Press Release

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World's Central Banks Are Turning Away from U.S. Dollar, Says MUFG Head of Research

Shift to non-dollar reserves may indicate fear of uncertainty in U.S. politics and economic policy

New York, September 30, 2019 – Appetite for the U.S. dollar has been shrinking to unprecedented levels among the world's central banks, reflecting their fear of uncertainty in U.S. economic policy and the American political landscape, says **Derek Halpenny**, Head of Research with Global Markets, EMEA, and International Securities at Mitsubishi UFJ Financial Group, Inc. (MUFG).

Mr. Halpenny delivered his comments to financial journalists at a recent session of ***MUFG Explores***, a media series on topical issues featuring the bank's subject-matter experts, at MUFG's New York offices earlier this month.

Diversifying away from the greenback

The U.S. dollar's share of currency reserves held by central banks around the world—as reported to the International Monetary Fund—has been declining since 2017 toward record lows. Central banks hold reserves in different currencies primarily to support their liabilities, and occasionally to support the values of their countries' respective currencies.

"The U.S. dollar is still the world's foremost reserve currency, but central banks appear to be reducing their exposure to it in a sustained manner," Mr. Halpenny says. "The recent decline in the value of their dollar reserves is all the more striking given that the dollar has actually strengthened for most of 2019. This means central banks are diversifying away from the greenback fast enough to offset its rising value."

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Mr. Halpenny cites U.S. political and economic-policy uncertainty as likely reasons for central banks to trim their dollar exposure. “The U.S. administration’s shifting positions on trade—especially with China—have created confusion as economic officials of other countries attempt to formulate a response,” he says. “Additionally, as we approach the 2020 U.S. Presidential election with no clear victor in sight—and with the country’s two major political parties far apart from each other on geopolitical and economic-policy issues—the road ahead looks very ambiguous.”

Mr. Halpenny points to capital-flow data from the U.S. Treasury Department indicating that banks have been net sellers of U.S. Treasury bonds for four years now. In the 6-month period leading to the end of July, 2019, central banks from around the world sold $124 billion worth of bonds. They sold $180 billion in all of 2018, $149 billion in 2017, and $332 billion in 2016.

“The dollar’s position as the world’s most dominant reserve currency allows the United States to enjoy lower interest rates, increased investment, cheaper consumption, and the ability to borrow and spend well beyond what other nations can afford,” Mr. Halpenny says. “However, a continuation of the current trend among central banks could erode this enviable position.”

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The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of $334.3 billion at June 30, 2019. As part of that total, MUFG Americas Holdings Corporation (MUAH), a financial holding company, bank holding company and intermediate holding company, has total assets of $172.0 billion at June 30, 2019. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of June 30, 2019, MUFG Union Bank, N.A. operated 350 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as 22 PurePoint® Financial Centers.

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