

WEEKLY ANALYSIS

M. Alain Freymond—Partner & CIO



ACCELERATED DE-DOLLARIZATION OF THE WORLD ECONOMY

The first signs of the end of petrodollars and the beginning of de-dollarization. China unites the discontented and proposes an alternative to the dollar. Petrodollars, petroyuans and the new BRICS currency. 4 major consequences of de-dollarization.

Key points



- How the dollar becomes THE international currency
- 50 years of dollar hegemony
- Emergence of petrodollars in the 1970s
- The first signs of the end of petrodollars and the beginning of de-dollarization
- The yuan becomes a respectable currency thanks to the IMF
- SWIFT and CIPS to facilitate yuan transactions
- China unites the discontented and proposes an alternative to the dollar
- Petrodollars, petroyuans and the new BRICS currency
- 4 major consequences of an accelerated de-dollarization

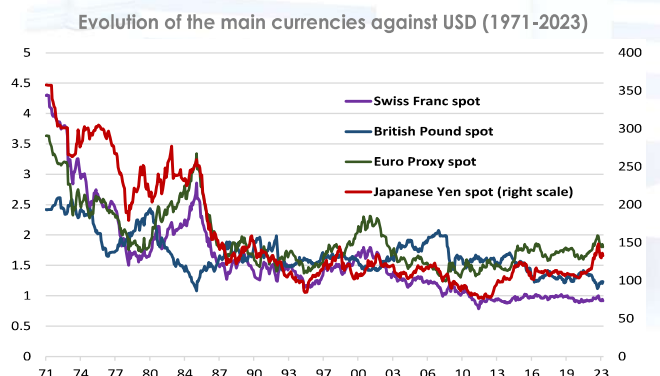
How the dollar becomes THE international currency

A long evolution that began in the 17th century and found its current foundation after World War II. The first banknote to be printed on American soil dates from 1690, by the British colony of Massachusetts. A century later, the dollar was finally adopted by the Congress of the Confederacy on July 6th, 1785 and became the official currency of the United States under the Mint Act in 1792. The face value of the first 1 dollar coins minted in 1794 was indexed to silver: 1 dollar was equivalent to 26.96 g of silver at 892/1000. In 1861, the first greenbacks appeared. The world monetary system known as the Gold Exchange Standard was then put in place by the Genoa agreements in 1922. But in 1933, Roosevelt suspended the convertibility of the dollar into gold to devalue it. Later, the Bretton Woods Agreement in 1944 gave the dollar a prominent place after World War II by ending the gold standard, which implied the convertibility of various currencies into gold on demand.

The dollar then became an international currency by pegging all currencies to the greenback. At the time, the United States held the world's largest gold reserve and

accounted for 75% of the world's gold production, which justified the use of the dollar as a reference instead of gold.

This agreement was based on two main pillars: the first was a system of fixed exchange rates between currencies (with very small margins of fluctuation) and the second was the recognition of the dollar as an international reserve currency (as good as gold), which remained convertible into gold, but only in the context of trade between central banks. At the same time, the World Bank and the International Monetary Fund were created to control the operation of the new monetary system. The accumulation of U.S. deficits, further increased by the expenses related to the Vietnam War, led to very strong pressure on the U.S. currency at the beginning of the 1970s, which nonetheless benefited from its function as a world reserve currency until August 15th, 1971, when the dollar's convertibility with respect to gold was abolished. The reason for this decision was the increased risk that other central banks would demand that their surplus dollars be converted into gold, since the dollar was convertible into gold. It heralded the death of the Bretton Woods system, since the value of each of the currencies was determined by reference to a weight of gold. The pressure on the dollar then increased as its trade balance deteriorated, but its balance of payments did not suffer because of the dollar's status as an international reserve currency. Several political meetings were held to agree on a devaluation of the U.S. currency and to attempt to overhaul the system.



Sources: Bloomberg, BBGI Group SA