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MAKING SENSE OF *THIS* WORLD

08 June 2026

R&R Weekly Column
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Global Dollar Dominance Shaken By The Rise of Gold and China

Last week, the news emerged that gold has overtaken US government bonds as the world's official top reserve asset. Gold is in the midst of a historic rally that led to a doubling of its price over the past two years. This has been partly the result of central banks having aggressively accumulated gold and diversified into other currencies over the last few years. At the end of 2025, gold accounted for 27% of all central bank reserve assets at the global level, up from 20%, according to a report on the international role of the euro published by the European Central Bank. US Treasuries fell to 22% from 25% over the same period, while the share of euro-denominated reserve assets was unchanged at 15%.

Similar reports have been issued by other organisations and news agencies. For example, Bloomberg has recently shown how the US Dollar now represents around 46% of global FX *and* gold reserves, the lowest share in at least 26 years, with a 15% loss since 2017. Excluding gold, the US Dollar still makes up 57% of global reserve currencies, but this figure is the lowest since 1994, according to IMF data. The last time the US Dollar fell below 50% of global reserves was in 1990-1991, a period marked by elevated inflation, a recession, an oil shock from the Gulf, and a crisis of confidence in the US economy.

If that wasn't enough, other damning reports show that China's total cross-border receipts and payments by settlement currency saw the RMB surpass the USD three years ago, and has remained stable since. In fact, in March 2023 the RMB share of China's settlements surpassed the USD for the first time, and as of March 2024 about 52.9% of Chinese payments were settled in RMB, versus 42.8% in USD. That gap has held roughly stable since.

All these reports have reignited the debate over whether the role of the dollar as the key reserve asset has entered its final phase. The FT recently commented that "the dollar's decline is overstated — but still real". Let's have a look at various metrics to assess where we are on this issue.

First of all, the ECB report itself shows that the USD remains the first currency in terms of FX reserves (excluding gold), outstanding international debt, loans and deposits, and FX turnover. Other reports show that the dollar is the world's vehicle currency; the world's funding currency, and - despite some erosion - is still the world's dominant reserve currency. Additional reports show that the US still has the largest share in export invoicing and the share of FX transactions.

Regarding China's invoicing in RMB, the figure reported above includes *all* cross-border flows—current account plus capital account combined, i.e. financial flows: portfolio investment through Bond Connect and Stock Connect, panda bond issuance, offshore RMB lending all are taken into account. Once we isolate trade, the pure goods-trade invoicing share for the RMB still sits materially lower (broadly a quarter to a third in most estimates), with the USD still the larger share of China's actual import/export invoicing.

Finally, according to the Bank for International Settlements, offshore dollar liabilities booked by banks outside the US amounted to $14tn at the end of last year, up from $5tn in 2000, with euro liabilities only doubling to about $3tn over the same period. As the FT says, "the most reliable measure of dollar dominance is probably the loans and other dollar obligations created outside the US, which the Federal Reserve backs with giant swap lines to foreign central banks."

In our view, as we discussed at length in the book "Smart Money," the real challenge to the USD will come from the digital yuan, the e-CNY, which is part of the integrated system of the Belt and Road Initiative, Digital Silk Road and China's export of electricity grid as part of the "Electrostate as a Service."

The FT itself concludes with the following sentence: *When that trust breaks down, then the dollar's supremacy will too. In the meantime, shifts in global reserves function more as a reminder that what was once an "if" is now undoubtedly a "when"*.

Our Recent Publications

- *The Fragile Atlantic Axis: Recalibrating the UK-US Special Relationship After the 2026 Iran Crisis*, *by Lāsma Kokina, 4 June 2026*
- *Bennett-Lapid Alliance: A Potential Challenge To Netanyahu, But Not A Political Reset*, *by Marina Trovar, 3 June 2026*
- *Strategic Straits and the Changing Global Economy*, *by Nato Balavadze, 2 June 2026*
- *Swap Lines and the Weaponization of Finance*, *by Nato Balavadze, 28 May 2026*

Looking Ahead

The Week Ahead: Inflation To Rise In US And France, While Easing Off In Germany; ECB To Raise Interest Rates

In the US, in May, headline and core inflation rates are expected to rise to 4.2% y-o-y (*p:* 3.8%) and 2.9% y-o-y (*p:* 2.8%). In June, Michigan Consumer Sentiment is seen increasing to 46 (*p:* 44.8).

In the EZ, among the largest EZ economies, in May, headline inflation rate is seen: *i)* easing off to 2.6% y-o-y (*p:* 2.9%) in Germany; *ii)* rise to 2.4% y-o-y (*p:* 2.2%) in France;

In the UK, in April, IP is likely to shrink by 0.2% y-o-y (*p:* 0.0%).

CBs To Turn Hawkish. In the EZ, the ECB is likely to raise its main policy rates i.e. its *i)* interest rate on the 'main refinancing operations' at 2.40%; *ii)* interest rate on the 'marginal lending facility' at 2.65%; and the key *iii)* 'deposit facility' at 2.25%.

The Quarter Ahead: Semiconductor Selloff Erases $1.3 Trillion; Banco BPM Seeks Merger Talks with MPS

U.S. chipmakers lost roughly $1.3 trillion in market value as the PHLX Semiconductor Index plunged 10.3%, its steepest one-day decline since March 2020. The selloff was driven by concerns that AI-chip demand may not justify lofty valuations after disappointing results from Broadcom, with major losses across NVIDIA, Advanced Micro Devices, and Micron Technology. ***Banco BPM invited Monte dei Paschi di Siena (MPS) to merger talks***, reviving plans for a "merger of equals" that would create Italy's second-largest banking group, surpassing UniCredit. Banco BPM estimates the deal could generate over €1.1 billion in annual synergies, including more than €650 million in cost savings.

Last Week's Review

Real Economy: EZ QoQ GDP To Shrink; US Unemployment Remained Unchanged; PMIs Fell In US, EZ And UK

In the US, in May, unemployment rate remained at 4.3% as expected. NFPs rose by 172K (*c:* 85K; *p:* 179K). In April, S&P Global Manufacturing PMI rose to 55.1 (*c:* 55.3; p: 54.5). Services PMI fell to 50.7 (*c:* 50.9; *p:* 51.0). Composite PMI edged down to 51.5 (*c:* 51.7; *p:* 51.7).

In the EZ, in Q1, according to the third estimate, GDP growth rate shrank by 0.2% q-o-q (*c:* 0.1%; *p:* 0.2%) and decelerated to 0.3% y-o-y (*c:* 0.8%; *p:* 1.2%). In April, according to flash estimates, headline and core inflation rates increased to 3.2% y-o-y (*c:* 3.2%; *p:* 3.0%) and 2.5% y-o-y (*c:* 2.4%; *p:* 2.2%). In April, S&P Global Manufacturing declined to 51.6 (*c:* 51.4; *p:* 52.2), while Services PMI rose to 47.7 (*c:* 46.4; *p:* 47.6). Composite PMI decreased to 48.5 (*c:* 47.5; *p:* 48.8). In April, unemployment rate remained at 6.3% (*c:* 6.2%). In April, retail sales increased by 1.0% y-o-y (*c:* 0.3%; *p*: 2.1%).

In the UK, in April, S&P Global Manufacturing PMI edged up to 53.9 (*c:* 53.7*; p:* 53.7). Services and Composite PMIs decreased to 49.3 (*c:* 47.9; *p:* 52.7) and 49.7 (*c:* 48.5; *p:* 52.6).

Financial Markets: Stocks Fell, Except In EZ; US Yields and Dollar Rose; Oil Prices Increased, While Gold Prices Fell

Market Drivers: US equities ended lower, led by the Nasdaq (-4.68%), as AI-driven gains faded amid oil price volatility, rising Treasury yields, and concerns that strong labor market data could keep the Fed restrictive for longer. Treasury yields rose across most maturities, while the STOXX Europe 600 fell as investors weighed Middle East developments and renewed US tariff risks. ***Global Equities:*** declined *w-o-w* (MSCI ACWI, -2.2%, to 1,105.8). The US S&P 500 index declined (-2.6% w-o-w, to 7,383.74). In the EZ, share prices were up (Eurostoxx 50, +0.2% w-o-w, to 6,062.07) In EMs, equity decreased (MSCI EMs, -2.0%, to 1,717.34). Volatility fell to 19.17 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: *w-o-*w, the 10-year US Treasury yields were up (+9 bps to 4.54%). The 2-year US Treasury yields rose (+15 bps to 4.16%). The German 10-year bund yields increased (+11 bps to 3.04%).

FX: *w-o-w,* the US Dollar Index rose (DXY, +1.2%, to 100.07; EUR/USD -1.2%, to 1.15. In EMs, currencies decreased (MSCI EM Currency Index, -0.8% w-o-w, to 1,859.69).

Commodities: *w-o-w,* oil prices increased (Brent, +1.1% to 93.09 USD/b). Gold rose declined w-o-w (-5.0% to 4,365.30 USD/Oz).

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Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*Five Star Movement, Italy*
ann.	*annualized*	*m-o-m*	*Month-on-month*
ARS	*Argentinian Peso*	*mb*	*Million barrels*
avg.	*Average*	*mb/d*	*Million barrels per day*
bn	*Billion*	*MENA*	*Middle East and North Africa*
BoC	*Bank of Canada*	*MHP*	*Nationalist Movement Party, Turkey*
BoE	*Bank of England*	*mn*	*Million*
BoJ	*Bank of Japan*	*MPC*	*Monetary Policy Committee*
bpd	*Barrels per day*	*NAFTA*	*North-American Free Trade Agreement*
bps	*Basis points*	*NATO*	*North Atlantic Treaty Organization*
BS	*Balance sheet*	*OECD*	*Organization for Economic Cooperation and Development*
c	*Consensus*	*Opec*	*Organization of Petroleum Exporting Countries*
C/A	*Current account*	*p*	*Previous*
CB	*Central bank*	*P2P*	*Peer-to-peer*
CBB	*Central Bank of Bahrain*	*PBoC*	*People's Bank of China*
CBK	*Central Bank of Kuwait*	*PCE*	*Personal Consumption Expenditures*
CBT	*Central Bank of Turkey*	*PE*	*Price to earnings ratio*
CDU	*Christian Democratic Union, Germany*	*PM*	*Prime minister*
CNY	*Chinese Yuan*	*PMI*	*Purchasing managers' index*
CPI	*Consumer Price Index*	*pps*	*Percentage points*
DJIA	*Dow Jones Industrial Average Index*	*pw*	*Previous week*
DJEM	*Dow Jones Emerging Markets Index*	*QCB*	*Qatar Central Bank*
d-o-d	*Day-on-day*	*QAR*	*Qatari Riyal*
DXY	*US Dollar Index*	*QE*	*Quantitative easing*
EC	*European Commission*	*q-o-q*	*Quarter-on-quarter*
ECB	*European Central Bank*	*RE*	*Real estate*
ECJ	*European Court of Justice*	*RBA*	*Reserve Bank of Australia*
EIA	*US Energy Information Agency*	*RRR*	*Reserve Requirement Ratio*
EM	*Emerging Markets*	*RUB*	*Russian Rouble*
EP	*European Parliament*	*SWF*	*Sovereign Wealth Fund*
EPS	*Earnings per share*	*tn*	*Trillion*
EU	*European Union*	*TRY*	*Turkish Lira*
EUR	*Euro*	*UAE*	*United Arab Emirates*
EZ	*Eurozone*	*UK*	*United Kingdom*
Fed	*US Federal Reserve*	*US*	*United States*
FOMC	*US Federal Open Market Committee*	*USD*	*United States Dollar*
FRB	*US Federal Reserve Board*	*USD/b*	*USD per barrel*
FX	*Foreign exchange*	*UST*	*US Treasury bills/bonds*
FY	*Fiscal Year*	*VAT*	*Value added tax*
GCC	*Gulf Cooperation Council*	*VIX*	*Chicago Board Options Exchange Volatility Index*
GBP	*British pound*	*WTI*	*West Texas Intermediate*
GDP	*Gross domestic product*	*WTO*	*World Trade Organisation*
IMF	*International Monetary Fund*	*w*	*Week*
INR	*Indian Rupee*	*w-o-w*	*Week-on-week*
IPO	*Initial public offering*	*y*	*Year*
IRR	*Iranian Rial*	*y-o-y*	*Year-on-year*
JPY	*Japanese yen*	*y-t-d*	*Year-to-date*
k	*thousand*	*ZAR*	*South African Rand*
KSA	*Kingdom of Saudi Arabia*	*2y; 10y*	*2-year; 10-year*