Letâ??s explore why central bankersâ?? top reserve asset is not US debt anymore

Description

US dollar

Globally, central banks now hold 27% of their reserve assets in gold, surpassing US dollar Treasuries at 22%, and just a year ago this was 20% gold versus 25% Treasuries, according to the latest report by the European Central Bank.

In 2023, goldâ??s share was just 16%.

Since the Russia-Ukraine war in 2022, China has purchased over 350 tonnes of gold, followed by Poland (320 tonnes), TÃ¼rkiye (220 tonnes) and India (130 tonnes), according to the ECB, as geopolitical tensions continued to drive strong central bank demand for gold.

According to the FT:

> The shifting composition of reserve assets â?? highly liquid holdings that central banks use to support their currencies, meet international payment obligations and provide liquidity in times of financial turmoil â?? reflects an attempt by many countries to seek alternatives to the US dollar, the worldâ??s de facto reserve currency.
>
> Those efforts have accelerated since 2022, when Washington used sanctions to freeze Russiaâ??s dollar reserves over the full-scale invasion of Ukraine

Result of increasing sanctions, i.e., weaponisation of the US dollar

Most countries are aware of how the US can and will weaponise the US dollar by using sanctions.

A Chatham House study shows the number of sanctions imposed by countries and multilateral organisations nearly doubled between 2001 and 2023 â?? the majority created by the US.

Sanctions criminalise or penalise anyone who uses the dollar, financial institutions with a legal presence in the US, or the international payments system (SWIFT), which is owned by a consortium of US banks.

This use of the dollarâ??s hegemony by imposing sanctions has triggered other nations â?? especially BRICS â?? to look for alternative currencies.

The ECBâ??s report noted that on 1 February 2026, Chinese President Xi Jinping called for the renminbi to become a global reserve currency, in â??one of his clearest statements yet of Chinaâ??s ambition to strengthen the international role of its currency.â?•

They also reported that activity in Chinaâ??s Cross-Border Interbank Payment System (CIPS) â??increased by more than one-third in the days surrounding the outbreak of the war in the Middle East.â?•

They noted:

> Industry experts have suggested that the conflict could serve as a catalyst for an expansion of the renminbiâ??s role in the global oil markets. Notably, reports indicate that some ships made payments in renminbi via CIPS or in crypto-assets to transit through the Strait of Hormuz in March and April 2026

However, a bigger joint BRICS effort at dedollarisation is facing issues.

Inertia of US dollar dominance

Kristin J. Forbes, Professor of Global Economics, MIT â?? Sloan School of Management, said recently that the news of the death of the dollar had been â??greatly exaggeratedâ?•, as the â??dollar is still the most liquid market by far.â?•

She said at the recent World Economic Forum, a gathering of billionaires.

She said:

> Look at the dollar share of FX transactions. Itâ??s about 88% of FX transactions.

About 54% of global trade, it is still invoiced and settled in dollars, about 60% of all international loans and deposits are denominated in dollars, as is 70% of international bond issuance, according to *Moneyweek*.

A decolonial explanation

Decolonial economist Samir Amin wrote in 1997 in â??Capitalism in the Age of Globalisationâ?• that the collapse of Bretton Woods, the system of floating currencies, high interest rates, and liberalized capital flows, gave US hegemony a new lease on life by maintaining the international role of the dollar for lack of an alternative and allowing the US to cover its deficits by borrowing from partners.

He also noted a striking analogy: Britain lost its dominant industrial efficiency around 1880, yet the sterling standard survived until 1931.

Decolonial economist Ali Kadri in his book â??Arab Development Deniedâ?• has argued that the foundation of US-led capitalâ??s power rests on dollar seigniorage, which is the ability to borrow indefinitely in its own currency at little cost, which becomes directly attached to oil control and its associated wars.

The USâ??s war on Iran, Lebanon, and Gaza can, therefore, be connected to the USâ??s desire for oil control, dollar seigniorage, and the preservation of the imperial rent extracted from global dollar holdings.

Kadriâ??s logic was also explained by none other than Jamie Dimon of JPMorgan Chase, a prominent US billionaire.

While praising Trumpâ??s war on Iran, Dimon said,

> If weâ??re not the preeminent military and the preeminent economy in the world in 30 years, we will not be the preeminent reserve currency. They actually go hand in hand.

Breaking point

So will the dollar remain the reserve currency despite its weaponization and ballooning US debt? Is there a breaking point?

Even Forbes conceded at the World Economic Forum that demand for dollar debt has decreased.

She said the convenience yield on US dollar debt has fallen quite a bit, and â??people donâ??t put much value in the liquidity it provides. But financial market indicators have not seen the same move out of dollars.â?•

There is a disconnect between a dollar and dollar debt; she, in fact, emphasized and wonders out loud

if it can hold.

Guneet Dhingra, head of U.S. rates strategy at BNP Paribas, told Reuters that 30-year yields lost their projected ceiling after crossing the 5% threshold. â??Now that we have no anchor, what stops bond yields from going up in a world of high inflation, ever-rising deficits and global bond yield pressure?â?•

The Trump administration is set to increase the US military spending from $1 trillion annually to [$1.5 trillion.]

So here lies the contradiction. The US will need more debt-financed military spending to maintain dollar hegemony, but such fiscal overspending will come with higher yields on US Treasuries.

At the same time, there is no guarantee that petrodollars will be recycled into US Treasuries like they were before the war. Demand by central bankers for Treasuries might continue to fall.

We really are in an interregnum.

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By Nandita Lal

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1. News

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