

De-Dollarization Reality Check: Erosion, Not Regime Change

Research Team

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De-dollarization is real but often overstated. The U.S. dollar still anchors trade invoicing, reserve holdings, and global funding markets. The shift underway is an erosion story, not a regime change, and it is most visible at the margins: gold accumulation, localized settlement, and regional payment rails.

Executive Summary

The dollar remains the core currency of global finance because of its liquidity, legal infrastructure, and deep collateral markets. Diversification is happening, but slowly and unevenly. Investors should focus on where marginal changes are already visible and which assets benefit from a gradual diffusion of dollar dominance.

Key Takeaways:

- Trade invoicing remains dollar-led even for non-U.S. trade pairs because it reduces hedging costs and contract uncertainty.
- Reserve diversification is occurring at the margins, led by gold and modest increases in non-USD allocations.
- Funding markets and collateral systems remain overwhelmingly USD-centric, limiting the speed of change.

Trade Invoicing and Settlement

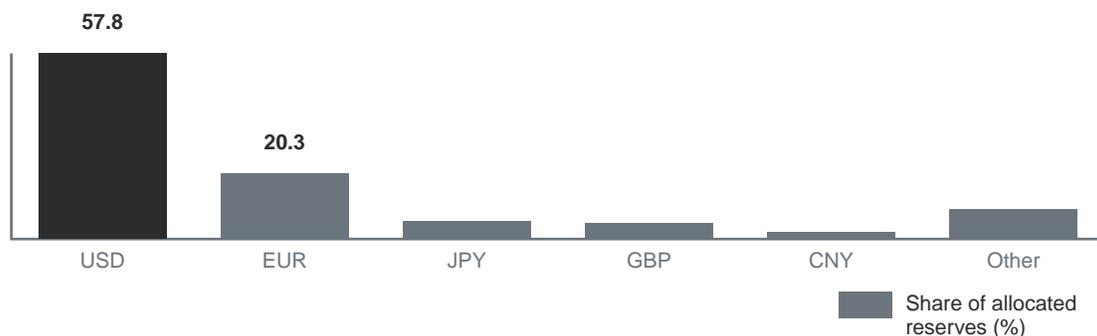
The dollar still dominates trade invoicing, including for transactions that do not involve the U.S. This reflects network effects, pricing benchmarks in commodities, and the lower cost of hedging in deep USD markets. Local-currency settlement is growing in select corridors, but scale remains concentrated in regional blocs.

Reserve Diversification and Gold

IMF COFER data shows the USD remains the largest reserve currency by a wide margin, but its share has drifted lower over the past two decades. The decline has been gradual, driven more by diversification into other reserve currencies and gold than by a wholesale shift away from dollars.

Central bank gold purchases have increased as a neutral reserve alternative and a hedge against sanctions risk. This trend supports gold demand but does not, by itself, replace the liquidity function of dollar reserves.

Global FX Reserves by Currency (2024, Allocated)



Source: IMF COFER (2024)

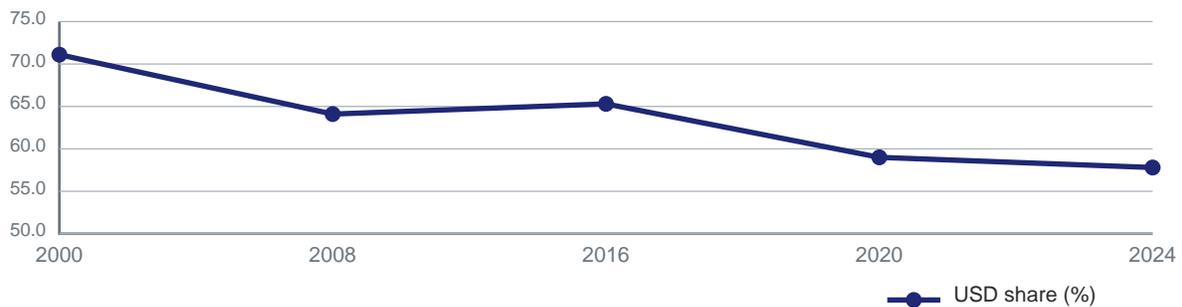
Funding and Collateral Advantage

Cross-border borrowing, derivatives markets, and collateral plumbing remain anchored in dollars because Treasuries and USD repo markets provide unmatched depth and reliability. This gives the dollar a structural advantage that alternative currencies cannot yet replicate.

Evidence and Metrics to Watch

The most actionable signals are changes in trade invoicing shares, sustained shifts in reserve composition, and the scale of non-USD commodity contracts. Without broad-based changes in these metrics, de-dollarization will remain a gradual diversification story.

USD Share of Allocated Reserves (2000-2024)



Source: IMF COFER (approx.)

Investment Implications

Gold and select real assets benefit from diversification flows, while commodity exporters with local pricing power may gain incremental leverage. FX volatility can rise as reserve fragmentation increases, but the dollar still tends to strengthen in global risk-off episodes.

Portfolio Allocation Considerations

A balanced approach is appropriate: maintain core USD exposure for liquidity and protection, while adding selective hedges in gold and diversified commodity exposure. For EM FX exposure, focus on countries with strong external balances and credible policy frameworks.

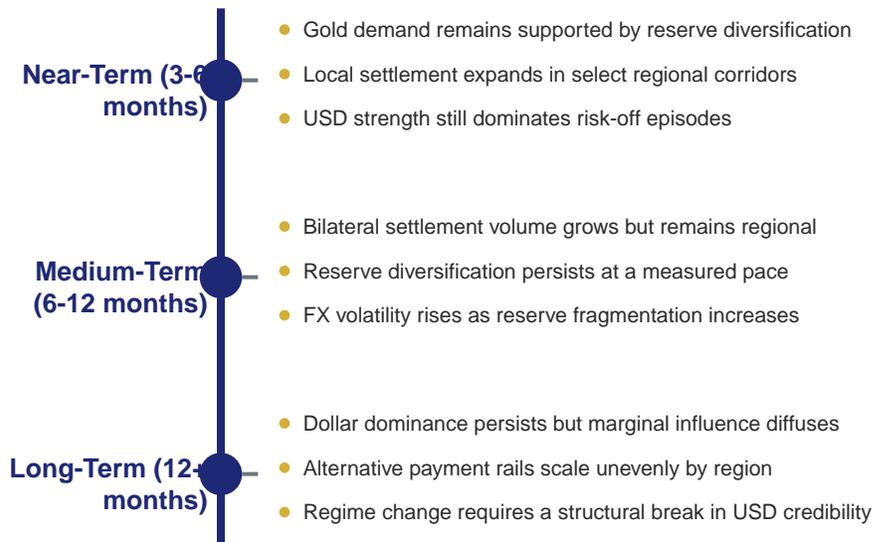
Timeline and Outlook

Near-Term Outlook (3-6 months): Reserve diversification continues gradually, with gold and select non-USD allocations increasing at the margin. FX volatility remains episodic.

Medium-Term Outlook (6-12 months): Regional settlement growth becomes more visible in Asia and commodity corridors, but global invoicing remains dollar-led.

Long-Term Outlook (12+ months): The dollar remains dominant, but its marginal influence slowly diffuses as diversification persists and regional systems scale.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Policy Risk: Sanctions regimes or trade restrictions can accelerate regional currency blocs and disrupt settlement channels.

Liquidity Risk: A sharp decline in market depth or confidence in Treasuries would be required for a true regime change.

Geopolitical Risk: Escalation in major conflict zones can trigger risk-off flows, reinforcing dollar strength despite diversification trends.

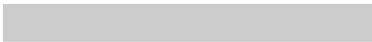
Conclusion

De-dollarization is a process of gradual diversification, not a rapid replacement. The dollar remains the center of global finance, but its dominance is slowly diffusing at the margins. Investors should position for incremental shifts rather than a regime change.

Asset Class Impact

Gold and diversified commodities benefit from reserve diversification, while USD assets retain their defensive role. EM FX opportunities are selective and hinge on policy credibility and external balances.

Asset Class Impact

Asset	View	Commentary
US Dollar	 Neutral	Neutral. Dominant in stress, gradual erosion at the margin.
Gold	 +1	Overweight. Reserve diversification and geopolitical hedging.
Commodities	 +1	Overweight. Beneficiaries of diversification flows and pricing power.
Developed Market FX (ex-USD)	 Neutral	Neutral. Gains are incremental and uneven.
EM FX (Selective)	 Neutral	Neutral. Favor strong external balances and policy credibility.
US Treasuries	 Neutral	Neutral. Liquidity and collateral role remain unmatched.

Source: AVANTAS Research Analysis