

Since 1944 with the creation of the Breton Woods system that governs international monetary relations, the U.S. dollar has reigned supreme as the world's reserve currency. It has been challenged at times from the Japanese Yen in the 1980s, to the Euro in the 2000s, but has always withstood the test of time. Yet investors are concerned that the Federal Reserve's easy monetary policy combined with rising U.S. budget deficits, will undermine confidence in the dollar. The drop in the value of the currency has heightened these concerns, yet we remain of the view that the dollar's role as the dominant global currency looks secure.



Of all the reserve currencies including the U.S. Dollar, the Euro, the Yen, British Pound, Swiss Franc, Austrian Dollar and Chinese Yuan, the dollar is by far the most widely held currency in the world, at roughly 60% of all currency held by Central Banks. More, the U.S. dollar is used in about 40% of global trade and nearly 80% of all global cross-border transactions. Most commodities are traded in U.S. dollars -oil, copper and agricultural goods- meaning that investors need to hold dollars to exchange goods and services. The sheer volume of U.S. currency in existence makes international trade possible, and no serious contender exists that could provide the necessary liquidity of the ubiquitous Greenback.



China has ambitions to make its Yuan (also known as the Renminbi -or people's currency), the world's pre-eminent reserve currency, but its internal policies are its greatest obstacle to this. Specifically, China limits its convertibility to other currencies through capital controls, and as such, despite having the second largest economy on Earth, the Renminbi represents just 3% of global transactions. Its authoritarian form of government too stands in its way, where investors simply don't see holding Renminbi as a safe-haven asset during economic and market downturns. Indeed, as the article in Advisor Analyst [here](#) summarizes nicely: *during times of global stress, the dollar generally moves up as investors seek*

*a large, liquid and reliable place to put their money.*

Note that sadly the Canadian dollar does not appear on the list of Reserve Currencies, with our assailable Loonie being seen as a soft or commodity currency, which rises or falls in tandem largely with oil prices. Being out of the club is not simply a matter of feeling slighted, but increases the cost of our borrowing. This is because countries with reserve currency status see higher demand for those country's bonds, which keeps borrowing costs artificially lower. Canada's goal should be to implement economic and fiscal policies that result in admission to the most prestigious club on the planet -Club Reserve.



Be safe, be well!

Martin

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