



INTERNATIONAL FINANCE

# The US dollar's role

Why the world trades, borrows and saves in dollars, how a dollar index works, and the de-dollarisation debate

Official data to September 2026; dollar index as on 31 August 2026

For training and education only. Not investment advice.

# **The dollar is America's currency, but much of the world also uses it to price trade, borrow and hold reserves.**

So its value matters to people who never deal with the US directly: an importer in Pune, RBI's reserve managers, or a family paying a fee abroad.

# Four roles the dollar plays



## Reserve currency

A currency central banks hold in their reserves. The dollar is the largest share of the world's reserves.



## Go-between

Most foreign exchange trades have the dollar on one side, even when neither party is American.



## Pricing trade

The currency a trade deal is priced in. Much trade between non-US countries is priced in dollars.



## Deep markets

A very large, easily traded market. The US Treasury calls its securities the world's 'preeminent safe and liquid asset'.

Sources: Federal Reserve FEDS Note, 18 Jul 2025; BIS Triennial Survey 2025; US Treasury statement, 1 Aug 2023.

# How a dollar index works

## A TWO-CURRENCY INDEX

An invented index that compares the dollar with two currencies, X and Y.

Weights: X 60%, Y 40%. The index starts at 100.

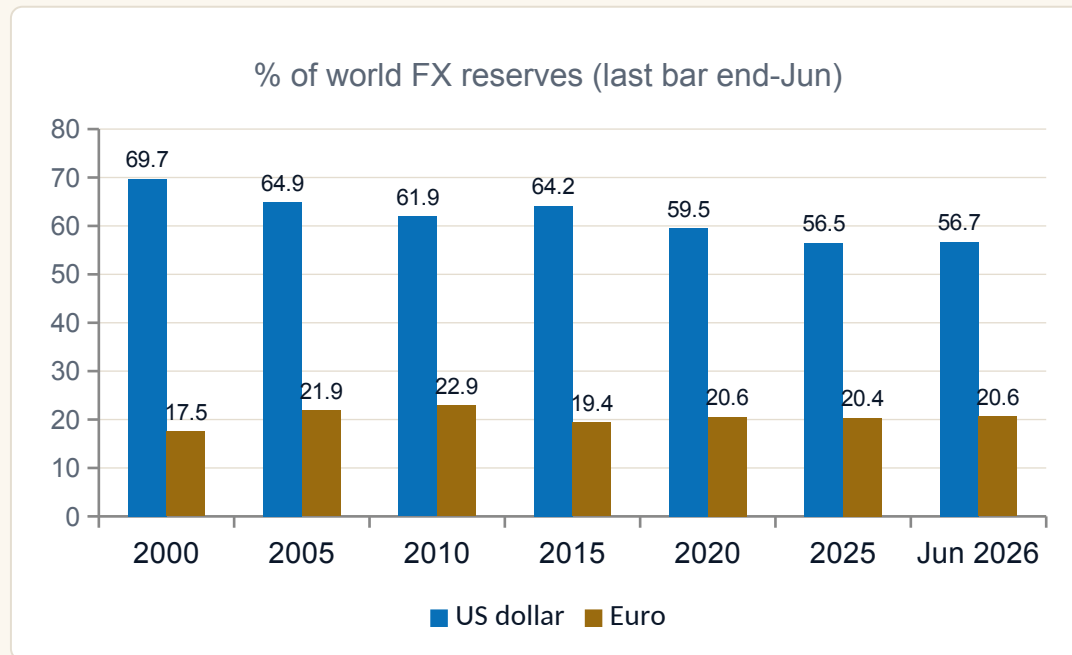
Over a year the dollar rises 10% against X and falls 5% against Y.

- 1 Weighted change against X:  $60\% \times (+10\%) = +6.0\%$ .
- 2 Weighted change against Y:  $40\% \times (-5\%) = -2.0\%$ .
- 3 Index change =  $+6.0\% - 2.0\% = +4.0\%$ . The index moves from 100 to 104.
- 4 The dollar is up 'on average' though it fell against Y. Real indices use many more currencies and a more complex formula.

**A dollar index is an average. It does not tell you the dollar's move against any one currency.**

*Illustration with invented currencies, weights and moves. Not a forecast.*

# Share of world reserves: dollar and euro

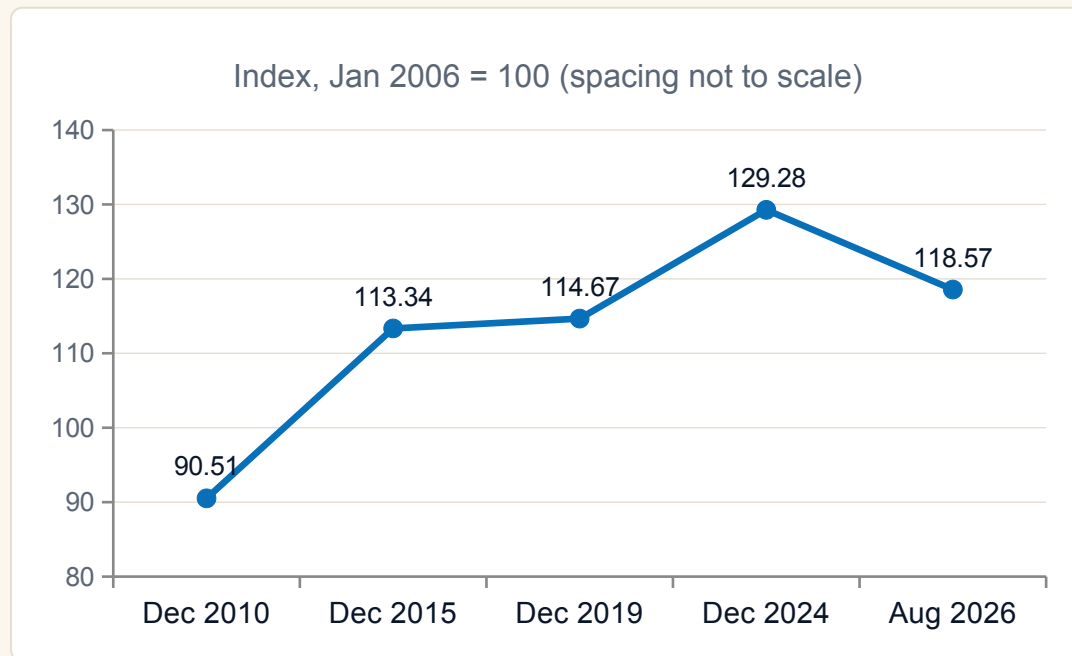


## Read the chart

- Dollar: 69.74% at end-2000, 56.70% at end-June 2026.
- Euro: 17.54% to 20.60% over the same period.
- Renminbi: 2.11% in June 2026. Yen: 4.96%.
- Dollar reserves grew from \$1.35 tn (2000) to \$7.49 tn (2026); others grew faster.

Source: IMF, Currency Composition of Official Foreign Exchange Reserves (COFER), data published 30 Sep 2026.

# The Fed's broad dollar index



## Read the chart

- The dollar against 26 trading partners' currencies, weighted by trade.
- Higher means a stronger dollar. India's weight in 2026: 3.351%.
- Highest close to Aug 2026: 130.04 on 13 Jan 2025.
- 31 Dec 2024 to 31 Aug 2026: 129.28 to 118.57, down 8.3%.

Source: Federal Reserve Board, H.10 release, Nominal Broad Dollar Index (daily) and currency weights, as published 13 Oct 2026.

# From the 2010 argument to today

| When          | What happened                                                                                                                                      |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 21 July 2005  | China moved to a managed floating exchange rate, set with reference to a basket of currencies.                                                     |
| 19 June 2010  | China decided to make the renminbi more flexible. The US Treasury described this as ending its peg to the dollar.                                  |
| 8 July 2010   | The US Treasury told Congress the renminbi remained undervalued, but found no partner manipulating its currency.                                   |
| The tests now | A surplus with the US of at least \$15 bn; a current account surplus of 3% of GDP or more; currency buying of 2% of GDP or more in 8 of 12 months. |
| July 2026     | Ten economies, including China and Japan, are on the Treasury's monitoring list. None met all three tests.                                         |

Sources: PBC Deputy Governor's article, 30 Jul 2010 (BIS Review 105/2010); US Treasury press release TG-772, 8 Jul 2010; US Treasury FX report, July 2026.

# The de-dollarisation debate



## A slow drift

The dollar's share of world reserves was 69.7% at end-2000 and 56.7% in June 2026. The euro's rose from 17.5% to 20.6%.



## Gold's share

Gold was about 16.70% of India's reserves by value at end-March 2026 (13.92% at end-Sep 2025). RBI held 880.52 tonnes; price moves change the share.



## Trade in rupees

Since July 2022, RBI has allowed exports and imports to be invoiced and settled in rupees through special accounts, as an additional route.

**Yet the dollar was on one side of 89.2% of foreign exchange trades in April 2025, up from 88.4% in 2022.**

Sources: IMF COFER, 30 Sep 2026; RBI reserves report, 30 Apr 2026; RBI circular, 11 Jul 2022; BIS Triennial Survey 2025.

# Where things stand

Latest published figures. Each has its own date; check it before quoting.

## RESERVES IN DOLLARS

**56.7%**

World FX reserves,  
end-June 2026. Euro  
20.6%, renminbi 2.1%.

## FX TRADES

**89.2%**

Share with the dollar  
on one side, April  
2025.

## BROAD DOLLAR INDEX

**118.57**

31 Aug 2026 (Jan 2006  
= 100). End-2024:  
129.28.

## TREASURIES HELD ABROAD

**\$9.2tn**

Treasury securities,  
end-July 2026. India:  
\$202.6 bn.

Sources: IMF COFER, 30 Sep 2026; BIS Triennial Survey 2025; Federal Reserve H.10, 13 Oct 2026; US Treasury TIC Table 5 (July 2026 data).

# If you learnt this from older material

## What older decks say

- The US was cut from AAA to AA.
- China pegs the yuan to the dollar to help exports.
- A strong dollar is mainly a US-China jobs story.

## What holds now

- The 2011 cut was to AA+. All three major agencies now rate it a notch below top.
- The US Treasury said China ended its peg in June 2010. It found no manipulator in July 2026.
- The Fed's broad index spreads weight over 26 currencies.

**The old decks date from 2010-2011. Some figures have moved since and some have not; check each date.**

*Sources: CRS R48209; Moody's, S&P, Fitch releases 2025-26; Treasury FX report, Jul 2026; Fed H.10 weights.*

# Four things people get wrong



**'De-dollarisation means the dollar is over.'**

Its reserve share fell from 69.7% (2000) to 56.7% (2026), yet it was on one side of 89.2% of FX trades in 2025.



**'A dollar index is the dollar-rupee rate.'**

It is an average against many currencies. The dollar can rise on an index and fall against the rupee on the same day.



**'A strong dollar only affects Americans.'**

Oil, many imports and dollar loans are priced in dollars. A stronger dollar raises their cost in rupees, other things equal.



**'Rupee trade replaces the dollar.'**

RBI calls rupee settlement an additional arrangement to the existing system. Settlement in dollars continues alongside it.

# Check yourself

**Q1**

An invented dollar index gives currency X a weight of 70% and Y 30%. The dollar rises 4% against X and falls 10% against Y. What is the index change?

**Q2**

Name two ways the world uses the dollar apart from as America's own currency.

**Q3**

A client says de-dollarisation means the dollar will collapse and asks whether to move money. What do we say?

# Sources and disclaimer

## SOURCES FOR THE FIGURES IN THIS DECK

- Reserves by currency, 2000 to June 2026: IMF, COFER dataset and data brief, 30 Sep 2026.
- Foreign exchange turnover, April 2025: BIS Triennial Central Bank Survey 2025, FX turnover commentary.
- Broad dollar index and weights: Federal Reserve Board, H.10 release, 13 Oct 2026. Dollar's roles: Fed FEDS Note, 18 Jul 2025.
- US Treasury: FX report to Congress, July 2026; press release TG-772, 8 Jul 2010; TIC Table 5, July 2026 data. US ratings: CRS R48209.
- China's 2005 and 2010 reforms: article by PBC Deputy Governor Hu Xiaolian, 30 Jul 2010, BIS Review 105/2010.
- RBI: Half-yearly report on management of foreign exchange reserves, 30 Apr 2026; A.P. (DIR Series) Circular No. 10, 11 Jul 2022.

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