

## The US Dollar's Staying Power: Unravelling the Myth of its Downfall

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Recently, numerous headlines have predicted the “end of the US dollar”, particularly with the President of Brazil’s proposal for a new BRICS currency to challenge the dollar. At first glance, it may seem like a valid, credible threat to the US dollar’s dominance. But, on closer examination, it looks more like a remote possibility. Let’s dig in.

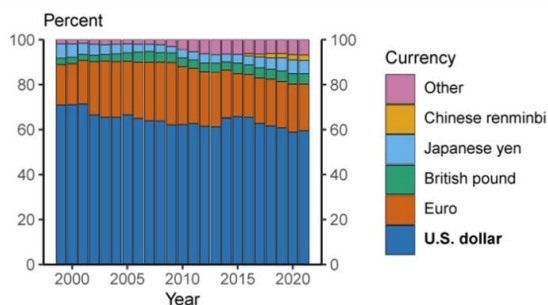
### Best in Class

Despite criticisms of US fiscal largesse and mismanagement in the realm of fiat currencies, the greenback can still be considered best in class. In most years, US money-supply growth is lower than that of the supposed alternatives, and the data are far more transparent and credible. The Chinese renminbi is often cited as an emerging alternative owing to its growing role in the global economy, particularly in trade. That being said, observers often overlook China’s strict capital controls, which make it difficult to move money freely, and its high rate of money-supply growth (Chinese M2 is growing at 12% year over year, returning to its historic trend).

### Liquidity and Network Effects

The US dollar benefits significantly from deep liquidity, breadth and scale, even without the US being a heavy trading nation. The capital markets based in US dollars are larger than they initially appear. The well-known US Treasury market, the corporate bond market and the US equity market are only part of the picture. The enormous Eurodollar market (a misleading name for foreign US-dollar financial instruments) is central to the financing of global companies and is significantly larger than the US equity market. The core reasons for tapping into US-dollar-denominated assets remain relevant. Moreover, despite some issues (collateral squeezes and Fed policy), it’s clear that the alternatives are no better in these respects.

Figure 2. Foreign exchange reserves



Note: Share of globally disclosed foreign exchange reserves. At current exchange rates. Data are annual and extend from 1999 through 2021. 2021 is 2021-Q1. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2015-Q2.

Source: IMF COFER.

Slow diversification away from the US dollar to alternative currencies as economies around the world develop and mature is a natural phenomenon that we should welcome. When the euro was introduced, the dialogue surrounding it was similar to the current discussions about the Chinese renminbi, until the natural avenues for growth matured. The euro has maintained a similar position for nearly two decades. The world of foreign exchange and reserve currencies is a deep and intricate discussion that is far more complex than simply trading status for individual countries. Even though evolution over many decades away from the current US dollar dominance is a worthwhile conversation, I don’t think a revolutionary shift to something else is on the table.

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