

# The Death of King Dollar

- Carol Roth

In this informative newsletter, Carol covers why “King Dollar” is in trouble as the world’s reserve currency; what China adding to its gold reserves for the first time in a few years may signal; what China is doing to its US Treasury holdings; how other countries and central banks are also positioning themselves for a new global financial order; how to hedge for what’s ahead; and more.

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## The Death of King Dollar

***Countries around the world are wary of their continued dependence on the US dollar as a store of value; you need to heed their warning.***

Hear ye, hear ye--- the status of the US dollar as the world's reserve currency has made it "King Dollar" around the world for about eight decades. This was dubbed an "exorbitant privilege" by late French president and finance minister Valéry Giscard, emphasizing the benefits that go along with being the center of the global financial universe.

Countries around the world came to agree that the US dollar was generally stable and, while perhaps they were not thrilled with US's position, played along for some time. These countries would pay for various goods and services in US dollars and therefore, they would keep dollar-denominated assets like Treasuries in reserve to be available for payments. For the US, this helped keep interest rates suppressed within the American system (Treasury bond and note prices trade inversely to their yields; this means if there is more demand for Treasuries, their prices go higher and the corresponding interest rate goes lower).

Ultimately, that gave the US an arbitrage opportunity, where Americans could use their low-cost capital to invest in higher-yielding assets, including abroad. Nobody benefited from this arrangement more so than the US government, which used this "privilege" of cheap debt to finance its unwieldy and growing spending.

But, as the Federal Reserve and government have been careless in terms of protecting the US dollar's stability and purchasing power, not to mention the US government weaponizing King Dollar at their whim, other countries around the world have become increasingly dissatisfied with this current financial world order.

This creates serious implications for the dollar and how you store your wealth. [After reading about this, you may want to call Goldline to discuss your objectives around stores of value, including gold and other precious metals.](#) More information is at the end of the piece.

### **The King is Dying. Long Live the King?**

After a few year pause, China is reporting adding to its gold reserves again. The website [Central Banking](#) noted that last November, The People's Bank of China increased its gold reserves for the first time in more than three years. January 2023 marked the third consecutive month of reported gold increases for China.

At the same time, China has been shedding its US Treasury holdings. Once the largest foreign holder of US government debt, it has now dropped back into the number two position, behind Japan. And, China continues to lighten its net holdings.

Per [US Treasury data](#), in November 2021, China held \$1.1 trillion worth of US Treasury Securities, down from a high of more than [\\$1.3 trillion](#). By November of 2022, China's holdings were down to \$870 billion.

There's no doubt that China does not like the US's dollar supremacy, and, given the derelict management of the dollar over the past decade and a half, China has fair reason to be worried about the US dollar's global dominance. When dollars are more expensive and the same US dollar buys less today than it did in the past, and critical commodities like oil and food are priced in dollars, it threatens China's food and energy supply.

They may also see an opportunity to strengthen their own currency and global financial standing. Adding gold reserves could be a measure for China to try to persuade other countries of the stability of their yuan, perhaps, as has been discussed in financial circles, providing an opportunity for countries to convert yuan into gold on demand.

China is not the only country adding gold to their reserves and raising concerns about the dollar's role in the global financial order, with those issues likely interconnected.

Central banks bought record amounts of gold last year, totaling [1,136 tons](#) per the World Gold Council, with 862 tons of that (or 76%) in Q3 and Q4. The Council [said](#), "This marked a banner year for central bank buying: 2022 was not only the thirteenth consecutive year of net purchases, but also the highest level of annual demand on record back to 1950, boosted by +400t demand in both Q3 and Q4."

How does this relate to the case for an ailing dollar? Well, during the World Economic Forum's Davos shindig in January, the [finance minister of Saudi Arabia](#) said, "There are no issues with discussing how we settle our trade arrangements, whether it is in the US dollar, whether it is the euro, whether it is the Saudi riyal...I don't think we are waving away or ruling out any discussion that will help improve the trade around the world." This was widely interpreted as signaling a potential move away from the US dollar, at least in part.

China, which is the world's largest net oil importer, has been putting more pressure on Saudi Arabia and other oil exporters to pay for oil in yuan, not dollars. This means less of a role for the dollar, and, perhaps, given concerns about the currency of a non-transparent communist nation like China, more of a role for gold.

There are a number of emerging market countries around the globe who have been moving away from the dollar in recent years, and speculation about other countries seeking to rebalance their reserves, lessening Treasury holdings in favor of gold.

There have also been increasing discussions regarding creating other reserve currencies. Whether those currencies function for certain global blocs and alliances or are adopted more broadly, gold and other precious metals are leading candidates to play a role in backing such endeavors.

With the US government unwilling to pull back their spending, the Federal Reserve unwilling to stabilize the dollar for the good of the world (or, frankly, the US either) and concerns over the US's continued weaponization of the dollar and its financial bullying, these new global financial order discussions are likely to become more frequent and urgent.

### **Pomp and Circumstance**

Of course, with China, it is hard to tell what anything is about, as well as what is true. Their recent gold buying could also be a move to create some hedging and insurance in preparation of other

undertakings, such as an invasion of Taiwan, knowing that the US now has precedent in freezing reserve access.

If you recall, Russia also shed a good deal of foreign currency reserves and loaded up on gold prior to their Ukraine invasion, before seeing their reserve assets frozen by the US and other allied countries.

Should there be increased global instability from any potential Chinese aggressions or worse, major instability, that throws the world into chaos and engenders financial chaos in the process, the need for strong hedges, including hard assets in particular increases.

None of this seems bullish for the US or the US dollar. The question comes down to timing and scope. It does, however, underscore the urgency for hedging against the dollar for individuals, just as other countries are doing, including considering gold and other precious metals.

It doesn't mean that the dollar goes away, it means that it may play a less prominent role and with that, create more issues for wealth creation and preservation in the US.

### **A Royal Coup?**

Could the US be trying to lose the dollar's reserve status intentionally? If that were the goal, they would follow much of the same playbook.

This is an idea that has been lurking in the background for some time. Jared Bernstein, who was an economic advisor in both the Obama and Biden administrations, penned a 2014 op-ed for the *New York Times* titled "[Dethrone 'King Dollar.'](#)" Bernstein argued that being the world's reserve currency has too much downside and not enough upside.

While there are certainly many issues, including the Triffin Dilemma (having to manage your currency for competing interests globally and domestically, and having to run trade deficits to meet global currency demand), there is also the exorbitant privilege of being the global reserve currency, as we discussed. Giving back that privilege today would be ugly and painful for Americans, whether intentional or not.

Regardless, the fact that members of the elite are pushing these ideas signals that King Dollar is in trouble and that a new financial order may be more imminent than some expect.

### **The Royal Subjects**

So, if you are a subject of King Dollar—that is, you store your wealth in dollars—all of this points to a lot more risk at hand. Creating your own insurance policy and storing a portion of your wealth in a form factor that you can control and isn't actively being manipulated by one government entity makes financial sense.

I believe that gold and other precious metals represent a good means of hedging your portfolio. If major countries and their central banks are looking to gold, that is a compelling data point in terms of the world's view of it as a hedge amidst a rocky global financial backdrop.

If you go this route, it is imperative that you work with a reputable firm and that you purchase physical gold. Consider giving my friends at Goldline a call (they are the only company from which I purchase my precious metals) to help you sort through your questions.

What may ultimately kill the dollar as the global reserve currency is hard to predict, but there are many entities hoping King Dollar is overthrown. When it happens, it will be the carelessness of the Fed and the government with their “exorbitant privilege” that is the root cause of the fall of the empire. Make sure you are planning today so you don’t get caught in the fallout.

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