ALTMAN
INVESTMENT MANAGEMENT

BRIEF INSIGHTS

MARCH, 2022

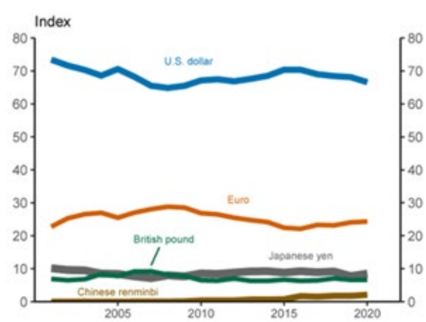
IN BRIEF: A Closer Look at the U.S. Dollar Currency

Confidence in the U.S. dollar has long been supported by a robust U.S. economy, the breadth and liquidity of dollar denominated assets, and the assurance in its ability to maintain its purchasing power over time. Therefore, it's not surprising that demand for the dollar has been relatively high and steady as calculated by the Federal Reserve.

The dominance of the U.S. dollar is evident in its 60% share of international reserves. While Chart 1 below reveals some level of erosion of the U.S. share, it remains the favored currency by a wide margin. It also highlights another important trend that foreign reserves are being diversified amongst a number of other currencies, and not towards one single beneficiary. This scenario exemplifies the power of U.S. currency in global markets. With the next largest reserves being that of the Euro and Yen at 20% and 6% respectively, the thought of a specific currency rising to a level that threatens U.S. standing is somewhat muted (see Chart II.)

Chart I:

Index of International Currency Usage

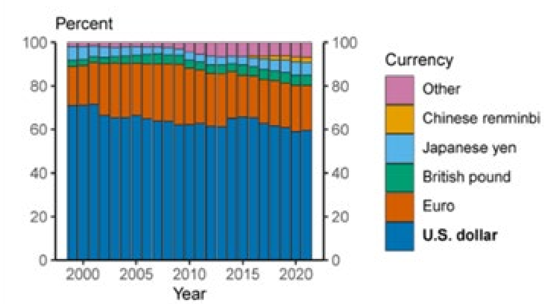


Note: Index is a weighted average of each currency's share of globally disclosed FX reserves (25 percent weight), FX transaction volume (25 percent), foreign currency debt issuance (25 percent), foreign currency and international banking claims (12.5 percent), and foreign currency and international banking liabilities (12.5 percent).

Source: IMF COFER; BIS Triennial Central Bank Survey of FX and OTC Derivatives Market; Dealogic; Refinitiv; BIS locational banking statistics; Board staff calculations.

Chart II:

Distribution of Foreign Exchange Reserves Shows Confidence in U.S. Currency



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 renmimbi is 0 until 2015-Q2.

Source: IMF COFER.

Source: Federal Reserve

Another trend supporting demand for the U.S. dollar is that of foreign investment in paper banknotes. The percent of foreign investment in U.S. dollar banknotes has steadily risen to almost 50%, up from approximately 30% over 10 years ago.

The dominance of the U.S. dollar in global trade also invigorates demand for the dollar. According to a report published by the Federal Reserve, the U.S. dollar share of trading invoices was 96%, 74% and 79% for the United States, Asia-Pacific countries, and the rest of the world respectively. Europe is the only region with a heavy reliance upon its home currency. The U.S. dollar is also the preferred currency in international banking with approximately 60% share.

During times of crisis, to preserve confidence in U.S. dollar financing, the Federal Reserve uses various tools to facilitate ample credit supplies. Temporary currency swap lines with outside central banks helps to maintain U.S. dollar supplies at the going exchange rate. Federal Reserve Repo Facilities allow central banks and international monetary authorities who hold U.S. Treasury securities to access U.S. dollars without selling their positions.

The "store of value" that is evident in the U.S. dollar as a dominant currency is unmatched to date. What this means is in order for another currency to replace the dollar at the helm it would need to demonstrate the ability to be saved, retrieved, and exchanged in the future without deterioration in value. Therefore, barring any significant political or economic event we don't believe the dollar is at risk of deteriorating its leadership position. The war in Ukraine is likely not the crisis that will unhinge the U.S. dollar as the dominant currency. Even if some countries that are not aligned with the U.S. use this as an excuse to reduce its reliance on the dollar, the criteria that meets the standard of a store of value is just not there.

ALTMAN INVESTMENT MANAGEMENT, LLC
33 Witherspoon Street, 2nd Floor – Princeton, NJ 08540 – (609) 252-0048 – www.AltmanInvest.com