Is the Dollar in danger?

President Trump has followed through on his threats to impose tariffs on billions of Dollars' worth of goods from around the world, in particular China.

Mr Trump wants to cut the trade deficit with China, a country he has accused of unfair trade practices since before he became president.

A trade deficit is the difference between how much your country buys from another country, compared with how much you sell to that country. And the US has a massive trade deficit with China.

One reason America runs persistent trade deficits is that the US Dollar is in high demand. This drives up the value in the US currency, making exports more expensive. The US Dollar is in high demand as it serves world's premiere reserve currency.

What does a reserve currency mean?

Whenever two countries trade goods and services, they inevitably trade currencies. In theory, everyone should trade in a whole bunch of different currencies but most countries just trade with each other using US Dollars. Thus, creating a stockpile and reserve in US Dollar.

As of 2017, almost 64% of all foreign exchange reserves were American currency. The Euro was in second place at a mere 20%. The Japanese Yen was way back in third, with less than 5%. China's Yuan was just 1.1%.
What events would cause the Dollar to collapse?

Altogether, foreign countries own more than $5 trillion in U.S. debt. If China, Japan or other major holders started dumping these holdings of Treasury notes on the secondary market, this could cause a panic leading to collapse.

China’s $1 trillion in foreign exchange reserves are the largest in the world and are believed to be comprised largely of Dollar assets, potentially giving Beijing enormous sway over the Dollar's value and currency markets worldwide.

China are aware of the impact they could have on the Dollar and US imposing trade tariffs on China could negatively impact the US and the value of the Dollar.

What currency could replace the US Dollar?

- **Japan (Yen JPY):**  
  o Japan lacks both the sheer scale of GDP and the political or military reach necessary to serve as a reserve currency. And neither of those things will change soon.

- **China (Yuan ¥):**  
  o When it comes to size, the Chinese economy is big because of its huge population, not because of its income per person. China also recently scaled up its capital controls, which hurts its liquidity.

- **Eurozone (Euro €):**  
  o Eurozone economic growth just started picking up steam after years of stagnation. And the ongoing crisis over Greece, as well as the rise of ethno-nationalist parties across the continent, certainly doesn't make it look very stable.

- **Bitcoin (XBT):**  
  o Has its benefits but it's not controlled by any one country’s central bank. It is created, managed, and spent online. But there are big obstacles we must consider with this cryptocurrency:
    ▪ Its value is highly volatile. This is because there is no central bank to manage it.
    ▪ It has become the coin of choice for illegal activities that lurk in the deep web. That makes it vulnerable to tampering by unknown forces.

Right now, there's no obvious contender for replacing the U.S. Dollar.

Global & Locals Opinion: Is the Dollar in danger?

We currently live in a monopoly reserve currency world, but could there be a threat of China or Japan ever dumping their Dollars?

This can only be seen to take place if China and Japans holdings declined in value and they had another export market to replace the US. The economies of China and Japan are dependent on US consumers. They know that if they sell their Dollars that would further depress the value of the Dollar. That means their products, still priced in Yuan and Yen, will cost relatively more in the US. Their economies would suffer and currently it's still in their best interest to hold onto their Dollar reserves.

In our opinion, we don't see a collapse in the Dollar likely to occur. The US Dollar occupies an important position in the international monetary system. The US financial markets have high volume and great liquidity. The best way to protect yourself is to ensure that you have a diversified investment portfolio which has exposure to more than one offshore currency.
Contact Us

Global & Local
The Investment & Retirement Specialists

175 Barry Hertzog Avenue, Emmarentia, Johannesburg 2195

T | +27 11 486 2500

analyst@globallocal.co.za

www.globallocal.co.za