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From the Desk of CIO

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De-dollarization, is it Happening?

After the invasion of Russia on Ukraine, US and its allies imposed several sanctions on Russia including forbidding some of the Russian banks from using SWIFT currency settlement. This forced Russia to trade in other currencies especially China yuan. There is an obvious trend of countries diversifying and reducing reliance on the US dollar (USD). That prompted many to exclaim de-dollarization when usage of USD declined. The dominance of USD is far more entrenched than we can imagine as it is used in almost all currency transactions. About 60% of global central banks have their reserves in USD, many commodities are traded in USD and close to 70% of all financial transactions are in USD. As such, there is no indication USD will lose its dominant position any time soon.

I presented my findings on "De-dollarization, How it will Impactthe Future Investment Landscape" on 15 Jul 2023 at the 13th Phillip Investment Conference.

USD has been the world reserve currency for 103 years and likely to stay on for many more years. On average, a dominant currency "reigned the world" for an average of 94 years with the longest being the Spanish real, for 110 years.

USD is undoubtedly the most common currency used in all transactions; euro ranked a far number two. There are no other currencies that can challenge the domainant position of USD at the present moment. Despite the huge amount of money issued by the US government since the Lehman Brothers crisis, there has been little impact on the strength of the currency. China and Japan are the biggest holders of US treasuries. UK has acquired more US treasuries over the past five years than what China has sold (*see Exhibit 1*).

On the other hand, who are the buyers of ballooning US treasuries? *Exhibit 2* shows most of the additional US treasuries went to domestic US investors. Surprisingly, foreigners only supported the additional US treasuries marginally. The Federal Reserve is also a big buyer of US treasuries (termed as money printing).

Despite the dominant position of USD, its position is declining. Global central banks' holding of USD in their reserves has fallen from above 70% twenty years ago to about 58% recently (*see Exhibit 3*). The traditional support from Saudi Arabia (Saudi) in selling its oil in USD has dwindled as US is no longerthe largest customer of Saudi as US is now producing sufficient oil and may even have extra to export thuscompeting with Saudi.

More and more oil is being sold to China (main global consumer) in yuan and China is also promoting the use of yuan for international trades with many countries but the amount is still not significant, about 7% of global trades, up from 4% five years ago.

We don't see the US dominant position to be replaced anytime soon but we do see its position deteriorating gradually.

Exhibit 1: Changes in foreign holding of US treasuries

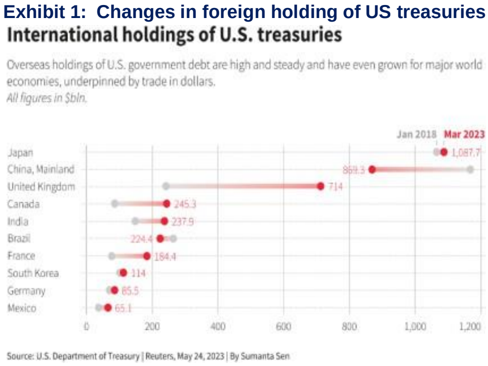

Exhibit 2: Holders of US treasuries

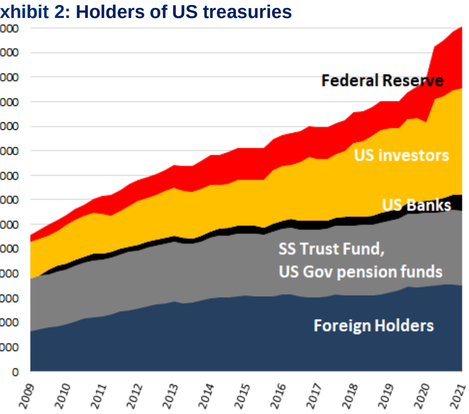

Exhibit 3: Central banks diversified out of USD