USD Share of Global Payments Slides

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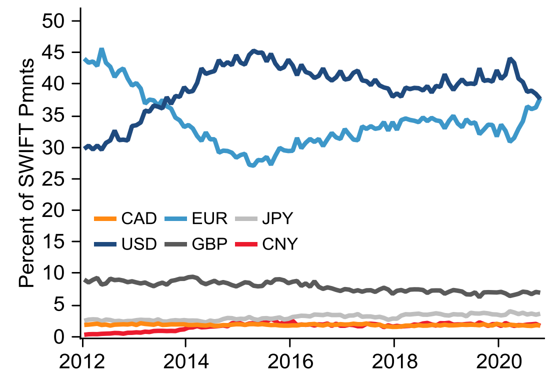
SWIFT payments data for October released this week reflect an unusual decline in the USD's role in global payments; for the first time since 2013, the USD has been supplanted by the EUR as the most widely-used medium in global payments. The EUR's advantage was minimal—less than two tenths of a percentage point at 37.82% against the USD's share at 37.64%, according to SWIFT data—but, in an environment where the USD's hegemony as the favoured vehicle for global transactions has come under scrutiny, the recent shift in favour of the EUR is notable.

The timing of the decline in the USD's share of global payments is notable and perhaps explains what may be a temporary change in the established world order; the pandemic has slowed global trade and economic growth significantly. Data suggest global trade volumes fell nearly 17% during the initial phase of the global pandemic and volumes have only recovered around 75% of that drop through the end of August. The slide in global trade likely accounts for at least some of the USD's declining usage. The SWIFT data also reflect a small decline in the CNY's share of global payments (1.66%), with the CAD overtaking it (1.74%), although this may also prove to be a temporary and related to slower global exports.

At the margin, however, the data does reflect perhaps a subtle erosion in the USD's dominance. The USD's share of allocated global FX reserves has slipped modestly in the last 5 years or so (66% share in 2015, down to 61% in Q2 this year); but this has reflected gains in other currency allocations (commodity FX, the CNY), rather than the EUR (whose share of FX reserves has remained more or less stable around the 20% level since the start of 2015). Meanwhile, US Treasury Department data for September reflected a further fall in China's holdings of US Treasury debt which are now at their lowest level since 2017. China is the second largest holder of US Treasury securities after Japan (whose September holdings also fell).

Currency Use in Global Payments



Source: Macrobond, Scotiabank FICC Strategy

The weak USD trend which followed the sharp rise in its broad value in the early stages of the global pandemic, reflects a weaker domestic growth outlook and the likelihood that Fed policy will remain extremely accommodative for some time to come, eroding the support the USD has derived from relatively higher real/nominal interest rates. This has led to an intensification of USD-negative forecasts for the coming year . The political climate which has emerged around the US presidential election may also dissuade international investors from lifting exposure to the USD in the short run at least. The USD's supremacy as the dominant medium of transaction has survived through bouts of USD weakness in the past and we see no viable challengers to that status—at this point. An increasingly multi-polar world and the potential for rivals (the EUR, as it matures, or the CNY when it becomes fully convertible) to eventually emerge in the years ahead suggest that a change is possible, if not likely, in the years ahead. But just not right now.