US Dollar Supremacy Faces New Challenges

Description

The U.S. dollar has served as a reliable currency for decades, yet recent economic volatility, sanctions, and tariffs have prompted investors to explore alternatives. Some European officials argue they have a strategy to decrease dependency on the dollar.

Investors have increasingly turned to gold and silver, seeking safer places for their capital amidst market uncertainties. Bitcoin, once considered a potential alternative, has experienced significant declines, losing almost 50% of its value from peak levels during President Donald Trump's second term. It currently hovers near $66,000.

The Federal Reserve's independence has come under scrutiny, contributing to rising gold and silver prices and exerting downward pressure on the dollar. Trump has sought greater influence within the Fed, urging policymakers to lower borrowing rates despite ongoing inflation concerns. Observers worry that tax cuts from last year could further exacerbate the national debt, with interest costs projected to rise dramatically over the next decade. A recent Congressional Budget Office estimate suggested these costs could escalate from $1 trillion in 2026 to approximately $1.8 trillion by 2035, barring significant intervention.

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Analysts predict the dollar may weaken further in upcoming months. Cole Smead, a portfolio manager, stated in January that a long-term decline in the dollar's value is already underway, reminiscent of past market trends.

Since the implementation of stringent tariffs last April, holdings of U.S. treasuries by foreign entities have decreased, reaching $2.7 trillion last October—the lowest since August 2012. China's treasury holdings have also fallen, with the country now possessing about $683 billion, the lowest level since 2008, while purchasing gold at an increasing rate.

This situation is driving foreign investors and nations to consider alternative payment methods. European transactions often rely on U.S. companies like Visa and Mastercard, which have previously suspended services to nations such as Russia amid political tensions. Christine Lagarde, president of the European Central Bank, emphasised the need for Europe to control its digital payment systems.

In response, major European banks and payment processors have initiated the European Payments Initiative, introducing Wero. This service allows users to send money using just a phone number, bypassing traditional card methods. Currently, Wero boasts over 47 million users in Belgium, France, and Germany, having processed $8.5 billion in transfers.

Despite historical challenges in establishing cross-border payment systems, many believe there is growing interest in alternatives to American payment giants, particularly amid increasing geopolitical uncertainties.

Vocabulary List:

1. **Volatility** /ˌvɑːləˈtɪləti/ (noun): The quality or state of being prone to rapid changes especially in financial markets.
2. **Dependency** /dɪˈpɛndənsi/ (noun): The condition of relying on or being controlled by someone or something else.
3. **Escalate** /ˈɛskəˌleɪt/ (verb): To increase in intensity extent or severity.
4. **Treasuries** /ˈtrɛʒəriz/ (noun): Government securities that are issued by the U.S. Department of the Treasury.
5. **Exacerbate** /ɪgˈzæsərbeɪt/ (verb): To make a problem or situation worse.
6. **Initiative** /ɪˈnɪʃətɪv/ (noun): A new plan or process to achieve something or solve a problem.

Comprehension Questions

Multiple Choice

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1. What has prompted investors to explore alternatives to the U.S. dollar?

   Option: Economic stability
   Option: Economic volatility, sanctions, and tariffs
   Option: Robust capital markets
   Option: Increased foreign investment

2. How much has Bitcoin lost from its peak level during Trump's second term?

   Option: 20%
   Option: 30%
   Option: 50%
   Option: 40%

3. What is the current value near which Bitcoin hovers?

   Option: $50,000
   Option: $66,000
   Option: $75,000
   Option: $60,000

4. What has been the projected cost of national debt by 2035 according to the Congressional Budget Office?

   Option: $1 trillion
   Option: $1.5 trillion

Option: $1.8 trillion
Option: $2 trillion

5. As of last October, U.S. treasuries held by foreign entities reached what amount?

Option: $2 trillion
Option: $3 trillion
Option: $2.7 trillion
Option: $1.5 trillion

6. Which service allows users to send money using just a phone number?

Option: PayPal
Option: Wero
Option: Venmo
Option: TransferWise

True-False

7. The U.S. dollar has been considered an unreliable currency over the decades.

8. China's treasury holdings are at the lowest level since 2008.

9. The Federal Reserve's independence has faced little scrutiny.

10. European countries often rely on U.S. companies like Visa and Mastercard for transactions.

11. The interest costs of national debt are projected to decrease over the next decade.

12. Wero has processed $8.5 billion in transfers across Europe.

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Gap-Fill

13. Investors have increasingly turned to gold and silver, seeking safer places for their capital amidst market uncertainties. Bitcoin has lost almost _____ of its value from peak levels.

14. Since the implementation of stringent tariffs last April, foreign holdings of U.S. treasuries have decreased to _____ trillion.

15. Christine Lagarde emphasised the need for Europe to control its _____ payment

systems.

16. The dollar may weaken further in the upcoming _____ according to analysts.

17. The European Payments Initiative introduced _____ as a new service for money transfers.

18. Tax cuts from last year could further exacerbate the national _____ according to observers.

Answer

Multiple Choice: 1. Economic volatility, sanctions, and tariffs 2. 50% 3. $66,000 4. $1.8 trillion 5. $2.7 trillion 6. Wero
True-False: 7. False 8. True 9. False 10. True 11. False 12. True
Gap-Fill: 13. 50% 14. 2.7 15. digital 16. months 17. Wero 18. debt

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Answer

CATEGORY

1. Business - LEVEL6

POST TAG

1. currency supremacy
2. economics
3. ESL learning
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5. Level 6
6. u.s. dollar

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