

Fed: “Research and analysis about consumers, their financial experiences, and the communities in which they live inform Federal Reserve policymaking.” – Fed Board

Fed Unfiltered: Each week we’ll read through and outline the most relevant information for your decision-making.

U.S. Dollar: The CBO analyzes the possibility of the Dollar being overtaken by either the Euro or the Renminbi. The NY Fed talks about the U.S. dollar in the context of the international monetary system. The St. Louis Fed explains the widespread use of the U.S. currency and the benefits. The Richmond Fed covers the benefits of a strong dollar, and the IMF explains why the dollar’s role as the dominant currency will likely persist.

CBO – Possibility of the Renminbi Overtaking the Dollar

- “In CBO’s view, the euro and the renminbi are the two currencies most likely to displace the dollar as the primary international currency, but neither is likely to overtake the dollar over the coming decade. The main obstacle for the euro is that the euro zone’s economic importance in the global economy (relative to the importance of the United States) is expected to wane. Currently, nominal output in the euro zone (measured in dollar terms) is roughly two-thirds the size of U.S. nominal output. According to CBO’s projections, that gap is expected to widen over time as the United States grows at a faster pace than the economies of the euro zone (see Figure 9). Because economic output in the economies of the euro zone is unlikely to overtake U.S. output, it is similarly unlikely for the international use of the euro to exceed the dollar’s use over the next 10 years and beyond. Furthermore, the euro zone’s limited banking union (without a common deposit insurance program) introduces an additional risk to the euro zone’s financial system that is not as apparent in the financial system of the United States. As a result, CBO projects that international use of the euro is likely to stagnate over the coming decade.”
- “In contrast, real output in the Chinese economy is likely to overtake real output in the United States by the end of the decade, CBO projects, although a number of obstacles may impede the transition from the dollar to the renminbi. The most important of those obstacles are the capital controls imposed by the Chinese government that inhibit the purchase and sale of renminbi and renminbi-denominated assets. Restricting transactions in renminbi and Chinese assets limits the ability of the renminbi to function as a useful medium of exchange. In addition, legal protections for international investors are not as strong in China as they are in most developed economies. Weak legal protections may also limit the renminbi’s ability to function as an international store of value. Consequently, CBO projects that the renminbi’s use

internationally will grow only gradually over the next 10 years. Although material changes in Chinese policies do not appear likely in the near term, international use of the renminbi could grow at a faster pace if China opened its capital markets and improved investor protections.”

- “The long-run outlook for the dollar is less clear. If China opened its capital markets and bolstered investor protections, it seems possible for the renminbi to overtake the dollar as the primary international currency sometime in the next three decades. Alternatively, if China did not enact those reforms, emergence of the renminbi as an international currency might stall (as did the rise of the yen in the 1980s). Over the long run, a multipolar international monetary system could arise in which multiple regional currencies are in use simultaneously without the emergence of a primary international currency. In that scenario, the use of the dollar would continue to erode gradually over time in parallel with the shrinking U.S. share of the global economy. That scenario presumes that no major economic event takes place that might strengthen or weaken the international use of the dollar. For example, a world war or a severe financial crisis in the United States would probably have large and unpredictable implications for the projected path of the dollar over time.”

[CBO, Report: The U.S. Dollar as an International Currency and Its Economic Effects ... 4/17/23](#)

NY Fed – The Importance of the U.S. Dollar

- “The importance of the U.S. dollar in the context of the international monetary system has been examined and studied extensively. In this post, we argue that the dollar is not only the dominant global currency but also a key variable affecting global economic conditions. We describe the mechanism through which the dollar acts as a procyclical force, generating what we dub the “Dollar’s Imperial Circle,” where swings in the dollar govern global macro developments.”

[NY Fed, Report: The Dollar’s Imperial Circle ... 3/1/23](#)

St. Louis Fed – The Widespread Use of the Dollar

- “The U.S. dollar has been the most widely used international currency since 1945.¹ The dollar is the most traded currency on international financial markets, dollars comprise 60% of official reserves (i.e., foreign exchange reserves), and many traded goods, such as oil, are commonly invoiced in dollars. In addition to these commercial uses of the dollar and dollar-denominated assets, individuals in many parts of the world hold U.S. currency, i.e., paper money, both as a store of value and as a medium of exchange.² This blog post³ explains the widespread use of U.S. currency and provides some

simple, back-of-the-envelope calculations on the size of some of the benefits to Americans.”

St. Louis Fed, Report: The Innocent Greenbacks Abroad, U.S. Currency Held Internationally, 10/18/22
<https://fedunfiltered.com/st-louis-fed-report-the-innocent-greenbacks-abroad-u-s-currency-held-internationally/>

Richmond Fed – The Benefits of a Strong Dollar

- “The U.S. dollar appreciates when demand for the currency rises relative to demand for other currencies. This might happen in times of weaker growth prospects outside of the U.S. or in times of increased global uncertainty, as U.S. government assets benefit from being perceived as a safe haven. To buy Treasury bills, notes and bonds, foreign investors accumulate dollars, pushing up the dollar's price (that is, the exchange rate).”
- “A stronger dollar might help the FOMC achieve its inflation goals in two ways. By making U.S. goods more expensive and subsequently cooling foreign demand for them, a stronger dollar may ease pressure on supply-chain constrained factories that are having difficulties keeping up with the pace of new orders.”
- “The stronger U.S. dollar also makes imports cheaper, which contributes to lowering consumer price inflation both by lowering the cost of imported final goods and by lowering costs for imported intermediate goods (assuming producers pass on those cost savings to consumers).”
- “The historical correlation between import prices and the exchange rate index suggests we should see further declines in import prices, which are still in positive year-over-year growth territory as of September. Additional adjustment is likely, which could be welcome news for inflation.”

Richmond Fed, Report: Appreciating Dollar Appreciation, 10/18/22
<https://fedunfiltered.com/richmond-fed-report-appreciating-dollar-appreciation/>

IMF – Dollar’s Role as the Dominant Reserve Currency

- “For the foreseeable future, there is likely to be strong and perhaps even rising demand for “safe assets” that are liquid, available in large quantities, and backed by countries with trusted financial systems. There are limited supplies of such assets, and the US dollar—which represents a powerful combination of the world’s largest economy and financial system, backed by a strong institutional framework—remains the dominant supplier.”
- “The upshot is that the dollar’s role as the dominant reserve currency will likely persist, even if its status as a payment currency erodes, which itself is uncertain.”
- “A likelier prospect is a reshuffling of the relative importance of other currencies while the dollar retains its primacy. Rather than knocking the dollar off its pedestal, new technologies and geopolitical developments might entrench its position.”

IMF, Report: Enduring Preeminence, The US Dollar Might Slip, but it will Continue to Rule, 6/24/22
<https://fedunfiltered.com/imf-report-enduring-preeminence-the-us-dollar-might-slip-but-it-will-continue-to-rule/>

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