



Dollar Collapse: Will It and When?

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Will the dollar collapse in 2018?

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A dollar collapse is when the value of the **U.S. dollar** plummets. Anyone who holds dollar-denominated assets will sell them at any cost. That includes foreign governments who own **U.S. Treasuries**. It also affects **foreign exchange** futures traders. Last but not least are **individual investors**.

When the crash occurs, these parties will demand assets denominated in anything other than dollars. The collapse of the dollar means that everyone is trying to sell their dollar-denominated assets, and no one wants to buy them.

This will drive the value of the **dollar** down to near zero. It makes **hyperinflation** look like a day in the park.

Three things that could cause a collapse

Three conditions must be in place before the dollar could collapse. First, there must be an underlying weakness. That situation exists in 2017. The U.S. currency is fundamentally weak despite its 25 percent increase since 2014. The **dollar declined** 54.7 percent against the **euro** between 2002 and 2012. Why? The **U.S. debt** almost tripled during that period, from \$6 trillion to \$15 trillion. The debt is even worse now, at \$21 trillion. The **debt-to-GDP ratio** is now more than 100 percent. That increases the chance the United States will let the dollar's value slide. That's because it would be easier to repay its debt with cheaper money.

Second, there must be a viable currency alternative for everyone to buy. The dollar's strength is based on its use as the **world's reserve currency**.

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The dollar became the reserve currency in 1973 when **President Nixon** abandoned the **gold standard**. As a global currency, the dollar is used for 43 percent of all cross-border transactions. That means **central banks** must hold the dollar in their reserves to pay for these transactions. As a result, 61 percent of these **foreign currency reserves** are in dollars.

The next most popular currency after the dollar is the **euro**. But it comprises less than 30 percent of central bank reserves. The **eurozone debt crisis** weakened the euro as a viable global currency.

China and others argue that a new currency should be created and used as the global currency. China's central banker Zhou Xiaochuan goes one step further. He claims that the **yuan** should replace the dollar to maintain **China's economic growth**. China is right to be alarmed at the dollar's drop in value. That's because it is the largest foreign holder of U.S. Treasuries, so it just saw its investment deteriorate. The dollar's weakness makes it more difficult for China to control the **yuan's value** compared to the dollar.

Could bitcoin replace the dollar as the new world currency? It has many benefits. It's not controlled by any one country's **central bank**. It is created, managed, and spent online. It can also be used at brick-and-mortar stores that accept it. Its supply is finite. That appeals to those who would rather have a currency that's backed by something concrete, such as gold.

But there are big obstacles. First, its value is highly **volatile**. That's because there is no central bank to manage it.

Second, it has become the coin of choice for **illegal activities** that lurk in the **deep web**. That makes it vulnerable to tampering by unknown forces.

Three events that could trigger a collapse

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These two situations make a collapse possible. But, it won't occur without a third condition. That's a huge economic triggering event that destroys confidence in the dollar.

Altogether, foreign countries own more than \$5 trillion in **U.S. debt**. If China, **Japan** or other major holders started dumping these holdings of Treasury notes on the secondary market, this could cause a panic leading to collapse. China owns **\$1 trillion** in U.S. Treasuries. That's because China **pegs** the **yuan** to the dollar. This keeps the prices of its exports to the United States relatively cheap. Japan also owns more than \$1 trillion in Treasuries.

It also wants to keep the **yen** low to stimulate exports to the United States. Japan is trying to move out of a 15-year **deflationary** cycle. The **2011 earthquake** and nuclear disaster didn't help.

Would China and Japan ever dump their dollars? Only if they saw their holdings declining in value too fast *and* they had another **export** market to replace the United States. The economies of Japan and China are dependent on U.S. consumers. They know that if they sell their dollars, that would further depress the value of the dollar. That means their products, still priced in yuan and yen, will cost relatively more in the United States. Their economies would suffer. Right now, it's still in their best interest to hold onto their dollar reserves.

China and Japan are aware of their vulnerability. They are selling more to other Asian countries that are gradually becoming wealthier. But the United States is still the **best market** in the world.

When will the dollar collapse?

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A dollar collapse will not occur in 2018. In fact, it's unlikely that it will collapse at all. That's because any of the countries who have the power to make that happen (China, Japan, and other foreign dollar holders) don't want it to occur. It's not in their best interest. Why bankrupt your best customer? Instead, the dollar will resume its **gradual decline** as these countries find other markets.

What would happen after a collapse

A sudden dollar collapse would create global economic turmoil. Investors would rush to other currencies, such as the euro, or other assets, such as **gold** and **commodities**. Demand for Treasuries would plummet, and **interest rates** would rise. **U.S. import** prices would skyrocket, causing **inflation**.

U.S. exports would be dirt cheap, given the economy a brief boost. In the long run, inflation, **high interest rates**, and volatility would strangle possible business growth. **Unemployment** would worsen, sending the United States back into **recession** or even a **depression**.

How to protect yourself

Protect yourself from a dollar collapse by first defending yourself from a gradual dollar decline. Keep your assets **well-diversified** by holding foreign **mutual funds**, gold, and other commodities.

A dollar collapse would create global economic turmoil. To respond to this kind of uncertainty, you must be mobile. Keep your assets **liquid**, so you can shift them as needed. Make sure your job skills are transferable. Update your passport, in case things get so bad for so long that you need to move quickly to another country. These are just a few ways to protect yourself and **survive a dollar collapse**.