GLOBAL MARKETS ANALYSIS

"Can the dollar remain the reference currency under the Trump administration?"

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1.Historical & Current Status of the Dollar as a Reference Currency

The global dominance of the U.S. dollar as the dominant reference currency has its roots in the initial post-World War II period, when the Bretton Woods regime provided the map of a new world monetary order. With the convertibility of the dollar into gold and as the prime go-between in exchange rate arrangements, the dollar quickly emerged as the focal point of the world financial system. Despite the suspension of convertibility of gold in 1971 and a formal end to the Bretton Woods regime, the dollar dominated even further following the development of the petrodollar regime—a system by which major petroleum producers sold energy exports only in U.S. dollars. This shift cemented the dollar's position not just in international exchange markets but also in the overall late 20th-century geopolitical and economic system, as highlighted by scholars such as Barry Eichengreen and David Spiro.

Over the decades, the primacy of the dollar has been maintained not just by history's momentum, but by a constellation of structural advantages. First among these is the size and openness of the U.S. economy, one of the world's most dynamic and diversified economies, according to World Bank figures. The United States is similarly blessed with deep and liquid capital markets—above all, U.S. Treasuries, which serve as the international standard for safe assets. As crucial is the integrity of American institutions, ranging from the judiciary to Federal Reserve autonomy, that collectively support world confidence in the dollar as both an exchange and a repository of value.

As of 2024–2025, the dollar is still at the apex of world finance by most significant metrics. As of the COFER database of the International Monetary Fund, roughly 58 percent of official foreign exchange reserves worldwide are in dollars. The dollar also dominates global trade invoicing, with estimates placing its use in more than 80 percent of cross-border trade transactions, even if the two sides are not American. Payment networks such as SWIFT reaffirm the dollar's centrality, always ranking higher than the euro and the renminbi in terms of international transaction volume.

Yet this dominance is increasingly under silent but perceptible pressure. The excessive reliance on U.S. financial sanctions, particularly since the early 2000s and accelerated under the Trump administration, has emboldened most countries to reassess their dependence on dollar-denominated systems. Commentators such as Adam Tooze have marked the weaponization of the dollar as a power for geopolitical and monetary disintegration. To neutralize, increasingly, nations have tried to create parallel infrastructure, institutional as much as financial, in a bid to reduce their reliance on U.S.-centric systems.

Despite such trends, nothing better than the complete set of benefits has materialized as an alternative. The euro, for example, has partially recovered from the sovereign debt crisis that jolted the eurozone during the early 2010s, gaining ground in international reserves and foreign exchange markets. More stable, coordinated policies have been introduced by the European Central Bank, and the euro now accounts for around 20–22 percent of global reserves. But the underlying structural and political limits in the European Union continue to keep it short of its true potential.

Renminbi from China is a better, more developed, and better-planned option. With China's membership of the IMF SDR basket since 2016, Beijing has progressively internationalized its currency in a sustained effort, which was backed by entities such as the Asian Infrastructure Investment Bank and CIPS, a cross-border payment system. Partial convertibility of capital accounts, ongoing capital controls, and a lack of transparency of the governance framework are the major detractors of expanded usage. As of early 2025, the renminbi accounts for only about 3% of foreign reserves—incrementally modest gains that bear witness to cautious global uptake in the face of China's economic clout.

On the technological frontier, digital currency is also emerging as a source of potential disruption. Central Bank Digital Currencies (CBDCs), and particularly China's e-CNY, are being piloted and rolled out in limited cross-border transactions. Although such initiatives are at an early stage, their strategic attractiveness lies in the creation of functional alternatives to the SWIFT and dollar-clearing mechanisms. In the non-public sector, Bitcoin and Ethereum offer revolutionary systems but are riddled with volatility, regulatory uncertainty, and a lack of central support. Stablecoins—privately issued digital currency tokens with fiat currency anchors—are poised to capture financial niches, but systemic legitimacy is controversial.

Parallel to such initiatives is a deliberate process of de-dollarization, especially by the BRICS nations. These nations, which include Russia, China, India, and Brazil, have initiated a move toward settling trade in local currency, establishing bilateral swap lines, and even exploring the possibility of a reserve currency among themselves. These are politically significant initiatives that take place not just for economic purposes but also to counter the geopolitical influence the U.S. wields based on controlling dollar-based systems.

Central banks have also begun to shift their reserve composition. Countries like Russia, Turkey, Iran, and China have accumulated gold and other currencies in their reserves while reducing their exposure to the dollar. IMF statistics show the dollar share of world reserves falling gradually, from 61 percent in 2022 to around 58 percent by 2024. Although seemingly minor, this trend represents a structural tilt toward diversification in response to rising geopolitical uncertainty and concerns about the long-term direction of U.S. monetary policy.

In general, although the dollar remains the bedrock of global finance, its unassailable dominance is gradually being undermined. None of the existing alternatives—sovereign currencies, regional solutions, or digital innovation—pose a near-term existential threat. Yet the combined effect of geopolitical realignments, financial innovation, and policy disaffection is pushing the world in the direction of a pluralized monetary system. If these trends continue to intensify, the future may see the dollar as first among equals rather than an unchallenged hegemon.

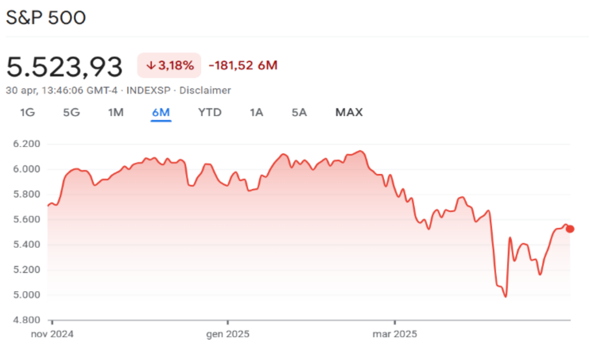
2.Trump's Economic & Foreign Policy Impact on the Dollar

The Trump administration's approach to trade and economic policy had significant implications not only for the global standing of the U.S. dollar but also for the stability of U.S. financial markets, having up and down since the beginning of his presidency. A central feature of Trump's "America First" economic philosophy was a strong focus on trade imbalances, particularly with China. The administration sought to "rebalance" global trade by imposing tariffs on Chinese imports, a policy that had direct consequences for the global financial landscape, including the value of the dollar.

One of the most notable immediate effects of the tariff announcements was the volatility in U.S. stock markets. When President Trump first announced plans to impose tariffs, all the major indexed experienced significant fall in prices as investors feared the potential of a trade war. There was a significant drop in the financial market impacting US, EU and many other countries, as everyone was concerned that tariffs would hurt U.S. companies reliant on Chinese supply chains, reduce global trade, and slow down economic growth. The U.S. dollar itself saw fluctuations.

As the tariff war escalated, with the imposition of tariffs on billions of dollars' worth of Chinese goods, markets reacted by becoming increasingly jittery. A stronger dollar, which had initially been a safe haven for investors in uncertain times, began to show signs of strain. Many saw the tariffs as a threat to global trade, and by extension, to the dollar's global role as the primary reserve currency. The overall picture was one of heightened economic uncertainty, reflected in the market's volatility.

A notable turning point came when President Trump agreed to a temporary suspension of tariffs. The announcement of a 90-day suspension of tariff hikes brought a sharp rebound in market sentiment. The stock market surged, with the S&P 500 jumping by over 5% in just a day. The optimism surrounding the truce was based on the hope that the 90-day period would allow the two countries to negotiate a lasting trade agreement, easing tensions that had been damaging global trade and growth prospects.



In his campaign speeches, the future 47th president of the United States, **Donald Trump, often stated that he would prefer to see a weaker dollar**. According to Trump's plan, this would help boost the competitiveness of American exports and reduce the US trade deficit. At the same time, the reality is that due to the strong position of the US economy relative to other leading global economies, the attractiveness of American capital markets, and the country's leadership in the high-tech sector, the dollar remains strong.

Another important event that strongly influenced the dollar and the financial market is the current situation between the FED Chief Powell. Criticized by Trump is the high level of interest rate, now at 4.25-4.50%.

Market data showed that the ICE US dollar index (DXY) plummeted by about 100 points in the early morning on the 21st of April, hitting a three-year low of 98.22. The surge in gold prices during the Asian session can largely be attributed to the rare sell-off of the US dollar. As of the time of writing, spot gold prices have reached a new historical high of $3,385 per ounce.

Currently, many industry insiders have begun to worry that if Powell is dismissed, it could significantly weaken investor confidence, as the independence of the US Fed has long been seen as a key guarantee for investing in US assets. If Powell were to step down prematurely, Trump would likely choose a successor with an "extremely dovish" monetary policy stance to align with the White House's call for interest rate cuts. However, is was recently announced by Trump that he does not want to fire Powell, however the uncertainty is still high.

3.Alternatives to the Dollar & Global Shifts

The global dominance of the U.S. dollar, consolidated since the mid-20th century through the Bretton Woods institutional architecture and reinforced by the petrodollar system in subsequent years, has been a staple of the international economy for decades. However, in recent years, and particularly under the Trump administration, dynamics have intensified that challenge this position of primacy. The increasing politicization of U.S. monetary and trade policy, the extensive adoption of economic sanctions as a foreign policy tool, and an increasingly assertive and unilateral approach to international balances have fueled the desire on the part of many global players to break free from dependence on the dollar. In this context, a changing international monetary landscape is emerging, characterized by the search for and promotion of more stable, diversified and, in some cases, technologically advanced alternatives.

One of the main directions of this process is the rise of other currencies that, although with different characteristics, aspire to play a significant role in the global monetary system. Among them, the euro, the Chinese yuan (renminbi) and new digital currencies, both public and private, are attracting increasing attention.

The euro, introduced in 1999 with the ambition of constituting a strong, stable and integrated currency for the European continent, has from the outset put itself forward as a main contender for the dollar. However, after an initial phase of consolidation, the economic and political crises that swept through the European Union, particularly the sovereign debt crisis between 2010 and 2012, temporarily downgraded its global aspirations. In recent years, however, the euro has shown resilience and has been able to regain confidence in international markets. Thanks to greater institutional cohesion, stability-oriented European Central Bank policies and the gradual recovery of the eurozone economy, the euro has seen its share in global foreign exchange reserves increase. This trend, which has returned the euro to about 22 percent of global reserves, signals renewed confidence in the single European currency, not only from Western institutional players but also from emerging economies eager to diversify their currency exposure.

A distinct but equally significant trajectory is that of the Chinese renminbi. Over the past two decades, China has actively promoted the internationalization of its currency, seeking to align the country's growing economic relevance with an equal monetary role. The inclusion of the RMB in the IMF's Special Drawing Rights basket in 2016 was a symbolic milestone in this direction. China has built a parallel financial infrastructure to that dominated by the United States, with institutions such as the Asian Infrastructure Investment Bank (AIIB) and alternative international payment systems such as CIPS designed to reduce dependence on SWIFT. However, structural obstacles to the full establishment of the renminbi remain: limited convertibility, the presence of capital controls, and the perception of opacity and state control continue to generate uncertainty. Despite this, the Chinese currency is gaining ground, albeit slowly, and has reached a share of around 3 percent of global reserves, a sign of its growing, though still marginal, influence against the dollar.

Another element of potential discontinuity is digital currencies and cryptocurrencies. CBDCs (Central Bank Digital Currencies), in particular, are emerging as a strategic tool to strengthen the international role of some currencies. China, once again in a pioneering position, has initiated extensive experiments with its e-CNY, gradually integrating it into the domestic payments system and promoting its use in some cross-border transactions. The adoption of a digital currency by a large economy could help create alternative exchange circuits that are more efficient and less dependent on the dollar. On the opposite front, private cryptocurrencies such as Bitcoin or Ethereum, while representing radical innovations, do not currently seem to offer a real alternative as a store of value for central banks, due to their extreme volatility, lack of institutional guarantees and still fragmented regulation. Finally, there is the reality of private stablecoins, i.e., digital tokens collateralized by legal tender; note especially that these tokens are emesis by private companies and are certainly not guaranteed by central banks, however, they do offer a significant store-of-value option that can easily actualize geographic distances and legal restrictions.

Alongside the strengthening of alternative currencies, there is a broader and more deliberate movement toward de-dollarization, promoted in particular by a heterogeneous but geopolitically cohesive bloc: that of the BRICS countries. Brazil, Russia, India, China and South Africa have intensified efforts in recent years to reduce their exposure to the dollar, both in international payments and foreign exchange reserves. These initiatives are motivated not only by economic considerations but also reflect a growing impatience with the coercive power of the United States, which through its control of global financial infrastructure can impose sanctions and restrictions with significant repercussions. Bilateral agreements between Russia and China to use each other's national currencies in trade, the expansion of India-Japan trade in rupees and yen, and joint initiatives to create a BRICS currency represent tangible signs of this trend. However, the crux of fragmentation and the lack of a truly shared or widely accepted BRICS currency remains. Although the actual scope of these efforts is limited in quantitative terms for now, their political and strategic significance is far from negligible.

Finally, it is interesting to note how central banks are gradually reconsidering the composition of their currency portfolios. Countries such as Russia, China, Iran and Turkey have made significant realignments in reserves in recent years, with a marked decline in the dollar component and an increase in gold, the euro and, in some cases, the yuan. According to data provided by the International Monetary Fund, the dollar's share of the world's official reserves has shifted from 61 percent in 2022 to about 58 percent in 2024. Although this change may seem small, it reflects a structural trend toward diversification, aided in part by growing uncertainty over U.S. monetary policy choices, the weakening of the Federal Reserve's stabilizing role, and increasing geopolitical polarization.

In sum, although the dollar still maintains a position of clear pre-eminence in the global financial architecture, there is evidence of the emergence of credible alternatives and deliberate movements aimed at limiting its dominance. The dynamics described here do not seem, at least in the short term, likely to produce a reversal of the existing equilibria. However, their intensification, combined with the increasing sophistication of monetary strategies and the spread of new financial technologies, hints at the possibility of a more multipolar future in which the dollar may no longer be the sole pivot around which global transactions and reserves revolve.

4. Market Sentiment & Financial Systems Perspective

The growing concerns regarding the impact of the recent tariffs implemented under the trump administration on the US economy have been strongly reflected in foreign exchange markets. On April 2, following the tariff announcement, the U.S. Dollar Index plunged 3.2% overnight—one of its steepest single-day drops since 2022—as investors reacted nervously. The ICE U.S. Dollar Index, a measure of the USD against a basket of currencies, hit its lowest level in three years. The U.S. currency has seen particularly sharp drops against safe-haven currencies like the Japanese yen and Swiss franc, as well as the euro. The yen has appreciated significantly, with the dollar losing 5% of its value against the Japanese currency.

Movements in the dollar are closely related to Treasury yields, which are also seen as a safe haven. Foreign investors seeking the safety of U.S. Treasurys typically sell their local currencies to acquire dollars needed for purchase, thereby boosting both the value of the dollar and bond prices, which in turn pushes yields lower. However, following the tariffs' announcement, Treasury yields began to climb even as the dollar weakened. The 10-year yield rose to 4.5% by April 11, up from 4.2% on April 2.

The tariffs President Trump announced were larger and broader than expected and created massive uncertainty for the economy. Financial market volatility surged. Treasury yields fell initially amid growing concerns about a recession, but the yield on longer-term Treasury debt began to rise later that week as investors reassessed the prospects for higher inflation and weaker growth over a longer horizon.

The 10-year Treasury soared rapidly from less than 4% on April 4, just two days after the tariffs' announcement, to 4.5% on an intra-day on April 8, and the 30-year yield topped 5%. Market liquidity declined as intermediaries often pull back from risk-taking and raise transaction costs when volatility is high. The spread of Treasury yields-to-OIS (also known as the interest rate swap) at longer maturities, a measure of the demand for Treasury securities relative to the fixed rate on the interest rate swap, widened sharply, raising concerns that market liquidity for Treasury securities was deteriorating further. Amid the turmoil, the Treasury's auction of 3-year Treasury notes was weaker than usual.

But the worst fears about market functioning eased on after President Trump announced a 90-day delay in tariffs for some countries, creating strong demand at the Treasury's auction of 10-year bonds. The 30-year auction that took place on the following day also went well.

Global financial institutions have also reacted to recent events. The International Monetary Fund (IMF) has warned that the new tariffs could lead to increased inflation and reduced global economic efficiency. IMF Managing Director highlighted that the uncertainty surrounding U.S. trade policies is contributing to higher long-term interest rates worldwide, which is an unusual trend given the current economic climate. Additionally, the IMF is preparing to downgrade its global growth forecasts for 2025, attributing the slowdown to U.S. protectionist measures and the resulting trade tensions.

While the Bank for International Settlements (BIS) has yet to formally respond to the 2025 tariffs, the institution has historically emphasized the risks that protectionist policies pose to global financial stability. The BIS has noted that such measures can lead to increased market volatility and disrupt international financial markets.

The investment community has reacted by shifting towards safer assets. A Bank of America survey indicated that 42% of fund managers now favor gold, up from 23% in the previous month, reflecting a move away from riskier investments amid fears of a global recession. Investors are also increasing allocations to cash and fixed income assets, while reducing exposure to sectors like technology and U.S. equities.

The private sector may shift away from the USD, as a consequence of the recent market volatility and decline in value of the dollar. Under renewed tariffs, supply chain disruptions, or currency volatility, global companies may reprise the costs of transacting in USD, especially in regions where the euro or yuan offer competitive alternatives. Some large multinationals may increase invoicing in local currencies to avoid USD exposure tied to U.S. policy risk. While the dollar still dominates in global trade, there's a clear uptick in dual-currency pricing models, especially in Asia and parts of the Middle East. Large U.S.-based asset managers still have deep commitments to dollar assets, but geopolitical instability (e.g. trade tensions, sanctions, or debt ceiling drama) could drive more allocations into non-dollar assets -like European or Asian sovereign debt, emerging market local-currency bonds, or commodities.

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