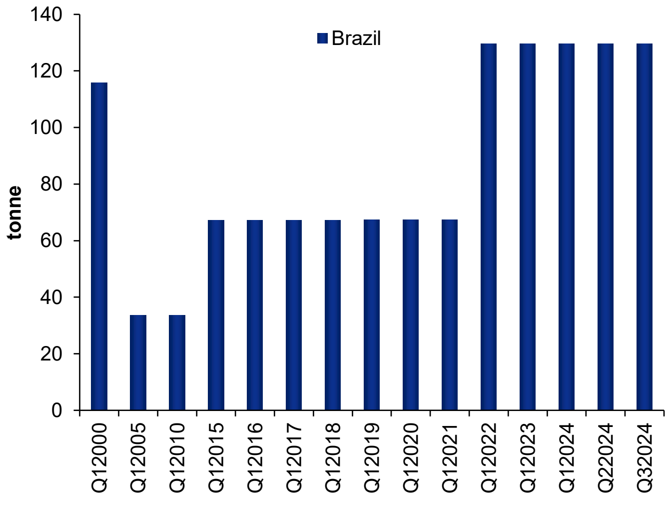
Figure 25: However, gold constitutes just 5.4% of China's central bank reserves; if China intends to be seen as willing to take aggressive action against Taiwan, this percentage needs to keep rising



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

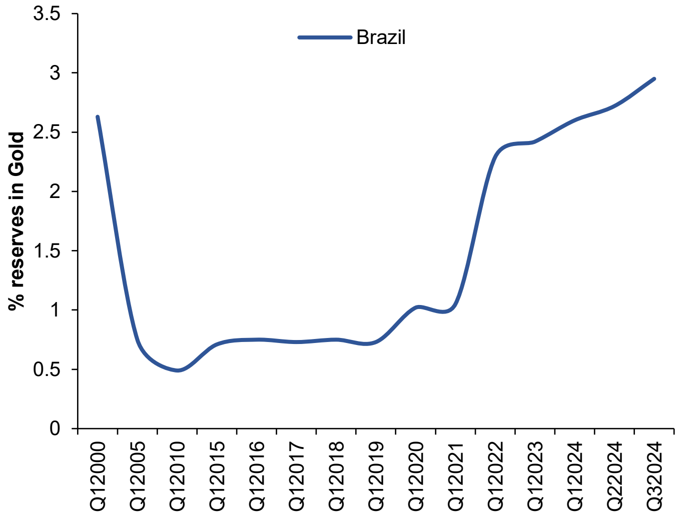
Brazil may not buy gold aggressively as it has no such strategic objective

Figure 26: Brazil's gold reserves are stagnant (in tonne or t)



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Figure 27: Depleting USD reserves are leading to increasing gold as a percentage of central bank reserves



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

US President Donald Trump's latest threat to BRICS nations provides further impetus for gold buying

Figure 28: US President Donald Trump's open threat to BRICS nations will provide a further impetus for India and China to increase their gold purchases

SOURCE: INCRED RESEARCH, TWITTER

If China were to diversify its central bank reserves to the same level as India's (~10% of overall reserves), gold prices could very well touch US$5,000 per ounce

China's overall central bank assets amount to US$3.4tr. If it were to diversify 10% of its reserves into gold, the country needs to purchase gold worth US$160bn. At current prices, this translates to approximately 1,860t of gold—nearly 40% of the total annual global production. Even if this buying is spread over four-to-six years, it would increase annual gold demand by 7-8%, potentially driving gold prices to unprecedented levels.

It's worth noting that unlike the early 2000s, when the Bank of England was a significant seller of gold (offloading around 300t over five years, keeping prices tied to US$300/oz and eventually causing a crash), sustained Chinese and Indian buying is likely to result in a continuous rise in gold prices.

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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.