What is happening to the US dollar?

DeepSeek summary of Robin Wigglesworth, Kate Duguid and Arjun Neil Alim, "Is the world losing faith in the almighty US dollar?", *The Financial Times*, 17 April 2025. Text amended where useful or necessary.

Words in bold are defined below.

The article examines the growing uncertainty surrounding the U.S. dollar's long-standing dominance as the world's primary reserve currency. This concern has been amplified by the Trump administration's aggressive trade policies, including sweeping tariffs that have unsettled global markets and strained international relations. The **piece** draws a historical parallel to the "Nixon shock" of 1971, when President Richard Nixon abruptly ended the dollar's convertibility into gold. The move was initially disruptive, ultimately reinforced the dollar's central role in global finance by **ushering i**n an era of floating exchange rates and unconstrained capital flows.

Today, however, the dollar faces a different kind of challenge. The Trump administration's combative approach to trade, coupled with its dismissive attitude toward traditional alliances, has led to a decline in confidence among foreign investors and governments. The dollar index (DXY) has fallen sharply in 2025, a surprising trend given that the currency typically strengthens during periods of economic **turmoil**. Analysts note that the dollar's weakness is particularly pronounced against traditional "**haven**" currencies like the Swiss franc and Japanese yen, as well as gold—a sign that global investors may be seeking alternatives amid geopolitical instability.

Despite these pressures, the article argues that the dollar's supremacy is unlikely to collapse entirely in the near term. No other currency currently possesses the **liquidity**, stability, and institutional backing required to replace it. The euro is hampered by political fragmentation among EU member states, while China's tight control over the renminbi limits its appeal as a global reserve asset. Smaller currencies, such as the yen or Swiss franc, lack the necessary scale. As one expert puts it, the dollar remains "the only shirt that fits" in the global financial system.

Nevertheless, the erosion of trust in U.S. economic leadership could have lasting consequences. Foreign **entities** hold trillions of dollars in U.S. assets, including equities, Treasuries, and corporate bonds. If even a fraction of these investments are redirected elsewhere, the dollar could face sustained downward pressure. Some analysts warn that the Trump administration's unpredictable policies—ranging from trade wars to whispers of capital controls or even selective debt defaults—are accelerating a broader trend of "de-dollarization," where nations and institutions gradually reduce their reliance on the **greenback**.

The long-term outlook remains uncertain. While some economists predict further dollar depreciation due to structural overvaluation and **waning** U.S. competitiveness, others argue that global economic weakness could eventually push investors back toward the dollar as a safe haven. What is clear, however, is that the rules of global finance are being tested in unprecedented ways. As the article concludes, the dollar's dominance has endured for nearly a century not just because of economic fundamentals, but because of trust—and that trust is now in question.

Piece – an item, in this case, the article, a printed text (e.g. She wrote an interesting piece about the elections).
To usher in – to bring in, to introduce
Turmoil – disruption, upheaval
Haven – a refuge, a place of shelter (for example, a "tax haven" is a place (a jurisdiction) with little taxation).
Liquidity – in economics, this means the facility/the ease with which assets can be bought and sold immediately, which usually requires many buyers and sellers in a market, transparent prices and low transaction costs.
Entities – counties, corporations or even individuals
Greenback – an informal name for the dollar: a "buck" can also be used, but is more like slang.
To wane – to decline, to decay, to fade away

For two excellent videos see:

DW (Deutsche Welle), "Inside Trump's radical economics playbook", 13 April 2025.
The Economist, "Has Trump damaged the dollar?", 15 April 2025.