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A Global Inflection Point: The Dollar's Resilience Meets the Limits of Financial Hegemony

 By Joshua Barone | Nov 18, 2025

For nearly eight decades, the U.S. dollar has anchored the world's financial architecture. That dominance has never been merely a matter of reputation—it has been rooted in **market plumbing**: the depth of U.S. Treasury liquidity, the global reach of U.S. financial infrastructure, the legal reliability of U.S. institutions, and the geopolitical security provided by U.S. alliances.

But all long cycles eventually meet the limits of their foundational assumptions. Today, the dollar remains the world's **reflexive** safe haven, yet structural forces are pushing the global system quietly and steadily toward **incremental diversification**.

This divergence—between crisis-driven strength and long-term fragility—defines the global monetary landscape of 2025.

I. Why the Dollar Dominates: A Primer on Systemic Foundations

Dollar supremacy emerged not by decree, but because the U.S. built a system no other nation has replicated.

1. The Treasury Market: Scale and Collateral Utility

The U.S. Treasury market trades **more than \$600 billion per day**, making it the only sovereign market deep enough to absorb global surpluses.¹

Treasuries also anchor the global **repo (repurchase agreement)** market—where financial institutions borrow cash against collateral. No other sovereign issuer provides comparable:

- liquidity
- depth
- maturity spectrum
- regulatory acceptance as **HQLA (High-Quality Liquid Assets)**

This collateral ecosystem is the backbone of dollar dominance.

2. Institutional Credibility

The U.S. has long offered:

- stable, predictable courts
- regulatory continuity
- an independent central bank
- and a consistent rule-of-law environment

Combined with the Federal Reserve's ability to extend dollar liquidity through global **swap lines**, this institutional framework has been central to dollar supremacy.

3. Geopolitical Foundations

Global finance rests upon global security.

U.S. military power has historically:

- kept sea lanes open
- provided security guarantees to allies
- maintained stability in Europe and Asia

This stability made dollar-based contracts, loans, and trade settlement the global norm.

4. Financial Infrastructure

The dollar underpins the systems the world uses:

- **SWIFT (Society for Worldwide Interbank Financial Telecommunication)** – global financial messaging
- **CLS (Continuous Linked Settlement)** – reduction of FX settlement risk
- U.S. legal jurisdiction in global derivatives and project finance
- Centrality of the dollar in global **FX (foreign exchange)** markets, where it represents 85% of daily turnover²

This is not merely a currency—it is an operating platform.

II. Why the Foundation Is Now Less Stable

The dollar's dominance remains intact, but for the first time since the end of the Cold War, **the structural incentives supporting it are shifting**.

1. Sanctions and Reserve Seizures Changed Global Behavior

The 2022 freeze of more than \$300 billion in Russian central bank reserves transformed reserve management globally.³

Before 2022, central banks debated diversification academically. After 2022, they pursued it pragmatically:

- record official gold purchases (1,100+ metric tons in 2023)⁴
- expansion of China's **CIPS (Cross-Border Interbank Payment System)**
- adoption of **DLT (Distributed Ledger Technology)** for nondollar settlements
- greater use of regional swap lines

This wasn't ideological—it was **counterparty-risk management**.

2. U.S. Fiscal Trajectory Introduces a Dollar Risk Premium

Foreign official holdings of Treasuries have declined from over 50% during the **GFC (Global Financial Crisis)** to roughly 30% today.

Structural issues include:

- persistent U.S. deficits
- rapidly rising interest costs
- increased Treasury issuance
- political brinkmanship (government shutdown threats, tariff shocks, debt ceiling crises)

These factors are already visible in market signals:

- wider **swap spreads**
- higher **TED spreads** (difference between 3-month Treasury bills and 3-month Eurodollars)
- softer foreign indirect bids in Treasury auctions

The U.S. is slowly introducing a risk premium into what was once the world's unquestioned "risk-free" asset.

3. Asia Is Building Functional Alternatives

For the first time, competing systems are not theoretical—they work:

- CIPS for China
- the **mBridge (multiple–central bank digital currency bridge)** project between China, Hong Kong, Thailand, and the UAE
- renminbi-denominated trade settlements
- expanded local-currency swap networks
- regional sovereign bond markets with rising liquidity

Functionality comes before adoption. Adoption comes before reallocation.

4. Japan's Policy Shift Weakens a Key Dollar Pillar

The Bank of Japan's normalization is gradually unwinding the yen carry trade—a long-standing engine of offshore dollar funding.

As yen rates rise:

- leveraged dollar positions unwind
- yen capital repatriates
- structural dollar demand falls

This is slow but permanent.

III. Crisis Reflex vs. Structural Diversification

Crisis Phase (days to weeks)

The dollar—and the DXY (U.S. Dollar Index)—continue to spike during:

- geopolitical shocks
- banking stress
- EM (emerging market) crises
- commodity disruptions

This is driven by:

- Treasury liquidity
- global dollar collateral needs
- banking regulations such as **LCR (Liquidity Coverage Ratio)** and **NSFR (Net Stable Funding Ratio)**
- a lack of viable substitutes

Structural Phase (months to years)

After immediate panic subsides:

- central banks trim dollar exposure
- SWFs (sovereign wealth funds) diversify into Asian bonds and gold
- nondollar payment networks expand
- Treasury issuance outpaces foreign demand
- political volatility raises hedging costs

The dollar wins the battles but risks losing the long war of incentives.

IV. Reserve Behavior: What the COFER Data Shows

The **IMF (International Monetary Fund)** **COFER (Currency Composition of Official Foreign Exchange Reserves)** data for Q1 2025 shows:

- USD share at **57.7%**
- down from over 70% in early 2000s
- largely unchanged since 2022

Importantly:

- the decline is largely valuation-driven
- incremental reserve growth is diversifying
- private dollar demand (e.g., **stablecoins** now >\$220 billion) is rising as official demand plateaus

Gold Is the Main Beneficiary

Gold's three core attributes—no issuer, no counterparty, no sanctions exposure—make it the ultimate geopolitical hedge.

Central banks are not speculating. They are reducing jurisdictional risk.

V. The U.S. Political Premium: A New Currency Variable

Financial markets can price recessions, inflation, and credit cycles. What they cannot price is **policy unpredictability**.

Recent U.S. dynamics matter:

- debt-ceiling standoffs
- tariff volatility
- shutdown threats
- rapid reversals in regulatory policy

These factors directly influence:

- FX volatility
- Treasury auction performance
- global hedging costs
- demand for nondollar channels

Reserve managers value stability above all else. The U.S. is offering less of it.

VI. The Digital Layer: A New Dollar Strength — and a New Fragility

Dollar-denominated **stablecoins** provide global access to the dollar outside traditional banking systems. In EM economies, they are increasingly used as digital savings accounts or working capital tools.

But stablecoins create structural tension:

- They increase dollar use globally
- But reduce reliance on the U.S. banking system
- And do not require Treasuries as backing

This creates a dollar that is more widespread—but less anchored to sovereign demand for U.S. debt.

VII. What Professionals Must Watch

Real shifts begin in the market plumbing:

- **Indirect bids** at Treasury auctions
- official-sector gold purchases
- mBridge transaction volumes
- non-USD commodity invoicing (especially oil)
- FRA-OIS spreads (dollar funding stress)
- Japan's policy path
- Argentina's emerging case study in dollar reliance (see next section)

Which brings us to a timely example.

VIII. Argentina: A Case Study in Dollar Reliance, Military Realignment, and Regional Strategy

Argentina is emerging as a real-time example of how currency dynamics, fiscal distress, geopolitical alignment, and international support converge.

Recent actions include:

- expanded IMF lending
- renewed U.S. Treasury backing
- aggressive structural reforms under President Javier Milei
- and a surge in Western-supported **military modernization**

This is more than economic stabilization.

It is geopolitical repositioning.

1. A Hemispheric Realignment

Argentina has shifted decisively toward the West:

- strategic alignment with Washington
- distancing from China-oriented frameworks
- re-engagement with Western security and trade institutions

This alignment aligns economic incentives with defense cooperation.

2. Military Modernization as Strategic Signaling

Argentina's rapid defense buildup—sourcing equipment from Western suppliers—serves multiple purposes:

- strengthening national capacity
- signaling reliability as a regional partner
- improving interoperability with Western militaries

From a geopolitical perspective, it also helps Washington counter rising authoritarian influence in South America.

3. A "Reform + Support" Model with Broader Implications

Argentina may become a template for a new Western strategy:

- market reforms
- institutional stabilization
- military modernization
- coordinated financial backing

This combination enhances Argentina's internal stability and elevates it as a regional anchor.

While not a regime change tool per se, this integrated model can shape **regional political** trajectories by demonstrating the benefits of alignment with Western institutions.

4. Why Argentina Matters for the Dollar

The military buildup reinforces—not erodes—dollar dominance:

- military imports require USD financing
- sovereign stabilization requires USD liquidity
- long-term defense contracts strengthen dollar-based banking links
- IMF and U.S. Treasury support embed Argentina deeper into the dollar system

Once again, crisis leads nations toward the dollar, not away from it.

5. But the U.S. Assumes Increasing Burden

Supporting Argentina strengthens U.S. regional influence but increases America's role as:

- financial guarantor
- military partner
- political stabilizer

This adds to the long-term fiscal and geopolitical load borne by the U.S.—just as its own fiscal position deteriorates.

Argentina is both a **success story for dollar resilience** and a **warning about the rising cost of global leadership**.

IX. The Foundational Paradox

We now face a paradox that will shape the dollar's trajectory for the next 20 years:

Short-Term:

The dollar is irreplaceable.

Every crisis strengthens it.

Long-Term:

The incentives supporting dollar concentration are eroding—slowly, but undeniably.

Crisis → Dollar Demand

Post-Crisis → Diversification Incentives

This duality is reshaping the global system.

X. Bottom Line: Resilience Today, Structural Erosion Tomorrow

The dollar will remain the world's emergency anchor for years—likely decades—because:

- no market matches Treasury liquidity
- no legal system matches U.S. liability
- no military alliance matches U.S.-led security
- no alternative currency offers comparable collateral utility

But each geopolitical shock and each fiscal escalation brings the world one step closer to building **parallel lifeboats**:

- gold
- Asian payment systems
- nondollar sovereign bonds
- stablecoins
- regional security networks
- reform-and-support models like emerging in Argentina

Dollar dominance endures.

But unquestioned hegemony does not.

The next era will be defined not by dollar replacement, but by **dollar dilution**—a world where the dollar remains essential, yet no longer singular.

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