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FX UNITED STATES

# BRICS expansion and the dollar: Would a larger bloc mean faster de-dollarisation?

Despite talk of an enlarged BRICS alliance and the possibility of a new currency which could challenge the dominance of the dollar, we do not think the greenback is in any immediate danger of losing its status as the primary global currency. In this report, we explain why



## Executive summary

The BRICS grouping of major emerging economies, Brazil, India, China, South Africa and Russia, is holding its fifteenth summit later this month. Up for discussion: an expansion of the bloc, greater use of local currencies and the possibility of a BRICS currency which may have the potential to challenge the dominance of the US dollar.

Any expansion of the BRICS grouping could determine the speed with which the bloc adopts commercial and financial systems outside of the dollar sphere. Speculation is rife as to how many countries, if any, will join the club – for the first expansion in a decade.

In order to evaluate how the political ambitions correlate with underlying economic trends, we take a closer look at the overall evolution of the US dollar's role in the various areas of the global economy and markets. Here are the observations so far:

There has been a drop in the dollar's share of central banks' FX reserves, but dollar usage has held up very well in commerce, private assets, debt issuance, and generally on the global FX market.

Among the potential dollar challengers, the euro may seem like a runner-up, but its dominance is seen only in Europe. Looking at the BRICS, China's amplification of renminbi swap lines seems to have helped promote the use of its currency in trade and international reserves, and Russia's geopolitical aversion to the dollar gave CNY an additional boost, but China's capital controls and low issuance of panda bonds remain an obstacle.

The rising usage of alternative currencies does not seem to be threatening the dollar but rather increasing the competition among the regional currencies amid fragmentation of the trade and capital flows.

No currency has made any inroad to the dollar's pre-eminent status as the issuance currency of choice. Having been a major factor in removing sterling's crown last century, challenging the dollar's status in the international debt market has to be a central strategy for the young pretenders.

Overall, we do not see any conclusive evidence that the dollar is on the path of structural decline at this point. However, it is still facing challenges, stemming from both economics and geopolitics.

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