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Reserves Without Treasuries

The Recycling Multiple, the Hamilton Contradiction, and the Revaluation Route

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Abstract

This paper completes a trilogy. Paper 2026–01 documented the privatization of the dollar's *medium-of-exchange* function — money creation re-routed through statutory stablecoin demand and deregulated banks, leaving the Federal Reserve's chart flat by design. Paper 2026–02 documented the withdrawal of the traditional buyers of Treasuries and the stalling of their designated replacements. This paper asks the remaining question: what absorbs the *store-of-value* function that Treasuries are shedding? The answer is already measured — gold surpassed Treasuries as a share of global official reserves at end-2025, the first crossover of the post–Bretton Woods era — and we formalize the arithmetic that governs how far it can run. The Recycling Multiple, computed from China's verified record $1.19 trillion trade surplus and its physical gold imports, shows current prices embed roughly an 11% rotation of surplus recycling from Treasuries to gold; each additional ten points of rotation implies roughly $3,800 per ounce at fixed quantities. We locate the political engine of the rotation in the Hamilton Contradiction — the Treasury Secretary's simultaneous commitments to balanced trade and to dollar primacy, which Triffin's dilemma renders incompatible — and identify the historically standard resolution: a revaluation that lets the dollar keep the payments function while gold absorbs the reserve function. A single ledger entry connects all three papers: the Federal Reserve's gold certificate account, still carried at $42.22 per ounce, whose mark-to-market is the largest balance-sheet repair available to the U.S. government that no one has to call printing. Falsifiable markers close the paper, as they closed the first two — one of which fired within four days.

Keywords: gold; reserve composition; Triffin dilemma; trade surplus recycling; revaluation; central banks; de-dollarization; Recycling Multiple.

JEL codes: E42, E58, F31, F33, N10, Q31.

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The vault was on the stage all along.

Cover illustration: AI-generated for CryptoSoWhat.

1. Introduction: The Third Panel

The first paper in this series argued that the famous chart — the Federal Reserve's balance sheet — had become a decoy: money creation had been re-architected to run through deputized private balance sheets, with an uncapped repo backstop pre-positioned for the day the arrangement fails. The second paper documented the week the audience began leaving the theater: Japan repatriating, Britain's largest banks withdrawing fund-finance credit four days after this series named that marker in print, and — the deepest datum of the year — **gold surpassing U.S. Treasuries as a share of global official reserves for the first time in the post–Bretton Woods era: 27% against 22%.**[1]

Those two papers described functions leaving the Treasury complex: the payments function migrating to statutory stablecoins, the marginal bid migrating to a contingent central bank. This paper is about where the third function — the store of value, the thing reserves are actually *for* — is going. The crossover says it is already going to gold. What remains is to establish three things with the discipline this series requires: the *arithmetic* that governs how far the rotation can run (§5), the *political engine* that is accelerating it from the American side, of all places (§3), and the *route* by which the adjustment historically completes (§7) — including the one balance-sheet entry that connects this paper's thesis to the first paper's, sitting in plain sight on the Fed's books at $42.22 an ounce.

Every number below is verified against primary or named sources; the one load-bearing estimate that is an inference rather than a fact is labeled as such. The method is the series' method: assembly of public evidence, formalization, falsifiable markers.

[1] ECB estimate via State Street Monthly Gold Monitor (July 2026); Working Paper 2026–02, §4.

At the Dinner Table

Imagine a town where everyone keeps their savings in IOUs from the biggest shop, because the shop's paper was always good and everyone needed it to buy things anyway. Over fifty years, that was the world's arrangement with America. Now three things are happening at once: the town has invented a new way to make payments that only *uses* the shop's paper for small change (paper one); the biggest savers have quietly stopped adding the IOUs to their vaults (paper two); and — this paper — they have started filling those vaults with gold instead, so steadily that for the first time ever, the vaults hold more gold than shop paper. The question is no longer whether the switch is happening. It is what price gold must reach for the switch to complete — and whether the shopkeeper, who owns a very large pile of gold himself, booked at 1973 prices, might one day find it convenient to agree.

2. A Plain-Language Toolkit

Plain-Language Toolkit

The three functions of reserve money. Medium of exchange (what trade settles in), unit of account (what things are priced in), store of value (what surpluses are saved in). They can separate — and this series argues they are separating now.

Triffin dilemma. To supply the world with reserve dollars, America must run deficits; running deficits eventually undermines confidence in the dollar. Reserve status and balanced trade are arithmetically incompatible.

Surplus recycling. What an exporting nation does with the foreign currency it earns. For fifty years the default was U.S. Treasuries. Recycling is the reserve system's plumbing.

Recycling Multiple (RM). This paper's gauge: a nation's recyclable surplus divided by the market value of the gold it physically imports. It measures how much the gold price must move if recycling rotates from bonds to bullion.

Rotation fraction (φ). The share of a surplus actually recycled into gold. The market-implied φ can be read directly off the current price.

Revaluation. An official change in the price at which a government values gold. America did it in 1934 (\$20.67 $\rightarrow$ \$35); the market did it for the government in 1971–1980 (\$35 $\rightarrow$ \$850).

Gold certificate account. The Federal Reserve holds certificates against the Treasury's 261.5 million ounces, carried by statute at *\$42.2222 per ounce* — a 1973 price, still on the books.

Nonmonetary gold exports. Physical gold leaving a country through trade channels — the flow that reveals where the metal actually goes.

3. The Hamilton Contradiction

On 23 June 2026, Treasury Secretary Scott Bessent published *Hamilton Inspires Trump's Economic Statecraft* in the Wall Street Journal, anchored on Hamilton's dictum that every nation "ought to endeavor to possess within itself all the essentials of national supply," and elaborated in his Economic Club of New York address into five principles of economic statecraft.[2] Two of the five matter here, because they cannot both be fully true. **Principle one:** economic security begins with *national capacity* — rebuild domestic production, shrink strategic dependence, which in the aggregate means moving toward balanced trade. **Principle four:** dollar leadership is a central instrument of statecraft, to be *actively maintained*.

Triffin's dilemma, stated formally: the world's stock of dollar reserves grows only if dollars leave America faster than they return —

$$\Delta\text{Reserves}^{\$}_{world} \;\approx\; -\,\text{CA}^{US}_{t}, \tag{1}$$

the mirror of the U.S. current account. A Hamiltonian program that succeeds — capacity rebuilt, deficits closed — sets the right side toward zero and *stops exporting the reserve asset*. The world's savers must then either stop saving (they will not), or save in something else. The op-ed does not say the dollar's reserve role must change; that inference belongs to analysts — most prominently Luke Gromen's FFTT, whose 7 July report drew exactly this conclusion — and this paper labels it what it is: an inference, but one with two centuries of arithmetic behind it.[3] What resolves the contradiction, historically, is the subject of §7. What is already resolving it, empirically, is the subject of the next two sections.

4. The 2009 Blueprint, Seventeen Years On

In March 2009, People's Bank of China Governor Zhou Xiaochuan published *Reform the International Monetary System* (BIS Review 41/2009), stating the "desirable goal" plainly: *an international reserve currency disconnected from individual nations*, invoking Keynes's Bancor and the SDR as precedents.[4] Seventeen years later, read China's conduct as the slow execution of that memo. The People's Bank has added gold for **twenty consecutive months** through June 2026, and the June purchase — 14.9 tonnes, the largest since October 2023 — was made with gold *26% below* its January high and beneath its 200-day moving average.[5] That is not momentum buying; it is program buying. Around it, the official sector's year-to-date ledger (World Gold Council, to 30 June): Poland +64t marching toward a 700t target, Uzbekistan +33t, Kazakhstan +20t — while Turkey (−81t) and Russia (−34t) sell, *forced* to monetize reserves defending currencies through the energy crisis. Distressed sovereigns are supplying the very asset strategic sovereigns accumulate: the same who-sells-to-whom structure this series documented in Bitcoin's long-term-holder data, now visible at the level of nations.

[2] Bessent, WSJ (23 June 2026); U.S. Treasury, "American Economic Statecraft in the 21st Century," Economic Club of New York (June 2026).

[3] FFTT Full Report (7 July 2026). The distinction matters: principle four is stated policy; the incompatibility is Triffin's, not Bessent's.

[4] Zhou Xiaochuan, BIS Review 41/2009. The Bancor: Keynes's 1940s proposal for a supranational settlement unit, designed to prevent the imbalances Triffin later formalized.

[5] PBoC/SAFE via Bloomberg, Reuters, World Gold Council (July 2026). Total reported holdings: ∼2,346t — widely regarded as a floor.

The stock result is the crossover of §1. The flow confirmation is physical: U.S. *nonmonetary gold exports* have spiked to record levels in the BEA trade data — the trade-channel counterpart of the custody migration documented in Paper 2 (Federal Reserve custodial gold roughly halved since 1971; France's 129 tonnes sold in New York and repurchased in Paris; 68% of central banks now vaulting domestically, up from 50% in 2020). The metal is not merely being bought. It is being *moved home* — the 2022 reserve-freeze lesson, absorbed by every reserve manager at once.

5. The Recycling Multiple

Now the arithmetic. China's 2025 trade surplus: **$1.19 trillion**, a verified record — customs data released 14 January 2026, up 20% from 2024's $992B.[6] China's physical gold imports: approximately 975 tonnes (≈31.35 million troy ounces), per World Gold Council import estimates adjusted for Hong Kong re-exports. Define the **Recycling Multiple**:

$$RM \;=\; \frac{S}{Q \cdot P} \;=\; \frac{\$1.189\text{T}}{31.35\text{M oz} \times \$4{,}150} \;\approx\; 9.1\times, \tag{2}$$

the ratio of the recyclable surplus to the market value of the gold that currently absorbs it. Inverting: if a fraction φ of the surplus is recycled into gold at fixed physical quantity, the implied clearing price is

$$P^*(\varphi) \;=\; \frac{\varphi\, S}{Q}, \qquad P^*(1) \approx \$37{,}900, \quad \varphi_{\text{implied}} = \frac{P_{\text{spot}}}{P^*(1)} \approx 11\%. \tag{3}$$

Equation (3) is the paper's most useful sentence in symbols: **the current gold price already embeds roughly an eleven percent rotation** of China's surplus recycling, and every additional ten percentage points of rotation implies roughly $3,800 per ounce at fixed quantities (Figure 1).

Three objections must be stated as loudly as the number, because they are what separates a gauge from a slogan. **First**, no nation rotates its entire surplus into one asset: China also buys commodities, Belt-and-Road claims, and retains transaction dollars — $\varphi = 1$ is a boundary, not a base case. **Second**, supply is price-elastic: at multiples of spot, Western ETF dishoarding, scrap, and mine expansion enlarge Q, dampening P^* — the 2024–25 East–West metal flows demonstrated the elasticity in both directions. **Third**, the identity carries no clock: it can resolve over fifteen years of drift, in one policy weekend, or asymptotically never. The Recycling Multiple is therefore *not a price target*. It is a **potential-energy gauge** — the same instrument family as the absorption identity of Paper 2 — and its message is directional and dimensional: the rotation is real (the crossover proves the direction), and the adjustment variable is price, denominated in *multiples rather than percentages*. Between eleven percent and any larger φ lies the entire thesis.

6. The Conviction Test the Drawdown Provided

A rotation thesis is cheap when the asset rises. The first half of 2026 supplied the expensive test: gold fell roughly 26% from its January high near $5,589, broke its 200-day moving average, and

[6] China General Administration of Customs via Bloomberg, CNN, NPR (14 January 2026). Exports $3.77T; imports $2.58T.

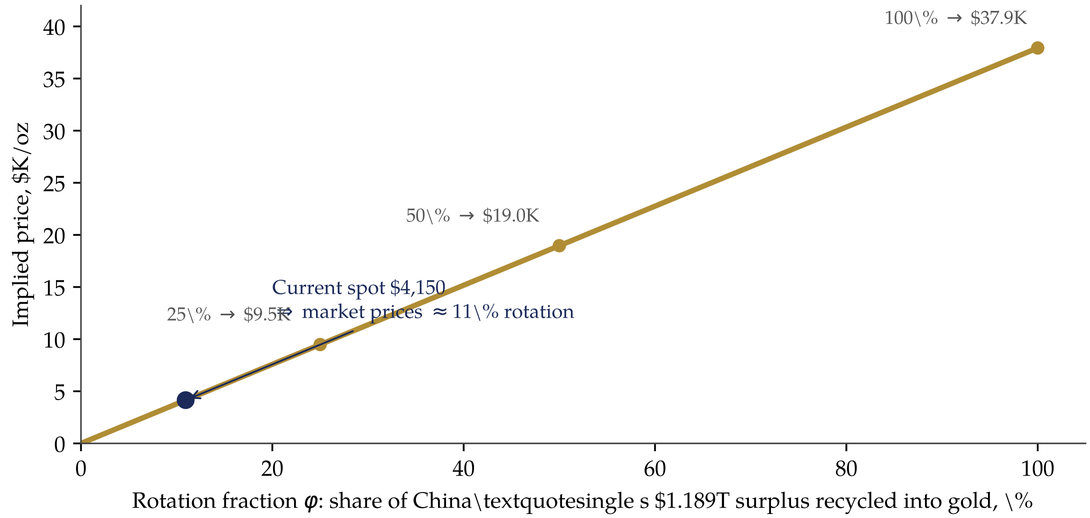

Figure 1: The rotation ladder: implied gold price as a function of the fraction φ of China's verified $1.189T surplus recycled into physical gold at current import quantities (Eq. 3). Computed from verified constants; no interpolation.

traded to eight-month lows — driven partly by the *forced* sovereign sellers of §4 monetizing reserves through the energy crisis. Through that drawdown: the People's Bank made its largest purchase of the year; official net purchases ran +41 tonnes in May; the repatriation flows continued. Price corrected; the structure did not blink. For this series' framework the episode settled how to score the asset going forward — **price and structure separately** — and it supplied the behavioral template for any investor persuaded by §5: the entities with the longest horizon and the best information about their own intentions accumulate on a program, into weakness, without leverage, and never chase. The final section's positioning module is that sentence turned into rules.

7. The Revaluation Route — and the Entry That Closes the Trilogy

How do rotations like this historically complete? Not smoothly. In 1934, the Gold Reserve Act revalued gold from $20.67 to $35 — a 69% devaluation of the dollar against the reserve asset, executed by statute in a weekend, with the revaluation gain booked to the Treasury. In 1971–1980, the market performed the revaluation the government declined to formalize: $35 to $850. In both cases the dollar *kept its payments function* while gold absorbed the store-of-value adjustment. That precedent is the synthesis of this trilogy: **the GENIUS architecture extends the dollar as the world's transaction medium (Paper 1); the traditional reserve bid dissolves (Paper 2); gold absorbs the reserve function (this paper) — the dollar is not replaced; it is *re-specialized*,** and Treasuries are demoted from the world's savings vehicle to the collateral layer of its payment rails.

The entry that ties the loop sits on the Federal Reserve's own balance sheet. The Fed holds gold certificates against the Treasury's **261.5 million ounces, carried by statute at $42.2222 per ounce** — a book value of $11 billion for a hoard worth $1.09 *trillion* at spot, and $9.9 trillion at the full-rotation price of Eq. (3) (Figure 2). Marking that account to market requires an act of Congress

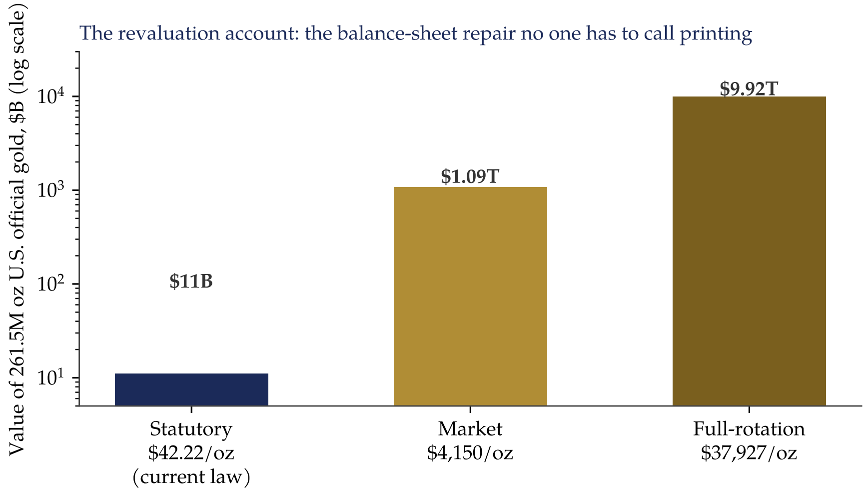

Figure 2: The U.S. official gold stock (261.5M oz) at its statutory book price, at spot, and at the full-rotation price — log scale. A congressional mark-to-market is the largest balance-sheet repair available to the U.S. government that appears nowhere as money printing.

and creates, at the stroke of a pen, a Treasury cash balance in the trillions — *without issuing a bond, without a Fed purchase, without anything the H.4.1 chart would display as expansion*. Readers of Paper 1 will recognize the shape immediately: it is the ultimate instance of printing without the printer — pre-positioned, statutory, and dormant, exactly like the uncapped repo facility — available on the day the absorption strain of Paper 2 demands a solution no one wants to call monetization. We do not predict its use. We observe, as this series has learned to observe, that the instruments keep being built before they are needed.

At the Dinner Table

Here is the strangest fact in this paper: the United States owns more gold than any nation on earth — and its own books say the pile is worth eleven billion dollars, because the price on the ledger was written in 1973. At today's market price it is worth a trillion. At the price implied by a full rotation of the world's savings, nearly ten trillion. Changing the number on the ledger takes one law and zero printing presses. Governments do not build tools like that because they intend never to use them.

8. What Would Falsify This

The series' credibility rests on stating the exits. **The rotation stalls:** two consecutive quarters of official-sector *net sales* (WGC), or the reserve-share crossover reversing (Treasuries back above gold), would break the structural leg. **The multiple compresses benignly:** if Q expands sharply (mine, scrap, Western dishoarding) while surpluses shrink, $P^*(\varphi)$ falls and the potential energy dissipates without a price event — watch China's import tonnage against its surplus each quarter. **The contradiction resolves the other way:** the Hamiltonian program could simply fail — deficits persist, dollars keep flowing, the old recycling resumes; Treasury auctions would tell. **The kinetic markers**, registered for grading: PBoC monthly purchases exceeding 20t; the Treasury share of global reserves breaking 20%; official surplus-recycling policy (oil-for-gold settlement, Shanghai benchmark volumes); U.S. nonmonetary gold exports sustaining above \$30B/month; and any administration statement linking reserve composition to the Hamiltonian program — the inference of §3 becoming policy. As of publication the kinetic count stands near 1.5 of 5. This paper's claims are graded, publicly, alongside the ledger that has scored this series since its first edition — including the marker from Paper 2 that fired in four days, and the miss this framework took, and published, the same month.

9. Conclusion

The trilogy closes where it began, with a chart chosen to stay flat. Paper 1 showed the printing moved offstage; Paper 2 showed the audience leaving; this paper shows what they are carrying out the door — and what the theater owner has in the vault. The reserve system is not collapsing. It is *re-specializing*: dollars for payments, running on statutory rails built in 2025; gold for reserves, crossing 27% of official holdings against Treasuries' 22%; and Treasuries themselves descending to the collateral layer, their marginal buyer contingent and uncapped. The Recycling Multiple says the market has priced eleven percent of that world. The People's Bank has spent twenty consecutive months, and the crossover, saying it expects more. And on the Federal Reserve's own ledger, at \$42.22 an ounce, sits the instrument by which the adjustment could one day be completed in a weekend, booked as an accounting entry, and described — correctly, in the narrowest sense — as no printing at all.

So What?

Do not trade the \$38,000; trade the φ. The current price embeds an 11% rotation; the direction of φ is established by the crossover, the twenty-month program bid, and the physical repatriation; each ten points is worth roughly \$3,800 an ounce at fixed quantities. Watch five kinetics — PBoC pace, the 20% Treasury-share line, recycling policy, U.S. physical exports, and the administration's own words — and express the thesis the way its strongest holders do: on a program, into weakness, with convexity rather than leverage, sized so that being early is survivable and being right is enough.

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