

Markets

Fed Cements Dollar Dominance, Fueling Record Overseas Borrowing

By [Enda Curran](#) and [Finbarr Flynn](#)

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- ▶ Central bank swap lines played key role during the crisis
- ▶ Dollar dependency creates risks if greenback strengthens

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Overseas borrowers have flocked to the dollar this year at a record pace, with sovereigns from Indonesia to [Colombia](#) and companies from Nissan Motor Co. to [Manila’s water utility](#) racking up sales of \$1.29 trillion.

In this article

7201
NISSAN MOTOR CO
 485.80 JPY
 ▲ +8.80 +1.84%

EUR
Euro Spot
 1.1857 EUR
 ▼ -0.0018 -0.1516%

GS
GOLDMAN SACHS GP
 223.35 USD
 ▼ -1.22 -0.54%

It’s a key economic takeaway from the Covid-19 crisis: just as happened in the wake of the global financial meltdown of 2008, the dollar is cementing its role as the world’s dominant currency even as unilateralist policies from President Donald Trump rile allies and rivals alike.

“Whenever there is a crisis, companies and countries rush to make sure they have all the funding they need,” said Jim O’Neill, the former Goldman Sachs Group Inc. chief economist who coined the BRIC acronym.

“The dollar markets are the only real source available, so the whole situation builds on itself,” according to O’Neill, who is chair of the international policy group Chatham House.

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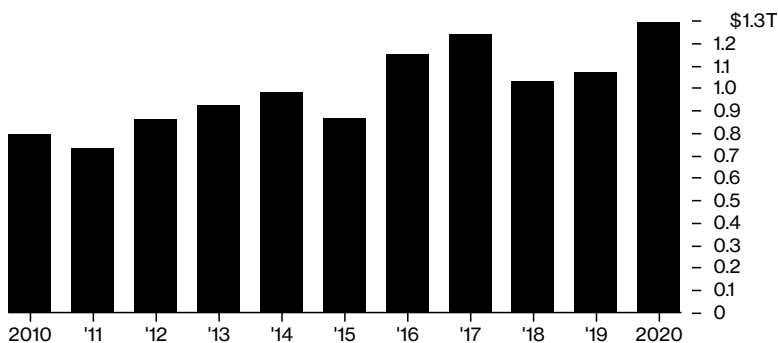
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The ease of borrowing in dollars across the globe has been key in preventing the health and economic crisis spiraling into a financial one by providing companies and governments cheap access to funds. But it may also be sowing seeds for the next crisis: If the greenback sees a sustained appreciation trend, it will drive up debt-servicing costs, potentially creating, for some, repayment difficulties down the road.

Everybody Loves Dollars

Issuers outside U.S. sell record amounts of U.S. dollar bonds to fight virus

Year-to-date dollar bond sales by non-U.S. Issuers as of Oct. 21



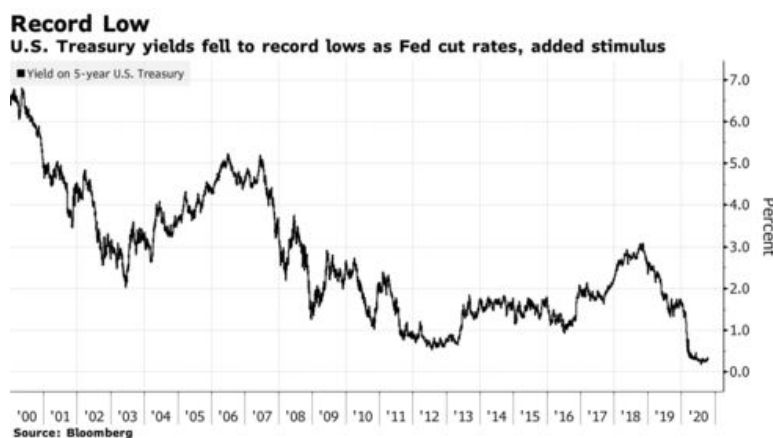
Source: Bloomberg
 Note: Data through to Oct. 21 for all years

That’s a particular risk for emerging markets, where external debt including dollar borrowing is climbing at the fastest pace on record, with full-year issuance on track to eclipse \$750 billion, according to Bloomberg Intelligence strategist Damian Sassower.

For now, the dollar's been moving in the right direction. The Bloomberg dollar index has plunged about 10.5% from its 2020 high reached on March 23.

A lack of global alternatives helps explain some of the dollar's role. The euro's status as a reserve currency remains limited, and China's currency is still subject to capital controls.

It's also a function of cost. With the Federal Reserve unleashing massive liquidity, and now expected to keep interest rates near zero for years to come, the greenback is all the more attractive as a funding source.



Easier Fed policy helped the Philippines sell sovereign dollar debt at its lowest interest rate ever back in April. The dollar is the “universal currency” and the unit of global trade, according to Rosalia de Leon, treasurer of the Philippines, who says her country will continue to rely on the greenback to help fund its budget deficit.

Philippine and Indonesian companies have each sold more dollar bonds in 2020 than in any past full year.

“The domestic financial market is not yet deep” in Indonesia, said Deni Ridwan, director of sovereign bonds at the nation's Finance Ministry. By selling debt in dollars, Indonesia's government can avoid crowding out local rupiah issuers, he explained.

For Nissan, the Japanese carmaker struggling to bounce back from both corporate scandals and the Covid crisis, the broad base of international investors was appealing when it turned to the dollar debt market for the first time in decades. It priced an \$8 billion dollar offering in September, one of the largest corporate issues in Asia on record, as well as a 2 billion euro deal (\$2.4 billion).

The total issuance of \$1.29 trillion from non-U.S. borrowers this year is up 21% from the same period of 2019, according to data compiled by Bloomberg.



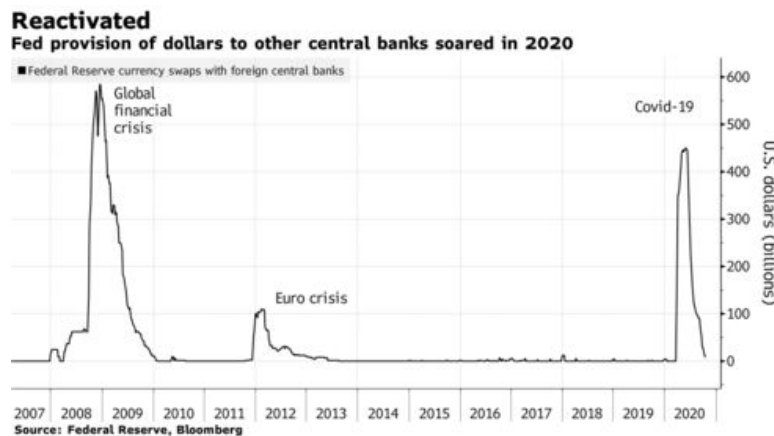
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The record boom in offshore dollar bond sales has been echoed on the U.S. domestic front. Behind it all: the Fed not only cut its policy rate near zero in March, it introduced corporate-debt purchase programs that helped ensure the flow of credit even as coronavirus lockdowns walloped the economy.

The Fed also enlarged and expanded swap lines with monetary authorities around the world to address a sudden shortage of dollars abroad.



The critical role of the U.S. currency also has a downside, however -- it leaves emerging markets reliant on American

policy settings. While it seems distant now, Fed tightening down the road could spur dollar appreciation.

“The extensive dependence on the dollar leaves the international financial system hostage to the whims of U.S. policies, especially those of the Federal Reserve,” said Eswar Prasad, who once led the International Monetary Fund’s China team, and is now at Cornell University. “For emerging market economies, in particular, it can create whiplash effects on capital flows and exchange rates.”

While other major bond markets are seeing a bumper year too -- Europe’s primary bond market has surpassed 1.5 trillion euros of annual sales for the first time -- when issuers do go offshore to borrow, it’s still likely to be in dollars.

Even as the share of dollar funding relative to the size of the global economy remains below its peak of a decade ago, its slice of international borrowing has climbed to a two-decade high, Bank for International Settlements data show. “It is clearly the dominant international funding currency,” the BIS wrote in a June report.

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– *With assistance by Ditas B Lopez, Tassia Sipahutar, Harry Suhartono, and Liz McCormick*

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(Adds details on the Bloomberg dollar index’s move this year in seventh paragraph.)

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