AN INCREASINGLY BIPOLAR WORLD?

Are we shifting, slowly but relentlessly towards a multipolar or at least a bipolar currency regime? That highly strategic debate has been open for quite some time now which leads some observers to conclude – a bit hastily maybe – that this is some kind of never-ending story. In other words, the lack of truly credible alternatives to the US dollar implies, according to them, that the whole debate is bound to remain essentially theoretical, however convincing the arguments for enhanced polarity may objectively be and grow in credibility.

True, arguing for a bipolar currency regime on a global basis is tantamount to saying that the Chinese renminbi could be a credible alternative to the dollar which indeed would be a fairly bold statement because, in essence, is it possible that a country running a persistent current account surplus ever achieves global reserve status ? At the same time, isn't it increasingly disturbing that the US, whose share of global GDP has halved to 20% since WWII, still accounts for at least two-thirds of global currency transactions?

In addition, the growing geopolitical rivalry between the western bloc and rising alternative powers increasingly resenting the weaponisation of the dollar, notably China, Russia or Iran, should ensure that the ongoing de-dollarisation trend will make more headway, however protractedly. It should be noted in that regard that, in December, China and Saudi Arabia conducted their first transaction in renminbi. Besides and from another angle, the progressive albeit objective emergence of central bank digital currencies may foster an alternative multipolar currency and international payment regime.

Beyond these structural trends, recent developments, notably in Ukraine, are clearly catalyzing the de-dollarisation process. Indeed, when the US kicked Russia out of the USD system, it did so to the largest, or second largest, exporter of most commodities of note. The effect, de facto, has been to start de-dollarising such markets. Meanwhile, the very nature of warfare has been changing recently, as demonstrated across Ukrainian battlefields, where low-tech drones become increasingly ubiquitous, concretely undermining the US superiority in weaponry that has been supporting USD's status as the world's reserve currency ever since WWII. Furthermore, the global confrontation around Ukraine might have « de-isolated » China, as the West's focus on the war has allowed Chinese diplomats to gradually improve the country's otherwise weak position around the globe.

Overall, the greenback is bound sooner or later to feel the effects of intensifying rivalry between the US and China. As a new economic order emerges in the wake of the war, traditional US comparative advantages may have been durably undermined, moving the world away from a US dollar-based unipolar system towards a bipolar or even possibly a multi-currency system.

Whatever the ultimate scenario, the sure thing is that central banks are implicitly if not explicitly sustaining the multipolar narrative through massively increasing purchases of gold. With purchases at 1,136 tons in 2022, these are up 152% from the previous year and at a 55-year high, according to the World Gold Council which attributes the spike to geopolitical uncertainty and high inflation. NCM Enhanced Physical Gold Macro Fund is intrinsically designed to benefit from such trends and will continue to do so in the long run.