Insight INVESTMENT

GLOBAL MACRO RESEARCH

DOLLAR DOMINANCE: HOLDING ON IN A FRAGMENTING WORLD

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EXECUTIVE SUMMARY

The extraordinary period of US economic and asset outperformance may be nearing its end. If, as we expect, the US dollar enters a prolonged bear market, the debate around its future as the world's dominant reserve currency is likely to intensify. In this paper, we explore the structural forces eroding the dollar's strengths and why, despite these pressures, it is still likely to retain its global dominance for the foreseeable future.

- **From the denarius to the dollar:** Global reserve currencies have shifted over time, tracking the rise and fall of economic powers. From ancient silver-backed coins to the Spanish silver dollar and British pound, each reflected the dominant force of its era. The US dollar assumed its role after Bretton Woods in 1944, underpinned by America's economic scale and institutional strength.
- **Overplaying reserve currency status:** The US has increasingly leveraged the dollar's reserve status as a geopolitical tool, most notably through sanctions, prompting a growing number of countries to build alternative financial systems and diversify reserves. This is raising questions about the gradual erosion of dollar dominance.
- **Weakened but still dominant:** When we examine each of the key characteristics that define a global reserve currency, it is clear that the dollar continues to maintain a dominant position, albeit weaker than in the past.
  - The dollar remains dominant across all key reserve currency attributes: liquidity, global usage, safe-haven status, and financial market depth.
  - It accounts for 57% of global FX reserves and dominates trade invoicing, FX turnover, and global equity and bond markets.
- **The long fade of dollar supremacy:** Over time, the dollar's supremacy is increasingly vulnerable to structural shifts:
  - **Viable alternatives are slowly emerging:** The eurozone's move toward joint debt issuance and China's push to internationalise the renminbi signal gradual shifts that could become long-term threats for the dollar, though both face structural limitations in the short term.
  - **Financial infrastructure is fragmenting:** The weaponisation of the dollar through sanctions has accelerated the development of alternative payment systems, weakening the global influence of US-led financial networks.
  - **Trade dynamics are shifting:** The new "reciprocal" US tariff regime reduces the incentive for emerging markets to accumulate dollar reserves, potentially accelerating a move toward more strategic, regionally anchored reserve frameworks.
- **The US dollar remains the strongest candidate for global reserve currency status, but its dominance is no longer absolute.** A gradual transition toward a more fragmented, regionally aligned, and digitally integrated monetary system is likely.

THE EVOLUTION OF GLOBAL RESERVE CURRENCIES: FROM THE DENARIUS TO THE DOLLAR

Over time, various currencies have assumed the role of global reserve currency, reflecting shifts in global economic power. While modern currency markets now incorporate mechanisms like foreign exchange reserves, the core idea remains the same: a global reserve currency is the most widely used medium for international trade and investment. It is highly liquid, broadly accepted, and often viewed as a safe haven in times of uncertainty.

HISTORICAL EXAMPLES OF GLOBAL RESERVE CURRENCIES

- **Ancient times:** Way back in history, examples of currencies that would have met the criteria we now think of as a global reserve currency would have included the Roman denarius, the Greek drachma and the medieval gold dinar. These were currencies with a high silver or gold content that underpinned their value.
- **More modern examples:** The Spanish silver dollar was arguably the first currency to fully meet the status of global reserve currency, as it was used across Europe, Asia and the Americas between the 16th and 19th centuries. This was effectively replaced by the British pound in the 19th century, as industrialisation and the dominance of London in financial markets saw the majority of international transactions invoiced in pounds.

THE SHIFT TO US DOLLAR DOMINANCE

The US dollar (USD) replaced the pound as the world's dominant currency following the Bretton Woods Agreement of 1944, which laid the foundation for the post-World War II international monetary system. This agreement established a framework of fixed exchange rates pegged to the USD, which itself was convertible into gold at a fixed rate. The United States' unparalleled economic and military strength at the time enabled it to shape the terms of the agreement, positioning the USD as the central anchor of the system and the world's primary reserve currency.

Despite the abolition of the gold standard in 1971, meaning the rate of conversion between gold and the USD was no longer fixed, the USD remains the global reserve currency to this day.

OVERPLAYING RESERVE CURRENCY STATUS

SANCTIONS HAVE ERODED TRUST

The US dollar's position as the global reserve currency, combined with the scale and influence of the US economy, gives US politicians significant geopolitical leverage. Central to this has been the use of financial sanctions, which exploit the dollar's dominance in global trade and banking to isolate targeted countries and individuals from the international financial system. Notable examples include the following.

- The reimposition of sanctions on Iran in 2018, which included cutting Iranian banks off from SWIFT – the global messaging network used for cross-border financial transactions. This effectively severed Iran's access to much of the global economy.
- The repeated deployment of sanctions against Russia, first in response to the annexation of Crimea in 2014 and then more extensively following the 2022 invasion of Ukraine, targeting banks, oligarchs, and state-owned enterprises.

The persistent and expansive use of US-led sanctions, often enforced through dollar-denominated systems like SWIFT, has prompted a growing number of countries to reassess their reliance on the dollar and Western-controlled financial infrastructure. In response, Russia has developed its own financial messaging system, SPFS, which by early 2025 was being used by 177 financial institutions across 24 countries.

Russia is also spearheading the development of BRICS Pay, a blockchain-based platform launched in October 2024 that integrates national payment systems such as China's UnionPay, Russia's Mir, and India's RuPay into a unified digital wallet. This initiative enables fast, low-cost cross-border transactions in local currencies, bypassing the dollar entirely. Complementing this is the BRICS Bridge, a parallel initiative aimed at enabling seamless and low-cost cross-border payments between member states without routing through either the dollar or dollar-based systems.

The geopolitical motivation of these initiatives is clear: by facilitating direct trade settlements, participating nations are shielded from the financial leverage of US sanctions and political pressure from Western nations. The result is the gradual erosion of dollar dominance.

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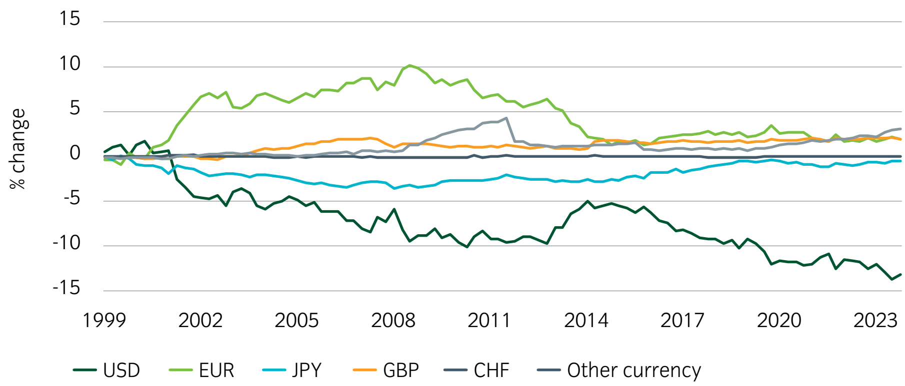
CENTRAL BANKS ARE DIVERSIFYING FX RESERVES

Although the US dollar still accounts for a substantial share of global foreign exchange reserves – 57% as of the end of 2024[1] – there is clear evidence that global central banks are diversifying away from it (see Figure 1). While the euro initially gained traction following its launch, interest has waned over the past decade. In contrast, attention has shifted toward the Japanese yen and, increasingly, to other currencies, with the Chinese yuan emerging as a notable beneficiary of this trend.

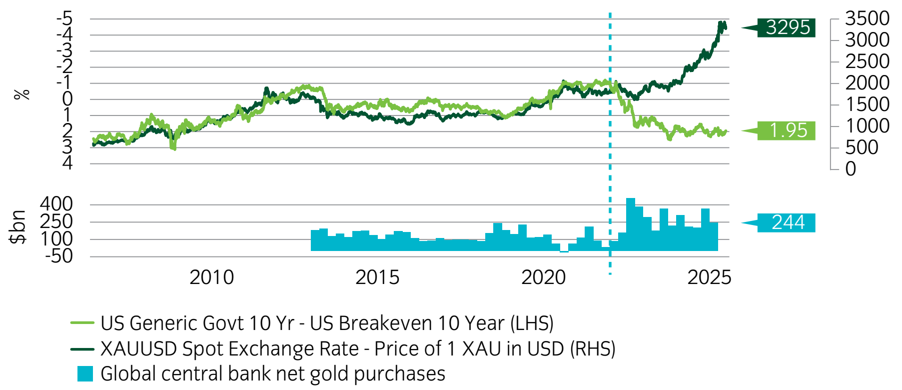
Figure 1: Global central banks have diversified away from the dollar in recent decades[2]



As geopolitical tensions between emerging and Western economies have deepened, many central banks have begun shifting away from traditional, currency-based FX reserves. Instead, they are turning to tangible assets – most notably gold. According to the World Gold Council, central banks purchased over 1,000 tonnes of gold annually between 2022 and 2024, marking a significant acceleration in reserve diversification[3].

This trend has been exacerbated by the seizure of approximately $300bn in Russian FX reserves after the country's invasion of Ukraine. In response, the Central Bank of Russia has emerged as one of the most aggressive buyers of gold, amassing nearly $250bn in holdings by the end of May 2025, contributing to upward pressure on global gold prices (see Figure 2). The shift isn't limited to institutions: Russian households also followed suit, purchasing 75.6 tonnes of gold in 2024 alone[4].

Figure 2: Gold has reclaimed its position as a core pillar of FX reserves at some central banks, driving prices higher[5]



[1] Source: Bloomberg.
[2] Source: Insight and Bloomberg. Data as at 30 June 2025.
[3] Source: https://www.gold.org/goldhub/research/central-bank-gold-reserves-survey-2025
[4] Source: https://www.mining.com/web/russians-hunt-to-shield-savings-pushes-gold-purchases-to-record/
[5] Source: Macrobond. Data as at 30 June 2025.

THE DOLLAR: WEAKENED, BUT STILL DOMINANT

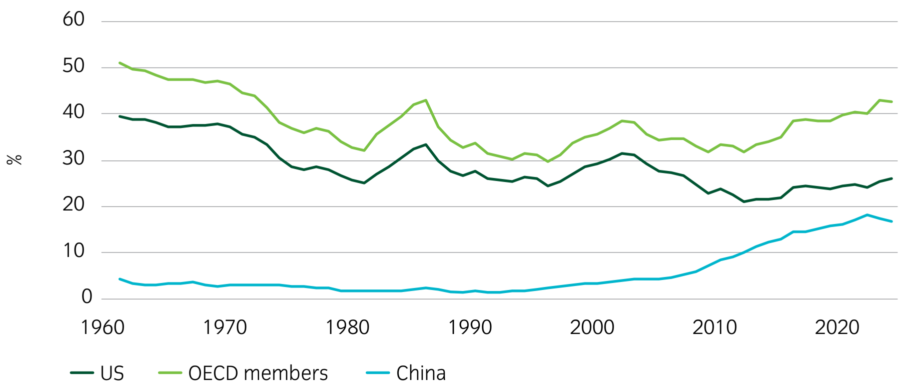
When we examine each of the key characteristics that defines a global reserve currency, it is clear that the dollar continues to maintain a dominant position, albeit weaker than in the past:

1 Economic importance

For a currency to achieve global reserve status, it typically needs the backing of an economy that represents a substantial share of global GDP and trade, conditions that naturally drive demand for international transactions in that currency. As shown in Figure 3, the US, while no longer as dominant as in previous decades, still accounts for a significant portion of the global economy. It also remains a central force within the Organisation for Economic Co-operation and Development (OECD), a bloc of high-income, democratic nations.

China has emerged as the most credible challenger to US economic leadership, but its long-term economic trajectory is clouded by structural headwinds – most notably, demographic decline.

Figure 3: The US continues to dominate the global economy[6]



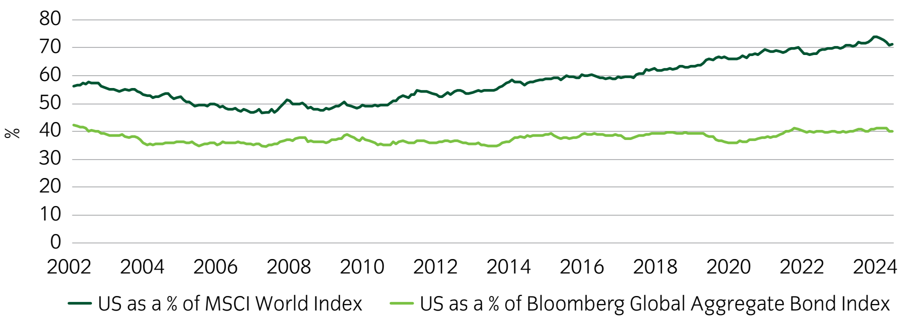
2 Deep and liquid financial markets

In addition to economic relevance, a reserve currency also needs financial might. Key to this is the depth and liquidity of its financial asset markets within which holdings of the currency can be saved. In this regard the US is unchallenged. Mega cap tech companies, epitomised by the Magnificant-7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), enjoy monopoly-like profits, which they use to moat their businesses via high levels of R&D spending and the acquisition of any emerging threats. Although we believe the US likely peaked as a proportion of the MSCI World Index in 2024, at a weight of around 70% (see Figure 4), we expect it to dominate global equity markets for decades to come. The scale of the US advantage is such that non-US companies are increasingly choosing to shift their listing to the US to increase demand for their shares.

In fixed income, the US has maintained a consistent share of around 40% of the Bloomberg Global Aggregate Index, but its scale and liquidity attracts both sovereign and corporate borrowers, who benefit from a broad and diverse investor base.

[6] Source: World Bank. Data as at 31 May 2025.

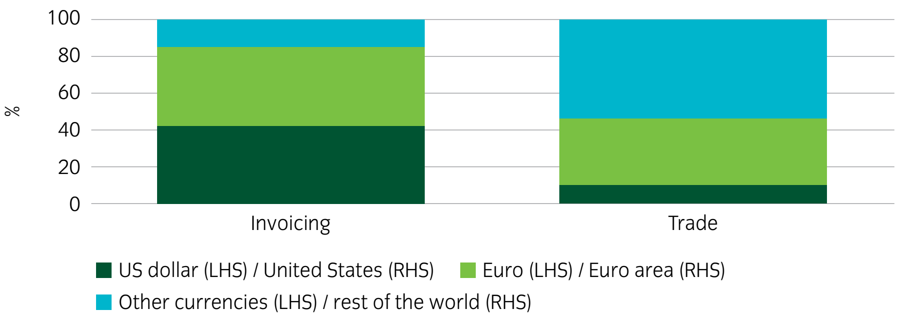
Figure 4: The US dominates global financial markets, especially equities[7]



3 Importance in international transactions

In June 2025, The European Central Bank published a paper, The international role of the euro, which concludes that: "the US dollar and the euro remain the most prominent primary invoicing currencies, together accounting for over 80% of global trade invoicing". It is notable that the share of global exports invoiced in US dollars, at about 40%, remains much larger than the share of exports to the US (see Figure 5). The ECB also noted that the dollar was used for trade invoicing globally, whereas the euro was more restricted geographically. In part, this is due to the pricing of many commodities in US dollars.

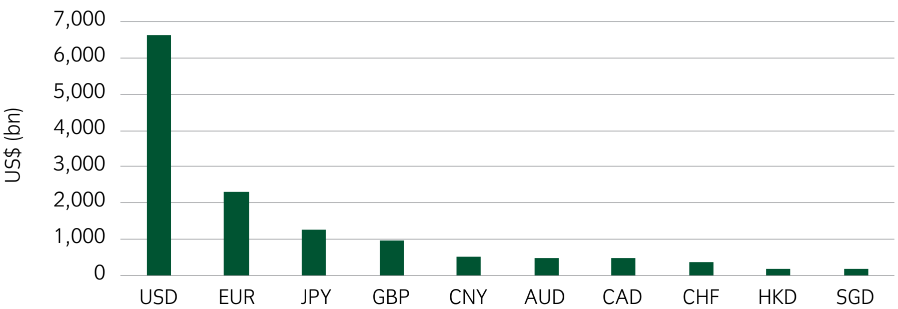
Figure 5: The use of the dollar for invoicing is many times US trade volumes[8]



4 Highly liquid and broadly accepted

The Bank for International Settlements publishes a comprehensive report on the size and structure of global foreign exchange and derivatives markets every three years: the Triennial Central Bank Survey. The most recent 2022 report showed the US dollar dominating daily trading volumes. China, with its still heavily controlled currency markets, ranks below the UK.

Figure 6: Daily FX volumes show the dollar is by far the most traded currency[9]



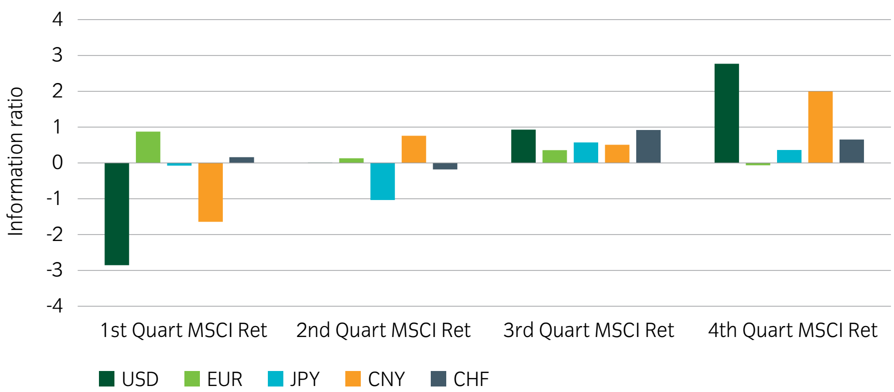
[7] Source: Insight and Bloomberg. Data as at 30 June 2025.
[8] Source: https://www.ecb.europa.eu/press/other-publications/ire/article/html/ecb.ireart202506_02~a8e66f5ea3.en.html
[9] Source: https://www.bis.org/statistics/rpfx22.htm

5 A safe haven in times of crisis

The ability to maintain value, particularly in challenging market conditions, is another key attribute for a reserve currency. To assess this, we can look at the performance of the US dollar and other major currencies in different volatility regimes. In Figure 7, we rank the monthly historical performance of global equities, as measured by the MSCI World Index, into quartiles and show the information ratio (a measure of risk adjusted performance) of a long position in various currencies for each quartile of MSCI World Performance.

In months when the MSCI World Index recorded its worst performance, with returns in the fourth quartile, the US dollar has historically performed well. This suggests that dollar has generally been a clear beneficiary during times of crisis. In contrast, the dollar has tended to decline when world equity markets are performing strongly. A notable exception to this was the period following the US "reciprocal" tariff announcement, where both equity markets and the dollar declined sharply.

Figure 7: The dollar has historically enjoyed an inverse relationship with global equity markets[10]



6 Lack of viable alternatives

While China and the eurozone are making strides, neither offers the same combination of economic scale, capital market openness, and institutional trust. The yuan remains constrained by capital controls, and the euro suffers from political fragmentation.

Some argue that the eventual usurper to the dollar will be a digital currency. However here the outlook is highly nuanced.

- Stablecoins have evolved into relatively mainstream financial instruments but arguably reinforce the dollar's global reserve currency status as many are pegged to the US dollar or backed by US financial instruments. Stablecoins linked to the value of other currencies are emerging, including the EURC and XCHF, but remain a limited part of the market.
- Cryptocurrencies have gained much attention due to the huge gains made by investors in certain cryptocurrencies such as Bitcoin. However, significant price volatility, an inability to easily transact and stories of holders losing wallets worth millions or even billions of dollars suggests that cryptocurrencies are still far from being a real competitor to the US dollar.
- Central bank digital currencies are emerging. China is actively promoting the use of its central bank digital currency, the e-CNY. The People's Bank of China has announced the creation of an international operations hub in Shanghai, signalling its intent to broaden the currency's reach, particularly within Asia. However, despite these efforts, digital versions of sovereign currencies like the e-CNY face many of the same structural limitations as their physical counterparts. Most notably, China's ongoing capital controls and limited currency convertibility remain significant barriers to the e-CNY becoming a truly global currency.

[10] Source: Insight calculations, data between January 1994 – June 2025.

THE BEST CHOICE…FOR NOW

All of this suggests that, as things stand, the US dollar remains comfortably the leading candidate for a global reserve currency. In Table 1, we have ranked major currencies against various metrics, and it can be clearly seen that the US dollar ranks either first or second in all categories. The euro is a credible alternative on most measures, though perhaps lacks the risk beta characteristics needed and the depth of financial markets. The yuan's role in global financial markets has clearly increased rapidly in the past couple of decades, but for it to become a viable alternative to the US dollar, much deeper internationalisation of China's financial markets is needed. Despite China possessing a dominant position in global trade, in the financial sphere, the US dollar still rules.

Table 1: Ranking the attributes of global reserve currencies[11]

Ranking		USD	EUR	GBP	JPY	CNY
Econ relevance	% of global GDP	1	3	5	4	2
Liquidity	% of invoicing	1	2	5	3	4
	Equity market cap	1	4	5	3	2
	Bond market cap	1	2	5	4	3
	Foreign issuance	1	2	3	4	5
	SDR weight	1	2	5	4	3
	FX turnover	1	2	4	3	5
	Overseas bondholders	2	1	3	4	5
Risk properties	Flight to safety	2	4	5	1	3
	VIX correlation	2	4	5	1	3
Average		1.3	2.6	4.5	3.1	3.5

THE LONG FADE OF DOLLAR SUPREMACY

While the US dollar has maintained its dominance despite the advent of the euro and China's economic ascent, its long-term supremacy is not guaranteed. History offers us perspective: although US GDP overtook the UK's in the late 19th century, the dollar did not surpass sterling as the world's reserve currency until the mid-20th century. This suggests that the erosion of monetary hegemony can be gradual. There are several reasons to believe the dollar's decline, if it occurs, will follow a similarly measured trajectory.

ALTERNATIVES ARE BECOMING MORE VIABLE, BUT ONLY SLOWLY

The US dollar's resilience has long been underpinned by the absence of credible alternatives, supported by the scale of the US economy, its deep financial markets, and geopolitical influence. However, this dynamic is gradually shifting. The European Union's move to jointly issue debt in response to the pandemic has laid the groundwork for a potential long-term alternative to US Treasuries. Current issuance remains modest, and while the Re-Arm Europe initiative will see another €150bn in joint debt for defence procurement, this will be more than offset by maturing bonds. Over time, the eurozone is likely to increasingly converge toward a unified debt framework, deepening its capital markets, but it is likely to take decades to play out.

[11] Scores ranked by Insight for illustrative purposes.

China's push to internationalise the renminbi is advancing steadily. Since launching the Cross-Border Interbank Payment System (CIPS) in 2015 to support yuan-denominated cross-border transactions, China has established 33 offshore clearing centres in major financial hubs including the UK, France, Japan, Australia, and Malaysia. In parallel, it is forging bilateral trade agreements – such as with Brazil – to enable direct settlement in local currencies, bypassing the US dollar. Although these efforts reflect a strategic ambition to reduce dollar dependence and elevate the yuan's role in global finance, China's strict capital controls remain a fundamental barrier to full internationalisation. This is unlikely to change any time soon.

Over time, the global monetary system may shift away from reliance on a single dominant reserve currency toward a more fragmented, multipolar framework. In such a scenario, multiple currencies and digital alternatives could coexist and compete for influence. Rather than one global reserve currency, we might see a regionally aligned model emerge, where the US dollar remains the primary reserve currency in the Americas, the euro dominates in Europe, and the yuan gains prominence across Asia.

FINANCIAL INFRASTRUCTURE IS FRAGMENTING

The United States' weaponisation of its dominant financial position for geopolitical goals has almost certainly caused lasting damage to the long-term position of the dollar. For some countries such as Russia, diversifying away from the US dollar has become a matter of national security. Although President Trump has lifted sanctions on Syria and is seeking to normalise relations with Russia, these moves are unlikely to reverse the momentum behind the development of alternative financial systems. As these parallel infrastructures mature, they will erode the global influence of the US financial system, reduce demand for the dollar as a reserve currency, weaken the effectiveness of US sanctions, and may contribute to the growth of deeper capital markets outside the United States.

THE NEW US TRADE REGIME IS LIKELY TO MAKE RESERVE ACCUMULATION LESS PALATABLE

There is one key development that could mark a more aggressive and rapid shift: a decline in the desire for central banks to manage the value of their currencies. It is not a coincidence that most the world's currency reserves are held by emerging markets, many of which actively manage their currencies versus the US dollar to maintain a trade advantage.

The United States' introduction of punitive "reciprocal" tariffs on countries running large trade surpluses has diminished the incentive to maintain artificially weak currencies via reserve accumulation. As a result, if more emerging market economies adopt genuinely free-floating exchange rates, potentially as part of trade negotiations with the US, their need to accumulate reserve assets should decline. This shift would allow countries to redirect focus toward more strategic objectives. The distinction is critical: traditional reserve assets must be held in the anchor currency, be highly liquid and retain value. In contrast, reserves aligned with strategic goals can encompass a broader mix of assets, including commodities and foreign direct investment. This evolution could accelerate the move toward a more fragmented, or regionally anchored reserve currency system.

CONCLUSION

In conclusion, while the US dollar remains the world's dominant reserve currency by virtually every key metric – liquidity, trust, depth of financial markets, and global usage – its supremacy is no longer unchallenged. The combination of geopolitical shifts, evolving trade dynamics, and the emergence of credible alternatives, both sovereign and digital, suggests that the global monetary system is entering a period of gradual transformation.

Rather than a sudden dethroning, the dollar's future is likely to be shaped by a slow rebalancing toward a more multipolar framework, where regional currencies and strategic reserves play a larger role. For now, the dollar remains dominant, but the foundations of its leading position are no longer as unshakable as they once were.

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