



Hard data that confidence in the dollar is cracking

Description

It is becoming increasingly clear that the world is losing faith in the United States dollar... and rapidly turning to alternatives. And that's a huge deal for the United States.

For nearly eight decades, the US economy and US government have enjoyed the unparalleled benefits of the dollar being the world's reserve currency.

This means that nearly every government, central bank, commercial bank, and large corporation in the world holds at least some US dollars. Foreign companies use the dollar to trade with one another. Foreign governments and corporations often issue bonds in US dollars.

And most of the world's major commodities, including oil, are priced and traded in US dollars.

The dollar's dominance is so ridiculous that even when Airbus—a European aircraft manufacturer—sells jets to Air France, that transaction is settled in US dollars.

This has been an enormous benefit to the United States; every other country in the world that engages in international trade and commerce HAS to hold US dollars... which means that foreign institutions end up parking vast sums of money in the US financial system.

And that money creates additional capital that gets put to work to grow the US economy.

Think about that again: rather than invest their own money to grow their own economies, **foreign governments and institutions are essentially forced to invest a big part of their savings for the exclusive benefit of the US economy**... simply because they need access to the world's reserve currency.

A lot of that money ends up in the hands of the US federal government; in fact, foreigners own roughly \$7.5 trillion of US government bonds... which has been an absurdly good benefit for the Treasury Department.

Whenever the federal government has come up with some stupid, expensive idea... like paying people

to stay home and NOT work... foreigners have always helped pay for it by buying more US government bonds— again, simply because they need to own US dollars.

But as I wrote to subscribers as far back as August of 2015, the dollar's reserve currency dominance "is by no means written in stone. The US dollar is not the first global reserve currency, and it won't be the last."

Throughout history there have been many reserve currencies, from the ancient Greek drachma to the gold solidus of the Byzantine empire, the Venetian gold ducat, the Spanish *real de ocho*, to the British pound. No reserve currency lasts forever.

History shows that a reserve currency is displaced whenever the rest of the world loses confidence; this typically happens when the government's finances deteriorate severely.

Back in 2015 I warned that America's finances were also deteriorating, which posed a risk to the dollar's dominance: "The US government is insolvent. Its major institutions and pension funds are insolvent. The central bank is borderline insolvent."

That assertion is even more true today. In fact I would remove the qualifier "borderline" when describing the central bank; the Federal Reserve is, according to its own calculations, totally insolvent.

And the rest of the world is really starting to take notice. The French in particular have been complaining for years about the US dollar, and just recently the French President has been urging Europeans to seek financial independence from the United States.

Leaders from countries including **Saudi Arabia, the UAE, Malaysia, Brazil, and India have all recently expressed openness, or even desire, to move beyond the US dollar** in international trade.

Saudi Arabia is flirting with the idea of selling oil in Chinese yuan, and just a few weeks ago the first Liquefied Natural Gas (LNG) contract in Chinese yuan was transacted.

These are just anecdotes, of course. But there's a lot of hard data showing that the dollar's reserve status is waning.

According to the Society for Worldwide Interbank Financial Telecommunication, or SWIFT, the U.S. dollar is currently used to settle about 40% of international trade.

That's still a lot. But even as recently as 2014, SWIFT reported the dollar was used for 52% of global trade.

Dollar reserves held by foreign governments are also declining.

According to the International Monetary Fund, the US dollar now accounts for 58.4% of foreign reserves held by central banks around the world, compared to roughly 70% in the late 90s.

Foreign central banks also seem to dump their US dollars in exchange for a more traditional store of value; that's why **central banks around the world bought more gold in 2022 than they have since 1950.**

This is all hard data showing that the world's discontent with the US dollar has finally translated into action. And it suggests that the US dollar's loss of global reserve status is only a question of when, not if.

Again, this is a huge deal for America.

The only reason the US government has been able to get away with a \$31.5 trillion national debt, multi-trillion dollar deficits "that cost nothing", and all the other insane government dysfunction, is because the dollar is the world's reserve currency.

What do you think would happen if the government of Bulgaria ran a massive deficit every single year... or if the President of South Korea shook hands with thin air?

Their currencies would probably plummet and their bonds markets collapse.

Just last year, in fact, we saw the British pound go into freefall, the bond market plummet, and the Prime Minister forced to resign, simply because investors did not like her economic plan.

But the US government has been able to do whatever it wants... for decades... simply because they have the reserve currency.

You'd think that the federal government would do everything in its power to protect such an extraordinary privilege.

But instead they seem to be going out of their way to destroy it. It's pure insanity.

Even now, with the country weeks away from defaulting on the national debt, the President of the United States still refuses to negotiate a single penny in spending cuts in order to raise the debt ceiling.

Foreigners are watching this mess... and they're not impressed. And this is yet another reason why they're moving so quickly to reduce their dependency on the dollar.

Frankly this might be a good thing. **The US government is like a spoiled, hard partying rich kid who has squandered the fortune that his great grandfather worked so hard to build.**

Maybe the kid needs to go broke and have his fancy cars repossessed in order to (hopefully) relearn the value of money, responsibility, and conservative financial management.

It's important to remember, in fact, that the United States became the most powerful economy in the world BEFORE the dollar became the global reserve currency. Same with the UK and British pound before.

So it's possible that losing some of the dollar's reserve status might just be the spark that the US government needs to get its act together. Only time will tell.

via Sovereign Man

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1. Economy-Business-Fin/Invest

- 2. Main
- 3. Survival-Prepping-Security

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