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Dollar Ain't Losing Its Reserve Status

A staple of the doomsday crowd is the idea that the US is on the verge of losing its “reserve currency” status. It’s held that prominent financial position since the end of World War II. But, now, the doomsday crowd argues the US economy is in a bubble, the Fed is printing money like crazy, government spending and regulation on the rise, so it’s just a matter of time.

Get ready they say, the dollar will plummet in value and interest rates will skyrocket, even above where US economic fundamentals suggest they should go, hurtling the economy back into deep recession.

Over the centuries, the world has typically had one key currency - the Greek drachma or Roman denari in ancient times or the British Pound or US Dollar in modern times. Other currencies get their value in comparison and have used these currencies as reserves. Perhaps the best thing for a country issuing the world’s reserve currency is that it attracts capital from abroad, which lets it run prolonged trade deficits with the rest of the world.

The one thing they all have in common – at least, all the ones that preceded the dollar – is that they eventually lost their status. So, it’s easy to believe this could happen to the US, especially with all the bad things going on.

Other countries in competition with the US like to egg these stories on and, sometimes, wish they could dislodge the US from its pedestal. So, Russia, or China, or some OPEC countries talk about re-denominating transactions.

But this is just talk. The US reserve currency status doesn’t hinge on how countries denominate their transactions. They could do the accounting in dominoes or tiddlywinks. In the end, what matters is what foreigners want to own when the deal is done. And that’s still dollars.

The dollar share of foreign central bank reserves – what foreign central banks hold to back up their own currencies – has gradually declined since 1999, to about 61% from 71%. But that decline follows a large spike in the 1990s. The dollar share of reserves today is actually higher than it was in 1995, before the Euro was created. Seriously, what currency could compete?

The Chinese Yuan? It’s not traded outside China. The country is not free, and the currency is really just 30-years old.

The Euro? In a crisis, Germany could leave the currency union, as was rumored a couple of years ago. It’s hard to imagine a Germany-less Euro holding its value over time.

The British Pound? One key reason the pound lost its reserve currency status is that the empire dissolved. That’s not coming back and the GDP of the UK isn’t large enough.

The Yen? That train left the station when population and the economy peaked years ago.

The US doesn’t have to issue the best currency in human history to keep its reserve currency status; it just has to issue what’s most likely to be the best among its current competitors.

We do have to admit that the Swiss Franc is one darn good currency. Over the past several decades it has generally gained value versus the dollar and we wouldn’t at all be surprised if that trend continued. But Switzerland has a population of 8 million people with a GDP of about \$650 billion and a national debt of roughly \$125 billion. The world needs much more debt and GDP for foreign central banks to use the Swiss Franc to back up their currencies in a responsible fashion.

In other words, you can look all across the globe and not find a worthy successor to the US Dollar. This won’t stop the doomsday stories, but, hopefully, it will help you ignore them. The dollar is here to stay, for a long time to come.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-23 / 9:00 am	Existing Home Sales – May	4.740 Mil	4.740 Mil		4.650 Mil
6-24 / 9:00 am	Consumer Confidence – Jun	83.5	83.8		83.0
9:00 am	New Home Sales – May	0.440 Mil	0.445 Mil		0.433 Mil
6-25 / 7:30 am	Q1 GDP Final Report	-1.8%	-1.9%		-1.0%
7:30 am	Q1 GDP Chain Price Index	1.3%	1.3%		1.3%
7:30 am	Durable Goods – May	-0.2%	-0.8%		+0.6%
7:30 am	Durable Goods (Ex-Trans) – May	+0.3%	+0.5%		+0.3%
6-26 / 7:30 am	Initial Claims Jun 21	311K	312K		312K
7:30 am	Personal Income – May	+0.4%	+0.4%		+0.3%
7:30 am	Personal Spending – May	+0.4%	+0.3%		-0.1%
6-27 / 8:55 am	U. Mich Consumer Sentiment- Jun	82.0	81.5		81.2